Box 2

THE RESULTS OF THE OCTOBER 2005 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the October 2005 bank lending survey for the euro area carried out by the Eurosystem.[1] The results showed a slight net tightening[2] of credit standards for loans to enterprises in the third quarter of 2005, compared with the significant net easing recorded in the previous quarter. At the same time, however, banks slightly eased their credit standards applied to loans to households for house purchase, while credit standards for consumer credit and other loans to households remained broadly unchanged. During the third quarter of 2005 banks reported a strong increase in net demand[3] for loans. For the fourth quarter of 2005, reporting banks expected a further net tightening of credit standards applied to corporate loans, while they expected a slight net easing of the credit standards applied to household loans.

1 A comprehensive assessment of the results of the October 2005 bank lending survey for the euro area was released on 4 November 2005 and can be found on the ECB's website (www.ecb.int/stats/money/lend/html/index.en.html).

2 The net percentage refers to the difference between the proportion of banks reporting that credit standards have been tightened and the proportion of banks reporting that they have eased. A positive net percentage would indicate that banks have tended to tighten credit standards ("net tightening"), whereas a negative net percentage would indicate that banks have tended to ease credit standards ("net easing").

3 The term "net demand" refers to the difference between the proportion of banks reporting an increase in loan demand and the proportion of banks reporting a decline.

Loans or credit lines to enterprises

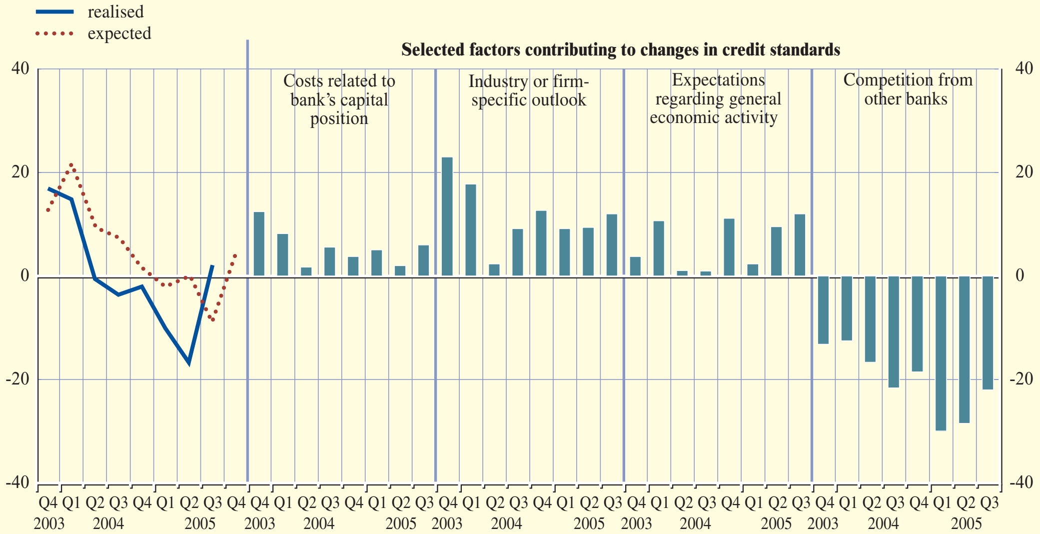
Credit standards: For the third quarter of 2005, banks reported a slight net tightening of credit standards for loans or credit lines to enterprises (of 2%, from a net easing of -17% in the previous quarter; see Chart A, first panel). Among the factors explaining this development, risk perceptions regarding general economic activity and the industry-specific outlook contributed to tightening only marginally more than in the previous quarter (see Chart A, third and fourth panels). At the same time, competition from other banks contributed less to easing than in the previous quarter (see Chart A, fifth panel). As regards the terms and conditions of credit, the net tightening of credit standards was mainly attributable to an increase in margins on riskier loans, as well as an increase in non-interest rate charges and a reduction in the size of loans or credit lines. In terms of the borrower's size, banks reported a net tightening of credit standards on loans both to small and medium-sized enterprises and to large enterprises.

Loan demand: Net demand for loans to enterprises increased strongly compared with the previous quarter (to 17%, from -5%; see Chart B, first panel). This development reflected a strong increase in net demand for loans both to small and medium-sized enterprises and to large enterprises.

The major factors contributing to the increase in net demand were, according to the responding banks, firms' increased financing needs for inventories and working capital, as well as for mergers and acquisitions and corporate restructuring activities. For the first time since the launch of the survey, fixed investment contributed positively to the increase in loan demand.

Chart A Changes in credit standards applied to the approval of loans or credit lines to enterprises

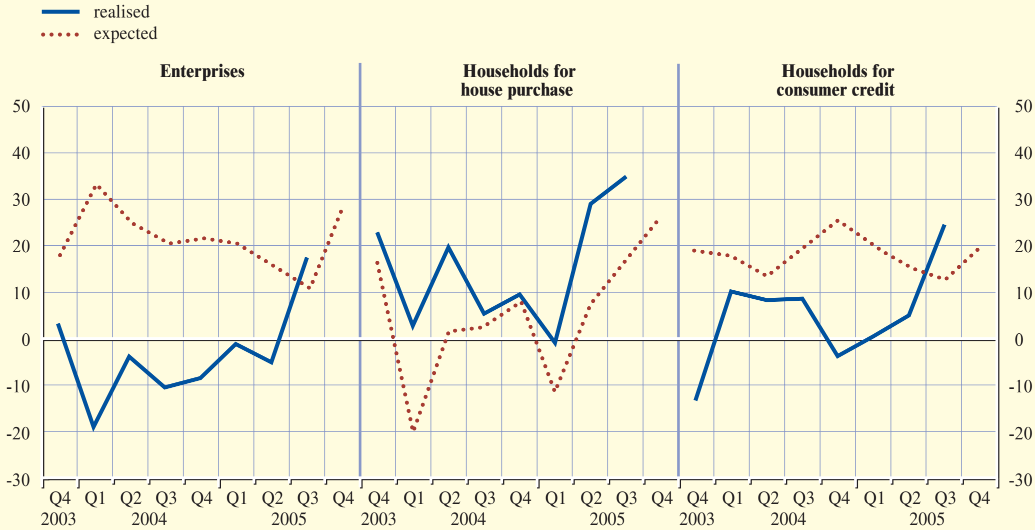
(net percentages)



Notes: The net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably". The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to tightening and the percentage reporting that it contributed to easing. "Realised" values refer to the period in which the survey was conducted. "Expected" values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, "expected" values for the fourth quarter of 2005 were reported by banks in the October 2005 survey.

Chart B Changes in the demand for loans or credit lines to enterprises and households

(net percentages)



Notes: The net percentage refers to the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". "Realised" values refer to the period in which the survey was conducted. "Expected" values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, "expected" values for the fourth quarter of 2005 were reported by banks in the October 2005 survey.

The slightly lower availability of internal finance for enterprises and lower issuance of debt securities also contributed to the recent developments in net demand for loans.

Expectations: Overall, for the fourth quarter of 2005, banks expected a net tightening of credit standards applied to the approval of loans or credit lines to enterprises (see Chart A, first panel). At the same time, banks expected higher positive net demand for loans to enterprises, in particular by small and medium-sized enterprises (see Chart B, first panel).

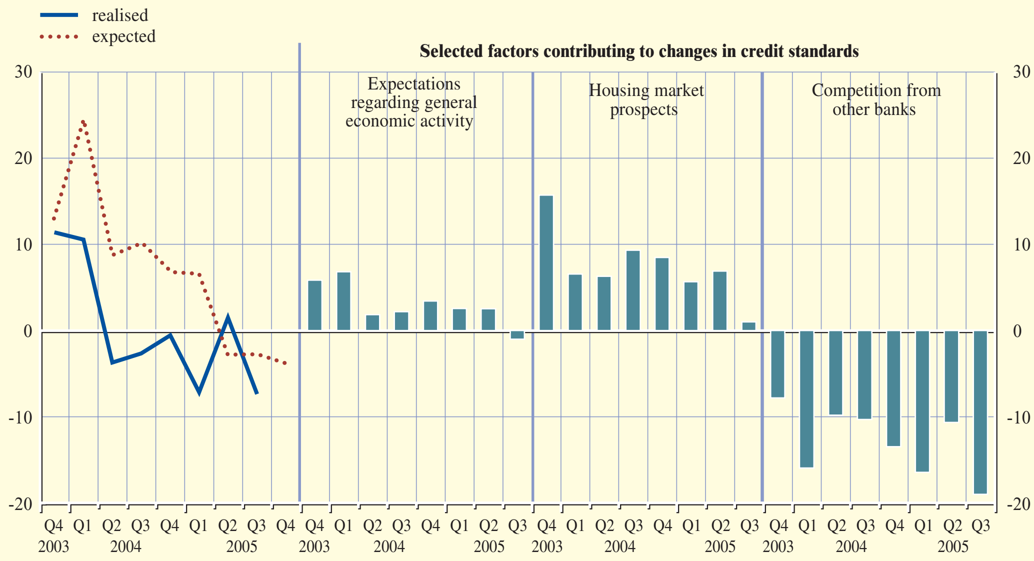
Loans to households for house purchase

Credit standards: Banks reported a net easing of credit standards applied to loans to households for house purchase in the third quarter of 2005 (of -7%, from 2% in the second quarter), in line with their expectations in the July 2005 survey (see Chart C, first panel). The slight net easing reflected banks' reduced perceptions of risk in terms of housing market prospects and expectations regarding general economic activity (see Chart C, second and third panels). At the same time, competition from other banks continued to contribute to easing, as in previous quarters (see Chart C, fourth panel). As regards the terms and conditions of credit, banks reported that the slight net easing of credit standards applied to housing loans was achieved predominantly via a narrowing of margins on average loans and, to a lesser extent, by a lengthening of the maturity of new loans. Developments in loan-to-value ratios also contributed to the net easing of credit standards in the third quarter.

Loan demand: Net demand for loans to households for house purchase continued to increase strongly in the third quarter of 2005 (to 35%, from 29% in the previous quarter; see Chart B,

Chart C Changes in credit standards applied to the approval of loans to households for house purchase

(net percentages)



Notes: The net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably". The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to tightening and the percentage reporting that it contributed to easing. "Realised" values refer to the period in which the survey was conducted. "Expected" values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, "expected" values for the fourth quarter of 2005 were reported by banks in the October 2005 survey.

second panel). The main factor underpinning this development was a slightly more positive contribution from housing market prospects as perceived by households. Another factor was the slight improvement in consumer confidence reported by banks for the third quarter.

Expectations: For the fourth quarter of 2005, respondent banks continued to expect a net easing of credit standards for housing loans (see Chart C, first panel) and an increase in the net demand for housing loans (see Chart B, second panel).

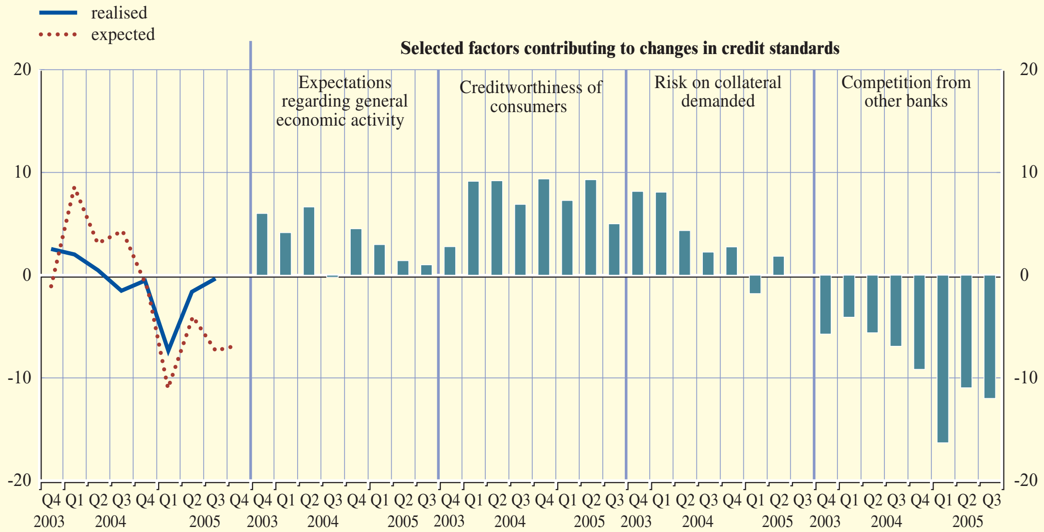
Loans for consumer credit and other lending to households

Credit standards: For loans to households for consumer credit, credit standards remained basically unchanged compared with the previous quarter (at 0%, following -2% in July; see Chart D, first panel). Almost all factors affecting banks' consumer credit standards remained broadly unchanged relative to the previous quarter (see Chart D, second, third and fourth panels). However, risks stemming from the creditworthiness of consumers were somewhat less negative, although these continued to contribute slightly to tightening of credit standards. At the same time, the terms and conditions of consumer credit remained broadly unchanged.

Loan demand: According to responding banks, net demand for consumer credit and other lending to households increased strongly in the third quarter of 2005 (to 25%, from 5% in the second quarter; see Chart B, third panel). The main factor contributing to this development was

Chart D Changes in credit standards applied to the approval of loans for consumer credit and other lending to households

(net percentages)



Notes: The net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably". The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to tightening and the percentage reporting that it contributed to easing. "Realised" values refer to the period in which the survey was conducted. "Expected" values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, "expected" values for the fourth quarter of 2005 were reported by banks in the October 2005 survey.

increased spending on durable consumer goods. In addition, banks reported, for the first time, consumer confidence as a factor contributing positively to net demand.

Expectations: For the fourth quarter of 2005, banks expected a net easing of credit standards (see Chart D, first panel) and an increase in net demand for consumer credit and other lending to households (see Chart B, third panel).