

Box 2

THE RESULTS OF THE APRIL 2006 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the April 2006 bank lending survey for the euro area carried out by the Eurosystem.¹ In the first quarter of 2006 credit standards eased in net terms for all categories of loan. In particular, the results showed a slightly more pronounced net easing² of credit standards for loans to enterprises compared with the previous quarter. At the same time, banks eased credit standards applied to both loans to households for house purchase and consumer credit and other loans, after the slight net tightening observed in the January 2006 survey. During the first quarter of 2006 banks reported positive net demand³ for loans to enterprises and households, although demand was below the peak observed in the previous survey round.

For the second quarter of 2006 banks expected a net easing of credit standards applied to loans to enterprises, a slight tightening for loans to households for house purchase, and a net easing – but at lower levels than in the previous quarter – for consumer credit and other loans. On the demand side, banks expected an increase in net demand for loans to both enterprises and households for the period April-June 2006.

1 A comprehensive assessment of the results of the April 2006 bank lending survey for the euro area was released on 5 May 2006 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

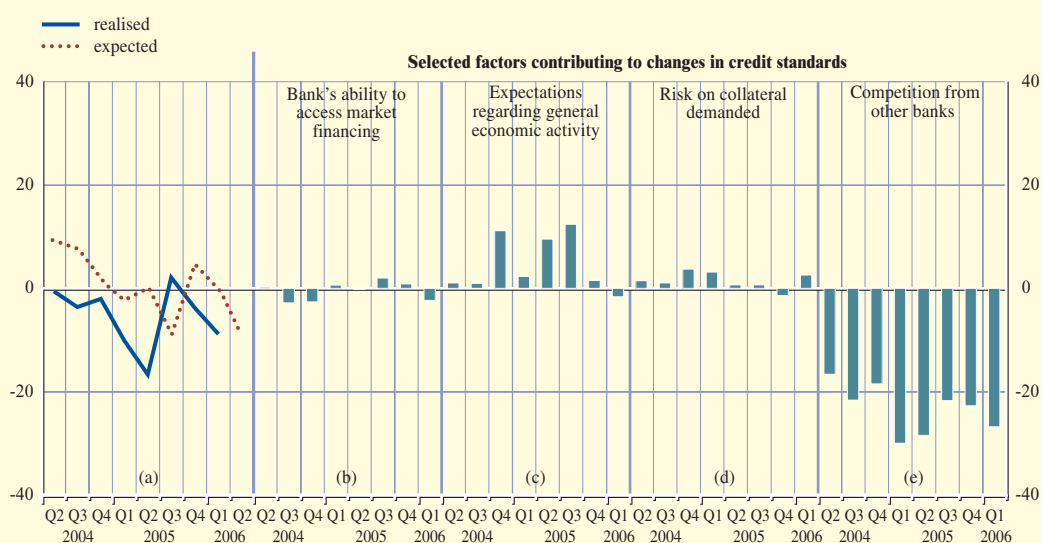
Credit standards: For the first quarter of 2006 banks reported a further net easing of credit standards for loans or credit lines to enterprises (-9%, from -4% in the previous quarter; see Chart A, panel a). This development reflected an improvement in the expectations regarding general economic activity that, for the first time since the launch of the survey, contributed slightly to an easing of credit standards (see Chart A, panel c). An improvement in banks' ability to access market financing and pressure from competition also contributed to that easing (see Chart A, panels b and e). As regards the terms and conditions of credit, the net easing of credit standards was mainly implemented by means of the narrowing of margins on average loans, a further lengthening of the maturity of loans or credit lines and a reduction in non-interest rate charges.

In terms of the borrower's size, while the net easing of credit standards applied to large enterprises remained unchanged, the net easing of those applied to small and medium-sized enterprises became more pronounced. As regards the maturity of loans, banks confirmed the net easing of credit standards applied to short-term loans and also reported a net easing for long-term loans.

Loan demand: Net demand for loans to enterprises was positive, although down from the peak observed in the previous survey round (18% in April, compared with 23% in January; see Chart B, panel a). A very similar pattern was recorded for loan demand by small and medium-sized enterprises, while in the case of large corporations, net demand for loans picked up.

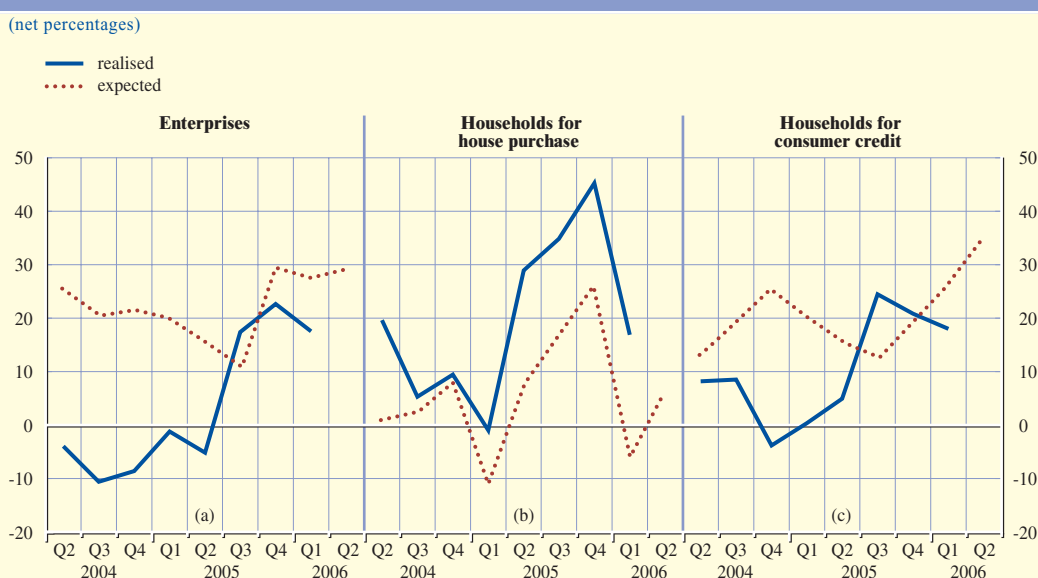
Chart A Changes in credit standards applied to the approval of loans or credit lines to enterprises

(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 second quarter of 2006 were reported by banks in the April 2006 survey.

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



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 second quarter of 2006 were reported by banks in the April 2006 survey.

According to the responding banks, these developments were mainly related to an increased use of alternative finance – either internal financing (i.e. higher profits) or loans from other banks. Both factors, together with the issuance of equity, contributed to moderating demand developments. Increased financing needs for fixed investments and, to some extent, for inventories and working capital acted as a countervailing factor helping to support loan demand. Similarly, mergers and acquisitions and corporate restructuring, although at a lower level, remained an important factor supporting loan demand.

Expectations: Overall, for the second quarter of 2006 banks continued to expect a net easing of credit standards applied to the approval of loans or credit lines to enterprises (see Chart A, panel a), irrespective of the borrower’s size and the maturity spectrum. In addition, banks expected strong corporate net demand (see Chart B, panel a) across all firm sizes and loan maturities.

Loans to households for house purchase

Credit standards: After the slight net tightening observed in the previous quarter, banks reported a net easing of credit standards applied to housing loans in the first quarter of 2006 (-9% in April, from 2% in January; see Chart C, panel a). This development was the result of a general improvement in all the factors mentioned in the survey questionnaire: a reduction in the cost of funds and balance sheet constraints, improved competition and a lower perception of risk in terms of both expectations regarding general economic activity and housing market prospects (see Chart C, panels b to e). The last factor in particular contributed slightly, for the first time since the launch of the survey, to a net easing of credit standards. The net easing for housing loans was – similar to that observed in the corporate sector – mainly implemented by

reducing the margins on average loans and lengthening loan maturities. At the same time, margins on riskier loans were further tightened.

Loan demand: Net demand for housing loans continued to be reported as positive, but at a much lower level than in the previous quarter (17% in April, compared with 45% in January; see Chart B, panel b).

This development was mainly a result of, on the one hand, less favourable housing market prospects (which, although positive, contributed less to the increase in net demand) and, on the other hand, an increased use of alternative sources of finance in the form of both household savings and loans from other banks.

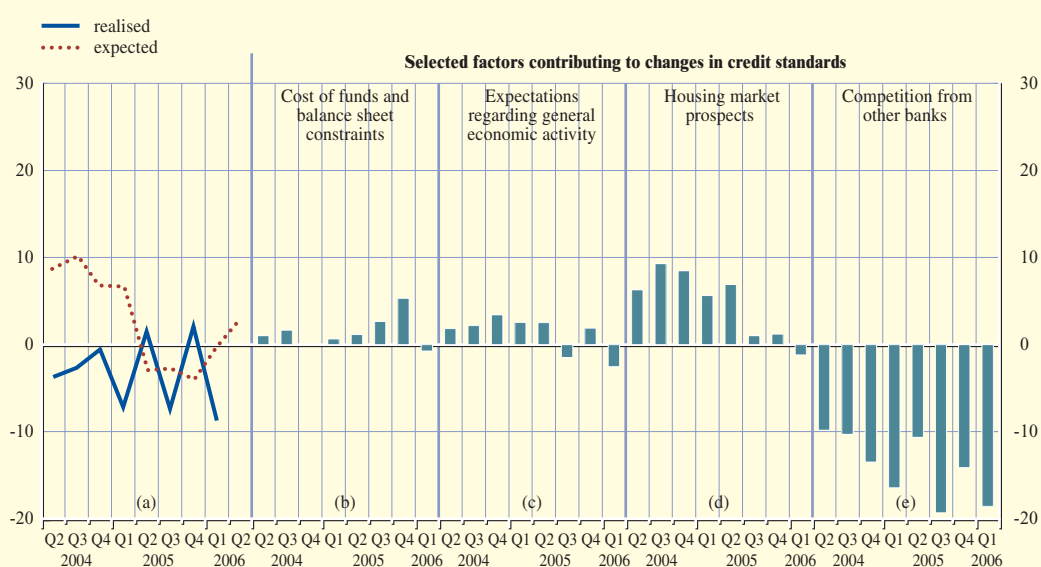
Expectations: For the second quarter of 2006 respondent banks expected a slight tightening of credit standards for loans to households for house purchase (see Chart C, panel a). Despite this, banks expected an increase in net demand over the same period (see Chart B, panel b).

Loans for consumer credit and other lending to households

Credit standards: In the first quarter of 2006 the credit standards applied to the approval of loans for consumer credit and other lending to households eased on a net basis (-5% in April, from 1% in January; see Chart D, panel a).

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

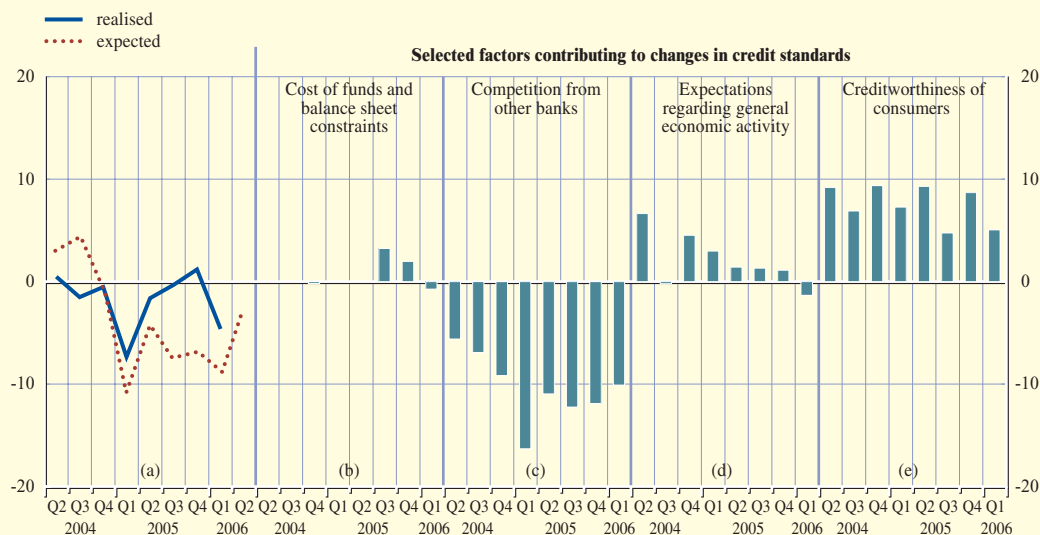
(net percentages)



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 second quarter of 2006 were reported by banks in the April 2006 survey.

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 second quarter of 2006 were reported by banks in the April 2006 survey.

Banks cited a general decline in the cost of funds and balance sheet constraints, more favourable expectations regarding general economic activity and pressure from competition as the main reasons for this easing. The last factor in particular, although at a reduced level, still made the most important contribution to the easing of credit standards (see Chart D, panel c).

As in the case of the corporate sector and the house purchase segment of the credit market, this easing policy was mainly implemented by changing pricing conditions. In particular, margins on average loans were significantly eased, while margins on riskier loans tightened slightly. All other terms and conditions remained basically unchanged compared with the previous quarter.

Loan demand: According to responding banks, net demand for consumer credit and other lending to households remained positive in the first quarter of 2006, but at a slightly lower level than previously reported (18%, from 21% in January 2006; see Chart B, panel c). This development was the result of several factors pointing in different directions. Among them, on the upside, there was a significant increase in the contribution of spending on durable consumer goods. Nonetheless, this effect was counterbalanced by a less positive contribution by consumer confidence and an increase in the use of alternative finance (in particular loans from other banks).

Expectations: For the second quarter of 2006 banks expected a continuation of the net easing of credit standards, although at a lower level than in the previous round (see Chart D, panel a), as well as an increase in net demand for these loans (see Chart B, panel c).