

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

This box describes the main results of the October 2006 bank lending survey for the euro area, which has been conducted by the Eurosystem.¹ During the third quarter of 2006, respondent banks reported broadly unchanged net credit standards for loans to enterprises,² continuing the pattern from the previous quarter. At the same time, banks also reported strong positive net demand for loans to enterprises³ in the third quarter, although this was slightly below the level reported for the previous quarter. For the fourth quarter of 2006, banks expect net demand for loans to corporations to remain very robust and even to increase amid unchanged credit standards. According to respondent banks, financing needs more closely related to the level of economic activity have become the major factors contributing to positive net loan demand.

As regards households, banks also reported almost unchanged credit standards applied to loans to households for housing purposes during the third quarter of 2006. This development, which follows the net easing reported in the previous two quarters, partly reflects a more cautious assessment of housing market prospects. During the same period, net demand for housing loans to households, as perceived by banks, continued to decline and reached a negative value for the first time since the start of the bank lending survey in April 2003. This negative net demand is expected to persist through the last quarter of 2006, during which banks also plan to keep credit standards for housing loans to households mostly unchanged.

Credit standards on consumer credit and other lending to households registered a net easing in the third quarter of 2006 which was similar in magnitude to that of the previous quarter and which is expected to continue through the last quarter of 2006. Net demand for consumer credit declined slightly from the second to the third quarter of 2006, but continued to be very robust. It is expected to increase in the last quarter of 2006.

Loans or credit lines to enterprises

Credit standards: For the third quarter of 2006, banks reported that net credit standards for loans or credit lines to enterprises were largely unchanged at 1%, compared with 2% in the previous quarter (see Chart A, panel a). The results for the last two quarters confirm that credit conditions have remained broadly unchanged over the last few quarters, despite some short-term volatility. Banks also plan to leave corporate credit standards unchanged for the next quarter.

Underlying this development, pressures from competition weighed towards an easing of credit standards, as has been the case in previous quarters (see Chart A, panel e). On the other hand, the industry or firm-specific outlook, as well as higher costs related to banks' capital, continued to contribute to a net tightening of credit standards (see Chart A, panels b and d). Regarding

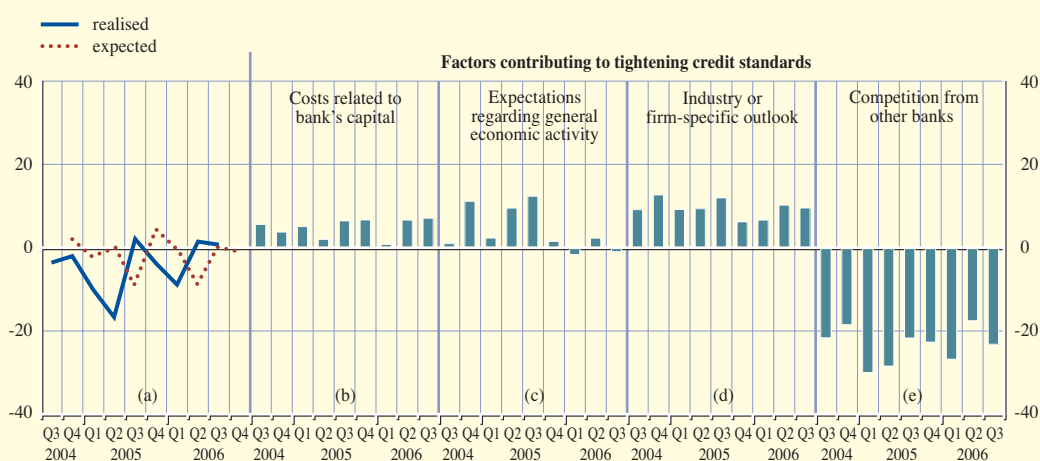
1 A comprehensive assessment of the results of the October 2006 bank lending survey for the euro area was published on 3 November 2006 on the ECB's website.

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.

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 2006 were reported by banks in the October 2006 survey.

the terms and conditions of credit, banks eased credit standards partly by means of lower collateral requirements, but mainly through a narrowing of margins on average loans, although the latter was less intense than in the previous quarter. As in earlier quarters, a net widening of the margins on riskier loans was observed, possibly corresponding to the perceived higher risks concerning the industry or firm-specific outlook.

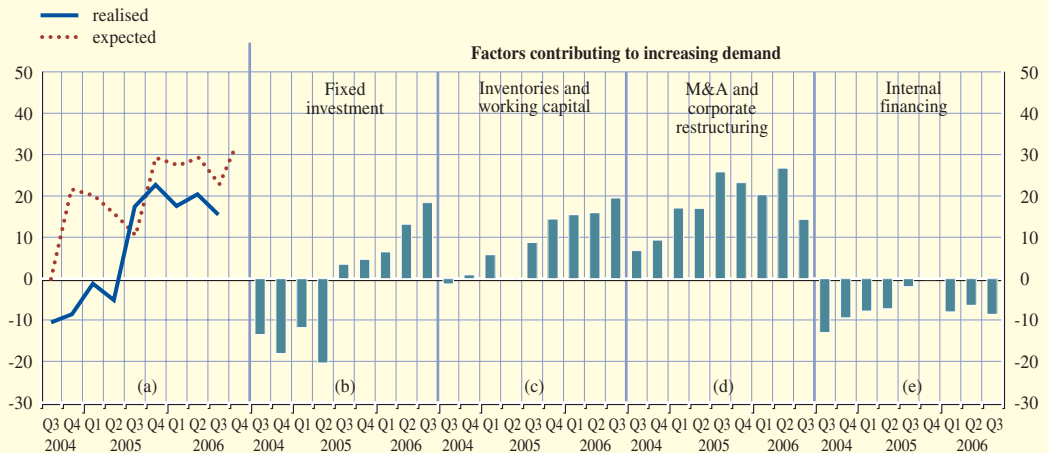
In terms of the borrower’s size, net credit standards applied to large enterprises remained almost unchanged, whereas standards applied to small and medium-sized enterprises eased somewhat. As regards maturity, net credit standards, both for short and long-term loans, remained largely unchanged from the previous quarter.

Loan demand: In line with the previous four surveys, net demand for loans to enterprises continued to be very strong in the third quarter of 2006, although it was slightly weaker than in the July 2006 survey (16% in October, compared with 20% in July 2006; see Chart B, panel a). Net loan demand is expected to increase further in the fourth quarter of this year. In terms of the borrower’s size, net loan demand continues to be stronger for small and medium-sized enterprises (21%) than for large corporations (15%) and is at a similar level to the previous quarter for both size classes.

According to respondent banks, financing needs more closely related to the level of economic activity – namely inventories, working capital and fixed capital investments – have become the major factors contributing to positive net loan demand (see Chart B, panels b and c). This is a continuation of a trend that started in the third quarter of 2005. In parallel, other factors of a more financial nature – for example, financing needs for M&A and debt restructuring activity – have also continued to contribute to net loan demand, although the importance of such factors has been decreasing compared with previous quarters (see Chart B, panel d). At the same time,

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

(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 2006 were reported by banks in the October 2006 survey.

increased use of alternative – mostly internal – sources of finance has helped to moderate net demand developments (see Chart B, panel e).

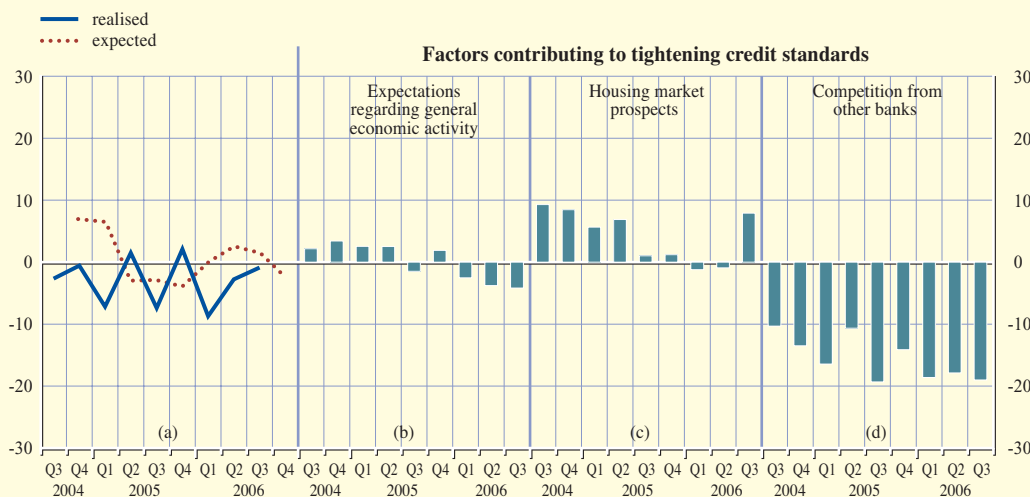
Loans to households for house purchase

Credit standards: Banks left credit standards for loans to households for house purchase broadly unchanged in the third quarter of 2006 and do not envisage altering them for the last quarter of the year. This contrasts with the net easing implemented in the first two quarters of 2006 (see Chart C, panel a). As in previous quarters, competition from other banks was the main factor supporting looser credit standards (see Chart C, panel d). At the same time, housing market prospects became a net contributor to tighter credit standards (see Chart C, panel c). Margins on average loans were eased in net terms (albeit to a lesser extent than in previous quarters). Loan-to-value ratios and lengthened loan maturities also contributed to easing. By contrast, margins on riskier loans were tightened in net terms.

Loan demand: Net demand for loans to households for house purchase continued to decline, reaching a negative value in the third quarter of 2006 (decreasing from 4% in July to -6% in October). Respondent banks also expect net demand to remain at -6% for the fourth quarter of 2006 (see Chart D, panel a). A deterioration in housing market prospects, as well as loans from other banks and a decline in the contribution of non-housing-related consumption expenditure, contributed to this net decrease in loan demand. This is the first time since the launch of the bank lending survey that housing market prospects have not contributed positively to net loan demand. On the other hand, consumer confidence and household savings contributed, to some extent, to positive net loan demand.

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

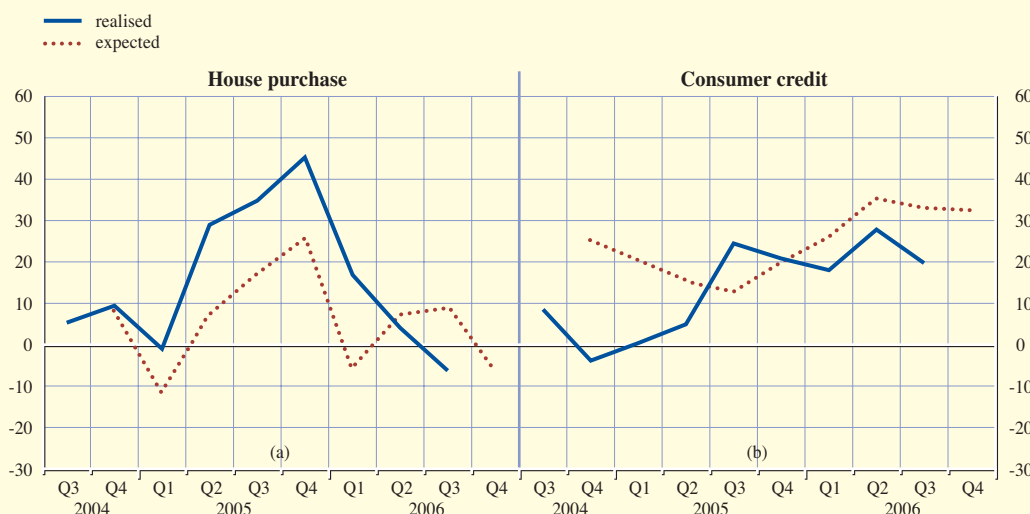
(net percentages)



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 2006 were reported by banks in the October 2006 survey.

Chart D Changes in demand for loans to households for house purchase and consumer credit

(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 2006 were reported by banks in the October 2006 survey.

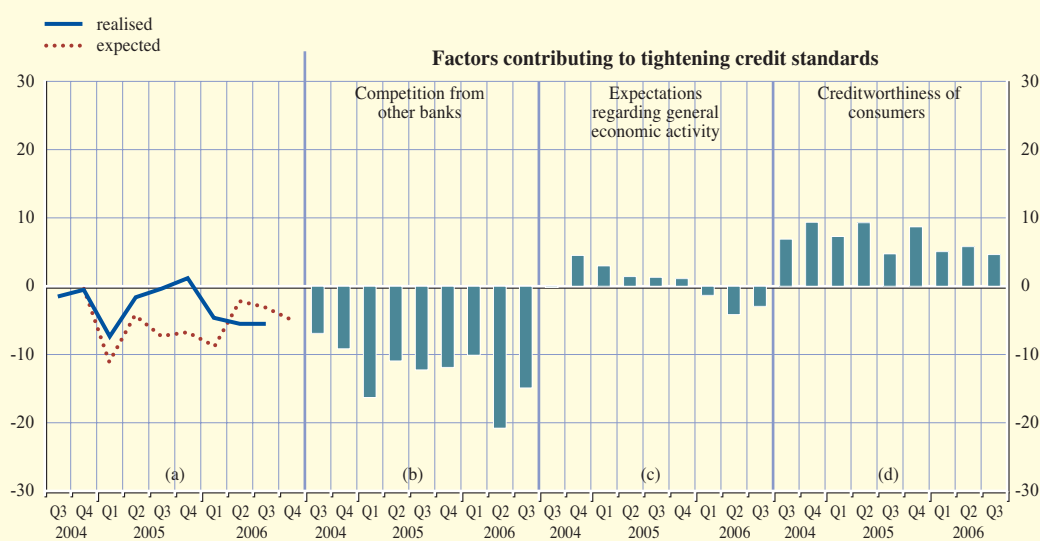
Loans for consumer credit and other lending to households

Credit standards: In the third quarter of 2006, the credit standards applied to the approval of consumer credit and other lending to households eased on a net basis at -6%, as in the previous quarter (see Chart E, panel a). Those standards are expected to remain at that level in the next quarter. Among the factors contributing to the net easing of credit standards were competitive pressures from other banks and non-banks, as well as slightly more favourable expectations regarding general economic activity (see Chart E, panels b and c). The net contributions of these factors were, however, less intense than in the previous quarter. With regard to terms and conditions, the easing of credit standards for consumer credit and other lending to households was mainly implemented by acting on margins on average loans. In particular, margins on average loans eased significantly, whereas margins on riskier loans continued to tighten in net terms. All other terms and conditions remained basically unchanged compared with the previous quarter, except for loan maturity conditions, which contributed somewhat to the net easing.

Loan demand: Banks reported that net demand for consumer credit remained strongly positive, despite decreasing somewhat in the third quarter of 2006 (to 20 %, from 28% in July; see Chart D, panel b). The main drivers behind the strong positive net demand for consumer credit continued to be consumer confidence, household savings and consumer spending on durable goods, although the contribution of that last factor declined significantly, from 30% in the second quarter to 13% in October.

Chart E Changes in credit standards applied to the approval of 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 2006 were reported by banks in the October 2006 survey.