

Box 2

THE RESULTS OF THE JANUARY 2007 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the January 2007 bank lending survey for the euro area conducted by the Eurosystem.¹ Respondent banks reported unchanged net credit standards for loans to enterprises in the fourth quarter of 2006,² in line with the pattern of the previous two quarters. At the same time, they also reported strong positive net demand³ for loans to enterprises in the fourth quarter, increasingly driven by factors related to the increase in economic activity but still underpinned by financing needs related to merger and acquisition (M&A) activity. For the first quarter of 2007, a further increase in net demand for loans to corporations is expected.

As regards lending to households, banks reported a slight net easing of credit standards applied to loans for housing purposes during the fourth quarter of 2006. This development, which is in contrast to the broadly unchanged conditions of the previous quarter, partly reflects an easing of tightening pressures relating to housing market prospects. In the same period net demand for housing loans to households, as perceived by respondent banks, was negative and continued the decline of the previous quarter to reach its lowest level since the start of the bank lending survey in April 2003. Net demand was negative in all the large euro area countries. The negative net demand was also expected to continue in the first quarter of 2007, during which banks plan to keep credit standards for housing loans mostly unchanged.

With regard to credit standards for consumer credit and other lending to households, a net easing was registered in the fourth quarter of 2006, which was broadly similar in magnitude to

1 A comprehensive assessment of the results of the January 2007 bank lending survey for the euro area was published on 9 February 2007 on the ECB's website.

2 The reported net percentage was 0%. 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.

that of the previous two quarters and is expected to continue in the first quarter of 2007. Net demand for consumer credit declined from the third to the fourth quarter of 2006 but continued to be positive. Expectations for net demand in the first quarter of 2007 also declined.

Loans or credit lines to enterprises

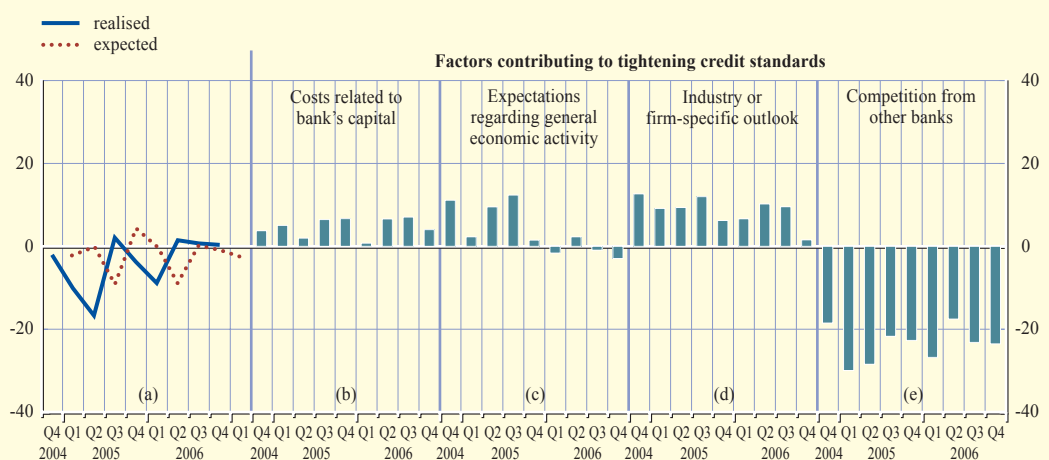
Credit standards: For the fourth quarter of 2006, banks reported unchanged net credit standards for loans or credit lines to enterprises (Chart A, panel a). This is in line with the broadly unchanged standards reported in the previous two quarters and confirms a picture of stable credit standards during most of 2006, following the easing tendencies that had prevailed since mid-2004. Banks also expected credit standards for corporate loans to be unchanged for the next quarter.

Looking at the underlying credit analysis, competitive pressures contributed towards an easing of credit standards as in previous quarters (see Chart A, panel e). At the same time the industry or firm-specific outlook contributed less to a tightening and expectations regarding the general economic outlook more towards an easing than in previous rounds of the survey (see Chart A, panels b and c). In terms of the borrower's size, the unchanged net credit standards applied to small and medium-sized enterprises as well as to large enterprises. As regards maturity, net credit standards remained unchanged from the previous quarter for both short and long-term loans.

Loan demand: In line with the previous five surveys, net demand for loans to enterprises continued to be very strong in the fourth quarter of 2006 (23% in the January survey after 16% in October; see Chart B, panel a). Net loan demand is expected to increase further in the first quarter of 2007. Underlying the increasing loan demand, net loan demand continues to be stronger for small and medium-sized enterprises (25%) than for large corporations (14%) and is at a similar level to the previous quarter for both size classes.

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

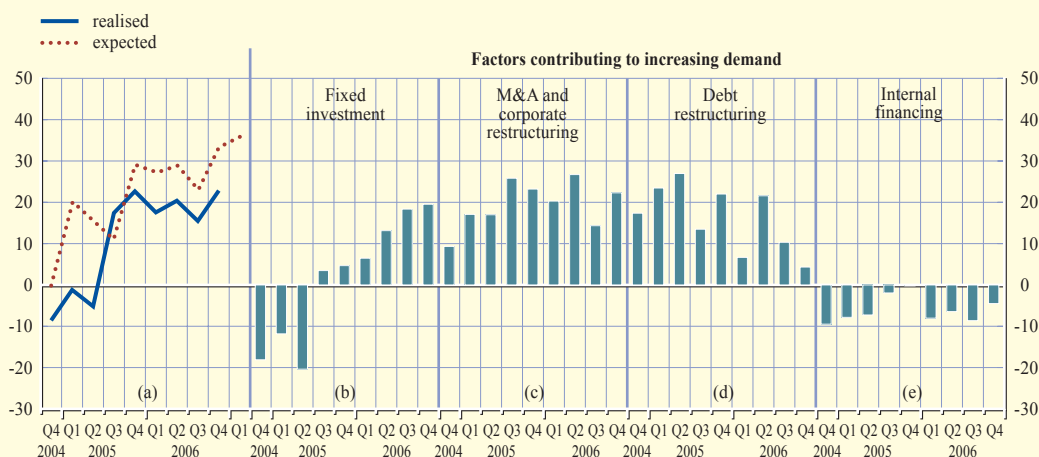
(net percentages)



Notes: In panel a, 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 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 first quarter of 2007 were reported by banks in the January 2007 survey.

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

(net percentages)



Notes: In panel a, the net percentages refer 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”. The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to an increase in demand and the percentage reporting that it contributed to a decline. “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 first quarter of 2007 were reported by banks in the January 2007 survey.

According to respondent banks, financing needs closely related to the level of economic activity – namely inventories, working capital and fixed capital investments – have become the major factors contributing to the positive net loan demand (Chart B, panel b). This is a continuation of a trend that started in the third quarter of 2005. Financing needs for M&A activity were also reported as an important factor behind the strong demand; the importance of this factor increased after a decline in the previous quarter (Chart B, panel c). Debt restructuring continued to contribute to net loan demand, but its importance decreased compared with previous surveys (see Chart B, panel d). On the other hand, strong earnings in the corporate sector provided a source of internal finance that helped to moderate net demand developments (see Chart B, panel e).

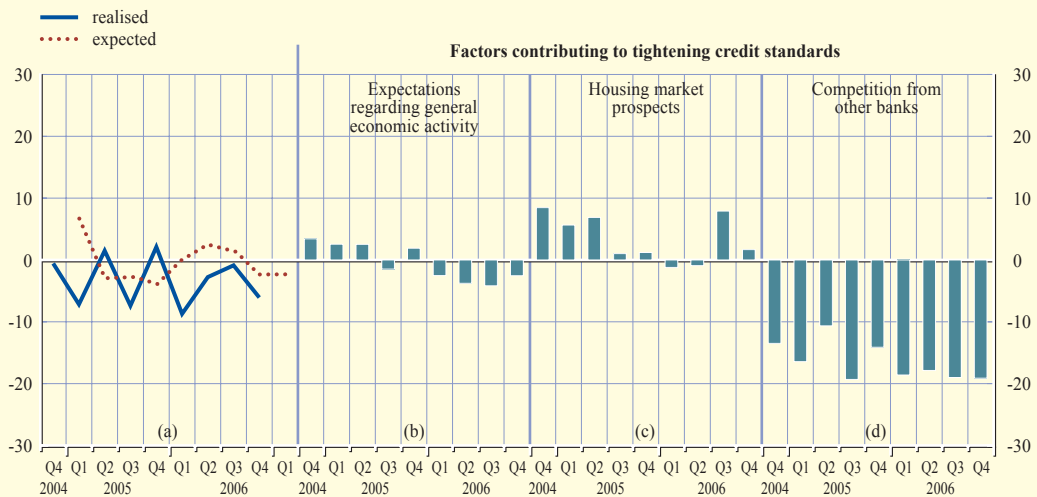
Loans to households for house purchase

Credit standards: Banks reported a slight easing of credit standards for loans to households for house purchase in the fourth quarter of 2006. This is in line with the developments in the last two and a half years, which show a tendency of slightly easing standards (see Chart C, panel a). Banks do not expect changes in credit standards for the first quarter of 2007. As in previous quarters, competition from other banks was the dominant factor behind looser credit standards (see Chart C, panel d). Housing market prospects contributed less to a tightening than in the third quarter (see Chart C, panel c). As regards the terms and conditions for housing loans, banks presumably focused more closely on risk concerns in the fourth quarter, reporting – unlike in previous quarters – that a decrease in the loan-to-value ratio contributed to a net tightening of standards.

Loan demand: Net demand for loans to households for house purchase continued the declining trend which started at the beginning of 2006 (moving from -6% in the October 2006 survey to -10% in January 2007). This declining trend in net demand is consistently reported by respondent

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

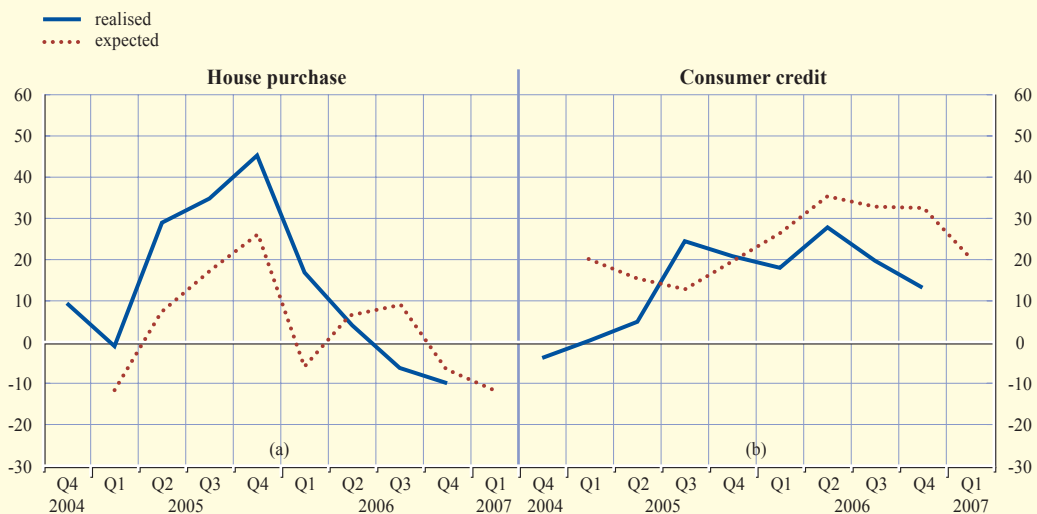
(net percentages)



Notes: In panel a, 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 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 first quarter of 2007 were reported by banks in the January 2007 survey.

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

(net percentages)



Notes: In panel a, the net percentages refer 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 first quarter of 2007 were reported by banks in the January 2007 survey.

banks in all the large euro area countries. For the first quarter of 2007 a further decrease in net demand is expected, with expectations at -12% (see Chart D, panel a). A slight deterioration in housing market prospects, as well as a rise in non-housing-related consumption expenditure, contributed to the decrease in net loan demand. On the other hand, consumer confidence contributed towards higher net loan demand.

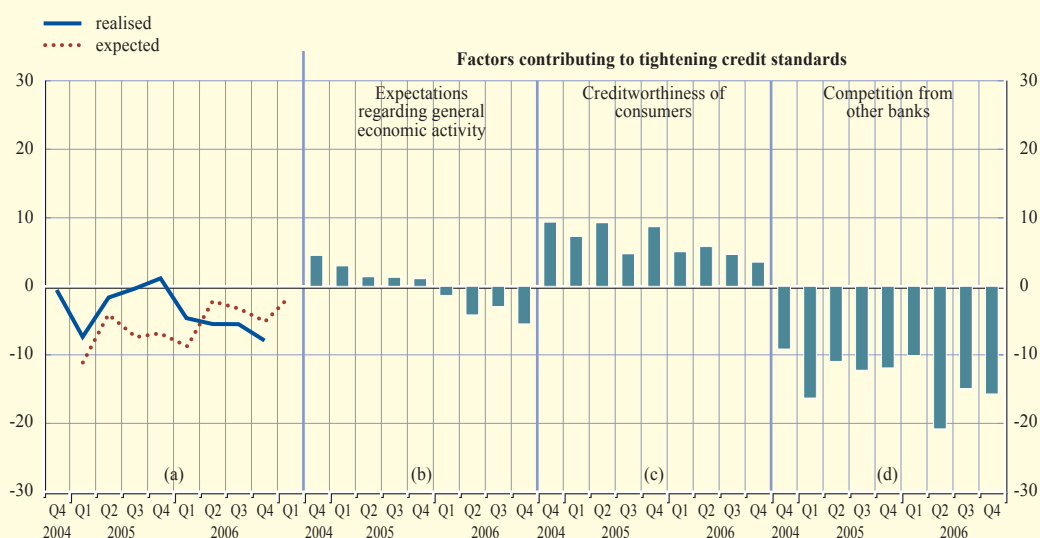
Loans for consumer credit and other lending to households

Credit standards: The credit standards applied to the approval of consumer credit and other lending to households continued to ease in the fourth quarter of 2006 but are expected to ease less in the first quarter of 2007 (see Chart E, panel a). Among the factors contributing to the net easing in credit standards were competitive pressures from banks and non-banks, as well as favourable expectations regarding general economic activity (see Chart E, panels b to d). At the same time concerns about the creditworthiness of consumers seemed to contribute less towards a tightening than previously (see Chart E, panel c). With regard to the terms and conditions, compared with previous quarters the easing of credit standards in the fourth quarter of 2006 was implemented to a lesser degree via lower margins on average loans.

Loan demand: Banks reported positive net demand for consumer credit in the fourth quarter of 2006, although it decreased somewhat to 13% from 20% in the third quarter (see Chart D, panel b). The main factors contributing to the positive net demand were consumer confidence and spending on durable goods, although a decline in the contribution from the latter was – as in the third quarter – the driver behind the decrease in net demand.

Chart E Changes in credit standards applied to the approval of consumer credit and other lending to households

(net percentages)



Notes: In panel a, 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 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 first quarter of 2007 were reported by banks in the January 2007 survey.