

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

This box describes the main results of the April 2007 bank lending survey for the euro area conducted by the Eurosystem.¹ The survey includes for the first time respondent banks in Slovenia. Respondent banks reported for the first quarter of 2007 a slight net easing of credit standards for loans or credit lines to enterprises.² This follows a period over the past few quarters when standards remained basically unchanged or were slightly eased. Banks also reported that the net demand for loans to enterprises remained significantly positive.³ This was to a large extent related to economic factors, in particular stronger financing needs linked to fixed investments, larger inventories and working capital, as well as to financial factors reflecting loan demand to finance M&A activity. For the second quarter of 2007, net demand for loans or credit lines to enterprises is expected to remain significantly positive.

As regards lending to households, banks reported a slight net easing of credit standards applied to loans for housing purposes in the first quarter of 2007, which was broadly at the same level as in the previous quarter. These developments reflected the contribution of competitive pressures towards easier credit standards, while risk perceptions related to housing market prospects contributed more towards a net tightening than in the previous quarter. Net demand for loans for housing purposes fell significantly during the first quarter of 2007 as a result of a sharp deterioration in housing market prospects. Banks expect net demand to remain basically unchanged in the second quarter of 2007.

With regard to credit standards for consumer credit and other lending to households, banks slightly eased credit standards on a net basis, as in the previous quarter, mostly as a result of stronger competition from banks and – to some extent – positive expectations regarding economic activity. Net demand for consumer credit and other lending continued to be positive, mainly supported by spending on durable consumer goods and consumer confidence. Expectations for net demand in the second quarter of 2007 remain significantly positive.

Loans or credit lines to enterprises

Credit standards: Credit standards for loans or credit lines to enterprises eased somewhat in net terms in the first quarter of 2007 (see Chart A, panel a). This follows a period over the past few quarters when standards remained basically unchanged or were slightly eased. Banks also expected a slight net easing of credit standards for the next quarter, in particular for short-term loans.

Competition from other banks continued to be an important factor contributing towards net easing of credit standards, albeit less than in previous quarters (see Chart A, panel e). Also, more favourable expectations regarding general economic activity contributed, for the third

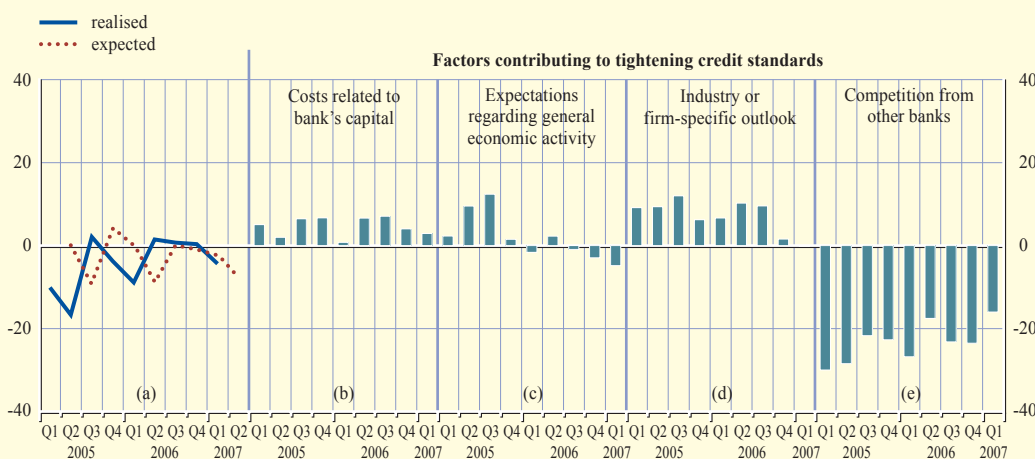
1 A comprehensive assessment of the results of the April 2007 bank lending survey for the euro area was published on 11 May 2007 on the ECB's website.

2 The reported net percentage was -4%. 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 been 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: 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 second quarter of 2007 were reported by banks in the April 2007 survey.

time in a row, towards net easing (see Chart A, panel c). The industry or firm-specific outlook for the first time no longer contributed to net tightening as had been the case in previous years (see Chart A, panel d).

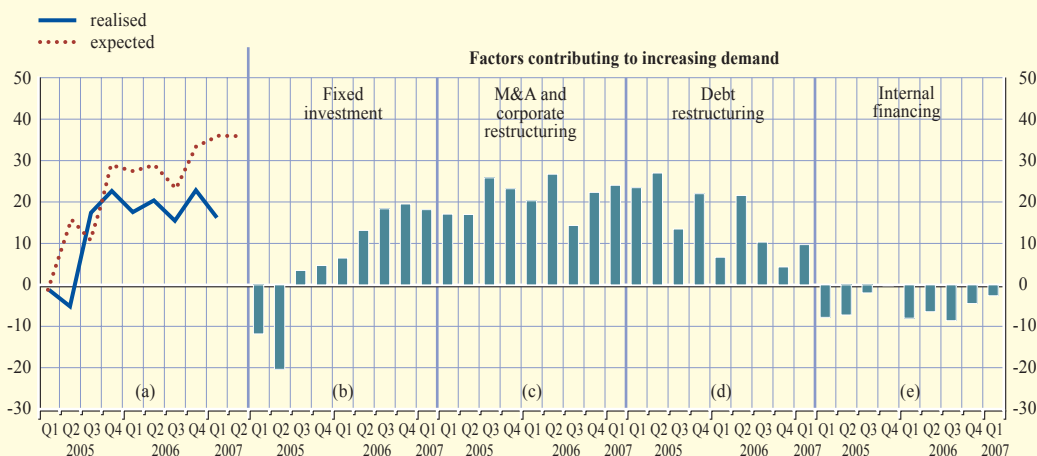
In terms of borrower size, the net easing of credit standards applied mainly to large enterprises. The credit standards applied to small and medium-sized enterprises remained basically unchanged in the first quarter of 2007, following a series of slight net tightenings in 2006. As regards loan maturities, the net easing was more pronounced in comparison with the previous quarter for long-term loans than for short-term loans.

Loan demand: In line with the six previous surveys, in the first quarter of 2007 net demand for loans by enterprises was significantly positive, although at a somewhat lower level than in the previous quarter (16% in the April survey after 23% in January; see Chart B, panel a). Net loan demand is expected to remain significantly positive in the second quarter of 2007. In terms of borrower size, net loan demand from small and medium-sized enterprises (16%) continued to be stronger than for large enterprises (12%), although the difference was less pronounced than in previous quarters. Net demand was positive across the maturity spectrum, although with a continued downward tendency for long-term loans.

According to responding banks, the factors behind the persistent high positive net demand continued to be of a both non-financial and financial nature and included fixed investment, inventories and working capital, as well as mergers and acquisitions and corporate restructuring (see Chart B, panels b to d). The use of alternative financing from internal sources (i.e. higher profits) contributed to moderating net loan demand, albeit less than during the previous survey (see Chart B, panel e).

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

(net percentages)



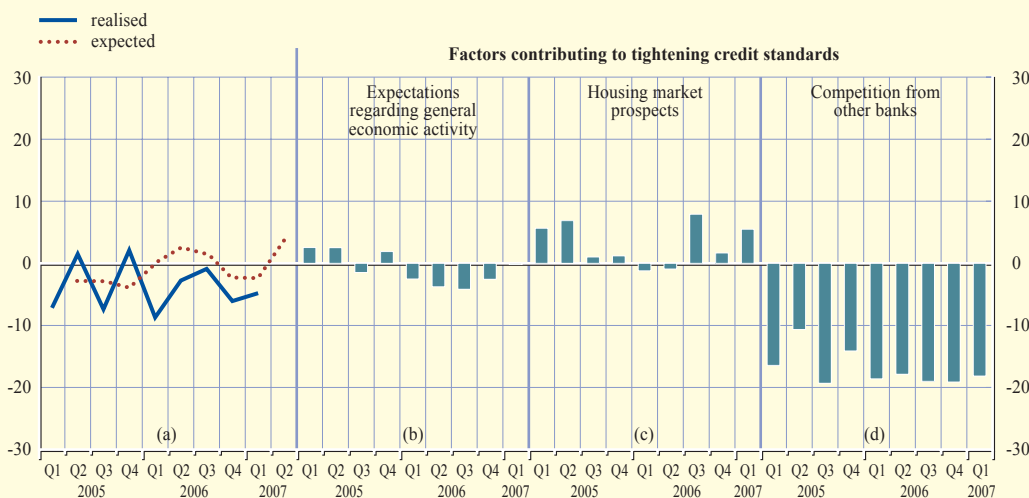
Notes: The net percentages refer to the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”. The net percentages for the questions related to the factors are the difference 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 second quarter of 2007 were reported by banks in the April 2007 survey.

Loans to households for house purchase

Credit standards: In the first quarter of 2007, banks reported a slight net easing of credit standards for loans to households for house purchase, which was broadly at the same level as

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

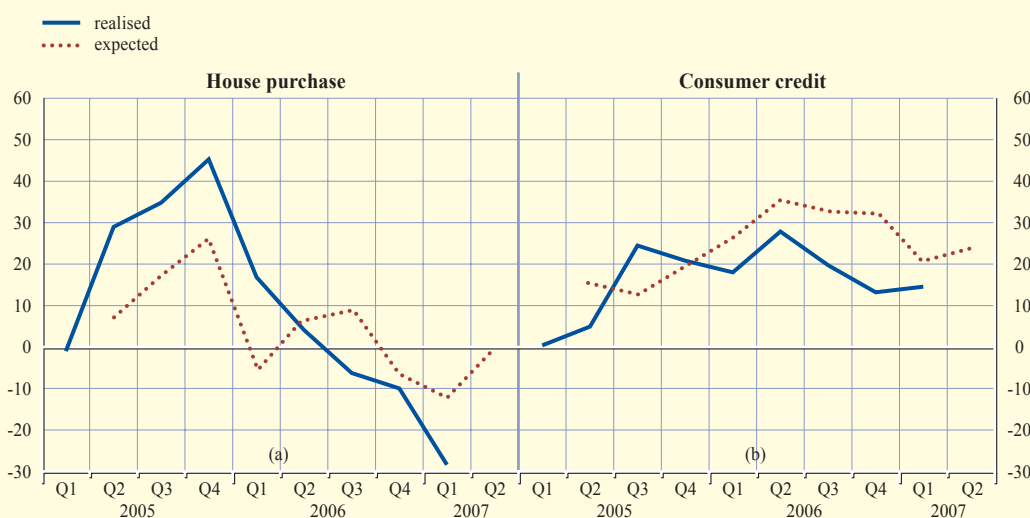
(net percentages)



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 second quarter of 2007 were reported by banks in the April 2007 survey.

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

(net percentages)



Notes: 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 second quarter of 2007 were reported by banks in the April 2007 survey.

in the previous quarter (see Chart C, panel a). For the second quarter of 2007, banks expect a slight net tightening. While the main factor behind the net easing continued to be competition from other banks (see Chart C, panel d), housing market prospects contributed more towards a tightening relative to the previous quarter (see Chart C, panel c). The net easing for loans for house purchase was mainly implemented by reducing the margins on average loans, lengthening the loan maturity and reducing non-interest rate charges. At the same time, margins on riskier loans continued to contribute to a net tightening, but slightly less than in most previous quarters.

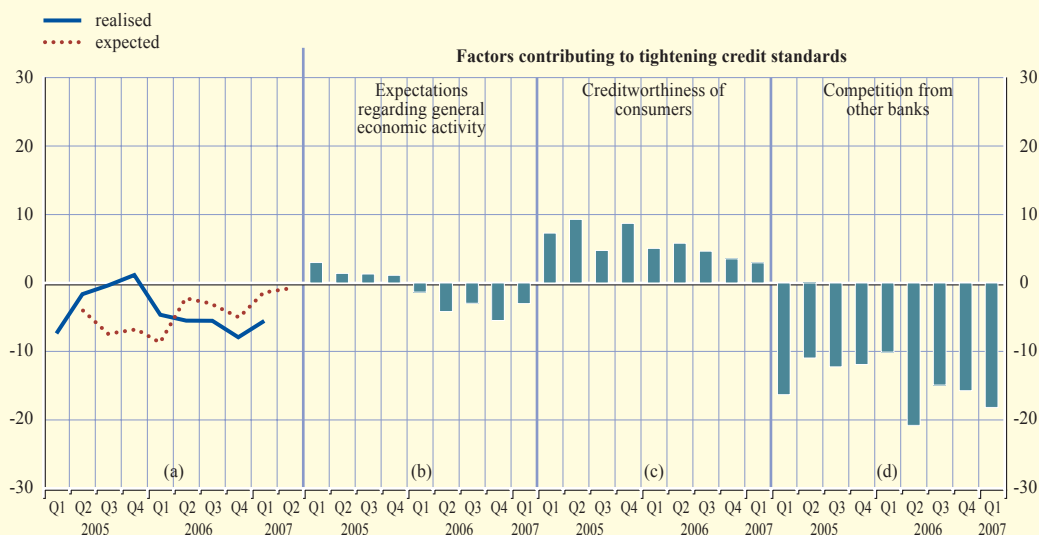
Loan demand: The net demand for housing loans to households fell considerably in the first quarter of 2007 (to -28% in the April 2007 survey, from -10% in January; see Chart D, panel a). For the second quarter of 2007, banks expect net demand to remain basically unchanged. This decrease was for a large part caused by a sharp deterioration in the assessment of housing market prospects. Consumer confidence also contributed slightly towards a negative net loan demand, unlike in the previous survey rounds.

Loans for consumer credit and other lending to households

Credit standards: In the first quarter of 2007, banks reported a slight net easing of the credit standards applied to the approval of consumer credit and other lending to households, which was broadly at the same level as in the previous quarter (see Chart E, panel a). For the second quarter of 2007, banks expect credit standards to remain basically unchanged. Among the factors contributing to the slight net easing in credit standards were competitive pressures from other banks, as well as favourable expectations regarding general economic activity (see

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 second quarter of 2007 were reported by banks in the April 2007 survey.

Chart E, panels b and d). Banks cited concerns about the creditworthiness of consumers as the main factor contributing towards tighter consumer credit standards (see Chart E, panel c).

Margins on average loans contributed significantly to the net easing, although mostly reversing the movement seen in the January 2007 survey. The lengthening of loan maturity also contributed to the net easing. At the same time, margins on riskier loans contributed slightly more to a net tightening than in the previous quarter, although movements over the past few quarters have been somewhat volatile. The other terms and conditions remained basically unchanged in net terms compared with the previous quarter.

Loan demand: Banks reported that net demand for consumer credit and other lending to households remained positive in the first quarter of 2007, at broadly the same level as in the previous quarter (15% in the April 2007 survey compared with 13% in January; see Chart D, panel b). For the second quarter of 2007, banks expect the net demand to remain significantly positive. The main drivers behind the positive net demand for consumer credit continued to be spending on durable consumer goods and, albeit less than during previous quarters, consumer confidence. The impact of household savings remained very low.