

Box 1

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

This box describes the main results of the July 2007 bank lending survey for the euro area conducted by the Eurosystem.¹ Respondent banks reported that for the second quarter of 2007 credit standards for loans to enterprises eased somewhat.² This follows a period of some volatility 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 related to both financial and non-financial factors, in particular fixed investment, inventories and working capital as well as M&A activity and corporate restructuring. For the third quarter of 2007, banks expect a slight net tightening of credit standards applied on loans to enterprises, while net demand for loans by enterprises is expected to remain buoyant.

As regards housing loans to households, banks reported broadly unchanged credit standards in the second quarter of 2007, following a slight net easing in the previous quarter. While the main factor behind the net easing continued to be competition, in particular from other banks, housing market prospects contributed more towards a tightening relative to the previous quarter. Net demand for loans to households for house purchase continued to be significantly negative in the second quarter of 2007 as a result of a considerable deterioration in housing market prospects as perceived by borrowers. Banks expect net demand for loans to households for house purchase to remain significantly negative in the third quarter.

With regard to credit standards for consumer credit and other lending to households, banks reported basically unchanged credit standards compared with a net easing in the previous quarter. Competition from other banks and favourable expectations about the general economic

1 A comprehensive assessment of the results of the July 2007 bank lending survey for the euro area was published on 3 August 2007 on the ECB's website.

2 The reported net percentage was -3%. 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.

outlook remained the main factors contributing towards a net easing, while consumers' creditworthiness and risk on collateral demanded contributed towards a net tightening. Net demand for consumer credit and other lending remained positive, although at a substantially lower level than in the previous quarter. Expectations for net demand in the third quarter of 2007 remain positive.

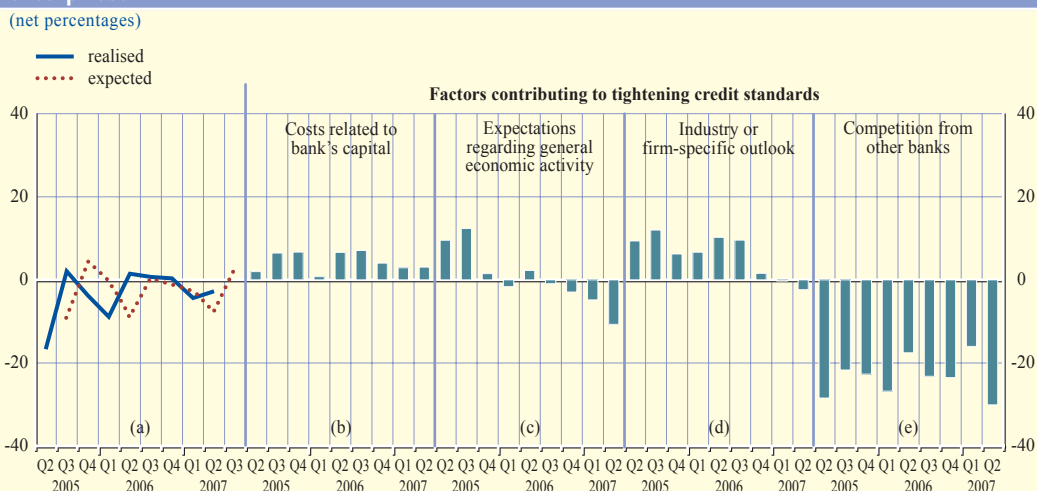
Loans or credit lines to enterprises

Credit standards: Credit standards for loans or credit lines to enterprises eased somewhat in net terms in the second quarter of 2007 (see Chart A, panel a). This follows a period of some volatility over the previous few quarters when standards remained basically unchanged or slightly eased. Expectations for the third quarter of 2007 point to a change of credit standards applied on loans to enterprises towards a slight net tightening, which could reflect to some extent concerns related to the recent turmoil in global credit markets.

Competition from other banks continued to be an important factor contributing to a net easing of credit standards (see Chart A, panel e). Also, more favourable expectations regarding general economic activity contributed increasingly towards a net easing (see Chart A, panel c). Moreover, the industry or firm-specific outlook contributed to a net easing for the first time since the launch of the survey (see Chart A, panel d).

The net easing of credit standards was mainly seen for small and medium-sized enterprises, while the credit standards applied to large enterprises eased only slightly in the second quarter of 2007. As regards loan maturities, the net easing was somewhat more pronounced for long-term loans than for short-term loans. Banks eased credit standards not only through narrower

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



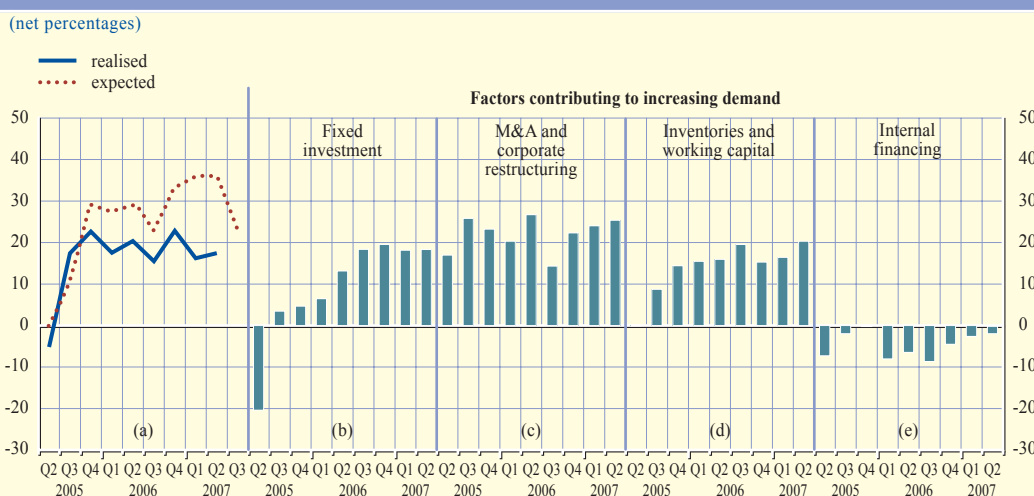
Notes: In panel a, the net percentages refer to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. The net percentages for the questions related to the factors are the difference 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 third quarter of 2007 were reported by banks in the July 2007 survey.

margins on average loans, but also through a variety of other channels, including a lengthening of the maturity of loans or credit lines, an increase in their size and less restrictive loan covenants. At the same time, higher margins on riskier loans contributed to a significantly lower degree to a net tightening of credit standards than in the previous quarter (2%, after 12% in the previous survey).

Loan demand: In line with the seven previous quarters, net demand for loans by enterprises was significantly positive in the second quarter of 2007, at more or less the same level as in the previous survey round (17% compared with 16% in the previous round; see Chart B, panel a). Demand for loans by enterprises is expected to remain strong, although somewhat less so than in recent quarters. In terms of borrower size, net loan demand from small and medium-sized enterprises continued to be stronger than from large enterprises (13% and 10% respectively), although the difference was less pronounced than during previous quarters. Net demand was positive across the maturity spectrum, with demand for long-term loans being somewhat stronger than for short-term loans, although the difference has narrowed in recent quarters.

According to responding banks, the factors behind the persistent high positive net demand continued to be of both a non-financial and financial nature, and included in particular 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 (e.g. internal financing from higher profits) contributed to the moderation of net loan demand (see Chart B, panel e), as did loans from other banks.

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



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 third quarter of 2007 were reported by banks in the July 2007 survey.

Loans to households for house purchase

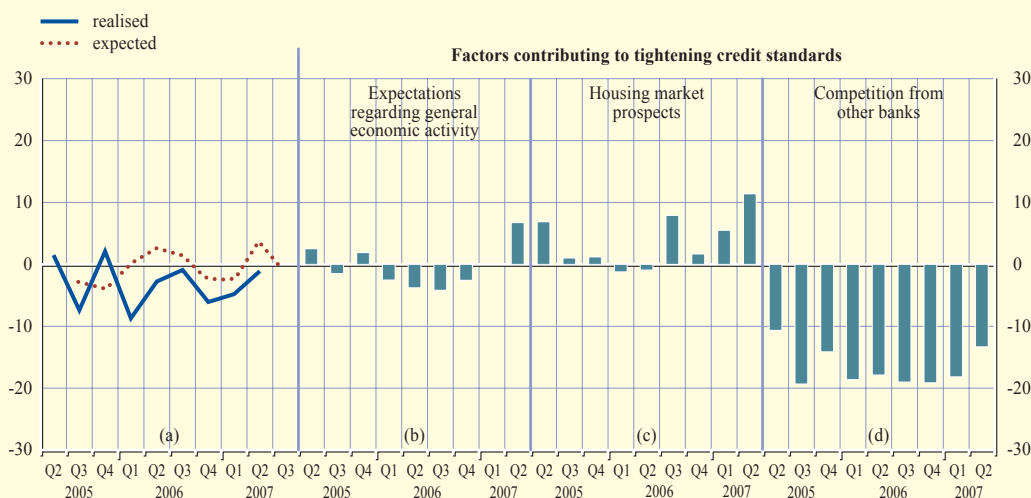
Credit standards: In the second quarter of 2007, banks reported broadly unchanged credit standards for housing loans to households, following a slight net easing in the previous quarter (see Chart C, panel a). This however masks cross-country differences. For the third quarter of 2007, banks expect credit standards to remain broadly unchanged. While the main factor behind the net easing continued to be competition, in particular 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 previous quarters.

Loan demand: The net demand for housing loans to households continued to be significantly negative in the second quarter of 2007, at -22% compared with -28% in the previous quarter (see Chart D, panel a). This essentially reflected a less favourable assessment of housing market prospects. Consumer confidence also contributed towards a negative net loan demand, as in the previous survey round. Banks expect net demand to remain significantly negative in the third quarter of 2007.

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

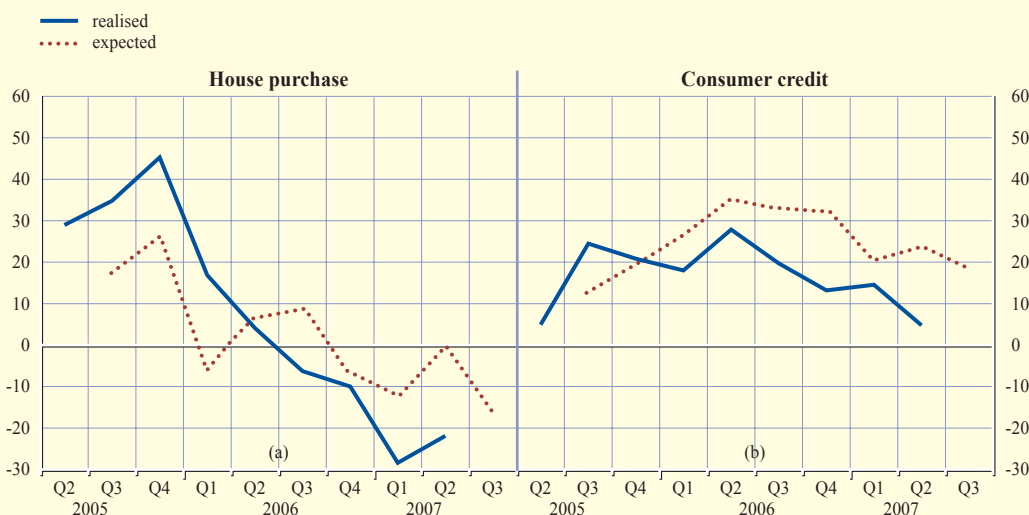
(net percentages)



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 third quarter of 2007 were reported by banks in the July 2007 survey.

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

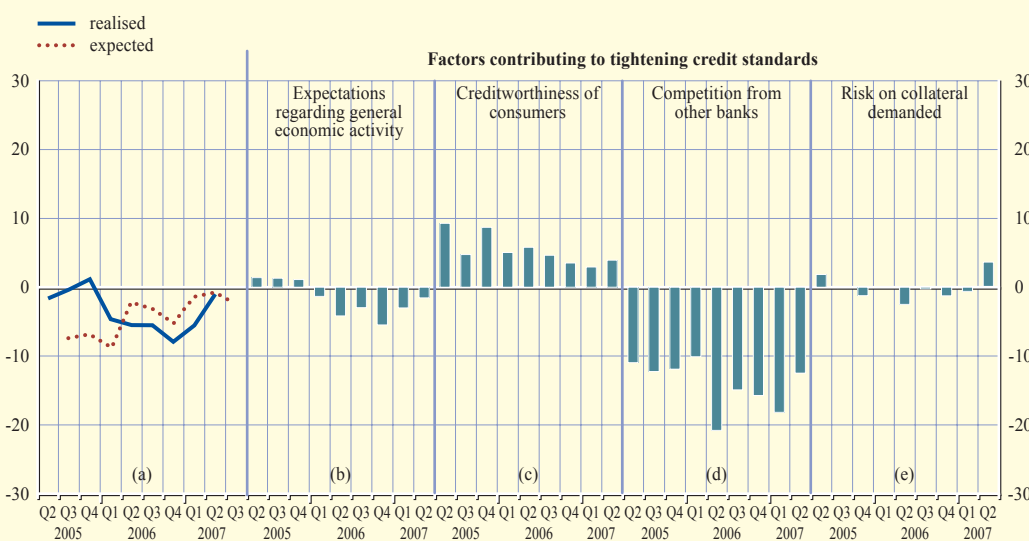
(net percentages)



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”. 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 third quarter of 2007 were reported by banks in the July 2007 survey.

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 third quarter of 2007 were reported by banks in the July 2007 survey.

Loans for consumer credit and other lending to households

Credit standards: In the second quarter of 2007, banks reported basically unchanged credit standards applied to the approval of loans to households for consumer credit and other lending, compared with a net easing in the previous quarter (see Chart E, panel a). For the third quarter of 2007, banks expect credit standards to remain basically unchanged.

Competition from other banks remained the main driver behind such a development, which also reflected favourable expectations about the general economic outlook (see Chart E, panels b and d). Consumers' creditworthiness and risk on collateral demanded contributed slightly towards a net tightening (see Chart E, panels c and e).

Price changes, in particular via margins on average loans (although by slightly less than in the previous survey round), and the lengthening of loan maturity contributed to an easing of credit standards. At the same time, margins on riskier loans contributed to a tightening to the same degree as in the previous quarter (9%).

Loan demand: Banks reported that net demand for consumer credit and other lending to households remained positive in the second quarter of 2007, although at a substantially lower level than in the previous quarter (5% compared with 15%; see Chart D, panel b). For the third quarter of 2007, banks expect net demand to remain significantly positive. Positive net demand appears to be related to spending on durable goods as well as to lower household savings.