Box 2

THE RESULTS OF THE JULY 2008 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the July 2008 bank lending survey for the euro area conducted by the Eurosystem.[1]

In the second quarter of 2008 the net tightening of credit standards reported by banks for loans to enterprises was somewhat lower than in the first quarter.[2] Net tightening remained stronger for large enterprises than for small and medium-sized enterprises (SMEs). The net tightening of credit standards reported by banks for loans to households for house purchase was also somewhat lower than in the first quarter, but the net tightening reported for consumer credit and other lending strengthened somewhat, albeit from a lower level. With regard to demand for loans, banks reported that net demand for loans to enterprises and households remained negative in the second quarter of 2008.[3]

This survey round also contained a set of ad hoc questions following up on the ad hoc questions included in previous survey rounds and addressing the effect of the financial turmoil (see the last section of this box). With regard to wholesale funding, banks reported that their access to money markets and debt securities markets following the turmoil in financial markets was somewhat less hampered in the second quarter than it had been in the first quarter. By contrast, access to securitisation continued to be hampered, remaining broadly unchanged from the first quarter.

Loans or credit lines to enterprises

Credit standards: In the second quarter of 2008 the net percentage of banks reporting a tightening of credit standards for loans to enterprises was somewhat lower than in the first quarter (43%, compared with 49% in the first quarter; see Chart A). The most important factors contributing to banks' tightening of credit standards remained banks' perception of risks relating to general economic activity and the industry or firm-specific outlook. At the same time, the factors summarised in banks' funding costs and balance sheet constraints (i.e. banks' ability to access market financing, banks' costs related to their capital positions and banks' liquidity positions) contributed to the decline in the net tightening of credit standards.

As regards the terms and conditions applied to the approval of loans or credit lines to enterprises (see Chart B), margins on average loans (53%, compared with 62% in the previous round) and riskier loans (64%, compared with 72% in the previous round) continued to be tightened (i.e. widened in the case of margins) most in net terms in the second quarter, although to a somewhat lesser extent than in the first quarter. On the whole, the net tightening of non-price terms and conditions remained broadly unchanged from the first quarter, with the notable exception of collateral requirements, which increased compared with the previous quarter.

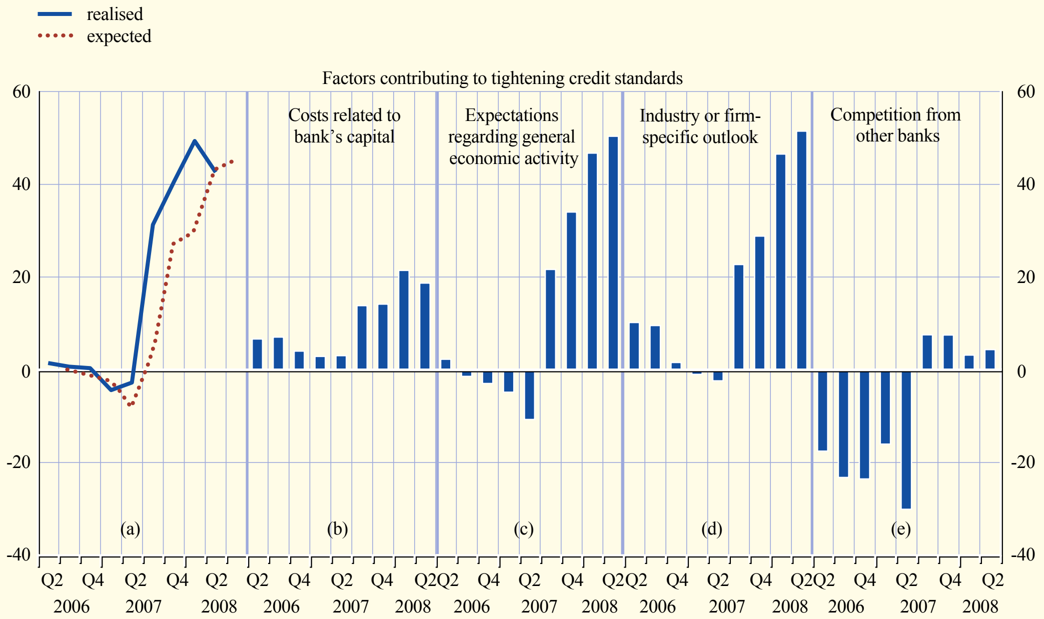
1 The cut-off date for the receipt of data from the responding banks was 8 July 2008. A comprehensive assessment of the results of the July 2008 bank lending survey for the euro area was published on 8 August 2008 on the ECB's website.

2 The reported 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 indicates that banks have tended to tighten credit standards ("net tightening"), whereas a negative net percentage indicates 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)



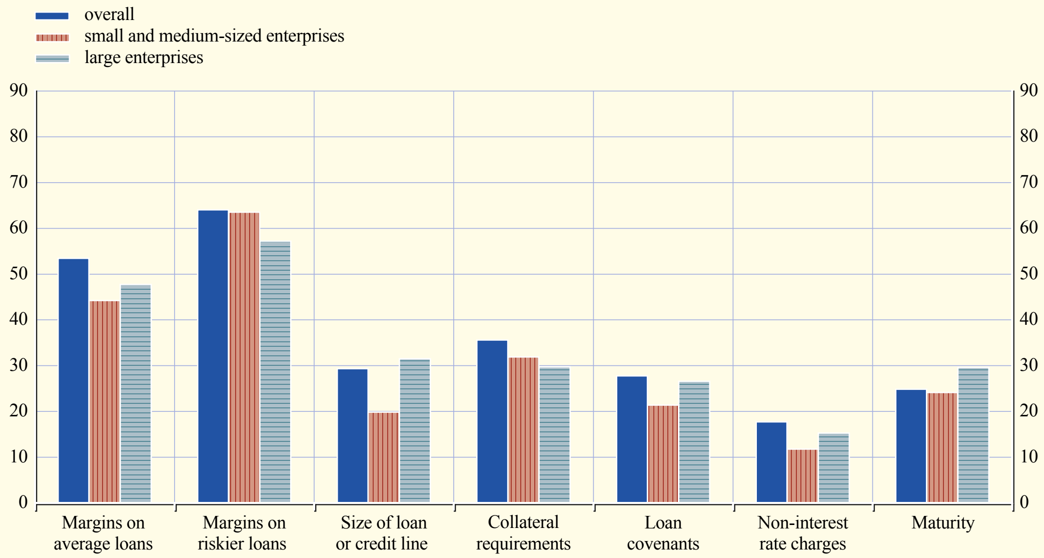
Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably". The net percentages for the questions related to the factors are the 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 refer to the expected changes over the next three months.

The net tightening of credit standards remained stronger for large enterprises (44%, compared with 53% in the first quarter of 2008) than for SMEs (34%, compared with 35% in the first quarter of 2008). While the net tightening remained broadly unchanged for SMEs, it declined for large enterprises. As regards the factors affecting banks' credit standards, the deteriorating expectations regarding general economic activity and the industry or firm-specific outlook were the most important factors for both large enterprises and SMEs. At the same time, banks' funding costs and balance sheet constraints – and especially banks' liquidity positions – were more important for large firms than for SMEs (although their importance for large firms declined by comparison with the previous quarter). This may be related to the greater importance of market-based funding for bank loans to large firms. With regard to the terms and conditions of credit, increases in banks' margins contributed most to the net tightening of credit standards for loans to both large firms and SMEs (see Chart B). With regard to non-price terms and conditions, large firms generally experienced stronger net tightening than SMEs, with the exception of collateral requirements. As regards loan maturities, the net tightening continued to be more pronounced for long-term loans (52%, compared with 57% in the previous survey round) than for short-term loans (31%, compared with 33% in the previous survey round).

Looking ahead to the third quarter of 2008, expectations point to the net tightening of credit standards for loans or credit lines to enterprises being slightly stronger (at 45%) than that seen in the second quarter of 2008 (see Chart A).

Chart B Changes in terms and conditions applied to the approval of loans or credit lines to enterprises in the second quarter of 2008

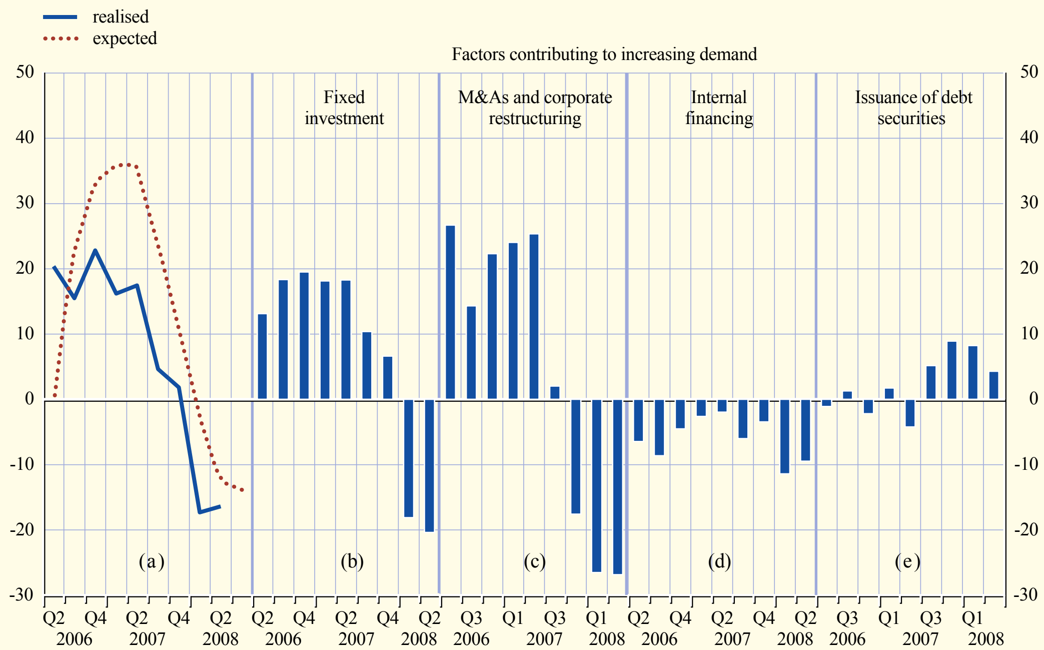
(net percentages)



Note: 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".

Chart C 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 refer to the expected changes over the next three months.

Loan demand: In the second quarter of 2008 net demand for loans to enterprises remained negative, broadly unchanged from the previous quarter (-16%, compared with -17% in the first quarter of 2008; see Chart C). The main factors behind this negative net demand were M&As and corporate restructuring and a decline in financing needs for fixed investment. In addition, internal financing also contributed to the decline in net demand for loans to enterprises, thus pointing to robust profitability among enterprises. By contrast, developments in debt securities issuance contributed positively to net demand for loans to enterprises, reflecting market conditions and the increased cost of market-based debt financing. In terms of borrower size, while net loan demand was negative for both large firms and SMEs (at -12% and -8% respectively), it remained weaker for large firms, in line with the results for previous quarters. In addition, net demand was negative across the maturity spectrum.

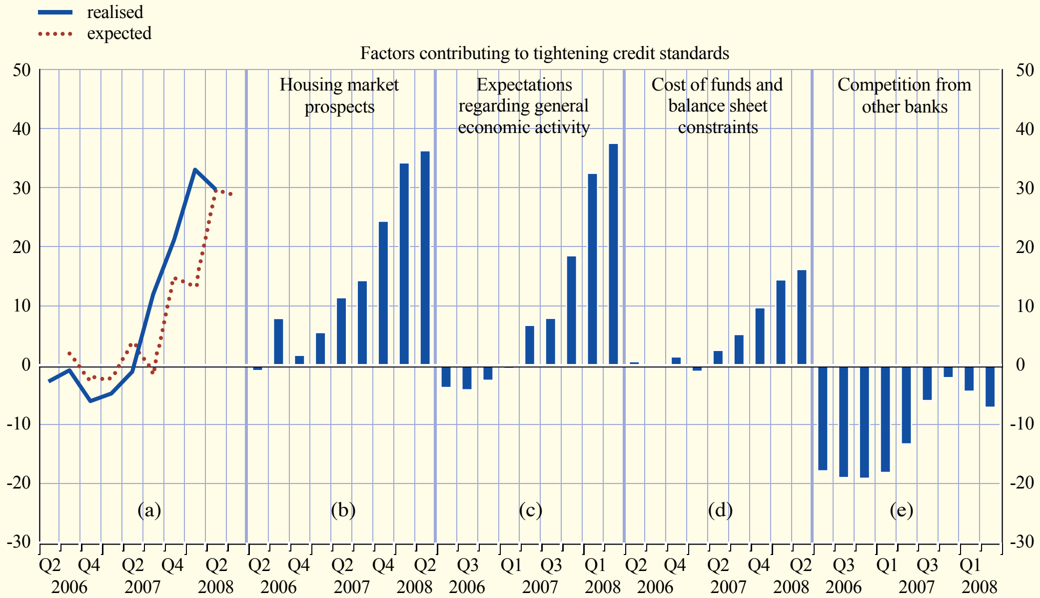
For the third quarter of 2008, net demand for loans to enterprises is expected (at -14%) to be slightly less negative than that seen in the second quarter (see Chart C). Broken down by borrower size, it is expected to be slightly less negative for SMEs and slightly more negative for large firms.

Loans to households for house purchase

Credit standards: In the second quarter of 2008 the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase declined somewhat (30%, down from 33% in the first quarter; see Chart D). The deteriorating expectations regarding general economic activity and housing market prospects were the main factors contributing to the net tightening of credit standards. While the cost of funds and balance sheet constraints also contributed to that net tightening, competition from other banks continued to contribute to

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

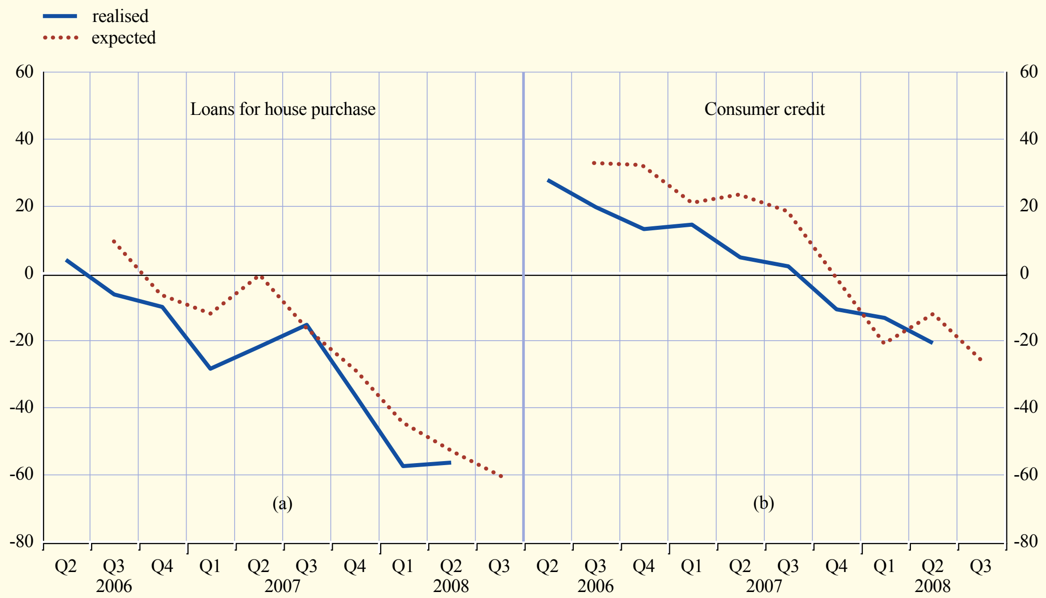
(net percentages)



Note: See footnote for Chart A.

Chart E 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". "Realised" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

easing. As regards the terms and conditions on loans for house purchase, margins on average loans (23%, compared with 25% in the first quarter) and riskier loans (30%, compared with 37% in the first quarter) continued to increase, although to a lesser extent than in the first quarter. With regard to non-price terms and conditions, the tightening of loan-to-value ratios was similar to that reported for margins on riskier loans.

For the third quarter of 2008, respondent banks expect the net tightening of credit standards for loans for house purchase to remain (at 29%) broadly unchanged from the second quarter (see Chart D).

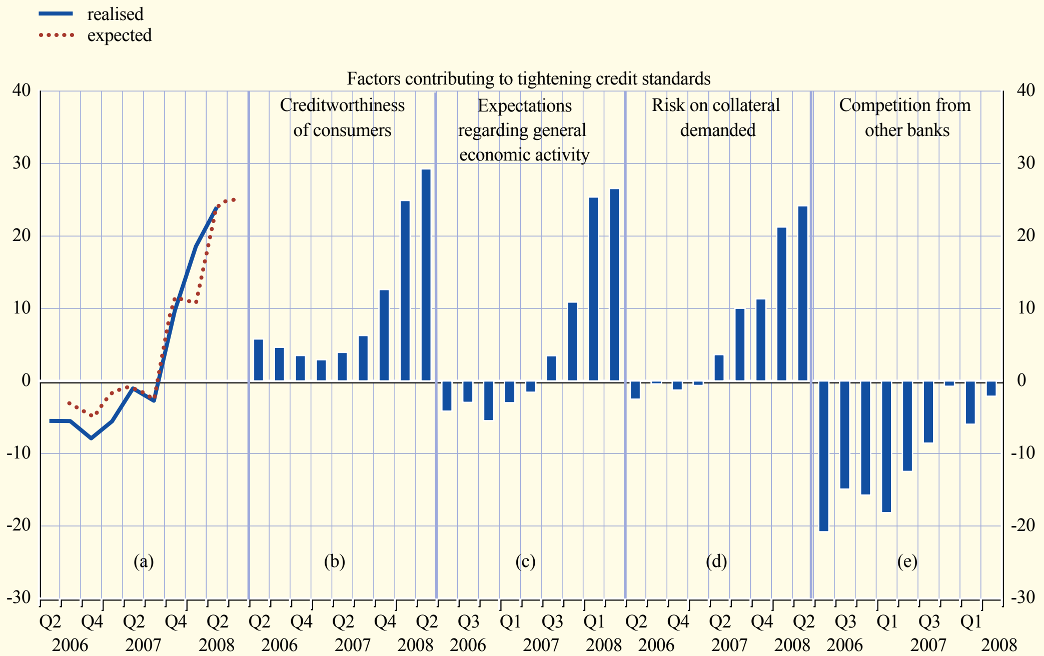
Loan demand: Net demand for housing loans remained negative in the second quarter of 2008, broadly unchanged from the previous quarter (-56%, compared with -57% in the first quarter; see Chart E). This mainly reflected worsening housing market prospects and deteriorating consumer confidence. For the third quarter of 2008, net loan demand is expected (at -60%) to be somewhat more negative.

Loans for consumer credit and other lending to households

Credit standards: In the second quarter of 2008 the net percentage of banks reporting a tightening of credit standards for consumer credit and other lending increased somewhat (24%, up from 19% in the previous quarter; see Chart F), although it remained lower than the level reported for loans to households for house purchase. The main factors behind the further increase in net tightening were banks' perception of the risks relating to the deteriorating expectations regarding general economic activity and the creditworthiness of consumers, together with the

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

(net percentages)



Note: See footnote for Chart A.

risk on the collateral demanded by banks. As regards the terms and conditions of credit, the net tightening was implemented mainly through increases in loan margins. While the net tightening of margins on riskier loans remained broadly unchanged after sharp increases in previous quarters, margins on average loans were tightened somewhat further in the second quarter.

For the third quarter of 2008, the net tightening of credit standards for consumer credit and other lending to households is expected to remain (at 25%) broadly unchanged from the second quarter (see Chart F).

Loan demand: Net demand for consumer credit and other lending to households remained negative and declined further in the second quarter of 2008 (-21%, down from -13% in the previous quarter; see Chart E). At the same time, net demand for such lending was considerably less negative than that reported for loans for house purchase. According to responding banks, the main factor dampening demand was deteriorating consumer confidence. For the third quarter of 2008, net demand is expected to remain negative and decline further (to -26%) compared with the second quarter.

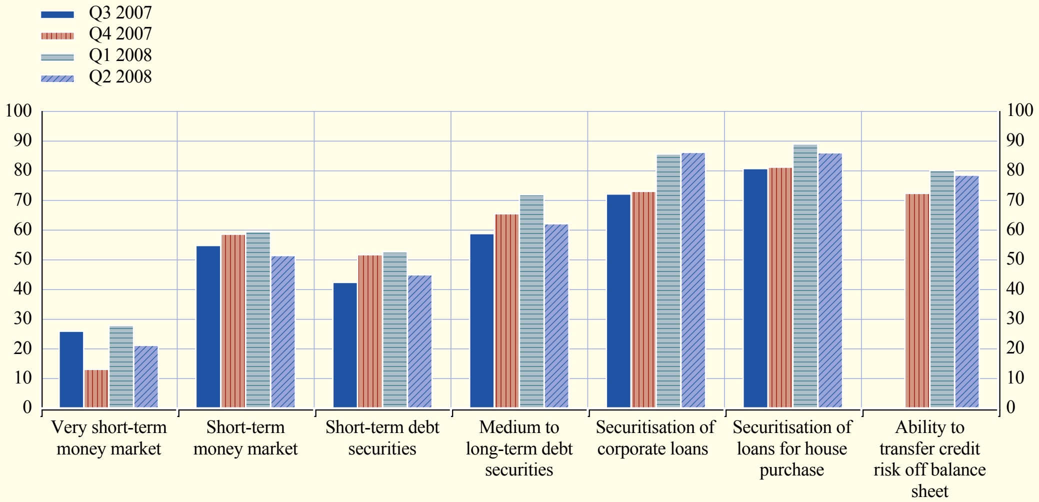
Ad hoc questions on the financial turmoil

The July 2008 survey round contained the same set of ad hoc questions included in previous surveys addressing the impact of the financial market tensions experienced since the second half of 2007.

With regard to banks' funding via wholesale markets, in the second quarter of 2008 banks reported that their access to money markets and debt securities markets following the turmoil in

Chart G Access to wholesale funding

(percentages)



Note: Figures indicate the percentages of banks reporting that access to particular sources of wholesale funding has been hampered.

financial markets was somewhat less hampered than it had been in the first quarter (see Chart G). As in the last survey round, the percentage of banks having difficulties in raising funds through medium to long-term bonds in the course of the quarter was larger than that reporting such difficulties for short-term debt securities. By contrast with the improved access to money markets and debt securities markets, access to securitisation, both true-sale and synthetic, continued to be hampered, remaining broadly unchanged from the first quarter. Around 80% to 90% of the responding banks reported that their access to securitisation was hampered. Overall, some relaxation of the wholesale funding situation was felt by responding banks compared with the situation in the previous quarter. Over the next three months, access to funding via money markets and debt securities markets is expected to remain hampered, broadly unchanged from the second quarter. However, the percentage of banks expecting access to securitisation to be considerably hampered is smaller than in the previous survey round.

In line with the less hampered access to money markets and debt securities markets, banks reported that the impact that these funding options had on bank lending declined somewhat for both quantities and margins. As regards the impact that the more difficult securitisation environment had on their lending, banks reported a further increase in the impact on the amount of loans granted and a broadly unchanged impact on margins. For all funding options, banks reported a stronger impact on margins than on the amount of loans granted to borrowers. Around one-third of banks reported that their need to fund draw-downs on commitments to asset-backed commercial paper programmes issued by conduits or structured investment vehicles had an impact on their lending policies.

Finally, with regard to the impact that changes in banks' costs related to their capital positions had on their lending policies, in the second quarter of 2008 the percentage of banks reporting that there had been some impact on capital but no impact on lending was considerably smaller than in the first quarter.