

Box 1

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

This box describes the main results of the October 2008 bank lending survey for the euro area conducted by the Eurosystem.¹ When assessing the survey results, it should be borne in mind that this survey round was conducted from 23 September until 7 October (i.e. before the meeting of the euro area Heads of State or Government in Paris on 12 October on rescue measures for banks).

In the third quarter of 2008 the net percentage of banks reporting a tightening of credit standards for loans to enterprises increased significantly compared with the second quarter.² The net tightening continued to be stronger for large firms than for small and medium-sized enterprises (SMEs). The net tightening of credit standards for loans to households for house purchase and for consumer credit increased somewhat in the third quarter of 2008, although by less than the net tightening of credit standards for loans to enterprises. With regard to demand for loans, banks reported that the net demand for loans to enterprises and households had declined further and continued to be negative in the third 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). Banks reported that in particular their short-term wholesale funding via money markets and short-term debt securities was considerably more hampered than in the second quarter. Access to securitisation continued to be hampered, remaining broadly unchanged from the second quarter.

Loans or credit lines to enterprises

Credit standards: In the third quarter of 2008 the net percentage of banks reporting a tightening of credit standards for loans to enterprises increased significantly (by 22 percentage points, to 65%; see Chart A). The most important factors behind the net tightening continued to be expectations about future economic activity and the industry or firm-specific outlook. The impact of banks' ability to access market financing also contributed to the net tightening. Moreover, the impact on the net tightening of credit standards from banks' costs related to their capital positions as well as banks' liquidity positions increased somewhat compared with the second quarter of 2008 and returned broadly to the levels reached in the first quarter of the year.

As regards the terms and conditions of granting loans to enterprises, banks reported that they had further increased their margins on average loans and on riskier loans in the third quarter, to 68% (from 53%) and to 76% (from 64%) respectively in net terms (see Chart B). In addition, non-price terms and conditions were also tightened further. These conditions deteriorated in particular with regard to the size of the loan or credit line (by 16 percentage points, to 45% in

1 A comprehensive assessment of the results of the October 2008 bank lending survey for the euro area was published on 7 November 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.

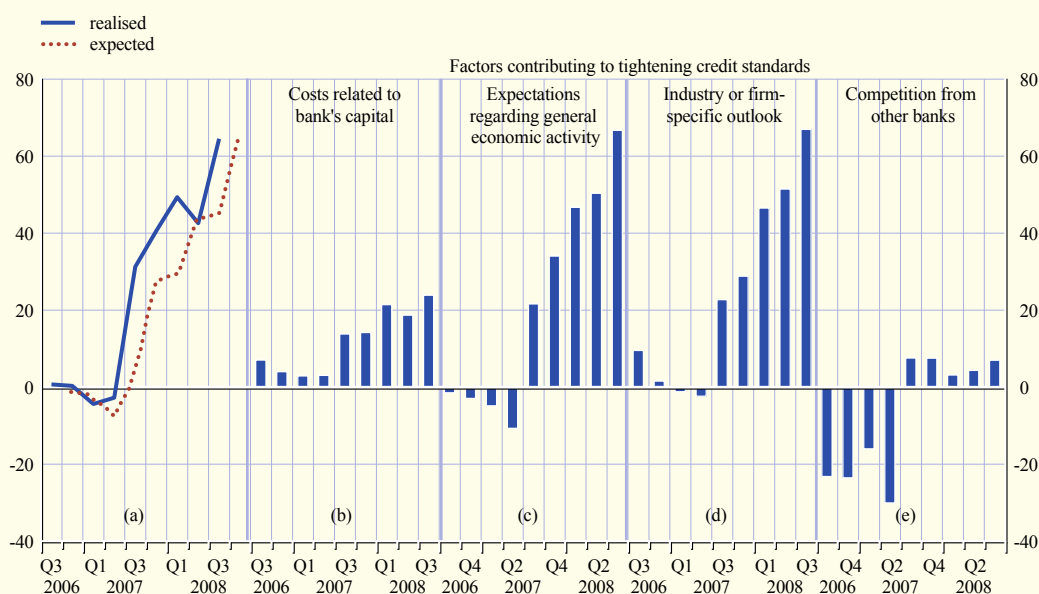
net terms in the third quarter) and the maturity of the loan (by 15 percentage points, to 40% in net terms in the third quarter). Collateral requirements further increased (by 10 percentage points, to 46% in net terms in the third quarter).

The net tightening of credit standards continued to be stronger for large enterprises (68%, compared with 44% in the second quarter) than for SMEs (56%, compared with 34% in the second quarter). While some stabilisation had occurred in the second quarter, the net tightening increased considerably for both firm size categories in the third quarter of 2008. As regards the factors underlying the changes in credit standards, for both large enterprises and SMEs, expectations regarding general economic activity and the industry or firm-specific outlook were the most important factors. At the same time, banks' cost of funds and balance sheet constraints played a more important role in the net tightening for large firms than in that for SMEs, which is likely to be related to the greater importance of market-based bank funding for loans to large firms. With respect to price terms and conditions, while the net increase in margins on average loans was more pronounced for loans to large firms, in the case of riskier loans it was broadly identical for large firms and SMEs. With respect to non-price terms and conditions, both large firms and SMEs experienced a further net tightening in all categories.

Looking ahead to the fourth quarter of 2008, expectations point to a broadly unchanged net tightening of credit standards (66%) compared with that seen in the third quarter of 2008 (see Chart A).

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

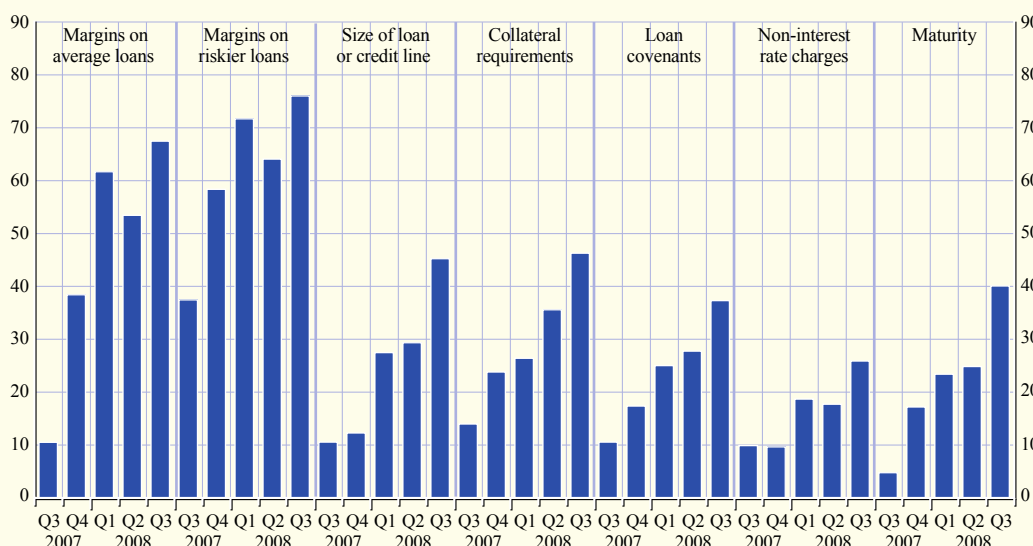
(net percentages)



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.

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

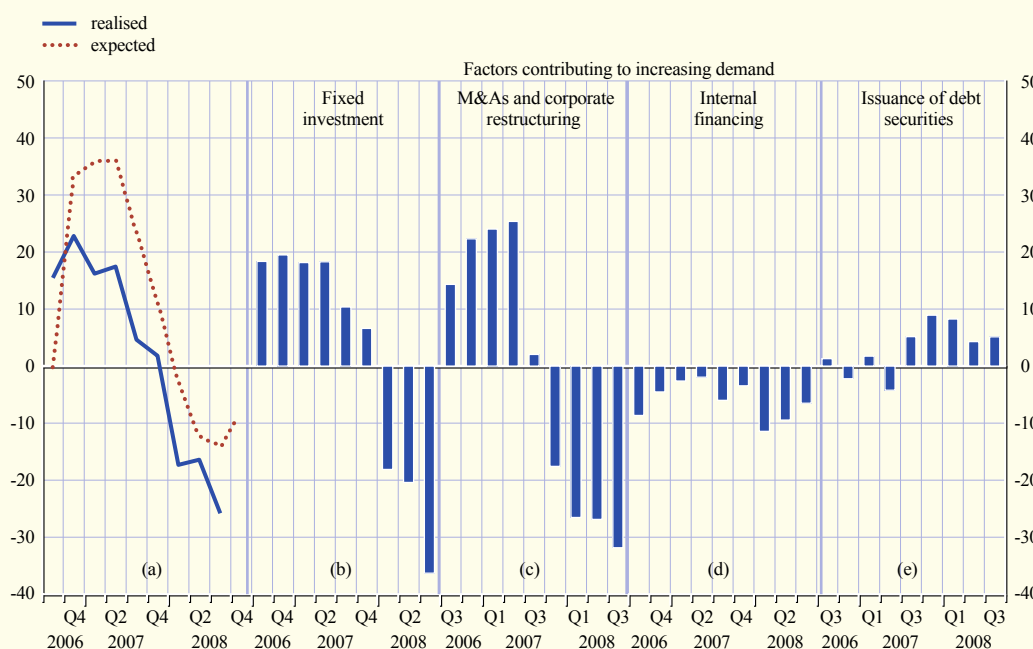
(net percentages)



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”.

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: Net demand for loans to enterprises declined considerably and continued to be negative in the third quarter of 2008 (-26%, compared with -16% in the second quarter; see Chart C). The negative net demand was driven by a decline in financing needs for fixed investment (to -36%, from -20% in the second quarter) and by a continued negative contribution to loan demand stemming from mergers and acquisitions and corporate restructuring (-32%, compared with -27% in the second quarter). In addition, internal financing continued to contribute to a reduction in the net demand for loans to enterprises, but less so than in the second quarter. By contrast, debt securities issuance continued to contribute positively to the 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, it was somewhat weaker for large firms, in line with the results for previous quarters. Net demand was negative across the maturity spectrum.

For the fourth quarter of 2008, net demand for loans to enterprises is expected to be less negative (-8%) than in the third quarter (see Chart C).

Loans to households for house purchase

Credit standards: In the third quarter of 2008 the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase increased somewhat (to 36%, from 30% in the second quarter; see Chart D). Expectations regarding general economic activity and housing market prospects continued to be the main factors contributing to the net tightening of credit standards. In addition, for the first time since the start of the bank lending survey, competition from other banks did not contribute to an easing of credit standards for loans to households for house purchase, but was neutral (0%, compared with -7% in the second quarter).

As regards the terms and conditions for loans to households for house purchase, banks reported a net increase in the margins on average loans (35%, compared with 23% in the second quarter). Banks also reported a net increase in the margins on riskier loans (43%, from 30% in the second quarter). By contrast, the net tightening of non-price terms and conditions, such as collateral requirements and loan-to-value ratios, did not increase further, but remained at levels similar to those in the second quarter.

For the fourth quarter of 2008, credit standards for loans for house purchase are expected to be tightened somewhat further (45%) as compared with the third quarter (see Chart D).

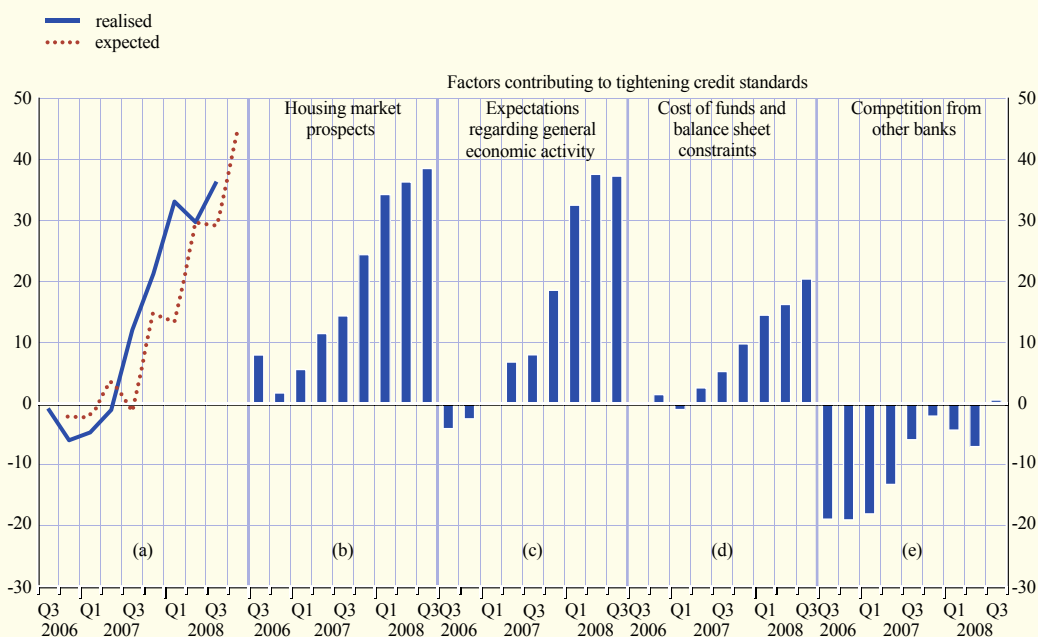
Loan demand: Net demand for housing loans declined in the third quarter of 2008 and remained negative (-64%, compared with -56% in the second quarter; see Chart E). This mainly reflected housing market prospects and deteriorating consumer confidence. For the fourth quarter of 2008, net loan demand is expected to be somewhat more negative (-70%) than in the third quarter.

Loans for consumer credit and other lending to households

Credit standards: In the third quarter of 2008 the net percentage of banks reporting a tightening of credit standards for consumer credit and other lending continued to increase (30%, up from 24% in the previous quarter; see Chart F). At the same time, the net tightening of credit standards for consumer credit and other lending remained at a lower level than that reported for loans to households for house purchase. The main factor behind the further increase in the net tightening

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

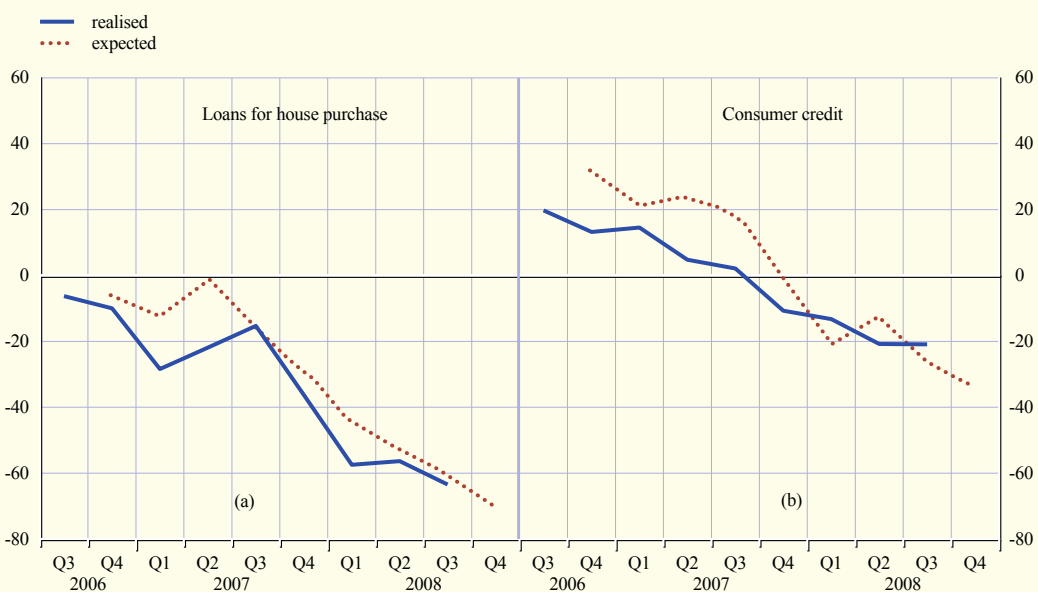
(net percentages)



Note: See footnote for Chart A.

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

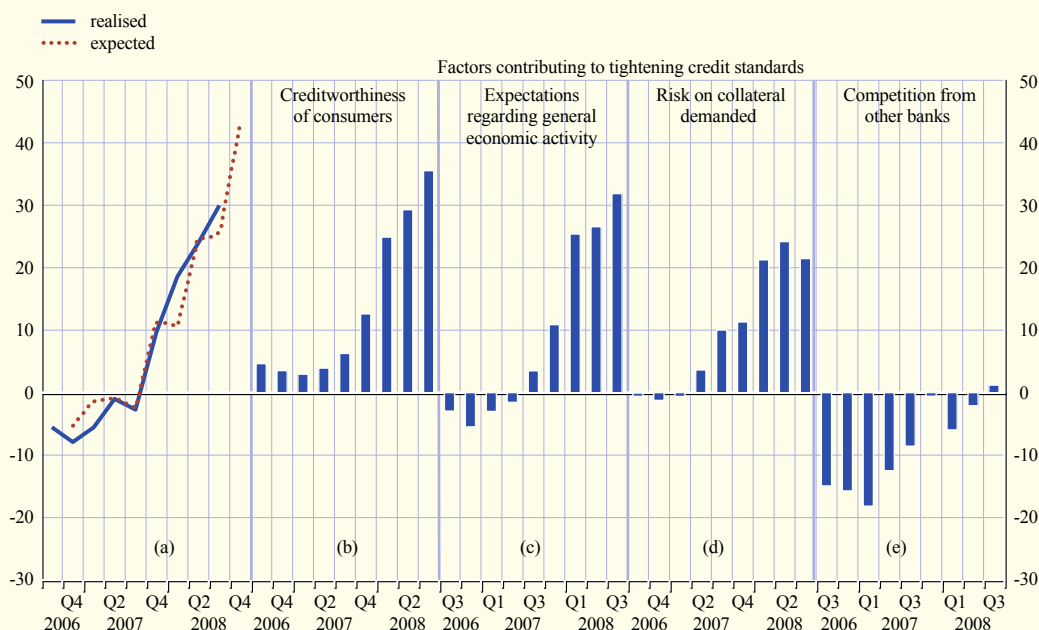
(net percentages)



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.

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.

was banks' perception of risk, mainly related to expectations regarding general economic activity and the creditworthiness of consumers. As regards the terms and conditions for consumer credit, banks reported a net increase in the margins on both average and riskier loans (to 32% and 38% respectively).

For the fourth quarter of 2008, credit standards for consumer credit and other lending to households are expected to be tightened further (to 43%) compared with the third quarter (see Chart F).

Loan demand: Net demand for consumer credit and other lending to households remained negative and at an unchanged level compared with the second quarter of 2008 (-21%; see Chart E). This level continued to be less negative than that of the net demand for loans to households for house purchase. Banks reported that the main factor dampening demand was deteriorating consumer confidence. For the fourth quarter of 2008, net demand is expected to remain negative and to decline (-34%) compared with the third quarter.

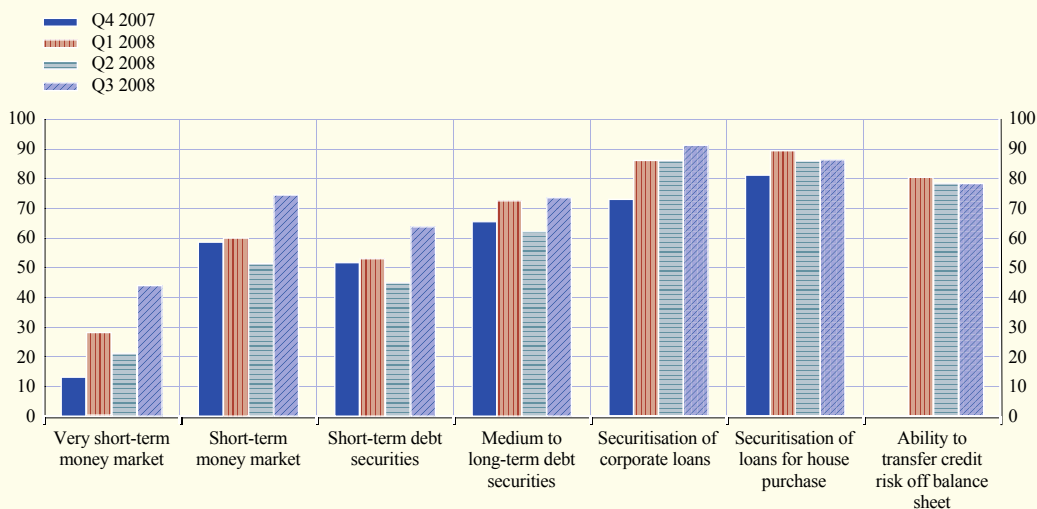
Ad hoc questions on the financial turmoil

The October 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 third quarter of 2008 banks reported that their access to money markets and debt securities markets had, as a result of the turmoil in

Chart G Access to wholesale funding

(percentages)



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

financial markets, become considerably more hampered than it had been in the second quarter (see Chart G). Following the improvement in the second quarter, access thus worsened again. In contrast to the last survey round, when banks had stated that they had greater difficulties in raising funds through medium to long-term bonds than through short-term debt securities or money markets, banks now reported that access to short-term money markets was most strongly hampered. For all categories of short-term funding (very short-term money market, short-term money market and short-term debt securities), banks reported a considerable worsening of access. Access to securitisation continued to be hampered at similar levels to those seen in the second quarter. Around 80% to 90% of the sub-set of responding banks for which securitisation activities were relevant reported that their access to securitisation was hampered. Over the next three months, access to funding via money markets and debt securities markets is expected to become more hampered than in the third quarter of 2008. Access to securitisation is expected to be hampered at similar levels to those seen in the third quarter.

In line with the deteriorated access to money markets and debt securities markets, banks reported that the impact that these funding options had on bank lending had increased as regards both quantities and margins. The impact continued to be stronger for the margins than for the amount of loans granted to borrowers. By contrast with money market and debt securities funding, the impact on bank lending from the hampered access to securitisation was identical for margins and quantities. With respect to the next three months, banks expect that their hampered access to money markets and debt securities markets will have a greater impact on their willingness to lend and on margins, while the reduced access to securitisation is likely to result in a similar impact to that seen in the third quarter.

Finally, as regards the impact on banks' lending policies of the change in costs related to their capital positions, in the third quarter of 2008 43% of the reporting banks indicated a considerable impact or some impact on capital and lending, which was an increase of 7 percentage points compared with the second quarter.