

Box 2

THE RESULTS OF THE OCTOBER 2009 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the October 2009 bank lending survey for the euro area conducted by the Eurosystem.¹ In the third quarter of 2009 the net percentage² of banks reporting a tightening of credit standards applied to loans and credit lines to enterprises declined considerably further, bringing the net tightening close to a halt. This development thus further confirms the indications of a turning-point in the tightening trend observed at the time of the April 2009 survey. At the same time, it needs to be kept in mind that the cumulated net tightening observed during the financial turmoil has not yet started to reverse. Respondent banks also reported a decline in the net tightening of credit standards for loans to households for house purchase and for consumer credit in the third quarter of 2009. For the fourth quarter of 2009 banks expected a slight net easing of credit standards for loans to enterprises and a further decline in net tightening for loans to households. Regarding loan demand, banks noted that net demand³ for loans to enterprises remained negative, but to a lower extent than in the second quarter, whereas net demand for housing loans increased further in the third quarter.

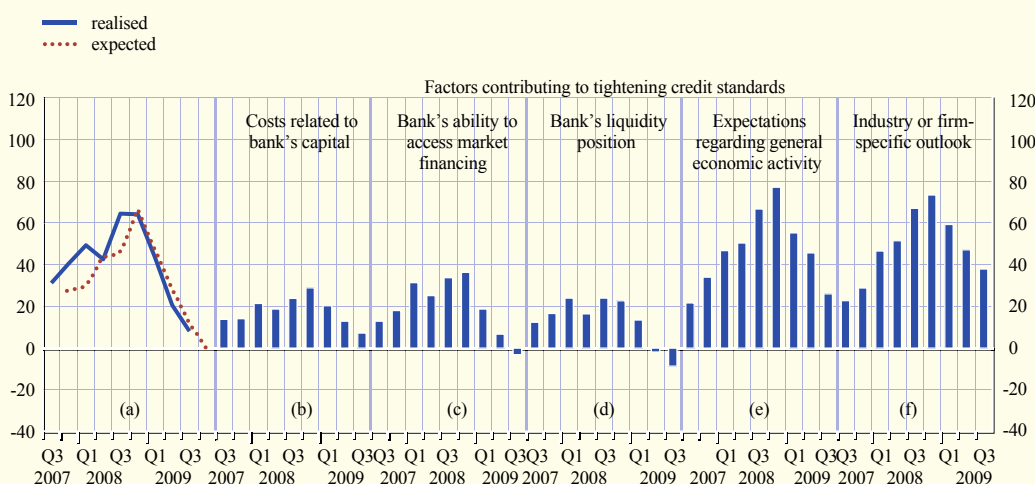
Loans or credit lines to enterprises

Credit standards: In the third quarter of 2009 the net percentage of banks reporting a tightening of credit standards applied to loans and credit lines to enterprises declined considerably further, to 8%, compared with 21% in the second quarter and 43% in the first quarter (see Chart A). The net tightening was broadly equal for large firms (11%) and small and medium-sized enterprises (SMEs; 12%). All of the factors contributed to the decline in the net tightening of credit standards. The most important forces driving the net tightening in the euro area continued to be the industry or firm-specific outlook (a net percentage of 38%, after 47% in the second quarter) and expectations regarding general economic activity (a net percentage of 26%, after 46% in the second quarter). For both, however, the net tightening continued to decline considerably in the third quarter of 2009. Importantly, some of the supply-side factors, namely banks' access to market financing (-3%) and banks' liquidity position (-9%), contributed to an easing of credit standards for loans to enterprises.

- 1 The cut-off date for the receipt of data from the responding banks was 2 October 2009. A comprehensive assessment of the results of the October 2009 bank lending survey for the euro area was published on 28 October 2009 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)



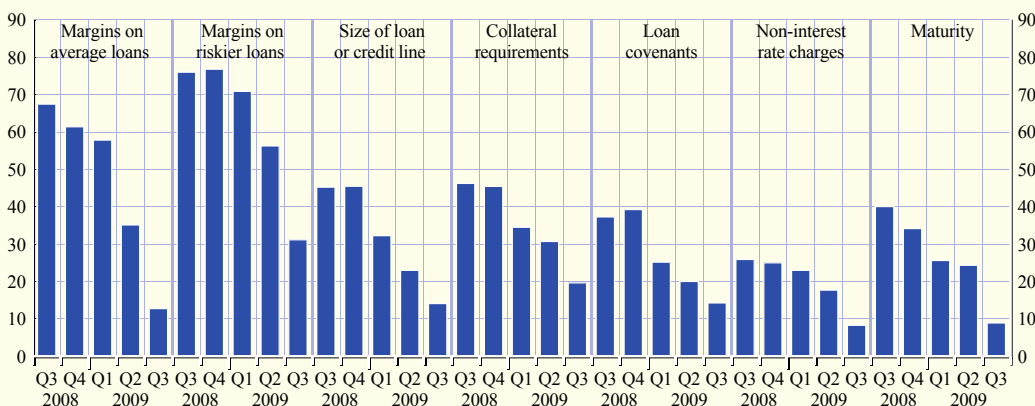
Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. The net percentages for the questions related to the factors are the 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 the price and non-price terms and conditions applied to loans to enterprises decreased significantly in the third quarter of 2009 (see Chart B). In particular, the net tightening of the margins on average and riskier loans was reduced significantly further, to 13% (from 35% in the second quarter) and 31% (from 56%), respectively. The degree of net tightening also declined for the non-price terms and conditions.

With respect to expectations, the banks expect a slight net easing of credit standards applied to loans to enterprises for the fourth quarter of 2009 (-1%; see Chart A).

Chart B Changes in terms and conditions for approving loans or credit lines to enterprises

(net percentages of banks reporting tightening terms and conditions)

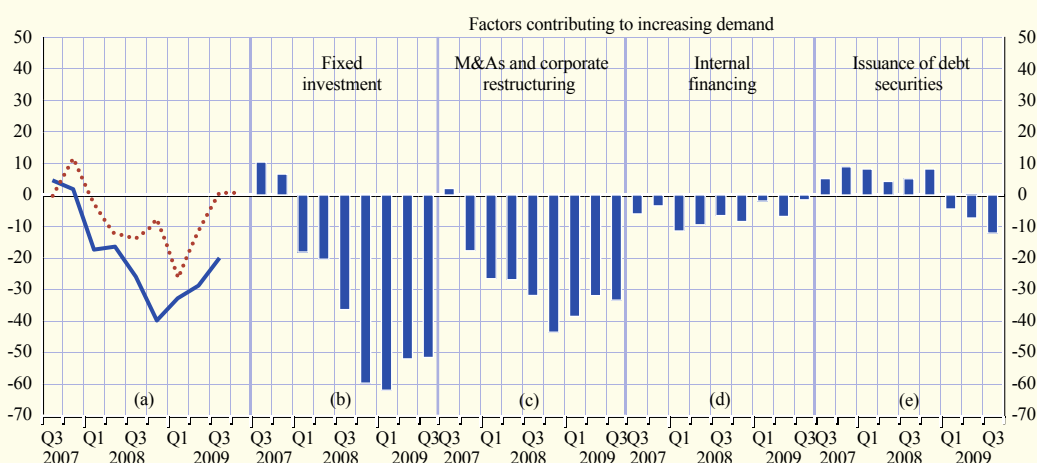


Note: The net percentages refer to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”.

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

(net percentages)

— realised
 expected



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 by enterprises declined further, albeit more moderately, in the third quarter of 2009, reaching a net percentage level of -20% (after -29% in the second quarter; see Chart C). The net demand was significantly more negative for large firms (-27%) than for SMEs (-17%). Fixed investment and mergers and acquisitions and corporate restructuring were the two most important factors contributing to negative net demand (-52% and -33% respectively), with their impact remaining broadly unchanged compared with the second quarter. Market-based financing, in particular via the issuance of debt securities by enterprises (-12%, after -7% in the second quarter), also contributed negatively to the net demand for loans, indicating improved market financing conditions.

As regards expectations for the fourth quarter of 2009, net demand for loans by enterprises is expected to be slightly positive (1%), unchanged from the expectations in the previous quarter (see Chart C).

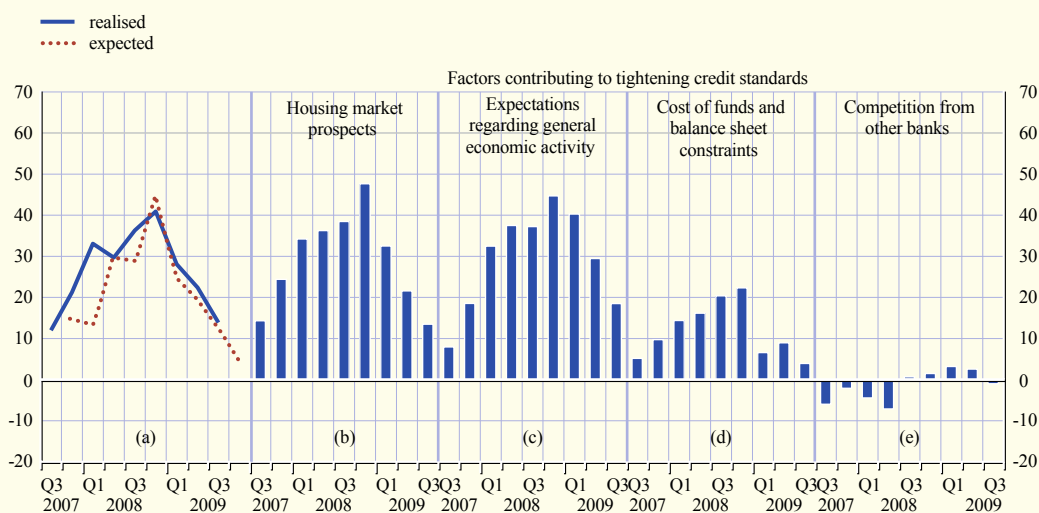
Loans to households for house purchase

Credit standards: In the third quarter of 2009 the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase decreased further to 14% (from 22% in the second quarter and 28% in the first quarter; see Chart D). The decline in the net tightening for housing loans was driven by a lower perception of risks by banks regarding general economic activity (19%, after 29%) and housing market prospects (14%, after 22%).

As regards the terms and conditions for loans for house purchase, the net tightening of margins declined further in the third quarter on average loans (6%, after 10% in the second quarter) and on riskier loans (23%, after 35%). After non-price terms and conditions had remained broadly

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

(net percentages)



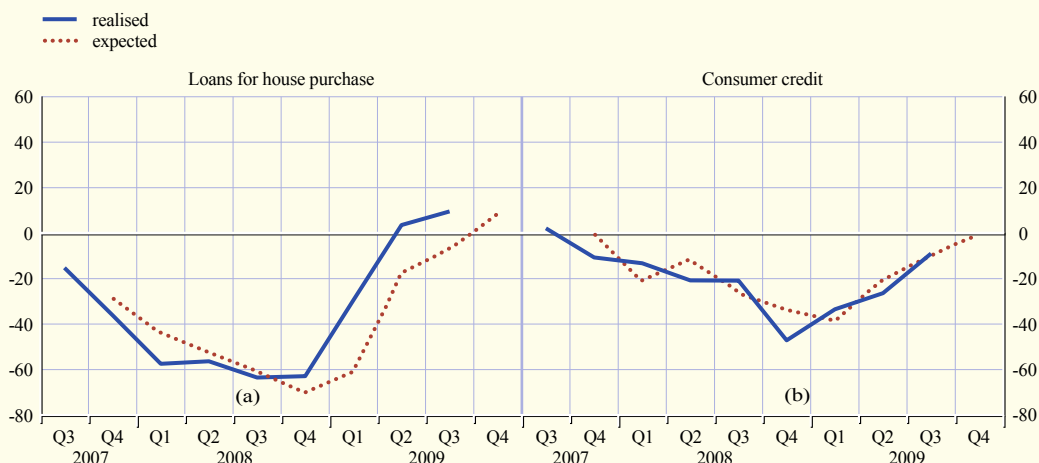
Note: See notes to Chart A.

unchanged in the second quarter, the net tightening of collateral requirements and loan-to-value ratios decreased considerably in the third quarter.

Looking ahead to the fourth quarter of 2009, banks expect the net tightening of credit standards applied to loans to households for house purchase to remain in positive territory, but to weaken further (to 5%; see Chart D).

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.

Loan demand: The net percentage of banks reporting an increase in demand for housing loans increased further, to 10% in the third quarter of 2009, from 4% in the second quarter (see Chart E). The increase in the net demand for housing loans was driven in particular by a considerably less negative assessment of housing market prospects and of consumer confidence compared with the second quarter. For the fourth quarter of 2009 net demand for housing loans is expected to remain positive (9%).

Consumer credit and other lending to households

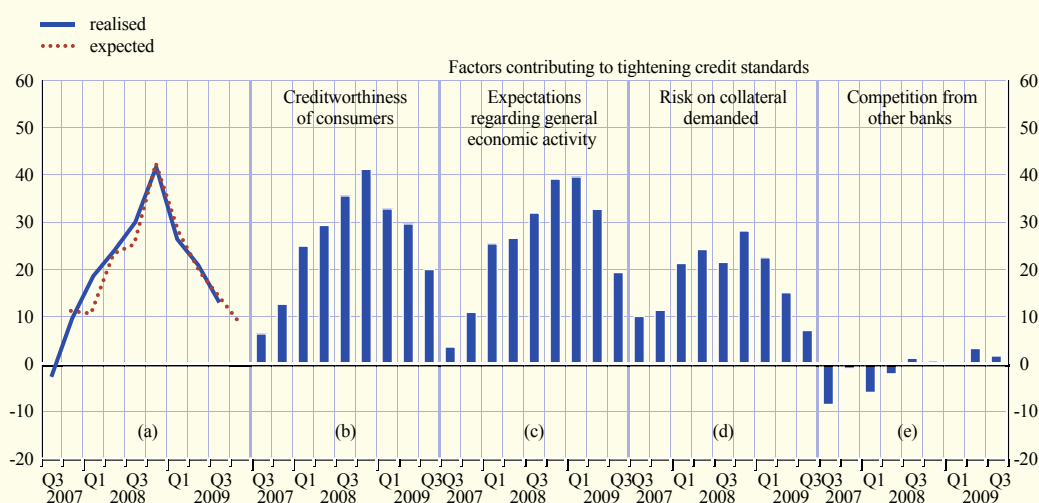
Credit standards: In the third quarter of 2009 the net percentage of banks reporting a tightening of credit standards for consumer credit and other lending to households decreased further to 13% (from 21% in the second quarter of 2009; see Chart F). The main factor behind the net tightening was banks' perception of risk, mainly related to expectations regarding general economic activity and the creditworthiness of consumers.

For the fourth quarter of 2009 banks expect the net tightening of credit standards applied to consumer credit and other lending to households to decline further (to 9%; see Chart F).

Loan demand: The net demand for consumer credit and other lending to households continued to decline in the third quarter of 2009 (-9%), albeit to a considerably lower extent than in the second quarter (-26%; see Chart E). The main factor dampening demand continued to be consumer confidence (-20%, after -29% in the second quarter), whereas the negative impact related to spending on durable consumer goods declined considerably (-6%, after -28%). Regarding expectations, net demand for consumer credit and other lending to households is expected to remain unchanged (0%) in the fourth quarter of 2009 (see Chart E).

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

(net percentages)



Note: See notes to Chart A.

Ad hoc questions on the financial turmoil

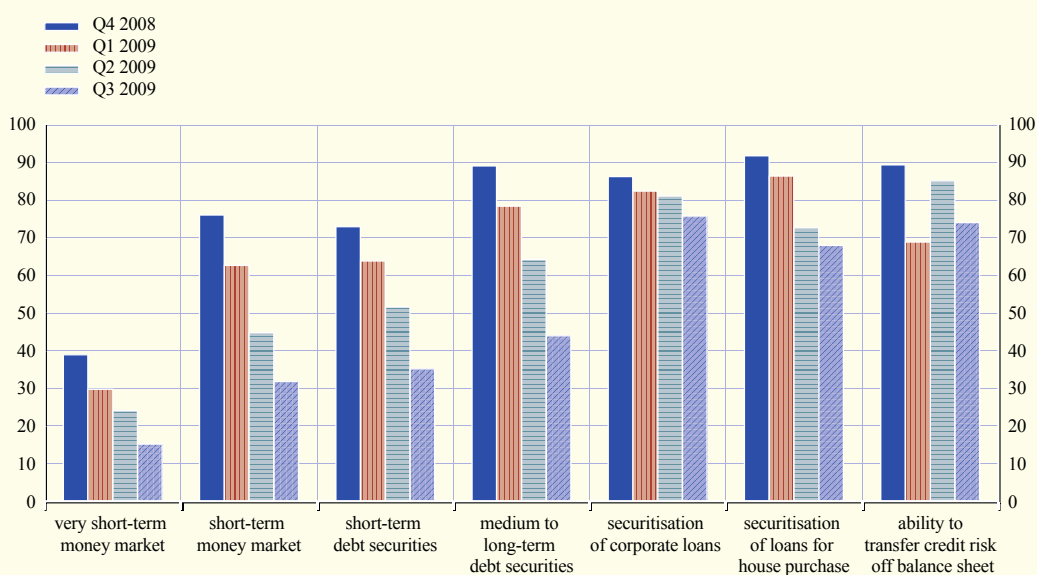
In line with the previous survey rounds, the October 2009 survey contained a set of ad hoc questions addressing the impact of the financial market tensions experienced since the second half of 2007.

For the third quarter of 2009 banks reported that their access to wholesale funding was less impaired than in the second quarter in all markets and categories shown in Chart G. For the access to funding in the very short-term and short-term money markets, 15% and 32%, respectively, of the responding banks indicated that market access was hampered as a result of the financial turmoil. While the percentages of banks reporting a hampered access to short-term and medium to long-term debt securities markets (35% and 44% respectively) were more elevated than for the funding via money markets, these percentages were considerably lower than in the second quarter. With respect to securitisation, there was some improvement in market access. This notwithstanding, access to securitisation continued to be hampered according to 68-76% of the responding banks, depending on the type of securitisation. Over the next three months banks expect a further improvement in the access to financial markets, in particular to medium to long-term debt securities markets and securitisation, where the situation is still regarded as more difficult compared with short-term debt securities and money markets.

According to the responding banks, governments' announcements and introduction of recapitalisation support and state guarantees for debt securities issued by banks continued to contribute to improving banks' access to wholesale funding in the third quarter of 2009. 55% of the responding banks (after 60% in the second quarter) reported "some" or a "considerable" impact from the government support schemes on their access to funding.

Chart G Access to wholesale funding

(percentages)



Notes: Figures indicate the percentage of banks reporting that access to particular sources of wholesale funding have been hampered. The figure for each column is calculated as the number of banks indicating that particular source as a percentage of the number of banks not replying "not applicable" in response to this question. These totals are weighted averages of country results.

Broadly in line with the improved access to wholesale financial markets, banks reported that the impact on bank lending, as regards margins and quantities, resulting from hampered market access declined somewhat further in the third quarter of 2009. The impact continued to be stronger for margins than for the amount of loans granted to borrowers. As regards the impact from the hampered access to securitisation on bank lending, banks also reported a somewhat lower impact on the amount of loans granted and on margins demanded compared with the previous quarter.