

Box 1

THE RESULTS OF THE JANUARY 2010 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the January 2010 bank lending survey (BLS) for the euro area, which was conducted between 7 December 2009 and 8 January 2010 by the Eurosystem.¹ All in all, a turning-point in the tightening trend of credit standards observed since the second half of 2007 may have come closer, but has not yet been reached at the euro area level. The new survey results point to a slight further net tightening of credit standards, which was, however, of a smaller magnitude than in previous quarters. Looking at different borrower categories, the decline in net tightening in credit standards was larger for mortgages than for consumer credit and loans to non-financial corporations (NFCs).

Loans or credit lines to enterprises

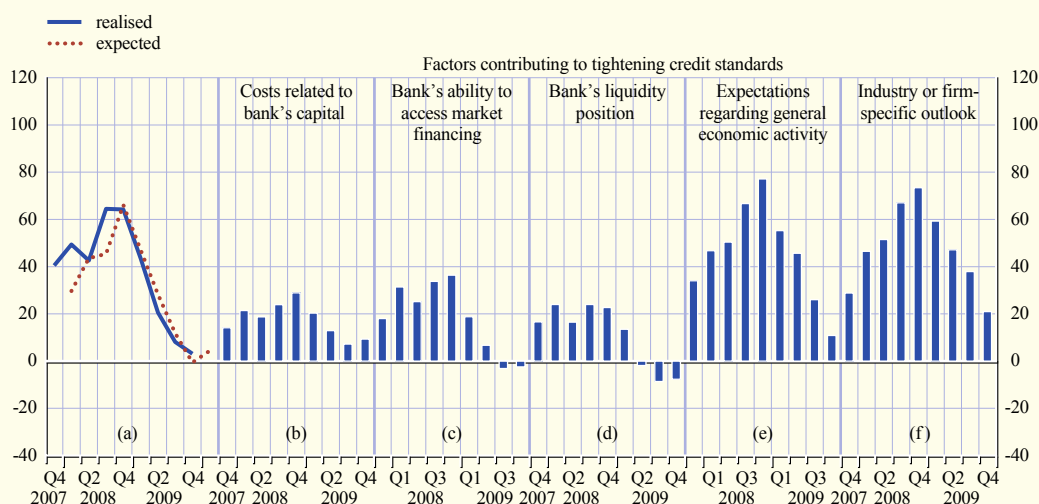
In the last quarter of 2009 the net percentage of banks reporting a tightening of credit standards on loans and credit lines to enterprises continued to decline, to 3% from 8% in the third quarter of 2009 and 21% in the second quarter (see Chart A). The pace of decline in net tightening² reported in the current survey round was thus noticeably slower than in recent rounds. The decline in net tightening was also somewhat smaller than what had been expected by banks in the previous survey. Indeed, in the third quarter of 2009, banks had expected the net tightening to reach zero and come to a halt.

1 The cut-off date of the survey was 8 January 2010. A comprehensive assessment of the results of the January 2010 bank lending survey for the euro area was published on 29 January 2010 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").

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.

Looking at the factors contributing to the slight further net tightening in credit standards, banks reported a lower impact of the risks related to developments in general economic activity, the industry-specific outlook and collateral. All these factors, although still contributing to a net tightening of credit standards, continued to diminish in importance in the last quarter of 2009, in line with an overall improving macroeconomic outlook in the euro area. Bank-specific factors, however, provided a more ambiguous picture. On the one hand, banks’ access to market financing (-2%) and liquidity position (-8%) contributed to an easing of credit standards in the fourth quarter of 2009, albeit slightly less so than in the previous quarter. On the other hand, costs related to banks’ capital position (9%) contributed to an increase in the tightening of credit standards (compared with 7% in the third quarter of 2009).

The net tightening of the price and non-price terms and conditions on loans to enterprises also continued to decline in the fourth quarter of 2009 (see Chart B). This decline was broadly based across all categories of terms and conditions, with, in particular, a substantial further reduction in the net increase of margins on average loans, to 6% in the last quarter of 2009, compared with 13% in the previous quarter.

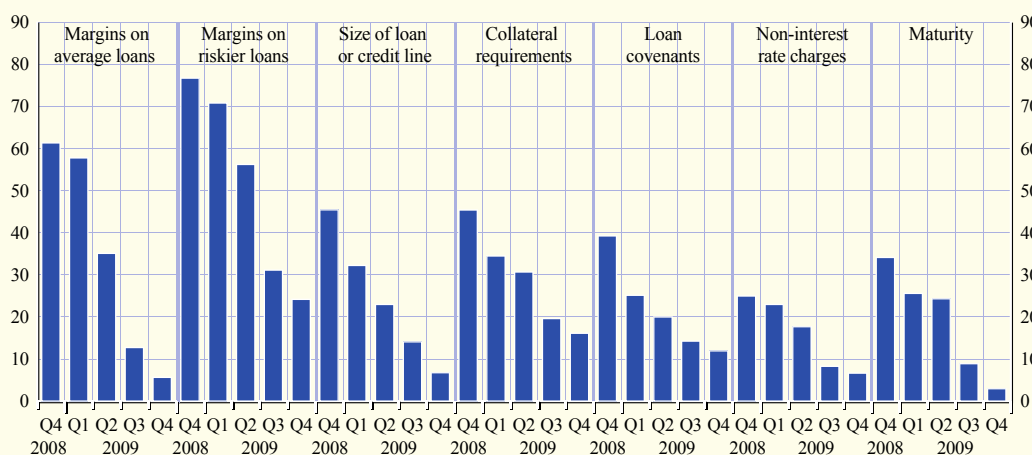
Looking forward, euro area banks expect some further tightening of credit standards on loans to NFCs in the first quarter of 2010, with an expected net tightening potentially worsening slightly to 4% (see Chart A).

Loan demand: Net demand³ for loans by NFCs remained negative (at -8%), albeit much less so than in the third quarter of 2009 (-20%). Weakness in fixed investment (-34% in the last

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

(net percentages of banks reporting tightening terms and conditions)

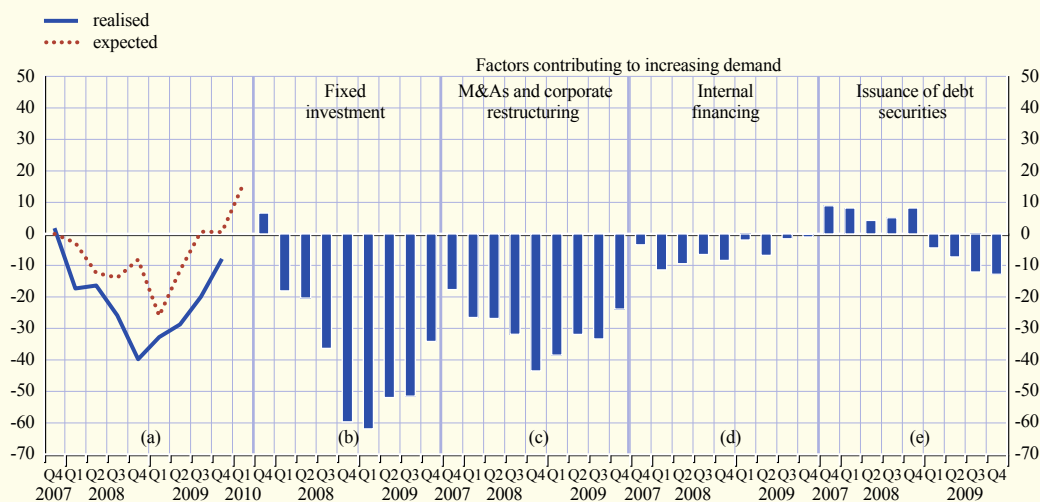


Note: The net percentages refer to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”.

quarter of 2009 compared with -52% in the previous quarter) and, to a lesser extent, scarce M&A activity (-24% in the last quarter of 2009 compared with -33% in the previous quarter) are seen as the main factors contributing to the negative net loan demand, although both contributions have become less negative throughout 2009 (see Chart C). Another relevant factor is the greater use made by euro area firms of alternative sources of financing, such as equity issuance (-5%) and, in particular, debt securities issuance (-13%), in a context of favourable market conditions.

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.

Looking forward, banks appear more optimistic about loan demand than in the previous survey and expect net loan demand from enterprises to recover and turn positive in the first quarter of 2010 (+15%), somewhat more for SMEs (+22%) than for large firms (+8%).

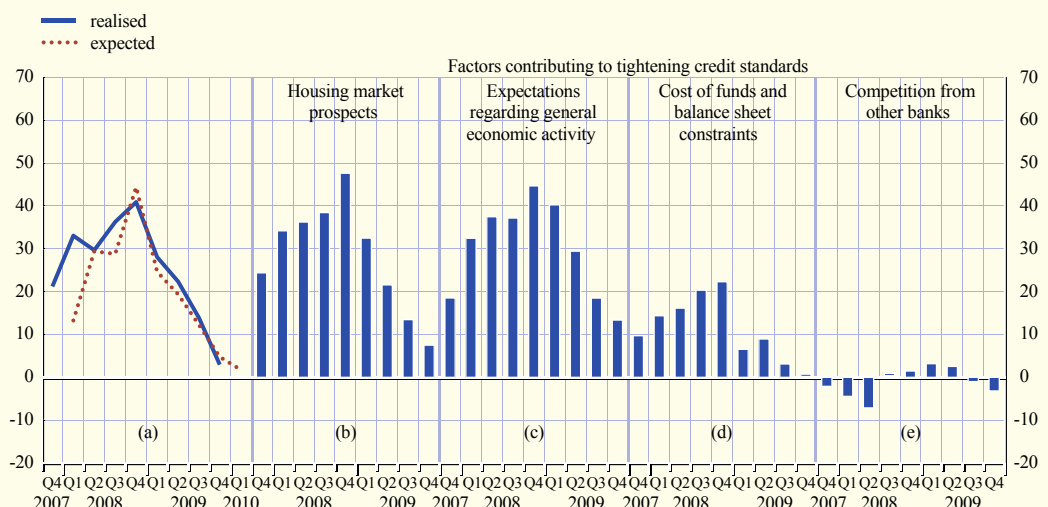
Loans to households for house purchase

Credit standards: The net percentage of banks reporting a further tightening of credit standards on loans to households for house purchase continued to decline at a steady pace, reaching 3% in the last quarter of 2009 compared with 14% in the third quarter of 2009 and 22% in the second quarter (see Chart D). This was broadly in line with expectations from the previous survey. This further decline was mainly driven by a lower perception of risk related to general economic activity (13% in the fourth quarter of 2009 compared with 19% in the third quarter) and, in particular, housing market prospects (8% compared with 14%), although both factors still contributed to a tightening of housing credit standards. Unlike for corporate loans, banks' cost of funds and balance sheet constraints, seen as pure supply-side constraints on the provision of loans, no longer contributed to a tightening of credit standards at the end of 2009 and were neutral for the first time since mid-2007.

Regarding the terms and conditions for loans to households for house purchase, the net increase of average margins was further reduced in the last quarter of 2009 (to an almost neutral 1%, after 6% in the previous quarter). Whilst still substantial, the net increase in margins on riskier loans and the loan-to-value ratio declined further, signalling a general decline in the risk aversion of banks towards housing loans. However, banks reported that increases in collateral requirements and net tightening of other terms and conditions related to loan maturities and non-interest charges hardly changed between the third and the last quarter of 2009.

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

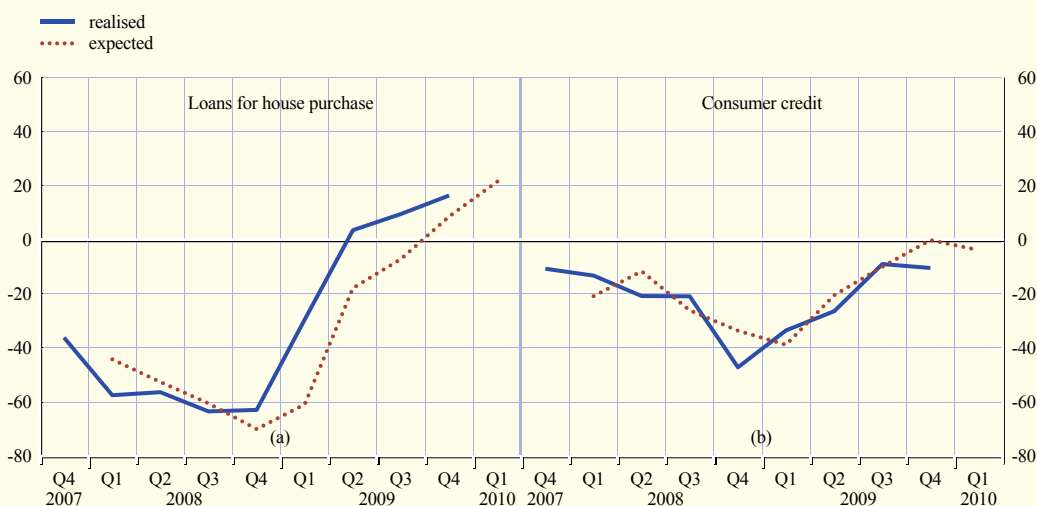
(net percentages)



Note: See notes to Chart A.

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.

Looking forward, banks expect a further mild decrease in net tightening of credit standards on loans for house purchase in the first quarter of 2010 (from 5% in the last quarter of 2009 to an expected 2% in the first quarter of 2010).

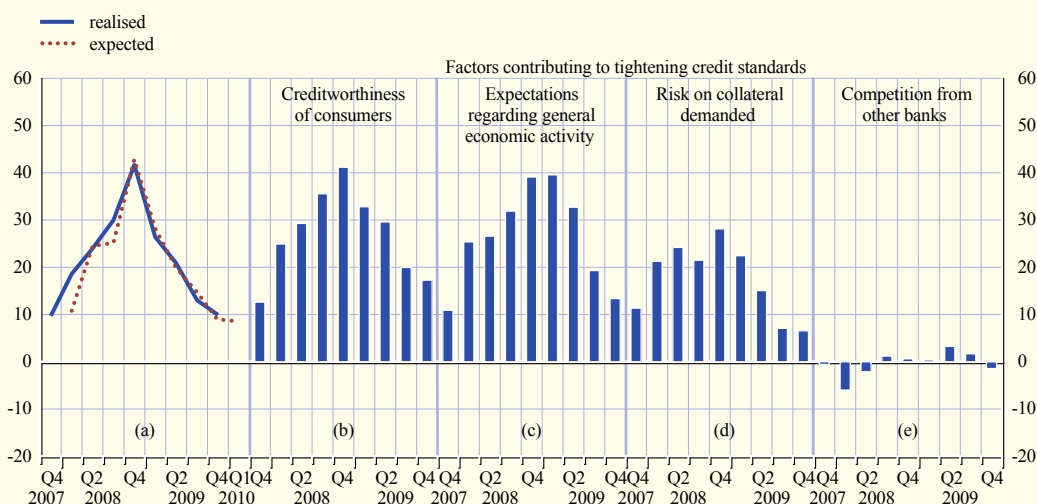
Loan demand: The net percentage of banks reporting an increase in demand for housing loans continued to rise for the third quarter in a row, reaching 16% (compared with 10% in the third quarter of 2009 and 4% in the second quarter), which is more than expected in the last survey round (see Chart E). This rising demand is mostly explained by the contribution of housing market prospects, which turned positive (from -8% in the third quarter of 2009 to +8% in the last quarter) for the first time since 2006. Consumer confidence, whilst still dampening demand for housing loans, has also improved substantially. Looking forward, banks expect the net demand for housing loans to continue to increase (to 22%) in the first quarter of 2010.

Consumer credit and other lending to households

Credit standards: The net tightening of standards on consumer credit observed in the January 2010 survey stood at 10%, compared with 13% in the third quarter of 2009 and 21% in the second quarter (see Chart F). The net tightening therefore also declined in the fourth quarter of 2009, but the decline was less pronounced than for other types of loans. The decline in the tightening was moreover broadly in line with banks’ expectations. As in the previous round, the overall net tightening recorded in the last quarter of 2009 pointed more to risks related to creditworthiness (17%) and collateral (7%) than to bank-specific issues related to cost of funds or balance sheet constraints (4%). Looking forward, banks appear to have reassessed somewhat the developments in credit standards on consumer loans and, in contrast with the previous survey round, no longer expect net tightening to come to a halt, but rather to continue to decline only mildly compared with the previous quarter (i.e. to an expected 9% in the first quarter of 2010).

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.

Loan demand: Developments in demand for consumer loans were more sluggish in the last quarter of 2009. The net demand for consumer credit continued to decline (-10% in the last quarter of 2009 compared with -9% in the third quarter and -26% in the second). According to banks, although consumer confidence was reported to have had less of a dampening effect in the last quarter of 2009, there was no visible improvement in spending on durable goods and household savings. Looking ahead, banks expect the net demand for consumer credit to register some mild improvement in the first quarter of 2010, but to remain negative at -4%.

Ad hoc questions on the impact of the financial turmoil and 12-month-ahead expectations

As in previous survey rounds, the January 2010 survey contained a set of ad hoc questions addressing the impact of the financial market tensions experienced since the second half of 2007 and, for the first time, a new question asking for 12-month-ahead expectations about credit constraints.

Banks generally reported that their access to wholesale funding improved in the last quarter of 2009. A net percentage of respectively 17% and 10% of responding banks reported some progress in accessing funding on the very short-term and short-term money markets. Similarly, banks tended to report a very slight improvement in their access to short to longer-term debt securities and access to securitisation for both housing and corporate loans. However, so-called “synthetic securitisation” (i.e. the ability to transfer credit risks off balance sheet) deteriorated further. In the first quarter of 2010 banks expect a further improvement in the access to financial markets (money, debt securities and securitisation markets). The ability to transfer credit risks off balance sheet is expected to remain hampered, although less so than in the last quarter of 2009.

Turning to the impact of governments’ announcements and introduction of recapitalisation support and state guarantees for debt securities issued by banks, an increasing number of respondents

indicated that such measures no longer have an impact on market access (i.e. up from 45% in the third quarter of 2009 to 63% in the last quarter of the year). However, about 37% of responding banks continued to judge that these measures actually facilitated access to wholesale funding.

Regarding the impact of the financial turmoil on banks' costs related to their capital position and on their lending policy, there was not much of a change between the third and the last quarter of 2009. In the last quarter of 2009, about 41% of the reporting banks indicated "some" or a "considerable" impact on both capital and lending, broadly in line with replies from the previous survey round.

Finally, the expectations of euro area banks for credit standards in 2010 as a whole appear very similar to expectations for the first quarter of 2010. The only exception is for credit standards on mortgage loans, which are foreseen to ease in 2010 as a whole, whereas they are still expected to be tightened in the first quarter of the year. All in all, available evidence suggests that at present euro area banks do not expect a broad-based easing of credit standards in the coming months, except on mortgage loans.