

Box 2

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

This box describes the main results of the October 2010 bank lending survey (BLS) for the euro area, which was conducted by the Eurosystem between 13 September and 1 October 2010.¹ Overall, for loans both to enterprises and to households, the net tightening of credit standards reported in the second quarter of 2010 declined in the third quarter. At the same time, net demand for loans displayed mixed signals across borrower type.

Loans and credit lines to enterprises

Credit standards: In the third quarter of 2010, the net percentage² of banks reporting a tightening of credit standards on loans and credit lines to enterprises declined to 4%, from 11% in the previous quarter (see Chart A). This development was in line with survey participants' expectations three months before. Moreover, the overall results for enterprises were consistent across firm size. The net percentage of tightening credit standards declined to 7% for loans to small and medium-sized enterprises (SMEs) and to 5% for loans to large firms (compared with 14% and 12%, respectively, in the previous quarter).

Looking at the factors underlying the overall developments in credit standards, banks reported their ability to access market financing (3%, after 9% in the second quarter of 2010) and their liquidity position (1%, after 6% three months before) as contributing somewhat less to the net tightening of credit standards compared with the previous survey round. By contrast, the contribution to the net tightening of credit standards of factors related to the business cycle (for instance, expectations regarding general economic activity and firm-specific or industry outlook) remained broadly unchanged in the third quarter of 2010.

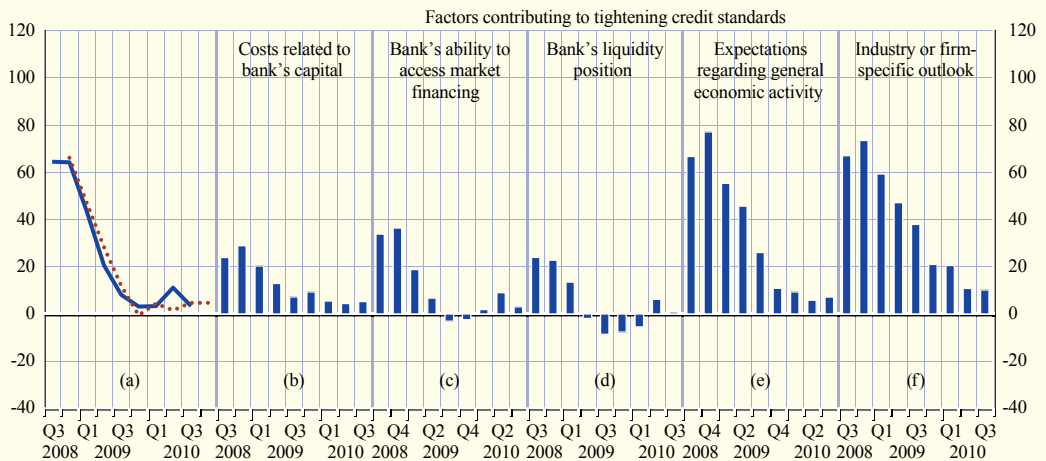
1 The cut-off date of the survey was 1 October 2010. A comprehensive assessment of the results of the October 2010 bank lending survey for the euro area was published on 28 October 2010 on the ECB's website.

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)

— realised
 expected

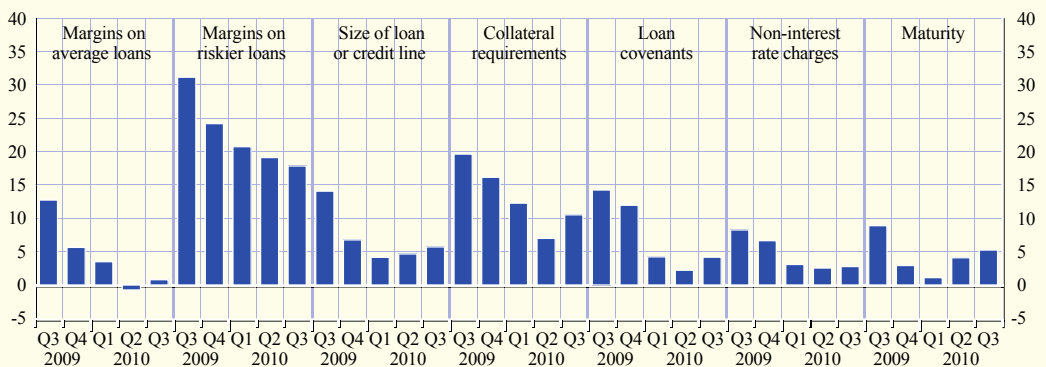


Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. The net percentages for the questions related to the factors are the 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.

In most cases, the decline observed in the net tightening of price and non-price terms and conditions since the second half of 2008 came to a halt in the third quarter of 2010 (see Chart B). In particular, margins on average loans, collateral requirements and loan covenant terms and conditions tightened in the third quarter. Across firm size, as in the previous quarter, margins on average loans to large firms eased (-2%, unchanged from the second quarter of 2010), whereas the net tightening of margins for loans to SMEs declined to 3% (from 8% in the previous survey round).

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”.

Looking forward, on balance, euro area banks expect the net tightening of credit standards on loans to enterprises to remain broadly stable in the fourth quarter of 2010 (at 5%; see Chart A).

Loan demand: In the third quarter of 2010, net demand for corporate loans³ turned positive (7%, compared with -2% in the second quarter of 2010 and -13% in the first quarter), after more than two years in negative territory (see Chart C). Similar developments were reported across firm size. For loans both to SMEs and to large enterprises, euro area banks reported a positive net demand of 10% and 3% respectively (compared with -3% and -10% in the previous round).

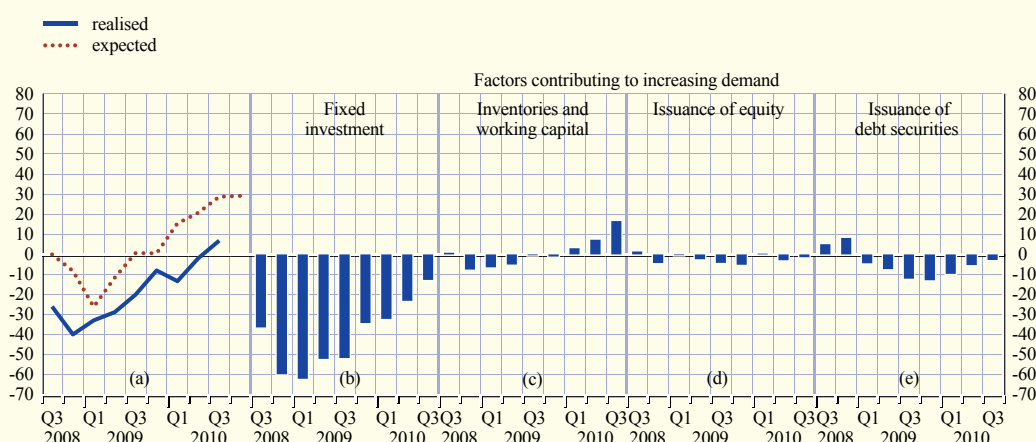
The most important reason for the improvement in net demand for loans by enterprises was increased financing needs for inventories and working capital (17%, after 7% in the second quarter of 2010). At the same time, the negative contribution from fixed investment became somewhat less pronounced. Similarly, the negative contribution of issuance of debt securities and equity also dampened slightly, reflecting the fact that firms sought less external financing from financial markets.

Looking ahead, on balance, euro area banks expect net loan demand from enterprises to remain positive and to increase significantly in the fourth quarter of 2010 (to 29%), particularly among SMEs (32%) and to a lesser extent among large firms (21%). Similarly, survey participants expect an increase in demand for both short and long-term loans (30% and 21% respectively) in the last quarter of 2010.

3 The net demand for loans is calculated as the percentage difference between those banks reporting that demand for loans has increased and those reporting that demand for loans has decreased.

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.

Loans to households for house purchase

Credit standards: In the third quarter of 2010, the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase fell to 0%, down from 10% in the previous two quarters (see Chart D). Behind this development, banks indicated a somewhat less pronounced contribution from risk-related factors, such as the general economic outlook (2% in the third quarter of 2010, falling from 10% in the second quarter) and housing market prospects (0% in the third quarter, after 4% in the previous quarter), as well as less stringent costs of funding and balance sheet constraints (2%, compared with 6% in the previous survey round). Finally, as in previous survey rounds, competition between banks continued to contribute to an easing of credit standards on housing loans.

In general, terms and conditions on loans for house purchase either continued to be tightened by banks but at a slower pace (especially with regard to loan-to-value ratio and collateral requirements), or were kept unchanged (as in the case of margins on riskier loans). At the same time, on balance, survey participants reported an easing of margins on average loans (-1%, compared with a net tightening of 3% in the second quarter of 2010).

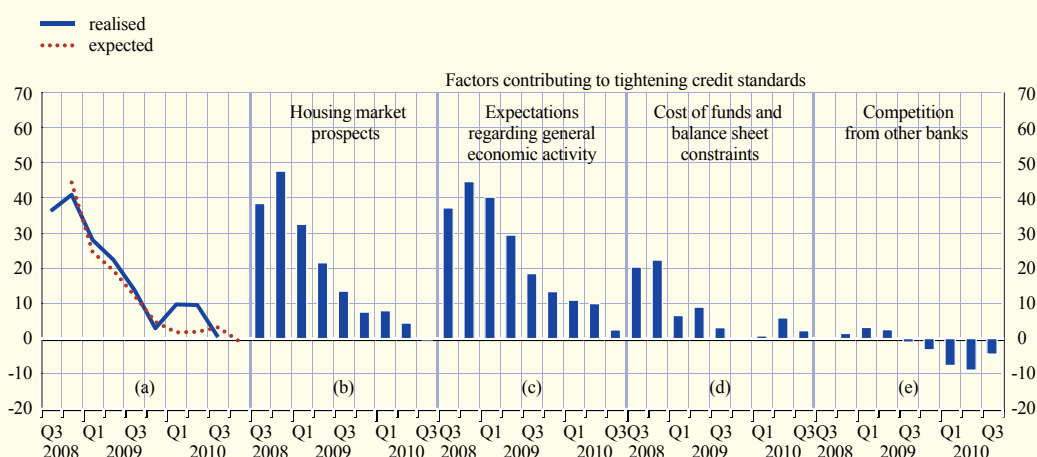
Looking ahead, banks expect a slight easing of overall credit standards on housing loans in the last quarter of 2010 (-1%).

Loan demand: Broadly in line with expectations, net demand for housing loans was positive in the third quarter of 2010, albeit at a lower level than in the previous survey round (8%, compared with 24%; see Chart E). Banks surveyed indicated a less positive contribution of housing market prospects and increased competition from other banks as the main factors underlying this development.

Looking ahead, banks expect a strong rebound in net demand for housing loans in the last quarter of the year (27%).

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

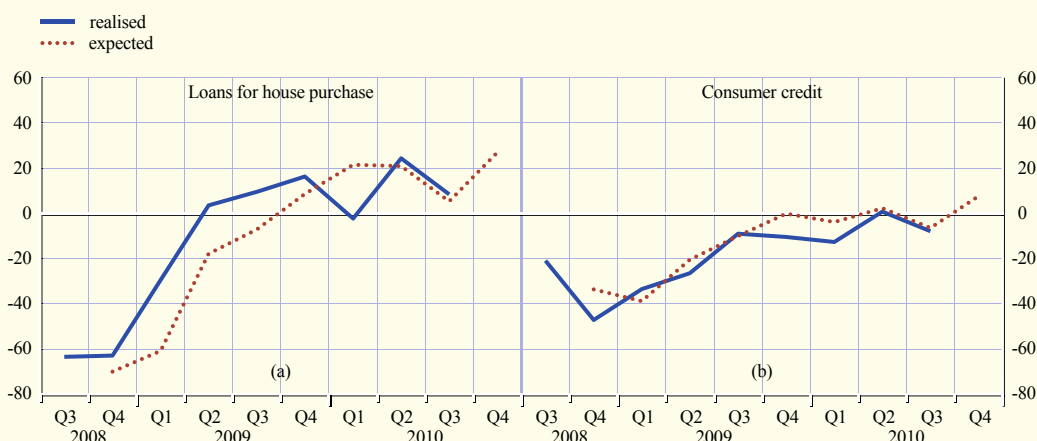
(net percentages)



Note: See notes to Chart A.

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

(net percentages)



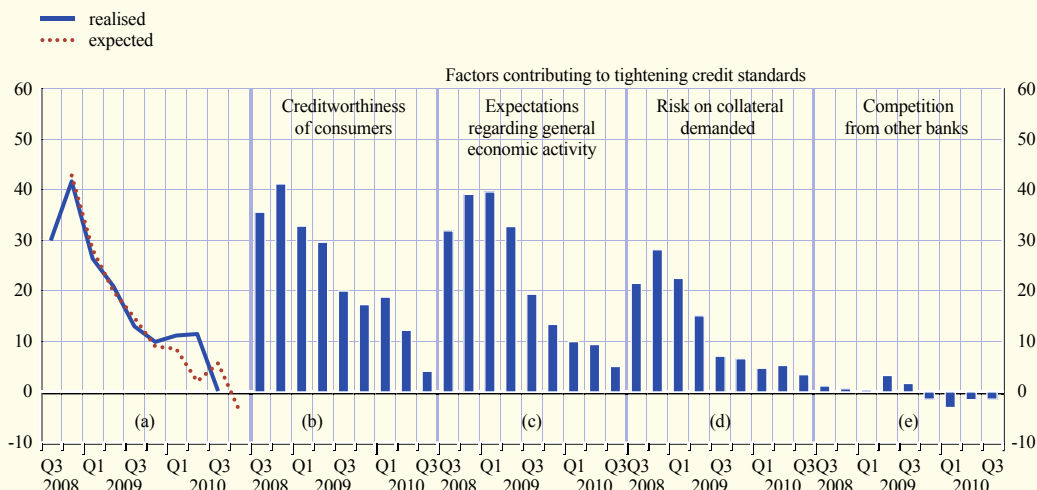
Notes: The net percentages refer to the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”. “Realised” values refer to the period in which the survey was conducted. “Expected” values refer to the expected changes over the next three months.

Consumer credit and other lending to households

Credit standards: The net percentage of banks reporting a tightening of credit standards on loans to households for consumer credit and on other lending fell to 0%, after more than two years of continued tightening (see Chart F). This was actually slightly better than expected, as banks were still foreseeing a tightening of credit standards at the time of the previous survey. As in the case of housing loans, factors relating to the perception of risk seemed to have played

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.

an important role in explaining the further decline in the net tightening of credit standards. More specifically, banks reported a lower contribution from both the creditworthiness of consumers (4%, from 12% in the second quarter of 2010) and expectations regarding economic activity (5%, after 9% in the previous survey round).

Looking ahead, banks expect a net easing of credit standards on consumer credit and other lending to households (-4%) in the fourth quarter of 2010.

Loan demand: In line with expectations, net demand for consumer loans decreased in the third quarter of 2010, to -8%, from 1% in the previous survey round (see Chart E). The main factors behind the decline were related to spending on consumer durables and increased competition from other banks.

Looking ahead, banks expect a positive net demand for consumer credit and other lending to households in the fourth quarter of 2010 (8%).

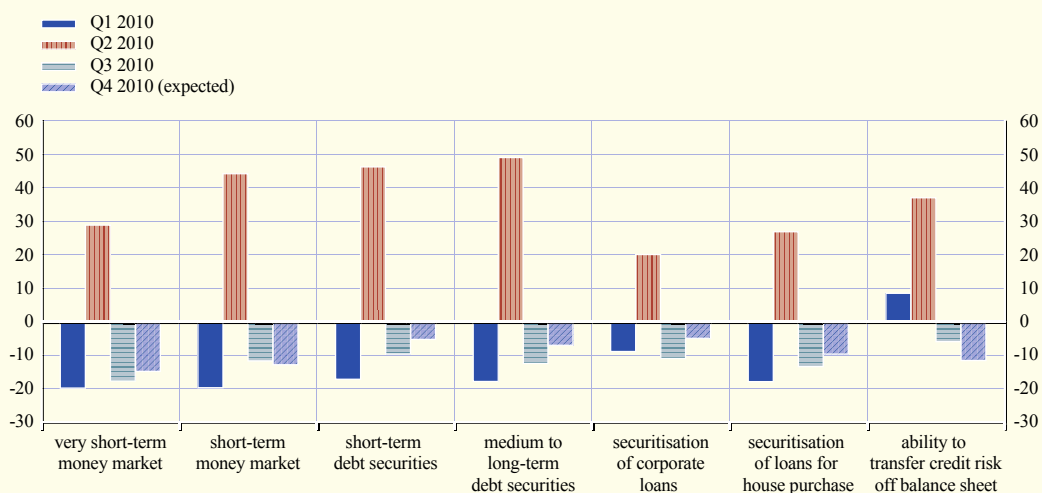
Ad hoc questions on the impact of the financial turmoil

As in previous survey rounds, the October 2010 survey also contained a set of ad hoc questions aimed at assessing the extent to which the financial market tensions have affected banks' credit standards on loans to enterprises and households in the euro area in the third quarter of 2010, and the extent to which they might still have an effect in the last quarter of the year.

For the third quarter of 2010, banks generally reported an improvement in their access to wholesale funding across all segments (see Chart G). After the deterioration during the second quarter of the year, amid renewed concerns about sovereign debt risk, the recovery in the third quarter was much faster than expected in the previous survey round. On balance, in the third

Chart G Change in the access to wholesale funding over the past three months

(net percentages of banks reporting deteriorated market access)



Note: The net percentages are defined as the difference between the sum of the percentages for “deteriorated considerably” and “deteriorated somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”.

quarter of 2010 around 10-20% of the banks surveyed (excluding the banks that replied “not applicable”) reported improved access to money markets (compared with 30-40% of banks that in the previous survey round had indicated deteriorated market access) and around 10% of the banks reported easier access to the debt securities market (against 40-50% reporting deteriorated market conditions in the second quarter of 2010). In addition, true-sale securitisation of corporate loans and loans to households for house purchase eased in the third quarter of 2010. In net terms, approximately 10% of the banks for which this business is relevant (around 60% of the sample group) reported improved access to securitisation of corporate loans and mortgage loans (compared with 20-30% of banks indicating deteriorated market access in the previous survey round). Moreover, on balance, 6% of the banks for which this business is relevant (which is the case for 40% of the sample group) reported improvements in synthetic securitisation, i.e. the ability to transfer credit risk off balance sheet (against 37% indicating a deterioration in the second quarter of 2010).

Over the next three months, on a net basis around 10% of the banks continue to expect an improvement across all wholesale funding markets.

Regarding the impact of the financial turmoil on banks’ costs related to their capital positions and on their lending policy, the most remarkable change between the second and the third quarters of 2010 is the increase in the number of banks reporting that the financial crisis has had basically no impact on capital (37%, up from 34%). Moreover, the percentage of banks indicating “some” or “considerable” impact on both capital and lending declined in the third quarter, falling to 36% from around 40% in the previous quarter.