

Box 2**THE RESULTS OF THE EURO AREA BANK LENDING SURVEY FOR THE SECOND QUARTER OF 2012**

This box summarises the main results of the euro area bank lending survey for the second quarter of 2012, which was conducted by the Eurosystem between 21 June and 5 July 2012.¹

Overall, the net tightening of banks' credit standards for loans to both enterprises and households was broadly stable at the euro area level in the second quarter of 2012, as compared with the previous survey round. Among the main factors contributing to the tightening of credit standards, the impact of banks' cost of funds and balance sheet constraints was, in the case of enterprises,

¹ The cut-off date of the survey was 5 July 2012. A comprehensive assessment of its results was published on the ECB's website on 25 July 2012.

stable vis-à-vis the first quarter of 2012, whilst it increased somewhat in the case of households. As regards demand for loans to enterprises, a significant fall in net terms was reported for the second quarter of 2012, although the balance was somewhat less negative than in the first quarter of the year. As in the first quarter, according to reporting banks, the net fall in the second quarter was driven mainly by weaker financing needs owing to fixed investment. The ongoing decline in net demand for loans to households for house purchase abated in the second quarter, as compared with the first quarter, whereas net demand for consumer credit remained broadly unchanged. Looking ahead, survey participants expect a similar degree of net tightening of credit standards for loans to enterprises, and some moderation in the case of housing loans and consumer credit. Net demand for loans to both enterprises and households is expected to continue to decline in the third quarter of 2012, although to a lesser extent than in the second quarter.

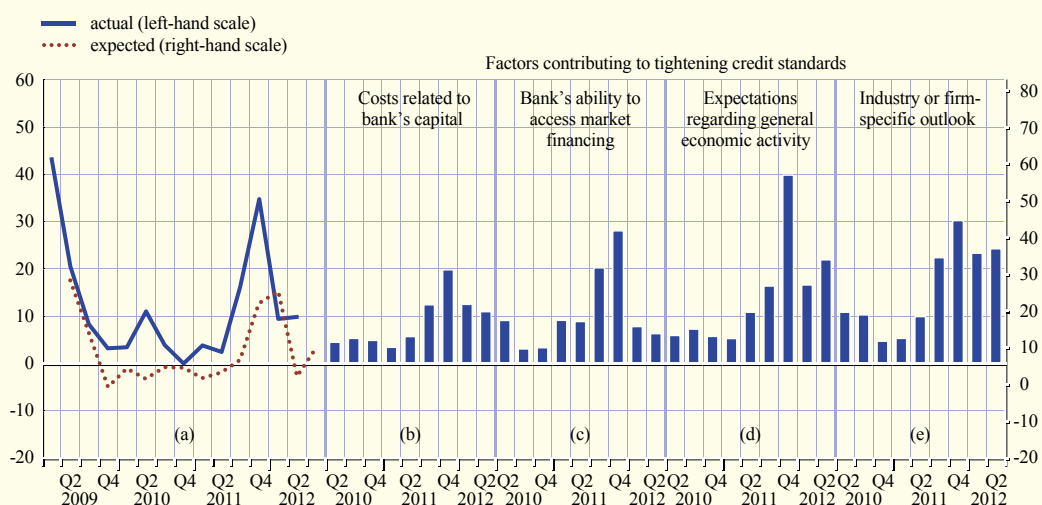
Loans and credit lines to enterprises

In the second quarter of 2012 the net percentage² of banks reporting a tightening of credit standards on loans and credit lines to enterprises remained broadly stable at 10% (compared with 9% in the previous quarter; see Chart A). Such a development was less favourable than expected in the survey three months earlier (2%), possibly owing to the re-intensification of the sovereign debt crisis. The tightening of credit standards on short-term loans increased in net terms (to 8%, up from 3% in the previous quarter), while it decreased further in the case of long-term loans

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.

(to 11%, down from 15%). In addition, the net tightening of credit standards for loans to small and medium-sized enterprises (SMEs) increased (to 6%, up from 1%), whereas it remained broadly stable for loans to large firms (at 16%, down from 17%).

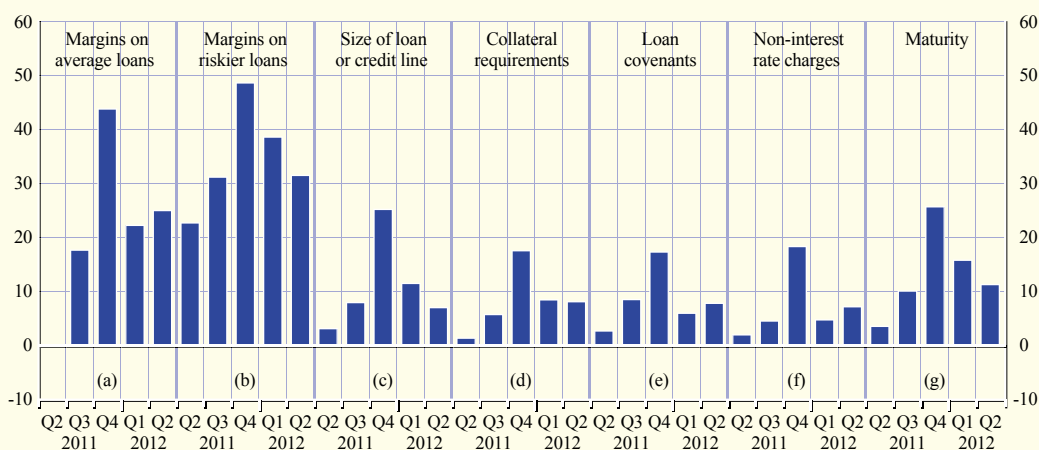
Looking at the underlying factors, the net percentage of euro area banks reporting that the cost of funds and balance sheet constraints contributed to a tightening of credit standards remained unchanged in comparison with the first quarter of 2012, standing at 7%. On balance, there was little change, in particular as regards banks' access to market funding (6%, after 8% in the previous quarter) and their liquidity position (3%, up from 2%). In addition, the impact of risk perceptions on the tightening of credit standards also remained broadly stable. While expectations regarding the economic outlook contributed substantially more to tighter credit standards (22%, after 17%), the impact of industry-specific risks (24%, after 23%) as well as collateral risk (8%, after 11%) remained relatively stable. Moreover, other factors, such as competitive pressures from other banks and non-banks, were reported to have contributed to an easing of credit standards in the second quarter of 2012 (on average, -1%, compared with -4% in the first quarter).

The developments in lending terms and conditions reported by euro area banks generally reflect the broadly stable net tightening of credit standards in the second quarter of 2012 (see Chart B). The widening of margins for average loans changed little in comparison with the first quarter (25%, up from 22%), while margins on riskier loans declined further (to 32%, down from 39%), suggesting a less pronounced degree of risk-related price differentiation by banks. The net tightening for other terms and conditions also remained unchanged (e.g. non-interest charges, loan size and maturity, and collateral requirements).

Looking ahead, on balance, euro area banks expect a similar degree of net tightening of credit standards for loans to enterprises in the third quarter of 2012 (at 10%). Some further tightening is expected to affect large firms (12%), rather than SMEs (7%), as well as primarily long-term loans.

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

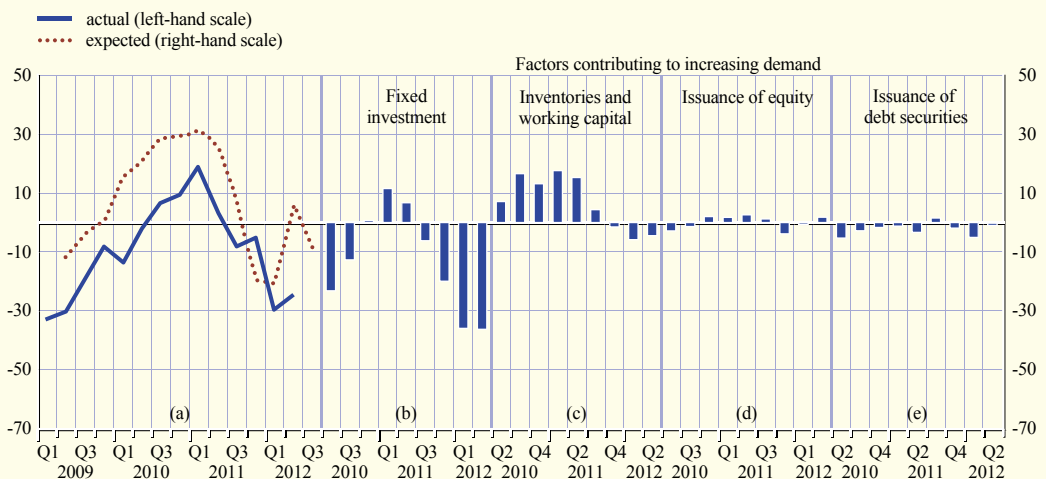
(net percentages of banks reporting tightening terms and conditions)



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)



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.

In the second quarter of 2012 net demand for loans from enterprises continued to fall significantly, albeit at a slower pace than in the first quarter (to -25%, up from -30%). However, such a decline was not expected by respondents who had foreseen an increase in net demand during the previous survey round (7%). Moreover, the net decline in the demand for loans appeared to have been sharper for large firms than for SMEs (-18% and -16% respectively), and also more marked for long-term loans than for short-term loans (to -19% and -15% respectively).

According to survey participants, as in the first quarter of the year, the net fall in demand was driven mainly by a substantial negative impact from fixed investment on firms’ financing needs (unchanged at -36%; see Chart C), combined with a negative contribution of financing for mergers and acquisitions (-13%, up from -17%), internal financing (-12%, down from -8%) and financing needs for inventories and working capital (-4%, up from -6%). On balance, issuance of debt securities, by contrast, no longer contributed to the negative net loan demand (0%, from -5% in the first quarter of 2012).

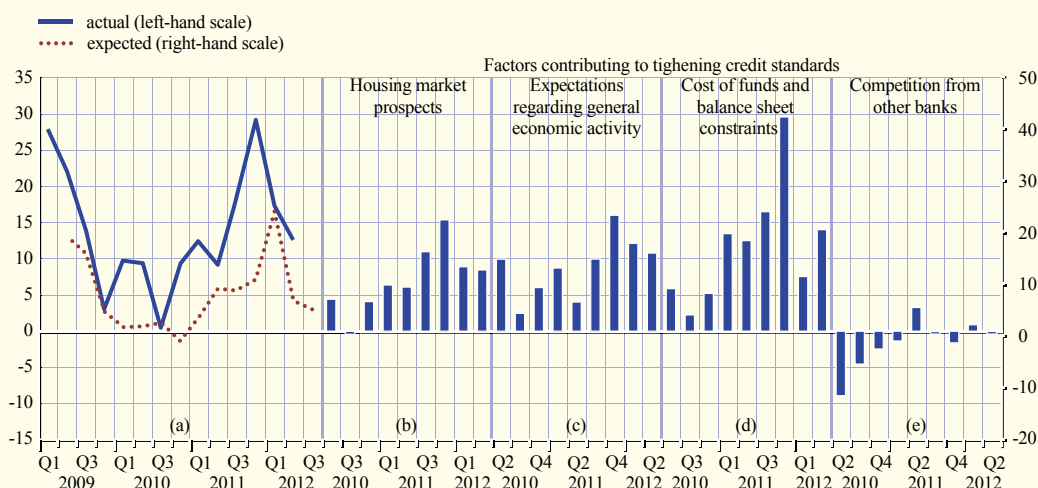
Looking ahead, banks expect a considerably smaller net decline in the demand for corporate loans in the third quarter of 2012 (-8% in net terms). The net decline in demand is expected to apply to a somewhat greater extent to large firms (-9%) than to SMEs (-7%), and to affect long-term loans (-13%) more markedly than short-term loans (-3%).

Loans to households for house purchase

In the second quarter of 2012 the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase edged down to 13%, from 17% in the first quarter (see Chart D). This decline was smaller than anticipated in the previous survey round. According to survey participants, the moderate decrease in net tightening in the second quarter was driven

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

(net percentages)



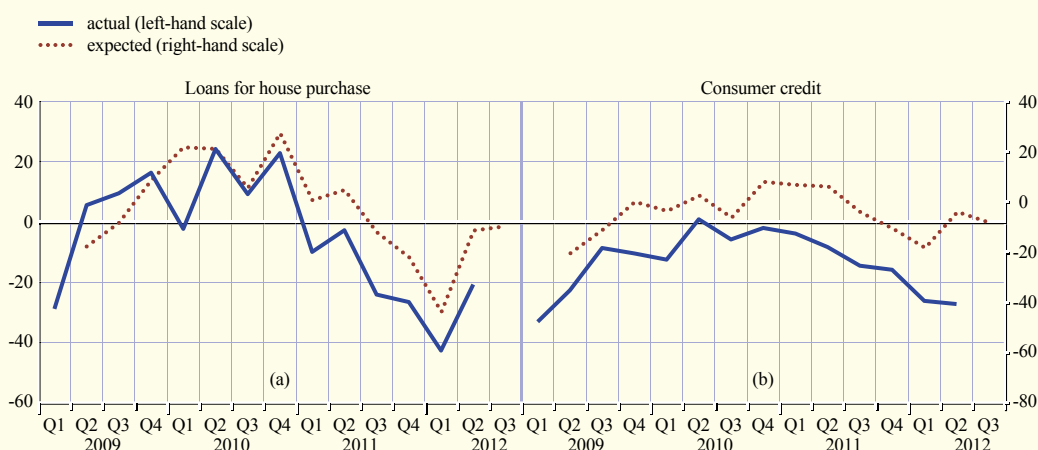
Note: See notes to Chart A.

mainly by a lesser impact of both the general economic outlook and housing market prospects, and by neutral competitive pressures, while pressures from the cost of funds and balance sheet constraints increased somewhat (to 14% in net terms, from 8% in the first quarter).

The reported decline in the net tightening of credit standards for housing loans translated into a further improvement of the terms and conditions across all price and non-price categories. Notably, margins on average loans (15%, down from 24%) and margins on riskier loans (21%, down from 32%) fell substantially.

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 ahead, banks expect a somewhat lower degree of net tightening of credit standards in the case of loans for house purchase (5%) in the third quarter of 2012.

Similar to the negative net loan demand by firms, euro area banks reported a further contraction, in net terms, in the demand for housing loans (to -21%, up from -43%; see Chart E), while the balance became significantly less negative. This net decline appeared to be driven mainly by the ongoing deterioration of housing market prospects (-25%, up from -31%) and consumer confidence (-27%, up from -37%).

Looking ahead, banks expect a further net decline in the demand for housing loans (-10% in net terms) for the third quarter of 2012, albeit at a slower pace.

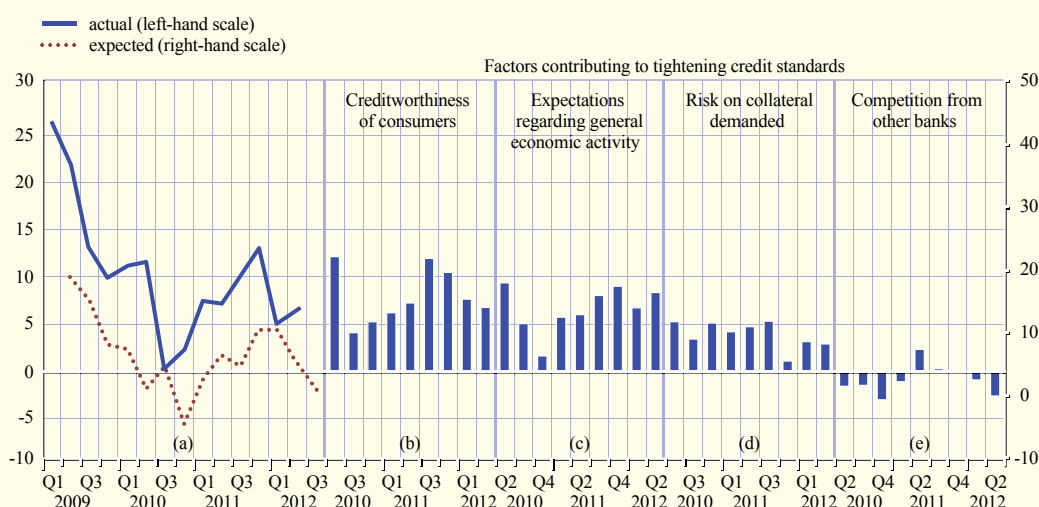
Consumer credit and other lending to households

For the second quarter of 2012, euro area banks reported a broadly stable net tightening of credit standards (7%, up from 5%; see Chart F). Pressures from cost of funds and balance sheet constraints on credit standards increased (to 8%, from 3% in the first quarter of 2012), whereas risk perceptions (related to the economic outlook and consumers' creditworthiness) remained broadly unchanged. With regard to the terms and conditions on consumer credit, banks reported, on balance, that the widening of margins on riskier loans declined (to 13%, from 17% in the first quarter), whereas the widening of margins on average consumer loans remained broadly stable (at 11%, compared with 10% in the first quarter of 2012). The contribution of non-price terms and conditions on consumer credit remained broadly neutral.

Looking ahead, in net terms, only 2% of banks expect a further tightening of credit standards for consumer credit and other lending to households in the third quarter of 2012.

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.

In the second quarter of 2012 net demand for consumer credit continued to decline markedly (-27% in net terms, down from -26% in the previous quarter; see Chart E). This was mainly due to lower spending on durable consumer goods (-28%, unchanged to the first quarter) and a decrease in consumer confidence (-26%, up from -28% in the first quarter).

Looking ahead, banks expect a smaller net decline in the demand for consumer credit in the third quarter of 2012 (at -8% in net terms).

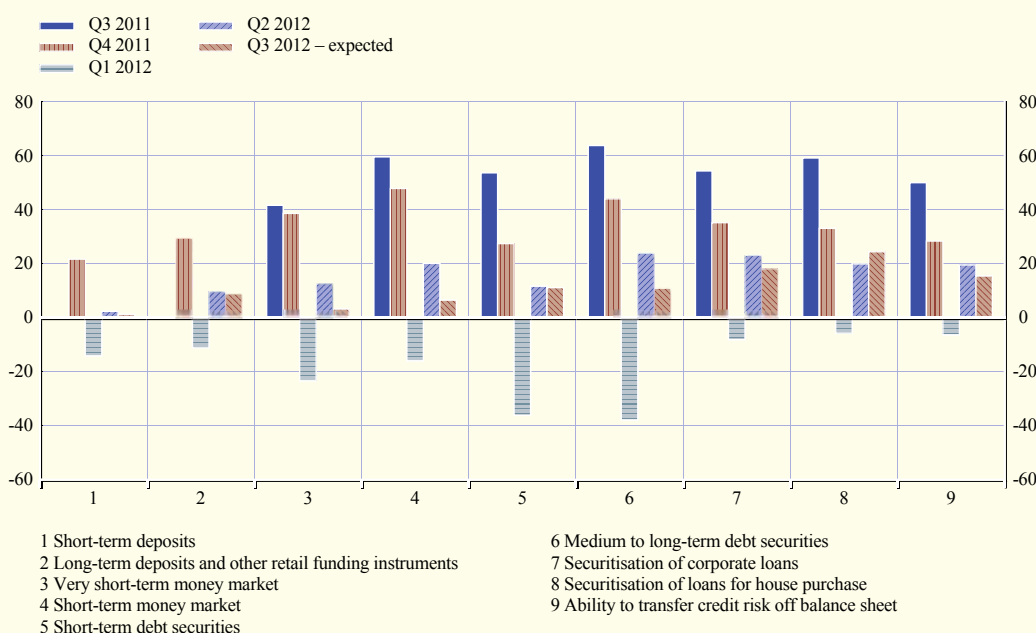
Ad hoc question on the impact of the financial turmoil

As in previous survey rounds, the July 2012 euro area bank lending survey contained an ad hoc question aimed at assessing the extent to which the financial market tensions affected banks' access to retail and wholesale funding markets in the second quarter of 2012, and the extent to which they might still have an effect in the third quarter of the year.

On balance, euro area banks reported some deterioration – probably related to the re-intensification of the sovereign debt crisis – in their access to retail and wholesale funding across all categories compared to the first quarter of 2012, although considerably less so than in the fourth quarter of 2011. Banks' access to longer-term market segments for retail and wholesale funding deteriorated somewhat more than access to short-term market segments, possibly indicating some reluctance of investors with respect to longer-term investments (see Chart G). In addition, conditions for securitisation appeared to have worsened considerably in the second quarter of 2012, both for true-sale securitisation and for banks' ability to transfer risks off their

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”.

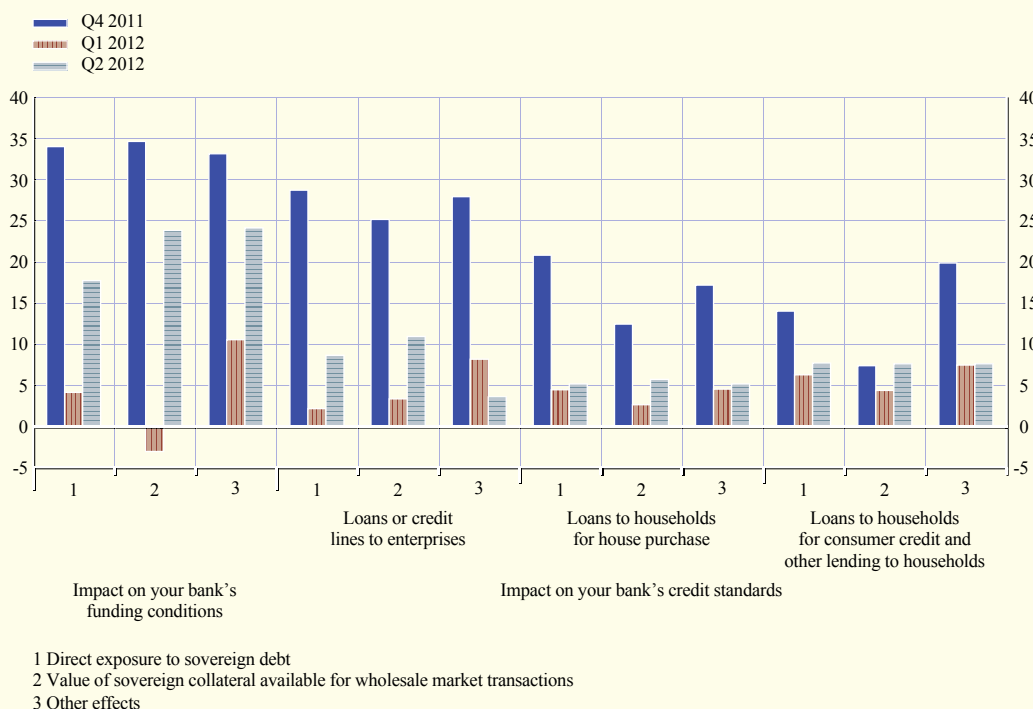
balance sheets (synthetic securitisation). Looking ahead, euro area banks expect a further – albeit more moderate – deterioration in the conditions for access to both retail and wholesale funding in the third quarter of 2012.

Ad hoc question on the impact of the sovereign debt crisis on banks' funding conditions and credit standards

The questionnaire for the July 2012 survey included, for the third time, an ad hoc question aimed at assessing the impact of the sovereign debt crisis on banks' funding conditions and their credit standards. On average, 18% of the euro area banks in net terms – compared with 4% in the first quarter of 2012 – attributed the deterioration in funding conditions to the sovereign debt crisis, through either direct exposures to sovereign debt, reduced collateral value of government bonds or other effects. In fact, the decline in the collateral value in the second quarter was quoted as a reason for the deterioration in their funding conditions (-3%). In the previous quarter the increase in collateral value had had a positive impact on funding conditions. This suggests that the adverse effects of the sovereign debt crisis on banks' funding conditions increased again in the course of the second quarter. This notwithstanding, the impact on euro area banks' credit standards remained contained and changed only moderately in comparison with the previous quarter (about 7%, on average, for both loans to non-financial corporations and loans to households; see Chart H).

Chart H Impact of the sovereign debt crisis on banks' funding conditions and credit standards

(net percentages of banks reporting an impact on funding conditions or on the tightening of credit standards)



Note: The net percentages are defined as the difference between the sum of the percentages for "contributed to a deterioration of funding conditions/tightening of credit standards considerably" and "contributed somewhat" and the sum of the percentages for "contributed to an easing of funding conditions/easing of credit standards somewhat" and "contributed considerably".

Ad hoc questions on the impact of Basel III and other changes in bank regulation

The questionnaire for the July 2012 survey also included two ad hoc questions that aimed at assessing the extent to which the new regulatory capital requirements set out in “Basel III”³ (or any other specific national regulations concerning banks’ capital that have recently been approved, or are expected to be approved in the near future) affect banks’ lending policies via the potential impact on their capital positions and the credit standards they apply to loans.

The results of the July 2012 bank lending survey confirmed that the adjustment shown in the January 2012 survey is still ongoing. Banks reported, in net terms, a further decline in their risk-weighted assets, albeit less strong than expected in January (-41% in the first half of 2012 compared with -34% in the second half of 2011). This decline was and is expected to remain focused on riskier, as opposed to average, loans. The increase in banks’ capital positions was less marked than in January (35% versus 42%), but was slightly above expectations. On balance, 34% of the banks expect an increase in their capital position in the second half of 2012. Contrary to the January survey results for the second half of 2011, however, in the first half of 2012 the increase in banks’ capital position was mainly achieved via retained earnings rather than via the issue of new shares.

In net terms, about 25% of the participating euro area banks indicated that their credit standards for loans to large enterprises were tightened as a result of adjustments implemented in view of the new national regulations and/or capital requirements set out in “Basel III”. While credit standards for loans to SMEs were affected to a lesser extent (8%), in the case of loans to households, in net terms, 12% of euro area banks reported a tightening of credit standards owing to the new regulatory capital requirements for housing loans, and 7% for consumer credit.

Overall, while the downsizing of risk-weighted assets generally progressed further in the first half of 2012, banks did not, on balance, speed up the improvement of their capital positions over the same period. Looking ahead, a lower net percentage of euro area banks plan on reducing their risk-weighted assets in the second half of 2012, as compared with the first half of the year. They would also continue to reinforce their capital base to the same extent as in the first half of the year. For the second half of 2012, banks expect an increase in net tightening of credit standards owing to regulatory pressures which should affect primarily loans to enterprises, while not much change is expected, on balance, in the case of loans to households.

³ See Basel Committee on Banking Supervision, *Basel III: A global regulatory framework for more resilient banks and banking systems*, Bank for International Settlements, 16 December 2010 (available at <http://www.bis.org/publ/bcbs189.pdf>).