Box 2

THE RESULTS OF THE EURO AREA BANK LENDING SURVEY FOR THE FOURTH QUARTER OF 2012

This box summarises the main results of the euro area bank lending survey for the fourth quarter of 2012, which was conducted by the Eurosystem between 14 December 2012 and 10 January 2013.[1] For the euro area as a whole, the net tightening of banks' credit standards on loans to enterprises was broadly stable in the fourth quarter of 2012, as compared with the previous survey round. By contrast, the net tightening of credit standards for both housing and consumer loans increased over the same period.

Among the factors underlying these developments, the impact of the general economic outlook and of industry-specific risks on the net tightening of loans to enterprises remained high, while risk perceptions made the largest contribution to the increase in the net tightening of credit standards on loans to households. The impact of banks' cost of funds and balance sheet constraints on the net tightening of credit standards remained broadly unchanged, in the case of loans to both enterprises and households.

As regards demand for loans to enterprises, euro area banks continued to report a pronounced net decline, although the balance was broadly unchanged from the previous survey round. According to reporting banks, the net decline in corporate demand was mainly driven by the substantial negative impact of fixed investment on the financing needs of firms. The ongoing net decline in demand for loans to households for house purchase and for consumer credit abated in the fourth quarter of 2012.

For the first quarter of 2013 survey participants expect a similar degree of net tightening of credit standards for loans to enterprises, and a decrease for loans to households for both house purchase and consumer credit. At the same time, euro area banks expect a less pronounced net decline in corporate demand, but a more pronounced net decline in the demand for loans for house purchase.

Loans and credit lines to enterprises

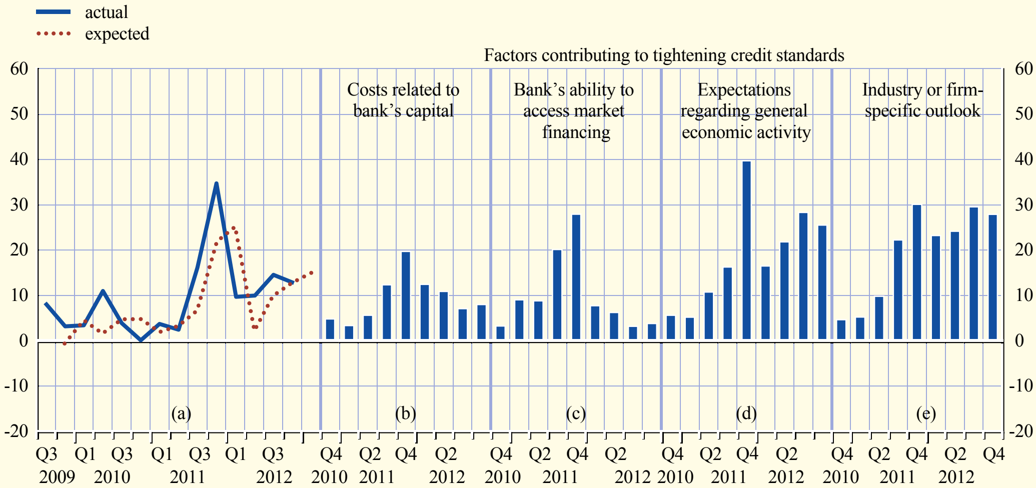
In the fourth quarter of 2012 the net percentage[2] of banks reporting a tightening of credit standards on loans and credit lines to enterprises remained broadly unchanged (at 13%, compared with 15%

1 The cut-off date of the survey was 10 January 2013. A comprehensive assessment of its results was published on the ECB's website on 30 January 2013.

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.

in the previous quarter; see Chart A). This development was in line with banks' expectations three months earlier (13%). In the last quarter of 2012 the net tightening of credit standards remained relatively stable across maturities and borrowers. More specifically, euro area banks reported a net tightening of credit standards on loans to small and medium-sized enterprises (SMEs) and large firms of 12% and 15% respectively (compared with 11% and 17% in the third quarter of 2012). They reported a net tightening of credit standards for both short and long-term loans, at 10% and 15% (compared with 11% and 14% respectively in the previous survey round).

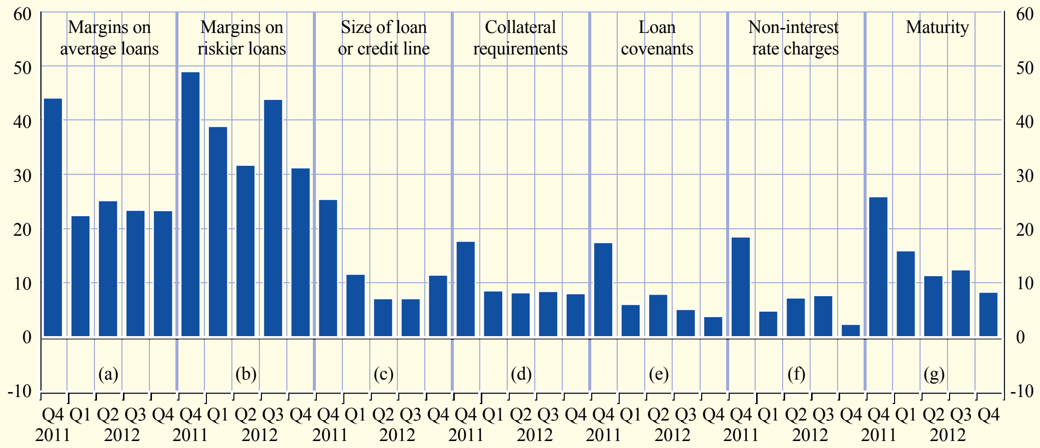
Looking at the underlying factors, the net percentage of euro area banks reporting that cost of funds and balance sheet constraints had contributed to a tightening of credit standards remained broadly unchanged in the fourth quarter of 2012. More specifically, marginal increases were reported as regards the costs related to banks' capital positions (8%, compared with 7% in the third quarter of 2012) and their access to market funding (4%, after 3% in the previous quarter). Similarly, the impact of risk perceptions on the tightening of credit standards was stable, though relatively high. Finally, competitive pressures from other banks led to a slight tightening of credit standards in the fourth quarter of 2012 (1%, compared with -3% in the third quarter of 2012).

The broadly stable net tightening of credit standards in the fourth quarter of 2012 was reflected in the developments in most lending terms and conditions (see Chart B). In particular, margins on average loans and collateral requirements changed very little compared with the previous survey round. At the same time, the widening of margins on riskier loans declined (31%, down from 44%), suggesting a less pronounced degree of risk-related price differentiation by banks.

Looking ahead, on balance, euro area banks expect a similar degree of net tightening of credit standards for loans to enterprises in the first quarter of 2013 (15%). The net tightening of credit standards is also expected to remain broadly unchanged for loans to both SMEs

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

(net percentages of banks reporting tightening terms and conditions)



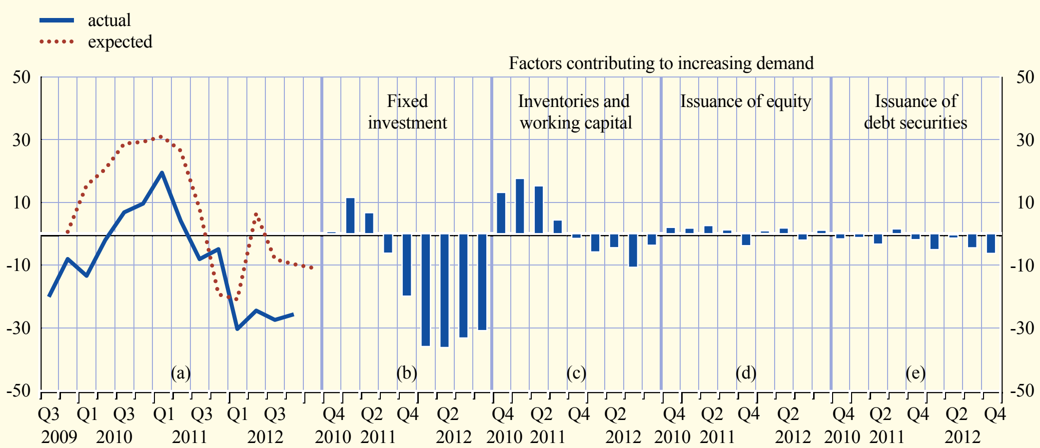
Note: The net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably".

(10%, compared with 12% in the fourth quarter of 2012) and large firms (13%, after 15% in the fourth quarter of 2012). In the case of short-term loans, the net tightening of credit standards is expected to moderate in the first quarter of 2013 (3%, compared with 10% in the fourth quarter of 2012), while it is expected to increase somewhat for long-term loans (to 18%, after 15% in the fourth quarter of 2012).

In the fourth quarter of 2012 the net decline in the demand for corporate loans remained broadly unchanged compared with the previous survey round (at -26%, after -28%; see Chart C).

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.

However, the decline was stronger than expected by respondents in the previous survey round (-10%). Moreover, the net decline in the demand for loans appears to have been relatively similar for large firms and for SMEs (-27% and -23% respectively), but stronger for long-term loans than for short-term loans (-30% and -16% respectively).

According to survey participants, the fall in net demand was mainly driven by a substantial negative impact from reduced financing needs for fixed investments (to -31%, from -33%) and mergers and acquisitions (to -15%, from -17%). Inventories and working capital continued to contribute to a decrease in loan demand, but to a lesser extent (-4%, after -11% in the third quarter of 2012). The use of other external sources of finance also contributed to the pronounced net decline in demand for loans, although issuance of equity made a positive contribution (1%, after -2% in the third quarter of 2012).

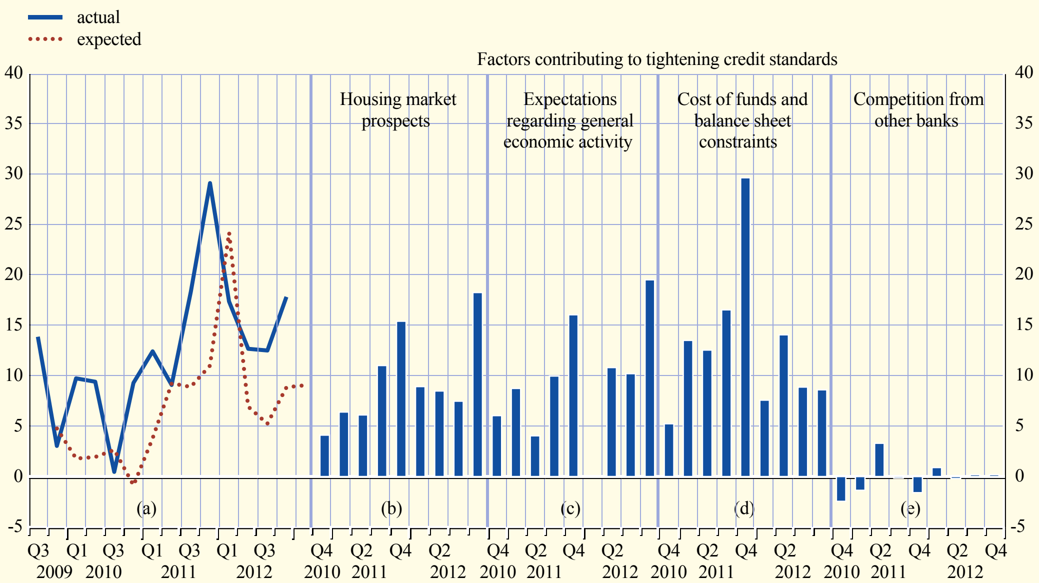
Looking ahead, banks expect a considerably smaller net decline in the demand for corporate loans in the first quarter of 2013 (-11%). The net decline in demand is expected to apply to a similar extent to large firms and to SMEs (-9% and -8% respectively) and to affect long-term loans (-12%) more markedly than short-term loans (0%).

Loans to households for house purchase

In the fourth quarter of 2012 the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase increased to 18%, from 13% in the third quarter (see Chart D). This development was more pronounced than had been anticipated in the previous survey round. According to survey participants, the increase in net tightening in the fourth quarter was mainly driven by worsened expectations regarding the general economic

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.

outlook (20%, up from 10%) and housing market prospects (18%, up from 8%). As in the case of corporate loans, pressures from cost of funds and balance sheet constraints remained broadly unchanged (at 9%). Competitive pressures were reported to have remained neutral.

Terms and conditions for housing loans exhibited mixed behaviour across price and non-price categories in the fourth quarter of 2012. While margins on average loans declined (8% in net terms, down from 14%), margins on riskier loans increased (24%, up from 19%). In addition, responses regarding non-price terms and conditions pointed to a tightening with regard to collateral requirements and loan maturity, and some moderation for the loan-to-value ratio (4%, down from 8%).

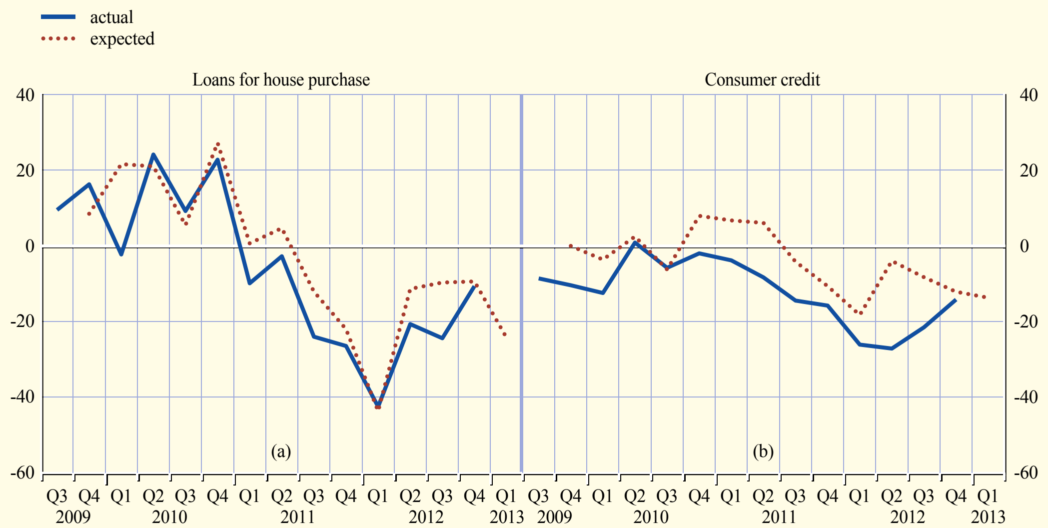
Looking ahead, banks expect a somewhat lower degree of net tightening of credit standards for loans for house purchase (9%) for the first quarter of 2013.

With regard to loan demand, euro area banks reported a less pronounced contraction in net terms in the demand for housing loans (-11%, compared with -25% in the third quarter of 2012; see Chart E). While the contribution of housing market prospects remained broadly unchanged (at -13%, from -14% in the third quarter of 2012), the contribution of consumer confidence to the net decline in demand moderated somewhat (-20%, compared with -23% in the third quarter of 2012). By contrast, the use of household savings as an alternative source of finance contributed somewhat more strongly to the net decline in demand for housing loans (to -15%, from -9% in the third quarter of 2012).

Looking ahead, banks expect a further net decline in the demand for housing loans (-25%) for the first quarter of 2013.

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

For the fourth quarter of 2012 euro area banks reported an increase in the net tightening of credit standards (9%, up from 3%; see Chart F). As in the case of housing loans, worsened risk perceptions played a major role in this increase. Expectations regarding general economic activity, the creditworthiness of consumers and the risk on collateral demanded contributed to the tightening in the last quarter of 2012, while pressures emerging from cost of funds and balance sheet constraints on credit standards remained broadly unchanged. With regard to terms and conditions for consumer credit, banks reported, on balance, a broadly stable net tightening of margins on average consumer loans (12%, from 13% in the third quarter of 2012), while they noted an increase in the case of riskier consumer loans (17%, compared with 14% in the third quarter of 2012). In addition, the net tightening of non-price terms and conditions for consumer credit remained broadly unchanged.

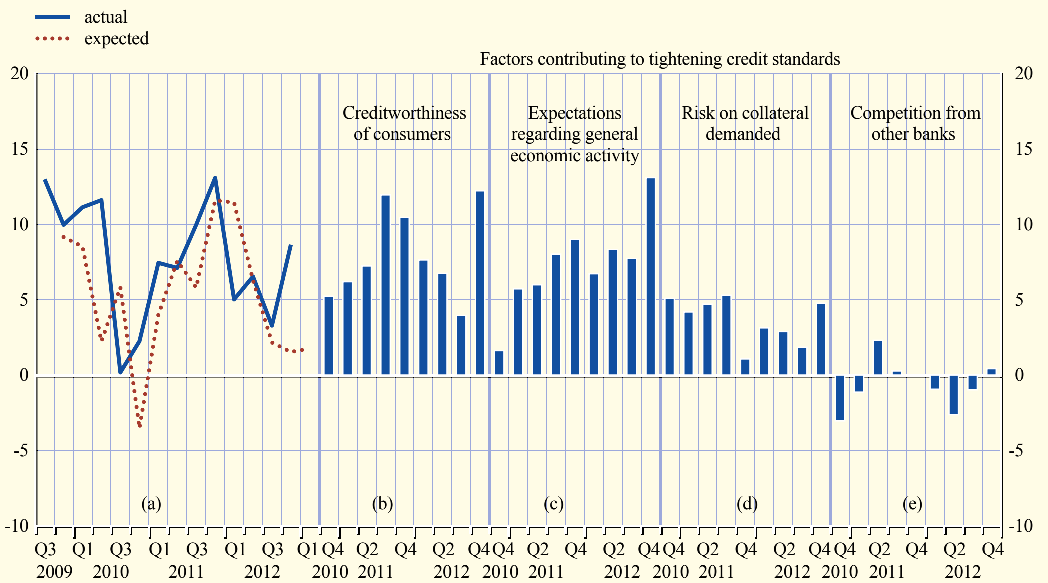
Looking ahead, in net terms, only 2% of banks expect a further tightening of credit standards on consumer credit and other lending to households in the first quarter of 2013.

In the fourth quarter of 2012 the demand for consumer credit continued to decline in net terms, albeit at a slower pace than in the previous round (-14%, after -22% in the previous quarter; see Chart E). This was mainly explained by less household spending on durable goods (-17%, after -18% in the third quarter) and in negative consumer confidence (-22%, unchanged from the previous survey round).

Looking ahead to the first quarter of 2013, banks expect the net decline in demand for consumer credit to be similar to that reported in the fourth quarter of 2012 (-14%).

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 question on the impact of the financial turmoil

As in previous survey rounds, the January 2013 bank lending survey contained an ad hoc question aimed at assessing the extent to which financial market tensions affected banks' access to retail and wholesale funding markets in the fourth quarter of 2012, and the extent to which they might still have an effect in the first quarter 2013.

On balance, in the fourth quarter of 2012 euro area banks reported a further improvement in their access to retail and wholesale funding across all funding categories compared with the previous quarter (see Chart G). The overall improvement was stronger than expected at the time of the previous survey round and, moreover, is expected to continue in the first quarter of 2013.

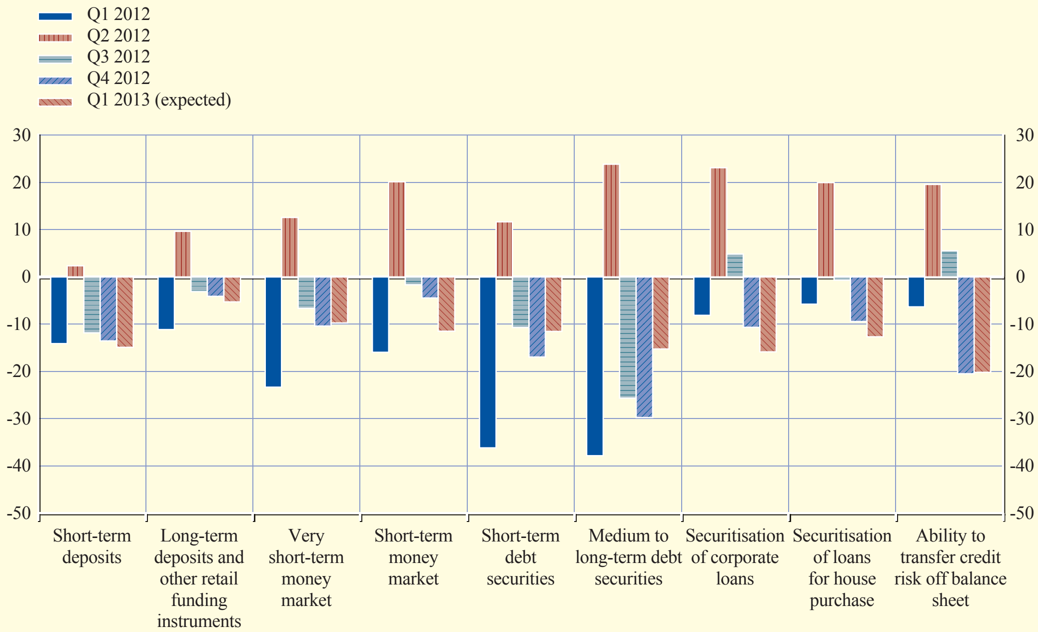
Ad hoc question on the impact of the sovereign debt crisis on banks' funding conditions, credit standards and credit margins

The questionnaire for the January 2013 survey also included – as it had in previous survey rounds – an ad hoc question aimed at assessing the impact of the sovereign debt crisis on banks' funding conditions, their credit standards and, for the first time, their credit margins.

In the context of subsiding financial tensions in most market segments, responses to the January 2013 survey indicated that the impact of sovereign debt tensions on banks' funding conditions abated significantly in the fourth quarter of 2012. On balance, about 1% of survey participants reported that their direct exposure to sovereign debt and the value of sovereign

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

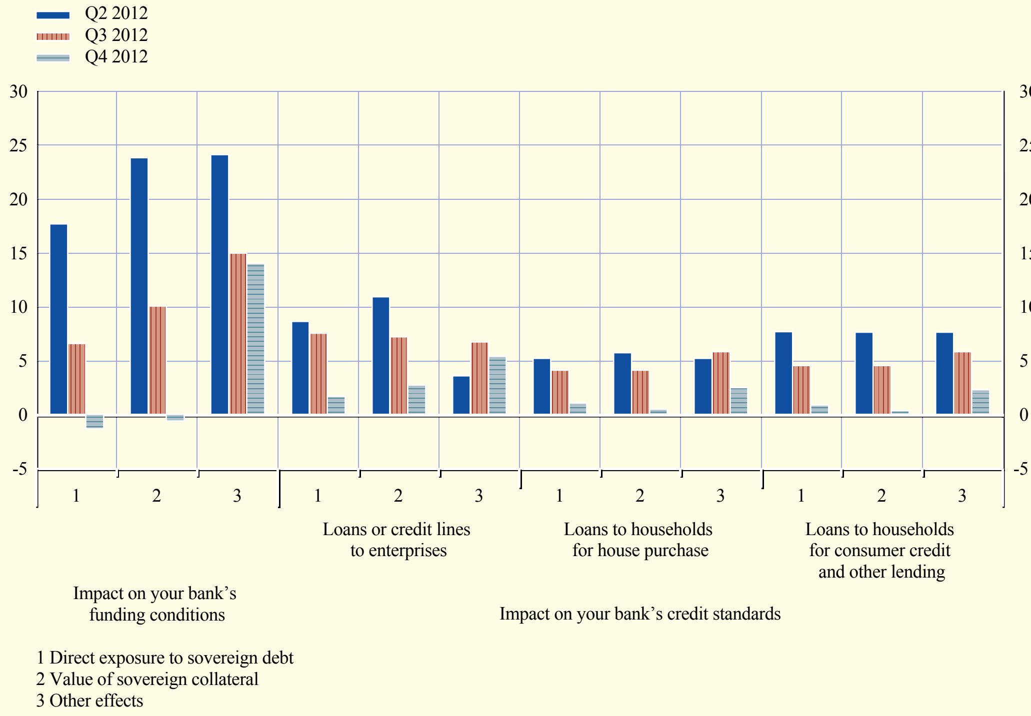
(net percentages of banks reporting deteriorated market access)

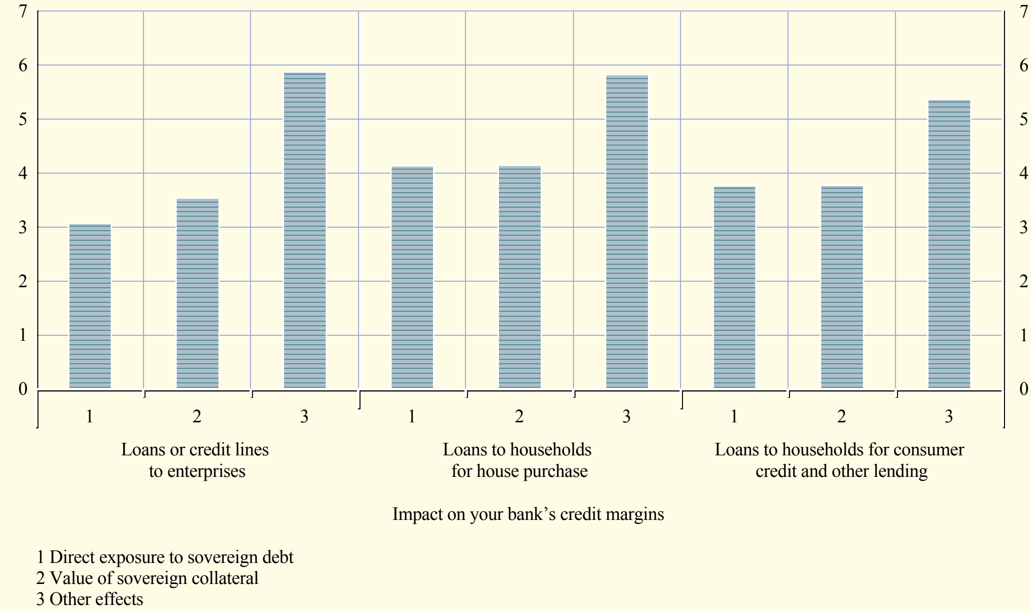


Note: The net percentages are defined as the difference between the sum of the percentages for "deteriorated considerably" and "deteriorated somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably".

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

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





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/widening of lending margins considerably" and "contributed somewhat" and the sum of the percentages for "contributed to an easing of funding conditions/easing of credit standards/narrowing of lending margins somewhat" and "contributed considerably".

collateral had contributed to an easing in funding conditions (compared with a net tightening impact of 7% and 10% respectively in the third quarter of 2012). The impact of the sovereign debt crisis on banks' credit standards also receded strongly in the last quarter of 2012. The moderation was pronounced and widespread across lending categories and channels of transmission. At the same time, banks reported that the impact of the sovereign debt crisis on their credit margins was somewhat stronger than that on credit standards (see Chart H).

Ad hoc questions on the impact of Capital Requirement Directive IV and other changes in bank regulation[3]

As was the case in the July 2012 round, the questionnaire for the January 2013 survey also included two ad hoc questions aimed at assessing the extent to which the new regulatory capital requirements affected banks' lending policies via the potential impact on their capital positions and the credit standards they apply to loans. For the first time, the January 2013 survey also asked about the impact of the new regulatory requirements on banks' credit margins.

On balance, 32% of the participating euro area banks reported a decline in their risk-weighted assets during the second half of 2012, broadly in line with what they had expected in the July 2012 survey. This adjustment process concerned primarily riskier, as opposed to average, loans and is expected to continue to do so. In addition, the increase in banks' capital positions was less marked than in July last year (24% versus 35%). Moreover, by contrast with the July survey results, in the second half of 2012 the increase in banks' capital positions was driven to a greater extent by the issuance of shares than by retained earnings.

Looking ahead, a lower net percentage of euro area banks plan to reduce their risk-weighted assets in the first half of 2013 than in the second half of 2012 (20%, from 32% in the second half of 2012). At the same time, on balance, more banks intend to increase their capital positions than in the second half of 2012 (39%, from 24% in the second half of 2012).

As regards the effects of the new regulatory requirements on banks' credit standards and lending margins, euro area banks indicated that they tightened their credit standards on loans to both large firms and SMEs in the second half of 2012 (19% and 15% respectively, as opposed to 25% and 8% in the July 2012 round). For loans to households, 11% of the euro area banks in net terms reported a tightening of credit standards on housing loans owing to the new regulatory requirements, while 8% reported a tightening on loans for consumer credit. The impact of regulatory requirements on credit margins was about the same as that on credit standards for each lending category, with the exception of housing loans, where the impact on credit margins was somewhat lower. For the first half of 2013 banks expect some moderation in the net tightening of credit standards for loans to enterprises and households owing to regulatory pressures. At the same time, banks expect to continue tightening their credit margins in the first half of 2013, across all lending categories.

3 See the regulatory requirements set out in Capital Requirement Directive IV (July 2011), which can be found on the European Commission's website (http://ec.europa.eu), as well as those resulting from the European Banking Association and any national regulations concerning banks' capital requirements that have recently been approved or are expected to be approved in the near future.