Box 3

THE RESULTS OF THE EURO AREA BANK LENDING SURVEY FOR THE SECOND QUARTER OF 2013

This box summarises the main results of the euro area bank lending survey, conducted by the Eurosystem between 19 June and 4 July 2013[1], for the second quarter of 2013. Overall, the net tightening of credit standards remained unchanged for loans to enterprises and continued to decline for housing loans, while the net decline in the demand for loans moderated significantly, in particular for households.

Summary of the main results

In the second quarter of 2013, euro area banks reported a further net tightening of credit standards for loans to enterprises, unchanged from that reported in the previous quarter and still at a level below the historical average calculated over the period since the survey's inception in 2003. The net tightening of credit standards applied to housing loans decreased to a level below the historical average, while – for the first time since the end of 2007 – euro area banks reported a net easing of credit standards on loans for consumer credit.

1 The cut-off date for completion of the survey was 4 July 2013. A comprehensive assessment of its results was published on the ECB's website on 24 July 2013.

The above-mentioned developments were driven mainly by three factors. First, the contribution from the cost of funds and balance sheet constraints remained broadly unchanged. Second, the contribution from competition pointed to a net easing of credit standards. Third, euro area banks' risk perceptions contributed less to the net tightening of loans, although such risks remained their main concern in setting their lending policies.

As regards demand for loans, the net decrease in the second quarter of 2013 was smaller than in the preceding quarter. For loans to enterprises, the decline abated, while remaining at a level substantially higher than the historical average. In addition, the net decline in demand for both loans to households for house purchase and consumer credit slowed down sharply, reaching levels that are broadly in line with the respective long-term averages.

Looking ahead, for the third quarter of 2013, the banks participating in the survey expect a further decrease in the net tightening of credit standards for both corporate and housing loans, while anticipating unchanged credit standards for consumer credit. At the same time, euro area banks expect a less negative net decline in demand for all loan categories.

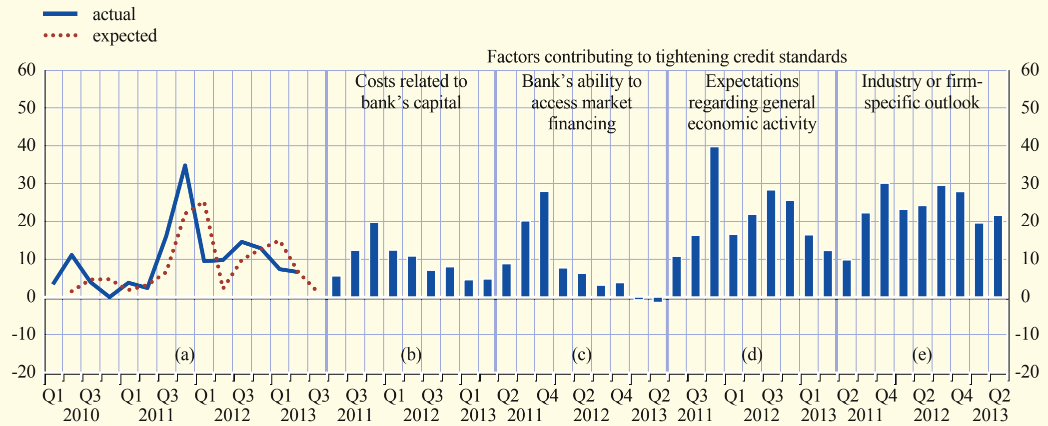
Loans and credit lines to enterprises

Where credit standards are concerned, the net percentage[2] of euro area banks reporting a tightening in the second quarter of 2013 was 7%, unchanged from the previous survey round (see Chart A). At the time of the previous survey round, participating banks expected a similar degree of net tightening in credit standards.

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 the 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 contriuted to tightening and the percentage reporting that it contributed to easing. "Actual" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

In line with the aggregate results, the net tightening of credit standards remained broadly unchanged across all maturities and borrowers in the second quarter of 2013. More specifically, euro area banks reported a net tightening of credit standards on loans to small and medium-sized enterprises (SMEs) and large firms in the order of 5% and 3% respectively (compared with 7% and 4% in the first quarter of 2013), while the net tightening of credit standards for short and long-term loans stood at 4% and 10% respectively (after 5% and 11% in the previous survey round).

Looking at the underlying factors, euro area banks reported that, on average, the contribution of the cost of funds and balance sheet constraints to the net percentage change in credit standards was neutral, as it was in the previous quarter. This resulted from unchanged contributions of costs related to banks' capital positions (5%), as well as of banks' access to market funding (-1%) and banks' liquidity positions (-3%). Similarly, the impact of risk perceptions on the tightening of credit standards was also reported to have remained stable, although still at a high level. Finally, competitive pressures were reported to have contributed to a net easing of credit standards in the second quarter of 2013, broadly unchanged from the previous survey round.

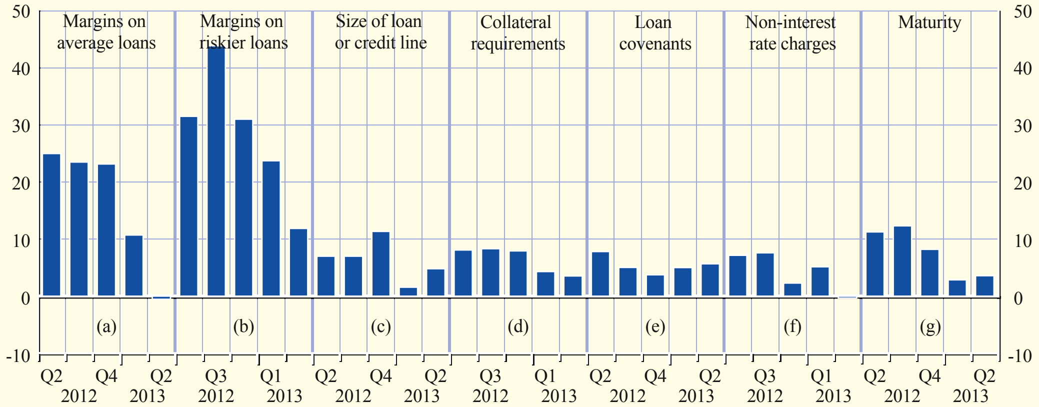
The stable net tightening of credit standards to enterprises in the second quarter of 2013 translated into a compression of margins on average loans for the first time since the beginning of 2011 and into a lesser widening of margins on riskier loans (see Chart B). For most of the other credit terms and conditions, with the exception of the loan size, euro area banks reported a reduced or broadly unchanged net tightening.

Looking ahead to the third quarter of 2013, on balance, euro area banks expect a lesser net tightening of credit standards for loans to enterprises (1%), for loans to large firms (4%) and for long-term loans (6%) than in the previous quarter. Furthermore, credit standards are expected to remain basically unchanged for loans to SMEs and for short-term loans (0%).

Turning to demand, in the second quarter of 2013, the net decline in demand for loans to enterprises abated in comparison with that reported in the previous survey round (to -18%,

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

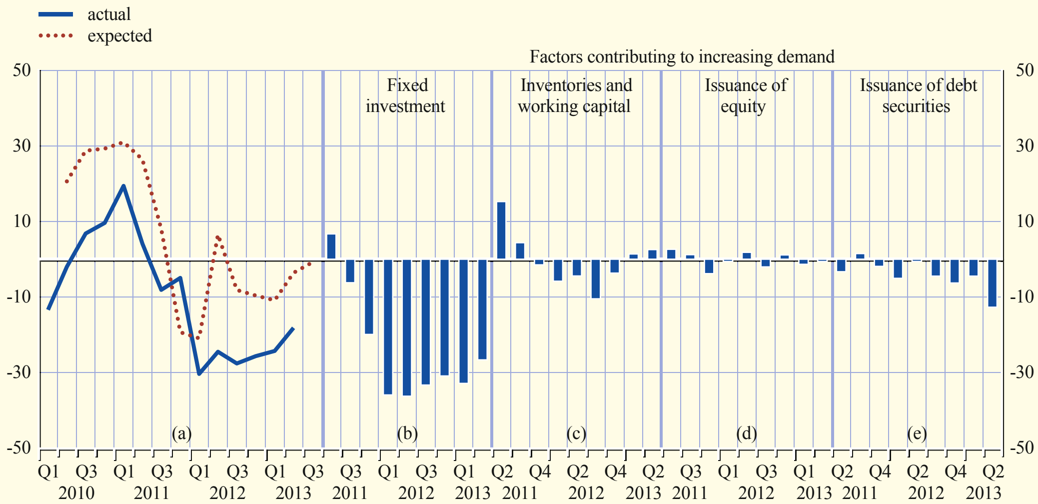
(net percentages of banks reporting tightening terms and conditions)



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. "Actual" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

compared with -24%; see Chart C). Similar developments were recorded across loan sizes and maturities, except in the case of short-term loans where banks reported an unchanged net decline of -8%, as compared with the first quarter of 2013.

As in the previous quarter, the net fall in demand was driven mainly by the negative impact of reduced fixed investment (-27%, from -33%) on financing needs. Other financing needs such as those arising from mergers and acquisitions (-2%, after -10% in the first quarter of 2013) continued to contribute less to the net decline in demand, while financing needs for inventories and working capital, as well as for debt restructuring, had a positive impact on loan demand (3% and 15% respectively, after 1% and 12% respectively in the first quarter of 2013). On average, the contribution from the use of alternative sources of finance to the net decline in demand remained broadly unchanged in comparison with the previous survey round.

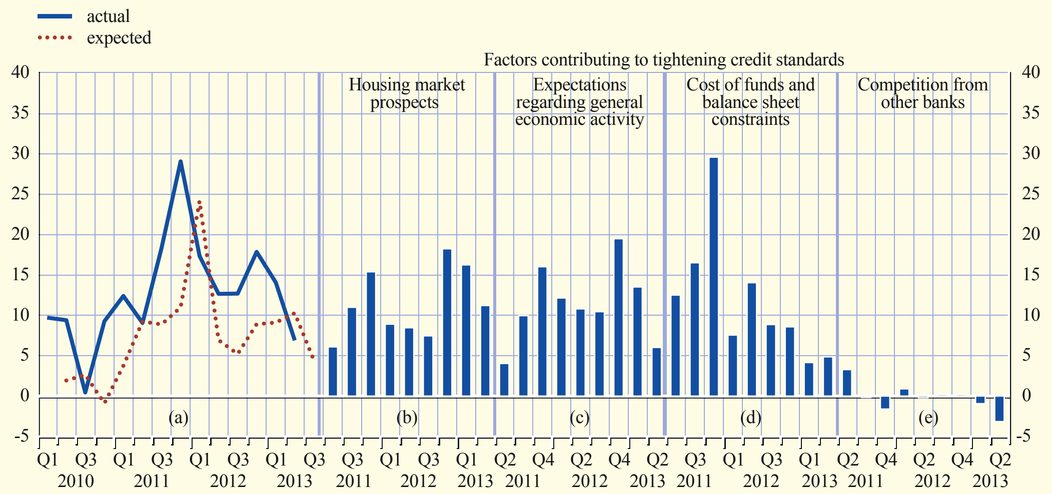
Looking ahead, banks expect a considerably smaller net decline in the demand for loans to enterprises in the third quarter of 2013 (-1%). A net decline in demand is expected for loans to large firms and for long-term loans (-1% and -3% respectively), while a net increase is expected in demand for loans to SMEs and short-term loans (3% and 1% respectively).

Loans to households for house purchase

In the second quarter of 2013, the net percentage of banks reporting a tightening of credit standards on loans to households for house purchase declined to 7%, from 14% in the first quarter (see Chart D). This decrease was slightly sharper than expected by respondents in the previous survey round (10%). As in the case of loans to enterprises, the contribution of the cost of funds and balance sheet constraints to the net tightening of credit standards 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 of 2013 (5%, after 4% in the first quarter). At the same time, compared with the previous survey round, the contributions of both the general economic outlook and housing market prospects decreased in the second quarter of 2013. More specifically, the impact of the general economic outlook on net tightening declined to 6%, from 14% in the first quarter, while that of housing market prospects decreased to 11%, from 16% in the previous survey round. Competitive pressures were reported, all in all, to have contributed to a net easing of credit standards in a similar order of magnitude as in the previous quarter.

Most price and non-price terms and conditions applied to housing loans tightened in the second quarter of 2013. The net percentage of banks reporting a widening of margins on loans increased slightly in the case of both average loans (1%, after -1% in the first quarter) and riskier loans (12%, after 10% in the previous quarter). Responses regarding non-price categories pointed to a moderation in the contributions of collateral requirements and loan-to-value ratios to the net tightening (3% in both cases, from 5% and 8% respectively in the previous quarter), while indicating broadly unchanged contributions to the net tightening in the case of loan maturities (6%, as in the previous quarter) and non-interest rate charges (3%, after 1% in the first quarter of 2013).

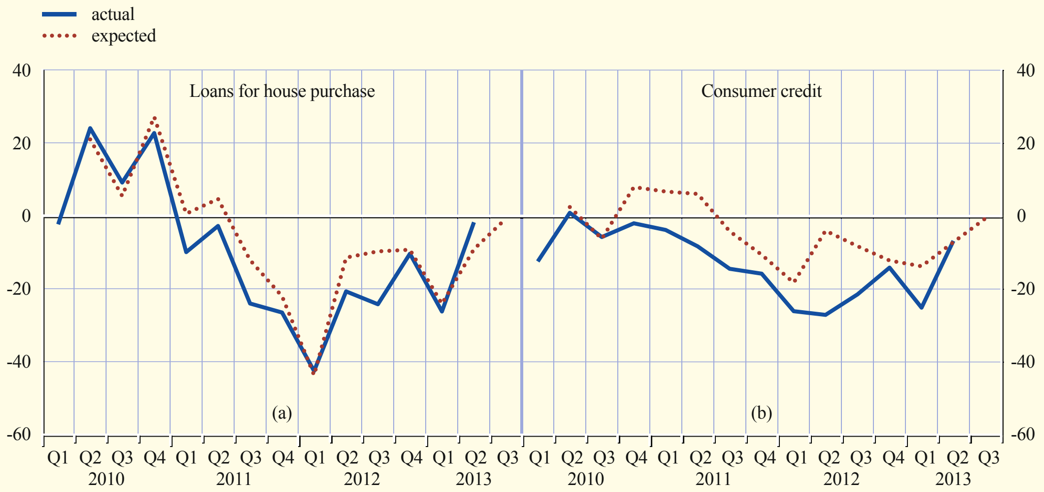
Looking ahead, banks expect a somewhat lower degree of net tightening of credit standards for loans for house purchase (4%) in the third quarter of 2013.

Turning to loan demand, euro area banks reported a sharp deceleration in the net decline in demand for housing loans (-2%, compared with -26% in the first quarter of 2013; see Chart E). Most of the underlying factors contributed to the sharp reduction of the net decline in comparison with the previous survey round. The only exception was the demand for loans from other banks, whose contribution to the net decline remained unchanged at -4%.

Looking ahead, banks continue to expect demand for housing loans to remain in negative territory, at a similar level to that reported in the second quarter of 2013 (-1%).

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

(net percentages)



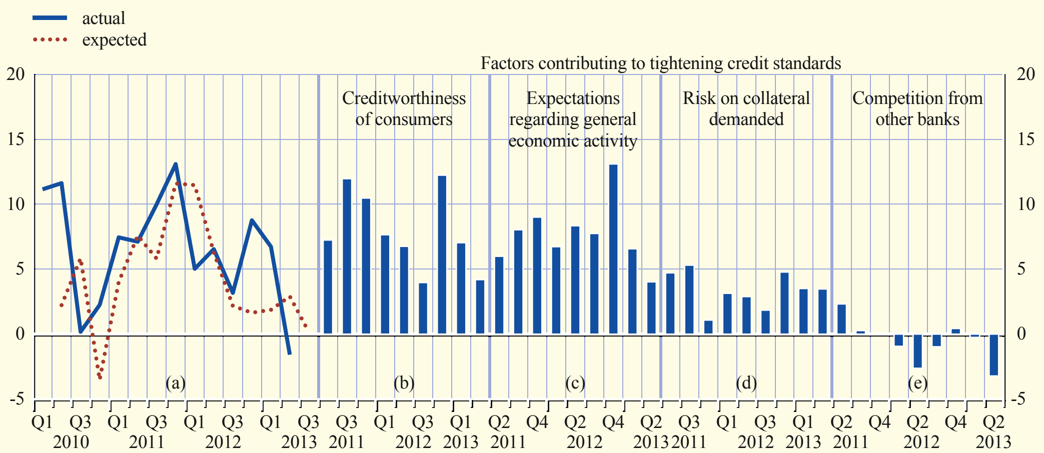
Notes: The net percentages refer to the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". "Actual" values refer to the period in which the survey was conducted. "Expected"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

Consumer credit and other lending to households

For the first time since the end of 2007, euro area banks reported a slight net easing of credit standards for consumer credit in the second quarter of 2013 (-2%, down from 7%; see Chart F). As for loans to enterprises and housing loans, pressures emerging from the cost of funds and balance sheet constraints remained broadly unchanged. At the same time, the contributions from the economic outlook and the creditworthiness of loan applicants moderated in the second quarter of 2013 (in both cases, to 4%, from 7% in the first quarter).

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

(net percentages)



Note: See notes to Chart A.

Turning to the terms and conditions for approving consumer credit, banks reported a narrowing of margins on average loans (-3%, compared with -2% in the previous survey round), whereas margins on riskier loans were tightened to a lesser degree (2%, after 4% in the first quarter of 2013). In addition, the net tightening of non-price terms and conditions on consumer credit remained broadly unchanged around zero.

Looking ahead, in net terms, euro area banks expect unchanged credit standards on consumer credit and other lending to households for the third quarter of 2013.

In the second quarter of 2013, the surveyed banks reported a deceleration of the net decline of demand for consumer credit (-7%, after -25% in the previous quarter; see Chart E). This was explained by a reduced contribution from all underlying factors. In particular, the contributions of household spending on durable goods and consumer confidence reached -14% and -19% respectively, after -27% and -25% in the previous survey round.

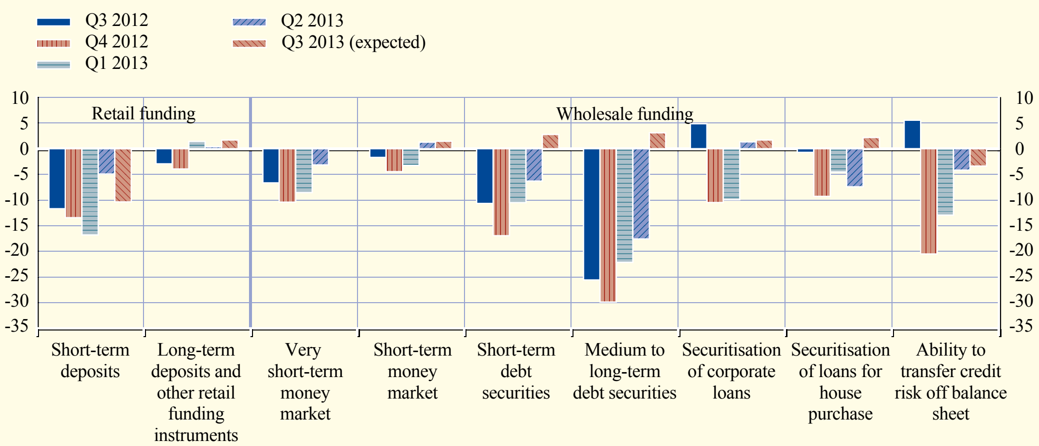
Looking ahead to the third quarter of 2013, euro area banks expect a further moderation of the net decline in demand for consumer credit (to -1%).

Ad hoc question on the impact of market tensions

As in previous survey rounds, the July 2013 bank lending survey contained an ad hoc question on banks' access to retail and wholesale funding in the second quarter of 2013. On balance in the second quarter of 2013, euro area banks reported a further, albeit less pronounced, improvement in their access to retail and wholesale funding across most funding categories in comparison with the previous quarter (see Chart G). In particular, euro area banks reported a net easing of banks' access to retail funding (-2%, from -8% in the first quarter), to money market funding (-1%, from -6%) and to funding through both debt securities issuance (-12%, from -16%) and securitisation (-3%, from -9%). The further improvement in banks' access to retail and wholesale markets was

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

(net percentages of banks reporting deteriorated market access)

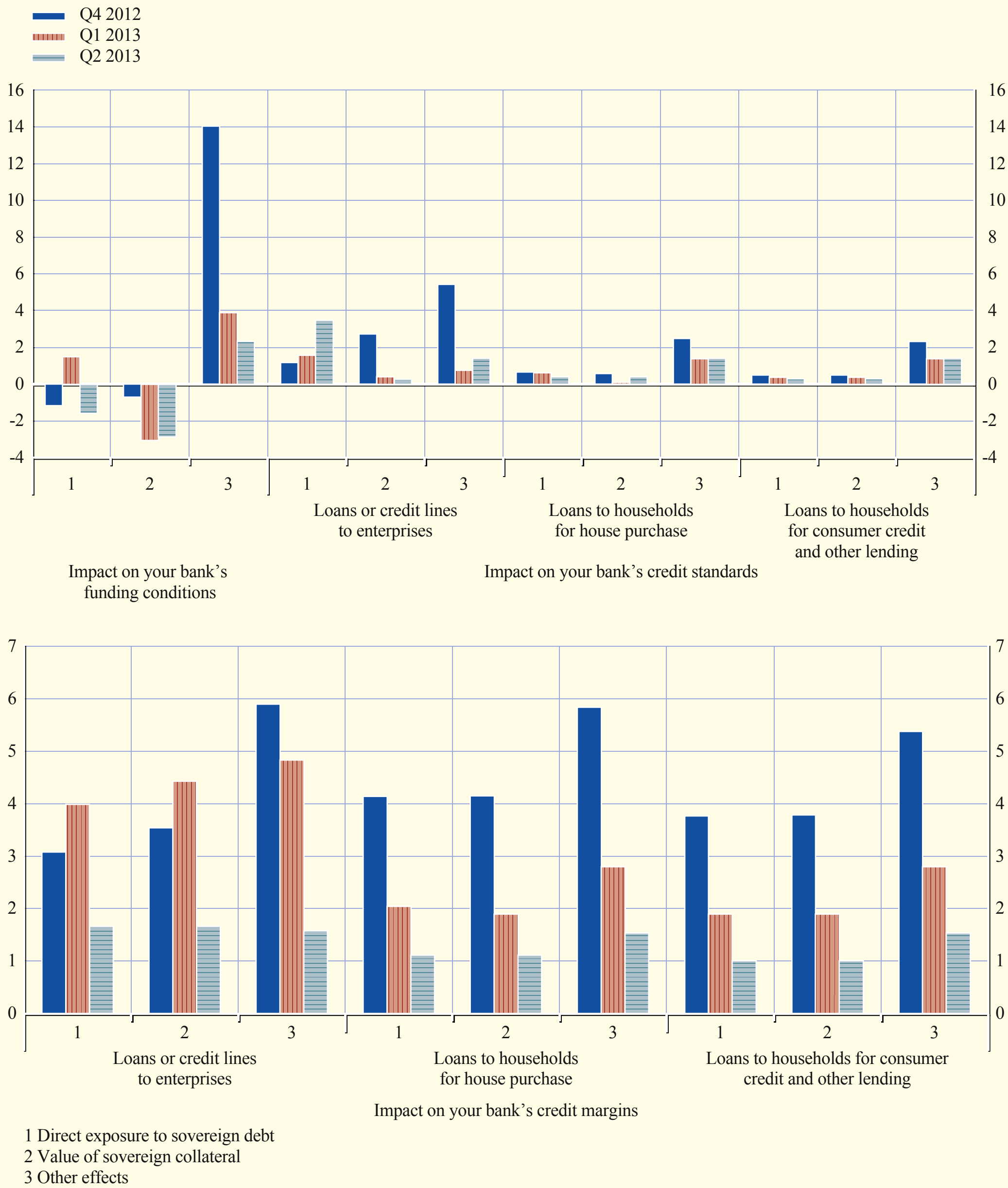


Note: The net percentages are defined as the difference between the sum of the percentages for "deteriorated considerably" and "deteriorated somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably".

somewhat weaker than expected at the time of the previous survey round – except for the case of debt securities and securitisation. Looking ahead to the third quarter of 2013, banks expect a small deterioration of funding conditions for most of the wholesale market segments, but a small improvement for retail funding.

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

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

The questionnaire for the July 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, credit standards and credit margins over the three previous months.

Replies to the July 2013 survey indicate that the impact of sovereign debt tensions on banks' funding conditions was marginal and that it abated further in some segments in the second quarter of 2013 (see Chart H). On balance, about 2% of the euro area banks reported that their direct exposure to sovereign debt had contributed to a marginal easing in funding conditions (after a net tightening of 1% in the previous quarter), while 2% of the banks reported that "other effects", which may include financial contagion, had contributed to a net tightening, from 4% in the previous quarter. The value of sovereign collateral, by contrast, reportedly contributed to a marginal net easing (-3%, unchanged from the previous quarter).

Compared with the previous quarter, the impact of the sovereign debt crisis on banks' credit standards remained broadly unchanged in the second quarter of 2013, at levels significantly below the peaks recorded in the period before the announcement of the three-year longer-term refinancing operations (LTROs). At the same time, banks reported that the impact of the sovereign debt crisis on banks' credit margins had declined marginally across all lending categories.

Ad hoc questions on the impact of the Capital Requirements Regulation/Capital Requirements Directive IV and other changes in banking regulations[3]

As was the case in the January 2013 round, the questionnaire for the July 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 their potential impact on the banks' capital positions and on the credit standards and credit margins they apply to loans. On balance, 24% of the participating euro area banks reported a decline in their risk-weighted assets in the first half of 2013 as a result of their endeavours to comply with new regulatory requirements, down from 32% in the second half of 2012. This adjustment process concerned both riskier loans and loans with average risks (28% for riskier loans and 16% for average-risk loans, down from 38% and 26% respectively in the second half of 2012). As regards the effect of regulation on banks' capital positions, on balance, 22% of the euro area banks noted an increase in their capital positions over the past six months, compared with 24% in the January 2013 survey. In the last six months, the strengthening in banks' capital positions was achieved comparatively more through retained earnings than through capital issuance, whereas the opposite had been the case in the second half of 2012.

Looking ahead, a slightly higher net percentage of euro area banks plan to continue reducing their risk-weighted assets in the second half of 2013 (27%, up from 24% in the first half of 2013),

3 See the regulatory requirements set out in the Capital Requirements Regulation/Capital Requirements Directive IV, as accepted by European Parliament in April 2013, which can be found at http://www.europarl.europa.eu, as well as those resulting from the regulations of the European Banking Authority and from any other specific national regulations concerning banks' capital requirements that have recently been approved or are expected to be approved in the near future.

while at the same time, 13% of the banks, on balance, intend to increase their capital positions (down from 22% in the first half of 2013).

As regards the effects of the new regulatory requirements on banks' credit standards and lending margins, euro area banks indicated that they had tightened their credit standards on loans to both large firms and SMEs in the first half of 2013 (17% and 9% respectively, as opposed to 19% and 15% in the January 2013 round). For loans to households, in net terms, 8% of the euro area banks reported a tightening of credit standards on housing loans owing to the new regulatory capital requirements, while 6% reported a tightening of those applied to consumer credit. These values are slightly lower than those observed in the second half of 2012. The impact of regulatory requirements on credit margins was of about the same order of magnitude as that on credit standards for each lending category.

For the second half of 2013, banks expect some moderation in the net tightening of credit standards for loans to enterprises and households that is due to regulatory pressures. At the same time, banks expect to continue to tighten their credit margins in the first half of 2013, across all lending categories.