Box 4

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

This box summarises the main results of the euro area bank lending survey, conducted by the Eurosystem between 13 December 2013 and 9 January 2014,[1] for the fourth quarter of 2013. Overall, the survey provides further indications of stabilisation in credit conditions for firms and households in a context of persistently weak loan demand.

Summary of the main results

In the fourth quarter of 2013 euro area banks reported a further reduction in the net tightening of credit standards for loans to enterprises. In addition, for the first time since 2007, euro area banks indicated a marginal net easing of credit standards applied to housing loans while, in the case of loans for consumer credit, the surveyed banks reported broadly unchanged net tightening compared with the previous quarter.

These developments were driven by three main factors. First, the contribution from the cost of funds and balance sheet constraints remained broadly unchanged. Second, the contribution from competition continued to point to a net easing of credit standards. Third, euro area banks' risk perceptions contributed less to the net tightening of loans, and even became nil in the case of housing loans.

In the last quarter of 2013 the demand for credit remained weak across all loan categories, albeit with some variations. For loans to enterprises, the net decline moderated, thus approaching its historical average. At the same time, net demand for both loans to households for house purchase and consumer credit reverted to negative levels after the slight net increase recorded in the previous quarter.

Looking ahead to the first quarter of 2014 the banks participating in the survey expect unchanged credit standards for corporate loans, while anticipating a further net easing for both loans to households for house purchase and consumer credit. At the same time, euro area banks expect a marked net increase in demand for all loan categories.

Loans and credit lines to enterprises

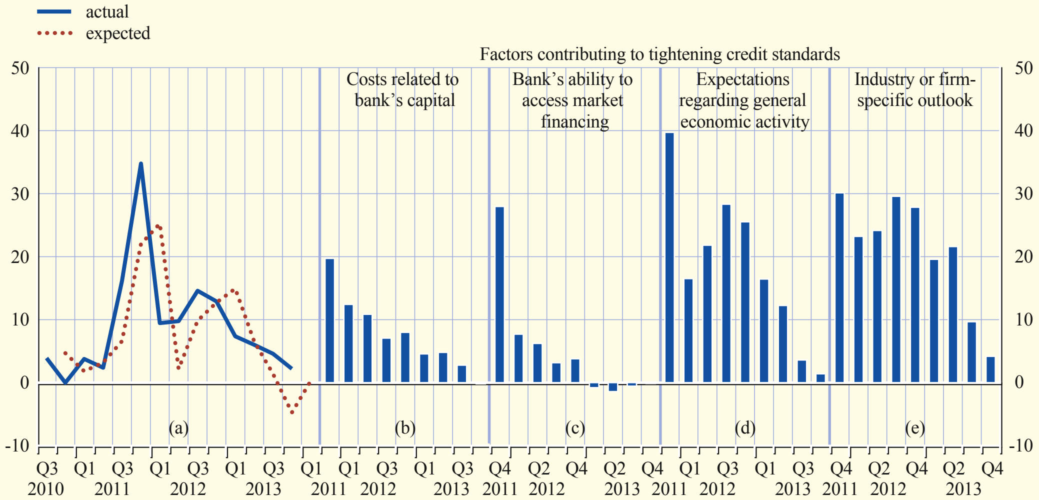
In the fourth quarter of 2013 the net percentage[2] of euro area banks reporting a tightening in credit standards was 2%, down from 5% in the third quarter (see Chart A), thus reaching a level below the

1 The cut-off date for completion of the survey was 9 January 2014. A comprehensive assessment of its results was published on the ECB's website on 30 January 2014.

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

historical average calculated over the period since the survey's inception in 2003. At the time of the previous survey round, participating banks expected instead a net easing in credit standards (-5%).

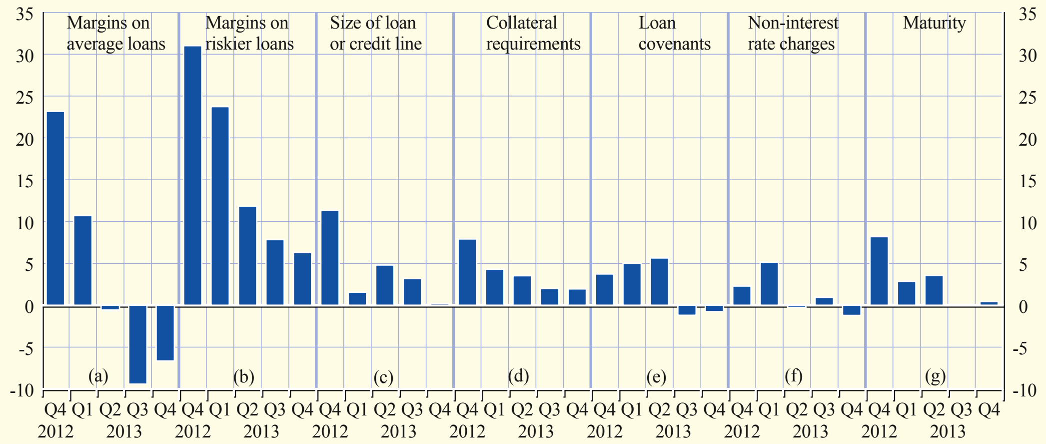
Concerning developments by firm size, the reported decline in the net tightening of lending criteria was more intense for loans to small and medium-sized enterprises (SMEs), for which banks reported a slight net easing for the first time since mid-2007 (-3%, compared with 3% in the previous quarter), than for large enterprises (2%, down from 5%). Regarding loan maturity, the net tightening of credit standards remained unchanged for long-term loans (at 5%), but declined for short-term ones, becoming slightly negative (-1%, down from 3%).

Looking at the underlying factors, euro area banks reported that, on average, the contribution of the cost of funds and balance sheet constraints pointed to a slight net easing of credit standards, unchanged from the previous quarter (-2%). At the same time, the impact of risk perceptions on the tightening of credit standards declined, thus reaching levels close to those observed at the beginning of the global financial crisis. All three underlying components contributed to such a decline: a reduction in the perceived risk on the collateral demanded (1%, down from 4%) as well as banks' less pessimistic expectations regarding general economic activity (1%, down from 4%) and regarding the industry or firm-specific outlook (4%, down from 10%). Finally, competitive pressures were reported to have contributed to a net easing of credit standards in the fourth quarter of 2013, broadly unchanged from the previous survey round.

The decline in the net tightening of credit standards to enterprises in the fourth quarter of 2013 translated into a further net narrowing of margins on average loans to enterprises (-7%, compared with -9% in the previous quarter) and a smaller net widening of margins on riskier loans (6%, down from 8%; see Chart B). For most of the other credit terms and conditions, euro area banks reported either unchanged or close to zero net percentages.

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

(net percentages of banks reporting tightening terms and conditions)



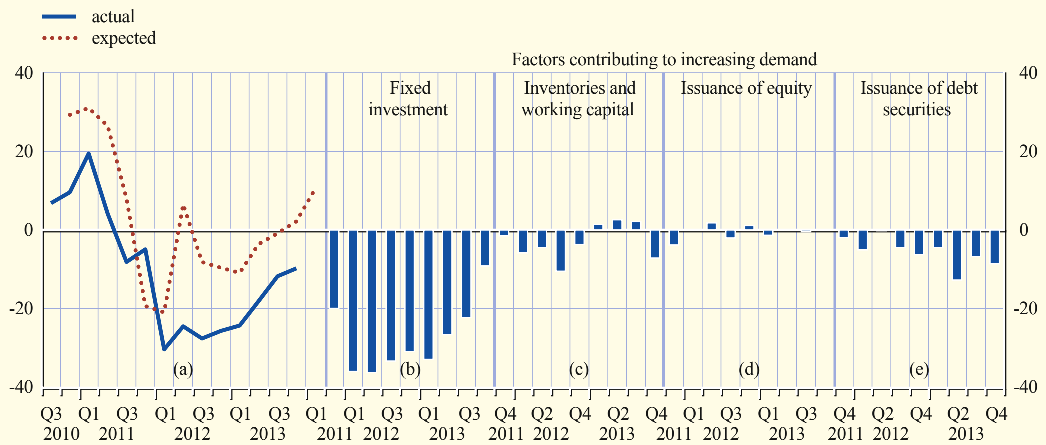
Note: The net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably".

Looking ahead to the first quarter of 2014, on balance, euro area banks expect unchanged credit standards for loans to enterprises (0%), while anticipating a slight net tightening for loans to large firms and for long-term loans (2%). Furthermore, the surveyed banks expect a net easing for loans to SMEs (-9%) and for short-term loans (-5%).

Turning to demand, in the fourth quarter of 2013, the net decline in demand for loans to enterprises abated in comparison with that reported in the previous survey round (to -10%, compared with -12%; see Chart C). Similar developments were recorded for loans to SMEs

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.

(-10%, from -12%) and for long-term loans (-8%, from -12%), while the net decrease in demand was more pronounced for loans to large enterprises (-12%, from -8%) and for short-term loans (-10%, from -7%).

As in the previous quarter, the net fall in demand was driven mainly by the negative impact of reduced financing needs from fixed investment, which further moderated (-9%, from -22%). This development was only partly compensated for by that of the financing needs related to inventories and working capital, the contribution of which turned negative (-7%, from 2%). Regarding the use of alternative finance, euro area banks continued to report a net negative contribution of internal financing (-5%, from -7%) and of debt security issuance (-9%, from -7%) on the demand for loans. 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.

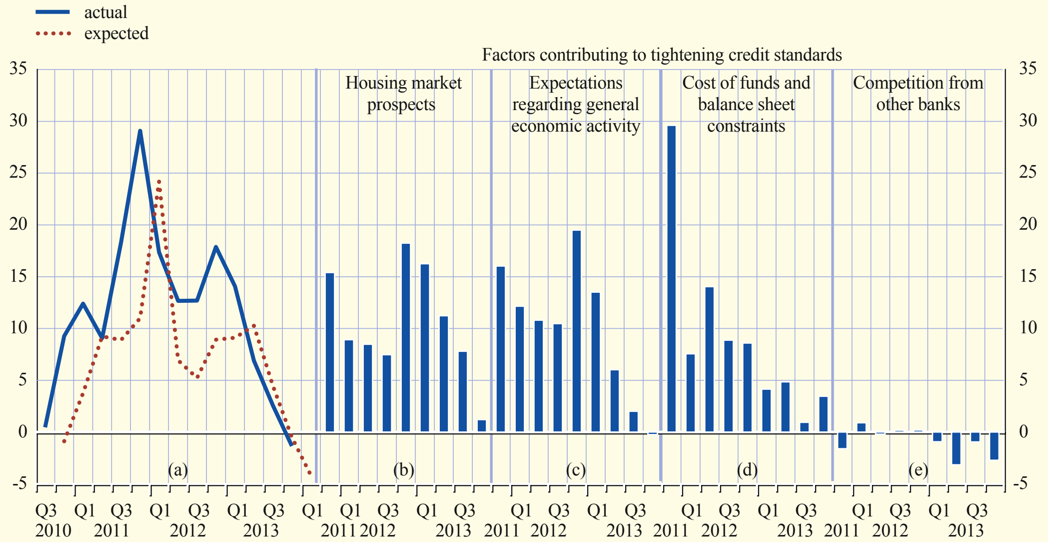
Looking ahead, banks expect a significant net increase in the demand for loans to enterprises in the first quarter of 2014 (10%). Such an increase is also expected across firm size and loan maturity.

Loans to households for house purchase

In the fourth quarter of 2013 euro area banks reported a slight net easing of credit standards on loans to households for house purchase (-1%, compared with 3% in the previous quarter; see Chart D) for the first time since the second quarter of 2007 (thus reaching a level well below the historical average calculated for this indicator). This development was broadly in line with what respondents had expected in the previous survey round (0%). As in the previous quarter, banks' cost of funds and balance sheet constraints contributed marginally to the net tightening

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.

of credit standards for housing loans (3%, compared with 1% in the third quarter of 2013), in contrast with their slight contribution to the net easing of loans to non-financial corporations. The contribution of the general economic outlook and housing market prospects to the net tightening of credit standards for housing loans decreased further, largely vanishing (0% and 1%, compared with 2% and 8% respectively).

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.

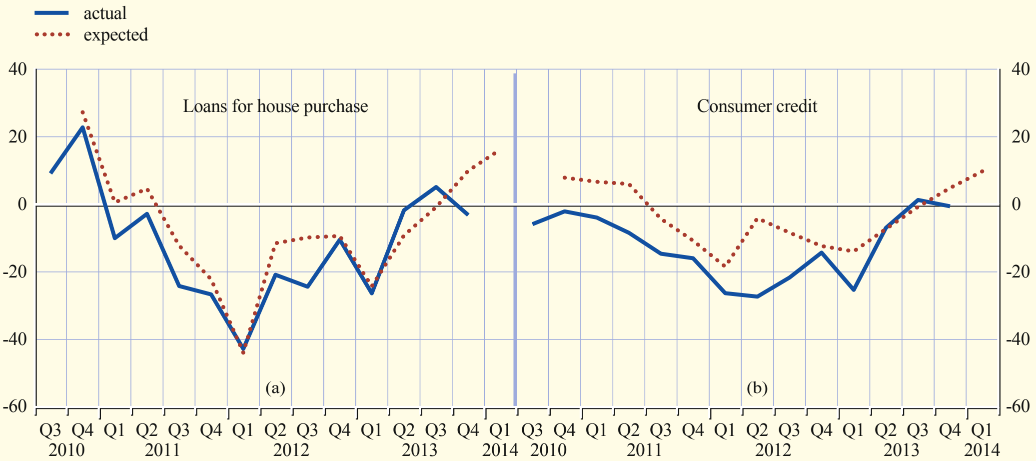
Most price and non-price terms and conditions applied to housing loans were tightened less, or even eased, in the fourth quarter of 2013. Euro area banks reported, in net terms, a narrowing of margins on average housing loans (-10%, compared with -7% in the third quarter of 2013), while the tightening of margins on riskier loans came to a halt (0%, down from 4%). Responses regarding non-price terms and conditions pointed to a moderation in the net tightening for loan maturity (1%, down from 4%), while in the case of the loan-to-value ratio, banks reported a slight net easing for the first time since 2006 (-3%, down from 6%).

Looking ahead, banks expect a further net easing of credit standards for loans for house purchase (-4%) in the first quarter of 2014.

Turning to loan demand, euro area banks reported a small net decline in the demand for housing loans (-3%, compared with 5% in the third quarter of 2013; see Chart E), thereby reversing the shift to positive net change observed in the previous quarter and bringing the net change in housing loan demand to a level close to its historical average (-4%). Regarding factors affecting demand, the small positive net contribution of housing market prospects observed in the third quarter of 2013 faded away (1%, down from 3%). At the same time, the negative contribution

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.

from factors – other than housing market prospects – influencing financing needs slightly diminished (-3%, compared with -5%).

Looking ahead, banks expect a significant net increase in demand for housing loans (16%) for the first quarter of 2014.

Consumer credit and other lending to households

In the fourth quarter of 2013 the net tightening of credit standards for consumer credit remained broadly unchanged (at 2%; see Chart F) at a level below its historical average (7%). The slight net tightening effect on the supply of these loans exerted by cost of funds and balance sheet constraints and, on average, by factors related to risk perception remained largely stable (each at 1%). Competitive pressures continued to contribute to a marginal net easing (-2%).

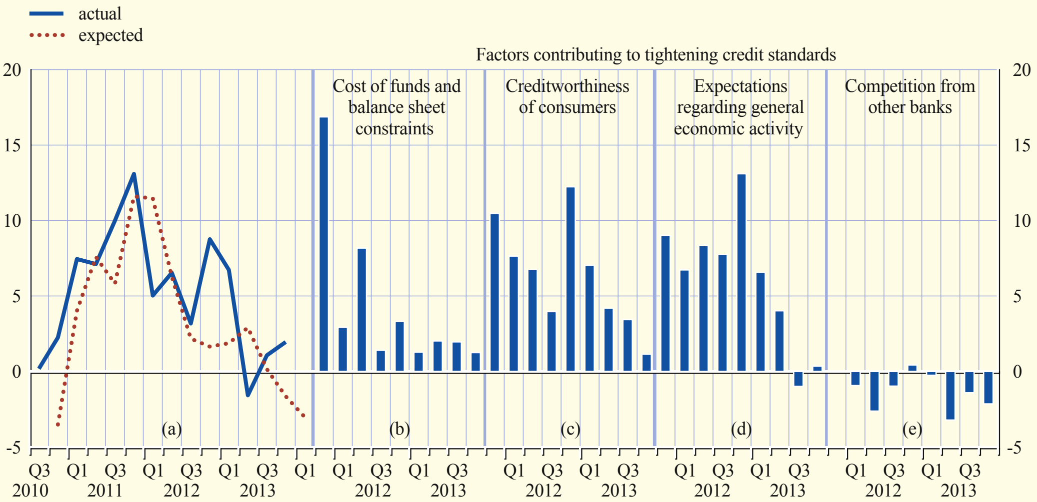
Turning to the terms and conditions for approving consumer credit, banks reported a narrowing of margins on average loans (-2%, compared with 0% in the previous survey round), as well as on riskier loans, though to a lesser extent than previously reported (1%, compared with 3% in the third quarter of 2013). In addition, the net tightening of non-price terms and conditions on consumer credit remained broadly unchanged.

Looking ahead, in net terms, euro area banks expect a net easing of credit standards applied to consumer credit and other lending to households for the first quarter of 2014 (-3%).

In the fourth quarter of 2013 the surveyed banks reported a slight net decline of demand for consumer credit, broadly unchanged from the previous quarter (-1%, compared with 1% in the

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.

October survey; see Chart E) and still above its historical average (-5%). Among the main factors underlying the demand for consumer credit, the most notable development is the improvement in consumer confidence (5%, from -4% in the October survey round).

Looking ahead to the first quarter of 2014 euro area banks expect a significant net increase in the demand for consumer credit (to 10%).

Ad hoc question on the impact of market tensions

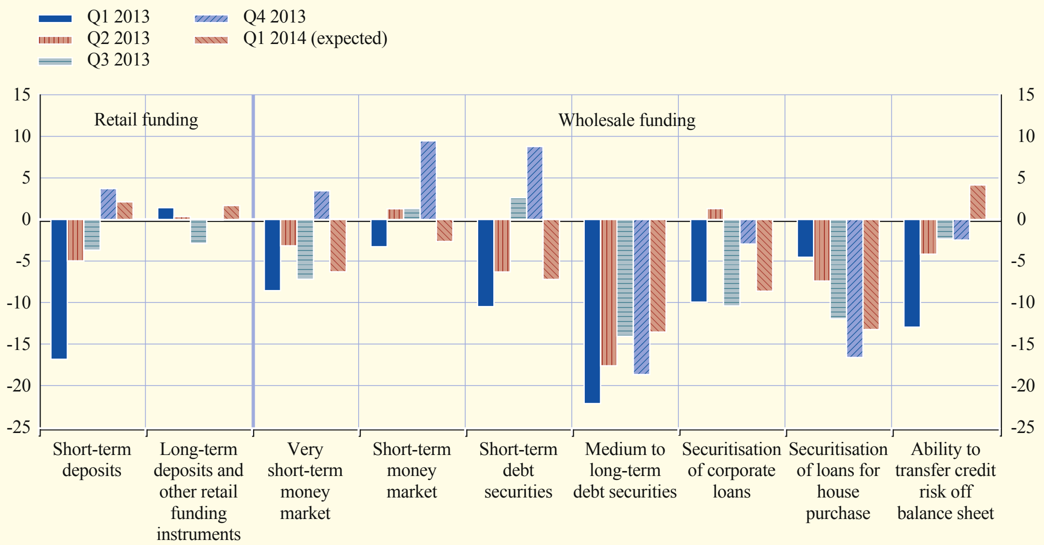
As in previous survey rounds, the January 2014 bank lending survey contained an ad hoc question on banks' access to retail and wholesale funding in the fourth quarter of 2013.

On balance, in the fourth quarter of 2013, euro area banks reported a net deterioration for retail funding (2%, from -3%, on average for deposits and other retail funding instruments) and for money markets instruments (6%, from -3%), interrupting the trend observed in previous quarters (see Chart G). However, conditions for the issuance of debt securities improved, as in previous quarters (-5%, from -6%), as did those for securitisation (-7%, from -8%).

Looking ahead to the first quarter of 2014 a net deterioration is expected for retail funding, while an improvement is expected overall for wholesale funding instruments.

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".

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 2014 survey also included – as in previous survey rounds – an ad hoc question to assess the impact of the sovereign debt crisis on banks' funding conditions, credit standards and credit margins over the previous three months.

Replies to the January 2014 survey indicated that the impact of sovereign debt tensions on banks' funding conditions was marginal and, on average, contributed to a net easing in the fourth quarter of 2013 (see Chart H). In detail, on balance, 5% and 7% respectively of euro area banks reported that their direct exposure to sovereign debt and the value of their sovereign collateral had contributed to a net easing in funding conditions, almost unchanged compared with the previous quarter, whereas the net tightening impact of "other effects" had faded away.

The impact of the sovereign debt crisis on banks' credit standards remained muted in the fourth quarter of 2013. At the same time, euro area banks reported that the sovereign debt crisis had a neutral impact on the margins applied to loans to enterprises, while it had contributed to a slight narrowing of margins for housing loans and consumer credit.

Ad hoc questions on the impact of regulation and supervisory action[3]

The January 2014 survey questionnaire included two biannual ad hoc questions aimed at assessing the extent to which new regulatory requirements affected banks' lending policies, via the potential impact on their capital position and the credit standards that they apply to loans. Compared with the version used in the July 2013 round, the wording of the question was amended so that banks, in their reply, would also take into account any new supervisory action, such as the ECB's comprehensive assessment, with possible implications for lending supply. In addition, banks were also asked to indicate the effects on funding conditions.

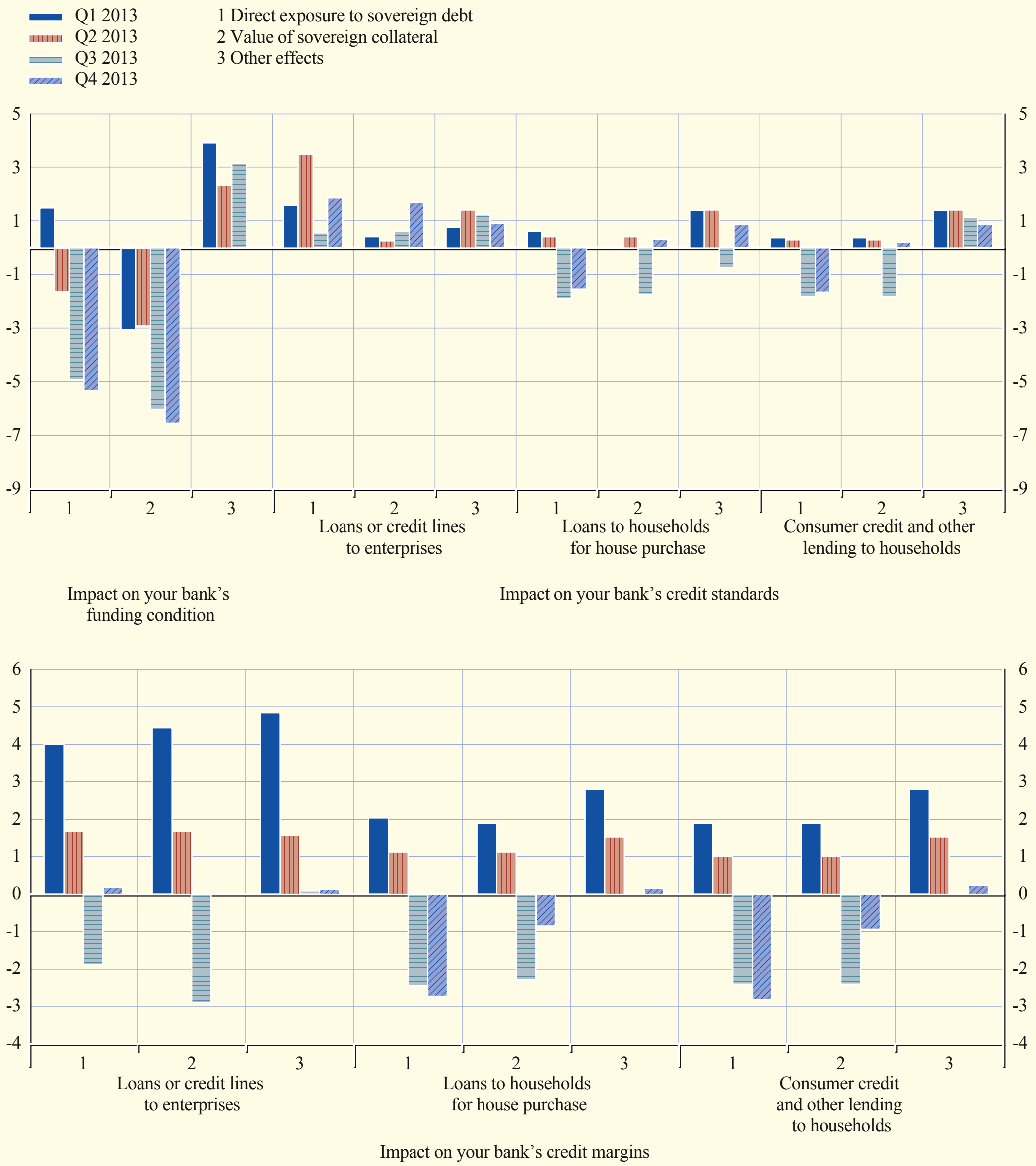
On balance, 23% of the participating euro area banks reported a decline in their risk-weighted assets in the second half of 2013, broadly unchanged from the first half of 2013. This adjustment process concerned both riskier and average loans (-29% for riskier loans and -15% for average loans, compared with -28% and -16% respectively in the first half of 2013). Banks also reported a net strengthening of their capital position (20%, from 23%), both through retained earnings (22%, from 21%) and capital issuance (11%, unchanged). Banks did not report any significant effect of regulatory and supervisory action on funding conditions.

Looking ahead, a slightly lower net percentage of euro area banks plans to reduce their risk-weighted assets in the first half of 2014 (-10%, compared with -23% in the second half of 2013), while at the same time, 31% of the banks, on balance, intend to increase their capital positions (up from 20% in the second half of 2013).

3 See the regulatory requirements set out in the Capital Requirements Directive IV/Capital Requirements Regulation (CRD IV package) as well as the requirements that will result from the ECB's comprehensive assessment and the participating national competent authorities in accordance with the provisions of the Regulation on the single supervisory mechanism, or those resulting from any other specific regulatory or supervisory actions that have recently been approved/implemented or that are expected to be approved/implemented in the near future.

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".

As regards the impact of regulatory and supervisory action 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 2013 (8% and 5% respectively, as opposed to 17% and 9% in the July 2013 round). The contractive impact on loans to households had vanished, both for housing loans and consumer loans. Similar patterns were observed for credit margins.

Looking ahead to the first half of 2014 banks expect a further net tightening of both credit standards and margins for loans to enterprises, due to regulatory and supervisory pressures. The expected restriction is of the same order of magnitude as in the second half of 2013. A small net easing is expected for loans to households for house purchase.