Box 3

THE RESULTS OF THE EURO AREA BANK LENDING SURVEY FOR THE THIRD QUARTER OF 2014

This box summarises the main results of the euro area bank lending survey conducted by the Eurosystem between 24 September and 9 October 2014 for the third quarter of 2014.[1] Overall, euro area banks reported a net easing of credit standards and a net increase in demand for all loan categories.

Summary of the main results

In the third quarter of 2014, euro area banks reported a net easing of credit standards applied to both loans to enterprises and loans to households, while credit standards remained relatively tight. Net loan demand continued to be positive and stood above its historical average for loans to enterprises and loans to households. Looking ahead to the fourth quarter of 2014, banks expect a net easing of credit standards and a net increase in demand for all loan categories. This survey round also included three additional ad hoc questions aimed at gauging the impact of the targeted longer-term refinancing operations (TLTROs) conducted and planned by the Eurosystem between September 2014 and June 2016. According to euro area banks, participation in the TLTROs is mainly driven by profitability and to a lesser extent by precautionary motives. Concerning the use of TLTRO funds, banks aim to employ these funds mainly for granting loans as well as for replacing other funding sources. The impact on loan supply is expected to be largely translated into an easing of terms and conditions.

Loans and credit lines to enterprises

Euro area banks reported a net easing of credit standards on loans to enterprises in the third quarter of 2014 (-2%, compared with -3% in the previous quarter; see Chart A). Looking at the

1 A detailed analysis of the results of the euro area bank lending survey for the third quarter of 2014 was published on the ECB's website on 29 October 2014.

underlying factors, euro area banks reported that, on average, banks' cost of funds and balance sheet constraints as well as competitive pressures contributed to a net easing of credit standards. At the same time, banks' risk perceptions concerning firms' business outlook and macroeconomic uncertainty had a slight net tightening impact on credit standards in the third quarter, in contrast to the previous quarter.

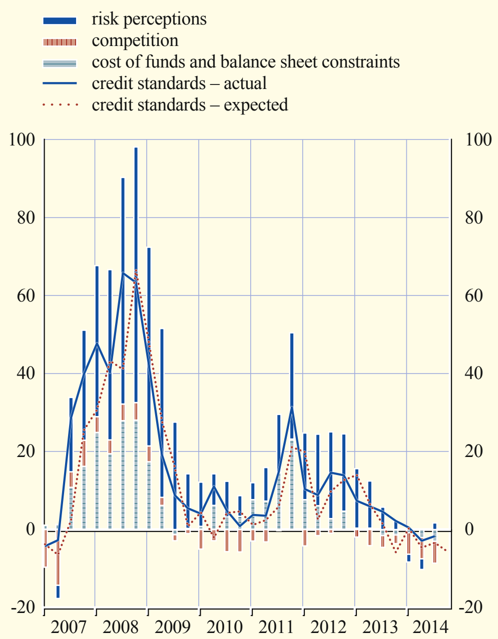
Banks further relaxed the terms and conditions for new loans to enterprises in the third quarter of 2014. In net terms, margins on both average and riskier loans were further narrowed (-22% and -2% respectively, compared with -26% and -4% in the previous quarter; see Chart B). In addition, in net terms, all components of other terms and conditions were eased in the third quarter of 2014.

Looking ahead, euro area banks expect a further net easing of credit standards for loans to enterprises in the fourth quarter of 2014 (-6%).

Net demand for loans to enterprises continued to be positive and recovered further in the

Chart A Changes in credit standards applied to the approval of loans or credit lines to enterprises and contributing factors

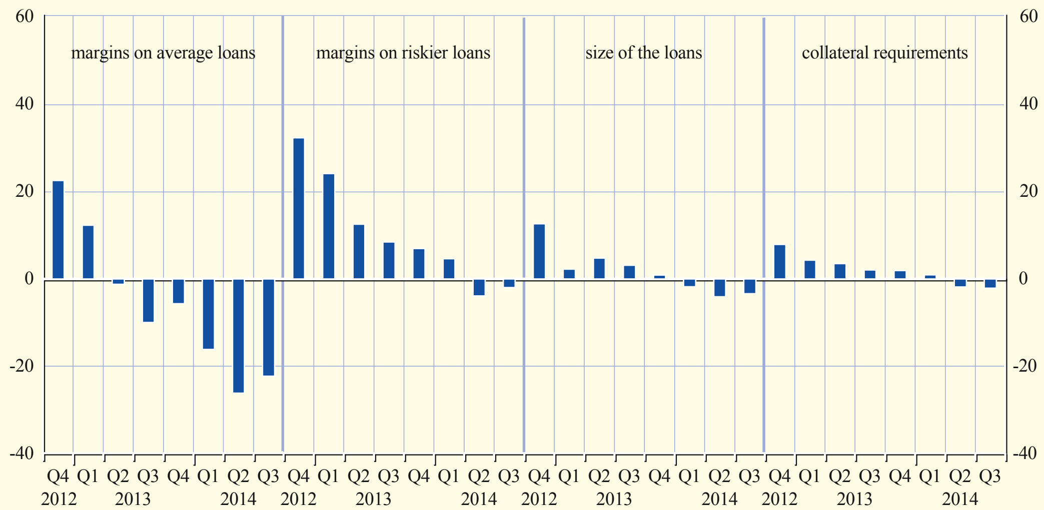
(net percentages and average net percentages per category)



Source: ECB.
Notes: Cost of funds and balance sheet constraints as unweighted average of "capital position", "access to market financing" and "liquidity position"; risk perception as unweighted average of "expected economic activity", "industry-specific risk" and "risk on collateral demanded"; competition as "bank competition", "non-bank competition" and "competition by market financing".

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

(net percentages of banks reporting tightening terms and conditions)



Source: ECB.

third quarter of 2014 (6%, following 4% in the previous quarter; see Chart C). According to the participating banks, this development was mainly driven by increased "other financing needs" which are mainly related to mergers and acquisitions (15%, compared with 5% in the previous quarter) as well as debt restructuring (13%, compared with 8% in the second quarter). By contrast, financing needs related to fixed investment dampened demand for loans to euro area enterprises after a marginally positive contribution in the previous quarter.

Looking ahead, in net terms, euro area banks expect an increase in demand for loans to enterprises in the fourth quarter of 2014 (17%).

Loans to households for house purchase

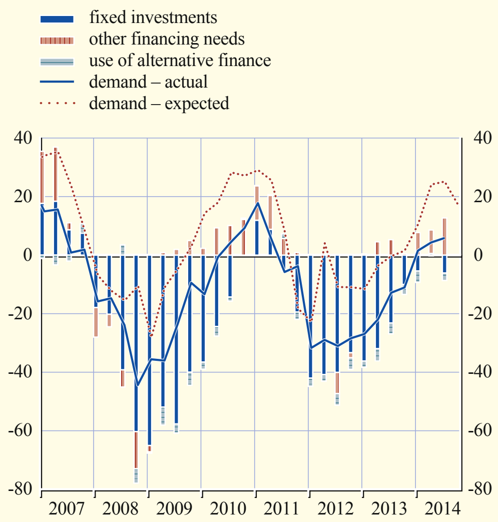
In the third quarter of 2014 euro area banks again reported a net easing of credit standards on loans to households for house purchase (-2%, compared with -4% in the previous quarter; see Chart D). Similar to corporate loans, banks' cost of funds and balance sheet constraints as well as competitive pressures contributed on average to a net easing of credit standards for housing loans while banks' risk perceptions on both the general economic outlook and housing market prospects had a slightly net tightening impact.

Banks further relaxed the price terms and conditions for housing loans in the third quarter of 2014. More specifically, euro area banks reported, in net terms, a significant narrowing of margins on average housing loans (-30%, unchanged from the previous quarter), while margins on riskier loans were slightly wider (2%). Responses regarding non-price terms and conditions pointed to little change overall, with a small relaxation of loan maturities.

Looking ahead, euro area banks expect a further net easing of credit standards for housing loans in the fourth quarter of 2014 (-2%).

Chart C Changes in demand for loans or credit lines to enterprises and contributing factors

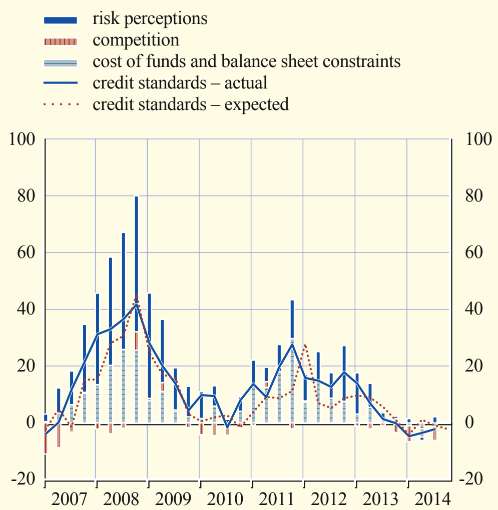
(net percentages and average net percentages per category)



Source: ECB.
Notes: Other financing needs as unweighted average of "inventories and working capital", "M&A and corporate restructuring" and "debt restructuring"; use of alternative finance as unweighted average of "internal financing", "loans from other banks", "loans from non-banks", "issuance of debt securities" and "issuance of equity".

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

(net percentages and average net percentages per category)



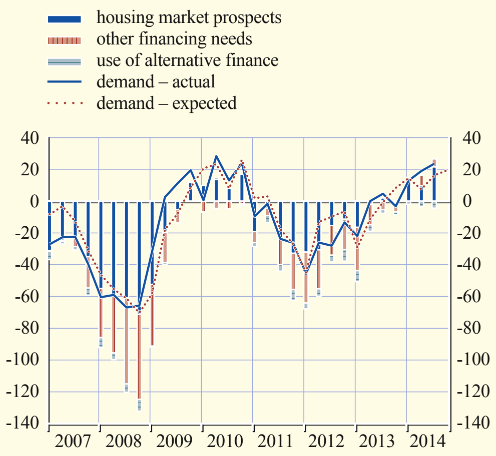
Source: ECB.
Notes: Risk perception as unweighted average of "expected economic activity" and "housing market prospects"; competition as unweighted average of "competition from other banks" and "competition from non-banks".

Turning to loan demand, euro area banks reported an additional net increase in demand for housing loans in the third quarter (23%, compared with 19% in the previous quarter; see Chart E). Regarding the underlying factors, housing market prospects and to a lesser extent consumer confidence contributed positively to the net increase in demand for housing loans. By contrast, the contribution related to the use of alternative financing remained slightly negative.

Looking ahead, banks expect a further net increase in demand for housing loans (19%) in the fourth quarter of 2014.

Chart E Changes in demand for loans to households for house purchase and contributing factors

(net percentages and average net percentages per category)



Source: ECB.
Notes: Other financing needs as unweighted average of "consumer confidence" and "non-housing related consumption expenditure"; use of alternative finance as unweighted average of "household savings", "loans from other banks" and "other sources of finance".

Consumer credit and other lending to households

In the third quarter of 2014, euro area banks reported a net easing of credit standards for consumer credit and other lending to households (-7%, compared with -2% in the previous quarter). This development was driven by a more pronounced net easing impact from banks' cost of funds and balance sheet constraints as well as a continued net easing impact from competition. At the same time, banks' risk perceptions were reported to have contributed marginally to the net tightening of consumer credit and other lending to households.

Turning to terms and conditions, banks reported a further narrowing of margins on average loans (-8%, compared with -14% in the previous survey round). Those on riskier loans narrowed slightly (-1%, compared with 2% in the previous quarter) for the first time since mid-2005.

Looking ahead, euro area banks expect a net easing of credit standards applied to consumer credit and to other lending to households in the fourth quarter of 2014 (-1%).

In the third quarter of 2014, surveyed banks reported a net increase in demand for consumer credit (10%, compared with 17% in the second quarter of 2014). Looking ahead, euro area banks expect a continued net increase in the demand for consumer credit in the fourth quarter of 2014 (18%).

Ad hoc questions

The October 2014 bank lending survey contained a number of ad hoc questions.

First, it contained – as in previous survey rounds – an ad hoc question on banks' access to retail and wholesale funding. On average, in the third quarter of 2014, euro area banks reported a further net easing of their access to funding for all main market instruments, i.e. for retail funding, money market instruments, issuance of bank debt securities and securitisation. Looking ahead to the fourth quarter of 2014, euro area banks expect a further considerable net easing of their access to retail and wholesale funding.

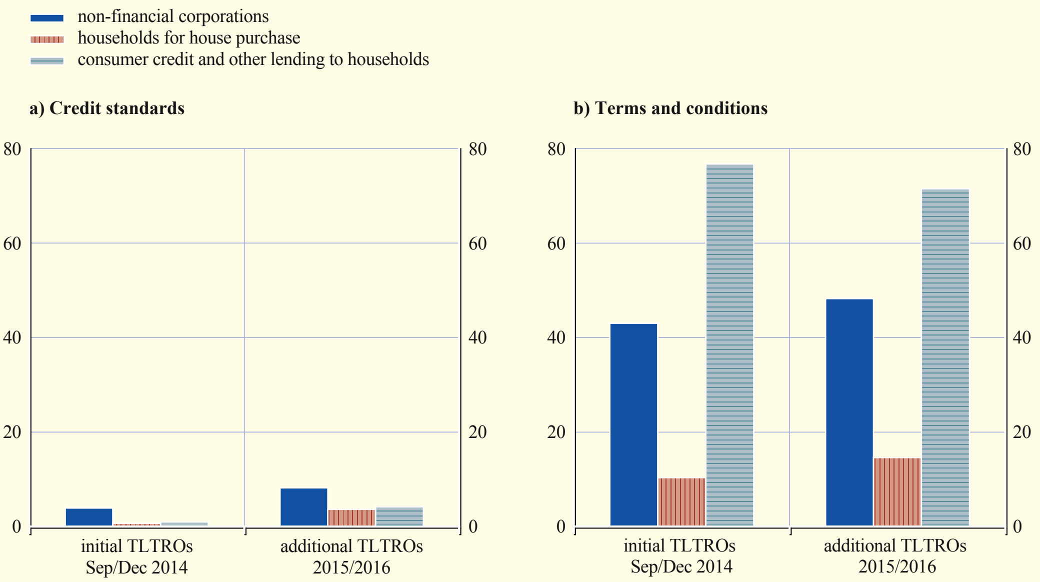
Second, the October 2014 survey included – as in previous survey rounds – an ad hoc question aimed at assessing the impact of the sovereign debt crisis on banks' funding conditions, credit standards and credit margins over the previous three months. The banks' replies indicated that reduced sovereign debt tensions contributed on average to a further and considerable easing of banks' funding conditions in the third quarter of 2014. Furthermore, euro area banks reported that the reduced sovereign debt tensions had a marginal easing impact on their credit standards and they contributed to a further narrowing of margins for all loan categories.

Third, the October 2014 survey also included three ad hoc questions aimed at gauging the impact of the targeted longer-term refinancing operations (TLTROs) conducted and planned by the Eurosystem between September 2014 and June 2016. In particular, banks were asked about their participation and the underlying reasons for participating. In addition, they were asked about their planned use of the funds obtained through the initial and the additional TLTROs. Finally, banks provided an assessment of the impact of the TLTROs on their own financial situation and their lending behaviour.

As regards participation, 44% of the surveyed euro area banks participated in the first initial TLTRO, mainly driven by profitability motives. A somewhat higher proportion of 47% of banks plan to participate in the second initial TLTRO in December 2014, again mainly for profitability reasons, whereas 29% reported that they were still undecided. Looking ahead to the additional TLTROs starting in March 2015, banks are still largely undecided on their participation (63% of banks in aggregate).

Chart F Impact of TLTROs on lending behaviour

(percentage of respondents reporting that TLTRO has contributed/will contribute considerably or somewhat to an easing)



Source: ECB.

As regards the use of funds obtained from the initial and additional TLTROs, banks[2] reported that they would primarily use them for granting loans, in particular loans to enterprises, and to a lesser extent for refinancing purposes, i.e. to replace other funding sources. The purchase of assets was mentioned only by a minority of banks.

As regards the contribution of the TLTROs to improving banks' financial situation, 43% of the banks indicated, for the initial TLTROs in September and December 2014, an expected enhancement in their liquidity positions (35% for the additional TLTROs in 2015 and 2016) as well as an expected improvement in market refinancing conditions (around 35%) and in their profitability (around 30%). For banks' loan supply, the impact of the TLTROs is expected to translate almost exclusively into an easing of terms and conditions, notably for consumer loans, to a lesser extent for loans to enterprises and to a small extent for housing loans. Only a limited improvement in overall credit standards is expected (see Chart F).

2 Replies refer only to those banks that participated in the initial September TLTRO and decided to participate in the initial December 2014 TLTRO and in the additional TLTROs in 2015 and 2016.