

A bank lending survey for the euro area

The Eurosystem has developed a bank lending survey for the euro area in order to obtain more detailed information on credit markets, and therefore on the role of credit in business cycles and in the transmission process of monetary policy. The survey consists of a set of qualitative questions which, at the beginning of each quarter, will be put to a predefined sample group of banks located in the 12 countries of the euro area. The first survey was conducted in early 2003. Its results will be published as soon as the final quality checks have been completed.

I Introduction

The Eurosystem has developed a survey on bank lending developments in the euro area. The survey will help the Governing Council of the ECB to assess monetary and economic developments in the euro area as input into monetary policy decisions. It is designed to complement existing statistics on bank retail interest rates and credit with information on demand and supply conditions in the euro area credit markets and the lending policies of euro area banks.

This article explains why the bank lending survey was developed and describes its main features. The first section sets out the importance of credit developments for both the economy and the functioning of monetary policy, and further clarifies the motivation for the introduction of the survey. The subsequent sections describe the questionnaire used in the survey, the sample group, the weighting and aggregation of the results and certain operational issues, and draw some general conclusions.

2 The purpose of a bank lending survey for the euro area

The additional information on credit conditions in the euro area which can be obtained from a bank lending survey is of relevance to the Eurosystem because of the prominent role played by credit in the economy and in the transmission process of monetary policy.

The importance of credit for the functioning of the economy

Banks are an important element in the functioning of an economy, as they channel funds from households and enterprises that are net savers to those that are net borrowers. In this way, they bring together the supply of and demand for funds, and meet the financing needs of both consumers and producers by providing various kinds of loans. This role of banks is especially important for those borrowers, typically households and small and medium-size enterprises, whose access to capital markets is limited.

In general, the supply of credit is determined by the ability and willingness of banks to lend. If, for example, banks expect a worsening of the general economic outlook, they may become more restrictive in providing credit to prospective borrowers and tighten their credit standards and/or conditions and terms. This would probably have an impact on the general availability of financing, as at least some borrowers may experience difficulties in finding alternative sources of finance. This could, in turn, lead to reduced spending by both consumers and producers and affect the general level of economic activity.

In practice, banks can for various reasons refuse to make loans even when borrowers are willing to pay the stated or even higher interest rate, or can provide less financing than is being sought. Indeed, the aggregate amount of credit provided will also depend on factors such as non-interest rate credit conditions or terms. In an extreme case, if many banks were to adopt a policy of very strict non-price credit rationing, the economy

could experience a “credit crunch”. This situation can be described as a significant decrease in the supply of credit or, more narrowly, in the supply of bank loans, regardless of whether borrowers are willing to pay a high price to obtain credit or not. A credit crunch may potentially have serious repercussions on economic developments and is one of the clearest examples of the important role of credit in the business cycle. In practice, however, it is very difficult to determine when a situation of restrictive bank lending behaviour should be classified as a credit crunch. The value of a bank lending survey is that it provides information obtained directly from the lenders – i.e. the banks – which are the best placed to know whether they are relying more heavily on non-price rationing of loans and why.

At the other extreme, a situation could arise where banks, because of optimistic expectations about future financial and economic developments, make credit readily available to prospective borrowers. This may lead to a significant increase in the supply of credit, and even to a “lending boom”. In this situation, banks may not take sufficient account of prudent risk considerations or differentiate between various classes of borrowers. In the end, the economy could experience a credit-induced expansion of real and financial assets, fuelled by a spiral of rising asset prices, higher collateral values and increasing bank loans.

The role of credit in the transmission process of monetary policy

In parallel to the importance of bank loans or credit for the functioning of the economy, variations in the availability of credit can influence the monetary policy transmission process (i.e. the way in which monetary policy decisions affect the economy in general and the price level in particular). An assessment of the banking sector’s lending behaviour is therefore also important for monetary policy decision-making, in view of its role in the transmission process of monetary policy.

In recent years, many studies have concluded that credit markets play a critical role in the transmission of monetary policy actions to the real economy. According to this “credit view”, certain imperfections in financial markets may constrain enterprises and households in their spending behaviour, as they prevent these prospective borrowers from obtaining the required amount of external finance.¹ If following, say, an interest rate decrease by the central bank, consumers and producers are unable to obtain additional loans from banks, and if they cannot obtain additional funds from other sources of finance, then they may not be in a position to increase their expenditure. This credit channel may operate in various ways, such as through the supply of bank loans (known as the bank lending channel), the availability and value of the collateral necessary to obtain financing (the balance sheet channel) or the availability of liquid funds (the cash flow channel).

The “credit view” emphasises the important role that the lending behaviour of banks may play in the transmission mechanism of monetary policy and the fact that imperfections in credit markets may make it more costly for enterprises and households to obtain external financing compared with internal financing. It also highlights the heterogeneity of borrowers, stressing that the effects of monetary policy may differ across groups of borrowers as some – such as households and small and medium-sized enterprises – may be more vulnerable to tight credit conditions than others.

The aim of the bank lending survey

Given the important role of credit in the economy, the Eurosystem would benefit significantly from the availability of more specific information on credit conditions for both enterprises and households. The bank lending survey for the euro area has been

¹ See the article entitled “Recent findings on monetary policy transmission in the euro area” in the October 2002 issue of the ECB’s *Monthly Bulletin*, pp.43-53.

developed to provide precisely this type of information. One aim is to generate specific information – less widely available at present – on non-interest rate conditions and terms, such as developments in the size of and non-interest rate charges for credit lines. The survey also aims to obtain information on the various factors affecting loan demand.

The results from the bank lending survey will thus not only extend the information available but also help to interpret existing ECB statistics on credit conditions. For example, these statistics show the development of loan amounts but not the reasons behind them. Additionally, information derived from the bank lending survey, in particular regarding expected changes in credit standards and loan demand, should provide a better insight into future economic developments and may

facilitate the formulation of economic projections.

Experience with bank lending surveys conducted by the Federal Reserve System in the United States and by the Bank of Japan have shown that they can provide important information for the assessment of past and future developments. Research conducted by the Federal Reserve System in the United States concluded that changes in credit standards help to predict GDP growth, even after controlling for past economic conditions and interest rates. Furthermore, it was found that in the United States changes in commercial credit standards also help to predict narrower measures of economic activity such as industrial production and inventory investment.²

3 The structure of the bank lending survey

The questionnaire

The questionnaire is addressed to those responsible for lending policy at the banks, typically at the board level, e.g. the chairman of the bank's credit committee. It is intended that the questions remain constant over time. All are of a qualitative nature and do not ask for specific figures, thus keeping the reporting burden for the banks relatively low.

The survey includes 18 questions on past and expected credit market developments. The former cover developments over the past three months, while the latter focus on the next three months. The questionnaire is presented in Annex I.

Questions are classified according to the two borrower sectors that are the central focus of the survey, i.e. enterprises and households. The definitions and classifications used in the survey are consistent with other ECB statistics. For both enterprises – i.e. non-financial corporations – and households, the questionnaire covers both loan demand and loan supply factors.

Among the supply factors, attention is given to credit standards and credit conditions and terms, as well as to the various factors that may be responsible for their changes. Credit standards are the internal guidelines or criteria that guide a bank's loan policy. The terms and conditions of a loan refer to the specific obligations agreed upon by the lender and the borrower, such as the interest rate, collateral required and maturity. All in all, ten questions centre on supply factors, of which seven look at credit standards and three at terms and conditions. Of the questions on credit standards, three give respondents the opportunity to mention specific factors that affect their bank's credit standards, as applied to the approval of loans to both enterprises and households.

Among the factors that may affect loan demand, various factors related to financing needs and the use of alternative finance are mentioned. Seven questions focus explicitly

2 C. Lown, D. P. Morgan and S. Rohatgi, "Listening to Loan Officers: The Impact of Commercial Credit Standards on Lending and Output", *Federal Reserve Bank of New York Policy Review*, July 2000, pp.1-16.

on loan demand, of which three look at demand from enterprises and four at demand from households. Overall, 13 backward and four forward-looking questions are included, in order to capture both recent and expected developments.

The survey concludes with an open-ended question to capture any interesting developments in the euro area credit markets that have not been covered by the other questions.

The sample group

In setting up the sample of banks to participate in the survey, the Eurosystem took into consideration the qualitative nature of the information provided, the voluntary basis for participation and the need to sufficiently capture the specific features of the banking system in each country. Another crucial concern was to ensure the confidentiality of information provided by the individual commercial banks.

As it is aimed at collecting qualitative data based on opinions, the survey does not need to meet the same requirements of coverage and representativeness as other statistics. Nevertheless, its results must still broadly reflect the situation in the euro area as a whole.

Given the differences in banking structures across individual countries and, notably, because of the important role of small or specialised banks in some countries, it would not have been prudent to concentrate on just the largest banks in the euro area. The sample group has therefore been drawn up taking into account

the specific characteristics of national banking structures in order to ensure the best possible representation of the sector.

Guidelines have been established to enable the sample to be set up at the national level: (i) there should be at least three banks for each country; (ii) the relative sample size for each country should be not far from its share in total euro area lending; and, finally, (iii) there should be a preference to include the country's largest banks. At present, the sample group consists of 86 banks (see the table).

Weighting and aggregation of the results

Since the size of the sample differs from country to country depending on national banking system structures, the national results are aggregated at the euro area level using country weights. These weights are the national shares in the total amount outstanding of euro area lending to euro area residents, taking into account only the market segments considered in the survey (i.e. loans to enterprises (non-financial corporations), consumer credit, lending to households for house purchase and other lending to households). The Table shows the country weights used to calculate the euro area results of the bank lending survey in the first quarter of 2003. The country weights will be updated every quarter.

Maintenance of the sample group

The sample group of banks participating in the survey is subject to adjustments. These can be related to changes in either the credit

Table

The distribution of the sample group of banks and country weights¹⁾

	BE	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	Total
Number of banks included in the survey	4	17	3	10	15	5	7	5	6	5	5	4	86
Country weights (%)	2.9	36.2	1.3	10.8	17.4	1.8	12.9	1.0	8.7	3.2	2.5	1.3	100.0

Source: ECB.

1) Based on bank lending data for the third quarter of 2002.

markets or the characteristics of the individual commercial banks, e.g. in case of mergers. The sample group is also influenced by the need to maintain a certain degree of representation of bank lending markets and lending categories at the euro area level. The Eurosystem will monitor developments in the national banking sectors and credit markets in order to identify any changes for which an adjustment of the sample group of banks may be necessary.

Implementation procedures

The Eurosystem has established a set of internal procedures to guarantee confidential

treatment of the individual results in each step of the process by which responses are transmitted from participating banks to the ECB. The NCBs will be responsible for contact with the banks participating in the survey in their country and will compile the replies to the questionnaire. The NCBs will send the responses to the ECB in such a way to fully protect their confidentiality and the anonymity of the banks. In addition, the specific list of banks participating in the survey will be confidential.

The results of the first quarterly bank lending survey, which was conducted in early 2003, will be published after the final quality checks have been completed.

4 Conclusions

Credit developments are an important determinant of economic developments, and credit market conditions may affect the way monetary policy has an impact on the economy. The bank lending survey aims to complement existing sources of information on credit developments in the euro area in order to enhance the Eurosystem's and public

understanding of the current conditions for bank lending. While it may initially be difficult to interpret the results of the survey, given the short series of data available and the lack of historical comparisons, the survey should over time develop into an important source of information for the preparation of monetary policy decisions.

Annex I: The questionnaire of the bank lending survey

1. Over the past three months, how have your bank's credit standards as applied to the approval of *loans or credit lines to enterprises* changed?

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Tightened considerably					
Tightened somewhat					
Remained basically unchanged					
Eased somewhat					
Eased considerably					

2. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of *loans or credit lines to enterprises* (as described in question 1 in the column headed "Overall")? Please rate the contribution of the following factors to the tightening or easing of credit standards using the following scale:

- = contributed considerably to tightening of credit standards
 - = contributed somewhat to tightening of credit standards
 = contributed to basically unchanged credit standards
 + = contributed somewhat to easing of credit standards
 ++ = contributed considerably to easing of credit standards
 NA = not applicable

	--	-	<input type="checkbox"/>	+	++	NA
A) Cost of funds and balance sheet constraints						
<input type="checkbox"/> Costs related to your bank's capital position						
<input type="checkbox"/> Your bank's ability to access market financing (e.g. money or bond market financing)						
<input type="checkbox"/> Your bank's liquidity position						
B) Pressure from competition						
<input type="checkbox"/> Competition from other banks						
<input type="checkbox"/> Competition from non-banks						
<input type="checkbox"/> Competition from market financing						
C) Perception of risk						
<input type="checkbox"/> Expectations regarding general economic activity						
<input type="checkbox"/> Industry or firm-specific outlook						
<input type="checkbox"/> Risk on the collateral demanded						
D) Other factors, please specify						

3. Over the past three months, how have your bank's conditions and terms for approving *loans or credit lines to enterprises* changed? Please rate each factor using the following scale:

- = tightened considerably
 - = tightened somewhat
 = remained basically unchanged
 + = eased somewhat
 ++ = eased considerably
 NA = not applicable

	--	-	<input type="checkbox"/>	+	++	NA
A) Price						
<input type="checkbox"/> Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)						
<input type="checkbox"/> Your bank's margin on riskier loans						
B) Other conditions and terms						
<input type="checkbox"/> Non-interest rate charges						
<input type="checkbox"/> Size of the loan or credit line						
<input type="checkbox"/> Collateral requirements						
<input type="checkbox"/> Loan covenants						
<input type="checkbox"/> Maturity						
C) Other factors, please specify						

4. Over the past three months, how has the *demand for loans or credit lines to enterprises* changed at your bank, apart from normal seasonal fluctuations?

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decreased considerably					
Decreased somewhat					
Remained basically unchanged					
Increased somewhat					
Increased considerably					

5. Over the past three months, how have the following factors affected the demand for *loans or credit lines to enterprises* (as described in question 4 in the column headed "Overall")? Please rate each possible factor using the following scale:

- = contributed considerably to lower demand
- = contributed somewhat to lower demand
- = contributed to basically unchanged demand
- + = contributed somewhat to higher demand
- ++ = contributed considerably to higher demand
- NA = not applicable

A) Financing needs	--	-	□	+	++	NA
<input type="checkbox"/> Fixed investment						
<input type="checkbox"/> Inventories and working capital						
<input type="checkbox"/> Mergers/acquisitions and corporate restructuring						
<input type="checkbox"/> Debt restructuring						
B) Use of alternative finance						
<input type="checkbox"/> Internal financing						
<input type="checkbox"/> Loans from other banks						
<input type="checkbox"/> Loans from non-banks						
<input type="checkbox"/> Issuance of debt securities						
<input type="checkbox"/> Issuance of equity						
C) Other factors, please specify						

6. Please indicate how you expect your *bank's credit standards as applied to the approval of loans or credit lines to enterprises* to change over the next three months.

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Tighten considerably					
Tighten somewhat					
Remain basically unchanged					
Ease somewhat					
Ease considerably					

7. Please indicate how you expect *demand for loans or credit lines to enterprises* to change at your bank over the next three months (apart from normal seasonal fluctuations)

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decrease considerably					
Decrease somewhat					
Remain basically unchanged					
Increase somewhat					
Increase considerably					

8. Over the past three months, how have your bank's credit standards as applied to the approval of *loans to households* changed?

	Loans for house purchase	Consumer credit and other lending
Tightened considerably		
Tightened somewhat		
Remained basically unchanged		
Eased somewhat		
Eased considerably		

9. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of *loans to households for house purchase* (as described in question 8)? Please rate the contribution of the following factors to the tightening or easing of credit standards using the following scale:

- = contributed considerably to tightening of credit standards
- = contributed somewhat to tightening of credit standards
- = contributed to basically unchanged credit standards
- + = contributed somewhat to easing of credit standards
- ++ = contributed considerably to easing of credit standards
- NA = not applicable

	--	-	<input type="checkbox"/>	+	++	NA
A) Cost of funds and balance sheet constraints			<input type="checkbox"/>			
B) Pressure from competition						
<input type="checkbox"/> Competition from other banks						
<input type="checkbox"/> Competition from non-banks						
C) Perception of risk						
<input type="checkbox"/> Expectations regarding general economic activity						
<input type="checkbox"/> Housing market prospects						
D) Other factors, please specify						

10. Over the past three months, how have your bank's conditions and terms for approving *loans to households for house purchase* changed? Please rate each factor using the following scale:

- = tightened considerably
- = tightened somewhat
- = remained basically unchanged
- + = eased somewhat
- ++ = eased considerably
- NA = not applicable

	--	-	<input type="checkbox"/>	+	++	NA
A) Price			<input type="checkbox"/>			
<input type="checkbox"/> Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)						
<input type="checkbox"/> Your bank's margin on riskier loans						
B) Other conditions and terms						
<input type="checkbox"/> Collateral requirements						
<input type="checkbox"/> "Loan-to-value" ratio						
<input type="checkbox"/> Maturity						
<input type="checkbox"/> Non-interest rate charges						
C) Other factors, please specify						

11. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of *consumer credit and other lending to households* (as described in question 8)? Please rate the contribution of the following factors to the tightening or easing of credit standards using the following scale:

- = contributed considerably to tightening of credit standards
- = contributed somewhat to tightening of credit standards
- = contributed to basically unchanged credit standards
- + = contributed somewhat to easing of credit standards
- ++ = contributed considerably to easing of credit standards
- NA = not applicable

A) Cost of funds and balance sheet constraints	--	-	<input type="checkbox"/>	+	++	NA
B) Pressure from competition						
<input type="checkbox"/> Competition from other banks						
<input type="checkbox"/> Competition from non-banks						
C) Perception of risk						
<input type="checkbox"/> Expectations regarding general economic activity						
<input type="checkbox"/> Creditworthiness of consumers						
<input type="checkbox"/> Risk on the collateral demanded						
D) Other factors, please specify						

12. Over the past three months, how have your bank's conditions and terms for approving *consumer credit and other lending to households* changed? Please rate each factor using the following scale:

- = tightened considerably
- = tightened somewhat
- = remained basically unchanged
- + = eased somewhat
- ++ = eased considerably
- NA = not applicable

A) Price	--	-	<input type="checkbox"/>	+	++	NA
<input type="checkbox"/> Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)						
<input type="checkbox"/> Your bank's margin on riskier loans						
B) Other conditions and terms						
<input type="checkbox"/> Collateral requirements						
<input type="checkbox"/> Maturity						
<input type="checkbox"/> Non-interest rate charges						
C) Other factors, please specify						

13. Over the past three months, how has the *demand for loans to households* changed at your bank, apart from normal seasonal fluctuations?

	Loans for house purchase	Consumer credit and other lending
Decreased considerably		
Decreased somewhat		
Remained basically unchanged		
Increased somewhat		
Increased considerably		

14. Over the past three months, how have the following factors affected the demand for *loans to households for house purchase* (as described in question 13)? Please rate each factor using the following scale:

- = contributed considerably to lower demand
- = contributed somewhat to lower demand
- = contributed to basically unchanged demand
- + = contributed somewhat to higher demand
- ++ = contributed considerably to higher demand
- NA = not applicable

	--	-	□	+	++	NA
A) Financing needs						
<input type="checkbox"/> Housing market prospects						
<input type="checkbox"/> Consumer confidence						
<input type="checkbox"/> Non-housing related consumption expenditure						
B) Use of alternative finance						
<input type="checkbox"/> Household savings						
<input type="checkbox"/> Loans from other banks						
<input type="checkbox"/> Other sources of finance						
C) Other factors, please specify						

15. Over the past three months, how have the following factors affected the demand for *consumer credit and other lending to households* (as described in question 13)? Please rate each factor using the following scale:

- = responsible for considerable decrease
- = responsible for decrease
- = responsible for neither decrease nor increase
- + = responsible for increase
- ++ = responsible for considerable increase
- NA = not applicable

	--	-	□	+	++	NA
A) Financing needs						
<input type="checkbox"/> Spending on durable consumer goods, such as cars, furniture, etc.						
<input type="checkbox"/> Consumer confidence						
<input type="checkbox"/> Securities purchases						
B) Use of alternative finance						
<input type="checkbox"/> Household savings						
<input type="checkbox"/> Loans from other banks						
<input type="checkbox"/> Other sources of finance						
C) Other factors, please specify						

16. Please indicate how you expect your *bank's credit standards as applied to the approval of loans to households* to change over the next three months.

	Loans for house purchase	Consumer credit and other lending
Tighten considerably		
Tighten somewhat		
Remain basically unchanged		
Ease somewhat		
Ease considerably		

17. Please indicate how you expect *demand for loans to households* to change over the next three months at your bank (apart from normal seasonal fluctuations).

	Loans for house purchase	Consumer credit and other lending
Decrease considerably		
Decrease somewhat		
Remain basically unchanged		
Increase somewhat		
Increase considerably		

18. Over the past three months, have there been *any other issues* of importance for bank lending behaviour in the euro area or in your country which are not covered by this survey?