



EUROPEAN CENTRAL BANK

4 February 2005

THE EURO AREA BANK LENDING SURVEY

– JANUARY 2005 –

1. Overview of the results

This report provides the results obtained from the ECB's bank lending survey for the euro area that was conducted in January 2005. The cut-off date for receipt of data from the banks participating in this survey was 13 January 2005.

Overall, the results of the January 2005 bank lending survey show a continued slight relaxation of credit standards applied to loans to enterprises and households for the fourth quarter of 2004, as was the case in the third quarter. Thus, the results indicate a consolidation of past trends in lending policies by banks located in the euro area.

Loans or credit lines to enterprises

Credit standards. For the fourth quarter of 2004, banks reported a slight net easing of credit standards for loans or credit lines to enterprises (-2%), which is slightly less pronounced than what they had reported in the previous quarter (-4%). This is the third time since the bank lending survey was first conducted in January 2003 that a net easing of credit standards has been reported, and followed the downward movement in the net percentage tightening of credit standards applied to loans to enterprises, which continued from the start of the survey in January 2003 until the second quarter of 2004 (see Chart 1, first panel). In this respect, the net percentage in the fourth quarter of 2004 was below banks' expectations in October 2004 for the same period (2%).

Among the factors explaining changes in credit standards, competition from other banks contributed the most to the reported net easing, to approximately the same extent as in the previous quarter (see Chart 1, fifth panel). Compared with the previous survey, greater emphasis was placed by reporting banks in the January 2005 survey on the contribution that more negative expectations regarding general economic activity made to a tightening of credit standards (11% in the January 2005 survey, compared with 1% in October 2004), while more negative perceptions regarding the industry or firm-specific outlook also weighed slightly more towards a net tightening. Regarding the terms and conditions of credit, the net easing of credit standards applied to loans or credit lines to enterprises was achieved primarily via a

decline in margins. Margins on riskier loans contributed significantly less to a net tightening in the fourth quarter of 2004, compared with the previous quarter. By contrast with the October 2004 survey, banks reported in the January 2005 survey that loan covenants have become stricter, thus contributing to a net tightening of credit standards.

In terms of borrower size, banks shifted to a net easing of credit standards on loans to small and medium-sized enterprises in the fourth quarter of 2004, from a net tightening in the previous quarter (from 2% to -3%). By contrast, reporting banks kept credit standards basically unchanged on a net basis for large enterprises in the fourth quarter of 2004 (0%, compared with -2% in the third quarter).

General notes

The bank lending survey is addressed to senior loan officers of a representative sample of euro area banks¹, and its main purpose is to enhance the understanding of bank lending behaviour in the euro area.²

The questions distinguish between three categories of loans: loans or credit lines to enterprises, loans to households for house purchase, and loans to households for consumer credit and other lending. For all categories, questions are posed on credit standards for approving loans, credit terms and conditions, as well as credit demand and the conditions affecting it.

The questions related to credit standards are analysed in this report by focusing on the difference (“net percentage”) between the share of banks reporting that credit standards have been tightened or eased. A positive net percentage indicates that a larger proportion of banks have tightened credit standards (“net tightening”), whereas a negative net percentage indicates that a larger proportion of banks have eased credit standards (“net easing”). Likewise, the term “net demand” refers to the difference between the share of banks reporting an increase in loan demand and those reporting a decline. Net demand will therefore be positive if a larger proportion of banks have reported an increase in loan demand, whereas a negative net demand would suggest that a larger proportion of banks have reported a decline in loan demand.

The survey questions are phrased in terms of changes over the past three months (in this case, the fourth quarter of 2004) or expectations of changes over the next three months (i.e. the first quarter of 2005).

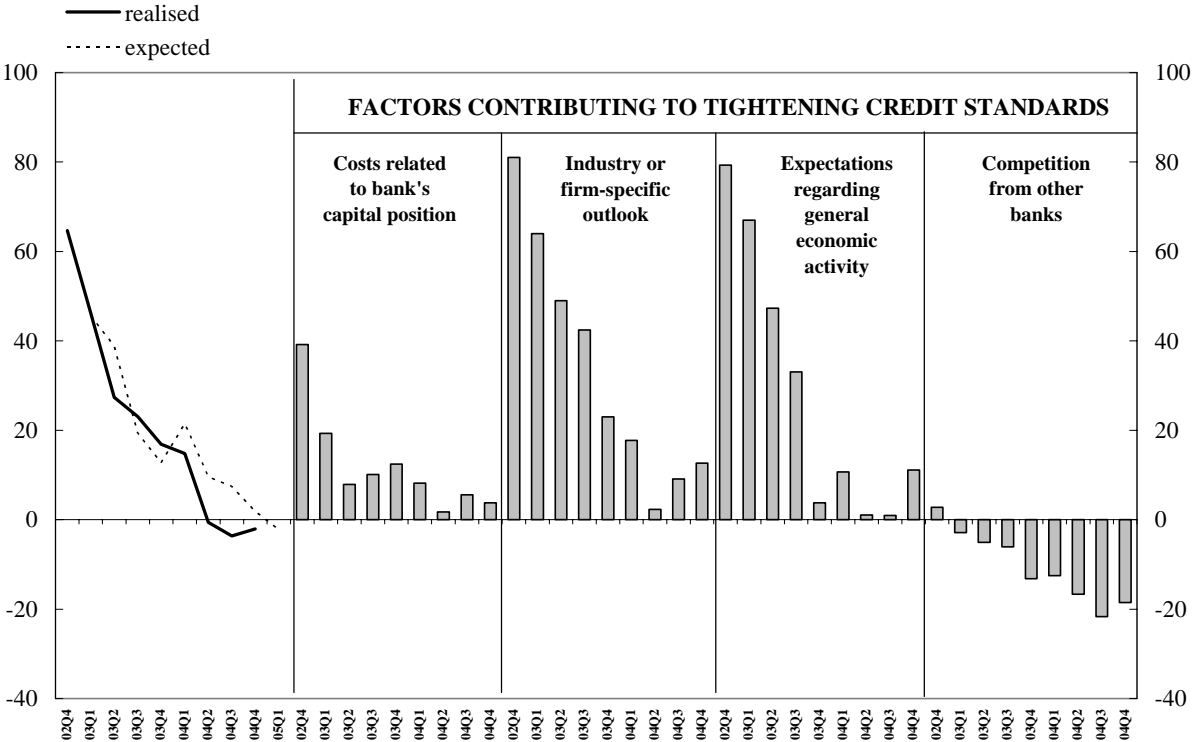
A copy of the questionnaire can be found at <http://www.ecb.int/stats/money/lend/html/index.en.html>.

From this survey onwards, the ECB will publish on its website the historical data series of the bank lending survey, i.e. all the results since the first survey was implemented in January 2003.

¹ The sample group of banks participating in the survey comprises 86 banks from all euro area countries, and takes into account the characteristics of their respective national banking structures. Since the banks differ considerably in size, the survey results are weighted according to the national shares in the total amount outstanding of euro area lending to euro area residents. In the January 2005 survey, all 86 banks participated.

² For further information on the bank lending survey, see the ECB Press Release of 21 November 2002, *Bank lending survey for the euro area*, and the April 2003 Monthly Bulletin article entitled “A bank lending survey for the euro area”.

Chart 1. Changes in credit standards applied to the approval of loans or credit lines to enterprises
(net percentages of banks reporting tightening credit standards)

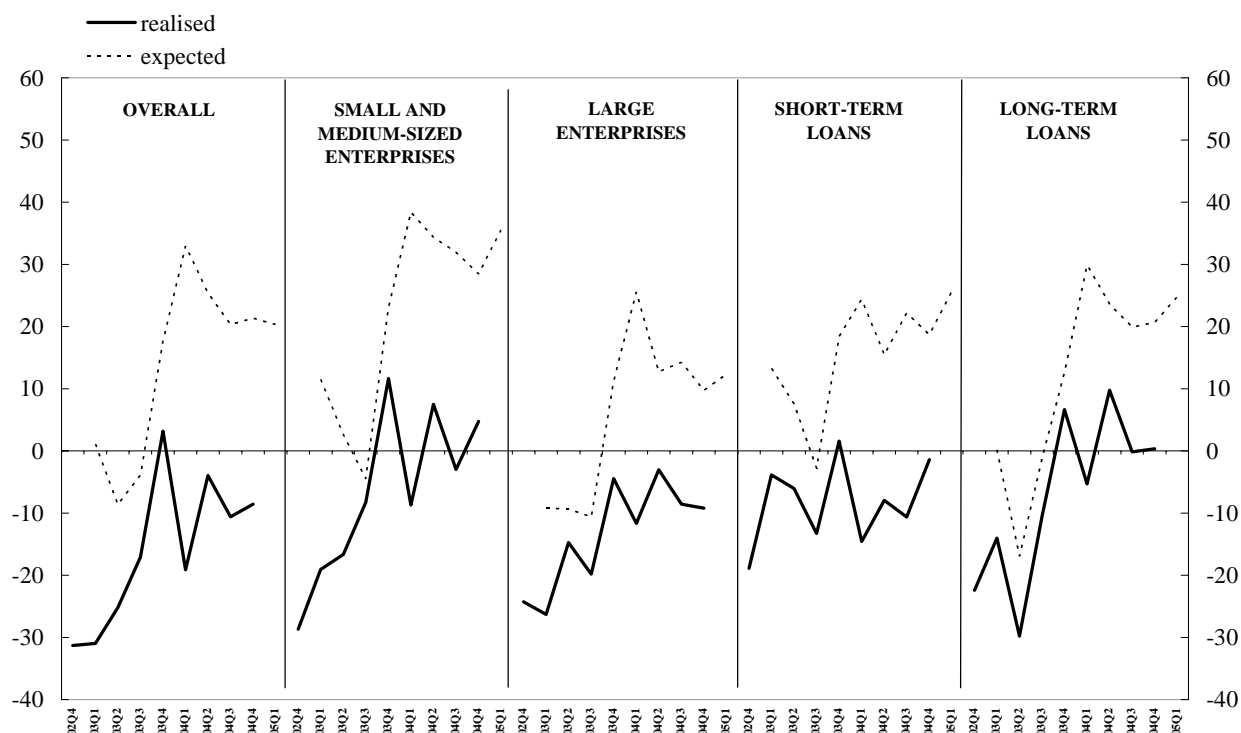


Notes: The net percentage refers to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the first quarter of 2005 are reported in the January 2005 survey. The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and to an easing.

Loan demand. In the fourth quarter of 2004, net demand for loans to enterprises improved slightly but remained negative at -9%, compared with -11% in the third quarter of 2004 (see Chart 2, first panel). This was lower than what banks had expected in October 2004 for the fourth quarter of 2004. This is the fourth quarter in a row that net loan demand to corporations has been negative and below banks’ expectations. However, net demand for loans by small and medium-sized enterprises actually increased in the fourth quarter of 2004, from a net decline in the previous quarter. The major factors contributing to the overall negative net demand in the fourth quarter of 2004 are, according to banks, weak fixed investment and the use of alternative sources of finance, in particular the availability to enterprises of internal finance.

Expectations. For the first quarter of 2005, banks expect a slight net easing of corporate credit standards, which is in line with the slight net easing that was actually reported for the fourth quarter of 2004 (see Chart 1, first panel). At the same time, reporting banks expect a substantially higher net loan demand by enterprises for the first quarter of 2005 compared with what was realised in the fourth quarter of 2004 (see Chart 2, first panel). This expected rise in net loan demand by enterprises is more pronounced for small and medium-sized enterprises than for large enterprises (see Chart 2, second and third panels).

Chart 2. Changes in demand for loans or credit lines to enterprises
(net percentages of banks reporting positive loan demand)



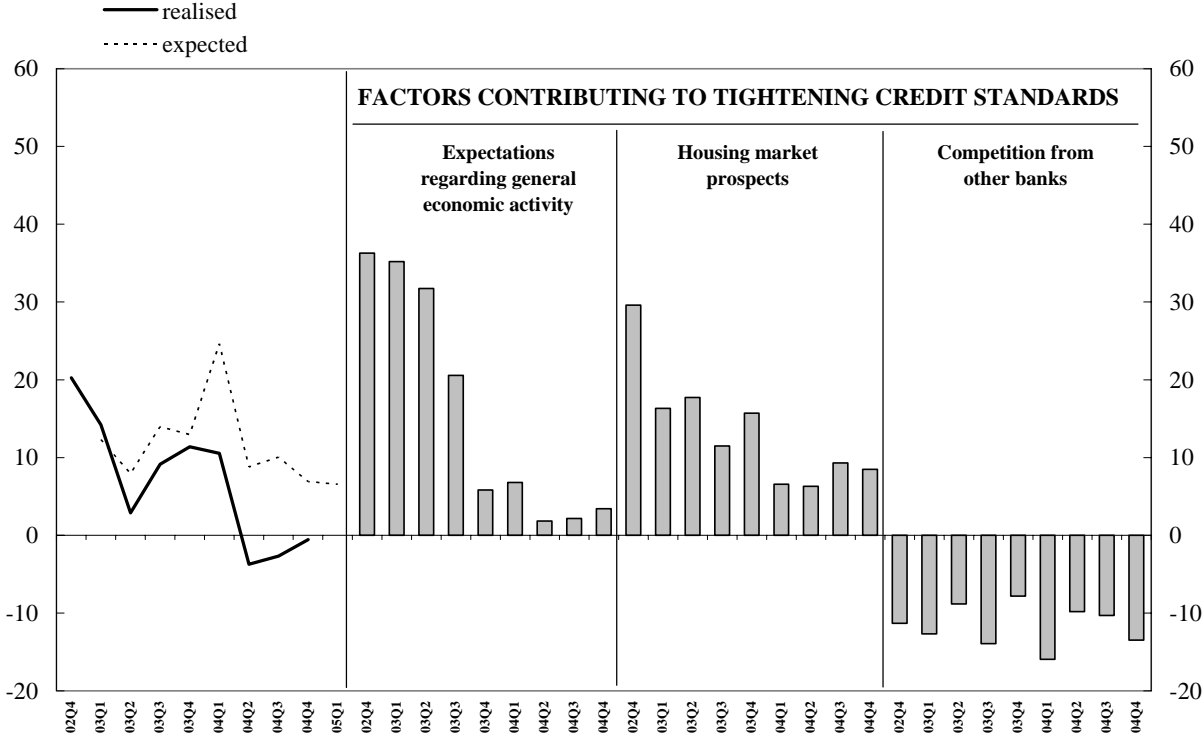
Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the first quarter of 2005 are reported in the January 2005 survey.

Loans to households for house purchase

Credit standards. Banks reported a slight net easing (-1%) of credit standards applied to households for the approval of housing loans in the fourth quarter of 2004, similar to what was reported for the third quarter (-3%), but significantly looser than the net tightening that had been expected in the October 2004 survey (see Chart 3, first panel). The factors responsible for this development showed little change from the previous quarter. The net easing partly reflected a slight increase in competition from other banks (see Chart 3, fourth panel), while expectations of general economic activity continued to contribute slightly to a net tightening (see Chart 3, second panel). Housing market prospects contributed somewhat less to a net tightening (see Chart 3, third panel). Regarding the terms and conditions of credit, banks reported that the slight net easing of credit standards applied to housing loans was achieved predominantly via lower margins on average loans. Margins on riskier loans contributed less to a net tightening of credit standards in the fourth quarter than in the third quarter of 2004.

Chart 3. Changes in credit standards applied to the approval of loans to households for house purchase

(net percentages of banks reporting tightening credit standards)



Notes: The net percentage refers 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”. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the first quarter of 2005 are reported in the January 2005 survey. The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and to an easing.

Loan demand. In the fourth quarter of 2004, net demand for housing loans to households increased, according to respondent banks, to 9%, up from 5% in the previous quarter (see Chart 4, first panel). The level of net demand in the fourth quarter was broadly in line with what banks had expected in October 2004. The main factor that contributed to the net increase in demand for housing loans was an improvement in housing market prospects.

Expectations. For the first quarter of 2005, respondent banks expect a net tightening of credit standards for loans to households for house purchase (7%), compared with the realised slight net easing for the fourth quarter (-1%, see Chart 3, first panel). They also expect net demand for housing loans to be negative and thus to decrease in the first quarter of 2005 as compared with the realised net demand for these loans in the fourth quarter of 2004 (see Chart 4, first panel).

Chart 4. Changes in demand for loans to households
(net percentages of banks reporting positive loan demand)



Notes: The net percentages for the questions on demand for loans are defined as 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 are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the first quarter of 2005 are reported in the January 2005 survey.

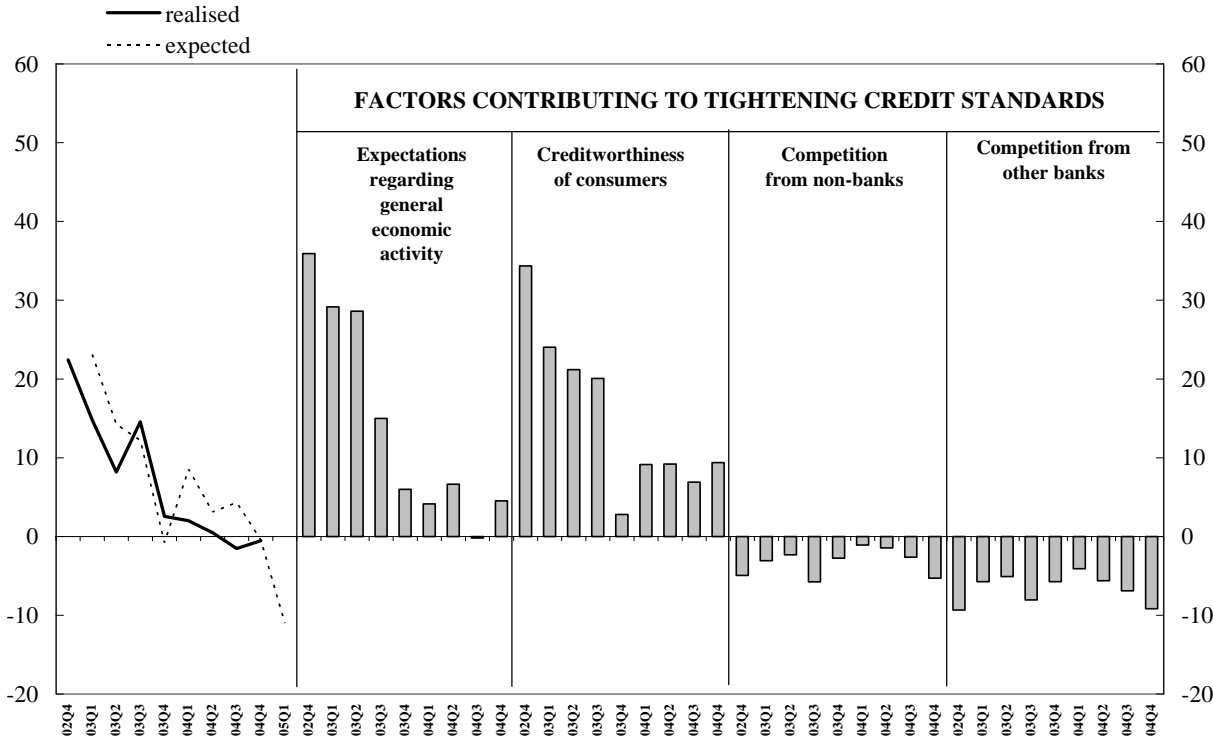
Loans to households for consumer credit and other lending

Credit standards on consumer credit and other lending to households showed a slight net easing in the fourth quarter of 2004, and thus remained broadly unchanged from the previous quarter (-1% and -2% respectively, see Chart 5, first panel). This is the second time since the bank lending survey was first conducted in January 2003 that a net easing of credit standards for consumer lending and other lending to households has been reported. The main factors contributing to the slight net easing of credit standards during the fourth quarter of 2004 were increased competition from non-banks and other banks (see Chart 5, fourth and fifth panels). By contrast, higher risks stemming in particular from slightly worsened expectations regarding general economic activity and lower creditworthiness of consumers contributed to a net tightening of credit standards (see Chart 5, second and third panels). With regard to conditions and terms, compared with the previous quarter there was a higher contribution of margins on average loans in the fourth quarter of 2004 to the net easing of credit standards for consumer credit and other lending.

Loan demand. Net demand for consumer credit and other lending to households declined significantly in the fourth quarter of 2004, and turned negative (-4%), following a net increase in the third quarter (9%, see Chart 4, second panel). This decline was mainly attributed to weaker consumer confidence and higher household saving. Compared with the previous quarter, higher spending on durable consumer goods contributed to a lesser extent to a net increase in demand for such loans in the fourth quarter of 2004.

Expectations. For the first quarter of 2005, respondent banks expect a net easing of credit standards for consumer credit and other lending to households compared with the previous quarter (see Chart 5, first panel). Banks also expect a significant increase in net demand for consumer credit and other household loans in the first quarter of 2005 (see Chart 4, second panel).

Chart 5. Changes in credit standards applied to the approval of consumer credit and other loans to households (net percentages of banks reporting tightening credit standards)



Notes: The net percentage refers 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”. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the first quarter of 2005 are reported in the January 2005 survey. The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and to an easing.

2. Results for the individual questions

I. Loans or credit lines to enterprises

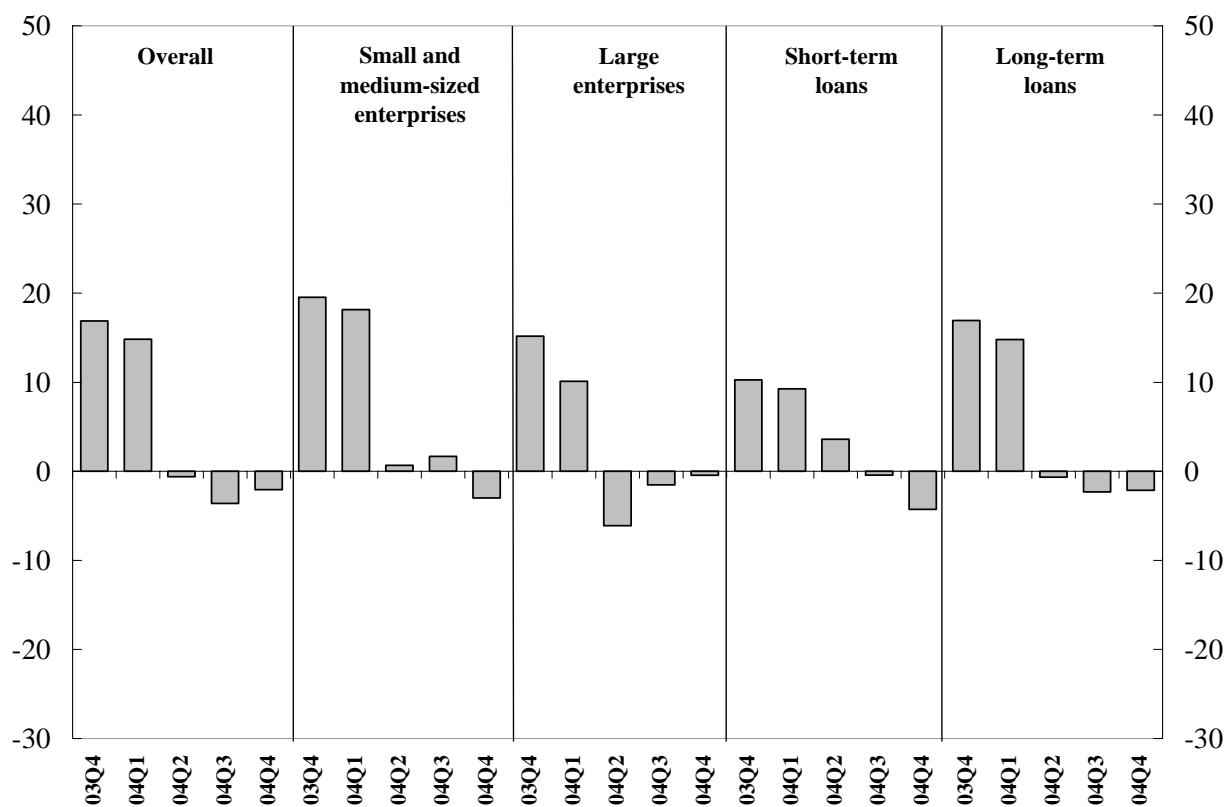
- Over the past three months, how have your bank's credit standards as applied to the approval of loans or credit lines to enterprises changed?

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	October 2004	January 2005	October 2004	January 2005	October 2004	January 2005	October 2004	January 2005	October 2004	January 2005
Tightened considerably	0	0	0	0	0	0	0	0	0	0
Tightened somewhat	7	7	8	8	7	9	9	5	8	6
Remained basically unchanged	82	85	86	82	85	82	83	87	82	86
Eased somewhat	10	9	6	10	6	9	6	9	8	8
Eased considerably	1	0	0	0	3	0	3	0	3	0
Total	100	100	100	100	100	100	100	100	100	100
Net percentage	-4	-2	2	-3	-2	0	0	-4	-2	-2
<i>Number of banks responding</i>	<i>80</i>	<i>82</i>	<i>80</i>	<i>81</i>	<i>80</i>	<i>81</i>	<i>81</i>	<i>82</i>	<i>81</i>	<i>82</i>

Note: The net percentage is defined as 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".

- Overall, in January 2005 banks again reported, for the third time in a row, a net easing of credit standards as applied to the approval of loans or credit lines to enterprises, although this was slightly smaller than in the October 2004 survey (-2% in the fourth quarter of 2004, compared with -4% in the third quarter). Thus, the figures indicate a consolidation of past trends in lending policies by banks located in the euro area (see Chart 6).
- The results by borrower size show a decline in the reported net percentage for loans to small and medium-sized enterprises, as banks shifted from a net tightening in the third quarter of 2004 to a net easing of credit standards on loans to these enterprises in the fourth quarter. By contrast, credit standards for large enterprises remained basically unchanged.
- Regarding the maturity of loans, the net percentages for short-term loans declined in the fourth quarter of 2004 and remained basically unchanged for long-term loans compared with the previous quarter.

Chart 6. Credit standards applied to the approval of loans or credit lines to enterprises
(net percentages of banks reporting tightening credit standards)



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?

	--	-	°	+	++	NA	NetP	
							October 2004	January 2005
A) Cost of funds and balance sheet constraints								
Costs related to your bank's capital position	0	6	84	2	0	8	6	4
Your bank's ability to access market financing	0	0	88	3	0	10	-3	-3
Your bank's liquidity position	0	1	90	1	0	8	-2	-1
B) Pressure from competition								
Competition from other banks	0	2	68	19	2	9	-22	-19
Competition from non-banks	0	0	84	2	0	14	-1	-2
Competition from market financing	0	0	85	3	0	12	-7	-3
C) Perception of risk								
Expectations regarding general economic activity	0	18	69	7	0	6	1	11
Industry or firm-specific outlook	1	18	70	5	0	6	9	13
Risk on the collateral demanded	0	6	86	2	0	6	1	4

NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "- -" (contributed considerably to tightening) and "-" (contributed somewhat to tightening) and the sum of "+" (contributed somewhat to easing) and "+ +" (contributed considerably to easing). "°" means "contributed to basically unchanged credit standards".

- In January 2005, the overall slight net improvement in credit standards on loans to enterprises was mostly related to increased competitive pressures from other banks, although other external sources of financing (such as market financing in the form of the issuance of debt securities) also played a part. This was broadly in line with the results of the October 2004 survey. At the same time, compared with the previous quarter, a slightly more negative perception of risks related to the industry or firm-specific outlook, coupled with negative expectations regarding general economic activity, contributed more to a net tightening in the January 2005 survey. In addition, costs related to banks' capital positions continued to weigh slightly towards a net tightening in credit standards (see Charts 7a and 7b).

Chart 7a. Factors affecting credit standards applied to the approval of loans or credit lines to enterprises
(net percentages of banks reporting that the factor contributed to tightening credit standards)

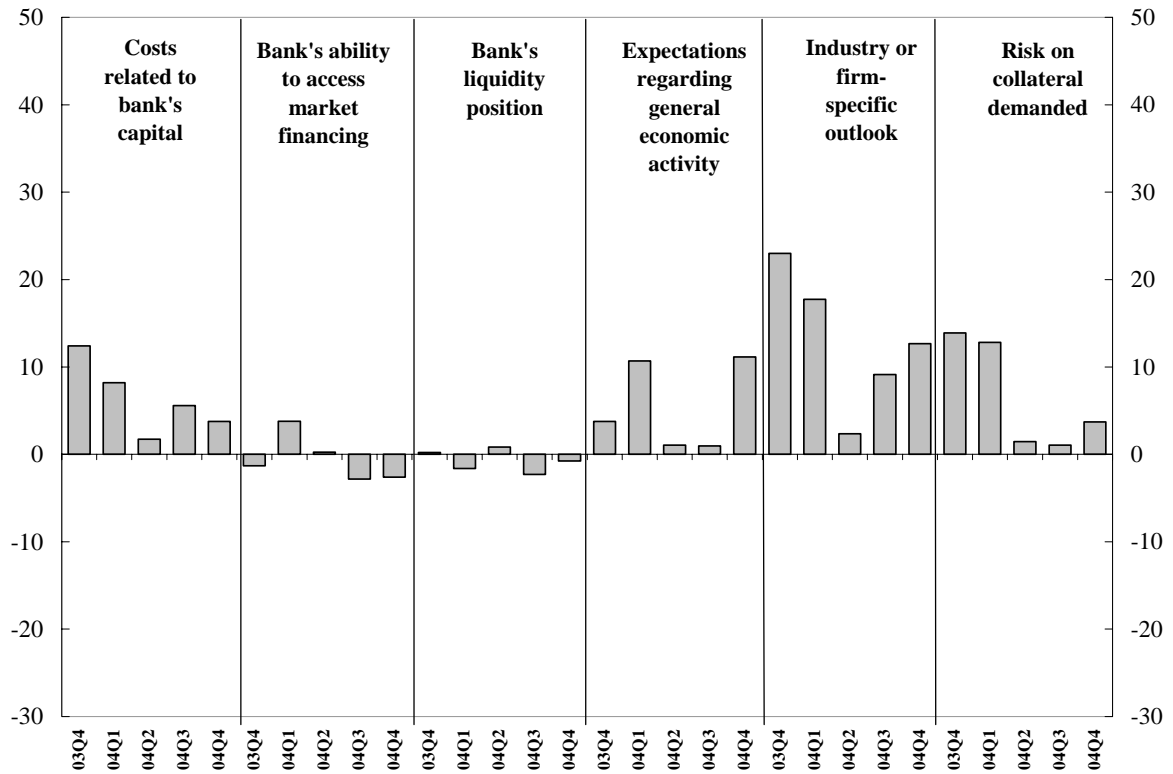
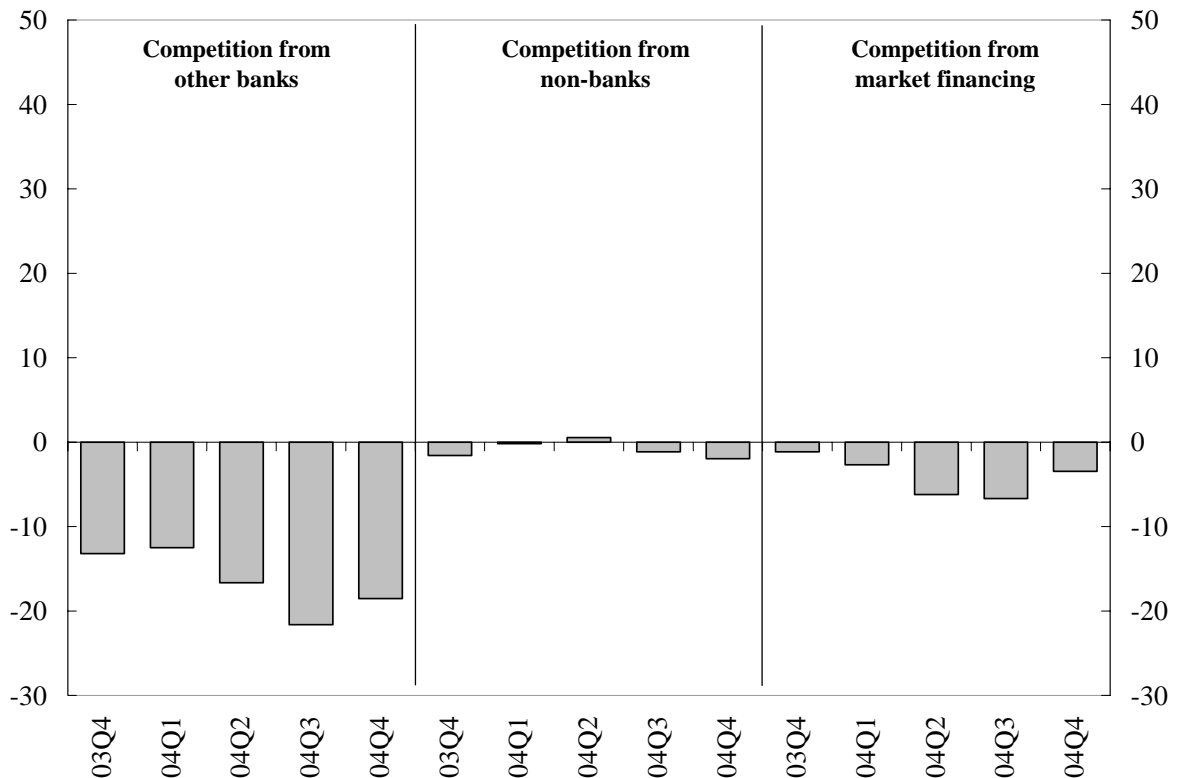


Chart 7b. Factors affecting credit standards applied to the approval of loans or credit lines to enterprises
(net percentages of banks reporting that the factor contributed to tightening credit standards)



3. Over the past three months, how have your bank's conditions and terms for approving loans or credit lines to enterprises changed?

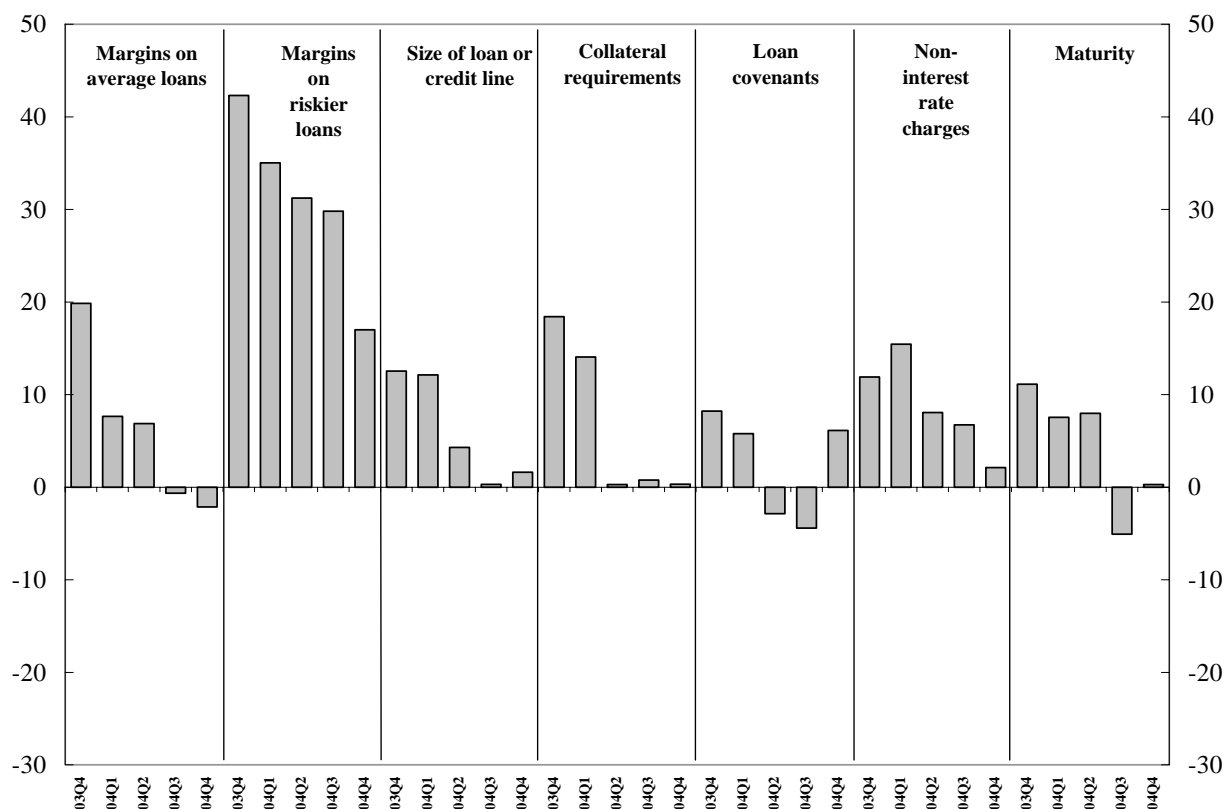
	--	-	°	+	++	NA	NetP	
							October 2004	January 2005
A) Price								
Your bank's margin on average loans	0	18	57	20	0	6	-1	-2
Your bank's margin on riskier loans	2	21	66	6	0	6	30	17
B) Other conditions and terms								
Non-interest rate charges	0	7	82	5	0	6	7	2
Size of the loan or credit line	0	6	84	4	0	6	0	2
Collateral requirements	0	5	84	5	0	6	1	0
Loan covenants	0	14	73	8	0	6	-4	6
Maturity	0	5	84	5	0	6	-5	0

NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "--" (tightened considerably) and "-" (tightened somewhat), and the sum of "+" (eased somewhat) and "++" (eased considerably). "°" means "remained basically unchanged".

- The net easing of credit standards applied to loans or credit lines to enterprises was achieved primarily via price adjustments, i.e. a decline in margins (see Chart 8).
- Margins on riskier loans contributed significantly less to a net tightening in the fourth quarter of 2004 than in the previous quarter.

Chart 8. Conditions and terms for approving loans or credit lines to enterprises
(net percentages of banks reporting that they use these conditions and terms to tighten credit standards)



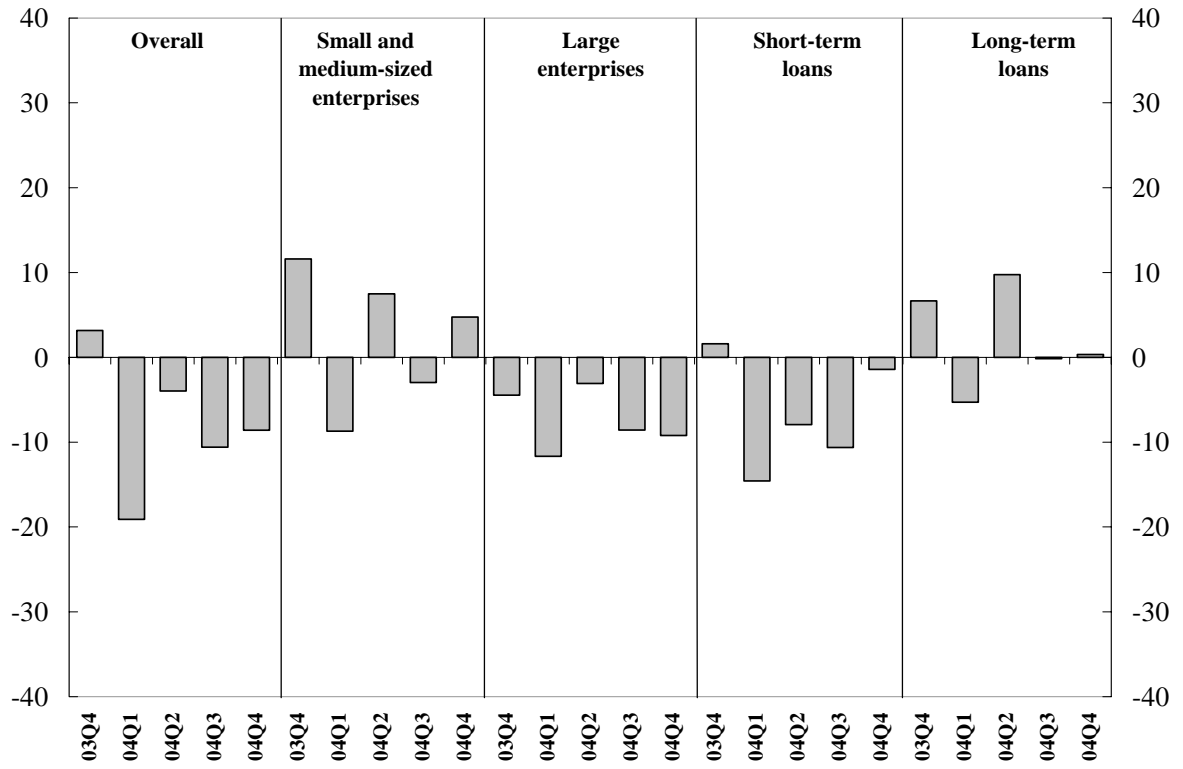
4. Over the past three months, how has the demand for loans or credit lines to enterprises changed at your bank, apart from normal seasonal fluctuations?

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	October 2004	January 2005	October 2004	January 2005	October 2004	January 2005	October 2004	January 2005	October 2004	January 2005
Decreased considerably	0	0	0	0	0	0	2	0	0	0
Decreased somewhat	25	20	17	13	22	16	21	13	21	19
Remained basically unchanged	61	69	69	70	64	76	65	75	58	61
Increased somewhat	13	11	14	18	13	7	12	12	20	16
Increased considerably	1	0	0	0	1	0	0	0	1	3
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Net percentage	-11	-9	-3	5	-9	-9	-11	-1	0	0
<i>Number of banks responding</i>	<i>81</i>	<i>82</i>	<i>80</i>	<i>81</i>	<i>80</i>	<i>81</i>	<i>81</i>	<i>82</i>	<i>81</i>	<i>82</i>

Note: The net percentage is defined as 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".

- Net demand for corporate loans continued to decline slightly, to -9% in the fourth quarter of 2004, down from -11% in the third quarter (see Chart 9).
- However, this decline was entirely due to a decline in demand for loans by large enterprises, as loan demand by small and medium-sized enterprises actually increased in the January 2005 survey (to 5%, up from -3% in the third quarter).
- In terms of maturity structure, there was a slight decline in net demand for short-term loans, although at a much lower level than reported in the previous quarter.

Chart 9. Demand for loans and credit lines to enterprises
(net percentages of banks reporting positive loan demand)



5. Over the past three months, how have the following factors affected the demand for loans or credit lines to enterprises?

	--	-	°	+	++	NA	NetP	
							October 2004	January 2005
A) Financing needs								
Fixed investment	2	23	61	7	0	7	-14	-18
Inventories and working capital	0	9	74	10	0	7	-1	1
Mergers/acquisitions and corporate restructuring	0	2	80	10	2	6	7	9
Debt restructuring	0	2	73	19	0	6	15	17
B) Use of alternative finance								
Internal financing	2	9	80	1	0	8	-13	-10
Loans from other banks	0	8	82	2	0	8	-2	-6
Loans from non-banks	0	2	88	0	0	10	-9	-2
Issuance of debt securities	0	6	78	4	0	12	-4	-3
Issuance of equity	0	2	84	0	0	14	-7	-2

NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "+ +" (contributed considerably to higher demand) and "+ " (contributed somewhat to higher demand) and the sum of "- " (contributed somewhat to lower demand) and "- -" (contributed considerably to lower demand). "°" means "contributed to basically unchanged demand".

- The main factors contributing to the decline in net demand for loans to enterprises were weaker fixed investment, which contributed more to negative net demand, as well corporations' use of alternative sources of financing (see Charts 10a and 10b). In particular, banks referred to the recourse to internal sources of financing as well as to the use of other (non-bank) sources of external financing (such as debt securities and equity issuance), coupled with the increasing role played by loans from other banks. In this respect, the results of the January 2005 survey were broadly in line with those of the October 2004 survey.

Chart 10a. Factors affecting demand for loans and credit lines to enterprises
(net percentages of banks reporting that the factor contributed to positive loan demand)

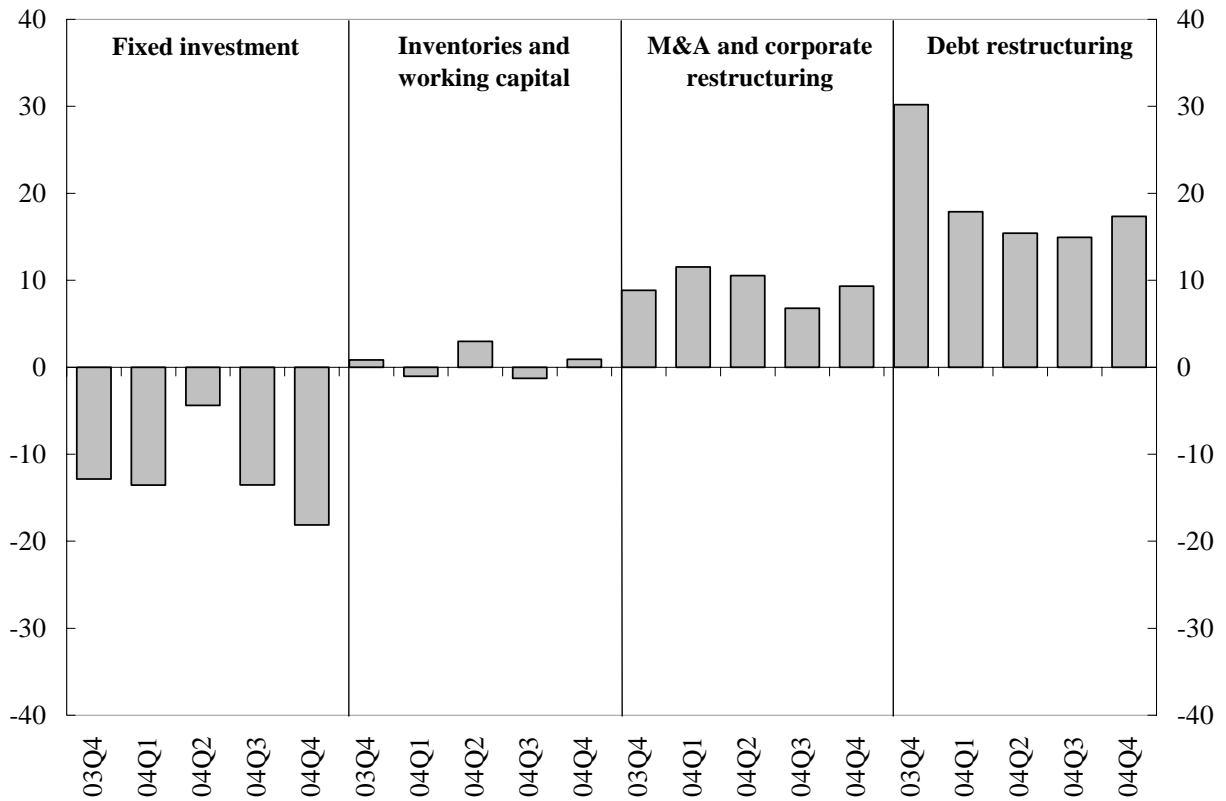
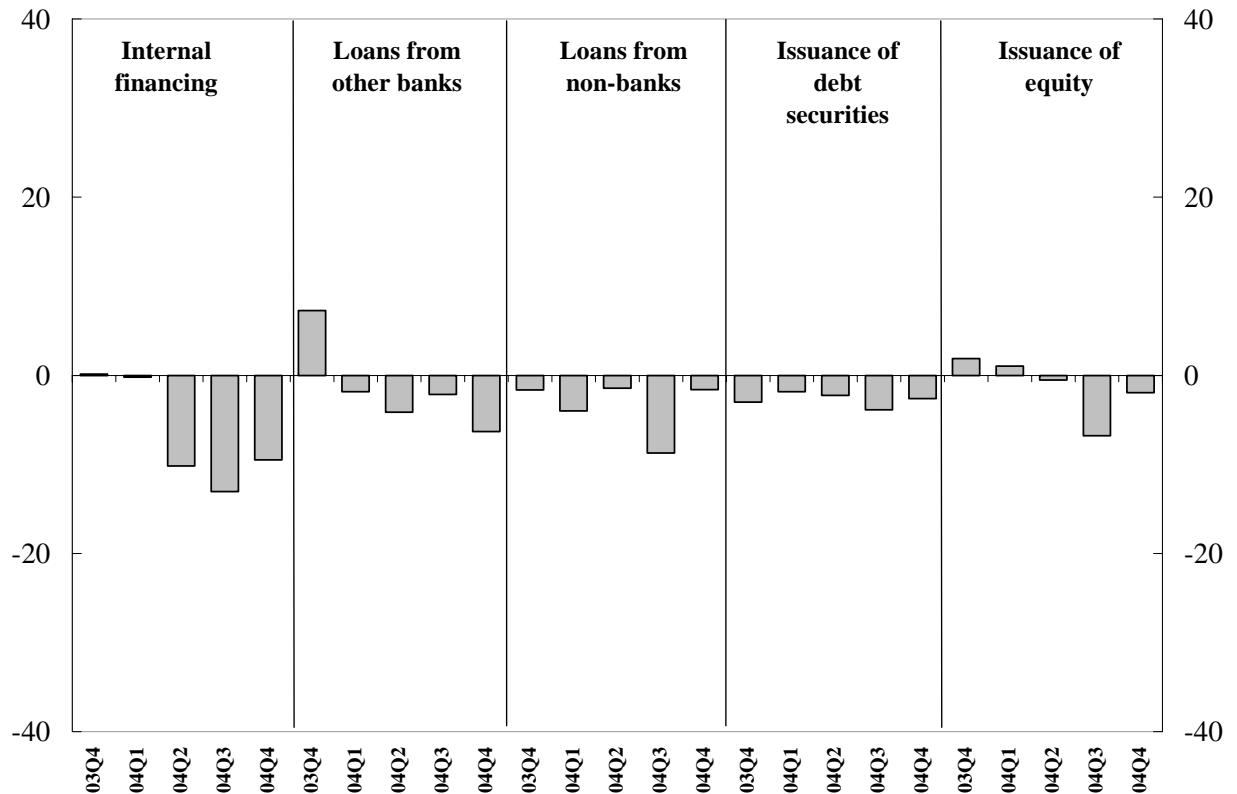


Chart 10b. Factors affecting demand for loans and credit lines to enterprises
(net percentages of banks reporting that the factor contributed to positive loan demand)



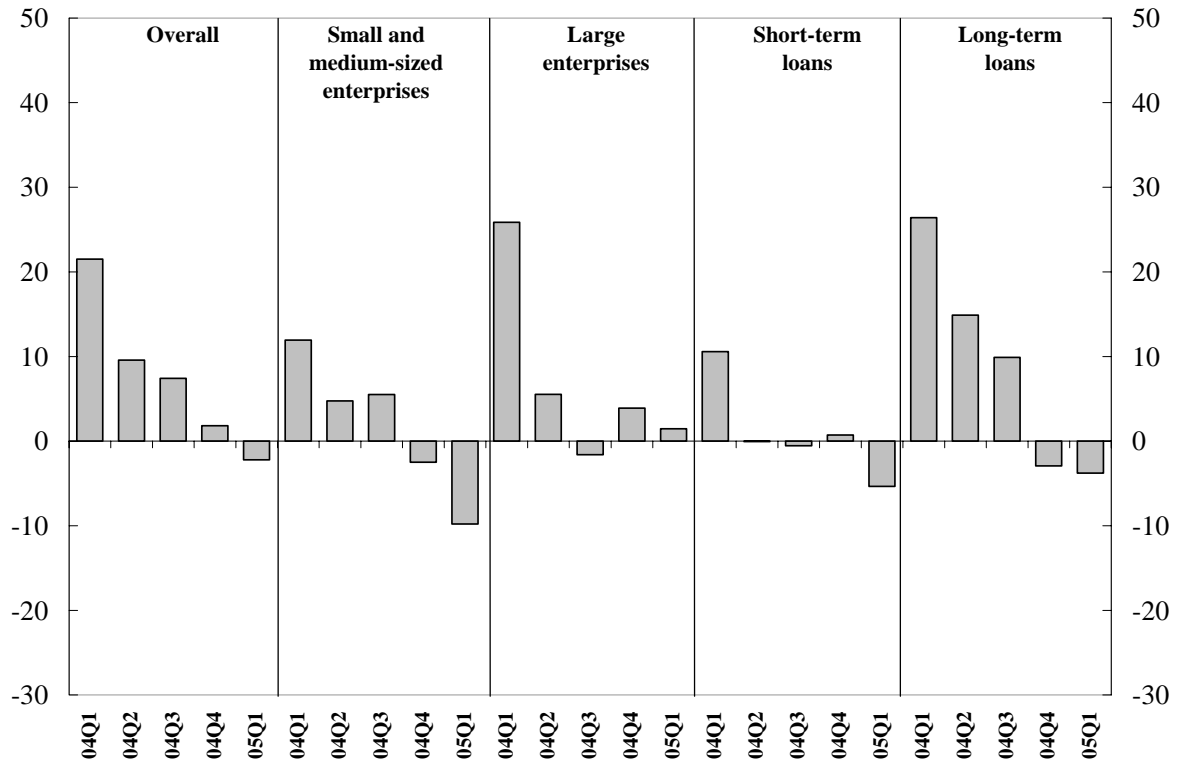
6. Please indicate how you expect your bank's credit standards as applied to the approval of loans or credit lines to enterprises to change over the next three months.

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	October 2004	January 2005	October 2004	January 2005	October 2004	January 2005	October 2004	January 2005	October 2004	January 2005
Tighten considerably	0	0	0	0	2	2	0	0	0	0
Tighten somewhat	9	4	6	2	10	5	10	4	11	5
Remain basically unchanged	83	90	85	86	80	88	81	87	76	87
Ease somewhat	8	6	9	12	8	5	9	9	14	8
Ease considerably	0	0	0	0	0	0	0	0	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Net percentage	2	-2	-3	-10	4	2	1	-5	-3	-4
<i>Number of banks responding</i>	<i>81</i>	<i>82</i>	<i>80</i>	<i>81</i>	<i>80</i>	<i>81</i>	<i>81</i>	<i>82</i>	<i>81</i>	<i>82</i>

Note: The net percentage is defined as the difference between the sum of the percentages for "tighten considerably" and "tighten somewhat" and the sum of the percentages for "ease somewhat" and "ease considerably".

- For the next three months (i.e. the first quarter of 2005) banks expect a slight net easing of corporate credit standards, which is in line with the slight net easing that was actually reported for the fourth quarter of 2004 (see Question 1). This could be seen as a further consolidation of the somewhat improved lending conditions reported by the bank lending survey since July 2004 (see Chart 11).
- In terms of borrower size, banks expect a further net easing of credit standards for small and medium-sized enterprises in the first quarter of 2005, compared with a small tightening of credit standards for large enterprises.
- In terms of loan maturity, banks expect a slight net easing of credit standards for both short-term and long-term loans in the first quarter of 2005. For the former, this represents a change in expectations compared with the October 2004 survey, when reporting banks expected a slight net tightening of credit standards for short-term loans in the fourth quarter of 2004. However, it is in line with the net easing recorded in January 2005.

Chart 11. Expected credit standards for the approval of loans or credit lines to enterprises
(net percentages of banks reporting tightening credit standards)



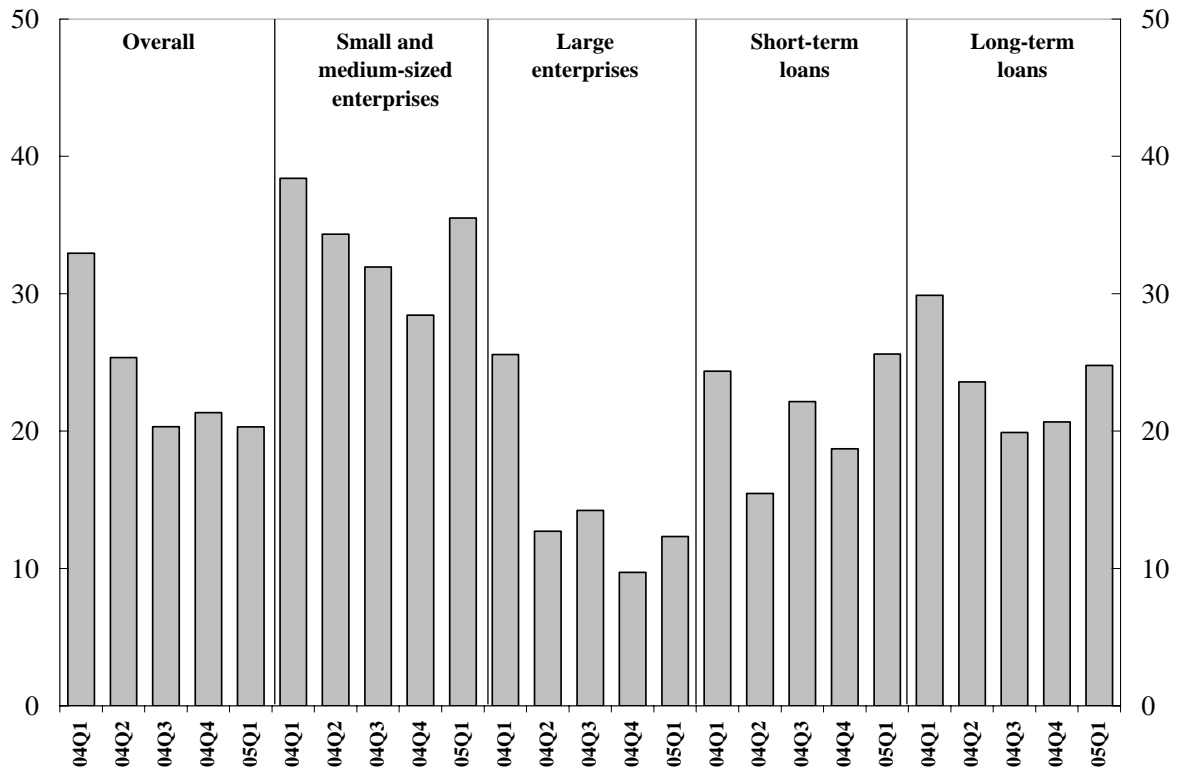
7. Please indicate how you expect demand for loans or credit lines to enterprises to change at your bank over the next three months (apart from normal seasonal fluctuations).

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	October 2004	January 2005	October 2004	January 2005	October 2004	January 2005	October 2004	January 2005	October 2004	January 2005
Decrease considerably	0	0	0	0	0	0	0	0	0	0
Decrease somewhat	6	5	4	3	8	5	4	2	11	7
Remain basically unchanged	66	71	64	59	74	78	73	71	57	62
Increase somewhat	28	25	33	38	18	17	23	28	32	31
Increase considerably	0	0	0	0	0	0	0	0	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Net percentage	21	20	28	36	10	12	19	26	21	25
<i>Number of banks responding</i>	<i>81</i>	<i>82</i>	<i>80</i>	<i>81</i>	<i>80</i>	<i>81</i>	<i>81</i>	<i>82</i>	<i>81</i>	<i>82</i>

Note: The net percentage is defined as the difference between the sum of the percentages for "increase considerably" and "increase somewhat" and the sum of the percentages for "decrease somewhat" and "decrease considerably".

- In the January 2005 survey, reporting banks expect net loan demand by enterprises for the first quarter of 2005 to be substantially higher than that realised in the fourth quarter of 2004 (see Question 4).
- Expected net demand for loans to enterprises in the first quarter of 2005 is significantly higher for small and medium-sized enterprises than it is for large enterprises, in line with the expectations in the October 2004 survey for the fourth quarter of 2004 (see Chart 12).
- In the January 2005 survey, net demand for both short-term and long-term loans is expected to increase in the first quarter of 2005. Similar expectations were expressed in the October 2004 survey regarding the fourth quarter of 2004.

Chart 12. Expected demand for loans and credit lines to enterprises
(net percentages of banks reporting positive loan demand)



II. Loans to households

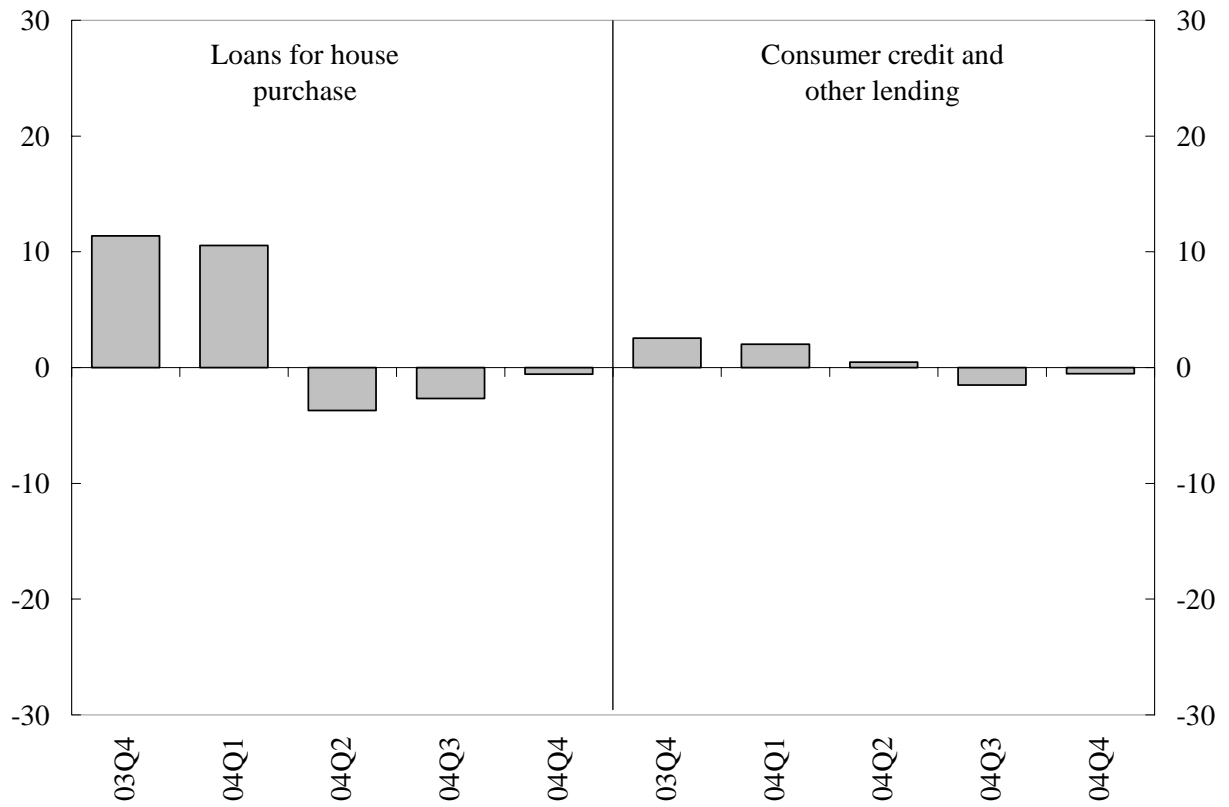
8. Over the past three months, how have your bank's credit standards as applied to the approval of loans to households changed?

	Loans for house purchase		Consumer credit and other lending	
	October 2004	January 2005	October 2004	January 2005
Tightened considerably	0	0	2	2
Tightened somewhat	3	6	5	5
Remained basically unchanged	92	88	86	86
Eased somewhat	5	7	8	7
Eased considerably	0	0	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Net percentage	-3	-1	-2	-1
<i>Number of banks responding</i>	<i>80</i>	<i>81</i>	<i>78</i>	<i>79</i>

Note: The net percentage is defined as 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 degree of net easing of credit standards for housing loans in the January 2005 survey was slightly lower than the results reported for the third quarter (-1% in the fourth quarter, compared with -3% in the third quarter of 2004) (see Chart 13).
- For consumer credit and other lending to households, the January 2005 survey showed a slight net easing for the fourth quarter of 2004 (-1%, compared with -2% in the third quarter of 2004). This is the second time since the bank lending survey was first conducted in January 2003 that a slight net easing in credit standards for consumer credit and other lending to households has been recorded.

Chart 13. Credit standards applied to the approval of loans to households
(net percentages of banks reporting tightening credit standards)



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?

	--	-	°	+	++	NA	NetP	
							October 2004	January 2005
A) Cost of funds and balance sheet constraints	0	1	90	1	0	9	2	0
B) Pressure from competition								
Competition from other banks	0	0	75	12	1	11	-10	-14
Competition from non-banks	0	0	82	3	0	15	-2	-3
C) Perception of risk								
Expectations regarding general economic activity	0	5	85	2	0	8	2	3
Housing market prospects	0	9	82	1	0	8	9	9

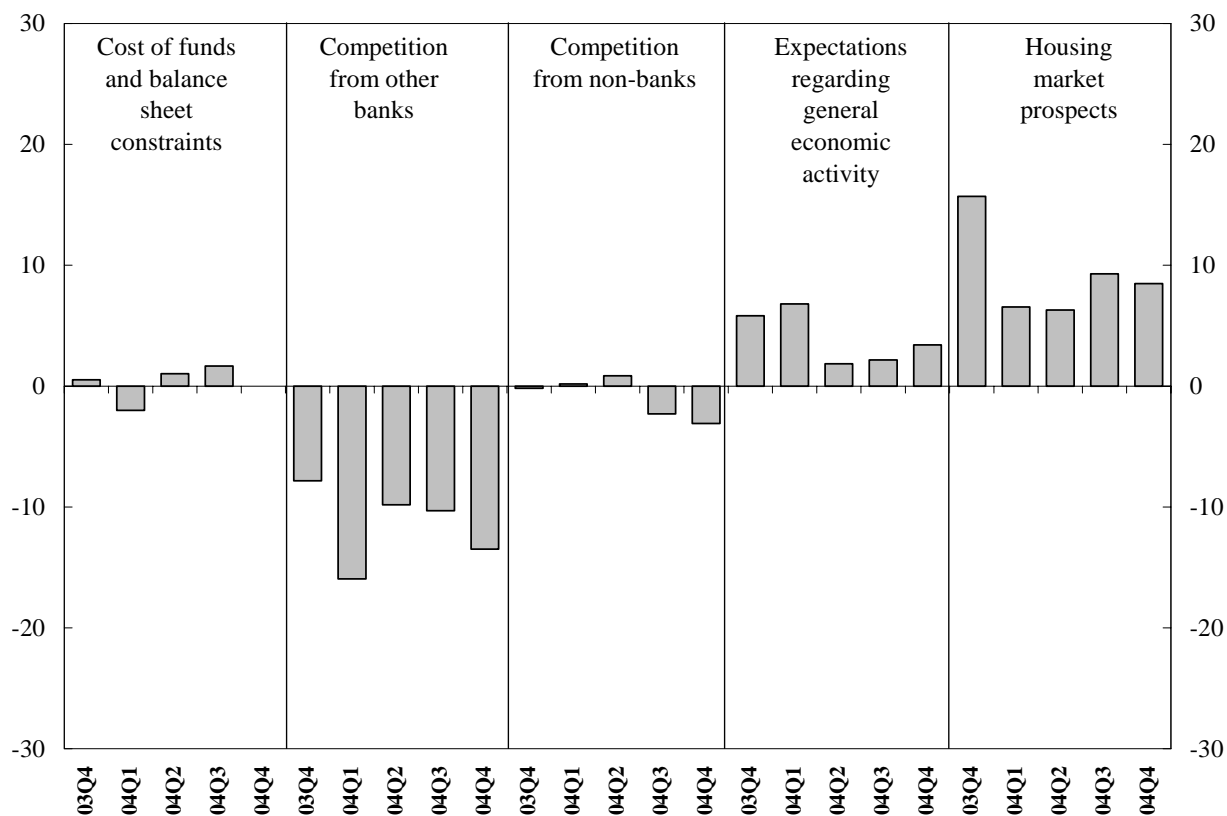
NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "- -" (contributed considerably to tightening) and "-" (contributed somewhat to tightening) and the sum of "+" (contributed somewhat to easing) and "+ +" (contributed considerably to easing). "°" means "contributed to basically unchanged credit standards".

- In the January 2005 survey, banks reported that competition factors, in particular increased competition from other banks, had contributed to the net easing of credit standards applied to loans to households for house purchase. This contribution was slightly stronger than reported in the October 2004 survey (see Chart 14).
- Perceptions of risk regarding housing market prospects remained virtually unchanged from the previous quarter and continued to contribute towards a net tightening of credit standards for housing loans.

Chart 14. Factors affecting credit standards applied to the approval of loans to households for house purchase

(net percentages of banks reporting that the factor contributed to tightening credit standards)



10. Over the past three months, how have your bank's conditions and terms for approving loans to households for house purchase changed?

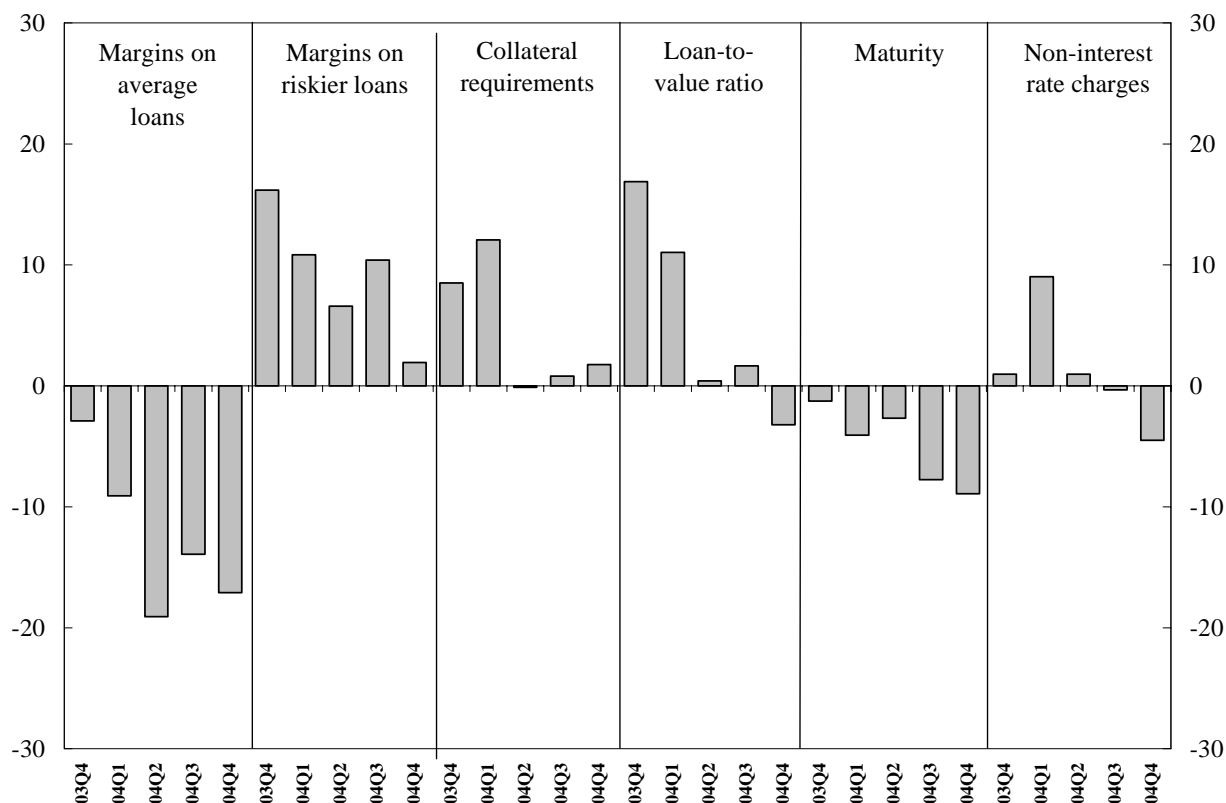
	--	-	°	+	++	NA	NetP	
							October 2004	January 2005
A) Price								
Your bank's margin on average loans	0	7	64	22	2	6	-14	-17
Your bank's margin on riskier loans	0	5	87	3	0	6	10	2
B) Other conditions and terms								
Collateral requirements	0	3	91	1	0	6	1	2
Loan-to-value ratio	0	3	85	6	0	6	2	-3
Maturity	0	0	85	9	0	6	-8	-9
Non-interest rate charges	0	1	89	5	0	6	0	-5

NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "-" (tightened considerably) and "-" (tightened somewhat) and the sum of "+" (eased somewhat) and "++" (eased considerably). "°" means "remained basically unchanged".

- In the January 2005 survey, banks reported that the net easing of credit standards applied to housing loans was increasingly achieved via lower margins on average loans and, to a lesser extent, by a lengthening of the maturity of new loans, an easing of non-interest rate charges, and improved loan-to-value ratios (see Chart 15). Compared with the third quarter of 2004, margins on riskier loans contributed significantly less to a net tightening of credit standards in the fourth quarter of 2004, whereas non-interest rate charges contributed more to a net easing of credit standards.

Chart 15. Conditions and terms for approving loans to households for house purchase
(net percentages of banks reporting that they use these conditions and terms to tighten credit standards)



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)?

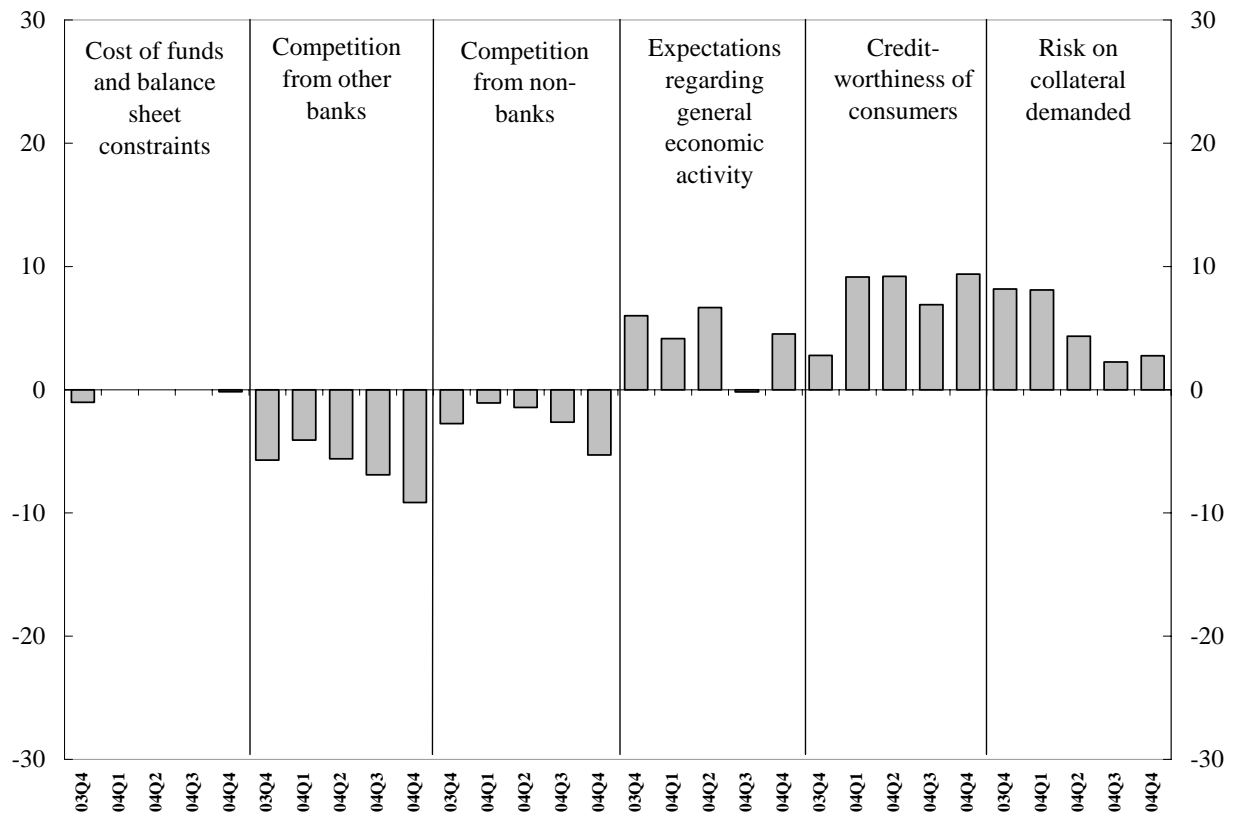
	--	-	°	+	++	NA	NetP	
							October 2004	January 2005
A) Cost of funds and balance sheet constraints	0	0	86	1	0	13	0	0
B) Pressure from competition								
Competition from other banks	0	0	76	9	0	15	-7	-9
Competition from non-banks	0	0	78	5	0	17	-3	-5
C) Perception of risk								
Expectations regarding general economic activity	0	7	79	3	0	12	0	5
Creditworthiness of consumers	2	9	80	1	0	10	7	9
Risk on the collateral demanded	0	4	81	1	0	14	2	3

NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "--" (contributed considerably to tightening) and "-" (contributed somewhat to tightening) and the sum of "+" (contributed somewhat to easing) and "++" (contributed considerably to easing). "°" means "contributed to basically unchanged credit standards".

- The main factors contributing to the slight net easing in credit standards on consumer credit and other lending to households as reported in the January 2005 survey were further increases in competition from other banks and non-banks (see Chart 16). By contrast, higher risks stemming from the lower creditworthiness of consumers and worsened expectations regarding general economic activity, as well as higher risks on collateral demanded, increasingly contributed to a net tightening of credit standards. All in all, the results for the fourth quarter of 2004 were basically in line with those of the third quarter, with the main exception being that expectations regarding general economic activity contributed to a net tightening of credit standards.

Chart 16. Factors affecting credit standards applied to the approval of loans to households for consumer credit
(net percentages of banks reporting that the factor contributed to tightening credit standards)



12. Over the past three months, how have your bank's conditions and terms for approving consumer credit and other lending to households changed?

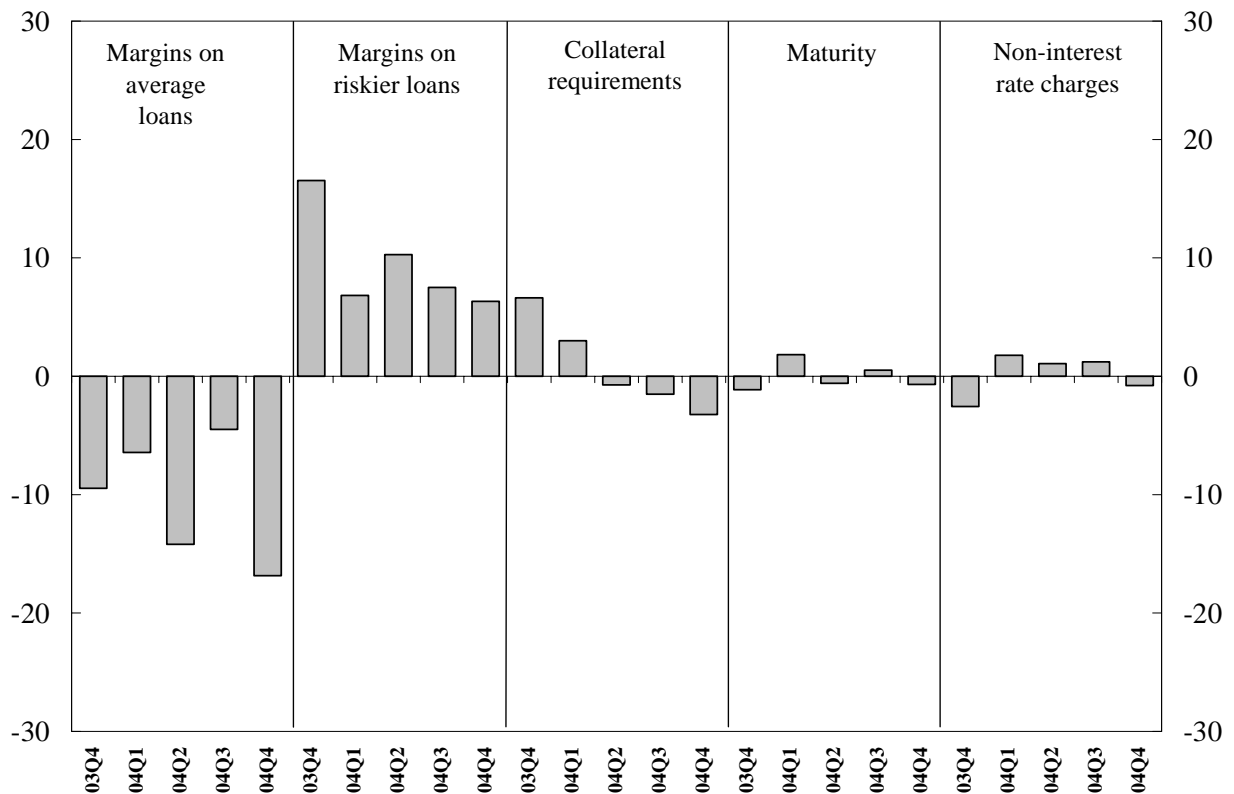
	--	-	°	+	++	NA	NetP	
							October 2004	January 2005
A) Price								
Your bank's margin on average loans	0	2	70	19	0	10	-5	-17
Your bank's margin on riskier loans	1	6	84	0	0	10	8	6
B) Other conditions and terms								
Collateral requirements	0	0	83	3	0	13	-2	-3
Maturity	0	0	88	1	0	12	1	-1
Non-interest rate charges	0	1	85	1	0	13	1	-1

NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "--" (tightened considerably) and "-" (tightened somewhat) and the sum of "+" (eased somewhat) and "++" (eased considerably). "°" means "remained basically unchanged".

- Compared with the previous quarter, the fourth quarter of 2004 saw a higher contribution of margins on average loans to the net easing of credit standards for consumer credit and other lending (see Chart 17). In addition, various factors – less stringent collateral requirements, a lengthening of maturity and a lowering of non-interest rate charges – contributed to a net easing of credit standards in the fourth quarter, with only minor changes compared with the previous quarter.

Chart 17. Conditions and terms for approving loans to households for consumer credit
(net percentages of banks reporting that they use these conditions and terms to tighten credit standards)



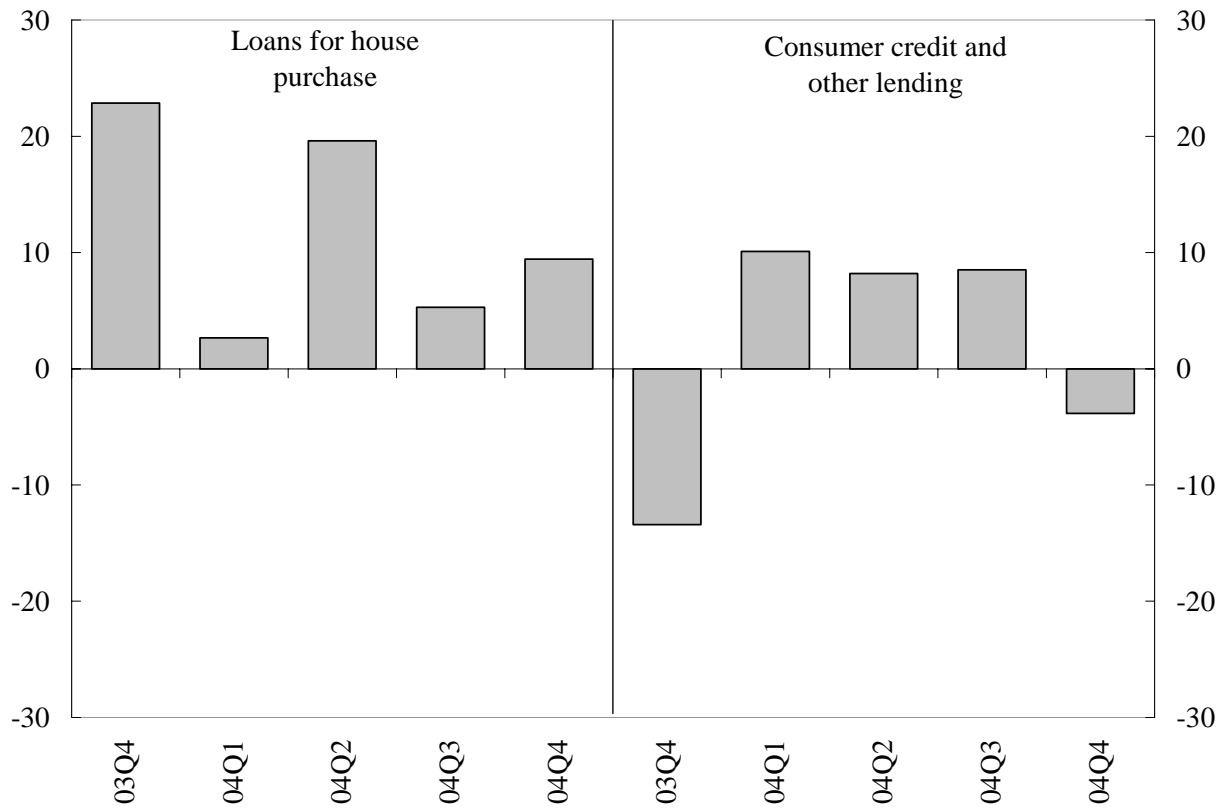
13. Over the past three months, how has the demand for loans to households changed at your bank, apart from normal seasonal fluctuations?

	Loans for house purchase		Consumer credit and other lending	
	October 2004	January 2005	October 2004	January 2005
Decreased considerably	6	6	5	5
Decreased somewhat	21	8	14	18
Remained basically unchanged	41	64	53	57
Increased somewhat	29	22	28	18
Increased considerably	3	1	0	1
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Net percentage	5	9	9	-4
<i>Number of banks responding</i>	<i>80</i>	<i>81</i>	<i>78</i>	<i>79</i>

Note: The net percentage is defined as 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”.

- In January 2005, banks reported a further net increase in demand for loans to households for house purchase in the fourth quarter of 2004, a net percentage which was higher than that reported in the third quarter (9% in the fourth quarter of 2004, compared with 5% in the third quarter) (see Chart 18).
- Regarding consumer credit and other lending to households, banks reported a net decline in demand for these loans, whereas in the third quarter of 2004 they had reported a net increase in demand (-4% in the fourth quarter of 2004, compared with 9% in the third quarter).

Chart 18. Demand for loans to households
(net percentages of banks reporting positive loan demand)



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)?

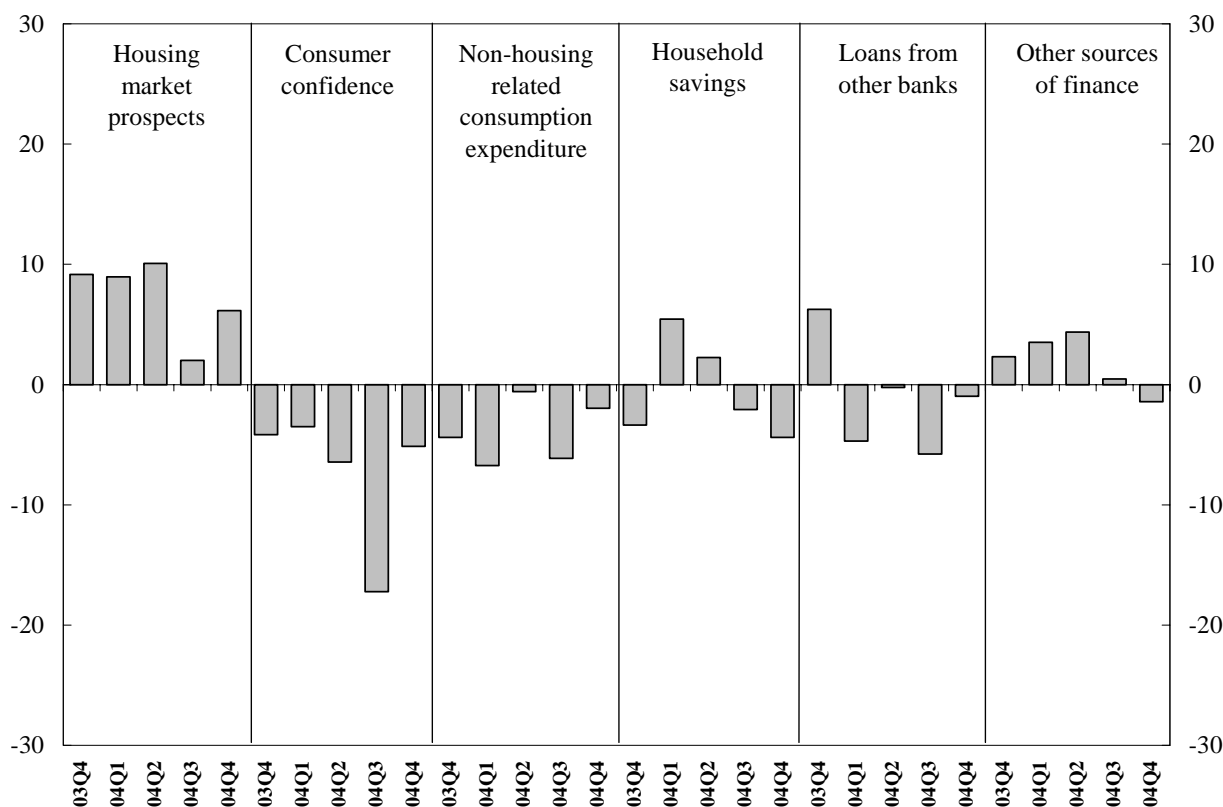
	--	-	°	+	++	NA	NetP	
							October 2004	January 2005
A) Financing needs								
Housing market prospects	0	6	76	12	0	6	2	6
Consumer confidence	2	7	81	4	0	6	-17	-5
Non-housing related consumption expenditure	0	2	92	0	0	6	-6	-2
B) Use of alternative finance								
Household savings	0	5	88	1	0	6	-2	-4
Loans from other banks	0	2	89	2	0	7	-6	-1
Other sources of finance	2	0	90	1	0	7	1	-1

NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "+" + " (contributed considerably to higher demand) and "+" (contributed somewhat to higher demand) and the sum of "-" (contributed somewhat to lower demand) and "- -" (contributed considerably to lower demand). "°" means "contributed to basically unchanged demand".

- In the fourth quarter of 2004, improved housing market prospects contributed to the net increase in demand for these loans to a larger extent than in the third quarter of 2004 (see Chart 19). Consumer confidence, non-housing related consumption expenditures and competition from other banks contributed less negatively to net demand for housing loans in the fourth quarter of 2004.

Chart 19. Factors affecting demand for loans to households for house purchase
(net percentages of banks reporting that the factor contributed to positive loan demand)



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)?

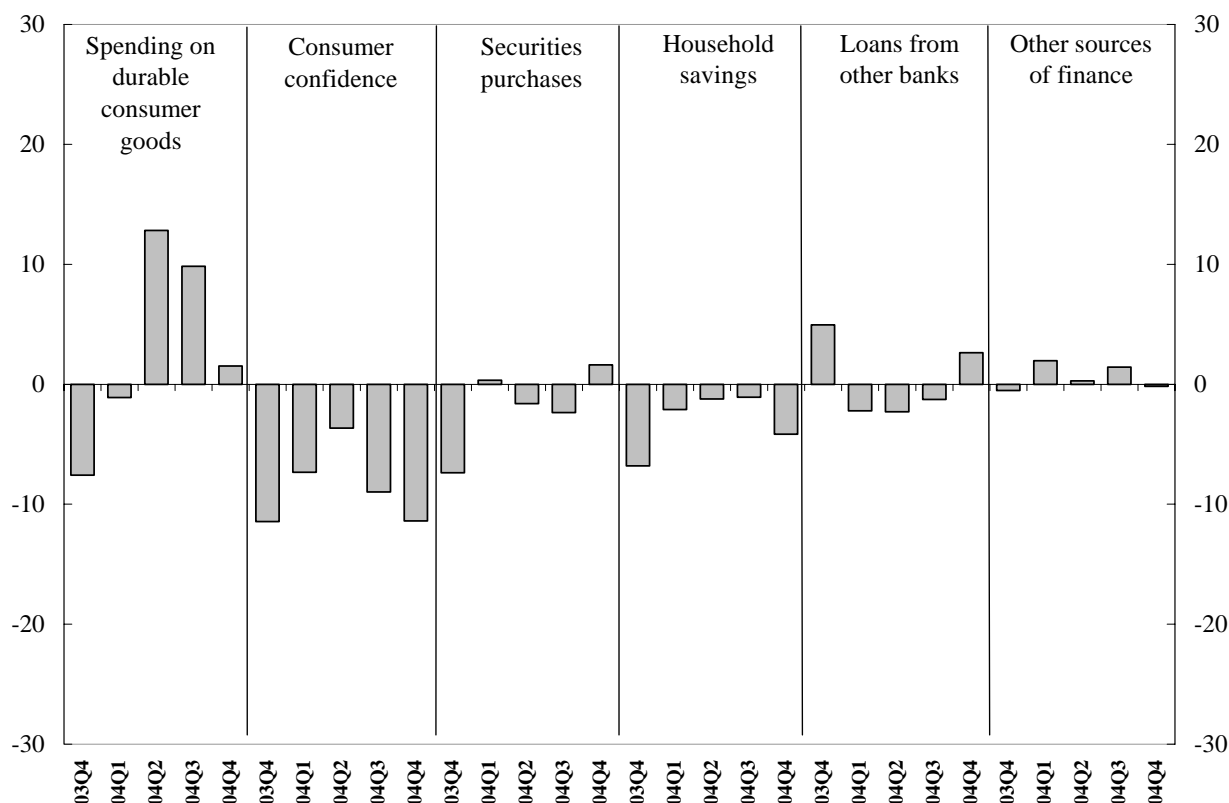
	--	-	°	+	++	NA	NetP	
							October 2004	January 2005
A) Financing needs								
Spending on durable consumer goods	0	11	66	13	0	10	10	2
Consumer confidence	2	15	69	5	0	10	-9	-11
Securities purchases	0	2	75	3	0	20	-2	2
B) Use of alternative finance								
Household savings	0	9	76	5	0	10	-1	-4
Loans from other banks	0	5	78	7	0	10	-1	3
Other sources of finance	2	2	81	3	0	12	1	0

NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "++" (responsible for a considerable increase) and "+" (responsible for an increase) and the sum of "-" (responsible for a decrease) and "--" (responsible for a considerable decrease). "°" means "responsible for neither a decrease nor an increase".

- In the January 2005 survey, the net decline in demand for consumer credit and other loans to households was mainly due to slightly weaker consumer confidence and improved household saving (see Chart 20). Compared with the third quarter of 2004, higher spending on durable consumer goods contributed to a lesser extent to a net increase in demand for these loans in the fourth quarter of 2004.

Chart 20. Factors affecting demand for loans to households for consumer credit
(net percentages of banks reporting that the factor contributed to positive loan demand)



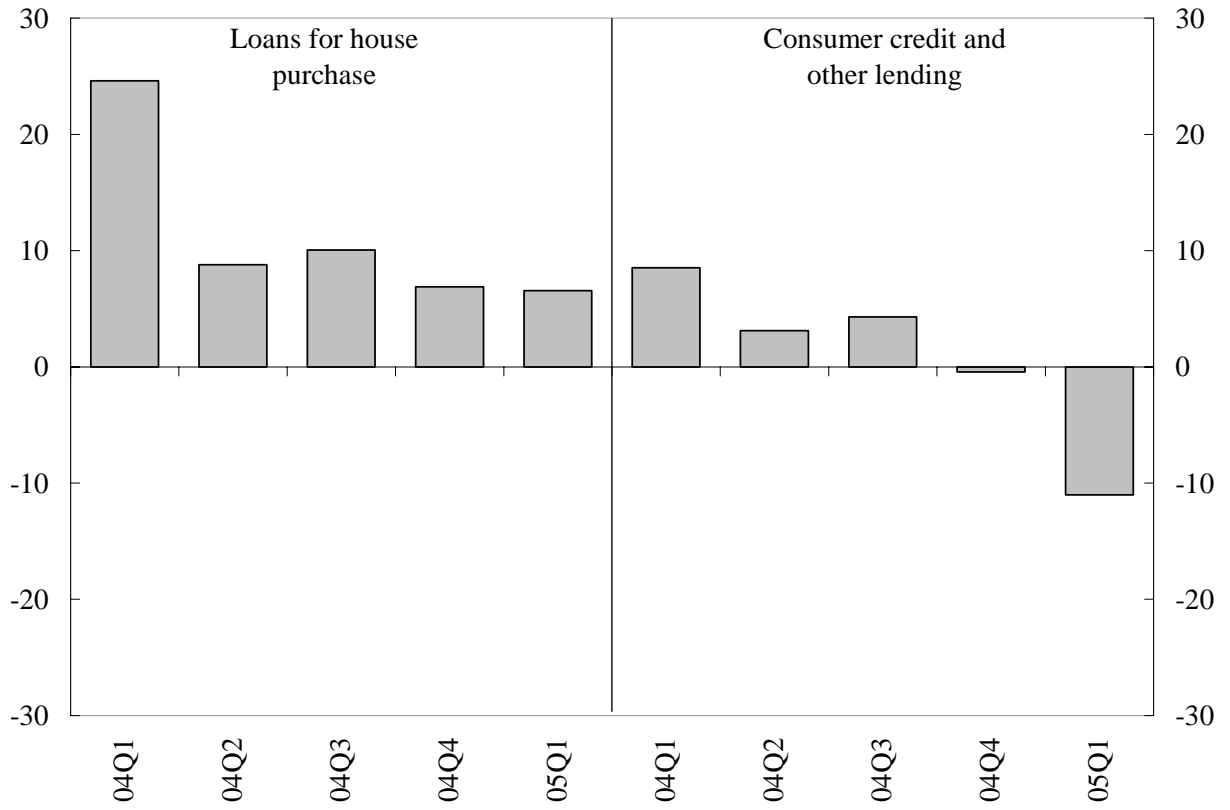
16. Please indicate how you expect your bank's credit standards as applied to the approval of loans to households to change over the next three months.

	Loans for house purchase		Consumer credit and other lending	
	October 2004	January 2005	October 2004	January 2005
Tighten considerably	2	0	4	2
Tighten somewhat	7	12	8	2
Remain basically unchanged	88	82	76	82
Ease somewhat	3	6	12	15
Ease considerably	0	0	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Net percentage	7	7	0	-11
<i>Number of banks responding</i>	<i>80</i>	<i>81</i>	<i>78</i>	<i>79</i>

Note: The net percentage is defined as the difference between the sum of the percentages for "tighten considerably" and "tighten somewhat" and the sum of the percentages for "ease somewhat" and "ease considerably".

- In the January 2005 survey, banks expect a net tightening of credit standards for loans to households for house purchase in the first quarter of 2005 (see Chart 21). However, it should be pointed out that expected values have been significantly higher than realised values since the second quarter of 2002. In general, banks' expectations regarding future conditions in the housing loan markets expressed in the January 2005 survey are similar to those reported in the October 2004 survey.
- Regarding consumer credit and other lending to households, in the January 2005 survey banks expect a net easing of credit standards applied to these loans in the first quarter of 2005, at a level higher than the realised value for the fourth quarter of 2004. Compared with the October 2004 survey, banks' expectations in the January 2005 survey are more favourable with respect to conditions in the consumer credit markets in the next three months.

Chart 21. Expected credit standards for loans to households
(net percentages of banks reporting tightening standards)



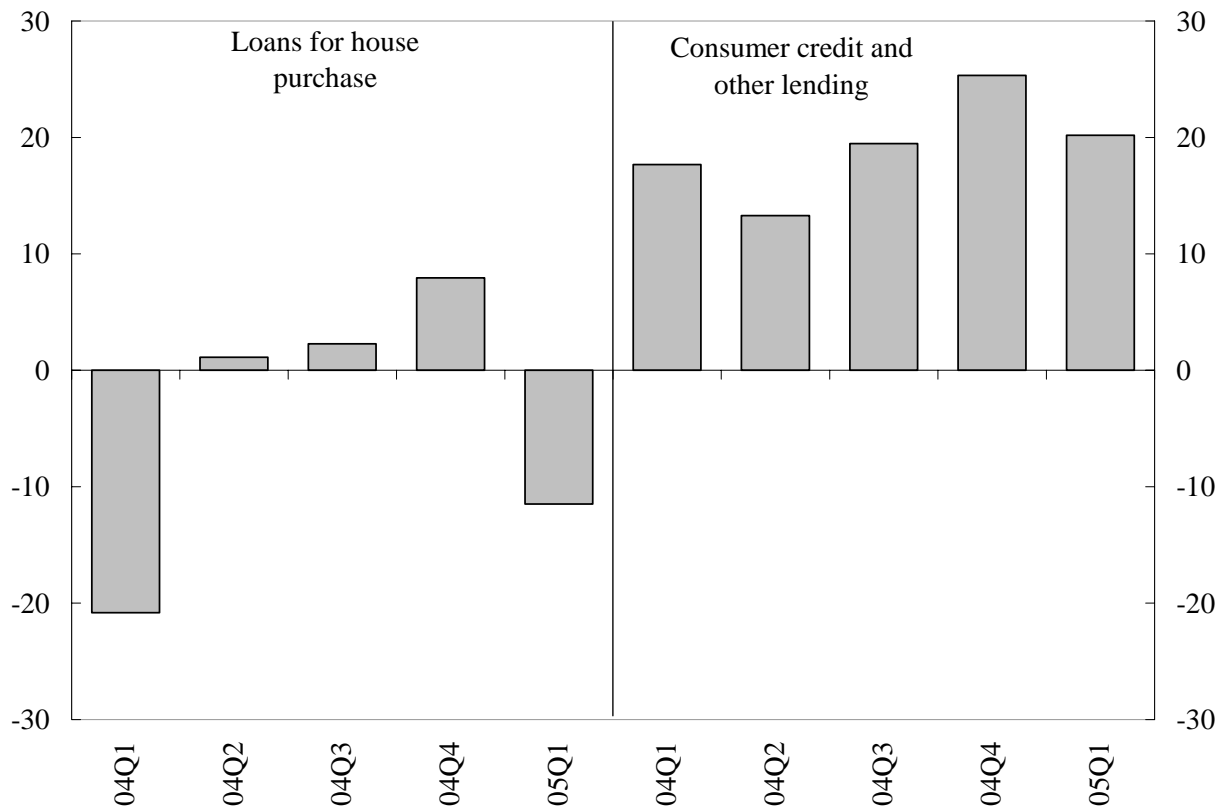
17. Please indicate how you expect demand for loans to households to change over the next three months at your bank (apart from normal seasonal fluctuations).

	Loans for house purchase		Consumer credit and other lending	
	October 2004	January 2005	October 2004	January 2005
Decrease considerably	0	1	0	0
Decrease somewhat	16	19	8	8
Remain basically unchanged	61	71	59	64
Increase somewhat	23	9	33	28
Increase considerably	1	0	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Net percentage	8	-12	25	20
<i>Number of banks responding</i>	<i>80</i>	<i>81</i>	<i>78</i>	<i>79</i>

Note: The net percentage is defined as the difference between the sum of the percentages for "increase considerably" and "increase somewhat" and the sum of the percentages for "decrease somewhat" and "decrease considerably".

- In the January 2005 survey, as shown in Chart 22, responding banks expect net loan demand for housing loans to be negative and thus to decrease in the first quarter of 2005 as compared with the realised (positive) net demand in the fourth quarter of 2004 (see Question 13).
- Regarding consumer credit and other lending to households, responding banks expect in the January 2005 survey that net loan demand for consumer credit and other lending by households will be significantly positive and will thus increase in the first quarter of 2005 as compared with the realised (negative) net demand in the fourth quarter of 2004 (see Question 13).

Chart 22. Expected demand for loans to households for house purchase
(net percentages of banks reporting positive loan demand)



Annex: Glossary used in the survey

In order to assist the banks participating in the survey to fill out the questionnaire, a compilation guide has been developed containing the most important terms in the survey. The overview below shows the main terminology used.

Capital

This is defined in accordance with the Basel capital adequacy requirements; it includes both tier 1 capital (core capital) and tier 2 capital (supplementary capital).

Collateral

The security given by a borrower to a lender as a pledge for the repayment of a loan. This could include certain financial securities, such as equity or debt securities, real estate or compensating balances. A compensating balance is the minimum amount of a loan that the borrower is required to keep in an account at the bank.

Covenant

A covenant is an agreement or stipulation expressed in loan contracts, particularly contracts with enterprises, under which the borrower either pledges to take certain action (an affirmative covenant) or to refrain from taking certain action (a negative covenant), and is consequently part of the terms and conditions of a loan.

Credit line

A credit line is a facility with a stated maximum amount that an enterprise is entitled to borrow from a bank at any given time. In the survey, developments regarding credit lines should be interpreted as changes in the net amount drawn under either an existing or a new credit line.

Credit standards

Credit standards are the internal guidelines or criteria which reflect a bank's loan policy. They are the written and unwritten criteria, or other practices related to this policy, which define the types of loan a bank considers desirable and undesirable, the designated geographic priorities, the collateral deemed acceptable and unacceptable, etc. In the survey, changes in written loan policies should be considered together with changes in their application.

Credit terms and conditions

The terms and conditions of a loan refer to the specific obligations agreed upon by the lender and the borrower. In the context of the bank lending survey, they consist of the direct price or interest rate, the maximum size of the loan and the access conditions, and other terms and conditions in the form of non-interest rate charges (i.e. fees), collateral requirements (including compensating balances), loan covenants and maturity (short versus long-term).

Enterprises

Enterprises refer to non-financial corporations, i.e. all private and public institutional units, whatever their size and legal form, which are not principally engaged in financial intermediation but rather in the production of goods and non-financial services.

Enterprise size

The distinction between large enterprises and small and medium-sized enterprises is based on annual sales. A firm is considered large if its annual net turnover is more than €50 million.

Households

Households are individuals or groups of individuals acting as consumers or as producers of goods and non-financial services exclusively intended for their own final consumption, as well as small-scale market producers.

Loans

The loans covered by the bank lending survey are those granted to euro area residents by domestic branches, including loans or credit lines to enterprises, loans to households for house purchase, and consumer credit and other lending to households.

Loan-to-value ratio

The ratio of the amount borrowed to the appraisal or market value of the underlying collateral, usually taken into consideration in relation to loans used for real estate financing.

Maturity

The concept of maturity used in the bank lending survey is original maturity, and only two different types are used, i.e. short-term and long-term. Short-term loans are loans with an original maturity of one year or

less; long-term loans are consequently defined as loans that have an original maturity of more than one year.

Net balance (or percentage)

The net percentage is defined as 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”. For questions related to demand for loans, the net percentage is defined as the difference between the sum of the percentages for “increase considerably” and “increase somewhat” and the sum of the percentages for “decrease somewhat” and “decrease considerably”.

Non-banks

In general, these consist of non-monetary financial corporations. More specifically, they include insurance corporations and pension funds, financial auxiliaries and other financial intermediaries.

Non-interest rate charges

These are various kinds of fees which can be part of the pricing of a loan, such as commitment fees on revolving loans, administration fees (e.g. document preparation costs), and charges for enquiries, guarantees and credit insurance.