Box 1

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

This box summarises the main results of the euro area bank lending survey, conducted by the Eurosystem between 24 March and 8 April 2014[1], for the first quarter of 2014. Overall, the survey confirms the stabilisation in bank credit conditions for both firms and households.

Summary of the main results

In the first quarter of 2014 euro area banks reported on balance broadly unchanged credit standards applied to loans to enterprises, while credit standards were eased for loans to households. For all loan categories, the net percentage change in credit standards in the first quarter of 2014 remained well below historical averages calculated over the period since the start of the survey in 2003. In the first quarter of 2014 net loan demand turned positive and stood above the historical average for all loan categories. Looking ahead to the second quarter of 2014, banks expect a net easing of credit standards for corporate loans and consumer credit while anticipating a marginal net tightening for loans to households for house purchase. They also expect a net increase in demand for all loan categories – significantly so for loans to enterprises.

Loans and credit lines to enterprises

In the first quarter of 2014 the net percentage[2] of euro area banks reporting a tightening in credit standards was 1%, broadly unchanged from the previous quarter (see Chart A). Looking at the underlying factors, euro area banks reported that, on average, cost of funds and balance sheet constraints contributed to a slight net easing of credit standards (-1%, unchanged from the previous quarter). At the same time, the impact of risk perception on credit standards slightly eased for the first time since mid-2007. This development was mainly due to banks' more favourable expectations regarding the macroeconomic outlook, while the perception of risk relating to collateral demanded and to the industry or firm-specific outlook had a neutral impact on credit standards. Finally, competitive pressures were reported to have contributed to a net easing of credit standards in the first quarter of 2014.

1 The cut-off date for completion of the survey was 8 April 2014. A comprehensive assessment of its results was published on the ECB's website on 30 April 2014.

2 The reported net percentage refers to the difference between the proportion of banks reporting that credit standards have been tightened and the proportion of banks reporting that they have been eased. A positive net percentage indicates that banks have tended to tighten credit standards ("net tightening"), whereas a negative net percentage indicates that banks have tended to ease credit standards ("net easing").

Terms and conditions, which banks apply when granting new loans to enterprises, improved further overall in the first quarter of 2014. Margins on average loans were further narrowed (-16%, compared with -6% in the previous quarter; see Chart B), while those on riskier loans were widened (5%, compared with 7%). For most of the other credit terms and conditions, euro area banks reported net percentages that were either unchanged or close to zero.

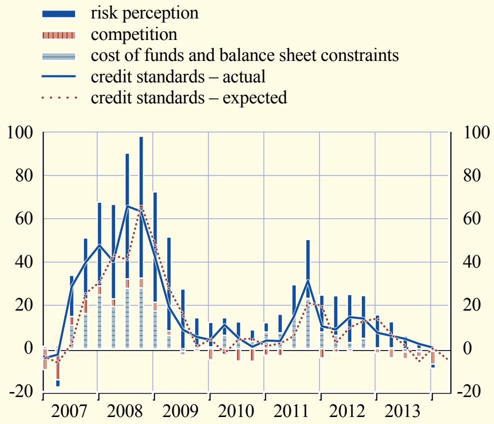
Looking ahead to the second quarter of 2014, on balance, euro area banks expect a net easing of credit standards for loans to enterprises (-5%).

Turning to demand, in the first quarter of 2014, euro area banks reported a net increase for the first time since the second quarter of 2011 (2%, compared with -11% in the previous quarter; see Chart C). According to participating banks, this development was mainly related to increased financing needs for inventories and working capital (11%, from -7%) as well as to a further decline in the contractionary impact of financing needs related to fixed investment (-5%, from -10%). On average, the contribution from the use of alternative sources of finance to the net increase in demand remained broadly unchanged in comparison with the previous survey round.

Looking ahead, banks expect a significant net increase in demand for loans to enterprises in the second quarter of 2014 (25%).

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

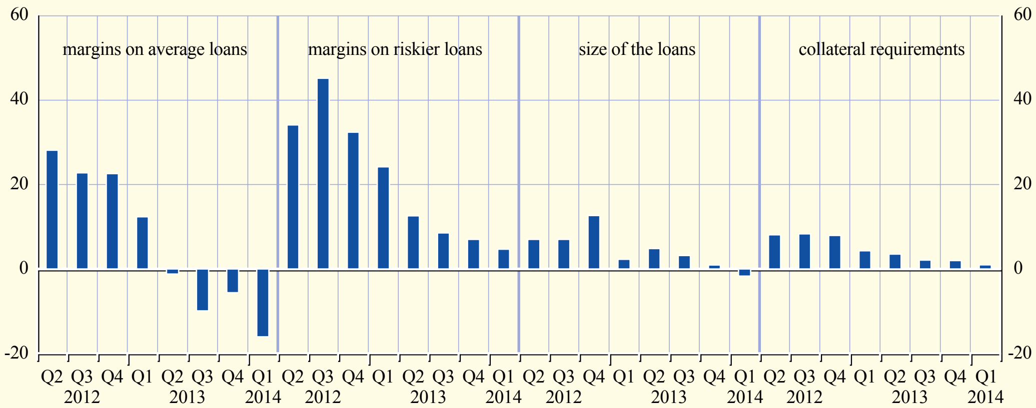
(net percentages and average net percentages per category)



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 “expectations regarding general economic activity”, “industry-specific risk” and “risk on collateral demanded”; competition as unweighted average of “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

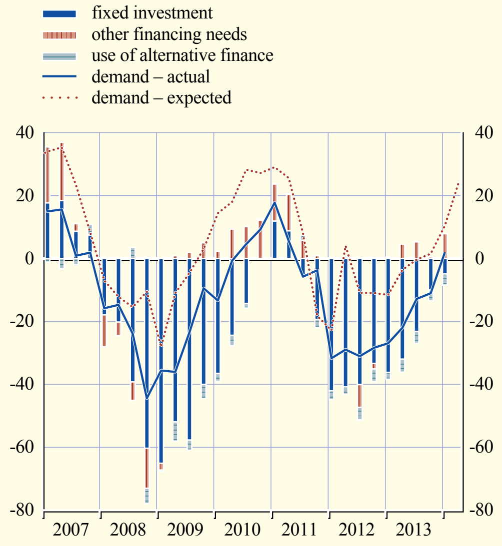
(net percentages of banks reporting tightening terms and conditions)



Source: ECB.

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

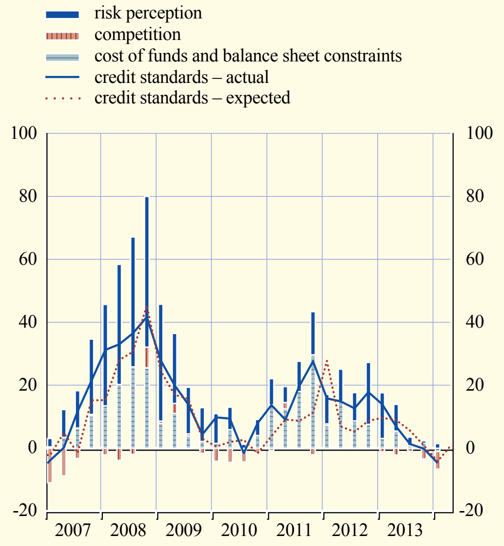
(net percentages and average net percentages per category)



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 "expectations regarding general economic activity" and "housing market prospects"; competition as unweighted average of "competition from other banks" and "competition from non-banks".

Loans to households for house purchase

In the first quarter of 2014 euro area banks reported a net easing of credit standards on loans to households for house purchase (-5%, compared with 0% in the previous quarter; see Chart D). In line with what was reported for corporate loans, banks' cost of funds and balance sheet constraints contributed marginally to the net easing of credit standards for housing loans (-1%, compared with 2% in the fourth quarter of 2013). At the same time, the risk perception of banks had on average a marginal net tightening impact, while competitive pressures were reported, all in all, to have contributed more significantly than in the last quarter to a net easing of credit standards.

Banks' price terms and conditions applied to housing loans improved further in the first quarter of 2014, while there was less change in the non-price terms and conditions. More specifically, euro area banks reported, in net terms, a narrowing of margins on average housing loans (-21%, compared with -10% in the fourth quarter of 2013), while the net tightening of margins on riskier loans remained unchanged (at 2%). Responses regarding non-price terms and conditions pointed to a marginal net easing in the collateral requirements of euro area banks (-1%, from 1%), and in other terms and conditions, mainly related to loan maturity (-4%, from 3%). For the loan-to-value ratio, banks reported a marginal net tightening contribution (1%, from -3%).

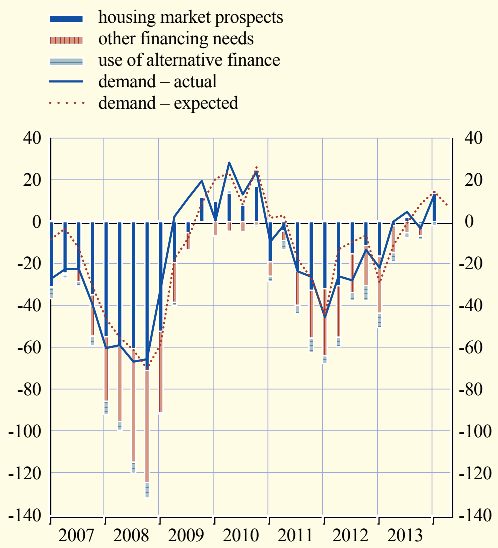
Looking ahead, euro area banks expect a marginal net tightening of credit standards applied to housing loans in the second quarter of 2014 (1%).

Turning to loan demand, euro area banks reported a net increase in demand for housing loans (13%, compared with -3% in the fourth quarter of 2013; see Chart E). Regarding the underlying factors, the positive net contribution of housing market prospects (13%, compared with -1%) and that of consumer confidence (8%, from -9%) were the main drivers behind the net increase in demand for housing loans. By contrast, the contribution related to the use of alternative financing remained slightly negative (unchanged at -2%).

Looking ahead, banks expect a further net increase in demand for housing loans (of 7%) in the second 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 first quarter of 2014, euro area banks reported a net easing of credit standards for consumer credit and other lending (-2%, compared with 2% in the fourth quarter of 2013). This development was mainly related to the net easing impact exerted by the risk perception of banks (for the first time since the first quarter of 2007) and to competition (although to a lesser extent than in the previous quarter). By contrast, banks’ cost of funds and balance sheet constraints exerted a stable neutral impact. Turning to terms and conditions, banks reported a narrowing of margins on average loans (-3%, compared with -6% in the previous survey round), while those on riskier loans widened slightly (1%, as in the previous quarter).

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

In the first quarter of 2014 the surveyed banks reported a net increase in demand for consumer credit (4%, compared with -1% in the fourth quarter of 2013) for the first time since the second quarter of 2010.

Looking ahead to the second quarter of 2014, euro area banks expect a further net increase in demand for consumer credit (16%).

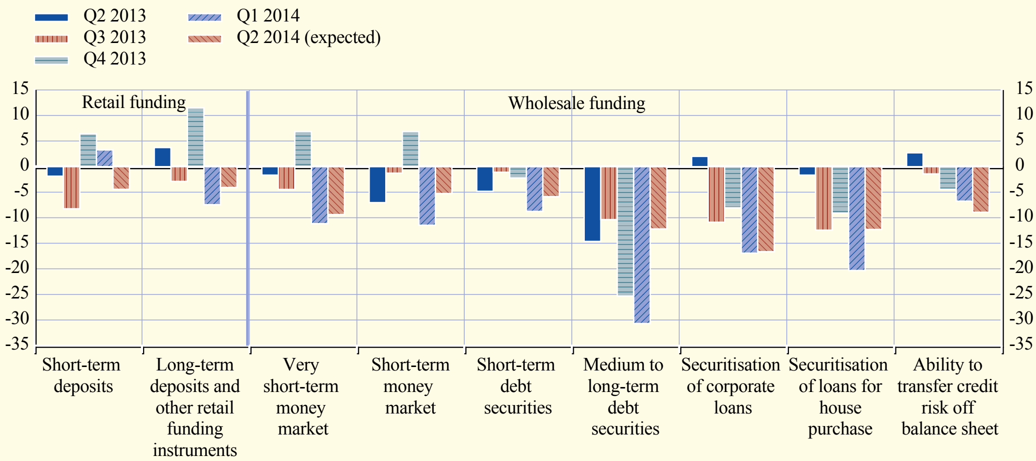
Ad hoc questions

The April 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 balance, in the first quarter of 2014, euro area banks reported a net easing in their access to funding for all main market instruments: retail funding (-2%, from 9%), money market instruments (-11%, from 7%), issuance of bank debt securities (-20%, from -14%) and securitisation (-15%, from -7%) – see Chart F. Looking ahead to the second quarter of 2014, euro area banks expect a further net easing in their access to all market instruments.

Chart F Changes in access to funding over the previous three months

(net percentages of banks reporting deteriorated market access)



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

The questionnaire for the April 2014 survey also 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. Banks' replies indicated that reduced sovereign debt tensions had contributed on average to an easing of banks' funding conditions in the first quarter of 2014, while the impact of the sovereign debt crisis on banks' credit standards had remained muted. At the same time, euro area banks reported that the reduced sovereign debt tensions had contributed to a narrowing of margins for all loan categories in the first quarter of 2014.

Finally, the April 2014 survey questionnaire included, for the first time, a question on the current level of credit standards as compared with the levels that have prevailed between the first quarter of 2003 and now, as well as between the second quarter of 2010 (i.e. when the sovereign debt crisis started to intensify) and now.

First, around 60% of respondent banks assessed their current level of credit standards both for loans to enterprises and for loans to households for house purchase as being tighter than the midpoint of the range of credit standards since 2003. For consumer credit and other lending to households, the percentage was somewhat lower (53%). Around one-quarter of euro area banks assessed their current level of credit standards for loans to enterprises and for housing loans to be basically identical to the midpoint of the range of credit standards since 2003 (26% and 24% respectively); while for consumer credit and other lending to households the percentage was somewhat higher, at 28%.

Second, a smaller percentage of banks assessed their current level of credit standards for loans to enterprises and for loans to households for house purchase as being tighter than the midpoint of the range of credit standards since the second quarter of 2010 (37% and 41% respectively). For consumer credit and other lending to households, the percentage was even lower (28%).