Box 2

THE RESULTS OF THE APRIL 2009 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the April 2009 bank lending survey for the euro area conducted by the Eurosystem.[1] In the first quarter of 2009 the net percentage of banks reporting a tightening of credit standards for loans to enterprises, while still substantial, was considerably smaller than the high level recorded in the previous quarter.[2] Respondent banks also reported a further, but somewhat less strong, net tightening of their credit standards for loans to households both for house purchase and for consumer credit and other lending. Regarding their expectations

1 The cut-off date for the receipt of data from the responding banks was 3 April 2009. A comprehensive assessment of the results of the April 2009 bank lending survey for the euro area was published on 29 April 2009 on the ECB's website.

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").

for the second quarter of 2009, banks saw a further, albeit smaller, decline in net tightening for all three loan categories compared with the actual net tightening in the first quarter of 2009. Regarding demand for loans, banks reported that net demand for loans both to enterprises and to households for consumer credit and other lending declined considerably, while net demand for loans to households for house purchase was significantly less negative.[3,4]

As in preceding survey rounds, the April 2009 survey round contained a set of additional ad hoc questions addressing the effect of the financial turmoil on bank lending policies. Notably, in response to these questions the majority of banks indicated that in the first quarter of 2009 government announcements of recapitalisation support and state guarantees for debt securities issued by banks were already having an impact by improving bank access to wholesale funding and were expected to further ease access to funding in the second quarter of 2009. Nevertheless, banks continued to report that in the first quarter of 2009 their access to funding was still hampered as a result of the turmoil in financial markets. Indeed, only in the case of very short-term funding did a majority of reporting banks indicate that access was not hampered in the first quarter of 2009. Likewise, the majority of banks reported that the financial market tensions continued to have an adverse impact on their capital positions and lending capacity.

Loans or credit lines to enterprises

Credit standards: In the first quarter of 2009 the net percentage of banks reporting a tightening of credit standards for loans to enterprises, while still high, declined substantially compared with the previous quarter (to 43%, from 64% in the fourth quarter of 2008; see Chart A). As in the previous quarter, this mainly reflected banks reporting that they had tightened their credit standards "somewhat", whereas only a minority stated that they had tightened them "considerably". The main driving forces behind the net tightening in the first quarter of 2009 continued to be expectations regarding general economic activity and the industry or firm-specific outlook which, while abating somewhat, stood at levels of 55% and 59% respectively. At the same time, the impact of the cost of funds and balance sheet constraints remained at comparatively high levels, although the importance of these factors also diminished slightly compared with the fourth quarter of 2008. As in previous quarters, banks reported virtually no pressure from competition factors to either tighten or ease their credit standards.

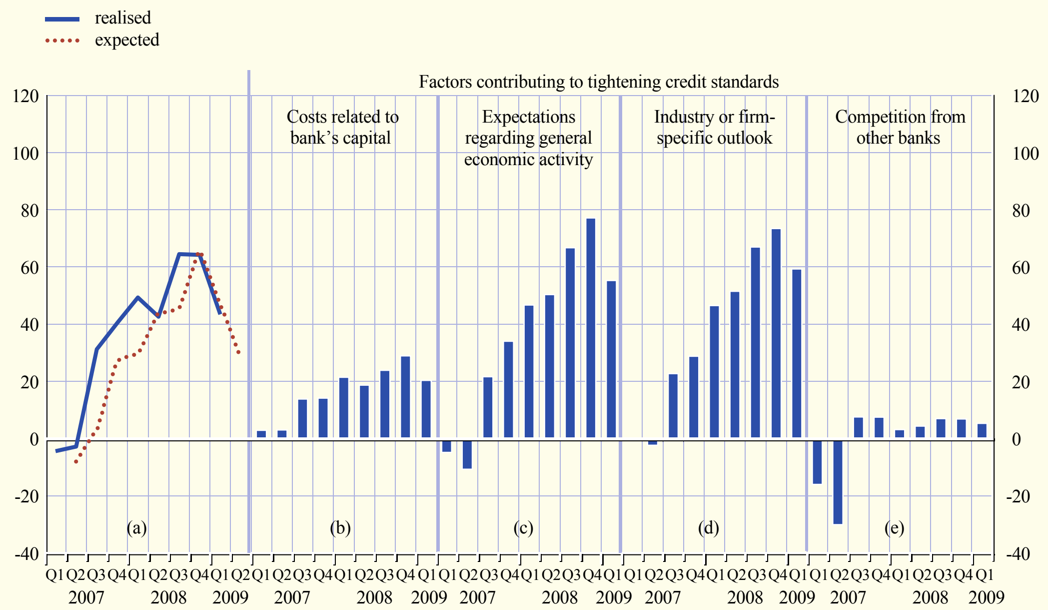
As regards the terms and conditions related to the provision of loans to enterprises, banks reported that they continued to widen their margins on average loans and on riskier loans in the first quarter of 2009. The net percentages of banks reporting a widening of margins on average and riskier loans were 58% (against 61% in the previous quarter) and 71% (against 77%) respectively (see Chart B). Moreover, around one-third of the banks tightened their credit standards by altering the size of loans or credit lines (i.e. reducing them) and by tightening collateral requirements. Since mid-2007, of all the non-interest charges, collateral requirements have contributed most in terms of net tightening, while banks have also become considerably more stringent in terms of loan

3 The term "net demand" refers to the difference between the proportion of banks reporting an increase in loan demand and the proportion of banks reporting a decline.

4 With effect from the April 2009 bank lending survey round, an alternative measure, namely the diffusion index, will be published in addition to the net tightening of credit standards. The diffusion index weights the degree to which banks change their credit standards. The interpretation of the diffusion index applies the same logic as the interpretation of net percentages, but, by construction, the movements of the diffusion index tend to be somewhat more muted than movements in net percentages. The diffusion index is constructed in the following way: lenders who have answered "considerably" are given a weight that is twice as high (score of 1) as the weight for lenders who have answered "somewhat" (score of 0.5).

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

(net percentages)

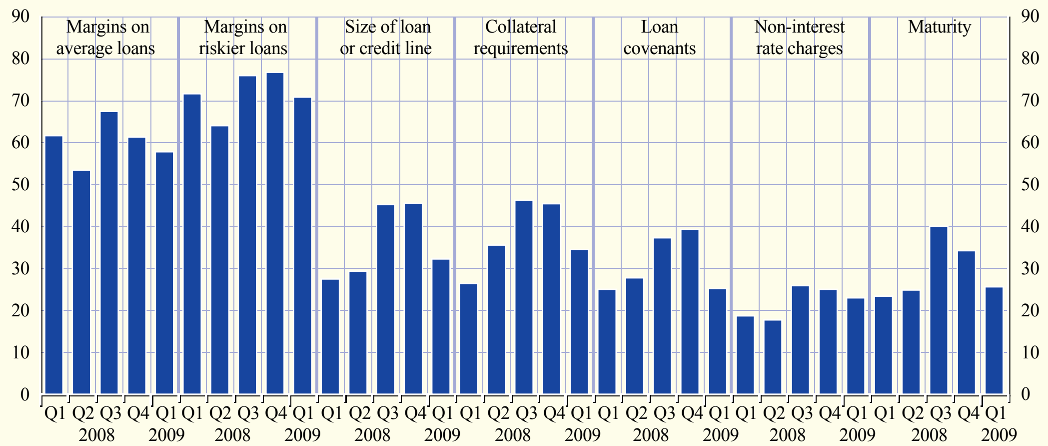


Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably". The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to tightening and the percentage reporting that it contributed to easing. "Realised" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

sizes and loan covenants. In contrast, in the preceding period of easing credit standards (between mid-2004 and mid-2007) banks reported that the net easing was mainly conducted via reductions in the margins on average loans.

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

(net percentages of banks reporting tightening terms and conditions)



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

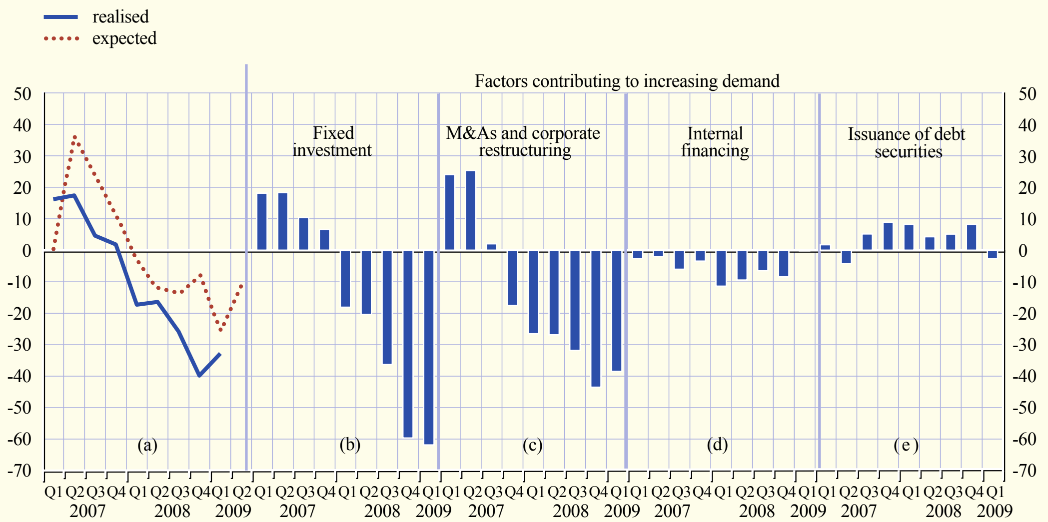
In the first quarter of 2009 the net tightening of credit standards for loans to large enterprises (48%, against 63% in the fourth quarter of 2008) was slightly greater than for loans to small and medium-sized enterprises (SMEs – 42%, against 63% in the previous quarter). In recent quarters the factors underlying the changes in credit standards, for both large enterprises and SMEs, mainly related to expectations regarding general economic activity and the industry or firm-specific outlook. At the same time, costs related to banks' capital positions played a somewhat more important role in the net tightening of credit standards for large firms than for SMEs, which may reflect the fact that, with the current slowdown in syndicated lending and a subdued credit risk transfer market, the allocation of capital to larger loans has become comparatively costly. Moreover, competition from other banks contributed to only a small extent to the net tightening of credit standards for both SMEs and large firms. With respect to terms and conditions, the net tightening of credit standards continued to be reflected most markedly in net increases of bank margins on average loans as well as on riskier loans, for loans to both large firms and SMEs. The contribution of non-price terms and conditions to the net tightening remained broadly at the same elevated levels as in the previous quarter independent of firm size.

Expectations regarding credit standards applied to loans and credit lines to enterprises in the second quarter of 2009 point to a further moderation in net tightening (28%) compared with the actual net tightening in the first quarter (see Chart A).

Loan demand: In the first quarter of 2009 net demand for loans to enterprises declined somewhat less than in the previous quarter, but remained rather low (at -33%, down from -40% in the fourth quarter of 2008; see Chart C). This negative net demand was driven by a continued sharp decline in financing needs for fixed investment (-62%, compared with -60% in the previous quarter). Likewise, weak demand for loans to finance mergers and acquisitions and corporate restructuring

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

(net percentages)



Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to an increase in demand and the percentage reporting that it contributed to a decline. "Realised" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

was observed in the first quarter of 2009 (-39%, against -44% in the fourth quarter of 2008). At the same time, the slightly less negative net demand for corporate loans was mainly driven by firms' need to restructure their debts and also by perceived difficulties in obtaining loans from other banks and non-banks. In contrast to previous quarters, internal financing (i.e. profitability) did not contribute to lowering net demand for loans to enterprises in the first quarter of this year, which may indicate a deterioration in the corporate sector's earnings prospects. In the first quarter of 2009 there is some evidence suggesting a return of investment-grade firms to the euro area corporate bond market.[5] This may explain why, in contrast to previous quarters, banks reported that the issuance of debt securities contributed negatively to net demand for loans to enterprises.

In the second quarter of 2009 banks expect net demand for loans to enterprises to become less negative (-12%) compared with actual net demand in the first quarter of 2009 (see Chart C).

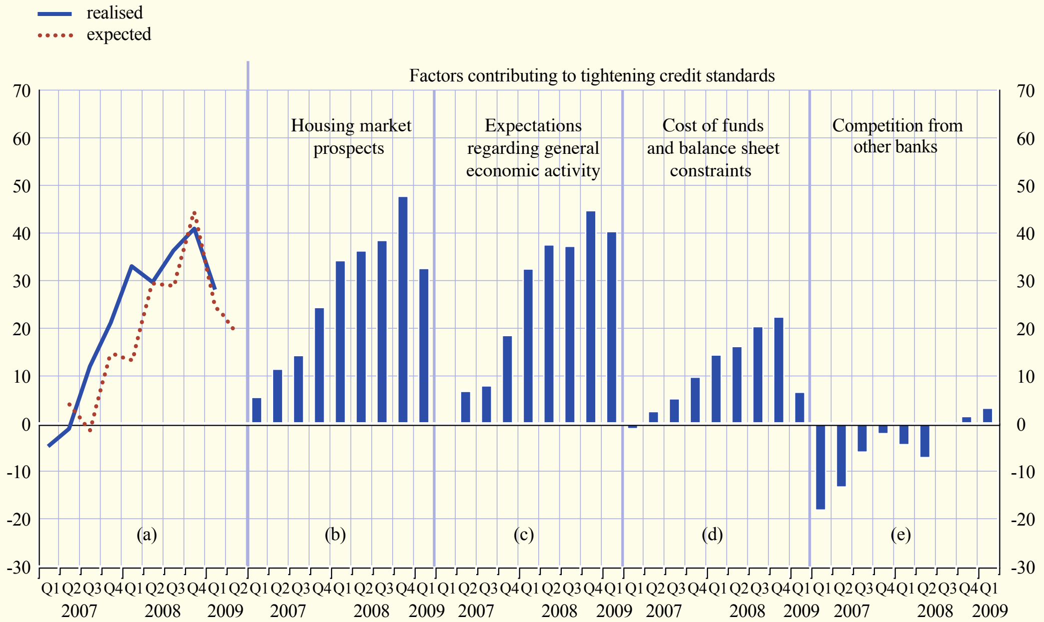
Loans to households for house purchase

Credit standards: In the first quarter of 2009 the net percentage of banks reporting a tightening of credit standards applied to loans to households for house purchase declined somewhat (28%, compared with 41% in the fourth quarter of 2008), implying a further, albeit more moderate, overall tightening of credit standards from an already elevated level (see Chart D). Expectations regarding general economic activity and housing market prospects remained the main factors contributing to the continued net tightening of credit standards. In addition, the cost of funds and balance sheet constraints also contributed to the net tightening, although much less so than in the

5 According to the ECB's securities issues statistics, the issuance of debt securities by non-financial corporations in the euro area increased considerably in January and February 2009.

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

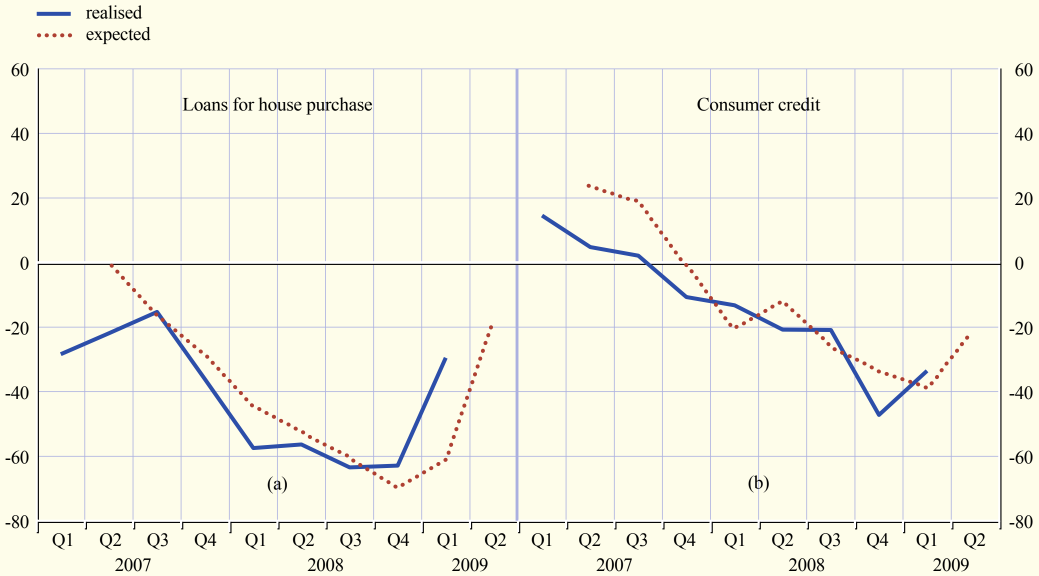
(net percentages)



Note: See notes to Chart A.

Chart E Changes in demand for loans to households for house purchase and consumer credit

(net percentages)



Notes: The net percentages refer to the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". "Realised" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

previous quarter (7%, down from 22%). Moreover, as in the previous quarter, competition from other banks did not contribute to an easing of credit standards applied to loans to households for house purchase, but was broadly neutral.

As regards the terms and conditions for loans for house purchase, margin requirements, in particular on riskier loans, remained the main factor in the net tightening of credit standards in the first quarter of 2009. Collateral requirements and loan-to-value ratios, while still contributing to net tightening, became somewhat less stringent compared with the previous quarter.

Looking ahead to the second quarter of 2009, credit standards for loans for house purchase are expected to tighten to a lesser extent (19%) compared with the actual net tightening in the first quarter of 2009 (see Chart D).

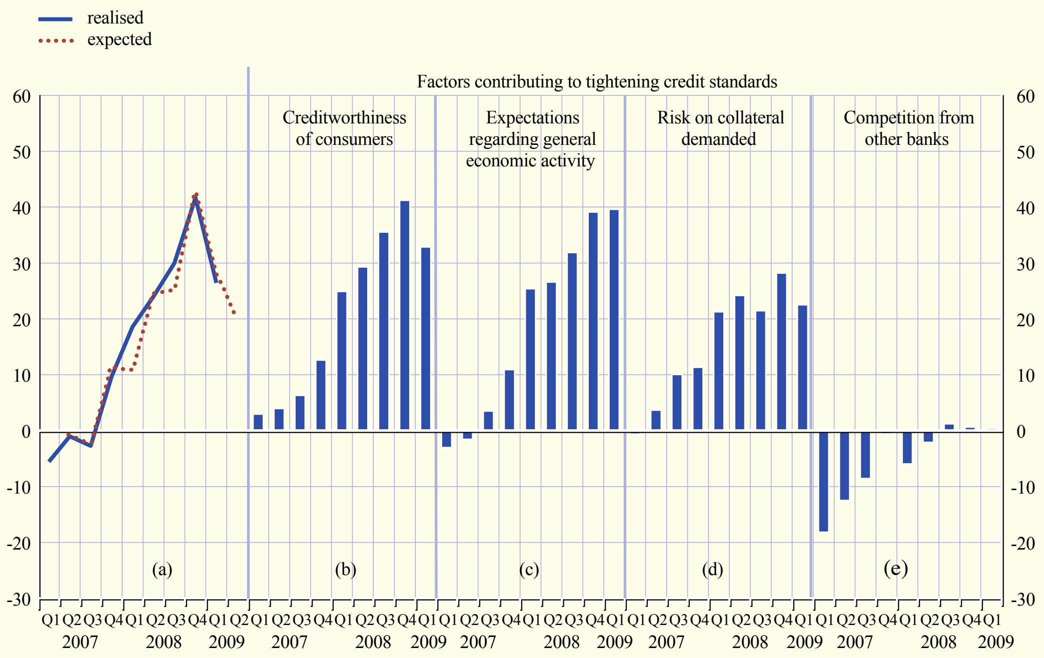
Loan demand: Net demand for housing loans remained negative in the first quarter of 2009, albeit considerably less so than in the previous quarter (-30%, down from -63%; see Chart E). As in previous quarters, this negative net demand reflected mainly housing market prospects and deteriorating consumer confidence. For the second quarter, expectations point to a somewhat lower negative level of net demand (-18%) compared with actual net demand in the first quarter.

Loans for consumer credit and other lending to households

Credit standards: In the first quarter of 2009 the net percentage of banks reporting a tightening of credit standards for consumer credit and other lending to households moderated somewhat, to 26%, down from its historical peak of 42% observed in the previous quarter (see Chart F). The

Chart F Changes in credit standards applied to the approval of consumer credit and other lending to households

(net percentages)



Note: See notes to Chart A.

main factor behind the continued net tightening was banks' perceptions of risk, mainly related to deteriorating expectations regarding general economic activity and the creditworthiness of consumers. As regards the terms and conditions for consumer credit, in the first quarter of 2009 banks continued to charge higher margins on both average and riskier loans, whereas requirements regarding loan maturities became somewhat less stringent compared with the previous quarter.

For the second quarter of 2009, credit standards for consumer credit and other lending to households are expected to tighten to a lesser extent (20%) compared with the actual net tightening in the first quarter of 2009 (see Chart F).

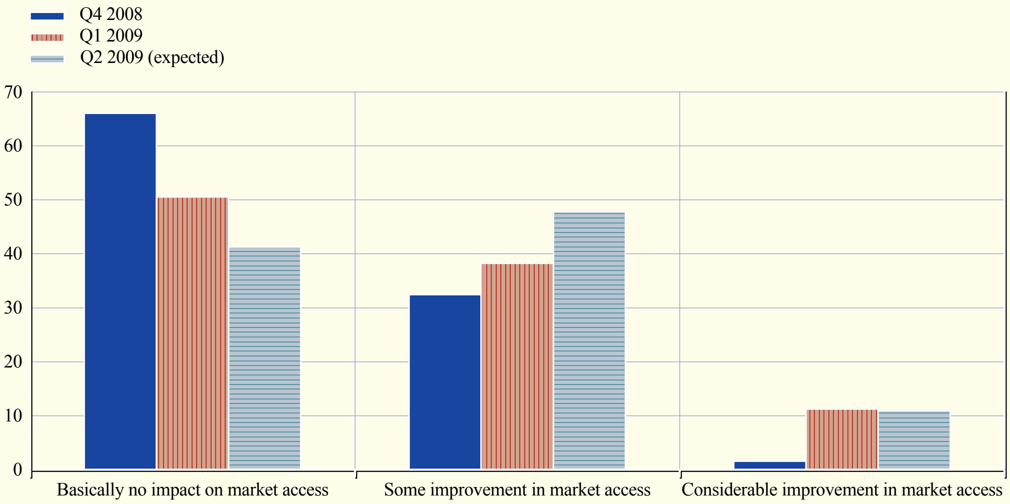
Loan demand: In the first quarter of 2009 net demand for consumer credit and other lending to households remained negative, although somewhat less so compared with the previous quarter (-34%, down from -47%; see Chart E). The two main factors dampening demand continued to be consumer confidence and lower financing needs for durable consumer goods. Moreover, net demand for consumer credit loans is expected to improve somewhat in the second quarter of 2009 but to remain negative (-21%).

Ad hoc questions on the financial turmoil

The April 2009 survey round included the same set of ad hoc questions as the January 2009 survey round. They aimed at addressing the impact on euro area banks of the financial market tensions experienced since mid-2007.

Chart G Effect of government's announcement of recapitalisation support and state guarantees on access to wholesale funding

(percentages)



Banks reported that their access to money markets remained impaired in the first quarter of 2009 as a result of the turmoil in financial markets, although some slight improvements were noticed in all market segments compared with the fourth quarter of 2008. Apart from access to very short-term funding in the money market, where 70% of the banks reported that they were not hampered, for all other sources of wholesale funding more than 50% of the reporting banks indicated that their access remained hampered in the first quarter of 2009. In particular, around 80% of the banks reported that their access to securitisation – both true-sale and synthetic – and to medium to long-term debt issuance was hampered in the first quarter of 2009. At the same time, the percentage of banks reporting a hampered ability to transfer credit risk off their balance sheets declined from 90% in the fourth quarter of 2008 to less than 70% in the first quarter of 2009. In the second quarter of 2009 access to wholesale funding and securitisation is expected to remain hampered to a similar extent as in the first quarter of 2009.

At the same time, banks reported that government announcements of recapitalisation support and state guarantees for debt securities issued by banks had an impact on improving their access to wholesale funding in the first quarter of 2009. This was reflected in the fact that around 50% of the banks (up from 34% in the previous quarter) reported that the announced government support schemes had "some" or a "considerable" impact on their access to funding in the first quarter of 2009. Furthermore, around 60% of the banks reported that they expect their access to wholesale funding to improve further in the second quarter of 2009 as a result of the announced government actions (see Chart G).[6]

In line with the continued impaired access to money markets and debt securities markets, banks reported that the impact on bank lending, as regards both quantities and margins, from these funding options remained broadly unchanged, at elevated levels, in the first quarter of 2009. The impact on margins continued to be stronger than the impact on the amount of loans granted

6 100 out of 118 banks responded, giving a response rate of 85%. 8% of responding banks reported "not applicable".

to borrowers. Similarly, as regards hampered access to securitisation, banks reported a broadly unchanged impact on the amount of loans granted, as well as on margins demanded, compared with the previous quarter. The impact on margins was broadly similar to the impact on quantities. With respect to the next three months, banks reported that they expect a similar impact on their willingness to lend and on margins resulting from their hampered access to money markets and debt securities markets and a somewhat smaller impact resulting from securitisation compared with the impact over the past three months.

Finally, with regard to the impact of the change in banks' costs related to their capital positions on their lending policy, in the first quarter of 2009 44% of the reporting banks indicated "some" or a "considerable" impact on capital and lending, which was a decrease of 5 percentage points compared with the fourth quarter of 2008. At the same time, the percentage of banks replying that there was virtually no impact on their capital remained broadly unchanged, at a low level of 29%, in the first quarter of 2009 (following 27% in the previous quarter). Looking ahead to the next three months, 45% of the reporting euro area banks expect that the financial market events will continue to have some or a considerable impact on their capital positions and lending.