



EUROPEAN CENTRAL BANK

13 November 2003

THE EURO AREA BANK LENDING SURVEY

– OCTOBER 2003 –

1. General introduction

This report publishes the results obtained from the ECB's bank lending survey for the euro area conducted in October 2003.

The main purpose of the survey is to enhance the understanding of bank lending behaviour in the euro area¹. The survey is addressed to senior loan officers of a representative sample of euro area banks², and takes the form of a questionnaire containing 18 qualitative questions on past and expected future developments regarding lending policies. The questions distinguish between loans to enterprises and loans to households. For both sectors, the survey addresses issues such as credit standards for approving loans as well as credit terms and conditions. It also asks for an assessment of the conditions affecting credit demand.

A copy of the questionnaire can be found at http://www.ecb.int/pub/period/bls/bls_questionnaire.pdf.

The survey, which was first produced in January 2003, is conducted four times a year, always in the first month of the quarter. This document reports on the results obtained from the fourth survey cycle. The cut-off date for receipt of data from the banks participating in the survey was 14 October 2003.

By publishing the survey results, the ECB aims to share with the public in a transparent manner the information that is available to the ECB's decision-making bodies. However, given that the exercise is relatively new, the results of the survey should be interpreted with a high degree of caution. More time

¹ See the ECB press release of 21 November 2002, *Bank lending survey for the euro area*, and the April 2003 Monthly Bulletin article on "A bank lending survey for the euro area".

² The sample group of banks participating in the survey comprises around 90 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.

and experience will be needed to interpret the results adequately and to judge the relationship between them and actual economic and financial developments.³

2. Overview of the results

The results of the October 2003 bank lending survey show a continuing fall in the net percentage⁴ of banks reporting a tightening of credit standards applied to the approval of loans to enterprises over the past three months⁵. However, more than 20% of banks reported still having tightened credit standards, and only a few banks reported an overall easing of credit standards. At the same time, the net percentage of banks reporting a tightening of credit standards applied to the approval of loans to households remained low.

With regard to loans to enterprises, 23% of banks reported in October a net tightening of credit standards for the period July-September. This was slightly above what banks expected in July for the same period (19%), but lower than what was reported in the period April-June (27%) or before April. For the first time, a small percentage of banks (3%) reported an overall easing of credit standards (see Chart 1, first panel).

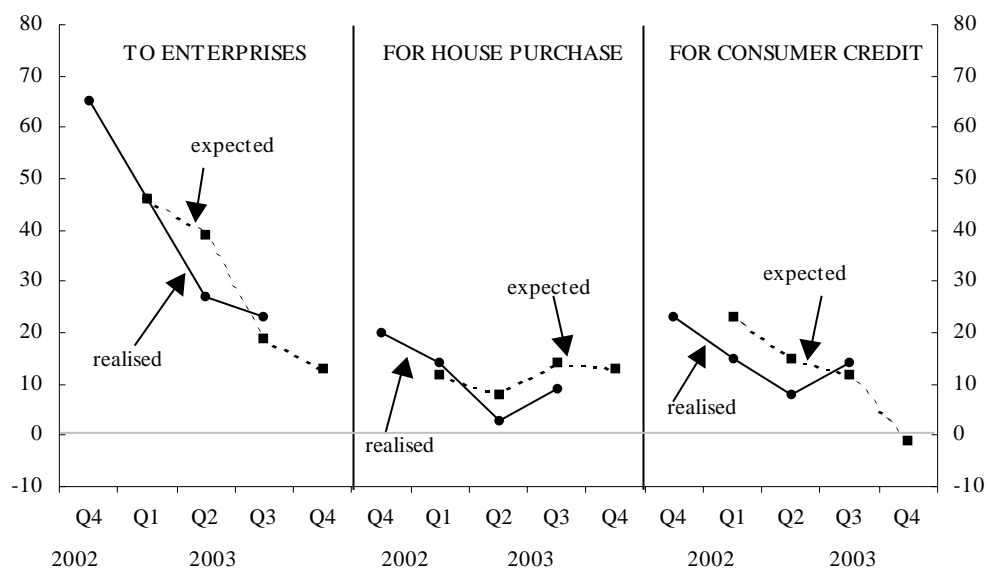
As in July, risk perceptions were the factor that contributed the most to the overall net tightening of credit standards in the third quarter, in particular in terms of the industry or firm-specific outlook, closely followed by expectations regarding general economic activity. The terms and conditions for approving loans or credit lines to enterprises that tended to be tightened the most were interest rate margins, the size of the loan or credit line, and collateral requirements.

³ For example, in interpreting results, it should be kept in mind that the questions are generally phrased in terms of changes over the past quarter, e.g. “how have credit standards changed?” It cannot be excluded, however, that – as in other surveys – the answers could be biased by respondents addressing more the levels than the changes. If this were the case, the changes in the answers would be more informative than their absolute levels. More experience will need to be gained with regard to the interpretation of the results. Furthermore, as more surveys are conducted, it will be possible to compare the survey results with actual credit developments.

⁴ The results are generally presented on a net basis, i.e. in net percentages. The net percentage is here 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”. Thus positive figures indicate a net tightening of credit standards, and negative figures a net easing of credit standards.

⁵ The questionnaire generally phrases questions referring to over the “past three months” and over the “next three months”. In the October survey, the “past three months” thus refer approximately to the third quarter of 2003, while the “next three months” broadly correspond to the fourth quarter of 2003.

Chart 1. Credit standards applied to the approval of loans or credit lines
(net percentages of banks reporting tightening 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, the “expected” values for the third quarter of 2003 were reported by banks in the July survey.

With regard to demand for loans or credit lines by enterprises over the three month period ending in September 2003, banks reported a smaller net decrease than before. On balance, 17% of respondents indicated in October that they had experienced weaker demand for loans or credit lines to enterprises over the past three months (compared with 25% in July) (see Chart 2, first panel). The main reasons given for reduced current demand were lower financing needs of corporations for fixed investments. At the same time, almost a third of reporting banks referred to debt restructuring as a factor leading to greater demand.

Regarding expectations for the next three months (i.e. the period October–December 2003), reporting banks expect a further decline in the overall net tightening of their credit standards applied to the approval of loans or credit lines to enterprises (see Chart 1, first panel). By contrast, banks expect for the first time a net increase in the overall demand for loans or credit lines by enterprises in the last quarter of 2003 (see Chart 2, first panel).

Turning to households, 9% of banks reported a net tightening of credit standards applied to the approval of loans for house purchase in the three months to September 2003. This net percentage was higher than in July (3%), but below expectations for the third quarter of 2003 (14%) (see Chart 1, second panel).

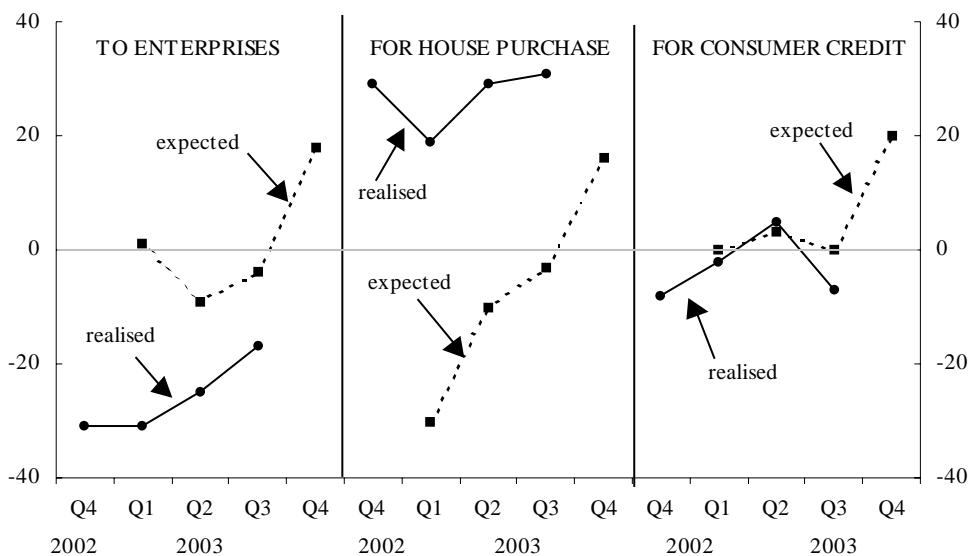
Regarding credit standards applied to consumer credit and other loans to households, 14% of respondents reported a net tightening in October for the period July–September (up from 8% in July), which was slightly above what was expected for the third quarter (12%) (see Chart 1, third panel).

The factor that contributed most to the slight overall tightening of credit standards on loans to households over the past three months was weak expectations for general economic activity. Tighter lending policies,

where they occurred, were expressed via higher margins applied to riskier loans. By contrast, for the first time, banks reported having reduced on balance their margins on average loans.

Regarding demand for loans to households, the October 2003 survey showed that on balance 31% of banks reported an increase in demand for loans for house purchase, compared with 29% in July (see Chart 2, second panel).

Chart 2. Demand for loans or credit lines
(net percentages of banks reporting an increase in 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, the “expected” values for the third quarter of 2003 were reported by banks in the July survey.

Demand for consumer credit and other loans to households fell in the October survey (a net percentage of -7%, down from a 5% increase in the July 2003 survey). This decline had already been expected in the July survey: on balance, no bank had expected an increase in demand for the third quarter of 2003 (see Chart 2, third panel).

With regard to expectations for the next three months (October-December 2003), the expected net tightening remained at the same level as in the July 2003 survey for loans for house purchase (13%). However, banks expect a slight easing of credit standards as applied to loans for consumer credit and other lending (down -1% from a net tightening of 12%) (see Chart 1, second and third panels). At the same time, the reporting banks expect a strong net increase in demand for loans by households both for loans for house purchase and for consumer credit over the period October–December 2003 (see Chart 2, second and third panels).

3. The results for the individual questions

I. Loans or credit lines to enterprises

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	
	July	October	July	October	July	October	July	October	July	October
Tightened considerably	0	2	0	2	0	2	0	2	2	2
Tightened somewhat	27	24	32	23	25	18	19	17	28	24
Remained basically unchanged	73	72	65	70	75	77	82	78	68	73
Eased somewhat	0	3	3	5	0	3	0	3	2	1
Eased considerably	0	0	0	0	0	0	0	0	0	0
Total	100	100	100	100	100	100	100	100	100	100
<i>Net percentage</i>	27	23	30	20	25	17	19	16	28	25
Number of banks responding	83	83	81	81	80	80	82	82	83	82

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”.

- For the period July–September 2003, 23% of all responding banks reported a tightening of credit standards, compared with 27% back in July 2003.
- The majority of respondents, 72%, continued to report basically unchanged credit standards in October. For the first time, a small percentage of banks (3%) reported an overall easing of credit standards.
- The net percentages indicating tightening are lower than those reported in the previous surveys for loans to both large and small and medium enterprises.
- The net percentages for tightening continued to decrease for all loan maturities (in October they were both 3 percentage points lower than in the July survey).

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	
							July	October
A) Cost of funds and balance sheet constraints								
Costs related to your bank's capital position	0	10	82	0	0	8	8	10
Your bank's ability to access market financing	3	3	81	4	0	10	7	2
Your bank's liquidity position	0	2	87	0	0	10	1	2
B) Pressure from competition								
Competition from other banks	0	2	80	8	0	10	-5	-6
Competition from non-banks	0	1	83	0	0	15	-1	2
Competition from market financing	2	0	82	1	0	15	0	1
C) Perception of risk								
Expectations regarding general economic activity	6	30	57	3	0	4	47	33
Industry or firm-specific outlook	6	40	46	4	0	4	49	43
Risk on the collateral demanded	1	20	73	1	0	6	24	19

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 remained basically unchanged.

- Risk perceptions were the factor cited as contributing the most to the overall net tightening of credit standards over the three months from July to September 2003, in particular related to the industry or firm-specific outlook, closely followed by expectations regarding the general economic outlook.
- Some banks mentioned the cost of funds and balance sheet constraints as being additional important factors that had contributed to a tightening of 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	
							July	October
A) Price								
Your bank's margin on average loans	0	34	59	4	0	4	41	30
Your bank's margin on riskier loans	6	47	40	0	1	6	66	52
B) Other conditions and terms								
Non-interest rate charges	1	16	76	3	0	6	17	14
Size of the loan or credit line	0	30	62	3	0	6	31	27
Collateral requirements	1	22	70	1	0	6	28	22
Loans covenants	0	20	68	4	0	8	32	16
Maturity	0	19	72	3	0	6	23	16

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.

- Banks continued to tighten their conditions and terms for approving loans or credit lines to enterprises in the third quarter of 2003. Compared with July, generally a larger percentage of banks reported that their conditions and terms remained basically unchanged.
- In the October survey, a net 52% of responding banks widened their margins on riskier loans, down from 66% in July. The reported percentages for margins on average loans fell to 30%, down from 41% in July.
- With regard to non-price conditions and terms, the net percentage of banks reporting that they had reduced the size of loans or credit lines fell to 27% in October, compared with 31% in July.

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	
	July	October	July	October	July	October	July	October	July	October
Decreased considerably	2	1	2	2	4	2	2	1	3	2
Decreased somewhat	33	29	30	27	25	31	20	26	38	34
Remained basically unchanged	54	57	52	51	57	54	61	60	47	39
Increased somewhat	10	13	16	18	12	13	16	13	10	25
Increased considerably	0	0	0	3	2	0	0	0	2	0
Total	100	100	100	100	100	100	100	100	100	100
<i>Net percentage</i>	-25	-17	-17	-9	-15	-20	-6	-13	-30	-11
Number of banks responding	83	83	81	81	80	80	81	82	82	83

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 October, the net percentage of banks experiencing a decrease in loan demand by enterprises declined to 17%, compared with 25% in July.
- The net percentage of banks reporting a decrease in demand for loans to small and medium-sized enterprises fell to 9% from 17% in July. By contrast, a net 20% of banks witnessed a decrease in demand for loans to large enterprises (up from –15% in July).
- With regard to the maturity of loans, demand has further decreased for short-term loans (up from –6% in July to -13% in October). By contrast, demand for long-term loans improved to -11%, compared with -30% in the previous quarter.

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

	--	-	°	+	++	NA	NetP	
							July	October
A) Financing needs								
Fixed investment	1	47	42	2	0	7	-38	-46
Inventories and working capital	0	22	55	12	0	10	-13	-10
Mergers/acquisitions and corporate restructuring	3	11	64	10	0	13	-3	-4
Debt restructuring	0	1	58	30	2	8	32	31
B) Use of alternative finance								
Internal financing	0	6	73	7	0	13	0	0
Loans from other banks	0	8	80	1	2	9	5	-4
Loans from non-banks	0	7	76	1	0	16	0	-6
Issuance of debt securities	0	6	61	13	0	19	8	7
Issuance of equity	0	6	62	9	0	23	6	2

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 demand remained basically unchanged.

- The factor that contributed most strongly to the overall net decrease in demand for loans or credit lines to enterprises over the past three months continued to be lower financing needs related to fixed investments (46%).
- By contrast, banks reported that debt restructuring had contributed to an increase in the demand for loans or credit lines to enterprises.

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	
	July	October	July	October	July	October	July	October	July	October
Tighten considerably	0	0	0	0	2	2	0	2	2	1
Tighten somewhat	23	14	23	14	24	16	11	13	22	19
Remain basically unchanged	72	85	68	82	73	80	82	83	74	78
Ease somewhat	4	1	9	4	1	2	7	1	1	1
Ease considerably	0	0	0	0	0	0	0	0	2	0
Total	100	100	100	100	100	100	100	100	100	100
<i>Net percentage</i>	19	13	14	11	24	16	5	14	21	19
Number of banks responding	83	83	81	81	80	80	81	83	82	83

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".

- Most respondents reported in October that they expect to keep their credit standards applied to enterprises basically unchanged over the next three months (85% compared with 72% in July). A smaller percentage of banks (14%, down from 23% in July) expect to tighten credit standards for enterprises in the fourth quarter of 2003.
- As a result, the net percentage of banks expecting a tightening of credit standards over the next three months declined to 13% in October, down from 19% in July.
- The expected lower net tightening of credit standards applied to loans or credit lines to enterprises over the next three months relates to all enterprises, regardless of their size, and to long-term loans.
- For short-term loans, the net percentage of expected tightening increased to 14% in October, up from 5% in July.

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	
	July	October	July	October	July	October	July	October	July	October
Decrease considerably	0	0	0	0	2	2	0	0	2	0
Decrease somewhat	18	12	23	8	22	11	15	11	18	13
Remain basically unchanged	68	58	58	61	64	64	74	59	62	62
Increase somewhat	14	30	19	31	11	24	12	30	16	24
Increase considerably	0	0	0	0	2	0	0	0	2	2
Total	100	100	100	100	100	100	100	100	100	100
<i>Net percentage</i>	-4	18	-5	23	-11	12	-3	19	-1	13
Number of banks responding	83	83	81	81	80	80	81	83	82	83

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”.

- For the first time since the beginning of the survey, a positive number (18%) of the banks responding to the October survey expect a net increase in loan demand by enterprises over the next three months.
- Fewer banks than before therefore expect either an overall decrease in the next quarter (12%), or basically unchanged demand (58%). Finally, 30% of all banks responding in October indicated that they expect an increase in demand.
- The expected increase in demand is reported for all categories of loans or credit lines (to large and small and medium-sized enterprises and for short-term and long-term loans).

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	
	July	October	July	October
Tightened considerably	1	0	0	0
Tightened somewhat	12	18	13	19
Remained basically unchanged	77	72	82	76
Eased somewhat	8	9	5	5
Eased considerably	2	0	0	0
Total	100	100	100	100
<i>Net percentage</i>	3	9	8	14
Number of banks responding	80	80	78	78

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 results of the October 2003 survey indicate on balance a slight increase in the tightening of credit standards applied to the approval of loans to households.
- With regard to loans for house purchase, a net 9% of banks reported a tightening of credit standards in October, compared with 3% in July.
- Turning to consumer credit and other lending to households, on balance 14% of banks reported a tightening in October, compared with 8% in July.

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	
							July	October
A) Cost of funds and balances sheet constraints	0	2	80	0	0	18	1	1
B) Pressure from competition								
Competition from other banks	0	1	70	15	0	14	-9	-14
Competition from non-banks	0	0	79	2	0	19	-2	-2
C) Perception of risk								
Expectations regarding general economic activity	2	19	69	0	0	10	32	20
Housing market prospects	1	15	68	5	0	10	18	11

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 remained basically unchanged.

- The factor contributing the most to the net tightening of credit standards on loans to households for house purchase over the past three months was weak expectations regarding general economic activity (20%), although this percentage was lower than reported in the July survey (32%). This was followed by deteriorating housing market prospects (11% in October, compared with 18% in July).
- Competition from other banks continued to contribute to a net easing of credit standards on loans to households for house purchase (14%).

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	
							July	October
A) Price								
Your bank's margin on average loans	0	5	73	14	0	8	8	-9
Your bank's margin on riskier loans	3	16	73	0	0	8	30	19
B) Other conditions and terms								
Collateral requirements	0	8	80	1	0	11	3	7
Loan-to-value ratio	0	16	70	5	0	9	2	11
Maturity	0	1	85	6	0	8	-5	-5
Non-interest rate charges	0	3	88	1	0	8	7	2

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.

- On a net basis, the October survey shows that a lower percentage of banks widened their margins on riskier loans for house purchase over the past three months with respect to July (19%, down from 30%) whereas, for the first time, banks reported having reduced on balance their margins on average loans (9%).
- In net terms, 11% of banks reported that they had reduced their loan-to-value ratio. By contrast, 5% eased maturity conditions on loans to households for house purchase. This pattern was similar to that observed in the previous two surveys.

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	
							July	October
A) Cost of funds and balance sheet constraints	0	1	79	0	0	20	-1	1
B) Pressure from competition								
Competition from other banks	0	1	76	9	0	14	-5	-8
Competition from non-banks	0	0	79	6	0	16	-2	-6
C) Perception of risk								
Expectations regarding general economic activity	1	14	73	0	0	13	29	15
Creditworthiness of consumers	1	20	67	0	0	13	21	20
Risk on the collateral demanded	0	9	76	1	0	15	12	8

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 remained basically unchanged.

- With regard to credit standards on consumer credit and other lending to households over the past three months, 20% of banks highlighted concerns about creditworthiness (virtually unchanged from 21% in July), but only 15% pointed to expectations regarding general economic activity (down from 29% in July).
- Competition from other banks and other financial institutions contributed to a net easing of credit standards on consumer credit and other lending to households (as in previous surveys).

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	
							July	October
A) Price								
Your bank's margin on average loans	0	6	70	13	0	11	1	-7
Your bank's margin on riskier loans	1	20	66	0	0	13	24	20
B) Other conditions and terms								
Collateral requirements	0	7	74	1	0	17	2	6
Maturity	0	5	83	1	0	11	5	3
Non-interest rate charges	0	3	83	0	0	14	4	2

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.

- On a net basis, in October a lower percentage of banks widened their margins on riskier loans over the past three months with respect to July (20%, down from 24%) whereas, for the first time, banks reported having reduced on balance their margins on average loans (7%).
- There were no significant indications of changes in other conditions and terms in October.

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	
	July	October	July	October
Decreased considerably	0	0	1	1
Decreased somewhat	14	7	18	22
Remained basically unchanged	44	56	58	61
Increased somewhat	30	28	21	14
Increased considerably	12	10	2	2
Total	100	100	100	100
<i>Net percentage</i>	29	31	5	-7
Number of banks responding	80	80	78	78

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”.

- On balance, 31% of banks reported an increase in demand for loans to households for house purchase over the past three months (compared with 29% in July). By contrast, banks observed a net decrease in demand for consumer credit and other loans to households over the same period.

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	
							July	October
A) Financing needs								
Housing market prospects	1	9	52	28	1	8	9	19
Consumer confidence	0	19	67	6	0	8	-30	-12
Non-housing related consumption expenditure	0	11	74	2	0	13	-11	-9
B) Use of alternative finance								
Household savings	0	4	80	6	0	11	-4	2
Loans from other banks	0	3	78	8	0	11	0	5
Other sources of finance	0	3	79	4	0	13	-2	1

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 demand remained basically unchanged.

- The most reported factors behind the increase in demand for loans for house purchase were favourable housing market prospects (19%, up from 9% in July) and also, for a smaller proportion of banks, the difficulties customers encountered in using alternative types of finance. By contrast, some factors were mentioned as contributing to a net decrease in demand for loans to households for house purchase over the past three months, most notably weak consumer confidence (12%).

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	
							July	October
A) Financing needs								
Spending on durable consumer goods	0	19	60	9	1	11	-14	-9
Consumer confidence	2	23	58	6	0	11	-28	-19
Securities purchases	1	8	65	0	0	25	-14	-10
B) Use of alternative finance								
Household savings	0	9	76	2	0	13	-15	-8
Loans from other banks	0	3	76	7	0	14	-1	4
Other sources of finance	0	1	77	2	0	21	-1	1

Note:

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

- A net 19% of banks reported that consumer confidence was the main factor contributing to a decrease in demand for consumer loans and other loans to households over the past three months.

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	
	July	October	July	October
Tighten considerably	0	0	0	0
Tighten somewhat	14	19	16	13
Remain basically unchanged	85	76	80	72
Ease somewhat	1	6	4	14
Ease considerably	0	0	0	0
Total	100	100	100	100
<i>Net percentage</i>	14	13	12	-1
Number of banks responding	80	80	78	78

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".

- A large percentage of reporting banks expect basically unchanged credit standards as applied to the approval of loans to households: 76% of respondents in the case of loans for house purchase, and 72% in the case of consumer credit and other lending to households.
- 13% of banks expect a net overall tightening of credit standards applied to the approval of loans to households over the fourth quarter of 2003.
- By contrast, banks expect a slight net easing of credit standards applied to the approval of loans for consumer credit and other lending to households (1%).

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	
	July	October	July	October
Decrease considerably	0	0	0	1
Decrease somewhat	17	13	13	9
Remain basically unchanged	69	59	73	62
Increase somewhat	14	29	13	28
Increase considerably	0	0	1	0
Total	100	100	100	100
<i>Net percentage</i>	-3	16	0	20
Number of banks responding	80	80	78	78

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”.

- Over the next three months, banks expect a strong net increase in demand for loans to households for house purchase and for consumer credit and other lending to households.

Annex 1 : 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, by 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.