



EUROPEAN CENTRAL BANK

11 November 2004

THE EURO AREA BANK LENDING SURVEY

– OCTOBER 2004 –

1. Overview of the results

This report provides the results obtained from the ECB's bank lending survey for the euro area conducted in October 2004. The cut-off date for receipt of data from the banks participating in this survey was 12 October 2004.

Overall, the results of the October 2004 bank lending survey showed a further slight relaxation in credit standards for enterprises and households for the third quarter of 2004 compared with the second quarter. For the fourth quarter of 2004, most credit standards are expected to remain broadly unchanged from the previous quarter.

Loans or credit lines to enterprises

Credit standards. For the third quarter of 2004, banks reported a further slight net easing of credit standards than in the previous quarter. This continued a downward movement in the net percentage of credit standards for loans or credit lines to enterprises (see Chart 1, first panel).

Among the factors underlying the changes in credit standards, competition from other banks and from market financing sources contributed to the stronger net easing (see Chart 1, fourth and fifth panels). In contrast, more negative perceptions regarding the industry or firm-specific outlook as well as slightly higher costs related to banks' capital positions weighted slightly towards tighter credit standards (see Chart 1, second and third panels). Regarding the terms and conditions of credit, the further slight net easing of credit standards was mainly effected via the size and maturity conditions of loans as well as via margins on loans.

Loan demand. There was a slight decline in net demand for loans to enterprises from the second to the third quarter of 2004 (see Chart 2, first panel). This is the third quarter in a row that the net demand from enterprises has been negative and below banks' expectations. In terms of the size of the borrower, this decline affected both loans to small and medium-sized enterprises and loans to large enterprises. The major factors contributing to the decline in net demand were, according to the banks, weak fixed investment, as well as the increased use of non-bank sources of external financing (such as corporate

bonds or trade credit) and the enhanced availability of internal finance by enterprises (i.e. reduced external financing needs).

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 has tightened credit standards (“net tightening”), whereas a negative net percentage indicates that a larger proportion of banks has 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 has reported an increase in loan demand, whereas a negative net demand would suggest that a larger proportion of banks has reported a decline in loan demand.

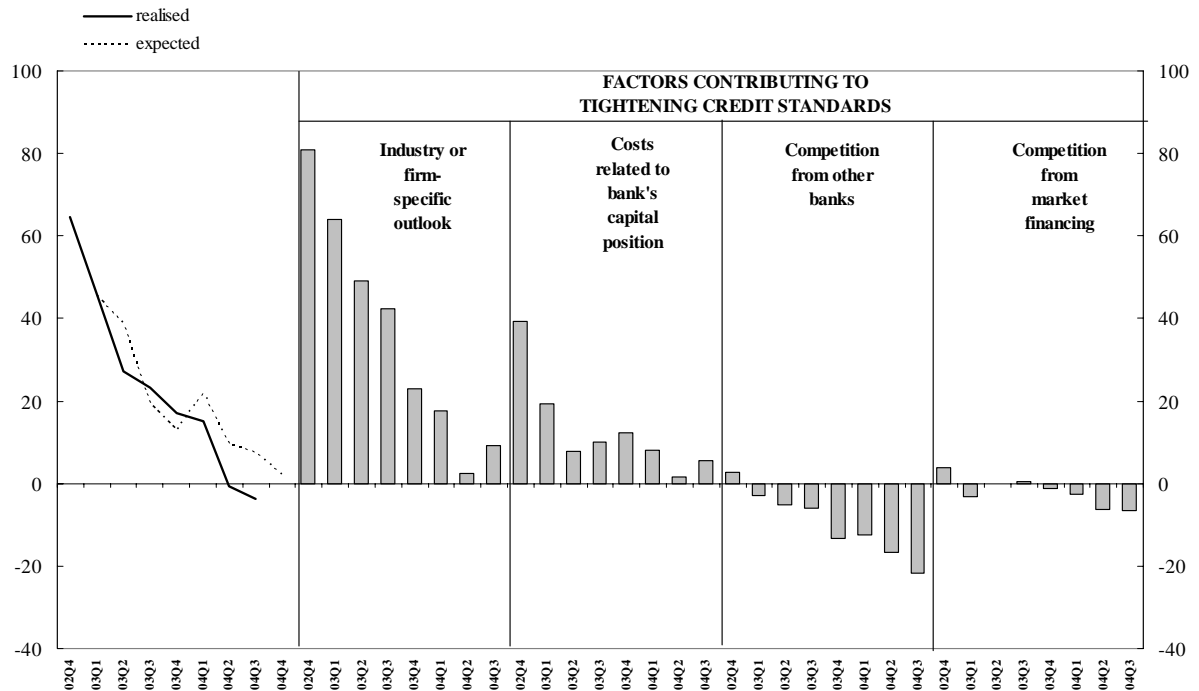
The survey questions are phrased in terms of changes over the “past three months” (in this case, the third quarter of 2004) or expectations of changes over the “next three months” (i.e. the fourth quarter of 2004).

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

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 October 2004 survey, 85 banks participated.

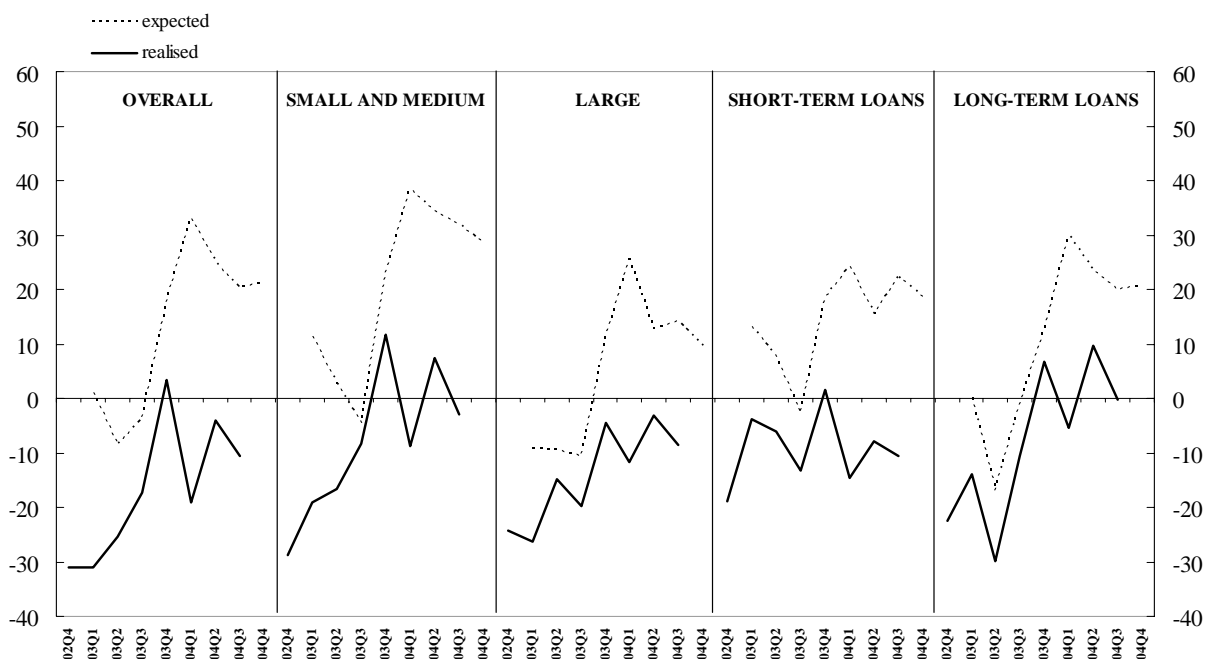
² For further information on the bank lending survey please see the ECB Press Release of 21 November 2002, *Bank lending survey for the euro area*, and the April 2003 Monthly Bulletin article entitled “A bank lending survey for the euro area”.

Chart 1. Changes in credit standards applied to the approval of loans or credit lines to enterprises
(net percentages of banks contributing to 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 2004Q4 are reported in the October 2004 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.

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



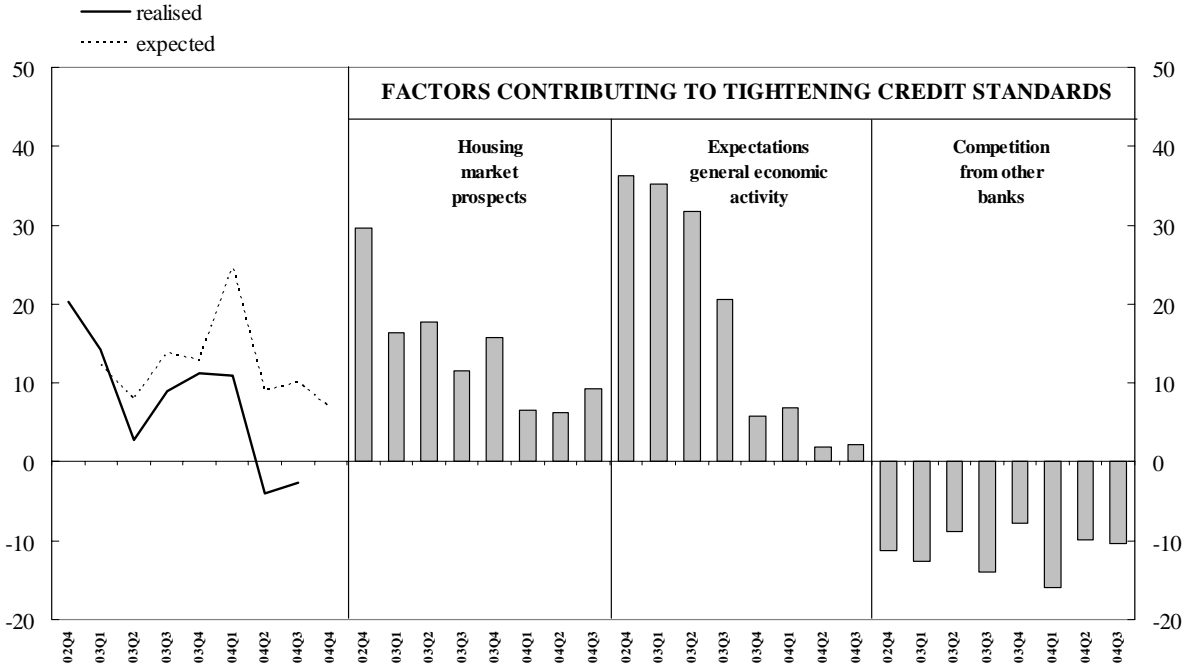
Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”. “Realised” values refer to the 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 2004Q4 are reported in the October 2004 survey.

Expectations. For the fourth quarter of 2004, banks expect broadly unchanged credit standards for loans or credit lines to enterprises compared with the previous quarter (see Chart 1, first panel). At the same time, banks expect a substantially higher net demand for corporate loans than in the previous quarter (see Chart 2, first panel). This increase in demand is predicted to be steeper for loans from to small and medium-sized enterprises than from large enterprises.

Loans to households for house purchase

Credit standards. From the second to the third quarter of 2004, there continued to be a slight net easing of credit standards applied to the approval of loans to households for house purchase (see Chart 3, first panel). Competition among banks (see Chart 3, fourth panel) and expectations for the general economic activity (see Chart 3, third panel) are reported by banks as broadly unchanged. At the same time banks reported that housing market prospects contributed a bit more than in the second quarter to slightly tighter standards (see Chart 3, second panel). As regards the terms and conditions of credit, the net percentage of banks that tightened credit standards by widening their margins on riskier loans increased slightly from the previous quarter. In contrast, there was an increase in the net percentage of banks that eased the conditions on housing loans to households via the maturity of loans.

Chart 3. Changes in credit standards applied to the approval of loans to households for house purchase
(net percentages of banks contributing to tightening credit standards)

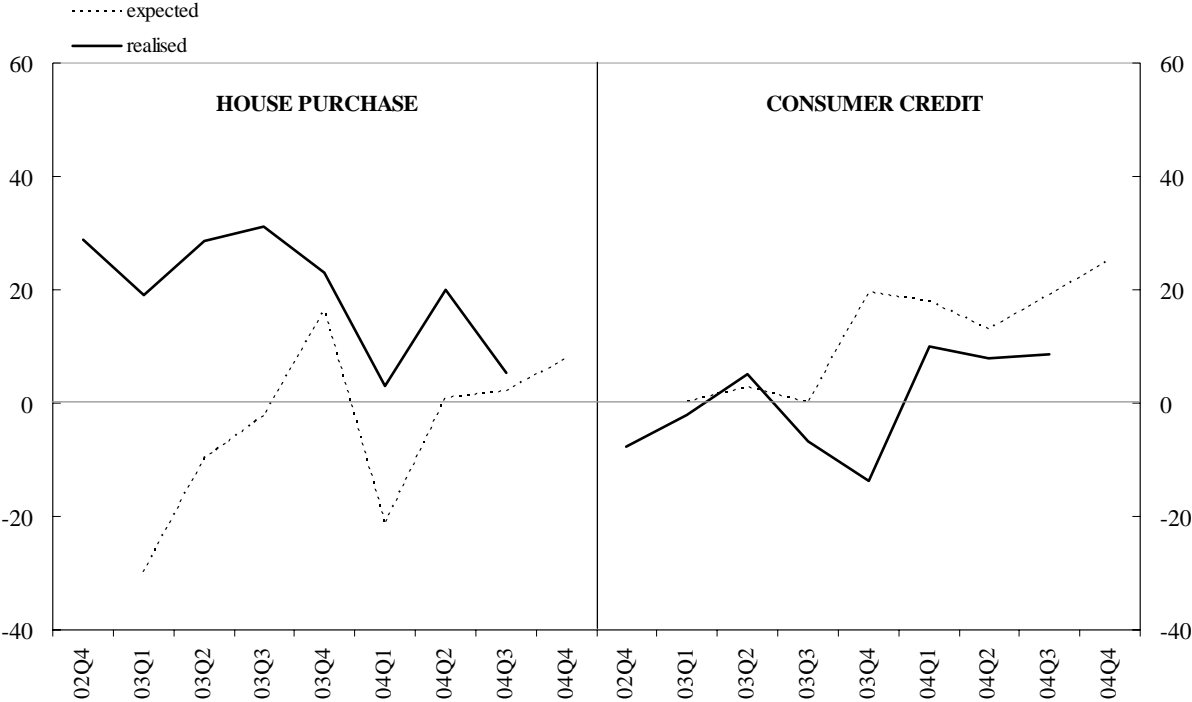


Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably” “Realised” values refer to the period 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 2004Q4 are reported in the October 2004 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. According to the banks, the net demand for housing loans to households declined considerably from the second to the third quarter of 2004 but remained positive (see Chart 4, first panel). The main factors mentioned as contributing to this decline were consumer confidence, non-housing related expenditure and housing market prospects.

Expectations. For the fourth quarter of 2004, respondent banks expect a net tightening of credit conditions for housing loans to households compared with the third quarter (see Chart 3, first panel). Banks also expect the net demand for housing loans to households to increase slightly over the next three months compared with the previous quarter (see Chart 4, first panel).

Chart 4. Changes in demand for loans to households
(net percentages of banks contributing to 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 2004Q4 are reported in the October 2004 survey.

Loans to households for consumer credit and other lending

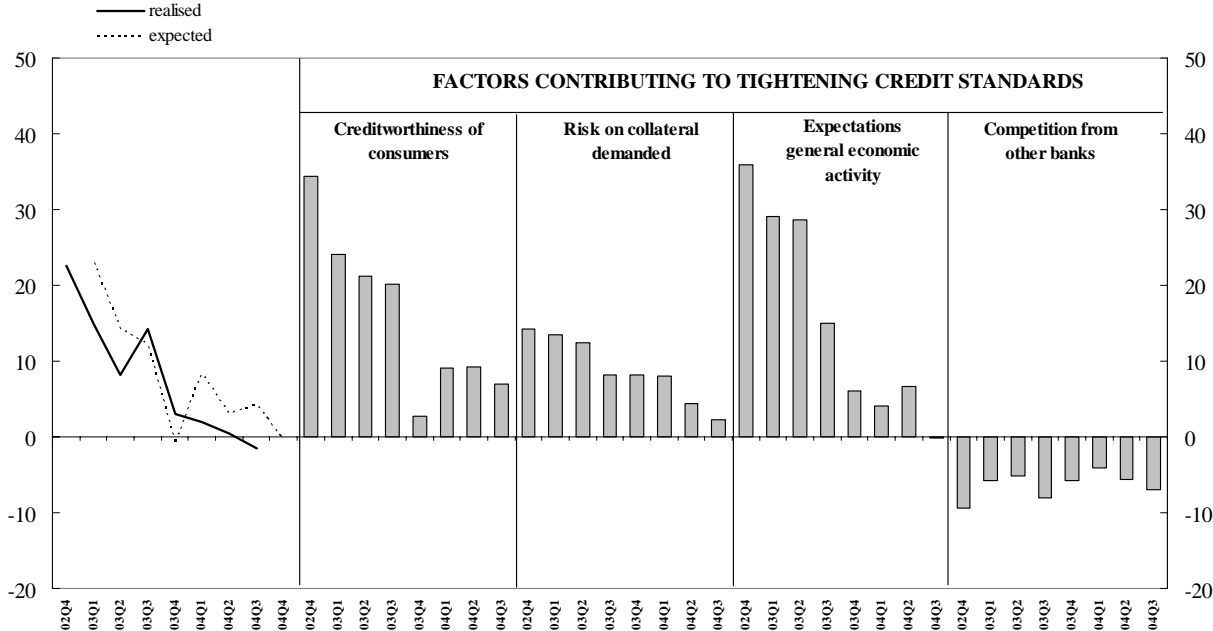
Credit standards on loans to households for consumer credit improved moving from a slight net tightening in the second quarter of 2004 to a net easing in the third quarter of 2004 (see Chart 5, first panel). This is the first time since the bank lending survey was started in January 2003 that a net easing of credit standards for consumer credit and other lending to households has been reported. The main factors contributing to improved credit standards during the third quarter of 2004 were increased competition from other banks as well as better expectations regarding general economic activity (see Chart 5, fourth

and fifth panels). There were more positive assessments from reporting banks regarding the creditworthiness of consumers. Banks modified the terms and conditions of consumer credit mainly through changes in margins.

Loan demand. According to the reporting banks net demand for consumer credit and other lending to households remained broadly unchanged from the previous two quarters (see Chart 4, second panel). Banks reported that consumer confidence and net spending on durable consumer goods affected net consumer credit demand negatively.

Expectations. For the fourth quarter of 2004, banks expect similar credit standards as in the previous quarter (see Chart 5, first panel). The reporting banks also predict a significant increase in the net demand for consumer credit over the next three months (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 contributing to tightening credit standards)



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 2004Q4 are reported in the October 2004 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

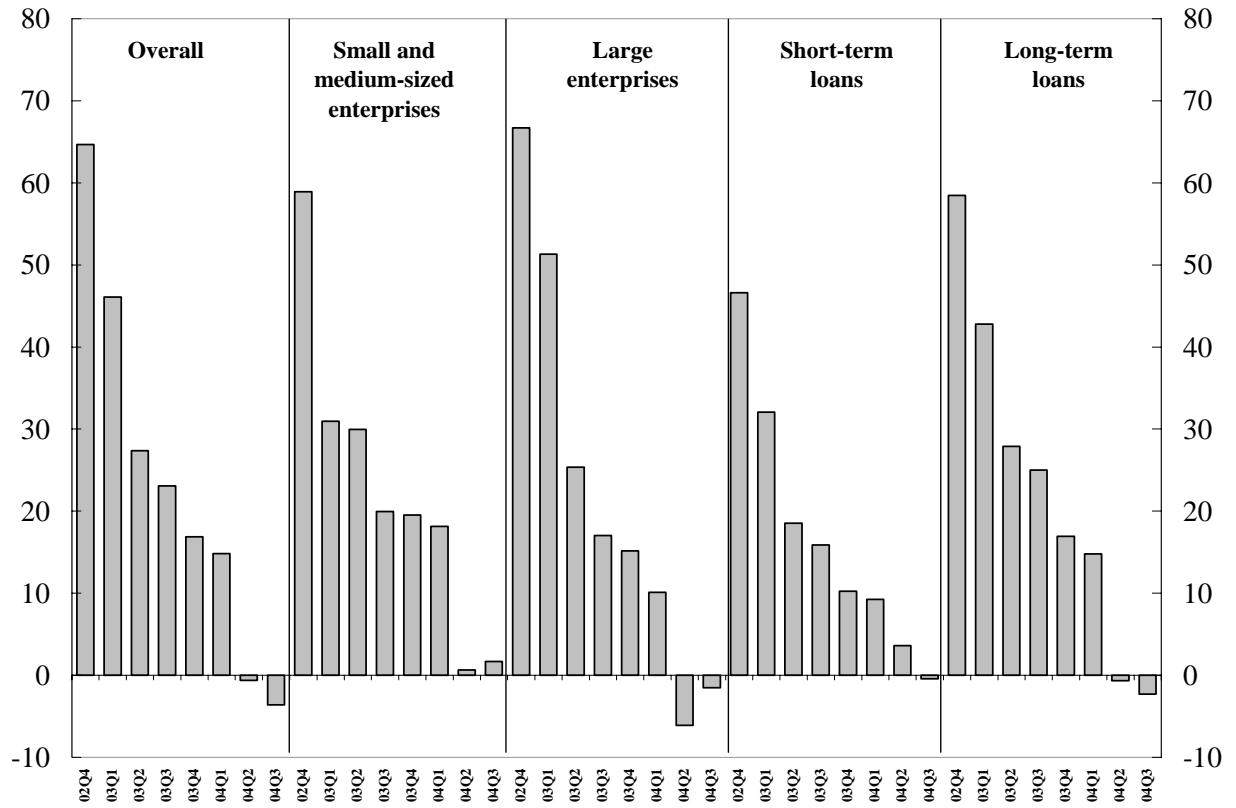
- Over the past three months, how have your bank's credit standards as applied to the approval of loans or credit lines to enterprises changed?

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	July 2004	October 2004	July 2004	October 2004	July 2004	October 2004	July 2004	October 2004	July 2004	October 2004
Tightened considerably	0	0	0	0	0	0	0	0	0	0
Tightened somewhat	9	7	10	8	7	7	11	9	7	8
Remained basically unchanged	82	82	80	86	79	85	82	83	86	82
Eased somewhat	8	10	10	6	12	6	6	6	6	8
Eased considerably	1	1	0	0	1	3	1	3	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	-1	-4	1	2	-6	-2	4	0	-1	-2
<i>Number of banks responding</i>	<i>81</i>	<i>80</i>	<i>81</i>	<i>80</i>	<i>81</i>	<i>80</i>	<i>82</i>	<i>81</i>	<i>82</i>	<i>81</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 overall net percentage for credit standards as applied to the approval of loans or credit lines to enterprises again declined slightly in October 2004.
- In contrast to the overall credit standards, results by borrowers' size show a slight increase in the net percentages of both loans for small and medium-sized enterprises, and for large enterprises (see Chart 6).
- Regarding the maturity of loans, the net percentages declined slightly both for short and long-term loans.

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	
							July 2004	October 2004
A) Cost of funds and balance sheet constraints								
Costs related to your bank's capital position	1	6	85	1	0	8	2	6
Your bank's ability to access market financing	0	0	89	3	0	8	0	-3
Your bank's liquidity position	0	1	88	3	0	8	1	-2
B) Pressure from competition								
Competition from other banks	0	0	69	19	3	10	-17	-22
Competition from non-banks	0	0	83	1	0	16	1	-1
Competition from market financing	0	0	81	7	0	12	-6	-7
C) Perception of risk								
Expectations regarding general economic activity	1	8	78	8	0	6	1	1
Industry or firm-specific outlook	1	13	77	4	0	6	2	9
Risk on the collateral demanded	1	4	86	4	0	6	2	1

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 overall slight net improvement in credit standards on loans to enterprises was mostly related to increased competitive pressures from other banks and from other external sources of financing (such as corporate bonds). At the same time, a more negative perception of risks related to the industry or firm-specific outlook, as well as costs related to banks' capital weighted towards a net tightening of credit standards (see Chart 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)

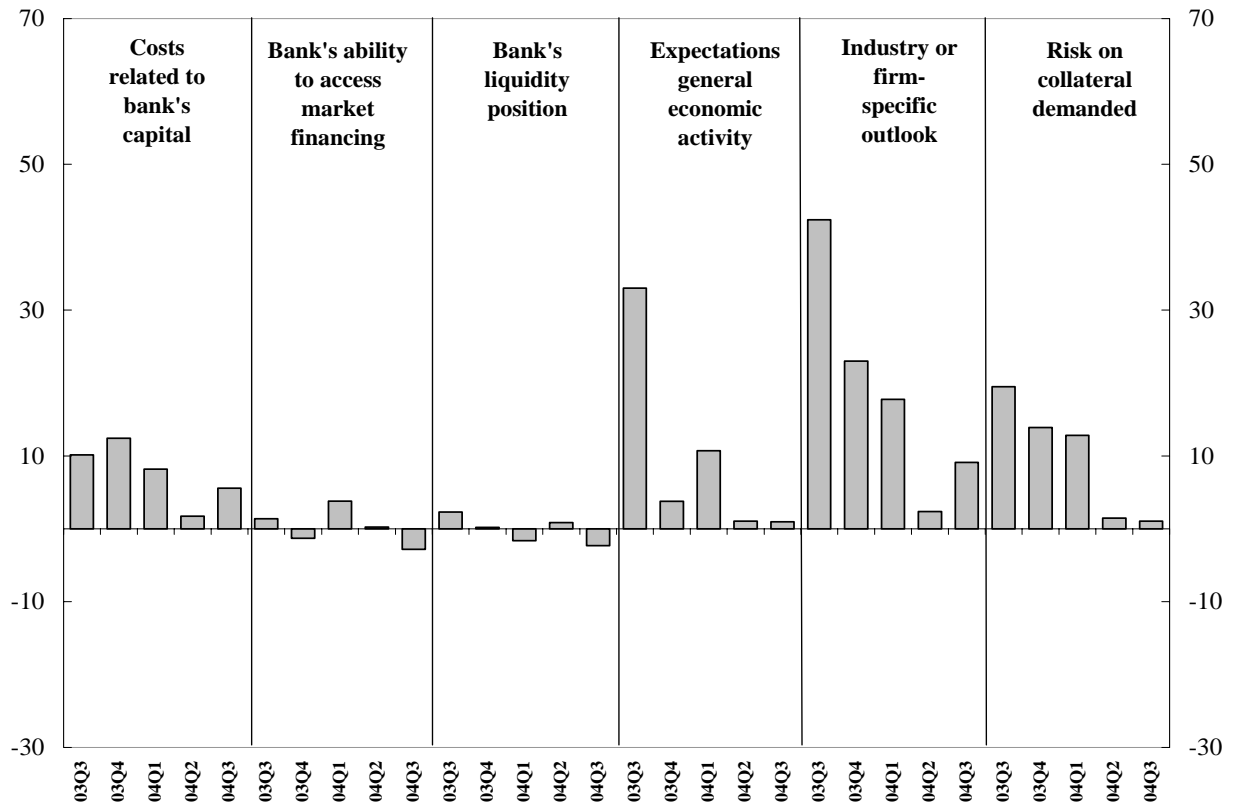
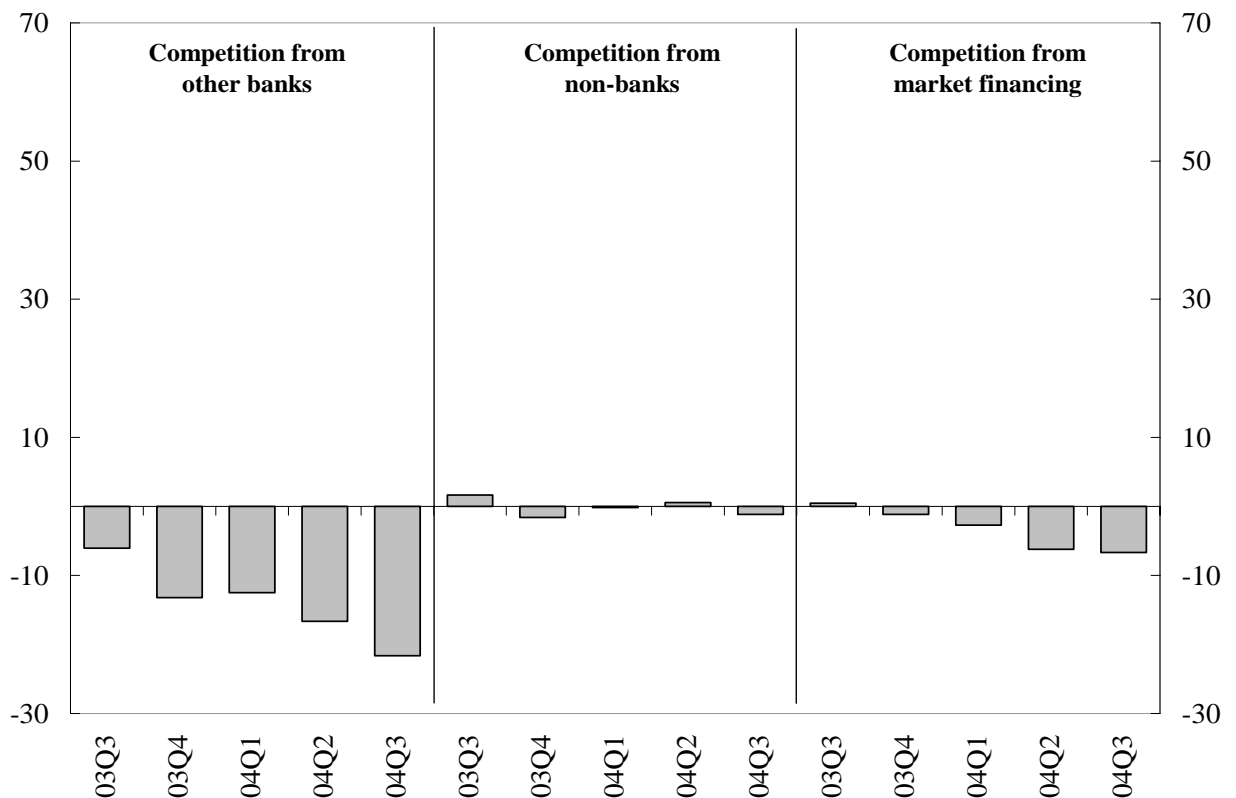


Chart 7b. Factors affecting credit standards applied to the approval of loans or credit lines to enterprises
(net percentages of banks reporting that the factor contributed to tightening credit standards)



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

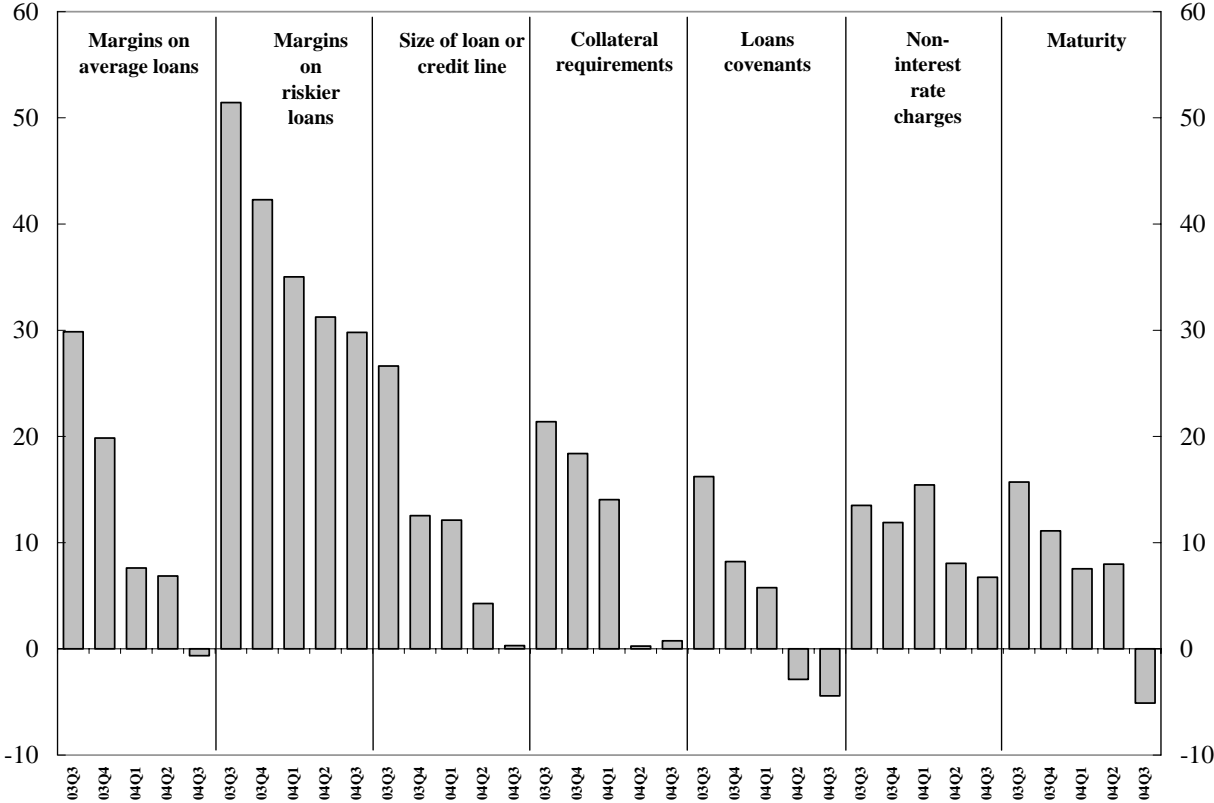
	--	-	°	+	++	NA	NetP	
							July 2004	October 2004
A) Price								
Your bank's margin on average loans	0	17	59	17	1	6	7	-1
Your bank's margin on riskier loans	3	31	56	4	0	6	31	30
B) Other conditions and terms								
Non-interest rate charges	0	11	78	3	1	6	8	7
Size of the loan or credit line	0	7	81	7	0	6	4	0
Collateral requirements	0	4	86	4	0	6	0	1
Loans covenants	0	4	81	7	2	6	-3	-4
Maturity	0	4	81	9	0	7	8	-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".

- Responding banks changed credit standards towards easing via the maturity and size of loans, looser loan covenants as well as via margins (see Chart 8).

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)



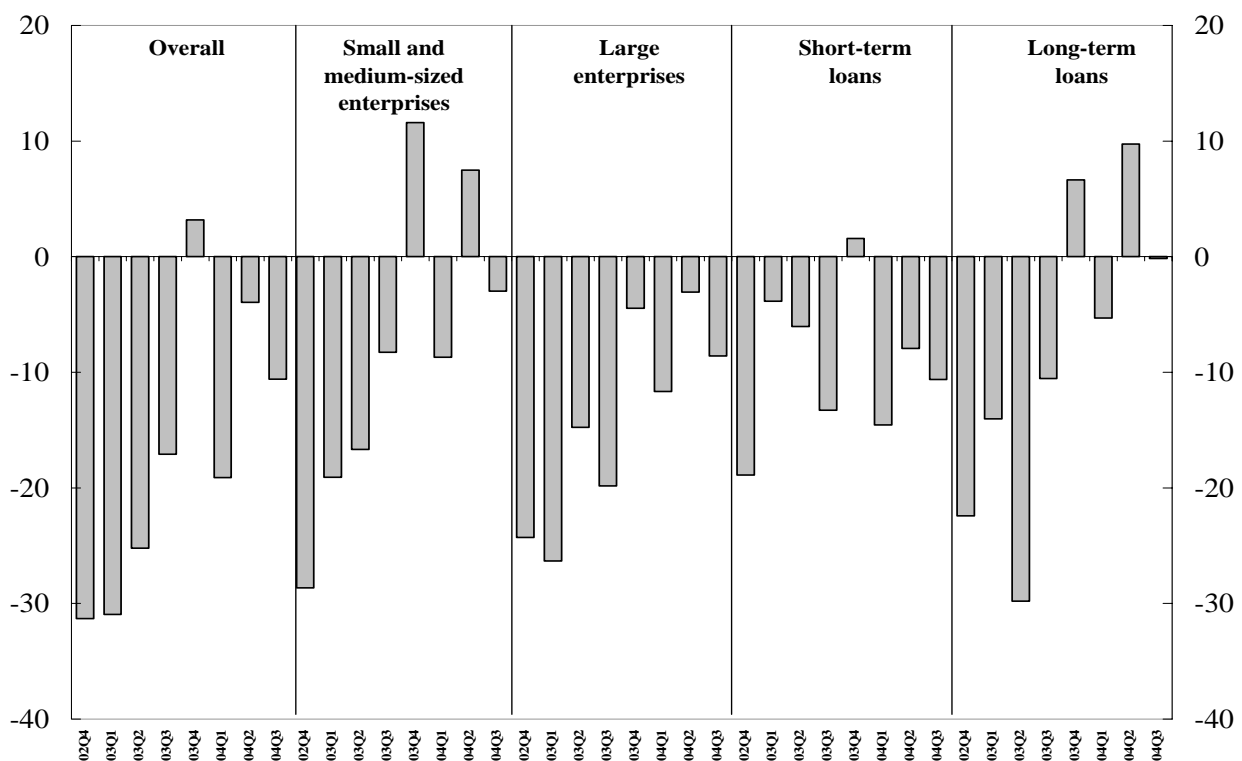
4. Over the past three months, how has the demand for loans or credit lines to enterprises changed at your bank, apart from normal seasonal fluctuations?

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	July 2004	October 2004	July 2004	October 2004	July 2004	October 2004	July 2004	October 2004	July 2004	October 2004
Decreased considerably	0	0	0	0	0	0	2	2	0	0
Decreased somewhat	22	25	13	17	21	22	17	21	17	21
Remained basically unchanged	61	61	66	69	61	64	69	65	56	58
Increased somewhat	14	13	21	14	13	13	9	12	25	20
Increased considerably	3	1	0	0	5	1	2	0	2	1
Total	100	100	100	100	100	100	100	100	100	100
Net percentage	-4	-11	8	-3	-3	-9	-8	-11	10	0
<i>Number of banks responding</i>	82	81	81	80	81	80	81	81	81	81

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, net demand for corporate loans declined slightly (to -11% in the third quarter of 2004, from -4% in the second quarter).
- This decline affected both loans to small and medium-sized enterprises and loans to large enterprises (see Chart 9).
- In terms of the maturity structure, there was a decline in net demand for both long-term and short-term loans.

Chart 9. Demand for loans and credit lines to enterprises
(net percentages of banks contributing to 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	
							July 2004	October 2004
A) Financing needs								
Fixed investment	0	23	60	9	0	8	-4	-14
Inventories and working capital	0	15	63	13	0	10	3	-1
Mergers/acquisitions and corporate restructuring	1	4	74	12	0	8	11	7
Debt restructuring	0	3	71	18	0	8	15	15
B) Use of alternative finance								
Internal financing	0	17	69	4	0	10	-10	-13
Loans from other banks	0	9	75	7	0	10	-4	-2
Loans from non-banks	0	9	77	0	0	14	-1	-9
Issuance of debt securities	0	7	74	2	1	16	-2	-4
Issuance of equity	0	7	74	0	0	20	-1	-7

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 weak fixed investment as well as the use by corporations of alternative sources of financing (see Chart 10a and Chart 10b). In particular, banks referred to the increased use of internal sources of financing as well as to the use of other (non-bank) sources of external financing (such as trade credit, corporate bond and equity issuance).

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)

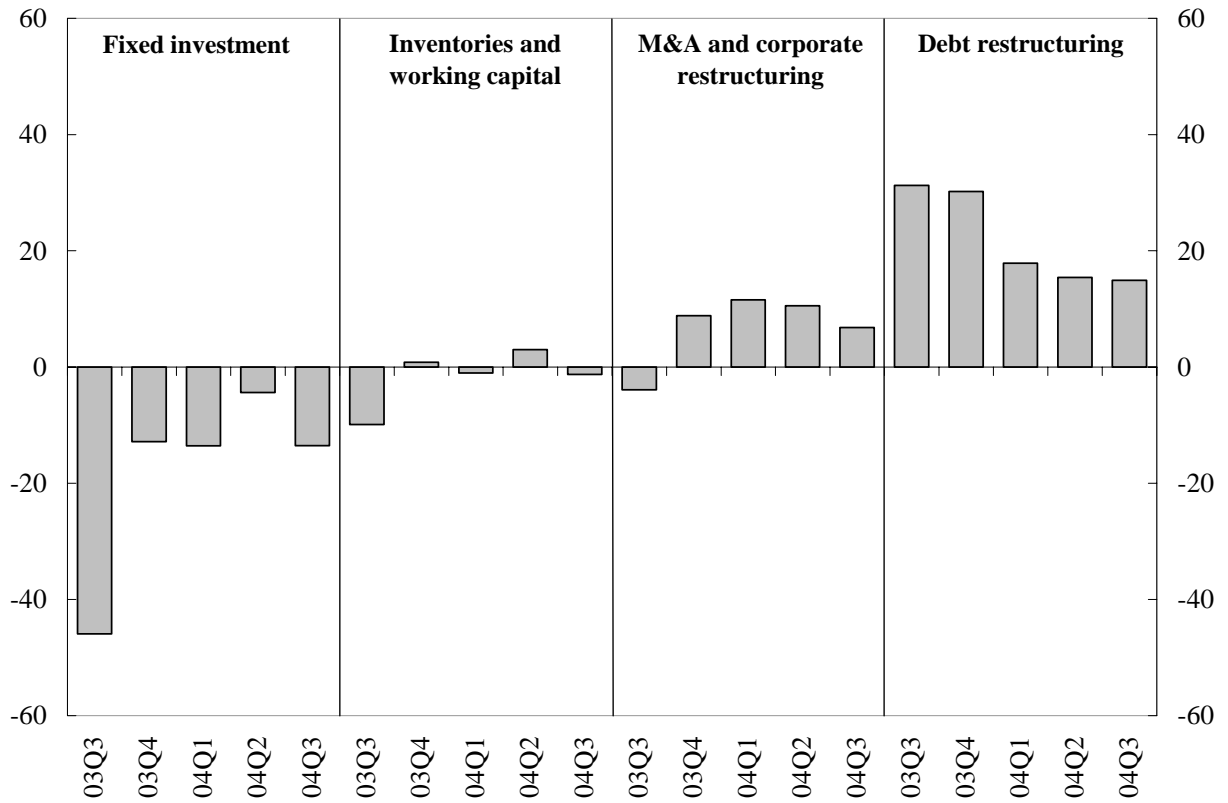
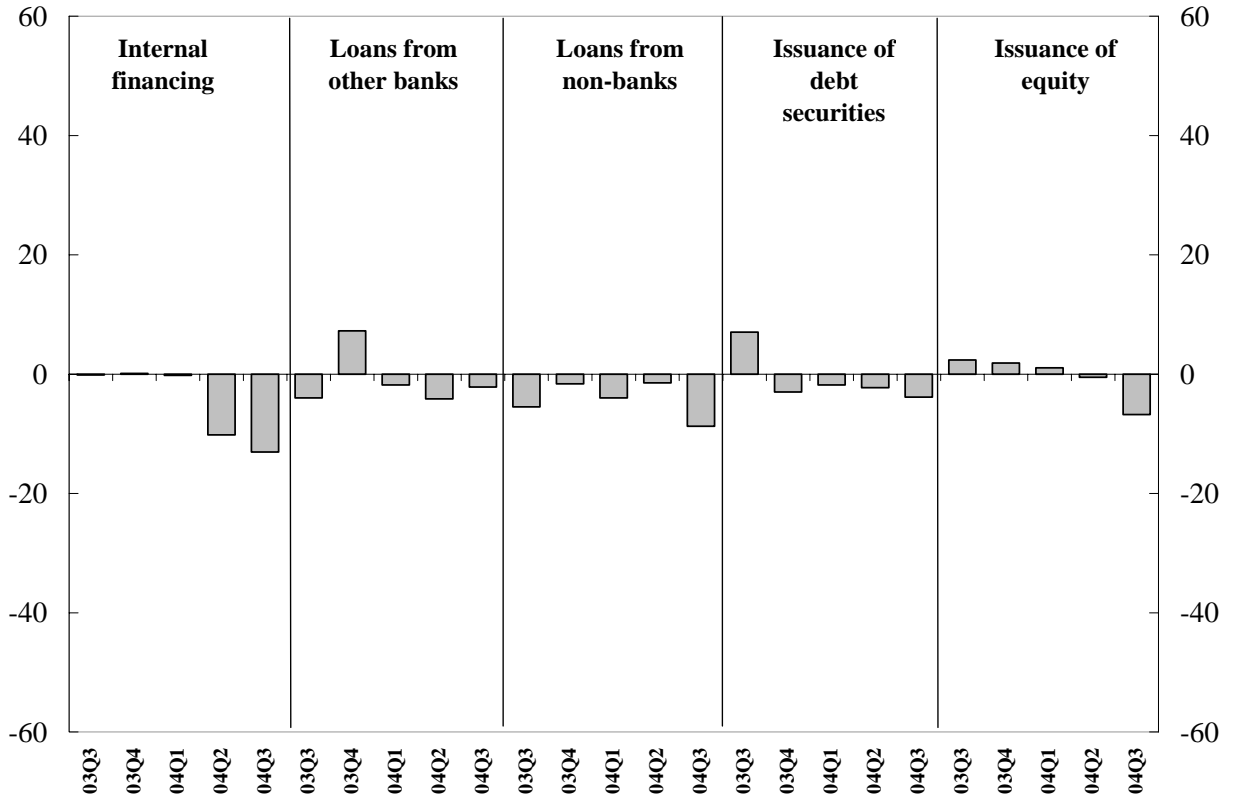


Chart 10b. Factors affecting demand for loans and credit lines to enterprises
(net percentages of banks reporting that the factor contributed to positive loan demand)



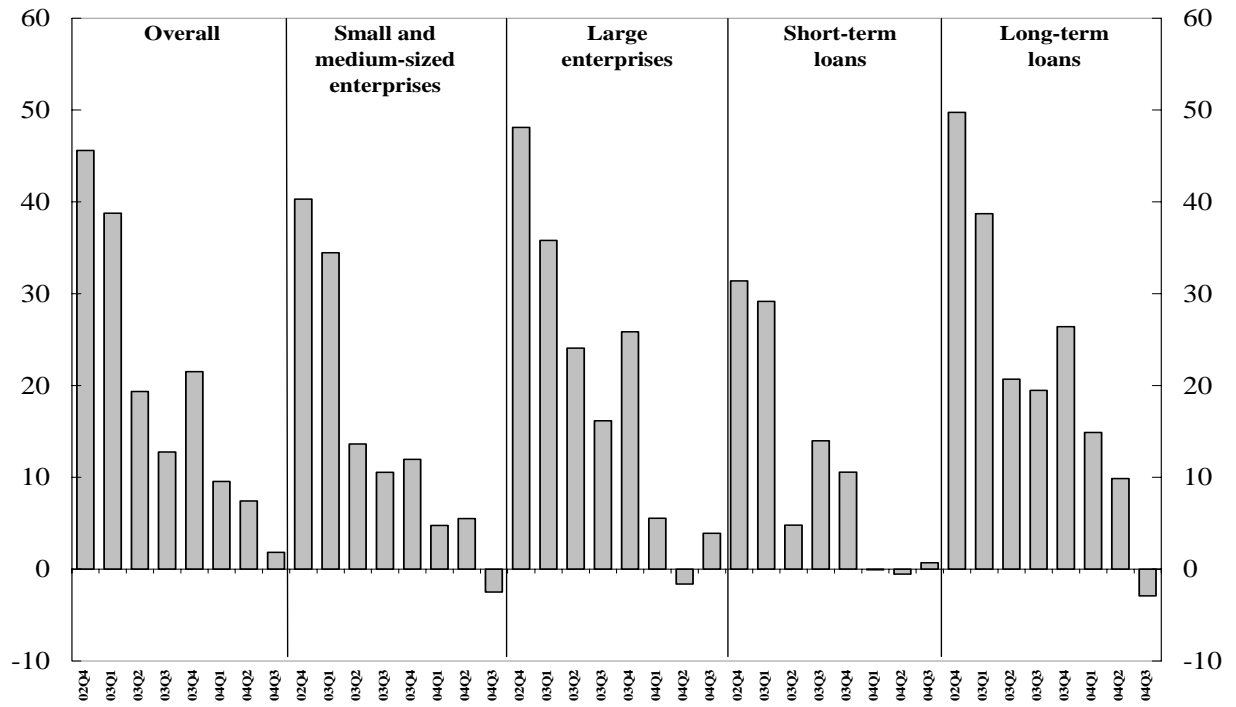
6. Please indicate how you expect your bank's credit standards as applied to the approval of loans or credit lines to enterprises to change over the next three months.

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	July 2004	October 2004	July 2004	October 2004	July 2004	October 2004	July 2004	October 2004	July 2004	October 2004
Tighten considerably	0	0	0	0	2	2	0	0	0	0
Tighten somewhat	9	9	11	6	3	10	6	10	10	11
Remain basically unchanged	90	83	84	85	88	80	87	81	90	76
Ease somewhat	1	8	5	9	6	8	7	9	0	14
Ease considerably	0	0	0	0	1	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	7	2	6	-3	-2	4	-1	1	10	-3
<i>Number of banks responding</i>	<i>82</i>	<i>81</i>	<i>81</i>	<i>80</i>	<i>81</i>	<i>80</i>	<i>82</i>	<i>81</i>	<i>82</i>	<i>81</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 banks expect a slight net tightening of corporate credit standards, compared with the slight net easing realised in the third quarter of 2004 (see question 1).
- In terms of borrower size, for small and medium-sized enterprises banks are expecting a slight net easing of credit standards, while for large enterprises a small tightening of credit standards is expected (see Chart 11).
- In terms of loan maturity, banks are expecting a slight net easing of credit standards for long-term loans while for short-term loans, broadly unchanged credit standards are envisaged for the fourth quarter of 2004 (see Chart 11).

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



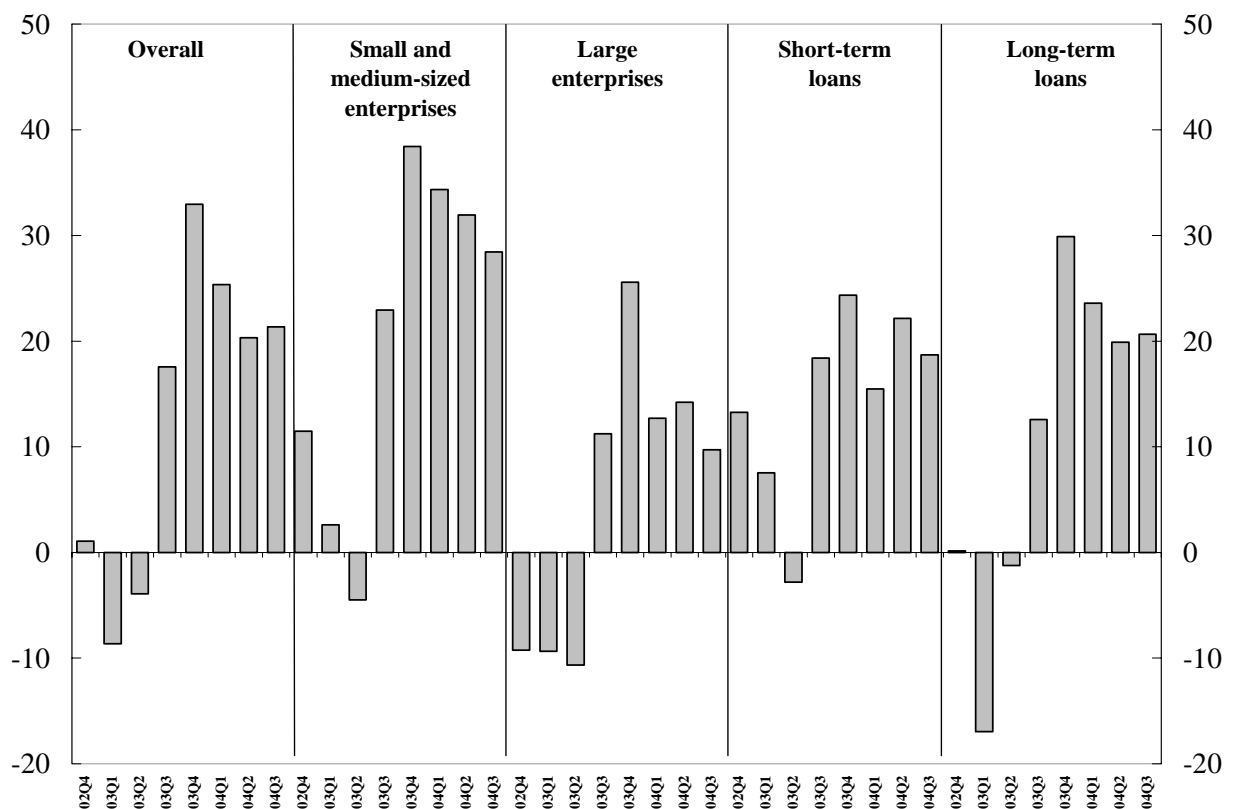
7. Please indicate how you expect demand for loans or credit lines to enterprises to change at your bank over the next three months (apart from normal seasonal fluctuations).

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	July 2004	October 2004	July 2004	October 2004	July 2004	October 2004	July 2004	October 2004	July 2004	October 2004
Decrease considerably	0	0	0	0	0	0	0	0	0	0
Decrease somewhat	9	6	1	4	10	8	1	4	9	11
Remain basically unchanged	62	66	67	64	67	74	76	73	62	57
Increase somewhat	29	28	33	33	23	18	23	23	29	32
Increase considerably	0	0	0	0	1	0	0	0	0	0
Total	100	100	100	100	100	100	100	100	100	100
Net percentage	20	21	32	28	14	10	22	19	20	21
<i>Number of banks responding</i>	82	81	81	80	81	80	82	81	82	81

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”.

- A substantially higher net loan demand from enterprises is expected for the fourth quarter compared with what was realised in the third quarter (see question 4).
- Expected net demand for loans to enterprises is significantly higher for small and medium-sized enterprises than for large enterprises (see Chart 12).

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



II. Loans to households

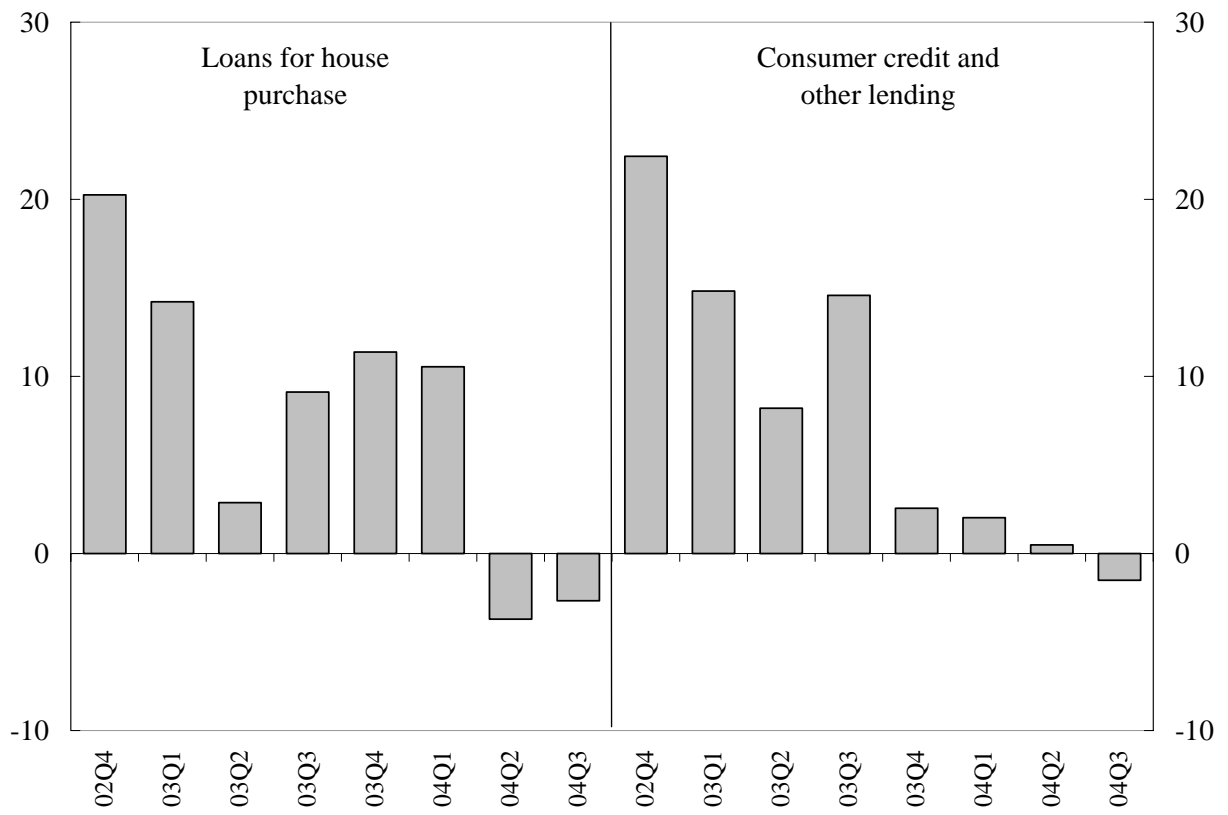
8. Over the past three months, how have your bank's credit standards as applied to the approval of loans to households changed?

	Loans for house purchase		Consumer credit and other lending	
	July 2004	October 2004	July 2004	October 2004
Tightened considerably	0	0	0	2
Tightened somewhat	6	3	8	5
Remained basically unchanged	85	92	86	86
Eased somewhat	10	5	7	8
Eased considerably	0	0	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Net percentage	-4	-3	1	-2
<i>Number of banks responding</i>	<i>81</i>	<i>80</i>	<i>79</i>	<i>78</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 applied to loans to households for house purchase in the third quarter of 2004 was similar to the results reported for the second quarter (see Chart 13).
- For consumer credit and other lending to households, the October survey shows a slight net easing for the third quarter of 2004. This is the first time since the bank lending survey was started in January 2003 that a slight net easing of credit standards for consumer credit and other lending to households has been recorded (see Chart 13).

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?

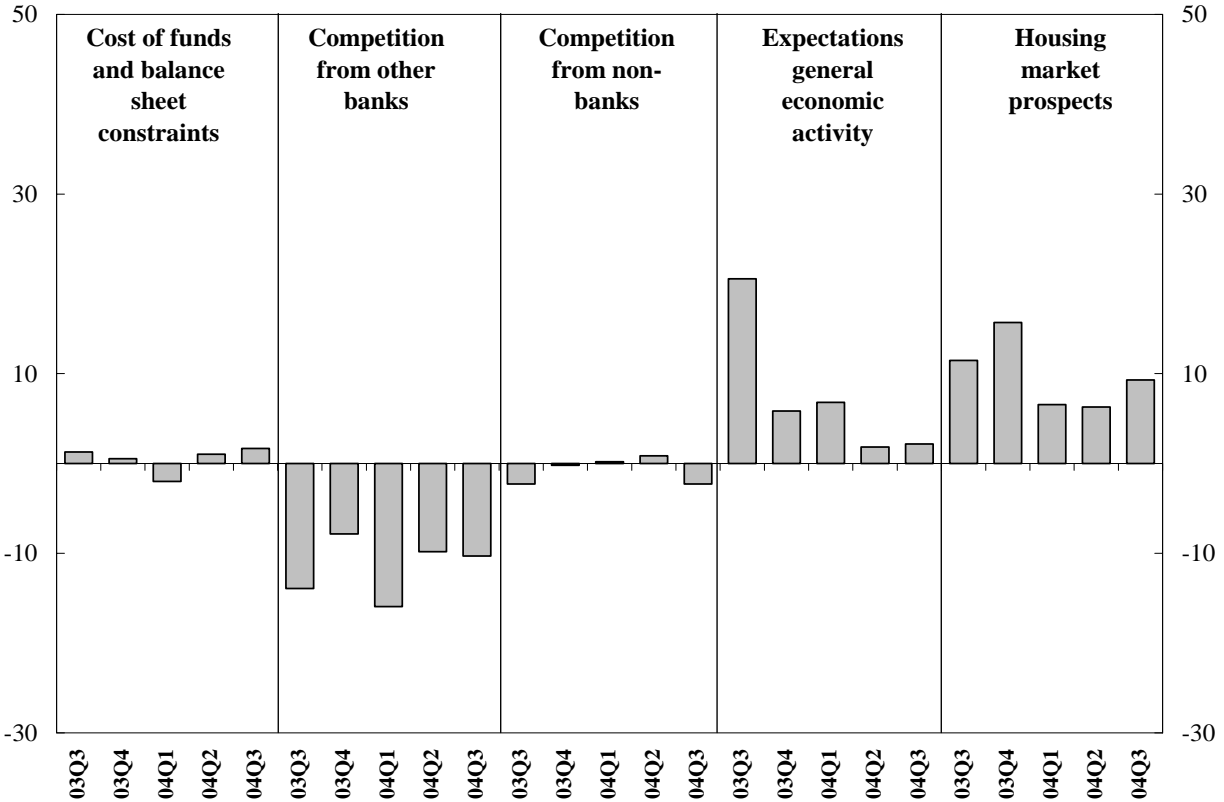
	--	-	°	+	++	NA	NetP	
							July 2004	October 2004
A) Cost of funds and balances sheet constraints	0	2	89	0	0	10	1	2
B) Pressure from competition								
Competition from other banks	0	2	72	12	0	14	-10	-10
Competition from non-banks	0	2	78	4	0	16	1	-2
C) Perception of risk								
Expectations regarding general economic activity	0	7	82	4	0	8	2	2
Housing market prospects	0	10	81	1	0	8	6	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”.

- Banks reported a broadly unchanged (positive) contribution of competition factors to credit standards for loans to households for house purchase (see Chart 14).
- Perceptions of risk regarding housing market prospects contributed slightly more than in the previous quarter towards a net tightening of credit standards (see Chart 14).

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?

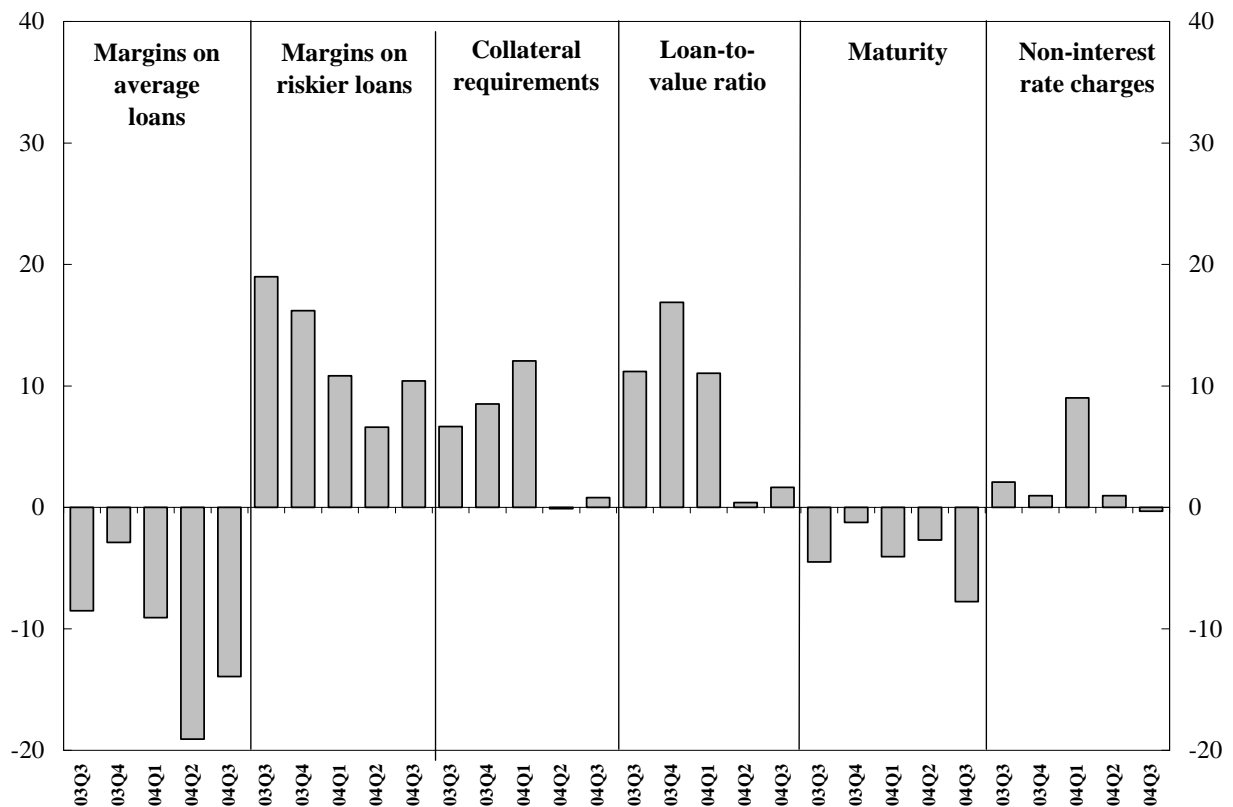
	--	-	°	+	++	NA	NetP	
							July 2004	October 2004
A) Price								
Your bank's margin on average loans	0	4	72	18	0	6	-19	-14
Your bank's margin on riskier loans	0	12	80	2	0	6	7	10
B) Other conditions and terms								
Collateral requirements	0	2	91	1	0	6	0	1
Loan-to-value ratio	0	8	80	6	0	6	0	2
Maturity	0	0	86	8	0	6	-3	-8
Non-interest rate charges	0	1	90	1	0	8	1	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"..

- Banks reported that the net easing for housing loans to households was partly achieved by lengthening the maturity of new loans. In contrast, banks reported net increases on margins (see Chart 15).

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)?

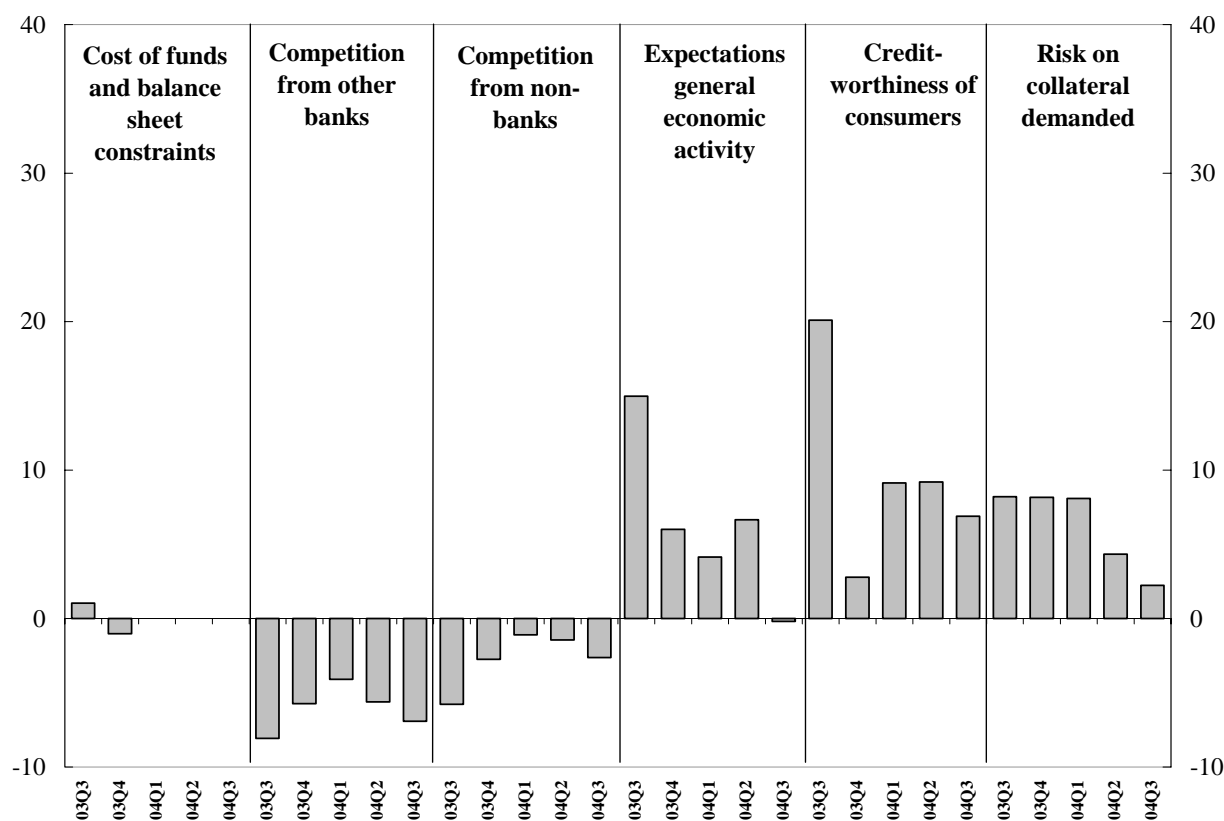
	--	-	°	+	++	NA	NetP	
							July 2004	October 2004
A) Cost of funds and balance sheet constraints	0	0	88	0	0	12	0	0
B) Pressure from competition								
Competition from other banks	0	2	74	9	0	16	-6	-7
Competition from non-banks	0	2	76	5	0	18	-1	-3
C) Perception of risk								
Expectations regarding general economic activity	0	2	84	2	0	12	7	0
Creditworthiness of consumers	2	6	81	1	0	10	9	7
Risk on the collateral demanded	0	3	80	1	0	16	4	2

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".

- Factors contributing towards the slight net easing of credit standards on consumer credit to households were increases in competition from other banks and non-banks, as well as improved expectations for general economic activity, creditworthiness of consumers and risk on collateral demanded (see Chart 16).

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?

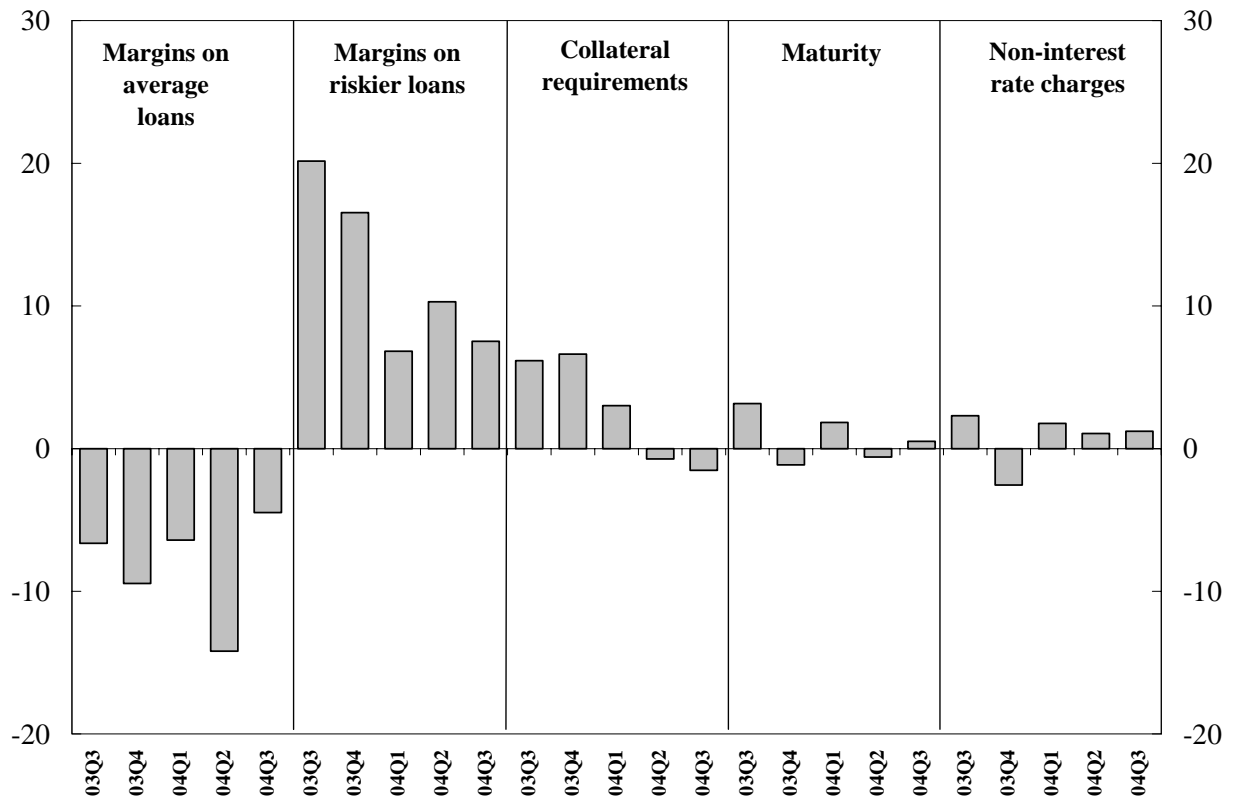
	--	-	°	+	++	NA	NetP	
							July 2004	October 2004
A) Price								
Your bank's margin on average loans	0	6	74	10	0	10	-14	-5
Your bank's margin on riskier loans	1	9	79	2	0	10	10	8
B) Other conditions and terms								
Collateral requirements	0	1	82	2	0	15	-1	-2
Maturity	0	4	80	1	2	14	-1	1
Non-interest rate charges	0	1	85	0	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".

- When compared with the previous quarter, in the third quarter of 2004 there was higher net tightening of credit standards for consumer credit and other lending to households via margins on average loans but lower tightening via margins on riskier loans. In addition, collateral requirements declined slightly in the third quarter (see Chart 17).

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)



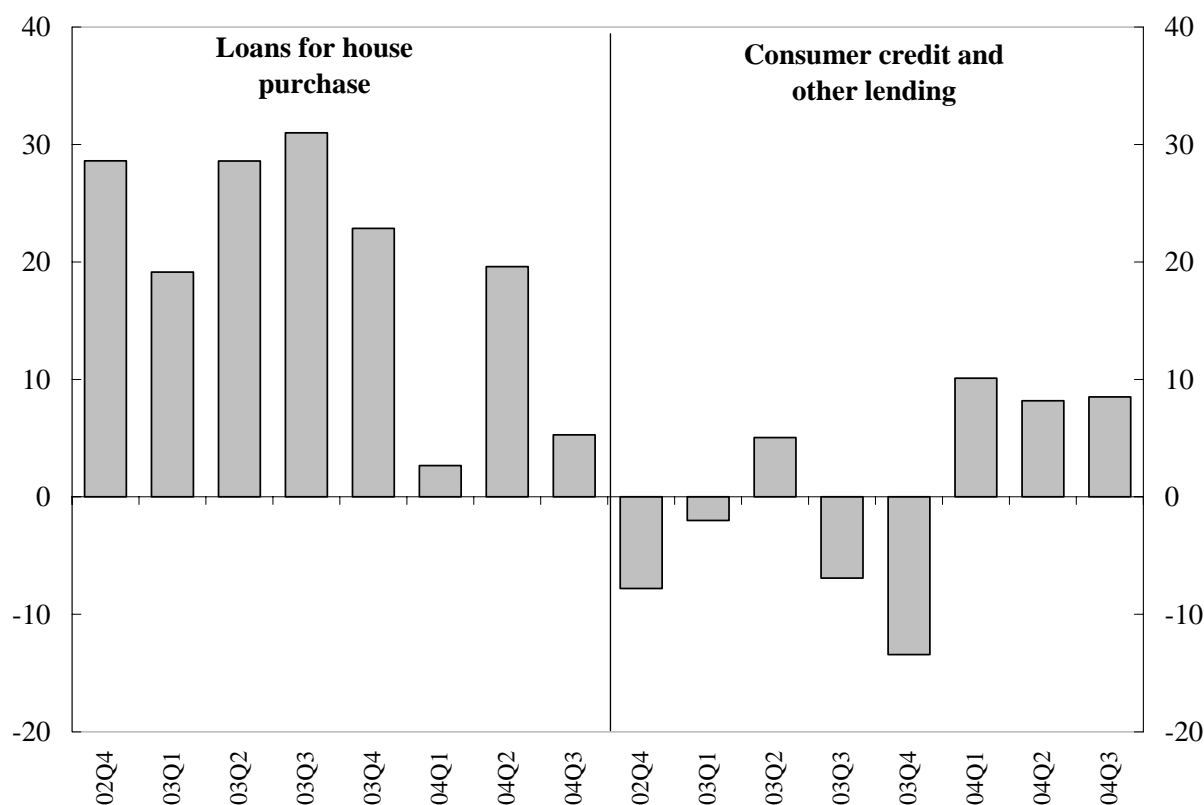
13. Over the past three months, how has the demand for loans to households changed at your bank, apart from normal seasonal fluctuations?

	Loans for house purchase		Consumer credit and other lending	
	July 2004	October 2004	July 2004	October 2004
Decreased considerably	2	6	3	5
Decreased somewhat	17	21	16	14
Remained basically unchanged	43	41	53	53
Increased somewhat	34	29	23	28
Increased considerably	5	3	4	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Net percentage	20	5	8	9
<i>Number of banks responding</i>	<i>80</i>	<i>80</i>	<i>77</i>	<i>78</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”.

- When compared with the previous quarter, net demand for loans to households for house purchase declined significantly in the third quarter of quarter of 2004 (see Chart 18).
- Net demand for consumer credit remained broadly unchanged.

Chart 18. Demand for loans to households
(net percentages of banks contributing to 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)?

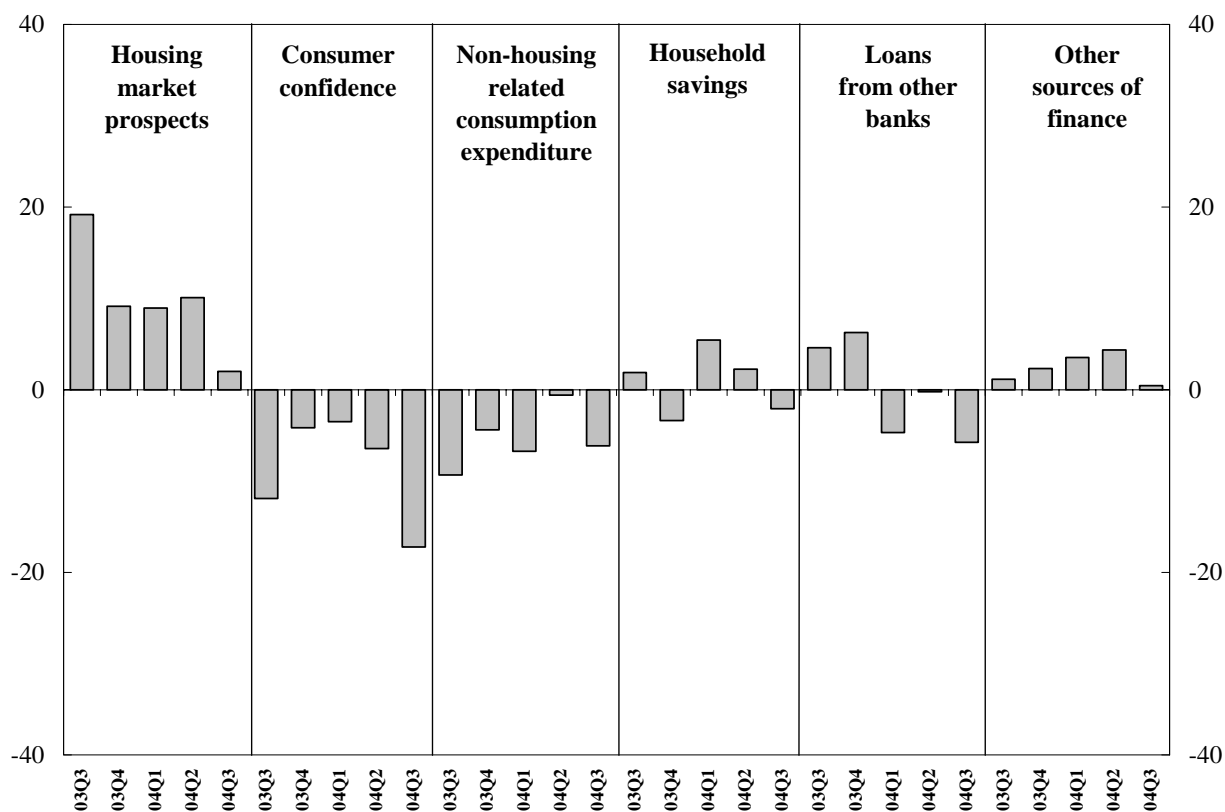
	--	-	°	+	++	NA	NetP	
							July 2004	October 2004
A) Financing needs								
Housing market prospects	0	13	67	15	0	6	10	2
Consumer confidence	2	19	69	4	0	6	-7	-17
Non-housing related consumption expenditure	0	6	86	0	0	8	-1	-6
B) Use of alternative finance								
Household savings	2	3	84	3	0	8	2	-2
Loans from other banks	1	9	80	3	0	8	0	-6
Other sources of finance	0	0	88	1	0	12	4	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".

- Net declines in housing market prospects, consumer confidence and non-housing related expenditure contributed to the decline in net loan demand for housing loans to households in October when compared with the July results (see Chart 19).

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)?

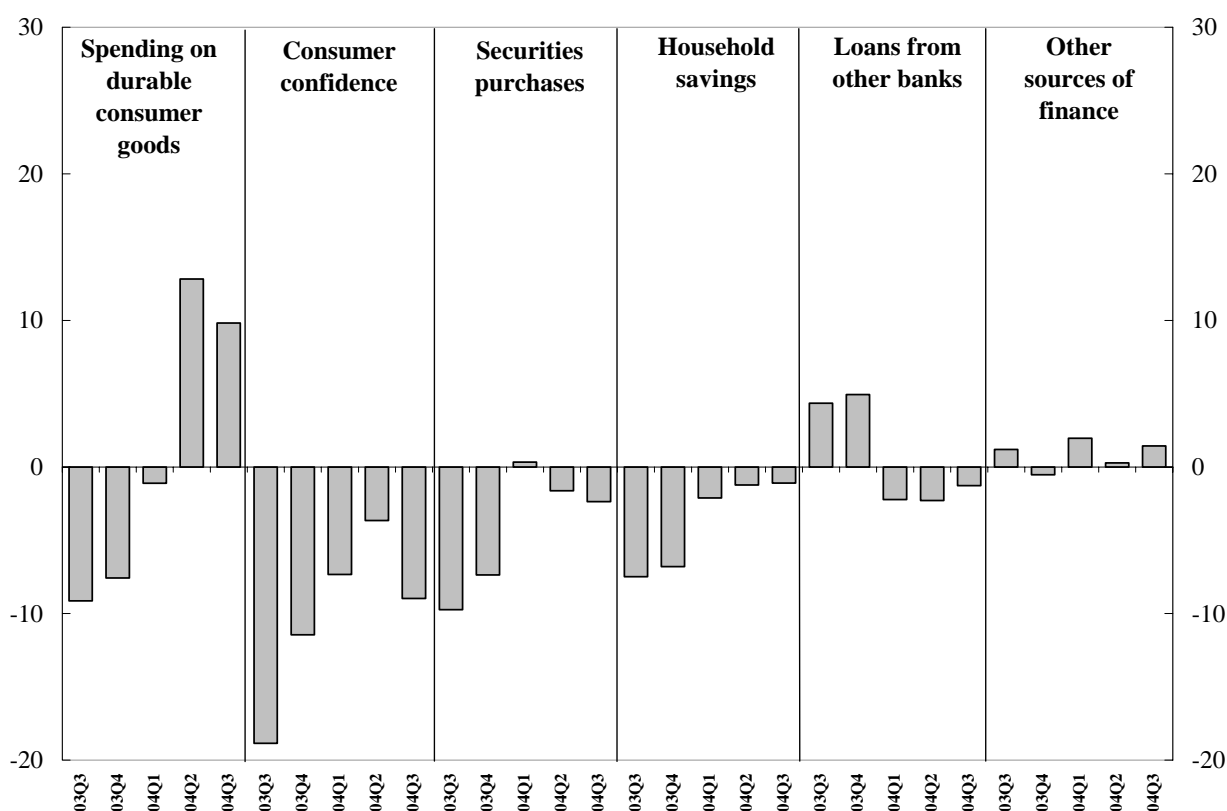
	--	-	°	+	++	NA	NetP	
							July 2004	October 2004
A) Financing needs								
Spending on durable consumer goods	2	11	55	23	0	10	13	10
Consumer confidence	0	14	71	5	0	10	-4	-9
Securities purchases	0	4	75	2	0	19	-2	-2
B) Use of alternative finance								
Household savings	0	6	79	4	1	10	-1	-1
Loans from other banks	0	9	72	8	0	12	-2	-1
Other sources of finance	0	1	80	2	0	18	0	1

NA = Not available; NetP = Net percentage

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".

- Although net loan demand for consumer credit remained broadly unchanged from the previous quarter, banks reported that factors contributing negatively to net consumer credit demand in the third quarter of 2004 were lower increase in spending on durable consumer goods and weaker consumer confidence. The contributions from other factors remained broadly unchanged (see Chart 20).

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)



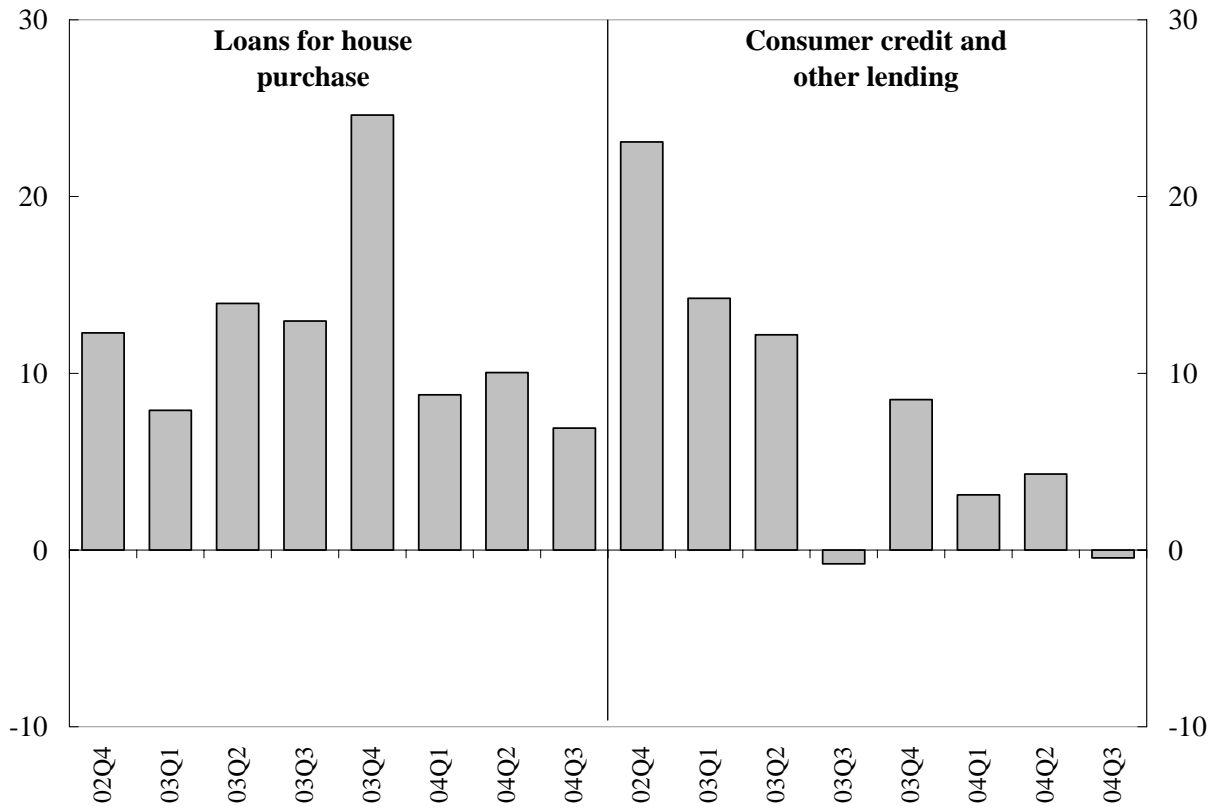
16. Please indicate how you expect your bank's credit standards as applied to the approval of loans to households to change over the next three months.

	Loans for house purchase		Consumer credit and other lending	
	July 2004	October 2004	July 2004	October 2004
Tighten considerably	0	2	1	4
Tighten somewhat	14	7	10	8
Remain basically unchanged	82	88	81	76
Ease somewhat	4	3	7	12
Ease considerably	0	0	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Net percentage	10	7	4	0
<i>Number of banks responding</i>	<i>80</i>	<i>80</i>	<i>78</i>	<i>78</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".

- When compared with the third quarter of 2004, a movement towards a net tightening of credit standards on loans to households for house purchase is expected for the fourth quarter of 2004. However, it should be pointed out that expected values have been significantly higher than realised values since the second quarter of 2002 (see Chart 3, Chart 21 and question 8).
- For consumer credit and other lending, banks expect the net tightening to remain broadly unchanged from the third quarter (see Chart 5, Chart 21 and question 8).

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



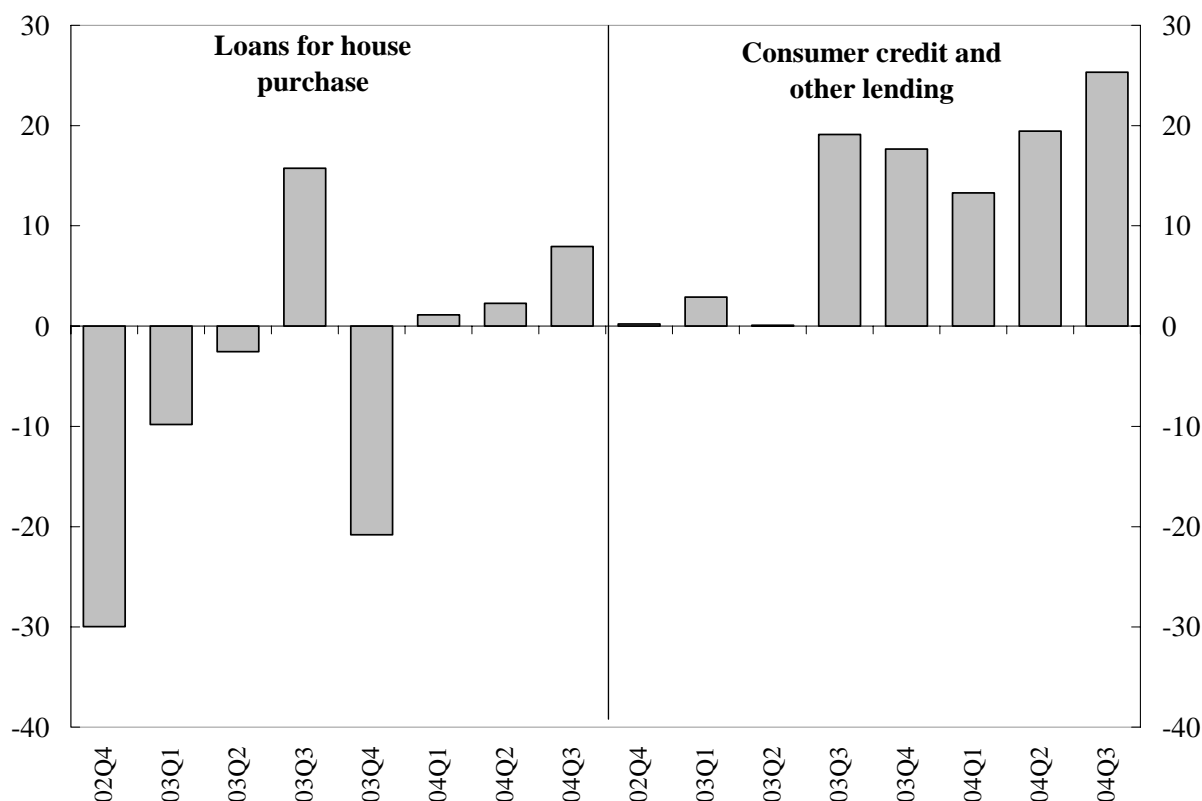
17. Please indicate how you expect demand for loans to households to change over the next three months at your bank (apart from normal seasonal fluctuations).

	Loans for house purchase		Consumer credit and other lending	
	July 2004	October 2004	July 2004	October 2004
Decrease considerably	0	0	0	0
Decrease somewhat	22	16	5	8
Remain basically unchanged	54	61	70	59
Increase somewhat	23	23	25	33
Increase considerably	1	1	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
Net percentage	2	8	19	25
<i>Number of banks responding</i>	<i>79</i>	<i>80</i>	<i>78</i>	<i>78</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 October responding banks expected net loan demand on housing loans to be positive and to increase slightly for the last quarter of 2004 when compared with the realised net demand for previous quarter (see Chart 4, Chart 22 and question 13).
- For consumer credit and other lending to households, banks also expect an increase in the demand compared with what was realised in the third quarter (see Chart 4, Chart 22 and 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.