EUROPEAN CENTRAL BANK

EUROSYSTEM

The euro area bank lending survey

Fourth quarter of 2024

January 2025

Contents

1 Overview of results

In the January 2025 bank lending survey (BLS), euro area banks reported a renewed net tightening of credit standards for loans or credit lines to enterprises in the fourth quarter of 2024 (net percentage of banks of 7%; see Overview table).[1] The renewed net tightening follows unchanged credit standards for loans to firms in the third quarter of 2024 and is the most pronounced net tightening since the third quarter of 2023. It was driven by higher perceived risks related to the economic outlook and by banks' lower risk tolerance. This was mainly owing to banks in Germany and France in an environment of increased political uncertainty, whereas credit standards eased in Italy. The area-wide net tightening was higher than expected by banks in the previous survey round (4%). For the first quarter of 2025, banks expect a further net tightening of credit standards for loans to firms (10%, slightly above the historical average).

Banks reported broadly unchanged credit standards for loans to households for house purchase after three quarters of easing, and a further net tightening for consumer credit (net percentages of 1% and 6%; see Overview table). For housing loans, while competition from other banks had an easing impact on credit standards, banks' risk tolerance and risk perceptions had a tightening impact. Across the largest euro area countries, banks in France reported a net easing while banks in Germany and Italy reported a net tightening. The broadly unchanged credit standards for euro area housing loans contrasts with the strong net easing that banks had expected in the previous quarter (-12%). For credit standards on consumer credit and other lending to households, risk perceptions and banks' risk tolerance were again the main drivers of the net tightening, reflecting concerns about deteriorating asset quality in this loan segment. Credit standards for consumer credit tightened in Germany, France and Spain, while remaining unchanged in Italy. The tightening was larger than banks had expected in the previous quarter (3%) and was around the historical average (5%). For the first quarter of 2025, banks expect credit standards for housing loans and consumer credit to tighten (2% and 7% respectively).

Firms' net demand for loans continued to increase slightly in the fourth quarter of 2024, while remaining weak overall (net percentage of 3%; see Overview table). The small increase in loan demand was driven mainly by declining interest rates, with fixed investments having a still-muted impact after a small positive contribution in the previous quarter. The overall muted demand reflects the continued weak economic situation, especially in some investment-intensive sectors of the economy. Some banks also referred to economic and (geo-)political uncertainties as a dampening factor for firms' loan demand. Firms' inventories and working capital made a small positive contribution. While banks in Germany, Spain and Italy reported an increase

[1] The results reported in the January 2025 survey relate to changes observed during the fourth quarter of 2024 and expectations for the first quarter of 2025. The survey was conducted between 10 December 2024 and 7 January 2025. A total of 155 banks were surveyed in this round, with a response rate of 99%. In addition to results for the euro area as a whole, this report contains results for the four largest euro area countries in terms of GDP (i.e. Germany, Spain, France and Italy).

in loan demand, banks in France reported a net decrease. For the first quarter of 2025, banks expect broadly unchanged loan demand (-1%).

Net demand for housing loans continued to increase strongly, while consumer credit demand increased slightly (net percentages of 42% and 2%; see Overview table). The net increase in housing loan demand was driven mainly by declining interest rates and, to a lesser extent, by housing market prospects. It follows a similarly strong increase in the previous quarter (39%) and was in line with banks' expectations in the previous quarter (44%). It was also broad based across euro area countries, substantiating still further the signs of a rebound from the strong declines in housing loan demand over the tightening cycle. Consumer credit demand was supported by declining interest rates, whereas consumer confidence, spending on durables and the use of alternative finance from other banks and non-banks dampened demand. The net increase in demand for consumer credit was lower than that expected by banks in the previous quarter (11%). For the first quarter of 2025, banks expect demand in both categories to increase further (31% for housing loans and 12% for consumer credit).

Banks' overall credit terms and conditions remained broadly unchanged for loans to firms and consumer credit, while they eased strongly for housing loans. For loans to firms, the easing impact of lower lending rates and narrower margins on average loans was offset by stricter collateral requirements and other terms and conditions, such as loan covenants, to compensate for higher perceived risks. For housing loans, lending rates and margins on average loans were the main drivers of the net easing. For consumer credit terms and conditions, while lending rates had an easing impact, loan margins widened somewhat.

Banks reported a net increase in the share of rejected applications for loans to firms and consumer credit, while they reported a small net decrease for housing loans.

The January 2025 survey contained several ad hoc questions.

- Euro area banks' access to funding worsened somewhat for retail funding, money markets and debt securities in the last quarter of 2024. Over the next three months, banks expect access to funding to remain broadly unchanged across all market segments.

- In response to new regulatory or supervisory requirements in 2024, euro area banks reported a net increase in their required capital as well as increases in their liquid and risk-weighted assets. Banks also reported a net tightening impact on credit standards stemming from the requirements, especially for loans to firms, with further, substantial net tightening expected for 2025.

- Euro area banks reported a net tightening impact of NPL ratios and other indicators of credit quality on their credit standards for loans to enterprises and consumer credit in the second half of 2024, the largest impact since the height of the pandemic and the period of balance sheet clean-up in 2014-17. The net tightening impact on terms and conditions was more moderate. Higher perceived risks and, to a lesser extent, lower risk tolerance were the most important factors for banks reporting a tightening impact of credit quality on lending conditions. By contrast, for housing loans credit quality had a neutral impact on credit standards and terms and conditions. For the first half of 2025, euro area banks expect a further tightening impact of credit quality on lending conditions for loans to firms and consumer credit and a broadly neutral impact on lending conditions for housing loans.

- Banks' credit standards tightened further in all main economic sectors in the second half of 2024, especially in commercial real estate (CRE), wholesale and retail trade, construction and energy-intensive manufacturing. Banks reported a net decrease in loan demand in CRE, construction and energy-intensive manufacturing and broadly unchanged demand in the other sectors, except for some sub-categories of services where there was a small increase. For the first half of 2025, banks expect a further net tightening of credit standards in most economic sectors, except for services. They expect muted loan demand in all sectors but residential real estate (RRE), for which they expect a moderate increase.
- Banks reported that the decline in excess liquidity held with the Eurosystem had a neutral impact on bank lending conditions in the second half of 2024. They expect similar effects in the first half of 2025.

Overview table
Latest BLS results for the largest euro area countries

(net percentages of banks reporting a tightening of credit standards or an increase in loan demand)

	Enterprises						House purchase						Consumer credit					
	Credit standards			Demand			Credit standards			Demand			Credit standards			Demand		
Country	Q3 24	Q4 24	Avg	Q3 24	Q4 24	Avg	Q3 24	Q4 24	Avg	Q3 24	Q4 24	Avg	Q3 24	Q4 24	Avg	Q3 24	Q4 24	Avg
Euro area	0	7	9	4	3	-1	-3	1	6	39	42	1	6	6	5	8	2	0
Germany	-3	13	4	13	7	5	7	11	4	44	33	6	15	11	2	26	4	7
Spain	0	0	9	17	17	-6	0	0	14	10	40	-10	8	8	11	17	25	-7
France	0	9	6	8	-9	-5	-22	-13	3	67	50	2	8	8	0	-15	-17	-2
Italy	0	-9	11	-9	18	3	0	9	1	45	55	9	8	0	5	8	8	9

Notes: "Avg" refers to historical averages, which are calculated over the period since the beginning of the survey, excluding the most recent round. Owing to the different sample sizes across countries, which broadly reflect the differences in the national shares in lending to the euro area non-financial private sector, the size and volatility of the net percentages cannot be directly compared across countries.

Box 1
General notes

The BLS is addressed to senior loan officers at a representative sample of euro area banks, representing all euro area countries and reflecting the characteristics of their respective national banking structures. The main purpose of the BLS is to enhance the Eurosystem's knowledge of bank lending conditions in the euro area.[2]

Detailed tables and charts based on the responses provided can be found in Annex 1 for the standard questions and Annex 2 for the ad hoc questions. In addition, BLS time series data are available on the ECB's website via the ECB Data Portal.

Detailed explanations on the BLS questionnaire, the aggregation of banks' replies to national and euro area BLS results, the BLS indicators and information on the BLS series keys are available on the ECB's website in the BLS user guide. A copy of the BLS questionnaire and a glossary of BLS terms can also be found on the ECB's website.

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[2] For more detailed information on the bank lending survey, see Köhler-Ulbrich, P., Dimou, M., Ferrante, L. and Parle, C., "Happy anniversary, BLS – 20 years of the euro area bank lending survey", *Economic Bulletin*, Issue 7, ECB, 2023; also Huennekes, F. and Köhler-Ulbrich, P., "What information does the euro area bank lending survey provide on future loan developments?", *Economic Bulletin*, Issue 8, ECB, 2022.

2 Loans to enterprises

2.1 Credit standards showed renewed net tightening

Euro area banks reported a renewed net tightening of credit standards for loans or credit lines to enterprises in the fourth quarter of 2024 (net percentage of banks of 7%; see Chart 1 and Overview table).[3] The net tightening followed unchanged credit standards for loans to firms in the third quarter and is the most pronounced net tightening since the third quarter of 2023. It was higher than banks had expected in the previous survey round (4%). The net tightening was driven mainly by banks in Germany and France in an environment of increased political uncertainty, whereas credit standards eased in Italy. Compared with historical averages, the net percentage was slightly lower than the average since 2003 (9%) and above the average since 2014 (3%).[4] Credit standards tightened both for loans to small and medium-sized enterprises (SMEs) and for loans to large firms (net percentages of 9% and 7% respectively; see Chart 2). Across maturities, banks reported a net tightening, especially for long-term loans (8%), whereas the tightening was smaller for short-term loans (3%).

Higher perceived risks and banks' lower risk tolerance had the largest tightening impact on credit standards (see Chart 1 and Table 1). The net tightening impact of banks' risk perceptions was due mainly to concerns about the economic outlook and borrowers' creditworthiness. This is consistent with higher risk-weighted assets related to supervisory requirements (see Section 5.2), the net tightening impact of the asset quality of corporate loans on banks' credit standards (see Section 5.3) and stricter credit standards in the main economic sectors (see Section 5.4). Banks' cost of funds and balance sheet situation and competition had a broadly neutral impact, similar to previous quarters and despite the decrease in interest rates and the recently weakening but ongoing foreign inflows of money, consistent with the still-tight level of interest rates. Among the four largest euro area countries, higher risk perceptions and lower risk tolerance were reported mainly by banks in Germany and France, while banks' risk tolerance was reported as having an easing impact in Italy.

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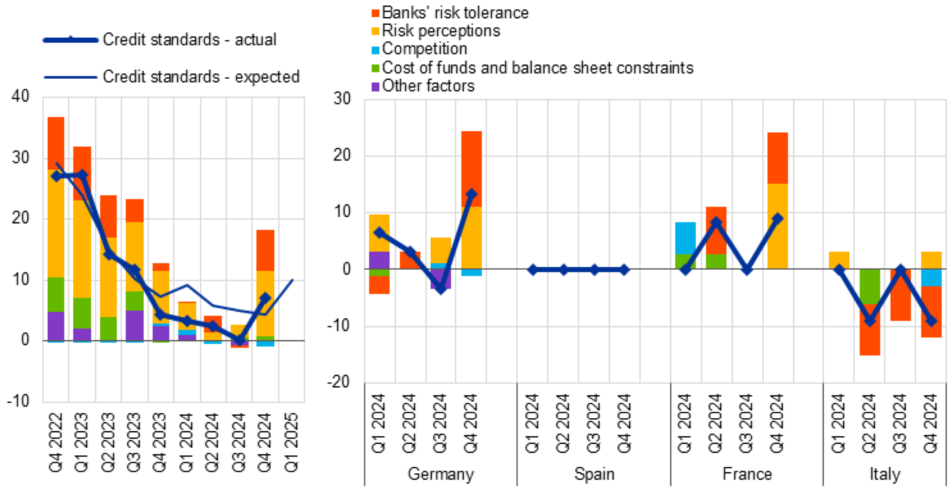
[3] Credit standards are the internal guidelines or loan approval criteria of a bank. Net percentages for credit standards refer to changes over the previous three months and are defined as the difference between the percentages of banks reporting a tightening and the percentages of banks reporting an easing. Owing to different sample sizes across countries, which broadly reflect the differences in the national shares in lending to the euro area non-financial private sector, the size and volatility of the net percentages cannot be directly compared across countries.

[4] Historical averages over different time periods can be taken as rough proxies for the long-term equilibrium change in credit standards, terms and conditions and loan demand over the business cycle. For credit standards, although the figure is imperfect as the euro area has been through several exceptional tightening periods since the BLS was launched in 2003 (such as, in particular, the global financial crisis and the sovereign debt crisis), the historical net percentage average tightening of credit standards for loans to firms since 2003 is 9%. The average net tightening of credit standards since 2014 is 3%.

Chart 1
Changes in credit standards applied to the approval of loans or credit lines to enterprises, and contributing factors

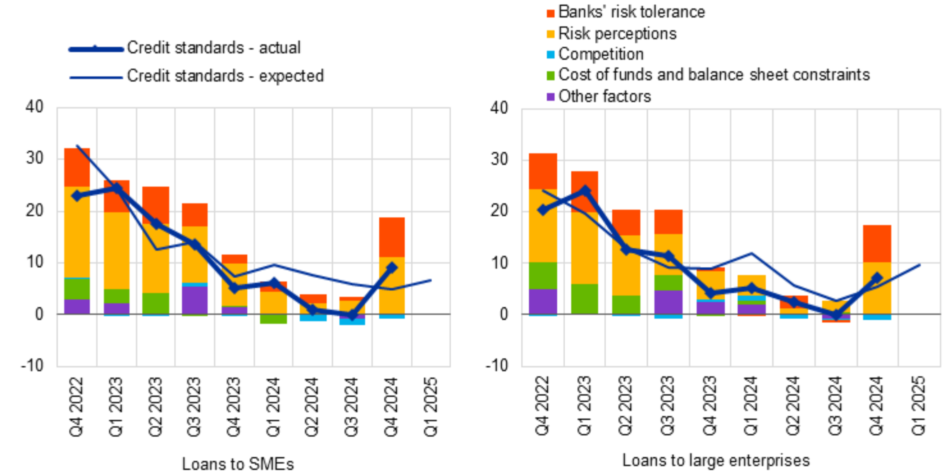
(net percentages of banks reporting a tightening of credit standards and contributing factors)



Notes: "Actual" values are changes that have occurred, while "expected" values are changes anticipated by banks. Net percentages are defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". "Cost of funds and balance sheet constraints" is the unweighted average of "banks' capital and the costs related to banks' capital position", "access to market financing" and "liquidity position"; "Risk perceptions" is the unweighted average of "general economic situation and outlook", "industry or firm-specific situation and outlook/borrower's creditworthiness" and "risk related to the collateral demanded"; and "Competition" is the unweighted average of "competition from other banks", "competition from non-banks" and "competition from market financing". The net percentages for "Other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in credit standards.

Chart 2
Changes in credit standards applied to the approval of loans or credit lines to SMEs and large enterprises, and contributing factors

(net percentages of banks reporting a tightening of credit standards and contributing factors)



Note: See the notes to Chart 1.

In the first quarter of 2025, euro area banks expect a further net tightening of credit standards for loans to firms (net percentage of 10%), slightly above the historical average. Banks expect a smaller net tightening for loans to SMEs (7%) than for loans to large firms (10%) and a smaller net tightening for short-term loans (5%) than for long-term loans (11%).

Table 1
Factors contributing to changes in credit standards for loans or credit lines to enterprises

(net percentages of banks)

	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
Country	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024
Euro area	1	1	0	-1	2	11	0	7
Germany	0	0	1	-1	4	11	0	13
Spain	0	0	0	0	0	0	0	0
France	0	0	0	0	0	15	0	9
Italy	0	0	0	-3	0	3	-9	-9

Note: See the notes to Chart 1.

2.2 Lower lending rates were broadly offset by stricter collateral requirements

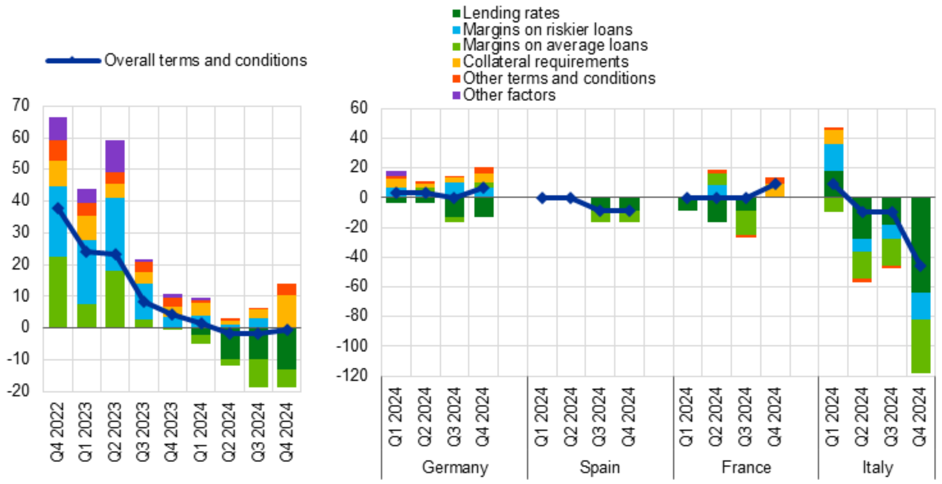
Banks' overall terms and conditions for new loans to enterprises remained broadly unchanged (net percentage of -1%; see Chart 3 and Table 2), as lower lending rates were broadly offset by stricter collateral requirements.[5] The easing impact of lower lending rates and narrower margins on average loans (defined as the spread over relevant market reference rates) was broadly offset by stricter collateral requirements and other terms and conditions, such as loan covenants and the size of the loan or credit line, to compensate for higher perceived risks. Margins on riskier loans remained broadly unchanged. Across the four largest euro area economies, German and French banks reported tighter overall terms and conditions related to stricter collateral requirements, loan covenants and the size of the loan or credit line. By contrast, terms and conditions eased in Spain and Italy owing to lower lending rates and narrower loan margins. Overall terms and conditions eased for loans to large firms but tightened slightly for loans to SMEs (net percentages of -3% and 2% respectively; see Chart 4). In both segments of corporate loans, lending rates and narrower margins on average loans had an easing impact, while collateral requirements and other terms and conditions had a tightening impact.

[5] Terms and conditions are the actual terms and conditions agreed in the loan contract. The historical net percentage average of overall terms and conditions for loans to firms since 2015, when the series was introduced, is 0%.

Chart 3

Changes in terms and conditions on loans or credit lines to enterprises

(net percentages of banks reporting a tightening of terms and conditions)



Notes: "Lending rates" was introduced in April 2024. "Margins" are defined as the spread over relevant market reference rates. "Other terms and conditions" is the unweighted average of "non-interest rate charges", "size of the loan or credit line", "loan covenants" and "maturity". The net percentages for "Other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in terms and conditions.

Higher perceived risks and banks' lower risk tolerance were the main tightening factors, while competitive pressures had an easing impact (see Table 3). The general economic outlook and the industry-or-firm-specific situation were the main reasons for banks' higher perceived risks, as reported by banks in Germany and France. By contrast, competitive pressures, especially from other banks, had an easing impact on terms and conditions.

Table 2

Changes in terms and conditions on loans or credit lines to enterprises

(net percentages of banks)

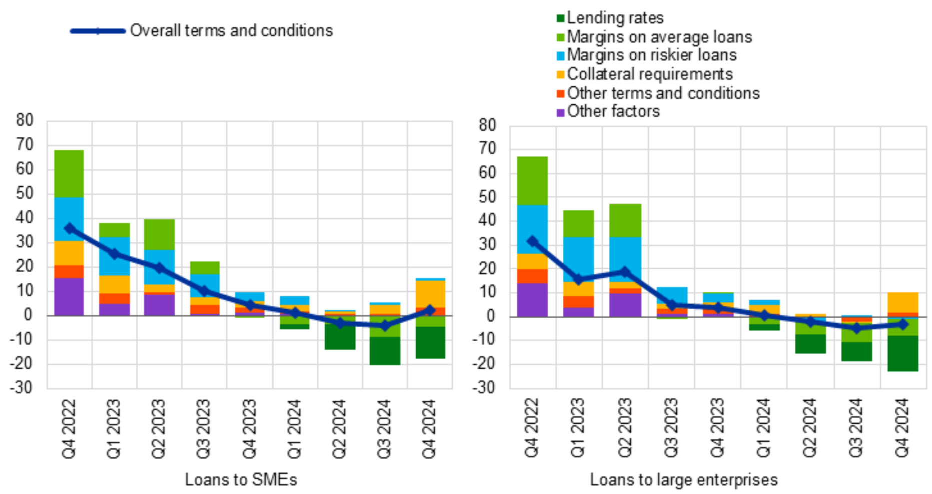
	Overall terms and conditions		Banks' lending rates		Banks' margins on average loans		Banks' margins on riskier loans	
Country	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**
Euro area	-2	-1	-10	-13	-9	-6	3	0
Germany	0	7	-13	-13	-3	3	10	7
Spain	-8	-8	-8	-8	-8	-8	0	0
France	0	9	-8	0	-17	0	0	0
Italy	-9	-45	-18	-64	-18	-36	-9	-18

Note: See the notes to Chart 3.

Chart 4

Changes in terms and conditions on loans or credit lines to SMEs and large enterprises

(net percentages of banks reporting a tightening of terms and conditions)



Note: See the notes to Chart 3.

Table 3

Factors contributing to changes in overall terms and conditions for loans or credit lines to enterprises

(net percentages of banks)

	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
Country	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**
Euro area	0	2	-2	-3	2	10	0	5
Germany	2	2	-1	-1	8	11	0	7
Spain	-6	-6	0	0	0	0	0	0
France	-3	6	-3	0	0	18	0	9
Italy	0	-3	-3	-15	-3	-3	-9	-9

Notes: The net percentages for these questions relating to contributing factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage of banks reporting that it contributed to an easing. "Cost of funds and balance sheet constraints" is the unweighted average of "banks' capital and the costs related to banks' capital position", "access to market financing" and "liquidity position"; "Perception of risk" is the unweighted average of "general economic situation and outlook", "industry-or-firm-specific situation and outlook/borrower's creditworthiness" and "risk related to the collateral demanded"; and "Pressure from competition" is the unweighted average of "competition from other banks", "competition from non-banks" and "competition from market financing".

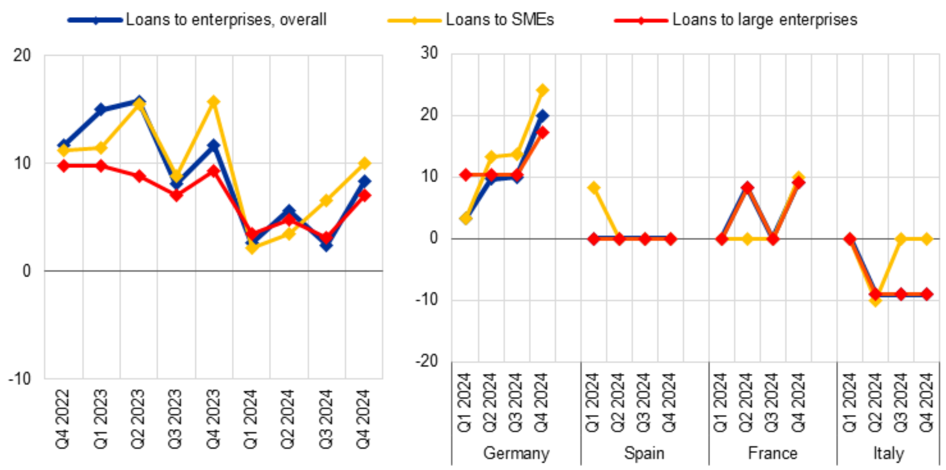
2.3 Rejection rates continued to increase

Banks reported a net increase in the share of rejected loan applications for firms (net percentage of 8%; see Chart 5). This net increase was the largest since the fourth quarter of 2023. As in the previous quarter, it was larger for loans to SMEs (net percentage of 10%, the third quarter in a row seeing an acceleration in rejections) than for loans to large firms (7%), pointing to higher credit risks for smaller firms. The further increase in the share of rejected loan applications was driven mainly by developments in Germany and France, with a substantial increase in the net share of rejected loan applications for German SMEs. By contrast, Spanish banks reported an unchanged share of rejected loan applications, and Italian banks reported a further net decrease.

Chart 5

Changes in the share of rejected loan applications for enterprises

(net percentages of banks reporting an increase)



Notes: Share of rejected loan applications relative to the volume of all loan applications in that loan category. The breakdown by firm sizes was introduced in the first quarter of 2022.

2.4 Net demand for loans increased slightly, remaining weak overall

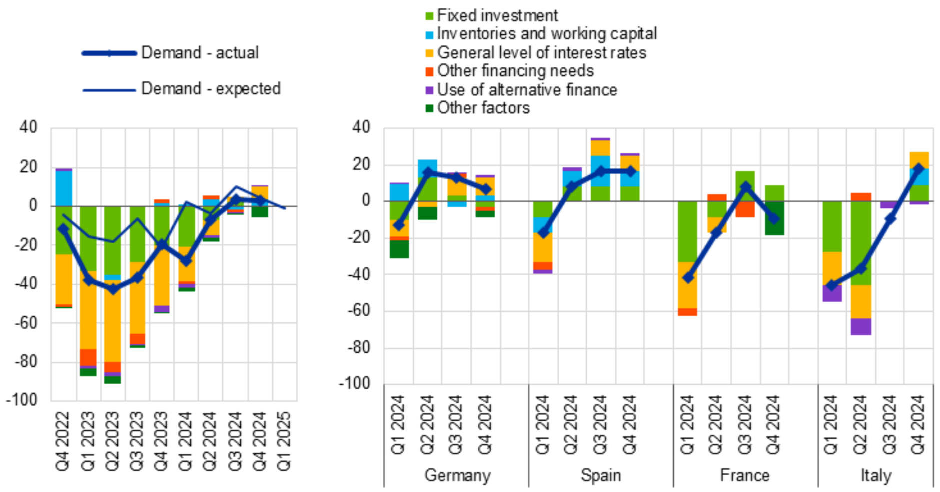
Firms' net demand for loans continued to increase slightly in the fourth quarter of 2024, while remaining weak overall (net percentage of 3%; see Chart 6).[6] The small increase in loan demand follows a similar net increase in the previous quarter and a series of net decreases from the fourth quarter of 2022 until the second quarter of 2024. The development is consistent with overall weak dynamics in bank lending to euro area firms. While banks in Germany, Spain and Italy reported a net increase in loan demand, banks in France reported a decrease. The increase in demand was broadly in line with what banks had expected in the previous quarter (net percentage of 4%). Across loan segments, banks reported broadly unchanged loan demand from large firms and a slight net decrease from SMEs (net percentages of 1% and -2% respectively, see Chart 7).

[6] Loan demand refers to the bank loan financing needs of enterprises and households. Net percentages for loan demand refer to changes over the previous three months and are defined as the difference between the percentages of banks reporting an increase and the percentages of banks reporting a decrease. The historical net percentage average of demand for loans to firms since 2003 is -1%. The average net increase of loan demand for firms since 2014 is 5%.

Chart 6

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

(net percentages of banks reporting an increase in demand, and contributing factors)

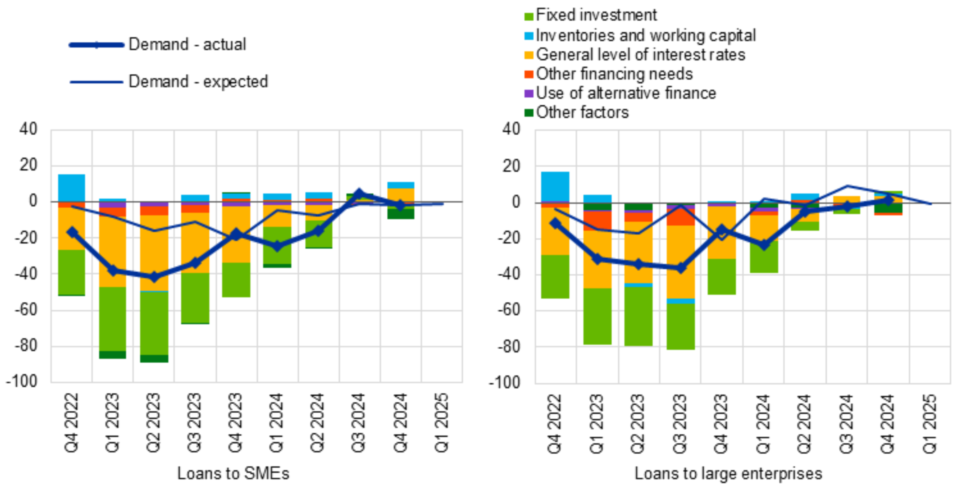


Notes: "Actual" values are changes that have occurred, while "expected" values are changes anticipated by banks. Net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages of banks responding "increased considerably" and "increased somewhat" and the sum of the percentages of banks responding "decreased somewhat" and "decreased considerably". "Other financing needs" is the unweighted average of "mergers/acquisitions and corporate restructuring" and "debt refinancing/restructuring and renegotiation"; and "Use of alternative finance" is the unweighted average of "internal financing", "loans from other banks", "loans from non-banks", "issuance/redemption of debt securities" and "issuance/redemption of equity". The net percentages for "Other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in loan demand.

Chart 7

Changes in demand for loans or credit lines to SMEs and large enterprises, and contributing factors

(net percentages of banks reporting an increase in demand, and contributing factors)



Note: See the notes to Chart 6.

Loan demand was mainly supported by declining interest rates, with fixed investment having a still-muted impact after a small positive contribution in the previous quarter (see Chart 6 and Table 4). The overall muted development reflects the continued weak economic situation, especially in some investment-intensive sectors of the economy like manufacturing (see Section 5.4), which is also reflected in recent output PMI (Purchasing Managers' Index) developments. Some banks also referred, within “other factors”, to economic and (geo-)political uncertainties as a dampening factor for firms’ loan demand. Firms’ inventories and working capital made a small positive contribution. Among the four largest euro area economies, banks in Germany, Spain and Italy referred to the supportive impact of declining interest rates and inventories, as well as working capital financing needs, on loan demand. For fixed investment, the impact was negative for Germany, whereas banks in Spain, France and Italy reported that fixed investment had a positive impact on corporate loan demand. Across loan segments, the decline in lending rates and, for loans to SMEs, the financing needs of inventories and working capital, were reported to have a strengthening impact on demand for loans to SMEs and large firms (see Chart 7).

Table 4

Factors contributing to changes in demand for loans or credit lines to enterprises

(net percentages of banks)

	Fixed investment		Inventories and working capital		Other financing needs		General level of interest rates		Use of alternative finance	
Country	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024
Euro area	2	1	-2	3	-1	0	3	7	-1	0
Germany	3	-3	-3	3	2	-2	10	10	1	1
Spain	8	8	17	8	0	0	8	8	2	2
France	17	9	0	0	-8	0	0	0	0	0
Italy	0	9	0	9	0	0	0	9	-4	-2

Note: See the notes to Chart 6.

Banks expect broadly unchanged demand for loans to firms for the first quarter of 2025 (net percentage of -1%). They expect the same for loans to large enterprises and to SMEs (net percentages both at -1%), and broadly unchanged demand for short-term and long-term loans (net percentages of 1% and 0% respectively).

3 Loans to households for house purchase

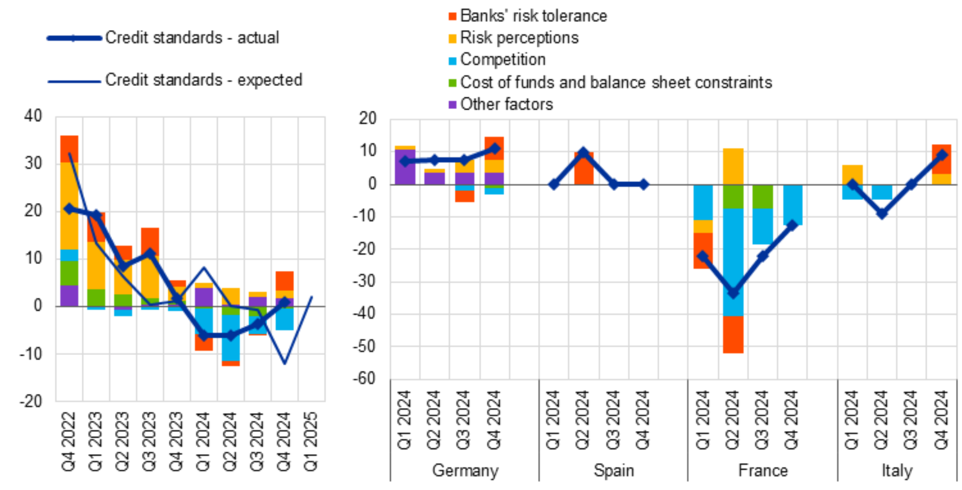
3.1 Credit standards were broadly unchanged

Euro area banks reported broadly unchanged credit standards for loans to households for house purchase (net percentage of banks at 1%; see Chart 8 and Overview table). This follows three consecutive quarters of net easing of credit standards, mostly in France, after the large net tightening seen throughout 2022 and 2023. The broadly unchanged credit standards for euro area housing loans contrasts with the expectation of strong net easing that banks reported in the previous quarter (-12%).[7] The development was heterogeneous across euro area countries. Among the four biggest countries, banks in France reported a net easing, whereas banks in Germany and Italy reported a net tightening and banks in Spain reported unchanged credit standards on housing loans.

Chart 8

Changes in credit standards applied to the approval of loans to households for house purchase, and contributing factors

(net percentages of banks reporting a tightening of credit standards, and contributing factors)



Notes: "Actual" values are changes that have occurred, while "expected" values are changes anticipated by banks. Net percentages are defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". "Cost of funds and balance sheet constraints" is the unweighted average of "banks' capital and the costs related to banks' capital position", "access to market financing" and "liquidity position"; "Risk perceptions" is the unweighted average of "general economic situation and outlook", "housing market prospects, including expected house price developments" and "borrower's creditworthiness"; and "Competition" is the unweighted average of "competition from other banks" and "competition from non-banks". The net percentages for "Other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in credit standards.

Competition from other banks was the main easing factor of credit standards for housing loans, while banks' risk tolerance and risk perceptions had a tightening impact (see Chart 8 and Table 5). The net easing impact of competition, as in

[7] The historical net percentage average of credit standards for housing loans since 2003 is 6%. The average net tightening of credit standards for housing loans since 2014 has been 2%. See also footnote 4 above on credit standards for loans to firms.

previous quarters, was driven mainly by banks in France.[8] Competition from other banks also contributed to a small net easing in Germany, together with banks' access to market financing (within "cost of funds and balance sheet constraints"). On the other hand, banks' risk tolerance had a net tightening impact at the euro area level, driven mainly by banks in Germany and Italy. Also, banks' risk perceptions had a slight net tightening impact, driven mainly by banks in Germany and Italy, connected in both cases to the general economic outlook and, in the case of German banks, to housing market prospects.

In the first quarter of 2025, euro area banks expect credit standards for housing loans to tighten slightly (net percentage of 2%). Across the four largest euro area economies, banks in France and Germany expect a net tightening, whereas Italian banks expect unchanged credit standards on housing loans and Spanish banks expect an easing.

Table 5

Factors contributing to changes in credit standards for loans to households for house purchase

(net percentages of banks)

	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
Country	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024
Euro area	-2	0	-4	-5	1	2	0	4
Germany	0	-1	-2	-2	4	4	-4	7
Spain	0	0	0	0	0	0	0	0
France	-7	0	-11	-13	0	0	0	0
Italy	0	0	0	0	0	3	0	9

Note: See the notes to Chart 8.

3.2 Terms and conditions continued to ease strongly

Banks' overall credit terms and conditions eased strongly for housing loans in the fourth quarter of 2024 (net percentage of -14%; see Chart 9 and Table 6). As in the previous two quarters, the net easing was driven mainly by a substantial contribution from lower lending rates and narrower margins on average loans, in line with the decreases in bank lending rates on mortgages since their peak in the fourth quarter of 2023. The net percentage for overall terms and conditions was one of the lowest since the start of the series in 2015.[9] Among the four largest countries, banks in Germany, Spain and Italy reported an easing while banks in France reported unchanged overall terms and conditions. As in the previous quarter, for margins on riskier loans, euro area banks reported only a small net easing, whereas collateral

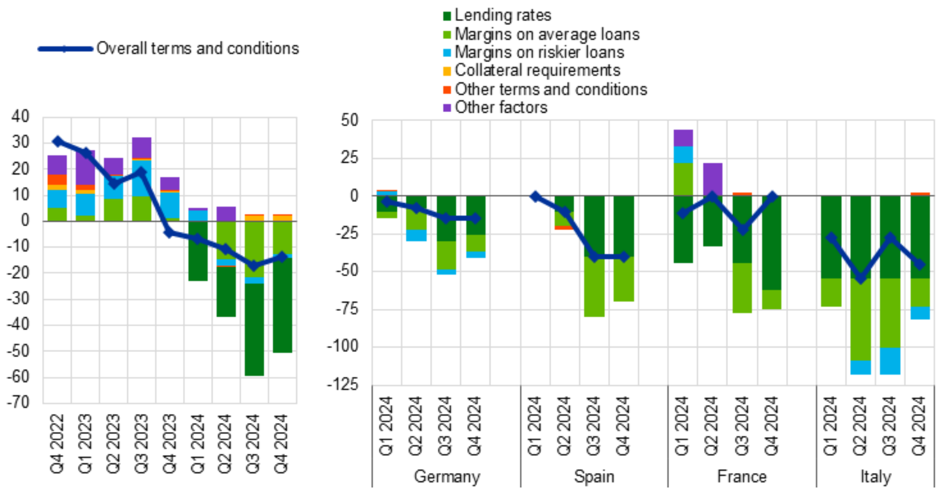
[8] For competition from other banks, French banks reported a highly competitive mortgage market in which they are willing to reduce loan margins as a way of cross-selling other products such as insurance products or bank cards.

[9] The historical net percentage average for overall terms and conditions for housing loans since 2015, when the series was introduced, is 1%.

requirements contributed to a small net tightening of terms and conditions on new loans.

Chart 9
Changes in terms and conditions on loans to households for house purchase

(net percentages of banks reporting a tightening of terms and conditions)



Notes: "Lending rates" was introduced in April 2024. "Margins" are defined as the spread over relevant market reference rates. "Other terms and conditions" is the unweighted average of "loan-to-value ratio", "other loan size limits", "non-interest rate charges" and "maturity". The net percentages for "Other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in terms and conditions.

Table 6
Changes in terms and conditions on loans to households for house purchase

(net percentages of banks)

	Overall terms and conditions		Banks' lending rates		Banks' margins on average loans		Banks' margins on riskier loans	
Country	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**
Euro area	-17	-14	-35	-36	-22	-13	-2	-2
Germany	-15	-15	-30	-26	-19	-11	-4	-4
Spain	-40	-40	-40	-40	-40	-30	0	0
France	-22	0	-44	-63	-33	-13	0	0
Italy	-27	-45	-55	-55	-45	-18	-18	-9

Note: See the notes to Chart 9.

Competition was the main driver of the net easing of overall terms and conditions (see Table 7). This impact was reported by banks in all the four largest euro area countries. Euro area banks' cost of funds and balance sheet constraints had a broadly neutral impact, after the easing impact in the previous quarter related to banks' market financing conditions in Spain and Italy. By contrast, banks' risk perceptions and risk tolerance had a small net tightening impact, driven mainly by German banks.

Table 7

Factors contributing to changes in overall terms and conditions on loans to households for house purchase

(net percentages of banks)

Country	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024
Euro area	-4	-1	-22	-19	-1	2	-1	2
Germany	-1	-1	-11	-7	-4	4	-4	4
Spain	-10	-10	-30	-20	0	0	0	0
France	-7	0	-44	-25	0	0	0	0
Italy	-3	-3	-27	-55	0	0	0	0

Notes: The net percentages for these questions relating to contributing factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage of banks reporting that it contributed to an easing. "Cost of funds and balance sheet constraints" is the unweighted average of "banks' capital and the costs related to banks' capital position", "access to market financing" and "liquidity position".

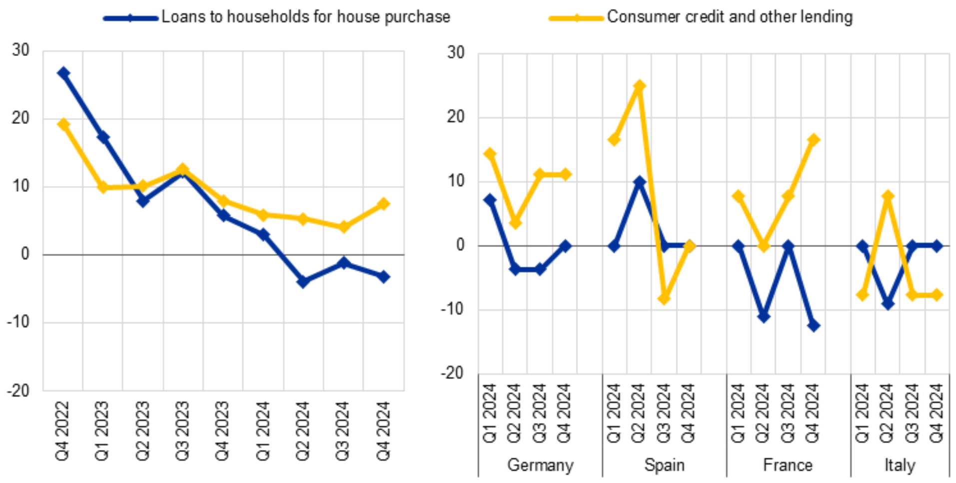
3.3 Rejection rates remained broadly unchanged

Banks reported a slight decrease in the share of rejected applications for housing loans (net percentage of -3%; see Chart 10). This followed a broadly unchanged share in the third quarter of 2024 and a small decrease in the second quarter of 2024, pointing to a further stabilisation after the large cumulative net increase in the share of rejected applications between the second quarter of 2022 and the first quarter of 2024. Among the four largest euro area economies, the share of housing loan rejections decreased in France, while it remained unchanged in Germany, Spain and Italy.

Chart 10

Changes in the share of rejected loan applications for households

(net percentages of banks reporting an increase)



Note: Share of rejected loan applications relative to the volume of all loan applications in that loan category.

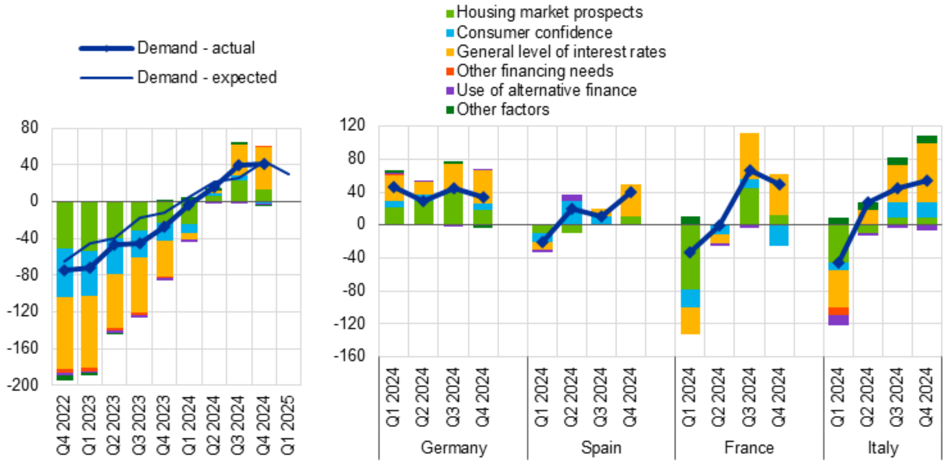
3.4 Net demand for loans increased strongly

For the second quarter in a row, banks reported a strong net increase in the demand for housing loans (net percentage of 42%, see Chart 11 and Overview table).[10] The strong net increase in demand for housing loans further substantiated the signs of a rebound from the strong declines in housing loan demand over the tightening cycle, with negative net percentages observed between the third quarter of 2022 and the first quarter of 2024. The net increase was slightly above the strong increase observed in the previous quarter (39%) and the highest net percentage increase since the second quarter of 2015 (42%). It was broadly in line with banks' expectations in the third quarter of 2024 (44%) and was broad based across euro area countries.

Chart 11

Changes in demand for loans to households for house purchase, and contributing factors

(net percentages of banks reporting an increase in demand, and contributing factors)



Notes: "Actual" values are changes that have occurred, while "expected" values are changes anticipated by banks. Net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages of banks responding "increased considerably" and "increased somewhat" and the sum of the percentages of banks responding "decreased somewhat" and "decreased considerably". "Other financing needs" is the unweighted average of "debt refinancing/restructuring and renegotiation" and "regulatory and fiscal regime of housing markets"; and "Use of alternative finance" is the unweighted average of "internal finance of house purchase out of savings/down payment", "loans from other banks" and "other sources of external finance". The net percentages for "Other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in loan demand.

Declining interest rates were the main factor having a positive impact on housing loan demand, while housing market prospects also played a role (see Chart 11 and Table 8). The positive impact of the decline in interest rates is broadly consistent with the moderation of euro area mortgage rates since the fourth quarter of 2023 and was reported by banks across the four largest euro area countries. Euro area banks also indicated that housing market prospects had a positive impact, albeit one which was smaller than the previous quarter. The impact of consumer confidence turned slightly negative, mainly because of a drop in France. Banks reported a positive impact in Germany and Italy and a neutral impact in Spain.

[10] The historical net percentage average of demand for housing loans since 2003 is 0%. The average net increase of loan demand for firms since 2014 is 6%.

In the first quarter of 2025, banks expect a further strong – albeit smaller – increase in housing loan demand (net percentage of banks of 31%). If realised, this would constitute the third consecutive net increase above 30%. The ongoing recovery of housing loan demand from the low levels reached in 2022 and 2023 is expected by banks in all four largest euro area economies.

Table 8
Factors contributing to changes in demand for loans to households for house purchase

(net percentages of banks)

	Housing market prospects		Consumer confidence		Other financing needs		General level of interest rates		Use of alternative finance	
Country	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024
Euro area	23	13	6	-2	0	0	34	46	-2	-1
Germany	41	19	0	7	0	0	33	41	-1	1
Spain	0	10	10	0	0	0	10	40	0	0
France	44	13	11	-25	0	0	56	50	-4	0
Italy	9	9	18	18	0	0	45	73	-3	-6

Note: See the notes to Chart 11.

4 Consumer credit and other lending to households

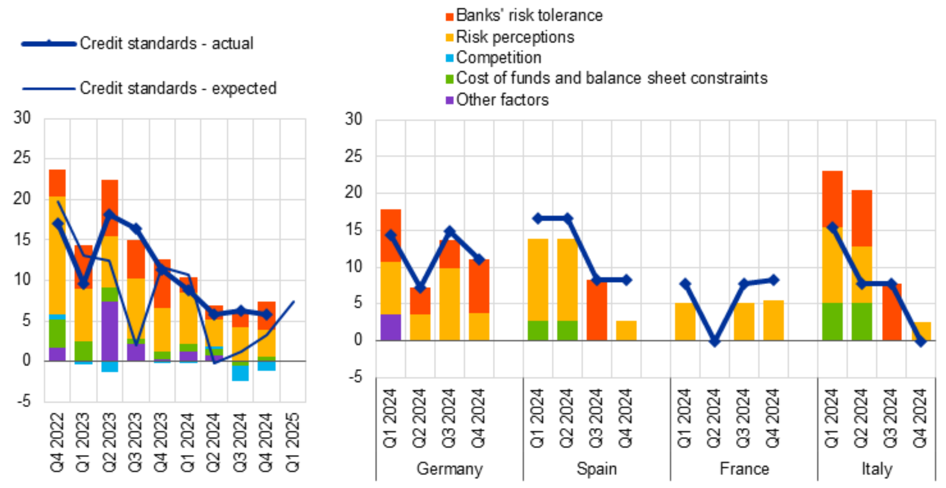
4.1 Credit standards tightened further

Banks reported a further net tightening of credit standards on consumer credit and other lending to households (net percentage of 6%; see Chart 12 and Overview table). The net percentage remained the same as in the preceding quarter and was, for the third time in a row, higher than had been expected by the banks in the previous quarter (3%). The net tightening was around the historical average of credit standards for consumer credit since 2003 (5%) and above the historical average since 2014 (3%).[11] Among the four largest euro area economies, credit standards for consumer credit tightened in Germany, France and Spain, whereas banks in Italy reported unchanged credit standards.

Chart 12

Changes in credit standards applied to the approval of consumer credit and other lending to households, and contributing factors

(net percentages of banks reporting a tightening of credit standards, and contributing factors)



Notes: "Actual" values are changes that have occurred, while "expected" values are changes anticipated by banks. Net percentages are defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". "Cost of funds and balance sheet constraints" is the unweighted average of "banks' capital and the costs related to banks' capital position", "access to market financing" and "liquidity position"; "Risk perceptions" is the unweighted average of "general economic situation and outlook", "creditworthiness of consumers" and "risk on the collateral demanded"; and "Competition" is the unweighted average of "competition from other banks" and "competition from non-banks". The detailed sub-factors under "Cost of funds and balance sheet constraints" were introduced in April 2024. The net percentages for "Other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in credit standards.

Higher risk perceptions and banks' lower risk tolerance remained the main drivers of the net tightening of credit standards for consumer credit (see Chart 12 and Table 9). The economic outlook and borrowers' creditworthiness were the main reasons for the higher risk perceptions, reflecting concerns about deteriorating asset quality in

[11] See also footnote 4 above on historical averages of credit standards for loans to firms.

this loan segment. Competition from other banks and non-banks as well as banks' cost of funds and balance sheet constraints had a broadly neutral impact.

In the first quarter of 2025, euro area banks expect credit standards for consumer credit and other lending to households to tighten further (net percentage of 7%). Across the four largest euro area economies, banks in Germany, France and Italy expect a net tightening, while banks in Spain expect unchanged credit standards.

Table 9

Factors contributing to changes in credit standards for consumer credit and other lending to households

(net percentages of banks)

	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
Country	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**
Euro area	0	1	-2	-1	4	3	2	3
Germany	0	0	0	0	10	4	4	7
Spain	0	0	0	0	0	3	8	0
France	0	0	0	0	5	6	0	0
Italy	0	0	0	0	0	3	8	0

Note: See the notes to Chart 12.

4.2 Terms and conditions remained broadly unchanged

Banks' overall terms and conditions applied when granting consumer credit and other lending to households remained unchanged in net terms in the fourth quarter of 2024 (net percentage of 0%, see Chart 13 and Table 10). This followed a continued net tightening of overall terms and conditions since the second quarter of 2022.[12] Lending rates had a substantial easing impact, whereas margins on average loans remained broadly unchanged and margins on riskier loans widened slightly. Across the four largest euro area economies, overall terms and conditions tightened in France, remained unchanged in Germany and eased in Spain and Italy. Banks in all the four countries reported an easing impact from declining lending rates, although lending margins widened in Italy, especially on riskier loans.

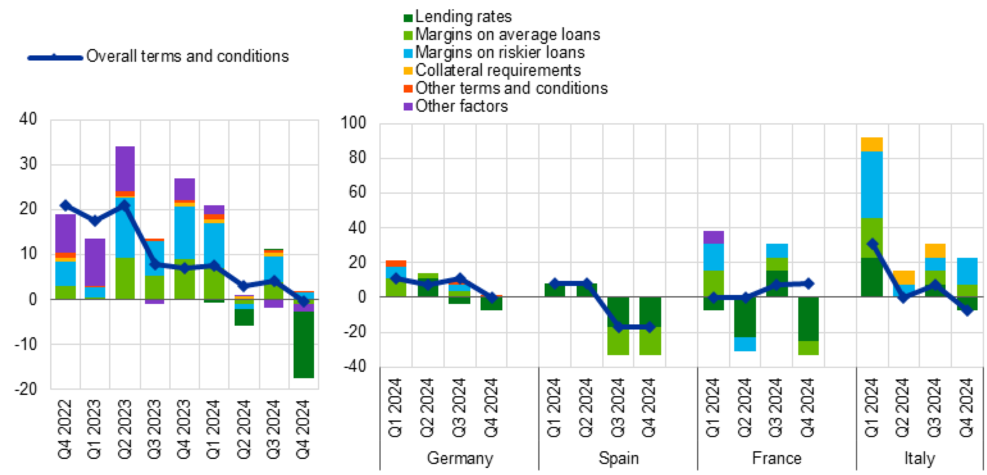
Higher perceived risks and banks' lower risk tolerance contributed most to the net tightening of banks' overall terms and conditions (see Table 11). By contrast, competitive pressure had a net easing impact. Banks' risk perceptions contributed to the tightening in Germany, France and Italy, with German and French banks also reporting lower risk tolerance.

[12] The historical net percentage average of overall terms and conditions for consumer credit since 2015, when the series was introduced, is 1%.

Chart 13

Changes in terms and conditions on consumer credit and other lending to households

(net percentages of banks reporting a tightening of terms and conditions)



Notes: "Lending rates" was introduced in April 2024. "Margins" are defined as the spread over a relevant market reference rate. "Other terms and conditions" is the unweighted average of "size of the loan", "non-interest rate charges" and "maturity". The net percentages for "Other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in terms and conditions.

Table 10

Changes in terms and conditions on consumer credit and other lending to households

(net percentages of banks)

	Overall terms and conditions		Banks' lending rates		Banks' margins on average loans		Banks' margins on riskier loans	
Country	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**	**Q3 2024**	**Q4 2024**
Euro area	4	0	0	-15	4	-1	6	2
Germany	11	0	-4	-7	4	0	4	0
Spain	-17	-17	-17	-17	-17	-17	0	0
France	8	8	15	-25	8	-8	8	0
Italy	8	-8	8	-8	8	8	8	15

Note: See the notes to Chart 13.

Table 11

Factors contributing to changes in overall terms and conditions on consumer credit and other lending to households

(net percentages of banks)

Country	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024
Euro area	0	0	-3	-8	5	7	2	3
Germany	2	1	0	-11	4	4	7	4
Spain	-8	-8	-8	-8	0	0	0	0
France	0	0	-8	-8	15	17	0	8
Italy	3	-3	0	0	0	8	0	0

Notes: The net percentages for these questions relating to contributing factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage of banks reporting that it contributed to an easing. "Cost of funds and balance sheet constraints" is the unweighted average of "banks' capital and the costs related to banks' capital position", "access to market financing" and "liquidity position".

4.3 Rejection rates increased further

Euro area banks reported a further net increase in the share of rejected applications for consumer credit (7%; see Chart 10 above). The net increase was the highest since the fourth quarter of 2023. It was consistent with concerns about perceived deteriorating asset quality in this loan segment (see Section 5.3) or banks' lower risk tolerance, as described in Section 4.1 on credit standards. The net increase was observed in Germany and France, while Spanish banks reported an unchanged share and Italian banks a net decrease in the share of loan rejections.

4.4 Net demand for loans increased slightly

Banks reported a slight net increase in the demand for consumer credit and other lending to households (net percentage of banks at 2%, see Chart 14 and Overview table).[13] The net increase in loan demand was lower than in the previous quarter (8%) and lower than had been expected by banks in the previous quarter (11%), which is broadly consistent with the recent weakening in actual lending to consumers. The net increase in loan demand was observed in Spain and, to a lesser extent, in Germany and Italy, while net demand for consumer credit decreased in France.

The increase in loan demand was primarily supported by declining interest rates (see Chart 14 and Table 12). By contrast, spending on durable goods and consumer confidence dampened loan demand slightly, which is consistent with the decline in euro area consumer confidence in November and December 2024 and the ongoing weak momentum of retail sales (even if they have edged up slightly in November).

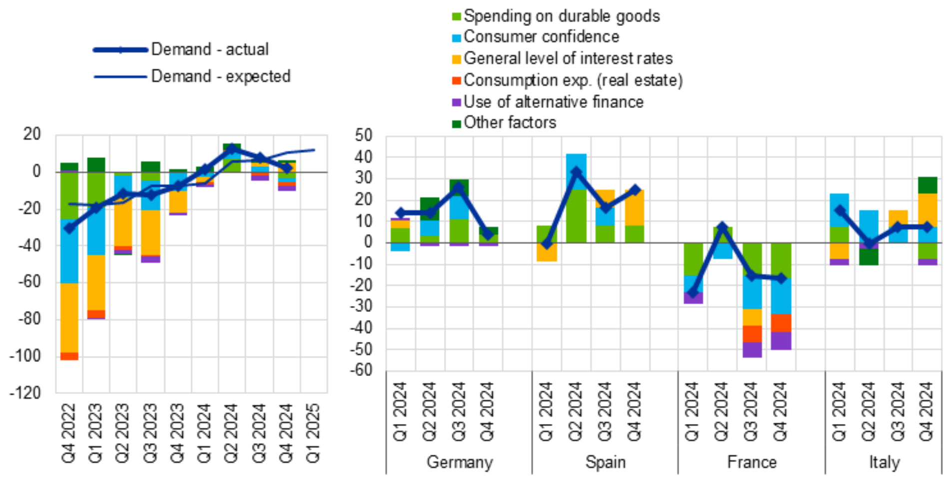
13 The historical net percentage average of demand for consumer credit since 2003 is 0%. The average net increase of loan demand for firms since 2014 is 5%.

The use of alternative finance from other banks and non-banks as well as consumption expenditure financed through real-estate guaranteed loans had also a small negative impact on loan demand.

Chart 14

Changes in demand for consumer credit and other lending to households, and contributing factors

(net percentages of banks reporting an increase in demand, and contributing factors)



Notes: "Actual" values are changes that have occurred, while "expected" values are changes anticipated by banks. Net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages of banks responding "increased considerably" and "increased somewhat" and the sum of the percentages of banks responding "decreased somewhat" and "decreased considerably". "Use of alternative finance" is the unweighted average of "internal financing out of savings", "loans from other banks" and "other sources of external finance". "Consumption exp. (real estate)" denotes "consumption expenditure financed through real estate-guaranteed loans". The net percentages for "Other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in loan demand.

For the first quarter of 2025, banks expect a net increase in demand for consumer credit and other lending to households (net percentage of 12%). Demand for consumer credit is expected to increase across the four largest euro area economies.

Table 12

Factors contributing to changes in demand for consumer credit and other lending to households

(net percentages of banks)

	Spending on durable goods		Consumer confidence		Consumption exp. (real estate)		General level of interest rates		Use of alternative finance	
Country	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024
Euro area	0	-3	3	-2	-2	-2	2	5	-2	-3
Germany	11	4	11	0	0	0	0	0	-1	-1
Spain	8	8	8	0	0	0	8	17	0	0
France	-15	-17	-15	-17	-8	-8	-8	0	-8	-8
Italy	0	-8	8	8	0	0	8	15	0	-3

Note: See the notes to Chart 14.

5 Ad hoc questions

5.1 Banks' access to funding deteriorated slightly[14]

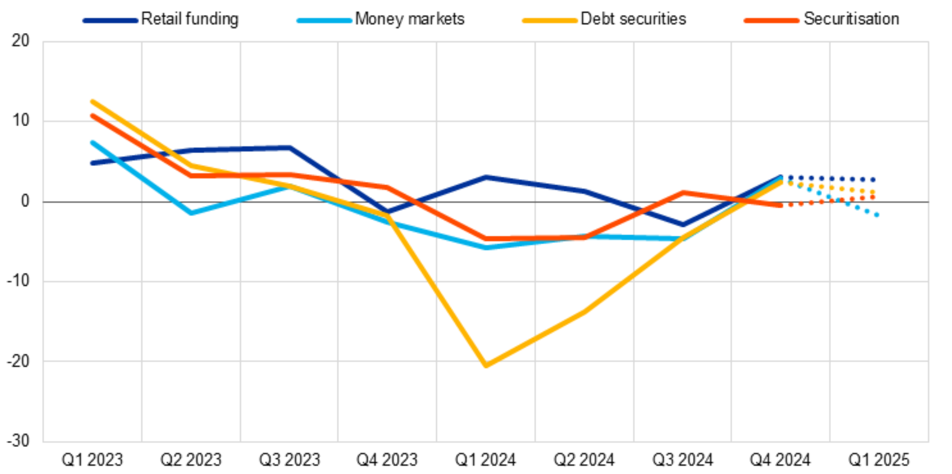
Euro area banks' access to funding worsened somewhat for retail funding, money markets and debt securities (with net percentages of 3%, 3% and 2% respectively; Chart 15 and Table 13). The slight deterioration in access to retail funding reflects a worsening in both short-term and long-term retail funding. With regard to money markets, access to funding remained broadly unchanged for very short-term money markets despite the interest rate cuts, while it deteriorated for short-term money markets. Banks also reported a slight deterioration in access to debt securities.

For the first quarter of 2025, banks expect access to money markets to improve slightly and access to debt securities funding to remain broadly unchanged, while they expect a minor deterioration for retail funding.

Chart 15

Changes in banks' access to retail and wholesale funding

(net percentages of banks reporting a deterioration in access)



Notes: The net percentages are defined as the difference between the sum of the percentages of banks responding "deteriorated considerably" and "deteriorated somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". "Retail funding" is the unweighted average of "short-term deposits (up to one year)" and "long-term deposits (more than one year)" and other retail funding instruments; "Money markets" refers to the interbank unsecured money market and is the unweighted average of "very short-term money market (up to one week)" and "short-term money market (more than one week)"; "Debt securities" is the unweighted average of "short-term debt securities (e.g. certificates of deposit or commercial paper)" and "medium to long-term debt securities (incl. covered bonds)"; and "Securitisation" is the unweighted average of "securitisation of corporate loans", "securitisation of loans for house purchase" and "ability to transfer credit risk off balance sheet". The last period denotes expectations indicated by banks in the current round.

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14 The January 2025 survey questionnaire included a question in which banks were asked to assess the extent to which the situation in financial markets has affected their access to retail and wholesale funding.

Table 13

Changes in banks' access to retail and wholesale funding

(net percentages of banks reporting a deterioration in access)

	Retail funding			Money markets	Debt securities			Securiti-sation
	Total	Short-term	Long-term		Total	Short-term	Medium to long-term	
Q3 2024	-3	-4	-1	-5	-5	-3	-6	1
Q4 2024	3	3	3	3	2	4	1	0
Q1 2025	3	4	2	-2	1	-2	4	1

Notes: See the notes to Chart 15. The last period denotes expectations indicated by banks in the current round.

5.2 Banks increased their capital in response to regulatory and supervisory requirements[15]

In response to new regulatory or supervisory requirements in 2024, euro area banks reported a net increase in their capital requirements as well as increases in their liquid and risk-weighted assets, coupled with a net easing in banks' funding conditions (see Chart 16 and Table 14). Replies on the impact on capital requirements are broadly in line with the 2023 SREP exercise for 2024, where CET1 capital requirements increased.[16] Retained earnings continued to play an important role in changes in banks' required capital position, with an increased role of capital issuance compared with 2023. Banks indicated that regulatory or supervisory measures led to an increase in banks' total assets, with a similar impact on liquid assets and risk-weighted assets. While there were no major increases in liquidity requirements and liquidity levels generally remain well above requirements, the reported pressure to increase liquid assets could reflect the perception of heightened attention paid by regulators and supervisors to liquidity conditions in light of the 2023 banking turmoil and bank liquidity that, although still ample, is decreasing.[17] The increase in risk-weighted assets was mainly supported by a positive contribution from average and, to a lesser extent, riskier loans. These developments are broadly consistent with the supervisory priority for 2024 of building banks' resilience to macro-financial and geopolitical shocks, especially with regard to shortcomings in credit risk management. Banks also indicated that regulatory or supervisory measures had a moderate easing effect on their funding conditions.

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15 The January 2025 BLS questionnaire included an annual ad hoc question aimed at assessing the extent to which new regulatory or supervisory requirements have affected banks' lending policies. This is ascertained by assessing the potential impact on banks' capital, leverage, liquidity position or provisioning and the credit conditions that they apply to loans. These new requirements cover regulatory or supervisory action that has been implemented recently or that is expected to be implemented in the near future. Furthermore, banks were also asked to indicate the effects on their funding conditions. Until the January 2020 BLS, this question referred to changes over the past/next six months. As of the January 2021 BLS, it refers to changes over the past/next 12 months.

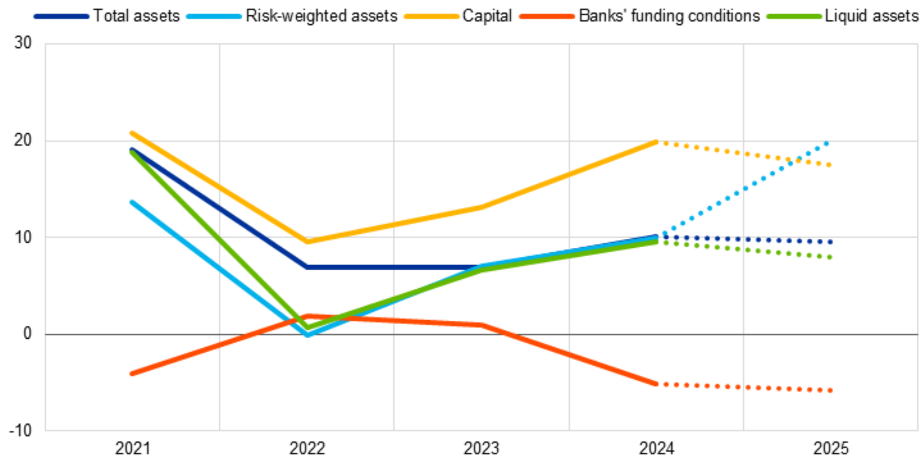
16 The increase in capital requirements was driven mainly by several countries re-introducing or increasing their countercyclical capital buffers and, to a lesser extent, by changes in risk profiles and in add-ons for non-performing exposures. See "ECB keeps capital requirements steady in 2024, refocuses supervisory priorities", *press release*, ECB, 19 December 2023.

17 See, for example, Basel Committee on Banking Supervision, "The 2023 banking turmoil and liquidity risk: a progress report", October 2024.

Chart 16

Impact of regulatory or supervisory action on banks' assets, capital and funding conditions

(net percentages of banks reporting an increase)



Notes: For "Total assets", "Risk-weighted assets", "Liquid assets" and "Capital", the net percentages are defined as the difference between the sum of the percentages of banks responding "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". For "Banks' funding conditions", the net percentages are defined as the difference between the sum of the percentages of banks responding "experienced a considerable tightening" and "experienced a moderate tightening" and the sum of the percentages for "experienced a moderate easing" and "experienced a considerable easing". The last period denotes expectations indicated by banks in the current round.

Table 14

Impact of regulatory or supervisory action on banks' assets, capital and funding conditions

(net percentages of banks reporting an increase)

	Total assets		Risk-weighted assets			Capital			
	Total	Liquid assets	Total	Average loans	Riskier loans	Total	Retained earnings	Capital issuance	Funding conditions
2023	7	7	7	9	8	13	14	4	1
2024	10	10	10	12	3	20	15	10	-5
2025	10	8	20	18	10	18	11	8	-6

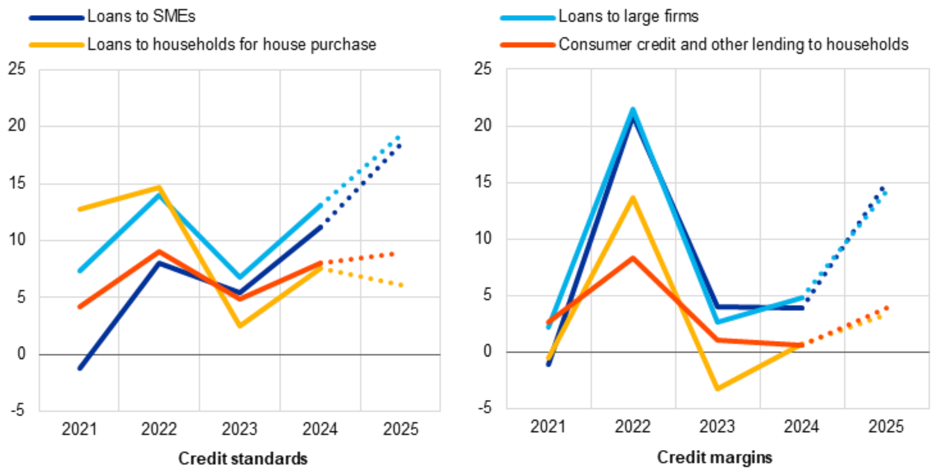
Notes: See the notes to Chart 16. The last period denotes expectations indicated by banks in the current round.

Supervisory or regulatory requirements were reported to have a net tightening impact on banks' credit standards across all loan categories in 2024 (see Chart 17 and Table 15). The net tightening impact was higher than in 2023 across all loan categories for credit standards, and more pronounced for loans to firms. For loans to SMEs, the net tightening is the largest since the second half of 2012. Credit margins for loans to firms also experienced a net tightening stemming from regulatory or supervisory requirements, whereas credit margins for loans to households for house purchase and for consumer credit remained broadly unchanged.

Chart 17

Impact of regulatory or supervisory action on banks' credit standards and margins

(net percentages of banks reporting a tightening impact)



Notes: The net percentages are defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". Wider spread = tightened; narrower spread = eased. The last period denotes expectations indicated by banks in the current round.

Looking ahead to 2025, euro area banks expect that regulatory or supervisory requirements will increase their capital needs, liquid assets and, more markedly, their risk-weighted assets. The expected net increase in capital in 2025 is lower than it was in 2024, possibly related to the broadly stable ECB capital requirements in the SREP exercise for 2025.[18] At the same time, the further net increase in risk-weighted assets, which is expected to be larger in 2025 than in 2024, is in line with higher perceived credit risks and may also reflect the introduction of the Capital Requirement Regulation III and the Capital Requirement Directive VI, which is binding from January 2025. Banks expect regulatory and supervisory requirements to have a further tightening impact on credit standards and credit margins for loans to SMEs and large firms. The actual net impact of supervisory and regulatory requirements on liquid assets has been consistently higher than expected by banks, at least since 2021 when expectations were first collected. This is consistent with banks' preference, in their liquidity targets communicated to investors, for maintaining high liquidity buffers in a context of decreasing central bank reserves and volatile valuations of securities holdings. In addition, banks expect a moderate net easing impact of regulatory or supervisory requirements on funding conditions. Banks also expect that regulatory or supervisory requirements will have a larger tightening impact on credit standards and credit margins across all loan categories than they did in 2024.

[18] See "ECB keeps capital requirements broadly steady for 2025, reflecting strong bank performance amid heightened geopolitical risks", *press release*, ECB, 17 December 2024.

Table 15

Impact of regulatory or supervisory action on banks' credit standards and margins

(net percentages of banks reporting a tightening impact)

	Credit standards			Credit margins		
	2023	2024	2025	2023	2024	2025
Loans and credit lines to SMEs	5	11	18	4	4	15
Loans and credit lines to large enterprises	7	13	19	3	5	14
Loans to households for house purchase	3	8	6	-3	1	3
Consumer credit and other lending to households	5	8	9	1	1	4

Notes: See the notes to Chart 17. The last period denotes expectations indicated by banks in the current round.

5.3 Perceived risks to credit quality had a tightening impact on credit standards for firms and consumers[19]

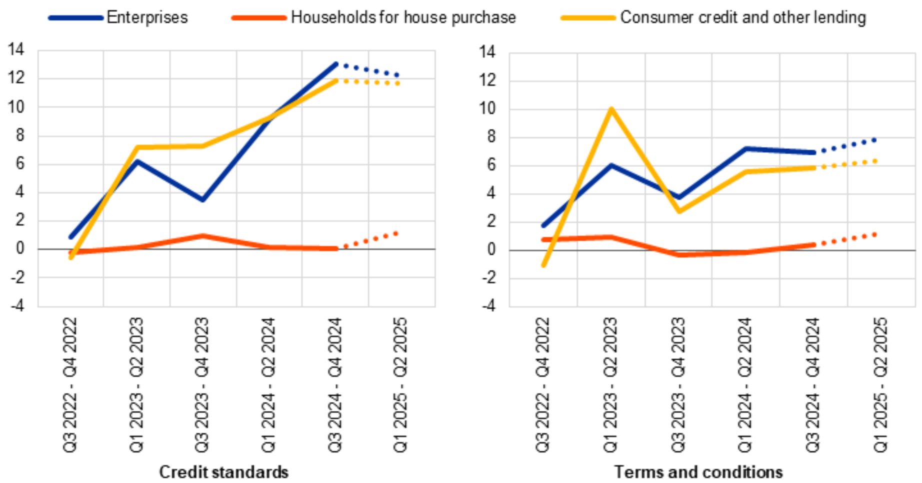
Euro area banks reported a net tightening impact of NPL ratios and other indicators of credit quality on their credit standards for loans to firms and consumer credit in the second half of 2024 (net percentages of 13% and 12% respectively; see Chart 18 and Table 16). The net tightening impact for firms and consumer credit was higher than in the first half of 2024, returning to net percentages seen only at the height of the pandemic in 2020 and the period of balance sheet clean-up in 2014-17. The tightening also substantially exceeded euro area banks' expectations in the previous round (net percentages of 6% for firms and 1% for consumer credit respectively). For terms and conditions, the net tightening impact of euro area banks' credit quality remained more moderate (7% and 6% respectively). Overall, developments for firms and consumer credit are consistent with the gradual increase in inflows into non-performing and Stage 2 (underperforming) loans in these loan segments, which is related to refinancing and repayment risks in an environment of weak economic growth and still elevated lending rates. For housing loans, credit quality had a neutral impact on both credit standards and terms and conditions, which was broadly as expected by the banks.

[19] The January 2025 survey questionnaire included a biannual ad hoc question on the impact of banks' NPL ratios and other indicators of credit quality on changes in their lending policies. The question also asked banks about the factors through which NPL ratios and other indicators of credit quality contributed to changes in their lending policies. Until the July 2023 survey this question referred only to the impact of banks' NPL ratios. Banks were asked about the impact on loans to enterprises, loans to households for house purchase and consumer credit and other lending to households over the past/next six months. The NPL ratio is defined as the stock of gross NPLs on a bank's balance sheet as a percentage of the gross carrying amount of loans. "Other indicators of credit quality" include, for example, Stage 2 loans (performing loans with a significant credit risk) and loans in early arrears (loans for which payment is overdue by more than 30 and up to 90 days). Changes in credit standards and/or terms and conditions can be caused by changes in banks' credit quality, changes in regulation or changes in a bank's assessment of credit quality even where indicators have remained unchanged. When the question was introduced in the July 2018 BLS, it also asked about the impact of banks' NPL ratios "from 2014-2017", in addition to the impact over the past/next six months.

Chart 18

Impact of banks' NPL ratios and other indicators of credit quality on credit standards and terms and conditions

(net percentages of banks reporting a tightening impact)



Notes: Net percentages are defined as the difference between the sum of the percentages of banks responding "contributed considerably to tightening" and "contributed somewhat to tightening" and the sum of the percentages of banks responding "contributed somewhat to easing" and "contributed considerably to easing". Until the July 2023 survey this question referred only to the impact of banks' NPL ratios. The last period denotes expectations indicated by banks in the current round.

Table 16

Impact of banks' NPL ratios and other indicators of credit quality on credit standards and terms and conditions

(net percentages of banks reporting a tightening impact)

	Credit standards			Terms and conditions		
	Q1 – Q2 2024	Q3 – Q4 2024	Q1 – Q2 2025	Q1 – Q2 2024	Q3 – Q4 2024	Q1 – Q2 2025
Loans to enterprises	9	13	12	7	7	8
Loans to households for house purchase	0	0	1	0	0	1
Consumer credit and other lending to households	9	12	12	6	6	6

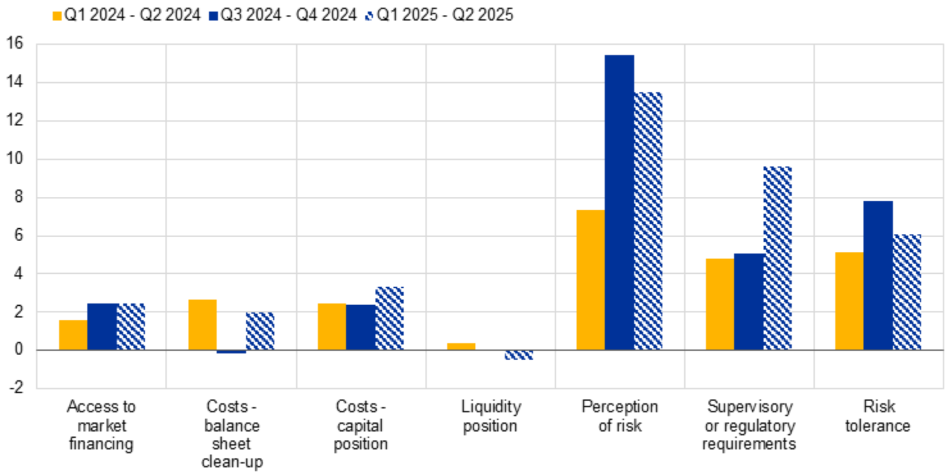
Notes: See the notes to Chart 18. The last period denotes expectations indicated by banks in the current round.

Higher perceived risks and, to a lesser extent, lower risk tolerance were the most important factors for banks reporting a tightening impact of their credit quality on lending conditions (see Chart 19 and Table 17). Pressure related to supervisory or regulatory requirements continued to have a tightening impact in the second half of 2024. In line with the generally sound capital positions of euro area banks, the tightening impact of credit quality on banks' lending policies via banks' capital positions and access to market financing was small, while the impact of banks' liquidity position and the costs of balance sheet clean-up was neutral.

Chart 19

Impact of factors through which NPL ratios and other indicators of credit quality affect banks' policies on lending to enterprises and households

(net percentages of banks reporting a tightening impact)



Notes: See the notes to Chart 18. The last period denotes expectations indicated by banks in the current round.

Table 17

Impact of factors through which NPL ratios and other indicators of credit quality affect banks' policies on lending to enterprises and households

(net percentages of banks reporting a tightening impact)

	Q1 – Q2 2024	Q3 – Q4 2024	Q1 – Q2 2025
Costs related to banks' capital position	2	2	3
Costs related to balance sheet clean-up operations	3	0	2
Supervisory or regulatory requirements	5	5	10
Access to market financing	2	2	2
Liquidity position	0	0	-1
Perception of risk	7	15	14
Banks' risk tolerance	5	8	6

Notes: See the notes to Chart 18. The last period denotes expectations indicated by banks in the current round.

For the first half of 2025, euro area banks expect a further tightening impact of credit quality on their lending conditions for loans to firms and consumer credit and a broadly neutral impact on lending conditions for housing loans. The impact on credit standards and terms and conditions is expected to remain similar to the impact in the second half of 2024, for loans to both firms and households. Higher perceived risks, pressure related to supervisory or regulatory requirements and banks' lower risk tolerance are expected to contribute most to the expected net tightening impact of credit quality. A small tightening impact of credit quality is also expected via banks' capital position, their access to market financing and banks' costs related to balance sheet clean-up, whereas banks expect a broadly neutral impact via their liquidity position in the first half of 2025.

5.4 Tighter credit standards and overall muted loan demand was seen across economic sectors[20]

Banks’ credit standards tightened further in all main economic sectors in the second half of 2024. Banks reported a substantial net tightening of their credit standards for firms in the CRE, wholesale and retail trade and construction sectors as well as in the energy-intensive manufacturing sub-sector in the second half of 2024 (see Chart 20 and Table 18). The net tightening of credit standards was small in RRE, the overall manufacturing sector and the services sector. A newly available breakdown of the services sector shows that banks tightened their credit standards in the transport, accommodation and food sub-sectors, while they kept credit standards broadly unchanged in other services in the second half of 2024. Compared with credit standards, the net tightening of credit terms and conditions was relatively moderate in the CRE and construction sectors (see Chart 21 and Table 18). In addition, terms and conditions eased slightly in the services sector in the second half of 2024. Terms and conditions remained broadly unchanged in manufacturing, wholesale and retail trade and RRE. Overall, the further net tightening of credit standards in the main economic sectors in the second half of 2024 is consistent with the renewed net tightening of overall credit standards for loans to firms in the fourth quarter of 2024 after unchanged credit standards in the third quarter. It confirms the increased credit risks in various corporate segments, whereas declining interest rates have led to more moderate changes in the actual credit terms and conditions agreed in loan contracts.

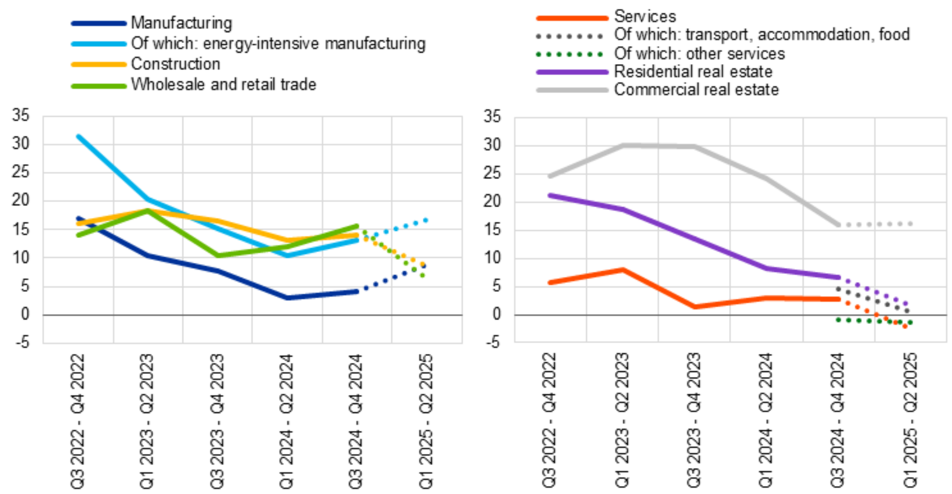
For the first half of 2025, euro area banks expect a further net tightening of credit standards across most economic sectors, except for the services sector. In the manufacturing sector, banks expect the net tightening to become larger, reflecting the weak economic outlook in this sector as, for instance, reflected in the recent manufacturing output PMI (see Section 2). The net tightening is expected to remain substantial for CRE in the first half of 2025. Banks expect the net tightening of credit standards to become moderate in the construction and wholesale and retail trade sectors, and small in RRE. Banks expect a net easing of credit standards in the services sector. For credit terms and conditions, banks expect a substantial net tightening for CRE, and a small to moderate net tightening for the other main economic sectors in first half of 2025.

[20] The January 2025 survey questionnaire included a biannual ad hoc question aimed at collecting information on changes in banks’ credit standards, overall terms and conditions and loan demand across the main economic sectors over the past/next six months. Banks were asked to report information covering five sectors: manufacturing (with a breakdown for energy-intensive manufacturing); construction (excluding real estate); services (excluding financial services and real estate, broken down into transport, accommodation and food as well as into other services); wholesale and retail trade; and real estate (including both real estate construction and real estate services). “Other services” include mainly administration, scientific, technical, information and social services. Since the January 2023 BLS and the January 2025 BLS respectively, breakdowns have been included for the manufacturing sector and the services sector.

Chart 20

Changes in credit standards for new loans to enterprises across main economic sectors

(net percentages of banks reporting a tightening)

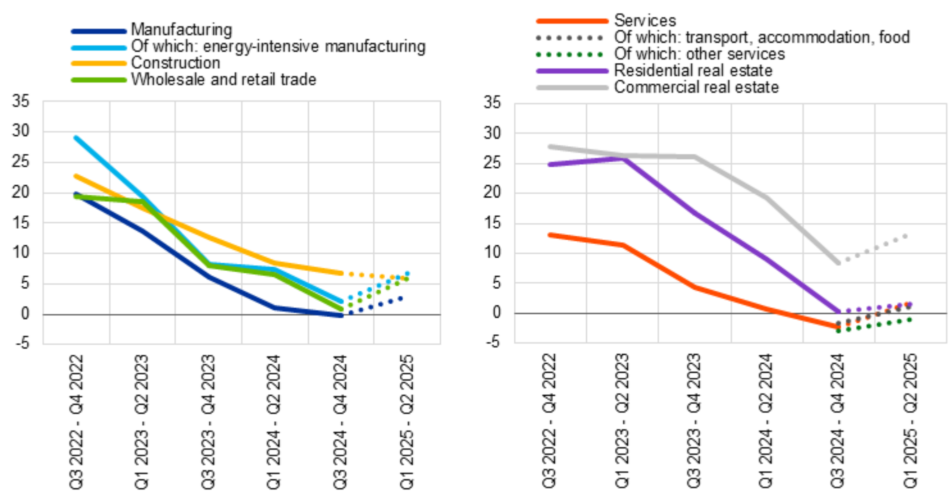


Notes: The net percentages refer to the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". The last period denotes expectations indicated by banks in the current round.

Chart 21

Changes in terms and conditions for new loans to enterprises across main economic sectors

(net percentages of banks reporting a tightening)



Notes: The net percentages refer to the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". The last period denotes expectations indicated by banks in the current round.

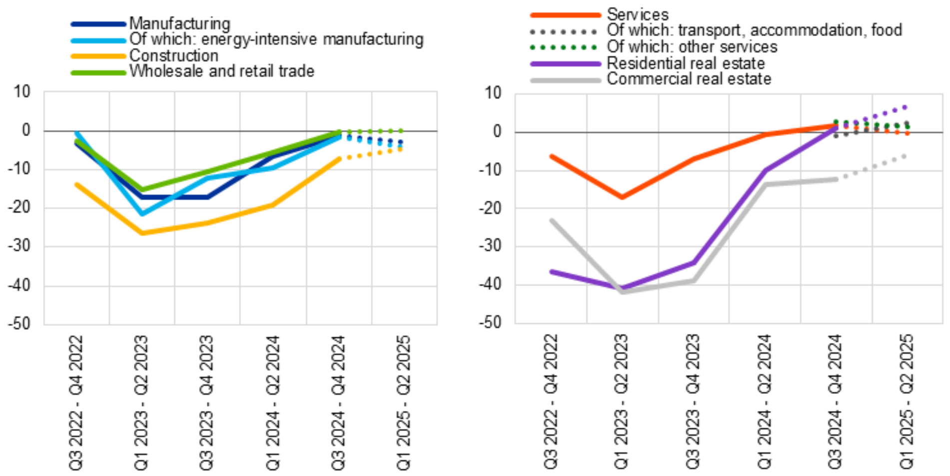
Banks reported a net decrease in demand for loans or credit lines in the CRE, construction and energy-intensive manufacturing sectors in the second half of 2024 (see Chart 22 and Table 18). Loan demand increased slightly in the services sector, owing to services other than transport, accommodation and food, and remained broadly unchanged in the overall manufacturing, wholesale and retail trade and RRE sectors.

For the first half of 2025, euro area banks expect a moderate net increase in loan demand in RRE and muted changes in demand in other sectors. Banks expect loan demand to decline further, although to a lesser extent, in CRE and construction. For manufacturing, banks also expect a net decrease in loan demand in the first half of 2025, reflecting subdued developments in this sector. In addition to the RRE sector, banks expect loan demand in the transport, accommodation and food services sector to increase slightly.

Chart 22

Changes in demand for loans or credit lines to enterprises across main economic sectors

(net percentages of banks reporting an increase)



Notes: The net percentages refer to the difference between the sum of the percentages of banks responding “increased considerably” and “increased somewhat” and the sum of the percentages of banks responding “decreased somewhat” and “decreased considerably”. The last period denotes expectations indicated by banks in the current round.

Table 18
Changes in credit standards, terms and conditions and demand for new loans to enterprises across main economic sectors

(net percentages of banks reporting a tightening/increase)

	Credit standards			Terms and conditions			Loan demand		
	Q1 – Q2 2024	Q3– Q4 2024	Q1– Q2 2025	Q1 – Q2 2024	Q3– Q4 2024	Q1– Q2 2025	Q1 – Q2 2024	Q3– Q4 2024	Q1– Q2 2025
Manufacturing	3	4	9	1	0	3	-7	-1	-3
Of which: energy-intensive manufacturing	10	13	17	7	2	7	-9	-2	-4
Construction	13	14	9	8	7	6	-19	-7	-5
Services	3	3	-2	1	-2	2	-1	2	0
Of which: transport, accommodation and food	0	5	0	0	-2	1	0	-1	2
Of which: other services	0	-1	-1	0	-3	-1	0	3	1
Wholesale and retail trade	12	16	6	7	1	6	-6	0	0
Commercial real estate	24	16	16	19	8	13	-14	-12	-6
Residential real estate	8	7	2	9	0	2	-10	1	7

Notes: See the notes to Charts 20, 21 and 22. The last period denotes expectations indicated by banks in the current round.

5.5 Decrease in excess liquidity had a neutral impact on bank lending conditions[21]

Banks reported that the decline in excess liquidity that they held with the Eurosystem in the second half of 2024 had a neutral impact on bank lending conditions (see Chart 23 and Table 19). The decline in excess liquidity held at the bank level had a slightly positive impact on lending volumes (2%) after repeatedly negative impacts until mid-2024, while it had a broadly neutral impact on credit standards and terms and conditions. With regard to the decline in aggregate excess liquidity held by other euro area banks, banks reported no impact on credit standards and lending volumes, while there was a small tightening impact on terms and conditions (2%). This evidence suggests that while the decrease in excess liquidity in the system exerts a small tightening pressure on terms and conditions, the decreases in the remuneration of banks' own excess liquidity holdings, which started at the end of the second quarter of 2024 with the first interest rate cuts, could act in the opposite direction. Overall, the gradual and predictable pace at which changes in banks'

[21] The January 2025 survey questionnaire included an ad hoc question aimed at collecting information on the impact of changes in banks' excess liquidity held with the Eurosystem on bank lending over the past/next six months. Banks' excess liquidity with the Eurosystem are the reserves that banks hold in the ECB's current account or deposit facility. They do not include the minimum reserve requirement. Changes in banks' excess liquidity can occur as a result of changes in banks' liquidity holdings within the ECB's current account or deposit facility and/or as a result of a change in minimum reserve requirements. Until the first half of 2024, this ad hoc question referred to excess liquidity held with the Eurosystem without specifying whether it refers to an individual bank's excess liquidity or to the aggregate excess liquidity of other euro area banks. Since the second half of 2024, the reported impacts distinguish between these two aspects.

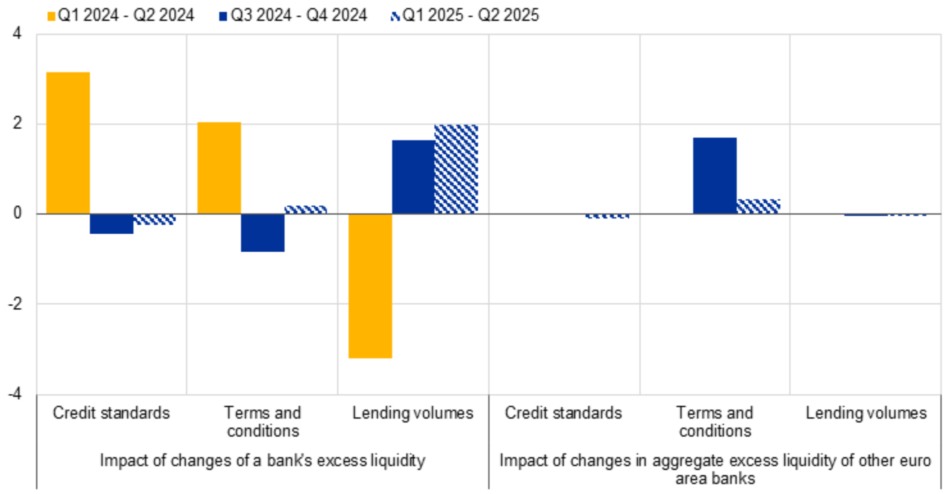
excess liquidity held with the Eurosystem occur contributes to keeping impacts contained overall.

Looking to the first half of 2025, banks anticipate a continuation of relatively muted impacts. Changes in excess liquidity at the bank level are expected to continue to have a small positive impact on lending volumes, while the impact of changes of the excess liquidity held by other banks is expected to be neutral.

Chart 23

Impact of changes in banks' excess liquidity with the Eurosystem on bank lending

(net percentages of banks reporting a tightening impact or an increase)



Notes: The net percentages refer to the difference between the percentages of banks reporting a tightening impact or a decrease and the percentages of banks reporting an easing impact or an increase. Results until the second quarter of 2024 refer to banks' excess liquidity held with the Eurosystem without specifying whether it refers to one bank's excess liquidity or to the aggregate excess liquidity of other euro area banks. The last period denotes expectations indicated by banks in the current round.

Table 19

Impact of changes in banks' excess liquidity with the Eurosystem on bank lending

(net percentages of banks reporting a tightening impact or an increase)

	Impact of changes of a bank's excess liquidity			Impact of changes in aggregate excess liquidity of other euro area banks		
	Credit standards	Terms and conditions	Lending volumes	Credit standards	Terms and conditions	Lending volumes
Q1 – Q2 2024	3	2	-3	-	-	-
Q3– Q4 2024	0	-1	2	0	2	0
Q1– Q2 2025	0	0	2	0	0	0

Notes: See the notes to Chart 23. The last period denotes expectations indicated by banks in the current round.

Annexes

See more.

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For specific terminology please refer to the ECB glossary (available in English only).

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