BANK LENDING SURVEY JANUARY

Financial Stability Department

Monetary Department
Monetary Policy and Fiscal Analyses Division

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CZECH NATIONAL BANK

I. INTRODUCTION AND SUMMARY

The Bank Lending Survey captures banks' opinions regarding the change in the supply of loans by means of credit standards and the terms and conditions for approving loans, and regarding the change in non-financial corporations' and households' demand for loans. This document summarises the results of the nineteenth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2016 Q4 and their expectations in these areas for 2017 Q1.[1] Twenty-one banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 28 November and 13 December 2016.

The survey reveals that banks' approach to the setting of credit standards differed across the segments of the credit market in 2016 Q4 due to legislative and regulatory changes. While part of the banking market further eased the credit standards for loans to non-financial corporations, banks tightened the credit standards for loans to households for house purchase and consumer credit across the board due mainly to the entry into effect of the new consumer credit act and the CNB's recommendations regarding LTV limits. An increase in bank financing costs and the perceived risk of property market developments also fostered a tightening of standards for house purchase loans. Conversely, the easing of standards for corporate loans was driven by competition, a good liquidity situation of banks and a positive outlook regarding the economic situation. Banks also continued to lower average interest margins. Demand for loans rose in all segments of the credit market. The rise in demand for loans to non-financial corporations was due to positive news from the economy, reflected mainly in growing corporate demand for long-term investment loans. In the case of household demand, prospects of further growth in property prices and rising consumer confidence in an environment of very low interest rates played a role. The banks surveyed indicate a further broad-based tightening of standards for loans to households for house purchase in 2017 Q1. Part of the banking market also expects credit standards for consumer credit to tighten and those for loans to non-financial corporations to ease. According to banks' perceptions, demand for loans to non-financial corporations will continue to rise in 2017 Q1, while demand for house purchase loans and consumer credit will drop or remain unchanged.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Banks' credit standards for approving **loans to non-financial corporations** were relaxed in 2016 Q4 (an NP of 16% of the market). The easing of standards was fostered by competition, low financing costs, a good liquidity situation of banks and positive risk perceptions regarding the expected overall economic situation. These factors were also reflected in a further easing of the terms and conditions for approving corporate loans (an NP of 40%), mainly for loans to

[1] The survey contained 20 questions that related to banks' credit standards, terms and conditions for approving loans and demand for loans perceived by banks, including the relevant factors. In the text and charts, the responses to the questions are expressed in the form of net percentages (NP) on the aggregate level. Net percentages are calculated as the difference between the market share of loans provided in the given segment by banks reporting that standards/conditions have been tightened (or demand increased) and the market share of loans provided in the given segment by banks reporting that standards/conditions have been eased (or demand decreased). A positive (negative) net percentage indicates an overall tightening (easing) of standards/conditions or an overall increase (decrease) in demand. Data in Excel files, along with the questionnaire, a glossary and methodological guidelines, will be available on the CNB website on Monday, 23 January 2017: (http://www.cnb.cz/en/bank_lending_survey/index.html).

large corporations. The average interest margins of banks decreased the most. A smaller proportion of the banking market reported easier collateral requirements; lower interest margins on riskier loans and easier other non-interest conditions (non-interest fees, loan maturity, etc.).

Corporations' demand for loans rose in 2016 Q4 (an NP of 57%). This rise was observed in all market segments, albeit more widely for loans to large corporations and long-term loans. Banks attributed the demand growth mainly to the need to finance fixed investment, mergers and acquisitions and corporate and debt restructuring. The low interest rates are also having a positive effect on the amount of loans demanded. In 2017 Q1, part of the banking sector expects credit standards to ease further and demand to rise (NPs of 12% and 37% respectively).

II.2 HOUSEHOLDS

As expected, credit standards for **loans for house purchase** to households were tightened across the board in 2016 Q4 (an NP of 89%). This was due mainly to the requirements of the newly effective consumer credit act, the CNB's recommendations regarding LTV limits for new house purchase loans, higher bank financing costs and the perceived risk of property market developments. Related to this was an overall tightening of the terms and conditions for approving loans (an NP of 74%), not only as regards the required LTV ratio, but also other collateral requirements. By contrast, average interest margins on loans continued to fall in a large part of the market. Household demand for loans for house purchase continued to rise across the board in Q4 (an NP of 90%). Demand was favourably affected by expected growth in residential property prices and improved consumer confidence in an environment of low interest rates.

For 2017 Q1, the banking sector expects credit standards for housing loans to tighten further (an NP of 78%). According to banks' perceptions, demand will decrease (an NP of 46%).

Credit standards for **consumer credit** to households were tightened in part of the market in 2016 Q4 (an NP of 18%) due to the requirements of the newly effective consumer credit act. Part of the market further lowered the average interest margin and the margin on riskier loans, while non-interest conditions remained unchanged. Household demand for consumer credit rose further in 2016 Q4 (an NP of 14%). The interest of households in consumer credit was favourably affected by improved consumer confidence, an increase in households' consumer expenditure and a marked decline in interest rates in this credit market segment. In 2017 Q1, a small section of the banking market expects credit standards to tighten and demand to go up further.

Replies to **additional questions** regarding loans to non-resident non-financial corporations show that banks did not change their credit standards for these loans in 2016 Q4 and demand in this segment increased (an NP of 38%).

SUPPLY AND DEMAND CONDITIONS FOR LOANS TO NON-FINANCIAL CORPORATIONS

Chart 1 Changes in credit standards applied to loans to non-financial corporations
(questions 1, 2 and 6)
(net percentages, positive value = tightening, negative value = easing)

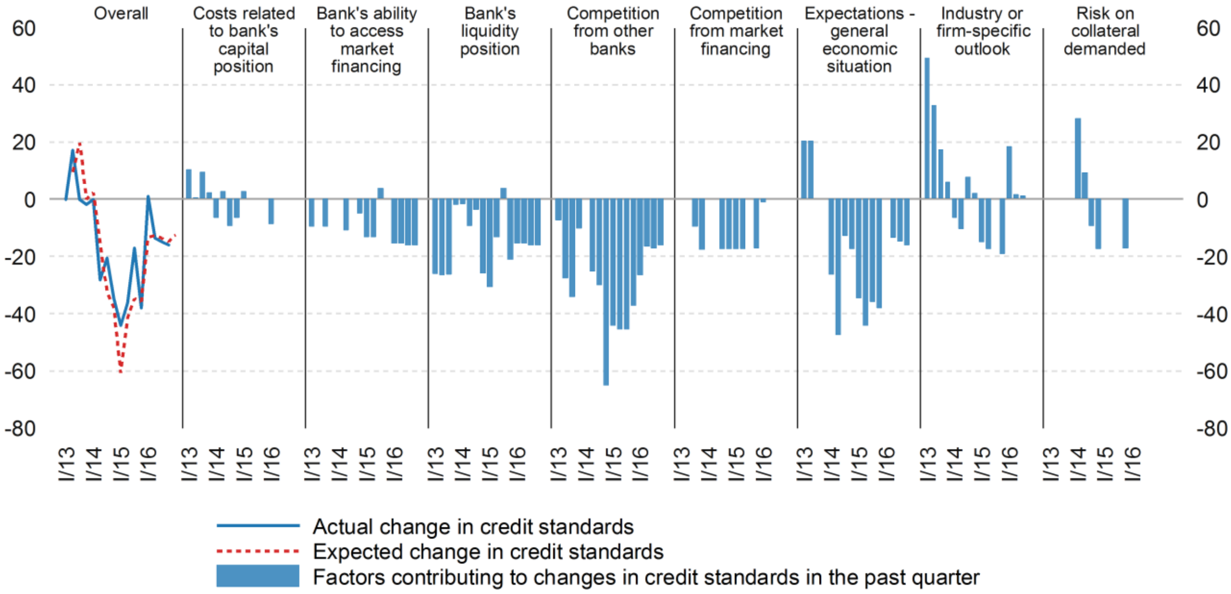


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations
(question 3)
(net percentages, positive value = tightening, negative value = easing)

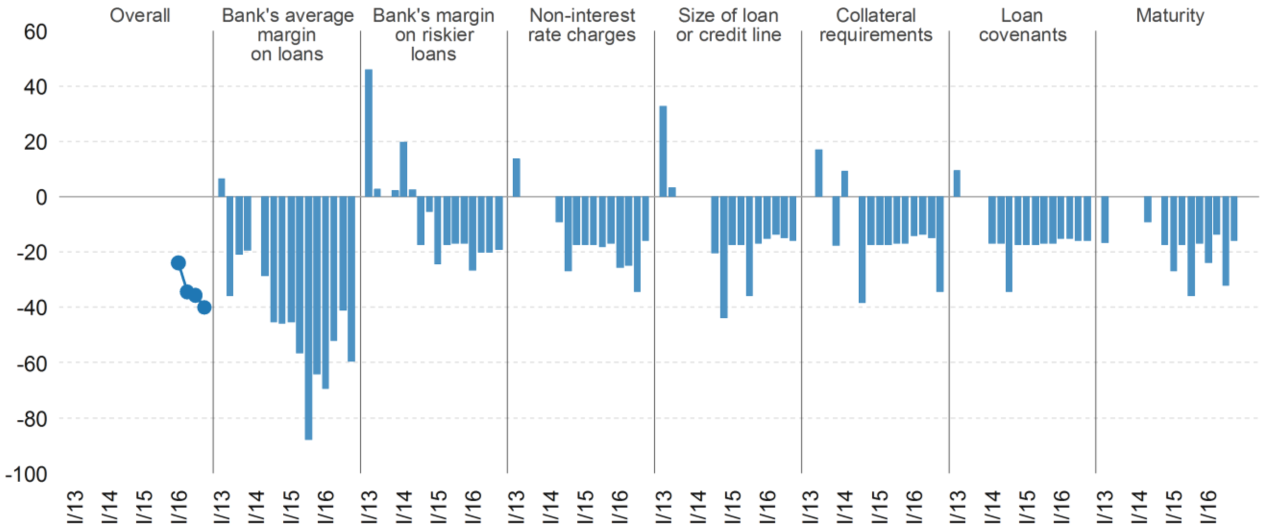
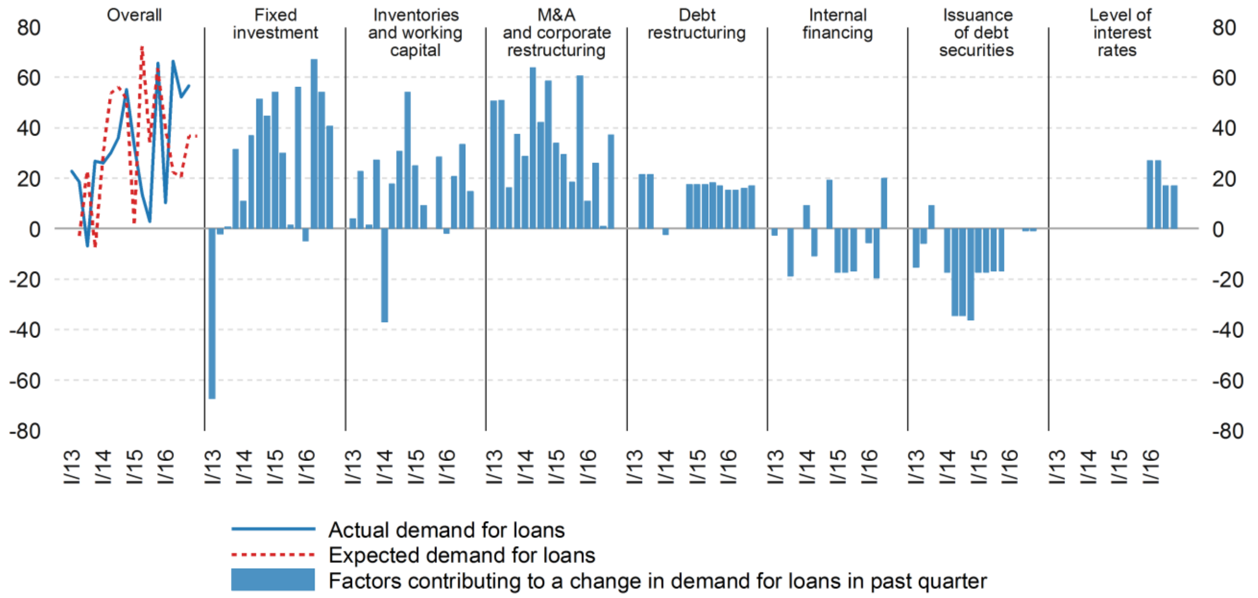


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentages, positive value = demand growth,
negative value = demand decrease)



SUPPLY AND DEMAND CONDITIONS FOR LOANS FOR HOUSE PURCHASE

Chart 4 Changes in credit standards applied to loans for house purchase
(questions 8, 9 and 16)
(net percentages, positive value = tightening, negative value = easing)

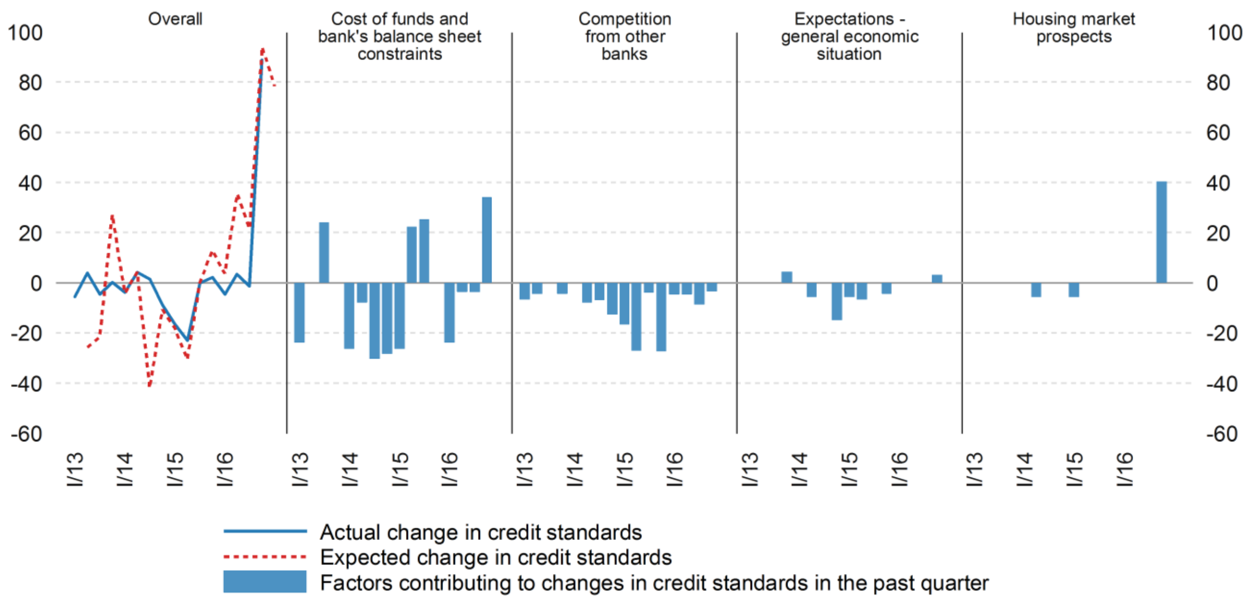


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)
(net percentages, positive value = tightening, negative value = easing)

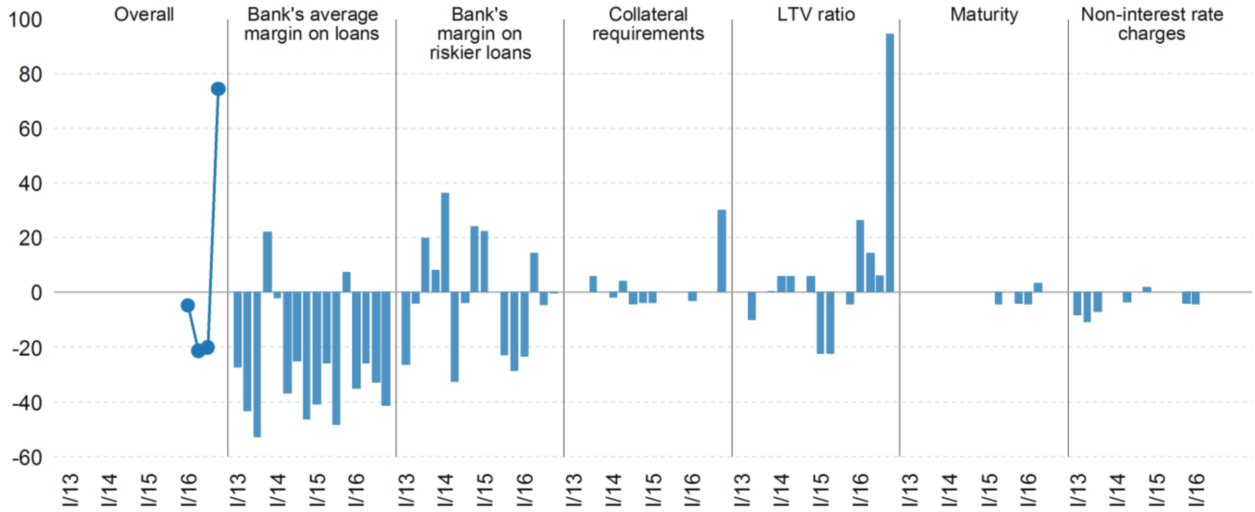
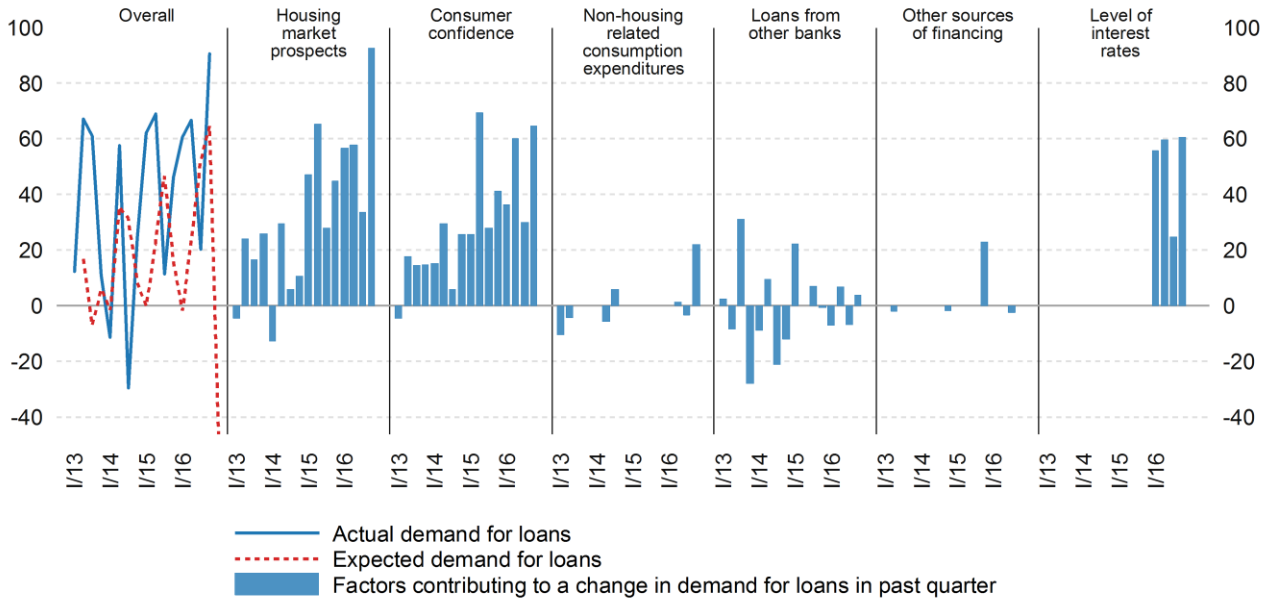


Chart 6 Changes in households' demand for loans for house purchase
(questions 13, 14 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)



SUPPLY AND DEMAND CONDITIONS FOR CONSUMER CREDIT

Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)
(net percentages, positive value = tightening, negative value = easing)

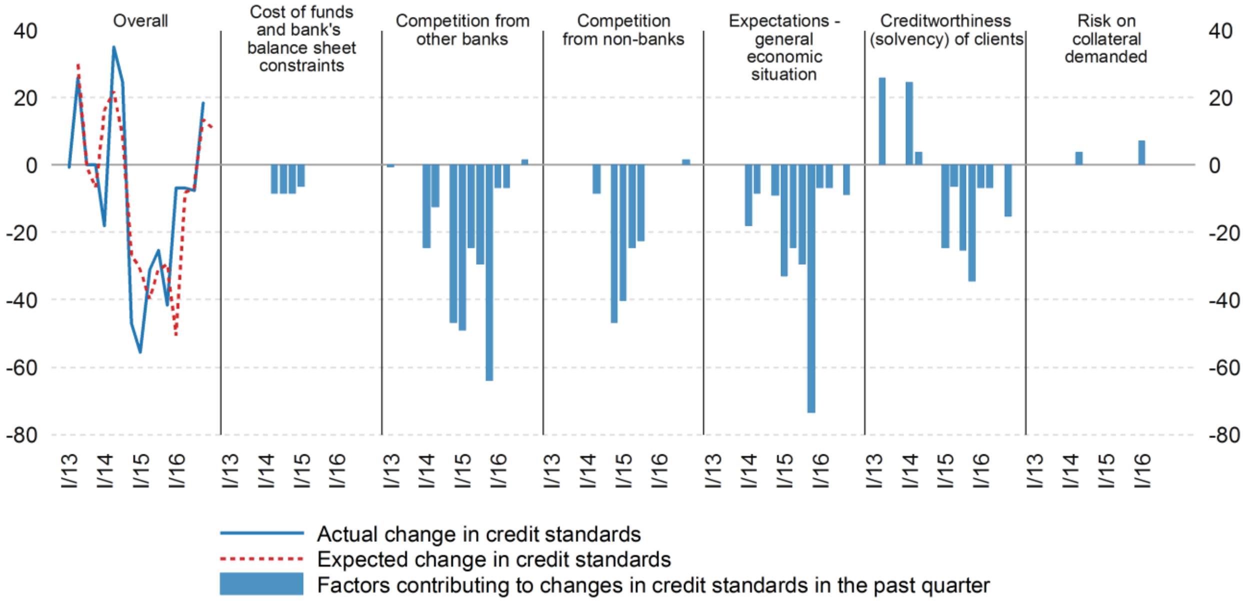


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)
(net percentages, positive value = tightening, negative value = easing)

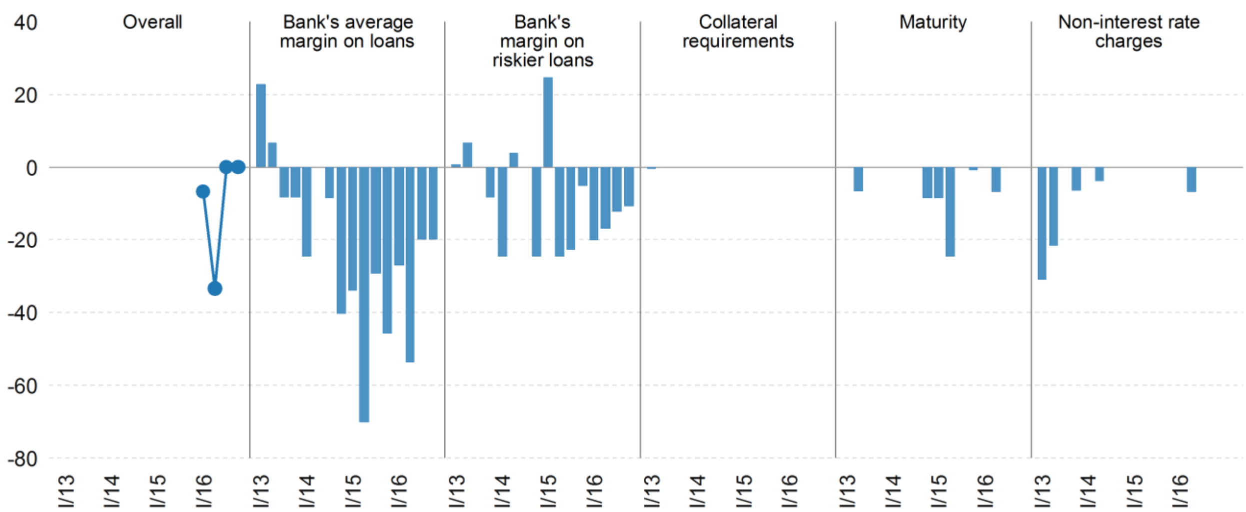


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)