# BANK LENDING SURVEY
# APRIL

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Financial Stability Department

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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 twentieth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2017 Q1 and their expectations in these areas for 2017 Q2. Twenty-one banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 6 and 20 March 2017.[1]

*According to the survey results, banks further tightened credit standards for loans to households while continuing to ease standards for loans to non-financial corporations. The tightening of credit standards for loans to households was due to macroprudential and legislative changes. An increase in bank financing costs and the perceived risk stemming from expected property market developments also fostered a tightening of standards for house purchase loans. By contrast, the easing of credit standards for corporate loans reflected competitive pressure, a good liquidity situation of banks, low bank financing costs and a favourable economic outlook. Demand for loans rose in all segments of the credit market. However, an NP of 3% of the banking market perceived growth in household demand for loans for house purchase, as compared to 90% in 2016 Q4. Nevertheless, demand was stronger than banks had expected. Household demand was favourably affected by very low interest rates, expectations of continued property price growth and good consumer confidence. The increase in corporate demand was driven mainly by loans for financing mergers and acquisitions and corporate and debt restructuring. In 2017 Q2, banks expect credit standards to ease for corporate loans and to tighten further for loans to households. Demand for corporate loans and consumer credit will increase, while demand for loans for house purchase will decline.*

## II. CREDIT STANDARDS AND DEMAND FOR LOANS

### II.1 NON-FINANCIAL CORPORATIONS

Credit standards (representing banks' internal criteria for approving loans) were relaxed further for **loans to non-financial corporations** in 2017 Q1 (an NP of 16% of the market). The easing of standards was fostered by pressure from competition, a good liquidity situation of banks, low bank financing costs and positive risk perceptions regarding the expected economic situation. Banks' perception of competitive pressure from other banks was more across-the-board in nature in the case of loans to small and medium-sized enterprises. By contrast, the taking into account of the impacts of the expected exit from the CNB's exchange rate commitment fostered a tightening of standards in part of the market. Banks further eased the terms and conditions for approving new loans (an NP of 49%), especially in the case of loans to large corporations. The average interest margins of banks decreased the most. A smaller proportion of the banking market also reduced

[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, are available on the CNB website: (http://www.cnb.cz/en/bank_lending_survey/index.html).

interest margins on riskier loans and eased other, non-interest conditions (loan maturity, form of repayment or collateral requirements).

Corporations' demand for loans rose in 2017 Q1 (an NP of 17%). The main factor was demand for financing of mergers and acquisitions and corporate and debt restructuring. Part of the banking market also perceived a rise in demand for financing of fixed investment. The growth in demand was fostered by low interest rates. By contrast, demand for loans was reduced by the use of internal resources of corporations. In 2017 Q2, part of the banking market expects credit standards to ease further and demand to rise (NPs of 16% and 26% respectively).

### II.2 HOUSEHOLDS

Banks further tightened credit standards for **loans for house purchase** provided to households (an NP of 87%). This was due to implementation of the CNB's macroprudential measures regarding LTV limits aimed at reducing the proportion of new loans with LTV ratios exceeding 80%. An increase in bank financing costs as a result of higher yields on longer-maturity government bonds and the perceived risk stemming from expected residential property market developments acted in the same direction. Part of the market also tightened the LTI requirements. These factors were also reflected in a tightening of terms and conditions for approving loans, which occurred across the board with regard to the required LTV ratio. On the other hand, the average interest margins of banks fell further (an NP of 8%, as compared to 42% in 2016 Q4). An NP of 3% of the banking market recorded growth in household demand for loans for house purchase in Q1, as compared to 90% in 2016 Q4. Nevertheless, demand was stronger than banks had expected. Demand was favourably affected by very low interest rates, expectations of continued property price growth and good consumer confidence. In 2017 Q2, banks expect a further across-the-board tightening of credit standards for loans for house purchase and a decrease in demand for loans (NPs of 67% and 29% respectively).

Credit standards for **consumer credit** to households were tightened further in 2017 Q1 (an NP of 13%). In accordance with the Consumer Credit Act, part of the banking market tightened the conditions for assessing client creditworthiness. By contrast, banks further eased their terms and conditions for approving loans (an NP of 20%), most notably by lowering the average interest margin (an NP o 71%) and to a lesser extent also by reducing margins on riskier loans. Household demand for consumer credit rose further in 2017 Q1 (an NP of 13%). Demand was positively affected by an increase in the consumption expenditure of households, favourable consumer confidence and a decline in interest rates in this credit market segment. Banks expect credit standards to stabilise and demand to record a relatively broad-based further increase in 2017 Q2 (an NP of 39% of the market).

Credit standards for **loans to sole traders** were unchanged. An NP of 34% of the banking market recorded a rise in demand for these loans.

Replies to **additional questions** regarding loans to non-resident non-financial corporations show that credit standards and demand in this credit market segment did not change in 2017 Q1.

## 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)

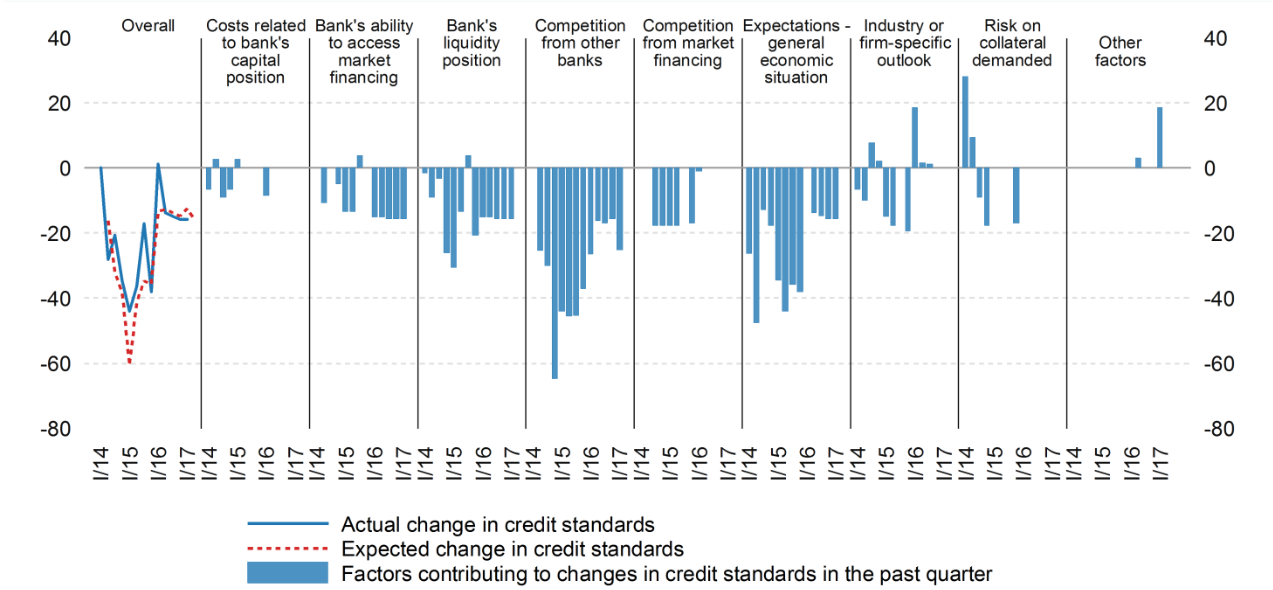



**Chart 2** Changes in terms and conditions for approving loans to non-financial corporations (question 3)
(net percentages, positive value = tightening, negative value = easing)

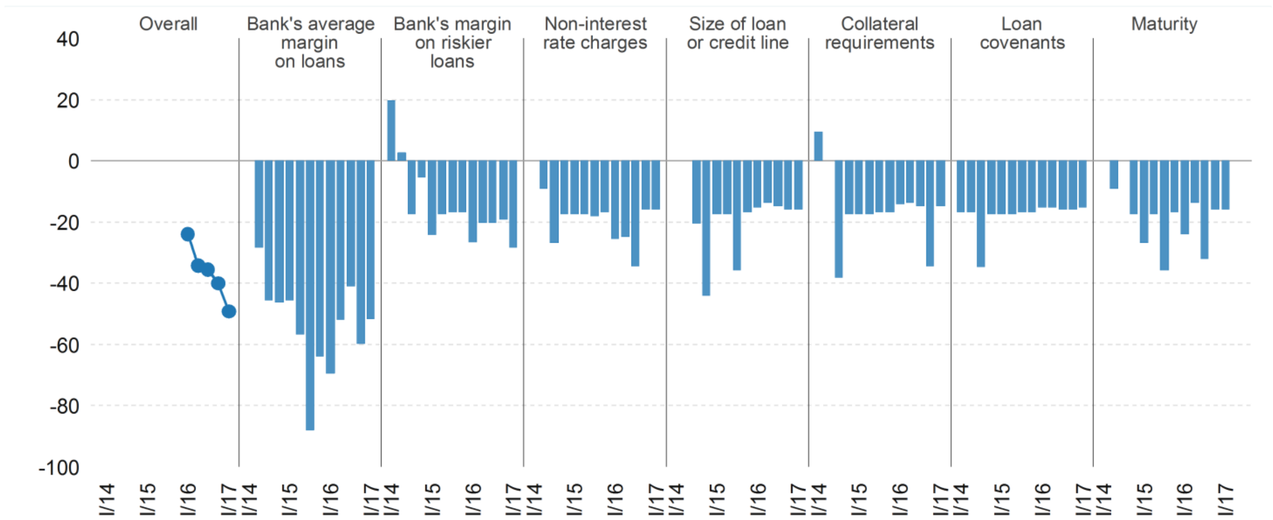
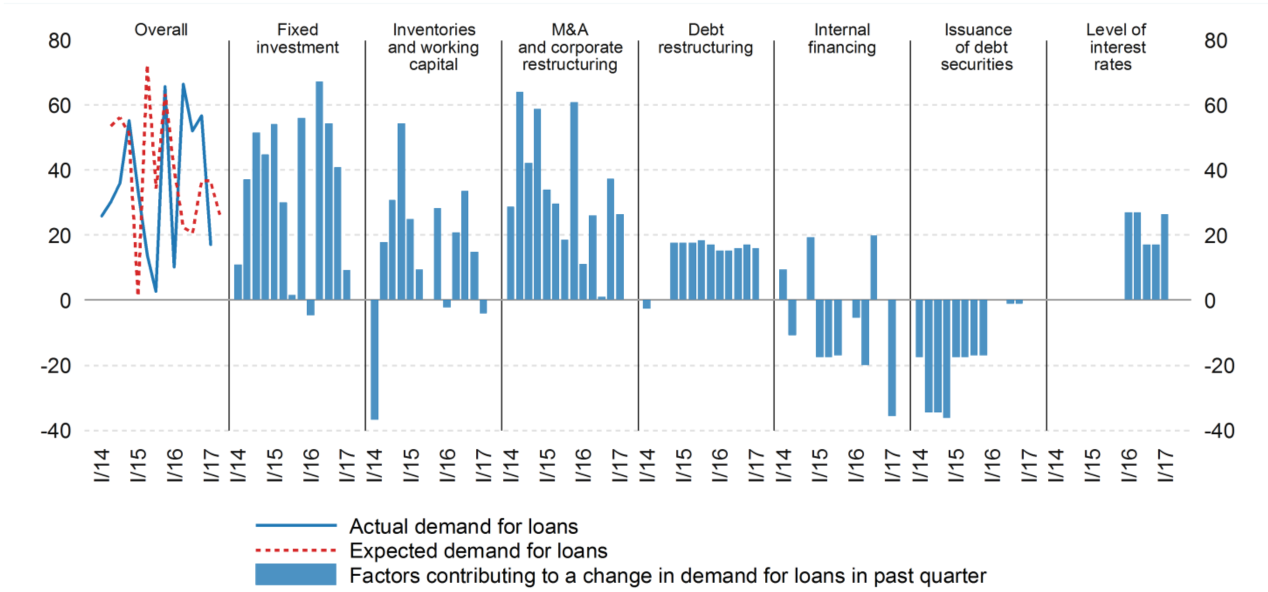


**Chart 3** Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentages, positive value = demand growth,
negative value = demand decrease)




## 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)

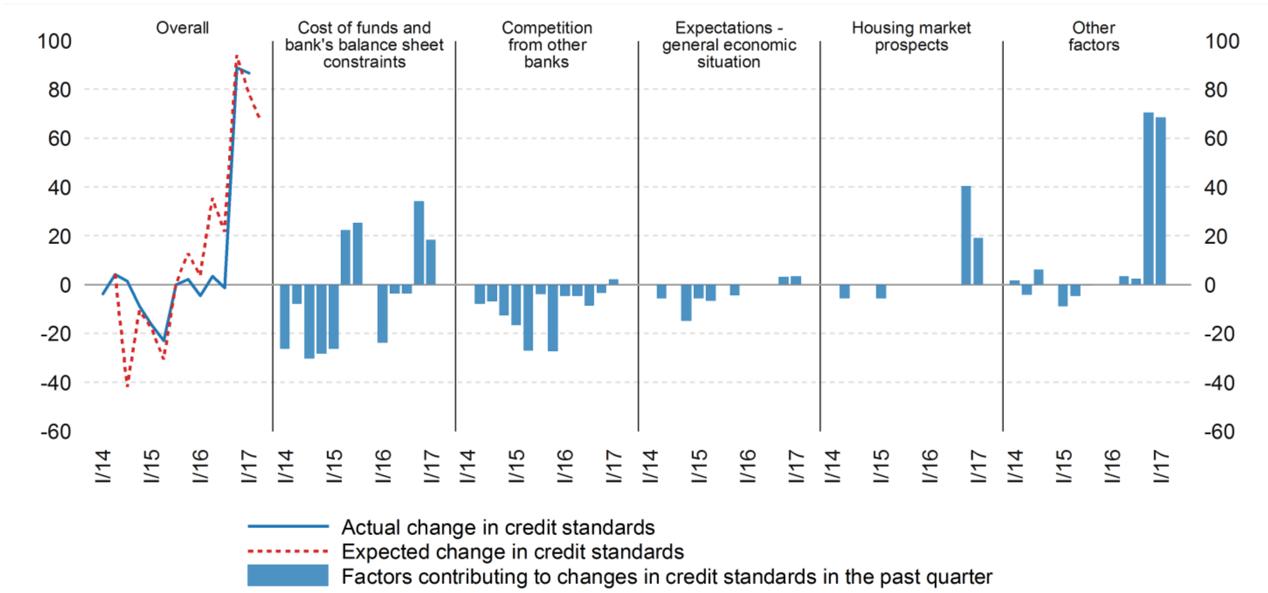


**Chart 5** Changes in terms and conditions for approving loans for house purchase (question 10)
(net percentages, positive value = tightening, negative value = easing)

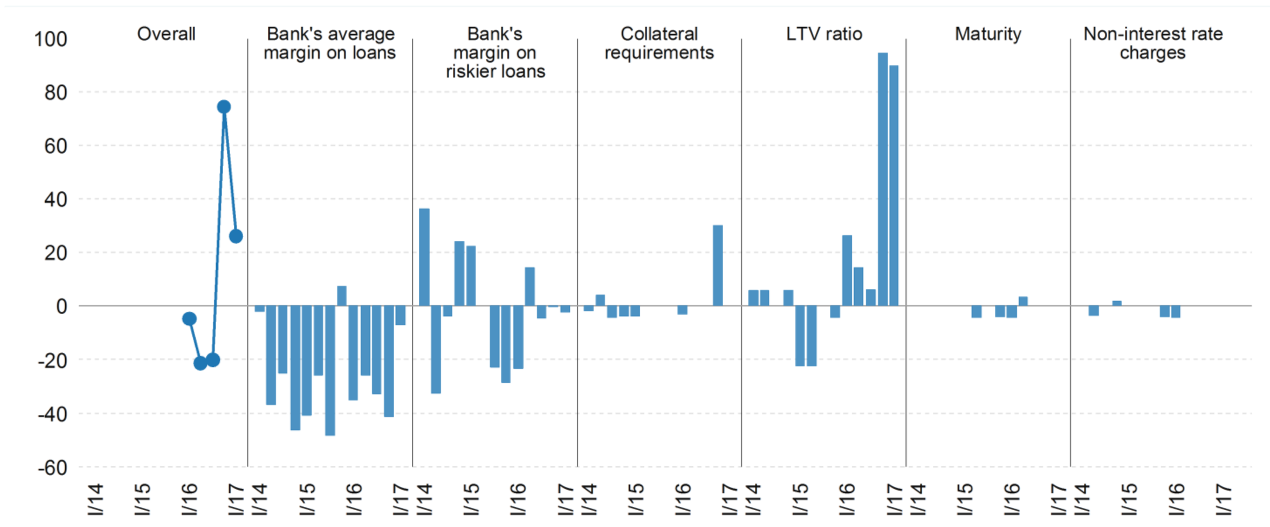
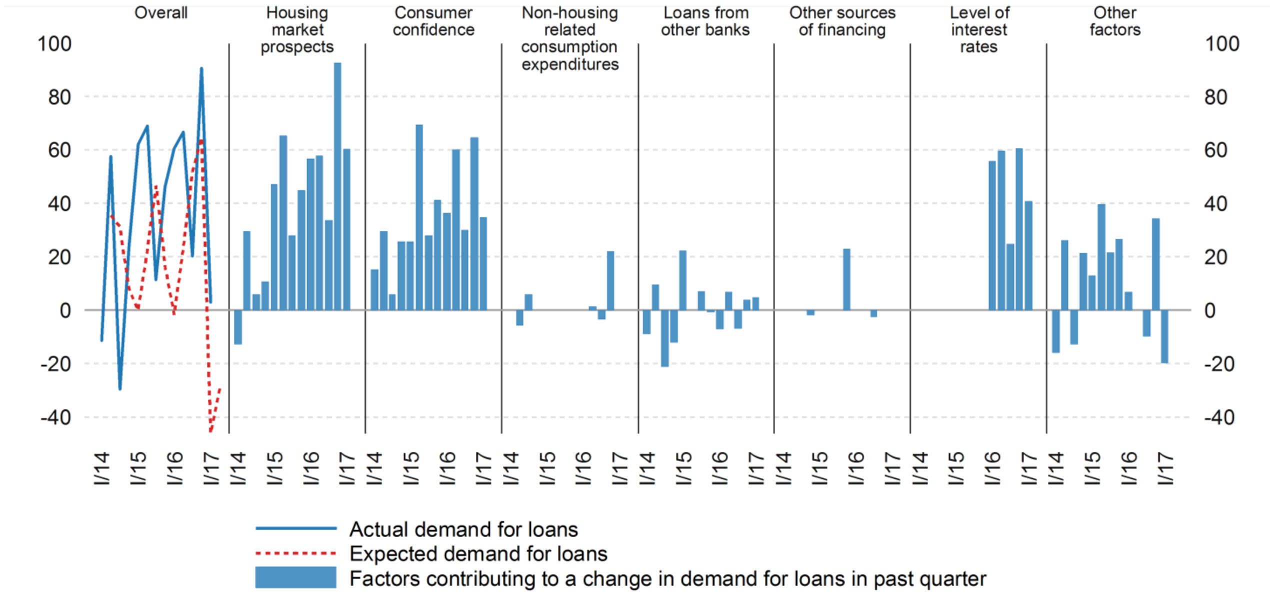



**Chart 6** Changes in households' demand for loans for house purchase (questions 13, 14 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)



## 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)

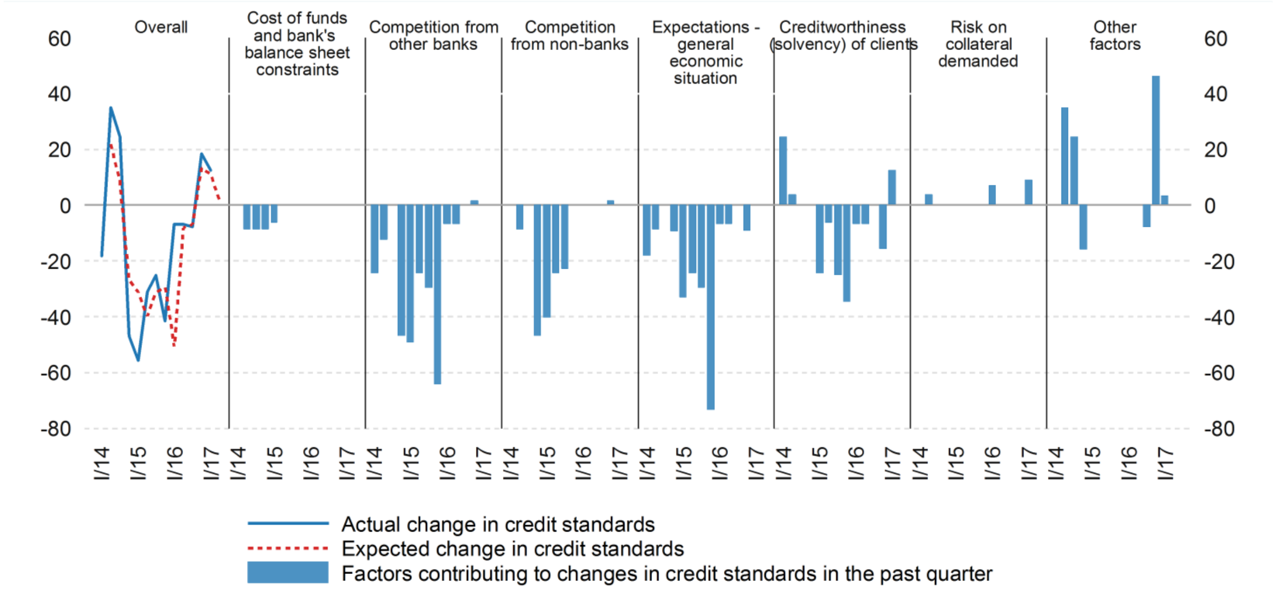



**Chart 8** Changes in terms and conditions for approving consumer credit (question 12)
(net percentages, positive value = tightening, negative value = easing)

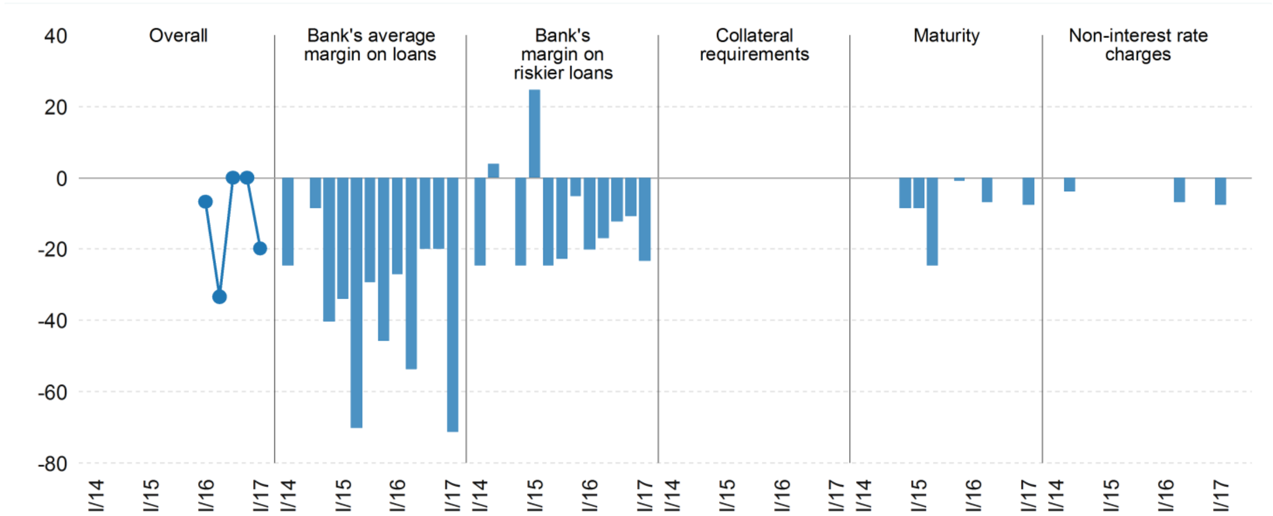


**Chart 9** Changes in households' demand for consumer credit (questions 13, 15 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)