BANK LENDING SURVEY

I / 2020

Czech National Bank —— Bank Lending Survey —— I / 2020

CNB CZECH NATIONAL BANK

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Introduction

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 thirty-first round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2019 Q4 and their expectations in these areas for 2020 Q1. Twenty-one banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 25 November and 10 December 2019.[1] The CNB's Bank Lending Survey is performed by a team made up of representatives of the Financial Stability Department and the Monetary Department.

[1] The survey contained 22 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: (https://www.cnb.cz/en/statistics/bank-lending-survey/).

I. SUMMARY

Part of the banking market tightened credit standards for loans for house purchase and consumer credit in 2019 Q4. Banks left credit standards for loans to non-financial corporations unchanged overall. Individual methodological modifications by banks relating to the CNB's macroprudential tools contributed to the tightening of credit standards for loans for house purchase. Worsening expectations regarding the overall economic situation contributed to the tightening of consumer credit standards. Credit terms and conditions also eased in part of the bank market due to a decline in the average interest margin, particularly for loans for house purchase and to a lesser extent for consumer credit. In part of the market, average interest margins on riskier loans for house purchase also declined. Demand for loans for house purchase increased in part of the market, continuing to recover modestly after a sharp fall observed at the start of 2019. Demand for consumer credit declined in part of the market in 2019 Q4, and the same goes for non-financial corporations. In 2020 Q1, the banks expect no change in credit standards or overall demand for loans in the segments under review, with the exception of loans for house purchase, where a small part of the banking market expects an increase in demand and a tightening of credit standards.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Credit standards (representing banks' internal lending policy criteria) were unchanged overall for **loans to non-financial corporations** in 2019 Q4. In the direction of tightening standards, part of the market (an NP of 40%) perceived risks associated with the outlooks in segments (especially the automotive industry) and with expectations regarding the overall economic situation (an NP of 16%). Part of the banking market perceives growth in the above-mentioned risks but has not reflected them in changes to overall credit standards. Banks' favourable liquidity situation fostered an easing of standards. A section of the banking market also perceived more distinct competitive pressure, either from other banks or from market financing. Banks left the overall credit conditions (reflecting the contractual obligations agreed upon by the lender and the borrower defined in specific agreements) for approving new loans almost unchanged. A reduction of non-interest fees and extension of loan maturities fostered an easing in a small part of the market. Corporations' demand for loans declined overall (an NP of 21%) in 2019 Q4, due partly to a fall in inventory and working capital financing needs and the use of internal financing. In contrast, part of the banking market perceived an increase in demand for loans for financing fixed investment by corporations. The banking market expects no substantial change in credit standards or overall demand for loans in 2020 Q1.

II.2 HOUSEHOLDS

Some banks tightened credit standards for **loans for house purchase** provided to households in 2019 Q4 (an NP of 26%). Individual methodological modifications by banks relating to the CNB's macroprudential tools contributed to the tightening of credit standards in 2019 Q4. Some banks (an NP of 36%) indicated an easing of credit conditions through lower average interest margins, and for a smaller section of the market, margins on riskier loans also decreased. An individual methodological change to the LTV ratio contributed to a tightening of credit conditions. Households' demand for loans for house purchase rose in 2019 Q4 (an NP of 31%). This confirms the gradual recovery of demand after the decline observed in 2019 Q1, which was caused by swings in lending activity in 2018 Q3 and Q4 as new CNB macroprudential (DSTI and DTI) limits came into effect. According to banks, perceived demand in 2019 Q4 was positively influenced by both slightly decreasing interest rates and the prospects for the residential property market, as well as the possibility of refinancing loans with other banks. Only a small section of the banking market expects credit standards for loans for house purchase to tighten in 2020 Q1 (an NP of 8%) and less than a third of the market expects loan demand to increase in the same period (an NP of 26%).

Part of the banking market tightened credit standards for **consumer credit to households** in 2019 Q4 (an NP of 17%), mainly as a result of an expected worsening of the overall economic situation. A minority of banks tightened the overall credit conditions for approving loans (an NP of 14%). This took place mainly through shortening maturities for riskier clients. Credit conditions in part of the market were also eased by a decrease in the average margin (an NP of 26%). Households' demand for consumer credit decreased in 2019 Q4 (an NP of 25%). Greater use of household savings contributed to the decrease in demand. Banks expect no change in credit standards or demand in 2020 Q1.

Replies to additional questions regarding **loans to non-resident non-financial corporations** show that credit standards and demand in this segment were little changed in 2019 Q4.

Additional questions on **banks' expected credit losses** indicate that part of the banking market expects the rate of expected credit losses for corporate loans and consumer credit to increase in 2020 Q1. In the loans for house purchase segment, by contrast, part of the banking market indicates a decline in the rate of expected credit losses.

III. GRAPHICAL PRESENTATION OF SUPPLY AND DEMAND CONDITIONS IN SEGMENTS

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)

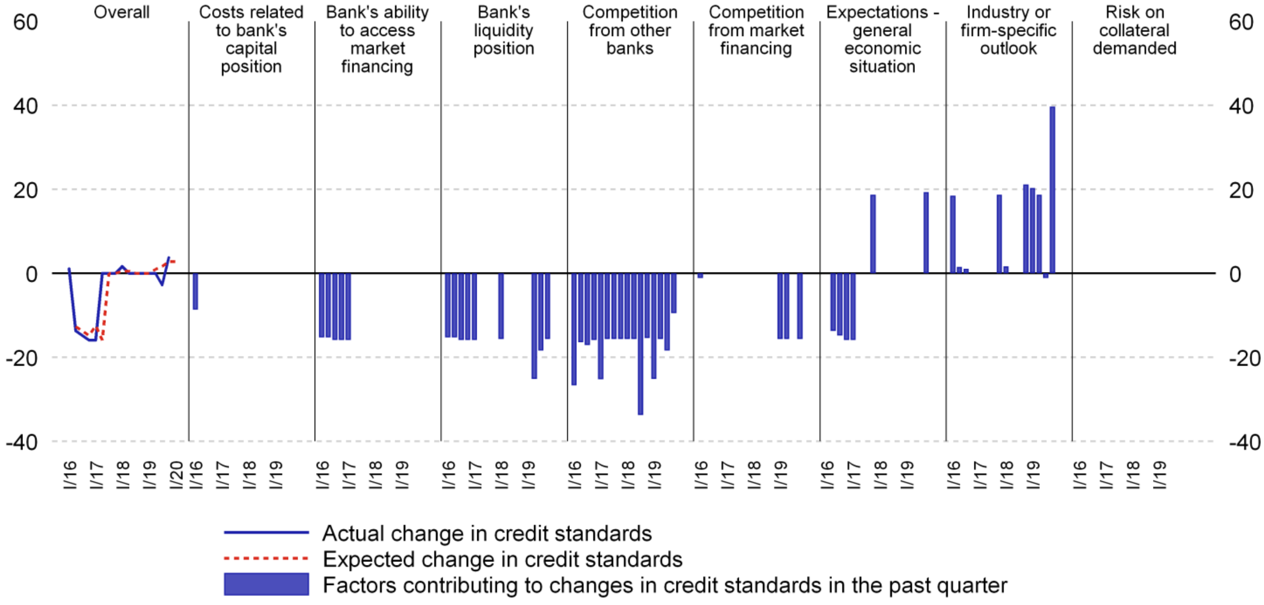


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

(net percentages, positive value = tightening, negative value = easing)

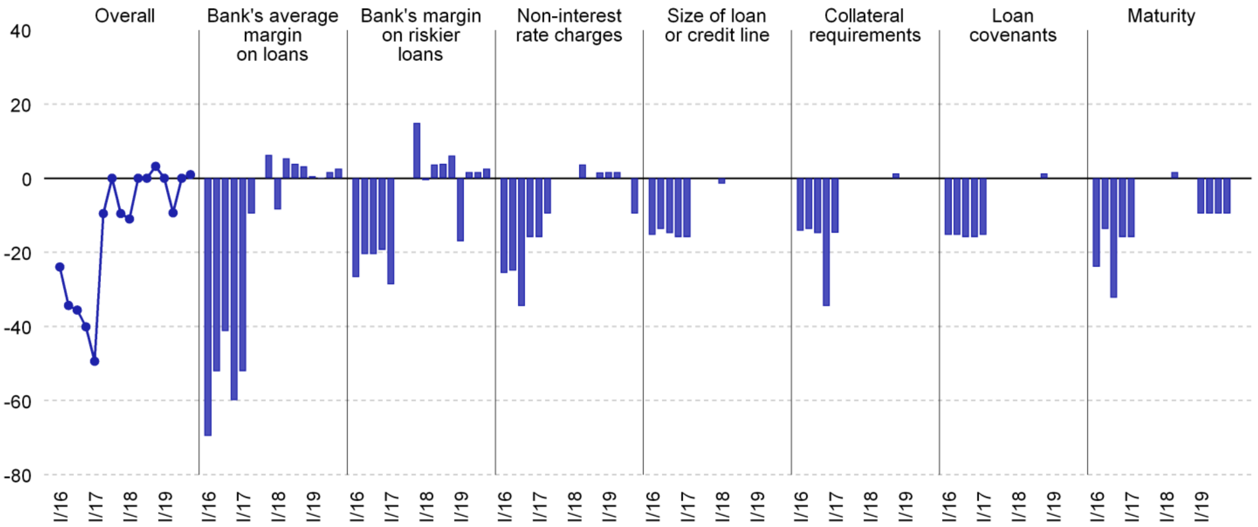


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

(net percentages, positive value = demand growth, negative value = demand decrease)

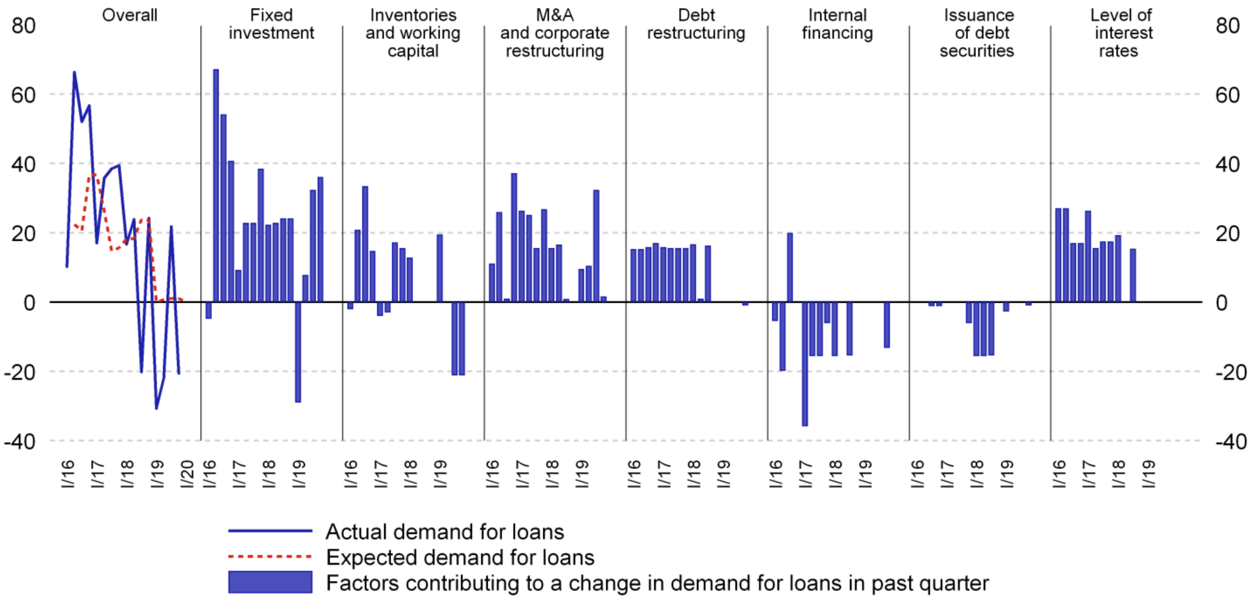


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

(net percentages, positive value = tightening, negative value = easing)

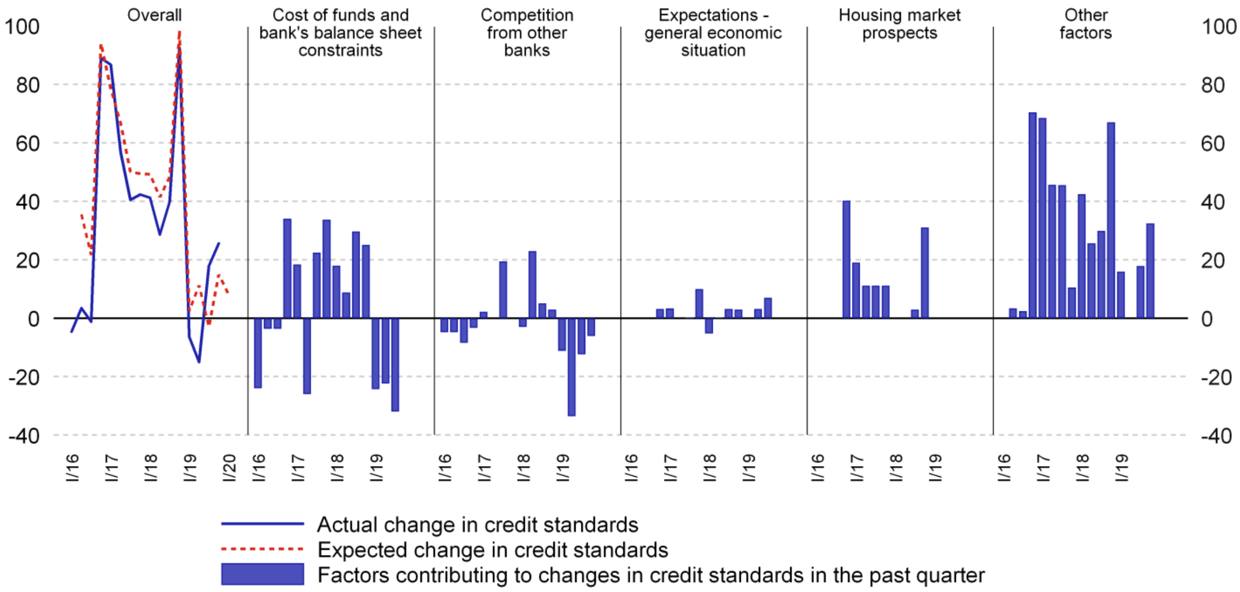


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

(net percentages, positive value = tightening, negative value = easing)

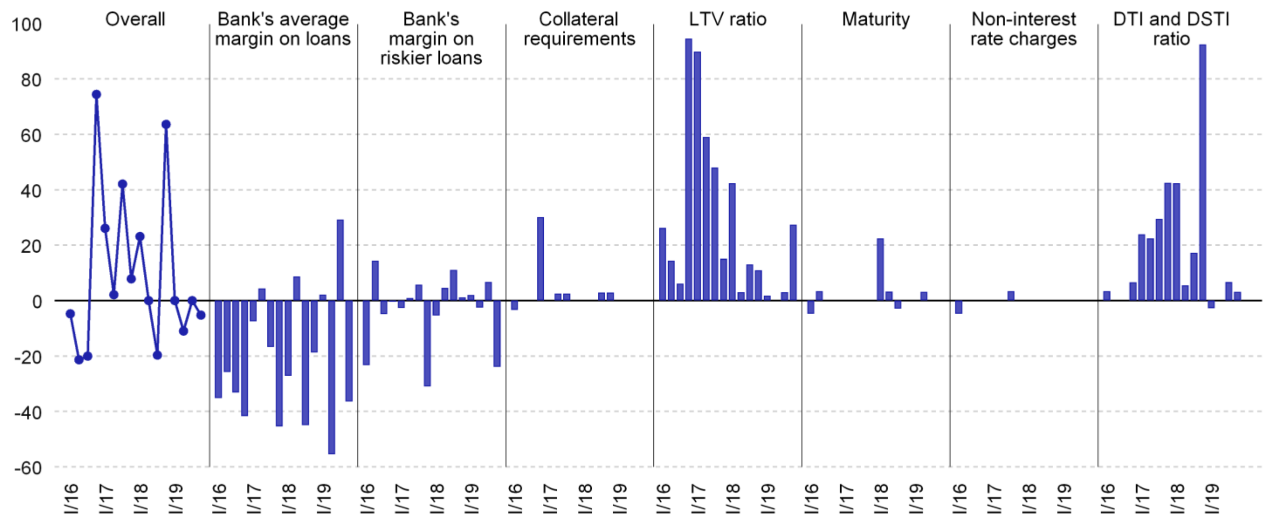


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

(net percentages, positive value = demand growth, negative value = demand decrease)

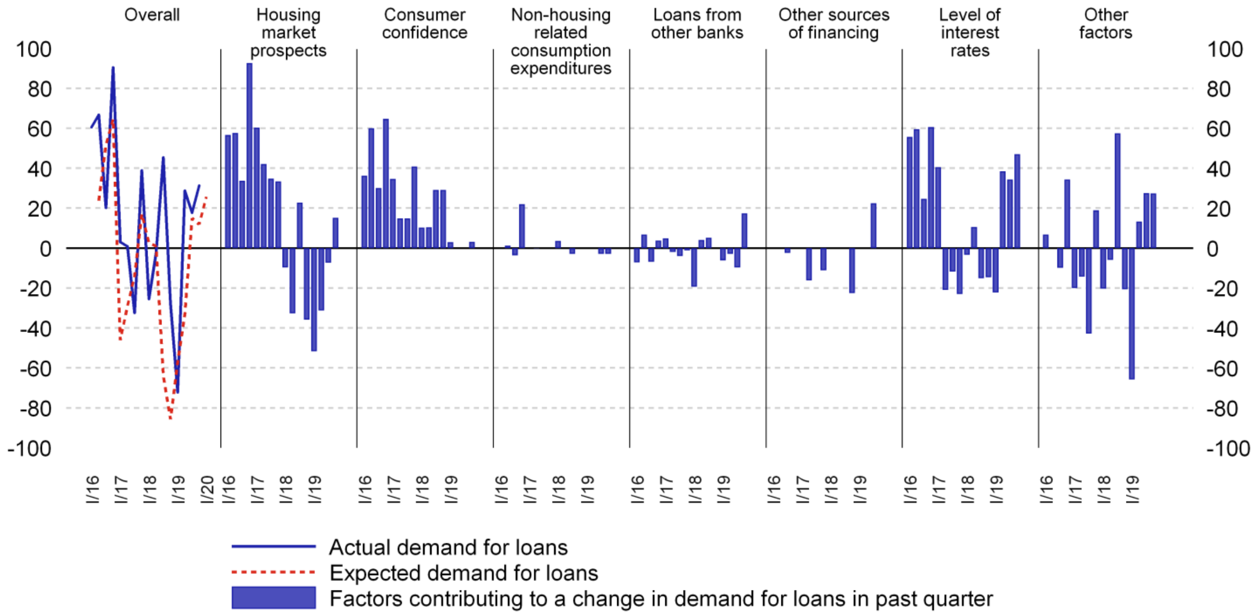


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

(net percentages, positive value = tightening, negative value = easing)

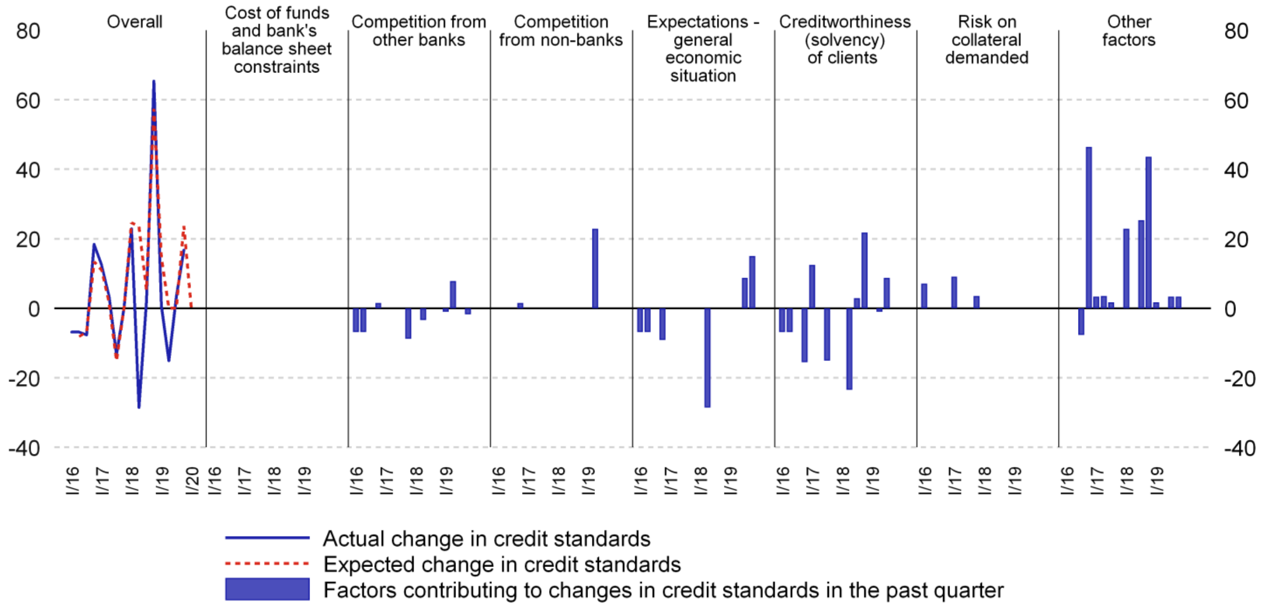


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

(net percentages, positive value = tightening, negative value = easing)

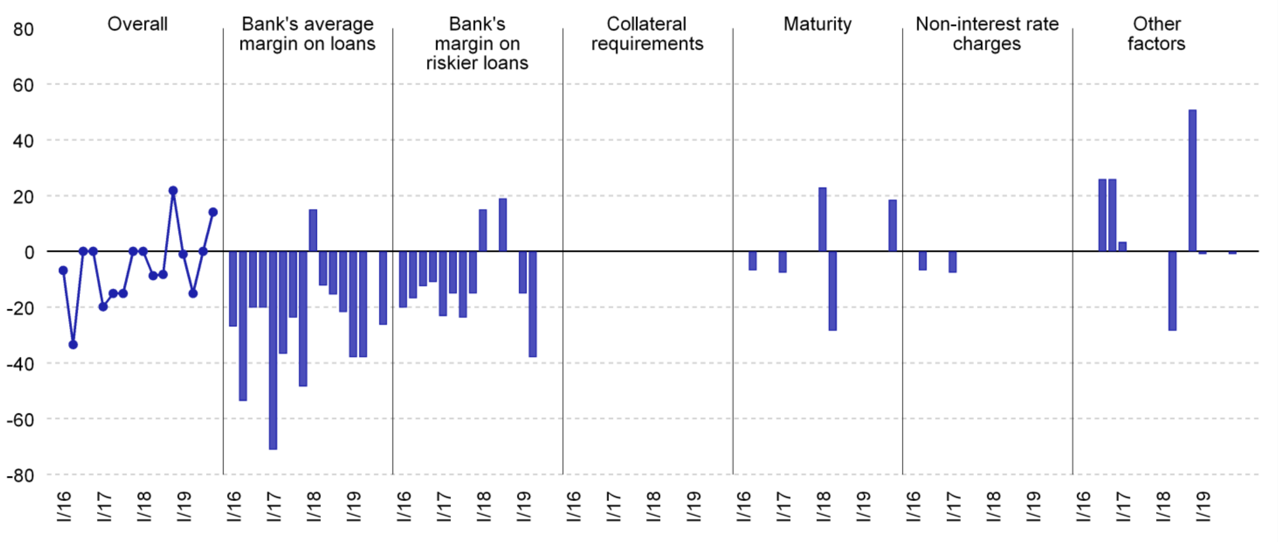
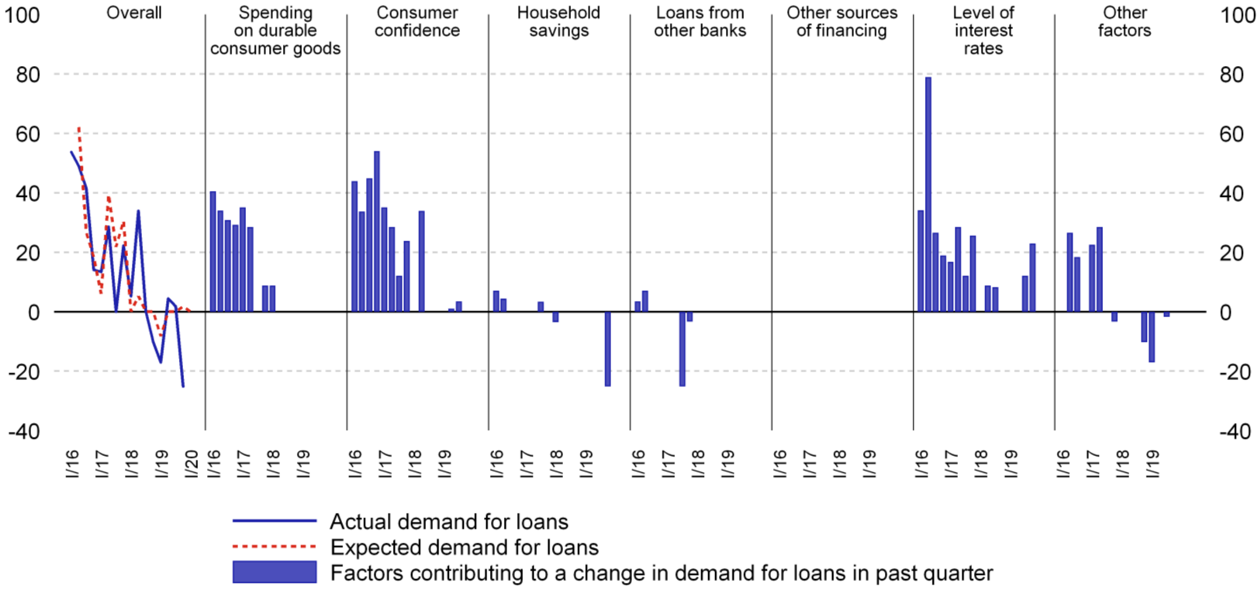


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

(net percentages, positive value = demand growth, negative value = demand decrease)



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