Bank Lending Survey

I / 2021

Czech National Bank —— Bank Lending Survey —— I/2021

CZECH NATIONAL BANK

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Introduction

The Bank Lending Survey captures banks' opinions regarding the change in supply and demand for loans to non-financial corporations and households. This document summarises the results of the thirty-fifth round of the survey, i.e. banks' views on the evolution of credit conditions in 2020 Q4 and their expectations in these areas for 2021 Q1. Twenty banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 30 November and 15 December 2020.[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

In 2020 Q4, banks continued to perceive increased risks linked with the disruption to economic activity caused by the coronavirus pandemic. However, they had mostly responded to these risks in 2020 Q2 and Q3 by tightening credit standards across all credit market segments. The survey thus identified no major or across-the-board changes in credit standards in 2020 Q4. However, one-third of the banking market tightened credit standards for loans to non-financial corporations and one-fifth of the market eased standards for loans for house purchase. Banks indicated more pronounced changes in demand for loans, specifically growth in demand for loans for house purchase in a large part of the banking market. By contrast, banks perceived a decline in demand for consumer credit, due mainly to lower consumer confidence. Demand for loans in non-financial corporations was mixed across segments. Total demand was unchanged, while perceived demand declined for short-term loans and loans to small and medium-sized enterprises. A major part of the banking market indicated an increase in expected credit losses in all segments of the credit market for 2021 Q1.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Part of the banking market further tightened credit standards (banks' internal lending policy criteria) **for loans to non-financial corporations in 2020 Q4.** The extent of the tightening was similar as in Q3 (i.e. an NP of 30%). The tightening of standards continued to be due to an increased perception of risks due to the disruption to economic activity caused by the coronavirus pandemic, mainly in connection with expectations regarding the overall economic situation and the prospects for individual sectors. According to banks, the tightening of credit standards focuses mainly on sectors more exposed to impacts of the pandemic (tourism and travel, commercial property – shopping centres, etc.). Most of the banking market does not expect credit standards to change in 2021 Q1. **The lending conditions** (the arrangements between lenders and borrowers in specific loan agreements) **were also tightened for around one-third of the banking market in 2020 Q4**. This reflected an increase in the average interest margin and the interest margin on riskier loans (an NP of 37% and 28% respectively). Part of the banking market also tightened other terms and conditions (collateral requirements, loan covenants, size of loan or credit line, and maturity). **Total corporate demand for loans remained almost unchanged in 2020 Q4.** Perceived demand dropped for short-term loans and loans to small and medium-sized enterprises (an NP of 40% and 26% respectively). Banks reported lower funding needs due to subdued fixed investment (a much less broad perception compared to 2020 Q2 and Q3) and also due to lower activity in mergers and acquisitions and corporate restructuring. Overall, banks do not expect total demand for loans to change in 2021 Q1. Some banks indicated expected growth in demand for short-term loans (an NP of 36%), while part of the banking market expects demand for long-term loans to decline (an NP of 40%).

II.2 HOUSEHOLDS

Part of the banking market eased credit standards for loans for house purchase in 2020 Q4 (an NP of 21%). However, banks continued to perceive increased risks relating to the overall economic situation. **Banks left the overall lending conditions almost unchanged.** The conditions eased for almost half of the banking market due to the setting of DSTI and DTI ratios, while the interest margin on house purchase loans decreased for one-third of the market. Conversely, according to some banks, revisions to internal methodologies tightened the conditions. **Household demand for loans for house purchase continued to rise in 2020 Q4 (an NP of 75%).** This was caused mainly by favourable interest rates on house purchase loans and also, in part of the banking market, by perceived better housing market prospects and household sentiment. In the current situation, some consumers have a stronger preference than before for owning property and purchasing a bigger home due to working from home more frequently. About one-fifth of the banking market expects demand for loans for house purchase to decline in 2021 Q1, and banks do not expect credit standards to change in the same period.

Credit standards for consumer credit were tightened in 2020 Q4 (an NP of 9%). This reflected a continued perception of risks associated with the overall economic situation. **Banks eased the overall lending conditions** (an NP of 23%), while reducing the average interest margins on loans (an NP of 12%). **Household demand for consumer loans declined** (an NP of 44%). This was due to lower consumer confidence and a decrease in spending on durable goods. Lower interest rates on these loans had the opposite effect on perceived demand in part of the market. Banks do not expect credit standards applied to consumer credit to change in 2021 Q1, while expecting demand to decrease (an NP of 6%).

Credit standards in the loans to sole proprietors segment tightened in 2020 Q4 (an NP of 29%), and banks do not expect them to change in 2021 Q1. **Sole proprietors' demand for loans decreased** (an NP of 44%) and one-fifth of the banking market was expecting it to fall in 2021 Q1.

Replies to additional questions regarding loans to non-resident non-financial corporations show that some banks further tightened their credit standards in Q4 (an NP of 13%) and demand for loans was unchanged.

Additional questions on expected credit losses indicate that a significant part of the banking market expects the rate of expected credit losses to increase in all segments of the credit market in 2021 Q1.

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)

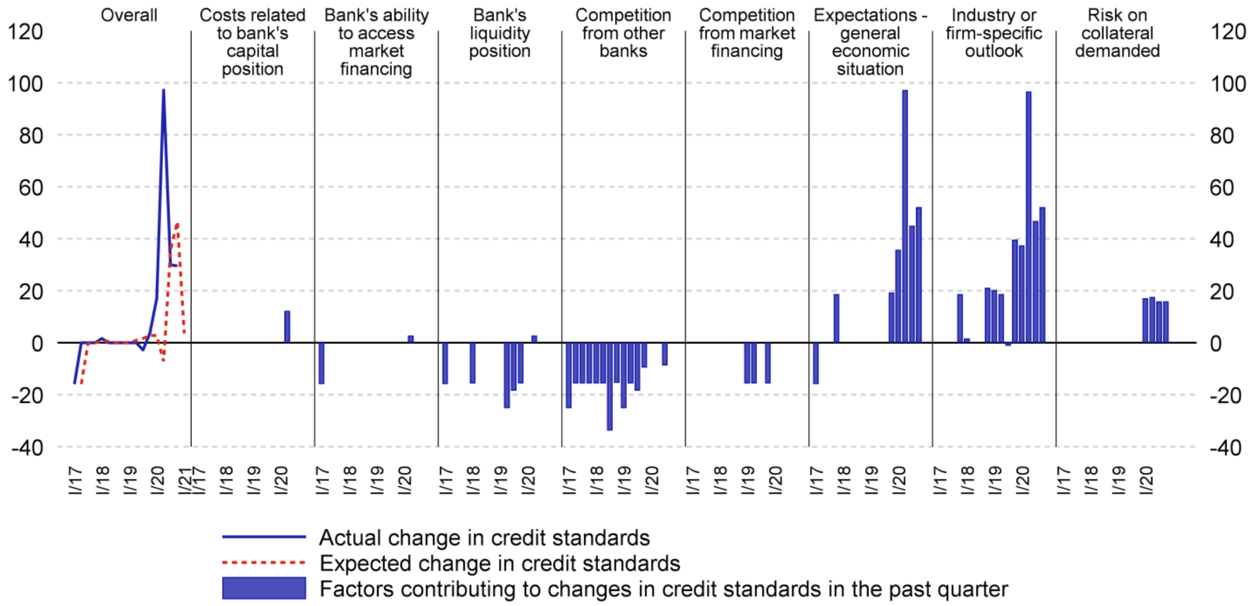


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

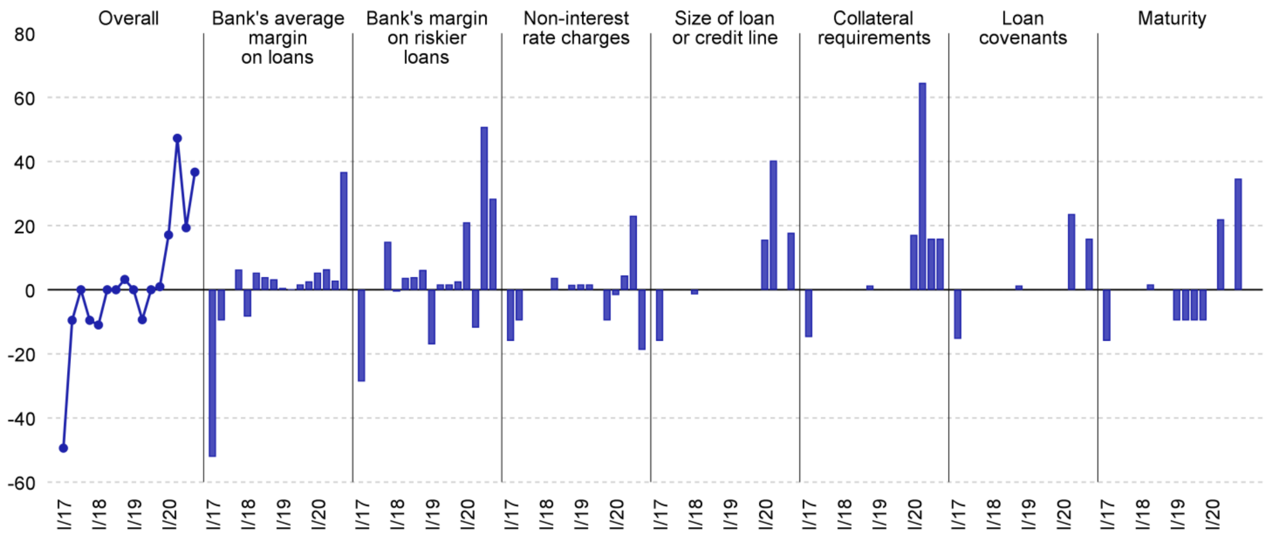


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

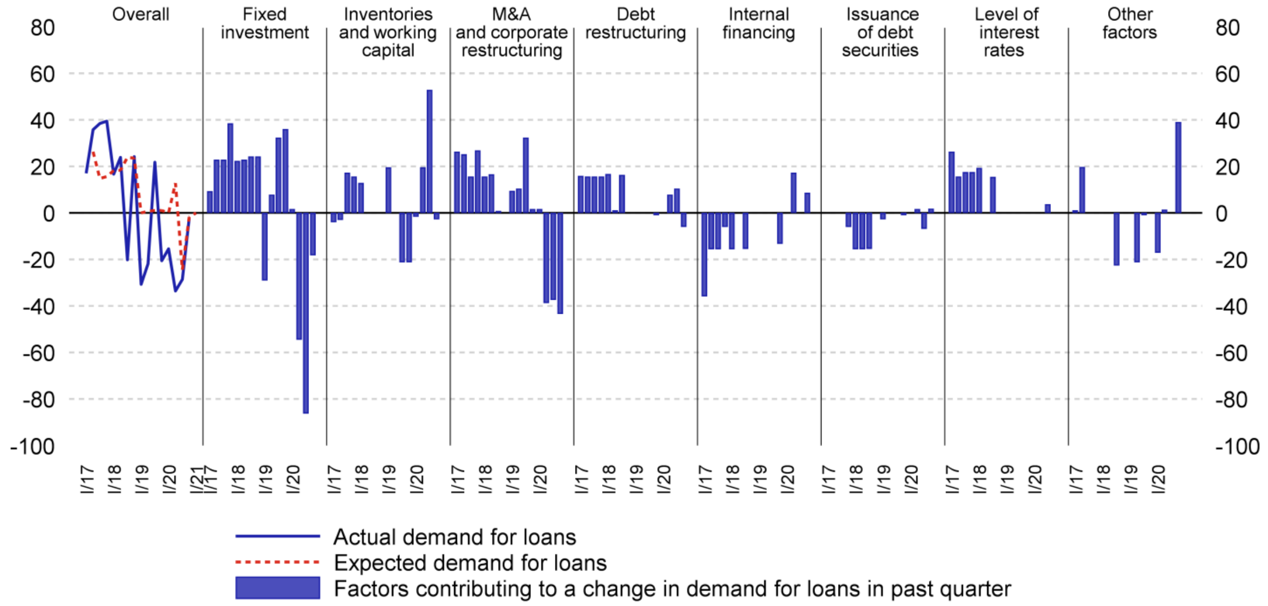


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

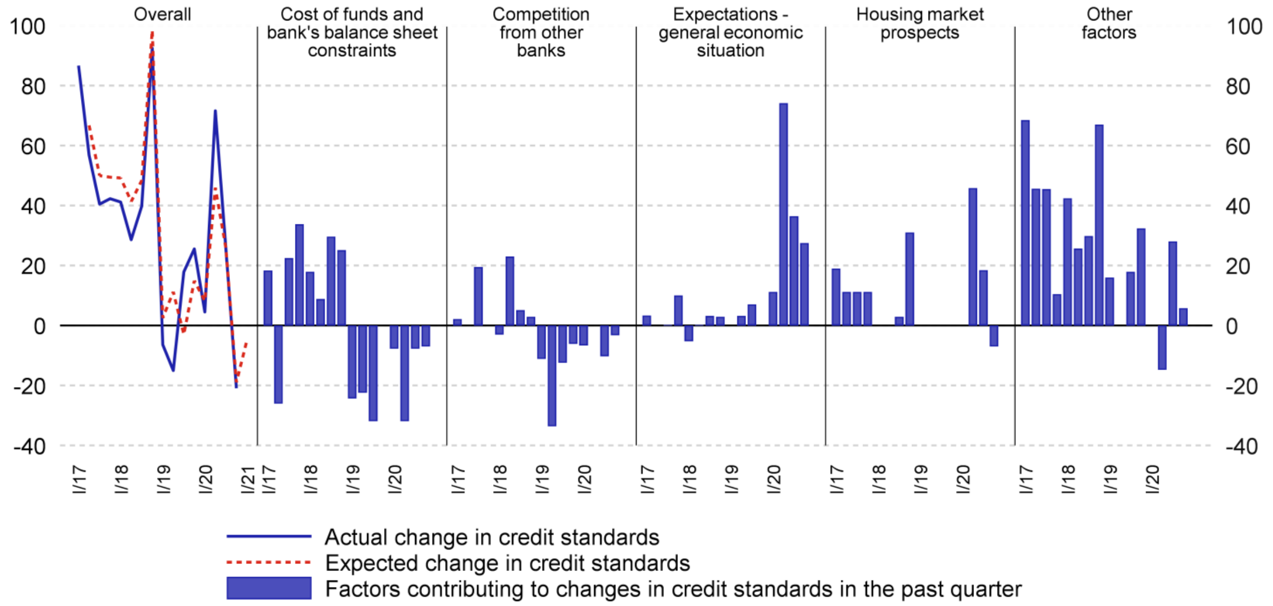


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

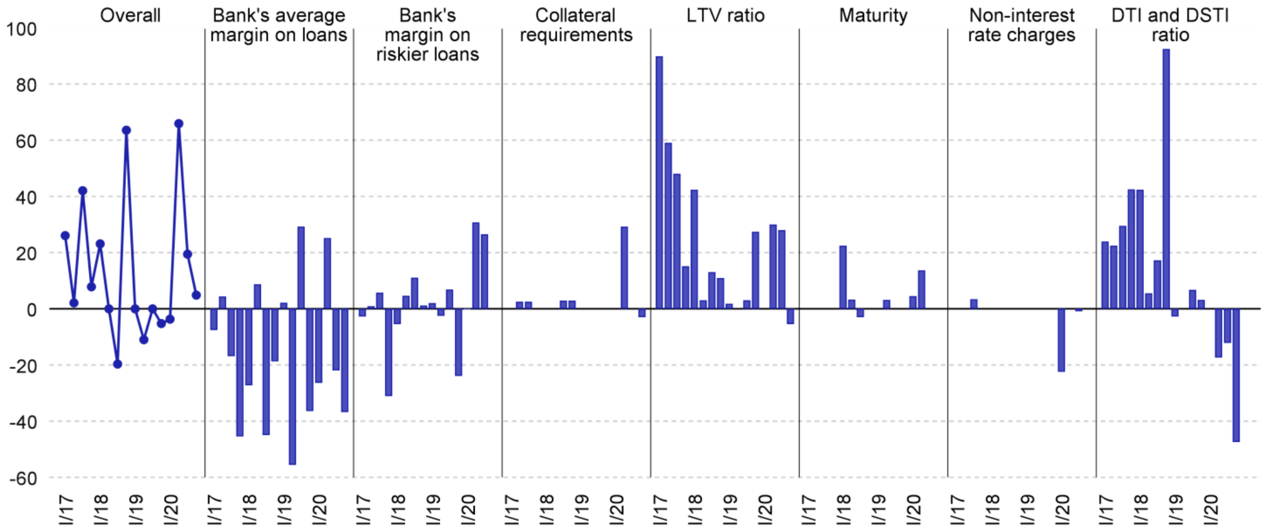


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

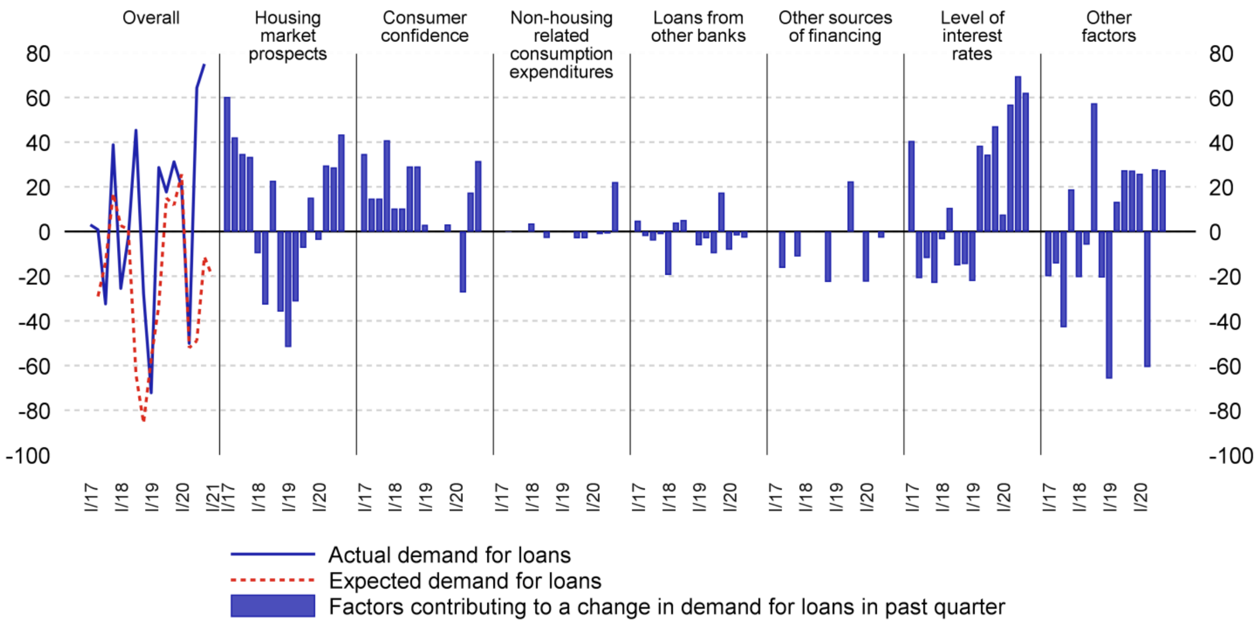


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

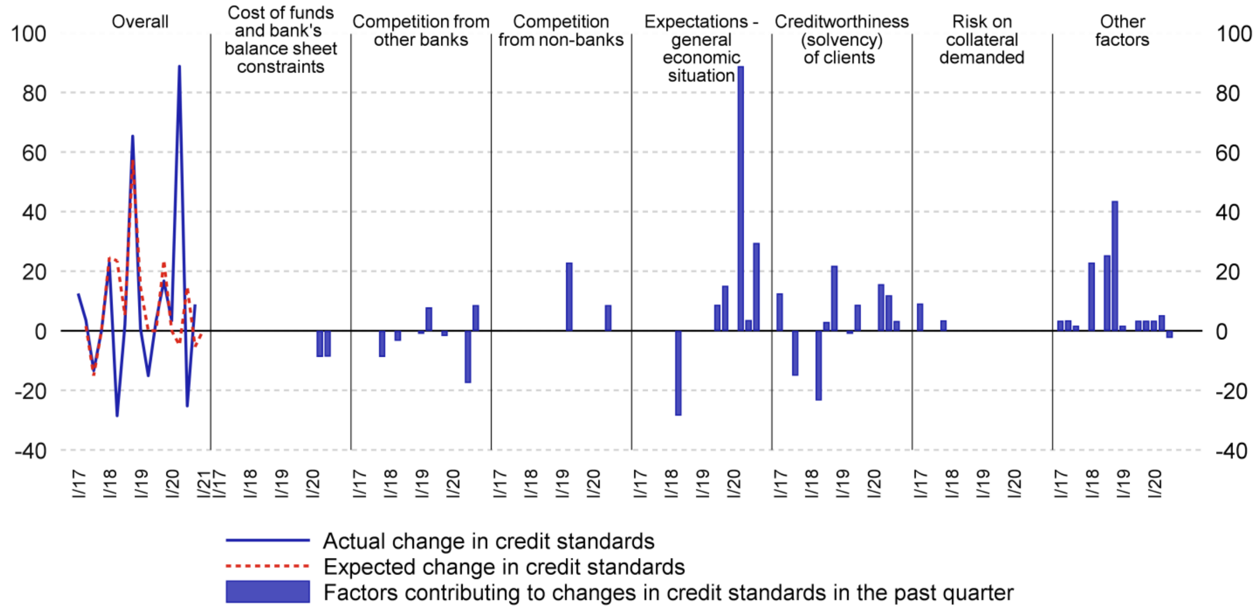


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

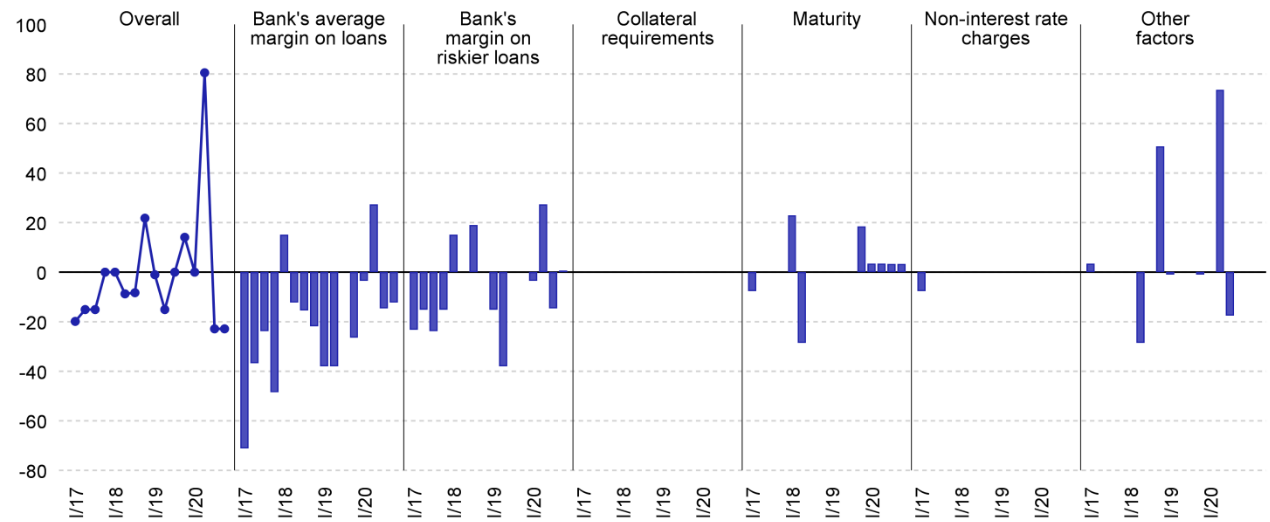
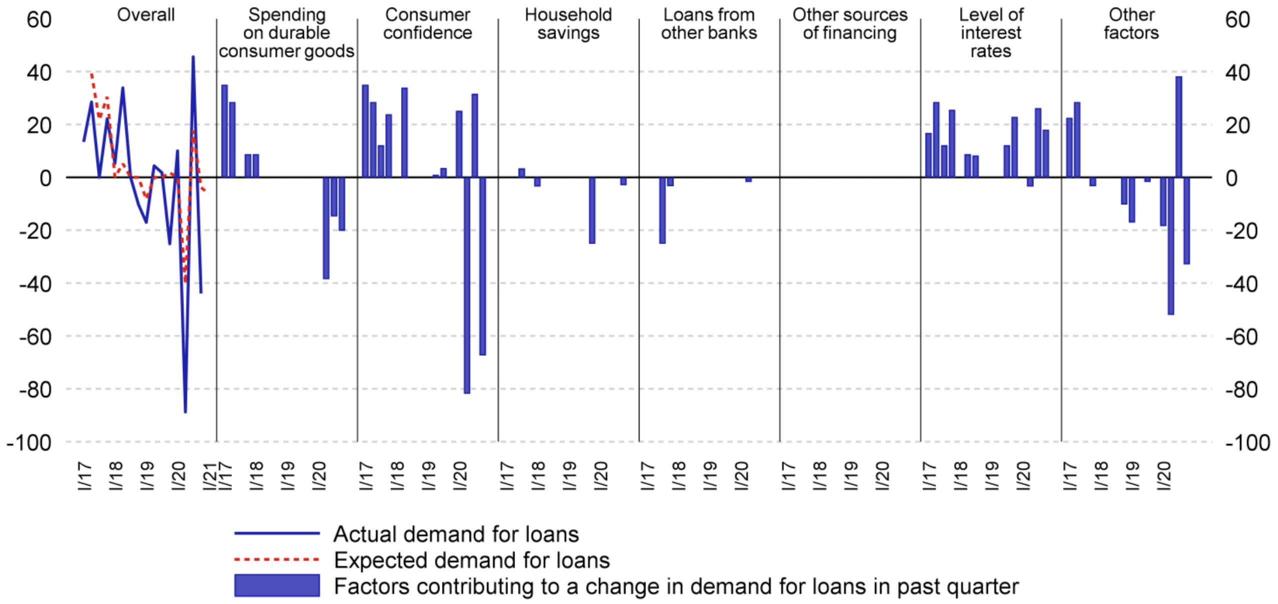


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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