Bank lending survey

III/2021

Czech National Bank —— Bank Lending Survey —— III/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-seventh round of the survey, i.e. banks' views on the evolution of credit conditions in 2021 Q2 and their expectations in these areas for 2021 Q3. Twenty banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 1 and 16 June 2021.[1] The CNB's Bank Lending Survey is performed by a team made up of representatives of the Monetary Department and the Financial Stability 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, is available on the CNB website:

https://www.cnb.cz/en/statistics/bank-lending-survey/

I. SUMMARY

Part of the banking market eased credit standards for loans to non-financial corporations in 2021 Q2, due mainly to a favourable change in risk perceptions associated with expectations regarding the overall economic situation. Part of the market also eased credit standards for loans to households for consumption. Credit standards for loans for house purchase were left unchanged. Perceived demand for house purchase loans continued to rise across the board in Q2. Demand for loans to non-financial corporations – mainly for long-term loans and loans to large corporations – also increased, owing chiefly to a greater need to finance fixed investment and inventories and working capital. Around half of the banking market indicated an increase in demand for consumer credit. Most of the banking market expects the rate of expected credit losses for loans to non-financial corporations and consumer credit to households to decrease in 2021 Q3 and almost one-half expects the rate to fall for house purchase loans to households.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Part of the market eased credit standards (banks' internal lending policy criteria) **for loans to non-financial corporations in 2021 Q2** (an NP of 15%). The standards were eased for the first time since the outbreak of the coronavirus crisis. The easing was fostered mainly by a change in the perception of risks associated with expectations regarding the overall economic situation and the outlooks for individual sectors (NPs of 33% and 27% respectively). The standards also eased due to competition (an NP of 25%). In addition, banks perceive non-financial corporations' greater demand for financing in the form of bond issuance (an NP of 16%). About a quarter of the banking sector expects credit standards to ease in 2021 Q3. **Some banks** (an NP of 15%) **eased credit conditions** (the arrangements between lenders and borrowers in specific loan agreements) **in 2021 Q2**. This reflected a drop in the average interest margin and the interest margin on riskier loans (NPs of 44% and 17% respectively). Some banks also relaxed collateral and maturity requirements (NPs of 16% and 20% respectively). By contrast, some banks tightened credit conditions in the form of non-interest charges (an NP of 20%). **Total corporate demand for loans rose almost across the board in 2021 Q2** (an NP of 82%). Demand as perceived by banks increased in all market sub-segments, with banks indicating almost broad-based growth in demand for long-term loans and slightly less broad-based growth in demand for loans to large corporations (NPs of 82% and 73% respectively). At the same time, demand for short-term loans and loans to small and medium-sized enterprises continued to rise (NPs of 52% and 31% respectively). All banks reported an increased need to finance fixed investment and inventories and working capital. A favourable level of client interest rates also fostered growth in perceived demand for loans to non-financial corporations (an NP of 21%). By contrast, interest in debt financing through bond issues had the opposite effect (an NP of 16%). Almost all banks expect demand for loans to grow further across all four sub-segments in 2021 Q3.

II.2 HOUSEHOLDS

Credit standards for loans to households for house purchase were unchanged in 2021 Q2. Some banks indicated lower funding costs and balance sheet constraints (an NP of 15%), and a small proportion of banks also perceived lower risks associated with the overall economic situation and housing market prospects (NPs of 9% and 7% respectively). **Only a small part of the banking market eased the overall credit conditions** (an NP of 8%). A drop in the average interest margin on housing loans and the setting of LTV limits fostered an easing of the conditions. By contrast, changes in the DSTI and DTI ratios led some banks to tighten the conditions. **Households' demand for loans for house purchase increased across the board in 2021 Q2**. This was due mainly to a favourable level of interest rates on housing loans and their expected growth, coupled with perceptions of a favourable outlook for the residential property market (NPs of 96% and 94% respectively). The growth in perceived demand was also driven by savings and positive sentiment among households (NPs of 49% and 47% respectively). Some consumers continue to be motivated to refinance their house purchase loans under favourable interest conditions, invest their available funds in residential property as "a safe asset" and a preference for purchasing a bigger home due to working from home more frequently or a second residential property for recreation. More than a third of the banking market expects demand for housing loans to drop in 2021 Q3 and almost a third of the banking market expects credit standards to ease in the same period.

Credit standards in the consumer credit segment eased in 2021 Q2 (an NP of 44%). This reflected a change in risk perceptions regarding the overall economic situation (an NP of 53%) and more favourable assessment of clients' creditworthiness by some banks (an NP of 29%). **Banks left the overall credit conditions unchanged**, while lowering average interest margins and margins on riskier loans (NPs of 12% and 10% respectively). **Households' demand for consumer credit rose** (an NP of 50%). This was due to growth in spending on durable goods, growth in consumer confidence and a favourable level of interest rates on consumer credit. About a quarter of the banking market expects credit standards to ease in 2021 Q3 and about a fifth of the market expects demand for consumer credit to increase.

Credit standards for loans to sole proprietors were unchanged in 2021 Q2. Banks do not expect the standards to change in Q3 either. **Sole proprietors' demand for loans increased** (an NP of 32%). The banking market expects no change in demand in 2021 Q3.

Replies to additional questions regarding loans to **non-resident non-financial corporations** showed that credit standards and demand were unchanged in Q2. Additional questions on **expected credit losses** indicate that most of the banking market expects the rate of expected credit losses for loans to non-financial corporations and consumer credit to households to decrease in 2021 Q3 and almost half expects the rate to fall for loans to households for house purchase.

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)

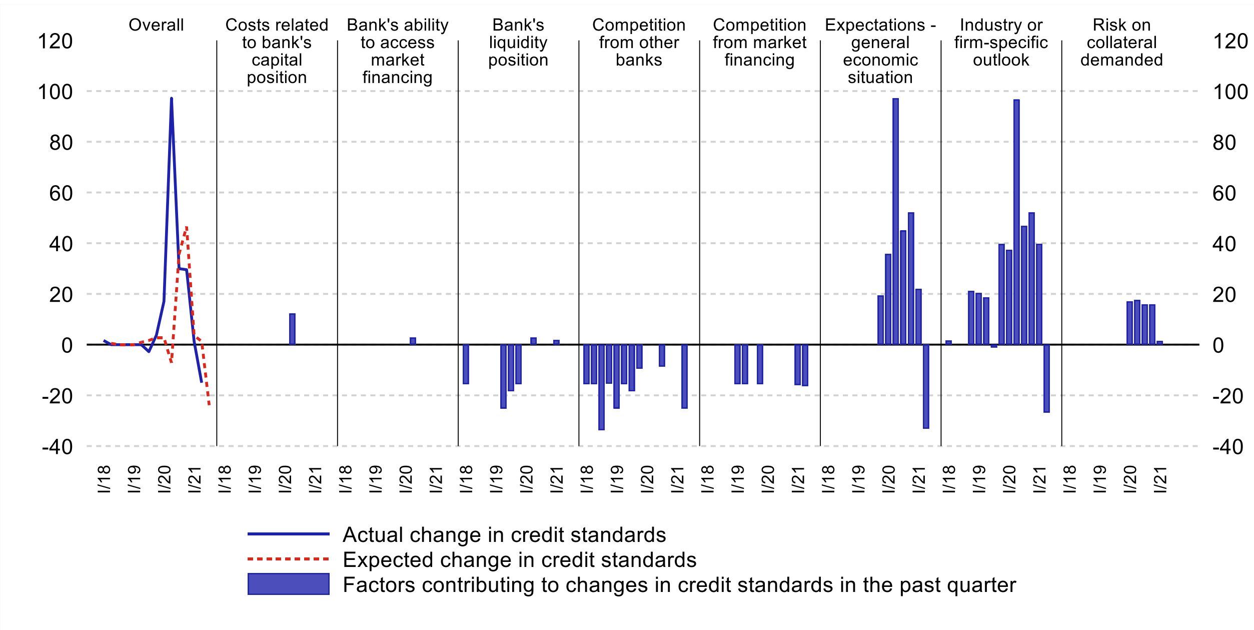


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

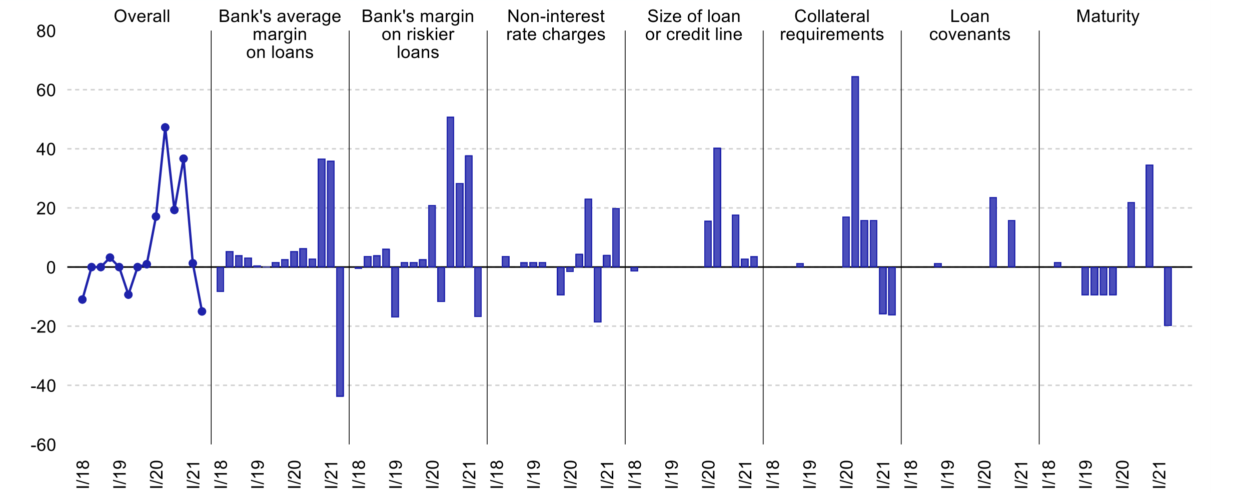


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

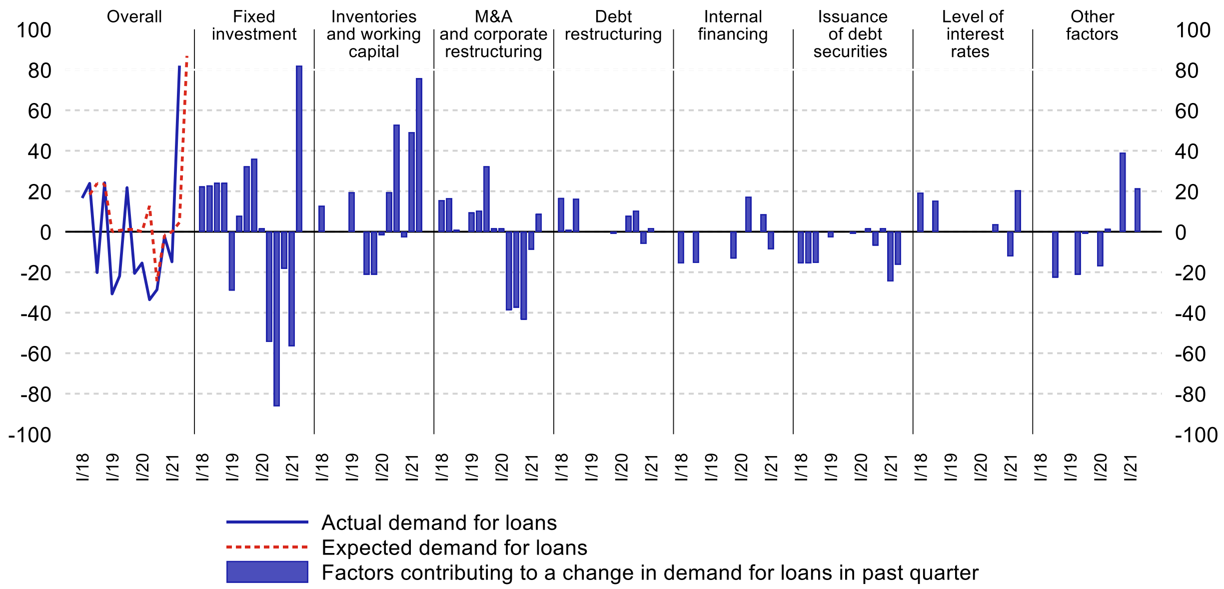


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

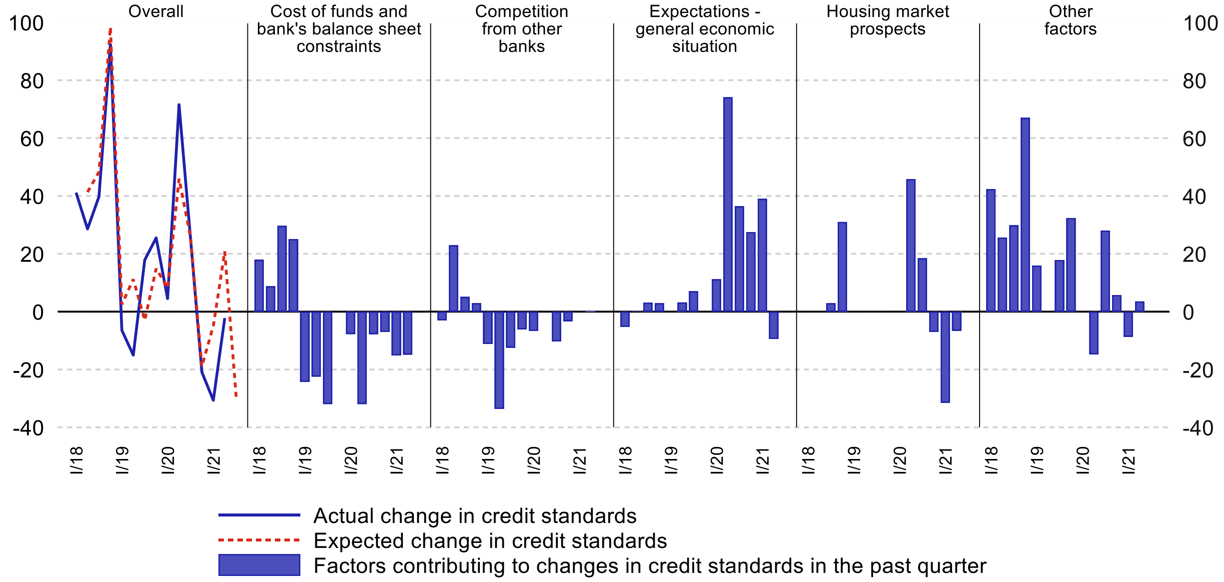


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

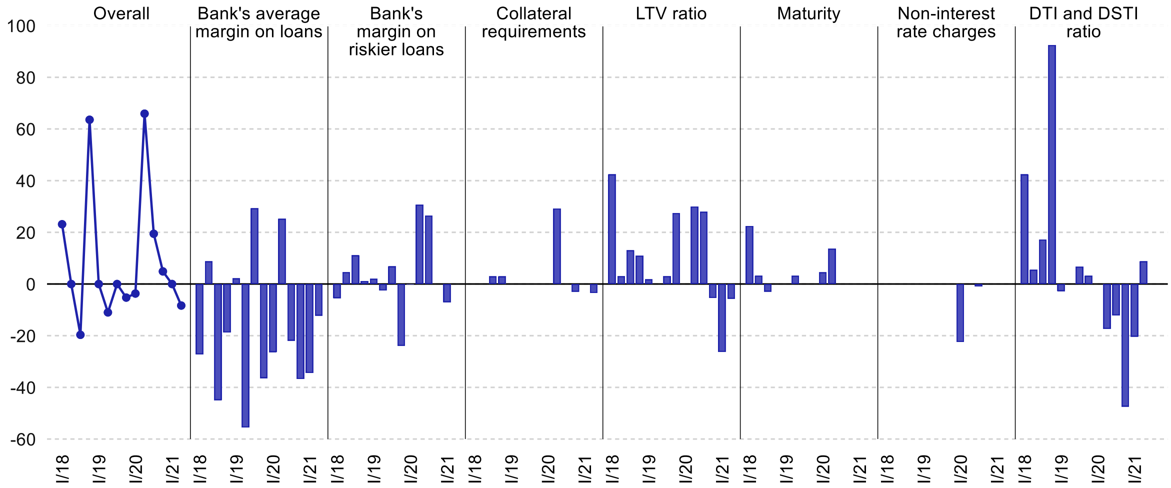


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

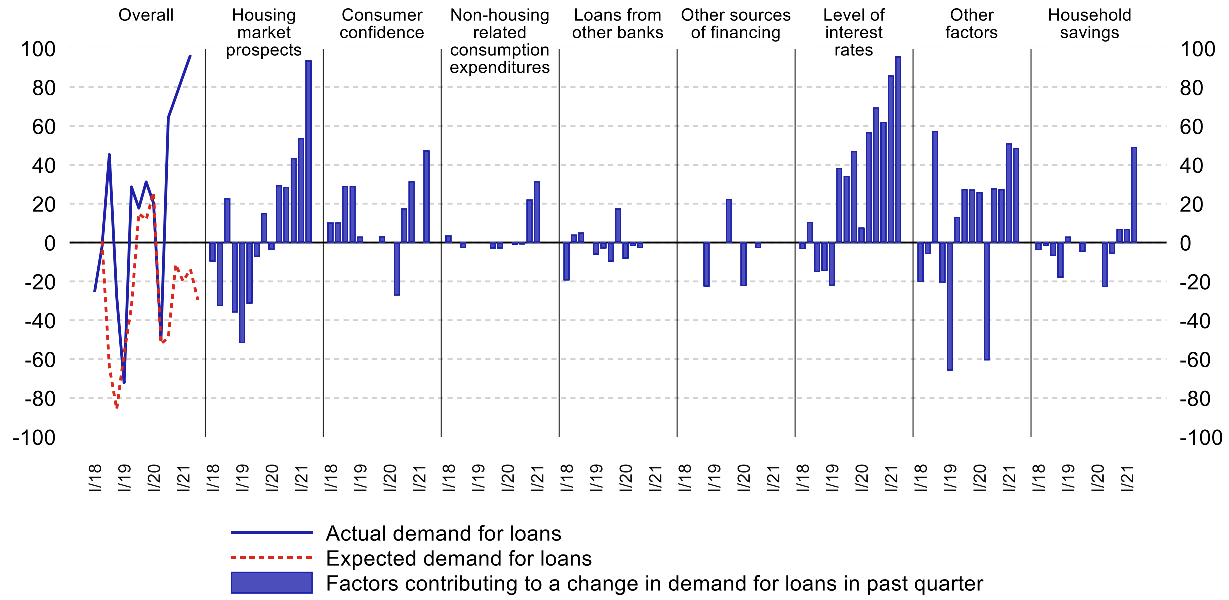


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

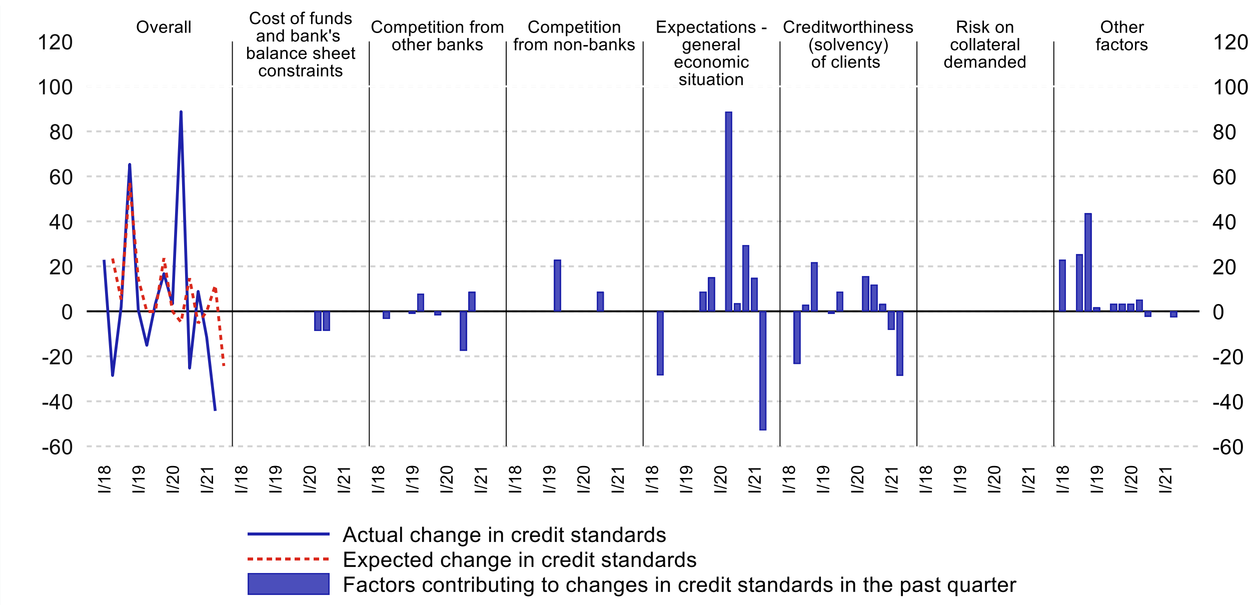


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

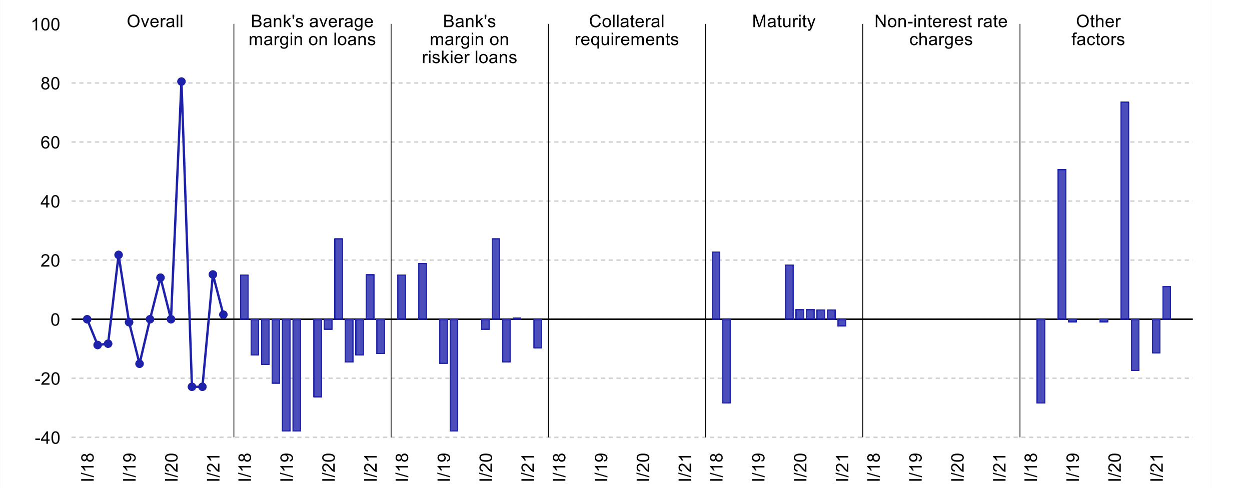
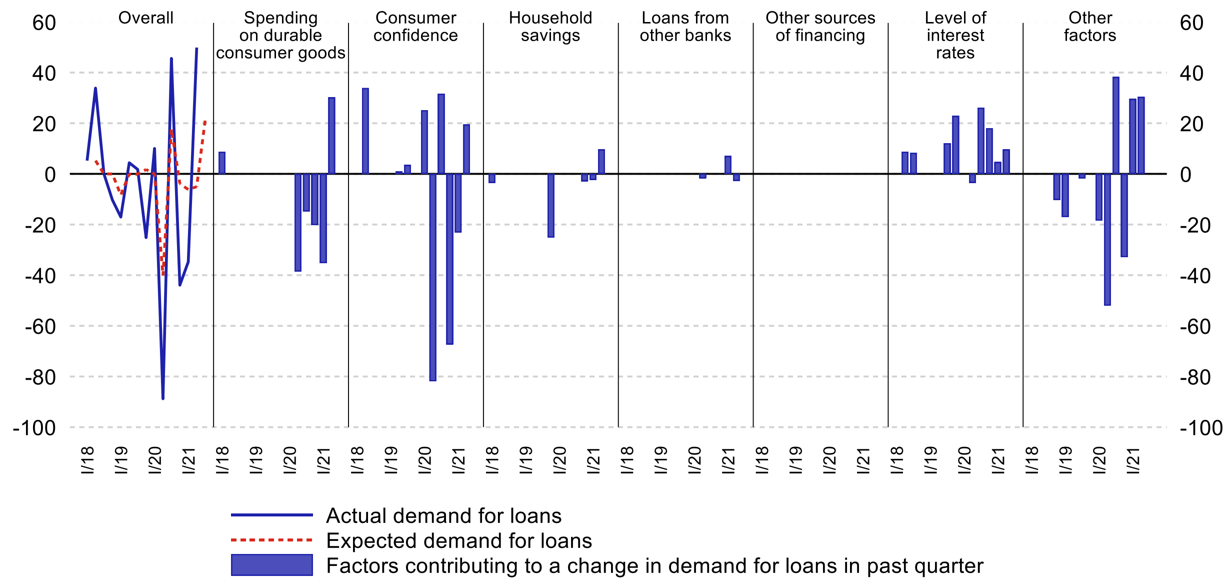


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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