Bank Lending Survey

IV/2022

Czech National Bank —— Bank Lending Survey —— IV/2022

ČNB ČESKÁ NÁRODNÍ BANKA

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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 information summarises the results of the forty-second round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2022 Q3 and their expectations in these areas for 2022 Q4. Nineteen banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 1 and 15 September 2022.[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, along with the publication, the questionnaire, a glossary and methodological guidelines, is available on the CNB website:
https://www.cnb.cz/en/statistics/bank-lending-survey/

I. SUMMARY

The results of the current Bank Lending Survey show that credit standards tightened further in 2022 Q3 due to perceptions of increased risks associated with loans to corporations and loans to households. Banks left the lending conditions representing the arrangements between the lender and the borrower broadly unchanged for loans to corporations and loans for house purchase, while tightening them for consumer credit. Overall, banks perceived a decline in demand for loans in all three monitored segments, though less so in the case of corporations than in the case of households. Corporate and household demand for loans was adversely affected by high domestic interest rates. As regards corporations, banks perceived lower financing of fixed investment, while demand for loans for operations and inventories continued to grow. Part of the market recorded higher demand for loans to corporations in the energy sector. Households' demand for loans for house purchase continued to decrease across the board. Banks' expectations regarding growth in credit losses in the period ahead increased in 2022 Q3.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Credit standards (banks' internal lending policy criteria) for loans to non-financial corporations were tightened further in 2022 Q3 (an NP of 34%) for all size categories of corporations. Tighter standards were largely related to foreign currency loans. Banks perceived increased risks associated with the outlook for the overall economic situation and for some sectors and corporations. In 2022 Q4, banks expect credit standards to tighten further (an NP of 26%).

The lending conditions (the arrangements between lenders and borrowers) for corporate loans were little changed overall, or tightened through interest rate margins for only a small part of the market (an NP of 6%). Interest rate margins representing the difference between client and reference market interest rates were broadly unchanged in most of the banking market for all size categories of corporations. As regards other lending conditions, non-interest fees increased and conditions relating to the maturity of loans tightened (an NP of 19%).

Banks perceived corporate demand for loans as decreasing further overall (an NP of 19%). According to a significant part of the banking market (an NP of 70%), the overall decline in demand reflected the high domestic interest rates. Demand for financing of fixed investment decreased further (an NP of 35%) due to high uncertainty and the difficulty to assess investment returns amid high prices of energy and material inputs. The use of alternative financing through bond issues and own funds by some corporations (NPs of 14% and 19% respectively) also had a downward effect on demand. By contrast, demand for financing of working capital and inventories continued to grow (an NP of 51%). According to banks, this was due to overall inflation pressures in the economy and hence the need to finance the same quantity of production with higher credit lines. At the same time, corporations were still forced to purchase and maintain higher stocks due to supply chain disruptions, the unavailability of some commodities, components and materials, and long delivery times. Part of the banking market recorded growth in demand for loans to corporations in the energy sector. In 2022 Q4, banks expect demand for loans to decrease overall, especially for long-term loans (NPs of 30% and 71% respectively).

II.2 HOUSEHOLDS

Credit standards for loans to households for house purchase also tightened further in Q3 (an NP of 25%), though less so than in the previous quarter when banks adjusted to stricter legally binding lending limits. As with corporations, the increased risks associated with the outlook for the overall economic situation as perceived by banks contributed to a tightening of credit standards (an NP of 63%). This was accompanied by a stricter assessment of households' solvency due to higher living costs. The tightening of standards was also fostered by higher financing costs and constraints on banks' balance sheets (an NP of 20%). Lending conditions were broadly unchanged overall, with only 7% of the banking market easing them. In Q4, banks expect credit standards to ease overall (an NP of 26%).

Households' demand for loans for house purchase continued to fall across the board, decreasing significantly from the perspective of banks (an NP of 81%). The decrease in demand was fostered by high interest rates on house purchase loans (an NP of 83%). Demand was also adversely affected by higher living costs of households, which include higher consumption expenditure due to growth in inflation and higher energy bills. Generally high property prices, significantly worse consumer confidence and falling household savings also contributed to the drop in demand. In Q4, banks expect demand for housing loans to decrease further overall (an NP of 30%).

Credit standards for consumer credit tightened overall (an NP of 59%). This was fostered by pessimistic expectations regarding economic developments and stricter assessment of client creditworthiness (an NP of 70%). A smaller section of the banking market also tightened lending conditions. Demand for consumer credit declined overall in Q3 (an NP of 56%). This reflected lower household expenditure on durable goods (an NP of 38%) and high interest rates (33%). In Q4, banks expect credit standards to tighten further and demand for loans to fall in this segment (NPs of 44% and 29% respectively).

The setting of credit standards for loans to sole proprietors tightened further and demand for loans decreased (NPs of 36% and 67% respectively). In Q4, banks do not expect credit standards to change, but they do expect demand to drop further (an NP of 36%).

Additional questions on expected credit losses indicate that part of the banking market expects the credit loss rate to increase in all credit market segments in the period ahead, though less so than when the coronavirus pandemic broke out. In the next 12 months, 35% of the banking market expects growth in credit losses in the case of corporate loans, 32% of the market in the case of consumer credit and only 12% of the market in the case of housing loans.

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)

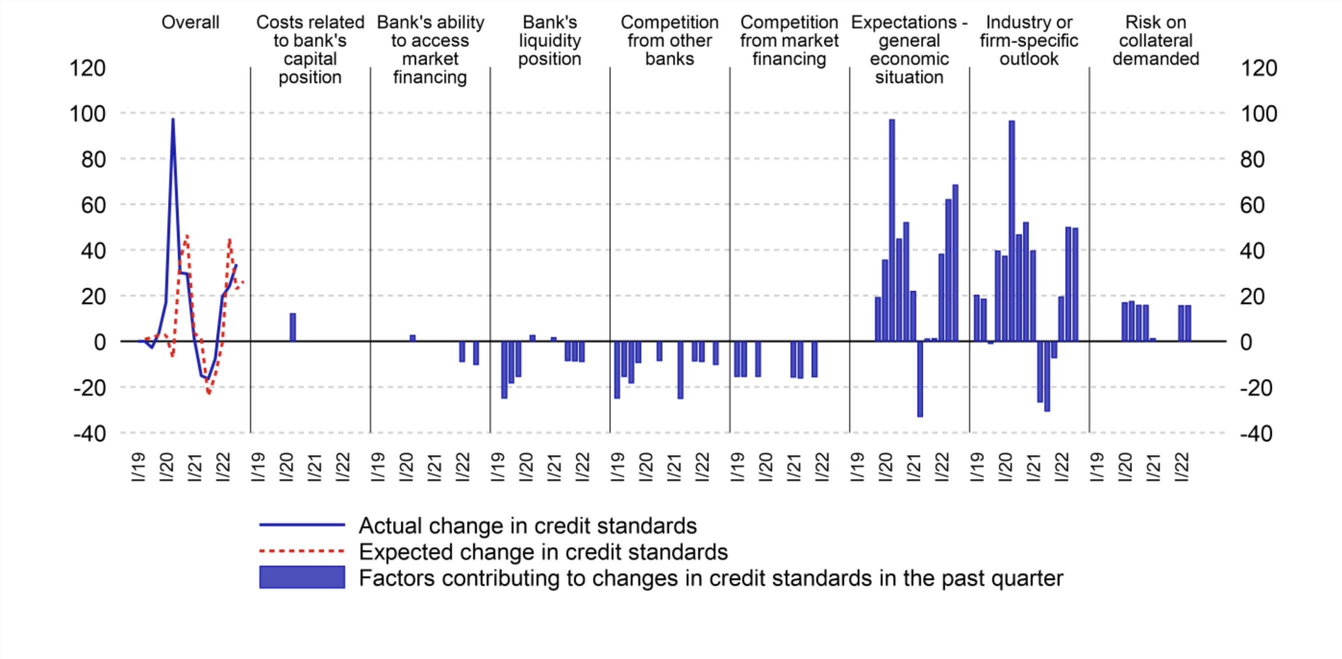


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

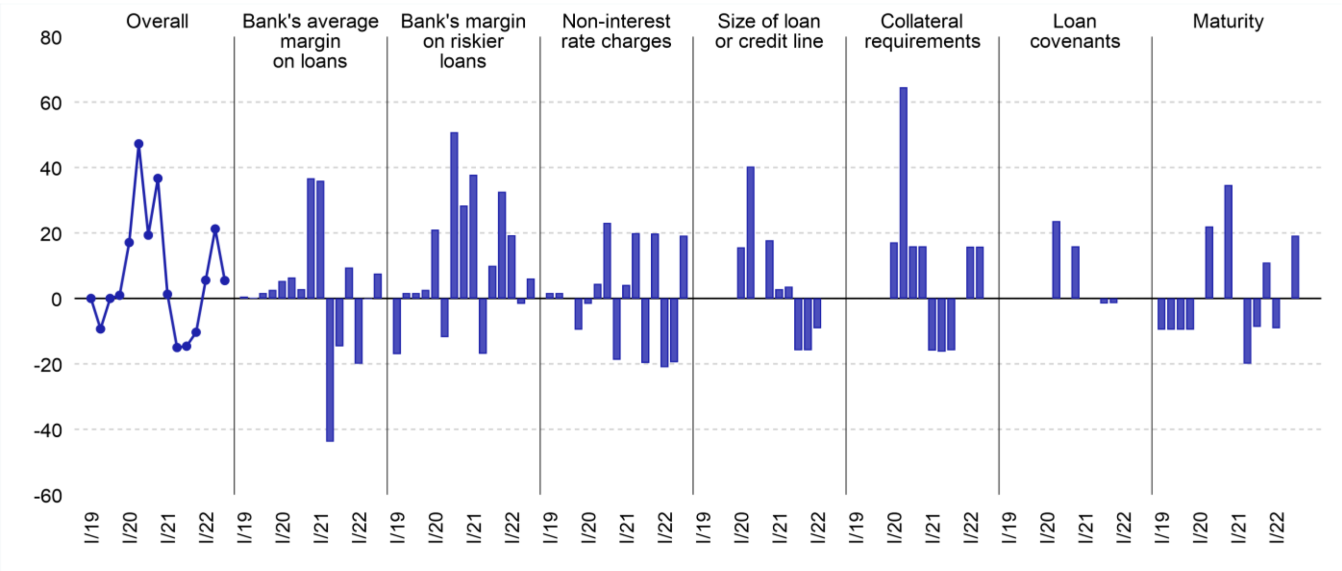


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

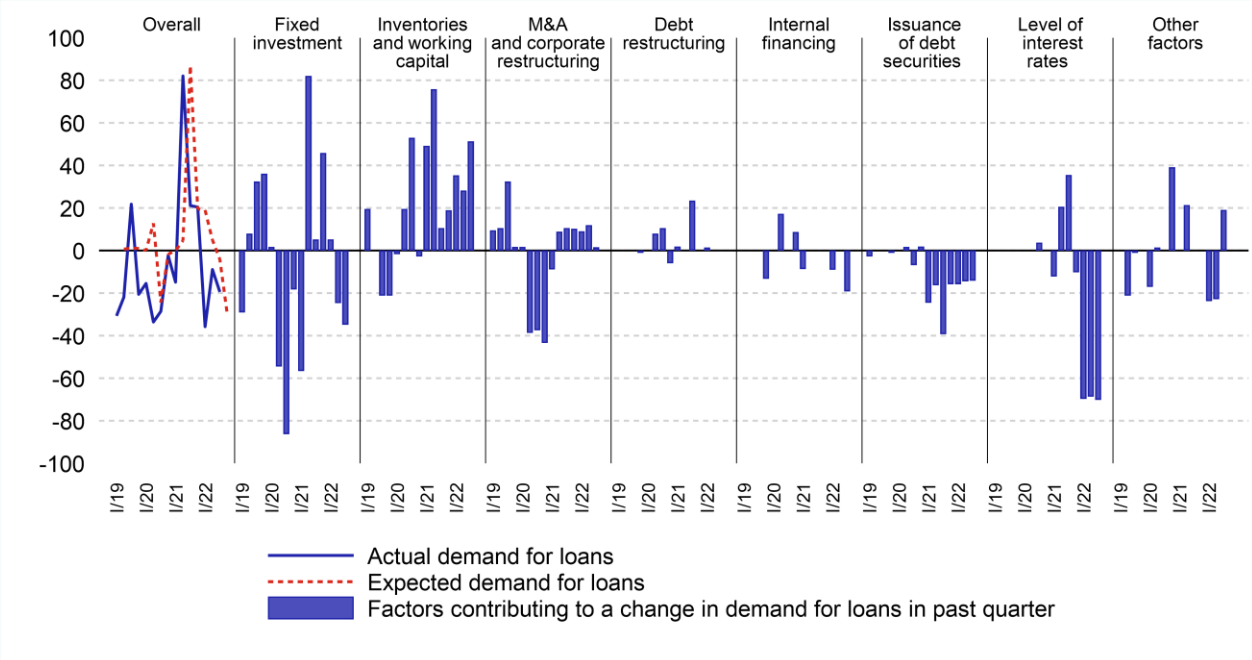


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

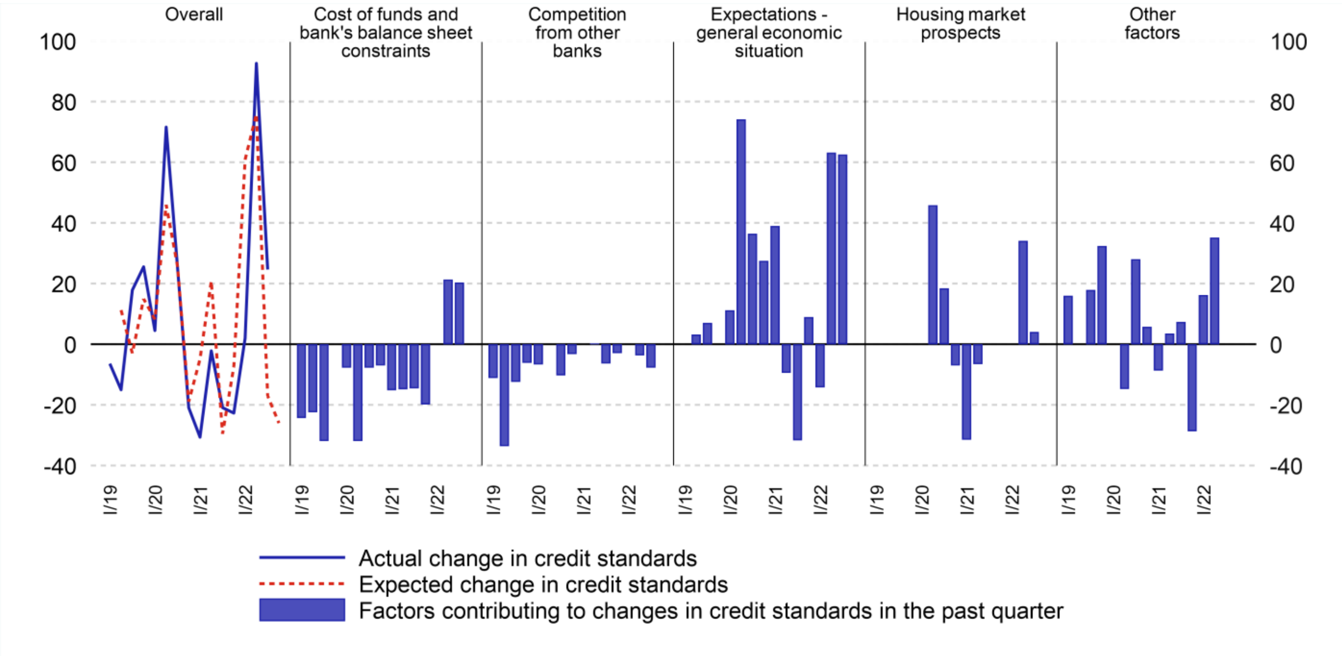


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

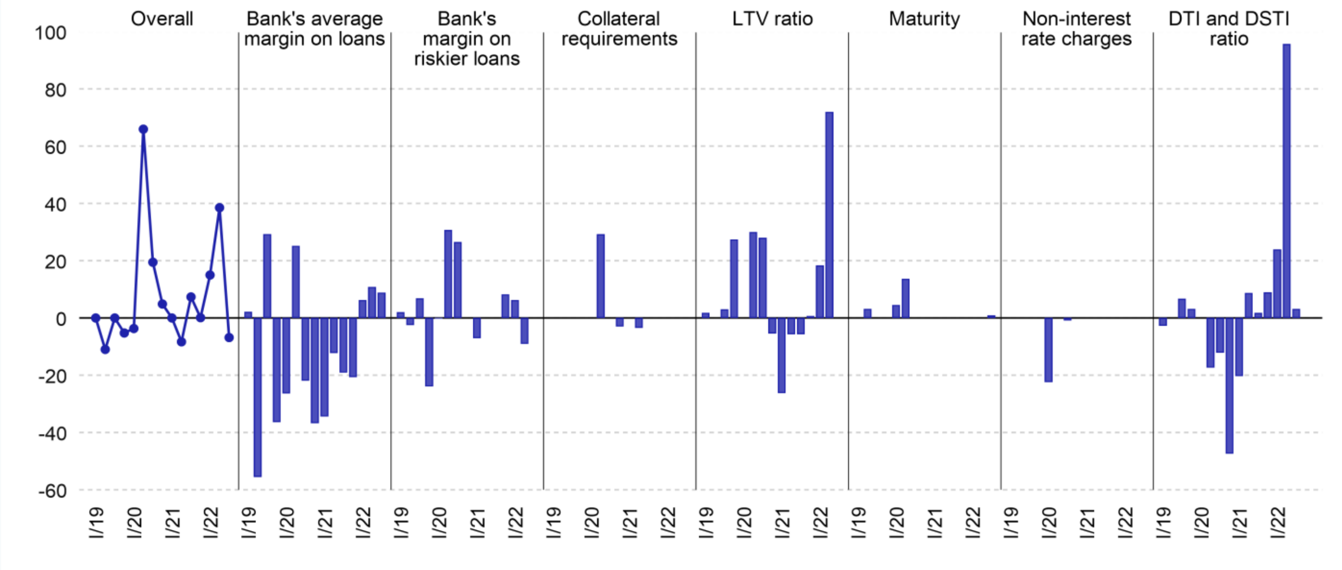


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

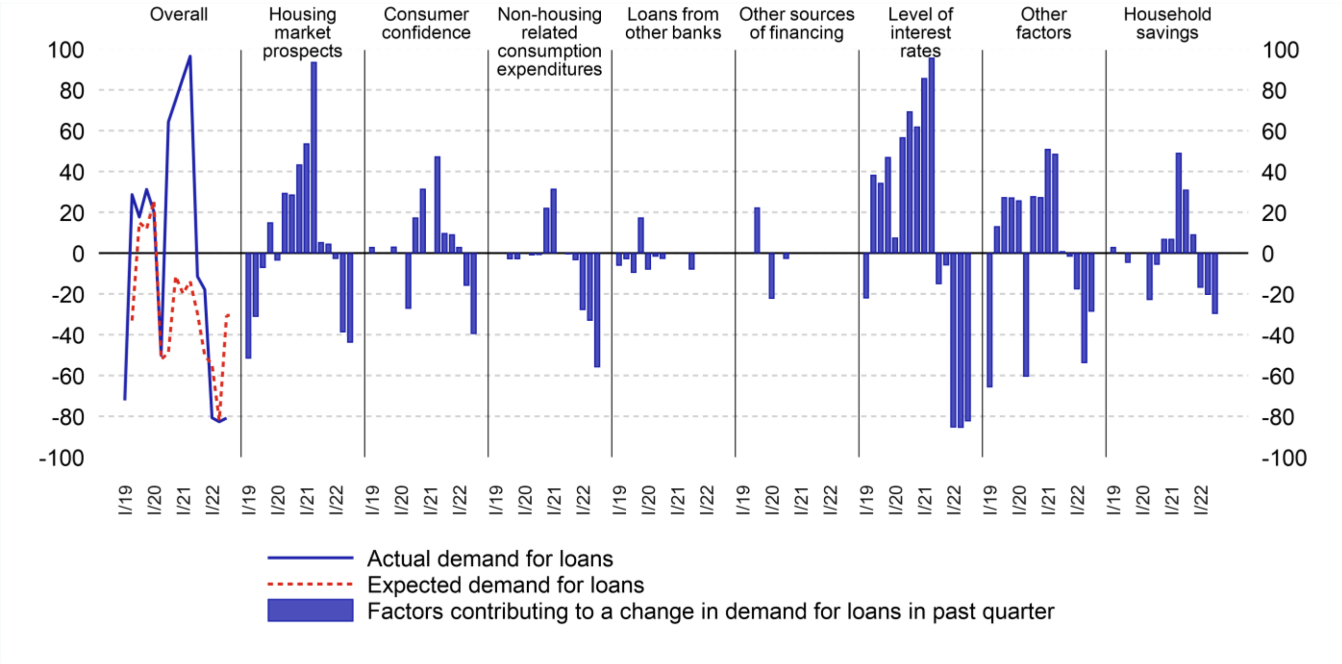


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

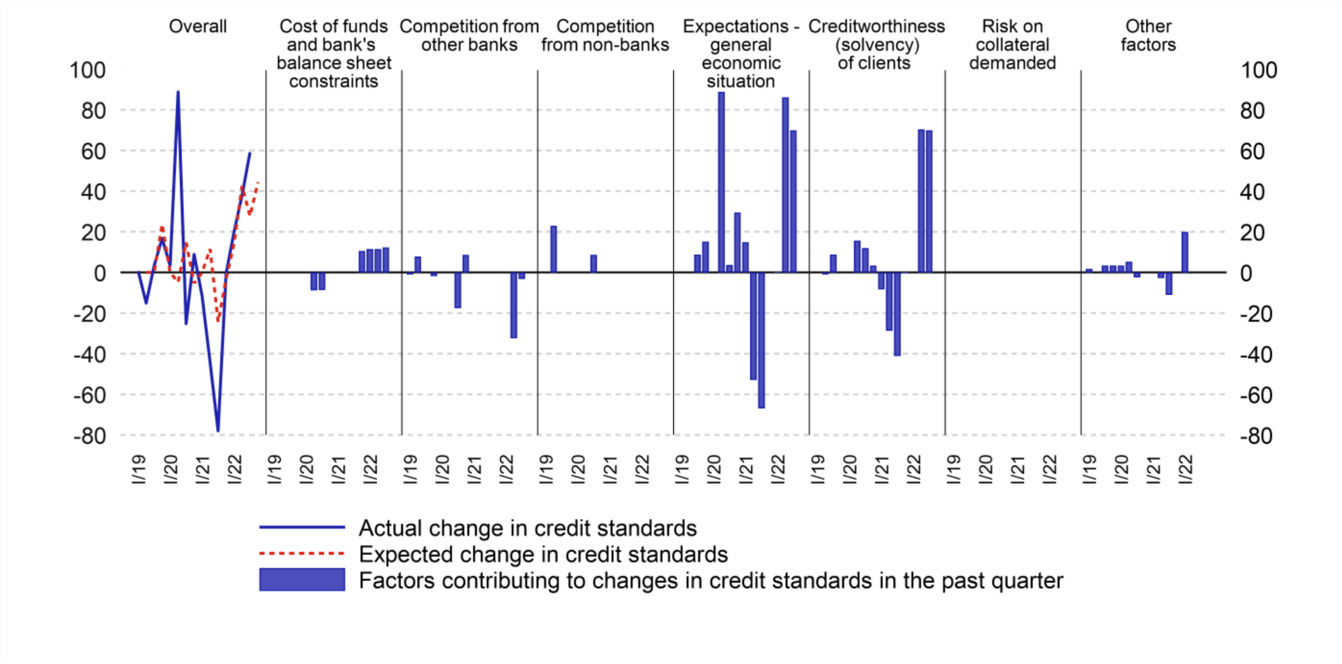


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

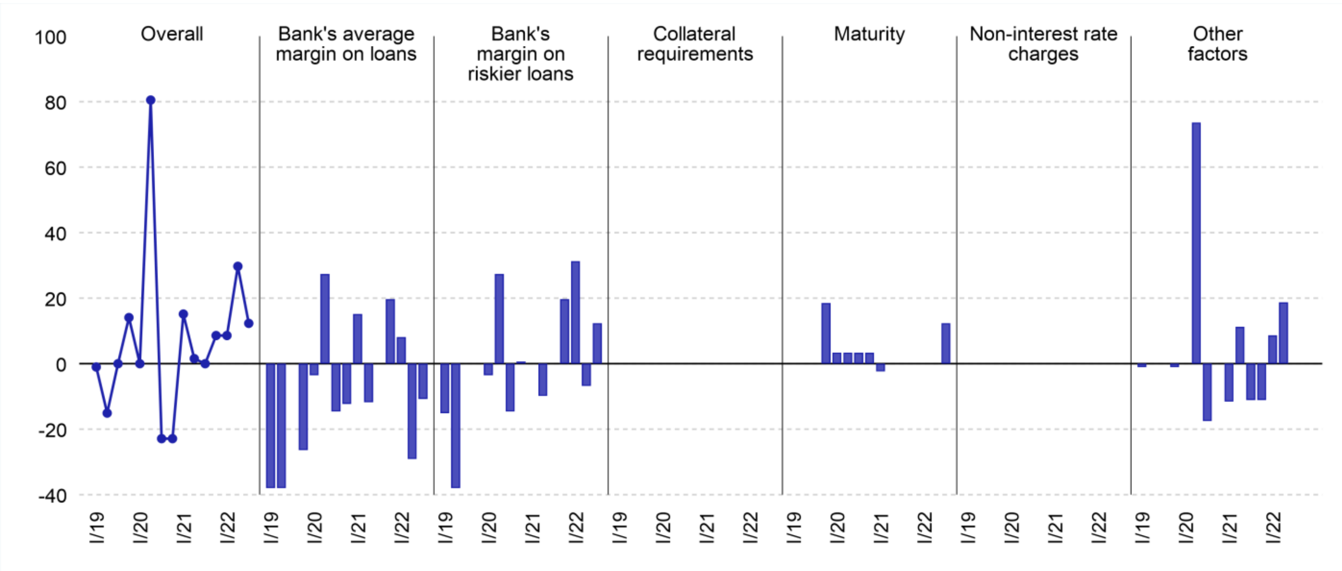
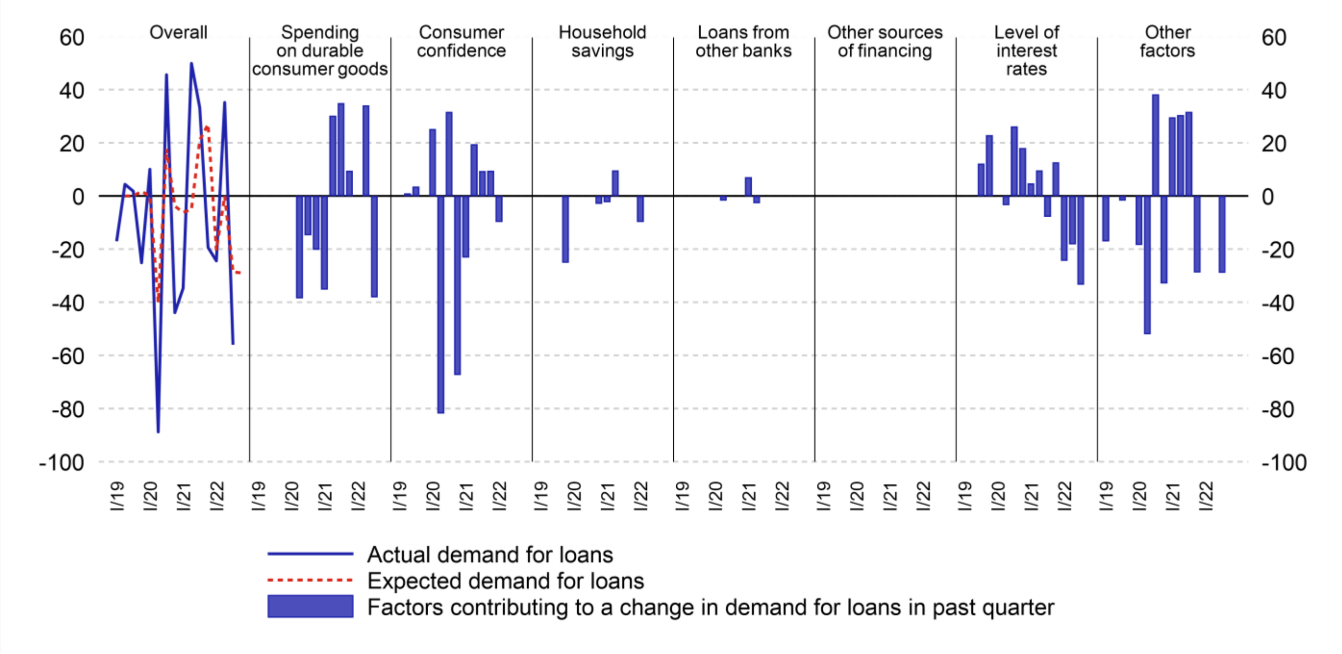


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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