Bank Lending Survey
IV/2023

Czech National Bank —— Bank Lending Survey —— IV/2023

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 forty-sixth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2023 Q3 and their expectations in these areas for 2023 Q4. Nineteen banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 1 September and 15 September 2023.[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

The results of the current Bank Lending Survey show that credit standards for loans to corporations were unchanged in 2023 Q3, while easing for loans for house purchase and further tightening for consumer credit. Banks left credit terms and conditions agreed upon by the lender and the borrower unchanged overall. According to the banks, demand for loans increased, albeit to varying degrees across the segments of the credit market. In the case of corporations, demand is still weak as a result of higher interest rates and modest investment activity despite the current increase due to the financing of mergers and acquisitions and corporate and debt restructuring. Following a protracted slowdown in the mortgage market, households' demand for housing loans has risen for the second consecutive quarter, reflecting the expected change in residential property price trends, a slight drop in mortgage interest rates and the deactivation of the DSTI limit. The perceived demand for consumer credit also increased again. Expectations regarding credit losses in the year ahead increased in a relatively small part of the banking market. Banks overall do not expect any major adjustments to the credit standards in individual segments in 2023 Q4, but they expect households' demand for loans for house purchase and consumer credit to increase further. Growth in demand for housing loans will be affected mainly by the path of interest rates in the period ahead. According to the banks, corporate demand for loans will fall at the end of this year.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Following last year's tightening, credit standards for loans to non-financial corporations also remained broadly unchanged in 2023 Q3. The standards for loans to large and smaller firms and for loans of all maturities remained virtually unchanged, and banks expect a similar situation in Q4. The terms and conditions for approving loans were also unchanged overall. However, within their structure, average interest margins (i.e. the difference between client and benchmark market interest rates) and margins on riskier loans to large corporations declined, while the opposite was true for those on loans to small and medium-sized corporations (an NP of 19% in both segments of the market). The terms and conditions relating to the maturity of loans were also eased (an NP of 19%).

Despite banks' pessimistic expectations in the previous round of the survey, in Q3, demand for loans increased in quarter-on-quarter terms for the first time since the end of 2021 (an NP of 11%). This was due mainly to increased financing of mergers and acquisitions and business and debt restructuring. However, around half of the banking market considers the level of domestic interest rates as a factor which has a negative effect on demand for loans. Banks also continued to perceive a lower need for fixed investment financing, though significantly less broad than in the previous period (an NP of 3% compared to 48% in Q2). Demand for financing of working capital and inventories also fell in a relatively small part of the market (an NP of 3%). Banks overall expect demand for loans to decrease (an NP of 14%) for loans to large corporations and for loans with longer maturities in 2023 Q4, while demand for loans to smaller enterprises and short-term loans is expected to increase. Overall, despite a pick in demand in Q3, it remains weak.

II.2 HOUSEHOLDS

Credit standards for loans to households for house purchase eased in Q3. The deactivation of the DSTI credit ratio with effect from 1 July 2023, increased competition between banks and a decline in bank financing costs fostered an easing of credit standards in 63% of the market (NPs of 38%, 26% and 20% respectively). Lending conditions for loans for house purchase were unchanged overall. However, within their structure, average interest margins increased in one-fifth of the banking market, owing, among other factors, to a decrease in long-term market interest rates. In 86% of the market, the terms and conditions for approving specific loans were eased due to the above-mentioned deactivation of one of the macroprudential credit ratios. However, part of the banking market mentions that the DSTI ratio is still one of the parameters affecting the final decision on the provision of a specific loan for house purchase.

Following a decline, household demand for loans for house purchase increased for the second consecutive quarter in line with banks' expectations. In Q3, an NP of 76% of the banking market saw an increase in demand for loans, the highest level recorded since mid-2021. The increase in demand was fostered by an expected rise in residential property prices, a slight drop in mortgage interest rates and the cancellation of the DSTI limit (NPs of 24%, 28% and 44% respectively). On the other hand, weaker consumer confidence and increased living costs of households continue to have a negative effect on demand for loans (an NP of 15% and 20% respectively). In Q4, 72% of the market expects demand for loans for house purchase to pick up further. According to the banks, in the period ahead, growth in demand will be affected mainly by the expectations of households regarding future interest rates.

Credit standards for consumer credit continued to be tightened (an NP of 46%). This was driven by heightened risk perceptions associated with the creditworthiness of clients, to which part of the market responded by introducing a stricter calculation of households' living costs. Lending conditions were unchanged overall. Demand for consumer credit also rose for the second quarter in a row (an NP of 70%). This reflected the increased financing of households' consumption expenditure and the encouragement of the sale of loans by some banks amid low unemployment. Conversely, higher interest rates continued to restrain demand. Banks expect no change in credit standards and a further increase in demand for loans (an NP of 43%) in this segment of the credit market in Q4.

Credit standards for loans to **sole proprietors** were eased and demand for loans declined (an NP of 38% and 19% respectively). Banks expect neither credit standards nor demand for loans to change in Q4.

Additional questions on **expected credit losses** indicate that only a small section of the banking market expects the rate of credit losses for loans to corporations and consumer credit to increase in the period ahead (i.e. at a much lower rate than in 2020 after the outbreak of the coronavirus pandemic and than in 2022). Such an increase is expected by 16% of the banking market in the case of corporate loans, 10% of the market in the case of consumer credit, while no increase in credit losses is expected 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)

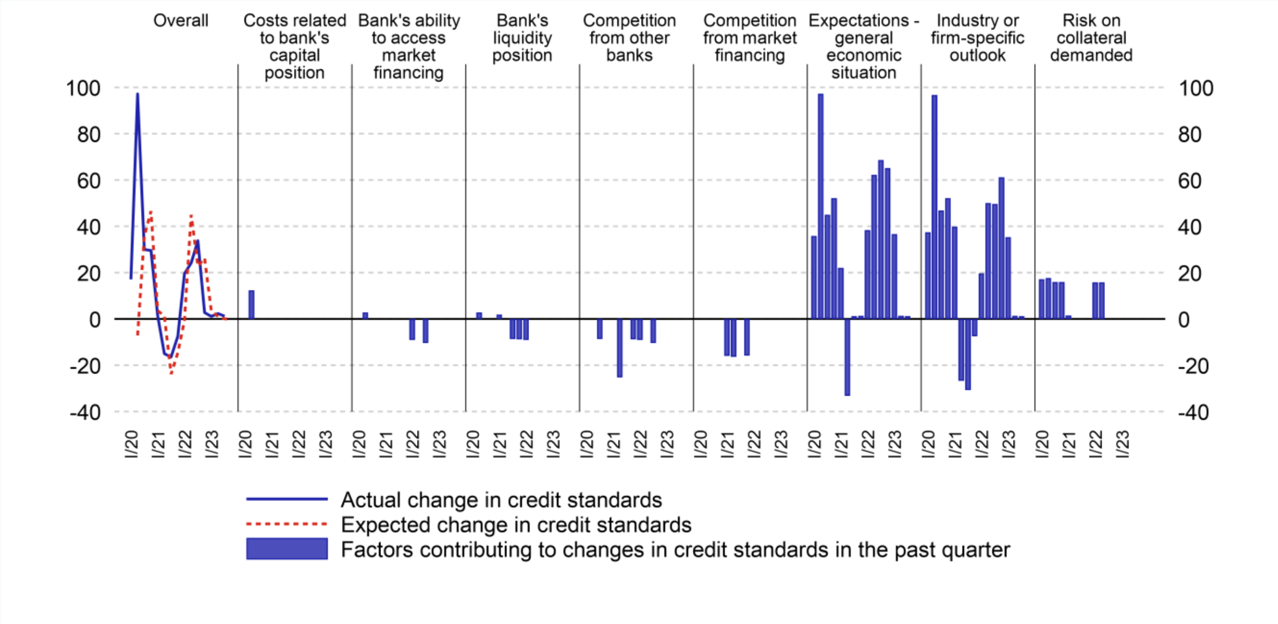


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

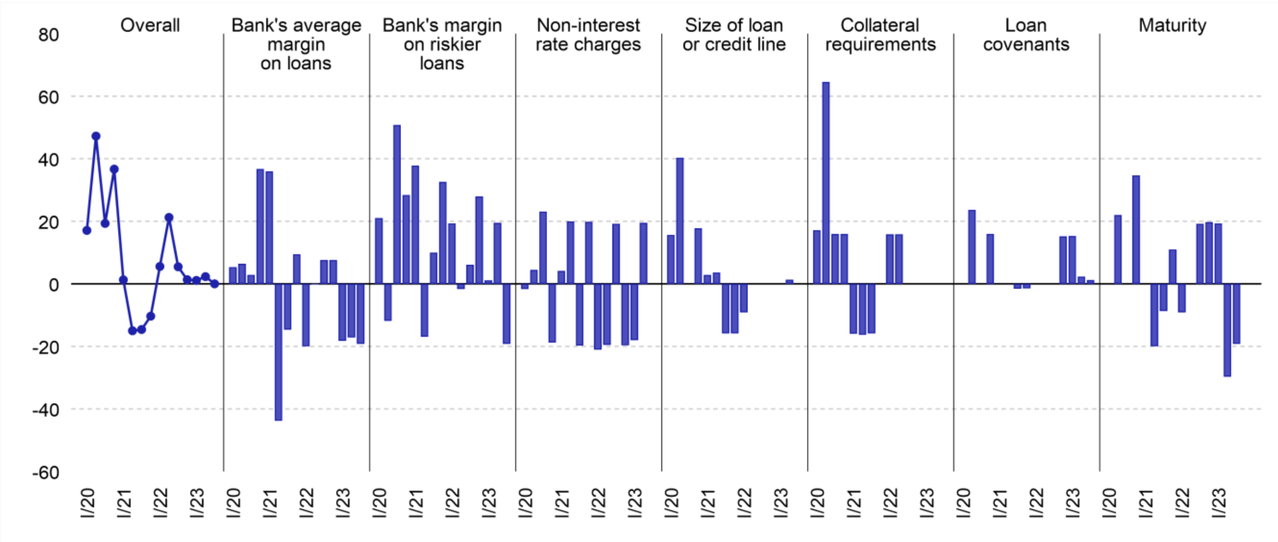


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

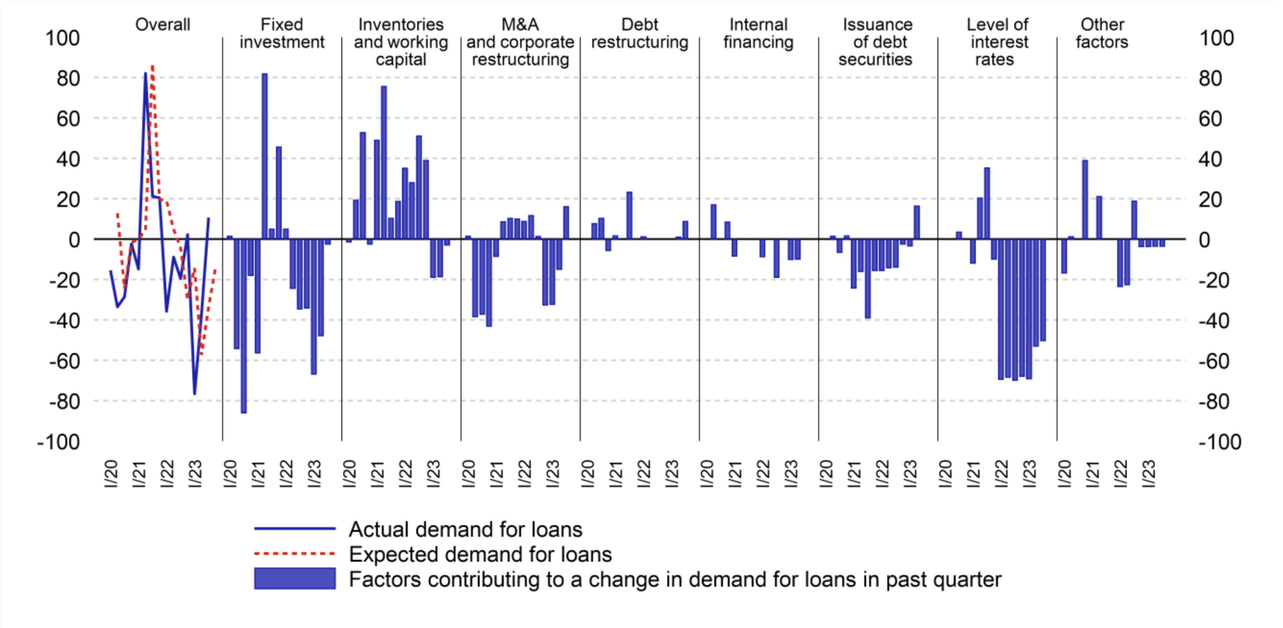


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

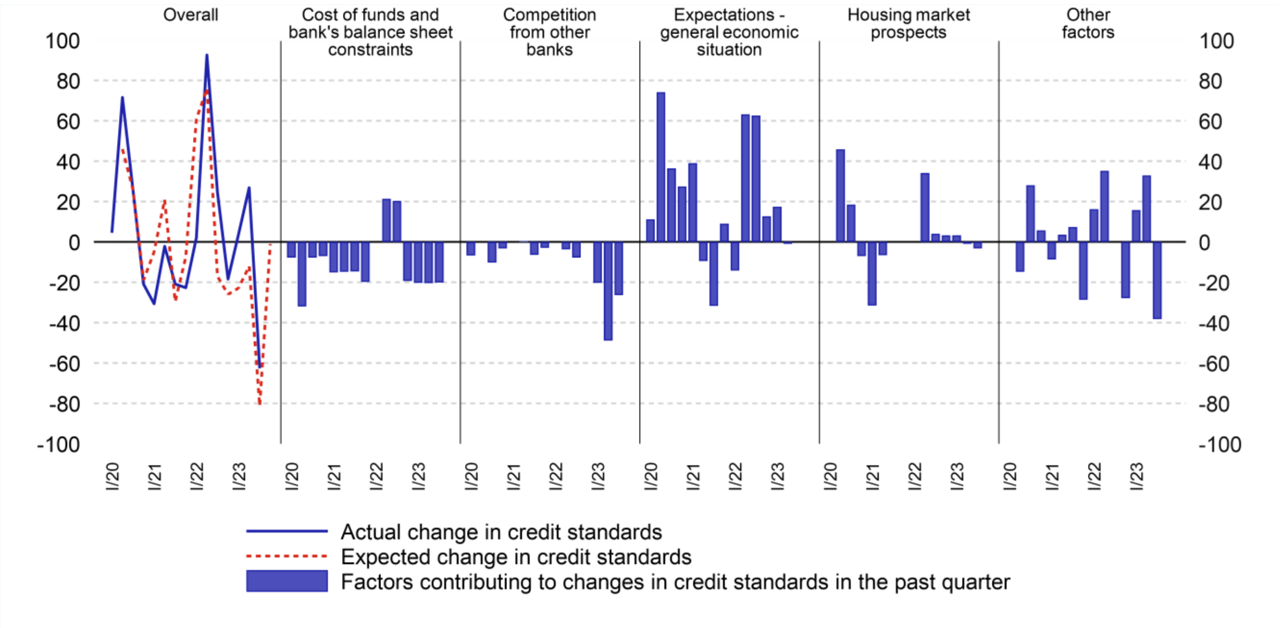


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

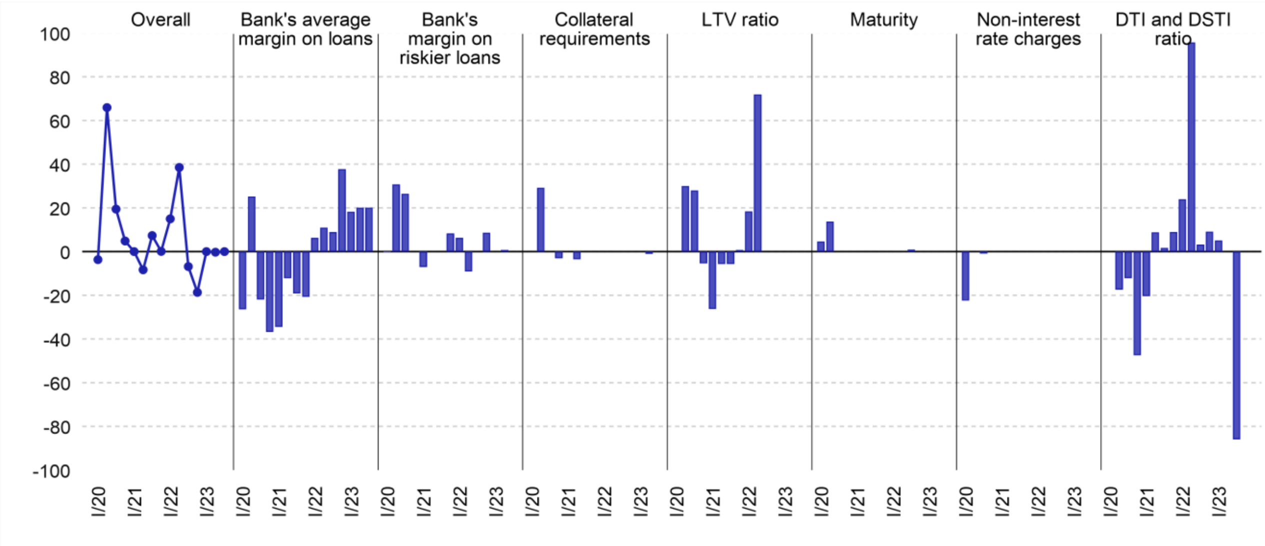


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

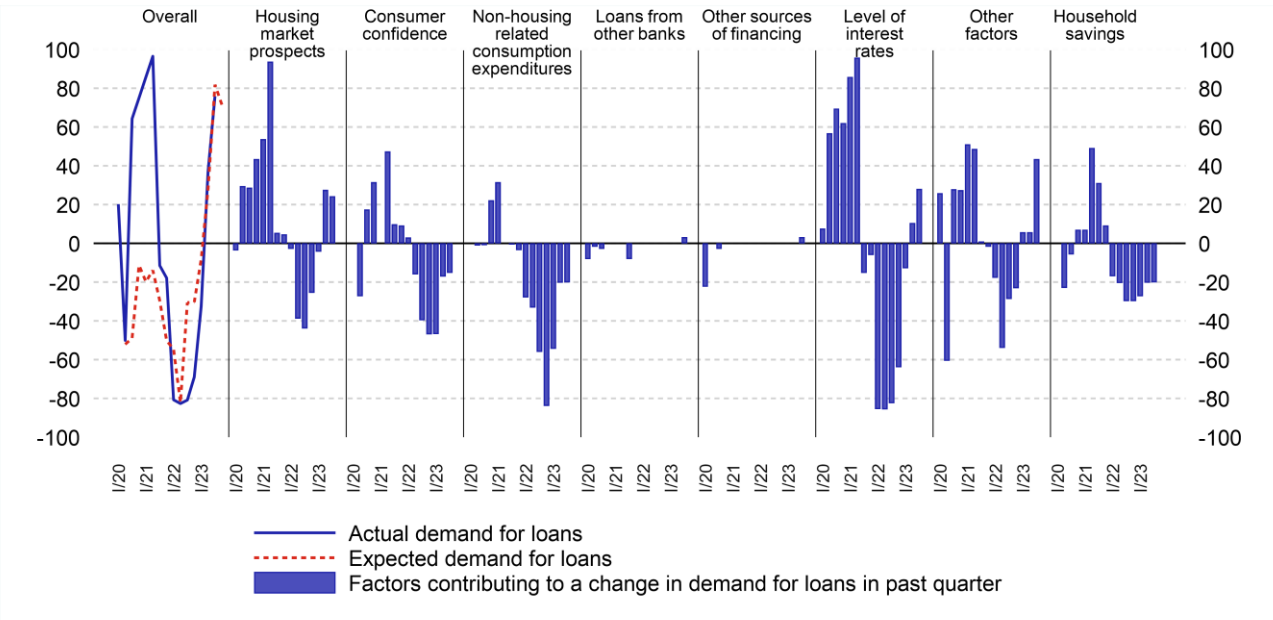


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

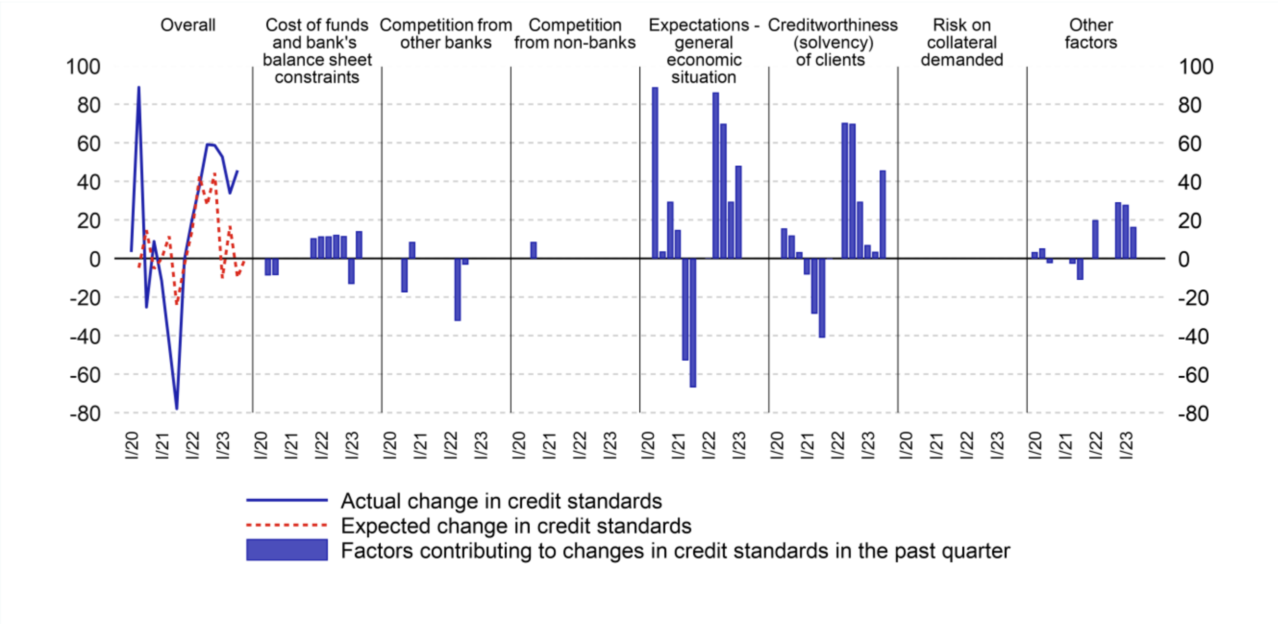


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

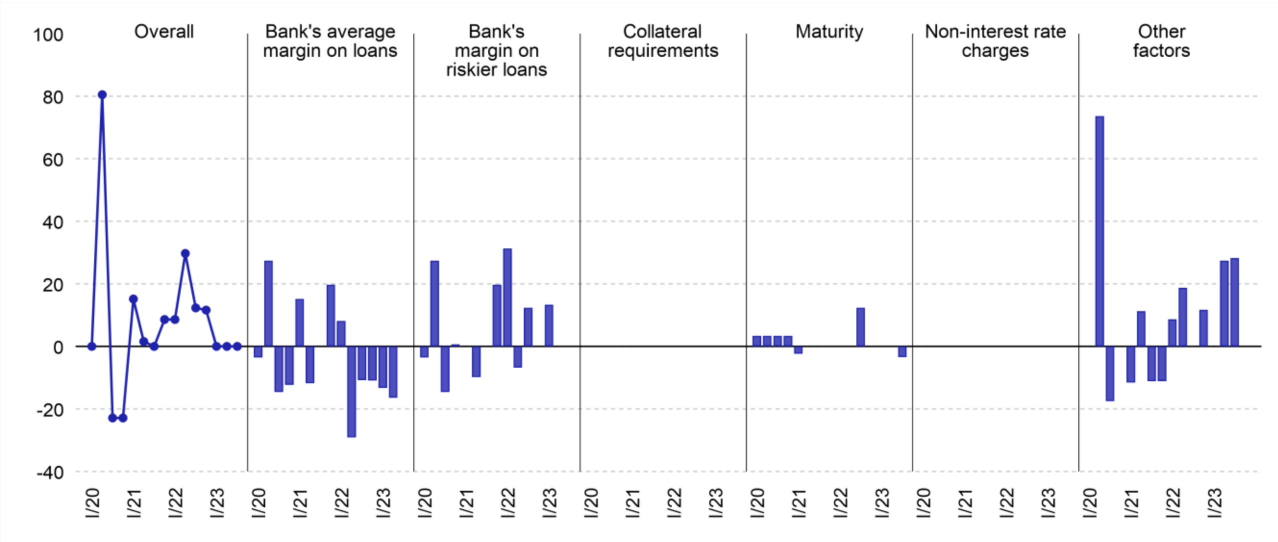
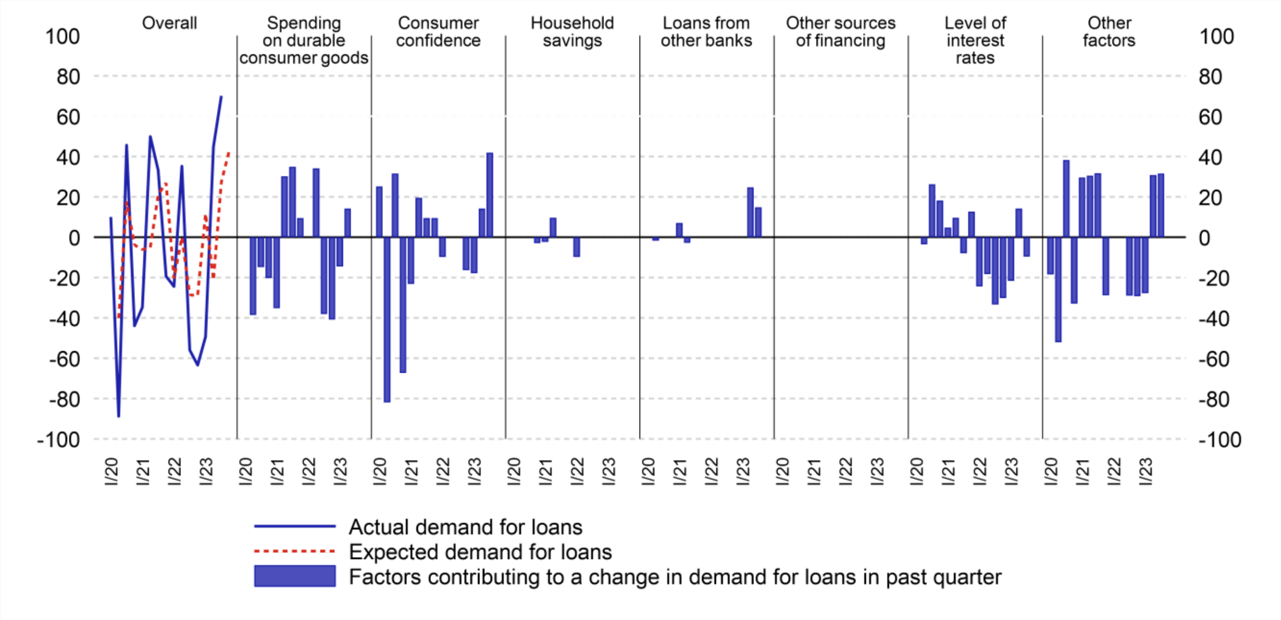


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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