Bank Lending Survey

I/2024

Czech National Bank —— Bank Lending Survey —— I/2024

CZECH NATIONAL BANK

www.cnb.cz

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-seventh round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2023 Q4 and their expectations in these areas for 2024 Q1. Nineteen banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 1 December and 15 December 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

Banks left credit standards and the overall credit conditions for loans to non-financial corporations unchanged in 2023 Q4. Non-financial corporations' demand for loans as perceived by banks fell, albeit in only a small section of the market. At loan type level, demand for long-term loans decreased in almost one-quarter of the banking market. By contrast, demand for short-term loans and loans to large corporations increased in one-fifth of the market. Half of the banking market still regards the level of domestic interest rates as a factor dampening corporations' demand for loans. More than one-third of the banking market eased the credit standards applied to loans to households for house purchase, and banks expect a similar situation in 2024 Q1 too. Households' demand for house purchase loans increased in more than two-thirds of the banking market, and banks expect similar developments in 2024 Q1. The increase in demand was fostered by more favourable prospects for the residential property market and, to a lesser extent, a slight improvement in household sentiment. The level of interest rates also acted in the same direction, with a smaller section of the market affected by the modest decline in mortgage rates. Credit standards for loans to households for consumption continued to be tightened, albeit to a smaller extent. Demand for loans in this segment grew for the third consecutive quarter in most of the banking market.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Credit standards (representing banks' internal lending policy criteria) **were unchanged for loans to non-financial corporations in 2023 Q4.** This was also true across loan types, i.e. for loans to large and smaller firms and for loans of all maturities. Only a few banks tightened their standards in view of the outlooks of certain sectors or specific corporations. Only a very small section of the banking market expects credit standards to tighten in 2024 Q1.

The overall lending conditions (the arrangements between lender and borrower) **were also unchanged.** In the structure of lending conditions, almost one-fifth of the banking market tightened the conditions relating to non-interest charges and loan terms. Conversely, interest margins (the difference between client and benchmark market interest rates) declined in a section of the banking market, specifically margins on riskier loans decreased in almost one-fifth of the banking market.

Overall corporate demand for loans declined (an NP of 8%). At loan type level, demand for long-term loans decreased in almost one-quarter of the banking market. By contrast, demand for short-term loans and loans to large corporations increased in one-fifth of the market. Half of the banking market still considers the level of domestic interest rates to be a factor reducing demand. Demand is also being dampened by a reduced need to finance fixed investment (an NP of 20%), and debt restructuring (an NP of 19%). A greater need on the part of corporations for the financing of mergers and acquisitions and corporate restructuring had a favourable effect on demand (an NP of 17%). A very small proportion of the banking market expects overall demand for loans to decline in 2024 Q1, and almost one-quarter of the banking market expects demand for long-term loans to decrease.

II.2 HOUSEHOLDS

Credit standards for loans to households for house purchase were eased in 2023 Q4 (an NP of 38%), and banks expect a similar situation in 2024 Q1. According to banks, the deactivation of the upper limit on the DTI ratio fostered an easing of credit standards and a decrease in banks' cost of funds. **According to banks, the overall lending conditions were unchanged**. As regards the structure of the factors, however, banks consider the deactivation of the DTI limits to be a factor contributing to an easing of standards (an NP of 38%). Conversely, growth in interest margins in a quarter of the market fostered a tightening of credit conditions. **Household demand for loans for house purchase increased for the third consecutive quarter.** The results of the current round of the survey indicate a rise in the perceived demand for loans (an NP of 64%). This was broadly in line with banks' expectations for 2023 Q4, and banks also expect a similar situation in 2024 Q1. The growth in demand was fostered by more favourable prospects for the residential property market and, according to a smaller proportion of the banking market, also by a slight improvement in consumer confidence. The level of interest rates also acted in the same direction, with a smaller section of the market affected by the modest decrease in mortgage rates. Higher non-housing related consumption expenditure by households dampened demand, acting in the opposite direction in almost one-fifth of the banking market.

Credit standards for consumer credit continued to be tightened in 2023 Q4, albeit to a smaller extent (an NP of 16%). This tightening again reflected stricter assessment of client creditworthiness and pessimistic expectations relating to the overall economic situation. **Banks also tightened the overall lending conditions** (an NP of 16%). Banks adjusted interest margins in both directions, but they remained unchanged overall. **Demand for consumer credit rose for the third quarter in a row** (an NP of 72%). This reflected improving consumer confidence, the increased financing of households' consumption expenditure and the encouragement of the sale of consumer credit by some banks in the form of bonuses for arranging loans. According to several banks, the higher interest rates are no longer significantly reducing perceived demand. By contrast, one-fifth of the banking market considers the level of interest rates as a factor which contributed to growth in demand. Only a small proportion of the banking market expects credit standards to tighten in 2024 Q1, and almost half of the market expects demand for consumer credit to increase.

Credit standards for loans to **sole proprietors** were unchanged and banks do not expect them to change in 2024 Q1 either. Sole proprietors' demand for loans as perceived by banks decreased in more than one-third of the banking market in 2023 Q4. Banks indicated a further drop in demand in 2024 Q1, albeit to a small extent.

Additional questions on **expected credit losses** indicate that overall, the banking market is not expecting credit losses to increase in any of the three segments of the credit market in the period ahead.

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)

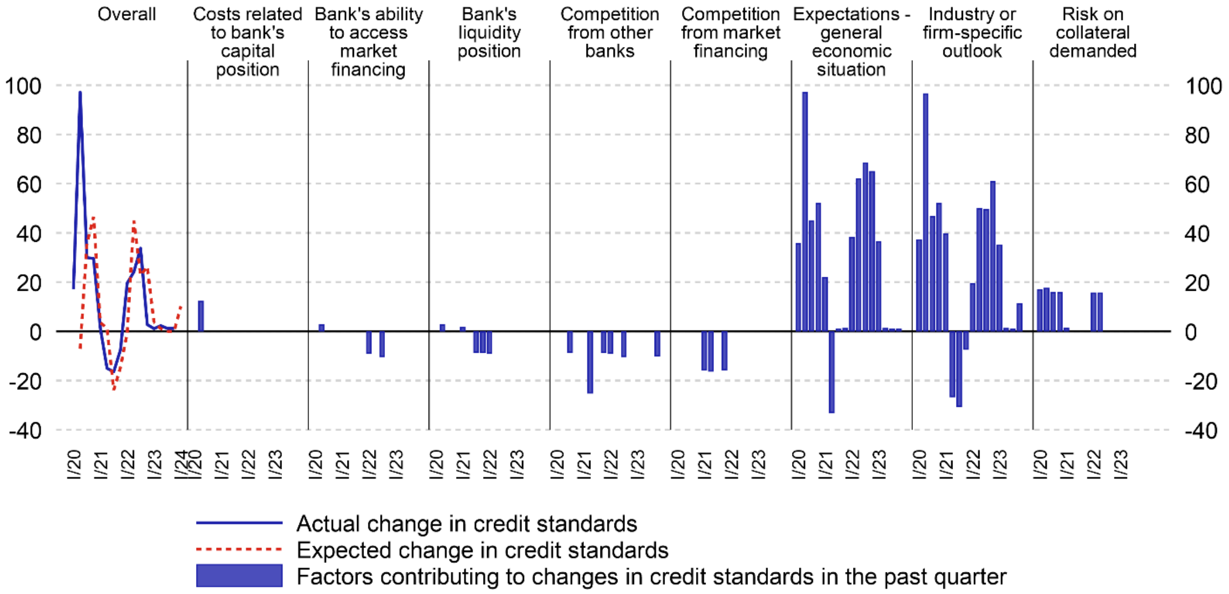


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

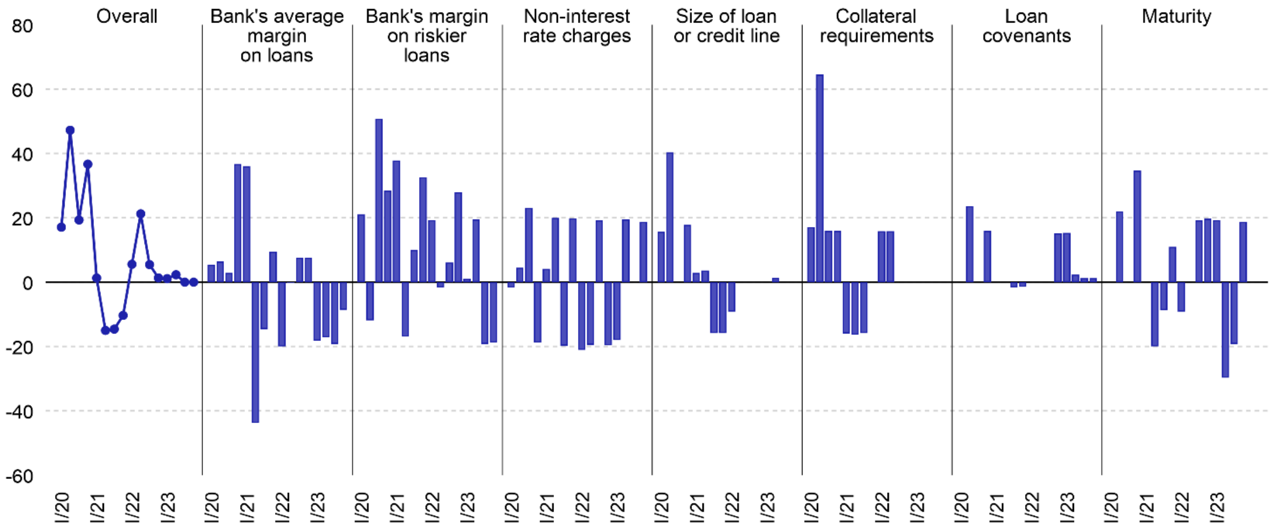


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

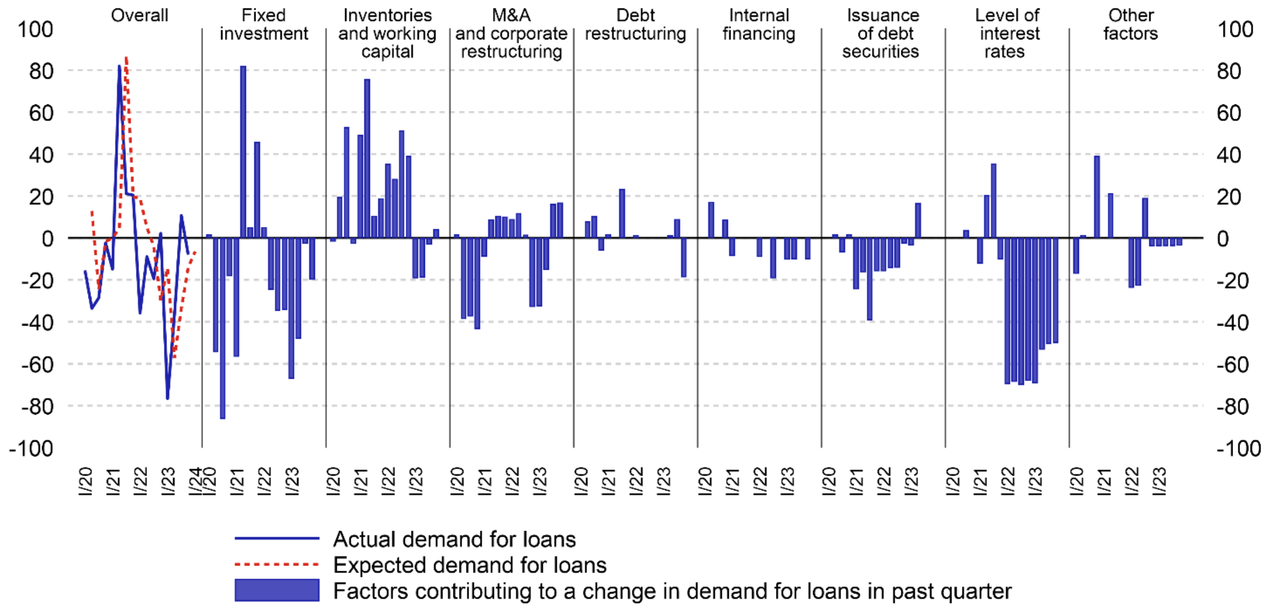


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

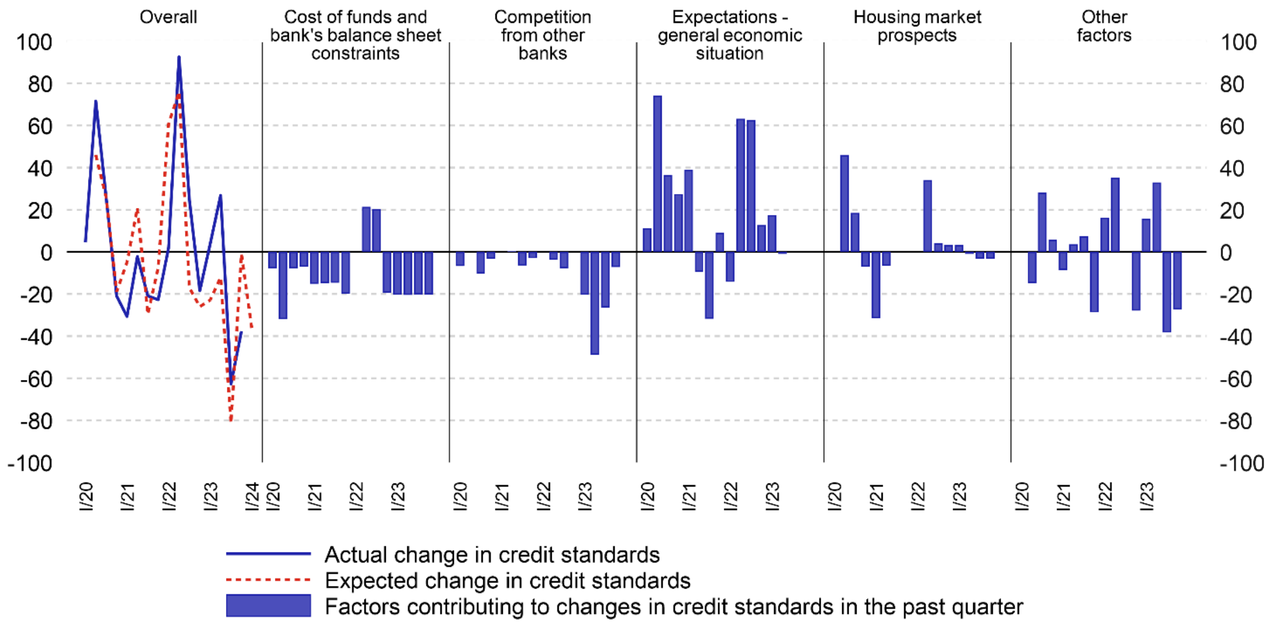


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

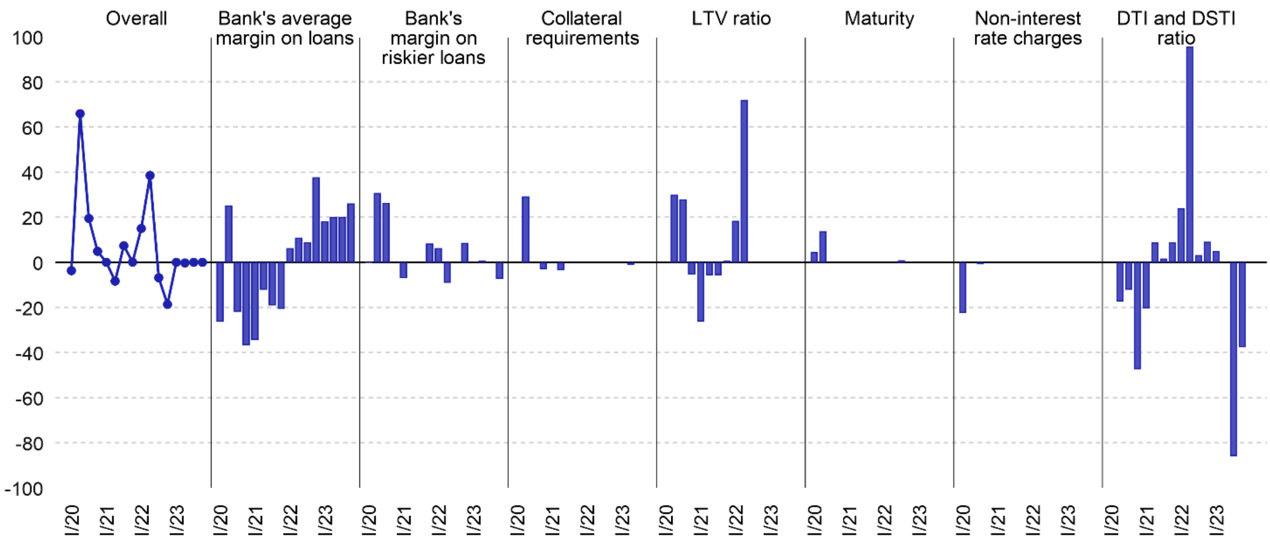


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

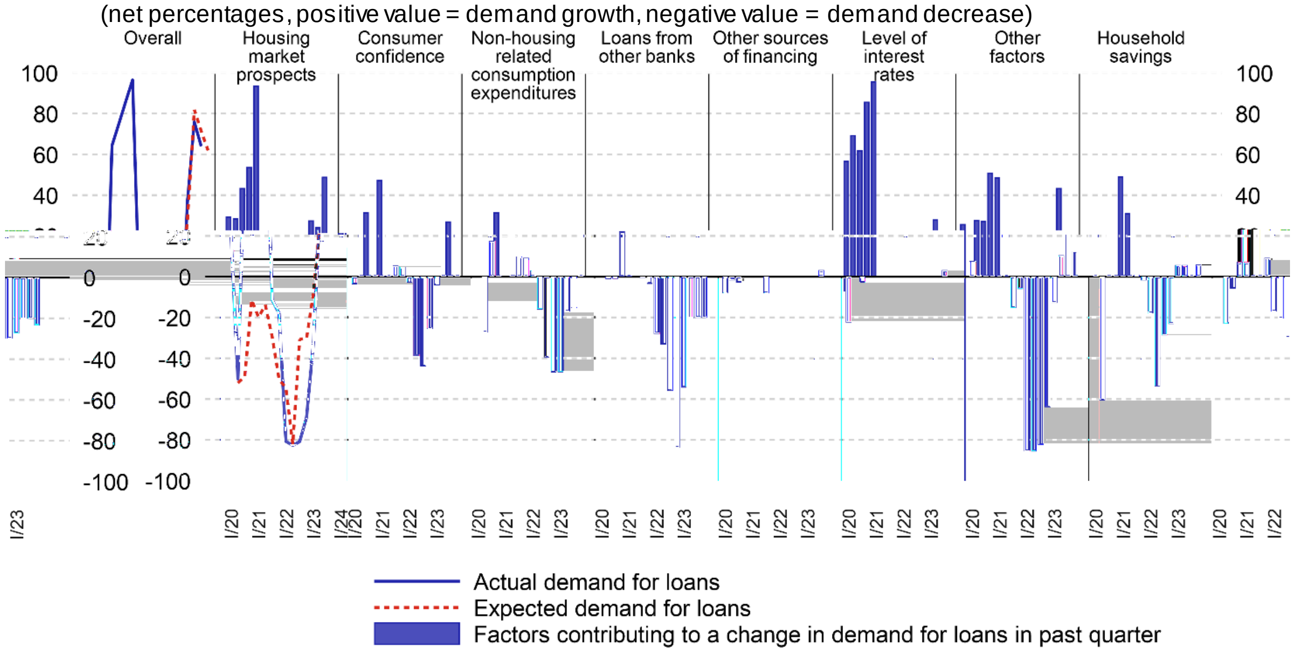


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

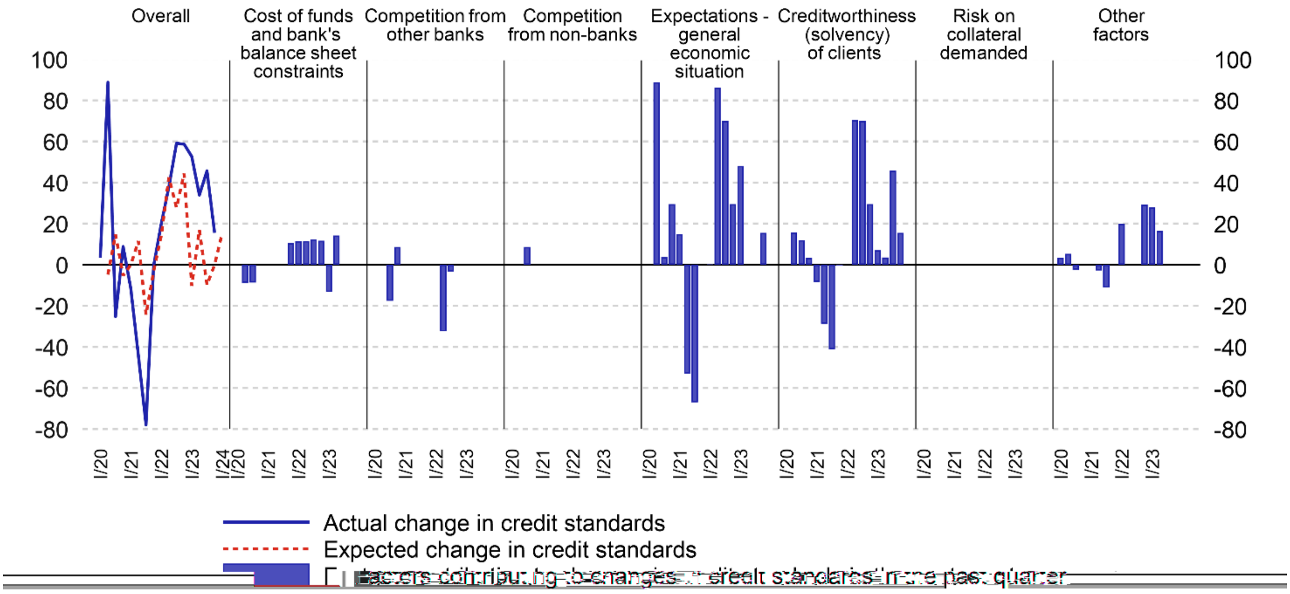


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

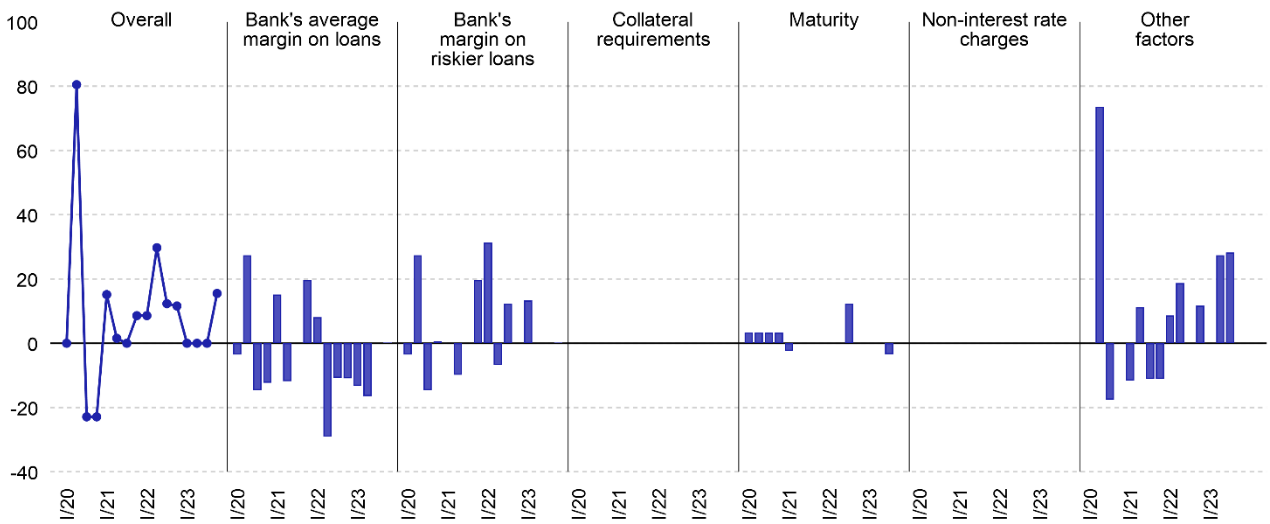
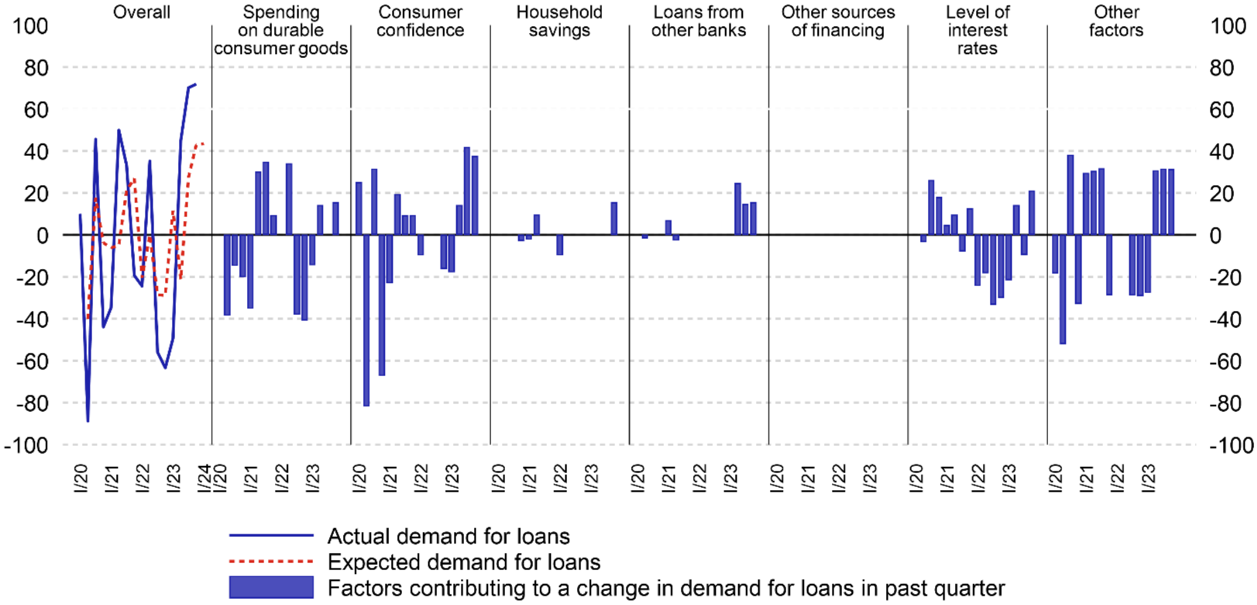


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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