Bank Lending Survey

II/2024

CZECH NATIONAL BANK

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

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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-eighth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2024 Q1 and their expectations in these areas for 2024 Q2. Nineteen banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 1 March and 15 March 2024.[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 non-financial corporations remained unchanged in 2024 Q1. However, unlike in the previous period, there is a noticeable reduction in perceived risks regarding the economic outlook, as well as higher competition in the banking market. Corporations' demand for loans fell. Still high interest rates, lower financing of fixed investment, working capital and inventories, and greater financing by some corporations from their own resources contributed to the drop in demand for loans. The adverse economic situation of the Czech Republic's trading partners, in particular Germany, also decreased corporations' demand for loans. Credit standards for loans to households for house purchase eased further, while tightening for consumer credit. In both segments, the easing of standards was due to increased competition. In the case of consumer credit, adjustments to the internal processes in part of the market had the opposite effect. Demand for housing loans and consumer credit increased further. This was due mainly to a reduction in interest rates and expectations of their further gradual decrease in the period ahead and a slight improvement in consumer confidence. The increase in demand for housing loans is simultaneously being fostered by the outlook for continued growth in activity on the residential market. In 2024 Q2, banks expect demand for loans to rise in all the above credit market segments. Banks are not expecting changes in credit standards for corporate loans and loans for house purchase, while they are expecting a tightening in the case of consumer credit.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Credit standards representing banks' internal lending policy criteria were unchanged overall for loans to non-financial corporations in 2024 Q1. This was in line with banks' expectations in the previous round of the survey. After the tightening seen in 2022, standards have thus remained broadly unchanged for more than a year. However, competition increased in the banking market in Q1, accompanied by a more relaxed perception of risks. This mainly reflected an improvement in the outlook for the overall economic situation accompanied by expected modest GDP growth, a drop in inflation and a stabilisation in energy prices. Banks continue to expect credit standards to remain unchanged overall in 2024 Q2. However, 16% of the banking market expects an easing of standards for long-term loans and for loans to large corporations.

The terms and conditions for approving corporate loans were also unchanged overall. However, within their structure, the terms and conditions for loan maturity eased (an NP of 19%). By contrast, banks increased interest margins on riskier loans (an NP of 19%). The average interest margins remained unchanged.

Corporate demand for loans fell in line with banks' expectations in Q1 (an NP of 21%). Still high interest rates contributed to the decline in demand but their effect on demand was less intense than in the previous period (an NP of 37% in 2024 Q1 as against 50% in the previous quarter). A quarter of the banking market perceived lower demand for loans to finance fixed investment. However, according to some banks, demand is not weakening any further. Demand for loans also fell due to less of a need to finance working capital and inventories (an NP of 25%) and the efforts of some companies to use their own resources for financing – self-generated cash flow, the optimisation of working capital by managing the maturity of trade receivables and payables, funding from owners, etc. (an NP of 16%). A quarter of the banking market also perceived lower demand for loans in connection with the adverse economic situation of the Czech Republic's trading partners, especially Germany. Demand for loans to finance mergers and acquisitions declined as well. A smaller section of the banking market expects demand for loans to grow in 2024 Q2 (an NP of 14%).

II.2 HOUSEHOLDS

Credit standards applied to loans to households for house purchase eased further in Q1 (an NP of 19%). This was due mainly to increased competition in the banking market (an NP of 24%) and adjustments to the internal criteria of some banks (an NP of 19%). Turning to terms and conditions, 14% of the banking market eased the lending conditions due to the deactivation of the DTI limit with effect from 1 January 2024. However, in the case of some banks, this easing has been very cautious or the upper limit still applies in combination with other parameters. The easing of credit standards through macroprudential credit ratios has been under way since mid-2023, with the most intense easing in 2023 Q3 due to the deactivation of the DSTI ratio (an NP of 86%). Banks do not expect further significant changes in their credit standards in 2024 Q2.

Household demand for loans for house purchase rose further in line with banks' expectations (an NP of 61%). Demand has been increasing across the board since 2023 Q2 and banks are expecting a further rise in 2024 Q2 (an NP of 90%). Expectations of continued growth in transaction activity on the residential market accompanied by a rise in residential property prices, an observed decline in mortgage interest rates, as well as expectations of their gradual decrease in the period ahead and a slight improvement in consumer confidence are contributing to growth in demand (NPs of 49%, 61% and 52% respectively). By contrast, increased living costs reflected in lower savings of certain categories of households have an adverse effect on demand for loans (an NP of 24%). Demand for loans is concentrated on shorter interest rate fixation periods as a result of an expected lowering of monetary policy rates by the CNB.

Credit standards for consumer credit continued to be tightened (an NP of 13%). This was due to changes in the internal processes of a section of the banking market, which was aimed at mitigating the level of risk and hence the level of risk costs in the period ahead. Conversely, as in the above two segments of the credit market, an easing of credit standards was fostered by increased competition. Perceptions of risks associated with the creditworthiness of households amid an increase in the cost of living had a roughly neutral effect overall, although it was relatively mixed across the market. As part of banks' internal models, part of the banking market increased the required minimum living expenses of households and limited, among other things, the provision of loans for applicants who have repeatedly taken out unsecured loans, have already taken out more than one loan from non-banks and applicants whose household has a worse creditworthiness situation. On the other hand, part of the market eased standards in connection with the legislation on normative housing costs for the provision of state support. Credit terms and conditions tightened in Q1 (an NP of 16%). This was mainly as a result of an increase in margins on riskier loans, as average interest margins fell. A tightening of standards is expected in a relatively small part of the banking market in 2024 Q2 (an NP of 5%).

Demand for consumer credit rose further (an NP of 71%). This mainly reflected a decline in interest rates and a slight improvement in consumer confidence. In 2024 Q2, banks are expecting a further increase in demand for consumer credit (an NP of 25%).

Credit standards for loans to sole proprietors were eased further and demand for loans declined (an NP of 39% and 19% respectively). Banks are expecting a further easing of credit standards and unchanged demand for loans in 2024 Q2.

Additional questions on expected credit losses indicate that a relatively small section of the banking market is expecting the credit loss rate to increase overall for both corporate loans and housing loans 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)

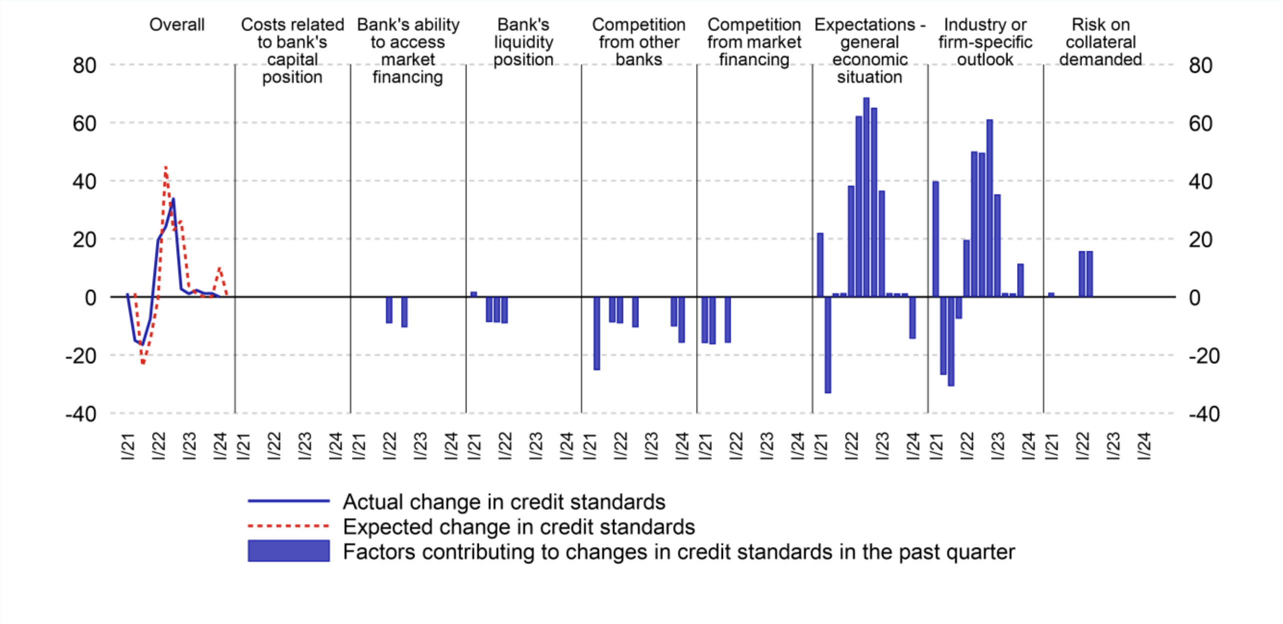


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

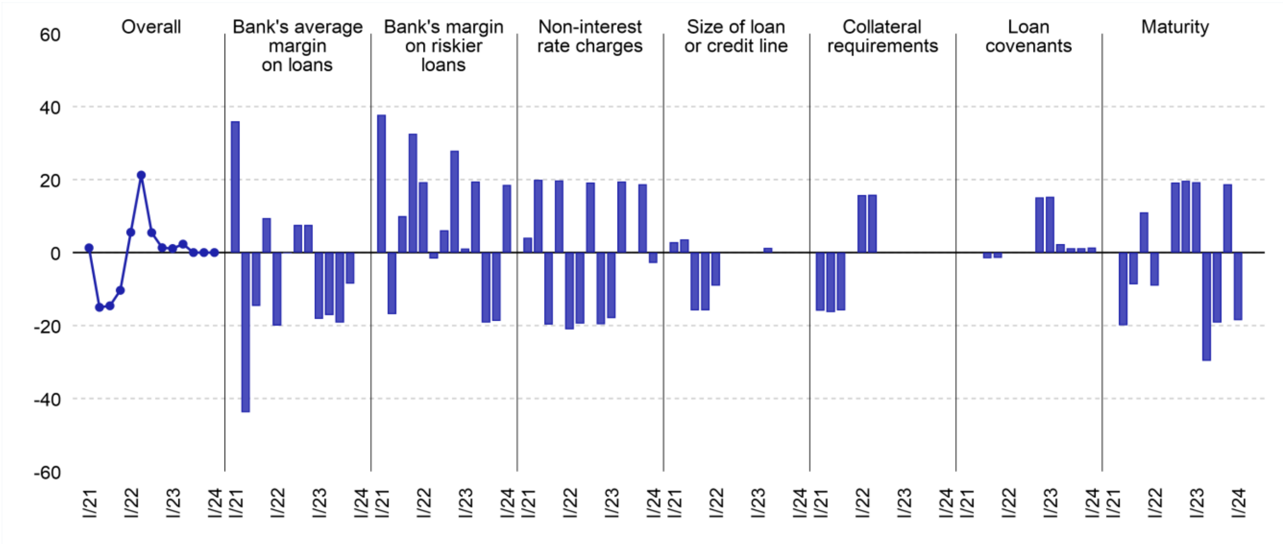


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

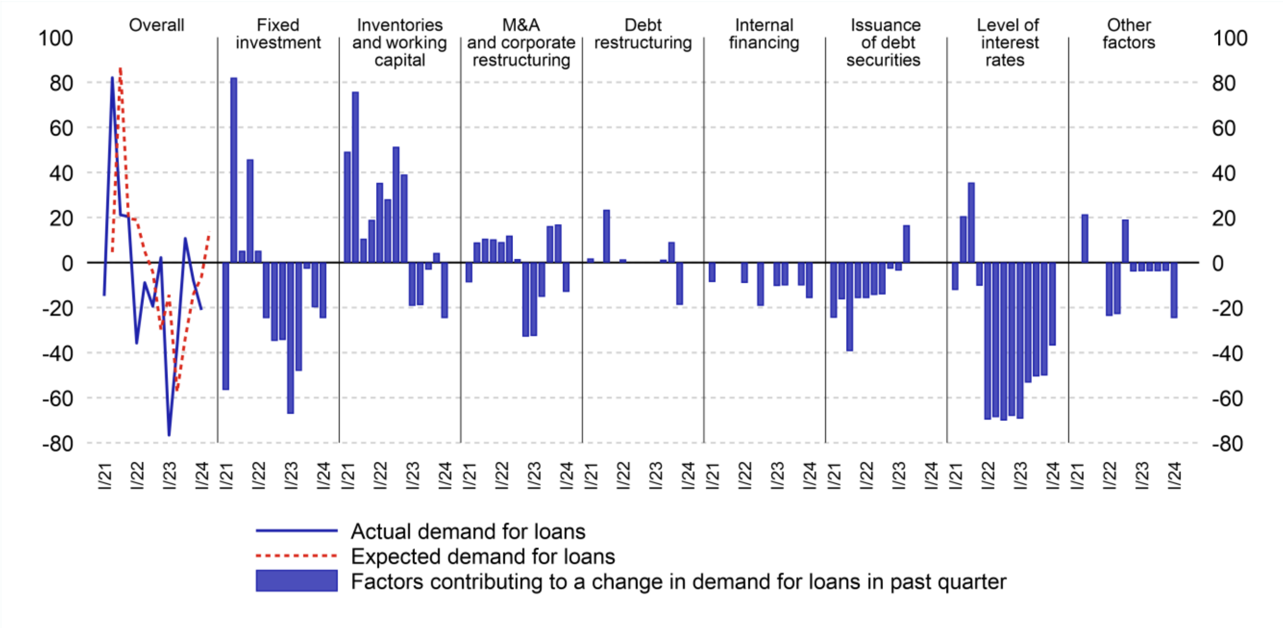


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

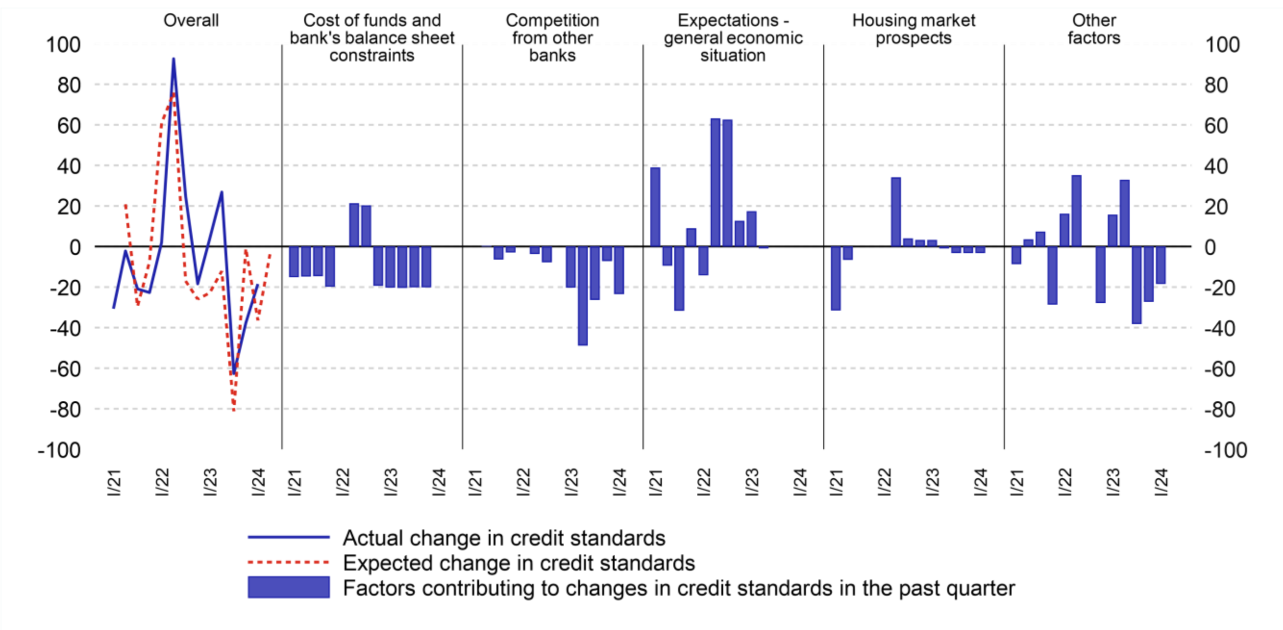


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

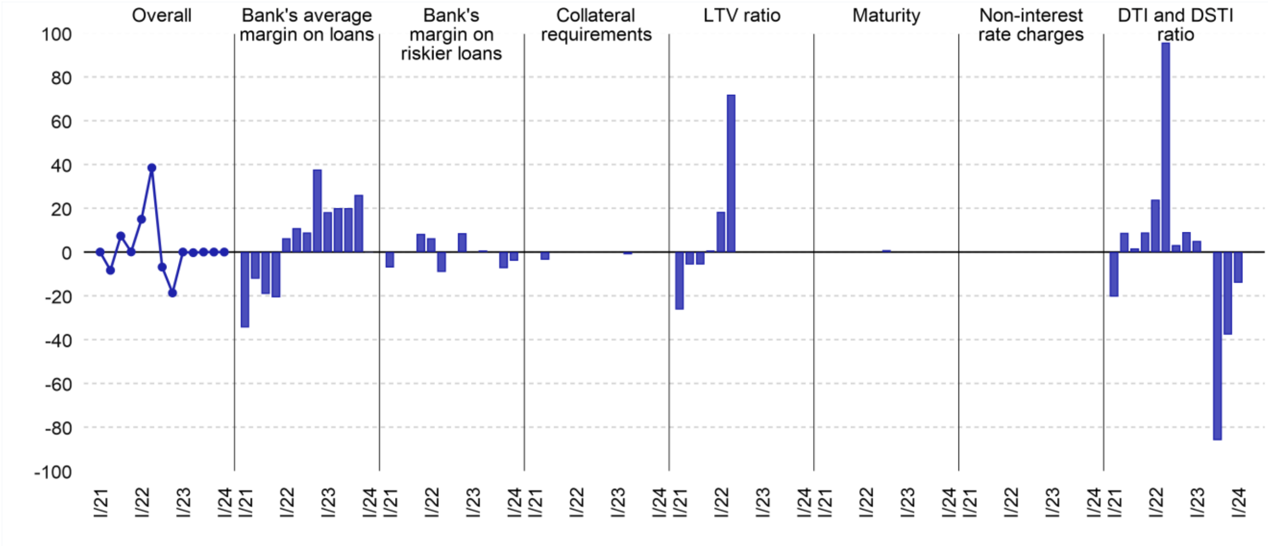


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

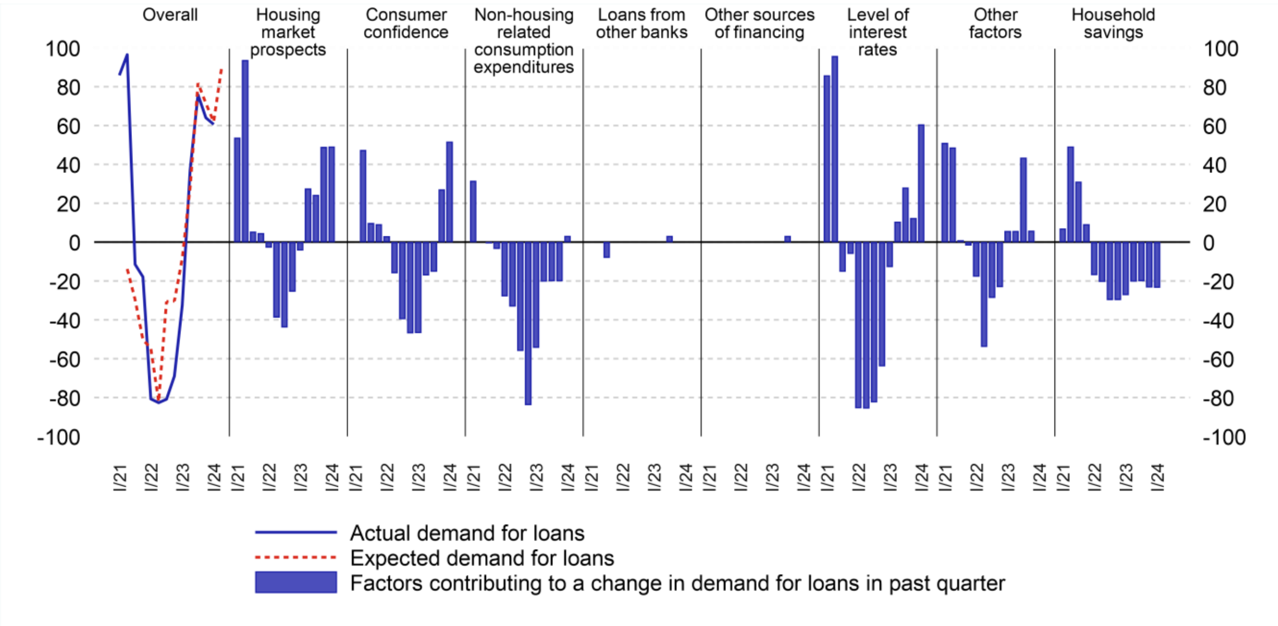


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

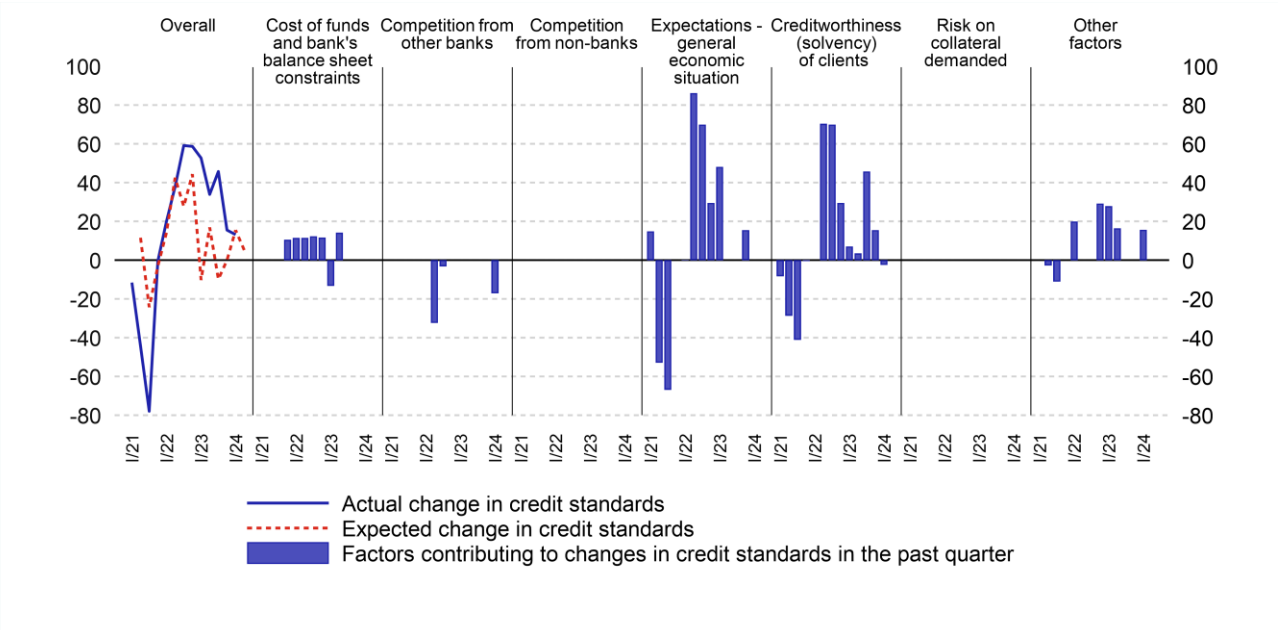


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

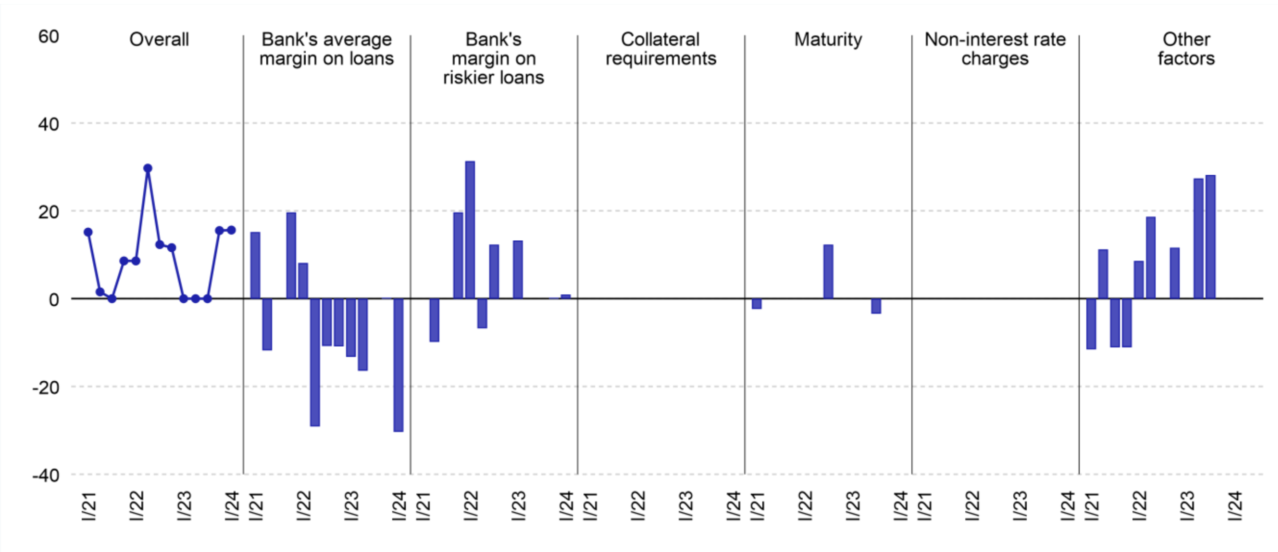
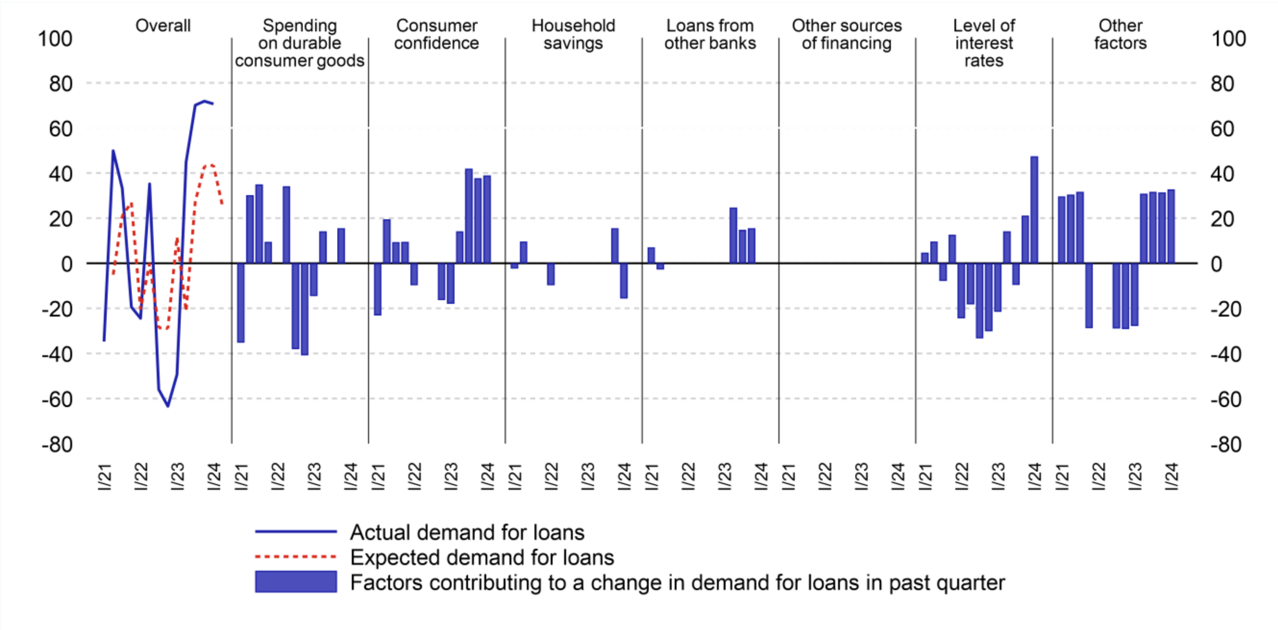


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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