Bank lending survey, August 2010

Credit standards[1] and terms have not witnessed notable changes in Q2/2010. The tightening measures were small at the banking sector level. Companies' demand for loans registered a positive development, while the household sector delivered the opposite.

A. Companies sector

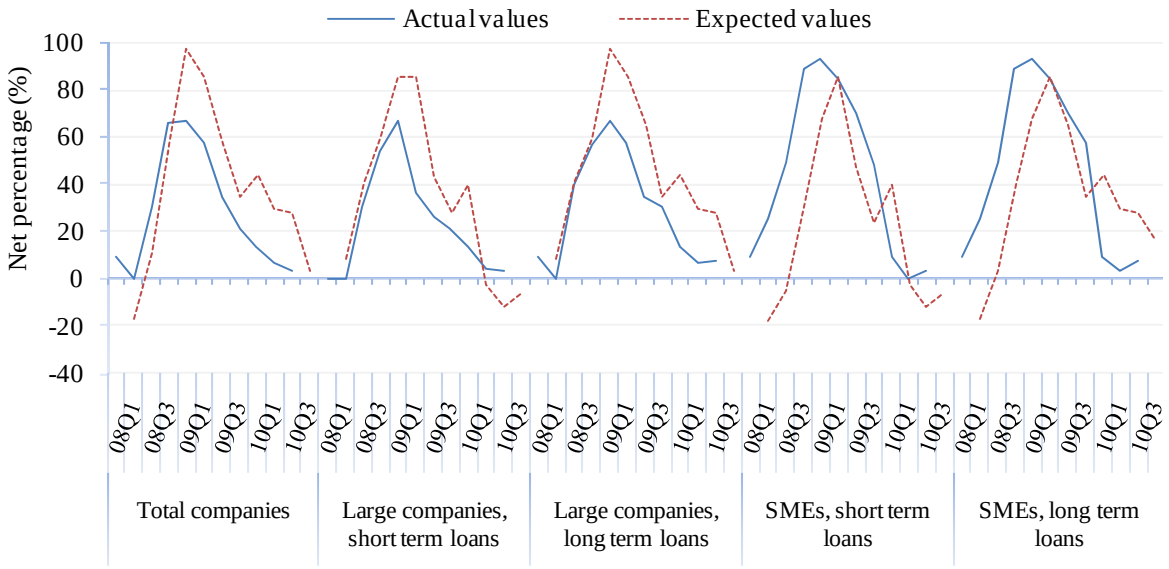
- **Credit standards** remained broadly unchanged in Q2/2010, despite banks' previous expectations that were pointing to a moderate net tightening (Chart 1). Banks seems to perceive as adequate the cumulated net tightening with respect to the current economic conditions.
- **Credit terms** tightened to some extent in Q2/2010, but the trend is fading away. Main changes referred to (i) the margin for riskier loans and (ii) other collateral requirements.
- **Loan demand** was on an uptrend after five consecutive quarters of decline, in line with previous expectations (Chart 2). The most dynamic component was represented by the short term loans from large corporations. Expectations for Q3/2010 are not optimistic for a credit growth fuelled by the demand side.
- **Risk perception** rose at the economy level, with construction and real estate considered to be the riskiest sectors. Unlike large corporations, SMEs were perceived somewhat riskier relative to Q1/2010.

B. Household sector

- **Credit standards** were maintained basically unchanged in Q2/2010 (Chart 3). Banks exhibited a similar behavior towards both mortgage and consumer loans.
- **Credit terms** knew a mixed evolution, with small amplitude changes. There are signals of a possible easing for the mortgage loans, while the consumer loans would lay in the restrictive area.
- **Loan demand** returned in the negative territory for both types of household loans (Chart 4). The strongest correction was reported for credit cards. Banks do not anticipate a credit recovery in Q3/2010.

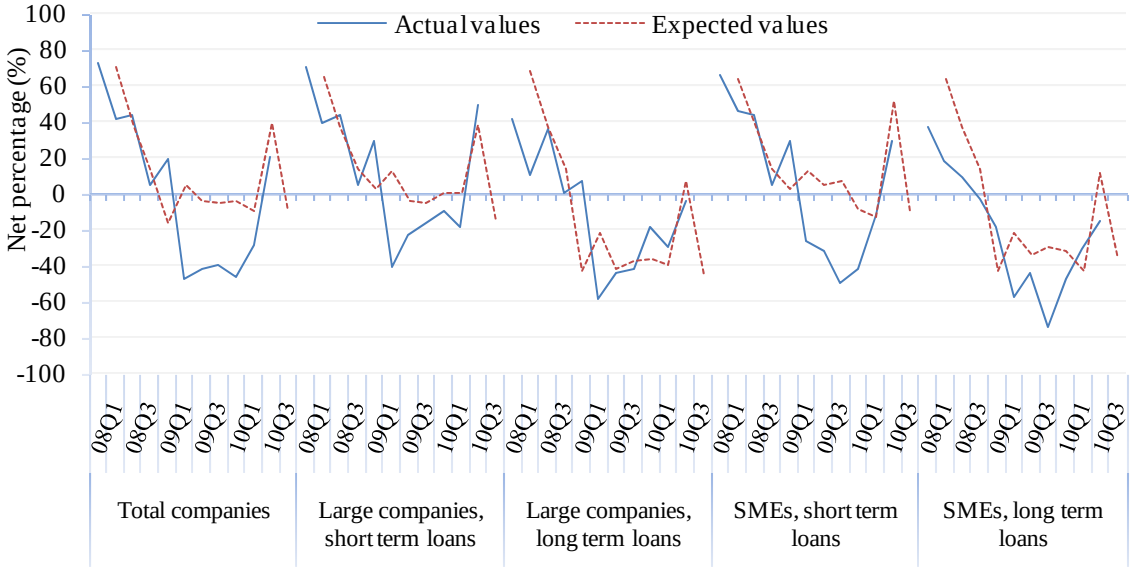
[1] Annex details the aspects related to the characteristics and the terminology of the survey.

Chart 1 – Changes in companies credit standards



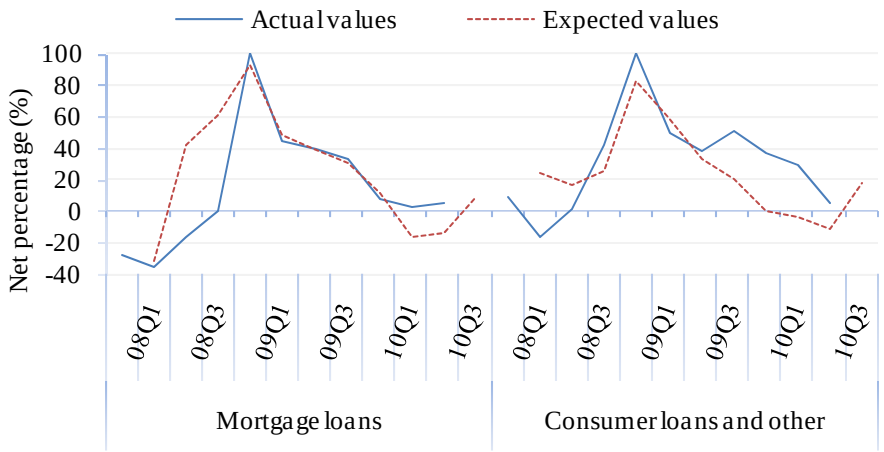
Note: Net percentage - positive values indicate a tightening of lending standards

Chart 2 – Changes in companies loan demand



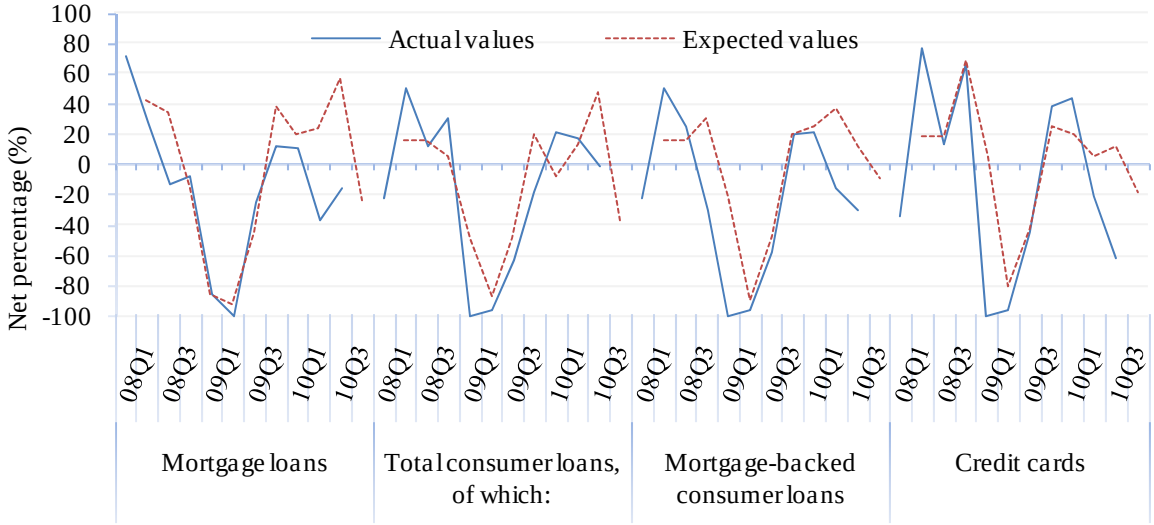
Note: Net percentage - positive values indicate an increase in demand

Chart 3 – Changes in households credit standards



Note: Net percentage - positive values indicate a tightening of lending standards

Chart 4 – Changes in households loan demand



Note: Net percentage - positive values indicate an increase in demand

Annex

The survey is conducted on a quarterly basis by the BNR every January, April, July and October. It is based on a questionnaire (published in the May 2008 analysis) addressed to senior loan officers of a representative sample of banks. The questionnaire is filled in by the first ten banks chosen by their market share for loans to enterprises and households. These banks cumulate approximately 80% of the private credit.
The survey focuses on the opinions regarding the lending policies of the previous quarter, as well as on the expectations regarding the next quarter.

The questionnaire is structured into two sections, following separately the characteristics of loans to: (A) non-financial companies and (B) households. The questions try to clarify the bank lending behavior through the banks` opinions regarding:

- Credit standards (internal credit regulations or criteria that guide the credit policy of the banks).
- Credit terms (loan covenants set up by lenders and borrowers in the credit agreement, such as: interest rate, collateral, maturity etc).
- Risks stemming from the lending process.
- Credit demand.
- Other specific details (expectations regarding the medium price per square meter of a home, debt service burden to household income, loan to value etc).

The answers are analyzed from a **net percentage** perspective**:**

With respect to the questions referring to *credit standards*, the net percentage represents the difference between the share of banks reporting that credit standards have been tightened and the share of banks reporting that they have been eased. A positive net percentage indicates that a larger proportion of banks have tightened credit standards (net tightening), whereas a negative net percentage indicates that a larger proportion of banks have eased credit standards (net easing).

In case of *loan demand* questions, the net percentage represents the difference between the share of banks reporting an increase in loan demand and the share of banks reporting a decline. A positive net percentage indicates that a larger proportion of banks have reported an increase in loan demand, whereas a negative net percentage indicates that a larger proportion of banks have reported a decline in loan demand.
The net percentage is computed by taking into account the market share of the respondent banks. Positive values of the net percentage are explained in the notes of each chart. All other responses are weighted in a similar way.