



EUROPEAN CENTRAL BANK

6 May 2005

## THE EURO AREA BANK LENDING SURVEY

– APRIL 2005 –

### 1. Overview of the results

*This report provides the results obtained from the ECB's bank lending survey for the euro area, conducted in April 2005. The cut-off date for receipt of data from the banks participating in this survey was 12 April 2005.*

*Overall, the results of the April 2005 bank lending survey showed a significant further relaxation of credit standards applied to loans to enterprises and households for the first quarter of 2005 compared with the fourth quarter of 2004. Thus, the results indicate a consolidation of past improvements in lending policies by banks located in the euro area.*

#### *Loans or credit lines to enterprises*

**Credit standards.** For the first quarter of 2005, banks reported a net easing of credit standards for loans or credit lines to enterprises (-10%) which was significantly more pronounced than what banks had reported in the previous quarter (-2%). This was the fourth consecutive time that a net easing of credit standards had been recorded and is in line with the downward trend recorded since the launch of the bank lending survey (see Chart 1, first panel). In this respect, the easing in the first quarter of 2005 was also stronger than what banks expected in January 2005 for the same period (-2%).

Among the factors explaining changes in credit standards, competition from other banks contributed most to the reported net easing (see Chart 1, fifth panel). At the same time, risk perceptions regarding general economic activity, though still contributing to a tightening, decreased at very low levels (2% in the April 2005 survey, compared with 11% in January 2005) (see Chart 1, fourth panel). Costs related to banks' capital position also weighted slightly towards a tightening of credit standards. Regarding the terms and conditions of credit, the net easing of credit standards applied to loans or credit lines to enterprises was achieved primarily via a strong decline in margins on average loans and, for the first time since the bank lending survey was first conducted, via easing in non-interest rate charges. Additionally, banks reported that collateral requirements and loan covenants have become less stringent while loan maturity has lengthened to the point of having of all these factors contributing to a net easing of credit standards.

In terms of borrowers' size, banks continued to report a net easing of credit standards on loans to small and medium-sized enterprises (from -3% to -12%). Regarding large enterprises, banks shifted to a net easing in the first quarter of 2005, from basically unchanged credit standards on net in the fourth quarter of 2004 (from 0% to -5%).

### ***General notes***

The bank lending survey is addressed to senior loan officers of a representative sample of euro area banks<sup>1</sup>, and its main purpose is to enhance the understanding of bank lending behaviour in the euro area.<sup>2</sup>

The questions distinguish between three categories of loans: loans or credit lines to enterprises, loans to households for house purchase, and loans to households for consumer credit and other lending. For all categories, questions are posed on credit standards for approving loans, credit terms and conditions, as well as credit demand and the conditions affecting it.

The questions related to credit standards are analysed in this report by focusing on the difference ("net percentage") between the share of banks reporting that credit standards have been tightened or 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"). Likewise, the term "net demand", refers to the difference between the share of banks reporting an increase in loan demand and those reporting a decline. Net demand will therefore be positive if a larger proportion of banks have reported an increase in loan demand, whereas a negative net demand would suggest that a larger proportion of banks have reported a decline in loan demand.

The survey questions are phrased in terms of changes over the past three months (in this case, the fourth quarter of 2004) or expectations of changes over the next three months (i.e. the first quarter of 2005).

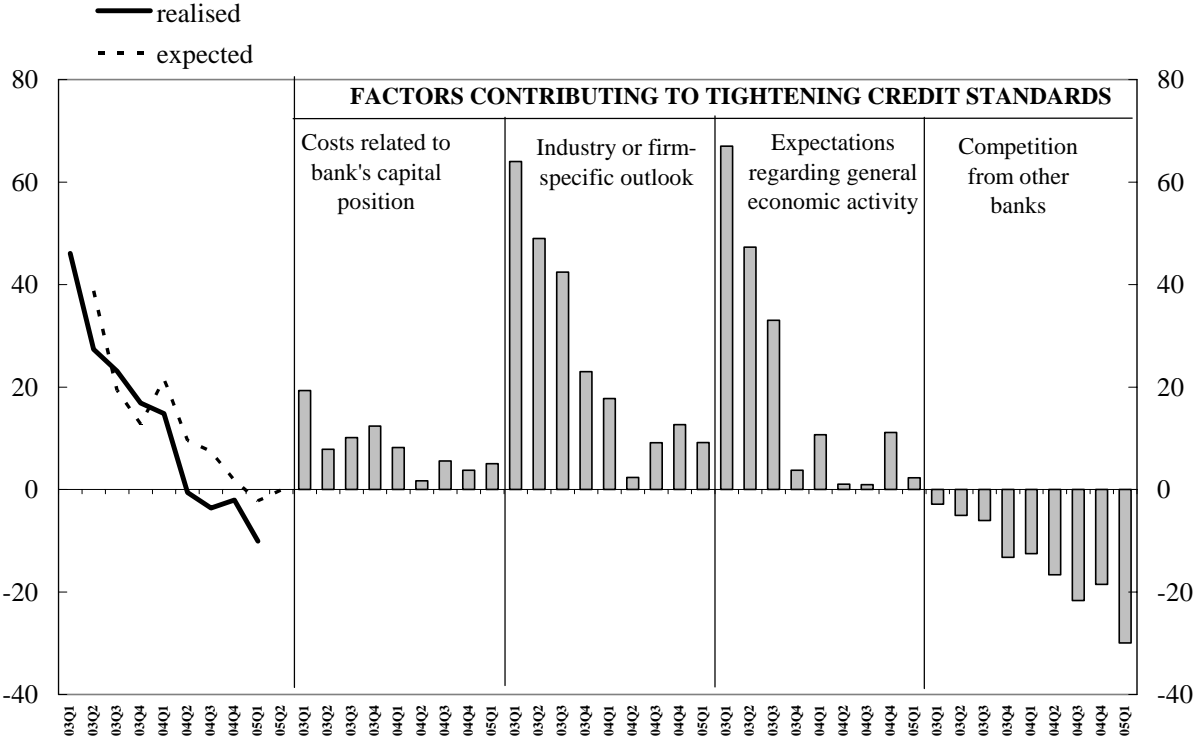
A copy of the questionnaire can be found at <http://www.ecb.int/stats/money/lend/html/index.en.html>.

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<sup>1</sup> The sample group of banks participating in the survey comprises 86 banks from all euro area countries, and takes into account the characteristics of their respective national banking structures. Since the banks differ considerably in size, the survey results are weighted according to the national shares in the total amount outstanding of euro area lending to euro area residents. In the January 2005 survey, all 86 banks participated.

<sup>2</sup> For further information on the bank lending survey please see the ECB Press Release of 21 November 2002, *Bank lending survey for the euro area*, the April 2003 Monthly Bulletin article entitled "A bank lending survey for the euro area", and Berg J. et al. (2005) *The bank lending survey for the euro area*, ECB Occasional Paper no 23.

**Chart 1. Changes in credit standards applied to the approval of loans or credit lines to enterprises (net percentages of banks contributing to tightening standards)**

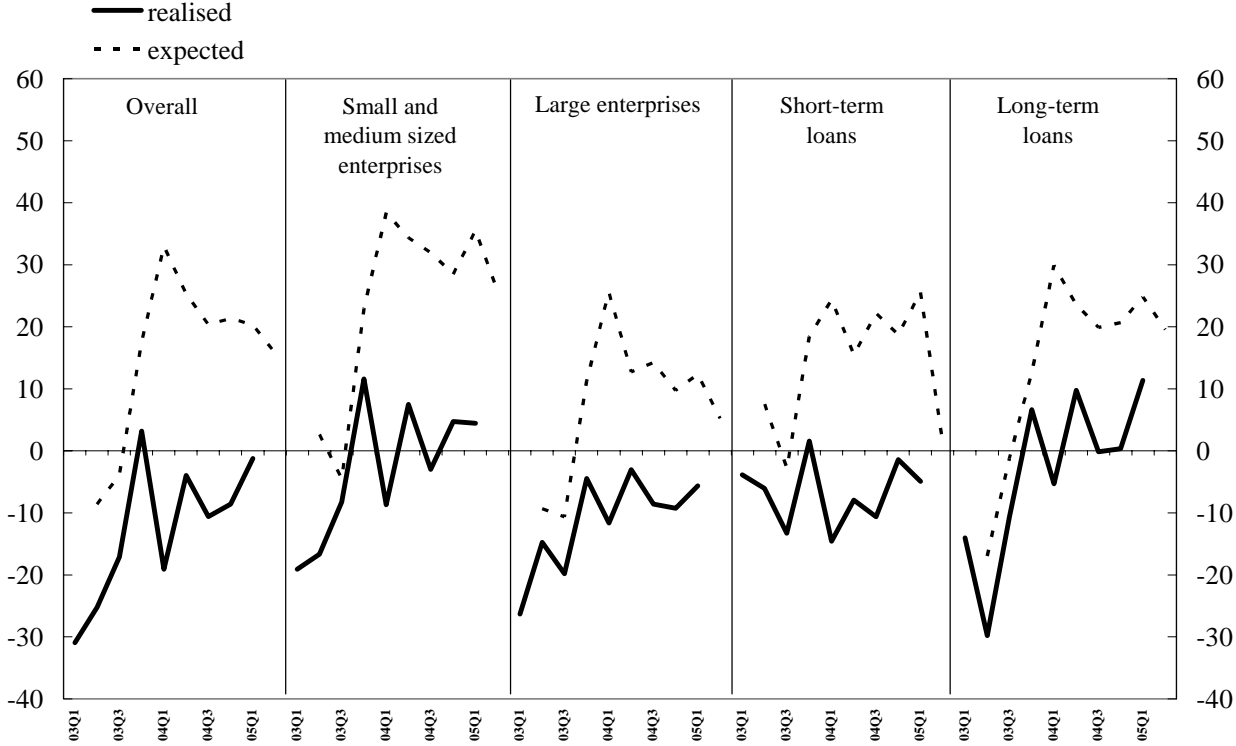


Notes: The net percentage refers to the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for 2005 Q2 were reported in the April 2005 survey. The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage reporting that it contributed to an easing.

**Loan demand.** In the first quarter of 2005, the overall net demand for loans to enterprises improved slightly, although it remained negative (at -1%, up from -9% in the fourth quarter of 2004, see Chart 2, first panel). This development mainly reflects the positive net demand for loans by small and medium-sized enterprises that banks reported for the second consecutive quarter. The major factors contributing to the continued negative net demand in the first quarter of 2005 are, according to banks, continued weak fixed investment and the use of alternative sources of finance, in particular the availability of internal finance by enterprises. However, banks reported that increased financing needs by firms for inventories and working capital, as well as for mergers and acquisitions (M&A) activities, were important factors in terms of the relative increase in corporate loan demand during the first three months of 2005.

**Expectations.** For the second quarter of 2005, banks expect their overall corporate credit standards to remain basically unchanged (see Chart 1, first panel) and net loan demand by enterprises to be substantially high (see Chart 2, first panel). This expected positive net loan demand by enterprises is more pronounced for small and medium-sized enterprises than for large enterprises (see Chart 2, second and third panels).

**Chart 2. Changes in demand for loans or credit lines to enterprises**  
*(net percentages of banks reporting a positive contribution to demand)*



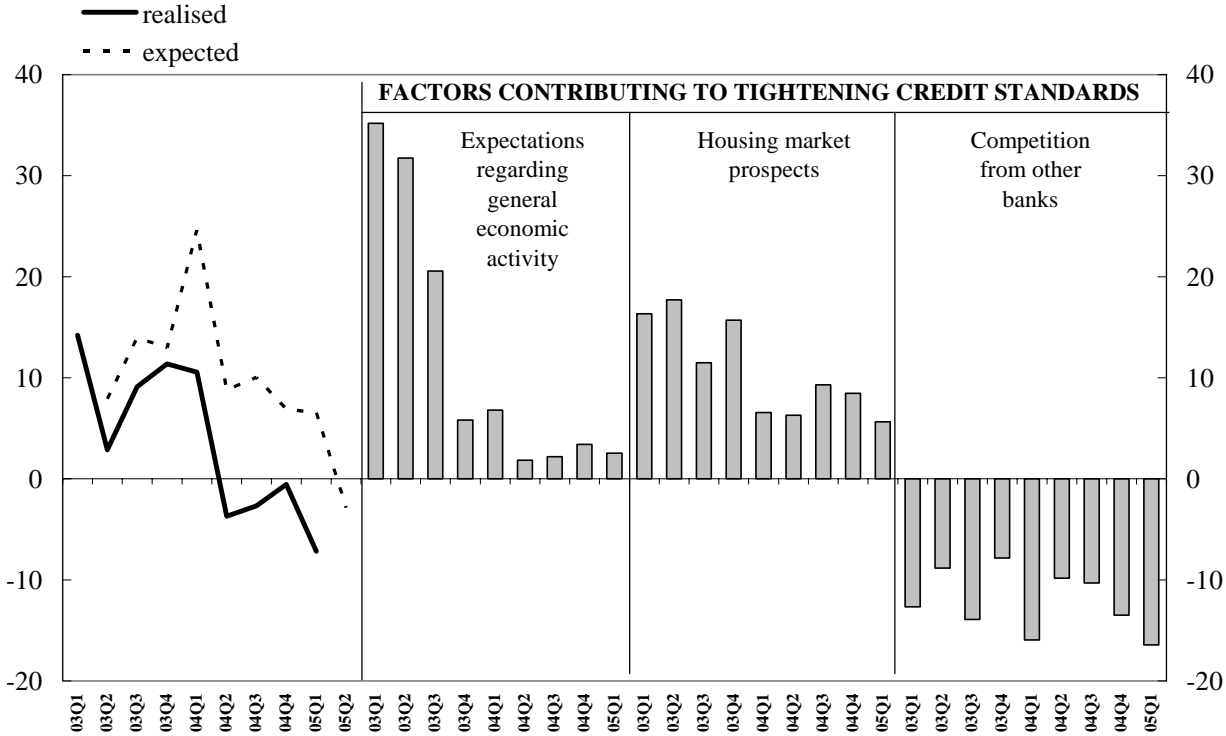
Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for 2005 Q2 were reported in the April 2005 survey.

**Loans to households for house purchase**

**Credit standards.** Banks reported a slight net easing (-7%) of credit standards applied to households for the approval of housing loans in the first quarter of 2005. This is higher than what was reported for the fourth quarter of 2004 (-1%) and was significantly looser than the net tightening that was expected in the January 2005 survey (see Chart 3, first panel). The net easing partly reflects a further increase in competition from other banks (see Chart 3, fourth panel), while the banks’ perceptions of risks – in terms of expectations for general economic activity and housing market prospects – contributed slightly less to a net tightening in the first quarter of 2005 than it did in previous quarters (see Chart 3, second and third panels). Regarding the terms and conditions of credit, banks reported that the net easing of credit standards applied to housing loans was achieved predominantly via a strong narrowing of margins on average loans and, to a lesser extent, by a lengthening of the maturity of new loans.

**Chart 3. Changes in credit standards applied to the approval of loans to households for house purchase**

(net percentages of banks contributing to tightening credit standards)

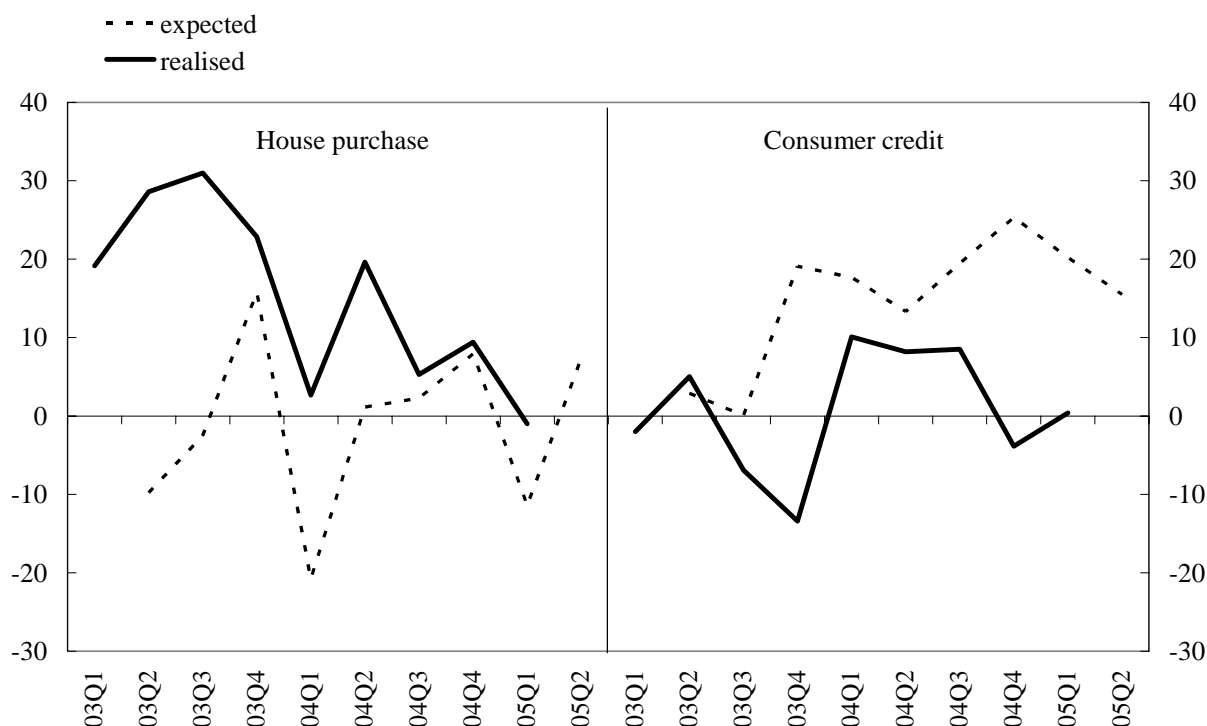


Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for 2005 Q2 were reported in the April 2005 survey. The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage reporting that it contributed to an easing.

**Loan demand.** For the first time since the launch of the bank lending survey the net demand for housing loans to households decreased (-1% in the first quarter of 2005, down from 9% in the previous quarter, see Chart 4, first panel). The reduction of net demand in the first quarter was higher than what banks expected in the January 2005 survey. The main factors that affected the net decrease in demand for housing loans were a more negative contribution of consumer confidence and higher non-housing related consumption expenditures.

**Expectations.** For the second quarter of 2005, respondent banks expect a slight net easing of credit standards for loans to households for house purchase (-3%). This is the first time that banks are reporting an expected net easing since the launch of the bank lending survey. At the same time, the reporting banks expect net demand for housing loans to recover and thus to rise again in the second quarter of 2005 (see Chart 4, first panel).

**Chart 4. Changes in demand for loans to households**  
(net percentages of banks reporting a positive contribution to demand)



Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for 2005 Q2 were reported in the April 2005 survey.

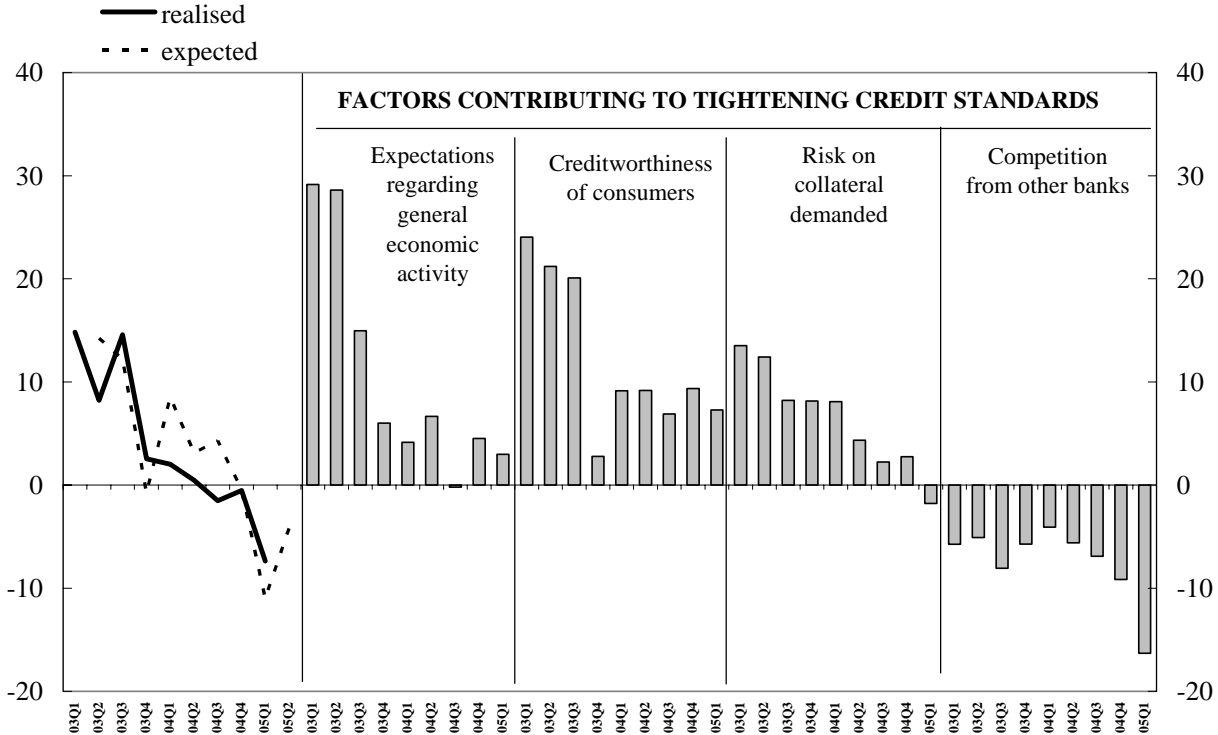
### ***Loans to households for consumer credit and other lending***

**Credit standards.** Banks reported an increase, in net terms, of the easing of credit standards applied to loans to households for consumer credit and other lending in the first quarter of 2005 (at -7%, from -1% in the fourth quarter of 2004, see Chart 5, first panel). This is the third time since the bank lending survey was started in January 2003 that a net easing of credit standards for those loans has been reported. The main factors contributing to the net easing of credit standards were strong increased competition (from non-banks and other banks) and a reduction in the perception of risks on collateral demanded (see Chart 5). By contrast, significant perceived risks regarding credit creditworthiness of consumers and continuous concerns on expectations regarding general economic activity contributed to a net tightening of credit standards, though both less than in the previous quarter. As regards terms and conditions, a further reduction in margins on average loans mainly contributed to the net easing of credit standards.

**Loan demand.** Net demand for consumer credit and other lending to households remained basically unchanged in the first quarter of 2005 (to 0%, up from -4%, see Chart 4, second panel). This may reflect counterbalancing factors. On the one hand, consumer confidence and lower spending on durable consumer goods contributed to a decrease in demand in the first three months of 2005 while, on the other hand, reduced household savings contributed to a net increase in demand for these loans in the first quarter of the year.

**Expectations.** For the second quarter of 2005, respondent banks expect a net easing of credit standards for consumer credit and other lending to households (see Chart 5, first panel) as well as an increase in the net demand for those loans (see Chart 4, second panel).

**Chart 5. Changes in credit standards applied to the approval of consumer credit and other loans to households (net percentages of banks contributing to tightening credit standards)**



Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for 2005 Q2 were reported in the April 2005 survey. The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage reporting that it contributed to an easing.

## 2. Results for the individual questions

### I. Loans or credit lines to enterprises

1. Over the past three months, how have your bank's credit standards as applied to the approval of loans or credit lines to enterprises changed?

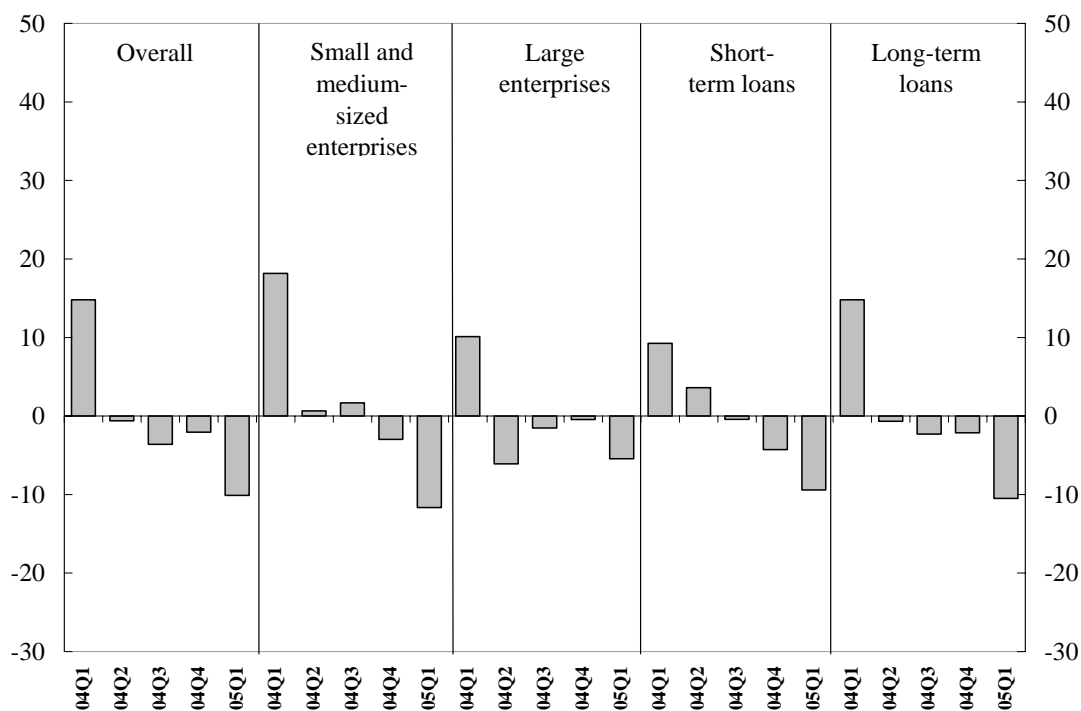
	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	January 2005	April 2005	January 2005	April 2005	January 2005	April 2005	January 2005	April 2005	January 2005	April 2005
Tightened considerably	0	0	0	0	0	0	0	0	0	0
Tightened somewhat	7	3	8	2	9	3	5	3	6	3
Remained basically unchanged	85	83	82	84	82	88	87	84	86	83
Eased somewhat	9	14	10	14	9	9	9	13	8	14
Eased considerably	0	0	0	0	0	0	0	0	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
<b>Net percentage</b>	<b>-2</b>	<b>-10</b>	<b>-3</b>	<b>-12</b>	<b>0</b>	<b>-5</b>	<b>-4</b>	<b>-9</b>	<b>-2</b>	<b>-11</b>
<i>Number of banks responding</i>	<i>82</i>	<i>82</i>	<i>81</i>	<i>81</i>	<i>81</i>	<i>81</i>	<i>82</i>	<i>82</i>	<i>82</i>	<i>82</i>

*Note: The net percentage is defined as the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably".*

- Overall, banks continued, for the fourth time in a row, to report a net easing of credit standards as applied to the approval of loans or credit lines to enterprises in April 2005. Thus, the figures indicate a consolidation of past improvements in lending policies by banks located in the euro area.
- In terms of borrowers' size, banks continued to report a net easing of credit standards on loans to small and medium-sized enterprises. Regarding large enterprises, banks shifted to a net easing in the first quarter of 2005 from basically unchanged credit standards on net in the fourth quarter of 2004 (from 0% to -5%).
- Regarding the maturity of loans, easing of credit standards increased both for short-term loans and for long-term loans compared with the previous quarter.



**Chart 6. Credit standards applied to the approval of loans or credit lines to enterprises**  
*(net percentages of banks reporting tightening credit standards)*



2. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of loans or credit lines to enterprises?

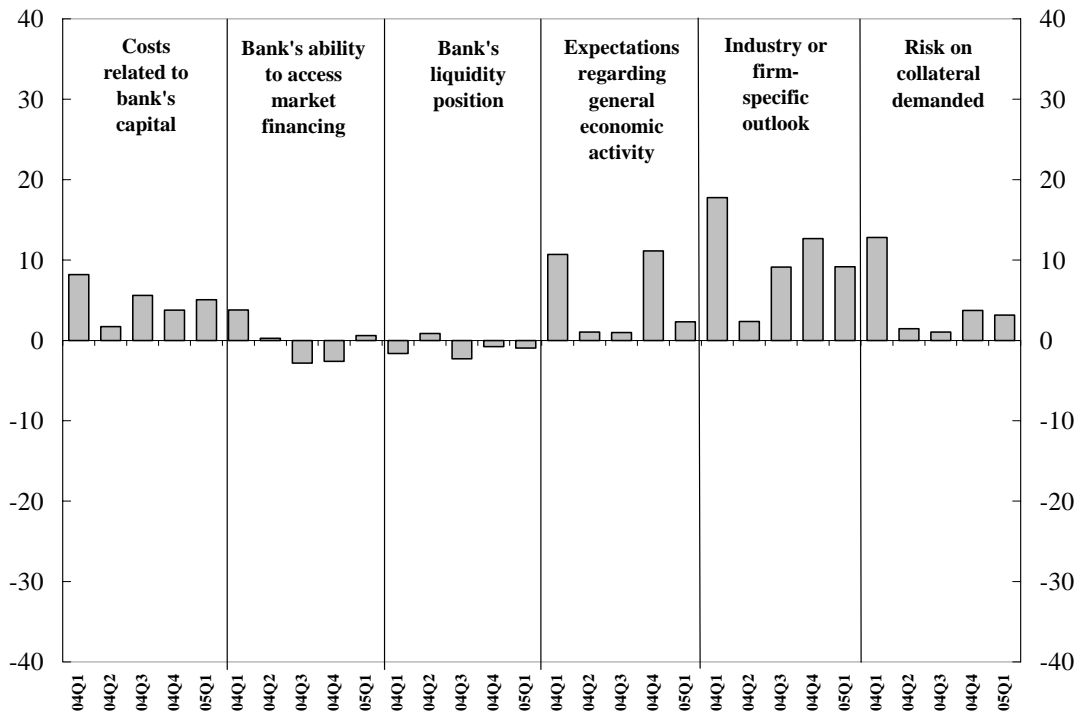
	--	-	°	+	++	NA	NetP	
							January 2005	April 2005
<b>A) Cost of funds and balance sheet constraints</b>								
Costs related to your bank's capital position	0	6	85	1	0	9	4	5
Your bank's ability to access market financing	0	2	86	1	0	11	-3	1
Your bank's liquidity position	0	1	87	1	0	11	-1	-1
<b>B) Pressure from competition</b>								
Competition from other banks	0	0	61	27	3	9	-19	-30
Competition from non-banks	0	0	79	6	0	15	-2	-6
Competition from market financing	0	0	81	7	0	12	-3	-7
<b>C) Perception of risk</b>								
Expectations regarding general economic activity	0	8	80	6	0	6	11	2
Industry or firm-specific outlook	1	14	74	6	0	6	13	9
Risk on the collateral demanded	0	4	89	1	0	6	4	3

NA = Not available; NetP = Net percentage

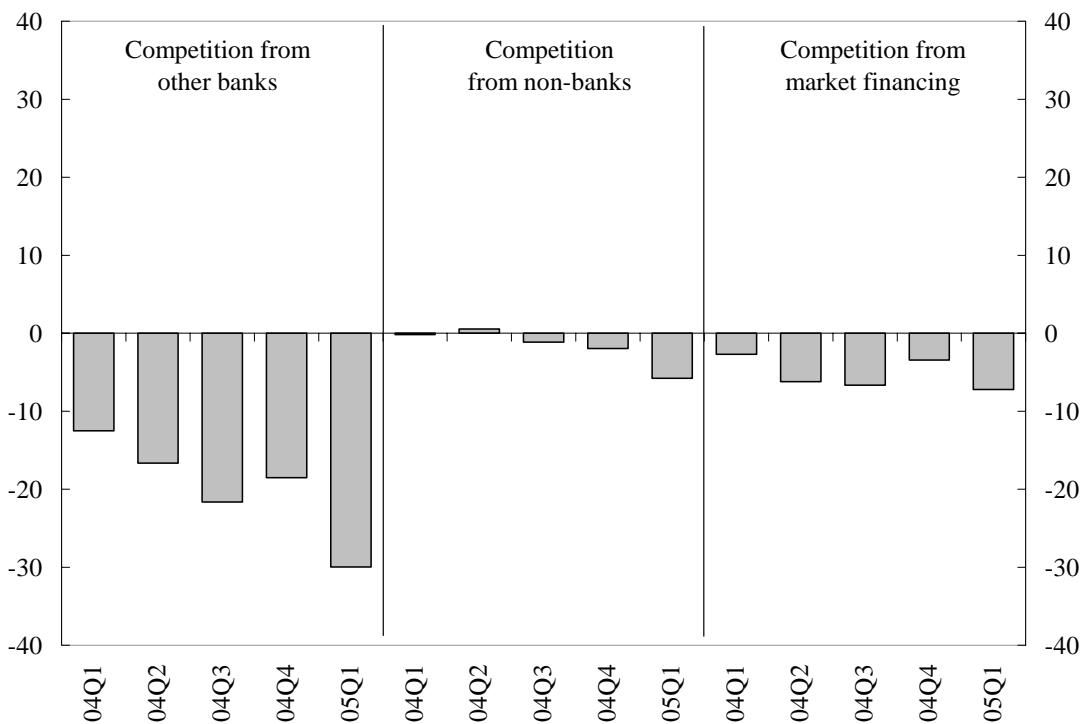
Note: The "Net percentage" column is defined as the difference between the sum of "-" (contributed considerably to tightening) and "-" (contributed somewhat to tightening) and the sum of "+" (contributed somewhat to easing) and "++" (contributed considerably to easing). "°" means "contributed to basically unchanged credit standards".

- In April 2005, the overall stronger net improvement in credit standards on loans to enterprises was mostly related to increased competitive pressures from other banks, but also from other external sources of financing (such as corporate bonds). At the same time, risk perceptions regarding general economic activity, though still contributing to a tightening, decreased at very low levels (2% in the April 2005 survey, compared with 11% in January 2005). Costs related to banks' capital positions also weighted slightly towards a tightening of credit standards.

**Chart 7a. Factors affecting credit standards applied to the approval of loans or credit lines to enterprises**  
*(net percentages of banks reporting that the factor contributed to tightening credit standards)*



**Chart 7b. Factors affecting credit standards applied to the approval of loans or credit lines to enterprises**  
*(net percentages of banks reporting that the factor contributed to tightening credit standards)*



3. Over the past three months, how have your bank's conditions and terms for approving loans or credit lines to enterprises changed?

	--	-	°	+	++	NA	NetP	
							January 2005	April 2005
<b>A) Price</b>								
Your bank's margin on average loans	0	5	66	21	2	6	-2	-18
Your bank's margin on riskier loans	1	17	74	3	0	6	17	14
<b>B) Other conditions and terms</b>								
Non-interest rate charges	0	2	82	10	0	6	2	-7
Size of the loan or credit line	0	5	85	5	0	6	2	0
Collateral requirements	0	6	80	9	0	6	0	-3
Loan covenants	0	6	78	10	1	6	6	-6
Maturity	0	4	79	11	0	6	0	-7

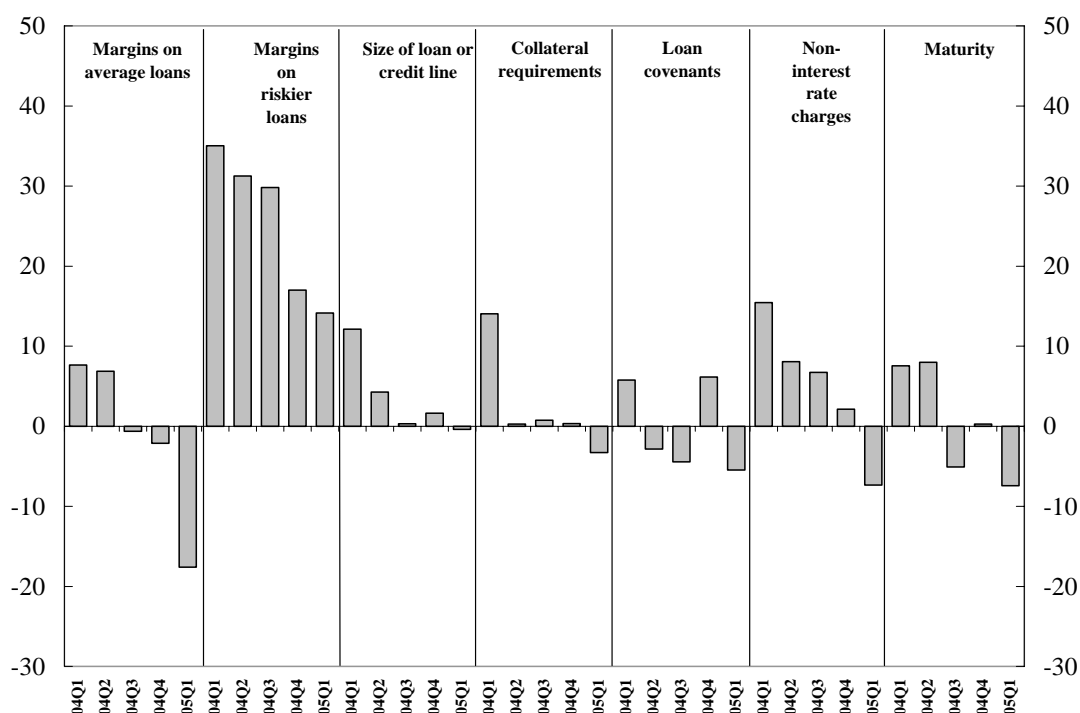
NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "--" (tightened considerably) and "-" (tightened somewhat) and the sum of "+" (eased somewhat) and "++" (eased considerably). "°" means "remained basically unchanged".

- The net easing of credit standards applied to loans or credit lines to enterprises was achieved primarily via an adjustment of prices, i.e. a decline in margins on average loans and, for the first time since the launch of the survey, via lower non-interest rate charges. Additionally, banks reported that collateral requirements and loan covenants have become less stringent while loan maturity has lengthened. Overall, all of these factors contributed to a net easing of credit standards. Margins on riskier loans tended to weigh towards tightening, although to a lesser extent than in previous quarters.

**Chart 8 Conditions and terms for approving loans or credit lines to enterprises**

(net percentages of banks reporting that they use these conditions and terms to tighten credit standards)



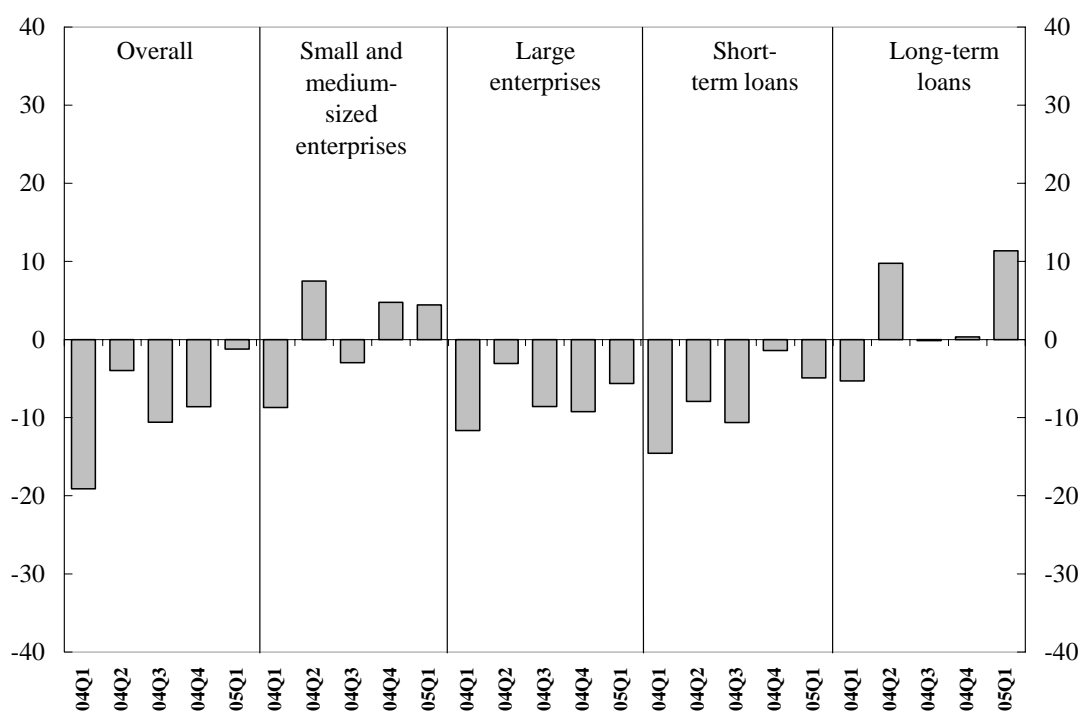
4. Over the past three months, how has the demand for loans or credit lines to enterprises changed at your bank, apart from normal seasonal fluctuations?

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	January 2005	April 2005	January 2005	April 2005	January 2005	April 2005	January 2005	April 2005	January 2005	April 2005
Decreased considerably	0	0	0	0	0	2	0	4	0	2
Decreased somewhat	20	15	13	14	16	16	13	11	19	16
Remained basically unchanged	69	72	70	68	76	70	75	74	61	54
Increased somewhat	11	14	18	18	7	12	12	11	16	26
Increased considerably	0	0	0	0	0	0	0	0	3	3
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
<b>Net percentage</b>	<b>-9</b>	<b>-1</b>	<b>5</b>	<b>4</b>	<b>-9</b>	<b>-6</b>	<b>-1</b>	<b>-5</b>	<b>0</b>	<b>11</b>
<i>Number of banks responding</i>	<i>82</i>	<i>82</i>	<i>81</i>	<i>81</i>	<i>81</i>	<i>81</i>	<i>82</i>	<i>82</i>	<i>82</i>	<i>82</i>

Note: The net percentage is defined as the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”.

- In the first quarter of 2005, the overall net demand for loans to enterprises improved slightly, although it remained negative (at -1%, up from -9% in the fourth quarter of 2004).
- This relative improvement mainly reflects the positive demand for loans by small and medium-sized enterprises that banks reported for the second consecutive quarter.
- In terms of the maturity structure, there was an increase in net demand for long-term loans compared with what was reported in the previous survey.

**Chart 9. Demand for loans and credit lines to enterprises**  
(net percentages of banks contributing to positive loan demand)



5. Over the past three months, how have the following factors affected the demand for loans or credit lines to enterprises?

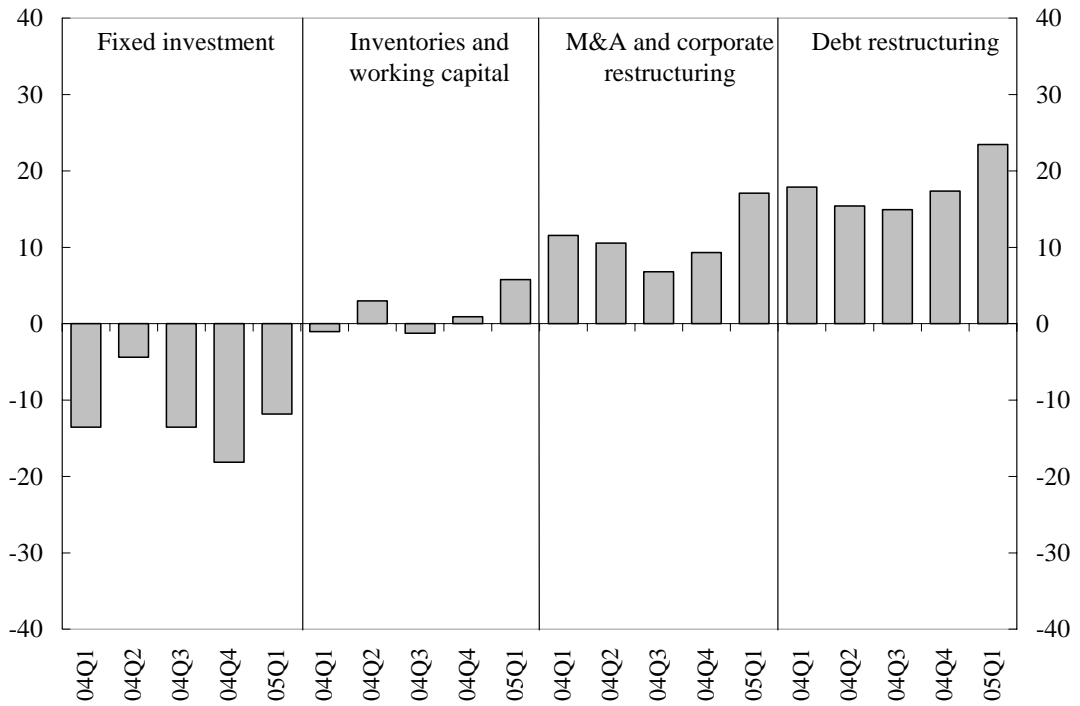
	--	-	°	+	++	NA	NetP	
							January 2005	April 2005
A) Financing needs								
Fixed investment	0	22	62	10	0	6	-18	-12
Inventories and working capital	0	7	72	13	0	8	1	6
Mergers/acquisitions and corporate restructuring	0	2	70	17	3	9	9	17
Debt restructuring	0	0	69	22	1	8	17	24
B) Use of alternative finance								
Internal financing	0	10	80	2	0	8	-10	-8
Loans from other banks	0	7	84	1	0	8	-6	-6
Loans from non-banks	0	0	87	1	0	12	-2	1
Issuance of debt securities	0	7	76	2	0	15	-3	-6
Issuance of equity	0	0	81	1	0	19	-2	1

NA = Not available; NetP = Net percentage

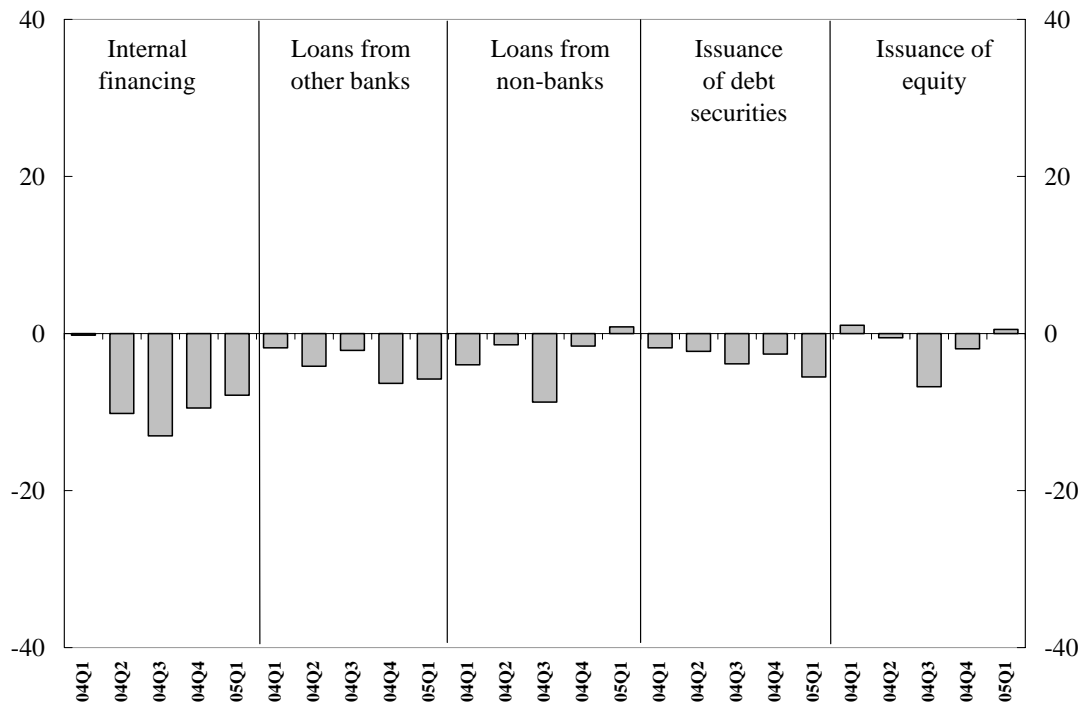
Note: The "Net percentage" column is defined as the difference between the sum of "+ +" (contributed considerably to higher demand) and "+ " (contributed somewhat to higher demand) and the sum of "- " (contributed somewhat to lower demand) and "- -" (contributed considerably to lower demand). "°" means "contributed to basically unchanged demand".

- The major factors contributing to the overall negative net demand in the first quarter of 2005 were weak fixed investment (although less than in January 2005) and the use of alternative sources of finance, in particular increased availability of internal finance and the use of loans from other banks.
- Banks reported that increased financing needs by firms for inventories and working capital, as well as for M&A activities, were important factors in relation to the relative improvement in corporate loan demand during the first three months of 2005.

**Chart 10a. Factors affecting demand for loans and credit lines to enterprises**  
 (net percentages of banks reporting that the factor contributed to positive loan demand)



**Chart 10b. Factors affecting demand for loans and credit lines to enterprises**  
 (net percentages of banks reporting that the factor contributed to positive loan demand)



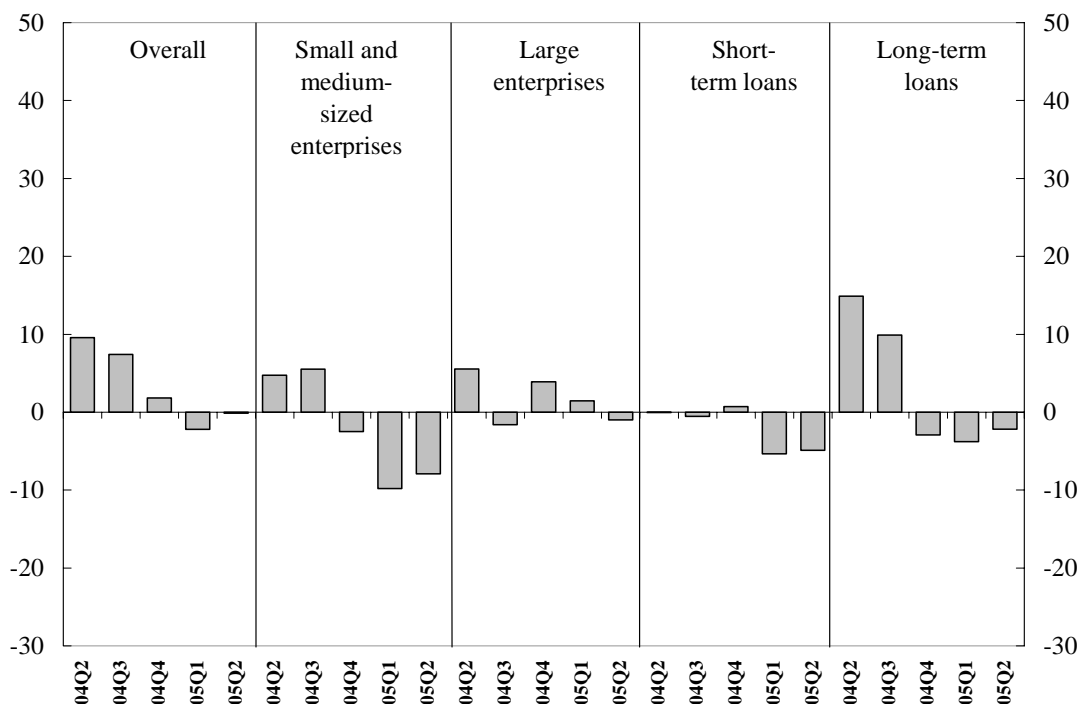
6. Please indicate how you expect your bank's credit standards as applied to the approval of loans or credit lines to enterprises to change over the next three months.

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	January 2005	April 2005	January 2005	April 2005	January 2005	April 2005	January 2005	April 2005	January 2005	April 2005
Tighten considerably	0	0	0	0	2	0	0	0	0	0
Tighten somewhat	4	5	2	3	5	5	4	3	5	7
Remain basically unchanged	90	91	86	86	88	88	87	89	87	84
Ease somewhat	6	5	12	11	5	6	9	8	8	9
Ease considerably	0	0	0	0	0	0	0	0	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
<b>Net percentage</b>	<b>-2</b>	<b>0</b>	<b>-10</b>	<b>-8</b>	<b>2</b>	<b>-1</b>	<b>-5</b>	<b>-5</b>	<b>-4</b>	<b>-2</b>
<i>Number of banks responding</i>	<i>82</i>	<i>82</i>	<i>81</i>	<i>82</i>	<i>81</i>	<i>81</i>	<i>82</i>	<i>82</i>	<i>82</i>	<i>82</i>

*Note: The net percentage is defined as the difference between the sum of the percentages for "tighten considerably" and "tighten somewhat" and the sum of the percentages for "ease somewhat" and "ease considerably".*

- For the next three months (i.e. the second quarter of 2005), banks expect their overall corporate credit standards to remain basically unchanged. Considering the borrower size and loan maturity, banks expect a general net easing of credit standards for the period April-June 2005. This could be seen as an expected consolidation of the improved lending conditions that have been reported in the bank lending survey since July 2004.

**Chart 11. Expected credit standards for the approval of loans or credit lines to enterprises**  
(net percentages of banks reporting tightening credit standards)





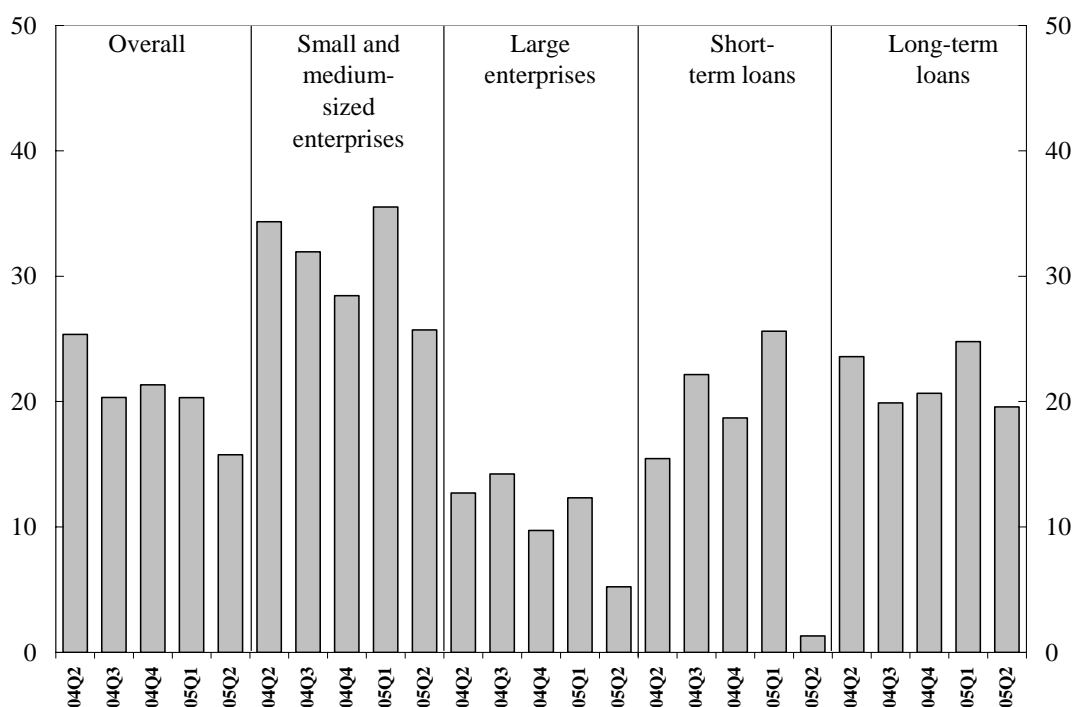
7. Please indicate how you expect demand for loans or credit lines to enterprises to change at your bank over the next three months (apart from normal seasonal fluctuations).

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	January 2005	April 2005	January 2005	April 2005	January 2005	April 2005	January 2005	April 2005	January 2005	April 2005
Decrease considerably	0	0	0	0	0	0	0	0	0	0
Decrease somewhat	5	2	3	2	5	5	2	8	7	4
Remain basically unchanged	71	80	59	70	78	85	71	82	62	72
Increase somewhat	25	18	38	28	17	10	28	9	31	24
Increase considerably	0	0	0	0	0	0	0	0	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
<b>Net percentage</b>	<b>20</b>	<b>16</b>	<b>36</b>	<b>26</b>	<b>12</b>	<b>5</b>	<b>26</b>	<b>1</b>	<b>25</b>	<b>20</b>
<i>Number of banks responding</i>	<i>82</i>	<i>82</i>	<i>81</i>	<i>81</i>	<i>81</i>	<i>81</i>	<i>82</i>	<i>82</i>	<i>82</i>	<i>82</i>

*Note: The net percentage is defined as the difference between the sum of the percentages for "increase considerably" and "increase somewhat" and the sum of the percentages for "decrease somewhat" and "decrease considerably".*

- In the April 2005 survey, reporting banks expect a substantially higher net loan demand by enterprises for the second quarter of 2005.
- Expected net demand for loans to enterprises in the second quarter of 2005 is significantly higher for small and medium-sized enterprises than for large enterprises.
- According to the April 2005 survey, net demand for both short and long-term loans is expected to remain positive in the second quarter of 2005. However, for short-term loans banks expect a rather strong drop in net demand during this period.

**Chart 12. Expected demand for loans and credit lines to enterprises**  
(net percentages of banks reporting a positive loan demand)



**II. Loans to households**

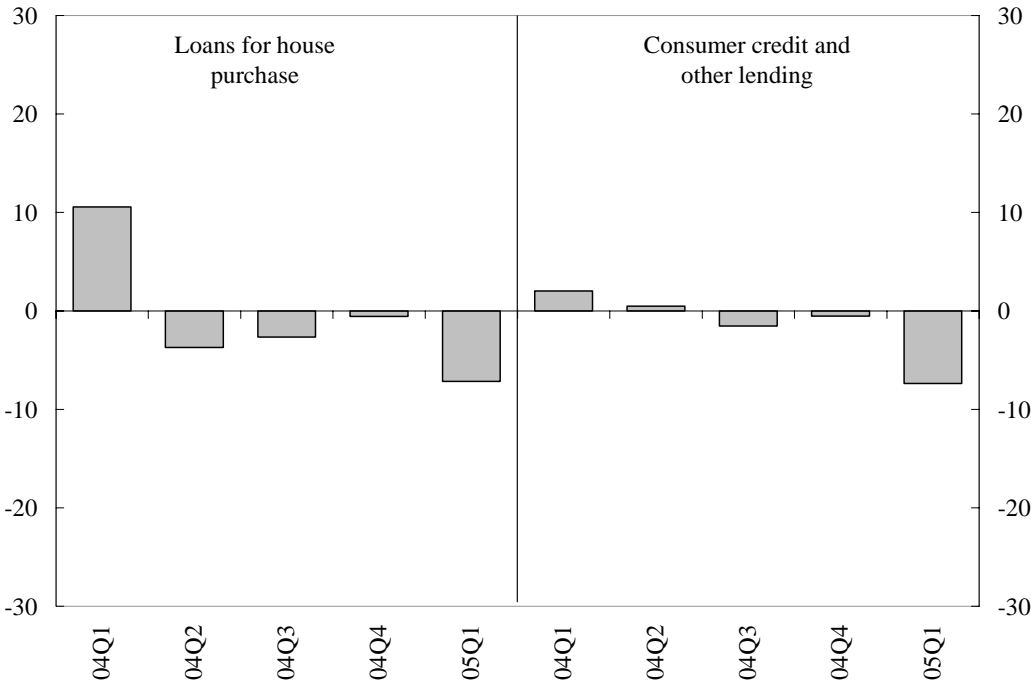
8. Over the past three months, how have your bank’s credit standards as applied to the approval of loans to households changed?

	Loans for house purchase		Consumer credit and other lending	
	January 2005	April 2005	January 2005	April 2005
Tightened considerably	0	0	2	1
Tightened somewhat	6	3	5	3
Remained basically unchanged	88	87	86	84
Eased somewhat	7	10	7	12
Eased considerably	0	0	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
<b>Net percentage</b>	<b>-1</b>	<b>-7</b>	<b>-1</b>	<b>-7</b>
<i>Number of banks responding</i>	<i>81</i>	<i>80</i>	<i>79</i>	<i>79</i>

*Note: The net percentage is defined as the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”.*

- The net percentage of easing of credit standards applied to loans to households for house purchase in the April 2005 survey was higher than that reported for the first quarter (-7% in the first quarter of 2005, compared with -1% in the fourth quarter of 2004).
- The April 2005 survey showed a net stronger easing for the first quarter of 2005 (-7%, compared with -1% in the fourth quarter of 2004). This is the third time since the bank lending survey was started in January 2003 that a slight net easing in credit standards for consumer credit and other lending to households has been recorded.

**Chart 13. Credit standards applied to the approval of loans to households**  
*(net percentages of banks reporting tightening credit standards)*



9. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of loans to households for house purchase?

	--	-	°	+	++	NA	NetP	
							January 2005	April 2005
A) Cost of funds and balance sheet constraints	0	1	83	1	0	16	0	1
B) Pressure from competition								
Competition from other banks	0	0	71	15	1	12	-14	-16
Competition from non-banks	0	0	80	4	1	15	-3	-5
C) Perception of risk								
Expectations regarding general economic activity	0	3	90	0	0	7	3	3
Housing market prospects	0	6	86	0	0	8	9	6

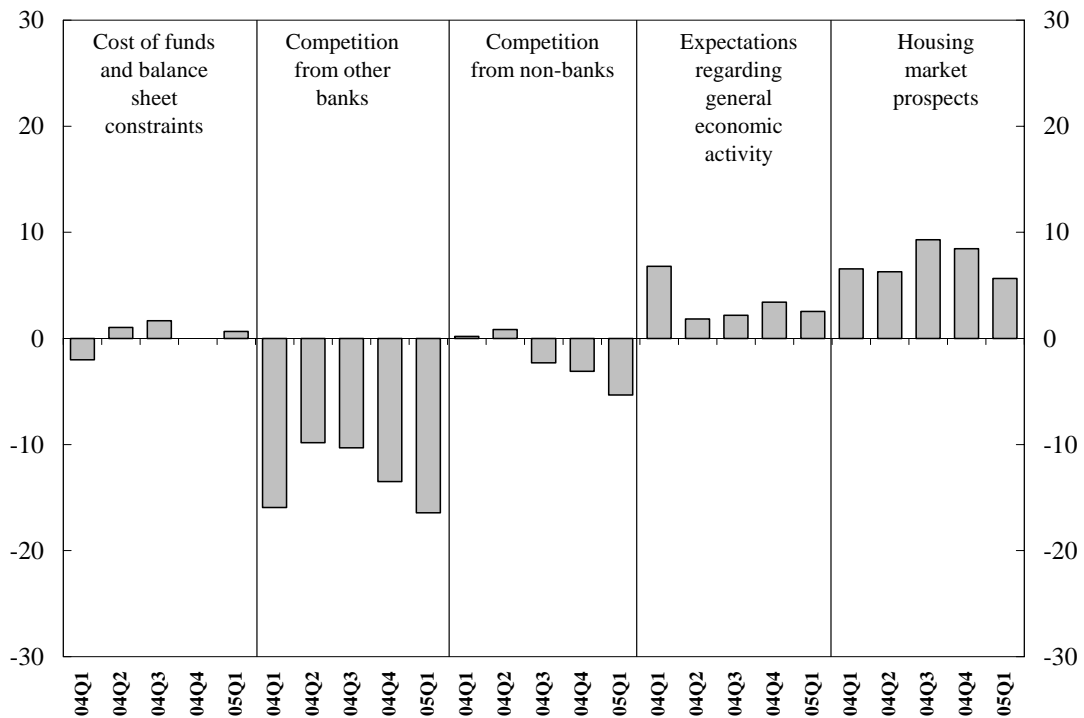
NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "-" (contributed considerably to tightening) and "--" (contributed somewhat to tightening) and the sum of "+" (contributed somewhat to easing) and "++" (contributed considerably to easing). "°" means "contributed to basically unchanged credit standards".

- In the April 2005 survey, higher pressure from competition (in particular from other banks) was the driving force behind the net easing of credit standards applied to loans to households for house purchase. This was broadly in line with the results reported in the previous two surveys.
- Perceptions of risk – in terms of expectations for general economic activity and housing market prospects – contributed slightly less to a net tightening in the first quarter of 2005.

**Chart 14. Factors affecting credit standards applied to the approval of loans to households for house purchase**

(net percentages of banks reporting that the factor contributed to tightening credit standards)



10. Over the past three months, how have your bank's conditions and terms for approving loans to households for house purchase changed?

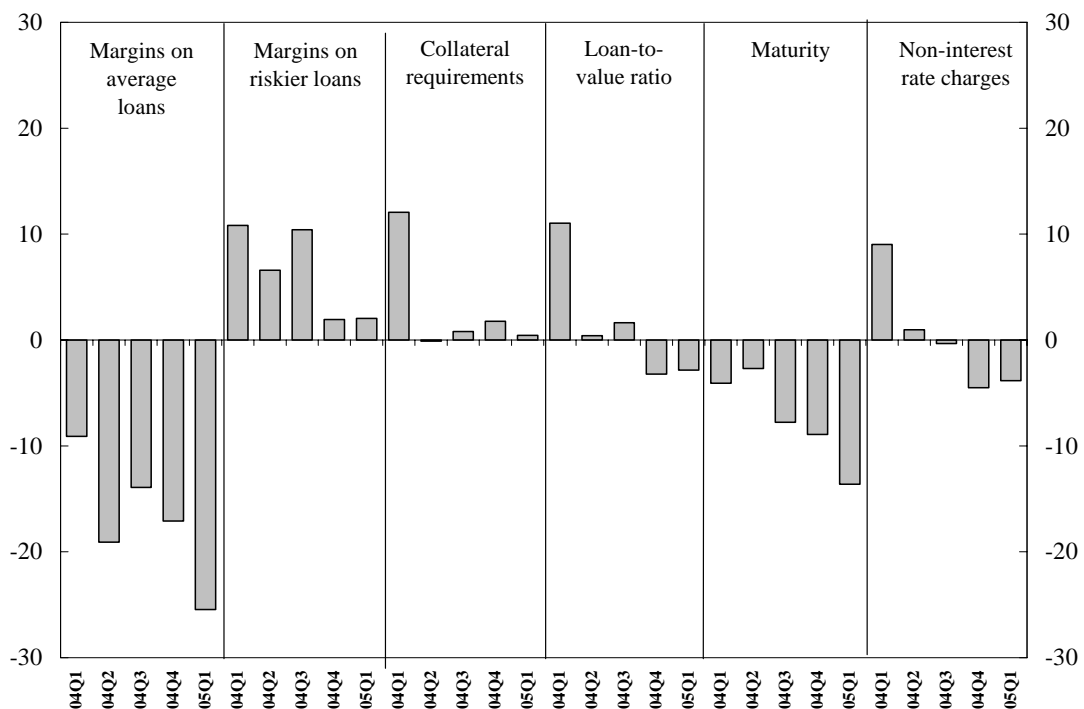
	--	-	°	+	++	NA	NetP	
							January 2005	April 2005
<b>A) Price</b>								
Your bank's margin on average loans	0	5	58	29	2	7	-17	-25
Your bank's margin on riskier loans	0	9	77	7	0	7	2	2
<b>B) Other conditions and terms</b>								
Collateral requirements	0	2	90	1	0	7	2	0
Loan-to-value ratio	0	4	82	7	0	7	-3	-3
Maturity	0	0	79	14	0	7	-9	-14
Non-interest rate charges	0	2	85	6	0	7	-5	-4

NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "--" (tightened considerably) and "-" (tightened somewhat) and the sum of "+" (eased somewhat) and "++" (eased considerably). "°" means "remained basically unchanged".

- In the April 2005 survey, banks reported that the stronger net easing of credit standards applied to housing loans was achieved predominantly via lower margins on average loans and to a lesser extent by a lengthening of the maturity of new loans.

**Chart 15. Conditions and terms for approving loans to households for house purchase**  
(net percentages of banks reporting that they use these conditions and terms to tighten credit standards)



11. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of consumer credit and other lending to households (as described in question 8)?

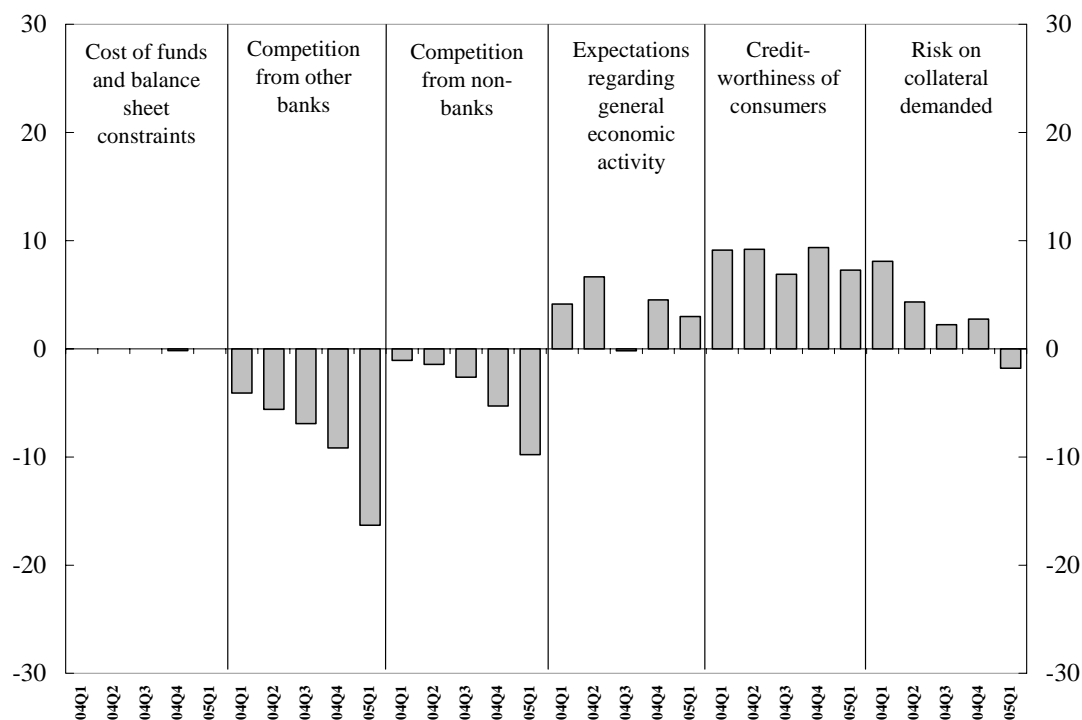
	--	-	°	+	++	NA	NetP	
							January 2005	April 2005
A) Cost of funds and balance sheet constraints	0	0	81	0	0	19	0	0
B) Pressure from competition								
Competition from other banks	0	0	69	15	1	15	-9	-16
Competition from non-banks	0	0	75	10	0	15	-5	-10
C) Perception of risk								
Expectations regarding general economic activity	0	6	79	3	0	12	5	3
Creditworthiness of consumers	1	8	79	2	0	10	9	7
Risk on the collateral demanded	0	1	82	3	0	14	3	-2

NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "-" (contributed considerably to tightening) and "-" (contributed somewhat to tightening) and the sum of "+" (contributed somewhat to easing) and "++" (contributed considerably to easing). "°" means "contributed to basically unchanged credit standards".

- The main factor contributing to the stronger net easing for consumer credit and other lending was an increase in competition from other banks and non-banks. Risks stemming from low creditworthiness of consumers and expectations regarding general economic activity contributed to a net tightening of credit standards, although this was less than in January 2005.

**Chart 16. Factors affecting credit standards applied to the approval of loans to households for consumer credit**  
(net percentages of banks reporting that the factor contributed to tightening credit standards)



12. Over the past three months, how have your bank's conditions and terms for approving consumer credit and other lending to households changed?

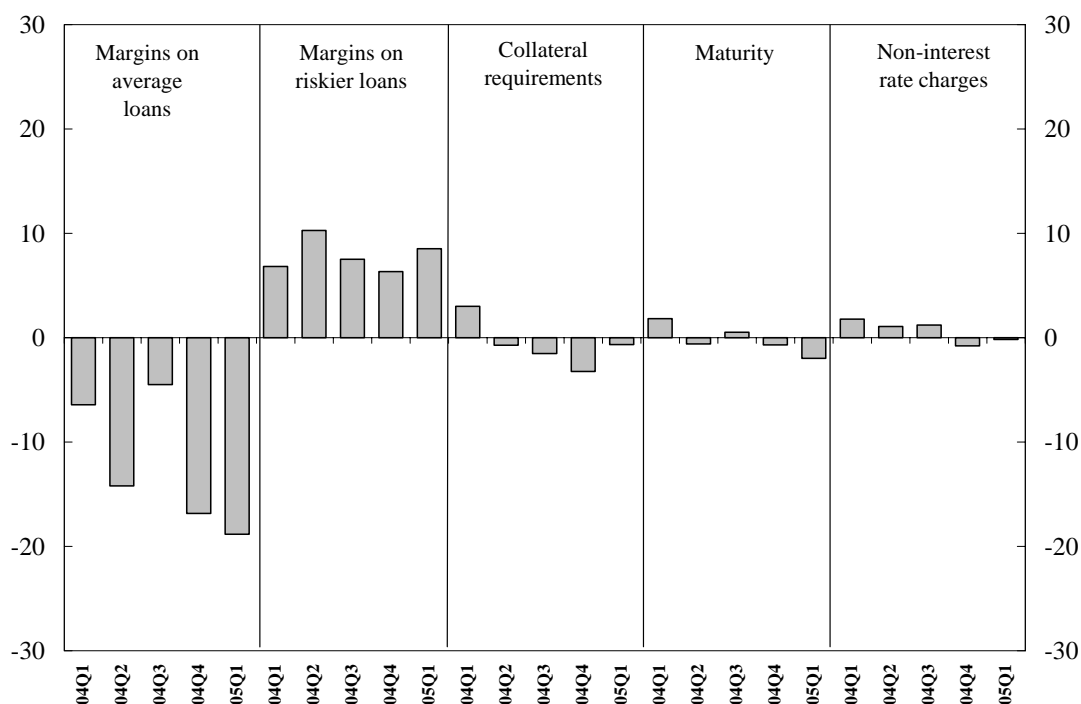
	--	-	°	+	++	NA	NetP	
							January 2005	April 2005
<b>A) Price</b>								
Your bank's margin on average loans	0	1	69	19	1	10	-17	-19
Your bank's margin on riskier loans	0	9	81	1	0	10	6	9
<b>B) Other conditions and terms</b>								
Collateral requirements	0	0	86	1	0	13	-3	-1
Maturity	0	2	83	4	0	12	-1	-2
Non-interest rate charges	0	1	86	1	0	13	-1	0

NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "--" (tightened considerably) and "-" (tightened somewhat) and the sum of "+" (eased somewhat) and "++" (eased considerably). "°" means "remained basically unchanged".

- Compared with the previous quarter, the first quarter of 2005 saw a higher contribution of margins on average loans to the net easing of credit standards, while margins on riskier loans favoured more net tightening. Other factors contributed to the net easing of credit standards in the first quarter of 2005.

**Chart 17. Conditions and terms for approving loans to households for consumer credit**  
(net percentages of banks reporting that they use these conditions and terms to tighten credit standards)



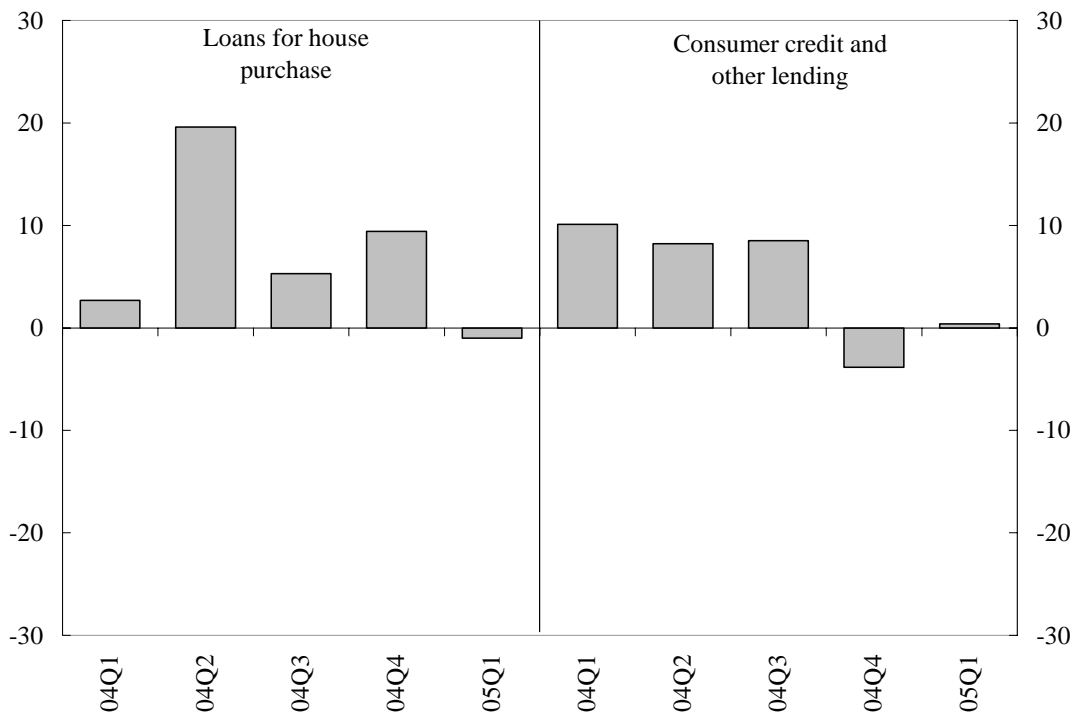
13. Over the past three months, how has the demand for loans to households changed at your bank, apart from normal seasonal fluctuations?

	Loans for house purchase		Consumer credit and other lending	
	January 2005	April 2005	January 2005	April 2005
Decreased considerably	6	1	5	2
Decreased somewhat	8	21	18	14
Remained basically unchanged	64	59	57	66
Increased somewhat	22	15	18	13
Increased considerably	1	5	1	4
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
<b>Net percentage</b>	<b>9</b>	<b>-1</b>	<b>-4</b>	<b>0</b>
<i>Number of banks responding</i>	<i>81</i>	<i>80</i>	<i>79</i>	<i>79</i>

*Note: The net percentage is defined as the difference between the sum of the percentages for “increased considerably” and “increased somewhat” and the sum of the percentages for “decreased somewhat” and “decreased considerably”.*

- For the first time since the launch of the bank lending survey, the net demand for housing loans decreased (to -1% in the first quarter of 2005 from 9% in the previous quarter). The reduction of net demand in the first quarter was higher than that expected by banks in January 2005.
- In April 2005, net demand for consumer credit and other lending to households increased slightly (to 0%, up from -4% in the fourth quarter of 2004).

**Chart 18. Demand for loans to households**  
(net percentages of banks contributing to positive loan demand)



14. Over the past three months, how have the following factors affected the demand for loans to households for house purchase (as described in question 13)?

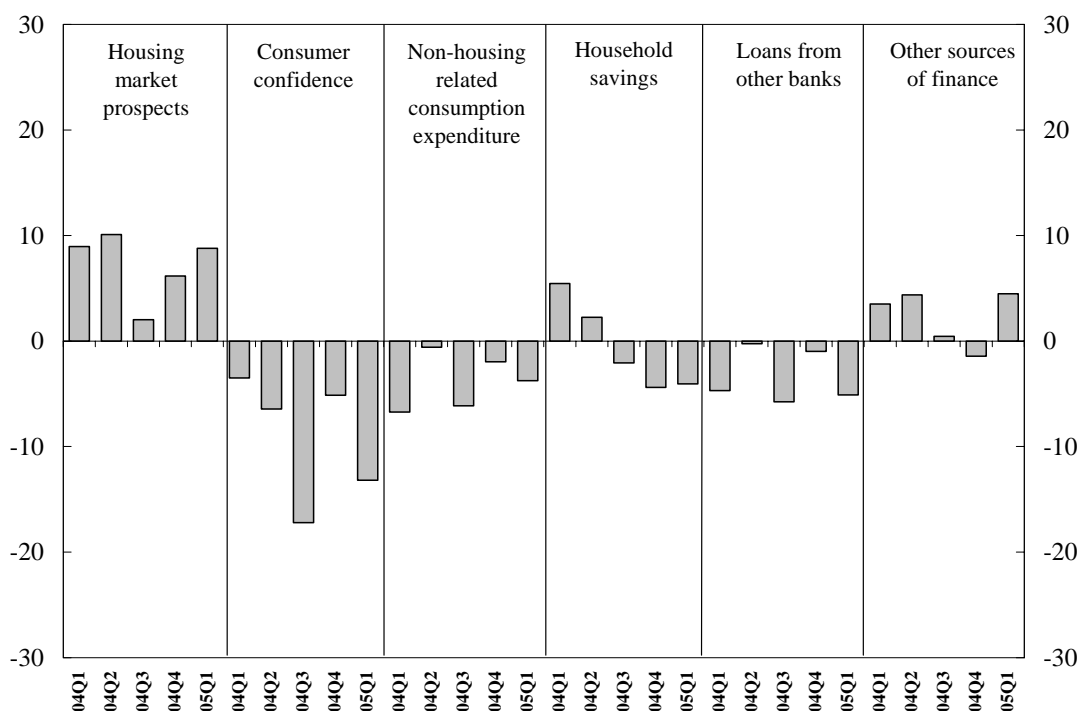
	--	-	°	+	++	NA	NetP	
							January 2005	April 2005
<b>A) Financing needs</b>								
Housing market prospects	0	4	76	13	0	7	6	9
Consumer confidence	2	14	74	3	0	7	-5	-13
Non-housing related consumption expenditure	0	4	88	1	0	7	-2	-4
<b>B) Use of alternative finance</b>								
Household savings	0	7	84	3	0	7	-4	-4
Loans from other banks	1	6	85	2	0	7	-1	-5
Other sources of finance	0	0	87	5	0	9	-1	5

NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "+" + " (contributed considerably to higher demand) and "+" (contributed somewhat to higher demand) and the sum of "-" (contributed somewhat to lower demand) and "- -" (contributed considerably to lower demand). "°" means "contributed to basically unchanged demand".

- In the first quarter of 2005, consumer confidence contributed to a larger extent to the net decrease in the demand for loans for house purchase. In addition, banks reported higher non-housing related consumption expenditures and increased competition from other banks.

**Chart 19. Factors affecting the demand for loans to households for house purchase**  
(net percentages of banks reporting that the factor contributed to positive loan demand)





15. Over the past three months, how have the following factors affected the demand for consumer credit and other lending to households (as described in question 13)?

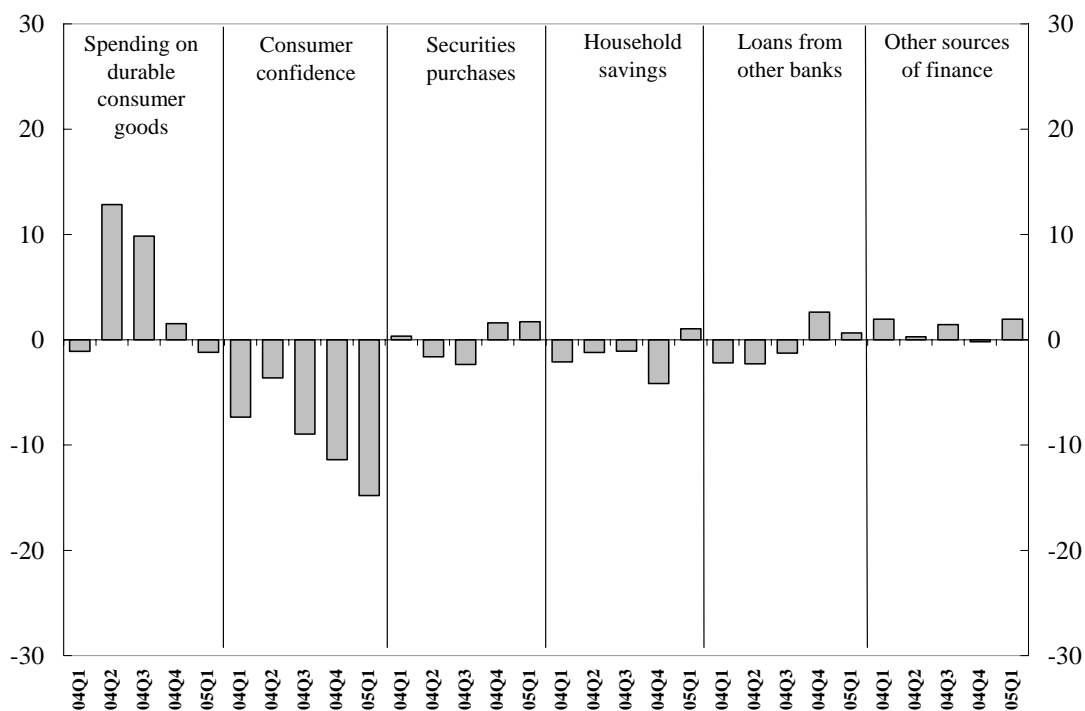
	--	-	°	+	++	NA	NetP	
							January 2005	April 2005
<b>A) Financing needs</b>								
Spending on durable consumer goods	0	14	63	13	0	10	2	-1
Consumer confidence	0	18	69	4	0	10	-11	-15
Securities purchases	0	0	80	2	0	18	2	2
<b>B) Use of alternative finance</b>								
Household savings	0	6	77	7	0	10	-4	1
Loans from other banks	0	2	86	3	0	10	3	1
Other sources of finance	0	0	86	2	0	12	0	2

NA = Not available; NetP = Net percentage

Note: The "Net percentage" column is defined as the difference between the sum of "+ +" (responsible for considerable increase) and "+ " (responsible for increase) and the sum of "- " (responsible for decrease) and "- -" (responsible for considerable decrease). "°" means "responsible for neither a decrease nor an increase".

- In the April 2005 survey, the overall unchanged net demand for consumer credit and other loans to households reflected counterbalancing factors. On the one hand, weaker consumer confidence and lower spending on durable consumer goods contributed to a decrease in demand while, on the other hand, reduced household savings contributed mainly to a net increase in demand for these loans in the first quarter of 2005.

**Chart 20. Factors affecting demand for loans to households for consumer credit**  
(net percentages of banks reporting that the factor contributed to positive loan demand)



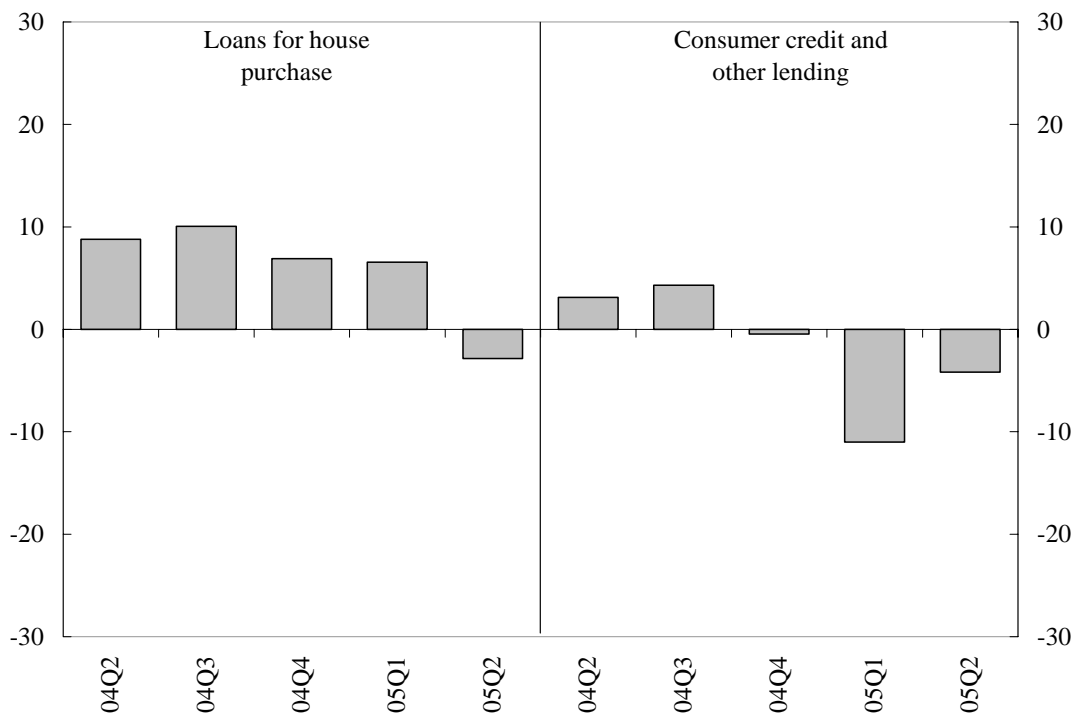
16. Please indicate how you expect your bank's credit standards as applied to the approval of loans to households to change over the next three months.

	Loans for house purchase		Consumer credit and other lending	
	January 2005	April 2005	January 2005	April 2005
Tighten considerably	0	2	2	4
Tighten somewhat	12	4	2	4
Remain basically unchanged	82	85	82	80
Ease somewhat	6	9	15	12
Ease considerably	0	0	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
<b>Net percentage</b>	<b>7</b>	<b>-3</b>	<b>-11</b>	<b>-4</b>
<i>Number of banks responding</i>	<i>81</i>	<i>80</i>	<i>79</i>	<i>79</i>

Note: The net percentage is defined as the difference between the sum of the percentages for "tighten considerably" and "tighten somewhat" and the sum of the percentages for "ease somewhat" and "ease considerably".

- For the second quarter of 2005, respondent banks expect a slight net easing of credit standards for loans to households for house purchase (-3%). This is the first time that banks have reported an expected net easing since the launch of the bank lending survey. However, it should be pointed out that expected values have been significantly higher than realised values since the second quarter of 2003.
- According to the April 2005 survey, banks expect a net easing of credit standards for consumer credit and other lending to households in the second quarter of 2005.

**Chart 21. Expected credit standards for loans to households**  
(net percentages of banks reporting tightening standards)



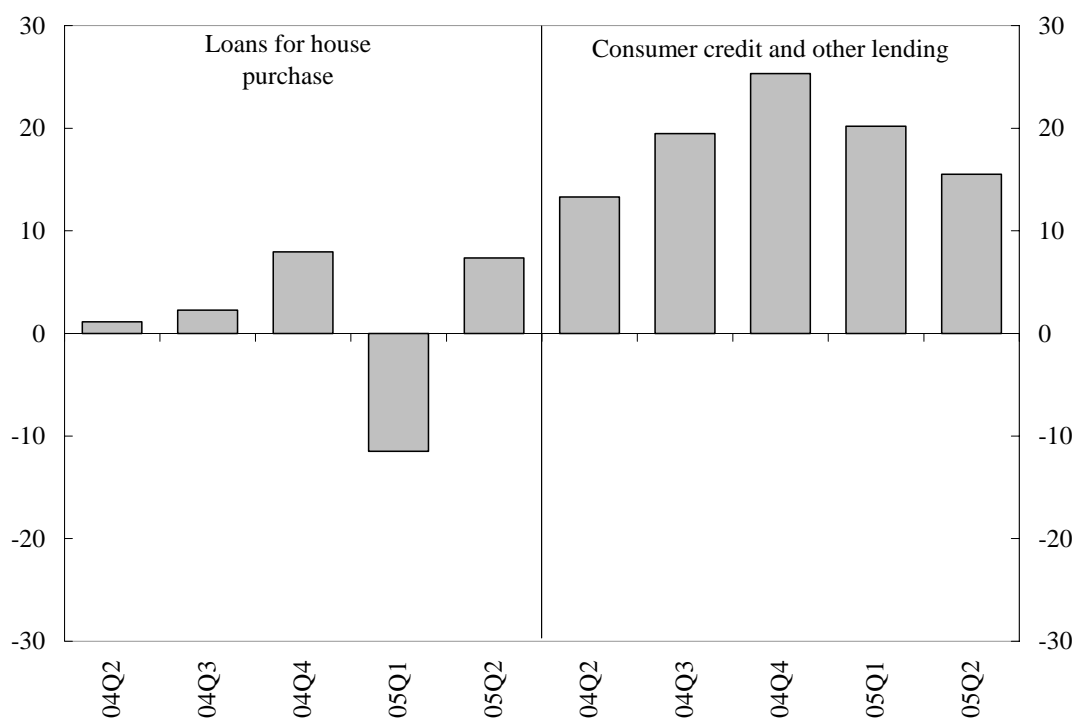
17. Please indicate how you expect demand for loans to households to change over the next three months at your bank (apart from normal seasonal fluctuations).

	Loans for house purchase		Consumer credit and other lending	
	January 2005	April 2005	January 2005	April 2005
Decrease considerably	1	0	0	0
Decrease somewhat	19	15	8	7
Remain basically unchanged	71	63	64	71
Increase somewhat	9	22	28	23
Increase considerably	0	1	0	0
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>
<b>Net percentage</b>	<b>-12</b>	<b>7</b>	<b>20</b>	<b>16</b>
<i>Number of banks responding</i>	<i>81</i>	<i>80</i>	<i>79</i>	<i>79</i>

*Note: The net percentage is defined as the difference between the sum of the percentages for "increase considerably" and "increase somewhat" and the sum of the percentages for "decrease somewhat" and "decrease considerably".*

- In the April 2005 survey, respondent banks expect net loan demand for housing loans to recover and therefore to increase in the second quarter of 2005.
- Regarding consumer credit and other lending to households, respondent banks expect net loan demand to be significantly higher in the second quarter of 2005 when compared with the realised (basically unchanged) net demand in the first quarter of the year (see question 13).

**Chart 22. Expected demand for loans to households for house purchase**  
(net percentages of banks reporting positive loan demand)



## **Annex: Glossary used in the survey**

In order to help the banks participating in the survey to fill out the questionnaire, a compilation guide was developed containing the most important terms used in the survey. The main terminology used appears below.

### Capital

This is defined in accordance with the Basel capital adequacy requirements; it includes both tier 1 capital (core capital) and tier 2 capital (supplementary capital).

### Collateral

The security given by a borrower to a lender as a pledge for the repayment of a loan. This could include certain financial securities, such as equity or debt securities, real estate or compensating balances. A compensating balance is the minimum amount of a loan that the borrower is required to keep in an account at the bank.

### Covenant

A covenant is an agreement or stipulation expressed in loan contracts, particularly contracts with enterprises, under which the borrower either pledges to take certain action (an affirmative covenant) or refrain from taking certain action (a negative covenant), and is consequently part of the terms and conditions of a loan.

### Credit line

A credit line is a facility with a stated maximum amount that an enterprise is entitled to borrow from a bank at any given time. In the survey, developments regarding credit lines should be interpreted as changes in the net amount drawn under either an existing or a new credit line.

### Credit standards

Credit standards are the internal guidelines or criteria which reflect a bank's loan policy. They are the written and unwritten criteria, or other practices related to this policy, which define the types of loan a bank considers desirable and undesirable, the designated geographic priorities, the collateral deemed acceptable and unacceptable, etc. In the survey, changes in written loan policies should be considered together with changes in their application.

### Credit terms and conditions

The terms and conditions of a loan refer to the specific obligations agreed upon by the lender and the borrower. In the context of the bank lending survey, they consist of the direct price or interest rate, the maximum size of the loan and the access conditions, and other terms and conditions in the form of non-interest rate charges (i.e. fees), collateral requirements (including compensating balances), loan covenants and maturity (short versus long-term).

### Enterprises

Enterprises refer to non-financial corporations, i.e. all private and public institutional units, whatever their size and legal form, which are not principally engaged in financial intermediation but rather in the production of goods and non-financial services.

### Enterprise size

The distinction between large enterprises and small and medium-sized enterprises is based on annual sales. A firm is considered large if its annual net turnover is more than €50 million.

### Households

Households are individuals or groups of individuals acting as consumers or as producers of goods and non-financial services exclusively intended for their own final consumption, as well as small-scale market producers.

### Loans

The loans covered by the bank lending survey are those granted to euro area residents by domestic branches, including loans or credit lines to enterprises, loans to households for house purchase, and consumer credit and other lending to households.

### Loan-to-value ratio

The ratio of the amount borrowed to the appraisal or market value of the underlying collateral, usually taken into consideration in relation to loans used for real estate financing.

### Maturity

The concept of maturity used in the bank lending survey is original maturity, and only two different types are used, i.e. short-term and long-term. Short-term loans are loans with an original maturity of one year or

less; long-term loans are consequently defined as loans that have an original maturity of more than one year.

#### Net balance (or percentage)

The net percentage is defined as the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. For questions related to demand for loans, the net percentage is defined as the difference between the sum of the percentages for “increase considerably” and “increase somewhat”, and the sum of the percentages for “decrease somewhat” and “decrease considerably”.

#### Non-banks

In general, these consist of non-monetary financial corporations. More specifically, they include insurance corporations and pension funds, financial auxiliaries and other financial intermediaries.

#### Non-interest rate charges

These are various kinds of fees which can be part of the pricing of a loan, such as commitment fees on revolving loans, administration fees (e.g. document preparation costs), and charges for enquiries, guarantees and credit insurance.