Bank Lending Survey

II/2020

Czech National Bank —— Bank Lending Survey —— II/2020

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 issue summarises the results of the thirty-second round of the survey, i.e. banks' views on the evolution of credit conditions in 2020 Q1 and their expectations in these areas for 2020 Q2. The survey was conducted between 2 and 17 March 2020, i.e. it was completed just after announcement of the state of emergency due to the coronavirus pandemic. Twenty-one banks, accounting for a major share of the bank credit market, participated in the survey.[1] The CNB's Bank Lending Survey is performed by a team made up of representatives of the Financial Stability Department and the Monetary 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, are available on the CNB website: (https://www.cnb.cz/en/statistics/bank-lending-survey/).

I. SUMMARY

The results of the survey at the time it was conducted revealed that part of the banking market had tightened credit standards and conditions for loans to non-financial corporations in 2020 Q1. Banks perceived markedly increased risks linked with the spread of the coronavirus pandemic and were assessing the impacts of those risks on their loan business. Corporations' demand for loans decreased in part of the banking market. Credit standards for loans to households for house purchase and consumption were little changed and demand rose slightly in both segments. At the time the survey was conducted, banks were expecting roughly unchanged credit standards for corporate loans in 2020 Q2, but were predicting a tightening of standards for loans to SMEs and long-term loans. Banks were expecting growth in corporate demand for short-term loans and increased applications for loan repayment relief. For Q2, a significant part of the banking market was expecting a tightening of credit standards for housing loans, which, according to banks, will be accompanied by a decline in household demand for loans. Overall, the banking market was warning of an increase in expected credit losses in all segments of the credit market for 2020 Q2.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

The results of the Bank Lending Survey at the time it was conducted reveal that part of the banking market tightened credit standards for **loans to non-financial corporations** in 2020 Q1 (an NP of 17%). The tightening of standards was fostered by increased risk perceptions due to the spread of the coronavirus pandemic. In particular, banks perceived increased risks associated with expectations regarding the overall economic situation and the outlooks for individual sectors (e.g. services, transport and the automotive industry). Tighter credit standards were apparent both in the SME segment and for large corporations. The lending conditions (representing the arrangements between the lender and the borrower in specific loan agreements) were also tightened in part of the banking market (an NP of 17%). This reflected an increase in interest margins on risky loans and tighter conditions applying to collateral requirements and the size of loans and credit lines.

Corporations' demand for loans decreased in Q1 (an NP of 15%), mainly as a result of the coronavirus pandemic at the end of the reporting period. At the time of the survey, however, banks were expecting growth in demand for loans among both SMEs and larger corporations for 2020 Q2. An NP of 40% of banks were expecting growth in demand for short-term operating loans due to firms' liquidity problems. Conversely, demand for long-term loans will decrease in a small part of the market. At the time the survey was conducted, banks were expecting roughly unchanged credit standards in Q2, but were predicting a tightening of standards for loans to SMEs and for long-term loans.

II.2 HOUSEHOLDS

Credit standards for loans for **house purchase** were mostly unchanged in 2020 Q1, with only a very small section of the banking market (an NP of 5%) having tightened standards. Perceptions of increased risks associated with the expected outlook for the general economic situation fostered a tightening of credit standards. A reduction in banks' cost of funds due to a decline in long-term financial market interest rates and competitive pressure had the opposite effect. Banks indicated that overall credit conditions were broadly unchanged. Average interest margins and non-interest rate charges meanwhile decreased. Households' demand for loans for house purchase rose in Q1 (an NP of 20%). According to banks, this was due partly to the market adjusting to the swings in demand recorded in the previous period and partly to the low level of mortgage interest rates. On the other hand, a significant part of the market was expecting credit standards to be tightened and households' demand for house purchase loans to decrease in Q2 (NPs of 46% and 52% respectively).

Credit standards for **consumer credit** were also mostly unchanged in 2020 Q1, with only a very small section of the banking market (an NP of 3%) having tightened standards. Banks kept their credit conditions unchanged overall. Average interest margins and margins on riskier loans meanwhile declined, while the maximum maturity of consumer loans was conversely limited. Households' demand for consumer credit rose (an NP of 10%). At the time of the survey, however, a significant part of the banking market (an NP of 40%) was expecting a drop in demand amid broadly unchanged credit standards for Q2.

In the **loans to sole proprietors** segment, credit standards were almost unchanged in Q1 and banks were expecting a similar situation in the next period. Sole proprietors' demand for loans decreased and a significant part of the market (an NP of 47%) was expecting demand to fall in the next quarter as well.

Replies to **additional questions** regarding loans to non-resident non-financial corporations showed that credit standards were tightened in Q1 and demand for loans decreased.

Additional questions on banks' expected credit losses indicated that a significant part of the banking market was expecting the rate of expected credit losses to increase in all segments of the credit market in 2020 Q2.

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)

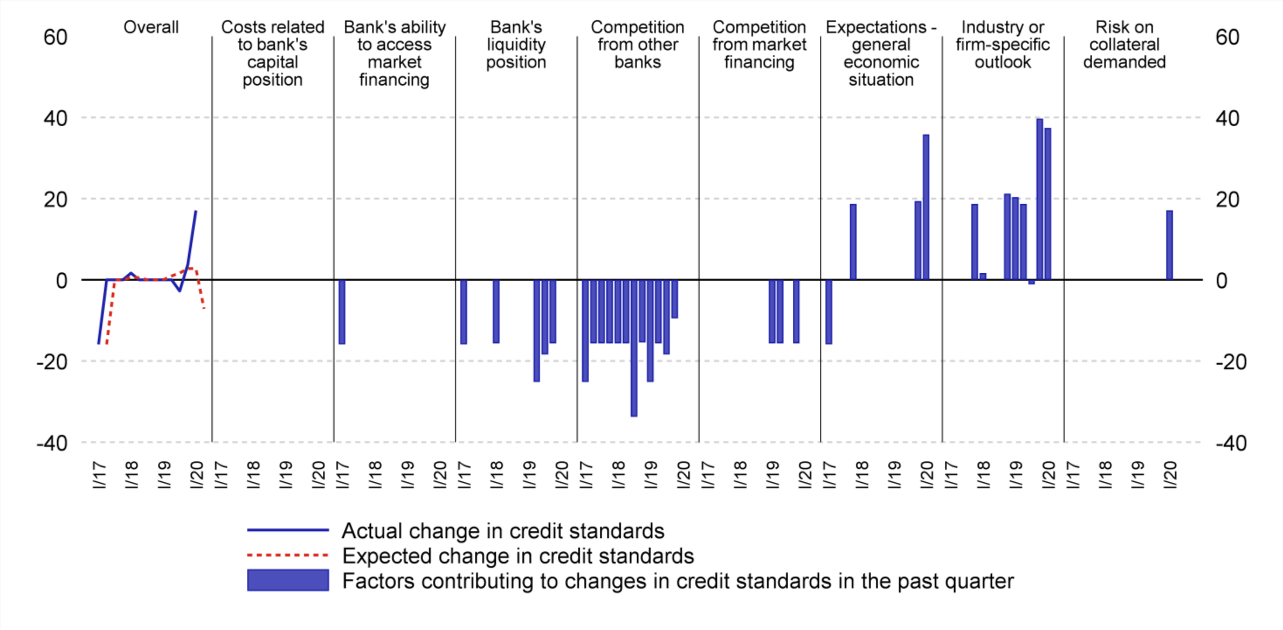


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

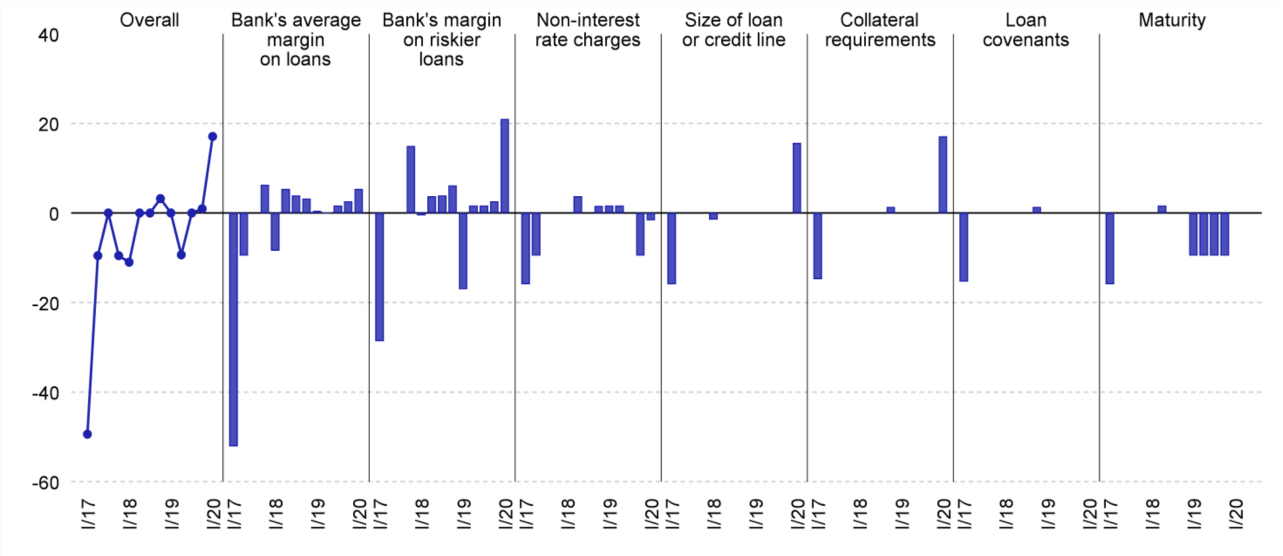


Chart 3: Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

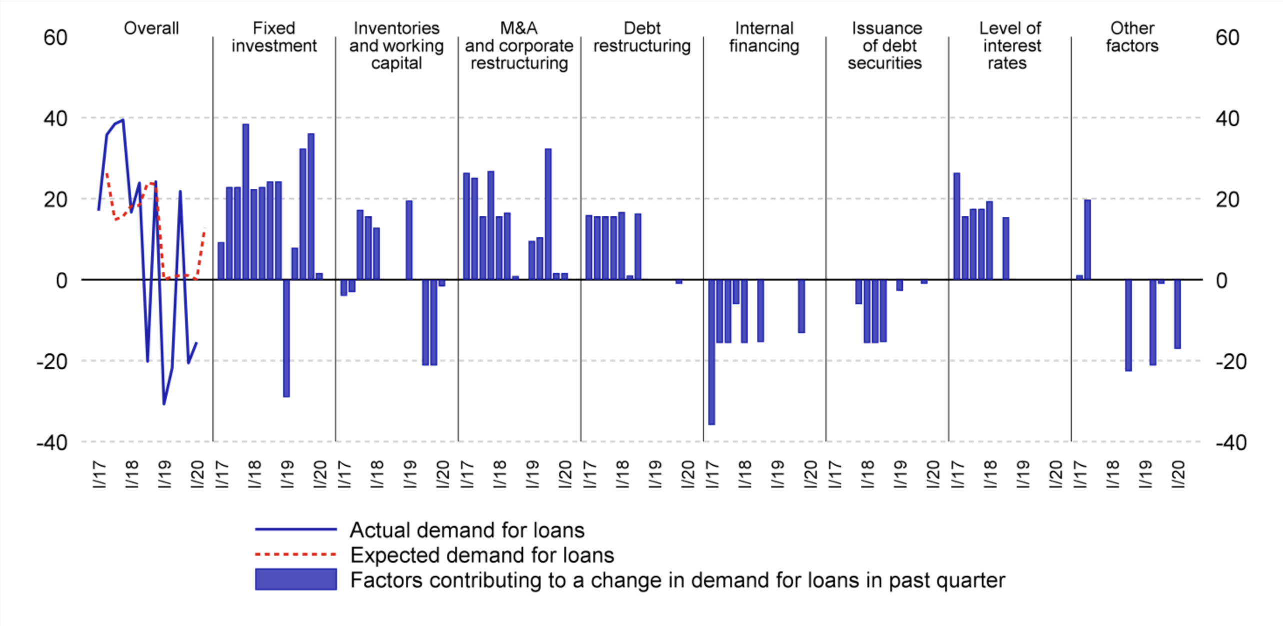


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

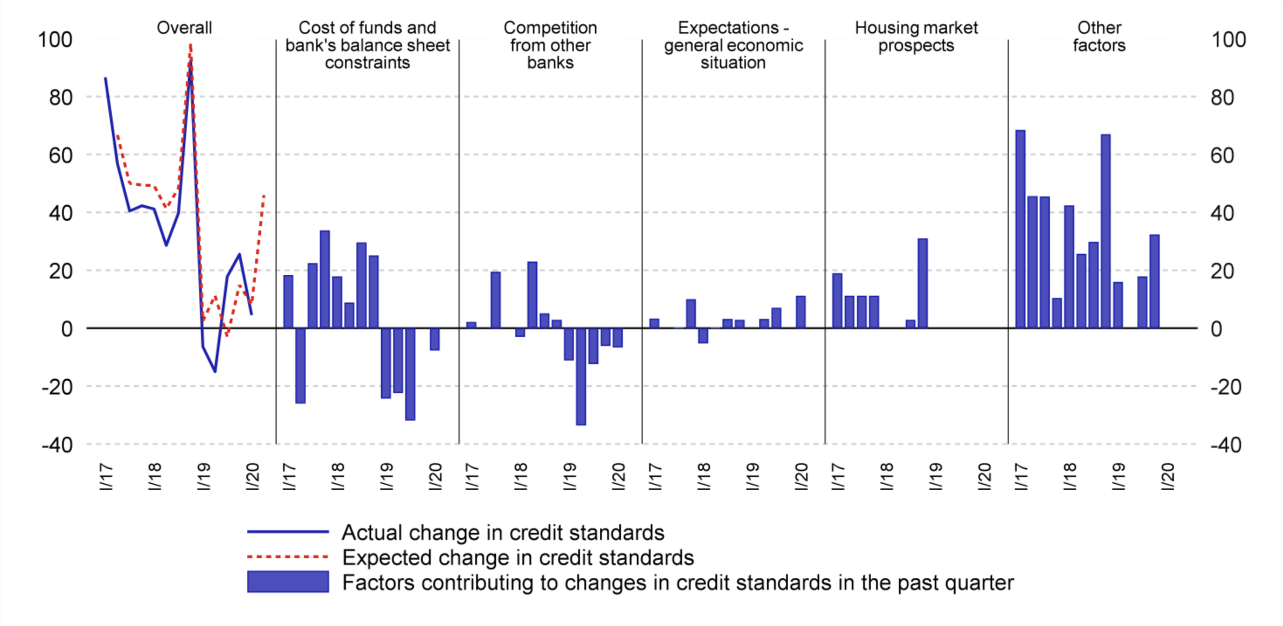


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

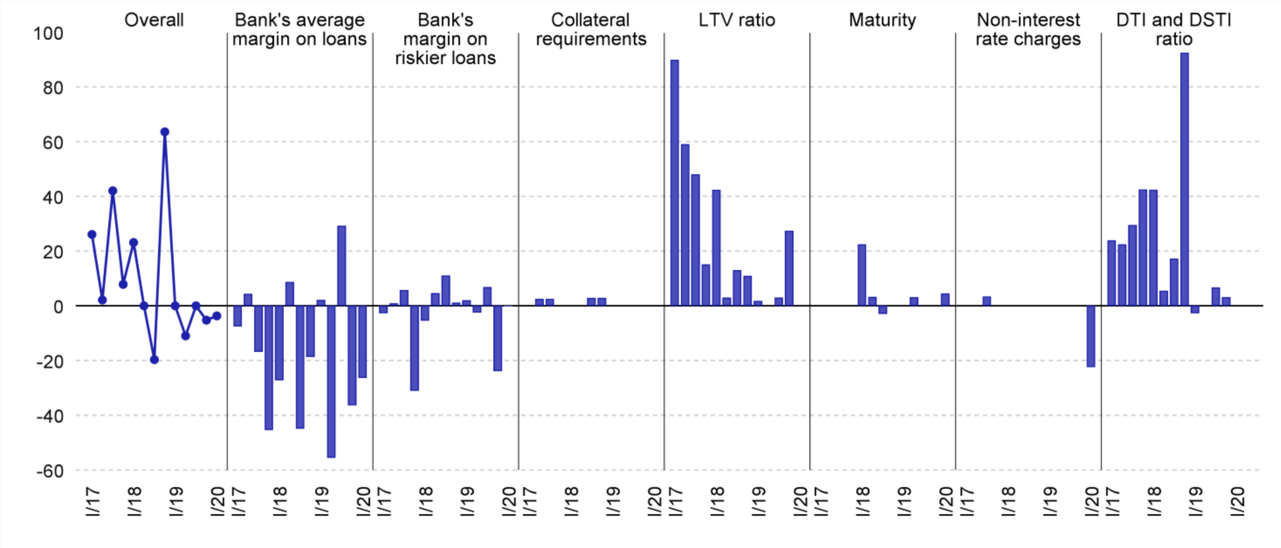


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

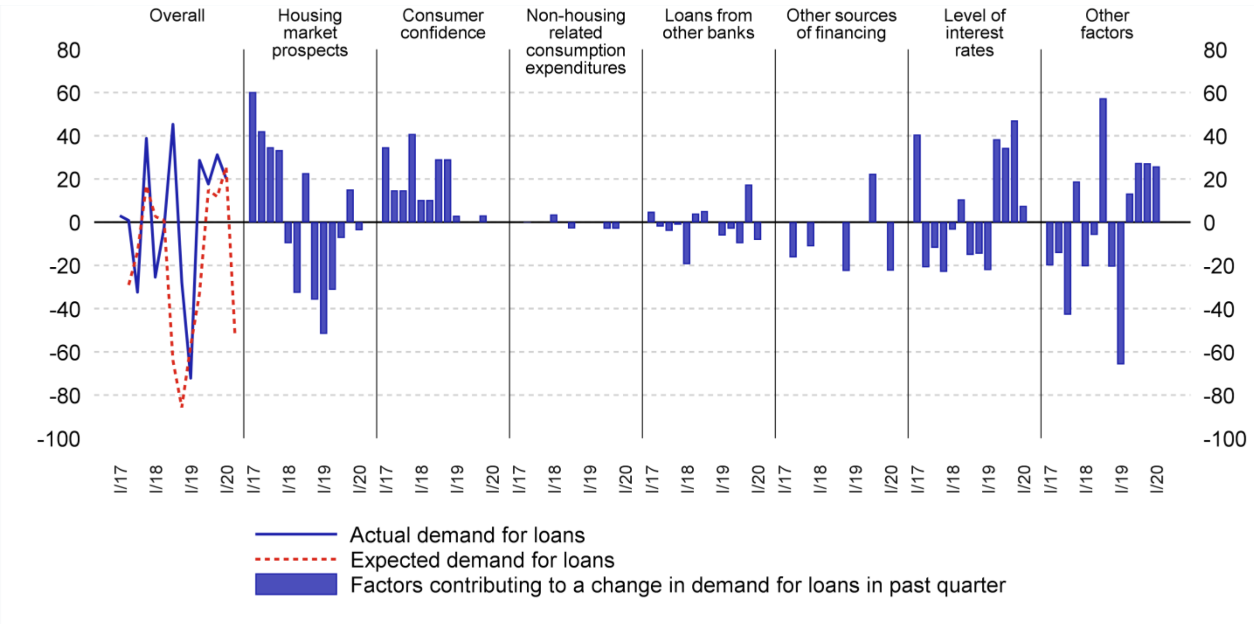


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

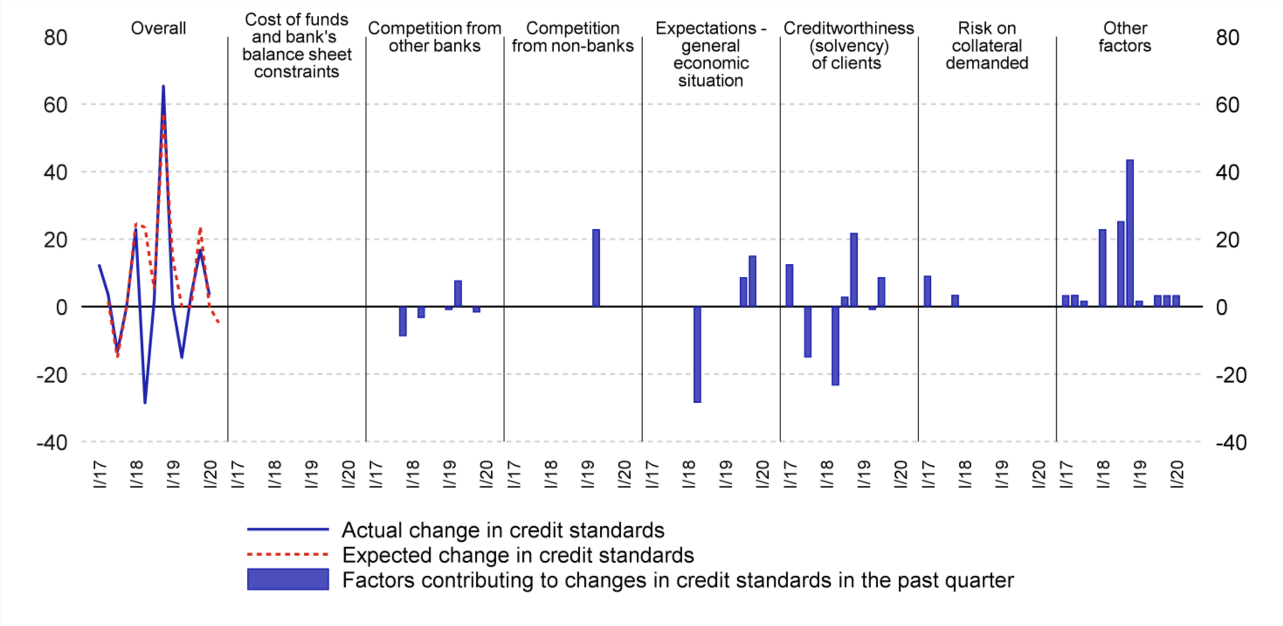


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

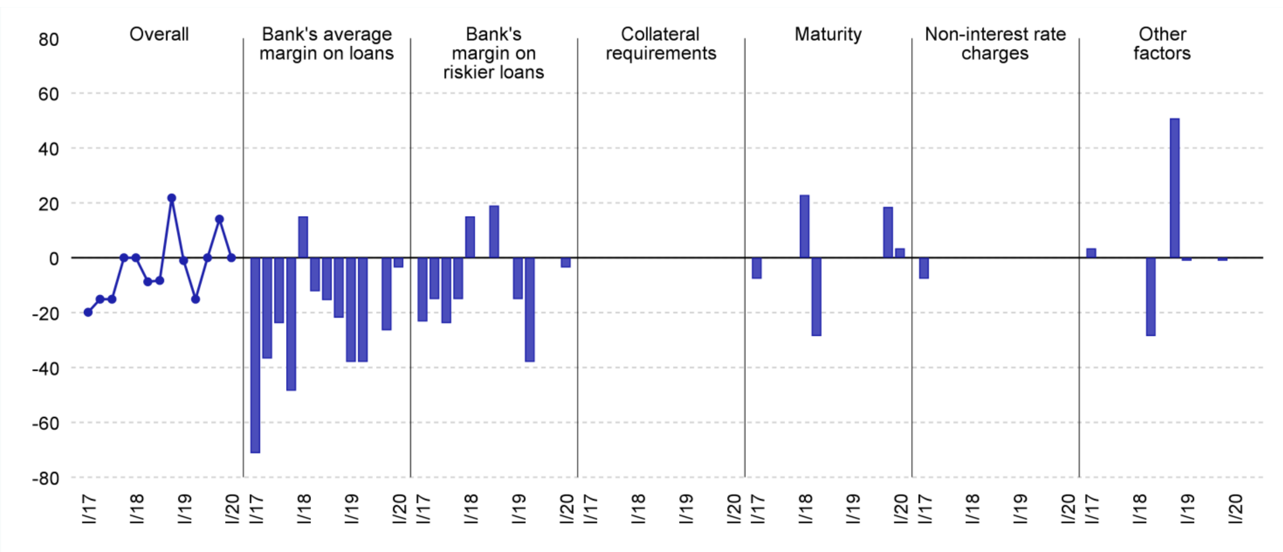
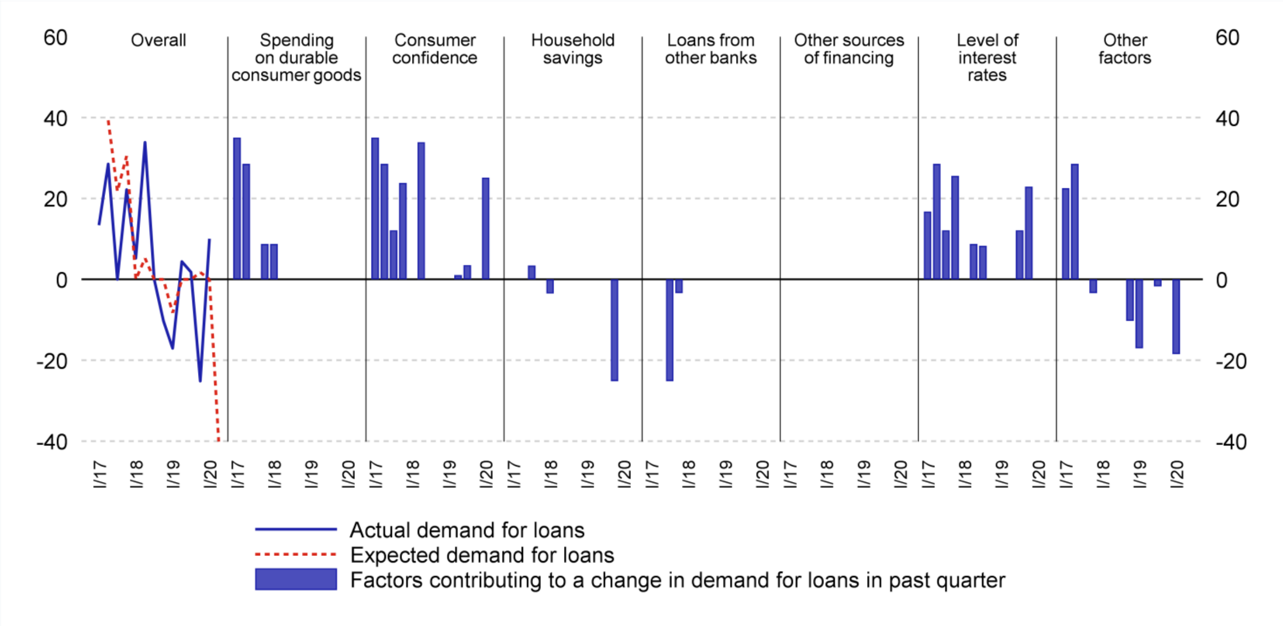


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



Issued by:
CZECH NATIONAL BANK
Na Příkopě 28
115 03 Praha 1
Czech Republic

Contact:
COMMUNICATIONS DIVISION, GENERAL SECRETARIAT
Tel: +420 22441 3112
Fax: +420 22441 2179
www.cnb.cz