Bank Lending Survey

II/2021

Czech National Bank —— Bank Lending Survey —— II/2021

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-sixth round of the survey, i.e. banks' views on the evolution of credit conditions in 2021 Q1 and their expectations in these areas for 2021 Q2. Twenty banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 1 and 16 March 2021.[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, is available on the CNB website: (https://www.cnb.cz/en/statistics/bank-lending-survey/).

I. SUMMARY

Following last year's tightening, credit standards for corporate loans almost unchanged in 2021 Q1. Banks continued to perceive risks associated with the outlook for the overall economic situation and for some sectors due to the coronavirus pandemic. Corporate demand for loans decreased, owing mainly to subdued fixed investment, but the need for operational funding continued to increase. The proportion of banks that eased credit standards applied to house purchase loans to households rose in Q1. Contrary to expectations, demand for loans for house purchase increased further in a large proportion of the banking market and remains strong. This was due mainly to expected growth in interest rates on loans for house purchase and interest in investment in residential property. By contrast, the decline in households' demand for consumer credit persists. For 2021 Q2, banks are indicating stable credit standards for corporate loans and expect no major changes in demand. One-fifth of the banking market expects credit standards for loans for house purchase to tighten. According to banks, this will be accompanied by a decline in demand. The banking market expects credit losses to increase in all segments of the credit market in Q2, though with less intensity than during 2020.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

The aggregate results of the current Bank Lending Survey show that **following last year's tightening, credit standards** (banks' internal lending policy criteria) **for corporate loans were almost unchanged in 2021 Q1**, in line with banks' expectations in the previous round of the survey. Banks continued to perceive risks associated with the outlook for the overall economic situation and for some sectors due to the coronavirus pandemic (NPs of 22% and 40% respectively). Conversely, an easing of credit standards was fostered by competition from market financing in the segment of large corporations (an NP of 16%). Banks expect standards to follow a similar pattern in 2021 Q2. **The lending conditions** (the arrangements between lenders and borrowers in specific loan agreements) **were also unchanged overall**. However, about one-third of the banking market increased average interest margins and margins on riskier loans, while a smaller proportion of the banking market relaxed collateral requirements.

Corporate demand for loans declined in 2021 Q1 (an NP of 15%). Perceived demand declined in the cases of large corporations and long-term loans (NPs of 15% and 53% respectively). Banks reported a reduced need for financing due to subdued fixed investment (an NP of 57%), with corporations reducing their investment activity in a situation of high uncertainty and a drop in economic activity. Part of the banking market also indicated lower demand due to higher issuance of bonds by large corporations. The decline in demand was caused to a lesser extent by reduced activity in the areas of mergers and acquisitions and corporate restructuring and by efforts to use internal financing. By contrast, there was continued growth in demand for operational financing (an NP of 49%) and demand in the segment of small and medium-sized corporations (an NP of 13%). Overall, banks expect no major change in demand for loans in 2021 Q2. They expect demand for short-term operating loans to continue to grow (an NP of 22%), while demand for long-term loans – used usually for financing investment – is expected to decrease, though with less intensity than in the previous period (an NP of 14%).

II.2 HOUSEHOLDS

Credit standards applied to house purchase loans to households eased in 2021 Q1 (an NP of 31%). Following a tightening in 2020 Q2 and Q3, when banks responded to the extraordinary increase in risks associated with the coronavirus pandemic, standards have now been relaxed. This was fostered by more favourable housing market prospects (an NP of 32%), with banks not expecting property prices to fall sharply in the future despite their strong growth in recent years. At the same time, due to strong competition, growth in market interest rates with longer maturities did not affect standards; the cost of funds and banks' balance sheet position fostered an easing (an NP of 15%). Conversely, perceptions of risks associated with expectations regarding the overall economic situation continued to foster tighter standards (an NP of 39%). **Lending conditions** were unchanged overall. However, banks reduced average interest margins and eased the DSTI, DTI and LTV ratios (NPs of 34%, 20% and 26% respectively).

Contrary to expectations, households' demand for loans for house purchase continued to increase across the board (an NP of 86%). This was due to low interest rates on loans for house purchase and expectations of them rising, and also to a better outlook for the residential property market. The increased interest in investment in residential property as a safe asset amid the coronavirus pandemic thus persisted. Some consumers are also buying bigger homes because they are working from home more frequently. The growth in demand was also due to higher household savings and additionally reflected the option of making unscheduled loan payments free of charge in order to obtain better interest rate conditions. Nevertheless, part of the banking market expects a decrease in demand in Q2, which should be accompanied by tighter credit standards (NPs of 14% and 21% respectively). Pandemic containment measures and their macroeconomic impacts remain a major factor for credit standards going forward. According to part of the market, it is very difficult to estimate future developments in this area in the current situation.

Credit standards for loans to household for consumption also eased in a small proportion of the banking market in 2021 Q1 (an NP of 12%). This was reflected in lower client creditworthiness requirements. However, banks continued to perceive risks associated with the outlook for the overall economic situation and the related path of the unemployment rate (an NP of 15%). Lending conditions tightened overall (an NP of 15%) due to an increase in average interest margins. **Demand for consumer credit declined further due to the coronavirus pandemic and the related containment measures** (an NP of 35%), more so than banks had expected in the previous round of the survey. The lower demand mainly reflected a drop in spending on durable goods amid closures of most shops, and lower consumer confidence. Banks expect demand to show no major change and credit standards to tighten in Q2 (an NP of 12%).

Following last year's tightening, credit standards for **loans to sole proprietors** were unchanged in 2021 Q1, and banks expect a similar situation in Q2. Sole proprietors' demand for loans increased (an NP of 37%), and one-third of the banking market expects it to rise again in Q2.

Additional questions on **expected credit losses** indicate that part of the banking market expects the rate of expected credit losses to increase in all segments of the credit market in Q2, though with less intensity than during 2020.

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)

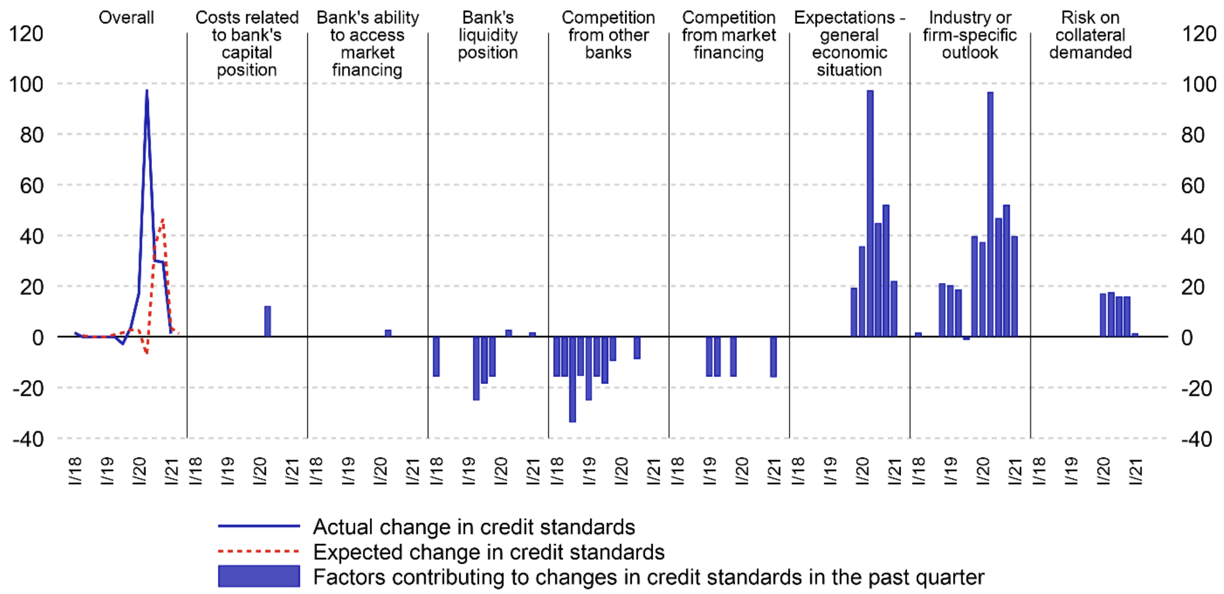


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations

[(question 3)]

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

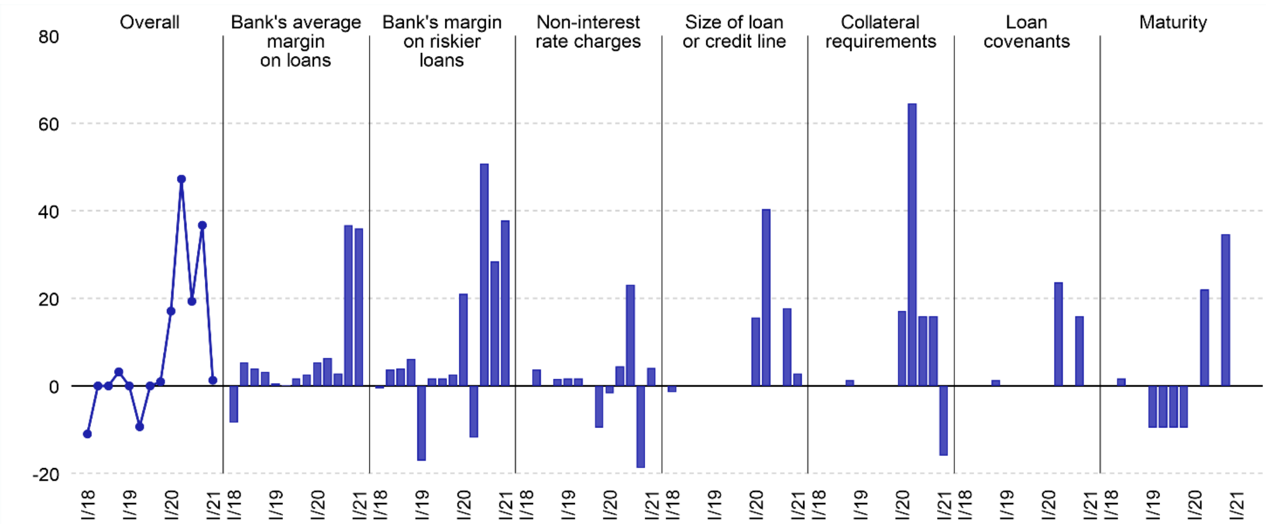


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

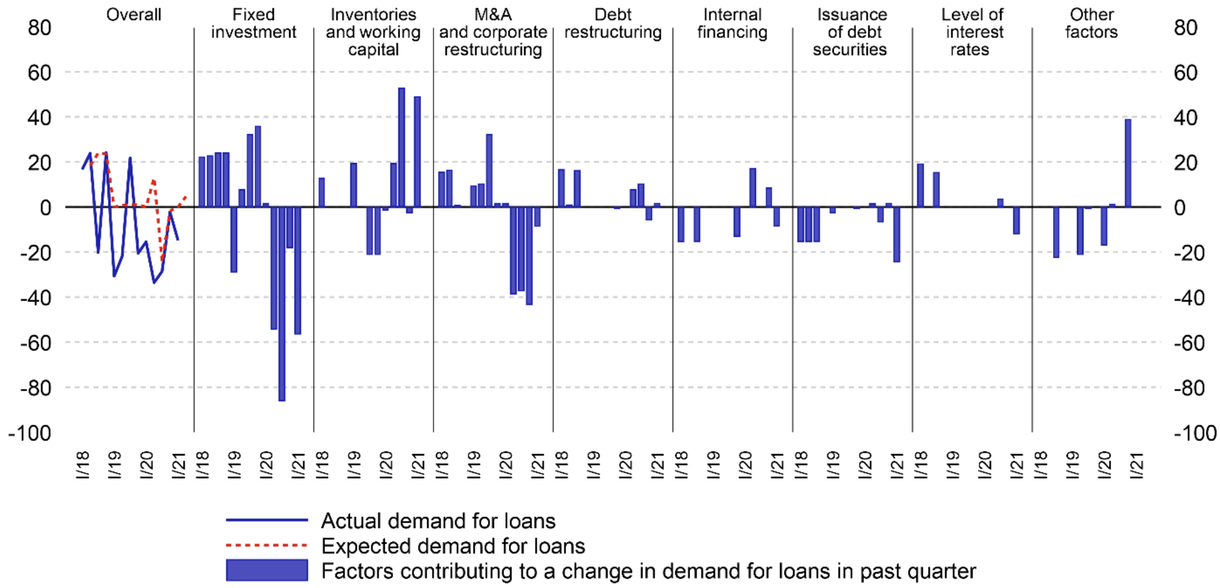


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

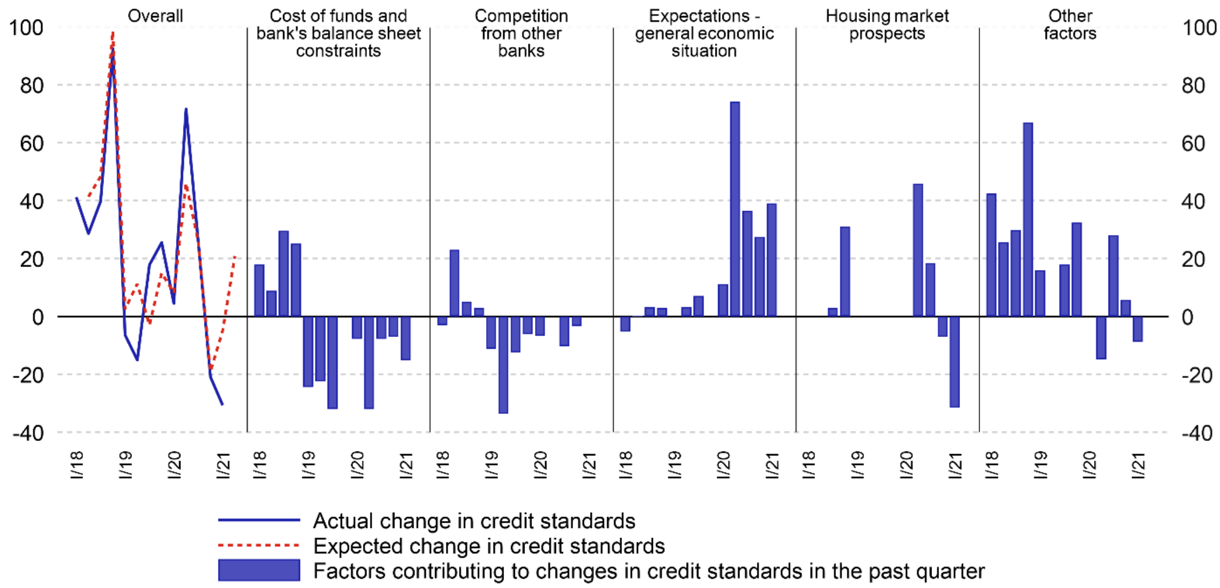


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

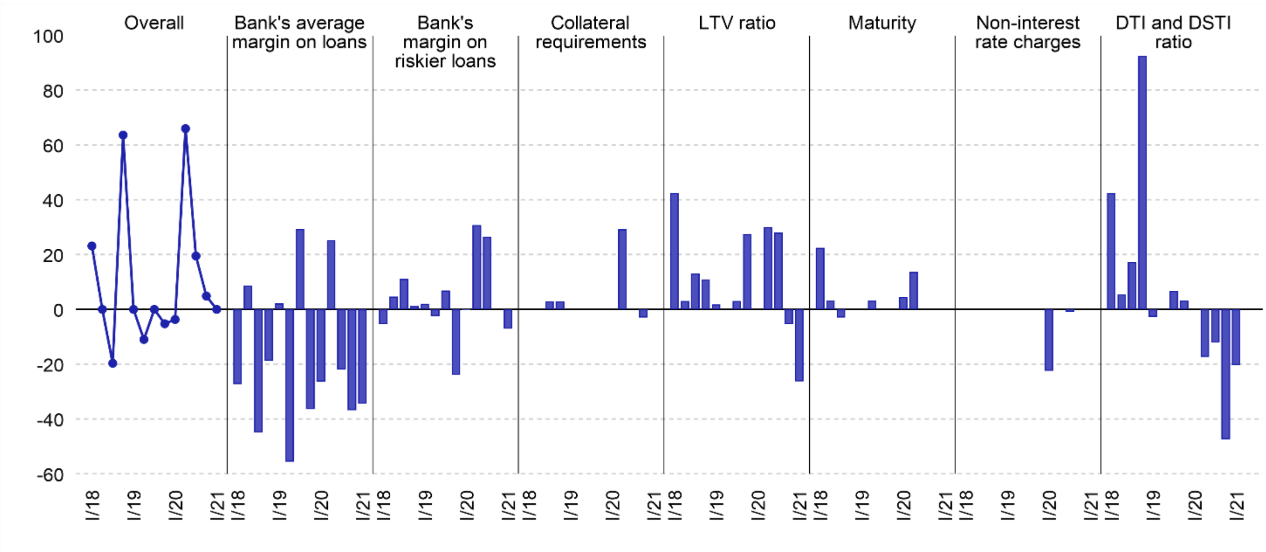


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

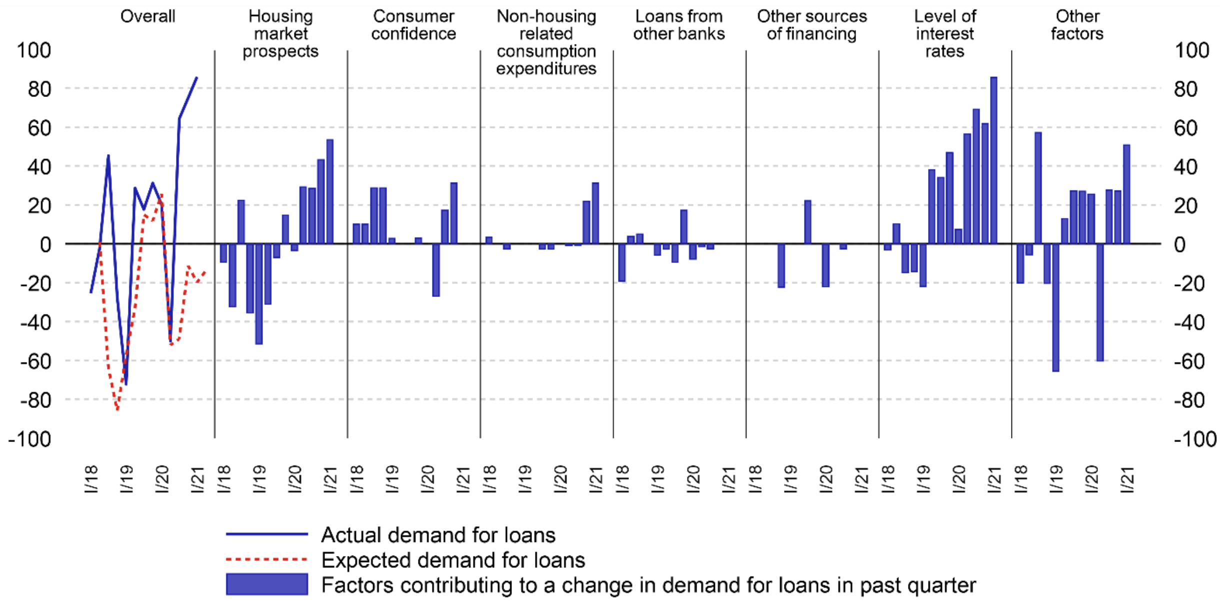


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

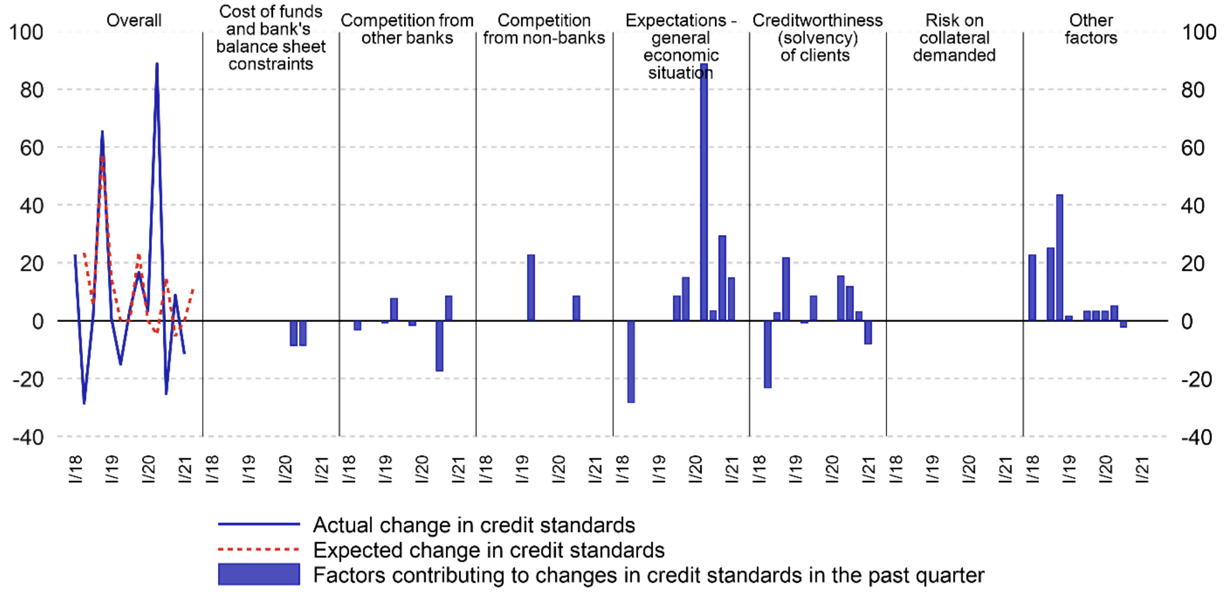


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

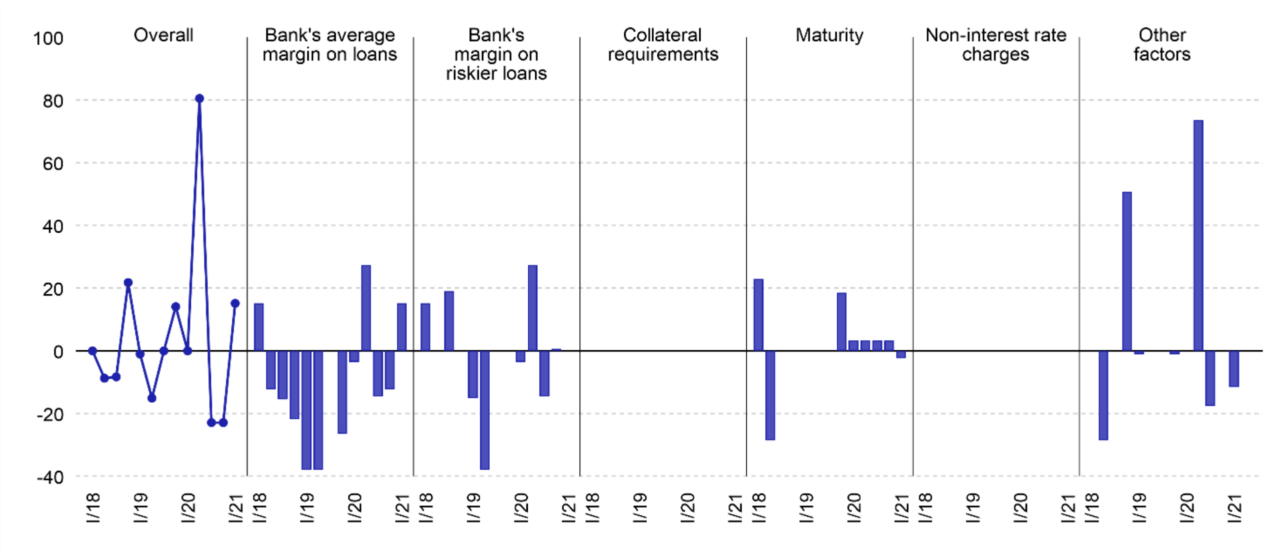
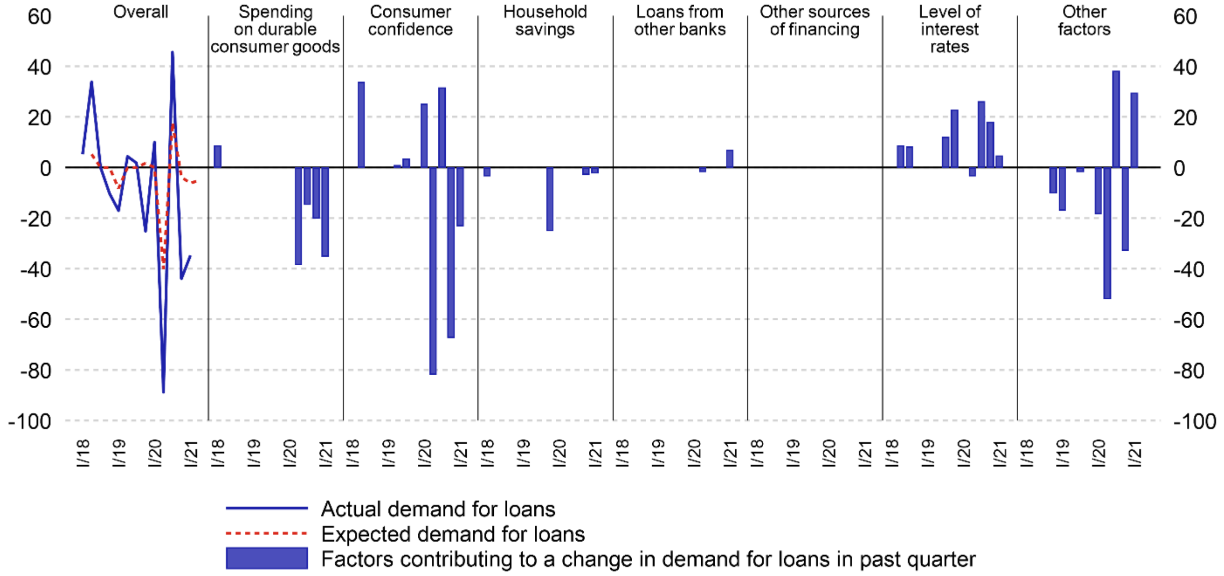


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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

Contact:
COMMUNICATIONS DIVISION, GENERAL SECRETARIAT
Tel: 224 413 112
Fax: 224 412 179
http://www.cnb.cz/