Bank Lending Survey

I/2022

Czech National Bank —— Bank Lending Survey —— I/2022

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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 thirty-ninth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2021 Q4 and their expectations in these areas for 2022 Q1. Twenty banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 1 December and 15 December 2021.[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 latest round of the survey indicate no major or broad changes in credit standards across the segments of the credit market. Banks eased credit standards for loans to non-financial corporations in only a very small section of the banking market in 2021 Q4. Credit standards for loans for house purchase were also eased in a small part of the market. Credit standards for loans to households for consumption were unchanged. Banks tended to adjust the lending conditions, representing the arrangements between lenders and borrowers, and took a differentiated approach across loan categories and sectors. Demand for loans to non-financial corporations as perceived by banks continued to rise in around one-fifth of the banking market, while demand for loans to households for house purchase, and newly also consumer credit, decreased. Banks do not foresee any change in the rate of expected credit losses on loans to households in 2022 Q1. By contrast, a small proportion of banks expect a drop in the rate of expected credit losses on loans to non-financial corporations.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Banks eased credit standards (their internal lending policy criteria) **for loans to non-financial corporations in only a very small section of the banking market in 2021 Q4** (an NP of 8%). They made minor adjustments to the standards in individual segments. The easing of standards was fostered by a favourable outlook for some sectors and by banks' favourable liquidity position (NPs of 8% and 9% respectively). It also reflected increased competition from market financing (an NP of 16%). The banking market expects no change in credit standards in 2022 Q1. Banks took a differentiated approach to specific loan segments and categories, working more often with lending conditions based on arrangements between lenders and borrowers than with broader credit standards. **A small proportion of the banking market** (an NP of 10%) **eased the overall lending conditions in 2021 Q4.** Average margins in the segment of small and medium-sized enterprises decreased (an NP of 10%). This mostly involved firms that have not been significantly affected by the pandemic, or are in good financial condition or have a positive economic outlook. By contrast, total interest margins and margins on riskier loans increased (NPs of 9% and 33% respectively). Part of the banking market eased the loan size conditions (an NP of 16%), allowing clients to increase their operating lines to cover needs related to swings in commodity and material supplies. By contrast, some banks tightened their lending conditions in the form of non-interest rate charges and maturity (NPs of 20% and 11% respectively).

Total corporate demand for loans increased in 2021 Q4 (an NP of 20%). Demand for long-term loans and loans to small and medium-sized enterprises as perceived by banks increased to a greater extent (an NP of around 45%). Some banks reported a greater need to finance fixed investment, inventories and working capital, and mergers and acquisitions and corporate restructuring (NPs of 46%, 19% and 10% respectively). By contrast, the interest of some clients in financing via issuance of debt securities (an NP of 16%) and, to a lesser extent, the rising level of interest rates (an NP of 10%) were factors reducing demand. Some banks expect overall demand for loans to grow in 2022 Q1 (an NP of 19%). The same proportion of banks expect growth in demand for loans to small and medium-sized enterprises and loans to large corporations. A somewhat larger part (28%) expects growth in long-term loans.

Questions regarding loans to **non-resident non-financial corporations** show that banks left credit standards unchanged in 2021 Q4 and demand for loans increased (an NP of 40%).

II.2 HOUSEHOLDS

Part of the banking market eased the credit standards applied to loans to households for house purchase overall in 2021 Q4 (an NP of 23%). A section of the market indicated lower cost of funds and balance sheet constraints (an NP of 20%). By contrast, a small proportion of banks, which perceived higher risks associated with the general economic situation, fostered a tightening of credit standards (an NP of 9%). **Banks left the overall lending conditions unchanged.** Banks took a differentiated approach to interest margins depending on their internal needs and objectives. A reduction in the average interest margin on housing loans by part of the banking market fostered an easing of credit standards (an NP of 21%). By contrast, a small part of the market increased margins on riskier loans (an NP of 8%). A small section of the market also tightened the DTI and DSTI requirements (an NP of 9%). Banks left the LTV requirement unchanged. Legally binding limits on the LTV, DSTI and DTI ratios take effect in April 2022. Any adjustments (tightening) of the relevant credit standards and conditions will thus probably be observable in the next round of the survey. This is already indicated, as a large part of the banking market expects credit standards to tighten in 2022 Q1 (an NP of 61%). **Households' demand for loans for house purchase fell in 2021 Q4** (an NP of 18%). The responses reflected banks' differing perceptions. Although growth in interest rates was a factor frequently mentioned in the questionnaires, it was reflected in a perceived drop in demand for an NP of just 6% overall. To a small extent, the growth in perceived demand was caused by savings, consumer confidence and banks' fairly mixed perceptions of the property market prospects (NPs of 9%, 9% and 5% respectively). For 2022 Q1, a significant part of the banking market expects demand for housing loans to drop (an NP of 55%, a similar proportion as in the previous round of the survey).

Credit standards in the consumer credit segment were unchanged overall in 2021 Q4. Only cost of funds and balance sheet constraints fostered a tightening of credit standards to a small extent (an NP of 10%). **A small part of the banking market eased the overall lending conditions** (an NP of 9%). Banks increased their average interest margins and margins on riskier loans (both an NP of 20%). By contrast, a small part of the banking market eased some rules relating to borrowers' creditworthiness (an NP of 11%). **Households' demand for consumer credit decreased** (an NP of 19%). This was due to another wave of the pandemic and related less room for consumption, and to rising energy prices weighing on household budgets. An increase in spending on durable goods, solid consumer confidence and the still probably favourable level of interest rates on consumer credit conversely fostered growth in demand (NPs of 9%, 9% and 13%). A small proportion of the banking market expects credit standards to tighten in 2022 Q1, and about a fifth of the market expects demand for consumer credit to decrease.

Credit standards for loans to sole proprietors were unchanged in 2021 Q2. Banks do not expect them to change in 2022 Q1 either. **Sole proprietors' demand for loans increased** (an NP of 5%). The banking market expects no change in the demand in 2022 Q1.

Additional questions on **expected credit losses** indicate that banks expect no change in the rate of expected credit losses on loans to households in 2022 Q1. By contrast, a small proportion of the banking market mentions a drop in the rate of expected credit losses on loans to non-financial corporations.

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)

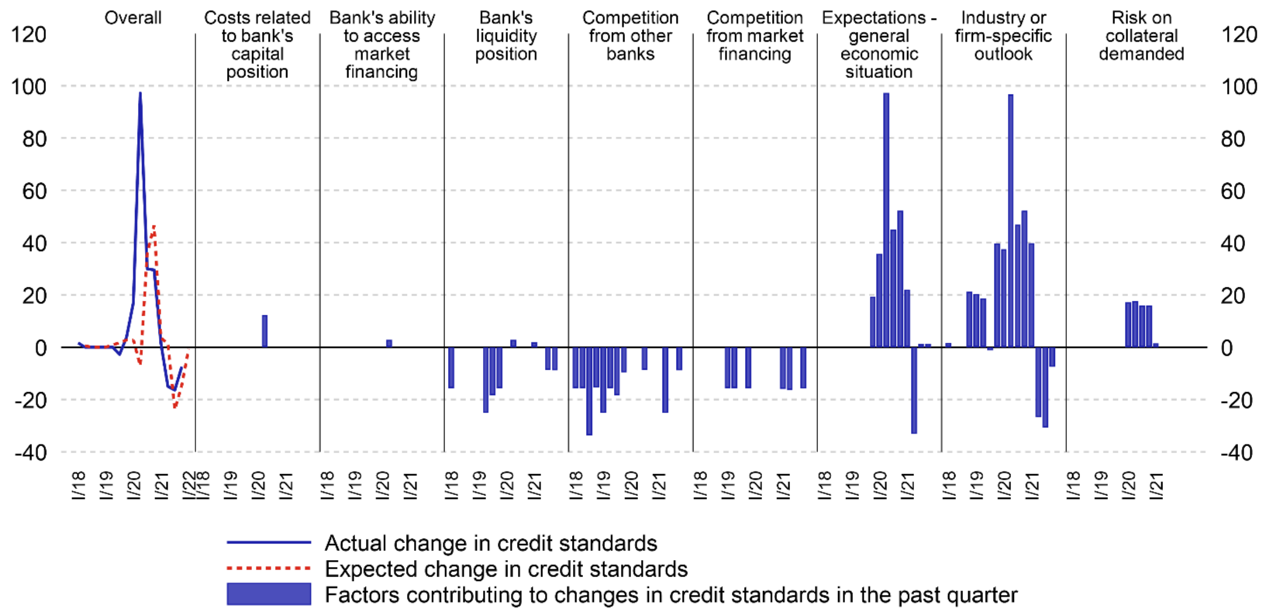


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

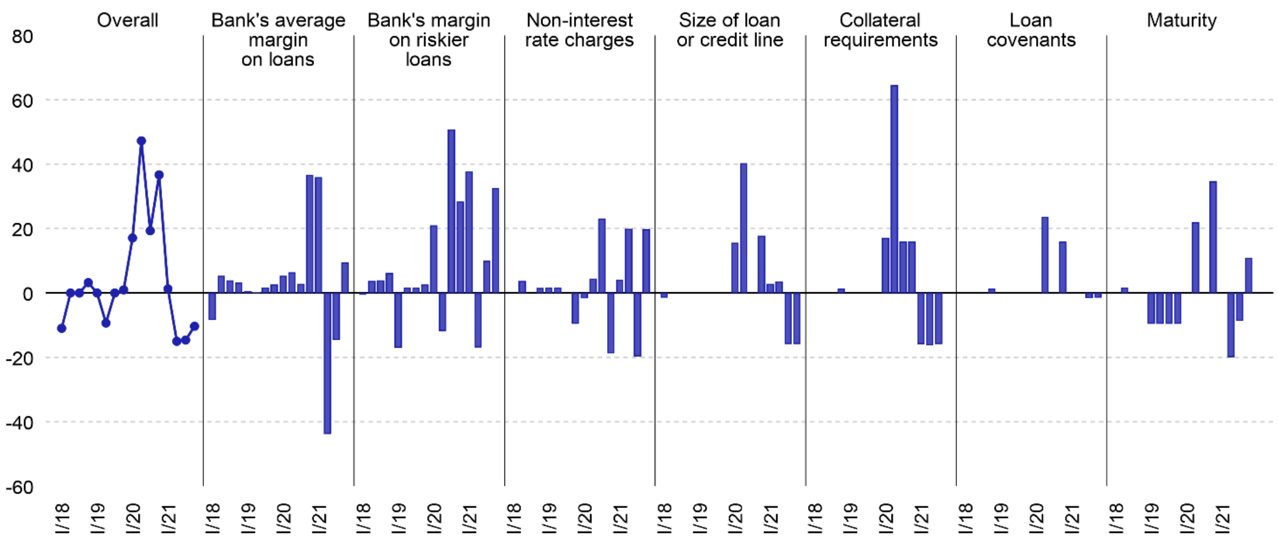


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

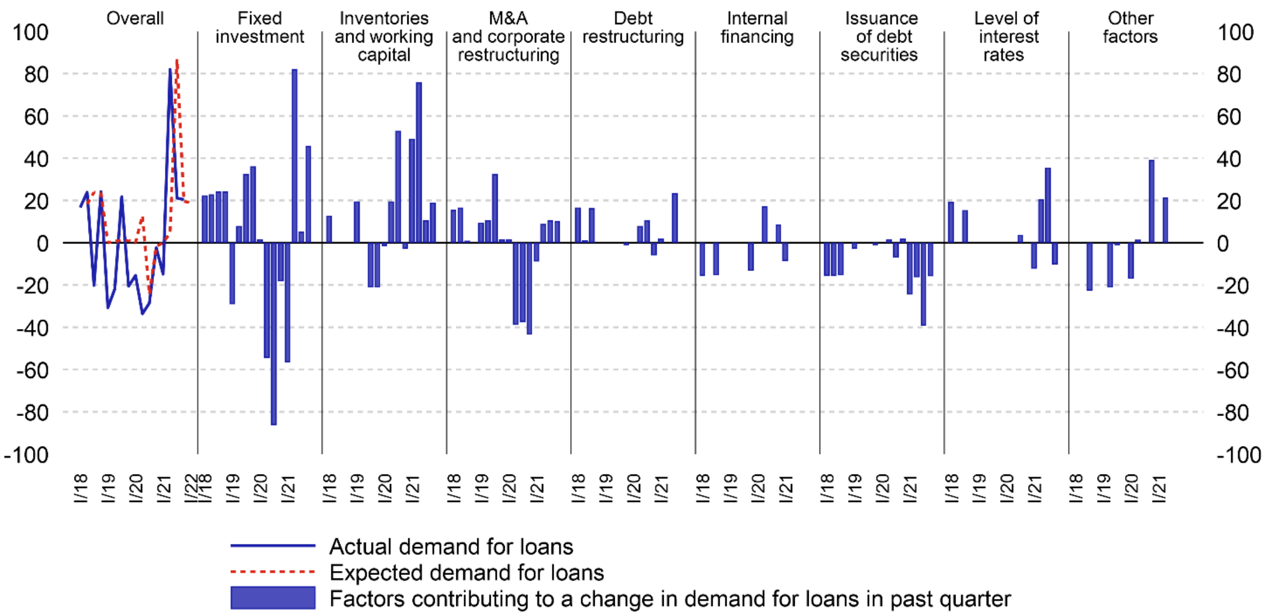


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

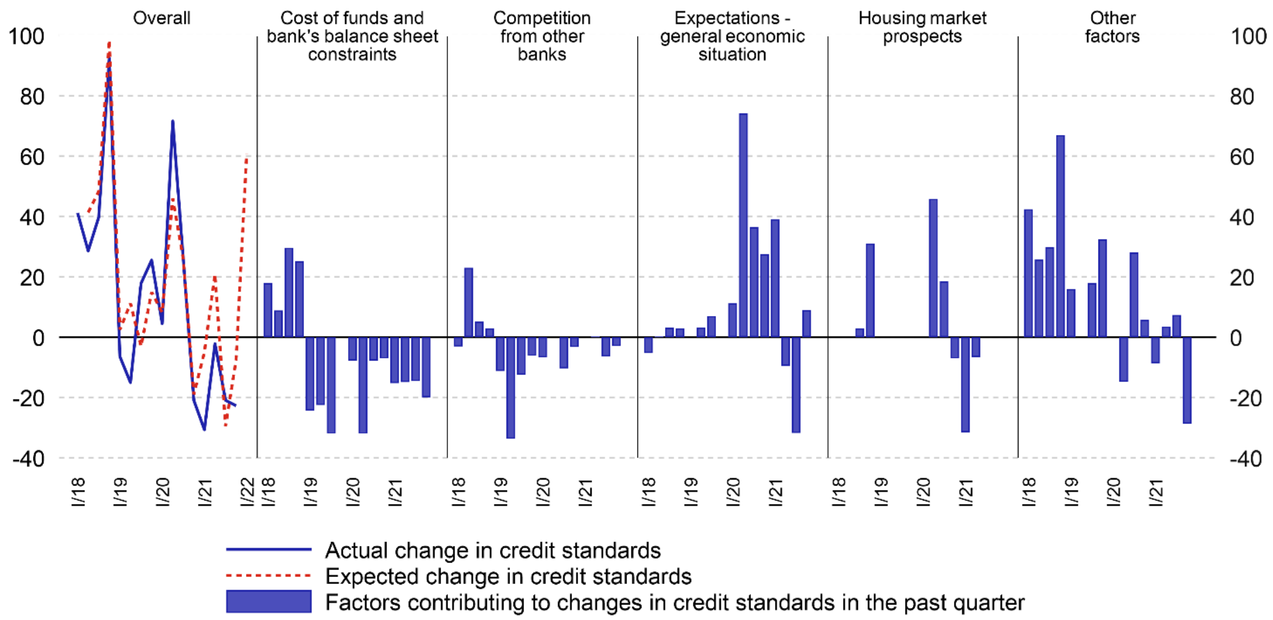


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

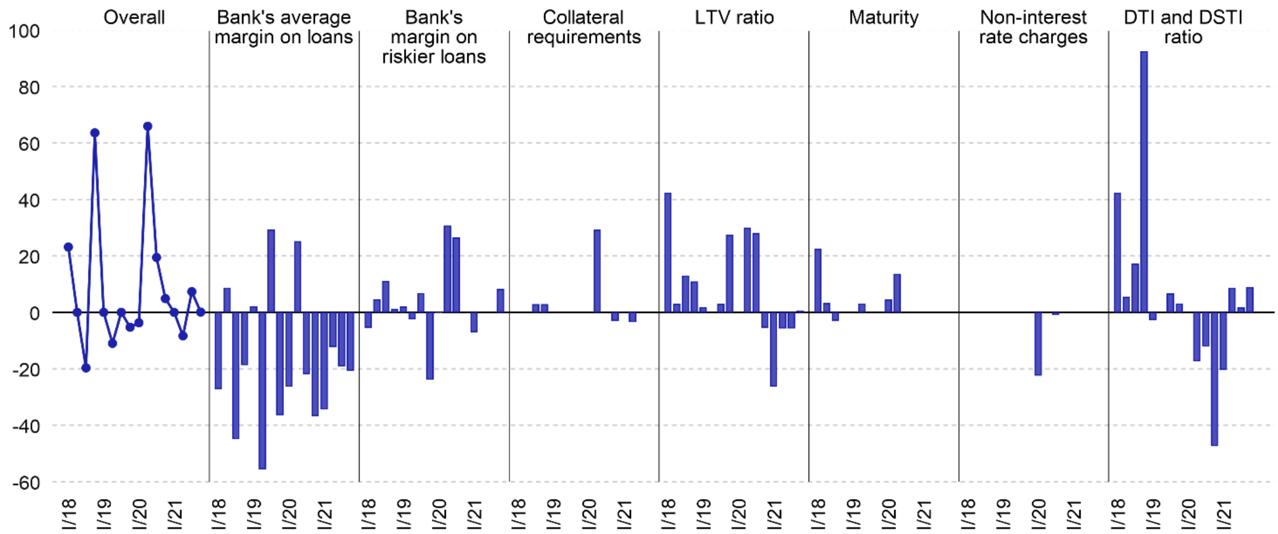


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

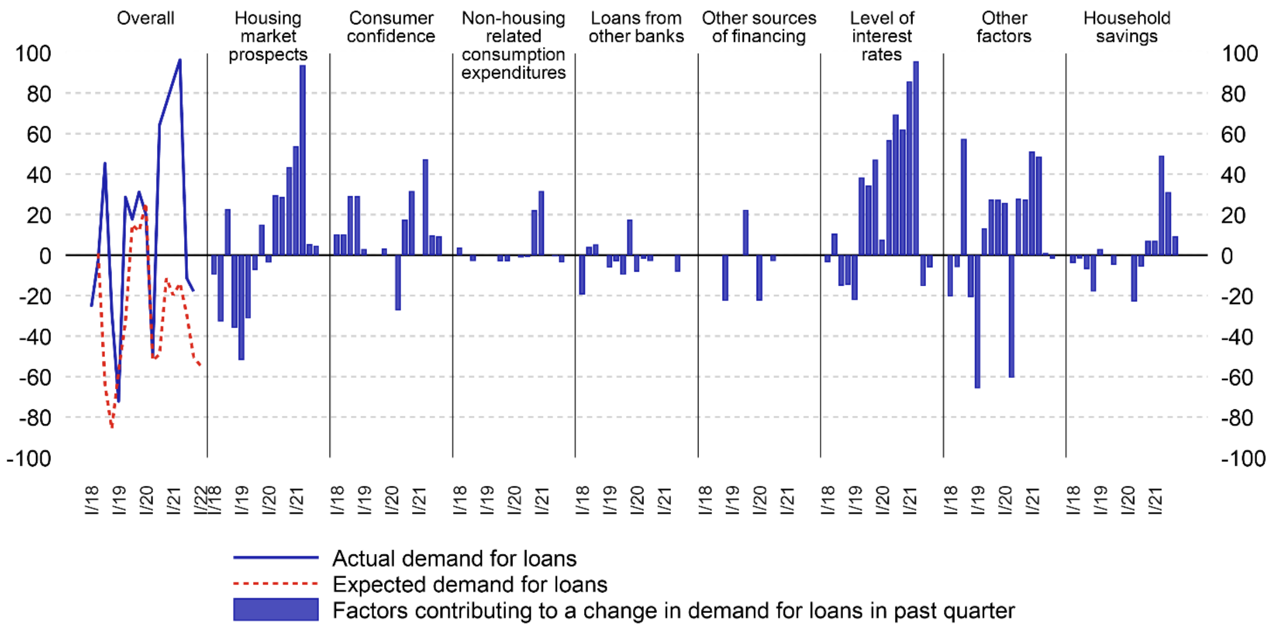


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

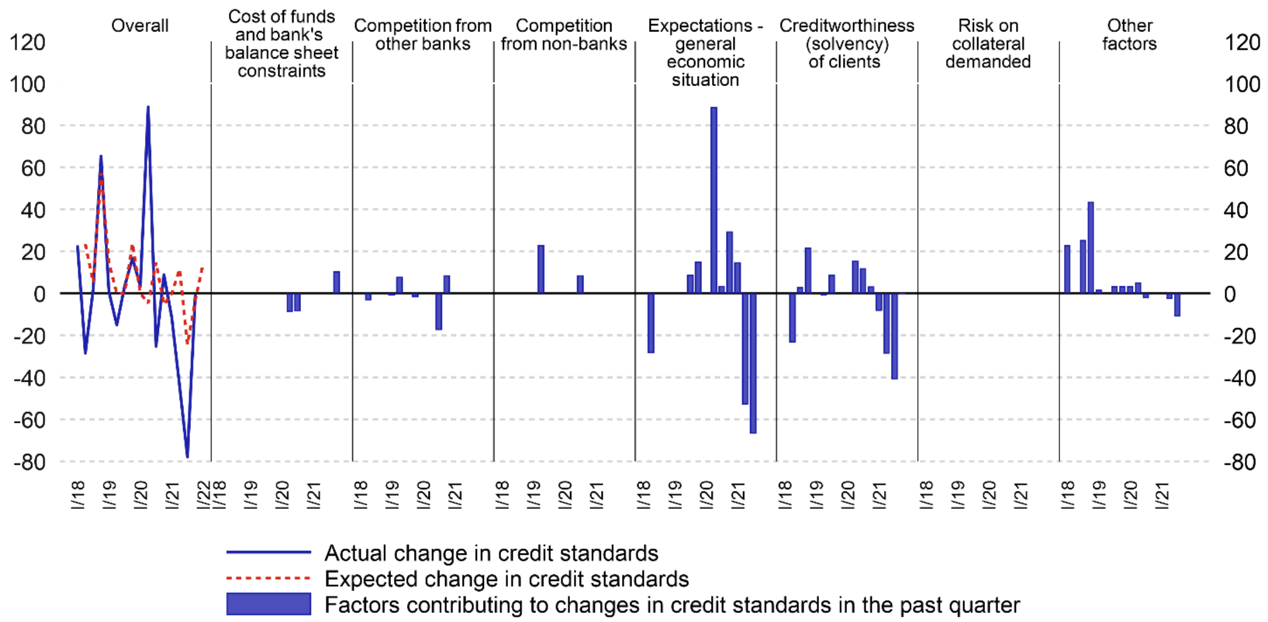


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

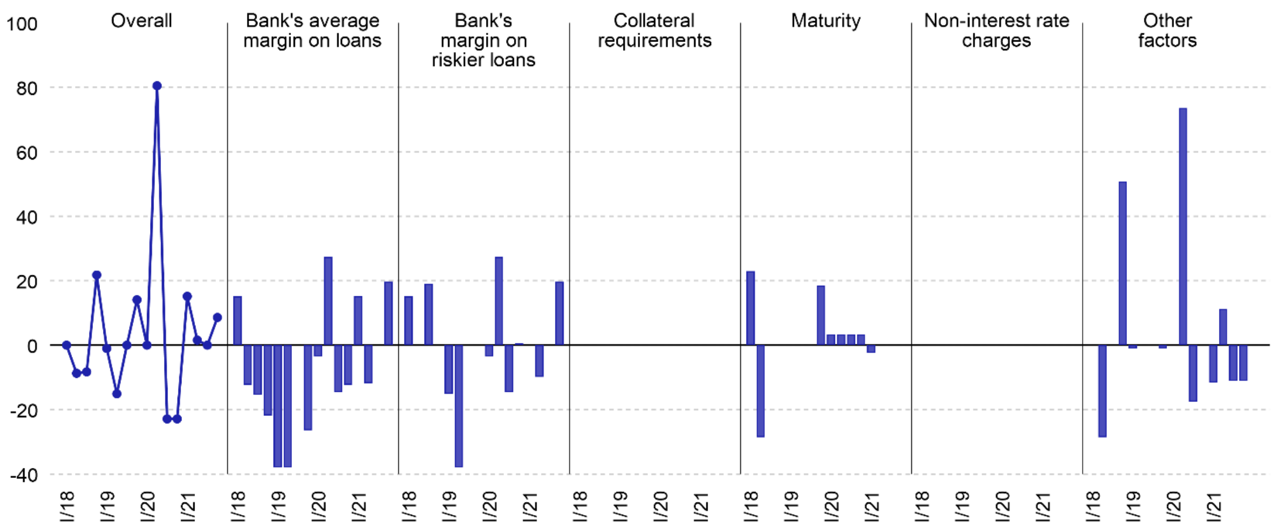
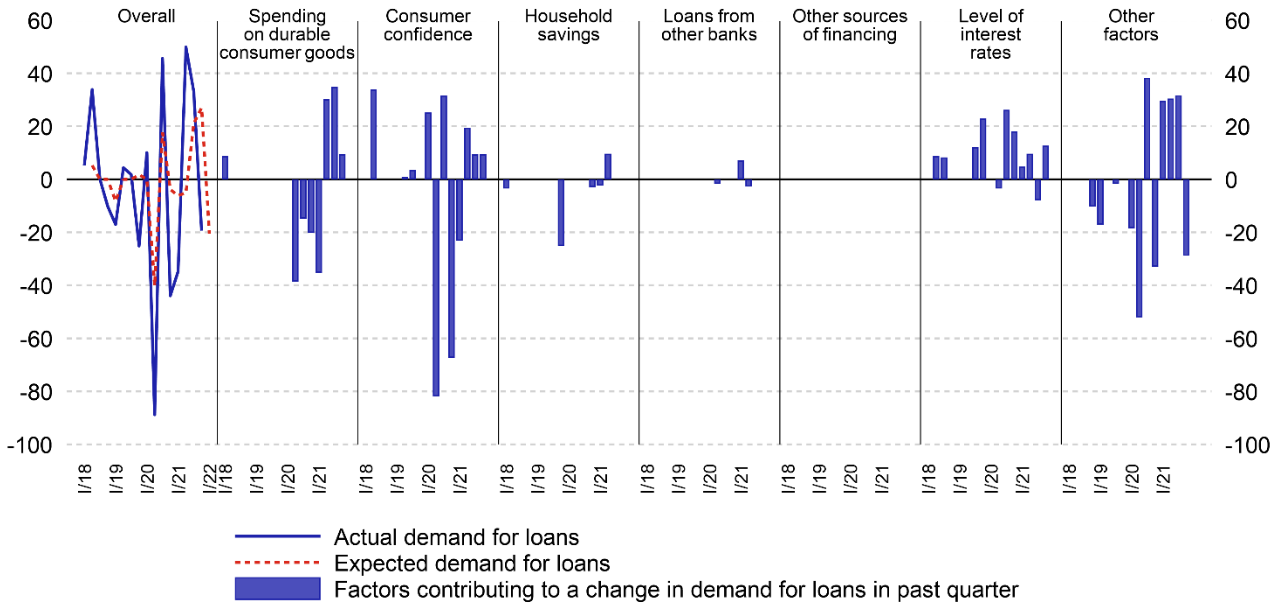


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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