Bank Lending Survey

II/2022

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

CZECH NATIONAL BANK

Introduction

The Bank Lending Survey captures banks' opinions regarding the change in supply and demand for loans to non-financial corporations and households. This information summarises the results of the fortieth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2022 Q1 and their expectations in these areas for 2022 Q2. Nineteen banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 1 and 15 March 2022.[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 along with the publication, 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 current Bank Lending Survey show that part of the banking market slightly tightened credit standards for loans to corporations and loans to households for consumption in 2022 Q1. Credit standards for loans for house purchase have so far recorded no major changes overall. In these segments, the lending conditions representing the arrangements between the lender and the borrower were tightened in a relatively small proportion of the market. Overall, banks perceive a decline in demand for loans in all three monitored segments. Lower corporate demand for loans reflected increased uncertainty associated with the war in Ukraine, high prices of energy and other inputs, and rising interest rates. Interest in financing of fixed investment slowed by comparison with the previous period. Households' demand for loans for house purchase dropped partly as a result of continued growth in interest rates, higher inflation and a further rise in property prices. Part of the banking market expects credit losses to increase in all the above-mentioned segments in 2022 Q2.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Part of the market slightly tightened credit standards (banks' internal lending policy criteria) for loans to non-financial corporations in 2022 Q1 (an NP of 20%). Banks perceived increased risks associated with the outlook for the overall economic situation and for some sectors, as well as risks related to required collateral and the impact of the war in Ukraine. By contrast, competition on the banking market and banks' good liquidity position fostered an easing of the standards for large corporations (an NP of 9%). Banks expect credit standards to tighten even more sharply in 2022 Q2 (an NP of 45%). **Lending conditions** (representing the arrangements between the lender and the borrower) were tightened in a relatively small proportion of the market (an NP of 6%). Requirements for loan collateral and interest margins on riskier loans were increased. Average interest margins picked up for smaller corporations, whereas for large corporations they were still decreasing.

Corporate demand for loans declined for the first time in a year (an NP of 36%). Demand declined especially for smaller corporations and long-term loans (NPs of 45% and 36% respectively). It was adversely affected by the above-mentioned increased uncertainties and rising interest rates (an NP of 70%). Some corporations also used alternative forms of financing from own funds and issuance of debt securities. Compared with the previous period, only a smaller proportion of the banking market perceived growth in demand for financing of fixed investment (an NP of 5%). Growth in demand for financing of working capital and inventories was perceived more strongly (an NP of 35%). This was again connected with supply chain disruptions and a need to maintain higher operational stocks, but also rising input prices. A relatively small proportion of the banking market expects demand for loans to rise in Q2, whereas demand for long-term loans is expected to fall further (an NP of 30%).

II.2 HOUSEHOLDS

Credit standards applied to house purchase loans to households were almost unchanged overall in Q1. The overall **lending conditions** tightened in 15% of the banking market, reflecting an increase in average interest margins, margins on riskier loans and adjustments to credit ratios (an NP of 18% for LTV and an NP of 24% for DSTI and DTI). Legally binding limits on the LTV, DSTI and DTI credit ratios entered into force in April 2022. Any further adjustments to banks' relevant credit standards and conditions will probably also be visible in the period ahead. This is also suggested by banks' expectations, as 76% of the market foresees a tightening of credit standards for loans for house purchase in Q2.

Demand for loans for house purchase declined almost across the board in Q1 (an NP of 81%). The decrease in demand for loans reflected mainly an increasing level of interest rates on house purchase loans (an NP of 86%). Higher consumption expenditure due to a rise in inflation, growth in property prices and a decline in household savings also had an adverse effect on demand. On the other hand, banks perceived rising inflation as providing an incentive for some households to invest in property. However, banks expect the decline in demand for loans to continue in Q2 (an NP of 82%).

Credit standards applied to loans to households for consumption tightened overall (an NP of 20%). This reflected the implementation of legally binding credit ratio limits and banks' higher cost of funds. The **lending conditions** also tightened in a small proportion of the market (an NP of 9%). This was due to a rise in interest margins on riskier loans and average interest margins (NPs of 31% and 8% respectively). **Demand for loans for consumption decreased** (an NP of

24%), owing chiefly to higher interest rates (an NP of 24%), worse consumer sentiment and a decline in household savings (an NP of 10%). Banks expect a further tightening of credit standards in this segment (an NP of 43%) and unchanged demand for loans in Q2.

The setting of credit standards for **loans to sole proprietors** was unchanged and demand for loans decreased (an NP of 18%). In Q2, banks expect credit standards to tighten and demand for loans to fall further (NPs of 34% and 18% respectively).

Additional questions on **expected credit losses** indicate that a proportion of the banking market has started to expect the rate of expected credit losses to increase in all credit market segments, though with less intensity than when the coronavirus pandemic broke out.

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)

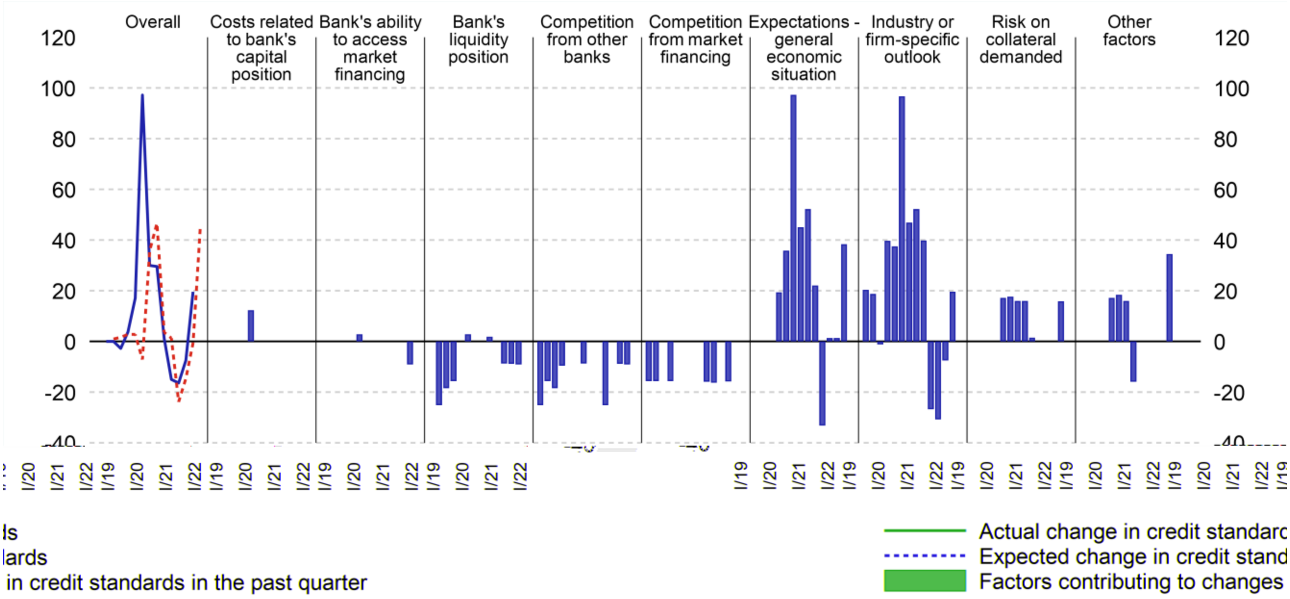


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

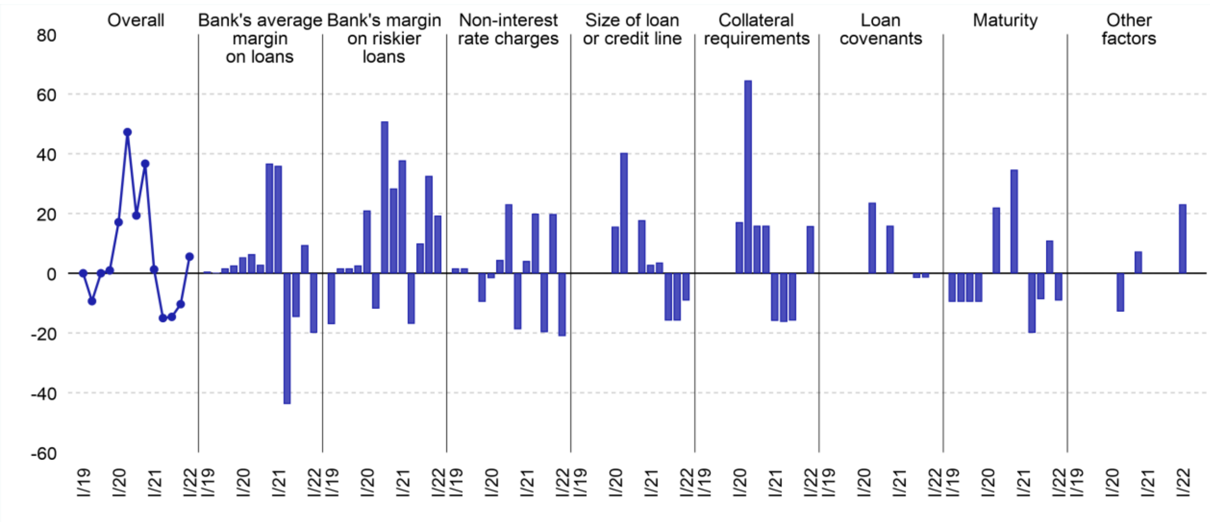


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

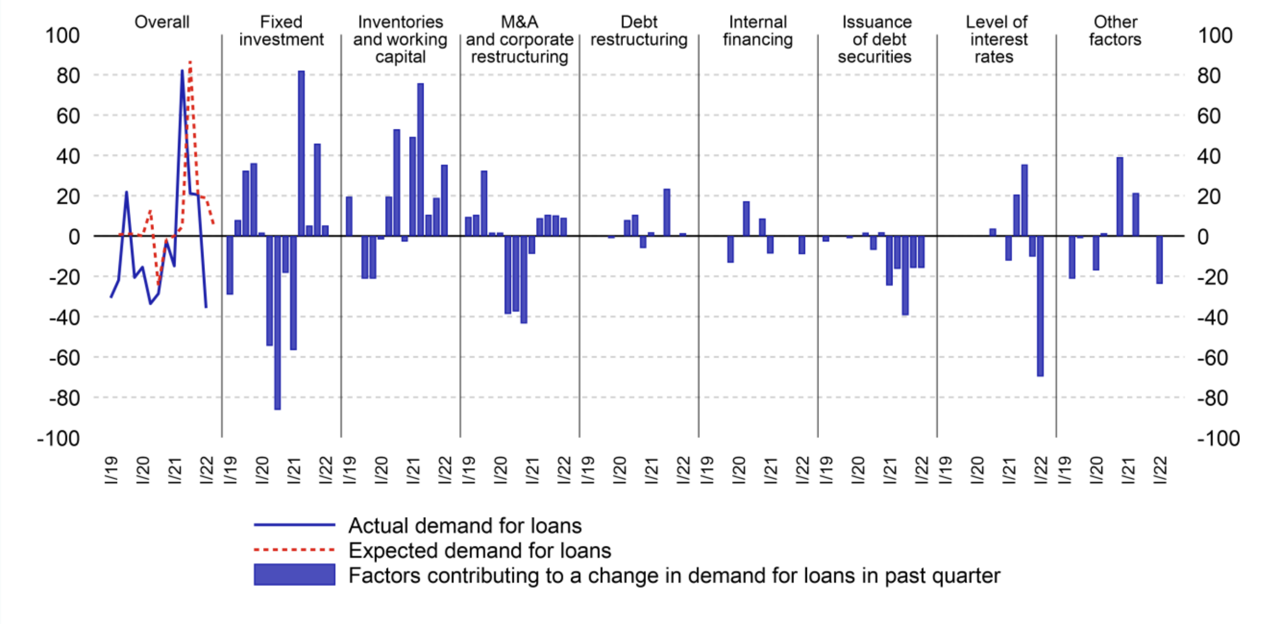


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

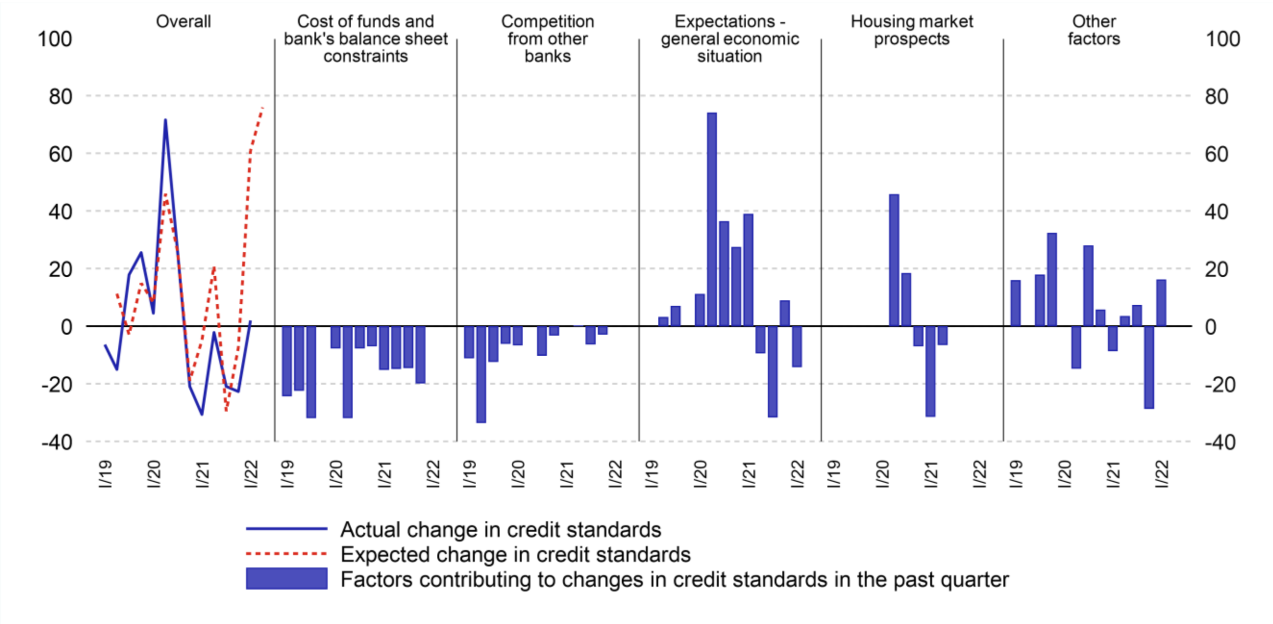


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

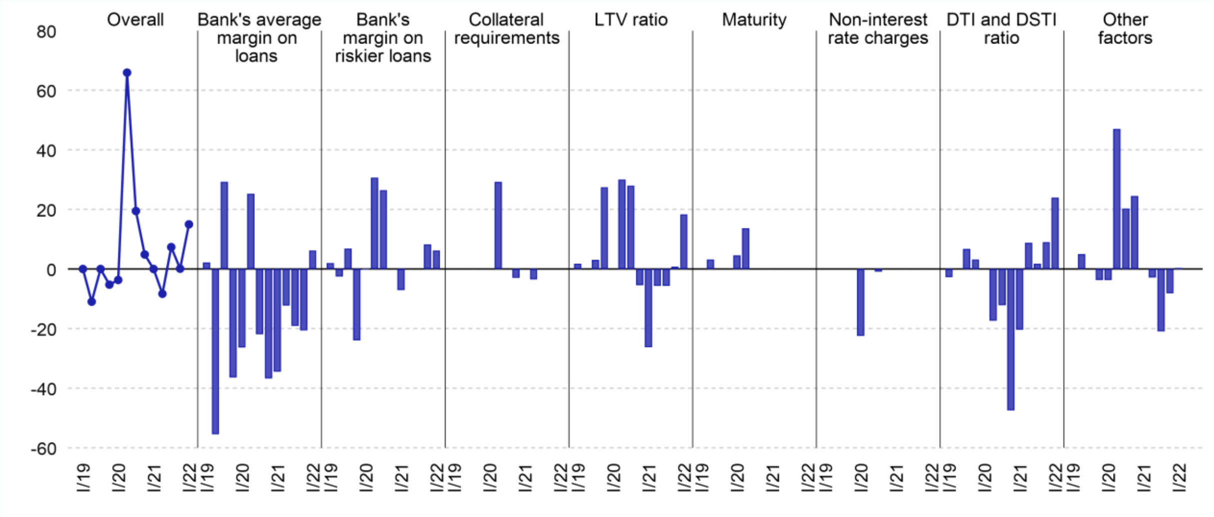


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

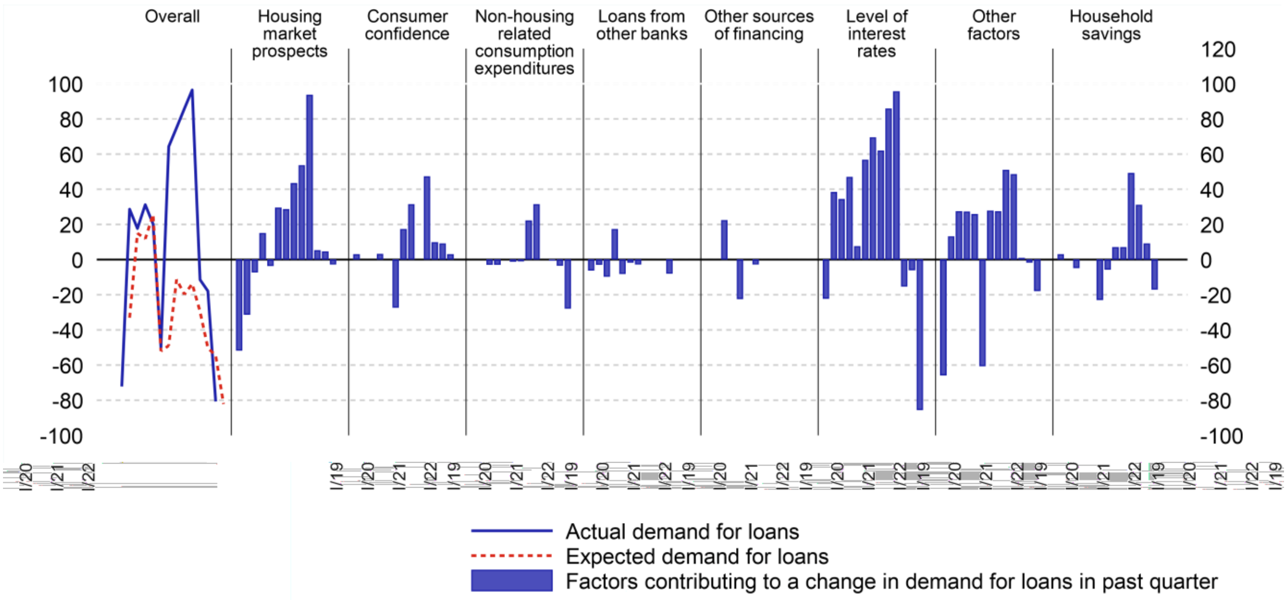


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

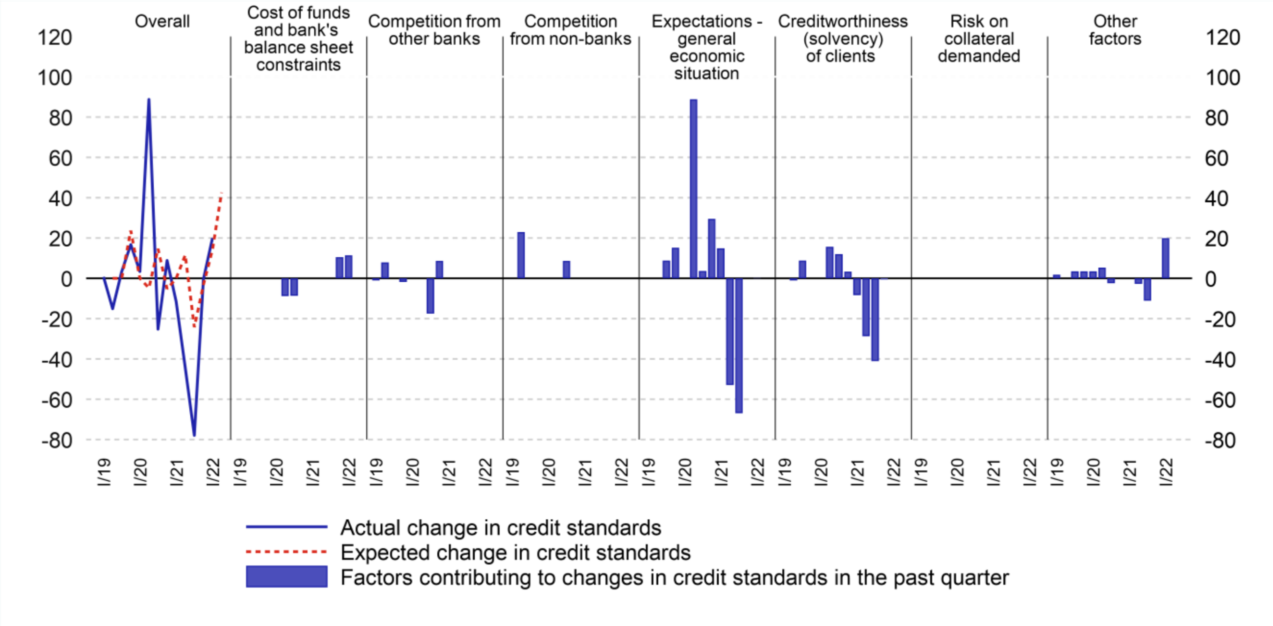


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

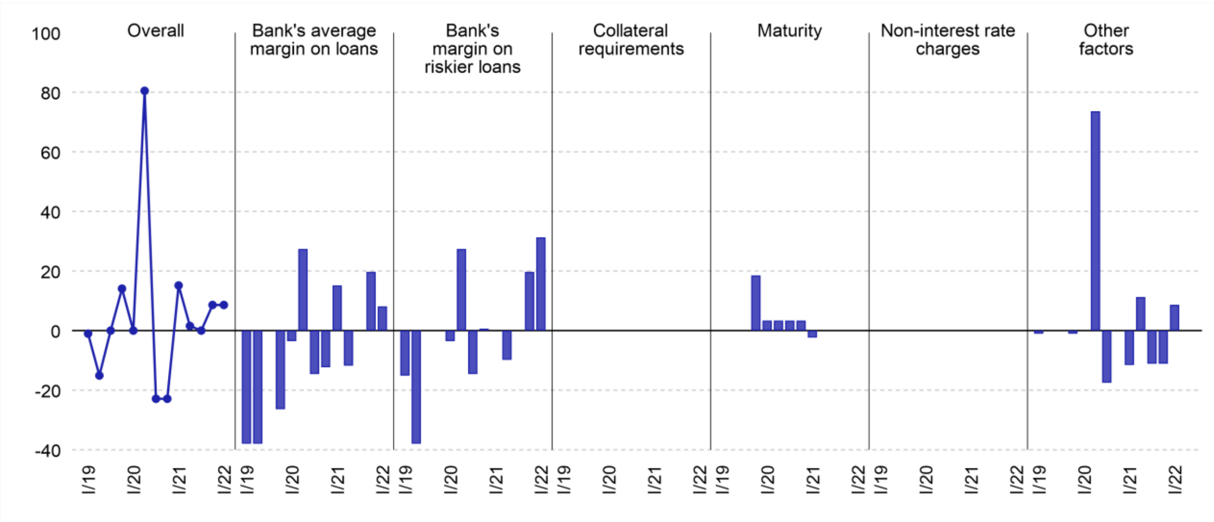
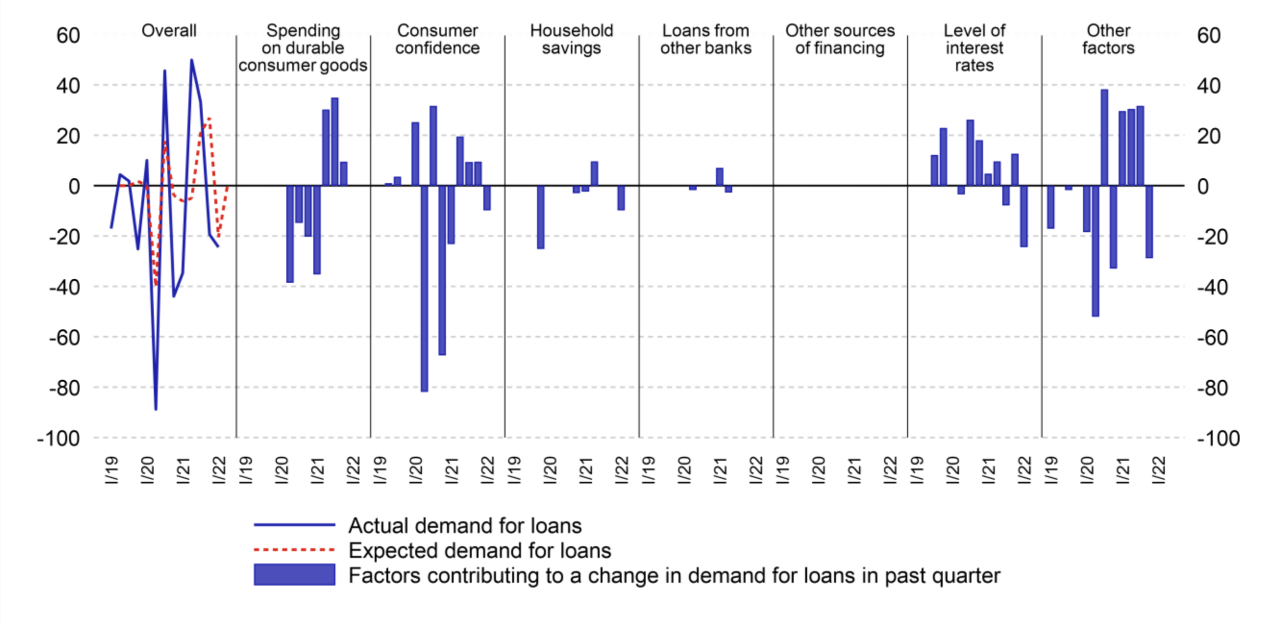


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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