Bank Lending Survey

II/2023

Czech National Bank —— Bank Lending Survey —— II/2023

CZECH NATIONAL BANK

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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 forty-fourth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2023 Q1 and their expectations in these areas for 2023 Q2. Nineteen banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 1 March and 15 March 2023.[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 current Bank Lending Survey show that following last year's tightening, credit standards for corporate loans and loans to households for house purchase were broadly unchanged in 2023 Q1 but for consumer credit they tightened further. Banks left the lending conditions, representing the arrangements between lenders and borrowers, unchanged overall. According to banks' perceptions, demand for loans recorded a relatively broad-based decline in all segments of the credit market. The weakening of corporate demand for loans was due mainly to increased interest rates and a lower need to finance fixed investment. Demand for loans for house purchase declined further, mainly as a result of higher interest rates, increased living costs and weaker consumer confidence. However, a further drop in demand for housing loans was perceived by a smaller section of the banking market than in the previous period. Banks' expectations regarding credit losses in the following year increased, though slightly less so than in the previous rounds of the survey. Overall, banks do not expect major adjustments to credit standards for corporate loans in 2023 Q2, but they do expect a further fall in demand for loans in this credit market segment. According to a small section of the banking market, the standards for house purchase loans will ease in Q2 and demand will grow slightly.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Following last year's tightening, banks' credit standards for loans to non-financial corporations were broadly unchanged in 2023 Q1. These developments in lending policy were recorded in almost the entire banking market for loans to both large and smaller enterprises and for short-term loans. However, credit standards for long-term loans continued to be tightened (an NP of 16%). Perceptions of increased risks associated with the outlook for the overall economic situation and for some sectors and firms continued to foster a tightening of standards, though in a smaller section of the banking market than in the previous period (about one-third of the banking market). In the case of businesses operating in sectors more adversely affected by external factors (such as energy prices and inflation), banks tightened the requirements for the scope of information required and applied stricter risk assessment. They were also more conservative in commercial property financing. According to banks, the approach to lending thus continued to be prudent. The banking market does not expect any major change in credit standards in 2023 Q2. However, almost one-fifth of the market expects standards for loans with longer maturities to tighten further.

The terms and conditions for negotiating specific corporate loans were also unchanged overall. However, as regards the structure of lending conditions, the terms and conditions tightened via loan covenants (an NP of 15%). For prudential reasons, a slightly higher debt service coverage ratio and share of own funds are thus required compared to the previous period. The terms and conditions relating to the maturity of loans also tightened (an NP of 19%). On the other hand, almost one-fifth of the banking market reduced average interest margins representing the difference between client and reference market interest rates and non-interest charges in the case of loans to large corporations. A significant part of the banking market left average interest margins unchanged. Similar developments were recorded for margins on riskier loans.

Corporate demand for loans declined across the board. Demand for loans decreased in 2023 Q1 (an NP of 77%), the highest percentage recorded since 2012 (i.e. since the start of the survey). According to banks' perceptions, demand for loans declined especially in the case of large enterprises. Demand for loans among small and medium-sized enterprises increased in a small proportion of the banking market following last year's weakening. A broad drop in demand was recorded for long-term loans (an NP of 92%). For the first time since the end of 2020, corporate demand for short-term loans also declined (an NP of 47%). This was mainly due to increased interest rates (an NP of 69%). Banks continued to perceive a reduced need to finance fixed investment (an NP of 67%), and mergers and acquisitions and corporate restructuring. Demand for financing of working capital and inventories also decreased (an NP of 19%) amid a gradual moderation of high growth in input prices and firms' efforts to release inventories. The use of own funds as part of internal financing and, in the case of some firms, financing via bond issuance also had a downward effect on demand (NPs of 10% and 4% respectively). In 2023 Q2, banks expect demand for loans to decrease further overall (an NP of 57%) for all loans in terms of company size and maturity.

II.2 HOUSEHOLDS

Credit standards applied to house purchase loans to households were almost unchanged overall in 2023 Q1, tightening in only a small section of the banking market. Adjustments to banks' internal processes due to households' increased living costs and heightened risk perceptions regarding future economic developments contributed to a tightening of standards (NPs of 16% and 17% respectively). Conversely, an easing of credit standards was fostered mainly by a decrease in banks' cost of funds (an NP of 20%). **Lending conditions** for loans for house purchase were unchanged overall. Within the structure of housing loan conditions, average interest margins increased in almost one-fifth of the banking market due to a drop in market interest rates and lower competitive pressure on interest rates.

Households' demand for loans for house purchase continued to decrease. However, a drop in demand in 2023 Q1 was perceived by a smaller section of the banking market than in the previous period (an NP of 33% as against 69% in 2022 Q4). The drop in demand was due to households' increased consumption expenditure reflecting high living costs, weaker consumer confidence and a decline in household savings (NPs of 55%, 47% and 27% respectively). Increased interest rates continued to foster a drop in demand, albeit in a smaller section of the banking market than last year. In 2023 Q2, however, almost one-third of the banking market expects demand for housing loans to grow.

Credit standards for consumer credit continued to be tightened (an NP of 53%). As in the other segments of the credit market, this was due to perceptions of increased risks associated with the expectations regarding the overall economic situation, stricter assessment of client creditworthiness and adjustments to the calculations relating to increased living costs. By contrast, a decrease in banks' cost of funds fostered an easing of standards. Lending conditions were unchanged overall. **Demand for consumer credit decreased further** (an NP of 49%). This mainly reflected uncertainties related to high inflation and a drop in real income, lower household expenditure on durable goods, weaker consumer confidence and high interest rates. In Q2, banks expect credit standards to tighten further and demand for loans to fall in this segment of the credit market (NPs of 17% and 21% respectively).

The setting of credit standards for **loans to sole proprietors** was unchanged following a previous tightening and demand for loans continued to decrease across the board (an NP of 68%). In Q2, banks do not expect credit standards to change, but they do expect demand to drop further (an NP of 38%).

Additional questions on **expected credit losses** indicate that a proportion of the banking market expects the credit loss rate to increase in all credit market segments in the period ahead, though less so than in 2020 when the Covid-19 pandemic broke out and in 2022. In the following year, 43% of the banking market expects growth in credit losses in the case of corporate loans, 42% of the market in the case of consumer credit and 31% of the market in the case of housing loans.

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)

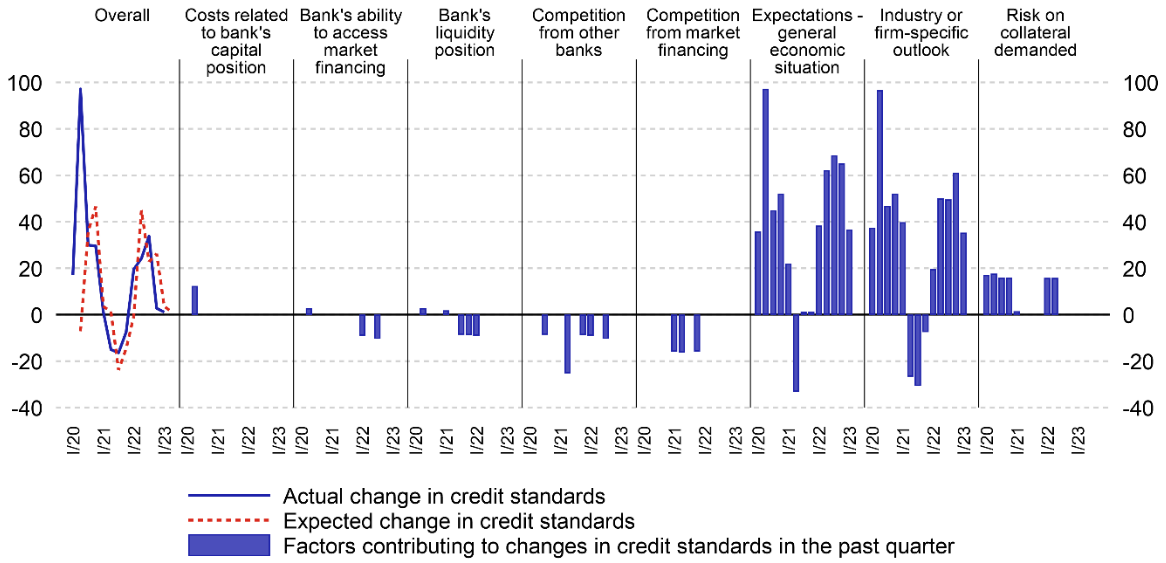


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

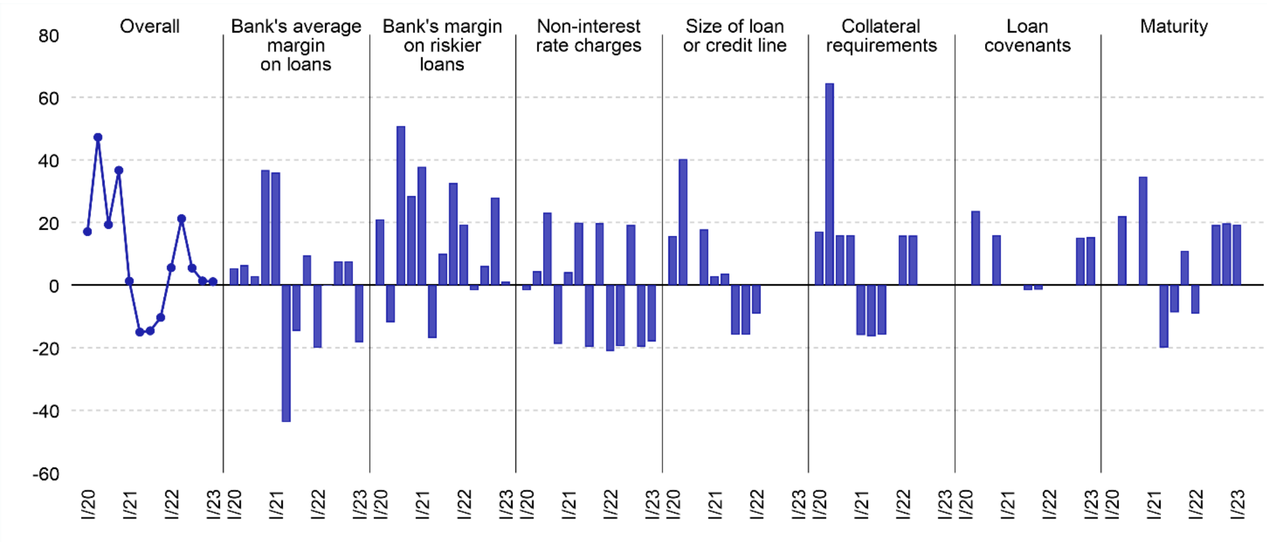


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

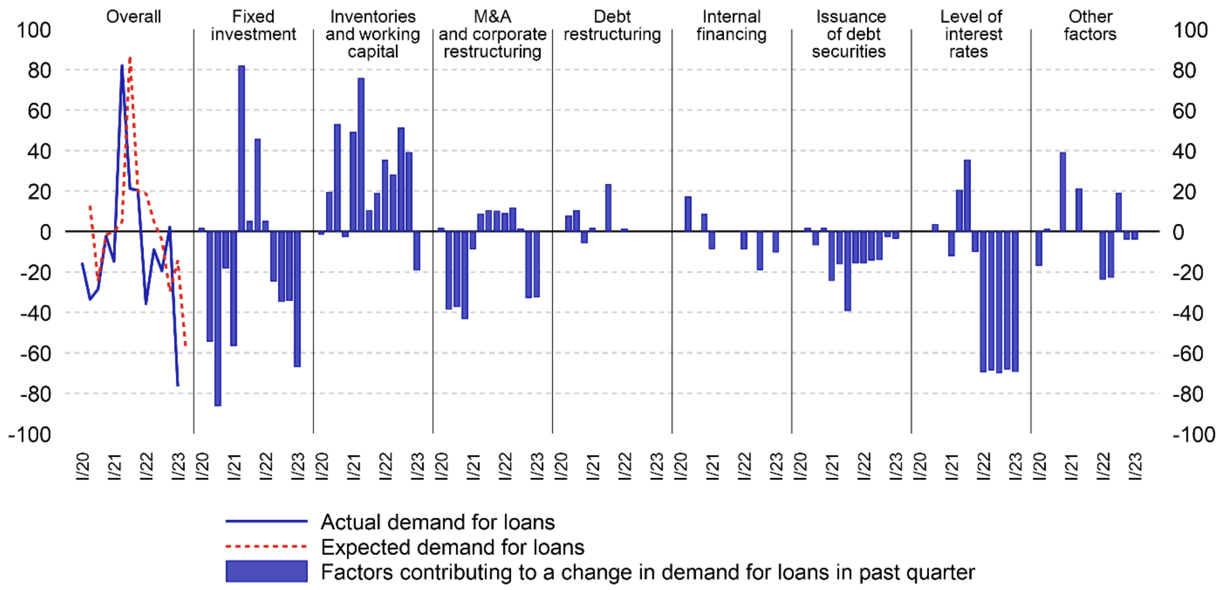


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

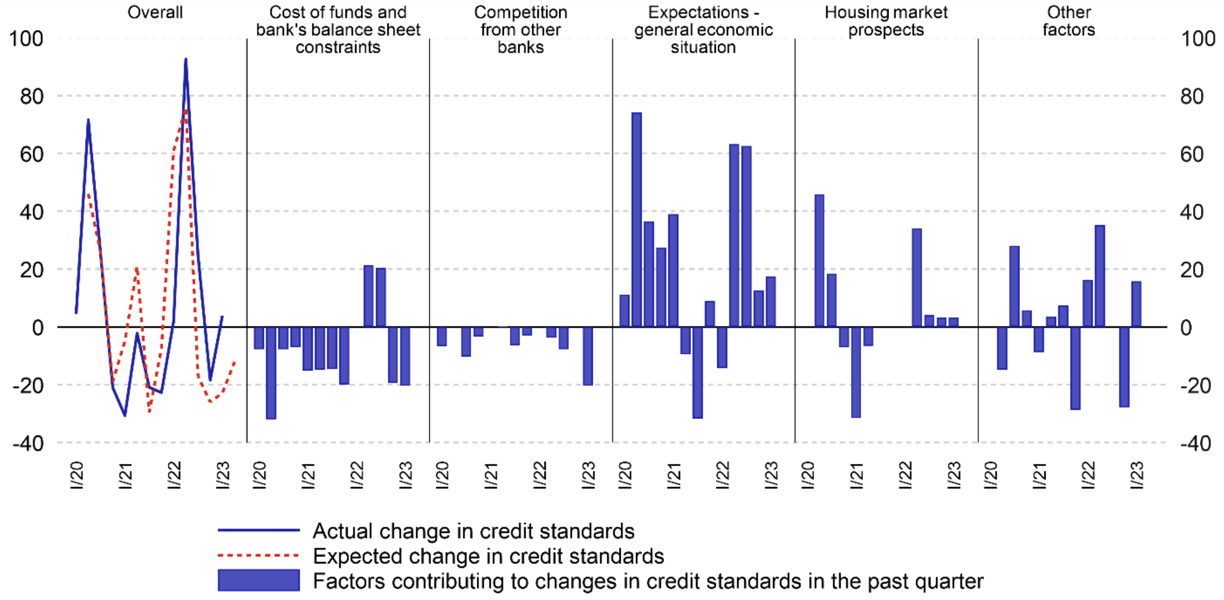


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

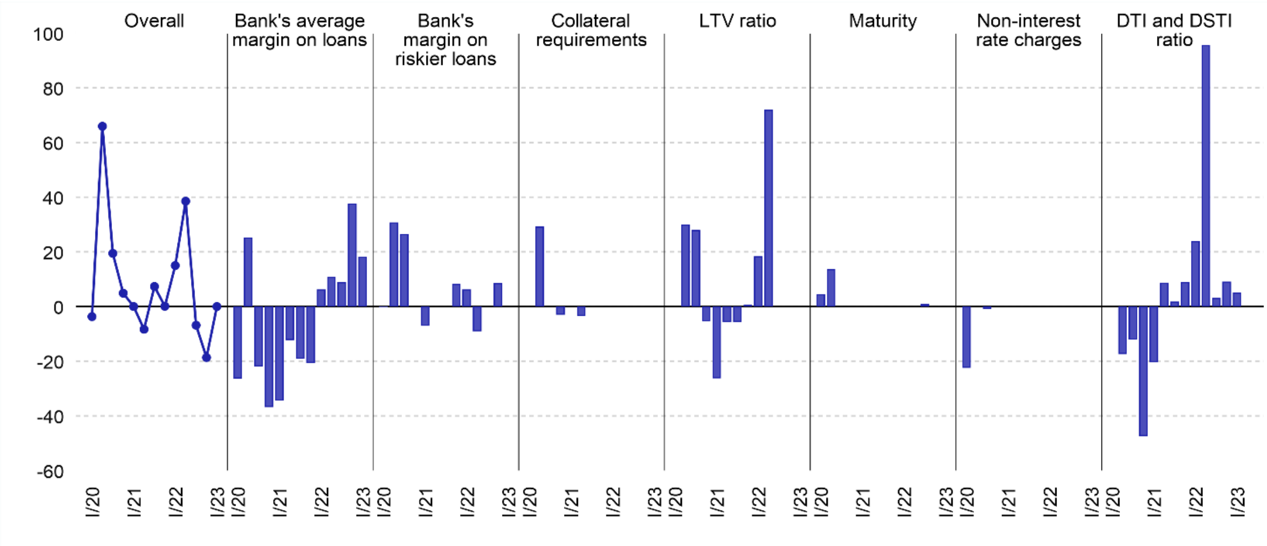


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

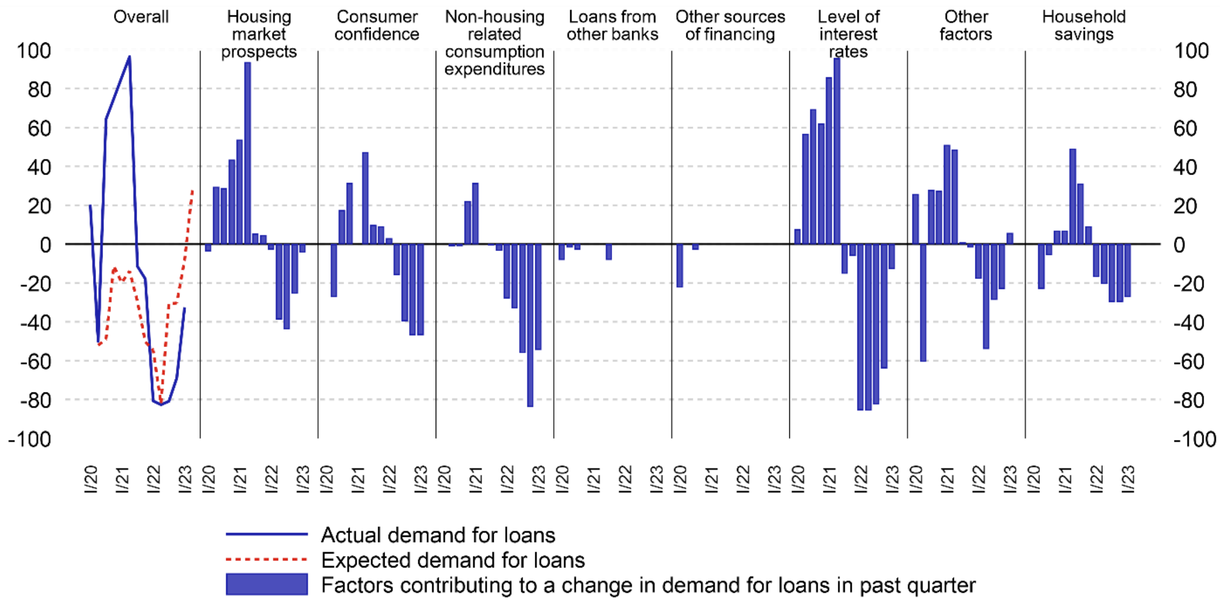


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

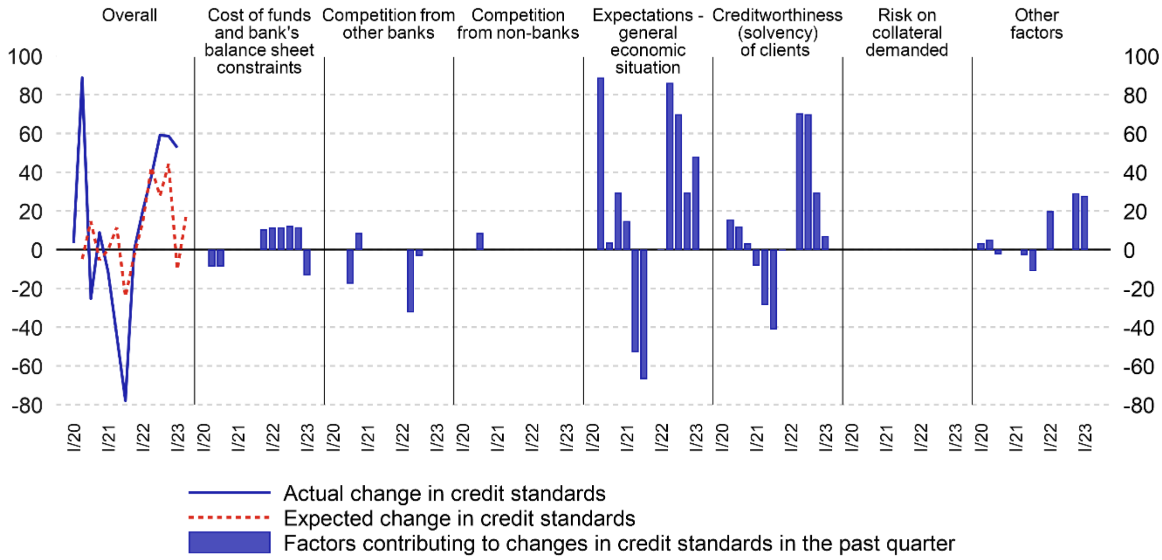


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

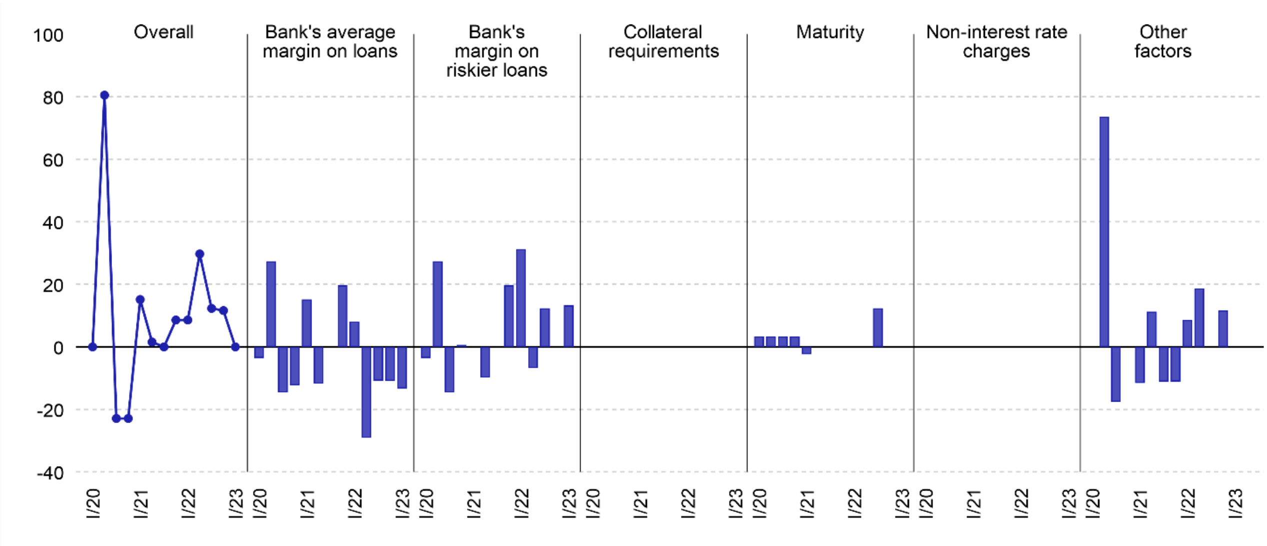
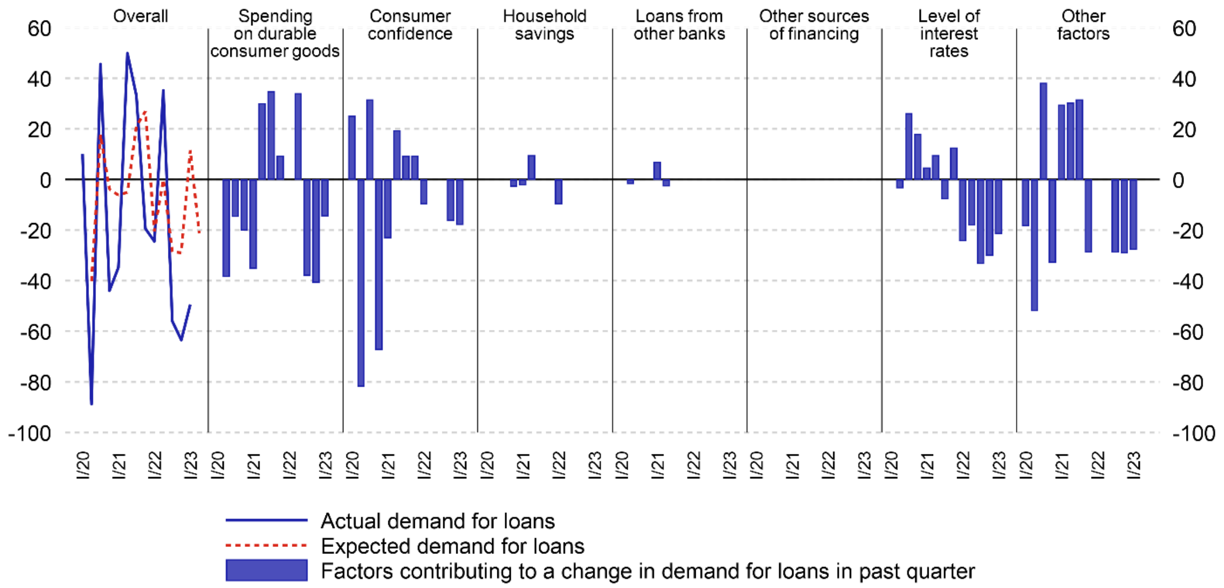


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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