EUROPEAN CENTRAL BANK

7 August 2003

THE EURO AREA BANK LENDING SURVEY

– JULY 2003 –

1. GENERAL INTRODUCTION

This report publishes the results obtained from the ECB's bank lending survey for the euro area conducted in July 2003.

The main purpose of the survey is to enhance the understanding of bank lending behaviour in the euro area[1]. The survey is addressed to senior loan officers of a representative sample of euro area banks[2], and takes the form of a questionnaire containing 18 qualitative questions on past and expected future developments regarding lending policies. The questions distinguish between loans to enterprises and loans to households. For both sectors, the survey addresses issues such as credit standards for approving loans as well as credit terms and conditions. It also asks for an assessment of the conditions affecting credit demand.

A copy of the questionnaire can be found at http://www.ecb.int/pub/period/bls/bls_questionnaire.pdf..

The survey is conducted four times a year, always in the first month of the quarter. The first survey was carried out in January 2003, the second in April 2003. The results of the first two surveys were published by the ECB on 15 May 2003. This document reports on the results obtained from the third survey cycle. The cut-off date for receipt of data from the banks participating at the survey was 8 July 2003.

By publishing the survey results the ECB aims to share with the public in a transparent manner the information which is available to the ECB's decision-making bodies. However, given that the exercise is relatively new, the results of the survey should be interpreted with a high degree of caution. More time and experience will be needed to interpret the results adequately and to judge the relationship between them and actual economic and financial developments.[3]

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[1] See the ECB press release of 21 November 2002, *Bank lending survey for the euro area*, and the April 2003 Monthly Bulletin article on "A bank lending survey for the euro area".

[2] The sample group of banks participating in the survey comprises around 90 banks from all euro area countries, and takes into account the characteristics of their respective national banking structures. Since the banks differ considerably in size, the survey results are weighted according to the national shares in the total amount outstanding of euro area lending to euro area residents.

[3] For example, in interpreting results, it should be kept in mind that the questions are generally phrased in terms of changes over the past quarter, e.g. "how have credit standards changed?". It cannot be excluded, however, that – as in other surveys – the answers could be biased in that respondents address more the levels than the changes. If this were the case, the changes in the answers would be more informative than their absolute levels. More experience will need to be gained with regard to the interpretation of the results. Furthermore, as more surveys are conducted, it will be possible to compare the survey results with actual credit developments.

2. OVERVIEW OF THE RESULTS

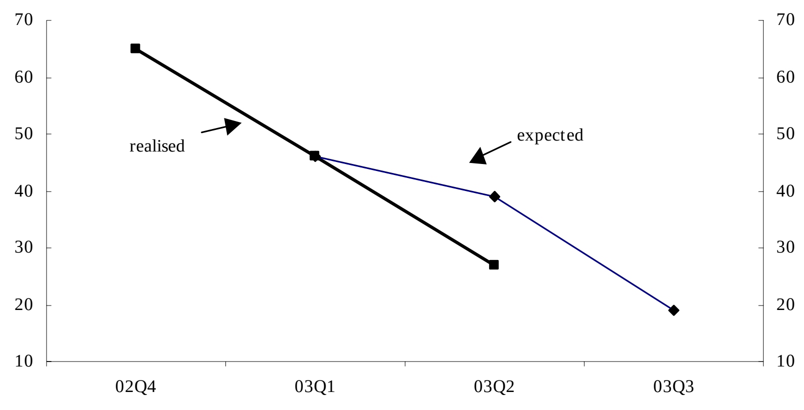
The results of the July 2003 bank lending survey indicate that, although banks have still reported, on balance[4], tightened credit standards to the approval of loans or credit lines to enterprises over the past three months[5], the percentages have dropped significantly against the April survey. For credit standards applied to households, most banks reported unchanged credit standards in July.

As regards **enterprises**, in July only 27% of banks reported a net tightening of credit standards for the period April to June. This was below what banks expected in April for the period (39%), or what was reported in the period January-March (46%) (see Chart 1).

As in April, the factor contributing the most to the overall net tightening of credit standards over the three months leading up to July 2003 was the industry or firm-specific outlook, closely followed by expectations regarding general economic activity. The conditions and terms for approving loans or credit lines to enterprises that tended to be tightened the most were interest rate margins, loan covenants and the size of the loan or credit line, followed by collateral requirements.

In terms of expectations for the next three months (i.e. the period July-September 2003), reporting banks expect a further overall net tightening of their credit standards applied to the approval of loans or credit lines to enterprises, although at a lower rate than expected in the April 2003 survey (see Chart 1). In addition, for the first time since the beginning of the survey, a small percentage of banks (4%) expect to ease credit standards somewhat in the third quarter of 2003.

Chart 1. Credit standards applied to the approval of loans or credit lines to enterprises
(net percentages of banks tightening standards)



Notes:

The net percentage is defined as the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat", and the sum of the percentages for "eased somewhat" and "eased considerably".

"Expected" values are the net percentages calculated from the responses given by the banks in the previous survey round. "Realised" values refer to the period when the survey was conducted. For instance, in the April survey 39% of banks expected a net tightening of credit standards for the period April-June (Q2 2003). In the July survey, 27% of banks reported a tightening for the same period.

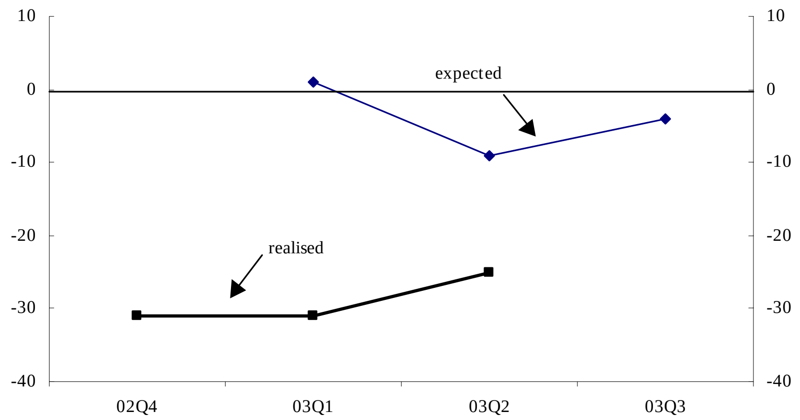
[4] The results are generally presented on a net basis, i.e. in net percentages. The net percentage is here defined as the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat", and the sum of the percentages for "eased somewhat" and "eased considerably". Thus positive figures indicate a net tightening of credit standards, and negative figures a net easing of credit standards.

[5] The questionnaire generally phrases questions referring to over the "past three months" and over the "next three months". In the July survey, the "past three months" thus referred approximately to the second quarter of 2003, while the "next three months" broadly correspond to the third quarter of 2003.

With regard to demand for loans or credit lines by enterprises over the three-month period ending in June 2003, banks continued to report a net overall decrease, regardless of the size of enterprise.[6] Overall, a net 25% of respondents indicated in the July survey that they had experienced weaker demand for loans or credit lines to enterprises over the past three months (compared with 31% in April). In the April survey, a lower percentage of banks (9%) had expected a decrease in demand during the second quarter of 2003 (see Chart 2). The main reasons given for this development were lower financing needs of corporations for fixed investments or for inventories and working capital.

As regards the future, banks continued to expect a slight net decrease in the overall demand for loans or credit lines by enterprises over the period July-September 2003, reflecting an expected decline in demand by large enterprises in particular. However, in the April 2003 survey, banks had expected a higher net decrease in demand for loans or credit lines by enterprises over the period April-June 2003 (see Chart 2).

Chart 2. Demand for loans or credit lines to enterprises
(net percentages of banks reporting an increase in demand)



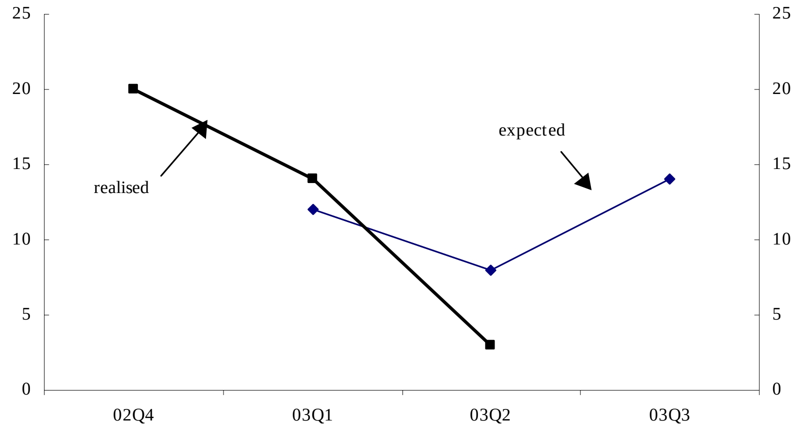
Notes:
The net percentage is defined as the difference between the sum of the percentages for "increase considerably" and "increase somewhat", and the sum of the percentages for "decrease somewhat" and "decrease considerably".

"Expected" values are the net percentages calculated from the responses given by the banks in the previous survey round. "Realised" values refer to the period when the survey was conducted. For instance, in the April survey 9% of banks (net) expected a decrease in demand for the period April-June (Q2 2003). In the July survey, 25% of banks (net) reported a decrease in demand for the same period.

Turning to **households**, most banks reportedunchanged credit standards applied to the approval of loans for house purchase in the three-month period ending in June 2003. Overall, the net percentages indicating further tightening was 3% down from 14% in April, as well as below expectations in April for the second quarter of 2003 (8%) (see Chart 3).

[6] The net percentages for the questions on the demand for loans are defined as the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". Positive figures therefore indicate a net increase in demand for loans, and negative figures a net decrease in demand for loans.

Chart 3. Credit standards applied to the approval of loans or credit lines to households for house purchase
(net percentages of banks tightening standards)



Notes:

The net percentage is defined as the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat", and the sum of the percentages for "eased somewhat" and "eased considerably".

"Expected" values are the net percentages calculated from the responses given by the banks in the previous survey round. "Realised" values refer to the period when the survey was conducted. For instance, in the April survey 8% of banks expected a net tightening of credit standards for the period April-June (Q2 2003). In the July survey, 3% of banks reported a tightening for the same period.

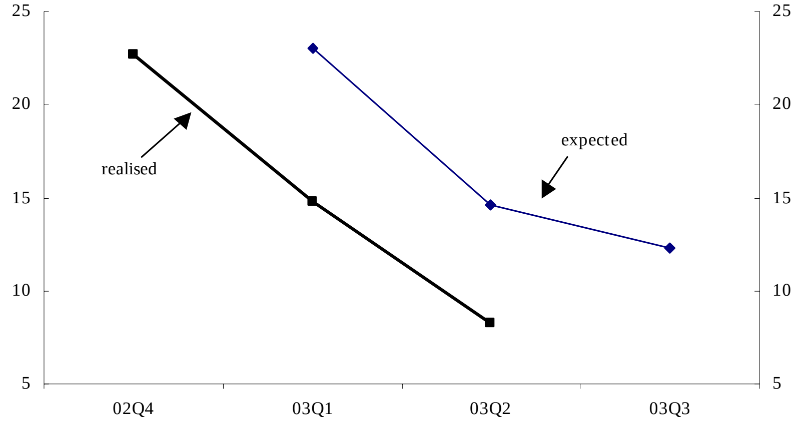
Regarding credit standards applied to consumer credit and other loans to households, 8% of respondents reported a net tightening in the July survey for the period April-June, down from 15% in the April survey and below earlier expectations for the second quarter (14%) (see Chart 4).

For those banks that continued to report a net tightening, the factor that contributed the most to the tightening of credit standards applied to loans to households for house purchase and on consumer credit and other lending to households over the past three months was weak expectations regarding general economic activity. This was followed in the case of loans for house purchase by an assessment of deteriorating housing market prospects and, for consumer and other loans to households, by a deterioration of the creditworthiness of consumers. The conditions and terms which tightened the most for approving loans to households for house purchase, consumer loans and other loans to households were margins on riskier loans. At the same time, the factor pointing to an easing of credit conditions mostly reported by banks was the increased competition from other banks and financial intermediaries.

As regards expectations for the three months from July to September 2003, reporting banks expect a further overall net tightening of credit standards as applied to the approval of loans to households. The expected net tightening is 14% for loans for house purchase (up from 8%), and 12% for loans for consumer credit and other lending (down from 14%) (see Charts 3 and 4).

Chart 4. Credit standards applied to the approval of loans or credit lines to households for consumer credit

(net percentages of banks tightening standards)



Notes:

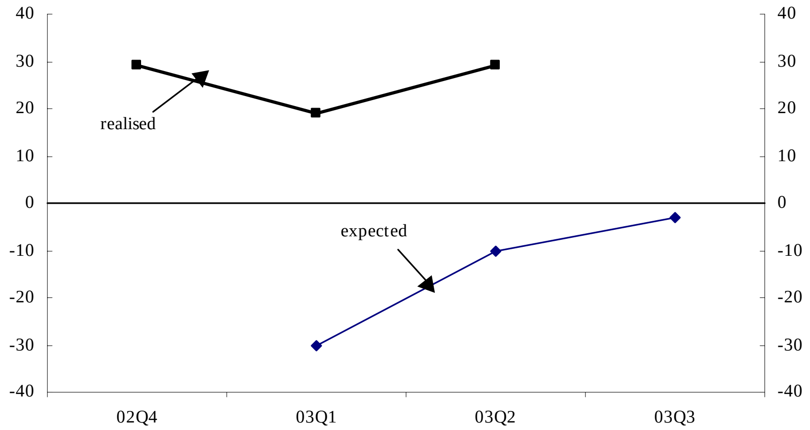
The net percentage is defined as the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat", and the sum of the percentages for "eased somewhat" and "eased considerably".

"Expected" values are the net percentages calculated from the responses given by the banks in the previous survey round. "Realised" values refer to the period when the survey was conducted. For instance, in the April survey 14% of banks expected a net tightening of credit standards for the period April-June (Q2 2003). In the July survey, 8% of banks reported a tightening for the same period.

Regarding demand for loans by households, the July 2003 survey showed a net percentage of banks reporting an increase in demand for loans for house purchase of 29%, compared with 19% in the April survey. Back in April 2003, 10% of all responding banks had by contrast expected a net decrease in demand in the second quarter of 2003 (see Chart 5). According to the banks, the increase reported in the July survey can be partly linked to more favourable interest rate conditions.

Chart 5. Demand for loans or credit lines to households for house purchase

(net percentages of banks reporting an increase in demand)

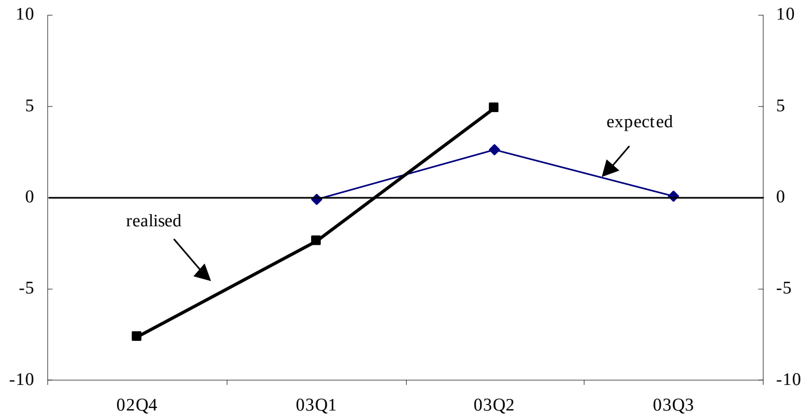


Notes:
The net percentage is defined as the difference between the sum of the percentages for "increase considerably" and "increase somewhat", and the sum of the percentages for "decrease somewhat" and "decrease considerably".

"Expected" values are the net percentages calculated from the responses given by the banks in the previous survey round. "Realised" values refer to the period when the survey was conducted. For instance, in the April survey 10% of banks (net) expected a decrease in demand for the period April-June (Q2 2003). In the July survey, 29% of banks (net) reported an increase in demand for the same period.

Furthermore, in the July survey banks on net observed for the first time a slight increase in demand for consumer credit and other loans to households (5%, up from a 2% decrease in the April 2003 survey). This had already been signalled in the April survey, when on net 3% of banks had expected an increase in demand during the second quarter of 2003 (see Chart 6).

Chart 6. Demand for loans or credit lines to households for consumer credit
(net percentages of banks reporting an increase in demand)



Notes:
The net percentage is defined as the difference between the sum of the percentages for "increase considerably" and "increase somewhat", and the sum of the percentages for "decrease somewhat" and "decrease considerably".

"Expected" values are the net percentages calculated on the responses given by the banks in the previous survey round. "Realised" values refer to the period when the survey was conducted. For instance, in the April survey 3% of banks (net) expected an increase in demand for the period April-June (Q2 2003). In the July survey, 5% of banks (net) reported an increase in demand for the same period.

The reporting banks expect a decrease in demand for loans by households for house purchase over the period July-September 2003 (see Chart 5), and no overall change in demand for consumer credit and other lending to households (see Chart 6).

3. THE RESULTS FOR THE INDIVIDUAL QUESTIONS

3.1 Enterprises

QUESTION 1

Changes in credit standards applied to enterprises over the past three months

The July 2003 survey indicated that during the period April-June 2003, 27% of all responding banks reported a tightening of credit standards applied to the approval of loans or credit lines to enterprises. This compared with 46% for the April 2003 survey (see Table 1). A larger proportion of respondents in the July survey reported basically unchanged credit standards (73%, compared with 54% in April). As in the April survey, not one bank reported an overall easing of credit standards.

As regards loans to large enterprises, a net 25% continued to tighten credit standards (down from 51% in April). For loans to small and medium-sized enterprises, 30% reported a further tightening of these standards (compared with 31% in April).

Regarding the original maturity of loans, the net percentages for tightening were 28% for long-term loans and 19% for short-term loans (compared with 43% and 32% respectively in April).

Table 1. Euro area weighted results for all responding banks
Changes in credit standards applied to enterprises over the past three months

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	July	April	July	April	July	April	July	April	July	April
Tightened considerably	0	1	0	0	0	8	0	0	2	8
Tightened somewhat	27	45	32	34	25	43	19	32	28	35
Remained basically unchanged	73	54	65	64	75	49	82	68	68	57
Eased somewhat	0	0	3	3	0	0	0	0	2	0
Eased considerably	0	0	0	0	0	0	0	0	0	0
Total	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***
Net percentage	27	46	30	31	25	51	19	32	28	43
Number of banks responding	***83***	***83***	***81***	***80***	***80***	***80***	***82***	***83***	***83***	***83***

Notes:

The net percentage is defined as the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat", and the sum of the percentages for "eased somewhat" and "eased considerably".

QUESTION 2

Factors affecting changes in credit standards applied to enterprises over the past three months

In the July survey, the most frequently mentioned factor contributing to the overall net tightening of credit standards applied to enterprises over the past three months was the industry or firm-specific outlook, closely followed by expectations regarding general economic activity (49% and 47% on a net basis respectively) (see Table 2). These two factors were also the most important factors identified in the April 2003 survey for the tightening of credit standards (64% and 67% respectively).

Another important reason mentioned by responding banks in the July 2003 survey for tightening their lending policies was the risk on collateral demanded (24%), compared with 35% in April. Some banks mentioned cost of funds and balance sheet constraints as additional important factors contributing to a tightening of credit standards, although to a lesser extent than in April.

By contrast, as in the April survey, banks reported that pressures stemming from competition had contributed to a slight net easing of credit standards on loans to enterprises.

Table 2. Euro area weighted results for all responding banks

Factors affecting changes in credit standards applied to enterprises over the past three months

	--	-	°	+	++	NA	NetP	
							July	April
A) Cost of funds and balance sheet constraints								
Costs related to your bank's capital position	1	7	84	0	0	8	8	19
Your bank's ability to access market financing	0	8	82	1	0	10	7	14
Your bank's liquidity position	0	1	89	1	0	9	1	1
B) Pressure from competition								
Competition from other banks	0	1	83	6	0	10	-5	-3
Competition from non-banks	0	1	82	3	0	15	-1	-8
Competition from market financing	1	0	83	1	0	15	0	-3
C) Perception of risk								
Expectations regarding general economic activity	7	44	42	3	0	4	47	67
Industry or firm-specific outook	10	43	39	4	0	6	49	64
Risk on the collateral demanded	0	26	67	3	0	4	24	35

Notes:

The “Net percentage” column is defined as the difference between the sum of “- -“ (contributed considerably to tightening) and “-“ (contributed somewhat to tightening), and the sum of “+” (contributed somewhat to easing) and “+ +” (contributed considerably to easing).”°” means remained basically unchanged.

QUESTION 3

Changes in conditions and terms for loans or credit lines to enterprises over the past three months

The results from the July 2003 survey indicate that, similar to the April survey, banks have continued to tighten their conditions and terms for approving loans or credit lines to enterprises (see Table 3). Compared with April, generally a larger proportion of banks reported that their conditions and terms remained basically unchanged.

In the July survey, on a net basis 66% percent of responding banks widened their margins on riskier loans, down from 70% in April. The reported percentages for wider margins on average loans fell to 41%, down from 47% in April.

In net terms, 32% of banks tightened loan covenants, compared with 51% in April. 28% have imposed more stringent collateral requirements over the past three months (down from 48% in April). The size of loans or credit lines was tightened by a net 31% of respondents in the July survey (compared with 45% in April).

Table 3. Euro area weighted results for all responding banks

Changes in conditions and terms for loans or credit lines to enterprises over the past three months

	--	-	°	+	++	NA	NetP	
							July	April
A) Price								
Your bank's margin on average loans	0	43	50	3	0	4	41	47
Your bank's margin on riskier loans	7	60	27	1	0	5	66	70
B) Other conditions and terms								
Non-interest rate charges	1	20	72	3	0	4	17	29
Size of the loan or credit line	0	33	61	2	0	4	31	45
Collateral requirements	1	31	61	4	0	4	28	48
Loans covenants	0	34	59	1	0	6	32	51
Maturity	0	25	67	2	0	6	23	38

Notes:

The "Net percentage" column is defined as the difference between the sum of "- -" (tightened considerably) and "-" (tightened somewhat), and the sum of "+" (eased somewhat) and "+ +" (eased considerably). "°" means remained basically unchanged.

QUESTION 4

Changes in demand for loans or credit lines to enterprises over the past three months

The results of the July 2003 survey show that 35% of all banks responding indicated that they had experienced weaker demand for loans or credit lines to enterprises over the past three months, down from 41% in April (see Table 4). By contrast, 54% reported that demand for loans or credit lines by enterprises remained basically unchanged, up from 48% in April. Finally, similar to the April survey, only 10% of all banks responding to the July survey indicated an increase in loan demand.

As a result, the net percentage of banks experiencing a decrease in loan demand by enterprises in July dropped to 25%, compared with 31% in April.

The net decrease in demand for loans or credit lines to large enterprises was 15% in July (down from 26% in April). Net loan demand by small and medium-sized enterprises decreased by 17% in July (compared with 19% in April). The lower net demand for loans was most prominent in the category of long-term loans.

Table 4. Euro area weighted results for all responding banks

Changes in demand for loans or credit lines to enterprises over the past three months

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	July	April	July	April	July	April	July	April	July	April
Decreased considerably	2	0	2	2	4	7	2	0	3	1
Decreased somewhat	33	41	30	34	25	34	20	18	38	41
Remained basically unchanged	54	48	52	47	57	45	61	67	47	29
Increased somewhat	10	10	16	16	12	15	16	14	10	28
Increased considerably	0	0	0	0	2	0	0	0	2	0
Total	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***
Net percentage	-25	-31	-17	-19	-15	-26	-6	-4	-30	-14
Number of banks responding	***83***	***82***	***81***	***81***	***80***	***80***	***81***	***83***	***82***	***83***

Notes:

The net percentage is defined as the difference between the sum of the percentages for "increased considerably" and "increased somewhat", and the sum of the percentages for "decreased somewhat" and "decreased considerably".

QUESTION 5

Factors affecting changes in demand for loans or credit lines to enterprises over the past three months

The factors contributing most frequently in the July 2003 survey to the overall net decrease in demand for loans or credit lines to enterprises over the past three months were lower financing needs related to fixed investments (38%) and to inventories and working capital (13%) (see Table 5). These factors were also among those most frequently mentioned by respondents in the April survey (52% and 9% respectively).

Table 5. Euro area weighted results for all responding banks
Factors affecting changes in demand for loans or credit lines to enterprises over the past three months

	--	-	°	+	++	NA	NetP	
							July	April
A) Financing needs								
Fixed investment	11	36	38	9	0	7	-38	-52
Inventories and working capital	0	20	59	8	0	13	-13	-9
Mergers/acquisitions and corporate restructuring	3	12	58	12	0	16	-3	-11
Debt restructuring	0	4	51	36	0	10	32	39
B) Use of alternative finance								
Internal financing	0	7	73	7	0	13	0	2
Loans from other banks	0	4	77	5	4	9	5	10
Loans from non-banks	0	3	75	4	0	18	0	-6
Issuance of debt securities	0	9	56	17	0	19	8	5
Issuance of equity	0	5	61	11	1	22	6	15

Notes:

The "Net percentage" column is defined as the difference between the sum of "+ + " (contributed considerably to higher demand) and "+" (contributed somewhat to higher demand), and the sum of "-" (contributed somewhat to lower demand) and "- -" (contributed considerably to lower demand). "°" means demand remained basically unchanged.

In contrast, debt restructuring continued to be mentioned as an important factor contributing to higher demand for loans by enterprises over the past three months (a net 32% in July, compared with 39% in April). Furthermore, less recourse to alternative sources of finance (for example, issuance of debt securities and equity, or loans from other banks) was mentioned by some banks as a reason for stronger demand for loans.

QUESTION 6

Expected changes in credit standards applied to enterprises over the next three months

The results of the July 2003 survey show that 23% of all responding banks expect to tighten their credit standards applied to the approval of loans or credit lines to enterprises over the next three months, compared with 38% in the April survey (see Table 6). A larger proportion of respondents in July, compared with April, reported that they expect to keep their credit standards applied to enterprises basically unchanged over the next three months (72% and 61% respectively). Notably, for the first time since the beginning of the survey, a few banks (4%) actually expect to ease credit standards for enterprises in the third quarter of 2003.

As a result, the net percentage of banks expecting a tightening of credit standards over the next three months declined from 39% in April to 19% in July.

The expected further net tightening of credit standards applied to loans or credit lines to enterprises over the next three months relates to both small and medium-sized enterprises and large enterprises. As regards the maturity of loans, most respondents expect a continued net tightening of credit standards that will affect long-term loans in particular, although the net percentage of this expected tightening declined to 21% in July, down from 39% in April. For short-term loans, only a net 5% of respondents expect to tighten their credit standards, down from 29% in April.

Table 6. Euro area weighted results for all responding banks
Expected changes in credit standards applied to enterprises over the next three months

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	July	April	July	April	July	April	July	April	July	April
Tighten considerably	0	2	0	2	2	4	0	3	2	4
Tighten somewhat	23	36	23	35	24	33	11	26	22	37
Remain basically unchanged	72	61	68	61	73	61	82	71	74	58
Ease somewhat	4	0	9	3	1	2	7	0	1	2
Ease considerably	0	0	0	0	0	0	0	0	2	0
Total	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***
Net percentage	19	39	14	35	24	36	5	29	21	39
Number of banks responding	***83***	***83***	***81***	***81***	***80***	***80***	***81***	***83***	***82***	***83***

Notes:

The net percentage is defined as the difference between the sum of the percentages for "tighten considerably" and "tighten somewhat", and the sum of the percentages for "ease somewhat" and "ease considerably".

QUESTION 7

Expected changes in demand for loans or credit lines to enterprises over the next three months

Regarding demand developments over the next three months, 18% of reporting banks indicated in the July 2003 survey that they expect an overall decrease in demand for loans or credit lines by enterprises, compared with 30% in the April survey (see Table 7). By contrast, 68% of all banks responding reported that demand for loans or credit lines by enterprises over the next three months should remain basically unchanged, a higher proportion than in April (49%). Finally, 14% of all banks responding in the July survey indicated that they expect an increase in demand, compared with 21% in April. As a result, 4% of all banks responding in the July survey expect a net decrease in loan demand by enterprises over the next three months, down from 9% in April.

According to the July survey, demand for loans or credit lines to both large and to small and medium-sized enterprises is expected to decrease in net terms over the next three months (see Table 7).

As regards the maturity breakdown, the expected net decrease in demand for loans particularly affects short-term loans: an expected net decrease of 3% was recorded in the July survey (compared with an expected net increase in demand by 8% in April). In contrast, the expected net decrease for long-term loans was only 1%, down from 17% in April.

Table 7. Euro area weighted results for all responding banks
Expected changes in demand for loans or credit lines to enterprises over the next three months

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	July	April	July	April	July	April	July	April	July	April
Decrease considerably	0	0	0	0	2	5	0	0	2	5
Decrease somewhat	18	30	23	29	22	28	15	19	18	34
Remain basically unchanged	68	49	58	39	64	44	74	54	62	39
Increase somewhat	14	21	19	29	11	23	12	27	16	22
Increase considerably	0	0	0	3	2	0	0	0	2	0
Total	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***	***100***
Net percentage	-4	-9	-5	3	-11	-9	-3	8	-1	-17
Number of banks responding	***83***	***82***	***81***	***80***	***80***	***79***	***81***	***82***	***82***	***82***

Notes:

The net percentage is defined as the difference between the sum of the percentages for "increase considerably" and "increase somewhat", and the sum of the percentages for "decrease somewhat" and "decrease considerably".

2.2 Households

QUESTION 8

Changes in credit standards applied to households over the past three months

The results of the July 2003 survey indicate that most banks unchanged their credit standards applied to the approval of loans to households. Thus less tightening was recorded compared with April (see Table 8).

As regards loans for house purchase, 13% of responding banks reported that they had tightened credit standards on these loans, compared with 19% in April. Around the same percentage of respondents answered in July that they had kept credit standards on such loans basically unchanged compared with the April survey (77%), whereas a slightly higher percentage of responding banks had eased credit standards (10% compared with 5%). Thus, the net percentage of banks reporting a tightening of credit standards applied to loans for house purchase was 3% in July, down from 14% in April.

Turning to consumer credit and other lending to households, the July survey shows that 13% of banks have tightened credit standards on these loans over the past three months, compared with 17% in April. A high percentage of responding banks indicated in July that they had kept credit standards on these loans basically unchanged (82%, similar to April's figure of 81%). 5% of the respondents reported that they had eased credit standards on consumer credit and other lending to households (2% in April). This resulted in a net percentage of banks reporting a tightening of credit standards applied to consumer credit and other loans to households of 8% in July, down from 15% in April.

Table 8. Euro area weighted results for all responding banks
Changes in credit standards applied to households over the past three months

	Loans for house purchase		Consumer credit and other lending	
	July	April	July	April
Tightened considerably	1	0	0	0
Tightened somewhat	12	19	13	17
Remained basically unchanged	77	77	82	81
Eased somewhat	8	5	5	2
Eased considerably	2	0	0	0
Total	***100***	***100***	***100***	***100***
Net percentage	3	14	8	15
Number of banks responding	***80***	***80***	***78***	***77***

Notes:

The net percentage is defined as the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat", and the sum of the percentages for "eased somewhat" and "eased considerably".

QUESTION 9

Factors affecting changes in credit standards applied to loans to households for house purchase over the past three months

The results of the July survey show that the factor contributing the most to the net tightening of credit standards on loans to households for house purchase over the past three months was the deterioration of expectations regarding general economic activity (32%), although to a lesser extent than reported in the April survey (35%) (see Table 9). The next factor cited as an influence was slightly deteriorating housing market prospects (18% in July, compared with 16% in April). Competition from other banks contributed in both the July and April surveys to a net easing of credit standards on loans to households for house purchase (9% compared with 13%).

Table 9. Euro area weighted results for all responding banks

Factors affecting changes in credit standards applied to loans to households for house purchase over the past three months

	--	-	°	+	++	NA	NetP	
							July	April
A) Cost of funds and balances sheet constraints	0	3	79	2	0	17	1	7
B) Pressure from competition								
Competition from other banks	0	1	75	10	0	14	-9	-13
Competition from non-banks	0	1	78	3	0	18	-2	0
C) Perception of risk								
Expectations regarding general economic activity	3	28	58	0	0	10	32	35
Housing market prospects	1	22	62	5	0	10	18	16

Notes:

The "Net percentage" column is defined as the difference between the sum of "- -" (contributed considerably to tightening) and "-" (contributed somewhat to tightening), and the sum of "+" (contributed somewhat to easing) and "+ +" (contributed considerably to easing). "°" means remained basically unchanged.

QUESTION 10

Changes in conditions and terms for loans to households for house purchase over the past three months

The results from the July 2003 survey indicate that most banks tightened their conditions and terms for approving loans to households for house purchase over the past three months, although to a lesser extent than in the April survey (see Table 10).

On a net basis, the July survey shows that responding banks widened their margins on riskier loans and on average loans over the past three months by 30% and 8% respectively, down from corresponding figures of 37% and 13% in April. In net terms, banks eased maturity conditions on loans to households for house purchase in July (5%), a similar pattern to the one observed in April.

Table 10. Euro area weighted results for all responding banks

Changes in conditions and terms for loans to households for house purchase over the past three months

	--	-	°	+	++	NA	NetP	
							July	April
A) Price								
Your bank's margin on average loans	0	19	62	11	0	8	8	13
Your bank's margin on riskier loans	4	29	55	3	0	10	30	37
B) Other conditions and terms								
Collateral requirements	0	7	80	4	0	9	3	9
Loan-to-value ratio	0	11	71	9	0	9	2	5
Maturity	0	2	84	7	0	8	-5	-6
Non-interest rate charges	0	10	75	4	0	11	7	8

Notes:

The "Net percentage" column is defined as the difference between the sum of "- -" (tightened considerably) and "-" (tightened somewhat), and the sum of "+" (eased somewhat) and "+ +" (eased considerably). "°" means remained basically unchanged.

QUESTION 11

Factors affecting changes in credit standards applied to consumer credit and other lending to households over the past three months

The July 2003 survey shows that the factor contributing the most to the net tightening of credit standards on consumer credit and other lending to households by responding banks over the past three months continued to be the deterioration in expectations regarding general economic activity (29%), which was unchanged from April (see Table 11). This was followed by a deterioration of the creditworthiness of consumers (21%), down from April (24%). Competition from other banks contributed in both the July and April surveys to a net easing of credit standards on consumer credit and other lending to households (5% in July, down from 6% in April).

Table 11. Euro area weighted results for all responding banks

Factors affecting changes in credit standards applied to consumer credit and other lending to households over the past three months

	--	-	°	+	++	NA	NetP	
							July	April
A) Cost of funds and balance sheet constraints	0	1	77	2	0	21	-1	2
B) Pressure from competition								
Competition from other banks	0	1	77	7	0	16	-5	-6
Competition from non-banks	0	0	82	2	0	16	-2	-3
C) Perception of risk								
Expectations regarding general economic activity	1	28	58	0	0	14	29	29
Creditworthiness of consumers	1	21	65	1	0	13	21	24
Risk on the collateral demanded	0	13	67	1	0	19	12	14

Notes:

The "Net percentage" column is defined as the difference between the sum of "- -" (contributed considerably to tightening) and "-" (contributed somewhat to tightening), and the sum of "+" (contributed somewhat to easing) and "+ +" (contributed considerably to easing). "°" means remained basically unchanged.

QUESTION 12

Changes in conditions and terms for consumer credit and other lending to households over the past three months

The results from the July 2003 survey indicate that banks have tightened their conditions and terms for approving consumer credit and other lending to households over the past three months (see the upper panel of Table 12). The proportion of banks that had tightened conditions remained almost unchanged compared with April.

On a net basis, the July survey shows that 24% of banks have widened their margins on riskier loans over the past three months, down from 30% in April. At the same time, as in April, the July survey reported no significant indications of changes in other conditions and terms.

Table 12. Euro area weighted results for all responding banks

Changes in conditions and terms for consumer credit and other lending to households over the past three months

	--	-	°	+	++	NA	NetP	
							July	April
A) Price								
Your bank's margin on average loans	1	12	65	11	0	11	1	2
Your bank's margin on riskier loans	1	25	60	1	0	13	24	30
B) Other conditions and terms								
Collateral requirements	0	6	72	4	0	18	2	4
Maturity	0	7	79	1	0	13	5	6
Non-interest rate charges	0	5	81	1	0	14	4	3

Notes:

The "Net percentage" column is defined as the difference between the sum of "- -" (tightened considerably) and "-" (tightened somewhat), and the sum of "+" (eased somewhat) and "+ +" (eased considerably). "°" means remained basically unchanged.

QUESTION 13

Changes in demand for loans to households over the past three months

The results of the July 2003 survey indicate that banks reported on balance an increase in demand for loans to households for house purchase over the past three months. Furthermore, they observed for the first time since the beginning of the survey a net increase in demand for consumer credit and other loans to households over the same period (see Table 13).

With respect to loans for house purchase, 14% of responding banks reported a decrease in demand, compared with 23% in April. The percentage of banks reporting basically unchanged demand for housing loans in July was higher than in the April survey (44% compared with 35%). In total, 42% of respondents reported an increase in demand for loans for house purchase, unchanged from April. This resulted in a net percentage of banks reporting an increase in demand for loans for house purchase of 29%, compared with 19% in April.

Turning to consumer credit and other lending to households, 19% of banks reported a decrease in July in demand for these loans over the past three months, down from 27% in April. The percentage of banks reporting basically unchanged demand for these loans in July was higher than that reported in the April survey (58% compared with 47%). Finally, an increase in demand for consumer credit and other lending to households was observed by 23% of the responding banks, slighter smaller than in April (25%). Thus, banks reported for the first time a net increase in demand for consumer credit and other loans to households over the past three months (5%, compared to 2% in April).

Table 13. Euro area weighted results for all responding banks
Changes in demand for loans to households over the past three months

	Loans for house purchase		Consumer credit and other lending	
	July	April	July	April
Decreased considerably	0	5	1	3
Decreased somewhat	14	18	18	24
Remained basically unchanged	44	35	58	47
Increased somewhat	30	33	21	20
Increased considerably	12	9	2	5
Total	***100***	***100***	***100***	***100***
Net percentage	29	19	5	-2
Number of banks responding	***80***	***80***	***78***	***78***

Notes:

The net percentage is defined as the difference between the sum of the percentages for “increased considerably” and “increased somewhat”, and the sum of the percentages for “decreased somewhat” and “decreased considerably”.

QUESTION 14

Factors affecting changes in demand for loans to households for house purchase over the past three months

While the July survey reported a net increase in demand for loans to households for house purchase over the past three months, the responses provide no clear picture as to the factors behind this. The most reported factor for this increase was seen to be favourable housing market prospects, although only a net 9% referred to housing market prospects, up from 1% in April (see Table 14). By contrast, several factors were mentioned as contributing to a net decrease in demand for loans to households for house purchase over the past three months, most notably weak consumer confidence (30%) (similar to the April survey's result of 32%).

In answering this particular question, banks made extensive use of the "other factors" option to indicate specific reasons for reported changes in demand. Several banks mentioned that the reduction in long-term interest rates had contributed to increased demand.

Table 14. Euro area weighted results for all responding banks
Factors affecting changes in demand for loans to households for house purchase over the past three months

	--	-	°	+	++	NA	NetP	
							July	April
A) Financing needs								
Housing market prospects	1	13	52	23	1	10	9	1
Consumer confidence	2	32	53	4	0	9	-30	-32
Non-housing related consumption expenditure	0	11	74	0	0	15	-11	-12
B) Use of alternative finance								
Household savings	0	10	70	7	0	13	-4	1
Loans from other banks	0	6	75	4	2	13	0	-6
Other sources of finance	0	3	80	2	0	15	-2	-1

Notes:

The "Net percentage" column is defined as the difference between the sum of "+ + " (contributed considerably to higher demand) and "+" (contributed somewhat to higher demand), and the sum of "-" (contributed somewhat to lower demand) and "- -" (contributed considerably to lower demand). "°" means demand remained basically unchanged.

QUESTION 15

Factors affecting changes in demand for consumer credit and other lending to households over the past three months

While the July survey reports for the first time that an overall net increase in demand for consumer loans and other loans to households over the past three months had taken place, responses give no clear picture as to the factors behind this.

Many factors seem to have mainly contributed to either a decrease or, to some extent, to unchanged conditions in demand for consumer loans and other loans to households over the past three months. In net terms, the most frequently mentioned factors were those relating to households' financing needs. Lower consumer confidence was the most reported factor (28%, compared with 34% in April), while the increase in household savings was the most mentioned factor among the use of alternative finance (15%, up from 4% in April) (see Table 15).

A larger proportion of banks in the July survey compared with the April survey responded that most other factors had contributed to basically unchanged credit standards.

Table 15. Euro area weighted results for all responding banks

Factors affecting changes in demand for consumer credit and other lending to households over the past three months

	--	-	°	+	++	NA	NetP	
							July	April
A) Financing needs								
Spending on durable consumer goods	1	26	49	12	0	11	-14	-6
Consumer confidence	3	28	56	2	0	11	-28	-34
Securities purchases	3	13	58	1	0	26	-14	-23
B) Use of alternative finance								
Household savings	1	15	69	1	0	15	-15	-4
Loans from other banks	0	5	75	4	0	16	-1	-1
Other sources of finance	0	1	76	0	0	22	-1	2

Notes:

The "Net percentage" column is defined as the difference between the sum of "+ + " (responsible for a considerable increase) and "+" (responsible for an increase), and the sum of "-" (responsible for a decrease) and "- -" (responsible for a considerable decrease). "°" means responsible for neither a decrease nor an increase.

QUESTION 16

Expected changes in credit standards applied to households over the next three months

The results of the July 2003 survey indicate that the majority of responding banks expect basically unchanged credit standards as applied to the approval of loans to households: 85% of respondents in the case of loans for house purchase, and 80% of responding banks in the case of consumer credit and other lending to households (see Table 16). These percentages were higher than the ones recorded in the April survey (71% and 73% respectively).

Most banks expect a net further overall tightening of credit standards applied to the approval of loans to households over the next three months (i.e. the third quarter of 2003). The percentage is higher than the one reported in the April survey. This expectation is somewhat more pronounced in net terms for loans to households for house purchase (14%) than for consumer credit and other lending to households (12%), reversing the pattern indicated in April (8% and 14% respectively).

Table 16. Euro area weighted results for all responding banks
Expected changes in credit standards applied to households over the next three months

	Loans for house purchase		Consumer credit and other lending	
	July	April	July	April
Tighten considerably	0	2	0	1
Tighten somewhat	14	16	16	20
Remain basically unchanged	85	71	80	73
Ease somewhat	1	10	4	7
Ease considerably	0	0	0	0
Total	***100***	***100***	***100***	***100***
Net percentage	14	8	12	14
Number of banks responding	***80***	***80***	***78***	***78***

Notes:

The net percentage is defined as the difference between the sum of the percentages for "tighten considerably" and "tighten somewhat", and the sum of the percentages for "ease somewhat" and "ease considerably".

QUESTION 17

Expected changes in demand for loans to households over the next three months

The July 2003 survey indicates that, over the next three months, banks expect a slight net decrease in demand for loans to households for house purchase, and no change in demand for consumer credit and other lending to households (see Table 17). Compared with the results from the April survey, banks seem to expect no major changes in the near future.

As regards demand for loans by households for house purchase over the next three months, 17% of the July survey respondents expect that this will decrease (down from 27% in April). 69% of all respondents expect that this demand will remain basically unchanged over the next three months (up from 56% in April). Finally, 14% of all responding banks expect an increase in demand for housing loans over the next three months (down from 17% in the April survey). Thus, the net percentage of banks expecting a net decrease in demand for housing loans by households during the third quarter of 2003 was 3%, down from 10% in April.

Turning to consumer credit and other lending to households, 13% of respondents expect in the July survey that demand for these loans would decrease over the next three months, down from 26% in April. The percentage of respondents that expect basically unchanged demand for these loans over the next three months rose to 73%, up from 45% in April. The percentage of responding banks indicating an expected increase in demand for consumer credit and other lending to households was 14% in July, down from 29% in April. As a result, net expectations for demand during the third quarter are basically unchanged.

Table 17. Euro area weighted results for all responding banks
Expected changes in demand for loans to households over the next three months

	Loans for house purchase		Consumer credit and other lending	
	July	April	July	April
Decrease considerably	0	0	0	0
Decrease somewhat	17	27	13	26
Remain basically unchanged	69	56	73	45
Increase somewhat	14	13	13	26
Increase considerably	0	4	1	3
Total	***100***	***100***	***100***	***100***
Net percentage	-3	-10	0	3
Number of banks responding	***80***	***80***	***78***	***78***

Notes:

The net percentage is defined as the difference between the sum of the percentages for "increase considerably" and "increase somewhat", and the sum of the percentages for "decrease somewhat" and "decrease considerably".

ANNEX 1 : GLOSSARY USED IN THE SURVEY

In order to assist the banks participating in the survey to fill out the questionnaire, a compilation guide has been developed containing the most important terms in the survey. The overview below shows the main terminologies used.

Capital

This is defined in accordance with the Basel capital adequacy requirements; it includes both tier 1 capital (core capital) and tier 2 capital (supplementary capital).

Collateral

The security given by a borrower to a lender as a pledge for the repayment of a loan. This could include certain financial securities, such as equity or debt securities, real estate or compensating balances. A compensating balance is the minimum amount of a loan that the borrower is required to keep in an account at the bank.

Covenant

A covenant is an agreement or stipulation expressed in loan contracts, particularly contracts with enterprises, by which the borrower either pledges to take certain action (an affirmative covenant) or to refrain from taking certain action (a negative covenant), and is consequently part of the terms and conditions of a loan.

Credit line

A credit line is a facility with a stated maximum amount that an enterprise is entitled to borrow from a bank at any given time. In the survey, developments regarding credit lines should be interpreted as changes in the net amount drawn under either an existing or a new credit line.

Credit standards

Credit standards are the internal guidelines or criteria which reflect a bank's loan policy. They are the written and unwritten criteria, or other practices related to this policy, which define the types of loan a bank considers desirable and undesirable, the designated geographic priorities, the collateral deemed acceptable and unacceptable, etc. In the survey, changes in written loan policies should be considered together with changes in their application.

Credit terms and conditions

The terms and conditions of a loan refer to the specific obligations agreed upon by the lender and the borrower. In the context of the bank lending survey, they consist of the direct price or interest rate, the maximum size of the loan and the access conditions, and other terms and conditions in the form of non-interest rate charges (i.e. fees), collateral requirements (including compensating balances), loan covenants and maturity (short versus long-term).

Enterprises

Enterprises refer to non-financial corporations, i.e. all private and public institutional units, whatever their size and legal form, which are not principally engaged in financial intermediation but rather in the production of goods and non-financial services.

Enterprise size

The distinction between large enterprises and small and medium-sized enterprises is based on annual sales. A firm is considered large if its annual net turnover is more than €50 million.

Households

Households are individuals or groups of individuals acting as consumers or as producers of goods and non-financial services exclusively intended for their own final consumption, as well as small-scale market producers.

Loans

The loans covered by the bank lending survey are those granted to euro area residents by domestic branches, including loans or credit lines to enterprises, loans to households for house purchase, and consumer credit and other lending to households.

Loan-to-value ratio

The ratio of the amount borrowed to the appraisal or market value of the underlying collateral, usually taken into consideration in relation to loans used for real estate financing.

Maturity

The concept of maturity used in the bank lending survey is original maturity, and only two different types are used, i.e. short-term and long-term. Short-term loans are loans with an original maturity of one year or less; long-term loans are consequently defined as loans that have an original maturity of more than one year.

Net balance (or percentage)

The net percentage is defined as the difference between the sum of the percentages for “tightened considerably” and “tightened somewhat” and the sum of the percentages for “eased somewhat” and “eased considerably”. For questions related to demand for loans, the net percentage is defined as the difference between the sum of the percentages for “increase considerably” and “increase somewhat” and the sum of the percentages for “decrease somewhat” and “decrease considerably”.

Non-banks

In general these consist of non-monetary financial corporations. More specifically, they include insurance corporations and pension funds, financial auxiliaries and other financial intermediaries.

Non-interest rate charges

These are various kinds of fees which can be part of the pricing of a loan, such as commitment fees on revolving loans, administration fees (e.g. document preparation costs), and charges for enquiries, guarantees and credit insurance.