Bank Lending Survey

IV/2020

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 issue summarises the results of the thirty-fourth round of the survey, i.e. banks' views on the evolution of credit conditions in 2020 Q3 and their expectations in these areas for 2020 Q4. Twenty-one banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 7 and 22 September 2020.[1] The CNB's Bank Lending Survey is performed by a team made up of representatives of the Financial Stability Department and the Monetary Department.

[1] The survey contained 22 questions that related to banks' credit standards, terms and conditions for approving loans and demand for loans perceived by banks, including the relevant factors. In the text and charts, the responses to the questions are expressed in the form of net percentages (NP) on the aggregate level. Net percentages are calculated as the difference between the market share of loans provided in the given segment by banks reporting that standards/conditions have been tightened (or demand increased) and the market share of loans provided in the given segment by banks reporting that standards/conditions have been eased (or demand decreased). A positive (negative) net percentage indicates an overall tightening (easing) of standards/conditions or an overall increase (decrease) in demand. Data in Excel files, along with the questionnaire, a glossary and methodological guidelines, are available on the CNB website: (https://www.cnb.cz/en/statistics/bank-lending-survey/).

I. SUMMARY

In 2020 Q3, banks continued to perceive increased risks to the future economic situation owing to the impacts of the coronavirus pandemic. Credit standards and conditions tightened further, with the exception of consumer credit. However, compared to 2020 Q2, a substantially smaller proportion of the banking market tightened standards and lending conditions. In particular, interest margins on riskier loans increased in Q3. Demand for loans by non-financial corporations decreased, due primarily to subdued fixed investment. By contrast, the need for operational funding of corporations increased further as a direct result of the economic downturn. Household demand for loans for house purchase and consumption rose, owing, in the case of house purchase loans, mainly to a drop in mortgage interest rates and interest in property investment and, in the case of consumption loans, to a restart of the market following the easing of the measures introduced in spring to combat the spread of the coronavirus epidemic. In 2020 Q4, part of the banking market is indicating a further tightening of credit standards for loans to corporations and, conversely, an easing for loans to households. Banks expect continued growth in demand for short-term operational funding of corporations and a fall in household demand for loans. The banking market foresees an increase in expected credit losses in all segments of the credit market in 2020 Q4, albeit with less intensity than in the previous quarter.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

The results of the Bank Lending Survey indicate that credit standards (banks' internal lending policy criteria) tightened further for loans to **non-financial corporations** in 2020 Q3. A substantially smaller proportion of the banking market tightened standards than in 2020 Q2 (30% in Q3, as against a net percentage of 97% in 2020 Q2). The tightening of standards continued to be affected by perceptions of the risks associated with the expected overall economic situation and the outlook for some sectors and corporations connected with the impacts of the coronavirus pandemic. According to banks, the tightening of credit standards focuses primarily on sensitive sectors (e.g. automotive, travel, hotels and commercial property such as shopping centres). The tightening of standards affected all the categories monitored – small and medium-sized enterprises (SMEs), large corporations, and also short-term and long-term loans. Forty-seven per cent of the banking market expects credit standards to tighten further in Q4. However, the evolution of standards in the period ahead will depend on the situation that emerges due to the second wave of the coronavirus pandemic and on the economic impacts of the state of emergency announced at the beginning of October 2020.

Lending conditions (the mutual arrangements between lenders and borrowers in specific loan agreements) also tightened further for corporate loans (19% in Q3, as against an NP of 47% in Q2). This reflected an increase in interest margins on riskier loans (an NP of 51%). Average interest margins remained largely unchanged overall, although part of the banking market increased them further for SMEs (an NP of 12%), while reducing them for large corporations. Banks further tightened their collateral requirements and non-interest fees.

With the exception of short-term loans, corporate demand for loans decreased (an NP of 29%), due mainly to subdued fixed investment (an NP of 86%) and, to a lesser extent, to reduced activity in the area of mergers and acquisitions and corporate restructuring, and to higher issuance of debt securities. By contrast, banks continued to perceive an increased need for the operational funding of corporations (an NP of 53%) as a direct result of the economic downturn. This was reflected in a growth in demand for short-term loans (an NP of 37%), while demand for long-term loans decreased (an NP of 67%). Overall, banks expect demand to be roughly unchanged in 2020 Q4. However, they are anticipating a continued rise in the need for short-term operational funding of corporations (an NP of 50%) and, by contrast, a decline in demand for long-term loans (an NP of 25%).

II.2 HOUSEHOLDS

Credit standards for **loans for house purchase** tightened in 2020 Q3, albeit less broadly than in the previous quarter (26% in Q3, as against an NP of 72% in Q2). The tightening of standards was fostered by the uncertainty surrounding future economic and social developments owing to the impacts of the coronavirus pandemic. Turning to the lending conditions, interest margins increased for riskier loans, whereas average interest margins declined. The LTV ratio also contributed to the tightening of conditions, while the DTI and DSTI ratios acted in the opposite direction. At the same time, however, part of the banking market is indicating a tightening of the mechanisms for assessing client creditworthiness.

Demand for loans for house purchase increased (an NP of 64%), contrary to expectations in the previous round of the survey. This was due primarily to a drop in mortgage interest rates, expected further growth in property prices and a slight improvement in household sentiment, but also to growing interest in property investment and an increased supply of properties on the market. However, a part of the banking market expects demand to go down in Q4, which should be accompanied by an easing of credit standards (NPs of 11% and 19% respectively).

Credit standards in the **loans for consumption** segment eased (an NP of 25%) in Q3 following a previous across-the-board tightening. This mainly reflected competition between banks and a reduction in bank financing costs, while a continued perception of risks regarding the creditworthiness of clients acted in the opposite direction. Lending conditions eased overall via average interest margins and margins on riskier loans. Household demand for consumer loans rose (an NP of 46%). This was driven mainly by a restart of the loans for consumption market following the easing of the measures introduced in spring to curb the spread of the coronavirus epidemic, still favourable unemployment figures, and a slight improvement in household sentiment and, in part of the market, a decrease in interest rates on such loans. However, demand was muted by a decline in expenditure on durable goods. In Q4, a decrease in demand and an easing of credit standards is expected (NPs of 4% and 5% respectively).

Following an across-the-board tightening in the previous quarter, credit standards in the **loans to sole proprietors** segment eased in Q3 (an NP of 33%), and banks do not expect any significant change in Q4. Demand for loans to sole proprietors rose (an NP of 54%), and 7% of the market is expecting demand to increase in Q4 as well.

Replies to **additional questions** regarding **loans to non-resident non-financial corporations** show that credit standards continued to tighten in Q3 and demand for loans was largely unchanged.

Additional questions on **expected credit losses** indicate that banks expect the credit loss rate to increase in all segments of the credit market in 2020 Q4. However, compared to the previous round of the survey, part of the banking market has a more positive outlook, primarily in the loans for house purchase segment.

III. GRAPHICAL PRESENTATION OF SUPPLY AND DEMAND CONDITIONS IN SEGMENTS

Chart 1: Changes in credit standards applied to loans to non-financial corporations (questions 1, 2 and 6)

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

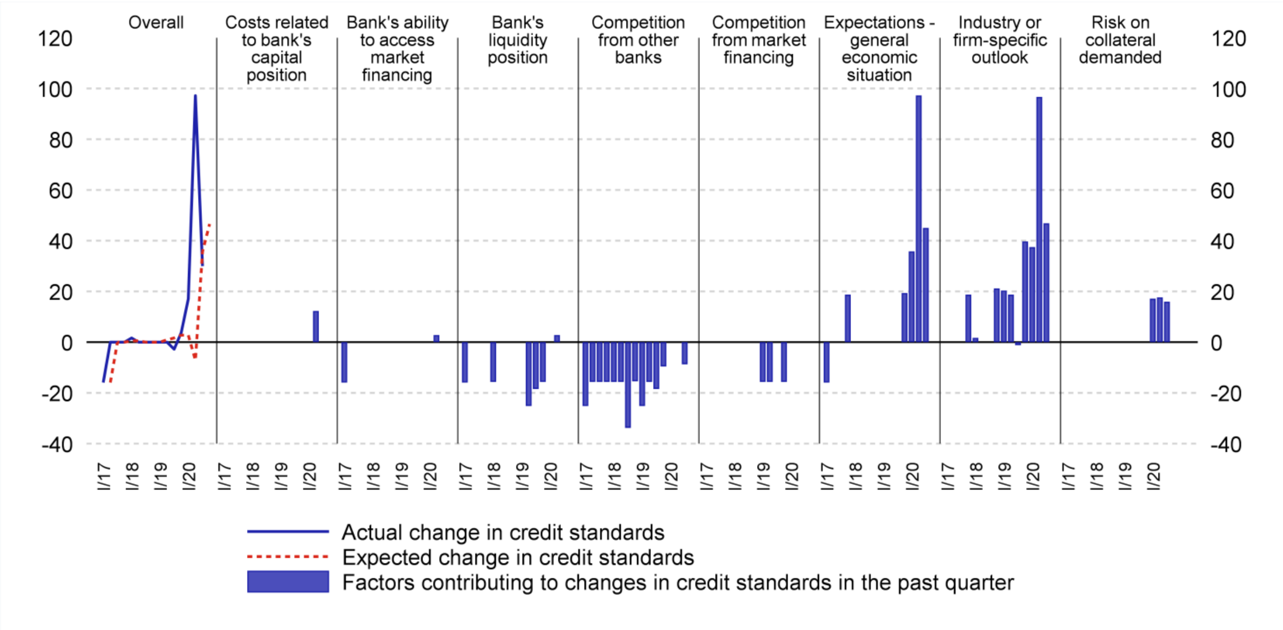


Chart 2: Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

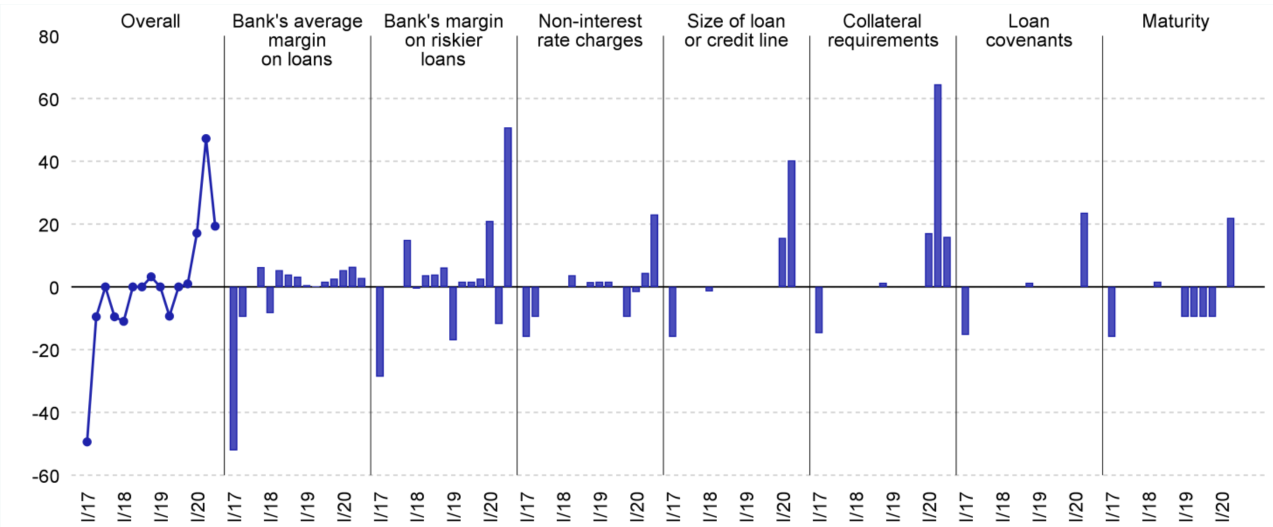


Chart 3: Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

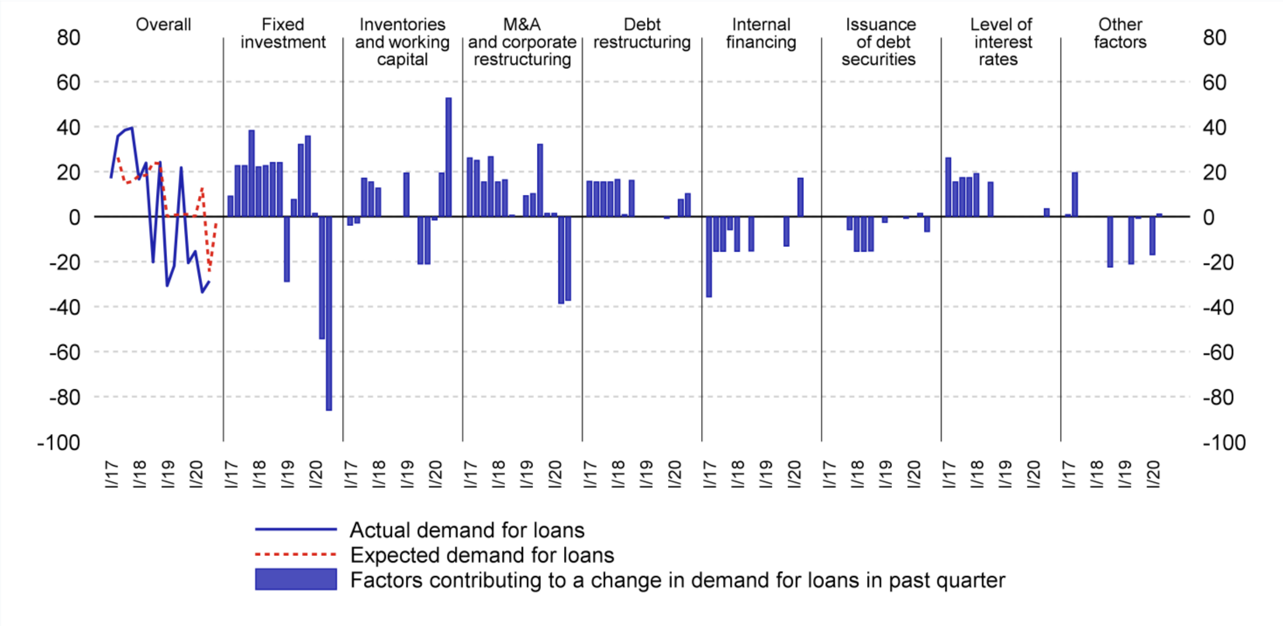


Chart 4: Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

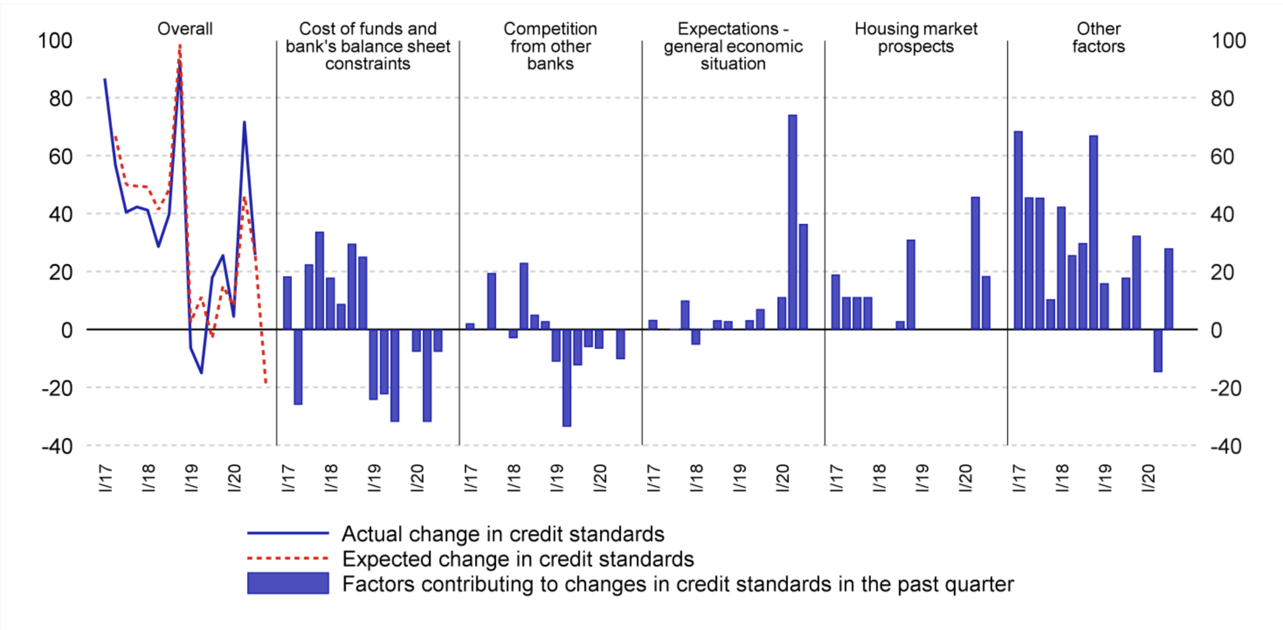


Chart 5: Changes in terms and conditions for approving loans for house purchase (question 10)

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

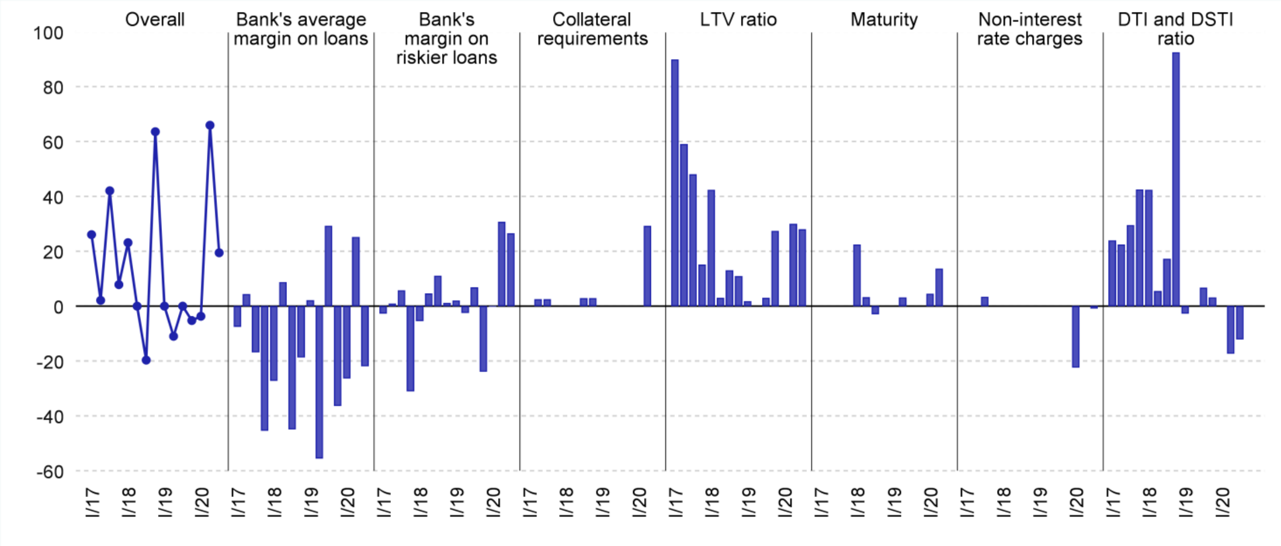


Chart 6: Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

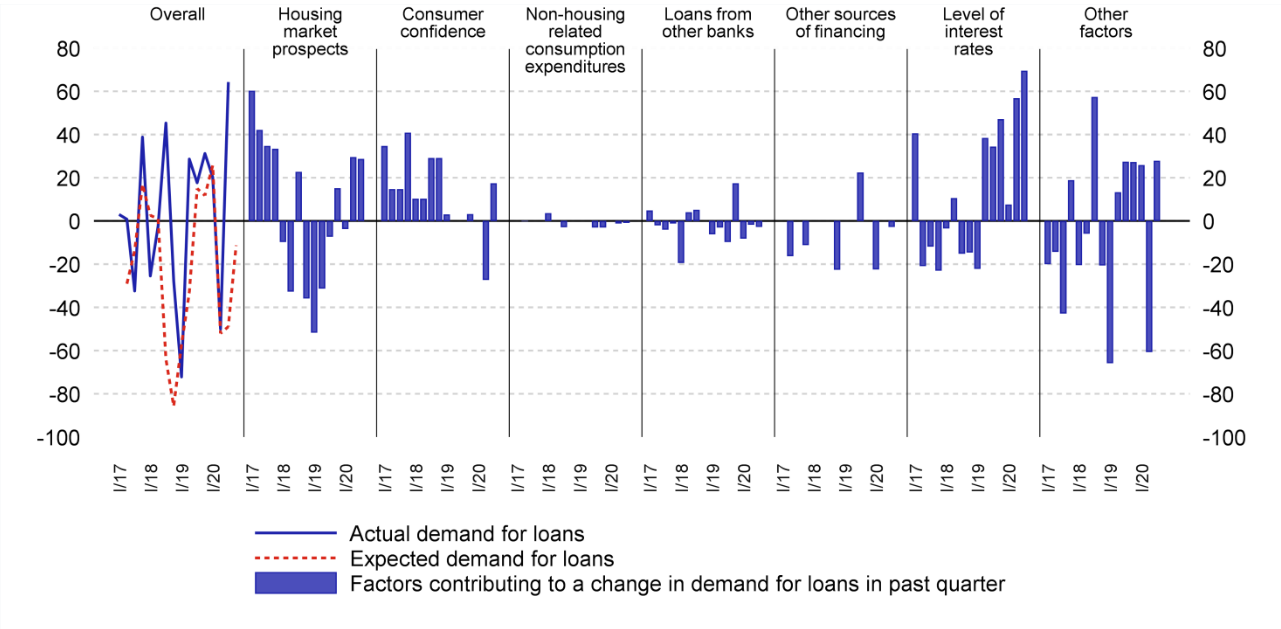


Chart 7: Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

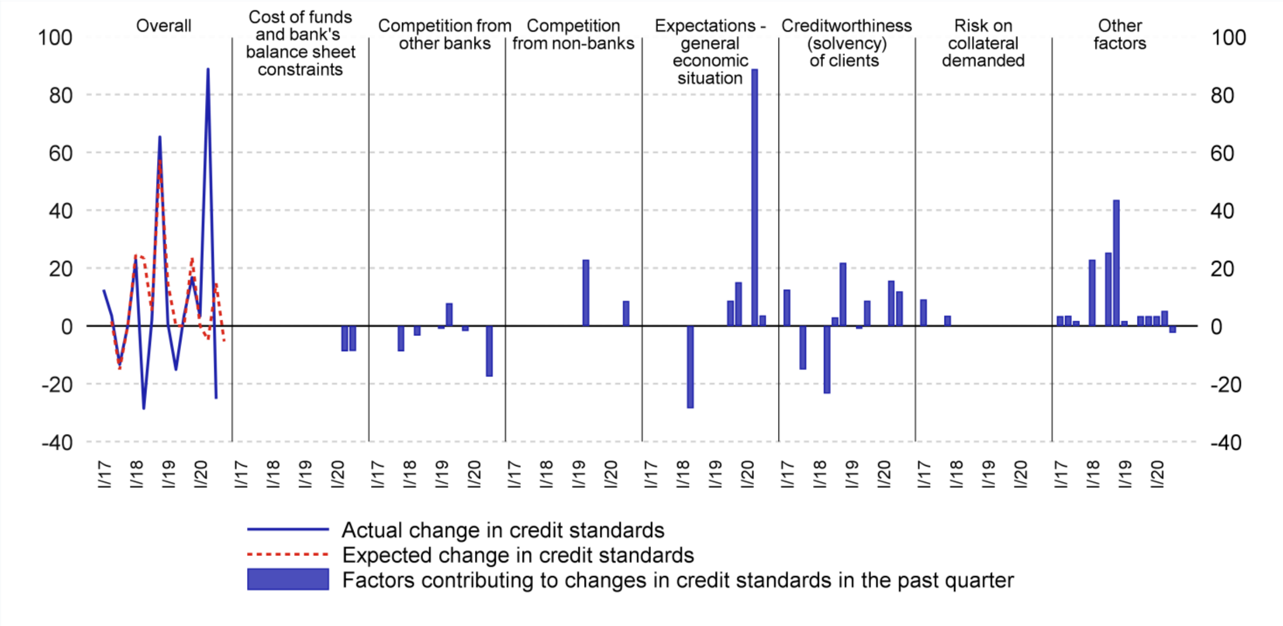


Chart 8: Changes in terms and conditions for approving consumer credit (question 12)

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

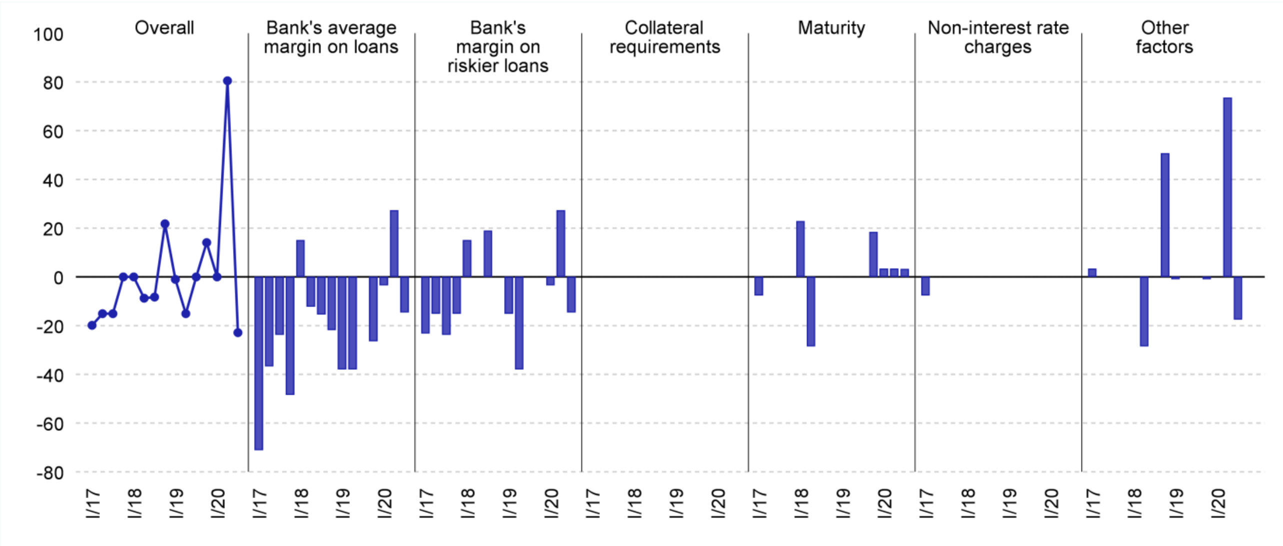
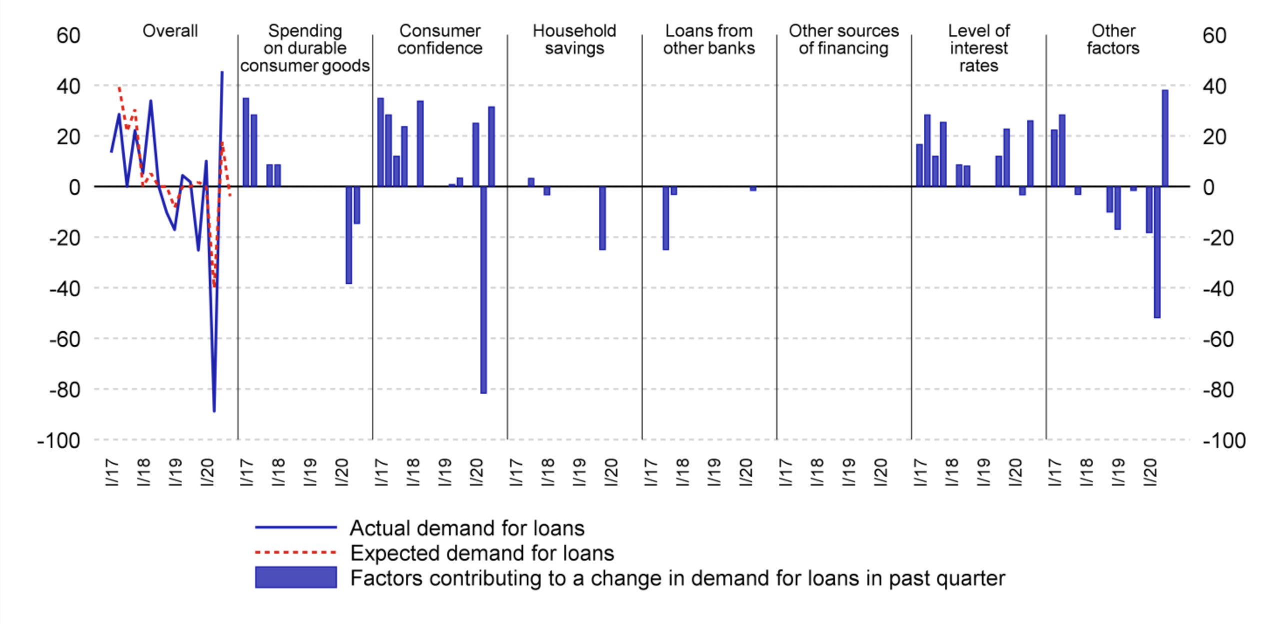


Chart 9: Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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

Contact:
COMMUNICATIONS DIVISION, GENERAL SECRETARIAT
Tel: +420 22441 3112
Fax: +420 22441 2179
www.cnb.cz