Bank Lending Survey

I/2023

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

CZECH NATIONAL BANK

www.cnb.cz

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-third round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2022 Q4 and their expectations in these areas for 2023 Q1. Nineteen banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 1 December and 15 December 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 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 indicate a decline in households' demand for loans for housing and for consumer credit for more than two-thirds of the banking market. The fall in demand is due mainly to the higher living costs of households and the level of interest rates. In the case of non-financial corporations, credit standards and total demand for loans remained almost unchanged overall. Turning to the corporate loans segments, more than one-third of the banking market indicated an increase in perceived demand for short-term loans for the financing of operations and inventories and, by contrast, one-third of the market perceived a fall in demand for long-term/investment loans. Overall, banks expect no major adjustments to credit standards or changes in demand for loans in 2023 Q1. A significant proportion of banks expects credit losses to increase in all three segments of the credit market.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

According to banks, the overall credit standards (representing banks' internal criteria for approving loans) **were unchanged for loans to non-financial corporations in 2022 Q4.** Banks approached individual loan segments differently, and the tightening of standards for a large part of the banking market thus mainly applied to long-term loans (and NP of 42%), and to a lesser extent, short-term loans and loans to small and medium-sized enterprises. Most banks perceived increased risks associated with the outlook for the overall economic situation and for some sectors and corporations. Tighter standards were also related to foreign currency loans. In general, the banking market does not expect credit standards to tighten overall in 2023 Q1. However about a fifth of the market expects a further tightening for long-term loans.

According to banks, the overall lending conditions (representing the arrangements between lenders and borrowers) **were unchanged.** A small part of the banking market tightened loan covenants and conditions relating to the maturity of loans, especially in the case of loans to large corporations. Almost a third of the banking market tightened the interest rate margins on riskier loans to non-financial corporations. The activities of individual companies applying for foreign currency loans are also being assessed in greater detail. By contrast, a fifth of the banking market lowered non-interest fees.

According to banks, total corporate demand for loans was unchanged. From the perspective of the credit segments, demand for long-term loans declined in more than a third of the banking market, while demand for short-term loans increased. This is also associated with the factors mentioned by banks, where a decrease in the need to finance fixed investments, mergers and acquisitions, and corporate restructuring contributed to a fall in perceived demand. Conversely, the financing of operations and inventories with short-term loans, which continued to be related to the need to finance the same quantity of production with higher credit lines, fostered a rise in demand. Companies are continuing to purchase and maintain higher stocks due to the unavailability or longer delivery times of some commodities, components and materials. Most of the banking market consider the levels of domestic interest rates to be a factor fostering of a decrease in perceived demand and negatively impacting demand for long-term loans in particular. A section of the banking market expects overall demand for loans to decline in 2023 Q1, and the drop in demand for long-term loans will continue in this period. By contrast, a fifth of the banking market expects an increase in demand for short-term loans to cover operational funding needs.

Questions regarding loans to **non-resident non-financial corporations** show that banks tightened credit standards (an NP of 22%) and demand for loans increased (an NP of 11%) in 2022 Q4.

II.2 HOUSEHOLDS

Credit standards for loans to households for house purchase eased overall in 2022 Q4 (an NP of 18%). This was also due to changes to the internal methodology of banks and the cost of funding. Pessimistic expectations relating to the overall economic situation continued to foster a tightening of credit standards, but only a small part of the banking market still perceived this to be a factor. About a fifth of the banking sector expects credit standards to ease in 2023 Q1. **Almost one-fifth of the banking market eased the overall credit conditions.** This mainly reflected changes in banks' internal methodology. Conversely, more than one-third of the banking market increased the average interest margin on housing loans. More than two-thirds of the banking market perceived a **continued decline in demand for housing loans**. The decrease in demand was mostly fostered by increased non-housing related consumption expenditure (an NP of 84%), i.e. higher living costs of households due to growth in inflation, higher energy bills and the level of interest rates on loans for house purchase (an NP of 64%). High property prices, households' savings and worsening sentiment among households also had an adverse effect on demand. Only one-tenth of the banking market expects demand to decrease in 2023 Q1.

Banks tightened credit standards in the consumer credit segment in 2022 Q4 (an NP of 59%). This tightening reflected negative expectations about economic developments, stricter assessment of client creditworthiness and client cost of living and, to a lesser extent, an increase in banks' cost of funds. **A small part of the banking market tightened the overall lending conditions** (an NP of 12%). Conversely, a small number of banks lowered average interest rate margins (an NP of 11%). **Households' demand for consumer credit decreased** (an NP of 63%). Lower household spending on durable goods, the level of interest rates and weaker consumer confidence acted in this direction. A small proportion of the banking market expects credit standards to ease in 2023 Q1, and a similar part of the market expects demand for consumer credit to increase.

More than one-third of the banking market tightened credit standards for **loans to sole proprietors**. Banks do not expect them to change in 2023 Q1. Sole proprietors' demand for loans as perceived by banks fell for more than three-quarters of the banking market in 2022 Q4. Banks indicated a further decline in perceived demand, albeit to a lesser extent, in 2023 Q1.

Banks **expect credit losses to increase** in all segments of the credit market in the next three months. More than two-thirds of the banking market announced a growth in expected credit losses for consumer credit, more than half for corporate loans and one-third for 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)

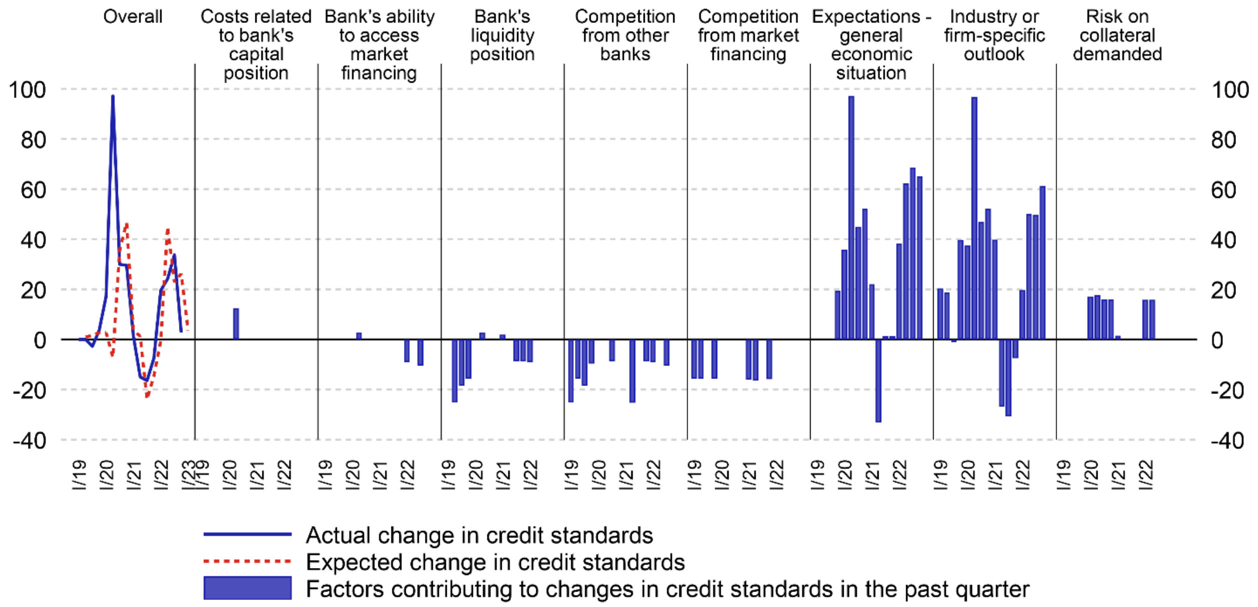


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

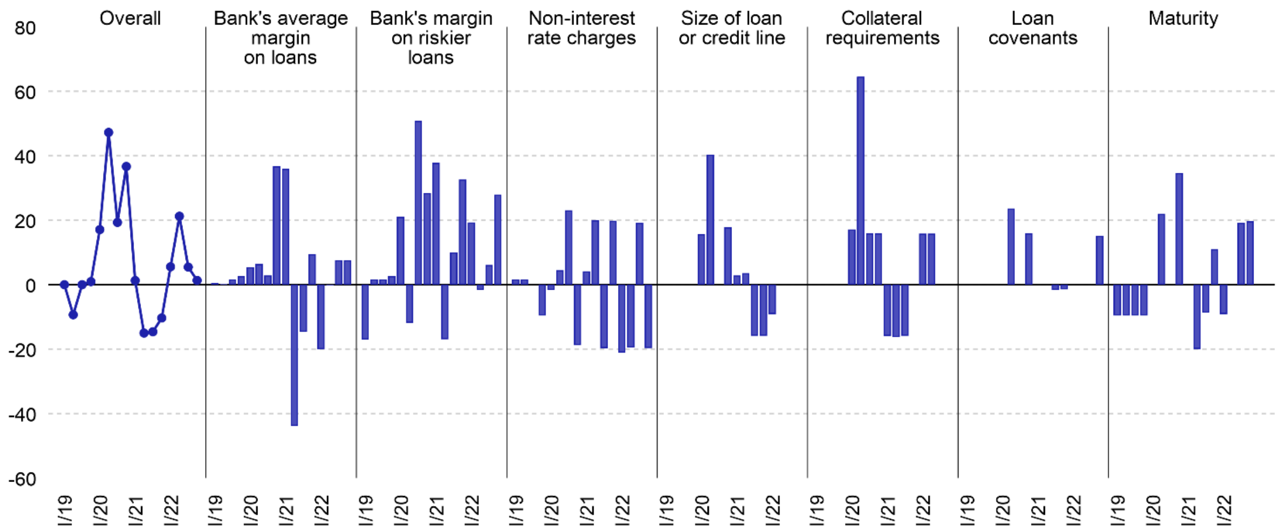


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

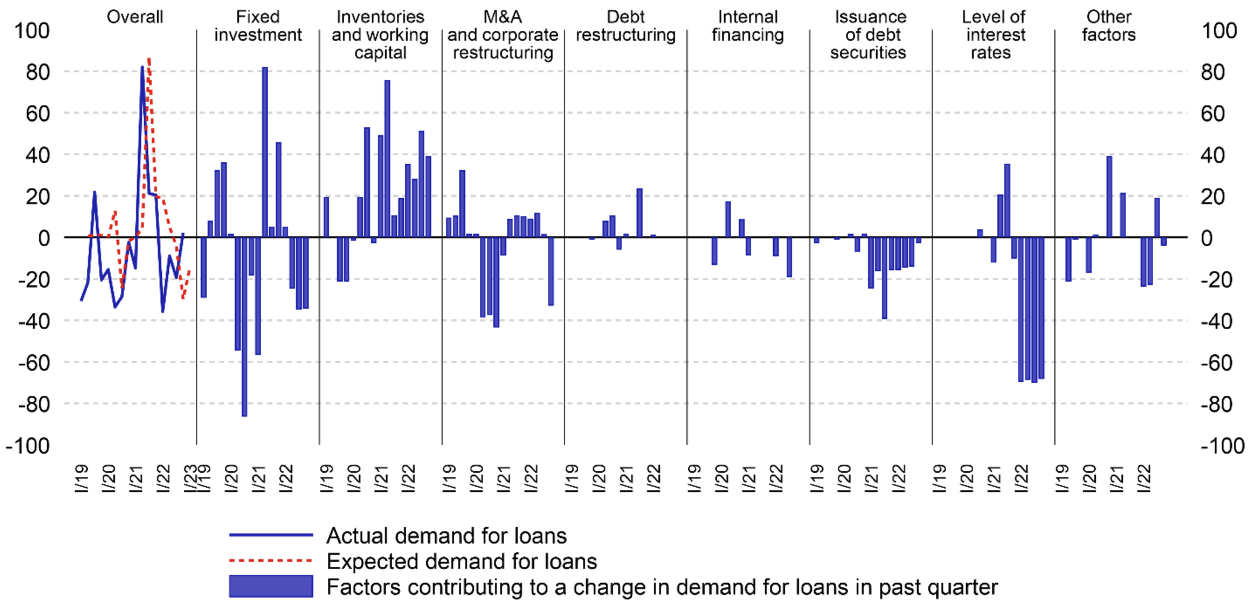


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

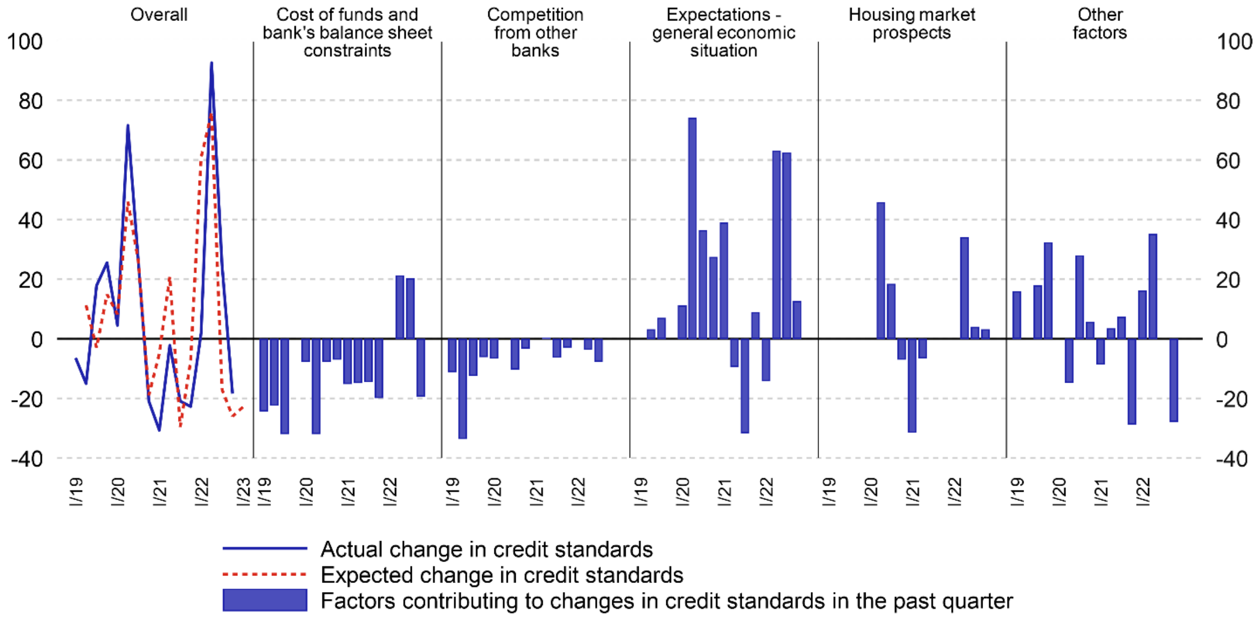


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

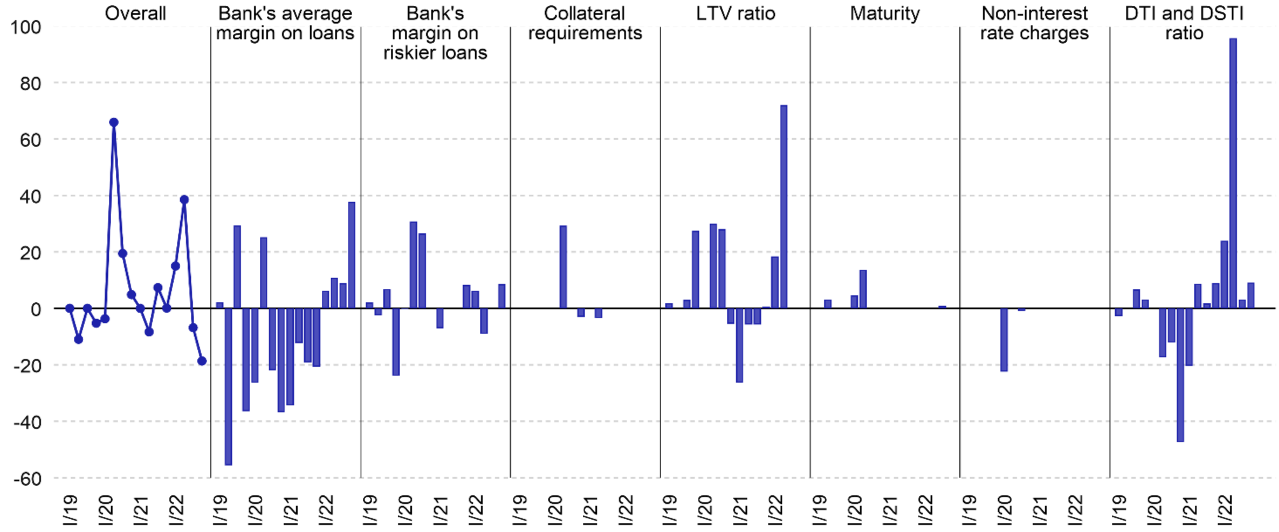


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

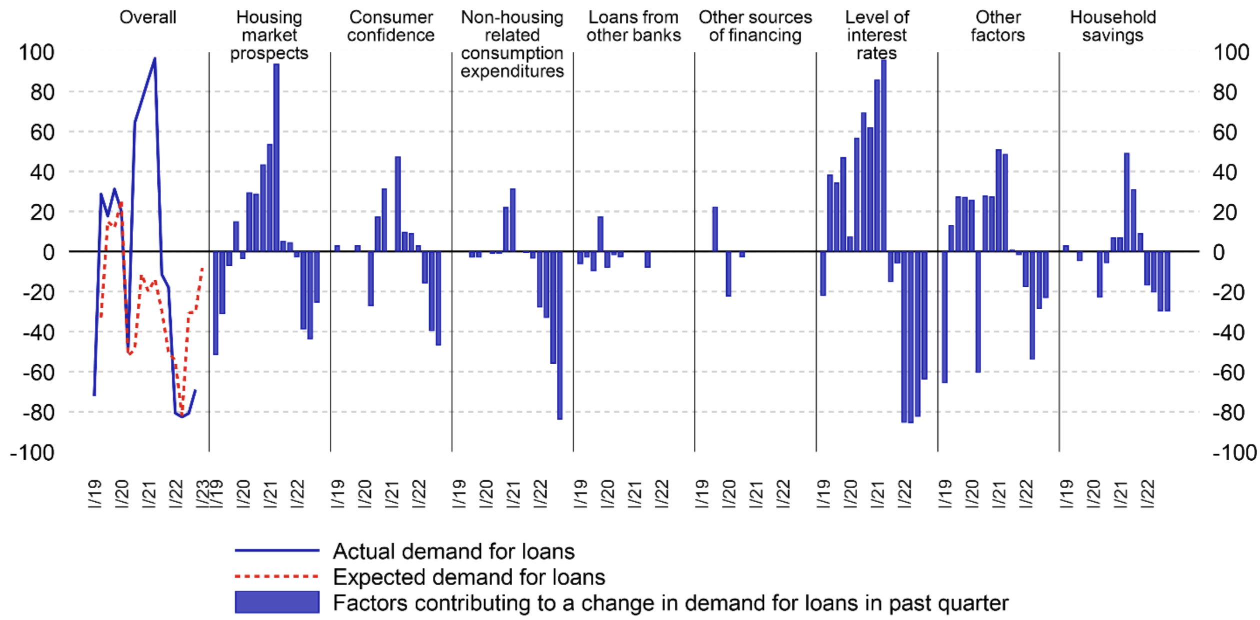


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

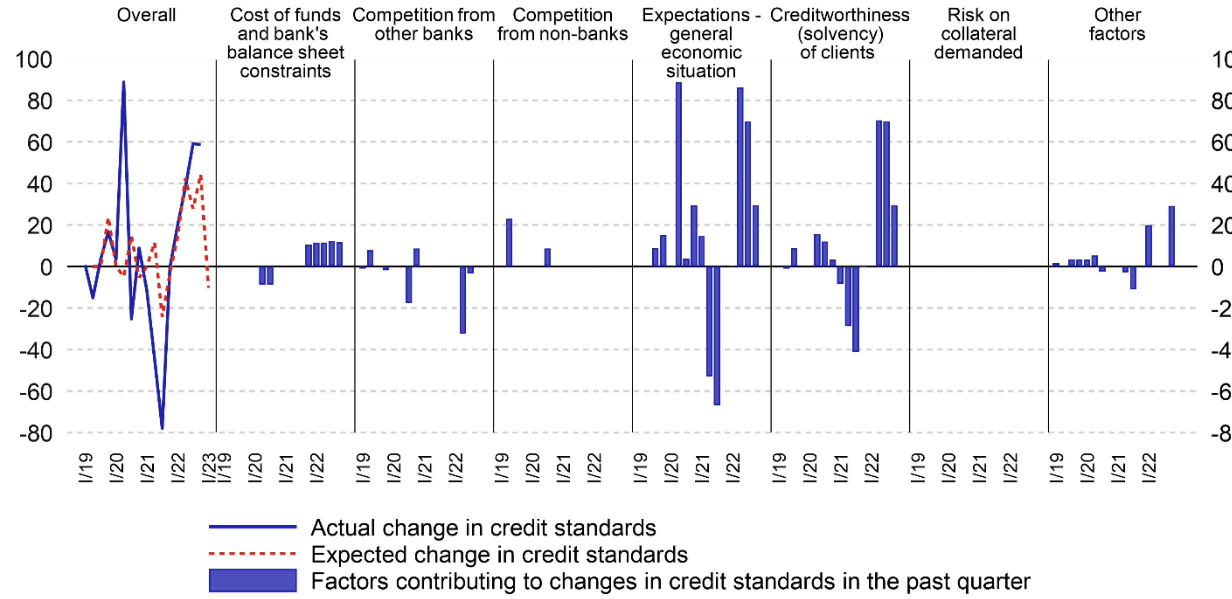


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

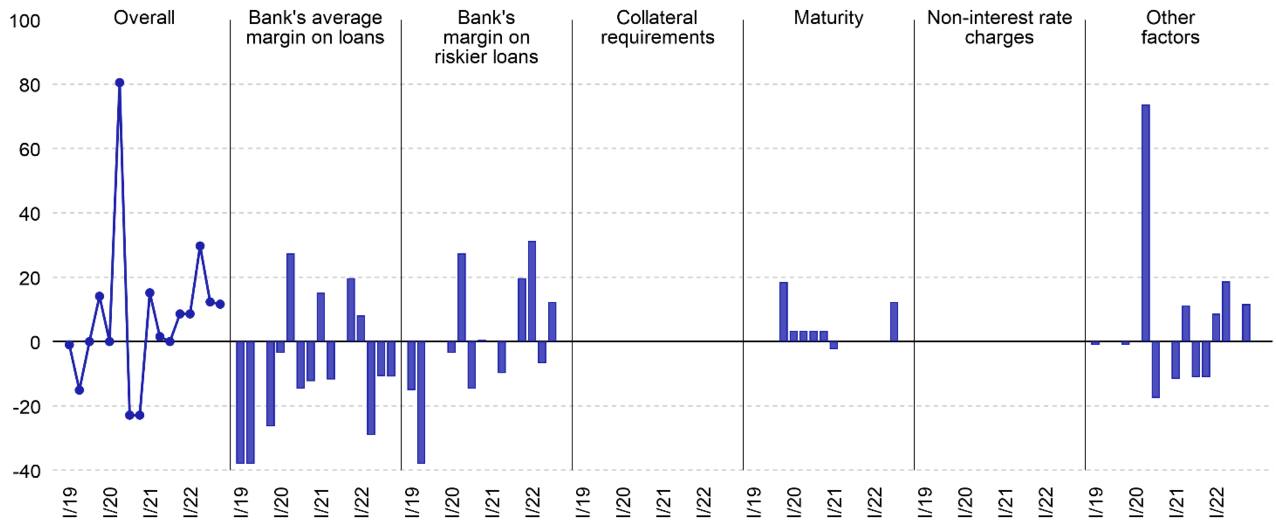
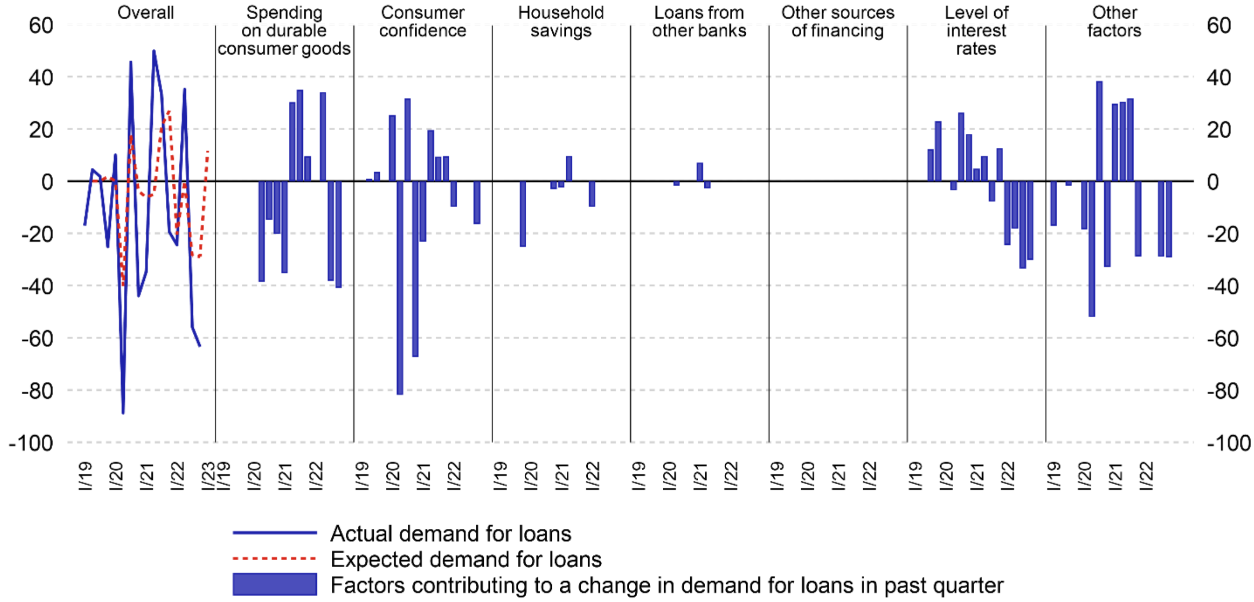


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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