Bank Lending Survey

IV/2024

Czech National Bank —— Bank Lending Survey —— IV/2024

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 publication summarises the results of the current round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2024 Q3 and their expectations in these areas for 2024 Q4. Nineteen banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 2 and 15 September 2024.[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 credit standards for loans to non-financial corporations remained unchanged in 2024 Q3. Corporations' demand for loans increased in part of the banking market after previous declines. This was due mainly to higher financing of fixed investments, working capital including inventories and – for the first time since 2021 – lower interest rates. Credit standards for loans to households for house purchase and consumption also remained largely unchanged. Demand for loans for house purchase and consumption continued to grow. The increase in demand for housing loans was fuelled by expectations of continued growth in activity on the residential market, accompanied by a rise in property prices, improved consumer sentiment, and a slight reduction in interest rates. The rise in demand was also affected by the amendment to the law regulating the conditions for early repayment of mortgage loans, which came into effect in September 2024. Increased demand for consumer credit was driven by higher consumer spending and improved household sentiment amid slightly lower interest rates on consumer credit. In 2024 Q4, banks expect demand for loans to rise in all the above credit market segments. According to banks, the increase in household demand for loans for house purchase and consumption is expected to be less broad-based at the end of this year compared to previous trends. Banks do not anticipate any changes to credit standards for corporate loans in Q4, while they expect a tightening of standards for housing loans and consumer credit.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Credit standards representing banks' internal lending policy criteria remained unchanged for loans to non-financial corporations in 2024 Q3. No change in standards was recorded for loans to large and smaller firms and for loans of all maturities. As regards factors affecting credit standards, competitive pressure in the banking market increased (an NP of 10%). In 2024 Q4, banks expect credit standards to remain unchanged overall, with 10% of the banking market expecting an easing of standards for long-term loans.

The terms and conditions for approving corporate loans were also unchanged overall. However, within their structure, average interest margins and margins on riskier loans declined (NPs of 28% and 16% respectively). Additionally, banks eased conditions on loan size and non-interest fees (an NP of 18% for each factor) but tightened conditions related to loan maturities (an NP of 18% for each factor). A section of the banking market expects slightly positive developments in most sectors in the period ahead, with the exception of the automotive industry, where manufacturers supplying components for the production of electric cars are facing a significant drop in orders. This sub-segment is receiving increased attention, including a potential tightening of credit standards and conditions.

Corporate demand for loans rose in Q3, in line with banks' expectations (an NP of 25%). An increase in demand was recorded for large corporations and for long-term loans. The rise in demand was driven by a greater need to finance fixed investments, working capital, mergers and acquisitions and corporate restructuring (NPs of 31%, 42% and 13% respectively). An increase in demand for investment-financing loans was thus recorded for the first time since early 2022. However, according to some banks, firms remain cautious, as uncertainties about the economic outlook and new orders affect their incentive to invest more in fixed assets. For the first time since 2021, falling interest rates have driven an increase in corporate demand for loans (an NP of 14%). While interest rates are still perceived as high, interest rate expenses are not a significant factor for the overall performance of most companies. Conversely, the use of alternative financing by some large corporations in the form of bond issuance (an NP of 15%) has decreased demand for loans. In 2024 Q4, part of the banking market expects demand for loans to rise for all types of loans in terms of corporation size and maturity (an NP of 33%).

II.2 HOUSEHOLDS

Credit standards for loans to households for house purchase remained largely unchanged in Q3. A smaller part of the banking market eased lending conditions, mainly due to lower interest rates on loans with LTVs up to 55%. Conversely, part of the banking market tightened conditions by adjusting the internal DTI/ DSTI ratios (an NP of 7%). The average interest margin, representing the spread between interest rates on housing loans and the benchmark (in the form of the cost of banks' funding), increased owing to a decline in market interest rates (an NP of 13%). As a result, the average interest margins on riskier loans also increased in 20% of the banking market. In 2024 Q4, banks expect credit standards to tighten (an NP of 20%).

Household demand for housing loans continued to rise (an NP of 70%). Demand for housing loans increased more broadly than banks had expected in the previous round of the survey. This represents a five-quarter-long trend of growing demand for loans. This has been driven by expectations of continued growth in transaction activity on the residential market, accompanied by a rise in property prices, a slight decrease in interest rates, and improved consumer confidence (NPs of 66%, 20% and 26% respectively). The increase in demand was also affected by the amendment to the law regulating the conditions for early repayment of mortgage loans, effective from September 2024. Demand was concentrated on shorter interest rate fixation periods due to the expected decrease in the CNB's monetary policy rates, which could subsequently have an impact on mortgage rates. According to the survey, demand for housing loans is expected to continue growing in Q4, albeit less broadly than before (an NP of 30%).

Credit standards and conditions for consumer credit were unchanged in Q3. A tightening of standards is expected in a relatively small part of the banking market in 2024 Q4 (an NP of 10%). Demand for consumer credit continued to rise across the board (an NP of 64%). This reflected increased financing of consumption expenditure, improved consumer confidence and lower interest rates (an NP of 32%, 46% and 16% respectively). A section of the banking market (10%) expects demand to increase again in 2024 Q4.

Credit standards for loans to sole proprietors were eased further and demand for loans rose (an NP of 41% and 23% respectively). Banks expect credit standards to remain unchanged and demand for loans to continue increasing in 2024 Q4.

Additional questions on expected credit losses suggest that a smaller section of the banking market is expecting an overall increase in the credit loss rate for corporate loans in the period ahead, while anticipating a decline for household loans for house purchase and for consumption.

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)

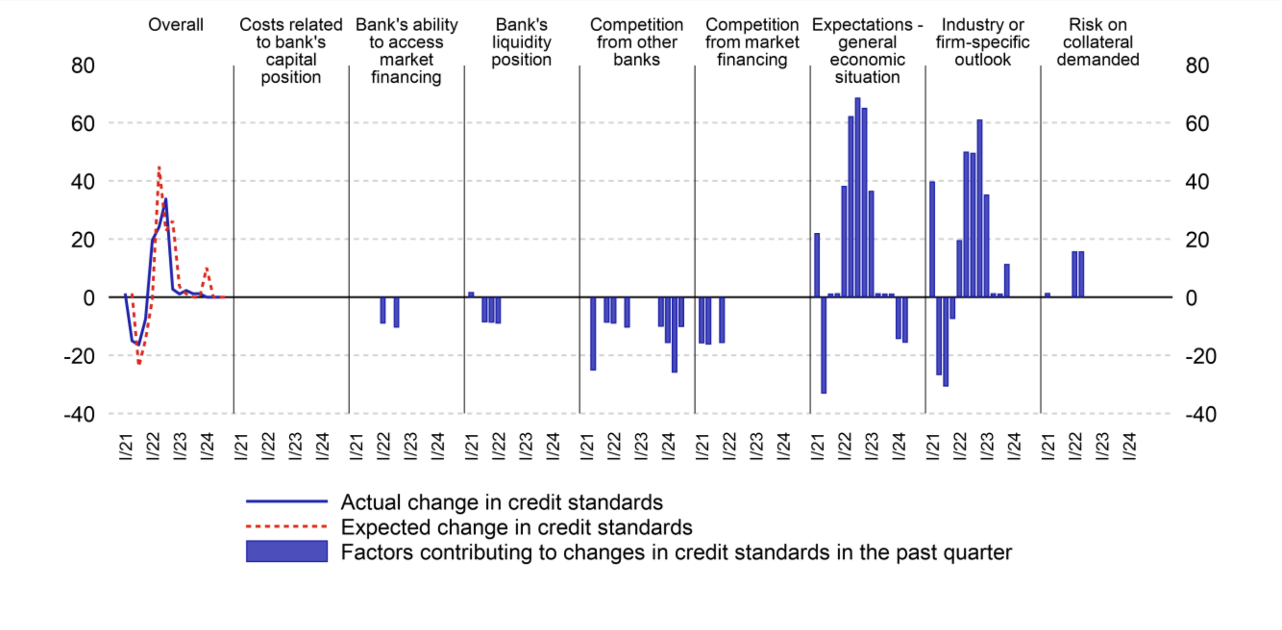


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

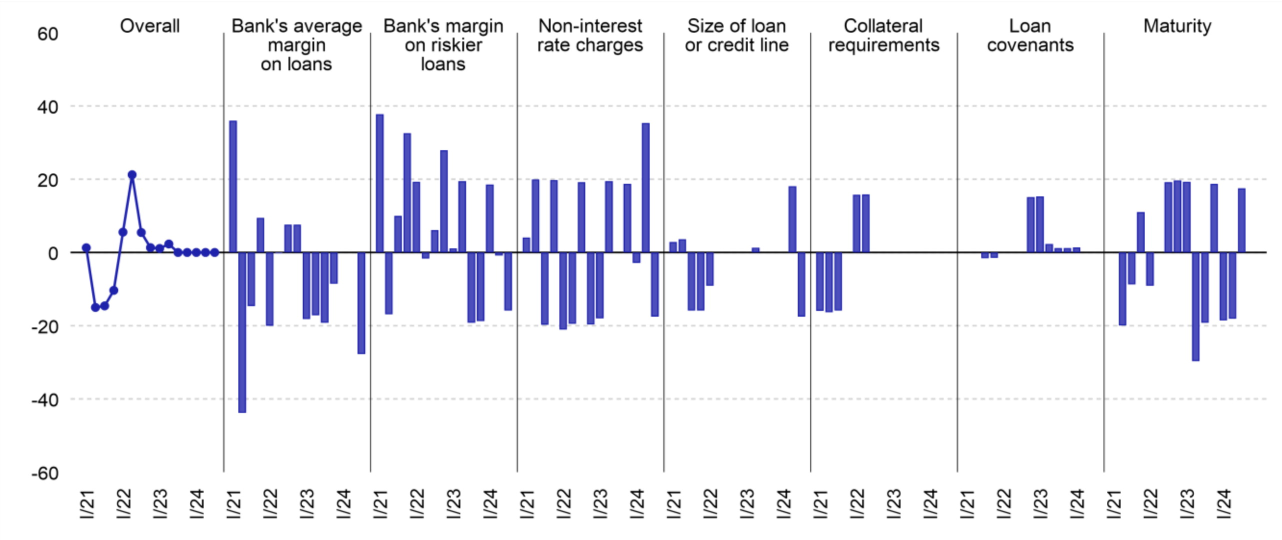


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

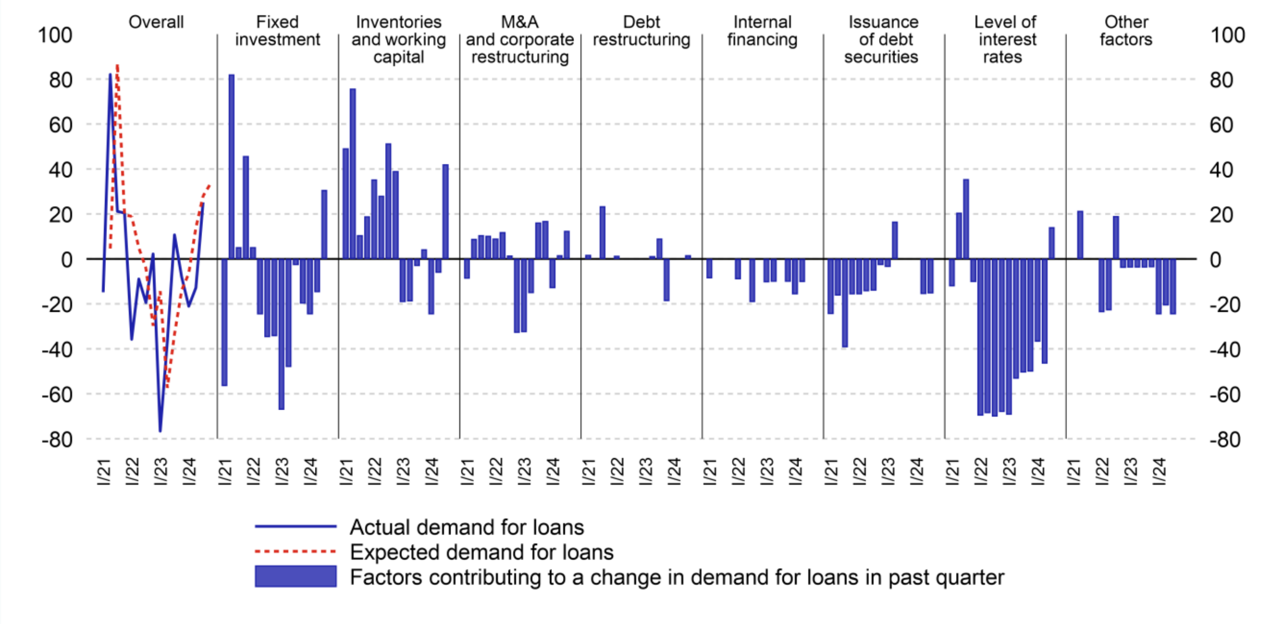


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

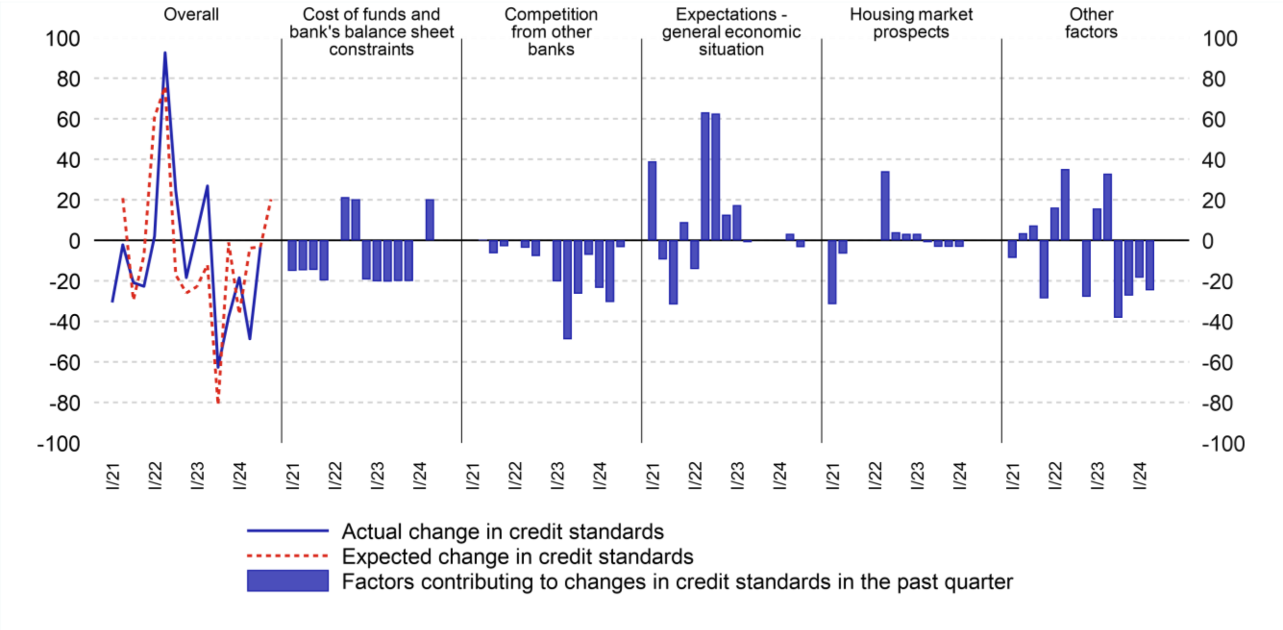


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

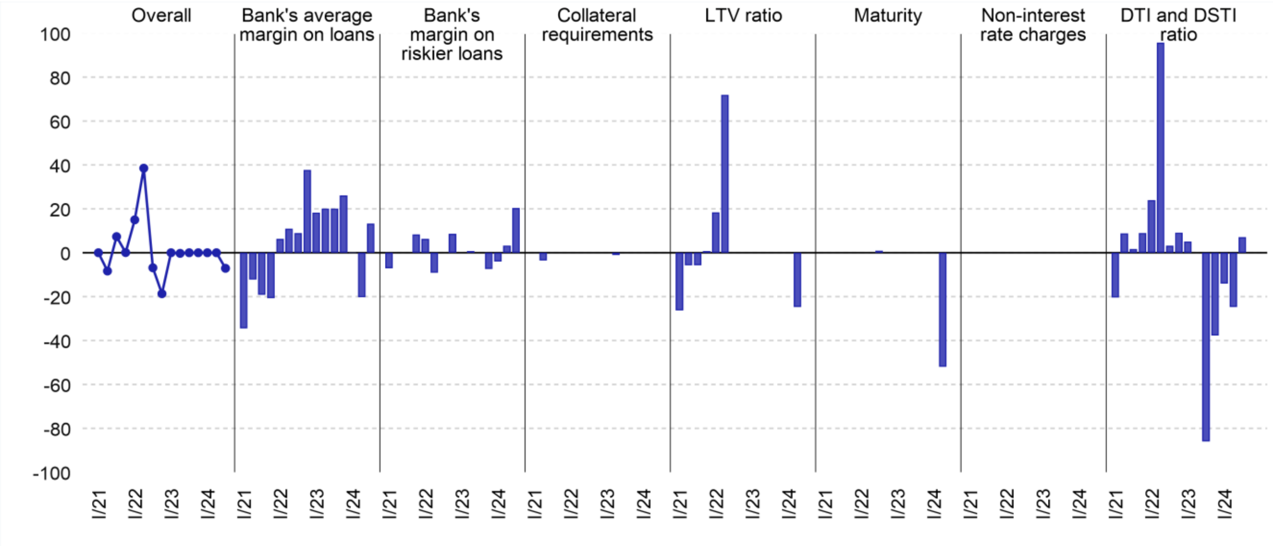


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

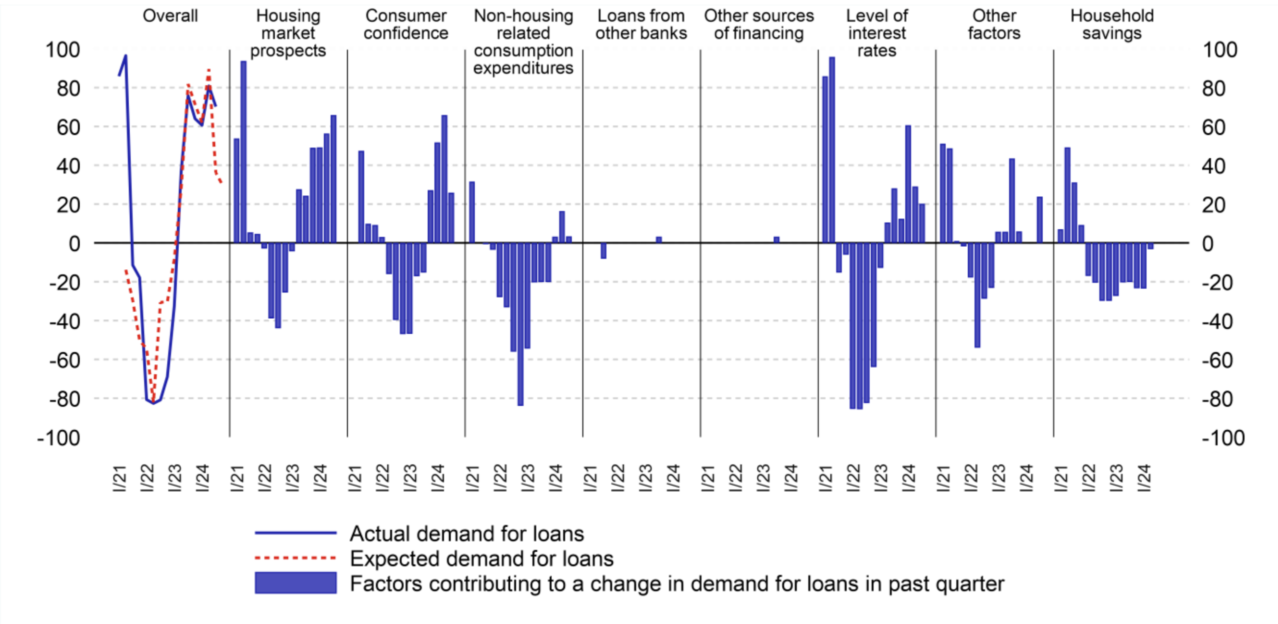


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

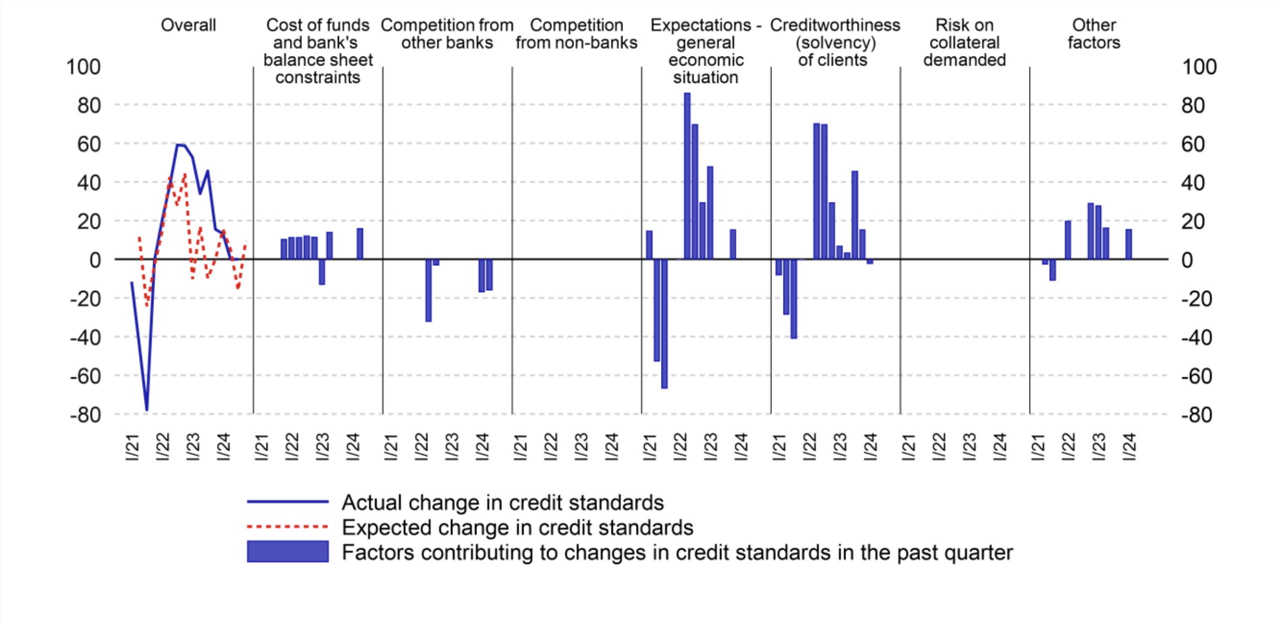


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

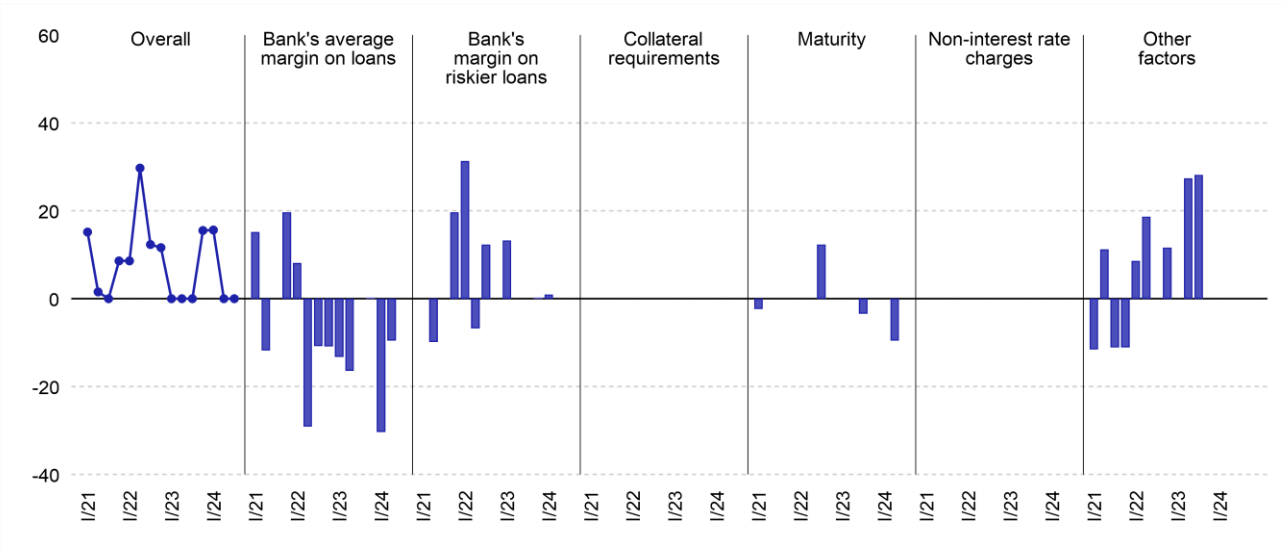
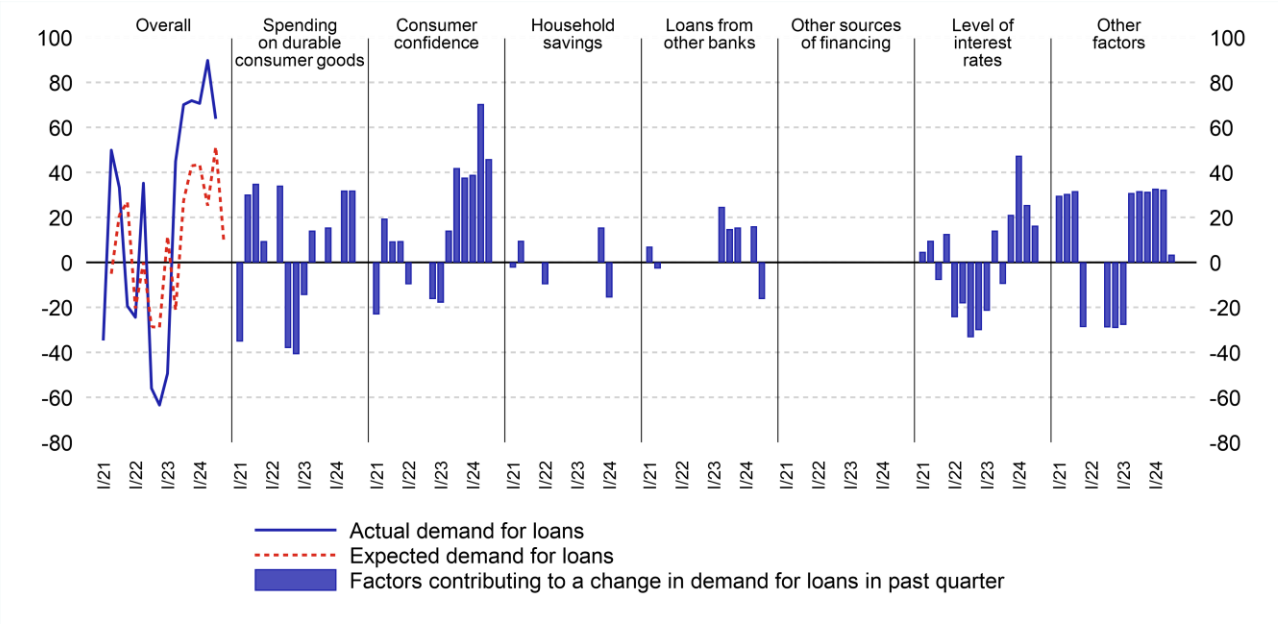


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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