

# PRESS RELEASE

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## Results of the July 2018 euro area bank lending survey

- Easing credit standards and increasing demand across all loan categories continued to support loan growth
- Banks expect continued net easing of credit standards in all segments for the third quarter
- Tightening impact on credit standards from banks' non-performing loans is diminishing

Credit standards for loans to enterprises eased in net terms in the second quarter of 2018, according to the July 2018 bank lending survey (BLS). The net easing (-3%) of credit standards – i.e. banks' internal guidelines or loan approval criteria – follows on from an easing of credit standards (-8%) for loans to enterprises in the previous quarter and was in line with banks' expectations in the previous survey round. In addition, credit standards for loans to households for house purchase eased (net percentage of reporting banks at -8%, after -11%), and credit standards for consumer credit and other lending to households also eased (-3%, unchanged from previous period). Across the three segments, competitive pressure and risk perceptions had an easing impact on credit standards, while banks' cost of funds and balance sheet constraints and their risk tolerance were broadly neutral. For the third quarter of 2018, banks expect a net easing of credit standards in all three segments.

Banks' overall terms and conditions (i.e. banks' actual terms and conditions agreed in the loan contract) on new loans eased across all loan categories in the second quarter of 2018, driven mainly by a narrowing of margins on average loans, while margins on riskier loans also eased across all loan categories, albeit to a lesser extent.

Net demand continued to increase across all loan categories in the second quarter of 2018. The net increase in demand for loans to enterprises was driven mainly by the general level of interest rates, inventories and working capital, and M&A activity. Net demand for housing loans continued to be driven mainly by the low general level of interest rates, favourable housing market prospects and consumer

confidence. Consumer confidence, spending on durable goods and the low general level of interest rates continued to contribute positively to net demand for consumer credit and other lending to households.

With regard to the impact of banks' non-performing loans (NPLs) on their lending policies, euro area banks reported that NPLs contributed to a tightening in their credit standards and terms and conditions across all categories of loans over the past six months. However, this tightening impact has generally diminished relative to the impact between 2014 and 2017, and it is expected to decrease further in the next six months. Banks' NPL ratios affected their lending policies mainly through their impact on risk perceptions, risk tolerance and the cost of cleaning up the balance sheet.

Finally, with regard to the factors that are significant in determining banks' lending margins, competition and profitability targets were reported as the most significant factors across all categories of loans over the past six months, and these factors also increased most in significance between the beginning of 2014 and the end of 2017.

The BLS, which is conducted four times a year, was developed by the Eurosystem to improve the understanding of banks' lending behaviour in the euro area. The results reported in the July 2018 survey relate to changes in the second quarter of 2018 and expectations of changes in the third quarter of 2018, unless otherwise indicated. The July 2018 BLS was conducted between 18 June and 3 July 2018. In this BLS round, the sample size of the survey was 149 banks. The response rate was 100%.

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**Notes:**

- The survey report is available at <http://www.ecb.europa.eu/stats/money/surveys/lend/html/index.en.html>. A copy of the questionnaire, a glossary of BLS terms and a BLS user guide with information on the BLS series keys can also be found on this website.
- The euro area and national data series are available on the ECB's website via the ECB's Statistical Data Warehouse (<http://sdw.ecb.europa.eu/browse.do?node=9691151>). National results, as published by the respective national central banks, can be obtained via <http://www.ecb.europa.eu/stats/money/surveys/lend/html/index.en.html>.
- For more detailed information on the bank lending survey, see Köhler-Ulbrich, P., Hempell, H. and Scopel, S., "The euro area bank lending survey", Occasional Paper Series, No 179, ECB, 2016 (<http://www.ecb.europa.eu/pub/pdf/scpops/ecbop179.en.pdf>).