



EUROPEAN CENTRAL BANK

12 August 2004

THE EURO AREA BANK LENDING SURVEY

– JULY 2004 –

1. General introduction

This report gives the results obtained from the ECB's bank lending survey for the euro area conducted in July 2004. The survey started in January 2003 and is conducted four times a year, always in the first month of the quarter. This report details the results obtained from the seventh survey cycle. The cut-off date for receipt of data from the banks participating in the survey was 13 July 2004.

The survey is addressed to senior loan officers of a representative sample of euro area banks¹, and its main purpose is to enhance the understanding of bank lending behaviour in the euro area.² This report contains the answers to 17 qualitative questions relating to the past three months, i.e. the second quarter of 2004, as well as relating to the next three months, i.e. the third quarter of 2004.

The questions distinguish between loans or credit lines to enterprises, loans to households for house purchase, and loans to households for consumer credit and other lending. The survey includes questions on credit standards for approving loans, as well as on credit terms and conditions. It also asks for an assessment of credit demand and of the conditions affecting it.

The questions on credit standards are analysed by focusing on the difference ("net percentage") between the share of banks reporting that credit standards have been tightened and eased. A positive net percentage indicates that a larger proportion of banks has tightened credit standards ("net tightening"), whereas a negative net percentage indicates that a larger proportion of banks has eased credit standards ("net easing"). Likewise, the term "net demand" refers to the difference between the share of banks reporting an increase in loan demand and those reporting a decline.

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

¹ The sample group of banks participating in the survey comprises 86 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. In the July 2004 survey, all the 86 banks participated.

² See the ECB Press Release of 21 November 2002, *Bank lending survey for the euro area*, and the April 2003 Monthly Bulletin article entitled "A bank lending survey for the euro area".

2. Overview of the results

Overall, the results of the July 2004 survey show that the net percentages of banks tightening credit standards to enterprises and housing loans to households declined significantly in the second quarter of 2004. This resulted, for the first time since the bank lending survey began in January 2003, in a slight net easing of such credit standards. The reported values for the second quarter of 2004 were consistently better than expected by the banks for this period three months ago.

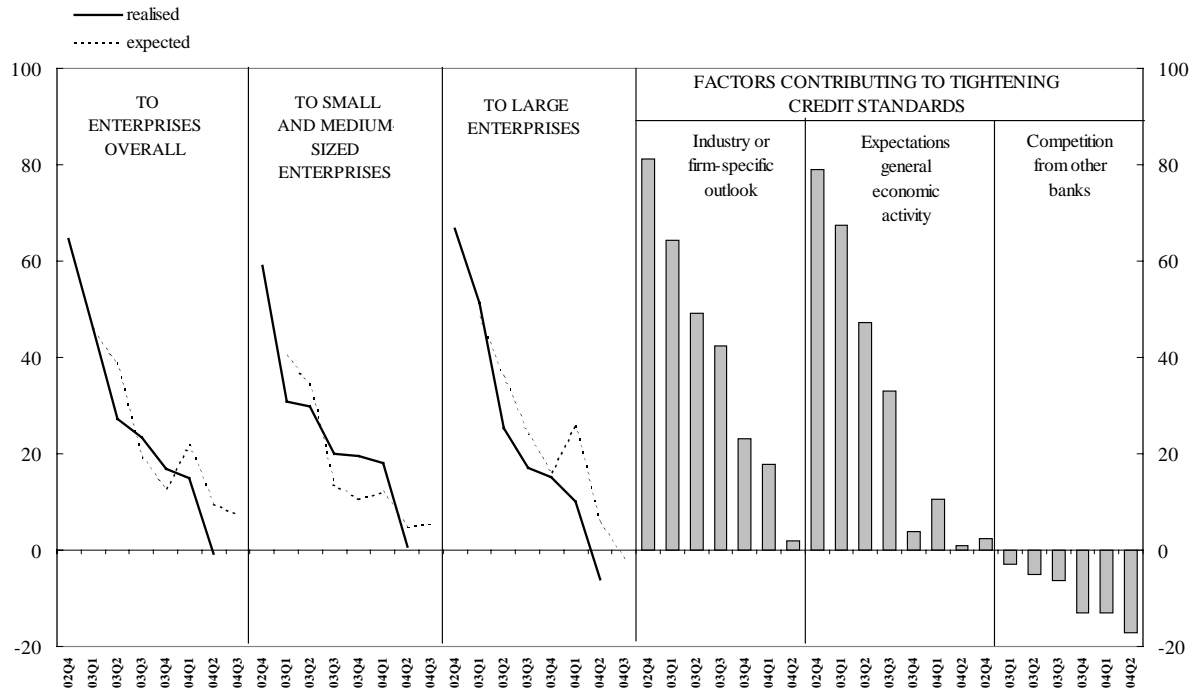
Loans or credit lines to enterprises

Credit standards. In July 2004, banks reported a slight net easing of credit standards for loans or credit lines to enterprises (–1%) after a net tightening was witnessed in the first quarter (15%, see Chart 1, first panel). The results for the second quarter are below what banks expected in April 2004 for the same period (10%). This is the first time since the bank lending survey started in January 2003 that a net easing of credit standards has been reported. The net percentage in July remained higher for loans to small and medium-sized enterprises (1%) than for loans to large enterprises (–6%, see Chart 1, second and third panels). For all enterprises the net percentage was in July slightly lower than what banks expected in April for the same period.

Among the factors explaining changes in credit standards, an improvement in the risk perceptions related to the industry or firm-specific outlook, general economic activity, as well as an improvement in the costs related to banks' capital, contributed positively to the shift from a net tightening to a slight net easing (see Chart 1). At the same time, competition from other banks continued to work in favour of an easing of credit standards. Regarding the terms and conditions of credit, there was a decline in the net percentage of banks tightening credit standards via collateral requirements and loan covenants, resulting in a net easing of such standards for the latter.

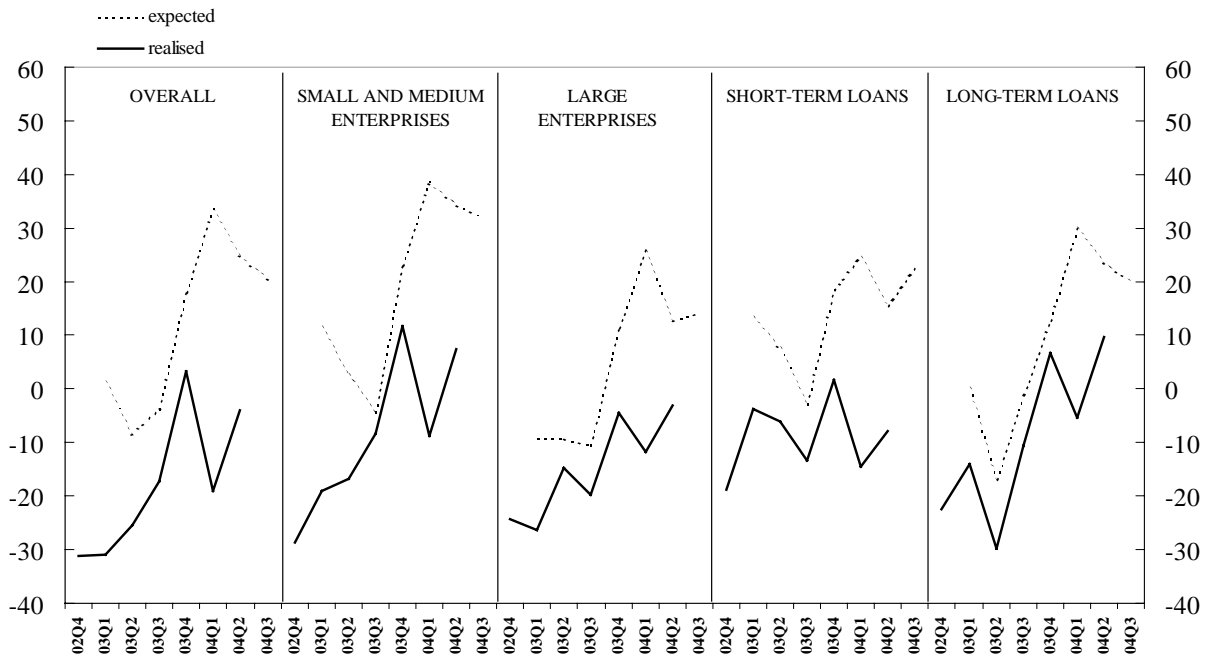
Loan demand. In the second quarter of 2004 net demand for loans to enterprises increased significantly although it continued to be negative at –4% (from –19% in the first quarter; see Chart 2, first panel). This was, however, lower than what banks expected in April for the second quarter of 2004. The increase in net demand was more pronounced for small and medium-sized enterprises, where net demand became positive, than for large enterprises (see Chart 2, second and third panels). At the same time, net demand for long-term loans experienced an increase to 10% in the second quarter (see Chart 2, fifth panel). According to reporting banks, a major factor that has contributed to the overall still negative net demand is the increased use of internal financing by enterprises (meaning that less external financing is needed).

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



Notes: The net percentage refers to 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”. The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to tightening and to easing. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for 2004Q3 were reported in the July 2004 survey.

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



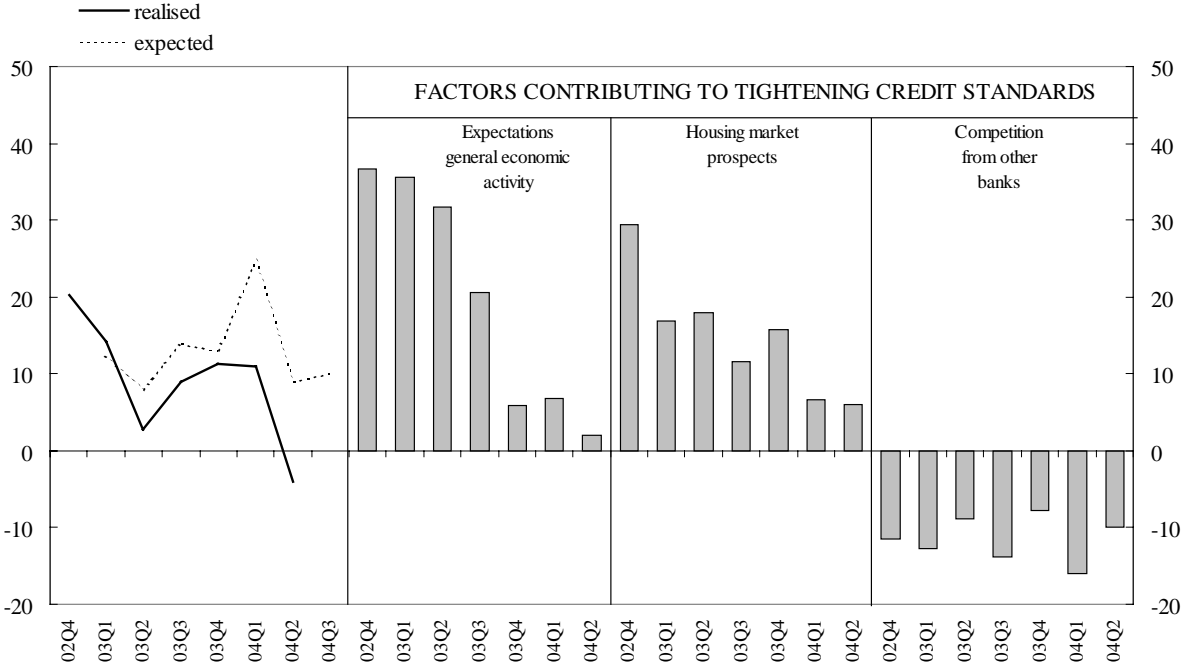
Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for “increased considerably” and “increased somewhat”, and the sum of the percentages for “decreased somewhat” and “decreased considerably”. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for 2004Q3 were reported in the July 2004 survey.

Expectations. For the third quarter of 2004, reporting banks expected a slight net tightening for loans and credit lines to enterprises, compared with unchanged credit standards reported in the second quarter of 2004 (see Chart 1, first panel). At the same time, banks expected a substantially higher net demand for corporate loans in the third quarter than had been reported for the second quarter (see Chart 2, first panel). This rise in expected loan demand was stronger for small and medium-sized enterprises than for large enterprises (see Chart 2, second and third panels).

Loans to households for house purchase

Credit standards. Banks reported a shift from a net tightening (11%) in the first quarter of 2004 to a small net easing (-4%) in credit standards applied to the approval of loans for house purchase in the second quarter of 2004 (see Chart 3, first panel). This was significantly below what was expected for this period in the April 2004 survey. Moreover, it is the first time since the bank lending survey started in January 2003 that a net easing of credit standards for housing loans to households has been reported. The net easing partly reflected lower perceptions of risk regarding general economic activity (see Chart 3). Banks’ assessment of housing market prospects remained mostly unchanged. As regards the terms and conditions of housing loans to households, banks eased credit standards mainly through lower margins on average loans and less stringent collateral requirements.

Chart 3. Changes in credit standards applied to the approval of loans to households
(net percentages of banks reporting tightening standards)

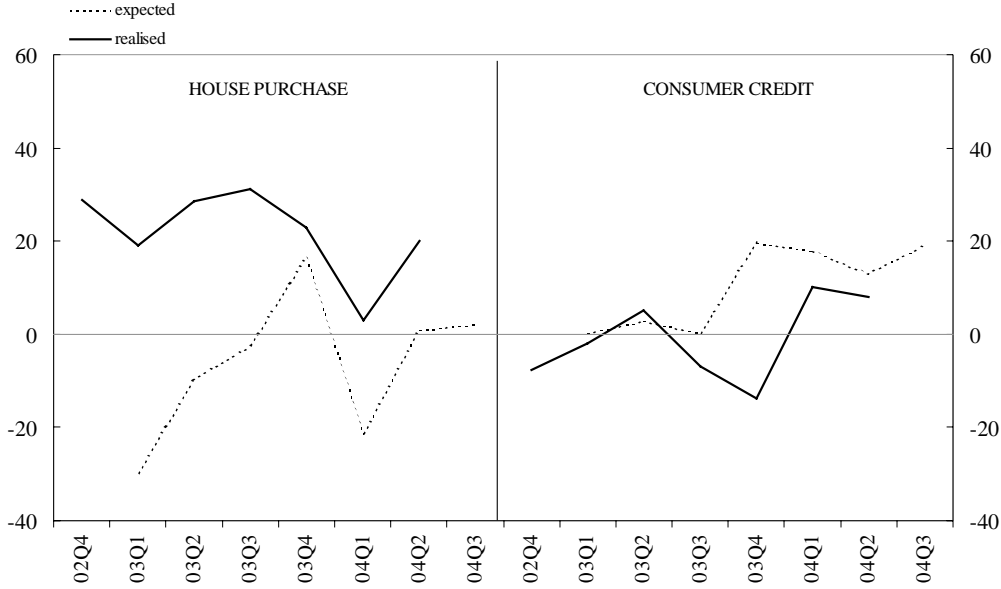


Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for “increased considerably” and “increased somewhat”, and the sum of the percentages for “decreased somewhat” and “decreased considerably”. The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to tightening and to easing. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for 2004Q3 were reported in the July 2004 survey.

Loan demand. In the second quarter of 2004, net demand for loans for house purchase increased substantially, to 20% from 3% in the previous quarter (see Chart 4, first panel). The increase in housing loan demand was more pronounced than what banks expected in April for the same period. A slight increase in net demand for non-housing related expenditure, households’ assessment of housing market prospects as well as the low level of interest rates continued to support the demand for housing loans.

Expectations. For the third quarter of 2004, respondent banks expected a slight net tightening for housing loans to households (10%) compared with what was realised for the second quarter (−4%, see Chart 3, first panel). Reporting banks also expected lower net demand for housing loans for the third quarter (see Chart 4, first panel).

Chart 4. Changes in demand for loans to households
(net percentages of banks reporting an increase in demand)



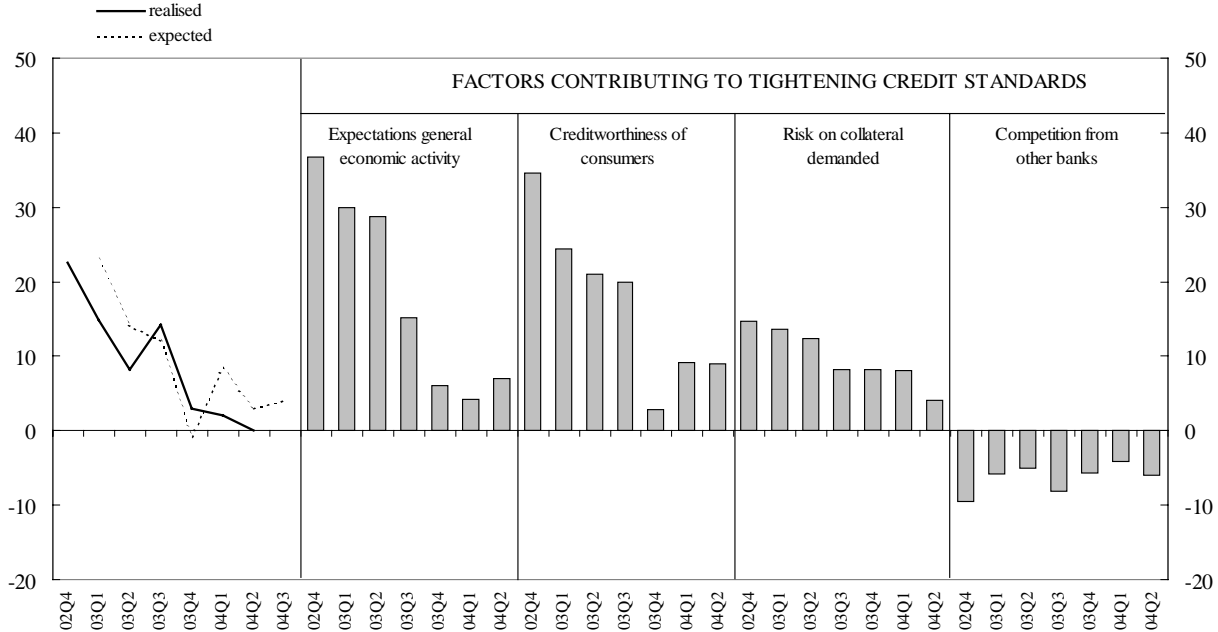
Notes: The net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages for “increased considerably” and “increased somewhat”, and the sum of the percentages for “decreased somewhat” and “decreased considerably”. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for 2004Q3 were reported in the July 2004 survey.

Loans to households for consumer credit and other lending

Credit standards. In the second quarter of 2004, credit standards for loans to households for consumer credit remained broadly unchanged, with the net tightening close to zero (see Chart 5, first panel). Underlying this were broadly unchanged net percentages for banks’ expectations regarding general economic activity and the creditworthiness of consumers. As regards terms and conditions, banks eased credit conditions through margins on average loans and collateral requirements. However, banks also reported net tightening through wider margins on riskier loans.

Chart 5 Changes in credit standards applied to the approval of consumer credit and other loans to households

(net percentages of banks reporting tightening credit standards)



Notes: The net percentage refers to 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”. The net percentages for the questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to tightening and to easing. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for 2004Q3 were reported in the July 2004 survey.

Loan demand. Net demand for consumer credit and other lending to households remained slightly positive in the second quarter and was broadly unchanged from the previous quarter (see Chart 4, second panel). The main factor contributing positively to net loan demand was, in particular, spending on durable consumer goods, which increased significantly.

Expectations. For the third quarter of 2004, broadly unchanged credit standards for loans to households for consumer credit were expected (see Chart 5, first panel). The reporting banks also expected a slight increase in net demand for consumer credit over the next quarter (see Chart 4, second panel).

3. Results for the individual questions

I. Loans or credit lines to enterprises

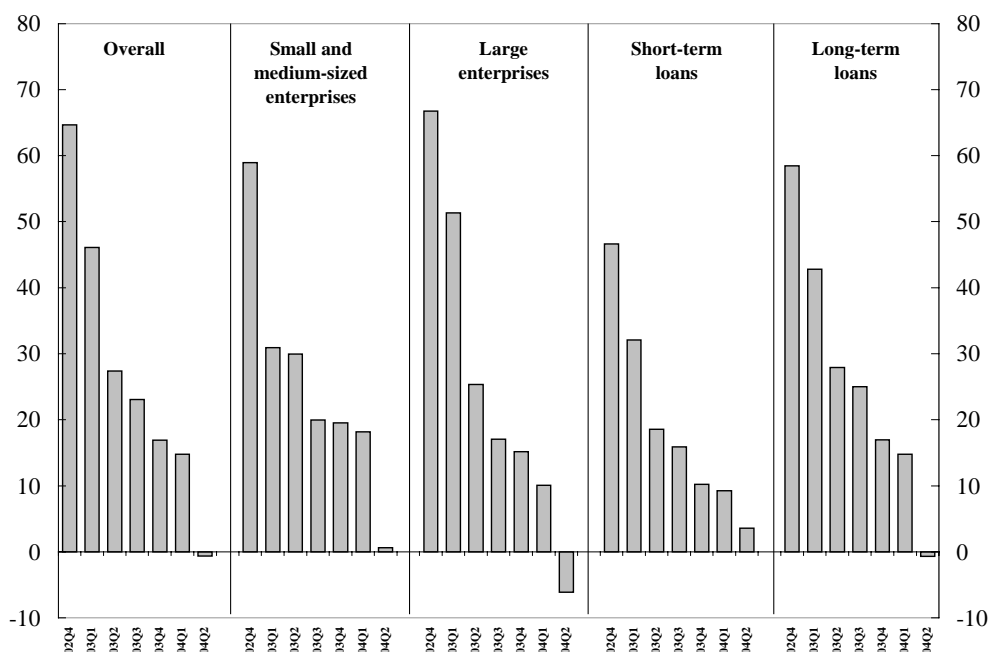
- Over the past three months, how have your bank's credit standards as applied to the approval of loans or credit lines to enterprises changed?

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	April 2004	July 2004	April 2004	July 2004	April 2004	July 2004	April 2004	July 2004	April 2004	July 2004
Tightened considerably	3	0	3	0	2	0	3	0	3	0
Tightened somewhat	18	9	18	10	15	7	14	11	19	7
Remained basically unchanged	72	82	75	80	76	79	74	82	70	86
Eased somewhat	7	8	4	10	7	12	8	6	7	6
Eased considerably	0	1	0	0	0	1	0	1	0	1
Total	100	100	100	100	100	100	100	100	100	100
Net percentage	15	-1	18	1	10	-6	9	4	15	-1
<i>Number of banks responding</i>	82	81	81	81	80	81	82	82	82	82

Note: 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".

- The overall net percentage for credit standards as applied to the approval of loans or credit lines to enterprises declined substantially in July 2004. For the first time since the bank lending survey for the euro area started in January 2003, a net easing has been recorded. The majority of respondents continued to report basically unchanged credit standards in July. However, and in contrast to the April 2004 survey, a much smaller net percentage of banks tightened somewhat their credit standards.
- The magnitude of the decline was similar for loans to large enterprises and loans to small and medium-sized enterprises. For the latter, net tightening was close to zero, suggesting broadly unchanged credit conditions. In contrast, for small and medium-sized enterprises a net easing was reported.
- Regarding the maturity of loans, the net percentages were higher for short-term loans, where a slight net tightening was recorded, than for long-term loans, where there was a slight net easing of credit standards.

Chart 6. Credit standards applied to the approval of loans or credit lines to enterprises
(net percentages of banks reporting tightening standards)



2. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of loans or credit lines to enterprises?

	--	-	°	+	++	NA	NetP	
							April 2004	July 2004
A) Cost of funds and balance sheet constraints								
Costs related to your bank's capital position	0	3	86	1	0	9	8	2
Your bank's ability to access market financing	0	4	81	4	0	11	4	0
Your bank's liquidity position	0	4	83	4	0	9	-2	1
B) Pressure from competition								
Competition from other banks	0	0	74	16	1	9	-13	-17
Competition from non-banks	0	2	81	1	0	16	0	1
Competition from market financing	0	0	82	6	0	12	-3	-6
C) Perception of risk								
Expectations regarding general economic activity	0	7	81	5	1	6	11	1
Industry or firm-specific outlook	0	13	71	11	0	6	18	2
Risk on the collateral demanded	0	7	82	5	0	7	13	2

NA = Not available; NetP = Net percentage

Note: 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 contributed to basically unchanged credit standards.

- The overall net improvement in credit standards on loans to enterprises remained mostly related to a less negative perception of risks, most notably regarding the industry or firm-specific outlook, general economic activity and the collateral demanded. At the same time, competitive pressures from other banks and from other external sources of financing (such as corporate bonds) continued to contribute towards a net easing of corporate credit standards.

Chart 7a. Factors affecting credit standards applied to the approval of loans or credit lines to enterprises
(net percentages of banks reporting that the factor contributed to tightening standards)

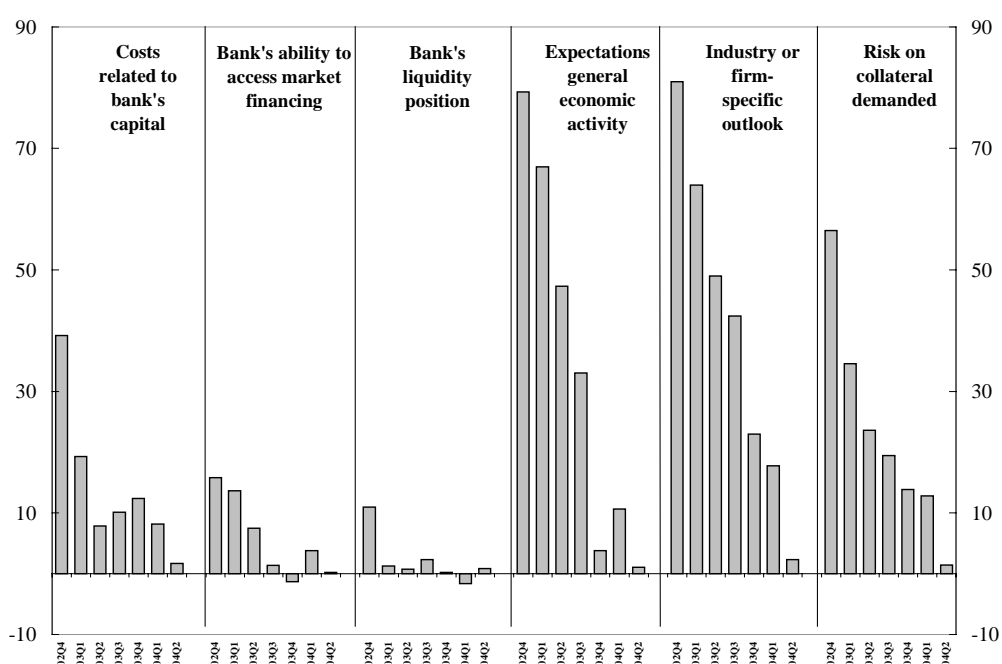
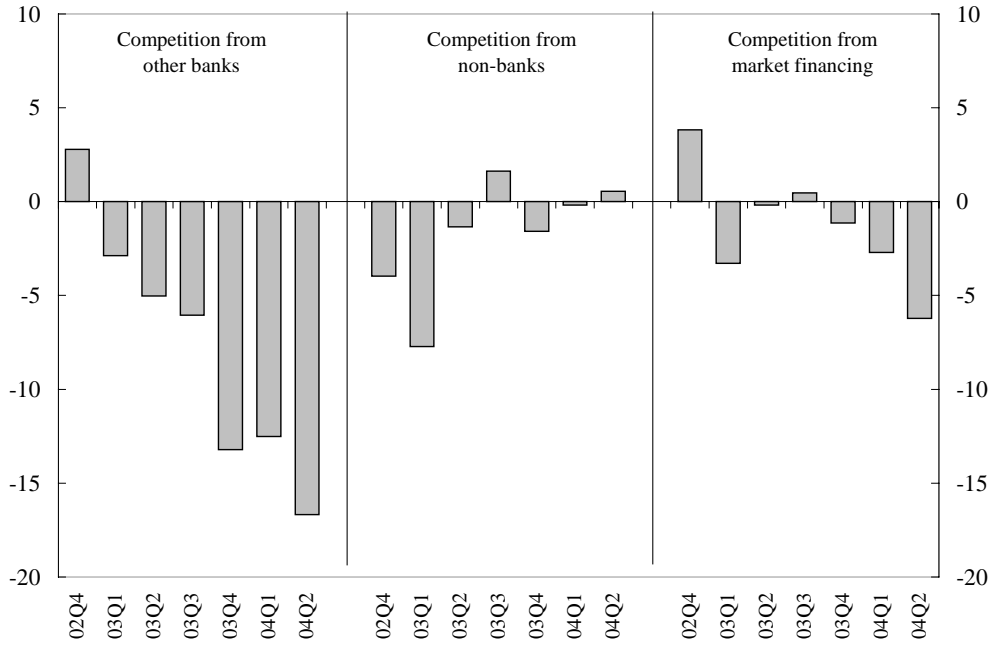


Chart 7b. Factors affecting credit standards applied to the approval of loans or credit lines to enterprises
(net percentages of banks reporting that the factor contributed to tightening standards)



3. Over the past three months, how have your bank’s conditions and terms for approving loans or credit lines to enterprises changed?

	--	-	°	+	++	NA	NetP	
							April 2004	July 2004
A) Price								
Your bank’s margin on average loans	1	22	55	16	0	6	8	7
Your bank’s margin on riskier loans	0	34	58	3	0	6	35	31
B) Other conditions and terms								
Non-interest rate charges	1	9	81	2	0	6	15	8
Size of the loan or credit line	0	6	87	2	0	6	12	4
Collateral requirements	0	2	91	2	0	6	14	0
Loans covenants	1	4	82	8	0	6	6	-3
Maturity	0	9	84	1	0	6	8	8

NA = Not available; NetP = Net percentage

Note: 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.

- In July 2004, there was a significant decline in the net percentages of most factors used by banks to tighten credit standards to enterprises. One of the most significant declines took place in the net percentage of banks reporting more stringent loan covenants and collateral requirements.

Chart 8a. Conditions and terms for approving loans or credit lines to enterprises
(net percentages of banks reporting that they use these conditions and terms to tighten credit standards)

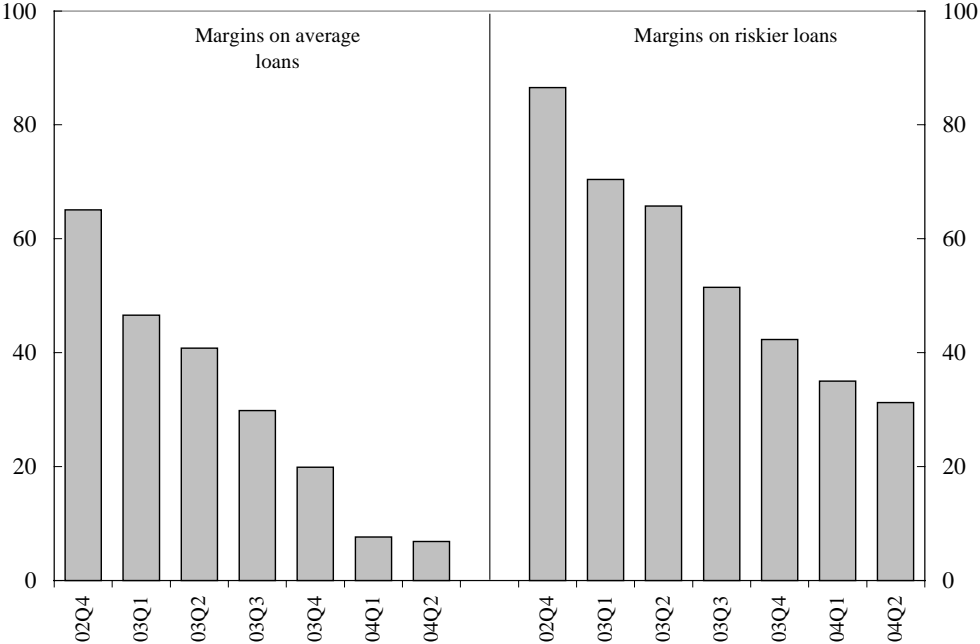
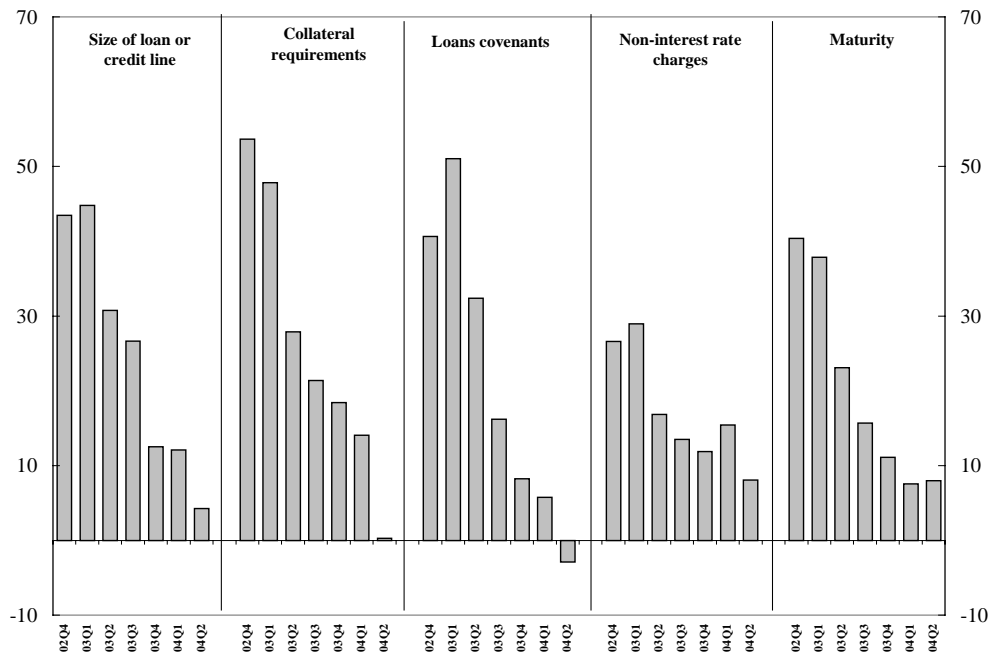


Chart 8b. Conditions and terms for approving loans or credit lines to enterprises
(net percentages of banks reporting that they use these conditions and terms to tighten credit standards)



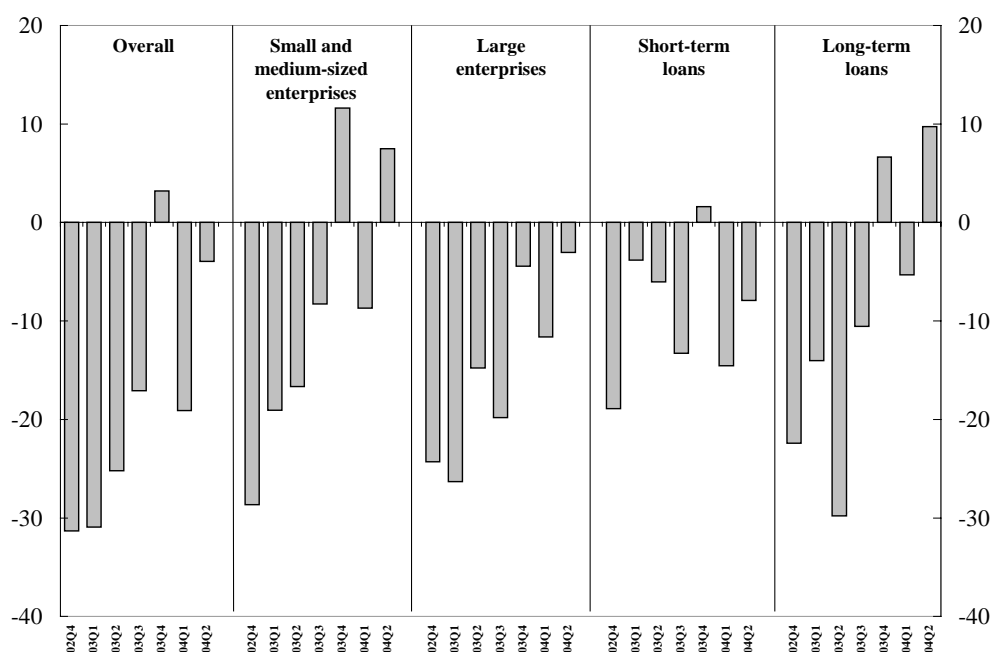
4. Over the past three months, how has the demand for loans or credit lines to enterprises changed at your bank, apart from normal seasonal fluctuations?

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	April 2004	July 2004	April 2004	July 2004	April 2004	July 2004	April 2004	July 2004	April 2004	July 2004
Decreased considerably	4	0	1	0	1	0	1	2	3	0
Decreased somewhat	27	22	23	13	23	21	23	17	24	17
Remained basically unchanged	57	61	60	66	64	61	65	69	53	56
Increased somewhat	12	14	15	21	12	13	8	9	21	25
Increased considerably	0	3	1	0	0	5	2	2	0	2
Total	100	100	100	100	100	100	100	100	100	100
Net percentage	-19	-4	-9	8	-12	-3	-15	-8	-5	10
<i>Number of banks responding</i>	82	82	81	81	80	81	82	81	82	81

Note: 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”.

- In July, net demand for corporate loans increased substantially, although it continued to be negative (to -4% in the second quarter, from -19% in the first quarter of 2004).
- This increase was specially pronounced for loans to small and medium-sized enterprises and for long-term corporate loans.

Chart 9. Demand for loans and credit lines to enterprises
(net percentages of banks reporting an increase in demand)



5. Over the past three months, how have the following factors affected the demand for loans or credit lines to enterprises?

	--	-	°	+	++	NA	NetP	
							April 2004	July 2004
A) Financing needs								
Fixed investment	2	12	69	10	0	7	-14	-4
Inventories and working capital	0	9	69	12	0	9	-1	3
Mergers/acquisitions and corporate restructuring	1	5	69	16	0	9	12	11
Debt restructuring	0	4	67	19	0	10	18	15
B) Use of alternative finance								
Internal financing	0	11	76	1	0	11	0	-10
Loans from other banks	0	8	78	1	2	11	-2	-4
Loans from non-banks	0	1	84	0	0	15	-4	-1
Issuance of debt securities	0	5	73	3	0	19	-2	-2
Issuance of equity	0	1	79	0	0	21	1	-1

NA = Not available; NetP = Net percentage

Note: 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 contributed to basically unchanged demand.

- The main factor contributing positively to the increase in net demand for loans to enterprises was the improvement in the net percentage related to fixed investment.
- However, a factor contributing negatively to net loan demand was a strong decline in financing needs due to the increased use of internal sources of financing.

Chart 10a. Factors affecting demand for loans and credit lines to enterprises
(net percentages of banks reporting that the factor contributed to an increase in demand)

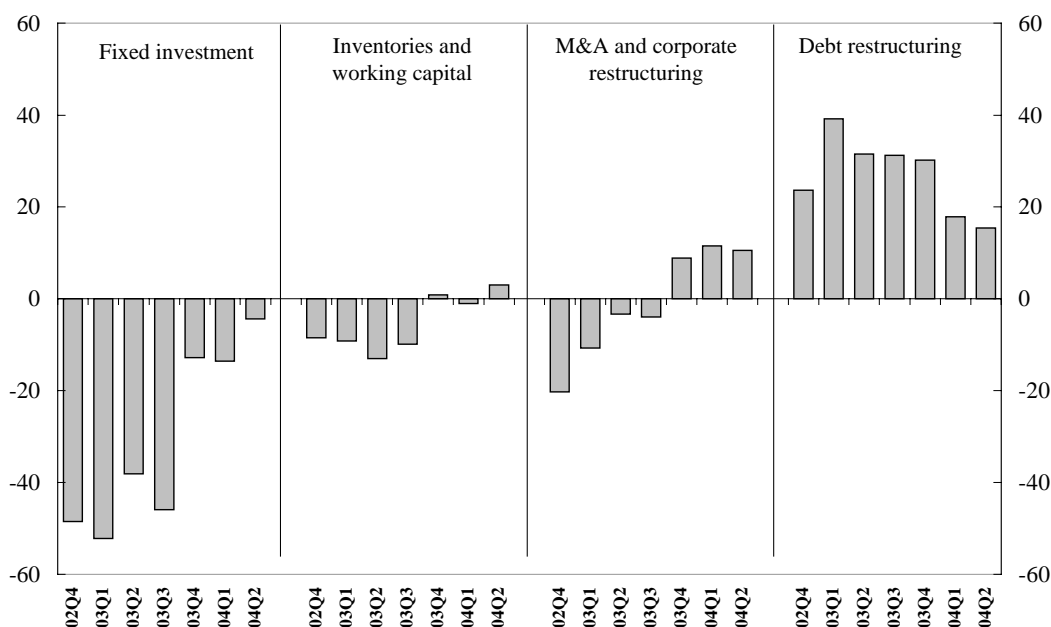
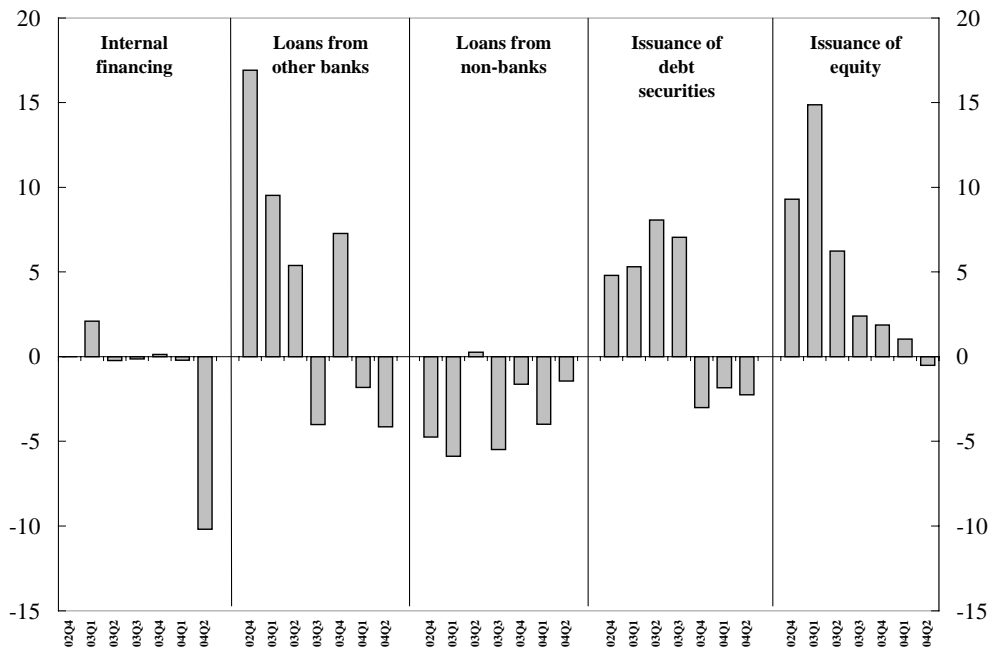


Chart 10b. Factors affecting demand for loans and credit lines to enterprises
(net percentages of banks reporting that the factor contributed to an increase in demand)



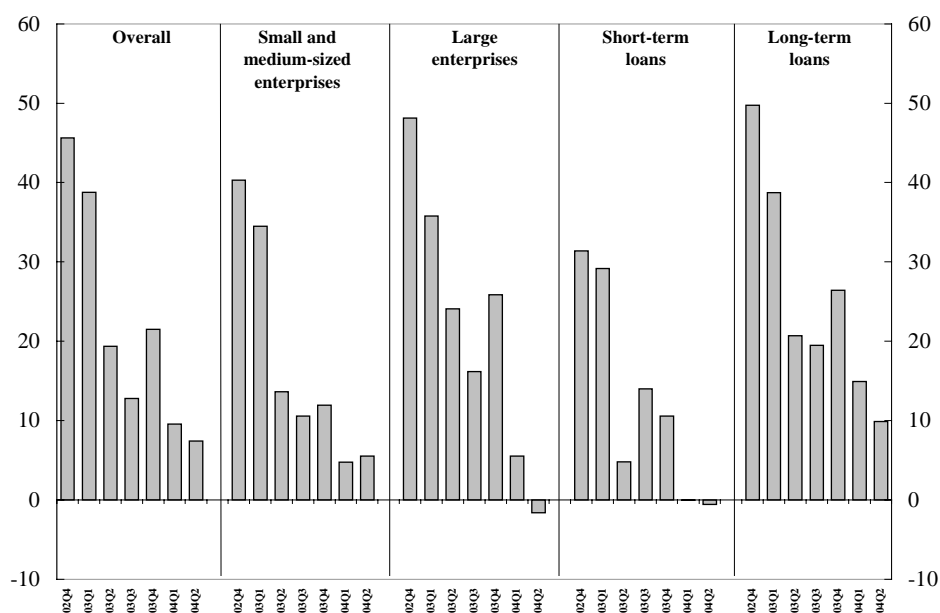
6. Please indicate how you expect your bank's credit standards as applied to the approval of loans or credit lines to enterprises to change over the next three months.

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	April 2004	July 2004	April 2004	July 2004	April 2004	July 2004	April 2004	July 2004	April 2004	July 2004
Tighten considerably	1	0	1	0	4	2	1	0	3	0
Tighten somewhat	16	9	9	11	12	3	11	6	18	10
Remain basically unchanged	75	90	84	84	74	88	75	87	73	90
Ease somewhat	8	1	5	5	10	6	13	7	6	0
Ease considerably	0	0	0	0	0	1	0	0	0	0
Total	100	100	100	100	100	100	100	100	100	100
Net percentage	10	7	5	6	6	-2	0	-1	15	10
Number of banks responding	82	82	81	81	80	81	82	82	82	82

Note: 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".

- For the next three months, a net tightening of corporate credit standards was expected, compared with the slight net easing realised in the second quarter of 2004 (see Question 1).
- For small and medium-sized enterprises, a slight net tightening of credit standards applied to loans or credit lines to enterprises was expected, while for large enterprises banks expected broadly unchanged credit standards.
- For the next quarter, banks expected in July 2004 higher net percentages of tightening of credit standards for long-term corporate loans than for short-term loans.

Chart 11. Expected credit standards for the approval of loans or credit lines to enterprises
(net percentages of banks reporting tightening standards)



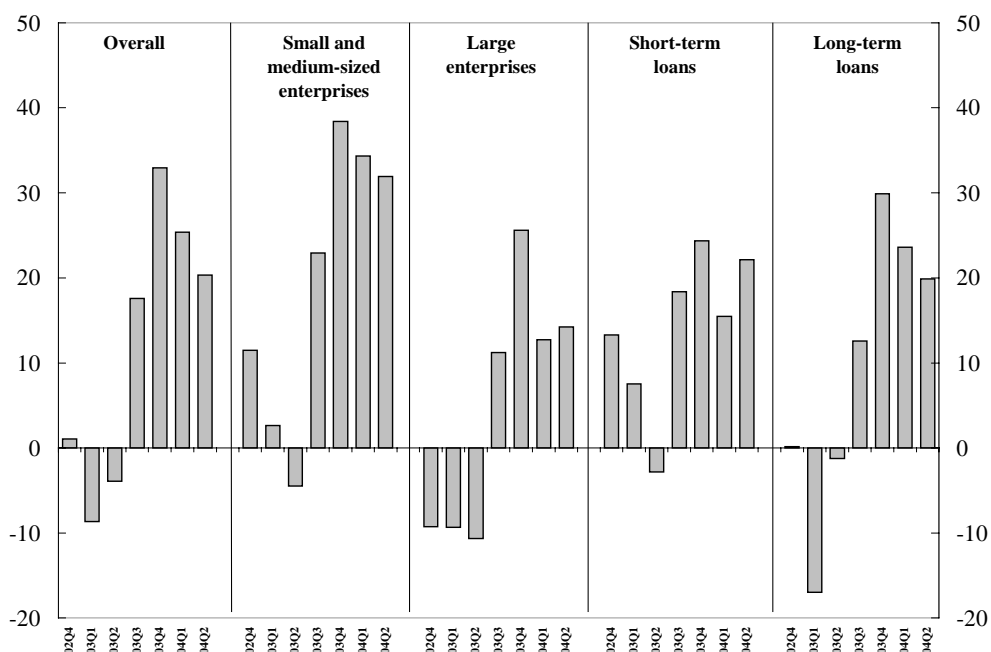
7. Please indicate how you expect demand for loans or credit lines to enterprises to change at your bank over the next three months (apart from normal seasonal fluctuations).

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	April 2004	July 2004	April 2004	July 2004	April 2004	July 2004	April 2004	July 2004	April 2004	July 2004
Decrease considerably	1	0	1	0	0	0	1	0	1	0
Decrease somewhat	5	9	2	1	11	10	4	1	5	9
Remain basically unchanged	61	62	59	67	66	67	75	76	64	62
Increase somewhat	32	29	37	33	24	23	20	23	30	29
Increase considerably	0	0	1	0	0	1	0	0	0	0
Total	100	100	100	100	100	100	100	100	100	100
Net percentage	25	20	34	32	13	14	16	22	24	20
Number of banks responding	82	82	81	81	80	81	82	82	81	82

Note: 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”.

- A significantly higher net loan demand by enterprises over the next three months was expected compared with what was realised in the second quarter (see Question 4).
- Expected net demand for loans to enterprises was significantly higher for small and medium-sized enterprises than for large enterprises.

Chart 12. Expected demand for loans and credit lines to enterprises
(net percentages of banks reporting an increase in demand)



II. Loans to households

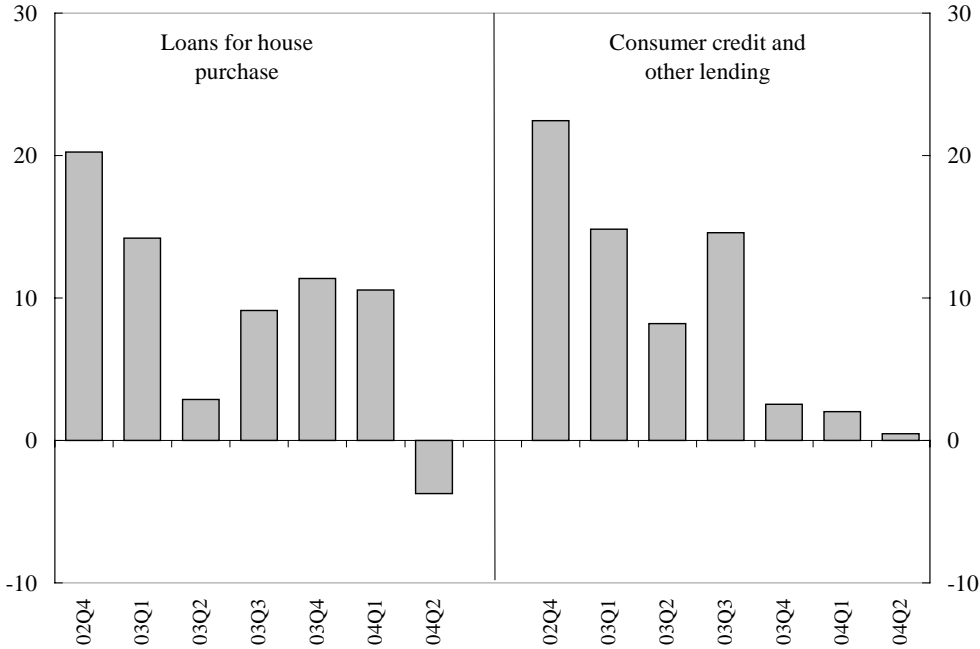
8. Over the past three months, how have your bank’s credit standards as applied to the approval of loans to households changed?

	Loans for house purchase		Consumer credit and other lending	
	April 2004	July 2004	April 2004	July 2004
Tightened considerably	4	0	0	0
Tightened somewhat	14	6	10	8
Remained basically unchanged	76	85	82	86
Eased somewhat	7	10	8	7
Eased considerably	0	0	0	0
Total	100	100	100	100
Net percentage	11	-4	2	1
<i>Number of banks responding</i>	<i>79</i>	<i>81</i>	<i>77</i>	<i>79</i>

Note: 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”.

- There was a shift in the net percentage of credit standards applied to loans to households for house purchase from net tightening in the first quarter of 2004 to a slight net easing in the second quarter.
- Instead consumer credit and other lending to households, the July survey showed broadly unchanged credit standards for the second quarter of 2004.

Chart 13. Credit standards applied to the approval of loans to households
(net percentages of banks reporting tightening standards)



9. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of loans to households for house purchase?

	--	-	°	+	++	NA	NetP	
							April 2004	July 2004
A) Cost of funds and balances sheet constraints	0	1	84	0	0	15	-2	1
B) Pressure from competition								
Competition from other banks	0	2	72	10	2	15	-16	-10
Competition from non-banks	0	2	80	1	0	17	0	1
C) Perception of risk								
Expectations regarding general economic activity	0	5	83	3	0	9	7	2
Housing market prospects	0	10	77	4	0	9	7	6

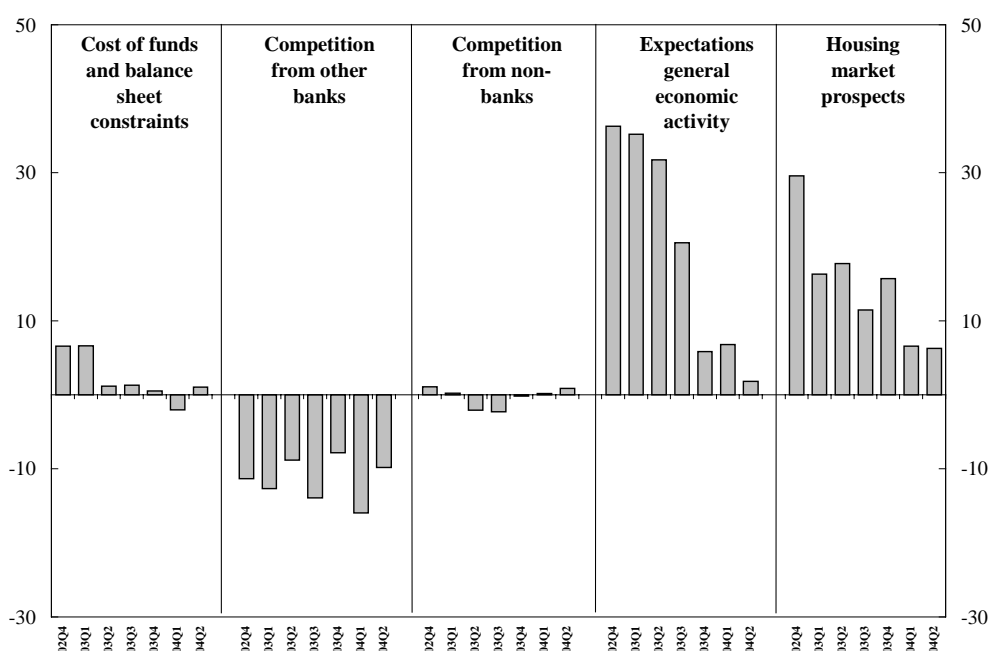
NA = Not available; NetP = Net percentage

Note: 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 contributed to basically unchanged credit standards.

- The overall reported movement to net easing of credit standards on loans to households for house purchase reflected improvements in perceptions of risk relating to expectations regarding general economic activity. Competition from other banks continued to contribute towards a net easing of credit standards for housing loans.

Chart 14. Factors affecting credit standards applied to the approval of loans to households for house purchase

(net percentages of banks reporting that the factor contributed to tightening standards)



10. Over the past three months, how have your bank's conditions and terms for approving loans to households for house purchase changed?

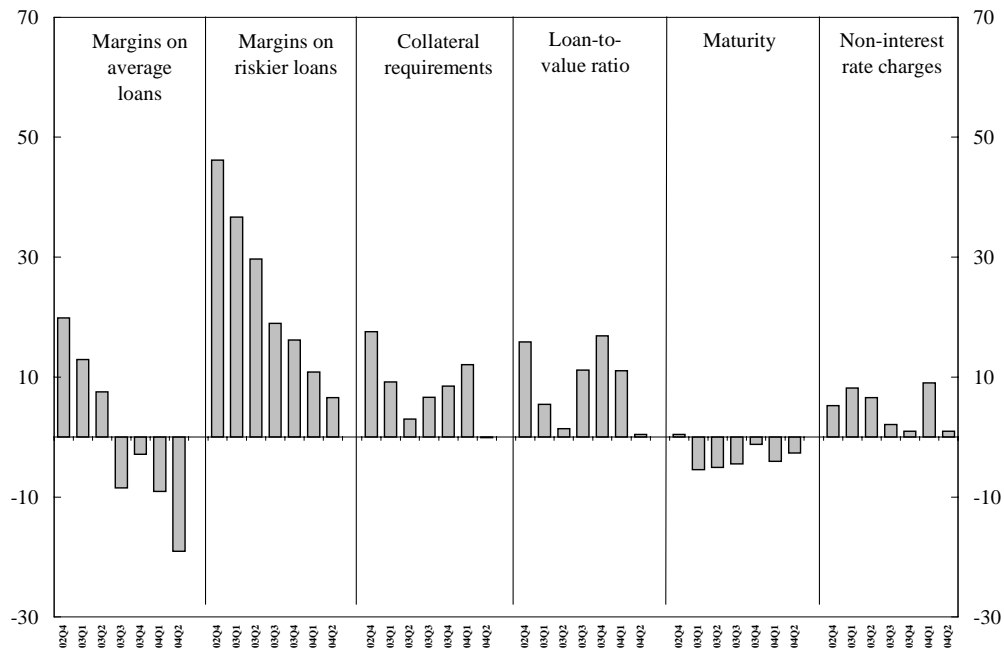
	--	-	°	+	++	NA	NetP	
							April 2004	July 2004
A) Price								
Your bank's margin on average loans	0	4	67	23	0	6	-9	-19
Your bank's margin on riskier loans	0	8	85	1	0	6	11	7
B) Other conditions and terms								
Collateral requirements	0	1	92	1	0	6	12	0
Loan-to-value ratio	0	6	81	6	0	6	11	0
Maturity	0	2	87	5	0	6	-4	-3
Non-interest rate charges	0	2	91	1	0	6	9	1

NA = Not available; NetP = Net percentage

Note: 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.

- In July 2004 banks reported that the net easing of credit standards was partly achieved by narrowing the margins on average loans. In addition, there was also a decline in the net percentages of banks tightening credit standards via margins on riskier loans or collateral requirements.

Chart 15. Conditions and terms for approving loans to households for house purchase
(net percentages of banks reporting that they use these conditions and terms to tighten credit standards)



11. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of consumer credit and other lending to households (as described in Question 8)?

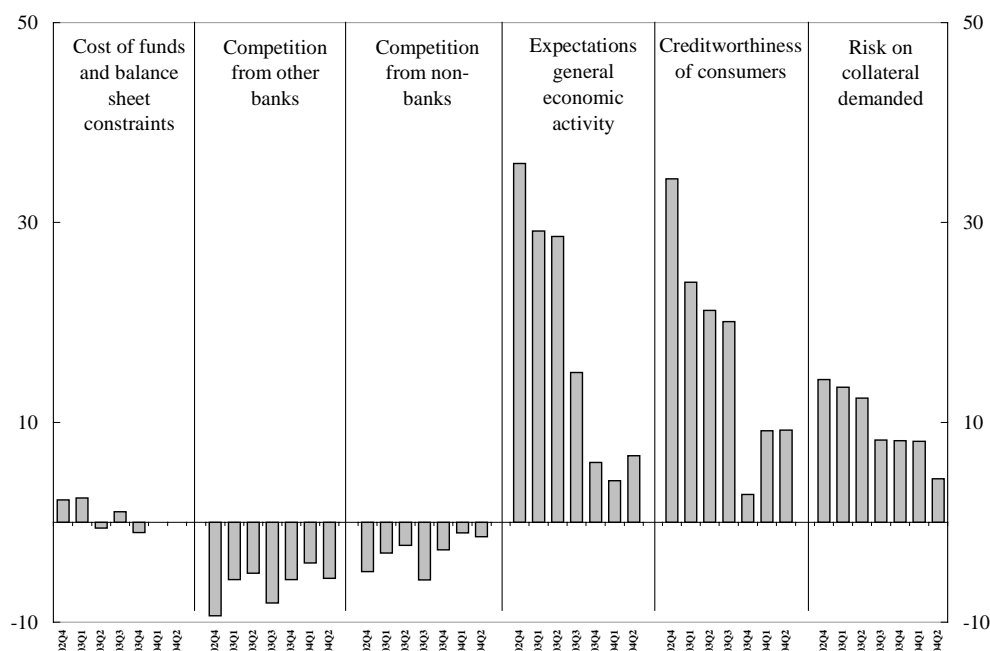
	--	-	°	+	++	NA	NetP	
							April 2004	July 2004
A) Cost of funds and balance sheet constraints	0	0	85	0	0	16	0	0
B) Pressure from competition								
Competition from other banks	0	3	75	9	0	14	-4	-6
Competition from non-banks	2	0	79	3	0	16	-1	-1
C) Perception of risk								
Expectations regarding general economic activity	0	8	80	2	0	10	4	7
Creditworthiness of consumers	0	10	78	1	0	10	9	9
Risk on the collateral demanded	0	4	82	0	0	14	8	4

NA = Not available; NetP = Net percentage

Note: 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 contributed to basically unchanged credit standards.

- The factors affecting credit standards for loans to households for consumer credit remained broadly unchanged. Risk perceptions concerning expectations for general economic activity and creditworthiness of consumers continued to contribute towards a net tightening of credit standards. In contrast, competition from other banks supported a net easing of credit conditions.

Chart 16. Factors affecting credit standards applied to the approval of loans to households for consumer credit (net percentages of banks reporting that the factor contributed to tightening standards)



12. Over the past three months, how have your bank's conditions and terms for approving consumer credit and other lending to households changed?

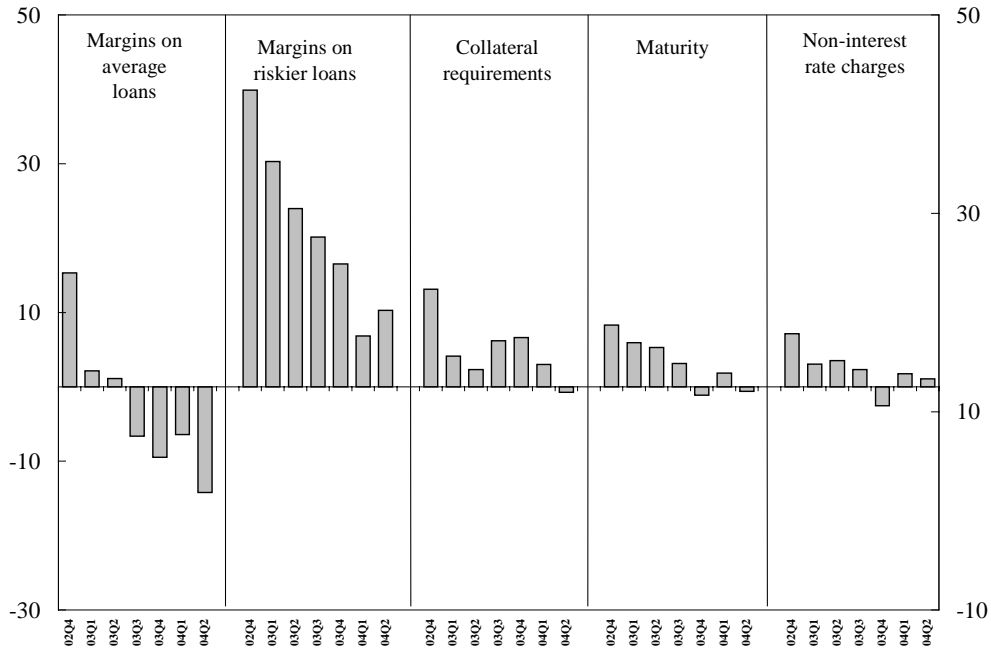
	--	-	°	+	++	NA	NetP	
							April 2004	July 2004
A) Price								
Your bank's margin on average loans	0	0	76	14	0	10	-6	-14
Your bank's margin on riskier loans	1	11	77	1	0	10	7	10
B) Other conditions and terms								
Collateral requirements	0	1	83	2	0	13	3	-1
Maturity	0	1	87	2	0	10	2	-1
Non-interest rate charges	0	1	87	0	0	12	2	1

NA = Not available; NetP = Net percentage

Note: 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.

- In July 2004 there was an increase in the net percentage of banks easing credit conditions via margins on average loans and collateral requirements. In contrast, the net percentage of banks tightening credit standards via margins on riskier loans increased somewhat during the second quarter of 2004.

Chart 17. Conditions and terms for approving loans to households for consumer credit
(net percentages of banks reporting that they use these conditions and terms to tighten credit standards)



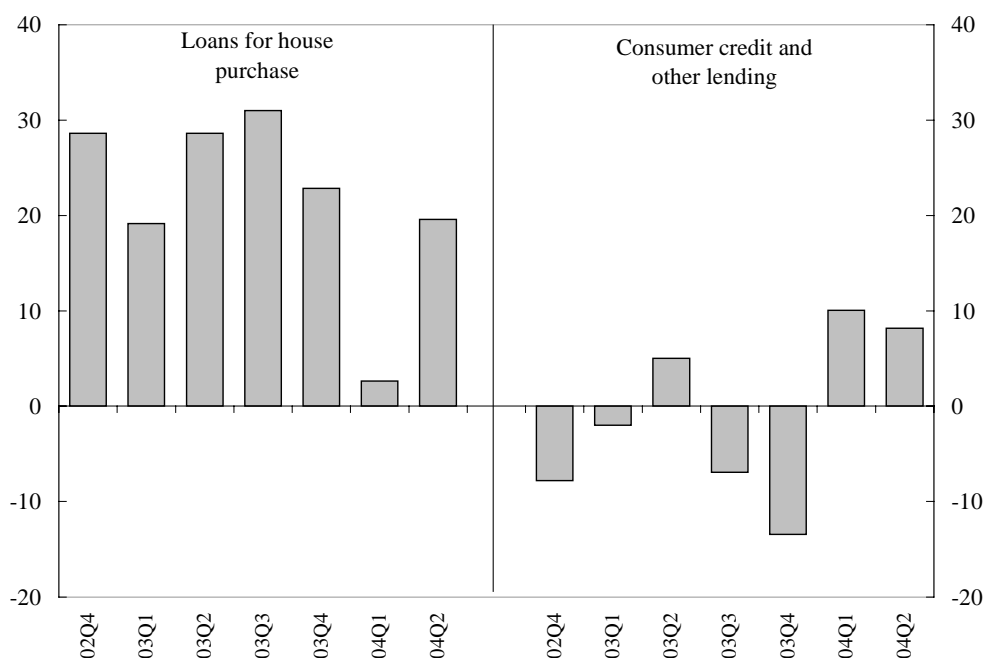
13. Over the past three months, how has the demand for loans to households changed at your bank, apart from normal seasonal fluctuations?

	Loans for house purchase		Consumer credit and other lending	
	April 2004	July 2004	April 2004	July 2004
Decreased considerably	8	2	2	3
Decreased somewhat	17	17	20	16
Remained basically unchanged	48	43	47	53
Increased somewhat	23	34	30	23
Increased considerably	5	5	2	4
Total	100	100	100	100
Net percentage	3	20	10	8
<i>Number of banks responding</i>	79	80	76	77

Note: 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”.

- The net demand for loans to households for house purchase increased significantly in the second quarter of 2004, when compared with the previous quarter.
- At the same time, net demand for consumer credit and other lending remained broadly unchanged from the previous quarter.

Chart 18. Demand for loans to households
(net percentages of banks reporting an increase in demand)



14. Over the past three months, how have the following factors affected the demand for loans to households for house purchase (as described in Question 13)?

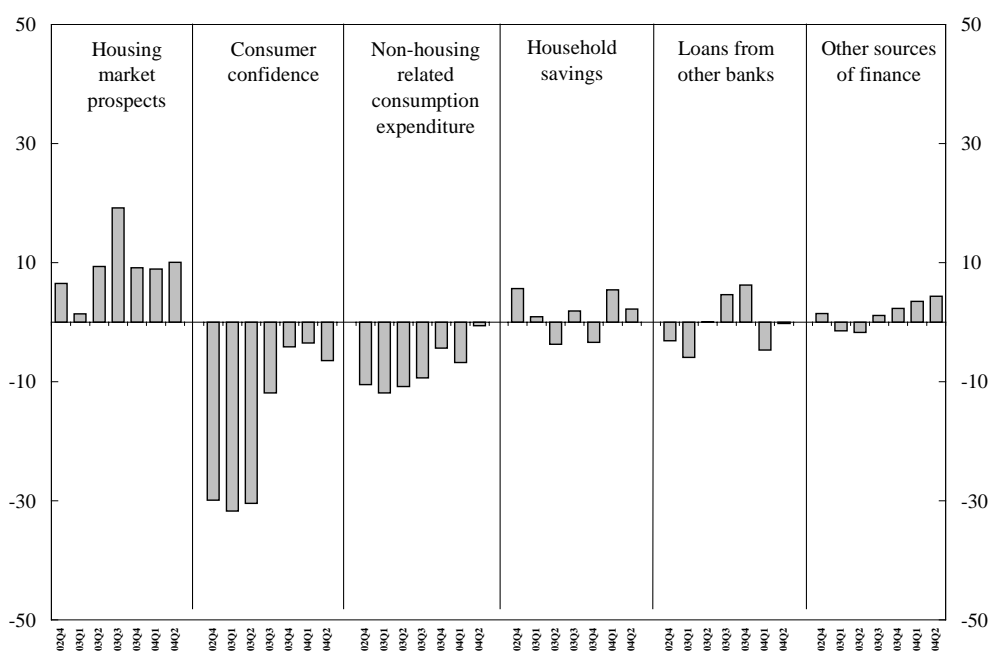
	--	-	°	+	++	NA	NetP	
							April 2004	July 2004
A) Financing needs								
Housing market prospects	0	10	64	19	1	6	9	10
Consumer confidence	0	19	63	12	0	6	-4	-7
Non-housing related consumption expenditure	0	4	84	3	0	9	-7	-1
B) Use of alternative finance								
Household savings	0	5	81	7	0	8	5	2
Loans from other banks	2	6	75	6	2	9	-5	0
Other sources of finance	0	0	86	2	2	9	4	4

NA = Not available; NetP = Net percentage

Note: 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 contributed to basically unchanged demand.

- A slight increase in demand for non-housing related expenditure contributed to the rise in net loan demand for house purchases in July. Other factors did not appear to have a major impact on net demand. It should be noted however, that the bank lending survey does not ask banks on the impact of mortgage rates on demand for housing loans. It can be assumed, that the low level of interest rates continued to support demand for housing loans.

Chart 19. Factors affecting demand for loans to households for house purchase
(net percentages of banks reporting that the factor contributed to an increase in demand)



15. Over the past three months, how have the following factors affected the demand for consumer credit and other lending to households (as described in Question 13)?

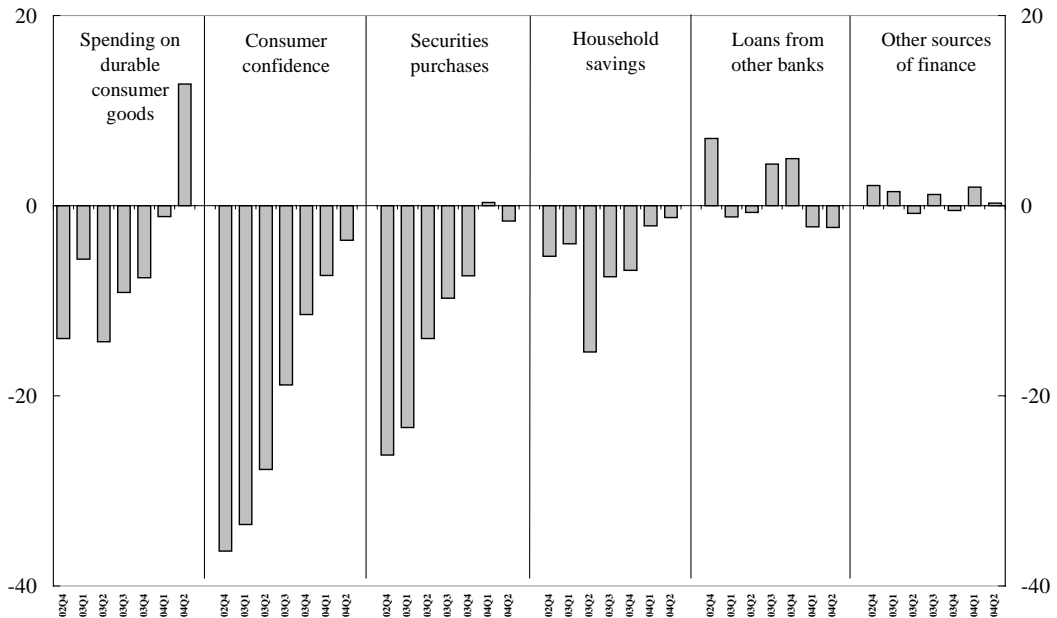
	--	-	°	+	++	NA	NetP	
							April 2004	July 2004
A) Financing needs								
Spending on durable consumer goods	2	9	52	21	3	14	-1	13
Consumer confidence	0	13	66	9	0	12	-7	-4
Securities purchases	0	1	73	0	0	26	0	-2
B) Use of alternative finance								
Household savings	0	5	79	3	1	13	-2	-1
Loans from other banks	0	7	74	4	0	16	-2	-2
Other sources of finance	0	2	79	2	0	18	2	0

NA = Not available; NetP = Net percentage

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

- Although net demand for consumer credit remained broadly constant, banks reported that factors contributing positively to net loan demand were consumer confidence and, in particular, spending on durable consumer goods.

Chart 20. Factors affecting demand for loans to households for consumer credit
(net percentages of banks reporting that the factor contributed to an increase in demand)



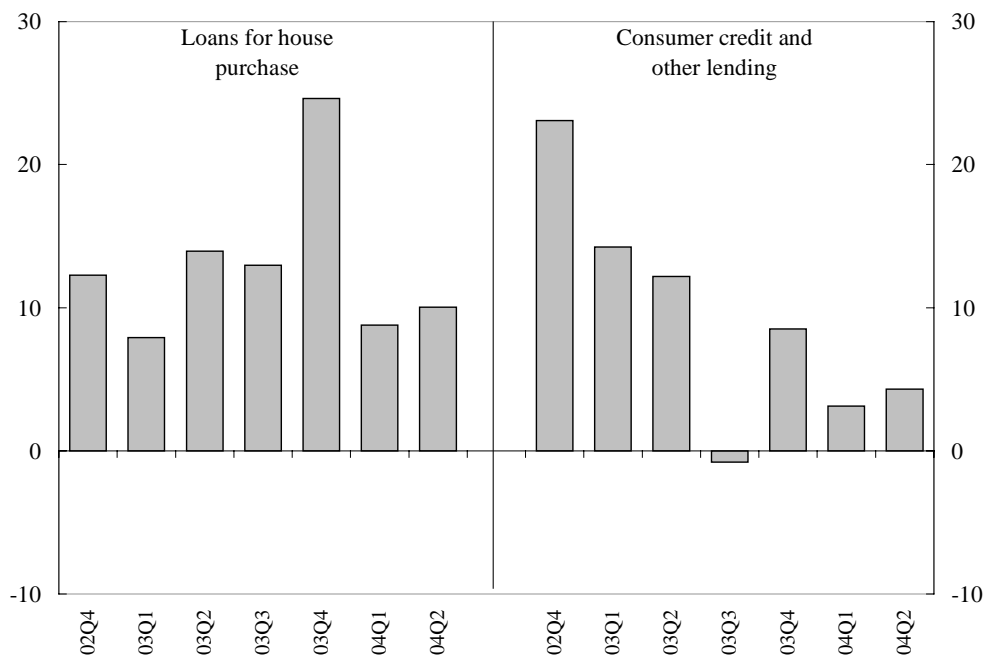
16. Please indicate how you expect your bank's credit standards as applied to the approval of loans to households to change over the next three months.

	Loans for house purchase		Consumer credit and other lending	
	April 2004	July 2004	April 2004	July 2004
Tighten considerably	0	0	1	1
Tighten somewhat	15	14	15	10
Remain basically unchanged	79	82	71	81
Ease somewhat	6	4	13	7
Ease considerably	0	0	0	0
Total	100	100	100	100
Net percentage	9	10	3	4
<i>Number of banks responding</i>	79	80	76	78

Note: 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".

- Banks expected a net tightening for loans to households for housing purchases for the third quarter of 2004 compared with the slight net easing reported in the second quarter (see Question 8).
- A movement towards a slight net tightening of credit standards was expected also for credit standards for consumer credit and other lending to households.

Chart 21. Expected credit standards for loans to households
(net percentages of banks reporting tightening standards)



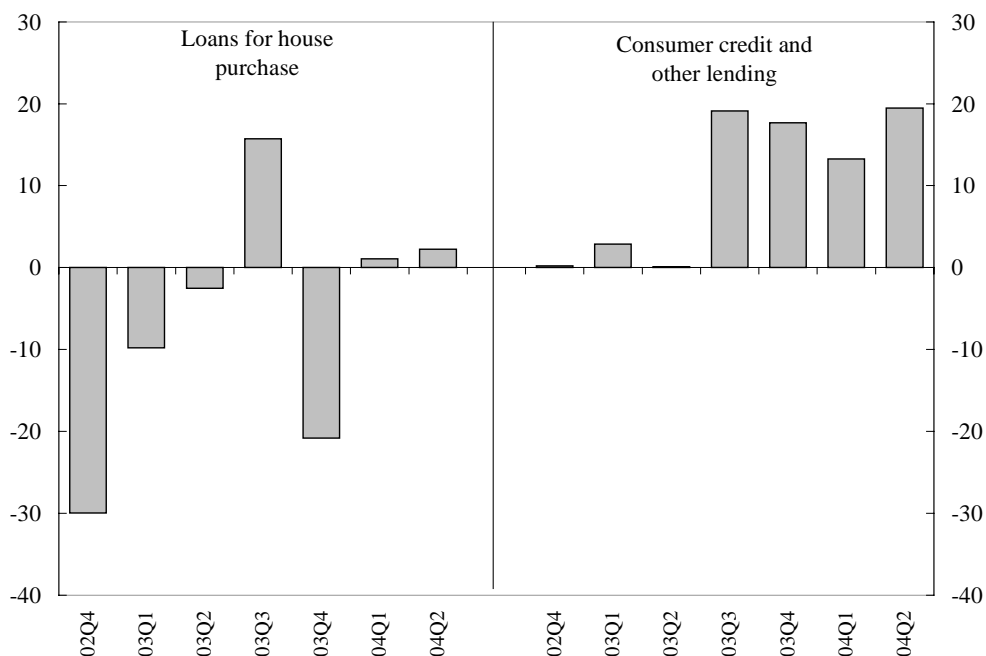
17. Please indicate how you expect demand for loans to households to change over the next three months at your bank (apart from normal seasonal fluctuations).

	Loans for house purchase		Consumer credit and other lending	
	April 2004	July 2004	April 2004	July 2004
Decrease considerably	1	0	1	0
Decrease somewhat	19	22	11	5
Remain basically unchanged	58	54	62	70
Increase somewhat	22	23	26	25
Increase considerably	0	1	0	0
Total	100	100	100	100
Net percentage	1	2	13	19
<i>Number of banks responding</i>	78	79	75	78

Note: 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”.

- Responding banks expected net loan demand on housing loans to be slightly positive in July 2004. This, however, would represent a sharp decline in the net demand for housing loans in the third quarter of 2004 compared with the realised net demand for the second quarter (see Question 13).
- Over the next three months banks expected a higher increase in the demand for consumer credit and other lending to households compared with what was realised in the second quarter (see Question 13).

Chart 22. Expected demand for loans to households for house purchase
(net percentages of banks reporting an increase in demand)



Annex: 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 terminology 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.