

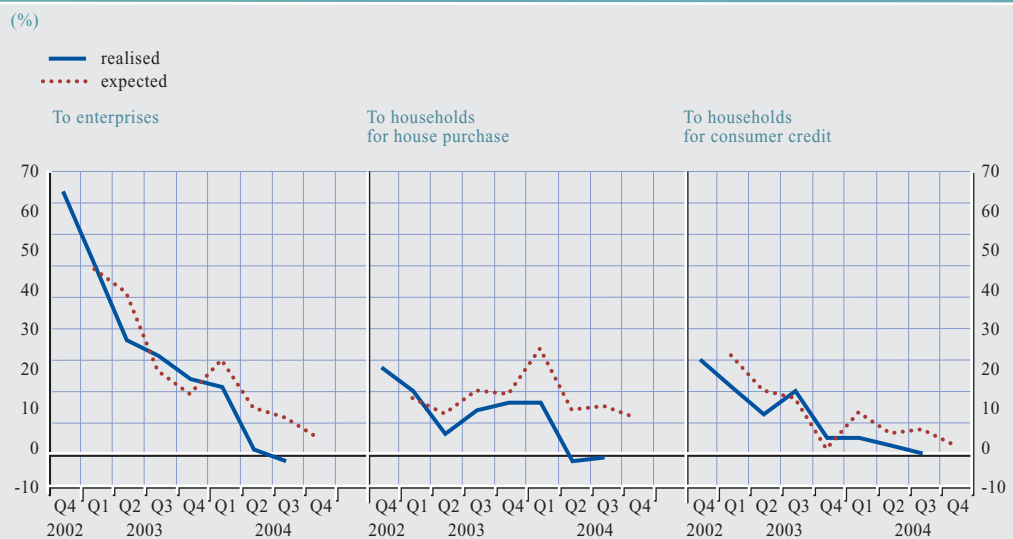
Box 10 The Bank Lending Survey

The latest ECB Bank Lending Survey (BLS) of October 2004 shows that the net percentage of banks tightening credit standards to enterprises and households declined further in the third quarter of 2004 (see Chart B10.1). This is the second time since the BLS was started in January 2003 that a net easing in credit standards has been reported, and it continued a downward movement in the net percentage of banks tightening credit standards to enterprises. Among the factors explaining changes in credit standards, competition from other banks and from market financing contributed to the stronger net easing. At the same time, more negative perceptions regarding the industry or firm-specific outlook as well as higher costs related to bank capital positions slightly favoured a tightening in credit standards. Expectations regarding general economic activity remained broadly unchanged. Regarding the terms and conditions of credit, there was a decline in the net percentages of banks tightening credit standards via the size and maturity conditions of the loan as well as via margins on average loans.

According to the previous surveys covering the period from January 2003 to March 2004, the credit standards applied to the approval of loans to enterprises were tightened during the entire period. However, the degree of additional tightening consistently fell from one reporting period to the next. For the third quarter of 2004, banks reported a further slight net easing of credit standards for loans or credit lines to enterprises. This continued a downward movement that started with the first Bank Lending Survey for the last quarter of 2002. In terms of the conditions of credit, the tightening during 2003 and early 2004 was mainly achieved through increased margins on average loans although the contributions of this condition of credit towards tightening declined after the end of 2003.

Overall, preliminary evidence from the BLS indicates that banks tightened their credit standards in the euro area between late 2002 and 2003, mostly reflecting an increase in the perception of

**Chart B10.1 Changes in credit standards
(net percentages of banks contributing to tightening credit standards)**



Source: ECB Bank Lending Survey.

risk. This probably compares with a substantially looser credit regime in the second half of the 1990s, which made the tightening more forceful. However, the percentage of banks tightening credit standards has consistently declined. As in the US, a continuation of this trend would imply an improvement in credit conditions in the near future.

Demand for loans of households has continued to be higher than expected, and this could raise concerns about households' leverage. Net demand for loans for house purchase increased substantially. The increase in housing loan demand has been consistently higher than banks have expected. However, changes in the demand for loans by enterprises continued to be negative and below what banks have expected. A major factor that has contributed to the overall, still negative, changes in net demand is the increased use of internal financing by enterprises.

Chart B10.2 Changes in credit demand



Source: ECB Bank Lending Survey.