EUROPEAN CENTRAL BANK

EUROSYSTEM

The euro area bank lending survey

Second quarter of 2023

July 2023

Contents

Introduction

The results reported in the July 2023 bank lending survey (BLS) relate to changes observed during the second quarter of 2023 and expectations for the third quarter of 2023. The survey was conducted between 19 June and 4 July 2023. A total of 158 banks were surveyed in this round, with a response rate of 100%. In addition to results for the euro area as a whole, this report contains results for the four largest euro area countries.[1]

A number of ad hoc questions were included in the July 2023 survey. They address the impact of the situation in financial markets on banks' access to retail and wholesale funding, the impact of banks' non-performing loan (NPL) ratios on their lending policies, the change in bank lending conditions and loan demand across the main economic sectors, and the impact of climate change on bank lending to enterprises.

[1] The four largest euro area countries in terms of GDP are Germany, France, Italy and Spain.

1 Overview of results

In the July 2023 BLS, euro area banks reported that their credit standards for loans or credit lines to enterprises tightened further in the second quarter of 2023, although the net percentage of banks reporting a tightening was smaller than in the previous quarter (see Overview table). The net tightening was in line with what banks had expected in the previous quarter, remaining above the historical average since the start of the survey in 2003. The cumulated net tightening since the beginning of 2022 has been substantial, and the BLS results have provided early indications about the significant weakening in lending dynamics observed since last autumn. Against the background of the typical lags in the impact of monetary policy transmission on the economy, risks related to the economic outlook and firm-specific situations remained the main driver of the tightening of credit standards for firms. Banks' lower risk tolerance and their cost of funds and balance sheet situation also contributed to the tightening, reflecting higher credit risks in the context of rising interest rates and weak economic growth. In the third quarter of 2023, euro area banks expect a further net tightening of credit standards for loans to firms, but at a slower pace than in the second quarter.

Banks reported a further net tightening of credit standards for loans to households in the second quarter of 2023. The net tightening was less pronounced than in the previous quarter for housing loans, while it was more pronounced for consumer credit. The net tightening for housing loans was broadly in line with what banks had expected in the previous quarter, while it was more pronounced than expected for consumer credit. Higher risk perceptions related to the economic outlook and borrower-specific situation, lower risk tolerance as well as higher cost of funds contributed to the tightening. In the third quarter of 2023, euro area banks expect credit standards to remain unchanged for households for house purchase, while a further net tightening is expected for consumer credit and other loans to households, although to a lesser extent than in the second quarter.

Firms' net demand for loans fell strongly in the second quarter of 2023, dropping to an all-time low since the start of the survey in 2003. The decline in net demand reflects the impact of rising interest rates on loan demand and economic growth. Fixed investment also had a strong dampening impact on loan demand, mirrored by a strong net decrease in demand for long-term loans. In the third quarter of 2023, banks expect a further net decrease in demand for loans to firms, but much smaller than in the second quarter.

Euro area banks also reported a strong net decrease in demand for housing loans which, however, was lower than the very large net decrease in the previous two quarters. Higher interest rates, weakening housing market prospects and low consumer confidence all contributed negatively to the demand for loans for house purchase. In the third quarter of 2023, banks expect a further, although markedly less pronounced, net decrease in housing loan demand, and a further net decrease in demand for consumer credit.

The July 2023 BLS contained a number of ad hoc questions. Euro area banks reported that their access to funding deteriorated in most market segments in the second quarter of 2023, especially in retail funding. Euro area banks reported a net tightening impact of NPL ratios on their lending conditions for loans to enterprises and consumer credit in the first half of 2023. Credit standards for new loans to enterprises tightened further across all main sectors of economic activity in the first half of 2023, especially for commercial real estate. The July 2023 survey questionnaire also included a new annual ad hoc question aimed at gauging the impact of climate change on bank lending to enterprises. Euro area banks indicated that climate risks of euro area firms and measures to cope with climate change had a net tightening impact on credit standards and terms and conditions for loans to brown firms over the past 12 months, while they had a net easing impact for loans to green firms and firms in transition.

In more detail, euro area banks further tightened their credit standards (i.e. banks' internal guidelines or loan approval criteria) in net terms for loans or credit lines to enterprises in the second quarter of 2023, although the net percentage of banks reporting a tightening was smaller than in the previous quarter (net percentage of banks of 14%, after 27% in the previous quarter; see Overview table). The net tightening was in line with what banks had expected in the previous quarter, remaining above the historical average since the start of the survey (9%; see Overview table). The cumulated net tightening since the beginning of 2022 has been substantial, and the BLS results have provided early indications about the significant weakening in lending dynamics observed since last autumn. Against the background of the typical lags in the impact of monetary policy transmission on the economy, banks' risk perceptions continued to have the largest tightening impact, while banks' lower risk tolerance also contributed, reflecting higher credit risks in the context of rising interest rates and weak economic growth. Banks' cost of funds and balance sheet situation also contributed to the tightening, mainly owing to higher capital costs and banks' lower liquidity position. In the third quarter of 2023, banks expect a further net tightening of credit standards for loans to firms, but at a slower pace than in the second quarter (net percentage of 10%).

Euro area banks reported a further net tightening of credit standards for loans to households in the second quarter of 2023, which was less pronounced than in the previous quarter for housing loans (net percentage of banks of 8%, after 19% in the previous quarter; see Overview table) and more pronounced for consumer credit (18%, after 10%). For housing loans, the net tightening was broadly in line with banks' expectations in the previous quarter (expected net percentage of 6%) and remained slightly above its historical average (6%, see Overview table). For consumer credit, meanwhile, the net tightening was substantially higher than banks' expectations (expected net percentage of 12%) and clearly above its historical average (5%). The main drivers of the tightening for both housing loans and consumer credit were higher risk perceptions and banks' lower risk tolerance and, to a lesser extent, banks' cost of funds and balance sheet constraints. Competition contributed somewhat to alleviating the net tightening pressures. In the third quarter of 2023, banks expect unchanged credit standards for housing loans (net percentage of 0%). For consumer credit, a further net tightening is expected (net percentage of 2%), although to a lesser extent than in the previous quarter.

Banks’ overall terms and conditions (i.e. banks’ actual terms and conditions agreed in the loan contract) for new loans to firms and households tightened further. For firms, the difference between the percentage of banks reporting a tightening and the percentage of banks reporting an easing was still substantial and similar to the last quarter (net percentage of 23%, after 24%). Margins on average and riskier loans widened in the context of the pass-through of higher policy rates to lending rates, alongside with collateral requirements, which had a small net tightening impact on terms and conditions for firms. Banks also referred to “other factors”, mainly in relation to higher lending rates. In addition, banks reported a further net tightening of overall terms and conditions for housing loans, albeit at a slower pace (net percentage of 15%, after 26%) and a somewhat higher net tightening for consumer credit and other lending to households (21%, after 18%). For both, the tightening was mainly on account of widening margins on riskier loans and average loans reflecting the proceeding pass-through of higher market rates to mortgage rates and consumer credit rates.

In the second quarter of 2023, banks reported a further net increase in the share of rejected applications for loans to firms (net percentage of 16%, after 15%). Banks mentioned more often, in net terms, an increase in the share of rejected loans for small and medium-sized enterprises (SMEs) than for large firms. Euro area banks reported a further net increase in the share of rejected applications also for loans to households, which was lower than the previous quarter for housing loans (8%, after 17%) and similar to the previous quarter for consumer credit (10%).

Credit standards for loans to enterprises tightened in net terms in all four of the largest euro area countries in the second quarter of 2023 (see Overview table). Credit standards for housing loans and credit standards for consumer credit and other lending to households tightened in Germany, France and Spain while they remained unchanged in Italy.

Firms’ net demand for loans decreased strongly in the second quarter of 2023 (net percentage of -42%, after -38% in the previous quarter; see Overview table), dropping to an all-time low since the start of the survey in 2003. The decline was again substantially stronger than expected by banks in the previous quarter. The general level of interest rates and fixed investment remained the main driver of reduced loan demand, reflecting the dampening impact of rising interest rates on loan demand and economic growth. Mergers and acquisition (M&A) activity (included in “other financing needs”) and available internal funding (included in “use of alternative finance”), reflecting corporate profits, also dampened loan demand. There was also a marginal dampening impact on loan demand from inventories and working capital. The decrease in loan demand was very strong in historical perspective for both long-term and short-term loans. In the third quarter of 2023, banks expect a further net decrease in demand for loans to firms, but much smaller than in the second quarter (net percentage of -6%).

The net decrease in demand for housing loans remained strong in the second quarter of 2023 but was lower than the sharp net decrease in the previous two quarters (net percentage of -47%, after -72% and -74% in the first quarter of 2023 and in the fourth quarter of 2022 respectively; see Overview table). The decrease in the second quarter was relatively close to the value expected by banks in the previous quarter. Higher interest rates, weakening housing market prospects and low consumer confidence all contributed negatively to the demand for loans for house purchase. The net decrease in demand for consumer credit also became smaller (net percentage of -12%, after -19%, see Overview table), broadly in line with what banks had expected in the previous quarter. Here, to a smaller extent than in the first quarter of 2023, low consumer confidence and spending on durable goods contributed to lower demand, whereas higher interest rates had a similarly large dampening impact on demand for consumer credit as in the previous quarter. In the third quarter of 2023, banks expect a further, although markedly less pronounced, net decrease in housing loan demand (net percentage of -18%), and a further net decrease in demand for consumer credit, albeit somewhat smaller (-8%) than in the second quarter.

Banks reported a substantial net decrease in demand for loans to enterprises across all four largest euro area countries in the second quarter of 2023. Net demand for housing loans continued to decrease substantially in all four largest euro area countries. Demand for consumer credit decreased in net terms in all four largest euro area countries to a comparable degree.

Overview table

Latest BLS results for the largest euro area countries

(net percentages of banks reporting a tightening of credit standards or an increase in loan demand)

	Enterprises						House purchase						Consumer credit					
	Credit standards			Demand			Credit standards			Demand			Credit standards			Demand		
Country	Q1 23	Q2 23	Avg	Q1 23	Q2 23	Avg	Q1 23	Q2 23	Avg	Q1 23	Q2 23	Avg	Q1 23	Q2 23	Avg	Q1 23	Q2 23	Avg
Euro area	27	14	9	-38	-42	0	19	8	6	-72	-47	2	10	18	5	-19	-12	0
Germany	16	10	4	-26	-32	6	11	11	3	-75	-32	6	14	14	1	-46	-14	7
Spain	17	8	9	-42	-42	-5	20	10	14	-90	-60	-9	33	25	10	-42	-17	-8
France	50	25	6	-33	-50	-3	20	20	4	-80	-70	4	0	36	-1	0	-21	-1
Italy	36	18	12	-36	-73	6	9	0	1	-45	-64	11	0	0	4	-8	-8	10

Notes: “Avg.” refers to historical averages, which are calculated over the period since the beginning of the survey, excluding the most recent round. Owing to the different sample sizes across countries, which broadly reflect the differences in the national shares in lending to the euro area non-financial private sector, the size and volatility of the net percentages cannot be directly compared across countries.

Euro area banks reported that their access to funding deteriorated in most market segments in the second quarter of 2023, especially in retail funding. The reported net deterioration in access to retail funding may reflect increased competition for retail deposits in the current environment of increasing remuneration of deposits and outflows of overnight deposits. This is confirmed by the pronounced deterioration in access to short-term retail funding (14% in net terms, the highest since the first quarter of 2012). For debt securities, the deterioration reflects somewhat higher bank bond yields compared with the end of the first quarter, while access to money markets remained broadly unchanged. In the third quarter of 2023, access to retail funding and to all sources of wholesale funding is expected to deteriorate somewhat.

Euro area banks reported a net tightening impact of NPL ratios on their credit standards and terms and conditions for loans to enterprises and consumer credit in the first half of 2023 (credit standards: net percentages of 6%, after 1%, and 7%, after -1% respectively). By contrast, NPL ratios had a neutral impact for housing loans (credit standards: net percentage of 0% after 0%). Banks referred to higher risk perceptions and their lower risk tolerance as the main factors behind the contribution of NPL ratios to tightening lending conditions, possibly reflecting increased refinancing and repayment risks in the context of rising interest rates and the dampening impact of high inflation and lower economic growth on real disposable income. In the second half of 2023, euro area banks expect the net tightening impact of NPL ratios across all loan categories to be similar to the developments in the first half of the year.

Credit standards for new loans to enterprises tightened further across all main sectors of economic activity in the first half of 2023, especially for commercial real estate (net percentage of 30%, after 25%). Credit standards also tightened substantially in the energy-intensive manufacturing sector, although considerably less than in the second half of last year. The net percentage of banks reporting this development was broadly in line with other sectors like residential real estate, construction and wholesale and retail trade. The net tightening was relatively lower in the services sector. Euro area banks reported a net decrease in demand for loans or credit lines across all main economic sectors, which was especially strong in the real estate sectors (net percentages of -42%, after -23%, and -41%, after -36%, in commercial real estate and residential real estate respectively). In the second half of 2023, euro area banks expect a further, but smaller net tightening in credit standards for loans to firms across all main economic sectors. Banks expect a further, but smaller net decrease in loan demand across all main economic sectors.

Climate risks of euro area firms and measures to cope with climate change had a net tightening impact on credit standards and terms and conditions for loans to brown firms over the past 12 months (net percentages of 39% and 17% respectively), while they had a net easing impact for loans to green firms and firms in transition (credit standards: net percentage of -15% and -7% respectively; terms and conditions: net percentages of -23% and -17% respectively). Firm-specific climate-related transition risks were the main driver of the tightening impact on banks' lending policy, whereas physical risk, often related to the geographical location of the borrower, had on average a somewhat smaller net tightening impact, and climate-related fiscal support helped to ease loan approval. Euro area banks reported a net increase in demand for loans to firms owing to climate-related risks over the past 12 months, driven by firms in transition and green firms, while brown firms showed a net decrease in loan demand. The main driver of loan demand related to climate risks was fixed investment and corporate restructuring, pointing to investment needs of firms on the way to a more sustainable economy. Over the next 12 months, euro area banks expect a stronger net tightening impact owing to climate risks on credit standards for loans to brown firms, while a net easing impact is expected for green firms and firms in transition. In addition, euro area banks expect that the impact of climate risks on loan demand will become stronger in net terms.

Box 1
General notes

The bank lending survey (BLS) is addressed to senior loan officers at a representative sample of euro area banks. In the current round, 158 banks were surveyed, representing all euro area countries and reflecting the characteristics of their respective national banking structures. The main purpose of the BLS is to enhance the Eurosystem's knowledge of bank lending conditions in the euro area.[2]

BLS questionnaire

The BLS questionnaire contains 22 standard questions on past and expected future developments: 18 backward-looking questions and four forward-looking questions. In addition, it contains one open-ended question. Those questions focus on developments in loans to euro area residents (i.e. domestic and euro area cross-border loans) and distinguish between three loan categories: loans or credit lines to enterprises; loans to households for house purchase; and consumer credit and other lending to households. For all three categories, questions are asked about the credit standards applied to the approval of loans, the terms and conditions of new loans, loan demand, the factors affecting loan supply and demand conditions, and the percentage of loan applications that are rejected. Survey questions are generally phrased in terms of changes over the past three months or expected changes over the next three months. Survey participants are asked to indicate in a qualitative way the strength of any tightening or easing or the strength of any decrease or increase, reporting changes using the following five-point scale: (1) tightened/decreased considerably, (2) tightened/decreased somewhat, (3) basically no change, (4) eased/increased somewhat, or (5) eased/increased considerably.

In addition to the standard questions, the BLS questionnaire may contain ad hoc questions on specific topics of interest. Whereas the standard questions cover a three-month time period, the ad hoc questions tend to refer to changes over a longer time period (e.g. over the past and next six months).

Aggregation of banks' replies to national and euro area BLS results

The responses of the individual banks participating in the BLS are aggregated in two steps to form the euro area results. In the first step, the responses of individual banks are aggregated to national results for the euro area countries. In the second step, the national BLS results are aggregated to euro area BLS results.

In the first step, banks' replies are aggregated to national BLS results for all countries by applying equal weights to all banks in the sample.[3] For two countries (Malta and Slovakia), national results

[2] For more detailed information on the bank lending survey, see the article entitled "A bank lending survey for the euro area", *Monthly Bulletin*, ECB, April 2003; Köhler-Ulbrich, P., Hempell, H. and Scopel, S., "The euro area bank lending survey", *Occasional Paper Series*, No 179, ECB, 2016; and Burlon, L., Dimou, M., Drahonsky, A. and Köhler-Ulbrich, P., "What does the bank lending survey tell us about credit conditions for euro area firms?", *Economic Bulletin*, Issue 8, ECB, December 2019.

[3] To ensure a good representation of national bank lending markets, the selected sample banks are generally of a similar size or have lending behaviour that is typical of a larger group of banks.

are additionally aggregated by applying a weighting scheme based on the amounts outstanding of loans to non-financial corporations and households of the individual banks in the respective national samples.

In the second step, since the numbers of banks in the national samples differ considerably and do not always reflect those countries' respective shares in lending to euro area non-financial corporations and households, the unweighted national survey results of all countries are aggregated to euro area BLS results by applying a weighting scheme based on the national shares of outstanding loans to euro area non-financial corporations and households.

BLS indicators

Responses to questions relating to credit standards are analysed in this report by looking at the difference (the "net percentage") between the percentage of banks reporting that credit standards applied in the approval of loans have been tightened and the percentage of banks reporting that they have been eased. For all questions, the net percentage is determined on the basis of all participating banks that have business in or exposure to the respective loan categories (i.e. they are all included in the denominator when calculating the net percentage). This means that banks that specialise in certain loan categories (e.g. banks that only grant loans to enterprises) are only included in the aggregation for those categories. All other participating banks are included in the aggregation of all questions, even if a bank replies that a question is "not applicable" ("NA"). This harmonised aggregation method was introduced by the Eurosystem in the April 2018 BLS. It has been applied to all euro area and national BLS results in the current BLS questionnaire, including backdata.[4] The resulting revisions for the standard BLS questions have generally been small, but revisions for some ad hoc questions have been larger owing to a higher number of "not applicable" replies by banks.

A positive net percentage indicates that a larger proportion of banks have tightened credit standards ("net tightening"), whereas a negative net percentage indicates that a larger proportion of banks have eased credit standards ("net easing").

Likewise, the term "net demand" refers to the difference between the percentage of banks reporting an increase in loan demand (i.e. an increase in bank loan financing needs) and the percentage of banks reporting a decline. Net demand will therefore be positive if a larger proportion of banks have reported an increase in loan demand, whereas negative net demand indicates that a larger proportion of banks have reported a decline in loan demand.

In the assessment of survey balances for the euro area, net percentages between -1 and +1 are generally referred to as "broadly unchanged". For country results, net percentage changes are reported in a factual manner, as differing sample sizes across countries mean that the answers of individual banks have differing impacts on the magnitude of net percentage changes.

In addition to the "net percentage" indicator, the ECB also publishes an alternative measure of banks' responses to questions relating to changes in credit standards and net demand. This measure is the weighted difference ("diffusion index") between the percentage of banks reporting that credit standards have been tightened and the percentage of banks reporting that they have

[4] The non-harmonised historical data differ from the harmonised data mainly as a result of heterogeneous treatment of "NA" (Not Applicable) replies and specialised banks across questions and countries. Non-harmonised historical BLS data are published for discontinued BLS questions and ad hoc questions.

been eased. Likewise, as regards demand for loans, the diffusion index refers to the weighted difference between the percentage of banks reporting an increase in loan demand and the percentage of banks reporting a decline. The diffusion index is constructed in the following way: lenders who have answered “considerably” are given a weight (score of 1) which is twice as large as that given to lenders who have answered “somewhat” (score of 0.5). The interpretation of the diffusion indices follows the same logic as the interpretation of net percentages.

Detailed tables and charts based on the responses provided can be found in Annex 1 for the standard questions and Annex 2 for the ad hoc questions. In addition, BLS time series data are available on the ECB’s website via the ECB Data Portal.

A copy of the questionnaire, a glossary of BLS terms and a BLS user guide with information on the BLS series keys can all be found on the ECB's website.

2 Developments in credit standards, terms and conditions, and net demand for loans in the euro area

2.1 Loans to enterprises

2.1.1 Credit standards for loans to enterprises tightened further

Euro area banks tightened their credit standards for loans or credit lines to enterprises further in the second quarter of 2023, although the net percentage of banks reporting a tightening was smaller than in the previous quarter (net percentage of banks of 14%, after 27% in the first quarter of 2023; see Chart 1 and Overview table).[5] The net tightening was in line with what banks had expected in the previous quarter (net percentage of 15%), remaining above the historical average since the start of the survey in 2003 (9%; see Overview table). The cumulated net tightening since the beginning of 2022 has been substantial, and the BLS results have provided early indications about the significant weakening in lending dynamics observed since last autumn.[6] Credit standards tightened somewhat more in net terms for loans to SMEs (net percentage of 17%, after 23%) than for loans to large firms (13%, after 24%; see Chart 2). In addition, the tightening was stronger for long-term loans (15%, after 28%) than for short-term loans (10%, after 17%).

Against the background of the typical lags in the impact of monetary policy transmission on the economy, banks' risk perceptions continued to have the largest tightening impact, while banks' lower risk tolerance also contributed (see Chart 1 and Table 1). Risks related to the economic outlook and firm-specific situations remained the main driver of the tightening of credit standards for firms, reflecting higher credit risks in the context of rising interest rates and weak economic growth, while banks' lower risk tolerance also contributed to the tightening. Risks related to the economic situation are also signalled by the composite output Purchasing Managers' Index (PMI) for the euro area, which declined at the end of the second quarter of 2023. Banks' cost of funds and balance sheet situation also contributed to the tightening of credit standards, mainly owing to higher capital costs and banks' lower liquidity position, while its net tightening contribution remained contained compared with earlier tightening periods. The factors contributing to changes in credit standards were similar for SMEs and large enterprises.

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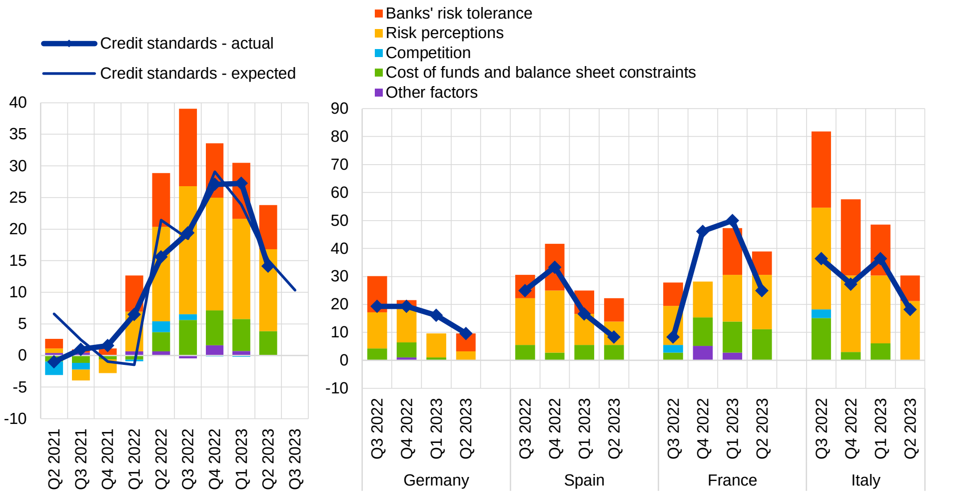
5 "Net tightening" ("Net easing") means that the percentage of banks reporting a tightening (an easing) of credit standards was larger than the percentage of banks reporting an easing (a tightening).

6 On the leading indicator properties of the BLS, see the box entitled "What information does the euro area bank lending survey provide on future loan developments?", *Economic Bulletin*, Issue 8, ECB, 2022.

Chart 1

Changes in credit standards applied to the approval of loans or credit lines to enterprises, and contributing factors

(net percentages of banks reporting a tightening of credit standards and contributing factors)

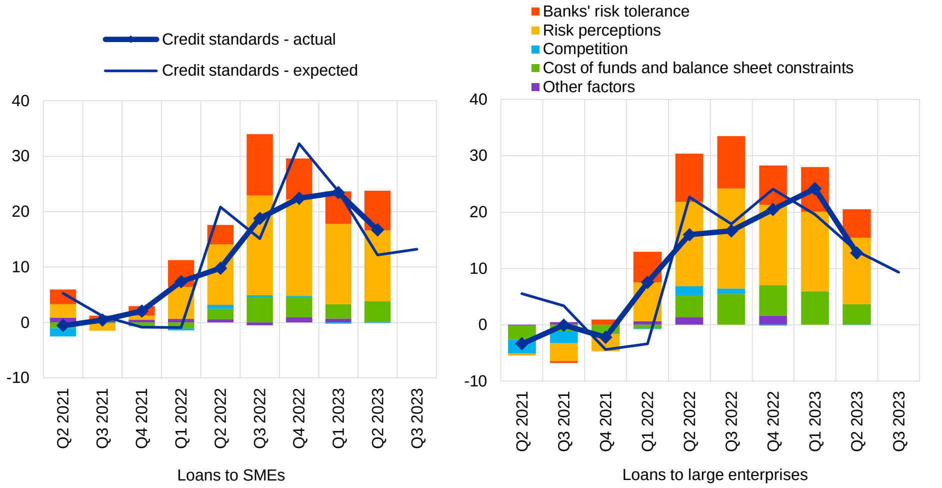


Notes: "Actual" values are changes that have occurred, while "expected" values are changes anticipated by banks. Net percentages are defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". The net percentages for responses to questions related to contributing factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage reporting that it contributed to an easing. "Cost of funds and balance sheet constraints" is the unweighted average of "banks' capital and the costs related to banks' capital position", "access to market financing" and "liquidity position"; "risk perceptions" is the unweighted average of "general economic situation and outlook", "industry or firm-specific situation and outlook/borrower's creditworthiness" and "risk related to the collateral demanded"; "competition" is the unweighted average of "competition from other banks", "competition from non-banks" and "competition from market financing". The net percentages for "other factors" refer to further factors which were mentioned by banks as having contributed to changes in credit standards.

Chart 2

Changes in credit standards applied to the approval of loans or credit lines to SMEs and large enterprises, and contributing factors

(net percentages of banks reporting a tightening of credit standards and contributing factors)



Note: See the notes to Chart 1.

Credit standards for loans to enterprises tightened across all four largest euro area countries. Higher risk perceptions and declining risk tolerance had a tightening impact in all four countries. Banks' cost of funds and balance sheet conditions had a tightening contribution in France and Spain, while banks reported a neutral impact of this factor on the change in credit standards in the second quarter in Germany and Italy.

In the third quarter of 2023, euro area banks expect a further net tightening of credit standards for loans to firms (net percentage of 10%). The further tightening would happen at a slower pace than in the second quarter and be around the historical average since the start of the survey. Banks expect this development for both loans to large firms (net percentage of 9%) and for loans to SMEs (net percentage of 13%).

Table 1

Factors contributing to changes in credit standards for loans or credit lines to enterprises

(net percentages of banks)

	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
Country	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023
Euro area	5	4	0	0	16	13	9	7
Germany	1	0	0	0	9	3	0	6
Spain	6	6	0	0	11	8	8	8
France	11	11	0	0	17	19	17	8
Italy	6	0	0	0	24	21	18	9

Note: See the notes to Chart 1.

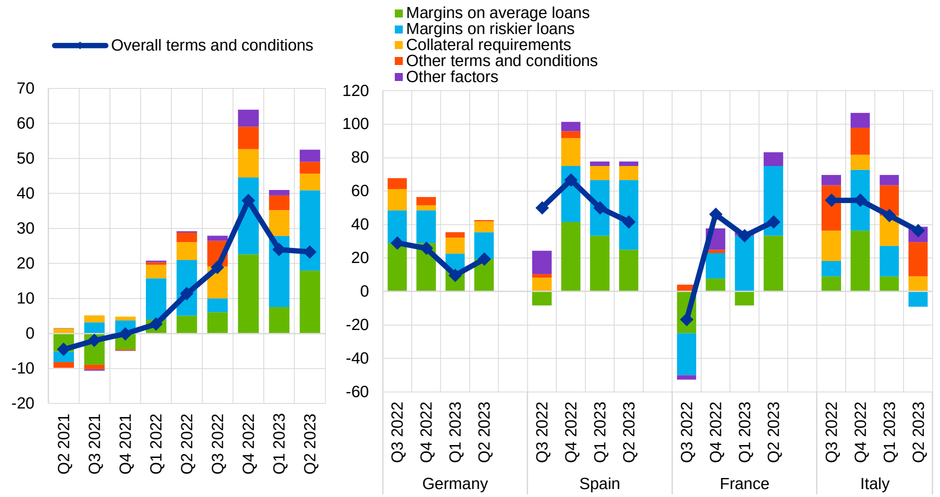
2.1.2 Terms and conditions on loans to enterprises tightened further

Banks' overall terms and conditions (i.e. actual terms and conditions agreed in the loan contract) for new loans to enterprises tightened further in the second quarter of 2023, at a similar pace as in the previous quarter (net percentage of 23%, after 24%; see Chart 3 and Table 2). Tighter terms and conditions were mainly driven by widening loan margins (defined as the spread over relevant market reference rates), reflecting the ongoing pass-through of ECB rate hikes to lending rates. The net widening of margins on riskier loans to firms (net percentage of 23%) remained stronger than for average loans (net percentage of 18%), although the net widening of margins on average loans increased considerably compared with the previous quarter. Collateral requirements and “other terms and conditions” (mainly related to loan size and maturity) also had a small net tightening impact, in line with banks' lower risk tolerance. Banks also referred to “other factors” having a tightening impact, mainly in relation to higher funding costs and lending rates. Banks reported a further net tightening of overall terms and conditions for loans to SMEs and large firms (net percentage for both at 19%; see Chart 4). For both categories of lending, loan margins widened somewhat more for riskier loans than for average loans.

Chart 3

Changes in terms and conditions on loans or credit lines to enterprises

(net percentages of banks reporting a tightening of terms and conditions)



Notes: "Margins" are defined as the spread over relevant market reference rates. "Other terms and conditions" is the unweighted average of "non-interest rate charges", "size of the loan or credit line", "loan covenants" and "maturity". The net percentages for "other factors" refer to further factors which were mentioned by banks as having contributed to changes in terms and conditions.

Banks' higher risk perceptions, lower risk tolerance and the cost of funds and balance sheet situation continued to be the main drivers of the net tightening in overall terms and conditions for loans to firms in the second quarter of 2023 (see Table 3). Risk perceptions, related to the economic outlook and the creditworthiness of the firms, had the largest tightening impact on terms and conditions. In addition, in the context of continued increases in bank funding costs and decreases in bank liquidity, banks' cost of funds and balance sheet constraints contributed towards the tightening.

Table 2

Changes in terms and conditions on loans or credit lines to enterprises

(net percentages of banks)

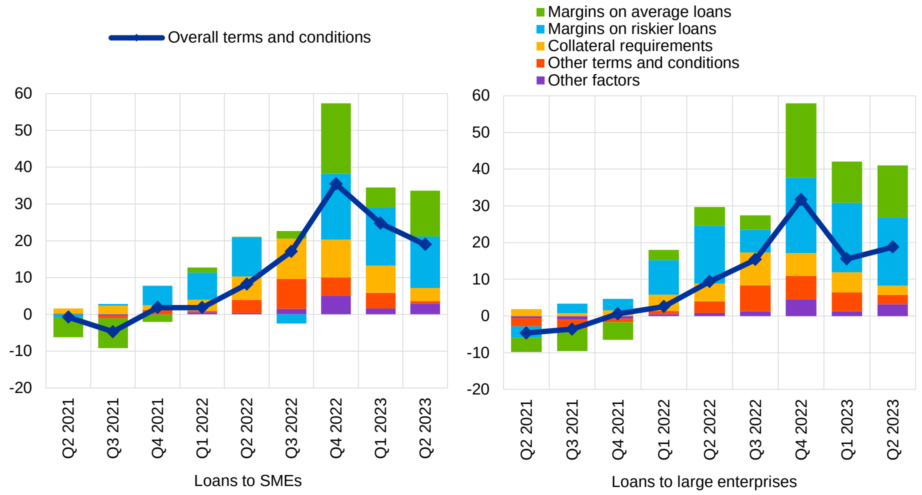
Country	Overall terms and conditions		Banks' margins on average loans		Banks' margins on riskier loans	
	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023
Euro area	24	23	8	18	20	23
Germany	10	19	13	19	10	16
Spain	50	42	33	25	33	42
France	33	42	-8	33	33	42
Italy	45	36	9	0	18	-9

Note: See the notes to Chart 3.

Chart 4

Changes in terms and conditions on loans or credit lines to SMEs and large enterprises

(net percentages of banks reporting a tightening of terms and conditions)



Note: See the notes to Chart 3.

In all four largest euro area countries, overall terms and conditions tightened on loans or credit lines to enterprises. In Germany, Spain and France, the net tightening was mainly driven by widening loan margins. Meanwhile, in Italy, banks referred to "other terms and conditions", especially to the size of the loan or credit line, as the main tightening factor for terms and conditions. Tighter collateral requirements and the higher level of interest rates (mentioned in the "other factors") also contributed to the tightening in most of the countries.

Table 3

Factors contributing to changes in overall terms and conditions on loans or credit lines to enterprises

(net percentages of banks)

	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
Country	**Q1 2023**	**Q2 2023**	**Q1 2023**	**Q2 2023**	**Q1 2023**	**Q2 2023**	**Q1 2023**	**Q2 2023**
Euro area	8	8	-3	-1	15	14	9	9
Germany	6	8	1	2	9	9	0	3
Spain	19	11	-3	0	19	17	17	8
France	8	11	-8	0	11	14	17	17
Italy	15	0	-3	-6	33	24	9	9

Notes: The net percentages for these questions relating to contributing factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage reporting that it contributed to an easing. See the notes to Chart 1.

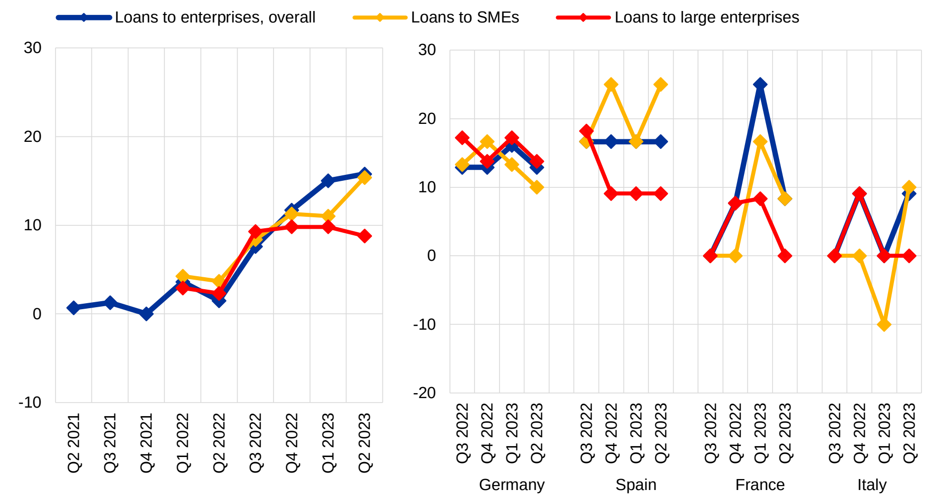
2.1.3 Rejection rate for loans to enterprises increased

In the second quarter of 2023, banks reported a further net increase in the share of rejected applications for loans to firms (net percentage of 16%, after 15% in the previous quarter; see Chart 5). Banks mentioned more often, in net terms, an increase in the share of rejected loans for SMEs than for large firms (net percentages of 15% and 9% respectively).

Chart 5

Changes in the share of rejected loan applications for enterprises

(net percentages of banks reporting an increase)



Notes: Share of rejected loan applications relative to the volume of all loan applications in that loan category. The breakdown by firm sizes was introduced in the first quarter of 2022.

In all four largest euro area countries, banks reported a net increase in the share of rejected applications for loans to firms in the second quarter of 2023. The share of rejected loan applications increased in net terms for loans to SMEs in all four countries. For loans to large firms, it increased in Germany and Spain, whereas it remained unchanged in France and Italy.

2.1.4 Net demand for loans to enterprises decreased strongly

Euro area firms' net demand for loans decreased strongly in the second quarter of 2023 (net percentage of -42%, after -38% in the previous quarter; see Chart 6), dropping to an all-time low since the start of the survey in 2003.[7] The decline was again substantially stronger than expected by banks in the previous quarter. The net decrease in loan demand was the strongest since the start of the survey in 2003 for SMEs (net percentage of -40%, see Chart 7), while the net decrease in demand for loans to large firms (net percentage of -34%) remained slightly more limited than during the global financial crisis. In addition, the net decrease in demand was the strongest over the history of the survey for long-term loans (-46%), while demand for

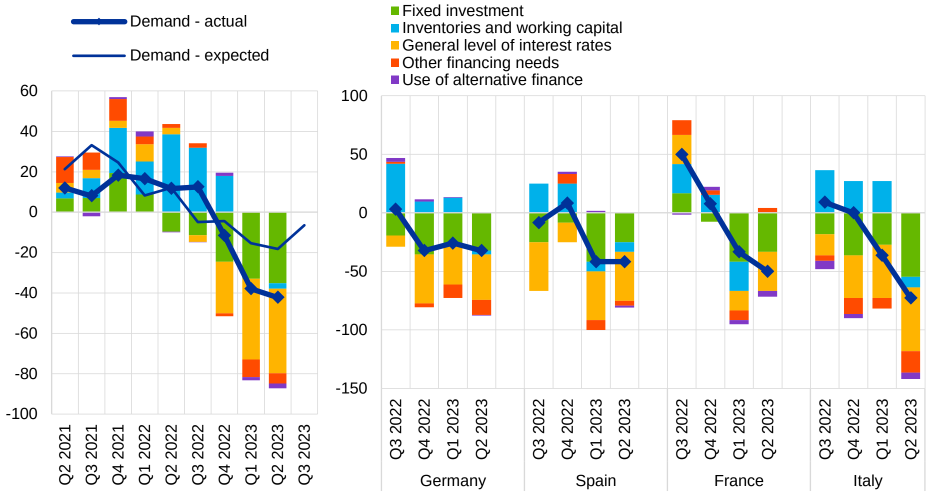
[7] "Net increase" ("Net decrease") means that the percentage of banks reporting an increase (a decrease) of loan demand was larger than the percentage of banks reporting a decrease (an increase).

short-term loans decreased to a lesser extent (-22%) but still close to the historical low of the global financial crisis.

Chart 6

Changes in demand for loans or credit lines to enterprises, and contributing factors

(net percentages of banks reporting an increase in demand, and contributing factors)

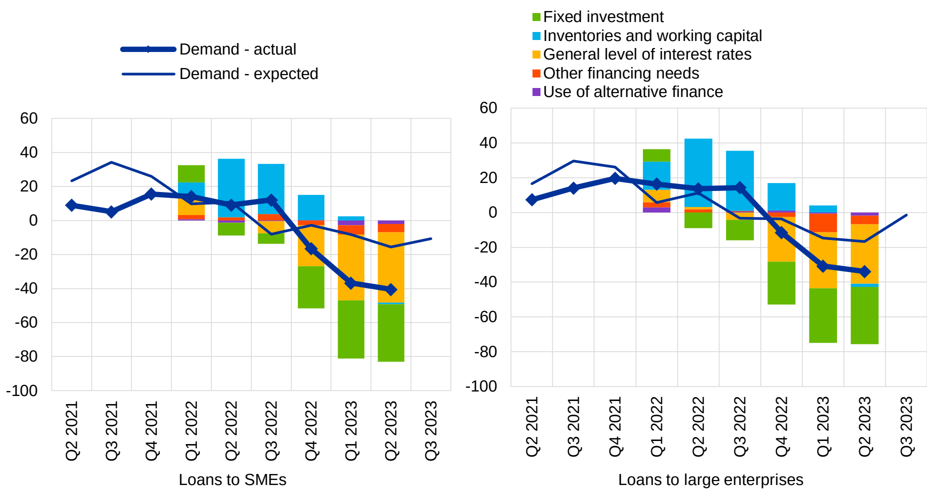


Notes: “Actual” values are changes that have occurred, while “expected” values are changes anticipated by banks. Net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages of banks responding “increased considerably” and “increased somewhat” and the sum of the percentages of banks responding “decreased somewhat” and “decreased considerably”. The net percentages for responses to questions relating to contributing factors are defined as the difference between the percentage of banks reporting that the given factor contributed to increasing demand and the percentage reporting that it contributed to decreasing demand. “Other financing needs” is the unweighted average of “mergers/acquisitions and corporate restructuring” and “debt refinancing/restructuring and renegotiation”; “use of alternative finance” is the unweighted average of “internal financing”, “loans from other banks”, “loans from non-banks”, “issuance/redemption of debt securities” and “issuance/redemption of equity”.

Chart 7

Changes in demand for loans or credit lines to SMEs and large enterprises, and contributing factors

(net percentages of banks reporting an increase in demand, and contributing factors)



Note: See the notes to Chart 6. Developments in the factors having an impact on loan demand across firm sizes were added in the first quarter of 2022.

Rising interest rates and declining fixed investment remained the main drivers of the net decrease in loan demand (see Chart 6 and Table 4). Lower financing needs for

M&A activity (included in “other financing needs”), available internal funding with improved corporate profits, and, to a smaller extent, debt securities issuance (included in “use of alternative finance”) contributed to firms’ reduced loan demand. There was also a small dampening impact on loan demand from inventories and working capital. For both SMEs and large firms, the general level of interest rates and firms’ financing needs for fixed investment were the main drivers of reduced loan demand (see Chart 7).

Table 4

Factors contributing to changes in demand for loans or credit lines to enterprises

(net percentages of banks)

	Fixed investment		Inventories and working capital		Other financing needs		General level of interest rates		Use of alternative finance	
Country	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023
Euro area	-33	-35	0	-3	-9	-5	-40	-42	-1	-2
Germany	-26	-32	13	-3	-11	-13	-35	-39	1	-1
Spain	-42	-25	-8	-8	-8	-4	-42	-42	2	-2
France	-42	-33	-25	0	-8	4	-17	-33	-3	-5
Italy	-27	-55	27	-9	-9	-18	-45	-55	0	-5

Note: See the notes to Chart 6.

Demand for loans to firms declined strongly in all four largest euro area countries. In line with the euro area aggregate, higher interest rates and lower financing needs for fixed investment were the main drivers of reduced loan demand in all four countries. Lower M&A activity also had a notable negative impact on loan demand in all four largest countries. Regarding alternative funding sources, the availability of firms’ internal funds was reported as reducing loan demand especially by banks in Italy and, to a smaller extent, by banks in Spain and Germany, while the issuance of debt securities was quoted as a small dampening factor for corporate loan demand by banks in France and Germany.

In the third quarter of 2023, banks expect a further net decrease in demand for loans to firms, but much smaller than in the second quarter (net percentage of -6%). Since the end of 2022, banks have tended to have too positive expectations on loan demand, which suggests that expectations for the third quarter could also be too optimistic. Banks expect that the pace of decrease in loan demand will become lower both for short-term and long-term loan demand in the third quarter (net percentages of -2% and -12% respectively).

2.2 Loans to households for house purchase

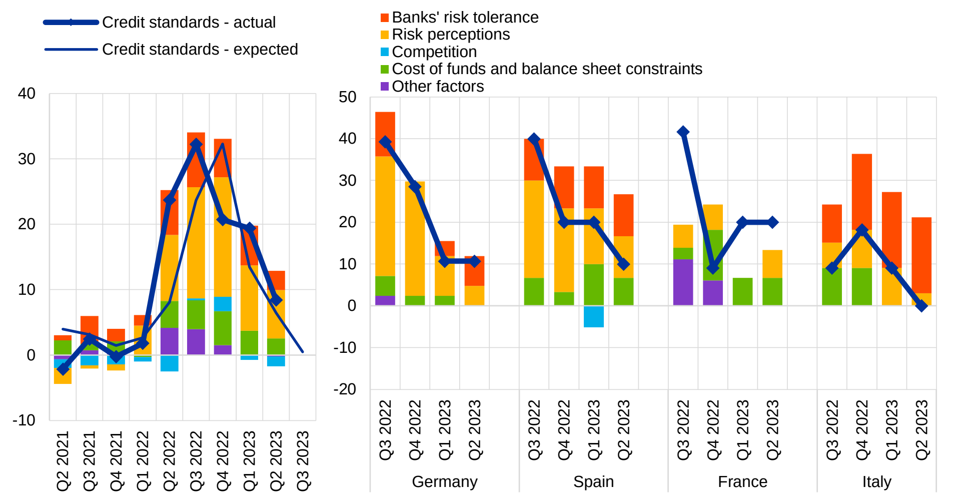
2.2.1 Credit standards for loans to households for house purchase tightened further

In the second quarter of 2023, euro area banks reported a further net tightening of credit standards on loans to households for house purchase, which was less pronounced than in the previous quarter (net percentage of banks at 8%, after 19% in the first quarter of 2023). The net tightening was broadly in line with the tightening expected by the banks in the first quarter of 2023 and continued to be at a level slightly above the historical average of 6% (see Chart 8 and Overview table).

Chart 8

Changes in credit standards applied to the approval of loans to households for house purchase, and contributing factors

(net percentages of banks reporting a tightening of credit standards, and contributing factors)



Notes: See the notes to Chart 1. “Cost of funds and balance sheet constraints” is the unweighted average of “banks’ capital and the costs related to banks’ capital position”, “access to market financing” and “liquidity position”; “Risk perceptions” is the unweighted average of “general economic situation and outlook”, “housing market prospects, including expected house price developments” and “borrower’s creditworthiness”; “competition” is the unweighted average of “competition from other banks” and “competition from non-banks”. The net percentages for “other factors” refer to further factors which were mentioned by banks as having contributed to changes in credit standards.

Banks’ higher risk perceptions were the main factor driving the net tightening of credit standards on housing loans, albeit to a lesser extent than in the previous quarter (see Chart 8 and Table 5). This was related to a similar extent to banks’ concerns regarding borrowers’ creditworthiness, housing market prospects and the general economic outlook. In addition, banks’ lower risk tolerance continued to contribute to the tightening. To a similar extent, banks’ cost of funds and balance sheet constraints also contributed to the tightening. It predominantly related to higher capital costs while the impact of banks’ liquidity position and access to market financing was broadly neutral in the second quarter.

In most of the four largest euro area countries, credit standards for loans to households for house purchase tightened in net terms. Banks’ risk perceptions and lower risk tolerance were the main drivers of the net tightening. Banks in Spain and France particularly referred to a tightening impact of banks' cost of funds and balance sheet situation, either due to their market financing conditions and liquidity positions (Spain) or capital costs (France). In Italy, credit standards on housing loans remained unchanged in the second quarter.

In the third quarter of 2023, euro area banks expect unchanged credit standards on loans to households for house purchase (net percentage of 0%).

Table 5

Factors contributing to changes in credit standards for loans to households for house purchase

(net percentages of banks)

	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
Country	**Q1 2023**	**Q2 2023**	**Q1 2023**	**Q2 2023**	**Q1 2023**	**Q2 2023**	**Q1 2023**	**Q2 2023**
Euro area	4	3	-1	-2	10	7	6	3
Germany	2	0	0	0	10	5	4	7
Spain	10	7	-5	0	13	10	10	10
France	7	7	0	0	0	7	0	0
Italy	0	0	0	0	9	3	18	18

Note: See the notes to Chart 8.

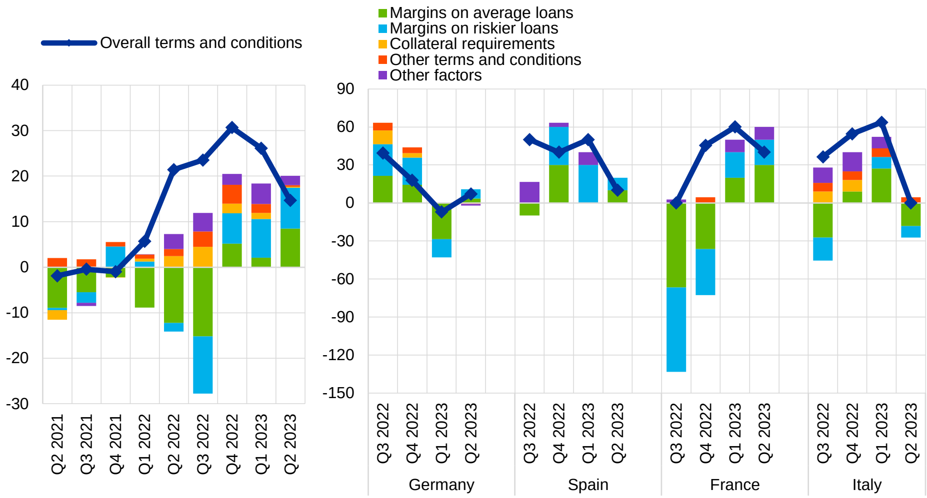
2.2.2 Terms and conditions on loans to households for house purchase tightened further

Banks reported a further net tightening of their overall terms and conditions for new housing loans in the second quarter of 2023, albeit less pronounced than in the previous quarter (net percentage of 15%, after 26% in the previous quarter; see Chart 9 and Table 6). The net tightening of banks' overall terms and conditions was mainly on account of widening margins on both average and riskier loans, reflecting the proceeding pass-through of higher market rates to mortgage rates and concerns or varying attitudes towards credit risks.

Chart 9

Changes in terms and conditions on loans to households for house purchase

(net percentages of banks reporting a tightening of terms and conditions)



Notes: "Margins" are defined as the spread over relevant market reference rates. "Other terms and conditions" is the unweighted average of "loan-to-value ratio", "other loan size limits", "non-interest rate charges" and "maturity". The net percentages for "other factors" refer to further factors which were mentioned by banks as having contributed to changes in terms and conditions.

Table 6

Changes in terms and conditions on loans to households for house purchase

(net percentages of banks)

	Overall terms and conditions		Banks' margins on average loans		Banks' margins on riskier loans	
Country	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023
Euro area	26	15	2	8	8	9
Germany	-7	7	-29	4	-14	7
Spain	50	10	0	10	30	10
France	60	40	20	30	20	20
Italy	64	0	27	-18	9	-9

Note: See the notes to Chart 9.

Banks' higher cost of funds and balance sheet situation contributed most to the net tightening of overall terms and conditions, while the tightening impact of banks' risk perceptions became smaller (see Table 7). In addition, banks mentioned the following "other factors" as contributors to the tightening of their overall terms and conditions: the level of interest rates, higher market reference rates to which mortgage loans are linked, and the increase in the usury rate in France, although to a lesser extent than in previous quarters (see the country developments below).[8] By contrast, competition had a small net easing impact on terms and conditions.

8 The usury rate (*taux d'usure*) is set by the Banque de France and corresponds to the maximum legal interest rate that credit institutions are authorised to charge on a list of different categories of loans to protect borrowers from being charged excessive rates. The usury rates are set on the basis of the average of the rates practiced during the three previous months. From 1 February 2023, on an exceptional basis to better smooth the increases in the usury rate, the update of the usury rates is monthly instead of quarterly for the rates applicable from 1 February to 1 July 2023 (see this link). The current list of usury rates for France can be found under this link.

In most of the largest euro area economies, overall terms and conditions for housing loans tightened in net terms. In Germany, France and Spain, the widening of loan margins contributed most to tighter overall terms and conditions, while in Italy overall terms and conditions remained unchanged as the rising level of interest rates (included in "other factors") was compensated by decreasing margins on both average and riskier loans. Banks in France referred to the update of the administrative threshold for a lending rate to be classified as usury rate (part of "other factors"), for which the adjustment was temporarily changed from quarterly to monthly for the rates applicable from 1 February to 1 July to smoothen the adjustment of rate increases (see footnote 8). This allowed banks in France to increase the pass-through of ECB rate hikes to mortgage rates, as reflected in widening loan margins in the first and second quarters of 2023, after several quarters in which banks in France had reported a narrowing of loan margins due to the legal constraint of the usury rate. The dominant factor contributing to the tightening of overall terms and conditions in France was banks' funding costs, whereas higher risk perceptions were the dominant tightening factor in Spain. Both factors had a net tightening impact in Germany and Italy alongside with a lower risk tolerance of banks in Italy. Competition had an easing impact in Germany and Italy.

Table 7

Factors contributing to changes in overall terms and conditions on loans to households for house purchase

(net percentages of banks)

	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
Country	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023
Euro area	27	18	-14	-3	9	5	5	0
Germany	-4	4	-29	-4	0	4	0	0
Spain	60	0	-20	0	30	10	10	0
France	60	60	0	0	0	0	0	0
Italy	45	9	-36	-18	27	9	18	9

Note: The net percentages for these questions relating to contributing factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage reporting that it contributed to an easing.

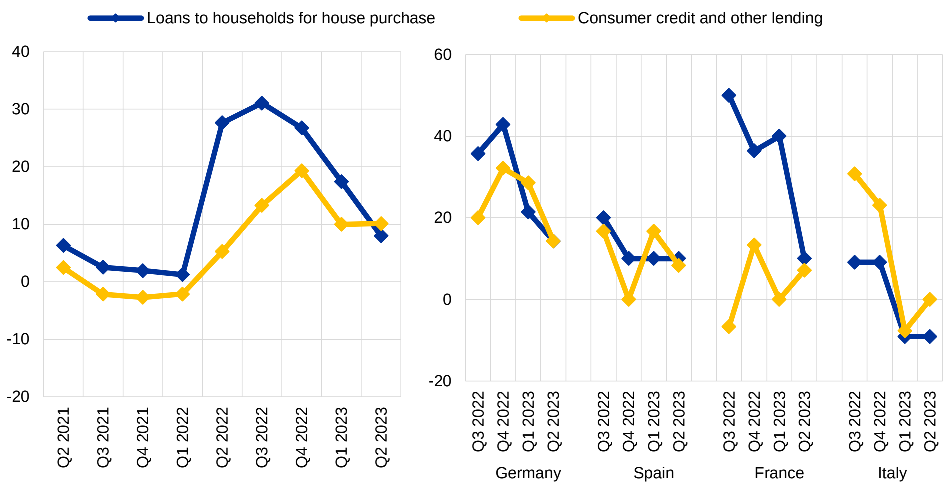
2.2.3 Rejection rate for housing loans increased

In the second quarter of 2023, euro area banks reported a further net increase in the share of rejected applications for housing loans, albeit lower than in the previous quarter (net percentage of 8%, after 17%; see Chart 10). Banks in Germany, Spain and France reported a net increase in the percentage share of rejected loan applications, whereas banks in Italy reported a net decrease in the share of rejected loan applications.

Chart 10

Changes in the share of rejected loan applications for households

(net percentages of banks reporting an increase)



Notes: Share of rejected loan applications relative to the volume of all loan applications in that loan category.

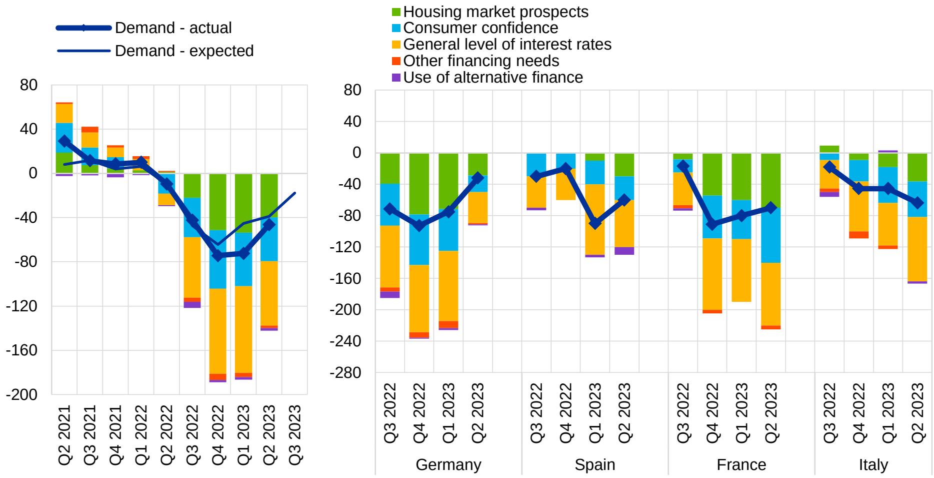
2.2.4 Net demand for housing loans decreased strongly

The net decrease in demand for housing loans remained strong in the second quarter of 2023 but was lower than the sharp net decrease in the previous two quarters (net percentage of banks of -47%, after -72% in the first quarter of 2023 and -74% and the fourth quarter of 2022; see Chart 11 and Overview table). The decrease in demand in the second quarter 2023 was relatively close to the value expected by banks in the previous quarter (net percentage of -39%).

Chart 11

Changes in demand for loans to households for house purchase, and contributing factors

(net percentages of banks reporting an increase in demand, and contributing factors)



Notes: See the notes to Chart 5. "Other financing needs" is the unweighted average of "debt refinancing/restructuring and renegotiation" and "regulatory and fiscal regime of housing markets"; "use of alternative finance" is the unweighted average of "internal finance of house purchase out of savings/down payment", "loans from other banks" and "other sources of external finance".

Higher interest rates, weakening housing market prospects and low consumer confidence all contributed negatively to the demand for loans for house purchase (see Chart 11 and Table 8). For the fourth quarter in a row, the general level of interest rates remained the main negative contributor to housing loan demand. The negative impact of consumer confidence and housing market prospects was again sizeable in the second quarter of 2023, but was smaller than in the previous quarter, remaining largely less negative than the extreme values during the global financial crisis. The development of these factors is in line with the current environment of considerable rises in mortgage rates for euro area households and falling euro area house prices. Additionally, the European Commission's consumer confidence indicator remained well below its long-term average for the euro area up to June, although it had been recovering in the last quarter as households started revising their inflation expectations and became more optimistic about their own financial situation. To a small extent, other financing needs and the use of alternative finance, mainly households' savings, also contributed negatively to demand.

Demand for housing loans decreased substantially in all four largest euro area countries. The general level of interest rates, consumer confidence and housing market prospects all had a downward impact on demand in all four countries. Among these factors, rising interest rates had the strongest dampening impact in all countries. The negative impact of housing market prospects was larger in France than in Germany, Spain and Italy.

In the third quarter of 2023, banks expect a further, although markedly less pronounced, decrease in housing loan demand (net percentage of banks of -18%).

Table 8

Factors contributing to changes in demand for loans to households for house purchase

(net percentages of banks)

Country	Housing market prospects		Consumer confidence		Other financing needs		General level of interest rates		Use of alternative finance	
	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023
Euro area	-54	-40	-48	-40	-4	-2	-78	-58	-2	-2
Germany	-71	-29	-54	-21	-9	-2	-89	-39	-2	-1
Spain	-10	-30	-30	-30	0	0	-90	-60	-3	-10
France	-60	-70	-50	-70	0	-5	-80	-80	0	0
Italy	-18	-36	-45	-45	-5	0	-55	-82	3	-3

Note: See the notes to Chart 11.

2.3 Consumer credit and other lending to households

2.3.1 Credit standards for consumer credit and other lending to households tightened further

Banks reported a further net tightening of credit standards on consumer credit and other lending to households in the second quarter of 2023, which was more pronounced than in the previous quarter (net percentage of 18%, after 10% in the previous quarter; see Chart 12 and Overview table). The net tightening in credit standards was higher than banks’ expectations (net percentage of 12%) and above its historical average (5%).

Increased risk perceptions and banks’ lower risk tolerance mainly contributed to the net tightening of credit standards for consumer credit (see Chart 12 and Table 9). Banks’ perceptions of risks that affected their credit standards for consumer credit mainly related to the economic outlook and consumers’ creditworthiness. Banks’ cost of funds and balance sheet conditions also contributed to the tightening, although to a lesser extent. Meanwhile, competition contributed to a minor easing of credit standards. Other factors, mainly relating to banks’ funding costs, also contributed to the tightening.

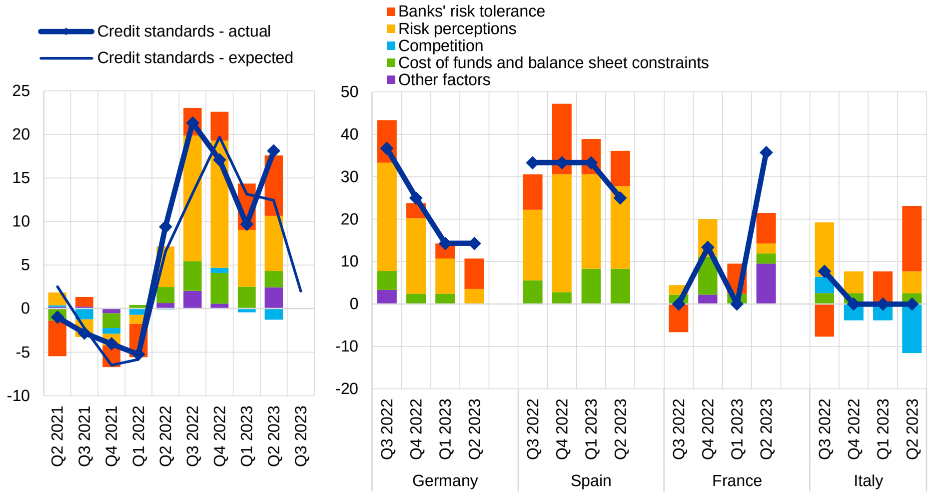
Across the largest euro area countries, credit standards for consumer credit and other lending to households tightened in net terms in Germany, France and Spain, while they remained unchanged on balance in Italy. Higher risk perceptions and banks’ lower risk tolerance had a net tightening impact in all four countries, while banks’ cost of funds and balance sheet situation had a relevant tightening impact mainly in Spain, according to the banks. In France, higher deposit and other refinancing costs (included in “other factors”) were reported to have further contributed to the net tightening. By contrast, competitive pressures had a net easing impact on credit standards in Italy.

In the third quarter of 2023, euro area banks expect a small further net tightening of credit standards for consumer credit and other lending to households (net percentage of 2%).

Chart 12

Changes in credit standards applied to the approval of consumer credit and other lending to households, and contributing factors

(net percentages of banks reporting a tightening of credit standards, and contributing factors)



Notes: See the notes to Chart 1. "Cost of funds and balance sheet constraints" is the unweighted average of "banks' capital and the costs related to banks' capital position", "access to market financing" and "liquidity position"; "Risk perceptions" is the unweighted average of "general economic situation and outlook", "creditworthiness of consumers" and "risk on the collateral demanded"; "competition" is the unweighted average of "competition from other banks" and "competition from non-banks". The net percentages for "other factors" refer to further factors which were mentioned by banks as having contributed to changes in credit standards.

Table 9

Factors contributing to changes in credit standards for consumer credit and other lending to households

(net percentages of banks)

	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
Country	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023
Euro area	3	2	0	-1	7	6	5	7
Germany	2	0	0	0	8	4	4	7
Spain	8	8	0	0	22	19	8	8
France	2	2	0	0	0	2	7	7
Italy	0	3	-4	-12	0	5	8	15

Note: See the notes to Chart 12.

2.3.2 Terms and conditions on consumer credit and other lending to households tightened further

Banks' overall terms and conditions applied when granting consumer credit and other lending to households tightened further in net terms in the second quarter of 2023 (net percentage of 21%, after 18% in the previous quarter; see Chart 13 and

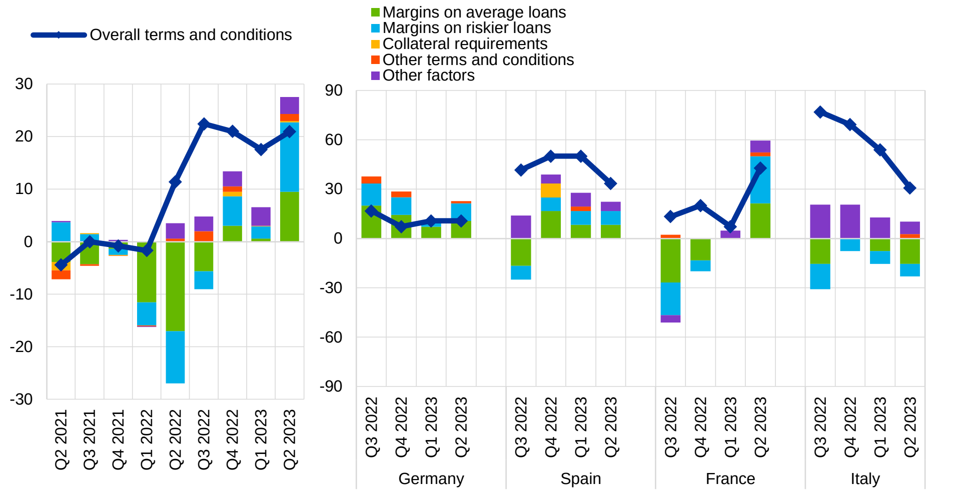
Table 10). Euro area banks referred mainly to widening margins on both average and riskier loans as contributing factors of the tightening in terms and conditions. To a smaller extent, the impact of rising interest rates and of increasing costs of deposits (both part of "other factors") also contributed to the tightening.

Banks' cost of funds and balance sheet constraints contributed most to the net tightening of banks' overall terms and conditions (see Table 11). Higher risk perceptions and banks' lower risk tolerance also contributed to the tightening of overall terms and conditions, while competition had a net easing impact.

Chart 13

Changes in terms and conditions on consumer credit and other lending to households

(net percentages of banks reporting a tightening of terms and conditions)



Notes: "Margins" are defined as the spread over a relevant market reference rate. "Other terms and conditions" is the unweighted average of "size of the loan", "non-interest rate charges" and "maturity". The net percentages for "other factors" refer to further factors which were mentioned by banks as having contributed to changes in terms and conditions.

Across all four largest euro area countries, overall terms and conditions for consumer credit and other lending to households tightened in net terms in the second quarter of 2023. Banks in Germany, France and Spain reported a widening of loan margins, reflecting the pass-through of higher market rates to lending rates for consumers. By contrast, banks in Italy referred to a narrowing of loan margins in the second quarter, related to the further increase in the general level of interest rates (included in "other factors") which had not yet been fully passed through to borrowers. In all the largest euro area countries, cost of funds and balance sheet constraints played a relevant role for the tightening of terms and conditions, while competition contributed to an easing in Spain.

Table 10
Changes in terms and conditions on consumer credit and other lending to households

(net percentages of banks)

	Overall terms and conditions		Banks' margins on average loans		Banks' margins on riskier loans	
Country	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023
Euro area	18	21	1	10	2	13
Germany	11	11	7	11	4	11
Spain	50	33	8	8	8	8
France	7	43	0	21	0	29
Italy	54	31	-8	-15	-8	-8

Note: See the notes to Chart 13.

Table 11
Factors contributing to changes in overall terms and conditions on consumer credit and other lending to households

(net percentages of banks)

	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
Country	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023
Euro area	16	18	-5	-3	8	8	2	5
Germany	4	7	0	0	4	7	4	4
Spain	50	25	-25	-17	17	8	8	17
France	14	29	0	0	7	14	0	7
Italy	54	31	-15	0	8	0	0	0

Note: The net percentages for these questions relating to contributing factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage reporting that it contributed to an easing.

2.3.3 Rejection rate for consumer credit and other lending to households increased

Euro area banks reported the same net increase in the share of rejected applications for consumer credit and other lending to households in the second quarter of 2023 as in the first quarter (at 10%; see Chart 10 above). Across the largest euro area countries, the net increase in the share of rejected loan applications diminished in Germany and Spain, while it increased in France. In Italy, banks reported in net terms an unchanged share of loan rejections for consumer credit and other lending to households.

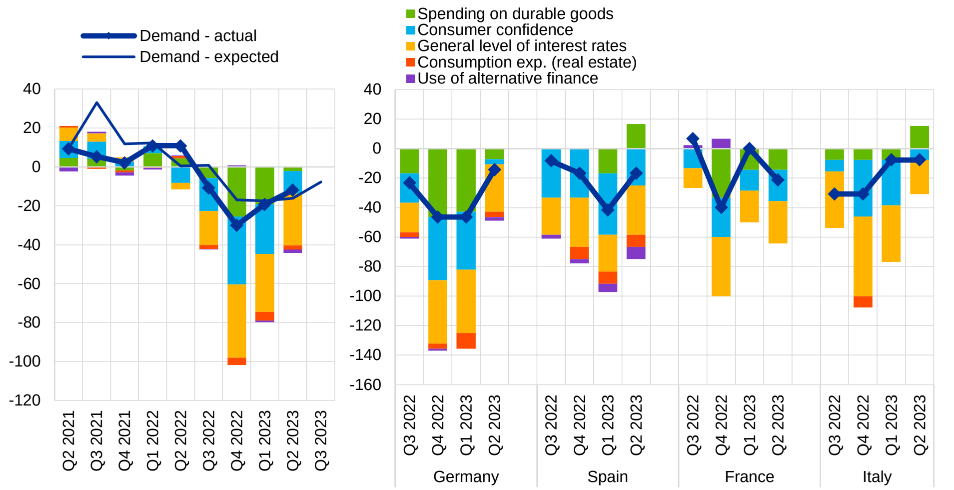
2.3.4 Net demand for consumer credit and other lending to households decreased at a smaller rate

In the second quarter of 2023, banks reported a net decrease in demand for consumer credit and other lending to households which, however, was smaller compared with the previous quarter (net percentage of banks at -12%, after -19% in the previous quarter; see Chart 14 and Overview table). This decline was broadly in line with what banks had expected in the previous quarter (-16%).

Chart 14

Changes in demand for consumer credit and other lending to households, and contributing factors

(net percentages of banks reporting an increase in demand, and contributing factors)



Notes: See the notes to Chart 5. "Use of alternative finance" is the unweighted average of "internal financing out of savings", "loans from other banks" and "other sources of external finance". "Consumption exp. (real estate)" denotes "consumption expenditure financed through real estate-guaranteed loans".

Higher interest rates and low consumer confidence contributed most, in net terms (see Chart 14 and Table 12). Both factors had a smaller contribution towards the net decrease in demand relative to the previous quarter. These developments are consistent with the dampening impact of inflation on households' real disposable income. The reduction in inflation rates may have played a role for the substantially smaller net decrease in loan demand for consumer durables. In addition, the downward but smaller impact of consumer confidence in the BLS is consistent with the European Commission's consumer confidence indicator, which remained below its long-term average but had been recovering in the second quarter.

Demand for consumer credit decreased in net terms in all four largest euro area countries, although in Italy to a lesser extent than in Germany, Spain and France. The general level of interest rates was the main factor contributing negatively towards demand in all four countries, while low consumer confidence had a significant negative impact in France and Spain, but less so in Italy and Germany. Spending on durable goods contributed negatively towards demand in Germany and France while it increased demand in Spain and Italy.

In the third quarter of 2023, banks expect a further net decrease in demand for consumer credit and other lending to households but at a somewhat smaller pace than in the second quarter (net percentage of -8%).

Table 12

Factors contributing to changes in demand for consumer credit and other lending to households

(net percentages of banks)

Country	Spending on durable goods		Consumer confidence		Consumption exp. (real estate)		General level of interest rates		Use of alternative finance	
	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023	Q1 2023	Q2 2023
Euro area	-19	-2	-26	-12	-4	-2	-30	-26	-1	-2
Germany	-43	-7	-39	-4	-11	-4	-43	-32	0	-2
Spain	-17	17	-42	-25	-8	-8	-25	-33	-6	-8
France	-14	-14	-14	-21	0	0	-21	-29	0	0
Italy	-8	15	-31	-8	0	0	-38	-23	0	0

Note: See the notes to Chart 14.

3 Ad hoc questions

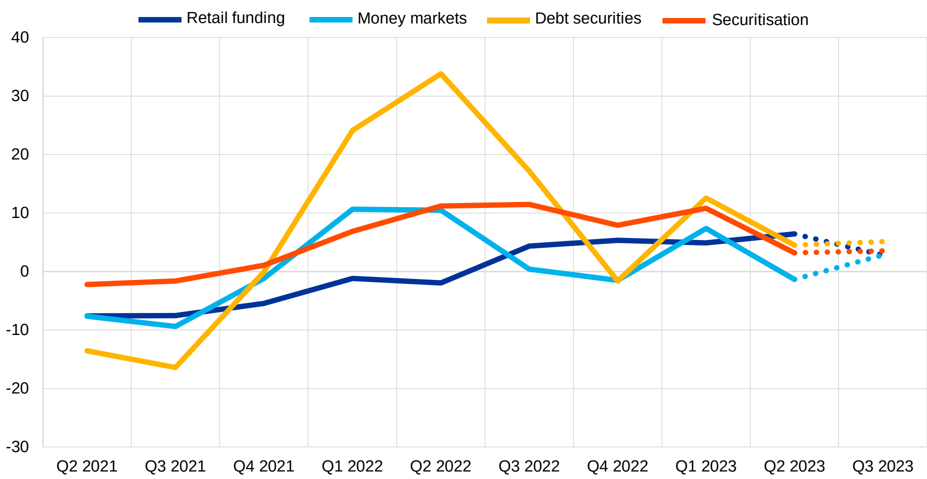
3.1 Banks' access to retail and wholesale funding[9]

Euro area banks reported that their access to funding had deteriorated in most market segments in the second quarter of 2023, especially in retail funding. The reported net deterioration in access to retail funding (net percentage of 6%; see Chart 15) may reflect increased competition for retail deposits in the current environment of increasing remuneration of deposits and overnight deposit outflows. This is confirmed by the pronounced deterioration in access to short-term retail funding (14% in net terms, the highest since the first quarter of 2012). Ease of access to long-term retail funding remained broadly unchanged (net percentage of -1%). For debt securities (net percentage of banks at 5%), the deterioration reflects somewhat higher bank bond yields compared with the end of the first quarter and was related to long-term debt securities funding (net percentage of 9%), while access to short-term debt securities funding was assessed by banks as unchanged in the second quarter (net percentage of 0%). Banks also reported that access to money markets remained broadly unchanged (net percentage of -1%).

Chart 15

Banks' assessment of funding conditions and the ability to transfer credit risk off the balance sheet

(net percentages of banks reporting a deterioration in access)



Note: The net percentages are defined as the difference between the sum of the percentages of banks responding "deteriorated considerably" and "deteriorated somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". The last period denotes expectations indicated by banks in the current round.

9 The July 2023 survey included a question in which banks were asked to assess the extent to which the situation in financial markets affected their access to retail and wholesale funding.

Table 13

Banks' assessment of funding conditions and the ability to transfer credit risk off the balance sheet

(net percentages of banks reporting a deterioration in access)

	Retail funding	Interbank unsecured money market	Wholesale debt securities	Securitisation
Q1 2023	5	7	13	11
Q2 2023	6	-1	5	3

Note: See the notes to Chart 15.

In the third quarter of 2023, banks expect access to retail funding and to all sources of wholesale funding to deteriorate somewhat (net percentage of 3%, and between 3% and 5% respectively).

3.2 The impact of banks' NPL ratios on their lending policies[10]

Euro area banks reported a net tightening impact of NPL ratios on their credit standards for loans to enterprises and consumer credit in the first half of 2023 (net percentages of 6%, after 1%, and 7%, after -1% respectively, see Chart 16). By contrast, NPL ratios had a neutral impact on credit standards for housing loans (net percentage of 0% after 0%), likely related to the collateralisation of mortgages. Banks also reported a net tightening impact of NPL ratios on their terms and conditions for loans to firms and consumer credit (6% and 10% respectively, see Chart 16) and a broadly neutral impact for housing loans (net percentage of 1%).

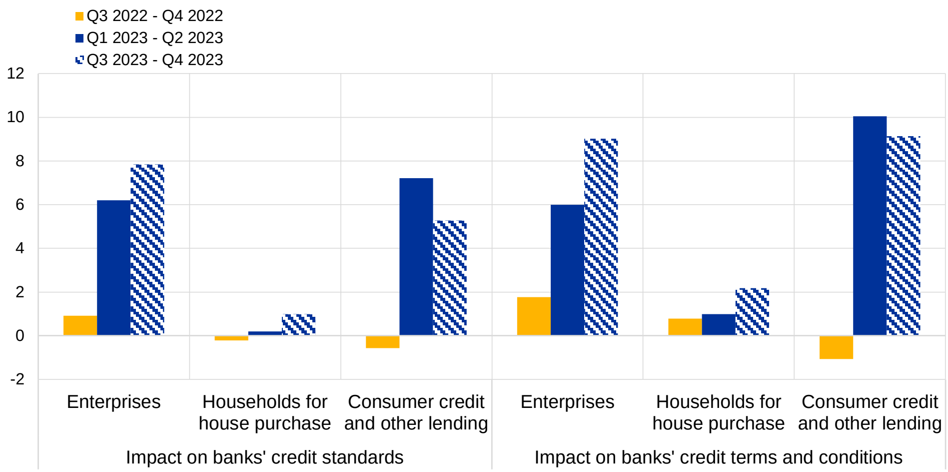
Banks referred to higher risk perceptions and their lower risk tolerance as the main factors behind the tightening impact of NPL ratios on lending conditions in the first half of 2023 (see Chart 17). This possibly reflects increased refinancing and repayment risks or a more cautious attitude towards existing risks, in the context of rising lending rates and the dampening impact of high inflation and lower economic growth on real disposable income. Pressure related to supervisory or regulatory requirements also contributed to the tightening impact via NPL ratios, whereas NPL ratios played on average only a small role for banks' costs of capital, balance sheet situation and liquidity position in the first half of 2023, having therefore only a slight tightening impact on banks' lending policy.

[10] The July 2023 survey questionnaire included a biannual ad hoc question on the impact of banks' NPL ratios on changes in their lending policies and the factors through which NPL ratios contributed to changes in their lending policies. Banks were asked about the impact on loans to enterprises, loans to households for house purchase and on consumer credit and other lending to households over the past six months and over the next six months.

Chart 16

Impact of banks' NPL ratios on credit standards and terms and conditions

(net percentages of banks)

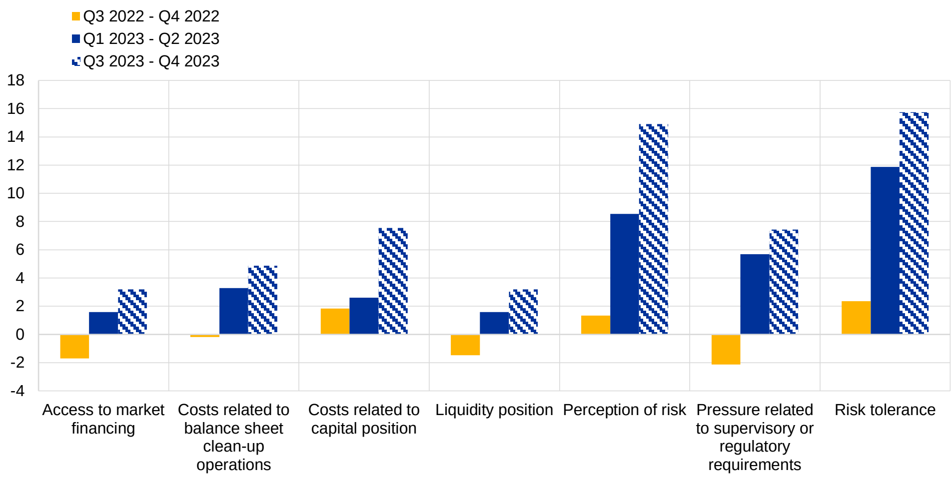


Notes: The NPL ratio is defined as the stock of gross NPLs on a bank's balance sheet as a percentage of the gross carrying amount of loans. Changes in credit standards and/or terms and conditions can be caused by changes to the NPL ratio or by changes to regulations or the bank's assessment of the level of the NPL ratio. Net percentages are defined as the difference between the sum of the percentages of banks responding "contributed considerably to tightening" and "contributed somewhat to tightening" and the sum of the percentages of banks responding "contributed somewhat to easing" and "contributed considerably to easing". The dashed bars denote expectations indicated by banks in the current round.

Chart 17

Contributions of factors through which NPL ratios affect banks' policies on lending to enterprises and households

(net percentages of banks)



Note: See the notes on Chart 16.

Over the next six months, euro area banks expect the net tightening impact of NPL ratios across all loan categories to be similar to the developments in the first half of the year. Increased risk perceptions and lower risk tolerance are expected to remain the main drivers through which NPL ratios affect credit standards. Banks' costs of capital and cost of balance sheet clean-up are expected to play a somewhat large role for the impact of NPL ratios on bank lending policies, suggesting that banks expect a larger relevance of NPLs in the coming months. The tightening impact via NPL ratios due to supervisory or regulatory requirements is expected to remain similar over the next six months.

3.3 Bank lending conditions and loan demand across main sectors of economic activity[11]

Credit standards for new loans to enterprises tightened further across all the main economic sectors in the first half of 2023, especially for commercial real estate (see Chart 18). Credit standards tightened most in the commercial real estate sector (net percentage of 30%, after 25% in the second half of 2022), against the background of falling house prices implying a decrease in commercial real estate collateral values. Related to the deteriorated situation in housing markets, the net tightening was also substantial in the residential real estate sector (19%, after 21%) and in the construction sector (18%, after 16%) in the first half of 2023. Credit risks also increased in the wholesale and retail trade sector (18%, after 14%). Credit standards also tightened further in the manufacturing sector (net percentage of 10%, after 17% in the second half of 2022), especially in the energy-intensive manufacturing (20% after 31%), although at a more moderate pace. This possibly reflects, on the one hand, the weakness in manufacturing output and orders signalled, for instance, by the PMI manufacturing output index and, on the other hand, falling energy prices. The net tightening remained modest in relative terms in the services sector (8%, after 6%) owing to the continued expansion in services business activity signalled by the PMI.

Banks' overall terms and conditions tightened further across all main sectors of economic activity, with the most pronounced tightening in the commercial and residential real estate sectors (both at 26%). Overall, the net tightening of overall terms and conditions follows a similar pattern across sectors as credit standards, with the net tightening pace being more substantial in manufacturing, construction as well as in the wholesale and retail trade sector than in the services sector (see Chart 19).

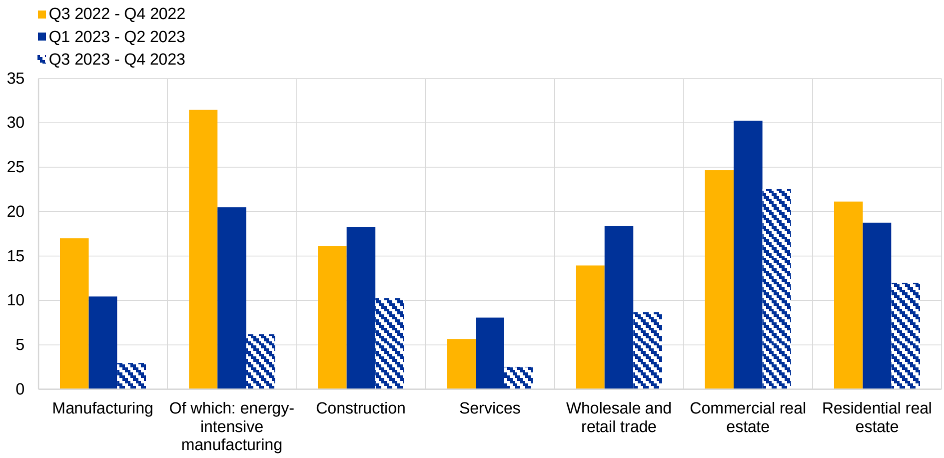
In the second half of 2023, euro area banks expect a further, but smaller net tightening in credit standards and terms and conditions for loans to firms across all main sectors of economic activity.

[11] The July 2023 survey questionnaire included a biannual ad hoc question to collect information on changes in banks' credit standards, overall terms and conditions and loan demand across the main economic sectors over the past and next six months. Banks were asked to report information covering five sectors: manufacturing (with a breakdown into energy-intensive manufacturing), construction (excluding real estate), services (excluding financial services and real estate), wholesale and retail trade, and real estate (including both real estate construction and real estate services).

Chart 18

Changes in credit standards for new loans to enterprises across main economic sectors

(net percentages of banks; over the past six months and the next six months)



Notes: The net percentages refer to the difference between the sum of the percentages of banks responding "deteriorated considerably" and "deteriorated somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". The dashed bars denote expectations indicated by banks in the current round.

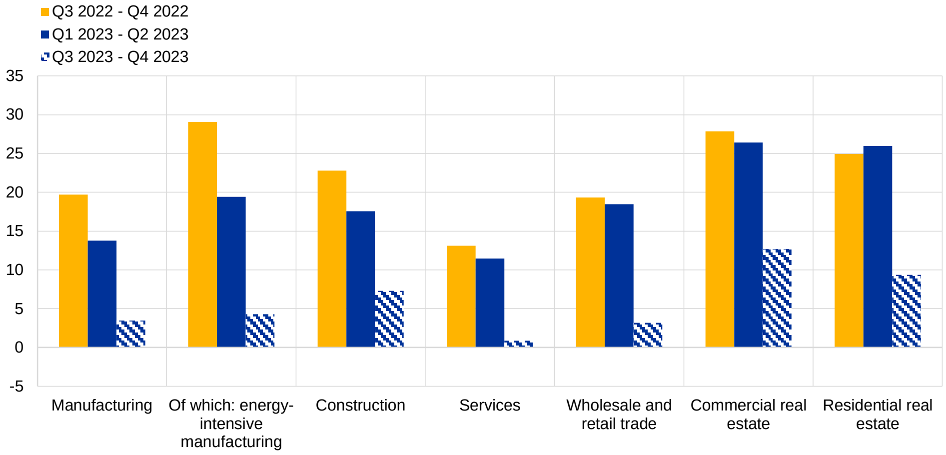
Banks reported a net decrease in demand for loans or credit lines across all main economic sectors, which was especially strong in the real estate sectors (see Chart 20). The strong decline in loan demand in the commercial real estate and residential real estate sectors (net percentages of -42% and -41% respectively) reflects the reconsideration of investments by potential borrowers in the context of falling real estate prices and rising lending rates, affecting the profitability of investment projects and the ability of potential borrowers to invest. Rising lending rates and higher construction costs also dampened loan demand in the construction sector in the first half of 2023 (net percentage of -26%). The net decrease in loan demand was more moderate in manufacturing, services and wholesale and retail trade (net percentages of -17%, -17% and -15% respectively).

In the second half of 2023, euro area banks expect a further, but smaller net decrease in loan demand across all main economic sectors. In line with banks' expectations for housing loans, loan demand is expected to decrease less in net terms in the real estate sector.

Chart 19

Changes in terms and conditions for new loans to enterprises across main economic sectors

(net percentages of banks; over the past six months and the next six months)

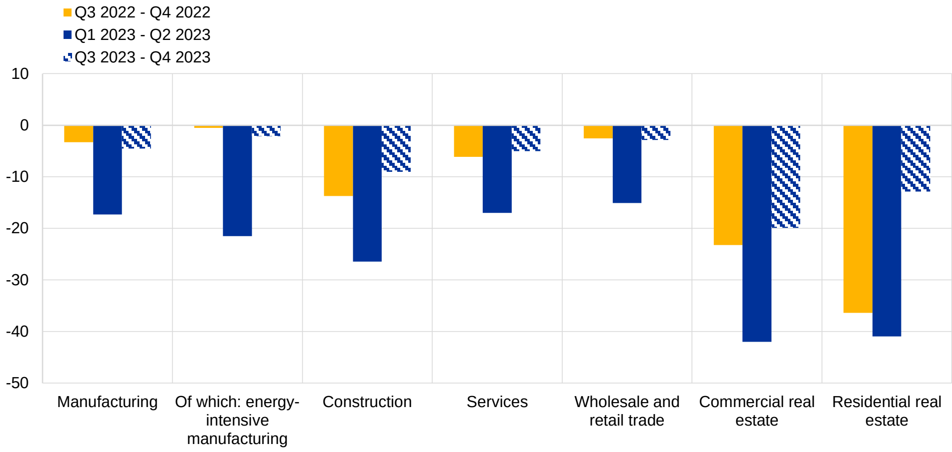


Note: See the notes on Chart 18.

Chart 20

Changes in demand for loans or credit lines to enterprises across main economic sectors

(net percentages of banks)



Notes: The net percentages refer to the difference between the sum of the percentages of banks responding “increased considerably” and “increased somewhat” and the sum of the percentages of banks responding “decreased somewhat” and “decreased considerably”. The dashed bars denote expectations indicated by banks in the current round.

3.4 The impact of climate change on bank lending to enterprises[12]

Euro area firms' climate risks and measures to cope with climate change had a net tightening impact on credit standards for loans to brown firms over the past 12 months, while they had a net easing impact for loans to green firms and firms in transition (see Chart 21). In a new annual ad hoc question, banks reported on the impact of climate-related risks and measures to cope with climate change on their lending policies to firms. Depending on data availability, banks' replies were based on a range of sources, such as firm-specific information from financial statements, sustainability reports on emission data and, if available, transition plans, especially for larger firms, as well as information collected for new lending to borrowers based on questionnaires (typically related to environmental, social and governance criteria). To assess the climate risk for loans to SMEs, sector-average information and estimates were often used instead, according to the banks.

Over the past 12 months, credit standards tightened substantially owing to climate risks for loans to brown firms (net percentage of 39%), while climate change had a net easing impact on credit standards for loans to green firms and firms in transition (net percentage of -15% and -7% respectively). Similarly to credit standards, climate risks and measures to cope with climate change had a net tightening impact on banks' actual terms and conditions for new loans to brown firms (net percentage of 17%) and a net easing impact for loans to green firms (-23%) and firms in transition (-15%).

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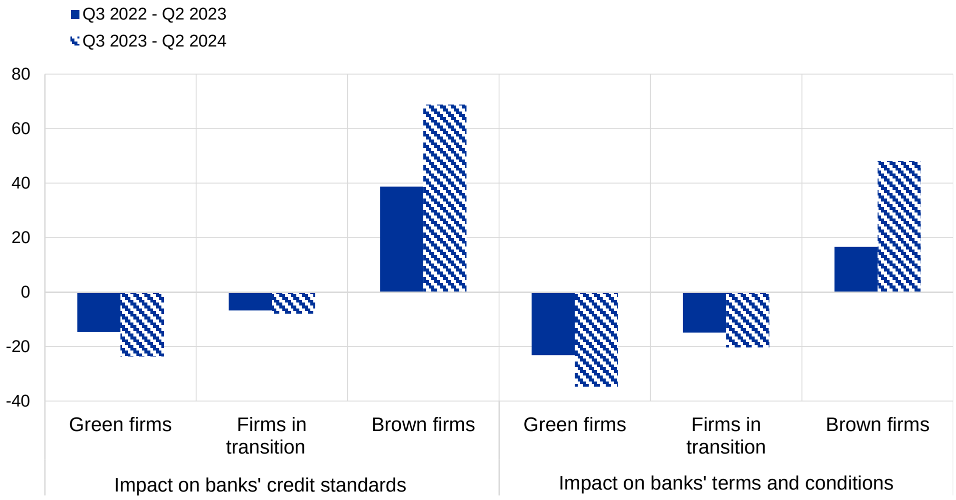
[12] The July 2023 survey questionnaire included a new annual ad hoc question aimed at gauging the impact of climate change on bank lending to enterprises. This impact relates to climate-related risks and measures to cope with climate change implemented by governments, monetary policy as well as supervisory and regulatory authorities. It can also relate to banks' further measures related to climate change. Firms may be affected by climate change in their firm-specific situation and outlook, with respect to their creditworthiness and the value of their assets. Climate risks can be grouped into two categories: transition risk and physical risk. Transition risk refers to the risk related to an institution's financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. Physical risk refers to the risk related to the financial impact from banks' exposure to a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, which can affect the value of collateral and borrower repayment capacity.

Chart 21

Impact of climate change on banks' credit standards and terms and conditions for loans to firms

(net percentages of banks; over the past 12 months and the next 12 months)



Notes: "Green firms" – firms that do not contribute or contribute little to climate change; "firms in transition" – firms that contribute to climate change, but are making considerable progress in the transition; "brown firms" – firms that contribute significantly to climate change and have not yet started the transition or have made little progress. Net percentages are defined as the difference between the sum of the percentages of banks responding "contributed considerably to tightening" and "contributed somewhat to tightening" and the sum of the percentages of banks responding "contributed somewhat to easing" and "contributed considerably to easing". The dashed bars denote expectations indicated by banks in the current round.

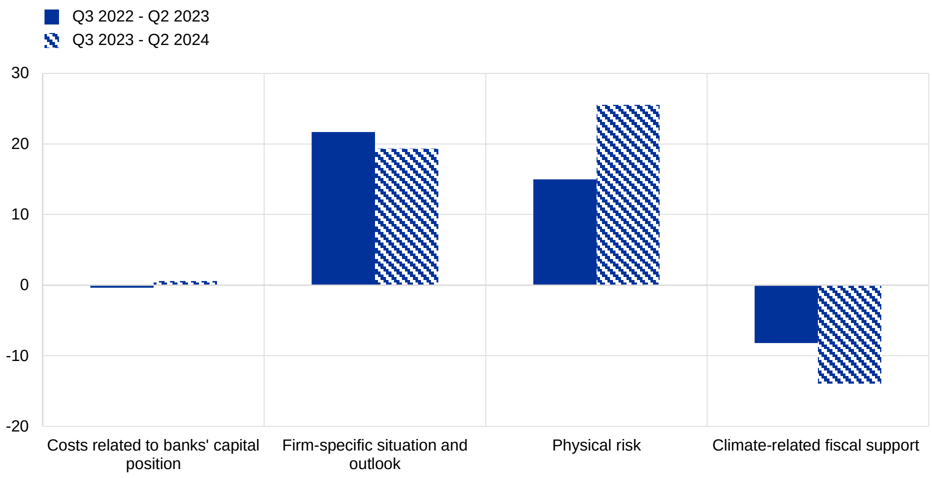
Firm-specific climate-related transition risks (net percentage of banks at 22%) were the main driver of the tightening impact on banks' lending policy (covering both changes in credit standards and in terms and conditions) over the past 12 months (see Chart 22). By contrast, physical risk (net percentage of 15%), often related to the geographical location of the borrower, had a somewhat smaller net tightening impact, whereas climate-related fiscal support helped to ease loan approval criteria (net percentage of -8%).

Over the next 12 months, euro area banks expect a stronger net tightening impact owing to climate change on credit standards for loans to brown firms (net percentage of 69%), while a net easing impact is expected for green firms (-24%) and firms in transition (-8%). In addition, banks expect that climate change will have a strong net tightening impact on terms and conditions for loans to brown firms (48%) and a net easing impact for green firms and firms in transition (net percentages of -35% and -20% respectively). The overall stronger net tightening impact of climate risks on banks' lending policy is expected by banks to be related to both firm-specific transition risk and physical risk, while climate-specific fiscal support is expected to have a stronger net easing impact than over the past 12 months. These developments suggest that the attention to climate risks and the increasing reporting requirements alongside with fiscal support measures on the way to a more sustainable economy are expected to play an increasing role in bank lending to firms over the next 12 months.

Chart 22

Impact of climate-related factors on banks' lending policy to firms

(net percentages of banks; over the past 12 months and the next 12 months)



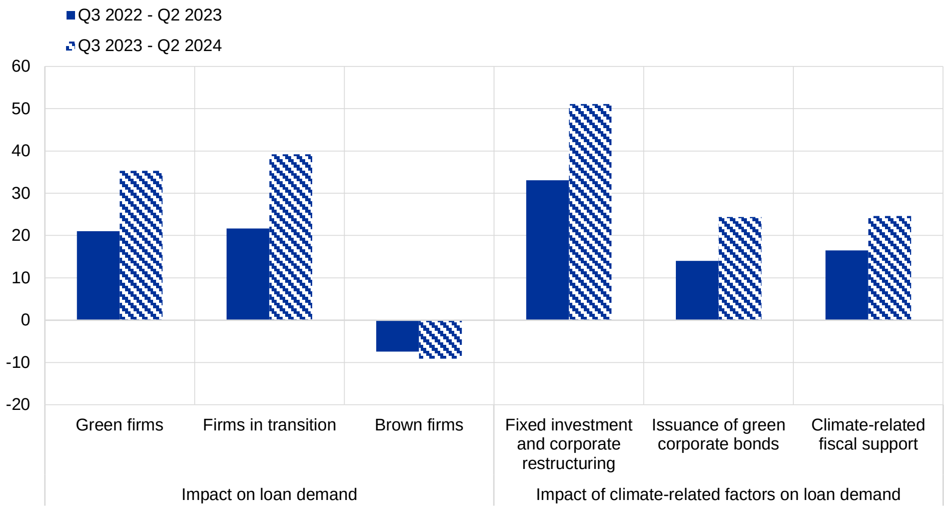
Notes: Net percentages are defined as the difference between the sum of the percentages of banks responding “contributed considerably to tightening” and “contributed somewhat to tightening” and the sum of the percentages of banks responding “contributed somewhat to easing” and “contributed considerably to easing”. The dashed bars denote expectations indicated by banks in the current round.

Euro area banks reported a net increase in demand for loans to firms in transition and green firms owing to climate change over the past 12 months, while climate risks contributed to a net decrease in loan demand for brown firms (net percentages of 22%, 21% and -7% respectively; see Chart 23). The main driver of loan demand related to climate risks was fixed investment and corporate restructuring (net percentage of 33%), pointing to investment needs of firms on the way to a more sustainable economy (see Chart 23). Climate-related fiscal support also contributed, in net terms, to higher loan demand (net percentage of 16%) as well as the issuance of green corporate bonds eligible for the ECB’s monetary policy asset portfolio (net percentage of 14%). The latter points to a complementary relationship between the issuance of green bonds and demand for loans to green firms to cover investment needs, rather than a substitution relationship.

Chart 23

Impact of climate change on demand for loans to firms, and climate-related contributing factors

(net percentages of banks; over the past 12 months and the next 12 months)



Notes: "Green firms" – firms that do not contribute or contribute little to climate change; "firms in transition" – firms that contribute to climate change, but are making considerable progress in the transition; "brown firms" – firms that contribute significantly to climate change and have not yet started the transition or have made little. Net percentages are defined as the difference between the sum of the percentages of banks responding "contributed considerably to an increase" and "contributed somewhat to an increase" and the sum of the percentages of banks responding "contributed somewhat to a decrease" and "contributed considerably to a decrease". The dashed bars denote expectations indicated by banks in the current round.

Over the next 12 months, loan demand is expected, in net terms, to increase owing to climate risks for firms in transition and green firms (net percentages of 39% and 35% respectively), while it is expected to decrease in the context of climate change for brown firms (net percentage of -9%). The dominant driver of loan demand to cope with climate risks is expected to remain fixed investment and corporate restructuring, while climate-related fiscal support and the issuance of green bonds are also expected to have a sizeable positive impact on loan demand over the next 12 months.

Annexes

See more.

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For specific terminology please refer to the ECB glossary (available in English only).

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