

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

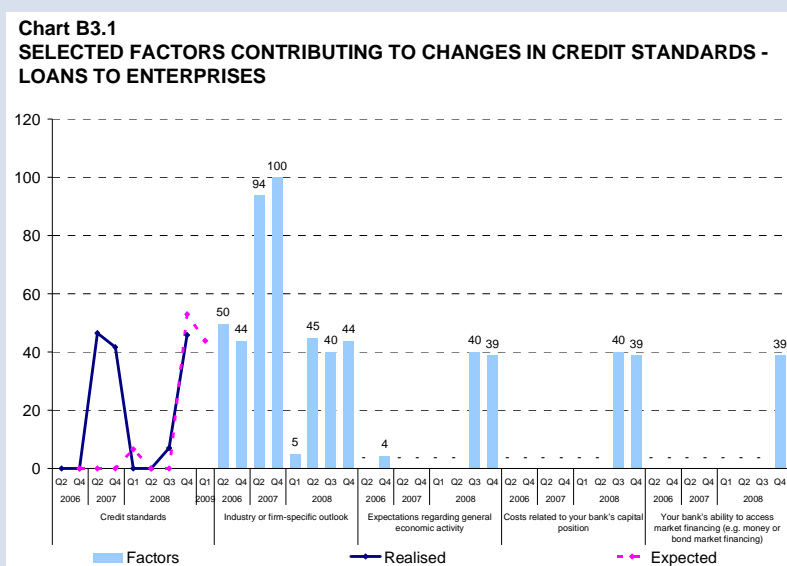
BANK LENDING SURVEY RESULTS 2008

BOX 3: BANK LENDING SURVEY RESULTS

The Bank Lending Survey explores trends in the credit standards applied by banks and in the demand for loans by enterprises, mortgages, and consumer credit during the fourth quarter of the year. Expectations for the first quarter of 2009 are also assessed. Results are based on the replies of respondent banks.^{35,36}

Similar to the euro area generally, respondent banks tightened credit standards for corporate loans during the last quarter of 2008. The main factors behind this decision were deteriorating industry-specific perceptions as well as expectations regarding the general economy and, to a lesser extent, increased costs related to the banks' capital position and access to market funding. Respondent banks also felt pressure from funding and a heightened perception of risk on collateral (Chart B3.1). As in the euro area, these factors were mainly translated into higher margins on "average" and "riskier" loans. But respondent banks also imposed higher non-interest charges, stricter collateral requirements, and loan covenants with shorter maturity periods. Expectations point towards further tightening.

Demand for corporate loans increased slightly during the quarter and is expected to remain stable during the first quarter of 2009. The increase was due to higher spending on inventories and working capital, which was partly counterbalanced by lower fixed investment. On the other hand, euro area banks experienced a drop in demand for corporate loans, reflecting lower fixed investment and subdued merger/acquisition activity. Euro area banks expect a fall in the demand for loans by the corporate sector during the first quarter of 2009.

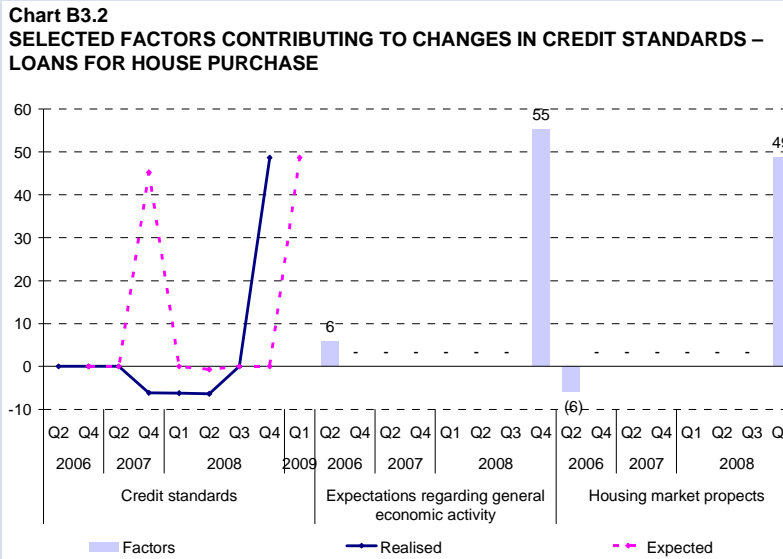


Credit standards applied to house loans were also tightened, both domestically and by euro area banks, mainly due to deteriorating expectations regarding both the general economy and the housing sector (Chart B3.2). As in the euro area, these were reflected in higher margins on both "average" and "riskier" loans. Respondent banks also applied lower loan-to-value ratios. Credit standards applied to house loans were expected to be tightened further during the first quarter of 2009, both domestically and in the euro area.

The demand for house loans remained stable in the last quarter of 2008. This was due to a perceived balance between less reliance on savings and increased competition from other banks. By contrast, other euro area banks reported a drop in the demand for house loans in the last quarter of 2008, reflecting worse housing market prospects and lower consumer confidence. Demand for house loans in Malta is expected to decline in the first three months of 2009.

³⁵ The BLS survey is carried out on a quarterly basis within euro area Member States. Domestically replies are weighted by the reporting banks' respective proportion of loans to the total loans of all participant banks. A different weight is computed for each of the three loan categories.

³⁶ The results for the euro area are available on <http://www.ecb.int/stats/money/lend/html/index.en.html>.



Credit standards were tightened during the last quarter of 2008, as expectations regarding the general economy and perceived consumer creditworthiness worsened. As in the euro area generally, this was again reflected in higher margins on “riskier” and “average” loans (Chart B3.3). Credit standards are expected to be tightened further during the first quarter of 2009.

Demand for consumer credit declined in the last quarter of 2008 and is expected to drop further in 2009Q1. The lower demand was due to weaker consumer confidence and reduced spending on durable goods.

The tightening bias adopted by respondent banks is a natural consequence of the downside risks to growth, which have made the vulnerabilities inherent in the business of banking more evident. Some tightening in credit standards may also reflect a more prudent risk assessment by banks, necessary to avoid deterioration in their loan portfolio and reduce the probability of a higher level of defaulting loans in the future. The tightening will affect corporates and households alike. This appears justified, given the genuine concerns about a possible deterioration of customers’ creditworthiness. But the BLS results give no indication as to whether access to credit by worthy customers will also be affected. The tightening currently underway is mainly taking place through higher interest rate margins on “average” and “riskier” loans.

