

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

BANK LENDING SURVEY RESULTS 2014

BOX 2: BANK LENDING SURVEY RESULTS

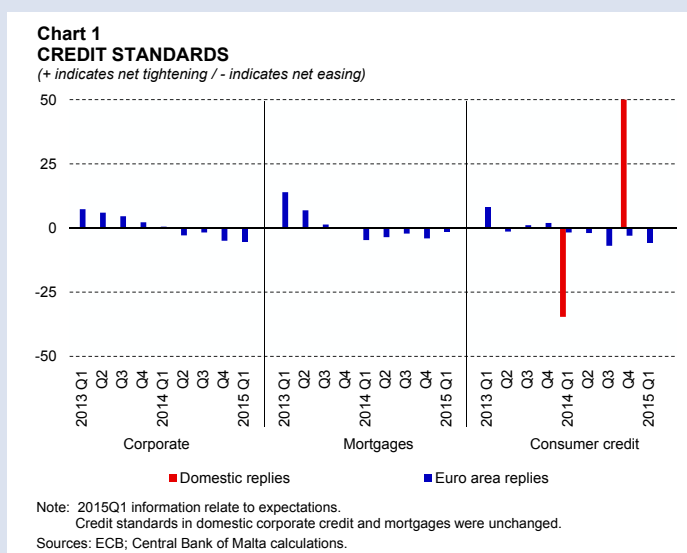
The euro area Bank Lending Survey (BLS) adopts a bottom-up approach in examining credit market conditions, particularly with regard to the lending behaviour of the surveyed banks.¹ The quarterly BLS encapsulates banks' views regarding changes in the supply and demand for loans through credit standards, as well as credit terms and conditions.^{2,3} A distinction is made between loans to enterprises, mortgages and consumer credit. In Malta, four out of five core domestic banks participate in the survey, covering a major share of the resident credit market. Domestic responses are weighted and aggregated in the euro area BLS results.^{4,5}

Credit supply conditions

The tightening in corporate credit standards since 2011 was sustained by Maltese respondents throughout 2014 and is set to continue in the first quarter of 2015 (see Chart 1). Such tight levels were maintained owing to exposures towards particular sectors, the increasing bank capital requirements following the implementation of the new regulatory regime and, to a lesser extent, the perceived risk in the general economy. The stricter corporate credit standards were accompanied by some easing in loan interest rate margins.

In contrast, for the first time since the second quarter of 2007, euro area banks reported a net easing of corporate credit standards during the second quarter of 2014. This reflected a relaxation in banks' cost of funds and balance sheet constraints, coupled with a reinforced liquidity position in view of improved access to market funding. Accordingly, euro area banks markedly reduced their interest margins on loans and their non-interest rate charges. This easing was further translated into more favourable non-price terms and conditions. Looking forward, at a euro area level, corporate credit standards are expected to ease even further.

With regard to mortgage credit extended to households, the surveyed banks in Malta kept their credit standards unchanged in 2014 and were not anticipating any changes in the first quarter of 2015. Since 2012, the surveyed domestic banks have constantly narrowed their margins on mortgage loans, until the third quarter of 2014, when banks widened their margins. Respondents also widened somewhat the margins on riskier loans. As a result, these changes had a neutral impact on credit standards throughout 2014.



¹ The BLS is addressed to senior loan officers of a representative sample of euro area banks. In the case of Malta, the views expressed by respondents on economic conditions may not necessarily reflect the overall macroeconomic environment.

² Credit standards are the internal guidelines or criteria which reflect a bank's loan policy.

³ Credit terms and conditions of a loan refer to the specific obligations agreed between the lender and the borrower.

⁴ Net percentages are used to analyse trend estimates. Data are published on the ECB's Statistical Data Warehouse (SDW).

⁵ The weighting scheme is based on the amounts outstanding of loans of individual banks in the sample.

On balance, credit standards for corporate lending and mortgages remained unchanged for domestic BLS respondents.

Conversely, in the euro area the rather high level of tightening until the third quarter of 2013 was completely smoothed out in the final quarter of that year, after which euro area banks reported a net easing in mortgage credit standards through a significant reduction in margins on average housing loans. This reflected higher competitive pressures. This positive trend is expected to continue through the first quarter of 2015.

Consumer credit standards reported by Maltese BLS respondents were relaxed at the beginning of 2014 and were kept stable in the subsequent two quarters, but were then tightened in the last quarter of the year. This followed a period when consumer credit standards, were unchanged at tight levels since late 2009. A worsening in creditworthiness of loan applicants and, to a lesser extent, a more reduced demand for credit-financed consumption were the predominant factors, which led to such tightening. Tougher lending affordability measures were also implemented throughout 2014. During the first quarter of 2015, Maltese BLS banks were expected to maintain consumer credit standards unchanged at tight levels.

In contrast, following an extensive period of tightened consumer credit standards in the euro area, credit standards were gradually and consistently relaxed throughout 2014. Positive developments in banks' funding costs and balance sheet constraints, as well as alleviated competitive pressures, contributed to narrower margins on average consumer loans. Consumer credit standards in the euro area were anticipated to ease further during the first quarter of 2015.

Credit demand conditions

During the first half of 2014, Maltese BLS banks reported a net increase in corporate loan demand, (see Chart 2). This was mainly in line with corporate funding needs for higher fixed investment and inventories, along with working capital needs. However, throughout the second half of 2014, Maltese BLS banks registered a net decline in corporate loan demand, reflecting a reversal in fixed investment needs, along with intensified competition between lenders. BLS banks anticipated higher corporate loan demand in the first three months of 2015 in view of the favourable terms and conditions being offered.

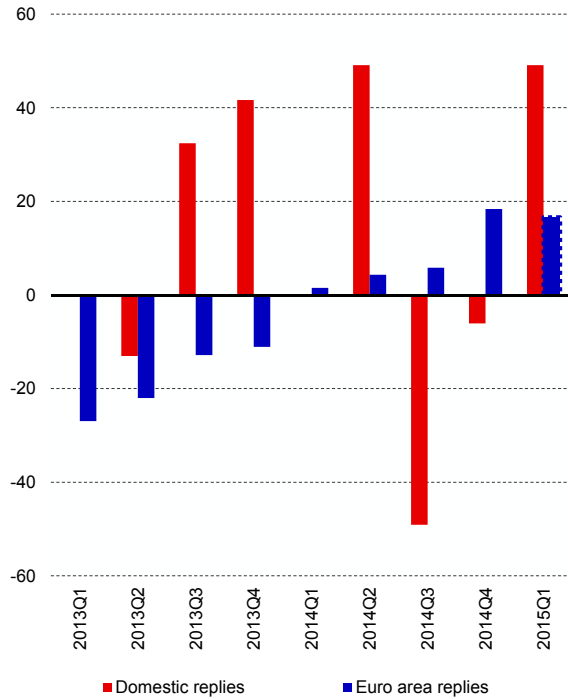
This mirrored developments in the wider euro area. Indeed, after a lengthy period of subdued corporate credit demand, in 2014 euro area banks reported a rise in loan demand, attributable to an increased need for financing mergers and restructuring.

In Malta mortgage credit demand continued to display strong upward momentum in 2014, reflecting rising consumer confidence, improved housing market prospects and higher household savings (see Chart 3). Specific measures aimed at first time buyers also featured as one of the main drivers for higher demand. Mortgage demand was expected to remain stable in the first quarter of 2015.

Similarly, throughout 2014 euro area banks witnessed a reinforced mortgage credit demand, which is set to persist in the first months of 2015. As also observed in Malta, positive developments in housing market prospects and a boost in consumer confidence were the main factors driving the increased mortgage demand.

Following the decline reported by Maltese BLS respondents in the first quarter of 2013, on balance, demand for consumer credit remained stable in 2014 (see Chart 4). According to BLS respondents,

Chart 2
CORPORATE CREDIT DEMAND
(+ indicates increase/ - indicates decrease)



Note: 2015Q1 information relate to expectations.
Sources: ECB; Central Bank of Malta calculations.

REASONS FOR:

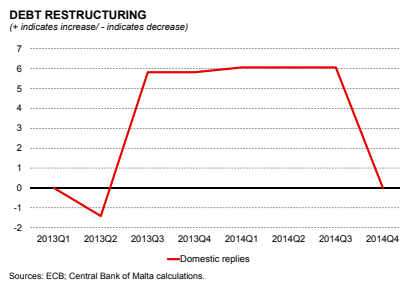
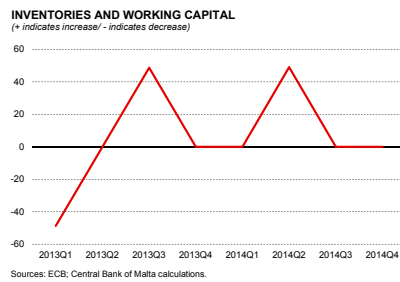
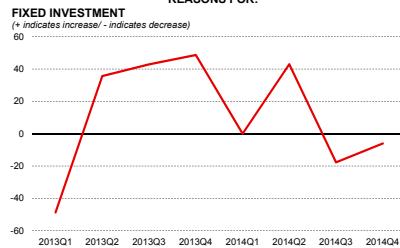
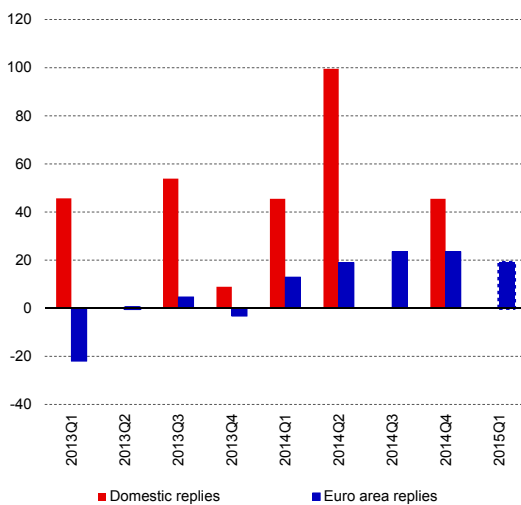
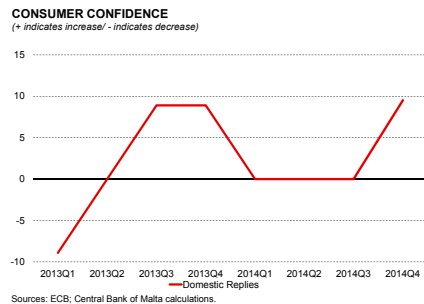
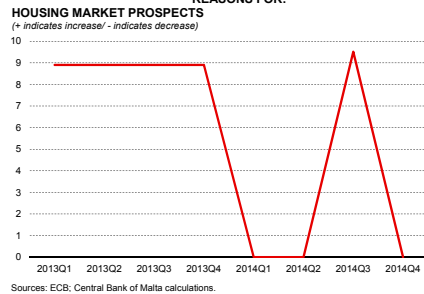


Chart 3
MORTGAGE CREDIT DEMAND
(+ indicates increase/ - indicates decrease)



Note: 2015Q1 information relate to expectations.
Sources: ECB; Central Bank of Malta calculations.

REASONS FOR:



lower spending on durable consumer goods, as well as competitive pressures from other banks, maintained a weak demand for consumer credit in 2014 and was expected to remain at this level in the first quarter of 2015.

After a prolonged negative period, euro area consumer credit demand turned positive during 2014, mainly as a result of higher consumer spending and improved consumer confidence. For the first three months of 2015, euro area banks anticipated a marked increase in demand for consumer loans.

