

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

BANK LENDING SURVEY RESULTS 2015

BOX 1: BANK LENDING SURVEY RESULTS

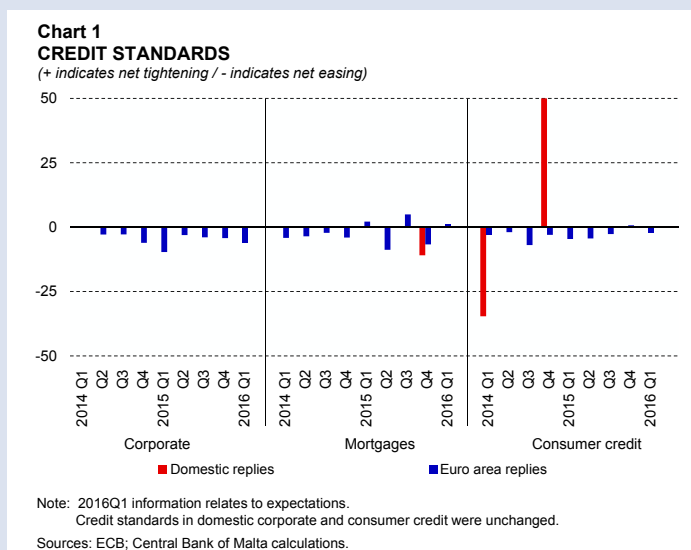
The ECB conducts a quarterly Bank Lending Survey (BLS) across a sample of banks in the euro area.¹ This Survey offers valuable insight on the current euro area lending environment, particularly focusing on developments in the supply and demand for bank credit and financing conditions. The BLS differentiates between three loan classes: loans to non-financial corporations (NFC); loans to households for house purchase; and loans for consumer credit and other lending to households. In Malta, the BLS participants include four of the core domestic banks which altogether represent around 95% of the resident credit market. Domestic replies are weighted and aggregated in the euro area BLS results.^{2,3}

Credit supply conditions

Overall, the Maltese respondent banks did not report any changes in their lending standards for corporates throughout 2015. Despite increased competition among banks, coupled with improved market access, credit standards remained generally stable at tight levels. Such tight credit standards enabled banks to reduce concentration of exposures to particular sectors. No changes were expected in the corporate credit standards for the first quarter of 2016 (see Chart 1).⁴ Despite maintaining rather stringent corporate credit standards, domestic BLS banks eased their overall credit terms and conditions mainly via narrower loan interest margins.

In contrast, following a prolonged period of tightening, euro area BLS banks continued to loosen their lending standards for the eighth consecutive quarter. An upward pressure from competition, and to a smaller extent, reduced risk perception, contributed to a relaxation in credit standards applied on loans to enterprises. Simultaneously, euro area BLS respondents eased all of their price and non-price credit terms and conditions, predominantly by narrowing sharply the interest margins on average corporate loans. For 2016Q1, euro area banks envisaged a further net easing on corporate credit standards.

For the first time since mid-2008, Maltese BLS banks eased their credit standards on mortgages in the last quarter of 2015. Such easing was driven by increased competitive pressures and better housing market prospects, albeit partly offset by a deterioration in borrowers' creditworthiness which led to some tightening. The easing was translated into narrower margins and lower non-interest rate charges for



¹ The BLS is addressed to senior loan officers of 141 euro area banks. A revised version of the questionnaire was introduced in the April 2015 survey round.

² Net percentages are used to analyse trend estimates. Data are published on the ECB's Statistical Data Warehouse (SDW).

³ The weighting scheme is based on the amounts of outstanding loans of individual banks in the sample.

⁴ Credit standards are the internal guidelines or criteria which reflect a bank's loan policy.

mortgages. No further changes were anticipated in mortgage credit standards for the first quarter of 2016.

Similarly, on a net basis, euro area banks continued to ease credit standards for home loans through a substantial drop in the margins for average loans, underpinned by strong competitive pressures. However, some tightening in mortgage credit standards was foreseen by euro area BLS banks during the first three months of 2016.

With regards to consumer credit, during 2015 Maltese BLS respondents reported that they did not alter credit standards. The tightening brought about by higher risk perceptions and a worsening in the creditworthiness of consumers was completely offset by the easing driven from increased bank competition and favourable developments in the housing market, which on balance left consumer credit standards unchanged, at tight levels. No further changes to consumer lending standards were anticipated for the first three months of 2016.

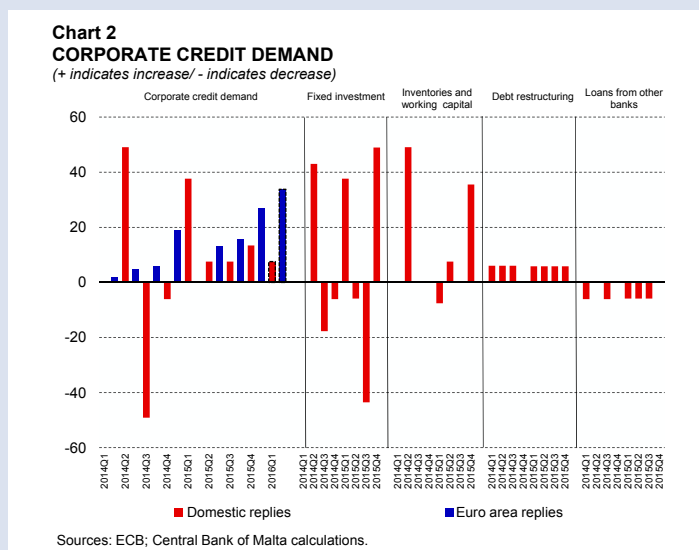
Conversely, euro area banks continued to relax their consumer credit standards until the third quarter of 2015, though in the last three months of that year, some euro area banks tightened credit standards. Stiff competitive pressures led to narrower margins on consumer loans. Looking ahead, euro area credit institutions are anticipating a reversal of the marginal tightening in consumer credit standards.

Credit demand conditions

The optimistic expectations of Maltese BLS banks expressed in the last quarter of 2014 regarding corporate loan demand were realised in 2015. In fact, enterprises' appetite for loans picked up, gathering pace along the year (see Chart 2). A higher demand for working capital and fixed capital expenditures, together with increasing needs for debt restructuring, triggered the rising trend in corporate loan demand. Given the more favourable corporate credit terms and conditions combined with strong investor confidence, Maltese BLS banks expected corporate loan demand to remain positive in the first quarter of 2016.

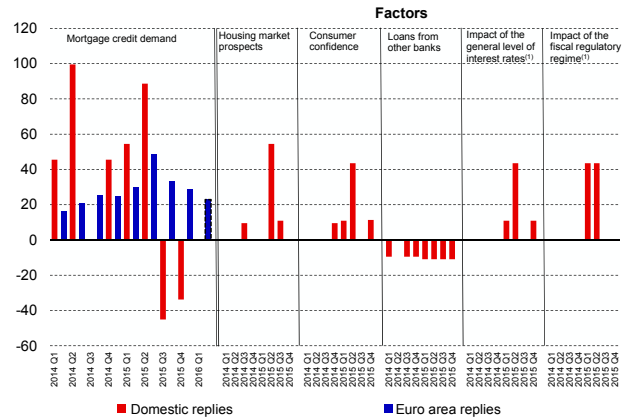
Similar trends in corporate loan demand were reported in the euro area, which has been rising steadily since 2014, gaining momentum during the course of 2015. The low interest rate environment and the growing demand for fixed investment and debt renegotiation, all prompted the persistent increase in demand. A significant recovery in corporate loan demand was projected for the first quarter of 2016.

Following a rising trend in mortgage credit demand since 2013, some reversal was reported as from the second half of 2015 and this is expected to persist



in the first three months of 2016 (see Chart 3). Notwithstanding this, on balance, mortgage credit demand grew in 2015 on the back of improved consumer confidence, better housing market prospects as well as the low level of interest rates contributed to the expansion in mortgage loan demand. However, higher competitive pressures, coupled with the temporary lifting of favourable fiscal measures aimed at first-time buyers contributed to the slowdown in the growth of mortgage demand in the second half of 2015.

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

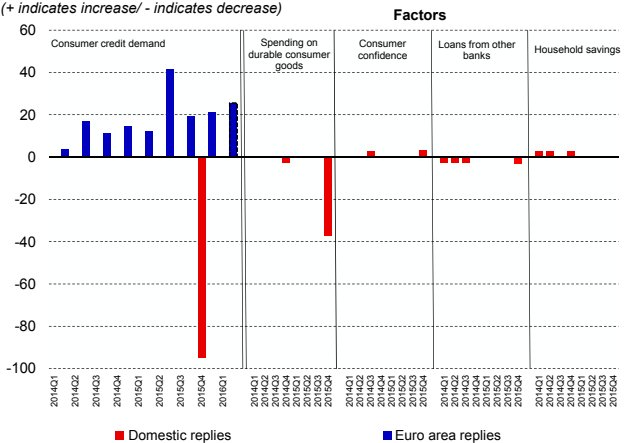


⁽¹⁾ These two factors were introduced as from the April 2015 BLS round to reflect the prevailing conditions affecting the home loan market.
Sources: ECB; Central Bank of Malta calculations.

In the euro area, the upswing in mortgage credit demand, which commenced in 2014, intensified throughout 2015 and expected to maintain this trend during the first quarter of 2016. The low interest rate environment together with improved housing market prospects and upbeat consumer sentiment sustained the expansion in mortgage loan demand in the euro area.

Domestic consumer credit demand remained subdued and declined further during the last quarter of 2015, reflected in the net drop shown in Chart 4. This is anticipated to remain negative during the first quarter of 2016. The decline in consumer credit demand reported by banks, despite strong growth in household consumption and imports of consumer durables, indicates that consumers are resorting to alternative sources of finance other than bank credit.

Chart 4
CONSUMER CREDIT DEMAND
(+ indicates increase/ - indicates decrease)



Sources: ECB; Central Bank of Malta calculations.