

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

BANK LENDING SURVEY RESULTS 2016

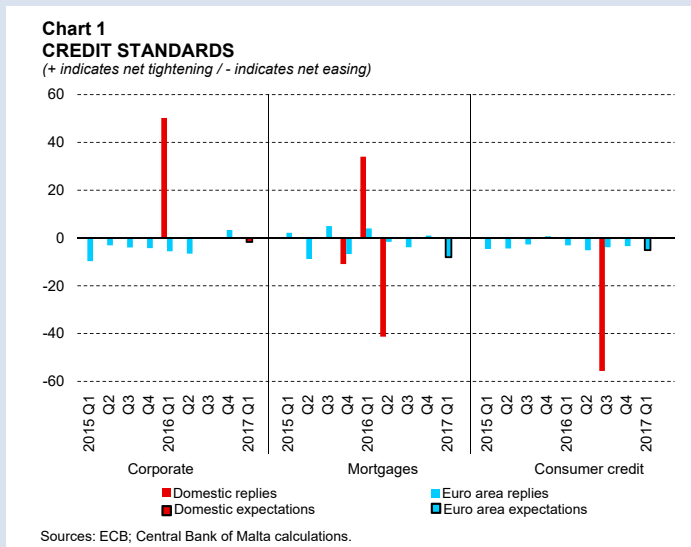
BOX 3: BANK LENDING SURVEY RESULTS

The Bank Lending Survey (BLS) is a quarterly qualitative survey consisting of a set of standard and ad-hoc questions, conducted among 140 banks in the euro area.¹ In Malta, four core domestic banks participate in the BLS, accounting for more than 90% of the resident credit market. The weighted domestic replies are integrated in the euro area BLS results.^{2,3} The survey examines the euro area lending environment, both from a supply and a demand perspective. In particular, the survey gathers information on credit standards adopted by the banks, based on the overall creditworthiness of potential borrowers, terms and conditions applicable on bank loans, and demand for credit.⁴ The BLS differentiates between three loan categories, namely: loans to enterprises; loans to households for house purchases; and loans to households for consumer credit and other lending.

Credit supply conditions

Following a year where credit standards for enterprises remained unchanged, Maltese respondents tightened these standards in early 2016 (see Chart 1).⁵ This tightening stemmed from lower risk-tolerance by these banks with respect to specific industries or firms, on the back of the banks' drive to further improve their capital position. No further tightening was reported in subsequent quarters and credit standards are projected to remain unchanged in the first quarter of 2017. Meanwhile, credit terms and conditions for corporate loans were eased in the first quarter of 2016, reflected in narrower loan interest margins on average loans and less strict collateral requirements. These, however remained unchanged in the following quarters (see Chart 2).

In contrast, over the first half of 2016, euro area BLS banks continued to ease corporate credit standards, mainly on account of stiffer competition. This trend was however reversed in the second half of the year, primarily due to higher costs related to the banks' capital position and higher risks associated with collateral offered as security backing loans. However, euro area participant banks anticipated some loosening in their overall corporate lending standards over the first quarter of 2017. Furthermore, corporate terms and conditions for enterprises in the euro area continued to ease further in 2016.



¹ Replies are provided by the senior loan officers of the participant banks.

² The weighting scheme is based on the amounts of outstanding loans of the individual participant banks. Furthermore, net percentages are used to analyse trend estimates.

³ The BLS data for Malta and other euro area banks are published on the ECB's SDW.

⁴ Credit standards refer to the internal guidelines on loan approval criteria, established prior to the actual loan negotiation. These specify the borrower characteristics such as income levels, age and employment status which the banks consider in their credit scoring methods. Credit terms and conditions refer to the conditions of a loan. These consist of the interest rate, loan size, fees, collateral requirements, maturity and other conditions.

⁵ Credit standards refer to the loan approval criteria of the bank, based on its internal loan policy.

With regards to mortgage credit standards, some tightening was reported by the domestic BLS banks in the first quarter of 2016, largely attributed to one of the banks being less risk tolerant than the others (see Chart 1). In the following quarter, the consolidated position of the respondents showed some easing in the mortgage credit standards, but this was mainly due to higher creditworthiness and to another bank being more risk tolerant to a particular segment of borrowers as the other respondents kept

their credit standards unchanged. Mortgage credit standards were subsequently left unchanged for the rest of the year. In addition, in 2016 the overall terms and conditions on mortgages eased further, expressed through narrower margins on riskier loans (see Chart 2). No further changes in mortgage credit standards were anticipated for the first quarter of 2017.

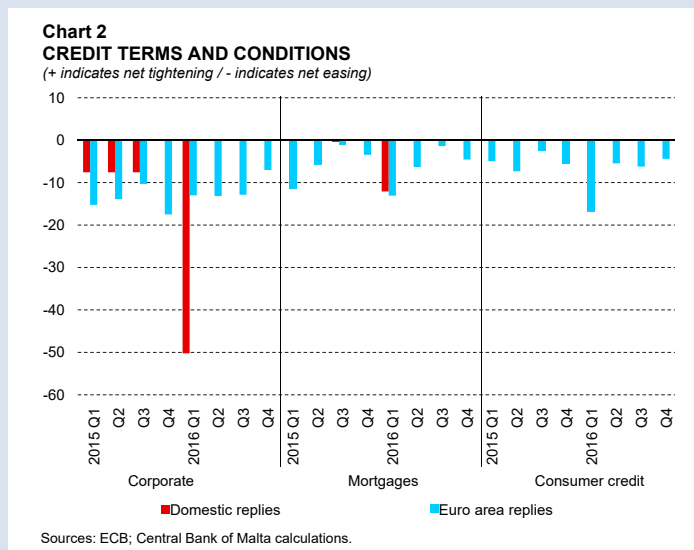
Similarly, euro area banks continued to ease both the credit standards, mainly owing to higher competition and improved housing market prospects; and terms and conditions for mortgages. Such credit standards were expected to ease further in the first quarter of 2017.

Maltese BLS banks relaxed their credit standards on consumer credit and other lending to households owing to higher risk-tolerance and are anticipated to leave credit standards unchanged in the first quarter of 2017 (see Chart 1). Similar trends were reported across the euro area, where banks eased their consumer credit standards throughout 2016 and anticipated further easing in the beginning of 2017. Meanwhile, overall terms and conditions were kept unchanged in Malta while euro area banks reported further easing in the terms and conditions pertaining to consumer credit over 2016 (see Chart 2).

Credit demand conditions

Following strong demand for corporate loans in 2015, Maltese respondents reported a net decline in the first quarter of 2016, mainly owing to lower credit demand for fixed investment, inventories and working capital needs. Subsequently, corporate loan demand picked up in the second quarter as financing needs for investment increased, only to retract in the second half of the year. For the first quarter of 2017, Maltese BLS banks expected corporate credit demand to remain weak (see Chart 3). In contrast, euro area BLS banks reported a steady rise in corporate loan demand throughout 2016, primarily owing to several corporate restructurings on the back of the low interest rate environment, as well as an increase in inventories and working capital needs. Such a positive trend in corporate loan demand is expected to be maintained even in the first quarter of 2017.

During the first half of 2016, Maltese BLS banks experienced an increase in mortgage demand which remained broadly unchanged till the end of the year (see Chart 4). Stronger consumer confi-



dence and buoyant housing market prospects, coupled with a prolonged low interest rate environment, contributed significantly to this rising trend. These driving forces were also quoted by euro area BLS respondents. For the first three months of 2017, Maltese banks did not expect any changes in mortgage loan demand while euro area BLS banks anticipated further increases.

Maltese BLS banks reported further declines in consumer credit demand, particularly over the first half of 2016 as consumers relied considerably on their own sources of funding (see Chart 5). In the third quarter of 2016, there was a temporary increase in consumer credit demand as consumers used less of their savings while spending more on durable consumer goods. However, demand turned negative again in the last quarter of 2016 and surveyed banks anticipated consumer credit demand to remain weak even in the first quarter of 2017.

In contrast, euro area banks reported further growth in consumer credit demand throughout 2016 and expected the trend to persist into the first three months of 2017. The prolonged low level of interest rates and the growing demand for durable consumer goods, together with improved consumer confidence, continued to support such developments in consumer credit demand in the euro area.

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

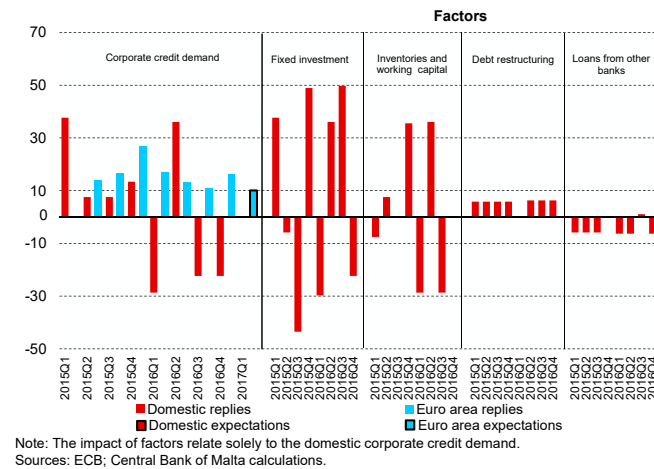


Chart 4
MORTGAGE CREDIT DEMAND
(+ indicates increase/ - indicates decrease)

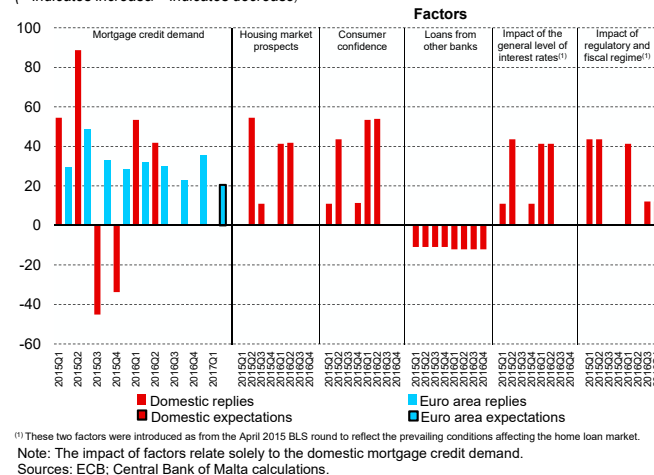


Chart 5
CONSUMER CREDIT DEMAND
(+ indicates increase/ - indicates decrease)

