

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

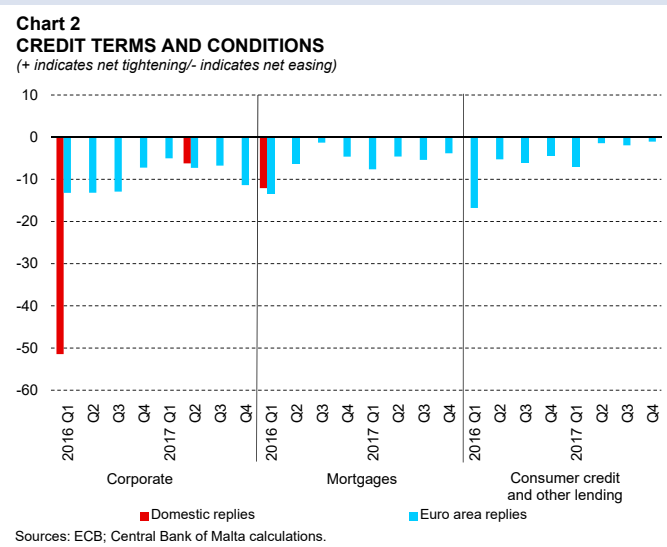
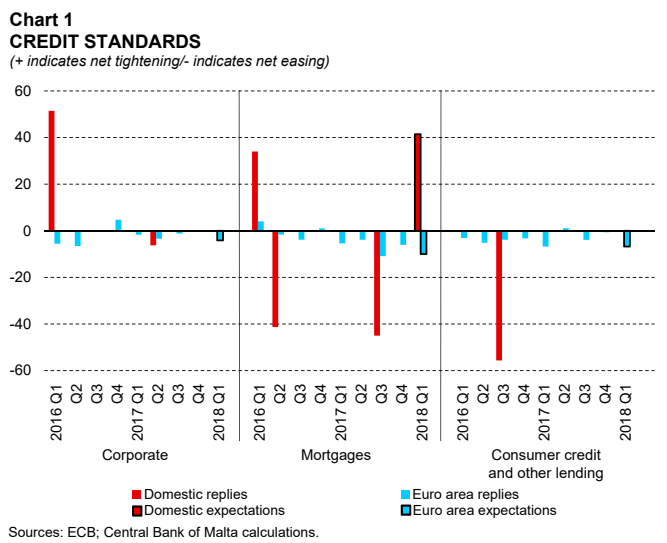
BANK LENDING SURVEY RESULTS 2017

BOX 4: BANK LENDING SURVEY RESULTS

The Bank Lending Survey (BLS) conducted every quarter by the ECB gathers qualitative information on the loan policies of 143 euro area banks.¹ Four core domestic banks which account for more than 90% of the total resident lending also participate. The survey covers questions on credit supply, as indicated by banks' credit standards and terms and conditions, as well credit demand conditions.² Such information reflects past developments and expectations across loan categories: mortgages, consumer credit and other lending to households, and loans to enterprises. The survey also includes a number of ad hoc questions on specific topics of interest. Domestic results are weighted according to the banks' outstanding loans of participating banks.

Credit supply conditions

In the second quarter of 2017 Maltese banks eased slightly their credit standards on loans to enterprises owing to competitive pressures and a favourable economic climate (see Chart 1). Throughout the rest of the year credit standards were kept unchanged and no changes were expected for the first quarter of 2018. Similarly, terms and conditions for corporate loans were eased in the second quarter of 2017 due to stiffer competition and higher risk tolerance by the banks. This was manifested in narrower interest margins on average loans and less strict loan covenants (see Chart 2).³ No further changes were reported in the second half of the year.



¹ The BLS data for all euro area countries are published on the ECB's Statistical Data Warehouse (SDW).

² Credit standards refer to the bank's internal guidelines on loan approval criteria, established prior to the actual loan negotiation. These specify borrower characteristics such as income levels, age and employment status which banks consider in their credit scoring methods. Credit terms and conditions refer to the conditions of a loan, namely the interest rate, loan size, fees, collateral requirements, maturity terms and other conditions.

³ Loan covenants are stated in the loan contract as part of its terms and conditions. These refer to certain actions which the borrower should or should not take.

Throughout the year, euro area banks covered in the BLS eased marginally their credit standards for loans to enterprises, mainly due to increased competition. Such trend was expected to persist also into the first quarter of 2018. Similarly, euro area banks eased corporate terms and conditions in 2017, primarily on the back of higher competitive pressures which led to compressed margins on average loans.

Following a period of stable credit standards on mortgages, domestic participants reported some easing in the third quarter of 2017, owing to stiffer competition (see Chart 1). These standards remained unchanged in the last quarter of the year, while some tightening was projected for the first three months of 2018. Mortgage terms and conditions were left unchanged, following some easing in the beginning of 2016 (see Chart 2).

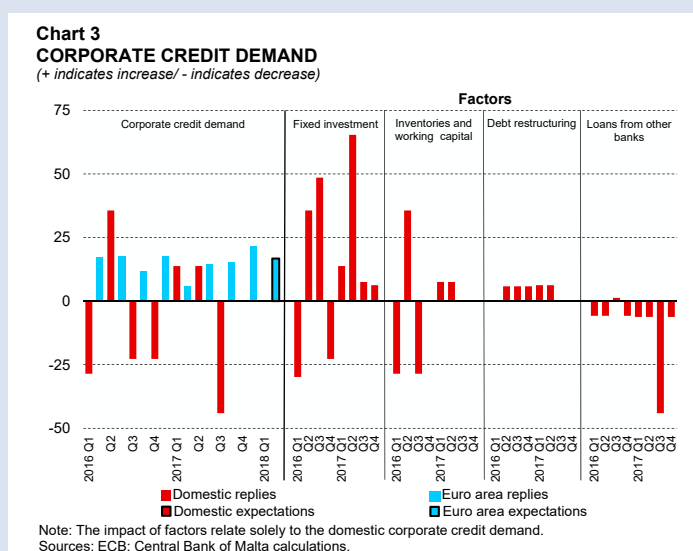
Euro area respondents eased mortgage credit standards and terms and conditions throughout 2017, driven by competitive pressures, which resulted in narrower interest margins on average loans. Mortgage credit standards were also expected to ease in the first quarter of 2018.

Following some easing in 2016 owing to higher bank risk-tolerance, domestic respondents kept credit standards on consumer credit and other lending to households stable throughout 2017, with no changes anticipated for the first quarter of 2018 (see Chart 1). Terms and conditions of this loan category have been kept unchanged since 2015 (see Chart 2).

In the euro area, factors such as stiffer competition, stronger customers' creditworthiness and favourable economic conditions led to a relaxation in overall credit standards on consumer credit and other lending in 2017. Credit standards were anticipated to ease further in the first quarter of 2018. Competitive pressures also led euro area participant banks to ease their terms and conditions on consumer credit and other lending mainly through narrowing interest margins on average loans in 2017.

Credit demand conditions

In the first half of 2017, domestic corporate loan demand was driven by higher fixed investment. Inventories and working capital, as well as debt restructuring needs also contributed, but to a lesser extent (see Chart 3). The upward trend in corporate loan demand was reversed in the third quarter of the year as a result of stiffer competition from other banks. No changes were reported in the last quarter of the year and none were projected for the first quarter of 2018. In the euro area, corporate loan demand was positive, mainly on the back of

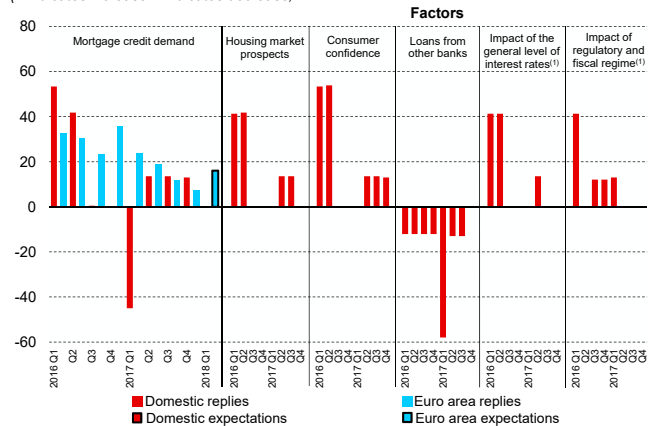


the low interest rate environment and higher fixed investment needs. This momentum was anticipated to persist in the first quarter of 2018.

Maltese banks reported a slowdown in mortgage demand in the first quarter of 2017, exclusively driven by competitive pressures (see Chart 4). However, this was reversed in subsequent quarters owing to stronger consumer confidence, better housing market prospects and the persistently low level of interest rates. In the euro area, mortgage demand was buoyant owing to the same factors identified by Maltese respondents. In the first three months of 2018, Maltese banks anticipated mortgage demand to remain in line with the previous quarter, while further growth was anticipated in the euro area.

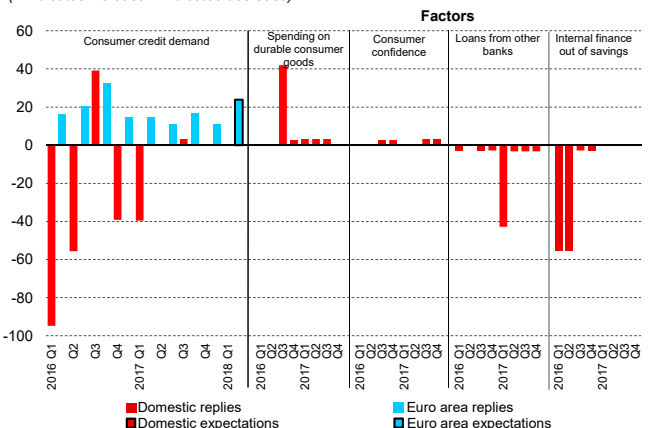
Competitive pressures from other domestic banks lowered the demand for consumer credit and other lending among Maltese banks in the first quarter of 2017 (see Chart 5). However, this was reversed marginally in the third quarter of the year, driven by both improved consumer confidence and higher spending on durable goods. No changes were expected in the first quarter of 2018. In the euro area, demand for consumer credit and other household lending was positive throughout 2017, and was projected to pick-up further in the first three months of 2018. This reflected higher consumer confidence and spending on durable consumer goods, as well as the positive impact stemming from the very low interest rates.

Chart 4
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. Note: The impact of factors relate solely to the domestic mortgage credit demand. Sources: ECB; Central Bank of Malta calculations.

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



Note: The impact of factors relate solely to the domestic consumer credit demand. Sources: ECB; Central Bank of Malta calculations.