BOX 2: INSIGHTS FROM THE BANK LENDING SURVEY[1]

Introduction

The ECB's Bank Lending Survey (BLS) is a key tool providing National Central Banks with direct qualitative insights from credit experts at a representative sample of commercial banks across the euro area. This approach complements traditional quantitative information by providing a deeper understanding of factors underpinning changes in banks' lending policies and developments in borrower demand.[2] In addition, the survey addresses topical issues such as banks' response to climate-related risks, the geopolitical uncertainty and trade tensions as well as changes in the monetary policy framework.

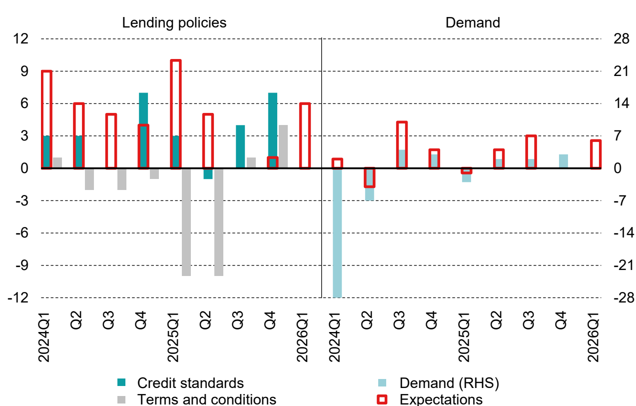
In 2025, more than 150 banks participated in the survey, including four Maltese banks which together accounted for around 92% of resident loans within the Maltese banking system.[3]

Loans to enterprises

Euro area

Across the euro area, developments in corporate lending during 2025 were characterised by a combination of tightening credit standards alongside generally easing terms and conditions (see Chart 2a). Sampled banks reported heightened perceived risks related to both the general economic environment and firm-specific outlooks, which weighed on their credit standards throughout the year. These concerns were closely associated with NPL ratios and related indicators exerting a persistent tightening influence. Heightened geopolitical uncertainty and changes in trade policies further dampened banks' risk tolerance and contributed to increased differentiation across sectors and firms when granting new loans. In this context, some banks reported intensified monitoring of more vulnerable corporate borrowers, notably exporters with high exposures to the United States. Banks mainly reported tighter standards for CRE, manufacturing (especially motor vehicles and energy-intensive industries), construction as well as wholesale and retail trade.

Chart 2a
EURO AREA CORPORATE LENDING POLICIES AND LOAN DEMAND
(+ indicates net tightening or net increase/- indicates net easing or net decrease)



Source: ECB Data Portal.
Note: Banks' expectations are for one quarter ahead.

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[2] Lending policies consist of credit standards and terms and conditions. Credit standards refer to the banks' internal guidelines or loan approval criteria determined prior to the loan negotiation, including borrower characteristics such as income levels, age, and employment status used in credit scoring. Credit terms and conditions relate to specific features of the loan offered, including the interest rate, loan size, fees, collateral requirements, maturity, and other contractual conditions.

[3] Domestic results are weighted according to the size of each participating bank's resident loan portfolio, with separate weights applied to corporate loans, mortgages, and consumer credit.

Despite this cautious stance, terms and conditions on euro area corporate loans eased during the first half of the year. This was primarily driven by lower benchmark interest rates, heightened competition, particularly from other banks, and improved access to market financing. From the beginning of the year until mid-June 2025, the ECB implemented four policy rate cuts which were transmitted to benchmark rates, contributing to lower lending rates and narrower margins on average loans. Together with ample liquidity and declining capital costs, these developments supported an overall easing of lending terms and conditions. However, some tightening was reported in the second half of the year, as euro area risk-free rates increased, reflecting heightened trade-related and geopolitical uncertainty, while risk perceptions and tolerance related to specific industry or firms deteriorated. As a result, banks reported some tightening in collateral requirements, credit limits, maturities and loan covenants.

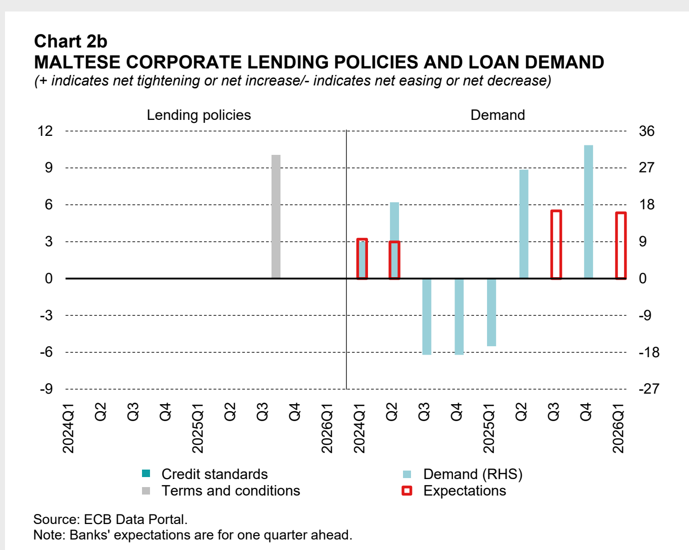
Loan demand from euro area firms remained subdued, although it improved gradually over the course of the year (see Chart 2a). Early in the year, demand weakened despite more favourable terms and conditions, reflecting sufficient inventories and working capital buffers. As borrowing costs declined further in the second quarter, loan demand recovered modestly. Demand for corporate loans was also supported by increased needs for debt refinancing and restructuring amid weaker profitability and limited internal funds. However, elevated global uncertainty and trade tensions continued to weigh on firms' investment plans. By the end of the year, demand was increasingly driven by working capital, inventory needs and other financing needs, as well as mergers and acquisitions activity, while the supportive role of interest rate declines faded as borrowing costs broadly stabilised.

Looking ahead, surveyed euro area banks expected a further tightening of credit standards in the first quarter of 2026, reflecting ongoing uncertainty related to trade policies and their implications on risk tolerance and asset quality, while demand for corporate loans was projected to continue increasing on a net basis.

Malta

Against this euro area backdrop, developments in Malta remained comparatively stable, amid a more resilient sentiment amongst banks. Indeed, Maltese banks did not report heightened risks stemming from the general economic outlook or firm-specific conditions that would warrant tightening credit standards or lending terms for NFCs. Improved asset quality continued to support corporate lending policies with only one domestic BLS respondent reporting some uncertainty related to US trade policy developments, with overall risks perceived as mitigated due to diversified supply chains and limited direct exposures. As a result, credit standards and terms and conditions on corporate lending in Malta were reported to have remained largely unchanged during the year (see Chart 2b). The sole exception was a marginal net tightening of terms and conditions in the third quarter, attributable to

Chart 2b
MALTESE CORPORATE LENDING POLICIES AND LOAN DEMAND
(+ indicates net tightening or net increase/- indicates net easing or net decrease)



Source: ECB Data Portal.
Note: Banks' expectations are for one quarter ahead.

a single bank increasing its margins on average loans to both small and medium-sized enterprises (SMEs) and large firms. This tightening reflected higher capital costs and tighter liquidity conditions for that institution. The same bank also reported a tightening of non-interest charges following a review of processing and commitment fees. Looking ahead, Maltese banks were not foreseeing any changes to their corporate lending policies in the short term.

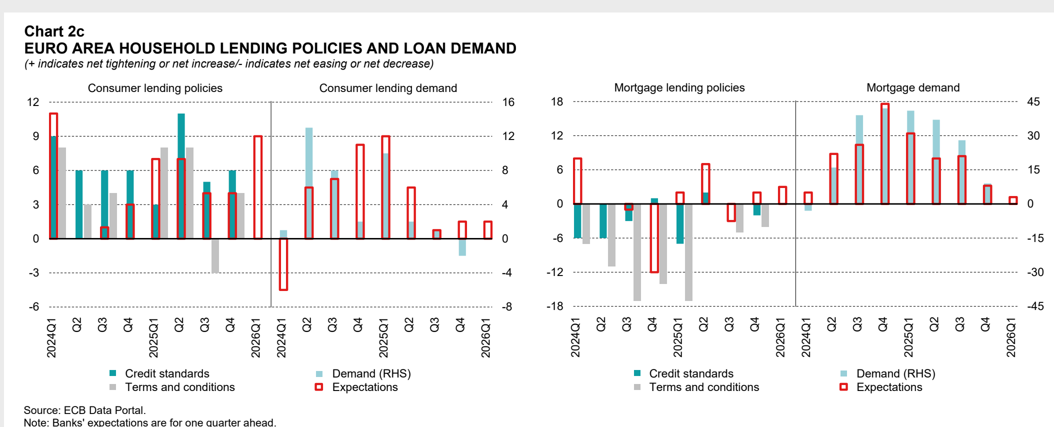
Sampled Maltese banks indicated that on balance, corporate loan demand declined in the first quarter of 2025, reflecting weaker fixed investment and reduced working capital needs. However, towards the end of the year, loan demand strengthened notably, driven by a rebound in fixed investment activity, increased working capital requirements, and the redemption of debt securities by a large firm. The rise in loan demand for fixed investment purposes was particularly evident in the transportation, wholesale and retail trade, scientific and health sectors, as well as in real estate activities. Beyond this, demand was expected to remain sustained.

Loans to households

Euro area

Survey respondents reported heterogenous lending developments across euro area households. While lending policies for consumer credit and other household lending tightened, mortgage lending generally experienced an easing over the year (see Chart 2c).

For consumer credit, tighter lending policies were mainly driven by higher risk perceptions and lower risk tolerance related to concerns about borrowers' creditworthiness and the broader economic outlook. From the beginning of the year, euro area banks adopted a more cautious lending behaviour, driven by stricter assessments of borrower risk. This caution was reinforced by the higher perceived risk related to NPL ratios and other credit quality indicators. In practice, tighter lending policies were reflected in higher margins on riskier loans, reduced credit limits, shorter loan maturities, and stricter collateral requirements. Overall, this prudent approach outweighed the accommodative effect of lower lending rates observed earlier in the year. Towards the last quarter, as lending rates resumed their upward trajectory, the gap between margins on average and riskier loans widened further, suggesting increased discrimination by borrower risk profile and heightened risk aversion. Demand for consumer credit increased moderately in the first half of the year, supported by lower interest rates, marketing campaigns and stronger spending on durable goods, but weakened gradually thereafter amid falling consumer confidence (see Chart 2c).



In contrast, lending conditions for housing loans in the euro area generally eased in 2025, supported by intensified competition among banks. Terms and conditions eased strongly in the first quarter, driven mainly by lower lending rates and narrower margins on average loans, and to a lesser extent, on riskier loans. This easing quickly translated into a surge in mortgage demand, though the latter was also supported by improved housing market prospects and higher consumer confidence. As the year progressed, however, the decline in lending rates slowed, while the steepening of the euro area risk-free yield curve eventually led to higher mortgage rates in the last quarter, exerting a tightening influence. Notwithstanding this, overall mortgage terms and conditions continued to ease moderately, as competition continued to compress banks' margins, while demand continued to grow, albeit at a slower pace. Credit standards for housing loans also generally eased throughout the year, with only a small net tightening recorded in the second quarter of 2025 as some banks reassessed borrowers' creditworthiness amid rising macroeconomic risks.

Looking ahead, surveyed euro area banks expected a net tightening of credit standards for households in the first quarter of 2026, particularly for consumer credit. Meanwhile, household credit demand, while still positive, was expected to grow at a slower pace.

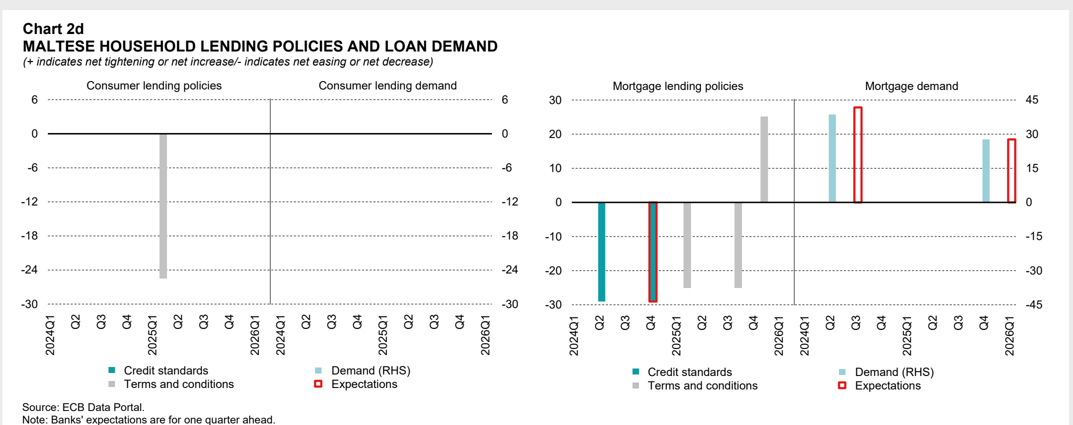
Malta

Domestically, household lending policies remained broadly stable throughout 2025, with credit standards and lending conditions for both mortgages and consumer credit largely unchanged, reflecting the continued prudent stance of domestic banks supported by the presence of borrower-based macroprudential measures (see Chart 2d).[4] This was particularly evident for consumer credit, where only a modest easing was observed in the first quarter of the year, driven by competitive pressures that resulted in slightly lower lending rates and narrower margins.

Mortgage lending policies displayed mixed dynamics over the year. Modest easing was reported in the first and third quarters, as competitive pressures led to lower lending rates, particularly through the introduction of targeted promotional offers linked to specific property values and energy performance criteria. Given the temporary nature of these offers, a mild tightening effect was however recorded in the final quarter of the year. Looking ahead, credit standards for overall household lending were anticipated to remain unchanged over the first quarter of 2026.

Household credit demand was reported to have remained broadly stable during 2025, remaining at elevated levels. The housing market remained resilient, with mortgage lending expanding at a solid

Chart 2d
MALTESE HOUSEHOLD LENDING POLICIES AND LOAN DEMAND
(+ indicates net tightening or net increase/- indicates net easing or net decrease)



Source: ECB Data Portal.
Note: Banks' expectations are for one quarter ahead.

[4] Directive No. 16 Regulation on Borrower-Based Measures

pace, supported by strong employment conditions, rising disposable income, and sustained tourism activity. At the same time, BLS results indicate that mortgage demand remained broadly unchanged on a quarter-on-quarter basis during most of the year, albeit at elevated levels. A net increase in mortgage demand was recorded in the last quarter. Similarly, demand for consumer credit remained broadly stable during the year at relatively high levels. This sustained level of demand continued to support steady growth in lending during 2025. The surveyed banks were not anticipating any significant changes in household credit demand in the first quarter of 2026, with growth expected to be sustained.

Additional insights on current conditions

Funding conditions

BLS results indicate that euro area banks experienced broadly stable access to retail funding in 2025, while access to market-based financing improved gradually over the year. The easing was most pronounced for debt securities and, to a lesser extent, for money markets and securitisations, with improvements particularly evident in medium to long-term funding. These developments were supported by favourable financial conditions, including narrowing credit spreads. For the first quarter of 2026, banks expected access to market financing to stabilise with only moderate further easing for debt securities.

In Malta, access to short-term deposits generally improved over the year, reflecting lower funding costs and reduced competitive pressures among banks. At the same time, the lack of new fixed-term deposits offerings by some of the surveyed banks resulted in a net decline in long-term retail funding, prompting a corresponding shift towards overnight deposits. These trends were expected to persist into the first quarter of 2026. With regards to wholesale funding, a net improvement was reported in the access to medium to long-term debt securities around mid-2025.

Climate-related risks and lending practices

Survey results point to euro area banks, including Maltese institutions, increasingly integrating climate-related risks into their lending practices. Banks reported greater differentiation between environmentally sustainable (green), transitioning and high-emission (brown) firms.[5,6] In general, lending policies were eased for green and transitioning firms, while they were tightened for brown firms, reflecting both transition and physical climate risks. Correspondingly, loan demand shifted towards environmentally sustainable and transition-related financing, while weakening for high-emission sectors. Climate considerations also became more prominent in mortgage lending, with more favourable conditions for energy-efficient buildings and stricter terms for less energy-efficient properties. Overall, climate-related fiscal support measures contributed to easing lending conditions, supported by preferential lending rates for green projects or technologies, while banks continued to refine their risk assessment frameworks.

Looking ahead, these trends were expected to broadly continue, with Maltese surveyed banks also mentioning the possibility of higher LTV haircuts to properties exposed to high physical climate risk. At the euro area level, banks noted that uncertainty around future climate regulation may dampen firms' credit demand, while climate-related fiscal support is likely to underpin the ongoing shift towards greener lending.

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[5] "Green firms" – Firms that do not contribute or contribute little to climate change; "Firms in transition" – Firms in sectors that highly contribute to climate change, which are making relevant progress in the transition; "Brown firms" – Firms in sectors that highly contribute to climate change, which have not yet started or have so far made only little progress in the transition.

[6] In Malta, exposure to brown firms was reported to be concentrated mainly in manufacturing, and mining and quarrying sectors.

Impact of monetary policy balance sheet normalisation

Surveyed euro area banks reported that the ongoing reduction in the ECB's monetary policy asset portfolio had a small negative impact on market financing conditions and liquidity positions in early 2025. This reflected a gradual tightening linked to the ongoing redemptions of Eurosystem bond holdings. However, banks' assets and overall profitability were reported to be largely unaffected, as banks maintained stable holdings of high-quality liquid assets (HQLA) and, in some cases, slightly increased sovereign bond holdings.

In Malta, surveyed banks similarly reported a modest net increase in their holdings of sovereign and high-quality bonds during 2025, contributing to a rise in total assets. This reallocation was linked to expectations regarding the future path of monetary policy, with banks seeking to lock in yields ahead of anticipated interest rate declines. Overall, these portfolio adjustments supported higher NII and improved capital positions, with these trends at the time expected to persist in the near term. Lending conditions and credit volumes remained broadly unchanged, while a further increase in euro area sovereign bond holdings was expected going forward.

Profitability and interest rate developments

Euro area banks participating in the survey reported that interest rate developments continued to weigh on net interest margins during 2025. However, the impact on lending volumes improved progressively, moving from slightly negative to positive. Despite some support from stronger loan volumes and fee income, overall profitability remained under pressure due to the persistent compression of margins, with banks expecting this challenge to continue in the near term.

In Malta, surveyed banks reported mixed developments with respect to profitability. Some banks reported trends similar to the euro area aggregate, with pressure from weaker non-interest income and narrower margins. Others, however, reported benefits from lower interest rates through reduced funding costs, resulting in a supportive impact on NII. Lending volumes provided some modest support, while the contribution from non-interest income was limited or negative. These developments were expected to persist over the short term.

Regulatory and supervisory environment

The surveyed banks generally acknowledged that regulatory and supervisory actions in 2025, including outcomes of the Supervisory Review and Evaluation Process (SREP), higher Pillar 2 Common Equity Tier 1 (CET1) requirements, macroprudential buffer increases, the implementation of Capital Requirements Regulation (CRR III), and the application of currency-specific liquidity buffers, contributed to stronger bank resilience across the euro area. Banks also reported increases in capital and liquid assets alongside declines in RWAs. This more cautious environment reinforced conservative lending behaviour and contributed to the tightening of credit standards across all loan categories. Banks are also expecting a tightening regulatory impact in 2026, as well as higher capital, liquid assets and RWAs.

In Malta, the surveyed banks stated that CRR III implementation also contributed to a net increase in capital levels, supported by retained earnings and capital issuance. These developments were accompanied by increases in risk-weighted and liquid assets. At the same time, the revised regulatory framework encouraged a more cautious approach to risk-taking, particularly with respect to higher-risk or speculative lending activities.

Conclusion

During 2025, banks across both the euro area and at a national level indicated generally supportive funding conditions, strengthened capital positions following regulatory and supervisory actions, and a growing integration of climate-related considerations into lending practices. Nevertheless, the BLS replies still pointed to a divergence between the euro area and Maltese lending developments.

Overall, while euro area banks navigated a more cautious and tightening credit environment amid heightened external risks, Malta stood out for its relative stability and more muted response to these external shocks. Indeed, in the euro area, lending developments were shaped by elevated uncertainty, which weighed on banks' risk perceptions and led to a tightening of credit standards, especially for corporate and consumer loans. This occurred despite some easing in lending terms and conditions earlier in the year, driven by lower interest rates and competitive pressures. Loan demand remained relatively weak and volatile, constrained by GPRs, trade-related uncertainty and subdued investment activity, although it showed gradual improvement as the year progressed. By contrast, Malta's banking sector experienced a more stable macroeconomic environment. Credit standards and lending conditions remained largely unchanged across both firms and households, reflecting more benign risk perceptions, supportive credit quality indicators, and resilient domestic environment fundamentals. While corporate loan demand weakened initially, it recovered later in the year, supported by renewed investment activity. Household credit demand remained broadly stable at elevated levels, supported by a resilient housing market and favourable labour market conditions.

Looking ahead to 2026, downside risks persist, particularly in the euro area, where geopolitical uncertainty, trade tensions and interest rate uncertainty may continue to weigh on credit conditions. In Malta, while resilience remains, risks may stem from external spillovers and the growing role of climate-related risks affecting collateral values.