2009 Q2

Norges Bank's Survey of Bank Lending

Further tightening of credit standards for enterprises

NORGES BANK

Norges Bank's Survey of Bank Lending 2009 Q2

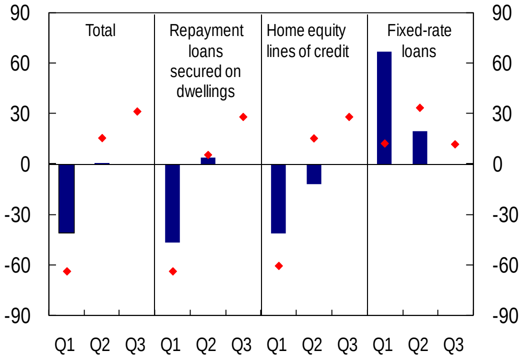
Banks continued to tighten credit standards for enterprises while credit standards for households remained virtually unchanged in Q2. Banks expect approximately unchanged credit standards for both enterprises and households in 2009 Q3.

Banks reported a further fall in loan demand among non-financial corporations in 2009 Q2. Loan demand in the enterprise sector is expected to stabilise in Q3. Household loan demand was approximately unchanged in Q2. Banks expect increased household credit demand ahead.

Norges Bank's bank lending survey for 2009 Q2 was conducted in the period 1 July 2009 – 10 July 2009. Participating banks were asked to assess developments in credit standards and loan demand in 2009 Q2 compared with 2009 Q1, and expected developments in 2009 Q3 compared with 2009 Q2.

The banks use a scale of five alternative responses to indicate the degree of change in the above conditions. Banks that report that conditions have changed 'a lot' are assigned twice the score of those who report that conditions have changed 'a little'. Finally, the responses are weighted by the banks' shares of the change in lending to households and to non-financial corporations respectively. The resulting net balances are scaled to lie between -100 % and 100 %. If all the banks in the sample report some tightening of credit standards, the net percentage balance will be -50 %. If some of the banks have tightened their credit standards a little without the other banks changing their credit standards, the net percentage balance will lie between 0 and -50 %. If all the banks in the sample have substantially tightened their credit standards, the net percentage balance will be -100 %.

Chart 1 Household credit demand in 2009. Net percentage balances[1), 2)]

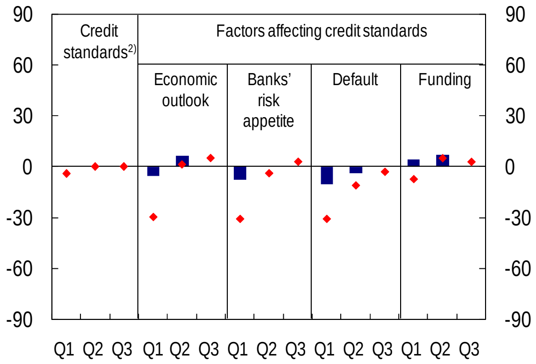


1) Net percentage balances are calculated by weighting together the responses in the survey. The blue bars show developments over the past quarter. The red diamonds show expectations over the next quarter. The red diamonds have been moved forward one quarter

2) Negative net percentage balances denote falling demand

Source: Norges Bank

Chart 2 Change in credit standards for households in 2009. Factors affecting credit standards. Net percentage balances[1)]

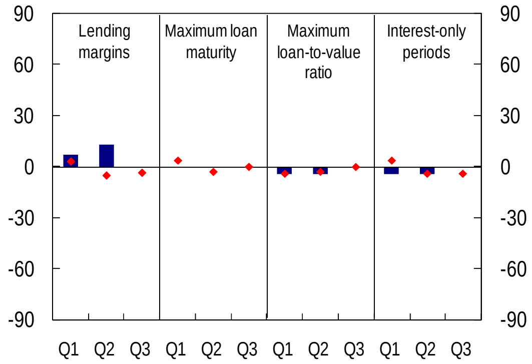


1) See footnote 1 in Chart 1

2) Negative net percentage balances denote tighter credit standards

Source: Norges Bank

Chart 3 Change in loan conditions for households in 2009. Net percentage balances[1), 2)]



1) See footnote 1 in Chart 1

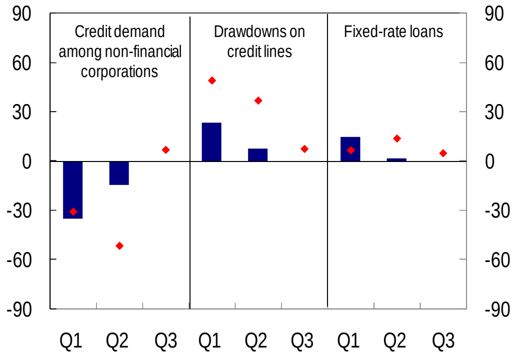
2) Positive net percentage balances for lending margins indicate higher lending margins and therefore tighter credit standards. Negative net percentage balances for maximum LTI ratio, maximum LTV ratio and use of interest-only periods denote tighter credit standards

Source: Norges Bank

Lending to households

Banks reported that total household credit demand remained approximately unchanged in 2009 Q2 compared with 2009 Q1 (see Chart 1). Total household credit demand thus increased less than banks expected. There were wide differences among banks' reports. Some banks reported increased demand, while others indicated a fall. Demand for fixed-rate loans also increased less than expected. Demand for repayment loans secured on dwellings increased broadly in line with expectations, while demand for home equity lines of credit and unsecured repayment loans fell somewhat in Q2. Banks expect total household credit demand to increase in Q3 compared with Q2.

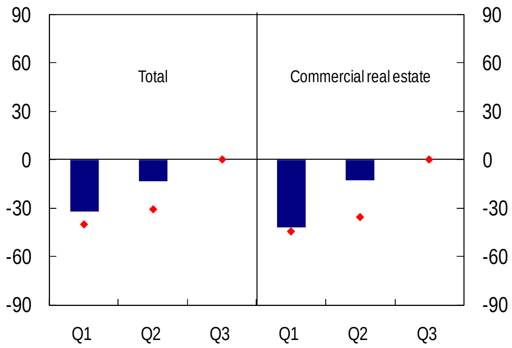
Chart 4 Credit demand among non-financial corporations and drawdowns on credit lines in 2009. Net percentage balances[1), 2)]



1) See footnote 1 in Chart 1
2) Positive net percentage balances denote increased demand or increased drawdowns on credit lines

Source: Norges Bank

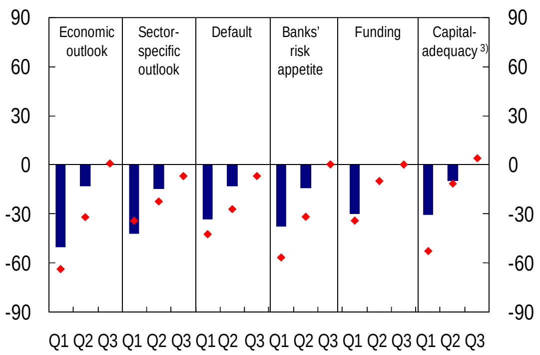
Chart 5 Change in credit standards for non-financial corporations in 2009. Net percentage balances[1), 2)]



1) See footnote 1 in Chart 1
2) Negative net percentage balances denote tighter credit standards

Source: Norges Bank

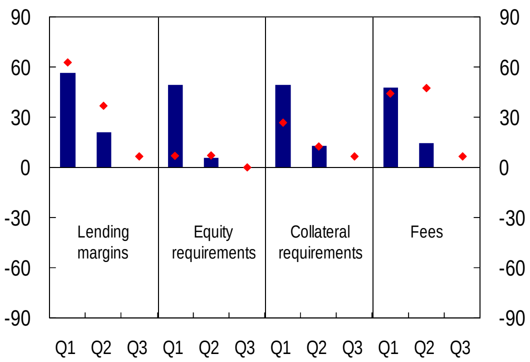
Chart 6 Factors affecting credit standards for non-financial corporations in 2009. Net percentage balances[1), 2)]



1) See footnote 1 in Chart 1
2) Negative net percentage balances denote that the factor has contributed to tighter credit standards
3) A new factor introduced in 2008 Q4

Source: Norges Bank

Chart 7 Change in loan conditions for non-financial corporations in 2009. Net percentage balances[1), 2)]



1) See footnote 1 in Chart 1
2) Positive net percentage balances for lending margins denote higher lending margins. Positive net percentage balances for lending margins, equity requirements, collateral requirements and fees denote tighter credit standards

Source: Norges Bank

Banks' credit standards for households remained approximately unchanged between Q1 and Q2 (see Chart 2), which was in line with expectations. Changes in the underlying conditions affecting credit standards were also small. All banks expect credit standards for households to remain unchanged in Q3.

Several banks reported an increase in lending margins for households in Q2, and indicated that this was attributable to uncertainty in the housing market, default risk and increased use of individual pricing. Other loan conditions remained virtually unchanged for households in Q2 (see Chart 3). Looking ahead, banks expect loan conditions to remain relatively unchanged.

Lending to non-financial corporations

Banks reported a further fall in loan demand from non-financial corporations in 2009 Q2 compared with 2009 Q1 (see Chart 4). However, the fall was considerably smaller than banks expected. At the same time, the drawdowns on credit lines were smaller than expected in Q2. Demand for fixed-rate loans was approximately unchanged. Enterprises' demand for credit is expected to increase marginally over the next three months.

Banks further tightened credit standards for non-financial corporations between Q1 and Q2 (see Chart 5). Credit standards were tightened most for sectors such as shipping, commercial real estate, construction and the car industry. The degree of tightening was smaller than expected. Banks expect approximately unchanged credit standards for non-financial corporations in Q3.

Several factors contributed to tighter credit standards for non-financial corporations in Q2 (see Chart 6). In addition to the economic outlook, banks' risk appetite, defaults and capital adequacy considerations contributed to a tightening of credit standards. Looking ahead, banks expect approximately unchanged credit standards, but sector-specific prospects and defaults point towards a marginal tightening of credit standards.

The tightening of credit standards for non-financial corporations in Q2 was primarily implemented by increasing lending margins and fees, and by raising collateral requirements, in relation to Q1 (see Chart 7). Banks expect a marginal increase in lending margins, fees and collateral requirements, but relatively unchanged loan terms for enterprises in Q3.