NATIONAL BANK OF ROMANIA

Bank Lending Survey

August 2018

Bank Lending Survey*

2018 Q2

August 2018

* See the Annex and the Methodological Notes for issues related to the particulars and terminology used herein at (http://www.bnro.ro/Bank-lending-survey-6512.aspx).

NOTE

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Summary

In the second quarter of 2018, credit institutions left unchanged their credit standards on loans for house and land purchase and tightened moderately those for consumer credit to households. As for non-financial corporations, credit standards stayed flat from the previous quarter. For the next quarter, local credit institutions envisage credit standards to tighten moderately for housing loans and significantly for consumer credit to households. With regard to non-financial corporations, credit standards are expected to tighten somewhat, given the stricter requirements on bank capital.

Table 1. Summary of banks' opinions on developments in loan supply and demand

Lending segment		Supply		Demand	
		2018 Q2	2018 Q3 (expectations)	2018 Q2	2018 Q3 (expectations)
Household sector	Loans for house and land purchase	→	↓	↓	→
	Consumer loans	↓	↓	↑	→
Companies sector		→	↓	↑	↑

Note: For the loan supply, the arrow pointing upwards/downwards/horizontally shows a(n) easing/tightening/no change of credit standards. For the loan demand, the arrow pointing upwards/downwards/horizontally shows a rise/contraction/no change, in line with banks' opinions (over the past three months and expectations over the next three months, respectively). The orange color indicates marginal changes and the brown color shows moderate and large changes.

In 2018 Q2, demand for the loans for house and land purchase contracted moderately versus the previous quarter, while that for consumer credit rose markedly. The sharp advance in demand was manifest in the case of loans to non-financial corporations as well, especially long-term loans, regardless of the company size. For 2018 Q3, credit institutions anticipate demand for both types of loans to households to hold steady. Non-financial corporations' demand for loans looks set to further follow an upward path, albeit at a slower pace than in the current quarter. Loan demand from small- and medium-sized companies is expected to see more moderate growth in 2018 Q3, whereas that from large companies is anticipated to remain flat as against the current three-month period.

A. NON-FINANCIAL CORPORATIONS

- **Credit standards** held steady in the second quarter of 2018 against the prior quarter. For 2018 Q3, banks anticipate credit standards to tighten moderately both at aggregate level and by category.

- **Credit terms and conditions** saw no change from the previous quarter.

- **Loan demand** expanded significantly at aggregate level as well as by category. Companies applied mostly for long-term loans. Expectations for 2018 Q3 are indicative of a moderate rise in loan demand, from small- and medium-sized enterprises in particular. The corporate loan rejection rate was virtually unchanged from the preceding quarter.

- **Industry-specific risks**, in terms of company size, stayed unchanged. As for the breakdown by business sector, credit risk associated with the companies operating in the energy sector rose significantly, while that relating to tourism and real estate firms grew moderately.

B. HOUSEHOLDS

- In 2018 Q2, local credit institutions left unchanged their **credit standards** on loans for house and land purchase and tightened moderately those for consumer credit. For 2018 Q3, credit institutions envisage credit standards to tighten moderately for housing loans and significantly for consumer credit.

- **Credit terms and conditions** for both housing and consumer loans remained unchanged in 2018 Q2 versus 2018 Q1.

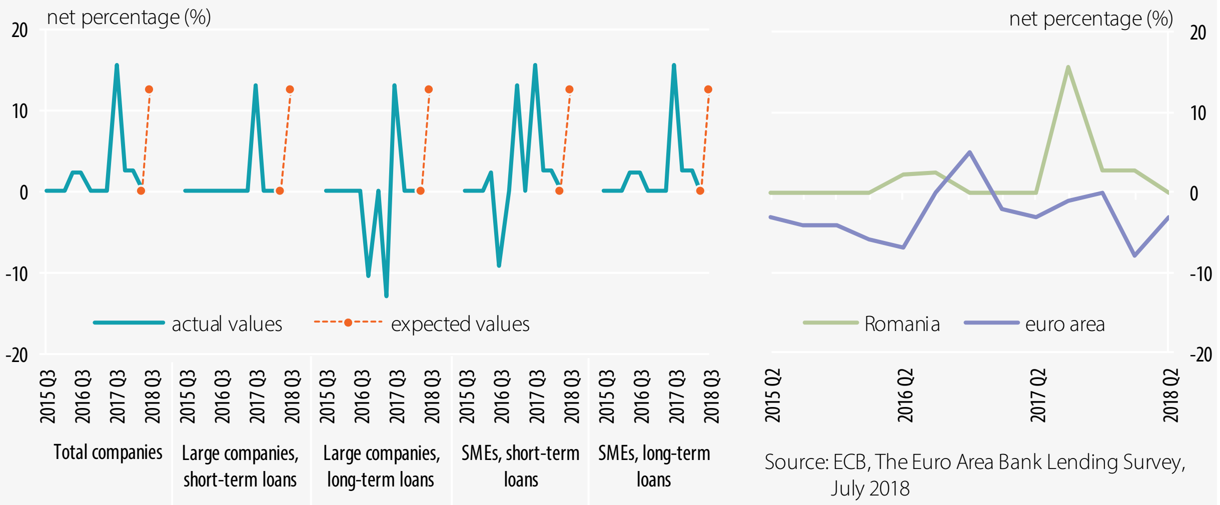
- **Loan demand** declined moderately for housing loans and increased significantly in the case of consumer credit. For 2018 Q3, local credit institutions anticipate demand for both types of loans to households to hold steady. The loan rejection rate stayed flat in 2018 Q2 against 2018 Q1 in the case of housing loans and rose moderately in the case of consumer credit.

1. Lending to non-financial corporations

1.1. CREDIT STANDARDS

Banks left unchanged their credit standards for companies in 2018 Q2 compared with 2018 Q1, both at aggregate level and by category. For the next quarter, banks expect, however, credit standards to tighten moderately, in the context of the NBR introducing the systemic risk buffer (Chart 1.1).

Chart 1.1. Change in credit standards



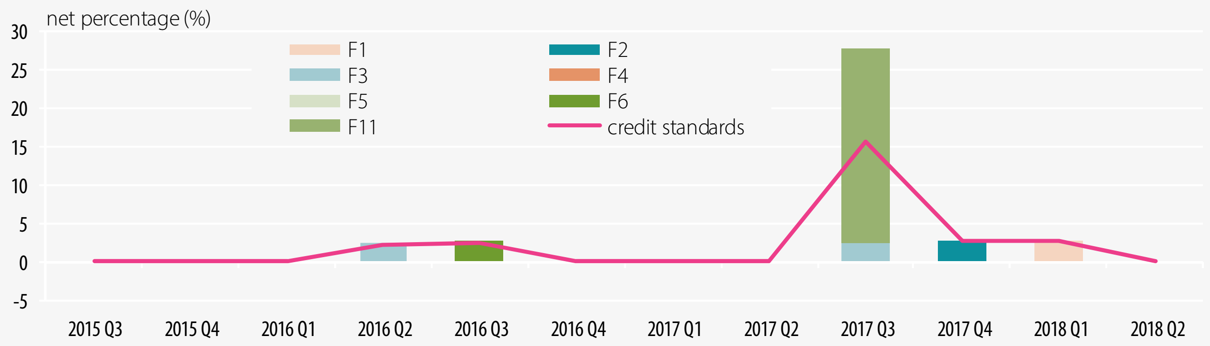
Source: ECB, The Euro Area Bank Lending Survey, July 2018

Note: Positive values of the net percentage indicate tightening credit standards. Expected values refer to both credit standards and credit terms and conditions.

In the euro area, banks' credit standards continued to ease in 2018 Q2, compared with the previous quarter (Chart 1.1). The factors that contributed to this development were the competitive pressures and banks' risk perceptions, while the cost of funds, balance sheet constraints and risk tolerance had a restrictive impact. For 2018 Q3, euro area banks anticipate credit standards for enterprises to ease further. As for loan demand, it augmented in the euro area as well, fuelled mainly by the low general level of interest rates, inventories and working capital, as well as by mergers and acquisitions activity.

At local level, all the factors contributing to the change in credit standards remained unchanged against the previous quarter (Chart 1.2).

Chart 1.2. Factors behind the change in credit standards

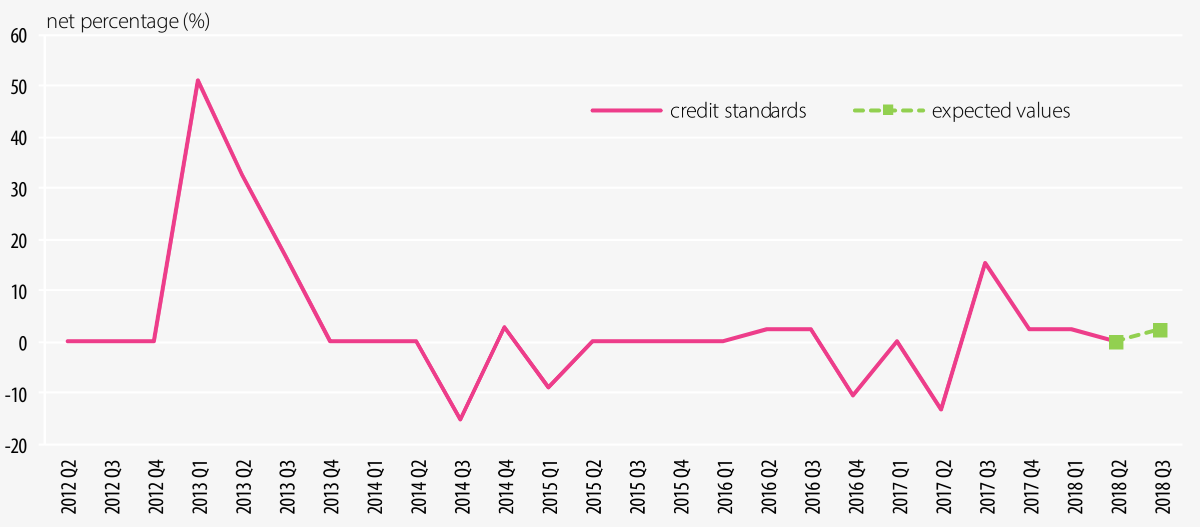


F1 – The current or expected capital position of the bank
F2 – NBR's monetary policy decisions and prudential measures
F3 – Expectations regarding general economic activity
F4 – Industry-specific risk
F5 – Changes in the share of NPLs in the bank's portfolio
F6 – Risk on collateral demanded
F7 – Risk associated with a steep increase/decrease in house prices (only for commercial mortgage-backed loans)
F8 – Pressure from bank competition
F9 – Pressure from non-bank competition
F10 – Competition from market financing (capital market and shareholders, etc.)
F11 – Other factors

Note: Positive values of the net percentage indicate tightening credit standards. F7, F8, F9 and F10 remained unchanged in the period under review.

Turning to commercial mortgage-backed loans, the related credit standards were left unchanged in 2018 Q2. For the following three months, banks envisage credit standards for such loans to remain virtually unchanged (Chart 1.3).

Chart 1.3. Quarterly change in credit standards for commercial mortgage-backed loans

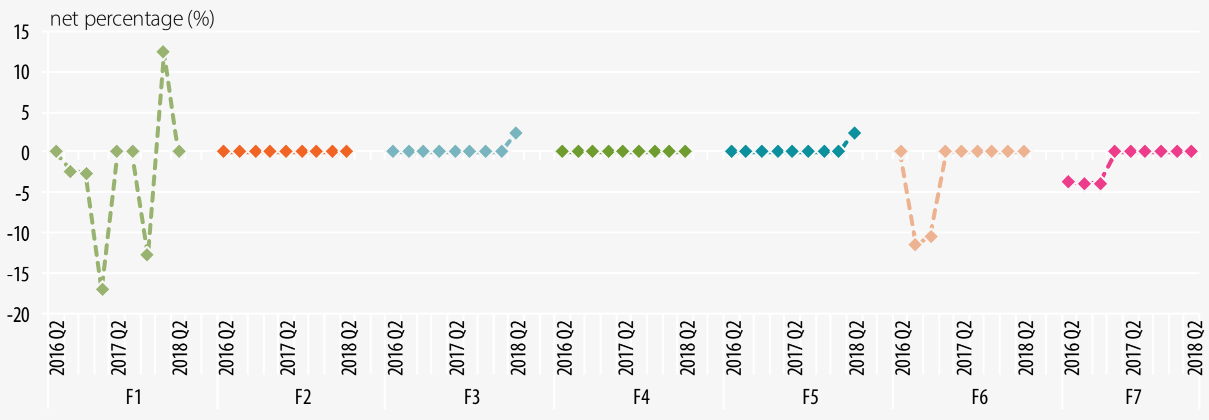


Note: Positive values of the net percentage indicate tightening credit standards.

1.2. CREDIT TERMS AND CONDITIONS

Credit terms and conditions saw no notable change in 2018 Q2 compared with 2018 Q1 (Chart 1.4).

Chart 1.4. Change in credit terms and conditions



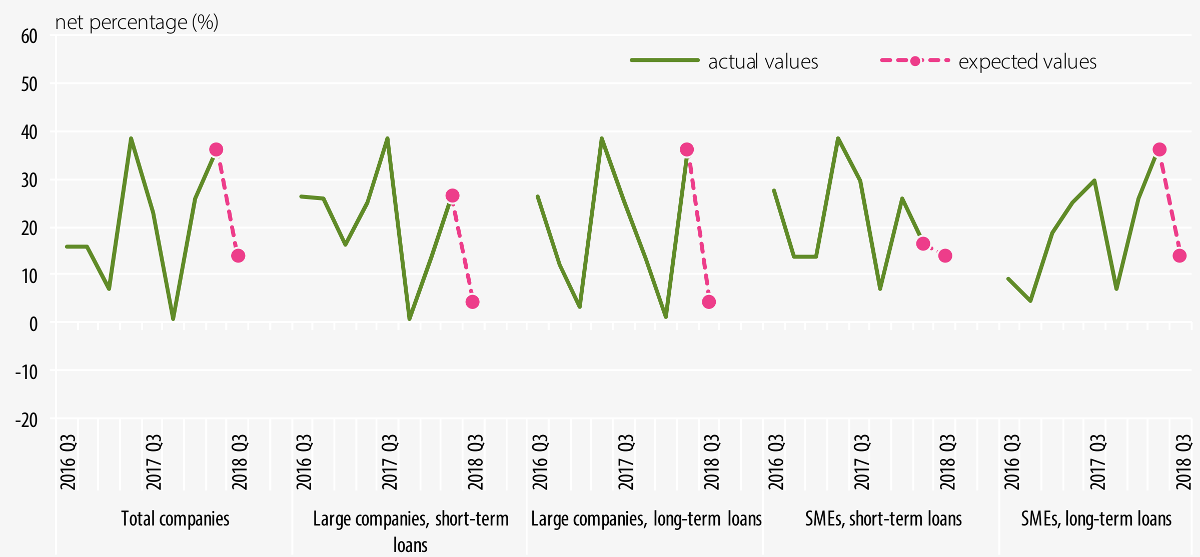
F1 – Spread between average lending rate and 1M ROBOR
F2 – Premium demanded on riskier loans
F3 – Maximum loan amount
F4 – Collateral requirements
F5 – Loan covenants
F6 – Maximum maturity
F7 – Non-interest rate charges (fees, etc.)

Note: Positive values of the net percentage indicate tightening credit terms and conditions.

1.3. LOAN DEMAND

Loan demand continued to expand significantly in 2018 Q2 as well, in line with banks' previous expectations, both at aggregate level and by category (Chart 1.5). The breakdown by type of loan shows that companies preferred longer-term loans. Credit institutions' expectations on loan demand point to a slight moderation of its growth pace in 2018 Q3. Specifically, although banks expect loan demand to edge moderately higher at aggregate level, by company size small- and medium-sized companies are seen to be chiefly accountable for the increase, while demand from large companies is anticipated to stay at the same level as in 2018 Q2.

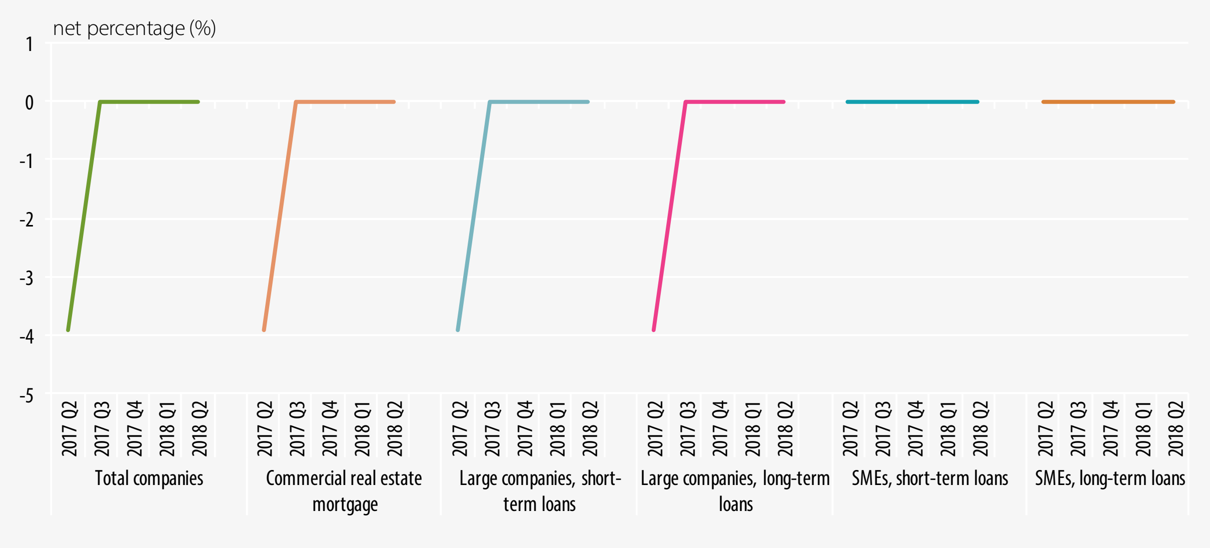
Chart 1.5. Loan demand dynamics



Note: Positive values of the net percentage indicate rising loan demand.

Similarly to the previous exercises, the corporate loan rejection rate stayed flat (Chart 1.6).

Chart 1.6. Share of rejected applications for loans

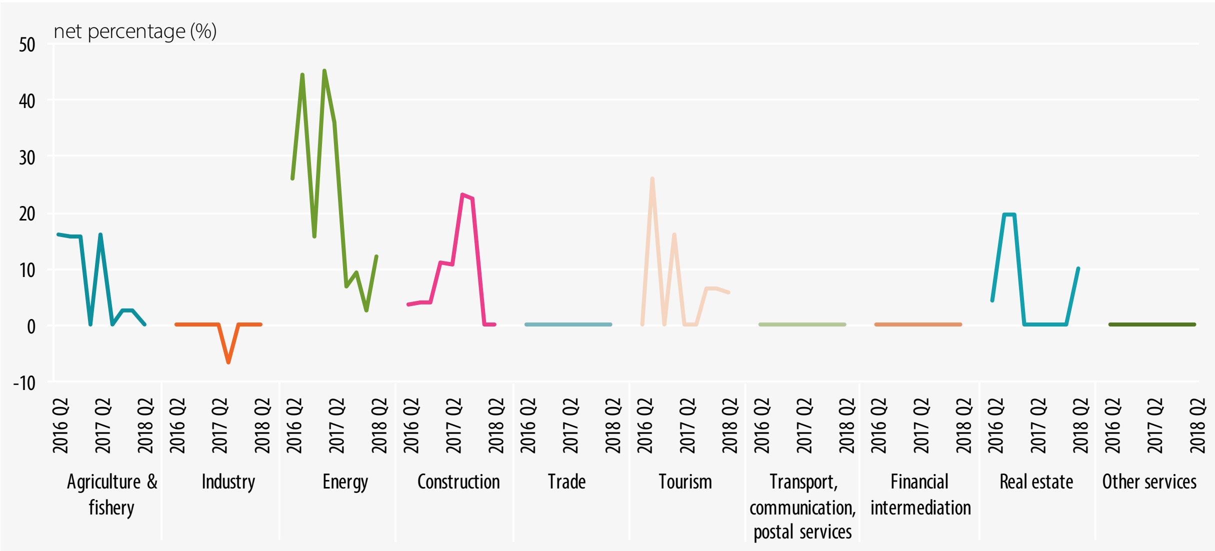


Note: Positive values of the net percentage indicate an increase in the loan rejection rate.

1.4. CREDIT RISK ASSOCIATED WITH LENDING TO NON-FINANCIAL CORPORATIONS

Credit risk by economic activity tended to grow in the energy, tourism and real estate sectors. Specifically, companies operating in the energy sector perceive risk to rise moderately, while those operating in tourism and real estate sectors perceive a marginal increase (Chart 1.7).

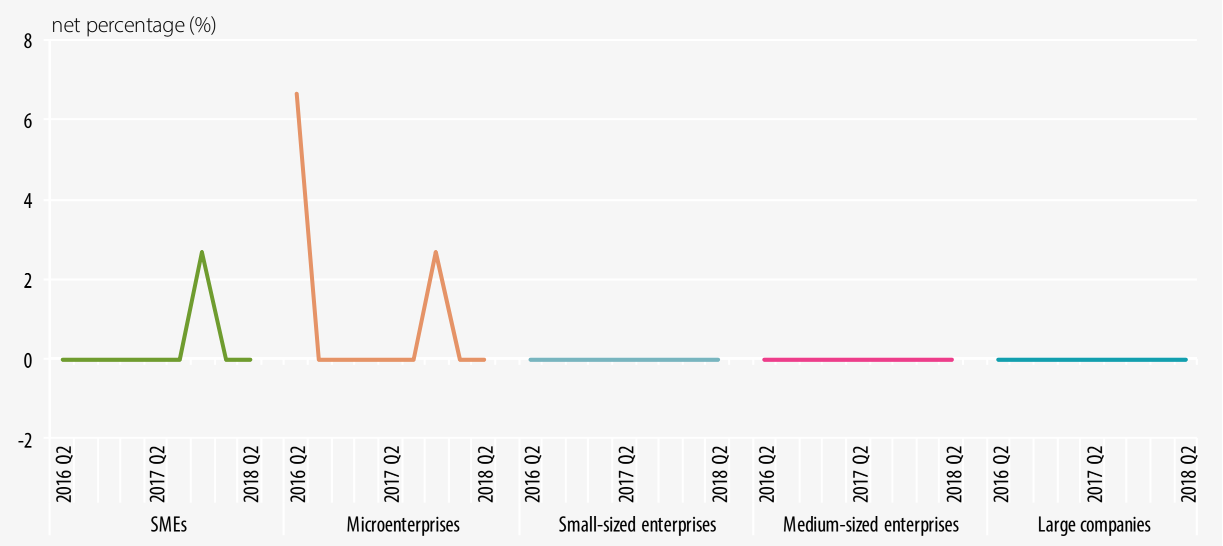
Chart 1.7. Credit risk by sector



Note: Positive values of the net percentage indicate rising credit risk.

The breakdown by company size reveals that credit risk saw no change in 2018 Q2 versus 2018 Q1 (Chart 1.8).

Chart 1.8. Credit risk by company size



Note: Positive values of the net percentage indicate rising credit risk.

The loss given default (LGD[1]) at aggregate level remained broadly steady at 30 percent in 2018 Q2. The breakdown by sector shows no significant change, except for mining, where the LGD improved substantially from the prior three-month period.

2. Lending to households

2.1. CREDIT STANDARDS

In 2018 Q2, local banks kept unchanged credit standards on loans for house and land purchase and tightened moderately those for consumer credit. For the following quarter, credit standards are envisaged to tighten moderately for housing loans and significantly for consumer credit (Chart 2.1).

In the second quarter of 2018, euro area banks further eased credit standards for both loans for house and land purchase and consumer credit to households. For 2018 Q3, credit institutions in the euro area forecast the ongoing easing of credit standards for both lending segments to the household sector.

Compared with the previous quarter, in 2018 Q2, the loss given default (LGD[2]) for the defaulted loans to households[3] remained unchanged at 45 percent. The LGD for housing loans and mortgage-backed consumer credit was relatively lower than in 2018 Q1 (34 percent and 33 percent respectively), while posting relatively higher

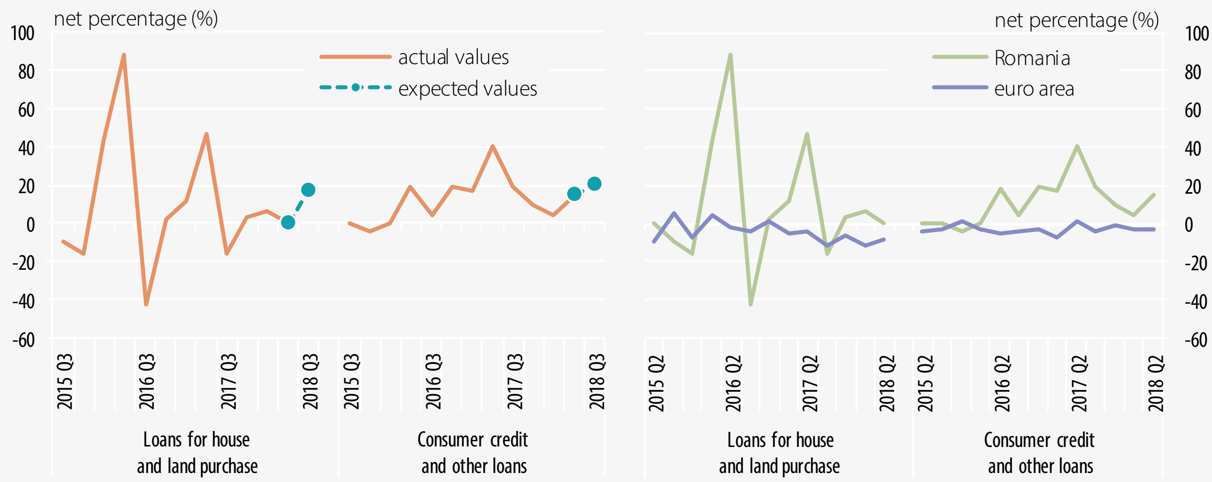
1 The information regarding LGD for the loans to companies and households should be interpreted with caution, considering the short data series available to banks for quantifying this indicator.

2 The information on LGD should be interpreted with caution, considering the short data series available to banks for quantifying this indicator.

3 Default is defined pursuant to NBR Regulation No. 5/2013.

readings for non-mortgage-backed consumer credit and credit cards (64 percent and 56 percent respectively) in the same reference period.

Chart 2.1. Change in credit standards for loans to households



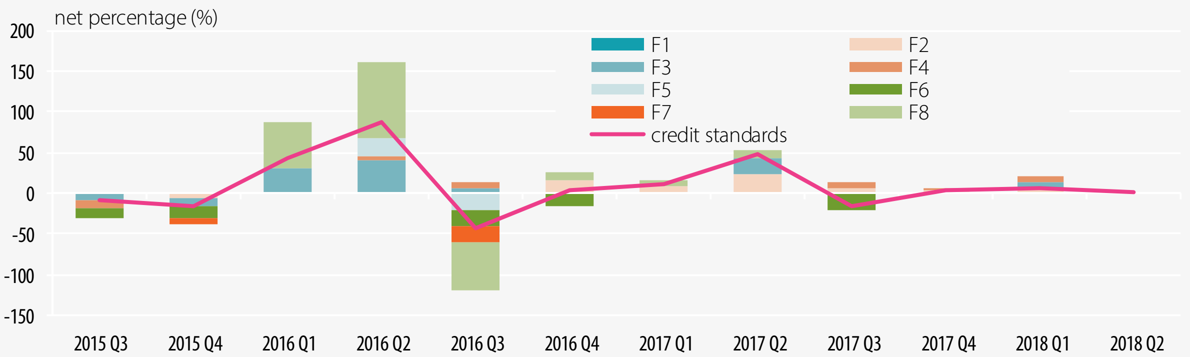
Source: ECB, The Euro Area Bank Lending Survey, July 2018

Note: Positive values of the net percentage indicate tightening credit standards. Expected values refer to both credit standards and credit terms and conditions.

2.2. PARTICULARS OF HOUSING LOANS (HOUSE AND LAND PURCHASE)

In 2018 Q2, the factors influencing credit standards for housing loans remained unchanged from the previous quarter (Chart 2.2).

Chart 2.2. Factors behind the change in credit standards



F1 – The current or expected capital position of the bank
F2 – NBR's monetary policy decisions and prudential measures
F3 – Expectations regarding general economic activity
F4 – Expectations on real-estate market (change in the probability of a steep increase/decrease in house prices)
F5 – Changes in the share of non-performing housing loans in the bank's portfolio
F6 – Pressure from bank competition*
F7 – Pressure from non-bank competition*
F8 – Other factors

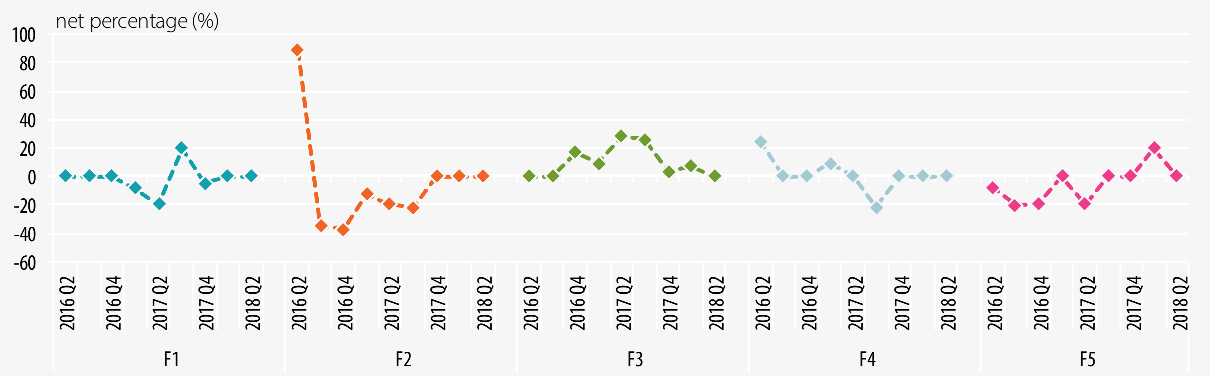
* increase in competition – easing; decrease in competition – tightening

Note: Positive values of the net percentage indicate tightening credit standards.

(i) Credit terms and conditions

In 2018 Q2, credit terms and conditions on loans for house and land purchase posted a relatively steady evolution compared to the previous quarter (Chart 2.3).

Chart 2.3. Credit terms and conditions for housing loans



F1 – Spread between average lending rate and 1M ROBOR (higher spread = tightening; lower spread = easing)

F2 – Maximum LTV (loan amount to collateral value)

F3 – Maximum monthly debt service to monthly income (higher = easing; lower = tightening)

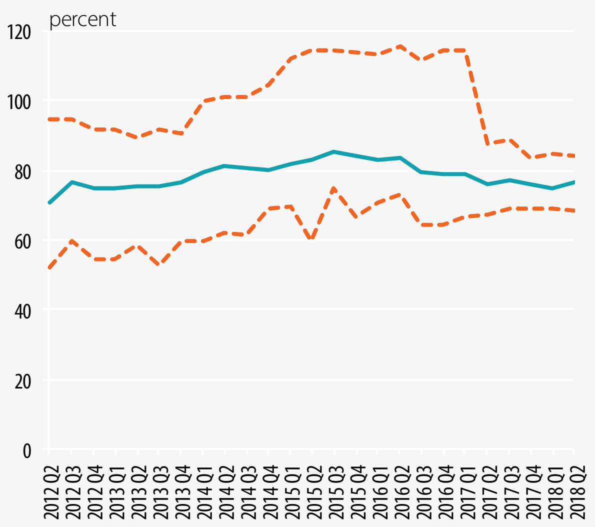
F4 – Maximum maturity (higher = easing; lower = tightening)

F5 – Non-interest rate charges (fees, etc.)

Note: Positive values of the net percentage indicate tightening credit terms and conditions.

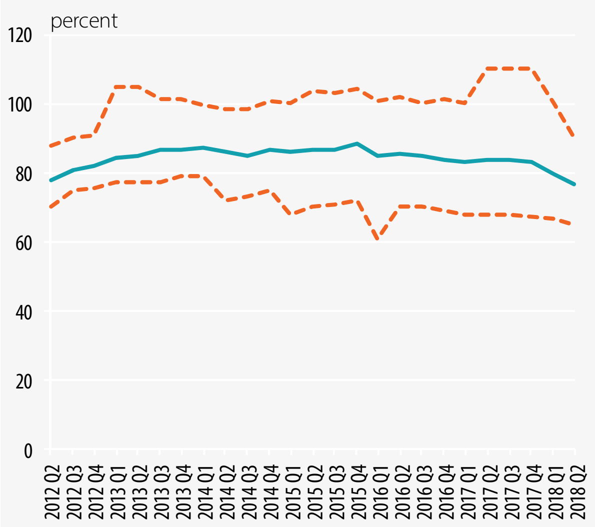
In 2018 Q2, the average loan-to-value (LTV) ratio for new housing loans increased by 2 percentage points compared to the previous quarter, from 75 percent in 2018 Q1 to 77 percent in 2018 Q2 (Chart 2.4). The average LTV ratio for the total housing loan stock declined by 3 percentage points, from 80 percent in the first quarter of 2018 to 77 percent in the second quarter of 2018 (Chart 2.5).

Chart 2.4. LTV – bank average and the fluctuation range for new housing loans granted in the quarter under review



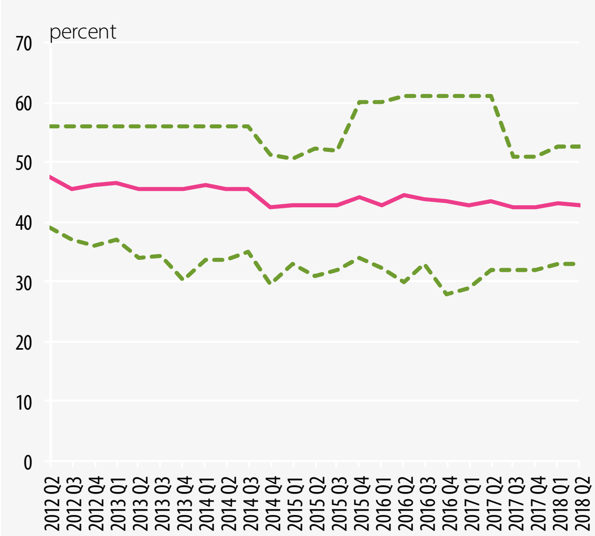
Note: The fluctuation range is set by the lowest and highest values reported by respondent banks.

Chart 2.5. LTV – bank average and the fluctuation range for outstanding housing loans



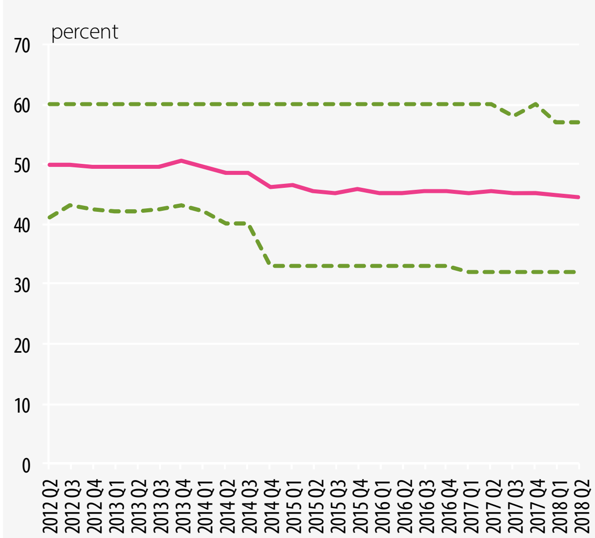
Note: The fluctuation range is set by the lowest and highest values reported by respondent banks.

Chart 2.6. Indebtedness level – bank average and the fluctuation range for new housing loans granted in the quarter under review



Note: The fluctuation range is set by the lowest and highest values reported by respondent banks.

Chart 2.7. Indebtedness level – bank average and the fluctuation range for outstanding housing loans



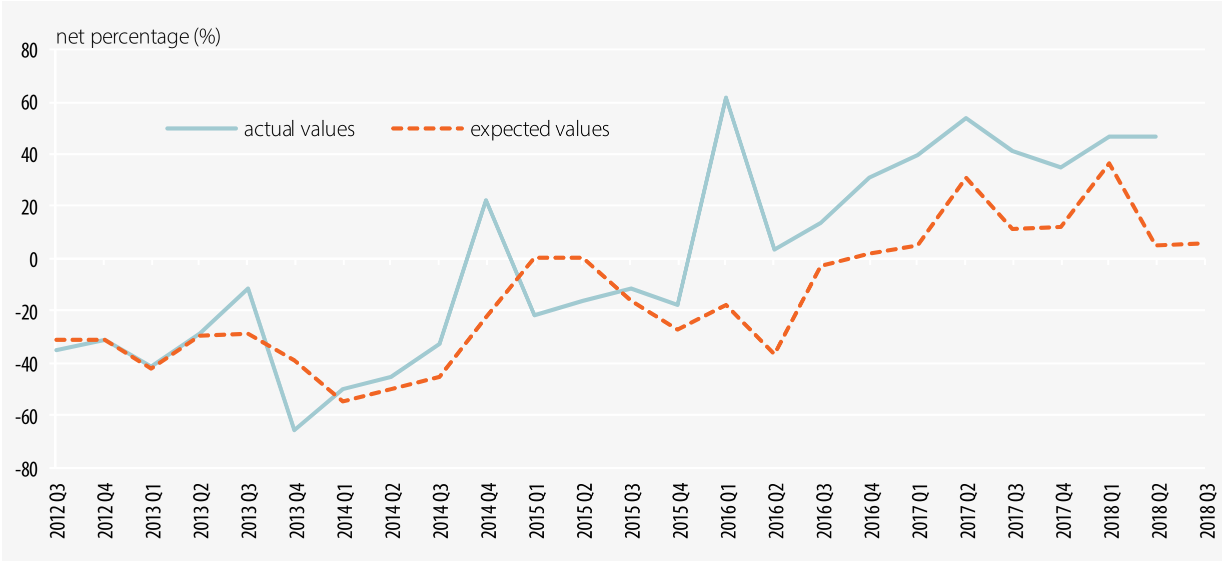
Note: The fluctuation range is set by the lowest and highest values reported by respondent banks.

In 2018 Q2, the average level of indebtedness for new housing loans remained the same, at 43 percent, compared with 2018 Q1 (Chart 2.6), while decreasing by 1 percentage point to 44 percent for the total housing loan portfolio (Chart 2.7).

(ii) Housing loan demand and house prices

In line with the assessments made in the previous quarter, in 2018 Q2, according to local banks, house prices continued to follow an uptrend, which is expected to continue in 2018 Q3 as well, albeit at a slower pace (Chart 2.8).

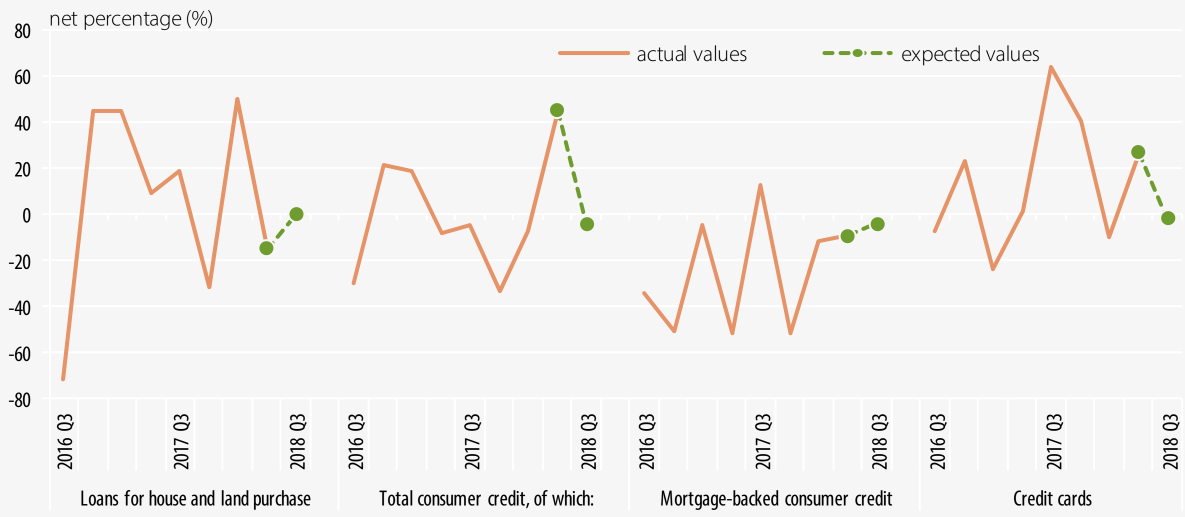
Chart 2.8. House price developments according to banks' assessments



Note: Positive values of the net percentage indicate an increase in house prices.

Demand for housing loans fell moderately in 2018 Q2 (Chart 2.9) and is anticipated to hold steady in 2018 Q3.

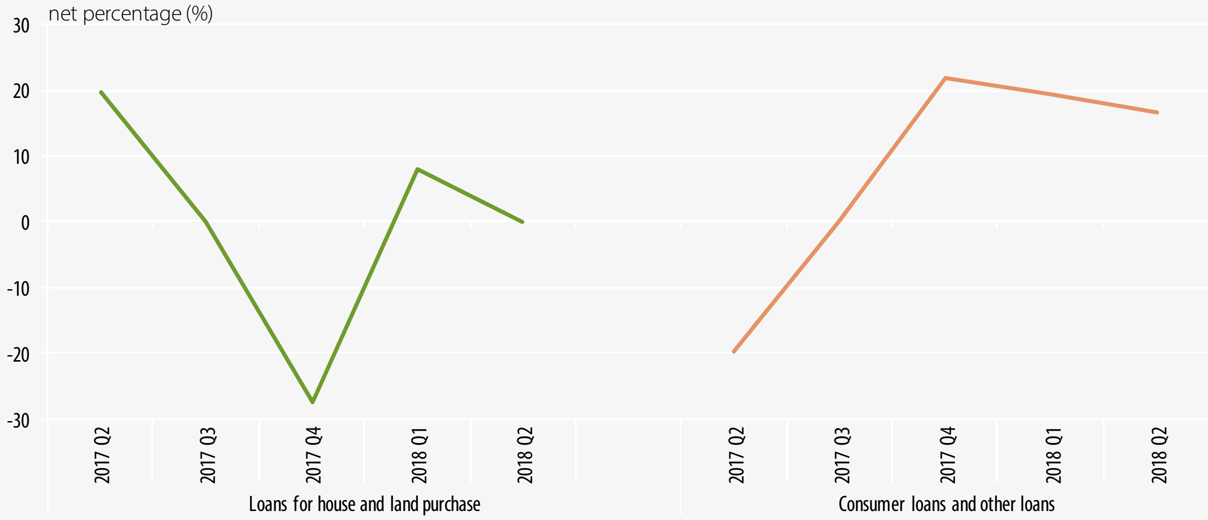
Chart 2.9. Changes in loan demand



Note: Positive values of the net percentage indicate an increase in loan demand.

The loan rejection rate for housing loans in 2018 Q2 remained unchanged from the previous quarter (Chart 2.10).

Chart 2.10. Loan rejection rate

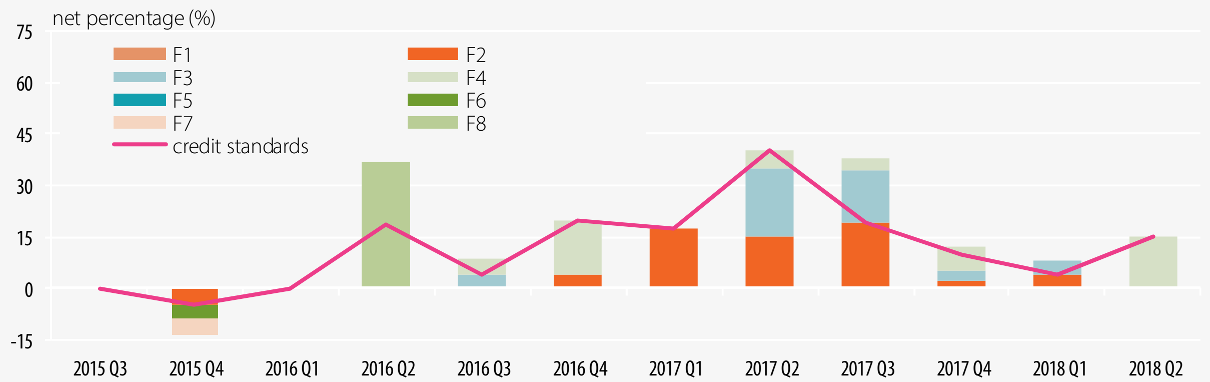


Note: Positive values of the net percentage indicate an increase in the loan rejection rate.

2.3. CONSUMER CREDIT PARTICULARS

In 2018 Q2, local banks tightened moderately their credit standards for consumer credit to households. The main factor behind these dynamics was the risk related to borrower's creditworthiness. The other factors influencing credit standards for consumer credit saw no changes from the prior quarter (Chart 2.11).

Chart 2.11. Factors behind the change in credit standards



F1 – The current or expected capital position of the bank
F2 – NBR's monetary policy decisions and prudential measures
F3 – Expectations regarding general economic activity
F4 – Risk on borrower's creditworthiness
F5 – Risk on collateral demanded
F6 – Pressure from bank competition*
F7 – Pressure from non-bank competition*
F8 – Other factors

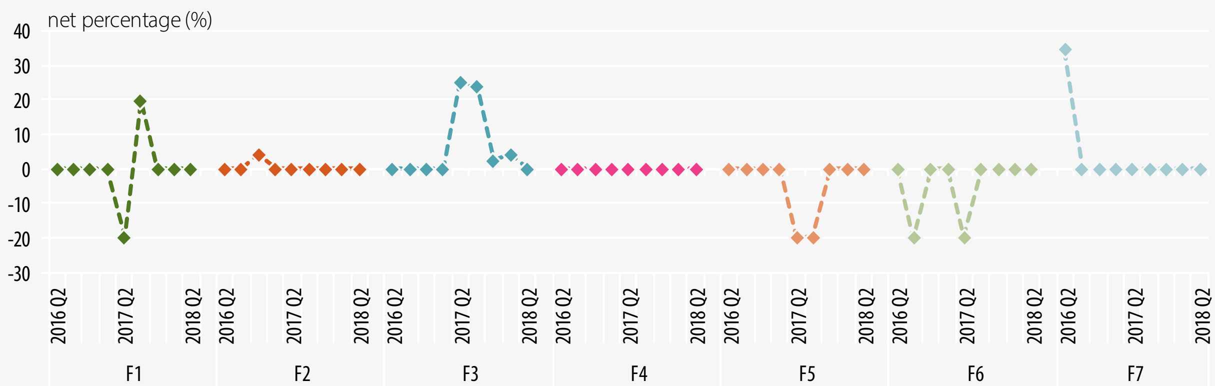
* increase in competition – easing; decrease in competition – tightening

Note: Positive values of the net percentage indicate tightening credit standards.

(i) Credit terms and conditions

In 2018 Q2, credit terms and conditions for consumer credit held steady compared to the preceding quarter (Chart 2.12).

Chart 2.12. Consumer credit terms and conditions



F1 – Spread between average lending rate and 1M ROBOR (higher spread – tightening; lower spread – easing)
F2 – Minimum down payment (increase = tightening; decrease = easing)
F3 – Maximum monthly debt service to monthly income (higher = easing; lower = tightening)
F4 – Maximum maturity (higher = easing; lower = tightening)
F5 – Maximum loan amount (higher = easing; lower = tightening)
F6 – Non-interest rate charges (fees, etc.)
F7 – Other

Note: Positive values of the net percentage indicate tightening credit terms and conditions.

(ii) Consumer credit demand

Consumer credit demand rose significantly in 2018 Q2 versus 2018 Q1. The breakdown shows that demand for non-mortgage-backed consumer loans and credit cards picked up considerably, while demand for mortgage-backed consumer credit fell marginally (Chart 2.9). In 2018 Q2, the consumer loan rejection rate went up at a moderate pace (Chart 2.10). For 2018 Q3, credit institutions expect demand for consumer credit to households to remain unchanged.

ANNEX

The survey is conducted on a quarterly basis by the NBR in January, April, July and October. It is based on a questionnaire (released as part of the May 2008 analysis) which is sent to the top 10 banks. These banks were selected based on their market share in terms of loans to companies and households, accounting for approximately 80 percent of the loan stock.

The questionnaire has two sections, tracking separately the characteristics of loans to: (A) non-financial corporations and (B) households. The questions focus on banks' opinions regarding:

- credit standards (internal credit regulations or criteria governing credit institutions' lending policy);
- credit terms and conditions (loan covenants agreed upon by lenders and borrowers in the loan agreement such as interest rate, collateral, maturity etc.);
- risks associated with lending;
- loan demand; and
- other specific details (expectations regarding the average house price per square meter, debt service to household income, loan-to-value ratio, etc.).

Responses are analysed in terms of net percentage.

With respect to credit standards, the net percentage is the difference between the share of banks reporting tightening credit standards and that of banks reporting an easing thereof. A positive net percentage shows that a larger proportion of banks tightened credit standards (net tightening), whereas a negative net percentage indicates that a larger proportion of banks eased them (net easing).

As for loan demand, the net percentage is the difference between the share of banks reporting an increase in loan demand and the share of banks reporting a decline. A positive net percentage shows that a larger proportion of banks reported an increase in loan demand, whereas a negative net percentage indicates that a larger proportion of banks reported a decline in loan demand. The net percentage is computed by taking into account the respondent banks' market shares. All other responses are treated in a similar manner. Positive values of the net percentage are explained in the chart notes.

The survey covers the opinions regarding developments over the past three months and expectations over the next three months.