BANK LENDING SURVEY

January and April 2003

Results for Portugal

I. Overall assessment

According to the results of the first two rounds of the Bank Lending Survey (BLS), conducted in January and April 2003, the responses of the five Portuguese banks pointed out, in general, to tightening credit standards as applied to the approval of loans to the non-financial private sector over the reporting period (the last quarter of 2002 and the first quarter of 2003). This behaviour was in line with their pessimistic assessment on the economic situation and was reflected in tighter conditions and terms for approving loans to both enterprises and households — such as wider margins, higher non-interest charges, heavier collateral requirements and other loan covenants. This trend — apparent in all credit segments — was particularly clear as concerns loans to riskier enterprises (in some cases, the small and medium sized enterprises) and consumer credit and other lending (than for house purchase) to households.

For loans to households for house purchase, some banks reported, in the January survey, changes of their credit conditions towards the extension of loan maturities that may be related with the objective of alleviating households' debt service burden.

Over the first quarter of 2003, demand for loans and credit lines to enterprises may have been slightly reduced, mostly as regards large enterprises and long-term loans. Debt restructuring and, less significantly, financing needs for inventories and working capital were the main factors behind stronger demand of enterprises for bank lending. This tendency was partly offset by the effects of declining demand for investment and for financing mergers/acquisitions and corporate restructuring.

This development reflects a change from the last quarter of 2002, when worsening economic conditions (resulting to the reduction of internal financing) and the weak performance of the capital markets led to a slight increase of loan demand of enterprises, mainly for inventories and working capital financing.

As regards demand for loans to households, consumer credit may have gone downwards while lending for house purchase should have levelled out.

As assessed by the surveyed banks, prospects for the second quarter of 2003 are not optimistic, in general. As regards lending to enterprises, the Portuguese banks are intended to restrict slightly their credit standards and conditions. This behaviour will be probably more marked for medium and long-term loans as well as for small and medium sized enterprises. At the same time, a slight decrease in demand is expected.

The same trend is also anticipated regarding demand of households for both house purchase and other purposes than housing bank loans. Several factors are behind this expectation: the maintenance of an unfavourable macroeconomic environment, the weakening of consumer confidence and the adjustment of consumption expenditure growth towards more moderate levels.

II. Presentation of the results

Loans and credit lines to enterprises

According to the BLS of April 2003, in the first quarter of the current year, two banks tightened somewhat and three banks kept basically unchanged their credit standards as applied to the approval of loans and credit lines to enterprises. In the previous quarter, almost all the reporting banks (except one which reported no change) had pointed out slightly tighter standards in this credit segment. Almost all the reporting banks indicated tighter criteria regarding long-term lending, in both surveys.

In the BLS of January, most reporting banks pointed to stricter credit standards for lending to small and medium sized enterprises (SME) as well as for short-term loans. In April, changes towards more severe criteria were independent of the size of the enterprises, being less marked in the case of short-term loans.

Tighter credit standards as applied to the approval of loans and credit lines to enterprises were mainly due to the banks' perception of higher risks, as a result of their pessimistic expectations regarding general economic activity as well as unfavourable outlook for specific industries or firms. In both surveys, banks reported pressures from competition as contributing to basically unchanged credit standards. On the contrary, the cost related to banks' own funds was pointed out as contributing to tightening of credit standards by two banks, in April (three banks, in January). Additionally, increased difficulty to access debt market financing was referred by one bank, in April (three, in January).

Banks' assessment of higher risks was also reflected in tighter conditions and terms for approving loans and credit lines to enterprises through (by decreasing importance):

- Wider margins on loans and more demanding collateral requirements,
- Increase of non-interest charges,
- Shorter maturities and more stringent loan covenants.

In general, demand for loans or credit lines to enterprises, apart from normal seasonal fluctuations, decreased somewhat, principally in the case of long-term loans. Individual replies showed some dispersion among "decreased somewhat", "remained basically unchanged" and "increased somewhat", albeit the first prevailing on the latter. Slightly weakening demand is more evident for the segment of large enterprises.

Demand for loans and credit lines to enterprises was primarily affected by lower financing needs for fixed investment and, to a lower degree, for mergers or acquisitions and corporate restructuring (contributing to lower demand). In April, all banks reported debt restructuring as the main factor contributing to higher demand, replacing the factor "financing needs for inventories and working capital" mostly pointed out in January. However, this latter factor continued to be indicated by two banks as contributing to higher demand. The use of alternative finance sources was indicated as contributing to basically unchanged demand for loans of enterprises.

In April, banks' intentions concerning the second quarter of 2003, on average, pointed out to changes towards stricter credit standards applied to the approval of loans and credit lines to enterprises over the next quarter (similarly to the expectations reported in January). Nevertheless, for short-term loans only one bank reported the intention of tightening somewhat its criteria, the four remaining indicated expecting no changes over the second quarter of 2003.

Concerning demand, expectations are broadly for the maintenance or a slight decrease, except for one bank that expects a small increase in all credit segments.

Loans to households

For house purchase

On average, credit standards as applied by the reporting banks to the approval of loans to households for house purchase were reported as remaining basically unchanged in the first quarter of 2003. In January, most of the respondents (except one that pointed out easier standards due to increasing competition) had indicated tighter criteria for this credit segment. The worsening expectations regarding general economic activity and less optimistic prospects on the housing market were the main driving factors. One bank pointed out specifically the increase of unemployment as an additional factor contributing to its stricter criteria.

In January, the answers concerning conditions and terms for approving loans to households for house purchase had been quite dispersed — pointing out to either tightening or easing changes. However, on average, wider margins were indicated as well as stricter "loan-to-value" ratios (albeit, for this latter, less clearly).

In April, results were more homogeneous as well as less pronounced than in the previous survey. The tendency was for virtually unchanged conditions and terms (two banks reported a slight widening of margins and non-interest rate charges, mainly on riskier loans). Despite an overall predisposition towards more rigorous terms concerning loans for house purchases, one bank reported somewhat easier conditions in terms of collateral requirements and "loan-to-value" ratio.

An unfavourable macroeconomic outlook, in general, and a more pessimistic assessment on the financial situation of households in particular, have been the main factors behind the stricter banks' lending policy in this segment.

The assessment on demand for loans to households for house purchase, over the first quarter of 2003, ranged from "slightly lower" to "slightly higher" demand. Most respondent banks indicated the deterioration of both consumer confidence and housing market prospects as the main factors contributing to weakening demand. The end of the subsidised credit regimes for house purchase was also referred to as a further factor accounting for the (somewhat) decrease of this segment of loan demand.

Banks' prospects for the current quarter (three months ending June 2003) are for a slight decrease in demand of loans for house purchase. Two banks reported the intention to tighten somewhat their credit standards and terms while the others pointed out that they will remain basically unchanged.

Consumer credit and other lending

In both surveys (January and April), stricter criteria for approving consumer credit and other lending to households were reported, on average (in each one, only two banks indicated broadly unchanged criteria, none reporting easier credit standards).

Higher perceived risks related to this credit segment — deterioration of general economic outlook, high level of households' indebtedness and risks assessed on the collateral demanded — led to squeezing credit criteria. Banks' conditions and terms reflected this development, through wider margins, higher non-interest rate charges, more demanding collateral requirements and shorter loan maturities.

In the first quarter of 2003, according to the April BLS, the demand for consumer credit and other lending to households remained decreasing, on average: one bank reported a "considerable decrease", other that demand "decreased somewhat" and the remaining three pointed out to "basically unchanged" demand. Declining consumer confidence and the effects of downward adjustment of consumption on durable goods were the main factors contributing to lower demand in this segment.

Expectations for the current quarter are for an additional tightening of credit standards and more stringent conditions and terms on consumer credit and other lending to households. At the same time, banks expect demand to continue on a slight downward trend.

METHODOLOGICAL NOTE

The following tables include the results for Portugal of the Bank Lending Surveys (BLS) of January (between parentheses) and April 2003. Two sets of tables are included in the survey: the first set is about loans and credit lines to non financial corporations while the second one is on loans to households.

In the case of corporations two sort of segmentations have been undertaken: small and medium sized (SME) versus large enterprises, and short term versus long term loans. For households, a distinction between loans for house purchase and consumer credit and other lending has been made.

For each sector — enterprises and households — the questions are focused on: i) the current and the prospective assessments on standards, conditions and terms for lending approval, on one hand, and on demand trends, on the other (tables 1, 4, 6, 7, 8, 13, 16 and 17); and ii) the appraisal of factors affecting standards, conditions and terms (tables 2, 3, 9, 10, 11 e 12), and those behind demand developments (tables 5, 14 e 15).

Tables on the first set of questions have five possible options, for each segment, according to the trend and rate of the changes reported (either occurred or foreseen); replies are shown along columns. Answers to tables on factors' appraisal are along the rows; six options are available - including NA (not applicable) — according to their contribution to either supply or demand conditions.

The results of the survey are as follows:

- The number of banks answering for each option;
- The weighted average of the options chosen by the banks, calculated using a scale (from 1 to 5) to aggregate individual replies, whereas 3 corresponds to "remained basically unchanged". An average figure below 3 means tightening standards, conditions and terms for approving loans (or factors contributing to developments in this way), or, as concerns demand, a decline: 2 corresponds to "somewhat" and 1 to a "considerable" change (thus, as average is closer to 3, closer to "no change" will be the overall banks' appraisal). On the contrary, if average is above 3, standards, conditions and terms applied for loans approval will be easing (or factors contributing to this way) or, concerning demand, growing: "somewhat", in the case of 4, and "considerably", in case of 5.

I. Loans or credit lines to enterprises

1. Over the past three months, how have your bank's credit **standards** as applied to the approval of **loans or credit lines to enterprises** changed?

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Tightened considerably		(1)			(1)
Tightened somewhat	2 (4)	3 (3)	3 (3)	2 (4)	4 (3)
Remained basically unchanged	3 (1)	2 (1)	2 (1)	3 (1)	1
Eased somewhat			(1)		(1)
Eased considerably					
Average Apr 03	2.6	2.4	2.4	2.6	2.2
Jan 03	2.2	2.0	2.6	2.2	2.2

2. Over the past three months, how have the following factors affected your bank's credit standards as applied to the **approval of loans or credit lines to enterprises** (as described in question 1 in the column headed "Overall")? Please rate the contribution of the following factors to the tightening or easing of credit standards using the following scale:

– – = contributed considerably to tightening of credit standards
– = contributed somewhat to tightening of credit standards
° = contributed to basically unchanged credit standards
+ = contributed somewhat to easing of credit standards
+ + = contributed considerably to easing of credit standards
NA = Not Applicable

	– –	–	°	+	+ +	NA	Average Apr 03	Average Jan 03
A) Cost of funds and balance sheet constraints								
* Costs related to your bank's capital position	1 (2)	1 (1)	3 (2)				2.4	2.0
* Your bank's ability to access market financing (e.g. money or bond market financing)		1 (3)	4 (2)				2.8	2.4
* Your bank's liquidity position		1 (1)	4 (4)				2.8	2.8
B) Pressure from competition								
* Competition from other banks			5 (5)				3.0	3.0
* Competition from non-banks			5 (5)				3.0	3.0
* Competition from market financing			5 (5)				3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity	2 (3)	3 (2)					1.6	1.4
* Industry or firm-specific outlook	1 (1)	4 (4)					1.8	1.8
* Risk on the collateral demanded		2 (3)	3 (2)				2.6	2.4

3. Over the past three months, how have your bank's **conditions** and terms for approving **loans or credit lines to enterprises** changed? Please rate each factor using the following scale:

– – = tightened considerably
– = tightened somewhat
° = remained basically unchanged
+ = eased somewhat
+ + = eased considerably
NA = Not Applicable

	– –	–	°	+	+ +	NA	Average Apr 03	Average Jan 03
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		4 (4)	1 (1)				2.2	2.2
* Your bank's margin on riskier loans	1 (2)	4 (3)					1.8	1.6
B) Other conditions and terms								
* Non-interest rate charges	1 (1)	3 (2)	1 (2)				2.0	2.2
* Size of the loan or credit line		2 (2)	3 (3)				2.6	2.6
* Collateral requirements	1 (1)	2 (4)	2				2.2	1.8
* Loan covenants		3 (3)	2 (2)				2.4	2.4
* Maturity		4 (4)	1 (1)				2.2	2.2

4. Over the past three months, how has the **demand for loans or credit lines to enterprises** changed at your bank, apart from normal seasonal fluctuations?

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decreased considerably		(1)			(1)
Decreased somewhat	3 (1)	2 (1)	2 (2)	1 (1)	3 (1)
Remained basically unchanged	1 (2)	2 (1)	3 (1)	3 (1)	2 (2)
Increased somewhat	1 (2)	1 (2)	(2)	1 (2)	
Increased considerably					
Average Apr 03	2.6	2.8	2.6	3.0	2.4
Jan 03	3.2	2.8	3.0	3.3	2.2

5. Over the past three months, how have the following **factors** affected the **demand for loans or credit lines to enterprises** (as described in question 4 in the column headed "Overall")? Please rate each possible factor using the following scale:

– – = contributed considerably to lower demand
– = contributed somewhat to lower demand
° = contributed to basically unchanged demand
+ = contributed somewhat to higher demand
+ + = contributed considerably to higher demand
NA = Not Applicable

	– –	–	°	+	+ +	NA	Average Apr 03	Average Jan 03
A) Financing needs								
* Fixed investment	1 (1)	3 (3)	1 (1)				2.0	2.0
* Inventories and working capital	1		2 (2)	2 (3)			3.0	3.6
* Mergers/acquisitions and corporate restructuring	1 (1)	1 (1)	3 (2)	(1)			2.4	2.6
* Debt restructuring			(3)	5 (2)			4.0	3.4
B) Use of alternative finance								
* Internal financing			4 (3)	1 (2)			3.2	3.4
* Loans from other banks			5 (5)				3.0	3.0
* Loans from non-banks			5 (5)				3.0	3.0
* Issuance of debt securities		1	4 (3)	(2)			2.8	3.4
* Issuance of equity		1	4 (3)	(2)			2.8	3.4

6. Please indicate how you **expect** your **bank's credit standards as applied to the approval of loans or credit lines to enterprises** to change over the next three months.

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Tighten considerably					
Tighten somewhat	3 (2)	3 (2)	2 (1)	1 (1)	2 (2)
Remain basically unchanged	2 (3)	2 (3)	3 (4)	4 (4)	3 (3)
Ease somewhat					
Ease considerably					
Average Apr 03	2.4	2.4	2.6	2.8	2.6
Jan 03	2.6	2.6	2.8	2.8	2.6

7. Please indicate how you **expect demand for loans or credit lines to enterprises to change at your bank** over the next three months (apart from normal seasonal fluctuations)?

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decrease considerably					
Decrease somewhat	2 (1)	3 (1)	1	1	2 (1)
Remain basically unchanged	2 (2)	1 (2)	3 (3)	3 (3)	2 (2)
Increase somewhat	1 (2)	1 (2)	1 (2)	1 (2)	1 (2)
Increase considerably					
Average Apr 03	2.8	2.6	3.0	3.0	2.8
Jan 03	3.2	3.2	3.4	3.4	3.2

II. Loans to households

8. Over the past three months, how have your bank's credit **standards** as applied to the approval of **loans to households** changed?

	Loans for house purchase	Consumer credit and other lending
Tightened considerably		(1)
Tightened somewhat	(3)	3 (2)
Remained basically unchanged	4 (1)	2 (2)
Eased somewhat	1 (1)	
Eased considerably		
Average Apr 03	3.2	2.4
Jan 03	2.6	2.2

9. Over the past three months, how have the following **factors** affected your bank's credit standards as applied to the **approval of loans to households for house purchase** (as described in question 8)? Please rate the contribution of the following factors to the tightening or easing of credit standards using the following scale:

– – = contributed considerably to tightening of credit standards
– = contributed somewhat to tightening of credit standards
° = contributed to basically unchanged credit standards
+ = contributed somewhat to easing of credit standards
+ + = contributed considerably to easing of credit standards
NA = Not Applicable

	– –	–	°	+	+ +	NA	Average Apr 03	Average Jan 03
A) Cost of funds and balance sheet constraints		(1)	5 (4)				3.0	2.8
B) Pressure from competition								
* Competition from other banks		1 (1)	3 (4)	1			3.0	2.8
* Competition from non-banks			5 (4)			(1)	3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity	1	1 (4)	3 (1)				2.4	2.2
* Housing market prospects		2 (4)	3 (1)				2.6	2.2

10. Over the past three months, how have your bank's **conditions** and terms for approving **loans to households for house purchase** changed? Please rate each factor using the following scale:

– – = tightened considerably
– = tightened somewhat
° = remained basically unchanged
+ = eased somewhat
+ + = eased considerably
NA = Not Applicable

	– –	–	°	+	+ +	NA	Average Apr 03	Average Jan 03
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		(2)	5 (3)				3.0	2.6
* Your bank's margin on riskier loans		2 (3)	3 (2)				2.6	2.4
B) Other conditions and terms								
* Collateral requirements		1 (1)	3 (3)	1 (1)			3.0	3.0
* "Loan-to-value" ratio	(1)	1 (3)	2	2 (1)			3.2	2.2
* Maturity		(1)	5 (1)	(2)	(1)		3.0	3.6
* Non-interest rate charges		2 (1)	3 (4)				2.6	2.8

11. Over the past three months, how have the following **factors** affected your bank's credit standards as applied to the approval of **consumer credit and other lending to households** (as described in question 8)? Please rate the contribution of the following factors to the tightening or easing of credit standards using the following scale:

– – = contributed considerably to tightening of credit standards
– = contributed somewhat to tightening of credit standards
° = contributed to basically unchanged credit standards
+ = contributed somewhat to easing of credit standards
+ + = contributed considerably to easing of credit standards
NA = Not Applicable

	– –	–	°	+	+ +	NA	Average Apr 03	Average Jan 03
A) Cost of funds and balance sheet constraints		1 (3)	4 (2)				2.8	2.4
B) Pressure from competition								
* Competition from other banks			5 (5)				3.0	3.0
* Competition from non-banks			5 (5)				3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity	1	1 (4)	3 (1)				2.4	2.2
* Creditworthiness of consumers	(1)	2 (3)	3 (1)				2.6	2.0
* Risk on the collateral demanded		2 (3)	3 (2)				2.6	2.4

12. Over the past three months, how have your bank's **conditions** and terms for approving **consumer credit and other lending to households** changed? Please rate each factor using the following scale:

– – = tightened considerably
– = tightened somewhat
° = remained basically unchanged
\+ = eased somewhat
\+ + = eased considerably
NA = Not Applicable

	– –	–	°	+	+ +	NA	Average Apr 03	Average Jan 03
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		1 (1)	4 (4)				2.8	2.8
* Your bank's margin on riskier loans	1 (1)	1 (1)	3 (3)				2.4	2.4
B) Other conditions and terms								
* Collateral requirements	1 (1)	1 (3)	2 (1)	1			2.6	2.0
* Maturity		2 (3)	3 (2)				2.6	2.4
* Non-interest rate charges		1 (1)	4 (4)				2.8	2.8

13. Over the past three months, how has the **demand for loans to households** changed at your bank, apart from normal seasonal fluctuations?

	Loans for house purchase	Consumer credit and other lending
Decreased considerably	(1)	1 (1)
Decreased somewhat	2 (1)	1 (1)
Remained basically unchanged	1 (1)	3 (3)
Increased somewhat	2 (1)	
Increased considerably	(1)	
Average Apr 03	3.0	2.4
Average Jan 03	3.0	2.4

14. Over the past three months, how have the following **factors** affected the **demand for loans to households for house purchase** (as described in question 13)? Please rate each factor using the following scale:

– – = contributed considerably to lower demand
– = contributed somewhat to lower demand
° = contributed to basically unchanged demand
\+ = contributed somewhat to higher demand
\+ + = contributed considerably to higher demand
NA = Not Applicable

	– –	–	°	+	+ +	NA	Average Apr 03	Average Jan 03
A) Financing needs								
* Housing market prospects		3 (3)	2 (2)				2.4	2.4
* Consumer confidence	2 (1)	1 (2)	2 (2)				2.0	2.2
* Non-housing related consumption expenditure		1 (2)	4 (3)				2.8	2.6
B) Use of alternative finance								
* Household savings		(1)	5 (4)				3.0	2.8
* Loans from other banks	1 (1)		4 (4)				2.6	2.6
* Other sources of finance			5 (5)				3.0	3.0

15. Over the past three months, how have the following **factors** affected the **demand for consumer credit and other lending to households** (as described in question 12)? Please rate each factor using the following scale:

– – = responsible for considerable decrease
– = responsible for decrease
° = responsible for neither decrease nor increase
+ = responsible for increase
+ + = responsible for considerable increase
NA = Not Applicable

	– –	–	°	+	+ +	NA	Average Apr 03	Average Jan 03
A) Financing needs								
* Spending on durable consumer goods, such as cars, furniture, etc.)		3 (3)	2 (2)				2.4	2.4
* Consumer confidence	2 (1)	1 (2)	2 (1)	(1)			2.0	2.4
* Securities purchases			4 (5)	1			3.2	3.0
B) Use of alternative finance								
* Household saving		1	4 (5)				2.8	3.0
* Loans from other banks			5 (5)				3.0	3.0
* Other sources of finance			5 (5)				3.0	3.0

16. Please indicate how you expect your bank's credit standards as applied to the approval of loans to households to change over the next three months.

	Loans for house purchase	Consumer credit and other lending
Tighten considerably		(1)
Tighten somewhat	2 (1)	1 (2)
Remain basically unchanged	3 (4)	4 (2)
Ease somewhat		
Ease considerably		
Average Apr 03	2.6	2.8
Jan03	2.8	2.2

17. Please indicate how you expect demand for loans to households to change over the next three months at your bank (apart from normal seasonal fluctuations).

	Loans for house purchase	Consumer credit and other lending
Decrease considerably		
Decrease somewhat	4 (2)	4 (2)
Remain basically unchanged	1 (3)	1 (3)
Increase somewhat		
Increase considerably		
Average Apr 03	2.2	2.2
Jan 03	2.6	2.6