

**BANK LENDING SURVEY**

April 2004

**Results for Portugal****I. Overall assessment**

According to the results of the survey conducted in April 2004, the five banks considered in the survey upheld in the first quarter of 2004 the overall trend seen at end-2003, slightly tightening credit standards applied in the approval of loans to the non-financial private sector, in all segments. However, such tightening reflects mainly the answers of one of the inquired banks, as all the remaining institutions did not report sizeable changes in loan approval standards vis-à-vis the previous quarter.

The moderate tightening of credit standards on loans to enterprises (which was slightly stronger for long term loans) resulted, according to the reporting banks, of credit risk underlying negative prospects regarding general economic activity and, in particular, regarding developments in specific sectors or enterprises, denoting some degree of selective tightening. In turn, the slight tightening in credit standards applied in the approval of loans to households, for house purchase and for other purposes, has also resulted of the perception of risks underlying such loans, taking into account unfavourable prospects regarding general economic activity, as well as risks arising from consumers' creditworthiness.

The further tightening in credit standards was reflected, in all segments under evaluation, on higher spreads applied on riskier loans. Moreover, some banks also reported that they were charging higher commissions and imposing stricter covenants on credit operations with enterprises. In what concerns loans granted to households for house purchase, banks required more demanding loan to value ratios.

In the first quarter of 2004, the demand for loans and credit lines by enterprises did not undergo significant changes, despite some substitution between short-term loan demand, which increased, and long-term loan demand. Loan demand for house purchase also did not change significantly, even though there was a remarkable dispersion in the answers of the five reporting banks. Finally, the demand of loans for consumption and other purposes decreased slightly during the first quarter of 2004, keeping the trend seen in previous surveys.

For the second quarter of 2004, reporting banks do not foresee sizeable changes in credit standards applied in the approval of loans to the non-financial private sector, even though there is some dispersion in the answers regarding loans to enterprises. On average, banks expect some increase in loan demand during the second quarter of 2004, except for loans for consumption and other purposes, which should remain broadly unchanged.

**II. Presentation of the results*****Loans and credit lines to enterprises***

In the first quarter of 2004, surveyed banks reported, on average, a slight tightening of credit standards applied in the approval of loans to enterprises, upholding the trend seen in previous surveys. However, from the sample of the five reporting banks, only one of them reported in fact a further tightening of credit standards. This moderate tightening was seen in all the segments of loans to enterprises, except for long term loans, where such tightening was relatively more marked (in this segment, two out of five responding banks reported tighter credit standards).

The further tightening of credit standards applied on the approval of loans to enterprises continued to reflect negative prospects regarding general economic activity and, in particular, regarding developments in specific sectors or enterprises, denoting some selective tightening, according to the evaluation of specific underlying risks. One of the inquired banks reported, similarly to the previous survey, that these factors contributed quite markedly to the further tightening in loan approval criteria. In the opposite direction, some banks reported more favourable conditions on their access to market financing as a factor that could enhance some easing of credit standards. Tighter credit standards were reflected in higher spreads, most notably for riskier loans, as well as in commissions and covenants.

On average, during the first quarter of 2004 there were no significant changes in loan demand by enterprises, even though there might have been a slight increase in the demand for short-term funding, which was offset by a slight decrease in the demand for long-term loans. However, there was a substantial dispersion in the answers: whereas one of the reporting banks faced an increase in demand in all the segments under analysis, other bank reported a general decrease in loan demand by enterprises. According to the answers of the five reporting banks, enterprises' loan demand was influenced by factors of diverging nature: on the one hand, debt restructuring and funding of inventories and working capital should have intensified loan demand by some enterprises; on the other hand, the decrease in financing needs for investment or corporate restructuring, in line with developments in overall economic activity, should have contributed in the opposite direction to the overall behaviour of credit demand by enterprises.

The five reporting banks do not intend, on average, to apply substantial changes in the criteria underlying the approval of loans to enterprises during the second quarter of 2004, although there might occur some easing of credit standards for loans granted to large enterprises, most notably in shorter maturities. However, there was some dispersion in the answers of the five responding banks: whereas one of the banks intends to tighten further credit standards on most of the segments of loans to enterprises, other bank foresees changes in the opposite direction. On average, banks anticipate some recovery of the demand for credit by enterprises, especially in longer maturities, in line with a possible recovery of private investment.

## **Loans to households**

### ***For house purchase***

In the first quarter of 2004, there was, on average, a slight tightening of credit standards applied on the approval of loans to households for house purchase. However, only one bank mentioned, in fact, a further tightening of credit standards, whereas all the remaining banks did not undertake substantial changes in credit standards during that period. The moderate tightening of credit standards underlying the approval of loans for house purchase reflects mostly the risks arising from overall economic developments, as well as negative prospects regarding developments in real estate markets. Conversely, two banks considered that pressures arising from competition from other banks might have enhanced some easing of credit standards. The tightening seen in credit standards was reflected in higher spreads on riskier loans, as well as in more stringent loan to value ratios and more demanding collateral requirements.

In the first quarter of 2004, loan demand directed to each of the five surveyed banks recorded some dispersion, even if, on average, there were no significant changes in loan demand. One of the banks faced a sizeable decrease of loan demand in this segment, whereas two other banks reported a slight increase in loan demand. According to bank's assessment, the unfavourable prospects regarding real estate markets, as well as the persistence of low consumer confidence levels should have weakened slightly the demand of housing loans. Even though two banks reported some increase in the demand for housing loans, none of them reported factors that could have enhanced such increase in demand.

In what concerns the second quarter of 2004, none of the surveyed banks intends to conduct significant changes in credit standards applied in the approval of loans for house purchase. Regarding banks' prospects concerning the evolution of demand, only one of the reporting banks foresees some increase of the demand in this segment.

### ***For consumption and other purposes***

Similarly to what was seen regarding loans for house purchase, only one of the five reporting banks tightened somewhat credit standards underlying the approval of loans for consumption and other purposes, mostly as a consequence of unfavourable prospects regarding overall economic developments. Besides, even though to a lesser extent, other factors contributed to such tightening, namely the risks arising from consumers' creditworthiness, chiefly for loans that bear some risk on the collateral demanded. The moderate tightening of credit standards was reflected in several conditions, most notably in the spread applied on riskier loans.

In line with the trend seen in previous surveys, banks have reported, on average, a decrease of the demand for loans for consumption and other purposes. Such decrease should reflect, according to banks' assessment, the persistence of low consumer confidence levels, as well as the decrease of financing needs for the acquisition of durable consumer goods, which are increasingly financed with households' savings.

According to the prospects of reporting banks concerning the second quarter of 2004, the overall credit approval strategies in this segment should not undergo sizeable changes. Furthermore, banks do not foresee significant changes in the demand for credit in this specific sector.

### METHODOLOGICAL NOTE

The following tables include the results for Portugal of the Bank Lending Surveys (BLS) conducted in April 2004. 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.

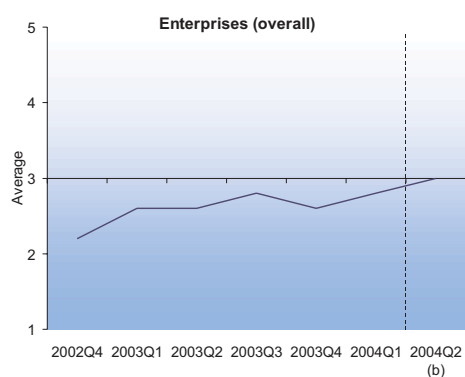
For each sector — enterprises and households — the questions are focused on: i) the current and the prospective assessments on standards, conditions and terms for lending approval, on one hand, and on demand trends, on the other (tables 1, 4, 6, 7, 8, 13, 16 and 17); and ii) the appraisal of factors 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.

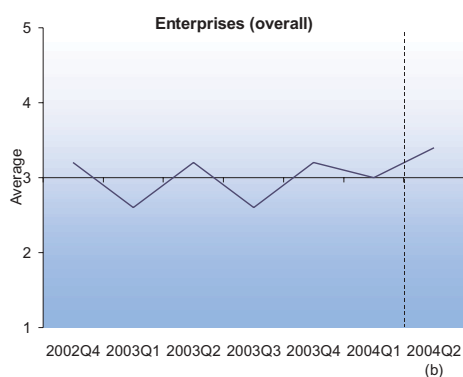
The results of the survey are as follows:

- 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.

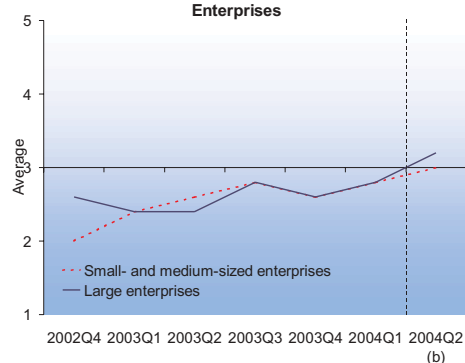
#### CREDIT SUPPLY<sup>(a)</sup>



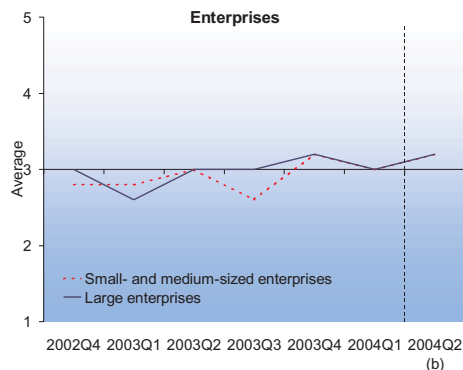
#### CREDIT DEMAND<sup>(a)</sup>



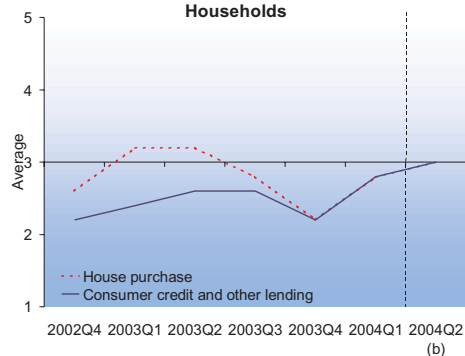
#### Enterprises



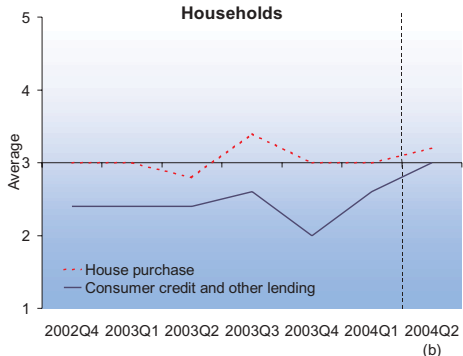
#### Enterprises



#### Households



#### Households



Notes: (a) In questions regarding credit supply, values below 3 should be interpreted as tighter standards applied on loan approval vis-à-vis the previous quarter. In turn, values above 3 imply an easing of credit standards. In questions regarding credit demand, values above 3 represent an increase in demand.

(b) Banks's expectations.

## 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					
Tightened somewhat	1	1	1	1	2
Remained basically unchanged	4	4	4	4	3
Eased somewhat					
Eased considerably					
Average Apr. 04	2.8	2.8	2.8	2.8	2.6
Jan. 04	2.6	2.6	2.6	2.6	2.6

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. 04	Jan. 04
<b>A) Cost of funds and balance sheet constraints</b>								
* Costs related to your bank's capital position		1	4				2.8	2.8
* Your bank's ability to access market financing (e.g. money or bond market financing)			3	2			3.4	3.2
* Your bank's liquidity position		1	3	1			3.0	3.0
<b>B) Pressure from competition</b>								
* Competition from other banks			5				3.0	3.0
* Competition from non-banks			4	1			3.2	3.0
* Competition from market financing			5				3.0	3.0
<b>C) Perception of risk</b>								
* Expectations regarding general economic activity	1		4				2.6	2.6
* Industry or firm-specific outlook	1	1	3				2.4	2.4
* Risk on the collateral demanded			5				3.0	3.0

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. 04 Jan. 04	
<b>A) Price</b>								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		2	3				2.6	2.4
* Your bank's margin on riskier loans	1	3	1				2.0	2.0
<b>B) Other conditions and terms</b>								
* Non-interest rate charges	1	2	2				2.2	2.6
* Size of the loan or credit line		1	4				2.8	3.0
* Collateral requirements	1		4				2.6	2.6
* Loan covenants		2	3				2.6	2.6
* Maturity		2	2	1			2.8	2.8

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					
Decreased somewhat	1	1	1		1
Remained basically unchanged	3	3	3	4	4
Increased somewhat	1	1	1	1	
Increased considerably					
Average Apr. 04 Jan. 04	3.0 3.2	3.0 3.2	3.0 3.2	3.2 3.4	2.8 2.6

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. 04 Jan. 04	
<b>A) Financing needs</b>								
* Fixed investment		1	4				2.8	2.8
* Inventories and working capital			4	1			3.2	3.6
* Mergers/acquisitions and corporate restructuring		1	4				2.8	2.8
* Debt restructuring			2	3			3.6	3.8
<b>B) Use of alternative finance</b>								
* Internal financing		1	4				2.8	3.0
* Loans from other banks			5				3.0	3.0
* Loans from non-banks			5				3.0	3.0
* Issuance of debt securities			5				3.0	3.0
* Issuance of equity			5				3.0	3.0

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	1	1	1		1
Remain basically unchanged	3	3	2	4	3
Ease somewhat	1	1	2	1	1
Ease considerably					
	Average Apr. 04 Jan. 04	3.0 2.8	3.0 2.8	3.2 2.8	3.0 2.8

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					
Remain basically unchanged	3	4	4	4	3
Increase somewhat	2	1	1	1	2
Increase considerably					
	Average Apr. 04 Jan. 04	3.4 3.4	3.2 3.2	3.2 3.0	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		
Tightened somewhat	1	1
Remained basically unchanged	4	4
Eased somewhat		
Eased considerably		
	Average Apr. 04 Jan. 03	2.8 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. 04 Jan. 04	
<b>A) Cost of funds and balance sheet constraints</b>			4			1	2.4	2.8
<b>B) Pressure from competition</b>								
* Competition from other banks			3	2			3.4	3.0
* Competition from non-banks			4			1	2.4	3.0
<b>C) Perception of risk</b>								
* Expectations regarding general economic activity		1	4				2.8	2.2
* Housing market prospects		1	4				2.8	2.4

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. 04	Jan. 04
<b>A) Price</b>								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		1	4				2.8	2.6
* Your bank's margin on riskier loans	1		4				2.6	2.2
<b>B) Other conditions and terms</b>								
* Collateral requirements			5				3.0	2.8
* "Loan-to-value" ratio		2	3				2.6	2.4
* Maturity			5				3.0	3.2
* Non-interest rate charges		1	4				2.8	2.6

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. 04	Jan. 04
<b>A) Cost of funds and balance sheet constraints</b>		1	4				2.8	2.6
<b>B) Pressure from competition</b>								
* Competition from other banks			5				3.0	3.0
* Competition from non-banks			5				3.0	3.0
<b>C) Perception of risk</b>								
* Expectations regarding general economic activity	1		4				2.6	2.2
* Creditworthiness of consumers		1	4				2.8	2.2
* Risk on the collateral demanded		1	4				2.8	2.6

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. 04	Jan. 04
<b>A) Price</b>								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		1	4				2.8	2.8
* Your bank's margin on riskier loans	1	1	3				2.4	2.4
<b>B) Other conditions and terms</b>								
* Collateral requirements		1	4				2.8	2.6
* Maturity		1	4				2.8	2.6
* Non-interest rate charges		1	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	
Decreased somewhat		2
Remained basically unchanged	2	3
Increased somewhat	2	
Increased considerably		
	Average Apr. 04	2.6
	Jan. 04	2.0
	3.0	
	3.0	

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. 04	Jan. 04
<b>A) Financing needs</b>								
* Housing market prospects		3	2				2.4	2.4
* Consumer confidence		2	3				2.6	2.2
* Non-housing related consumption expenditure		1	4				2.8	2.6
<b>B) Use of alternative finance</b>								
* Household savings		1	4				2.8	2.8
* Loans from other banks			5				3.0	3.0
* Other sources of finance			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. 04	Jan. 04
<b>A) Financing needs</b>								
* Spending on durable consumer goods, such as cars, furniture, etc.)		1	4				2.8	2.6
* Consumer confidence		2	3				2.6	2.0
* Securities purchases			5				3.0	3.0
<b>B) Use of alternative finance</b>								
* Household saving		1	4				2.8	2.8
* Loans from other banks			5				3.0	3.0
* Other sources of finance			5				3.0	2.8

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		
Tighten somewhat		
Remain basically unchanged	5	5
Ease somewhat		
Ease considerably		
Average Apr. 04	3.0	3.0
Jan. 04	2.8	2.8

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		
Remain basically unchanged	4	5
Increase somewhat	1	
Increase considerably		
Average Apr. 04	3.2	3.0
Jan. 04	3.0	2.8