

**BANK LENDING SURVEY**

April 2005

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

According to the results of the survey conducted in April 2005, four of the five Portuguese banking groups included in the sample did not report sizeable changes in loans approval standards to non-financial corporations in the first quarter of 2005, while the other institution pointed out a slight loosening of the criteria. For households, a slight easing of credit standards underlying the approval of loans for house purchase was also reported, on average, while in credit standards underlying the approval of loans for consumption and other purposes only one bank changed its criteria, in direction of a slight tightening.

In all segments the increase in competition, in particular within banks, was the main factor for an easing of credit standards. Further, in the segment of enterprises, more favourable prospects regarding general economic activity were reported. In the segment of loans to households for house purchases, improvements in cost of funds and in balance sheet constraints were the factors reported. Among elements that have contributed to a tightening of credit standards, costs related to banks' capital position and banks' liquidity position were reported in the segment of enterprises, as for the segment of households less favourable expectations regarding economic activity were pointed out.

During the first three months of 2005, the surveyed institutions reported lower spreads applied on average risk loans in the segments of enterprises and households. The loosening of credit standards was also reflected on more favourable non-price conditions and terms such as an increase in maturities and a decrease in non-interest charges. Nevertheless, in the segment of enterprises, higher spreads applied on riskier loans were reported.

In the first quarter of 2005, the demand for loans and credit lines by enterprises should have increased slightly, comparing to the last quarter of 2004. Similar evolution should have been recorded by loans demand for consumption and other purposes, while in the segment of loans to households for house purchase the demand should have remained globally unchanged.

For the second quarter of 2005, the reporting banks do not anticipate on average significant changes in credit standards applied on the approval of loans to enterprises and to households for consumption and other purposes. Regarding credit criteria applied on loans to households for house purchase, only one institution intends to ease slightly its criteria. Finally, for the same period, the surveyed banking groups expect a slight increase in demand for loans in all segments in analysis.

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

According to the banking groups included in the survey, there were no sizeable changes in credit standards applied on the approval of loans to enterprises in the first quarter of 2005. In fact, only one bank pointed out a slight loosening of its credit standards, in all segments and for all maturities.

For an easing of credit conditions contributed mainly the higher pressure from competition within banking institutions and more favourable expectations regarding general economic activity. In the opposite sense, the factors reported as contributing to a tightening of credit standards were costs related to banks' capital position, banks' liquidity position and perception of risks in specific sectors or enterprises. The loosening of loans criteria should have been reflected on lower spreads applied on average risks loans, on increase of loans maturity and on decrease of non-interest rate charges. Nevertheless, on average, for riskier loans, on average, banks reported higher spreads.

In the first three months of 2005, the loans and credit lines demand by enterprises should have increased slightly, in aggregated net terms, in particular in the segment of small and medium-sized enterprises. According to reported answers, the demand should have been influenced positively by increased financing needs, namely for debt restructuring, for inventories and working capital and for fixed investment, and by a lower use of loans from non-banks. The financing needs for "merge and acquisitions" and corporate restructuring and the issuance of debt securities by enterprises were also reported by some inquired banks as factors with impact over demand directed towards them, though these factors should have stood globally neutral.

For the second quarter of 2005, reporting banks do not foresee on average significant changes in the criteria underlying the approval of loans and credit lines to enterprises, with exception of the segment of large enterprises for which a slight tightening of the criteria is expected. Regarding the evolution of demand, banks' prospects point to a slight increase in both segments of enterprises and in all maturities.

***Loans to households******For house purchase***

In the first quarter of 2005, the inquired banks reported on average a slight easing of credit standards applied on approval of loans to households for house purchase. Indeed, two of the five banking groups pointed out a slight loosening of their criteria.

Four of the five inquired banks reported stronger competition from other banks as contributing to a loosening of the credit standards. An improvement in cost of funds and in balance sheet constraints was also pointed out by one institution. Conversely, contributing to a tightening of the criteria, one banking group indicated less favourable prospects regarding general economic activity. The loosening of credit standards reported by banks should have been reflected on lower spreads applied on average risk loans, on an increase of loans maturity, on lower non-interest rate charges and on lower "loans-to-value" ratios.

In the first quarter of 2005, the demand for loans for house purchase should not have recorded (on average) sizeable changes. However, it should be noted that there is some dispersion in individual answers: while two institutions reported a slight increase, other institution pointed out a considerable decrease. For the increase of the demand, more favourable housing market prospects was reported by one bank, whereas two banks pointed out an increase of loans from other banks as contributing to a reduction. The remaining factors in analysis should not have had impact over demand, although there is some divergence regarding the impact of consumer confidence and of non-house related consumption expenditures.

For the next three months only one bank expects to change its criteria, in the sense of easing them. Concerning demand, one institution foresees a slight decrease; two banks expect a slight increase, while the other two institutions do not anticipate sizeable changes.

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

In the first quarter of 2005, four of the five inquired banking groups did not report sizeable changes in credit standards applied on approval of loans to households for consumption and other purposes, whereas the other institution pointed out a slight tightening of its criteria.

For the tightening of credit standards contributed a less favourable evaluation of general economic activity and of consumers' creditworthiness. Contributing to an easing of credit standards it only was reported an increase of pressure from competition from other banks. In what concerns the conditions applied in this segment during the first quarter of 2005, lower spreads applied on average risk loans were reported. Some institutions pointed out changes in spreads applied on riskier loans and in non-interest rate charges, though in aggregate terms these variations should not have had a visible impact.

In the first quarter of 2005, two of the five surveyed institutions reported a slight increase of demand for loans for consumption and other purposes, whereas another bank pointed out a slight decrease. According to banks, such developments should have reflected an increase of expenditures on durable consumer goods and a decrease of other sources of finance. In this segment there are also distinct evaluations of the impact over demand of consumer confidence.

For the following three months, the five banking groups included in the sample anticipate the maintenance of their credit standards applied on loans for consumption and other purposes. However, as far as demand prospects for the same period are concerned, there is some dispersion in reported answers. Two institutions foresee a slight increase; one expects a slight decrease, while the remaining institutions do not anticipate significant changes vis-à-vis the first quarter of 2005.

### METHODOLOGICAL NOTE

The following tables include the results for Portugal of the Bank Lending Surveys (BLS) conducted in April 2005. 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.

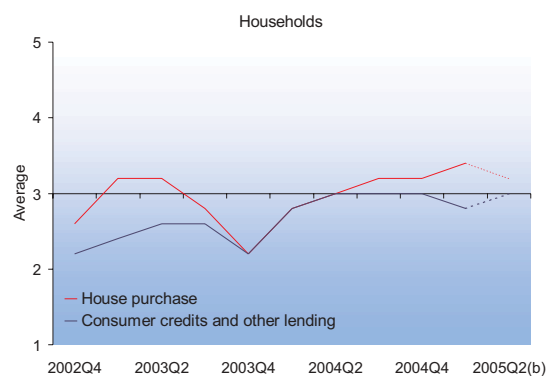
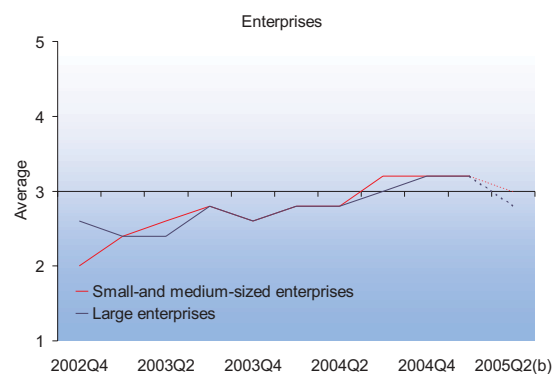
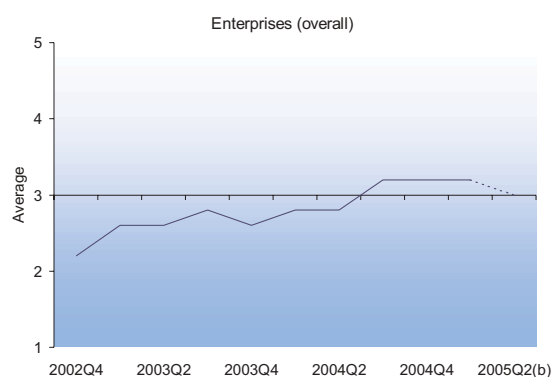
For each sector — enterprises and households — the questions are focused on: i) the current and the prospective assessments on standards, conditions and terms for lending approval, on one hand, and on demand trends, on the other (tables 1, 4, 6, 7, 8, 13, 16 and 17); and ii) the appraisal of factors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

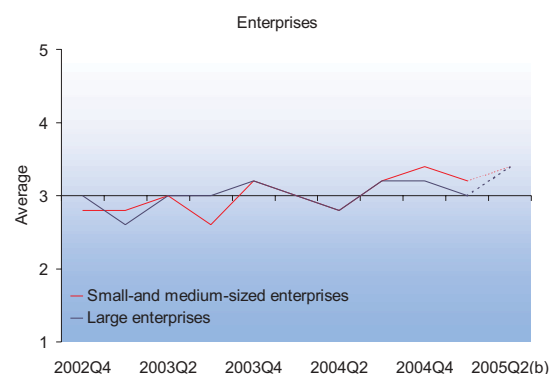
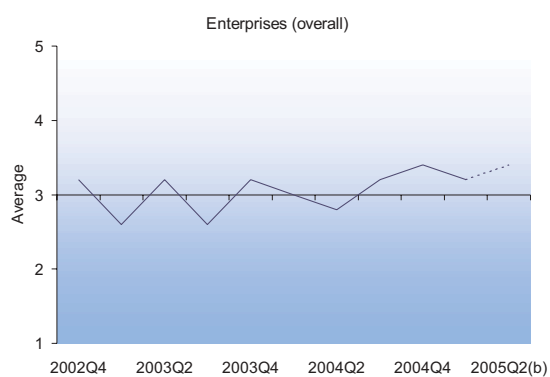
The results of the survey are as follows:

- 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>



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					
Remained basically unchanged	4	4	4	4	4
Eased somewhat	1	1	1	1	1
Eased considerably					
Average Apr. 05	3.2	3.2	3.2	3.2	3.2
Jan. 05	3.2	3.2	3.2	3.2	3.2

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. 05 Jan. 05	
<b>A) Cost of funds and balance sheet constraints</b>								
* Costs related to your bank's capital position		1	4				2.8	3.0
* Your bank's ability to access market financing (e.g. money or bond market financing)			5				3.0	3.2
* Your bank's liquidity position		1	4				2.8	3.0
<b>B) Pressure from competition</b>								
* Competition from other banks			2	2	1		3.8	3.8
* Competition from non-banks			3	2			3.4	3.2
* Competition from market financing			4	1			3.2	3.2
<b>C) Perception of risk</b>								
* Expectations regarding general economic activity			4	1			3.2	3.0
* Industry or firm-specific outlook		2	2	1			2.8	2.8
* Risk on the collateral demanded			5				3.0	3.2

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. 05 Jan. 05	
<b>A) Price</b>								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			2	3			3.6	3.4
* Your bank's margin on riskier loans		2	2	1			2.8	2.4
<b>B) Other conditions and terms</b>								
* Non-interest rate charges			3	2			3.4	3.2
* Size of the loan or credit line			5				3.0	3.2
* Collateral requirements			5				3.0	3.2
* Loan covenants			5				3.0	3.0
* Maturity			3	2			3.4	3.2

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-size enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decreased considerably					
Decreased somewhat	1		1		
Remained basically unchanged	2	4	3	3	3
Increased somewhat	2	1	1	2	2
Increased considerably					
Average Apr. 05 Jan. 05	3.2	3.2	3.0	3.4	3.4
	3.4	3.4	3.2	3.6	2.8

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. 05 Jan. 05	
<b>A) Financing needs</b>								
* Fixed investment			4	1			3.2	3.2
* Inventories and working capital			2	3			3.6	3.8
* Mergers/acquisitions and corporate restructuring		1	3	1			3.0	2.8
* Debt restructuring			2	3			3.6	3.6
<b>B) Use of alternative finance</b>								
* Internal financing			5				3.0	3.0
* Loans from other banks			5				3.0	3.0
* Loans from non-banks			4	1			3.2	3.0
* Issuance of debt securities		1	3	1			3.0	3.2
* 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	1
Remain basically unchanged	3	3	4	3	3
Ease somewhat	1	1		1	1
Ease considerably					
Average Apr. 05 Jan. 05	3.0	3.0	2.8	3.0	3.0
	3.0	3.0	2.8	3.0	3.0

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	3	3	3	3
Increase somewhat	2	2	2	2	2
Increase considerably					
Average Apr. 05 Jan. 05	3.4	3.4	3.4	3.4	3.4
	3.4	3.4	3.0	3.6	3.4

## 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
Remained basically unchanged	3	4
Eased somewhat	2	
Eased considerably		
Average Apr. 05 Jan. 05	3.4	2.8
	3.2	3.0

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. 05 Jan. 05	
<b>A) Cost of funds and balance sheet constraints</b>			4	1			3.2	3.0
<b>B) Pressure from competition</b>								
* Competition from other banks			1	4			3.8	3.4
* Competition from non-banks			4			1	3.0	3.0
<b>C) Perception of risk</b>								
* Expectations regarding general economic activity		1	4				2.8	2.8
* Housing market prospects			5				3.0	3.0

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. 05 Jan. 05	
<b>A) Price</b>								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			2	3			3.6	3.2
* Your bank's margin on riskier loans		1	3	1			3.0	2.8
<b>B) Other conditions and terms</b>								
* Collateral requirements			5				3.0	3.0
* "Loan-to-value" ratio			4	1			3.2	3.0
* Maturity			3	2			3.4	3.4
* Non-interest rate charges			4	1			3.2	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. 05 Jan. 05	
<b>A) Cost of funds and balance sheet constraints</b>			5				3.0	3.2
<b>B) Pressure from competition</b>								
* Competition from other banks			3	2			3.4	3.2
* Competition from non-banks			4	1			3.2	3.0
<b>C) Perception of risk</b>								
* Expectations regarding general economic activity		2	3				2.6	2.8
* Creditworthiness of consumers		2	3				2.6	2.8
* Risk on the collateral demanded			5				3.0	2.8

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. 05 Jan. 05	
<b>A) Price</b>								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			4	1			3.2	3.2
* Your bank's margin on riskier loans		1	3	1			3.0	2.4
<b>B) Other conditions and terms</b>								
* Collateral requirements			4	1			3.2	3.0
* Maturity			5				3.0	3.2
* Non-interest rate charges		1	3	1			3.0	3.0

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		1
Remained basically unchanged	2	2
Increased somewhat	2	2
Increased considerably		
Average Apr. 05	3.0	3.2
Jan. 05	3.4	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. 05 Jan. 05	
<b>A) Financing needs</b>								
* Housing market prospects			4	1			3.2	3.2
* Consumer confidence		2	1	2			3.0	2.8
* Non-housing related consumption expenditure		1	3	1			3.0	2.8
<b>B) Use of alternative finance</b>								
* Household savings			5				3.0	3.0
* Loans from other banks	1	1	2	1			2.6	2.8
* 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. 05 Jan. 05	
<b>A) Financing needs</b>								
* Spending on durable consumer goods, such as cars, furniture, etc.)		1	2	2			3.2	3.0
* Consumer confidence		2	1	2			3.0	2.8
* Securities purchases			5				3.0	3.0
<b>B) Use of alternative finance</b>								
* Household saving			5				3.0	3.0
* Loans from other banks			5				3.0	3.0
* Other sources of finance			4	1			3.2	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	4	5
Ease somewhat	1	
Ease considerably		
Average Apr. 05 Jan. 05	3.2	3.0
	3.4	3.0

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	1	1
Remain basically unchanged	2	2
Increase somewhat	2	2
Increase considerably		
Average Apr. 05 Jan. 05	3.2	3.2
	3.2	2.8