

BANK LENDING SURVEY

January 2004

Results for Portugal**I. Overall assessment**

The results of the survey conducted in January 2004 pointed out to a further tightening in credit standards applied by the reporting banks to the approval of loans to the non-financial private sector in the last quarter of 2003. Nevertheless, banks' standards were not uniformly tightened across the market. The reporting banks tightened slightly the criteria applied to the approval of loans or credit lines to enterprises while those criteria were squeezed more significantly as applied to approving loans to households (particularly, for house purchase).

Also, through 2003, the path followed by lending policies carried out by the five surveyed banking groups was distinct in those two sectors. In the case of loans or credit lines to enterprises, the trend to tightening criteria was clear in the whole year, albeit slower-moving in the third quarter. Tighter banks' conditions fell firstly on lending to SME, but, afterwards, it was broadened to loans to large enterprises. Long-term loans were more intensively affected by tighter criteria while changes in standards applied to short-term loans were reported as less significant. Concerning loans to households for house purchase, banks' approving standards did not change significantly in the first half of the year. But, in the later two quarters those standards became notoriously tighter. For consumer credit and other lending to households, credit supply followed straight on a path of rising strictness, the whole year.

In the fourth quarter of 2003, credit standards as applied to the approval of loans or credit lines to enterprises were reported by the five surveyed banks as tightening somewhat (on average) from the previous quarter. This development was independent on either the size of firms or the maturity of loans. In the case of loans to households for house purchase, significantly tighter criteria (on average) were reported, in a similar way as in the quarter before. For consumer credit and other lending to households, standards continued to tighten, keeping a trend of successive strictness as reported in the previous surveys.

The perception of risks due to the current business cycle through and the high level of indebtedness of both non-financial corporations and households were the main factors pointed out by the surveyed banks as contributing to tightening their credit standards. Stricter criteria were reflected in significantly wider spreads (more considerably for riskier loans), more demanding collateral requirements for corporations and individuals and, in the case of corporations, also more stringent loan covenants. Notice that in the last quarter of 2003, developments on banks conditions or terms for approving loans to enterprises and lending to households other than for house purchase (reported, in the quarter, as being changed somewhat towards more strictness) were not markedly different of those reported in previous surveys. On the contrary, in the segment of lending for house purchase, banks reported clearly tighter conditions only in the latter two surveys. As a matter of fact, in the fourth quarter of 2003, loans for house purchase were approved with marked tighter terms than in the previous quarter (when tightening conditions had been already reported).

The results of the January bank lending survey, suggest that there was some recovery in loan demand by enterprises (contrarily to the previous survey that reported a slight reduction in demand). The main factors affecting demand for loans or credit lines to enterprises remained roughly unchanged: financing needs for inventories and working capital investment and for debt restructuring. Financing requirements due to fixed investment had a smaller contribution towards reduction of loan demand than in the previous quarters.

The demand for loans for house purchase was reported with no significant change in the last quarter of the year. However, weakening consumer confidence and pessimistic prospects on housing market were pointed out as factors towards downward demand. The low level of interest rates and the availability of products more suitable to customers' needs may have counteracted those (previously referred) unfavourable factors. Demand for consumer credit and other lending to households pursued on a downward trend, in line with low consumer confidence and high indebtedness ratios.

In general, the surveyed banks intend to keep their current credit standards as applied to the approval of loans to non-financial corporations and households roughly unchanged in the first quarter of 2004. Banks forecasts are for a slight increase in demand for loans to enterprises (chiefly SME), while households' demand for credit is not expected to change significantly (both for house purchase and other purposes).

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

The five Portuguese banks in the BLS sample continued to report (somewhat) tighter credit standards as applied to the approval of loans and credit lines to enterprises, in the fourth quarter of 2003. Three of them reported their criteria as basically unchanged while the others indicated that they had tightened somewhat. This trend was common to all segments (that is, the answers and the respective distribution were the same for loans to large and to small and medium-sized enterprises, as well as for short and long-term loans).

The persistence of some tightening in loan approval was mostly a result of banks' perception of risks arising from pessimistic prospects on overall economic developments and regarding industry and firm-specific outlook. One of the reporting banks mentioned these two factors as contributing considerably to a further tightening of credit standards while the others seemed to be more neutral to them. In the opposite direction, one banking group pointed out its own ability to access market financing and liquidity position as contributing somewhat to ease credit standards in this segment.

According to the results of the survey conducted in January 2004, overall, the reporting banks indicated the increase in margins as the main factor constricting lending to non-financial corporations. Collateral requirements and loan covenants were additional

conditions pointed out as tightening, on average. Wider margins were particularly significant on riskier loans, being this factor (together with higher non-interest rate charges and more demanding collateral requirements) indicated by one of the banks as tightened considerably, in the fourth quarter.

In the last three months of the year, demand for loans or credit lines to enterprises would have increased somewhat, on average, particularly for short-term loans; this development was pointed out by two banks as being independent on the firm size. Another bank indicated a slight decrease in demand (of both SME and large enterprises). Loan demand of non-financial corporations was reported to have continued to be boosted mainly by the investment in inventories and working capital and by financing needs related to debt restructuring. One of the banks indicated fixed investment as a factor contributing somewhat to demand increase.

For the first quarter of 2004, four banks reported the intention to keep their credit standards in approving loans to non-financial firms as basically unchanged (all five reported this intention in the case of short-term loans). One of the reporting banks is planning to tighten slightly their credit standards in this segment (except for short-term loans that are expected to remain unchanged). Demand prospects show miscellaneous signals: one of the banks foresees a decrease in the case of large enterprises; among the remaining, two foresee an overall slight increase.

Loans to households

For house purchase

During the last quarter of 2003, the trend denoted by the surveyed banks in the previous quarter towards tighter credit standards applied on loans granted for house purchase was strengthened. Nevertheless, replies were not homogeneous among all the banks: two of them reported a slight increase in their standards' strictness, another reported considerably tighter criteria and the remaining indicated no significant changes.

The tightening in credit standards in this segment is mostly due to the maintenance of pessimistic expectations regarding economic developments and unfavourable housing market prospects. Only one banking group indicated the cost of funds and balance sheet constraints as slightly affecting credit standards towards tightening. Pressure from competition was reported as contributing to basically unchanged criteria, in the latter quarter of 2003. Wider margins (mostly, on riskier loans), more stringent loan-to-value ratios and higher non-interest rate charges were pointed out by the five banks as the main changes in their conditions and terms for approving loans for house purchase. One of the banks reported the condition "maturity" as having been eased somewhat.

On average, demand for loans to households for house purchase remained basically unchanged, in the fourth quarter 2003. Two banking groups reported a slight decrease, other two pointed to a slight increase, and the remaining reported basically unchanged demand. Weak consumer confidence, worsening prospects for the housing market and financing needs related to non-housing consumption expenditure were the main factors indicated as affecting negatively demand growth. Towards (somewhat) increasing demand, one of the banks continued to mention the supply of financial products more suitable to its customers' needs.

Prospects in the first quarter of 2004 are for the stability of both credit standards and demand in this market segment, on average. Four of the surveyed banks are not intended to change their criteria to the approval of loans for house purchase, while the other one foresees a slight tightening.

Consumer credit and other lending

In the last three months of 2003, the five Portuguese banks included in the BLS sample continued to tighten credit standards to approving consumer credit and other lending to households. One of them reported their criteria as considerably tightened, two other indicated they had somewhat tightened and the remaining reported no change.

Underlying this behaviour was essentially the perception of higher risks due to the macro-economic situation together with a high level of the households' indebtedness ratio (thus, increasing difficulties to afford the debt service burden). These two factors were referred by one of the surveyed banks as contributing considerably to tighter criteria. Alike developments in the other segments of credit market, tighter standards were reflected in wider margins and more stringent collateral requirements on this type of lending.

According to the results of the BLS of January, banks' assessment are for the maintenance, in the first quarter of 2004, of the current guidelines in approving consumer credit and other lending to households. Moreover, loan demand in this segment is foreseen to remain basically unchanged; only one reporting bank is expecting a considerable decrease in demand.

METHODOLOGICAL NOTE

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

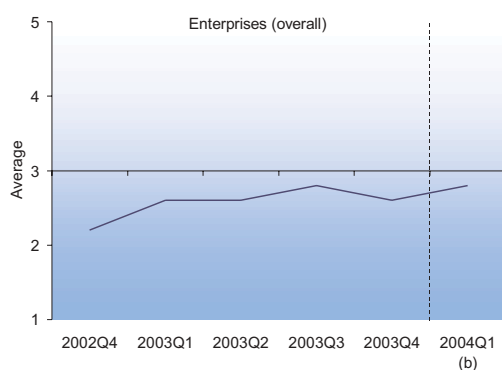
For each sector — enterprises and households — the questions are focused on: i) the current and the prospective assessments on standards, conditions and terms for lending approval, on one hand, and on demand trends, on the other (tables 1, 4, 6, 7, 8, 13, 16 and 17); and ii) the appraisal of factors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

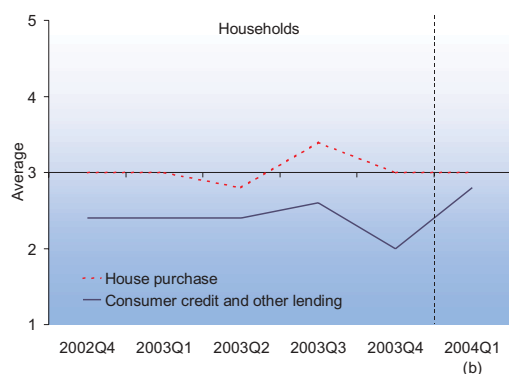
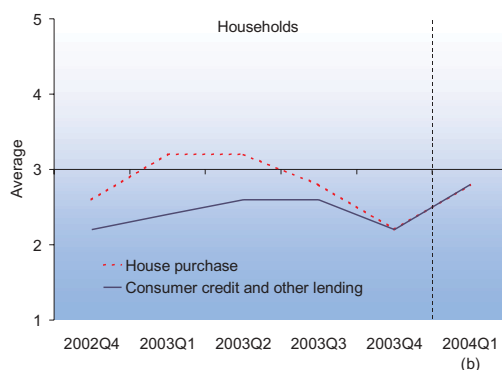
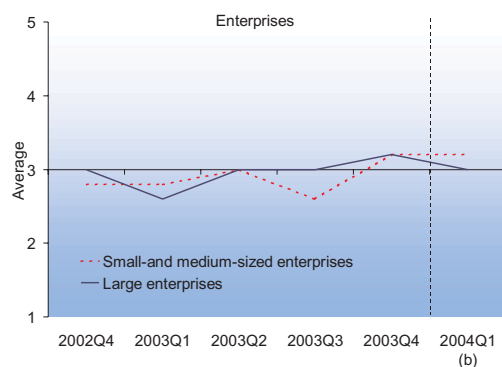
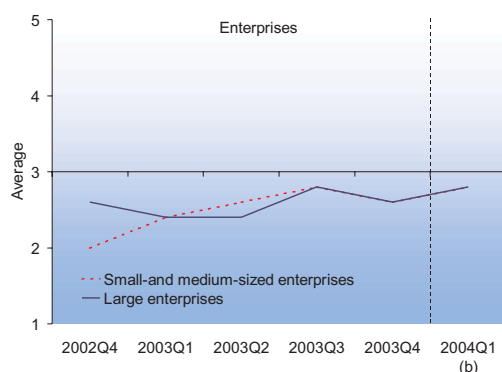
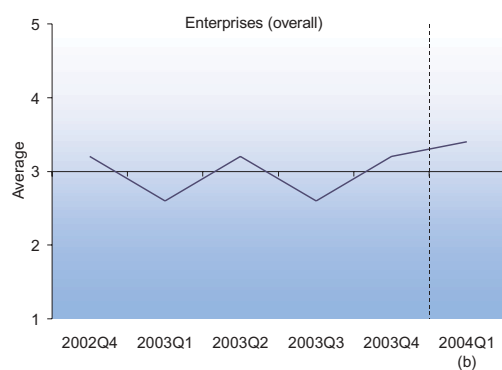
The results of the survey are as follows:

- 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^(a)



CREDIT DEMAND^(a)



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	2	2	2	2	2
Remained basically unchanged	3	3	3	3	3
Eased somewhat					
Eased considerably					
Average Jan 04	2.6	2.6	2.6	2.6	2.6
Oct 03	2.8	2.8	2.8	2.8	2.8

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 Jan04 Oct 03	
A) Cost of funds and balance sheet constraints								
* 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)			4	1			3.2	3.2
* Your bank's liquidity position		1	3	1			3.0	2.8
B) Pressure from competition								
* Competition from other banks			5				3.0	3.0
* Competition from non-banks			5				3.0	3.0
* Competition from market financing			5				3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity	1		4				2.6	2.2
* Industry or firm-specific outlook	1	1	3				2.4	2.4
* Risk on the collateral demanded			5				3.0	2.8

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 Jan 04 Oct 03	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		3	2				2.4	2.4
* Your bank's margin on riskier loans	1	3	1				2.0	2.0
B) Other conditions and terms								
* Non-interest rate charges	1		4				2.6	2.4
* Size of the loan or credit line		1	3	1			3.0	2.6
* Collateral requirements	1		4				2.6	2.2
* Loan covenants		2	3				2.6	2.6
* Maturity		1	4				2.8	2.6

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		2
Remained basically unchanged	2	2	2	3	3
Increased somewhat	2	2	2	2	
Increased considerably					
Average Jan 04 Oct 03	3.2	3.2	3.2	3.4	2.6
	2.6	2.6	3.0	3.2	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 Jan 03 Oct 03	
A) Financing needs								
* Fixed investment		2	2	1			2.8	2.4
* Inventories and working capital			2	3			3.6	3.4
* Mergers/acquisitions and corporate restructuring		1	4				2.8	2.6
* Debt restructuring			1	4			3.8	3.8
B) Use of alternative finance								
* Internal financing		1	3	1			3.0	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	3.2
* 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
Remain basically unchanged	4	4	4	5	4
Ease somewhat					
Ease considerably					
Average Jan 04 Oct 03	2.8	2.8	2.8	3.0	2.8
	2.6	2.6	2.6	3.0	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			1		
Remain basically unchanged	3	4	3	4	4
Increase somewhat	2	1	1	1	1
Increase considerably					
Average Jan 04 Oct 03	3.4	3.2	3.0	3.2	3.2
	3.0	3.0	3.2	3.2	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	1
Tightened somewhat	2	2
Remained basically unchanged	2	2
Eased somewhat		
Eased considerably		
Average Jan 04 Oct 03	2.2	2.2
	2.8	2.6

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 Jan 04 Oct 03	
A) Cost of funds and balance sheet constraints		1	4				2.8	2.6
B) Pressure from competition								
* Competition from other banks			5				3.0	3.2
* Competition from non-banks			4			1	3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity	1	2	2				2.2	2.4
* Housing market prospects		3	2				2.4	2.8

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 Jan 04 Oct 03	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		2	3				2.6	2.8
* Your bank's margin on riskier loans	1	2	2				2.2	2.6
B) Other conditions and terms								
* Collateral requirements		1	4				2.8	3.2
* "Loan-to-value" ratio		3	2				2.4	2.8
* Maturity			4	1			3.2	3.0
* Non-interest rate charges		2	3				2.6	3.0

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 Jan 04 Oct 03	
A) Cost of funds and balance sheet constraints		2	3				2.6	2.6
B) Pressure from competition								
* Competition from other banks			5				3.0	3.0
* Competition from non-banks			5				3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity	1	2	2				2.2	2.6
* Creditworthiness of consumers	1	2	2				2.2	2.6
* Risk on the collateral demanded		2	3				2.6	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 Jan 04 Oct 03	
A) Price								
* 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) Other conditions and terms								
* Collateral requirements		2	3				2.6	2.8
* Maturity		2	3				2.6	2.8
* 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	3
Remained basically unchanged	1	1
Increased somewhat	2	
Increased considerably		
Average Jan 04 Oct 03	3.0 3.4	2.0 2.6

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 Jan 04 Oct 03	
A) Financing needs								
* Housing market prospects		3	2				2.4	2.8
* Consumer confidence		4	1				2.2	3.0
* Non-housing related consumption expenditure		2	3				2.6	2.6
B) Use of alternative finance								
* Household savings		1	4				2.8	2.8
* Loans from other banks			5				3.0	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 Jan 04 Oct 03	
A) Financing needs								
* Spending on durable consumer goods, such as cars, furniture, etc.)		2	3				2.6	2.8
* Consumer confidence	1	3	1				2.0	2.6
* Securities purchases			5				3.0	3.0
B) Use of alternative finance								
* Household saving		1	4				2.8	2.8
* Loans from other banks			5				3.0	3.0
* Other sources of finance		1	4				2.8	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		
Tighten somewhat	1	1
Remain basically unchanged	4	4
Ease somewhat		
Ease considerably		
Average Jan 04 Oct 03	2.8	2.8
	2.8	2.6

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		1
Decrease somewhat	2	
Remain basically unchanged	1	3
Increase somewhat	2	1
Increase considerably		
Average Jan 04 Oct 03	3.0	2.8
	2.8	2.4