

BANK LENDING SURVEY

January 2005

Results for Portugal**I. Overall assessment**

According to the results of the survey conducted in January 2005, four of the five banking groups included in the sample did not report sizeable changes in credit approval standards to non-financial corporations in the last quarter of 2004, while the remaining institution pointed out a slight loosening of credit standards. The same developments were reported for credit standards applied on loans to households for house purchase, whereas credit standards underlying the approval of loans to households for consumption and other purposes remained basically unchanged.

The evolution recorded in the fourth quarter of 2004 is in line with what was observed in the previous quarter, thus reverting, in the second half of the year, the tightening trend of the credit standards applied on the approval of loans to the non-financial private sector reported in the preceding surveys. However, this behaviour has not been seen on the loan approval criteria to households for consumption and other purposes.

According to the reporting banks, the increase in competition in the last quarter of 2004, in particular among banking institutions, should have contributed to a loosening of credit standards applied on loans to enterprises and households. Regarding enterprises, it was also indicated an improvement in the conditions of banks' access to market financing and a more favourable risk perception on collateral requirements. In the segment of loans to households for consumption and other purposes, it was recorded an improvement in the cost of funds and in balance sheet constraints.

The developments presented by credit standards was reflected on lower spreads applied on average risk loans, for both sectors under analysis, on more favourable non-price conditions and terms for loans to enterprises, and on an increase in the maturity of loans to households. In the opposite direction, higher spreads for riskier loans were reported.

In the last quarter of 2004, in line with the results of the previous survey, the demand for loans and credit lines by enterprises should have recorded a slight increase, on average, mainly from small and medium-sized enterprises and for short-term loans. In what concerns households, the demand for loans for house purchase should have increased, whereas the demand for loans for consumption and other purposes should have remained, on average, unchanged.

The surveyed banking groups do not foresee changes in the criteria underlying the approval of loans to enterprises for the first quarter of 2005, with the exception of loans to large enterprises (a bank reported intentions to tighten slightly its criteria). Concerning the household sector, two institutions posted expectations of a loosening of their credit standards applied on loans for house purchase and, globally, banks foresee the maintenance of credit standards applied on loans for consumption and other purposes. Finally, the reporting banking groups expect an increase in loan demand from enterprises and households for house purchase, and a slight decrease in loan demand from households for consumption and other purposes.

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

In the last quarter of 2004, according to the inquired banks, there were no sizeable changes in the credit standards applied on the approval of loans to enterprises. Nevertheless, one bank reported a slight loosening of its credit standards in all segments and maturities.

For the easing of the credit standards contributed mainly the pressure from competition from other banking institutions and a more favourable risks' perception on collateral requirements. An improvement in the conditions of banks' access to market financing was also reported as a loosening factor. Conversely, two banks reported the perception of risks in specific sectors or enterprises as contributing to a slight tightening of credit criteria. The other factors were reported as having, on average, no effect on credit standards (although there were two banks with opposite answers). The loosening of loan criteria was reflected on lower spreads applied on average risk loans and also on more favourable non-price conditions and terms (the exception was on covenants). For riskier loans, three banks reported higher spreads.

In the last quarter of 2004, according to the recorded answers, the loan and credit lines demand by enterprises should have increased, in aggregated net terms, since three of the five banking groups reported a slight increase, in particular in the segments of small and medium-sized enterprises and of short-term loans. However, the demand for long-term loans should have recorded a slight decrease (reported by one institution, which pointed out also a decrease in the demand by small and medium-sized enterprises). According to the surveyed banks, demand should have been influenced positively by increased financing needs, especially for debt restructuring and for inventories and working capital, and also by a reduction in debt securities issuance. In contrast, lower financing needs for "mergers and acquisitions" and for corporate restructuring were referred as contributing to a weaker demand.

On average, the reporting institutions do not foresee substantial changes in the criteria underlying the approval of loans to enterprises during the first quarter of 2005. Still, one bank reported the intention to ease slightly its credit standards in the segment of large enterprises. Regarding banks' prospects on the evolution of demand, there is some dispersion in the answers of the inquired banks. On average, they expect an increase in loan demand by small and medium-sized firms, regardless the maturity of the loan.

Loans to households

For house purchase

In the fourth quarter of 2004, one banking institution reported a slight easing of credit standards applied on the approval of loans to households for house purchase, while the others did not report sizeable changes in their criteria. For the loosening of credit standards it should have contributed the stronger pressure from competition from other banks. Despite not reflected on a tightening of credit standards, one bank reported a less favourable prospect regarding general economic activity. The moderate loosening of credit standards was reflected on lower spreads applied on average risk loans and on increases in loans maturity. Conversely, higher spreads for riskier loans and an increase in other conditions and terms not related with interest rate were also reported.

In the last quarter of 2004, there was some dispersion in the surveyed banks' answers concerning the demand from households for house purchase. Whereas one institution pointed out a slight decrease in demand, three other institutions indicated the opposite variation. The institution that reported the decrease justified this evolution with a reduction in consumers' confidence, an increase in non-house related consumption expenditures and the recourse of loans from competing banks. The only factor reported as contributing to the increase in the demand was favourable housing market prospects.

For the first quarter of 2005, two of the five inquired banks foresee the adoption of looser criteria underlying the approval of loans for house purchase. The same institutions expect a slight increase in demand, while another foresees a decrease.

For consumption and other purposes

In the last three months of 2004, the five banks included in the sample did not report sizeable changes in their credit standards applied on loans to households for consumption and other purposes. Nevertheless, some factors were reported as having some impact on those criteria. One institution pointed out a less favourable assessment of risks in this segment as justifying the tightening of credit standards. In the opposite direction, the increased competition from other banking institutions and the reduction in the cost of funds and in balance sheet constraints were indicated as contributing for easing the criteria.

Regarding the conditions applied in this segment in the last quarter of 2004, lower spreads applied on average risk loans and an increase in loans maturity were reported. However, for riskier loans two institutions reported higher spreads.

In the fourth quarter of 2004, one banking group reported a slight decrease in the demand for loans for consumption and other purposes, while other institution pointed out the opposite, so that, on average, the demand in this segment should have been unchanged. The demand should have been influenced by a decrease in consumers' confidence, by the use of alternative finance and by the evolution of expenditures on durables consumer goods.

For the next three months, the reporting banks do not intend, on average, to apply significant changes in the criteria underlying the approval of loans for consumption and other purposes. In what concerns demand prospects, there is some dispersion in individual answers. One bank foresees a slight increase in the demand, two other banks do not expect changes, whereas the remainder banks foresee a slight decrease.

METHODOLOGICAL NOTE

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

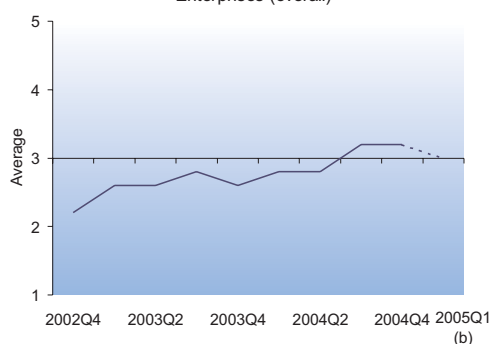
Tables on the first set of questions have five possible options, for each segment, according to the trend and rate of the changes reported (either occurred or foreseen); replies are shown along columns. Answers to tables on factors' appraisal are along the rows; six options are available - including 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.

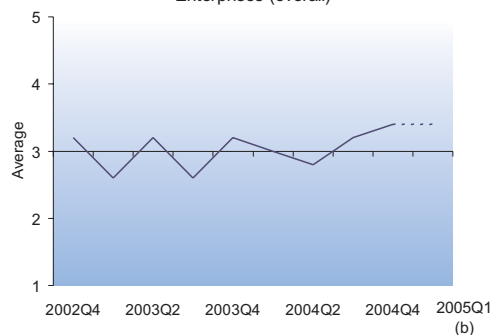
CREDIT SUPPLY^(a)

Enterprises (overall)

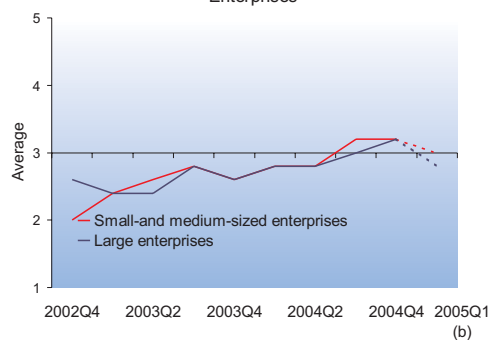


CREDIT DEMAND^(a)

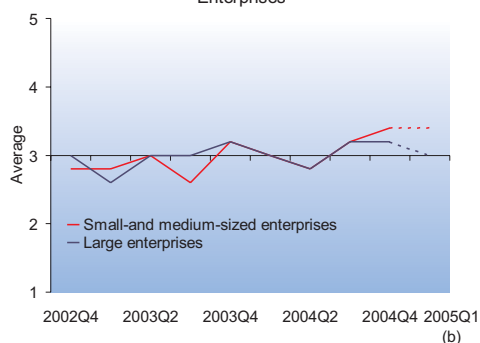
Enterprises (overall)



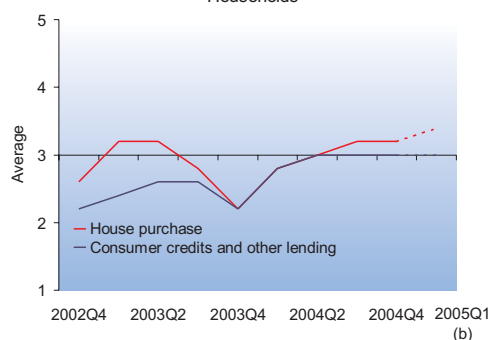
Enterprises



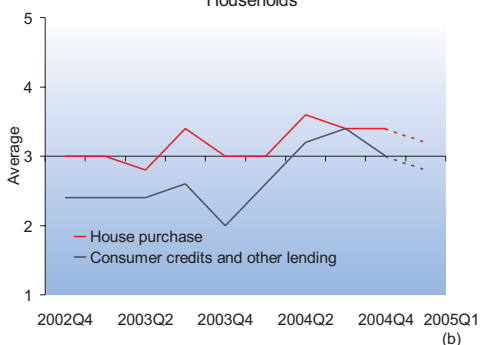
Enterprises



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					
Remained basically unchanged	4	4	4	4	4
Eased somewhat	1	1	1	1	1
Eased considerably					
Average Jan. 05	3.2	3.2	3.2	3.2	3.2
Oct. 04	3.2	3.2	3.0	3.0	3.0

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 Jan. 05 Oct. 04	
A) Cost of funds and balance sheet constraints								
* Costs related to your bank's capital position		1	3	1			3.0	2.8
* Your bank's ability to access market financing (e.g. money or bond market financing)			4	1			3.2	3.0
* Your bank's liquidity position		1	3	1			3.0	2.8
B) Pressure from competition								
* Competition from other banks			2	2	1		3.8	3.6
* Competition from non-banks			4	1			3.2	3.0
* Competition from market financing			4	1			3.2	3.0
C) Perception of risk								
* Expectations regarding general economic activity		1	3	1			3.0	3.2
* Industry or firm-specific outlook		2	2	1			2.8	3.0
* Risk on the collateral demanded			4	1			3.2	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 Jan. 05 Oct. 04	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			3	2			3.4	3.4
* Your bank's margin on riskier loans		3	2				2.4	2.6
B) Other conditions and terms								
* Non-interest rate charges		1	2	2			3.2	3.2
* Size of the loan or credit line			4	1			3.2	3.2
* Collateral requirements			4	1			3.2	3.2
* Loan covenants			5				3.0	3.0
* Maturity			4	1			3.2	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-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decreased considerably					
Decreased somewhat	1	1			1
Remained basically unchanged	1	1	4	2	4
Increased somewhat	3	3	1	3	
Increased considerably					
	Average Jan. 05 Oct. 04	3.4 3.2	3.4 3.2	3.2 3.2	3.6 3.2
					2.8 3.2

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. 05 Oct. 04	
A) Financing needs								
* Fixed investment			4	1			3.2	3.4
* Inventories and working capital			1	4			3.8	3.8
* Mergers/acquisitions and corporate restructuring		1	4				2.8	2.8
* Debt restructuring			2	3			3.6	3.6
B) Use of alternative finance								
* Internal financing			5				3.0	2.8
* Loans from other banks			5				3.0	3.0
* Loans from non-banks			5				3.0	3.0
* Issuance of debt securities			4	1			3.2	3.4
* 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 Jan. 05 Oct. 04	3.0 3.0	3.0 3.0	2.8 3.0	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	1	1	1		1
Remain basically unchanged	1	1	3	2	1
Increase somewhat	3	3	1	3	3
Increase considerably					
	Average Jan. 05 Oct. 04	3.4 3.4	3.4 3.2	3.0 3.4	3.6 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		
Remained basically unchanged	4	5
Eased somewhat	1	
Eased considerably		
	Average Jan. 05 Oct. 04	3.2 3.2
		3.0 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 Jan. 05 Oct. 04	
A) Cost of funds and balance sheet constraints		1	3	1			3.0	2.8
B) Pressure from competition								
* Competition from other banks			3	2			3.4	3.4
* Competition from non-banks			4			1	3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity		1	4				2.8	3.2
* Housing market prospects			5				3.0	3.2

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	
							Jan. 05	Oct. 04
A) Price								
* 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	4				2.8	2.8
B) Other conditions and terms								
* Collateral requirements			5				3.0	3.0
* "Loan-to-value" ratio			5				3.0	3.0
* Maturity			3	2			3.4	3.4
* Non-interest rate charges		1	4				2.8	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. 05	Oct. 04
A) Cost of funds and balance sheet constraints			4	1			3.2	3.0
B) Pressure from competition								
* Competition from other banks			4	1			3.2	3.2
* Competition from non-banks			5				3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity		1	4				2.8	2.8
* Creditworthiness of consumers		1	4				2.8	2.8
* Risk on the collateral demanded		1	4				2.8	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	
							Jan. 05	Oct. 04
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			4	1			3.2	3.0
* Your bank's margin on riskier loans	1	1	3				2.4	2.6
B) Other conditions and terms								
* Collateral requirements			5				3.0	3.0
* Maturity			4	1			3.2	3.4
* Non-interest rate charges			5				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		
Decreased somewhat	1	1
Remained basically unchanged	1	3
Increased somewhat	3	1
Increased considerably		
	Average Jan. 05	3.0
	Oct. 04	3.4
		3.4

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	
							Jan. 05	Oct. 04
A) Financing needs								
* Housing market prospects			4	1			3.2	3.2
* Consumer confidence		1	4				2.8	3.0
* Non-housing related consumption expenditure		1	4				2.8	2.8
B) Use of alternative finance								
* Household savings			5				3.0	3.0
* Loans from other banks		1	4				2.8	2.6
* 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. 05	Oct. 04
A) Financing needs								
* Spending on durable consumer goods, such as cars, furniture, etc.)		1	3	1			3.0	3.0
* Consumer confidence		1	4				2.8	3.0
* Securities purchases			5				3.0	3.0
B) Use of alternative finance								
* Household saving			5				3.0	2.8
* Loans from other banks			5				3.0	3.0
* Other sources of finance		1	4				2.8	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		1
Remain basically unchanged	3	3
Ease somewhat	2	1
Ease considerably		
	Average Jan. 05 Oct. 04	3.0
		3.2

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	1	2
Remain basically unchanged	2	2
Increase somewhat	2	1
Increase considerably		
	Average Jan. 05 Oct. 04	2.8
		3.2