

RESULTS OF THE BANK LENDING SURVEY

July 2003

Portugal

I. Overall assessment

According to the results of the bank lending survey (BLS) conducted in July 2003, credit standards applied to the approval of loans to the non-financial private sector by the five Portuguese reporting banks remained tight over the second quarter of 2003. This behaviour was in line with the maintenance of a pessimistic assessment on the macroeconomic situation and continued to be reflected in wider spreads and more demanding collateral requirements for approving loans to both enterprises and households.

Concerning lending to enterprises, heavier conditions were particularly apparent for long-term loans while, as regards the households' segment, changes towards stricter conditions and terms took place mainly for approving consumer credit and other lending (than for house purchase). Banks' assessment of risks related to the weak macroeconomic environment was the main factor behind this behaviour.

Over the second quarter of 2003, demand for loans and credit lines to enterprises may have slightly increased, mostly as regards small and medium-sized enterprises (SME) and short-term loans. Debt restructuring and, less significantly, financing needs for inventories and working capital were the main factors behind stronger enterprises' demand for bank lending. On the contrary, demand for investment financing and for funding mergers/acquisitions and corporate restructuring kept on downwards.

In the second quarter of 2003, households' demand for bank credit, both loans for house purchase and consumer credit and other lending went downwards, the latter keeping on the declining path from the two previous quarters.

In general, the Portuguese surveyed banks reported the intention of keeping unchanged present standards as applied to the approval of loans to enterprises (particularly, of short-term maturities) and to households for house purchase. For approving long-term lending to enterprises, consumer credit and other loans to households banks reported the intention to tighten slightly credit standards and conditions.

On average, banks' prospects are of maintenance of enterprises' demand for loans (albeit individual replies have been more dispersed than in the previous survey). In turn, they foresee a slight decrease in households' demand for both house purchase loans, consumer credit and other lending.

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

According to the BLS of July 2003, the reporting banks as a whole kept strict credit standards as applied to the approval of loans and credit lines to enterprises, over the second quarter of 2003: two banks reported slightly tighter standards while the remaining three kept them basically unchanged. According to the present survey, standards for approving loans to large enterprises became relatively tighter (three banks reported loans to large enterprises as "tightened somewhat"); for long-term loans, a majority of reporting banks continued to indicate stricter criteria (one of them reported criteria for the approving of long-term loans as "tightened considerably").

Tighter credit standards as applied to the approval of loans and credit lines to enterprises were mainly due to the banks' perception of higher risks, in line with their pessimistic assessment on general economic activity as well as on developments of specific industries or firms. The cost related to bank's capital position was also pointed out by one bank as contributing considerably to tightening credit standards.

Banks' assessment of higher risks was reflected in tighter conditions and terms for approving loans and credit lines to enterprises through wider margins, more demanding collateral requirements and the increase of non-interest charges. Notice should be laid that almost all banks reported wider margins for either average or riskier loans (one of them reported the margins on this latter class of loans as having been considerably tightened).

Over the second quarter of the year, demand for loans or credit lines to enterprises, apart from normal seasonal fluctuations, was reported as "increased somewhat" by two banks, "remained basically unchanged" by other two and "decreased somewhat" by the one remaining. Demand for loans to large enterprises was reportedly basically unchanged. On the contrary, demand for loans to SME was reported as "increased somewhat" by two banks and "decreased somewhat" by other two.

Increasing demand for loans and credit lines to enterprises was primarily of short-term nature, mostly affected by financing needs related to debt restructuring (as indicated by the five reporting banks), on one hand, and "financing needs for inventories and working capital" (as pointed out by three banks), on the other. Also, the reduced internal funding was indicated by one bank as being behind higher demand for bank financing. In turn, both weak investment in fixed assets and the interruption of the mergers/acquisitions and corporate restructuring run have contributed to slowing demand for loans to enterprises.

In July, banks' intentions for the third quarter, point out to no significant changes on credit standards applied to the approval of short-term loans to enterprises and somewhat tighter criteria for long-term lending.

Concerning demand, expectations were ambiguous: two banks forecast a slight increase for long-term loans, in case of both SME and large enterprises; other two expect a slight reduction, mainly for long-term loans.

Loans to households

For house purchase

According to the results of the BLS of July, credit standards as applied by the reporting banks to the approval of loans to households for house purchase did not material change, on average, in the second quarter of 2003 (two banks indicated slightly easier criteria while one pointed out to tighter standards).

The perception of major risks related to short-term economic outlook and less optimistic prospects on the housing market were pointed out by two banks as the main factors leading to restrictive criteria. However, the lower risk of mortgage credit relative to the average risk of loans portfolio and pressure from competition were reported by some banks as justifying somewhat easier criteria.

According to the BLS of July, wider margins on riskier loans and stricter "loan-to-value" ratios were, on average, the main changes occurred on reporting banks' conditions and terms for approving loans to households for house purchase, towards tightening. In the opposite way (easing conditions), one bank reported slightly less strict collateral requirements while another indicated the introduction of new credit products more suitable to the changing needs of customers.

Banks' assessment on demand for loans to households for house purchase, over the second quarter of 2003, spread between "slightly lower" and "slightly higher" demand (respectively, three and two replies). For the current quarter, two reporting banks foresee the maintenance of a slightly declining path of demand; the three remaining are not expecting any significant change.

Furthermore, two banks reported intentions to tighten somewhat their credit standards and terms while the others pointed out that they will keep criteria and conditions basically unchanged.

Consumer credit and other lending

In July, slightly more severe criteria for approving consumer credit and other lending to households were reported, on average. However, fewer banks (two) reported explicitly this trend, as compared to the previous survey (three banks). A more pessimistic assessment on risks of this credit segment — deterioration of the general economic situation, high level of households' indebtedness and risks related to the collateral demanded — were the main factors behind stricter credit criteria.

Banks' conditions and terms reflected this development through wider margins and heavier collateral requirements, in general. In spite of that, one bank reported slightly easier conditions concerning collateral requirements while another pointed out a mild reduction of non-interest rate charges for approving consumer credit.

In the second quarter of 2003, demand for consumer credit and other lending to households kept on a downward course, on average, as in the previous quarters: one bank reported a "considerable lowering" and two indicated a "somewhat decrease". One bank pointed out to a slight demand growth related to financing needs of expenditure on durable consumer goods. Weaker consumer confidence and the effects of the adjustment of consumption expenditure growth (reflected in less borrowing requirements to finance spending on durable goods) remained the main factors contributing to lower demand in this segment.

Expectations for the current quarter are for either the maintenance or reinforcement of strict credit standards as applied to the approval of consumer credit and other lending to households. At the same time, three banks reported expectations of decreasing demand while the two remaining expect basically no changes.

METHODOLOGICAL NOTE

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

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

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

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

The results of the survey are as follows:

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

I. Loans or credit lines to enterprises

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

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

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

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

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

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

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

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decreased considerably					
Decreased somewhat	1	2	1		2
Remained basically unchanged	2	1	3	3	3
Increased somewhat	2	2	1	2	
Increased considerably					
Average July 03 Apr 03	3.2	3.0	3.0	3.4	2.6
	2.6	2.8	2.6	3.0	2.4

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

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

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Tighten considerably					
Tighten somewhat	3	3	3		3
Remain basically unchanged	2	2	2	5	2
Ease somewhat					
Ease considerably					
Average July 03 Apr. 03	2.4 2.4	2.4 2.4	2.4 2.6	3 2.8	2.4 2.6

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

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

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	2
Remained basically unchanged	2	3
Eased somewhat	2	
Eased considerably		
Average July 03 Apr. 03	3.2 3.2	2.6 2.4

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

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 July 03 Apr 03	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			5				3.0	3.0
* Your bank's margin on riskier loans	1	1	3				2.4	2.6
B) Other conditions and terms								
* Collateral requirements			4	1			3.2	3.0
* "Loan-to-value" ratio		2	2	1			2.8	3.2
* Maturity			5				3.0	3.0
* Non-interest rate charges			5				3.0	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 July 03 Apr 03	
A) Cost of funds and balance sheet constraints		2	3				2.6	2.8
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	1	3				2.4	2.4
* Creditworthiness of consumers	1	1	3				2.4	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 July 03 Apr 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	1	3				2.4	2.4
B) Other conditions and terms								
* Collateral requirements		2	2	1			2.8	2.6
* Maturity		1	4				2.8	2.6
* Non-interest rate charges			4	1			3.2	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	3	2
Remained basically unchanged		1
Increased somewhat	2	1
Increased considerably		
Average July 03 Apr. 03	2.8 3.0	2.4 2.4

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

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

	--	-	°	+	++	NA	Average July 03 Apr 03	
A) Financing needs								
* Housing market prospects		1	3	1			3.0	2.4
* Consumer confidence		3	2				2.4	2.0
* Non-housing related consumption expenditure		1	4				2.8	2.8
B) Use of alternative finance								
* Household savings		2	3				2.6	3.0
* Loans from other banks		1	3	1			3.0	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 July 03 Apr 03	
A) Financing needs								
* Spending on durable consumer goods, such as cars, furniture, etc.)		3	1	1			2.6	2.4
* Consumer confidence	2	1	2				2.0	2.0
* Securities purchases			5				3.0	3.2
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			5				3.0	3.0

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

	Loans for house purchase	Consumer credit and other lending
Tighten considerably		
Tighten somewhat	2	3
Remain basically unchanged	3	2
Ease somewhat		
Ease considerably		
Average July 03 Apr. 03	2.6 2.6	2.4 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	2	3
Remain basically unchanged	3	2
Increase somewhat		
Increase considerably		
Average July 03 Apr. 03	2.6 2.2	2.4 2.2