

BANK LENDING SURVEY

July 2004

Results for Portugal**I. Overall assessment**

According to the results of the survey conducted in July 2004, in the second quarter of 2004, four of the five Portuguese banking groups included in the sample did not report, on average, sizeable changes in loan approval standards to non-financial societies, and only one of the banks reported a tightening of credit standards. Regarding loans to households, the credit standards remain basically unchanged.

For the moderate tightening of credit standards on loans to enterprises (excluding the short-term loans segment, which should have not experienced any changes) contributed, according to the reporting banks, the cost related to bank's capital position and the credit risk underlying both the developments in specific sectors or enterprises and, to a less extent, the negative prospects regarding general economic activity. In turn, the maintenance of loan approval standards to households had associated some dispersion in the answers regarding factors with impact over the credit policy, namely in the loans for house purchase segment.

The further tightening in credit standards to non-financial societies was reflected, mainly, on spreads applied on riskier loans. In what concerns loans approval to households, an increase in spreads applied on riskier loans was also observed, in particular regarding credit to consumption and other purposes.

In the second quarter of 2004, the demand for loans and credit lines by enterprises should have decreased slightly, on average, though there was some dispersion in the answers of the five reporting banks. In turn, the five surveyed banks reported an increase in loan demand by households' vis-à-vis the previous quarter. In particular, the demand for loans for consumption and other purposes interrupted the decreasing trend observed in previous quarters.

The five surveyed banks do not foresee changes in credit standards applied in the approval of loans to the private sector during the third quarter of 2004. In the same period, on average, banks expect some increase in loan demand, in particular in the segment of loans to enterprises.

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

In the second quarter of 2004, the sample of banks included in the survey reported, on average, a slight tightening of credit standards applied to enterprises, upholding the trend seen in previous surveys. However, from the sample of the five reporting banks, only one of them reported in fact a further tightening of credit standards, most notably in what concerns the large enterprises and the long-term loans segments. One of the other inquired banks reported a further tightening of credit standards on loans to small and medium-sized enterprises.

The further tightening of credit standards applied on the approval of loans to enterprises continued to reflect negative prospects regarding general economic activity and developments in specific sectors or enterprises, denoting some degree of selective tightening. The cost related to bank's capital position was also pointed out by two banks as contributing to a further tightening of credit standards. Conversely, two banks considered that pressures from competition from other banks contributed enhanced some easing of credit standards. Tighter credit standards were generally reflected in higher spreads, in particular for riskier loans.

In the second quarter of 2004, loan demand by enterprises should have decreased slightly, on average, being only offset by a slight increase in the demand for short-term loans. Individual replies showed some dispersion. For instance, two banking groups reported a general decrease in demand for all segments, while another bank recorded an increase in loan demand vis-à-vis the previous quarter in all segments other than long-term loans. According to the answers of the reporting banks, enterprises' loan demand was influenced by factors of diverging nature: on the one hand, the higher use of alternative finance sources (excluding issuance of debt securities) and lower financing needs for corporate restructuring should have contributed to a decrease in loan demand by enterprises; on the other hand, debt restructuring and the increase in financing needs for inventories and working capital investment should have contributed in the opposite direction to the overall behaviour of credit demand by enterprises.

The five reporting banks do not intend to apply substantial changes in the criteria underlying the approval of loans during the third quarter of 2004, anticipating, in turn, an increase in demand for credit, especially by small and medium sizes enterprises.

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

In the second quarter of 2004, though there were not reported changes of credit standards applied on the approval of loans to households for house purchase, there was some dispersion in the answers of the five reporting banks regarding factors with impact over those credit standards. For instance, three banking groups considered that prospects regarding overall economic activity might have enhanced some easing of credit standards, while two banks reported cost of funds and balance sheet constraints as contributing to a slight tightening of credit standards on loans for house purchase. The dispersion observed on the factors with impact over the credit standards was also observed on the answers regarding the guidelines in approving those loans. Therefore, higher spreads applied on riskier loans, a more demanding collateral requirement and a more stringent loan-to-value ratio were reported by the inquired banks as reflecting the tightening on credit standards on loans for house purchase. Conversely, one of the

banks reported increasing maturities and lower spreads for average loans as contributing for easing the credit standards on this segment.

In the second quarter of 2004, three of the inquired banks reported a slight increase in loan demand for house purchase directed towards them. According to the reporting banks, this increase must reflect, mainly, an increase in consumers' confidence and, to a less extent, favourable prospects regarding developments in real estate markets.

In what concerns the third quarter of 2004, the five reporting banks do not foresee changes in the criteria underlying the approval of loans for house purchase. Regarding banks' prospects concerning the evolution of demand in that quarter, only one of the reporting banks foresees some increase of the demand in this segment.

For consumption and other purposes

Similarly to what was seen regarding loans for house purchase, the five inquired banks reported the maintenance of credit standards applied on loans to households for consumption and other purposes, though they had reported some factors with impact on those credit standards. For instance, one banking group considered that prospects regarding general economic activity, risks' arising from consumers' creditworthiness and risks regarding collateral demanded contributed for further tightening in credit standards on loans for consumption and other purposes. Conversely, one of the inquired banks reported some easing of credit standards on this segment due to the stronger pressure arising from competition from other banks. Non-interest rate charges, spreads applied on average loans and collateral requirements were reported as having no effect on credit standards in the second quarter of 2004. Higher spreads for riskier loans were reported as reflecting the tightening on credit standards on loans for consumption and other purposes. Finally, one bank reported an increase on loans maturity.

Interrupting the trend observed in previous surveys, banks reported, in aggregated liquid terms, an increase of the demand for loans for consumption and other purposes. Thereby, two banks recorded a slight increase in demand for consumption and other purposes, one bank recorded, in contrast, a slight decrease in the demand and, finally, the other two inquired banks did not recorded substantial changes in the demand for credit in this segment. Such increase of demand should reflect, according to the inquired banks, the improvement of consumer confidence and, in particular, the increase of financing needs for the acquisition of durable consumer goods.

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

METHODOLOGICAL NOTE

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

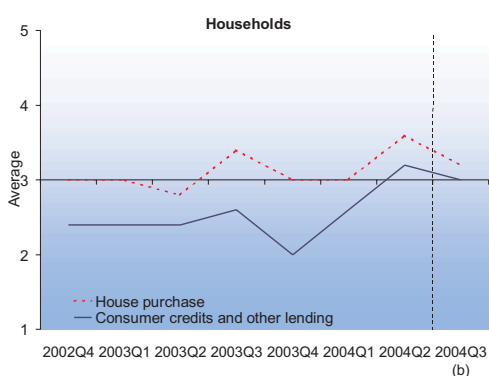
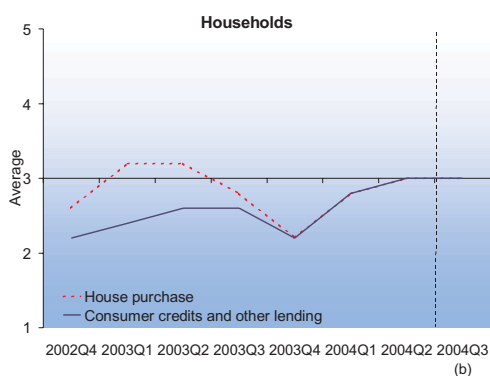
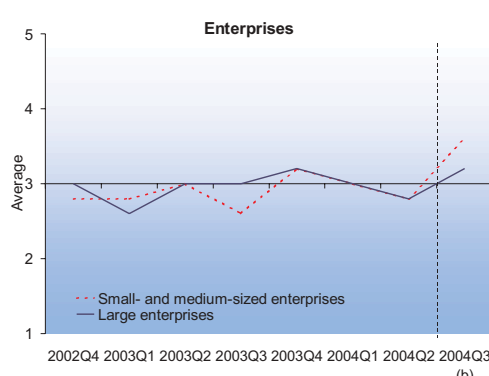
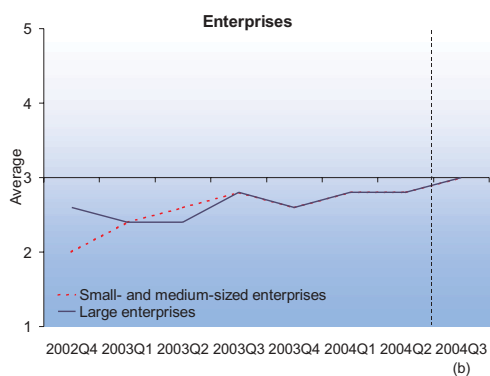
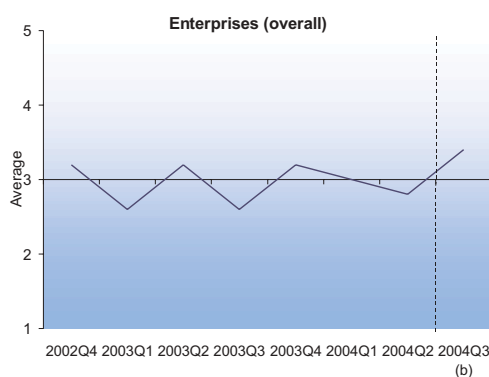
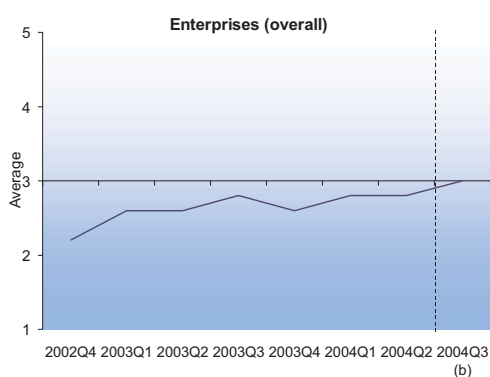
Tables on the first set of questions have five possible options, for each segment, according to the trend and rate of the changes reported (either occurred or foreseen); replies are shown along columns. Answers to tables on factors' appraisal are along the rows; six options are available - including 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	1	1	1		1
Remained basically unchanged	4	4	4	5	4
Eased somewhat					
Eased considerably					
Average Jul. 04	2.8	2.8	2.8	3.0	2.8
Apr. 04	2.8	2.8	2.8	2.8	2.6

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

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

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

3. Over the past three months, how have your bank's **conditions** and terms for approving **loans or credit lines to enterprises** changed? Please rate each factor using the following scale:

- = tightened considerably
- = tightened somewhat
- ° = remained basically unchanged
- + = eased somewhat
- ++ = eased considerably
- NA = Not Applicable

	--	-	°	+	++	NA	Average Jul. 04 Apr. 04	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		1	3	1			3.0	2.6
* Your bank's margin on riskier loans		2	3				2.6	2.0
B) Other conditions and terms								
* Non-interest rate charges		1	3	1			3.0	2.2
* Size of the loan or credit line			5				3.0	2.8
* Collateral requirements			5				3.0	2.6
* Loan covenants			5				3.0	2.6
* Maturity			5				3.0	2.8

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

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decreased considerably					
Decreased somewhat	2	2	2		2
Remained basically unchanged	2	2	2	4	2
Increased somewhat	1	1	1	1	1
Increased considerably					
Average Jul. 04	2.8	2.8	2.8	3.2	2.8
Apr. 04	3.0	3.0	3.0	3.2	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 Jul. 04 Apr. 04	
A) Financing needs								
* Fixed investment			4	1			3.2	2.8
* Inventories and working capital			3	2			3.4	3.2
* 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		1	4				2.8	2.8
* Loans from other banks		1	4				2.8	3.0
* Loans from non-banks			5				3.0	3.0
* Issuance of debt securities			4	1			3.2	3.0
* Issuance of equity			5				3.0	3.0

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

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Tighten considerably					
Tighten somewhat					
Remain basically unchanged	5	5	5	5	5
Ease somewhat					
Ease considerably					
	Average Jul. 04	3.0	3.0	3.0	3.0
	Apr. 04	3.0	3.0	3.2	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	2	4	4	3
Increase somewhat	2	3	1	1	2
Increase considerably					
	Average Jul. 04	3.4	3.6	3.2	3.4
	Apr. 04	3.4	3.2	3.2	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		
Remained basically unchanged	5	5
Eased somewhat		
Eased considerably		
	Average Jul. 04	3.0
	Apr. 04	2.8

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 Jul. 04 Apr. 04	
A) Cost of funds and balance sheet constraints		2	3				2.6	3.0
B) Pressure from competition								
* Competition from other banks			4	1			3.2	3.4
* Competition from non-banks			4			1	3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity		1	1	3			3.4	2.8
* Housing market prospects		1	4				2.8	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	
							Jul. 04	Apr. 04
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			4	1			3.2	2.8
* Your bank's margin on riskier loans		1	4				2.8	2.6
B) Other conditions and terms								
* Collateral requirements		1	4				2.8	3.0
* "Loan-to-value" ratio		1	4				2.8	2.6
* Maturity			4	1			3.2	3.0
* Non-interest rate charges			5				3.0	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	
							Jul. 04	Apr. 04
A) Cost of funds and balance sheet constraints			5				3.0	2.8
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	3	1			3.0	2.6
* 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 Jul. 04 Apr. 04	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			5				3.0	2.8
* Your bank's margin on riskier loans	1	1	3				2.4	2.4
B) Other conditions and terms								
* Collateral requirements			5				3.0	2.8
* Maturity			4	1			3.2	2.8
* Non-interest rate charges			5				3.0	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		
Decreased somewhat		1
Remained basically unchanged	2	2
Increased somewhat	3	2
Increased considerably		
	Average Jul. 04 Apr. 04	3.2
		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 Jul. 04 Apr. 04	
A) Financing needs								
* Housing market prospects			4	1			3.2	2.4
* Consumer confidence			3	2			3.4	2.6
* Non-housing related consumption expenditure			5				3.0	2.8
B) Use of alternative finance								
* Household savings			5				3.0	2.8
* Loans from other banks			4	1			3.2	3.0
* Other sources of finance			5				3.0	3.0

15. Over the past three months, how have the following **factors** affected the **demand for consumer credit and other lending to households** (as described in question 12)? Please rate each factor using the following scale:

- = responsible for considerable decrease
- = responsible for decrease
- ° = responsible for neither decrease nor increase
- + = responsible for increase
- ++ = responsible for considerable increase
- NA = Not Applicable

	--	-	°	+	++	NA	Average	
							Jul. 04	Apr. 04
A) Financing needs								
* Spending on durable consumer goods, such as cars, furniture, etc.)			2	3			3.6	2.8
* Consumer confidence			3	2			3.4	2.6
* Securities purchases			5				3.0	3.0
B) Use of alternative finance								
* Household saving			5				3.0	2.8
* Loans from other banks			4	1			3.2	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		
Remain basically unchanged	5	5
Ease somewhat		
Ease considerably		
Average Jul. 04	3.0	3.0
Apr. 04	3.0	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		
Remain basically unchanged	4	5
Increase somewhat	1	
Increase considerably		
Average Jul. 04	3.2	3.0
Apr. 04	3.2	3.0