

BANK LENDING SURVEY

July 2005

Results for Portugal**I. Overall assessment**

According to the results of the survey conducted in July 2005 to the five banking groups included in the Portuguese sample, in the second quarter of 2005 and comparing with the first one, loan approval standards to the non-financial private sector should have remained unchanged, as only one banking institution reported a slight easing of its criteria, in the segment of households.

The increase in competition, especially within banking institutions, should have continued to contribute to an easing of the credit standards. In turn, the perceptions of higher risks, in general, and an increase in the cost of funds and balance sheets constraints, in the segment of enterprises, were reported as contributing to a tightening of credit policy terms.

Regarding conditions applied to the stated quarter, a decrease in spreads on average risk loans in all segments analysed and an increase in spreads on riskier loans to enterprises should have been observed. Simultaneously, an easing of non-price conditions and terms, in the segments of enterprises and households for house purchase, and, respectively for segments above-mentioned, a decrease and a lengthening of loans maturity were indicated.

In the second quarter of 2005, the demand for loans or credit lines by enterprises should have recorded a slight decrease, most notably by large enterprises. In the segment of households, an increase in demand for loans both for house purchase and for consumption and other purposes was reported.

For the third quarter of the current year, the surveyed banking groups foresee a slight tightening in the credit standards applied to the approval of loans or credit lines to enterprises, in particular to small and medium-sized enterprises and for long-term loans. As far as households are concerned, the five reporting banks do not intend to introduce sizeable changes in criteria underlying the approval of loans. Finally, in general, banks anticipate a slight increase in loan demand by enterprises (mainly by small and medium-sized enterprises and for short-term loans), a slight decrease in demand for loans for house purchase and a relative stability in loan demand for consumption and other purposes.

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

According to the five banking groups included in the sample, credit approval standards to enterprises remained unchanged in the second quarter of 2005 vis-à-vis the first three months of the year, regardless the size of enterprises and the maturity of loans.

Despite the maintenance of credit standards, the surveyed banks indicated some factors as contributing to the variation of criteria. Thus, contributing to a tightening of credit standards banks reported a less favourable assessment of general economic activity, of industry or firm-specific outlook and of risk on the collateral demanded, an increase in cost of capital and balance sheet liquidity restrictions. Contributing to looser criteria, higher competition from other banking institutions was the only factor indicated.

Regarding average contractual conditions applied to this segment, lower spreads for average risk loans should have been observed, while spreads applied to riskier loans should have recorded an increase. Furthermore, one other institution reported changes in non-price conditions and terms, towards a decrease in loans maturity and in non-interest rate charges.

In the second quarter of 2005, the demand for loans or credit lines by enterprises should have decreased slightly. This behaviour was recorded mainly in the segment of large enterprises, being such evolution indicated by three of the five surveyed banking groups. A decrease in financing needs for fixed investment and for merger/acquisitions and corporate restructuring should have been one of the factors that influenced demand negatively, while an increase in financing needs for debt restructuring (factor indicated by all participant banks) and for inventories and working capital, and the decrease in the use of alternative finance, namely internal financing, were pointed out as contributing positively.

For the third quarter of 2005, in global terms, banks anticipate a slight tightening of criteria underlying the approval of loans or credit lines to enterprises, in particular to the segment of small and medium-sized enterprises and for long-term loans. For the same period, banks' prospects point to a slight increase in loan demand by enterprises, precisely by small and medium-sized enterprises, and for loans with lower maturity.

Loans to households**-For house purchase**

In the second quarter of 2005, four of the five participant banking groups did not report sizeable changes in credit standards applied on loans to households for house purchase, while the other inquired bank indicated a slight easing of its criteria.

Within conditioning factors of loan approval standards, the increase in pressure from competition from financial institutions was reported as contributing to a loosening of the criteria, as less favourable expectations regarding general economic activity were identified as contributing to a tightening of credit standards.

In what concerns applied conditions, banks included in the sample reported lower spreads for average loans, a decrease in non-interest rate charges and an increase in loans maturity. Spreads applied to riskier loans, on average, should have remained unchanged comparing with the previous quarter, although such evolution reflected distinct positions taken by two banking institutions.

In the analysed period, three of the participant banking groups reported a slight increase in loan demand for house purchase directed towards them. According to those banks, for the increase in demand should have contributed the decrease in the use of alternative finance, namely loans granted by other banks, and more favourable housing market prospects. However, the last factor

stated was also reported by other bank as contributing to the opposite variation. With the same impact over demand, one institution reported also a deterioration of consumers' confidence.

For the third quarter of 2005, the five banks surveyed do not foresee sizeable changes in credit standards applied to loans granted to this segment, and, regarding loan demand, only one banking group anticipates some changes, towards a slight decrease.

- For consumption and other purposes

In the second quarter of 2005, credit standards applied to loans to households for consumption and other purposes remained globally unchanged according to four of the inquired banking groups, while the other reporting bank indicated a slight easing of its criteria.

Within factors that should have affected the standards approval, the pressure from competition from other financial institutions, banking and non-banking, was pointed out also in this segment as contributing to a loosening of the criteria, while a less favourable evaluation of general economic activity and of creditworthiness of consumers was indicated as contributing to a slight tightening.

According to reported answers, in aggregate terms, spreads applied to average risk loans should have decreased and spreads applied to riskier loans should have remained globally unchanged, though it should be noted that two institutions have presented divergent answers.

In the second quarter of 2005, loan demand by households for other purposes than housing increased slightly, being such evolution reported by two of the reporting banking groups. The factors underlying demand increases should have been, on one hand, the decrease in the use of alternative finance, namely households saving and loans granted by other banks, and, on the other hand, the increase in expenditure on durable consumer goods. In the opposite direction, the decrease in consumers' confidence should have influenced the evolution of demand negatively.

For the third quarter of 2005, the five participant banks intend to keep unchanged the standards underlying the approval of loans to households for consumption and other purposes. For the same period, they do not anticipate, on average, sizeable changes in loan demand, though there is some dispersion in the reported answers: one institution foresees a slight increase and other institution expects the opposite evolution.

METHODOLOGICAL NOTE

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

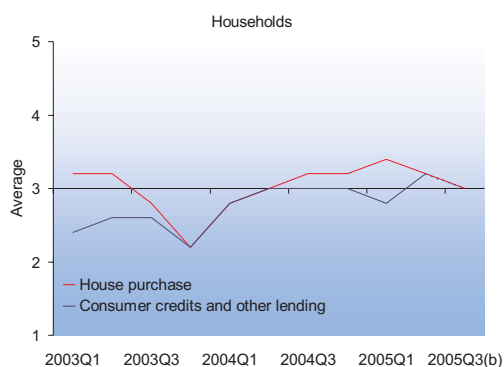
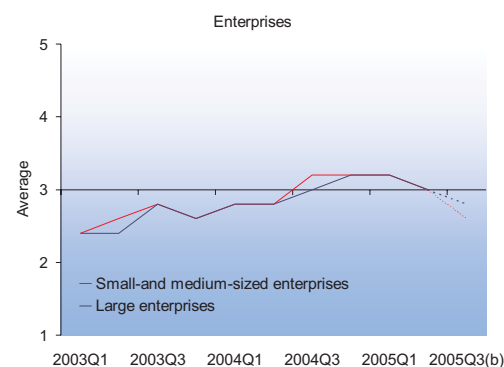
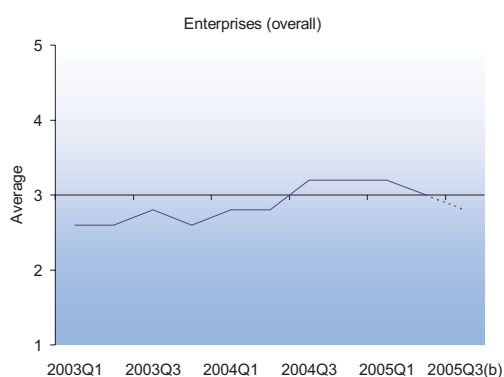
For each sector — enterprises and households — the questions are focused on: i) the current and the prospective assessments on standards, conditions and terms for lending approval, on one hand, and on demand trends, on the other (tables 1, 4, 6, 7, 8, 13, 16 and 17); and ii) the appraisal of factors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

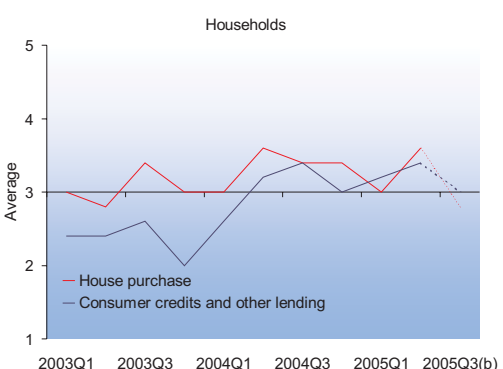
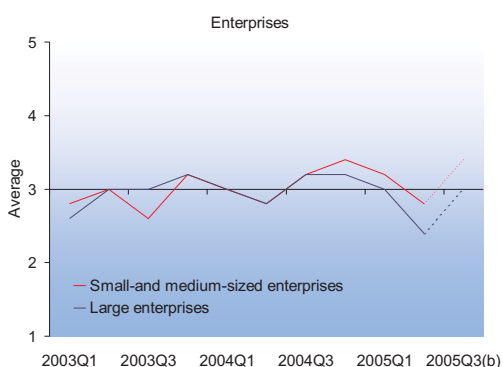
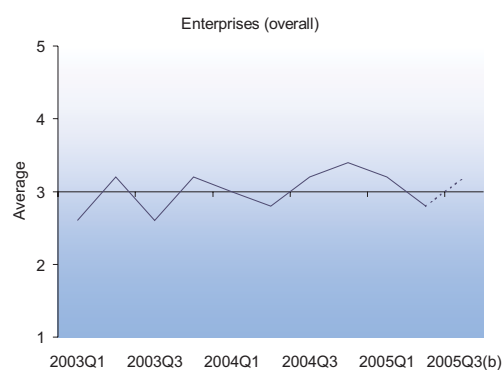
The results of the survey are as follows:

- 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)



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					
Remained basically unchanged	5	5	5	5	5
Eased somewhat					
Eased considerably					
Average July 05	3.0	3.0	3.0	3.0	3.0
April 05	3.2	3.2	3.2	3.2	3.2

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

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

	--	-	°	+	++	NA	Average Jul. 05 Apr. 05	
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)			5				3.0	3.0
* Your bank's liquidity position		1	4				2.8	2.8
B) Pressure from competition								
* Competition from other banks			4	1			3.2	3.8
* Competition from non-banks			5				3.0	3.4
* Competition from market financing			5				3.0	3.2
C) Perception of risk								
* Expectations regarding general economic activity		2	3				2.6	3.2
* Industry or firm-specific outlook		3	2				2.4	2.8
* Risk on the collateral demanded		1	4				2.8	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. 05 Apr. 05	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			4	1			3.2	3.6
* Your bank's margin on riskier loans		2	3				2.6	2.8
B) Other conditions and terms								
* Non-interest rate charges			4	1			3.2	3.4
* Size of the loan or credit line			5				3.0	3.0
* Collateral requirements			5				3.0	3.0
* Loan covenants			5				3.0	3.0
* Maturity		1	4				2.8	3.4

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	3	1	2
Remained basically unchanged	4	4	2	4	2
Increased somewhat					1
Increased considerably					
Average July 05 April 05	2.8	2.8	2.4	2.8	2.8
	3.2	3.2	3.0	3.4	3.4

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 Jul. 05 Apr. 05	
A) Financing needs								
* Fixed investment		2	3				2.6	3.2
* Inventories and working capital			4	1			3.2	3.6
* Mergers/acquisitions and corporate restructuring		1	4				2.8	3.0
* Debt restructuring				5			4.0	3.6
B) Use of alternative finance								
* Internal financing			4	1			3.2	3.0
* Loans from other banks			5				3.0	3.0
* Loans from non-banks			5				3.0	3.2
* Issuance of debt securities		1	3	1			3.0	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+	1	2	1	1	2
Remain basically unchanged	4	3	4	4	3
Ease somewhat					
Ease considerably					
Average July 05 April 05	2.8	2.6	2.8	2.8	2.6
	3.0	3.0	2.8	3.0	3.0

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

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Decrease considerably					
Decrease somewhat					
Remain basically unchanged	4	3	5	3	5
Increase somewhat	1	2		2	
Increase considerably					
Average July 05 April 05	3.2	3.4	3.0	3.4	3.0
	3.4	3.4	3.4	3.4	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	4	4
Eased somewhat	1	1
Eased considerably		
Average July 05 April 05	3.2	3.2
	3.4	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 July 05 April 05	
A) Cost of funds and balance sheet constraints			5				3.0	3.2
B) Pressure from competition								
* Competition from other banks			3	2			3.4	3.8
* Competition from non-banks			3	1		1	3.3	3.0
C) Perception of risk								
* Expectations regarding general economic activity		1	4				2.8	2.8
* Housing market prospects			5				3.0	3.0

10. Over the past three months, how have your bank's **conditions** and terms for approving **loans to households for house purchase** changed? Please rate each factor using the following scale:

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

	--	-	°	+	++	NA	Average Jul. 05 Apr. 05	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			4	1			3.2	3.6
* Your bank's margin on riskier loans		1	3	1			3.0	3.0
B) Other conditions and terms								
* Collateral requirements			5				3.0	3.0
* "Loan-to-value" ratio			5				3.0	3.2
* Maturity			4	1			3.2	3.4
* Non-interest rate charges			4	1			3.2	3.2

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. 05 Apr. 05	
A) Cost of funds and balance sheet constraints			5				3.0	3.0
B) Pressure from competition								
* Competition from other banks			2	3			3.6	3.4
* Competition from non-banks			3	2			3.4	3.2
C) Perception of risk								
* Expectations regarding general economic activity		1	4				2.8	2.6
* Creditworthiness of consumers		2	3				2.6	2.6
* Risk on the collateral demanded			5				3.0	3.0

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. 05 Apr. 05	
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	3	1			3.0	3.0
B) Other conditions and terms								
* Collateral requirements			5				3.0	3.2
* Maturity			5				3.0	3.0
* 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		
Remained basically unchanged	2	3
Increased somewhat	3	2
Increased considerably		
Average July 05	3.6	3.4
April 05	3.0	3.2

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. 05 Apr. 05	
A) Financing needs								
* Housing market prospects		1	3	1			3.0	3.2
* Consumer confidence		1	4				2.8	3.0
* Non-housing related consumption expenditure			5				3.0	3.0
B) Use of alternative finance								
* Household savings			5				3.0	3.0
* Loans from other banks			3	2			3.4	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 Jul. 05 Apr. 05	
A) Financing needs								
* Spending on durable consumer goods, such as cars, furniture, etc.)			4	1			3.2	3.2
* Consumer confidence		1	4				2.8	3.0
* Securities purchases			5				3.0	3.0
B) Use of alternative finance								
* Household saving			3	2			3.4	3.0
* Loans from other banks			4	1			3.2	3.0
* Other sources of finance			5				3.0	3.2

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 July 05	3.0	3.0
April 05	3.2	3.0

17. Please indicate how you **expect demand for loans to households** to change over the next three months at your bank (apart from normal seasonal fluctuations).

	Loans for house purchase	Consumer credit and other lending
Decrease considerably		
Decrease somewhat	1	1
Remain basically unchanged	4	3
Increase somewhat		1
Increase considerably		
Average July 05	2.8	3.0
April 05	3.2	3.2