

RESULTS OF THE BANK LENDING SURVEY

October 2003

Results for Portugal

I. Overall assessment

The results of the survey conducted in October suggest that Portuguese reporting banks have tightened somewhat credit standards applied to the approval of loans to the non-financial private sector in the third quarter of 2003, even though this further tightening was more moderate than that seen in previous surveys. Banks have tightened conditions for loans to enterprises as well as for loans to households. In fact, banks tightened slightly credit standards in the approval of loans to households for house purchase, unlike what was seen in previous surveys. In the October 2003 survey, banks reported that tighter credit standards have resulted in higher margins on loans to enterprises and households, notably on riskier loans.

In the third quarter of 2003, surveyed banks reported a decrease in loan demand by enterprises in comparison with the previous quarter, markedly for small and medium-sized enterprises. The decrease in loan demand should reflect lower financing needs for investment or for corporate restructuring. On the opposite direction, debt restructuring should have contributed to an increase in loan demand by some enterprises.

Conversely, in the third quarter of 2003, the results of the bank lending survey suggest that there was some recovery in loan demand by households for house purchase. According to the five reporting banks, the increase in demand in this segment should be mainly related to the improvement in consumer confidence levels. In turn, the results suggest that loan demand for consumer credit and other lending should have decreased slightly during the third quarter.

In general, surveyed banks intend to tighten further credit standards applied in loans to enterprises and households in the last quarter of 2003. Banks foresee a slight increase in the demand for loans by large enterprises. On the contrary, according to the prospects of inquired banks, household's demand may decrease slightly in the last quarter of 2003, notably for consumer credit and other lending.

II. Presentation of the results

Loans and credit lines to enterprises

During the third quarter of 2003, the five Portuguese reporting banks have tightened, on average, credit standards applied on loans and credit lines to enterprises. However, this trend was not as marked as that seen in previous surveys. In fact, only one of the surveyed banks reported a slight tightening in credit standards. This trend was common to all segments, that is, the answers (and its distribution) were the same for loans to large and to small and medium-sized enterprises, as well as for short and long-term loans.

The persistence of some tightening in loan approval was mostly a result of the perception of risks arising from negative prospects regarding overall economic developments, as well as risks regarding industry and firm specific outlook. One of the reporting banks mentioned that these two factors contributed considerably to a further tightening of credit standards by this bank. According to the results of the survey, even though most banks reported some stabilization in credit standards for loan approval, surveyed banks reported that they were applying higher margins on loans, most notably on riskier loans, and that they were also being more demanding on collateral requirements. Some banks also reported that they were charging higher commissions on credit operations, imposing more restrictive limits on the amounts lent and on loan maturity and, finally, imposing more demanding non-pecuniary conditions.

In the third quarter of 2003, according to banks' assessment, loan demand by enterprises should have decreased slightly when compared with the previous quarter, in particular for long-term loans. Conversely, the demand for short-term loans increased slightly vis-à-vis the previous quarter. Loan demand by large enterprises remained at levels close to those seen in the previous survey, whereas the decrease in loan demand by small and medium-sized enterprises was more significant. The decrease in loan demand by enterprises was mostly a result of lower financing needs for investment and corporate restructuring. In the opposite direction, debt restructuring and financing needs for inventories and working capital contributed to an increase in demand by corporations.

Two of the five inquired banks reported the intention of applying tighter credit standards on the approval of loans to enterprises in the last quarter of 2003. The remainder banks do not intend to change significantly credit standards over the same period. According to banks' assessment, it can be foreseen a slight increase in loan demand by corporations in the last quarter of 2003, most notably by large corporations.

Loans to households

For house purchase

During the last quarter of 2003, there was a moderate tightening in credit standards applied on loans granted to households for house purchase, unlike what was seen in previous surveys (the tightening of credit standards for house purchase was reported by two of the surveyed banks).

The tightening in credit standards applied on loans granted to households for house purchase is mostly a result of the maintenance of pessimistic expectations regarding economic developments, as well as of issues related with the cost of funds and balance sheet constraints and, to some extent, with housing market prospects. One of the surveyed banks reported an easing in credit standards applied on loans for housing due to pressures arising from competition from other banks. The tightening seen in credit standards was reflected in an increase on banks' margins, chiefly for riskier loans, as well as in more stringent loan-to-value ratios.

On average, during the quarter ended on September there was an increase in the demand for loans to house purchase. However, there was a considerable dispersion in the answers to this particular question amongst the five surveyed banks: two banks reported a slight decrease in demand, other two banks reported a slight increase in loan demand and other bank considered that there was a significant increase in loan demand for house purchase during the third quarter of 2003. Overall, the increase in demand seen in this segment should be mostly a result of the recovery in consumer confidence over the last few months.

In the last quarter of 2003, surveyed banks should tighten further credit standards in the approval of loans for house purchase. Only one of the banks included in the sample intends to ease credit standards on loans for housing on the last quarter of 2003. Most of the reporting banks do not foresee significant changes in the demand for these loans (only one of the banks expects a slight decrease in the demand of credit for house purchase).

Consumer credit and other lending

Between July and September 2003, reporting banks applied tighter credit standards on consumer credit and other lending, following the trend seen in previous surveys.

Underlying the upholding of some tightening in consumer credit and other lending was, on the one hand, the cost of funds and banks' balance sheet constraints and, on the other hand, the perception of risks associated with this type of loans, namely the deterioration of expectations regarding economic developments, the creditworthiness of consumers (given the high indebtedness levels reached over the last few years) and, finally, the risk on the collateral demanded. The tightening of credit standards reported by banks on such loans was reflected on higher margins, most notably on loans that involve higher risk. Furthermore, the maintenance of tight credit standards should also have been reflected in other conditions and terms, such as loan maturity and commissions.

In general, according to banks' assessments, the demand of consumer credit and other lending should have decreased slightly during the third quarter. However, as in the question regarding demand of loans for house purchase, there was a remarkable dispersion in the answers to this question: one bank recorded a small increase in demand for such loans, two banks did not observe significant changes in demand, other bank mentioned a slight decrease in demand and, finally, another bank referred that demand decreased considerably. On average, the decrease in demand should be a result of consumer confidence levels and, to some extent, of a decrease in households' financing needs for spending on durable consumer goods, as well as of the use of alternative financing sources (namely savings).

Regarding banks' prospects for the last quarter of 2003, three of the reporting banks do not foresee significant changes in credit standards applied in the approval of loans for purposes other than housing, whereas the remaining two banks intend to apply tighter standards on this type of loans. Reporting banks expected, on average, a slight decrease in the demand for such loans during the last quarter of 2003.

METHODOLOGICAL NOTE

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

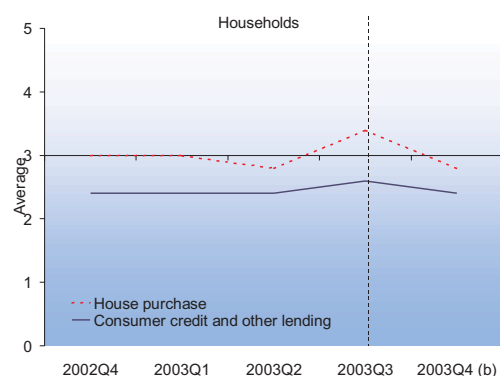
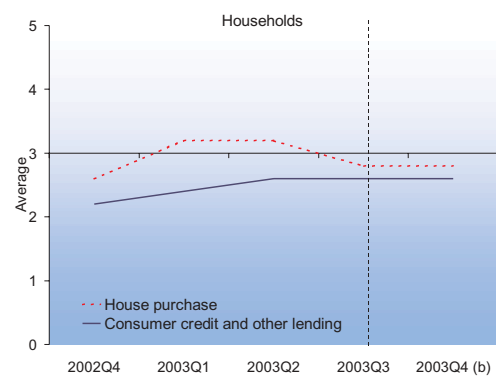
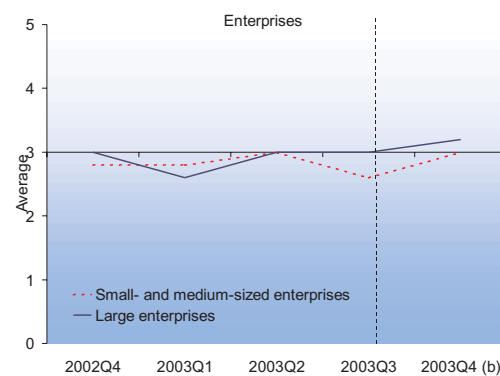
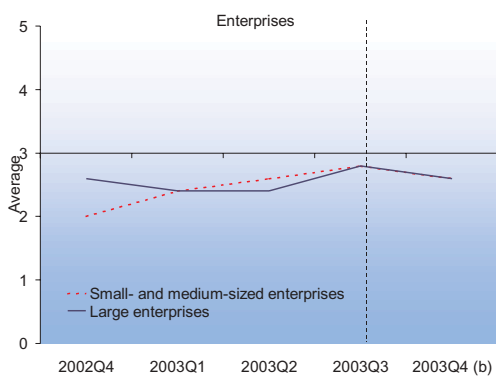
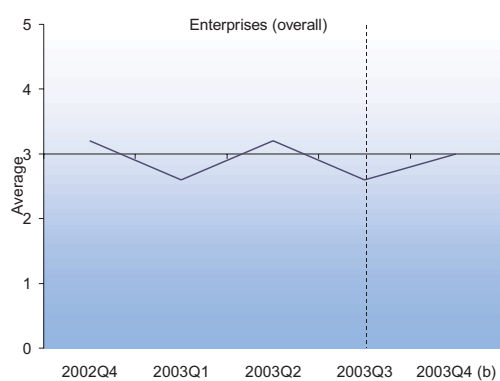
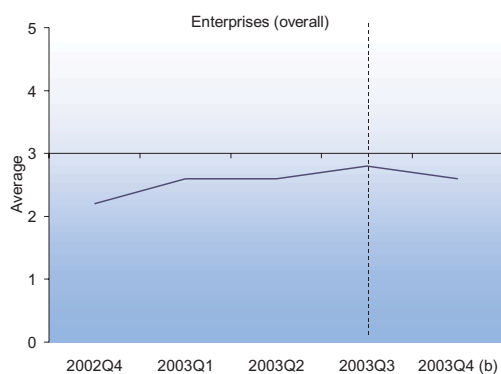
Tables on the first set of questions have five possible options, for each segment, according to the trend and rate of the changes reported (either occurred or foreseen); replies are shown along columns. Answers to tables on factors' appraisal are along the rows; six options are available - including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

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	1
Remained basically unchanged	4	4	4	4	4
Eased somewhat					
Eased considerably					
Average	Oct 03	2.8	2.8	2.8	2.8
	July 03	2.6	2.6	2.4	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	
							Oct 03	July 03
A) Cost of funds and balance sheet constraints								
* Costs related to your bank's capital position		1	4				2.8	2.4
* 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	4				2.8	2.8
B) Pressure from competition								
* Competition from other banks			5				3.0	2.8
* 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	2	2				2.2	1.8
* Industry or firm-specific outlook	1	1	3				2.4	1.8
* Risk on the collateral demanded		1	4				2.8	2.8

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

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

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

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	3	3	1	1	4
Remained basically unchanged	1	1	3	2	1
Increased somewhat	1	1	1	2	
Increased considerably					
Average Oct 03	2.6	2.6	3.0	3.2	2.2
July 03	3.2	3.0	3.0	3.4	2.6

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 Oct 03 July 03	
A) Financing needs								
* Fixed investment		3	2				2.4	2.0
* Inventories and working capital			3	2			3.4	3.6
* Mergers/acquisitions and corporate restructuring		2	3				2.6	2.4
* Debt restructuring			1	4			3.8	4.0
B) Use of alternative finance								
* Internal financing		1	3	1			3.0	3.2
* 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	2.8
* Issuance of equity			5				3.0	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	2	2	2		2
Remain basically unchanged	3	3	3	5	3
Ease somewhat					
Ease considerably					
Average Oct 03	2.6	2.6	2.6	3.0	2.6
July 03	2.4	2.4	2.4	3.0	2.4

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
Remain basically unchanged	3	3	4	4	2
Increase somewhat	1	1	1	1	2
Increase considerably					
Average Oct 03	3.0	3.0	3.2	3.2	3.2
July 03	3.0	3.0	3.0	3.0	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	2	2
Remained basically unchanged	2	3
Eased somewhat	1	
Eased considerably		
Average Oct 03	2.8	2.6
July 03	3.2	2.6

9. Over the past three months, how have the following **factors** affected your bank's credit standards as applied to the **approval of loans to households for house purchase** (as described in question 8)? Please rate the contribution of the following factors to the tightening or easing of credit standards using the following scale:

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

	--	-	°	+	++	NA	Average Oct 03 July 03	
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	3.2
* Competition from non-banks			4			1	3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity	1	1	3				2.4	2.4
* Housing market prospects		1	4				2.8	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 Oct 03 July 03	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		1	4				2.8	3.0
* Your bank's margin on riskier loans	1		4				2.6	2.4
B) Other conditions and terms								
* Collateral requirements			4	1			3.2	3.2
* "Loan-to-value" ratio		2	2	1			2.8	2.8
* Maturity			5				3.0	3.0
* Non-interest rate charges			5				3.0	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 Oct 03 July 03	
A) Cost of funds and balance sheet constraints		2	3				2.6	2.6
B) Pressure from competition								
* Competition from other banks			5				3.0	3.0
* Competition from non-banks			5				3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity	1		4				2.6	2.4
* Creditworthiness of consumers		2	3				2.6	2.4
* 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 Oct 03 July 03	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)		1	4				2.8	2.6
* 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	2.8
* Maturity		1	4				2.8	2.8
* Non-interest rate charges		1	4				2.8	3.2

13. Over the past three months, how has the **demand for loans to households** changed at your bank, apart from normal seasonal fluctuations?

	Loans for house purchase	Consumer credit and other lending
Decreased considerably		1
Decreased somewhat	2	1
Remained basically unchanged		2
Increased somewhat	2	1
Increased considerably	1	
	Average Oct 03 July 03	
	3.4	2.6
	2.8	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 Oct 03 July 03	
A) Financing needs								
* Housing market prospects		2	2	1			2.8	3.0
* Consumer confidence		1	3	1			3.0	2.4
* Non-housing related consumption expenditure		2	3				2.6	2.8
B) Use of alternative finance								
* Household savings		1	4				2.8	2.6
* Loans from other banks		2	2	1			2.8	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 Oct 03 July 03	
A) Financing needs								
* Spending on durable consumer goods, such as cars, furniture, etc.)		1	4				2.8	2.6
* Consumer confidence	1	1	2	1			2.6	2.0
* Securities purchases			5				3.0	3.0
B) Use of alternative finance								
* Household saving		1	4				2.8	2.8
* Loans from other banks			5				3.0	3.0
* Other sources of finance			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	2
Remain basically unchanged	2	3
Ease somewhat	1	
Ease considerably		
Average Oct 03 July 03	2.8 2.6	2.6 2.4

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

	Loans for house purchase	Consumer credit and other lending
Decrease considerably		1
Decrease somewhat	1	1
Remain basically unchanged	4	3
Increase somewhat		
Increase considerably		
Average Oct 03 July 03	2.8 2.6	2.4 2.4