

BANK LENDING SURVEY

October 2004

Results for Portugal**I. Overall assessment**

According to the results of the survey conducted in October 2004, the five Portuguese banking groups included in the sample did not report, on average, sizeable changes in loan approval standards to non-financial corporations and to households during the third quarter of 2004. Still, for each of the segments considered, a banking group reported a slight ease of the credit standards applied. Regarding loans to enterprises, the ease in credit standards was mainly applied to small and medium-sized enterprises.

According to the reporting banks, for the moderate easing of credit standards on loans to enterprises contributed the increased competition from other banks and more favourable expectations regarding general economic activity. In turn, one of the institutions had a less favourable assessment of risks. Further, the cost of funds and the liquidity position were also reported as contributing to the tightening of credit standards. In what concerns loans to households, in addition to the referred factors, one institution indicated the more favourable housing market prospects, while another one was influenced by an unfavourable perception of risks.

Reporting institutions applied higher spreads on riskier loans in both segments (enterprises and households). However, for average risk loans, a reduction in spreads was reported in loans to enterprises and for house purchase. In addition, one of the institutions has also applied more favourable non-price conditions and terms in the approval of loans to enterprises. Two institutions reported the increase in maturity in order to facilitate households' access conditions to the credit market.

In the third quarter of 2004, the demand for loans and credit lines by enterprises should have increased slightly, on average. Likewise, an increase in the demand from households was reported by three of the five banking groups (just one of the five reported a slight decrease in demand).

Globally, the five surveyed banks do not foresee changes in credit standards applied in the approval of loans to the private sector during the last quarter of 2004. Only one institution is planning a slight loosening of conditions in loans to households. In the same period, on average, banks expect some increase in loan demand, in both segments of loans.

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

In the third quarter of 2004, the sample of banks included in the survey reported, on average, a slight loosening of credit standards applied to enterprises. In fact, one of the five surveyed banking groups reported a slight easing of credit conditions, namely in the segment of small and medium-sized enterprises.

The loosening of credit standards reflected stronger competition among banks and a more favourable perception of the risks regarding general economic activity. In the opposite direction, one institution reported the cost of funds and the bank's liquidity position as relevant factors. The loosening of credit standards was reflected not only on the margin applied on average loans but also on more favourable non-price conditions and terms. However, for riskier loans, two institutions reported wider bank margins.

Loan demand by enterprises should have increased slightly, on average, in the third quarter of 2004, though just two banking groups reported that evolution. According to the answers of reporting banks, demand should have been influenced positively by increased financing needs, for fixed investment, for inventories and working capital and also for debt restructuring. One of the institutions reported the reduction in debt securities issuance by enterprises as also contributing to increased demand. Conversely, factors such as mergers/acquisitions and corporate restructuring and an improved internal financing were referred as contributing to weaker demand.

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

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

In the third quarter of 2004, one of the banking groups reported a loosening of the credit standards applied in this segment, while the other four maintained their standards. Still, some factors were pointed out as influencing them, namely increased competition from other banks, more favourable expectations regarding general economic activity and the housing market. The cost of funds and balance sheet constraints were also referred, contributing somewhat to tightening of credit standards.

Some changes were reported in the conditions applied to this segment, namely higher spreads on riskier loans, on the one hand, and lower spreads for average risk loans coupled with increases in loans maturity, on the other hand.

In the third quarter of 2004, three of the inquired banks faced a slight increase in loan demand for house purchase, while one reported a slight decrease. According to one the reporting banks, this increase reflects a favourable outlook for real estate markets and an increase in consumers' confidence. However, one other banking group reported an adverse evolution of this last factor, as contributing to a decrease in demand. In addition, it reported the granting of credit from other banks as also contributing to the registered decrease in demand.

In what concerns the last quarter of 2004, only one of the five reporting banks foresees changes in the criteria underlying the approval of loans for house purchase, towards a loosening of conditions applied. Regarding banks' prospects concerning the evolution of demand in that quarter, reporting banks foresee a slight increase.

For consumption and other purposes

The five inquired banks reported unchanged credit standards applied on loans to households for consumption and other purposes. Still, some factors were reported as having some influence on those standards. Namely, one banking group reported a perception of increased risks as contributing to somewhat tighter conditions. In the opposite direction, one institution indicated competition from other banks as favouring the adoption of less stringent criteria. Two of the banking groups reported the increase in loans maturity as reflecting the looser conditions. In turn, the setting of higher spreads on riskier loans was also reported by one of these groups.

In line with the previous survey, banks reported, in aggregated net terms, an increase of the demand for loans for consumption and other purposes. Three of them reported such evolution, while just one reported the opposite development. The global increase should have reflected increased consumer confidence and higher spending on durable consumer goods. Nevertheless, one institution reported an adverse evolution of these same factors. In addition, the recourse to alternative sources of financing, including households' savings, was pointed as contributing to decrease demand.

According to the prospects of reporting banks concerning the last quarter of 2004, the overall credit approval strategies in this segment shall ease somewhat. Furthermore, banks foresee a slight increase 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 October 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).

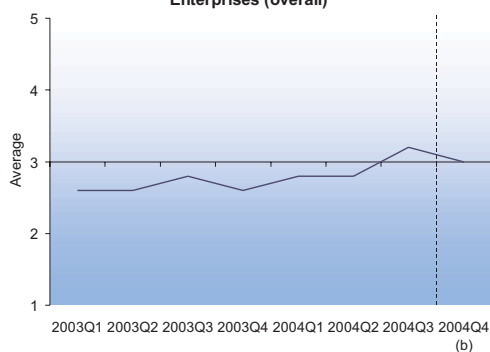
Tables on the first set of questions have five possible options, for each segment, according to the trend and rate of the changes reported (either occurred or foreseen); replies are shown along columns. Answers to tables on factors' appraisal are along the rows; six options are available - including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

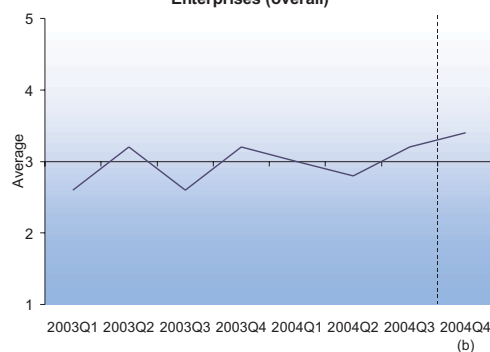
CREDIT SUPPLY^(a)

Enterprises (overall)

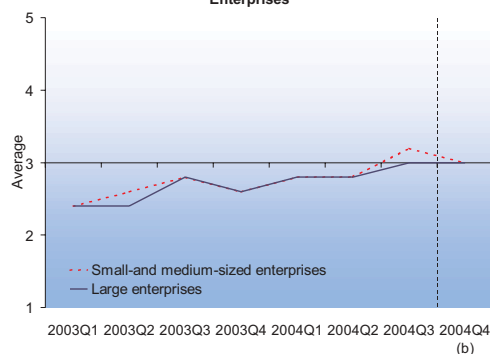


CREDIT DEMAND^(a)

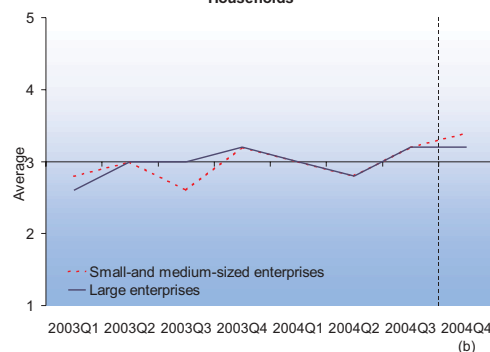
Enterprises (overall)



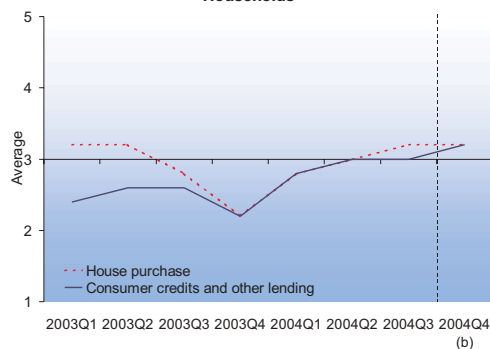
Enterprises



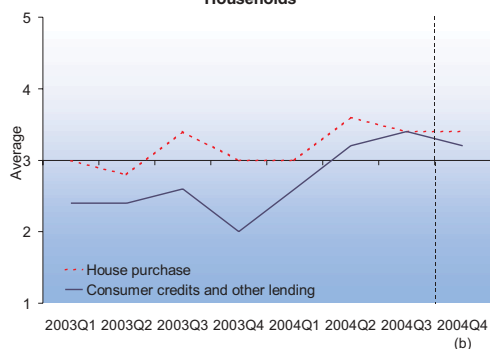
Households



Households



Households



Notes: (a) In questions regarding credit supply, values below 3 should be interpreted as tighter standards applied on loan approval vis-à-vis the previous quarter. In turn, values above 3 imply an easing of credit standards. In questions regarding credit demand, values above 3 represent an increase in demand.

(b) Banks's expectations.

I. Loans or credit lines to enterprises

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

	Overall	Loans to small and medium-sized enterprises	Loans to large enterprises	Short-term loans	Long-term loans
Tightened considerably					
Tightened somewhat					
Remained basically unchanged	4	4	5	5	5
Eased somewhat	1	1			
Eased considerably					
Average Oct. 04	3.2	3.2	3.0	3.0	3.0
Jul. 04	2.8	2.8	2.8	3.0	2.8

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. 04	Jul. 04
A) Cost of funds and balance sheet constraints								
* Costs related to your bank's capital position		1	4				2.8	2.6
* 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			3	1	1		3.6	3.4
* Competition from non-banks			5				3.0	3.0
* Competition from market financing			5				3.0	3.2
C) Perception of risk								
* Expectations regarding general economic activity		1	2	2			3.2	2.8
* Industry or firm-specific outlook		1	3	1			3.0	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 Oct. 04 Jul. 04	
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			3	2			3.4	3.0
* Your bank's margin on riskier loans		2	3				2.6	2.6
B) Other conditions and terms								
* Non-interest rate charges			4	1			3.2	3.0
* Size of the loan or credit line			4	1			3.2	3.0
* Collateral requirements			4	1			3.2	3.0
* Loan covenants			5				3.0	3.0
* Maturity			4	1			3.2	3.0

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					
Remained basically unchanged	4	4	4	4	4
Increased somewhat	1	1	1	1	1
Increased considerably					
	Average Oct. 04 Jul. 04	3.2 2.8	3.2 2.8	3.2 2.8	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 Oct. 04 Jul. 04	
A) Financing needs								
* Fixed investment			3	2			3.4	3.2
* Inventories and working capital			1	4			3.8	3.4
* 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	3	1			3.0	2.8
* Loans from non-banks			5				3.0	3.0
* Issuance of debt securities			4		1		3.4	3.2
* 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 Oct. 04 Jul. 04	3.0 3.0	3.0 3.0	3.0 3.0	3.0 3.0	3.0 3.0

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

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

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

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

	--	-	°	+	++	NA	Average Oct. 04 Jul. 04	
A) Cost of funds and balance sheet constraints		1	4				2.8	2.6
B) Pressure from competition								
* Competition from other banks			3	2			3.4	3.2
* Competition from non-banks			4			1	3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity		1	2	2			3.2	3.4
* Housing market prospects			4	1			3.2	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	
							Oct. 04	Jul. 04
A) Price								
* Your bank's margin on average loans (wider margin = tightened, narrower margin = eased)			4	1			3.2	3.2
* Your bank's margin on riskier loans		1	4				2.8	2.8
B) Other conditions and terms								
* Collateral requirements			5				3.0	2.8
* "Loan-to-value" ratio			5				3.0	2.8
* Maturity			3	2			3.4	3.2
* 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. 04	Jul. 04
A) Cost of funds and balance sheet constraints			5				3.0	3.0
B) Pressure from competition								
* Competition from other banks			4	1			3.2	3.2
* Competition from non-banks			5				3.0	3.0
C) Perception of risk								
* Expectations regarding general economic activity		1	4				2.8	3.0
* 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 Oct. 04 Jul. 04	
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		4				2.6	2.4
B) Other conditions and terms								
* Collateral requirements			5				3.0	3.0
* Maturity			3	2			3.4	3.2
* Non-interest rate charges			5				3.0	3.0

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

	Loans for house purchase	Consumer credit and other lending
Decreased considerably		
Decreased somewhat	1	1
Remained basically unchanged	1	1
Increased somewhat	3	3
Increased considerably		
	Average Oct. 04 Jul. 04	
	3.4 3.6	3.4 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 Oct. 04 Jul. 04	
A) Financing needs								
* Housing market prospects			4	1			3.2	3.2
* Consumer confidence		1	3	1			3.0	3.4
* Non-housing related consumption expenditure		1	4				2.8	3.0
B) Use of alternative finance								
* Household savings			5				3.0	3.0
* Loans from other banks	1		4				2.6	3.2
* 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. 04	Jul. 04
A) Financing needs								
* Spending on durable consumer goods, such as cars, furniture, etc.)		1	3	1			3.0	3.6
* Consumer confidence		1	3	1			3.0	3.4
* Securities purchases			5				3.0	3.0
B) Use of alternative finance								
* Household saving		1	4				2.8	3.0
* Loans from other banks			5				3.0	3.2
* Other sources of finance		1	4				2.8	2.8

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

	Loans for house purchase	Consumer credit and other lending
Tighten considerably		
Tighten somewhat		
Remain basically unchanged	4	4
Ease somewhat	1	1
Ease considerably		
Average Oct. 04	3.2	3.2
Jul. 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	3	4
Increase somewhat	2	1
Increase considerably		
Average Oct. 04	3.4	3.2
Jul. 04	3.2	3.0