



October, 5 2007

Flash Note

Euro-Area Bank Lending Survey

- The results of the October 2007 bank lending survey¹ indicate a sharp tightening of credit standards in the Euro Area.
- Bad expectations regarding economic activity, less intense competition amongst banks and the recent credit markets events help to explain these results.
- Banks' access to funding has significantly been affected by the latest tensions in credit markets. The difficulties to access to funding are expected to persist.
- The overall tightening is expected to continue over the next quarter.

The Supply of Credit: a sharp tightening

Credit standards for loans to enterprises tightened in net terms in the third quarter of 2007. The net tightening applied more significantly to large enterprises. As regards loan maturities, the net tightening was somewhat more pronounced for long-term loans. Looking ahead to the fourth quarter of 2007, banks expect a further net tightening of credit standards applied on loans to enterprises

For the first time since the inception of the survey, competition from other banks contributed towards a net tightening of credit standards to firms. Banks' capital and liquidity position and their access to market funding also contributed towards a net tightening. However, the worsening of banks' risk perception regarding general economic activity and industry or firm-specific outlook was the main driving factor towards a net tightening.

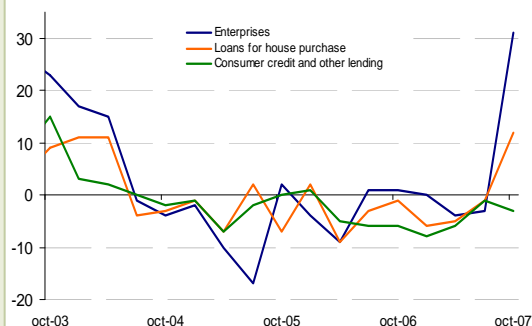
Regarding credit standards for housing loans to households, banks reported a net tightening following a slight net easing in the previous quarter (12% from -1% in the previous survey round). This result contrasts with a slight net easing on loans to households for consumer credit. Importantly, banks expect a further net tightening in the next quarters for both types of credit categories.

The main factors behind housing credit are a slight deterioration of banks' balance sheet position and a worsening of housing market prospects as well as expectations regarding general economic activity. Competition from other banks continued to contribute towards a net easing.

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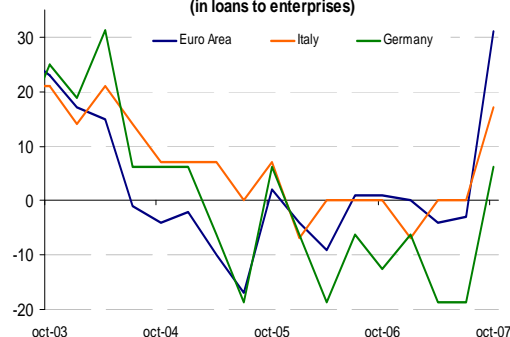
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Tightening in bank's credit standards



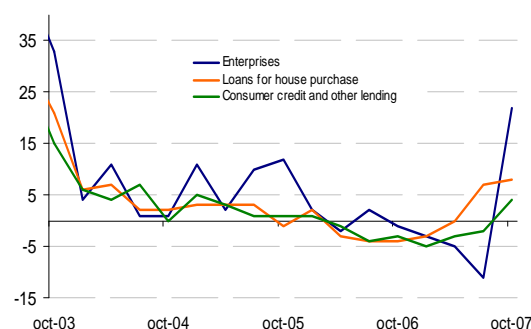
Source: ECB and BBVA

Tightening in bank's credit standards (in loans to enterprises)



Source: Bank of Italy, Bundesbank and BBVA

Contribution to tightening (agents' expectations on general economic activity)



Source: ECB and BBVA

¹ The results correspond to data received at the ECB by September 27th.

The net tightening for loans for house purchase was mainly implemented via a widening of the margins and via higher collateral requirements and loan-to-value ratios, particularly on riskier loans.

The Demand for Credit: intensification of the slowdown

Turning to the demand for credit, the Survey's results indicate a slow down in the net demand for funds by enterprises, although it still remains slightly positive (5% compared with 18% in the previous quarter). Mergers and acquisitions (M&A) and corporate restructuring contributed to the slowdown. On the other hand, the contribution of fixed investment has diminished.

Loan demand from small and medium-sized enterprises continued to be stronger than for large enterprises. Banks expect corporate net demand across all firm sizes and loan maturities to remain positive, but continuing the declining trend.

Regarding the demand for housing loans to households, the Survey shows that it continued to be significantly negative, albeit less intense than in the previous quarters (at -15% from -22%). This essentially reflects a less favourable assessment of housing market prospects and a worsening of consumer confidence.² Banks expect net demand to remain significantly negative over the near future.

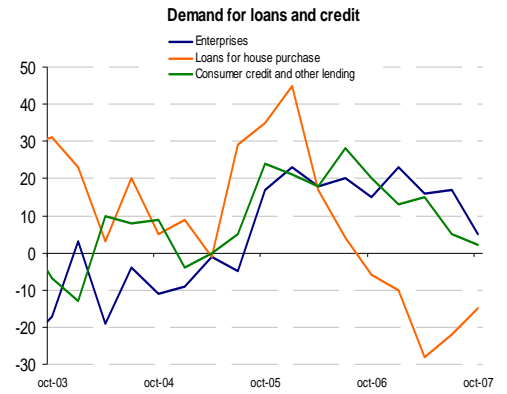
Recent Credit Market Events: significant effects

Banks generally reported that the recent tensions in the credit markets have affected their lending behaviour and, most notably, their access to wholesale funding..

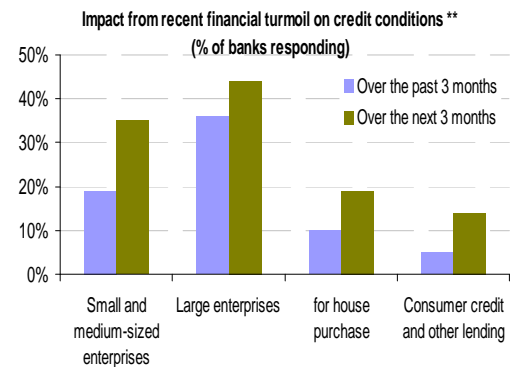
Regarding lending behaviour, large enterprises seems to be the first being affected by tensions in financial markets. On the other hand, consumer credit appears to be the less affected. Over the next quarters, this impact is expected to spill over all loan segments.

Furthermore, relating to funding access, banks revealed difficulties in accessing wholesale funding. In particular, securitisation activity was hampered for the selling of loans for house purchase and corporate loans. Wholesale funding market access is not expected to become easier over the next future, although there are some differences according to funding sources. Access to inter-bank and short-term debt securities markets is expected to continue to be hampered, albeit at a weaker intensity. By contrast, securitisation of corporate loans is expected to become somewhat more difficult to achieve.

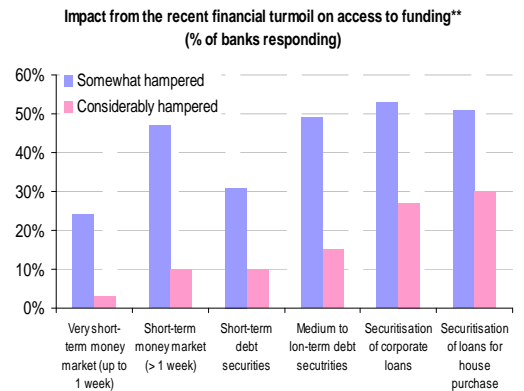
Finally, with respect to the effect from credit market events on banks' capital position, only a 10% of banks expect a considerable impact, a 46% some and a 34% no impact. These figures reflect a strong solvency of the European banking system.



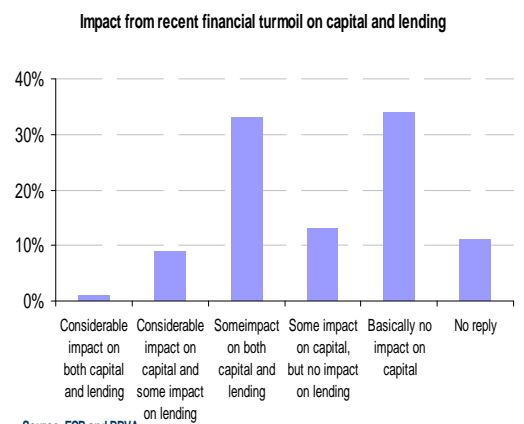
Source: ECB and BBVA



** whether it has contributed somewhat to tightening of credit standards
Source: ECB and BBVA



** on access to wholesale funding over the next 3 months
Source: ECB and BBVA



Source: ECB and BBVA

² It should be noted that the survey does not directly capture factors affecting loan demand for house purchase such as the level of interest rates, which may be a driving force behind the decline in demand.