

January, 18 2008

Flash Note

ECB Bank Lending Survey

- The January 2008 ECB bank lending survey shows a record high increase in the net tightening of credit standards, for loans to enterprises, reflecting the deterioration of economic outlook, financial market conditions and a worsening of banks' situation.¹
- Credit standards for house purchase also suffered a further deterioration, while consumer credit conditions were tightened compared with a net easing in the previous quarter.
- Across countries, conditions have also deteriorated significantly in Italy, while the tightening was less pronounced in Germany.
- Banks tightened credit standards especially by widening sharply their margins, shortening the maturity, and increasing covenants and collateral requirements.
- Demand for loans to house purchase dropped considerably, while those to enterprises increased, but only modestly and continuing its decelerating trend motivated by the large drop in M&A finance.
- An increasing amount of banks expect the financial turmoil to continue affecting credit standards and banks' willingness to lend, limiting their access to wholesale funding and hampering securitisation activity.
- Comparatively, the tightening in the Euro Area turned out to be less pronounced than in the U.K., where results from the BoE Lending Survey show a significant reduction in the availability of credit to households and corporations, together with a marked increase in spreads. The overall tightening in the U.K. is also expected to continue the next quarter.

The Supply of Credit: the sharp tightening continues

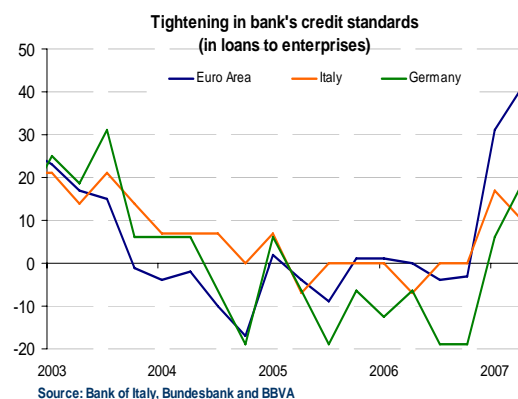
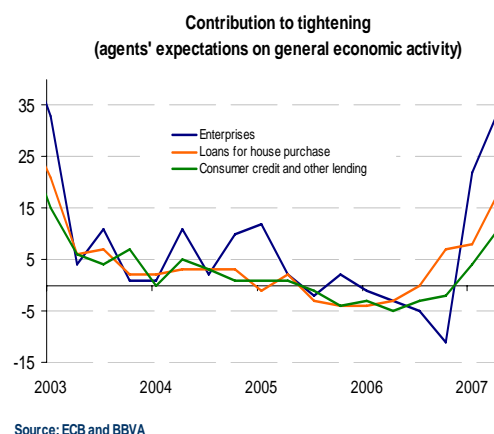
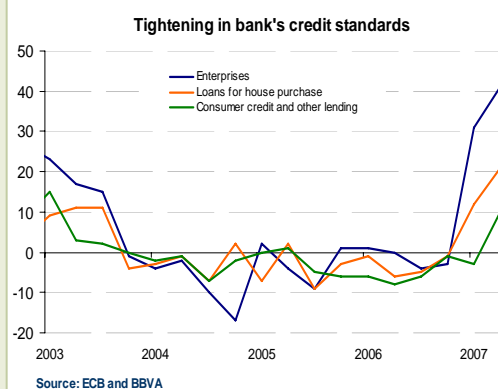
Credit standards for loans to enterprises were tightened significantly further in net terms in the fourth quarter of 2007 (41% compared with 31% in the previous quarter). Similarly, Credit standards for housing loans to households continued the deterioration (21% from 12% in the previous quarter).

Financial turmoil and banks' perception of the economic outlook (including deteriorating housing market prospects) contributed considerably to this situation.

¹ Due to the financial turmoil since last summer, the January 2008 survey was brought forward by approximately one month. The cut-off date was 8 January 2008.

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Moreover, banks' capital and liquidity position and the difficulties in their access to wholesale funding were important factors in this regard.

Banks tightened credit standards especially by widening sharply their margins and by shortening the loans' maturity and increasing collateral requirements. The tightening affected most to large corporations and loans to finance M&A.

Credit standards of loans for consumer credit decreased, after a slight net easing in the previous quarter (10%, from -3% in the previous quarter). A deterioration of consumers' creditworthiness was one of the most important factors.

Banks expect the net tightening of credit standards to continue in 2008 Q1, reflecting possible longer-lasting effects of the financial turmoil.

The Demand for Credit: intensification of the slowdown

Despite that the January Bank Lending Survey reported an overall "slightly positive" demand for loans and credit to enterprises, the data shows a decreasing trend as the net percentage of banks reporting positive loan demand fell (from 5 to 2%). In particular, demand for loans has significantly deteriorated for small and medium-sized enterprises (from +6% to 0%) and more importantly for large enterprises (from -1% to -7%).

This fall in demand by large reflects basically a decreasing investment, and declining mergers and acquisitions (M&A) and corporate restructuring activity. In the same line, net demand for housing loans to households worsen reflecting in particular increasing banks' concerns about the housing market. Also, credit demand to households for consumer credit and other lending decreased considerably, mainly due to worsening bank's perceptions on creditworthiness and the general economic outlook.

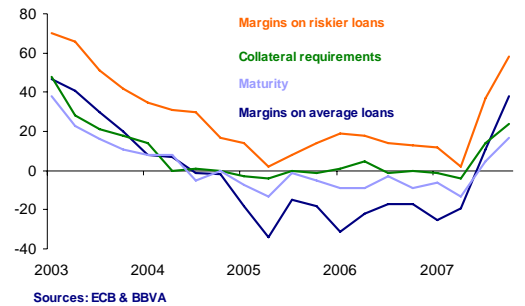
For the coming months, banks expect a further decline in both demand to enterprises and households, especially to large enterprises.

Recent Credit Market Events: significant effects persist

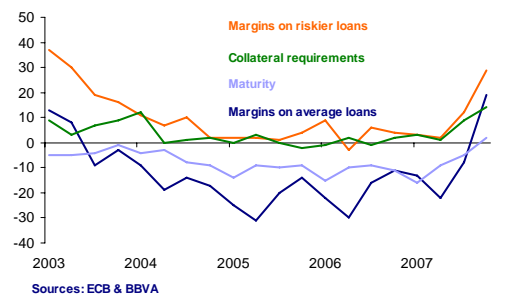
The impact of the financial markets turmoil on credit standards has been different across loan segments. Loans to enterprises, particularly to large corporations, were more affected than those to households. Loans related to M&A and corporate restructuring were also very affected. Moreover, a greater proportion of banks expect the financial turmoil to have a significant impact the next quarter.

The conditions for accessing wholesale funding continued to be very difficult. In particular, securitisation activity was considerably complicated for the selling of loans for house purchase and of corporate loans. Additionally, one third of banks considered their ability to transfer credit risk off balance sheet significantly deteriorated. Wholesale funding market access is not expected to become generally easier over the next three months.

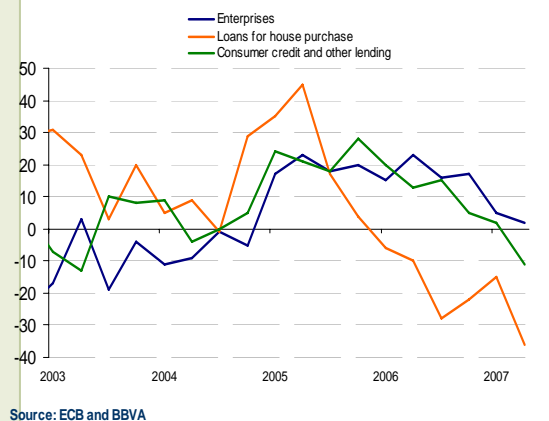
Conditions and terms for approving loans or credit lines to enterprises
(net percentages of banks reporting tightening standards)



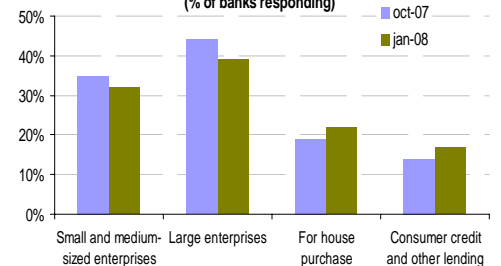
Conditions and terms for approving loans to household for house purchase
(net percentages of banks reporting tightening standards)



Demand for loans and credit



Impact from recent financial turmoil on credit conditions over the next 3 months **
(% of banks responding)



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