EUROPEAN CENTRAL BANK

EUROSYSTEM

The euro area bank lending survey

Second quarter of 2024

July 2024

Contents

1 Overview of results

In the July 2024 bank lending survey (BLS), euro area banks reported a very small further tightening of their credit standards for loans or credit lines to enterprises in the second quarter of 2024 (net percentage of banks of 3%; see Overview table).[1] Banks' risk tolerance was the main driver behind the net tightening, while their risk perceptions had a broadly neutral impact, thus becoming less relevant than during the rate hiking cycle. Net tightening in credit standards was reported in France and in Germany, while only Italian banks reported a net easing. The net percentage of banks reporting a tightening was broadly the same compared with the previous quarter (3%) and was lower than the historical average (9%). Banks expect a further, albeit moderate, net tightening in the third quarter of 2024 (5%).

Banks reported a moderate further net easing of credit standards for loans to households for house purchase, but a moderate further net tightening for consumer credit (net percentages of -6% and 6% respectively; see Overview table). Competition was the main driver behind the easing of housing loan credit standards, while risk perceptions drove the further tightening in consumer credit. The easing in housing loan credit standards was largely driven by French and, to a lesser extent, Italian banks, whereas the tightening in credit standards for consumer credit was observed primarily in Germany, Spain and Italy. The net easing and net tightening observed were both in contrast to expectations of unchanged credit standards in the two loan categories (0%). Banks expect credit standards to remain broadly unchanged in both loan categories in the third quarter of 2024.

Firms' net demand for loans declined further in the second quarter of 2024 (net percentage of -7%; see Overview table), although by substantially less than in the previous quarter. This was mainly driven by high interest rates and weak fixed investment. There was also a small positive contribution from inventories and working capital for the first time in six quarters. There was substantial divergence between the four largest euro area countries, with banks in France and Italy reporting a further decline in loan demand and those in Germany and Spain reporting an increase. The resulting aggregate small decline in net demand was broadly in line with banks' expectations reported the previous quarter. If the moderate net increase in demand for loans to firms that banks expect in the third quarter of 2024 were to materialise, it would be the first such increase since the third quarter of 2022.

Net demand for both housing loans and consumer credit increased for the first time since 2022 (net percentages of 16% and 13% respectively; see Overview table). Improving housing market prospects, cited primarily by German banks, were the main driver of the increase in housing loan demand. The general level of interest

[1] The results reported in the July 2024 survey relate to changes observed during the second quarter of 2024 and expectations for the third quarter of 2024. The survey was conducted between 10 and 25 June 2024. A total of 157 banks were surveyed in this round, with a response rate of 100%. In addition to results for the euro area as a whole, this report contains results for the four largest euro area countries in terms of GDP (i.e. Germany, Spain, France and Italy).

rates and consumer confidence had a smaller positive impact. Consumer credit demand was positively affected by spending on durables and consumer confidence. The net demand for housing loans was weaker than banks had expected the previous quarter (net increase of 22%), but stronger for consumer credit (net increase of 6%). In the third quarter of 2024 banks expect demand to increase in both categories, more substantially so for housing loans than consumer credit.

Banks' overall credit terms and conditions eased for housing loans and – only very slightly – for loans to firms, while they saw a small tightening for consumer credit. Lending rates were the main driver of the net easing in housing loan and corporate loan terms and conditions, with margins on average loans also having an easing impact on both housing loans and loans to firms. Margins on riskier loans were the main driver of tighter consumer credit terms and conditions.

Banks reported a decrease in the share of rejected applications for housing loans, and an increase in rejected loans to non-financial corporates and consumer credit.

The July 2024 survey contained a number of ad hoc questions.

- Euro area banks' access to funding improved for debt securities (-21% of banks reporting a net tightening) and – to a lesser extent – money markets (-4%), with broadly unchanged access to retail funding (1%), except for short-term funding, which continued to slightly deteriorate in the second quarter of 2024 (3%). Banks expect access to funding to deteriorate across all segments over the third quarter of 2024.

- Perceived credit risks in banks' loan portfolios had a moderate tightening impact on credit standards for loans to enterprises and consumer credit (both 9%), as well as their terms and conditions (7% and 6% respectively) in the first half of 2024. The impact was neutral for housing loans. Banks expect a further moderate tightening impact on credit standards for enterprises and a broadly neutral impact on credit standards for households in the next half year.

- Credit standards for firms tightened further in all economic sectors in the first half of 2024, ranging from a very small net tightening in services and manufacturing to a relatively large one in commercial real estate (CRE). At the same time, banks reported a net decrease in demand for loans or credit lines in most main economic sectors, with the exception of services. In the second half of 2024 euro area banks expect a net tightening in lending conditions, combined with a moderate net increase in loan demand in most economic sectors except construction and CRE.

- Climate risks of euro area firms and measures to cope with climate change continued to have a net tightening impact on credit standards for loans to brown firms over the past twelve months (44%), although by less than expected (69%), while they had a further net easing impact for loans to green firms (-25%) and firms in transition (-10%). Physical risk was reported by banks as the main driver of the tightening impact, closely followed by firm-specific situation and outlook. Over the next twelve months euro area banks expect a slightly stronger net tightening impact on credit standards for loans to brown firms (50%), but a slightly stronger net easing impact for green firms (-29%) and firms in transition (-12%).

- Banks reported that the decline in excess liquidity held with the Eurosystem in the first half of 2024 had only a small tightening impact on bank lending conditions. They expect similar effects in the second half of 2024.

Overview table

Latest BLS results for the largest euro area countries

(net percentages of banks reporting a tightening of credit standards or an increase in loan demand)

	Enterprises						House purchase						Consumer credit					
	Credit standards			Demand			Credit standards			Demand			Credit standards			Demand		
Country	Q1 24	Q2 24	Avg	Q1 24	Q2 24	Avg	Q1 24	Q2 24	Avg	Q1 24	Q2 24	Avg	Q1 24	Q2 24	Avg	Q1 24	Q2 24	Avg
Euro area	3	3	9	-28	-7	-1	-6	-6	6	-3	16	0	9	6	5	1	13	0
Germany	6	3	4	-13	16	5	7	7	4	46	30	5	14	7	1	14	14	6
Spain	0	0	9	-17	8	-7	0	10	14	-20	20	-11	17	17	11	0	33	-8
France	0	8	7	-42	-17	-5	-22	-33	4	-33	0	1	8	0	0	-23	8	-2
Italy	0	-9	12	-45	-36	3	0	-9	1	-45	27	8	15	8	5	15	0	9

Notes: “Avg” refers to historical averages, which are calculated over the period since the beginning of the survey, excluding the most recent round. Owing to the different sample sizes across countries, which broadly reflect the differences in the national shares in lending to the euro area non-financial private sector, the size and volatility of the net percentages cannot be directly compared across countries.

Box 1

General notes

The BLS is addressed to senior loan officers at a representative sample of euro area banks, representing all euro area countries and reflecting the characteristics of their respective national banking structures. The main purpose of the BLS is to enhance the Eurosystem’s knowledge of bank lending conditions in the euro area.[2]

Detailed tables and charts based on the responses provided can be found in Annex 1 for the standard questions and Annex 2 for the ad hoc questions. In addition, BLS time series data are available on the ECB’s website via the ECB Data Portal.

Detailed explanations on the BLS questionnaire, the aggregation of banks’ replies to national and euro area BLS results, the BLS indicators and information on the BLS series keys are available on the ECB’s website in the BLS user guide. A copy of the BLS questionnaire and a glossary of BLS terms can also be found on the ECB's website.

[2] For more detailed information on the bank lending survey, see Köhler-Ulbrich, P., Dimou, M., Ferrante, L. and Parle, C., “Happy anniversary, BLS – 20 years of the euro area bank lending survey”, *Economic Bulletin*, Issue 7, ECB, 2023, Huennekes, F. and Köhler-Ulbrich, P., “What information does the euro area bank lending survey provide on future loan developments?”, *Economic Bulletin*, Issue 8, ECB, 2022.

2 Loans to enterprises

2.1 Credit standards showed slight further tightening

Euro area banks reported a very small further tightening of their credit standards for loans or credit lines to enterprises in the second quarter of 2024 (net percentage of banks of 3%; see Chart 1 and Overview table).[3] This was reported in France and in Germany, while Italian banks reported a net easing. The net percentage of banks reporting a tightening was broadly the same compared with the previous quarter (3%) and was lower than the historical average (9%). Credit standards for loans to small and medium-sized enterprises (SMEs) remained broadly unchanged, while they further tightened slightly for loans to large firms (net percentages of 1% and 3%, respectively; see Chart 2). Across maturities, banks reported broadly unchanged credit standards for short-term loans (1%), and a very small tightening for long-term loans (4%).

Banks' risk tolerance was the main driver behind the net tightening, but their risk perceptions had a broadly neutral impact, thus becoming less relevant than during the tightening cycle (see Chart 1 and Table 1).[4] Banks' cost of funds and balance sheet constraints, as well as competition, had a broadly neutral impact, similar to previous quarters. Among the largest euro area countries, risk tolerance was the most important factor behind the net tightening in France and Germany, while it drove the net easing seen in Italy. Banks' capital costs contributed slightly to the net tightening in France, while banks in Italy reported an easing impact.

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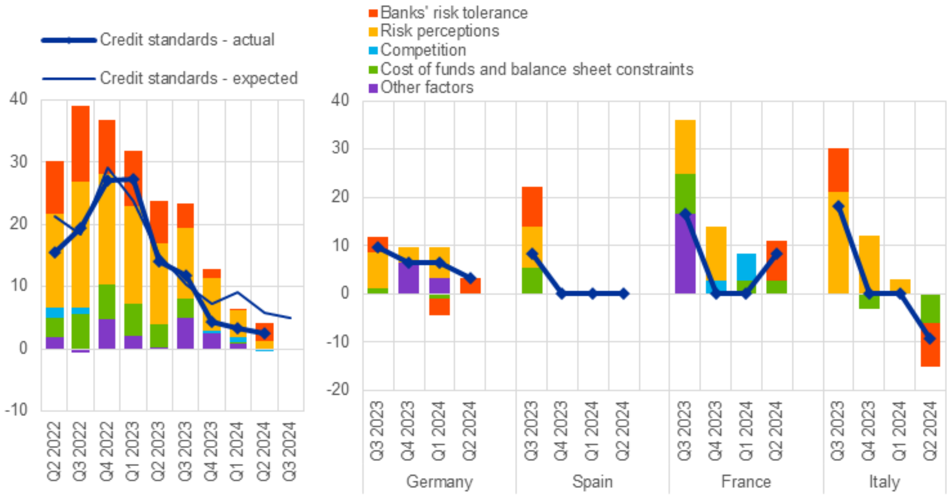
3 Net percentages refer to changes over the previous three months (unless otherwise noted) and are defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". Owing to different sample sizes across countries, which broadly reflect the differences in the national shares in lending to the euro area non-financial private sector, the size and volatility of the net percentages cannot be directly compared across countries.

4 The net percentages for responses to questions related to the factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage of banks reporting that it contributed to an easing. "Cost of funds and balance sheet constraints" are defined as the unweighted average of "bank's capital and the costs related to bank's capital position", "access to market financing" and "liquidity position"; "Risk perception" as the unweighted average of "general economic situation and outlook", "industry or firm-specific situation and outlook/borrower's creditworthiness" and "risk on collateral demanded"; and "Competition" as the unweighted average of "bank competition", "non-bank competition" and "competition from market financing".

Chart 1

Changes in credit standards applied to the approval of loans or credit lines to enterprises, and contributing factors

(net percentages of banks reporting a tightening of credit standards and contributing factors)

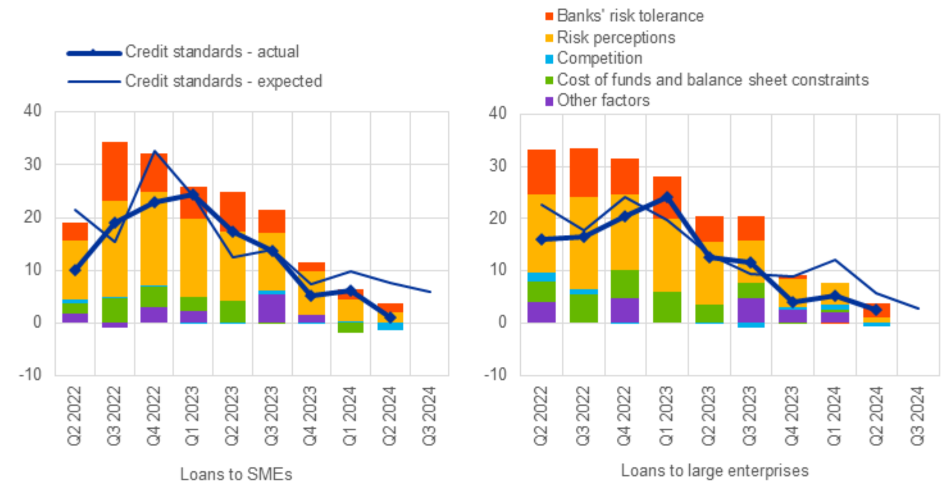


Notes: “Actual” values are changes that have occurred, while “expected” values are changes anticipated by banks. Net percentages are defined as the difference between the sum of the percentages of banks responding “tightened considerably” and “tightened somewhat” and the sum of the percentages of banks responding “eased somewhat” and “eased considerably”. The net percentages for responses to questions related to contributing factors are defined as the difference between the percentage of banks reporting that a given factor contributed to a tightening and the percentage of banks reporting that it contributed to an easing. “Cost of funds and balance sheet constraints” is the unweighted average of “banks' capital and the costs related to banks' capital position”, “access to market financing” and “liquidity position”; “Risk perceptions” is the unweighted average of “general economic situation and outlook”, “industry or firm-specific situation and outlook/borrower's creditworthiness” and “risk related to the collateral demanded”; and “Competition” is the unweighted average of “competition from other banks”, “competition from non-banks” and “competition from market financing”. The net percentages for “Other factors” refer to an average of the further factors which were mentioned by banks as having contributed to changes in credit standards.

Chart 2

Changes in credit standards applied to the approval of loans or credit lines to SMEs and large enterprises, and contributing factors

(net percentages of banks reporting a tightening of credit standards and contributing factors)



Note: See the notes to Chart 1.

In the second quarter of 2024 euro area banks expect a moderate further net tightening for loans to firms (net percentage of 5%). They expect a similar moderate net tightening for loans to SMEs (net percentage of 6%), and a smaller net tightening for loans to large firms (net percentage of 3%).

Table 1

Factors contributing to changes in credit standards for loans or credit lines to enterprises

(net percentages of banks)

	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
Country	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024
Euro area	0	0	1	0	4	1	0	3
Germany	-1	0	0	0	6	0	-3	3
Spain	0	0	0	0	0	0	0	0
France	3	3	6	0	0	0	0	8
Italy	0	-6	0	0	3	0	0	-9

Note: See the notes to Chart 1.

2.2 Terms and conditions eased slightly

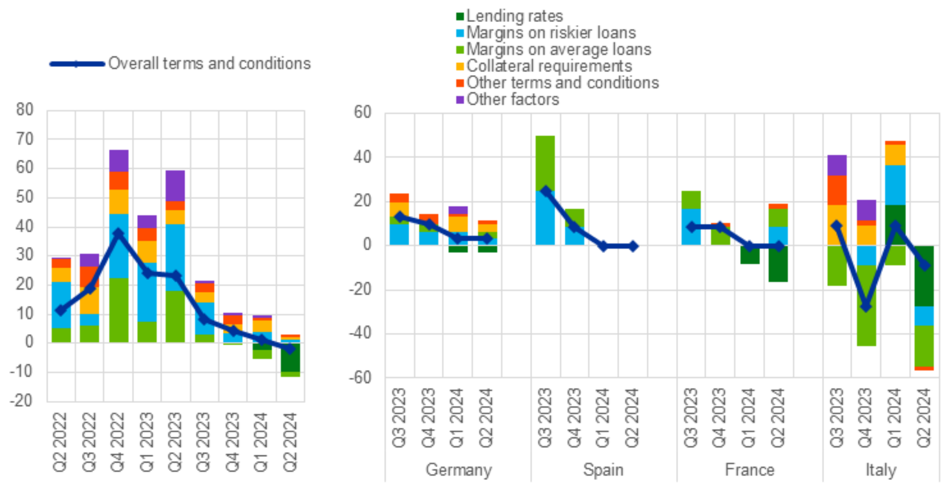
Banks' overall terms and conditions for new loans to enterprises eased slightly for the first time since the third quarter of 2021 (net percentage of -2%; see Chart 3 and Table 2).[5] Margins on average loans (defined as the spread over relevant market reference rates) eased very slightly, while those on riskier loans remained broadly unchanged. Lending rates on new loans eased moderately in net terms. The neutral impact of other terms and conditions in net terms masked a small tightening impact from loan size, which was in turn reported for the SME segment. The broad stability in margins at the aggregate level veiled divergence across countries, with French and – to a lesser extent – German banks reporting a net tightening and Italian banks a net easing. Overall terms and conditions eased slightly for loans to SMEs, while they remained broadly unchanged for loans to large firms (net percentages at -3% and -2% respectively; see Chart 4). Margins on average loans were reported by banks to have had small easing impacts in both segments of corporate loans.

5 Terms and conditions are the actual terms and conditions agreed in the loan contract.

Chart 3

Changes in terms and conditions on loans or credit lines to enterprises

(net percentages of banks reporting a tightening of terms and conditions)



Notes: "Lending rates" was introduced in April 2024. "Margins" are defined as the spread over relevant market reference rates. "Other terms and conditions" is the unweighted average of "non-interest rate charges", "size of the loan or credit line", "loan covenants" and "maturity". The net percentages for "Other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in terms and conditions.

Banks' higher risk perceptions continued to be the main factor having a tightening impact on terms and conditions of loans to firms, largely counterbalanced by an easing impact from competition (see Table 3). The net easing impact of competition was mainly related to competition with other banks (net percentage of -11%), especially in France and Italy. In contrast to their credit standards, banks' risk tolerance had a neutral impact on terms and conditions in the second quarter of 2024.

Table 2

Changes in terms and conditions on loans or credit lines to enterprises

(net percentages of banks)

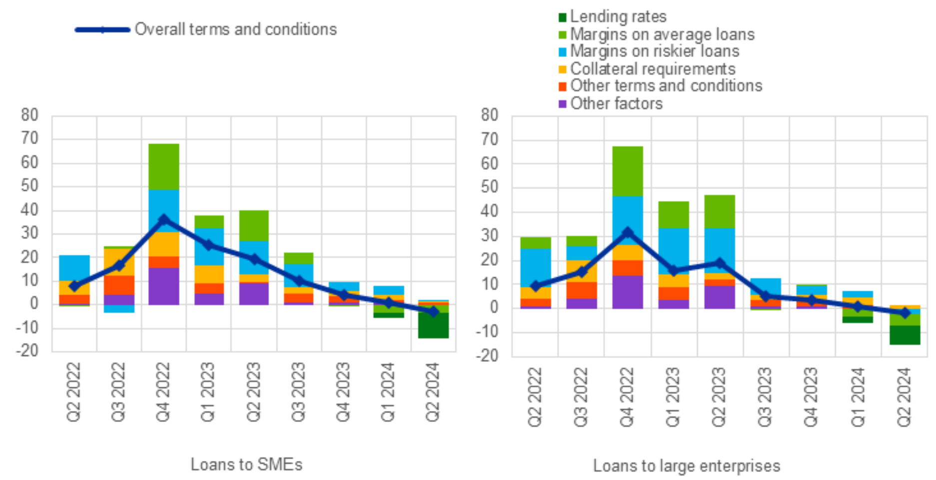
	Overall terms and conditions		Banks' lending rates		Banks' margins on average loans		Banks' margins on riskier loans	
Country	**Q1 2024**	**Q2 2024**	**Q1 2024**	**Q2 2024**	**Q1 2024**	**Q2 2024**	**Q1 2024**	**Q2 2024**
Euro area	1	-2	-2	-10	-3	-2	4	1
Germany	3	3	-3	-3	0	3	6	3
Spain	0	0	0	0	0	0	0	0
France	0	0	-8	-17	0	8	0	8
Italy	9	-9	18	-27	-9	-18	18	-9

Note: See the notes to Chart 3. The sub-item for banks' lending rates was introduced in April 2024.

Chart 4

Changes in terms and conditions on loans or credit lines to SMEs and large enterprises

(net percentages of banks reporting a tightening of terms and conditions)



Note: See the notes to Chart 3.

Table 3

Factors contributing to changes in overall terms and conditions on loans or credit lines to enterprises

(net percentages of banks)

	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
Country	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024
Euro area	0	0	-4	-5	6	6	1	1
Germany	-1	1	-2	0	6	3	0	0
Spain	0	-3	0	0	0	0	0	0
France	0	3	0	-8	8	11	0	0
Italy	3	0	-6	-9	9	6	0	0

Notes: The net percentages for these questions relating to contributing factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage of banks reporting that it contributed to an easing. See the notes to Chart 1.

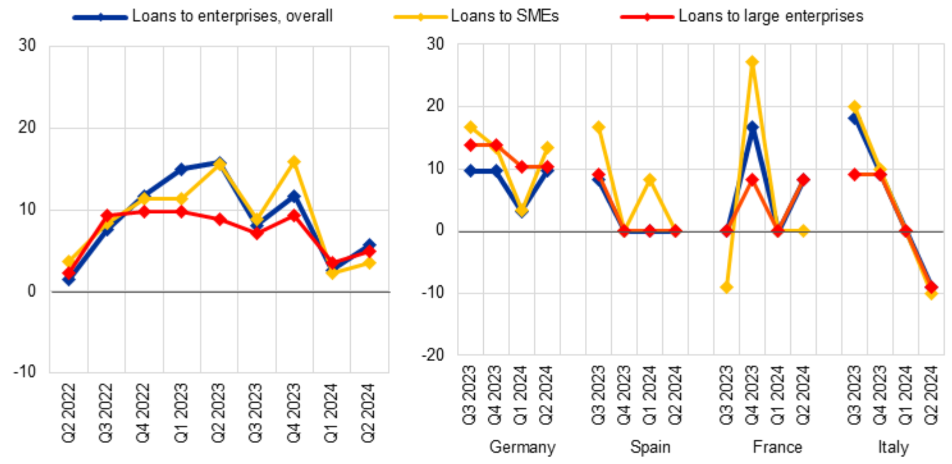
2.3 Rejection rates continued to increase

Banks reported a further net increase in the share of rejected loan applications for firms (net percentage of 6%, after 3%; see Chart 5). The net increase was similar for loans to SMEs and to large firms (net percentages of 3% and 5% respectively). The further increase in the share of rejected loan applications was mainly driven by developments in Germany and France. In contrast, Italian banks reported a decrease in the share of rejected loan applications for the first time since the second quarter of 2022.

Chart 5

Changes in the share of rejected loan applications for enterprises

(net percentages of banks reporting an increase)



Notes: Share of rejected loan applications relative to the volume of all loan applications in that loan category. The breakdown by firm sizes was introduced in the first quarter of 2022.

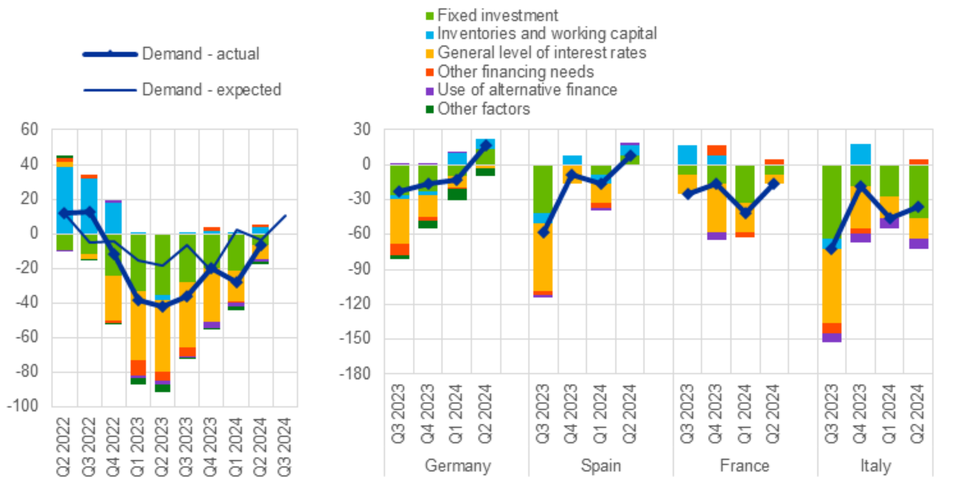
2.4 Net demand for loans declined further

Firms' net demand for loans declined further in the second quarter of 2024 (net percentage of -7%; see Chart 6), although by substantially less than in the previous quarter. There was considerable divergence across the four largest euro area countries, with banks in France and Italy reporting a further decline in demand and those in Germany and Spain reporting an increase. The resulting aggregate small decline in net demand was broadly in line with banks' expectations reported the previous quarter. The net decrease in demand for loans to SMEs (-16%) was substantially larger than that for loans to large firms (-5%) (see Chart 7). In contrast to previous quarters, banks reported similar decreases in demand for long- and short-term loans (net percentages of -7% and -6% respectively).

Chart 6

Changes in demand for loans or credit lines to enterprises, and contributing factors

(net percentages of banks reporting an increase in demand, and contributing factors)

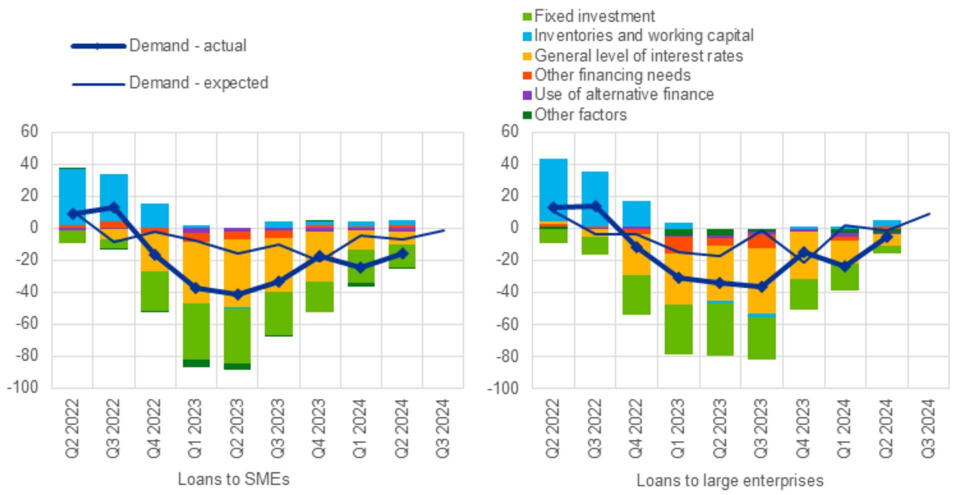


Notes: “Actual” values are changes that have occurred, while “expected” values are changes anticipated by banks. Net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages of banks responding “increased considerably” and “increased somewhat” and the sum of the percentages of banks responding “decreased somewhat” and “decreased considerably”. The net percentages for responses to questions relating to contributing factors are defined as the difference between the percentage of banks reporting that the given factor contributed to increasing demand and the percentage of banks reporting that it contributed to decreasing demand. “Other financing needs” is the unweighted average of “mergers/acquisitions and corporate restructuring” and “debt refinancing/restructuring and renegotiation”; and “Use of alternative finance” is the unweighted average of “internal financing”, “loans from other banks”, “loans from non-banks”, “issuance/redemption of debt securities” and “issuance/redemption of equity”. The net percentages for “Other factors” refer to an average of the further factors which were mentioned by banks as having contributed to changes in loan demand.

Chart 7

Changes in demand for loans or credit lines to SMEs and large enterprises, and contributing factors

(net percentages of banks reporting an increase in demand, and contributing factors)



Note: See the notes to Chart 6. Changes to the factors having an impact on loan demand across firm sizes were added in the first quarter of 2022.

The decline in loan demand was mainly driven by high interest rates and weak fixed investment, while there was a small positive contribution from inventories and working capital for the first time in six quarters (see Chart 6 and Table 4). The general level of interest rates was reported by banks in three of the four largest euro area countries as having a dampening impact on loan demand. At the same time, there was divergence between banks in their replies on the purpose of the demand: German and Spanish banks reported a positive contribution from both fixed investment and inventories and working capital, in contrast to their French and Italian peers. Other financing needs, as well as alternative sources of financing, had a neutral impact on loan demand. High interest rates and weak fixed investment were the main drivers of the decline in demand for loans to both SMEs and large firms (see Chart 7).

Table 4

Factors contributing to changes in demand for loans or credit lines to enterprises

(net percentages of banks)

	Fixed investment		Inventories and working capital		Other financing needs		General level of interest rates		Use of alternative finance	
Country	**Q1 2024**	**Q2 2024**	**Q1 2024**	**Q2 2024**	**Q1 2024**	**Q2 2024**	**Q1 2024**	**Q2 2024**	**Q1 2024**	**Q2 2024**
Euro area	-21	-7	1	4	-1	2	-18	-8	-2	-2
Germany	-10	13	10	10	-2	0	-10	-3	1	0
Spain	-8	8	-8	8	-4	0	-17	0	-2	2
France	-33	-8	0	0	-4	4	-25	-8	0	0
Italy	-27	-45	0	0	0	5	-18	-18	-9	-9

Note: See the notes to Chart 6.

Banks expect a net increase in demand for loans to firms in the third quarter of 2024 (net percentage of 10%). If the moderate net increase that banks expect were to materialise, it would be the first since the third quarter of 2022. Banks expect similar net increases in demand for short- and long-term loans (net percentages of 10% and 8% respectively).

3 Loans to households for house purchase

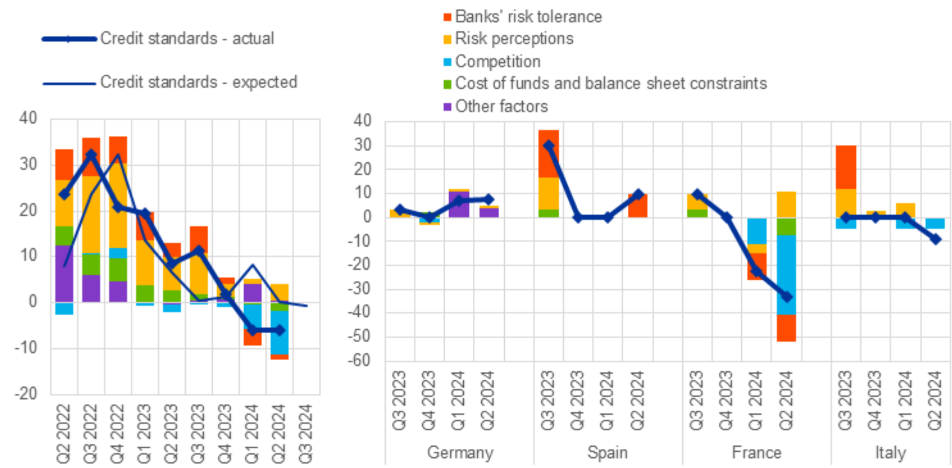
3.1 Credit standards eased moderately

Euro area banks reported a further moderate net easing of credit standards on loans to households for house purchase (net percentage of banks at -6%; see Chart 8 and Overview table). This is the second quarter of moderate net easing after successive quarters of tightening credit standards over the course of the monetary policy tightening cycle. The net easing had not been anticipated the previous quarter, when banks had expected unchanged credit standards. It was largely driven by developments in France (-33%). Banks in Italy also reported net easing (-9%), while German and Spanish banks reported moderate net tightening of credit standards.

Chart 8

Changes in credit standards applied to the approval of loans to households for house purchase, and contributing factors

(net percentages of banks reporting a tightening of credit standards, and contributing factors)



Notes: See the notes to Chart 1. “Cost of funds and balance sheet constraints” is the unweighted average of “banks’ capital and the costs related to banks’ capital position”, “access to market financing” and “liquidity position”; “Risk perceptions” is the unweighted average of “general economic situation and outlook”, “housing market prospects, including expected house price developments” and “borrower’s creditworthiness”; and “Competition” is the unweighted average of “competition from other banks” and “competition from non-banks”. The net percentages for “Other factors” refer to an average of the further factors which were mentioned by banks as having contributed to changes in credit standards.

Competition was the main factor driving the net easing of credit standards on housing loans (see Chart 8 and Table 5). Banks – especially those in France, and to a lesser extent in Italy – reported competition as the key driver, particularly competition from other banks (rather than from non-banks). In France competitive pressures from other banks were reported to have intensified, amid a generalised wait-and-see attitude among consumers and unchanged demand (see below). Risk perceptions had a small tightening impact on credit standards, while the impact of cost of funds and balance sheet constraints as well as banks’ risk tolerance were seen as broadly neutral.

In the third quarter of 2024 euro area banks expect credit standards on loans to households for house purchase to remain broadly unchanged (net percentage of -1%). Across the four largest economies expectations for the coming quarter remain heterogeneous, with banks in Spain and Italy anticipating an easing of credit standards, German banks foreseeing them tighter and French banks reporting an expectation that they will remain unchanged.

Table 5

Factors contributing to changes in credit standards for loans to households for house purchase

(net percentages of banks)

Country	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024
Euro area	0	-2	-5	-9	1	3	-4	-1
Germany	0	0	0	0	1	1	0	0
Spain	0	0	0	0	0	0	0	10
France	0	-7	-11	-33	-4	11	-11	-11
Italy	0	0	-5	-5	6	0	0	0

Note: See the notes to Chart 8.

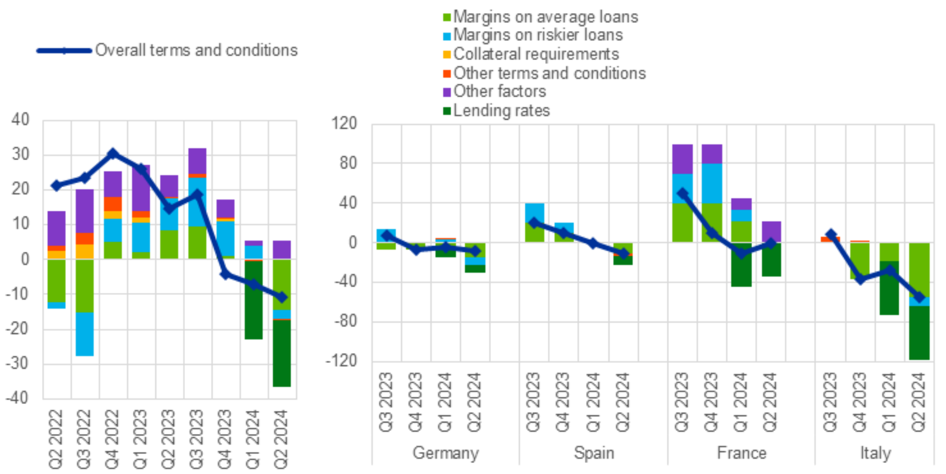
3.2 Terms and conditions eased further

Banks reported a further easing of their overall terms and conditions for new housing loans in the second quarter of 2024 (net percentage of -11%; see Chart 9 and Table 6). The net easing consisted mainly of lower lending rates (net percentage of -19%) and narrower margins on average loans. Banks in Germany, Spain and Italy reported a net easing in terms and conditions, while banks in France reported them unchanged.

Chart 9

Changes in terms and conditions on loans to households for house purchase

(net percentages of banks reporting a tightening of terms and conditions)



Notes: "Lending rates" was introduced in April 2024. "Margins" are defined as the spread over relevant market reference rates. "Other terms and conditions" is the unweighted average of "loan-to-value ratio", "other loan size limits", "non-interest rate charges" and "maturity". The net percentages for "Other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in terms and conditions.

Table 6

Changes in terms and conditions on loans to households for house purchase

(net percentages of banks)

	Overall terms and conditions		Banks' lending rates		Banks' margins on average loans		Banks' margins on riskier loans	
Country	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024
Euro area	-7	-11	-23	-19	0	-14	4	-3
Germany	-4	-7	-11	-7	-4	-15	4	-7
Spain	0	-10	0	-10	0	-10	0	0
France	-11	0	-44	-33	22	0	11	0
Italy	-27	-55	-55	-55	-18	-55	0	-9

Note: See the notes to Chart 9. The sub-item for banks' lending rates was introduced in April 2024.

Competition was the main driver of the net easing of overall terms and conditions (see Table 7). The cost of funds and balance sheet constraints had a small easing impact, while the impact of banks' risk perceptions and risk tolerance was reported as neutral. Competition was cited as the primary driver behind easier terms and conditions across the four largest euro area economies. French and Italian banks also reported an easing impact due to the cost of funds and balance sheet situations.

Table 7

Factors contributing to changes in overall terms and conditions on loans to households for house purchase

(net percentages of banks)

Country	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024
Euro area	-1	-3	-11	-17	1	0	0	0
Germany	1	-1	-7	-7	4	0	0	0
Spain	0	0	0	-10	0	0	0	0
France	-4	-7	-11	-22	0	0	0	0
Italy	0	-3	-45	-55	0	0	0	0

Note: See the notes to Chart 8. The net percentages for these questions relating to contributing factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage of banks reporting that it contributed to an easing.

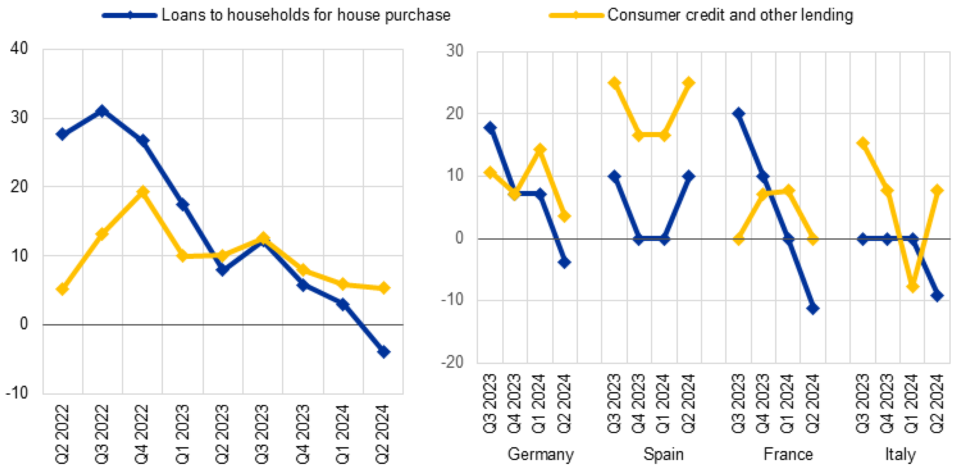
3.3 Rejection rates decreased

Banks reported a net decrease in the share of rejected applications for housing loans (net percentage of -4%; see Chart 10). This was the first decrease since the first quarter of 2021 and came after two years of large net increases. Among the four largest euro area economies, only Spanish banks reported an increase in the share of rejections, whereas banks in the other three countries reported lower rejection rates.

Chart 10

Changes in the share of rejected loan applications for households

(net percentages of banks reporting an increase)



Note: Share of rejected loan applications relative to the volume of all loan applications in that loan category.

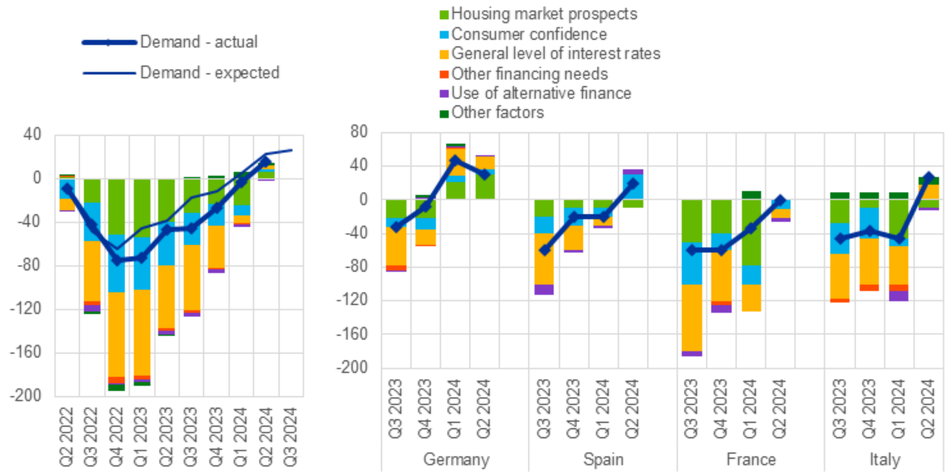
3.4 Net demand for loans increased

Banks reported an increase in net demand for housing loans (net percentage of 16%, see Chart 11 and Overview table), for the first time since the first quarter of 2022. This followed a small decrease the previous quarter (-3%), but was weaker than banks had expected (22%). Amongst the four largest euro area economies, German, Spanish and Italian banks reported net increases, while French banks saw unchanged loan demand for housing loans.

Chart 11

Changes in demand for loans to households for house purchase, and contributing factors

(net percentages of banks reporting an increase in demand, and contributing factors)



Notes: See the notes to Chart 6. “Other financing needs” is the unweighted average of “debt refinancing/restructuring and renegotiation” and “regulatory and fiscal regime of housing markets”; and “Use of alternative finance” is the unweighted average of “internal finance of house purchase out of savings/down payment”, “loans from other banks” and “other sources of external finance”. The net percentages for “Other factors” refer to an average of the further factors which were mentioned by banks as having contributed to changes in loan demand.

Improved housing market prospects were the main factor increasing demand for loans for house purchase (see Chart 11 and Table 8). These were reported in Germany, consistent with improvements in housing affordability due to a relatively strong decline in residential real estate prices there in recent quarters, also in comparison with other large euro area economies. The level of interest rates and consumer confidence had small positive effects on loan demand.

In the third quarter of 2024 banks expect a strong increase in housing loan demand (net percentage of banks of 26%). This is expected across banks in all four of the largest euro area economies.

Table 8

Factors contributing to changes in demand for loans to households for house purchase

(net percentages of banks)

Country	Housing market prospects		Consumer confidence		Other financing needs		General level of interest rates		Use of alternative finance	
	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024
Euro area	-24	6	-10	2	-1	-1	-7	3	-3	-1
Germany	21	30	7	7	2	0	32	15	1	1
Spain	-10	-10	-10	30	0	0	-10	0	-3	7
France	-78	0	-22	-11	0	0	-33	-11	0	-4
Italy	-45	-9	-9	0	-9	0	-45	18	-12	-3

Note: See the notes to Chart 11.

4 Consumer credit and other lending to households

4.1 Credit standards tightened further

Banks reported a further net tightening of credit standards on consumer credit and other lending to households (net percentage of 6%; see Chart 12 and Overview table). This was smaller than the net tightening in the preceding quarter (9%) but larger than banks' expectations (0%). Of the four largest economies, credit standards on consumer credit tightened in Germany, Spain and Italy.

Increased risk perceptions were the main contributor to the net tightening (see Chart 12 and Table 9).[6] These mostly related to banks' perceptions of the economic outlook and consumers' creditworthiness. Banks' risk tolerance and cost of funds and balance sheet constraints had a small tightening impact, while the effect of competition was neutral.

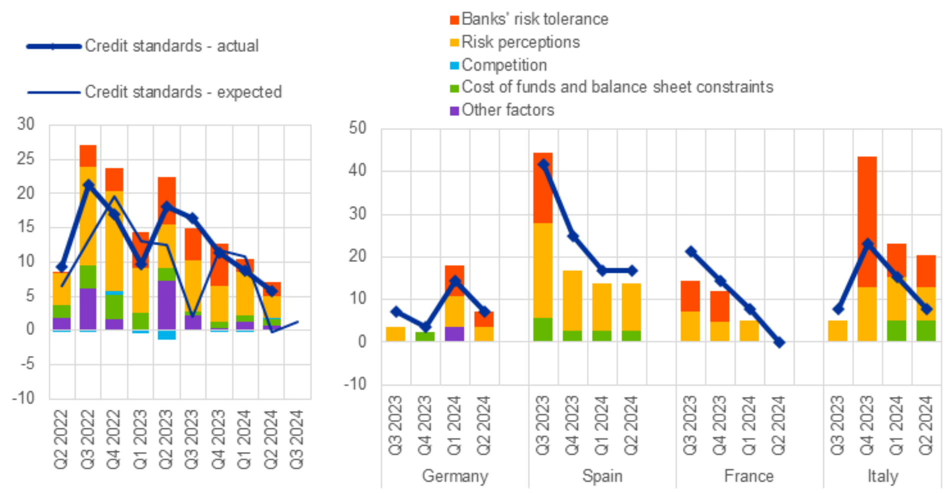
In the third quarter of 2024 euro area banks expect credit standards for consumer credit and other lending to households to remain broadly unchanged (net percentage of 1%). If these expectations were to materialise, the third quarter of 2024 would be the first quarter without further net tightening since the second quarter of 2022.

[6] "Cost of funds and balance sheet constraints" are defined as an unweighted average of "bank's capital and the costs related to bank's capital position", "access to market financing" and "liquidity position"; "Risk perceptions" as unweighted average of "general economic situation and outlook", "borrower's creditworthiness" and "collateral demanded"; "Competition" as unweighted average of "competition from other banks" and "competition from non-banks".

Chart 12

Changes in credit standards applied to the approval of consumer credit and other lending to households, and contributing factors

(net percentages of banks reporting a tightening of credit standards, and contributing factors)



Notes: See the notes to Chart 1. “Cost of funds and balance sheet constraints” is the unweighted average of “banks’ capital and the costs related to banks’ capital position”, “access to market financing” and “liquidity position”; “Risk perceptions” is the unweighted average of “general economic situation and outlook”, “creditworthiness of consumers” and “risk on the collateral demanded”; and “Competition” is the unweighted average of “competition from other banks” and “competition from non-banks”. The detailed sub-factors under “Cost of funds and balance sheet constraints” were introduced in April 2024. The net percentages for “Other factors” refer to an average of the further factors which were mentioned by banks as having contributed to changes in credit standards.

Table 9

Factors contributing to changes in credit standards for consumer credit and other lending to households

(net percentages of banks)

	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks’ risk tolerance	
Country	**Q1 2024**	**Q2 2024**	**Q1 2024**	**Q2 2024**	**Q1 2024**	**Q2 2024**	**Q1 2024**	**Q2 2024**
Euro area	1	1	0	0	6	3	2	2
Germany	0	0	0	0	7	4	7	4
Spain	3	3	0	0	11	11	0	0
France	0	0	0	0	5	0	0	0
Italy	5	5	0	0	10	8	8	8

Note: See the notes to Chart 12.

4.2 Terms and conditions tightened slightly further

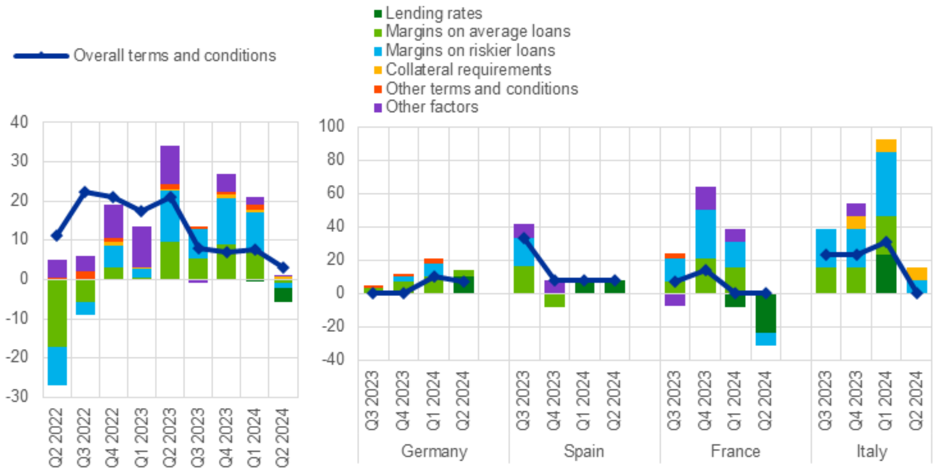
Banks’ overall terms and conditions applied when granting consumer credit and other lending to households tightened slightly further in net terms (net percentage of 3%, see Chart 13 and Table 10). Terms and conditions tightened in Germany and Spain, but remained unchanged in France and Italy. German and Spanish banks reported a tightening impact from lending rates, while French banks saw their effect as being on the easing side. The net tightening of terms and conditions was smaller than the previous quarter (8%).

Perceptions of risk contributed most to the net tightening of banks' overall terms and conditions (see Table 11). Banks' risk tolerance had a small additional tightening impact, while competitive pressure had a small easing impact. Risk perceptions made significant contributions in Germany, France and Italy, risk tolerance in Germany and Italy; cost of funds and balance sheet constraints had a small impact in Germany, Italy and Spain. Competitive pressures had an easing impact in Italy and Germany.

Chart 13

Changes in terms and conditions on consumer credit and other lending to households

(net percentages of banks reporting a tightening of terms and conditions)



Notes: "Lending rates" was introduced in April 2024. "Margins" are defined as the spread over a relevant market reference rate. "Other terms and conditions" is the unweighted average of "size of the loan", "non-interest rate charges" and "maturity". The net percentages for "Other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in terms and conditions.

Table 10

Changes in terms and conditions on consumer credit and other lending to households

(net percentages of banks)

	Overall terms and conditions		Banks' lending rates		Banks' margins on average loans		Banks' margins on riskier loans	
Country	**Q1 2024**	**Q2 2024**	**Q1 2024**	**Q2 2024**	**Q1 2024**	**Q2 2024**	**Q1 2024**	**Q2 2024**
Euro area	8	3	-1	-4	7	-1	10	-1
Germany	11	7	0	11	11	4	7	0
Spain	8	8	8	8	0	0	0	0
France	0	0	-8	-23	15	0	15	-8
Italy	31	0	23	0	23	0	38	8

Note: See the notes to Chart 13. The sub-item for banks' lending rates was introduced in April 2024.

Table 11

Factors contributing to changes in overall terms and conditions on consumer credit and other lending to households

(net percentages of banks)

Country	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2023	Q2 2024
Euro area	2	1	-1	-2	9	5	7	3
Germany	1	4	0	-4	11	7	14	7
Spain	3	3	0	0	0	0	0	0
France	0	0	0	0	23	8	0	0
Italy	8	3	8	-8	0	8	23	8

Note: See the notes to Chart 12. The net percentages for these questions relating to contributing factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage of banks reporting that it contributed to an easing.

4.3 Rejection rates increased

Euro area banks reported a further net increase in the share of rejected applications for consumer credit (5%; see Chart 10 above). The net increase was the lowest since the second quarter of 2022, although broadly the same as the previous quarter (6%). It was observed in three out of the four largest economies, with only France reporting unchanged rejection rates.

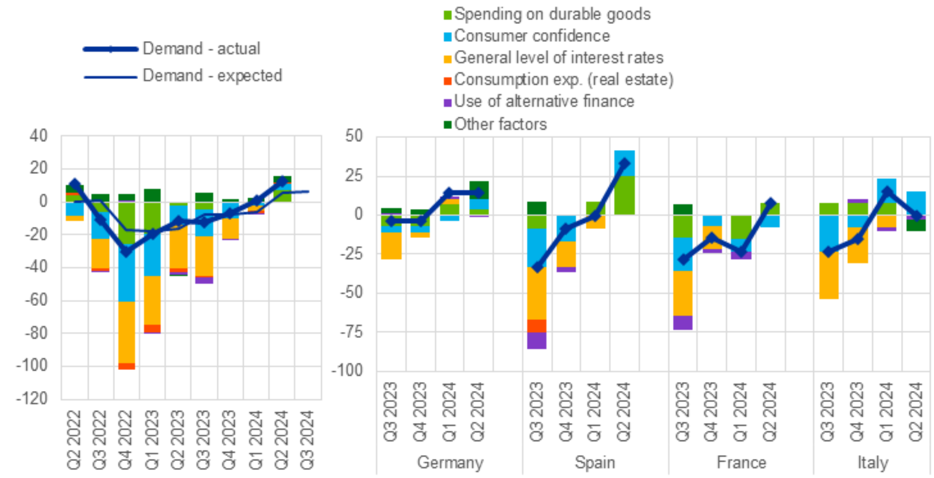
4.4 Net demand for loans increased

Banks reported increased demand for consumer credit and other lending to households for the first time since the second quarter of 2022 (net percentage of banks at 13%, see Chart 14 and Overview table). The increase exceeded banks' expectations the previous quarter (6%) and was observed in Spain, Germany and France, while net loan demand remained unchanged in Italy. Over the next three months banks expect a moderate increase in loan demand (7%).

Chart 14

Changes in demand for consumer credit and other lending to households, and contributing factors

(net percentages of banks reporting an increase in demand, and contributing factors)



Notes: See the notes to Chart 6. “Use of alternative finance” is the unweighted average of “internal financing out of savings”, “loans from other banks” and “other sources of external finance”. “Consumption exp. (real estate)” denotes “consumption expenditure financed through real estate-guaranteed loans”. The net percentages for “Other factors” refer to an average of the further factors which were mentioned by banks as having contributed to changes in loan demand.

The increase in loan demand was primarily supported by spending on durable goods (see Chart 14 and Table 12). Consumer confidence also contributed, while the general level of interest rates was reported to have had a negligible impact. Under other factors, banks also mentioned support from marketing campaigns. Consumption expenditure financed through real estate-guaranteed loans and use of alternative finance had a broadly neutral impact on loan demand.

Over the third quarter of 2024 banks expect a net increase in demand for consumer credit and other lending to households (net percentage of 7%).

Table 12

Factors contributing to changes in demand for consumer credit and other lending to households

(net percentages of banks)

	Spending on durable goods		Consumer confidence		Consumption exp. (real estate)		General level of interest rates		Use of alternative finance	
Country	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024
Euro area	0	7	-2	4	-1	1	-3	0	-1	-1
Germany	7	4	-4	7	0	0	4	0	1	-1
Spain	8	25	0	17	0	0	-8	0	0	0
France	-15	8	-8	-8	0	0	0	0	-5	0
Italy	8	0	15	15	0	0	-8	0	-3	-3

Note: See the notes to Chart 14.

5 Ad hoc questions

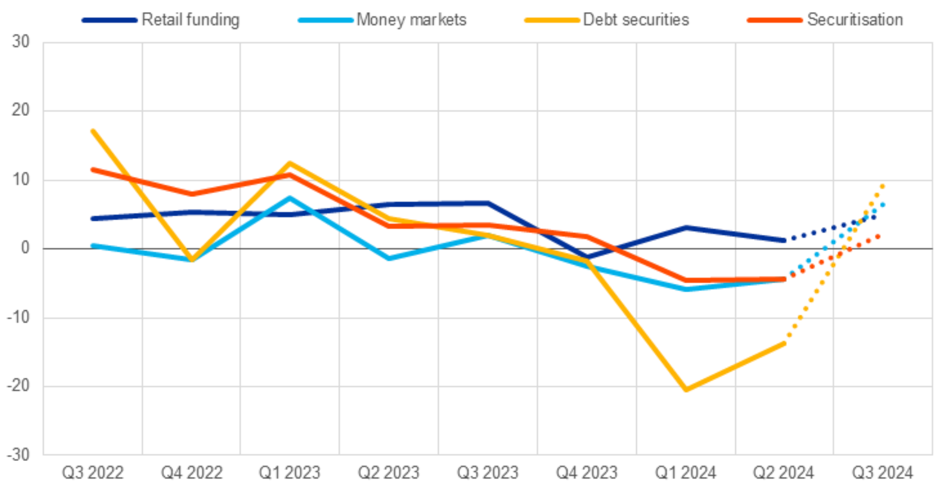
5.1 Banks' access to wholesale funding improved, but is expected to deteriorate[7]

Banks' access to funding improved for debt securities and – to a lesser extent – money markets, with broadly unchanged access to retail funding, except for short-term funding, which continued to deteriorate slightly (Chart 15 and Table 13). Access improved particularly for debt securities (-14%) and was observed across all maturities. Access to money markets and securitisation also improved in net terms. While retail funding access remained broadly unchanged overall (1%), access to short-term retail funding continued to deteriorate slightly (3%), reflecting lower overnight deposit volumes amid high deposit rates, and access to long-term retail funding remained broadly unchanged, as shifts away to time deposits continued. Banks expect their access to funding to deteriorate across all categories over the third quarter of 2024.

Chart 15

Changes in banks' access to retail and wholesale funding

(net percentages of banks reporting a deterioration in access)



Note: The net percentages are defined as the difference between the sum of the percentages of banks responding "deteriorated considerably" and "deteriorated somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". The last period denotes expectations indicated by banks in the current round.

[7] The July 2024 survey questionnaire included a question in which banks were asked to assess the extent to which the situation in financial markets has affected their access to retail and wholesale funding. "Retail funding" is the unweighted average of "short-term deposits (up to one year)" and "long-term deposits (more than one year)" and other retail funding instruments; "Money markets" refers to the interbank unsecured money market and is the unweighted average of "very short-term money market (up to one week)" and "short-term money market (more than one week)"; "Wholesale debt securities" is the unweighted average of "short-term debt securities (e.g. certificates of deposit or commercial paper)" and "medium to long-term debt securities (incl. covered bonds)"; and "Securitisation" is the unweighted average of "securitisation of corporate loans", "securitisation of loans for house purchase" and "ability to transfer credit risk off balance sheet".

Table 13

Changes in banks' access to retail and wholesale funding

(net percentages of banks reporting a deterioration in access)

	Retail funding			Money markets	Wholesale debt securities			Securiti-sation
	Total	Short-term	Long-term		Total	Short-term	Medium to long-term	
Q1 2024	3	7	-1	-6	-21	-14	-27	-5
Q2 2024	1	3	0	-4	-14	-10	-18	-4
Q3 2024	5	4	6	7	9	10	9	2

Note: See the notes to Chart 15. The last period denotes expectations indicated by banks in the current round.

5.2 Perceived credit risks had a tightening impact on corporate credit standards[8]

Euro area banks reported a net tightening impact of NPL ratios and other indicators of credit quality on their credit standards for loans to enterprises and consumer credit in the first half of 2024 (see Chart 16 and Table 14). The net tightening impact of perceived credit risks on banks' credit standards for loans to firms and consumer credit (both 9%) and the net tightening impact on terms and conditions (7% and 6% respectively) were above the averages registered since the question was first asked in the first half of 2018.[9] Banks had previously anticipated a somewhat smaller impact on credit standards (5% for both) and on terms and conditions of loans to firms (5%), while the tightening impact on terms and conditions for consumer credit was in line with expectations (6%). For housing loans, credit quality had a broadly neutral impact both on credit standards and terms and conditions, as had been expected by banks.

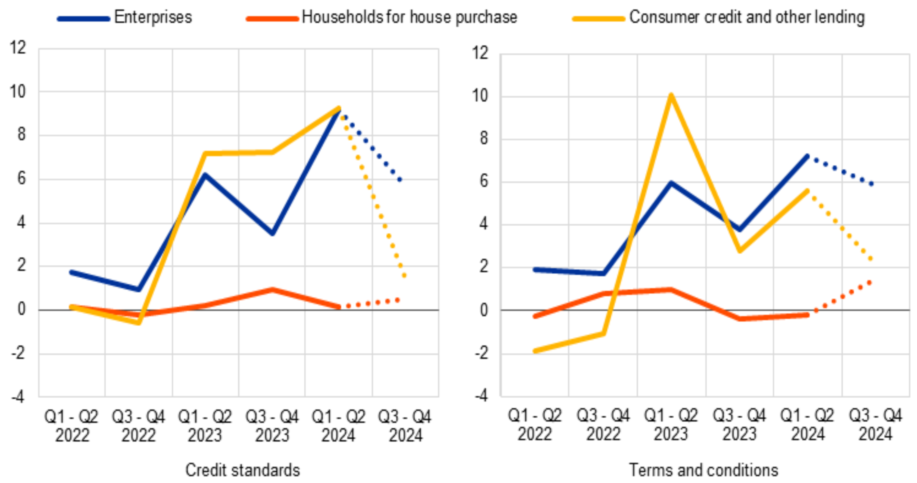
8 The July 2024 survey questionnaire included a biannual ad hoc question on the impact of banks' NPL ratios and other indicators of credit quality on changes in their lending policies. The question also asked banks about the factors through which NPL ratios and other indicators of credit quality contributed to changes in their lending policies. Until the July 2023 survey this question referred only to the impact of banks' NPL ratios. Banks were asked about the impact on loans to enterprises, loans to households for house purchase and consumer credit and other lending to households over the past six months and over the next six months. The NPL ratio is defined as the stock of gross NPLs on a bank's balance sheet as a percentage of the gross carrying amount of loans. "Other indicators of credit quality" include, for example, Stage 2 loans (performing loans with a significant credit risk) and loans in early arrears (loans for which payment is overdue more than 30 and up to 90 days). Changes in credit standards and/or terms and conditions can be caused by changes in banks' credit quality, changes in regulation or changes in the bank's assessment of the credit quality even where indicators have remained unchanged.

9 Compared with the impact on credit standards and terms and conditions between 2014 and 2017 (net percentages of 17% and 11% respectively for loans to firms and 12% and 6% respectively for consumer credit), when NPL ratios of euro area banks were considerably higher, the current tightening impact is lower for firms and lower or similar for consumer credit. When the question was introduced in the July 2018 survey it contained a question on the impact of banks' NPL ratios "from 2014-2017", in addition to the impact over the past and next six months. However, in light of the broadened scope of this question in the January 2024 survey (see preceding footnote), historical comparisons may be less clear.

Chart 16

Impact of banks' NPL ratios and other indicators of credit quality on credit standards and terms and conditions

(net percentages of banks reporting a tightening impact)



Notes: Net percentages are defined as the difference between the sum of the percentages of banks responding "contributed considerably to tightening" and "contributed somewhat to tightening" and the sum of the percentages of banks responding "contributed somewhat to easing" and "contributed considerably to easing". Until the July 2023 survey this question referred only to the impact of banks' NPL ratios. The last period denotes expectations indicated by banks in the current round.

Table 14

Impact of banks' NPL ratios and other indicators of credit quality on credit standards and terms and conditions

(net percentages of banks reporting a tightening impact)

	Credit standards			Terms and conditions		
	Q3 – Q4 2023	Q1 – Q2 2024	Q3 – Q4 2024	Q3 – Q4 2023	Q1 – Q2 2023	Q3 – Q4 2024
Loans to enterprises	3	9	6	4	7	6
Loans to households for house purchase	1	0	1	0	0	2
Consumer credit and other lending to households	7	9	1	3	6	2

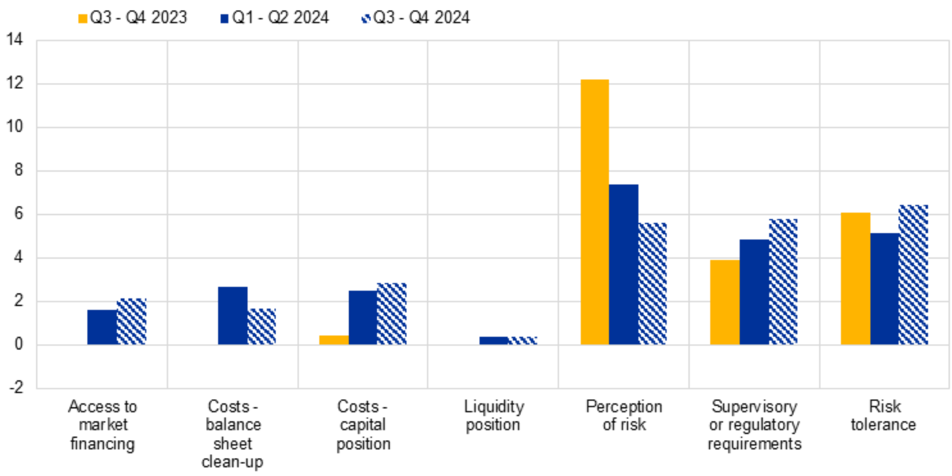
Note: See the notes to Chart 16. The last period denotes expectations indicated by banks in the current round.

Higher risk perceptions, lower risk tolerance and higher pressure related to supervisory or regulatory requirements remained the main factors behind banks reporting a tightening impact of credit quality on their lending conditions in the first half of 2024 (see Chart 17 and Table 15). This reflects increased refinancing and repayment risks and a more prudent attitude towards credit risks in the context of high lending rates and muted economic growth. In line with the generally sound state of euro area banks, the impact of credit quality on banks' lending policies via their capital positions, market financing access and cost of balance sheet clean-up operations was small in the first half of 2024. The impact of banks' liquidity position was similarly characterised as neutral.

Chart 17

Impact of factors through which NPL ratios and other indicators of credit quality affect banks' policies on lending to enterprises and households

(net percentages of banks reporting a tightening impact)



Note: See the notes to Chart 16. The last period denotes expectations indicated by banks in the current round.

Table 15

Impact of factors through which NPL ratios and other indicators of credit quality affect banks' policies on lending to enterprises and households

(net percentages of banks reporting a tightening impact)

	Q3 – Q4 2023	Q1 – Q2 2024	Q3 – Q4 2024
Costs related to banks' capital position	0	2	3
Costs related to balance sheet clean-up operations	0	3	2
Supervisory or regulatory requirements	4	5	6
Access to market financing	0	2	2
Liquidity position	0	0	0
Perception of risk	12	7	6
Banks' risk tolerance	6	5	6

Note: See the notes to Chart 16. The last period denotes expectations indicated by banks in the current round.

For the second half of 2024 euro area banks expect a further moderate tightening impact of credit quality on lending conditions for loans to firms and a broadly neutral impact on credit standards for lending to households. The impact on household terms and conditions is expected to be small, both for housing loans and consumer credit. Pressure related to supervisory or regulatory requirements, lower risk tolerance and higher risk perceptions are expected to remain the main drivers through which credit quality will affect credit standards and terms and conditions. Bank credit quality is expected to have a small tightening impact via banks' costs related to balance sheet clean-up operations, their capital position and their access to market financing. Banks expect a broadly neutral impact via their liquidity position over the next six months.

5.3 Bank lending conditions tightened further in most economic sectors[10]

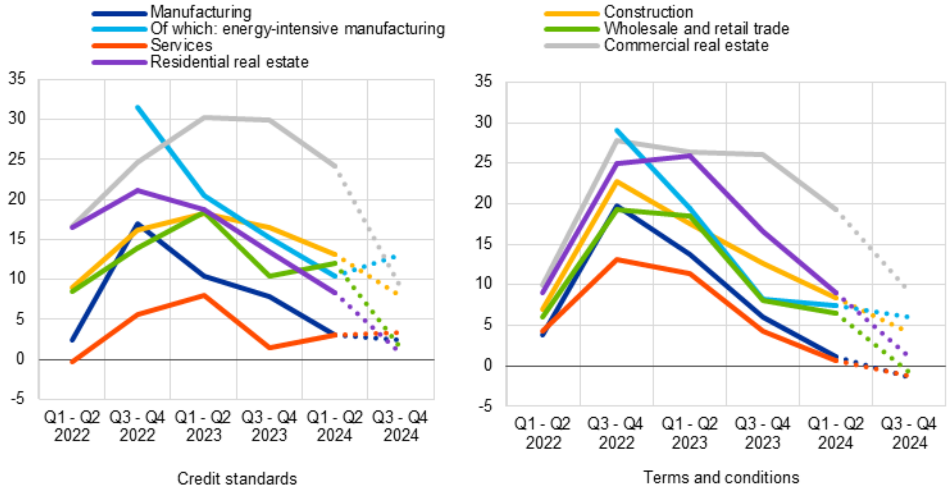
Credit standards for firms tightened further in all economic sectors in the first half of 2024, ranging from a very small net tightening in services and manufacturing to a relatively large net tightening in CRE. Credit standards and terms and conditions in CRE continued to tighten substantially (see Chart 18 and Table 16). Credit standards and terms and conditions also tightened in construction and residential real estate (RRE) as well as in wholesale and retail trade. The tightening was more contained in broader manufacturing and in services. Overall, the further net tightening of credit standards and terms and conditions became smaller in most main economic sectors. Exceptions were credit standards in the services and wholesale and retail trade sectors, where banks reported a slightly larger net tightening in the first half of 2024 compared with the second half of 2023.

In the second half of 2024 euro area banks expect a further net tightening in credit standards and terms and conditions for loans to firms across most economic sectors. The net tightening is expected to become smaller than in the first half of 2024, except for credit standards in energy-intensive manufacturing. If banks' expectations materialise, the net tightening of credit standards in CRE will moderate substantially.

Chart 18

Changes in credit standards and terms and conditions for new loans to enterprises across main economic sectors

(net percentages of banks reporting a tightening)



Notes: The net percentages refer to the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". The last period denotes expectations indicated by banks in the current round.

10 The July 2024 survey questionnaire included a biannual ad hoc question to collect information on changes in banks' credit standards, overall terms and conditions and loan demand across the main economic sectors over the past and next six months. Banks were asked to report information covering five sectors: manufacturing (with a breakdown into energy-intensive manufacturing), construction (excluding real estate), services (excluding financial services and real estate), wholesale and retail trade, and real estate (including both real estate construction and real estate services).

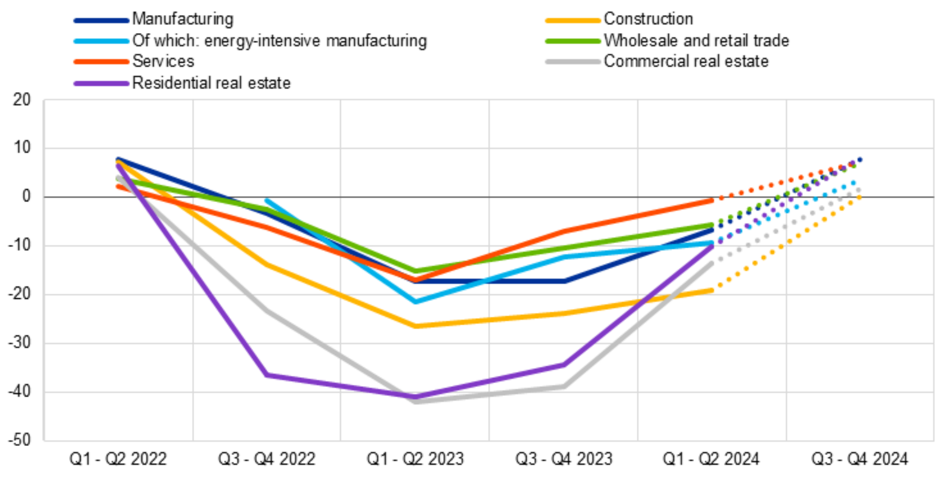
Banks reported a net decrease in demand for loans or credit lines in most main economic sectors (see Chart 19 and Table 16). Demand remained broadly unchanged for loans to firms active in the services sector, while it decreased for loans to firms in all other sectors, in particular construction. The more pronounced decline in demand in construction seems to be consistent with the latest construction PMI data release for June 2024, which points to sustained weakness in output levels, mainly due to persistently low new order inflows. The declines in loan demand in the CRE and RRE sectors were substantially smaller than in the second half of 2023, converging towards the changes reported for other sectors.

In the second half of 2024 euro area banks expect a moderate net increase in loan demand in most economic sectors. While similarly moderate increases are expected for services, manufacturing, RRE and wholesale and retail trade, loan demand is expected to remain broadly unchanged in construction and CRE.

Chart 19

Changes in demand for loans or credit lines to enterprises across main economic sectors

(net percentages of banks reporting an increase)



Notes: The net percentages refer to the difference between the sum of the percentages of banks responding "increased considerably" and "increased somewhat" and the sum of the percentages of banks responding "decreased somewhat" and "decreased considerably". The last period denotes expectations indicated by banks in the current round.

Table 16

Changes in credit standards, terms and conditions and demand for new loans to enterprises across main economic sectors

(net percentages of banks reporting a tightening/increase)

	Credit standards			Terms and conditions			Loan demand		
	Q3 – Q4 2023	Q1 – Q2 2024	Q3– Q4 2024	Q3 – Q4 2023	Q1 – Q2 2024	Q3 – Q4 2024	Q3 – Q4 2023	Q1 – Q2 2024	Q3 – Q4 2024
Manufacturing	8	3	2	6	1	-1	-17	-7	8
Of which: energy-intensive manufacturing	15	10	13	8	7	6	-12	-9	4
Construction	17	13	8	13	8	4	-24	-19	0
Services	1	3	3	4	1	-1	-7	-1	7
Wholesale and retail trade	10	12	1	8	7	-1	-10	-6	7
Commercial real estate	30	24	9	26	19	9	-39	-14	2
Residential real estate	13	8	1	17	9	1	-34	-10	8

Note: See the notes to Charts 18 and 19. The last period denotes expectations indicated by banks in the current round.

5.4 Climate risks continued to have a substantial tightening impact on bank lending conditions to brown firms[11,12]

Climate risks of euro area firms and measures to cope with climate change have continued to have a net tightening impact on lending policies for loans to brown firms over the past twelve months, while they have had a further net easing impact for loans to green firms and firms in transition (see Chart 20 and Table 17). Both credit standards and terms and conditions tightened substantially further for loans to brown firms (net percentages of 44% and 30% respectively), while they continued to ease for loans to green firms (net percentages of -25% and -31% respectively) and firms in transition (net percentages of -10% and -14% respectively). The net tightening in credit standards and terms and conditions for brown firms was smaller than expected last year (69% and 48% respectively), while the easing for green firms and firms in transition was broadly in line with the change in credit standards expected last year and only moderately smaller than the expected change in terms and conditions.

11 “Green firms” are defined as firms that contribute little to climate change or not at all; “firms in transition” represent firms that contribute to climate change but are making relevant progress in the transition; “brown firms” are firms that contribute significantly to climate change and have not yet started the transition or made little progress.

12 The July 2024 survey questionnaire included an annual ad hoc question aimed at gauging the impact of climate change on bank lending to enterprises. This impact relates to climate-related risks and measures to cope with climate change implemented by governments, monetary policy as well as supervisory and regulatory authorities. It can also relate to banks’ further measures related to climate change. Firms may be affected by climate change in their firm-specific situation and outlook, with respect to their creditworthiness and the value of their assets. Climate risks can be grouped into two categories: transition risk and physical risk. Transition risk refers to the risk related to an institution’s financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. Physical risk refers to the risk related to the financial impact from banks’ exposure to a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, which can affect the value of collateral and borrower repayment capacity.

Chart 20

Impact of climate change on banks' credit standards and terms and conditions for loans to firms

(net percentages of banks; over the past 12 months and the next 12 months)

Notes: For definitions of "green firms", "brown firms" and "firms in transition", see footnote at the top of this section. Net percentages are defined as the difference between the sum of the percentages of banks responding "contributed considerably to tightening" and "contributed somewhat to tightening" and the sum of the percentages of banks responding "contributed somewhat to easing" and "contributed considerably to easing". The dashed bars denote expectations indicated by banks in the current round.

Table 17

Impact of climate change on banks' credit standards, terms and conditions and demand for loans to firms

(net percentages of banks reporting a tightening impact or an increase)

	Credit standards			Terms and conditions			Demand		
	Q3 2022 - Q2 2023	Q3 2023 - Q2 2024	Q3 2024 - Q2 2025	Q3 2022 - Q2 2023	Q3 2023 - Q2 2024	Q3 2024 - Q2 2025	Q3 2022 - Q2 2023	Q3 2023 - Q2 2024	Q3 2024 - Q2 2025
Green firms	-15	-25	-29	-23	-31	-37	21	24	34
Firms in transition	-7	-10	-12	-15	-14	-14	22	24	37
Brown firms	39	44	50	17	31	40	-7	-3	-7

Note: See the notes to Chart 20. The last period denotes expectations indicated by banks in the current round.

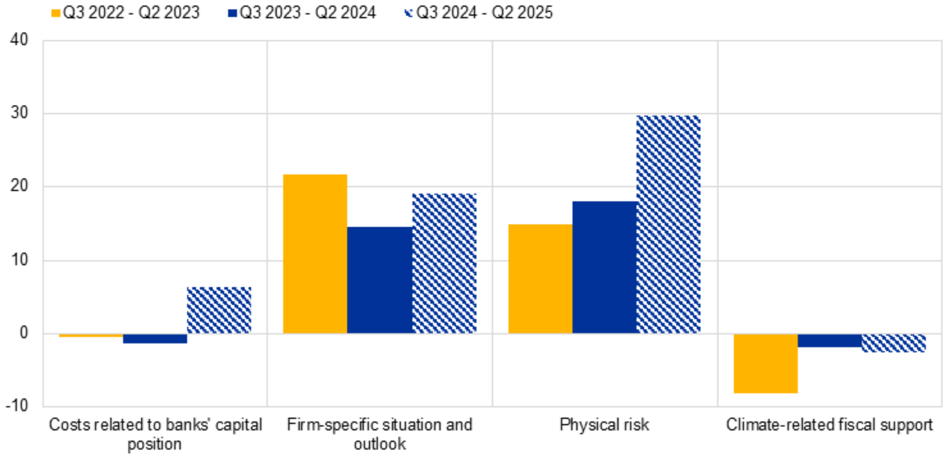
Physical risk was reported by banks as the main driver of the tightening impact on their lending policy over the past twelve months, closely followed by firm-specific situation and outlook (net percentages of 18% and 14% respectively; see Chart 21 and Table 18).[13] At the same time, costs related to banks' capital position, and climate-related fiscal support, had a broadly neutral impact on credit standards and terms and conditions (net percentages of -1% and -2% respectively). Physical risks and firm-specific situations had a smaller tightening impact than expected last year, while fiscal support had a smaller easing impact than expected.

[13] Banks' lending policy covers changes in both credit standards and terms and conditions.

Chart 21

Impact of climate-related factors on banks' lending policy to firms

(net percentages of banks; over the past 12 months and the next 12 months)



Notes: Net percentages are defined as the difference between the sum of the percentages of banks responding "contributed considerably to tightening" and "contributed somewhat to tightening" and the sum of the percentages of banks responding "contributed somewhat to easing" and "contributed considerably to easing". The dashed bars denote expectations indicated by banks in the current round.

Table 18

Impact of climate-related factors on bank lending conditions to firms

(net percentages of banks reporting a tightening impact or an increase)

	Q3 2022 - Q2 2023	Q3 2023 - Q2 2024	Q3 2024 - Q2 2025
Impact on banks' lending policy through:			
Costs related to banks' capital position	0	-1	6
Firm-specific situation and outlook	22	14	19
Physical risk	15	18	30
Climate-related fiscal support	-8	-2	-3
Impact on loan demand through:			
Fixed investment and corporate restructuring	33	22	35
Issuance of green bonds	14	10	11
Climate-related fiscal support	0	5	8

Note: See the notes to Charts 21 and 22. The last period denotes expectations indicated by banks in the current round.

Over the next twelve months euro area banks expect a slightly stronger net tightening impact owing to climate risks on credit standards for loans to brown firms (50%), while a slightly stronger net easing impact is expected for green firms (-29%) and firms in transition (-12%). In addition, banks expect that climate change will have a strong net tightening impact on terms and conditions for loans to brown firms (40%) and a net easing impact for green firms and firms in transition (net percentages of -37% and -14% respectively). The overall stronger net tightening impact of climate risks on banks' lending policy is expected by banks to be related to both firm-specific transition risk and physical risk, while costs related to banks' capital position are expected to have a stronger net tightening impact than over the past twelve months. The latter likely reflects the increasing pressure exerted on banks by supervisory and regulatory authorities, including the deadline for banks to fully comply with the ECB supervisory expectations on climate-related and environmental risks by the end of 2024, as well as the EBA's plans to include climate-related risks in the calculation of capital requirements under Pillar 1. Climate-related fiscal support, which last year was expected to contribute to a substantial easing, did not do so, and is only expected to contribute to a very small easing over the next year.

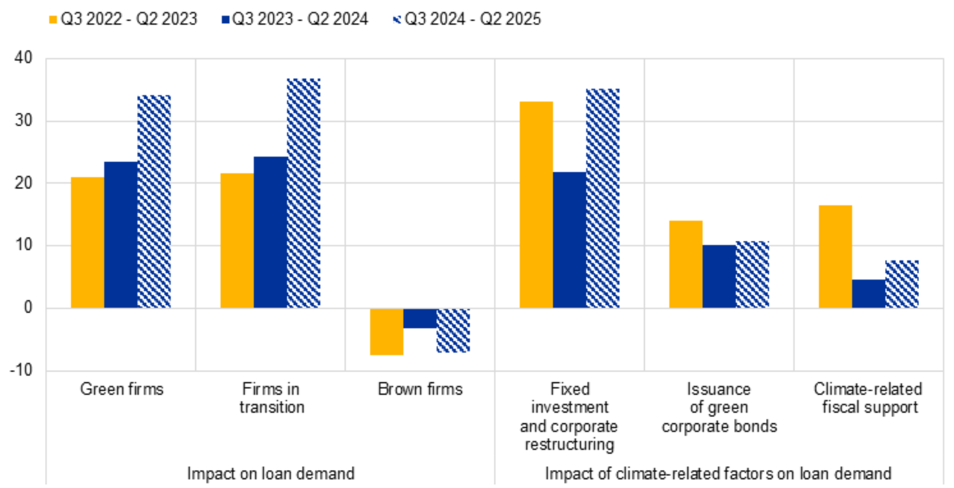
Euro area banks reported a further net increase in demand for loans to firms in transition and green firms owing to climate change over the past twelve months (net percentage of 24% for both), while a net decrease in loan demand was reported for brown firms (net percentage of -3%; see Chart 22). Fixed investment and corporate restructuring were reported once again as the main driver of loan demand related to climate risks (net percentage of 22%), pointing to firms' need to invest on the way to a more sustainable economy. The issuance of green corporate bonds eligible for the ECB's monetary policy asset portfolios also contributed, in net terms, to higher loan demand (net percentage of 10%). Climate-related fiscal support had a smaller positive contribution (net percentage of 5%).

Over the next twelve months loan demand is expected to increase in net terms, owing to climate risks for firms in transition and green firms (net percentages of 37% and 34% respectively), while it is expected to decrease for brown firms (net percentage of -7%). The dominant driver of loan demand to cope with climate risks is expected to remain fixed investment and corporate restructuring, while climate-related fiscal support and the issuance of green bonds are also expected to have a sizeable positive impact on loan demand over the next twelve months.

Chart 22

Impact of climate change on demand for loans to firms, and climate-related contributing factors

(net percentages of banks; over the past 12 months and the next 12 months)



Notes: For definitions of "green firms", "brown firms" and "firms in transition", see footnote at the top of this section. Net percentages are defined as the difference between the sum of the percentages of banks responding "contributed considerably to an increase" and "contributed somewhat to an increase" and the sum of the percentages of banks responding "contributed somewhat to a decrease" and "contributed considerably to a decrease". The dashed bars denote expectations indicated by banks in the current round.

5.5 Decrease in excess liquidity had a limited impact[14]

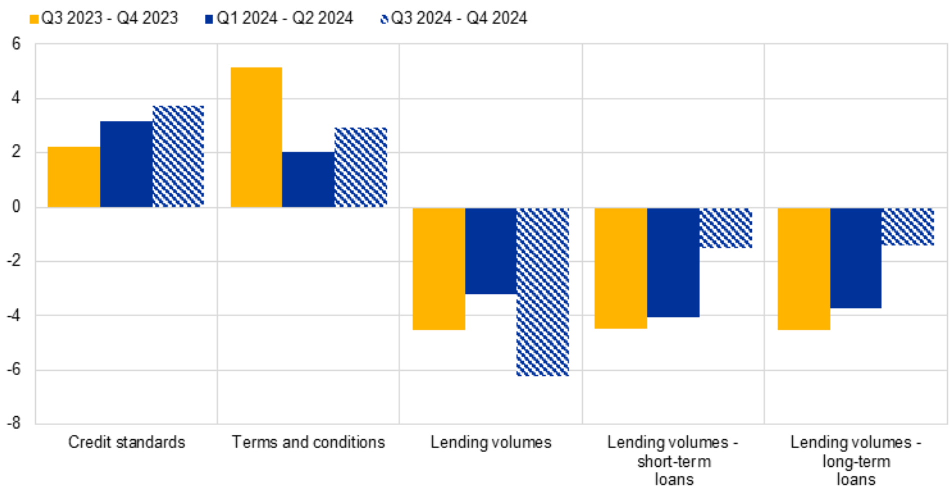
Banks reported that the decline in excess liquidity held with the Eurosystem in the first half of 2024 had only a limited impact on their lending conditions (see Chart 23 and Table 19). The decline in excess liquidity had a small net tightening impact on credit standards (3%) and terms and conditions (2%). Banks also reported a small negative impact on loan volumes (-3%). The negative contribution of declining excess liquidity was reported as having been identical in short- and long-term lending.

Looking to the second half of 2024 banks anticipate that tightening impacts will remain relatively muted. Changes in excess liquidity are expected to continue to exert small tightening pressure on credit standards and terms and conditions. The effects on lending volumes are expected to be moderately negative.

Chart 23

Impact of changes in banks' excess liquidity with the Eurosystem on bank lending

(net percentages of banks reporting a tightening impact or an increase)



Notes: The net percentages refer to the difference between the percentages of banks reporting a tightening impact or a decrease and the percentages of banks reporting an easing impact or an increase. Short-term loans are loans with an original maturity of one year or less, and long-term loans are loans that have an original maturity of more than one year, including on- and off-balance sheet credit lines. The last period denotes expectations indicated by banks in the current round.

14 The July 2024 survey questionnaire included an ad hoc question to collect information on the impact of changes in banks' excess liquidity held with the Eurosystem on bank lending over the past six months and over the next six months. Banks' excess liquidity with the Eurosystem are the reserves that banks hold in the ECB's current account or deposit facility. They do not include the minimum reserve requirement. Changes in banks' excess liquidity can occur as a result of changes in banks' liquidity holdings within the ECB's current account or deposit facility and/or as a result of a change in minimum reserve requirements.

Table 19
Impact of changes in banks' excess liquidity with the Eurosystem on bank lending

(net percentages of banks reporting a tightening impact or an increase)

	Q3 2023 - Q4 2023	Q1 2024 - Q2 2024	Q3 2024 - Q4 2024
Credit standards	2	3	4
Terms and conditions	5	2	3
Lending volumes	-5	-3	-6
Of which: short-term loans	-4	-4	-2
Of which: long-term loans	-5	-4	-1

Note: See the notes to Chart 23. The last period denotes expectations indicated by banks in the current round.

Annexes

See more.

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For specific terminology please refer to the ECB glossary (available in English only).

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