



CREDIT SPECIAL

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European banks: ECB bank lending survey points to relaxation

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According to the ECB's bank lending survey conducted in April 2021, the most recent tightening of banks' corporate lending standards has been less severe. This compares with relatively subdued demand for credit from companies adversely affected by the pandemic. It is likely that this will also have an impact on participation in the ECB's ongoing targeted longer-term refinancing operations (TLTRO-III).

Signs of relaxation in credit standards

The ECB's latest bank lending survey, published today, indicates less tightening in lending standards by euro area banks. According to the April survey, banks have only moderately raised their lending standards, especially for loans to companies, with a net percentage of banks reporting a tightening of credit standards of 7 %, compared to 25 % in the January survey. However, there were considerable variations between countries: in Germany, the figure remained stable at 6 %, while in France, for example, it fell from 41 % in the January survey to 0 % in the April survey. In Italy, on the other hand, institutions tightened their lending standards to companies significantly.

Pandemic continues to weigh on demand for credit from companies

The principal driving force behind these sharp fluctuations has been banks' recent perceptions of risk - not really surprising given Covid-19 pandemic. In addition, competitive pressure in the banking sector has spurred banks' willingness to lend. The survey once again showed that demand for loans from companies has been comparatively weak of late, which is mainly due to companies affected by lockdowns postponing investments in many cases (see Credit Special "[European banks: Adequately prepared for rising credit defaults?](#)" of 4 March 2021). For the second quarter of 2021, however, banks expect an increase in demand for credit.

We expect TLTRO drawdowns in June 2021 to be low

The survey also reveals that access to refinancing sources continued to improve in the first quarter of 2021. Furthermore, the ECB's purchase and refinancing programmes as well as its negative deposit rates had a distinctly positive effect on the liquidity and lending of institutions surveyed. Specifically, the ECB points to its TLTRO-III longer-term refinancing programme as providing strong support for banks' lending activities over the previous six months.

Banks had participated in the targeted longer-term refinancing operation TLTRO-III.7 in March 2021 to the tune of around EUR 330 billion (for an overview of TLTRO-III, see "[Primary market update: EUR benchmark bank bonds](#)" of 9 April 2021). This was slightly above expectations, suggesting that lending by some banks was indeed stronger than expected. Overall, however, we feel that the ECB's April survey vindicates our analysis that lockdown measures and a postponement of investments noticeably weighed on lending in Q1 2021. We assume that the next TLTRO drawdown in June 2021

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will be significantly lower than the first one. On the one hand, demand for loans from companies will remain subdued and banks will continue to hold a vast pool of liquidity (including customer deposits) for the foreseeable future. On the other hand, the banks already had an incentive to participate in the March drawdown as they reached minimum lending thresholds, so that they were able to benefit from a corresponding interest rate premium as early as possible.

Tightening of lending standards in decline

% (net percentage of banks reporting a tightening of lending standards or an increase in loan demand)*

Overview table

Latest BLS results for the largest euro area countries

Country	Enterprises						House purchase						Consumer credit					
	Credit standards			Demand			Credit standards			Demand			Credit standards			Demand		
	Q4 20	Q1 21	Avg.	Q4 20	Q1 21	Avg.	Q4 20	Q1 21	Avg.	Q4 20	Q1 21	Avg.	Q4 20	Q1 21	Avg.	Q4 20	Q1 21	Avg.
Euro area	25	7	8	-12	-20	0	7	-2	6	16	-7	5	3	5	5	-9	-24	0
Germany	6	6	4	6	13	6	0	0	2	11	0	9	0	-3	0	-3	-30	9
Spain	20	10	9	-20	-70	-5	0	11	14	-11	-22	-10	10	20	9	-10	-20	-8
France	41	0	6	-47	-51	-8	24	-7	3	37	-38	9	2	0	-1	-8	-30	0
Italy	0	10	12	40	10	7	0	0	1	0	-10	13	-10	-10	5	-10	-10	11

*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", in % of answers submitted.
Sources: ECB Eurosystem, Helaba Research

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