Czech Republic: Bank lending survey for 3Q17

Banks further tightened credit standards for housing loans

The bank lending survey (BLS) captures banks' opinions regarding the change in the supply of loans and the change in non-financial corporations' and households' demand for loans. The results of the latest survey were released by the Czech National Bank (CNB) this week.

> *Banks responded that there was a further decline in margins due to increased competitiveness, both for housing and consumer credit.*

The three-year decline in margins in the non-financial corporations' ceased this quarter, but a slight decline was reported for more risky large corporates.

Demand for corporate loans was driven relatively broadly in 3Q17, both in terms of investment activity and working capital needs. Part of the market also saw demand for funding business restructuring and M&A. On the contrary, demand was lower due to the use of own company resources. For housing loans, demand declined, for the first time since 1Q14. This was driven by tighter CNB recommendations, higher interest rates and, partially, the frontloading of mortgages. In the case of consumer credit, demand did not change, and it remains solid due to strong consumer confidence and gradually declining interest rates for clients.

All in all, the results of the survey confirmed a tightening of credit standards for housing loans, which started in 4Q16. This is related to the stricter recommendations of the CNB focusing on the residential real estate market, but also to an increase in bank financing costs and, last but not least, to the increased concerns of banks about future developments in the real estate market, where prices of flats are accelerating by a double-digit pace in the last year or so. Despite the tightening of standards seen in previous quarters, the volume of new loans has not yet shown a significant slowdown till July this year.

The latest survey, however, confirms the trend observed in recent credit statistics that demand for new home loans is slowing down. Banks believe that this is related to the frontloading effect when a number of households tried to get a mortgage in 2Q17 due to concerns that credit availability will gradually worsen. Still, we believe that some slowdown in new housing loans will continue driven by a combination of factors: stricter CNB limits for LTV, higher interest rates, relatively expensive property prices and a broadly limited supply of new flats limiting further demand.