



EUROPEAN CENTRAL BANK

EUROSYSTEM

The euro area bank lending survey

Third quarter of 2023

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Introduction

The results reported in the October 2023 bank lending survey (BLS) relate to changes observed during the third quarter of 2023 and expectations for the fourth quarter of 2023. The survey was conducted between 15 September and 2 October 2023. 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.¹

A number of ad hoc questions were included in the October 2023 survey. They address the impact of the situation in financial markets on banks' access to retail and wholesale funding, the impact of the ECB's monetary policy asset portfolio and TLTRO III on banks and their lending policies, and the impact of key ECB interest rate decisions on bank profitability.

¹ The four largest euro area countries in terms of GDP are Germany, France, Italy and Spain.

1 Overview of results

In the October 2023 BLS, euro area banks indicated that their credit standards for loans or credit lines to enterprises tightened further in the third quarter of 2023. The cumulative tightening since 2022 has been substantial, which is consistent with the ongoing significant weakening in lending dynamics. The net percentage of banks reporting a tightening moderated somewhat compared with the previous quarter but was slightly larger than banks had expected in the previous quarter. Euro area banks expect a further tightening for loans to firms in the fourth quarter of 2023, albeit at a moderating pace.

Banks reported a further net tightening of credit standards for loans to households in the third quarter of 2023, which strongly exceeded previous expectations. For housing loans, the pace of net tightening even picked up compared with the second quarter. Credit standards on loans for consumer credit and other lending tightened further, at a slightly moderating pace. In the fourth quarter of 2023, euro area banks expect credit standards for housing loans to remain broadly unchanged, while a further net tightening is expected for consumer credit and other loans to households.

Firms' net demand for loans continued to decrease substantially in the third quarter of 2023. Similar to recent quarters, the decline in net demand was significantly stronger than expected by banks, mainly driven by lower fixed investment and higher interest rates. The net percentage of banks reporting a decrease was only slightly more contained than the all-time low of the previous quarter. In the fourth quarter of 2023, banks expect a smaller net decrease in demand for loans to firms.

The net decrease in housing loan demand remained substantial and stronger than previously expected, albeit smaller than the all-time low in the fourth quarter of 2022. The net decrease in demand for consumer credit was also stronger than expected in the previous quarter. In the fourth quarter of 2023, banks expect a less pronounced decrease in the demand for housing loans and for consumer credit than in the third quarter.

The October 2023 BLS contained a number of ad hoc questions. Euro area banks' access to funding deteriorated in all market segments in the third quarter of 2023, especially for access to retail funding. The reduction in ECB's monetary policy asset portfolio is contributing to a deterioration in euro area banks' financing and liquidity conditions, resulting in the build-up of further tightening pressure on the supply of credit. Banks indicated a negative impact of the phase-out of TLTRO III on their liquidity and funding conditions over the past six months, leading to a mild tightening effect on terms and conditions and a downward pressure on loan volumes which are expected to intensify in the coming six months. Euro area banks reported a further markedly positive impact of the key ECB interest rate decisions on their net interest margins over the past six months, although the positive impact is expected to gradually abate in the coming six months.

In more detail, euro area banks further tightened their credit standards (i.e., banks' internal guidelines or loan approval criteria) in net terms for loans or credit lines to enterprises in the third quarter of 2023 (net percentage of banks at 12%, after 14% in the second quarter of 2023; see Overview table). The cumulated tightening since 2022 has been substantial, which is consistent with the ongoing significant weakening in lending dynamics. Banks' risk perceptions continued to have the largest tightening impact, while banks' lower risk tolerance also contributed. Banks' cost of funds and balance sheet situations also contributed to the tightening, albeit to a lesser extent, with banks' lower liquidity positions being the main driver. The net tightening moderated slightly compared with the previous quarter but remained above its historical average (9%; see Overview table) for the sixth quarter in a row since the second quarter of 2022. The net tightening was slightly larger than banks had expected in the previous quarter (10%). In the fourth quarter of 2023, euro area banks expect a further but more moderate pace of tightening for loans to firms (net percentage of 7%).

Euro area banks reported a further net tightening of credit standards for loans to households strongly exceeding previous expectations, for both housing loans (net percentage of banks at 11%, after 8% in the second quarter of 2023; see Overview table) and consumer credit (16%, after 18%). For housing loans, while remaining below the peak observed in the third quarter of 2022 (32%), the net tightening was much greater than banks' expectations in the previous quarter (expected net percentage of 0%). For consumer credit, the net tightening was also substantially higher than banks' expectations (expected net percentage of 2%). The main drivers of the tightening for both housing loans and consumer credit were higher risk perceptions and banks' lower risk tolerance. Meanwhile, the contribution of banks' cost of funds and balance sheet conditions was broadly neutral. In the fourth quarter of 2023, banks expect broadly unchanged credit standards for housing loans (net percentage of 1%). By contrast, banks expect a further net tightening of credit standards for consumer credit (net percentage of 12%).

Banks' overall terms and conditions (i.e., banks' actual terms and conditions agreed in the loan contract) tightened further, especially for housing loans for which the tightening pace was higher compared with the previous quarter. For firms, the net tightening, albeit smaller than in the previous quarter, was non-negligible and added to the tightening of the past quarters (net percentage of 8%, after 23%). Margins on riskier loans widened further in line with the tightening impact of banks' risk perceptions and lower risk tolerance. Margins on average loans had a small net tightening impact, alongside collateral requirements. Banks reported a further net tightening of overall terms and conditions for housing loans, with the pace even accelerating compared with the previous quarter (net percentage of 19%, after 15%), while net tightening decelerated for consumer credit and other lending to households (8%, after 21%). For all types of lending to households, the tightening was mainly on account of widening margins on both riskier loans and average loans.

In the third quarter of 2023, banks continued to report a net increase in the share of rejected applications across all loan segments. For loans to firms, the net increase stood at 8%, after 16% in the second quarter of 2023. In net terms, an increase in

the share of rejected loans for small and medium-sized enterprises (SMEs) was mentioned almost as often as for large firms, but the cumulated increase in rejection rates for SMEs has been higher since the start of the monetary policy tightening in 2022, in line with these firms being associated with higher credit risks on average. For housing loans, euro area banks reported a higher net increase in the share of rejected applications compared with the previous quarter (12%, after 8%). For consumer credit, the net increase in the share of rejected loans also increased (13%, after 10%). Both forms of lending to households have rejection rates below their peaks in the second half of 2022 but above the series' averages of 5% and 3% respectively.

Credit standards for loans to enterprises tightened in net terms in all four of the largest euro area countries in the third quarter of 2023 (see Overview table). The tightening pace remained unchanged from the previous quarter in Germany, Spain and Italy, while it was smaller in France. Credit standards for housing loans tightened in Germany, France and especially Spain while they remained unchanged in Italy. Credit standards for consumer credit tightened in all four largest euro area countries.

Firms' net demand for loans continued to decrease substantially in the third quarter of 2023 (net percentage of -36%, after -42% in the second quarter of 2023; see Overview table), with the net percentage of banks reporting a decrease only slightly more contained than the all-time low of the previous quarter. Similar to recent quarters, the decline was significantly stronger than expected by banks. The general level of interest rates remained the main driver of reduced loan demand. In line with the previous quarters, fixed investment also had a strong dampening impact on loan demand, mirrored by a strong net decrease in demand for long-term loans. Mergers and acquisitions (M&A) activity (included in "other financing needs") also dampened loan demand, while demand for inventories and working capital had a neutral impact. In the fourth quarter of 2023, banks expect a smaller net decrease in demand for loans to firms compared with the third quarter.

The net decrease in demand for housing loans remained strong in the third quarter of 2023 but was lower than earlier this year (net percentage of -45%, after -47% and -72% in the second and first quarter of 2023 respectively; see Overview table). The net decrease in demand was stronger than anticipated in the previous quarter (-18%). The decrease was driven primarily by higher interest rates, with an additional substantial contribution from weakening housing market prospects and low consumer confidence. The net decrease in demand for consumer credit was in line with the previous quarter (both net percentages of -12%, see Overview table) though stronger than previously expected (-8%). Similarly, this was driven primarily by the general level of interest rates, together with low consumer confidence and lower spending on durables. In the fourth quarter of 2023, banks expect a substantially less pronounced decrease in housing loan demand (net percentage of -11%) and a somewhat smaller net decrease in demand for consumer credit (-7%) than in the third quarter.

Banks reported a substantial net decrease in demand for loans to enterprises across all four largest euro area countries in the third quarter of 2023. Demand for housing

loans and for consumer credit also continued to decrease in net terms in all four largest euro area countries.

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)

Country	Enterprises						House purchase						Consumer credit					
	Credit standards			Demand			Credit standards			Demand			Credit standards			Demand		
	Q2 23	Q3 23	Avg	Q2 23	Q3 23	Avg	Q2 23	Q3 23	Avg	Q2 23	Q3 23	Avg	Q2 23	Q3 23	Avg	Q2 23	Q3 23	Avg
Euro area	14	12	9	-42	-36	0	8	11	7	-47	-45	1	18	16	5	-12	-12	0
Germany	10	10	4	-32	-23	6	11	4	4	-32	-32	5	14	7	1	-14	-4	6
Spain	8	8	9	-42	-58	-6	10	30	14	-60	-60	-10	25	42	10	-17	-33	-8
France	25	17	7	-50	-25	-4	20	10	4	-70	-60	3	36	21	-1	-21	-29	-2
Italy	18	18	12	-73	-73	5	0	0	1	-64	-45	10	0	8	4	-8	-23	10

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.

Euro area banks' access to funding deteriorated in all market segments in the third quarter of 2023, especially for access to retail funding. The pronounced deterioration in access to short-term retail funding (11% in net terms, following 14% which was the highest since the first quarter of 2012) is consistent with the higher competition for liquidity stemming from other banks and from alternative investment opportunities offering higher remuneration. For debt securities, money markets and securitisations, the deterioration was less pronounced.

The reduction in the ECB's monetary policy asset portfolio is contributing to a deterioration in euro area banks' financing and liquidity conditions, resulting in the build-up of further tightening pressure on the supply of credit. Banks reported further negative impacts on their market financing conditions (net percentage of -15%, after -16%) and liquidity positions (net percentage of -9%, after -7%), with a further deterioration expected over the next six months. The impact of the ECB's monetary policy asset portfolio on profitability was positive overall over the past six months, with a positive contribution from net interest income and a negative contribution from capital losses, with the two expected to balance out over the next six months. There was also a continued net tightening impact of the ECB's monetary policy asset portfolio on terms and conditions and a negative impact on lending volumes, with stronger effects expected over the next six months across all loan categories.

Banks indicated a negative impact of the phase-out of TLTRO III on their liquidity and funding conditions over the past six months, leading to a mild tightening effect on terms and conditions and a downward pressure on loan volumes, which are expected to intensify in the coming six months. The negative impact of TLTRO III repayments on liquidity positions (a net percentage of -20%, after -5% in the previous six months) and profitability (-10%, after -7%) was complemented by a negative impact on market financing conditions (-8%, after 0%). Banks expect a further negative impact of the phase-out of TLTRO III on their financial situation over

the next six months. Regarding their lending conditions, banks reported a net tightening impact of the phase-out of TLTRO III on their terms and conditions and a slightly negative impact on lending volumes across all forms of lending. Banks expect a similar additional tightening on terms and conditions over the next six months alongside a slightly larger negative impact on lending volumes.

Euro area banks reported a further markedly positive impact of the key ECB interest rate decisions on their net interest margins over the past six months, although the positive impact is expected to gradually abate in the coming six months. Similar to the previous six months, the positive impact on bank interest margins also translated into a high share of banks reporting a positive impact of the ECB rate hikes on their net interest income, which led to a largely positive effect on their overall profitability. At the same time, there was a substantial increase in the share of banks reporting a negative impact of the ECB interest rate decisions on volumes, consistent with the significant weakening in lending dynamics. Moreover, euro area banks reported a further negative impact via higher provisioning needs and impairments, whereas negative impacts via capital losses and lower net fee and commission income became less pronounced. The net percentage of banks reporting a positive impact of the key ECB interest rate decisions on their net interest margins is expected to be considerably smaller over the next six months (at 20%) compared with the past six months (43%) and compared with the share of banks reporting a negative impact on volumes over the same period (31%, unchanged from 32% over the past six months). Non-interest income and provisions and impairments are also expected to exert downward pressure on bank profitability over the next six months.

Box 1

General notes

The bank lending survey (BLS) is addressed to senior loan officers at a representative sample of euro area banks. In the current round, 157 banks were surveyed, 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

BLS questionnaire

The BLS questionnaire contains 22 standard questions on past and expected future developments: 18 backward-looking questions and four forward-looking questions. In addition, it contains one open-ended question. Those questions focus on developments in loans to euro area residents (i.e., domestic and euro area cross-border loans) and distinguish between three loan categories: loans or credit lines to enterprises; loans to households for house purchase; and consumer credit and other lending to households. For all three categories, questions are asked about the credit standards applied to the approval of loans, the terms and conditions of new loans, loan demand, the factors affecting loan supply and demand conditions, and the percentage of loan applications

² For more detailed information on the bank lending survey, see the article entitled "A bank lending survey for the euro area", *Monthly Bulletin*, ECB, April 2003; Köhler-Ulbrich, P., Hempell, H. and Scopel, S., "The euro area bank lending survey", *Occasional Paper Series*, No 179, ECB, 2016; and Burlon, L., Dimou, M., Drahonsky, A. and Köhler-Ulbrich, P., "What does the bank lending survey tell us about credit conditions for euro area firms?", *Economic Bulletin*, Issue 8, ECB, December 2019.

that are rejected. Survey questions are generally phrased in terms of changes over the past three months or expected changes over the next three months. Survey participants are asked to indicate in a qualitative way the strength of any tightening or easing or the strength of any decrease or increase, reporting changes using the following five-point scale: (1) tightened/decreased considerably, (2) tightened/decreased somewhat, (3) basically no change, (4) eased/increased somewhat, or (5) eased/increased considerably.

In addition to the standard questions, the BLS questionnaire may contain ad hoc questions on specific topics of interest. Whereas the standard questions cover a three-month time period, the ad hoc questions tend to refer to changes over a longer time period (e.g. over the past and next six months).

Aggregation of banks' replies to national and euro area BLS results

The responses of the individual banks participating in the BLS are aggregated in two steps to form the euro area results. In the first step, the responses of individual banks are aggregated to national results for the euro area countries. In the second step, the national BLS results are aggregated to euro area BLS results.

In the first step, banks' replies are aggregated to national BLS results for all countries by applying equal weights to all banks in the sample.³ For two countries (Malta and Slovakia), national results are additionally aggregated by applying a weighting scheme based on the amounts outstanding of loans to non-financial corporations and households of the individual banks in the respective national samples.

In the second step, since the numbers of banks in the national samples differ considerably and do not always reflect those countries' respective shares in lending to euro area non-financial corporations and households, the unweighted national survey results of all countries are aggregated to euro area BLS results by applying a weighting scheme based on the national shares of outstanding loans to euro area non-financial corporations and households.

BLS indicators

Responses to questions relating to credit standards are analysed in this report by looking at the difference (the "net percentage") between the percentage of banks reporting that credit standards applied in the approval of loans have been tightened and the percentage of banks reporting that they have been eased. For all questions, the net percentage is determined on the basis of all participating banks that have business in or exposure to the respective loan categories (i.e., they are all included in the denominator when calculating the net percentage). This means that banks that specialise in certain loan categories (e.g. banks that only grant loans to enterprises) are only included in the aggregation for those categories. All other participating banks are included in the aggregation of all questions, even if a bank replies that a question is "not applicable" ("NA"). This harmonised aggregation method was introduced by the Eurosystem in the April 2018 BLS. It has been applied to all euro area and national BLS results in the current BLS questionnaire, including

³ To ensure a good representation of national bank lending markets, the selected sample banks are generally of a similar size or have lending behaviour that is typical of a larger group of banks.

backdata.⁴ The resulting revisions for the standard BLS questions have generally been small, but revisions for some ad hoc questions have been larger owing to a higher number of “not applicable” replies by banks.

A positive net percentage indicates that a larger proportion of banks have tightened credit standards (“net tightening”), whereas a negative net percentage indicates that a larger proportion of banks have eased credit standards (“net easing”).

Likewise, the term “net demand” refers to the difference between the percentage of banks reporting an increase in loan demand (i.e., an increase in bank loan financing needs) and the percentage of banks reporting a decline. Net demand will therefore be positive if a larger proportion of banks have reported an increase in loan demand, whereas negative net demand indicates that a larger proportion of banks have reported a decline in loan demand.

In the assessment of survey balances for the euro area, net percentages between -1 and +1 are generally referred to as “broadly unchanged”. For country results, net percentage changes are reported in a factual manner, as differing sample sizes across countries mean that the answers of individual banks have differing impacts on the magnitude of net percentage changes.

In addition to the “net percentage” indicator, the ECB also publishes an alternative measure of banks’ responses to questions relating to changes in credit standards and net demand. This measure is the weighted difference (“diffusion index”) between the percentage of banks reporting that credit standards have been tightened and the percentage of banks reporting that they have been eased. Likewise, as regards demand for loans, the diffusion index refers to the weighted difference between the percentage of banks reporting an increase in loan demand and the percentage of banks reporting a decline. The diffusion index is constructed in the following way: lenders who have answered “considerably” are given a weight (score of 1) which is twice as large as that given to lenders who have answered “somewhat” (score of 0.5). The interpretation of the diffusion indices follows the same logic as the interpretation of net percentages.

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](#).

A copy of the questionnaire, a glossary of BLS terms and a BLS user guide with information on the BLS series keys can all be found on the [ECB's website](#).

⁴ The non-harmonised historical data differ from the harmonised data mainly as a result of heterogeneous treatment of “NA” (Not Applicable) replies and specialised banks across questions and countries. Non-harmonised historical BLS data are published for discontinued BLS questions and ad hoc questions.

2 Developments in credit standards, terms and conditions, and net demand for loans in the euro area

2.1 Loans to enterprises

2.1.1 Credit standards for loans to enterprises tightened further

Euro area banks further tightened their credit standards for loans or credit lines to enterprises in the third quarter of 2023 (net percentage of banks of 12%, after 14% in the second quarter of 2023; see Chart 1 and Overview table).⁵ The cumulative net tightening since the beginning of 2022 has been substantial, which is consistent with the ongoing significant weakening in lending dynamics. The net tightening moderated slightly compared with the previous quarter but remained above its historical average (9%; see Overview table) for the sixth quarter in a row since the second quarter of 2022. Credit standards tightened slightly more in net terms for loans to SMEs (net percentage of 14%, after 17%) than for loans to large firms (12%, after 13%; see Chart 2). In addition, the tightening was stronger for long-term loans (14%, after 15%) than for short-term loans (9%, after 10%).

Banks' risk perceptions continued to have the largest tightening impact, while banks' lower risk tolerance and liquidity positions also contributed (see Chart 1 and Table 1). Risks related to the firm-specific situation and the economic outlook remained the main drivers of the tightening of credit standards for firms, reflecting higher credit risks in the context of increasing debt servicing costs for firms and weak economic growth. Banks' lower risk tolerance also contributed to the tightening, albeit to a lesser extent. In this context, banks' replies also mentioned prudence in their lending policies, when assessing the creditworthiness of individual firms, with respect to the risks related to the economic outlook and higher interest rates. Banks' cost of funds and balance sheet situations also contributed to the tightening of credit standards, with banks' lower liquidity positions being the main driver. The latter can reflect the decline in aggregate deposit volumes and increasing competition for deposits among

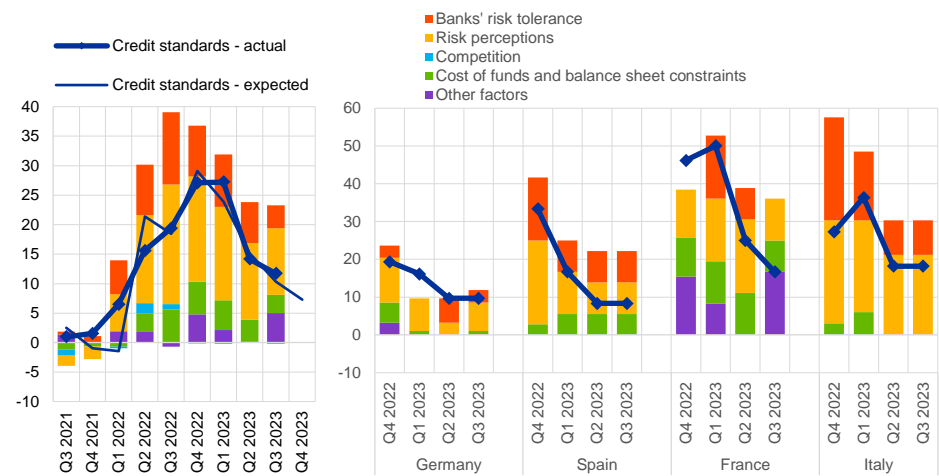
⁵ Net percentages refer to changes over the previous three months (unless otherwise noted) and are defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably". 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 reporting that it contributed to an easing. "Cost of funds and balance sheet constraints" are defined as 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 unweighted average of "general economic situation and outlook", "industry or firm-specific situation and outlook/borrower's creditworthiness" and "risk on collateral demanded"; Competition as "bank competition", "non-bank competition" and "competition from market financing". 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.

banks, as well as the shrinking excess liquidity in the euro area banking system. Some banks mentioned the increase in interest rates and the ongoing increase in the costs of customer deposits as additional factors (included in “other factors”).⁶ While risk perceptions were the main driver of tightening credit standards for both SMEs and large enterprises, their impact was higher for SMEs. This is in line with the higher credit risks associated with these firms on average.

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)



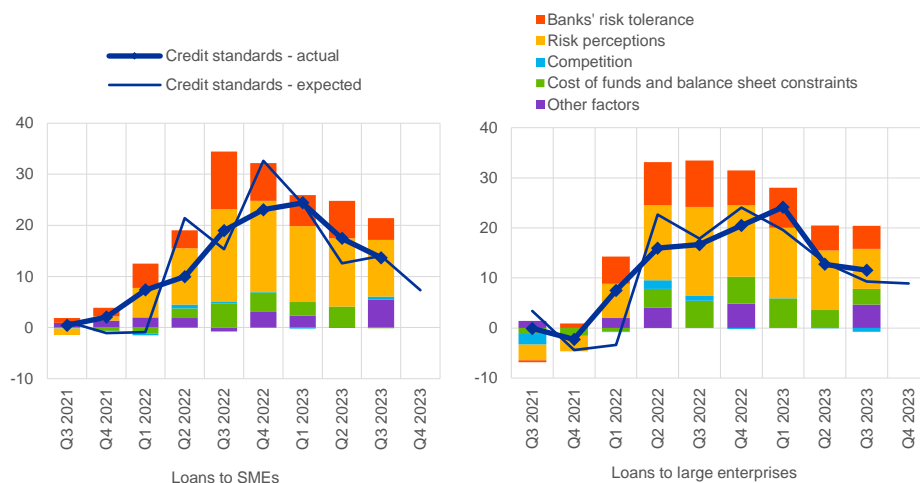
Notes: “Actual” values are changes that have occurred, while “expected” values are changes anticipated by banks. Net percentages are defined as the difference between the sum of the percentages of banks responding “tightened considerably” and “tightened somewhat” and the sum of the percentages of banks 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 the given factor contributed to a tightening and the percentage 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”; “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.

⁶ Banks have the option to mention up to three “other factors” for some questions in the questionnaire. These “other factors” can be different items across banks and time. In the respective charts, an unweighted net percentage average of the “other factors” is shown. The net percentage of an “other factor” series is not considered in the calculation when it is equal to zero or no bank has replied to it.

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.

Credit standards for loans to enterprises tightened in net terms across all four largest euro area countries. The pace of tightening remained unchanged from the last quarter except for France, where the net percentage was lower. Higher risk perceptions were an important tightening factor in all four countries, while banks' lower risk tolerance contributed to the further net tightening in Germany, Spain and Italy, but not in France. Similar to the previous quarter, banks' cost of funds and balance sheet conditions had a tightening contribution in France and Spain, while they had a broadly neutral impact in Germany and Italy.

In the fourth quarter of 2023, euro area banks expect a further but more moderate pace of net tightening of credit standards for loans to firms (net percentage of 7%). Were it to materialise, the further tightening would be below its historical average (net percentage of 9%) for the first time since the first quarter of 2022. Banks also expect a moderation in the net tightening for loans to SMEs (net percentage of 7%) and a similar tightening pace as in the third quarter for loans to large firms (net percentage of 9%).

Table 1**Factors contributing to changes in credit standards for loans or credit lines to enterprises**

(net percentages of banks)

Country	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023
Euro area	4	3	0	0	13	11	7	4
Germany	0	1	0	0	3	8	6	3
Spain	6	6	0	0	8	8	8	8
France	11	8	0	0	19	11	8	0
Italy	0	0	0	0	21	21	9	9

Note: See the notes to Chart 1.

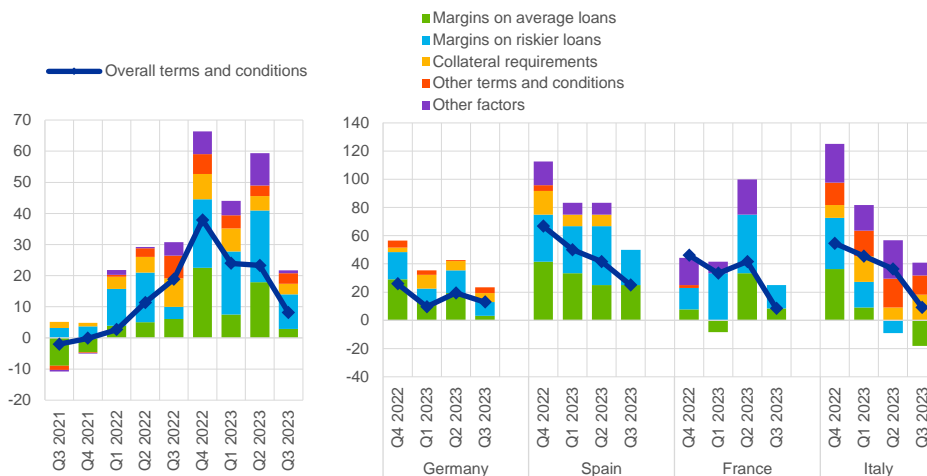
2.1.2 Terms and conditions on loans to enterprises tightened further

Banks' overall terms and conditions (i.e., actual terms and conditions agreed in the loan contract) for new loans to enterprises tightened further (net percentage of 8%, after 23%; see Chart 3 and Table 2). While the tightening pace was lower than in the second quarter, the net tightening added to the tightening of past quarters. Widening margins (defined as the spread over relevant market reference rates) on riskier loans to firms (net percentage of 11%) were the main driver behind the net tightening, in line with the tightening impact of banks' risk perceptions and lower risk tolerance on credit standards. By contrast, margins on average loans had only a small net tightening impact (3%), alongside loan size and maturity (5% and 4% respectively, represented in "other terms and conditions") as well as collateral requirements (3%). In line with these developments, banks also indicated in their replies, under "other factors", their efforts to shift their loan books towards lower-risk borrowers. Banks reported a further net tightening of overall terms and conditions for loans to both SMEs (net percentage of 10%, after 20%; see Chart 4) and large firms (net percentage of 5%, after 19%; see Chart 4), with the net tightening moderating more for the latter loan segment. For both categories of lending, the net tightening was driven by a widening of margins on riskier loans. Margins on average loans had a moderate tightening impact on terms and conditions on loans to SMEs, while the impact was neutral for loans to large enterprises.

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: "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 and lower risk tolerance continued to be the main drivers of the net tightening in overall terms and conditions for loans to firms in the third quarter of 2023, while competition exerted an easing impact (see Table 3). Risk perceptions, related to the economic outlook and the creditworthiness of the firms, had the largest tightening impact on terms and conditions. The net easing impact of competition was mainly related to competition with other banks, whereas competition with non-banks played only a small role.

Table 2

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

(net percentages of banks)

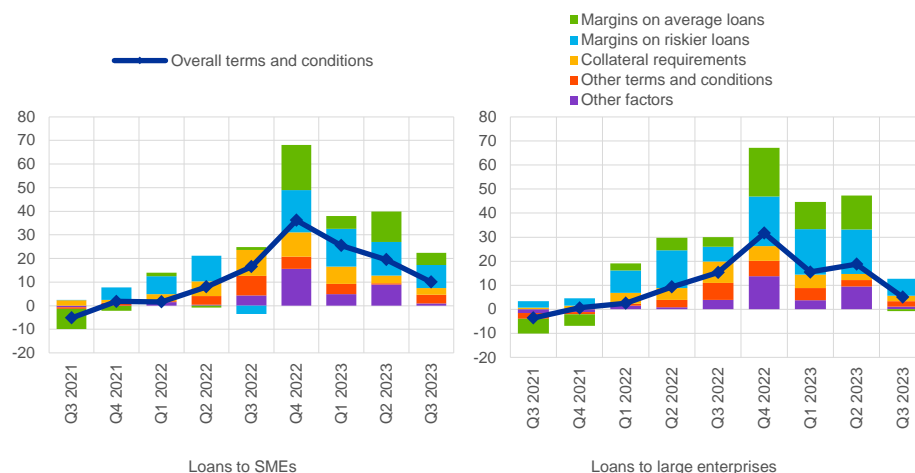
Country	Overall terms and conditions		Banks' margins on average loans		Banks' margins on riskier loans	
	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023
Euro area	23	8	18	3	23	11
Germany	19	13	19	3	16	10
Spain	42	25	25	25	42	25
France	42	8	33	8	42	17
Italy	36	9	0	-18	-9	0

Note: See the notes to Chart 3.

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.

In all four largest euro area countries, overall terms and conditions on loans or credit lines to enterprises tightened further, albeit at a slower pace compared with the previous quarter. In Germany, Spain and France, the net tightening was mainly driven by widening loan margins. Meanwhile, in Italy, banks referred to collateral requirements, as well as to the size and maturity of the loan or credit line (included in “other terms and conditions”) as the main tightening factors for terms and conditions. At the same time, margins on average loans had an easing contribution in Italy, where pressure from competition was recorded as having an easing impact.

Table 3

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

(net percentages of banks)

Country	Cost of funds and balance sheet constraints		Pressure from competition		Perception of risk		Banks' risk tolerance	
	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023
Euro area	8	4	-1	-4	14	13	9	6
Germany	8	3	2	-1	9	10	3	6
Spain	11	6	0	0	17	14	8	8
France	11	6	0	0	14	8	17	0
Italy	0	3	-6	-18	24	24	9	18

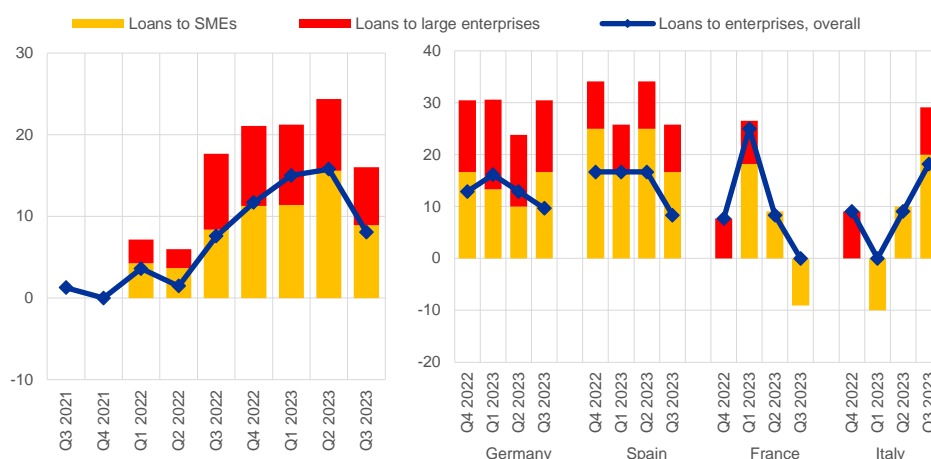
Notes: The net percentages for these questions relating to contributing factors are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage reporting that it contributed to an easing. See the notes to Chart 1.

2.1.3 Rejection rate for loans to enterprises increased

In the third quarter of 2023, banks reported a further net increase in the share of rejected applications for loans to firms (net percentage of 8%, after 16% in the previous quarter; see Chart 5). The increase remains one of the highest on record, albeit not as high as in the second quarter, adding to the already substantial increases registered since the start of the monetary policy tightening in 2022. The developments in overall rejection rates mostly reflected developments in the SME loan segment. Banks reported an increase in the share of rejected loans for SMEs and for large firms (net percentages of 9% and 7% respectively), contributing to a higher cumulated increase in rejection rates for SMEs since the start of the monetary policy tightening in 2022, in line with these firms being associated with higher credit risks on average.

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.

Banks reported a net increase in the share of rejected applications for loans to firms in Germany, Spain and Italy, while the share remained unchanged in France in the third quarter of 2023. The share of rejections increased for both loans to SMEs and large enterprises in Germany, Spain and Italy, while it was unchanged for large enterprises and fell for SMEs in France.

2.1.4 Net demand for loans to enterprises decreased substantially

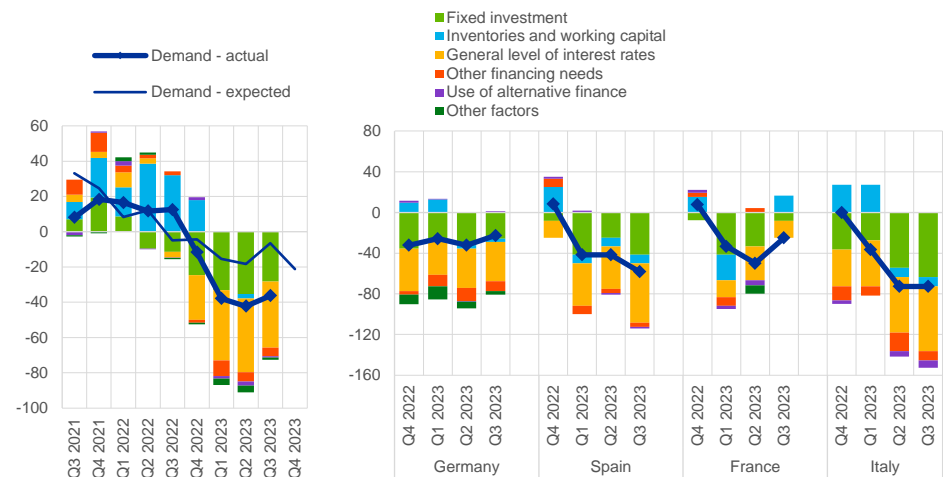
Euro area firms' net demand for loans continued to decrease substantially in the third quarter of 2023 (net percentage of -36%, after -42% in the second quarter of 2023; see Chart 6), with the net percentage of banks only slightly more contained than the all-time low of the previous quarter. Similar to recent quarters, the decline was significantly stronger than expected by banks. Demand for loans to large firms decreased almost as much (net percentage of -36%; see Chart 7) as the all-time low

reached during the global financial crisis (-37% in the fourth quarter of 2008). The net decrease in loan demand was also among the strongest in BLS history for SMEs, although somewhat more contained than the all-time low of the previous quarter (net percentage of -34%, after -42%). In addition, the net decrease in demand for long-term loans was close to the strongest decline since the series began, reported last quarter (-44%), while demand for short-term loans decreased to a lesser extent (-21%) but still close to the historical low seen during the global financial crisis (-25% in the second quarter of 2009).

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)

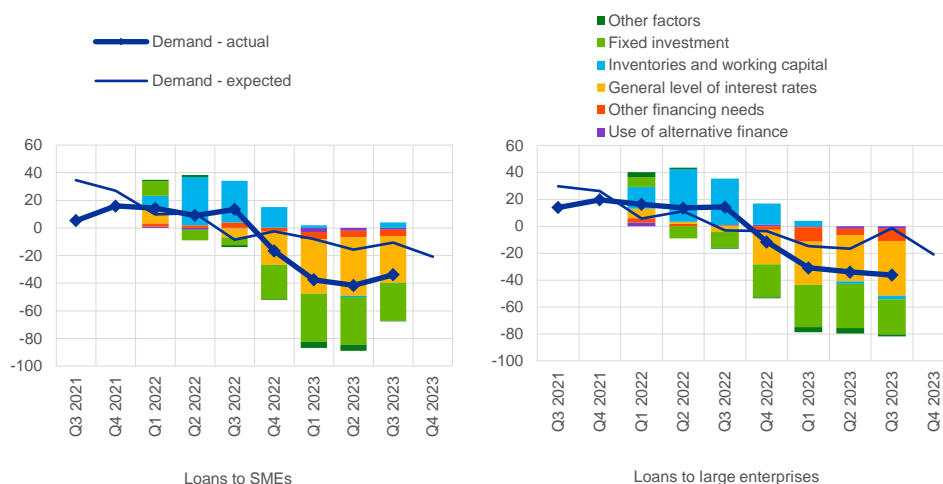


Notes: "Actual" values are changes that have occurred, while "expected" values are changes anticipated by banks. Net percentages for the questions on demand for loans are defined as the difference between the sum of the percentages of banks responding "increased considerably" and "increased somewhat" 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 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"; "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 the "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. Developments in the factors having an impact on loan demand across firm sizes were added in the first quarter of 2022.

Rising interest rates and declining fixed investment remained the main drivers of the net decrease in loan demand (see Chart 6 and Table 4). The substantial contribution of fixed investment mirrors the strong net decrease in demand for long-term loans. M&A activity (included in “other financing needs”) also dampened loan demand, while demand for inventories and working capital had a neutral impact. The use of alternative finance also had a broadly neutral impact, where larger recourse to internal financing (-6%) was compensated by smaller recourse to loans by other banks and lower issuance of debt securities and equity. For both SMEs and large firms, the general level of interest rates and firms’ financing needs for fixed investment were the main drivers of reduced loan demand (see Chart 7).

Table 4

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

(net percentages of banks)

Country	Fixed investment		Inventories and working capital		Other financing needs		General level of interest rates		Use of alternative finance	
	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023
Euro area	-35	-28	-3	0	-5	-5	-42	-37	-2	-1
Germany	-32	-26	-3	-3	-13	-10	-39	-39	-1	1
Spain	-25	-42	-8	-8	-4	-4	-42	-58	-2	-2
France	-33	-8	0	17	4	0	-33	-17	-5	0
Italy	-55	-64	-9	-9	-18	-9	-55	-64	-5	-7

Note: See the notes to Chart 6.

Demand for loans to firms declined strongly in all four largest euro area countries. In line with the euro area aggregate, higher interest rates and lower financing needs for fixed investment were the main drivers of reduced loan demand in all four countries.

Lower M&A activity had a notable negative impact on loan demand mainly in Germany. Regarding alternative funding sources, the availability of firms' internal funds was reported as reducing loan demand in Italy and Spain, while it contributed to a small increase in demand in Germany.

In the fourth quarter of 2023, banks expect a smaller net decrease in demand for loans to firms compared with the third quarter (net percentage of -21%). Banks have had consistently negative surprises on the pace of contraction in loan demand relative to their expectations since the fourth quarter of 2022. Nonetheless, banks expect again that the pace of decrease in loan demand will become slower in the fourth quarter, both for short-term and long-term loans (net percentages of -3% and -25% respectively).

2.2 Loans to households for house purchase

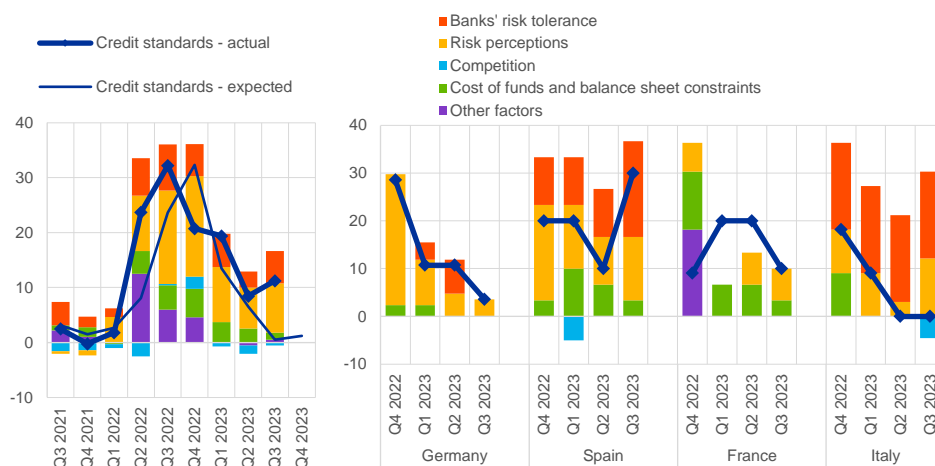
2.2.1 Credit standards for loans to households for house purchase tightened further

Euro area banks reported a further net tightening of credit standards on loans to households for house purchase (net percentage of banks at 11%, after 8% in the second quarter of 2023), which strongly exceeded previous expectations of broadly unchanged credit standards. While it remained below the peak observed in the third quarter of 2022 (32%), the net tightening was much greater than banks' expectations in the previous quarter (expected net percentage of 0%; see Chart 8 and Overview table).

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"; "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.

Banks' higher risk perceptions were the main factor driving the net tightening of credit standards on housing loans, alongside lower risk tolerance (see Chart 8 and Table 5). Increased risk perceptions were primarily related to perceptions regarding borrower creditworthiness, the general economic outlook and, to a smaller extent, housing market prospects. Banks' cost of funds and balance sheet constraints had a broadly neutral impact on average, with a tightening impact of changes in banks' liquidity positions only partially compensated by a slight net easing in access to market financing.

Credit standards on loans to households for house purchase tightened in Germany, France and especially Spain but were unchanged in Italy. Increased risk perceptions had a tightening impact across all four of the largest euro area countries. Lower risk tolerance had a tightening contribution in Spain and Italy. In Italy, the tightening impact was partially counterbalanced by a small easing impact of competition from other banks. Banks' liquidity positions had a strong tightening impact in France and Spain. Cost of funds and balance sheet constraints had otherwise a neutral impact on credit standards across countries, except for an easing in the access to market financing in France.

In the fourth quarter of 2023, euro area banks expect broadly unchanged credit standards on loans to households for house purchase (net percentage of 1%).

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	
	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023
Euro area	3	1	-2	-1	7	9	3	6
Germany	0	0	0	0	5	4	7	0
Spain	7	3	0	0	10	13	10	20
France	7	3	0	0	7	7	0	0
Italy	0	0	0	-5	3	12	18	18

Note: See the notes to Chart 8.

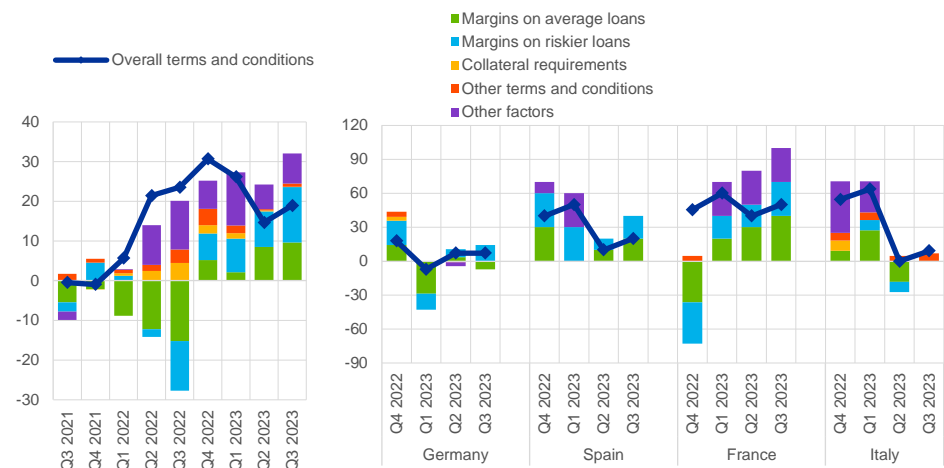
2.2.2 Terms and conditions on loans to households for house purchase tightened further

Banks reported a further net tightening of their overall terms and conditions for new housing loans in the third quarter of 2023, larger than in the previous quarter (net percentage of 19%, after 15% in the previous quarter; see Chart 9 and Table 6). The net tightening of banks' overall terms and conditions was mainly on account of widening margins on both average and riskier loans, reflecting the proceeding pass-through of higher market rates to mortgage rates and concerns about or varying attitudes towards credit risks.

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: "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)

Country	Overall terms and conditions		Banks' margins on average loans		Banks' margins on riskier loans	
	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023
Euro area	15	19	8	10	9	14
Germany	7	7	4	-7	7	14
Spain	10	20	10	20	10	20
France	40	50	30	40	20	30
Italy	0	9	-18	0	-9	0

Note: See the notes to Chart 9.

Banks' higher cost of funds and balance sheet situation contributed most to the net tightening of overall terms and conditions, with the cost of liquidity mentioned as an important factor by some banks (see Table 7). In addition to the standard factor related to cost of funds and balance sheet constraints, banks referred, under "other factors", to liquidity costs as a factor contributing to a tightening. The tightening impact of increased risk perceptions was more limited. By contrast, competition had a net easing impact on terms and conditions.⁷

In all of the four largest euro area economies, overall terms and conditions for housing loans tightened in net terms. In France and Spain, the core contributor was a widening of margins on both average and riskier loans. The tightening was particularly pronounced in France, where for the third quarter in a row, after an acceleration since the start of the tightening cycle, a net percentage of 60% of banks referred to cost of funds and balance sheet constraints as a driver of the tightening of terms and conditions. In Germany, margins narrowed on average loans and widened on riskier loans. For Italy, the tightening impact mainly related to higher loan-to-value ratios and restrictions on loan sizes and maturities.

⁷ In France, some banks referred to tightening lending conditions owing to the update of the usury rate (taux d'usure), which allowed banks to charge higher lending rates on housing loans. This administrative threshold for a lending rate is set by the Banque de France and corresponds to the maximum legal interest rate that credit institutions are authorised to charge on a list of different categories of loans to protect borrowers from being charged excessive rates. The current list of usury rates for France can be found under this [link](#).

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	
	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023
Euro area	18	19	-3	-10	5	6	0	3
Germany	4	4	-4	-18	4	11	0	4
Spain	0	10	0	0	10	10	0	10
France	60	60	0	-10	0	0	0	0
Italy	9	9	-18	-18	9	9	9	9

Note: 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 reporting that it contributed to an easing.

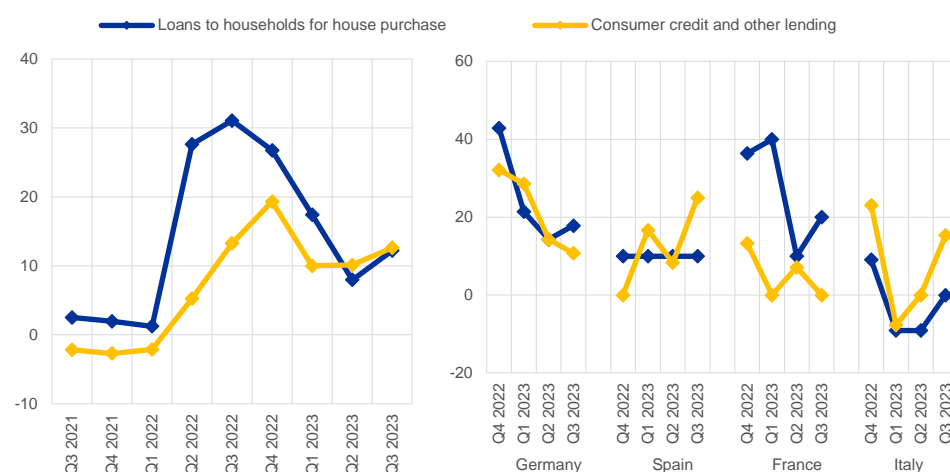
2.2.3 Rejection rate for housing loans increased

In the third quarter of 2023, euro area banks reported a further net increase in the share of rejected applications for housing loans, higher than in the previous quarter (net percentage of 12%, after 8%; see Chart 10). The increase is significant, remaining above the long-run average of 5% (since the first quarter of 2015). This further increase in the share of rejected applications adds to the increases since the start of the tightening cycle. Banks in Germany, Spain and France reported an increase in the share of rejected loans while banks in Italy reported no change.

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.

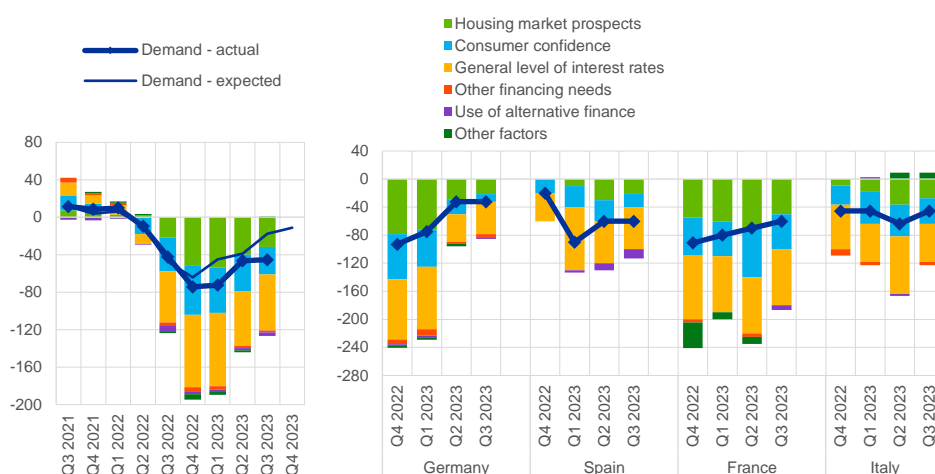
2.2.4 Net demand for housing loans decreased strongly

The net decrease in demand for housing loans remained strong in the third quarter of 2023 but was lower than earlier this year (net percentage of -45%, after -47% and -72% in the second and first quarter of 2023 respectively; see Chart 11 and Overview table). The decrease in demand was stronger than anticipated by banks in the previous quarter (net percentage of -18%).

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 5. "Other financing needs" is the unweighted average of "debt refinancing/restructuring and renegotiation" and "regulatory and fiscal regime of housing markets"; "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 the "other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in loan demand.

Higher interest rates were the primary driver of this decrease in housing loan demand, with additional notable negative contributions from weakening housing market prospects and low consumer confidence (see Chart 11 and Table 8). Since the start of the ECB rate hikes in the third quarter of 2022, the general level of interest rates has been the main negative contributor to housing loan demand. This is in line with the continued increase in euro area mortgage rates. The negative impact of consumer confidence and housing market prospects was again sizeable in the third quarter of 2023, reflecting weakness in housing market dynamics as seen in the annual decline of the euro area house price index according to the latest data from Eurostat, and the low levels in the European Commission's consumer confidence indicator. Other financing needs and the use of alternative finance (especially internal financing out of savings) contributed negatively to demand to a much smaller extent.

Demand for housing loans decreased substantially in all four largest euro area countries. The general level of interest rates, consumer confidence and housing market prospects all had a downward impact on demand in all four countries. Among

these factors, rising interest rates had the strongest dampening impact in all countries.

In the fourth quarter of 2023, banks expect a further but less pronounced decrease in housing loan demand (net percentage of banks at -11%).

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	
	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023
Euro area	-40	-32	-40	-30	-2	-2	-58	-60	-2	-4
Germany	-29	-21	-21	-11	-2	-5	-39	-46	-1	-1
Spain	-30	-20	-30	-20	0	0	-60	-60	-10	-13
France	-70	-50	-70	-50	-5	0	-80	-80	0	-7
Italy	-36	-27	-45	-36	0	-5	-82	-55	-3	0

Note: See the notes to Chart 11.

2.3 Consumer credit and other lending to households

2.3.1 Credit standards for consumer credit and other lending to households tightened further

Banks reported a further net tightening of credit standards on consumer credit and other lending to households which strongly exceeded previous expectations (net percentage of 16% after 18% in the previous quarter; see Chart 12 and Overview table). The net tightening in credit standards was much more substantial than banks' expectations in the previous quarter (net percentage of 2%), remaining well above historical averages and adding to the tightening accumulated since the start of the tightening cycle.

Increased risk perceptions and banks' lower risk tolerance mainly contributed to the net tightening of credit standards for consumer credit (see Chart 12 and Table 9). This was mostly related to banks' perceptions of the economic outlook and consumers' creditworthiness. By contrast, banks' cost of funds and balance sheet constraints had a broadly neutral impact.

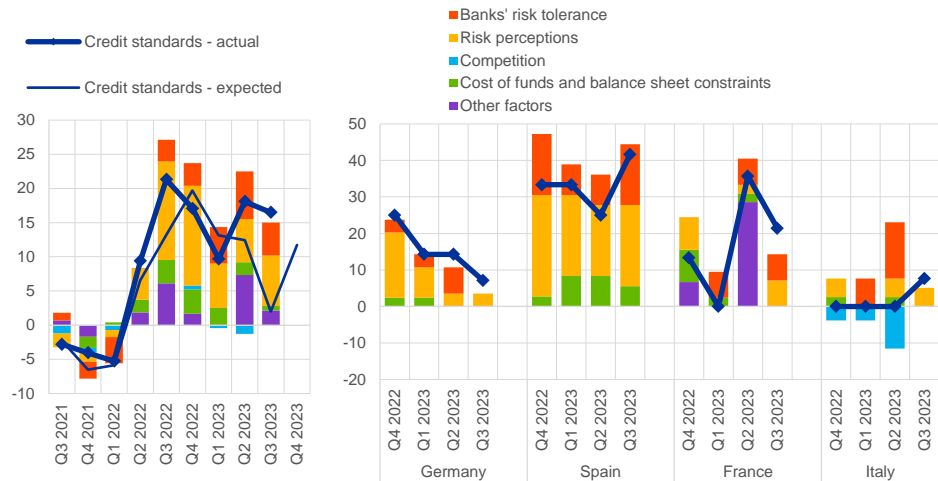
Credit standards for consumer credit and other lending to households tightened in net terms across all four of the largest euro area countries, especially in France and Spain. Higher risk perceptions contributed to tighter credit standards in all four largest euro area economies, while in France and Spain banks' lower risk tolerance also contributed to tighter credit standards. Cost of funds and balance sheet constraints also had a tightening impact in Spain.

In the fourth quarter of 2023, euro area banks expect a further significant net tightening of credit standards for consumer credit and other lending to households (net percentage of 12%).

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”; “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.

Table 9

Factors contributing to changes in credit standards for 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	
	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023
Euro area	2	1	-1	0	6	7	0	0
Germany	0	0	0	0	4	4	7	0
Spain	8	6	0	0	19	22	8	17
France	2	0	0	0	2	7	7	7
Italy	3	0	-12	0	5	5	15	0

Note: See the notes to Chart 12.

2.3.2 Terms and conditions on consumer credit and other lending to households tightened further

Banks' overall terms and conditions applied when granting consumer credit and other lending to households tightened further in net terms in the third quarter of

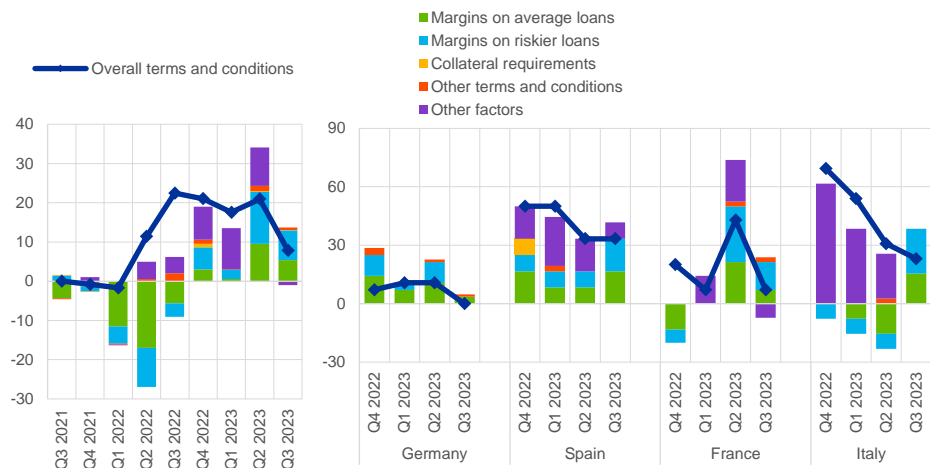
2023, albeit to a lesser extent than in the previous quarter (net percentage of 8%, after 21%; see Chart 13 and Table 10). Banks primarily referred to widening margins on both average and riskier loans, with a slightly larger tightening impact for riskier loans.

Banks' cost of funds and balance sheet constraints contributed most to the net tightening of banks' overall terms and conditions (see Table 11). Risk perceptions had a more moderate net tightening impact while banks' lower risk tolerance had a small tightening impact on overall terms and conditions. On the other hand, competition had a net easing impact.

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: "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.

Among the four largest euro area economies, overall terms and conditions for consumer credit and other lending to households tightened in net terms in Spain, France and Italy, while they were unchanged in Germany. Banks in all four economies reported that a widening of margins on average loans had a tightening impact, while banks in Spain, France and Italy also referred to a widening of margins on riskier loans. In Spain, France and Italy, cost of funds and balance sheet constraints contributed the most to the tightening of terms and conditions, while competition was seen as exerting an easing contribution across the three countries.

Table 10**Changes in terms and conditions on consumer credit and other lending to households**

(net percentages of banks)

Country	Overall terms and conditions		Banks' margins on average loans		Banks' margins on riskier loans	
	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023
Euro area	21	8	10	5	13	8
Germany	11	0	11	4	11	0
Spain	33	33	8	17	8	17
France	43	7	21	7	29	14
Italy	31	23	-15	15	-8	23

Note: See the notes to Chart 13.

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	
	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023
Euro area	18	11	-3	-4	8	8	5	3
Germany	7	0	0	0	7	4	4	0
Spain	25	25	-17	-8	8	17	17	8
France	29	21	0	-7	14	14	7	7
Italy	31	31	0	-8	0	0	0	0

Note: 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 reporting that it contributed to an easing.

2.3.3 Rejection rate for consumer credit and other lending to households increased

Euro area banks reported a net increase in the share of rejected applications for consumer credit at a higher rate compared with the previous quarter (13%, after 10% in the previous quarter; see Chart 10 above). It remains elevated relative to the series average since the first quarter of 2015 (net percentage of 3%). Across the largest euro area countries, the share of rejected loan applications increased in Germany, Spain and Italy, whereas French banks reported no change in the rejection rate.

2.3.4 Net demand for consumer credit and other lending to households decreased further

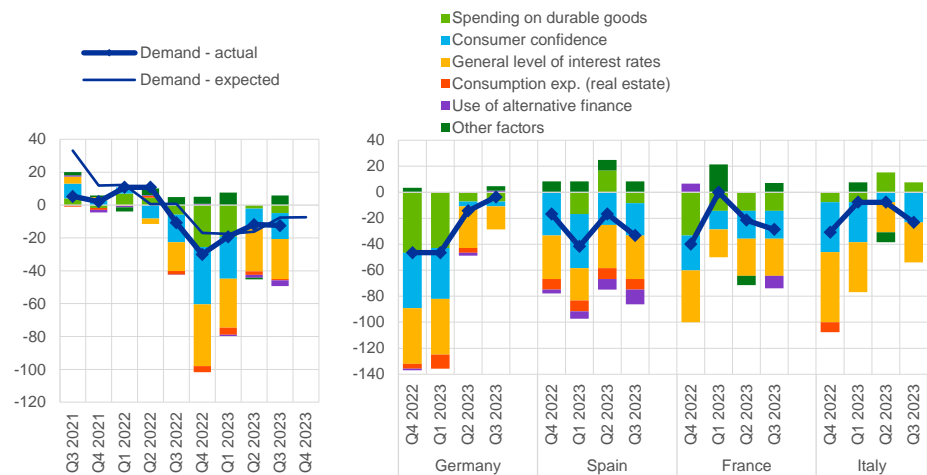
In the third quarter of 2023, banks reported a further net decrease in demand for consumer credit and other lending to households, to the same extent as in the

previous quarter (net percentage of banks at -12%, after -12% in the previous quarter; see Chart 14 and Overview table). This decline was somewhat larger than what banks had expected in the previous quarter (-8%).

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 5. "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 the "other factors" refer to an average of the further factors which were mentioned by banks as having contributed to changes in loan demand.

Higher interest rates primarily contributed to the decrease in demand, alongside a substantial contribution from low consumer confidence (see Chart 14 and Table 12). A net decline in spending on durable consumer goods also contributed to lower demand. The negative contribution of these factors is consistent with the dampening impact of high inflation on households' real disposable income. The negative contribution of the use of alternative finance towards demand was minor overall, while banks reported an increased use of savings for financing by consumers.

Across all four largest euro area countries, demand for consumer credit decreased. The general level of interest rates and low consumer confidence contributed negatively towards demand in all four countries. Decreased spending on durables also had a negative contribution in Germany, Spain and France, while increased spending on durables had a positive impact in Italy. The use of alternative finance, especially savings, had a relatively strong negative impact in Spain and France.

In the fourth quarter of 2023, banks expect a smaller net decrease 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)

Country	Spending on durable goods		Consumer confidence		Consumption exp. (real estate)		General level of interest rates		Use of alternative finance	
	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023	Q2 2023	Q3 2023
Euro area	-2	-5	-12	-16	-2	-1	-26	-24	-2	-3
Germany	-7	-7	-4	-4	-4	0	-32	-18	-2	1
Spain	17	-8	-25	-25	-8	-8	-33	-33	-8	-11
France	-14	-14	-21	-21	0	0	-29	-29	0	-10
Italy	15	8	-8	-23	0	0	-23	-31	0	0

Note: See the notes to Chart 14.

3 Ad hoc questions

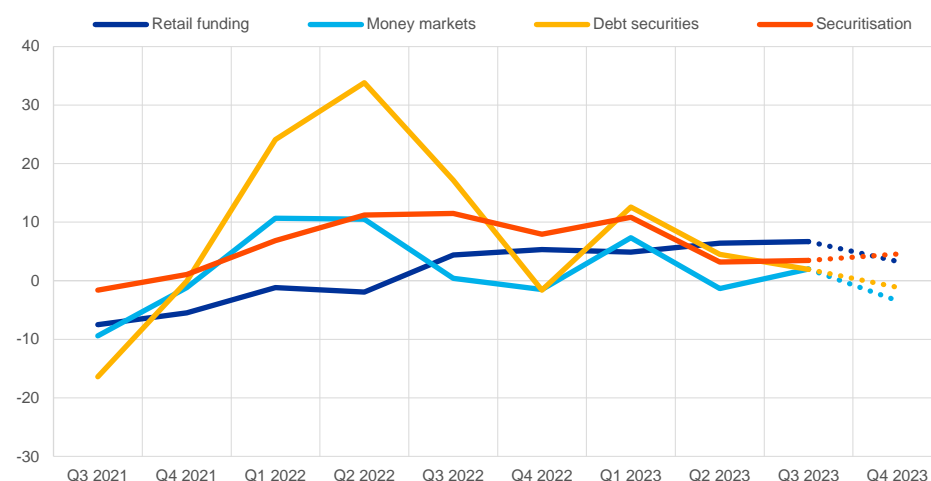
3.1 Banks' access to retail and wholesale funding⁸

Euro area banks' access to funding deteriorated in all market segments in the third quarter of 2023, especially in retail funding (see Chart 15 and Table 13). The pronounced deterioration in access to retail funding (7%, which follows a net percentage of 6% the previous quarter, the highest on record since the first quarter of 2012) and especially short-term funding (11%, after 14%) is consistent with the higher competition for liquidity stemming from other banks and from alternative investment opportunities with higher remuneration. Ease of access to longer-term deposits only deteriorated slightly. For debt securities the deterioration was moderate, compared with a much larger deterioration throughout the earlier phase of the hiking cycle. There was heterogeneity across different maturities of debt securities as access to short-term debt securities funding improved slightly, while access to medium-to-long term debt securities deteriorated somewhat (net percentage of 6%). Banks also reported that access to money markets and securitisations deteriorated slightly (net percentage of 2% and 3% respectively).

Chart 15

Banks' assessment of funding conditions and the ability to transfer credit risk off the balance sheet

(net percentages of banks reporting a deterioration in market 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.

⁸ The October 2023 survey 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.

Table 13

Banks' assessment of funding conditions and the ability to transfer credit risk off the balance sheet

(net percentages of banks reporting a deterioration in market access)

	Retail funding	Interbank unsecured money market	Wholesale debt securities	Securitisation
Q2 2023	6	-1	5	3
Q3 2023	7	2	2	3

Note: See the notes to Chart 15.

In the fourth quarter of 2023 banks expect access to retail funding to deteriorate further. Developments in access to wholesale funding are expected to be more varied as access to money markets is expected to improve, access to debt securities is expected to be broadly unchanged while access to securitisation is expected to deteriorate.

3.2 The impact of the ECB's monetary policy asset portfolio⁹

3.2.1 Impact of the ECB's monetary policy asset portfolio on banks' financial situation

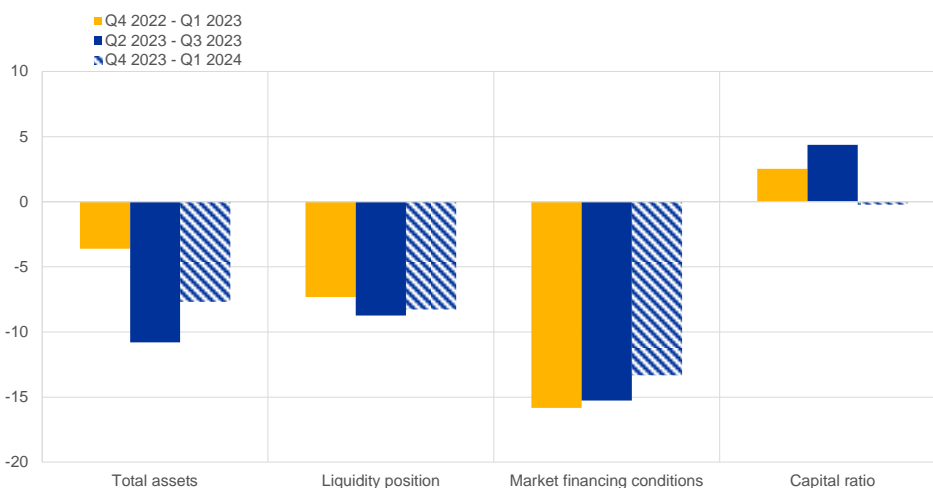
The reduction in ECB's monetary policy asset portfolio contributed to a deterioration in euro area banks' financing and liquidity conditions over the last six months (see Chart 16). Banks continued to report substantially negative impacts on their market financing conditions (net percentage of -15%, after -16%) and liquidity positions (net percentage of -9%, after -7%). The impact on banks' profitability was positive overall for the first time since the series began (net percentage of 7%, after 1%), owing to the positive impact through net interest income and despite the negative impact through capital losses. These developments reflect the slowdown and eventual discontinuation of reinvestments under the ECB's asset purchase programme (APP) started in March 2023. The impact on banks' total assets was negative for the second quarter in a row (net percentage of -10%, after -4%). This deleveraging pressure is in line with the decrease in central bank liquidity as well as an additional weakening impact on bank credit.

⁹ The October 2023 survey questionnaire included two biannual ad hoc questions gauging the impact of the ECB's monetary policy asset portfolio over the period under review, which may result from net asset purchases or any other transactions, including reinvestments of the principal payments from maturing securities purchased. These questions follow up from the previous questions on the ECB's asset purchases. Changes in the ECB's monetary policy asset portfolio can be related to the following (potential) monetary policy tools: corporate sector purchase programme (CSPP), public sector purchase programme (PSPP), asset-backed securities purchase programme (ABSPP), covered bond purchase programme (CBPP), pandemic emergency purchase programme (PEPP), Outright Monetary Transactions (OMT), and Transmission Protection Instrument (TPI). Banks were asked to consider both direct and indirect effects of the changes in the ECB's monetary policy asset portfolio.

Chart 16

Overview of the impact of the ECB's monetary policy asset portfolio on euro area banks' financial situation

(net percentages of banks reporting an increase/improvement)

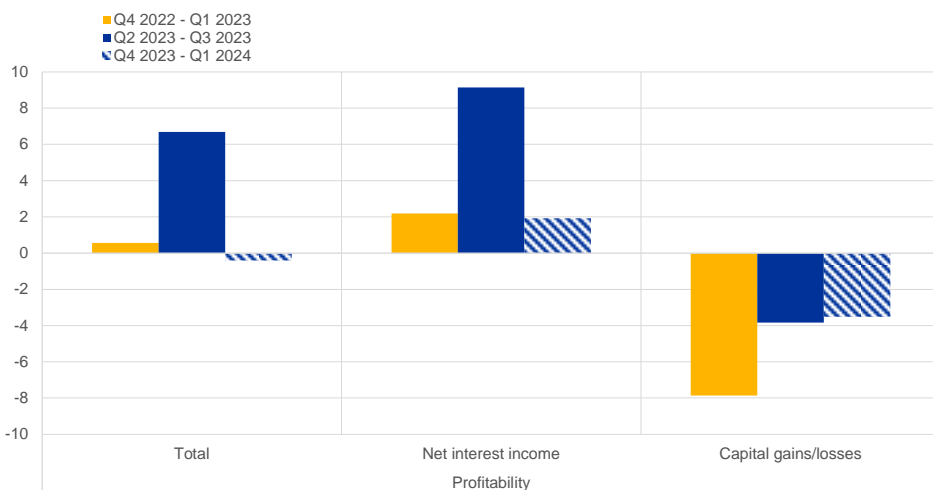


Notes: The net percentages are defined as the difference between the sum of the percentages for "increased/improved considerably" and "increased/improved somewhat" and the sum of the percentages for "decreased/deteriorated somewhat" and "decreased/deteriorated considerably". The last period denotes expectations indicated by banks in the current round.

Chart 17

Impact of the ECB's monetary policy asset portfolio on bank profitability

(net percentages of banks reporting an increase/improvement)



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

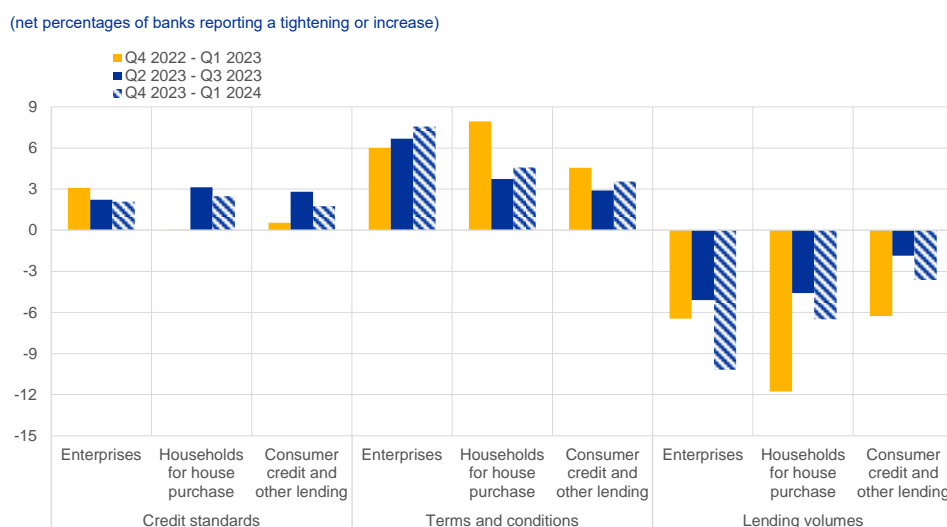
Over the next six months, euro area banks expect, on balance, that the ECB's monetary policy asset portfolio will continue to have a negative impact on their market financing conditions and liquidity position (net percentages of banks of -13% and -8% respectively). The impact on total assets is also expected to be negative. The impact on profitability is expected to turn neutral, with only a slightly positive contribution of net interest income (net percentage of 2%) compensated by a negative contribution from capital losses (net percentage of -4%).

3.2.2 Impact of the ECB's monetary policy asset portfolio on banks' lending conditions and lending volumes

Over the past six months, euro area banks reported a continued net tightening impact of the ECB's monetary policy asset portfolio on terms and conditions for loans to enterprises, housing loans and consumer credit (net percentages of banks at 7%, 4% and 3% respectively, see Chart 17). The overall impact on credit standards remained contained, with a slight tightening impact for loans to euro area enterprises, housing loans and consumer credit (net percentages of 2%, 3% and 3% respectively).

Euro area banks continued to report a negative impact of the ECB's monetary policy asset portfolio on lending volumes for loans to firms, housing loans and consumer credit over the last six months (net percentages of -5%, -5% and -2% respectively; see Chart 18). The negative impact was lower across all categories than in the previous six months, which was the first period in which banks registered a negative impact since this question was expanded to include the impact on lending volumes in 2018.

Chart 18
Impact of the ECB's monetary policy asset portfolio on bank lending



Notes: The net percentages are defined as the difference between the sum of the percentages for "tightened/increased considerably" and "tightened/increased somewhat" and the sum of the percentages for "eased/decreased somewhat" and "eased/decreased considerably". The last period denotes expectations indicated by banks in the current round.

Over the next six months, banks expect a pick-up of the tightening impact of the ECB's monetary policy asset portfolio on their terms and conditions and a further negative impact on lending volumes across all categories of lending. The impact is expected to be greatest for loans to firms (net percentages of banks at 8% for terms and conditions and -10% for lending volumes) followed by housing loans (net percentages of 5% and -6% respectively) and consumer credit (net percentages of 4% and -4% respectively). Banks expect a mild but steady tightening impact on credit standards for all categories of lending (net percentage of 2% in all cases).

3.3 The impact of TLTRO III on banks and their lending policies¹⁰

Banks indicated a negative impact of the phase-out of TLTRO III on their liquidity and market financing conditions over the past six months (net percentages of -20% and -8% respectively) in the context of TLTRO III maturing or being voluntarily repaid early in large amounts over this time period (see Chart 19). The negative impact of TLTRO III repayments on liquidity positions strengthened considerably compared with the previous six months (-5%), reflecting the very large repayments in June 2023. Profitability was also impacted negatively (-10%, after -7%). The impact on market financing conditions turned negative for the first time (-8%, after 0%), contributing to the already negative impact on overall funding conditions which hit a new trough over the past six months (net percentage of -12%; see Chart 20). The impact of outstanding TLTRO III on banks' ability to fulfil regulatory or supervisory requirements remained slightly positive (net percentage of 3%), although less than before owing to the reduction in outstanding TLTRO III liquidity and its decreased residual maturity.

Over the next six months, banks expect a further negative impact of the phase-out of TLTRO III on their financial situation, as repayments continue. The negative impact is expected to be greatest on their liquidity positions and profitability, while the negative impact on overall funding conditions is expected to be smaller.

Regarding terms and conditions, banks reported a tightening impact across all forms of lending (net percentages of 4%, 5% and 4% for loans to firms, housing loans and consumer credit respectively; see Chart 21). Regarding their credit standards, banks reported a slight tightening impact of TLTRO III on housing loans and consumer credit and a broadly neutral impact for loans to firms (net percentages of 2%, 2% and 1% respectively).

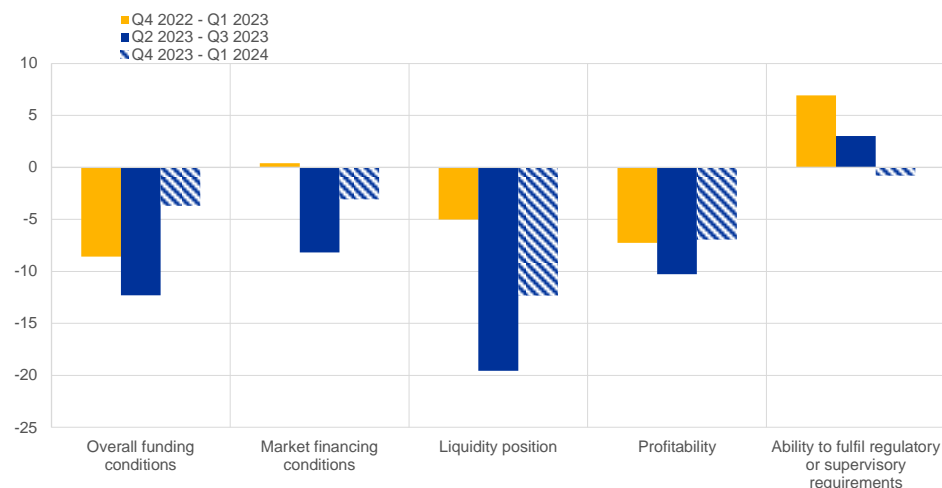
The impact of TLTRO III on bank lending volumes was slightly negative across all categories of lending (see Chart 20). Banks reported a slightly negative impact of TLTRO III for loans to firms (-2%) and consumer credit (-2%) for the first time since this question was introduced and continued to report a moderately negative impact also for housing loans (-3%).

¹⁰ The October 2023 survey questionnaire included a biannual ad hoc question on the impact of the Eurosystem's third targeted longer-term refinancing operation (TLTRO III), for which all operations took place, and which will be fully matured by December 2024. Banks were asked to consider the impact of any changes in the relative funding advantage of your banks' outstanding TLTRO III funds arising from key ECB interest rate changes and/or the TLTRO III recalibration, as well as any change in their bank's overall funding conditions due to the maturity or early repayment of TLTRO III funds.

Chart 19

Impact of TLTRO III on banks' financial situation

(net percentages of banks reporting an improvement)

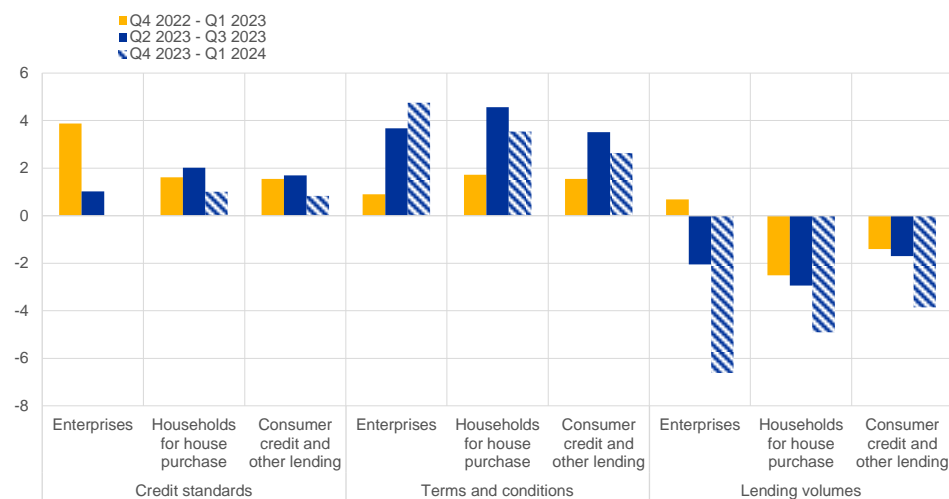


Notes: The signs for these net percentages have been inverted to show net improvements. The net percentages are defined as the difference between the sum of the percentages for "contributed considerably to an improvement" and "contributed somewhat to an improvement" and the sum of the percentages for "contributed somewhat to a deterioration" and "contributed considerably to a deterioration". "Overall funding conditions" was added in the first quarter of 2023. The last period denotes expectations indicated by banks in the current round.

Chart 20

Impact of TLTRO III on bank lending conditions and lending volumes

(net percentages of banks reporting a tightening or increase)



Notes: Net percentages are defined as the difference between the sum of the percentages for "contributed considerably to a tightening or increase" and "contributed somewhat to a tightening or increase" and the sum of the percentages for "contributed somewhat to an easing or decrease" and "contributed considerably to an easing or decrease". The last period denotes expectations indicated by banks in the current round.

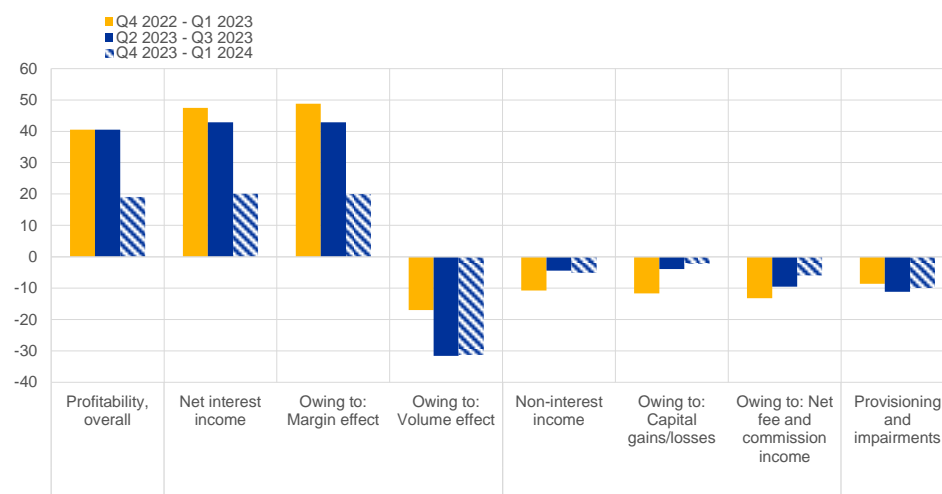
Over the next six months, euro area banks expect a similar tightening impact of the phase-out of TLTRO III on terms and conditions and a larger negative impact on loan volumes across all categories of lending. Banks also expect a broadly neutral impact on credit standards across all categories of lending.

3.4 The impact of key ECB interest rate decisions on bank profitability¹¹

Euro area banks reported a further markedly positive impact of the key ECB interest rate decisions on their net interest margins over the past six months (net percentage of 43%, after 49%; see Chart 21). Similar to the previous six months, the positive impact on bank interest margins translated into a high share of banks reporting a positive impact of the ECB rate hikes on their net interest income (43%, after 47%). At the same time, a substantial share of banks reported a negative impact of the ECB interest rate decisions on lending volumes. The net percentage was almost double that recorded in the previous six months (net percentage of 32%, after 17%), consistent with the significant weakening in lending dynamics. Banks also indicated a further dampening impact of the ECB rate hikes on profitability via higher provisioning needs and impairments over the past six months (net percentage of -11%, after -9%; see Chart 21), reflecting higher credit risks associated with a weakening impact of monetary policy tightening on economic activity and a rising interest burden of borrowers. In addition, negative impacts via capital losses and lower net fee and commission incomes became less pronounced, leading to a more moderate impact on the banks' non-interest income (net percentage of -4%, after -11%; see also Chart 21). The expansion in intermediation margins continued to result in an overall positive impact on bank profitability (41%).

Chart 21
Impact of ECB interest rate decisions on euro area bank profitability

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



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 dashed bars denote expectations indicated by banks in the current round.

Euro area banks expect a significant moderation in the positive impact of the key ECB interest rate decisions on bank profitability through net interest income and

¹¹ The October 2023 survey questionnaire included a biannual ad hoc question aimed to collect information on the impact of key ECB interest rate decisions on bank profitability over the past and next six months. Banks were asked to report on the impact on their profitability overall, as well as the impact on their net interest income, non-interest income and banks' need for provisioning and impairments.

margins over the next six months (net percentages of 19%, 20% and 20% respectively). At the same time, banks expect a similar negative impact of the ECB's interest rate decisions on volumes (net percentage of 31%). The dampening impact of the ECB interest rate hikes via non-interest income, as well as higher provisioning needs and impairments are expected to remain similar (net percentages of -5% and -10% respectively), with the latter possibly linked to an expected deterioration in credit quality over the next six months.

Annexes

See [more](#).

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