HIGHLIGHTS

- Lending conditions for corporate eased modestly in Q2 on loosening of lending standards, but are expected to tighten due to stronger demand

- Concerns about macro and borrower risks have eased, while balance sheet constraints are emerging

- Lending conditions for households remain tight for countries with relatively large house price misalignment

- Demand for SME and Households credit is expected to weaken in EM

CORPORATE

Corporate loan market conditions in 2021:Q2 eased modestly from tight to balanced, but are expected to tighten due to stronger demand. During Q2, modest easing in lending conditions was seen in most countries, as banks loosened lending standards, while demand remains fairly strong. (Chart 1.1). Demand for loans was motivated increasingly by investment rather than operational needs. (Chart 1.2) Concerns about macro and borrower risks have eased but remains the dominant supply constraints in the euro area and several EM, while concerns about capital and risk tolerance are emerging in some countries. (Chart 1.3) Lending market conditions are expected to tighten again over the coming quarter, driven mainly by strengthening demand. However, more EM are expected to see weaker demand than Q1 (Charts 1.4, 1.5 and 1.6)

For SMEs, lending conditions were balanced in AE but remained tight in several EM. Conditions are expected to tighten in AE, more so than for large corporates. In contrast, lending conditions in EM are expected to ease somewhat as demand is expected to weaken.
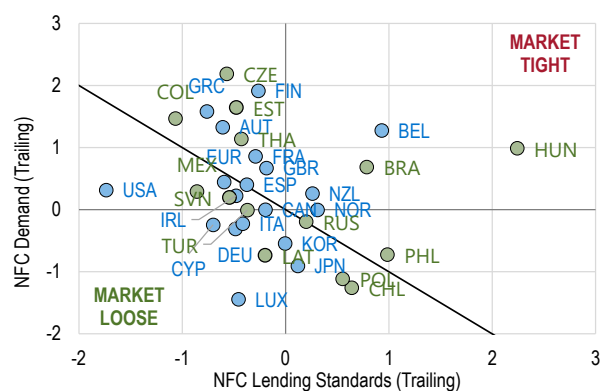
HOUSEHOLDS

Household mortgage market conditions were generally balanced in 2021:Q2, but remain tight in countries with relatively high house price misalignment. (Chart 3.1) In these countries, lending conditions are expected to tighten further. (Chart 3.1, 3.2) Lending standards are expected to tighten on the margin in AE, while demand is expected to weaken in EM. (Chart 3.3, 3.4)
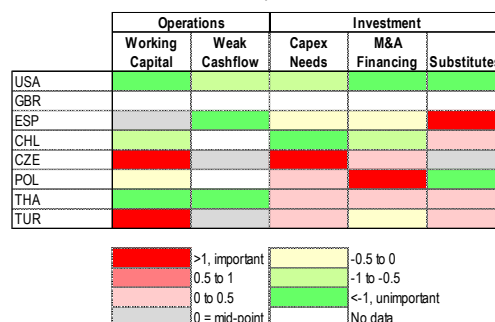
Figure 1. Non-Financial Corporate: Bank Lending Standards and Loan Demand

Corporate lending conditions improved modestly with more countries seeing loosening conditions

Working capital and investment demand increased

1. Lending Standards and Loan Demand: Trailing
(2021:Q2, standard deviations)

2. Drivers of Loan Demand
(2021:Q2, standard deviation)

	Operations		Investment		
	Working Capital	Weak Cashflow	Capex Needs	M&A Financing	Substitutes
USA					
GBR					
ESP					
CHL					
CZE					
POL					
THA					
TUR					

| | | | | |
|---|---|---|---|
| >1, important | | -0.5 to 0 | |
| 0.5 to 1 | | -1 to -0.5 | |
| 0 to 0.5 | | <-1, unimportant | |
| 0 = mid-point | | No data | |

Macro and asset quality concerns have eased, though balance sheet constraints are emerging in some countries

2. Drivers of Lending Standards
(2021:Q2, standard deviation)
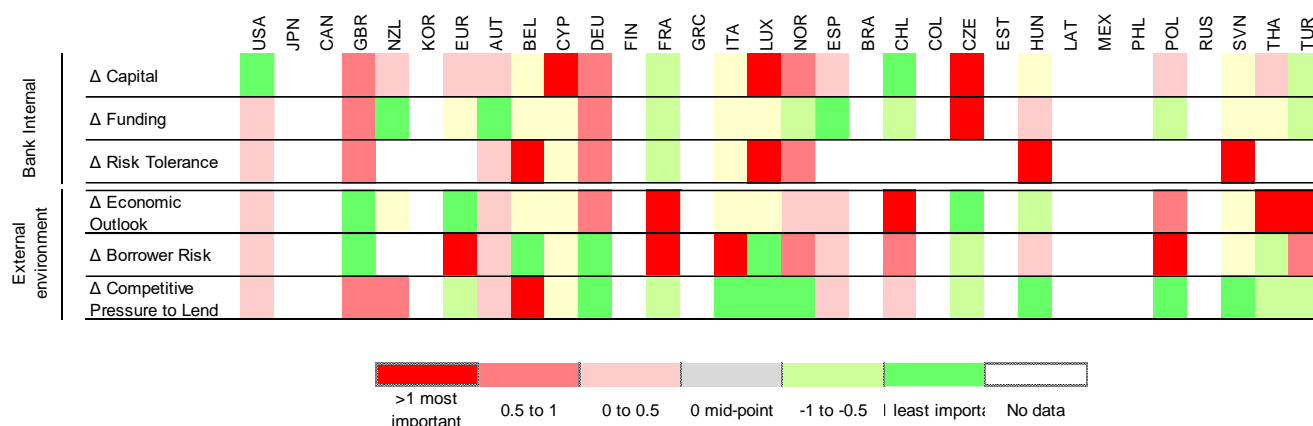
Lending conditions are expected to remain tight, mainly driven by stronger demand

4. Lending Standards and Loan Demand: Expected
(2021:Q2, standard deviation)
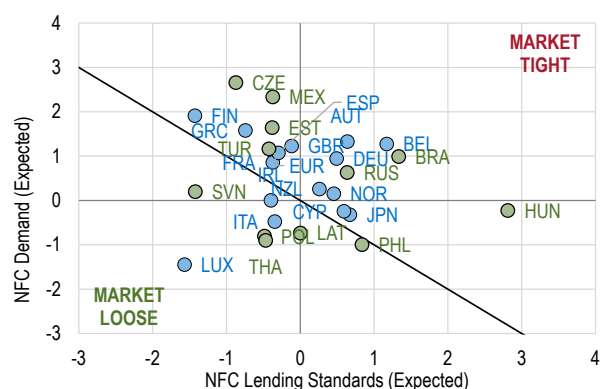
Expected changes in lending standards are slightly tilted towards tightening

5. Lending Standards: Trailing vs Expected
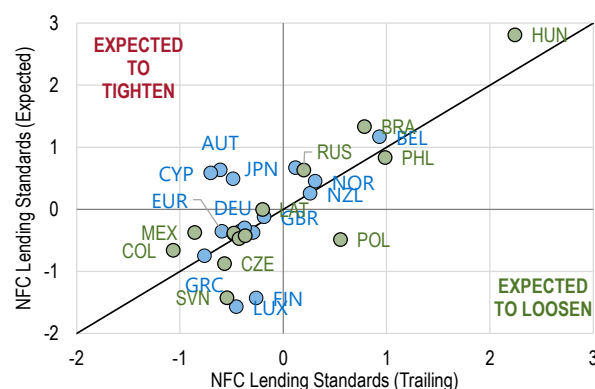(2021:Q2, standard deviation)

Figure 1. Non-Financial Corporate: Bank Lending Standards and Loan Demand

While more EM are expected to see weaker demand compared to Q1

6. Loan Demand: Trailing vs Expected
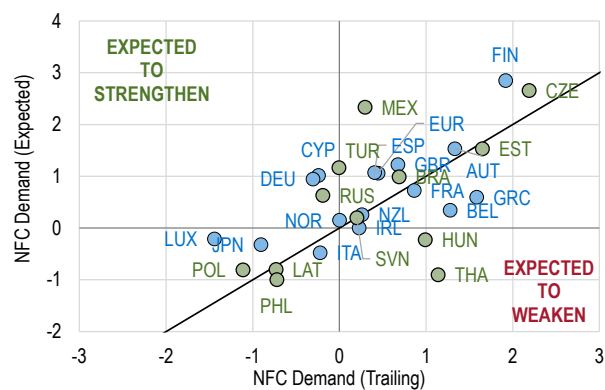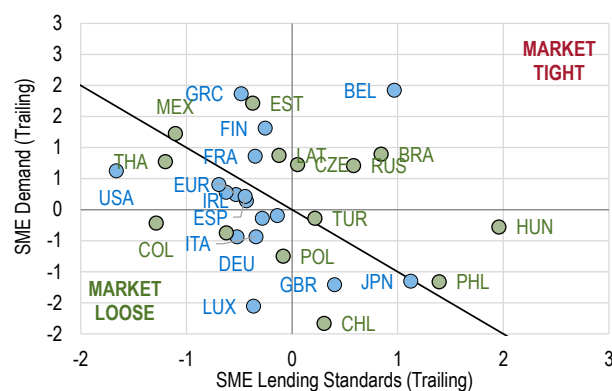(2021:Q2, standard deviation)

Figure 2. Small- and Medium-sized Corporate: Bank Lending Standards and Loan Demand
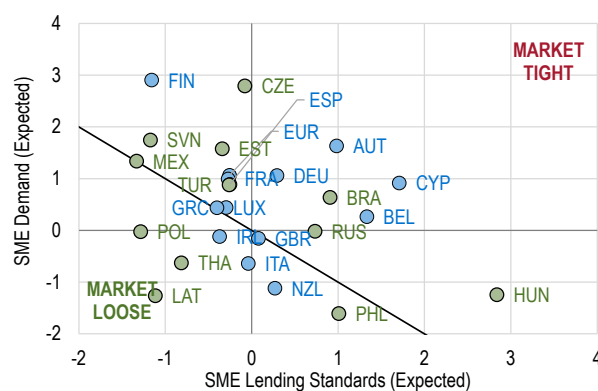
SME lending conditions are balanced for most countries, but remain tight in several EM

1. Lending Standards and Loan Demand: Trailing
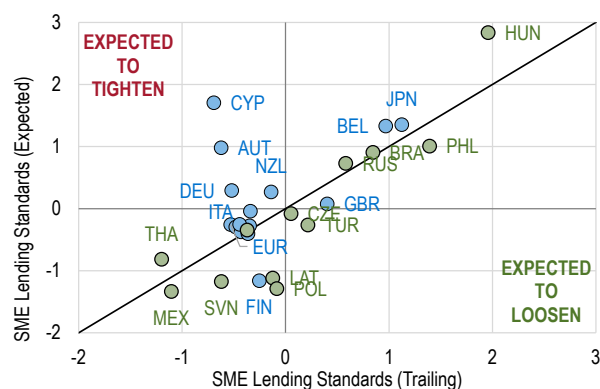 (2021:Q2, standard deviations)

Conditions are expected to tighten again in AE with stronger demand; EM were mixed

2. Lending Standards and Loan Demand: Expected
 (2021:Q2, standard deviation)

Lending standards are expected to tighten in AE but loosen in EM

3. Lending Standards: Trailing vs Expected
(2021:Q2, standard deviation)

… with demand strengthening in AE but weakening in EM

4. Loan Demand: Trailing vs Expected
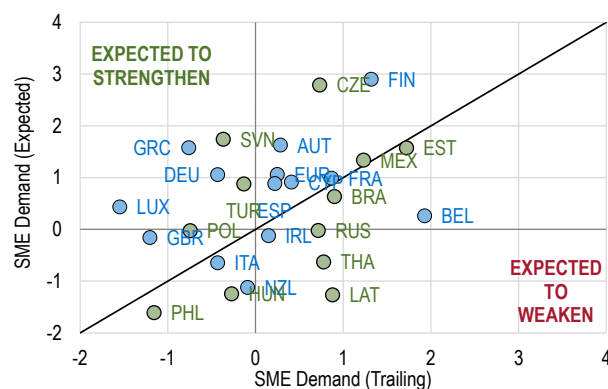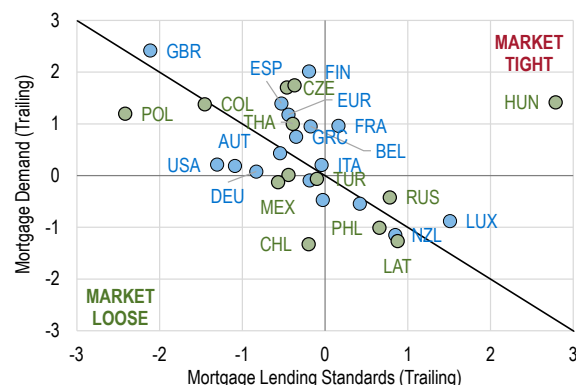(2021:Q2, standard deviation)

## Figure 3. Household Mortgages: Bank Lending Standards and Loan Demand

Mortgage lending conditions were generally balanced, but remain tight in countries with relatively high house price misalignment

In these countries, lending conditions are expected to tighten further

1. Lending Standards and Loan Demand: Trailing
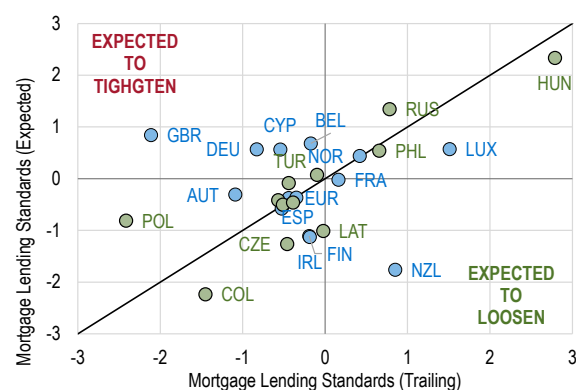 (2021:Q2, standard deviations)

2. Lending Standards and Demand: Expected
(2021:Q2, standard deviation)
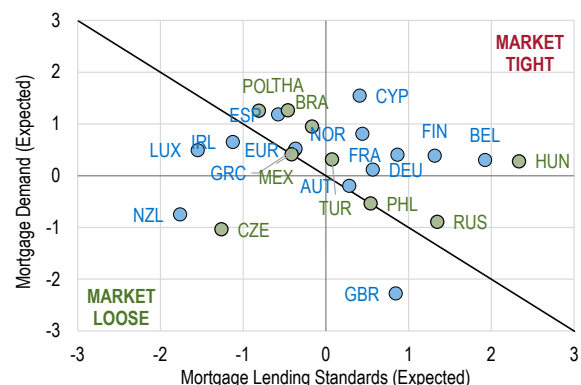
Expected lending standards are skewed towards tightening in AE and relatively stable in EM

Demand is expected to weaken in EM

3. Lending Standards: Trailing vs Expected
(2021:Q2, standard deviation)

4. Loan Demand: Trailing vs Expected
(2021:Q2, standard deviation)
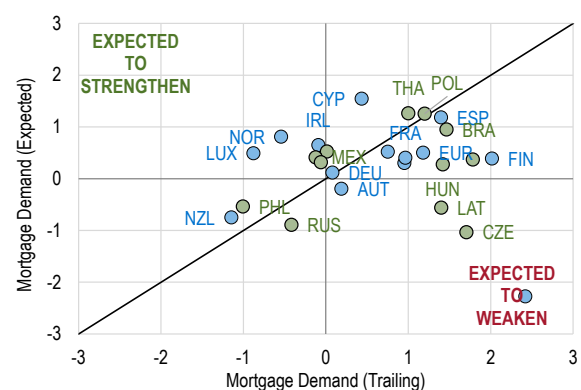
METHODOLOGY

This Lending Surveys Monitor is based on surveys of loan officers conducted by 33 banking supervisors spanning 18 advanced economies plus the euro area and 14 developing economies. The core analysis for each product segment shows lending officers' view of changes in bank lending standards and borrower demand. Each data point represents each jurisdiction's conditions over the most recent reporting period (typically the past quarter), expressed as a standard deviation from its historical average. Lending standards (treated as a proxy for 'supply') and demand are presented on separate axes; and countries' positions relative to a diagonal line reflects market conditions ('tight' or 'loose') as a balance between them. For example, market conditions are assessed to be tightening if demand has risen more sharply than bank lending standards have loosened. Some countries estimate the short-term (three-month) outlook for changes in lending standards and demand, and the Monitor combines this information to project future market conditions. Many surveys also query bankers' opinions regarding the drivers of lending standards and demand. This information, typically expressed on a scale of importance, is shown as heat maps comparing relative importance across drivers rather than relative to historical standards.

Lending standards and loan demand, both trailing and expected, and measures of credit standards are expressed as each country's most recent reading in standard deviations from the "neutral" mid-point of its measurement scale. This approach is intended for normalize for differences in reporting scales and to facilitate comparison of countries' tightness or strength relative to their own historical conditions and bank reporting practices. Most countries present scores on a scale from -100 to +100, and therefore a mid-point of 0; in a few, the scale ranges from 1 to 5, for a mid-point of 3. Standard deviation metrics are based on each country's historical time series, which differ in starting point but generally extend back to before the Global Financial Crisis.

These charts therefore should not be interpreted as comparing countries' lending standards or demand conditions in absolute terms, but rather which countries' readings are tighter or stronger relative to their own historical conditions.

The *drivers* of lending standards and of demand are measured differently and should be interpreted accordingly. Countries generally measure drivers on a scale of importance rather than change over time, so we interpret the scores as comparing drivers at a point in time more than the importance of a particular driver today relative to that driver's historical standards. Therefore, rather than comparing most recent scores relative to their own histories, we compare them with one another, expressing each in standard deviations relative to the average across all drivers at the same point in time.

Countries differ in the range of conditions reported. All report tightening or loosening of standards for lending to non-financial corporates, but some do not break out conditions for loans to small- and medium-sized enterprises. All countries report trailing (current) conditions, but only a subset present loan officers' expectations of changes in underwriting standards or demand over the next quarter. Finally, some but not all countries present loan officers' assessment of the importance of several drivers of underwriting standards and demand.

To deliver standardized results with minimal loss of information, this Monitor presents all countries that report each data point. Countries missing either data-point of a two-axis scatter diagram, or where both items are reported as zero, are excluded; but data pairs where one item is reported as zero (or other neutral mid-point) are included. For causal driver 'heat maps', countries are included even if they do not present a complete set of drivers. Using this approach, the set of countries included differs somewhat across analyses.