Rome, 2 May 2023

The Euro Area Bank Lending Survey

MAIN RESULTS FOR ITALIAN BANKS[1]

Q1 2023 and outlook for Q2 2023

In the first quarter of 2023, credit standards for loans to firms tightened further. As during 2022, this was attributable to a greater perception of risk and a lower risk tolerance (Figure 1.a). These two factors, together with bank funding costs and balance sheet constraints, contributed to a tightening of the general terms and conditions applied to loans. **Credit standards for loans to households for house purchase became slightly more stringent**, while those for consumer credit remained unchanged. The terms and conditions for these loans tightened, reflecting higher funding costs and balance sheet constraints. For the current quarter, banks expect credit standards for loans to non-financial corporations to tighten but those for loans to households to remain stable.

Demand for credit by firms went down, reflecting the fall in fixed investment and the generally higher interest rates (Figure 1.b); demand for inventories and working capital continues to have a positive impact. **Demand for loans to households for house purchase decreased**, while that for consumer credit remained unchanged; in both cases, higher interest rates and lower consumer confidence continue to have a negative impact. In the current quarter, loan applications from firms and households are expected to decrease further.

Banks' funding conditions worsened across all components, including short-term deposits. Banks expect conditions to worsen further during the current quarter.

In the six months ending in March 2023, the changes in the ECB's monetary policy asset portfolio had a negative impact on banks' funding conditions, liquidity and total assets. While the changes in the asset portfolio did not affect credit standards, they contributed to the tightening of the terms and conditions recorded for all types of loans.

Over the past six months, **longer-term refinancing operations (TLTRO III), which are currently in the process of being repaid, contributed to the deterioration of banks' financial situation for the first time.** Overall, refinancing operations did not play a part in the changes in credit standards, terms and conditions, and volumes; however, banks expect that they will have a negative impact in the next six months.

The decisions on the key ECB interest rates had a positive effect on banks' total profitability, almost entirely attributable to the increase in net interest income.

---

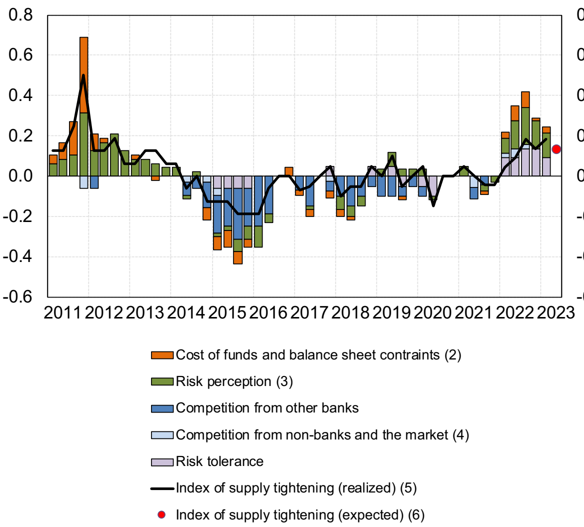
[1] Thirteen of the main Italian banking groups took part in the survey, which ended on 6 April. For a detailed description of the various items, see the questionnaire administered to banks.
The results for the euro area are available on the ECB's website (www.ecb.europa.eu).

Supply conditions and trends in credit demand in Italy (1)

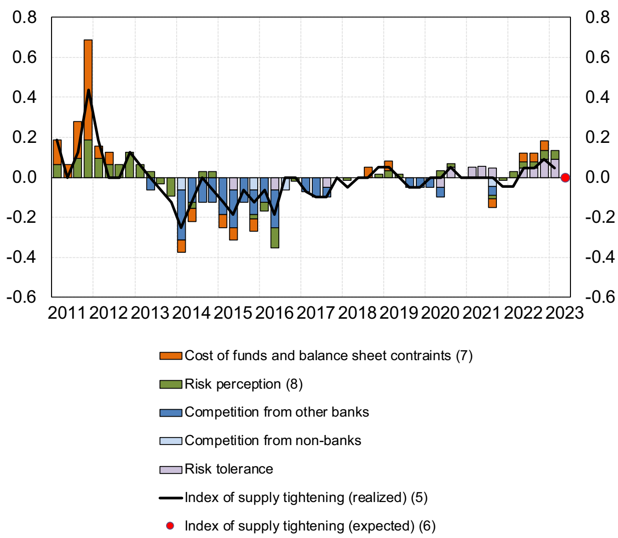
(a) Credit supply

Tightening (+)/easing (-)

Firms



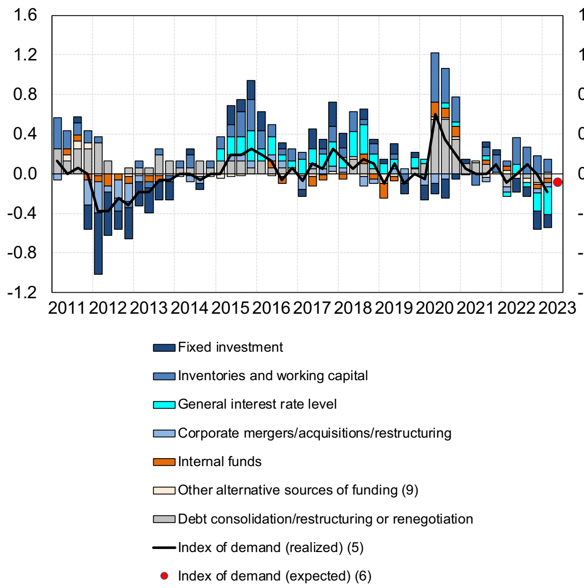
Households for house purchase



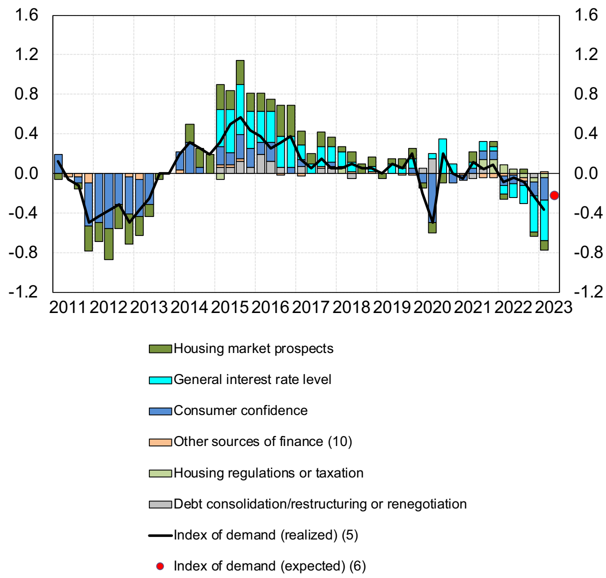
(b) Credit demand

Expansion (+)/restriction (-)

Firms



Households for house purchase



Note: (1) For the general indices, positive values indicate supply restriction/demand expansion compared with the previous quarter; for the factors, positive values indicate a contribution to supply restriction/demand expansion compared with the previous quarter. The diffusion indices are constructed on the basis of the following weighting scheme: for supply conditions, 1=tightened considerably, 0.5=tightened somewhat, 0=basically unchanged, -0.5=decreased somewhat, -1=decreased considerably; for demand, 1=increased considerably, 0.5=increased somewhat, 0=basically unchanged, -0.5=decreased somewhat,-1=decreased considerably. The range of variation of the index is from -1 to 1. – (2) Average of the following factors: bank's capital position; bank's ability to access market financing; and bank's liquidity position. – (3) Average of the following factors: general economic situation and outlook; industry- or firm-specific situation and outlook; and risks associated with collateral. – (4) Average of the following factors: competition from non-banks and competition from other financing sources. – (5) Refers to the quarter ending at the time of the survey. – (6) Forecasts prepared in the previous quarter. – (7) Since April 2022, average of the following factors: bank's capital position; bank's ability to access market financing; and bank's liquidity position. – (8) Average of the following factors: general economic situation and outlook; housing market prospects; and borrowers' creditworthiness. – (9) Average of the following factors: loans granted by other banks; loans granted by non-banks; issues/redemptions of debt securities; and issues/redemptions of equity. – (10) Average of the following factors: self-financing of house purchase with savings; loans granted by other banks; and other sources of external funding.