BANCA D'ITALIA
EUROSISTEMA

Rome, 24 October 2023

The Euro Area Bank Lending Survey

MAIN RESULTS FOR ITALIAN BANKS[1]

Q3 2023 and outlook for Q4 2023

In the third quarter of 2023, credit standards on loans to firms tightened further, still reflecting lower risk tolerance and higher risk perception (Figure 1.a). These factors also contributed to the **tightening of the overall terms and conditions on business lending**, which was partly mitigated by the reduction in banks' margins, especially on less risky loans, as a result of increasing competitive pressures. **Credit standards on loans to households for house purchase remained unchanged**, while those on consumer credit were tightened. **Terms and conditions were tightened on both categories of loans**, despite the increased competitive pressure. For the current quarter, banks expect credit standards on loans to non-financial corporations to remain unchanged and those on loans to households to tighten.

Firms' demand for loans declined further, mainly owing to higher interest rates, lower borrowing for expenditure on fixed investment, and greater use of internal financing (Figure 1.b). **Households' demand for both home mortgages and consumer credit declined**; in both cases, higher interest rates and lower consumer confidence continued to have a negative impact. In the current quarter, loan demand from firms and households is expected to decrease further.

The conditions for banks to access funding worsened, especially for short-term deposits. Banks expect a further deterioration during the current quarter.

In the six months ending in September 2023, the reduction in the ECB's monetary policy asset portfolio had a negative impact on banks' funding conditions, liquidity and total assets, while it did not significantly affect banks' credit standards, terms and conditions, and lending volumes for the various categories of loans.

Longer-term refinancing operations (TLTRO III), which are currently in the process of being repaid, contributed to the deterioration of banks' financial situation. This effect is expected to continue over the next six months. Conversely, TLTRO III did not contribute significantly to the changes in credit standards, terms and conditions, and lending volumes.

The increases in the key ECB interest rates had a positive impact on banks' total profitability as a result of higher net interest income. Over the next six months, this effect is expected to diminish owing to a smaller impact on margins and higher provisions and impairments by banks.

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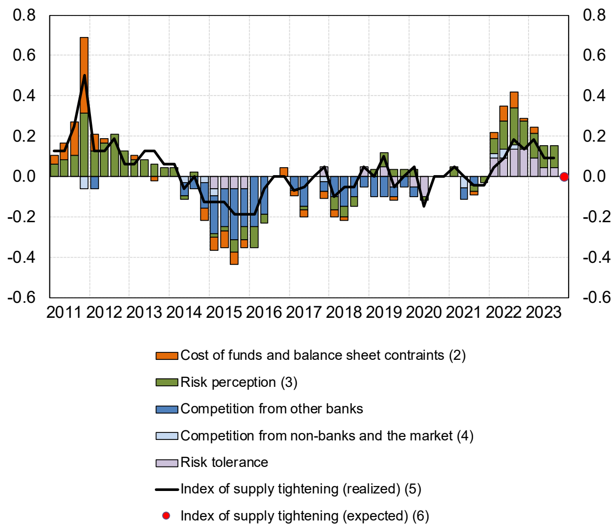
1 Thirteen of the main Italian banking groups took part in the survey, which ended on 2 October. For a detailed description of the various items, see the questionnaire administered to banks.
The results for the euro area are available on the ECB's website (www.ecb.europa.eu).

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

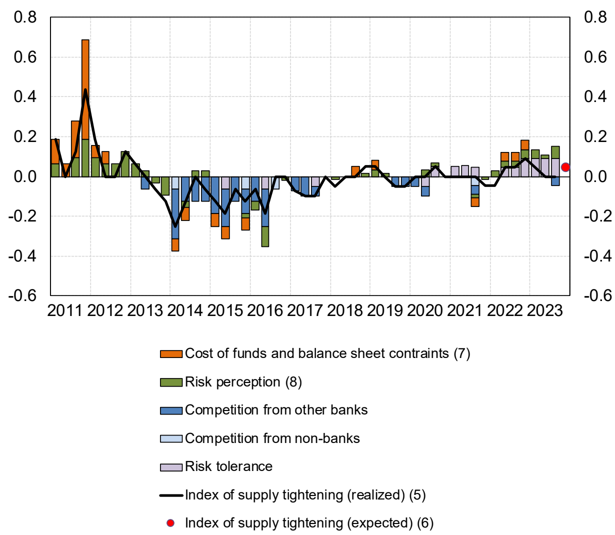
(a) Credit supply

Tightening (+)/easing (-)

Firms



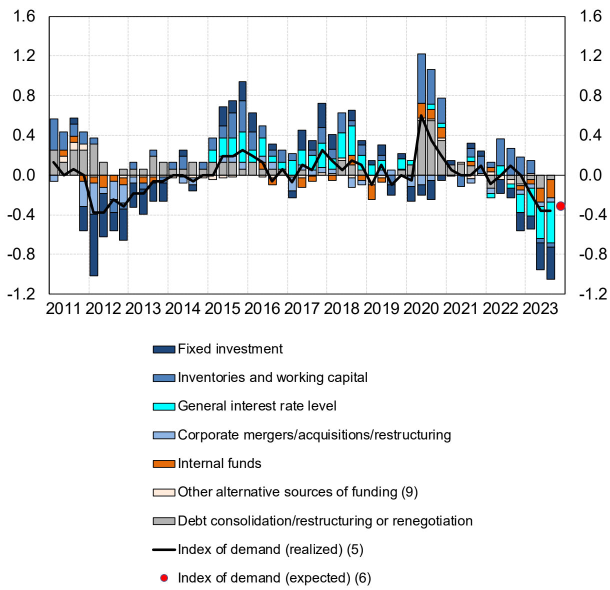
Households for house purchase



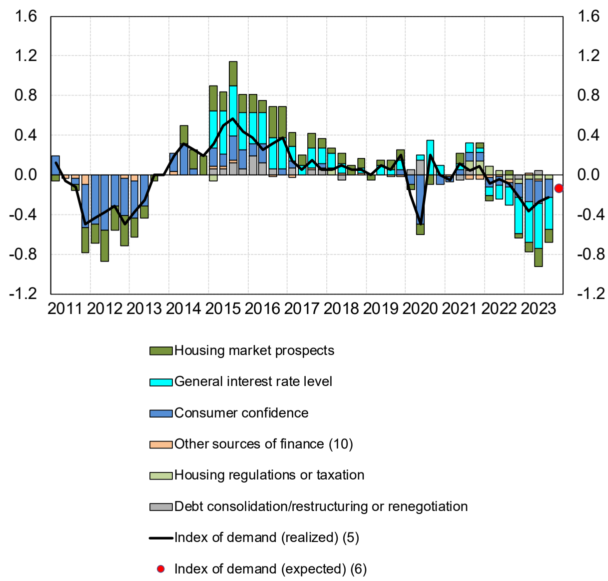
(b) Credit demand

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.