

## **SURVEY OF CREDIT CONDITIONS**

A consultation document by the Bank of England

### Summary

1. The Bank of England is planning to introduce a regular survey of UK loan market conditions, to support its analysis of monetary conditions and financial stability. The exercise will be on the lines of those carried out by the Federal Reserve Board, the ECB, and the Bank of Japan: it will be conducted quarterly, and aggregate results will be published. The Bank is consulting on the overall proposals and on the detailed design of the exercise, and welcomes input from all interested parties. Views should be sent to the Bank by October 13<sup>th</sup> 2006.

### Introduction

2. Results from this survey will be presented to the Monetary Policy Committee. The information may sometimes also be a useful input to the Bank's second core purpose of contributing to the maintenance of the stability of the financial system as a whole.

3. For both these purposes, the Bank needs to understand trends and developments in the growth of credit and the terms on which it is provided. These trends are important influences on household and business behaviour, and hence on the overall economic outlook. They also provide part of the context for an assessment of systemic risks. The Bank therefore monitors a wide range of data on lending and borrowing. In addition, for some years Bank staff have conducted twice-yearly bilateral meetings with the largest UK banks and building societies. These meetings are confidential, but broad conclusions from them, along with other market intelligence, may be drawn on by policymakers and so reflected in the MPC Minutes, the *Inflation Report* and the *Financial Stability Report*.

4. The Bank has been reviewing how it conducts this exercise in the light of the experience of other central banks. The Federal Reserve (since 1967), and more recently the ECB (since 2003) and the Bank of Japan (since 2000), all conduct formal surveys of current bank lending behaviour, encompassing a wide range of different

lenders in their countries. Each of these surveys is conducted quarterly. Aggregated responses are published.<sup>1</sup> Published research suggests that the quantitative “credit conditions” scores derived from the Fed survey have some predictive power for both US bank lending growth and output.

### Proposals

5. Subject to this consultation, the Bank has concluded that several benefits would follow from conducting a more public regular survey, on the lines of those carried out by the Fed, the ECB and the Bank of Japan, and from publishing a summary of the results. Given a wider group of participating lenders, the exercise will produce better quality information, enhancing the Bank’s quantitative analysis of monetary and credit conditions. The survey would be targeted at institutions which originate loans, rather than to the wider range of financial institutions which hold corporate liabilities as part of their trading and investment business. As well as feeding into the Bank’s own analysis, the published information should be directly useful to both market participants and economists more widely. By publishing the results, the Bank would also make available more of the inputs to its analysis and policy decisions, and thereby further improve the transparency of monetary policy.

6. The Bank proposes that the survey should have the following features:

- Quarterly: timed to feed into the Bank’s *Inflation Report* forecast rounds.
- Qualitative: typically a judgement as to whether, for example, lending terms had eased or tightened or were broadly unchanged, and the factors underlying those developments.
- Standard questionnaire but, in addition, from time to time the Bank would expect to raise individual questions of current interest on a one-off basis.
- Summary results would be published with short factual commentary on the internet and, as appropriate, in the Quarterly Bulletin, on similar lines to those

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<sup>1</sup> See: *Senior Loan Officer Opinion Survey on Bank Lending Practices*, Federal Reserve Board, available from <http://www.federalreserve.gov/boarddocs/SnLoanSurvey/>; *The euro area bank lending survey*, ECB, available from <http://www.ecb.int/stats/money/lend/html/index.en.html> and *Senior Loan Officer Opinion Survey on Bank Lending Practices at Large Japanese Banks* [http://www.boj.or.jp/en/type/stat/boj\\_stat/loos/index.htm](http://www.boj.or.jp/en/type/stat/boj_stat/loos/index.htm)

of the Fed, the ECB, and the Bank of Japan.

7. There would be separate questionnaires for: secured lending to households and small businesses; unsecured lending to households and small businesses; and corporate lending (including wholesale market lending).

8. In constructing the survey, the Bank's aims are that the sample should capture all the lenders which make a material contribution to current developments in each market; and that it should receive sufficient responses to protect the confidentiality of individual responses; while avoiding an unnecessary reporting burden on smaller lending institutions. In broad terms, the sample would include lenders (banks, building societies and other specialist lenders) with an estimated share of more than 1% of gross lending flows in any one of the three markets surveyed, calculated over a twelve-month period. Preliminary calculations suggest that between 10 and 20 lenders in each of the three markets would be invited to participate. Around 30 lenders would be involved in at least one of the three surveys.

9. Participation in these surveys will be voluntary, but the Bank would greatly value the widest possible participation among those invited to do so. The Bank plans to review the sample annually. Individual information will be treated in confidence. This information may be shared with the Financial Services Authority.

10. The Bank plans to maintain the regular discussions with the largest bank and building society lenders referred to in paragraph 3, as part of its continuing market intelligence.

### Next Steps

11. Prospective participants in the survey and market representative bodies are being consulted on these proposals and the details of their implementation. Drafts of the questionnaires are available on the Bank's website<sup>2</sup>; and in the light of the current consultation, the Bank plans to distribute guidance notes to facilitate their completion in due course. No start date for the new survey has yet been fixed. But the Bank intends to publish the results of the first and second rounds of the survey simultaneously so as to facilitate interpretation of these initial results.

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<sup>2</sup> <http://www.bankofengland.co.uk/publications/other/monetary.htm>

Issues for consultation

12. The Bank would welcome written comments on these proposals and in particular on the following questions.

**(a) General**

**Do you support the broad approach being proposed?**

**(b) Specific**

**In relation to the draft questionnaires:**

- **Will it be feasible to complete these questionnaires each quarter, as happens in other countries?**
- **Responses to most of the questions are solicited in the form “up”, “down”, “same” (three categories). An alternative would be to have five categories, adding “up a lot”, “up a little” etc. Which approach would be preferable?**
- **Are there any other detailed comments on the draft questionnaires?**
- **Is the distinction between ‘large’ and ‘other’ corporates best defined by turnover or access to capital markets?**
- **Is it agreed that the smallest businesses are best covered as part of unsecured and secured household lending? How can they be defined in a consistent way across lenders?**
- **Would it be helpful for respondents to receive multiple copies of any of these questionnaires, where more than one business unit contributes to the total?**
- **The questionnaire will be circulated in the form of an Excel spreadsheet. It will be distributed as an attachment either via e-mail or through Bloomberg Messaging. Which would be preferable?**

Anyone wishing to comment should write by 13<sup>th</sup> October 2006 to:

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