CREDIT CONSTRAINT PERCEPTION INDICATOR, MAY 2014

METHODOLOGICAL NOTE

In order to assess entrepreneurs' perception of borrowing conditions, two qualitative questions on the subject were introduced back in 2002 in the National Bank of Belgium's autumn survey on investment conducted among companies.

The first question concerns the general satisfaction among entrepreneurs with the credit conditions being applied when the survey was conducted:
"Do you hold the conditions on which you can apply for a loan with the banks at present to be: favourable, neutral or unfavourable?"

The second question focuses more specifically on the detailed changes in the various credit access conditions during the quarter preceding the survey: interest rates, other costs, credit volume and the guarantees required (better, unchanged or less favourable).

The inclusion of these two questions in the autumn investment survey was aimed to supplement the supply-side angle of credit conditions, i.e. the credit institutions' perspective, as reflected through the European System of Central Banks (ESCB) Bank Lending Survey[1], with the demand-side angle, from the business sector's perspective.

In the aftermath of the financial crisis in 2008 and in view of the fact that credit conditions may change quickly, the decision was taken in 2009 to ensure information about firms' perception of credit conditions are reported more frequently. The questions asked once a year via the autumn investment survey then gave rise to a specific quarterly survey, which is timed to coincide with the ESCB Bank Lending Survey.

The findings of the quarterly credit conditions survey conducted among firms are featured and commented upon in the quarterly press releases issued by the Observatory for Credit to non-financial corporations, as with the Belgian findings of the ESCB Bank Lending Survey (http://www.nbb.be/doc/DQ/BLS/en/BLS_home.htm).

Since February 2014, the National Bank of Belgium has also published a new summary indicator based on the quarterly credit conditions survey findings. This new credit constraint perception indicator shows the proportion of firms' unfavourable assessments of the *current* credit conditions.

[1] Launched by the National Bank of Belgium in late 2002, at the initiative of the European Central, Bank, the qualitative Bank Lending Survey reflects credit condition trends from the supply-side perspective and is thus focused solely on credit institutions (http://www.nbb.be/doc/DQ/BLS/en/BLS_home.htm).

In terms of statistical properties, this appears to be more relevant than an indicator showing the level of favourable assessments or the balance between favourable and unfavourable assessments. The new indicator is also easy to interpret, as growth in the indicator reflects the corporate sector's view that credit conditions are tightening and vice versa. Lastly, it follows the same methodological approach as the credit constraint indicator which the German IFO Institute for Economic Research has been publishing every month since 2003.

The credit constraint perception indicator, not seasonally adjusted, has been available on a quarterly basis since January 2009. It is determined by a weighted average, based on the total of all debts owed to credit institutions, of the “unfavourable” assessments reported from manufacturing industry, business services and the construction sector. The total volume of debt owed to credit institutions is derived from items 173 and 430/8 of the Central Balance Sheet Office. In order to link the total outstanding loans contracted with credit institutions to the branches of activity in which firms have their main activity, holding companies have been left out. Their activities are in fact included in business-related services (NACE-Bel 70) but concern firms active in other branches. Balance sheet data are available two years after the beginning of the reference year. The weightings for the different branches of activity are adjusted on an annual basis by smoothing them out over four periods with the following smoothing coefficients: 75%-25%, 50%-50%, 25%-75% and 0%-100% respectively for the previous year’s weightings and those for the new year for which figures are available. Thus, in January 2014, the latest data available relate to the year 2012. In 2012, business-related services’ share of total debt held with credit institutions was 46.9%, while for the manufacturing industry it was 43.6% and for the building industry 9.5%. Back in 2011, these proportions came to 47.5%, 42.9% and 9.6% respectively. Taking account of the smoothing exercise, business-related services’ share in the global indicator was 47.4%, that of the manufacturing industry 43% and the building industry’s share stood at 9.6% in January 2014. In April this year, the weighting was changed to 47.2% for business-related services, 43.2% for manufacturing and 9.6% for construction, with a view to getting back to the 2012 weightings by October 2014.

Apart from branch of activity, this indicator is also broken down by size of firm: small (1-49 employees), medium-sized (50-249 employees), large (250-499 employees) and very large firms (500 employees and more).

The credit constraint perception indicator is reported in a quarterly press release, integrated into the business barometer press releases for February, May, August and November, and thus focuses on the preceding month.