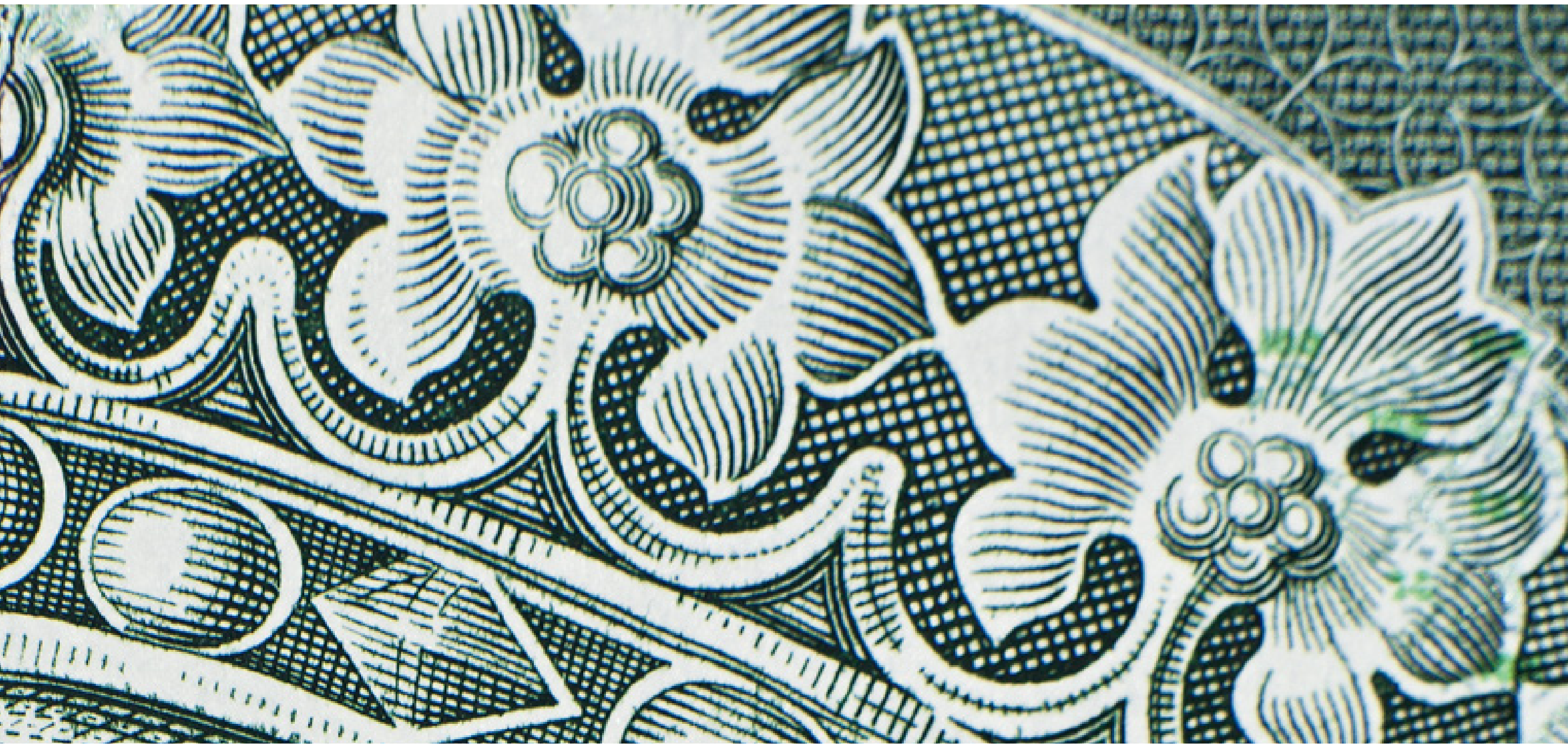
NBP Narodowy Bank Polski

Senior loan officer opinion survey

on bank lending practices and credit conditions

1st quarter 2021



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Financial Stability Department
Warsaw, January 2021

Summary of the survey results

In the fourth quarter of 2020 banks changed the level of restrictiveness of the standards of lending to the non-financial sector to a small extent and tightened certain terms on, primarily, corporate loans. Banks' lending policy was impacted by the resurgence of the COVID-19 pandemic and the related increase in business restrictions and a risk of deterioration of the Polish economy. Contrary to banks' earlier optimistic expectations, these factors also contributed to a fall in demand for all categories of credit, mostly for consumer loans and loans to the sector of small and medium-sized enterprises (SMEs). Attention is drawn to the big differences in demand for housing loans and long-term loans to large enterprises reported by individual banks, which translates into relatively modest net effects in the whole sector.

Banks expect lending policy in the segment of housing loans and the SME sector to be eased in the first quarter of 2021. They also expect it to be tightened modestly in the segment of consumer loans and keep the standards unchanged for large enterprises. A modest rise in loan demand is also expected, and in the case of housing loans the rise is expected to be significant.

Corporate loans

Lending policy: no noticeable changes in lending policy towards large enterprises and a varied approach towards the SME sector, prompted mainly by the worsening economic situation, including worse economic conditions of industries sensitive to the impact of the pandemic. An increase in the credit spread and the loan collateral requirements.

Demand for loans: a further fall in demand, especially from the SME sector, mainly driven by the lower financing needs for fixed investment and working capital amid simultaneously higher financing needs for restructuring.

Expectations for the first quarter of 2021: an easing of lending policy towards the SME sector and no changes towards large enterprises. A rise in demand in all segments of corporate loans, except for long-term loans to large enterprises (no change).

Housing loans

Lending policy: an easing of lending standards; a change in certain lending terms by, among others, raising the credit spread and the spread on riskier loans.

Demand for loans: a fall in demand on the back, among others, of the worse financial standing of households.

Expectations for the first quarter of 2021: an easing of lending standards continues and a significant increase in demand.

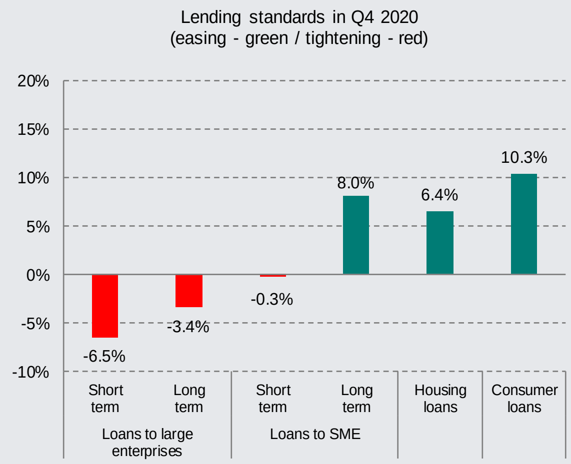
Consumer loans

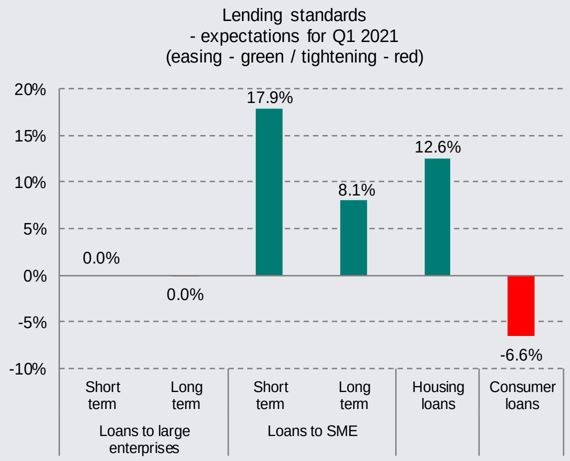
Lending policy: an easing of lending standards (for the first time since the first quarter of 2019) as lending policies of individual banks vary considerably; certain lending terms changed, including among others, an increase in the maximum loan size, but also a higher credit spread.

Demand for loans: a fall in demand in the vast majority of banks, caused mainly by the risk of deterioration of the financial standing of households and lower financing needs for the purchase of durable goods.

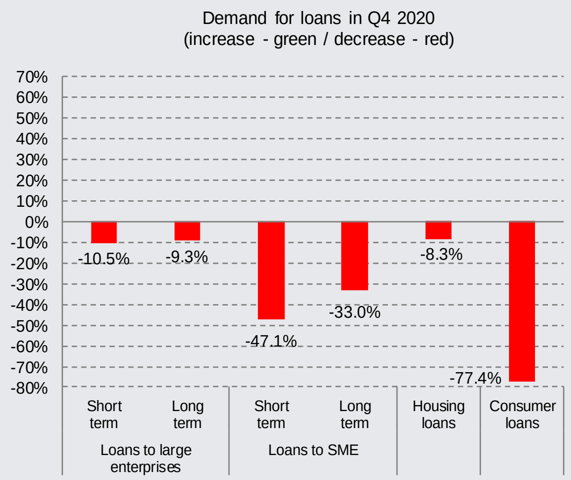
Expectations for the first quarter of 2021: lending policy tightened somewhat and a rise in demand.

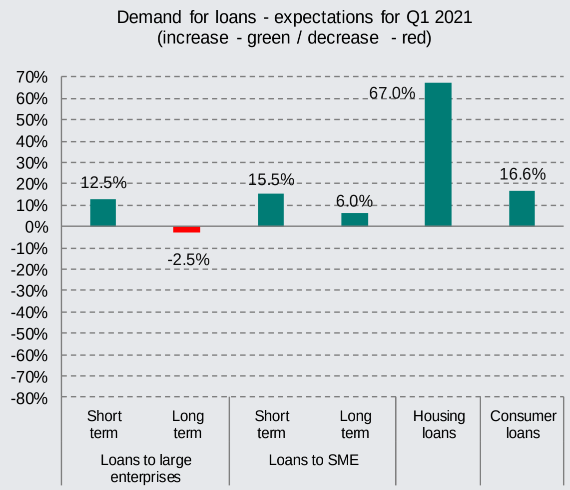
Lending standards





Demand for loans





Introduction

The objective of the survey is to define the direction of changes in lending policy, i.e. standards and terms on loans as well as changes in demand for loans in the Polish banking system. Credit standards are understood as minimum standards of creditworthiness, set by banks, that the borrower is required to meet to obtain a loan. Terms on loans are the features of the loan agreement between the bank and the borrower, including spread, non-interest loan costs, maximum loan size, collateral requirements and maximum loan maturity.

The survey is addressed to the chairpersons of banks' credit committees. Banks' responses may not take account of the opinions of banks' divisions other than the credit divisions. The survey was conducted in early January 2021 among 24 banks with a total share of approx. 89% in loans to enterprises and households in the banking sector's portfolio.

The aggregation of data behind the results consisted in the calculation of weighted percentages of responses and the net percentage, i.e. the difference between the structures presenting opposite trends. In line with the adopted methodology, words describing quantities (majority, half, considerable, significant, percentage of the banks, etc.) refer to weighted percentages and not to the number of banks. Thus, the phrase "the majority of banks" should be understood as "the asset-weighted majority of banks". Details of the calculation methodology are presented in Appendix 1.

The survey results are presented in the form of structures, i.e. the percentages of banks which chose a given option in response to particular questions. The banks' responses to all questions are weighted with the share of the given bank in the market segment to which a given question relates.

Unless otherwise indicated, the number of the banks cited in the text reporting a given change in their lending policies or in demand for loans means the net percentage of the banks.

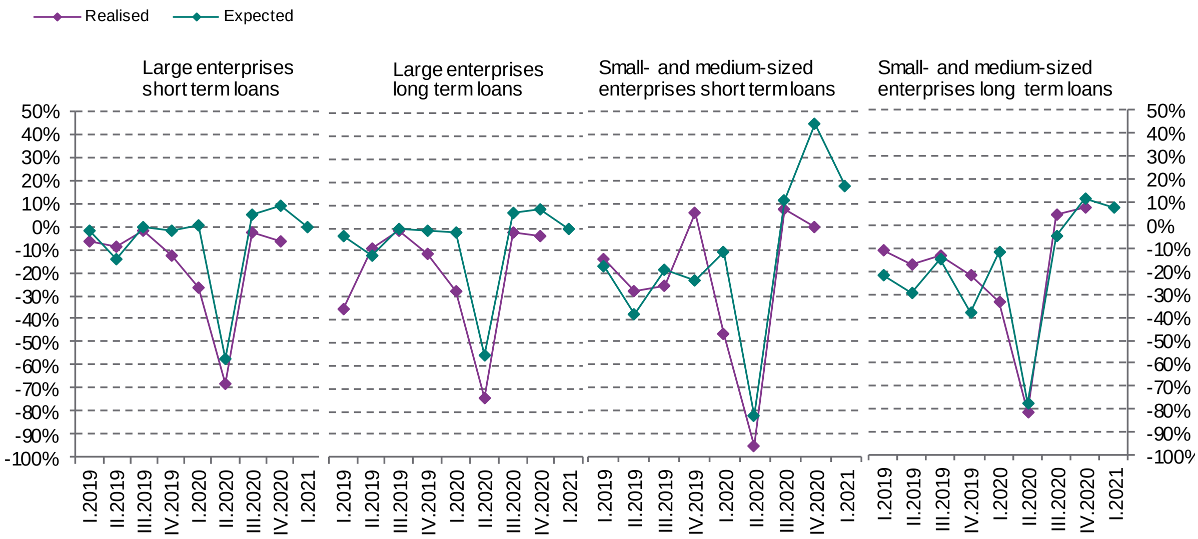
The next section presents tendencies regarding the banks' lending policy and changes in demand in the fourth quarter of 2020 as well as their expectations for the first quarter of 2021.

Corporate loans

In the fourth quarter of 2020, the vast majority of the survey-participating banks again did not change considerably credit standards on short-term and long-term loans to large enterprises (net percentage of -7% and -3%, respectively, see Figure 1).

In the segment of credit to SMEs, banks' lending policy directions varied (around ¼ of the survey-responding banks eased and ¼ tightened their lending standards)**. The net effect was that banks somewhat eased their requirements for borrowers applying for long-term loans** (around 8%) **and that there were no changes for borrowers applying for short-term loans.**

Figure 1. Credit standards on corporate loans



Note: Figures included in this study present the net percentage. A positive value of net percentage should be interpreted as an easing of lending policy or a growth in loan demand, while a negative value of net percentage should be interpreted as a lending policy tightening or a drop in loan demand. Details concerning the calculation methodology are presented in Appendix 1.

A relatively modest change in lending standards was accompanied by a tightening of the majority of terms on corporate loans included in the survey (see Figure 2). Banks raised, among others, credit spread (-21%) and spread on riskier loans (-45%) and increased the loan collateral requirements (-19%) as well as non-interest loan costs (-13%).

Figure 2. Terms on corporate loans

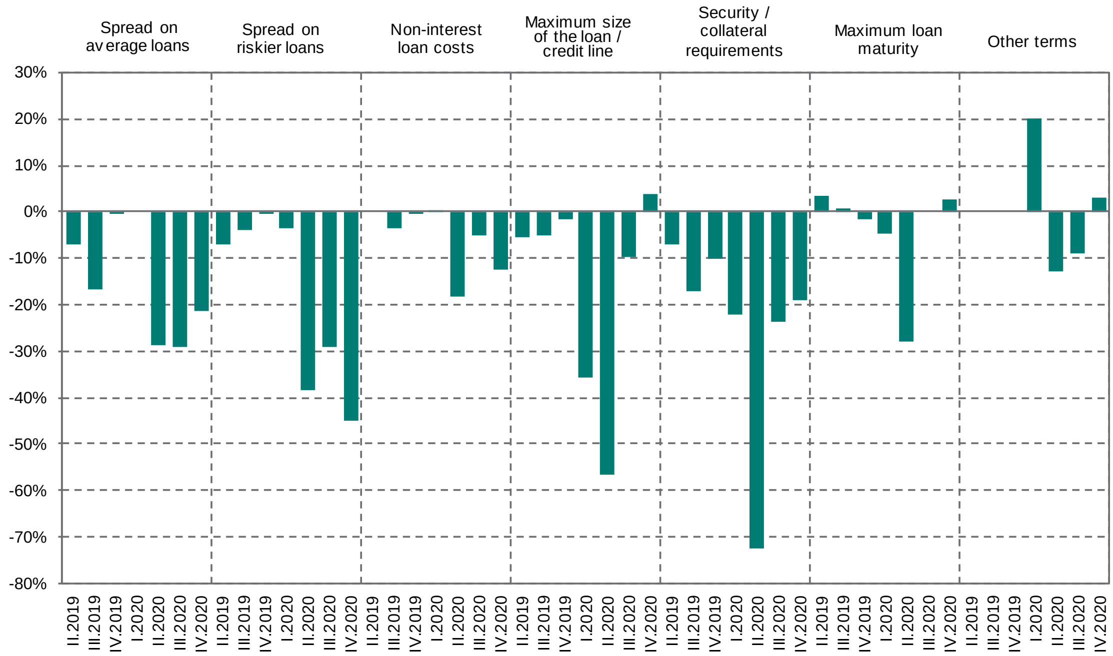
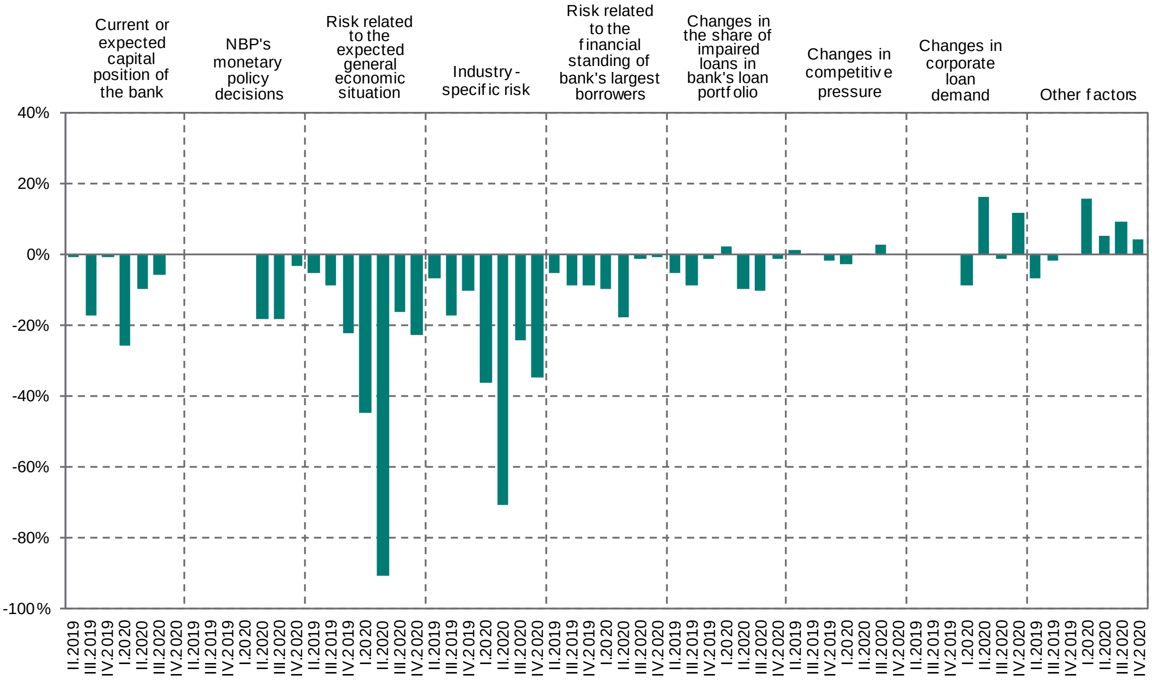


Figure 3. Factors influencing changes in lending policy

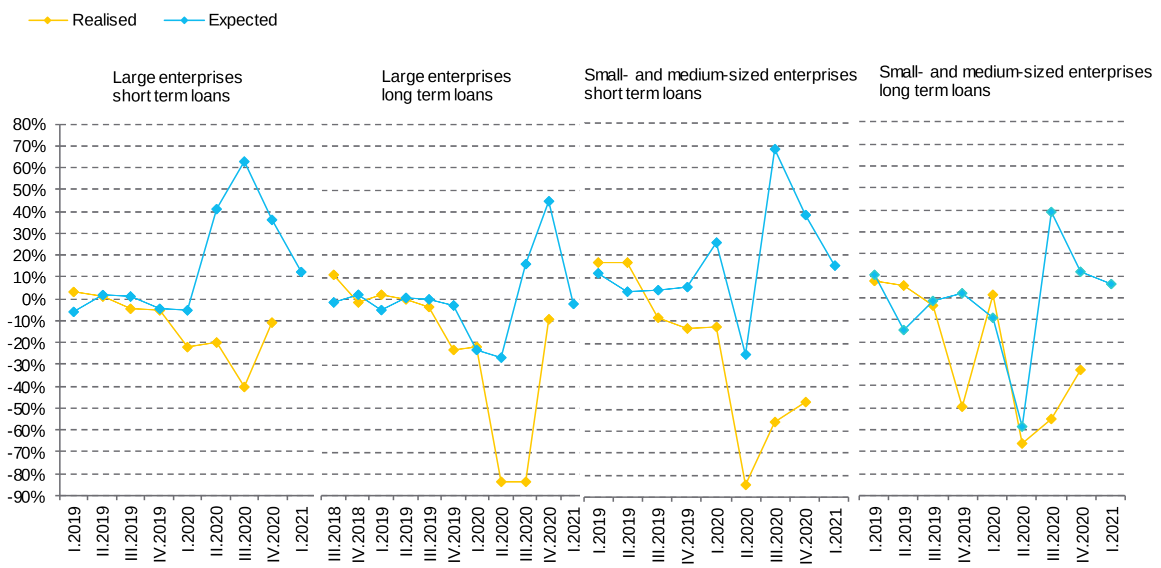


* The banks assess changes in competitive pressure from other banks, non-bank financial institutions and financial markets. The figure shows the arithmetic mean of these assessments.

Banks attributed the tightening of lending standards in the fourth quarter of 2020 with a rising risk for enterprises active in industries mostly exposed to the impact of the COVID-19 pandemic[1] and with concerns about a deterioration in the country's economic situation (-35% and -23%, respectively, see Figure 3). Individual banks indicated, among others, a change in demand for corporate loans (12%) as a factor behind the easing of lending standards.

Contrary to previous expectations of the survey-responding banks, the fourth quarter of 2020 saw weakening demand for all categories of corporate loans. The sharpest falls were observed in the case of short-term and long-term loans for the SME sector (-47% and-33%, respectively, see Figure 4), with the majority of banks claiming that the magnitude of the weakness was substantial . A small group of banks saw a further albeit minor fall in demand for short-term loans to large enterprises (net percentage of -11%). On the other hand, demand for long-term loans to large enterprises differed considerably. Nevertheless, the net percentage which reflects the situation in the whole banking sector was only slightly negative (-9%).

Figure 4. Corporate loan demand



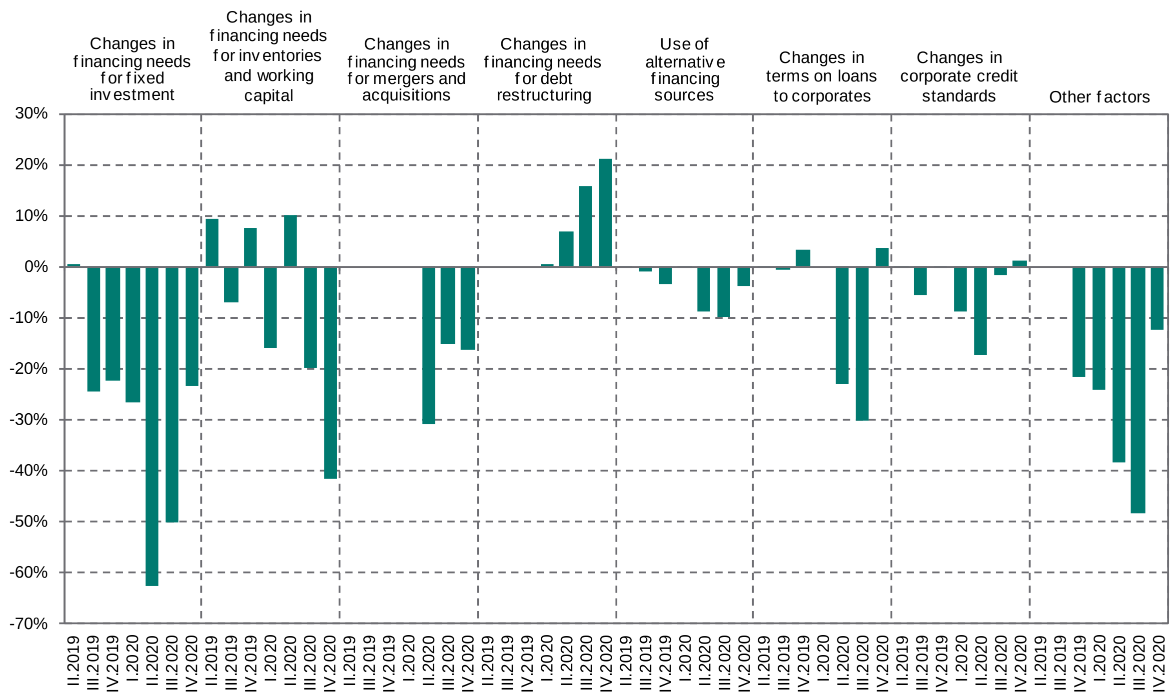
Banks justified a fall in demand mainly with lower financing needs for inventories and working capital (-42%) **and – to a lesser extent – with financing needs for fixed investment and for mergers and acquisitions** (-24% and -16%, respectively, see Figure 5). In the opinions of banks, the use of own funds by enterprises had a big impact on the weakening demand (-19%). Other demand-reducing factors mentioned by the banks were the support provided by the Polish Development Fund and other forms of public aid provided in response to the crisis (-13%). Some banks reported a rise in demand, which according to banks, resulted from higher financing needs for debt restructuring (21%).

[1] Among others, transportation, including air transport, food service activities and hospitality, the travel industry, renting of commercial real estate and trading in shopping malls.

For the first quarter of 2021, banks expect lending policy to be slightly eased in both segments of loans to the SME sector (18% and 8%, respectively, see Figure 1). **In the segment of loans to large enterprises, banks have no plans to change lending standards** (0% in both segments).

Banks' forecasts relating to changes in demand are less optimistic than in the previous quarter. A small group of banks expect demand for short-term and long-term loans to SMEs and **short-term loans to large enterprises to grow slightly** (16% and 6%, respectively and 13%, see Figure 4). No substantial changes in demand for long-term loans to large enterprises are expected to emerge (-3%).

Figure 5. Factors influencing changes in corporate loan demand



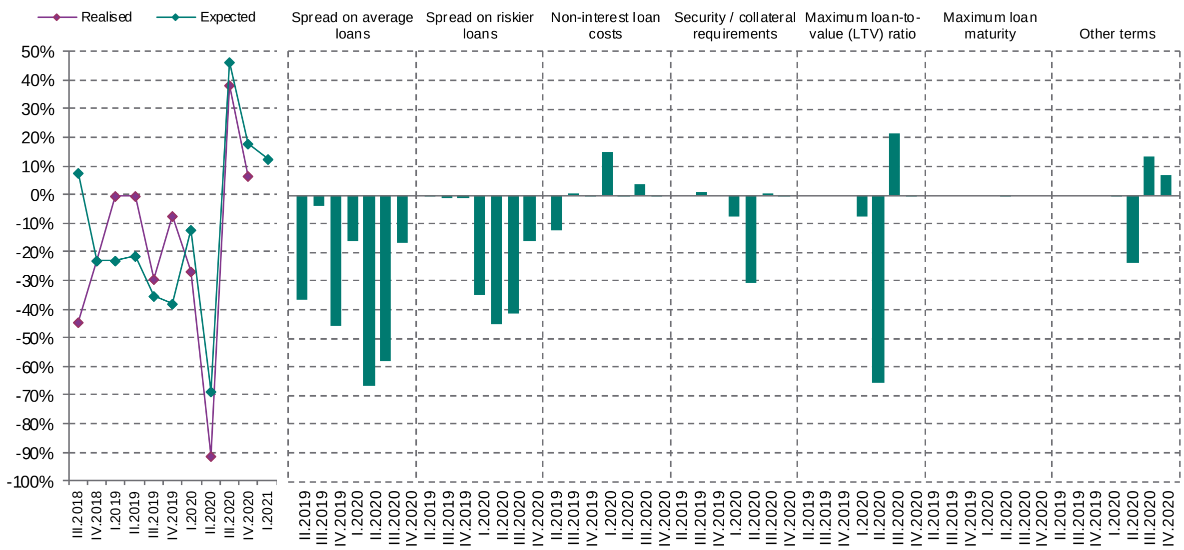
Loans to households

Housing loans

In the fourth quarter of 2020, individual banks slightly eased credit standards on housing loans (6%, see Figure 6). **Banks tightened certain lending terms by, among others, raising the credit spread and the spread on riskier loans** (-17% and -16%, respectively, see Figure 6). Individual banks changed other lending terms not included in the survey (7%).[2]

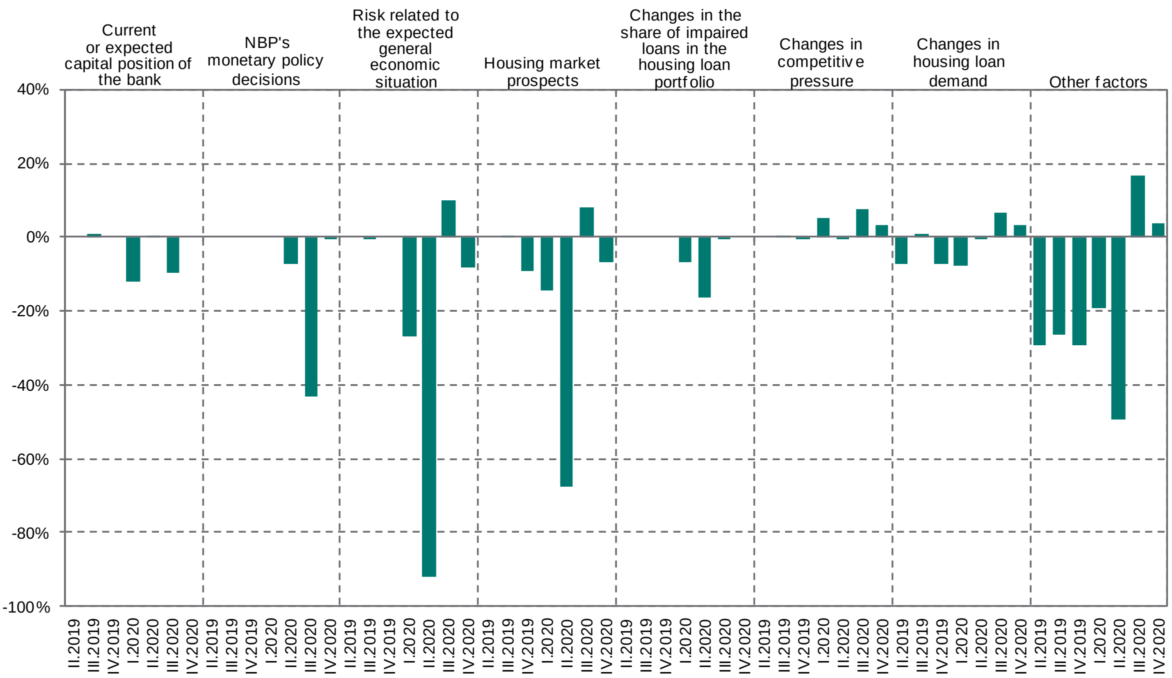
Individual banks tightened lending policy due to, among others, the rising risk of a deterioration of the economic situation and the situation in the housing market (-8% and -7%, respectively, see Figure 7). A similarly small group of banks eased their lending policy due to a change in demand for housing loans (3%) and the pressure from other banks and non-bank financial institutions (3%). Other factors not included in the survey (4%) were designed, among others, to adjust lending policy to current market conditions and to keep track of changes in the customer's income changes amid the COVID-19 pandemic.

Figure 6. Standards and terms on housing loans



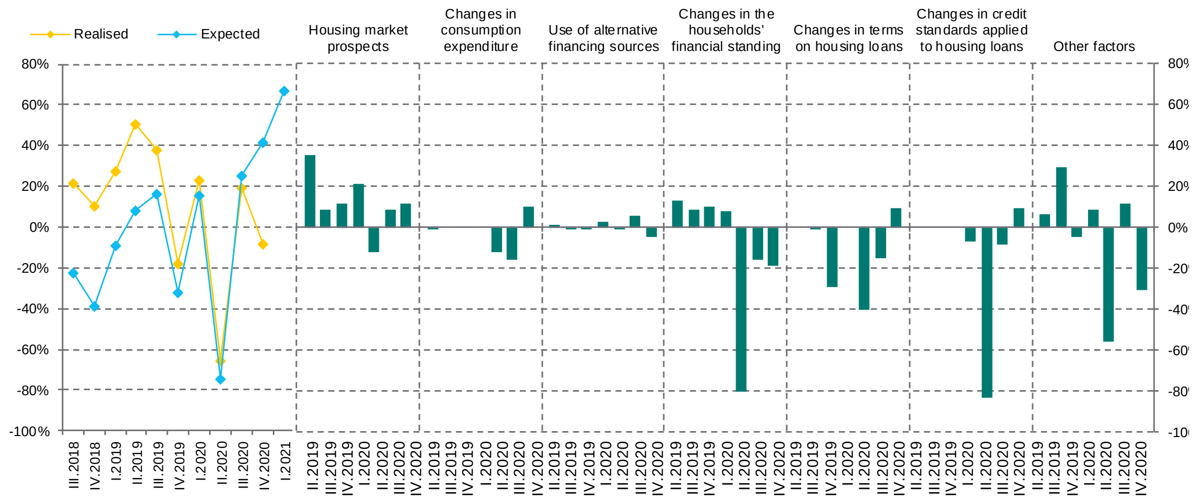
[2] Banks wrongly attributed actions resulting in tighter terms on loans to changes in other terms on housing loans (7%), among others they reduced the criteria concerning the level of DTI and the interest rate risk buffer, restored the selected parameters of lending tightened in the second and third quarters of 2020 following the growth in credit risk, and also tightened the income requirements for those customers who receive income in industries hit by the effects of the COVID-19 pandemic.

Figure 7. Factors influencing changes in lending policy – housing loans



* The banks assess changes in competitive pressure from other banks, non-bank financial institutions and financial markets. The figure shows the arithmetic mean of these assessments.

Figure 8. Demand for housing loans and factors influencing its changes



The assessments of changes in demand for housing loans in the fourth quarter of 2020 made by the survey-responding banks (net percentage -8%, see Figure 5) **varied and differed substantially from the optimistic**

forecasts made in the previous quarter. In the fourth quarter of 2020, a total of 43% banks experienced a fall in demand as 35% experienced a rise in housing loan demand, with 11% of the respondents reporting a surge in demand. According to the responding institutions, the decrease in demand was driven by the worsening financial standing of households (18%, see Figure 8) and the use of loans provided by other banks (-12%). The rising demand was slightly influenced by housing market prospects (12%) and changes in consumer spending (10%) as well as changes in credit standards (10%) and terms (9%) on housing loans. Banks also indicated other factors not included in the survey as having an impact on lower demand (-31%), among others the pandemic-related restrictions and the continued risk of a pandemic.

The respondents' expectations over developments in lending policy in the first quarter of 2021 vary (net percentage: 12%, see figure 6), because 12% of the banks expect the policy to be slightly tightened and 24% of the banks expect it to be somewhat eased. **The expectations of changes in housing loan demand are more unambiguous as more than 2/3 of the banks again expect it to grow modestly** (net percentage: 67%, see Figure 8).

Consumer loans

In the fourth quarter of 2020, banks eased lending policy in the segment of consumer loans for the first time since the first quarter of 2019 (net percentage of around 10%, see Figure 9). However, the decisions of individual survey-participating banks varied. In around 37% of the banks, customers could draw a loan after meeting the slightly eased requirements and in 27% of the banks after meeting the slightly tightened requirements compared to the third quarter of 2020.

Banks also modified certain terms on loans by, among others, increasing the maximum loan size (12%, see Figure 9), extending maturity (7%) and lowering non-interest loans costs (5%). At the same time, the banks raised the credit spread (-10%) and spread on riskier loans (-7).[3]

According to the survey-responding banks, higher competitive pressure (20%, see Figure10)**, including from other banks** (29%) **and non-bank financial institutions** (12%) **and lower consumer loan demand (**17%) **contributed primarily to easing lending policy in the segment of consumer loans. Banks included the risk of a deterioration of the country's economic situation** (-10%) and other factors not included in the survey, including tighter documentation, formal and procedural requirements and a fall in customer's income caused by the COVID-19 pandemic, t**o factors having an impact on a tighter lending policy.**

[3] Banks wrongly attributed actions resulting in tighter credit standards on loans, such as a tightening of the standards of analysing the sensitivity of the customer's income to the impact of the COVID-19 pandemic, stronger reliance of the loan size on customer risk, and a tightening of the documentation, formal and procedural requirements, to changes in other terms on consumer loans (-25%) .

Figure 9. Standards and terms on consumer loans

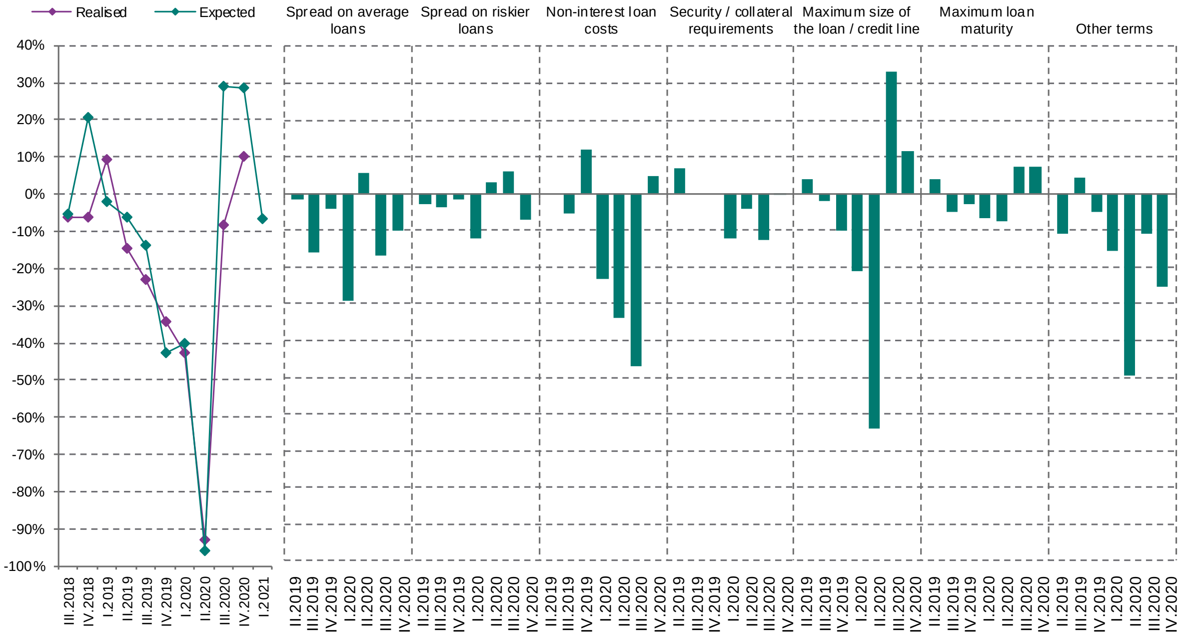
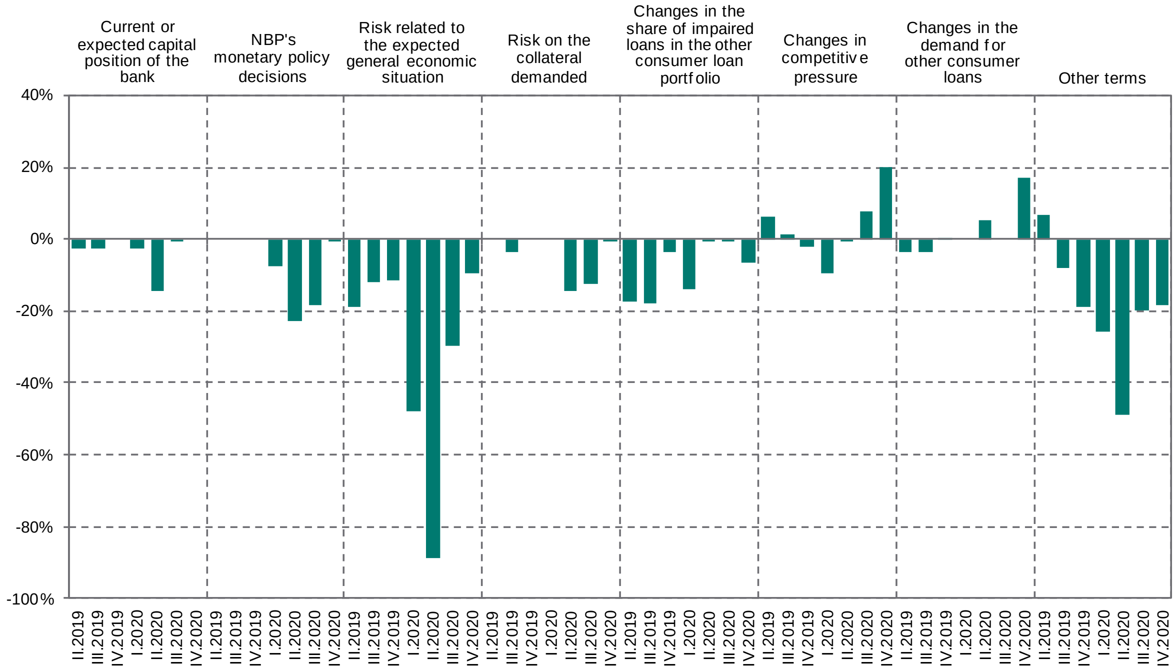


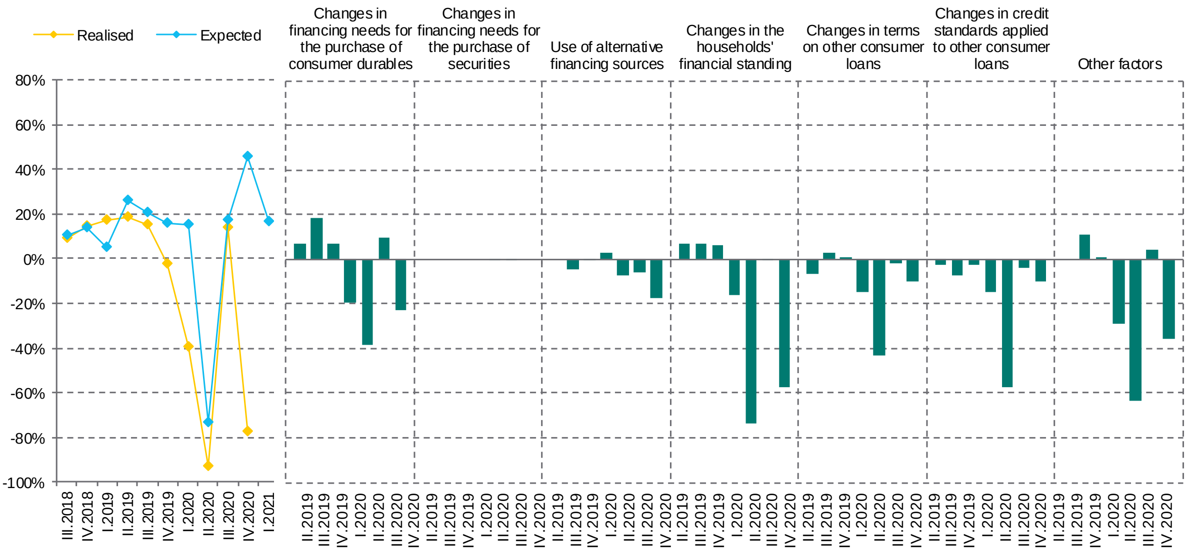
Figure 10. Factors influencing changes in lending policy – consumer loans



* The banks assess changes in competitive pressure from other banks and non-bank financial institutions. The figure shows the arithmetic mean of these assessments.

Opinions of the survey-responding banks concerning the direction of changes in consumer loan demand in the fourth quarter of 2020 (net percentage of -77%, see Figure 11) **differed substantially from their forecasts in the previous edition of the survey when the banks expected the demand which started to grow in the second quarter of the year to continue. According to the banks, the falling demand was mainly driven by the worse financial standing of households** (-31%, see Figure 11), **the growth in competitive pressure from other banks** (-31%) **and the lower financing needs for the purchase of durable goods** (-23%). Weaker demand for consumer loans was also the result of the greater use of own savings by households (-13%), tighter credit terms (-10%) and standards (-10%) on consumer loans and other factors not included in the survey (-36%), among others, a fall in consumption, travel and shopping restrictions following the closure of shopping centres, uncertainty over stable income sources and a higher risk of another wave of the COVID-19 pandemic.

Figure 11. Demand for consumer loans and factors influencing its changes



As is the case of housing loans, banks' expectations about changes in the direction of lending policy in the first quarter of 2021 differ substantially (net percentage: -7%, see Figure 9), with over ¼ of the banks predicting that credit standards on consumer loans will be tightened and around 19% that they will be eased. **Their expectations about changes in loan demand are also fairly discrepant** (net percentage: 17%, see Figure 11), as almost 1/3 of the banks expect it to grow and around 15% expect it to drop.

Appendix 1.

Methodology

The survey results are presented in the form of structures, i.e. the percentages of banks which chose a given option in response to particular questions. The responses are weighted with the share of the given bank in the market segment to which a given question relates.[4]

The importance of particular banks in each market segment is represented by the share of loans outstanding of a given bank in the loan portfolio of all the 24 survey-responding banks, broken down by particular types of loans. The table below presents the market segment to which particular questions refer and the type of loans outstanding which was used to calculate the shares of particular banks in each market segment.

Table 1. Market segment and the respective type of loans taken into account in calculation of the weights

Question no.	Market segment	Type of loans
1, 4, 6, 7	Short-term loans to small and medium-sized enterprises	Loans outstanding from small and medium-sized enterprises with the basic term to maturity of up to one year, together with the outstanding on the current account
1, 4, 6, 7	Short-term loans to large enterprises	Loans outstanding from large enterprises with the basic term to maturity of up to one year, together with the overdraft on the current account
1, 4, 6, 7	Long-term loans to small and medium-sized enterprises	Loans outstanding from small and medium-sized enterprises with the basic term to maturity above one year
1, 4, 6, 7	Long-term loans to large enterprises	Loans outstanding from large enterprises with the basic term to maturity above one year
2, 3, 5	Total corporate loans	Total amount of loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders
8, 9, 10, 13, 14, 16, 17	Housing loans to households	Housing loans to persons
8, 11, 12, 13, 15, 16, 17	Consumer loans and other loans to households	Total loans outstanding from persons less housing loans to persons

Notes: All types of claims apply to residents only.
Source: NBP.

[4] Weighing of responses of particular entities is a solution frequently applied in the preparation of results of qualitative surveys. See M. Bieć "Business survey. Methods, techniques, experience", papers and Materials of the Research Institute for Economic Development, No. 48, Warsaw School of Economics, 1996, pp. 71-114 (in Polish only).

Thus, a weight corresponding to a given bank's share in each market segment is assigned to particular responses. When calculating the weights, the average amount of claims of a given type in the first two months covered by the survey was taken into account.[5]

In addition to structures, the so-called net percentage was calculated for each response, i.e. the difference between the percentages of responses showing opposite directions of changes. This magnitude indicates a general tendency in the specific market segment. The method of calculating the net percentage for particular questions is presented in Table 2.

Table 2. Method of calculating the net percentage

Question no.	Definition of net percentage
1, 8	The difference between the percentage of responses "Eased considerably" and "Eased somewhat" and the percentage of responses "Tightened considerably" and 'Tightened somewhat". A negative index indicates a tendency of tightening the credit standards.
2, 9, 11	The difference between the percentage of responses "Eased considerably" and "Eased somewhat" and the percentage of responses "Tightened considerably" and "Tightened somewhat". A negative index indicates a tendency of tightening the terms of loans.
3, 10, 12	The difference between the percentage of responses "Contributed considerably to the easing of lending policies" and "Contributed somewhat to the easing of lending policies" and the percentage of responses "Contributed considerably to the tightening of lending policies" and "Contributed somewhat to the tightening of lending policies". A negative index indicates a given factor's greater contribution to the tightening than to the easing of lending policies.
4, 13	The difference between the percentage of responses "Increased considerably" and "Increased somewhat" and the percentage of responses "Decreased considerably" and "Decreased somewhat". A positive index indicates an increase in demand.
5, 14, 15	The difference between the percentage of responses "Contributed considerably to higher demand" and "Contributed somewhat to higher demand" and the percentage of responses "Contributed considerably to lower demand" and "Contributed somewhat to lower demand". A positive index means that a given factor contributed to an increase in demand, and a negative one – to a decrease in demand.
6, 16	The difference between the percentage of responses "Ease considerably" and "Ease somewhat" and the percentage of responses "Tighten considerably" and "Tighten somewhat". A positive index indicates an expected easing of lending policy.
7, 17	The difference between the percentage of responses "Increase considerably" and "Increase somewhat" and the percentage of responses "Decrease considerably" and "Decrease somewhat". A positive index indicates an expected increase in demand.

Source: NBP.

[5] Due to a delay in reporting of around three-weeks, no data on loans of particular banks in the third month of the period are available at the time of analysing the results of the survey.

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