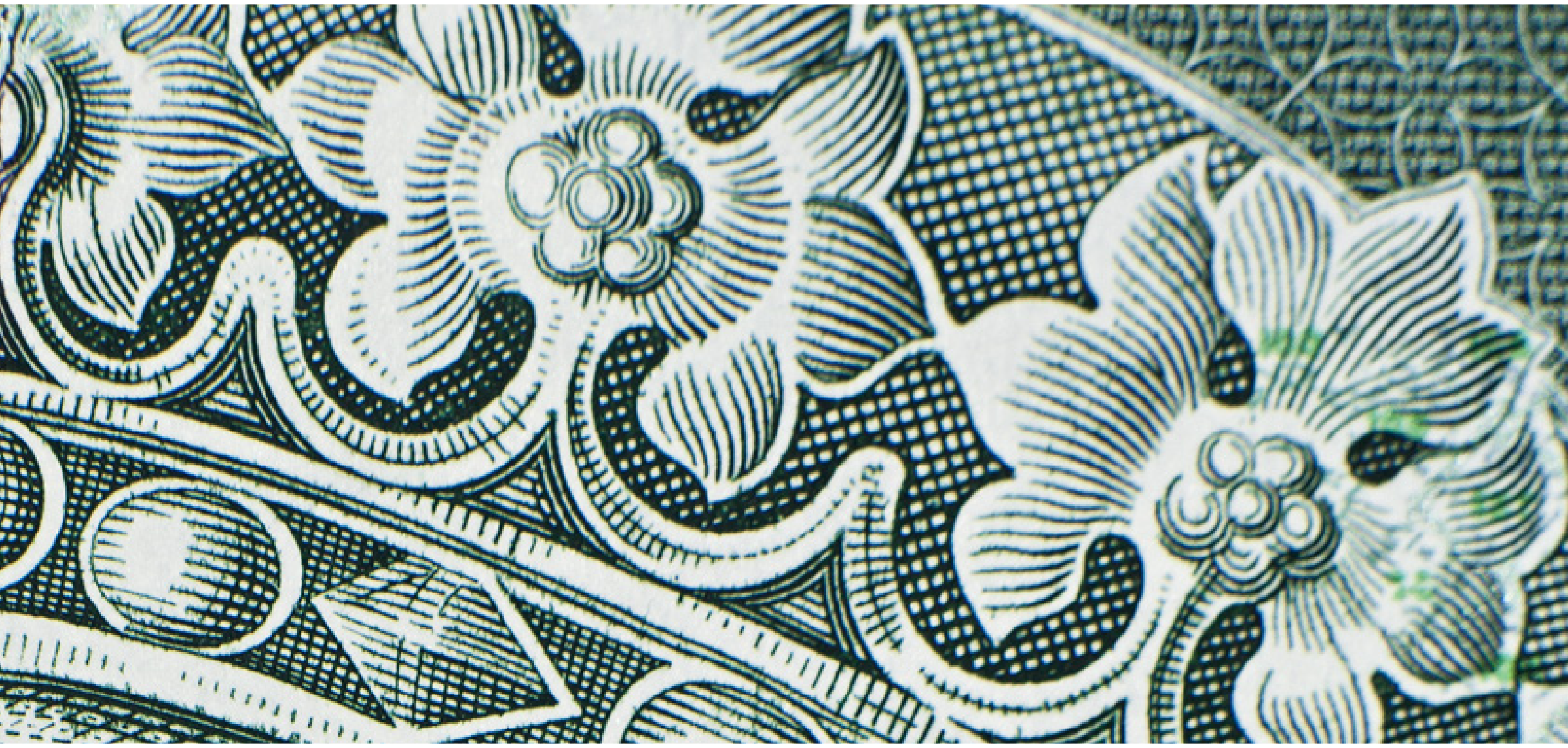
Narodowy Bank Polski

Senior loan officer opinion survey

on bank lending practices and credit conditions

2nd quarter 2021



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Financial Stability Department
Warsaw, April 2021

Summary of the survey results

In the first quarter of 2021 banks' perception of the situation of the market of loans to households was more optimistic than that on the market of corporate loans. The banks eased credit standards on housing and consumer loans, while slightly tightening them for large enterprises. Credit standards for the sector of small and medium-sized enterprises (SME) remained unchanged. Banks' lending policy was influenced by optimistic expectations about the general economic situation in Poland and a rise in competitive pressures; however on the other hand, the maintenance of restrictions, and continued downside risk for industries which are particularly exposed to the effects of the COVID-19 pandemic contributed to maintaining a higher level of restrictiveness. These factors were reflected in the growth in loan demand from households and in the fall of loan demand from enterprises. Attention is drawn to the big difference both in the direction of change in credit standards and loan demand from the SME sector.

For the second quarter of 2021, banks expect lending policy to be slightly eased for households and the SME sector and expect credit standards for large enterprises to continue. Banks expect demand in all segments of the credit market to grow.

Corporate loans

Lending policy: a tightening of lending policy for large enterprises on a small scale and a varied approach to the SME sector. The changes are mainly prompted by a deterioration in the situation of industries sensitive to the spread of COVID-19 and a falling demand for credit. A modest decline in the pricing terms of loans, with a simultaneous increase in spread for riskier loans.

Demand for loans: a further fall in demand from large enterprises and a varied approach of the SME sector. Changes in demand are driven by, among other things, a tighter lending policy and the use of own funds, but also by higher financing needs for mergers and acquisitions and for debt restructuring.

Expectations for the second 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.

Housing loans

Lending policy: an easing of lending standards on a large scale; a change in certain lending terms, among others, by increasing the LTV ratio and lowering the credit spread and, at the same time, by raising the spread on riskier loans.

Demand for loans: a significant increase in demand resulting from, among others, a better situation in the economy and on the housing market and an easing of standards and terms on housing loans.

Expectations for the second quarter of 2021: an easing of lending standards and a continuation of the trend of strong growth in demand.

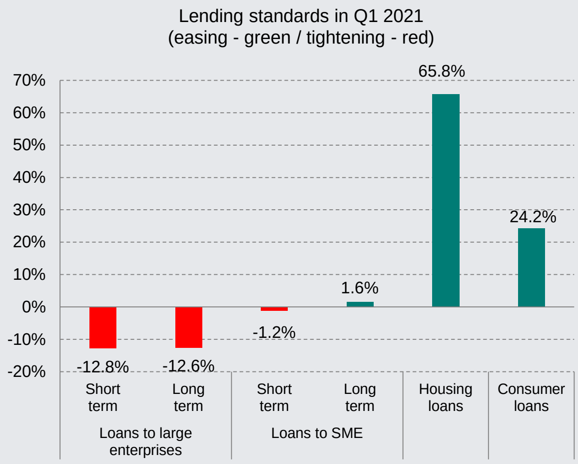
Consumer loans

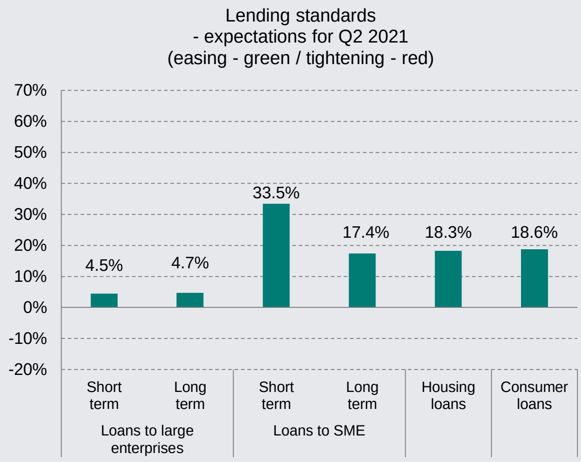
Lending policy: lending standards are eased again while bank-specific lending policy varies; a change of certain lending terms by, among others, increasing the maximum loan size and credit spread and by decreasing non-interest loan costs.

Demand for loans: A rise in demand caused by the easing of lending standards and terms and an increase in financing needs for the purchase of durable goods.

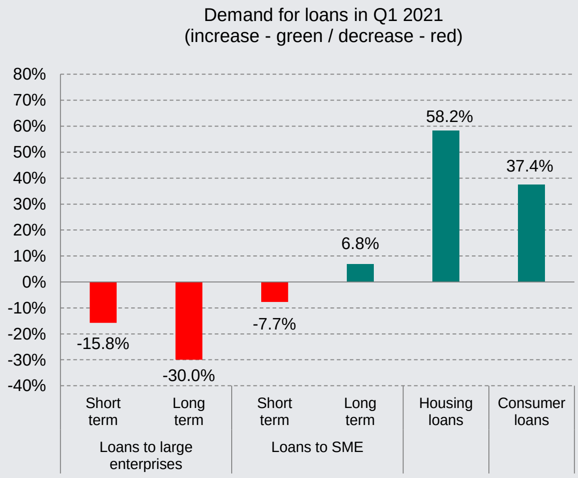
Expectations for the second quarter of 2021: lending policy eased somewhat and a rise in demand.

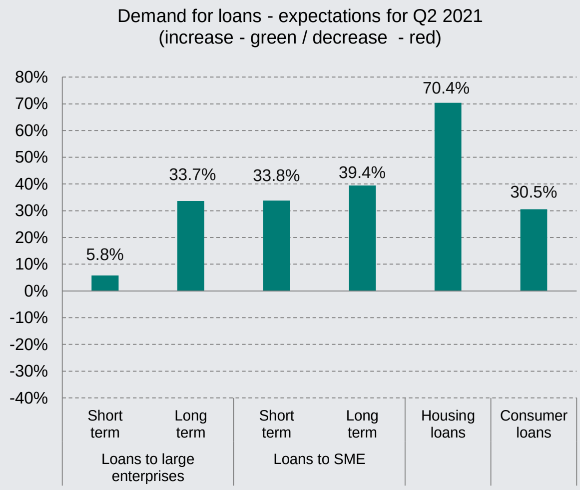
Lending standards





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 April 2021 among 23 banks with a total share of approx. 88% in loans to enterprises and households in the banking sector's portfolio.

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.

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 addition, the alternative measure of banks' responses in the form of diffusion index is published. Diffusion index is defined as the net percentage weighted according to the response intensity, i.e. by the weight of "100%" for responses marked as "significantly/significant" and by the weight of "50%" for responses marked as "insignificantly/insignificant".

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.

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.

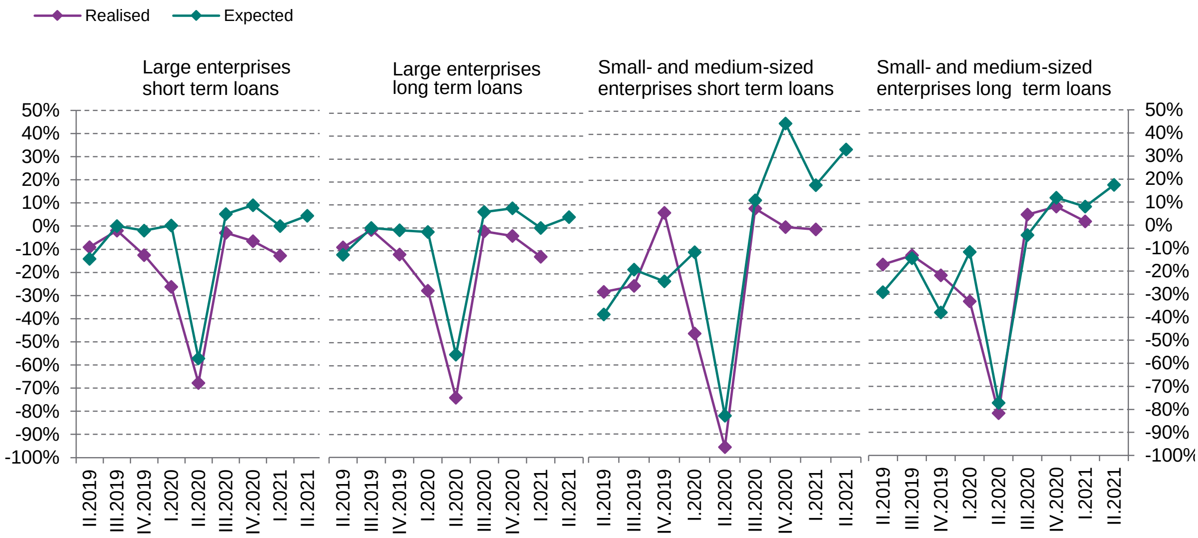
The next section presents tendencies regarding the banks' lending policy and changes in demand in the first quarter of 2021 as well as the banks' expectations for the second quarter of 2021.

The values of measures of net percentage and diffusion index for specific questions are available in downloadable files on the NBP website.

Corporate loans

In the first quarter of 2021, the survey-responding banks only slightly tightened credit standards on short-term and long-term loans for large enterprises (for both types of credit, net percentage of -13%, see Figure 1). **In the case of both types of credit for SMEs net percentages were close to zero.** In the segment of loans to SMEs, the lending policy of various banks varied, while in the segment of long-term loans only individual banks both slightly eased and tightened it.

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 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.

The relatively modest changes in lending standards were accompanied by various changes in the terms on corporate loans included in the survey (see Figure 2). Banks raised, among others, credit spread on riskier loans (-18%) and increased the loan collateral requirements (-10%) as well as decreased the maximum loan size (-7%). Banks relaxed the pricing terms of loans, which means that they reduced non-interest loan costs (9%) and the credit spread (5%). However, banks' approach relating to spread was not unanimous. Individual banks changed other lending terms not included in the survey (-9%).[1]

[1] Some banks assigned to changes in "Other terms on corporate loans" actions leading to the tightening of lending terms: among others, due to the impact of the COVID-19 pandemic, banks showed more caution in assessing the capacity of enterprises to generate future income (-9%).

Figure 2. Terms on corporate loans

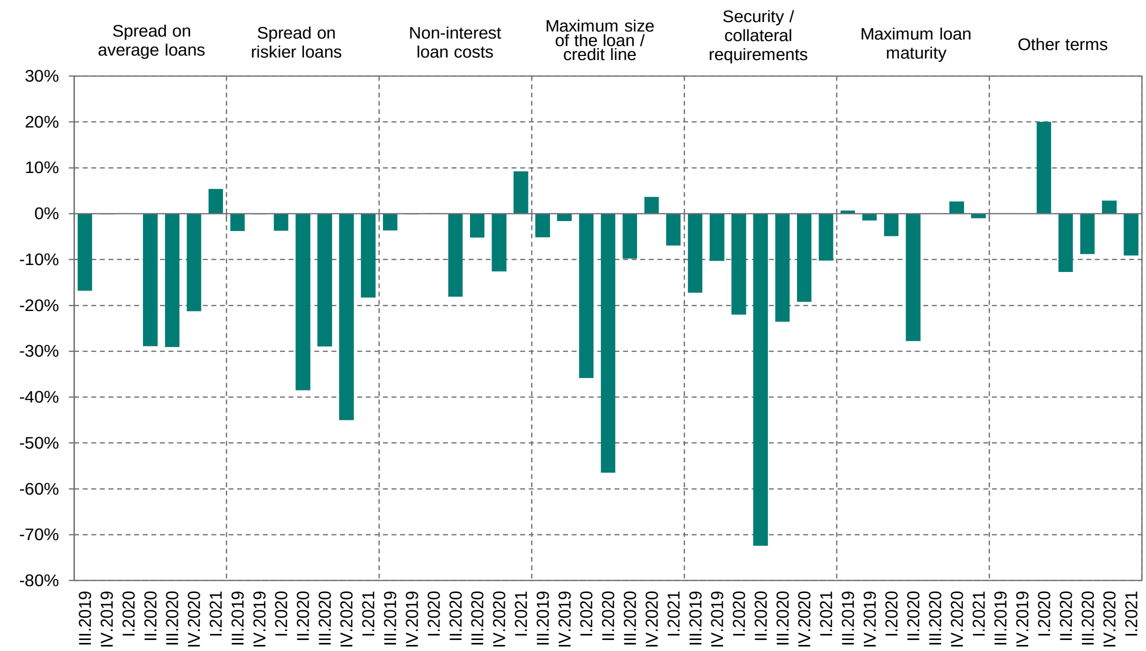
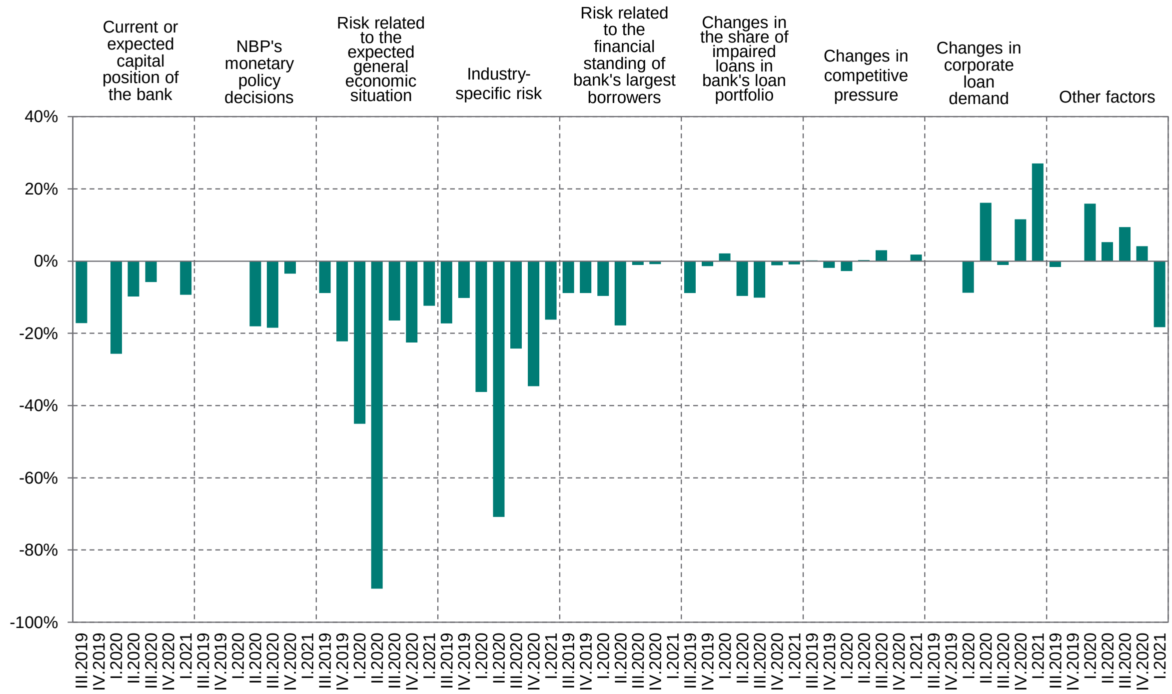


Figure 3. Factors influencing changes in lending policy

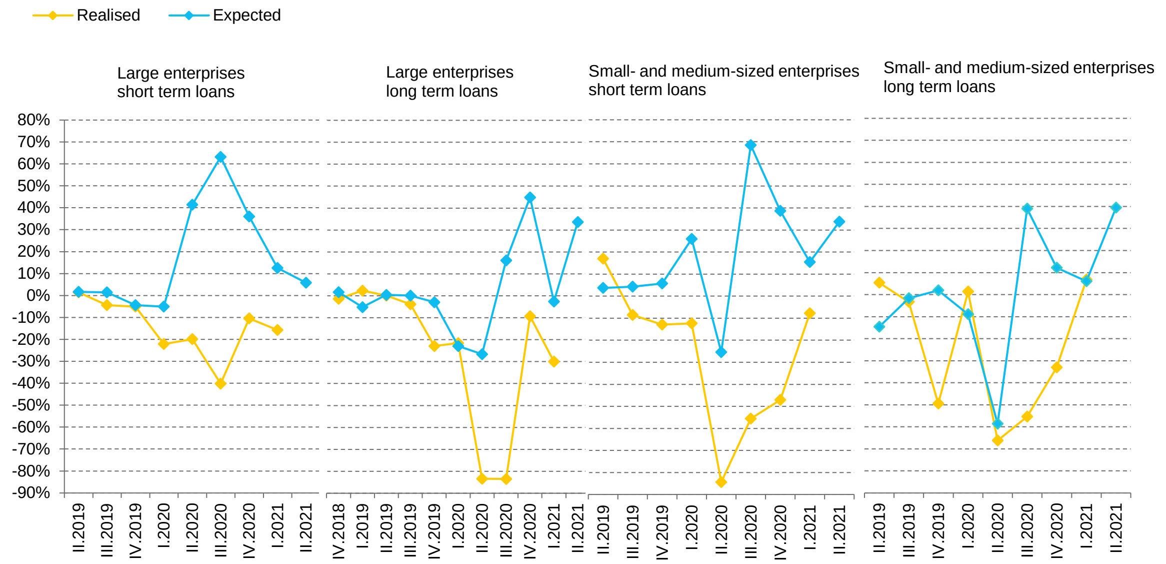


* The banks assess changes in competitive pressure from other banks, non-bank financial institutions and financial markets. The figure shows the arithmetic mean of these assessments.

Banks attributed the tightening of lending standards in the first quarter of 2021 to a rising risk for enterprises active in industries most exposed to the impact of the COVID-19 pandemic[2] (net percentage of -16%, see Figure 3) and to concerns about a deterioration in the country's economic situation (-12%) and the expected capital position of the bank (-9%). **Individual banks indicated a drop in demand for corporate loans** (27%) **as a factor behind the easing of lending standards.** Other factors behind the tighter lending policy not included in the survey, reported by banks, were the worse condition of enterprises as a consequence of the spread of the COVID-19 pandemic and a review of the loan portfolio (-18%).

The first quarter of 2021 was another period when demand for loans to large enterprises weakened, and no bank reported a rise in demand for short-term and long-term loans (-16% and -30%, respectively, see Figure 4). **Banks' opinions concerning changes in demand for short-term and long-term loans to the SME sector varied strongly** (net percentage of -8% and 7%, respectively). Some of the banks noted rising interest from enterprises in drawing short-term and long-term credit (29% and 28%, respectively), and some saw it fall (-37% and -21%, respectively). At the same time, the majority of banks said that the degree of weakening demand for short-term loans was substantial.

Figure 4. Corporate loan demand



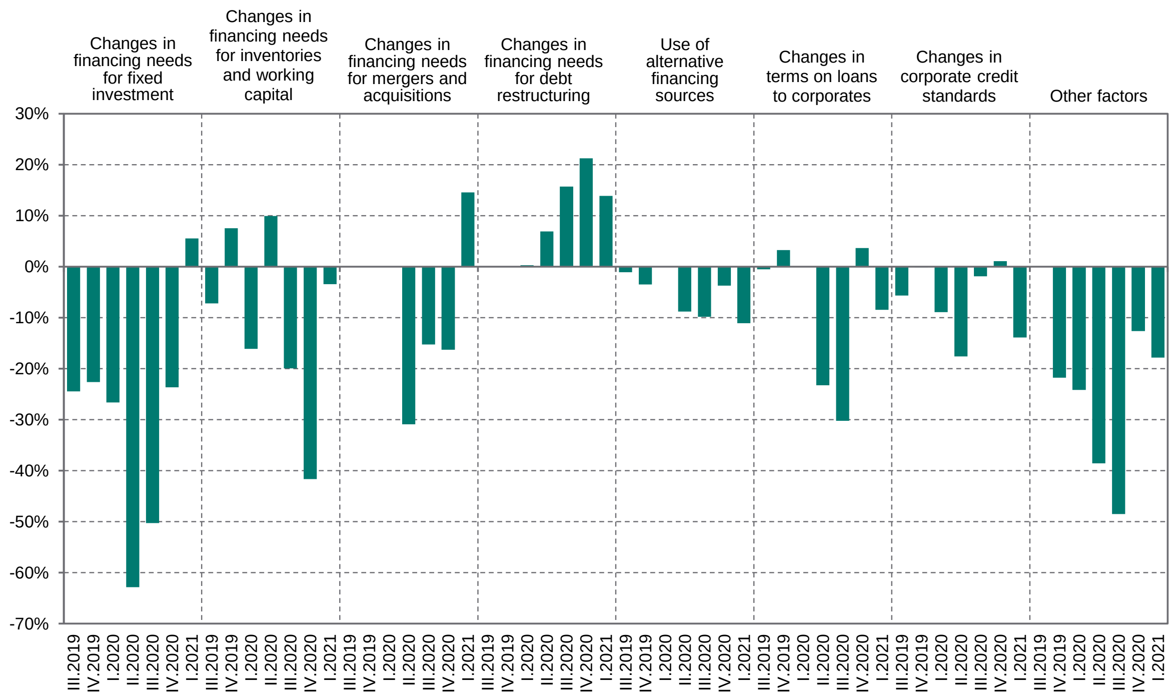
Banks attributed the falling demand to tighter lending standards and terms (net percentage of -15% and -8%, respectively; see Figure 5). Demand was also dampened by the use of alternative financing sources by enterprises (-11%), including own funds (-29%) and loans from other banks (-25%). The growth in demand experienced by few banks resulted from the rise in financing needs for mergers and acquisitions (15%) and for debt restructuring (14%). Other factors behind the lower demand for loans identified by banks were public support under the anti-crisis shield for enterprises (-18%).

[2] Among others, the packaging and technological industries, manufacturing, catering services and hotels, tourism.

For the second quarter of 2021, banks expect lending policy to be slightly eased again in both segments of loans to the SME sector (33% and 17%, respectively, see Figure 1). **However, banks do not expect to change lending policy considerably for large enterprises** (5% in both segments).

Current forecasts relating to changes in demand are more optimistic than in the previous quarter. A large group of banks expects an increase in demand for short-term loans and long-term loans to SMEs (34%, 39%, respectively; see Figure 4) **and long-term loans to large enterprise** (34%)**.** On the other hand, individual banks expect large enterprises to increase demand for short-term loans (6%).

Figure 5. Factors influencing changes in corporate loan demand



Loans to households

Housing loans

In the first quarter of 2021, a much larger number of banks than expected in the previous quarter eased their terms on housing loans (net percentage of 66%, see Figure 6). **Banks altered some lending terms by, among others, increasing the LTV ratio and lowering the credit spread** (49% and 27%, respectively; see Figure 6)**,** and at the same time raised the spread on riskier loans (-10%).

The survey-responding banks indicated that the main reasons that had made them ease lending policy were: better housing market prospects, the improvement in the country's economic situation (37% and 22%, respectively; see Figure 7) **and changes in housing loan demand** (32%). Banks tended to ease lending policy terms due to pressure from other institutions (17%), including banks and mortgage banks (45% and 5%, respectively).

Figure 6. Standards and terms on housing loans

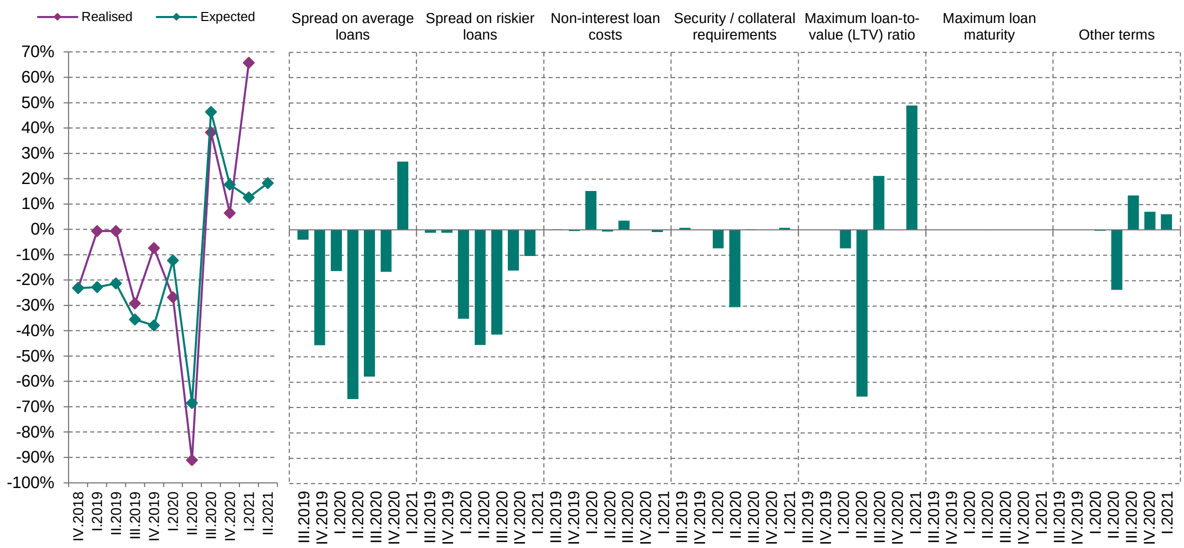
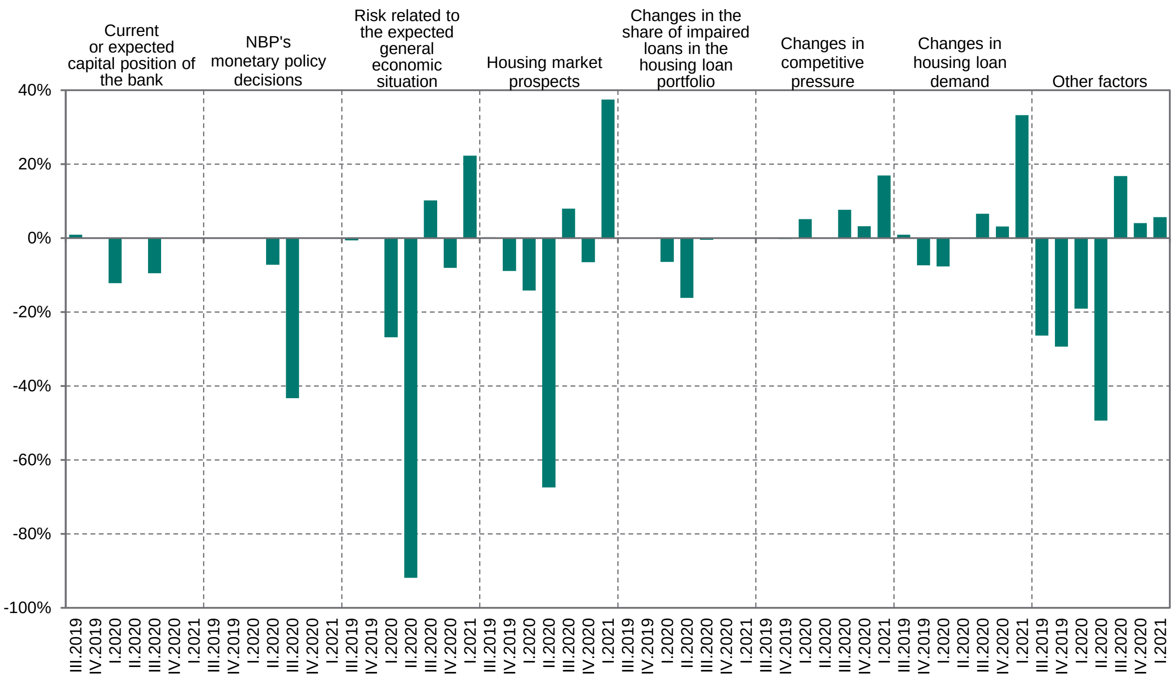
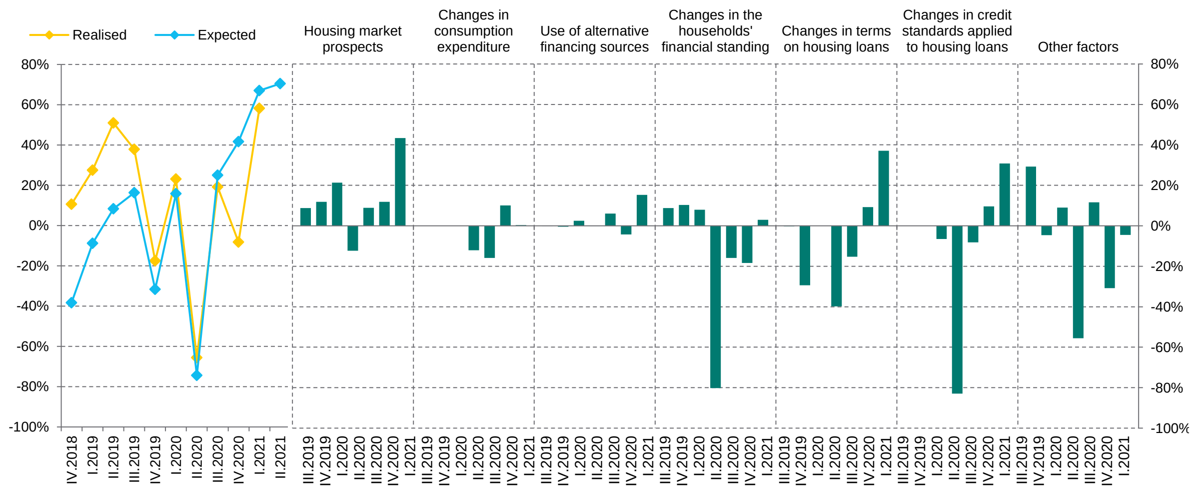


Figure 7. Factors influencing changes in lending policy – housing loans



* 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



In line with expectations from the previous quarter, the survey-participating banks experienced a rise in demand for housing loans in the first quarter of 2021 (net percentage of 58%, see Figure 8), **with around**

22% of banks claiming it was a substantial rise. The increase was driven by, among others, better housing market prospects (43%) and the easing of lending standards and terms on housing loans (37% and 31%, respectively, see Figure 8). Banks indicated other factors not included in the survey as influencing changes in loan demand (-5%), among others, uncertainty about the future economic situation and the persistence of the COVID-19 pandemic emergency in Poland, as well as a decline in the attractiveness of present forms of saving.

Expectations of changes in housing loan standards in the second quarter of 2021 vary, but the intention to ease them prevails (net percentage of 18%, see Figure 6). **As in the previous quarter, housing loan demand forecasts are more explicit as the vast majority of banks expect growth in loan demand to continue** (net percentage of 70%, see Figure 8).

Consumer loans

In the first quarter of 2021, banks again eased lending policy in the segment of consumer loans (net percentage of 24%, see Figure 9), although they earlier expected it to tighten it somewhat. However, the decisions of individual survey-participating banks varied. In around 33% of banks, customers could draw a consumer loan after meeting the slightly eased requirements and in 9% of the banks – after meeting the slightly tightened requirements compared to the fourth quarter of 2020.

Banks changed certain terms on consumer loans by, among others, increasing the maximum loan size (net percentage of 37%, see Figure 9), **reducing the credit spread** (17%) **and decreasing non-interest loan costs** (23%), **including – to a large extent – in around 21% of banks**. At the same time, banks increased loan repayment collateral requirements (-13%).

In the opinions of the survey-participating institutions, better economic situation forecasts and growth in competitive pressure were the primary lending policy-easing factors (16% and 15%, respectively; see Figure 10), including from other banks (29%) and a fall in consumer loan demand (9%). Other factors not included in the survey and reported by banks were, among others, a review and rationalisation of the decision-making rules for customer groups and implementation of lending policy recommendations taken by the Office of the Polish Financial Supervision Authority (-8%).

Figure 9. Standards and terms on consumer loans

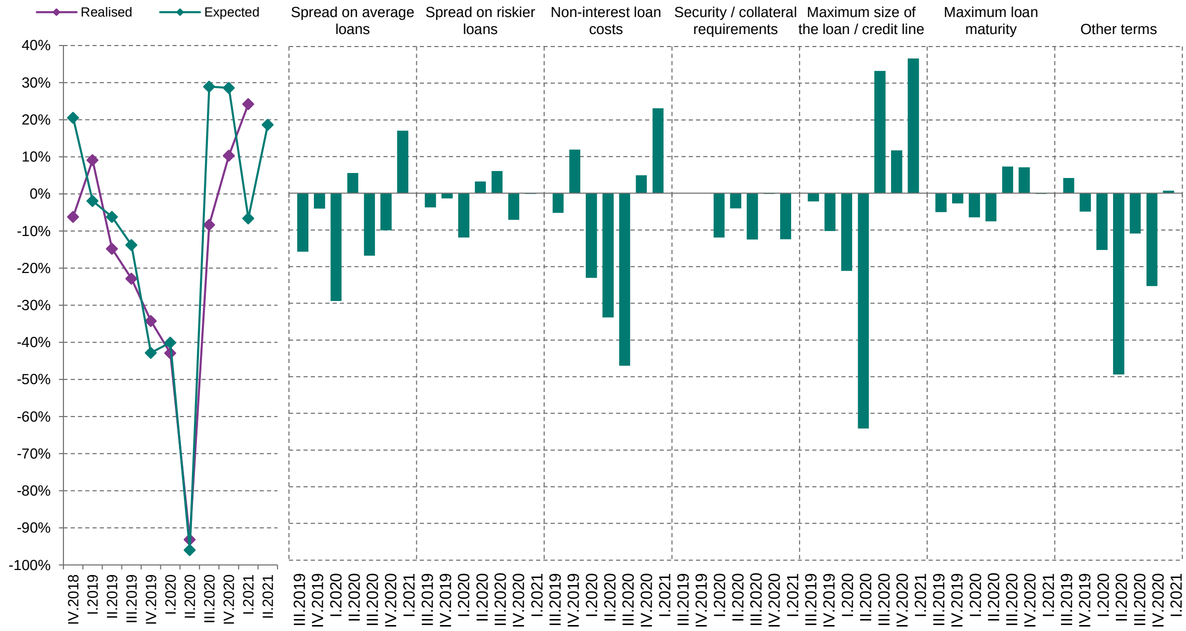
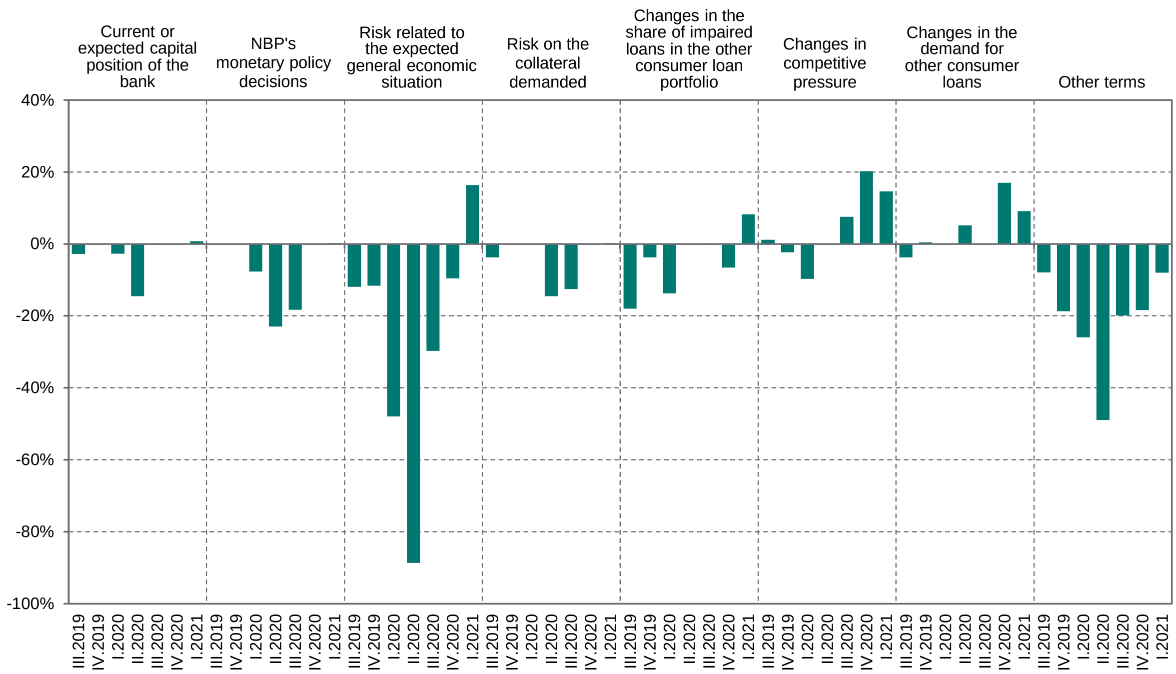


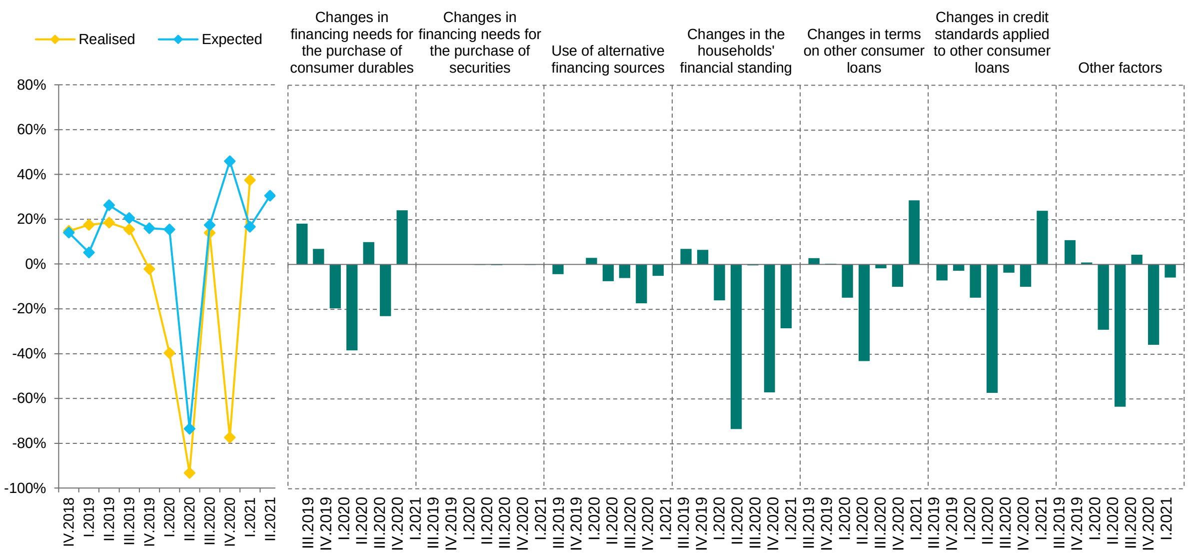
Figure 10. Factors influencing changes in lending policy – consumer loans



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

In the first quarter of 2021, unlike in the previous quarter, banks saw a rise in demand for consumer loans (net percentage of 37%, see Figure 11). According to banks, the growth was mainly driven by an easing of standards and terms on consumer loans (29% and 24%, respectively; see Figure 11) as well as increased financing needs for the purchase of durable goods (24%). A deterioration in the financial standing of households (-28%) and the wider use of alternative financing sources, including savings (-9%) led to a drop in demand. Banks also mentioned other factors influencing changes in demand. They were, among others, higher uncertainty about the persistence of the COVID-19 pandemic (-6%).

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



Banks' forecasts relating to changes in lending standards in the second quarter of 2021 are more optimistic than in the previous quarter of 2021 and they expect to ease them somewhat (net percentage 19%, see Figure 9). **Banks also expect consumer loan demand to improve** (net percentage of 31%, see Figure 11).

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.[3]

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 23 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 a given 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 overdraft 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 an 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

[3]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, individual responses to *all questions* are assigned a weight corresponding to a given bank's share in a given market segment. 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.[4]

In addition to structures, the so-called net percentage was calculated for each response, i.e. the difference between the percentages of responses that show the opposite direction of change, and the diffusion index defined as the net percentage weighted according to the response intensity, i.e. by the weight of "100%" for responses marked as "significantly/significant" and by the weight of "50%" for responses marked as "insignificantly/insignificant". 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 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

[4] 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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