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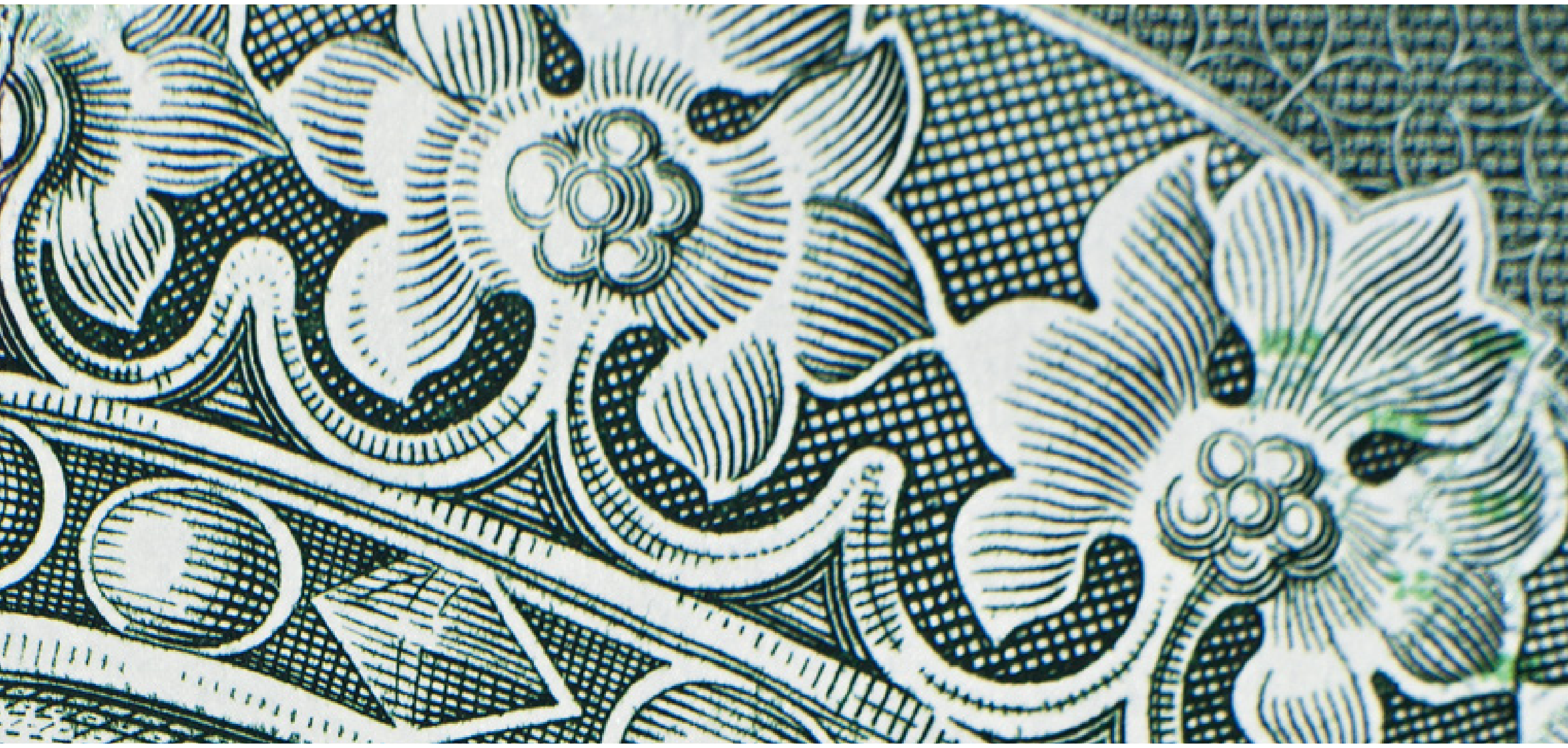
Senior loan officer opinion survey

on bank lending practices and credit conditions

3rd quarter 2021



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Financial Stability Department
Warsaw, July 2021

Summary of the survey results

The survey results for the second quarter of 2021 indicate an improvement in the economic situation and a rise in demand for loans. The banks maintained their more optimistic assessment of the situation of the market of loans to households than their assessment of the market of corporate loans – they eased credit standards on housing and consumer loans, while keeping them unchanged for corporate loans.

For the third quarter of 2021 the banks expect to keep the credit standards unchanged on housing and corporate loans and to ease them in the case of consumer loans. The banks expect demand in all segments of the credit market to grow.

Corporate loans

Lending policy: no change in the credit standards on loans to large enterprises and medium-sized enterprises (SME). The improvement in the economic situation in Poland had an impact on lending policy. The increase in the maximum loan size was accompanied by an increase in the credit spread on riskier loans.

Demand for loans: following an almost two-year period of decline, relatively high growth in demand for long-term loans to large enterprises and short-term loans to the SME sector, supplemented by slight increases in the case of the remaining types of loans. The rise in demand is driven by a revival in activity – an increase in financing needs for both fixed investment and inventories and working capital.

Expectations for the third 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 loans.

Housing loans

Lending policy: slightly more banks easing lending standards than tightening them, driven, among others, by housing market forecasts and competitive pressure; a change in certain lending terms, among others, by increasing the LTV ratio and, at the same time, by raising the spread on riskier loans.

Demand for loans: a significant increase in demand resulting from, among others, housing market forecasts, an easing of lending standards and terms on housing loans as well as changes in the structure of consumer spending and an improvement in the economic situation of households.

Expectations for the third quarter of 2021: the banks' opinions about the directions of changes in lending standards and the level of demand vary.

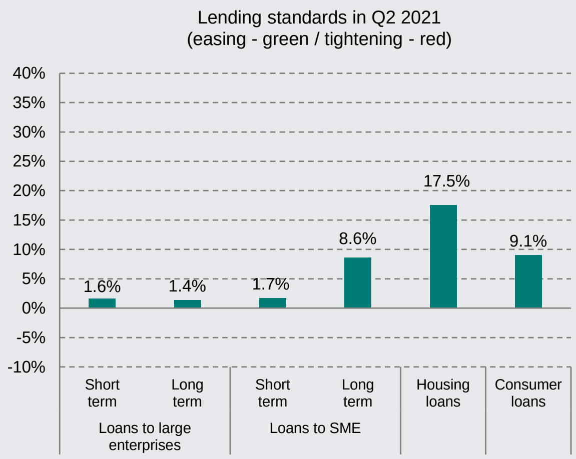
Consumer loans

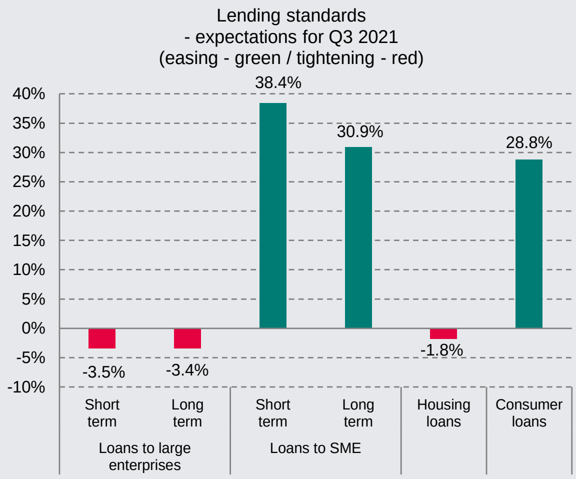
Lending policy: slightly more banks easing lending standards than tightening them due to, among others, better forecasts of the economic situation in Poland and higher competitive pressure; a change in certain lending terms by, among others, increasing the maximum loan size and lowering the credit spread.

Demand for loans: a large rise in demand mainly caused by an increase in financing needs for the purchase of durable goods and an improvement in the economic situation of households.

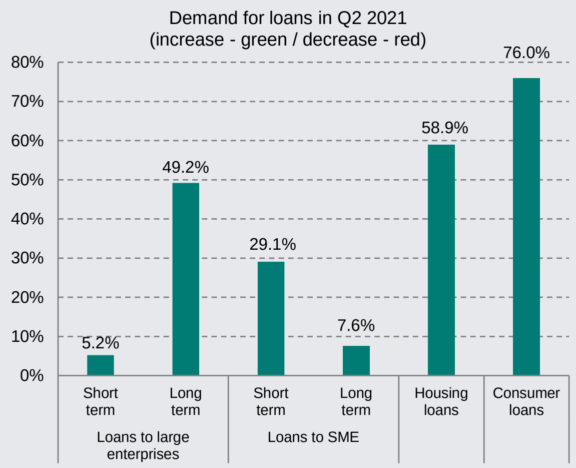
Expectations for the third quarter of 2021: lending policy easing and a rise in demand.

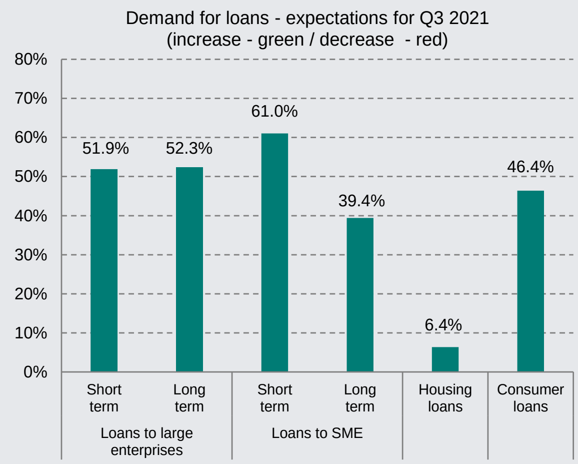
Lending standards





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 July 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.

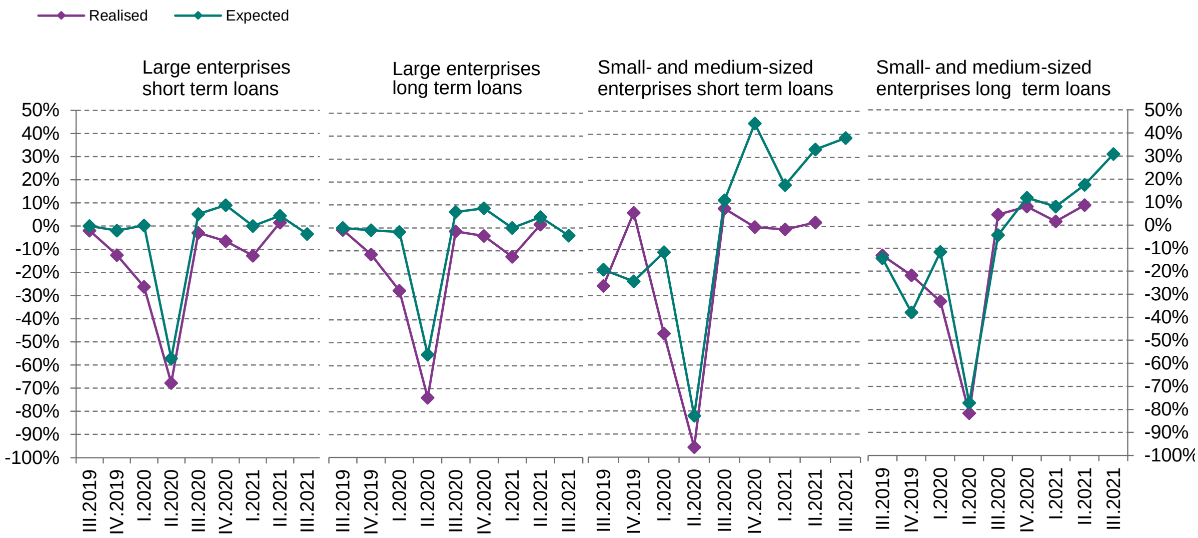
The next section presents tendencies regarding the banks' lending policy and changes in demand in the second quarter of 2021 as well as the banks' expectations for the third quarter of 2021.

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 second quarter of 2021, the survey-responding banks kept lending standards on short-term and long-term loans for large enterprises unchanged (for both types of credit, net percentage of 1% and 2%, respectively, see Figure 1). **In the case of small and medium-sized enterprises (SME), the credit standards on short-term loans were unchanged, while the standards on long-term loans were eased by individual banks** (net percentage of 2% and 9%, respectively, see Figure 1).

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 slight changes in lending standards were accompanied by multidirectional changes in the terms on loans included in the survey (see Figure 2). The banks raised, among others, the credit spread on riskier loans (-19%), non-interest loan costs (-9%), and the loan collateral requirements (-9%), but at the same time increased the maximum loan size (16%) and lowered the credit spread (6%).

Figure 2. Terms on corporate loans

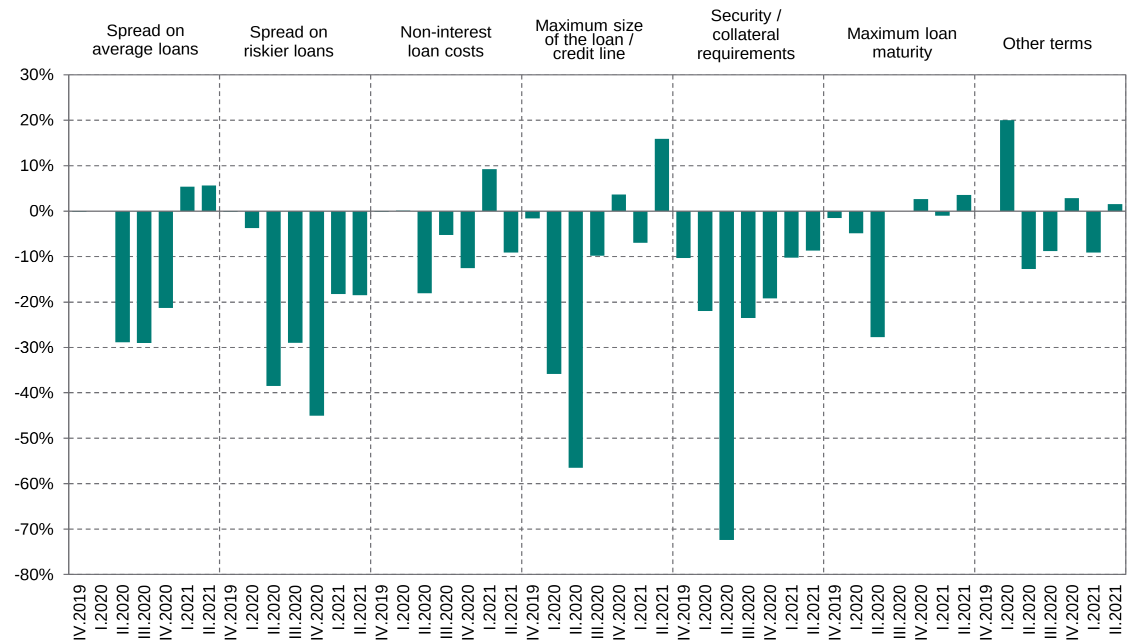
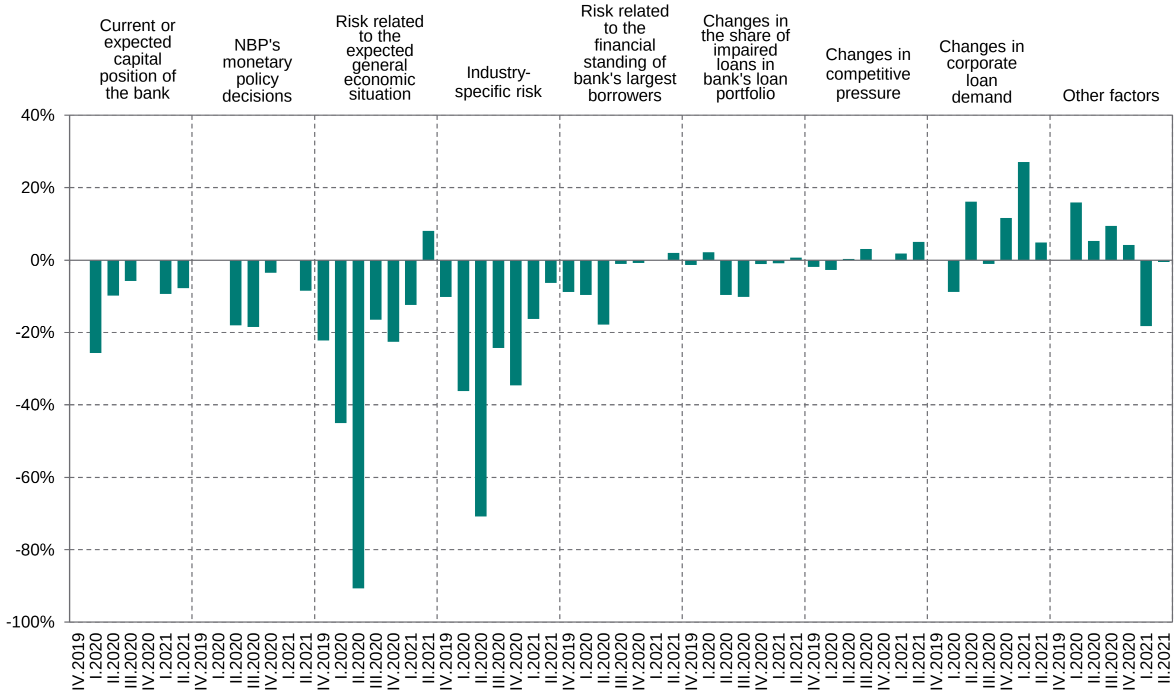


Figure 3. Factors influencing changes in lending policy

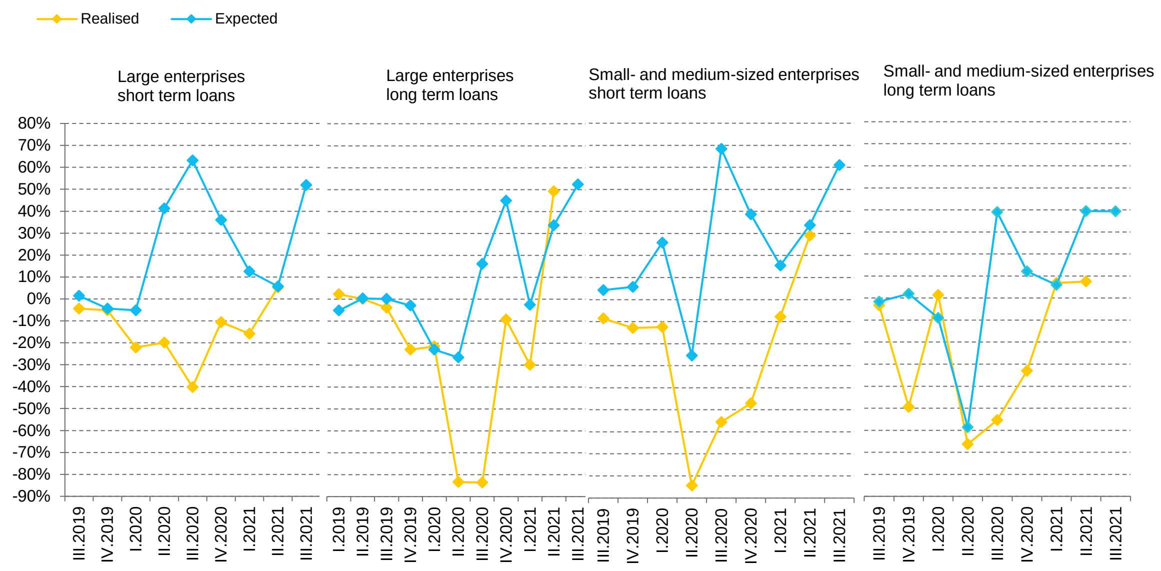


* The banks assess changes in competitive pressure from other banks, non-bank financial institutions and financial markets. The figure shows the arithmetic mean of these assessments.

Individual banks attributed the easing of lending policy in the second quarter of 2021 to the growth in competitive pressure from other banks (15%) and forecasts of an improvement in the economic situation in Poland (8%) as well as a drop in demand for corporate loans (5%). The banks indicated the current or expected capital position of the bank and NBP's monetary policy decisions (for both factors, -8% each, see Figure 3) and the increased risk in the sector (-6%) as factors behind the tightening of lending standards.[1]

Following an almost two-year period of decline, in the second quarter of 2021 a large group of banks noted growth in demand for long-term loans to large enterprises and short-term loans to the SME sector (49% and 29%, respectively, see Figure 4). Increased demand for short-term loans to large enterprises and long-term loans to the SME sector was reported by individual banks (5% and 8%, respectively, see Figure 4).

Figure 4. Corporate loan demand



In the assessment of the banks, the factors that contributed to an improvement in demand for corporate loans were mainly an increase in financing needs (see Figure 5) **for fixed assets (57%) as well as inventories and working capital (53%).**[2] The higher demand was also due to the financing needs for mergers and acquisitions (19%), debt restructuring (16%), drop in the volume of debt securities issued (16%), and an easing of lending terms (10%). Other factors behind the increase in demand for loans that the banks mentioned – but which were not included in the survey – were, among others, an increase in optimism among enterprises and the intention to implement investment projects suspended during the pandemic (12%).

In the third quarter of 2021, as in the case of several previous quarters, the banks are not planning to introduce any significant changes in lending standards to large enterprises (for short- and long-term loans

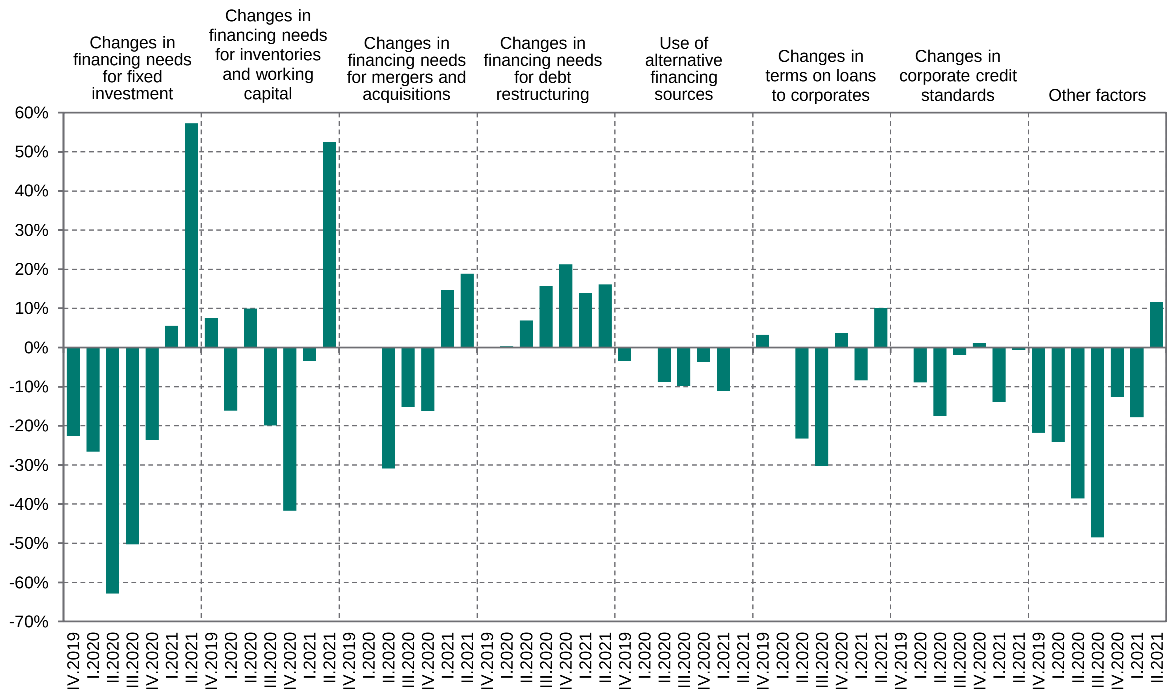
[1] The banks' perceptions of the level of risk in individual sectors differed: 3% recorded a decrease in risk in information and communication, financial and insurance activities, wholesale and retail trade as well as mainly export oriented industrial sectors (represented by large enterprises), while 9% noted the persistence of an elevated level of risk in sectors most exposed to the negative effects of the COVID-19 pandemic.

[2] Certain banks indicated that the increased financing needs for fixed assets as well as inventories and working capital was recorded only among large enterprises, while there was a drop in the SME sector.

-3% each, see Figure 1). **In the case of short- and long-term loans to the SME sector, the banks once again intend to ease lending policy** (38% and 31%, respectively, see Figure 1).

Forecasts relating to changes in demand are still optimistic. A significant group of banks expects an increase in demand for short- and long-term loans to large enterprises (net percentage for both segments 52% each, see Figure 4) **and short- and long-term loans to the SME sector** (61% and 39%, respectively).

Figure 5. Factors influencing changes in corporate loan demand

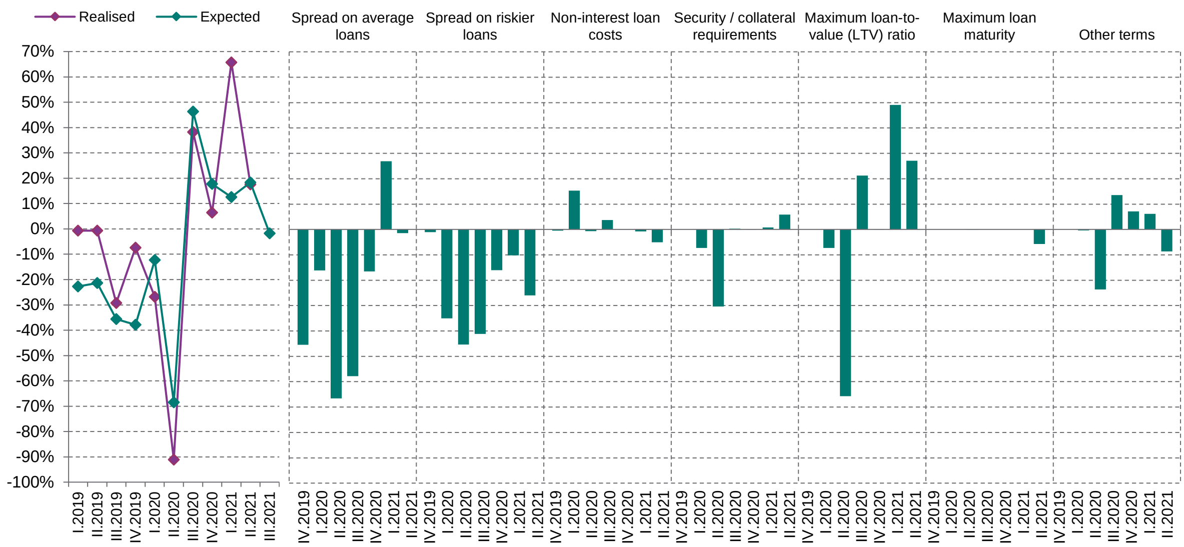


Loans to households

Housing loans

In the second quarter of 2021, the banks eased lending standards for housing loans (net percentage: 18%, see Figure 6), although their opinions varied – 39% of banks eased standards, while 21% tightened them. **The banks changed certain lending terms by, among others, raising the spread on riskier loans** (net percentage: -26%, see Figure 6) and **increased the maximum LTV ratio** (27%). **Almost equal groups of banks changed the credit spread in opposite ways** (net percentage: -1%), **some of them raised it** (-31%) **and some lowered it** (30%). Among other lending terms not included in the survey in the second quarter of 2021, the banks mentioned, among others, the inclusion in the credit offer of loans with a periodically constant interest rate and the increase in the maximum loan size (-9%).[3]

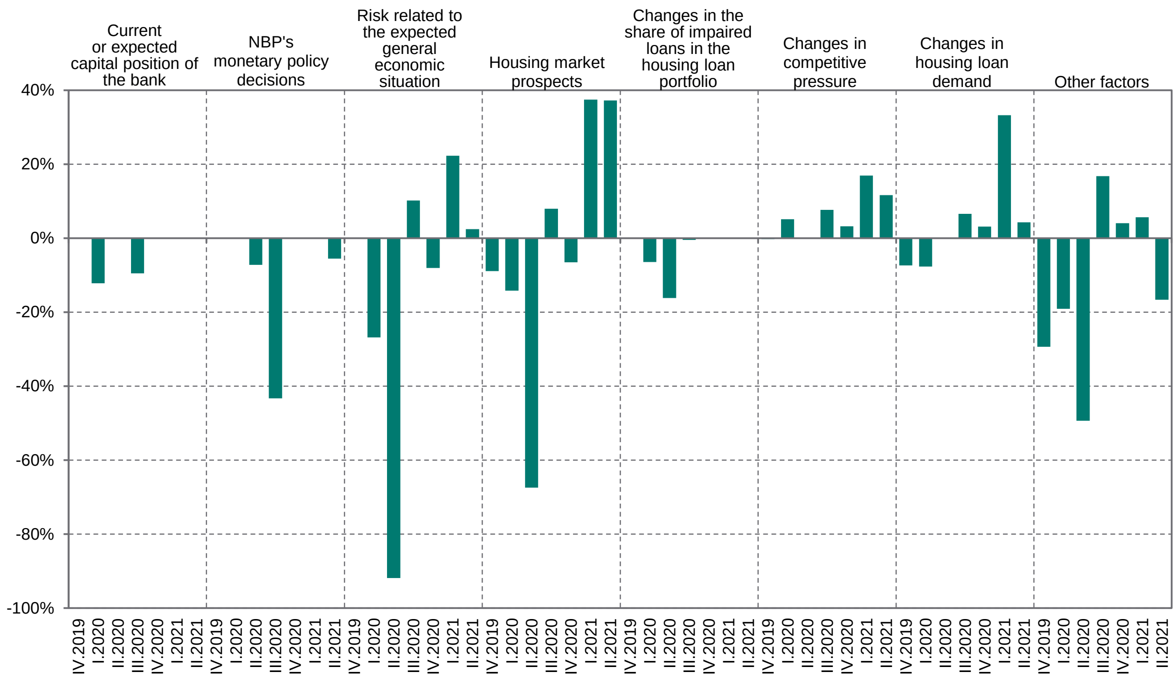
Figure 6. Standards and terms on housing loans



The survey-participating banks indicated that the main factors that prompted them to ease lending policy were the following: housing market forecasts (37%, see Figure 7) **and increased competition from other banks** (33%). The banks also mentioned other factors influencing changes in lending policy not included in the survey. They were, among others, implementation of the amended requirements of Recommendation S, including the shortening of the maximum period for which the borrower's creditworthiness is tested (-17%).

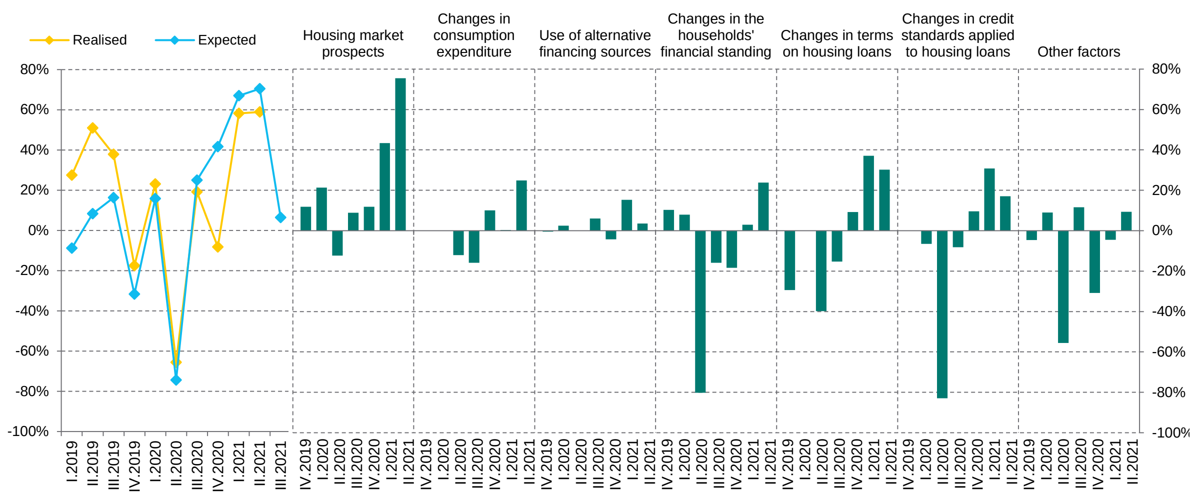
[3] Among other terms, the banks indicated a factor having the features of a loan granting criterion, i.e. not accepting sources of income with the greatest risk of volatility and loss.

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 noted a high increase in demand for housing loans in the second quarter of 2021 (net percentage of 59%, see Figure 8), **with 55%**

of the banks considering the scale of the increase to be significant. The increase was driven by, among others, housing market forecasts (75%) **and the easing of lending standards and terms on housing loans** (30% and 17%, respectively), **as well as changes in the structure of consumer expenditure** (25%) **and an improvement in the economic situation of households** (24%). The banks indicated other factors not included in the survey that had an impact on the increase. These were, among others, historically low interest rates, the rise in the inflation rate, as well as the drop in demand for loans, among others, the persistence of the risk of the spread of the COVID-19 pandemic (9%).

Forecasts of changes in housing loan standards in the third quarter of 2021 are insignificant in the group of analysed banks (net percentage of -2%, see Figure 6), although the expectations of individual banks differ (14% of the banks are planning a tightening and 12% an easing of lending policy). **The banks also have divided opinions on the direction of changes in demand in the coming quarter, although expectations that the growth trend would continue are slightly greater** (net percentage of 6%, see Figure 8).

Consumer loans

In the second quarter of 2021, the banks eased lending policy in the segment of consumer loans (net percentage of 9%, see Figure 9). However, the decisions of the banks varied – in around 27% of the banks, customers could draw a consumer loan after meeting the slightly tightened requirements and in 36% of the banks – after meeting the slightly eased requirements compared to the first quarter of 2021.

The banks changed certain terms on consumer loans by, among others, increasing the maximum loan size (net percentage of 34%, see Figure 9), lowered the credit spread (13%) and extended the maximum loan maturity (5%).

In the opinions of the survey-participating institutions, the better economic situation forecasts and growth in competitive pressure from other banks were the primary lending policy-easing factors in the consumer loans segment (28% and 25%, respectively, see Figure 10). Other factors not included in the survey and reported by the banks as influencing lending policy were, among others, a review and rationalisation of the decision-making rules for selected customer groups and increased expectations of customers in terms of the price competitiveness of loans, as well as a tightening of the rules of credit risk assessment in the case of foreigners (-8%).

Figure 9. Standards and terms on consumer loans

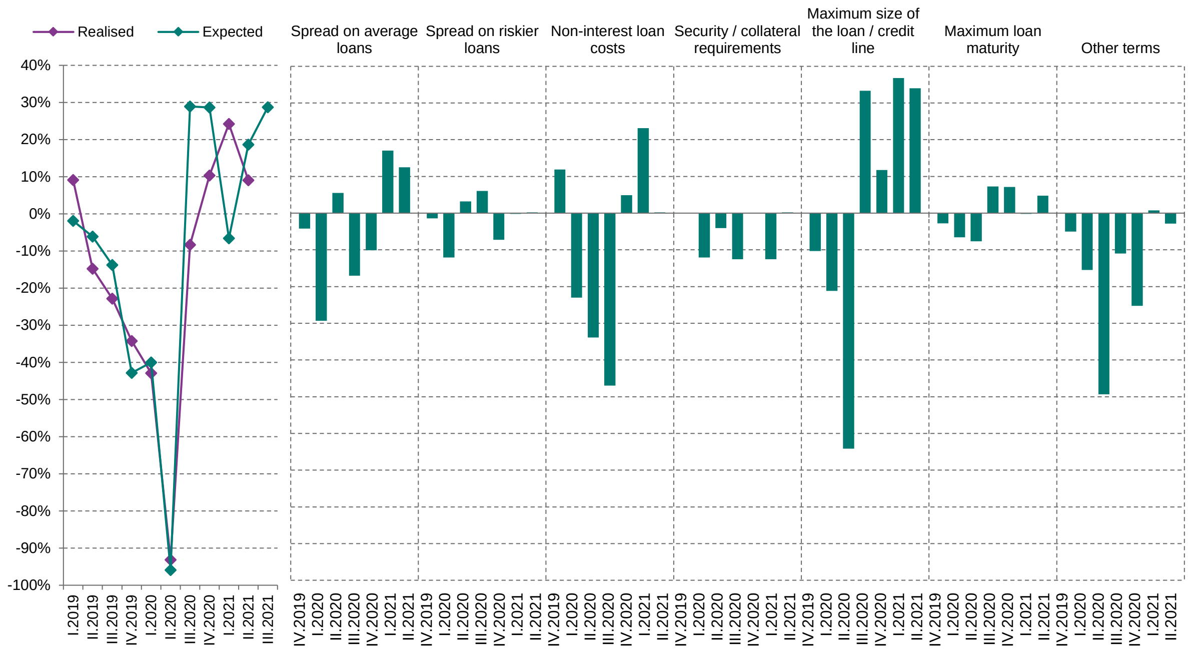
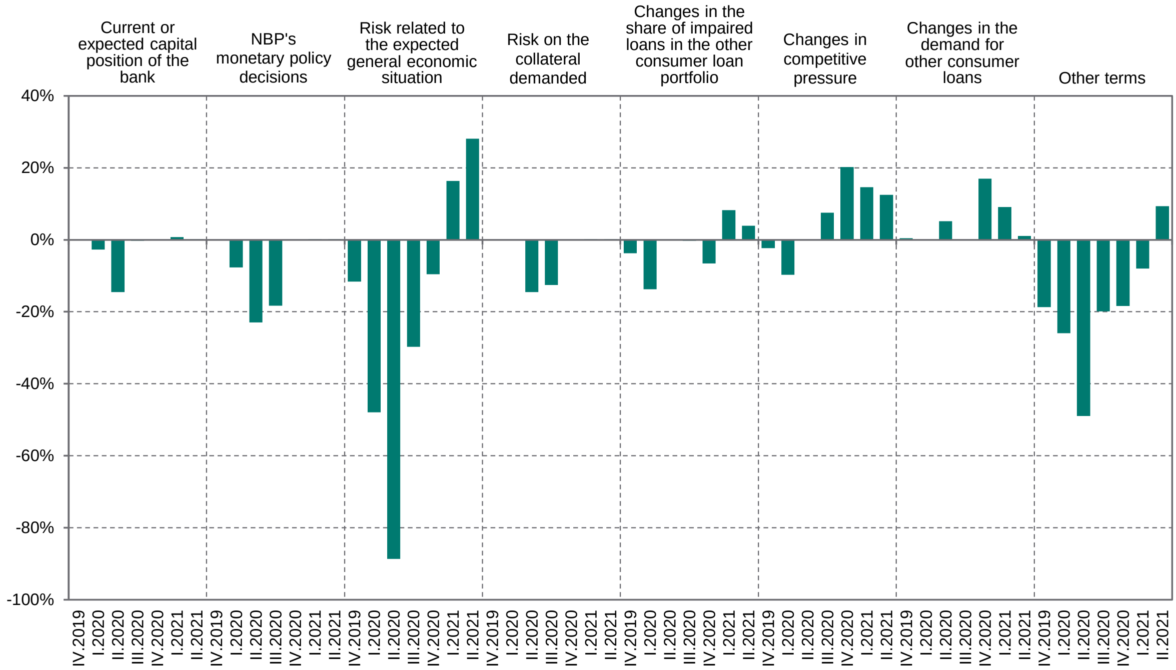


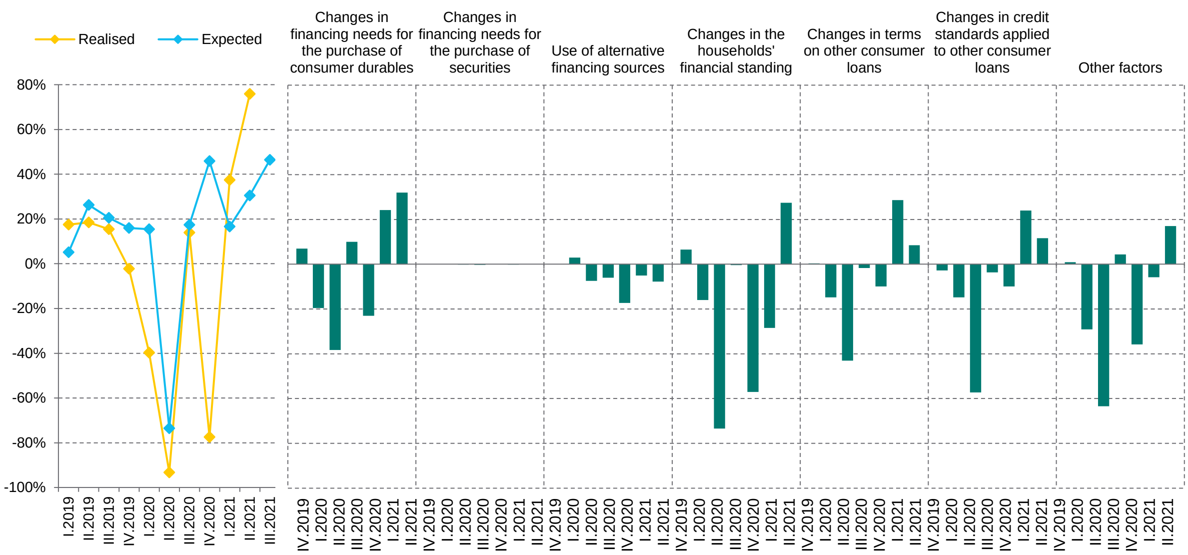
Figure 10. Factors influencing changes in lending policy – consumer loans



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

The second quarter of 2021 was another period when demand for consumer loans rose (net percentage of 76%, see Figure 11). **According to the banks, the stronger demand was the result of an increase in financing needs for the purchase of durable goods and an improvement in the economic situation of households** (32% and 28%, respectively, see Figure 11), as well as an easing of standards (12%) and terms (9%) on consumer loans. Other factors not included in the survey and reported by the banks as influencing the growth in demand were, among others, an improvement in the labour market situation, the reduced impact of the COVID-19 pandemic, and the re-opening of the economy after the last wave of the pandemic (17%).

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



In the third quarter of 2021, the banks expect the optimistic outlook for the consumer loans market to continue. They intend to continue to ease lending standards (net percentage of 29%, see Figure 9), **and also forecast a further rise in demand for consumer loans** (net percentage of 47%, 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.[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 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

[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, 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.[5]

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

[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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