NBP Narodowy Bank Polski

Senior loan officer opinion survey

on bank lending practices and credit conditions

4th quarter 2020

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Financial Stability Department
Warsaw, October 2020

Summary of the survey results

Following the initial significant tightening of lending policy in response to the outbreak of the COVID-19 pandemic, in the third quarter of 2020 banks reduced the restrictive lending standards in the segment of housing loans and reduced them very insignificantly in the segment of loans to small and medium-sized enterprises (SMEs). In the case of loans to large enterprises, the lending policy of the majority of banks remained unchanged, and lending standards were only tightened somewhat for consumer loans, in net terms.

Banks' lending policy was impacted by growing optimism resulting from the lifting of the pandemic-related restrictions, but uncertainty over future developments in the national economy prevailed. These factors were also instrumental in determining the level of demand for credit, as household demand began to recover modestly and corporate demand continued to fall. According to banks, public aid significantly constrained corporate loan demand.

Banks expect to ease lending policy in the fourth quarter of 2020. They also expect a modest rise in demand in all categories of credit to enterprises and households.

Corporate loans

Lending policy: no noticeable changes in lending policy towards large enterprises and lending standards eased somewhat towards SMEs, prompted mainly by the worsening economic situation, including the worse economic condition 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 for long-term loans, mainly driven by the lower financing needs for fixed investment and the use of public aid funds.

Expectations for the fourth quarter of 2020: an easing of lending policy, especially in the segment of short-term loans to the SME sector. A rise in demand in all segments of corporate loans.

Housing loans

Lending policy: an easing of lending standards, a rise in the credit spread amid a simultaneous increase in the loan-to-value ratio.

Demand for loans: a rise in demand, resulting, among others, from the changing situation of the housing market.

Expectations for the fourth quarter of 2020: a further easing of lending standards and a continuation of demand growth.

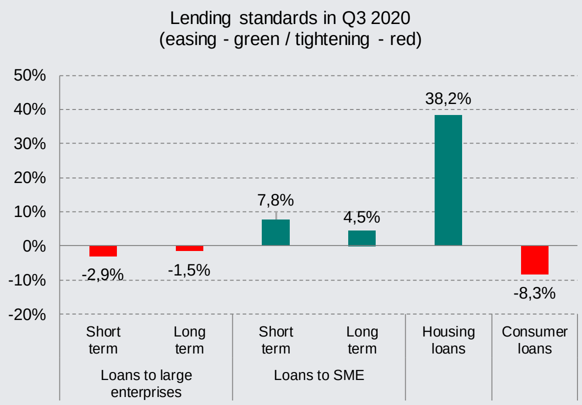
Consumer loans

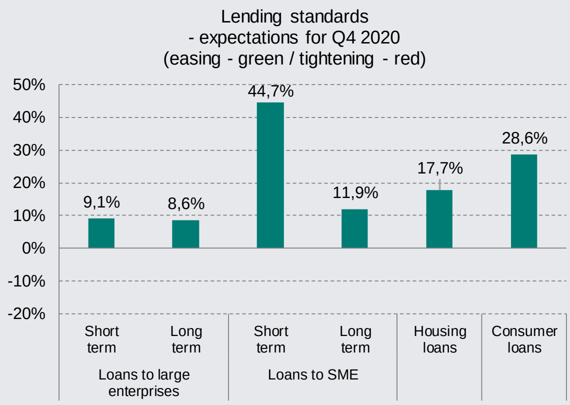
Lending policy: a (net) tightening of lending standards while the decisions vary considerably between individual banks; change in certain lending terms, including among others, an increase in non-interest loan costs but also an increase in the maximum loan size.

Demand for loans: varied opinions of banks regarding changes in demand, in net terms, demand increased slightly.

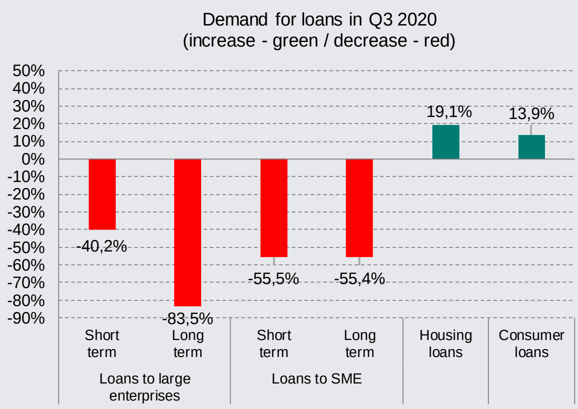
Expectations for the fourth quarter of 2020: a change in direction of the existing lending policy and its loosening. A further rise in demand.

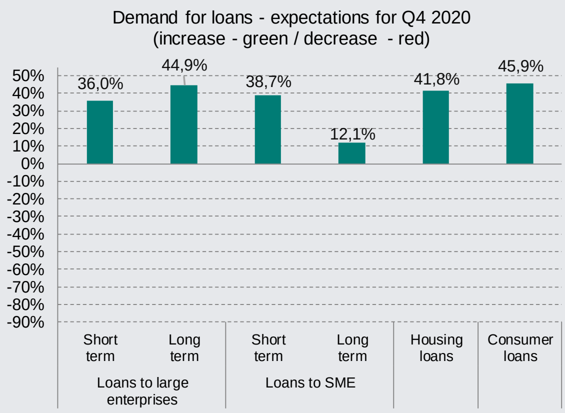
Lending standards





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 October 2020 among 24 banks with a total share of approx. 89% of 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 percentage of banks which selected a given option in response to particular questions. Banks' responses 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.

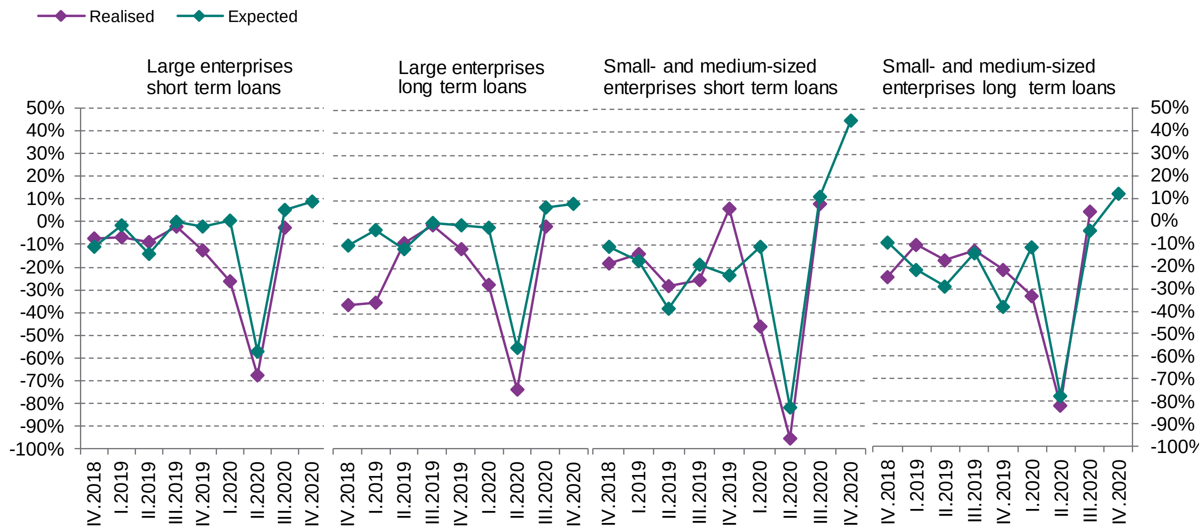
The next section presents tendencies regarding the banks' lending policy and changes in demand in the third quarter of 2020 as well as their expectations for the fourth quarter of 2020.

Corporate loans

In the third quarter of 2020, the vast majority of the survey-participating banks did not change their standards on short and long-term loans to large enterprises (net percentage of -3% and -2%, respectively; see Figure 1).

In the segment of credit to SMEs, lending policy directions varied (18% of banks continued to tighten lending policy on a large scale as 22% of banks eased their lending standards)**, and its net effect was that banks slightly eased their requirements for borrowers** (8% and 5%, respectively).

Figure 1. Credit standards on corporate loans



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 – as a lending policy tightening or a drop in loan demand. Details concerning the calculation methodology are presented in Appendix 1.

The relatively minor change in credit standards was accompanied by the tightening of most terms on corporate loans included in the survey (see Figure 2). Banks raised the credit spread (-29%) and spread on riskier loans (-29%) and increased their loan collateral requirements (-24%). However, they also lowered the maximum loan size (-10%) and raised non-interest loan costs (-5%).

Figure 2. Terms on corporate loans

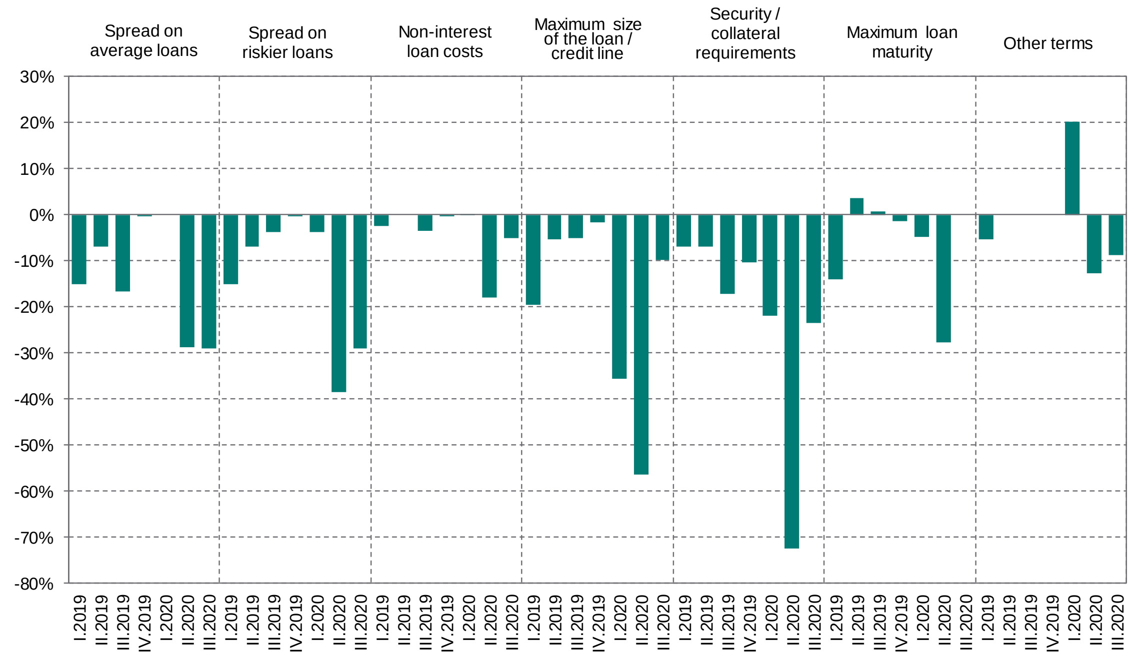
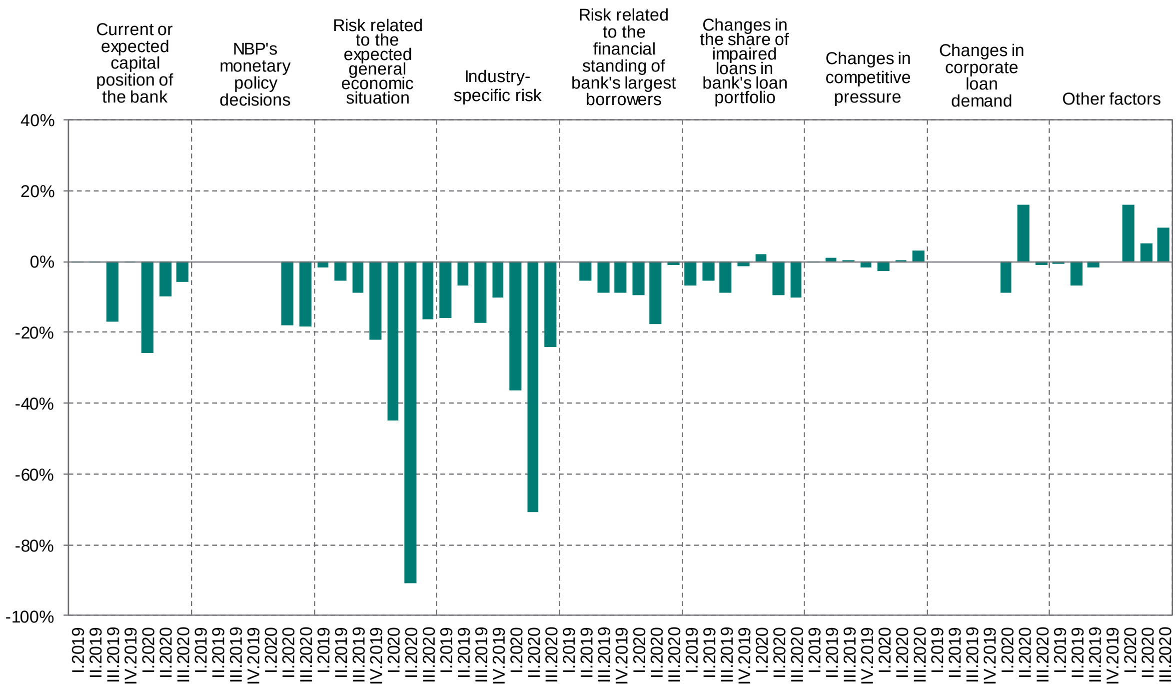


Figure 3. Factors influencing changes in lending policy

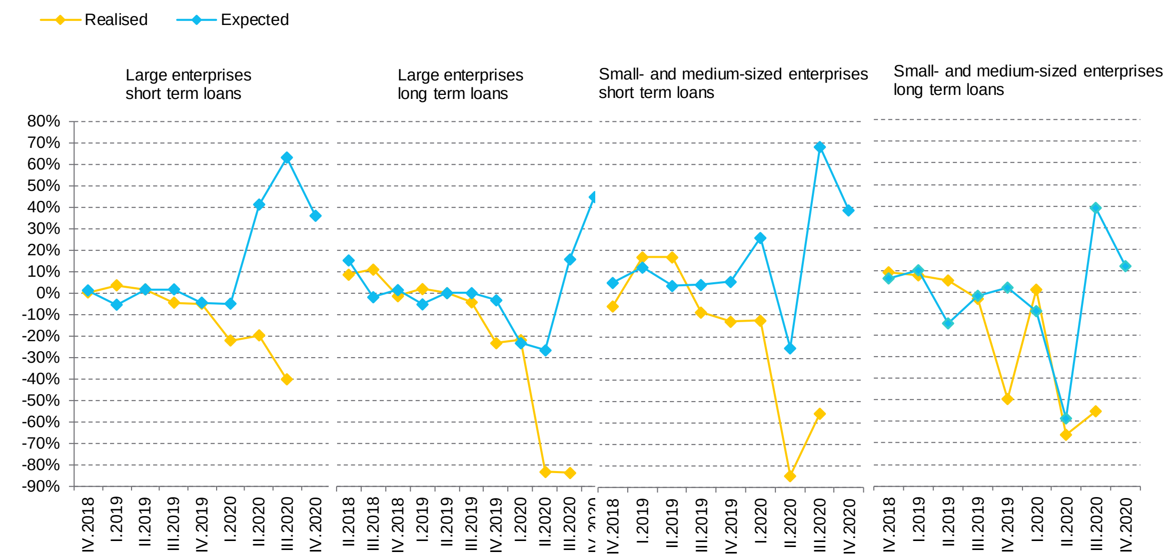


* The banks make assessments of changes in competitive pressure from other banks, non-bank financial institutions and financial markets. The figure shows the arithmetic mean of these assessments.

The survey-responding banks explained a tighter lending policy in the third quarter of 2020 with the rising risk of enterprises active in industries most vulnerable to the effects of the COVID-19 pandemic[1] (-24%, see Figure 3). Among other factors, the banks identified NBP's monetary policy decisions (-19%), a possible deterioration in the country's economic condition (-16%), and the deteriorating quality of the loan portfolio (-10%), while individual banks mentioned the worsening current and expected capital position of banks (-6%). Individual banks indicated, among others, a rise in competitive pressure from other banks as a factor contributing to the easing of lending policy (9%).

In the third quarter of 2020, the survey-participating banks observed a further fall in demand for short and long-term loans to large enterprises (-40% and -84%, see Figure 4) **and SMEs** (-56% and -55%)**.** In the case of loans to the SME sector, the majority of banks said that the magnitude of the fall in demand was significant.[2] The changes in demand surprised those banks which expected the demand to rebound quickly (net percentage of approx. 20-70%) in the previous edition of the survey. In fact, only individual banks indicated in the third quarter that the demand for short-term loans to the SME sector had grown (8%).

Figure 4. Corporate loan demand



Banks justified the falling demand mainly with lower financing needs for fixed investment (-50%) and – to a lesser extent – for inventories, working capital and mergers and acquisitions (-20% and -15%, respectively; see Figure 5). According to banks, the fact that enterprises could apply for credit from non-bank financial institutions significantly dampened the demand (-10%). Among other demand-lowering factors banks mentioned the support provided from the Polish Development Fund and other public anti-crisis support programmes (-49%). The tighter lending standards were also an important factor behind the lower

[1] Among others, transportation, food service activities and hospitality, the travel industry, renting of commercial real estate, retail trade, construction, and real estate activities.

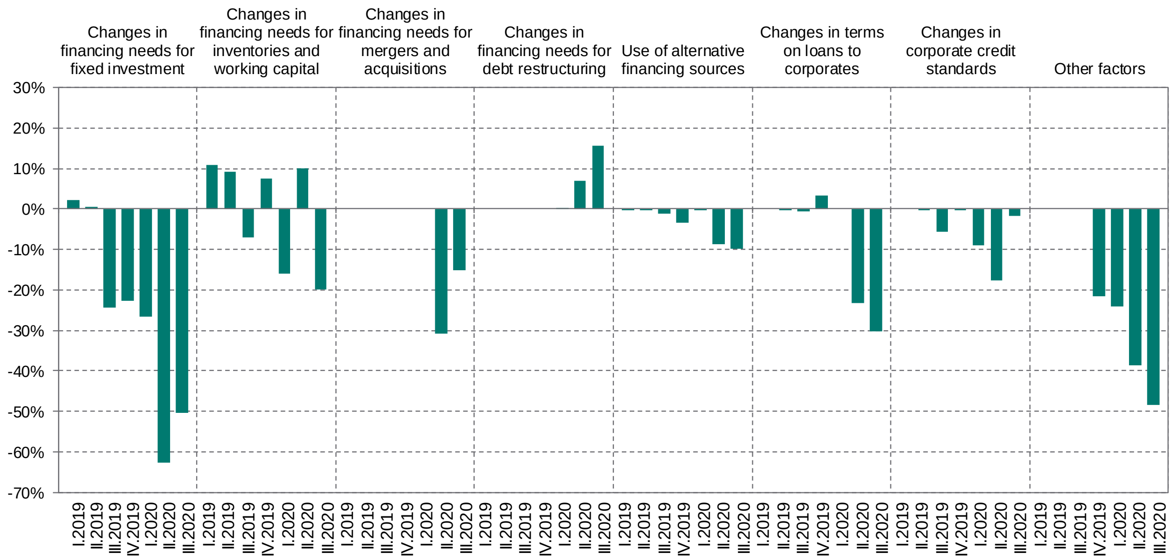
[2] When asked about the scale of changes (decrease/increase) respondents can choose from the following responses: decreased considerably and decreased somewhat and increased considerably and increased somewhat.

demand for credit from enterprises (-30%). Some of the banks reported a rise in demand as it stemmed from higher financing needs for debt restructuring (16%).

Banks expect to ease lending policy in all segments of corporate credit in the fourth quarter of 2020, claiming it will be stronger for loans to the SME sector (45% and 12%, see Figure 1). In the segment of credit to large enterprises, banks plan to ease the policy somewhat (9%).

Banks expect loan demand from large enterprises (36% and 45%, see Figure 4) **and SMEs** (39% and 12%) **to grow once the public aid programmes come to an end**.

Figure 5. Factors influencing changes in corporate loan demand



Loans to households

Housing loans

Banks eased terms on housing loans in the third quarter of 2020 (38%, see Figure 6). **They changed certain lending terms, among others, they again raised the credit spread and spread on riskier loans** (-58% and -41%, respectively; see Figure 6), but at the same time **increased the loan-to-value ratio for borrowers** (21%).

Banks were prompted to ease lending policy by, among others, the lower risk of the worsened economic situation of the country and on the housing market (10% and 8%) and an increase in competitive pressure from other universal banks and mortgage banks (17% and 6%, respectively). On the other hand, according to banks NBP's monetary policy decisions and the possible deterioration in the capital position of a bank had the largest impact on a tightening of lending policy: -43% and -10%, respectively; see Figure 7).

Figure 6. Standards and terms on housing loans

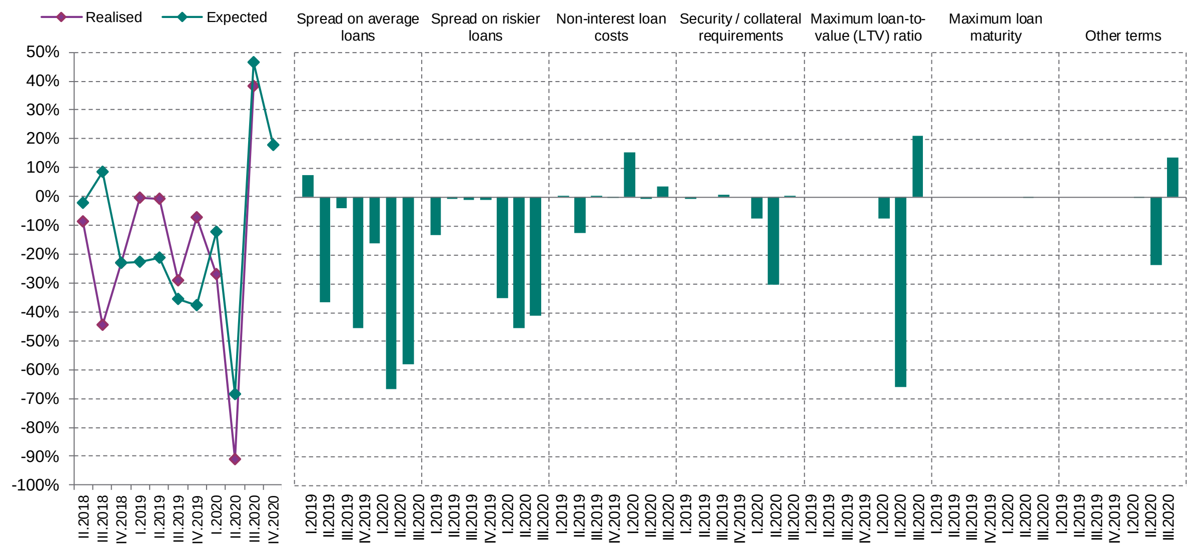
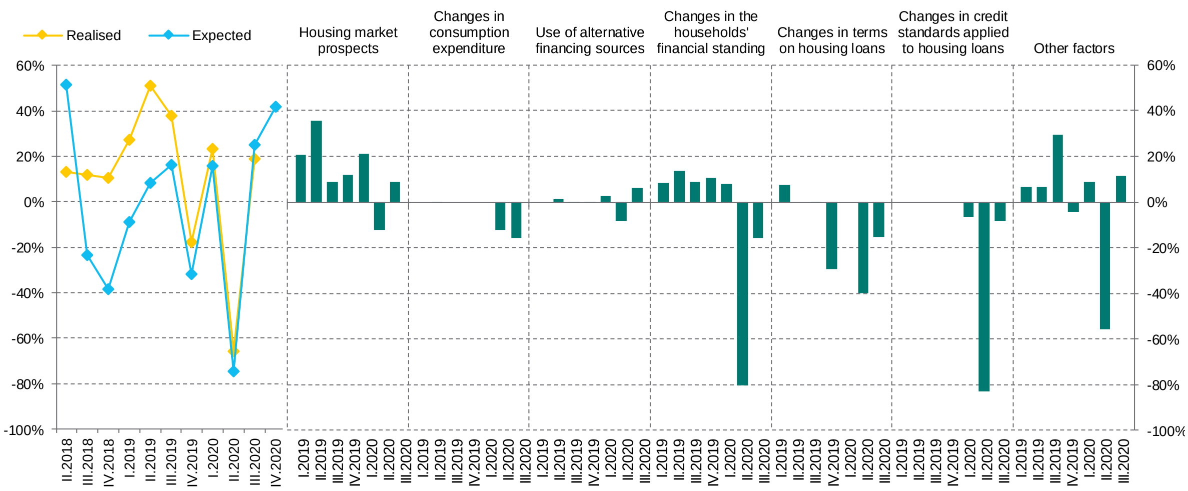


Figure 7. Factors influencing changes in lending policy – housing loans

* The banks make assessments of 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 the third quarter of 2020, banks experienced a rise in demand for housing loans (19%, see Figure 8), **with around 1/3 of the respondents pointing to a surge in demand. According to the survey-responding institutions, the higher demand was mainly driven by developments in the housing market** (31%, see

Figure 8). The demand was also pushed up by a decrease in the provision of real estate loans from other banks (9%) and the greater interest of households in depositing their savings on the housing market (9%). Banks indicated other factors not included in the survey (12%) as having an impact on higher demand, for instance, growing optimism after the pandemic-related restrictions were lifted.

Banks expect to continue to ease lending policy, albeit modestly (17%, see Figure 6), **and expect the demand for housing loans to grow further** (42%, see Figure 8) **in the fourth quarter of 2020.**

Consumer loans

In the third quarter of 2020, banks tightened lending policy in the segment of consumer loans, however the magnitude of the tightening was substantially smaller than in the second quarter of the year (-8% vs -93%, see Figure 9). The decisions of individual banks participating in the survey varied. In around 1/3 of the banks, customers could draw a consumer loan at slightly less restrictive requirements than in the second quarter, and in around 40% of the banks, credit standards were tightened again.

Banks also tightened certain terms on loans by raising non-interest loan costs (-47%, see Figure 9), and also increased the loan collateral requirements (-13%). **At the same time, banks increased the maximum loan size (33%)** and **extended loan maturity** (7%).

According to the survey-responding institutions, concerns over future developments in the economy contributed to a tighter lending policy in the segment of consumer loans[3] (-30%, see Figure 10), NBP's monetary policy decisions (-18%), higher risk associated with the collateral demanded (-13%) and other factors not included in the survey (-20%), among others, higher risk associated with the impact of the COVID-19 pandemic. A small group of banks eased lending policy due to the growing competitive pressure from other banks (15%).

[3] For housing loans, another group of banks indicated the economic outlook as a factor favouring the easing of lending policy.

Figure 9. Standards and terms on consumer loans

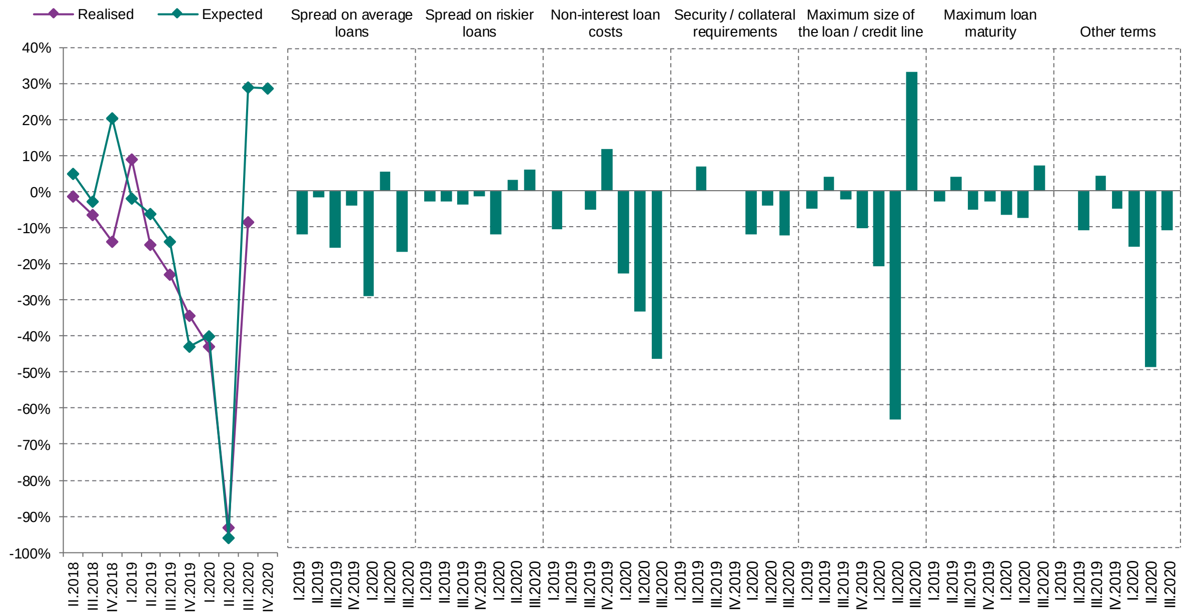
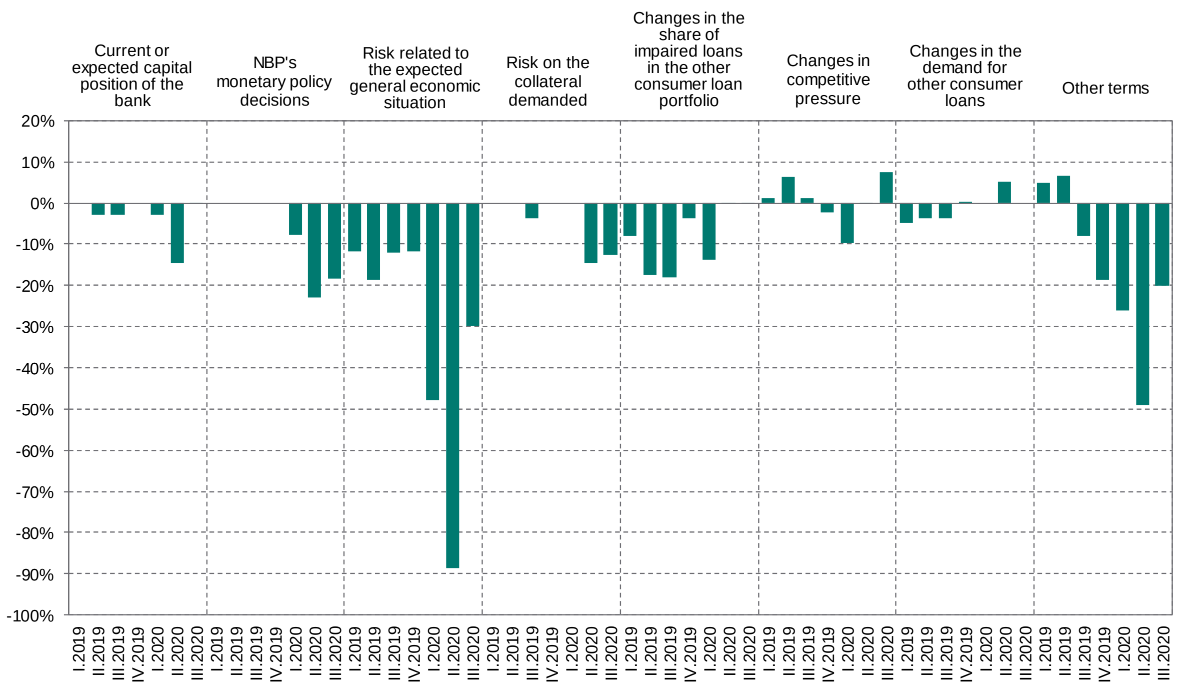


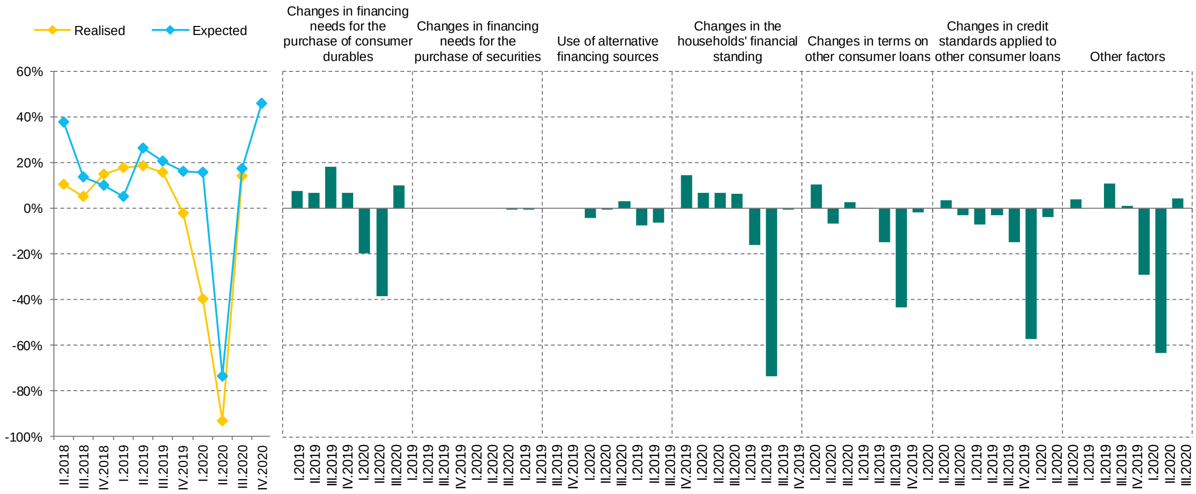
Figure 10. Factors influencing changes in lending policy – consumer loans



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

The opinions of the survey respondents regarding the direction of change in demand for consumer loans in the third quarter of 2020 varied (net percentage of 14%, see Figure 11). Certain banks argued that the demand was on an upward trend (35%), and some thought it was on a downward trend (-21%). Banks justified the higher demand with, among others, higher financing needs for the purchase of consumer durables (10%, see Figure 11). On the other hand, the fall in demand was explained by the increased use of alternative financing sources by households, including loans extended by other banks (-13%), and own savings (-5%).

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



Banks expect the direction of lending policy to change in the fourth quarter of 2020 and to ease the policy somewhat (29%, see Figure 9). They also expect **a further rise in consumer loan demand** (46%, 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 a given market segment is represented by the share of loans outstanding of a given bank in the loan portfolio of all the survey-responding 24 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

Questions no.	Market segment	Type of loans
1, 4, 6, 7	Short-term loans to small and medium enterprises	Loans outstanding from small and medium 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 outstanding on the current account
1, 4, 6, 7	Long-term loans to small and medium enterprises	Loans outstanding from small and medium enterprises with the basic term to maturity above 1 year
1, 4, 6, 7	Long-term loans to large enterprises	Loans outstanding from large enterprises with the basic term to maturity above 1 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 and other loans to households	Total loans outstanding from persons less housing loans to persons

Note: 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 a given 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

Questions 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 the expected easing of the lending policies.
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 the 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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