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Senior loan officer opinion survey

on bank lending practices and credit conditions

4th quarter 2021

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Financial Stability Department
Warsaw, October 2021

Summary of the survey results

The survey results indicate that lending policy has so far been either eased or maintained, except for the segment of housing loans, and that demand for most types of credit rose in the third quarter of 2021. The improvement of the country's economic situation was the most frequently identified factor influencing changes in credit standards on loans and a rise in demand.

For the fourth quarter of 2021, banks expect the direction of change in the credit standards to continue and the loan demand for most types of credit discussed in the survey to grow.

Corporate loans

Lending policy: credit standards on corporate loans to large enterprises to remain unchanged and credit standards on corporate loans to the small and medium-sized enterprises (SME) sector to be eased, as a result of, among other things, increased competition from other banks amid a simultaneous decrease in credit spread.

Demand for loans: a minor rise in demand for loans (except for loans in the segment of short-term loans to SMEs) in the aftermath of a pick-up of business activity, including among other things, the growth in financing needs of, mostly, investment.

Expectations for the fourth quarter of 2021: an easing of lending policy towards the SME sector and no changes in lending policy towards large enterprises. Higher demand for all segments of corporate loans, except for short-term loans to the SME sector.

Housing loans

Lending policy: lending standards to be tightened following the entry into force of certain provisions of an amended Recommendation S; a change in certain lending terms, among others, a reduction in maximum loan maturity.

Demand for loans: the growth in demand as a result, among other things, of housing market prospects and a better financial standing of households, dampened by the use of alternative financing sources.

Expectations for the fourth quarter of 2021: lending policy to be tightened and loan demand to fall.

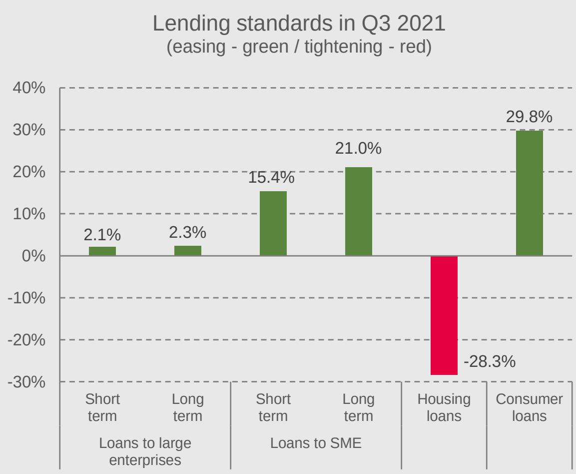
Consumer loans

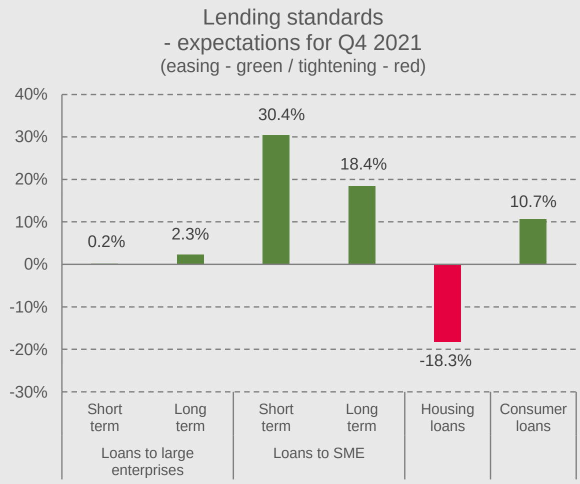
Lending policy: a continuation of lending policy easing as a result of the country's better economic situation prospects and of the growth in competitive pressure; all lending terms, including among other things, an increase in the maximum loan size and maximum loan maturity, either eased or maintained.

Demand for loans: a further rise in loan demand caused by the easing of lending standards and terms and the growth in financing needs for the purchase of consumer durables.

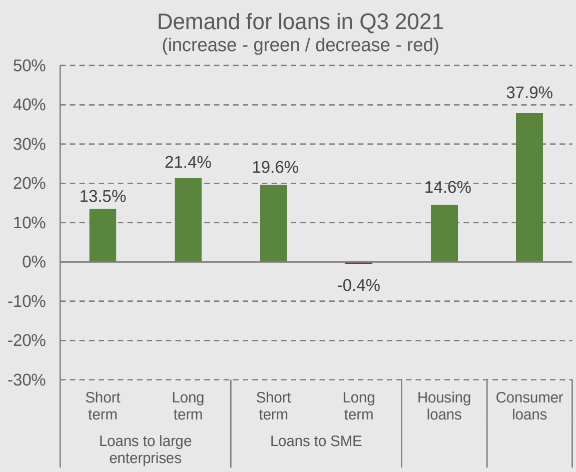
Expectations for the fourth quarter of 2021: the easing of lending policy and the growth in demand to continue.

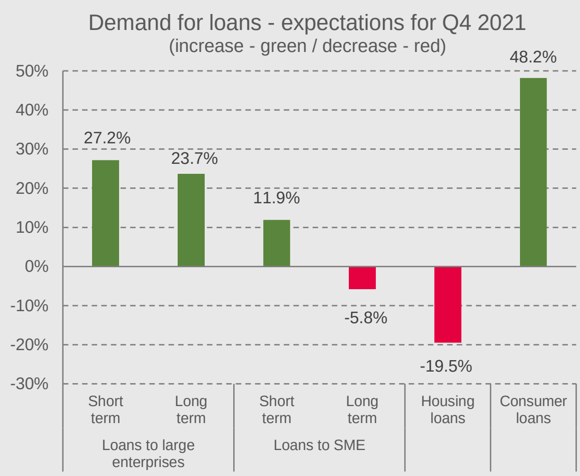
Lending standards





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 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 a 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.

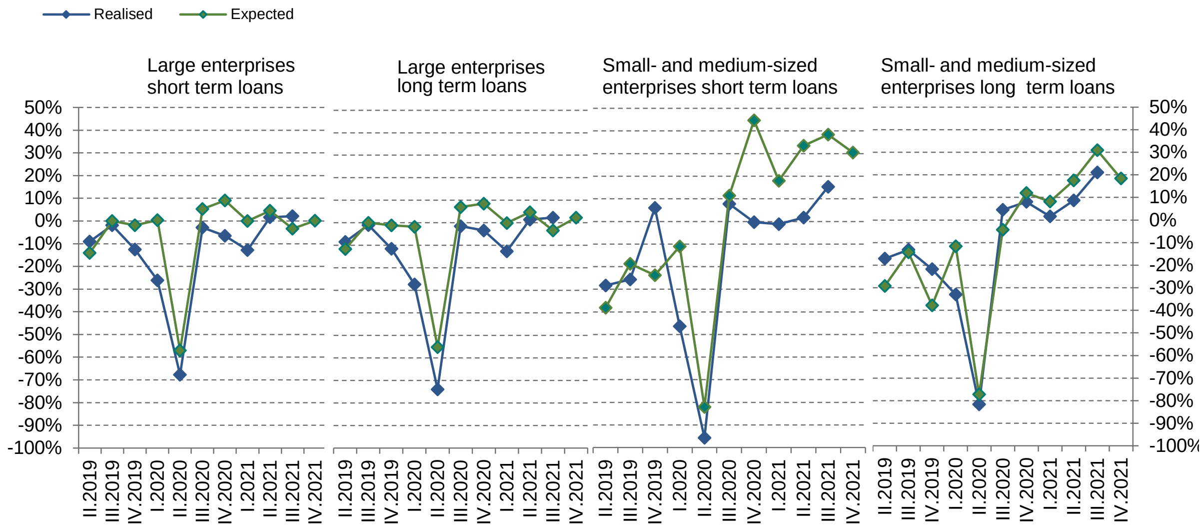
The next section presents tendencies regarding the banks' lending policy and changes in demand in the third quarter of 2021 as well as their expectations for the fourth quarter of 2021.

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 third quarter of 2021, the survey-responding banks maintained their standards on short-and long-term corporate loans to large enterprises (net percentage of 2% for both segments, see Figure 1). **On the other hand, credit standards on short- and long-term loans to SMEs have been eased** (net percentage of 15% and 21%, respectively, see Figure 1).

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.

As lending standards were eased, banks also relaxed their lending terms (see Figure 2), **among others, by reducing credit spread** (26%), decreasing non-interest loan costs (14%) and softening the loan collateral requirements (12%). Individual banks lowered the maximum loan size (-10%).

Figure 2. Terms on corporate loans

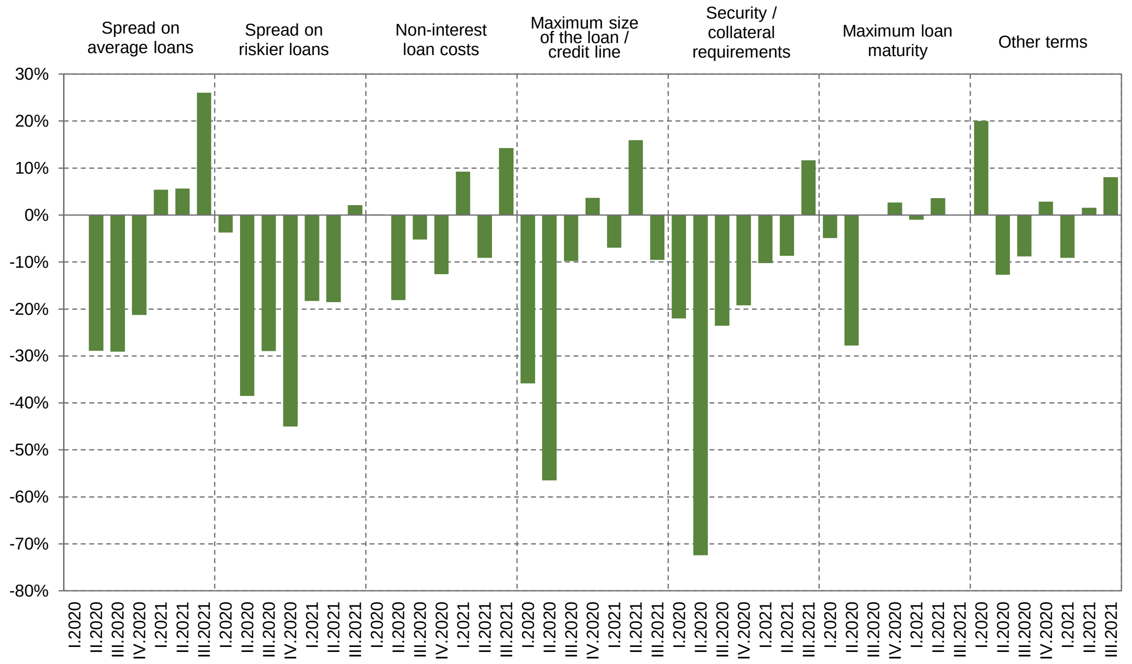
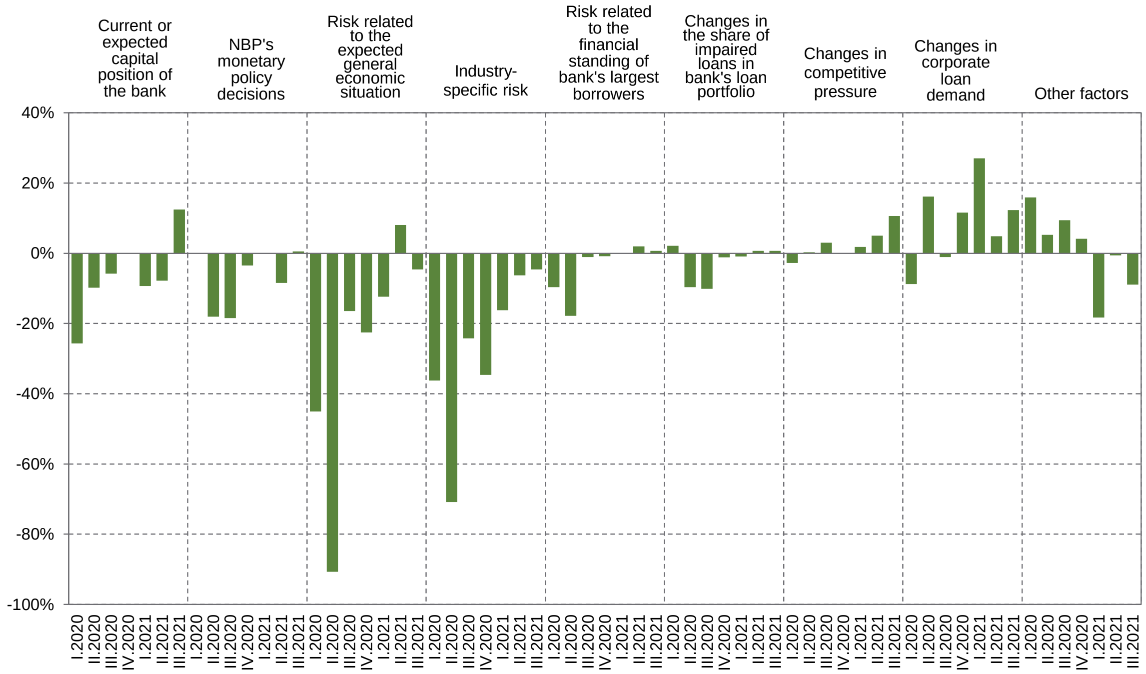


Figure 3. Factors influencing changes in lending policy

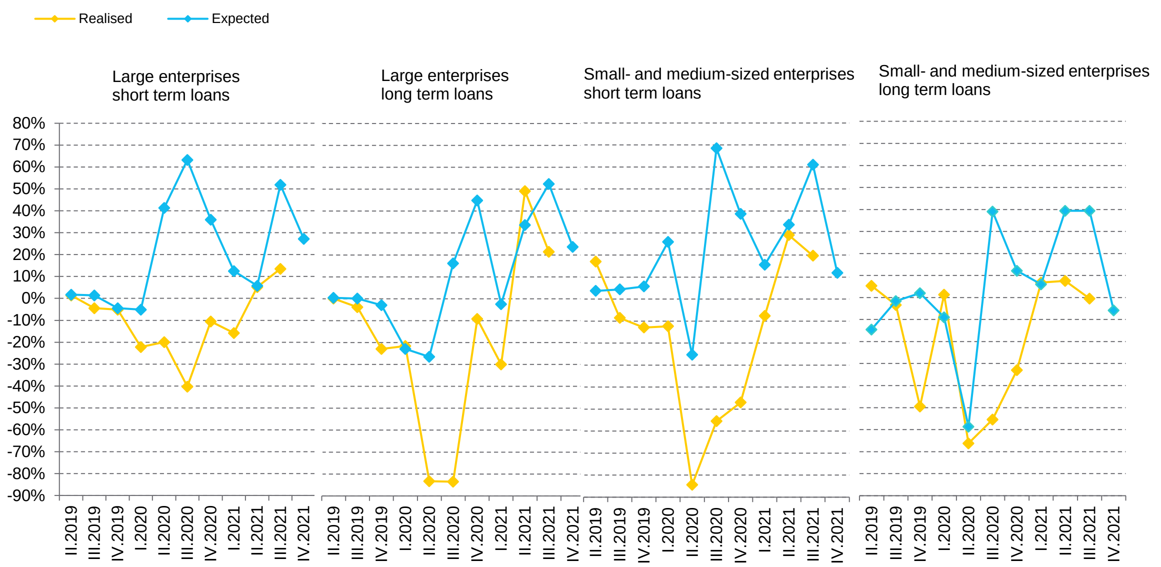


* The banks assess changes in competitive pressure from other banks, non-bank financial institutions and financial markets. The figure shows the arithmetic mean of these assessments.

The surveyed banks attributed the easing of lending policy in the third quarter 2021 to the growth in competition from other banks (net percentage of 31%, see Figure 3)**,** to their improved capital position (12%) and a fall in corporate loan demand (12%). Individual banks tightened credit standards on corporate loans to enterprises from industries most affected by the COVID-19 pandemic fallout (-5%).

In the third quarter of 2021, individual banks observed a slight increase in demand for short- and long-term loans to large enterprises and for short-term loans to the SME sector (14%, 21% and 20%, respectively, see Figure 4). As in the first two quarters of 2021, the demand for long-term loans to the SME sector changed insignificantly (0%).

Figure 4. Corporate loan demand

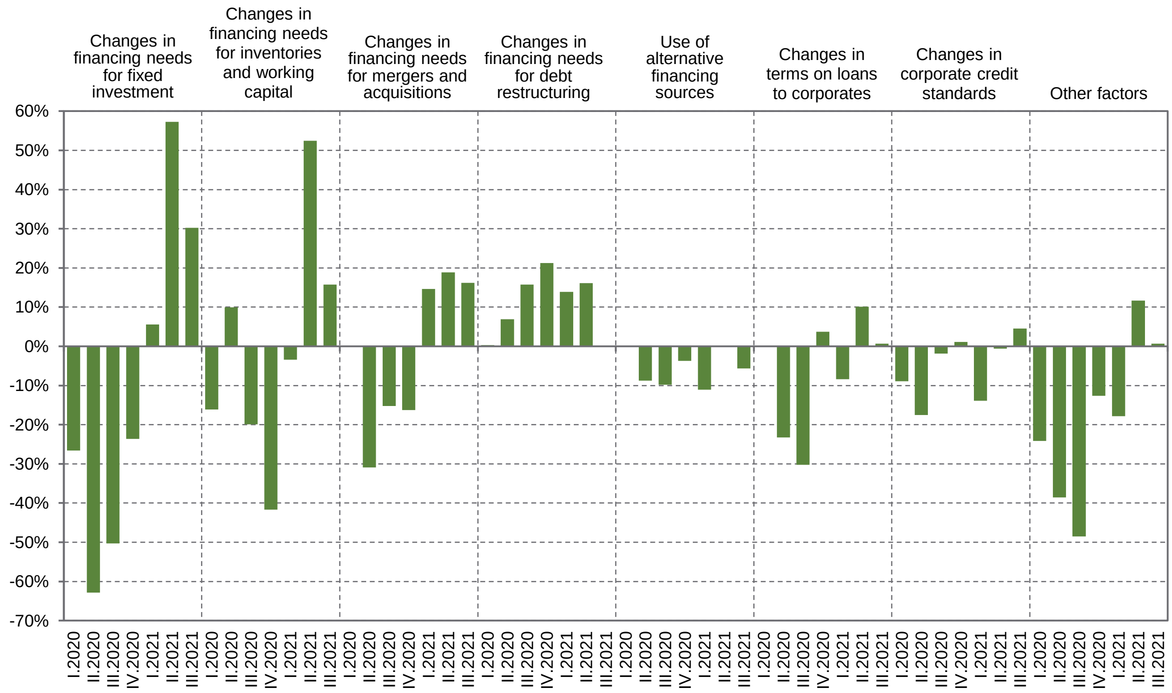


Banks have found that the improvement in demand for corporate credit may have been supported by greater financing needs for fixed investment (30%, see Figure 5) and well as for inventories and working capital, and mergers and acquisitions (for both factors 16% each). According to some surveyed banks, growing competition from other banks (-14%) and non-bank financial institutions (-14%) led to a fall in demand for loans.

As in several previous quarters, in the fourth quarter of 2021 banks have no plans to make significant changes in credit standards for large enterprises (0% and 2%, respectively, see Figure 1). **In the case of short- and long-term loans to the sector of SMEs, banks are again going to ease lending policy** (30% and 18%, respectively, see Figure 1).

Banks expect demand for short- and long-term loans to large enterprises to rise (net percentage of 27% and 24%, respectively, see Figure 4). Banks' assessment regarding changes in demand for **short- and long-term loans to the SME sector are varied, which means that, in net terms, expected changes in the sector are insignificant** (net percentage of 12% and -6%, respectively).

Figure 5. Factors influencing changes in corporate loan demand

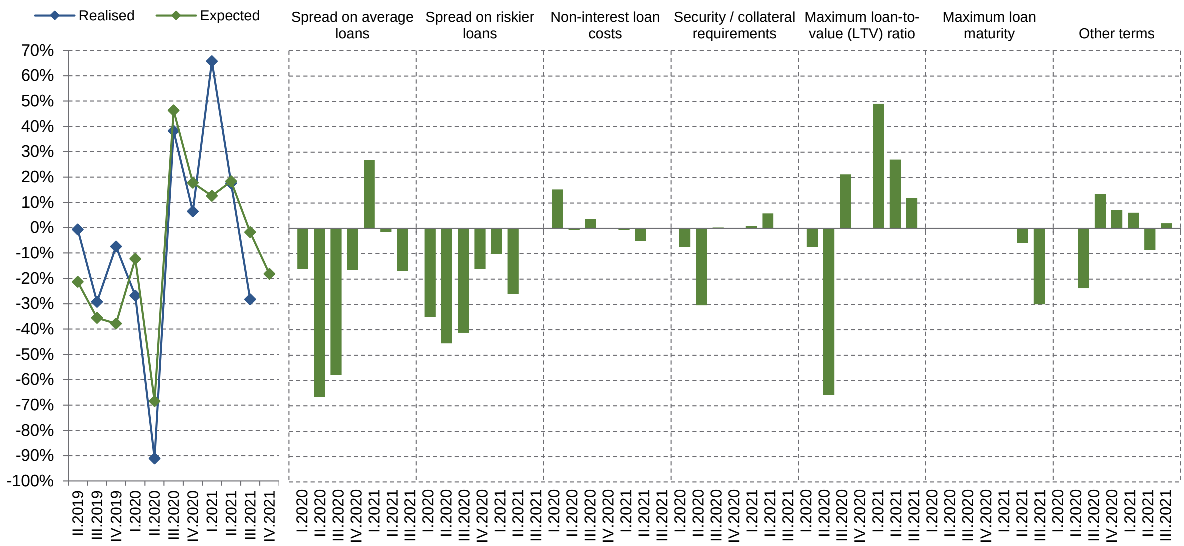


Loans to households

Housing loans

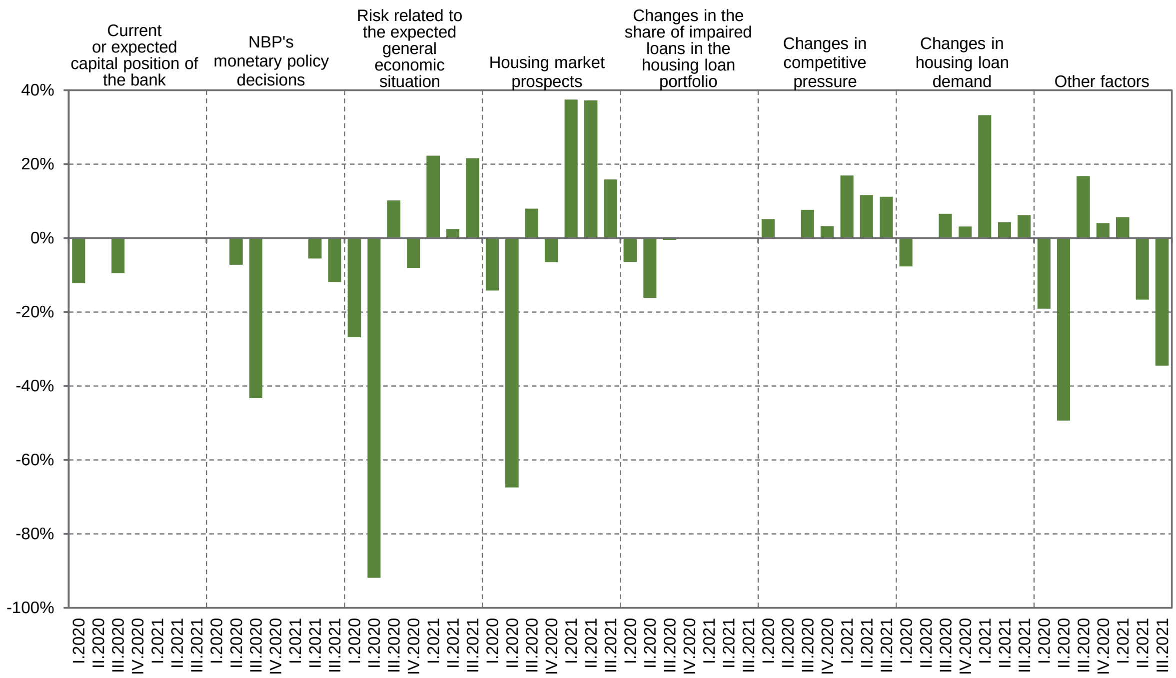
In the third quarter of 2021, banks tightened their lending policy after easing credit terms on housing loans for the past three quarters (net percentage: -28%, see Figure 6), although their opinions were discrepant – 41% banks tightened and 13% eased the standards. **Individual bank also changed certain lending terms by,** among others, reducing maximum loan maturity (net percentage: -30%, see Figure 6), and raised credit spread (-17%), but two banks increased the LTV ratio (12%).

Figure 6. Standards and terms on housing loans



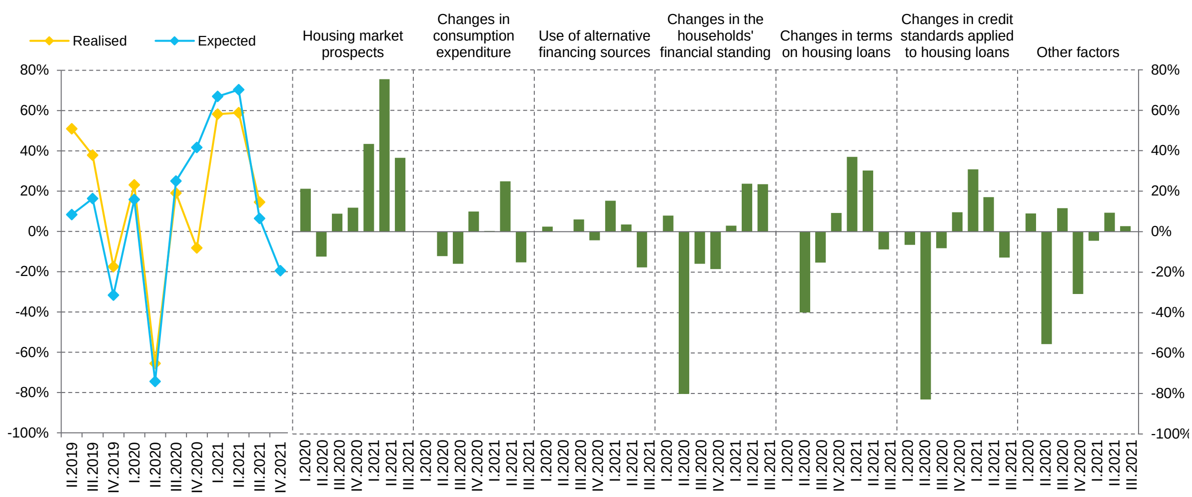
The survey-participating banks indicated that the main factor behind their decision to tighten lending policy was a factor not included in the survey, that is implementation of the amended Recommendation S requirements, including the reduction in the maximum period for which the borrower's creditworthiness was tested (-35%, see Figure 7), and also NBP's monetary policy decisions (-12%). **Forecasts of an improvement in Poland's economic situation** (22%), **increased competition from other banks** (22%) and other mortgage banks (12%), and housing market prospects (16%) **contributed to easing lending policy by banks.** Individual banks said that the reason why they eased terms on housing loans (6%) was a weakening demand for 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 the third quarter of 2021, the surveyed banks saw a rise in demand for housing loans (net percentage of 15%, see Figure 8), **however, their opinions varied – 52% of the banks reported a rise and 37% – a fall in demand.** The demand growth was driven by, among other things, housing market forecasts (37%) and a better financial standing of households (24%). Among factors affecting the rise in loan demand, the banks identified, among other things, all-time low interest rates, inflation growth, investments in real estate deemed as stable and impairment risk-free and rapidly rising real estate prices, especially on the primary market (3%). On the other hand, the fall in demand was caused – according to opinions submitted by a portion of the surveyed banks – among other things by the use of alternative financing sources (on average -18%), including credit from other banks (-21%), households' savings (-21%) and other financing sources (-11%).

The surveyed banks expect to tighten credit standards on housing loans in the fourth quarter of 2021 (net percentage of -18%, see Figure 6) and **expect the loan demand to drop** (net percentage of -20%, see Figure 8)**.**

Consumer loans

In the third quarter of 2021, **banks again eased credit standards on consumer loans** (net percentage of 30%, see Figure 9). **Banks also eased certain credit terms by,** among other things, increasing the maximum loan size (net percentage of 23%, see Figure 9) and extended maximum loan maturity (12%). Individual banks lowered their credit spreads (5%).[1]

According to opinions from the survey-participating institutions, better economic situation forecasts and growth in competitive pressure from other banks and non-bank financial institutions (24%, 30% and 13%, respectively, see Figure 10) **were the primary factors leading to the easing of lending standards.** Moreover, other lending policy-easing factors named by the banks were: a falling demand for consumer loans (12%) and the lower share of impaired loans in the portfolio of consumer loans (11%). Other factors – not included in the survey and mentioned by banks – that affected lending policy were, among other things, a review and rationalisation of the decision-making rules for selected customer groups and credit offer optimization (10%).[2]

[1] Among other changes in lending terms (4%) banks have considered factors having the nature of lending terms, such as application of the rules of credit decisions based on the scoring assessment results, and an increase in households' fixed costs.

[2] Banks also identified a factor having the nature of a lending term, i.e. an extension of loan maturity for selected products.

Figure 9. Standards and terms on consumer loans

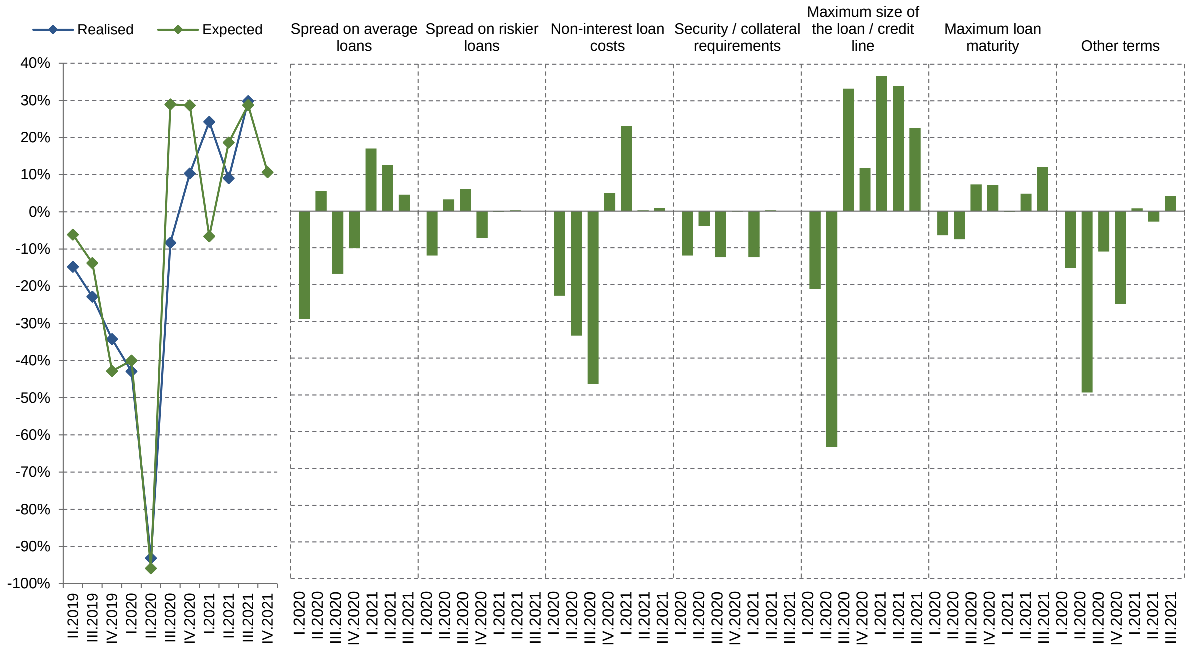
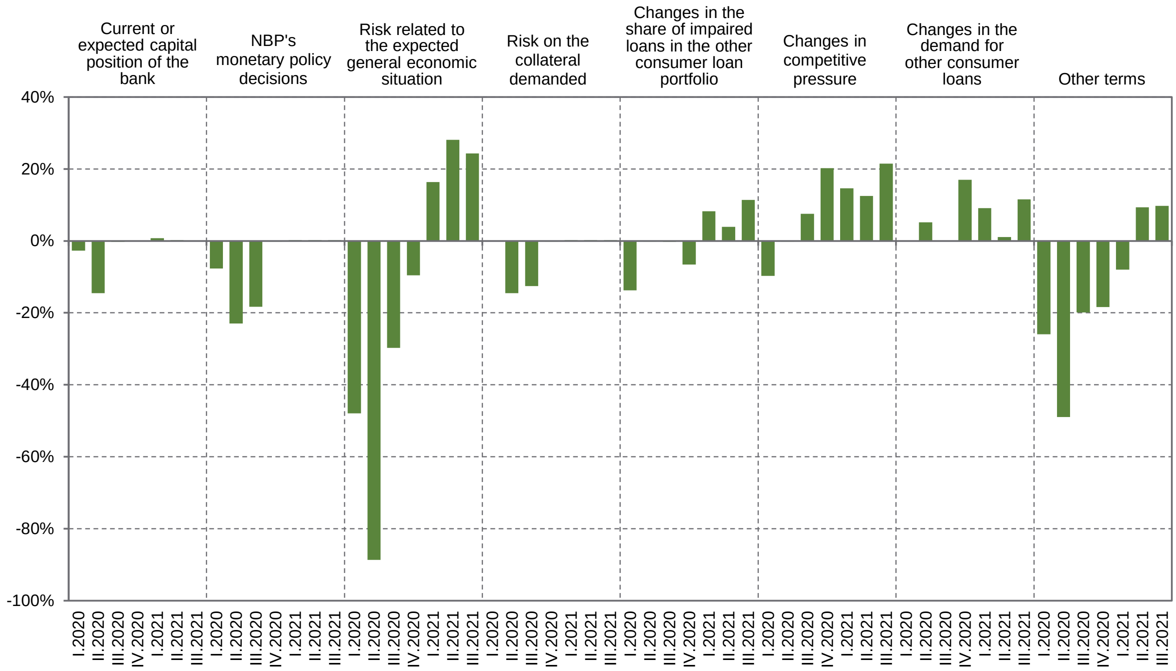


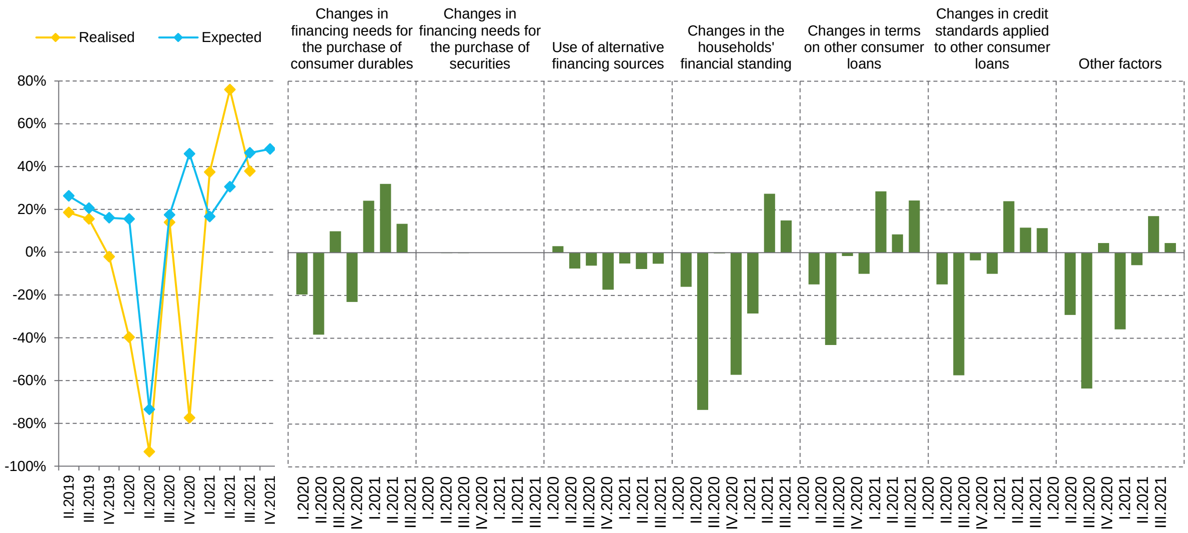
Figure 10. Factors influencing changes in lending policy – consumer loans



* 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 third quarter of 2021, banks observed a further rise in consumer loan demand, started in early 2021 (net percentage: 38%, see Figure 11). **In the banks' opinion, the easing of credit terms** (24%) and standards on consumer loans (11%) **was the factor that contributed to the growth in loan demand to the greatest extent**. Higher demand also stemmed from the better financial condition of households (15%) and higher financing needs for the purchase of consumer durables (14%). Among other reasons – not included in the survey – responsible for the growth in demand identified by the banks was a reduction of the impact of the COVID-19 pandemic (5%).

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



Banks expect the upbeat consumer loan market outlook to continue in the fourth quarter of 2021. They also intend to continue easing lending standards (net percentage: 11%, see Figure 9), **and predict a further rise in consumer loan demand** (net percentage: 48%, see Figure 11).

Appendix 1

Methodology

The survey results are presented in the form of structures, i.e. the percentages of banks which selected 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 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 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 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.

[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 showing opposite directions of changes 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 "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.

[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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