NBP Narodowy Bank Polski

Senior loan officer opinion survey

on bank lending practices and credit conditions

1st quarter 2019

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Financial Stability Department
Warsaw, January 2019

Summary of the survey results

Corporate loans

Lending policy: a tightening of lending standards; an extension of the maximum loan maturity and a decrease in the maximum loan size.

Demand for loans: no major changes.

Expectations for the first quarter of 2019: a slight tightening of lending policy and loan demand unchanged.

The last quarter of 2018 was another period in which the lending standards for small and medium-sized enterprises (SMEs) were tightened significantly.

Housing loans

Lending policy: lending standards significantly tightened; some lending terms eased somewhat by lowering, among others, the credit spread and non-interest loan costs.

Demand for loans: a modest rise in demand.

Expectations for the first quarter of 2019: banks' lending policy tightened somewhat and a substantial fall in demand.

In the fourth quarter of 2018, banks continued to tighten their lending standards, which was mainly prompted by their expectations over future developments in the economy.

Consumer loans

Lending policy: an easing of lending standards by individual banks; an extension of the maximum loan maturity and reduction of the credit spread.

Demand for loans: no major changes in demand.

Expectations for the first quarter of 2019: an easing of lending policy by individual banks, no major changes in demand.

Competitive pressure has again been a main factor influencing the easing of lending policy by banks.

Introduction

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

The survey is addressed to the chairpersons of banks' credit committees. Banks' responses may not take account of the opinions of banks' divisions other than the credit divisions. The survey was conducted in early January 2019 among 26 banks with a total share of approx. 87% in loans to enterprises and households in the banking sector's portfolio.

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

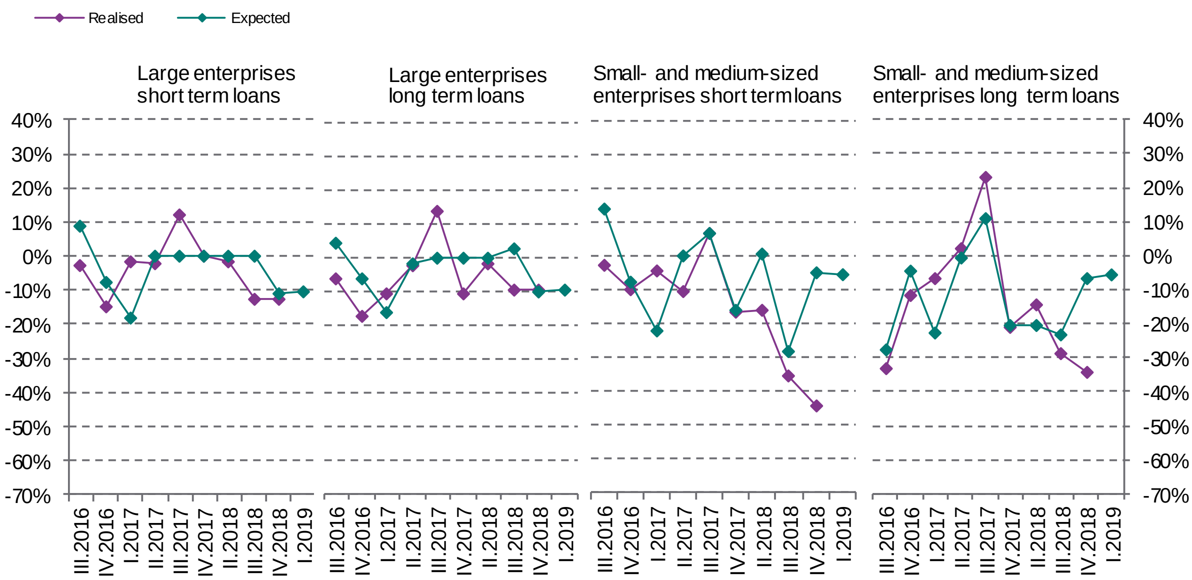
Unless otherwise indicated, the number of the banks cited in the text reporting a given change in their lending policies or in demand for loans means the net percentage of the banks.

The next section presents tendencies regarding the banks' lending policy and changes in demand in the fourth quarter of 2018 as well as their expectations for the first quarter of 2019.

Corporate loans

In the fourth quarter of 2018, the survey-responding banks tightened credit standards on corporate loans (see Figure 1). As in the previous issue of the survey, the scale of tightening was substantially bigger in the segment of loans to SMEs.

Figure 1. Credit standards on corporate loans



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

The survey-participating banks changed certain lending terms by extending the maximum loan maturity and, simultaneously, slightly lowering the maximum loan size (net percentage of around 12% and -6%, respectively, see Figure 2). Other terms on corporate loans did not change significantly.

The banks which tightened their lending policy in the fourth quarter of 2018 explained the move mainly by their current or expected capital position and an increase in risk associated with lending to entities in certain industries (construction, trade and car rental) (net percentage of around -19% and -6%, respectively, see Figure 3). **On the other hand, competitive pressure was behind the easing of lending policy** (net percentage of around 10%).

Figure 2. Terms on corporate loans

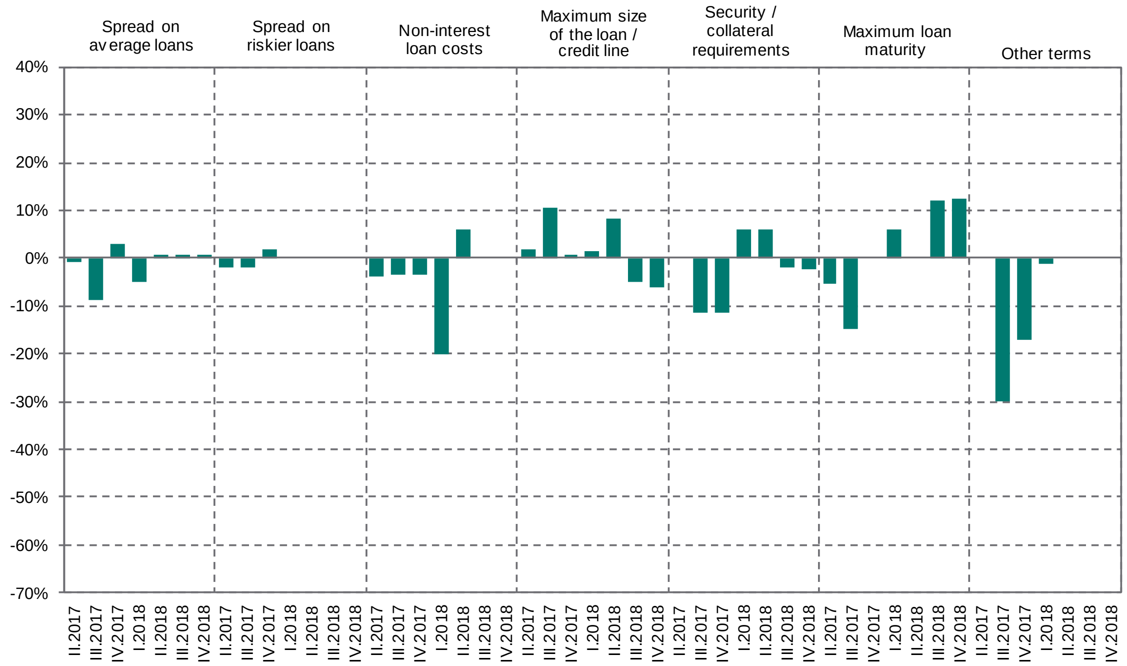
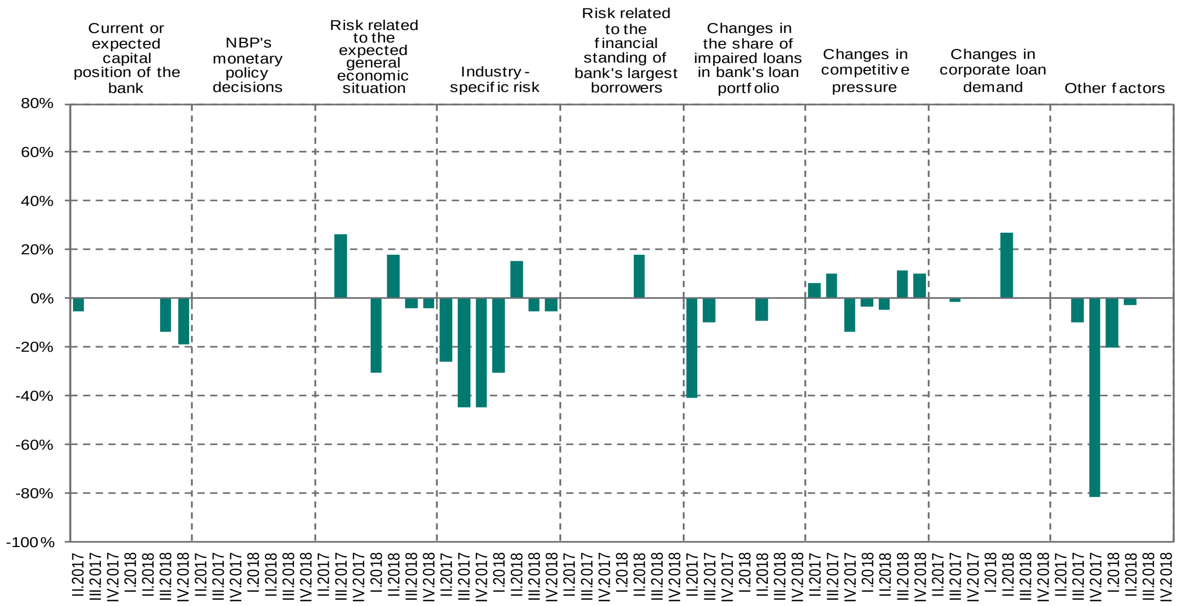


Figure 3. Factors influencing changes in lending policy



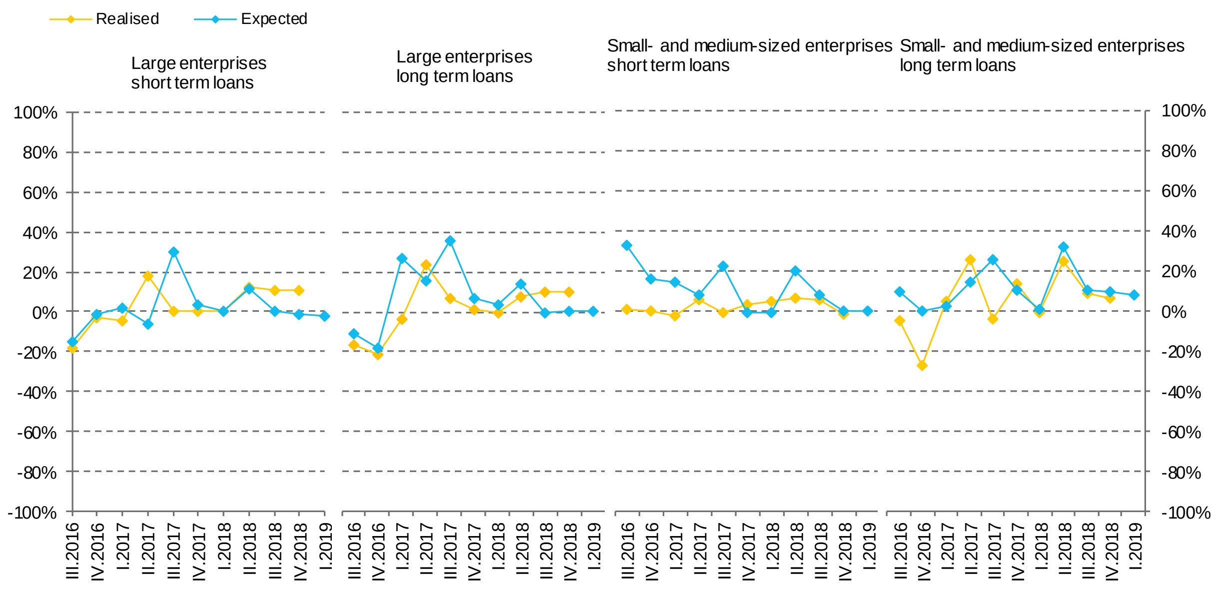
Notes:

* 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.

Information on factors influencing changes in lending policy is provided exclusively by the banks that have changed it

Since early 2018, changes in corporate loan demand reported by the survey-participating banks have been very small. In the fourth quarter of 2018, rising loan demand from large enterprises was observed by individual banks, while in the SME segment changes in loan demand were multi-directional, which yielded a low net percentage (see Figure 4).

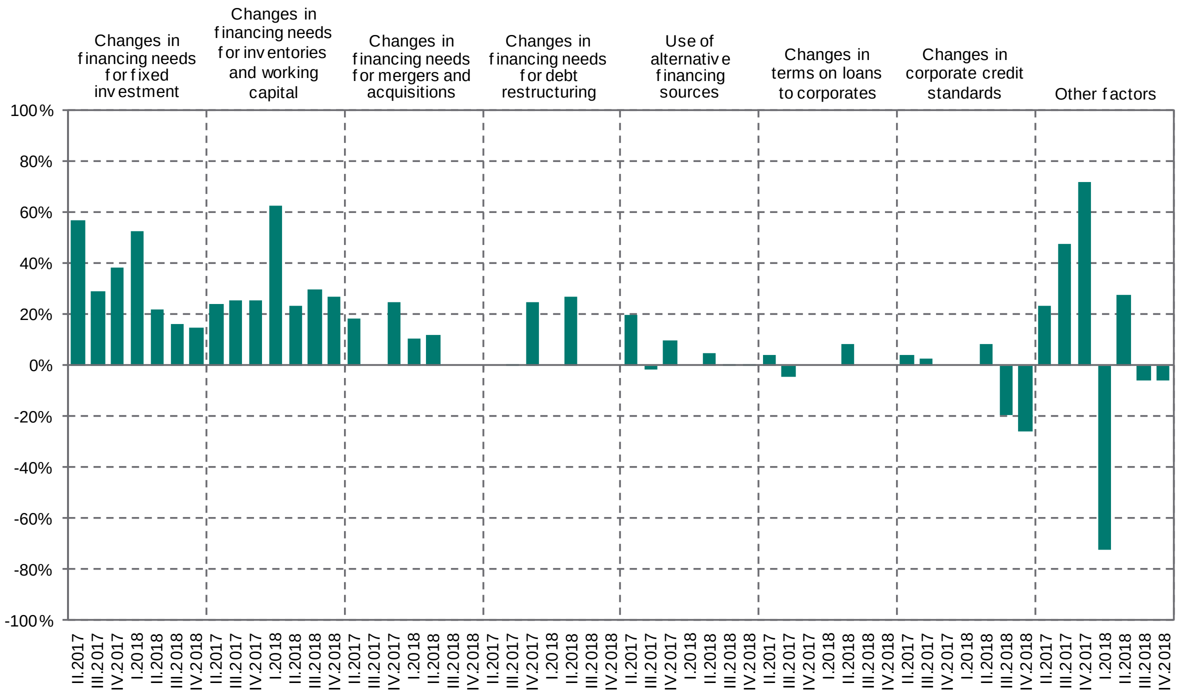
Figure 4. Corporate loan demand



The banks that were affected by a rise in corporate loan demand explained it mainly by higher financing needs for inventories and working capital, and higher financing needs for fixed investment (net percentage of around 27% and 15%, respectively, see Figure 5). On the other hand, the banks that experienced a fall in demand explained it with their move to tighten credit standards on corporate loans (net percentage of around -26%).

Individual banks expect to continue tightening lending policy in the corporate loan segment in the first quarter of 2019 as the majority of them do not expect loan demand from enterprises to change.

Figure 5. Factors influencing changes in corporate loan demand



Note: Information on factors influencing changes in loan demand is provided exclusively by the banks that have observed change in demand.

Loans to households

Housing loans

In the fourth quarter of 2018, banks again tightened credit standards on housing loans substantially (net percentage of around -61%, see Figure 6). A number of banks which had reported no plans to tighten the standards decided to do so. **At the same time, banks lowered the credit spread and non-interest loan costs** (net percentage of around 23% and 14%, respectively, see Figure 6).

According to the survey-responding banks, the change in lending policy was prompted mainly by their expectations over future developments in the economy and other factors not included in the survey, among others, a more restrictive approach to the calculation of income of clients operating a business during creditworthiness calculation assessment (net percentage of around 40%, see Figure 7).

Figure 6. Standards and terms on housing loans

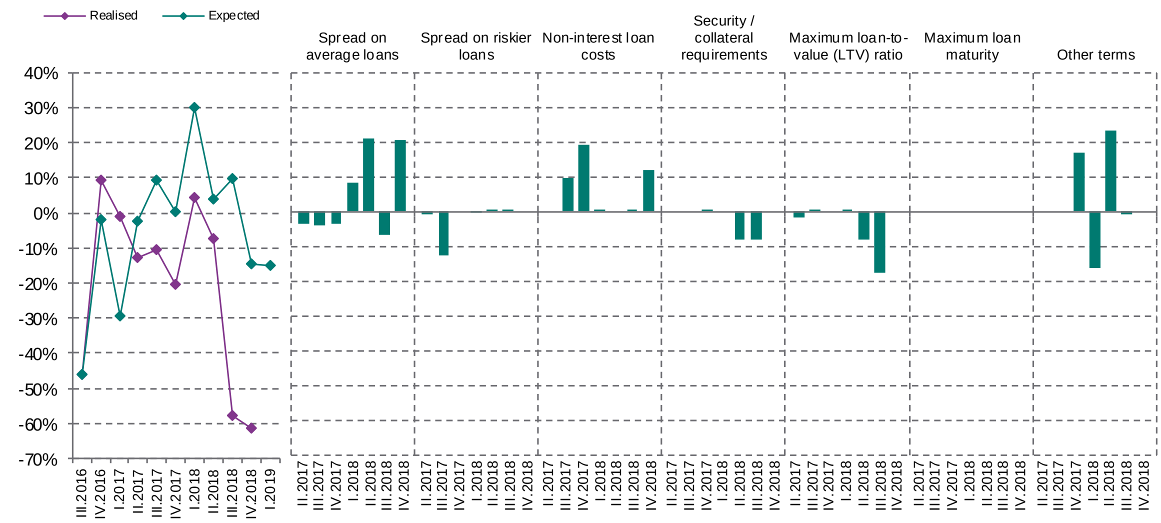
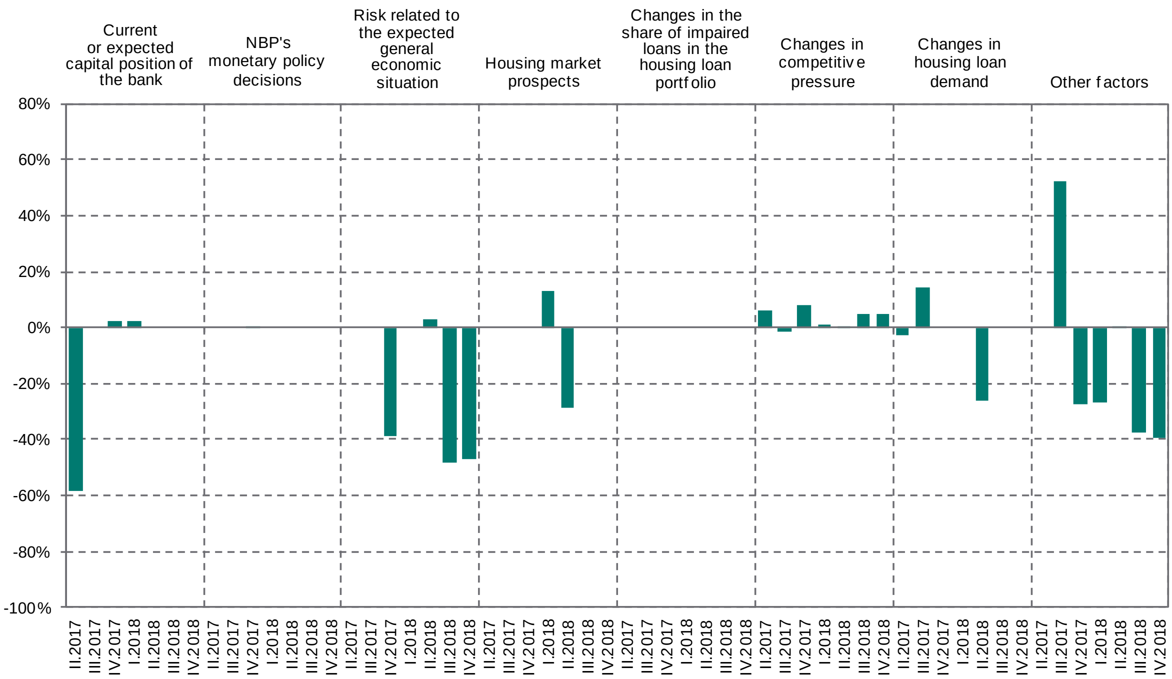


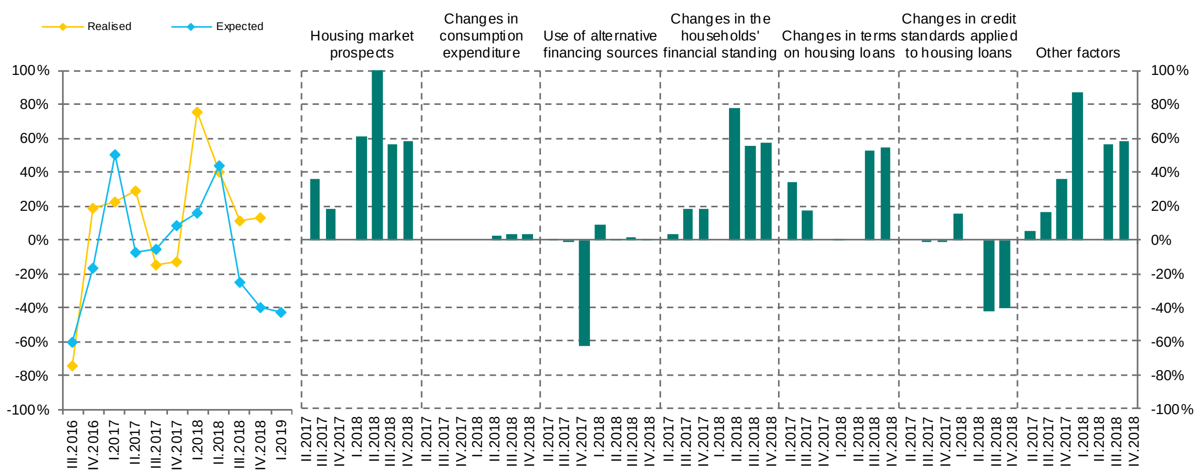
Figure 7. Factors influencing changes in lending policy – housing loans



Notes:
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.

Information on factors influencing changes in lending policy is provided exclusively by the banks that have changed it.

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



Note: Information on factors influencing changes in loan demand is provided exclusively by the banks that have observed change in demand.

Contrary to expectations from the previous quarter, banks observed a modest rise in demand for housing loans (net percentage of around 13%, see Figure 8).

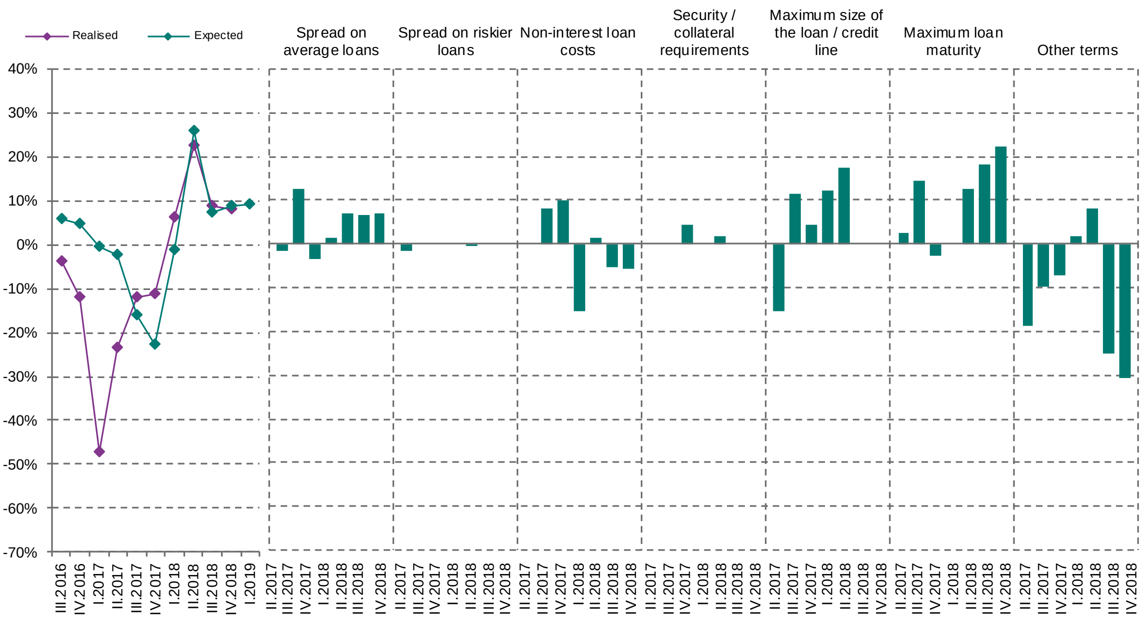
In the survey-responding institutions' view, the growth in demand was mainly driven by housing market forecasts, the improvement in the economic situation of households and the easing of terms on housing loans (net percentage of around 58%, 58% and 55%, respectively, see Figure 8). The demand growth was also driven by factors not included in the survey, i.e. an improvement of the macroeconomic situation (net percentage of around 58%). **On the other hand, the tightening of lending standards contributed to a fall in housing loan demand** (net percentage of around -40%).

Banks expect lending policy in the segment of housing loans to be tightened somewhat in the first quarter of 2019 (net percentage of around -15%, see Figure 6) **and expect loan demand to decline significantly** (net percentage of around -42%, see Figure 8).

Consumer loans

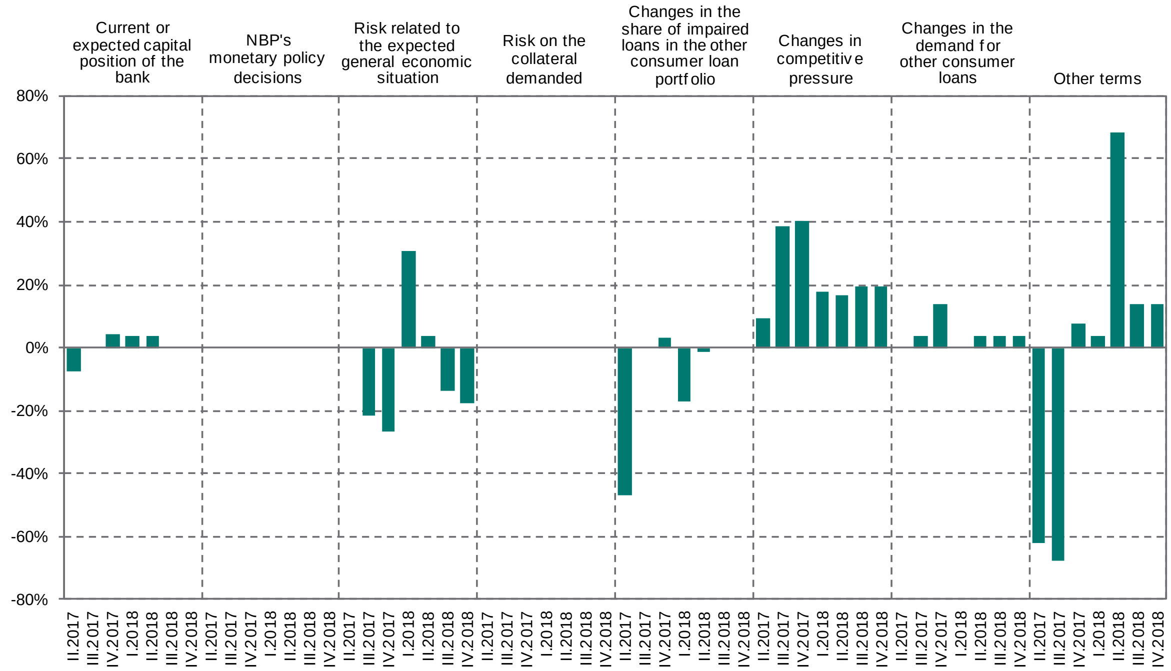
In the fourth quarter of 2018, individual banks eased standards on consumer loans (net percentage of around 8%, see Figure 9). **In addition, banks eased certain lending terms by extending the maximum loan maturity and lowering the credit spread** (net percentage of around 22% and 7%, see Figure 9). At the same time, banks pointed to a tightening of terms not included in the survey, among others, the reduction of the maximum acceptable risk level (net percentage of around -31%). Other terms on consumer loans did not change significantly.

Figure 9. Standards and terms on consumer loans



According to the banks that eased lending policy in the segment of consumer loans, their move was mainly motivated by competitive pressure, mostly from other banks, and other factors not included in the survey, i.e. findings from product profitability analysis (net percentage of around 19% and 14%, see Figure 10). On the other hand, lending policy was tightened on expectations over future developments in the economy (net percentage of around -17%).

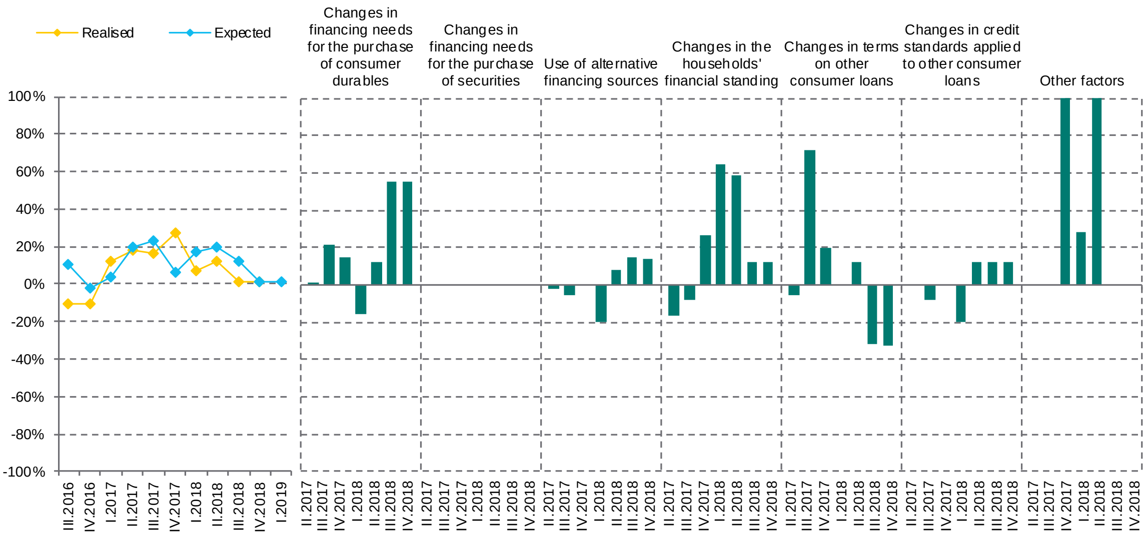
Figure 10. Factors influencing changes in lending policy – consumer loans



Notes:
The banks assess changes in competitive pressure from other banks and non-bank financial institutions. The figure shows the arithmetic mean of these assessments.
Information on factors influencing changes in lending policy is provided exclusively by the banks that have changed it.

In the fourth quarter of 2018, demand for consumer loans did not change substantially (net percentage of around 1.3%, see Figure 11). **The banks that observed a rise in consumer loan demand attributed it mainly to higher financing needs for durable goods, the lower use of alternative funding sources, an improvement in the economic situation of households and the easing of terms on consumer loans** (net percentage of around 55%, 14%, 12% and 12%, respectively, see Figure 11). **On the other hand, the banks that experienced a fall in demand explained it with the tightening of terms on corporate loans** (net percentage of around -33%).

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



Note: Information on factors influencing changes in loan demand is provided exclusively by the banks that have observed change in demand.

Individual banks expect lending policy to be eased in the first quarter of 2019 (net percentage of around 9%, see Figure 9) **and lack of a major change in loan demand** (net percentage of around 1.2%, see Figure 11).

Appendix 1

Methodology

The results of surveys are presented in the form of structures, i.e. the percentages of banks, which chose 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. Weighing of responses is a solution frequently applied in preparation of results of qualitative surveys.[1]

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 26 banks responded to the survey, broken down by particular types of loans. The following table 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 relate to residents only.
Source: NBP.

[1] Cf.: M. Bieć *„Business survey: Methods, techniques, experience"*, Papers and Materials of the Research Institute for Economic Development, No. 48, Warsaw School of Economics, pp. 71-114.

Thus a weight, corresponding to a given bank's share in a given market segment is assigned to particular responses. At the calculations of weights the average amount of claims of a given type in the two first months covered by the survey, was taken into account.[2] Where a bank marked "Not applicable" in the response options, a weight of 0 was assigned. Thus while calculating the structures for particular questions, only banks being active in a particular market segment were taken into account.

Apart from structures, the so-called net percentage was calculated for each response, that is the difference between the percentages of responses showing opposing 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 the following 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

[2] No data on claims loans of particular banks in the third month of the period are available at the time of analysing the results of the survey, due to an about three-week delay in reporting..

	the expected increase in demand.

Source: NBP.

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