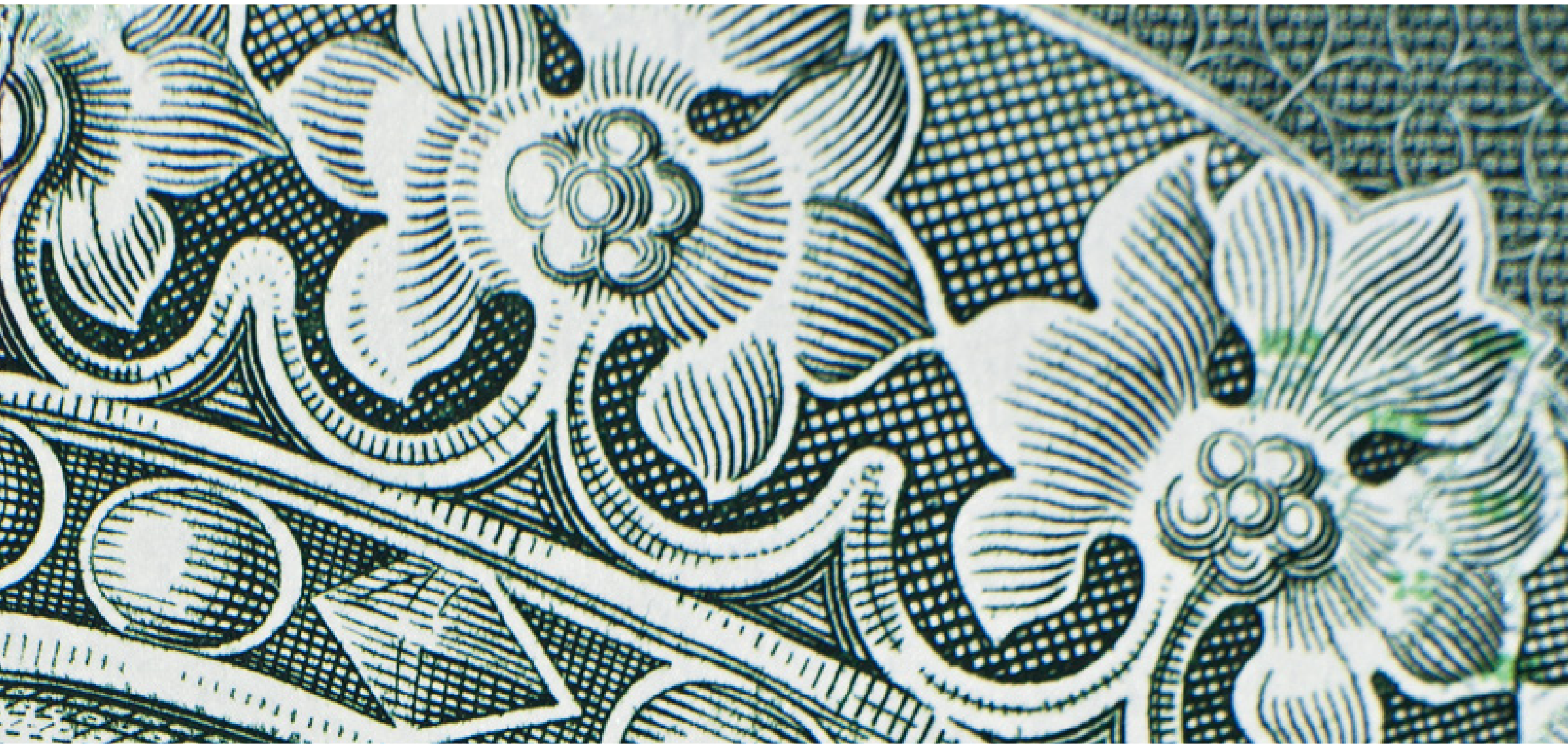
NARODOWY
BANK POLSKI

Senior loan officer opinion survey

on bank lending practices and credit conditions

2nd quarter 2022



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Financial Stability Department
Warsaw, April 2022

Summary of the survey results

The Russian Federation's aggression against Ukraine and its economic and social fallout significantly reduced credit market activity in the first quarter of 2022. Banks tightened standards on all types of credit and reported a fall in demand in the majority of segments of the credit market, except for short-term loans to large enterprises and long-term loans to small and medium-sized enterprises (SMEs). The increase in interest rates was the second most-identified factor behind banks' decision to tighten lending standards, and a rise in financing needs for working capital and the deteriorating condition of households – behind a change in demand.

For the second quarter of 2022 banks announce a further tightening of lending policy for enterprises and households and expect demand for most types of credit (besides short-term loans to large enterprises) indicated in the survey to fall. Attention is drawn to banks' significantly differing assessments of lending policy and demand developments in the segment of consumer loans in the future.

<u>Corporate loans</u>

Lending policy: a tightening of lending standards for all types of credit to enterprises, with no significant changes in lending terms.

Demand for loans: little changes in demand – mainly for loans to large enterprises: a rise in demand for short-term loans stemming from the increase in financing needs for working capital and a fall in long-term loans due to, among other factors, increased risk associated with the war in Ukraine.

Expectations for the second quarter of 2022: a further tightening of lending policy for enterprises of a similar scale as in the first quarter; a significant drop in demand for loans (long-term loans, in particular), except for demand for short-term loans to large enterprises.

<u>Housing loans</u>

Lending policy: a tightening of lending standards justified by worse economic situation prospects and the interest rate hike; an easing of certain lending terms, including among others, a decrease in the credit spread.

Demand for loans: loan demand falling again from, among others, the shift in the structure of consumer spending, the worse financial standing of households and worsened housing market prospects.

Expectations for the second quarter of 2022: the scale of lending policy tightening more than doubled and falling demand to continue.

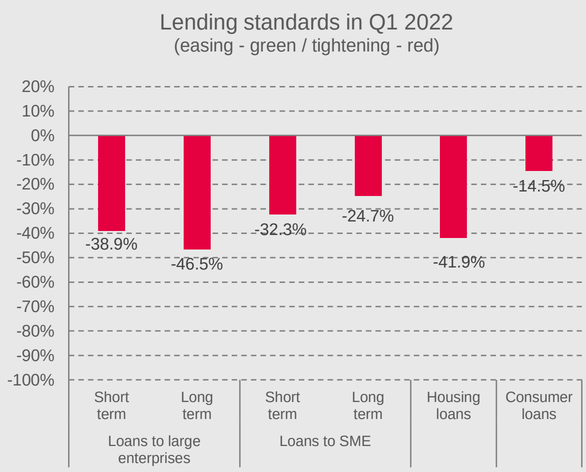
<u>Consumer loans</u>

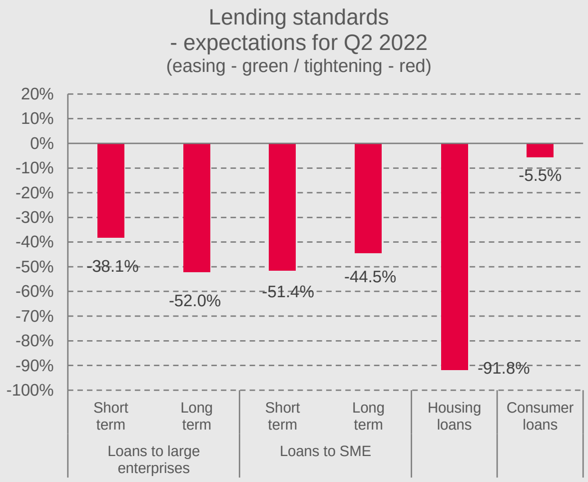
Lending policy: varied changes in lending standards prompted by, among others, an interest rate increase and, on the other hand, a fall in demand for consumer loans; no significant changes in lending terms.

Demand for loans: varied changes in demand caused by, among others, the worse financial standing of households and an easing of lending policy by some banks.

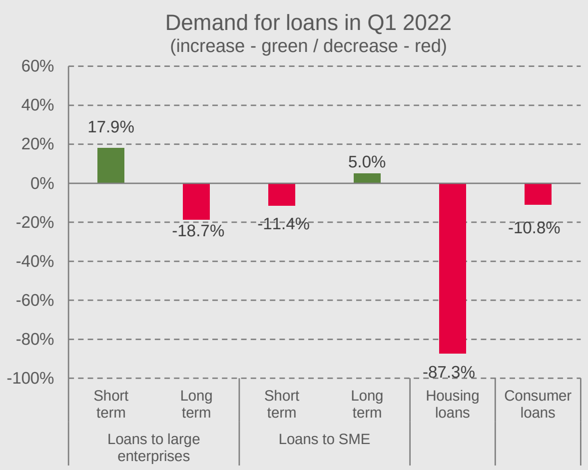
Expectations for the second quarter of 2022: banks' split opinions regarding the direction of change in lending policy and in demand, the banks' net result close to zero.

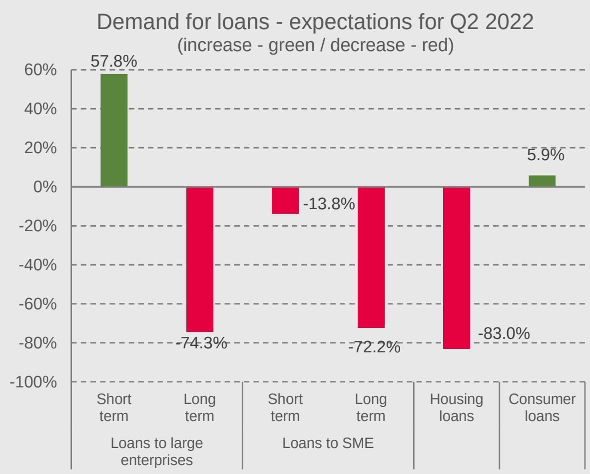
Lending standards





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 2022 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 percentage 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. The 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 2022 as well as their expectations for the second quarter of 2022.

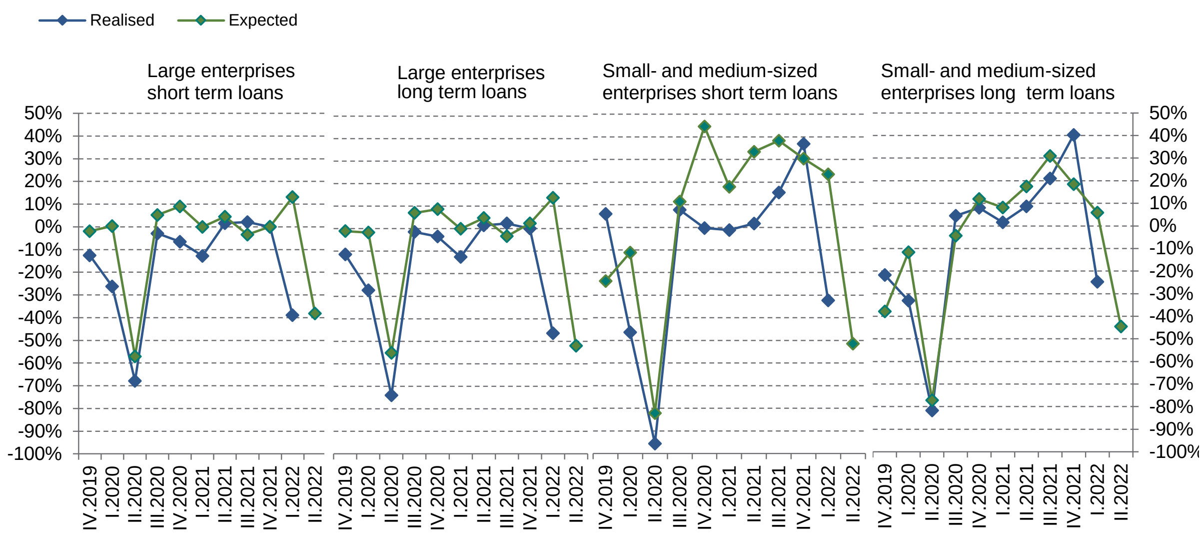
The values of measures of the net percentage and the diffusion index for specific questions are available in downloadable files on the NBP website.

Corporate loans

In the first quarter of 2022 banks tightened their credit standards on corporate short- and long-term loans to large enterprises (net percentage of, respectively, -39% and -47%, see Figure 1) and **the SME sector** (net percentage of, respectively, -32% and -25%).

The majority of terms on corporate loans remained unchanged. Banks tightened somewhat the loan collateral requirements (net percentage: -14%, see Figure 2). Individual banks changed other lending terms not included in the survey by, among others, raising the amount of the interest rate risk buffer.

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 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.

According to the survey-responding banks, the reasons why they tightened lending policy in the first quarter of 2022 were bleaker economic situation prospects, a rise in industry-specific risk[1] (net percentage of, respectively, -38% and -33%, see Figure 3) and the policy decisions taken by the Monetary Policy Council (-11%). Individual banks indicated other reasons not included in the survey, including uncertainty over the escalation of armed hostilities in Ukraine and its economic and social fallout, and also a rise in the reputational risk for enterprises doing business and intending to continue doing business in Russia and Belarus.

[1] Banks indicated an increase in risk in the following industries: road transport, accommodation and food service activities, construction, printing, manufacture of coke and refined petroleum products, manufacture of metals and metal products, manufacture of machinery and equipment, manufacture of motor vehicles, trailers and semi-trailers, repair and wholesale and retail trade of motor vehicles.

Figure 2. Terms on corporate loans

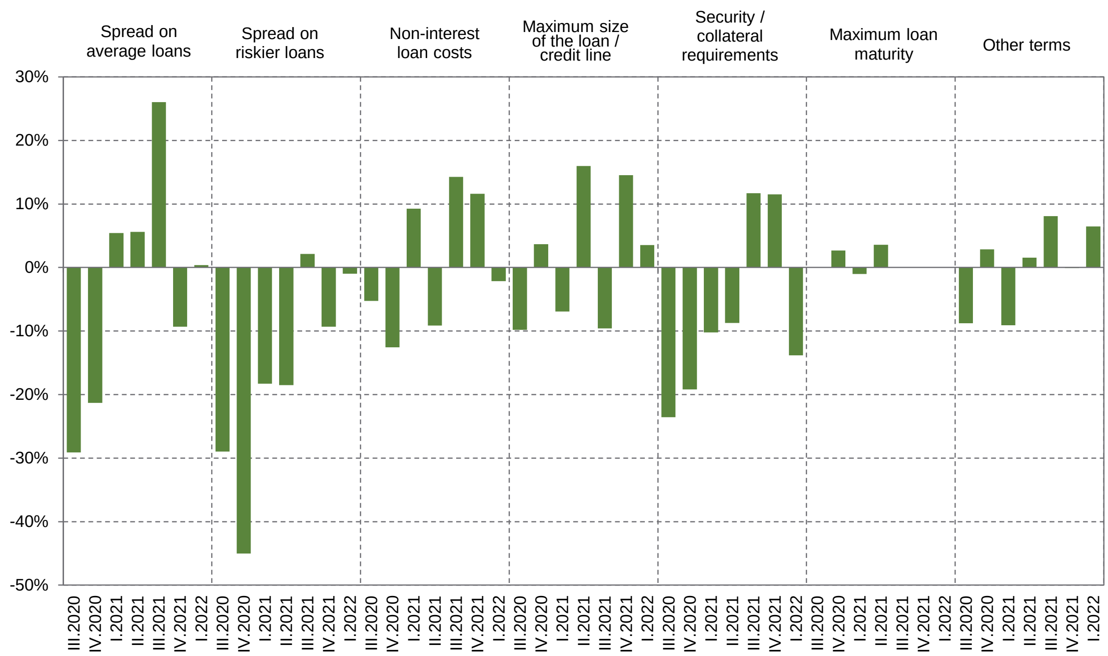
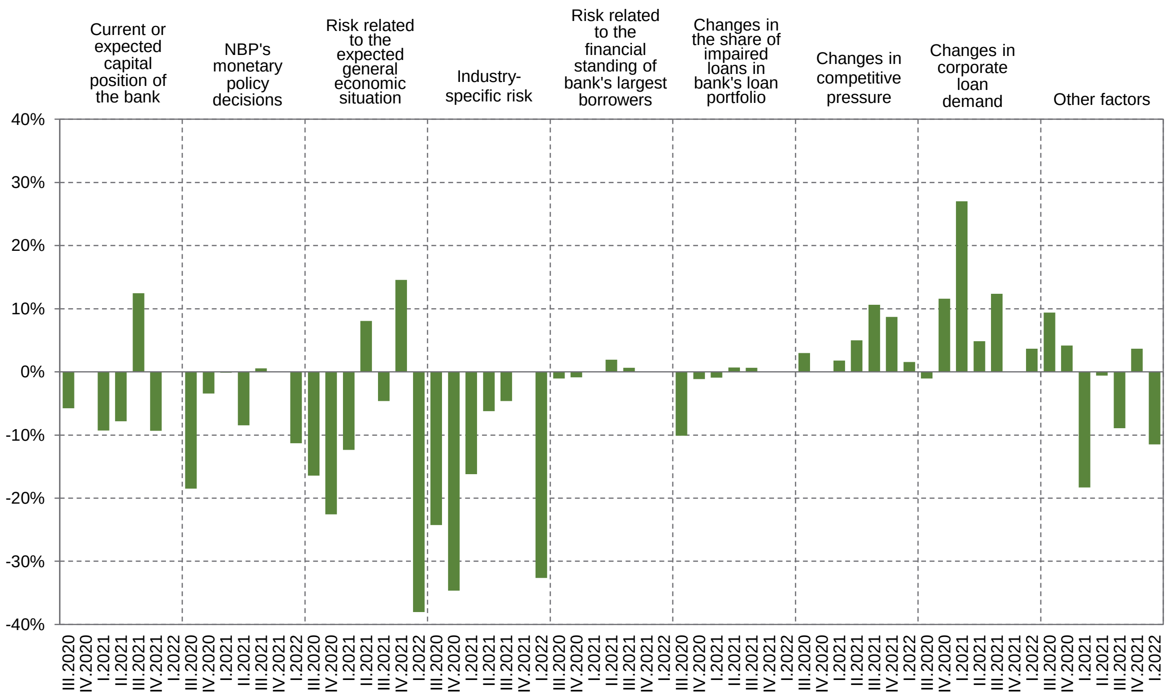


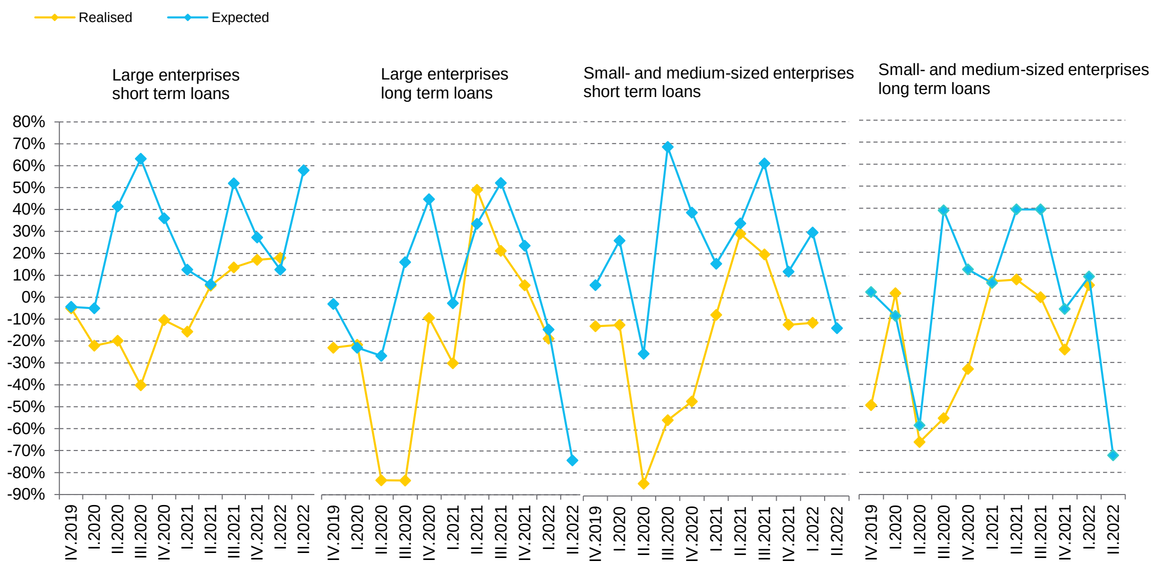
Figure 3. Factors influencing changes in lending policy



* 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.

Demand for corporate loans in the first quarter of 2022 did not change much. In the segment of short-term loans to the SME sector and long-term loans to large enterprises, banks reported a fall (by, respectively, -11% and -19%), and in the segment of short-term loans to large enterprises – a rise (by 18%). In the case of long-term loans to SMEs, banks reported varied tendencies: 21% of banks experienced a fall and 26% – a rise in demand (net percentage of 5%).

Figure 4. Corporate loan demand

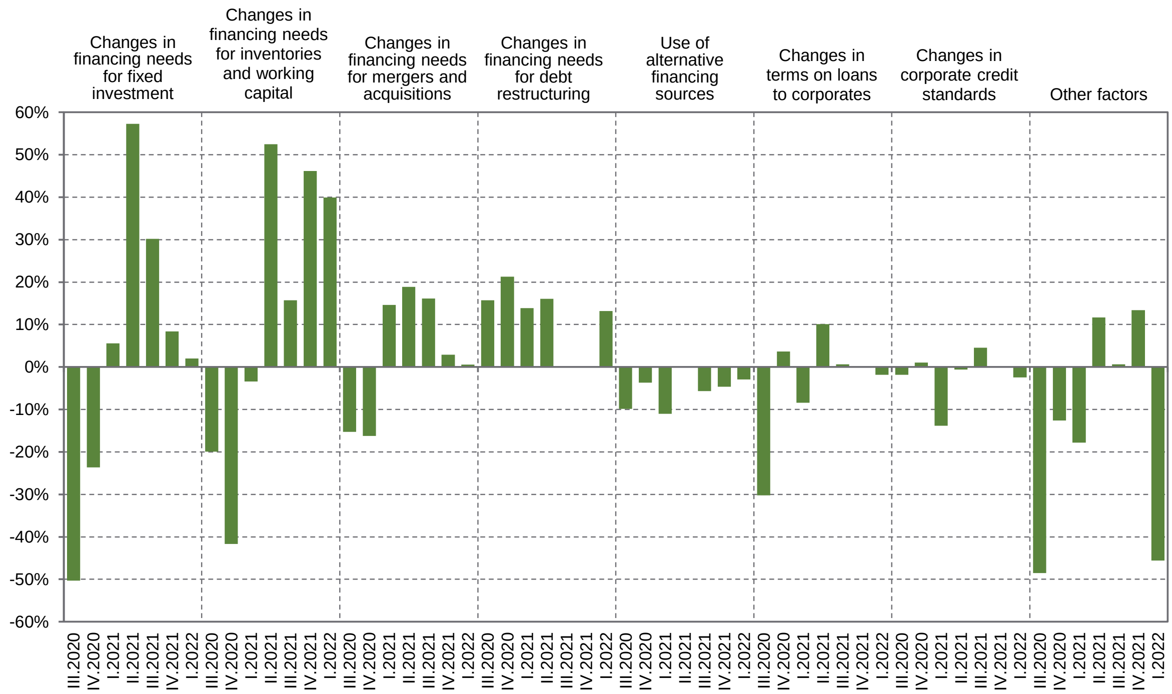


Dwindling corporate demand was primarily driven by factors not included in the survey (-46%), i.e. uncertainty related to the war in Ukraine, rising prices of energy and fuels, higher prices of steel, cereals and commodities, an interest rate hike and the enterprises' limited capacity to pass cost increases onto customers. The banks that registered a rise in corporate loan demand stated that this may have been supported by greater financing needs for inventories and working capital and for debt restructuring (respectively, by 40% and 13%, see Figure 5).

In the second quarter of 2022 banks plan to tighten lending policy for enterprises at a scale similar to that observed in the first quarter of 2022 (net percentages for short- and long-term loans to large enterprises and SMEs are in the range of 40-50%).

Banks' forecasts regarding long-term corporate loan demand are pessimistic (for large enterprises: -74%, and for SMEs: -72%, see Figure 4). Short-term credit to large enterprises is the only credit category for which banks expect demand to grow in the second quarter of 2022 (58%).

Figure 5. Factors influencing changes in corporate loan demand

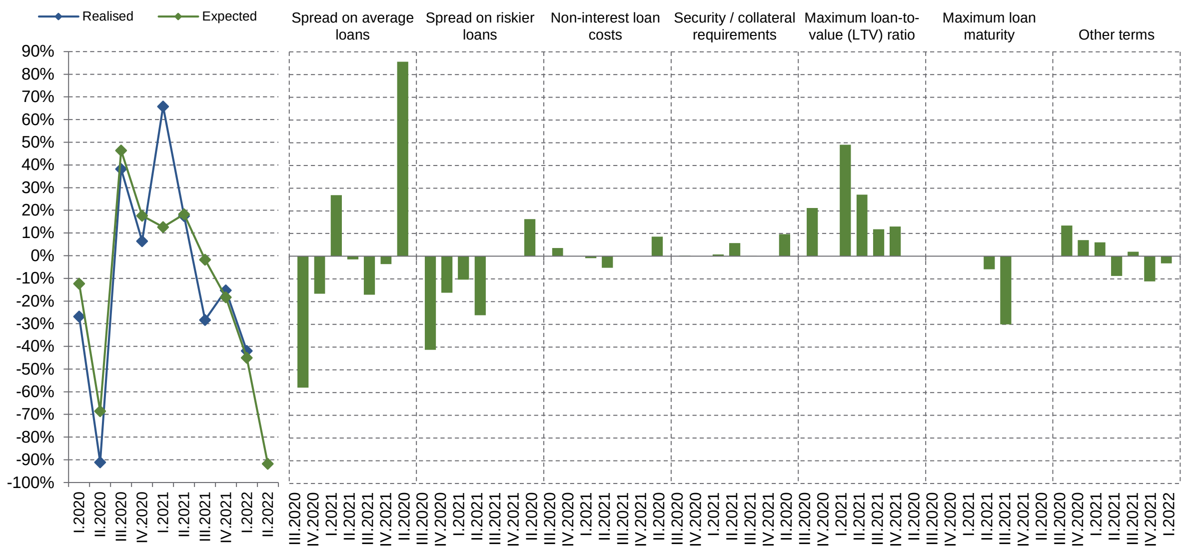


Loans to households

Housing loans

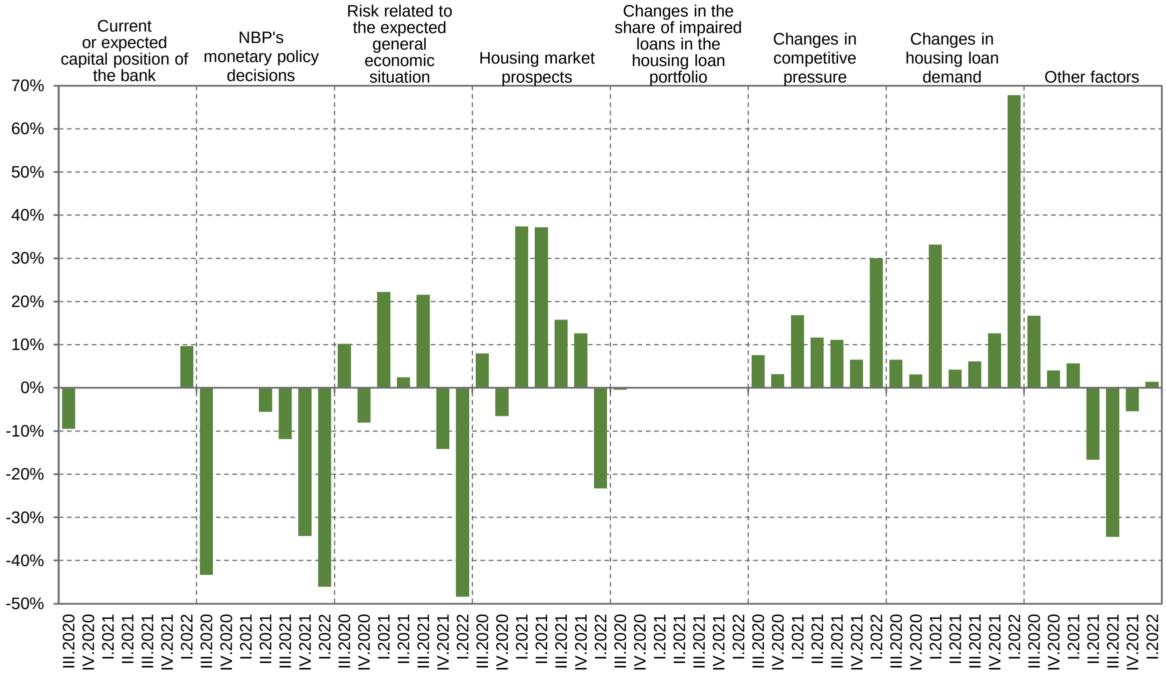
Standards on housing loans continued to be tightened in the first quarter of 2022 (net percentage: -42%, see Figure 6), although – as in previous quarters – banks' opinions were discrepant (57% of banks tightened and 15% eased lending standards). **Banks eased the majority of terms listed in the survey by, among others, reducing the credit spread** (net percentage of 86%, see Figure 6), spread for riskier loans (16%) and non-interest loan costs (9%). They also lowered the collateral requirements (10%). Individual banks informed about the change of lending terms not included in the survey; they were, among others, an increase in the level of the interest rate risk buffer and in the costs of maintaining in the calculation of the amount of loan provided, but also about mitigating the documentation requirements.

Figure 6. Standards and terms on housing loans



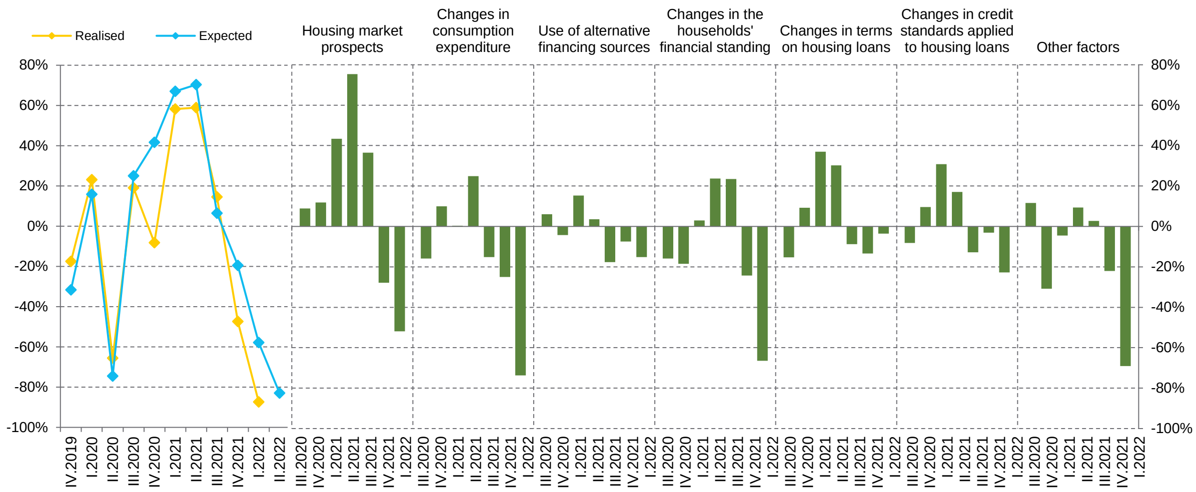
According to the survey-participating banks' indications, lending policy was mainly tightened on account of worsened economic situation prospects and official interest rate increases (by, respectively -48% and -46%, see Figure 7) and housing market prospects (-23%). **Banks's decision to ease their lending policy was primarily prompted by falling demand for housing loans (68%) and higher competition from universal and** mortgage **banks** (by, respectively, 71% and 16%), and in the case of individual banks – an improvement of the banks' current or expected capital position.

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 first quarter of 2022 banks again reported a drop in demand for housing loans (net percentage of -87%, see Figure 8), **with 57% of the banks finding the drop as considerable. According to the banks, this drop was mainly caused by changes in consumer spending** (net percentage of -74%, see Figure 8), **the**

worsened financial standing of households (-66%), **housing market prospects** (-52%) and tighter terms on housing loans (-23%), as well as the use of alternative financing sources (15%), including credit from other banks, household savings and other financing sources. Among factors influencing a drop in demand, not included in the survey, banks indicated, among others, uncertainty about the evolution of the situation in Ukraine and the increases of inflation and interest rates (-69%).

The survey-participating banks expect standards on housing loans to be tightened further in the second quarter of 2022 (net percentage of -92%, see Figure 6), including considerably by 62% of banks and **housing loan demand to drop further** (net percentage of -83%, see Figure 8), including considerably by 64% of banks**.**

Consumer loans

In the first quarter of 2022 the directions of changes in standards on consumer loans varied (net percentage of -15%, see Figure 9) – 44% tightened and 29% eased lending policy. **Changes in the terms on consumer loans were also discrepant**. The credit spread, non-interest loan costs and spread on riskier loans were raised by, respectively, 26%, 15% and 10% of banks and lowered by, respectively, 10%, 17% and 10% of banks, which resulted in the net percentage of, respectively, -16%, -1% and 2% (see Figure. 9). Individual banks increased a maximum loan size.

In the opinions of the surveyed institutions, the tightening of lending policy was affected by official interest rate increases (-35%, see Figure. 10), **and the easing of lending policy was driven by a drop in demand for consumer loans** (24%), higher competitive pressure from other banks (21%) and non-bank financial institutions (13%); in the case of individual banks a drop in the share of impaired loans was the driver of lending policy easing. Other reasons for a change in lending policy identified by banks were, among others, tighter lending policy management procedures and recommendations of the Polish Financial Supervision Authority (-25%).

Figure 9. Standards and terms on consumer loans

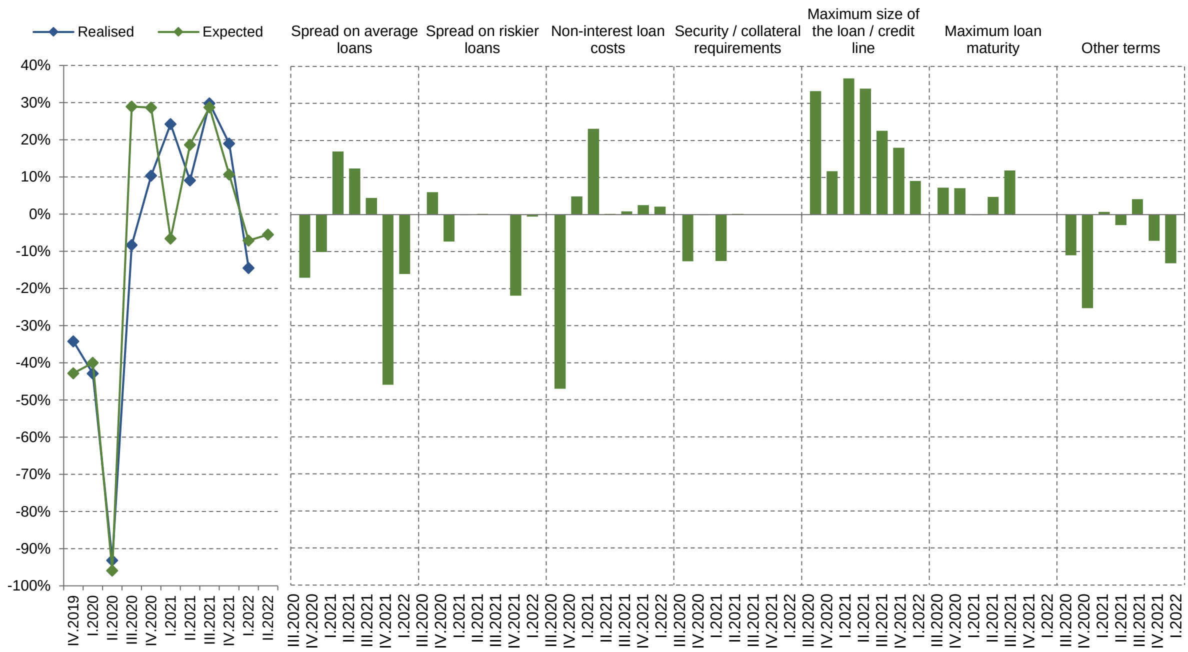
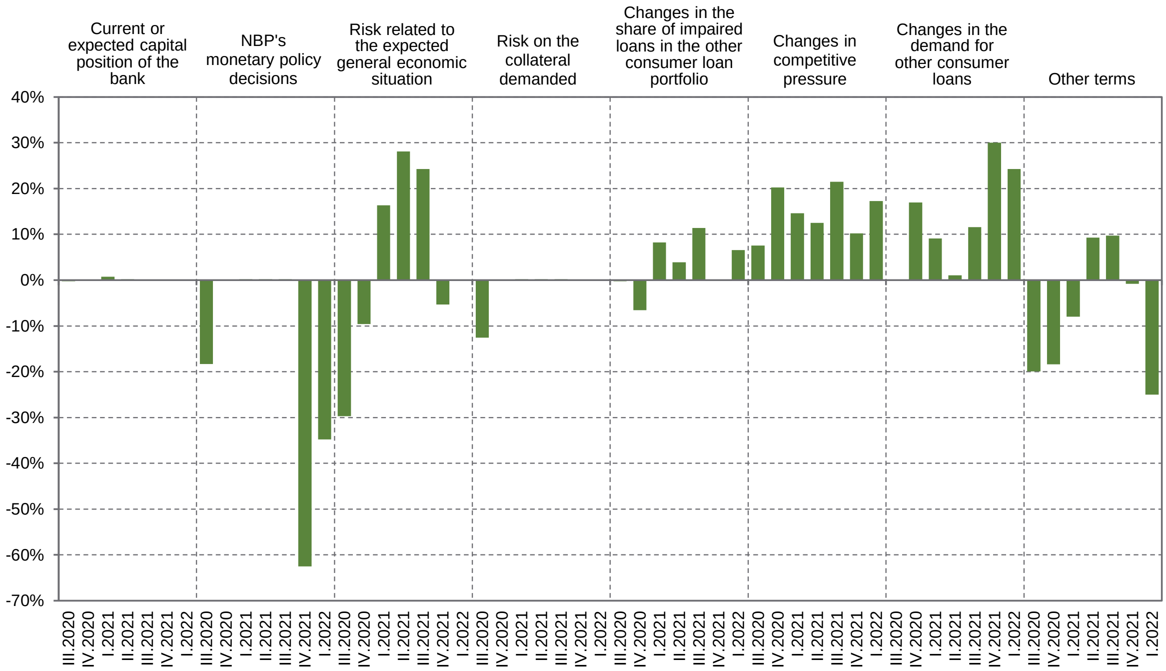


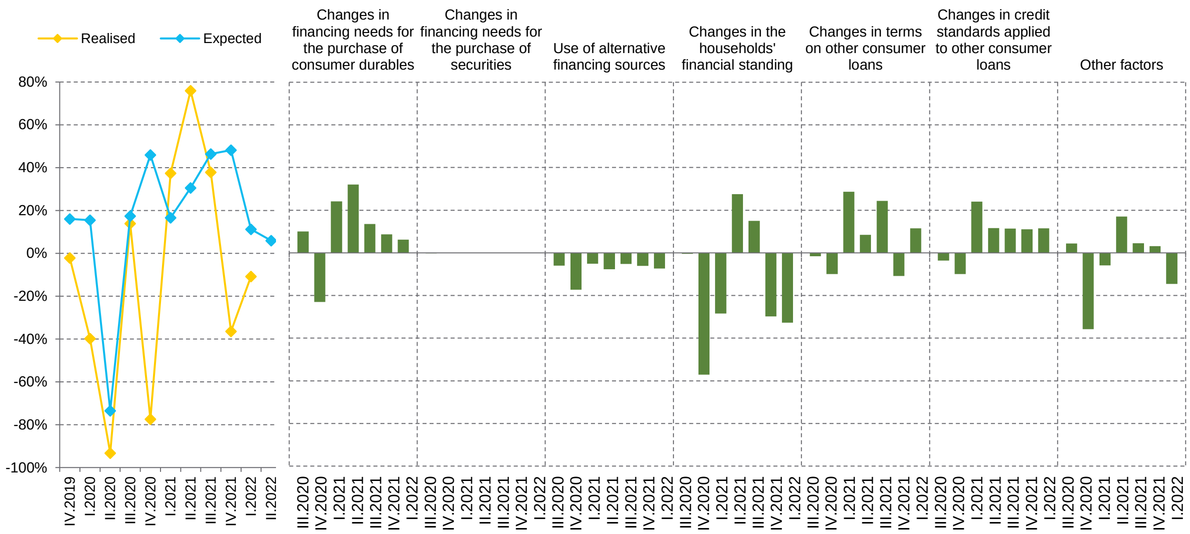
Figure 10. Factors influencing changes in lending policy – consumer loans



* 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 change in demand for consumer loans reported by banks in the first quarter of 2022 was of a varied nature (net percentage of -11%, see Figure 11) – 35% of banks experienced an increase and 46% a decrease in demand. **According to their opinions, consumer loan demand fell after the financial standing of households had deteriorated** (-33%). On the other hand, demand-boosting factors were, according to some banks, the fact that standards and terms on consumer loans were eased (for both factors 12% each). As far as the impact of changes in financing needs for durable goods purchases are concerned, banks' opinions were split (net percentage of 6%) – 25% of banks said the factor contributed to boosting and 19% found it to contribute to weakening demand for consumer loans. Other factors not included in the survey named by banks were, among others, the war in Ukraine, higher inflation and reference interest rates, but on the other hand – the waning effect of the COVID-19 pandemic (-15%).

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



As in the previous quarter, banks' opinions over the direction of change in the consumer loan market in the second quarter of 2022 are split. Approximately 37% of banks have plans to tighten lending standards as 21% of banks plan to ease them (net percentage: -6%, see Figure 9). **In the case of the demand outlook, opinions are also split – around 31% of banks expect consumer loans demand to grow and 25% of banks expect it to fall** (net percentage of 6%, 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.[2]

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 loan taken into account in calculation of the weights

Question no.	Market segment	Type of loan
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 an 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 individuals
8, 11, 12, 13, 15, 16, 17	Consumer loans and other loans to households	Total loans outstanding from individuals less housing loans to individuals

Note: All types of claims apply to residents only.
Source: NBP.

[2] 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.[3]

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 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.

[3] 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.

Appendix 1.

Source: NBP.

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