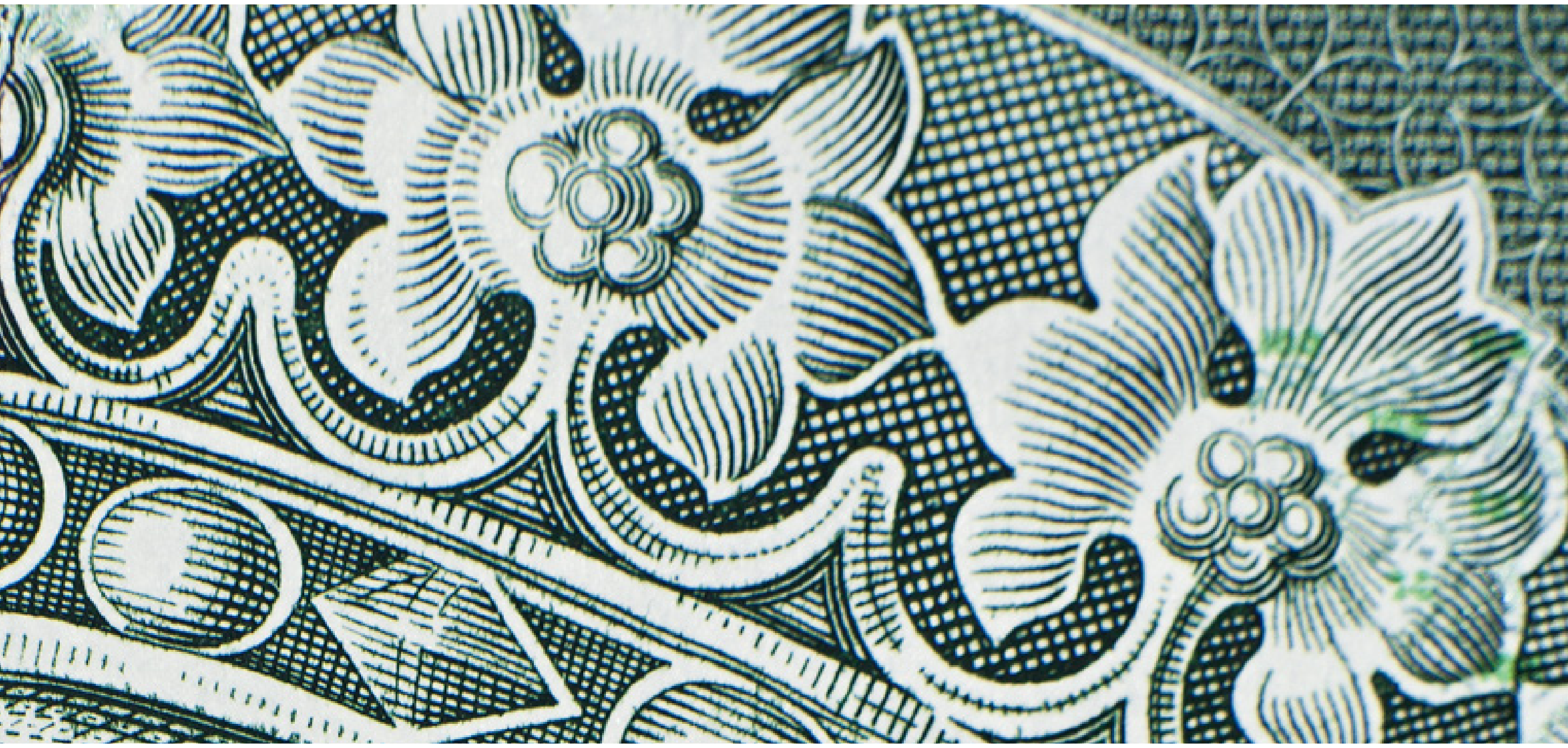
Narodowy Bank Polski

Senior loan officer opinion survey

on bank lending practices and credit conditions

3rd quarter 2020



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Financial Stability Department
Warsaw, July 2020

Summary of the survey results

This issue of the Report includes the results of a full quarter of the negative impact of the COVID-19 pandemic on the economy. The trends in banks' lending policy and loan demand present in the first quarter of 2020 were accentuated. The vast majority of banks tightened – often considerably – their lending standards and a number of lending terms. According to the survey-responding banks, uncertainty over the future economic and social impacts of the spread of the pandemic led to a sharp decline in the demand from the non-financial sector, including, in particular, for loans to small and medium-sized enterprises (SMEs) and for consumer loans.

The banks expect the trends to reverse in the third quarter of the year and to ease somewhat lending policy. They also expect a modest rise in demand in all categories of credit to enterprises and households.

Corporate loans

Lending policy: a tightening of lending standards towards enterprises by the majority of banks, which was stronger for the SME sector and prompted by the worsening economic situation, including of industries sensitive to the impact of the pandemic. A tightening of most lending terms.

Demand for loans: a fall in demand, mainly driven by lower financing needs for fixed investment.

Expectations for the third quarter of 2020: the end of increasing lending policy restrictiveness and a slight easing of lending policy in certain segments of corporate loans. A rise in demand, including in particular, for short-term loans for both enterprise groups.

Housing loans

Lending policy: a marked tightening of lending policy by the majority of banks, mostly at the back of uncertainty over future developments in the economy; a tightening of most lending terms, including in particular decreasing the loan-to-value ratio and increasing the credit spread.

Demand for loans: a significant fall in demand.

Expectations for the third quarter of 2020: a reversal of the existing trends – an easing of lending policy; a modest rise in demand.

Consumer loans

Lending policy: a strong tightening of lending policy by almost all banks, resulting mostly from concerns over adverse developments in the national economy; a tightening of many lending terms.

Demand for loans: a big drop in demand.

Expectations for the third quarter of 2020: a change in the existing lending policy and its loosening. Banks' discrepant expectations regarding changes in demand.

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 at the beginning of July 2020 among 24 banks with a total share of approx. 88% 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.

Starting from this issue of the survey the same reference basis was used in all questions for calculating the net percentage, i.e. all banks participating in the survey and active in a given market segment. Previously only banks which declared factors influencing changes in lending policy or loan demand were assumed as the basis for calculating percentage structures for questions on such factors. Data shown in Figures 3, 5, 7, 8, 10 and 11 were recalculated backward.

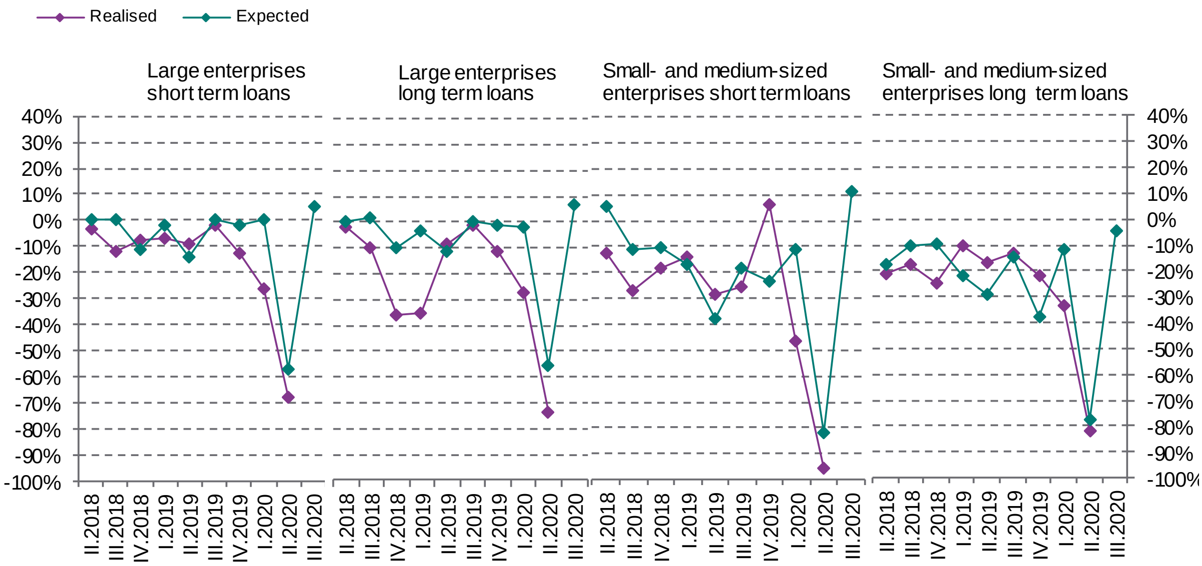
Unless otherwise indicated, the number of the banks cited in the text reporting a given change in their lending policies or in demand for loans means the net percentage of the banks.

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

Corporate loans

In the second quarter of 2020, the vast majority of the survey-participating banks tightened their credit standards on short-term and long-term loans to large enterprises (-68% and -74%, respectively; see Figure 1) **and to SMEs** (-96% and -82%, 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 survey-responding banks tightened all terms on corporate loans included in the survey (see Figure 2) by, among others, raising the credit spread (-29%) and spread on riskier loans (-39%), increasing the loan collateral requirements (-72%) and non-interest loan costs (-18%), decreasing the maximum loan size (-57%) and reducing the maximum loan maturity (-28%). Moreover, banks pointed to other actions not included in the survey, i.e. they tightened the risk estimation procedure for industries particularly vulnerable to the effects of the COVID-19 pandemic, facilitated the use of non-statutory credit holidays and postponement of loan repayment, and individual banks offered liquidity guarantees of the Liquidity Guarantee Fund. Banks also indicated that in the second quarter of the year – due to a revised assessment of the pandemic's impact on the economy – they modified certain terms on loans to the SME sector: after considerably increasing the loan collateral requirement in April, they lifted it in June – the only term left was the need to obtain an additional collateral in the form of a BGK guarantee for new loans in industries most affected by the COVID-19 pandemic (transportation, manufacture of motor vehicles and parts, sale of motor vehicles, manufacture of furniture, food service activities, arts and entertainment, travel industry).

Figure 2. Terms on corporate loans

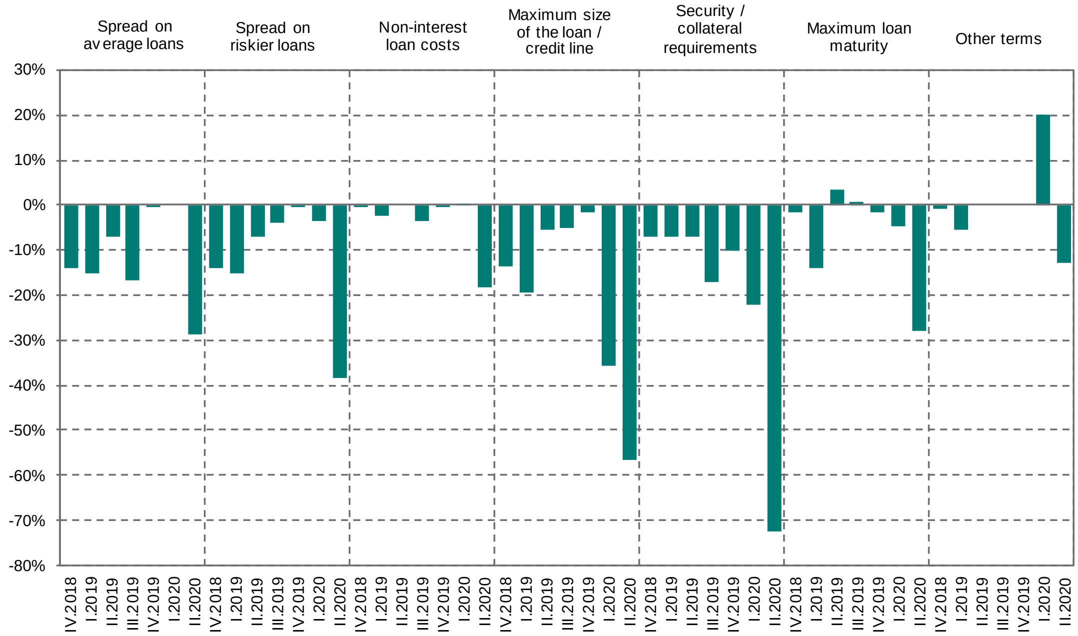
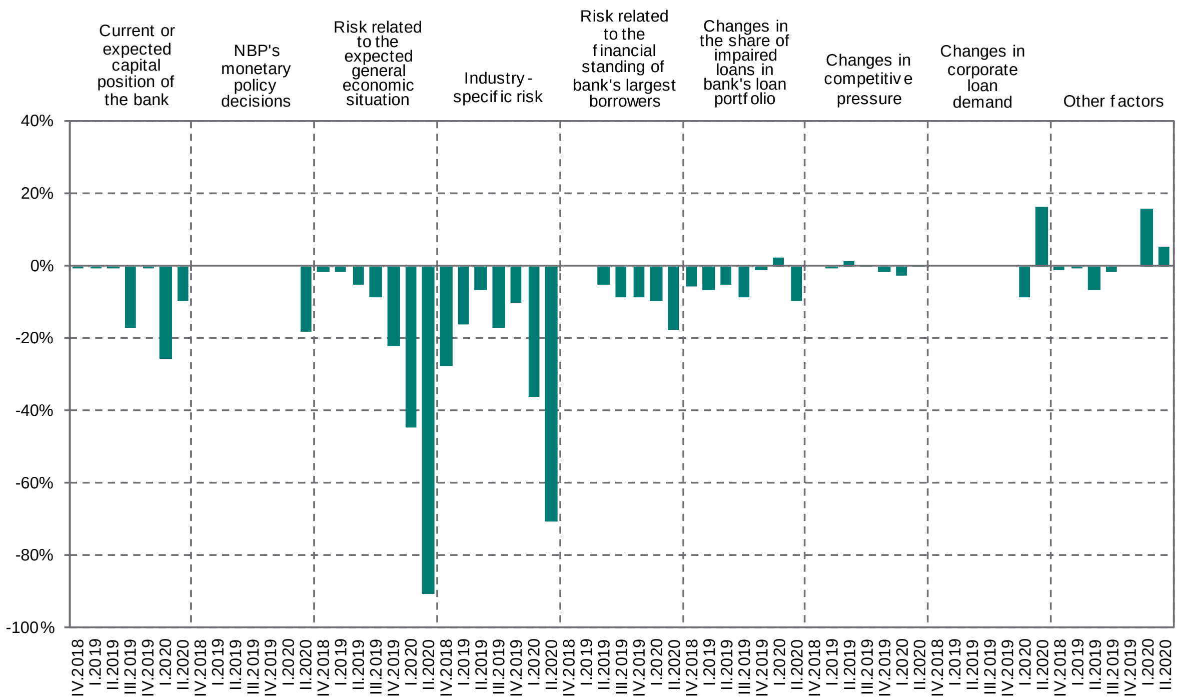


Figure 3. Factors influencing changes in lending policy

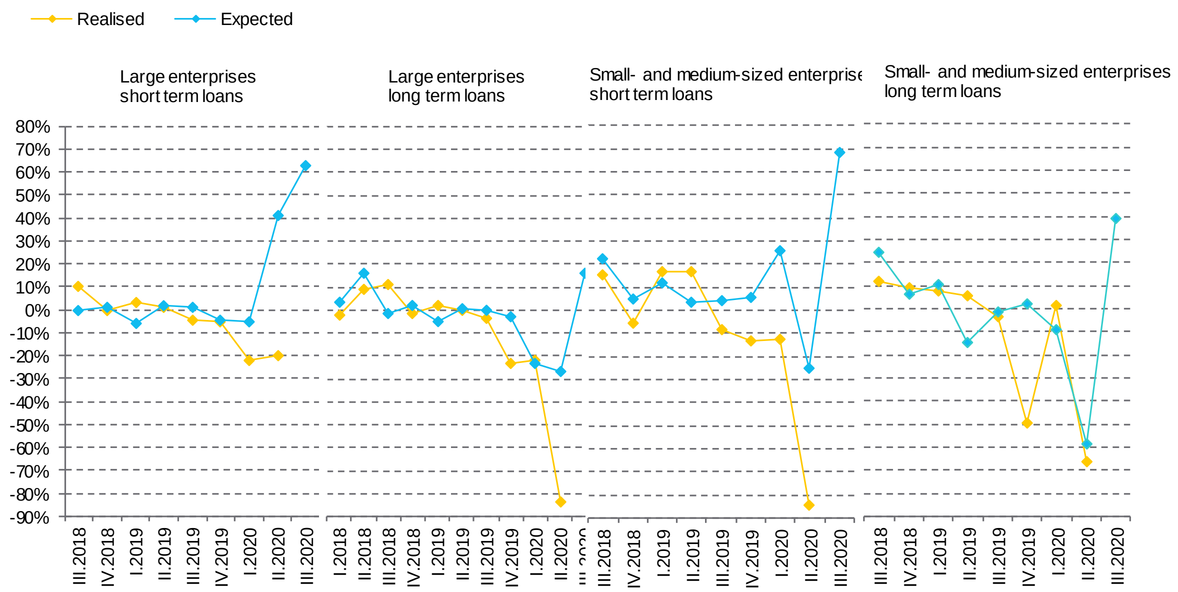


* The banks assess changes in competitive pressure from other banks, non-bank financial institutions and financial markets. The figure shows the arithmetic mean of these assessments.

The tightening of lending policy in the second quarter of 2020 mainly stemmed from risk associated with Poland's economic situation and from industry-specific risk[1] (-91% and -71%, see Figure 3). Banks explained their decision to tighten it with the worse standing of the largest borrowers (-18%), NBP's monetary policy decisions (-18%), a deterioration in the bank's current and expected capital position (-10%), a growing share of impaired loans in their loan portfolios (-10%) and competitive pressure from other banks (-10%). When asked about factors behind an easing of lending policy, certain banks identified, among others, the possibility that enterprises had to use aid funds under the so-called anti-crisis shield mechanism.

In the second quarter of 2020, the survey-responding banks observed a big drop in demand for short-term and long-term loans to large enterprises (-20% and -83%, see Figure 4) and **SMEs** (-84% and -66%). In the case of loans to the SME sector, the majority of banks said that the scale of the drop was considerable.[2] Banks' opinions on the changes in the demand of large enterprises for short-term loans varied, as some of them pointed to a considerable fall or an insignificant fall (47%), while other enterprises pointed to a modest rise in demand (27%).

Figure 4. Corporate loan demand



The banks which experienced falling demand for corporate loans attributed the fall mainly to lower financing needs for fixed investment and for mergers and acquisitions (-63% and -31%, see Figure 5), and with tighter standards and terms on loans (-23% and -18%). According to banks, the fall in loan demand also resulted from high uncertainty over economic developments caused by the COVID-19 pandemic (-39%) as well as the use of alternative financing sources by enterprises, including, among others, credit from non-bank financial institutions (-28%) and own financing (-16%). The growth in demand observed by individual banks

[1] Among others, transportation, manufacture and the sale of motor vehicles and parts, manufacture of furniture, food service activities and hospitality, arts and entertainment, organization of mass events, the travel industry, renting of commercial real estate, retail trade, construction, education, financial and insurance activities and real estate activities.

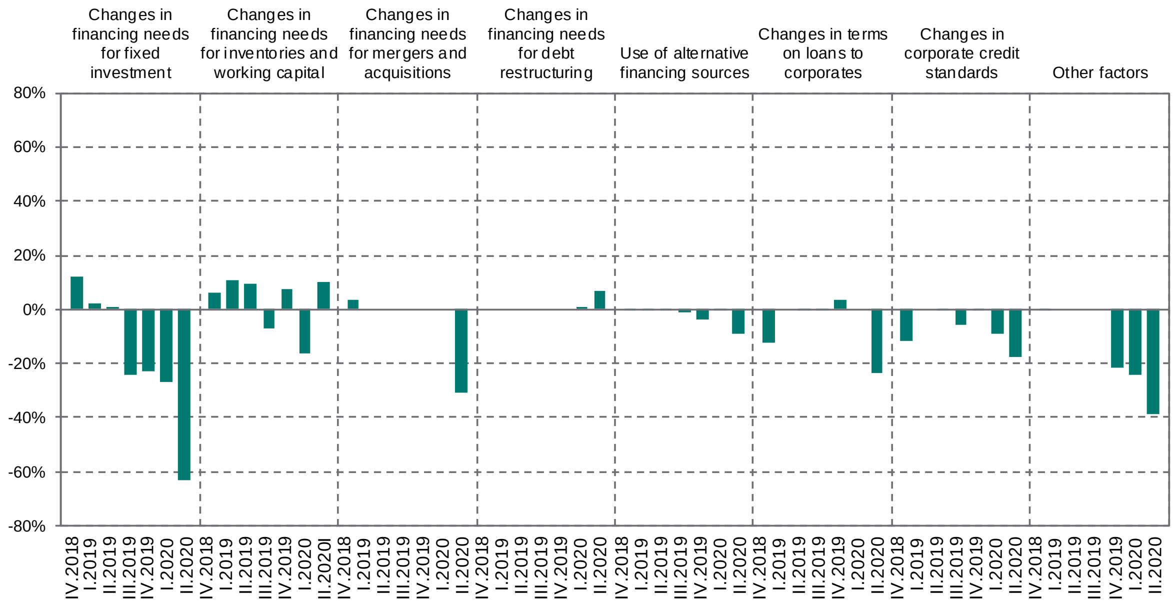
[2] When asked about the scale of changes (decrease/increase) respondents can choose from the following responses: decreased considerably and decreased somewhat and increased considerably and increased somewhat.

was the result of higher financing needs for inventories and working capital (10%) and financing needs for debt restructuring (7%).

Banks expect to end increasing the restrictiveness of lending policy for the third quarter of 2020. Banks plan to ease the policy somewhat in the segment of short-term and long-term loans to large enterprises (5% and 7%). On the other hand, banks' expectations towards the SME sector are varied. Net percentages with respect to lending policy towards SMEs in the third quarter of 2020 amount to 11% for short-term loans and approximately -4% for long-term loans. However, it should be noted that in the case of loans to SMEs, comparable groups of banks expect to tighten lending standards for short-term and long-term loans considerably (-15% and -24%) as well as to ease them somewhat (28% and 21%).

Banks expect a higher demand for loans to SMEs: markedly stronger for short-term loans (63% and 67%, see Figure 4) **than for long-term loans** (16% and 39%). Only individual banks expect demand for all credit categories to fall.

Figure 5. Factors influencing changes in corporate loan demand



Loans to households

Housing loans

In the second quarter of 2020, the majority of the survey-participating banks tightened standards on housing loans (-91%, see Figure 6), with 2/3 of the respondents indicating a tightening of a significant scale. **Banks also tightened certain terms on loans by, among others, raising the credit spread and spread on riskier loans and by increasing the loan collateral requirement and decreasing the loan-to-value ratio for borrowers** (-67%, -45%, -30% and -66%, respectively; see Figure 6). Banks also indicated more restrictive creditworthiness assessment systems and a lower maximum loan size.

According to the survey-responding institutions, the tightening of lending policy was primarily driven by the bleaker forecasts of the economic situation in Poland and in the housing market (-92% and -67%, respectively; see Figure 7). Lending policy was also tightened on the back of a lower quality of the portfolio of housing loans (-16%) and NBP's monetary policy decisions (-7%) and for reasons not included in the survey, including, among others, the growing risk of the spread of the COVID-19 pandemic (-49%). Also, among factors not included in the survey, individual banks indicated that the unlocking of the economy is an easing factor of lending policy.

Figure 6. Standards and terms on housing loans

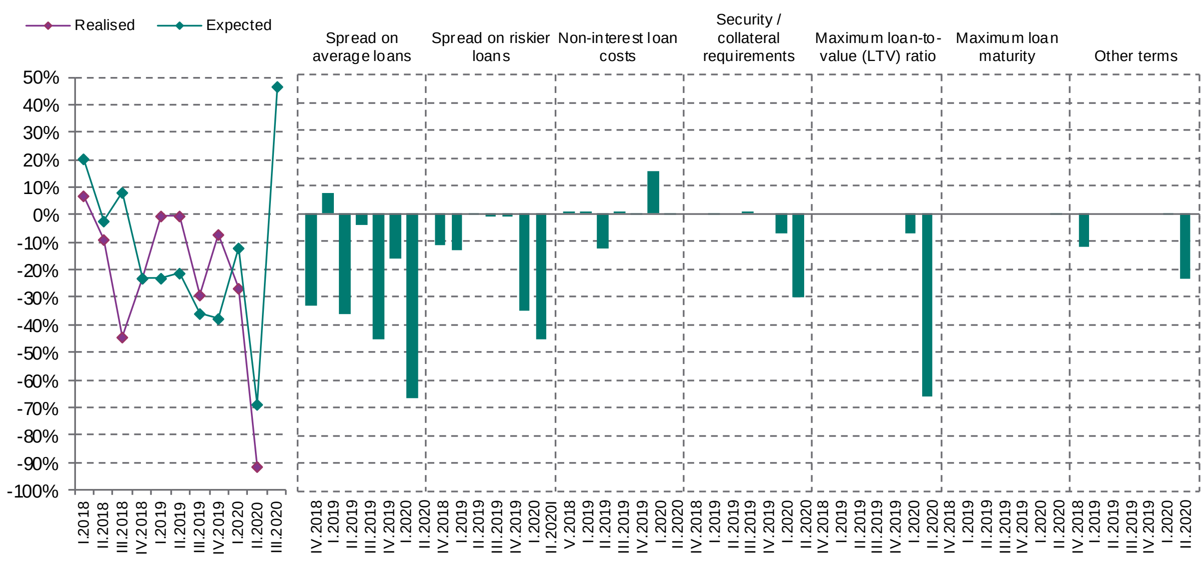
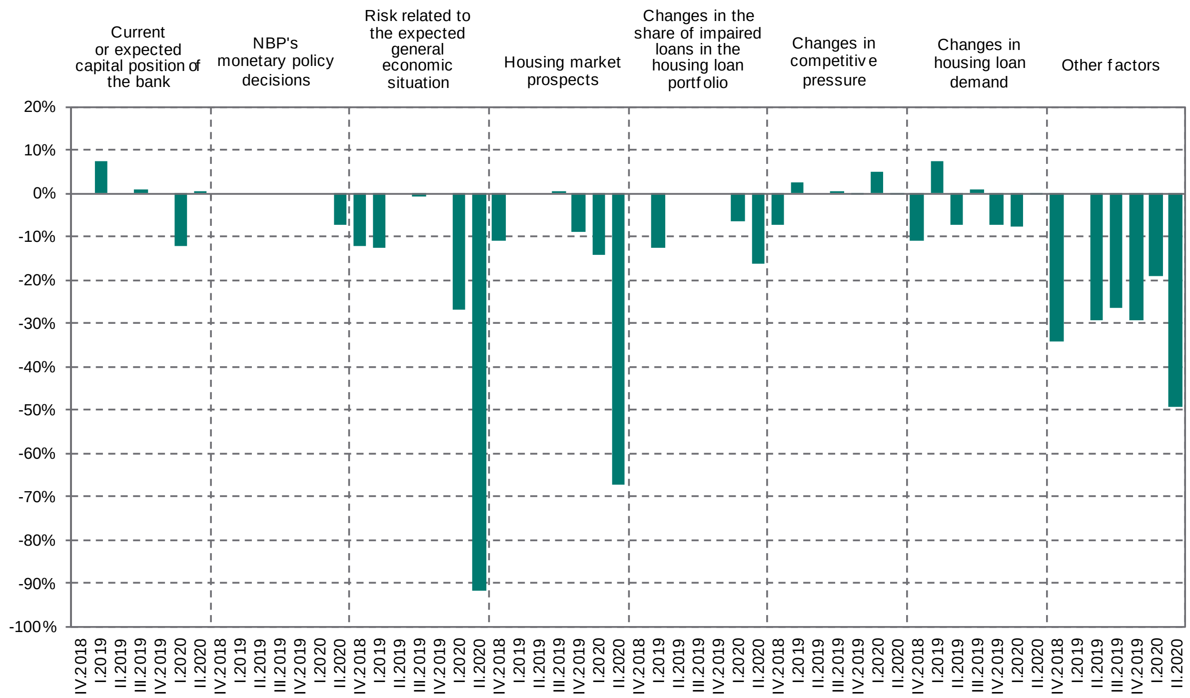
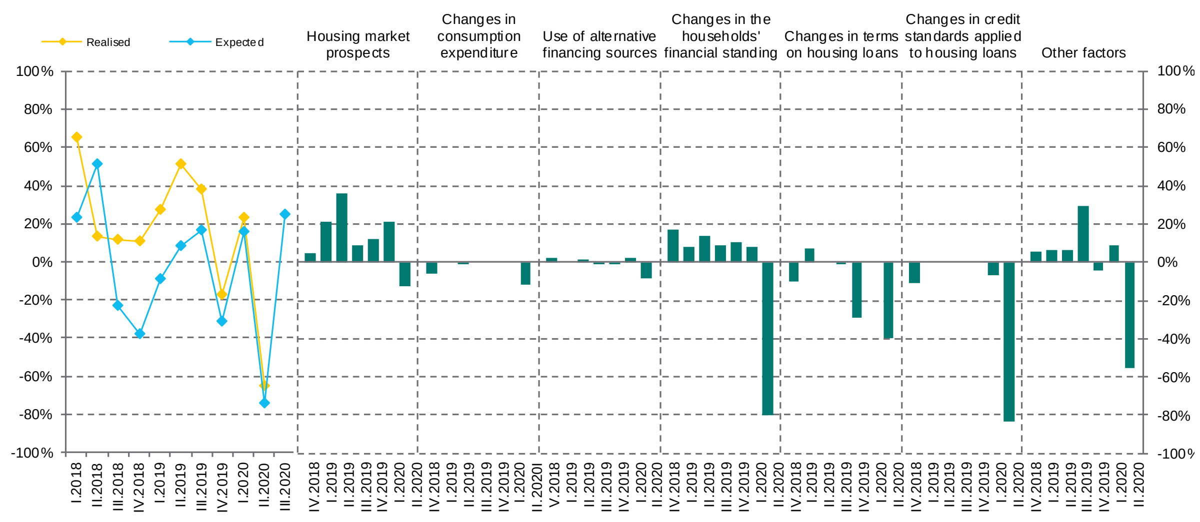


Figure 7. Factors influencing changes in lending policy – housing loans



* 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



Demand for housing loans fell sharply in the second quarter of 2020 (-66%, see Figure 8), with almost half of the survey respondents indicating a substantial fall**. In their view, the fall was mainly driven by the worse**

financial condition of households (-80%, see Figure 8) **and also tighter lending standards and terms** (-83% and -40%). Moreover, banks believe that the subdued demand may have also been caused by developments in the housing market (-12%) and households' spending cuts (-12%) as well as other factors not included in the survey (-55%), including in particular uncertainty over the negative impacts of the COVID-19 pandemic.

Banks expect the trends to reverse in the third quarter of 2020 and to ease lending policy (46%, see Figure 6) **amid a modest rise in demand for housing loans** (25%, see Figure 8)**.**

Consumer loans

The second quarter of 2020 was another period in which banks tightened standards on consumer loans strongly (-93%, see Figure 9); the majority of the respondents (approx. 68%) pointed to considerable tightening. Banks also tightened the majority of terms by, primarily, lowering the maximum loan size (-64%, see Figure 9), raising non-interest loan costs (-34%) and reducing the maximum loan maturity (-8%). As in the case of housing loans, some banks tightened the parameters of creditworthiness assessment, limited the number of new loans granted, favouring borrowers with stable income sources which were not vulnerable to the impact of the COVID-19 pandemic and who did not postpone payments on other credit products. Minor changes in the credit spread and spread on riskier loans which banks signalled resulted from the fact that some of them decreased them somewhat (24% and 14%) and other banks increased them (-18% and -11%).

In the view of the survey-participating banks, such factors as growing concerns over future developments in the economy (-89%, see Figure 10), NBP's monetary policy decisions (-23%), a deterioration in the current and expected capital position of banks (-15%) and higher risk on the collateral demanded (-15%) **contributed to a tighter lending policy in the segment of consumer loans**. Banks also revised their lending policy in response to factors not included in the survey (-49%), among others they tightened it due to the growth in risk associated with the impact of the COVID-19 pandemic and the worse outlook for bank products' profitability. Individual banks indicated that a fall in demand for consumer loans had an influence on a minor easing of lending policy (5%). Banks did not report a considerable impact of competition from other banks and non-bank financial institutions on lending standards.

Figure 9. Standards and terms on consumer loans

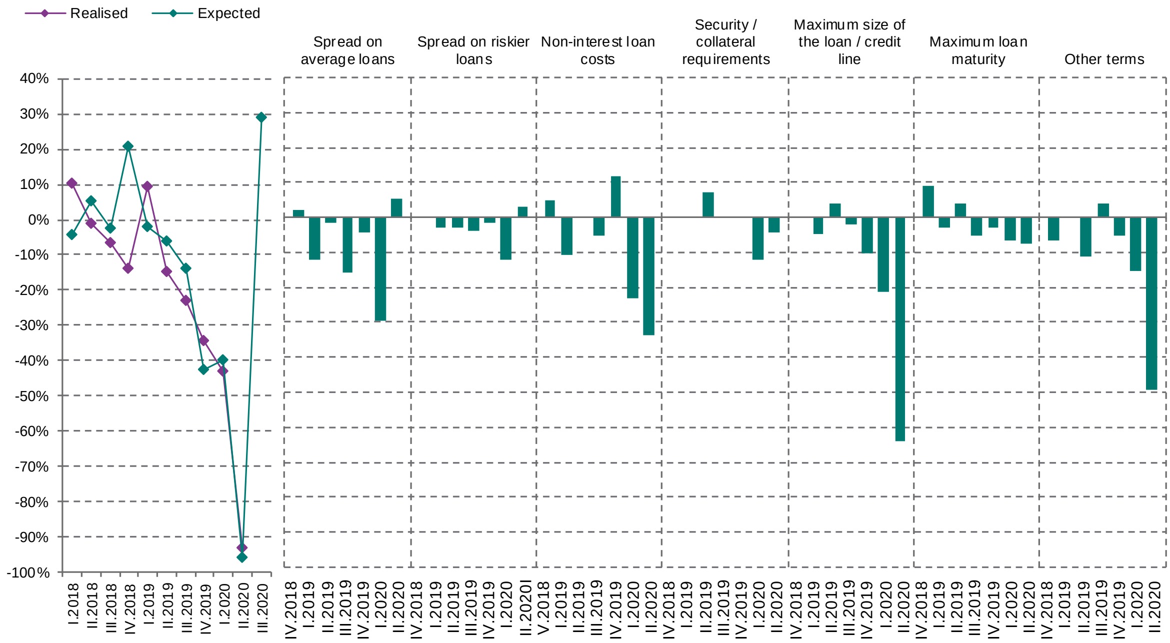
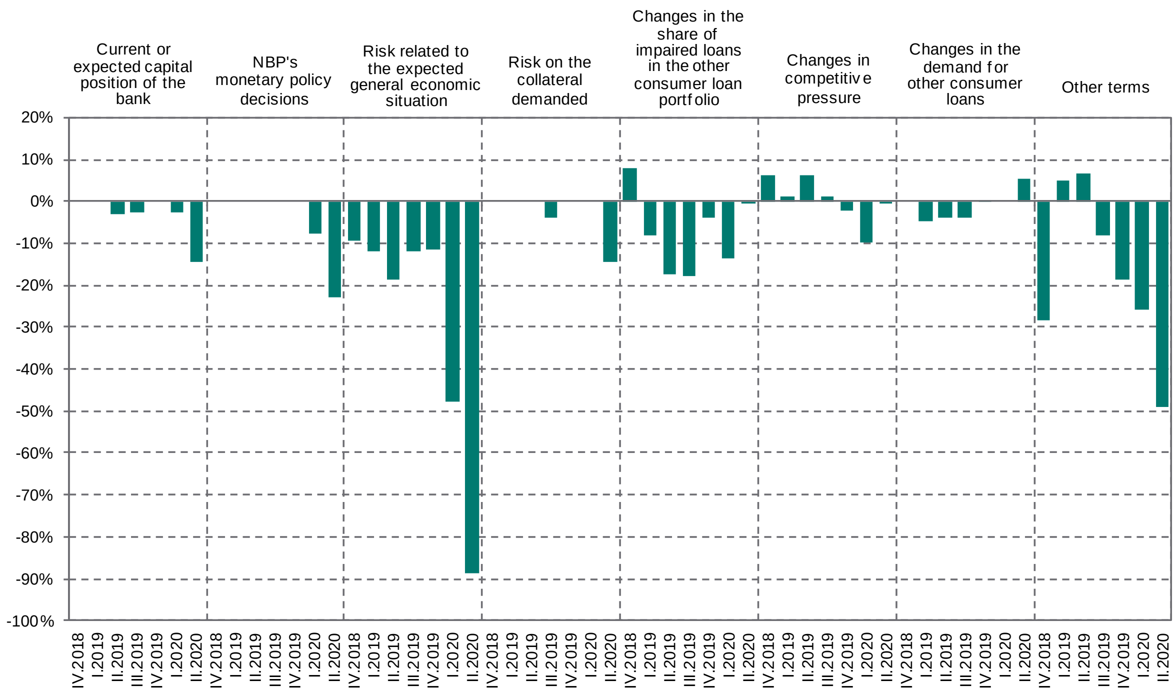


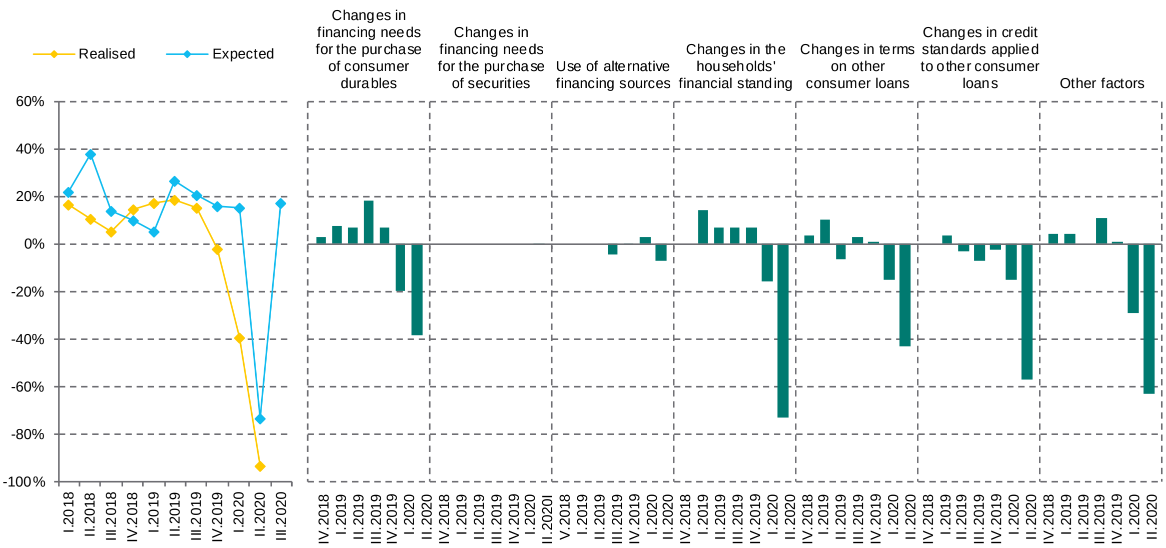
Figure 10. Factors influencing changes in lending policy – consumer loans



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 second quarter of 2020, almost all survey-responding banks observed a further decrease in demand for consumer loans (net percentage of -93%, see Figure 11). **Banks attributed the decrease to, among others, the worsening financial condition of households** (-73%, see Figure 11), **tighter standards and terms on consumer loans** (-57% and -43%) and lower financing needs for the purchase of durable goods (-38%). According to banks, the falling demand was also considerably driven by uncertainty over the economic and social effects of the spread of the COVID-19 pandemic, i.e. job and income losses, shutdowns, and households resorting to purchasing only essential goods.

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



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

Banks expect the current trends to reverse in the third quarter of 2020 and to ease their lending policy in the period (29%, see Figure 9). **Their forecasts of changes in consumer loan demand are varied** (17%, see Figure 11) **–** certain banks expect demand to grow somewhat (46%), while other banks expect it to drop somewhat (-29%).

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.[3]

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.

[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, 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.[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. 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.

[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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