NARODOWY
BANK POLSKI

Senior loan officer opinion survey

on bank lending practices and credit conditions

2nd quarter 2023

Senior loan officer opinion survey

on bank lending practices and credit conditions

2nd quarter 2023

Financial Stability Department
Warsaw, April 2023

Summary of the survey results

The worsening of the macroeconomic outlook and the increase in the share of impaired loans in the loan portfolio prompted banks to tighten their lending policy in the first quarter of 2023 in the segments of corporate and consumer loans. However, the fall in demand in previous quarters and the reduction by the Office of the Polish Financial Supervision Authority (UKNF) of recommendations on determining creditworthiness contributed to easing standards on housing loans. This was accompanied by a substantial rise in demand for credit in this segment.

Banks vow to tighten lending standards on all types of loans for the second quarter of 2023 and expect the demand for long-term corporate loans to drop further as well as the demand for housing, consumer loans and short-term corporate loans to continue to grow over this period.

Corporate loans

Lending policy: no changes in credit standards to large enterprises and a tightening of credit standards to small and medium-sized enterprises (SMEs), justified by the worsening of economic situation prospects and the increase in the share of impaired loans in the loan portfolio; no significant changes in lending terms.

Demand for loans: a fall in demand for loans (except for short-term loans to large enterprises), justified by lower financing needs for fixed investment.

Expectations for the second quarter of 2023: a tightening of lending standards on all types of corporate loans, a more considerable tightening for SMEs; a fall in demand for long-term loans, and in the case of short-term loans – a rise in demand from large enterprises.

Housing loans

Lending policy: the shift in trend and an easing of lending policy prompted by the falling demand for housing loans and the reduction by the UKNF of its criteria for determining creditworthiness, amid a simultaneous increase in the credit margin on riskier loans and other loans.

Demand for loans: a general increase in demand reported in 75% of the sample; changes caused by housing market prospects and an easing of lending standards and terms on housing loans.

Expectations for the second quarter of 2023: a tightening of lending policy and a further increase in demand for housing loans.

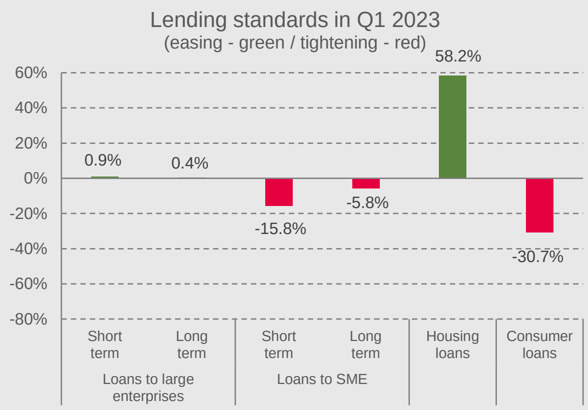
Consumer loans

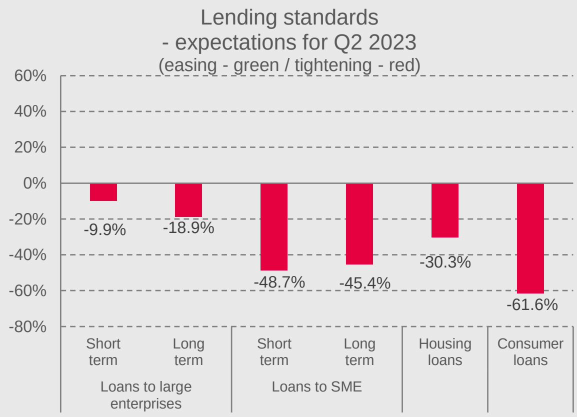
Lending policy: a re-tightening of lending standards (the most considerable tightening among the types of credit under analysis) prompted by, among others, a deterioration of economic situation prospects and a higher share of impaired loans in the loan portfolio; insignificant changes in lending terms, including an increase in the credit margin.

Demand for loans: an insignificant rise in demand resulting from, among others, a deterioration in the financial standing of households.

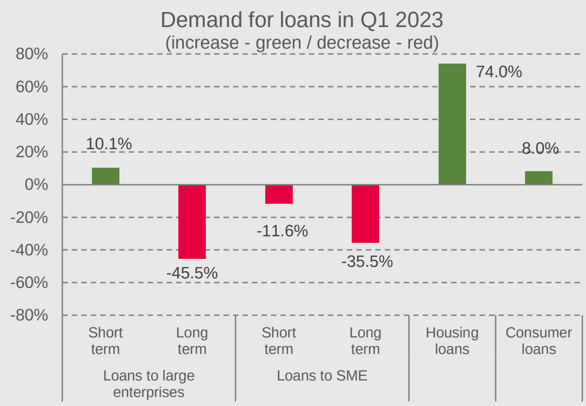
Expectations for the second quarter of 2023: lending policy tightening to continue and loan demand to grow further.

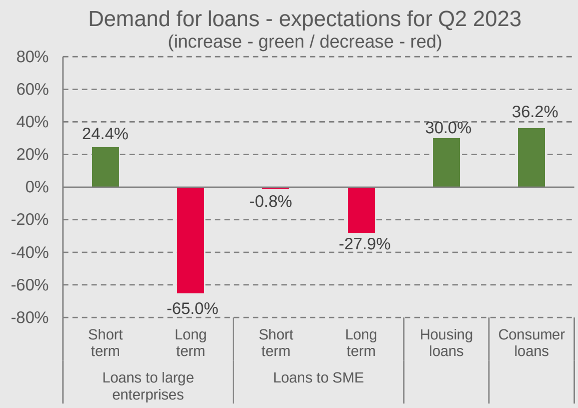
Lending standards





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 margin, 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 2023 among 23 banks with a total share of approx. 89% 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, 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 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 2023 as well as their expectations for the second quarter of 2023.

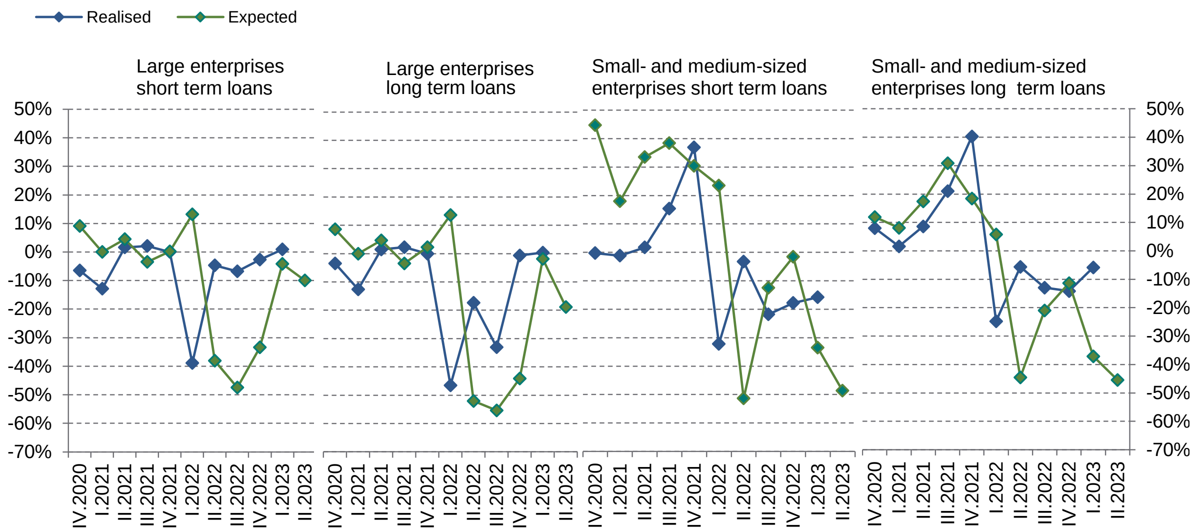
The values of measures of net percentage and the diffusion index for specific questions are available in separate downloadable files on the NBP website.

Corporate loans

The survey-responding banks tightened standards on short-term and long-term corporate loans to the SME sector in the first quarter of 2023 (net percentage of -16% and -6%, respectively, see Figure 1) and **kept them at the current level for large enterprises** (net percentage of 1% and 0%, respectively).

Banks tightened somewhat terms on corporate loans by, among others**,** raising non-interest loan costs (net percentage of -16%, see Figure 2) and the loan collateral requirements and reduced the maximum loan size (net percentage of -12% and 10%, respectively). Other terms included in the survey have not been changed in a significant way.

Figure 1. Credit standards on corporate loans



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

According to the survey-participating banks, lending policy tightening in the first quarter of 2023 was primarily prompted by the worsening of Poland's economic situation prospects (net percentage of -61%, see Figure 3), and also **a higher share of impaired loans in the loan portfolio** as well as a rise in industry-specific risk[1] (net percentage of -26% and -15%, respectively). Competitive pressure from other banks was identified as lending policy-easing factor (net percentage of 17%). Among factors influencing changes in lending policy not included in the survey individual banks identified, among others, the shift in a bank's strategy and the improvement in the risk assessment process quality (net percentage of -5%).

[1] Banks indicated a risk rising in the following industries: manufacture of chemical products, manufacture of articles of wood, construction and residential developers.

Figure 2. Terms on corporate loans

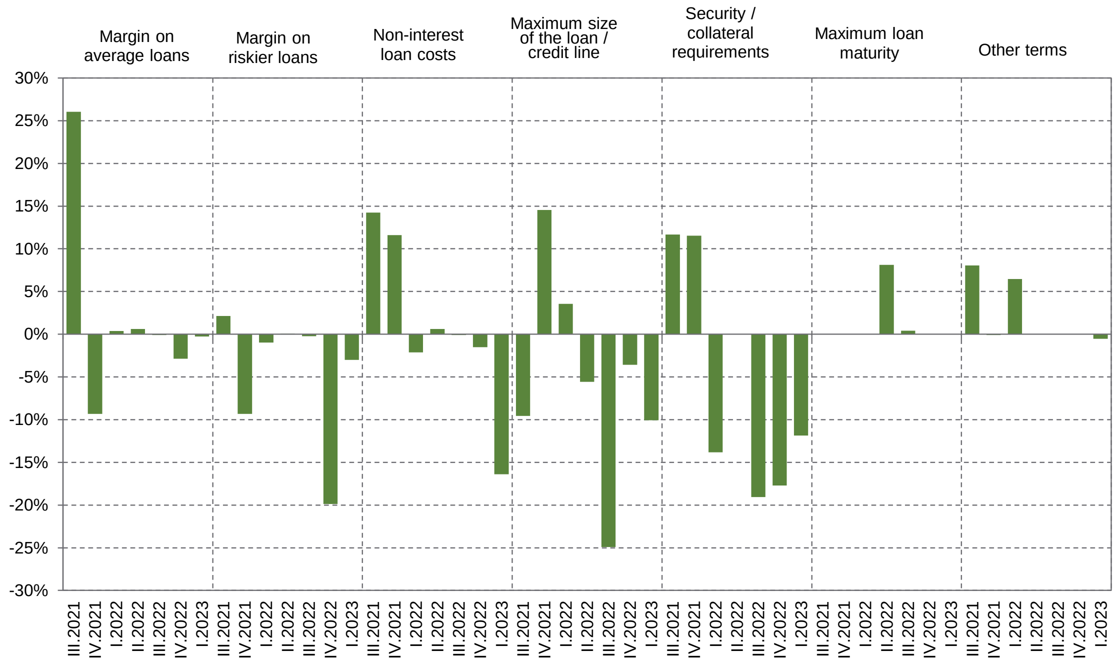
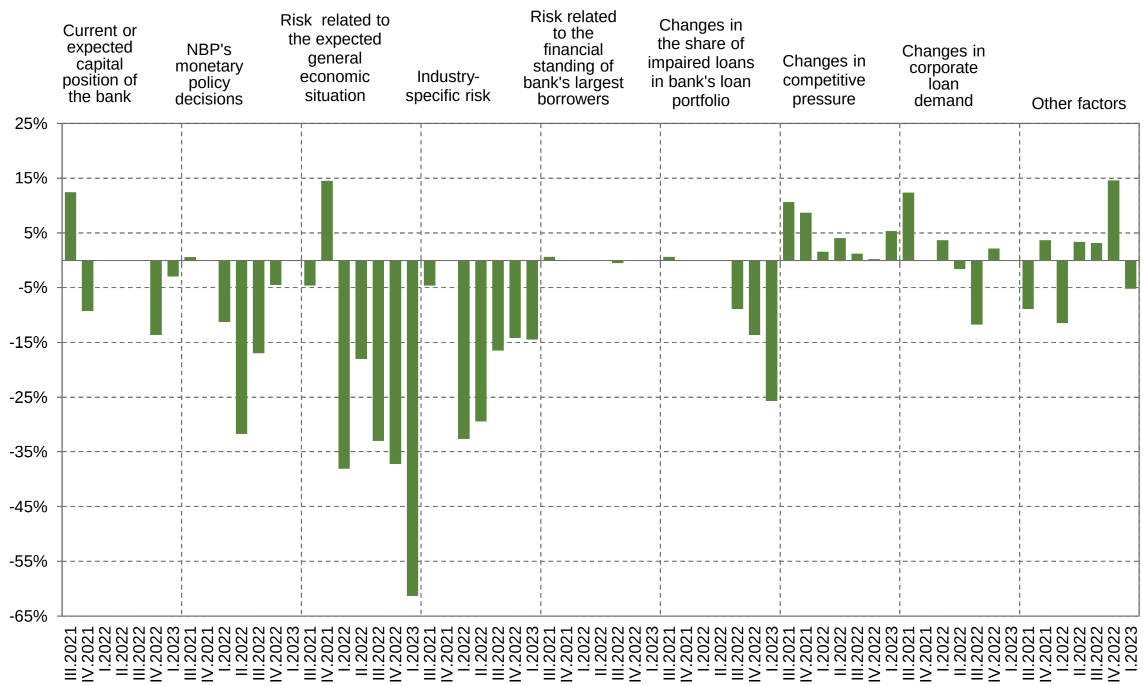


Figure 3. Factors influencing changes in lending policy



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

Banks again saw a drop in loan demand in the majority of corporate loan segments in the first quarter of 2023. Both large enterprises and SMEs reduced their demand for long-term loans to the greatest extent (net percentage of -46% and -36%, respectively, see Figure 4). According to banks' opinions, the change in demand for short-term loans showed a similar trend as in the previous quarter – it increased for large enterprises (net percentage of 10%), and it decreased for SMEs (net percentage of -12%).

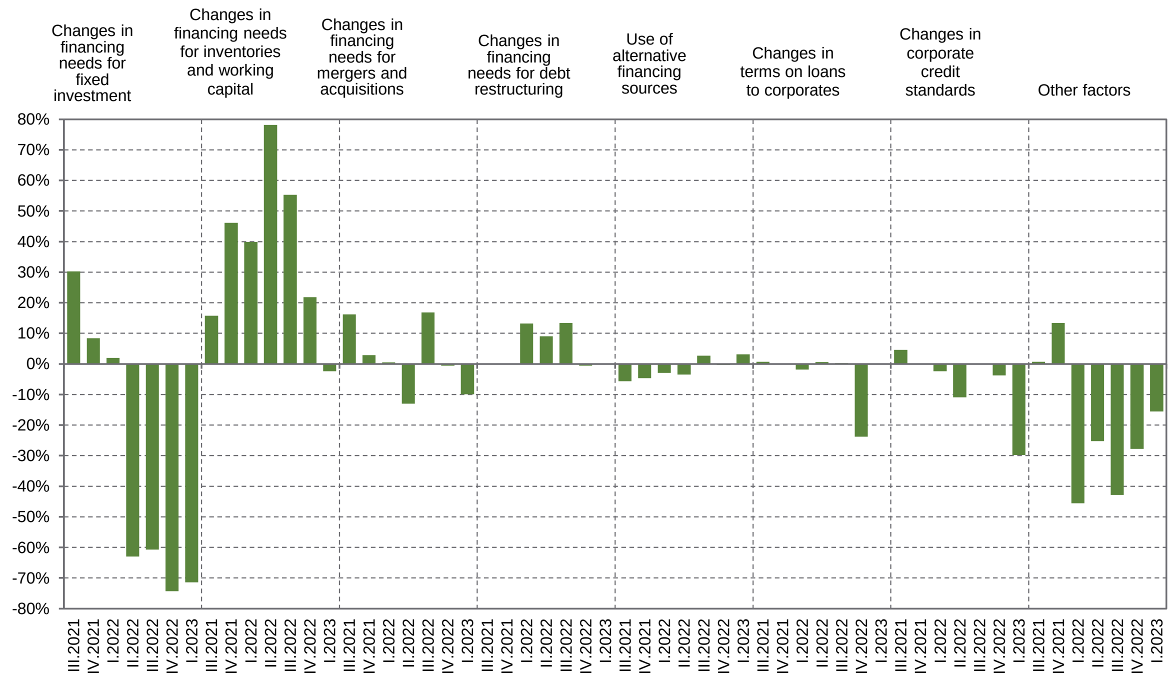
Figure 4. Corporate loan demand

For the past four quarters, the fall in corporate demand for loans has been predominantly caused by lower financing needs for fixed investment (net percentage of -71%, see Figure 5), and moreover **tighter lending standards on corporate loans** (net percentage of -30%), an increase in the use of own funds for financing purposes (net percentage of -16%) and lower financing needs for mergers and acquisitions (net percentage of -10%). Lower use of alternative financing sources, including funds from issues of shares and securities, had a positive impact on the demand (net percentage of 16% for both factors). Banks identified the persistent macroeconomic developments that are unfavourable to long-term investment and financing needs for increased car supplies as factors influencing changes in lending policy not included in the survey (net percentage of -16%).

Banks plan to continue tightening standards on corporate loans in the second quarter of 2023, but more frequently for SMEs than large enterprises (net percentage for short-term and long-term loans: **SME sector**: -49% and -45% and **large enterprises**: -10% and -19%, respectively, see Figure 1).

As in the previous quarter's survey, banks expect the demand for long-term corporate loans to drop (net percentage for large enterprises: -65% and for SMEs: -28%, see Figure 4). **They expect, however, that large enterprises will increase and SMEs will not change their demand for short-term loans** (net percentage of 24% and -1%, respectively).

Figure 5. Factors influencing changes in corporate loan demand

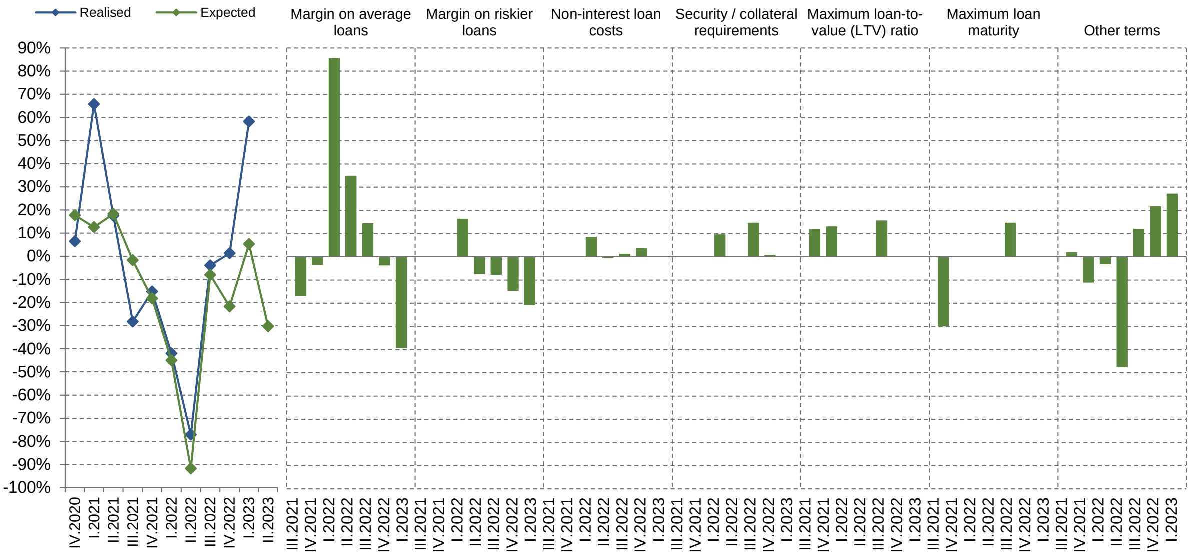


Loans to households

Housing loans

After a tightening of lending policy for almost two years, in the first quarter of 2023 banks started to ease their standards on housing loans[2] (net percentage of 58%, see Figure 6), **but at the same time they tightened certain lending terms**, including mainly **the credit margin** on riskier loans and **other loans** (net percentage of -21% and -39%, respectively). Other lending terms, which were not included in the survey, identified by banks were, among others, a reduction of a life insurance premium offered with a loan and the offer of a Family Housing Loan with the BGK guarantee option (net percentage of 27%).

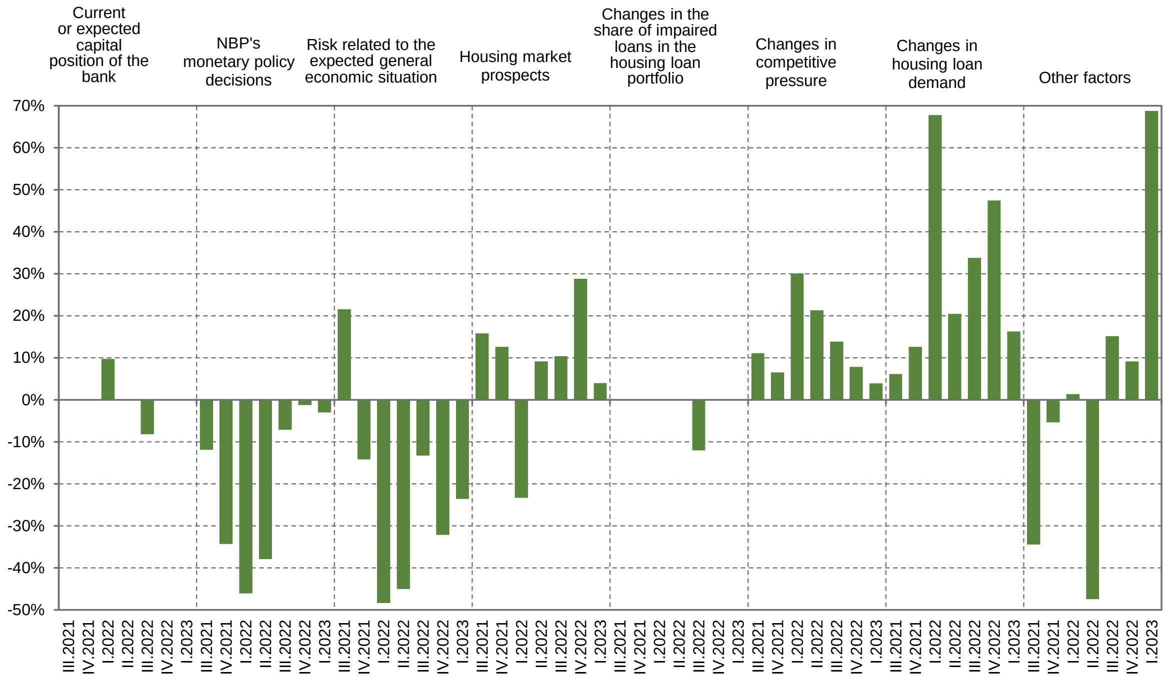
Figure 6. Standards and terms on housing loans



The survey-responding banks said that they were prompted to ease lending by the falling demand for housing loans (net percentage of 16%, see Figure 7), and **to tighten it – the deteriorating economic situation prospects** (net percentage of -24%). Other factors influencing changes in lending policy, not included in the survey, identified by banks were, among others, the UKNF decision to reduce to 2.5 p.p. the interest rate buffer when determining creditworthiness (net percentage of 69%).

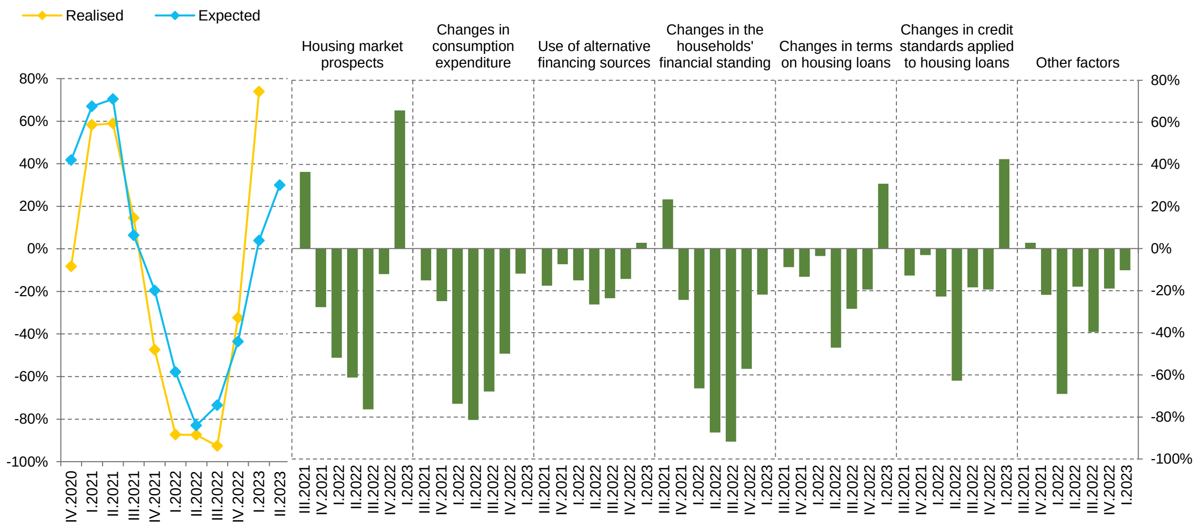
[2] At the same time, banks provide examples of easing of lending standards, which were mistakenly classified as terms (not included in the survey), including, among others, the UKNF decision do reduce to 2.5 p.p. the interest rate buffer when determining creditworthiness, and a tighter DSTI ratio.

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



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

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



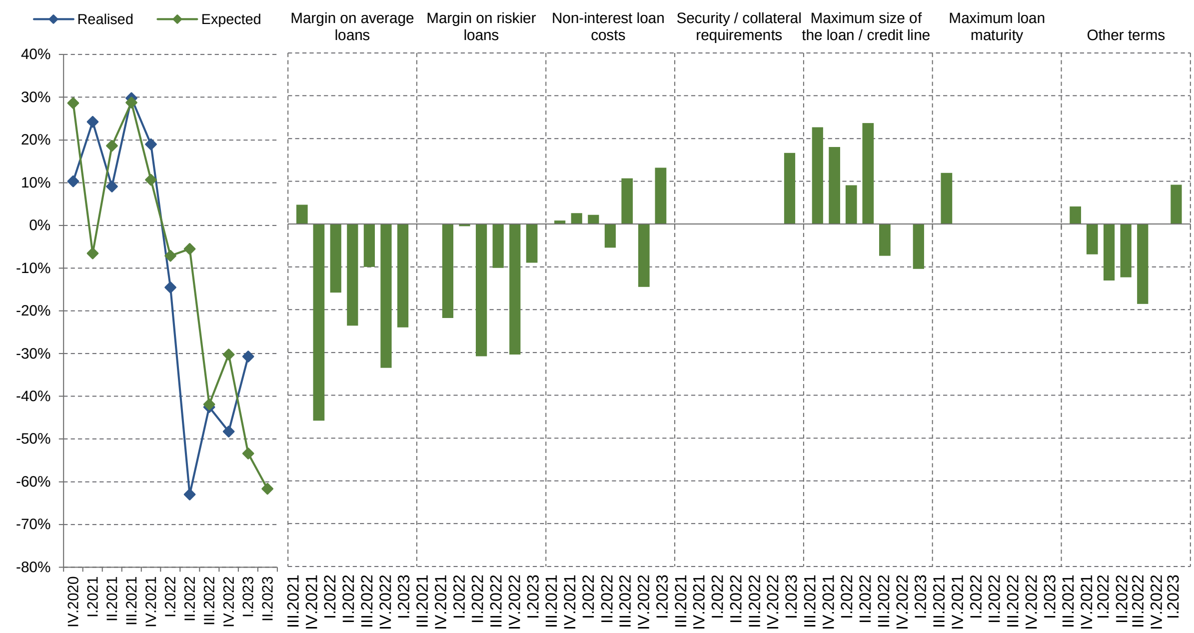
Banks recorded a reversal of the trend and a rise in demand for housing loans in the first quarter of 2023 (net percentage of 74%, see Figure 8), **which mainly stemmed from housing market prospects** (net percentage of 66%) **and an easing of standards and terms on housing loans** (net percentage of 43% and 31%, respectively). **According to banks, the demand was dampened by a deterioration in the financial standing of households** (net percentage of -22%), and also the shift in the structure of consumer spending (net percentage of -12%). Among factors contributing to a decline in housing loans demand (not included in the survey), banks identified, among others, the decrease of creditworthiness caused by the high level of reference rates and the removal of floating rate mortgage loans from banks' offer (net percentage of -10%).

Banks intend to tighten standards on housing loans in the second quarter of 2023 (net percentage of -30%, see Figure 6) and **expect the upward trend in housing loan demand to continue** (net percentage of 30%, see Figure 8).

Consumer loans

Banks tightened standards on consumer loans[3] again in the first quarter of 2023 (net percentage of -31%, see Figure 9), and **raised the credit margin** on riskier loans (net percentage of -9%, see Figure 9) and **other loans** (net percentage of -24%). Banks also altered other terms on consumer loans by decreasing the maximum loan size (net percentage of -11%) and by reducing the loan collateral requirements (net percentage of 17%) and non-interest loan costs (net percentage of 13%). The changes in terms on consumer loans (not included in the survey) identified by banks included, among others, an increase in the amount of a loan for low-risk profile customers (net percentage of 9%).

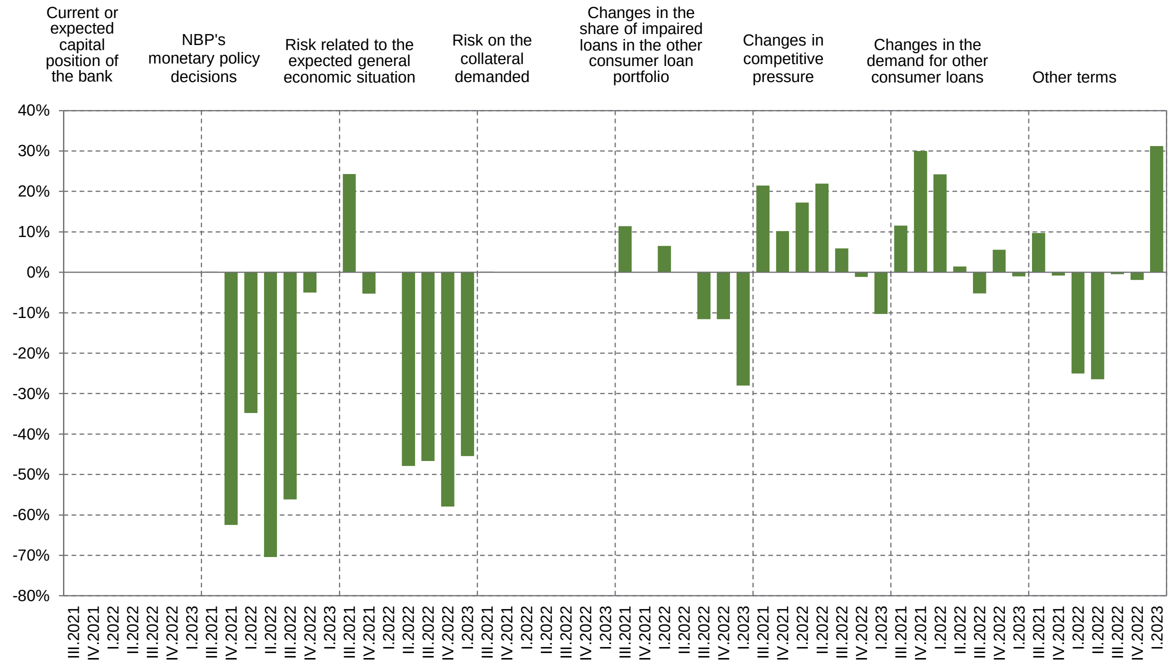
Figure 9. Standards and terms on consumer loans



[3] At the same time, banks provide examples of changes in lending standards, which were mistakenly classified as terms (not included in the survey), including, among others, an increase in the minimum costs of living of households taken into account for creditworthiness determination purposes.

According to the survey-participating institutions, the tightening of lending policy was primarily driven by the worsening of economic prospects (net percentage of -46%, see Figure 10), and **a higher share of impaired loans in the consumer loan portfolio** as well as a fall in competitive pressure from other banks (net percentage of -28% and -15%, respectively). As far as easing is concerned, factors influencing changes in lending policy (not included in the survey) mentioned by banks were, among others, an increase in monthly wages in the corporate sector, a statutory limitation of maximum non-interest costs and a withdrawal of the cash loan collateral requirement; as far as tightening is concerned – the need to comply with the Polish Financial Supervision Authority recommendations (net percentage of 31%).

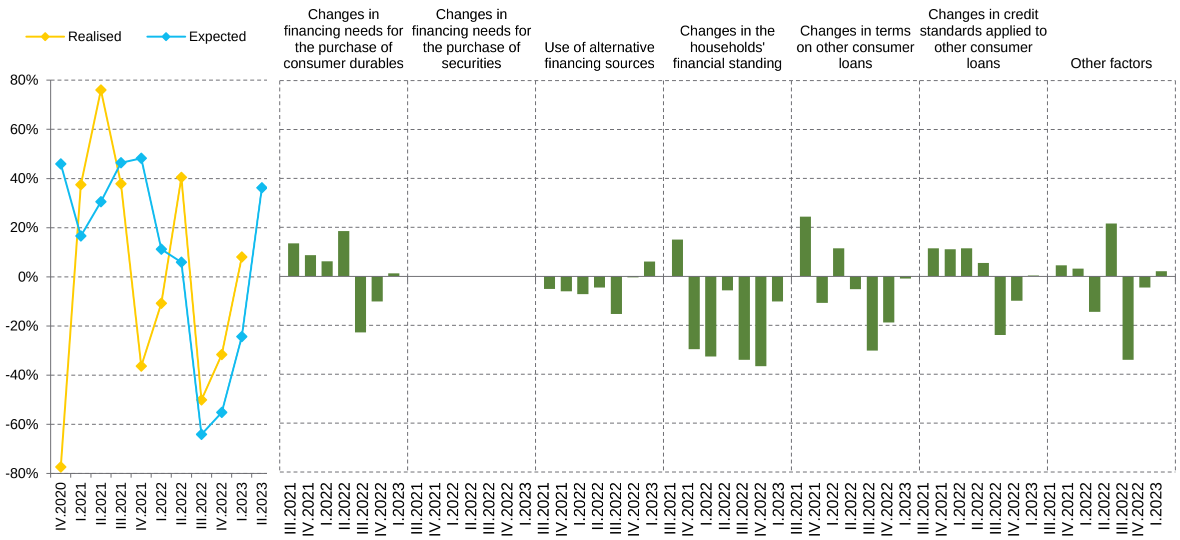
Figure 10. Factors influencing changes in lending policy – consumer loans



* 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 first quarter of 2023 banks saw a minor increase in the demand for consumer loans rise (net percentage of 8%, see Figure 11), although their opinions were split – a rise in demand was indicated by 22% of banks and its fall – by 14% of banks. The rise in consumer loan demand was driven by the lower use of alternative financing sources, including loans from other banks, savings of households and other financing sources (for all the factors, the net percentage is 6%), and the fall was driven by a deterioration in the financial standing of households (net percentage of -10%).

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



Banks intend to continue tightening standards on consumer loans in the second quarter of 2023 (net percentage of -62%, see Figure 9) and **expect the demand for the loans to grow further** (net percentage of 36%, see Figure 11).

Appendix 1

Methodology

The survey results are presented in the form of structures, i.e. the percentages of banks which chose a given option in response to particular questions. The responses are weighted with the share of the given bank in the market segment to which a given question relates.[4]

The importance of particular banks in 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 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 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.

[4] Weighing of responses of particular entities is a solution frequently applied in the preparation of results of qualitative surveys. See M. Bieć, "Business survey. Methods, techniques, experience", Papers and Materials of the Research Institute for Economic Development, No. 48, Warsaw School of Economics, 1996, pp. 71-114 (in Polish only).

Thus, 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.[5]

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 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.

[5] Due to a delay in reporting of around three weeks, no data on loans of particular banks in the third month of the period are available at the time of analysing the results of the survey.

Source: NBP.

www.nbp.pl