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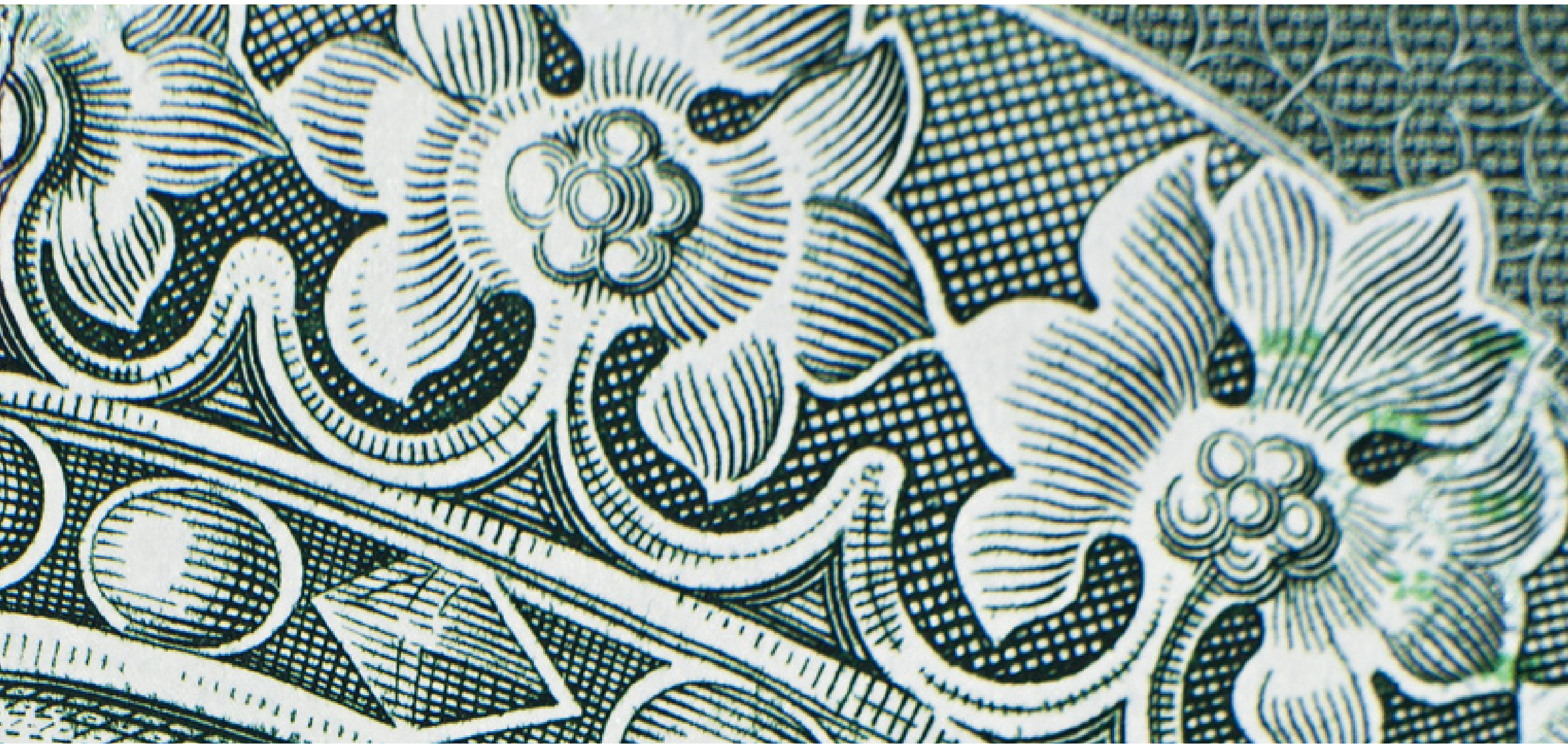
Senior loan officer opinion survey

on bank lending practices and credit conditions

3rd quarter 2023



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Financial Stability Department
Warsaw, July 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 most frequently prompted banks to tighten their lending policy in the second quarter of 2023 in all credit segments. Changes in lending policy were accompanied by a substantial rise in the demand for loans to households, a decline in the demand for loans to small and medium-sized enterprises (SME) and no major changes in the demand for loans to large enterprises.

The banks vow to tighten lending standards for all types of credit in the third quarter of 2023 and expect a fall in the demand for loans to SMEs, as well as a further rise in the demand for loans to large enterprises, housing loans and consumer loans.

Corporate loans

Lending policy: no changes in credit standards to large enterprises and a tightening of credit standards to SMEs, justified by the worsening of economic situation prospects and an increase in industry-specific risk, coupled with a tightening of most lending terms.

Demand for loans: a fall in demand (except for long-term loans to large enterprises) justified by the lower financing needs for fixed investment, and – for the first time since the first quarter of 2021 – for financing inventories and working capital.

Expectations for the third quarter of 2023: a tightening of lending standards on all types of corporate loans, a more considerable tightening for SMEs; a fall in loan demand from SMEs and a rising demand from large enterprises.

Housing loans

Lending policy: a new shift in the profile of lending policy and its tightening, prompted by the worsening of economic situation prospects and a deterioration in the quality of the housing loan portfolio, but at the same time mitigated by developments in the housing market amid unchanged existing lending terms.

Demand for loans: a sustained general increase in loan demand, justified by housing market prospects and the better condition of households applying for loans.

Expectations for the third quarter of 2023: a mild tightening of lending policy and a further albeit high rise in the demand for housing loans.

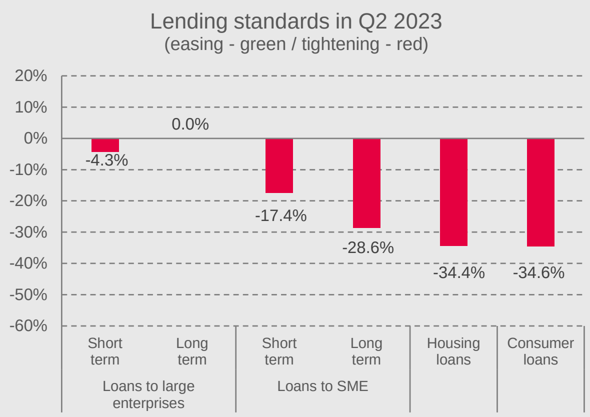
Consumer loans

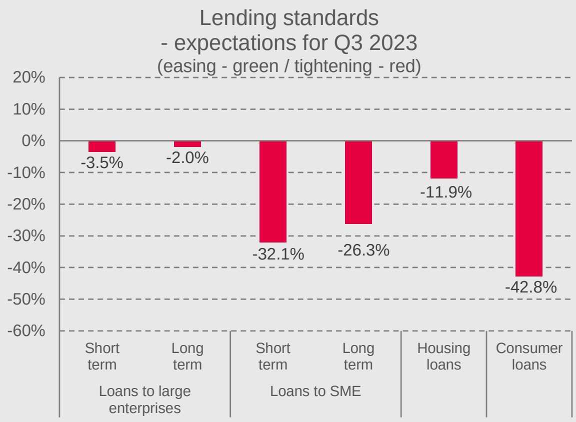
Lending policy: a re-tightening of lending standards, prompted by, among others, the rising share of impaired loans in the loan portfolio and a parallel increase in the credit margin on riskier loans and other loans, but also an increase in the maximum loan size.

Demand for loans: an increase, including a partially substantial one, in loan demand, stemming, among others, from higher financing needs for the purchase of durable goods.

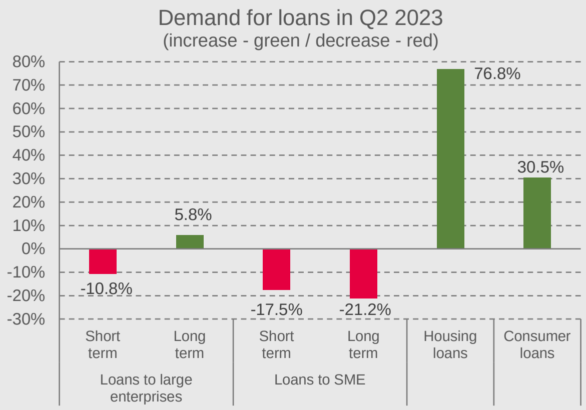
Expectations for the third quarter of 2023: lending policy tightening to continue and a further rise in loan demand.

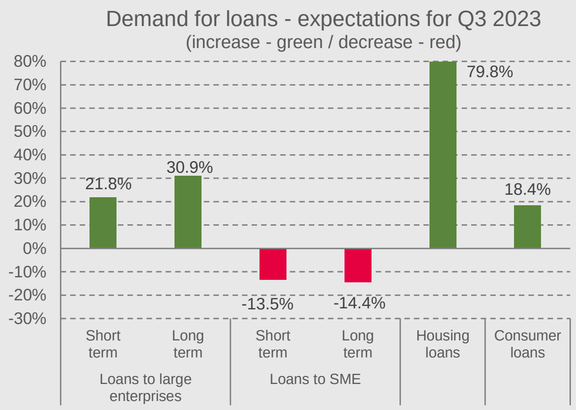
Lending standards





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 July 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 the 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, an 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 the banks" should be understood as "the asset-weighted majority of the 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 second quarter of 2023 as well as their expectations for the third quarter of 2023.

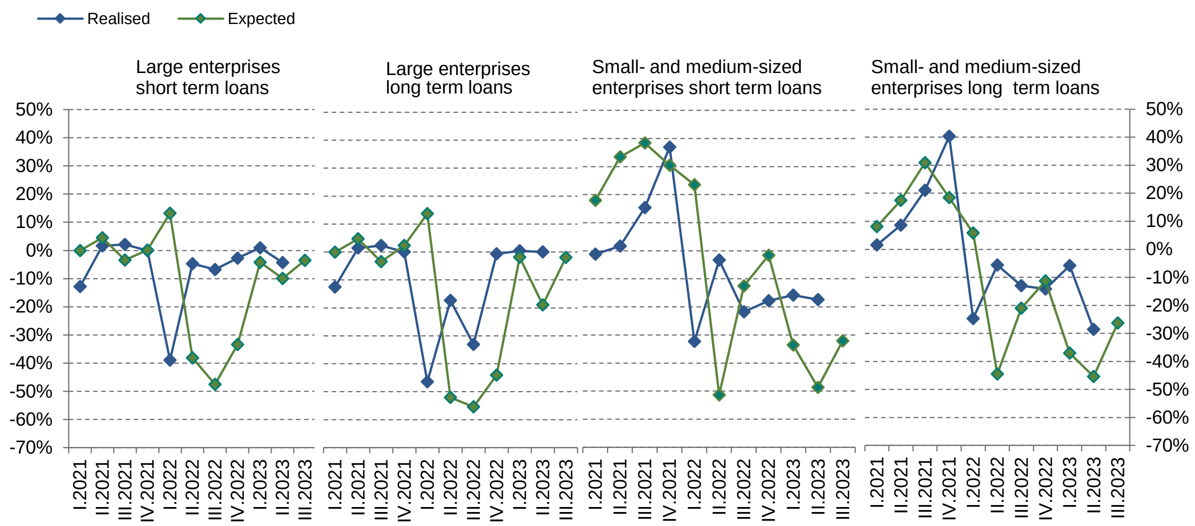
The values of the measures of net percentage and the diffusion index for specific questions are available in separate downloadable files on the NBP website.

Corporate loans

In the second quarter of 2023, the banks continued tightening the lending standards on short-term and long-term loans to the SME sector (net percentage of -17% and -29%, respectively; see Figure 1), **but kept them at the current level for large enterprises** (net percentage of -4% and 0%, respectively).

The banks also tightened most of the corporate lending standards: they raised credit margin, including margin on riskier loans (net percentage of -20% and -25%, respectively; see Figure 2), increased non-interest loan costs (net percentage of -17%), reduced the maximum loan size (net percentage of -13%) as well as tightening the collateral requirements (net percentage of -12%).

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, the lending policy tightening in the second quarter of 2023 was primarily prompted by the worsening of Poland's economic situation prospects (net percentage of -42%, see Figure 3), **a rise in industry-specific risk**[1] (net percentage of -33%) and deterioration of the quality of the loan portfolio (net percentage of -14%). The banks also identified other factors (not included in the survey) which had an influence on the modification of lending policy; they were, among others, new offerings of short-term loans covered by the BGK guarantee programme, but also the emergence of risk associated with the application of the WIRON benchmark to financial instruments (net percentage of 4%).

[1] Banks indicated a risk rising in the following industries: manufacture of furniture and of articles of wood, manufacture of steel, construction and agriculture.

Figure 2. Terms on corporate loans

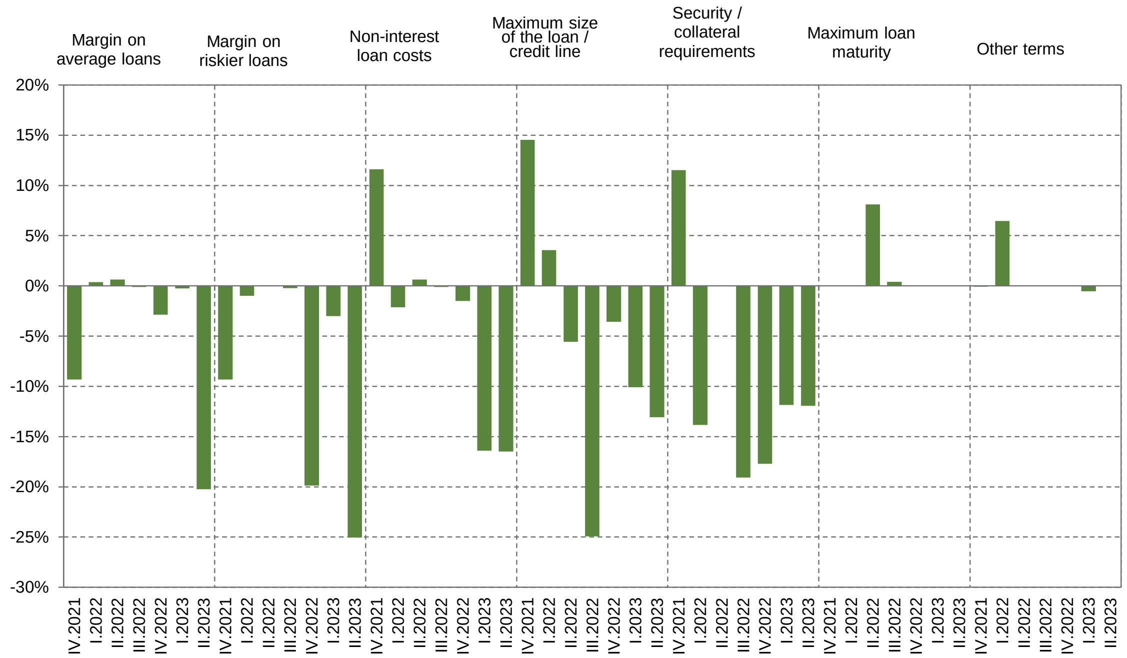
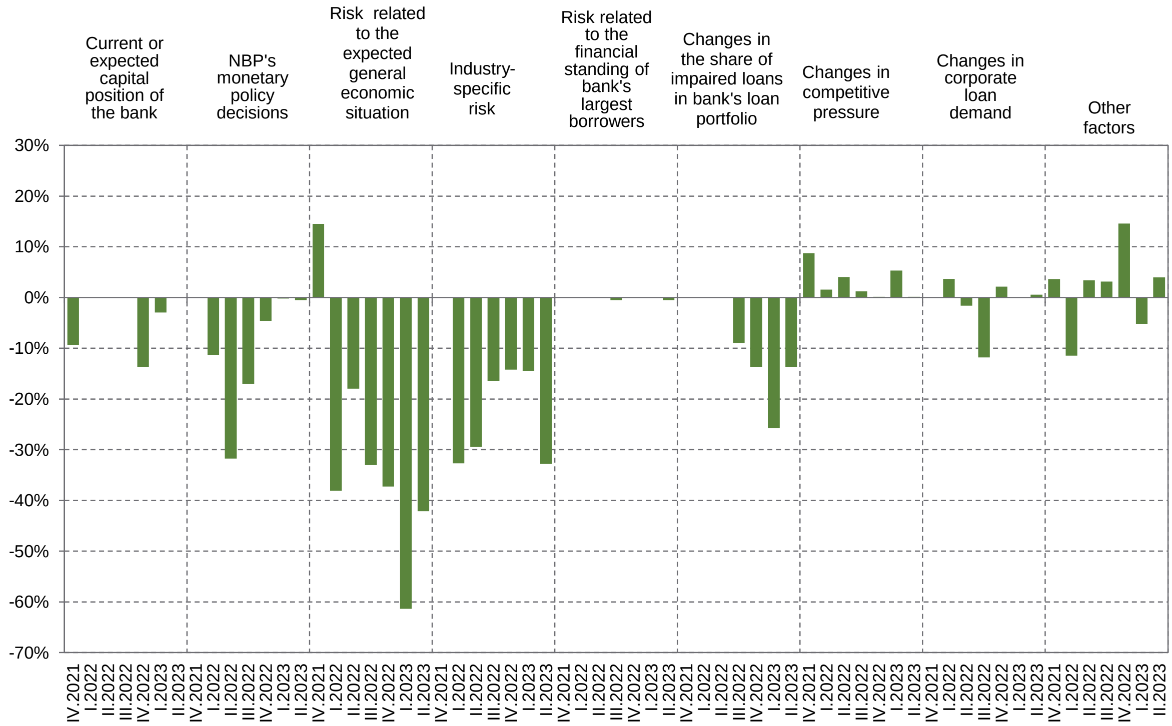


Figure 3. Factors influencing changes in lending policy



* 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.

In the second quarter of 2023, the banks once again noted a drop in demand for short-term and long-term loans from the SME sector (net percentage of -18% and -21%, see Figure 4). **The directions of changes in demand on the part of large enterprises varied. It was the first time since late 2021 and early 2022 that the banks had observed a dip in demand for short-term loans** while demand for long-term loans grew (net percentage of -11% and 6%, respectively; see Figure 4). In both cases, the opinions varied markedly: 22% of the banks reported an increase in demand for short-term loans, while 33% reported a decrease; in the case of long-term loans, the respective percentages were 38% and 32%.

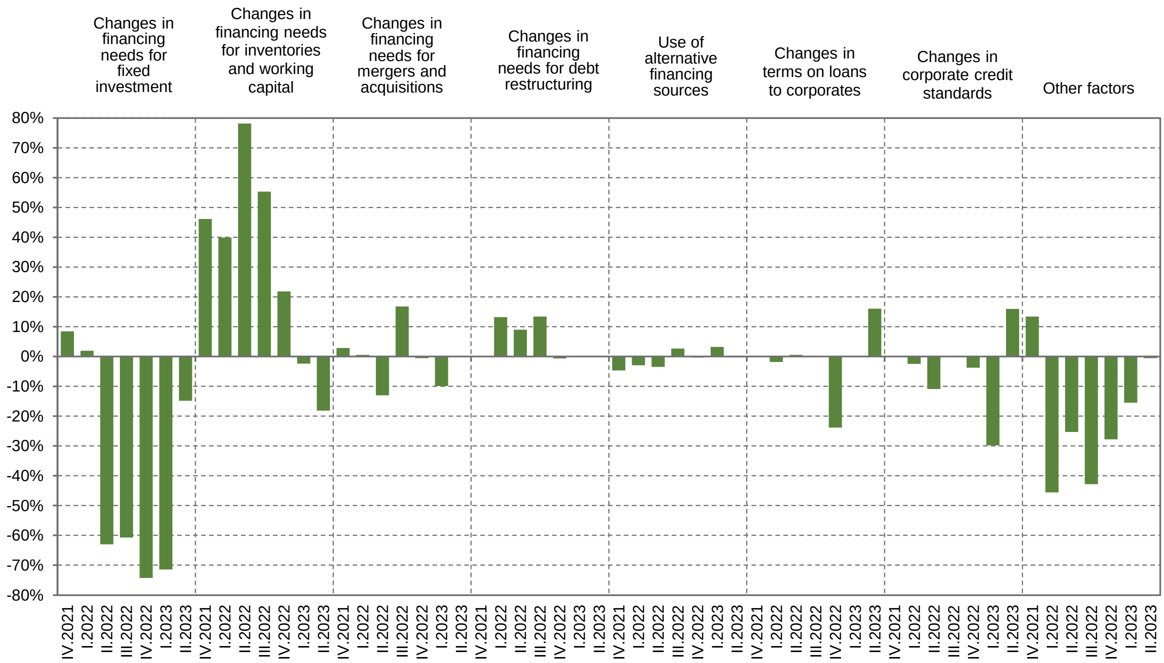
Figure 4. Corporate loan demand

According to the banks, the fall in demand from enterprises was primarily caused by lower financing needs for fixed investment as well as for inventories and working capital (net percentage of -15% and -18%, respectively; see Figure 5). At the same time, the data point to a significant fall in importance of the former factor (the average net percentage over the past four quarters was close to -65%). The banks experienced a drop in financing needs for working capital for the first time since the first quarter of 2021.

In the third quarter of 2023, the banks plan to continue tightening their lending terms for enterprises, although more frequently for the SME sector than large enterprises (net percentages for short-term and long-term loans are, respectively: **SME sector**: -32% and -26% and **large enterprises**: -4% and -2%, see Figure 1).

The banks forecast a further decrease in demand for loans on the part of SMEs (net percentage for both market segments: -14%, see Figure 4). **On the other hand, they expect that large enterprises will increase demand for both types of loans in the third quarter of 2023** (net percentage of 22% and 31%, respectively).

Figure 5. Factors influencing changes in corporate loan demand

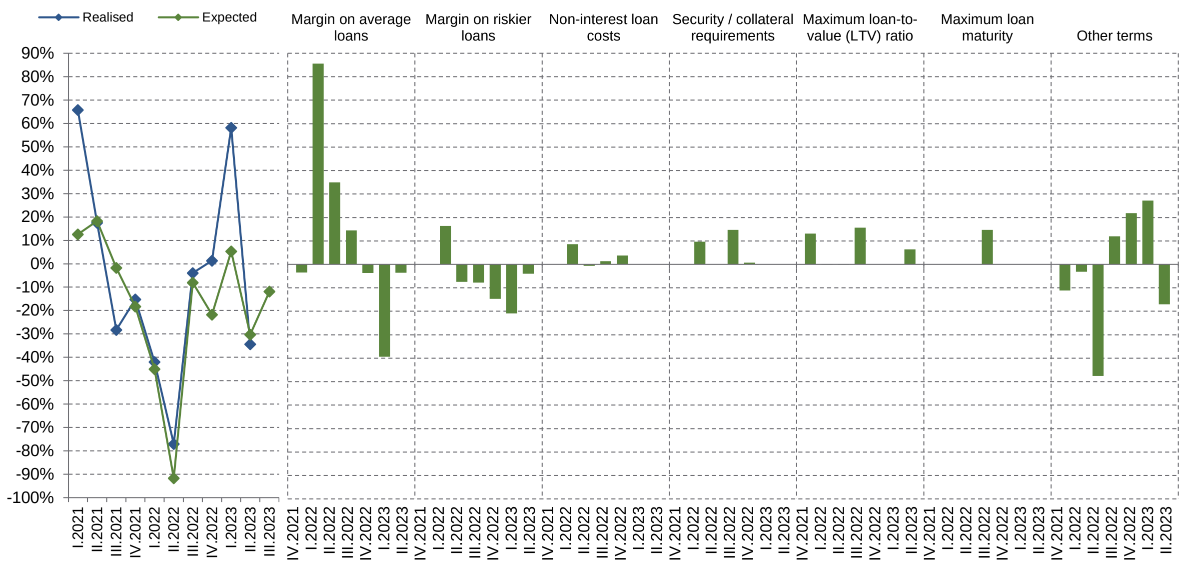


Loans to households

Housing loans

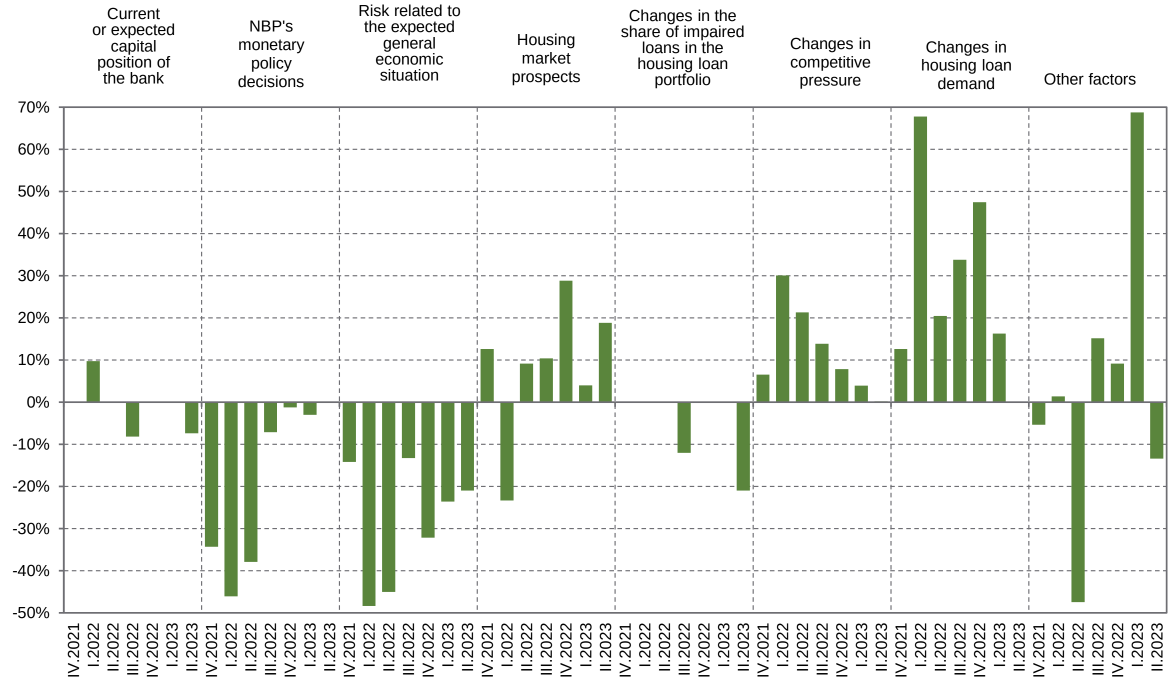
In the second quarter of 2023, following a short-lived easing, the banks once again tightened their lending policy (net percentage of -34%, see Figure 6), **while keeping the standards and terms on housing loans unchanged.** Individual banks raised credit margins on riskier loans and other loans (net percentages for both terms: -4%; see Figure 6), and increased the maximum loan-to-value ratio (net percentage of 6%).

Figure 6. Standards and terms on housing loans



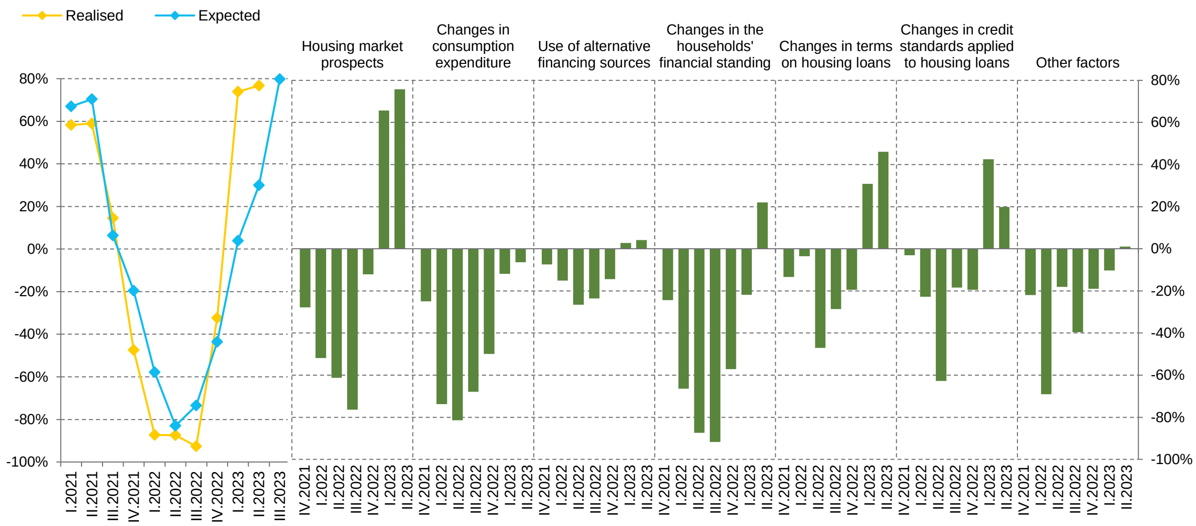
The survey-responding banks indicated they were prompted to tighten lending policy by the worsening economic prospects, the deteriorating quality of the housing loan portfolio (net percentage for both factors: -21%; see Figure 7) and a deterioration in their current or expected capital position (net percentage of -7%), whereas **they were motivated to ease the policy by housing market prospects** (net percentage of 19%). Other factors not included in the survey named by the banks were, among others, the fulfilment of regulatory recommendations of the Polish Financial Supervision Authority and an increase in household living costs in the calculation of the borrower's creditworthiness (net percentage of -13%).

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



In the second quarter of 2023, the banks once again reported a recovery in demand for housing loans and 20% of them saw the increase as significant (net percentage of 77%, see Figure 8). **The main drivers of demand were: housing market prospects** (net percentage of 76%), **the easing of the terms and the standards**

of housing loans [in the first quarter of 2023] (net percentage of 46% and 20%, respectively) as well as **an improvement in the condition of the households applying for a loan** (net percentage of 22%). The banks were of the opinion that demand was dampened by changes in the consumer spending patterns of households (net percentage of -6%). Other factors affecting the drop in demand for housing loans, mentioned by the banks but not included in the survey, were among others the worsening of Poland's economic situation, whereas an increase in demand was driven by the launching of "Safe 2% Loan" in the third quarter of 2023 (net percentage of 1%).

In the third quarter of 2023, the banks plan to tighten the housing loan standards (net percentage of -12%, see Figure 6) and **expect the upward trend in demand for such loans to continue** (net percentage of 80%, see Figure 8).

Consumer loans

In the second quarter of 2023, the banks once again tightened the consumer lending standards[2] (net percentage of -35%, see Figure 9) and **raised credit margin on riskier loans** (net percentage of -14%, see Figure 9) and **other loans** (net percentage of -18%). At the same time, however, they eased certain terms: for example they **increased the maximum loan size** (net percentage of 19%) and reduced non-interest loan costs (net percentage of 5%).

According to the survey-participating institutions, the rising share of impaired loans in the consumer loan portfolio (net percentage of -29%, see Figure 10) and increased risk on the collateral demanded (net percentage of -5%) **contributed to the tightening of lending policy,** whereas growing competitive pressure from non-bank financial institutions and other banks (net percentage of 15% and 11%, respectively) led to the easing of the policy.

[2] At the same time, banks provide examples of changes in lending standards, which were mistakenly classified as terms (not included in the survey), including an extension of the period of documented earnings, the easing of terms for a selected group of customers and the relaxing of requirements in the borrower creditworthiness assessment procedure.

Figure 9. Standards and terms on consumer loans

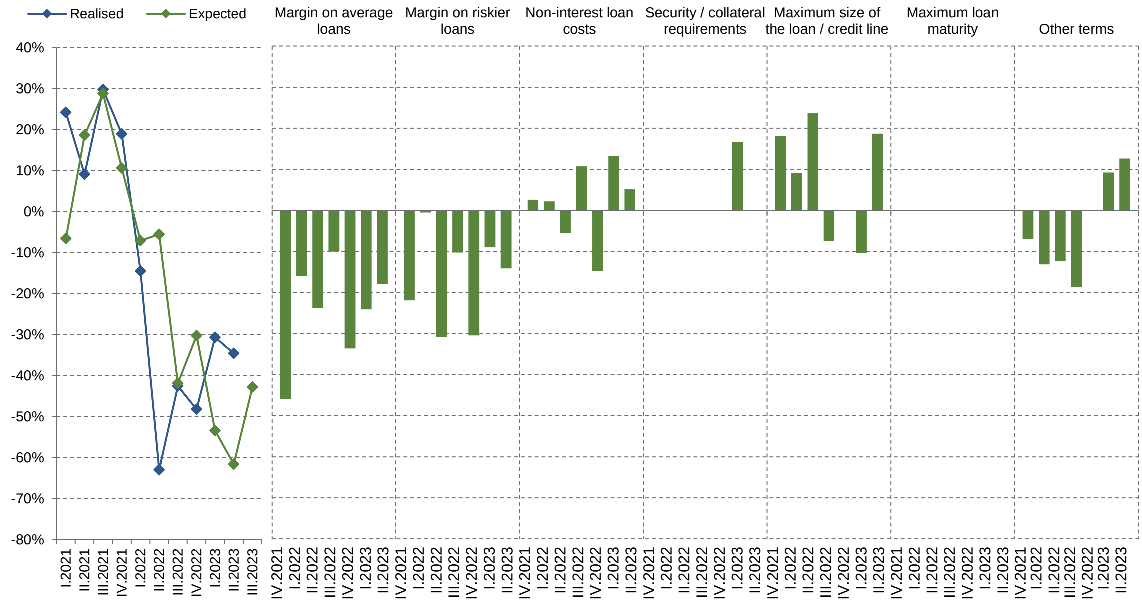
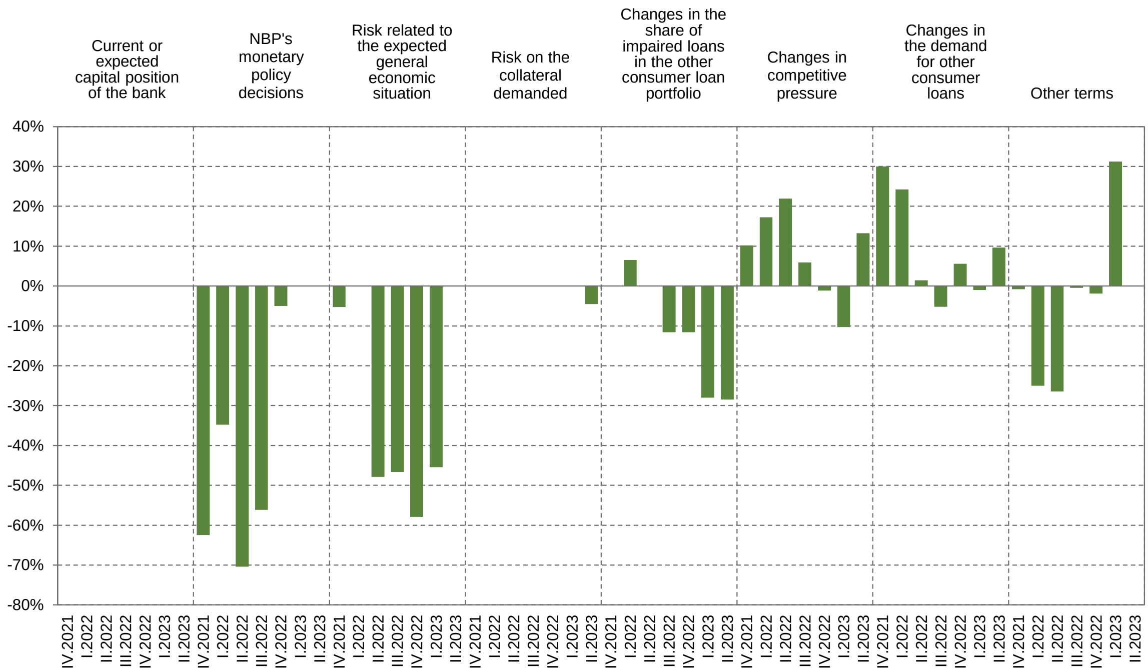


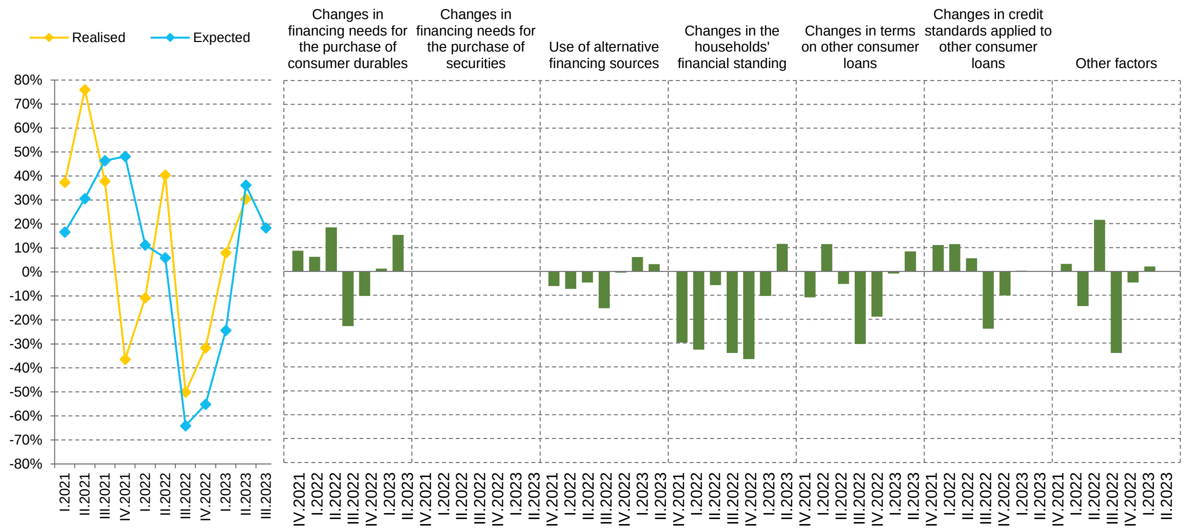
Figure 10. Factors influencing changes in lending policy – consumer loans



* 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 2023, the banks saw an increase in demand for consumer loans, and 16% of them saw a significant increase (net percentage of 31%, see Figure 11). Demand for consumer loans was driven by, among other things, increasing financing needs for the purchase of durable goods (net percentage of 15%), an improved financial standing of households applying for a loan (net percentage of 12%) and a smaller scale of use of alternative financing sources – loans from other banks (net percentage of 9%). None of the banks identified factors constraining demand for consumer loans.

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



The banks intend to continue tightening standards on consumer loans in the third quarter of 2023 (net percentage of -43%, see Figure 9) and **expect a continued growth in demand for such loans** (net percentage of 18%, 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.[3]

The importance of particular banks in each market segment is represented by the share of loans outstanding of a given bank in the loan portfolio of all the 23 survey-responding banks, broken down by particular types of loans. The table below presents the market segment to which particular questions refer and the type of loans outstanding which was used to calculate the shares of particular banks in 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.

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

Thus, individual responses to all questions are assigned a weight corresponding to a given bank's share in a given market segment. When calculating the weights, the average amount of claims of a given type in the first two months covered by the survey was taken into account.[4]

In addition to structures, the so-called net percentage was calculated for each response, i.e. the difference between the percentages of responses 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.

[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.

Appendix 1

Source: NBP.

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