NBP Narodowy Bank Polski

Senior loan officer opinion survey

on bank lending practices and credit conditions

3rd quarter 2017

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Financial Stability Department
Warsaw, July 2017

Summary of the survey results

Corporate loans

Lending policy: no changes in credit standards, credit standards tightened slightly in the segment of short-term loans for small and medium-sized enterprises (SMEs); individual banks tightened lending terms by reducing maximum loan maturity and raising non-interest loan costs.

Demand for loans: a rise in demand.

Expectations for the third quarter of 2017: individual banks to ease lending policy in the SME segment; a rise in demand.

In the second quarter of 2017, for the first time since the end of 2015, the banks observed an increase in demand from enterprises. According to the banks, the growth stemmed mainly from higher financing needs for fixed investment, inventories and working capital.

Housing loans

Lending policy: lending standards tightened slightly; certain credit terms changed: an increase in credit spreads on riskier loans, a drop of non-interest loan costs.

Demand for loans: a rise in demand.

Expectations for the third quarter of 2017: individual banks expect to ease lending policy and expect demand to fall.

In the second quarter of 2017, the banks tightened lending policy for the first time in four quarters.

Consumer loans

Lending policy: lending standards tightened and certain lending terms also tightened, i.e. a reduction of the maximum loan size.

Demand for loans: a modest rise in demand.

Expectations for the third quarter of 2017: a tightening of lending policy, a rise in demand.

In the second quarter of 2017, the banks continued to tighten lending policy, a process observed for five quarters.

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 late June 2017 and early July 2017 among 27 banks with a total share of approximately 89% in loans to enterprises and households in the banking sector's portfolio.

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

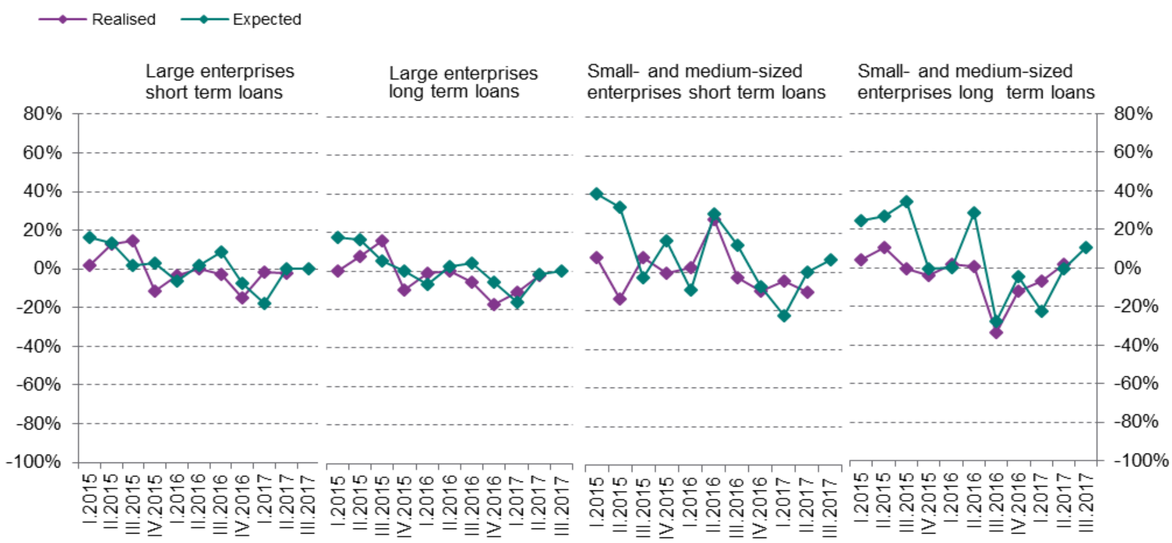
Unless otherwise indicated, the number of the banks cited in the text reporting a given change in their lending policies or in demand for loans means the net percentage of the banks.

The next section presents tendencies regarding the banks' lending policy and changes in demand in the second quarter of 2017 as well as the banks' expectations for the third quarter of 2017.

Corporate loans

In the second quarter of 2017, credit standards on corporate loans did not change significantly (see Figure 1). **Banks tightened slightly only the standards on short-term loans to SMEs.**

Figure 1. Credit standards on corporate loans



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

For another quarter in a row, the survey-responding banks tightened their lending terms (see Figure 2). Individual banks reduced the maximum loan maturity and raised non-interest loan costs (net percentage of around -5% and -4%, respectively). Other terms on corporate loans did not change considerably.

The banks that tightened lending policy in the second quarter of 2017 justified the tightening mainly with the deterioration of corporate loan quality and the growth of risk associated with providing loans to entities from certain industries (IT equipment distributors) (net percentage of around -41% and -26%, respectively, see Figure 3).

Figure 2. Terms on corporate loans

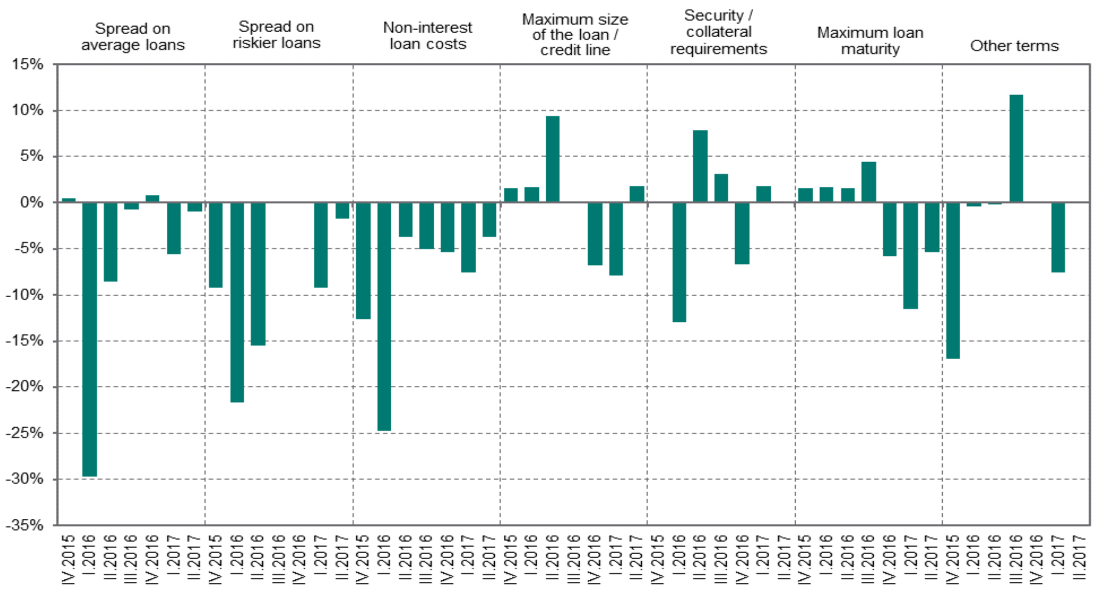
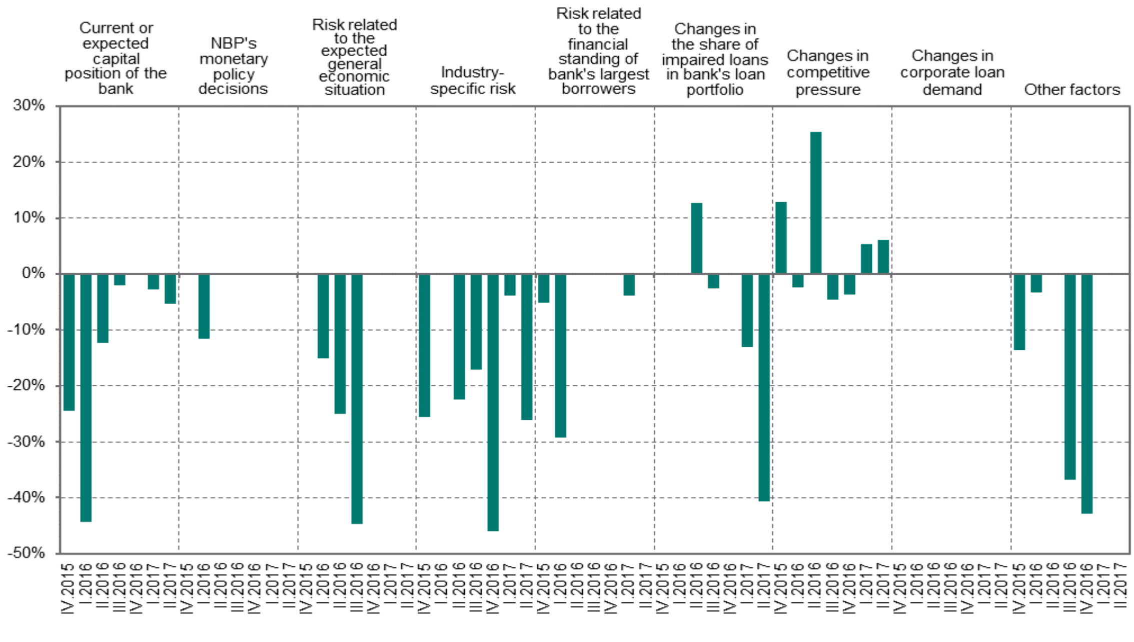


Figure 3. Factors influencing changes in lending policy



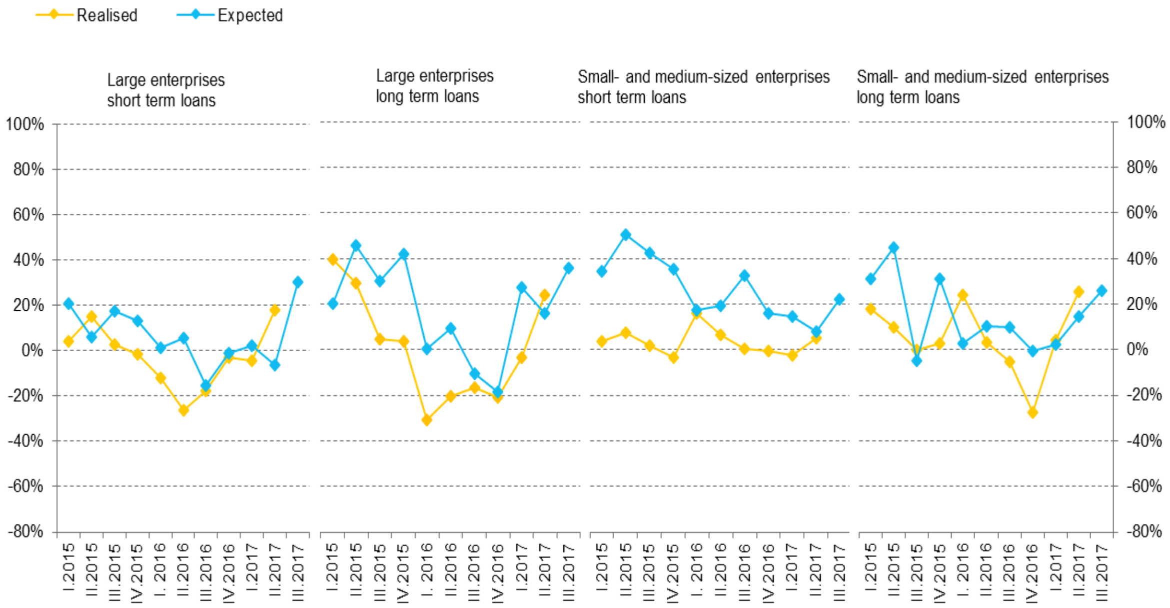
Notes:

The banks assess changes in competitive pressure from other banks, non-bank financial institutions and financial markets. Figure 3 shows the arithmetic mean.

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

In the second quarter of 2017, banks were affected by a rise in demand for loans, especially long-term loans, from enterprises (see Figure 4).

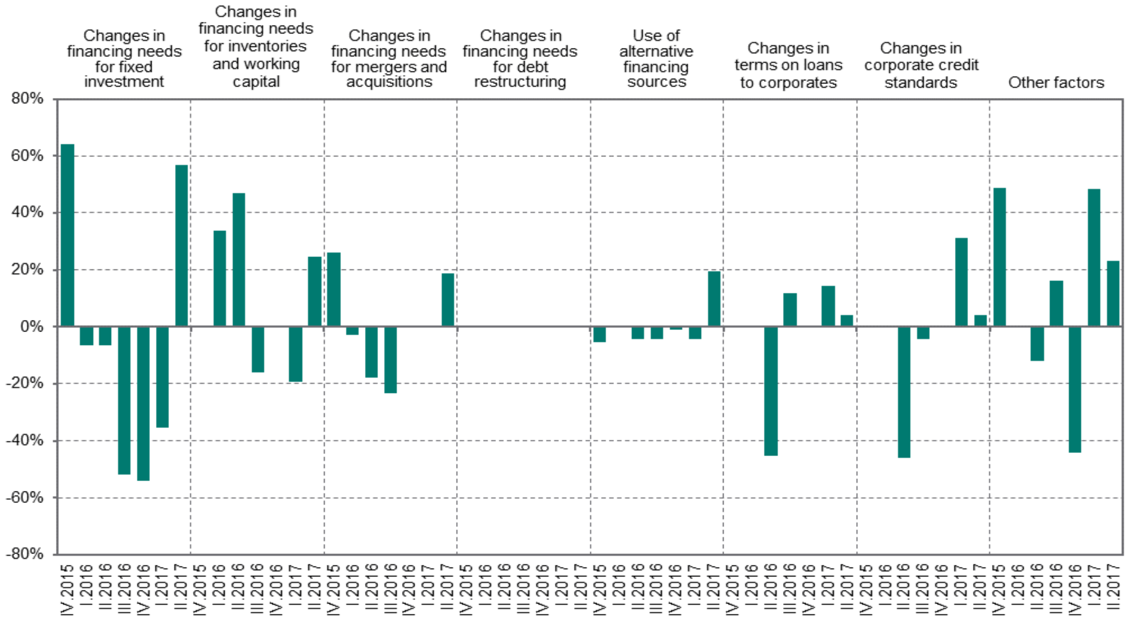
Figure 4. Corporate loan demand



The banks affected by loan demand growth explained it mainly by higher financing needs for fixed investments of enterprises (net percentage of around 57%) **and increased activity of local government units related to the utilization of aid funds** (net percentage of around 23%, see Figure 5). According to the survey-responding banks, the loan growth reported by enterprises was also driven by higher financing needs for inventories and working capital, financing related to mergers and acquisitions (net percentage of around 24% and 19%, respectively) and lower use of alternative financing sources.

Individual banks expect to ease lending policy in the SME segment in the third quarter of 2017 (see Figure 1). **At the same time, they expect demand, especially in the segment of loans to large enterprises, to grow**.

Figure 5. Factors influencing changes in corporate loan demand



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

Loans to households

Housing loans

In the second quarter of 2017, banks tightened slightly the standards on housing loans (see Figure 6). **Moreover, banks raised credit spreads on riskier loans and lowered non-interest loan costs** (net percentage of around -13% and 10%, respectively, see Figure 6).

According to the banks that changed their lending policy, the tightening was primarily driven by the current and expected capital position of banks (net percentage of around -59%, see Figure 7).

Figure 6. Standards and terms on housing loans

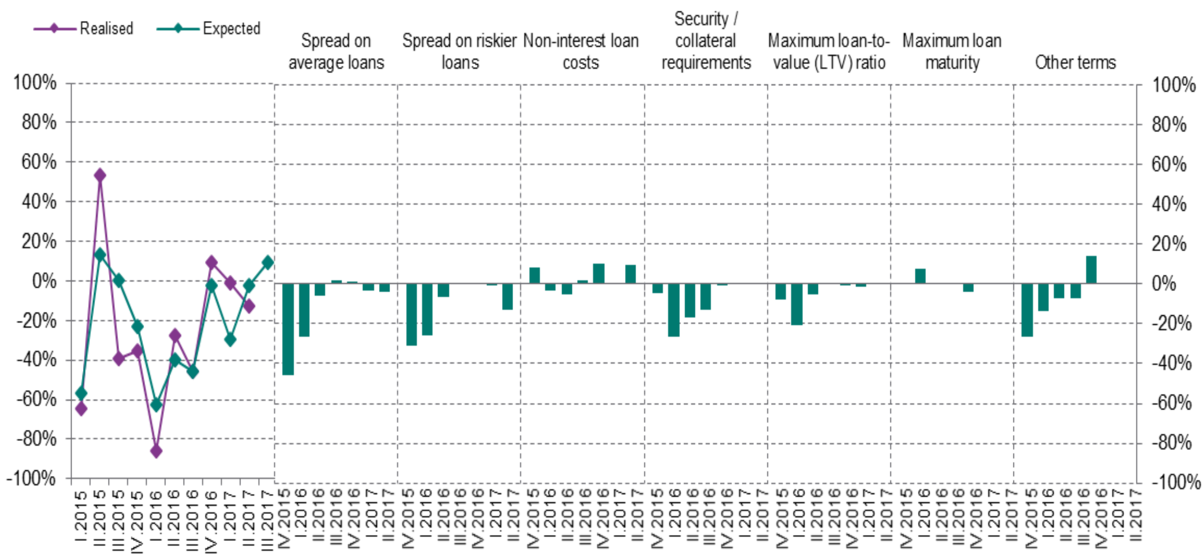
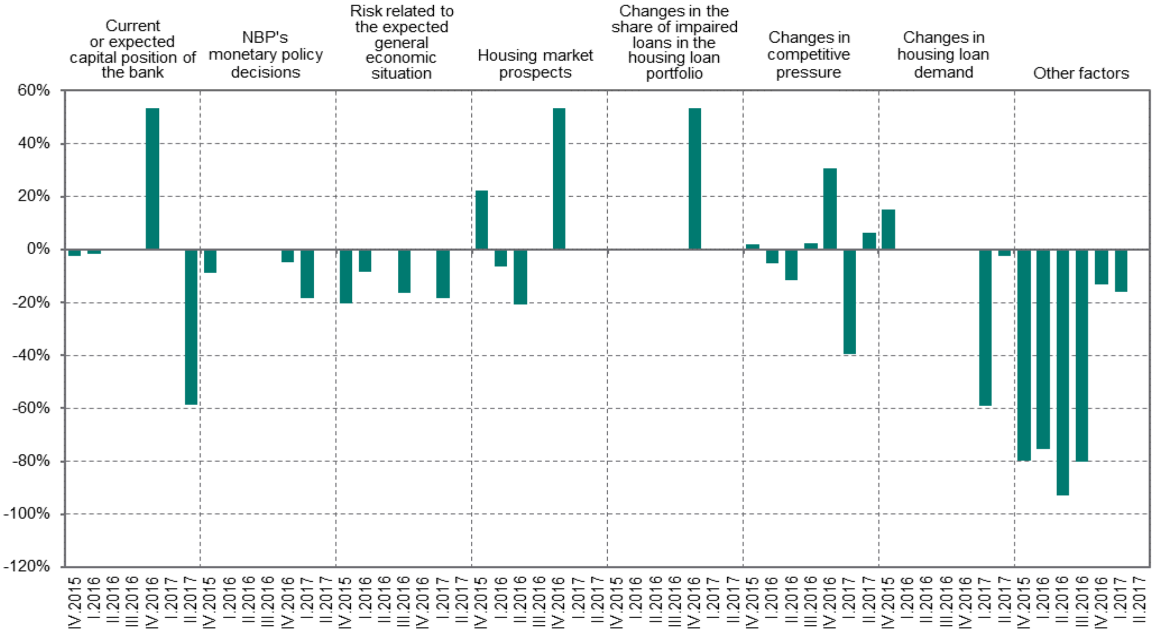


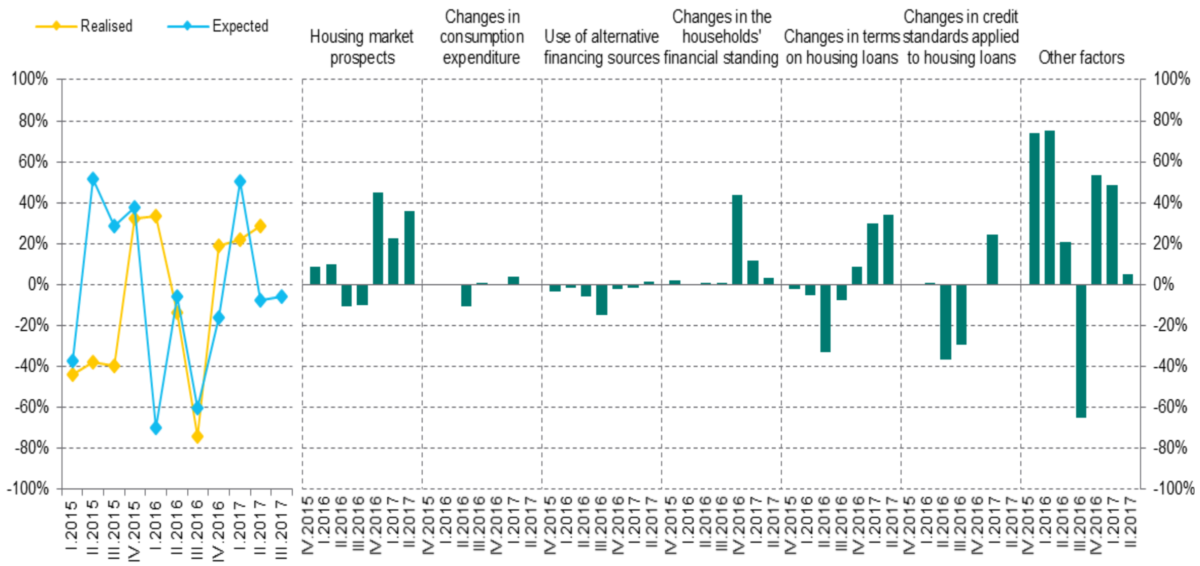
Figure 7. Factors influencing changes in lending policy – housing loans



Notes:
The banks assess changes in competitive pressure from other banks, non-bank financial institutions and financial markets. Figure 7 shows the arithmetic mean.
Information on factors influencing changes in lending policy is provided by the banks that have changed it.

In the second quarter of 2017, banks experienced a rise in demand for housing loans (net percentage of around 29%, see Figure 8), **which they attributed mainly to housing market forecasts and the easing of terms on housing loans** (net percentage of around 36% and 34%, respectively, see Figure 8).

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



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

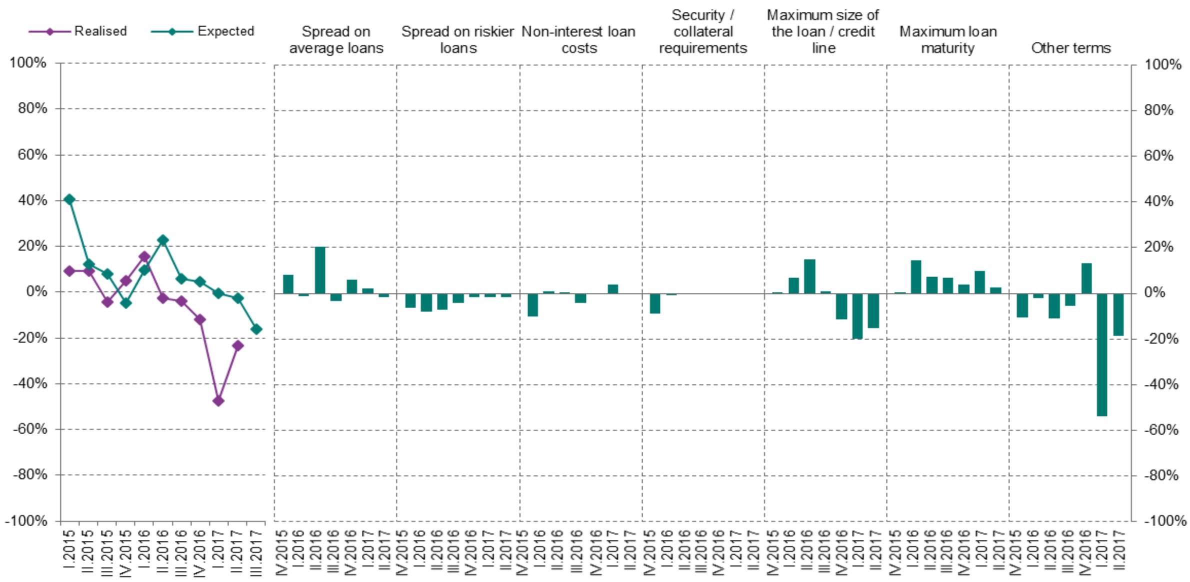
Individual banks, expect to ease lending policy in the segment of housing loans (net percentage of around 9%, see Figure 6) **and they also expect loan demand to drop** (net percentage of around -6%, see Figure 8) **in the third quarter of 2017.**

Consumer loans

In the second quarter of 2017 banks tightened credit standards on consumer loans (net percentage of around -24%, see Figure 9). In the previous edition of the survey, banks declared no major changes in lending policy.

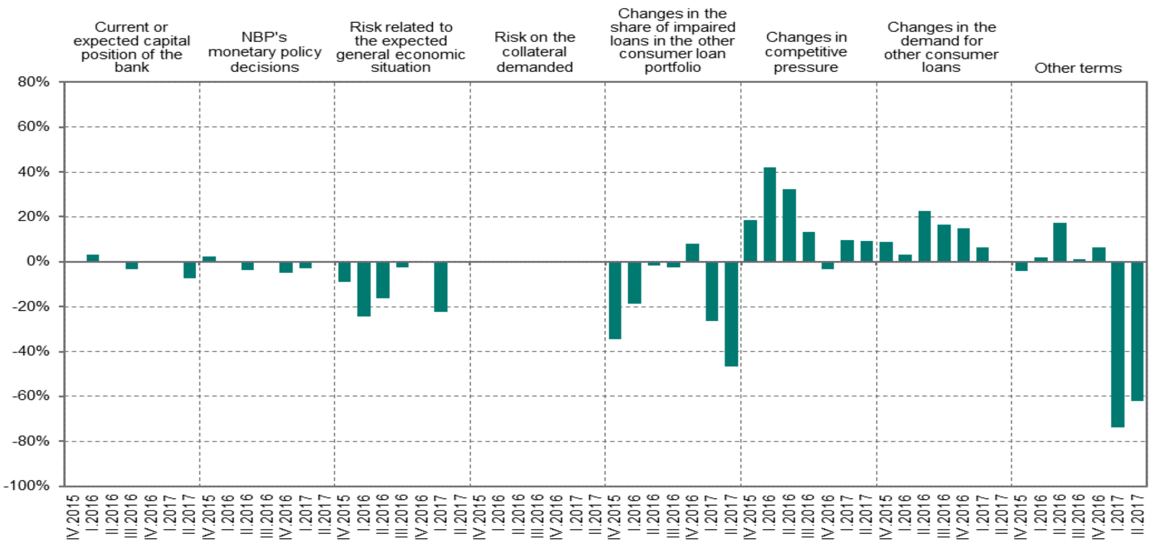
In the second quarter of 2017, the survey respondents also tightened a portion of terms on consumer loans. Banks reduced the maximum loan size (net percentage of around -16%, see Figure 9). Moreover, some banks restricted access to credit for the riskiest population of customers or implemented a more conservative cut-off point for the scoring models (net percentage of around -19%). Other terms on consumer loans were not changed substantially.

Figure 9. Standards and terms on consumer loans



In the opinion of the banks that tightened lending policy in the segment of consumer loans, the tightening was supported mainly by factors not included in the survey, i.e. regulatory issues and a review and rationalization of loan application assessment rules (net percentage of around -62%, see Figure 10). Among regulatory factors, banks identified the implementation of post-inspection recommendations of the Polish Financial Supervision Authority in the area of stability of borrower's income and adopted household expenses. **The deterioration of consumer loan quality at certain banks also contributed to the tightening of lending policy** (net percentage of around -47%). Conversely, competitive pressure contributed to the easing of the policy.

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

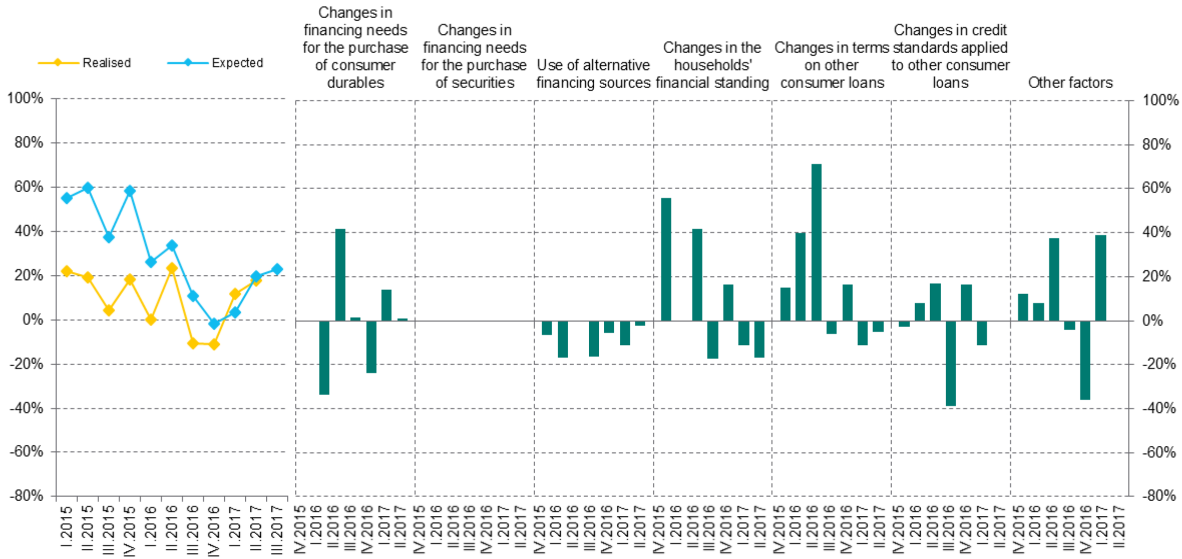


Notes:
The banks assess changes in competitive pressure from other banks and non-bank financial institutions. Figure 10 shows the arithmetic mean.

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

According to the survey-participating banks, demand for consumer loans grew slightly in the second quarter 2017 (net percentage of around 18%, see Figure 11).

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



Banks expect to continue to tighten lending policy in the third quarter of 2017 (net percentage -16%, see Figure 9) **and expect loan demand to grow** (net percentage of around 23%, see Figure 11).

Appendix 1

Methodology

The results of surveys are presented in the form of structures, i.e. the percentages of banks, which chose a given option in response to particular questions. Banks' responses are weighted with the share of the given bank in the market segment to which a given question relates. Weighing of responses is a solution frequently applied in preparation of results of qualitative surveys.[1]

The importance of particular banks in a given market segment is represented by the share of loans outstanding of a given bank in the loan portfolio of all 27 banks responded to the survey, broken down by particular types of loans. The following table presents the market segment to which particular questions refer, and the type of loans outstanding which was used to calculate the shares of particular banks in a given market segment.

Table 1. Market segment and the respective type of loans taken into account in calculation of the weights

Questions no.	Market segment	Type of loans
1, 4, 6, 7	Short-term loans to small and medium enterprises	Loans outstanding from small and medium enterprises with the basic term to maturity of up to one year, together with the outstanding on the current account
1, 4, 6, 7	Short-term loans to large enterprises	Loans outstanding from large enterprises with the basic term to maturity of up to one year, together with the outstanding on the current account
1, 4, 6, 7	Long-term loans to small and medium enterprises	Loans outstanding from small and medium enterprises with the basic term to maturity above 1 year
1, 4, 6, 7	Long-term loans to large enterprises	Loans outstanding from large enterprises with the basic term to maturity above 1 year
2, 3, 5	Total corporate loans	Total amount of loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders
8, 9, 10, 13, 14, 16, 17	Housing loans to households	Housing loans to persons
8, 11, 12, 13, 15, 16, 17	Consumer and other loans to households	Total loans outstanding from persons less housing loans to persons

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

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

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

Apart from structures, the so-called net percentage was calculated for each response, that is the difference between the percentages of responses showing opposing directions of changes. This magnitude indicates a general tendency in the specific market segment. The method of calculating the net percentage for particular questions is presented in the following Table 2.

Table 2. Method of calculating the net percentage

Questions no.	Definition of net percentage
1, 2, 8, 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 credit standards.
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.

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

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