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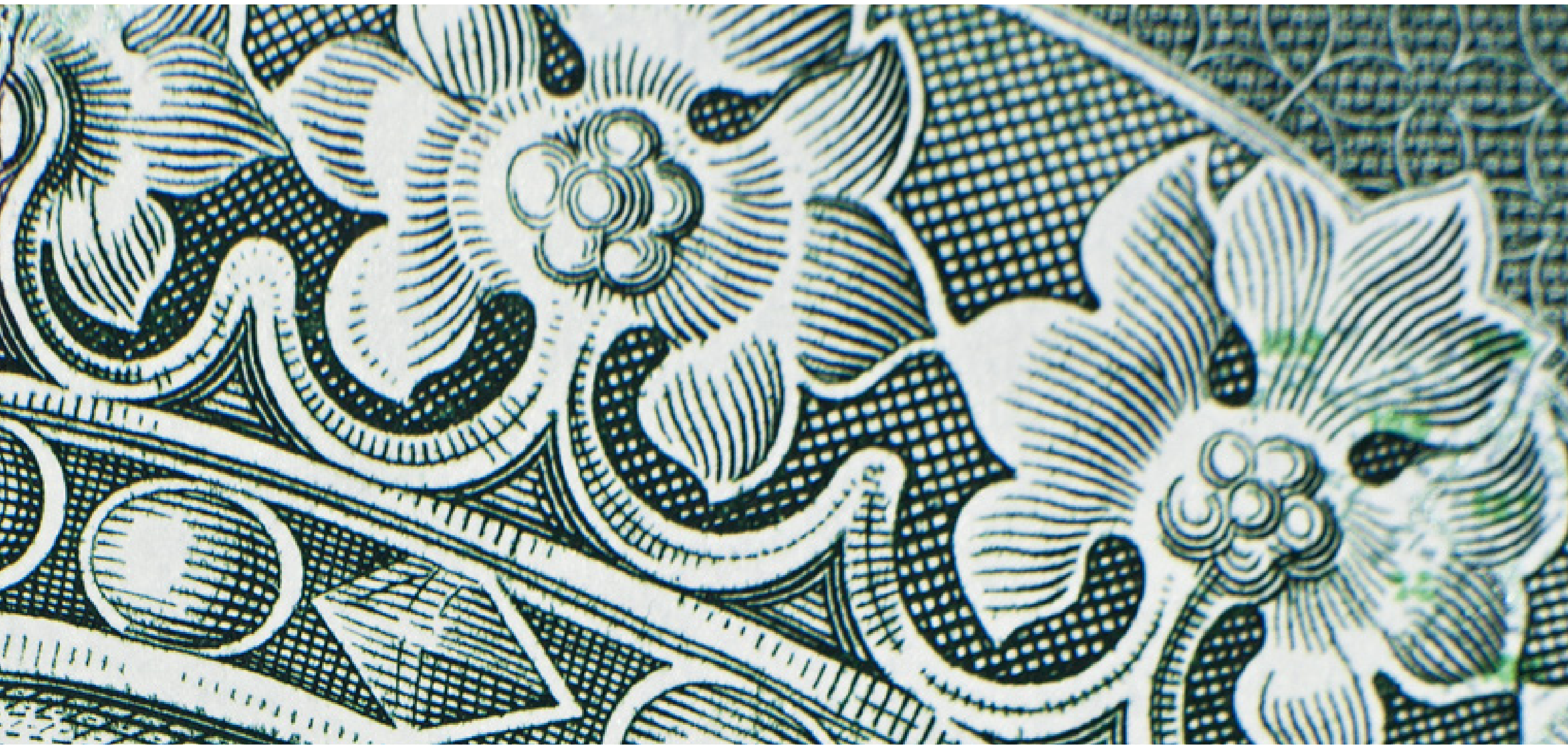
Senior loan officer opinion survey

on bank lending practices and credit conditions

3rd quarter 2023



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3rd quarter 2024

Financial Stability Department
Warsaw, July 2024

Summary of the survey results

In the second quarter of 2024, the banks noticeably eased their lending policies for large enterprises – for the first time since 2017. With regard to all other types of loans, they either tightened or did not change their lending policies (consumer loans). Those changes in lending policy were accompanied by a significant spike in demand for corporate loans (especially for large enterprises) and consumer loans. Demand for housing loans turned out to be smaller than in the previous quarter, and continued to be affected by the end of acceptance of loan applications under the "2% Safe Mortgage" programme.

For the third quarter of 2024, the banks have expressed no intention to make any major changes in their lending standards. However, they expect a rise in demand for all types of loans except for housing loans.

<u>Corporate loans</u>

Lending policy: a noticeable easing of lending standards for large enterprises for the first time since 2017 and a further tightening of standards for small and medium-sized enterprises (SMEs), justified by a rise in industry-specific risk and the worsening quality of the loan portfolio, coupled with a slight multidirectional change in most of lending terms.

Demand for loans: a rise in demand for all types of loans, especially to large enterprises, driven by growing demand for the financing of mergers and acquisitions, working capital and fixed investment.

Expectations for the third quarter of 2024: no major changes in lending policy and a rise in demand for all types of loans, not least on the part of SMEs.

<u>Housing loans</u>

Lending policy: a tightening of lending standards while maintaining most of the existing terms on housing loans.

Demand for loans: a significant decrease in loan demand, motivated mostly by the housing market prospects, the tightening of lending standards and the end of accepting of loan applications under the "2% *Safe Mortgage*" programme.

Expectations for the third quarter of 2024: no major changes in lending policy and in the expected demand for housing loans.

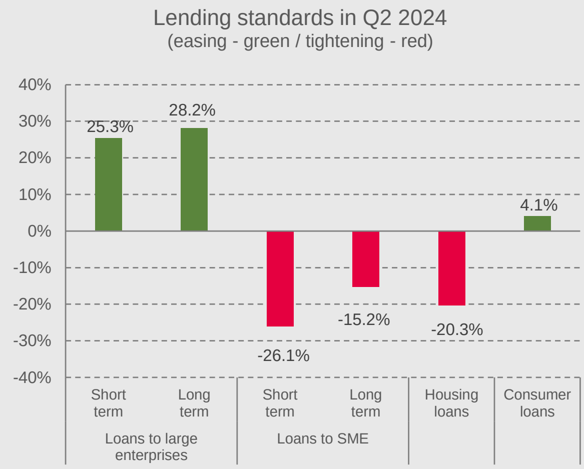
<u>Consumer loans</u>

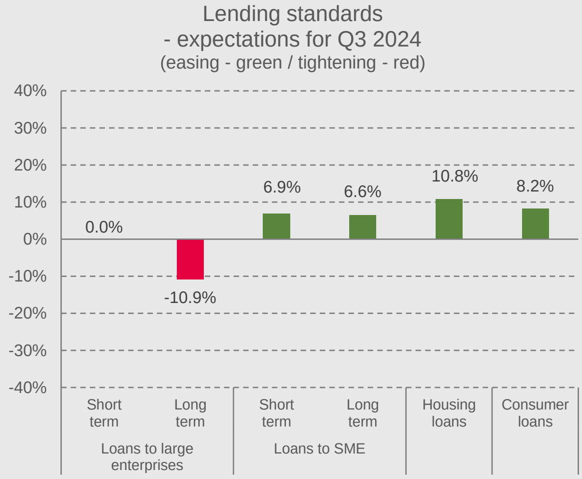
Lending policy: maintaining of the current lending policy standards, while changing some terms on consumer loans, including, among others, the raising of the maximum loan size.

Demand for loans: a big increase in demand, resulting from, among others, a growing demand for financing the purchase of durable goods and an improvement in the financial standing of households.

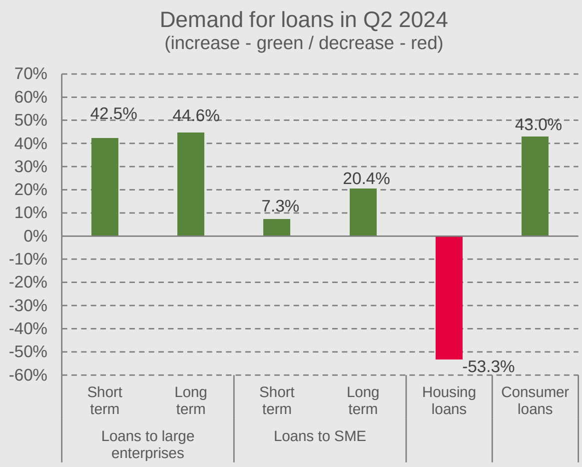
Expectations for the third quarter of 2024: no major changes in consumer loan terms and a rise in consumer loan demand.

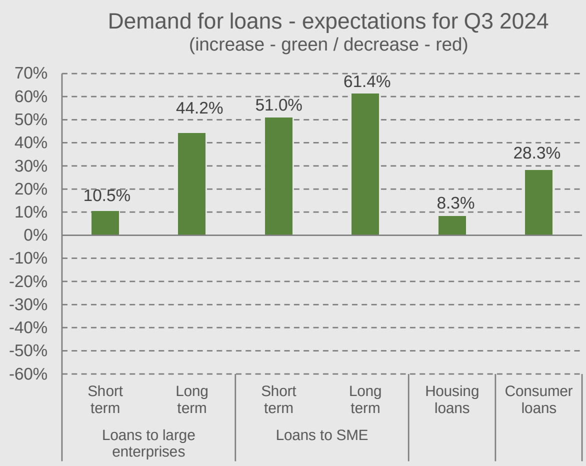
Lending standards





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. Lending 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.

This edition of the *Senior loan officer opinion survey* presents trends in banks' lending policy and in demand developments in the second quarter of 2024 as well as their expectations for the third quarter of 2024.

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 2024 among 23 banks with a total share of around 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 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". 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. 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.

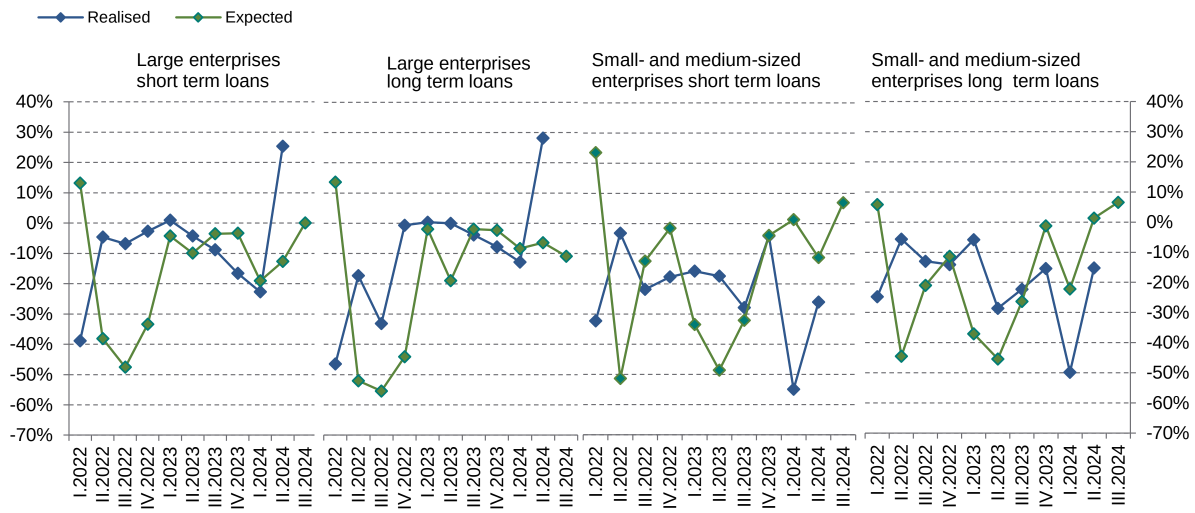
The values of the measures of net percentage and the diffusion index for specific questions are available in separate downloadable files on the NBP website.

Corporate loans

In the second quarter of 2024, the banks noticeably eased the lending standards on short-term and long-term loans to large enterprises – for the first time since 2017, but at the same time tightened these standards with regard to the SME sector (net percentage of 25% and 28%, -26% and -15%, respectively, see Figure 1).

The directions of changes in the lending terms on corporate loans differed in the second quarter of 2024. The banks reduced their lending margins, non-interest loan costs and extended the maximum loan maturity (net percentage of 16%, 16% and 12%, respectively, see Figure 2), but on the other hand they reduced the maximum loan size and increased loan collateral requirements (net percentage of -17% and -14%, respectively). The surveyed banks also reported the following additional changes in lending terms (not included in the survey): reduced availability of financing for entities from high ESG[1]-risk sectors and new customers, as well as the increasing of the loan-to-value ratio for some investment loans (net percentage of -11%).

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 tightening of lending policy in the second quarter of 2024 was primarily prompted by an increase in industry-specific risk[2] and the worsening of the loan portfolio quality (net percentage of -36% and -30%, respectively, see Figure 3). The banks considered an increase in competitive pressure (net percentage of 4%), mainly from other banks (12%), to be the factor motivating them

[1] ESG means Environmental, Social, Governance.

[2] The banks have reported that they have tightened lending policy for enterprises from the following industries: retail trade, transport of goods and logistics, but they have also eased the policy in the following industries: food processing and production as well as automotive industry.

Figure 2. Terms on corporate loans

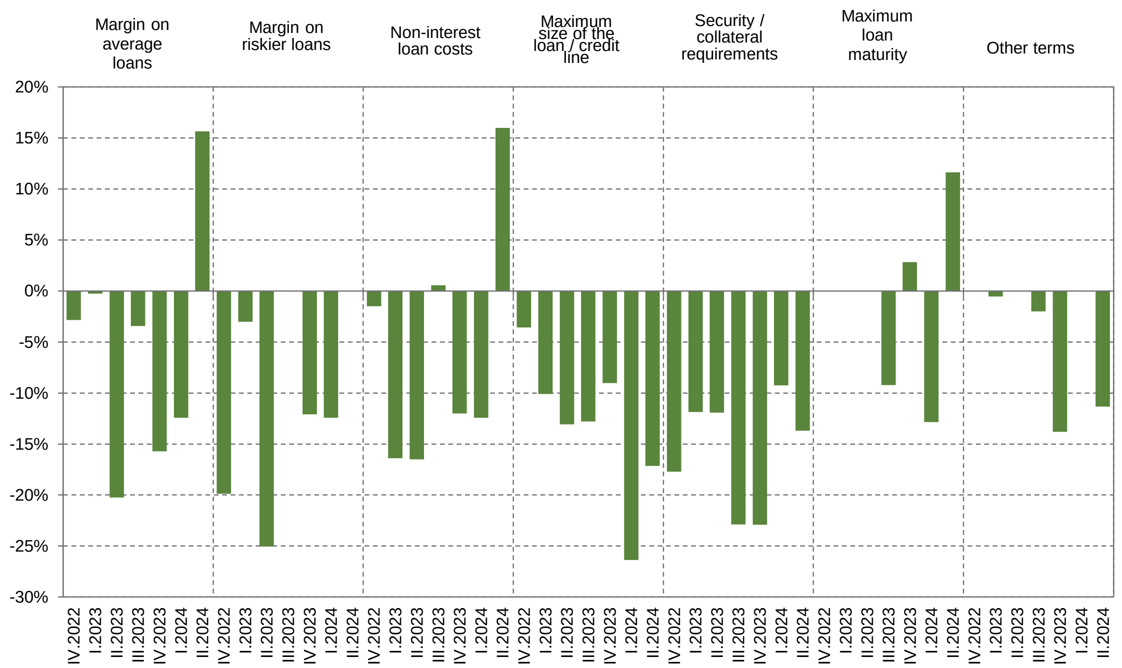
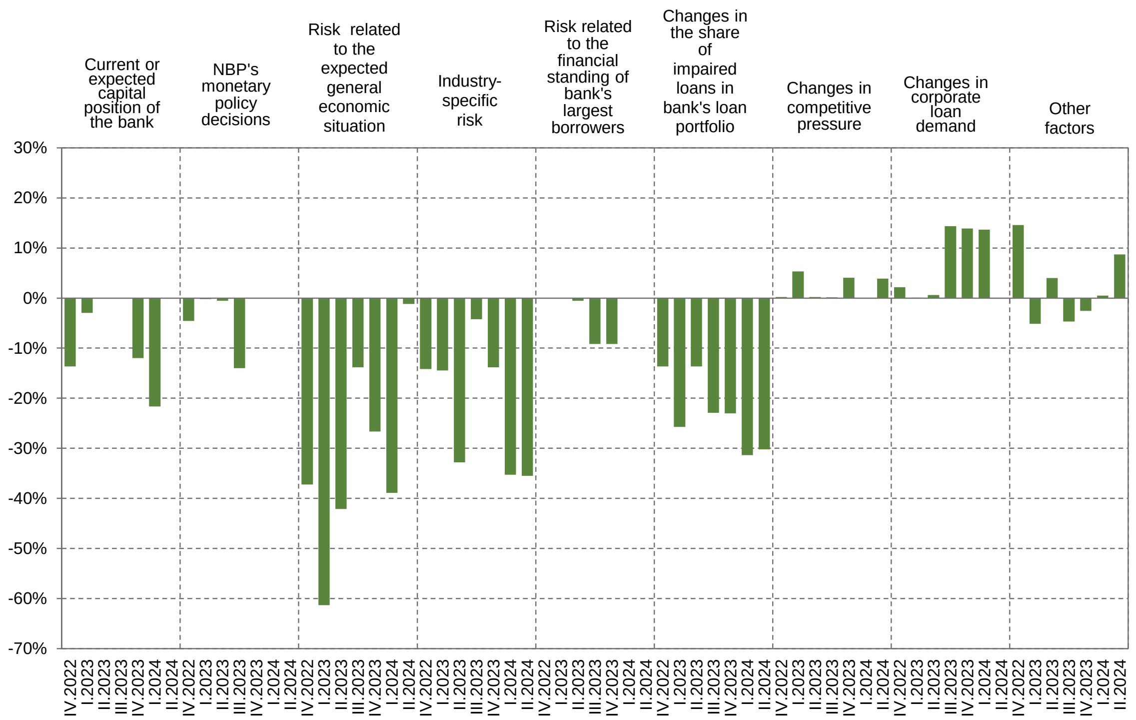


Figure 3. Factors influencing changes in lending policy

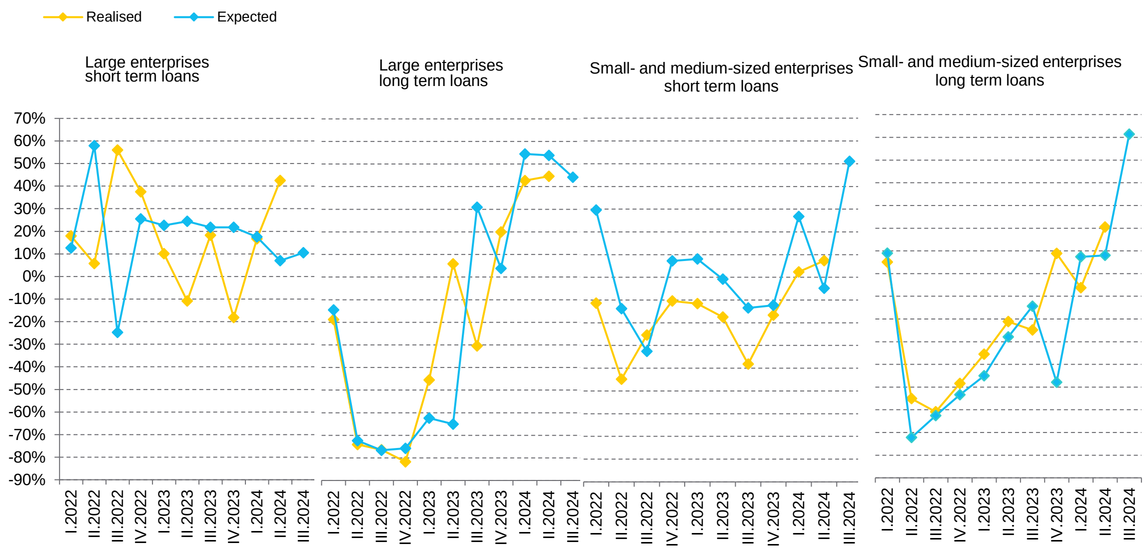


* Banks assess changes in competitive pressure from other banks, non-bank financial institutions and financial markets. This figure shows the arithmetic mean of these assessments.

to ease their lending policy towards enterprises. They indicated other causes of changes in credit policy, not included in the survey: the implementation of models more efficiently searching for low credit-risk customers and the tightening of the income requirement (net percentage of 9%).

In the opinion of the survey-participating banks, the demand for all types of corporate loans grew in the second quarter of 2024 (net percentage of 43% for short-term loans and 45% for long-term loans – from large enterprises; and 7% and 20%, respectively, from SMEs, see Figure 4).

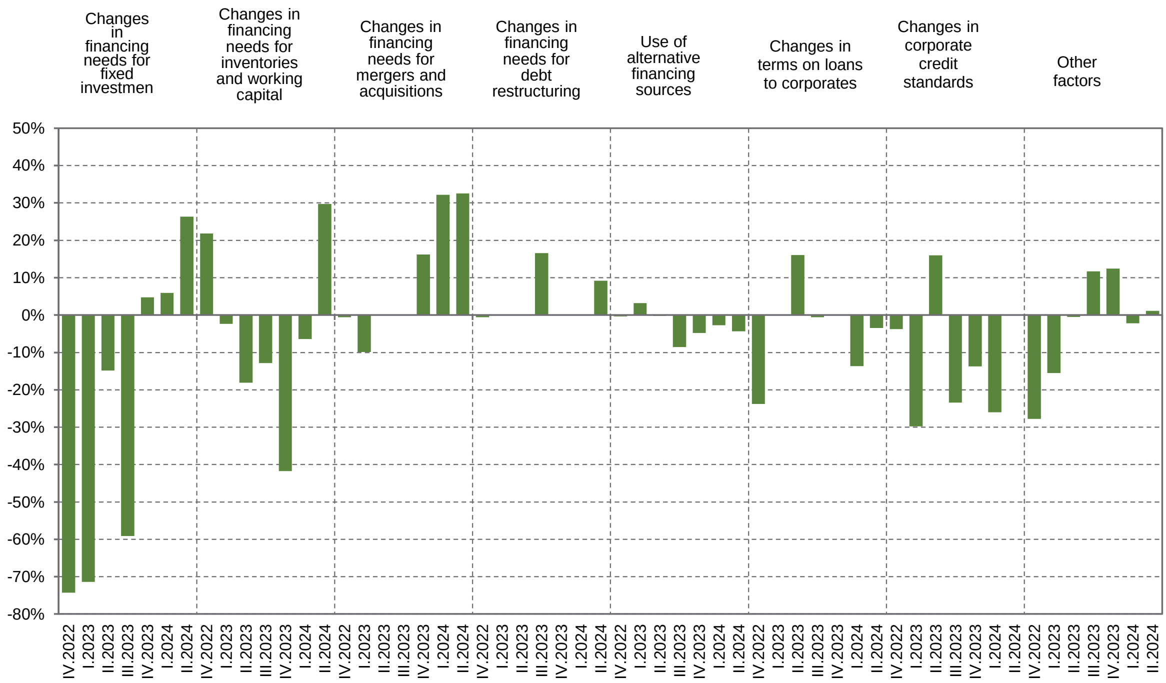
Figure 4. Corporate loan demand



The banks pointed primarily to higher financing needs for mergers and acquisitions, inventories and working capital, and fixed investment (net percentage of 33%, 30% and 26%, respectively, see Figure 5) and changes in financing needs for debt restructuring (net percentage of 9%) **as the drivers of growing corporate loan demand**. According to the banks, the fall in loan demand was driven by the use of alternative financing sources (net percentage of -4%), including funding in the form of debt securities issued (-13%) and loans from other banks (net percentage of -9%).

In the third quarter of 2024, the banks do not intend to make any major changes in their lending policies concerning any of the segments of corporate loans (net percentage in the case of short-term and long-term loans of 0% and -11%, respectively, in the case of large enterprises; 7% and 7%, respectively, in the case of SMEs; see Figure 1). **However, the banks also expect a rise in the demand for all types of corporate loans, including the demand for short-term and long-term loans from large enterprises** (net percentage of 11% and 44%, respectively, see Figure 4) **and SMEs** (net percentage of 51% and 61%, respectively).

Figure 5. Factors influencing changes in corporate loan demand

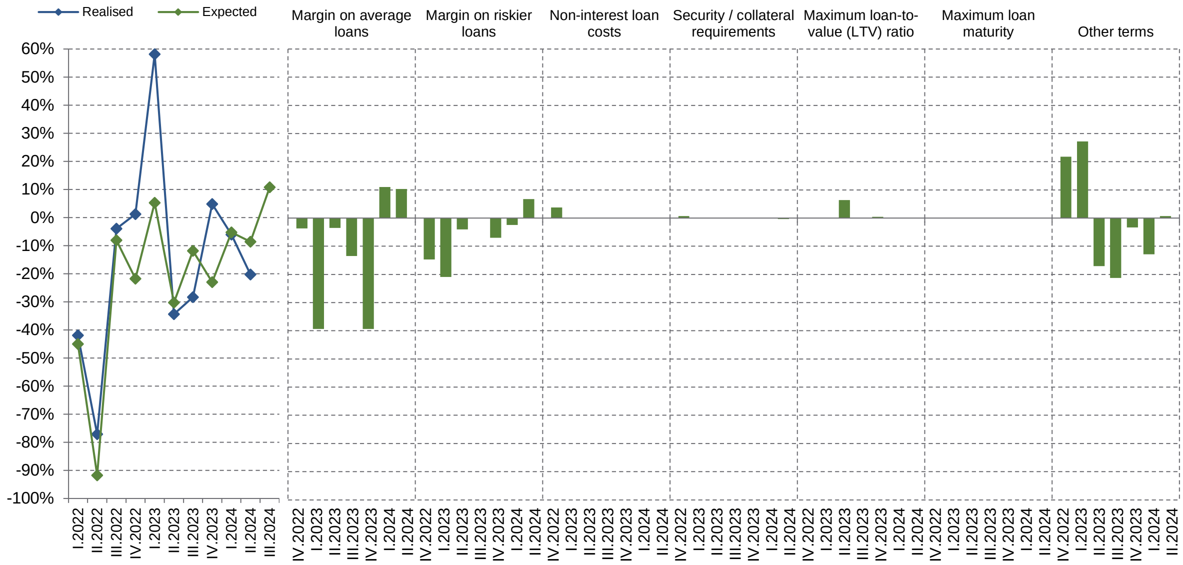


Loans to households

Housing loans

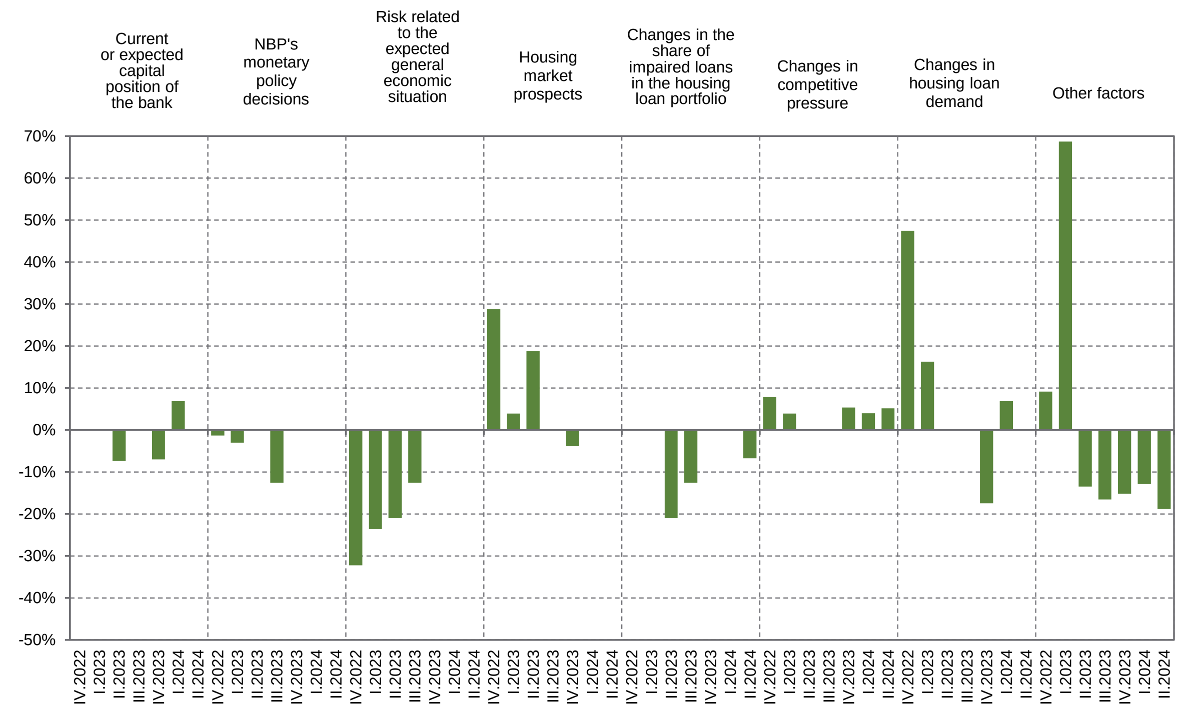
In the second quarter of 2024, the banks tightened their lending standards (net percentage of -20%, see Figure 6), **while maintaining most of the terms on housing loans,** except for a decrease in the credit margin on average and riskier loans (net percentage of 10% and 7%, respectively).

Figure 6. Standards and terms on housing loans



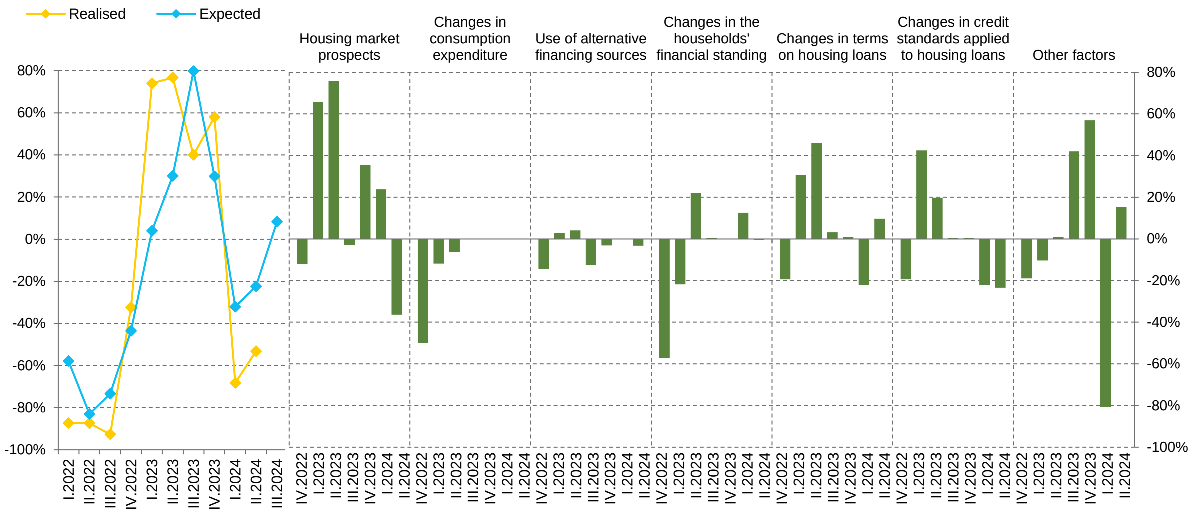
One of the factors that the survey-participating banks mentioned as a stimulus for them to ease their lending policies was a rise in competitive pressure (net percentage of 5%, see Figure 7), mainly from universal banks (16%). On the other hand, the banks were prompted to tighten lending policy because of the deteriorating quality of housing loan portfolios (net percentage of -7%). In this regard, they also mentioned, among others, the following factors (not included in the survey): an effort to increase returns on credit products, the extension of credit holidays and a higher use of funding from the Borrower Support Fund by borrowers (net percentage of -19%).

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 2024, the survey-participating banks reported a significant fall in housing loan demand (net percentage of -53%, see Figure 8). **The banks considered housing market prospects and the tightening of lending standards on housing loans** (net percentage of -36% and -24%, respectively) **to be the**

key factors behind the decrease. Some banks mentioned the end of accepting of new loan applications within the "2% *Safe Mortgage*" programme as another factor (not included in the survey) explaining the decline in demand (net percentage of 15%).

In the third quarter of 2024, the banks have no plans to make any considerable changes in their standards on housing loans (net percentage of 11%, see Figure 6) **and they do not expect the demand for the loans to change much** (net percentage of 8%, see Figure 8).

Consumer loans

In the second quarter of 2024, **the banks did not change the standards on consumer loans to any considerable extent** (net percentage of 4%, see Figure 9). At the same time, **they altered some lending terms,** for example they increased the maximum loan size and lowered the loan collateral requirements (net percentage of -15% and -10%, respectively), as well as reducing the credit margin and non-interest loan costs (net percentage of -5% in each category).

The banks believed the improvement in the quality of the consumer loan portfolio and improving forecasts concerning the general economic situation of Poland (net percentage of 10% in each category) and growing competitive pressure (net percentage of 10%), including from other banks (15%) and non-bank financial institutions (5%), to be factors contributing to the easing of lending policy. They were motivated to tighten their credit policies by other factors, not included in the survey, such as the updating of household sustenance costs and the implementation of supervisory recommendations (net percentage of -21%).

Figure 9. Standards and terms on consumer loans

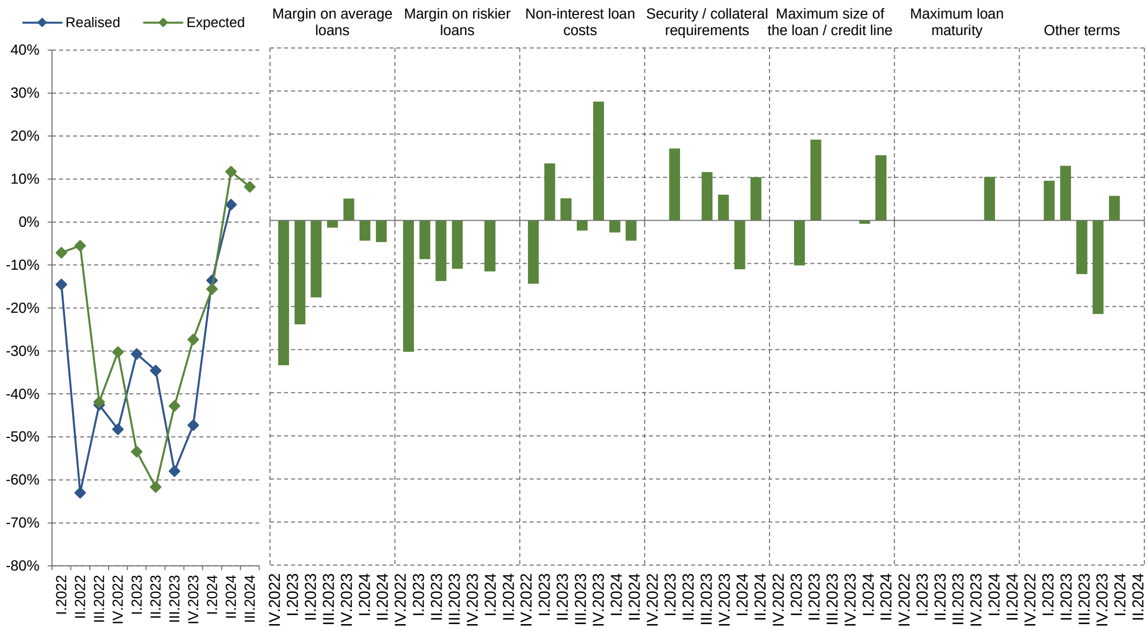
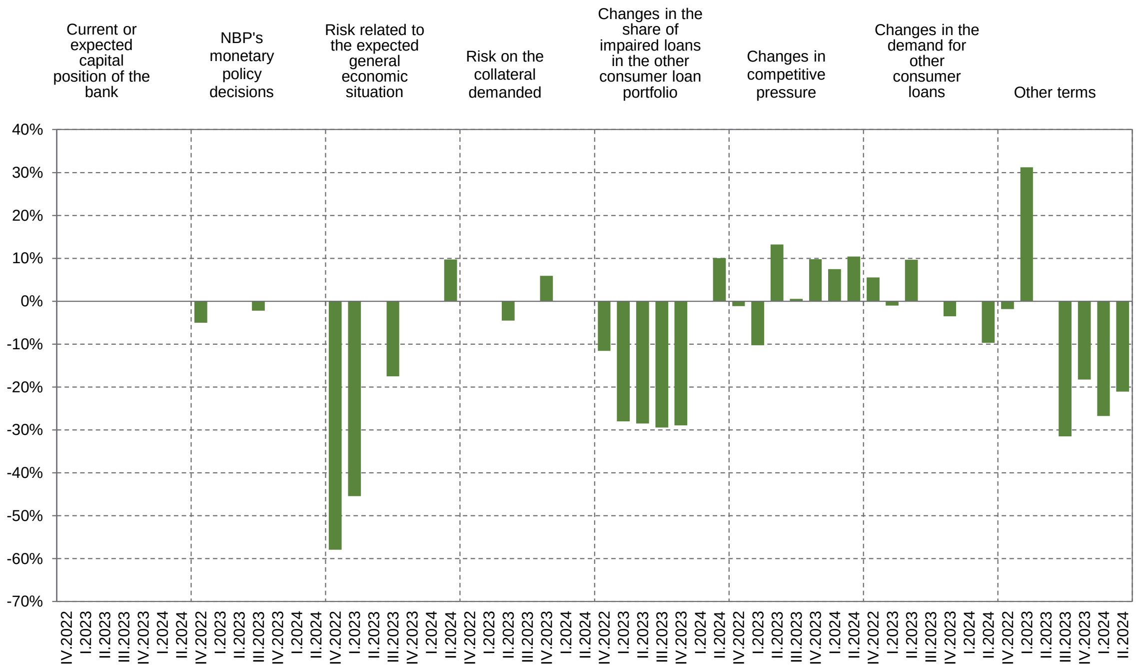


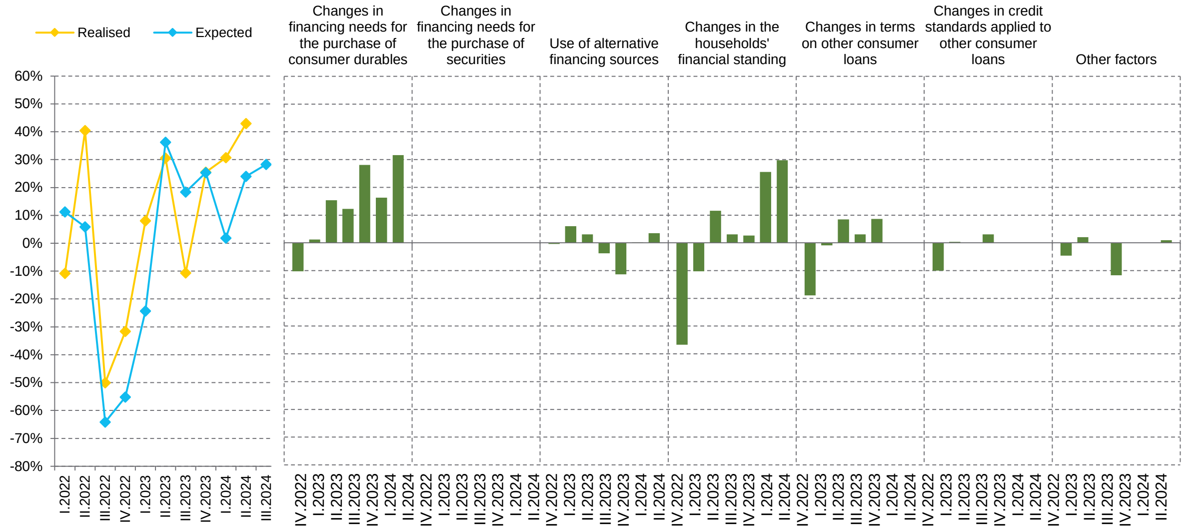
Figure 10. Factors influencing changes in lending policy – consumer loans



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

In the second quarter of 2024, the banks again saw a rather sharp increase in demand for consumer loans (net percentage of 43%, see Figure 11). **According to the lending institutions' opinions, the rising demand in consumer loans was primarily driven by higher financing needs for the purchase of durable goods and improvement in the financial standing of households** (net percentage of 32% and 30%, respectively).

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



In the third quarter of 2024, the banks do not plan any major changes in lending standards on consumer loans (net percentage of 8%, see Figure 9) and **expect consumer loan demand to continue to grow** (net percentage of 28%, 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 enterprises
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, SGH 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.

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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