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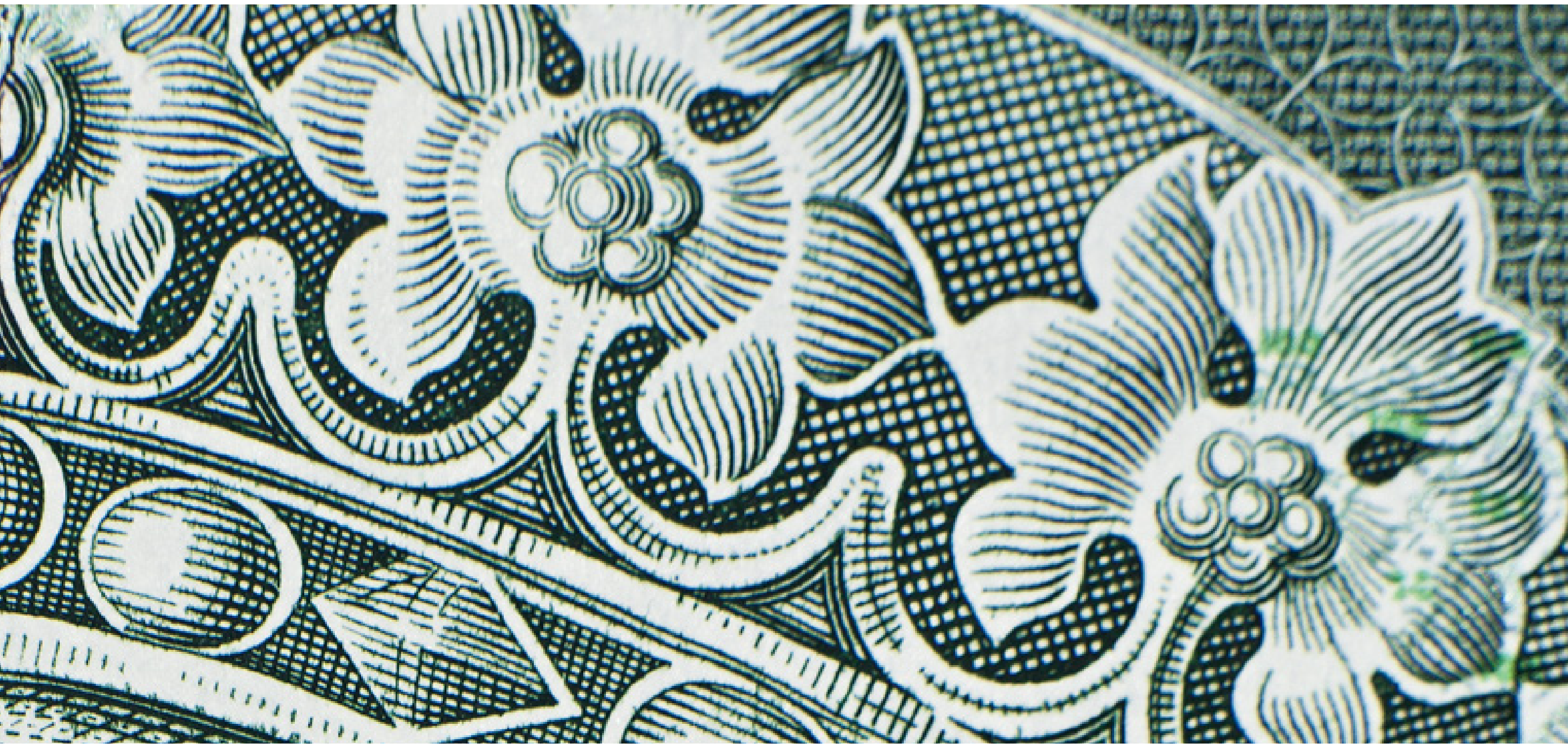
Senior loan officer opinion survey

on bank lending practices and credit conditions

4th quarter 2024



Senior loan officer opinion survey

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4th quarter 2024

Financial Stability Department
Warsaw, October 2024

Summary of the survey results

In the third quarter of 2024, the banks eased standards on loans to households and long-term loans to small and medium-sized enterprises (SMEs). With regard to all other types of corporate loans, the banks did not change the lending policy. The changes in lending policy were accompanied by a rise in demand for corporate loans (except for long-term loans to SMEs) and consumer loans. The fall in demand for housing loans was mainly driven by the phase-out of the "2% Safe Mortgage" programme.

The banks have expressed no intention to make any major changes in their lending standards on housing loans and on loans to large enterprises in the fourth quarter of 2024, and also expect to ease standards on consumer loans and loans to SMEs. On the other hand, the banks expect a rise in demand for all types of loans, except for housing loans, the demand for which will not change.

<u>Corporate loans</u>

Lending policy: maintaining the current standards on corporate loans, but easing them for long-term loans to SMEs (for the first time since the fourth quarter of 2021) – justified by a rise in competitive pressure from other banks; a reduction of the maximum loan size and a decrease in non-interest loan costs.

Demand for loans: a pick-up in demand, except for long-term loans to SMEs, driven by growing financing needs for working capital and for mergers and acquisitions.

Expectations for the fourth quarter of 2024: lending standards for large enterprises to remain unchanged as lending standards for SMEs are eased, and a rise in demand for all types of loans, the most significantly for SMEs.

<u>Housing loans</u>

Lending policy: an easing of lending standards motivated by the rise in competitive pressure from other banks amid a reduction of the credit margin and preservation of the majority of current terms on housing loans.

Demand for loans: a further fall in demand caused mainly by the phase-out of the "2% *Safe Mortgage*" programme and the use of loans from other banks amid a simultaneous favourable impact of the terms on housing loans, which were eased previously to boost demand.

Expectations for the fourth quarter of 2024: no major changes in lending policy and in housing loan demand.

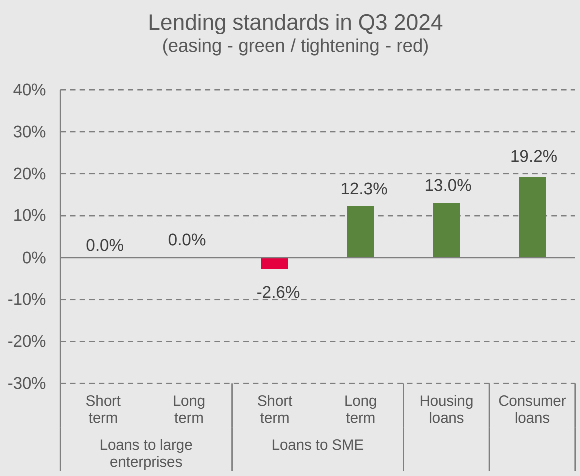
<u>Consumer loans</u>

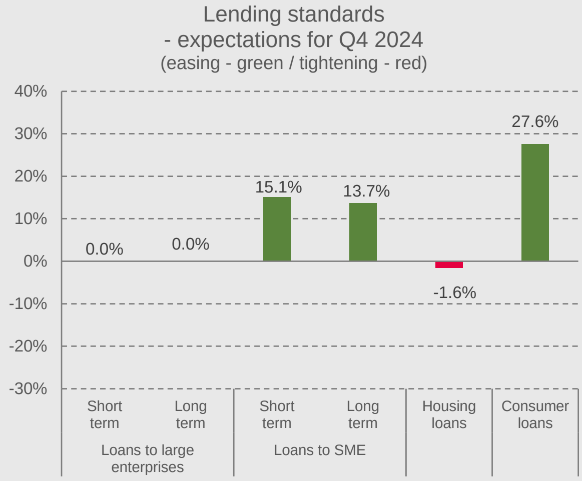
Lending policy: for the first time since the fourth quarter of 2021, a noticeable easing of standards on consumer loans and, at the same time, an easing of most lending terms, including among others, a decrease in non-interest loan costs.

Demand for loans: demand growth resumes as a result, among others, of a better financial standing of households and reduced terms on previously extended loans.

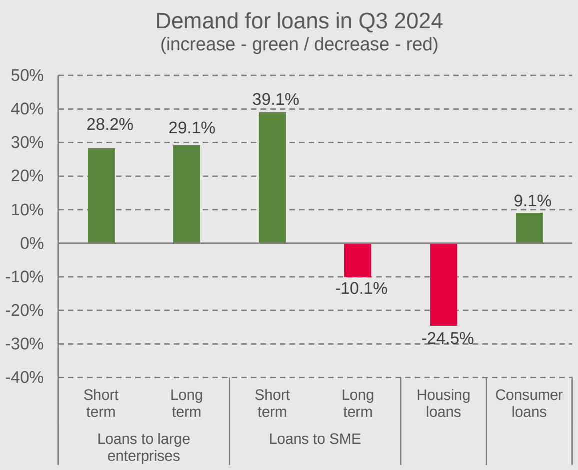
Expectations for the fourth quarter of 2024: terms on consumer loans to be eased again and a further pick-up in loan demand.

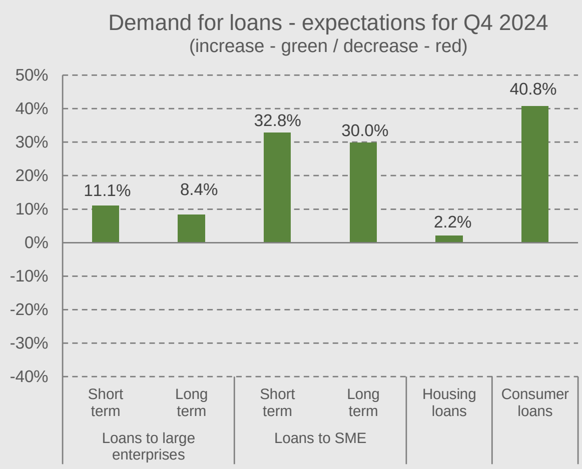
Lending standards





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. 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 third quarter of 2024 as well as their expectations for the fourth 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 October 2024 among 23 banks with a total share of around 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". 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.

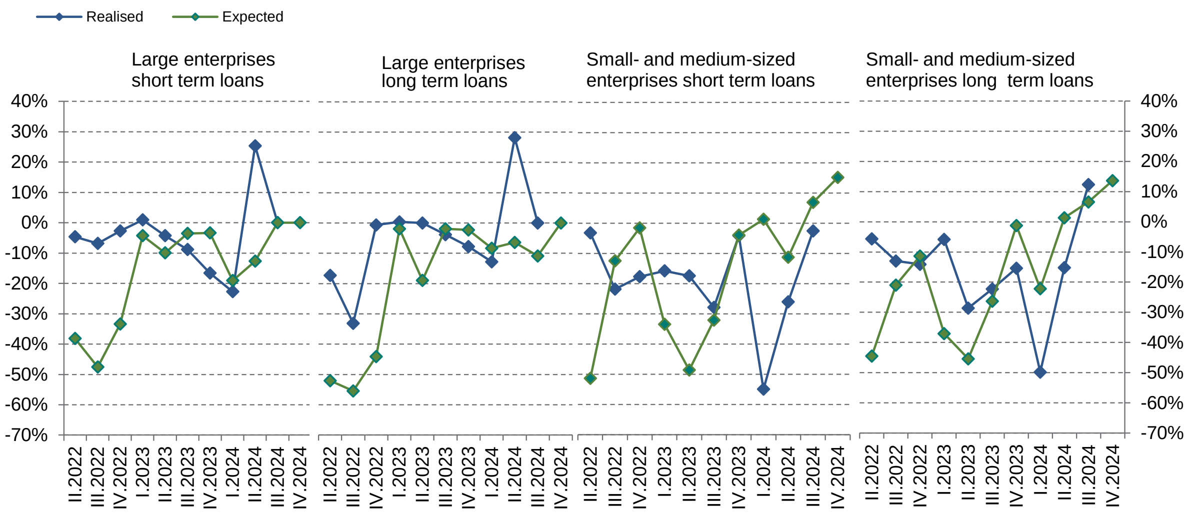
The values of the measures of net percentage and the diffusion index for specific questions are available in separate downloadable files on the NBP website.

Corporate loans

In the third quarter of 2024, the banks maintained the existing standards on most types of corporate loans (net percentage of 0% both for short-term and long-term loans to large enterprises and -3% for short-term loans to SMEs, see Figure 1). On the other hand, lending terms on long-term loans to the SME sector have been eased (12%) for the first time since the fourth quarter of 2021.

The banks did not change most of their terms on corporate loans, except for cutting the maximum loan size (net percentage of -22%, see Figure 2). A smaller group of banks also indicated a decrease in non-interest loan costs (13%). Other changes in terms on corporate banks indicated by the banks were, among others, the reduced availability of financing for new customers from the segment of micro-enterprises, for which the bank did not have a sufficient track record of cooperation on credit products and cash management products.

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.

Although net percentages were close to zero, the survey-participating banks identified factors that support either a tightening or an easing of lending policy. The former included a rise in risk related to the expected general economic situation and the worse quality of the loan portfolio (net percentage of, -17% and -14%, respectively, see Figure 3). **The banks considered a rise in competitive pressure** (net percentage of 10%)**, mostly from other banks** (net percentage of 30%) **to be the factor motivating them to ease their lending policy towards enterprises.** They also indicated other factors influencing changes in lending policy, which were not included in the survey, such as

Figure 2. Terms on corporate loans

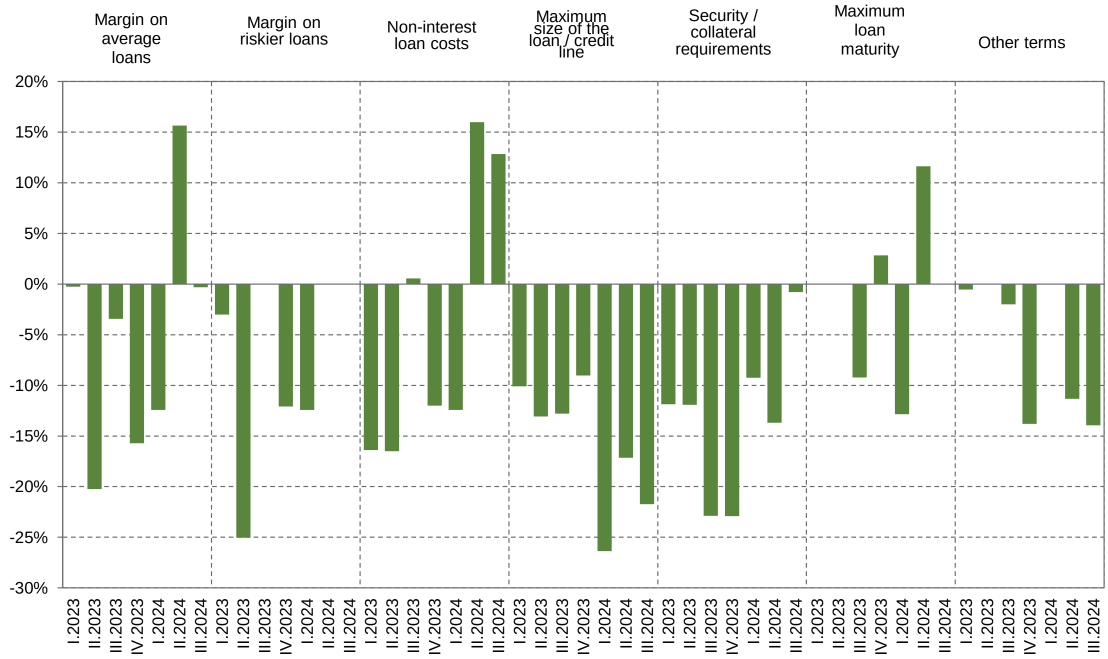
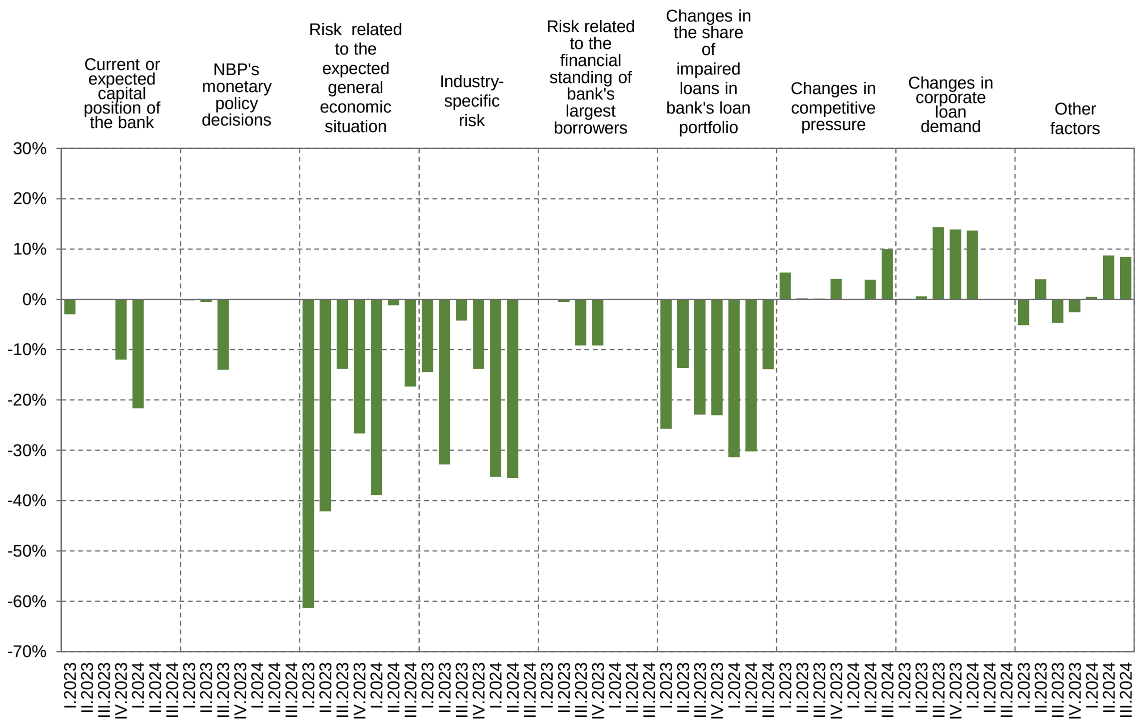


Figure 3. Factors influencing changes in lending policy



* * 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.

giving effect to the supervisory requirements, the updating of rules of the activation of a floating interest rate risk buffer, a reduction of exposure concentration and a tightening of the borrower's income requirement, and – on the other hand – improved risk assessment tools.

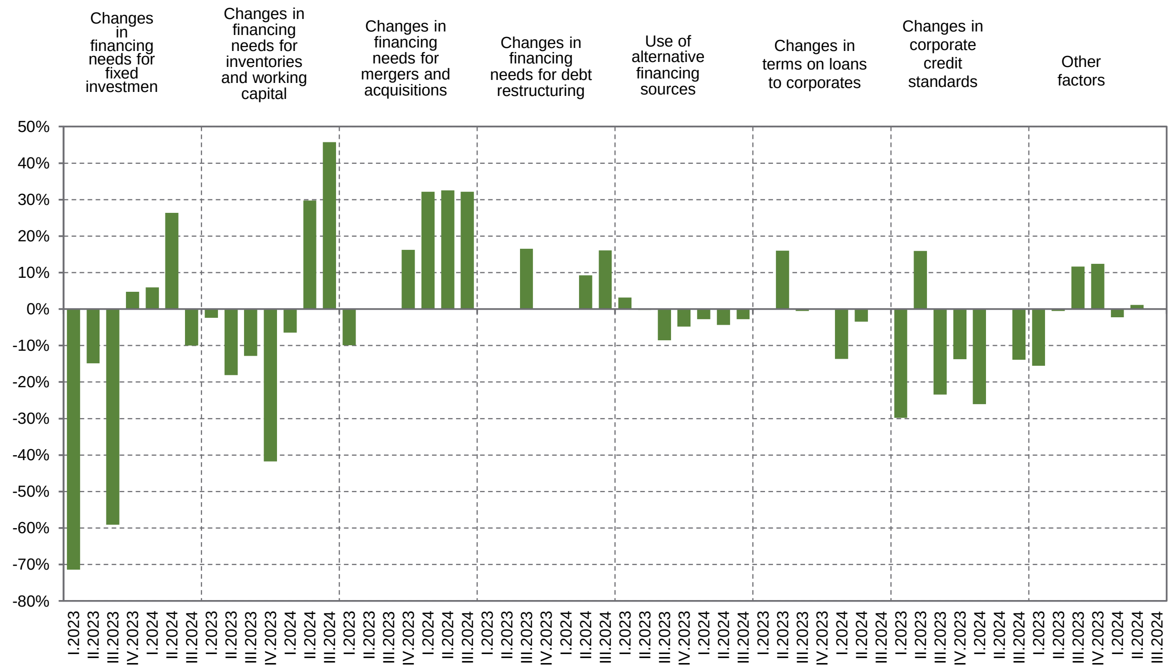
In the opinion of the survey-responding banks, the third quarter of 2024 saw a new rise in demand for most types of corporate loans (net percentage of short-term and long-term loans to **large enterprises** of 28% and 29%, respectively; short-term loans to **SMEs**: 39%, see Figure 4). The demand for long-term loans to the SME sector declined (-10%) compared to the previous quarter.

Figure 4. Corporate loan demand

The banks attributed growing corporate loan demand primarily to higher financing needs for inventories and working capital as well as for mergers and acquisitions, and for debt restructuring (net percentage of 46%, 32% and 16%, respectively, see Figure 5). According to the banks, the fall in loan demand was driven by tighter lending standards and lower financing needs for fixed investment (net percentage of -14% and -10%, respectively) and the use of loans from other banks (-14%).

In the fourth quarter of 2024, the banks do not intend to make any changes in their lending policies towards large enterprises and have plans to ease them for the SME sector (net percentage for short-term and long-term loans to large enterprises of 0% for both categories; 15% and 14%, respectively, for SMEs, see Figure 1). **At the same time, the banks expect demand for all types of corporate loans to grow, including short-term and long-term loans, from large enterprises** (net percentage of 11% and 8%, respectively, see Figure 4) **and SMEs** (net percentage of 33% and 30%, respectively).

Figure 5. Factors influencing changes in corporate loan demand

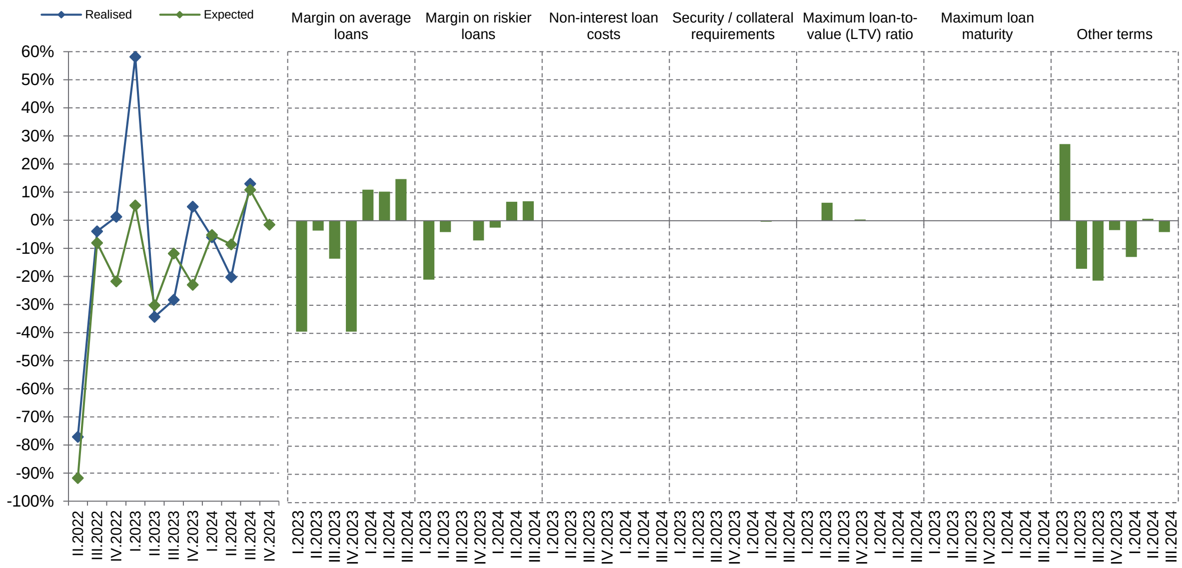


Loans to households

Housing loans

In the third quarter of 2024, the banks eased lending standards (net percentage of 13%, see Figure 6), **while maintaining most of the existing terms on housing loans,** except for reducing the credit margin on average and riskier loans (net percentage of 15% and 7%, respectively). Among other changes in the terms on housing loans, not included in the survey, the banks considered a decrease in a fixed interest rate and a tighter requirement concerning the acceptance of a source of income.

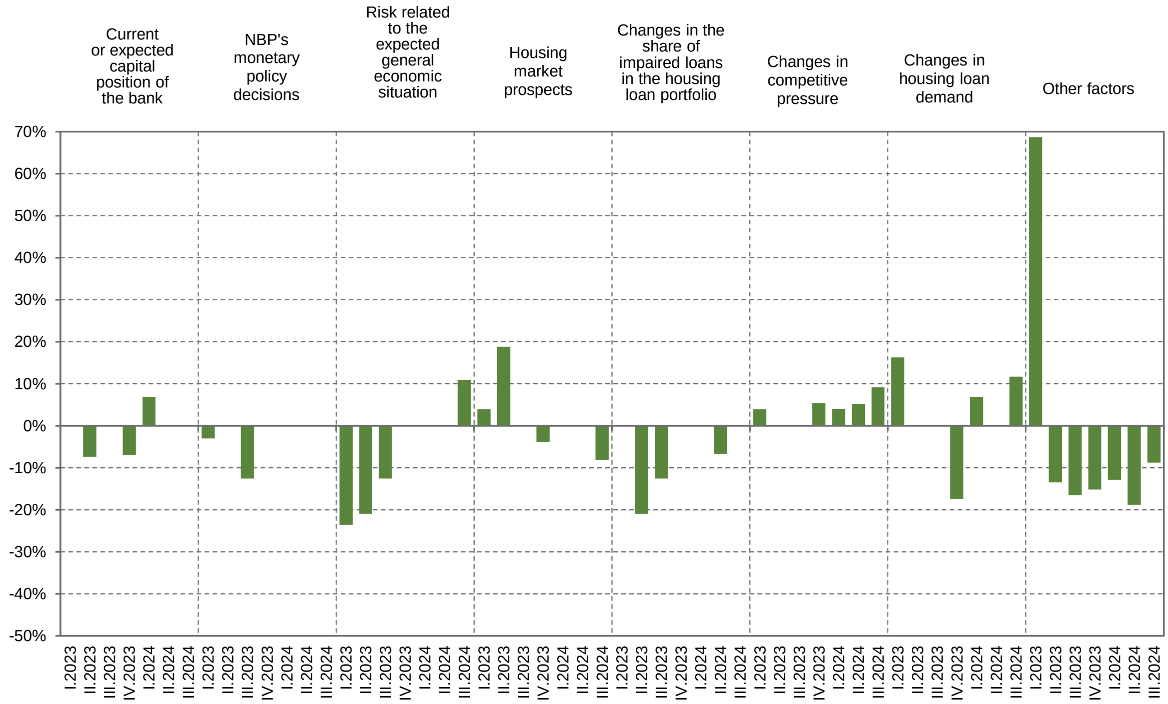
Figure 6. Standards and terms on housing loans



Among the factors that the survey-participating banks mentioned as a stimulus to ease their lending policies were a rise in competitive pressure (net percentage of 9%, see Figure 7)**, mainly from other universal banks** (27%), a falling demand for housing loans and a decrease in risk related to the expected general economic situation[1] (net percentage of 12% and 11%, respectively). The banks were prompted to tighten the lending policy by housing market prospects (net percentage of -8%). In this regard, they mentioned, among others, factors (not included in the report), e.g. the need to give effect to the supervisory requirements (net percentage of -9%).

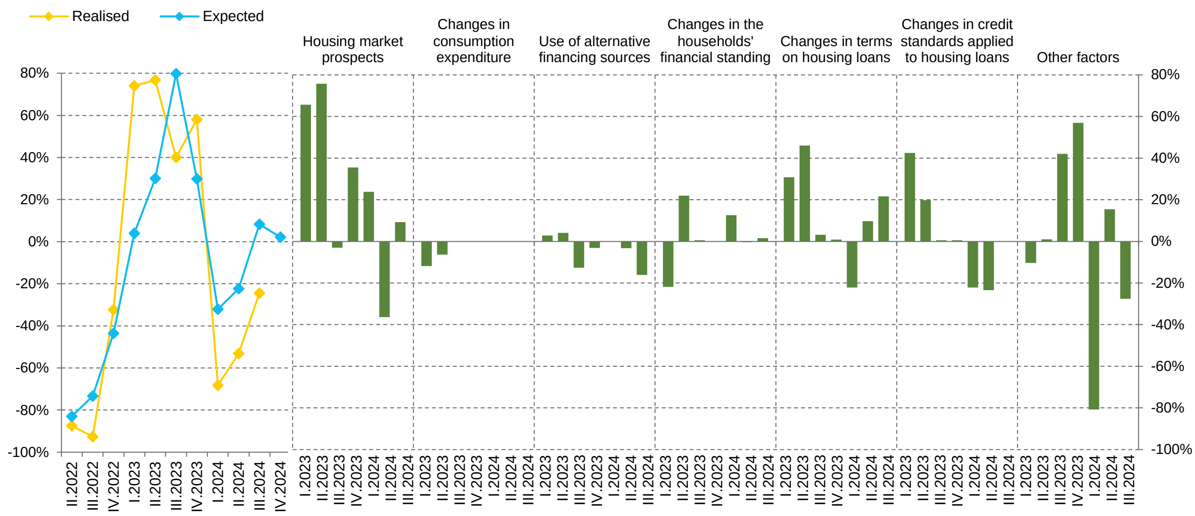
[1] In the case of housing and consumer loans, risk related to the expected general economic situation was indicated as a reason why lending policy was eased by a different group of banks than in the case of corporate loans, where this factor was considered to be the reason why the policy was tightened.

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 third quarter of 2024, the survey-responding banks recorded a renewed fall in demand for housing loans (net percentage of -25%, see Figure 8), with 51% of the banks observing that it dropped and 36% of the banks saying it increased. **According to the survey-participating institutions, the drop in demand for**

housing loans was mainly associated with the phase-out of the "2% *Safe Mortgage*"[2] (net percentage: -28%) and **a higher use of alternative financing sources** (net percentage of -12%), **mainly loans from other banks** (-23%)**,** household savings (-13%) and other financing sources (-13%). **The growth in demand stemmed from the easing of the terms on previously extended housing loans,** and also housing market prospects (net percentage of 22% and 9%, respectively).

The banks have no plans to make any major changes to their standards on housing loans in the fourth quarter of 2024 (net percentage of -2%, see Figure 6) **and do not expect major changes in loan demand to emerge** (net percentage of 2%, see Figure 8).

Consumer loans

In the third quarter of 2024, **the banks eased terms on consumer loans in a noticeable way, for the first time since the fourth quarter of 2021** (net percentage of 19%, see Figure 9) and **at the same time eased most of the terms on the loans, by, among others, reducing non-interest loan costs** and the margin on average and riskier loans (net percentage of 18%, 10% and 10%, respectively). They also increased the maximum loan size and extended the maximum loan maturity (net percentage for both categories: 10%).

In the view of the survey-responding banks, the NBP monetary policy decisions, as well as a lower risk related to the expected general economic situation (net percentage of 18% and 8%, respectively, see Figure 10), **were the main reasons why lending policy was eased**. The banks were prompted to tighten the policy because of the worsening of the current or expected capital position of banks and the rising share of impaired loans in the consumer loan portfolio (net percentage of -17% and -8%, respectively). Other factors (not included in the survey) having an impact on the lending mentioned by the banks were, among others, as follows: the shift in bank strategies, resignation from non-interest loan costs and a rise in product profitability, and on the other hand, the updating of household sustenance costs and giving effect to the supervisory requirement (net percentage of -12%).

[2] This factor influencing changes in housing loan demand is not included in the survey.

Figure 9. Standards and terms on consumer loans

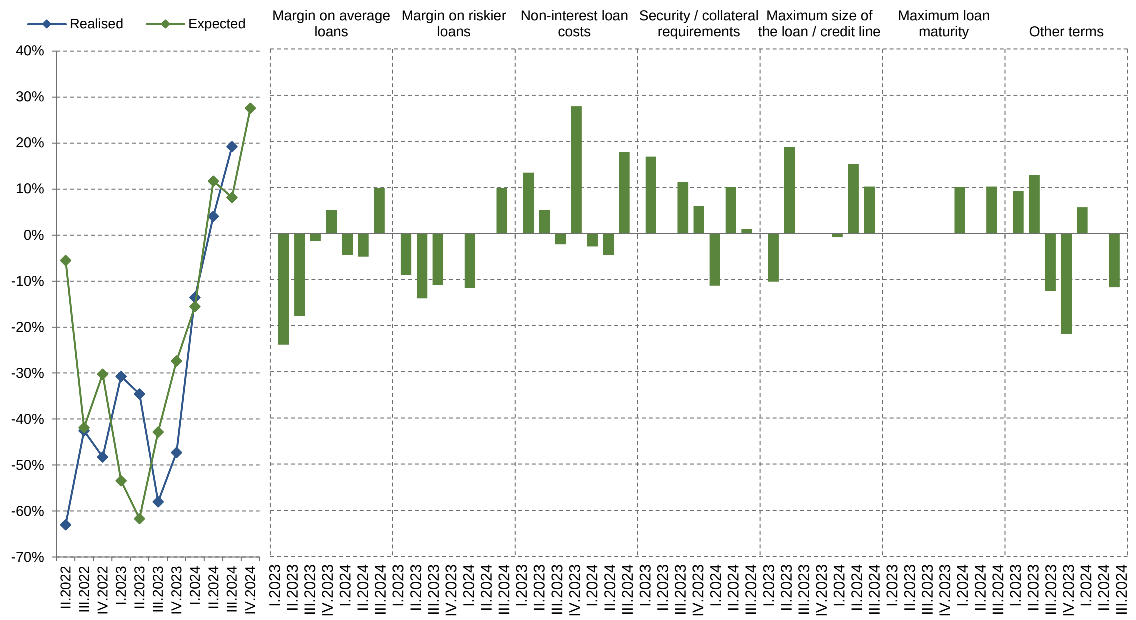
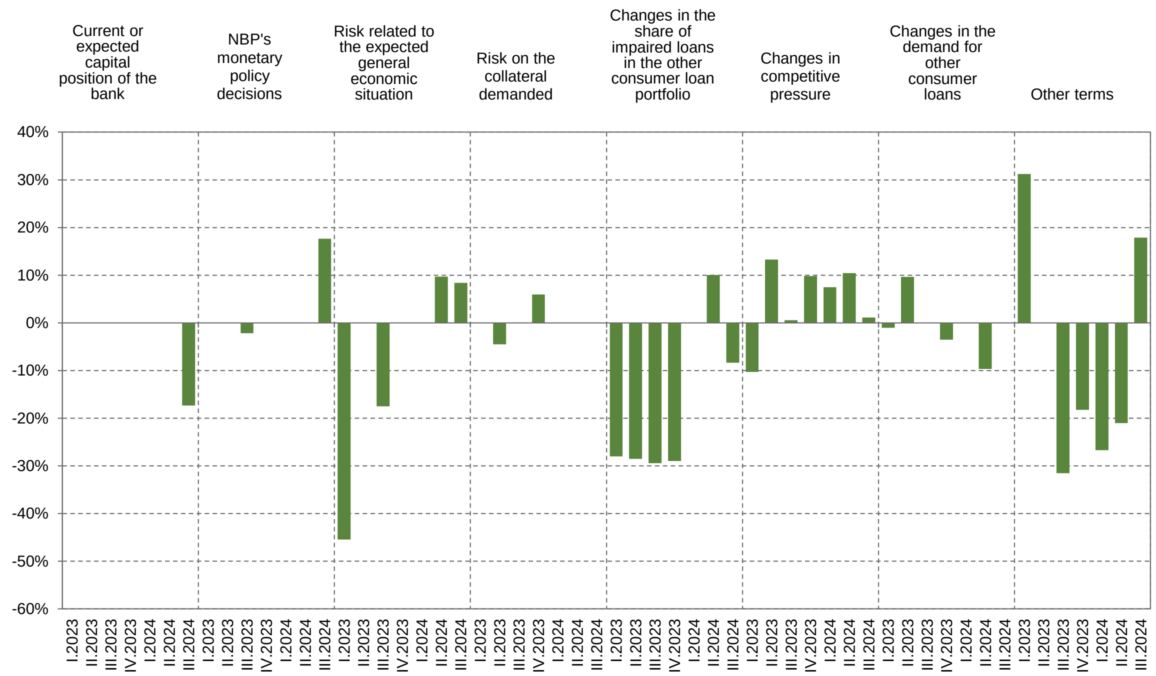


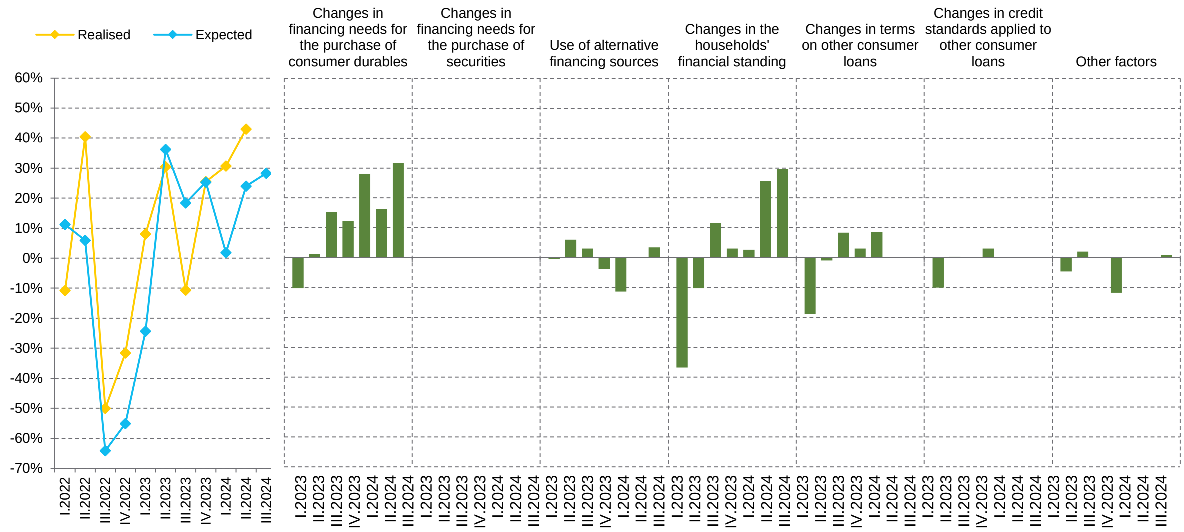
Figure 10. Factors influencing changes in lending policy – consumer loans



* 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 third quarter of 2024, the banks again saw an increased demand for consumer loans (net percentage: 9%, see Figure 11). According to the survey-responding institutions, the growth in consumer loan demand was driven by the improvement in the financial standing of households and the fact that lending standards and terms were eased (net percentage of 11%, 10% and 8%, respectively). The decline in loan demand was caused by the use of alternative financing sources, mainly funds from loans provided by other banks (-10%).

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



In the fourth quarter of 2024, the banks will resume easing standards on consumer loans (net percentage of 28%, see Figure 9) and **they expect loan demand to growth further** (net percentage of 41%, 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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