NÁRODNÁ BANKA SLOVENSKA

# Survey on Supply and Demand on Lending Market

## June 2005

## Summary

The demand for corporate loans increased in the first half of 2005. This was caused mainly by cheaper loans and the need for long-term financing. There was no clear tendency in easing or tightening of credit standards in banks. However, some banks eased their credit standards on loans to small or medium enterprises. Almost all banks reported that the interest margin decreased.

The high growth of household loans in the first half of 2005 was attributed mainly to own marketing strategy of banks and increased demand from household due to cheaper loans and higher income of households. Several banks eased their credit standards, mainly on housing loans. This was mainly due to external factors, e.g. competition in the banking sector, higher household demand and changes in the real estate market. The changes in the standards are related to easing of limits applying to new loans (maturity, volume and quality of collateral).

**Note to the presentation of the aggregated data:**

If not otherwise stated, data in text or charts are given in **net percentage share**. For example, the net percentage share of banks that eased their credit standards is calculated as the difference between the percentage market share of banks which reported easing of their credit standards and the percentage market share of banks which reported tightening of their credit standards. Said differently, individual answers of banks are weighted by the volume of loans of the respective type. More details on this calculation and on the method of aggregation of individual answers can be found in the document „Methodology of the survey evaluation".

This report is based on the views of individual banks as stated in the survey and does not necessary reflect the view of the NBS.

# Corporate loans

### Corporate loan market

Regarding the volume of total loans granted by the Slovak banking sector, the highest share is represented by loans to non-financial corporations. Their volume rose by 11% during the first half of the year (4% annual growth). The volume of loans to financial corporations increased by 5% in the first half of 2005 which means slower growth comparing to the year 2004 (31% annual growth). Sole traders have the lowest share and their volume increased by 7% (36% annually). The total volume of corporate loans increased by 10%. Four banks recorded a decrease. The share of loans granted by three banks with the highest market share was 40% (CR3 index). The share of loans granted by six banks with the highest market share was 66% (CR6 index).

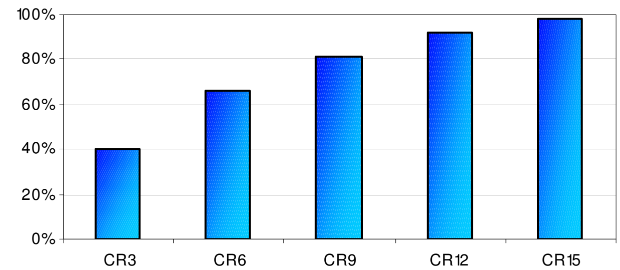
The survey does not provide a clear answer whether the reason of the growth of loans was due to supply from banks or demand from clients. The net percentage share of banks that did not identify any significant change in the volume of new corporate loans was 41%. The net percentage share of banks reporting approximately equal impact of demand and changes of credit standards was 25%. Some banks reported their own business activity as a significant factor for the growth, independent from other supply and demand factors.

## Changes in the supply

It is difficult to say whether banking sector eased or tightened credit standards on corporate loans. Credit standards remained unchanged mainly regarding loans to large corporates. Some banks partly eased their credit standards on loans to small and medium enterprises, but this conclusion cannot be extended to the whole banking sector. Significant change in the credit standards on corporate loans was not reported by any bank. Similar development is expected also in the second half of 2005.

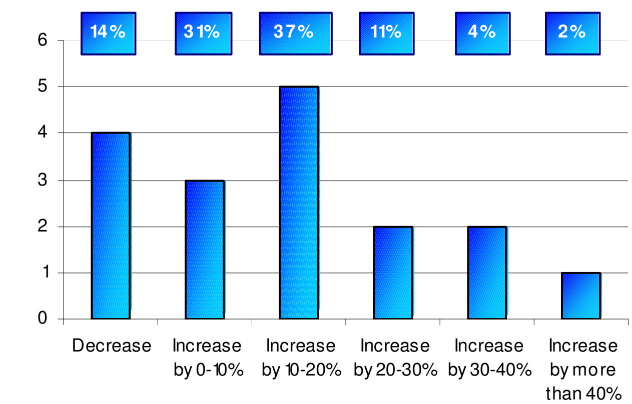
Competition pressure was identified as the most significant factor which has the impact on the easing of credit standards on corporate loans. The importance of this

**Chart 1 Concentration of corporate loans in the banking sector**



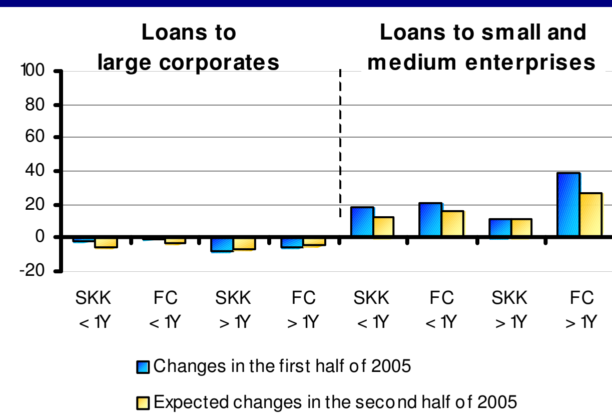

(CR*k* represents the share of loans granted by *k* banks with the highest share on total loans)

**Chart 2 Distribution of corporate credit growth in the first half of 2005**




(the data on vertical axes represent the number of banks, the percentage above each bar represents the corporate loans granted by banks in that bar as a share of total corporate loans in the sector)

**Chart 3 Changes in credit standards**
(net percentage share)



factor was identified also by banks which did not eased their credit standards. Several banks indicated this impact as significant. Banks are concerned mainly due to the competition among banks themselves. Non-bank institution and the capital market had less significant impact. In addition, several banks reported partial impact of the macroeconomic situation on easing of credit standards. On the other hand, the main reason for tightening of credit standards in some banks was change in the system of credit risk management and in the risk appetite or in some external factors (e.g. riskiness of important clients).

Regarding changes in the price and non-price conditions that represent changes in the supply, almost all banks confirmed that the interest margin on corporate loans diminished. Some banks identify this decrease as significant. The net percentage share of banks reporting decrease in income from fees was 41%. Hence, changes in price conditions seem to be more important comparing to changes in credit standards or other non-price conditions.

Partial easing of credit standards was related mainly to the general conditions of granting new loans. Banks reported mainly increase in limits on maximum maturity (net percentage share 47 %) and decentralization of discretionary powers to lower decision levels for approving and granting loans. On the other hand, several banks tightened conditions on client's rating or increased required assessment of the client's financial position.

**Chart 4 Factors influencing changes in credit standards on corporate loans** (net percentage share)

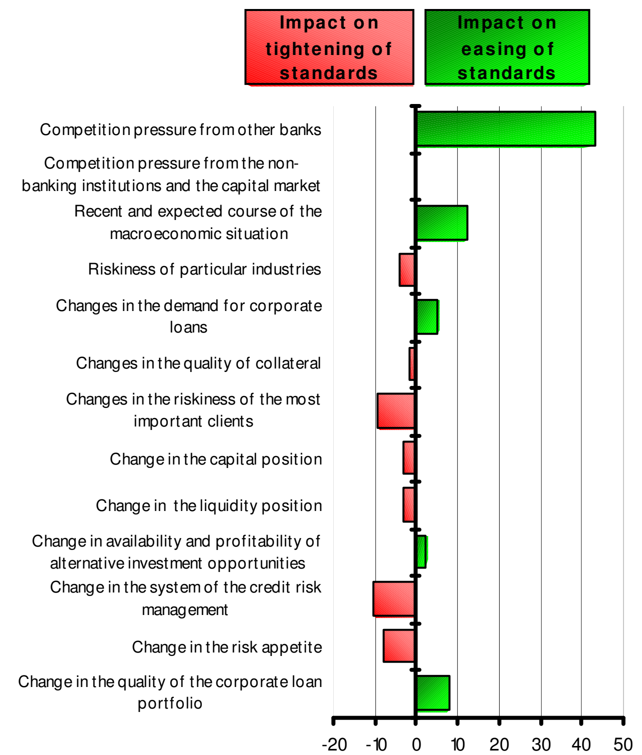
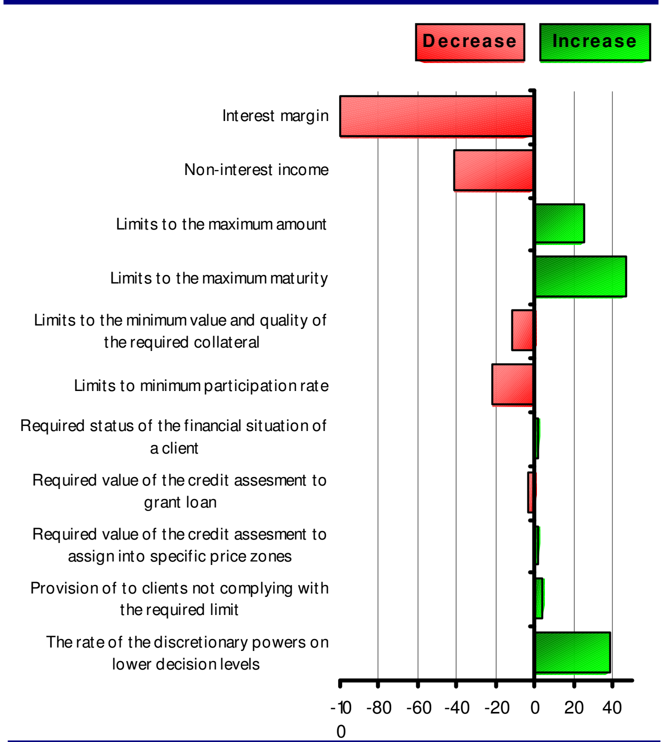



**Chart 5 Specific terms on corporate loans** (net percentage share)



## Changes in the demand

Whereas changes in credit standards seem to be of less importance, several banks reported partial increase in demand for corporate loans. The demand was increased mainly by small and medium enterprises. Some banks reported increase in demand for long-term loans, but this growth was not identified for short-term loans. The changes in the second half of the year are expected to be similar to these in the first half. Large corporates are the only exception, because further decrease in demand is expected by less banks.

The net percentage share of banks reporting that increase in corporate demand was caused mainly by the need for long-term investment was 72%. Financing of short-term investment was less significant. On the other hand, banks reported that the increase in demand was partially caused also by diminishing of interest rates and fees. The average interest rates on new corporate loans decreased by almost 1.4 percentage point.

**Chart 6 Changes in demand for corporate loans**
(net percentage share)

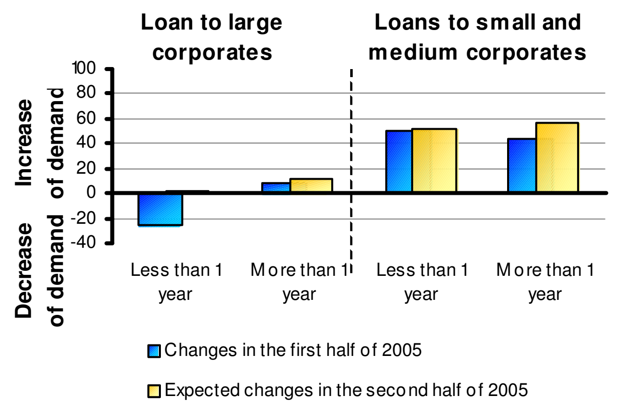
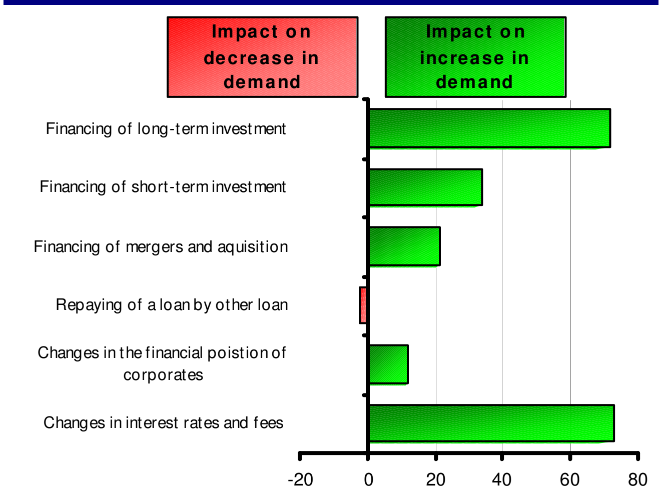



**Chart 7 Factors influencing the change in demand for corporate loans** (net percentage share)



# Household loans

## Household loan market

The household loan market can be characterized by continuous high pace of credit growth. The volume of loans increased from SKK 116.9 billion to SKK 139.1 billion (by 19%) during the first half of 2005. Significant growth was recorded mainly for housing loans (22%), but the volume of consumer loans and current account overdrafts also increased. Recently, the credit card loans increased significantly. Although with only 1% share on total loans, their volume more than doubled during the first half of 2005. The concentration was higher on the household loan market comparing to corporate loan market. The value of CR3 index was 66% and the value of CR6 index was 87%. According to the survey, the household loans are granted by 15 banks.

## Changes in the supply

Several banks assigned the credit growth to changes in own marketing strategy, to introducing of a new product or to increasing demand from households. In addition, the tendency of easing of credit standards is visible, hence the supply increased. The easing of credit standards is connected mainly to housing loans where banks can rely on the existing collateral in case of default.

When summarizing the answers, it seems that all given factors can be attributed to the easing of credit standards, although the extent is different for individual factors. The competition among banks had the major impact and three banks identified this impact as significant. However, most banks did not report that the competition from non-bank institutions had any impact. Positive trends in the macroeconomic situation and increasing demand from household had also considerable impact on easing of credit standards. Changes in the real estate market are related mainly to the quality of the collateral and hence they had quite important role on easing of credit standards on housing loans. Summarizing, changes in external environment had the most significant impact on easing of credit standards.

Regarding internal factors, the easing of credit standards was influenced mainly by changes in the system of risk

**Chart 8 Concentration of household loans in the banking sector**

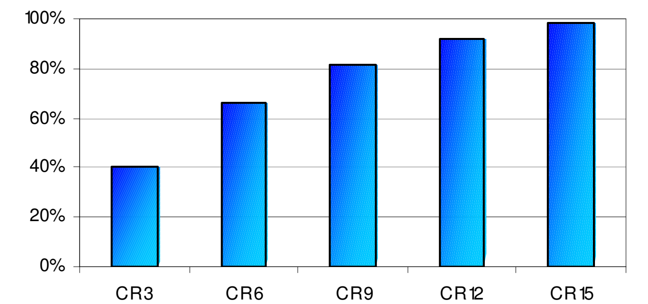



**Chart 9 Distribution of household credit growth in the first half of 2005**

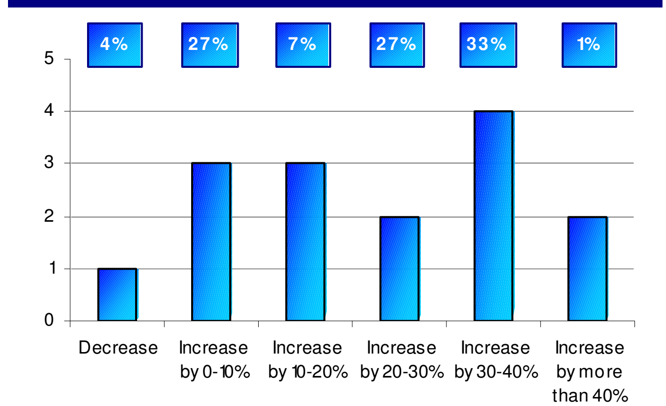
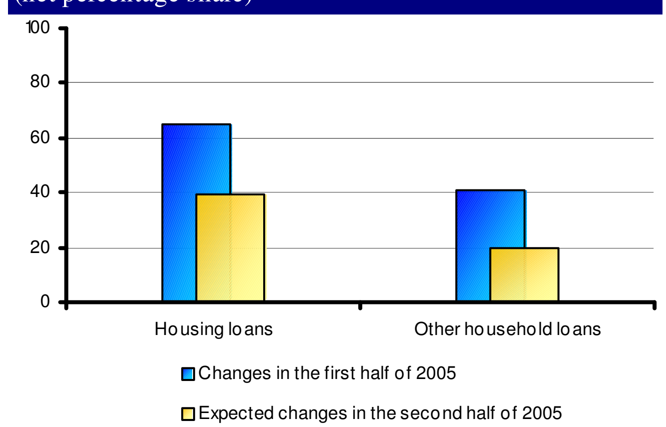



**Chart 10 Changes in credit standards on household loans** (net percentage share)



management, risk appetite and quality of the household credit portfolio. In general, these factors supported easing of credit standards, although they caused their tightening in some banks. Other internal factor had effect only in one or two banks.

As a significant characteristic of the recent trends, the easing of credit standards during the first half of 2005 means the non-price conditions changed. However, changes in price conditions were even more substantial. Similarly to corporate loans, several banks identified decrease in interest margin also on household loans. The decrease in non-interest income seems to be less important. Regarding the non-price conditions, banks relaxed some limits on granting of new loans, mainly related to maximum volume of the loan.

The easing of credit standards can be viewed as a general tendency on the market. Nevertheless, some banks actually tightened their credit standards on household loans. The reasons were mainly internal – e.g. stricter system of risk management or worsening of the credit portfolio quality.

**Chart 11 Factors influencing changes in credit standards on household loans** (net percentage share)

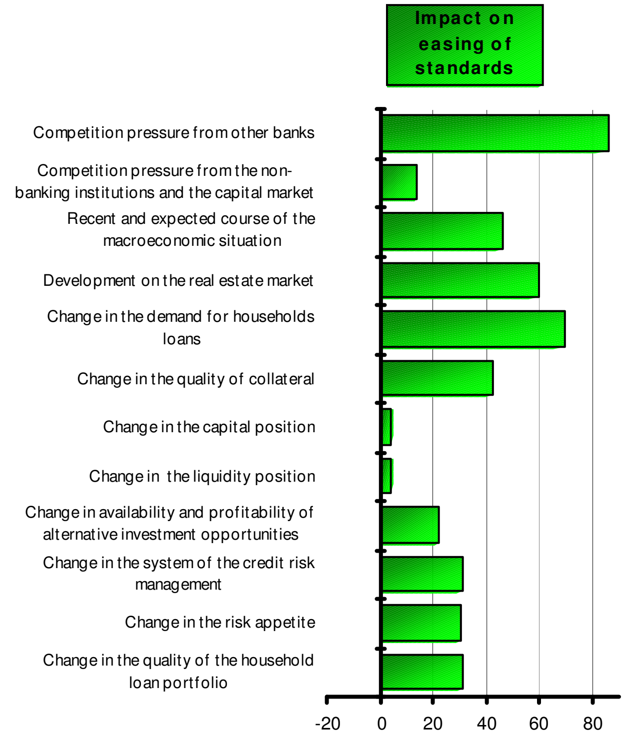
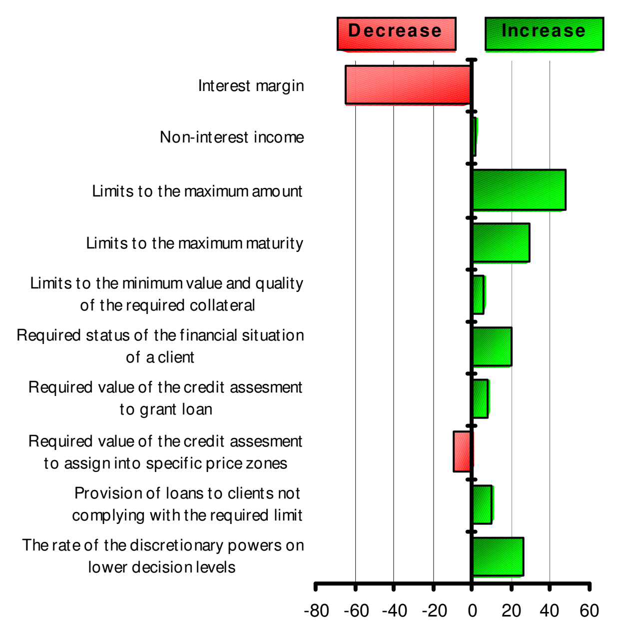



**Chart 12 Specific terms on household loans**
(net percentage share)



## Changes in the demand

Almost all banks involved in granting housing loans reported significant or partial growth of demand on housing loans. We can conclude that the demand increased for all housing loans except loans granted by building societies in the first half of 2005. In addition, banks identified increased demand also for other loans. Similar trends are expected also in the second half of 2005.

There are two main reasons for increased demand on household loans, agreed with almost all banks: decrease in interest rates and fees and positive changes in household income. Moreover, the first one was assessed as significant by some banks. In addition, several banks reported that the household demand increased due to growth in household expenses, mainly on buying of real estates. This was related to the recent trend in the real estate market. On the other hand, repaying of a loan by other loans or financing from other sources was identified as a factor supporting decrease in demand for household loans by six banks.

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**Chart 13 Changes in demand for household loans**
(net percentage share)

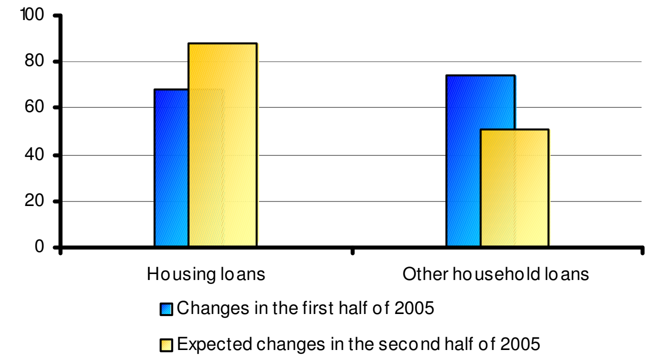


**Chart 14 Factors influencing the change in demand for household loans** (net percentage share)