NÁRODNÁ BANKA SLOVENSKA

Survey on Supply and Demand on Lending Market

December 2005

Summary

The volume of drawn corporate loans increased during the second half of 2005. According to the survey, the increase was driven to a larger extent by demand than by easing of credit standards which was similar to situation in the first half of 2005. The share of banks which experienced increase in demand for loans to large corporates rose. This was caused mainly by the need for long-term investments and operational capital financing. Regarding changes in credit standards, there was a tendency to their easing. This was even the case of loans to large corporates in contrast to the first half of 2005. The main influence on easing of credit standards had external factors – competition, macroeconomic development and increase in demand. Banks experienced decrease in interest margin and non-interest income.

The demand was more important factor also on the household loan market in the second half of 2005, mainly due to positive development of households' income and overall macroeconomic situation. There was continuity in easing of credit standards but unlike the first half of 2005 this was identified in larger scope for other household loans (other than housing loans). By easing of credit standards banks responded to increase in demand which was together with competition the most important reason for changes in credit standards. The increase in decentralization of discretionary powers to lower decision levels for approving loans and easing of some limits were dominant forms of easing of standards.

Note to the presentation of the aggregated data:

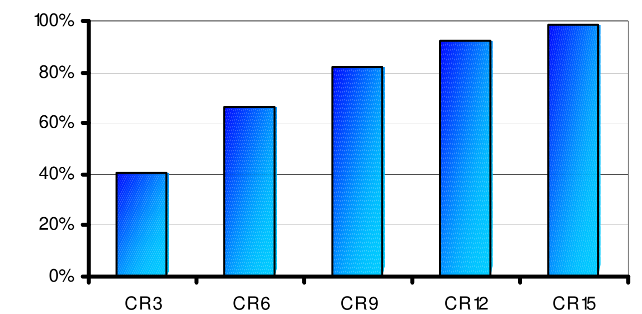
If not otherwise stated, data in text or charts are given in **net percentage share**. For example, the net percentage share of banks that eased their credit standards is calculated as the difference between the percentage market share of banks which reported easing of their credit standards and the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

Corporate loans

Corporate loan market

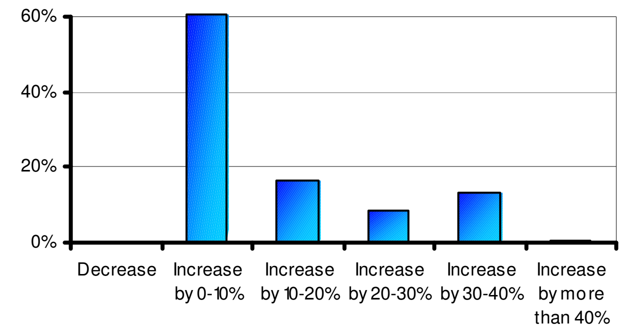
Corporate loans increased by 12% during the second half of 2005 (from June to December) what is a bit more than during the first half of 2005. The volume of these loans recorded even a slight decrease in the second half of 2004. The increase of average volume of loans represented nearly 8% in the second half of 2005. The volume of loans drawn by corporates increased by 43% in the second half comparing to the volume of loans drawn in the first half of 2005. The share of loans granted by three banks with the highest market share was 41% (CR3 index). The concentration of granted corporate loans remained virtually unchanged in the banking sector.

Chart 1 Concentration of corporate loans in the banking sector



Regarding the volume of total loans granted by the Slovak banking sector, the highest share is represented by loans to non-financial enterprises. Their volume increased by 8% during the second half of 2005. On the other hand, loans to financial institutions recorded high increase when their volume rose by 42% (during the first half of 2005 only by 5%). The volume of loans to sole traders increased by 11%

Chart 2 Distribution of corporate credit growth in the second half of 2005



Banks attributed the increase in volume mainly to the increase in demand from clients. This is a difference against the first half of 2005 when there was not clear answer whether the reason of the growth of loans was due to supply or demand. The market share of banks which identified effect of increase in demand for loans was 51%. On the other hand, significant changes in neither demand from clients nor credit standards were not identified by banks with the market share of 22%.

Changes in supply

Some banks eased their credit standards on corporate loans in the second half of 2005. In some cases the changes were quite substantial. Significant easing of standards occured in loans to large corporates. This was higher than banks had expected in June 2005. Additional easing is also expected in the first half of 2006.

A bit different situation was in the sector of small and medium enterprises. Although several banks eased their standards other banks tightened them on the contrary. Easing of standards on granting of loans to small and medium enterprises is expected in the first half of 2006.

Chart 3 Changes in credit standards on loans to large corporates (net percentage share)

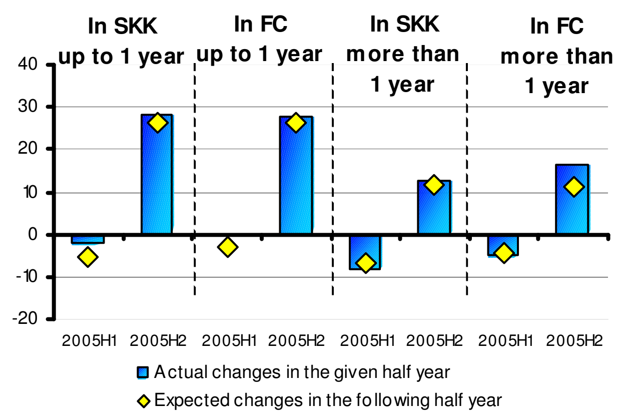
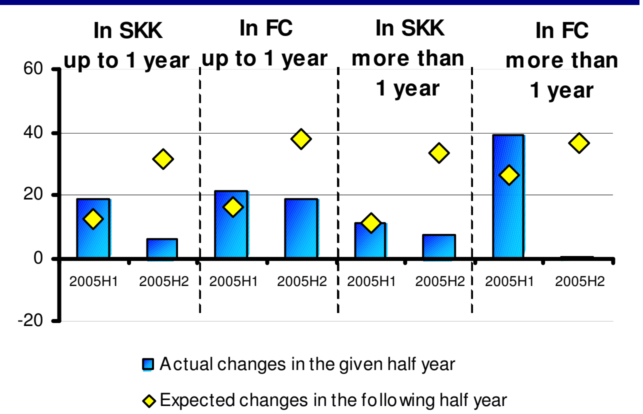
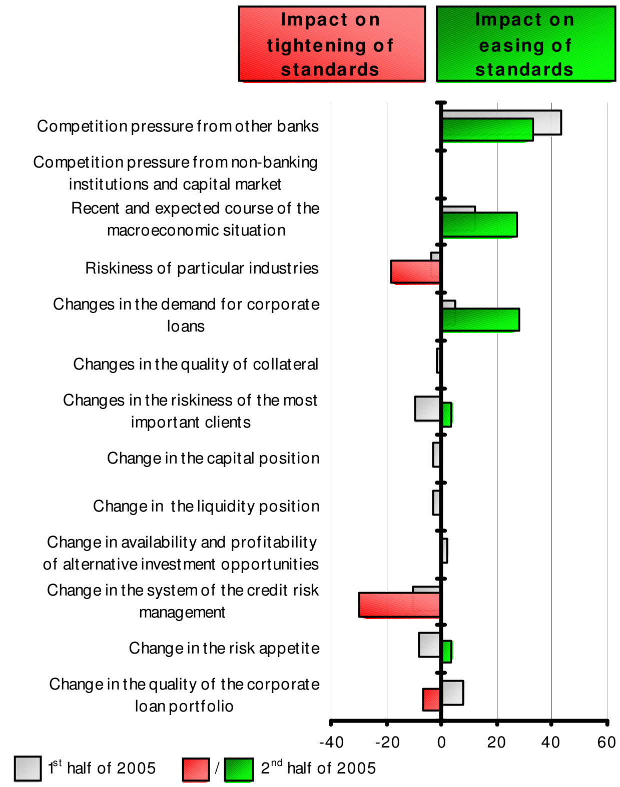


Chart 4 Changes in credit standards on loans to small and medium enterprises (net percentage share)



Whereas competition from other banks dominantly influenced easing of credit standards in the first half of 2005, banks marked development of macroeconomic situation and increase in demand for corporate loans as factors of the same importance. Importance of competition among banks slightly decreased. On the other hand, the most important effect on tightening of credit standards (mainly on loans to small and medium enterprises) had changes in system of credit risk management.

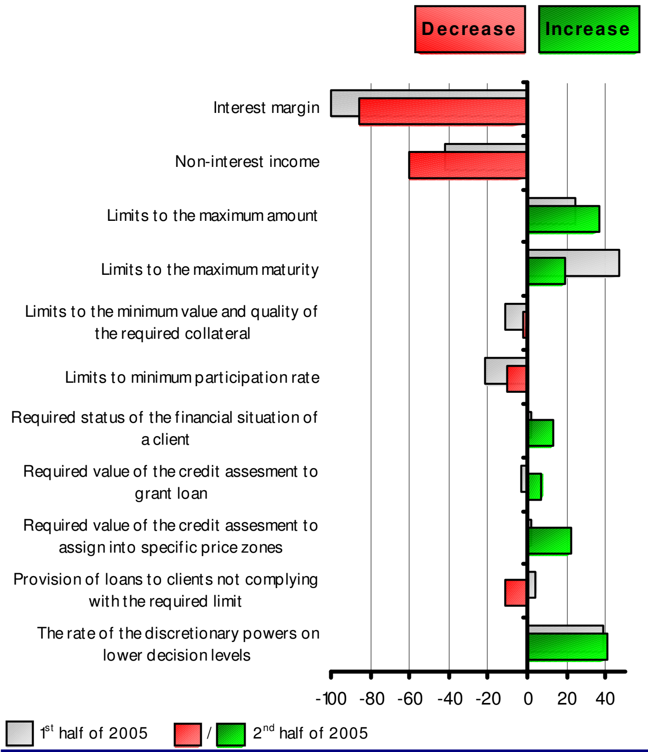
Chart 5 Factors influencing changes in credit standards on corporate loans (net percentage share)



There were not any significant changes in corporate lending conditions comparing to the first half of 2005. The most important changes regarded price conditions again. The majority of banks reported decrease in interest margin or fee income however some banks experienced increase in fee income. The important role is still playing decentralization of discretionary powers to lower decision levels mostly in medium-sized banks. Limit to the maximum amount of loan decreased. Decrease of required rating level for classification into the particular price band contributed to loans' price reduction too.

On the other hand, banks that tightened their credit standards on corporate loans tightened mainly limits regarding conditions of granting of loans (particularly limits to the maximum amount and quality of required collateral).

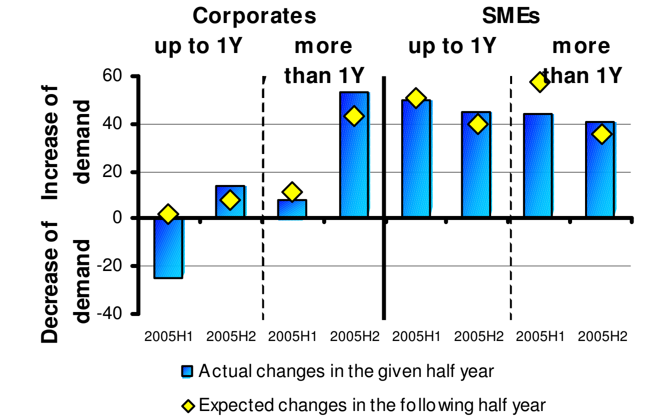
Chart 6 Changes in specific terms on corporate loans
(net percentage share)



Changes in demand

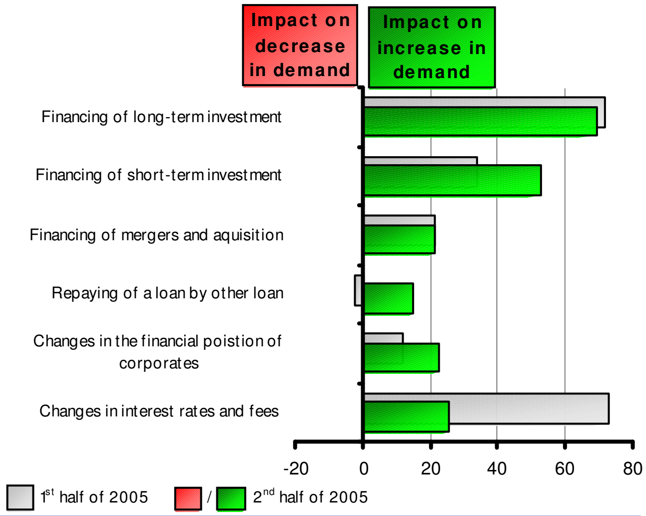
The easing of credit standards on loans to large corporates was accompanied by increase in demand for these loans in the second half of 2005. This is mostly the case of long-term loans. Development of short-term loans coincided with expectations from previous half-year. Banks identifying increase of demand from large corporates increased their market share in comparison to the first half of 2005. Banks expects the increase of demand in the next period will be roughly at the same level as before. The share of the banks which identified increase in demand from small and medium enterprises on total corporate lending market was approximately equal to that of the first half 2005. Expectations to the next half-year decreased a bit.

Chart 7 Changes in the demand for corporate loans
(net percentage share)



The most frequent reason for increase in demand for loans from corporates was need for long-term investment financing what is in accord with reported increase in demand for long-term loans from large corporates. Some banks even identified this factor as substantial. At the same time the importance of operational capital financing increased on the loan market. The most of medium-sized banks identified a partial influence of improvement in corporate financial positions and decrease in interest rates and fees as well. Taking into account the loan market as a whole the impact of this factor on increase in demand for loans seems to be less important comparing to the first half of 2005, what is the consequence of the decrease in its importance in the group of banks having a high share on the corporate lending market. Its importance for demand from financial institution is probably higher as the average interest rates on new loans in this sector declined from 4.9% to 3.8% during the second half of 2005.

Chart 8 Factors influencing changes in demand for corporate loans (net percentage share)

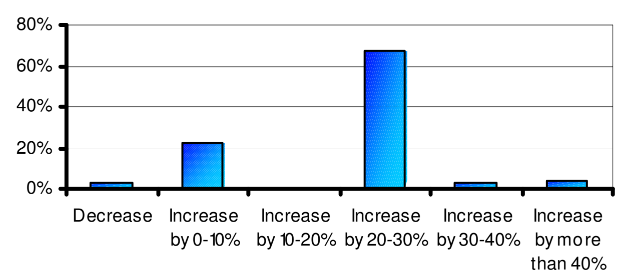


Household loans

Household loan market

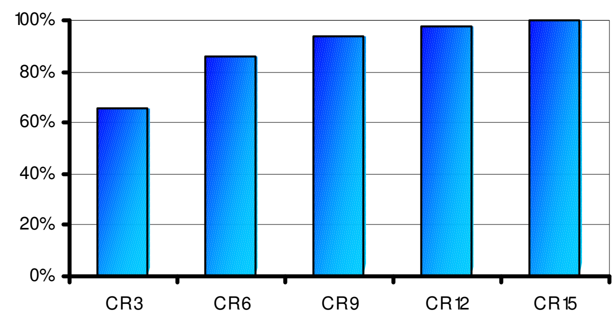
The increase in household loans was continuing in the second half of 2005. Their volume increased by 20% (from 139 bil. SKK to 166 bil. SKK) from June till December 2005, what is the increase comparable to previous half-year. The volume of household loans drawn during the second half-year increased by 23% comparing to the first half-year. Housing loans represented 68% of overall volume of loans granted to households. Their volume increased by 19% during the first half of 2005. Other household loans, mostly credit card loans, were increasing too.

Chart 9 Distribution of household credit growth in the second half of 2005



The concentration on the household loan market was higher than on the corporate loan market. The value of CR3 index was 66%, CR6 index reached 86%. According to survey data 16 banks were granting loans to households.

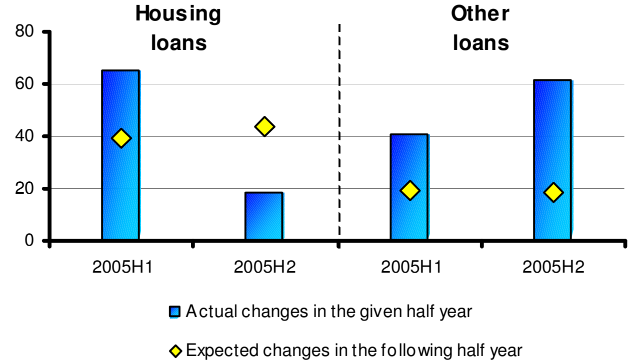
Chart 10 Concentration of household loans in the banking sector



Changes in supply

Similarly to the first half of 2005 the increase in demand for household loans was mainly driven by demand factors. The significant effect on increase in demand identified banks having market share of almost 50%. The importance of changes in own marketing strategy or introduction of new product decreased comparing to the first half of 2005. Although some banks tightened their standards, there was continuing tendency of their partial easing. Unlike in the first half-year the tendency related in larger extent to other household loans. Net market share of banks that eased credit standards on housing loans was smaller (also comparing to expectations). Easing of credit standards smaller than in the previous period is expected in the next half-year.

Chart 11 Changes in credit standards on loans to households (net percentage share)



According to the survey, the impact of several factors on easing of credit standards decreased during the second half of 2005. It is possible to conclude that banks eased their credit standards – similarly as in the first half of 2005 – mainly due to external factors. The most significant impact had competition from other banks and growing demand for loans. On the other hand banks that tightened their standards on household loans reported changes in quality of loan portfolio and in system of credit risk management as the most important reasons.

Similarly to the first half of 2005 there was relatively high share of banks which identified partial decrease in interest margin from household loans in the second half-year. The volume of fee income did not recorded significant change in the most of banks. The decrease in required level of rating for granting of loan and easing of limits for granting of individual loans (mainly lowering of limits to maximum amount and maturity of loan) were two main forms of easing of credit standards for households in the second half-year. At the same time granting of loans to clients who do not fulfill required limits decreased in some banks.

Chart 12 Factors influencing changes in credit standards on household loans (net percentage share)

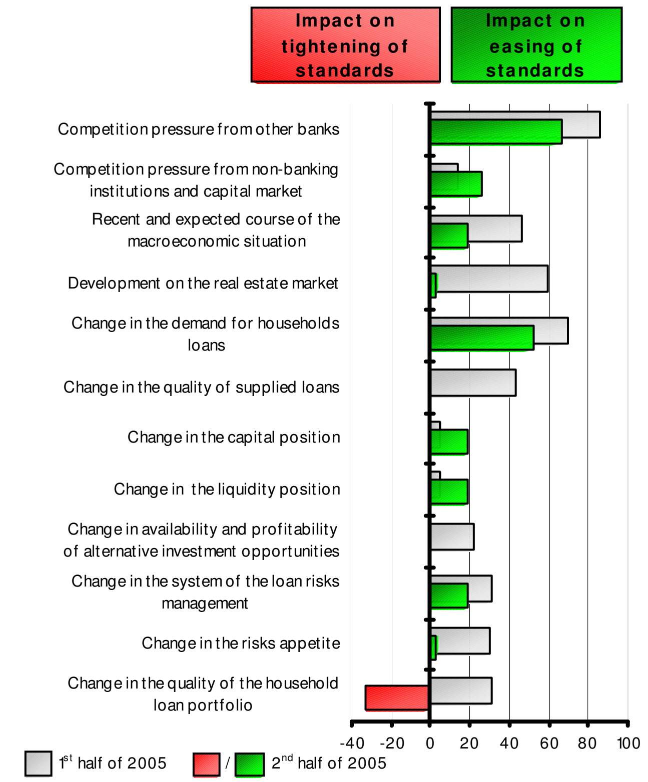
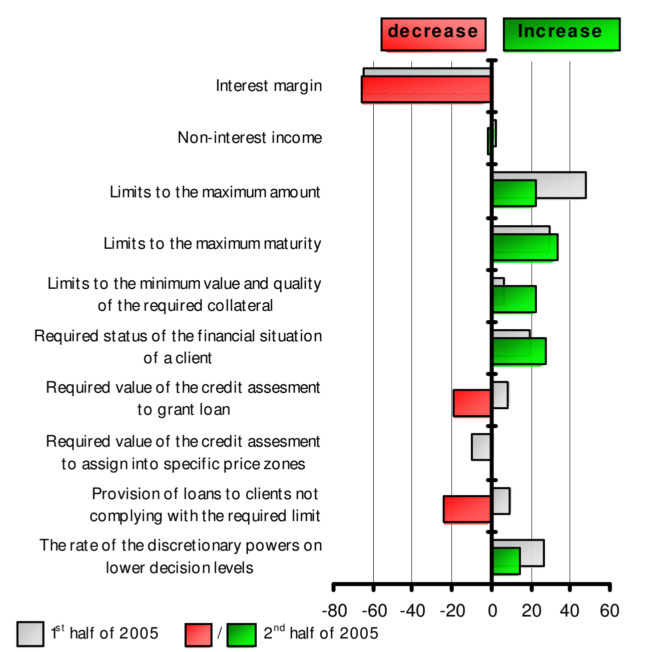


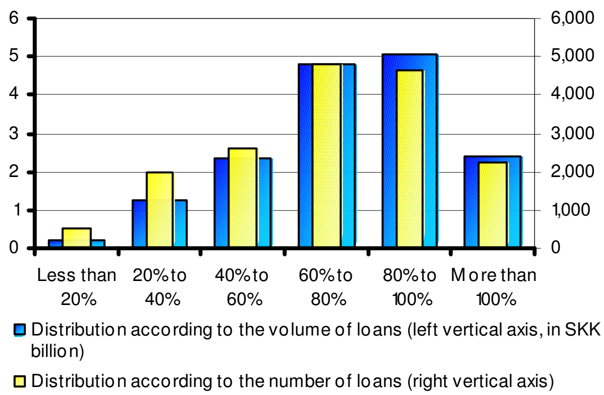
Chart 13 Changes in specific terms on household loans (net percentage share)



Loan collateral

The quantitative question about distribution of share of loans' value to value of collateral (*loan-to-value ratio*) for housing loans was added to the survey. Data were reported by 13 banks and distribution is depicted on Chart 14. If we consider volume of loans the median value of LTV lies within the interval from 60% to 80% for the most of banks.

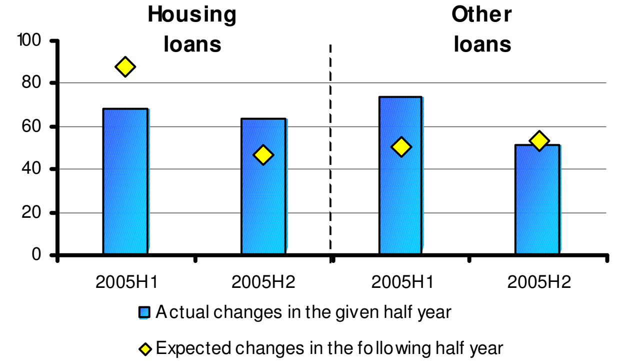
Chart 14 Distribution of loan-to-value ratio (housing loans granted in the second half of 2005)



Changes in the demand

Similarly as in the firs half of 2005 there was relatively high market share of banks which reported increase in demand for household loans in the second half-year too (81% for housing loans and 67% for other loans). However, some banks reported decrease in demand as well. At the same time the share of banks which expects increase in demand for housing loans in the following half-year decreased.

Chart 15 Changes in the demand for household loans (net percentage share)



Relatively important changes occurred in factors which are responsible for stated changes. The importance of changes in interest rates and fees decreased. Interest rates on new household loans did not change a lot in the second half-year, the most important decrease occurred in current account overdrafts (decrease of average interest rate by 0.4 percentage point). The most important factor by contrast is increase in incomes, positive development of macroeconomic situation and changes in development of real estate market. On the other hand, several banks identified financing by loans from other banks as a factor causing decrease of demand for their own loans. However the importance of competition from other institutions decreased.

Chart 16 Factors influencing changes in demand for household loans (net percentage share)