NÁRODNÁ BANKA SLOVENSKA

Survey on Supply and Demand on Lending Market

June 2006

Summary

In July, the NBS conducted again a survey with a purpose to find out trends on the lending market. 16 banks and 3 branches of foreign banks were included in this survey. The total volume of loans granted by these banks and branches of foreign banks represented 97% of total client loans. The presented survey focused on changes on the supply side (changes in credit standards, as completing changes in price conditions of loan providing) and changes on the demand side.

The pace of growth of corporate loans decreased in several banks in the first half of 2006 comparing to the second half of 2005. The total volume of new corporate loans granted in the first half of 2006 was nearly the same as in the second half of 2005. Most of the banks did not identified changes in demand or credit standards on corporate loans as significant. However, some banks partly eased credit standards on corporate loans, mainly for medium and small enterprises. Banks did not expect significant easing of credit standards on corporate loans in the next period. Competition pressure and the demand from clients are still the most important reasons of easing credit standards. In comparison to the year 2005, the impact of expectations about future macroeconomic situation on easing of credit standards significantly decreased. Easing of credit standards was related mainly to particular conditions of granting loans. Unlike regarding household loans, almost all participants of the market identified decrease of the interest margins and fees comparing to the second half of 2005 for corporate sector. The increase in demand for corporate loans was less significant than in the second half of 2005.

Growth of interest rates constituted a significant change on the household loan market. Easing of credit standards on loans of this segment continued. Banks expect further easing of credit standards, mainly on special-purpose loans secured by real estate. Banks also expect increase in demand for these loans. Increase of real estate expenses due to a growth of their costs is an important factor. Beside the competition in the banking sector, changes in credit risk management and risk appetite also influenced easing of credit 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 details on this calculation and on the method of aggregation of individual answers can be found in the document „Methodology of the survey evaluation“.
Results are represented in aggregated form in this document. This report relies on the views of individual banks as stated in the survey and does not necessary reflect the view of the NBS.

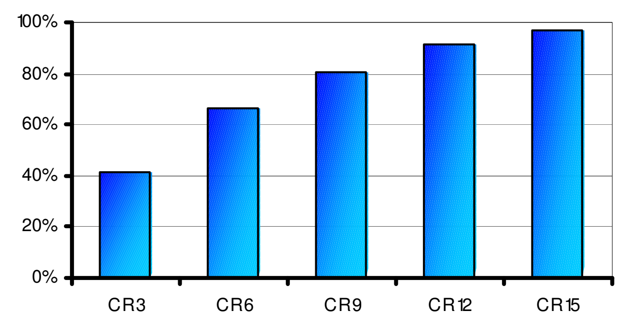
Corporate loans

Corporate loan market

In the first half of 2006, corporate loan market, which includes loans to domestic and foreign financial and non-financial institutes, sole traders and non-profit organizations, recorded further increase of total volume of credit. This trend can be observed from the beginning of the year 2005. Its pace has not changed significantly. The volume of corporate loans increased in the first half of 2006 (from December 2005 to June 2006) by SKK 78 billion, i.e. by 9%. The volume of newly drawn corporate loans in the first half of 2006 remained on the same level as in the second half of 2005. On the other hand, in the second half of 2005 the volume of new loans increased by 44%, comparing to the first half of 2005. However, this increase of corporate loans did not cause changes in the concentration on the corporate loan market. The share of the volume of the loans granted by three banks with the highest market share was 41% (CR3 index)[1], same as in the second half of 2005.

[1] CR*k* index expresses the share of loans granted by *k* banks with the highest volume of loans on the total volume of loans.

Chart 1 Concentration of corporate loans in the banking sector

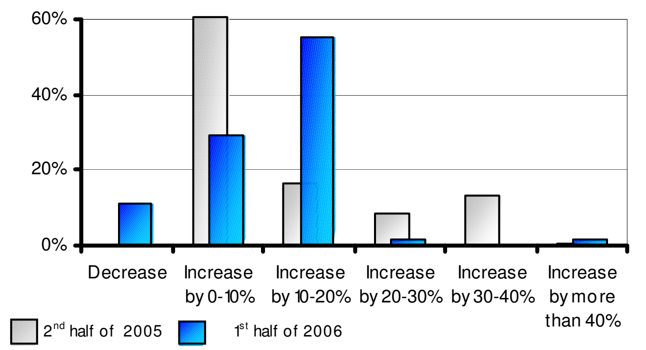


CR*k* index expresses the share of loans granted by *k* banks with the highest volume of loans on the total volume of loans

In terms of the volume of loans, loans provided to non-financial institutions represented about half of total corporate loans. In the first half of 2006 their increase was comparable to the increase in the second half of 2005 (about 10%). Loans to financial institutions recorded high increase in the second half of 2005 (42%) but increased in the first half of 2006 only by 12%. A significant increase was sought mainly by loans to financial institutions denominated in EUR (25%). The volume of loans to sole traders increased by 7%.

We can summarize that there were no significant changes in the volume of new corporate loans in the banking sector, although relative growth of financial institutes loans decreased and the distribution of the growth of the loans among banks changed. It is partially confirmed by conclusions in the survey. The percentage share of banks that did not identify any significant changes nor in demand neither in credit standards was 55%. At the same time, the percentage share of banks reporting that the changes in the volume of new loans were caused mainly by the increase in client demand decreased comparing to the second half of 2005 (from 51% to 34%).

Chart 2 Distribution of corporate credit growth in the first half of 2006



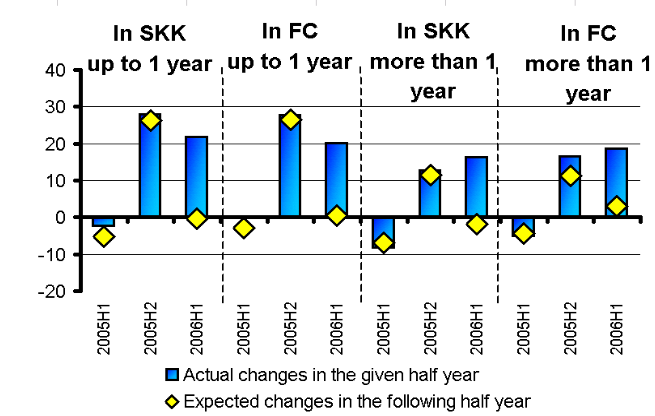
The data on horizontal axes represent changes in the volume of corporate loans. Data on vertical axes represent the share of banks in a given column on total corporate loans

Changes in the supply

The easing of credit standards on corporate loans continued in the first half of 2006. However, the net percentage share of banks easing credit standards on large corporates slightly decreased and in aggregate level it was on the level expected in the second half of 2005. On the other hand, the net percentage share of banks that eased credit standards on small and medium enterprises increased in the first half of 2006 comparing to the second half of 2005, mainly for short-term loans. Percentage share of banks easing these credit standards was more than 40%. In addition, banks tightening credit standards on small and medium enterprises had market share about 10%.

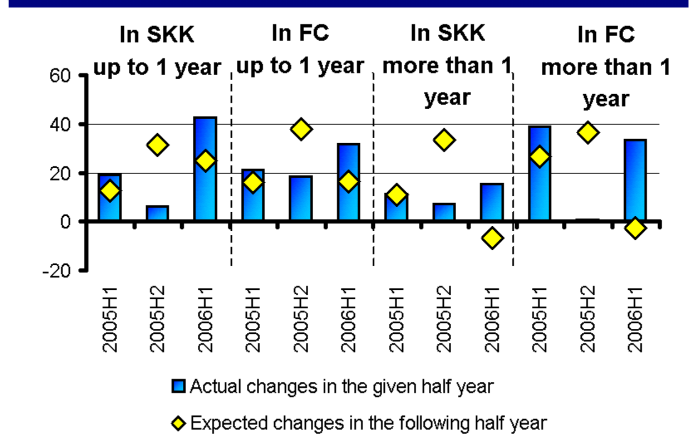
It can be assumed that credit standards on small and medium enterprises were eased more than credit standards on large corporates. It was different from the previous half-year, when easing of credit standards on large corporates was more significant. The second significant change was the change in expectations. While in the second half of 2005 banks expected easing of credit standards, in the first half of 2006 banks that expected additional easing or tightening of standards had only small market share.

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



The vertical axes represent the net percentage share of banks that eased credit standards on large enterprises loans

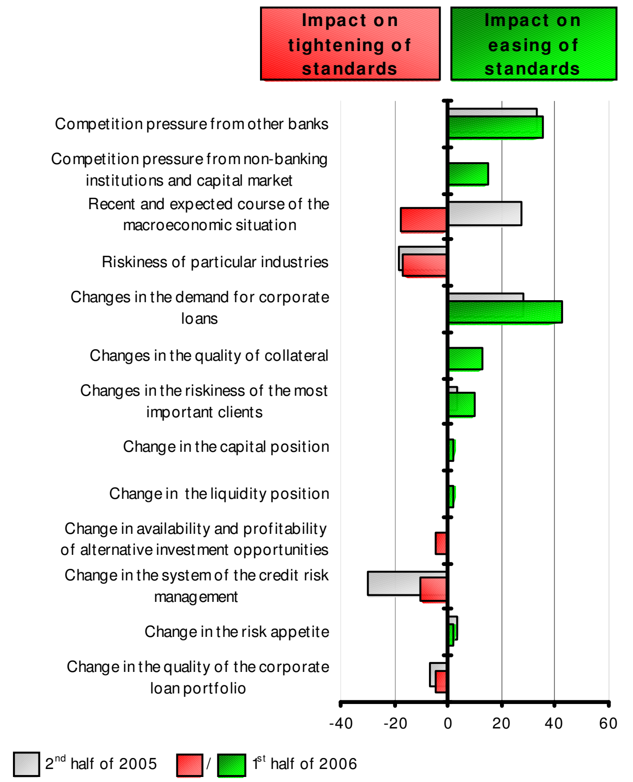
Chart 4 Changes in credit standards on loans to small and medium enterprises (net percentage share)



The vertical axes represent the share of banks that eased credit standards on small and medium enterprises

Competition pressure and changes in corporate demand remained the most significant factors which had impact on the easing of credit standards on corporate loans. Macroeconomic situation, which had significant impact on easing credit standards in the second half of 2005 had impact on tightening of credit standards in the first half of 2006. On the other hand, all banks that tightened credit standards on corporate loans reported the impact of changes in credit risk management and increase in the riskiness of important clients or individual industries. Together with the impact of expectations about the economic situation it may suggest a fall of confidence of the banking sector in continuation of present trends.

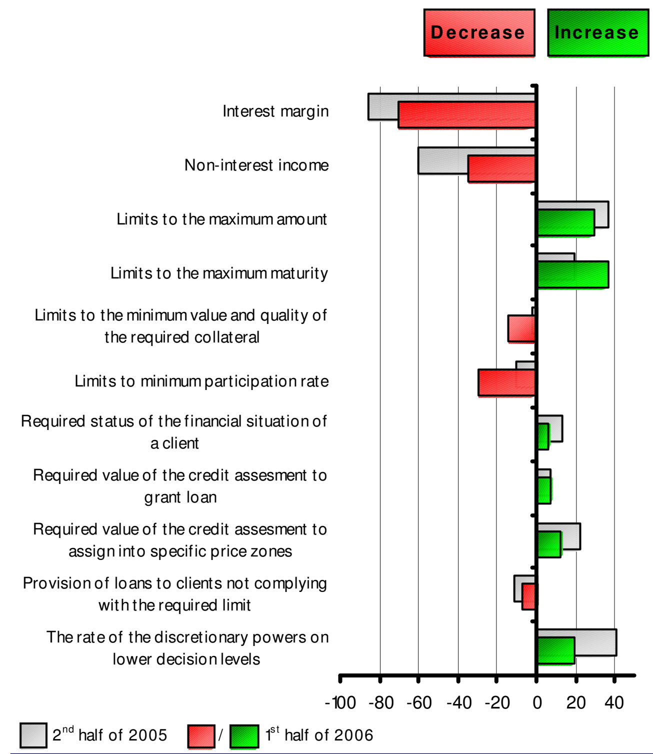
Chart 5 Factors influencing changes in credit standards on corporate loans (net percentage share)



The horizontal axes represent the net percentage share of banks

There were no significant changes in particular conditions of granting corporate loans comparing to year 2005. Almost all participants of the market reported decrease of the interest margins and fees. Some banks reported the increase of income from fees. Easing of credit standards was related mainly to specific conditions of granting loans. Banks reported mainly increase in limits on maximum volume and maturity as well as decrease in limits on the required degree of co-financing. Tightening of credit standards was related mainly to the increase of required value of rating to obtain a loan. It was a change comparing to the second half of 2005, when banks mainly tightened particular conditions of granting loans. Decentralization of discretionary powers to lower decision levels for approving and granting loans connected to the effectiveness of the whole process continued, mainly in several medium-size banks.

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

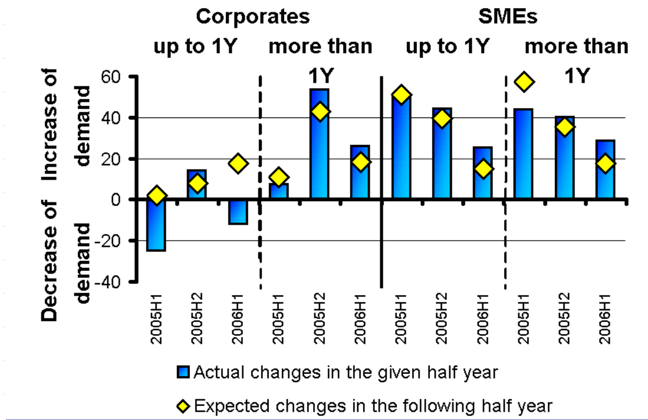


The horizontal axes represent the net percentage share of banks

Changes in the demand

As mentioned, the impact of changes in demand on the changes in the corporate loan market slightly decreased in the first half of 2006 comparing to the second half of 2005. It is related mainly to the demand for large corporate loans. Unlike in the second half of 2005, a definitely increasing trend of demand cannot be declared. Decrease of net percentage share of banks that reported increase in demand for small and medium enterprises loans can be observed from the beginning of the year 2005, too. Generally, the demand in the first half of 2006 was lower as banks expected. Expectations about demand growth in the next half-year declined, too.

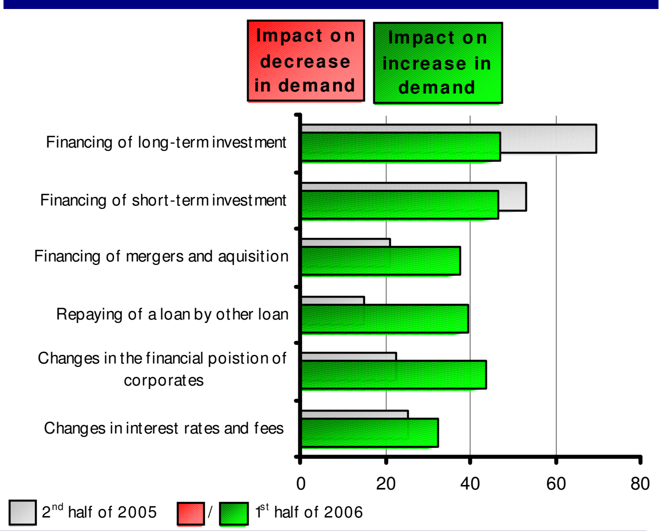
Chart 7 Changes in the demand for corporate loans (net percentage share)



The vertical axes represent the net percentage share of banks

Financing of long-term investments as well as the need of operating capital had still significant impact on the increase of corporate demand. Comparing to the second half of 2005, the importance of refinancing a loan with another loan increased. On the other hand, several, mainly medium-size banks identified the increase of interest rates and fees as a factor which had impact on the decrease in demand. It is obviously connected to the increase of interest rates for new non-financial loans from December 2005 to June 2006 by 1 percentage point and for new financial loans by 1.3 percentage points.

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



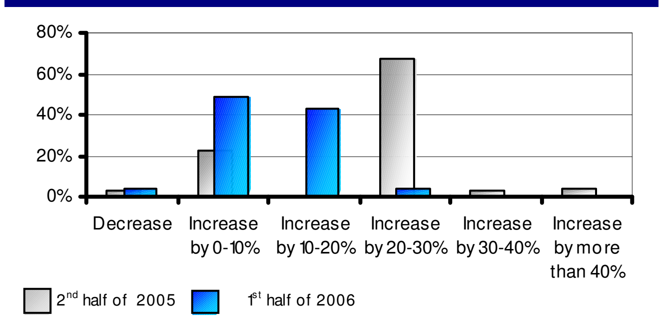
The horizontal axes represent the net percentage share of banks

Household loans

Household loan market

The increase of household loans continued in the first half of 2006. These loans were one of the most rapidly increasing items on the banks' balance sheet. From December 2005 to June 2006 their volume increased by 16%, following a 20% increase in during the second half of 2005. In absolute values the growth is nearly the same (about 27 billion SKK). Loans denominated in foreign currency represent less than 2% of this growth. Increase of household loans can be recorded in the first half of 2006 in all banks where retail loans are granted. The volume of newly drawn loans increased during the first half of 2006 comparing to the second half of 2005 by 16%. The highest share on total household loans (approximately 70%) was represented by housing loans.

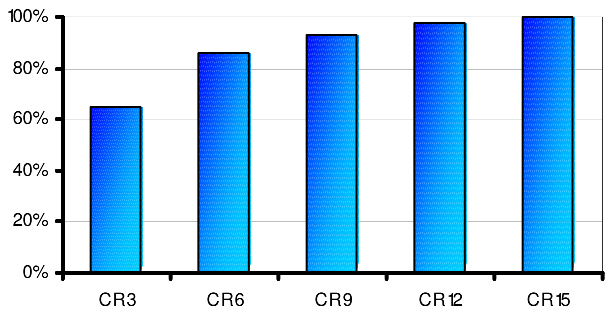
Chart 9 Distribution of household credit growth in the first half of 2006



The data on horizontal axes represent changes in the volume of household loans. Data on vertical axes represent the share of banks in a given column on total household loans

The concentration on the household loan market in the first half of 2006 remained nearly unchanged. The dominancy of the three largest banks is typical for this market.

Chart 10 Concentration of household loans in the banking sector

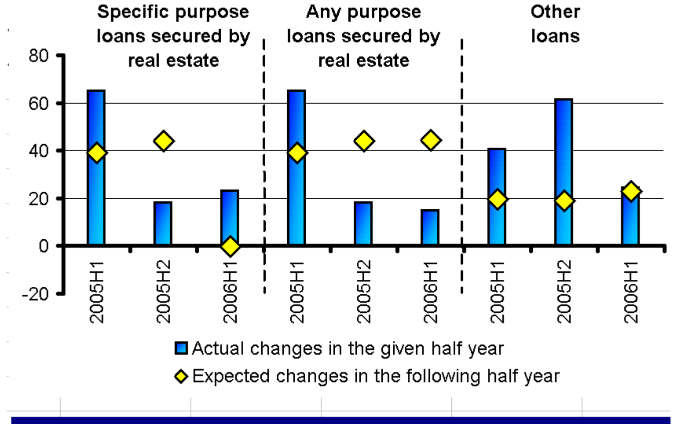


CR*k* index expresses the share of household loans granted by *k* banks with the highest volume of household loans on the total volume of household loans

Changes in the supply

Growth of interest rates was a significant change on the household loan market. Interest rates for new household loans increased during the first half of 2006 by 1.4 percentage point. Banks that have 41% market share regarded this change of interest rates as significant. On the other hand, comparing to the second half of 2005 less banks regarded the impact of increase in household demand as significant (the net percentage share was 34%, in the second half of 2005 it was 51%). Easing of credit standards on household loans continued. Market share of banks that eased credit standards on loans secured by real estate in the first half of 2006 was the same as market share of banks that eased credit standards in the second half of 2005. Banks eased credit standards for other types of loans to a lesser extent. There were still expectations of further easing of credit standards on loans secured by real estate. This indicates banks' confidence in increase of the real estate prices.

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

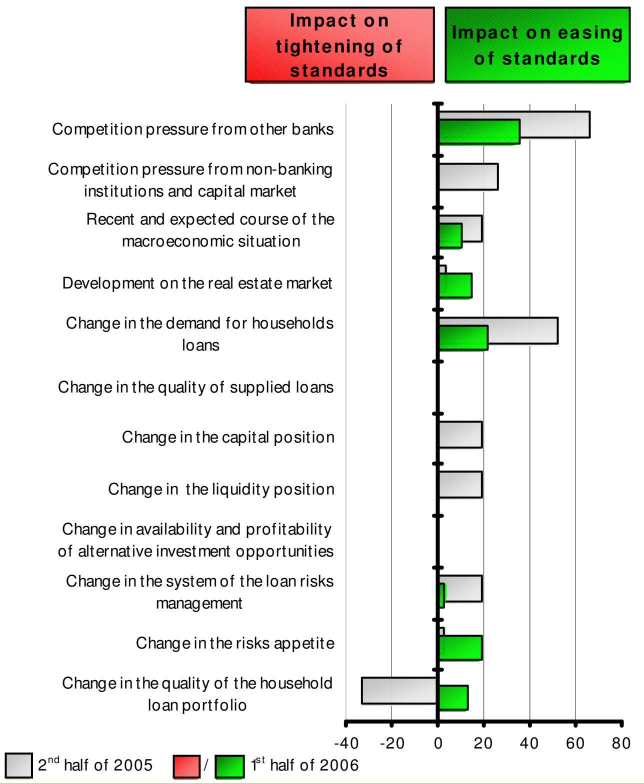


The vertical axes represent the net percentage share of banks that eased credit standards on household loans

The competition among banks had the major impact on the easing of credit standards on household loans, whereas the impact of competition from non-bank institution decreased. Beside external factors, internal factors had significant impact on easing of credit standards, too. Risk appetite setting up, credit risk management system and changes in quality of the loans portfolio were the main factors. As for the corporate loans, the impact of the macroeconomic situation on the credit standards decreased.

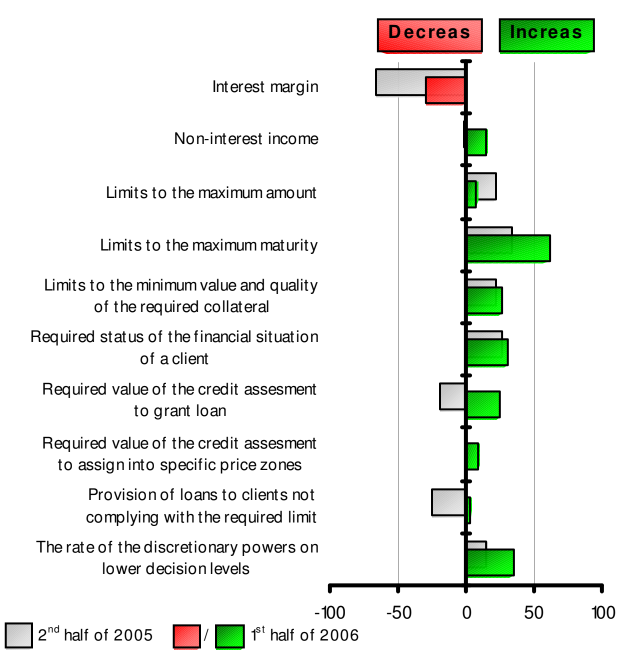
As the interest rates increased, the number of banks that reported the decrease of interest margin as a significant impact on household loans decreased. Easing of credit standards appeared again mainly in easing of conditions and limits regarded to particular loans. On the other hand, the impact of tightening of evaluation of clients' financial situation and rating increased when comparing to the second half of 2005. Whereas the required values of ratings decreased in some banks in year 2005, in the first half of 2006 several banks increased these required values. Decentralization of discretionary powers to lower decision levels for approving and granting loans continued.

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



The horizontal axes represent the net percentage share of banks

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

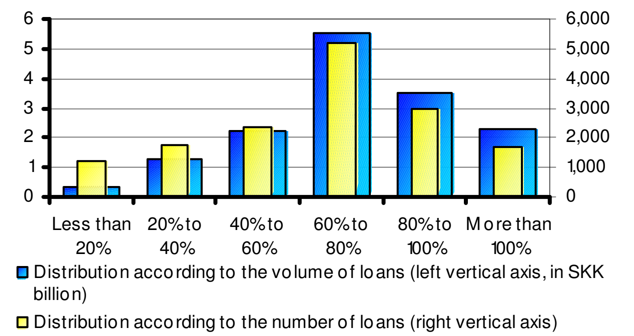


The horizontal axes represent the net percentage share of banks

Collaterals of loans

The share of the volume of the loans on the volume of the guarantees (*the loan-to-value ratio, LTV*) for housing loans changed only slightly between the second half of 2005 and the first half of 2006. The share of loans with LTV value between 80% and 100% decreased, the share of loans with LTV value under 100% increased (percentage shares are expressed to the volume of loans).

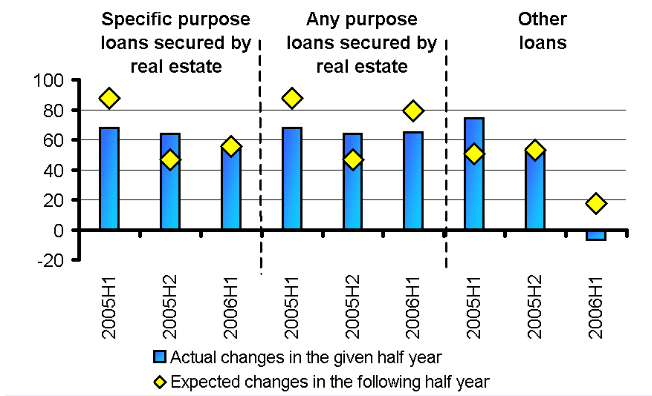
Chart 14 Distribution of loan-to-value ratio (housing loans granted in the first half of 2006)



Changes in demand

Several banks identified continuing trend of demand increase on the loan market, mainly for loans secured by real estate. It is not clear, if the increasing demand is for the special-purpose or for the any-purpose loans, but the increase in demand for loans not secured by real estate stopped. Sector expects an increase mainly in the demand for any-purpose loans secured by real estate.

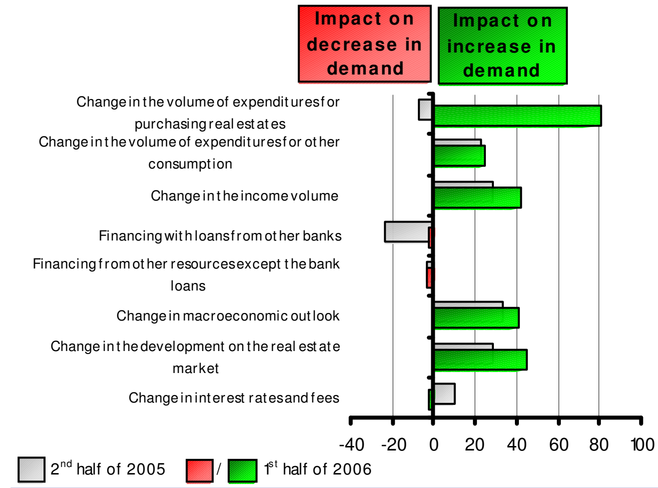
Chart 15 Changes in the demand for household loans (net percentage share)



The vertical axes represent the net percentage share of banks

Factors that had impact on the increase in demand for loans secured by real estate changed significantly between the first half of 2006 and the second half of 2005. Relatively high part of banks reported the changes in the real estate market as a significant factor. It may be connected to the growth of the real estate prices, which forced households to finance their purchase of real estate with higher volume of loans.[2] The second significant impact on the increase in demand had the increase in the income of households.

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



The horizontal axes represent the net percentage share of banks

Developer loans

Because of the high increase of the developer loans, a question about these loans was added to this survey. From 19 banks and branches of foreign banks included in the survey 12 of them granted developer loans. In the second half of 2006 this number rose with 2 more banks. From the results of the survey it is not clear if the reason of the growth of developer loans was due to supply from banks or demand from clients. In the first half of 2006 eased their credit standards on developer loans 7 banks and branches of foreign banks.[3] Expectations about easing credit standards in the next half-year are lower. The increase in demand for developer loans was identified by 10 banks and branches of foreign banks. Some of them regarded the increase as significant. Expectations for the next half-year were nearly the same.

[2] Real estate prices increased significantly mainly in the first quarter of 2006, when the prices comparing to the first quarter of 2005 increased by almost 5,5%, most sharply in Bratislava region, where the prices increased by more than 7%. In the second quarter of 2006 was the increase milder (Source: National Association of Real Estate Agencies)

[3] Due to the lack of information about the volume of developer loans the number of banks is listed instead of their percentage share.