NÁRODNÁ BANKA SLOVENSKA

Survey on Supply and Demand on Lending Market

December 2009

Summary

14 banks and 3 branches of foreign banks took part in the lending survey, conducted by the National Bank of Slovakia in the January of 2010. The volume of loans to clients granted by these banks and branches of foreign banks comprised EUR 29.78 billion as of December 31, 2009, or 93.41% of the total volume of clients' loans in the banking sector, respectively.

The volume of corporate loans recorded again a decrease during the 2nd half of 2009, which was similarly as in the previous period affected by the tightening of credit standards for all types of corporate loans. The biggest impact on tightening of the standards was caused mainly by a perspective of development for some particular industry sectors or enterprises and by risks associated with the required collateral. On the demand side, banks recorded again a drop in the demand for loans, particularly for long-term loans, concerning both small and medium-sized corporates and large corporates as well.

Tightening of credit standards also affected loans to households, particularly because of the expectations regarding general economic activity, the expectations regarding course of the real estate market and creditworthiness of the consumers. Despite of this trend, however, the growth in lending to households continued and banks expect growing demand for loans.

Note to the presentation of the aggregated data:

If not otherwise stated, data in text or charts are given in the so called **net percentage share (hereinafter NPS)**. For example, the net percentage share of banks that eased their credit standards for households' loans is calculated as the difference between the percentage market share of banks, which reported easing of their credit standards on the total loans, and the percentage market share of banks, which reported tightening of their credit standards on the total loans. Said differently, individual answers of banks are weighted by the average volume of loans of the respective type for the second half of 2009. 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“.

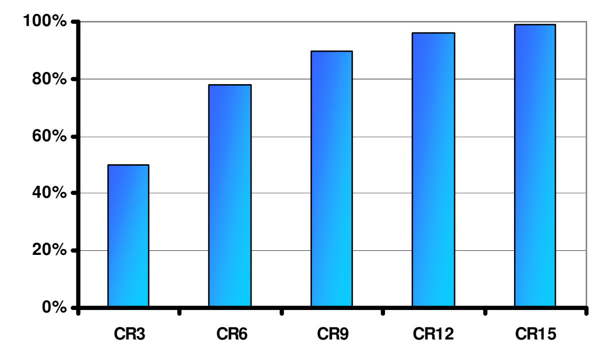
Results of the survey are presented in an aggregate form. Report is based on views of individual banks and do not express views of the National bank of Slovakia.

Corporate loans

Situation on the market of corporate loans

The total volume of loans granted to corporates in the banking sector was EUR 17.76 billion in the second half of 2009, which means a decrease of EUR 0.78 billion (4.2%) as compared with the average value of the previous half a year. The concentration of loans in the banking sector remains largely unchanged - the share of three largest banks in the volume of corporate loans decreased slightly to 50% while the share of nine major banks rose to 90% (Chart 1).

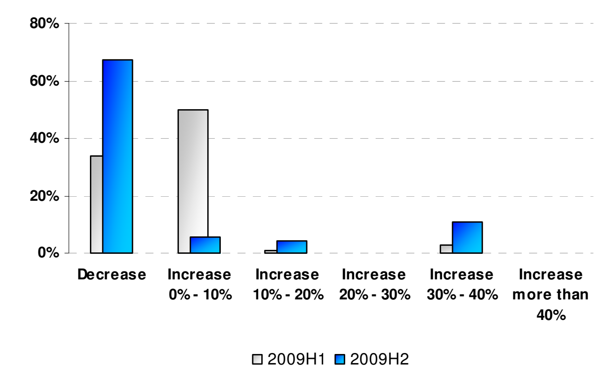
Chart 1 Concentration of the corporate loans granted in the banking sector



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

Compared to the previous half a year, the volume of loans decreased more significantly, what was seen by banks and branches of foreign banks with the total market share of 67%, while banks and branches of foreign banks with the market share of 11% recorded a considerable increase in the volume of corporate loans in the interval 30%-40% (Chart 2).

Chart 2 Distribution of corporate credit growth



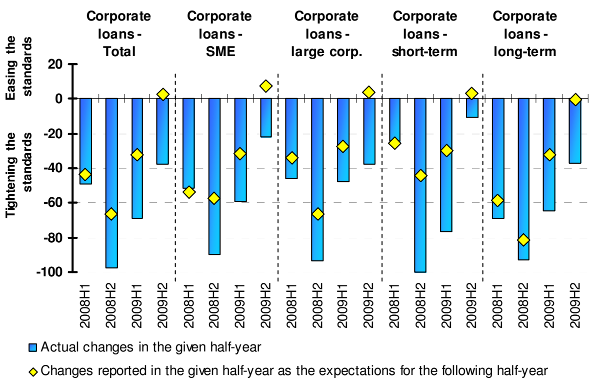
The data on horizontal axis represents changes in the volume of the corporate loans. Data on vertical axes represent the share of banks in a given column on total corporate loans.

Changes in the supply

In the second half of 2009, banks continued in the trend of tightening of the credit standards for corporate loans (Chart 3). However, this tightening was not as substantial as in the previous periods. 37.5% of banks tightened the standards (NPS) and partial easing of standards was indicated by only one bank. The majority of the banks which have tightened standards tightened them only partially. Partial tightening of standards was indicated on short-term corporate loans (17.3% share of banks) as well as on long-term corporate loans (40.1% share of banks). Standards for lending were especially tightened for loans to large corporates (39.8%), whereas in the case of loans to SME, banks with almost two thirds of market share (71.7%) recorded no significant change in the standards.

In the next period, banks do not expect further tightening of standards (indicated by 92.8% of banks). In the case of loans to SME, some banks indicated partial easing of their credit standards.

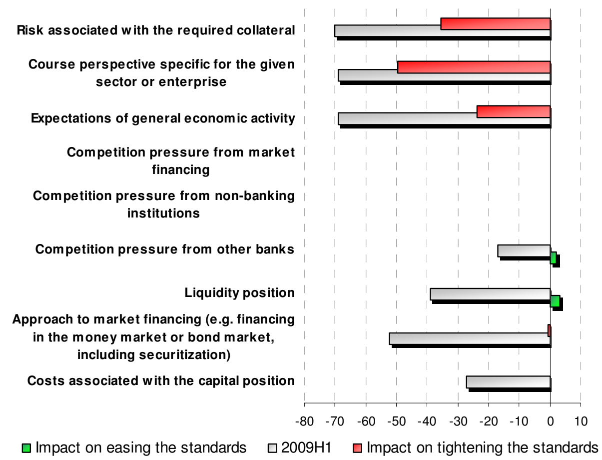
Chart 3 Changes in credit standards on corporate loans



The vertical axis represents the net percentage share of banks that eased their credit standards on loans and credit lines to enterprises.

Tightening of standards in the 2nd half of 2009 by banks was caused mainly by the persisting of unfavourable economic situation which worsened during the global financial crisis, when banks behaved more cautiously in providing financial resources. As it can be seen on Chart 4, the perspective of development specific for some particular sectors or enterprises (indicated by 49.7% of banks (NPS)), risks associated with the required collateral (mentioned by 35.5% of banks (NPS)) and expectations regarding general economic activity had the greatest impact on tightening of the credit standards. On the other hand, competition pressure from other banks as well as the liquidity position had stronger impact on the easing than on tightening of standards, when compared to the 1st half of 2009. Compared to the previous period, the impact of various factors on the change of credit standards was considerably lower.

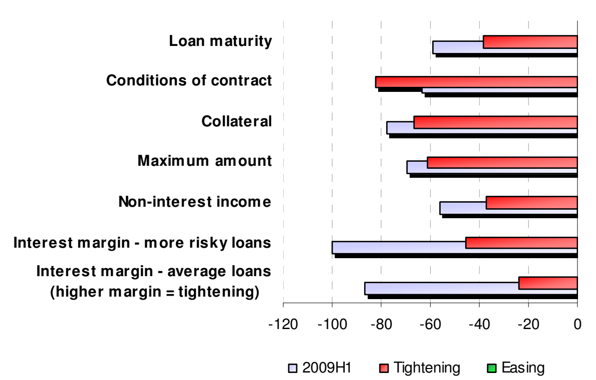
Chart 4 Factors influencing the changes in credit standards on corporate loans - Total



The horizontal axis shows the net percentage share.

Tightening of credit standards by banks was also reflected in the changes of specific terms for approving loans (Chart 5). The biggest changes were related to the changes in contract' conditions, which were as the only term tightened more than in the 1st half of 2009, compared to the other reporting categories (indicated by 82.1% of banks (NPS)). Other areas with the indicated credit standards' tightening for approving loans included: reassessment of collateral value, maximum amount and loan maturity, interest margin for loan approving and increasing of non-interest income by banks. The biggest change in increase was recorded in interest margin for more risky loans (indicated by 46.5% NPS of banks), while almost all banks indicated this increase in the previous period.

Chart 5 Changes in specific terms on corporate loans

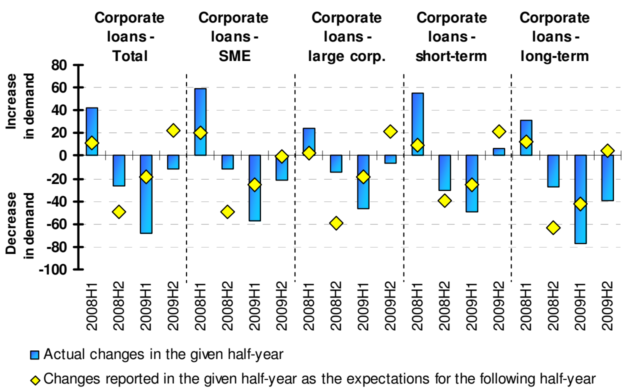


The horizontal axis shows the net percentage share.

Changes in the demand

Banks experienced a further drop in demand for loans in the second half of 2009, but much less than it was recorded in the previous reporting periods from the beginning of global financial crisis. In the case of short term corporate loans, a moderate increase in demand for this type of loans could be seen (6.2% NPS). The most notable fall in the demand was reflected in long-term corporate loans, which was reported by 39.3% NPS of banks (44.5% of banks reported a partial reduction in demand). In the next period banks expect a modest increase in the demand for corporate loans (22.3% of NPS), especially in the case of large corporate loans and short-term corporate loans, respectively.

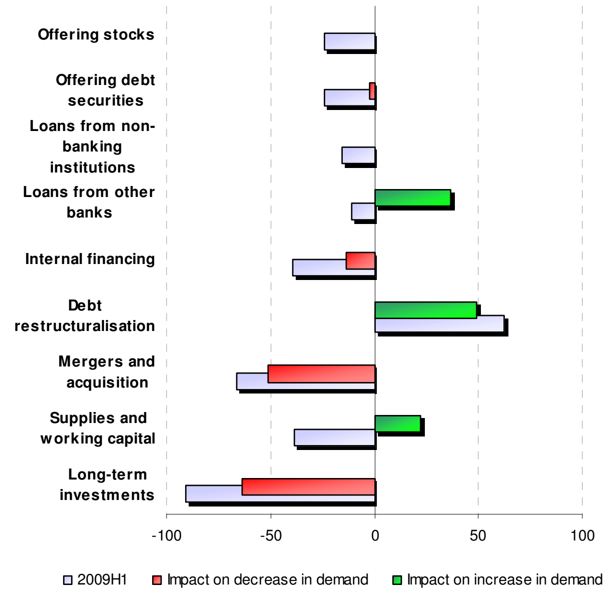
Chart 6 Changes in the demand for corporate loans



The vertical axis shows the net percentage share.

According to the interviewed banks, the most significant impact on reducing of the demand had still long-term investments, financing of mergers and acquisitions and corporate restructuring and internal financing (Chart 7), which was a trend similar to the previous reporting period. On the other hand, other factors that contributed to a growth in demand of corporate loans, were especially debt restructuring, loans from other banks and supplies and working capital.

Chart 7 Factors influencing changes in demand for corporate loans



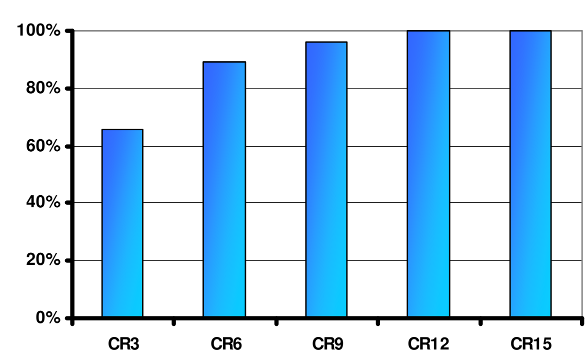
The horizontal axis shows the net percentage share.

Loans to households

Situation on the market of loans to households

The volume of loans granted to households in the second half of 2009 reached EUR 13.15 billion. Compared with the first half of 2009, this figure represents an increase of 5.2%, or EUR 0.65 billion, respectively. The share of three largest banks in the lending volume comprised 66% while the share of nine largest banks slightly increased to 96% (Chart 8).

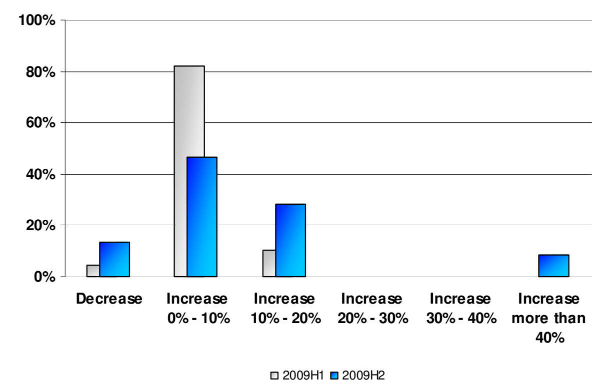
Chart 8 Concentration of the household loans granted in the banking sector



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

While the decline in the volume of lending to households has been reported by 14% of the banks interviewed, the volume of loans increased in other banks. The highest growth (up to 10% of loans volume) was noticed by 47% of banks, other 28% of banks recorded the volume increasing up to 20% and some banks more than 40%.

Chart 9 Distribution of household credit growth

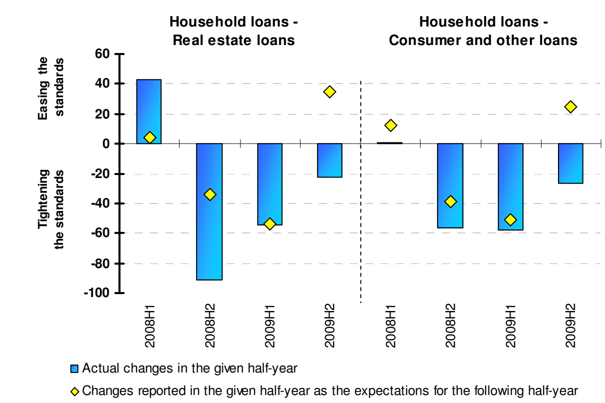


The data on horizontal axis represents changes in the volume of the household loans. Data on vertical axes represent the share of banks in a given column on total household loans.

Changes in the supply

The tightening of credit standards on household loans for real estate purchase as well as household consumer and other loans, which started in the second half of 2008, continued further. On the other hand, this credit standards tightening was to the less extent than in the previous periods. The tightening of standards related to real estate loans was reported by 22.1% of banks (NPS); and the tightening related to consumer and other loans by 26.8% of banks (NPS). It was largely a partial tightening of standards (reported by almost half of banks in the case of real estate loans whereas another quarter of banks partially eased standards in this category). Banks expected this change, but in more extent than it was showed really. For the next period, banks on the contrary expect easing of credit standards for household loans (35.1% of NPS in the case of real estate loans and 24.3% of NPS relating to the consumer and other loans).

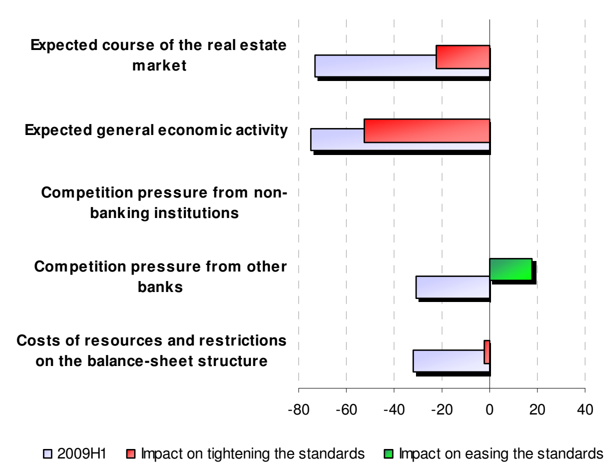
Chart 10 Changes in credit standards on household loans



The vertical axis represents the net percentage share of banks that eased their credit standards on loans to households.

The tightening of credit standards was mainly caused by the expected general economic activity (52.5% of NPS). Similarly to the previous period, it is the most important factor influencing household loans together with the course of real estate market. On the other hand, increasing of competition pressure from other banks had impact on easing of the standards (Chart 11).

Chart 11 Factors influencing the changes in credit standards on household loans - Real estate loans

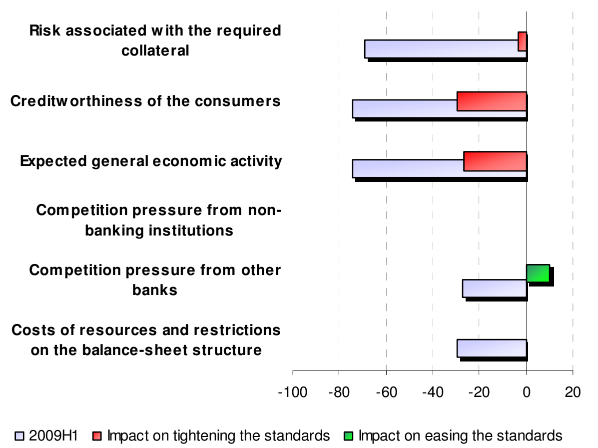


The horizontal axis shows the net percentage share.

Regarding the consumer and other loans to households, the tightening of standards was together with the above-mentioned factor of expected general economic activity mainly influenced by the creditworthiness of consumers (29.5% NPS of banks) and to a low extent by the risk associated with the required collateral.

Similarly as in the case of real estate loans, competition pressure from other banks had impact on the credit standards easing also in consumer and other loans in the second half of 2009 (Chart 12).

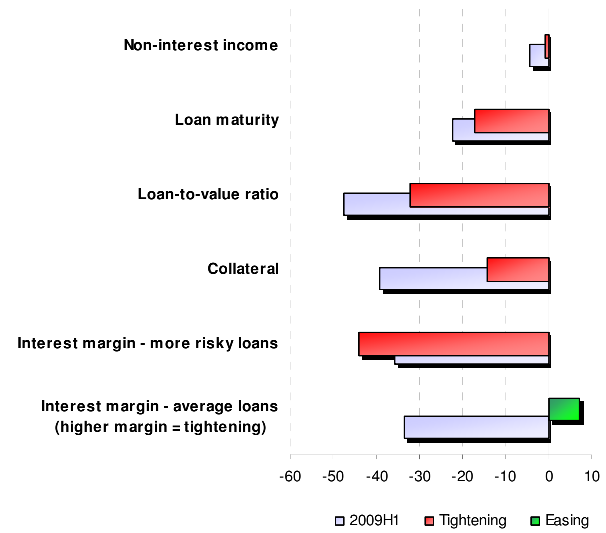
Chart 12 Factors influencing the changes in credit standards on household loans - Consumer and other loans



The horizontal axis shows the net percentage share.

Similarly to corporate loans, tightening of credit standards on household loans was reflected in the specific conditions of credit assessment. Regarding to real estate loans (Chart 13), the tightening of standards mainly concerned the interest margin for more risky loans (44% NPS of banks) as well as the loan-to-value ratio (32.4% NPS of banks). Other significant effects of changes in the conditions included change in the maturity of loans and change in collateral value. Compared to the previous half a year, these changes were indicated by lower share of banks, except interest margin in more risky loans. On the other hand, the easing of credit standard had an impact mainly on a lower margin in average loans.

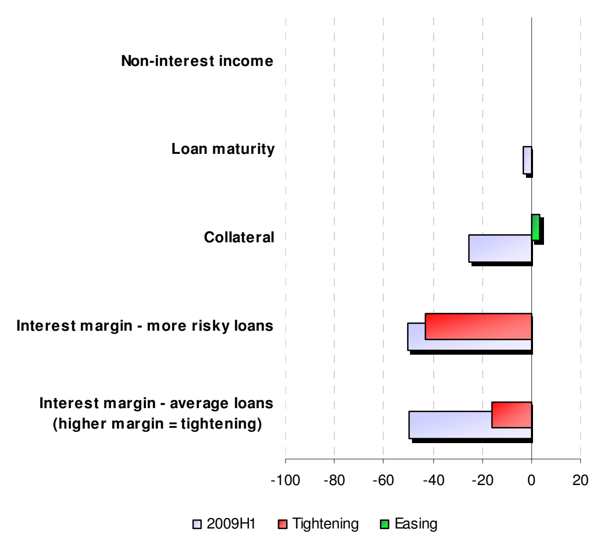
Chart 13 Changes in specific terms on household loans - real estate loans



The horizontal axis shows the net percentage share.

Regarding terms for consumer and other loans (Chart 14), the biggest changes related to the banks' margins, which increased in both riskier (43% NPS) as well as average loans (15.7% NPS), similarly to the previous half a year. On the other hand, the value of a required collateral slightly decreased, as opposed to the first half of 2009.

Chart 14 Changes in specific terms on household loans - consumer and other loans

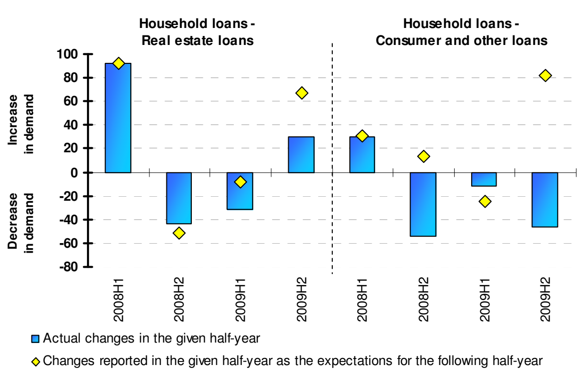


The horizontal axis shows the net percentage share.

Changes in the demand

The better situation in the real estate market had an impact on the demand side of the market of real estate loans in the second half of 2009, when banks after one and half a year experienced an increase in demand (mentioned 30.2% NPS of banks) on given type of loans from households (Chart 15). Real demand exceeded banks' previous expectations, which had assumed a moderate decline of demand of real estate loans before. In the next half a year banks expect partial increasing of demand on real estate loans (67.5% NPS of banks). What is related to consumer and other loans, the demand for these type of loans again decreased (higher decreasing than in banks' previous expectations), while in the next period banks expect rather opposite trend, i.e. an increase of demand from households for given type of loans (mentioned by 82.2% NPS of banks).

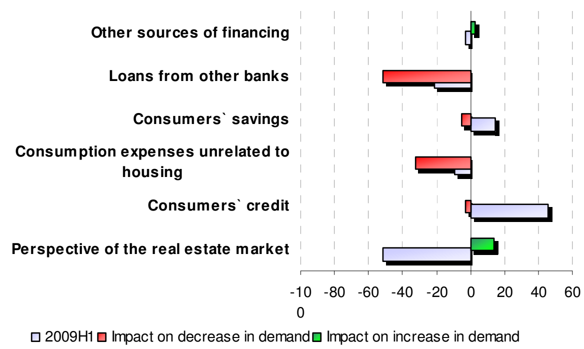
Chart 15 Changes in the demand for household loans



The vertical axis shows the net percentage share.

Perspective of the real estate market and using of other sources of financing had the biggest impact on the increasing of demand for real estate loans (mentioned by 13.9% NPS of banks), while conversely, loans from other banks and consumer expenses unrelated to housing affected the demand negatively (Chart 16).

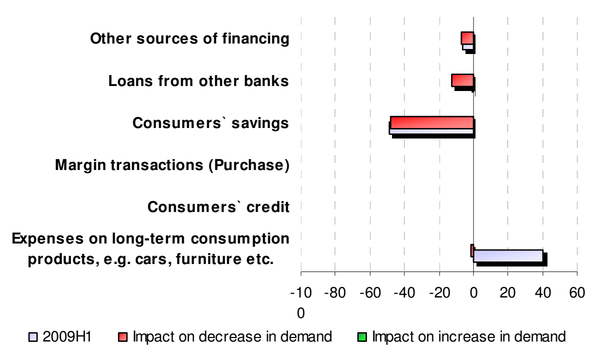
Chart 16 Factors influencing changes in demand for household loans - real estate loans



The horizontal axis shows the net percentage share.

The demand for consumer and other loans was influenced negatively, similarly as it was in the firs half of 2009, mainly by deterioration of consumers' savings (Chart 17), as well as by granting loans from other banks and using of other sources of financing by households.

Chart 17 Factors influencing changes in demand for household loans - consumer and other loans



The horizontal axis shows the net percentage share.