NÁRODNÁ BANKA SLOVENSKA

Survey on Supply and Demand on Lending Market

June 2010

Summary

14 banks and 3 branches of foreign banks took part in the lending survey, conducted by the National Bank of Slovakia in the July 2010. The volume of loans granted by these banks and branches of foreign banks comprised EUR 30.15 billion as of June 30, 2010, or 93.36% of the total volume of clients' loans in the banking sector, respectively.

The volume of corporate loans in the 1st half of 2010 recorded only a slight decrease by 0.7 %. After a long time, banks eased their credit standards for both small and medium enterprises and large corporates loans and for both short term and long term loans. The easing of credit standards was caused mainly by banks' liquidity position and by competition from other banks. Banks recorded a slight recovery in demand for loans by corporates, especially in the case of loans to large corporates, while the decline in demand was particularly seen for long-term corporate loans.

In the first half of 2010, volume of loans to households rose slightly, by 2.7%, while banks eased their credit standards on real estate loans and consumer loans. This was mainly caused by the expected course of the real estate market and by competition pressure from other banks. In the next period, banks expect a further increase in demand for loans to households.

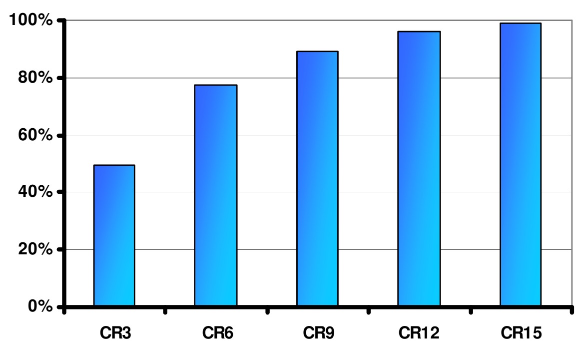
Note to the presentation of the aggregated data:
If not otherwise stated, data in text or charts are given in **net percentage share (hereinafter NPS)**. For example, the net percentage share of banks that eased their credit standards is calculated as the difference between the percentage market share 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 for the first half of 2010. 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 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 granted corporate loans in the banking sector was EUR 17.64 billion in the first half of 2010, which means a decrease of EUR 0.12 billion (0.7%) as compared with the average value of the previous half 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 to 49% and the share of 9 major banks fell to 89% (Chart 1).

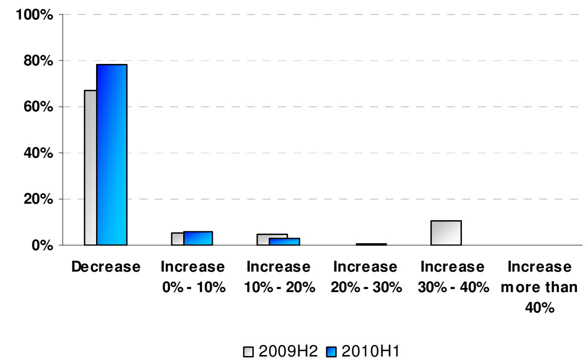
Chart 1 Concentration of the corporate loans granted in the banking sector



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 with the previous half year, the decline in the volume of loans was more pronounced and it was experienced by banks and branches of foreign banks with a total market share of 78%, while a slight increase in the volume of corporate loans (up to 10%) was recorded by banks with a share of 6%, and increase of the volume of corporate loans by 20% was recorded by 3% of the banks surveyed (Chart 2).

Chart 2 Distribution of corporate credit growth in the first 6 months of the year 2010



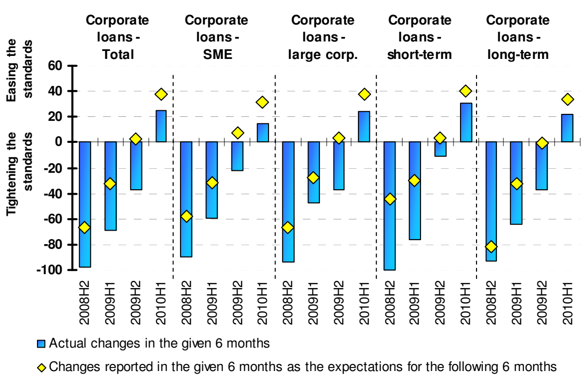
The data on horizontal axis represents changes in the volume of the corporate loans. Data on vertical axes represent the share of banks in a given column on total corporate loans.

Changes in the supply

Unlike in the previous reporting periods, banks eased credit standards on corporate loans in the first half of 2010 which was for the first time since the outbreak of the global financial crisis (see Chart 3). Credit standards were eased by 24.7% of banks (NPS), while the majority of banks (more than two thirds) reported no major change in their credit standards. Partial easing of standards was related to banks' loans to SMEs (reported by 21% of banks) as well as loans to large corporates (24.7% of banks). Easing of standards was reported for both short-term loans (30.6% of banks) and long-term corporate loans (21.7% of banks).

During the period under review, banks eased their credit standards to a greater extent than originally expected, while in the subsequent period they expect further easing of credit standards (mentioned by 37.5% banks (NPS)) for both SME and large corporates, either short term or long term.

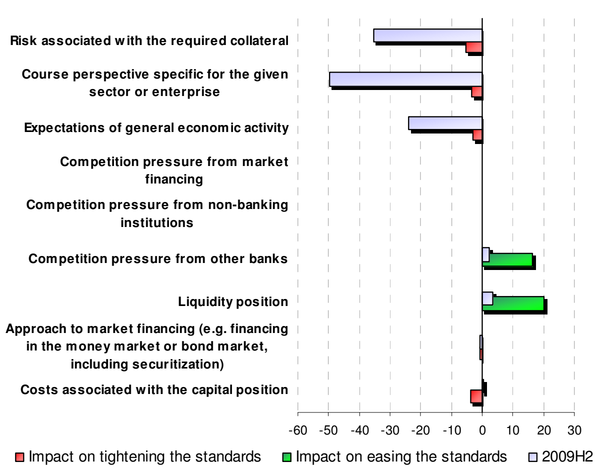
Chart 3 Changes in credit standards on corporate loans



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

As it could be seen on Chart 4, the easing of credit standards was mainly affected by the liquidity position of banks (mentioned by 20.2% of banks (NPS)) and competition pressure from other banks (16.4% banks (NPS)) in the first half of 2010. On the other hand, a tightening of the standards in some banks was caused mainly by particular risks associated with the required collateral and costs associated with the bank's capital position. Other factors that influenced the partial tightening of the standards in some banks were the course perspective specific for the given sector or an enterprise and expectations regarding the general economic activity. Compared to the previous period, however, factors affecting the tightening of standards had significantly lower impact.

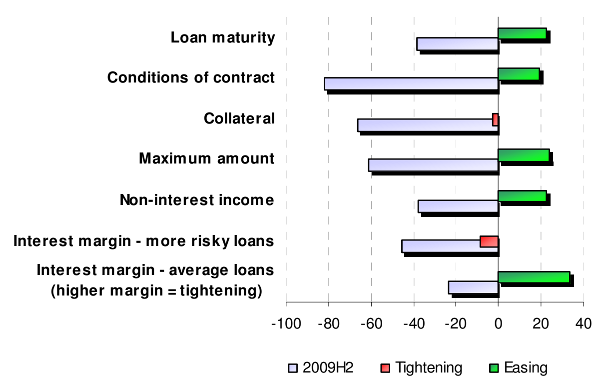
Chart 4 Factors influencing the changes in credit standards on corporate loans - Total



The horizontal axis shows the net percentage share.

Easing of credit standards banks was reflected in changes of terms for approving loans (see Chart 5). The biggest changes related to changes in banks' interest margins (indicated by 33.5% of banks - NPS). Changes in the amount of the loan or line of credit (23.5% of NPS), changes in non-interest income (22.2% of NPS), maturity of the loan (22.2% of NPS) and the contractual terms of the loan (19.5% of NPS) had a similar impact. All the conditions mentioned were tightened in the previous period, as opposed to the 1st half of 2010. Partial tightening of credit standards during the observed period resulted in an increase in bank margins of more risky loans and the value of the required collateral.

Chart 5 Changes in specific terms on corporate loans

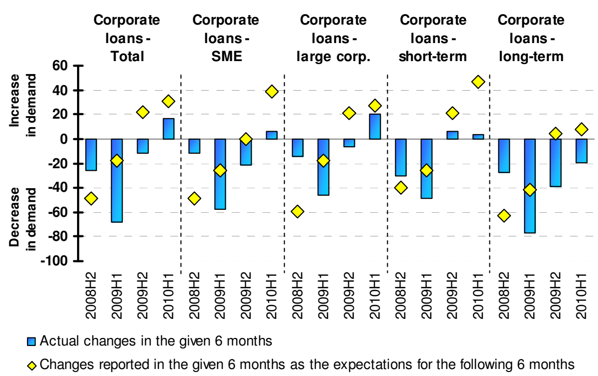


The horizontal axis shows the net percentage share.

Changes in the demand

Banks in the first half of 2010 recorded a slight revival in the corporate loans demand (17% NPS of banks), compared to the previous reporting periods from the beginning of the financial crisis. Increase of the corporate loans demand was related to mainly loans to large corporates (20.3% NPS), in less extent to the loans provided to small and medium enterprises (6% NPS) and short term loans. Drop in the demand was noticed in long term corporate loans only, similarly to the previous periods. But this fall was recorded in less extent, where partial decrease of demand (25.4%) was recorded in 19.8% NPS of banks. Banks' expectations, expressed in the previous half a year, were confirmed by a real increase in demand of corporate loans in 1st half of 2010. In the next period, banks expect rather increase of corporate loans demand (30.9% NPS), related mainly to small and medium enterprises loans or short term loans.

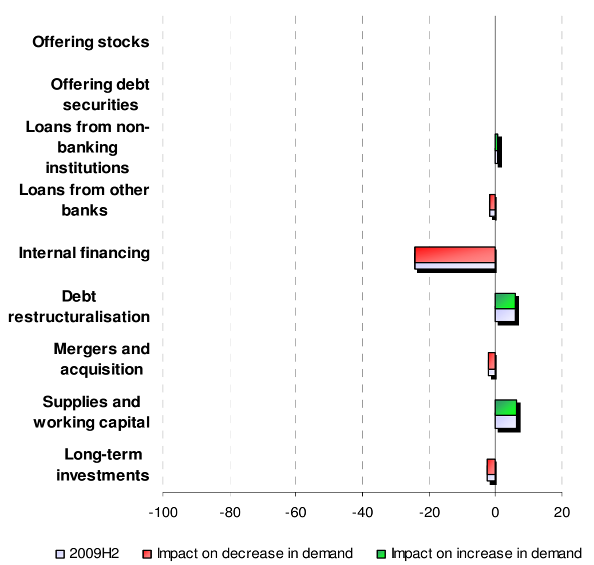
Chart 6 Changes in the demand for corporate loans



The vertical axis shows the net percentage share.

Changes in internal financing had the biggest impact on the fall in demand, as it was indicated by banks under review (see Chart 7, mentioned by 24.4% NPS of banks). Mergers and acquisitions and restructuralisation of enterprises as well as long term investments had only minimal impact, compare to the previous half a year. On the other hand, factors that contributed partially to the increase of demand included mainly supplies and working capital (6.5% NPS) and debt restructuralisation (6.0% NPS).

Chart 7 Factors influencing changes in demand for corporate loans



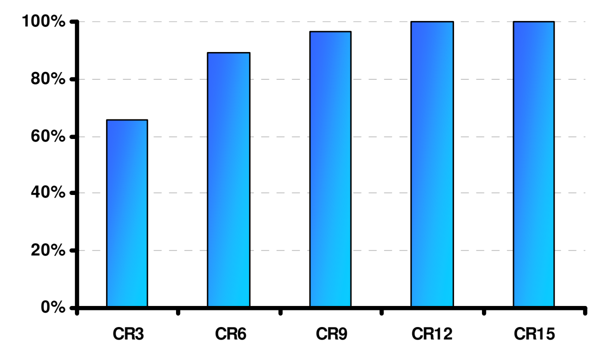
The horizontal axis shows the net percentage share.

Loans to households

Situation on the market of loans to households

The volume of loans granted to households reached EUR 13.50 billion in the first half of 2010. Compared with the second half of 2009, this figure represents a moderate increase of 2.7%, or EUR 0.36 billion, respectively. The share of largest banks in the lending volume stayed unchanged compared to the previous half a year, when the share of three largest banks constituted 66% and the share of nine largest banks 96% (see Chart 8).

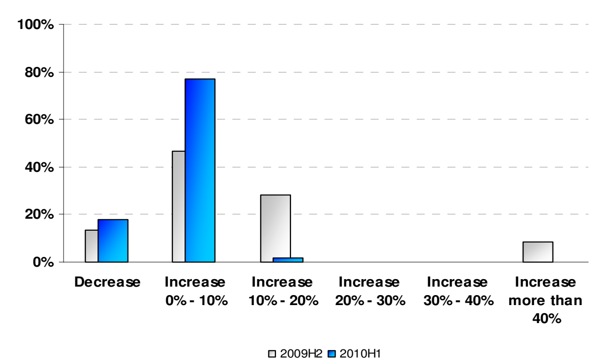
Chart 8 Concentration of the household loans granted in the banking sector



CR*k* index indicates 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 noticed in 18% of banks under review, the volume of loans increased in other banks. Banks with the market share of 77% recorded the increase of volume of lending up to 10% and other 2% of banks noticed increase of volume of lending up to 20%.

Chart 9 Distribution of household credit growth in the first 6 months of the year 2010

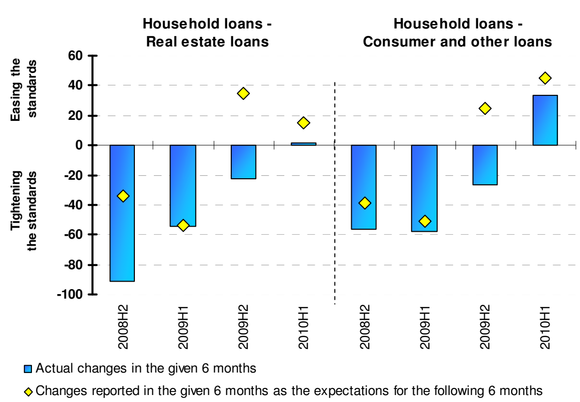


The data on horizontal axis represents changes in the volume of the household loans. Data on vertical axes represents the share of banks in a given column on total household loans.

Changes in the supply

Regarding loans to households, credit standards were eased by banks for the first time from the beginning of the worldwide financial crisis, in particular in the case of consumer and other loans (33.5% of NPS). While 96% of banks did not mention any significant change related to credit standards on real estate loans, 33% of banks indicated partial easing of credit standards on consumer and other loans. Banks expected this change in credit standards, but in more extent in the case of real estate loans than it was showed really. In the next period, banks again expect further easing of credit standards on loans to households (15.2% of NPS in the case of real estate loans and 44.7% of NPS in consumer and other loans).

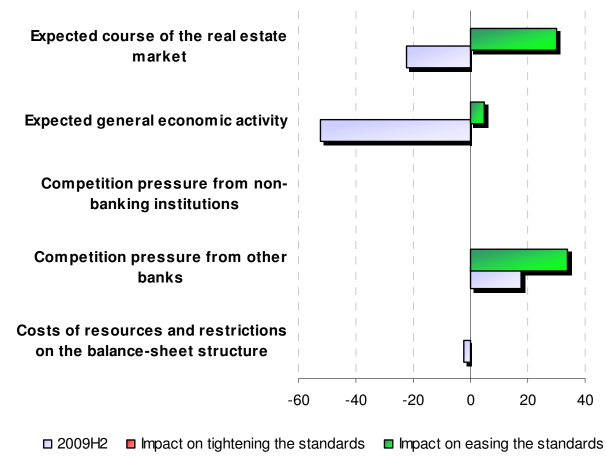
Chart 10 Changes in credit standards on household loans



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

In the case of real estate loans an increasing of competition pressure from other banks (33.7% of NPS), other expected course of the real estate market (30.2% of NPS) and partially expected general economic activity (see Charter 11) had the most significant influence on the credit standards easing.

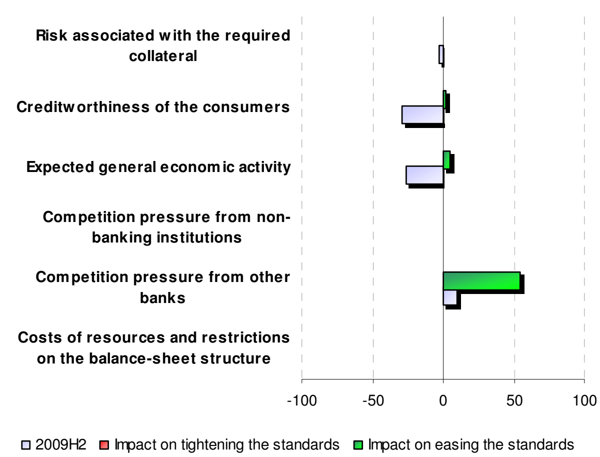
Chart 11 Factors influencing the changes in credit standards on household loans - Real estate loans



The horizontal axis shows the net percentage share.

Apart from the above mentioned major factor of competition pressure from other banks (54.5% of NPS), the easing of credit standards on consumer and other loans to households was partially influenced by expected general economic activity as well as the creditworthiness of the consumers (see Chart 12).

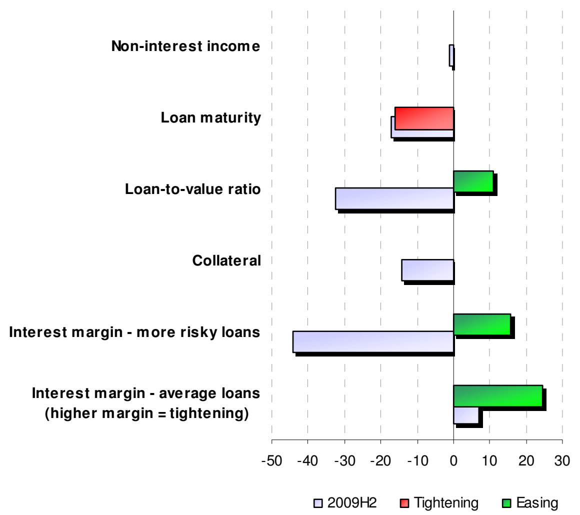
Chart 12 Factors influencing the changes in credit standards on household loans - Consumer and other loans



The horizontal axis shows the net percentage share.

Easing of credit standards was reflected in the change of specific conditions of credit granting. Regarding the real estate loans (see Chart 13), easing of standards was mainly influenced by interest margin setting – for more risky loans (mentioned by 24.4% of banks – NPS) as well as for average loans (15.8% of NPS) and in the values of loan-to-value ratio (10.9% of NPS of banks). On the other hand, tightening of the standards was reflected by shortening of the maximal loan maturity (indicated by 15.9% of NPS of banks). This change was comparable with the previous half a year, as opposed to other above mentioned factors.

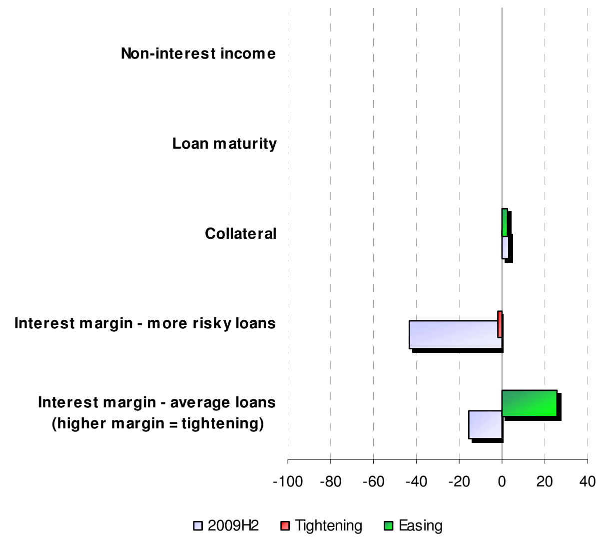
Chart 13 Changes in specific terms on household loans - real estate loans



The horizontal axis shows the net percentage share.

Regarding terms of consumer and other loans (see Chart 14), the biggest changes related to banks' margins, similarly to the previous half a year. The easing of credit standards was reflected mainly by a decrease of interest margin on average loans (26.1% of NPS). On the other hand, interest margin on more risky loans increased only slightly (2% of NPS), as opposed to the second half on 2009.

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

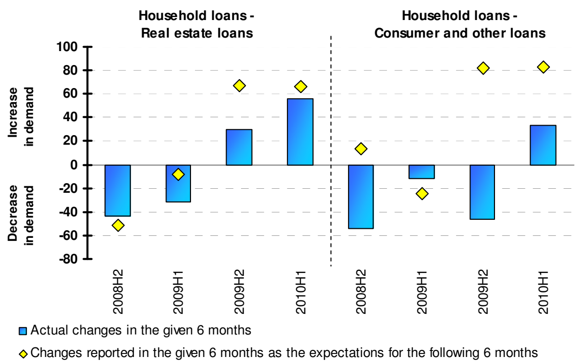


The horizontal axis shows the net percentage share.

Changes in the demand

Revival of the housing market had an impact on the demand site of the market of real estate loans even in the 1st half of 2010 (mentioned by the 56% of NPS of banks). It concerned not only a partial increase of demand (mentioned by 5 banks), but also a significant increase of demand on the given type of households loans (see Chart 15). Real demand on the real estate loans was closed to banks' expectations, which anticipated this increase. In the next half a year, banks expect again an increase of demand on real estate loans, comparable to the 1st half of 2010 (66.5% of NPS of banks). Unlike in the previous observations, an increase of demand consumer and other loans can be seen (although smaller than banks originally expected). In the next period, banks expect similar trend, i.e. continuing increase of household demand for this type of loans (indicated by 83% of banks – NPS).

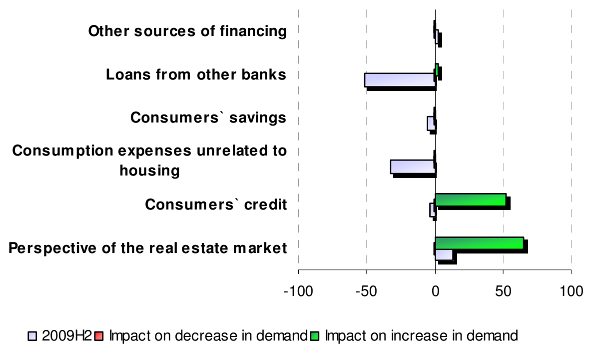
Chart 15 Changes in the demand for household loans



The vertical axis shows the net percentage share.

Perspective of the real estate market (indicated by 65% of NPS of banks) as well as the consumers' credit (52.7% of banks - NPS) had the biggest impact on the increase of demand on real estate loans (see Chart 16).

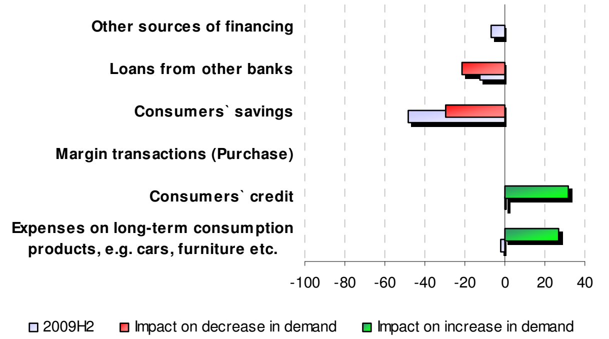
Chart 16 Factors influencing changes in demand for household loans - real estate loans



The horizontal axis shows the net percentage share.

Diminishing of the consumers' savings (29.9% of NPS of banks, see Chart 17) as well as the granting of loans from other banks had an impact on the decrease of demand on consumer and other loans, in particular, similarly to the 2nd half of 2009. On the other hand, demand was positively influenced by the consumers' confidence (31.7% of NPS) and expenses on long-term consumption needs.

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



The horizontal axis shows the net percentage share.