



NÁRODNÁ BANKA SLOVENSKA

Survey on Supply and Demand on Lending Market

December 2010

Summary

Fourteen banks and 4 branches of foreign banks took part in the lending survey, conducted by the National Bank of Slovakia in December 2010. The volume of loans granted by these banks and branches of foreign banks comprised EUR 32.4 billion as of December 31, 2010 corresponding to 96.5% of the total volume of clients' loans in the banking sector.

The volume of corporate loans in the 2nd half of 2010 recorded only a slight increase, while banks have partially tightened their credit standards for both small and medium enterprises and large corporate loans, and this change was related to both short term and long term loans. Banks' liquidity position and risks associated with the required collateral had the most significant impact on the credit standards partially tightening. Banks repeatedly recorded a slight recovery in demand for loans by corporates, in the case of loans to small and medium enterprises (hereinafter SME) as well as to large corporates, while the decline in demand was particularly seen for long-term corporate loans.

In the second half of 2010, the volume of loans to households rose by 9.3%, while banks eased their credit standards on real estate loans as well as on consumer loans. This was mainly caused by the competition pressure from other banks. In the next period, banks expect a further partial 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 second 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“.

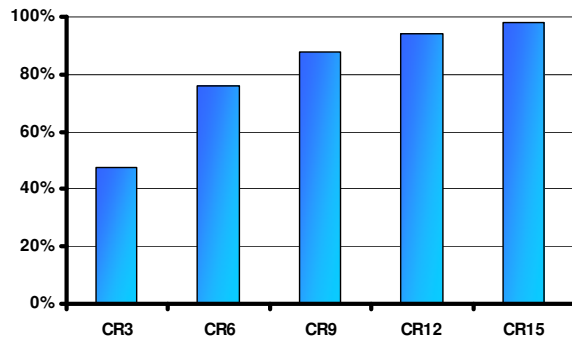
Results of survey are presented in an aggregate form. Report is based on views of individual banks and do not express views of the National bank of Slovakia.

Corporate loans

Situation on the market of corporate loans

The total volume of granted corporate loans in the banking sector was EUR 17.65 billion in the second half of 2010, which means only a minimal increase of EUR 2.85 million (0.02%) as compared with the average value of the previous half year. The concentration of loans in the banking sector remains largely unchanged compared to the previous observed period but there was a slight decline in the share: the share of three largest banks in the volume of corporate loans decreased to 48%, and the share of 9 major banks fell to 88% (Chart 1).

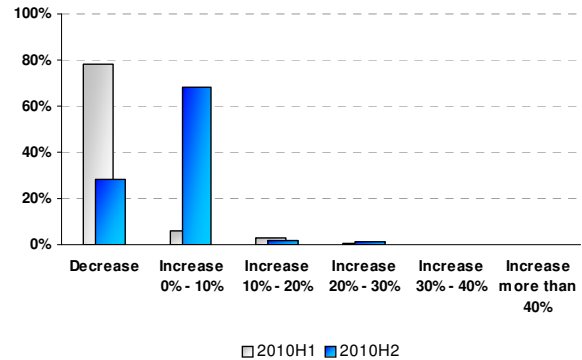
Chart 1 Concentration of the corporate loans granted in the banking sector



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.

A slight increase in the volume of corporate loans (up to 10%), which was recorded by banks and branches of foreign banks with a market share of 68%, is a positive change against to the previous half a year. A decrease of the volume of corporate loans was recorded by 28% of the banks surveyed in comparison to the share 78% of banks as of June 2010 (Chart 2).

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



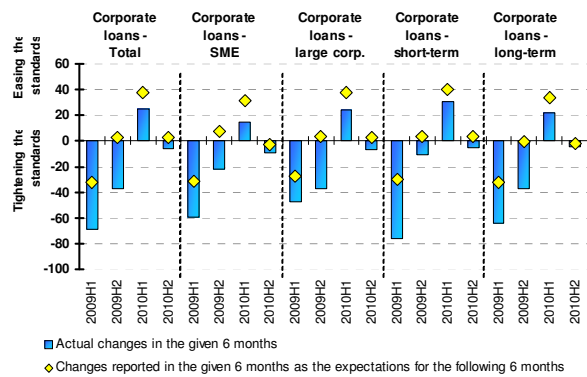
The data on horizontal axis represents changes in the volume of the corporate loans. Data on vertical axes represent the share of banks in a given column on total corporate loans.

Changes in the supply

An easing of credit standards on corporate loans recorded in the first half of 2010 did not have a continuing trend in the second half of 2010, where the banks partially tightened their credit standards in total (6% of banks (NPS)). The majority of banks (88.8%) reported no major change in their credit standards, while a partial tightening was recorded by 8.6% of banks (Chart 3). The banks and branches of foreign banks stated partial tightening of standards in loans to SMEs (reported by 8.7% of banks) as well as in loans to large corporates (9.3% of banks). Tightening of standards was reported for both short-term loans (8.5% of banks) and long-term corporate loans (8.4% of banks).

Initial expectations of banks aimed to credit standards easing were not confirmed by reported values as of December 2010. In the following period banks do not expect any significant change of standards (mentioned by 97.4% of banks), while banks with 2.6% of NPS expect moderate easing of credit standards, especially related to short-term loans to large corporates.

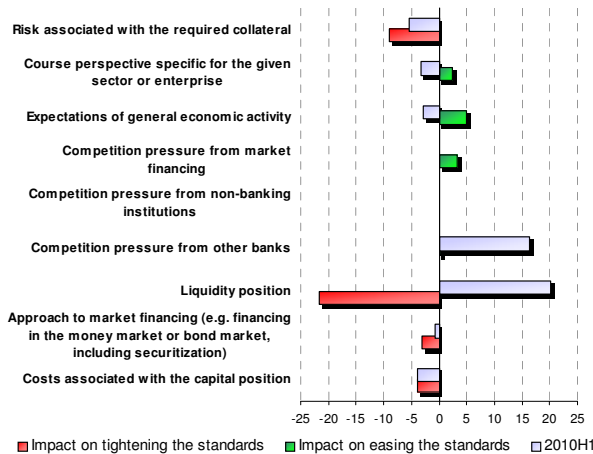
Chart 3 Changes in credit standards on corporate loans



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 in Chart 4, the moderate easing of credit standards in the second half of 2010 was mainly affected by the expectations of general economic activity (mentioned by 5% of banks (NPS)) as well as the competition pressure from market financing and course perspective specific for the given sector or enterprise. On the other hand, a tightening of the standards was caused mainly by liquidity position (mentioned by 21.6% of banks (NPS)) and risks associated with the required collateral (reported by 8.9% of banks (NPS)). Other factors that influenced the partial tightening of the standards in some banks were the costs associated with the capital position and banks' approach to market financing. Compared to the previous period, factors affecting the tightening of standards had significantly higher impact.

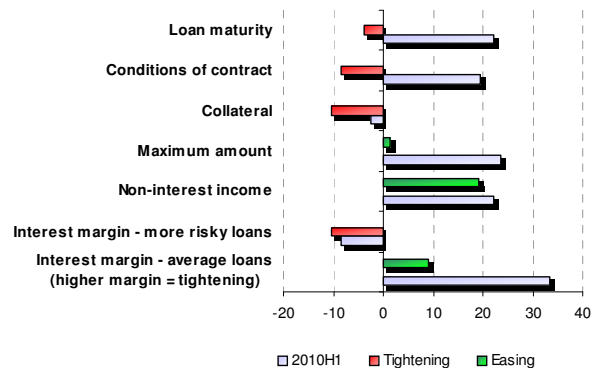
Chart 4 Factors influencing the changes in credit standards on corporate loans - Total



The horizontal axis shows the net percentage share.

Chart 5 shows particular changes in corporate loans granting terms, which had influence on tightening and in some cases on easing of credit standards. The factors with the main impact on credit standards tightening were: changes in required collateral (mentioned by 10.4% of banks – NPS), changes in interest margins on more risky loans (10.4% NPS), and changes related to conditions of contracts (indicated by 8.6% of banks - NPS). Credit standards easing in some banks were influenced mainly by the non-interest income change (19.3% of NPS) and interest margin on average loans (9.1% of NPS).

Chart 5 Changes in specific terms on corporate loans



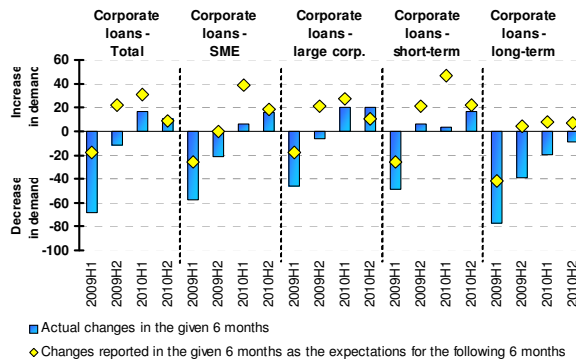
The horizontal axis shows the net percentage share.

Changes in the demand

Even in the second half of 2010 banks recorded a slight revival in the corporate loans demand, which was noticed for the first time since the beginning of the financial crisis in the previous half a year (10.1% NPS of banks). The increase of the corporate loans demand was related to the loans to large corporates (20.4% NPS) as well as to the loans provided to small and medium enterprises (15.4% NPS) and from the time point of view to short-term loans (16.8% NPS). A drop in the demand was noticed in the long term corporate loans only, similarly to the previous periods. Nevertheless this fall was recorded in less extent, where partial decrease of demand (26.2%) was recorded in 9% NPS of banks, while more than half of banks did not mention any significant change in the particular type of loans' demand. Banks' expectations

expressed in the previous half a year were confirmed by a real state of demand for the corporate loans by the end of 2010 only in the case of large corporate loans and long term corporate loans. Positive expectations of banks were not fulfilled in other cases. This result had an influence on the banks' next period prediction, where only some of banks expect a moderate increase of corporate loans demand (9.1% NPS), related mainly to the small and medium enterprises loans or short-term loans, respectively. However, majority of banks (90.9%) do not expect any significant change in corporate loans demand in next period.

Chart 6 Changes in the demand for corporate loans



The vertical axis shows the net percentage share.

Changes in granting loans from the other banks (indicated by 5.5% of banks (NPS)) and an internal financing (mentioned by 2.9% of banks – NPS) had the most remarkable impact on the fall in demand, as it was indicated by the banks under review (see Chart 7). On the other side, demand was positively influenced and increased by the following factors: debt restructurisation (30.7% of NPS), long term investments (19.5% of NPS), mergers and acquisition and supplies and working capital (16.5% of NPS).

Chart 7 Factors influencing changes in demand for corporate loans



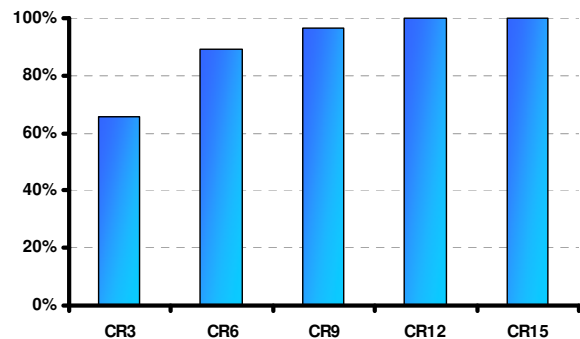
The horizontal axis shows the net percentage share.

Loans to households

Situation on the market of loans to households

The volume of loans granted to households reached EUR 14.76 billion in the second half of 2010. Compared to the first half of 2010 this figure represents an increase of 9.3% (EUR 1.26 billion). The share of largest banks in the lending volume stayed more or less unchanged compared to the previous half a year, where the share of the three largest banks slightly decreased to 65% and the share of the nine largest banks increased to 97% (see Chart 8).

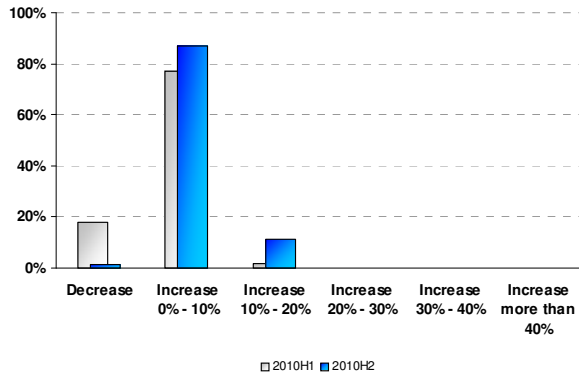
Chart 8 Concentration of the household loans granted in the banking sector



CRk 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.

Only 1% of banks under review reported decrease in the volume of household loans compared to the previous half a year, while the volume of loans increased in the majority of banks. Banks with the market share of 87% recorded the increase of volume of lending up to 10% and other 11% of banks noticed increase of volume of lending up to 20%.

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

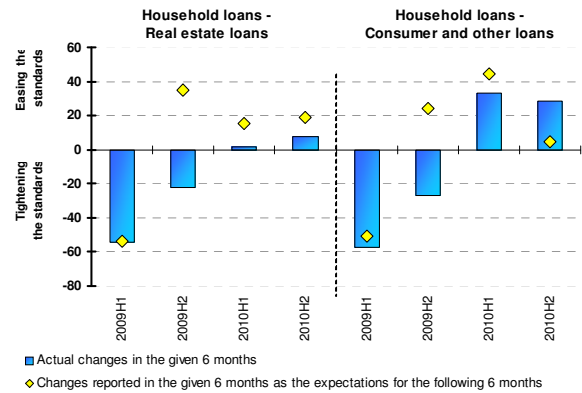


The data on horizontal axis represents changes in the volume of the household loans. Data on vertical axes represents the share of banks in a given column on total household loans.

Changes in the supply

Regarding the loans to households, partial easing of credit standards that began after the worldwide financial crisis in the previous half a year continued in the second half of 2010. It was mainly related to consumer and other loans, where 28.8% of banks (NPS) eased their credit standards. However, majority of banks did not realise any significant change in their credit standards (92% of banks in case of real estate loans and 72% in case of consumer loans). Banks' expectations related to credit standards were fulfilled, although changes had less impact. In the next period banks again expect further easing of credit standards on loans to households, more noticeable in the case of real estate loans (19% of NPS) as in the case of consumer and other loans (4.7% of NPS).

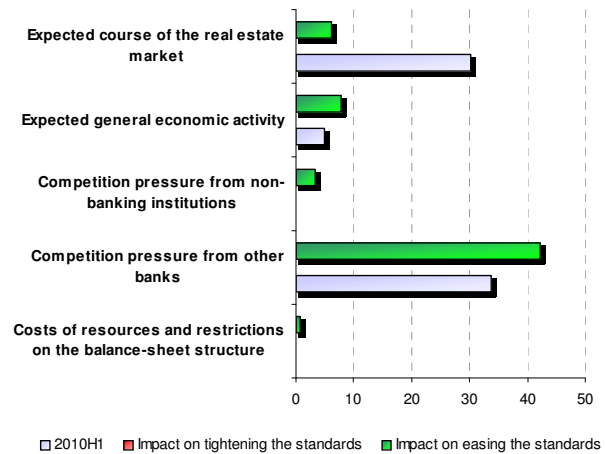
Chart 10 Changes in credit standards on household loans



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 competition pressure from other banks (42.2% of NPS) had the most significant influence on the credit standards easing, similarly to the first half of 2010. Other factors like the expected general economic activity, the further expected course of the real estate market and the competition pressure from non-banking institutions had the moderate influence (see Charter 11).

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

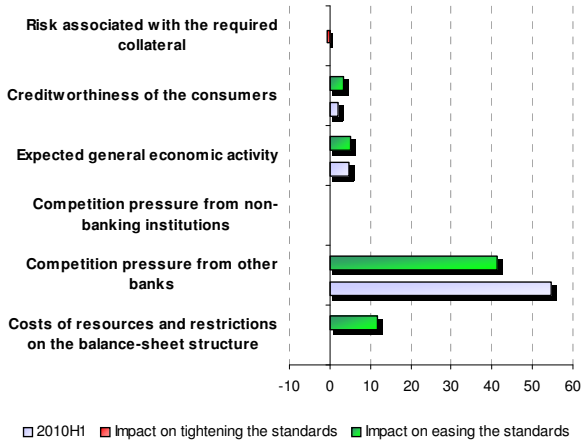


The horizontal axis shows the net percentage share.

Apart from the above mentioned major factor of competition pressure from other banks (41.1% of NPS), the easing of credit standards on consumer and other loans to households was partially influenced by a cost of resources and restrictions on the balance-sheet structure,

expected general economic activity as well as the creditworthiness of the consumers (see Chart 12).

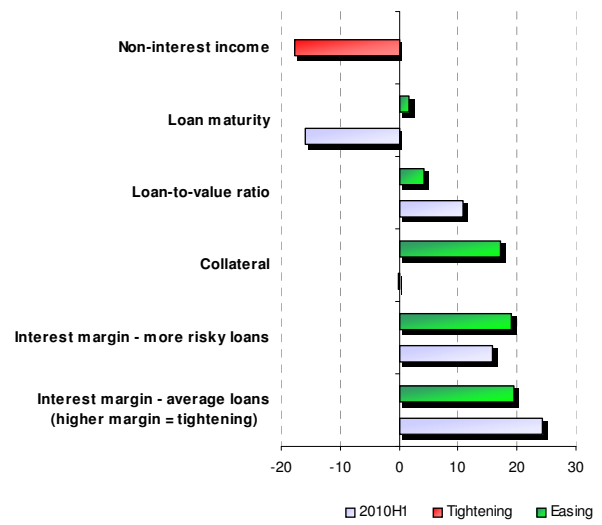
Chart 12 Factors influencing the changes in credit standards on household loans - Consumer and other loans



The horizontal axis shows the net percentage share.

Partial 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 of banks setting – for average loans (mentioned by 19.6% of banks – NPS) as well as for more risky loans (19% of NPS) and in the required collateral (17.2% of NPS of banks). On the other hand, tightening of the standards was reflected in setting of non-interest income by banks (mentioned by 17.7% of banks – NPS).

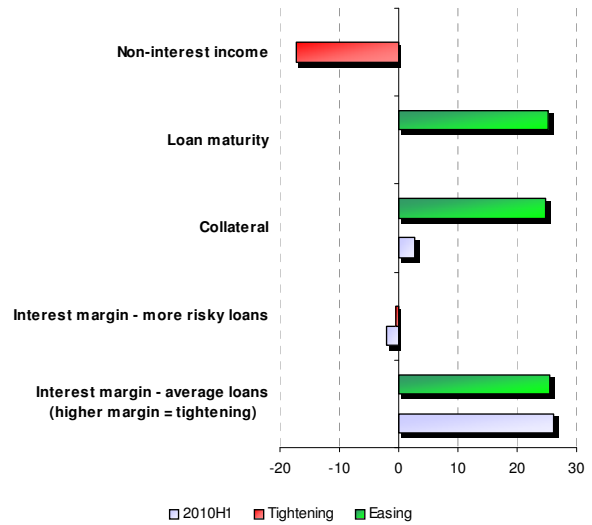
Chart 13 Changes in specific terms on household loans - real estate loans



The horizontal axis shows the net percentage share.

Regarding terms of consumer and other loans (see Chart 14), changes which led to credit standards easing, were mainly related to decreasing of banks' margins on average loans (mentioned by 25.5% of banks – NPS), required collateral (24.7% of NPS) and loan maturity (25.3% of NPS). On the contrary, increasing of non-interest income had influence on partial tightening of credit standards (17.4% of NPS).

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

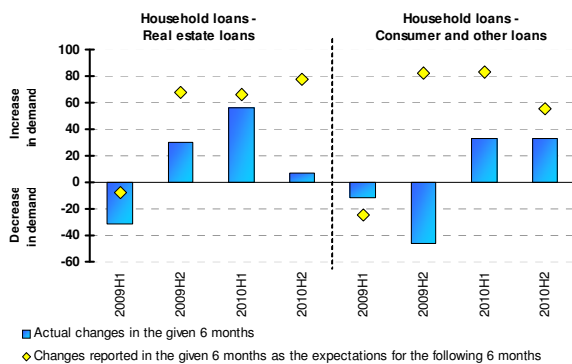


The horizontal axis shows the net percentage share.

Changes in the demand

Households' demand for real estate loans continued also in the second half of 2010, nonetheless, it was significantly lower compared to the previous half a year (mentioned by 6.7% of banks - NPS) although some banks have indicated partial increase of real estate loans demand (see Chart 15). Households' demand for the consumer and other loans continued (mentioned by 32.8% of banks – NPS). Real demand for real estate loans as well as for the consumer and other loans was different from the banks' previous expectations, when banks assumed its further significant increase. In the next half a year, banks again expect partial increase of demand on both real estate loans (78.1% of NPS of banks) and consumer and other loans (55.7% of NPS of banks).

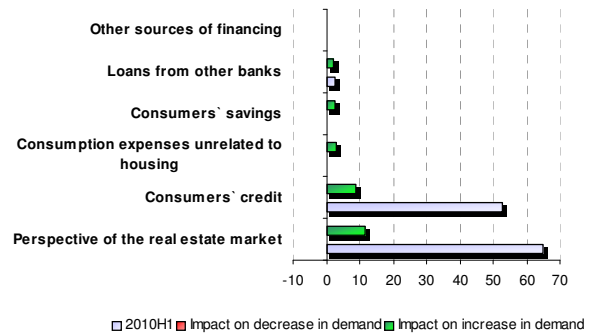
Chart 15 Changes in the demand for household loans



The vertical axis shows the net percentage share.

There was a number of factors which influenced a partial increase of demand for real estate loans, among them can be mentioned the perspective of the real estate market (indicated by 11.6% of NPS of banks) as well as the consumers' credit, which indicated 9% of banks (NPS), similarly as it was in the previous half a year (see Chart 16).

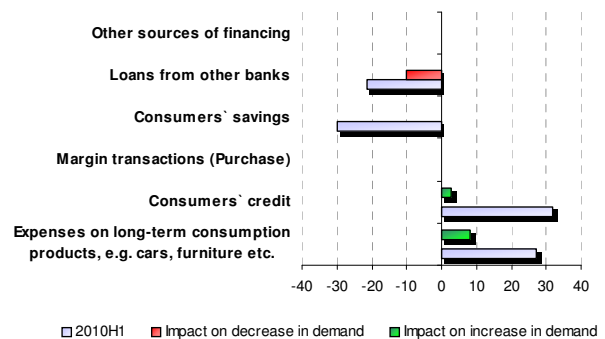
Chart 16 Factors influencing changes in demand for household loans - real estate loans



The horizontal axis shows the net percentage share.

Granting of loans from the other banks (indicated by 10% of banks - NPS) had an impact on the partial decrease of demand on the consumer and other loans, in particular. On the other hand, the demand was positively influenced by the expenses on long-term consumption products (indicated by 8% of banks – NPS) as well as increasing of consumers' confidence (2.7% of NPS).

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



The horizontal axis shows the net percentage share.