Lending Survey

Q2 2015

Lending Survey

Q2 2015 Issue 2 (14)

The lending survey is an analytical report that is compiled quarterly by the National Bank of Ukraine based on surveys of banks. The survey's objective is to enhance the understanding of the central bank and other banking sector stakeholders of credit conditions and trends. The report on the survey results, among other things, provides general estimates and forecasts of lending conditions for legal entities and households, and of the demand for borrowing.

The results presented in this report cover the assessments of the credit market in Q1 2015 and respondents' expectations for Q2 2015. In order to produce this survey, credit managers at 57 banks were contacted. Survey answers were provided by 53 banks, or 93% of those contacted. These banks account for 89% of the banking system's total assets. The survey results only reflect the opinions of the respondents and should not be regarded as NBU forecasts or estimates.

This analytical report, questionnaire data and additional information about the survey are available at the official website of the National Bank of Ukraine www.bank.gov.ua

The report presents the results of survey on credit conditions in Q1 2015 and expectations of changes in Q2 2015. The responses are presented on a consolidated basis in the balance of responses' form. The balance of responses can be interpreted as the difference between the weighted proportion of respondents reporting the "increase" of a certain indicator, and the weighted proportion of respondents reporting a "reduction" of the indicator. The balance of responses can vary within the range of ± 100. A positive balance indicates that respondents generally assess/expect the change of indicator towards the increase/strengthening compared with the previous quarter / next quarter. For more detailed explanation of methodology, please refer to the Annex to this report.

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KEY INDICATORS

- Survey findings indicate conservative expectations of responding banks as to further reduction of the loan portfolio (57% of responses concerning business entities and 68% on households). Also, the respondents do not expect improvement in loan quality (89% of responses on business entities and 76% on households).

- At the same time, most banks do not expect a decrease in deposits (70% of responses on business entities and 58% on households).

LENDING CONDITIONS

- Lending standards for business entities continued tightening for all types of loans, with the toughest standards applied to long-term and FX loans[1]. The level of approval of business entities' loan applications fell for all types of loans.

- The most significant decrease was reported for long-term and FX loans.

- Tighter lending conditions meant the higher interest rates, stricter collateral requirements and smaler loan amounts available.

- The applications approval standards for households tightened, especially for consumer loans, largely due to negative macroeconomic expectations of banks.

- In Q1 the approval rate for households loan applications fell both for mortgage and consumer loans.

- Tighter lending conditions for households were mainly driven by interest rates increase.

DEMAND

- In Q1 business entities' demand for loans increased slightly, except the demand for FX loans (which fell significantly). Over the next three months the responding banks expect increased demand for all types of loans, except for FX loans.

- The need for debt restructuring and the need to replenish working capital were the main drivers of demand in Q1. High interest rates had a restraining effect.

- The demand for mortgage and consumer loans continued to decrease through Q1.

- Weaker demand for consumer loans was largely due to the higher interest rates. Demand for mortgage loans fell due to the deterioration in consumer sentiment.

- The household demand is expected to remain at the current level over the next quarter.

RISKS

- In Q1 the banking activity risk heightened further, with credit risk and FX risk being especially elevated.

- Over the next quarter, all risks are expected to increase, with credit and interest rate risks rising at a higher pace.

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[1] Credit standards are the internal regulations and criteria governing the lending policies of banks.

I. Expectations for the next 12 months: key indicators

Figure 1. Expectations of changes in key bank indicators
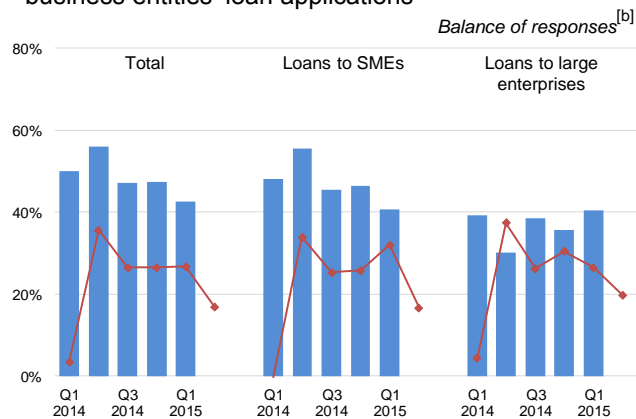
Balance of responses[1]
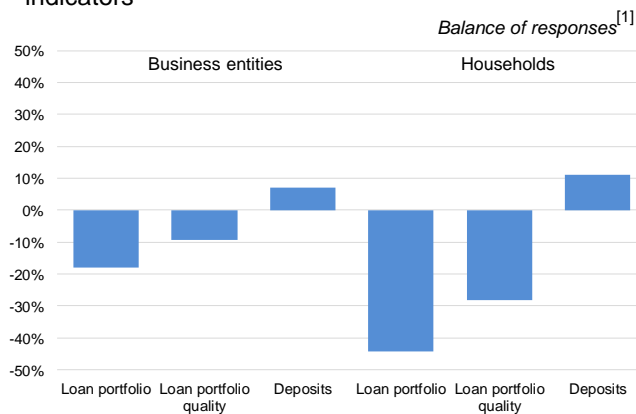
[1] The positive balance of responses indicates the expectations of the growth of the respective indicator.

The survey shows the pessimistic expectations of banks about loan portfolio quality and scope. Over the next 12 months, total loans are expected to decrease (57% of responses on business entities and 68% responses on households). Also, the respondents do not expect improvement in the loan quality (89% of responses on business entities and 76% on households).

Half of survey participants expect the growth of deposits (49% of responses on business entities and 52% on households).

II. Lending to Business Entities

Figure 2. Changes in standards of approval of business entities' loan applications [a]

Balance of responses[b]

[a] Hereinafter blue bars show the balance of responses for the previous quarter. Red line - the balance of responses of expectations for the next quarter.
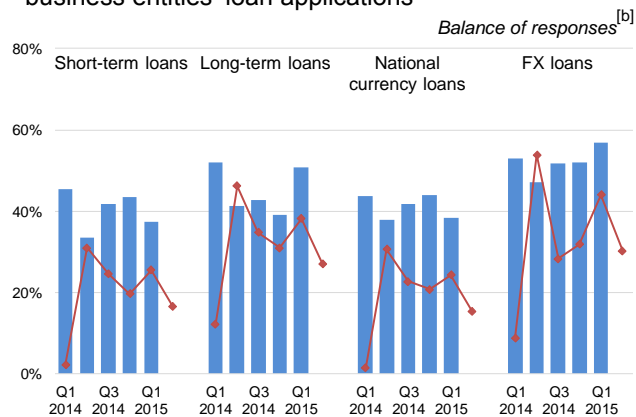
[b] The positive balance of responses indicates the harsher standards for the approval of loan applications.

Figure 3. Change of standards for approval of business entities' loan applications

Balance of responses[b]

[b] The positive balance of expectations indicates the tightening of standards for the approval of loan applications.

According to the responding banks, lending standards for business entities tightened further for all types of loans in Q1 2015, though the tightening was more moderate than in the previous quarter. The tightening was most significant for standards on long-term loans and FX loans. The standards for short-term loans and domestic currency loans were less strict (Figures 2, 3). Responding banks forecast further tightening of standards in Q2, though at a slower pace.

Survey results indicate the importance of macroeconomic factors for the change of standards for loan application approval. Thus, pessimistic expectations of banks regarding overall economic activity, inflation, exchange rate, industry development/individual enterprise had a significant negative impact on loan availability. Even such factors as competition with other banks and non-banking institutions failed to ease the standards for loan application approval (section III of the Annex to this report).
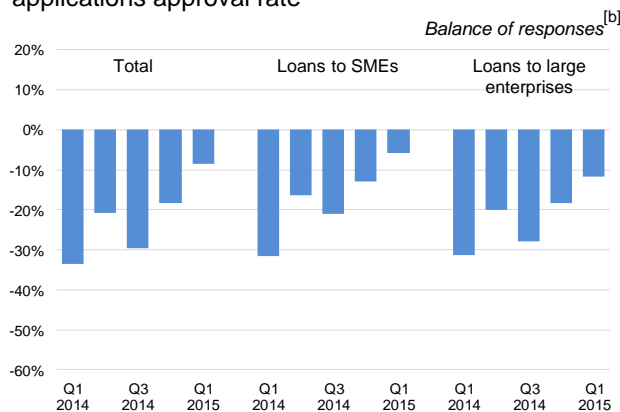
In Q1 the approval rate for business entities loan applications declined for all types of loans, extending the trend of 2014. The largest decrease was recorded for long-term loans and FX loans, the least - for loans to small and medium-sized

Figure 4. Change in business entities' loan applications approval rate

Balance of responses[b]

[b] The positive balance of expectations indicates the increased level of loan applications approval.

Figure 5. Change in business entities' loan applications approval rate

Balance of responses[b]

[b] The positive balance of expectations indicates the increased level of loan applications approval.

enterprises (SMEs), short-term loans and loans in the domestic currency (Figures 4, 5).

As in the previous quarter, respondents noted the further lending conditions tightening for all types of enterprises (large and SMEs)[2]. Higher interest rates and collateral requirements, as well as smaller loans available were among major drivers (section III of the Annex hereto).

According to the banks' assessments, business entities' demand for loans went up slightly through Q1. Demand for domestic currency loans and loans to SMEs moderately increased. At the same time, demand for FX loans has been shrinking for the fifth consecutive quarter. (Figures 6, 7).

Over the next three months, banks expect an increase in business entities' demand for all types of loans, except for FX loans.

The need for debt restructuring and the need to replenish working capital were the main drivers of demand in Q1. High interest rates on loans had a restraining effect on the increase in demand (section III of the Annex hereto).

Figure 6. Change in business entities' demand for loans

Balance of responses[b]

[b] The positive balance of responses indicates the increase in demand.

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[2] Increased rigidity of credit terms of business entities lending means the following: increased interest rates, non-interest rate payments, tightened mortgage conditions and limits imposed on the borrower under loan agreement, reduced loan (facility) amount and shorter loan maturities.
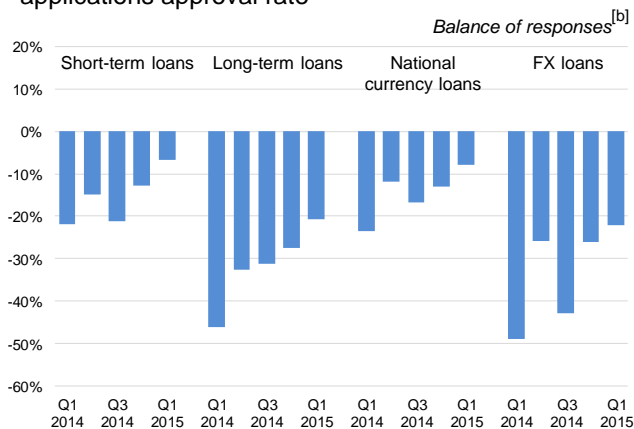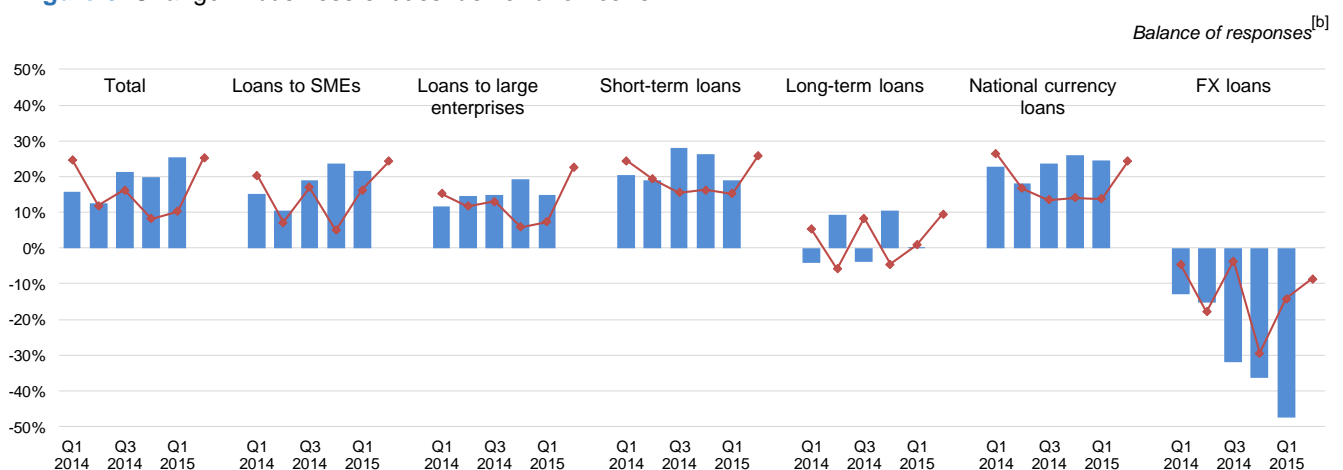
III. Lending to households

Balance of responses[b]
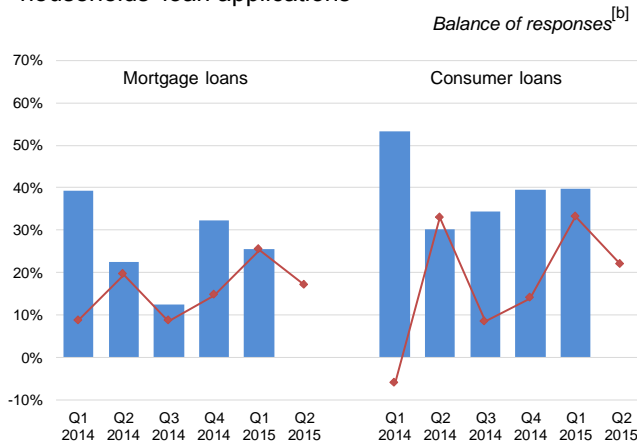
[b] The positive balance of expectations indicates the tightening of standards for the approval of loan applications.

Figure 8. Change in households' loan applications approval rate

Balance of responses[b]

[b] The positive balance of responses indicates the increased level of loan applications approval.

Figure 9. Change in households' credit demand

Balance of responses[b]
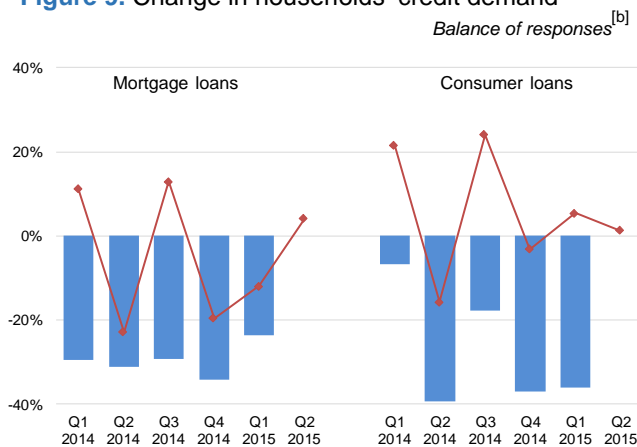
[b] The positive balance of responses indicates the increase in demand for loans.

Banks report tighter approval standards for household loan applications in Q1 2015. In general, changes in standards had a greater effect on consumer lending than on mortgage lending. Over the following three months, it is expected that tightening trend in credit standards will persist (Figure 7).

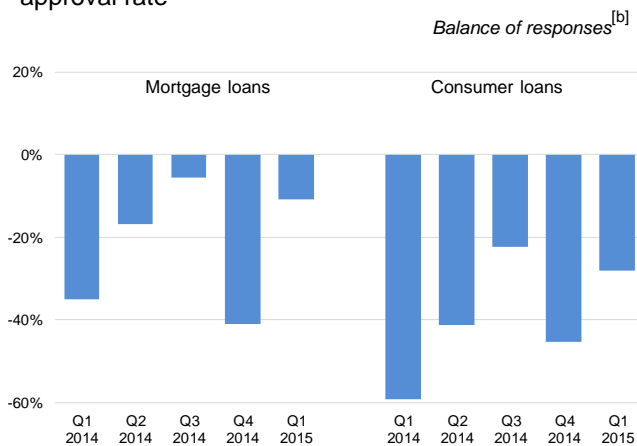Increased tightness of standards in Q1 was caused by negative banks' expectations regarding overall economic activity, solvency of consumers, inflation and exchange rate (section IV of the Annex hereto).

The responding banks have been observing a decrease in loan applications approval rate for the second year in a row. The largest reduction was observed for consumer loans (Figure 8).

According to the survey, tighter conditions of lending to households are related to the raised interest rates. However, there was a further reduction in amounts of consumer loans extended.

The respondents report that in Q1 the demand for both mortgage and consumer loans continued to fall. The demand is expected to remain at the current level over the next quarter (Figure 9).

Weaker demand for consumer loans in Q1 was largely due to the higher interest rates. Demand for mortgage loans decreased due to deterioration of consumer sentiment (uncertainty about future) (section IV of the annex to this report).

IV. Risk assessment

Survey results indicate at the banking activity risk growth. The credit and currency risks increased the most in Q1. The bank's liquidity risk showed a significant increase (Figure 10).

All risks except liquidity risk are projected to rise slightly over the next quarter.

Figure 10. Change in bank risks

Balance of responses[b]
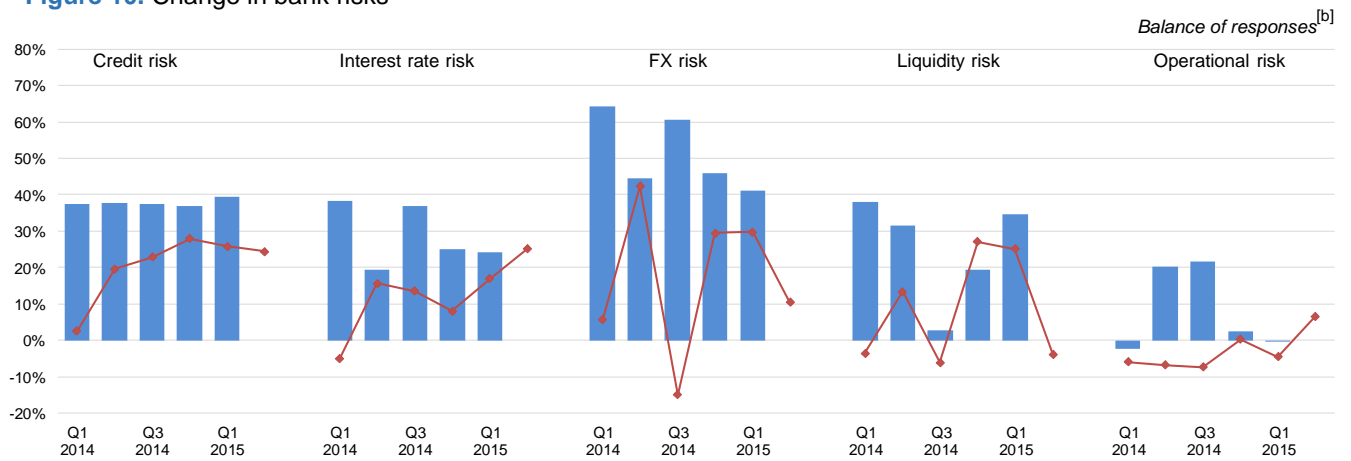
[b] The positive balance of responses indicates the risk increase.

Annex

Questionnaire results

Each respondent bank represented by credit manager was to fill the electronic questionnaire. The questionnaire included three types of questions:

• questions with open responses;
• questions with multiple choice;
• questions with multiple choice where the responses are presented in ordinal scale.

For questions where responses were on ordinal scale (e.g., from "significantly increased" to "significantly decreased"), the indicator "balance of responses" was calculated (BR).

For the purpose of survey the following terms are used:

• credit standards are the internal regulations and criteria governing the lending policies of bank;
• credit conditions are the terms and conditions of the loan agreed between the bank and the borrower.

The questionnaire covers changes in the past three months and expected changes over the next three months (i.e. for the quarter following the reporting quarter).

To calculate aggregated results for all banks, each response as assigned a score based on respondent's responses and their weight in the total sample. The scores are presented in the range from -1 to 1 depending on the direction of indicator change. The responses indicating the significant change of indicator are assigned the higher score then the responses reflecting the insignificant change. For instance, the response "grew considerably" will have the score 1, and the response "grew slightly" - the score 0.5. Each score is weighted on the share of respective respondent in the total sample (depending on its share in assets or the loan portfolio of business entities/ households of this sample). The summary score for all banks is the balance of responses that can be also interpreted as the difference between the weighted share of respondents reporting the "increase" of a certain index, and the weighted share of respondents reporting a "decrease" of the index. The balance of responses can vary within the range of ± 100. A positive balance indicates that respondents generally assess / expect the change of index (of the standards of loan applications approval/ loan applications approval rate/ demand for loans/ risks etc.) towards the increase/ strengthening compared with the previous quarter/ next quarter. More details on the interpretation of the balance of responses for each question are indicated in the respective notes to the figures.

For questionnaires data in Excel, please, refer to the official website of the National Bank of Ukraine www.bank.gov.ua.

	Balance of responses					
	2013		**2014**			**2015**
	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
I. Expectations for the next 12 months: key indicators						
How, in your opinion, will the following business entity indicators change in your bank over the next 12 months?						
Credit Portfolio	—	—	—	—	—	-18.0
Deposits	—	—	—	—	—	7.0
Loan Portfolio Quality	—	—	—	—	—	-9.2
How, in your opinion, will the following indicators of households change in your bank over the next 12 months?						
Credit Portfolio	—	—	—	—	—	-44.2
Deposits	—	—	—	—	—	11.1
Loan Portfolio Quality	—	—	—	—	—	-28.3
II. Risk assessment						
How did the risks for your bank change within the past quarter?						
Credit Risk	-3.1	37.6	37.9	37.6	37.0	39.5
Interest Rate Risk	11.1	38.3	19.4	37.0	25.0	24.3
FX Risk	14.1	64.3	44.4	60.5	46.0	41.2
Liquidity Risk	16.1	38.1	31.6	2.6	19.5	34.7
Operational risk	-1.1	-2.3	20.1	21.7	2.3	-0.1
What changes do you expect in the risks for your bank over the next quarter?						
Credit risk	2.5	19.6	22.8	27.9	25.9	24.4
Interest rate risk	-5.0	15.6	13.5	8.0	16.9	25.1

	Balance of responses					
	2013	2014				2015
	Q4	Q1	Q2	Q3	Q4	Q1
FX risk	5.7	42.3	-15.1	29.5	29.7	10.5
Liquidity risk	-3.6	13.4	-6.1	27.1	25.1	-3.9
Operational risk	-6.0	-6.8	-7.4	0.3	-4.5	6.6

III. Loans to Business Entities

How did the standards for approval of business entities' loan applications change within the past quarter?

	Q4	Q1	Q2	Q3	Q4	Q1
Total	11.3	50.0	56.0	47.1	47.3	42.7
Loans to small and medium-sized enterprises	0.8	48.2	55.5	45.5	46.4	40.6
Loans to large enterprises	13.2	39.2	30.2	38.5	35.6	40.4
Short-term loans	4.6	45.3	33.5	41.6	43.3	37.4
Long-term loans	18.1	51.8	41.2	42.7	38.9	50.8
Loans in domestic currency	5.4	43.7	37.9	41.7	44.0	38.4
Loans in foreign currency	17.0	52.8	47.0	51.7	52.0	56.8

What was the impact of the factors listed below on changes in standards for approval of business entities' loan applications within the past quarter?

	Q4	Q1	Q2	Q3	Q4	Q1
Bank's capitalization	2.4	33.0	28.8	33.1	22.8	26.9
Bank's liquidity position	10.3	36.2	23.3	23.6	23.7	22.8
Competition with other banks	-6.5	1.5	-0.2	-10.5	-5.9	14.6
Competition with non-banks	0.0	8.6	0.7	3.2	3.8	3.6
Expectations of general economic activity	22.9	62.1	59.3	53.6	49.4	48.9
Inflation expectations	12.9	52.2	41.0	47.6	38.1	34.9
Exchange rate expectations	22.1	65.8	62.6	64.8	53.1	45.9
Expectations of industry or a specific enterprise development	12.9	42.0	31.4	42.0	34.1	29.3
Collateral risk	14.3	34.6	24.2	36.5	29.2	26.5

What changes do you expect in the standards for approval of business entities' loan applications over the next quarter?

	Q4	Q1	Q2	Q3	Q4	Q1
Total	3.5	35.6	26.5	26.5	26.8	16.8
Loans to small and medium enterprises	-0.2	33.9	25.4	25.8	32.0	16.6
Loans to large enterprises	4.4	37.4	26.3	30.5	26.5	19.8
Short-term loans	2.2	31.0	24.5	19.6	25.4	16.4
Long-term loans	12.0	46.2	34.7	31.0	38.2	27.0
Loans in domestic currency	1.3	30.6	22.6	20.7	24.3	15.2
Loans in foreign currency	8.7	53.9	28.3	31.8	44.0	30.2

How did the level of approval of business entities' loan applications change within the past quarter?

	Q4	Q1	Q2	Q3	Q4	Q1
Total	-6.2	-33.5	-20.7	-29.5	-18.2	-8.4
Loans to small and medium enterprises	-0.3	-31.5	-16.3	-20.9	-12.9	-5.8
Loans to large enterprises	-2.9	-31.2	-20.0	-27.9	-18.3	-11.7
Short-term loans	-1.2	-22.0	-14.8	-21.3	-12.8	-6.7
Long-term loans	-7.7	-46.2	-32.7	-31.3	-27.4	-20.8
Loans in domestic currency	-0.9	-23.4	-11.8	-16.9	-13.0	-8.0
Loans in foreign currency	-11.3	-48.9	-25.9	-42.9	-26.1	-22.1

How did price and non-price conditions of approval of applications for loans to business entities change within the past quarter?

Interest rates (increase - stricter conditions, decrease - softer conditions)

	Q4	Q1	Q2	Q3	Q4	Q1
Total	26.7	39.4	29.2	31.7	30.6	58.7
SMEs	18.9	41.2	30.9	30.9	30.2	60.1
Large enterprises	25.4	39.1	28.5	30.9	30.8	59.8

Changes in non-interest rate payments

	Q4	Q1	Q2	Q3	Q4	Q1
Total	3.6	15.6	12.0	9.1	16.8	11.6
SMEs	3.6	15.8	11.6	7.3	16.0	11.0
Large enterprises	3.6	14.2	11.6	9.2	15.4	13.0

	Balance of responses					
	2013	**2014**				**2015**
	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Loan or facility amount						
Total	6.5	32.8	29.7	44.0	39.7	45.6
SMEs	1.5	30.4	24.6	34.6	36.7	33.2
Large enterprises	6.4	23.9	29.7	43.9	38.6	48.2
Collateral eligibility requirements						
Total	9.2	30.1	32.8	32.3	30.0	35.1
SMEs	12.2	30.0	32.1	26.2	27.9	36.1
Large enterprises	9.3	30.0	32.9	32.2	28.6	37.5
Restrictions imposed by the loan agreement on the borrower						
Total	15.0	27.4	30.6	25.3	29.6	18.2
SMEs	15.0	25.8	30.8	20.8	25.8	18.2
Large enterprises	15.8	27.4	30.8	27.1	26.8	22.1
Loan maturity						
Total	6.8	27.8	21.1	29.0	26.1	25.2
SMEs	7.9	23.9	16.0	22.4	21.6	24.1
Large enterprises	7.0	24.0	22.1	28.9	23.9	28.7
How did the business entities' demand change within the past quarter, disregarding the seasonal changes?						
Total	7.6	15.7	12.7	21.3	19.7	25.5
Loans to SMEs	11.6	15.1	10.4	18.8	23.5	21.5
Loans to large enterprises	15.4	11.7	14.7	14.8	19.2	14.9
Short-term loans	14.7	20.4	18.9	28.0	26.3	18.8
Long-term loans	-14.4	-4.2	9.3	-3.9	10.5	0.2
Loans in domestic currency	3.1	22.7	18.0	23.6	25.9	24.4
Loans in foreign currency	11.3	-13.0	-15.2	-31.9	-36.3	-47.5
What was the impact of the factors listed below on changes in business entities' demand for loans within the past quarter?						
Interest rate changes	-16.1	-23.7	-20.4	-10.4	-11.9	-26.0
Capital needs	2.3	-29.6	-24.6	-18.7	-11.4	-11.1
Working capital needs	5.2	-3.2	0.1	13.8	14.5	28.7
Debt restructuring	4.2	10.9	19.0	24.4	15.7	31.4
Internal financing	-0.3	-16.5	1.5	2.6	-8.8	4.4
Loans from other banks	-3.6	-8.7	3.9	5.7	-2.8	6.8
Asset sale	-2.3	-9.3	-11.3	-15.0	-13.1	2.0
How will the business entities' demand for loans change over the next quarter, disregarding the seasonal changes, in your opinion?						
Total	24.7	11.8	16.3	8.2	10.3	25.3
Loans to SMEs	20.3	7.2	16.9	5.0	16.3	24.3
Loans to large enterprises	15.2	11.7	13.1	5.9	7.3	22.6
Short-term loans	24.4	19.4	15.5	16.3	15.2	26.0
Long-term loans	5.4	-5.9	8.4	-4.5	0.8	9.5
Loans in domestic currency	26.5	16.7	13.4	14.1	13.7	24.2
Loans in foreign currency	-4.6	-17.8	-3.7	-29.5	-14.2	-8.7
IV. Lending to households						
How did the standards for approval of households' loan applications change within the past quarter?						
Mortgage loans	-0.8	39.2	22.4	12.6	32.3	25.6
Consumer loans	-4.9	53.3	30.3	34.4	39.6	39.7
What was the impact of the factors listed below on changes in standards for approval of households' loan applications within the past quarter?						
Cost of resources and balance sheet restrictions						
Total	—	—	—	—	—	22.9

	Balance of responses					
	2013	**2014**				**2015**
	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Mortgage loans	0.5	43.0	31.7	18.4	35.5	—
Consumer loans	5.9	52.3	31.6	29.2	44.0	—
Competition with other banks						
Total	—	—	—	—	—	-2.2
Mortgage loans	-0.9	-0.1	3.1	-2.2	3.5	—
Consumer loans	-11.5	9.2	3.5	-1.1	33.2	—
Competition with non-banks						
Total	—	—	—	—	—	0.7
Mortgage loans	0.2	6.1	3.0	0.2	-2.9	—
Consumer loans	-1.3	7.0	9.3	1.2	2.1	—
Expectations of general economic activity						
Total	—	—	—	—	—	41.8
Mortgage loans	-3.5	34.9	45.6	9.5	47.3	—
Consumer loans	-2.7	44.7	48.8	30.4	54.9	—
Inflation dynamics expectations						
Total	—	—	—	—	—	46.2
Mortgage loans	9.0	43.3	23.2	7.8	40.5	—
Consumer loans	8.6	51.9	33.1	28.6	50.2	—
FX rate expectations						
Total	—	—	—	—	—	44.0
Mortgage loans	12.3	46.1	28.0	7.7	37.9	—
Consumer loans	9.4	51.3	26.6	19.1	42.8	—
Real estate market expectations						
Total	—	—	—	—	—	33.1
Mortgage loans	0.7	22.8	26.7	12.7	39.3	—
Consumer solvency expectations						
Total	—	—	—	—	—	48.7
Consumer loans	26.3	...	...	...	...	—
Collateral risk						
Total	—	—	—	—	—	25.5
Consumer loans	2.6	18.5	25.5	12.0	32.8	—
What changes do you expect in the standards for approval of households' loan applications over the next quarter?						
Mortgage loans	8.7	19.5	8.6	14.6	25.4	17.1
Consumer loans	-6.0	33.0	8.5	13.9	33.1	21.9
How did the level of approval of households' loan applications changed within the past quarter?						
Mortgage loans	-1.9	-35.1	-16.9	-5.6	-41.0	-10.8
Consumer loans	-4.1	-59.2	-41.3	-22.3	-45.3	-28.2
How did price and non-price conditions of approval of applications for loans to households change within the past quarter?						
Mortgage loans						
Interest rates on loans	-1.0	25.8	16.7	9.5	9.0	19.5
Collateral eligibility requirements	9.9	10.6	11.1	4.0	13.2	6.9
Loan maturity	-3.2	2.5	3.4	3.5	0.8	1.7
Changes in non-interest rate payments	6.3	1.9	2.9	2.3	0.9	3.6
Loan-to-value ratio	-1.3	7.5	6.1	6.3	12.5	6.0
Consumer loans						
Interest rates on loans	-8.3	21.5	20.3	32.1	14.4	36.6
Collateral eligibility requirements	0.6	4.5	5.6	4.5	15.5	6.9
Loan maturity	-7.5	5.3	3.2	6.0	5.0	0.5

	Balance of responses					
	2013	**2014**				**2015**
	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Changes in non-interest rate payments	2.4	3.9	6.1	6.1	13.1	10.0
Loan amount	-5.5	23.3	23.9	8.5	20.5	18.0
How did the households' demand change within the past quarter, disregarding the seasonal changes?						
Mortgage loans	-5.4	-29.7	-31.3	-29.3	-34.3	-23.7
Consumer loans	18.9	-6.8	-39.5	-17.8	-37.0	-36.1
What was the impact of the factors listed below on changes in households' demand for loans within the past quarter?						
Mortgage loans						
Interest rate changes	0.3	-22.1	-26.4	-5.0	-11.5	-5.7
Real Estate Market Outlook	-8.5	-15.1	-4.0	-39.8	-16.0	-11.1
Consumer confidence	-14.3	-24.1	-25.2	-38.1	-13.0	-38.4
Households savings	9.6	-13.4	-41.2	9.4	-2.5	-22.6
Loans from other banks	8.2	5.7	-0.8	-2.8	-2.7	-3.5
Consumer loans						
Interest rate changes	17.6	-18.8	-34.6	-8.9	-14.5	-28.6
Consumer confidence	5.4	-22.8	-58.5	-28.8	-20.5	-19.1
Expenses on long-term use goods	8.9	-2.4	-12.6	-26.5	-19.1	6.8
FX purchase	0.8	18.3	-18.5	-23.5	-4.9	5.9
Households savings	9.1	-3.1	-44.2	-25.2	-3.6	-26.0
Loans from other banks	-6.6	8.8	0.7	-7.9	1.5	-3.0
How will the households' demand for loans change within the next quarter, disregarding the seasonal changes, in your opinion?						
Mortgage loans	11.2	-23.0	12.9	-19.6	-12.1	4.1
Consumer loans	21.4	-15.8	24.0	-3.3	5.4	1.3