MAGYAR NEMZETI BANK

SENIOR LOAN OFFICER SURVEY ON BANK LENDING PRACTICES

NOVEMBER 2009

Summary of the aggregate results of the survey for 2009 Q3

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Senior loan officer survey on bank lending practices

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Summary

In the spring of 2003, the Magyar Nemzeti Bank launched the Senior Loan Officer Survey in order to gain a better understanding of banks' lending practices. The latest survey was conducted in October 2009 and examined lending to the household and corporate sectors, as well as to municipalities for the third quarter of 2009. In order to facilitate close monitoring of the qualitative aspects of developments in loan supply, the Central Bank conducts the survey on a quarterly basis.

Similar to the previous quarter, banks reported a decline in credit availability (willingness to lend) to households in 2009 Q3. At the same time, the vast majority of banks perceived a drop in demand for housing loans in the previous quarter, while the share of respondents perceiving a decline in consumer credit demand was somewhat smaller. On the whole, credit standards and conditions of housing loans were not subject to further tightening compared to the last survey. Based on the responding banks' information it seems that in this segment the tightenings of payment-to-income ratios and minimum required credit scores were offset by the easing of interest rate spreads. In the consumer loans segment, the proportion of banks tightening standards was similar to that seen in the previous survey, with the market share-weighted ratio of tighteners amounting to 50% of the respondents. Credit conditions to vehicle financing loans, however, have not been tightened as significantly as in previous quarters. As was the case in the previous survey, the majority of banks reported deterioration in the household loan portfolio in 2009 Q3 both in the housing loans and consumer loans segments, but compared to the previous quarter (2009 Q3) fewer banks were anticipating further deterioration in the next six months. Based on respondents' forecasts, tightening is expected to come to a halt in the consumer loans segment, while easing is anticipated for housing loans in the next two quarters. While the halt in tightening and potential easing can be justified by improved liquidity conditions, the deterioration in the economic outlook as well as customers' creditworthiness continues to contribute to tightening. The findings of the survey differ somewhat from those of the European Central Bank's lending survey, as a clear and steep narrowing trend in the proportion of tighteners can be observed based on the participating banks' responses in the euro area. Hence, the euro area banks indicated stabilisation and slight increase in demand for housing loans.

Considering credit to the non-financial corporate sector, the credit availability (willingness to lend) was reported to have remained more less unchanged with the exception of the further declining credit availability in the commercial real estate segment. Banks forecast a slight increase in credit availability over the next six months in all segments, except in commercial real estate, where a further decline is anticipated, albeit to a much smaller extent than in previous quarters. Banks' responses suggest that overall credit demand continued to increase in the previous quarter, as a result of growing demand for short-term loans. Weighted by market share, almost one-half of the banks reported tightening in credit conditions for the corporate sector, which exceeds the ratio from the previous quarter. The decline in the availability of commercial real estate loans was accompanied by further tightening in credit conditions and standards. According to the banks, this tightening primarily reflected certain sector-specific problems, the negative economic outlook and perceived risks. Similarly to the previous survey, fewer respondents reported the liquidity situation as a reason for tightening. In 2009 Q3, the vast majority of banks experienced deterioration in the portfolio quality, and banks expect further portfolio deterioration in the next six-month period as well. Our results for the corporate sector are different from those in the ECB survey, as the ratio of those reporting tightening increased in Hungary while, it decreased further in the euro area in line with the trend since early 2009.

In the municipality sector, credit demand continued to grow in the previous quarter, and most banks expect a further increase in the next six months. Based on the responding banks, the decline in willingness to lend projected for 2009 H2 in the previous survey did not materialise in 2009 Q3; moreover, the ratio of institutions experiencing deterioration in the loan portfolio proved to be lower than expected. Banks continued to tighten credit conditions in the previous quarter, and do not intend to ease in the near future. Indeed, the majority of banks are planning further tightening.

Aggregate results of the questionnaire[1]

The results of the survey are presented below in the form of a descriptive analysis and by means of charts illustrating the answers. Annex 1 contains the charts pertaining to individual segments. The methodological background[2] is described in Annex 2; numerical data on the loan portfolios can be found in Annex 3; and answers to the questions are presented in detail in Annexes 4, 5 and 6 (Annexes 3, 4, 5 and 6 are attached as a separate Excel file on the website of the MNB). **The retrospective questions in the questionnaire relate to changes in 2009 Q3, while the forward-looking questions ask respondents for their views about the changes they expect over the next six-month period, i.e. in 2009 Q4 and 2010 Q1. Questions focus on changes perceived relative to the previous quarter: the base period is 2009 Q2 for retrospective questions and 2009 Q3 for forward-looking questions. During the aggregation of answers we apply weights calculated on the basis of outstanding loans in different segments (i.e. market share based weighting).**

1 HOUSEHOLD LENDING MARKET

Based on the banks' responses, credit standards in the housing loan segment remained nearly stagnant in 2009 Q3 compared to the previous quarter. Looking ahead, several banks intend to ease conditions in the next six-month period. The fact that in the previous survey's forward-looking questions banks reported an intention to ease terms in 2009 H2 as well suggests that those forecasting easing were unable to carry this out in the third quarter. Significant shifts took place between price and non-price conditions. While most banks reduced interest rate spreads, the majority of banks tightened payment-to-income ratios and the minimum required credit scores. Interestingly, banks left the level of the maximum loan-to-value (LTV) ratio unchanged, which they had often tightened in the last three quarters. In the previous quarter, a lower ratio of banks reported a decline in willingness to lend. As for the forward-looking replies, in parallel with easing in credit standards, banks expect a net increase in willingness to lend for the next six months. Overall demand for housing loans declined (nearly 80% of banks perceived a decline in net terms), reflecting a sharp fall in demand for HUF-denominated loans, while demand for FX-denominated loans remained unchanged in the previous quarter. Looking ahead, the majority of banks expect increasing demand over the next six months in both denomination segments.

In the consumer loans segment, the net balance of tightening remained at the previously reported level, as the majority of banks (around 50%) indicated tightening for 2009 Q3. Only a small portion of survey participants (just 10% based on market share) reported an intention to tighten conditions even further over the next six-month period. Tighter credit conditions were reflected in a decline in the acceptable payment-to-income ratio and an increase in the minimum required credit score. Banks cited poor economic outlook, deteriorating customer credit scores and growing risk aversion as explanations for the tightening measures. As regards specific product types, the majority of banks appear to have tightened conditions particularly for revolving loan products (such as credit cards and overdrafts). Credit conditions for vehicle financing loans have not been tightened as much as in previous quarters. Banks indicating a tightening of credit standards for home equity loans constituted the lowest ratio of respondents.

As in the previous quarter, banks also reported a moderate decline in the availability of consumer loans in 2009 Q3. Only approximately 30% of the respondents indicated a decline in credit availability (willingness to lend), which is considerably less than banks had projected for 2008 H2 and 2009 Q1. According to the respondents, consumer credit availability is expected to remain unchanged over the next six months. Looking ahead, there was only one consumer loan product for which banks

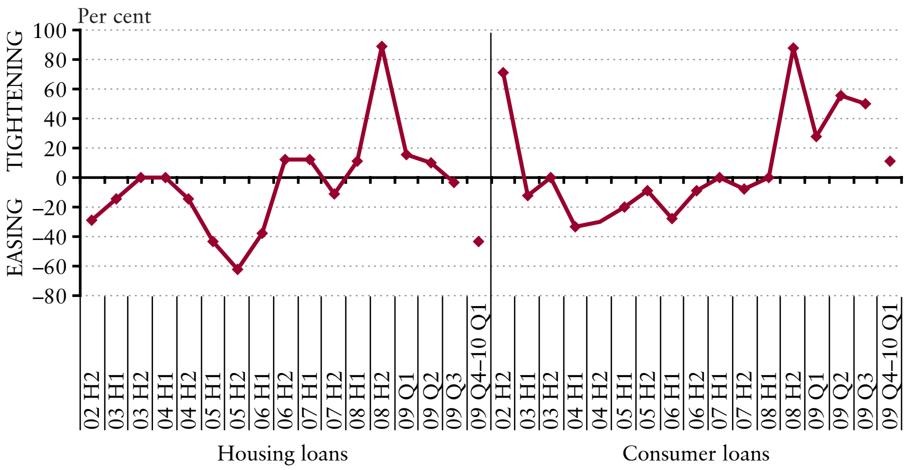
[1] Thirteen banks responded to questions related to the household segment (housing loans: 9 institutions, consumer loans: 13 banks and 4 financial enterprises owned by banks), 7 banks replied to questions regarding the corporate segment, and 6 institutions were surveyed on trends in lending activity to municipalities. Institutions submitted their responses to the central bank of Hungary electronically. Banks complete the questionnaires in electronic format on a quarterly basis; in addition, a personal interview takes place once a year in relation to the survey conducted in Q1 of the specific year.

[2] Certain keywords presented in the methodological notes (Annex 2) are worth highlighting. Willingness to lend reflects the respondent's intention to expand and increase its portfolio in the specific segment. Credit standards represent internal banking policies that determine the types of clients and client groups of a specific bank (based on their classification according to sector, location, size, financial indicators, etc.), and the type of credit products offered to these clients (secured loans only, investment loans, overdrafts, etc.). Credit conditions can be price-related and non-price related factors. Non-price credit conditions (such as collateral requirements, loan covenants, maximum size of loans/credit lines, etc.) represent specific contractual terms; the bank will not extend the loan unless these conditions are met. Questions concerning price-related factors are concerning items such as the risk premium or the spread between the interest rate level and the cost of funds.

Chart 1

Credit conditions/credit standards in the housing loan and consumer loan markets

(net percentages balance of respondents reporting tightening/easing)



forecast a net increase in credit availability: home equity loans. In accordance with their expectations in the previous survey, banks perceived a decline in demand for consumer loans (the net balance was –20%). In retrospect, in the consumer loan market banks perceived an increase in demand for forint loans and a decrease in demand for foreign currency loans in the previous quarter, and expect this trend to continue in the next six-month period, while they anticipate a slight increase in aggregate consumer credit demand.

Similarly to the previous survey, the vast majority of banks reported deterioration in the household loan portfolio both in the housing loan and consumer loan segments again. Looking ahead, a slightly smaller percentage of banks – which nevertheless represent more than 50% of the respondents – expect further deterioration over the next six months.

2 CORPORATE LENDING MARKET[3]

As was the case in the previous quarter, for 2009 Q3 banks indicated nearly unchanged availability of credit in the corporate lending market (compared to the previous quarter). Over the next six months, banks forecast a slight increase in credit availability (nearly 30% of the net balance of the respondents indicated the intention to increase credit availability). Restrained willingness was accompanied by a further tightening of credit standards and conditions despite the fact that in the previous survey respondents had not only indicated that they did not intend to tighten their conditions further in 2009 H2, but also had anticipated some easing. In respect of the types of conditions, banks reported tightening in both price and non-price conditions in the previous quarter. Based on the responses, the conditions which were tightened by most banks included maximum available maturities, maximum size of loans/credit lines, lending fees, risk premia, loan covenants and collateral requirements. Overall, the majority of banks expect that tightening in credit conditions will come to a halt in the next six-month period. At the same time, some conditions (risk premia and collateral requirements) may continue to be tightened.

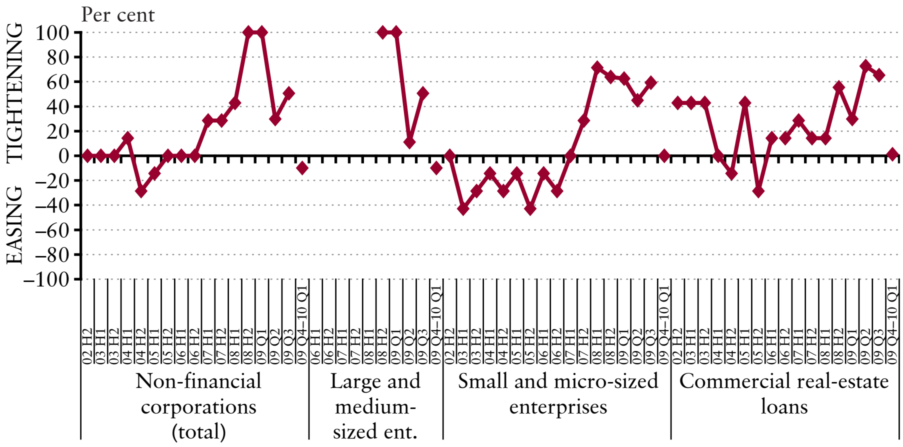
As in the previous survey, only a few respondents considered liquidity conditions (more difficult access to funds, persistently high funding costs) as a reason for tightening. Moreover, liquidity conditions were even mentioned as a reason for loosening credit standards and conditions in some cases. Factors that contributed to the tightening included the negative economic outlook, sector-specific problems and a further decline in risk tolerance. According to banks' expectations, in the next six months ahead liquidity conditions and the capital position will cease playing a role in tightening, but sector-specific factors and reduced risk tolerance may contribute to stricter lending conditions.

[3] Starting from the first survey in 2009, large and medium-sized firms are classified as one category for the purposes of the questionnaire. Consequently, the survey examines corporate lending in a breakdown by large and medium-sized enterprises, as well as small and micro-sized enterprises. We continue to use the original classification for commercial real estate loans.

Chart 2

Credit conditions and credit standards by corporate category and for commercial real estate loans

(net parcentages balance of respondents reporting tightening/easing)



According to the senior loan officers, demand for corporate loans picked up slightly in the past quarter compared to the previous period. As in the previous quarter, this increase was not homogenous, as nearly 60% of responding banks reported increased demand for short-term loans. Some banks, however, also perceived increased demand for long-term loans, but since banks perceiving a decrease offset this, the aggregate results point to only a slight net increase (10%). Senior loan officers indicated that demand for both forint and foreign currency denominated loans had grown, although slightly more perceived an increase in demand for HUF loan products (around 50%) as opposed to foreign currency denominated loans (nearly 40%). The majority of banks expect increasing demand further over the next six months both for forint and foreign currency denominated loans, but as the ratio of banks anticipating growing demand for long-term loans is almost the same as that of those predicting a decline, the expected upturn in demand will continue to be associated with short-term loans.

As in recent surveys, respondents reported deterioration in portfolio quality in 2009 Q3 as well. They expect this trend to continue in corporate lending over the next six months. As in previous surveys, respondents continued to report deterioration in portfolio quality mainly in manufacturing, construction and financial activities, as well as the real estate and business services sectors, but banks also underlined that they had perceived deterioration in portfolios associated with wholesale and retail trade. Banks foresee portfolio quality deterioration in nearly every sector over the next six months, while loss given default rates, which stagnated in the previous quarter, are also widely expected to increase. As opposed to previous surveys, some respondents now expect deterioration in the portfolios related to the electricity, gas, heating, water supply, information and communication (IT and telecommunications) sectors as well.

As in the previous two surveys, a significant majority of responding banks (76% of the survey participants) reported that they had reduced the availability of commercial real estate loans (willingness to lend) and this was accompanied by a further tightening of credit standards and conditions. The reduced willingness to lend and the tighter conditions affected all of commercial real estate loan sub-segments (residential, retail (shopping centres), logistics, offices). Looking ahead to the next half-year period, on the whole the vast majority of banks appear to envisage further tightening and a restrained willingness to lend. An exception in this regard is residential projects, where banks do not intend to adopt further tightening measures, but do forecast a further decline in credit availability. Banks reported that the portfolio quality of commercial real estate loans had deteriorated in 2009 Q3 as well (the proportion of nearly 86% of the respondents in net percentage terms is around the same as in the previous quarter), and the vast majority of responding banks (nearly 70% based on market share) expect a further deterioration in portfolio quality over the next six months.

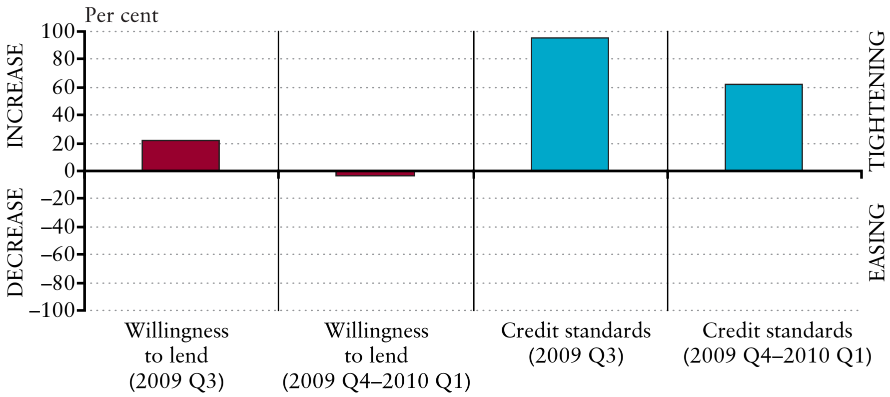
3 LENDING TO MUNICIPALITIES[4]

Contrary to the expectations in the previous survey, where a decline in credit availability was anticipated for 2009 H2, availability increased in the segment of municipal lending. An increase in the availability of credit in net terms was reported by 20% of the respondents. This increase was attributed to market share goals and a change in the competitive environment, while the economic outlook and declining risk tolerance continued to exert downward pressure on willingness to lend. As in the previous survey, but to a lesser extent, banks anticipate a decline in credit availability for the next six months. While compared to the previous quarter the majority of banks (nearly 60%) reported an increase in demand for loans to municipalities, even more banks (nearly 80%) expect an increase in the next half-year as a consequence of new economic policy concerning municipalities, changes in the current financing requirements of the customer base and the need to raise funds for the own contribution required for the EU subsidies. According to the survey, nearly all participants tightened their credit standards and conditions in 2009 Q3, and further tightening is expected in the next two quarters as well, even though a lower ratio of banks expressed this intention. As for the corporate segment, the tightening included both price and non-price conditions, with a greater emphasis on price-related conditions. Nearly 20% of banks reported deterioration in the quality of the municipal portfolio in 2009 Q3, and the majority of the respondents in net terms (approximately 55%) expect a further deterioration in portfolio quality.

Chart 3

Willingness to lend and credit standards/credit conditions in municipal financing

(net percentage of respondents reporting an increase/decrease and tightening/easing)



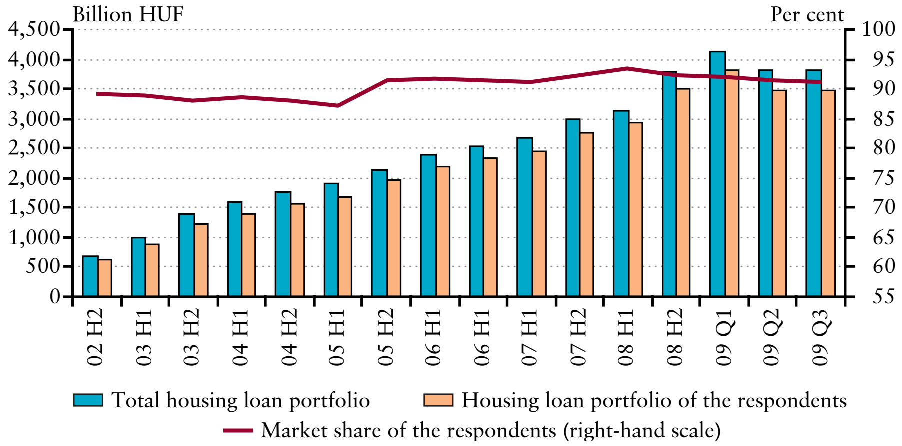
[4] As banks appear to approach loan-based and bond-based funding in practically the same way, the survey examines these two forms of financing together; differences between them are primarily due to differences in the public procurement rules applied to them.

Annex 1: Charts indicating developments in loan portfolios and answers to the questionnaire

LENDING TO HOUSEHOLDS

Chart 4

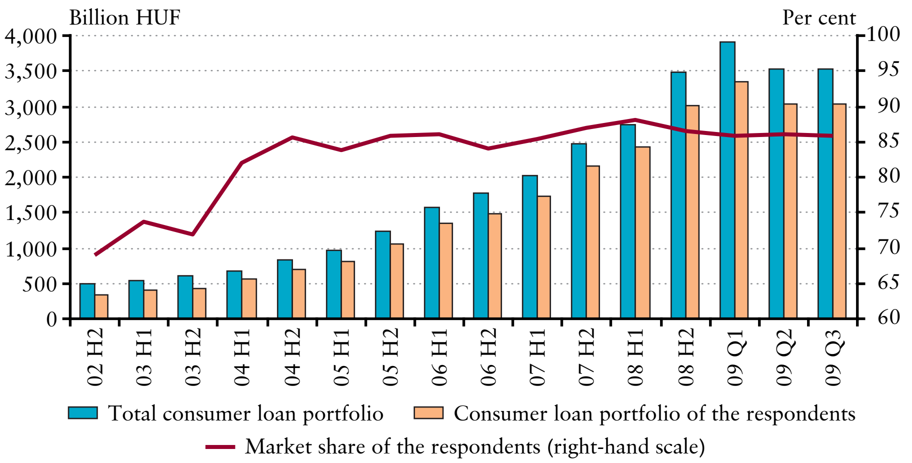
Outstanding amount of housing loans and the market share of banks completing the questionnaire



Note: The number and scope of banks varied during the half-year periods under review (e.g. as a result of mergers and the inclusion of new banks). From 2009, stock data also include those for credit institutions and branches.

Chart 5

Outstanding amount of consumer loans and the market share of banks completing the questionnaire



Note: The number and scope of banks varied during the half-year periods under review. Chart 5 only plots market shares of the banks surveyed; it does not plot market shares of financial enterprises. From 2009, stock data also include those for credit institutions and branches.

Chart 6

Willingness of banks to extend housing loans and consumer loans

(net percentage balance of respondents reporting increased/decreased willingness to lend)

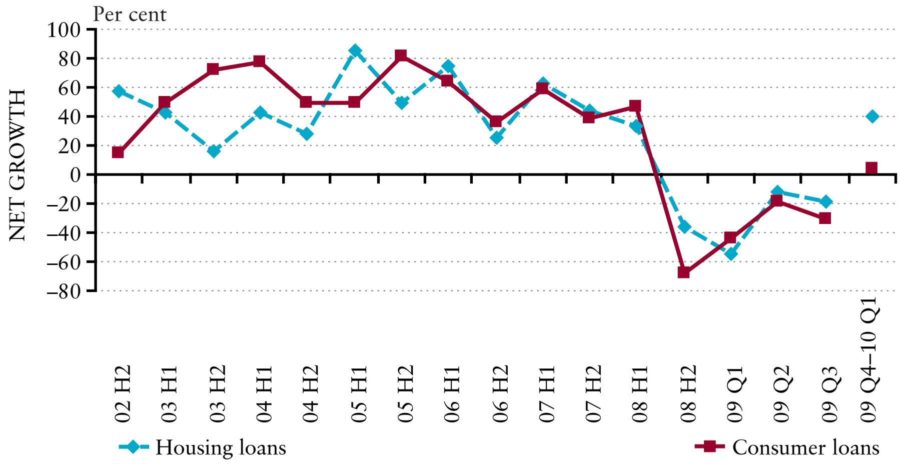


Chart 7

Credit conditions/Credit standards in the housing loan and consumer loan markets

(net percentage balance of respondents tightening/easing credit standards)

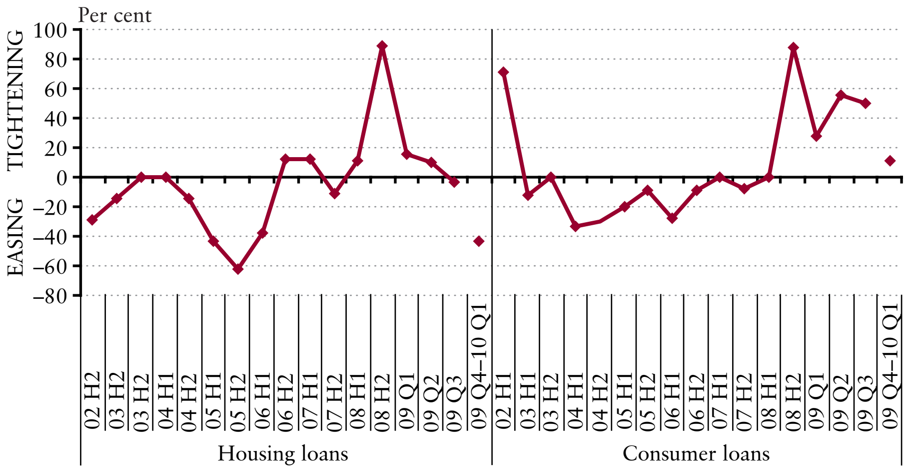


Chart 8

Credit conditions in the housing loan market

(net percentage balance of respondents tightening/easing credit conditions)

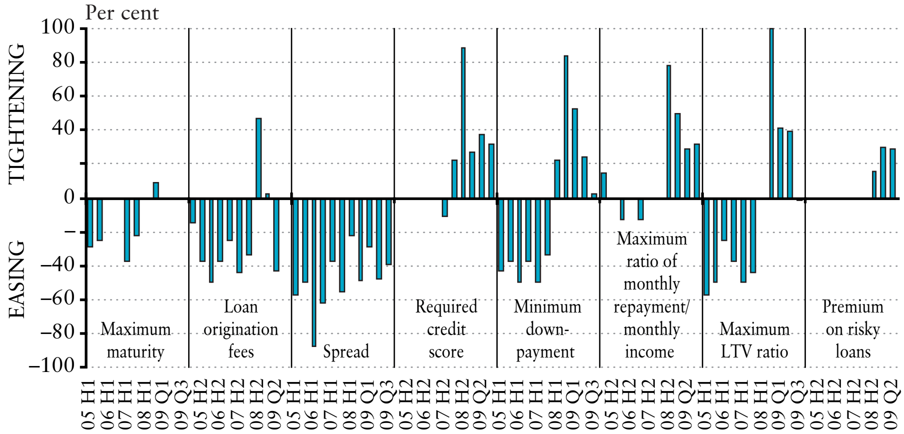


Chart 9

Factors contributing to changes in credit standards and credit conditions in the case of housing loans

(net percentage balance of banks indicating a contribution of individual factors to tightening or easing)

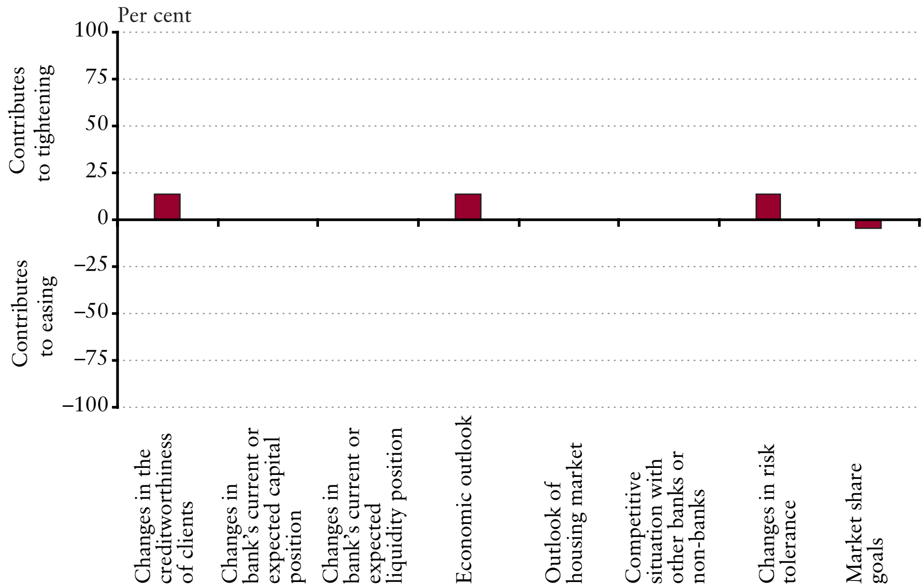


Chart 10

Demand for housing loans

(net percentage balance of respondents reporting increase/decrease in demand)

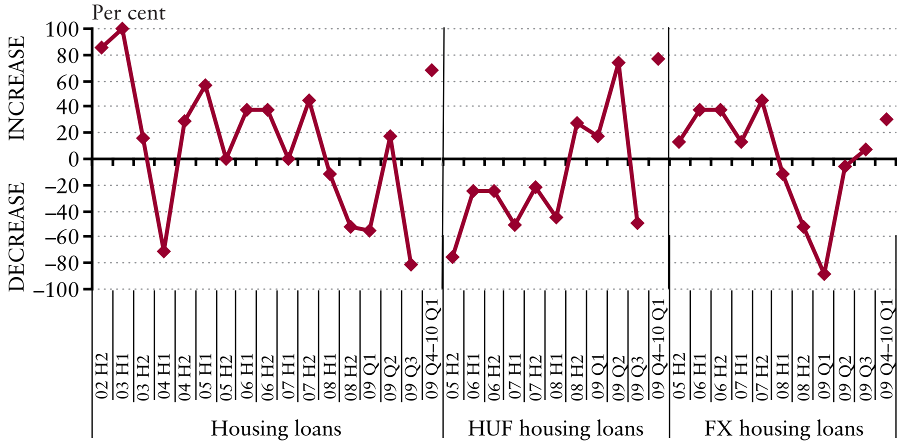


Chart 11

Credit conditions in the consumer loan market

(net percentage balance of respondents tightening/easing credit conditions)

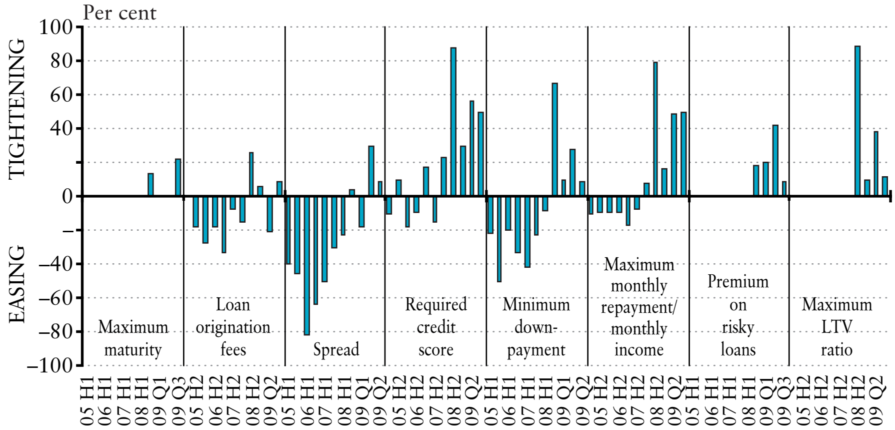


Chart 12

Factors contributing to changes in credit standards and credit conditions in the case of consumer loans

(net percentage balance of banks indicating a contribution of individual factors to tightening or easing)

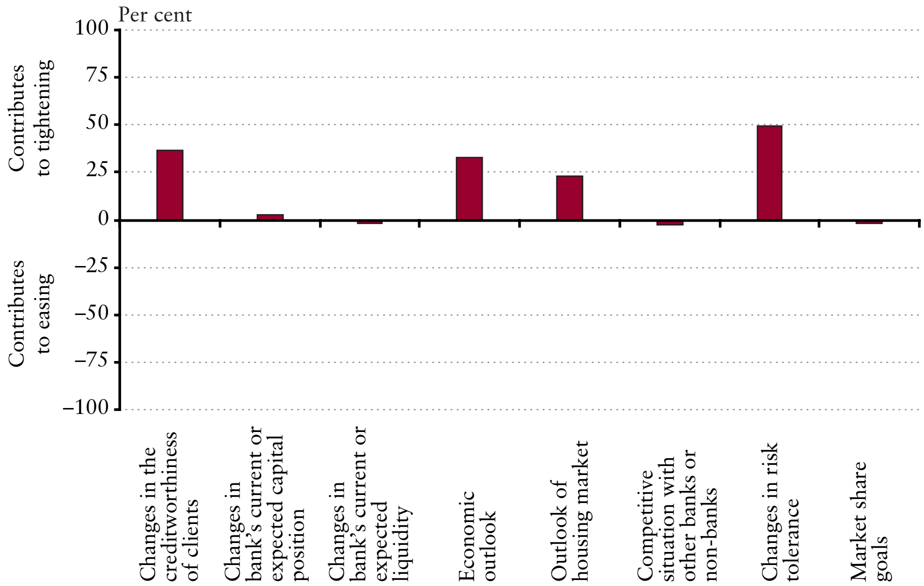


Chart 13

Willingness to lend and credit standards/credit conditions for different consumer loan products

(net ratio of banks providing the relevant answer)

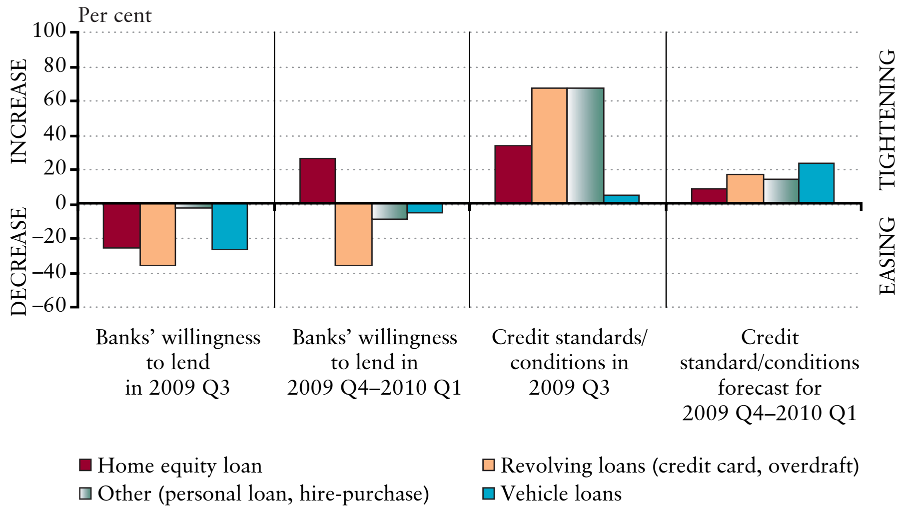


Chart 14

Credit conditions for different consumer loan products

(net percentage balance of respondents tightening/easing credit conditions)

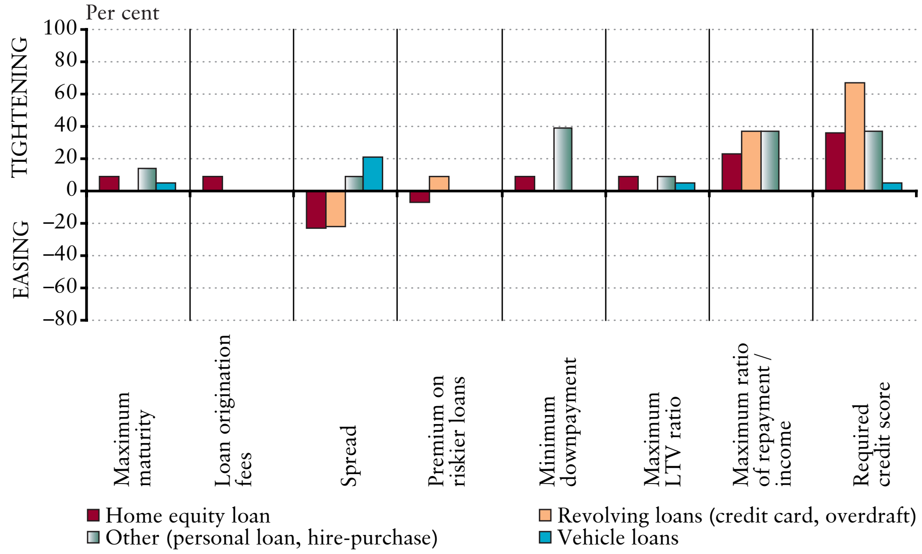


Chart 15

Demand for consumer loans

(net percentage balance of respondents reporting increase/decrease in demand)

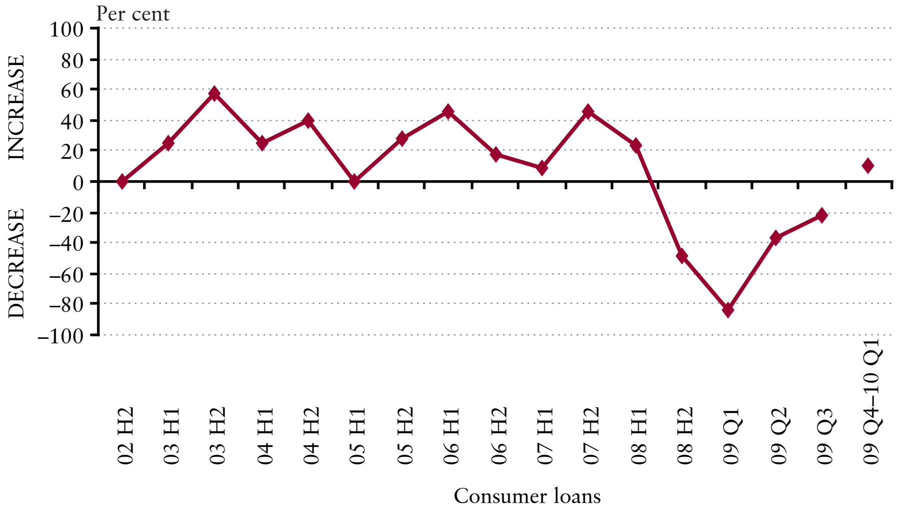


Chart 16

Demand for different consumer loan products

(ratio of banks providing the relevant answer)

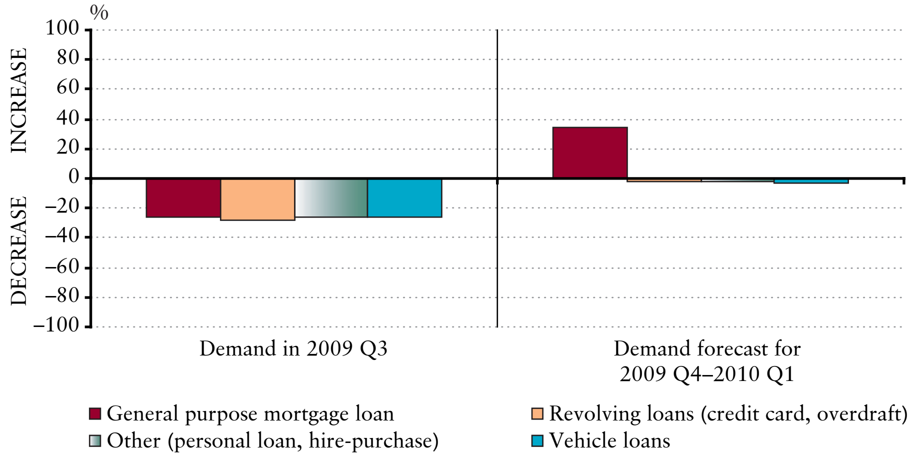
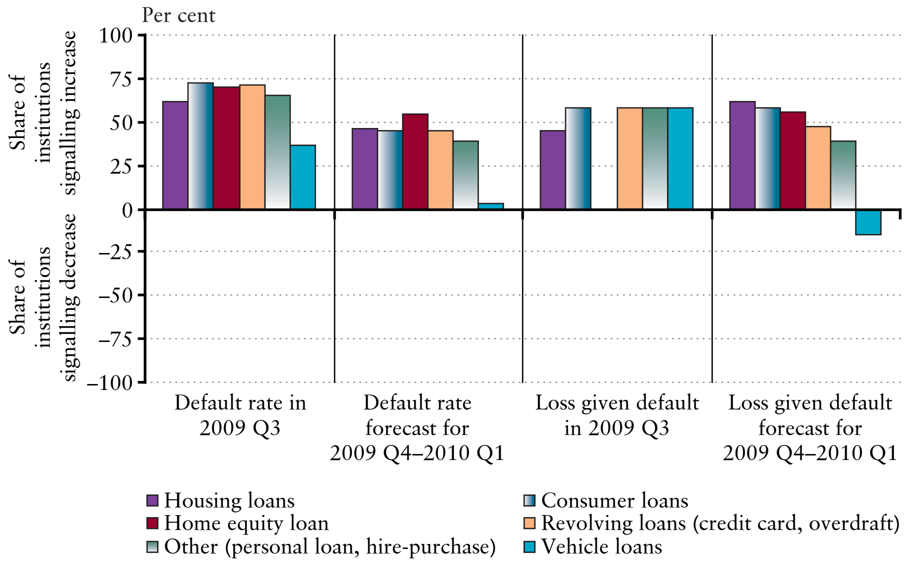


Chart 17

Default rate of loans to households and loss given default

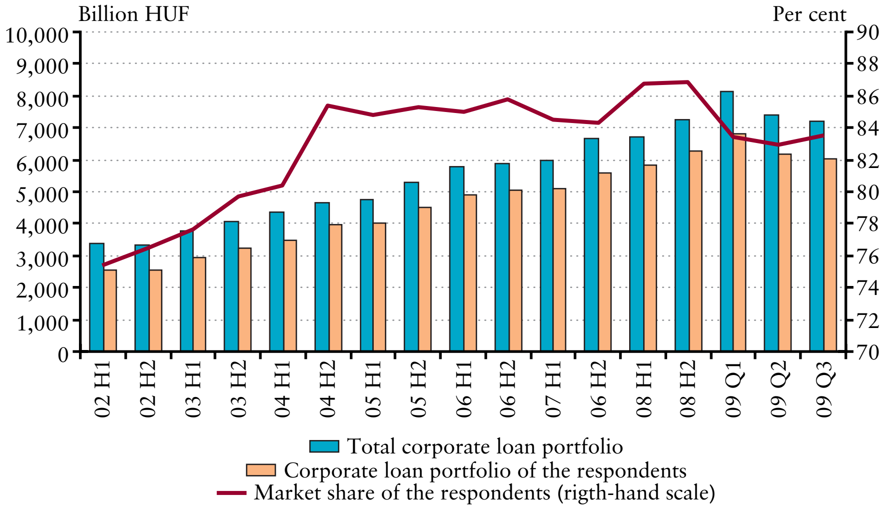
(net percentage balance of banks reporting increase or decrease)



LENDING TO THE CORPORATE SECTOR

Chart 18

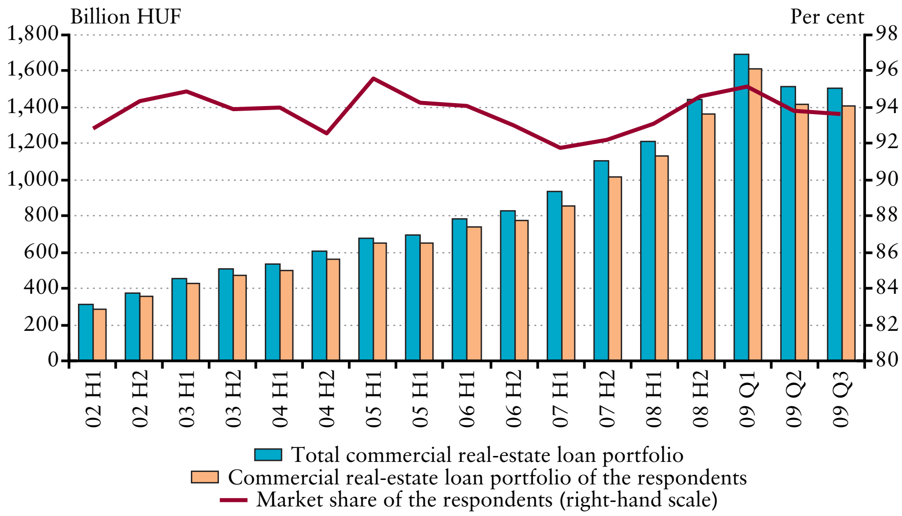
Total corporate loan portfolio and market share of the banks completing the corporate questionnaire



Note: From 2009, stock data also include those for credit institutions and branches.

Chart 19

Volume of commercial real estate loans and share of responding banks in the total real estate loan portfolio



Note: From 2009, stock data also include those for credit institutions and branches.

Chart 20

Willingness of banks to extend corporate loans

(net percentage balance of respondents reporting increased/decreased willingness to lend)

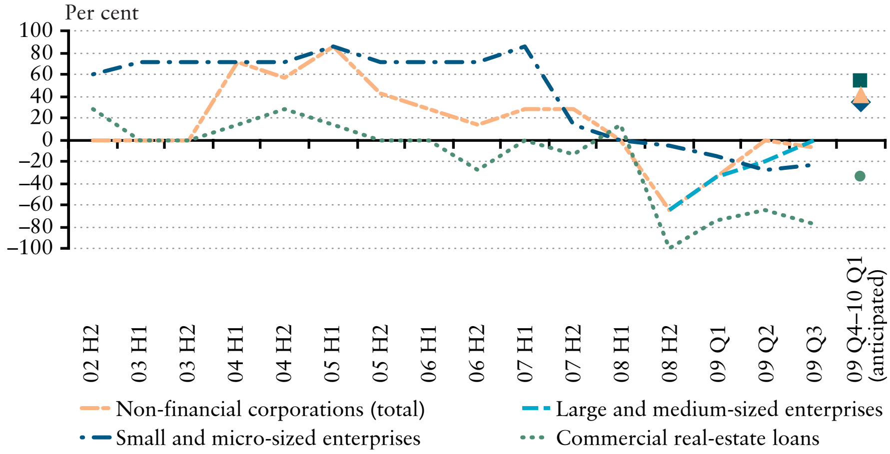


Chart 21

Credit conditions and credit standards by corporate category and for commercial real estate loans

(net percentage balance of respondents reporting tightening/easing)

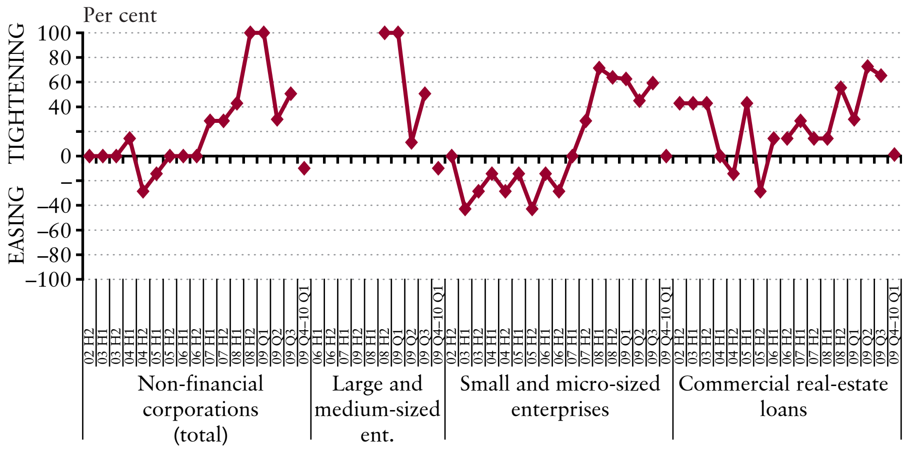


Chart 22

Credit conditions in the corporate segment in 2009 Q2 and in 2009 Q3–Q4

(ratio of banks providing the relevant answer)

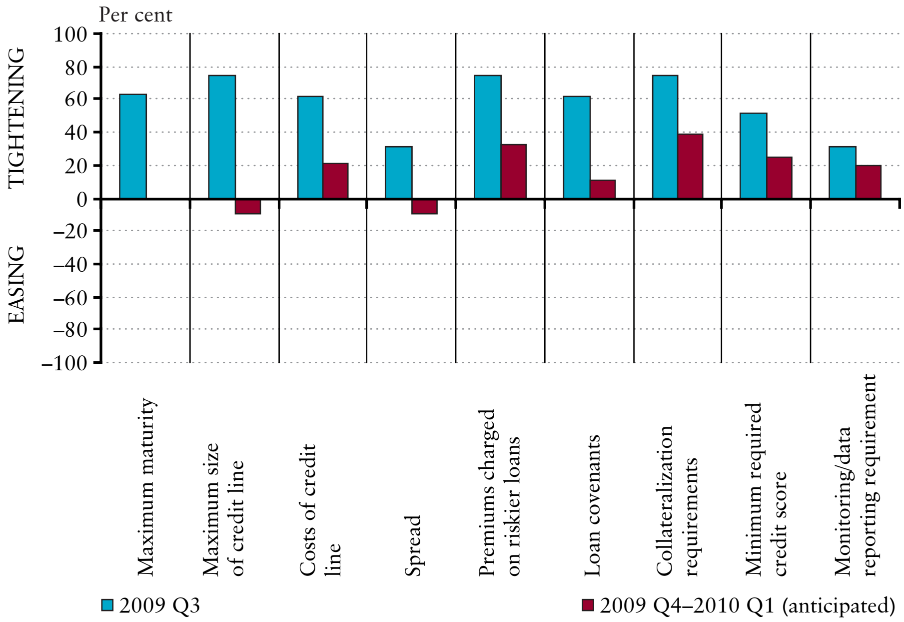


Chart 23

Maximum maturities by corporate category

(net percentage balance of respondents reporting tightening/easing)

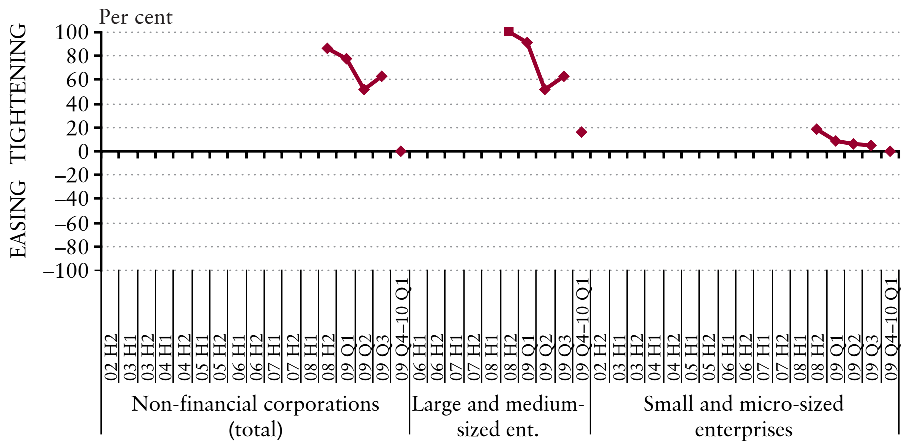


Chart 24

Maximum size of loans/credit lines by corporate category

(net percentage balance of respondents reporting tightening/easing)

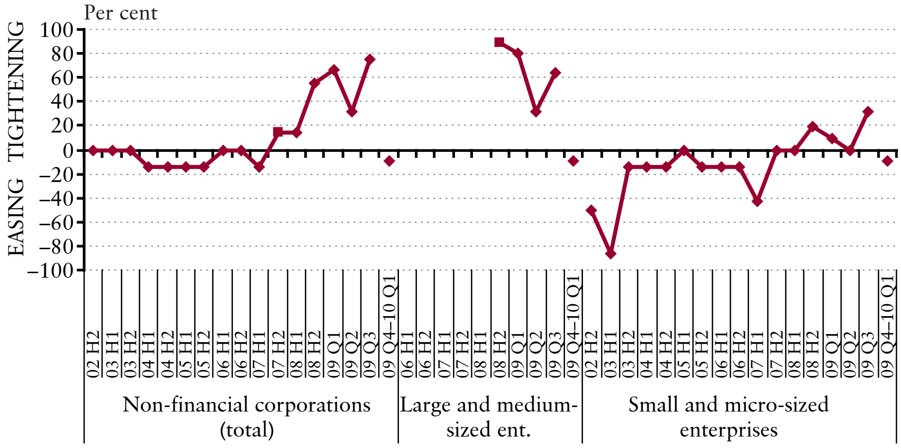


Chart 25

Fee(s) charged for extending loans/credit lines by corporate category

(net percentage balance of respondents reporting tightening/easing)

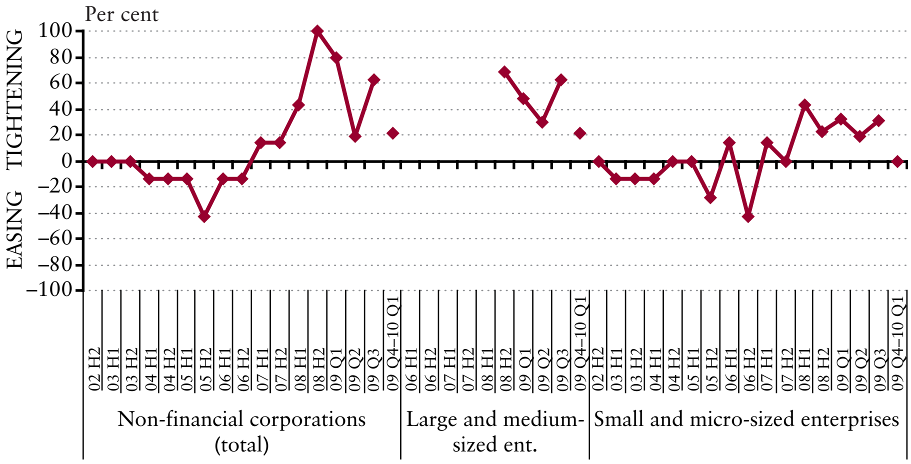


Chart 26

Spread between lending rates and cost of funds by corporate category

(net percentage balance of respondents reporting tightening/easing)

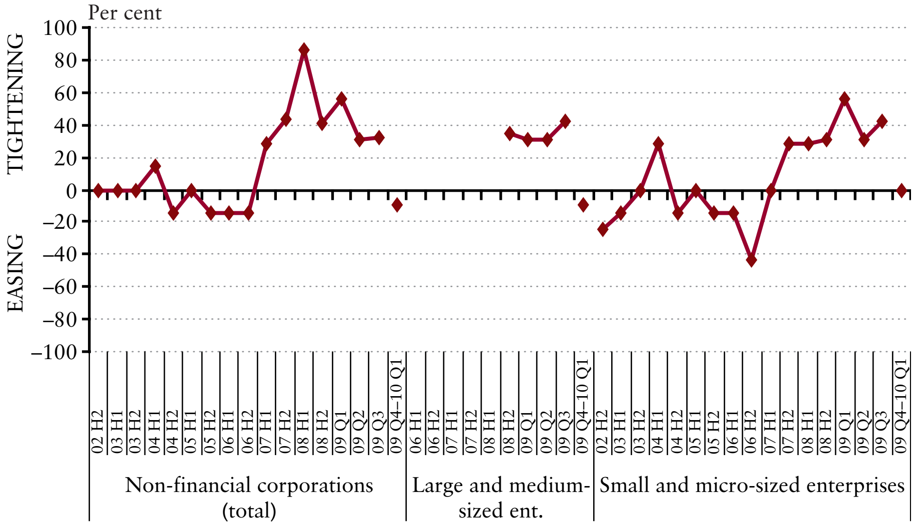


Chart 27

Premium on higher risk loans by corporate sector

(net percentage balance of respondents reporting tightening/easing)

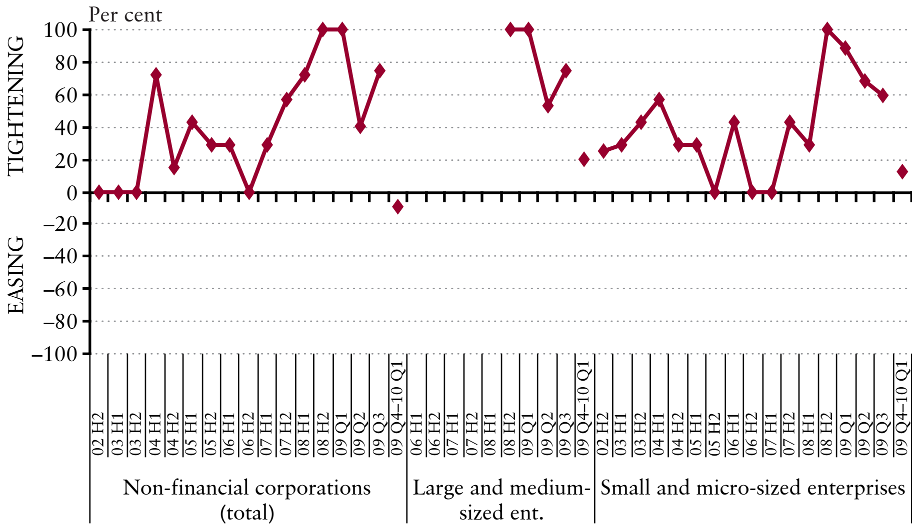


Chart 28

Covenant requirements by corporate category

(net percentage balance of respondents reporting tightening/easing)

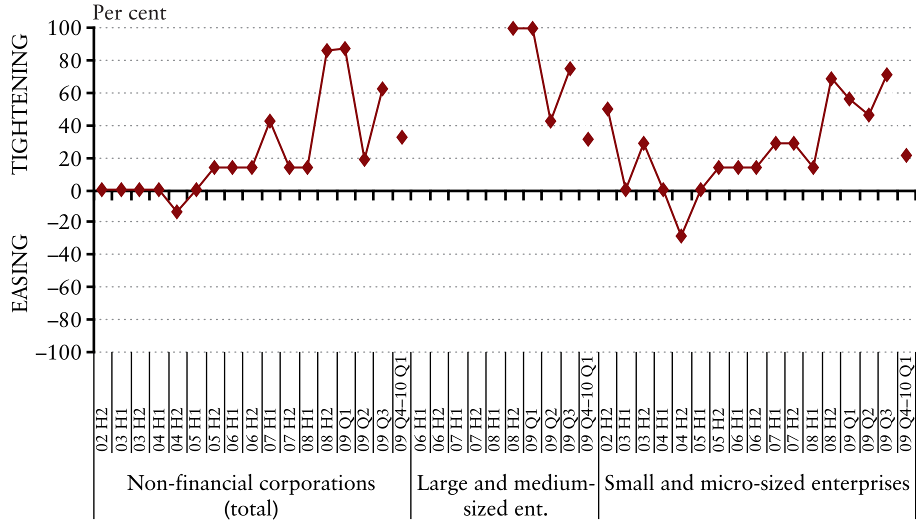


Chart 29

Collateralisation requirements by corporate category

(net percentage balance of respondents reporting tightening/easing)

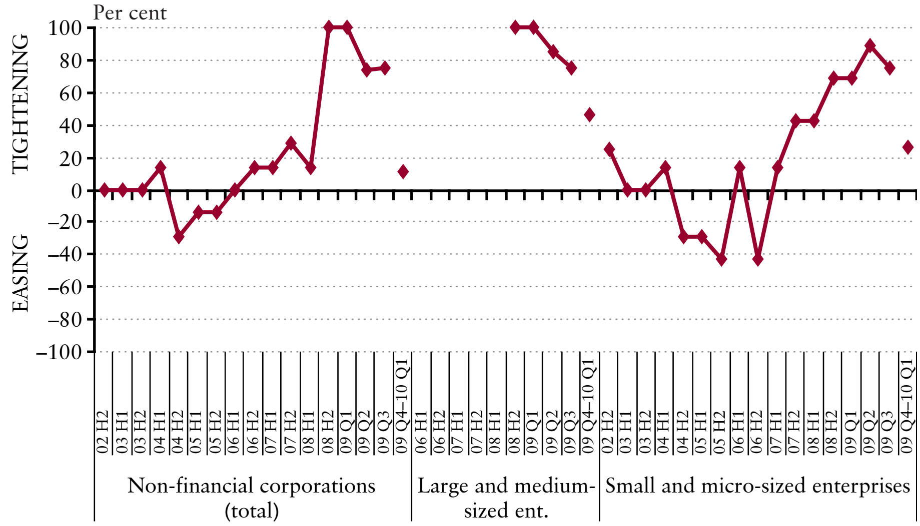


Chart 30

Minimum required credit score by corporate category

(net percentage balance of respondents reporting tightening/easing)

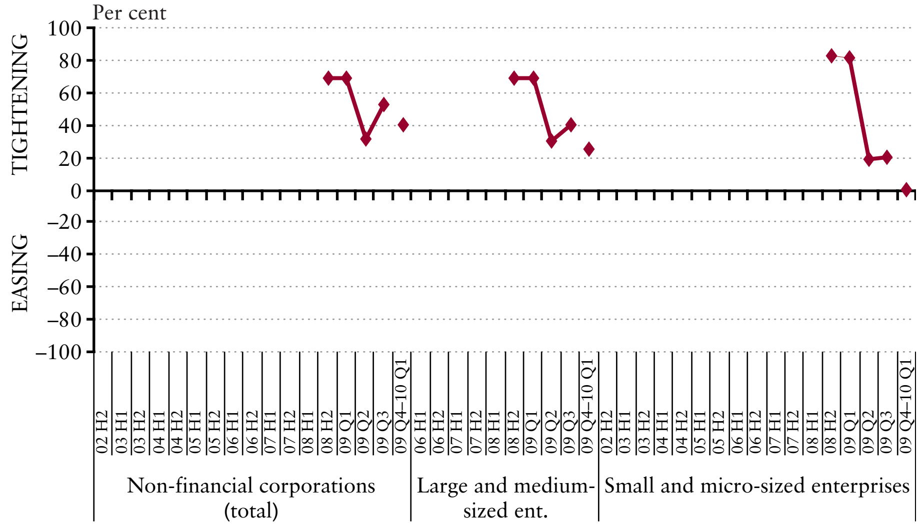


Chart 31

Monitoring/reporting requirements by corporate category

(net percentage balance of respondents reporting tightening/easing)

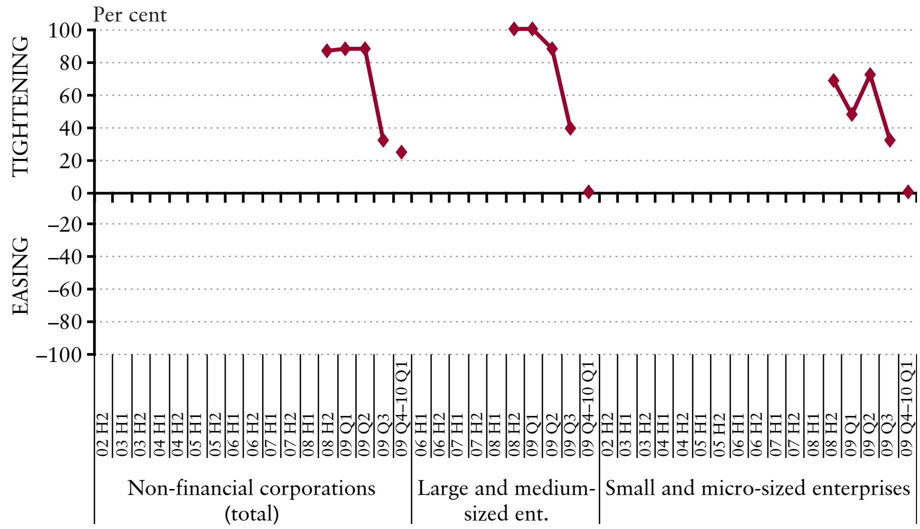


Chart 32

Factors contributing to changes in credit standards and terms on corporate loans

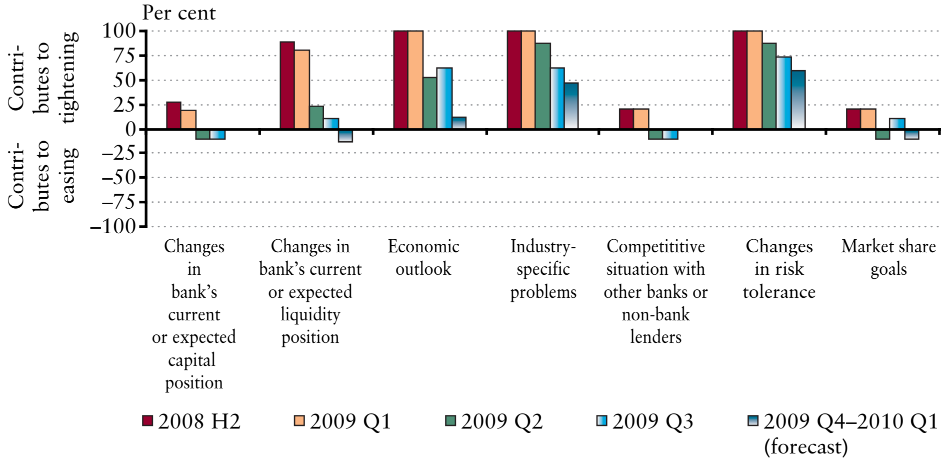


Chart 33

Loan demand by corporate size

(net percentage balance of respondents reporting increase/decrease in demand)

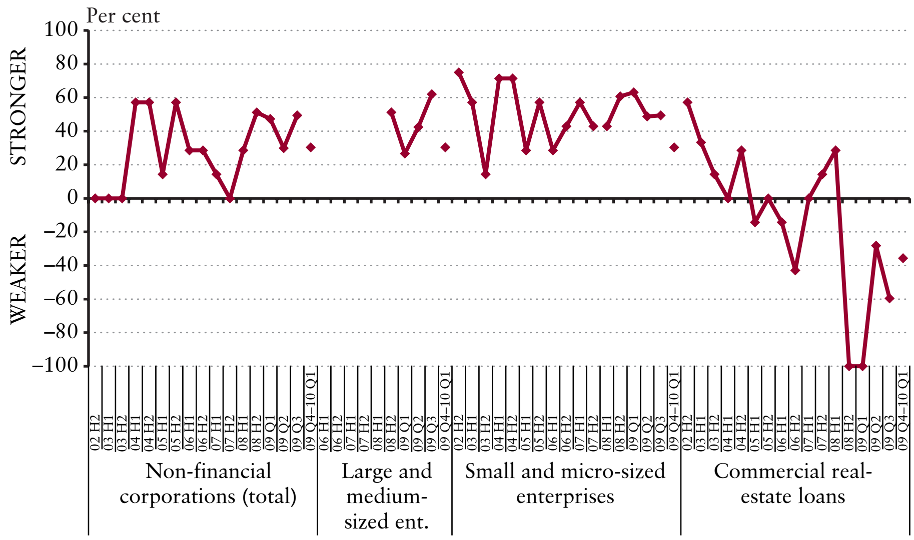


Chart 34

Changes in loan portfolio quality by sector

(net percentage balance of respondents reporting improvement/deterioration)

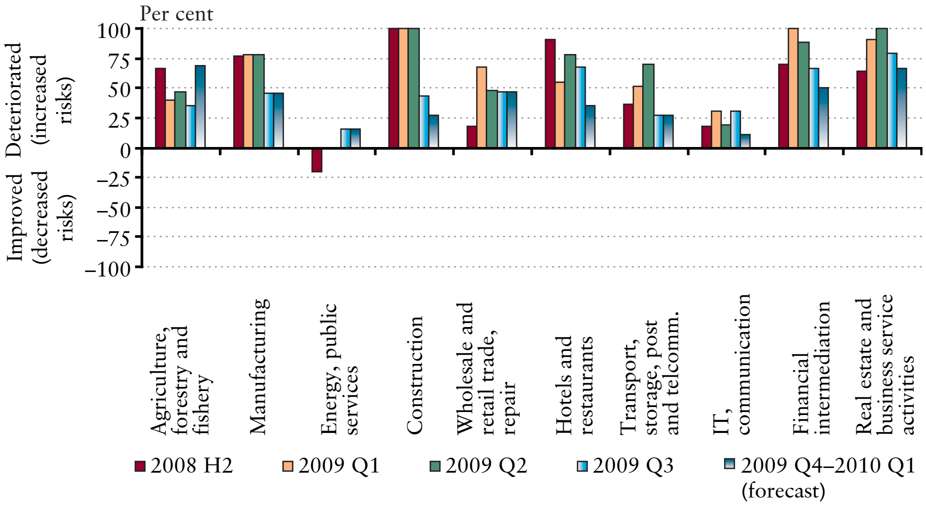


Chart 35

Willingness to lend (volume of loans) and credit standards/credit conditions for commercial real-estate loans

(net percentage balance of respondents reporting an increase/decrease and tightening/easing)

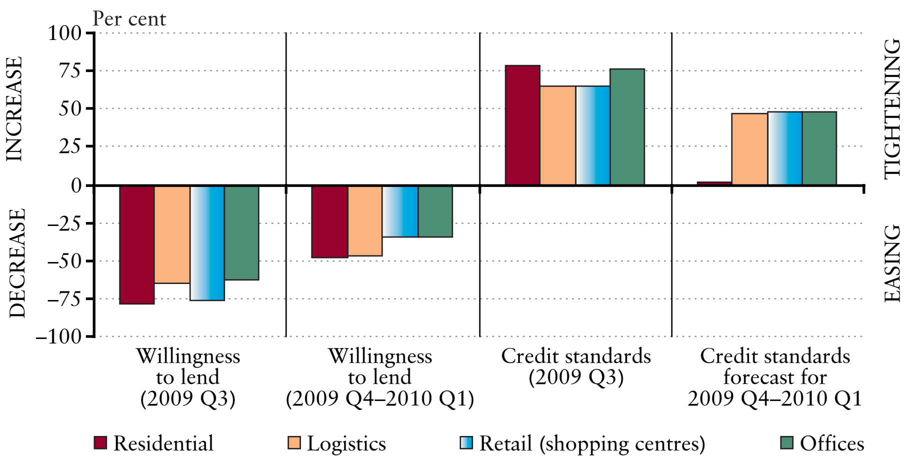


Chart 36

Demand for loans in specific segments of the commercial real-estate market

(net percentage balance of respondents reporting an increase/decrease in demand)

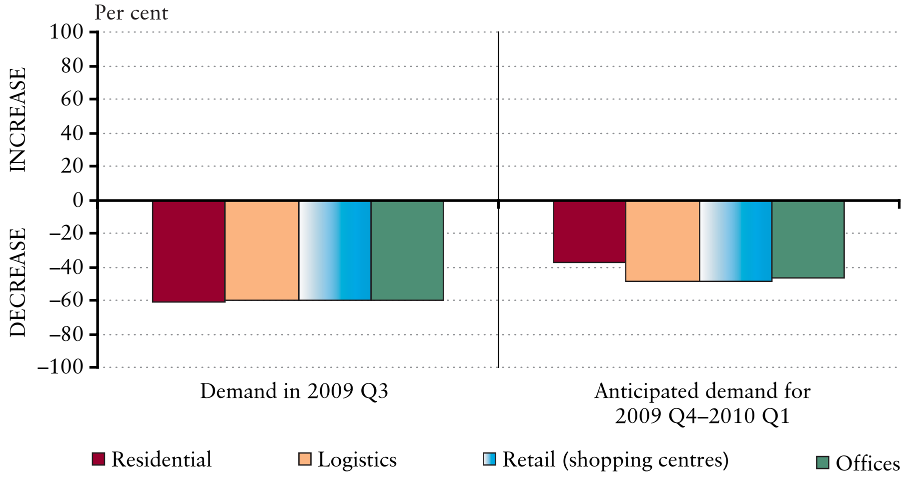


Chart 37

Developments in perceptions of risk associated with corporate loans based on answers provided on default rate and loss given default

(net percentage balance of respondents reporting increased/decreased risk)

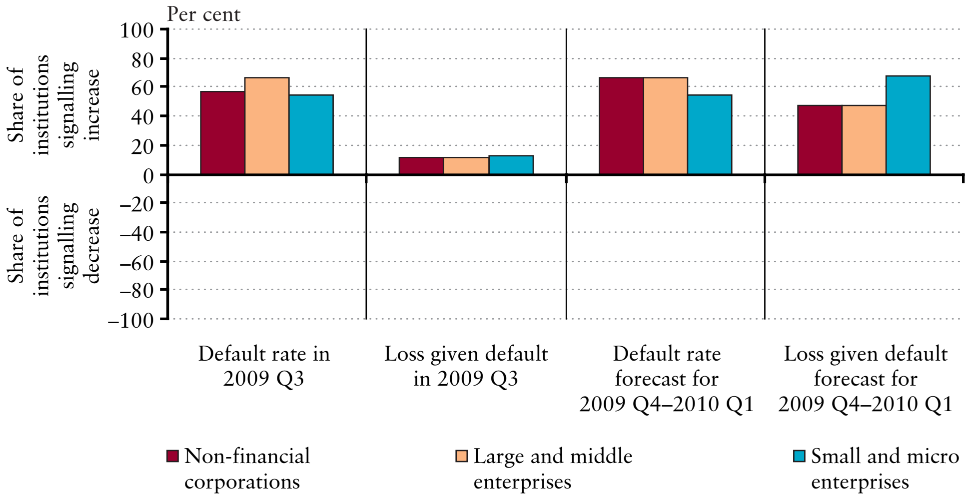
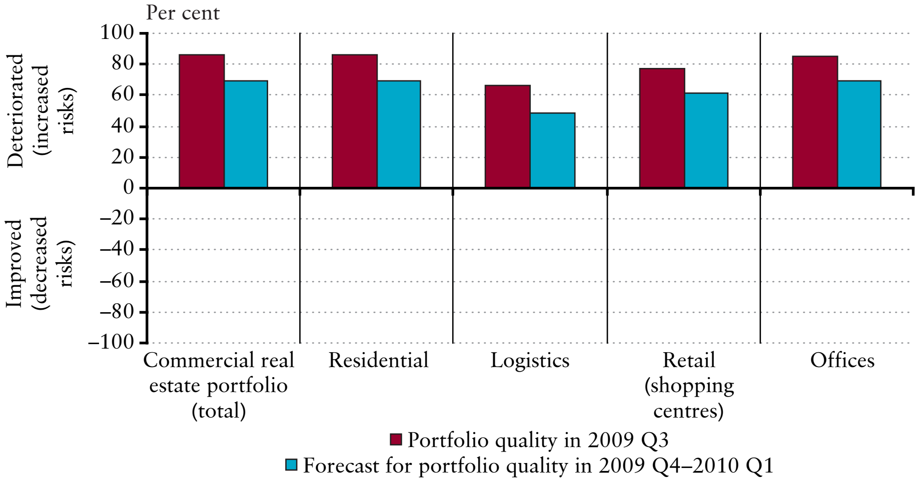


Chart 38

Changes in the quality of the commercial real estate loan portfolio

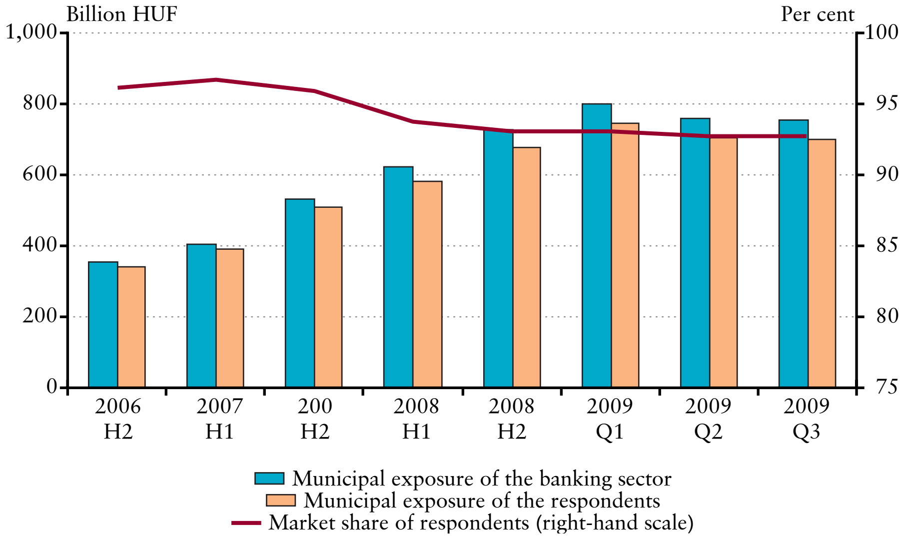
(net percentage balance of respondents reporting improvement/deterioration)



LENDING TO MUNICIPALITIES

Chart 39

Total exposure to municipalities and the share of banks completing the questionnaire



Note: From 2009, stock data also include those for credit institutions and branches.

Chart 40

Willingness to lend and credit standards/credit conditions in lending to municipalities

(net percentage balance of respondents reporting an increase/decrease and tightening/easing)

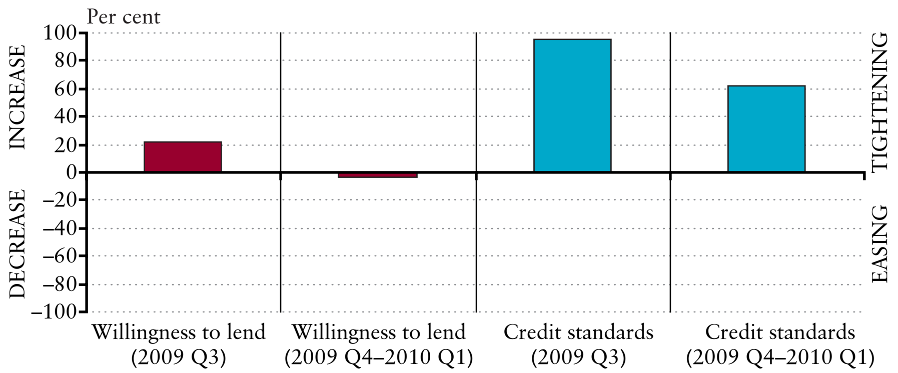


Chart 41

Demand for loans and portfolio quality in lending to municipalities

(net percentage balance of respondents reporting an increase/decrease and deterioration/improvement)

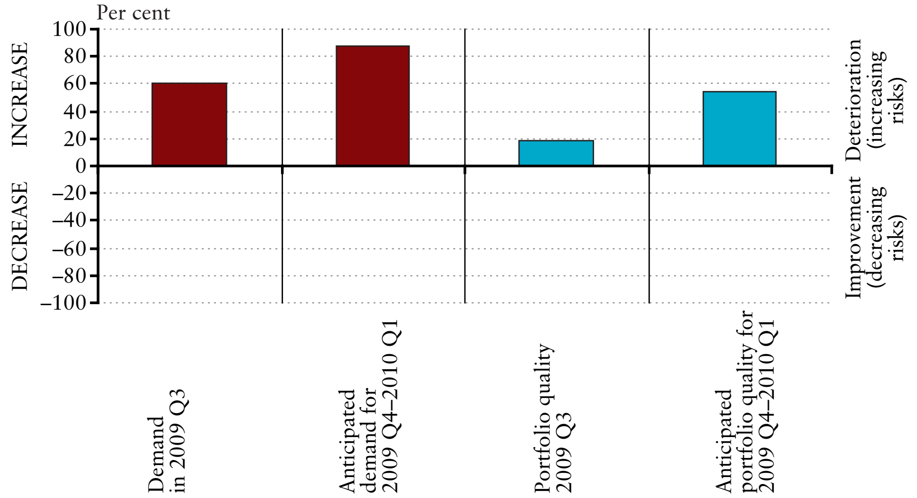
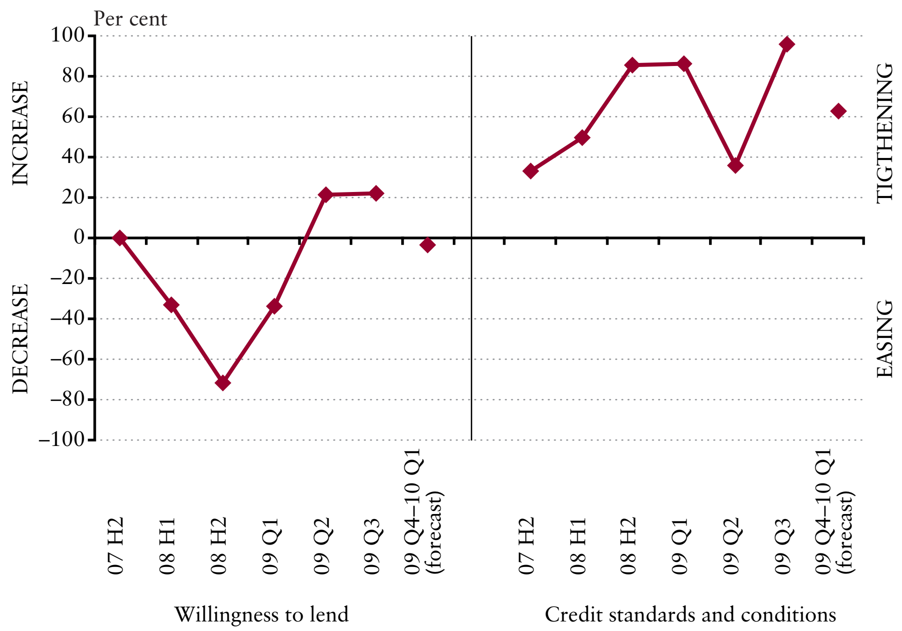


Chart 42

Willingness to lend and credit standard in lending to municipalities since 2007 H2



Annex 2: Methodological notes

The lending survey facilitates an analysis of how major banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies, based on the management's and owners' assessment of the situation. Aggregating individual, micro-level answers helps researchers draw conclusions regarding likely changes in the directions and trends in the credit market. The conclusions of this analysis always present the answers provided by senior bank officers rather than our own expert opinion. The survey covers household, corporate and municipal lending activities.

In accordance with the established practice, the questionnaires were sent to senior loan officers at the credit institutions involved in the survey. They transmitted their replies via EBEAD, the MNB's electronic data collection system. Leasing companies associated with the banks surveyed gave written answers in response to questions regarding motor vehicle financing.

In the case of the household segment, a total of 13 banks were involved in the interviews. Nine banks responded to questions related to housing loans, while 13 banks and 4 financial enterprises owned by banks covered questions on consumer loans.[5] With respect to housing loans, based on data from the end of 2009 Q3, the surveyed institutions accounted for 91.1% of the banking sector,[6] while their percentage share in consumer loans was 85.7%.

The corporate questionnaire was completed by seven banks, with a total market share of 83.5% and 93.6% of the corporate loan and commercial real estate loan markets, respectively.

A total of 6 banks were interviewed on the subject of loans extended to municipalities. Based on data from the end of 2009 Q3, the institutions surveyed covered 92.87% of total municipal exposure by banks.

In terms of methodology - starting from the survey conducted in January 2009 - the survey consists of the standard questionnaire only in each segment. Information about current issues and trends, which varied for each survey conducted in the past, will be obtained primarily through the 'market intelligence' practice of the MNB.

The standard part of the questionnaire asked respondents for changes in willingness to lend (volume of loans), credit standards and credit/disbursement conditions, as well as changes in demand (observed in the last quarter and, as expected for the next half year, seasonally adjusted changes in new credit applications) and in portfolio quality as perceived by the respondent, and changes in the risk assessment of different sectors in the case of the corporate questionnaire. The survey applied a five-step scaling to assess changes in the willingness to lend, demand, standards/conditions, risk parameters and trends in the risk assessment of different sectors:

- A rating of 1 reflects a considerable increase in demand and in willingness to lend, a considerable tightening in credit standards/credit conditions, a considerable increase in housing prices and risk parameters and, in the case of the risk assessment of sectors, a score of 1 indicates a considerable increase in risk perception relative to the half year preceding the survey, or relative to the current half year or for the upcoming half year in the case of a forecast.

- A rating of 3 indicates an unchanged assessment, both for the current half year and for the forecast pertaining to the upcoming half year.

- A rating of 5 reflects a considerable decrease in demand and in willingness to lend, a considerable loosening of credit standards/credit conditions, a considerable decline in housing prices and risk parameters and, in the case of the risk

[5] The number and scope of banks varied during the six-month periods under review (e.g. as a result of mergers). Initially, after the survey began (with the exception of December 2003) we conducted interviews with seven banks on the subject of housing loans; the number of banks surveyed increased to eight in December 2005 and to nine in December 2007. As regards consumer loans, we initially interviewed seven banks. The number of surveyed banks increased to nine in 2004 H1, then rose to ten at the end of 2004, eleven at the end of 2006, twelve in July 2007 and thirteen in January 2008.

[6] For the purposes of our analysis, the banking sector does not include Eximbank, KELER and the Hungarian Development Bank (MFB).

assessment of sectors, a rating of 5 indicates a significantly safer climate relative to the half year preceding the survey, or relative to the current half year or for the upcoming half year in the case of a forecast.

Ratings of 2 and 4 allow for an intermediate assessment between two extremes (e.g. demand increasing to some extent).

Keywords used for the purposes of the questionnaire are defined as follows:

Volume of loans to be granted (willingness to lend) reflects the respondent's intention to expand and increase its portfolio in the specific segment.

Credit standards represent internal banking policies, which determine the type of clients and client groups of a specific bank (based on their classification according to sector, location, size, financial indicators, etc.), and the type of credit products offered to them (collateralised loans only, investment loans, overdrafts, etc.).

In terms of credit conditions, there is a distinction between price-related and non-price related factors. Non-price related credit conditions (such as collateralisation requirements, loan covenants, maximum size of loans/credit lines, etc.) represent specific contractual terms; the bank will not disburse the loan unless these conditions are met. Regarding the non-price related factors, the survey queried respondents on items such as the spread between the interest rate level and the cost of funds, and risk premium.

As credit standards and credit conditions are interrelated concepts, we surveyed overall changes in credit conditions and standards, followed by a separate query on individual credit conditions.

The questionnaire is presented in Annexes 4, 5 and 6 (along with aggregated results where numeric answers were provided) which are available on the homepage of MNB in Excel format). The presentation of the results follows the structure of the relevant questionnaire for all three lending segments (household, corporate and municipal). As a rule, retrospective questions in the questionnaire refer to the previous quarter year (previous half year in the past), (e.g. to 2009 Q3 in October 2009), whereas forward-looking questions contain projections for the upcoming half year (e.g. for 2009 Q4 and 2010 Q1 in October 2009), relative to the trends of the previous quarter year (previous half year in the past). Since 2009 the survey has been conducted on a quarterly basis; in future surveys retrospective questions have had a reference period of a quarter, while forward-looking questions have covered a half-year period.

To indicate changes, the survey used the so-called net change indicator, expressed as a percentage of respondents. This indicator is calculated as follows: market share-weighted ratio of respondents projecting a change (tightening/increasing/strengthening) minus market share-weighted ratio of respondents projecting a change in the opposite direction (easing/decreasing/weakening).

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November 2009

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