



credit trends

Credit Information Bureau Annual Report

2019



BIURO INFORMACJI KREDYTOWEJ

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Key findings

- In 2019, previous year's trends on the retail credit market for private customers were continued, though we could observe also new phenomena.
- In housing loans, the 1st quarter of 2019 was poorer due to the lack of the MdM programme, which drove lending in the first months of the previous years. The next quarters were better, but sales dynamics, especially in terms of numbers, was lower than in 2018.
- The dynamics in the number of housing loans granted lags behind the dynamics of the number of delivered flats.
- In instalment and cash credits, as before, we can observe the stabilisation of the number of granted credits and increases in the amounts of granted credits.
- Poor results of instalment credit sales come as a surprise in view of a clear rise in the incomes of households.
- The number of borrowers is stable, only the number of housing borrowers is growing. The liabilities of private customers are on the rise, both in housing loans and consumer credits, but the rise in the latter is slightly slower than in 2018.
- In credit cards, there are growths which may have been caused by the return to the practices of using card accounts to finance hire purchase.
- The rises in non-bank loans, observed before, were over. The former rises seem to have been caused by a closer cooperation of loan companies with BIK.

Andrzej Topiński, PhD
BIK Chief Economist



The number of borrowers, outstanding debt

The number of borrowers servicing credits/loans is stable, their debt is rising fast.

In December 2019, in the BIK database, there were 15,444 thousand customers of both sectors (bank and loan companies) having currently serviced liabilities. In 2019, their number declined by 21 thousand. The decline occurred in both sectors, but their scale is negligible. It was similar in 2018.

The number of customers in the bank sector compared to the beginning of 2012 declined by 549 thousand.

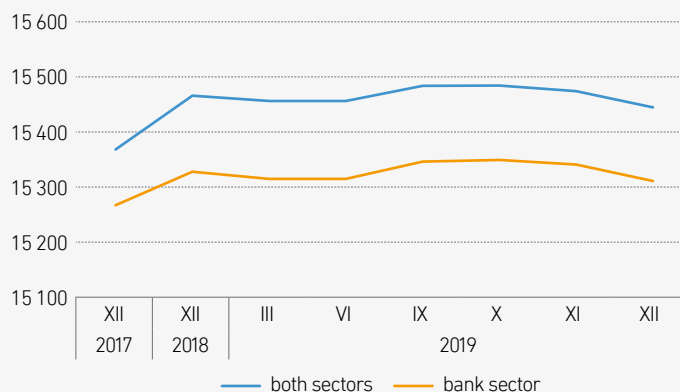
The outstanding debt of households amounted to 671 billion zlotys in December 2019; it rose by 44 billion in the course of the year (7%) and in the 4th quarter the debt level did not change much.

As a result of the weakening of the Swiss franc against the zloty during 2019 by 10 groszes (December YoY), the debt of frank borrowers decreased by 3.9 billion zlotys due to exchange rate differences.

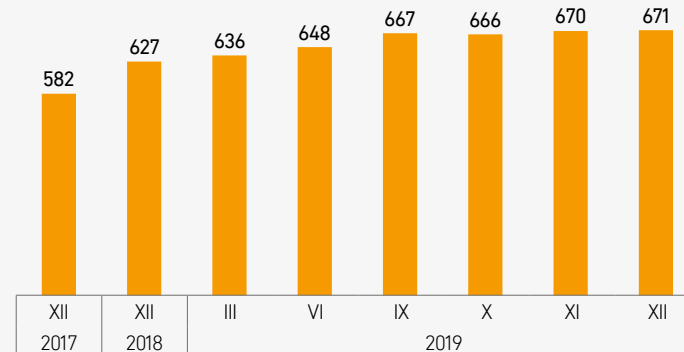
A similar rate of debt growth occurred in 2018, when the debt increased YoY by 8%; the impact of exchange rate differences on the franc was strong in 2018 and exchange rate differences increased the debt.

The franc went up by 25 groszes in 2018. A strong trend of debt growth is of permanent character. Compared to the beginning of 2012, household debt increased by 213 billion zlotys (46.6%).

The number of borrowers (in thousands) having liabilities in the bank and loan sectors



Outstanding debt (in billions of zlotys) jointly in the bank and loan sectors



Bank sector borrowers by product

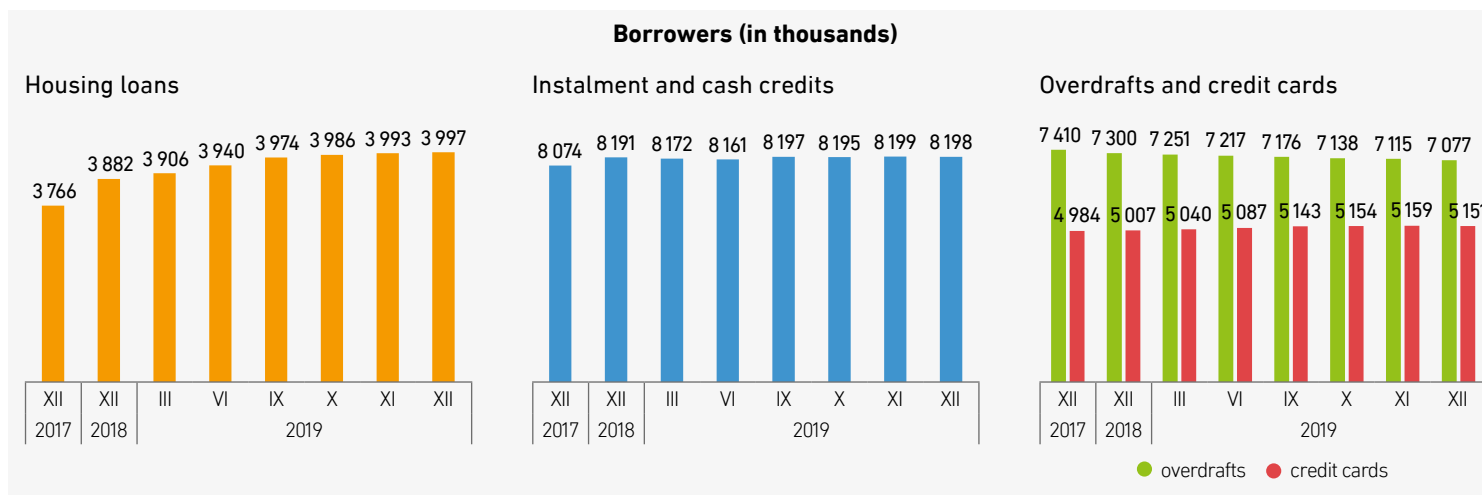
The growth rate in the number of housing loan borrowers amounted to about 3% annually in the years 2017-2019. In December 2019, we recorded in the BIK database 3,997 thousand borrowers, 115 thousand (3%) more than in December 2018. A year before, in 2018, the number of borrowers rose by 116 thousand (3.1%).

Seven years before, in January 2012, 3 million customers serviced housing loans, 1 million less than at present.

The number of customers servicing consumer credits is stable; rises/declines are small. In 2019, the number of new customers amounted to 7.5 thousand (0.1%). It was similar in 2018, when the number of customers increased by 116 thousand. Seven years after January 2012, the number of customers servicing consumers credits declined by 321 thousand customers. It was partly due to the development of the loan sector.

The number of credit card holders began to grow. In 2018, their number increased by 144 thousand customers. In 2018, the rise amounted only to 22 thousand. The rises resulted from the policy, run by some banks, of using card accounts to credit hire purchase (more about it later). From January 2012, the number of card holders increased by 78 thousand.

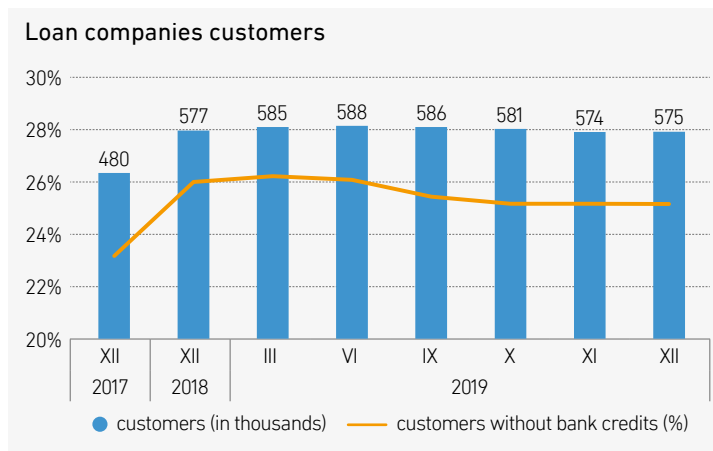
The number of customers possessing overdraft is on a constant decline. At the end of December 2019, there were 7.1 million of them, i.e. 223 thousand less than in December 2018.



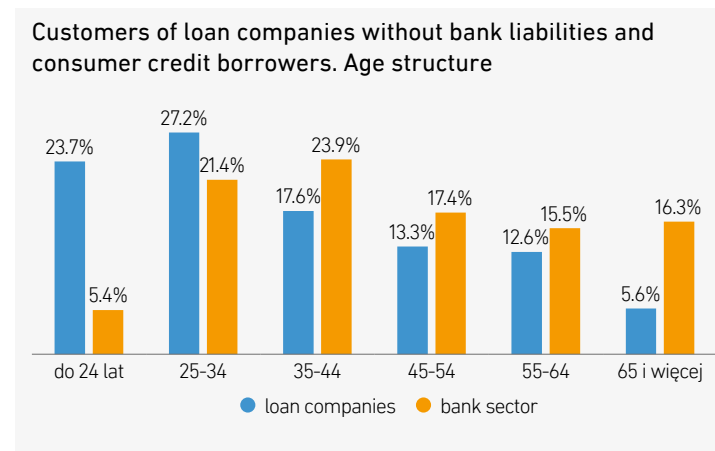
Customers of loan companies

The number of non-bank loan customers stopped growing.

2018 saw a considerable rise in the number of customers of loan companies. At the end of 2018, there were 577 thousand borrowers, i.e. 97 thousand more (20%) than a year before. A similar growth was observed in the BIK database in the years 2016-2017. The number of customers of loan companies grew until June 2018, subsequent increases are insignificant. In December 2019, the number of borrowers was higher than a year before only by 2.3 thousand customers. A significant proportion of previous increases resulted from including new loan companies in the BIK database.



There are 144,5 000 of customers making use of loan companies, they are characterised by a different age structure. They are primarily young people. Half of the borrowers having no liabilities to banks are at the age of 35, and the share of these age groups in the number of consumer credit borrowers amounts to 27%. The youngest age group, up to 24 years of age, has a 23.7% share in the number of loan companies customers; in banks, the youngest have only a 5.4% share. And the share of the oldest age groups in the number of loan companies customers is insignificant.



Key findings

- The trends previously observed on the consumer credit market continued in 2019. The number of people servicing consumer credits was stable. The level of sales of credits in terms of numbers was close to that in the previous year, the amount of credits granted increased. In the segment of credits for low amounts (up to 4,000 zlotys), we observed a decline in the number of credits.
- The loan sector did not show a rise in sales or in the number of loans.
- There was a surprisingly poor dynamics of instalment credits in view of high growths in incomes of people. A part of crediting of hire purchase of goods and services is made by credits cards, but anyway hire purchase financing by the bank sector is left far behind the quickly rising incomes of population.
- Household debt in consumer credits increased by 8.2% in 2019, slightly below the nominal income growth of the population. This means a slowdown in consumer credit debt growth compared to 2018 results (in December, 11.1% YoY).
- The quality of consumer bank credits was at a stable, safe level. From the portfolio perspective, in 2019, we observed a decline in the number of accounts entering an overdue status. The younger the generation, the smaller the share of accounts overdue in servicing in the number of those granted, measured at a comparable time after account opening.

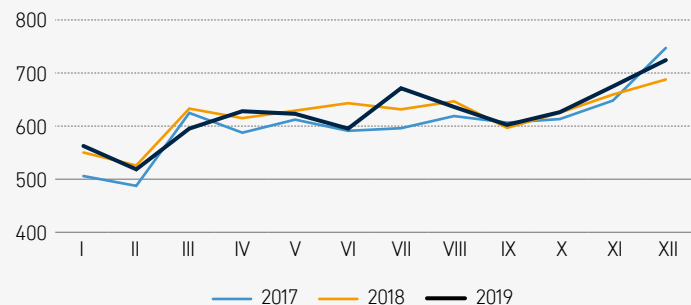
The number of granted credits

A low dynamics of sales of consumer credits in terms of numbers continues.

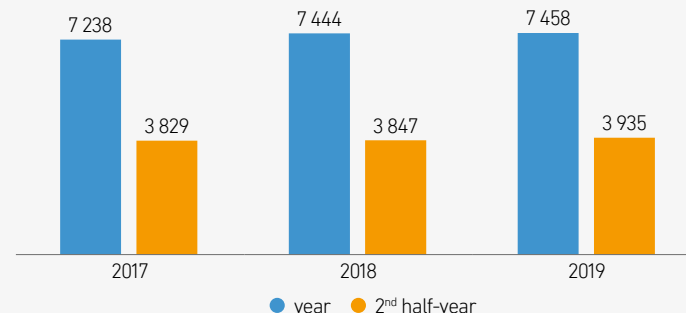
In 2019, banks and SKOK credit unions granted 7,458 thousand consumer credits (cash and instalment), only 0.2% more than in 2018. The 2nd half-year was slightly better, the YoY dynamics amounted to 2.3%. The result of sales in terms of numbers is strongly affected by instalments credits showing seasonal growths in holiday periods; the cash segment does not indicate explicit seasonal trends.

In the years 2011-2019, the number of consumer credit granted remains at a similar level, close to 7.5 million contracts per year. The exception was the period of 2012-2013, which saw slightly lower sales. The consumer credit market gives an impression of a saturated market, both in terms of number of borrowers and the number of contracts concluded.

Consumer credits (in thousands) granted monthly in 2017–2019



Consumer credits (in thousands) granted in 2017–2019



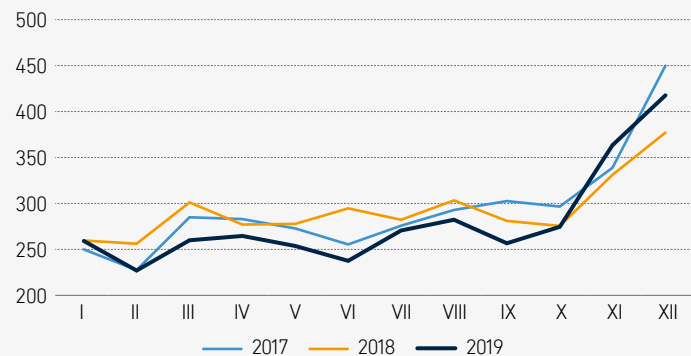
Instalment and cash credits – lending in terms of numbers

Sales declines in the instalment segment, growths in the cash segment.

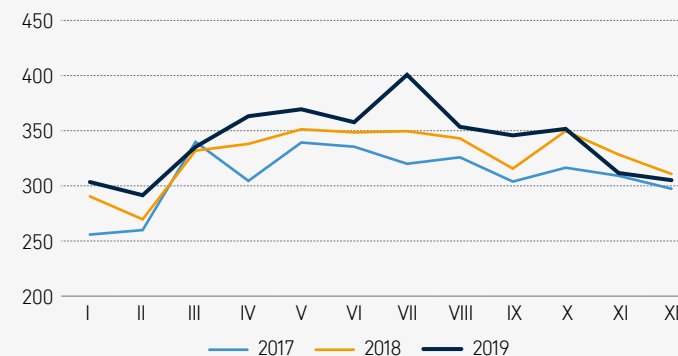
Since the 4th quarter of 2018, the sales of credits financing hire purchase in subsequent months, except for the end of 2019, have been on a lower level compared to the analogous months of the previous year. The decline in the reported sales of instalment credits was affected by the financing of hire purchase by some banks through credit card accounts. In the whole of 2019, banks granted 3,367 thousand instalment credits, i.e. 149 thousand less (4.2%) than a year before.

And the sales of cash credits in 2019 were 4.1% higher in terms numbers compared to the previous year. In 2019, the banking sector provided 4.1 million cash credits. Cash credits do not show a clear seasonality of sales, although poorer results can be seen in the 1st and 4th quarters in the number of credit contracts concluded. It may be related to a higher number of public holiday days at the beginning and in the last months of the year.

Instalment credits (in thousands) granted monthly in 2017–2019



Cash credits (in thousands) granted monthly in 2017–2019



Bank sector. Consumer credit debt, the number of borrowers

The number of customers servicing consumer is on a stable level, but their debt is clearly on the rise.

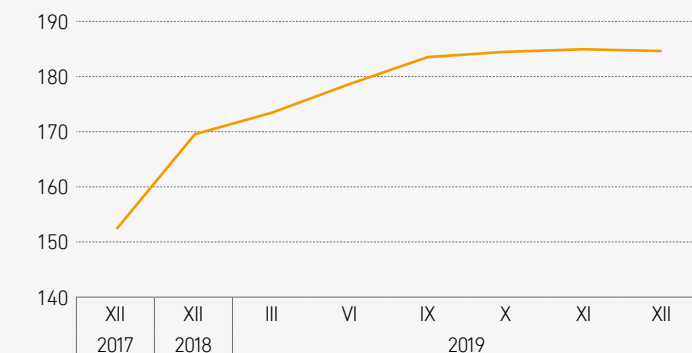
In December 2019, 8,198 thousand customers serviced instalment or cash consumer credits. A year before, there were 7.5 thousand borrowers less (a rise of 0.5%). There was a slight decline in the number of borrowers in the 1st half-year (of 30 thousand customers), the 2nd half compensated for the decline. In 2018, the number of borrowers increased by 1.4%. Thus, the number of borrowers in the consumer segment is stable. And the consumer credit debt systematically grows. At the end 2019, it amounted to 184.6 billion zlotys, i.e. 8.2% more than in December 2018. In 2018, the growths were faster, they amounted to 11.2% YoY in December.

A lower dynamics results from the poor 4th quarter of 2019, the growth amounted only to 0.6% compared to the 3rd quarter. This pattern of dynamics indicators means a growing amount of average debt. It results from a few factors: longer crediting periods, rise in average amounts of granted credits and also higher dynamics of cash credits compared to instalment credits. Cash credits are granted for amounts on average four times.

The number of borrowers (in thousands) servicing consumer credits



Consumer credit debt (in billions of zlotys)



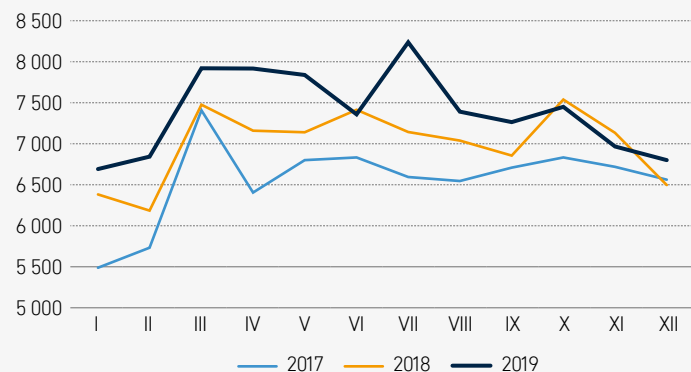
The value of consumer credits granted

The value of consumer credit contracts is on the rise all the time.

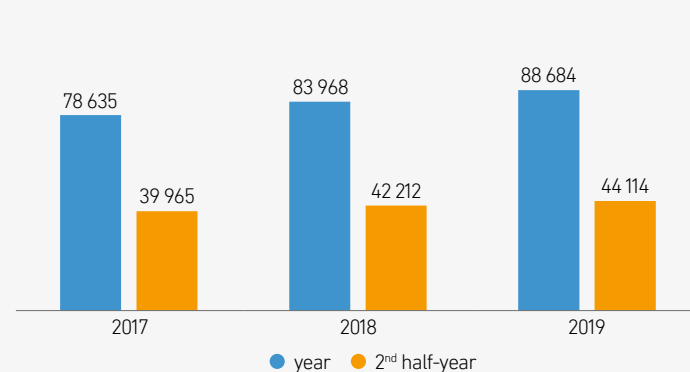
The value of concluded consumer credit contracts is on the rise all the time. We observed a clear upward trend in 2018, and it was continued in 2019. Nearly in all the months in the years 2018-2019, the amount of consumer credits granted exceeded the level of the previous year. Weaker sales, at the level of the previous year, were reported by banks in June 2019 and at the end of the year.

In 2019, banks and SKOK credit unions granted instalment and cash credits amounting to 88.7 billion zlotys, i.e. 5.6% more than a year before. In the 2nd half-year, the growth rate was slightly weaker; in the 1st half-year of 2018, it was 6.7% YoY, in the 2nd half-year 4.5%. An upward trend in consumer credit sales seems stable though. The YoY sales dynamics in terms of value is higher than in terms of numbers, which is connected with the growth in an average amount of consumer credit. In 2019, it amounted to 11,891, and in 2018 to 11,280 zlotys. This growth results from a simultaneous rise in the number of granted cash credits and decline in low amount instalment credits.

Amounts of consumer credits (in millions of zlotys) granted monthly in 2017–2019



Amounts of consumer credits (in millions of zlotys) granted in 2017–2019



Instalment and cash credits – sales in terms of value

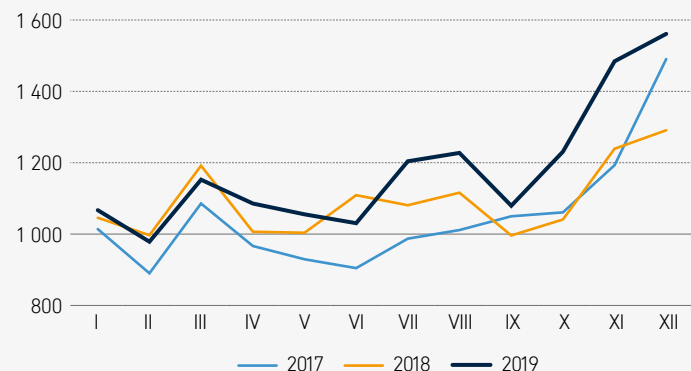
Poor growths in the value of instalment credits granted in the 1st half-year of 2019, while cash credits sales increased dynamically.

In the second half-year of 2019, monthly results of instalment credit sales began to exceed the results of 2018, after several months of the absence of the growths measured this way. The growths in the value of instalment credits granted, combined with a decline in their number, are connected with an increase in the average amount of instalment credit from 3,740 zlotys in 2018 to 4,212 zlotys 2019. Instalment credits in the holiday periods are granted for significantly lower amounts.

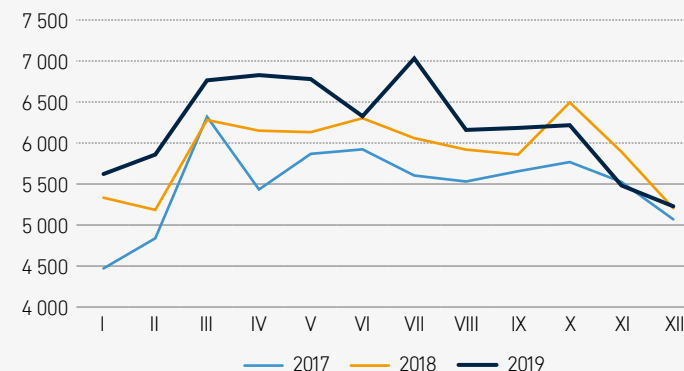
In December 2019, the average instalment credit amounted to 3,738 zlotys.

A high dynamics of cash credit sales in terms of value is continued. In 2019, the bank sector provided cash credits for the amount of 74.5 billion zlotys, i.e. 5.2% YoY higher. In the first half-year of 2019, the dynamics rate was 7.9% higher; in the second half-year the annual dynamics declined to 2.5% due to the poorer 4th quarter.

Amounts of instalment credits (in millions of zlotys) granted monthly in 2017–2019



Amounts of cash credits (in millions of zlotys) granted monthly in 2017–2019

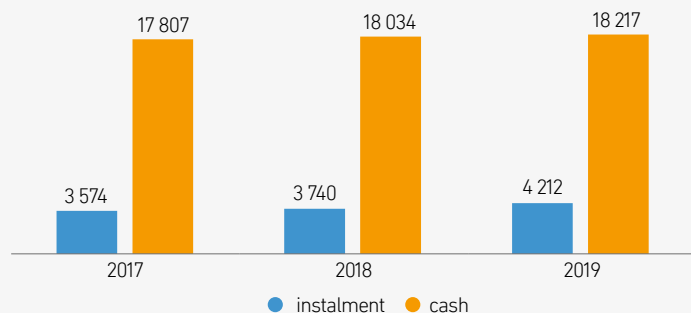


Consumer credits in amount segments

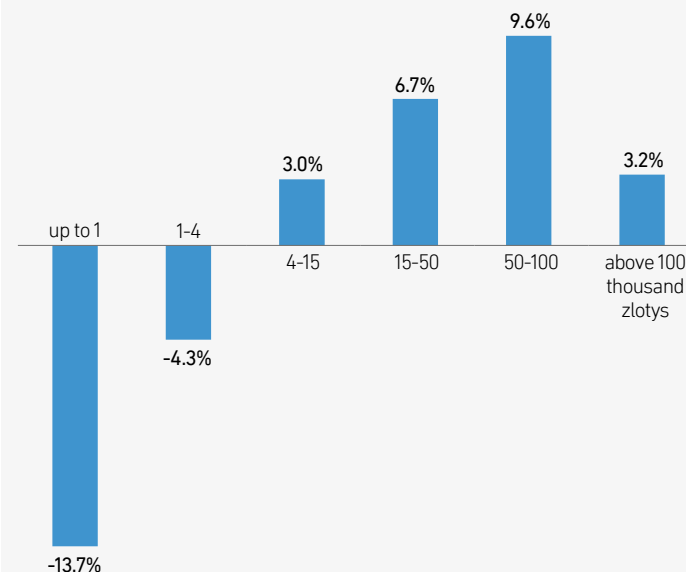
In 2019, a decline in number of credits granted by the bank sector for low amounts returned.

In 2019, a decline in the number of low amount credits granted by banks continued. This time it is difficult to explain the declines in low amount credits with the competition of loan companies. The non-banking sector did not show a sales growth in 2019. The number of credits for up to 4 thousand zlotys even declined slightly (by 1.3%). Thus, strong declines in the amount segment in the number of credits granted by the bank sector represent a decrease in the size of the whole market. It may have come as a result of the announced tightening of anti-usury regulations.

Consumer credit average amounts



The 2019/2018 dynamics of the number of consumer credits granted



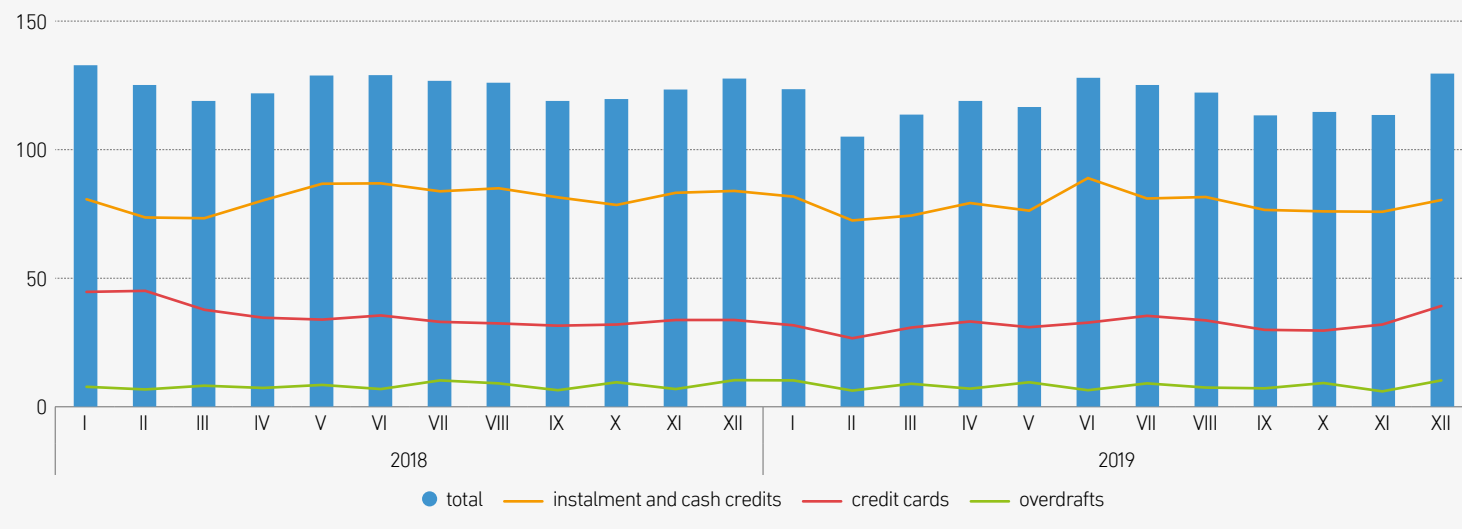
Entries into the 30+day-overdue status

In 2019, fewer accounts entered the 30+day-overdue status.

The number of entries into the 30+day-overdue status may be treated as the first signal of the portfolio quality change. In the first half-year 2019, the number of entries into the first overdue status clearly declined, and it was the same in the 2nd half-year. In the whole 2019, BIK recorded 1.4 million shifts from the regular to the 30+day-overdue status, 5% less compared to 2018. The portfolio of credit cards looked especially good, in the first half-year 10% of accounts less entered the 30-day-overdue status compared to 2018.

These declines occurred despite the YoY increase in the number of accounts in use; in December 2019, in the bank sector, there were 2.2% more accounts in all consumer credit products than a year ago, in instalment and cash credits 2.7% more, and in cards 4.3% more. It was different in 2018, when the number of shifts to the 30+day-overdue status rose significantly, especially in the 1st half-year.

Credits (in thousands) shifting monthly from the regular to the 30+day-overdue status



Entries into the 90+day-overdue status and the Consumer Credit Portfolio Health BIK Index

The number of entries into the 90+day-overdue status and the Consumer Credit Health Index based on them began to show a better quality of portfolios.

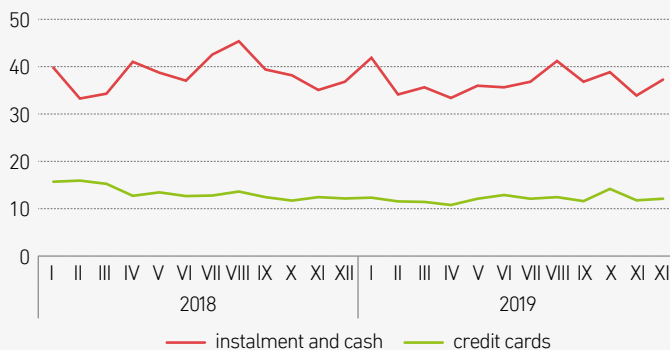
In 2018, especially in the 2nd half-year, we observed growths in the number of entries into the 90+day-overdue status, which was reflected in the deterioration (growth) of the Consumer Credit Health BIK Index. In 2019, the trends, as seen in the graphs, reversed. The number of entries into the 90+day-overdue status is on the decline, and the Consumer Credit Health BIK Index shows an improved quality of consumer credit portfolios.

In the 1st half-year 2019, 53.1 thousand accounts, 8.7% less than in the 1st half-year 2018, on average entered the 90+day-overdue status every

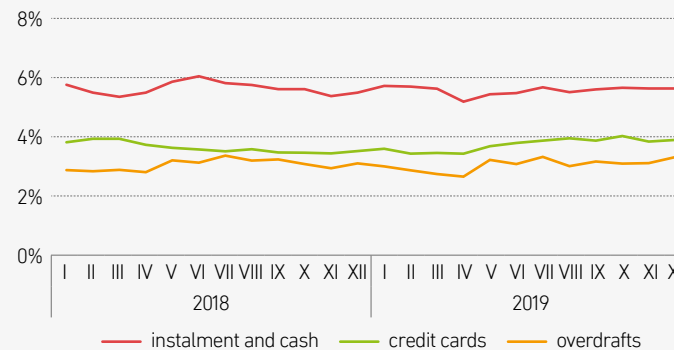
month. The number of entries into the 90+day-overdue status amounted to 45.2% of entries into the 30+day-overdue status, 1 pp less than in the 1st half-year 2018. Simplifying to a certain extent, it may be said that more than half of servicing early overdues are compensated in the following months.

The biggest progress in declines in entries into the 90+day-overdue status in the 1st half-year was recorded in credit cards (15.5%).

The number of monthly entries (in thousands) into the 90+day-overdue status in 2018-2019



Consumer Credit Health BIK Index – in terms of value, monthly quotations



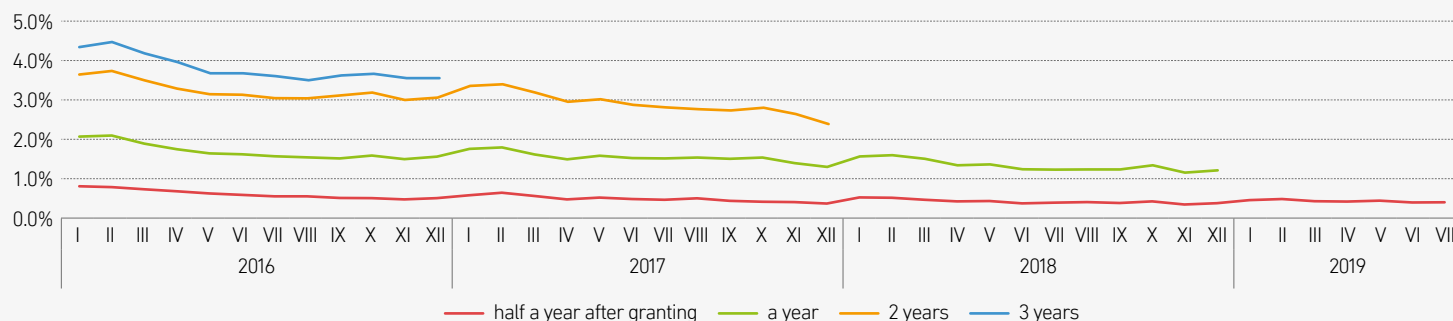
The quality of consumer credits granted in the bank sector (30+day-overdue status)

The lending quality improves – the younger the cohort, the lower the loss rate, as measured with the number of accounts in the 30+day-overdue status.

The younger the cohort, the lower the share of 30+day-overdue accounts in all the accounts opened in the cohort measured in comparable periods. The graph below shows that the loss rate of subsequent credit generations, disregarding the seasonal factor, shows a downward trend. There is the slowest decline in the shares of credits in overdue accounts measured six months after granting. Prompt entries into an overdue status may reflect a fraudulent character of the granted credit. The longer the period from granting the credit, the faster the declines

in overdue accounts together with the cohort age, although two years after account opening, about one-fourth of accounts in the cohort remain in servicing, these are the credits granted for higher amounts and longer periods of repayment. In the previous CREDIT TRENDS report, we indicated that the observation the later the generation, the lower the loss rate of cohorts does not apply to the consumer credits for amounts over 50 thousand zlotys.

The share of 30+day-overdue accounts in the number accounts opened in monthly cohorts in 2016-2019

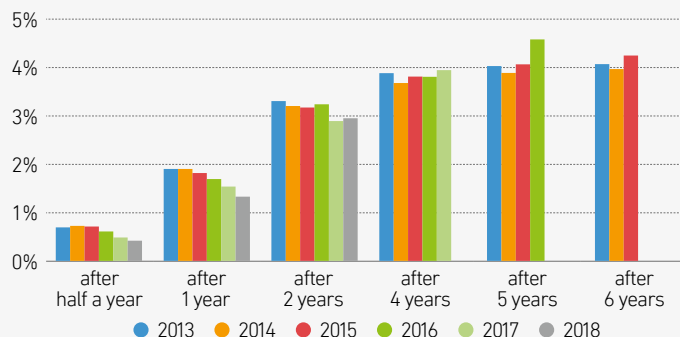


The quality of consumer credits granted (90+day-overdue status)

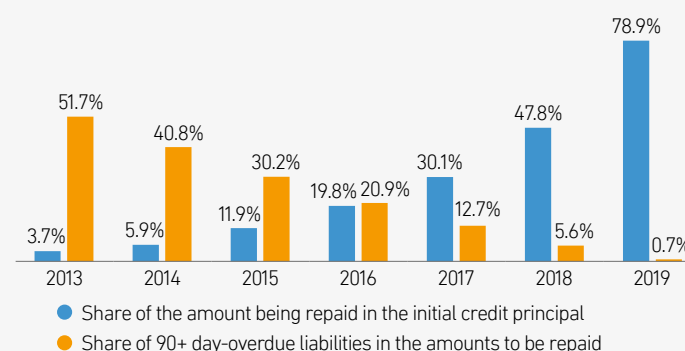
The loss rate of bank consumer credits measured with vintage indicators – the share of overdue credits in the number of granted credits in the cohort in a comparable period follows the principle: the younger the cohort, the lower the loss rate, but measured only in the first year after granting the credit. Measured in the following years, the interdependence is not so clear. Consumer credits have the highest loss rate 4-5 years after granting. In these years, most credits have already been repaid. In generation 2016, i.e. 3-4 years after opening the accounts in December 2019, 19.8% of principal is still being repaid, i.e. nearly 80% of the principal has already been repaid. The process of “deterioration” occurs on a seriously less numerous sample.

A group of older generation credits in the regular servicing status is even less numerous. In the 2013 generation (6-7 years after granting), only 3.7% of the consumer credit principal lent in that year is still being repaid, but more than half of the currently serviced liabilities from this generation is 90+ days overdue. Thus, further deterioration of credits from this generation has little impact on the change in the share of overdue accounts in the number of accounts opened in this generation. In numerical terms, the impact of serious overdues on the share indicator shown in the graph is even smaller.

The share of 90+day-overdue credits in the number of credits opened in 2013-2018



Principal being repaid, generations 2013–2019



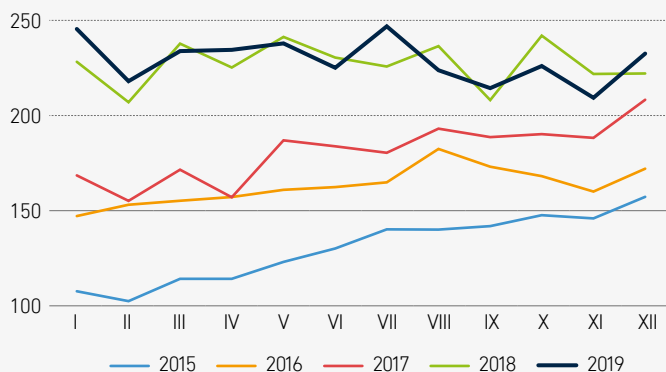
Non-bank loan sales

In the 1st half-year of 2019, loan companies reported sales at a level close to that in the 1st half-year of 2018.

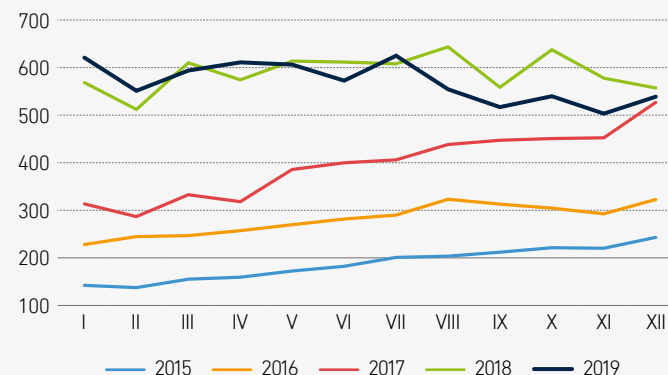
In the 1st half-year of 2019, loan companies reported to BIK granting 2.5 million loans for the total amount of 7.1 billion zlotys. The results are similar to those of the 1st half-year of 2018. In terms of numbers, they mean a YoY decline of 0.8%, in terms of value a YoY rise of 3.4%. The number and amounts of transactions reported by loan companies rapidly grew in 2015-2017, which we informed about in the previous issues of CREDIT TRENDS. During these years, the value of granted loans increased five times. We also emphasised that most probably a

considerable part of these growths resulted from a tighter cooperation of loan companies with BIK, as a consequence of which some of these growths resulted from the disclosure of transactions of the new participants of information exchange. Presently, there are no growths in the number of reported transactions. No growths in the sector, besides the stabilisation of the level of cooperation of companies with BIK, may be connected with an unfavourable regulatory environment for loan companies.

The number of non-bank loans (in thousands) granted monthly in 2015–2019



The value of contracts (in millions of zlotys) for non-bank loans granted monthly in 2015–2019



Key findings

- The sales of housing loans in the 1st half-year of 2019 remained on a record high level though the annual dynamics of sales declined, especially in terms of numbers. In 2019, 238.2 thousand housing loans were granted for the amount of 64.8 billion zlotys. The growths compared to the previous year were 4% in terms of numbers and 14.4% in terms of value. In 2018, 10.7% and 20.5% respectively.
- A lower housing loan sales dynamics than in 2018 is largely due to the withdrawal of the MDM programme. In the 1st quarter of 2018, we saw a 9.6% YoY decrease in sales of housing loans in terms of numbers, and a 4% increase in terms of value. The YoY sales dynamics in the next three quarters was 8.3% in terms of numbers, i.e. also below the 2018 results (11%).
- The dynamics of housing loan sales is lower than the dynamics of delivered flats announced by GUS, especially in the segment of flats intended for sale and rent.
- The average amount of the granted housing loans grows quickly, in 2019 by 10%. Certainly, it is affected by the rise in the prices of flats, but strong growths in the average amount of granted loans were also reported in the period of stable prices. Some growths in average credit amounts result from the requalification of renovation credits by banks reported before as housing and presently as instalment credits.
- The number of people servicing housing loans is on the rise: 3% in 2019, in 2018 likewise. The number of people servicing foreign currency loans is falling.
- The quality of housing loans remains at a good level. Currency loans, including the franc loans, show a lower loss rate than the zloty loans.

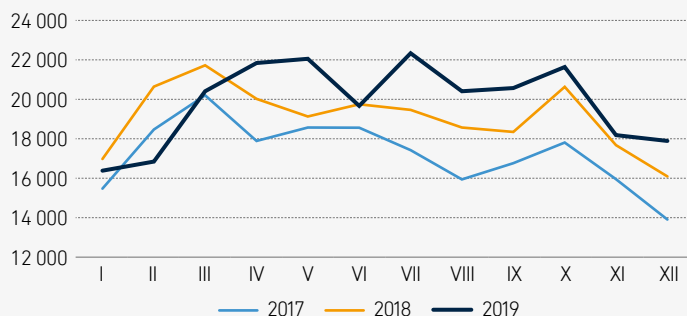
The number of granted housing loans

In the first half-year of 2019, the high dynamics of the number of housing loans granted observed in 2018, continued.

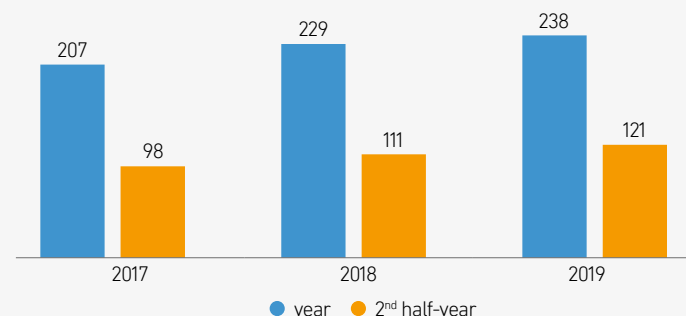
In 2019, 238 thousand housing loans were granted, 4% more than in 2018. The annual dynamics in 2018 was higher, it amounted to 10.7%. A lower growth in the number of loans granted was a result of a one-time event, i.e. the withdrawal of public support within the MdM programme. As a consequence, 9.6% of loans less were granted in the 1st quarter than a year before. In the period April-December 2019, the annual dynamics rate of the number of loans granted amounted to 8.8%. In December, the annual rate came up to 11.2%.

Housing loan sales dynamics (10.7% YoY) in 2018 was significantly higher than in 2019 (4%). The housing industry dynamics measured with the number of flats delivered was higher in 2019 (11.6% YoY according to GUS) than the dynamics of housing loans granted, and, in particular, than the dynamics of the number of delivered flats intended for sale or rent (17% YoY). Loans still do not seem to be a driving mechanism for the housing industry and price increases. The current concerns about the creation of price bubble on the market are not confirmed by the credit market. We recorded more housing loans than in 2019 in 2007, 2008 and 2011, respectively 319, 300 and 252 thousand loans granted.

The number of housing loans granted monthly in 2017–2019



The number of housing loans granted in 2017–2019



The value of granted housing loans

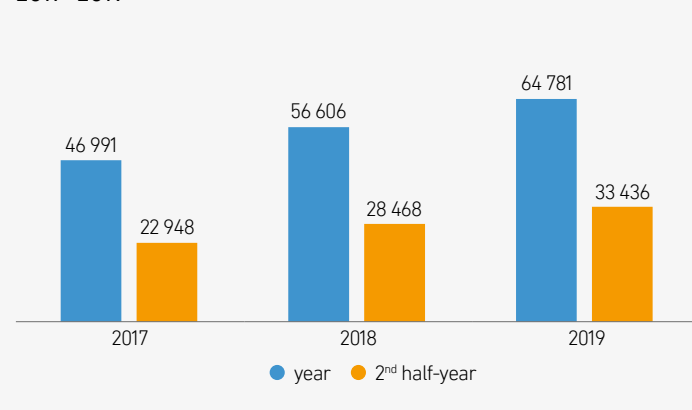
Housing loan sales in terms of value continue to grow dynamically.

In 2019, banks and SKOK credit unions granted housing loans for the amount of 64.8 billion zlotys; only at the boom peak the amount of granted loans was nominally slightly higher; in 2007, it was 65.4 billion, and in 2008 66.3 billion zlotys. Prices of flats seem to come close nominally to the level of those years. Average amounts of loans are higher compared with those in the boom peak period.

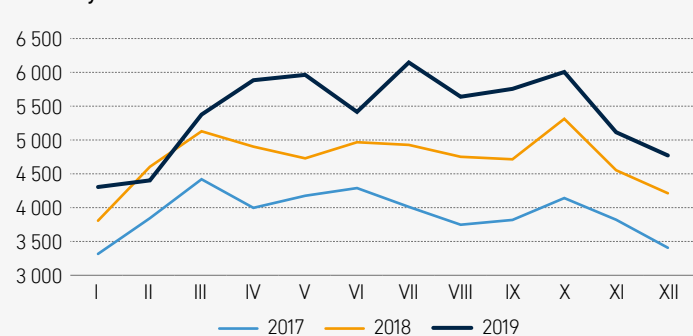
The YoY dynamics of the value of granted loans amounted to 14.4%, two-thirds of which resulted from the growth in the average loan amount (a 10% YoY growth), affected i.a. by the resignation from the MdM programme.

The increase in the average amount of loan is influenced by simultaneous declines in the number of low amount loans and rapid increases in higher amount segments. We mentioned it in the previous CREDIT TRENDS.

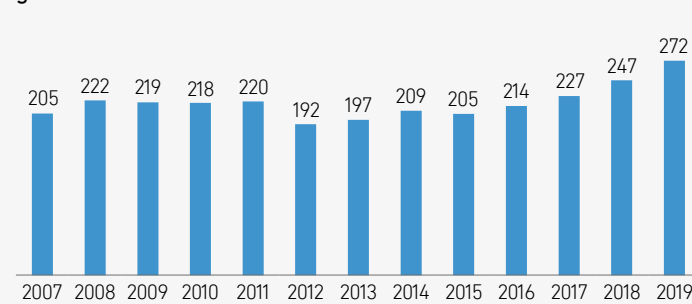
Amounts of housing loans (in millions of zlotys) granted in 2017–2019



Amounts of housing loans (in millions of zlotys) granted monthly in 2017–2019



Average amounts of housing loans (in thousands of zlotys) granted in 2007–2019



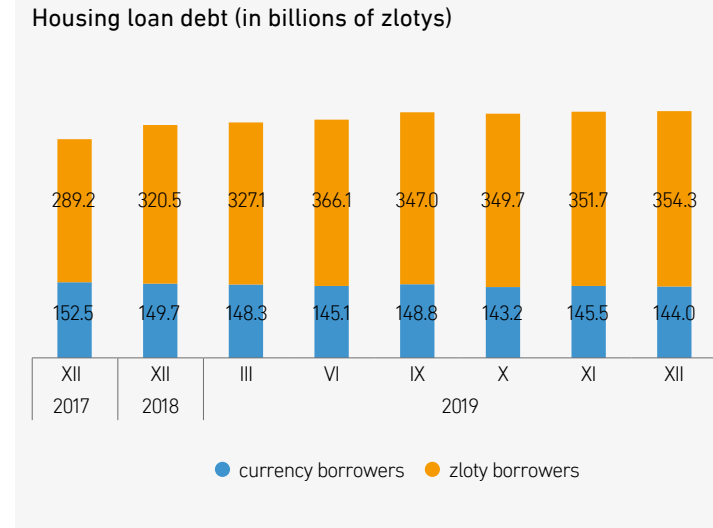
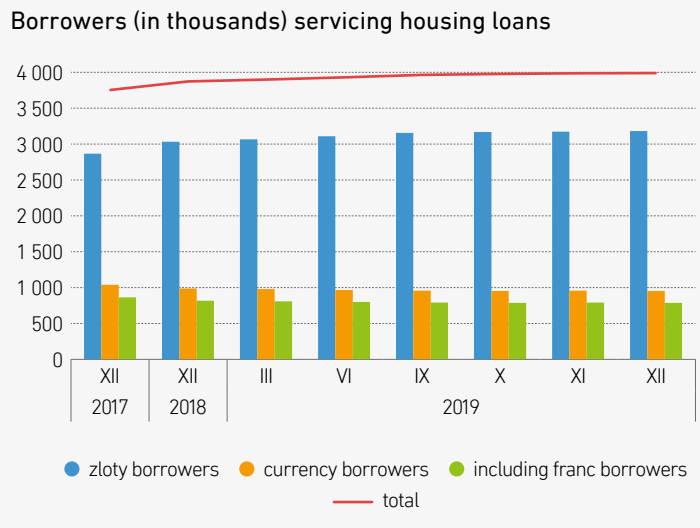
The number of borrowers, outstanding debt

The number of housing loan borrowers is on the rise. The amount of their liabilities also rises.

In December 2019, there were 3.997 thousand customers servicing housing loans. In the course of 12 months, there were 115 thousand new customers (3% growth), of which 57 thousand in the second half-year and 58.2 thousand customers in the 1st half-year. There were 152 thousand new zloty borrowers, 72.2 thousand from June. The number of currency borrowers declined by 36.7 and 15.3 thousand respectively, the number of franc borrowers declined by 31.2 thousand during the year, 12.4 thousand in the second half-year. The changes in the number of holders of zloty and currency accounts in use are stable. The number of customers servicing zloty and currency loans at the same time amounts to 145.4 thousand, they are taken into account twice in the presentation.

In December 2019, household debt in housing loans amounted to 459.8 billion zlotys and was higher compared to June 2018 by 27.3 billion zlotys (6.3%).

Zloty borrowers debt was 33.8 billion zlotys (11.2%) higher than a year ago, and currency borrowers debt was 5.6 billion zlotys (3.85%) lower. The currency borrowers debt was slightly affected by exchange rate differences in the last 12 months. The franc at the end of 2019 was cheaper compared to the beginning of the year by 10 groszes; due to which, the debt of franc borrowers decreased by 3.9 billion zlotys. It was different in 2018, when the franc went up by 25 groszes.



The quality of granted loans

The process of rise in the share of overdue loans along with the age of loans is still slow.

The loss rate measured with the share of overdue loans in the number of loans granted in the year/cohort rises linearly over time, though at a different pace.

The highest loss rate measured in December 2019 with the share of loans overdue in servicing occurred in the crisis generation of 2008 (4.24%). The post-crisis years have a much lower loss rate, though they deteriorate over time, they certainly will not achieve of the level of the generations from the previous decade.

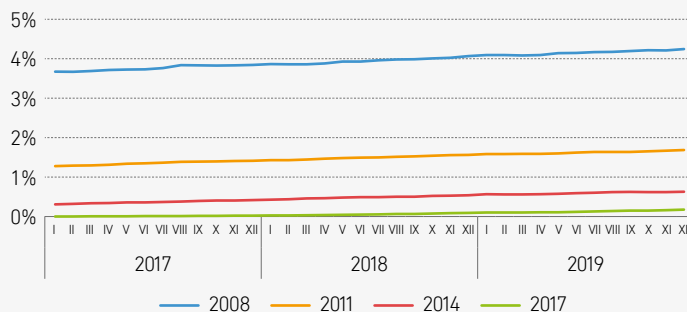
The rises in the share of overdue loans in the last 12 and 24 months in generations 2007-2017 are shown in the graph below. The 2008 generation does not only have the highest loss rate but it deteriorates

fastest, the remaining generations (up to 2015) deteriorate at a similar pace, about 0.1 pp annually.

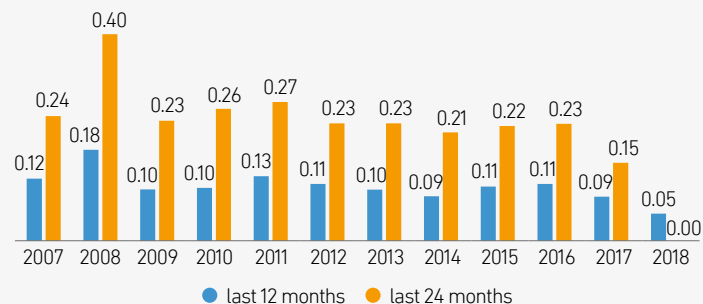
In order to assess the loss rate of a generation, we take into account the relation of the number of overdue accounts to the number of loans granted.

In older generations, many loans have already been repaid, for example: nearly half in the 2007 generation. Thus, the relation, especially in the case of older loan generations, of overdue loans to accounts in use (NPL) is different, as there are no closed accounts in the numerator and denominator of the NPL indicator.

The share of 90+day-overdue accounts in the number of opened accounts in selected generations



The growth (in percentage points) in the share of 90+day-overdue accounts in the number of opened accounts in generations 2007-2019



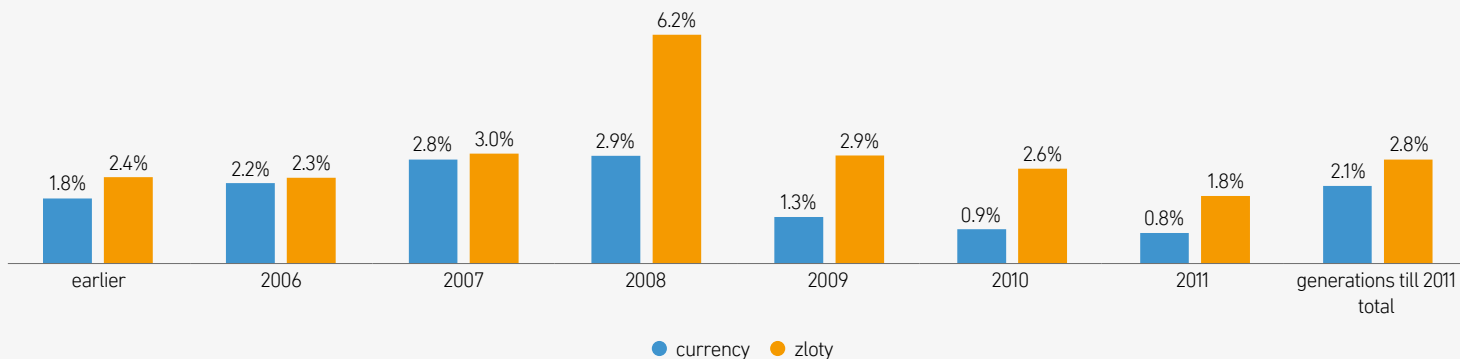
The quality of housing loans – comparison of the zloty and currency loans

The comparison of the currency and zloty loans looks different depending on the adopted measure, though most measures indicate a better quality of currency portfolios/loans compared to the zloty ones. In the graph below, we show the shares of the number of 90+day-overdue loans (acc. to the BIK database in December 2019) in the number of loans granted in a generation. The numerator and denominator of this indicator include also loans already closed in the regular or overdue servicing status. The number of loans granted and overdue in servicing

in the currency portfolio is enlarged by the accounts converted into the zloty in the mode of debt recovery/restructuring of loans (reduced in the zloty portfolio).

With the application of this measure, currency loans indicate a lower loss rate than zloty loans in nearly all generations. The loss rate of the 2008 zloty generation increases quickly. Currency loans predominated it; it also includes most conversions. It was 0.02 pp lower 6 months ago.

The share of loans 90+days overdue in servicing in the number of housing loans granted in generations till 2011. The state of the BIK database at the end of 2019 after the conversion adjustment



The quality of the Swiss franc portfolios

The quality of the zloty and currency portfolios, measured with the percentage of loans entering the first overdue status (30+ days) as well as the serious 90+day-overdue status, is stable.

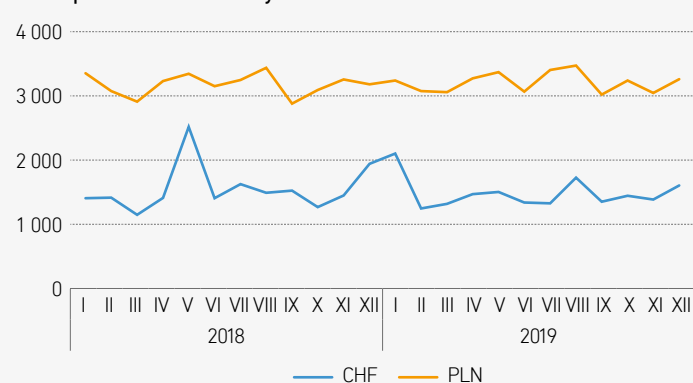
In the course of 2019, the number of accounts shifting monthly from the regular servicing status to the 30+day-overdue status insignificantly declined in the franc portfolio, and in the zloty portfolio it slightly increased. Referring the number of shifts from regular servicing to the 30+day-overdue status to the number of accounts in use, in 2019, there was an average monthly shift of 0.17% in the zloty portfolio, and 0.33% in the Swiss franc portfolio. After the first half-year, it was exactly the same. A higher share, compared to the number of accounts in use, of entries into the 30+day-overdue status in the franc portfolio (also to higher statuses) is related to the portfolio older age and a decreasing number of franc accounts in use.

In 2019, an average monthly number of entries into 90+day-overdue status in the zloty portfolio amounted to 842 accounts more, i.e. 1.6% compared to 2018.

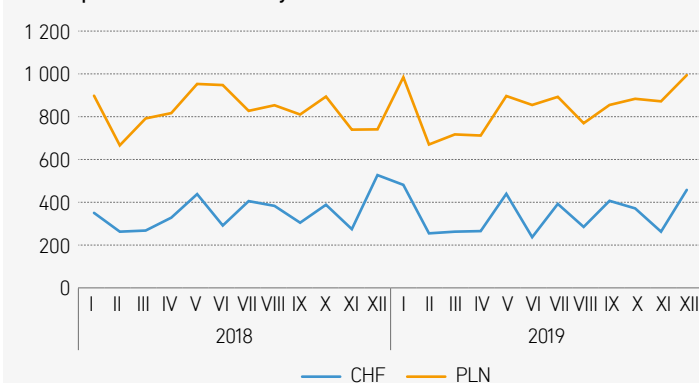
In the franc portfolio, in the 1st half-year 2019, an average monthly number of entries into 90+day-overdue status amounted to 323 accounts, i.e. the same as a year before.

It is worth focusing on the ratio of the number of entries into the status of 90+ days compared to the entries into the status of 30+ days. In the zloty portfolio, there are 3.8 times more entries into the status >90+ days than entries into the status of 30+ days, in the currency portfolio 4.3 times more. It means that the early overdues are largely compensated later.

Monthly shifts to the 30+day-overdue status in the zloty and franc portfolios. Monthly data from 2018–2019



Monthly shifts to the 90+day-overdue status in the zloty and franc portfolios. Monthly data from 2018–2019



Key findings

- In 2019, we observed a revival of credit card issuance and the number of card holders increased.
- These growths to a large extent result from using credit cards by some issuers to finance hire purchase of goods and services (installment credits).
- Bank dues on account of credit cards explicitly increased.
- The limits on the newly opened accounts are on the rise all the time; hence the dynamics of the card market in terms of value, as before, exceeds the dynamics of the market in terms of numbers.
- The average limits on cards in use are on the rise.

The number of credit cards issued

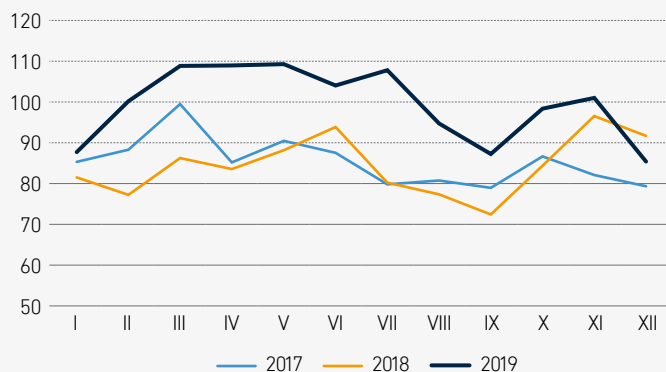
The number of newly opened credit card accounts in 2019 considerably exceeded the 2018 results.

In 2017 and until November 2018, the number of newly opened credit card accounts oscillated around 85 thousand a month. Before, in 2015-2016, it was higher and approached the level of 100 thousand. From November 2018, the issuance of credit cards came close to 100 thousand again. In the 1st half-year of 2019, on average over 108 thousand credit cards were opened every month. Some banks involved in instalment loans run them in card accounts, which may result in a considerable level of fluctuation in the number of cards issued.

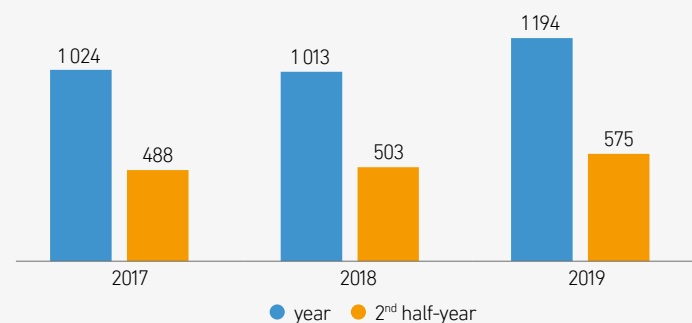
In 2019, 1,194 thousand credit card accounts were opened, i.e. 17.8% more than a year before, which means on average 102.9 thousand accounts opened every month. It is the highest level of credit card sales in the current decade.

In the previous decade, the number of accounts opened was significantly higher, in 2008, more than 3 million credit card accounts were opened. In the second half-year, from August, the card issuance slowed down again to an average of about 90 thousand per month.

Credit card accounts (in thousands) opened monthly in 2017–2019



Credit card accounts (in thousands) opened in 2017–2019



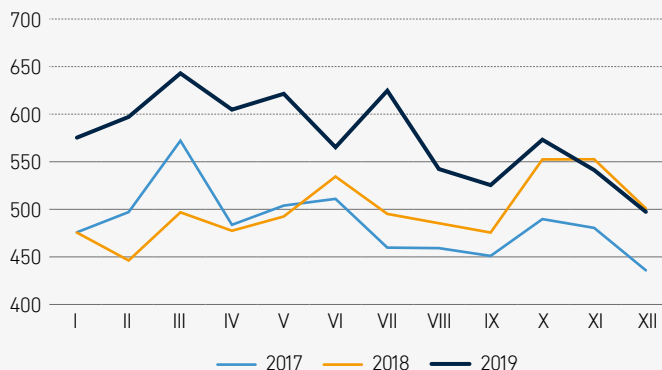
The value of limits on newly opened accounts

The value of limits granted on newly opened credit card accounts in 2018 slightly increased.

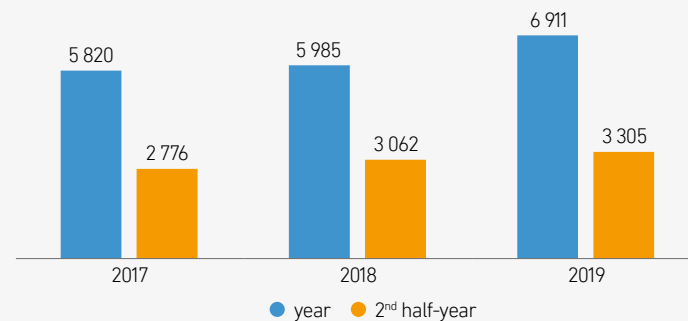
The value of limits on credit card accounts opened in 2019 amounted to 6.9 billion zlotys and was 15.5% higher compared to the results of 2018. The dynamics of the limit amounts granted in 2019 was similar to the dynamics of the number of opened accounts (17.8%). So far, after the reduction of the interchange rates, there was a dominating bank policy consisting in the confinement of credit card issuance to the groups of banks' own well-known and proven customers, which most often resulted in a higher dynamics of card issuance in terms of value compared to numbers.

At the end of 2017, a new type of credit card appeared. It is issued when a credit for the purchase of goods and services is granted. This credit is run on the credit card account. The emergence of this segment reduced the dynamics of the limit amounts on the opened accounts. Hire purchase related cards like classic instalment credits are for lower amounts. In the 2nd half-year of 2019, the dynamics of the limits granted clearly weakened. In the first half-year, it was 23.4%, in the second 7.9%, and in the fourth quarter only 0.4%.

Limit totals (in millions of zlotys) on credit card accounts opened in 2017–2019



Limit amounts (in millions of zlotys) on credit card accounts opened in 2017–2019



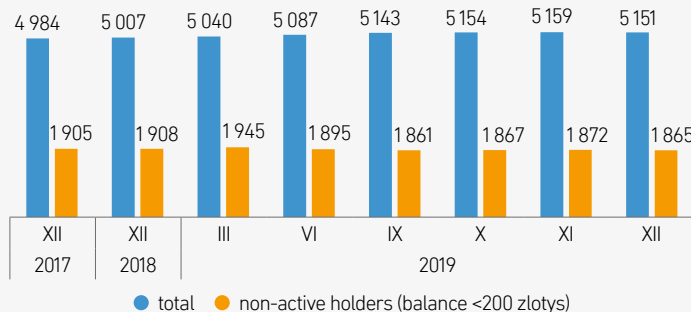
The number of credit card holders, including the active ones

The number of credit card holders began to grow in 2018, especially in the group of active holders.

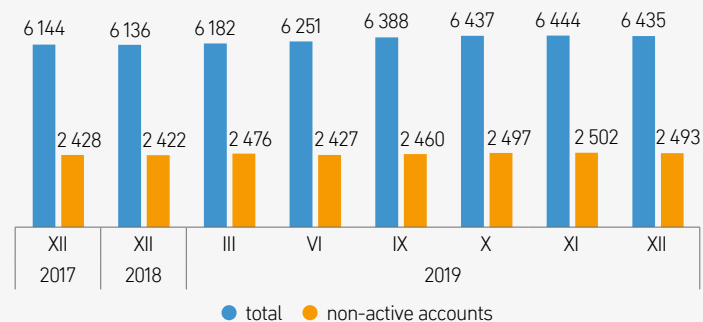
The number of credit card holders, after a period of stabilisation, began to grow from the 4th quarter of 2018, which resulted from an increase in the number of cards issued. During 2019, there were 144,000 new credit card holders (2.9% growth), the number of non-active holders (those who had a balance of less than 200 zlotys on their account) declined. The number of active holders increased by 187.5 thousand. The number of accounts in use increased by 299.3 thousand in 2019, and at the end of 2019 there were 288.7 thousand more active accounts than a

year before. The emergence of growths in the number of users and the number of active cards should be related to using credit cards by some banks to finance hire purchase of goods and services. Such cards (some refer to them as instalment cards), were used in the bank system a few years ago, later the practice was abandoned. Now, the instalment cards have returned. This hypothesis is confirmed by the fact that nearly all the growth occurred in the group of active cards – instalment cards are active as a matter of principle.

Credit card holders (in thousands) in selected months in 2017–2019



The number of credit card accounts in use, including non-active accounts



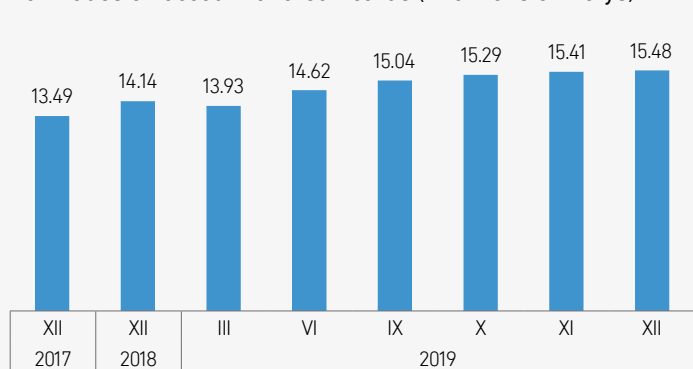
Limits and liabilities on credit card accounts

Bank dues and limits on accounts are on the rise.

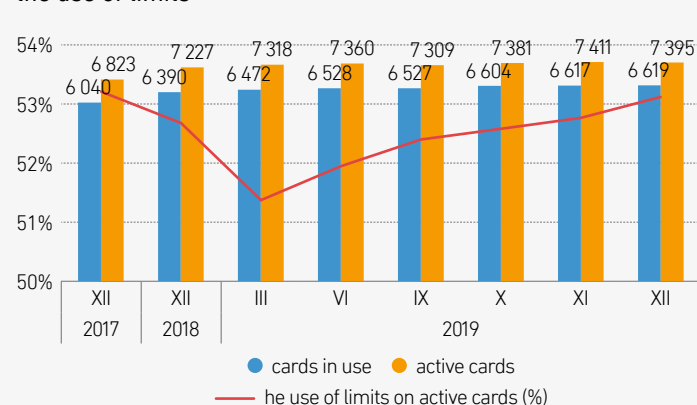
Bank dues from credit card accounts run by them increase, we have observed such growths before, they were slower though. In December 2019, bank YoY card dues were 1.35 billion zlotys (6.5%) higher. At the end of December 2019, they were YoY higher by 0.65 billion zlotys, the growth of dues explicitly accelerated. This growth results to a lesser extent from instalment credits in cards, it is connected rather with the continuation of strategy pursued by some banks consisting in the concentration of card issuance on the segment of customers well-known to them.

The credit card limits increase. It concerns an average limit on cards in use as well as an average limit granted on newly opened accounts. We observe the highest limits on active cards, on which in December 2019 an average limit amounted to 7,395 zlotys and was 2.3% higher than a year before; the rise in limits on all accounts in use was higher (3.6%). The use of limits on active cards increased slightly, by 0.4pp, after declines lasting till March 2019.

Bank dues on account of credit cards (in billions of zlotys)



An average limit on credit cards in use in 2017–2019, the use of limits



Key observations

- We can observe a decline in credits granted to microentrepreneurs in 2019, 3.1% in terms of value and 4.5% in terms of numbers compared to 2018. In the case of credits granted to farmers, the financing value declined by 5.2% and the number of granted credits by 8.2%.
- There is still a high sectoral concentration of the credit portfolio of microentrepreneurs. Two sectors are dominating: trade and services, which is to a large extent related to the sectoral structure of Polish microenterprises. However, agriculture and services have the largest share in the portfolio of microentrepreneurs and farmers.
- The quality of credit portfolio, measured with the NPL indicator at the end of 2019, deteriorated with regard to the number of credit accounts as well as in terms of value, in relation to both microentrepreneurs and farmers. At the end of December 2019, in terms of numbers, it amounted to 11.9% for microentrepreneurs and 2.8% in the case of farmers. In terms of value, it amounted to 15.0% and 5.1% respectively.
- The portfolio of credits granted to farmers is of a much better quality than microentrepreneurs'.
- The risk of crediting microentrepreneurs and farmers is determined by the number of credits serviced and the number of banks providing credit. The more credits repaid simultaneously, or the more banks which provide financing, the higher the credit risk.

The groups of microentrepreneurs and farmers discussed in this chapter, are identified by us according to the following definitions:

Microentrepreneurs are entrepreneurs registered in the Central Register and Information on Economic Activity (CEiDG), without farmers running their farms, who are registered in CEiDG.

Farmers are private individuals running their farms not registered in CEiDG and farmers running their farms and registered in CEiDG and in the register of civil partnerships.

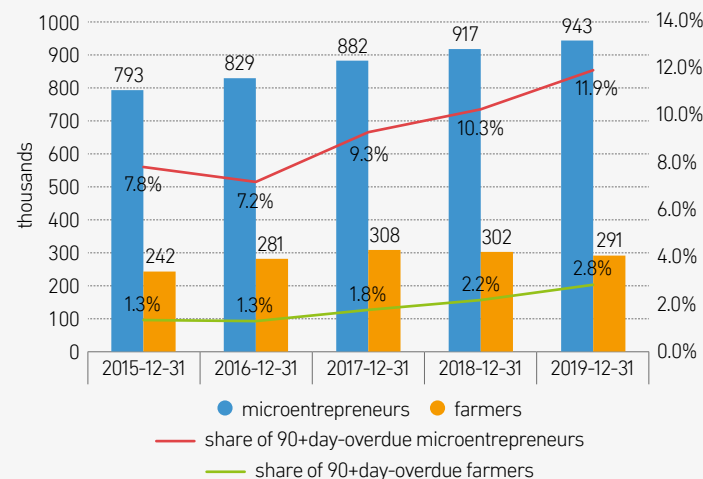
The number and quality of the credit portfolios of microenterprises and farmers

In 2019, we can observe a rise in the number of credit accounts in the microenterprise credit portfolio and a decline in the number of credits of farmers, with a deterioration of the quality of portfolios of microentrepreneurs of 1.6 pp and farmers of 0.6 pp.

At the end of December 2019, the number of microenterprise credit accounts in use amounted to 943 thousand; it increased by 26 thousand (2.8%) in 2019. In the same period the quality of the portfolio, measured with the share of 90+day-overdue accounts in the number of accounts in use (NPL), deteriorated by 1.6 pp compared to December 2018 and amounted to 11.9% at the end of December.

The number credit accounts in use in the credit portfolio of farmers at the end of December 2019 amounted to 291 thousand, i.e. 11 thousand less than at the end of December 2018 (a decline of 3.6%). Despite a slight deterioration of 0.6 pp in 2019, the portfolio quality of credit accounts (quantitative NPL) of farmers was high and amounts to 2.6%. In comparison with the microentrepreneurs credit quality, the credit portfolio of farmers had a few times lower loss rate.

The state and quality of the microenterprise and farmer credit portfolio in terms of numbers (in thousands / %)



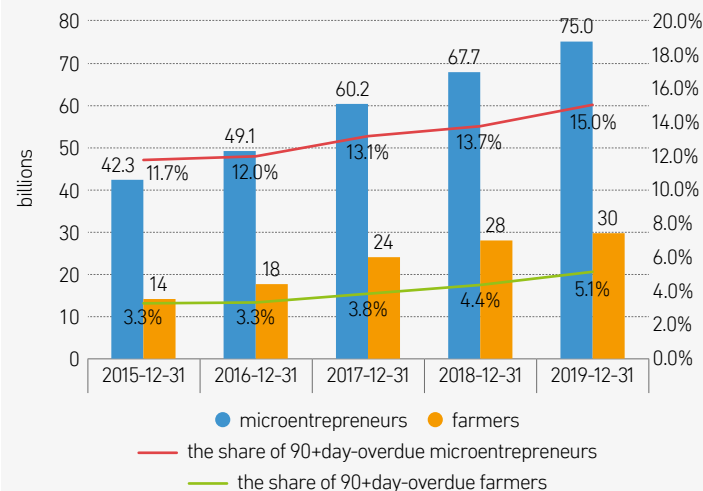
The value and quality of the credit portfolios of microenterprises and farmers

We can observe a systematic growth in the value of the credit portfolios of microenterprises and farmers, with a slight growth in the level of risk though.

At the end of December 2019, the value of microentrepreneurs credit portfolio amounted to 75 billion zlotys and increased by 7.3 billion zlotys (10.7%) in comparison with December 2018. In the same period the quality of the portfolio measured with the value share of 90+day-overdue accounts in the value of accounts in use (NPL) deteriorated by 1.3pp compared to December 2018 and amounted to 15%.

The value of the credit portfolio of farmers amounted to 30 billion zlotys at the end of December 2019, i.e. 2 billion zlotys more than at the end of December 2018 (a rise of 6.2%). Despite a portfolio quality deterioration of 0.7 pp in the 12 months of 2019, the portfolio quality of credit accounts (qualitative NPL) of farmers is high and amounts to 5.1%. In comparison with the quality of microentrepreneurs credits, the credit portfolio of farmers has a few times lower loss rate.

The state and quality of microenterprise and farmer credit portfolios in terms of value (in billions of zlotys / %)



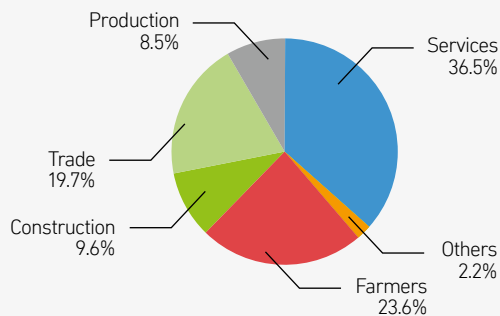
The sectoral structure of credit portfolios of microenterprises and farmers

There is still a high sectoral concentration of credit portfolios with regard to the number of the serviced credits. Three kinds of activity are dominating: services, agriculture and trade.

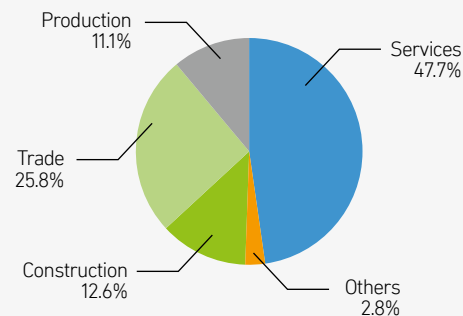
At the end of December 2019, service companies possessed 36.5% of all the credit accounts in use held by microentrepreneurs and farmers. Farmers serviced 23.6% of credits in use and retail and wholesale companies serviced 19.7% of them. The structure is stable over time. Thus, it reflects a sectoral demand for credit in the segment of SMEs and farmers. The credit structure to a large extent reflects the sectoral structure of the Polish economy.

In the sectoral structure of microentrepreneurs portfolio (without farmers) nearly half (47.7%) of credit accounts in use belong to microentrepreneurs rendering services. 25.8% of all credit accounts in use belong to microentrepreneurs in the sector of retail and wholesale trade, and 12.6% credits in use belong to construction firms.

Sectoral quantitative structure of the portfolio of microentrepreneurs and farmers



Sectoral quantitative structure of the portfolio of microentrepreneurs



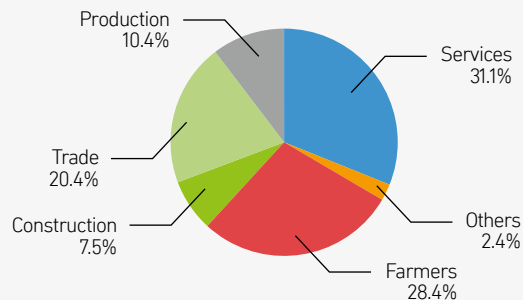
The sectoral structure of credit portfolios of microenterprises and farmers

There is also a high sectoral concentration of credit portfolios in terms of value. Three kinds of activities are dominating: agriculture, services and trade, which account for nearly 80% of the value of the portfolio of farmers and microentrepreneurs.

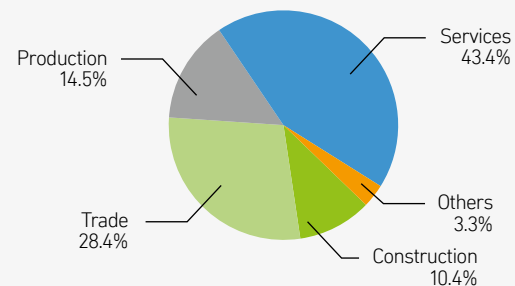
At the end of December 2019, service companies held 31.1% of credit portfolio in terms of value. Farmers had 24.5% of the portfolio value and trade companies account for 20.4% the credit debt value.

In the sectoral structure of microentrepreneurs portfolio (without farmers) in terms of value, 43.4% of the debt value belongs to microentrepreneurs rendering services. Nearly 30% of credit financing goes to microentrepreneurs in the sector of retail and wholesale trade. The value of the credit portfolio of microentrepreneurs dealing with production amounts to 14.5%.

Sectoral qualitative structure of the portfolio of microentrepreneurs and farmers



Sectoral value structure of the portfolio of microentrepreneurs

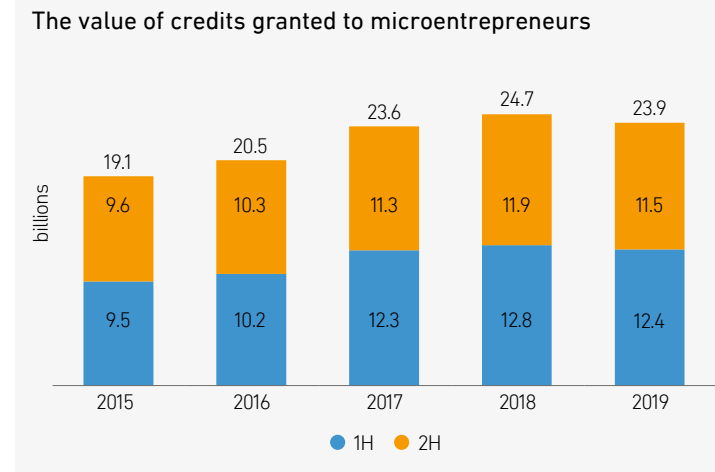
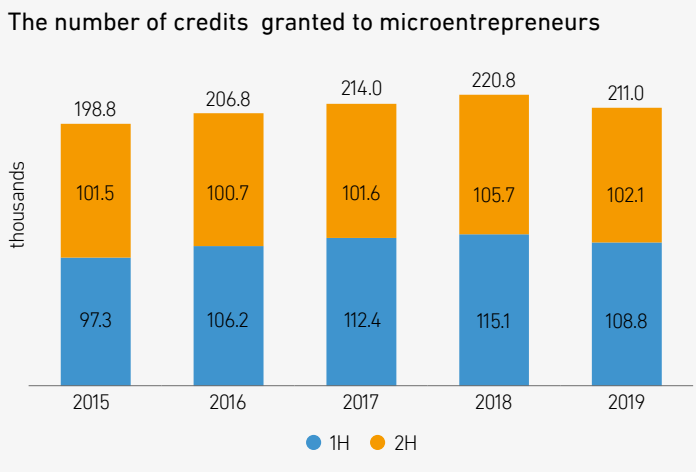


The number and value of financing granted by banks to microentrepreneurs

In 2019, we could observe a decline in lending addressed to microentrepreneurs in terms of numbers as well as value compared to 2018. The sales of credits in 2019 in terms of numbers were the lowest in the last three years and amounted to 211 thousand credits granted. In terms of value, sales in 2019 were lower than in 2018.

In 2019, banks granted totally 211 thousand credits to microenterprises, i.e. 8.97 thousand (8%) less than in 2018. The 2019 sales are the lowest in the last 3 years.

In 2019, banks credited microenterprises with the total amount of 23.9 billion zlotys, i.e. 0.8 billion less (-3.1%) than in 2018.



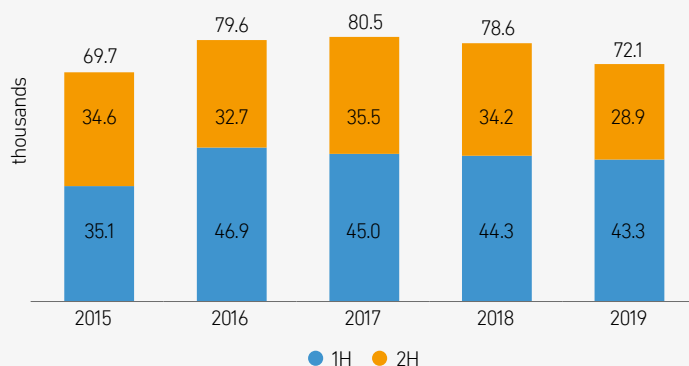
The number and value of financing granted by banks to farmers

In 2019, we could observe a decline in lending addressed to farmers in terms of numbers as well as value. In 2019, banks granted credits to farmers for the value 5.2% lower than that in 2018.

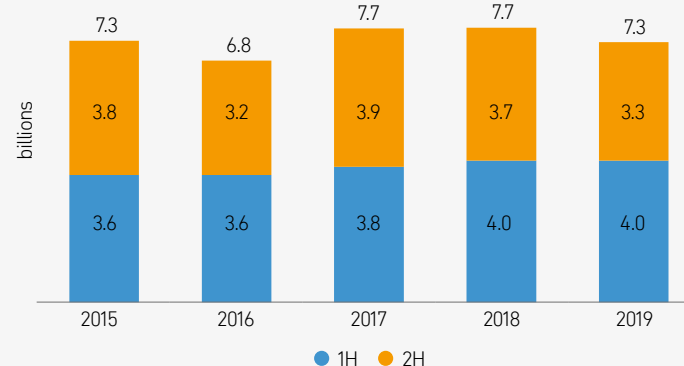
In 2019, banks granted totally 72.1 thousand credits to farmers, about 6.5 thousand less (8.2%) than in the same period a year before. It is the worst result in the last four years.

In 2019, banks credited farmers with the total amount of 7.3 billion zlotys. It was 0.4 billion (5.2%) less than in 2018. Thus, the decline in terms of value is smaller than the decline in the number of granted credits.

The number of credits granted to farmers



The value of credits granted to farmers



The structure of credit sales to microenterprises in terms of value and numbers, by product

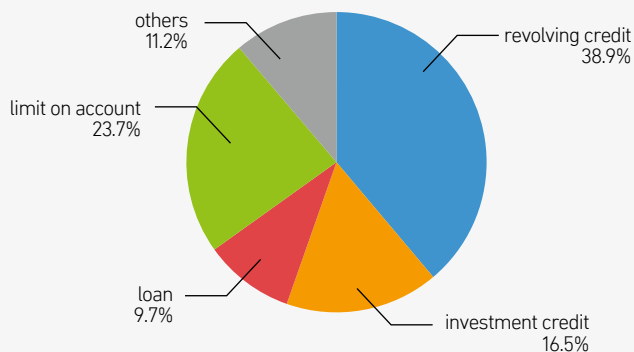
In credit sales, in terms of value, there are two dominant basic classic kinds of credit products used to finance the current operational activity: revolving credit and credit limit on account. The structure has been stable for a few years. It may be stated then that it is a durable trend. Two thirds of credits are used by entrepreneurs to finance their current activity. They use only 6.2% of credits to finance development (investment credits).

In 2019, more than one third of financing granted to microenterprises concerned financing in the form of revolving credits. Both credits used to finance the current operational activity amounted to 61.1% of the total value of financing granted.

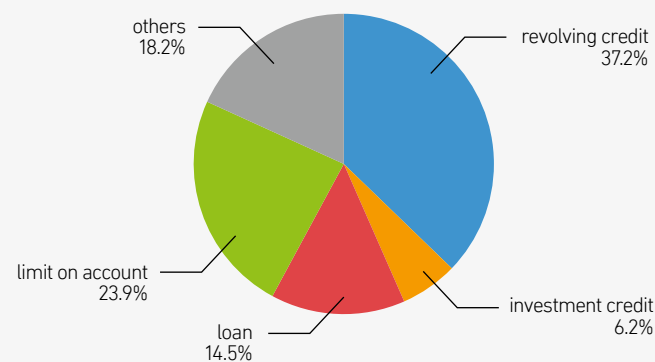
Investment credits amounted only to 6.2% of credits granted in 2019. In terms of value, revolving credits and limits on current accounts also had the highest share (62.5%), which does not come as a surprise

taking into account their specific character connected with financing current activities. Investment credits had a 16.5% share in credit sales. A much higher share of investment credits in the sales value than the number of granted credits results from higher average amounts of investment than revolving credits granted.

Microentrepreneurs – the value structure of sales by the kind of product in 2019



Microentrepreneurs – the quantitative structure of sales by the kind of product in 2019



The structure of credit sales to farmers in terms of value and numbers, by product

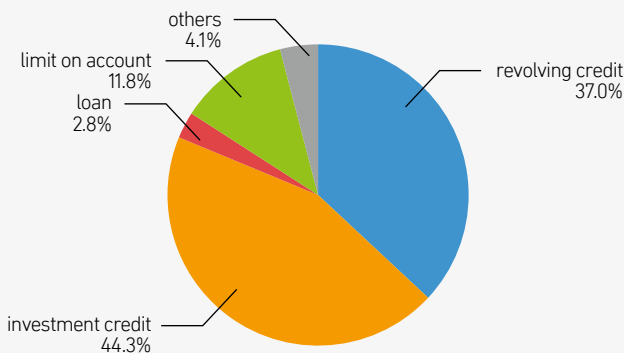
In credit sales to farmers, in terms of numbers, there are three dominant basic classic kinds of credit products: revolving credit, investment credit and credit limit on account. Investment credits are dominating in terms of value.

In 2019, revolving credits accounted for nearly 60% of credits granted to farmers. Investment credits accounted for 22.5% of credits granted in 2019. The share of investment credits in the sales of credits to farmers in 2019 was much higher in comparison with entrepreneurs.

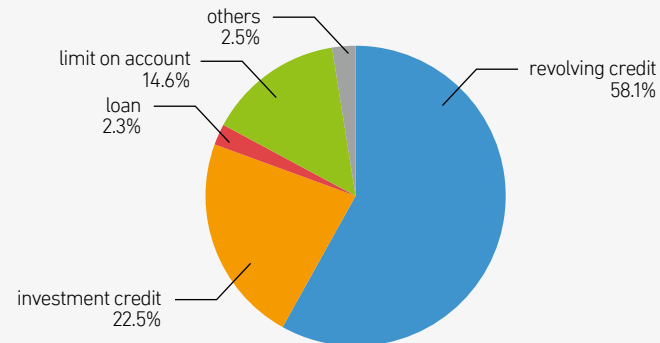
In terms of value, investment credits had the highest share (44.3%) in the sales in 2019. Furthermore, revolving credits had a share of 37.0% in the sales in terms of value.

A higher share of investment credits than revolving credits in sales in terms of value compared to the sales in terms of numbers results from higher amounts of the investment credits than revolving credits taken by farmers.

Farmers – the value structure of sales by the kind of product in 2019



Farmers – the quantitative structure of sales by the kind of product in 2019



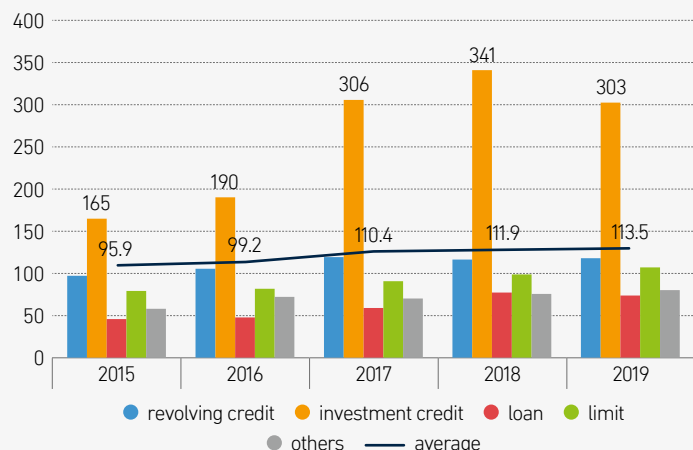
Average amounts of credits granted to microentrepreneurs and farmers

In 2019, the average amounts of credits granted to microentrepreneurs and farmers increased in comparison with previous years.

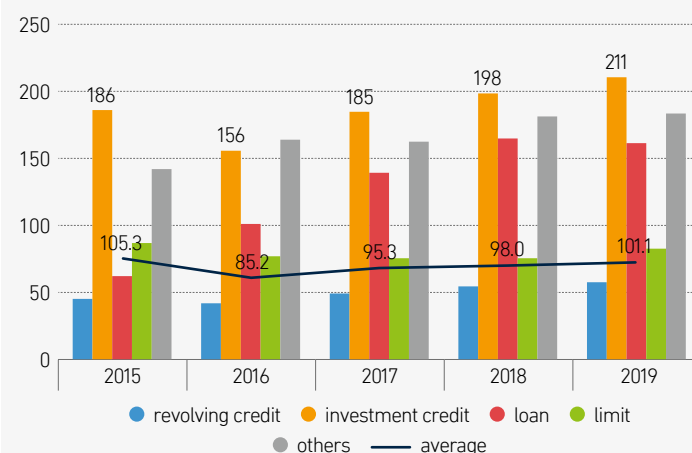
In 2019, the average value of financing granted by banks to microenterprises amounted to 113.5 thousand zlotys and was insignificantly higher (by 1.4%) than the average amount in 2018. In 2019, compared to 2018, the average amount of investment credit granted to microentrepreneurs declined by 38 thousand zlotys (11.3%). But the average amount of revolving credit granted increased by 1.75 thousand zlotys (1.5%).

In 2019, the average value of financing granted by banks to farmers decreased by 3.1 thousand zlotys (3.2%) compared to 2018 and amounted to 101 thousand zlotys. In 2019, the amount of investment credit increased by 12 thousand zlotys (6.1%).

Average amounts of credit granted to microentrepreneurs by the kind of product (in thousands of zlotys)



Average amounts of credit granted to farmers by the kind of product (in thousands of zlotys)



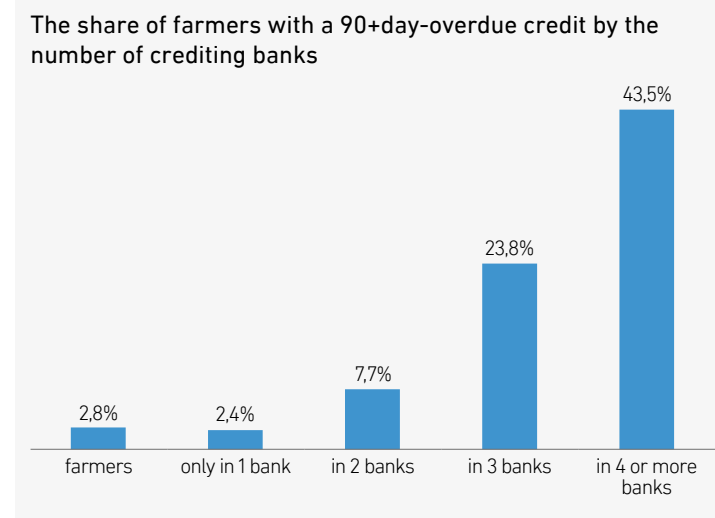
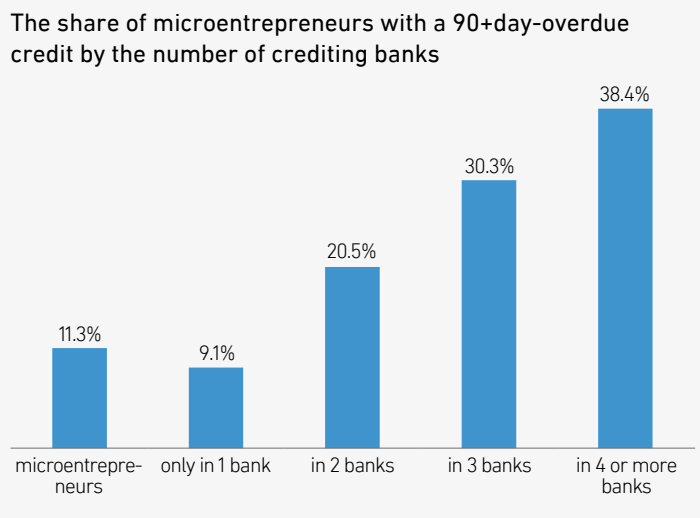
The risk of credit granted to microentrepreneurs and farmers increases along with the number of banks crediting

The number of banks used by microentrepreneurs or farmers in financing their business operations has a significant impact on the timely repayment of their credits, and as a consequence on the level of loss rate of credits of microenterprises or farmers. On average, 11.3% of entrepreneurs* and 2.8% of farmers have overdue repayment liabilities.

About 85% of firm owners running a one man company make use of credits taken only in one bank. As a rule, it is not the one they have to do with as private borrowers, for example making use of consumption credits, housing loans of private account limits.

Having credit liabilities to only one bank, only 9.1% of entrepreneurs and 2.4% of farmers have 90+overdue repayment liabilities. When a

microentrepreneur or a farmer obtains financing from two banks, the share goes up to 20.5% and 7.7% respectively. And in the case of credit products provided by four or more banks, nearly 40% of microentrepreneurs and nearly 45% of farmers have at least one 90+day-overdue liability. The number of crediting banks determines the level of credit risk.



* Loss rate level with regard to the customer, not account.

The risk of credits granted to microentrepreneurs increases along with the number of credits to repay

237 thousand, i.e. nearly 58% of Polish microentrepreneurs possessing bank credits repay only one credit at present. Only 3.6% of these firms have 90+day-overdue credits. 6 thousand microentrepreneurs (1.4%) repay more than 7 credits. The level of loss rate amounts to as much as 18.8% in their case.

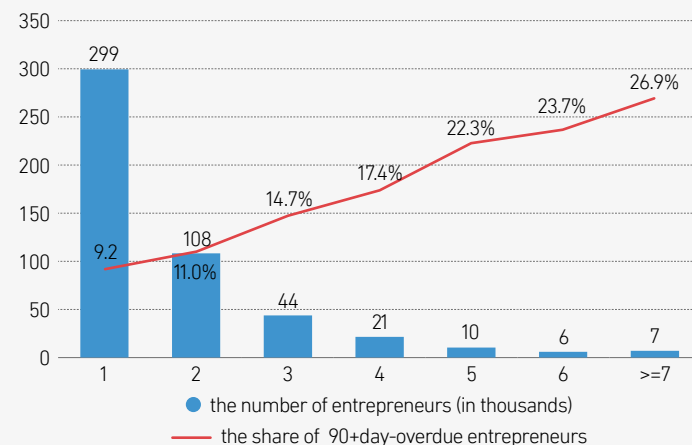
On 31 December 2019, 406 thousand microentrepreneurs had a bank credit in use, i.e. nearly every fifth active microentrepreneur. BIK analyses suggest that the more credits the microentrepreneurs service at the same time, the higher their share in the number of microentrepreneurs who have difficulty with timely credit repayment.

1.5% of Polish entrepreneurs repay 7 or more corporate credits, as many as 18.8% of whom make 90+day-overdue repayments.

The group of credit overactive microentrepreneurs, which should include microentrepreneurs with 7 or more credits to repay, generate an above average level of credit risk.

Thus, an analysis of credit risk should always include the number of serviced credits as an important risk factor.

Microentrepreneurs (active in business) by the number of credits possessed



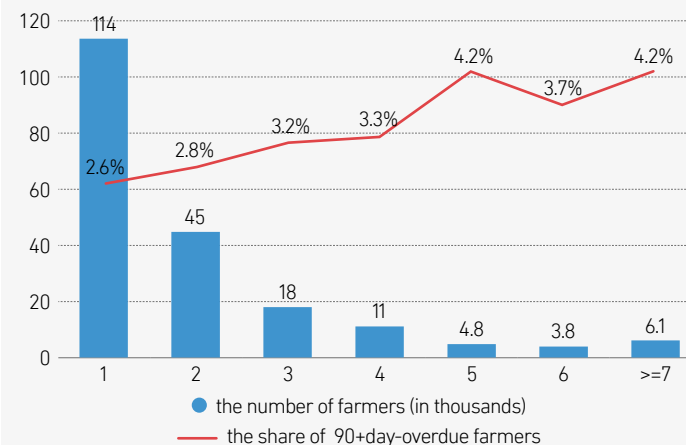
The risk of credits granted to farmers does not increase along with the number of credits to repay

114 thousand, i.e. over 54% of farmers possessing bank credits repay only one credit at present. Only 2.4% of them have 90+day-overdue credits. 6.1 thousand farmers (3.0%) repay more than 7 credits. The level of loss rate amounts to 4.2% in their case.

On 31 December 2019, 202 thousand farmers had a bank credit in use. BIK analyses suggest that the growth in the number of credits serviced by farmers at the same time does not significantly affect the level of loss rate. Even those farmers with a high number of credits to repay, repay them on time.

The group of credit overactive farmers, which should include farmers with 7 or more credits to repay, do not generate an above average level of credit risk, as it is the case with microentrepreneurs. The loss rate amounts to 4.2%.

Farmers by the number of credits possessed



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