Credit economy of banks during SARS-CoV-2

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Abstract
Each pandemic is the greatest potential, negative and global risk, especially when it is connected with high morbidity and mortality. There are also negative social and economic effects associated with a pandemic. The world is fighting nowadays against the COVID-19 pandemic, which is caused by SARS-CoV-2. Thus, there is high concern about the global economy. In the opinion of some analysts, COVID-19 will contribute to the global recession.

It is worth emphasizing that the Polish Financial Supervision Authority, the Financial Stability Committee, as well as the National Bank of Poland undertake actions focused on introduction of measures aimed at maintaining the availability of credit for entrepreneurs. At the same time, the Polish Bank Association (ZBP) initiated some facilitations for bank customers with regard to paying off liabilities, as well as extending the period of the loan itself (A. Sieroń, 2021).

For those involved in observation of central banks activities, it is obvious that the monetary policy reaction to the situation resulting from the COVID-19 pandemic is dictated by many reasons, and thus, is considered to be exceptional. The purpose of this analysis is to examine in a systematic manner some of the aspects of the above unique situation and to make some comments. The observations described in the paper result only from information relating to the initial reactions of banks to the situation connected with the COVID-19 pandemic. It would be wrong to say that banks can be considered completely safe today. New economic and social events could contribute to the inefficiency of this sector. One of such event is the COVID-19 pandemic. In the long run, there may be more risks of this kind.

Keywords: credit economy, market, consumer, interest rates.

Introduction

As a result of the spread of the COVID-19 pandemic all over the world, significant changes in the economy and financial liquidity of enterprises in Poland are observed. It may also affect the financial capacity of the enterprises themselves to settle their liabilities with regard to financial institutions in a timely manner, thus limiting the availability of debt financing and the ability of banks to finance the economy. (A. Sieroń, 2021). The aim of this article is to show the way the credit market responds to the COVID-19 pandemic. The subject of the paper is the credit economy of banks during the SARS-CoV-2.

The coronavirus pandemic is definitely a humanitarian crisis, but it should be emphasized, at the same time, that it also has fundamental social and economic implications. The main consequences include the increased likelihood of a recession in 2021. It is highly probable that the economic growth will return after the end of the COVID-19 pandemic. In the Republic of Poland, it is
indicated that the probability of a deep recession is lower than in other European countries, however, a slowdown in economic growth is probable and real. (A. Sieróń, 2021).

The Polish Bank Association (ZBP) is working quite intensively on introduction of measures to maintain the availability of credit for entrepreneurs. Moreover, it initiated some facilitations for bank customers with regard to paying off liabilities, as well as extending the period of the loan itself. (A. Sieróń, 2021). All the proposed solutions, however, should be considered in the light of applicable legal regulations, and their application may require prior legislative actions (A. Sieróń, 2021).

**Material and methods**

When analyzing the credit economy of banks during the COVID-19 pandemic, it should be noted that cash loans are drawn less frequently in comparison to the previous year. However, the number of processed loan applications has not been reduced to zero, and borrowers are willing to incur much lower loan obligations than before. The number of installment purchases has also increased (https://www.Obserwatorfinansowy.pl, 2021).

Thus, it is worth pointing out that many institutions have decided to limit their activities in connection with the coronavirus pandemic. Banks were also among such institutions. Despite the fact that the vast majority of banks indicate that they are still operating, some of them limited themselves only to the remote mode (A. Sieróń, 2021).

It is also possible to apply for a cash loan. Banking institutions implement solutions that would enable them to incur this obligation, apart from the necessity to personal contact with the bank (A. Sieróń, 2021).

Taking into account the above mentioned, there is a question if the COVID-19 pandemic has adversely affected banks’ credit decision-making. At the same time, the main lending conditions are changing, especially those relating to the amount of credit interest itself. (A. Sieróń, 2021).

In March 2020, banks changed the way of their employees work in order to guarantee them the greatest possible safety related to the COVID-19 pandemic. Numerous sanitary restrictions, as well as safety rules, have been introduced not only in Poland, but also in other countries, which have contributed, inter alia, to changes in the activities of banking establishments. Restrictions have been implemented, for example, with regard to the number of the customers being present at a banking establishment at the same time. The restrictions related to the need to maintain an appropriate distance between bank employees and its customers have also changed (A. Sieróń, 2021).

In addition, during the COVID-19 pandemic, the banks had to prepare the appropriate offers and introduce the appropriate procedures in the context of suspending repayments of mortgage loans, cash loans and other liabilities (A. Sieróń, 2021).

It is also worth noting that despite the fact that a small number of people are currently making efforts to incur liabilities in the bank, the COVID-19 coronavirus pandemic contributed to the deterioration of the economic situation in a large part of households, thus reducing automatically creditworthiness (https://www.Obserwatorfinansowy.pl, 2021).

Significant effects also occurred during the second wave of the COVID-19 pandemic. COVID-19 has also contributed to the negative changes in the state economy. In order to stimulate consumer demand and to support various industries in Poland, the Monetary Policy Council decided to lower fundamental interest rates several times.

However, the demand for business loans has changed, it can be seen on the basis of the data in the chart below.
It is predicted that low interest rates will continue to function the following 2-3 years. Thus, favorable loan offers will be recorded during this period. At the same time, however, it should be noted that there is connection between the loan itself and COVID-19 in the form of an increase in commission for granting a loan, but this does not refer to every bank (K. Spurgiasz, 2021).

According to the forecasts for 2021, the number of loans during the COVID-19 pandemic will gradually increase, although it undoubtedly depends on the development of the situation and subsequent waves of the pandemic. Banks continue to grant loans. It is still possible to submit on-line loan applications. Nevertheless, borrowers must take into account the necessity to take out loan insurance. Despite the fact that a significant part of Polish citizens should not have difficulties with obtaining a cash loan, it is still necessary to have proper creditworthiness (K. Spurgiasz, 2021).

The figures of the Credit Information Bureau for 2020 clearly indicate that Polish citizens were more cautious about taking loans last year. It can be seen in Chart 2.

Chart 2. The amount of new credits and loans granted in 2020, in total PLN 141 billion
Source: Totalmoney.pl on the basis of BIK

The sales of cash loans and loans that Poles willingly took out for the purchase of a vehicle, renovation or furnishing of an apartment, as well as the purchase of RTV equipment and household appliances, dropped sharply. It seems intriguing that 13% of respondents took a loan to repay the previously taken out loan (A. Serafin, 2021). And what is more interesting, Poles took out installment loans more enthusiastically. It should be supposed that they decided to implement the plans that they could not afford and used an alternative form by making purchases in installments. It is the only loan product to record growth and lending value from year to year (+0.8% compared to 2019) (A. Serafin, 2021). On the other hand, when it goes about cash loans, the situation is presented in Figure 3.

Chart 3. Dynamics of cash loans sales
Source: https://media.bik.pl/informacje-prasowe/att/1723738
The above chart, prepared by BIK, at the turn of 03/04 2020 shows that the demand for cash loans decreased by almost 70%. The above situation was caused by the beginning of the first wave of the pandemic and the introduced restrictions. The following months brought the situation improvement, which resulted in a renewed demand for cash loans, and the banks were extremely eager to grant them.

In the above situation, it is far from the former popularity of this type of liabilities, and the dynamics of loan sales is still more than 20% away from at least a year ago. The situation will therefore depend on the “bloom” of the pandemic, the reaction of the government or specific monetary institutions, and it is not easy at that time to presume anything about the credit policy of banks (https://media.bik.pl, 2021).

In the case of the impact of the pandemic on the conditions for receiving a cash loan (positive decision), it turned out to be more difficult even when the customer previously had low credit worthiness or negative entries in the credit history. In case of health and economic crisis, banks are trying to minimize the risk associated with granting loans. Many of them decided to make verification of customers in order to decide the amount and people for granting a loan. In order to meet customers’ expectations, banks initiated loans granted online, especially in case of loans up to several dozen thousand zlotys and for a short period of time (https://media.bik.pl, 2020).

The pandemic had also a negative impact on the sale of mortgage loans that are relatively more complex or difficult to obtain, even under normal conditions. This situation is presented in Chart 4. The chart below shows a significant decrease in interest in this type of loans, especially in March and April, 2020. In this case, as with cash loans, the demand for mortgage loans began to grow again. Moreover, the BIK Index Value - Demand for Housing Loans communicates about the annual dynamics of the value of applied housing loans. The index was +8.1%, which means that in October 2020, according to the number of working days, monetary institutions in the form of banks sent to BIK inquiries about mortgage loans for an amount higher by 8.1% in relation to October 2019 (https://media.bik.pl, 2020).

Chart 4. Demand for housing loans
Source: https://media.bik.pl/informacje-prasowe/591695/bik-indeks-popytu-na-kredyty-mieszkaniové-wyniosl-w-pazdzierniku-2020-r-8-1

Taking into account the above trends in the behavior of borrowers, pandemic realities, or getting used to them, the forecast is made for 2021, it is shown in Chart 5.

Chart 5. Forecast of loan sales in 2021 (PLN billion)
Source: Totalmoney.pl on the basis of BIK

Figure 5 illustrates the growing interest in housing and installment loans in 2021 with moderate optimism. BIK predicts that the sale of cash loans will amount to PLN 60 billion in 2021, therefore it will increase by 16.1%. The demand
for housing loans will amount to PLN 72 billion, it will increase by 13.9%, and BIK expects an increase in installment loans by 4.8%, that is, PLN 15.3 billion for new loans (D. Sudol, 2021).

It goes without saying that the COVID-19 pandemic has affected various industries, and thus changed the everyday life of the entire world, including Polish citizens. Therefore, it is not surprising that the COVID-19 pandemic also contributed to the method and manner of verifying bank customers when granting loans. Currently, the banks are aware that maintaining the workplace at the current level is a highly questionable situation. They are also aware of the possibility of a sharp increase in the unemployment rate and the exclusion of many Poles from the group of potential borrowers (K. Spurgiasz, 2021).

Therefore, it shouldn’t be a surprise that banks take cautious actions in making credit decisions, as they are not inclined to incur an additional increased risk. For this reason, they exercise due diligence in assessing the creditworthiness of potential customers (K. Spurgiasz, 2021).

In connection with the above, banks undertake activities that would more closely verify the situation of persons applying for a credit obligation. There is no doubt that more advanced creditworthiness in times of the COVID-19 pandemic will be required for mortgage loans (K. Spurgiasz, 2021).

Results and discussion

When analyzing the credit economy during the COVID-19 pandemic, it is also worth noting that banks received nearly 600,000 applications for a deferral of loan installments at the beginning of the pandemic. The majority of them have been granted by banks. The sum of the deferred installments amounted to nearly several billion zlotys. According to the European Banking Authority, this credit moratorium should only apply to the bank customers who were not in arrears with payment at the time of the pandemic. In this way, the Polish Bank Association also commented the issue, referred by the Human Rights Defender, concerning help for borrowers directly affected by the pandemic. (https://www.parkiet.com/Finanse, 2021).

This is the way the banks make decisions. They don’t give loans to borrowers who have experienced delays in repayment of their liabilities in the past. Considering the ethical issues, they remain unresolved, because such banking practices may contribute to the fact that borrowers will be at risk of falling in a debt spiral, incurring further debts in order to pay off the previous charges (Https://www.rpo.gov.pl), 2021).

The Polish Bank Association also makes efforts to collect information on the total number and reasons for complaints that consumers submit to the banks. The Polish Bank Association also emphasizes that the positive assessment of bank’s offer is also evidenced by

It is worth noting that, in the opinion of the Polish Bank Association, development and implementation of the bank assistance program depend on compliance with Polish and EU legal regulations referring to creditworthiness. There are the restrictions on the implementation of the banking program introduced, for example, by the European Banking Authority, according to which the assistance should be addressed only to those clients whose financial situation was assessed as satisfactory until the outbreak of the COVID-19 pandemic, and therefore no arrears in the repayment of previous liabilities were observed. It is worth noting that, in the opinion of the Polish Bank Association, it is currently difficult to forecast the economic effects of the pandemic and its impact in the context of the Polish economy, including the finances of Polish consumers and entrepreneurs (https://www.rpo.gov.pl, 2021).

When analyzing the credit economy during the COVID-19 pandemic, it is worth noting that in the third quarter of 2020 the lending trend changed and the criteria for borrowers, who showed interest in financing the purchase of real estate, were simplified. Almost 40% of banks decided to take such measures. Despite the fact that many of these banks have increased their margins in this respect, every fifth bank decided to lower the requirements for the minimum own contribution. A situation where the borrower by means of credit covers nearly 90% of the entire property has become a real one (https://www.rpo.gov.pl, 2021).

On the other hand, with regard to contracting consumer loans, a visible wave of banking institutions liberalization was not observed. It should be noted however that the very scale of the unfavorable changes, from the point of view of the borrower himself, was assessed as considerably smaller. Despite the fact that among nearly 40% of the banks, a continuation of the increase in expectations towards the borrowers themselves was observed, in nearly 30% of the banks, despite the fact that it slightly facilitated the access of borrowers to their services. Thus, in some banking establishments an increase in expectations with regard to such issues as, for example, increase in credit guarantee was observed. In most cases, the maximum loan repayment period has also been extended (W. V. Eseoghene, 2020).

The author of this article considers the issue of taking out mortgage loans during the coronavirus pandemic to be quite interesting. It is one of the largest obligations incurred by consumers (M. Żukowski, 2020). They are, nowadays, permanently related to the price of real estate on the market, despite the fact that economists and analysts showed different expectations in this regard. Real estate prices did not decline in 2020. According to the above mentioned, the total value of debt due to mortgage loans increased by approx. 7.5% in 2020, compared to the previous year, and amounted to PLN 476.267 billion. There has been also noted a faster increase in the prices of the real estate itself. In 2020, for example, a real estate in Warsaw amounted to about PLN 10,000 per square meter in comparison to the previous year, it represented an increase by nearly 11.75% (M. Żukowski, 2020).

Conclusions

1. Summarizing the considerations undertaken in this paper, it should be noted that the market situation in connection with the COVID-19 pandemic is changing very dynamically. As a result, a person interested in taking a loan may have a perception of insecurity. At the same time, however, borrowers should be rational and cautious in their actions, and thus not strive to use their creditworthiness to the maximum extent. At the same time, it is necessary for the borrower to be protected, when the financial situation changes dramatically (M. Żukowski, 2020).

2. There is great hope that the COVID-19
pandemic will also have positive, long-term effects, and thus increase in awareness of the entire society. Apart from taking into account the fundamental role of public health hygiene, it can contribute to the awareness of state failure.

3. The risks that may lead to a banking crisis are defined as adequately identified in the theory of economics itself. It would be wrong to say that banks can be considered completely safe today. New economic and social events could contribute to the inefficiency of this sector. One of such event is the COVID-19 pandemic. In the long run, there may be more risks of this kind, which will contribute to the perception of this sector with a certain degree of uncertainty (P. Łasak, 2021).

4. The activities of the NBP and lending policy should focus on provision of support to the economy and the population, thus mitigating, at least partially, the effects of the COVID-19 pandemic. The long-term effectiveness of the above activities will depend on the factors that appear in the global economy and domestic economic policy, as well as in the changes and their dynamics, which enable the stabilization of the banking sector (P. Łasak, 2021).

5. Significant negative changes took place in the creditworthiness of a considerable number of Poles. They are associated with job loss, reduction of working hours, evolution of the form of employment. In addition, one can also add gratification decrease and freezing some of its forms (bonuses, awards), as well as forced or unpaid leave (P. Łasak, 2021).

6. The destructive impact of the coronavirus on individual sectors of the economy was initiated by a change in the behavior of the population. The decline in interest rates carried out by FED or other central banks (for example, the National Bank of Poland) is considered by analysts as an unnecessary one, and is not able to help the economy affected by the pandemic. And what is worse, it can intensify some negative effects of unconventional monetary tactics, such as over-indebtedness or “zombie companies” (A. Sieroń, 2021).

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