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Credit policy in small Polish banks – is there room for income smoothing?

We study credit policy in a unique sample of Polish cooperative banks, in order to identify income smoothing trends. The phenomenon of income smoothing through loan loss provisions has been confirmed to exist in commercial banks both in Western and Central Europe, but the procyclicality of loan loss provisions towards the macroeconomic cycle questions its prudential character. Using a panel data sample of c.370 banks, we analyse prudential aspects of credit policy conducted by cooperative banks in Poland between 2007-2013. Cyclicity of loan loss reserves is studied both in the context of bank profitability cycles as well as versus macroeconomic cycles within regional economies.