Senior loan officer opinion survey

on bank lending practices and credit conditions

1st quarter 2004

Warsaw, March 2004

Summary of the survey results

- In the fourth quarter of 2003 **most surveyed banks tightened their credit standards and terms on corporate loans**; in the case of loans to households most banks did not change their credit standards and terms.
- There was an **increase in demand for loans**, in particular for long-term loans in the corporate sector and for housing loans in the household sector. Further increase in demand in the first quarter of 2004 was expected.
- Banks, which eased their lending policies and experienced a reduction in demand, most frequently pointed to **an increase in competitive pressure from other banks and non-bank financial institutions** as the reason for those changes.
- **Most banks expected an increase in demand for loans** in the first quarter of 2004, in particular for corporate loans to the SME and for consumer loans to households.

Synthetic results of the survey

The survey was conducted at the turn of December 2003 for 24 banks, whose total share of loans to corporates and households amounts to 79.2% of total banking sector portfolio.

The aggregation of data which served to present the results consisted in calculating the weighted percentage structures of responses and the net percentage, i.e. the difference between the percentages that correspond to adverse tendencies. Details concerning the methodology of calculations are presented in Appendix 1.

The following section presents **tendencies** in lending policies applied by banks and the structure of demand in the fourth quarter of 2003, as well as banks' forecasts concerning the first quarter of 2004.

Corporates

In the fourth quarter of 2003 most surveyed banks **tightened their lending terms for corporates.** Credit standards on long-term loans for small and medium-sized enterprises were tightened most often, those on short-term loans for large enterprises — least often (cf. Fig. 1). The tendency of tightening credit standards was stronger in the small and medium-sized enterprises, what suggests that in the banks' opinion credit risk in that sector remained

Figure 1

Corporate credit standards

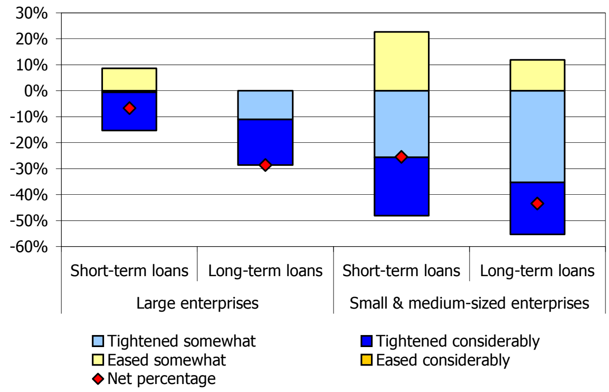


Figure 2

Terms on corporate loans

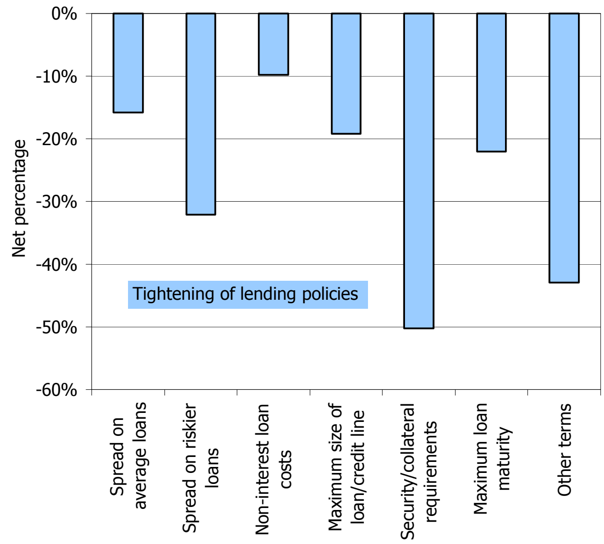
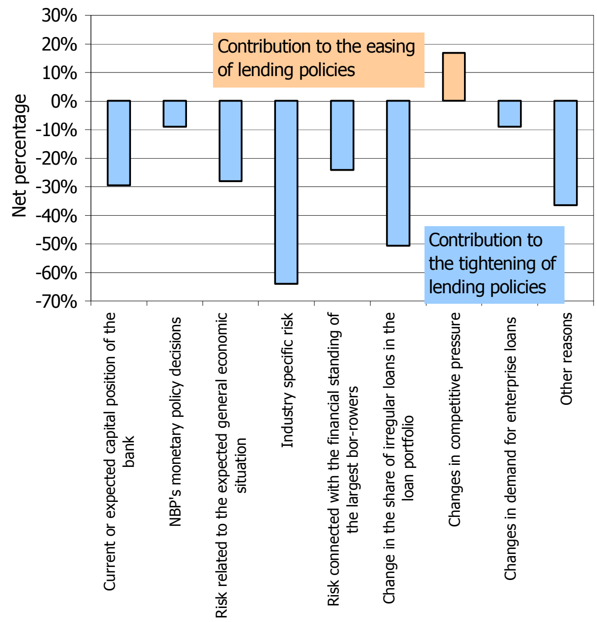


Figure 3

Factors influencing changes in lending policies



higher.

Most often the tightening of security/collateral requirements was reported (cf. Fig. 2). Among other terms the following issues were mentioned: exclusion of the possibility of granting overdraft facilities in the credit account, and more frequent application of additional clauses in credit agreements.

Factors which contributed most to the tightening of credit standards and terms were the increase in risk related to lending to certain industries, and a change in the share of irregular loans in the loan portfolio (cf. Fig. 3). The most frequently mentioned industries that — according to banks — were exposed to increased credit risk were: mining, construction, metallurgy and the activity of developers. Current or expected capital position of banks and risk related to the expected general economic situation also had some influence on the tightening of credit standards. On the other hand, competitive pressure from other banks slightly contributed to easing of lending terms in some banks.

Most banks noted **an increase in demand for long term loans,** in particular from small and medium-sized enterprises (cf. Fig. 4). An increase in demand from large enterprises was substantially weaker.

According to banks the increase in needs for financing

Figure 4

Corporate loan demand

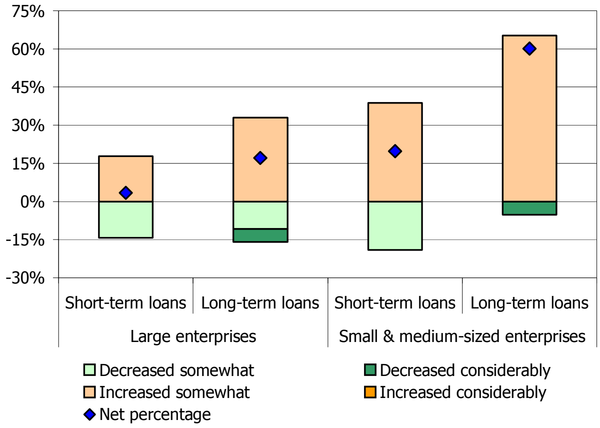


Figure 5

Factors influencing changes in corporate loan demand

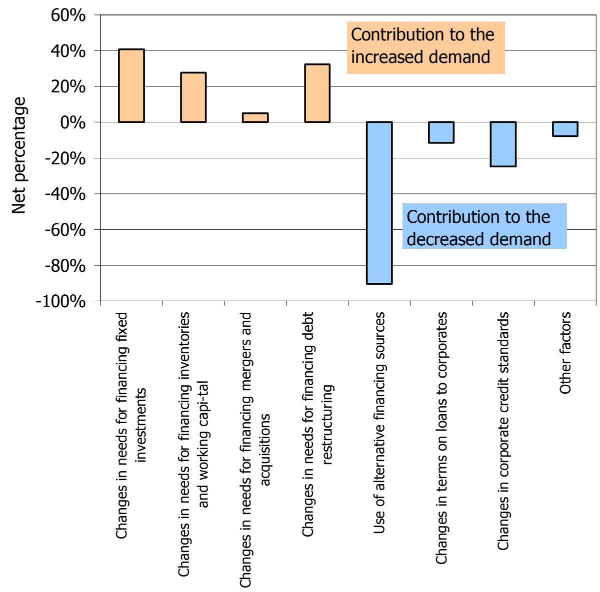
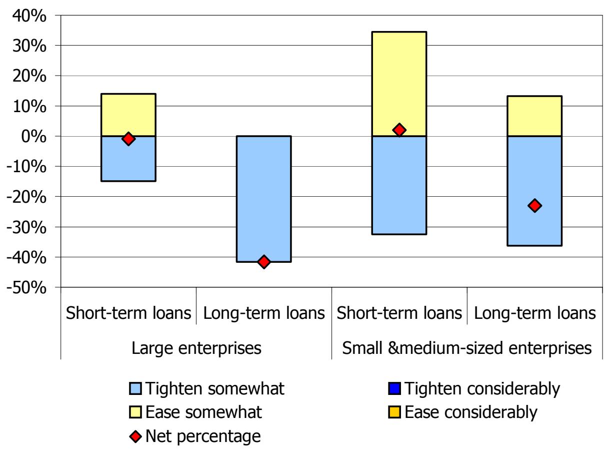


Figure 6

Forecast of changes in lending policies — corporate sector



fixed assets and debt restructuring contributed most to the increase in demand. On the other hand the use of alternative finance sources in the form of loans drawn from other banks contributed most to the decrease in demand (cf. Fig. 5). It seems that a decrease in demand, experienced in some banks, could also be related to the growth in corporate deposits recorded in the previous year.

Banks expected tightening of lending policies for long-term loans in the first quarter of 2004, both in the large enterprise sector and the small and medium-sized enterprises (in the case of the latter some banks declared easing of lending policies). As regards short-term loans, similar percentages of banks declared tightening and easing of lending policies in both sectors (cf. Fig. 6).

None of the banks expected a decrease in demand for corporate loans, and nearly half of them expected its increase in the sector of large enterprises. However, the largest number of banks expected an increase in demand in the small and medium-sized enterprises sector, in particular for long-term loans (cf. Fig. 7). In each credit category, the percentage of banks expecting an increase in demand was higher than the percentage of banks, which observed an increase in demand in the fourth quarter of 2003. The survey results suggest that banks anticipated an increase in the financing needs of enterprises, what should be attributed to the beginning of the investment cycle.

Figure 7

Demand for corporate loans — forecast

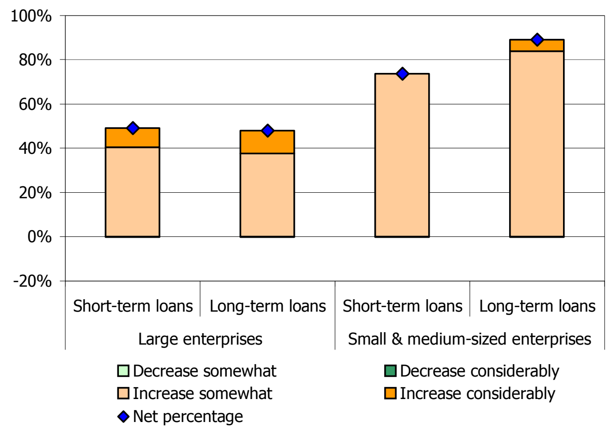


Figure 8

Household credit standards

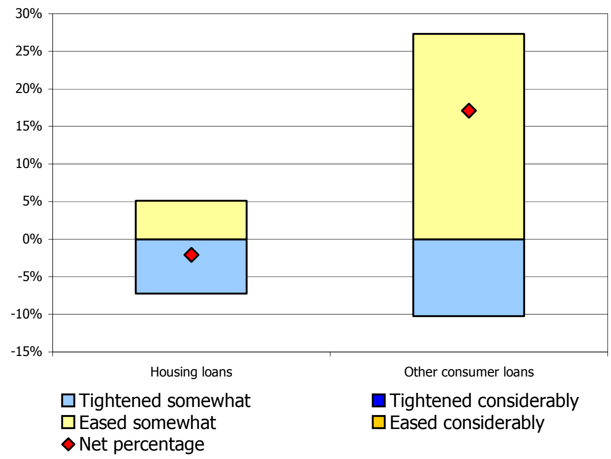
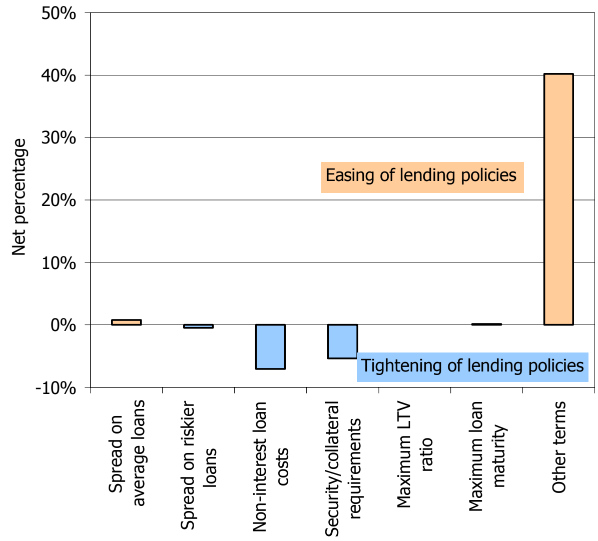


Figure 9

Terms on housing loans



Households

In the fourth quarter of 2004 **most banks did not change their credit standards on housing loans** to households. **As regards consumer loans, credit standards were more frequently slightly eased rather than tightened, but in most banks they remained unchanged** (cf. Fig. 8).

Banks that did change their terms on housing loans most often increased the non-interest costs of borrowing, or required insuring of the real property accepted as collateral (cf. Fig. 9). Among the eased terms banks mentioned temporary waiving the fees for granting loans, extending the scope of financing and easing of requirements concerning documentation.

The most important reason for changing lending policies in relation to housing loans was an increase in the share of irregular loans in the total housing loan portfolio. On the other hand, some competitive pressure from other banks contributed most to the easing of lending policies (cf. Fig. 10).

Among the terms on consumer loans that were eased, the most important were the reduction of non-interest loan costs, the increase in the maximum loan size and the extension of the acceptable loan maturity (cf. Fig. 11). On the other hand, procedures related to lending decisions

Figure 10

Factors influencing changes in lending policies – housing loans

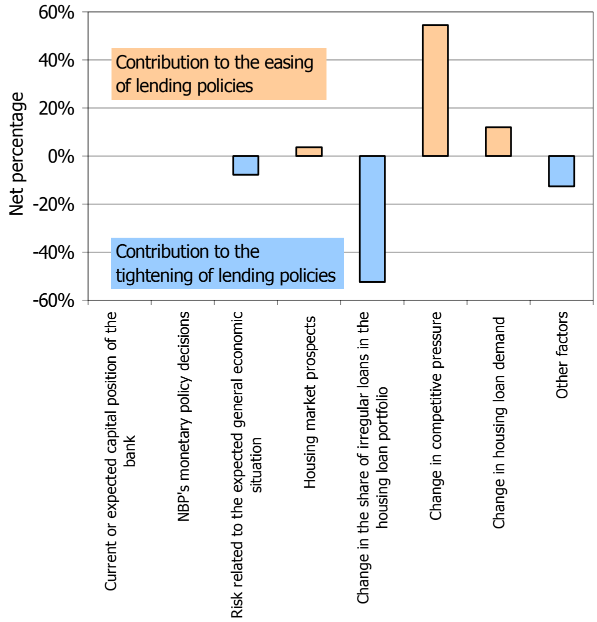


Figure 11

Terms on other consumer loans

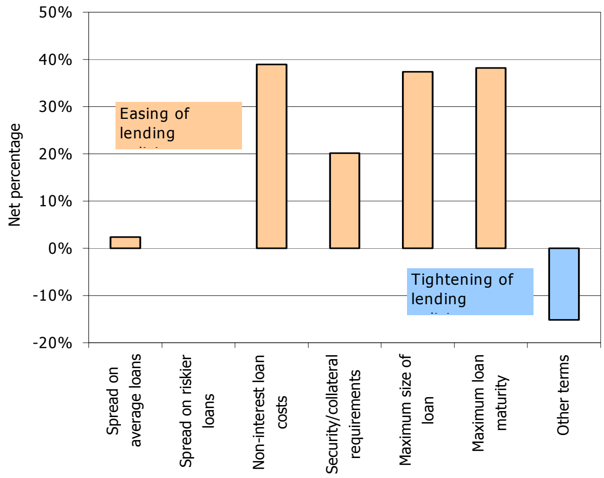
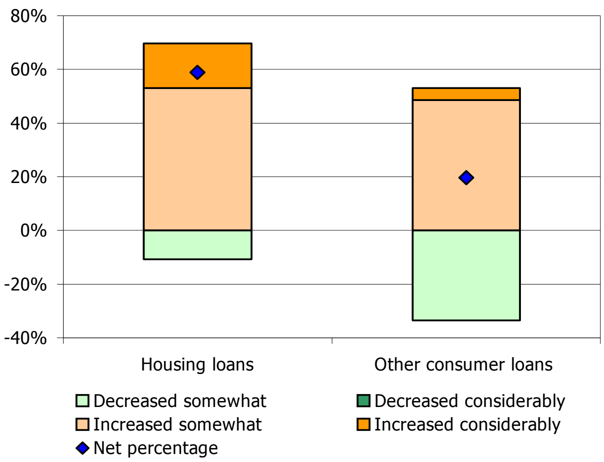


Figure 12

Demand for loans to households



were tightened.

Competitive pressure from other banks and non-bank financial institutions and a decrease in demand for consumer loans contributed most to the easing of terms on consumer loans. (cf. Fig. 13).

The demand for loans to households increased in the fourth quarter of 2003. The increase in demand for housing loans was considerable, whilst the demand for consumer and other loans was of moderate character – some banks reported a decrease in demand (cf. Fig. 12).

The demand for housing loans increased mainly due to the expected increase in prices of real property, and also as a result of easing the lending policies by banks (cf. Fig. 14). The decrease in demand in some banks mainly stemmed from the use of alternative finance source (including loans from other banks) in purchases of real property by potential borrowers.

The most important reasons for an increase in demand for consumer loans were an increase in needs for financing purchases of consumer durables, and easing of credit standards and terms on consumer loans (cf. Fig. 15). On the other hand the decrease in demand resulted from the use of alternative financing of consumer purchases.

Banks expected further easing of lending policies in the first quarter of 2004, both in relation to credit standards

Figure 13
Factors influencing changes in lending policies – other consumer loans

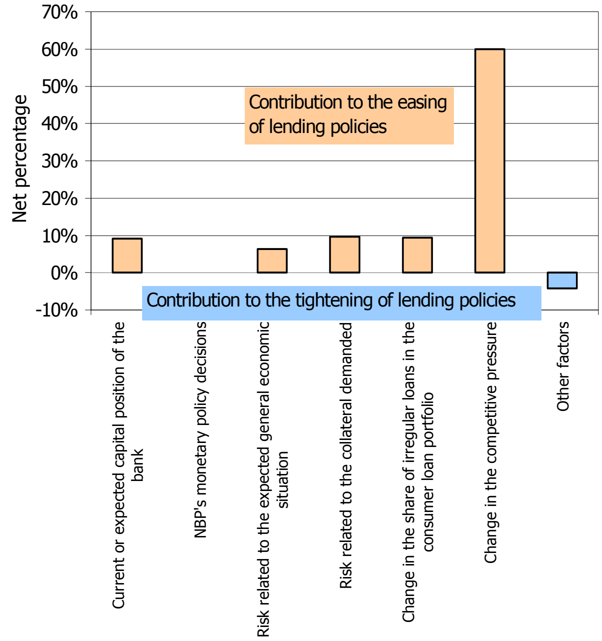
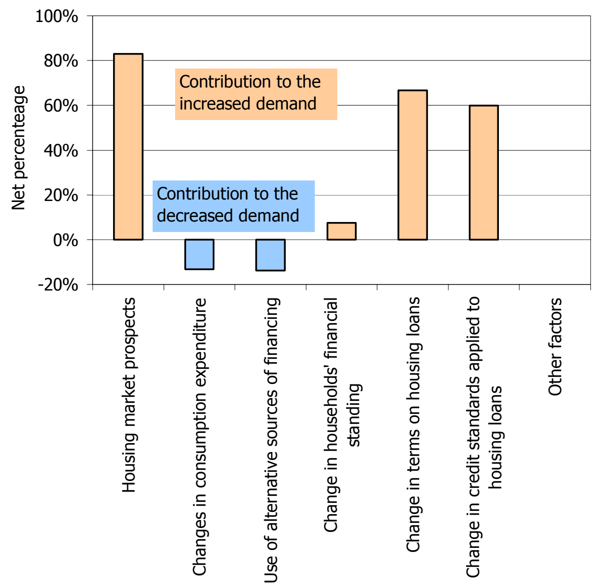


Figure 14
Factors influencing changes in demand for housing loans



and terms on housing and consumer loans. More banks intended to ease their credit standards for housing loans than for consumer loans (cf. Fig. 16).

In the first quarter of 2004 an increase in demand for household loans was expected. More banks expected a moderate increase in demand for consumer loans than for housing loans (cf. Fig. 17).

Figure 15
Reasons for changes in demand for other consumer loans

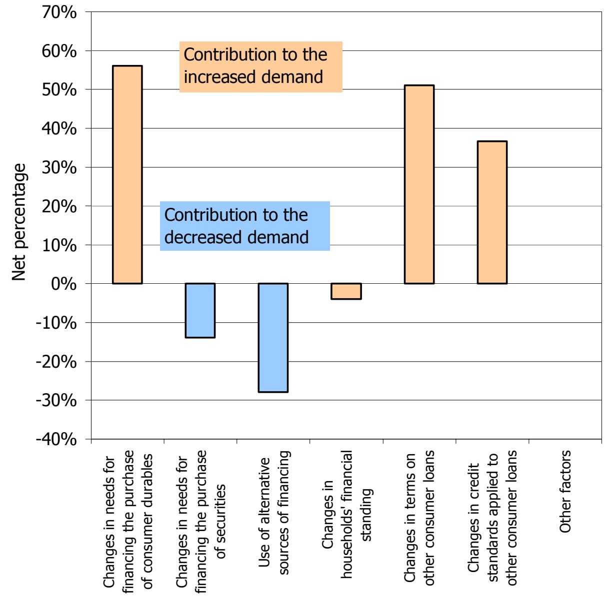


Figure 16
Forecast of changes in lending policies –household sector

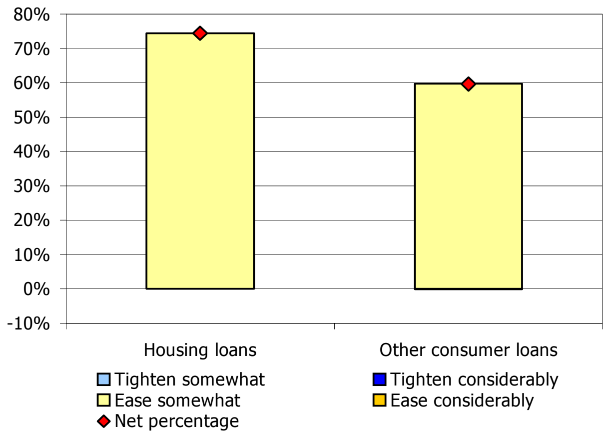
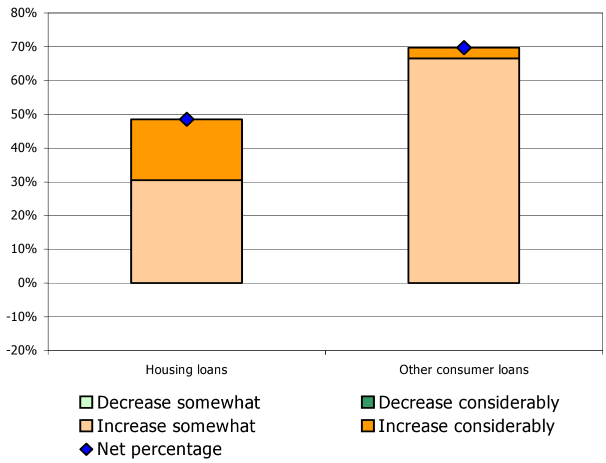


Figure 17
Demand for loans to households — forecast



Annex 1

Methodology

The results of surveys are presented in the form of structures, i.e. the percentages of banks, which chose a given option in response to particular questions. Banks' responses are weighted with the share of the given bank in the market segment to which a given question relates. Weighing of responses is a solution frequently applied in preparation of results of qualitative surveys.[1]

The importance of particular banks in a given market segment is represented by the share of loans outstanding of a given bank in the loan portfolio of all 24 banks responded to the survey, broken down by particular types of loans. The following table presents the market segment to which particular questions refer, and the type of loans outstanding which was used to calculate the shares of particular banks in a given market segment.

Table 1

Market segment and the respective type of loans taken into consideration in calculation of the weights

Questions no.	Market segment	Type of loans
1, 4, 6, 7	Short-term corporate loans	Loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders with the basic term to maturity of up to one year, together with the outstanding on the current account
	Long-term corporate loans	Loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders with the basic term to maturity above 1 year
2, 3, 5	Total corporate loans	Total amount of loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders
8, 9, 10, 13, 14, 16, 17	Housing loans to households	Housing loans to persons
8, 11, 12, 13, 15, 16, 17	Consumer and other loans to households	Total loans outstanding from persons less housing loans to persons

Note: All types of claims relate to residents only. In the case of corporates the distribution between large enterprises and small and medium-sized enterprises was not retained, due to a lack of relevant data in banking statistics.

Source: NBP.

Thus a weight, corresponding to a given bank's share in a given market segment is assigned to particular responses. At the calculations of weights the average amount of claims of a given type in the fourth quarter of 2003, that is the period covered by the survey, was taken into account. Where a bank marked "*Not applicable*" in the response options, a weight of 0 was assigned. Thus while calculating the structures for particular questions, only banks being active in a particular market segment were taken into account.

[1] Cf.: M. Bieć *„Business survey: Methods, techniques, experience"*, Papers and Materials of the Research Institute for Economic Development, No. 48, Warsaw School of Economics, pp. 71-114.

Apart from structures, the so-called net percentage was calculated for each response, that is the difference between the percentages of responses showing opposing directions of changes. This magnitude indicates a general tendency in the specific market segment. The method of calculating the net percentage for particular questions is presented in the following Table 2.

Table 2

Method of calculating the net percentage

Questions no.	Definition of net percentage
1, 2, 8, 9, 11	The difference between the percentage of responses „Eased considerably” and „Eased somewhat” and the percentage of responses “Tightened considerably” and “Tightened somewhat”. A negative index indicates a tendency of tightening the credit standards.
3, 10, 12	The difference between the percentage of responses “Contributed considerably to the easing of lending policies” and “Contributed somewhat to the easing of lending policies” and the percentage of responses “Contributed considerably to the tightening of lending policies” and “Contributed somewhat to the tightening of lending policies”. A negative index indicates a given factor’s greater contribution to the tightening than to the easing of lending policies.
4, 13	The difference between the percentage of responses „Increased considerably” and „ Increased somewhat” and the percentage of responses „Decreased considerably” and „Decreased somewhat”. A positive index indicates an increase in demand.
5, 14, 15	The difference between the percentage of responses „Contributed considerably to higher demand” and „Contributed somewhat to higher demand” and the percentage of responses „Contributed considerably to lower demand” and „Contributed somewhat to lower demand”. A positive index means that a given factor contributed to an increase in demand, and a negative one – to a decrease in demand.
6, 16	The difference between the percentage of responses „Ease considerably” and „Ease somewhat” and the percentage of responses „Tighten considerably” and „Tighten somewhat”. A positive index indicates the expected easing of the lending policies.
7, 17	The difference between the percentage of responses „Increase considerably” and „Increase somewhat” and the percentage of responses „Decrease considerably” and „Decrease somewhat”. A positive index indicates the expected increase in demand.

Źródło: NBP.