Senior loan officer opinion survey

on bank lending practices
and credit conditions

1st quarter 2005

Warsaw, January 2005

Summary of the survey results

- **Lending policy**: in the fourth quarter of 2004, most banks did not change the credit standards for enterprises and for households.
- **Demand for corporate loans**: banks recorded an increase in demand for loans in the corporate sector, with the strongest demand for long-term loans in the small and medium-sized enterprise sector. The increase in demand was higher than in the last quarter.
- **Main reasons for the change in demand for corporate loans**: banks reported again that demand rose chiefly due to the increased need for investment and current asset financing. However, results of other surveys show that the majority of enterprises still try to reduce their debt at banks, which means that an increased demand does not mean increased lending.
- **Demand for household loans**: banks recorded an increase in demand for household loans. The growth in demand was higher than in the last quarter, especially in the housing loans segment.
- **Reasons for changes in lending policy**: the banks which eased their lending policy most frequently pointed to an increase in competitive pressure from other institutions as the reason for those changes.
- **Expected changes in lending policy**: the majority of banks do not intend to change their lending policy in the first quarter of 2005, although a trend prevails among the banks changing the credit standards to ease them off, especially as regards short-term loans in the small and medium-sized enterprise sector and consumer loans in the household sector.
- **Expected changes in demand for loans**: most banks expect the demand for loans to grow further in the first quarter of 2005 with regard to both the corporate and household sectors.

Synthetic results of the survey

The survey was conducted at the turn of December 2004 and January 2005 among 24 banks, whose total share of loans to enterprises and households amounts to 80.7% of the total banking sector portfolio.

The aggregation of data behind the results consisted in the calculation of the weighted percentages of responses and the net percentage, i.e. the difference between the percentages corresponding to opposite trends. In line with the adopted methodology, words describing quantities (majority, half, significant, crucial, etc.) refer to weighted percentages and not to the number of banks. Thus the phrase "the majority of banks" should be understood as "the asset-weighted majority of banks." Details concerning the calculation methodology are presented in Appendix 1.

The following section presents **tendencies** regarding the banks' lending policy and changes in demand in the fourth quarter of 2004 as well as the banks' forecasts concerning the first quarter of 2005.

Corporates

In the fourth quarter of 2004 **the majority of banks (over 70% of asset-weighted banks) did not change their credit standards for enterprises.** The prevailing trend among the banks that changed those standards was their tightening with regard to long-term loans (cf. Fig. 1). In comparison to the third quarter of 2004, the course of changes in the lending policy in the small and medium-sized enterprises sector changed with regard to long-term-loans. The banks rather eased these standards in this segment in the last quarter.

Among the banks that changed their lending policies, the banks that tightened the credit standards usually increased the lending margin on loans prone to higher risk. The credit standards concerning loans to construction enterprises and developers were eased (cf.

Figure 1

Corporate credit standards

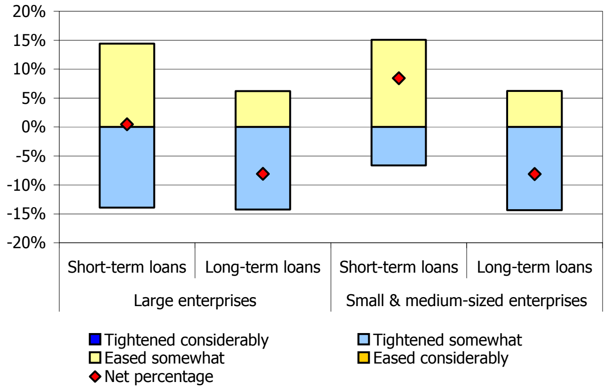


Figure 2

Terms on corporate loans

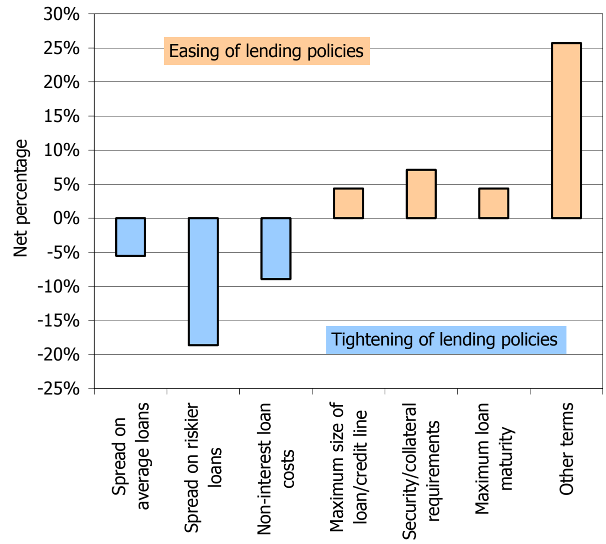


Figure 3

Factors influencing changes in lending policies

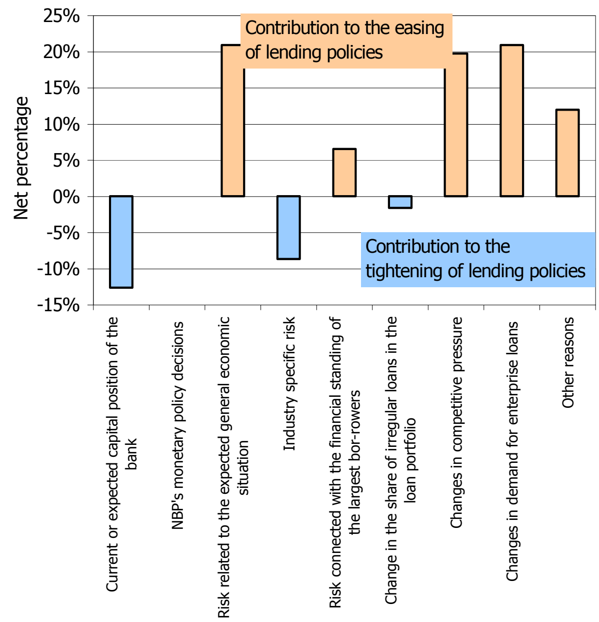


Fig. 2).

Among the banks that changed their lending policy in the enterprise sector, the following factors had a comparable impact on easing the credit standards: reduced risk associated with the anticipated economic situation, growing competition, lack of growth of demand for corporate loans despite the expectations from the last quarter. The factors associated with the bank's capital standing had the greatest impact on tightening of the lending policy (cf. Fig. 3). The impact of the other factors has not changed significantly.

In the fourth quarter of 2004, after a quarterly break, **the banks, once again, observed an increase in demand for loans in the enterprise sector – the strongest in the long-term loans segment for small and medium-sized enterprises**. Although some of the banks observed an insignificant drop in demand for loans, especially in the large enterprise sector, the number of banks that observed an increase in the demand prevailed in each category (cf. Fig. 4). The strongest demand growth pertains to long-term loans for small and medium-sized enterprises.

In comparison to the last quarter, a higher number of banks declared an increase in demand for loans in all categories but as regards long-term loans for large enterprises, the number of banks that observed a drop in demand also increased slightly.

Similarly to the last quarter, increase in demand was most affected by the increase in demand for financing inventory and current assets (cf. Fig. 5). The importance of these factors increased significantly in comparison with the last quarter. Other significant factors included new loans to finance investments subsidised from EU funds.

The banks indicated that alternative sources of funding had the greatest impact on the decrease in demand for corporate loans. The banks usually indicated the enterprises' use of own funds as well as loans from other banks (cf. Fig. 5).

Figure 4

Corporate loan demand

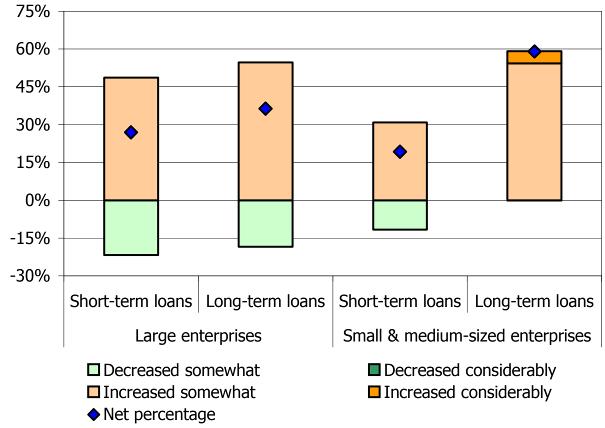


Figure 5

Factors influencing changes in corporate loan demand

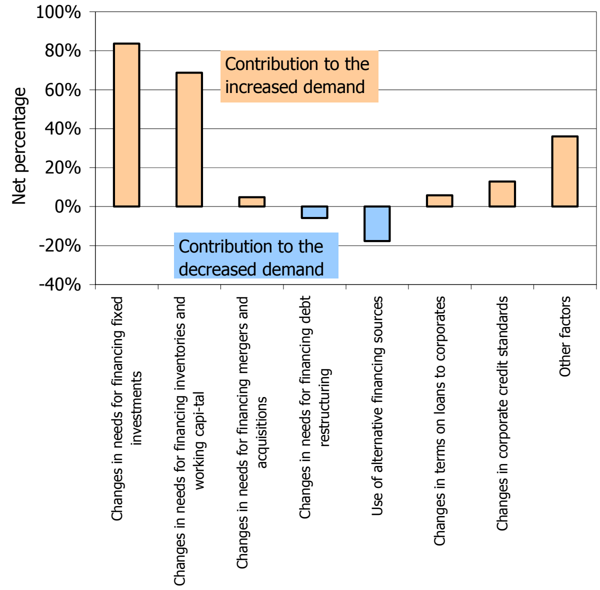
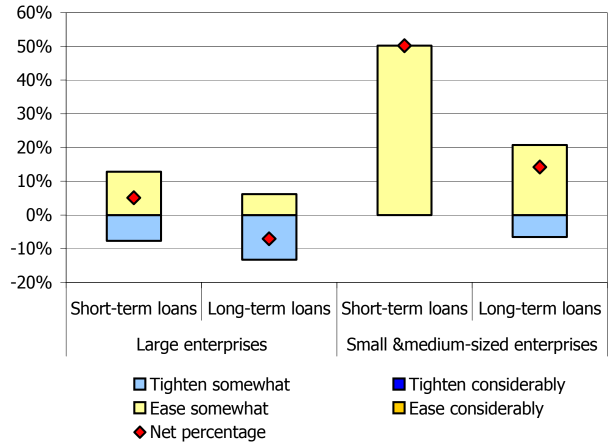


Figure 6

Forecast of changes in lending policies — corporate sector



The reappearance of the increase in demand for loans felt by the banks in the enterprise sector and the distribution of the reasons for the changes in demand suggest that ever more enterprises report the need for financing their investments with the banks' money. The growth of the demand observed by the banks is not reflected by a growth in lending. Results of another survey show that enterprises reducing their liabilities towards the banks prevail over those intending to increase their indebtedness (see *Syntetyczna ocena kondycji przedsiębiorstw…* , first quarter of 2005, NBP).

The banks do not expect significant changes in the lending policy in the first quarter of 2005 in the majority of the loan categories. Half of the banks intend to slightly ease the short-term credit standards in the small and medium-sized enterprise sector (cf. Fig. 6). It should be pointed out that the growth in demand in this loan segment was the smallest (cf. Fig. 4).

In comparison to the anticipated changes in the lending policy from the last quarter, the tendency to ease the lending policy with regard to short-term loans for the large enterprise sector and with regard to long-term loans for the small and medium-sized enterprise sector has weakened slightly.

The banks anticipate that the growth in demand for loans in the corporate sector will remain unchanged in the first quarter of 2005. None of the banks anticipates a drop in demand during that period, and the percentage of banks anticipating an increase in demand for long-term loans in the small and medium-sized enterprise sector has been the highest since the beginning of surveys (cf. Fig. 7).

The banks' anticipations regarding the demand for corporate loans were very similar in the last quarter.

Households

In the fourth quarter of 2004 the **majority of banks (84.4% of asset-weighted banks in the housing loans**

Figure 7

Demand for corporate loans — forecast

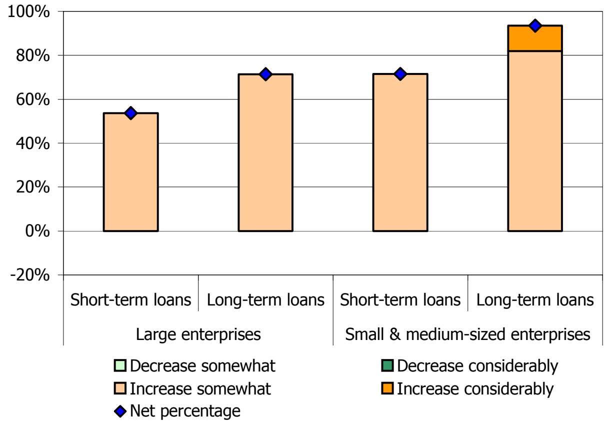


Figure 8

Household credit standards

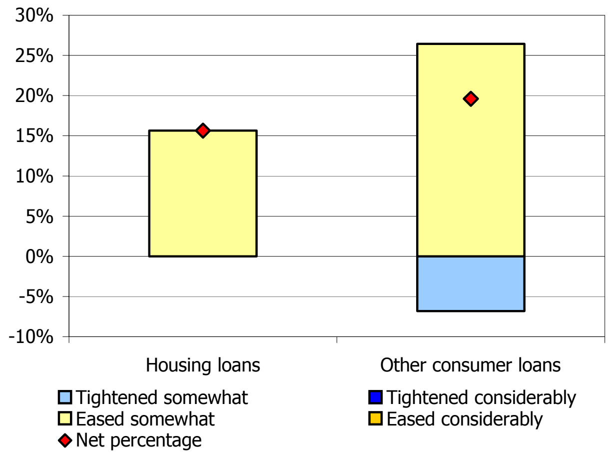
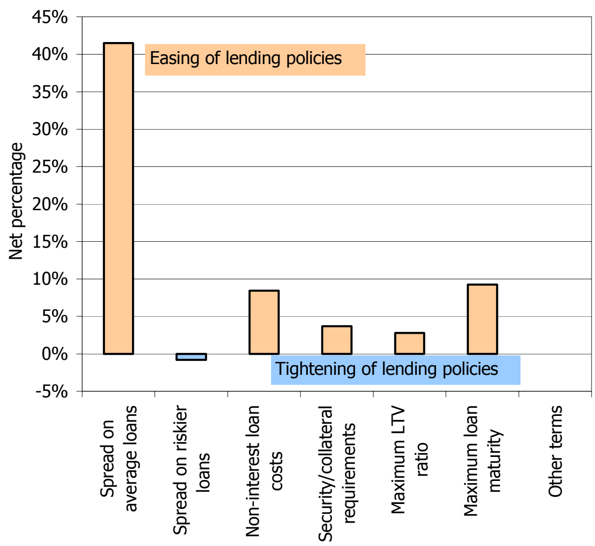


Figure 9

Terms on housing loans



segment and 66.8% – in the consumer loans segment) did not change their credit standards as regards household loans. Banks that changed their lending policy eased their standards in general, although some of the banks slightly tightened the lending standards in the consumer loans segment (cf. Fig. 8).

The number of banks that eased their lending standards as regards consumer loans increased in comparison to the last quarter.

Similarly to the last quarter, **the banks that changed their standards concerning housing loans were banks that usually reduced the lending margin.** Changes to other elements of the banks' lending policy were rather less frequent (cf. Fig. 9).

An increase in competitive pressure from other banks and the fact that the demand for housing loans was smaller, had the greatest impact on easing of the standards concerning housing loans. The forecasted situation on the housing market and the decisions related to monetary policy had a somewhat smaller impact on the easing of the lending policy (cf. Fig. 10).

In comparison to the last quarter, the impact of the forecasted situation on the housing market decreased significantly as regards easing of the lending policy. According to the banks, the course of impact of the decisions concerning the monetary policy also changed – these decisions contributed to an insignificant tightening of the lending policy by the banks in the last quarter.

Banks that eased off the consumer credit standards usually lowered the collateral requirements and the lending margin (cf. Fig. 11). The lending margin was the most frequently eased off standard in the last quarter. The significance of the lending margin concerning riskier loans to the easing of the banks' lending policy also increased.

The most important reason for easing the lending policy as regards consumer loans was increased competitive pressure from other banks and other financial institutions (cf. Fig. 13). In comparison to the

Figure 10
Factors influencing changes in lending policies – housing loans

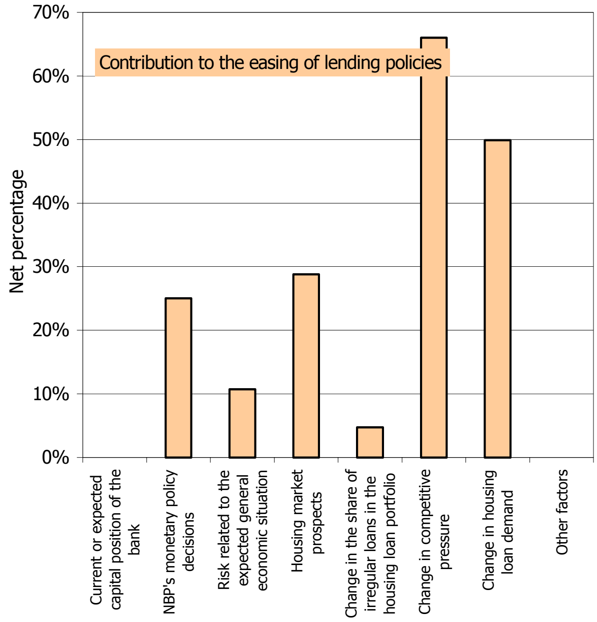


Figure 11
Terms on other consumer loans

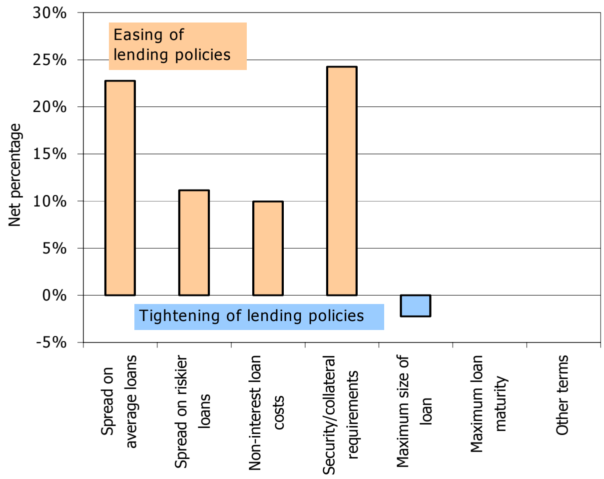
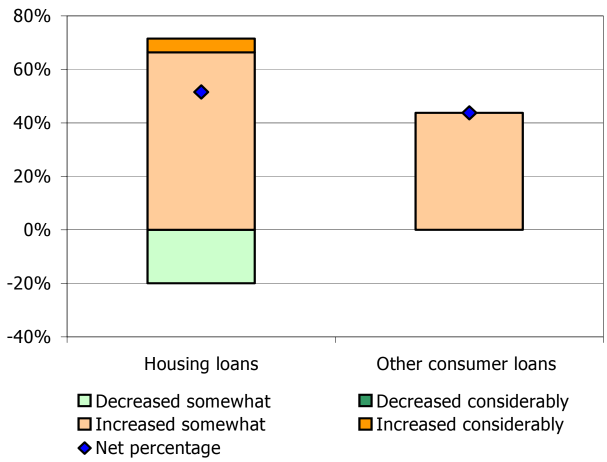


Figure 12
Demand for loans to households



last quarter, the impact of this factor on easing the lending policy decreased.

Results of the survey suggest that increased competition from other financial institutions still constitutes the main reason for easing the lending policy with regard to households (cf. Figures 10 and 13).

The demand for household loans, both consumer and housing loans, increased in the fourth quarter of 2004. This means that after a quarterly break, the demand for housing loans in the sector increased once again, although it decreased at some banks. None of the banks observed a decrease in demand for consumer loans. As regards this loan category, the majority of the banks did not observe any changes in demand in comparison to the last quarter. (cf. Fig. 12).

The growth in demand for household loans was smaller in the last quarter, especially as regards housing loans.

According to the banks that observed increased demand for housing loans, the increase in demand was, similarly to the last quarter, caused by easing of the lending policy, forecasts concerning the situation on the housing market and improved economic situation of the households (cf. Fig. 14). The impact of these factors on the growth in demand for housing loans was similar in the last quarter.

According to the banks, the demand for consumer loans was most affected by the increased demand to finance the purchases of securities. This was related to financing of the purchase of PKO BP S.A.'s shares at the turn of October and November 2004. The increased need for financing of consumer durables also contributed to the growth in demand (cf. Fig. 15), although to a lesser extent than in the last quarter.

The majority of banks do not anticipate any changes in the lending policy in the first quarter of 2005 as regards household loans (cf. Fig. 16). Banks intending to ease the credit standards for households prevail among the banks which intend to change their

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

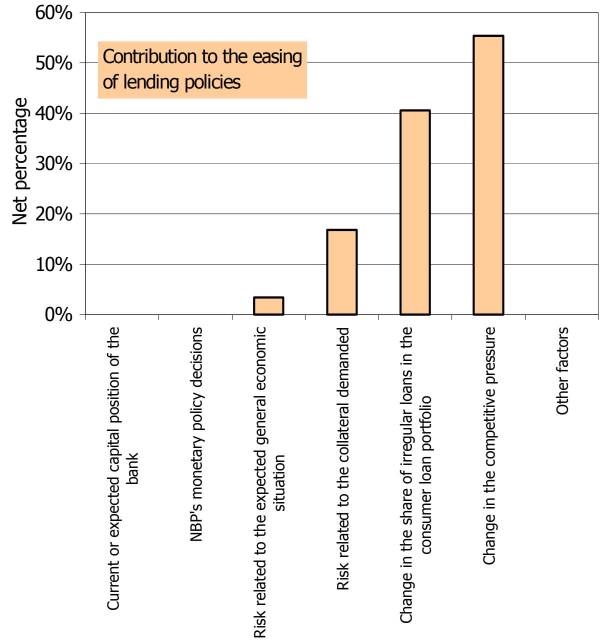
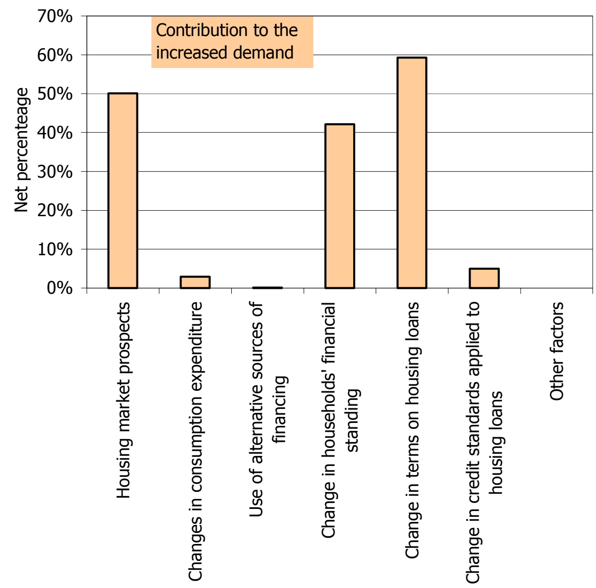


Figure 14
Factors influencing changes in demand for housing loans



lending policy.

In comparison to the last quarter, the number of banks intending to ease their lending policy decreased, especially in the housing loans segment.

According to the banks surveyed, the demand for household loans will increase in the first quarter of 2005 (cf. Fig. 17). Although none of the banks anticipates the demand for loans to decrease, the number of banks anticipating the demand to increase decreased in comparison to the anticipations of the last quarter. In the previous quarter, some of the banks expected the demand to increase significantly.

Figure 15
Reasons for changes in demand for other consumer loans

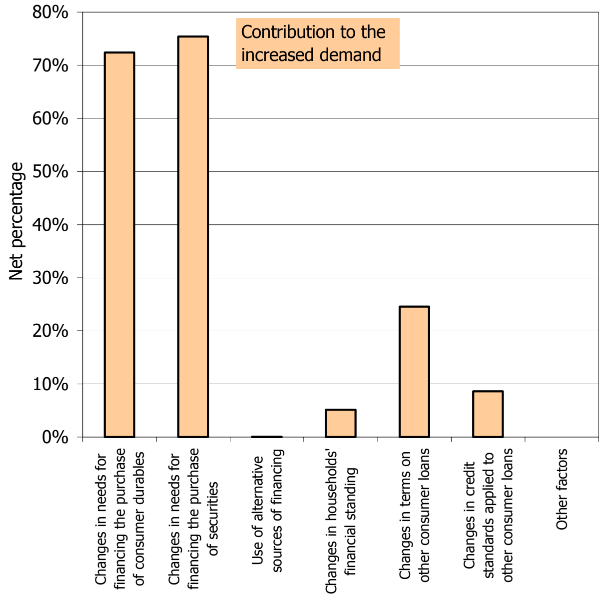


Figure 16
Forecast of changes in lending policies –household sector

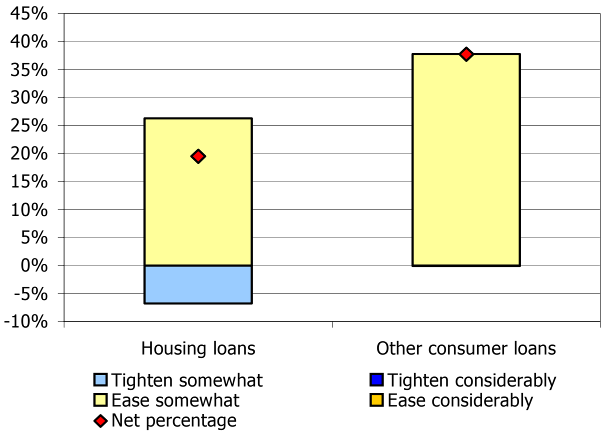
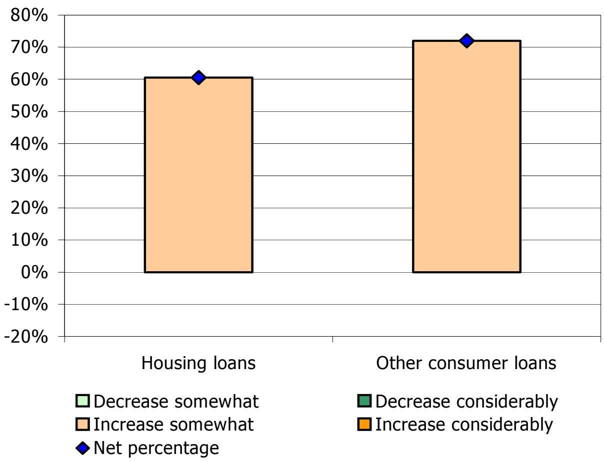


Figure 17
Demand for loans to households — forecast



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 October and November 2004, that is the period covered by the survey, was taken into account.[2] Where a bank marked "*Not applicable*" in the response options, a weight of 0 was assigned. Thus while calculating

[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.

[2] No data on claims loans of particular banks in December 2004 were available at the time of analysing the results of the survey, due to an about three-week delay in reporting.

the structures for particular questions, only banks being active in a particular market segment were taken into account.

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.

Source: NBP.