Senior loan officer opinion survey

on bank lending practices and credit conditions

2nd quarter 2004

Warsaw, May 2004

Summary of the survey results

- In the first quarter of 2004 **the credit standards and terms for corporate loans were tightened**; in the case of loans to **households** the percentage of banks that **eased their credit standards and terms** slightly predominated
- **An increase in demand for corporate loans** was noted, in particular in the large enterprise sector, and for short-term loans in the small and medium-sized enterprise sector
- The principal reasons for changes in corporate loan demand was the **increase in needs for financing fixed investments and working capital,** related to the economic recovery
- Banks noted a strong **increase in demand for loans to households**, particularly for housing loans
- **The increase in demand for housing loans** resulted to a considerable extent from the expected increase in real property prices brought about by the change in the VAT rate after 1 May 2004
- Most banks expected an **increase in demand for loans in the second quarter of 2004**, both in the corporate and in the household sector. A particularly strong increase in demand for housing loans is expected.

Synthetic results of the survey

The survey was conducted at the turn of March 2004 for 24 banks, whose total share of loans to corporates and households amounts to 78.7% 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, which is 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 demand in the first quarter of 2004, as well as banks' expectations concerning the second quarter of 2004.

Corporates

In the first quarter of 2004 **no bank eased its credit standards for corporates**. In both loan categories, i.e. loans to large enterprises and small and medium-sized enterprises, the percentage of banks that tightened the standards was similar, although the standards for small and medium-sized enterprises were tightened somewhat stronger (cf. Fig. 1). In comparison with the fourth quarter of 2003 the tendency of tightening credit standards on short-term loans to large enterprises strengthened, while the corporate credit standards on long-term loans to small and medium-sized enterprises were tightened less often.

Most often the terms concerning required collateral were tightened, while the maturity of loans was shortened (cf. Fig. 2). Those terms were tightened more often than in the preceding quarter, while the tendency to tighten the remaining lending terms weakened.

Similarly to the previous quarter, the factors that contributed most to the tightening of credit standards and

Figure 1

Corporate credit standards

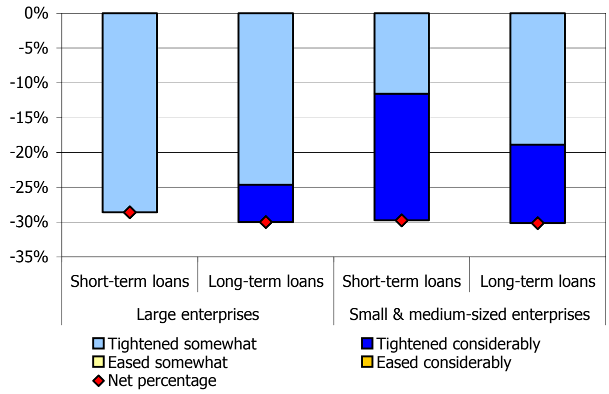


Figure 2

Terms on corporate loans

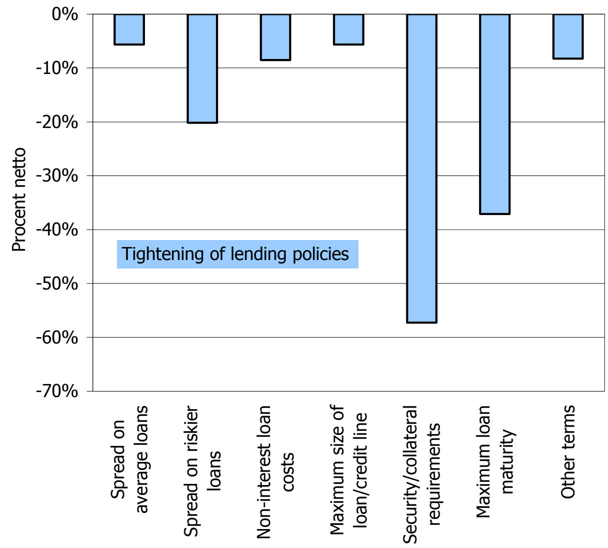
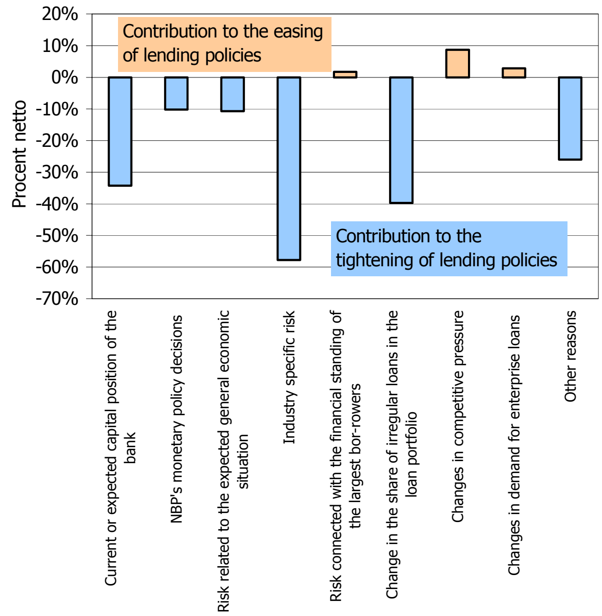


Figure 3

Factors influencing changes in lending policies



terms were an increase in risk related to lending to certain industries, and an increase in the share of irregular loans in the loan portfolio (cf. Fig. 3). The contribution of those factors decreased considerably in comparison with the preceding period, whereas the influence of current and expected capital position of particular banks increased. Less often than in the preceding period banks indicated risk related to the expected general economic situation and the financial standing of the greatest borrowers as reasons for tightening their lending standards.

Most banks noted an **increase in demand for corporate loans,** in particular from large enterprises, and — in the case of small and medium-sized enterprises — for short-term loans (cf. Fig. 4). No bank noted a decrease in demand for short-term loans. In comparison with the preceding quarter the demand for loans from large enterprises increased the most, while the demand for long-term loans for small and medium-sized enterprises decreased somewhat.

In banks' opinion the increase in demand was mostly fostered by **an increase in needs for financing inventories and working capital, and increased needs for financing investments** (cf. Fig. 5). Among other factors, which contributed to the increase in demand for corporate loans, banks also reported an increase in orders and an increase in optimism of businesses. Tightening of credit standards had a subduing influence on demand, while the influence of other factors was scarce. The survey results clearly indicate that the current increase in demand for corporate loans is connected with an acceleration of the economic growth in the first quarter of 2004.

In comparison with the preceding quarter the influence of the above-mentioned factors on the increase in demand became stronger, whilst the influence of factors connected with the use of alternative sources of financing that reduced the demand in the fourth quarter of 2003 weakened.

Banks expected easing of lending policies for the small and medium-sized enterprises in the second quarter of 2004 (cf. Fig. 6). In the large enterprise sector a

Figure 4

Corporate loan demand

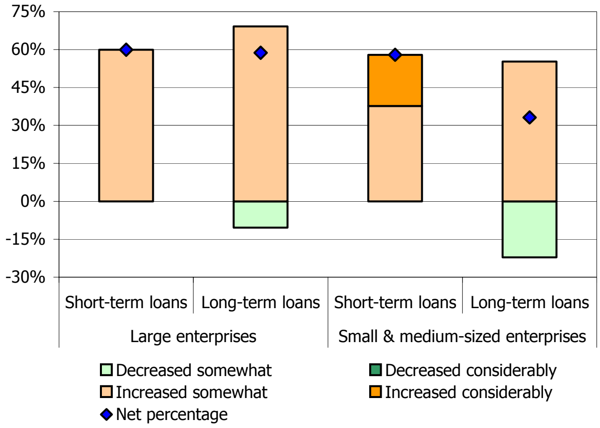


Figure 5

Factors influencing changes in corporate loan demand

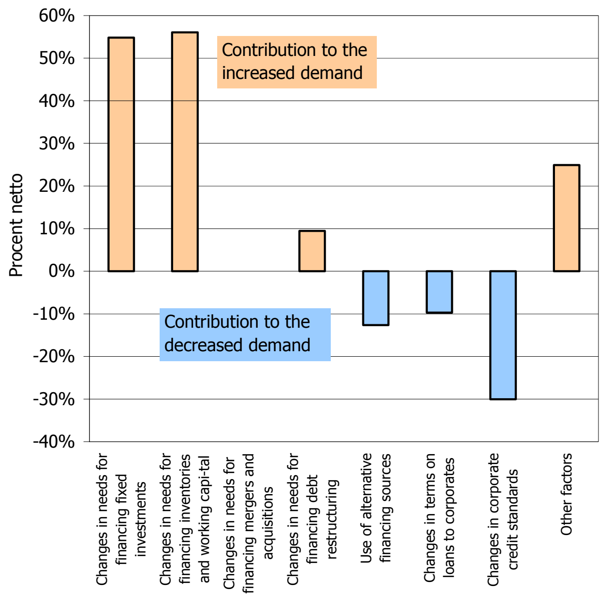
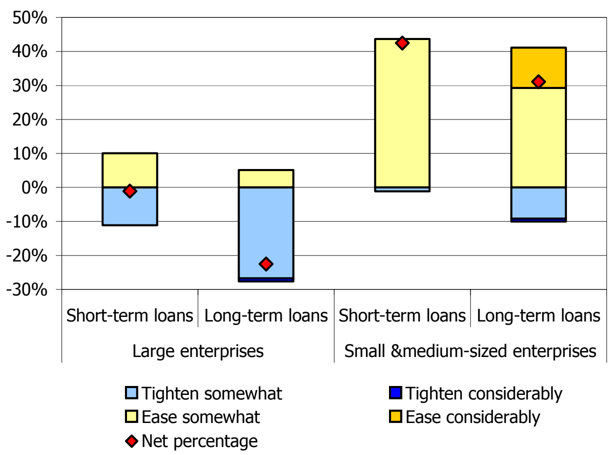


Figure 6

Forecast of changes in lending policies — corporate sector



somewhat higher percentage of banks expected tightening of lending policies on long-term loans. For short-term loans in the sector the average influence of changes in lending policies will be neutral in character. At the same time a higher percentage of banks did not expect any changes in lending policies for large enterprises than for the small and medium-sized enterprise sector. In comparison to the expectations of changes in lending policies from the previous quarter, the percentage of banks declaring tightening of lending policies, in particular for the small and medium-sized enterprise sector, decreased, and the percentage of banks expecting easing of lending policies in this sector increased.

Nearly all banks expect a rise of demand for loans in the SME sector, with a stronger increase expected in the demand for short-term loans (cf. Fig. 7). None of the banks expected a fall in demand for loans to large enterprises, and a significant percentage expected an increase in this demand. Banks expect a stronger increase in demand for long-term loans than for the short-term ones in this sector.

In comparison to the expectations from the previous quarter the percentage of banks expecting no change in demand decreased, whilst the percentage of banks expecting a slight increase in demand from large enterprises, and a considerable increase in demand from the SME, increased. The survey results confirm that banks expected a further increase in enterprise needs for financing using loans.

Households

In the first quarter of 2004 **the credit standards on housing loans to households were changed in most banks.** The percentage of banks that tightened their credit standards was similar to the percentage of banks that eased them (cf. Fig. 8). **In the case of consumer loans most banks did not change their credit standards. The remaining banks that did change the standards more often eased them slightly rather than tightened them.** In

Figure 7

Demand for corporate loans — forecast

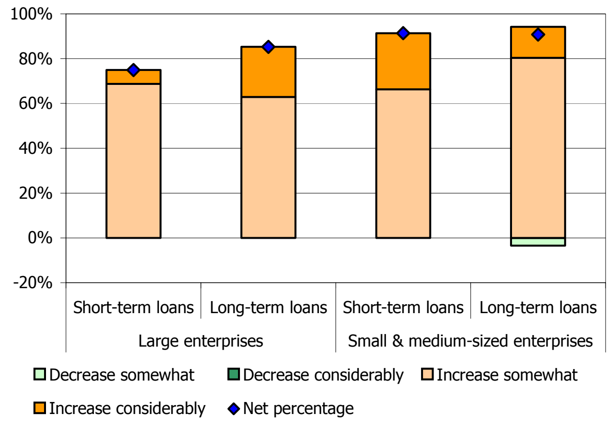


Figure 8

Household credit standards

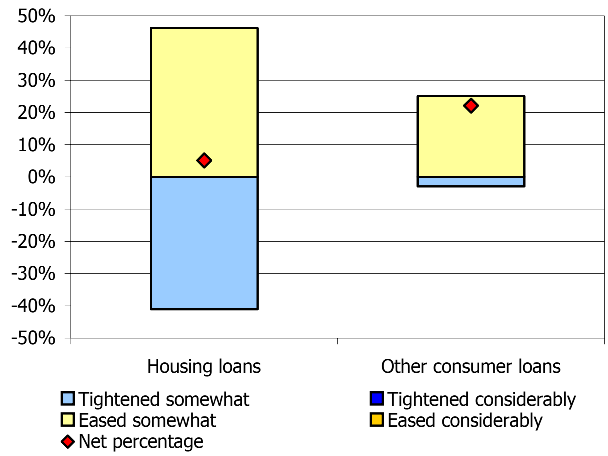
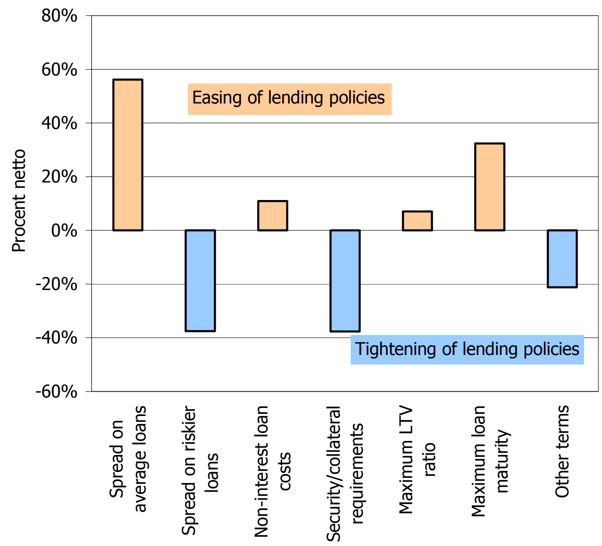


Figure 9

Terms on housing loans



comparison to the preceding quarter the percentage of banks declaring a change in credit standards on housing loans considerably increased, whilst the percentage of banks that eased or tightened their credit standards on consumer loans slightly decreased.

Banks that changed their credit standards on housing loans most often narrowed their spreads (but at the same time a wider spread was applied to riskier loans), **extended the maximum loan maturity and increased the collateral requirements** (cf. Fig. 9)**.** In comparison to the preceding quarter, the contribution of all the above mentioned factors to the change in credit standards on housing loans increased.

Among the factors, which contributed to easing of lending policies on housing loans, banks reported most often an increase in competitive pressure from other universal and mortgage banks, and an increase in demand for housing loans (cf. Fig. 10). Among the most important factors that contributed to tightening of lending policies, the forecasted increase in the share of irregular loans in the housing loans portfolio and the housing market prospects (increase in real property prices) were mentioned. In comparison to the previous quarter the competitive pressure from other banks diminished, whereas the influence of the movements in demand for housing loans and of the housing market prospects on the change in lending policies in that market segment rose.

Banks that changed their credit standards on consumer loans most often extended the maximum loan maturity and reduced the collateral requirements (cf. Fig. 11).

Among the reasons for changing the lending policies on consumer loans the following external factors were primarily reported: an increase in competitive pressure from other banks and non-bank financial institutions and an increase in demand for consumer loans (cf. Fig. 13). In comparison to the previous quarter the contribution of those factors to the change in lending policies rose; a slight increase in risk related to the expected general economic

Figure 10

Factors influencing changes in lending policies – housing loans

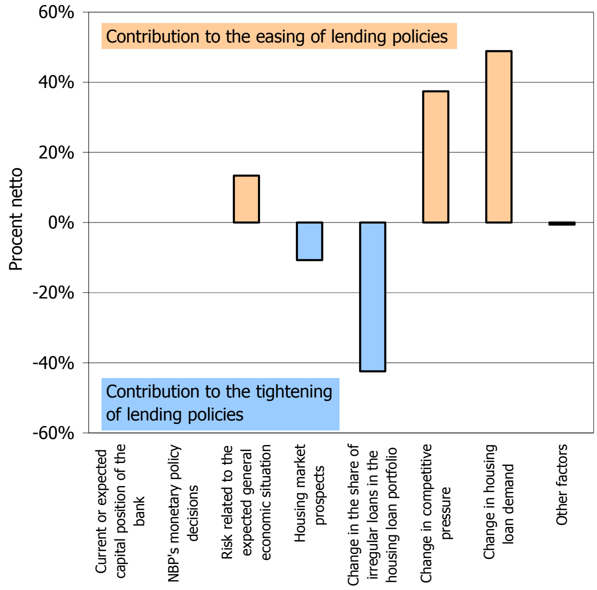


Figure 11

Terms on other consumer loans

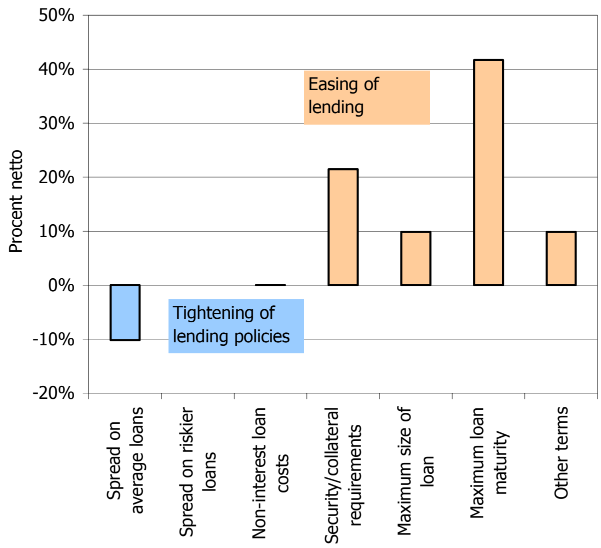
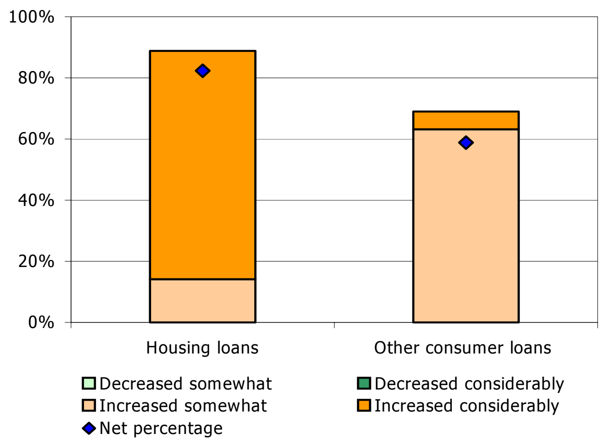


Figure 12

Demand for loans to households



situation of the country was also recorded.

In the first quarter of 2004 the demand for loans to households increased both in the housing and consumer loan market segments (cf. Fig. 12). However, the increase in demand for housing loans was decidedly stronger than for consumer loans and other loans. In comparison to the previous quarter a higher percentage of banks declared a slight increase in demand for consumer loans. At the same time the percentage of banks where the demand for loans increased significantly rose substantially.

The demand for housing loans increased mainly due to the expected increase in real property prices. Among other factors banks also mentioned easing of lending policies and an improvement in households' financial standing (cf. Fig. 14). On the other hand the tightening of credit standards was a factor, which contributed to the decrease in demand for housing loans. In banks' opinion the importance of the above-mentioned factors grew, in comparison with the previous quarter.

The most important reasons of an increase in demand for consumer loans were the increased needs for financing purchases of consumer durables, and easing of credit standards on consumer loans (cf. Fig. 15). The contribution of those factors was stronger than in the preceding quarter. At the same time the competitive pressure from other banks decreased, what also positively contributed to the demand for consumer loans.

In the second quarter of 2004 most banks did not expect changes in lending policies either in the housing or the consumer loan sectors. Among banks, which do expect changes in lending policies, those that intend to ease their credit standards slightly predominate (cf. Fig. 16).

In the second quarter of 2004 a strong increase in demand for loans to households is also expected (cf. Fig. 17). Banks expect that the increase in demand for housing loans will be slightly stronger than that in demand for consumer loans. In comparison with the preceding

Figure 13

Factors influencing changes in lending policies – other consumer loans

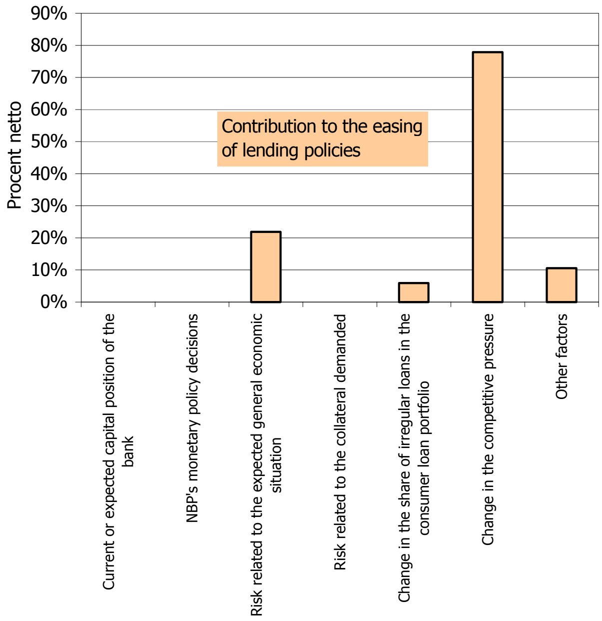
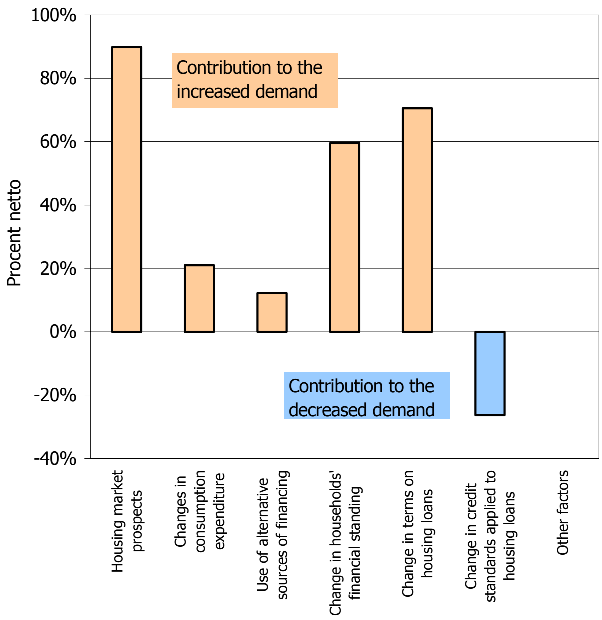


Figure 14

Factors influencing changes in demand for housing loans



quarter the percentage of banks that expected a considerable increase in demand from both market segments became significantly higher.

Figure 15
Reasons for changes in demand for other consumer loans

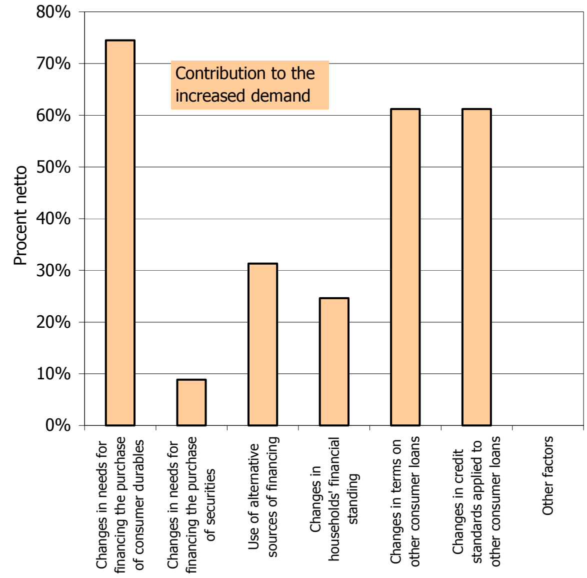


Figure 16
Forecast of changes in lending policies –household sector

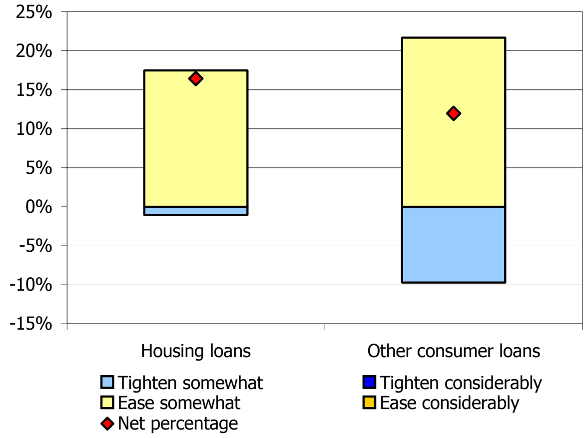
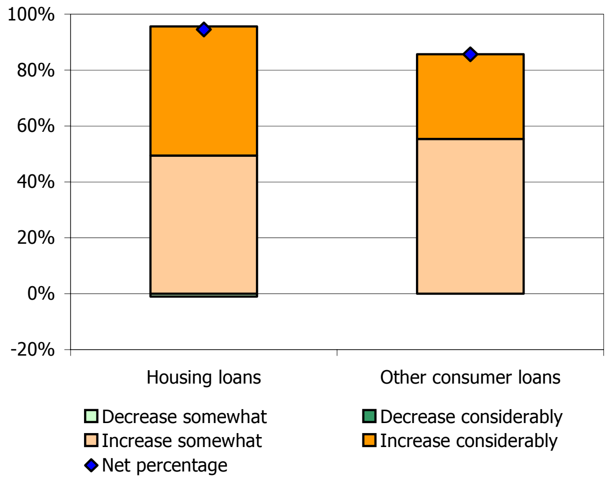


Figure 17
Demand for loans to households — forecast



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 first quarter of 2004, 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.