Senior loan officer opinion survey

on bank lending practices and credit conditions

2nd quarter 2005

Warsaw, April 2005

Summary of the survey results

- **Lending policy:** in the first quarter of 2005, most banks did not change their credit standards or loan terms and conditions for enterprises and for households.
- **Terms and conditions of corporate loans:** the tendency to ease credit standards as well as terms and conditions of loans to large enterprises occurred for the first time since the survey had been first conducted. The tendency to reduce credit margins in the corporate sector also occurred for the first time.
- **Demand for corporate loans:** banks recorded a slight increase in demand for loans in the corporate sector. The increase in demand was similar to that in the previous 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.
- **Demand for household loans:** banks recorded an increase in demand for household loans. The growth in demand was lower than in the previous 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. In the segment of housing loans the influence of changes in demand on shaping the lending policy decreased.
- **Expected changes in lending policy:** the majority of banks do not intend to change their lending policy in the second quarter of 2005, although a trend prevails among the banks changing their credit standards to ease them off, especially as regards the small and medium-sized enterprise (SME) sector.
- **Expected changes in demand for loans:** most banks expect the demand for loans to grow further in the second quarter of 2005 with regard to both the corporate and the household sectors. The percentage of banks forecasting an increase in demand for housing and consumer loans was the highest since the survey had been first conducted.

Results of the survey — overview

The survey was conducted at the turn of March and April 2005 among 24 banks, whose total share of loans to enterprises and households amounts to 80.2% 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, meaningful, significant percentage of banks, 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 first quarter of 2005 as well as the banks' forecasts concerning the second quarter of 2005.

Corporates

In the first quarter of 2005 **the majority of banks (over 70% of asset-weighted banks) did not change their credit standards for enterprises**. Among the banks that changed their credit standards the tendency to ease them slightly prevailed, particularly in the sector of small and medium-sized enterprises (cf. Figure 1). The tendency to ease credit standards and terms and conditions of granting loans to large enterprises occurred for the first time since the survey had been first conducted. In the sector of small and medium-sized enterprises the net percentage, after a one-off adjustment in the previous quarter, returned to the level from the third quarter of 2004.

The banks anticipate that in the second quarter of 2005 the lending policy in the enterprise sector will be slightly eased again. A higher percentage of banks anticipate easing their credit standards and terms and conditions of loans to the SME sector.

Among the banks that changed their lending policies, the lending margin and the security requirements were most often moderated (cf. Figure 2). An explicit tendency to reduce the lending margin occurred for the first time since the survey had been first conducted.

Figure 1

Corporate credit standards

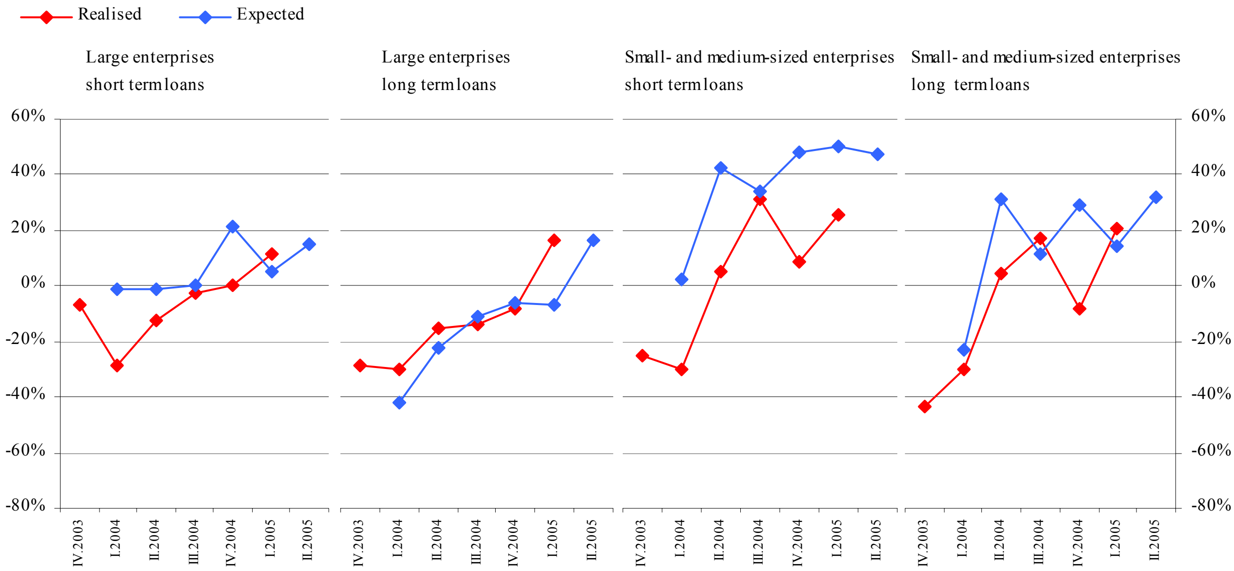
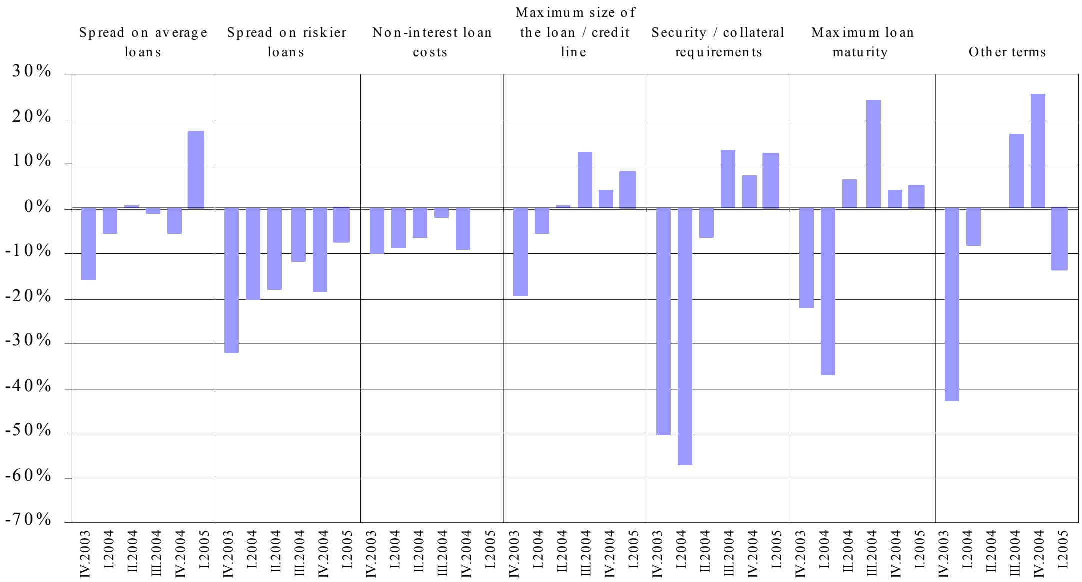


Figure 2

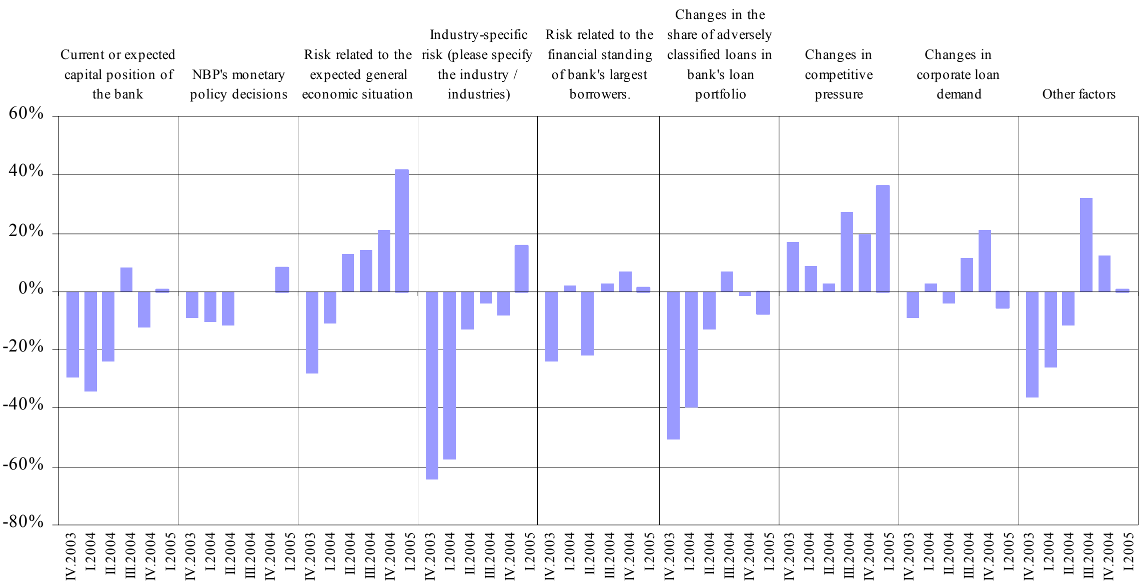
Terms on corporate loans



The banks that changed their lending in the enterprise sector most often mentioned a reduced risk associated with the anticipated economic situation, growing competitive pressure, especially from other banks, as the factors that contributed to easing their lending policies. In the first quarter of 2005 the influence of both factors on easing the lending policy was the strongest during the whole period of conducting the survey. The banks also assessed the risk related to some industries to decrease for the first time since the fourth quarter of 2003 (cf. Figure 3).

Figure 3

Factors influencing changes in lending policies

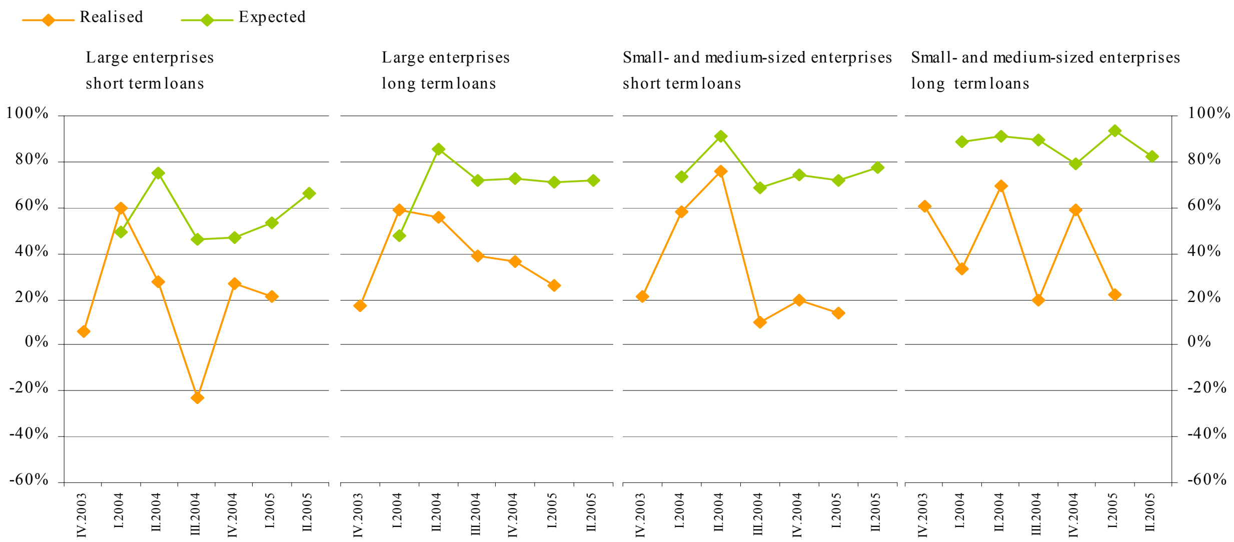


In the first quarter of 2005 the demand for corporate loans did not change in about half of the banks. Among the banks that experienced a change, the percentage of those that recorded an increase in the demand for corporate loans slightly prevailed. The upward trend in the demand fell significantly in the SME sector as regards long-term loans. In the remaining categories of corporate loans the level of net percentage did not change significantly in comparison to the previous quarter (cf. Figure 4).

The banks anticipate that in the second quarter of 2005 the demand for corporate loans will increase in a degree comparable to that in the last quarter. The forecasts of the banks related to the demand for loans have been hitherto overestimated, which means that the increase in demand in the second quarter of 2005 measured by net percentage should be lower than the banks' estimations (cf. Figure 4).

Figure 4

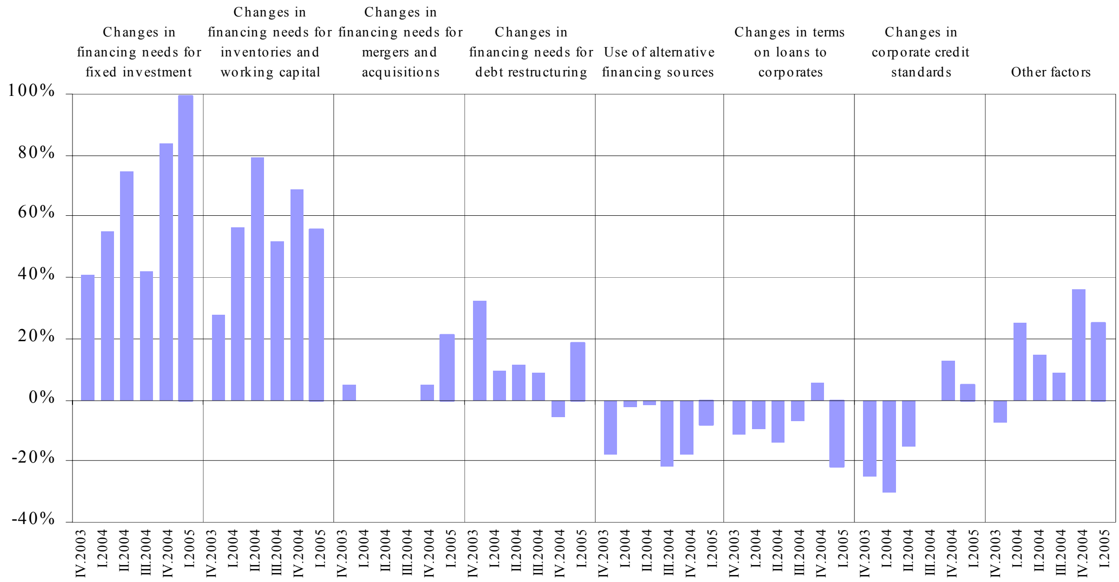
Corporate loan demand



Similarly to the previous quarter, the increase in demand was most strongly affected by an increase in investment finance requirements — this factor was listed by all the banks that observed a change in demand. In comparison to the previous quarter, the impact of the increased inventory and current assets finance requirements slightly fell, though still remaining an important factor of growth in demand for loans (cf. Figure 5). Other significant factors reported by the banks included an increase in the demand for loans to finance investments subsidised from EU funds.

Figure 5

Factors influencing changes in corporate loan demand



Households

In the first quarter of 2005 **the majority of banks (66.5% of asset-weighted banks) did not change their credit standards** as regards housing loans to households. In general, the banks that changed their lending policy eased their credit standards; only a slight percentage of banks tightened them. All things considered, the lending policy in the housing loans segment was moderated. Except for the very unusual developments in the second quarter of 2004, related to an extraordinary demand for housing before Poland's accession to the EU, a weak tendency towards easing the lending policy can be observed ever since the survey had been first conducted (cf. Figure 6).

The banks anticipate that in the second quarter of 2005 the lending policy in the segment of housing loans will be eased to a degree comparable with that in the first quarter of 2005 (cf. Figure 6).

An increase in competitive pressure from other banks and the forecast developments on the housing market exerted the strongest impact on easing the terms and conditions of housing loans. The influence of changes in the demand for housing loans on the shape of banks' lending policy significantly diminished (cf. Figure 6).

The banks that changed their policy in the housing loans segment most often prolonged the crediting period and increased the non-interest costs of loans. Some banks also changed the loan terms and conditions other than those listed in the survey. Some banks prolonged the grace period for loan repayment, reduced the scope of required documents, provided for the possibility of temporary suspension of loan repayment or implemented a simpler procedure of granting loans. In the first quarter of 2005, as opposed to the situation in the whole 2004, reducing the lending margin was no longer a dominant element of changes in lending policy (cf. Figure 7). More banks increased their lending margins for housing credits than in previous quarters.

Figure 6

Lending policy and factors influencing its changes

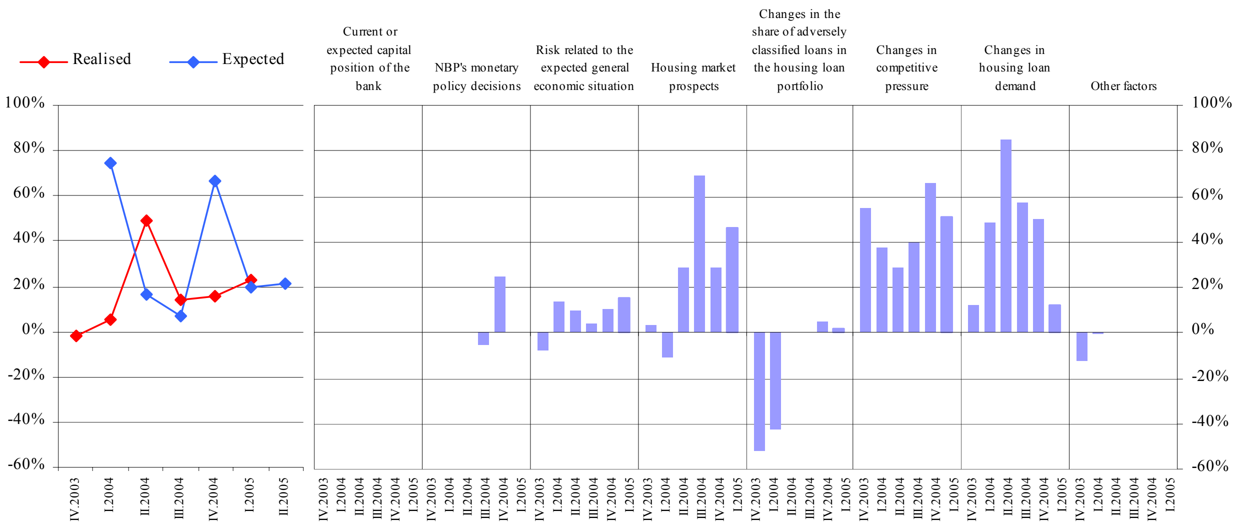
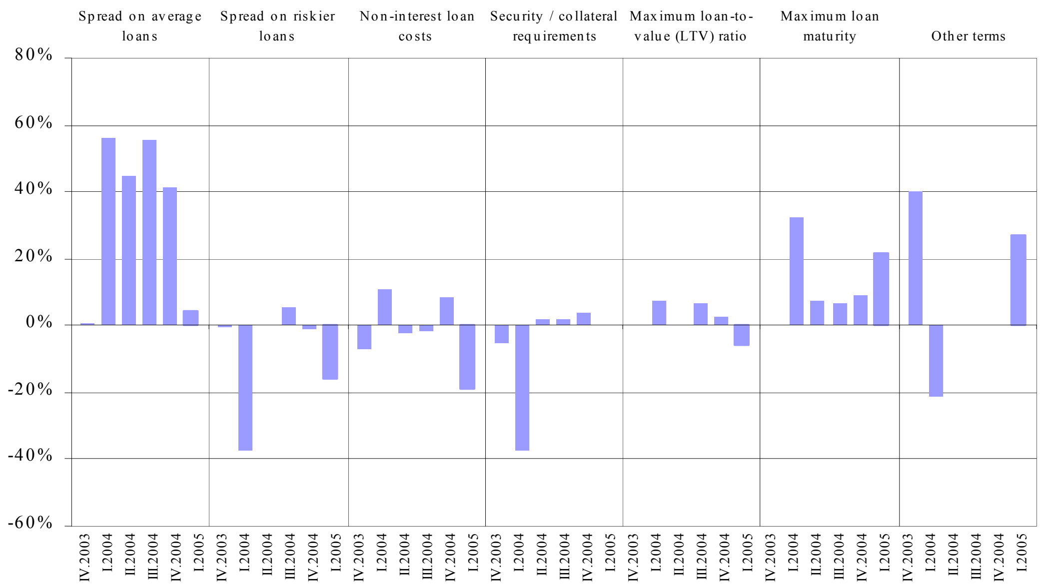


Figure 7

Terms on housing loans



Lending policy in the consumer loans segment was eased by 38.7% of the banks (asset-weighted). The remaining banks did not change their terms and conditions of granting consumer loans. Although the trend of easing the consumer loan terms and conditions was the strongest since the second quarter of 2004, banks do not anticipate any significant changes in their lending policy in the second quarter of 2005 (cf. Figure 8).

An increase in competitive pressure, especially from other banks, is still the most often reported reason for changes in lending policy. The influence of other factors on changes in lending policy was insignificant (cf. Figure 8).

The banks that eased their credit standards for consumer loans most often reduced their requirements related to security and prolonged the maximum period of crediting (cf. Figure 9). In comparison to the previous quarter the lending margin was decreased much less frequently.

Figure 8

Lending policy and factors influencing its changes – consumer loans

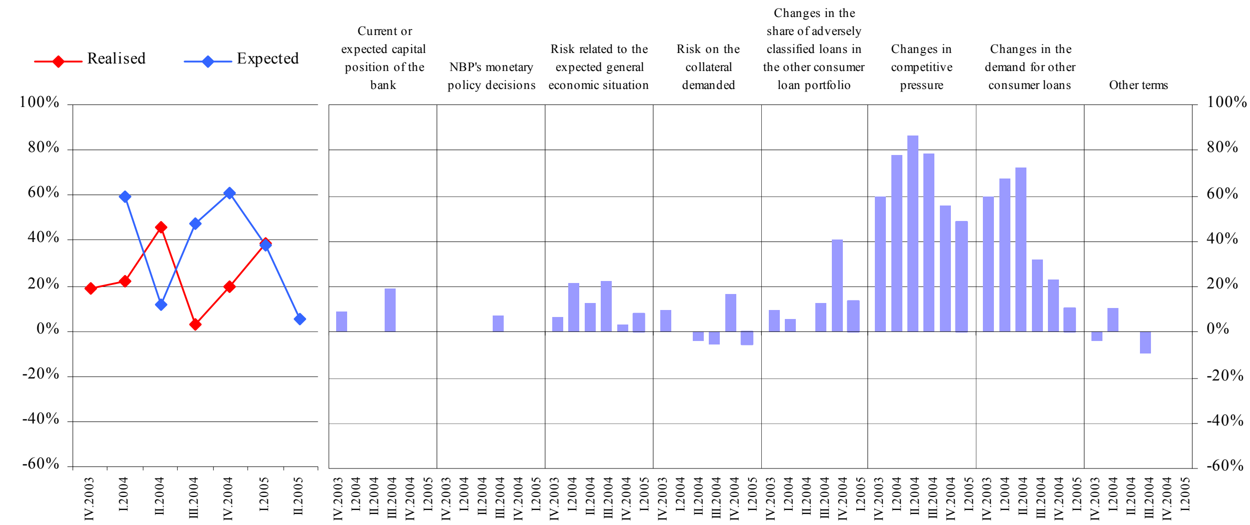
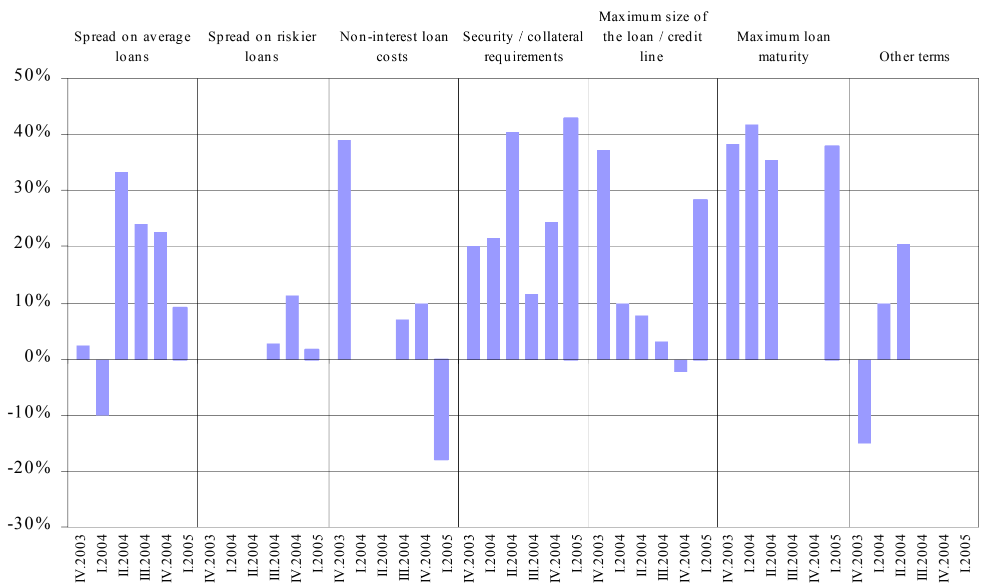


Figure 9

Terms on consumer loans

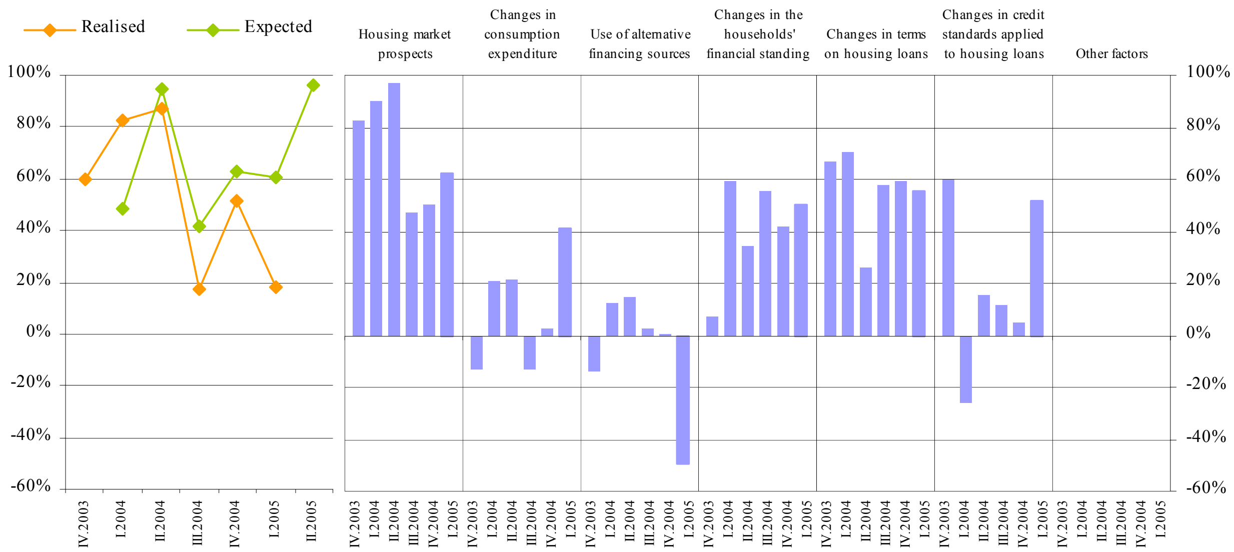


The demand for housing loans recorded by the banks changed in most of the banks. The percentage of banks (asset-weighted) that observed an increase in demand slightly prevailed, thus the demand for housing loans increased in the whole banking sector. The banks still anticipate a growth in demand for housing loans in the second quarter of 2005. The percentage of banks anticipating a growth in demand is the highest ever since the survey had been first conducted (cf. Figure 10).

The factors most often indicated as reason for growth in demand for housing loans included the forecast developments on the housing market, easing of the lending policy and improvement in the economic standing of households (cf. Figure 10). The banks that recorded a fall in demand considered the use of alternative sources of financing, mostly loans in other banks, a reason for the decrease.

Figure 10

Demand for housing loans and factors influencing its change

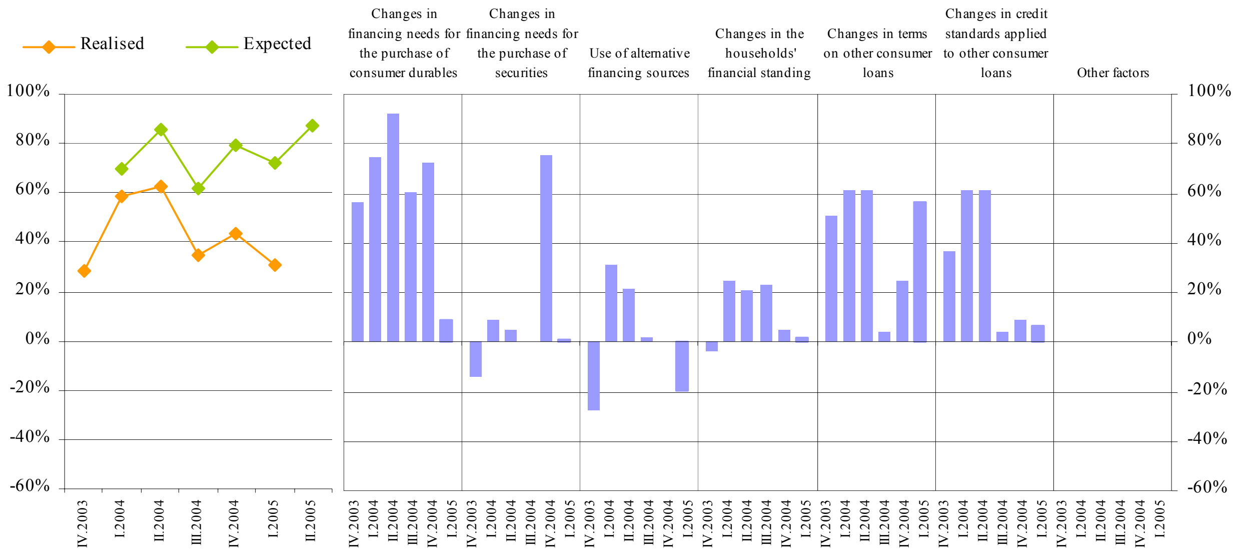


In the first quarter of 2005, the banks observed an increase in demand for consumer loans, although it was slightly smaller than in the previous quarter. A further increase in demand for consumer loans is expected in the second quarter of 2005. Similarly as in the housing loans segment, the percentage of banks that forecast the increase in demand is the highest ever since the survey had been first conducted (cf. Figure 11).

The banks deemed the eased loan terms and conditions the main reason for the growth in demand for consumer loans. The impact of the increase in demand for consumer durables finance requirements on the growth in demand for consumer loans decreased significantly. In the previous quarters it was the main reason for the increase in demand (cf. Figure 11). Similarly as in the housing loans segment, the decrease in demand recorded by some banks stemmed from the use of alternative sources of financing.

Figure 11

Demand for consumer loans and factors influencing its change



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 January and February 2005, 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 March 2005 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.