Senior loan officer opinion survey

on bank lending practices and credit conditions

3rd quarter 2004

Warsaw, July 2004

Summary of the survey results

- **Lending policies**: in the second quarter of 2004 the credit standards and terms for corporate customers were not changed; in the case of loans to households, around half of the banks eased their credit standards and terms.
- **Demand for corporate loans**: banks noted a further increase in demand for corporate loans, in particular in the SME sector. The demand for long-term loans was higher than for short-term loans in both sectors.
- **Principal reasons for a change in demand for corporate loans**: banks reported an increased demand as a result of a growth in demand for investment and current asset financing, related to extending the scope of corporate activity.
- **Demand for loans to households**: banks recorded a strong increase in demand for loans to households, particularly for housing loans.
- **Reasons for an increase in demand for housing loans**: according to the banks' opinion the increase in demand for housing loans resulted to a large extent from the housing market prospects.
- **Expected changes in demand for loans**: most banks expect an increase in demand for loans in the third quarter of 2004, both in the corporate and household sectors.

Synthetic results of the survey

The survey was conducted at the turn of June 2004 for 24 banks, whose total share of loans to corporates and households amounts to 78% 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 second quarter of 2004, as well as banks' forecasts concerning the third quarter of 2004.

Corporates

In the second quarter of 2004 **most banks did not change their credit standards for corporates**. The banks that did change them had the prevailing tendency of tightening the standards for large enterprises and slightly easing them for small and medium-sized enterprises (cf. Fig. 1). In comparison with the first quarter of 2004 the tendency of tightening the credit standards somewhat weakened, accompanied by the emerging trend to ease them – in the preceding quarter none of the banks eased the corporate credit standards.

Most often the changes consisted in tightening the required collateral and widening the spread on riskier loans. The trend of tightening those credit standards was weaker than in the first quarter, in particular with reference to the required collateral. Among the eased standards the extension of the maturity term was reported most frequently (cf. Fig. 2).

The factors which contributed most to the tightening of credit standards and terms were connected with fears con-

Figure 1

Corporate credit standards

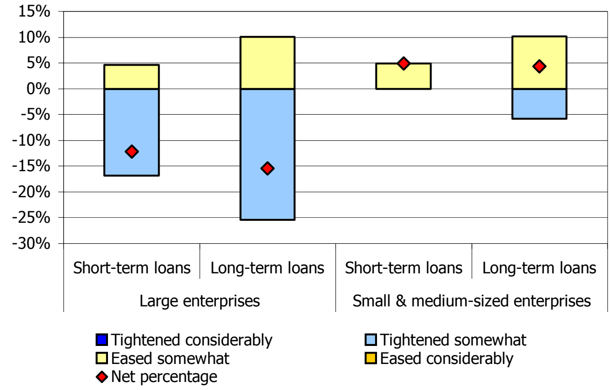


Figure 2

Terms on corporate loans

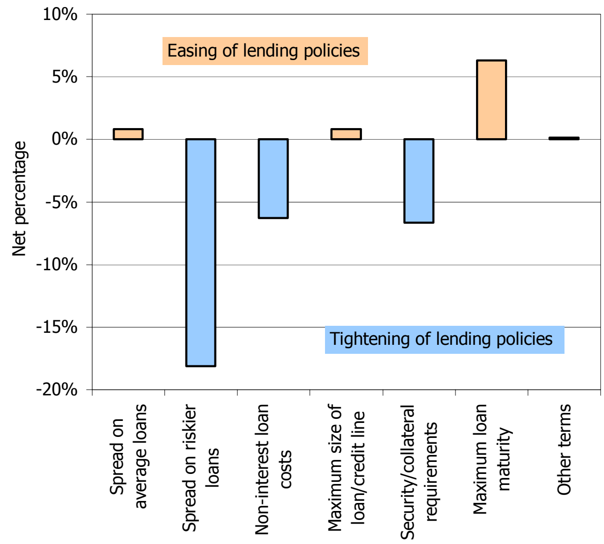
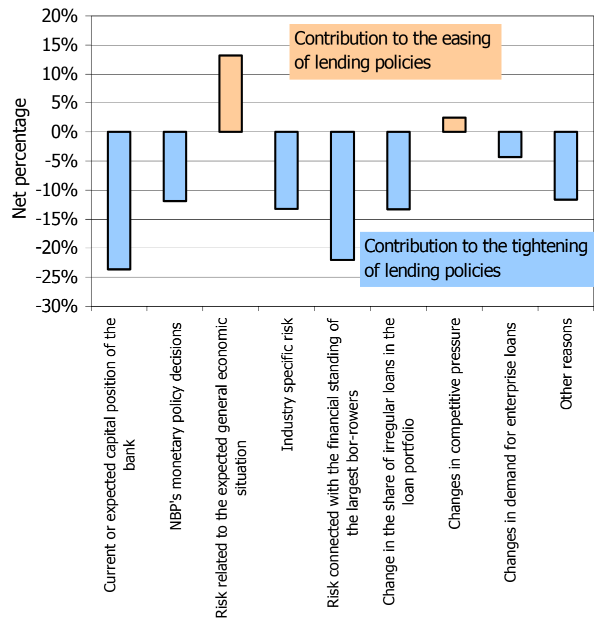


Figure 3

Factors influencing changes in lending policies



cerning the current or expected capital position of banks and the risk connected with the situation of the largest borrowers (cf.. Fig. 3). In comparison with the first quarter of 2004 the influence of the former diminished, while the influence of the latter increased.

A reduction in risk related to the expected general economic situation of the country contributed to easing the lending policies. For certain banks, however, it was a factor inducing them to tighten their lending policies.

In the second quarter of 2004 most banks noted an **increase in demand for corporate loans,** in particular from the small and medium-sized enterprises, and from large enterprises for long-term loans (cf. Fig. 4). In comparison with the preceding quarter a larger percentage of banks declared an increase in demand for loans to the small and medium-sized enterprise sector, while in the large enterprise sector some banks recorded a decrease in demand for short-term loans.

Similarly to the preceding quarter, the increase in demand was primarily influenced by an increase in needs for financing inventories and working capital, and an increase in needs for financing investments, accompanied by the increased importance of those factors (cf. Fig. 5). Among other reasons for an increase in demand for loans in the corporate sector banks reported the acquisition of the pre-accession and structural funds by corporates from the European Union.

The banks, which recorded a decrease in demand for loans, connected it with the increased importance of corporate internal financing and tightening of bank lending policies.

The results of the survey suggest that the increase in demand for corporate loans in the second quarter of 2004 resulted from the improved financial standing and extension of the scope of activity of corporates.

Banks expect easing of lending policies for small and medium-sized enterprises in the third quarter of 2004. Most banks do not expect changes in lending policies towards large enterprises. Some banks, which expect a

Figure 4

Corporate loan demand

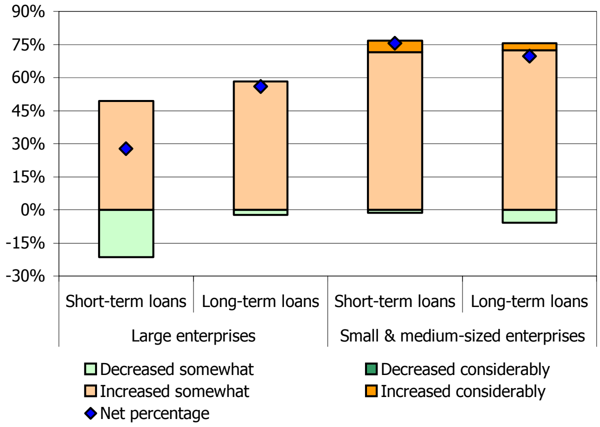


Figure 5

Factors influencing changes in corporate loan demand

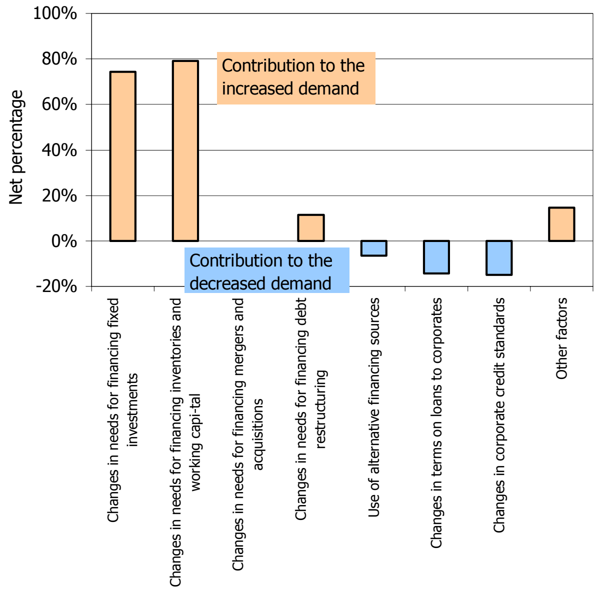
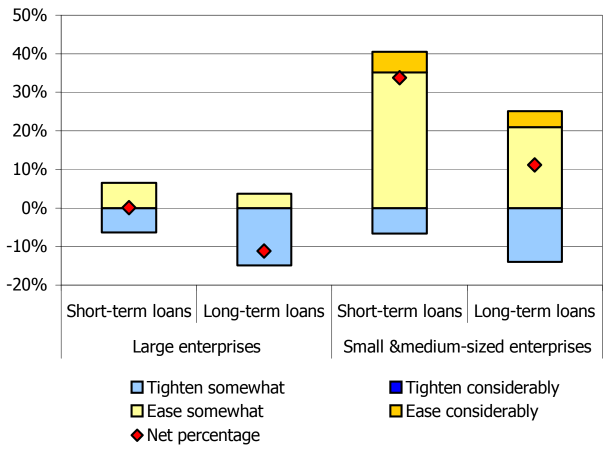


Figure 6

Forecast of changes in lending policies — corporate sector



change in lending policies towards large enterprises, intend to tighten the credit standards and terms of long-term loans (cf. Fig. 6).

In comparison to the expectations concerning changes in lending policies prevailing in the preceding quarter, the percentage of banks declaring a change in their lending policies towards the small and medium-sized enterprise sector decreased.

Banks expect an increase in demand for loans in the third quarter of 2004, with a higher percentage of banks expecting an increase in demand for long-term loans than for short-term ones. A higher percentage of banks expects an increase in demand for loans from the small and medium-sized enterprises than from large enterprises (cf. Fig. 7).

In comparison to the expectations in the preceding quarter the trend of growth in demand weakened – the percentage of banks expecting a considerable increase in demand fell.

The results of the survey confirm that banks expect a further increase in the enterprise needs for financing using loans, but the expectations are weaker than in the preceding quarter.

Households

In the second quarter of 2004 **around half of the surveyed banks reported slightly eased credit standards** for households. Other banks generally did not change their credit standards – only a small percentage of banks somewhat tightened their credit standards for consumer loans (cf. Fig. 8).

In comparison with the preceding quarter the percentage of banks declaring tightened credit standards for housing loans, and the percentage of banks that eased their credit standards for consumer loans, considerably decreased.

Thus **the general tendency of easing the household**

Figure 7

Demand for corporate loans — forecast

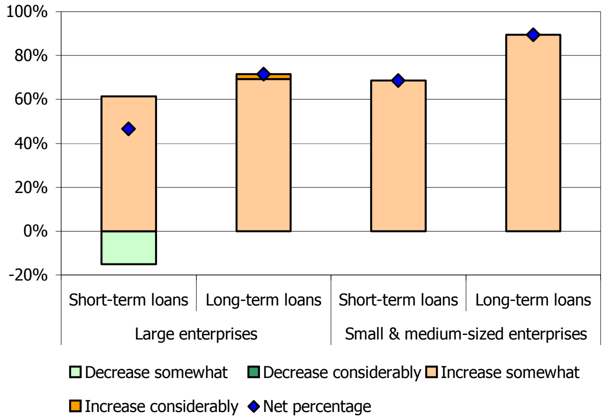


Figure 8

Household credit standards

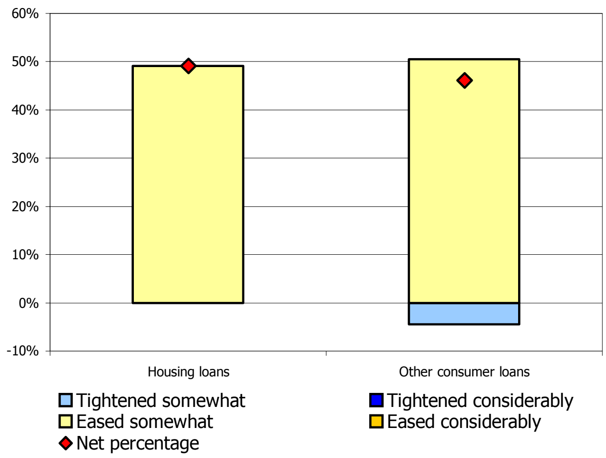
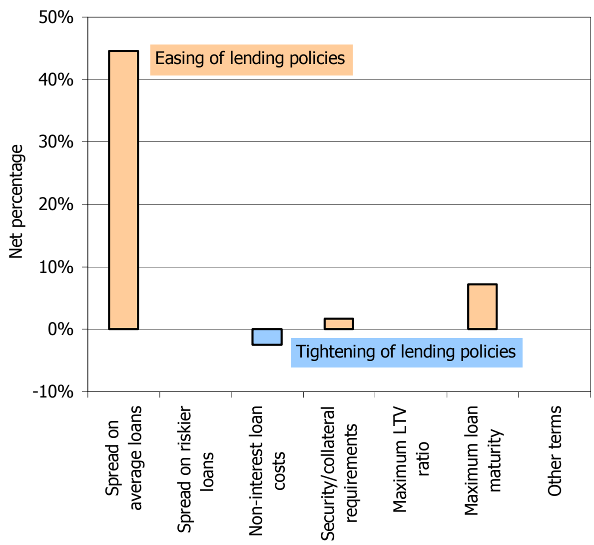


Figure 9

Terms on housing loans



credit standards increased.

Similarly to the preceding quarter, banks **that changed their credit standards for housing loans most often narrowed the spread on average loans.** The influence of other factors on the lending policies was scarce (cf. Fig. 9).

Changes in demand for housing loans had the greatest impact on easing the credit standards on housing loans. The housing market prospects and an increase in competitive pressure from other financial institutions also considerably contributed to the easing of lending policies (cf. Fig. 10).

Easing of lending policies in this segment was accompanied by a considerable increase in demand for housing loans (cf. Fig. 12), which means that banks do not ration housing loans, but try to obtain the highest possible share in this dynamically growing market segment.

The impact of the housing market prospects and changes in demand for loans on easing the lending policies increased in comparison to the preceding quarter. In the preceding quarter banks signalled that the main factor contributing to the increase in demand for housing loans was the expected increase in property prices. Thus banks believe that changes in demand for housing loans do not result from one-off factors, and are more durable.

As in the previous quarter **the banks that changed the consumer credit standards most often reduced their collateral requirements and extended the maximum loan maturity** (cf. Fig. 11). Some banks narrowed their spread on loans as well. The significance of this factor to changes in lending policies on consumer loans increased in comparison to the preceding quarter.

External factors, such as an increase in competitive pressure from other banks and non-bank financial institutions, and an increase in demand for consumer loans, contributed most to the easing of lending policies applied to consumer loans (cf. Fig. 13). In comparison to the preceding quarter the influence of those factors to the changes in lending policies increased.

Easing of consumer credit standards was accompa-

Figure 10

Factors influencing changes in lending policies – housing loans

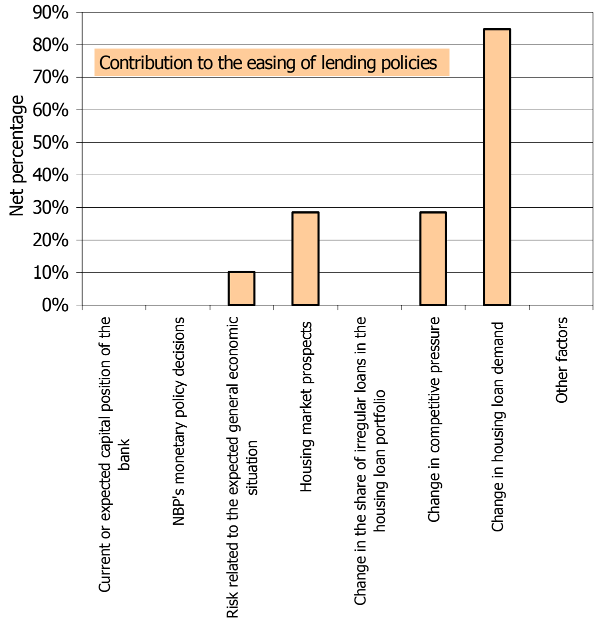


Figure 11

Terms on other consumer loans

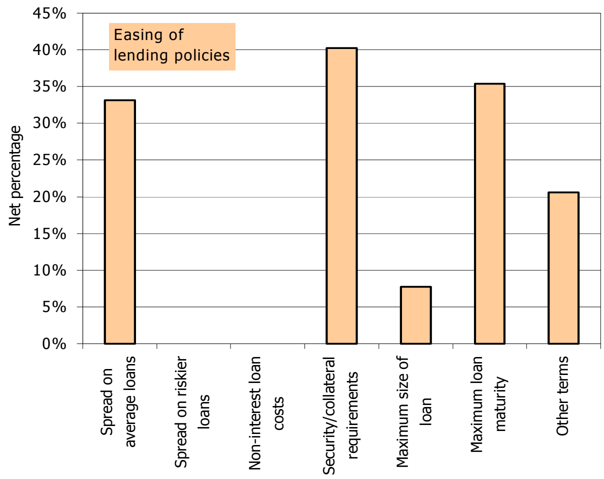
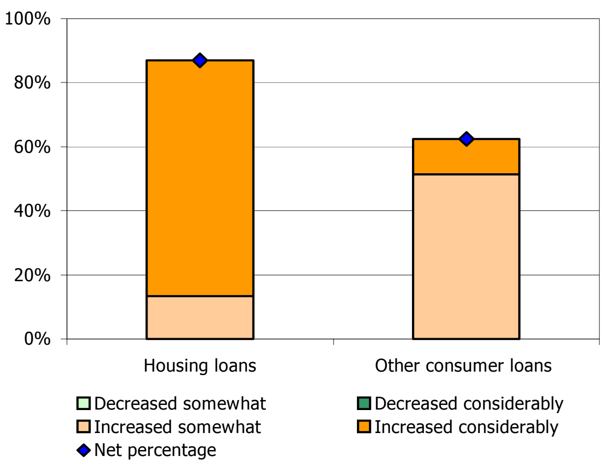


Figure 12

Demand for loans to households



nied by an increase in demand for consumer loans recorded by banks, similarly to the case of housing loans (cf. Fig. 12). It implies a procyclical behaviour of banks as regards the demand for loans, but this conclusion needs to be confirmed when a greater number of observations will be available. The principal reason for this situation is the growing competition from other financial institutions. This is a factor that currently prevails over the anxiety about the future quality of the loan portfolio and determines the process of easing the lending policies.

The demand for loans to households increased in the second quarter of 2004, both in the housing and in the consumer loan segments. The increase in demand for housing loans was definitely stronger than that in demand for consumer and other loans (cf. Fig. 12). In the preceding quarter the situation in demand was similar, however currently the percentage of banks declaring a decrease in demand in both market segments was zero.

According to banks, the demand for housing loans increased mainly due to the housing market prospects (cf. Fig. 14)**.** Among other factors banks also reported the easing of lending policies and an improvement in households' financial standing. The importance of the housing market prospects to the change in demand increased in comparison with the preceding quarter, while the influence of the other two factors decreased.

The reason for the increase in demand for consumer loans most often quoted by banks was the increase in needs for financing the purchase of consumer durables (cf. Fig. 15). The contribution of the factor grew stronger than it was in the preceding quarter. Easing of banks' credit standards and terms on consumer loans also had a significant influence on the demand — according to most banks it relatively increases the demand for loans in comparison to other banks. The impact of those two factors was slightly stronger in comparison to the preceding quarter.

Most banks do not expect any changes in their lending policies applied to housing loans in the third quarter of 2004. At the same time easing of consumer credit

Figure 13

Factors influencing changes in lending policies – other consumer loans

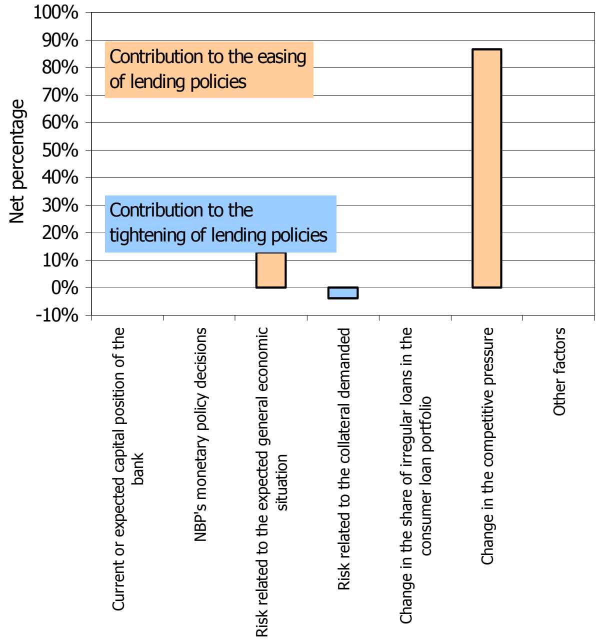
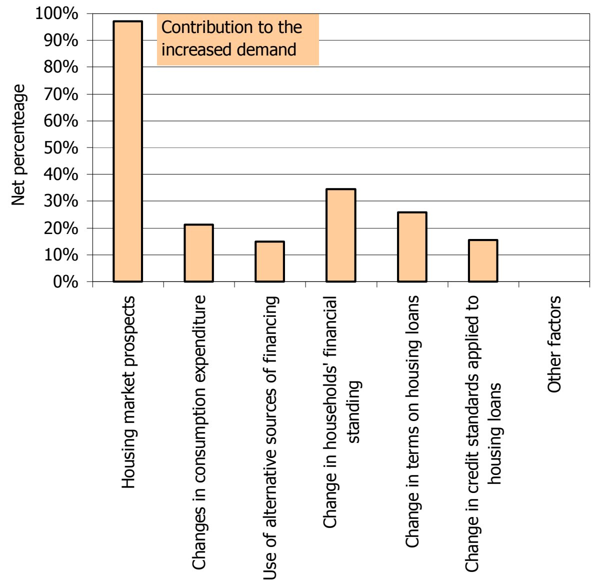


Figure 14

Factors influencing changes in demand for housing loans



standards is expected (cf. Fig. 16).

The percentage of banks forecasting the easing of lending policies for consumer loans increased in comparison to the preceding quarter.

An increase in demand for loans to households is expected in the third quarter of 2004. For the first time since the initiation of the survey banks expect a stronger increase in demand for consumer than for housing loans (cf. Fig. 17). In comparison to the preceding quarter, the tendency of growth in demand slowed down, and certain banks begin to expect a decrease in demand for loans in both segments.

Figure 15
Reasons for changes in demand for other consumer loans

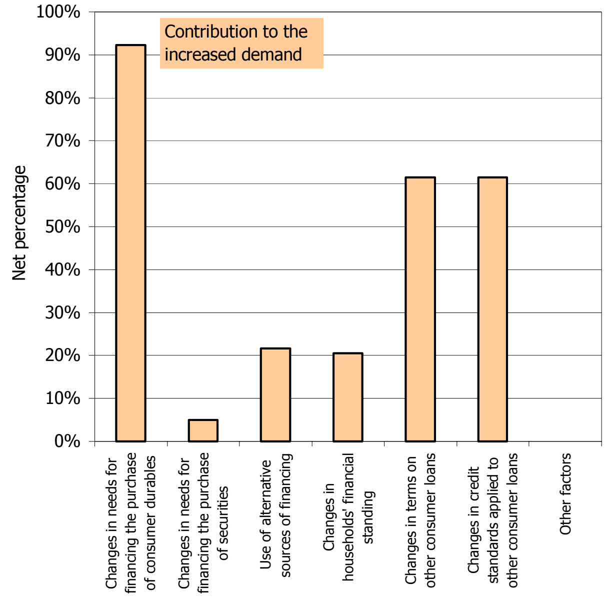


Figure 16
Forecast of changes in lending policies –household sector

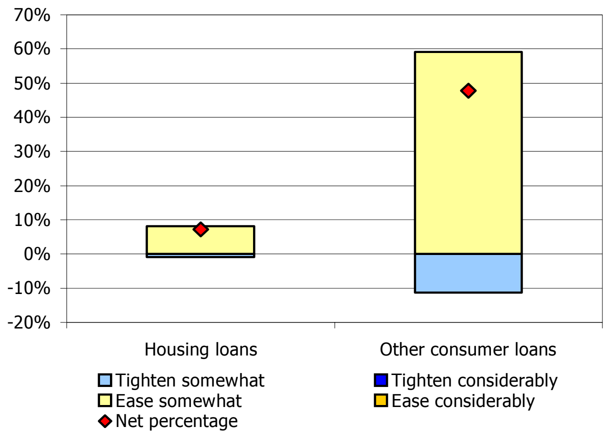
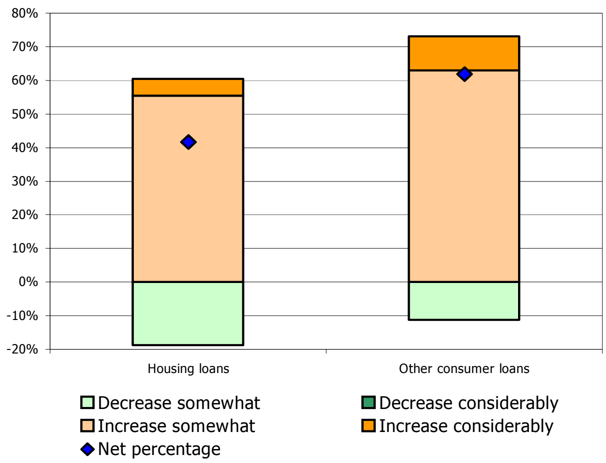


Figure 17
Demand for loans to households — forecast



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 April and May 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 the structures

[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 June 2004 were available at the time of analysing the results of the survey, due to an about three-week delay in reporting.

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.