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## Senior loan officer opinion survey

on bank lending practices  
and credit conditions

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3<sup>rd</sup> quarter 2006



### Summary of the survey results

- **Lending policy:** In the second quarter of 2006 banks' leading policy in the corporate sector did not change. In the household sector a strong trend to ease lending policy in the consumer loans segment was maintained. Housing loans terms and conditions and credit standards did not change in the sector.
- **Reasons for changes in lending policy:** The growing competition between the banks continues to be the most important reason for easing terms and conditions and credit standards of consumer loans.
- **Demand for corporate loans:** Banks recorded a significant increase in the demand for loans in the corporate sector. A strong trend of growth in demand for loans in the SMEs sector recorded in the previous and maintained in the present quarter was accompanied by the demand in the sector of large enterprises. In the segment of long-term loans for these enterprises the net percentage adopted the highest value since the survey had been first conducted.
- **Reasons for the change in demand for corporate loans:** Banks indicated that demand had been growing chiefly due to the increased need for investment, inventories and working capital financing (the net percentage values for these factors only slightly decreased compared to values recorded in the previous quarter).
- **Demand for household loans:** In the whole sector, a strong increase in demand for loans, both in the segment of housing and consumer loans was recorded. In both market segments nearly all banks declared that the rise in demand was significant; in consumer loans the net percentage adopted the highest value since the survey had been first conducted.
- **Reasons for the change in demand for household loans:** According to banks, the main reason for a strong increase in the demand for loans was the improvement in the economic situation of households (the highest value of the net percentage since the survey had been first conducted). In the segment of housing loans the rise in demand was additionally strengthened by expectations related to a further increase in prices on the property market and clients' expectations that banks would tighten their lending policy in the segment of foreign currency loans after the implementation of *Recommendation S* of the Commission for Banking Supervision. The increase in demand for durables financing in the segment of consumer credits was also an important reason for the rise in demand.
- **Expected changes in lending policy:** According to banks, the prospects for the development of the economic situation in Poland are very good. In the third quarter 2006, banks anticipate that strong demand for loans in the corporate sector will be maintained. Nevertheless, banks anticipate the easing of credit standards and terms and conditions of loans for SMEs and consumer loans for households. The lending policy in the housing loans segment is to be tightened substantially in connection with the adjustment of lending terms and conditions and credit standards to *Recommendation S* passed by the Commission for Banking Supervision.

## **Synthetic results of the survey**

The survey was conducted at the turn of June and July 2006 among 24 banks, whose total share of claims on enterprises and households amounts to 80.8% of the total banking portfolio.

The aggregation of data behind the results consisted in the calculation of weighted percentages of responses and the net percentage, i.e. the difference between the percentages corresponding to the 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 no. 1.

The following section presents tendencies regarding the banks' lending policy and changes in demand in the second quarter of 2006 as well as the banks' forecasts concerning the third quarter of 2006.

## **Corporates**

In the second quarter of 2006, the majority of banks (96-97% of asset weighted banks) did not change their lending policy in the corporate sector. In a few other banks loan terms and conditions and credit standards were slightly eased. No changes in the lending policy towards the SME sector means that the trend to ease loan terms and conditions and credit standards in this sector that had prevailed for a few quarters has slowed down. In the sector of large enterprises a slow trend to ease lending policy that had prevailed for a few quarters also slowed down although the trend to ease the lending policy in this sector was weaker than in the sector of SMEs (cf. Fig. 1).

The banks do not anticipate that in the third quarter of 2006 changes in the lending policy in the sector of large enterprises will occur. In the SME sector, however, the trend to ease loan terms and conditions and credit standards should be resumed. It should be emphasised that unlike in previous quarters, banks' forecasts related to changes in the lending policy in the second quarter 2006 did not come true. The resumption of the lending policy easing will occur on the assumption that the error in banks' forecasts was of a one-off nature.

The few banks that eased their lending policy most often extended the maximum lending period, reduced their spread on loans and non-interest costs of loans (cf. Fig 2).

Figure 1  
Corporate credit standards

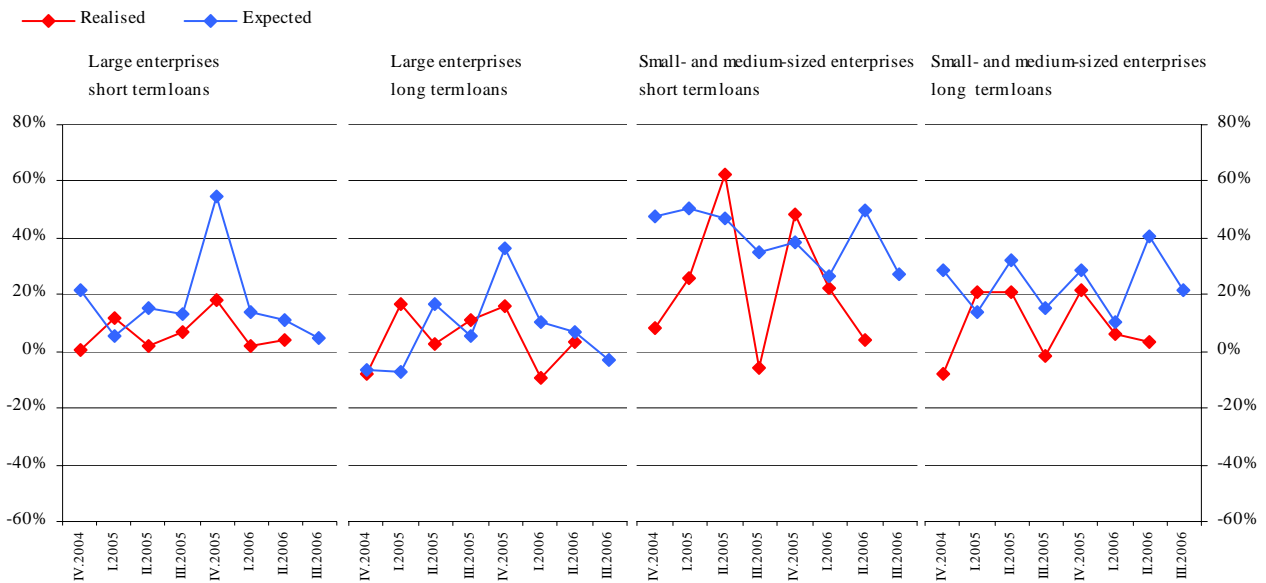
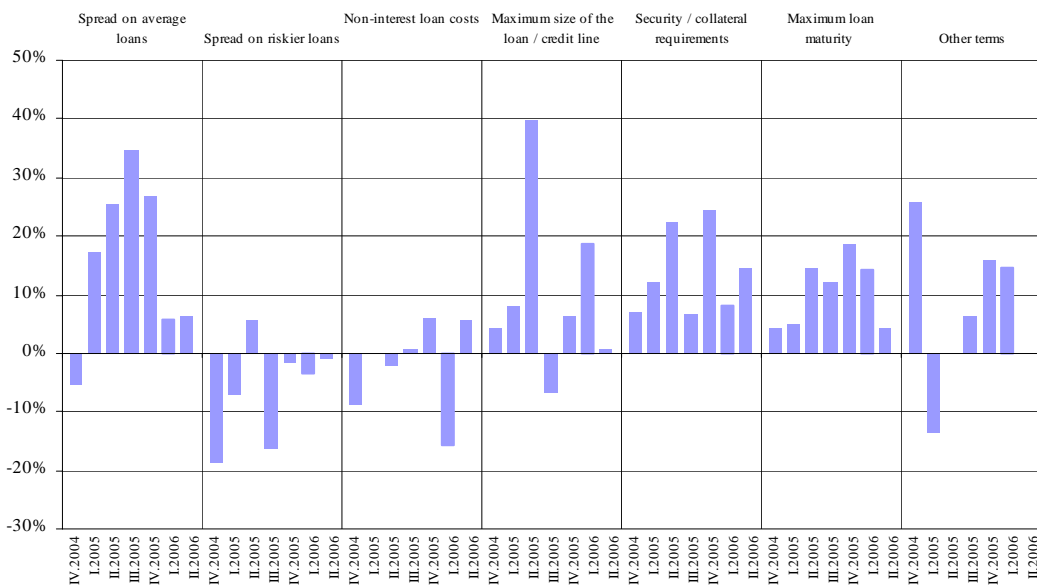
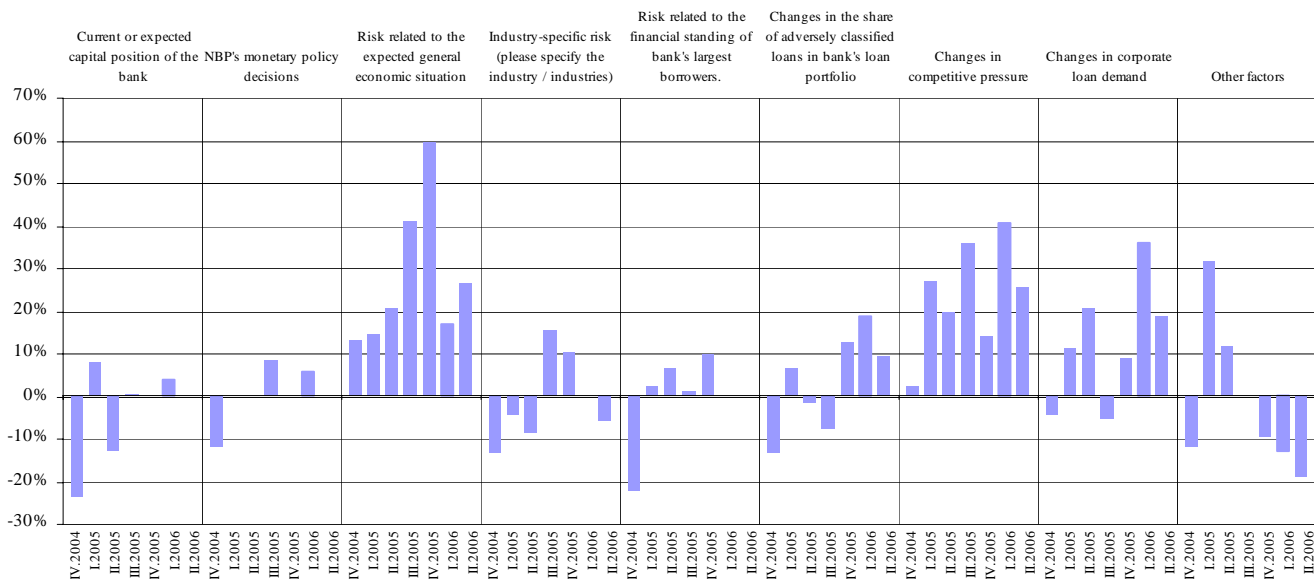


Figure 2  
Terms on corporate loans



The banks that eased their lending policy stated that the only important reason for doing so was the growth in competitive pressure of other banks (cf. Fig. 3).

Figure 3  
Factors influencing changes in lending policies



Among reasons for the absence of changes in lending policy in the corporate sector is a strong revival in demand for loans observed by banks. In the second quarter of 2006, the demand for loans in the sector of large enterprises increased significantly and in the SME sector stabilised on a high level. The net percentage, reflecting tendencies in the entire banking sector, adopted the highest value since the survey had been first conducted in the segment of long-term loans for large enterprises. In the segment of short-term loans for large enterprises the net percentage adopted a value close to the level recorded in the pre-accession period of accelerated economic development. In the SME sector the values of net percentage also stabilised on high levels, similar to the values recorded in the second quarter 2006 (cf. Fig. 4).

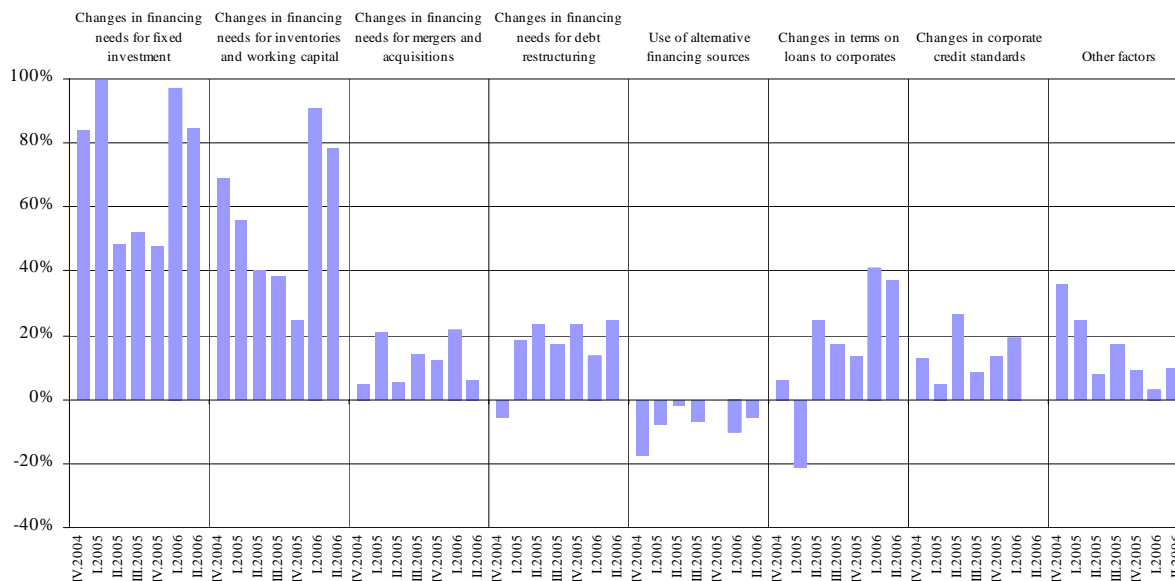
Banks anticipate that in the third quarter of 2006 the demand for corporate loans will continue to grow. A large increase in demand is expected both in the SME sector and the large enterprises sector (cf. Fig. 4). The fact that according to banks' declarations, the increase in demand for corporate loans in further periods will remain on the present level, and a simultaneous lack of major changes in the lending policy should translate in the near future into a more distinct growth in credit action in the corporate sector.

Figure 4  
Corporate loan demand



Similarly to the previous quarter, the increase in demand was strongly affected by the increase in investment finance requirements and in inventory and working capital finance requirements. Net percentages measuring the influence of these reasons on the increase in demand have only slightly fallen compared to the previous quarter, which means the situation was stabilised on a level of record highs comparable with the values reached in the pre-accession period of accelerated economic development (the first quarter of 2004). According to banks, the increase in demand was also caused by the easing of terms and conditions of granting corporate loans and a higher demand for finance in respect of debt restructuring. The highest since the fourth quarter 2003 level of net percentage in the case of financing debt restructuring may mean that banks are more willing to finance enterprises that used to have problems in timely settlement of their liabilities and probably expect an improvement in the enterprises' situation. The only factor listed by banks which affected the decrease in demand for loans was the use of alternative funding sources by enterprises, mainly their own funds or proceeds from the issue of debt securities (cf. Fig. 5). The increase in demand in the corporate sector and the reasons for the increase suggest that in the second quarter of 2006 enterprises continued their investments and financed them also with bank debt.

**Figure 5**  
Factors influencing changes in corporate loan demand



**Households**

In the second quarter of 2006, the majority of banks (79.1% of asset-weighted banks) did not change their credit standards as regards housing loans to households. Among other banks the percentage of banks which tightened their lending policy slightly prevailed. After a quarter of break the net percentage was negative again, and stood at a little below zero (cf. Fig. 6).

Banks anticipate strong tightening of lending policy in the segment of housing loans in the third quarter of 2006 related to the adjustment of lending policy to *Recommendation S* adopted by the Commission for Banking Supervision in March 2006 relating to the best practices with regard to mortgage-secured loans exposure (cf. Fig. 6).

The banks that eased credit standards and the terms and conditions of granting housing loans most often reported the projected situation on the housing market and the growth in competitive pressure as the reasons for these changes. Among other reasons for easing lending policy, banks reported a decreased risk related to the projected economic situation. Among reasons for tightening lending policy and the terms and conditions of granting housing loans banks most often reported the recommendations of the banking supervision (cf. Fig. 6).

The banks that eased lending policy in the segment of housing loans most often reduced non-interest costs of loans and extended the maximum lending period (cf. Fig. 7).



Figure 6  
Lending policy and factors influencing its changes – housing loans

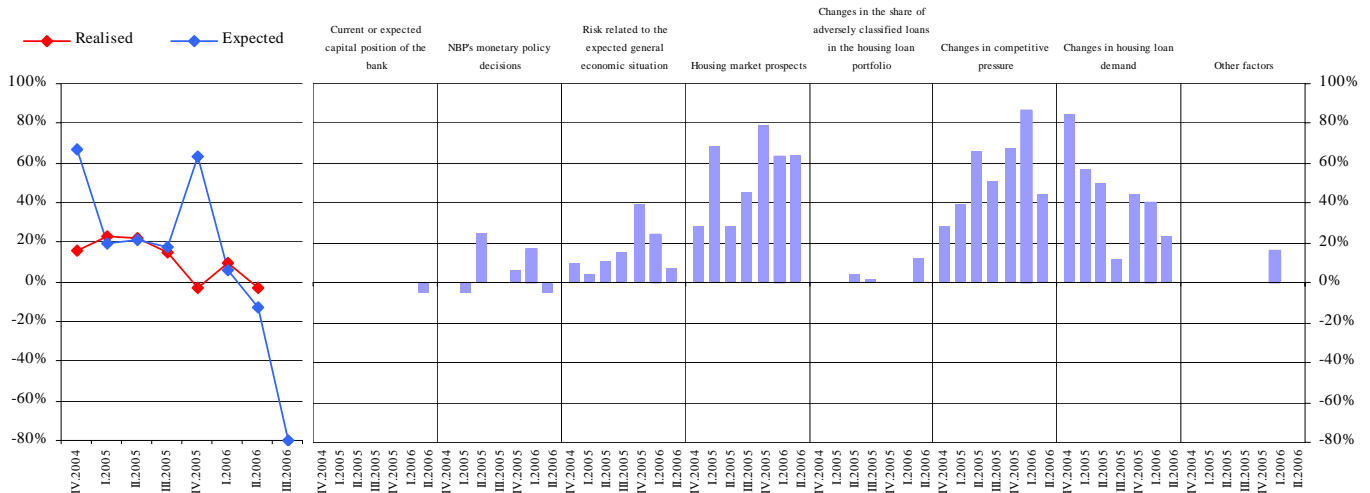
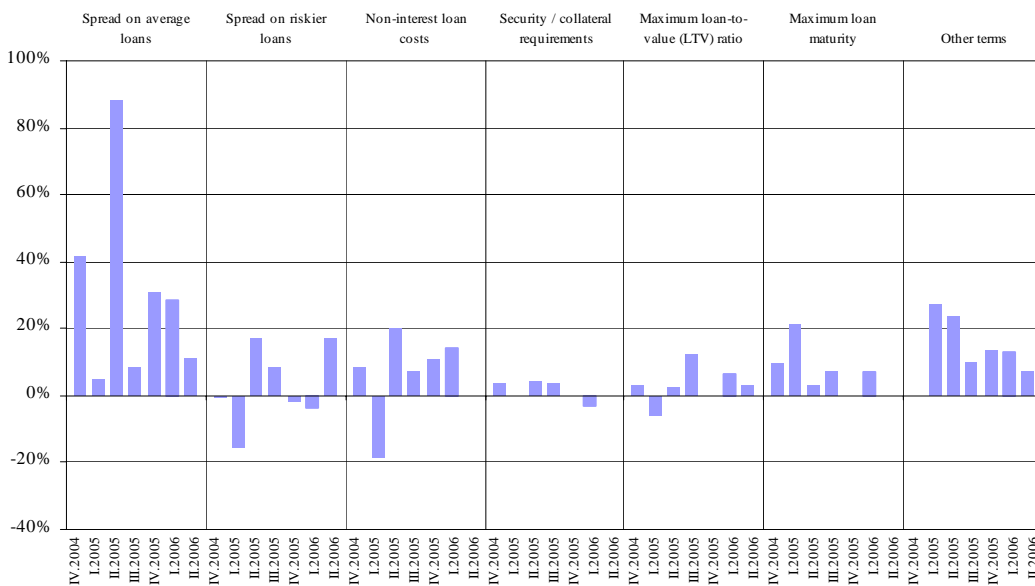


Figure 7  
Terms on housing loans



Approximately half of the banks (56.5% of asset-weighted banks) did not change their lending policy in the segment of consumer loans, either. Among the banks which changed their lending policy, those which eased their credit standards and terms and conditions of granting consumer loans definitely prevailed. Banks also anticipate that lending policy will be further eased in the third quarter of 2006 which will mean that a distinct tendency to ease credit standards and terms and conditions of granting consumer loans will be maintained (cf. Fig. 8).

Increased competitive pressure remains the most important reason for easing lending policy in the segment of consumer loans. The strongest pressure is reported to be the pressure of other banks. In the second quarter of 2006, the current and projected capital situation of the banks was also important for the easing of lending policy (cf. Fig. 8).

The banks that eased the credit standards of granting consumer loans most often reduced non-interest costs of loans, extended the maximum lending period and decreased the spread on loans (cf. Fig. 9). In comparison to the previous quarter, the impact of these factors on the easing of lending policy decreased.

Figure 8  
Lending policy and factors influencing its changes – consumer loans

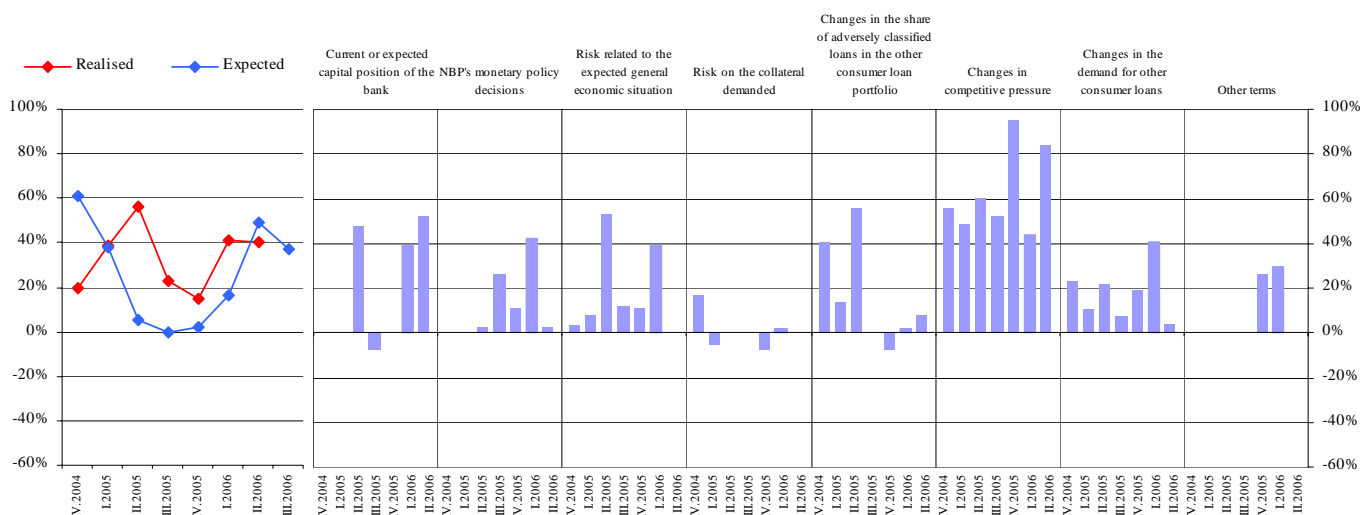
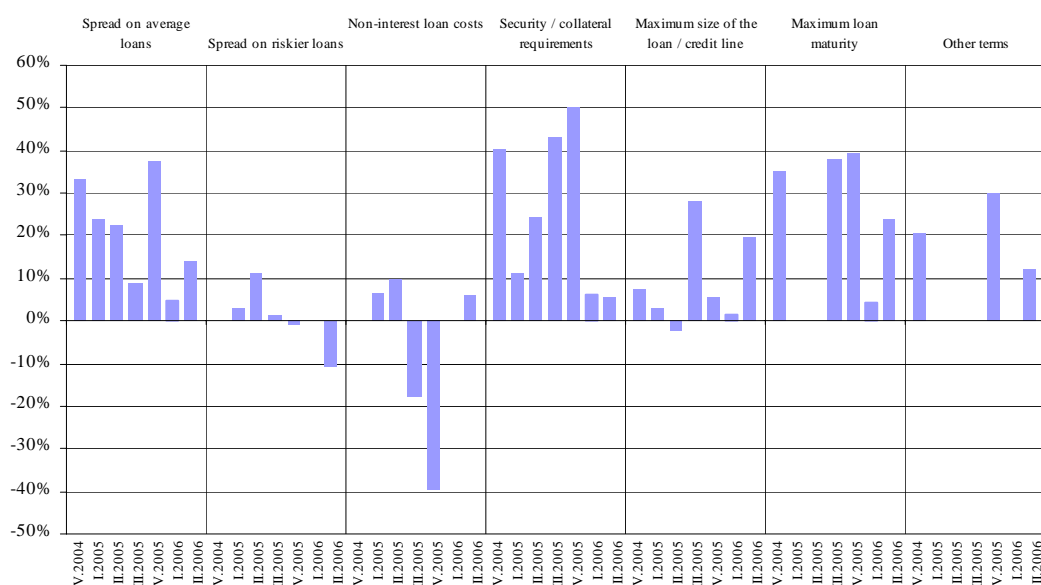


Figure 9  
Terms on consumer loans



In line with the opinions presented in the previous survey, the decrease in demand for housing loans in the first quarter of 2006 was of a one-off nature. In the second quarter of 2006, the demand in this segment of loans increased considerably. The net percentage adopted one of the highest values since the survey had been first conducted. None of the banks felt the decrease in demand and 81.2% of asset-weighted banks reported that the demand increased considerably (cf. Fig. 10).

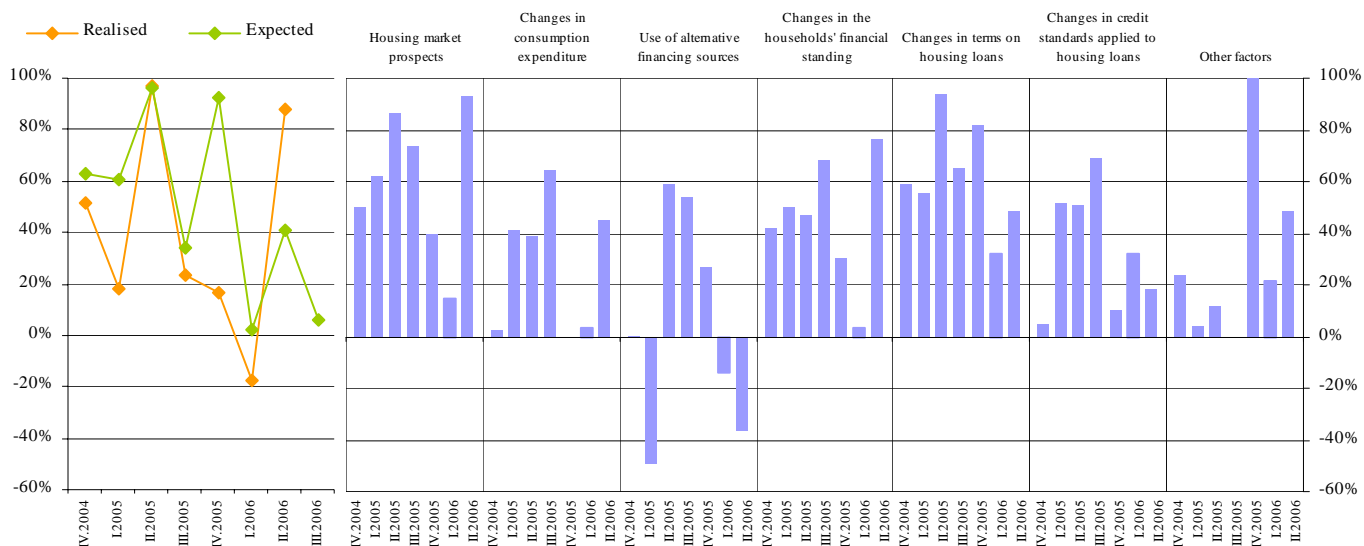
According to banks, forecasts relating to the situation on the housing market (a price rise is anticipated) were the main reason for the increase in demand for loans in the second quarter of 2006. The net percentage in this category

adopted the highest value since the increase in demand for housing loans dictated by fears of rises in house prices following Poland's accession to the EU (the second quarter 2004). Another important reason for the increase in demand was the improvement in the economic situation of households (the highest value of net percentage since the survey had been first conducted). Among other reasons for the increase in demand listed by banks was the tightening of lending policy in the segment of foreign currency loans expected by clients after the implementation of *Recommendation S* of the banking supervision, the easing of loan terms and conditions and changes in consumption expenditure. The only factor that had an impact on the decrease in demand was using alternative sources of financing property by households and loans from other banks (cf. Fig. 10).

Banks do not agree in their opinions on changes in the demand for housing loans in the third quarter of 2006. The banks that project a further increase in demand slightly prevailed but 38% of asset-weighted banks anticipate a decrease in demand, out of which more than half of the banks believe that the demand will decrease considerably (cf. Fig. 10).

The analysis of the responses related to the demand for housing loans and reasons for its changes indicated by banks show a strong trend for increased demand, which in the second quarter of 2006 was additionally strengthened by the allocation of demand from third to second quarter by households that on the one hand, anticipated a continuation of a price rise on the property market and on the other, the need to demonstrate a higher income when applying for a loan after *Recommendation S* had been implemented. Therefore, some households may have accelerated the decision about purchasing a house. Owing to this fact, a decrease in demand that had been anticipated by some banks was recorded in the third quarter of 2006. Owing to such allocation of demand it will be possible to evaluate the impact of *Recommendation S* on the housing loans market in the next survey.

Figure 10  
Demand for housing loans and factors influencing its change



An equally dynamic increase in demand was recorded by banks in the consumer loans segment. None of the banks recorded a decrease in demand, and the net percentage adopted the highest value since the survey had been first conducted. In addition, approximately half of assets-weighted banks stated that the increase in demand was considerable. Banks anticipate a weaker increase in demand will be recorded in the next quarter (cf. Fig. 11).

The improvement in households' economic situation was the main reason for the increase in demand for consumer loans in the second quarter of 2006. As in the case of housing loans, the net percentage in this category adopted the highest value since the survey had been first conducted. Banks mentioned the increase in demand for durables financing and the easing of terms and conditions of granting loans among other reasons for an increase in demand.

Figure 11  
Demand for consumer loans and factors influencing its change

