Senior loan officer opinion survey

on bank lending practices and credit conditions

4th quarter 2004

Warsaw, October 2004

Summary of the survey results

- **Lending policies:** in the third quarter of 2004, most banks did not change the credit standards and terms for corporates or for households.
- **Demand for corporate loans**: banks recorded a decrease in demand for short-term loans in the large enterprise sector and no changes in the small and medium-sized enterprise sector. At the same time, the demand for long-term loans rose in both sectors. The increase in demand, however, was much less pronounced than in the previous quarter.
- **Principal reasons for a change in demand for corporate loans**: banks reported that demand rose chiefly due to the increased need for investment and current asset financing.
- **Demand for loans to households**: banks recorded an increase in demand for consumer loans to households. The growth in demand for housing loans was smaller than in the previous quarter, which was the result of subsiding of the "EU effect."
- **Reasons for changes in lending policies**: the banks which eased their lending policies most frequently pointed to an increase in competitive pressure from other institutions as the reason for those changes.
- **Expected changes in demand for loans**: despite the fact that the increase in demand for loans slowed down in the third quarter, most banks expect the demand to grow further in the fourth quarter of 2004 with regard to both the corporate and household sectors.

Synthetic results of the survey

The survey was conducted at the end of September and beginning of October 2004 for 24 banks, whose total share of loans to corporates and households amounts to 80.9% of the total banking sector portfolio.

The aggregation of the 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 tendencies. In line with the adopted methodology, words describing quantities (majority, half, notable, significant, 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 policies and changes in demand in the third quarter of 2004 as well as the banks' forecasts concerning the fourth quarter of 2004.

Corporates

In the third quarter of 2004, **most banks did not change their credit standards for corporates.** The prevailing tendency among the banks that did change them was to ease the standards for small and medium-sized enterprises, primarily with regard to short-term loans (cf. Fig. 1). In comparison with the second quarter of 2004, the tendency towards tightening the credit standards in the large enterprise sector weakened and the tendency towards easing the standards in the small and medium-sized enterprise sector strengthened.

The banks that changed the standards most often extended the maximum loan maturity and reduced fees. The tightening of standards most often consisted in widening the spread on riskier loans (cf. Fig. 2). The tendency towards tightening this constituent of credit standards was weaker than in the second quarter. On the other hand, the

Figure 1

Corporate credit standards

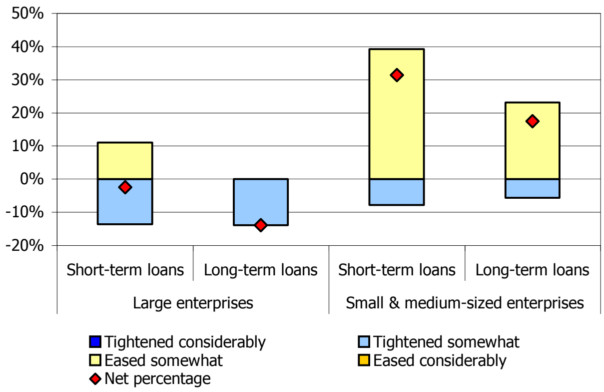


Figure 2

Terms on corporate loans

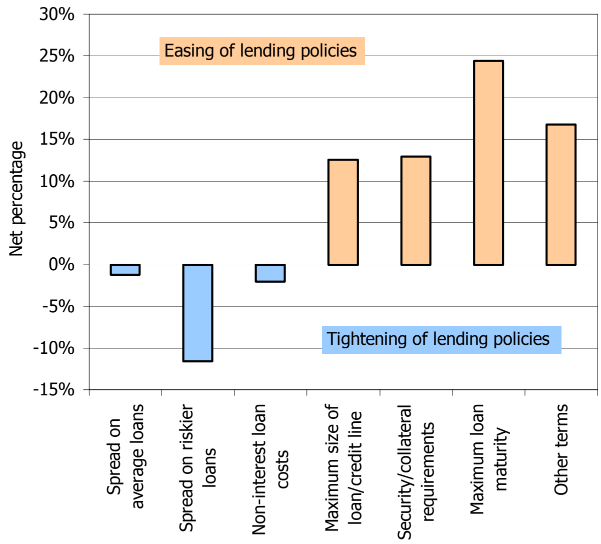
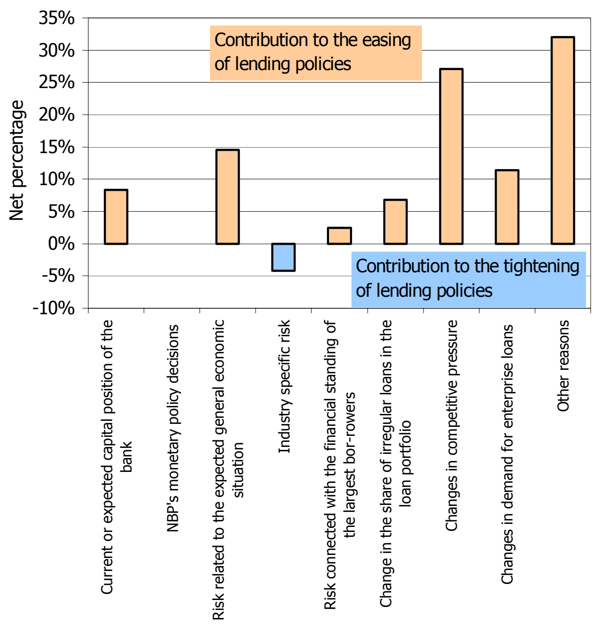


Figure 3

Factors influencing changes in lending policies



tendency towards extending the maximum loan maturity strengthened.

The factors which contributed most to the easing of credit standards and terms were the growing competition from other financial institutions (particularly other banks) and periodical promotions of individual products run by banks — the "other factors" category (cf. Fig. 3).

Compared to the previous quarter, a similar percentage of banks reported a reduction in risk related to the expected general economic situation of the country as a factor which contributed to easing their lending policies.

In the third quarter of 2004, **the upward trend in the demand for loans, which had been pronounced in previous quarters, slowed down.** Some banks recorded a significant decrease in demand for short-term loans to large enterprises. However, a prevailing percentage of banks still indicated a **rise in the demand for long-term loans,** particularly among large enterprises (cf. Fig. 4). In comparison to the previous quarter, a lower percentage of banks indicated an increase in demand for all loan categories, and with regard to the large enterprise sector, a significant percentage of banks indicated a decrease in demand for short-term loans.

Similarly to the previous 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. The importance of those factors decreased compared to the previous quarter (cf. Fig. 5).

The banks which recorded a decrease in demand for loans consider the use of alternative financing sources to be the primary contributing factor. Corporate internal financing was the reason most often reported by the banks, which has been the result of the recent significant improvement in the financial standing of enterprises.

The fact that the demand for short-term loans was lower than that for long-term ones and the reasons for changes in demand reported by banks suggest improvement in the financial standing of corporates and ex-

Figure 4

Corporate loan demand

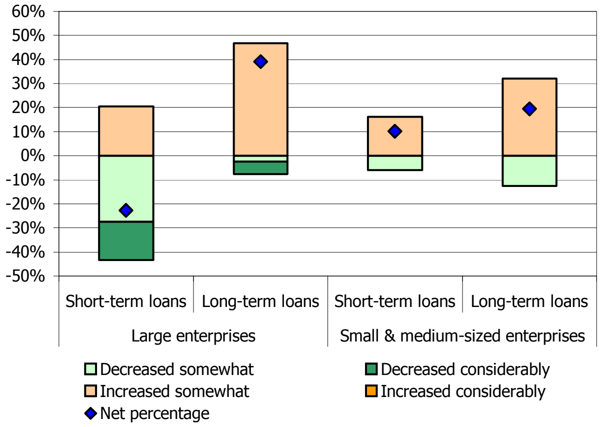


Figure 5

Factors influencing changes in corporate loan demand

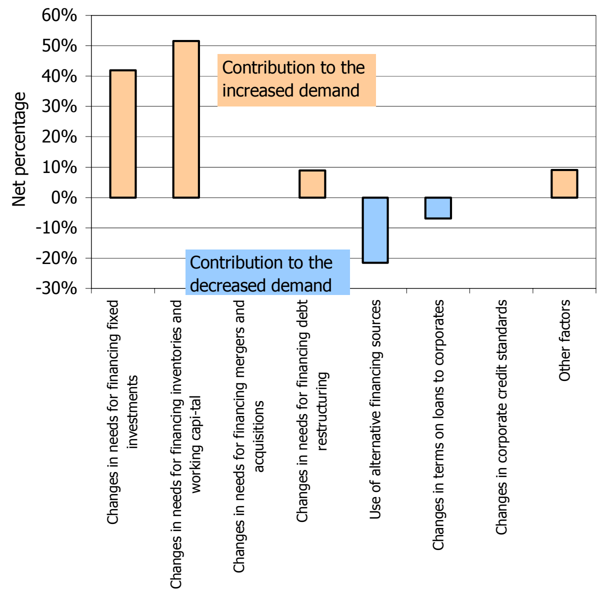
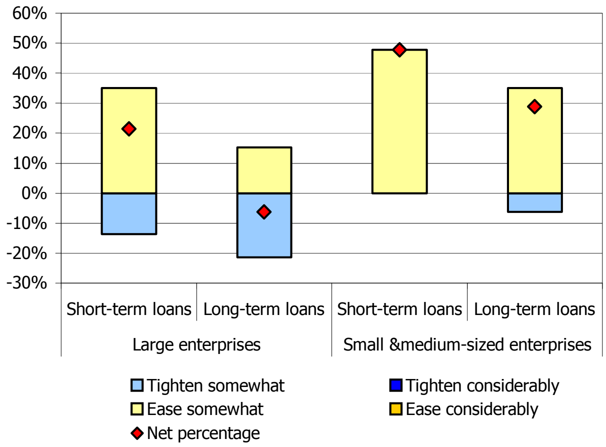


Figure 6

Forecast of changes in lending policies — corporate sector



tension of their scope of activity. The increase in demand, however, was less pronounced than in the previous quarter.

Banks expect easing of lending policies with regard to small and medium-sized enterprises in the fourth quarter of 2004. There is no significant tendency in the changes in lending policies for large enterprises. Among the banks which intend to change their lending policies with regard to the large enterprise sector, those that want to ease the credit standards and terms of short-term loans constitute the largest percentage. In the long-term loan segment, on the other hand, the percentages are balanced (cf. Fig. 6).

Compared to the previous quarter forecast changes in lending policies, the tendency towards easing the lending policies has strengthened.

Despite the fact that the increase in demand was smaller than in the previous quarter, **banks expect the upward tendency regarding the demand for loans to become more pronounced in the fourth quarter of 2004.** The percentages of banks expecting a growing demand for loans in the small and medium-sized and in the large enterprise sectors are similar. Only with regard to short-term loans to large enterprises, some banks expect a decrease in demand (cf. Fig. 7).

Banks' expectations concerning the demand for corporate loans were very similar in the previous quarter.

Households

In the third quarter of 2004**, most banks did not change their credit standards for households.** The banks which did change their lending policies eased their credit standards for housing loans, whilst in the consumer loan segment the percentages of banks which eased their standards and those which tightened them were comparable (cf. Fig. 8).

In comparison to the previous quarter, the percentage of banks which eased their credit standards decreased sharply with regard to both housing and consumer loans.

Figure 7

Demand for corporate loans — forecast

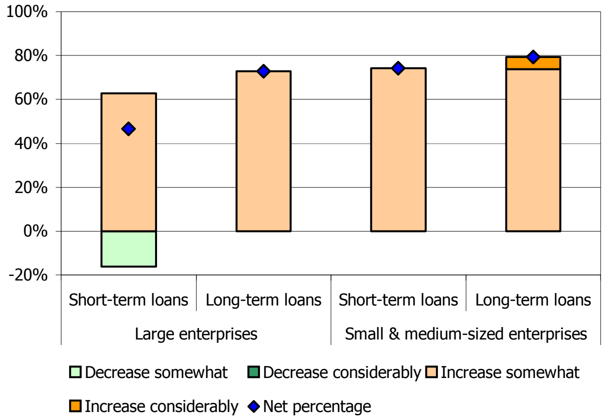


Figure 8

Household credit standards

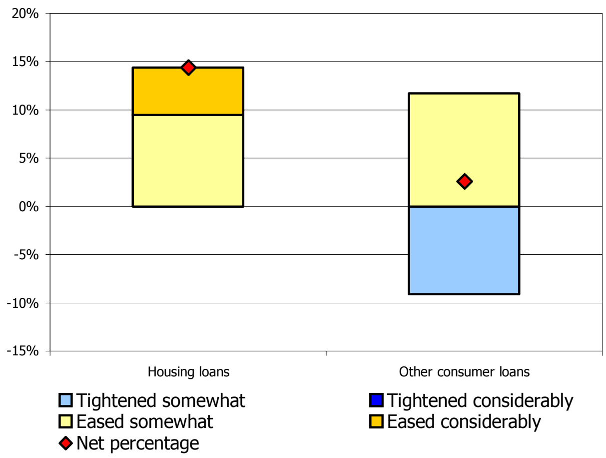
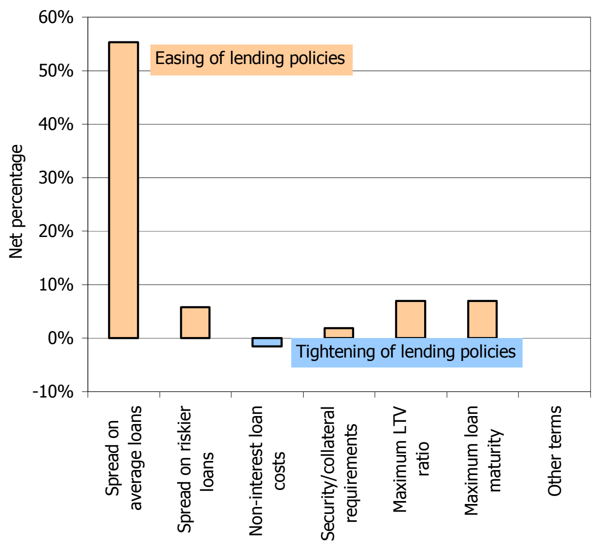


Figure 9

Terms on housing loans



The percentage of banks which reported tighter credit standards for consumer loans increased.

Similarly to the previous quarter, **the banks that changed their credit standards for housing loans most often narrowed the spread on loans.** There were very few changes regarding other constituents of bank lending policies (cf. Fig. 9).

Changing housing market prospects were the primary factor which contributed to easing the credit standards for housing loans. An increase in competitive pressure from other financial institutions and the fact that the growth in demand for housing loans was slower than in previous quarters also considerably contributed to the easing of lending policies (cf. Fig. 10).

In comparison to the previous quarter, the impact of housing market prospects and increased competitive pressure (primarily from other universal banks) on the easing of lending policies rose considerably.

The easing of standards for consumer loans most often consisted in narrowing the spread on loans (cf. Fig. 11). In the previous quarter, collateral requirements were the factor which contributed most to the easing of lending policies. On the other hand, the impact of loan spreads on the easing of lending policies decreased slightly.

Increased competitive pressure from other banks and non-bank financial institutions was the primary reason for easing the lending policies with regard to consumer loans (cf. Fig. 13). On the other hand, risk related to the collateral demanded was a factor leading banks to tighten their credit standards for consumer loans.

The survey results suggest that banks are experiencing a strong increase in competition from other financial institutions. Currently this is the primary reason for easing lending policies in all market segments (cf. Figs. 3, 10 and 13).

In the third quarter of 2004, the demand for consumer loans to households rose and the trend towards an increase in demand for housing loans, which had

Figure 10

Factors influencing changes in lending policies – housing loans

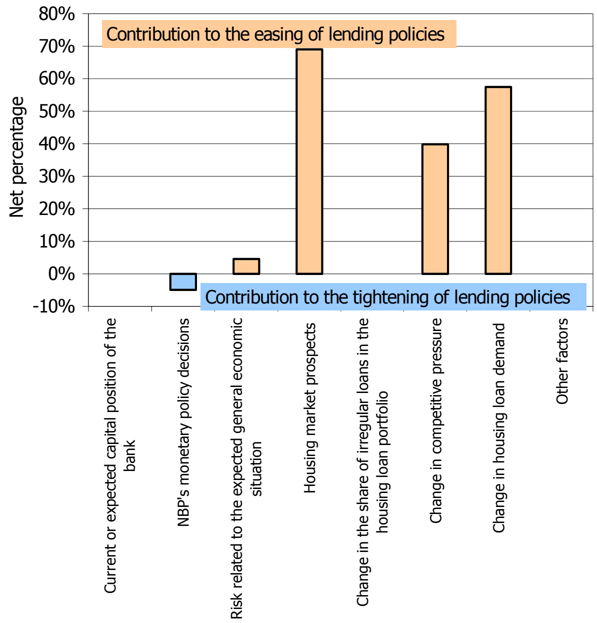


Figure 11

Terms on other consumer loans

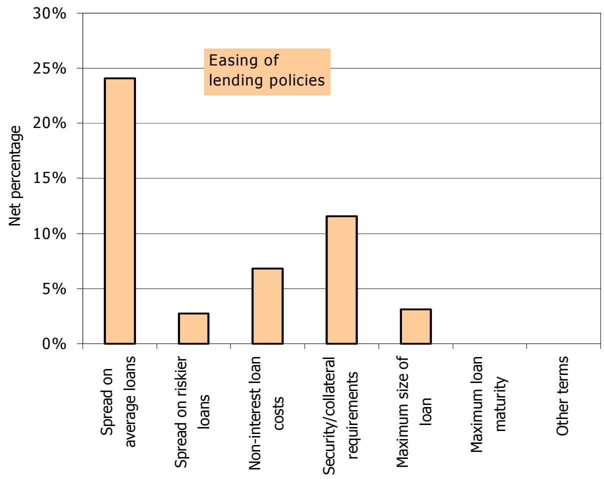
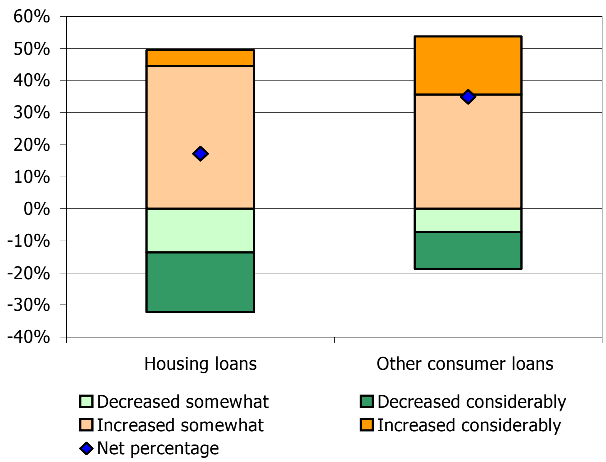


Figure 12

Demand for loans to households



been pronounced in previous quarters, slowed down. Although half of the banks recorded an increase in demand for housing loans, a significant percentage recorded a decrease in this respect. Some banks also recorded a decrease in demand for consumer loans (cf. Fig. 12). In the previous quarter the rise in demand for loans to households was noticeably stronger, especially with regard to housing loans. The survey results confirm that the increased demand for housing loans in previous quarters largely stemmed from the "EU effect", related to the fear of increases in house prices after May 1.

In the third quarter, the increase in demand for housing loans moderated.

In the opinion of the banks that recorded an increased demand for housing loans, the eased lending policies, improved financial standing of households and housing market prospects all contributed to this rise in demand (cf. Fig. 14). On the other hand, changes in consumption expenditure (surveys of household condition suggest an increased demand for consumer durables) contributed to a decrease in demand for housing loans. In the banks' view, the impact of changes in the financial standing of households and the banks' lending policies on the rise in demand for housing loans increased in comparison to the previous quarter. Further changes in demand for housing loans will depend on whether the impact of those factors continues to increase.

In the banks' view, the increased need for financing purchases of consumer durables, which stimulated demand, had the largest impact on the demand for consumer loans. The improvement in the households' financial standing also contributed to the increase in demand (cf. Fig. 15). In the previous quarter, easing of lending policies also significantly contributed to a rise in demand. Currently the contribution of this factor is negligible.

Most banks expect a slight easing of their lending policies regarding loans to households in the third quarter of 2004 (cf. Fig. 16).

The percentage of banks forecasting the easing of lend-

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

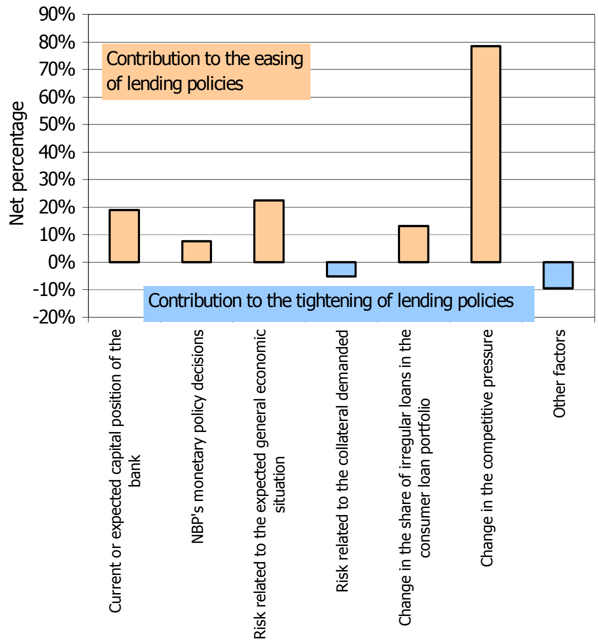
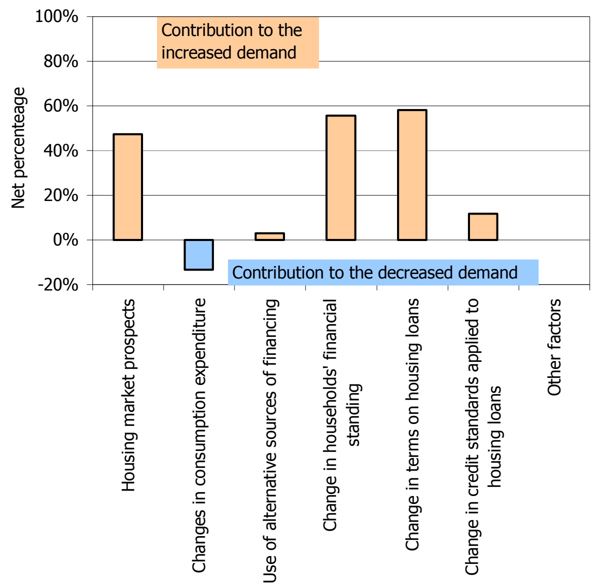


Figure 14
Factors influencing changes in demand for housing loans



ing policies for housing loans increased in comparison to the previous quarter.

Despite the fact that the rise in demand for loans to households slowed down noticeably, most banks expect the demand for loans to households to grow in the fourth quarter of 2004. In particular, a significant increase in demand is expected in the housing loan segment (cf. Fig. 17). Compared to the banks' expectations in the previous quarter, the upward tendency in demand for housing loans increased slightly, whilst the upward tendency in demand for consumer loans insignificantly decreased.

Figure 15

Reasons for changes in demand for other consumer loans

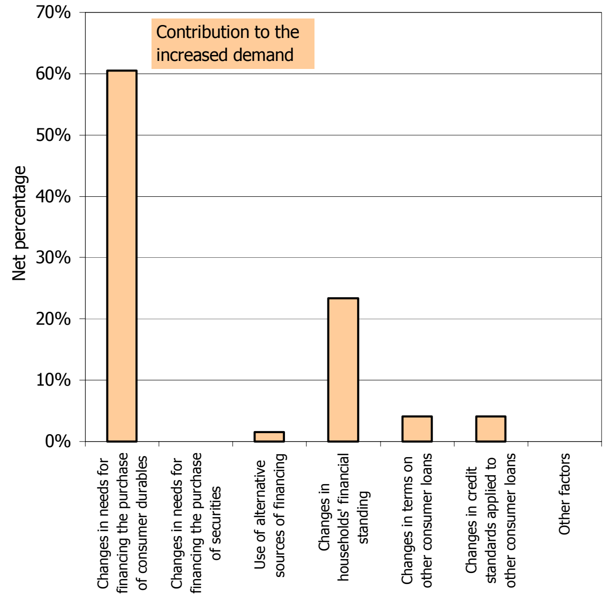


Figure 16

Forecast of changes in lending policies –household sector

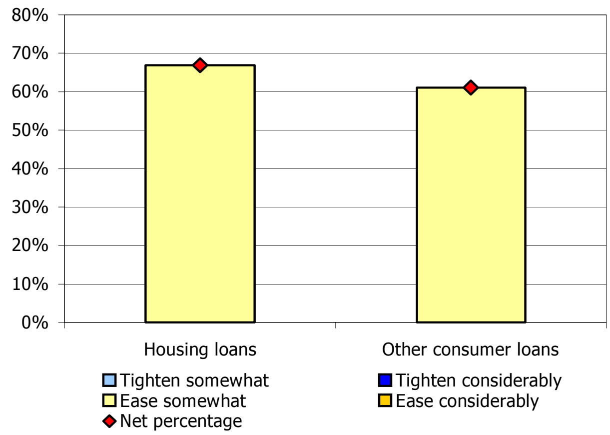
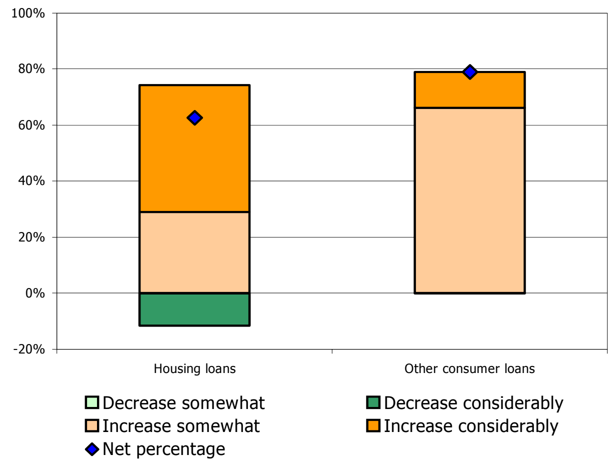


Figure 17

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 July and August 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 struc-

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

tures 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.