Senior loan officer opinion survey

on bank lending practices and credit conditions

4th quarter 2005

Warsaw, October 2005

Summary of the survey results

- **Lending policy**: in the third quarter of 2005, banks did not change their loan terms and conditions as well as credit standards for the corporate sector. In the household sector, a weak tendency is still present towards easing the lending policy with regard to both housing and consumer loans.
- **Reasons for changes in lending policy**: an increase in competitive pressure among banks has been the most important reason for changes in the lending policy.
- **Demand for corporate loans**: banks recorded an increase in demand for loans in the corporate sector. Apart from long-term loans for small and medium-sized enterprises, the upward tendency in demand was slightly less pronounced than 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 a much weaker increase in demand for housing loans to households. In the consumer loan segment, the net percentage was negative for the first time since the survey started, which indicates a decrease in demand with regard to the entire banking sector. There are, however, grounds to suppose that this was a one-time drop in demand – banks still expect that demand for consumer loans will surge in the fourth quarter of 2005.
- **Reasons for the change in demand for household loans**: apart from exogenous factors driving the increase in demand, banks also report that demand for housing loans to households has been growing due to the eased lending policy. A drop in financing needs for the purchase of consumer durables and a deterioration in the financial standing of households were most often reported as reasons for the decrease in demand for consumer loans.
- **Expected changes in lending policy:** banks forecast the easing of credit standards as well as loan terms and conditions for corporates in the fourth quarter of 2005, particularly with regard to the large enterprise sector.

Synthetic results of the survey

The survey was conducted at the end of September and beginning of October 2005 among 24 banks whose total share of claims on corporates and households amounts to 79.3% of 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 methodology adopted, 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 construed 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 third quarter of 2005 as well as the banks’ forecasts concerning the fourth quarter of 2005.

Corporates

In the third quarter of 2005, banks did not change their credit standards for large enterprises; the tendency towards easing the lending policy in the small and medium-sized enterprise sector, which had been observed in the previous two quarters, also disappeared. An insignificant percentage of banks (5.9% for short-term loans and 8.3% for long-term loans) even tightened their credit standards in this sector (cf. Figure 1).

However, banks expect that they will continue to ease their credit standards as well as loan terms and conditions in the fourth quarter of 2005. In the small- and medium-sized enterprise sector, the tendency towards easing the lending policy will be similar to the present one. In the large enterprise sector, banks expect a significant easing of the lending policy — in the fourth quarter of 2005, the net percentage which represents the strengthening of the tendency regarding changes in the lending policy towards this sector reached the highest value since the survey was first conducted. A higher percentage of banks anticipate easing their loan terms and conditions as well as credit standards for short-term loans than for long-term ones.

The banks that eased their lending policies most often reduced the lending margin and extended the maximum loan maturity (cf. Figure 2). The banks that tightened credit standards as well as loan terms and conditions most often increased the lending margin for higher risk loans.

Figure 1

Corporate credit standards

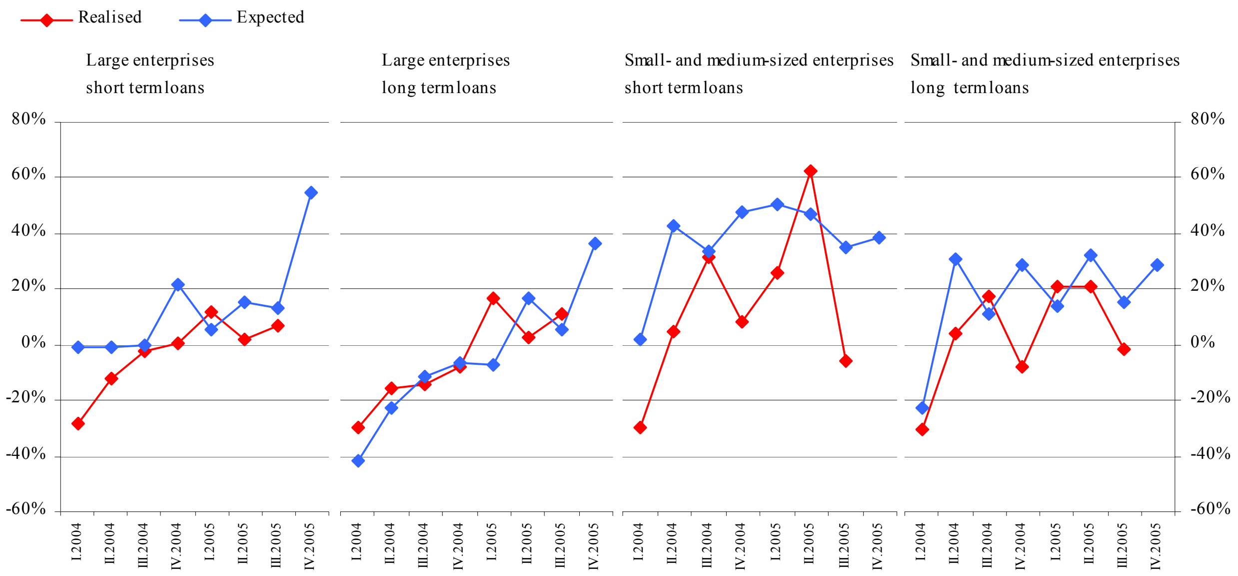
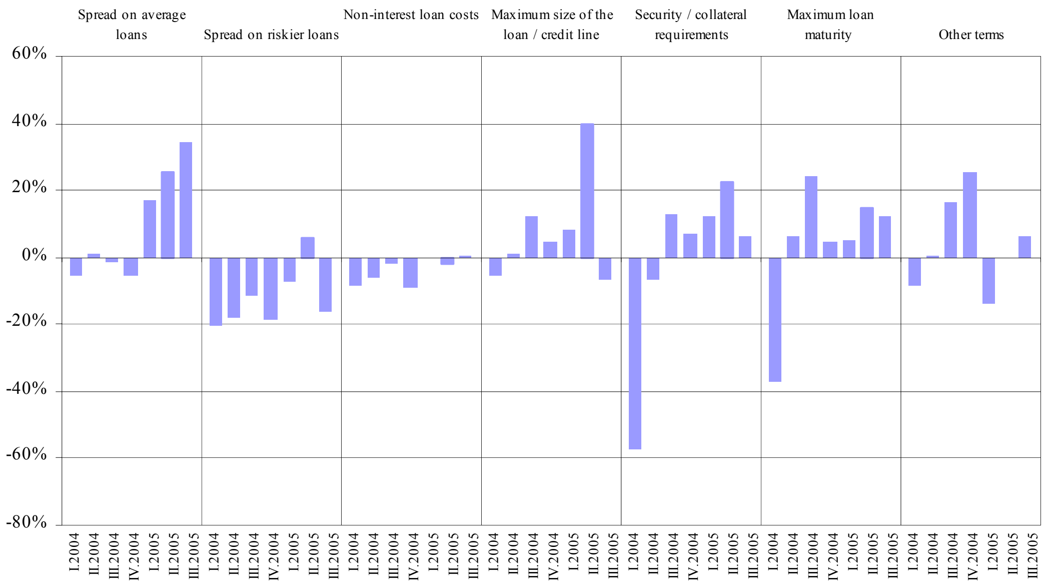


Figure 2

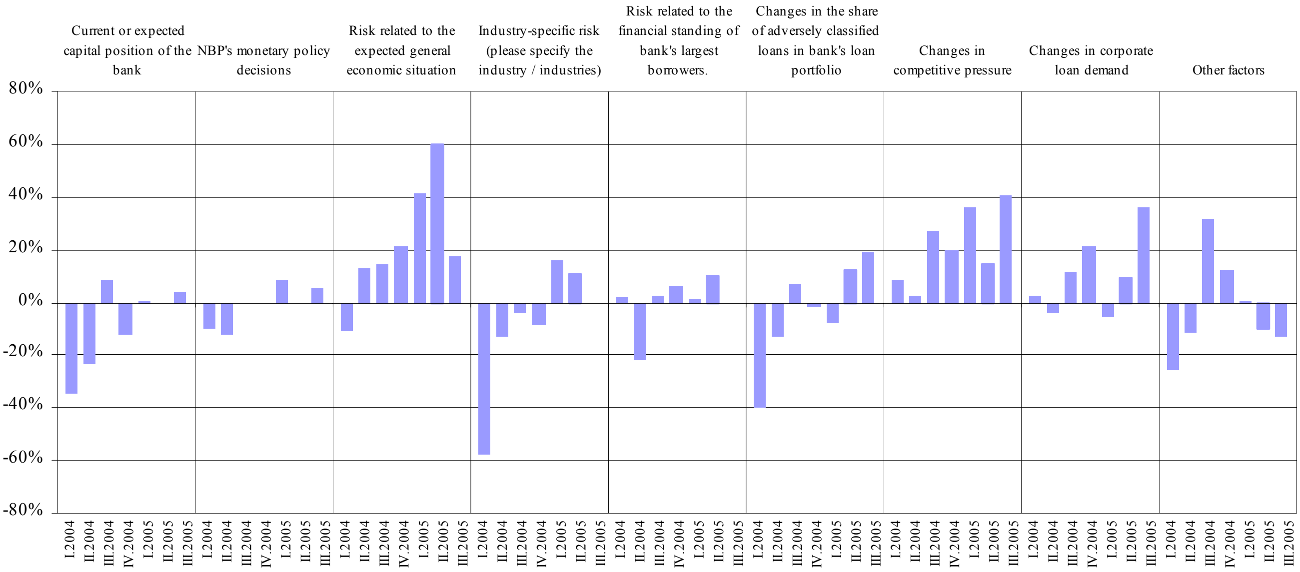
Terms on corporate loans



The banks that changed their lending policies reported that the most important reasons were increased competitive pressure, particularly from other banks, and a change in demand for loans to corporates. Among other grounds for easing their lending policies, banks reported a reduction in risk related to the expected general economic situation of the country as well as the decreased share of irregular loans in their loan portfolios (cf. Figure 3).

Figure 3

Factors influencing changes in lending policies

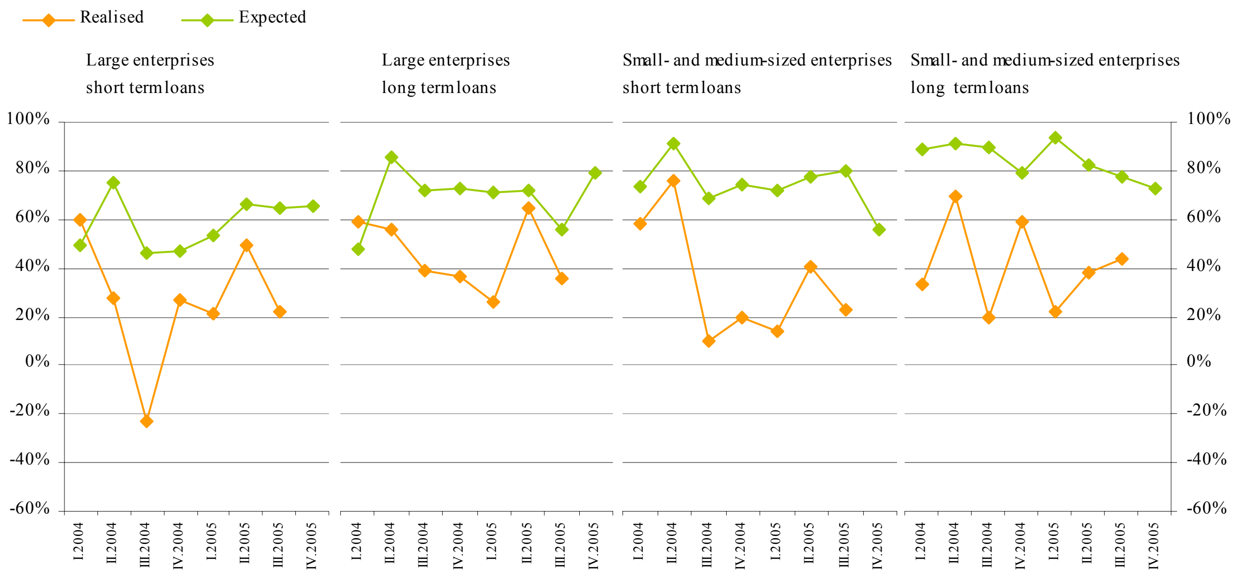


In the third quarter of 2005, corporate demand for loans grew to a comparable extent in the large and small and medium-sized enterprise sectors. The net percentage in the long-term loan segment was slightly higher than in the short-term loan segment. However, some banks recorded a drop in demand in both sectors, which made the general tendency towards an increase in demand less pronounced, particularly in the large enterprise sector. Only with regard to long-term loans for the small and medium-sized enterprise sector the upward tendency in demand was slightly stronger than in the second quarter of 2005 (cf. Figure 4).

Banks expect that in the fourth quarter of 2005, corporate demand for loans will continue to rise rapidly but the net percentage in the small and medium-sized enterprise sector decreased compared to the previous quarter and was at an all-time low since the survey was first conducted. However, banks expect a stronger increase in demand for long-term loans in the large enterprise sector (cf. Figure 4).

Figure 4

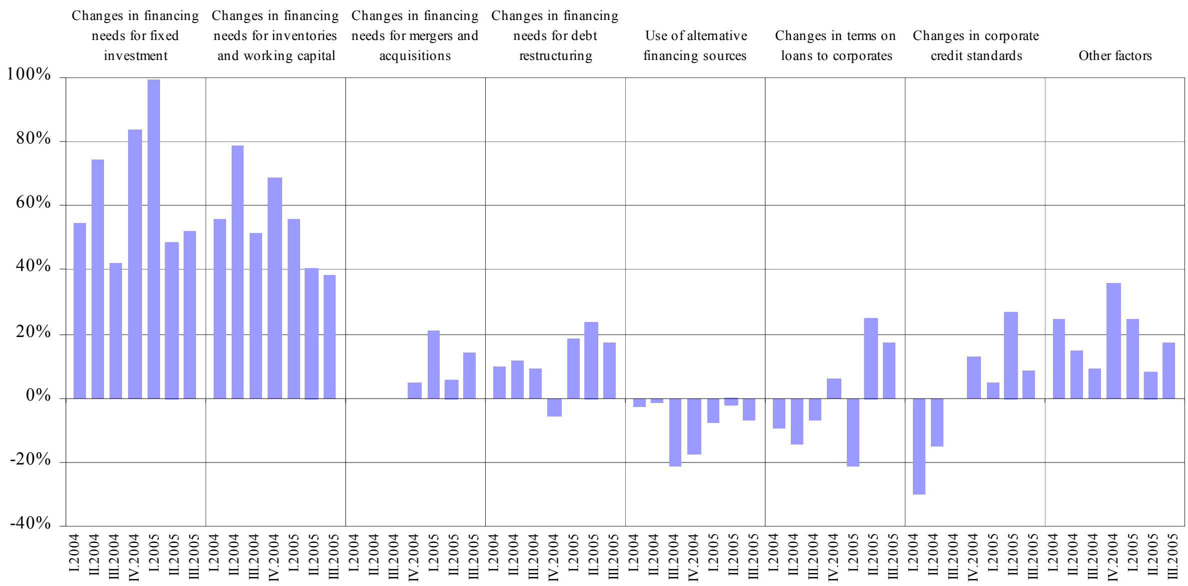
Corporate loan demand



As in the previous quarter, the factors which contributed most to the growth in demand were an increase in needs for financing investments as well as financing inventories and working capital. The significance of both factors for the increase in demand for loans was similar to that in the previous quarter (cf. Figure 5). Among other reasons for the rise in demand, banks most often reported an increase in financing needs related to debt restructuring and the easing of loan terms and conditions. Marketing campaigns were also quoted as factors which led to the increase in demand for loans to small- and medium sized enterprises. Therefore, as in the previous quarter, the growth in demand for loans resulted not only from exogenous factors but was also, to a certain extent, related to actions undertaken by banks.

Figure 5

Factors influencing changes in corporate loan demand



Households

In the third quarter of 2005, a significant majority of banks (85.1% of the asset-weighted number of banks) did not change their credit standards as regards housing loans to households. The remaining banks eased their lending policies in the housing loan segment. Therefore the lending policy in the housing loan segment was eased with regard to the entire sector; the extent of change was comparable to that in the previous four quarters (cf. Figure 6)

Banks expect a significant easing of the lending policy in the housing loan segment in the fourth quarter of 2005 (cf. Figure 6).

Increased competitive pressure, primarily from other universal banks, contributed most to the easing of terms and conditions regarding housing loans. Housing market prospects (the expected rise in prices) as well as changes in demand for housing loans had a significant impact on the banks' lending policy (cf. Figure 6).

The banks that changed their lending policies in the housing loan segment most often increased the maximum loan-to-value ratio. Some banks also changed loan terms and conditions other than those listed in the survey. At some banks, the terms of monitoring the construction process were eased. The remaining aspects of bank lending policy were changed much less often. This particularly applies to reducing the lending margin, which was the most important element of lending policy changes in the second quarter of 2005 (cf. Figure 7).

Figure 6

Lending policy and factors influencing its changes – housing loans

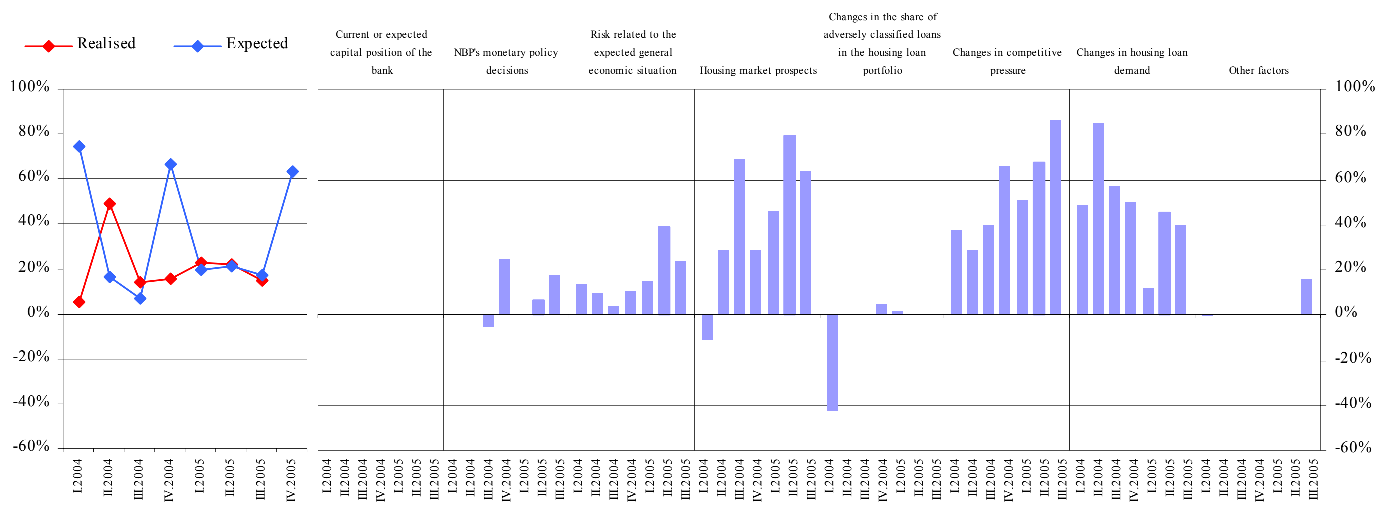
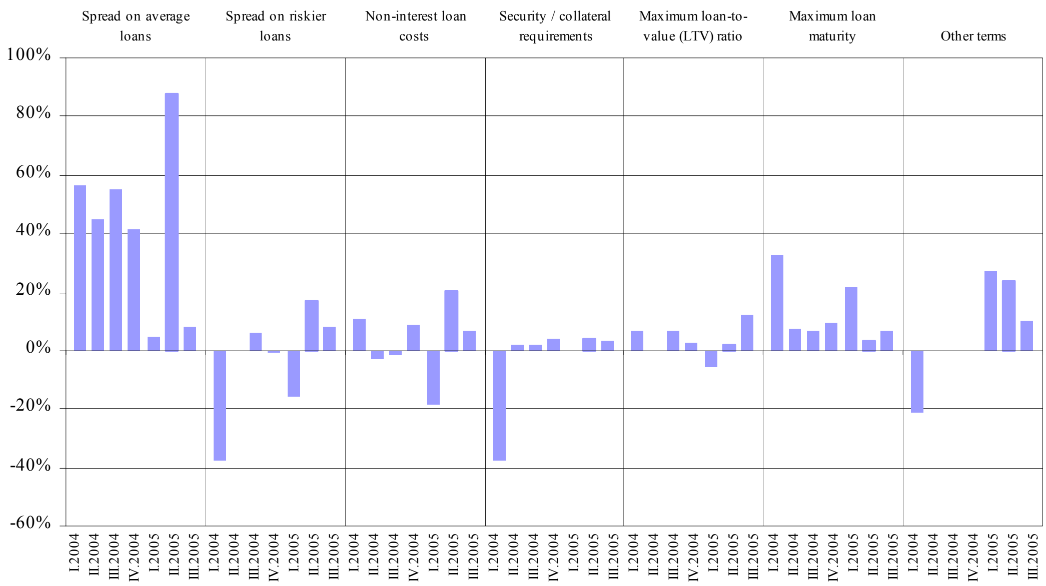


Figure 7

Terms on housing loans



Most banks (77.2% of asset-weighted banks) did not change their lending policies in the consumer loan segment, either. The remaining banks slightly eased consumer loan terms and conditions as well as credit standards. The tendency towards easing consumer loan terms and conditions as well as credit standards was much weaker than in the previous quarter; banks do not expect significant changes in their lending policies in the fourth quarter of 2005, either (cf. Figure 8). It should be stressed, however, that the banks' past expectations proved rather unreliable in this loan segment — in the previous two quarters banks did not expect any changes in the lending policy either; nevertheless, according to their ex-post assessment, consumer loan terms and conditions as well as credit standards were eased.

Increased competitive pressure, in particular within the banking sector, continues to be the most important reason for changes in the lending policy. This has been the most important factor behind the easing of consumer loan terms and conditions as well as credit standards in all the surveys conducted so far. In the third quarter of 2005, monetary policy decisions of the NBP and the risk related to the expected general economic situation of the country also had a significant impact on the easing of the banks' lending policy; the influence of other factors was negligible (cf. Figure 8).

The banks that eased their credit standards for consumer loans most often reduced their security/collateral requirements, extended the maximum loan maturity, and reduced the lending margin (cf. Figure 9). The influence of those factors on easing the lending policy significantly decreased compared to the previous quarter.

Figure 8

Lending policy and factors influencing its changes – consumer loans

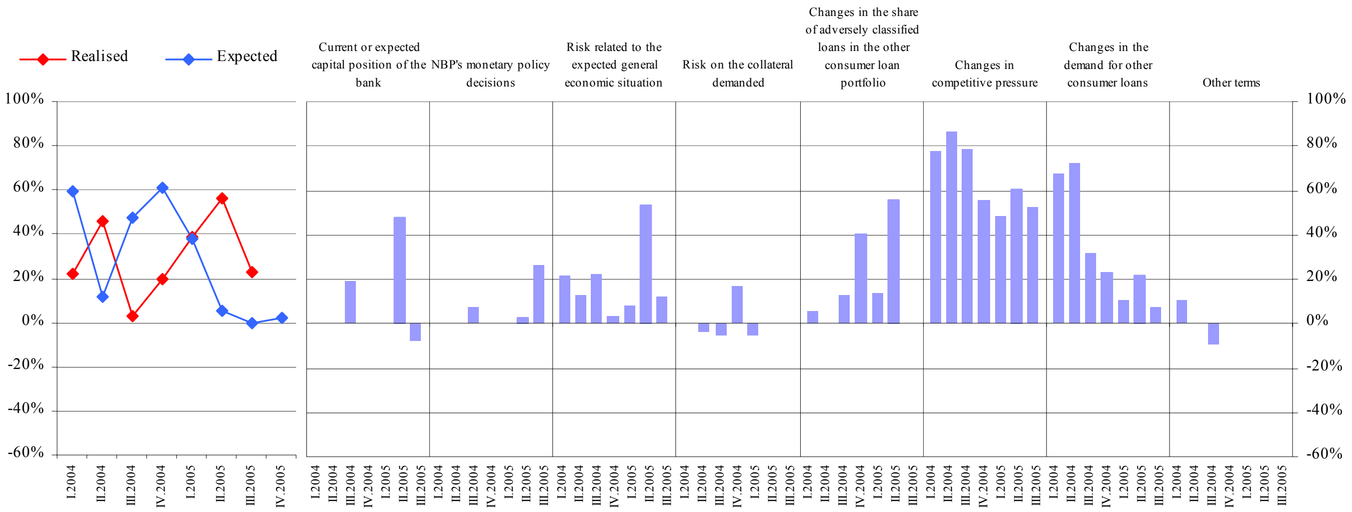
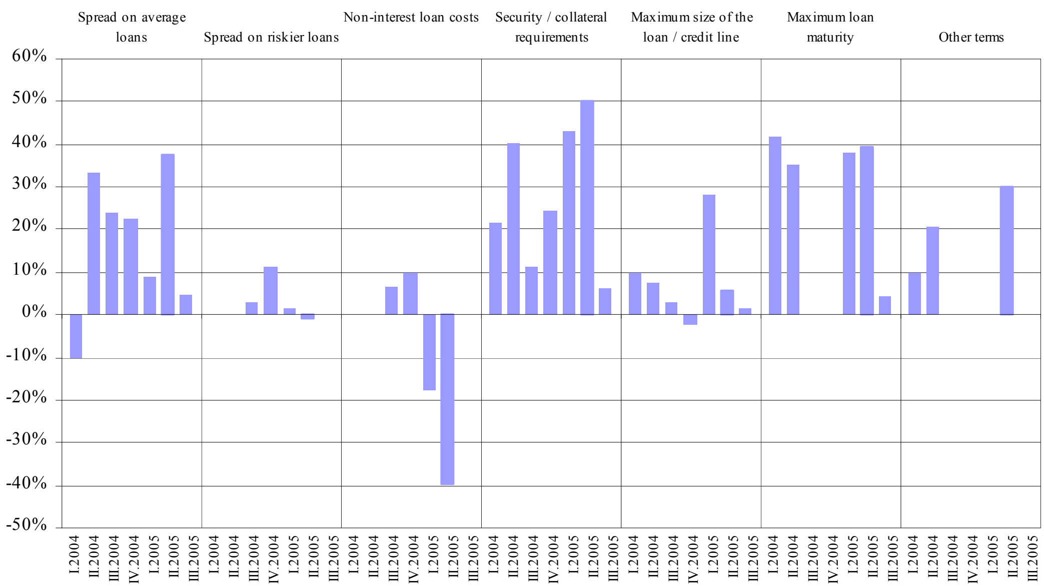


Figure 9

Terms on consumer loans

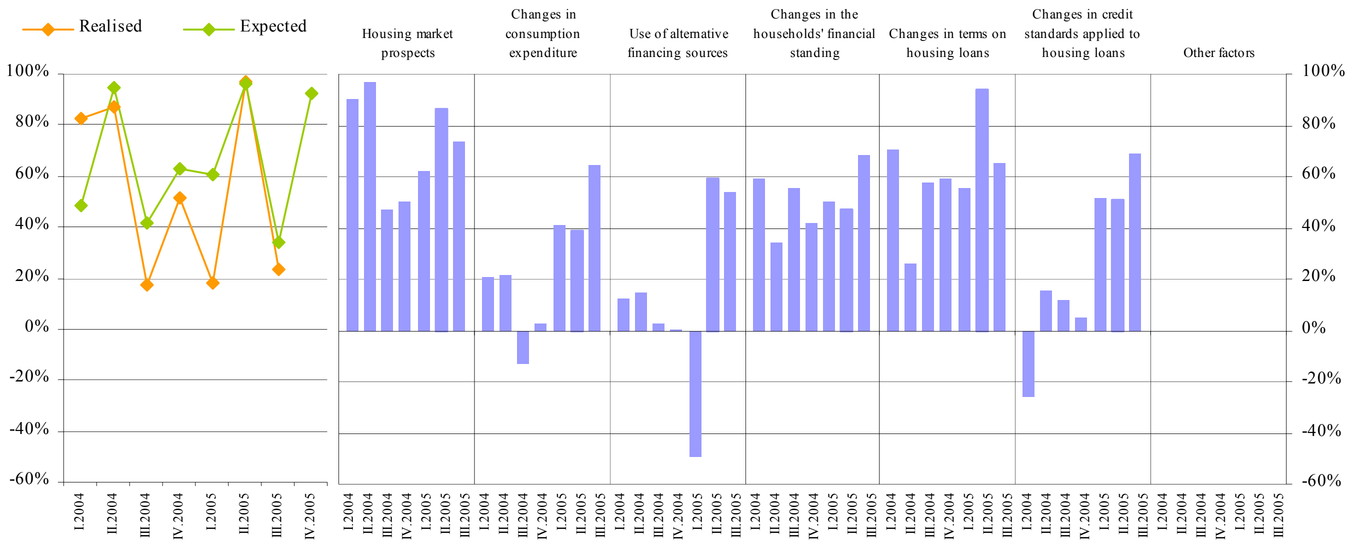


After the quarter during which an all-time high increase in demand for housing loans was recorded, the net percentage representing the strength of the demand reported in this sector decreased significantly. However, the decrease in the upward tendency in demand resulted from the fact that a higher percentage of banks than in the previous quarter recorded no change in demand for housing loans and some banks recorded a drop in demand. On the other hand, virtually all banks which noted an increase in demand reported a significant rise. This dichotomy points to strong competition in this market segment, which currently leads to a situation where the demand for loans perceived by banks focuses on those banks whose offer is the most attractive or the most intensely promoted at the time. In the fourth quarter of 2005, a significantly larger number of banks expect an increase in demand for housing loans (cf. Figure 10).

Among the reasons for the increase in demand for housing loans, banks most often reported housing market prospects, an improvement in the financial standing of households, and the easing of housing loan terms and conditions as well as credit standards. Among other factors which influenced the change in demand, banks most often reported the use of alternative financing sources and changes in household consumption expenditure (cf. Figure 10). As in the previous quarter and as in the case of the corporate sector, the increase in demand for housing loans also resulted to a certain extent from the easing of lending policy by banks.

Figure 10

Demand for housing loans and factors influencing its change



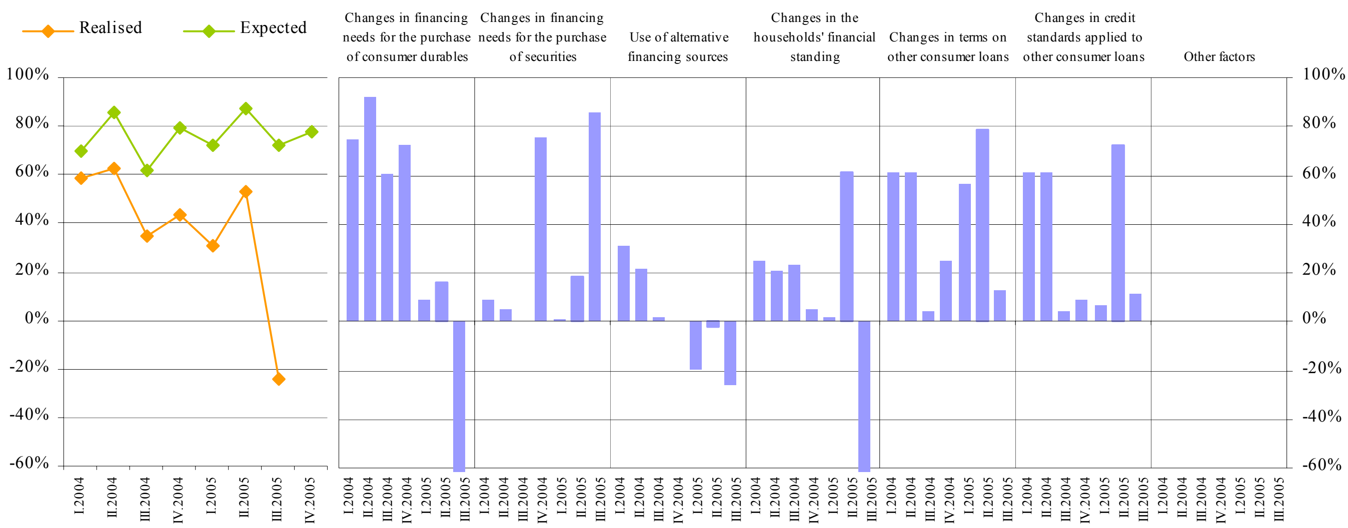
In the third quarter of 2005, the demand for consumer loans remained unchanged at around a half of banks.[1] Among the remaining banks, a larger percentage recorded a drop in demand for consumer loans. The downward tendency in demand for consumer loans emerged for the first time since the survey started and it may be a one-time phenomenon. This is corroborated by the fact that banks expect an increase in demand in the fourth quarter of 2005, and this did not change significantly during the entire survey period (cf. Figure 11).

The banks that recorded a change in demand reported that the most important reason for the increase in demand for consumer loans was the rise in financing needs related to the purchase of securities, which was linked to the privatisation of the Polish Oil and Gas Company (PGNiG). The fact that banks eased their lending policies also contributed to the increase in demand but the impact of this factor significantly decreased compared to the previous quarter. A drop in financing needs for the purchase of consumer durables and a deterioration in the financial standing of households were most often reported by banks as the most important factors behind the decrease in demand for consumer loans (cf. Figure 11).

[1] The question concerning the demand for loans to households concerns housing loans and loans other than housing loans (consumer and other loans). Here, the latter group is referred to as consumer loans for short.

Figure 11

Demand for consumer loans and factors influencing its change



Appendix 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.[2]

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 2005, that is the period covered by the survey, was taken into account.[3] Where a bank marked "*Not applicable*" in the response options, a weight of 0 was assigned. Thus while calculating

[2] 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.

[3] No data on claims loans of particular banks in September 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.