



Senior loan officer opinion survey

on bank lending practices
and credit conditions

4th quarter 2006

Summary of the survey results

- **Lending policy:** in the third quarter of 2006, banks' lending policy in the corporate sector eased. In the consumer segment the trend to ease lending policy came to an end and in the housing loans segment the lending policy was tightened in the sector as a result of bringing the provisions of *Recommendation S* into effect.
- **Reasons for changes in lending policy:** the most important reason for easing credit standards and terms of corporate loans was increase in the demand for loans and decrease in the risk related to the expected economic situation. Adjustments to the provisions of *Recommendation S* were the only important reason for the changes in lending policy in the household sector.
- **Demand for corporate loans:** after two quarters of significant economic upturn the trend of growth in demand for loans was sustained in the sector of large enterprises. In the SMEs sector the demand for loans did not change as compared to the previous quarter. The distribution of changes in the demand for loans in the SMEs sector can mean increasing competition in this segment.
- **Reasons for the change in demand for corporate loans:** banks indicated that demand had been growing chiefly due to the increased need for financing investments, mergers and take-overs as well as inventories and working capital.
- **Demand for household loans:** in the whole sector banks recorded growth in demand both in the housing loans segment and in the consumer loans segment. The growth in demand for housing loans was evidently slower as compared to the previous quarter, which results from the partial relocation of demand in time in relation to bringing *Recommendation S* into effect.
- **Reasons for the change in demand for household loans:** according to banks, the main reason for the increase in demand for loans is improvement in the economic standing of households. In the segment of housing loans the growth in demand was additionally strengthened by expectations related to the further increase in prices on the property market. The banks mentioned stricter lending policy arising from bringing the provisions of *Recommendation S* into effect as one of the factors impacting the decrease in demand in this market segment. In the segment of consumer loans a significant reason for increase in demand was also growth in the demand for financing consumer goods.
- **Expected changes in lending policy:** banks project further ease of lending policy both in the sector of households and enterprises, in particular in the segment of long-term loans.
- **Expected changes in demand for loans:** banks project further increase in the corporate sector, also in the SMEs sector. Further increase in the demand for household loans is also expected. It refers in particular to the segment of housing loans – the trend of growth is sustained in the sector.

Synthetic results of the survey

The survey was conducted at the turn of September and October 2006 among 24 banks, whose total share of claims on enterprises and households amounts to 77.5% 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 the 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 third quarter of 2006 as well as the banks’ forecasts concerning the fourth quarter.

Corporates

In the third quarter of 2006, banks eased their terms and conditions of granting loans in the corporate sector, in particular in the SMEs sector and in the segment of short-term loans in the sector of large enterprises. It means that the banks went back to easing the lending policy in the corporate sector after a two-quarter break. None of the banks tightened their lending policy and net percentages in the short-term loans segment for the sector of large enterprises and in the long-term loans segment for SMEs have reached the highest values since the survey was first conducted (cf. Fig. 1).

The banks anticipate that in the fourth quarter of 2006 the trend to ease the lending policy shall be sustained in the corporate sector. In the segment of long-term loans for SMEs, similarly as in the question about the changes in lending policy in the third quarter, the net percentage has reached the highest value since the survey was first conducted. The net percentages in the sector of large enterprises have reached also one of the highest values since the survey was first conducted. The ease of terms and conditions of granting loans is to a larger extent to refer to the segment of long-term loans. The trend to ease the lending policy in the banks’ expectations should be, however, carefully interpreted, as in the previous periods these anticipations did not always come true (cf. Fig. 1).

The banks that eased their lending policy most often extended the maximum loan maturity and reduced their spread on loans. At the same time a few banks increased their spread on loans incurring higher risk and decreased the maximum size of the loan (cf. Fig. 2).

Figure 1
Corporate credit standards

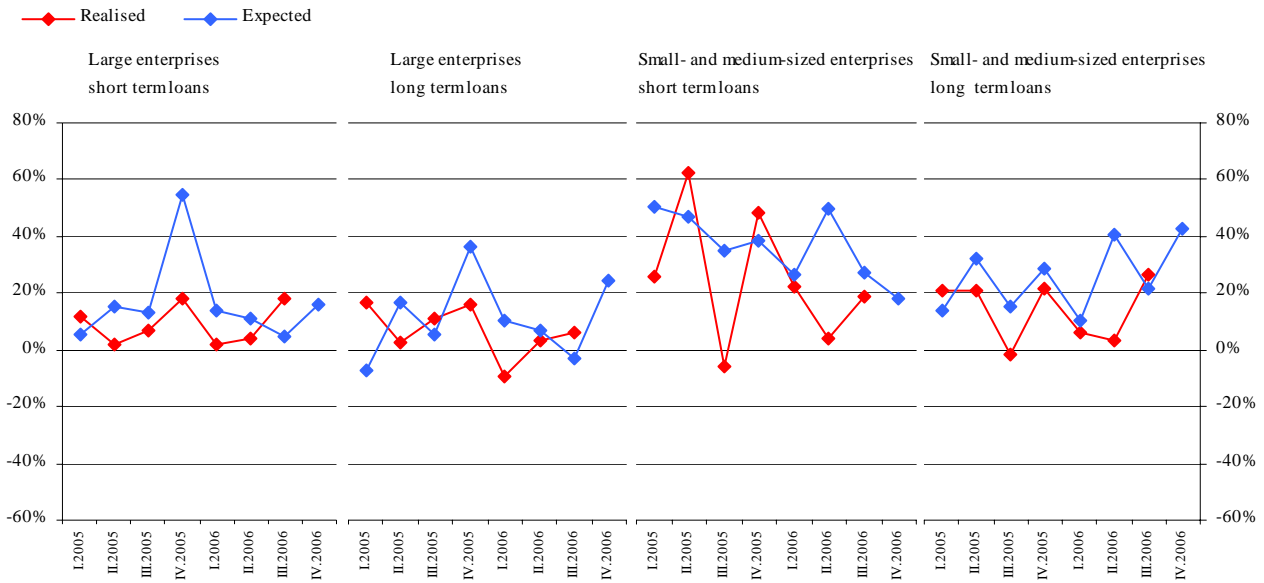
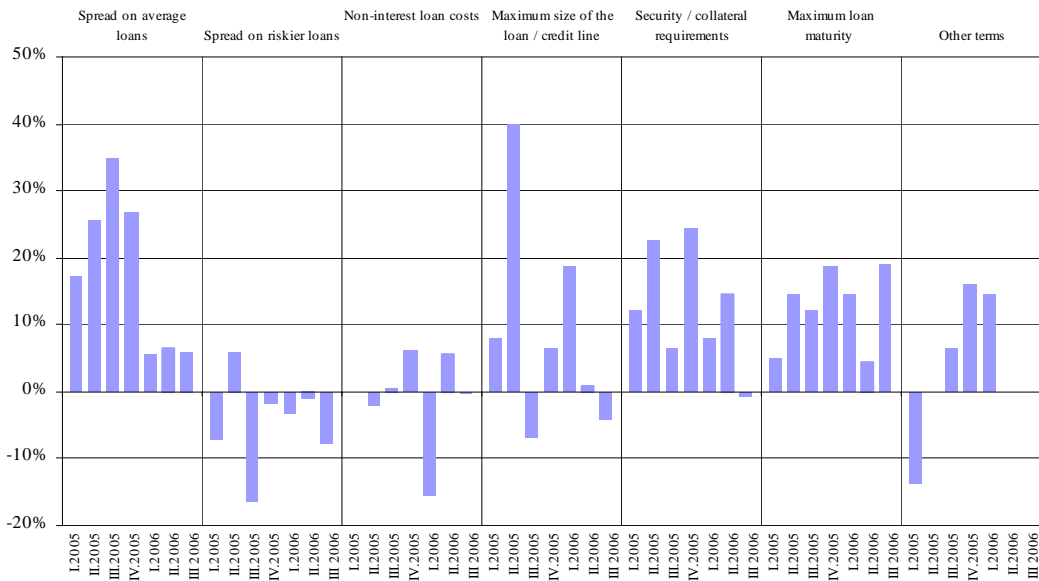
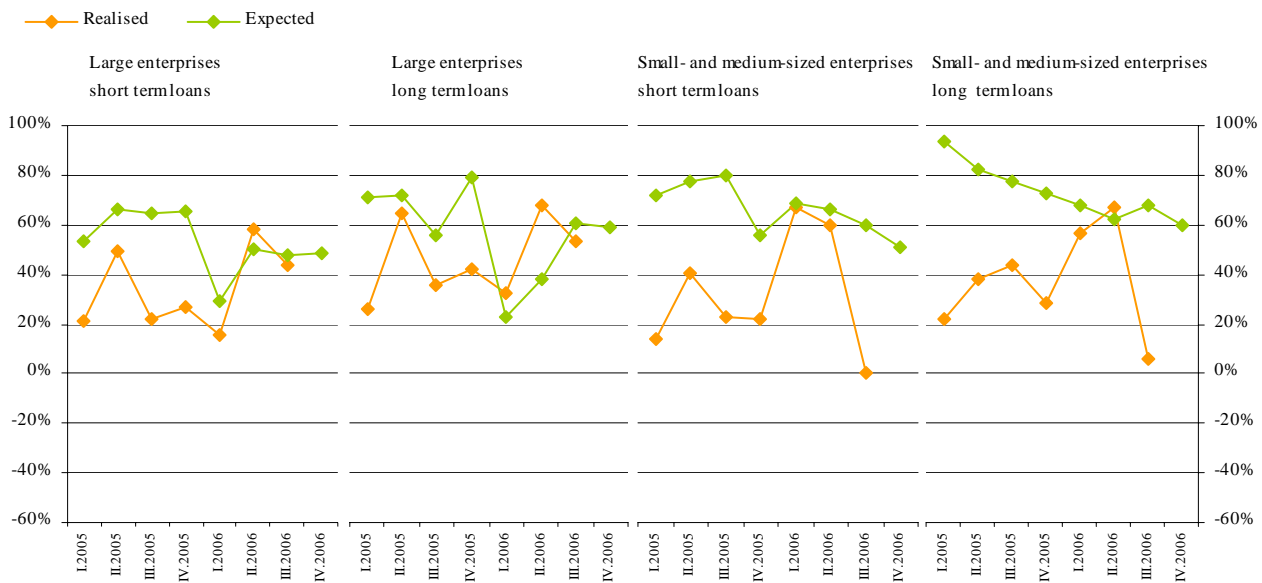


Figure 2
Terms on corporate loans



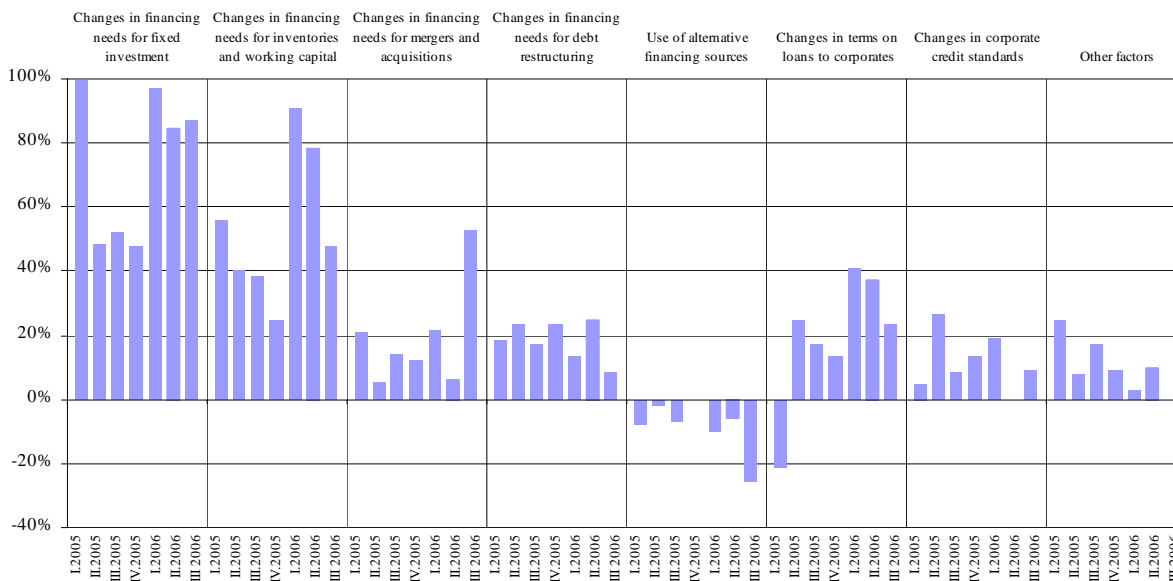
The banks which eased their lending policy acknowledged that the most important reasons for that was growth in the demand for loans in the corporate sector and decrease in the risk related to the projected economic situation. The most important reason for the change in the lending policy in the previous quarter – increase in competitive pressure on the part of banks – in the third quarter of 2006, was the third most important reason for easing the lending policy in the corporate sector (cf. Figure 3).

Figure 4
Corporate loan demand



Similarly as in the previous quarter, the growth in demand was mostly caused by the increase in the demand for financing investments as well as increase in the demand for financing inventories and working capital. Apart from that, increase in the demand for financing mergers and acquisitions had a significant impact on the growth in demand. The net percentage, measuring the power of the impact of these reasons on the increase in demand, did not change significantly in the case of demand for financing investments, it decreased in the case of financing inventories and working capital and it increased significantly in the case of financing mergers and acquisitions. Enterprises take advantage of the economic upturn and their own financial standing to extend the scope of operations and increase their own market of customers not only through investments but also through acquisitions and mergers. According to the banks the growth in demand, to a smaller extent than in the previous quarter, was caused by easing the terms and conditions of granting loans for enterprises. Tightening competition on the market of loans for enterprises is proved also by indicating by the banks the use of alternative sources of financing by enterprises, in particular from other banks and from their own funds as the only reason limiting the growth of demand for loans. The highest negative value of net percentage has been recorded here since the survey was first conducted (cf. Figure 5). The growth in demand in the sector of enterprises as well as the reasons for this growth suggest that the enterprises continued investments in the third quarter of 2006, financing them also by raising bank debt.

Figure 5
Factors influencing changes in corporate loan demand



Households

In the third quarter of 2006, the significant majority of banks (74.6% asset-weighted banks) tightened their credit standards of granting housing loans for households, out of which nearly half of the banks declared significant tightening of lending policy. Undoubtedly, it was the effect of bringing into effect the provisions of *Recommendation S* related to good practices in the area of the exposure of loans secured with mortgage passed by the Commission for Banking Supervision in March 2006. Only some banks (4.1% of asset-weighted banks) eased their lending policy in the segment of housing loans (cf. Figure 6).

The tightening of lending policy in the sector was very precisely projected by the banks in the previous quarter. In view of the fact that some banks adjusted their credit standards to *Recommendation S* already in the previous quarters, the process of adjustment to the new regulation shall be regarded as completed. This certainly gives rise to the return to the projections of a slight trend to ease the lending policy which is projected by the banks in the fourth quarter of 2006 (cf. Figure 6).

Adjustments to the provisions of *Recommendation S* were the only important reason for tightening the lending policy (cf. other reasons in Figure 6).

The banks which tightened their lending policy in the segment of housing loans most often mentioned the adjustments of the methods of calculating the repayment capacity to *Recommendation S* (cf. other terms and conditions in Figure 7). A few banks which eased credit standards and terms of granting loans most frequently reduced the spread on loans.

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

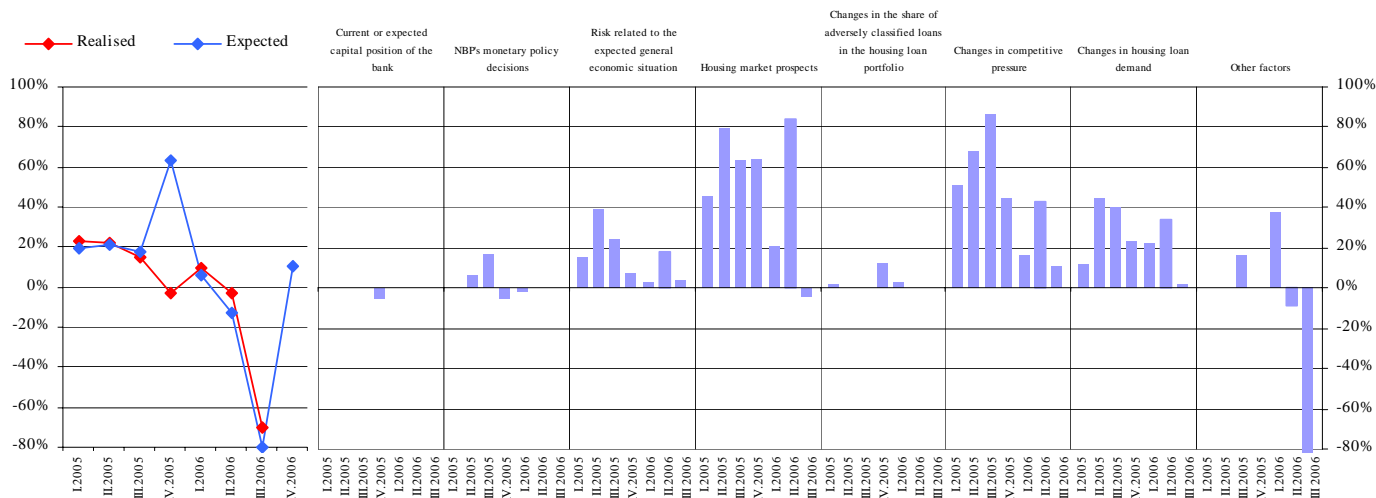
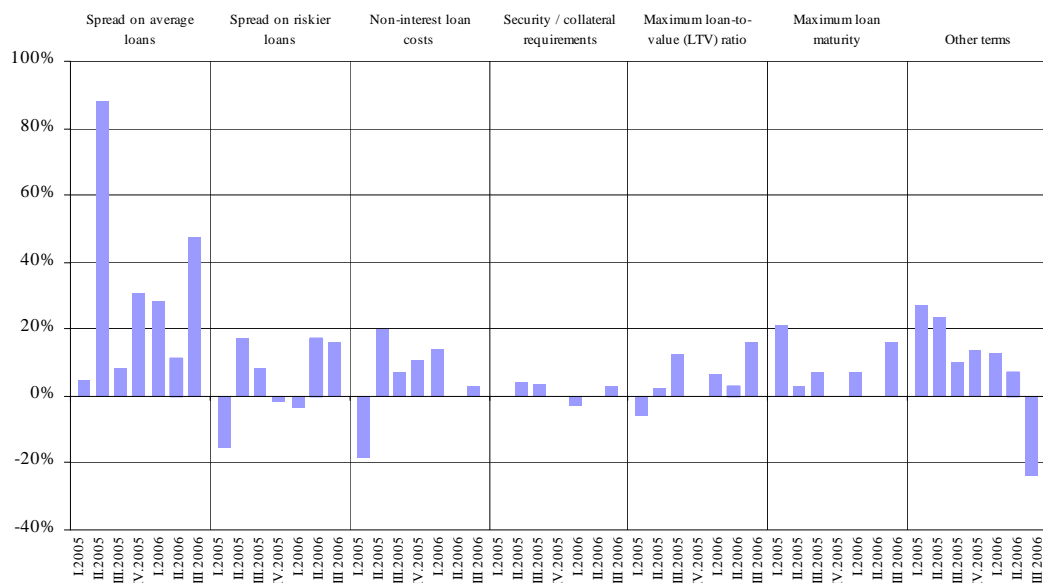


Figure 7
Terms on housing loans



The majority of banks (94.1% of asset-weighted ones) did not change their lending policy in the segment of consumer loans. Other banks eased credit standards and terms of granting loans. The banks do not project significant changes in the lending policy in the sector in the fourth quarter of 2006, either (cf. Figure 8), but it follows from the discrepancy between the direction of changing credit standards and terms of granting loans – the percentage of banks which aim at easing the lending policy is comparable to the percentage of banks projecting its tightening.

Growth in competitive pressure, both on the part of banks and non-banks financial institutions, is still the most important reason for easing the lending policy in the segment of consumer loans. In the third quarter of 2006, the reduction of the percentage of threatened loans in the portfolio of consumer loans was also important for easing the lending policy (cf. Figure 8).

The banks which eased the terms and conditions of granting consumer loans most frequently extended the maximum loan maturity and reduced the spread on loans (cf. Figure 9). As compared to the previous quarter the impact of these factors on the ease of lending policy did not change significantly.

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

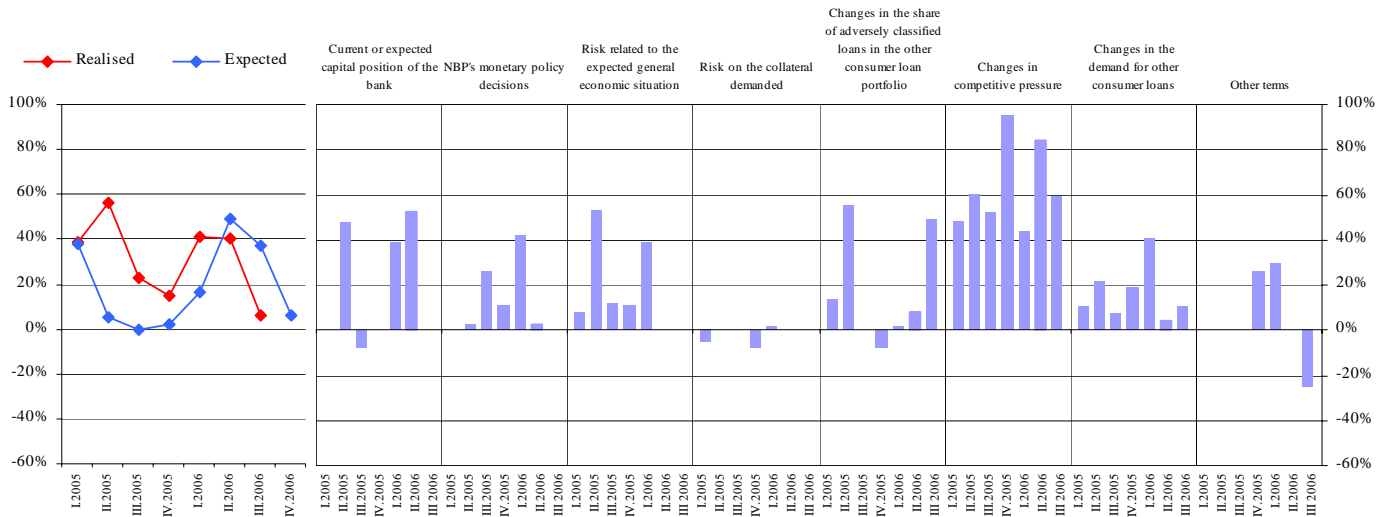
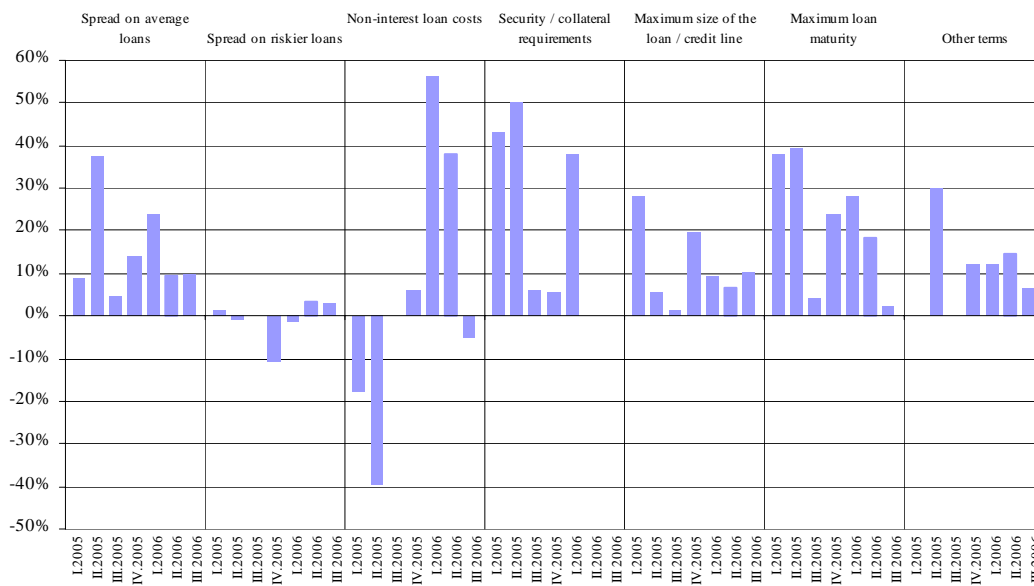


Figure 9
Terms on consumer loans



In line with the opinion expressed in the previous issue of survey, as a result of bringing *Recommendation S* into effect a partial relocation of demand from the third quarter to the second quarter of 2006 was recorded. In spite of that, in the third quarter, still nearly half of the asset-weighted banks recorded a further increase in the demand for housing loans. A slightly smaller percentage of banks recorded the decrease in demand for loans, therefore the net percentage was positive and was slightly lower as compared to the periods, when one-off factors did not have an

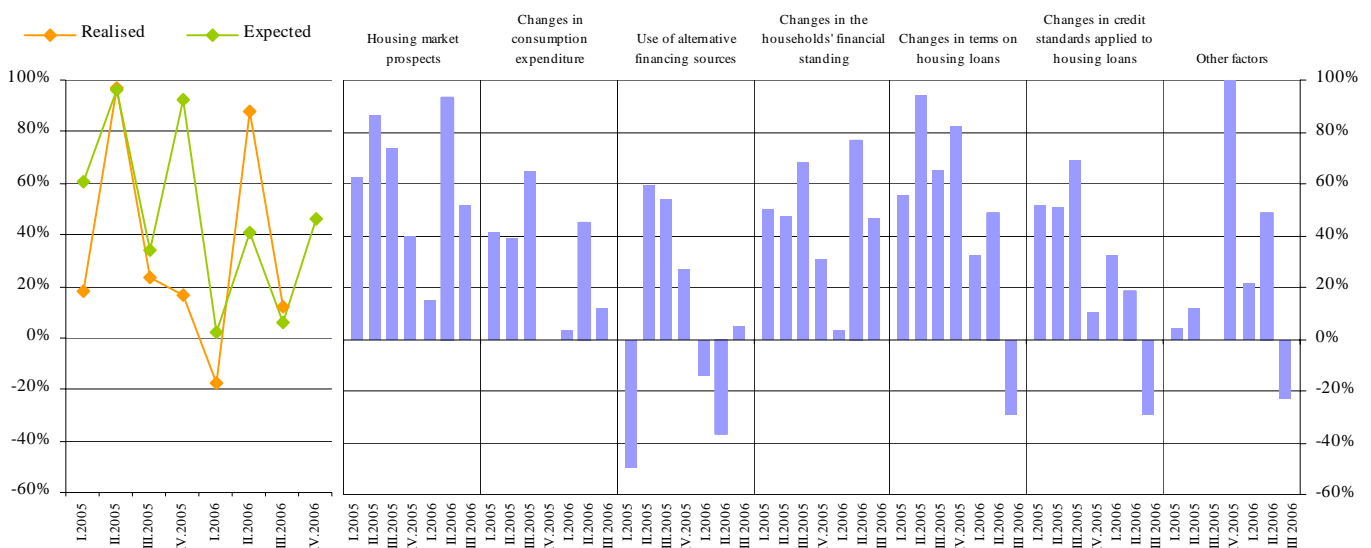
impact (accession of Poland to the EU, bringing *Recommendation S* into effect). Then, the trend to increase demand for housing loans is sustained in the sector² (cf. Figure 10).

The housing market prospects (expected increase in prices) was, according to the banks, the most important reason for the growth in demand for loans in the third quarter of 2006. Improvement in the financial standing of households was also an important factor of growth in demand. Among the factors impacting the decrease in demand the banks identified tightening of lending policy arising from bringing the supervision provisions from *Recommendation S* into effect (cf. Figure 10).

The banks project that in the fourth quarter of 2006 the demand for housing loans will continue to grow. The growth in demand is to be stronger than in the current quarter (cf. Figure 10).

The analysis of responses to the questions related to lending policy and demand for loans in the segment of housing loans as well as the reasons for changing them specified by the banks proves that bringing *Recommendation S* into effect contributed to the partial allocation of demand between the third and the fourth quarter of 2006 and to the reduction of demand for foreign currency loans. However, there are no signals that the demand for housing loans in general expired – the banks expect its further growth.

Figure 10
Demand for housing loans and factors influencing its change



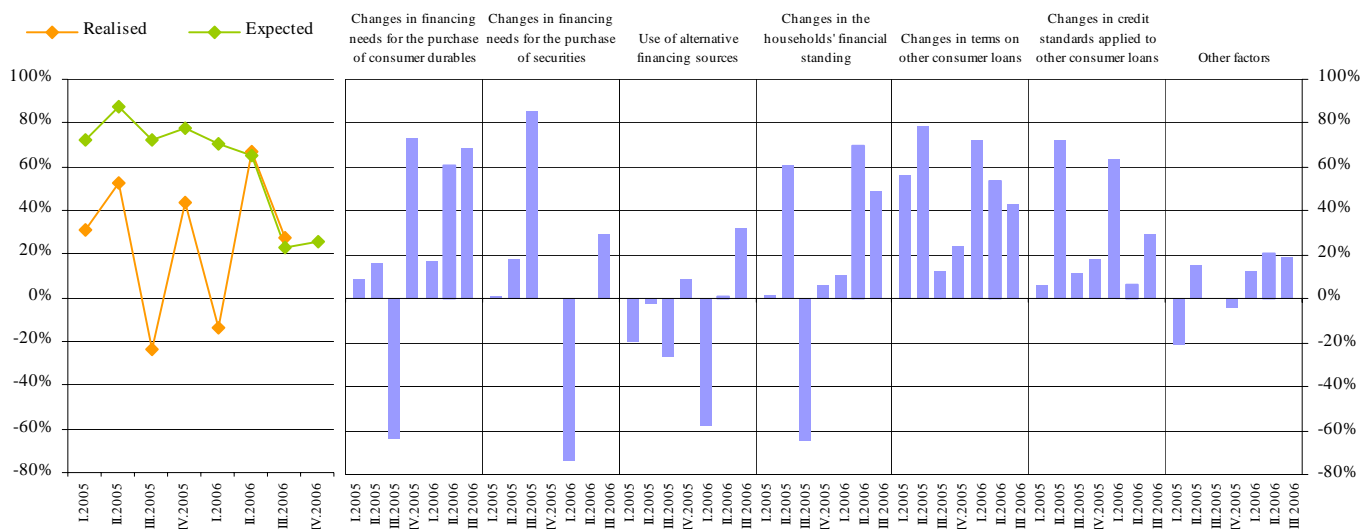
In the segment of consumer loans the banks recorded a slightly stronger growth in demand than in the segment of housing loans. None of the banks recorded the decrease in demand, and ca. ¼ of asset-weighted banks recorded the growth in demand. The banks expect comparable growth in demand in the following quarter (cf. Figure 11).

In the third quarter of 2006, the growth in demand for financing consumer durables and improvement in the financial standing of households were the most important reasons for the increase in demand for consumer loans. Among other reasons for the growth in demand the banks identified the ease of lending policy, increase in demand

² It should be, however, highlighted that although a smaller percentage of banks declared decrease than increase in demand, 28.9% of asset-weighted banks declared a significant decrease in demand. It is characteristic also that demand increased, among others, in the banks which grant only PLN loans in the segment of housing loans.

for financing securities. The growth in demand was impacted also by smaller use of alternative sources of financing, first of all, savings and other forms of financing households (cf. Figure 11).

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 2006, 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 2006 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.