

Eyeopener – daily update

Higher demand for credits

9 February 2006

Yesterday, the NBP published results of senior loan officer opinion survey on bank lending practices and credit conditions, which suggested strengthening of both consumption and investment demand.

PM Kazimierz Marcinkiewicz reiterated that the MPC should be eliminated, but this can happen only through changes to the constitution. This is quite unlikely to take place in the current term of parliament, as PiS and its allies does not have enough majority to change the constitution.

S&P said yesterday that it see a possibility of upgrading rating of the EU new members states and candidate countries. At the same time, the agency said it will refrain from changing Hungary's rating until local government's election in autumn. Recently, S&P changed outlook for Hungarian rating to negative. It seems Poland may soon improve its credit rating relative to Hungary, but this will surely depend on fiscal policy of the new Polish government (and new parliamentary majority), which is still highly uncertain. The same applies to Slovakia, as early election will probably take place in June.

What's hot today

Tendency of easing credit policy continued, but moderated amid major changes in previous periods

Higher demand for corporate loans, connected mainly with investment financing

Demand for housing loans stabilised

More investment and consumer credits

Yesterday, the NBP published results of senior loan officer opinion survey on bank lending practices and credit conditions. The results showed that in the final quarter of 2005, after disappearing for a quarter, the trend to ease terms and conditions of lending policy in the corporate sector was continued. On the other hand, banks did not soften the lending policy with regard to housing loans, for the first time from the fourth quarter of 2003. In the household sector a weak tendency to ease off credit policy persisted in the segment of consumer loans. The NBP emphasized, however, that it was considerably eased off by the banks in the previous periods. According to the survey results, an increase in competitive pressure among banks remained the most important reason for changes in the lending policy.

As regards demand for corporate loans, in 4Q05 banks recorded an increase in demand for loans in the corporate sector, especially in the sector of large enterprises and in the category of long-term loans. At the same time the anticipated increase in demand for corporate loans for 1Q06 (especially from large enterprises) is the lowest since the survey was first conducted. As main reasons for the rise in demand for corporate loans banks indicated chiefly the increased need for investment financing.

With respect to demand for household loans, the surveyed banks reported that although no bank recorded a decline in demand for housing loans, the upward trend in the demand was relatively weak in comparison to the previous quarters of 2005. The banks also anticipate that the demand for housing loans will show no change in the first quarter of 2006 for the first time

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... but demand for consumer loan much higher

since the survey was conducted. In the consumer loan segment, after a one-time decline in demand in the third quarter of 2005, the upward tendency in the demand was continued and it is now more pronounced in consumer loans than in housing loans. According to the surveyed banks, the demand for housing loans was primarily growing due to the eased lending policy. The situation on the housing market and better financial standing of households also accounted for the increased demand in this sector of the market. Meanwhile, extended financing needs for the purchase of consumer durables stimulated the demand for consumer loans. Among other reasons for rise in consumer loans banks also mentioned the eased lending policy.

As far as expected changes in lending policy are concerned, banks forecast the slight easing of corporate loan terms and conditions in the first quarter of 2006, with regard to the corporate sector and of consumer loans for households. Lending policy in the segment of housing loans is anticipated to show no change.

Bottom line: The survey results suggest strengthening of both consumption and investment demand. Positive for GDP growth in 2006.

Market monitor

As yesterday no breaking news appeared on the Polish market the zloty continued its narrow range trading. On Wednesday Polish currency depreciated and EURPLN rate rose from 3.8119 to 3.8260, while USDPLN increased from 3.19 daily minimum at the opening to 3.2025. The greenback strengthened on Wednesday again from 1.198 to 5-week high 1.1924 as the market reacted to Greenspan's bullish statement on U.S. economy outlook.

Amid no crucial events the yields on the Polish fixed income market follow the behaviour of the core markets counterparts. Thus on Wednesday interest rate market weakened, yields rose by 1-4 bp returning to late Monday levels. The main reason for this was a situation on the core bond markets. CPI linked and floating rate bonds auction had little influence on the fixed income market. Yields of 10Y Treasuries and Bunds remained unchanged at 4.56% and 3.49% respectively.

At Wednesday's tender the Ministry of Finance sold PLN493m out of the offered amount PLN500m of 12Y CPI inflation linked bonds IZ0816 with average price at 1,020.47, indexation ratio of 1.01774 and demand of PLN1.07bn. The ministry placed also the whole offered PLN1.0bn of 7Y floating rate notes with rate of reduction of 8.75%.

At today's auction in U.S. 30Y bonds will be offered for the first time in nearly 5 years which introduced some anxiety on the market with regards to the reaction of the long end of the curve.

Bottom line: Polish currency fell slightly against the main currencies, but the zloty trades in a narrow range. Bonds weakened following situation on the core bond markets.

The zloty trading ranges (08.02.2006)

	Min	Max	Fixing
EUR	3.8190	3.8310	3.8254
USD	3.1900	3.2030	3.1949

F/X rates (today's opening)

EURUSD	1.1981	CADPLN	2.7757
USDPLN	3.1890	DKKPLN	0.5118
EURPLN	3.8217	NOKPLN	0.4767
CHFPLN	2.4589	SEKPLN	0.4125
JPYPLN*	2.6864	CZKPLN	0.1343
GBPPLN	5.5610	HUFPLN*	1.5205

*per 100 units

Treasury yield curve (08.02.2006)

T-bills	Yield	Change (bp)
3M	4.05	0
6M	4.05	0
9M	4.05	0
12M	4.04	-1
Bonds	Yield	Change (bp)
2Y	4.33	0
3Y	4.53	1
4Y	4.68	4
5Y	4.75	3
8Y	4.84	2
10Y	4.94	3

3Y - DS0509, 4Y - PS0310, 5Y - DS1110

WIBOR rates (08.02.2006)

Term	Rates	Change (bp)
O/N	4.28	-8
T/N	4.31	-5
SW	4.33	-3
2W	4.33	-3
1M	4.33	-3
3M	4.32	-2
6M	4.31	-3
9M	4.31	-2
1Y	4.31	-2

International update

Late on Tuesday all parties approved the idea of early elections in Slovakia. Yesterday it was accepted by the government and today will be the last crucial parliamentary voting. PM Dzurinda already proposed a term of elections, which were formerly scheduled for September, on 17th June. Chief of Slovak central bank Ivan Sramko said that that setting a clear path of events and pursuing elections scenario would help to stabilize the Slovakian crown.

Today in U.S. wholesale inventories figure for December will be published at 15:00 GMT with market expectations at 0.4% the same as in November.

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