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Changes in the volume and structure of loans granted to enterprises in Poland in 1993-1997.

1. Introduction

Loans of the nonfinancial sector are targeted at the enterprises and households. As enterprises we mean state owned, municipal or private companies. Private companies we defined as limited liability companies, joint stock companies, co-operatives, working individuals and others treated as companies according to Polish law. In order to develop their activity and realise their strategy enterprises tend to finance their operation from outer sources from the financial markets and especially on the loan market in the banking sector. These outer sources enable to maintain proper level of investment increase and as the result to maintain the competitiveness of the company products or services. Necessity of investment, among other components like lowering costs, is one of the main factors of making profit and raises continuous demand for credit. In Poland demand for credit is generated by private and state owned enterprises, households and public sector. In the paper the analysis of changes in the quantity of loans for enterprises in years 1993-1997 is performed. We especially tried to answer the following question: is the increase in volume of loans for enterprises as big as volume of changes encountered in the Polish economy during period of structural changes.

2. Analysis of the changes in volume and structure of loans for enterprises in comparison with loans for households and public sector.

Effectiveness of the industry is highly affected by the economic policy of the country. Especially in Poland, objectives and instruments of the economic policy influenced the process of privatisation of the state owned enterprises. Slow process of privatisation in Poland causes slow increase in volume of loans for enterprises. Increase in number and volume of loans for Polish enterprises occurred after a few years period of decrease in real value of their liability.

In table 1, 2 and 3 the value and change in nominal and real terms in years 1993–1997 are presented. In table 4 the structure of the loan liability is presented. All above tables show the data in two main groups of enterprises: state owned and private. Data presented in these tables originate from the “National Bank of Poland¹ Yearly Report 1996”, NBP “Report on the Realisation of the Monetary Policy” in 1996 and 1997 and NBP “Information Bulletins”.

Table 1 Credit to firms in 1993-1997 (in mln PLN²)

	1993	1994	1995	1996	1997
Credits to firms:	30 940	38 220	50 590	68 390	87 961
1. State enterprises	14 260	16 760	20 330	25 120	28 600
2. Private firms	16 160	21 040	29 530	42 200	59 360
a) companies, co-operatives	11 380	14 750	21 140	29 120	40 976
b) working individuals	4 710	6 200	8 390	13 080	17 767
- in agriculture	780	1 410	1 940	3 930	5 662
- others	3 930	4 790	6 460	9 160	12 104
c) others	700	900	400	120	610

¹ National Bank of Poland (NBP) is Polish central bank

² currency abbreviation for Polish Zloty is PLN

Table 2 Change in loan liability of Polish enterprises in nominal terms

	1994/1993	1995/1994	1996/1995	1997/1996
Credits to firms:	23.53%	32.65%	35.18%	31.2%
1. State enterprises	17.53%	21.3%	23.56%	13.8%
2. Private firms	30.1%	40.35%	42.9%	40.6%

Table 3 Change in loan liability of Polish enterprises in real terms

	1994/1993	1995/1994	1996/1995	1997/1996
Credits to firms:	-4.61%	8.85%	14%	16%
1. State enterprises	-9.24%	-0.25%	4.2%	0.5%
2. Private firms	0.46%	15.41%	20.6%	24%

Table 4 Structure of credit of Polish enterprises in terms of ownership

	1993	1994	1995	1996	1997
Credits to firms:	100%	100%	100%	100%	100%
1. State enterprises	46.87%	44.34%	40.77%	37.31%	32%
2. Private firms	53.12%	55.66%	59.23%	62.68%	68%

Decrease in the volume of loans for enterprises in the real terms lasted from 1992 (in 1992 the real terms decrease amounted to -11.9% and in 1993 to -5.1%). This reduction of usage of external financing caused enterprises to base on the internal funds in the operation and development. In 1990-1992 the high nominal level of the interest rate caused lack of attention to loans taking. In spite of above factor many enterprises have been caught into the so-called liability trap. It was a period of introductory adaptation of Polish banks and enterprises to market economy rules. In this period many banks still quite mechanically granted enterprises with loans – without any deeper examination of borrowers credit standing. From the other side, state owned enterprises were quite mechanically taking loans increasing the level of their liability without deeper understanding of changes in economy and the consequences of too high level of liability. In 1994 the trend of reduction of loans for enterprises volume was maintained and general decrease of -4.6% was produced mainly by decrease in loans volume for state owned enterprises amounted to -9.2% .

Positive changes have taken place in the segment of private enterprises. The trend of reduction of loans for private enterprises has been changed. In 1994 (in comparison to 1993) loans volume for private enterprises has increased in nominal terms by 30% which is equal to 0.46% increase in real terms. From 1995 regular increase of the volume of loans has been registered. It is especially apparent in the case of loans for private enterprises (limited liability companies, joint stock companies, co-operatives, private individual and other private entities). Private enterprises generate much higher demand for loans than state owned enterprises. This situation was partially caused by the change in the ownership structure in Polish industry. More and more firms are privatised and concurrently more and more loans are taken by the private enterprises. Increase of loans for private enterprises in real terms is the *sine qua non* condition of achieving stable economic growth. The high level of external financing of private enterprises should have the preference over the financing of the state owned and municipal enterprises that are usually less efficient than private ones, as well as financing the state and households. In the private enterprises, as opposite to the other forms of ownership, the necessity of rational economic behaviour exist, which consists of decreasing costs, running investment and achieving profit. External financing of highly efficient enterprises should increase the volume of Polish export³ and increase competitiveness of exported goods and services.

As it was mentioned earlier positive changes in the level of liability level started in 1995 when the increase of the loans for private enterprises in real terms amounted to 15.4% (nominal increase of 40.3%). In the same year the trend of decline in the level of external financing of the state enterprises has been interrupted (nominal increase of 21.3% which in real terms was equal to slight decrease of 0.25%). In 1996 the positive trend in the external financing continued for both private and public sector (increase in real terms amounted to 20.0% in the case of private enterprises and 3.8% in the case of state enterprises).

It should be also noted that there is a positive trend in the structure of enterprises taking loans in terms of their ownership. The share of private enterprises using external funds among all loan takers raises from 53.1% in 1993 up to 62.7% in 1996 and 68% in 1997.

³ In the OECD countries 70%-85% of firms are exporting goods and services (also highly processed goods among others). In Poland only 40% of firms are exporters.

Positive trends indicated above have also their implications into structure of assets in Polish bank sector in Poland. In table 5 and 6 changes⁴ in the volume of loans for commercial enterprises (both private and state owned) are presented on the background of financing the public sector. In the OECD countries volume of loans for commercial firms is much higher than sum of the loans for public sector. In Poland the positive trend in the structure of loans starts in 1995 when the increase of loans for commercial enterprises was significantly higher than the increase of loans for the public sector. Maintaining of this structure in the future allow to achieve required increase in the GDP of Poland which will stabilise growing demand for goods and services in Poland.

Quite high and rapid increase of the loans taken by households in 1996 should be also noted (see tables 6 and 7). The same tendency continued in 1997. In the environment of high inflation this is quite natural to escape from long term savings to immediate consumption. Even high interest rates for savings in 1997 have not attracted clients and did not caused the increase of savings. Above numbers can imply that premium capital is spent on the consumption rather than on savings – and especially on the imported goods and services what is specifically dangerous in the long run.

Table 5 Credit to firms, government and households (in billions of PLN (1012))

	1992	1993	1994	1995	1996	1997
Total credit:	43.9	63.9	82.1	98.0	127,2	163.4
1. Credit to government	19.0	30.0	40.5	41.8	47.1	55.2
2. Credit to firms	23.7	30.9	38.2	50.6	68.4	89.8
3. Credit to households	1.2	2.3	3.3	5.6	11.7	18.4
Credit to government and firms	42.7	60.9	78.7	92.4	115.5	145.0
Credit to firms in % of credit to government and firms	55.5%	50.7%	48.5%	54.8%	59.2%	61.9%
Credit to nonfinancial sector	24.9	33.2	41.6	56.2	80.1	108.2
Credit to firms in % of credit to nonfinancial sector	95.2%	93.1%	91.8%	90.0%	85.4%	83.0%

⁴ Data based on the Bulletins of NBP

Table 6 Change in loan liability of Polish firms, government and households (nominal terms)

	1993/1992	1994/1993	1995/1994	1996/1995	1997/1996
Credits to firms:	30.6%	23.5%	32.3%	35.2%	31.2%
1. State enterprises	57.8%	35.0%	3.2%	12.7%	17.2%
2. Private firms	88%	48%	68%	107.8%	57.3%

Table 7 Change in loan liability of Polish firms, government and households (real terms)

	1993/1992	1994/1993	1995/1994	1996/1995	1997/1996
Credits to firms:	-5.08%	-4.6%	8.9%	14%	16%
1. State enterprises	14%	4%	-14%	-5%	3.5%
2. Private firms	36.8%	14.1%	38.4%	74.6%	39%
				high increase	

3 Factors of the development of the loan volume in Poland

In the period 1991-1996 National Bank of Poland has systematically decreased the nominal interest rates although they real values were quite high in this period⁵. In February 1995 interest rates of the NBP were risen (discount rate was risen from 28% to 31%) but in May 1995 they were set on even lower level (discount rate was diminished from 31% to 27%). In 1996 the basic NBP interest rate without inflation reached the level of +2.9% (in the case of subtraction of consumption goods inflation) or +10.4% (in the case of subtraction of production goods inflation). Too high real interest rate is the negative factor for increase of loans in the economy. In 1997 positive trends of the volume and structure of external financing in Polish economy continue but taking into account low level of monetization level in Poland we still have to think about attracting more clients for loans in Polish economy. Even when inflation index was considerably decreasing in 1997 (level of inflation between December 1996 and December 1997 amounted to 13.5%), NBP increases interest rates

⁵ Real interest rate of NBP without inflation only in 1993 was negative (for inflation of consumption goods real interest rate of NBP amounted to -1.6% and for inflation of industrial goods it amounted to -1.2%).

(discount rate was risen from 22% to 24.5% in August 1997). Monetization level – which is index counting share of the banks receivables in the GDP – reaches in Poland 37% in 1996 when in Germany it amounted to 140%, in Spain 104% and in Czech 65%.

Factors, which lower the demand for loans in Polish economy, are caused by NBP policy. Those factors are increase of the interest rates, increase of the costs of the obligatory reserve and starting of the wide public savings schemes by the NBP. We assess that the last action taken by NBP is the effective tools of the loan volume control. Especially because traditional instruments seems to be not so much effective. In the case of high overliquidity of the banking system monetary policy basing on the market instruments is not sufficient. It should be also noted that this situation causes also decreasing of the loans for commercial enterprises.

Especially dangerous could be the diminishing of the development of profitable companies. In 1997 the change in the loan taking was quite high but lesser than in previous years. In 1996 the yearly increase amounted to 42.5% and in 1997 only 37%.

Restrictive policy of National Bank of Poland in 1997 was justified by the macroeconomic goals of Polish economy. This policy shows the necessity of acceleration the privatisation process in Poland and speeding up changes in the structure and volume of public sector expenses. Especially, reorganisation of social insurance system is urgently required. High prices of loans for profitable enterprises is to some extent the tax paid by efficient enterprises for loans granted to inefficient state owned enterprises during transformation period and loans granted directly to public sector. The scale and quality of the privatisation is the base factor influencing the increase of bank's receivables aimed at effective investment projects. In the following years we should encounter the situation where loans for public sector are more and more exchanged by the loans granted to industry and especially privately owned enterprises. These trends of decreasing loans volume for public sector and increasing loans volume for private commercial enterprises (in line with privatisation process) are principal factors of the increase of the economy monetization. Redirecting of the loans to the highly effective companies in Polish economy will result in increase of export and in lowering the difference between export and import – possibly to the state when export will be higher than import. Presently faced quick increase of the negative balance of export and import was the main motivation of the NBP to tighten the restrictive monetary policy in 1997.

Privatisation should be perceived as the main determinant of effectiveness increase in Polish economy and main factor of speeding up the GDP increase. Improvement of the ownership structure in Polish economy should result in strengthening of the supply side of the economy and in effect make lower the import pressure caused by high nominal demand of the local economy.

The above analysis of volume and structure of loans for commercial enterprises in Poland shows that increase in the number and volume of loans for private commercial sector should be performed with consideration of the proper macroeconomic relations. Especially the following parameters should be carefully taken into consideration:

- Level of inflation,
- Balance of export and import,
- Share of loans for commercial enterprises in assets of the banking sector,
- Level of savings – especially long term savings,
- Index of loans increase in comparison to the index of savings increase,
- Level of state deficit.

Literature:

1. NBP Information Bulletins, Warsaw 1994, 1995, 1996, and 1997.
2. NBP Report on the Realisation of the Monetary Policy, Warsaw 1996.
3. NBP Yearly Report, Warsaw 1996, 1997.