



# CESEE Bank Lending Survey

H2-2013





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The mission of the EIB's Economics Department is to provide economic analyses and studies to support the Bank in its operations and in its positioning, strategy and policy. The Department, a team of 30 economists and assistants, is headed by Debora Revoltella, Director of Economics.

## **CESEE Bank Lending Survey – H2 2013**

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The EIB wishes to thank the banks for their contribution and participation in the survey. Last but not least, it wishes to thank all Vienna Initiative members and Steering Committee members for their comments and support in developing the survey.

### **Disclaimer**

The views expressed in this document are those of the authors and do not necessarily reflect the position of the EIB or its shareholders. The authors and administrators of the survey made an effort to ensure the quality of the analysis, representativeness of the survey and reliability of market players' assessment and expectations. However, they are not responsible either for any errors and omissions in the responses to the survey or for any consequences that these may have.

# Table of Contents

Survey Description.....	7
Regional Overview.....	11
Albania.....	21
Bosnia-Herzegovina.....	29
Bulgaria.....	37
Czech Republic.....	45
Croatia.....	53
Hungary.....	61
Poland.....	69
Romania.....	77
Serbia.....	85
Slovakia.....	93
The Questionnaire.....	101

# FOREWORD

The last fifteen years have been full of significant developments for the banking sector in Central Europe and South Eastern Europe (CESEE). Benefiting from widespread foreign, mostly European, ownership, the banking sector of the region has been growing fast until 2008. A large number of international banks has invested in the region and contributed to an inflow of capital and new banking practices. Lending growth has been extraordinarily high at the beginning of this century, primarily fuelled by easy access of domestic banks to international funding and supported by vast investment opportunities. This lending growth has contributed to closing the region's financial penetration gap. On the flipside, it has led to the building up of imbalances and risks. The global financial crisis and EU sovereign debt crisis have put a halt to the credit boom. Today, lending growth in the region is stagnating owing to subdued demand and more prudent lending standards. While dealing with a restructuring of their balance sheets, banks still recognise a market potential but they are devising a more balanced banking model.

International banks active in CESEE have remained committed to the region throughout the crisis. Amid increased scarcity of capital and funding, the international banks' CESEE engagement remains profitable. The Vienna Initiative has been crucial at the peak of the crisis. International banks active in the region have been formally committed to providing capital and funding in case of needs to their subsidiaries, thus averting the potential of a disordered deleveraging. Today, as the first acute phase of the crisis has faded, the Vienna Initiative is evolving into VI 2.0, an effective coordination platform, to monitor and address the regional challenges of financial intermediation from multiple angles.

A better understanding of the constraints affecting CESEE banks' ability to play their role as intermediaries is fundamental. The VI 2.0 - via the Deleveraging and Credit Monitor - has been monitoring the international banks deleveraging process and related constraints to lending activity since the second quarter of 2012. In this context, the EIB has developed the CESEE bank lending survey, administered on a semi-annual basis since October 2012. Taking into account the unique nature of the regional banking sector, the survey investigates the strategies of international banks active in CESEE as well as the market conditions and market expectations as perceived by the local subsidiaries / local banks. The survey aims at disentangling the effects of demand and supply factors on credit developments, in addition to the impact of national and international elements on demand and supply conditions. It looks at conditions on the aggregate level and for several segments of the market. It complements domestic bank lending surveys by adding comparability across countries and by exploring the unique features of the parent/subsidiary nexus in the region.

This report presents the results of the EIB CESEE bank lending survey at regional and country level. Western banks remain committed to the CESEE region but are differentiating more across countries. This could create challenges in those markets seen as lacking potential. Supply-side and demand-side factors are both responsible for stagnating lending growth. The former could become more binding in case of a faster recovery in credit demand. High non-performing loans (NPLs) and regulatory uncertainty are among the main constraining factors to supply conditions. Even if they are addressed, the more fundamental question remains whether a meaningful credit recovery in the region can be funded based on the banks' new strategies relying more on local sources.

A handwritten signature in black ink, consisting of a large, stylized 'D' followed by a series of loops and a final flourish.

*Debora Revoltella*  
Director of the Economics Department  
European Investment Bank



# Survey Description

## Key statistics

- Developed in the context of the Vienna Initiative 2.0, as an additional instrument to monitor:
  - cross-border banks deleveraging from CESEE
  - the determinants / constraints influencing credit growth in CESEE
  - market expectations of future developments
- Target groups: international banks active in CESEE interviewed at the Group level and local banks / local subsidiaries of these groups interviewed at the single entity level:
  - 14 international groups
  - 90 local banks / subsidiaries
- Average coverage: 50% of the regional banking assets
- Countries covered: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine<sup>1</sup>
- Periodicity: semi-annual (Sept-Oct and Mar-Apr). The first run of the survey was in October 2012

## The CESEE Bank Lending Survey – technical note

The CESEE Bank Lending Survey has been developed in the context of the Vienna Initiative 2.0. The survey has been endorsed by the various institutions participating in the VI 2.0, as an instrument to:

- contribute to the monitoring of cross-border banking activities and deleveraging in CESEE
- better understand the determinants / constraints influencing credit growth in CESEE
- to gain some forward-looking insights into cross-border banks' strategies and market expectations regarding local financial conditions.

Taking into account the unique nature of the regional banking sector, with a large share of banks being foreign-owned, the survey investigates both the strategies of international banks active in CESEE and the market conditions and market expectations as perceived by the local subsidiaries / local banks. To do so, the survey is addressed to the major international banks active in CESEE and to their

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<sup>1</sup> Details for Macedonia, Slovenia and Ukraine are not presented on a stand-alone basis, due to the relatively low coverage in terms of market share and/or number of banks.

subsidiaries in the region. At the same time, to gain a full understanding of local market conditions, efforts have been made to also include in the survey those domestic players which have relevance in a specific local market.

Given these features, the survey is a unique instrument for monitoring banking sector trends and challenges in CESEE. It complements domestic bank lending surveys by adding the value of comparability across countries and the unique feature of specifically addressing the parent/subsidiary nexus. It also complements information derived from BIS data concerning cross-border banks' exposure.

The survey is administrated by the European Investment Bank, under a confidentiality agreement with the individual participating banks. It is addressed to senior officials of the banks involved and is conducted on a semi-annual basis in February/March and September. The first run of the survey was carried out in September/October 2012. Most of the questions have a backward and a forward-looking component covering the six months before and expectations over the following six months.

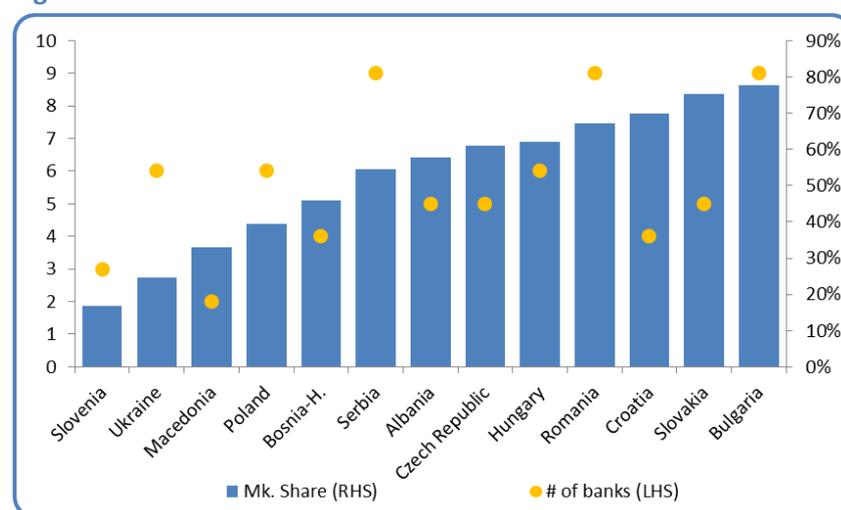
In terms of coverage, the last run of the survey involved 14 international groups active in CESEE and 90 local subsidiaries/independent domestic players. The survey is highly representative of international groups active in CESEE. It is also representative of local market conditions, as it relates on average to 50% of local banking assets.

The countries currently included in the survey are: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine. The coverage varies by country – (Figure 1) presents the percentage of assets covered in each country and number of banks included.

The detailed survey questionnaire is contained in the annex. The survey is divided into two sections, the first addressed to

international groups, the second to domestic banks/subsidiaries of international groups.

**Figure 1: Market share and number of banks**



Source : EIB – CESEE Bank Lending Survey

The first section investigates international banks' strategies, restructuring plans, access to funding and deleveraging at the global and group level. It includes questions on the long-term strategic approaches adopted for CESEE, the level of profitability of CESEE operations and the groups' exposure to the CESEE region.

The second part of the survey is addressed to domestic/subsidiary banks operating in the CESEE region and investigates the main determinants of local banking conditions.

Among the supply conditions, attention is given to credit standards and credit terms and conditions, as well as to the various factors that may be responsible for changes to them. Credit standards are the internal guidelines or criteria that guide a bank's loan policy. The terms and conditions of a loan refer to the specific obligations included in a loan contract, such as the interest rate, collateral requirements and maturity. The survey includes a set of questions assessing the underlying factors affecting the bank's credit standards. Factors are clustered into domestic and international components. Examples of local factors are the local market outlook, local bank outlook and local bank access to funding, changes in local regulation, local bank capital constraints and local bank NPLs. Among the international factors, the survey includes the group outlook and global market outlook but also EU regulation, group capital constraints and group NPLs.

Demand for loans is also investigated in terms of loan applications. Among the elements that may affect loan demand, various factors related to financing needs both in the household and enterprise sectors are examined. For the enterprise sector, the survey includes fixed investments, inventories and working capital, corporate restructuring and debt restructuring. For the household sector, the survey considers the effects of housing market prospects, consumer confidence and non-housing related consumption expenditure.

Most of the questions concerning demand and supply are classified according to two borrower sectors: households and enterprises. Further breakdowns are also considered. For example, the survey also investigates developments in the SME and large corporate segments as well as different types of credit lines and loans in the household sector (e.g. consumer credit and loans for house purchases). In addition, maturity and currency dimensions are also explored.

The survey includes specific questions on credit quality and funding conditions of banks in CESEE. Specifically it includes questions on non-performing loans (NPLs) ratio developments, providing a breakdown between the retail and corporate subsectors. The survey investigates aggregate access to funding as well as funding conditions for an extensive list of funding sources. These include intra-group finding, retail and corporate funding, funding from international financial institutions (IFIs), wholesale funding, etc.

Most of the responses are illustrated in the following chapters of this report as net percentages – i.e. the percentage of positives minus negatives (excluding the neutral responses). For example, the percentage difference between responses reporting an increase in demand for loans and responses reporting a decrease – irrespective of the intensity of the increase or decrease. This is an oft-cited indicator which has a barometer function. It helps to detect potential drifts and tendencies in the panel of respondents. Answers are not weighted by the size of the participating banks.

# Regional Overview

## 1. Key Messages - *International banks signal a more selective approach to CESEE and some improvement in their expectations*

### International Groups' views:

- **Global Strategies:** the restructuring process continues at the group level for the cross-border banks operating in the CESEE region. Some banks are starting to consider sales of branches or assets, while a declining number is likely to raise capital on the market. 40% of the groups are still expected to deleverage at the global level, down from 70% in the previous version of the survey.
- **Commitment to CESEE:** Cross-border banks active in CESEE remain committed to the region. They are, however, becoming more selective in terms of country strategies: some 30% of banks suggest that they will selectively reduce their exposure in CESEE, while at the same time more than 45% express an interest in expanding or selectively expanding.

### Subsidiaries' / local banks' views:

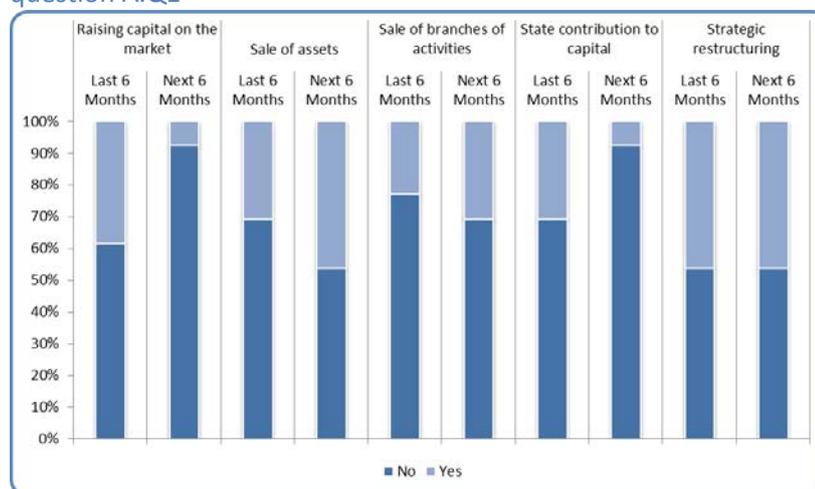
- Local banks and subsidiaries operating in CESEE report that **both demand and supply factors are behind sluggish credit growth**. They also note a progressive relaxation of constraints. Aggregate demand is expected to trend positively and aggregate supply conditions to take a neutral stance over the next six months.
- **Credit supply** is still reported as being tight. NPLs and regulation, both at the national and international level, remain the most constraining factors affecting supply. Access to funding does not appear to be a limiting factor at this stage. The global and local market outlooks, as well as group and local bank capital constraints, are all mentioned as having a negative effect on credit conditions.
- **Demand for loans** improved, but demand is mostly associated with debt restructuring and working capital. Consumer confidence and non-housing related expenditures are also expected to support a rebound in demand.
- **Access to funding:** local banks and subsidiaries do not signal in funding problems. Although access to funding seems to be easing only for short-term maturities, while there is limited access to long-term funding, indicating a potential gap. The rebalancing of the local banks' funding model implies that most of the funding comes from deposits (retail and corporate) and IFIs. With domestic funding progressively substituting for international and intra-group funding, the maturity structure of the liability side of banks is challenged. The question remains whether funding issues will re-emerge, once demand for credit strengthens.
- **NPL figures** deteriorated in the last six months, and credit quality remains the key concern for banks in the region. The peak in NPL ratios has not been reached yet, but the speed of deterioration has been decreasing over time.

## 2. Results from the Bank Lending Survey:

### 2.1 Parent banks<sup>2</sup>

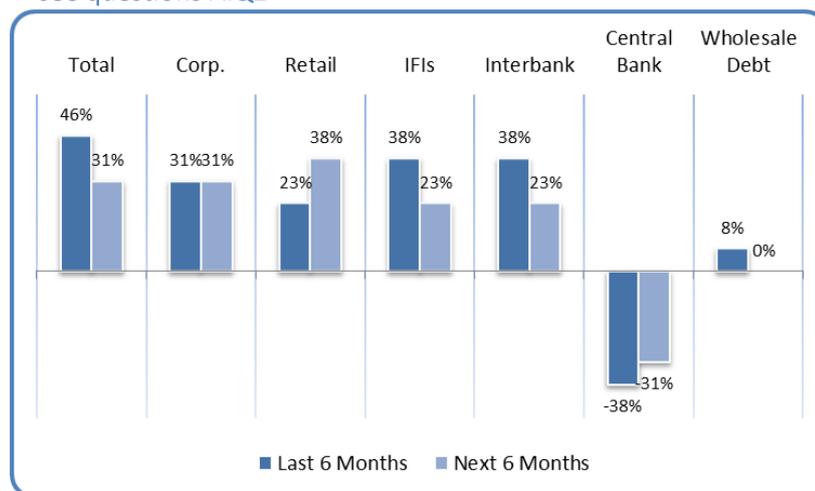
1. **The strategic restructuring process is continuing at the group level, while deleveraging at the global level is expected to decelerate.** Cross-border banking groups active in CESEE have engaged and expect to continue to engage in various forms of strategic restructuring with the aim of improving their overall capitalisation and strengthening their core activities. So far, banks have mostly engaged in operations to raise capital on the market. Over the next six months more action is expected from sales of assets and/or branches, with a noticeable decrease in capital market activities and State contributions. Deleveraging at the global level will still be a relevant element for some 40% of the banking groups in the next few months, though the percentage is declining, down from an expected 70% in the previous round of the survey. This provides an improved global picture. Funding

Figure 1. Strategic operations to increase capital ratio – see question A.Q1



Source : EIB – CESEE Bank Lending Survey

Figure 2 : Access to markets – funding conditions – net percentages; positive values indicate an increased access to funding – see questions A.Q2



Source : EIB – CESEE Bank Lending Survey

<sup>2</sup> In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a specific country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

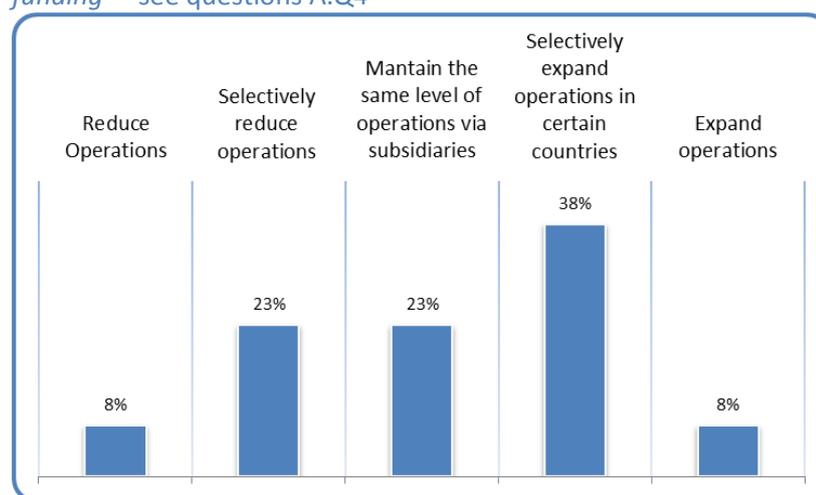
constraints remain on an easing trend, mostly due to easing in retail and corporate deposits, as well as funding from IFIs. Looking at the next six months, funding conditions are expected to remain fairly relaxed, albeit at marginally lower levels. Access to wholesale debt remains neutral, while banks report fading central bank funding being replaced by an easing in the use of the interbank market. This signals a continued improvement of conditions in the banking system at the global level.

2. **Cross-border banks generally remain committed to CESEE. They reiterate, however, that they have become more selective in their regional strategies (Figure 3), differentiating more between countries and possibly considering a reorientation**

**of their business in some of the markets.**

Operations in CESEE remain a key component of the global strategy for the majority of the international groups operating in the region.

**Figure 3 : Group-level Long-term Strategies (beyond 12 months) – net percentages; positive values indicate an increased access to funding – see questions A.Q4**



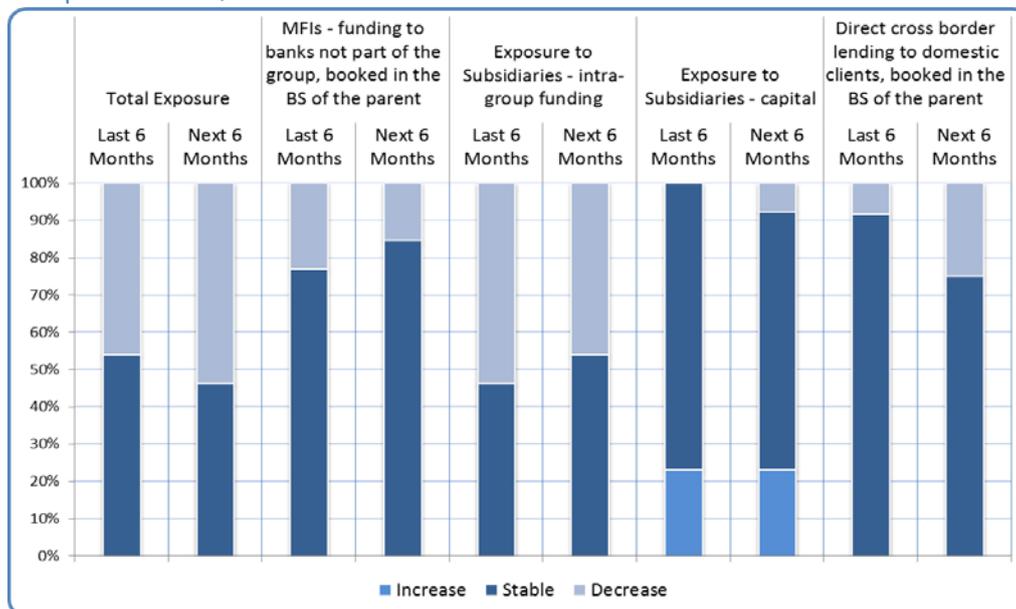
Source : EIB – CESEE Bank Lending Survey

The CESEE strategy also remains profitable. CESEE operations deliver higher profitability in terms of return on assets than overall group operations for slightly more than 50% of the groups. As opposed to the previous round of the survey, cross-border banking groups are becoming even more selective in terms of countries of operations. Roughly 46% of the groups expect to somewhat expand operations in the future whilst roughly 31% may reduce operations in a number of countries. All in all, roughly 30% of subsidiaries are considered to be weakly positioned for the proper exploitation of local market opportunities or are located in markets that are assessed as being of low potential for the future. This may hint to the possibility of forecasting opportunistic M&A activities, asset swaps and market consolidation going forward.

3. **Slightly less than 50% of the groups signal that they have been reducing their total exposure to the region and around 50% of the groups expect to continue to do so over the next six months. A rebalancing of sources is expected, whereby increases in capital exposures partially compensate for decreases in intra-group funding.** Most of the reduction of exposure is expected to happen via intra-group funding to subsidiaries. The amount of intra-group funding needed to sustain local business activities was probably also directly influenced

by weak local demand. All in all, some groups expect to increase capital exposure to subsidiaries.

**Figure 4 : Groups total exposure to CESEE – Cross border operations to CESEE countries - net percentages; positive values indicate an increased access to funding – see questions A.Q7**

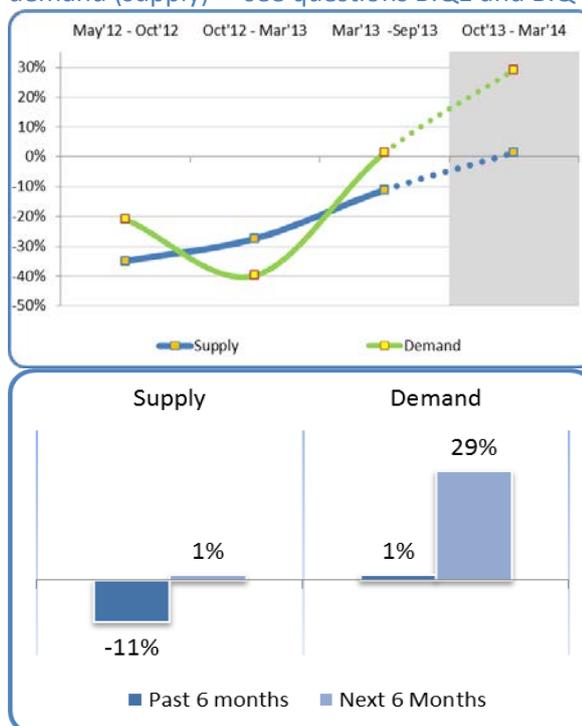


Source : EIB – CESEE Bank Lending Survey

## 2.2 Local banks / Subsidiaries

- CESEE banks / subsidiaries report a relaxation of constraints affecting both credit demand and supply, with further improvements expected in the next six months. In the last six months demand for loans and credit lines has improved, mostly due to demand for debt restructuring and working capital. Supply conditions were slightly tightened, although improved considerably compared to the levels observed in the previous round of the survey. Across the client spectrum, supply conditions (credit standards) have been on an easing trend for household lending

**Figure 5 : Total Supply and Demand, past and expected development – net percentages; positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q4**

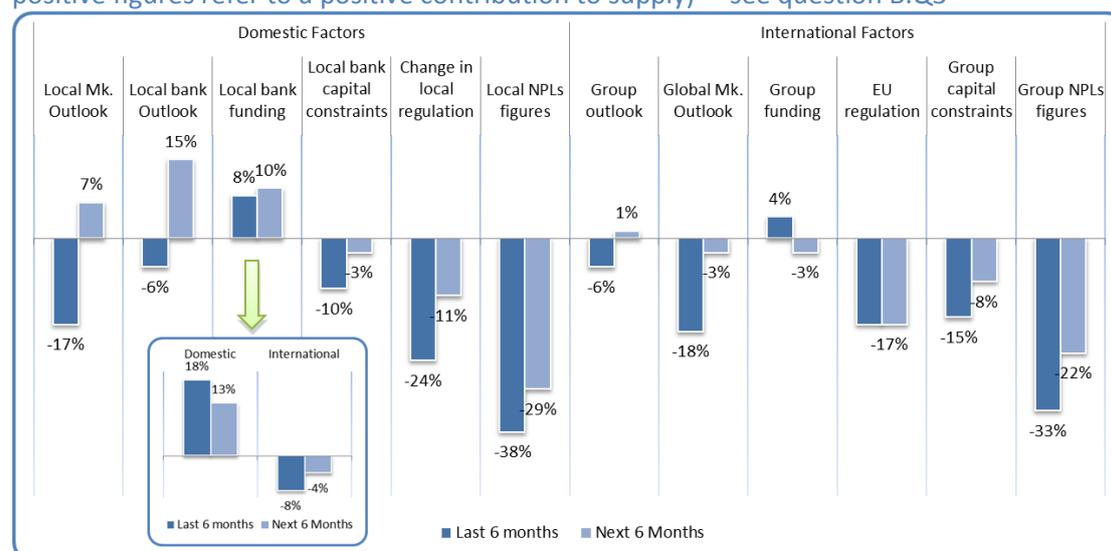


Source : EIB – CESEE Bank Lending Survey

(especially consumer credit), but still on a tightening trend for the corporate sector (including SMEs). Going forward, banks expect a pickup in credit demand, and a balancing of supply conditions. On top of debt restructuring and working capital, consumer confidence and non-housing related expenditures are also expected to contribute positively to demand (see Annex A.1). Indeed, household demand for credit (see Annex A.2) is expected to experience a more robust recovery than corporate (and SME) demand for credit. Aggregate supply conditions are expected to become more balanced, with an easing phase for household clients (see Annex A.3) and still some mild tightening for corporates as well as loans for house purchases. The terms and conditions of the loan supply, especially the size and maturity of the average loan, are expected to ease slightly in the consumer segment of the market whilst remaining in a tightening phase in the other market segments, particularly in the corporate sector.

2. **NPLs and the uncertainty of the regulatory environment, both on the national and international level, remain the most constraining factors affecting supply.** Both international and domestic factors play a role in tightening supply conditions (Figure 6). As in the previous rounds of the survey, access to funding does not appear to be a constraining factor for supply where domestic funding compensates for declining international funding. The global market outlook, group capital constraints, EU regulation and group-wide NPL levels are all referred to as having a negative effect on credit conditions. On top of those, the local market outlook, changes in local regulation, local bank capital constraints, and NPLs at the subsidiary level are the key constraining factors domestically.

**Figure 6. Factors contributing to supply conditions (credit standards) – (net percentage; positive figures refer to a positive contribution to supply) – see question B.Q3**



Source : EIB – CESEE Bank Lending Survey

3. **In the context of subdued demand for credit, CESEE funding conditions remain fairly favourable.** Easy access to retail and corporate deposits and increased funding from IFIs support a positive outlook (Figure 7). However, it is noticeable that CESEE subsidiaries expect the easing of access to funding only in respect of

short-term maturities. There is still no substantial easing for long-term funding, signalling a potential gap, also in view of the limited development of local capital markets. Access to international and intra-group funding is still indicated as being on a decreasing trend. This is also captured via a decrease in intra-group lending exposures to the CESEE region (see Figure 4).

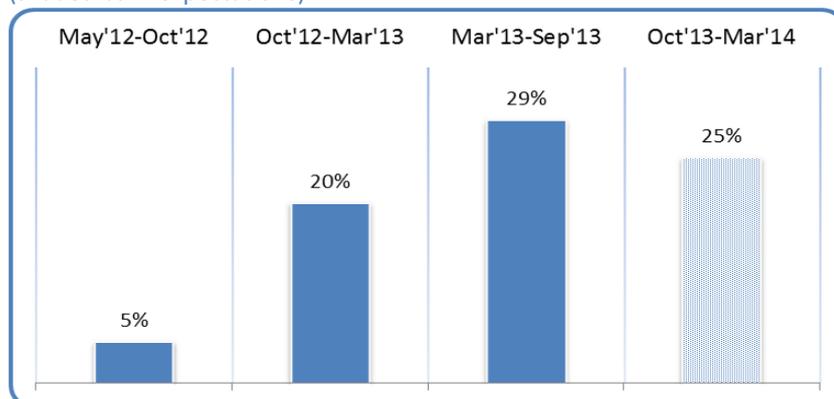
**4. Credit quality remains the key concern for banks in the region.**

According to the survey results, the peak in NPL ratios has not been reached yet, but the speed of deterioration is expected to decrease over time (Figure 8). In absolute terms, roughly 40% of the banks continue to expect an increase in

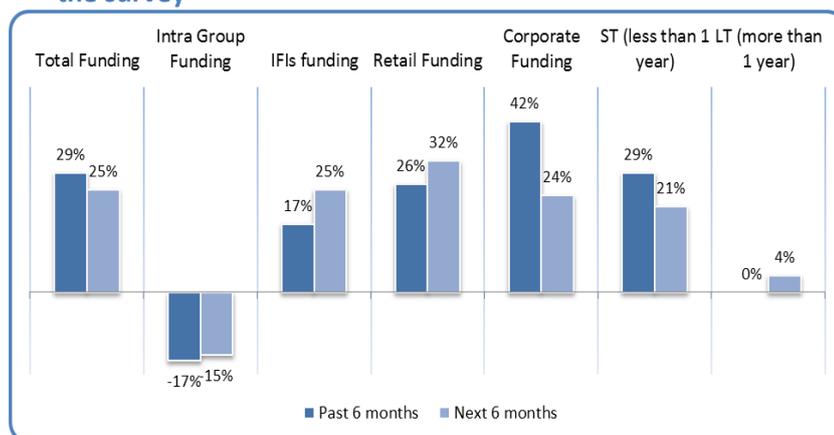
NPLs over the next six months. This is a significant reduction from 60% of subsidiaries indicating an increase over the past six months. All in all, there has been an increase in the subsidiaries indicating a stabilisation of the NPL ratio. This suggests that a potential saddle point may have been reached for an increased number of subsidiary banks operating in CESEE. Interestingly, NPL ratios in the corporate segment are expected to increase much less than retail sector NPLs.

**Figure 7. Access to funding by CESEE subsidiaries – (net percentage; positive figures refer to an easing access to funding) – see question B.Q3**

**A. Trend in total funding conditions - (shaded bar - expectations)**



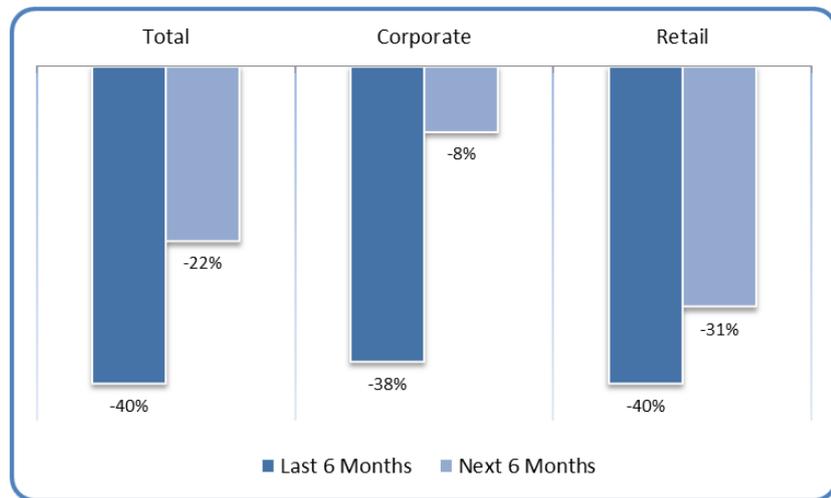
**B. Breakdown of funding conditions – results from latest draw of the survey**



Source : EIB – CESEE Bank Lending Survey

**Figure 8: Non-Performing Loan ratios – (net percentage; negative figures indicate increasing NPL ratios) – see question B.Q6**

5. Overall the survey points to some common challenges across the region. Swift NPL resolution remains a challenge, with concerns



Source : EIB – CESEE Bank Lending Survey

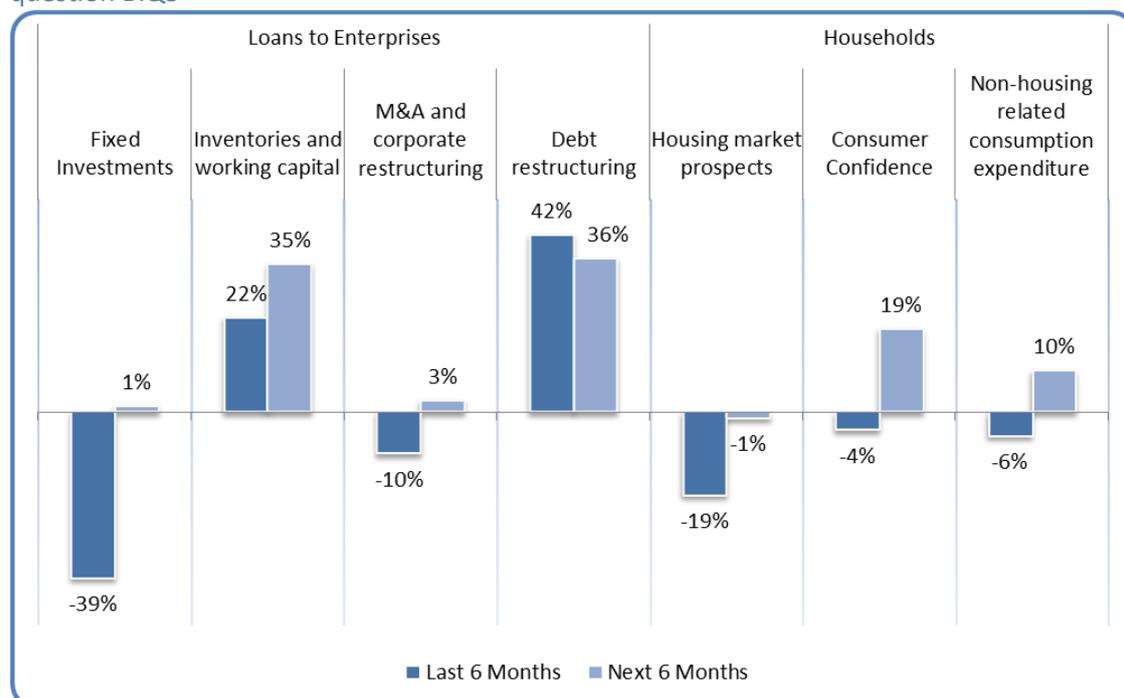
for credit quality pointing to issues in terms of both stocks and flows. The survey reveals that funding is not an issue at the current level of demand. However, in the medium term, opening up supplementary channels for financing productive investment to support the CESEE convergence process might become an issue.

### 3. Annex

#### 3.1 Supporting Charts

##### A.1 Factors affecting demand for credit

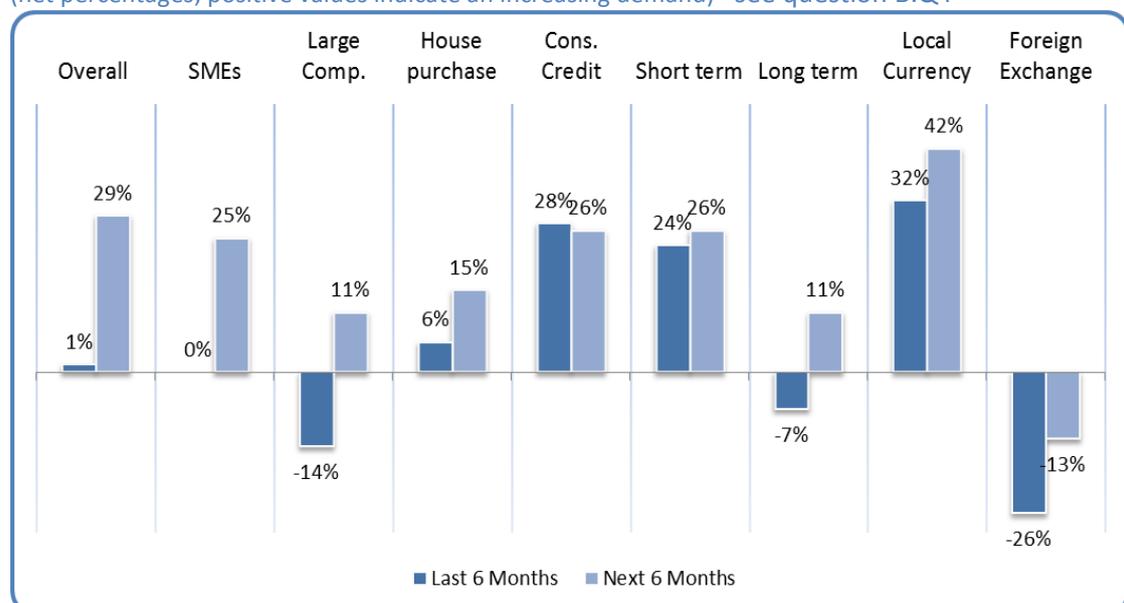
(net percentages; positive values indicate a positive contribution to demand conditions) - see question B.Q5



Source : EIB – CESEE Bank Lending Survey

##### A.2 Demand for loans or credit lines – clients breakdown

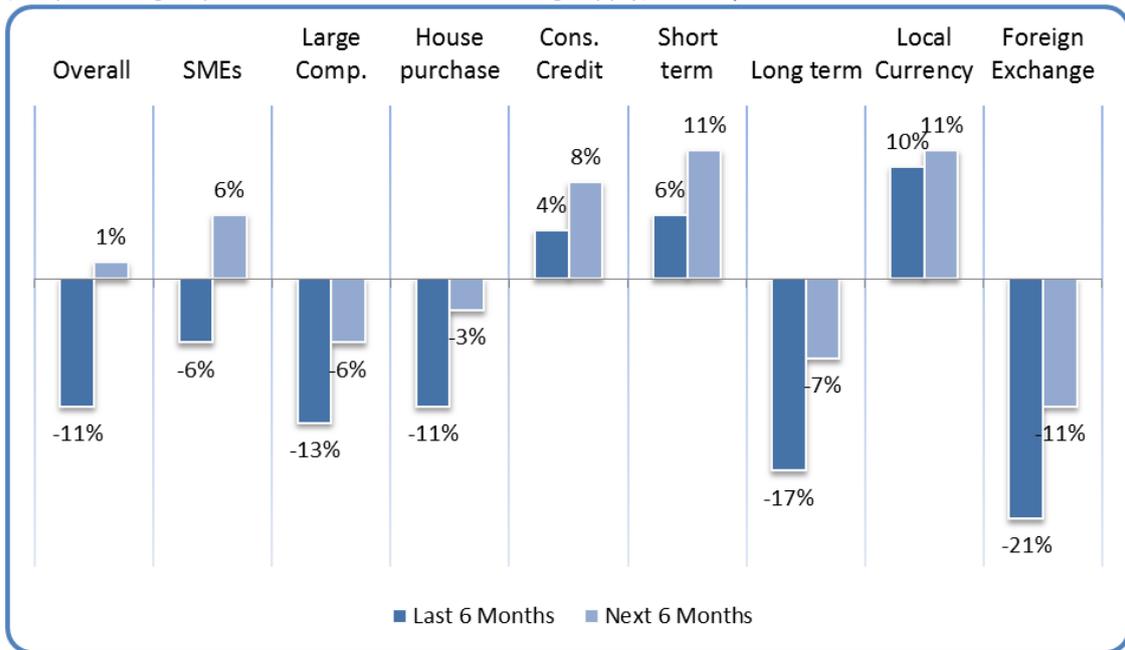
(net percentages; positive values indicate an increasing demand) - see question B.Q4



Source : EIB – CESEE Bank Lending Survey

**A.3 Credit supply (credit standards) – clients breakdown**

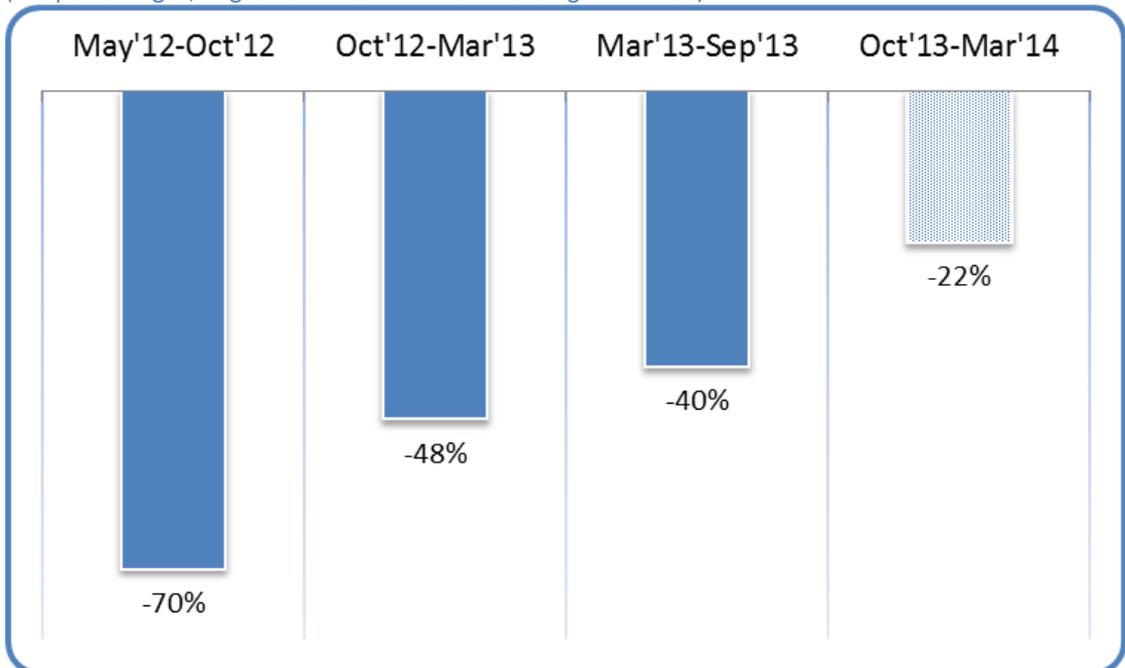
(net percentages; positive values indicate an easing supply) – see question B.Q1



Source : EIB – CESEE Bank Lending Survey

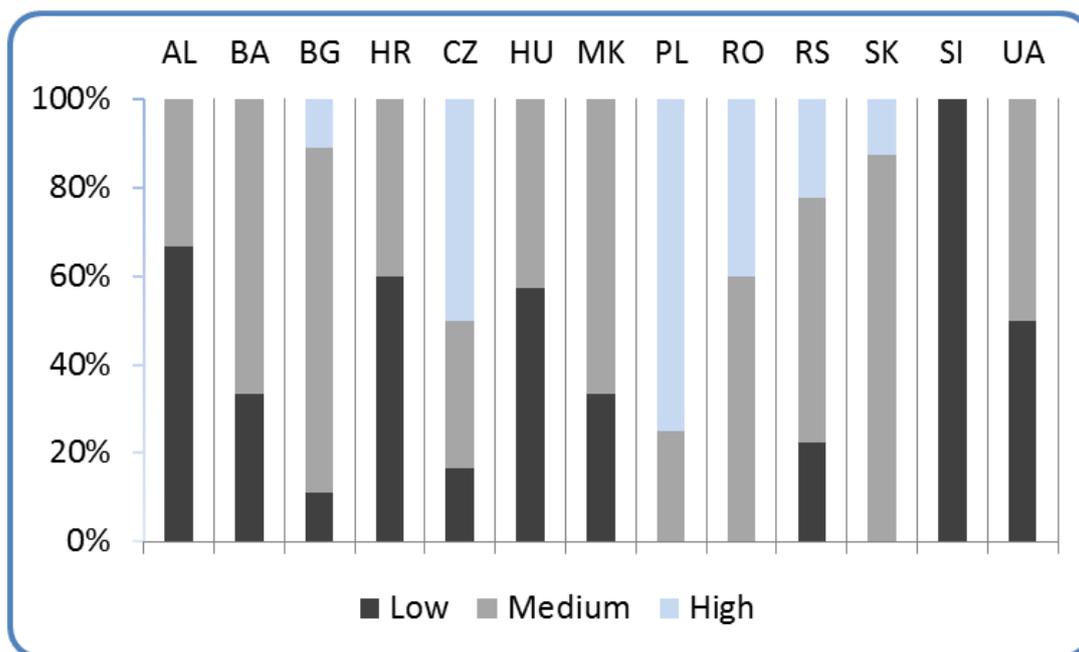
**A.4 NPL trend line**

(net percentages; negative values indicate increasing NPL ratios)



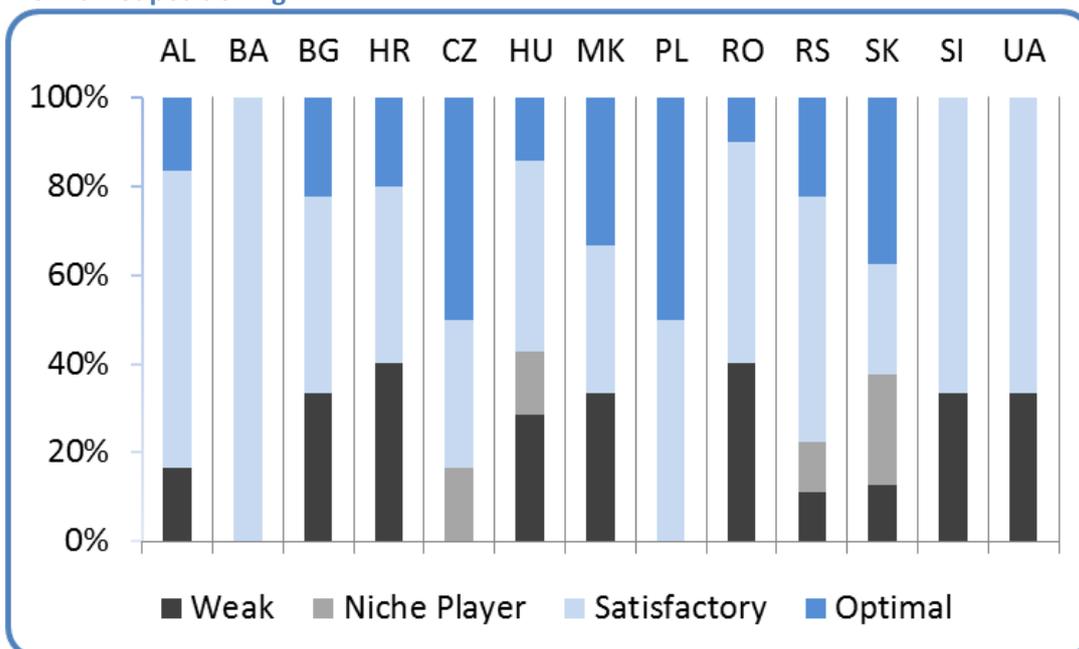
Source : EIB – CESEE Bank Lending Survey

### A.5 Market potential



Source : EIB – CESEE Bank Lending Survey

### A.6 Market positioning



Source : EIB – CESEE Bank Lending Survey

# Albania

## 1. Key statistics<sup>3</sup>

- Number of banks/subsidiaries participating in the survey: five
- Approximate share of assets covered (as percentage of total assets): roughly 60%
- Current level of NPLs as percentage of total loans: 24.1% - Q2:2013
- Latest credit growth – yoy: 0.7% - Q2: 2013
- Loan-to-deposit ratio: roughly 60%
- CAR: 17% - Q2:2013

## 2. Key Messages - *banks record credit quality as their key concern*

### International Groups' views:

- **Group Strategies:** Cross-border banks operating in Albania present a relatively more negative view than the overall group of international banks included in the survey in terms of both group deleveraging and potential sales of assets.
- **Group assessment of positioning and market potential:** 40% of the Groups operating in Albania remain committed to the region. These Groups report a relatively more negative view than the whole set of Groups included in the survey in terms of CESEE profitability, with only 20% recording higher or equal profitability in the CESEE region today compared to overall group profitability. All in all, 70% of parent banks operating in Albania ascribe low market potential to country. Still they tend to be satisfied with their positioning in the market.

### Subsidiaries' views:

- **Subsidiaries** operating in Albania report that both **sub-optimal demand and tight supply** factors are behind sluggish credit growth.
- **Credit supply** is reported as tight. However, local subsidiaries expect some improvement in the near future. Credit quality, at the domestic and group level, is reported as the key factor constraining credit supply.
- **Demand for loans** has been moderate. Subsidiaries generally expect a rebound in demand for credit across different products and maturities over the next six months.
- **Access to funding** in the context of very moderate lending growth, subsidiaries do not signal funding issues, with most of the funding coming from local sources, primarily retail and corporate deposits.
- **NPL figures** deteriorated in the last six months, but are not expected to continue to deteriorate further, thereby signalling a tentative bottoming-out of the sharp deterioration in asset quality. Given the high level of NPLs, credit quality remains a key concern.

<sup>3</sup> Sources: The Bank of Albania, Unicredit/Bank Austria and Raiffeisen Research

### 3. Relevant macroeconomic and banking conditions<sup>4</sup>

- **Growth:** Annual growth in 2012 stood at 1.6%, consistently lower than pre-crisis levels (e.g. 7.5% growth in 2008) and half the 2010-2011 average growth figure. In the first two quarters of 2013 real GDP decelerated even further and GDP is expected to grow at even more moderate pace. Public sector expenditure has been the main driver of aggregate demand whilst private sector demand remained sluggish on the whole.
- **Unemployment:** Mixed picture. Unemployment decreased marginally to 12.8% in 2012. There was also a slight improvement on the employment side, up 1.5%. However, the labour force survey signals a deteriorating trend in the first quarter of 2013, with unemployment at 14.5%.
- **Inflation:** Headline inflation was 1.2% in August 2013. Inflation decreased substantially over the last year on the back of weak demand-side pressures.
- **External and public sector balance:** The current account is negative at roughly 10% of GDP, on a marginally improving trend compared to previous years. Public debt has been on a moderate increasing path, and stood at 64.1% of GDP in the second quarter of 2013. The fiscal deficit is increasing, with a 2.8% deficit reported in the second quarter of 2013.
- **Banking sector:** Aggregate profitability was marginally positive in H1 2012 and above 2011 levels. However, it has been on average well below average pre-crisis levels. The level of capitalisation for the entire banking sector (CAR 17% Q2:2013) exceeds the required minimum. NPLs have been increasing rather sharply and reached levels of above 24.4% in 2013 starting from 4.7% in 2008. The loan-to-deposit ratio stood at roughly 60% in 2011. Bank lending continued to slow down, registering annual growth of only 0.7% in the second quarter of 2013 (turning negative in August 2013, -1.3%) against a 9.2% yoy increase in the same period of the previous year. Growth in local deposits has been rather robust over the last three years. This has partially offset the reduction of cross-border assets allocated to Albania. All in all, over the last year the cross-border external position of BIS-reporting banks vis-à-vis other banks has been relatively stable in both gross and net terms.
- **Rating:** Albania is currently rated by Moody's (B1, stable) and S&P (B1, stable).

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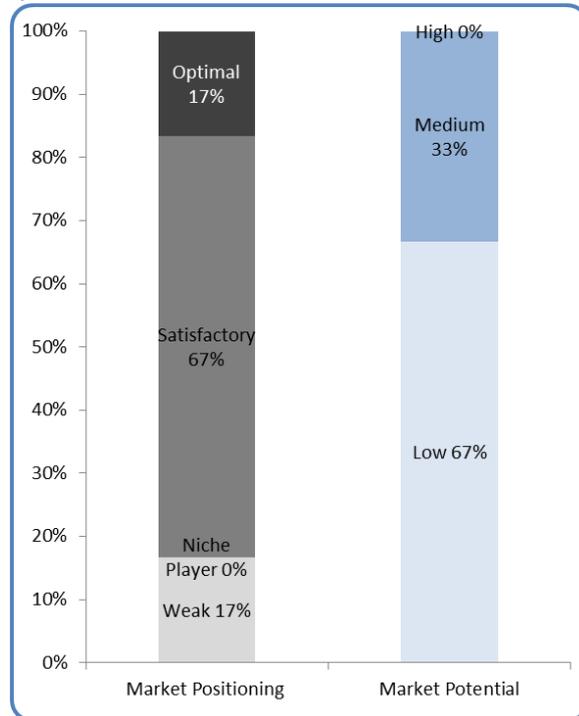
<sup>4</sup> Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

## 4. Results from the Bank Lending Survey:

### 4.1 Parent banks<sup>5</sup>

1. The parent banks operating in Albania tend to be slightly more negative than the overall sample of parent banks included in the survey. They report a higher propensity to engage in the sale of branches and assets and stronger expected deleveraging at the group level. 60% of the Groups indicate that intend to engage in sales of assets, against a roughly 30% for the whole sample of groups included in the survey. Roughly 60% of the parent banks operating in Albania expect further reductions in the loan-to-deposit ratio over the next six months at the group level, against 40% for the overall group of international banks.

**Figure 1. Market potential and positioning – see question A.Q11**



Source : EIB – CESEE Bank Lending Survey

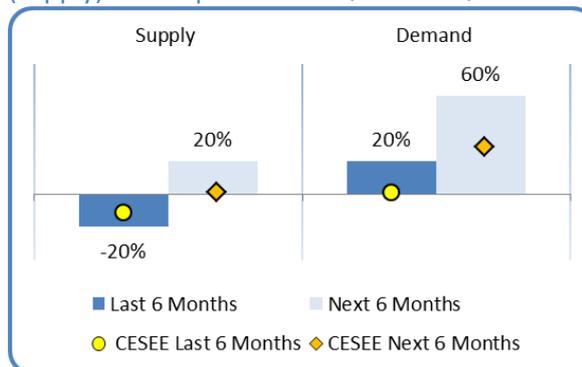
2. As their restructuring process continues, groups remain generally committed to the regional strategy. However, they are increasingly selective in their local strategies with more noticeable downscaling of operations. These parent banks also signal a lower profitability in the CESEE region (80% of respondents, to decline to 60% in the next six months) relative to their group profitability (measured in terms of return on assets). All in all, parent banks operating in Albania seem to be satisfied with their positioning in the market. However, a subset of banks operating in Albania rates the potential of the market in the medium term sub-optimal (Figure 1); roughly 70% of the foreign groups assessed via this survey consider it a low potential market.

<sup>5</sup> In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a specific country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

## 4.2 Local banks' / subsidiaries'

1. In the context of positive but decelerating credit growth, subsidiaries operating in Albania report that supply factors and still sub-optimal demand conditions are primarily behind sluggish credit growth. Albanian banks have in the last six months experienced a tighter supply and a more relaxing demand than in the aggregate CESEE region. In the next six months, both supply and demand conditions are expected to ease more than in the aggregate CESEE region (Figure 2).

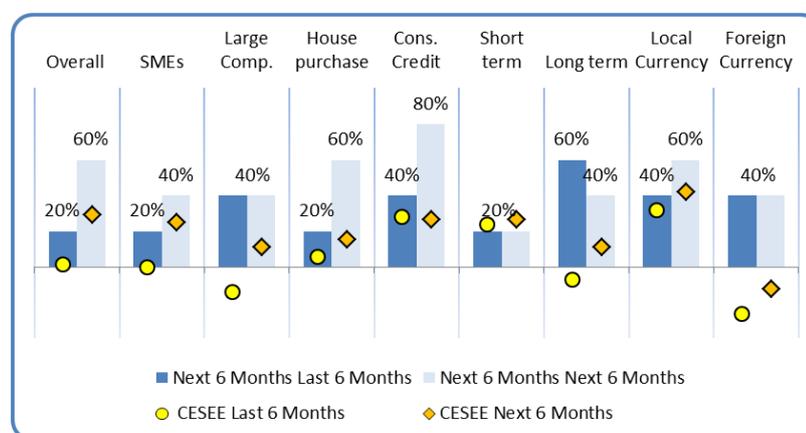
**Figure 2 : Credit Supply (credit standards) and Demand conditions – net percentages; positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q4**



Source : EIB – CESEE Bank Lending Survey

2. Demand for loans has been subdued across the board in CESEE and Albania is no exception. However, demand has been in a marginally increasing phase over the last six months, against the

**Figure 3. Demand components - (net percentages; positive figures refer to an increasing demand) – see question B.Q4**



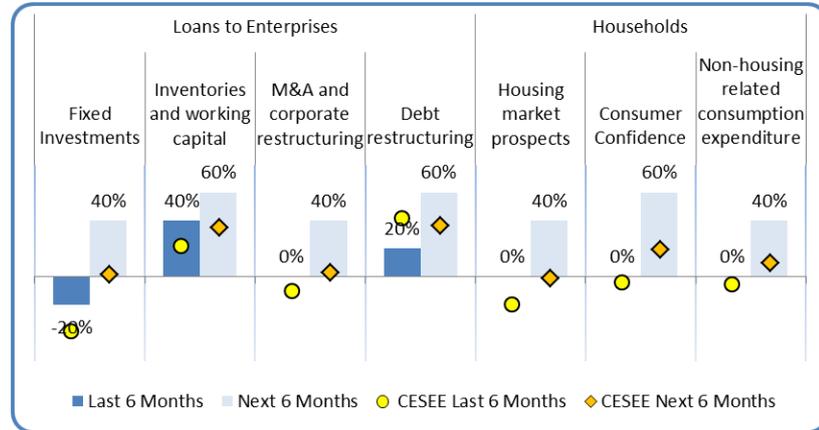
Source : EIB – CESEE Bank Lending Survey

3. Looking at the past six months, Figure 4 shows that mildly positive demand was derived primarily from working capital and debt restructuring whilst investments had a negative impact. This is very much in line with the aggregate regional messages. Looking ahead, demand is expected to rebound across the board and

to be more positive in all segments of the market than currently expected for the CESEE region.

4. Supply (credit standards) has been tight over the past six months. This has been primarily driven by tight credit standards for SMEs and consumer credit (Figure

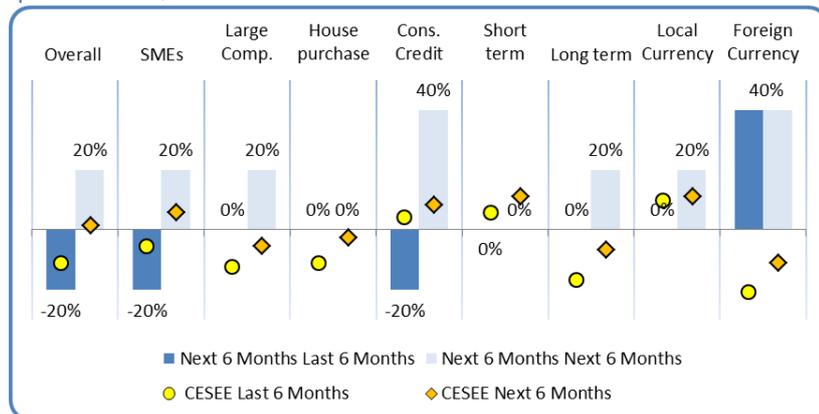
**Figure 4. Factors contributing to demand conditions – (net percentage; positive figures refer to a positive contribution to demand) – see question B.Q5**



Source : EIB – CESEE Bank Lending Survey

5). Aggregate credit standards are expected to ease over the next six months. Notably, net percentages on supply conditions for SMEs are expected to turn positive. A considerable easing of conditions is also expected for consumer credit. This is in line with the trend emerging from the aggregate CESEE results, albeit more pronounced in Albania.

**Figure 5. Supply components – credit standards (net percentages; positive figures refer to a positive contribution to supply) – see question B.Q1**



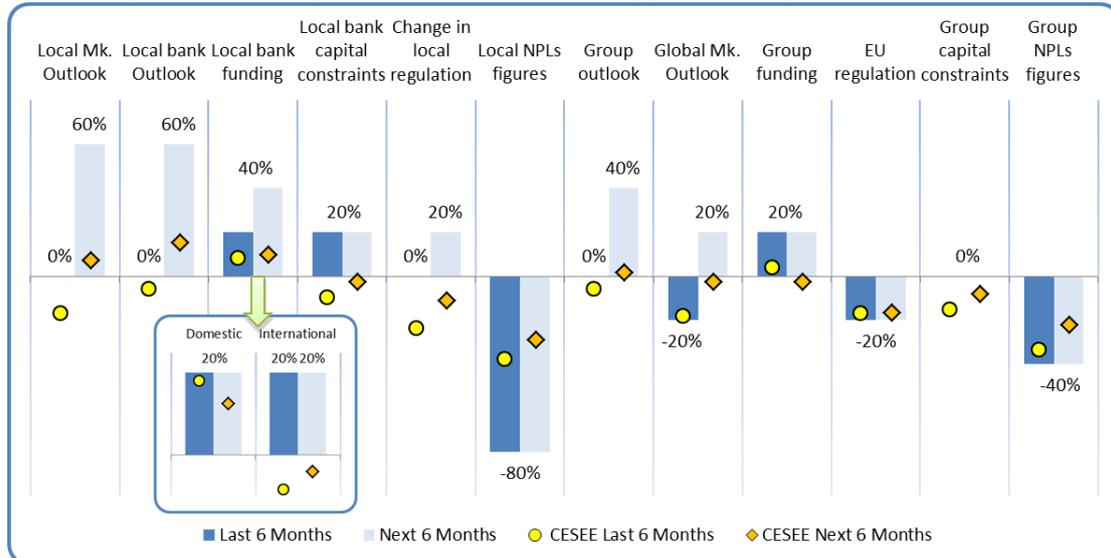
Source : EIB – CESEE Bank Lending Survey

are not expected to ease except for margins on credit extended to consumers.

- When SMEs are considered, the very same messages in terms of constraints on demand and supply seem to emerge. As a side message, collateral requirements are expected to become tighter in the SME segment of the market.
- Both international and domestic factors have played a role in determining supply conditions. The global market outlook, group-wide NPL levels and EU regulation (Figure 6) are mentioned as having had a clear negative effect on credit conditions over the past six months. This is well in line with responses for

the overall region. Looking at the local factors, NPL figures at the subsidiary level were the key constraining factor domestically, with almost all respondents

**Figure 6. Factors contributing to supply conditions (credit standards) – (net percentage; positive figures refer to a positive contribution to supply) – see question B.Q3**

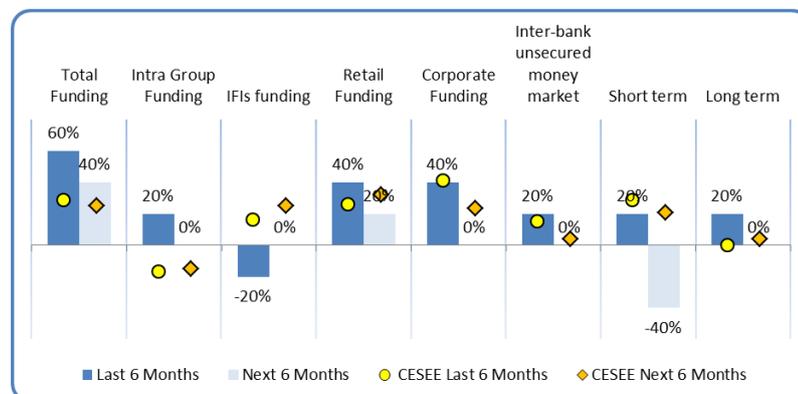


Source : EIB – CESEE Bank Lending Survey

referring to them. This goes hand-in-hand with the remarkably high NPL ratio and with its continuous increase over the last few months. Notably, access to funding for subsidiaries apparently had a mildly positive impact on credit supply – and thus an easing effect. Looking ahead, the same factors seem to continue to play the same role with an unchanged direction in their contribution. Notably, NPL figures continue to weigh heavily on the negative side.

7. At current levels of very sluggish credit growth, subsidiaries do not signal funding problems (Figure 7) with most of the funding coming from local sources, primarily retail and corporate funding (e.g. deposits). This is in line with the on-going funding conditions in the CESEE region.

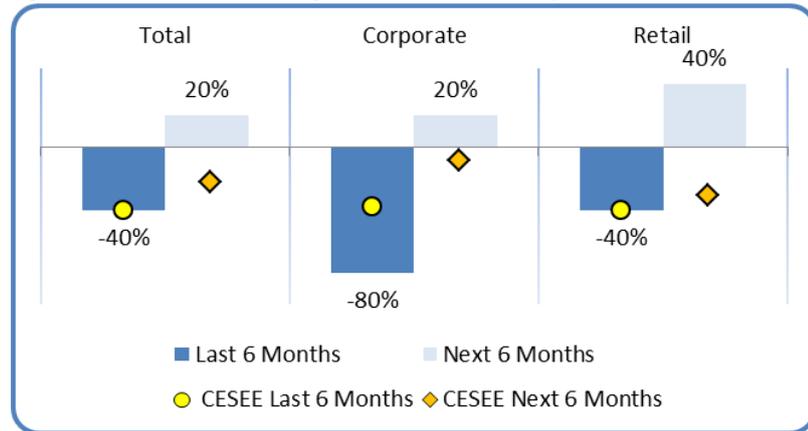
**Figure 7: Access to Funding – (net percentage; positive figures indicate increasing access to funding) – see question B.Q7**



Source : EIB – CESEE Bank Lending Survey

8. NPL figures continued to deteriorate in the last six months (figure 8). However, mild signs of improvement are expected looking ahead. Indeed the NPL ratio stabilised at the margin in

**Figure 8: Non-Performing Loan ratios – (net percentage; negative figures indicate increasing NPL ratios) – see question B.Q6**



Source : EIB – CESEE Bank Lending Survey

the last available hard data (i.e. first and second quarter 2013). NPL ratios are expected to start to decrease over the next six months in both the corporate and retail segments – therefore signalling a tentative bottoming-out.



# Bosnia-Herzegovina

## 1. Key statistics<sup>6</sup>

- Number of banks/subsidiaries participating in the survey: three
- Approximate share of assets covered (as percentage of total assets): roughly 46%
- Current level of NPLs as percentage of total loans: 13.5% - 2012
- Latest credit growth – yoy: 3.2% - Q2: 2013
- Loan-to-deposit ratio: 120% in 2012
- CAR: 17.2% - June 2013.

## 2. Key Messages - *declining demand and neutral supply*

### International Groups' views:

- **Group Strategies:** the restructuring process is continuing at the group level. Groups report basically no intentions to engage in the sale of branches and assets and expect a stabilisation in the loan-to deposit ratio.
- **Group assessment of positioning and market potential:** Parents operating in Bosnia-Herzegovina show a less evident propensity to downscale activities in CESEE compared to the average for the all groups. 67% record higher profitability in the CESEE region relative to their overall group profitability. Groups are comfortable with their market positioning in Bosnia-Herzegovina and 70% indicate a relatively stress-free rating of the market potential.

### Subsidiaries' / local banks' views:

- Subsidiaries operating in Bosnia-Herzegovina report that **heavily subdued demand** and still **tight supply conditions** are behind the sluggish credit growth.
- **Credit supply** is in a neutral phase and no improvement is expected. Some easing is anticipated in the consumer credit segment. Group outlook, capital constraints, and NPL levels as well as local market outlook, bank outlook and changes in regulation are identified as having a negative effect on credit conditions.
- **Demand for loans** has been very subdued. Subsidiaries generally do not expect any rebound in demand for credit across different products and maturities over the next six months.
- **Access to funding:** subsidiaries take a neutral stance on access to funding. Retail funding (e.g. deposits) and IFI funding are expected to exert a positive contribution. Conversely, corporate funding is in a negative phase.
- **NPL figures** did not deteriorate in the last six months, and are not expected to deteriorate further.

<sup>6</sup> Sources: The Central Bank of Bosnia and Herzegovina, Unicredit/Bank Austria and Raiffeisen Research

### 3. Relevant macroeconomic and banking conditions<sup>7</sup>

- **Weak growth:** Annual growth in 2012 slipped into negative territory at 0.9% while post-great recession recovery has been lacklustre. Deteriorating labour market conditions and falling real wages contributed to a decline in private consumption in 2012. In contrast, both government consumption and gross fixed capital formation increased slightly. A rebound of economic activity started in the first quarter of 2013 and continued in the following months; indeed the country's industrial production started to accelerate. Mild growth is expected in 2014, in the neighbourhood of 1% yoy.
- **Unemployment:** The annual Labour Force Survey conducted in April suggests that unemployment edged down to 27.6% in 2013 from 28% in the same period in 2012.
- **Inflation:** The CPI in August came down to 0%. Inflation has continued a downward trend, edging towards deflation. Inflation decreased substantially over the last year on the back of falling prices in the food and clothing industries.
- **External and public sector balance:** The current account is negative at roughly 6.8% of GDP in Q2:2013, on an improving trend compared to previous years. Public debt has been increasing rather fast, and stood at 60.7% of GDP in the second quarter of 2013. The fiscal deficit is increasing, with a 5.1% deficit reported in the second quarter of 2013.
- **Banking sector:** Aggregate profitability was marginally positive in 2012 and in line with 2011 levels. However, it has been on average well below pre-crisis levels. The level of capitalisation for the entire banking sector stood at a CAR 17.2% in June 2013 and was approximately at the same level as in the previous year. The ratio of non-performing loans relative to total loans reached 13.5% in 2012, up from 11.8% in 2011. The loan-to-deposit ratio stood at 120% in 2012. Bank lending continued to slow down, registering annual growth of only 3.2% in the second quarter of 2013 (decelerating further in August 2013, 1.8% yoy) against a 4.9% yoy increase in 2012. Growth in local deposits has been rather resilient. It accelerated from 3.8% in the first quarter to 4.4% in the second quarter of 2013 driven by robust increases in households' and firms' deposits. This may have partially offset the net reduction of cross-border assets allocated to Bosnia-Herzegovina. Over the past year the cross-border external position of BIS-reporting banks vis-à-vis other banks has been on a marginally negative trend in both gross and net terms.
- **Rating:** Bosnia is currently rated by Moody's (B3, stable) and S&P (B, stable).

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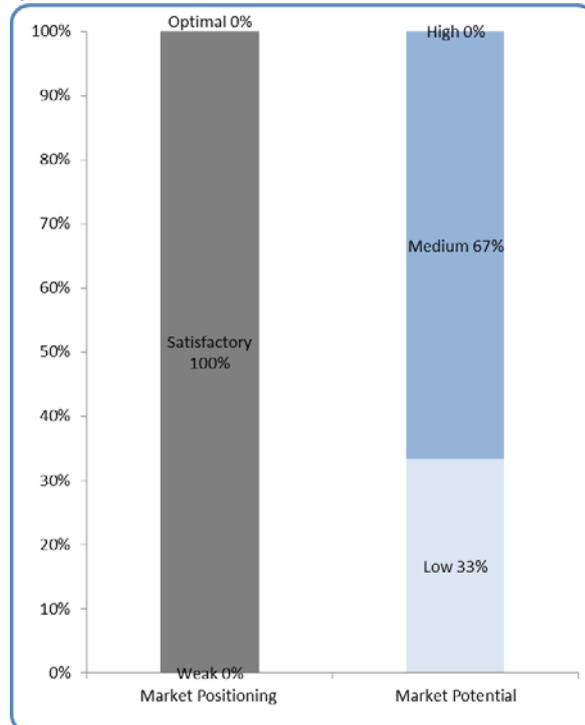
<sup>7</sup> Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

## 4. Results from the Bank Lending Survey:

### 4.1 Parent banks<sup>8</sup>

1. The view of parent banks operating in Bosnia-Herzegovina tends to be in line with that of the overall sample of parent banks operating in CESEE. However, these banks report basically no intentions to engage in the sale of branches and assets and more moderate expected deleveraging at the group level. Indeed, these parent banks have basically no expectation of further reductions in the loan-to-deposit ratio over the next six months at the group level, against 40% for the overall group of CESEE international banks.

**Figure 1. Market potential and positioning – see question A.Q11**



Source : EIB – CESEE Bank Lending Survey

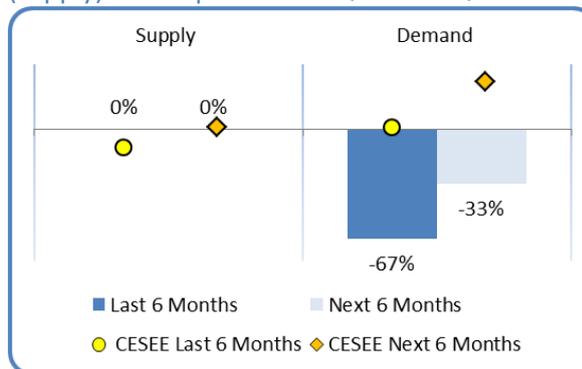
2. As their restructuring process continues, groups remain generally committed to their regional strategy. Parent banks with operations in Bosnia-Herzegovina signal a somewhat less evident deterioration of their profitability in the CESEE region relative to their group profitability (measured in terms of return on assets) and an evenly distributed propensity to engage in expansion as well as reductions of operations in the CESEE region. In detail, roughly 67% of parents report profitability of CESEE operations to be higher than groups operations, whilst 33% of parents report the same measure to be lower than group levels. All in all, parent banks operating in Bosnia-Herzegovina are satisfied with their positioning in the market (Figure 1) and they also provide a relatively comfortable rating of the market potential over the medium term.

<sup>8</sup> In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a specific country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

## 4.2 Local banks' / subsidiaries'

1. In the context of positive but decelerating credit growth, subsidiaries operating in Bosnia-Herzegovina report that strongly subdued demand and still not-easing supply conditions are behind the sluggish credit growth. Bosnia-Herzegovina's banks have generally experienced neutral supply conditions and much more subdued demand than in the aggregate CESEE region. In the next six months, supply is expected to align with the CESEE trend whilst demand is expected to be still in a contracting phase, albeit at less negative levels, in stark contrast to the expected increasing demand for the aggregate CESEE region (Figure 2).

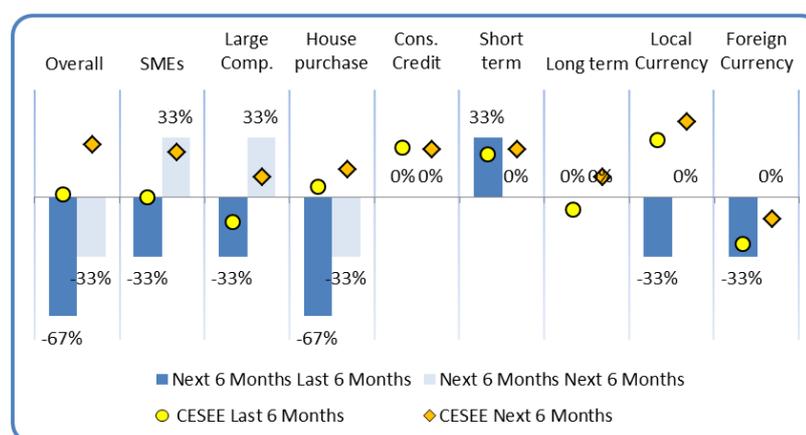
**Figure 2 : Credit Supply (credit standards) and Demand conditions – net percentages; positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q4**



Source : EIB – CESEE Bank Lending Survey

2. Demand has been contracting rather sharply in Bosnia-Herzegovina compared to the almost neutral demand conditions for the aggregate CESEE region over the last six months. Subsidiaries

**Figure 3. Demand components – (net percentages; positive figures refer to an increasing demand) – see question B.Q4**



Source : EIB – CESEE Bank Lending Survey

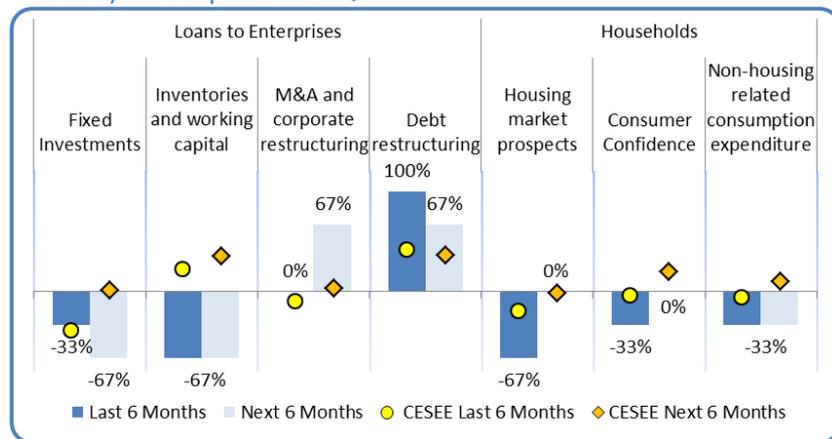
generally do not expect an increase in demand for credit across different products and maturities over the next six months (Figure 3). In particular, the household sector's demand for loans is still described as being in a contracting phase. A rebound in demand is expected only in the corporate sector. However, this does not seem to be sufficient to increase the overall demand for loans. All in all, demand conditions in the different subsectors seem to be rather different from the dynamics at the CESEE level, where a rebound is expected across the whole spectrum of products and clients.

3. Figure 4 shows that the majority of factors have been contributing to contracting demand. The only positive contribution derived from debt

restructuring over the past six months. However, the contribution of the latter has probably been rather limited because aggregate demand was described as being on a contracting trend. Looking ahead, demand is expected to remain subdued across the board except for debt restructuring and corporate restructuring. All in all, the distribution of the factors contributing to demand highlights the fact that demand applications for loans and credit lines are still rather limited and of poor quality.

4. Supply (credit standards) has been neutral over the past six months. This has been driven by a divergence in credit standards as

**Figure 4. Factors contributing to demand conditions – (net percentage; positive figures refer to a positive contribution to demand) – see question B.Q5**

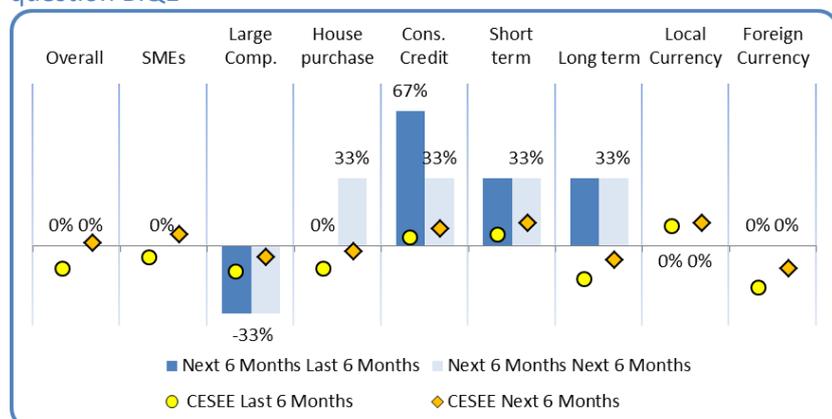


Source : EIB – CESEE Bank Lending Survey

applied to the corporate and household sectors. Supply conditions have been rather tight in the corporate sector but on an easing phase in the household sector (Figure 5). Aggregate credit standards are expected to remain neutral over the next six months, primarily driven by the same inter-segment dichotomy.

This is in line with the trend emerging from the aggregate CESEE results, whereby a considerable easing of credit standards is

**Figure 5. Supply components – credit standards (net percentages; positive figures refer to a positive contribution to supply) – see question B.Q1**

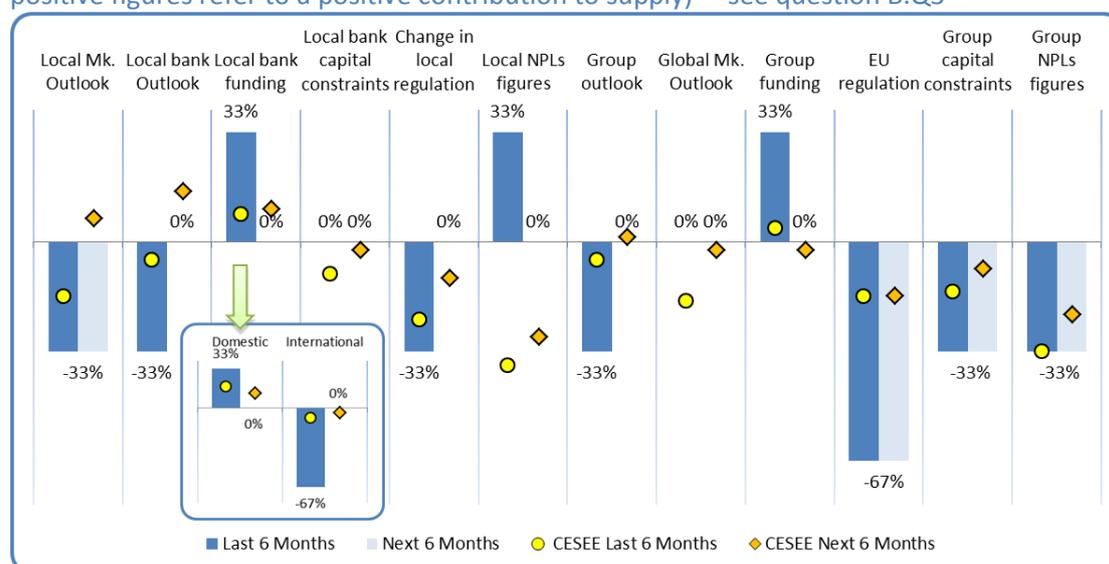


Source : EIB – CESEE Bank Lending Survey

expected in the consumer credit segment of the market. In line with credit standards, banks' overall terms and conditions are not expected to ease except as regards the size of the average loan and collateral requirements primarily in the consumer credit segment.

5. Demand and supply in the SME segment seem to be partially in line with the aggregated figures for Bosnia-Herzegovina. Terms and conditions for loan approvals (i.e. size, maturity and collateral requirements) are expected to become tighter in the SME segment of the market.
6. Both international and domestic factors played a role in determining supply conditions. The group outlook, group capital constraints, group-wide NPL levels and EU regulation (Figure 6) are mentioned as having had a clear negative effect on credit conditions over the past six months, while group funding had a mild easing effect. This is in line with the responses for the overall region. Looking at the local factors, the local market outlook and local bank outlook were the key constraining factors domestically. This goes hand in hand with the domestically deteriorated economic conditions, whereby Bosnia-Herzegovina is tentatively exiting from a recession. Local funding has contributed to a relaxation of supply conditions with domestic funding determining it while international/intra-group funding is a constraining factor as observed for the CESEE region as a whole.

**Figure 6. Factors contributing to supply conditions (credit standards) – (net percentage; positive figures refer to a positive contribution to supply) – see question B.Q3**

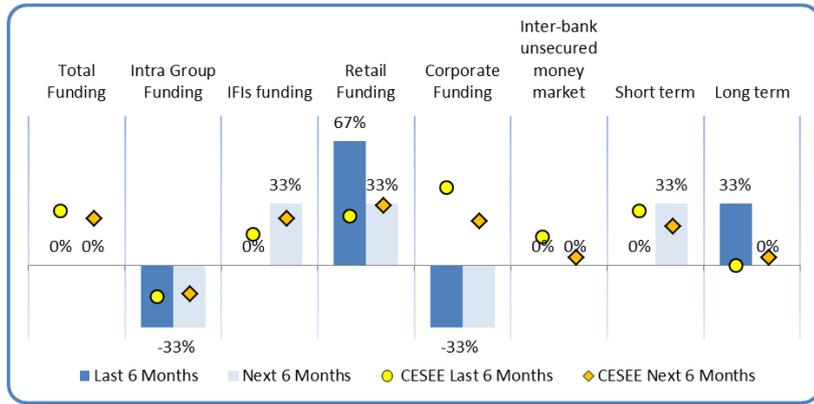


Source : EIB – CESEE Bank Lending Survey

7. Subsidiaries in Bosnia-Herzegovina take a neutral stance on access to funding (Figure 7) compared to fairly improved access to funding at the CESEE regional level. Most of the positive funding contributions in Bosnia-Herzegovina come from retail funding (e.g. deposits) and from a forecast pick-up in IFI funding. This is partially in line with the on-going funding conditions in the CESEE region. Conversely, corporate funding in Bosnia-Herzegovina is in a negative phase. All in all, intra-group access to funding is considered on a diminishing trend.

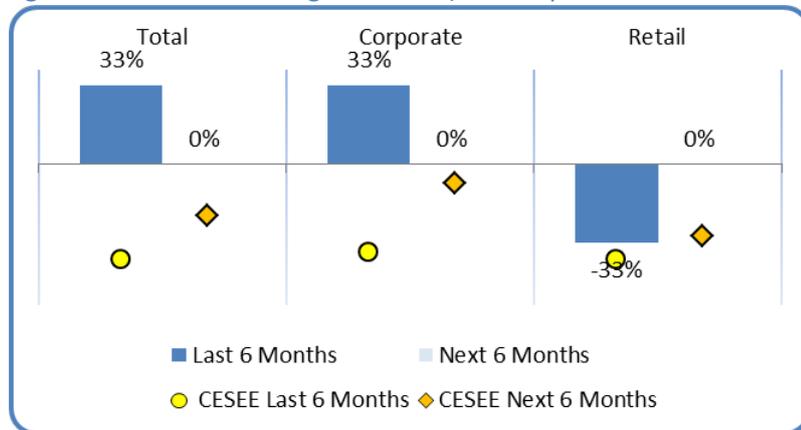
8. NPL figures marginally improved over the last six months (Figure 8). The survey particularly points to a significant decrease in the NPL ratio in the corporate sector while NPLs continued to increase in the retail sector. Looking at the next six months NPL ratios are expected to stabilise in both the corporate and retail segments.

**Figure 7: Access to Funding – (net percentage; positive figures indicate increasing access to funding) – see question B.Q7**



Source : EIB – CESEE Bank Lending Survey

**Figure 8: Non-Performing Loan ratios – (net percentage; negative figures indicate increasing NPL ratios) – see question B.Q6**



Source : EIB – CESEE Bank Lending Survey



# Bulgaria

## 1. Key statistics<sup>9</sup>

- Number of banks/subsidiaries participating in the survey: nine
- Approximate share of assets covered (as percentage of total assets): 78%
- Current level of NPLs as percentage of total loans: 17.1% - Q2:2013
- Latest credit growth – yoy: 1.4% - Q2: 2013
- Loan-to-deposit ratio: 106% - Q2: 2013
- CAR: 17% - Q2:2013

## 2. Key Messages - *easing supply and positive demand, with local NPLs and international determinants perceived as constraining factors*

### International Groups' views:

- **Group Strategies:** the restructuring efforts of parent banks operating in Bulgaria have been stronger relative to the full sample of parents included in the survey. These banks report a marginally higher propensity to engage in the sale of branches and assets at group level and slightly higher expected deleveraging.
- **Group assessment of positioning and market potential:** although showing a clear commitment to the CESEE region, parents operating in Bulgaria show more pronounced selectivity in their operations, with around 50% signalling intentions to selectively expand and 50% to selectively reduce operations in CESEE. Two-thirds of the parents assessed their market positioning in Bulgaria as optimal or satisfactory and about 80% indicated that the local market has medium potential.

### Subsidiaries' / local banks' views:

- **Credit supply** is seen as being on a mild easing trend and is expected to mildly ease further in the near future. Local bank and group NPLs are reported to be major constraining factors for supply conditions. In addition, several international factors play a role in constraining supply, including Group capital constraints, Global market outlook and EU regulation.
- **Credit demand** is on an increasing trend. By institutional sector, the largest increase comes from credit for consumption expenditure. In the next six months, corporates and SMEs are expected to increase their demand for loans. This will primarily consist of demand for credit for debt restructuring and working capital.
- **Access to funding** improved over the past six months due to stronger domestic retail and corporate funding and is expected to improve further, although intra-group funding had a negative impact on subsidiaries' access to funding.
- **NPL figures** were reported to have deteriorated over the past six months, and they are expected to continue to do so, although at a slower pace.

<sup>9</sup> Sources: Bulgarian National Bank, Unicredit/Bank Austria and Raiffeisen Research

### 3. Relevant macroeconomic and banking conditions<sup>10</sup>

- **Output:** GDP growth slowed further in the first half of 2013, from the already sluggish 0.8% measured in 2012. Net exports continue to be the main driver of economic growth, supported by increased government consumption, whereas private consumption declined. Output is likely to regain strength from late 2013 onwards due to stronger export demand from the EU. A growth rate of 1.5% is forecast for 2014.
- **Unemployment:** Unemployment in Bulgaria is expected to peak at around 13% in 2013 and decline slowly from then onwards in line with stronger output growth.
- **Inflation:** Inflation fell sharply in 2013, and is expected to reach 0.5%, measured by HICP. The decline was due to lower global energy prices, increased electricity price subsidies and lower food prices as a result of a good year in agricultural production. Besides these one-off factors a decline in core inflation is also observed, so only a moderate rebound to 2% is expected with the pick-up in economic growth over the medium term.
- **External and public sector balance:** General government debt stood at 18% of GDP in Q2 2013, and ranks as the second lowest in the EU. The general government deficit is expected to increase from 0.8% in 2012 to around 2% in 2013 and 2014.
- **Banking sector:** Although the crisis significantly reduced the banking system's profitability, banks in Bulgaria have shown a positive return on equity of approximately 6% in the recent quarters. The capital adequacy ratio stands at 17%, indicating a reasonably elevated level of capitalisation. Non-performing loans amount to 17.1% of the outstanding portfolio; however, the level of provisioning is relatively high.
- **Rating:** Bulgaria's rating by Fitch is BBB-, by Moody's is Baa2 and by S&P is BBB.

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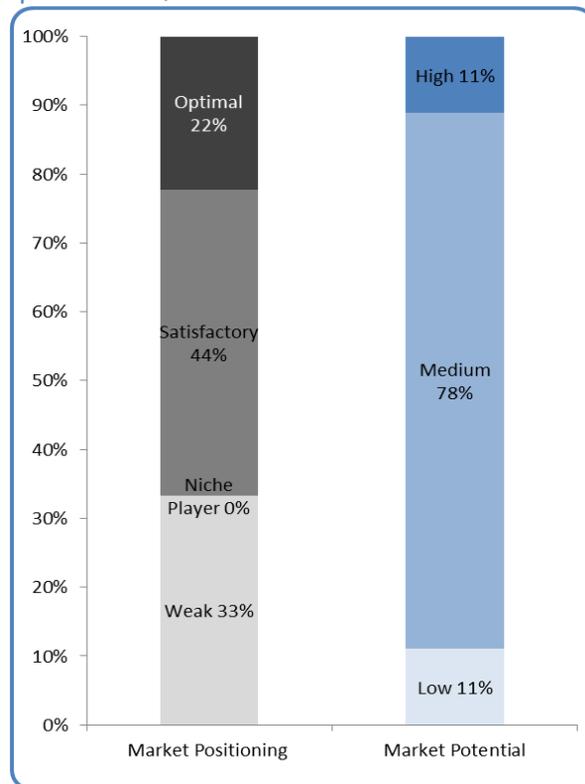
<sup>10</sup> Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

## 4. Results from the Bank Lending Survey:

### 4.1 Parent banks<sup>11</sup>

1. The restructuring efforts of parent banks operating in Bulgaria have been somewhat stronger relative to the full sample of parents considered in this survey, and this is expected to continue in the next six months too. A large number of groups with operations in Bulgaria still have strategic restructuring measures in the pipeline (60% of the total operating in Bulgaria), such as the sale of branches and/or assets. Deleveraging has not come to an end yet. The percentage of parents expecting the loan-to-deposit ratio of their global operations to fall further is above the average for the whole sample of groups included in the survey and stands at 55%.

Figure 1. Market potential and positioning – see question A.Q11



Source : EIB – CESEE Bank Lending Survey

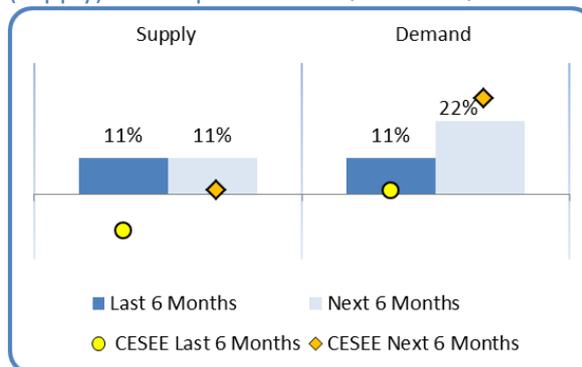
2. As their restructuring process continues, groups remain generally committed to the regional strategy. Parents operating in Bulgaria show a more pronounced selectivity in their operations, with around 50% signalling intentions to selectively expand and 50% to selectively reduce operations. The profitability of these banking groups' operations in the CESEE relative to group operations has deteriorated more than for the full sample of parent banks included in the survey over the past six months, with 56% reporting profitability for CESEE operations lower than groups' profitability. To the contrary an improvement is expected to be broadly in line with all other groups operating in the CESEE region, with roughly 66% groups reporting profitability higher (44%) or equal (22%) to the groups' levels. About 80% of the parent banks operating in Bulgaria indicated that the market has medium potential (Figure 1). As for market positioning, two-thirds of the parents assessed their market positioning as optimal or satisfactory.

<sup>11</sup> In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a specific country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

## 4.2 Local banks' / subsidiaries'

1. Subsidiaries operating in Bulgaria describe supply conditions (credit standards) as having been in a slight easing phase over the last six months. Looking ahead, credit standards are expected to ease further. This indicates greater easing of supply-side conditions than in the aggregate CESEE region. Aggregate demand for loans and credit lines has also been on a marginally increasing trend over the past six months and is expected to increase further over the next six months (Figure 2). This trend is broadly in line with the CESEE results.

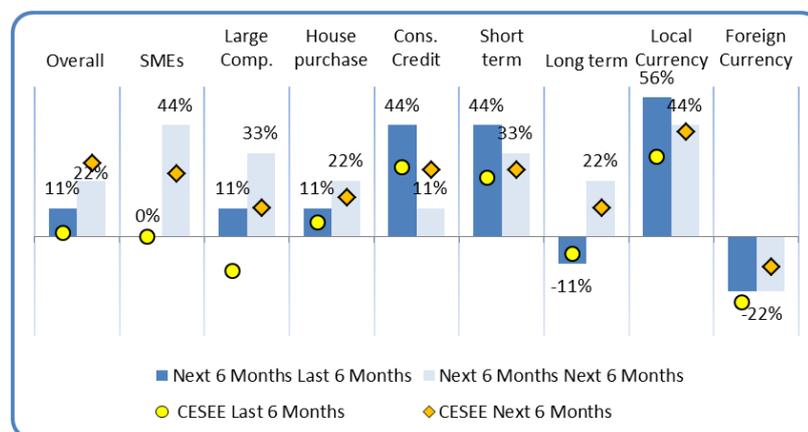
**Figure 2 : Credit Supply (credit standards) and Demand conditions – net percentages; positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q4**



Source : EIB – CESEE Bank Lending Survey

2. Demand for loans has been in a slightly increasing phase across almost all the different products and maturities (Figure 3). By institutional sector, the largest perceived increase in loan demand comes from households, particularly in the consumer credit segment. Demand from the corporate sector has been less positive, particularly in the SME sector. In terms of maturity, demand for long-term loans has largely been stagnating, whereas demand for short-term loans has increased significantly (Figure 2) in line with an increase in demand for consumer credit. Over the next six months, subsidiaries expect demand for corporate loans to pick up, especially in the SME segment.

**Figure 3. Demand components - (net percentages; positive figures refer to an increasing demand) – see question B.Q4**



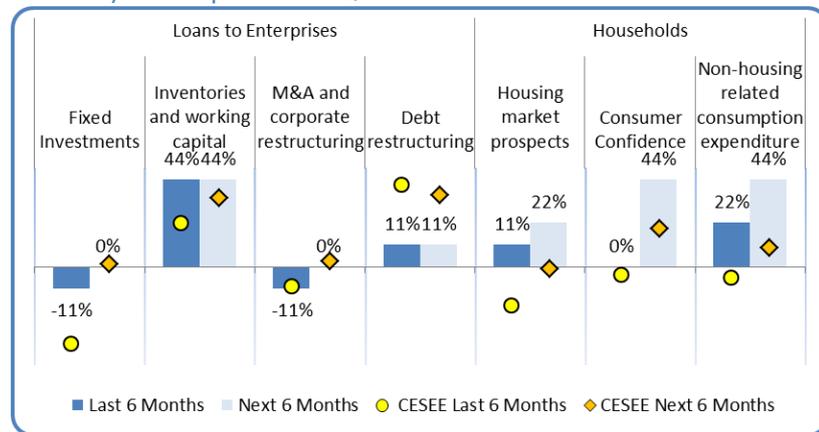
Source : EIB – CESEE Bank Lending Survey

3. Figure 4 shows that debt restructuring and working capital made a positive contribution to corporate sector credit demand over the past six months, whilst demand for investments made a negative contribution to aggregate demand for credit. This is very much in line with the dynamics in the CESEE region. On the households side, non-housing related consumption and, marginally, housing

prospects contributed positively to demand for loans. Looking ahead, demand is expected to increase further in the same segments. In addition, consumer confidence is also expected to contribute positively.

4. Supply (credit standards) has been in a marginally easing phase over the past six months. This has primarily been driven by an easing of credit standards in

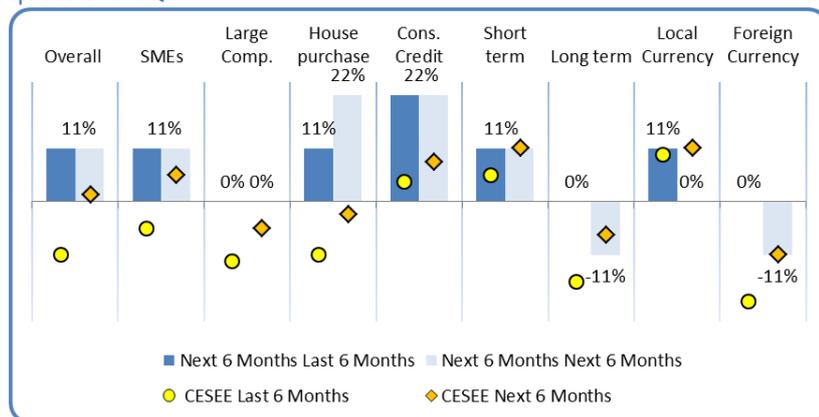
**Figure 4. Factors contributing to demand conditions – (net percentage; positive figures refer to a positive contribution to demand) – see question B.Q5**



Source : EIB – CESEE Bank Lending Survey

the households sector whilst supply conditions have been rather neutral in the corporate sector (Figure 5). Aggregate credit standards are expected to continue to ease over the next six months, primarily in the same segments, namely consumer credit and mortgages. This is partially in line with the trend emerging from the aggregate CESEE results, whereby a considerable easing of credit standards is expected in the consumer credit segment of the market.

**Figure 5. Supply components – credit standards (net percentages; positive figures refer to a positive contribution to supply) – see question B.Q1**



Source : EIB – CESEE Bank Lending Survey

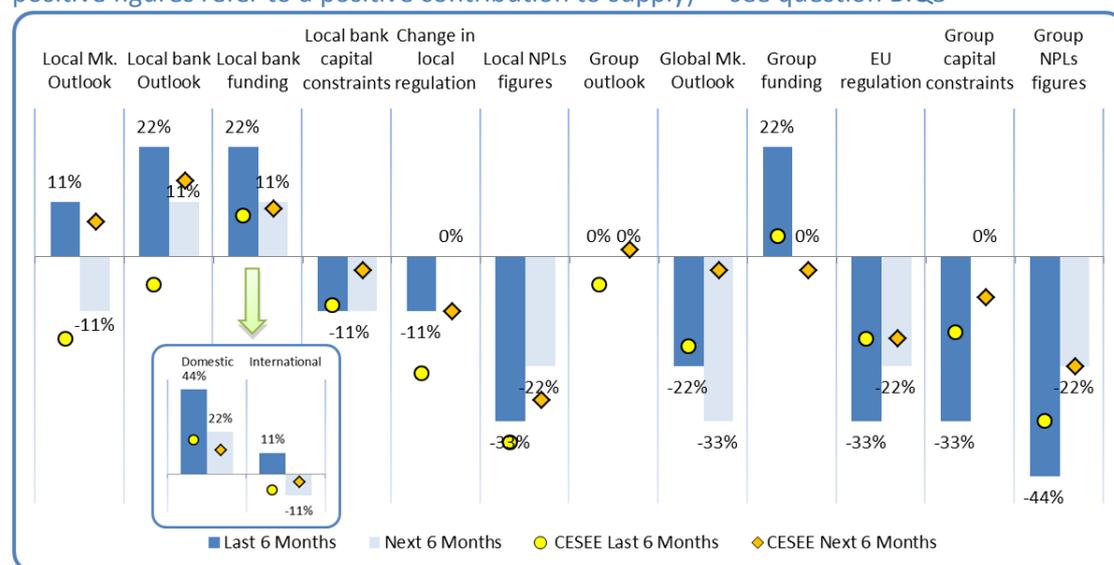
Credit standards for SMEs are also expected to ease marginally. In line with credit standards, banks' overall terms and conditions are expected to ease marginally in terms of the size of the average loan and reduced margins.

5. Demand and supply in the SME segment seem to be partially in line with the aggregated figures for Bulgaria. Supply conditions eased whilst credit demand from SMEs remained slightly more subdued, but did not contract, over the last six months. Looking ahead, demand is expected to pick up rather strongly while

supply is expected to ease more mildly. Margins charged on SME loans have narrowed recently, and they are expected to continue to do so in the next six months. Loan size and maturity are also expected to ease slightly in the SME segment. However, collateral requirements are expected to tighten over the next six months.

6. Both international and domestic factors played a role in determining supply conditions (Figure 6). Among the local factors contributing to supply conditions,

**Figure 6. Factors contributing to supply conditions (credit standards) – (net percentage; positive figures refer to a positive contribution to supply) – see question B.Q3**



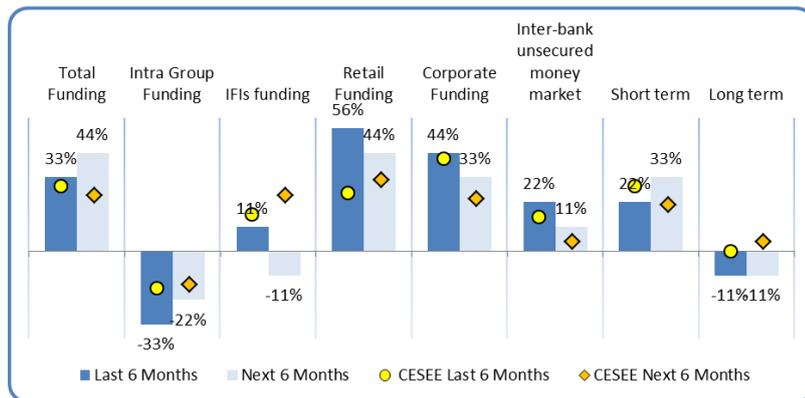
Source : EIB – CESEE Bank Lending Survey

NPLs primarily, but also changes in local regulation and local bank capital constraints, have exerted tightening pressure on credit standards over the past six months, in line with other countries in the CESEE region. Among the international factors, group NPLs, group capital constraints and EU regulation have had a significant negative effect on credit standards. Conversely, the local bank outlook and local bank funding, primarily driven by domestic funding, exerted a clear easing effect on credit standards. This is a feature which is partially common to the CESEE average. Looking ahead, the negative contribution of local and group NPLs is expected to continue whilst local funding is expected to continue to play an easing role.

7. Access to funding has improved during the past six months in line with the dynamics at the CESEE regional level. This has been driven by improvements in retail and corporate funding, while intra-group funding had a negative impact on subsidiaries' access to funding (Figure 7). Looking at the next six months, access to funding is expected to ease further across the board. On the other hand, long-term funding, IFI funding and intra-group funding are not expected to contribute positively to aggregate access to funding. Lack of long term funding in particular might be a source of concern in the medium term.

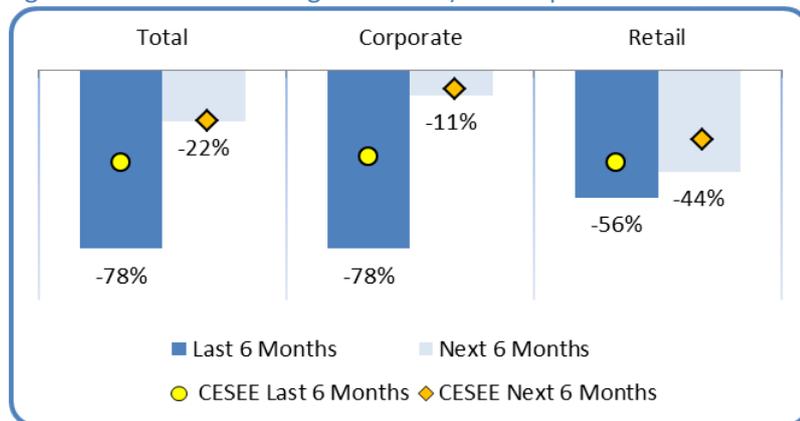
8. NPL ratios are reported to have worsened across the board over the past six months, with a slightly more pronounced deterioration in the corporate sector than in the retail sector (Figure 8). NPLs are expected to continue to increase over the next six months. However the decline in credit quality is expected to moderate somewhat, especially in the corporate sector.

**Figure 7: Access to Funding – (net percentage; positive figures indicate increasing access to funding) – see question B.Q7**



Source : EIB – CESEE Bank Lending Survey

**Figure 8: Non-Performing Loan ratios – (net percentage; negative figures indicate increasing NPL ratios) – see question B.Q6**



Source : EIB – CESEE Bank Lending Survey



# Czech Republic

## 1. Key statistics<sup>12</sup>

- Number of banks/subsidiaries participating in the survey: five
- Approximate share of assets covered (as percentage of total assets): roughly 60%
- Current level of NPLs as percentage of total loans: 5.9% - Q2:2013
- Latest credit growth – yoy: 4.4% - Sept 2013
- Loan-to-deposit ratio: 76% - Sept 2013
- CAR: 17% - Q2:2013

## 2. Key Messages - *clearly perceived as an high potential banking market, despite economic slowdown*

### International Groups' views:

- **Group Strategies:** The majority of international banks operating in the Czech Republic are not in a restructuring process at group level. Groups present a relatively more positive view in terms of group deleveraging than the overall group of international banks included in the survey.
- **Group assessment of positioning and market potential:** All the Groups operating in the Czech Republic record higher profitability in CESEE, compared to their overall group profitability. They are also more inclined to selectively expand operations via subsidiaries in the CESEE region, compared to other group in the overall sample. They are very comfortable with their positioning in the Czech market and 50% of them ascribe high market potential to the country.

### Subsidiaries' / local banks' views:

- **Credit supply:** Aggregate supply conditions are described as being in a neutral position and banks do not expect changes in the next six months. However, supply standards for mortgages and consumer credit eased over the last six months and marginal easing of supply standards for the SME segment is expected in the next six months, in line with the CESEE region. Local bank capital constraints, EU regulation, changes in local regulation and group capital constraints are signalled as being negative contributors to credit supply.
- **Credit demand:** Demand for credit is on an increasing trend. Subsidiaries expect some rebound across different products and maturities over the next six months.
- **Access to funding:** Subsidiaries signal an easing of funding conditions over the last six months whereby most of the improvement came from IFI and corporate funding. Funding conditions are expected to relax further in the next six months.
- **NPL figures:** In contrast to the CESEE region trend, NPLs are expected to decrease in the Czech Republic, tentatively signalling that the peak may have been reached.

<sup>12</sup> Sources: The Czech National Bank, Unicredit/Bank Austria and Raiffeisen Research

### 3. Relevant macroeconomic and banking conditions<sup>13</sup>

- **Growth:** the Czech economy had negative growth in 2012 and this is expected to extend into 2013. In 2012 all subcomponents of internal demand turned negative, but external demand still held up. In 2013, the external contribution was also positive as imports dropped more than exports. In contrast to 2012, private and public consumption are expected to grow slightly in 2013. However, the overall GDP growth rate is still forecast to be -1%. In line with the assumption of a moderate eurozone recovery, a pick-up of economic activity in the Czech Republic to real GDP growth of 2.2% in 2015 is expected.
- **Unemployment:** the unemployment rate has been oscillating around 7% over the last few years and is not forecast to drop significantly in the medium term.
- **Inflation:** in line with weak growth, there was a pronounced trend of disinflation, which should take the harmonised index of consumer prices down to 0.5% in 2014. However, the recent announcement of future foreign exchange interventions against the Czech koruna presents upside risks to this forecast.
- **External and public sector balance:** The current account is posting a slight deficit, which is expected to shrink in the medium term. The budget deficit is expected to dip slightly below the Maastricht criterion of 3% this year and then to start slowly increasing again. Public debt is relatively low, at roughly 50% of GDP.
- **Banking sector:** The level of capitalisation for the entire banking sector (CAR 17% Q2:2013) exceeds the required minimum. NPLs are relatively low at around 6%, although they have risen from 2.8% in 2007. The loan-to-deposit ratio stood at 76% in September 2013. Lending growth is much lower than in pre-crisis times, registering an annual rate of 4.4% in September 2013. Retail loans are more dynamic than corporate loans. Growth in local deposits has been rather robust over the last three years.
- **Rating:** the Czech Republic is currently rated by Moody's (A1), Fitch (A) and S&P (AA-).

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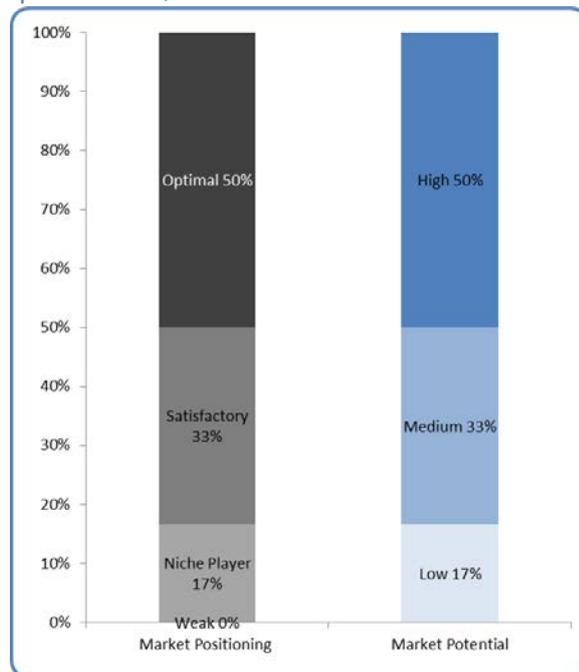
<sup>13</sup> Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

## 4. Results from the Bank Lending Survey:

### 4.1 Parent banks<sup>14</sup>

1. Parent banks operating in the Czech Republic tend to be more positive at the group level than the overall sample of groups included in the survey. The majority do not envisage any strategic operations to increase the capital ratio. However, roughly 40% of the responding bank groups are considering the possibility of selling assets or some form of strategic restructuring over the next six months. Deleveraging is not expected to be strong as 80% of the parent banks operating in the Czech Republic expect their loan-to-deposit ratio to remain stable over the next six months at group level.

**Figure 1. Market potential and positioning – see question A.Q11**



Source : EIB – CESEE Bank Lending Survey

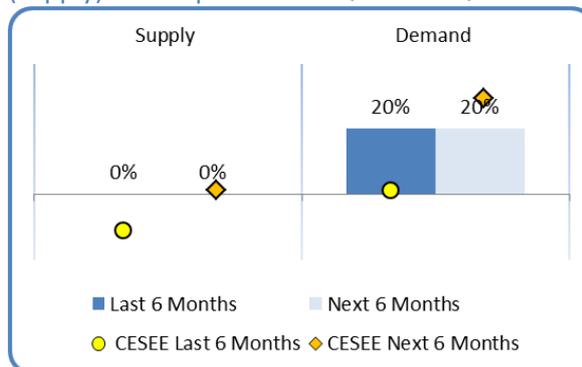
2. Groups operating in the Czech Republic remain strongly committed to the region. Indeed these groups expressed the intention to maintain or expand, and not reduce, operations. This feature is more evident for the groups operating in the Czech Republic than for the aggregate set of groups operating in the CESEE. All parent banks operating in the Czech Republic signal a positive assessment of their profitability in the CESEE region relative to their group profitability (measured in terms of return on assets). 100% of the parent banks record a higher profitability in CESEE than at the overall group level and 80% expect the contribution of the CESEE region to the overall group profit to go up over the next six months. Parent banks operating in the Czech Republic seem to be very satisfied with their positioning in the market, with 50% of them considering their market position to be optimal, 33% satisfactory and the remaining considering themselves as niche players. The potential of the market in the medium term is also assessed very positively: 50% of the respondents rate the market potential of the Czech Republic as high and 33% as medium (Figure 1).

<sup>14</sup> In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a specific country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

## 4.2 Local banks' / subsidiaries'

1. In the context of moderate credit growth, subsidiaries operating in the Czech Republic report that supply factors remain neutral, whereas demand has increased and is also expected to slightly increase further (Figure 2). This is in line with the aggregate CESEE region, where subsidiaries expect an increase in demand over the next six months and neutral supply.

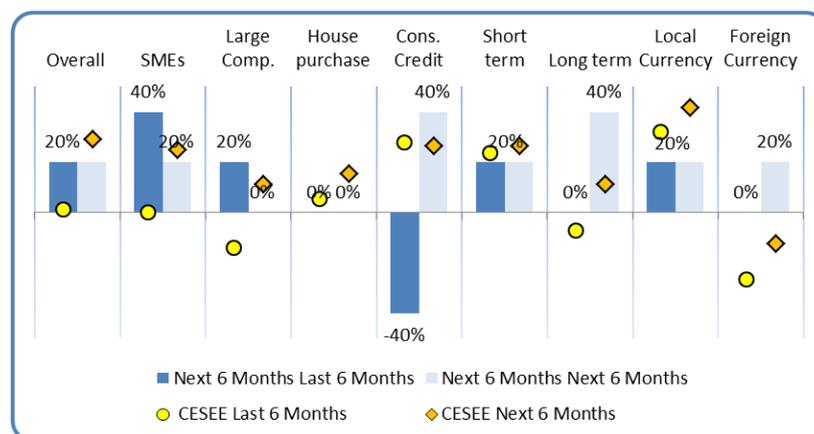
**Figure 2 : Credit Supply (credit standards) and Demand conditions – net percentages; positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q4**



Source : EIB – CESEE Bank Lending Survey

2. In the last six months, demand has increased – primarily driven by corporate demand (including SMEs), whereas demand for consumer credit tightened (Figure 3). Looking ahead, subsidiaries generally expect an increase in demand for credit across different products and maturities. The segments with the most dynamic performance are expected to be consumer credit (in contrast to the last six months) and long-term credit. This is very much in line with the expected aggregate CESEE trend.

**Figure 3. Demand components - (net percentages; positive figures refer to an increasing demand) – see question B.Q4**

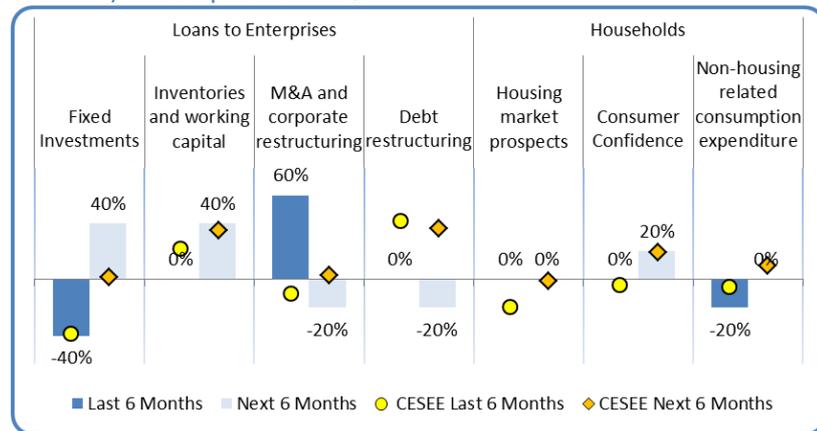


Source : EIB – CESEE Bank Lending Survey

3. Figure 4 shows that mildly positive demand was derived primarily from M&A and corporate restructuring over the past six months, whilst investment had a negative impact. Within the household segment, expenditures not related to housing slightly reduced the demand for credit. The negative contribution of fixed investments to the credit demand of companies is very much in line with the aggregate regional trend. Looking ahead, investments are not expected to further dampen but bolster the demand for credit, together with the financial needs for working capital of enterprises. Conversely, corporate and debt restructuring is expected to dampen demand for credit. Households' demand for credit should be slightly supported by improving consumer confidence. This is in line with the overall expectations for the CESEE region

4. Supply has been neutral over the past six months. However, supply in the household segment (i.e. mortgages and consumption-oriented) has eased (Figure 5). Aggregate credit standards are expected to remain unchanged over the next six months. A slight easing of conditions is expected for SME credit, in line with the trend emerging from the aggregate CESEE results. Banks' terms and conditions are not expected to ease.

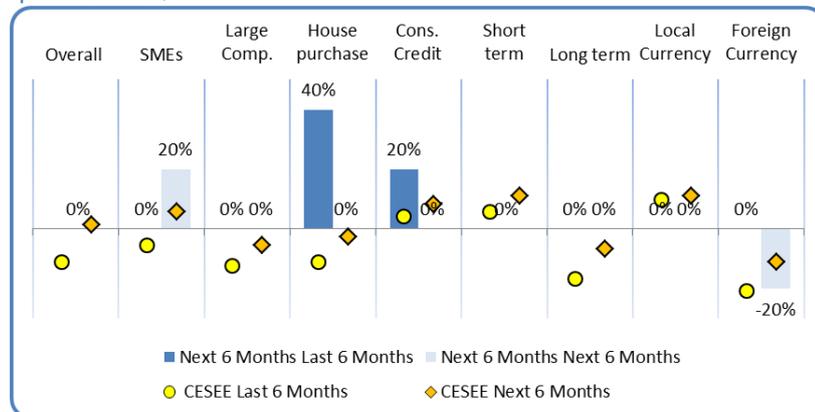
**Figure 4. Factors contributing to demand conditions – (net percentage; positive figures refer to a positive contribution to demand) – see question B.Q5**



Source : EIB – CESEE Bank Lending Survey

5. When SMEs are considered, supply has remained neutral, whilst demand has increased. For the next six months, supply is

**Figure 5. Supply components – credit standards (net percentages; positive figures refer to a positive contribution to supply) – see question B.Q1**



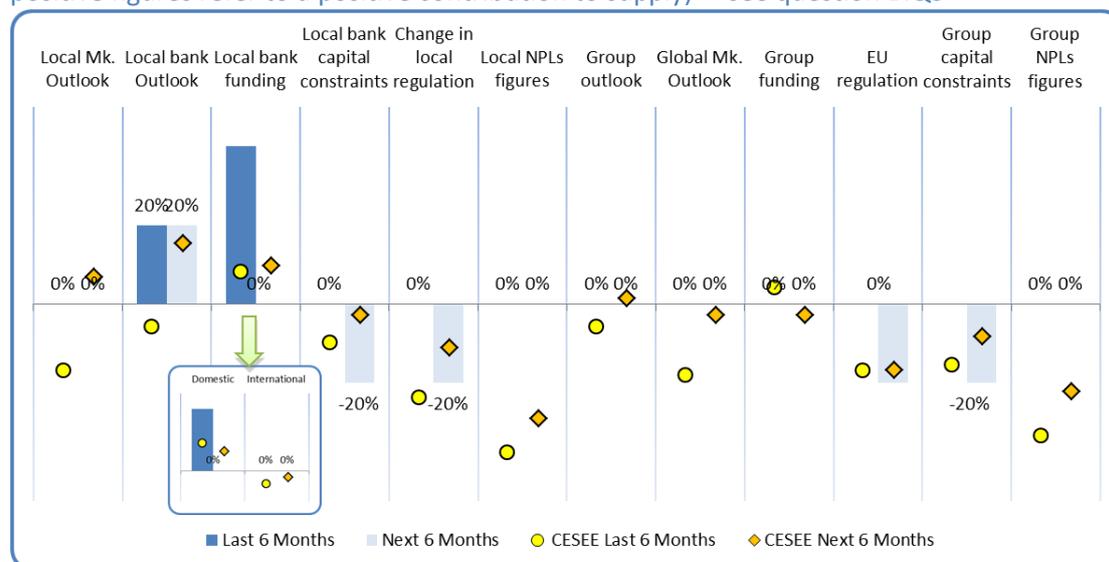
Source : EIB – CESEE Bank Lending Survey

expected to ease and demand is expected to increase slightly. This is in line with the responses for the aggregate CESEE region. As a side message, a slight easing of nearly all credit conditions for SMEs is expected over the next six months. This is in contrast to the overall region, where most terms and conditions applied to SMEs are expected to tighten slightly in the next six months.

6. Both international and domestic factors have been fairly neutral in their contribution to supply conditions. However, some domestic factors have contributed to an easing of supply – namely the local bank outlook and local bank funding. Their contribution was more accentuated in the Czech Republic than in the overall region (Figure 6). Looking ahead, some domestic and international factors are expected to marginally constrain the supply of credit. A

slight negative contribution is expected from local and group capital constraints as well as EU and local regulation.

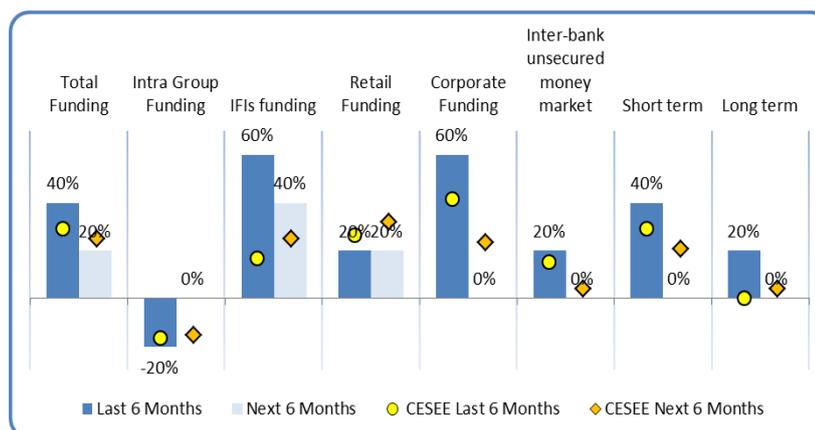
**Figure 6. Factors contributing to supply conditions (credit standards) – (net percentage; positive figures refer to a positive contribution to supply) – see question B.Q3**



Source : EIB – CESEE Bank Lending Survey

7. With a loan-to-deposit ratio comfortably below 100%, Czech banks basically had no pressing need to rely on intra-group funding to support credit growth. Subsidiaries signal an easing of access to funding over the last six months (Figure 7),

**Figure 7: Access to Funding – (net percentage; positive figures indicate increasing access to funding) – see question B.Q7**



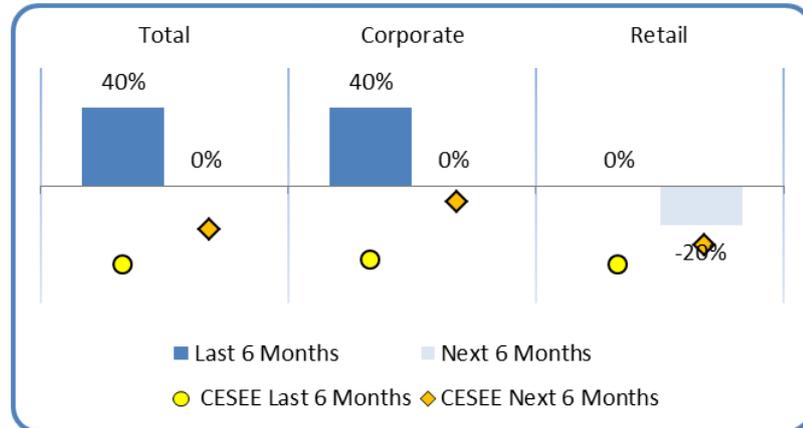
Source : EIB – CESEE Bank Lending Survey

whereby most of the improvement came from funding from IFIs and corporates. Intra-group funding was on a downward trend. Short-term funding eased more than long-term funding in the last six months. Looking ahead, funding conditions are expected to remain relaxed, with IFI funding making the most positive contribution.

8. NPL ratios improved in the last six months (Figure 8). This was driven by a noticeable improvement in the corporate segment. This is very different from

the picture in the overall region, where NPLs for both corporates and retail customers increased in the last six months and are expected to continue to do so. Looking ahead, the overall NPL ratio is expected to stabilise over the next six months, whereas some deterioration is still expected in the retail segment of the market.

**Figure 8: Non-Performing Loan ratios – (net percentage; negative figures indicate increasing NPL ratios) – see question B.Q6**



Source : EIB – CESEE Bank Lending Survey



# Croatia

## 1. Key statistics<sup>15</sup>

- Number of banks/subsidiaries participating in the survey: four
- Approximate share of assets covered (as percentage of total assets): roughly 70%
- Current level of NPLs as percentage of total loans: 15.1% - Q2:2013
- Latest credit growth – yoy: -0.5% - Aug 2013
- Loan-to-deposit ratio: 119% - Aug 2013
- CAR: 20.79% - Q2:2013

## 2. Key Messages - *recession weighting on market prospects, NPLs are perceived as a major constraint*

### International Groups' views:

- **Group Strategies:** International banking groups operating in Croatia signal limited restructuring plans. At Group level they do not plan additional capital increases or sales of assets; neither do they expect additional deleveraging.
- **Group assessment of positioning and market potential:** International banks operating in Croatia are committed to the CESEE region and intend either to maintain or to expand operations. 75% of the Groups consider their CESEE activities as more profitable than their global operations. The ongoing economic recession weighs on their assessment of market opportunities in Croatia. 60% of the parent banks ascribe a low market potential to the local banking market.

### Subsidiaries' / local banks' views:

- Croatian banks report that decreasing **demand and neutral supply** were behind the negative credit growth in the last six months.
- **Credit supply** remained unchanged overall and is expected to remain so. To the contrary, supply conditions for mortgages, large companies and long-term maturities have tightened and are expected to continue tightening in the next six months.
- **Demand for loans:** Investment, housing market prospects and consumer confidence were behind the declining demand, whilst debt restructuring had a positive impact. Overall demand is expected to expand slightly.
- **Access to funding:** Subsidiaries signal a slight improvement in funding conditions over the last six months, with IFI funding having had a positive effect. Funding conditions are expected to further improve, driven by IFI and retail funding.
- **NPL figures:** all subsidiaries report increasing NPLs, which are expected to increase further in the next six months.

<sup>15</sup> Sources: Croatian National Bank, Unicredit/Bank Austria and Raiffeisen Research

### 3. Relevant macroeconomic and banking conditions<sup>16</sup>

- **Growth:** The Croatian economy has been in recession since 2009. Real GDP growth is expected to be -0.7% in 2013, but for 2014 and 2015 a moderate recovery is forecasted. The different sources of growth will be coming back to life one after the other: in 2014 public consumption, investment and the external component are expected to grow again and in 2015 private consumption will increase slightly.
- **Unemployment:** The unemployment rate is high, but is expected to peak in 2013. A slight decline to 16.1% in 2015 is forecast.
- **Inflation:** Because of the weak economic situation, inflation rates remained relatively high. The harmonised index of consumer prices was still at 3.4% in 2012, but is expected to fall to 1.8% in 2014.
- **External and public sector balance:** The correction of imbalances has proceeded well in the external, but not in the fiscal domain. Due to weak demand for imports, the current account is expected to start producing a small surplus in 2013, which should also be the case for 2014 and 2015. As for fiscal policy, the budget deficit is going down from a peak of 7.8% of GDP in 2011 to 5.4% in 2013, which still exposes the sovereign to a significant financing risk. In addition, the outlook points to a renewed deterioration of the fiscal accounts in the medium term.
- **Banking sector:** The entire banking sector is one of the best capitalised in the region (CAR 21% Q2:2013). The effects of the financial crisis are clearly visible: NPLs are relatively high at 15%. The loan-to-deposit ratio stood at 119% in August 2013, lower than the peak of 131% in 2011. Lending growth was still strong in 2010 and 2011, but turned negative in 2012. In August 2013 the volume of loans sank by 0.5% on an annual basis. Retail loans show a more robust performance in comparison to volatile corporate loans. Growth in local deposits has been fairly sound over the last three years. Retail deposits developed well, but corporate deposits have diminished since 2008.
- **Rating:** Croatia is currently rated by Moody's (Ba1), Fitch (BB+) and S&P (BB+).

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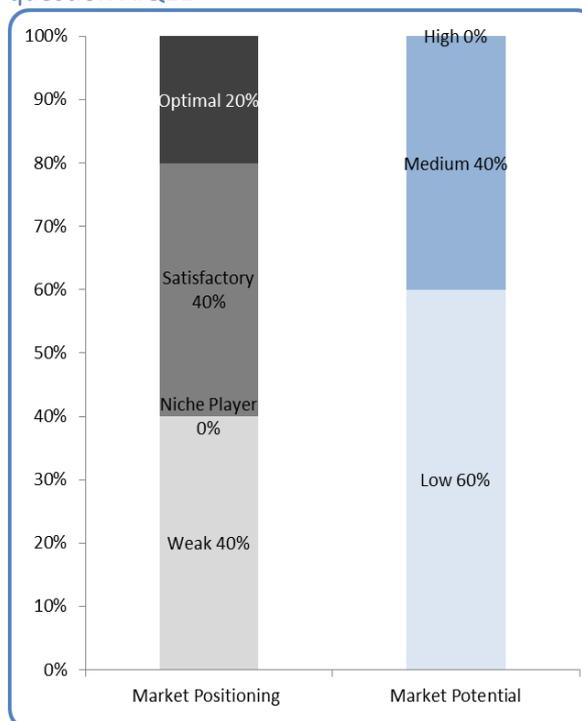
<sup>16</sup> Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

## 4. Results from the Bank Lending Survey:

### 4.1 Parent banks section<sup>17</sup>

1. The sub-group of parent banks operating in Croatia are generally more positive than the overall sample of parent banks included in the survey. They do not plan additional strategic operations to raise capital or sale assets, neither do they forecast additional deleveraging at the group level in the next few months. The latter differs from the aggregate set of groups included in the survey, where roughly 40% of the bank groups still see their loan-to-deposit ratio decreasing.
2. The parent banks clearly reconfirm their commitment to CESEE, with half of the responding bank groups even planning to expand operations.

**Figure 1. Market potential and positioning – see question A.Q11**



Source : EIB – CESEE Bank Lending Survey

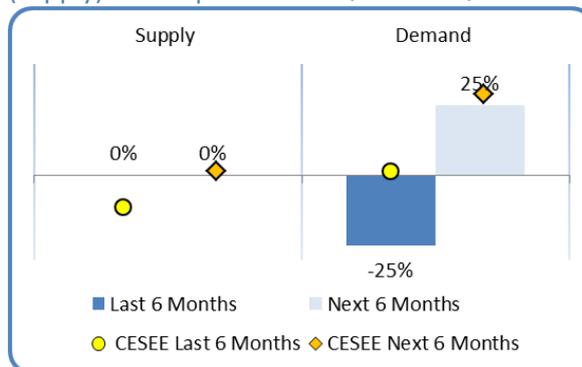
The CESEE strategy is considered to be profitable. Measured in terms of ROA (return on assets) the profitability of the operations in CESEE is assessed to be higher than Group operations by 75% of banking groups active in Croatia and it is expected to remain at such elevated levels. In the wake of the current economic recession, 60% of the parent banks operating in Croatia rate the potential of the Croatian banking market low and 40% medium (Figure 1). Still 60% are satisfied with their market positioning.

<sup>17</sup> In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a specific country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

## 4.2 Local banks' / subsidiaries' section

1. In the context of negative credit growth, subsidiaries operating in Croatia report decreasing demand whereas supply factors have been described as neutral over the last six months (Figure 2). In the next six months, supply is expected to remain in a neutral position, but demand is expected to increase. These expectations are in line with the overall picture in the CESEE region.

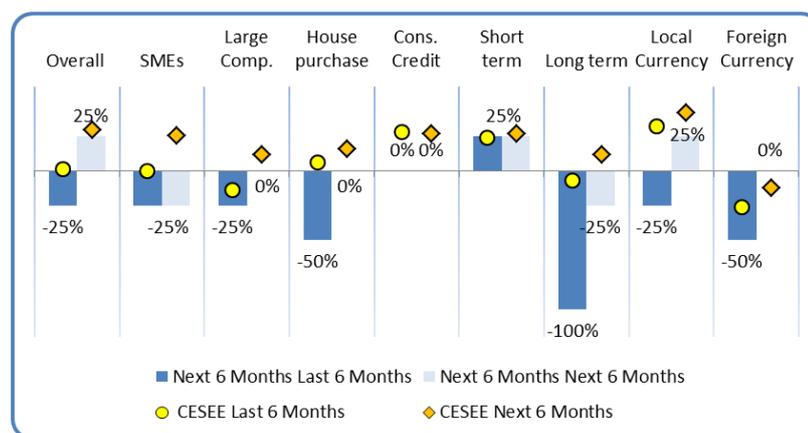
**Figure 2 : Credit Supply (credit standards) and Demand conditions – net percentages; positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q4**



Source : EIB – CESEE Bank Lending Survey

2. Demand for loans has been subdued in Croatia. Over the last six months, demand from corporates (including SMEs) and, more strongly, from households for mortgages decreased (Figure 3). All subsidiaries reported shrinking demand for long-term loans, while they saw short-term credit on a slightly rising trend. Looking ahead, only demand by SMEs and for long-term credit is expected to continue to shrink. A pick-up in demand is primarily expected for short-term credit and credit denominated in local currency in line with the CESEE region.

**Figure 3. Demand components - (net percentages; positive figures refer to an increasing demand) – see question B.Q4**



Source : EIB – CESEE Bank Lending Survey

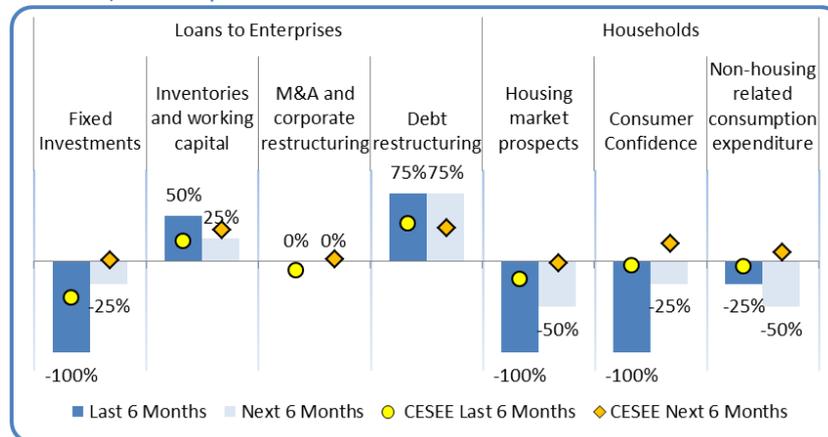
However the expected weak demand for SME loans, mortgages and especially consumer credit is less positive than for the CESEE region as a whole.

3. Figure 4 shows that investment, as well as housing market prospects and consumer confidence, had a strong negative effect on demand development over the past six months. On the other hand, debt restructuring had a strong positive impact. This is very much in line with the aggregate regional trends. Looking ahead, debt restructuring is expected to continue to support demand. In addition, working capital is also expected to exercise a noticeable effect. All demand factors regarding the household sector are expected to have a negative

impact on demand. This makes the latter segment of the market look bleaker than in the aggregate CESEE region.

4. Overall, supply factors were neutral over the past six months. However, credit standards for large companies and loans for house purchases in the households sector tightened. Credit standards applied to long-term loans have also tightened, whereas they eased for short-term credit (Figure 5). Over the next six months, subsidiaries' overall supply is expected to remain neutral while the supply of mortgages and long-term credit will remain tight. The

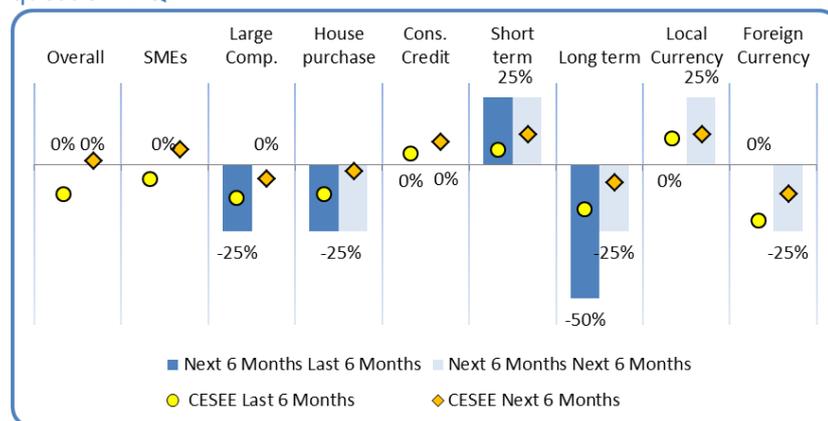
**Figure 4. Factors contributing to demand conditions – (net percentage; positive figures refer to a positive contribution to demand) – see question B.Q5**



Source : EIB – CESEE Bank Lending Survey

purchases in the households sector tightened. Credit standards applied to long-term loans have also tightened, whereas they eased for short-term credit (Figure 5). Over

**Figure 5. Supply components – credit standards (net percentages; positive figures refer to a positive contribution to supply) – see question B.Q1**

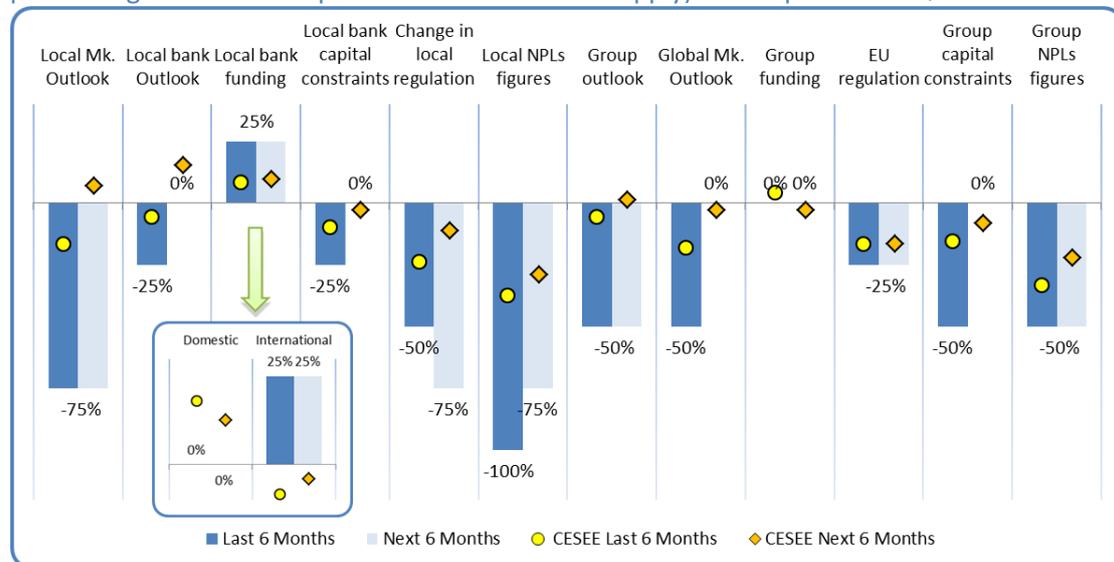


supply of short-term credit is expected to ease slightly over the next six months. As in the rest of the CESEE region, the supply of local currency loans is expected to ease at the expense of foreign currency loans.

- When SMEs are considered, subsidiaries in Croatia do not report any change in the supply factors. As for demand from SMEs, they see it continuing to tighten over the next six months, which is in contrast to the overall economy and to the aggregate CESEE region. However, behind this overall trend, the terms and conditions for SME financing are expected not to tighten further.
- Both international and domestic factors played a role in determining supply conditions. The local market outlook and local NPL levels as well as changes in

local regulation (Figure 6) have been mentioned as having a clear negative effect on credit conditions. International factors play a role, in particular the group outlook, group capital and group NPLs. On the other hand, local bank funding is expected to continue to make a small positive contribution.

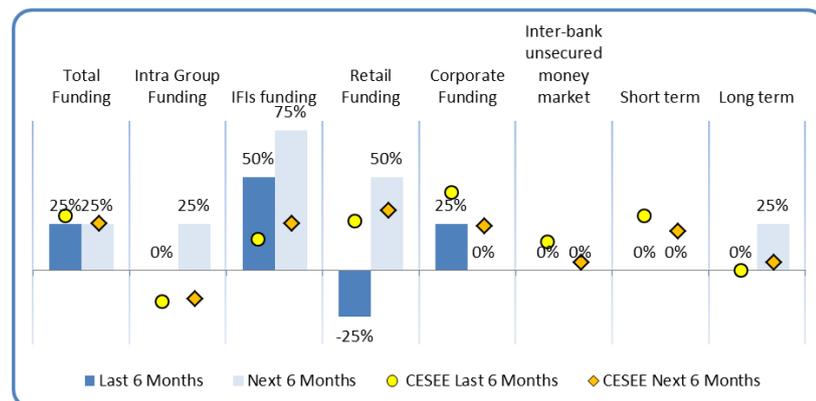
**Figure 6. Factors contributing to supply conditions (credit standards) – (net percentage; positive figures refer to a positive contribution to supply) – see question B.Q3**



Source : EIB – CESEE Bank Lending Survey

7. The overall funding situation of subsidiaries has improved slightly over the last six months (Figure 7), with IFI funding having had a positive effect. Looking ahead, access

**Figure 7: Access to Funding – (net percentage; positive figures indicate increasing access to funding) – see question B.Q7**



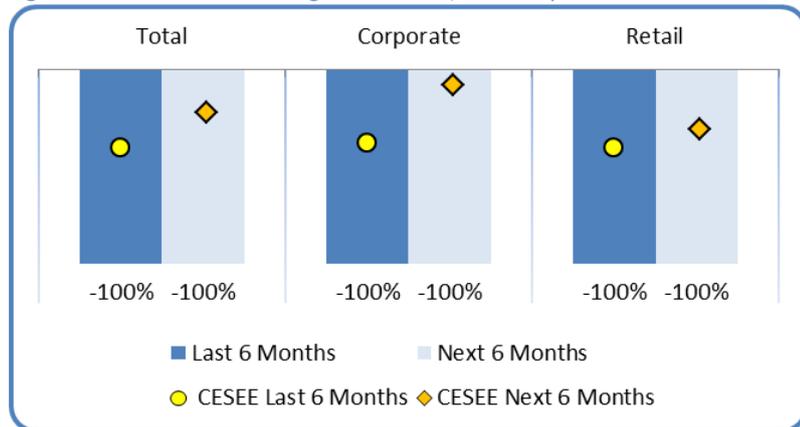
Source : EIB – CESEE Bank Lending Survey

to funding is expected to improve compared to the current situation with some sources expected to ease further. In contrast to the rest of the region, intra-group funding is expected to increase slightly over the next few months. IFI and retail funding are expected to make a strong positive contribution to overall funding.

8. With regard to NPLs, the prolonged economic recession weighs on banks' expectations. All subsidiaries state that NPLs rose over the last six months – in

both the corporate and retail segments. In addition, although the level of NPLs is already relatively high all subsidiaries think that this will continue in the next six months (Figure 8).

**Figure 8: Non-Performing Loan ratios – (net percentage; negative figures indicate increasing NPL ratios) – see question B.Q6**



Source : EIB – CESEE Bank Lending Survey



# Hungary

## 1. Key statistics<sup>18</sup>

- Number of local banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as percentage of total assets): 60%
- Current level of NPLs as percentage of total loans: 18.9% - Q2:2013
- Latest credit growth – yoy: -6.6% - Q2: 2013
- Loan-to-deposit ratio: 112.2% - Q2: 2013
- CAR: 16.6% - Q2:2013

## 2. Key Messages - *international banks more selective, while credit conditions improve in parallel to the on-going policy stimulus*

### International Groups' views:

- **Group Strategies:** Banking groups operating in Hungary signal more pronounced intentions to restructure operations and to consider sales of assets than the full sample of banks included in the survey. On the positive side, they do not envisage further deleveraging of their overall operations.
- **Group assessment of positioning and market potential:** Groups operating in Hungary remain committed to the CESEE region, but have become more selective. They see only medium-to-low potential in the Hungarian market. Some 60% consider current market positioning as optimal/satisfactory.

### Subsidiaries' / local banks' views:

- Hungarian banks report **improving demand for credit** and a **similar**, relatively positive, outlook **for credit supply conditions**.
- **Credit supply** expectations are however ambivalent. On the one hand, a number of banks indicate a general improvement in the credit supply, particularly for SMEs and households. On the other hand, when asked about particular aspects of credit supply, such as interest rate margins or the availability of external and domestic funding, they generally report tighter conditions, both in the recent past and when looking ahead. The high domestic NPL ratios, the local and EU regulatory environment and group capital constraints, are reported to have been and are expected to remain impediments to an easing of credit conditions.
- **Credit demand** has been increasing and is expected to increase further, from both household and corporate sectors. Banks report significantly higher demand for investment financing in Hungary than in the CESEE region as a whole.
- **Access to funding** is not reported as a constraint, but is on a declining trend.
- **NPL figures** have deteriorated over the last six months and are expected to continue to deteriorate further, especially for the retail portfolio.

<sup>18</sup> Sources: The Central Bank of Hungary, Unicredit/Bank Austria and Raiffeisen Research

### 3. Relevant macroeconomic and banking conditions<sup>19</sup>

- **Output:** After a contraction of 1.7% in 2012, GDP is expected to rise by 0.7% in 2013. Net exports will continue to contribute positively. After a long period of contraction, domestic demand – strengthened by indirect fiscal measures and substantial monetary easing – is expected to become the key driver of growth.
- **Unemployment:** Unemployment stabilised at 10.9% in 2012 and is expected to stay at around 11% in 2013. Employment has been increasing as a result of the extensions of the Public Work Scheme, while the number of jobs in the domestic private sector has been slightly declining.
- **Inflation:** One-off measures such as lower indirect tax increases and cuts in regulated energy and other utility prices contributed to a rapid fall in headline inflation down from its 2012 level of 5.7%. Inflation is projected to stand at 2.1% in 2013 and is expected to remain low due to the still negative output gap.
- **External and public sector balance:** The 2012 ESA deficit stood at 1.9% of GDP, allowing Hungary to exit from the Excessive Deficit Procedure. It is expected to widen somewhat to 2.9% in 2013. Public debt is expected to stabilise at just below 80% of GDP. The current account will continue to be in surplus, amounting to 3% of GDP in 2013.
- **Banking sector:** Banking system profitability has been negative since H2 2011 due to loan losses (aggregate NPL ratio is 18.9%) and various policy measures (bank levy, conversion of FX mortgages at a preferential exchange rate, transaction tax). Capitalisation is adequate (CAR 16.6%). External funding stands at 55% of its 2008 value, the highest decline within CESEE. The loan-to-deposit ratio fell from its early 2009 peak of 162% to 115% by the end of 2012. Credit flows have been consistently negative since Q4 2008, with an even higher decline in SME lending. The central bank's Funding for Growth initiative, launched in April 2013, aims at providing the corporate sector – and SMEs in particular – with funding below market interest rates. The second phase of the programme, with significantly increased funding, was announced in early October (after the BLS survey's cut-off date). The foreign currency denominated household credit portfolio remains a key vulnerability of the banking sector.
- **Rating:** Hungary's rating by Fitch is BB+, by Moody's is Ba1 and by S&P is BB.

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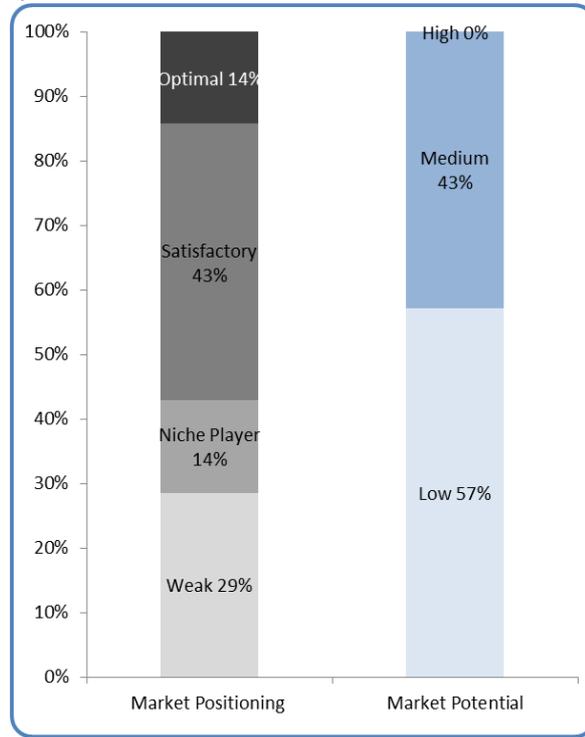
<sup>19</sup> Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

## 4. Results from the Bank Lending Survey:

### 4.1 Parent banks<sup>20</sup>

- Banking groups operating in Hungary, on average, do not differ significantly from the overall pool of parent banks in terms of their global strategies. They are somewhat less likely to raise capital (less than 20% of parents), and less likely to sell assets or branches of activities (less than 30% of parents), or to restructure their operations in general (roughly 30% of parents), over the next six months, compared to the overall parent bank sample. As to deleveraging, they are planning to stabilise the group loan-to-deposit ratio in the near future, with only 15% of the groups still expecting a decrease.

**Figure 1. Market potential and positioning – see question A.Q11**



Source : EIB – CESEE Bank Lending Survey

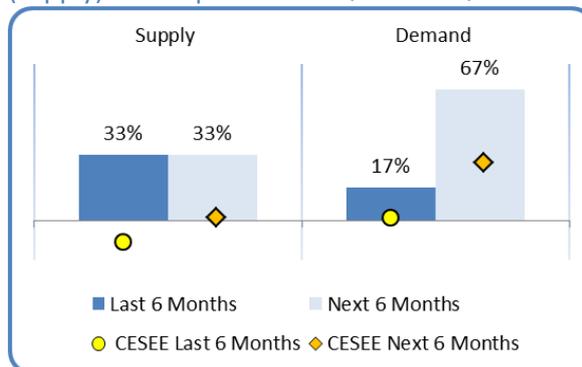
- About 43% of respondents believe that the potential of the Hungarian market is ‘medium’, while 57% answered ‘low’ (Figure 1). This indicates that the parents’ view of the country’s banking market is somewhat less favourable than that of the other ‘Visegrád 4’ countries (Czech Republic, Poland and Slovakia). The majority of the parent banks, however, are still satisfied with their current market positioning.

<sup>20</sup> In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents’ views for the CESEE region as a whole the views of those parents effectively operating in a specific country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

## 4.2 Local banks' / subsidiaries'

1. Hungarian subsidiaries and local banks generally reported improving overall demand for credit. A number of survey participants also indicated a parallel easing of supply-side constraints – a general easing of credit standards – relative to the CESEE level results. (Figure 2).

**Figure 2 : Credit Supply (credit standards) and Demand conditions – net percentages; positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q4**

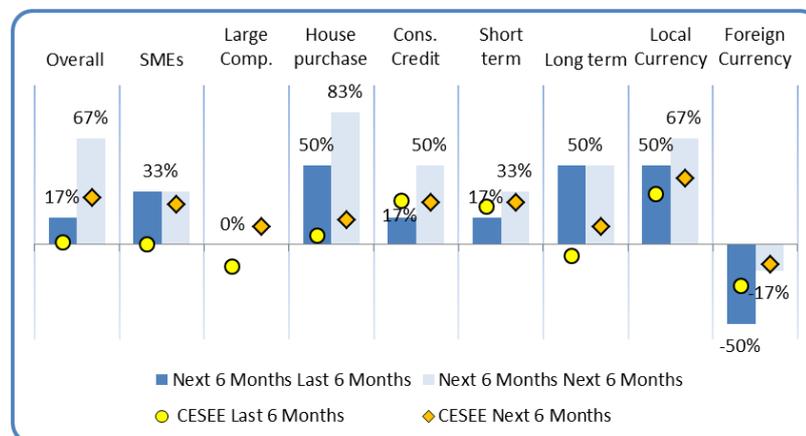


Source : EIB – CESEE Bank Lending Survey

2. This optimism may be due, on one hand to the moderate economic recovery after several years of recession, and on the other, to the significant monetary easing effected through a series of cuts in the policy rate by the central bank, and through unconventional measures, such as the Funding for Growth programme.

**Figure 3. Demand components - (net percentages; positive figures refer to an increasing demand) – see question B.Q4**

3. Financial institutions face – and expect to face in the next six months – increasing credit demand from SMEs and households, including for



Source : EIB – CESEE Bank Lending Survey

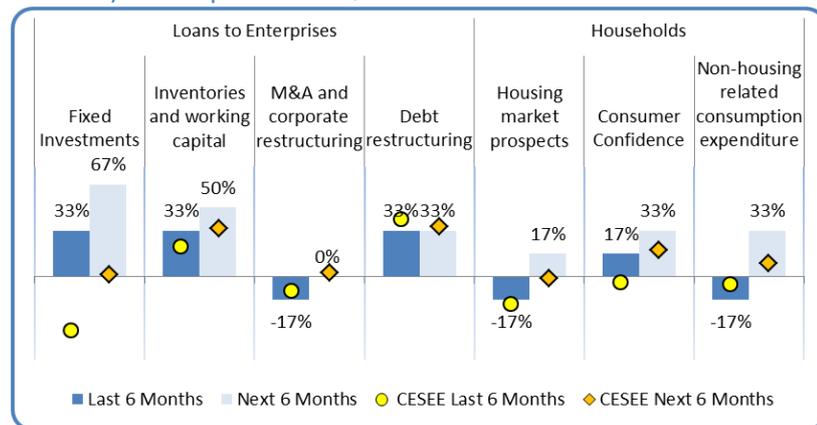
house purchase purposes. The shift of demand from foreign to local currency borrowing possibly reflects current or past negative customer experiences with foreign currency-based products, and regulatory efforts to avoid the recurrence of problematic foreign currency exposures. (Figure 3).

4. As to the factors behind credit demand, corporate demand for investment financing in particular is high, and expected to become even higher relative to the CESEE average (Figure 4). As to households' demand for credit, the strong improvement reflected in the survey answers is mostly in line with the results in peer countries, but even more evident.

5. In line with demand-side developments, the reported increase in the credit supply is also strongest for the SME sector and households, whereas large corporates are not likely to face any easing in access to financing (Figure 5). However, especially for the corporate sector, the overall credit supply outlook is still slightly more optimistic relative to the CESEE average. The strong supply of credit to the SME sector is likely to be a consequence of the first round of central bank’s Funding for Growth programme.

6. Although in general Hungarian subsidiaries and local banks report a general easing of credit standards for SMEs, when looking at individual components of credit terms and conditions, banks believe they have become tighter, and are likely to be tightened further. This is particularly true for interest rate margins. A marked difference relative to the CESEE average is that collateral requirements

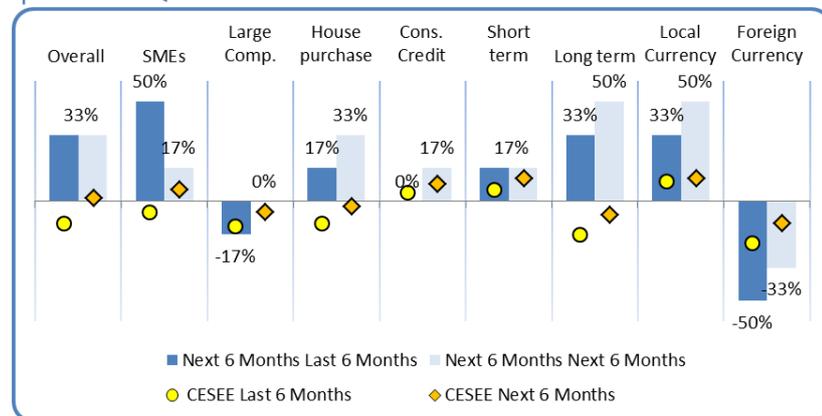
**Figure 4. Factors contributing to demand conditions – (net percentage; positive figures refer to a positive contribution to demand) – see question B.Q5**



Source : EIB – CESEE Bank Lending Survey

were not tightened, and are not expected to be further tightened in the near future either, unlike in most other countries of the peer group.

**Figure 5. Supply components – credit standards (net percentages; positive figures refer to a positive contribution to supply) – see question B.Q1**



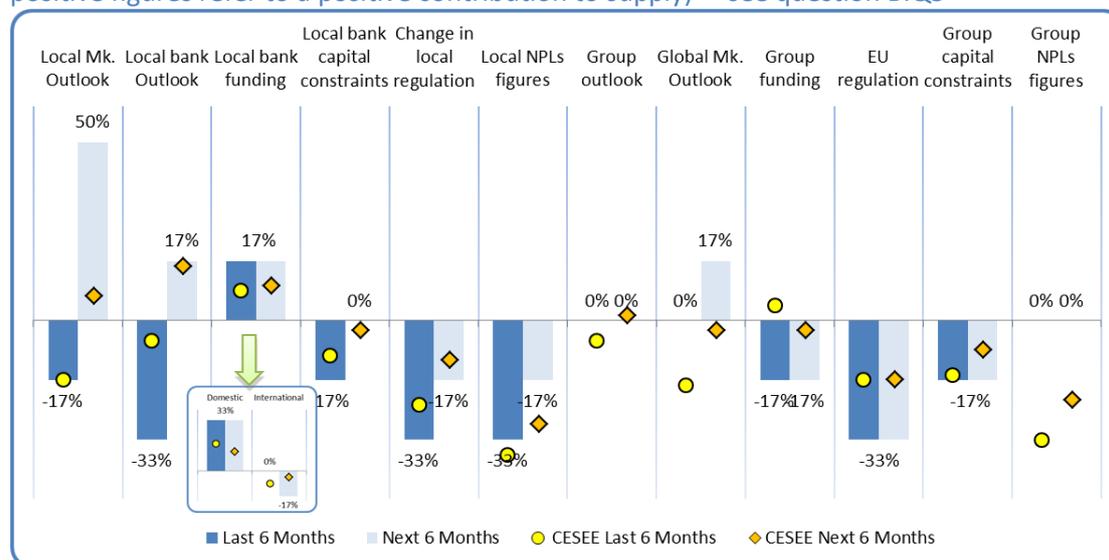
Source : EIB – CESEE Bank Lending Survey

were not tightened, and are not expected to be further tightened in the near future either, unlike in most other countries of the peer group.

7. In line with the CESEE results, Hungarian subsidiaries and local banks view both domestic and international factors as impediments to credit supply. Among international factors, group access to funding, EU regulation and group capital

constraints are considered, and are expected to remain, the key impediments (Figure 6). As for the domestic components, high domestic NPLs, and unpredictability of local regulation are expected to continue to negatively weight on credit standards, while for the next six months banks expect both local market outlook and local bank outlook to turn into positive contributors to supply.

**Figure 6. Factors contributing to supply conditions (credit standards) – (net percentage; positive figures refer to a positive contribution to supply) – see question B.Q3**

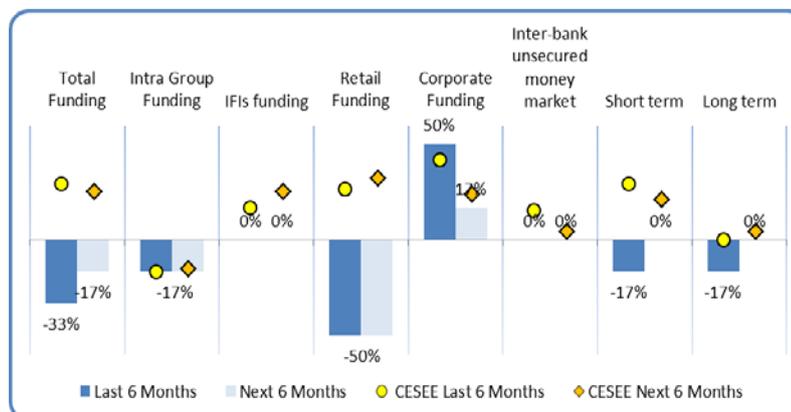


Source : EIB – CESEE Bank Lending Survey

8. Funding is seen as a pressing issue for Hungarian subsidiaries and local banks (Figure 7). Although intragroup funding is scarce across the region, local funding is more than able to replace it in many CESEE peers. In Hungary, however, this is clearly not the case: only

**Figure 7: Access to Funding – (net percentage; positive figures indicate increasing access to funding) – see question B.Q7**

corporate deposits provide a positive, but declining, overall contribution to total funding. However this is not perceived as an

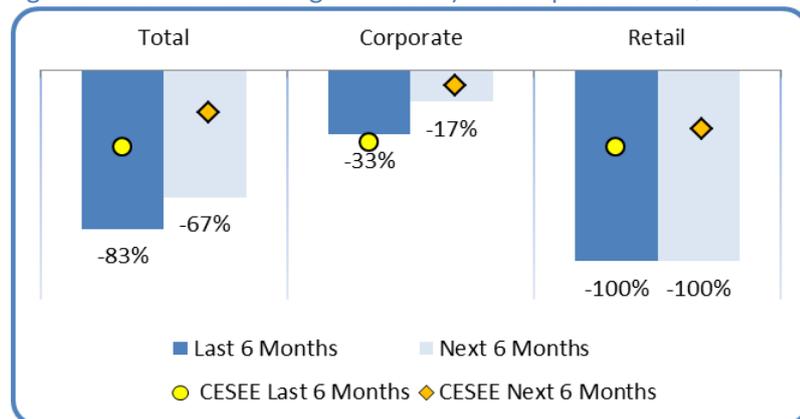


Source : EIB – CESEE Bank Lending Survey

impediment to supply conditions probably due to the ample liquidity provided by the central bank and Central bank funding programmes.

9. Levels of NPLs in Hungary, in particular for the retail sector, are expected to deteriorate further (Figure 8). This trend is in line with most other CESEE peers. However, the

**Figure 8: Non-Performing Loan ratios – (net percentage; negative figures indicate increasing NPL ratios) – see question B.Q6**



Source : EIB – CESEE Bank Lending Survey

expected deterioration is somewhat more pronounced. In most other countries in the region, a steady improvement of future expected NPLs can be observed over time, whereas in Hungary this gradual improvement is present only marginally and primarily driven by corporate sector figures.



# Poland

## 1. Key statistics<sup>21</sup>

- Number of banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as percentage of total assets): 40%
- Current level of NPLs as percentage of total loans: 8.9% - Q1:2013, source: NBP FSR.
- Latest credit growth – yoy: 2.2% - Q1:2013, source: NBP FSR.
- Loan-to-deposit ratio: 110%.
- CAR: 15.4% - Q1:2013, source: NBP FSR

## 2. Key Messages - *attractive market, with expected improvement in demand and supply conditions*

### International Groups' views:

- **Group Strategies:** The parent banks operating in Poland are less likely to engage in major restructuring than the overall sample included in the survey. They expect to maintain a stable group loan-to-deposit ratio over the next six months.
- **Group assessment of positioning and market potential:** All the international Groups operating in Poland record a higher profitability in their CESEE operations, compared to the overall group profitability. They remain committed to their regional strategy. Parent banks are satisfied with their current positioning in the Polish market and indicate significant market potential.

### Subsidiaries' / local banks' views:

- Polish banks report that **subdued demand and a still tight supply** conditions are behind the sluggish credit growth. Both demand and supply are expected to increase in the next six months, reflecting expectations about an improvement in economic conditions.
- **Credit supply** conditions are likely to ease for SMEs and consumer credit, while they are expected to remain tight for mortgage loans. Polish banks do not see international factors as an impediment to credit supply. Changes in local regulations and their own NPLs, as well as the local market outlook, were the main constraints on supply in the last six months, with only local NPLs expected to remain a constraint in the next six months.
- **Demand for loans** is expected to be stronger in Poland than for the CESEE region as a whole, particularly in the corporate investment segment.
- **Access to funding:** Polish banks do not signal funding problems. Most of the funding comes from local sources, primarily retail and corporate deposits.
- **NPL figures** were reported to be broadly stable over the last six months, but are expected to deteriorate somewhat in the near future.

<sup>21</sup> Sources: The National Bank of Poland, Unicredit/Bank Austria and Raiffeisen Research

### 3. Relevant macroeconomic and banking conditions<sup>22</sup>

- **Growth:** GDP growth slowed down to 1.9% in 2012 due to lower public spending, weaker export demand and employment uncertainty. Growth is expected to moderate further to around 1.3% in 2013, with gradual improvement projected further ahead. Net exports will be the key driver of growth this year, while domestic demand is likely to recover only from 2014 onwards.
- **Unemployment:** In parallel with the slowdown, Poland has been facing a gradually increasing unemployment rate, with a forecast of 10.9% for 2013. With stronger growth expected from 2014, unemployment is also forecast to decline.
- **Inflation:** Inflation has declined rapidly since mid-2012 due to weak domestic demand and low commodity and gas price developments. Inflation is forecast to be around 1% in 2013, with a moderate pick-up to 2% in 2014.
- **External and public sector balance:** Weak domestic demand resulted in a marked improvement in the current account, which is expected to show a deficit of 1.5% this year. On the fiscal side, Poland managed to reduce its fiscal deficit from 7.9% in 2010 to 3.9% in 2012. The slowdown in the economy is likely to bring a halt to further budgetary consolidation, and the deficit is likely to widen to 4.8% of GDP in 2013. Looking ahead, the planned pension reform is likely to result in a headline fiscal surplus of 4.6%, corresponding to a deficit of around 4% without the windfall revenue from the pension scheme.
- **Banking sector:** The Polish banking system weathered the financial crisis well and remained profitable, well capitalised and liquid. The CAR in Q1 2013 stood at 15.5%, ROE in 2012 was 13.4%. Asset quality is deteriorating slightly, but Polish banks' average NPL ratio of 8.9% is still low relative to other CESEE countries. The orderly withdrawal of parent funding, reflected in the decline of the loan-to-deposit ratio to 110%, was offset by increasing domestic funding. This allowed for consistently positive credit growth recently, declining from the double-digit range to 2.2%. Although regulatory action has contained the earlier practice of foreign currency mortgage lending, this portfolio comprises about 22% of total loans and more than half of mortgages, creating a potential vulnerability for foreign currency liquidity.
- **Rating:** Poland is currently rated A-(stable) by S&P, A2 (stable) by Moody's and A- (positive) by Fitch.

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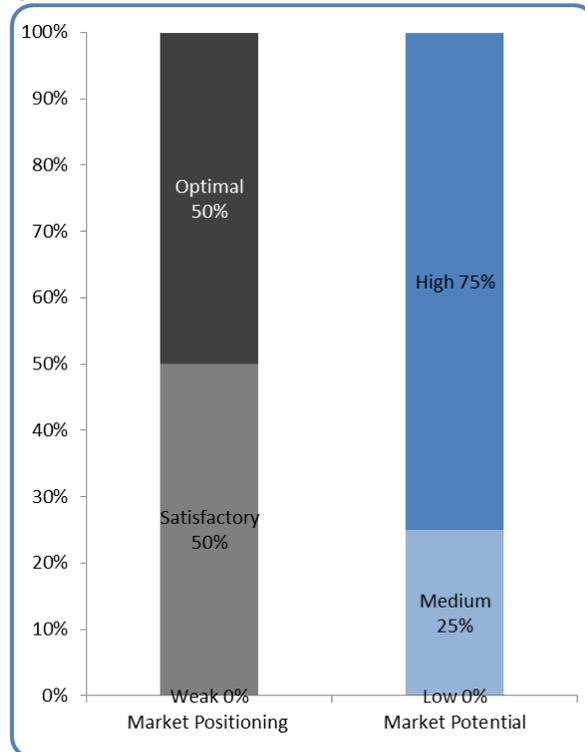
<sup>22</sup> Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

## 4. Results from the Bank Lending Survey:

### 4.1 Parent banks<sup>23</sup>

1. The parent banks operating in Poland tend to be more optimistic regarding their global operations than the overall sample of parent banks included in the survey. They are less likely to engage in any major restructuring than the overall sample of parents. It seems that these banking groups have also reached their targeted leverage at group level, as they signal that they intend to maintain a stable loan-to-deposit ratio over the next six months.
2. Groups operating in Poland remain committed to their regional strategy. They signal intentions to expand, or selectively expand, their activities in the region, more than the full sample. 100% of the parent banks active in Poland report a higher profitability from their CESEE operations compared to their overall group profitability. Overall, parent banks operating in Poland seem to be satisfied with their market positioning in the country (Figure 1), and they see significant market potential. In a regional comparison the Polish market is clearly considered to be one of the most attractive in the CESEE region.

Figure 1. Market potential and positioning – see question A.Q11



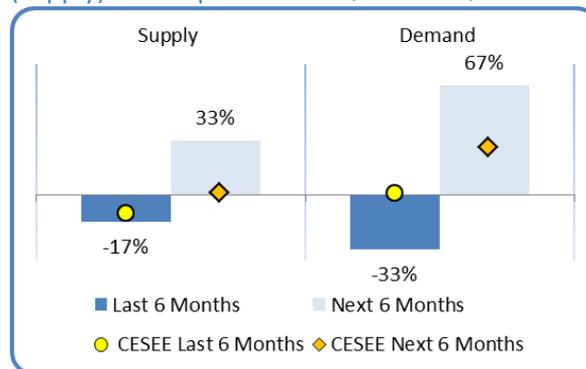
Source : EIB – CESEE Bank Lending Survey

<sup>23</sup> In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a specific country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

## 4.2 Local banks' / subsidiaries'

1. Broadly in line with the overall CESEE assessment, positive expectations about economic recovery are reflected in Polish banks' general view on future credit activity. Demand is likely to become significantly higher relative to the subdued trend observed over the previous six months, while the assessment of credit supply shows a similar trend, with an easing phase over the next six months, albeit less pronounced than the expected demand dynamics (Figure 2).

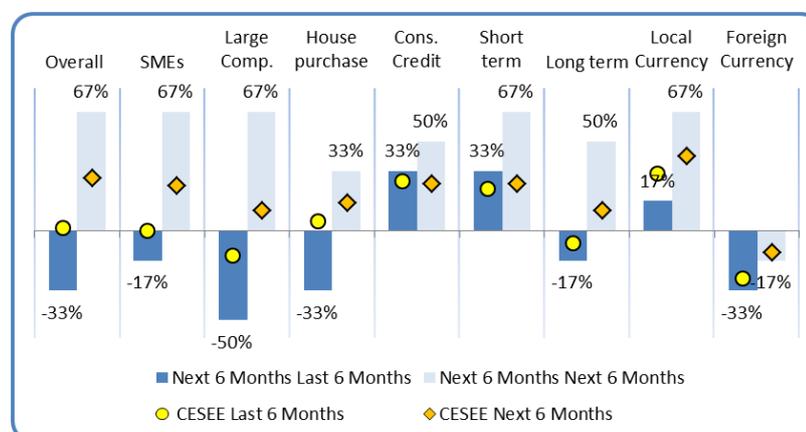
**Figure 2 : Credit Supply (credit standards) and Demand conditions – net percentages; positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q4**



Source : EIB – CESEE Bank Lending Survey

2. After a more subdued period, financial institutions expect to face high credit demand across the board from wholesale clients, SMEs and households. The expected

**Figure 3. Demand components - (net percentages; positive figures refer to an increasing demand) – see question B.Q4**



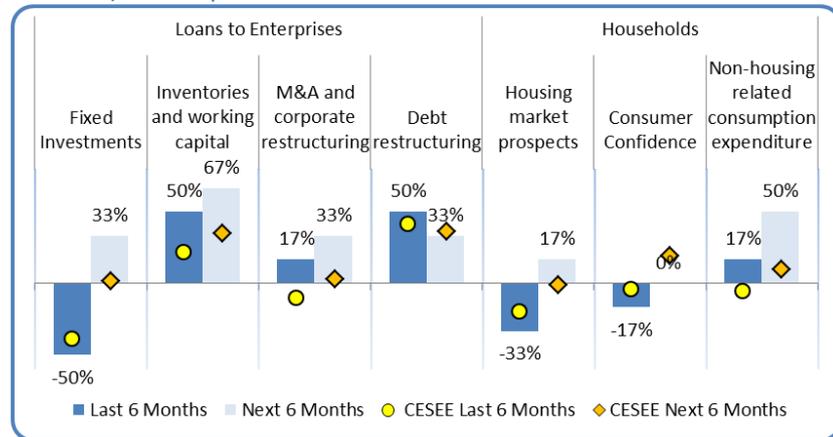
Source : EIB – CESEE Bank Lending Survey

large increase in demand for corporate credit provides a stronger signal than the more subdued positive change observed across the CESEE region. The shift of demand from foreign currency to local currency borrowing possibly reflects the successful regulatory efforts to contain the growth of riskier (e.g. EUR- and CHF-denominated) products (Figure 3).

3. In line with the general CESEE result, corporate sector credit demand has been mainly related to inventories, working capital and debt restructuring, rather than investments over the last six months (Figure 4). Looking ahead, demand factors give stronger positive signals in Poland than in other countries in the region, particularly for investment. Households' credit demand is expected to be primarily driven by non-housing related consumption in line with the CESEE trend.

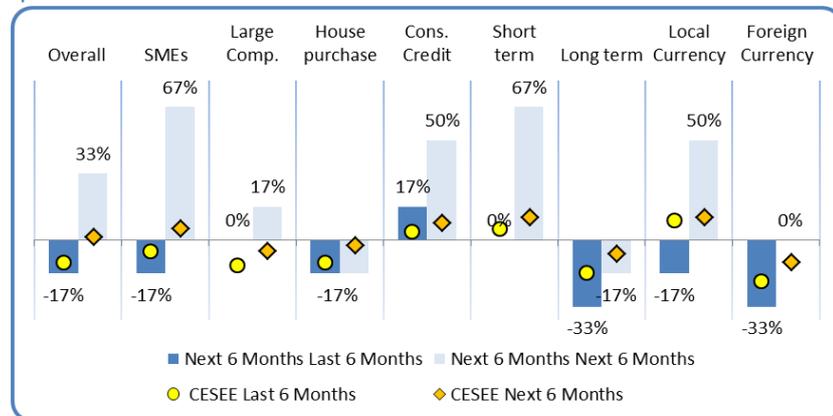
4. Credit supply conditions for SMEs are also expected to ease, together with demand, after a more contractionary situation reported for the last six months. For larger corporates and mortgages, however, banks' willingness to lend would not follow the increasing propensity to borrow. Still, the credit supply to the corporate sector in particular reveals a positive overall outlook in Poland relative to the CESEE average (Figure 5).

**Figure 4. Factors contributing to demand conditions – (net percentage; positive figures refer to a positive contribution to demand) – see question B.Q5**



Source : EIB – CESEE Bank Lending Survey

**Figure 5. Supply components – credit standards (net percentages; positive figures refer to a positive contribution to supply) – see question B.Q1**

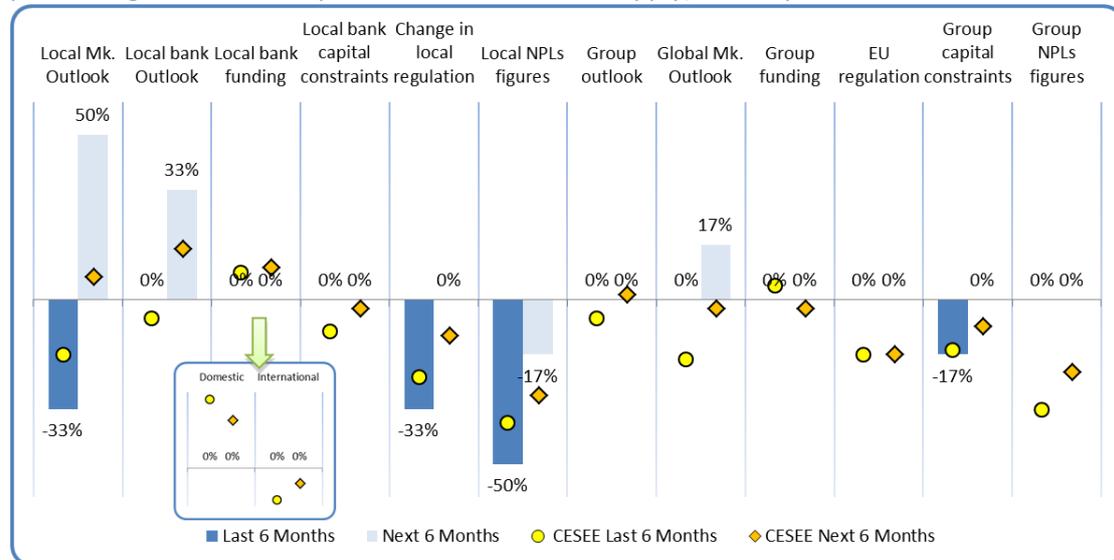


Source : EIB – CESEE Bank Lending Survey

- Although banks are expecting an easing in the credit supply to SMEs, collateral requirements are likely to become tighter in this segment of the market.
- Polish banks – unlike their peers in the CESEE region – do not see international factors as an impediment to credit supply, except for group capital constraints over the past six months. This is likely to be a consequence of the parent banks' general view that the Polish market has high potential. Looking at the domestic factors, the local market outlook, changes in local regulation and NPL figures played a constraining role on supply conditions. This is very much in line with the CESEE region. On the other hand, the local market outlook and local bank outlook are expected to make a positive contribution over the next six months,

whilst local NPL ratios continue to contribute negatively to credit supply conditions in line with the general regional picture (Figure 6).

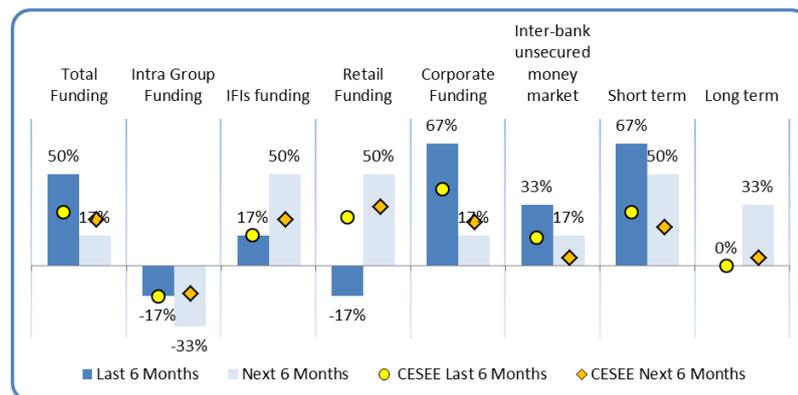
**Figure 6. Factors contributing to supply conditions (credit standards) – (net percentage; positive figures refer to a positive contribution to supply) – see question B.Q3**



Source : EIB – CESEE Bank Lending Survey

7. Funding does not seem to be a constraining issue for Polish banks (Figure 7). Banks reveal substantial improvement in funding from corporates and IFIs. Intra-group funding, as elsewhere, is on the decline. Looking ahead, retail funding is expected to pick up, and there is a sign that longer-term funding will also strengthen in the future.

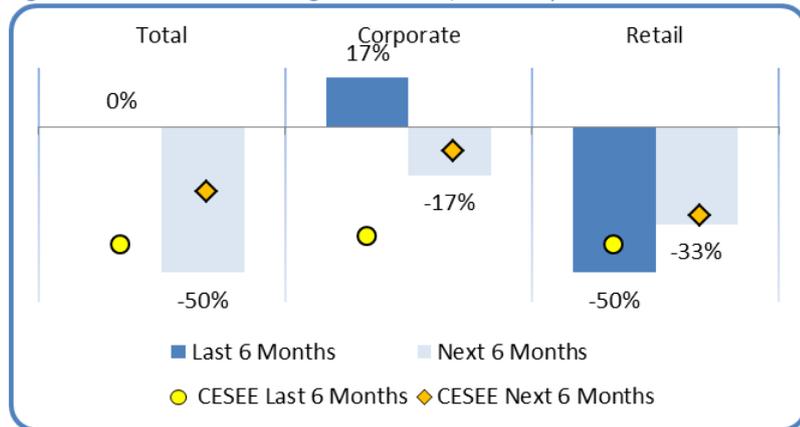
**Figure 7: Access to Funding – (net percentage; positive figures indicate increasing access to funding) – see question B.Q7**



Source : EIB – CESEE Bank Lending Survey

8. NPL figures in Poland have been stable over the last six months, with a slight improvement perceived in the corporate sector and deterioration observed in the household

**Figure 8: Non-Performing Loan ratios – (net percentage; negative figures indicate increasing NPL ratios) – see question B.Q6**



Source : EIB – CESEE Bank Lending Survey

segment (Figure 8). Looking ahead, banks expect a slight worsening in the corporate segment and a continuation of the decline in credit quality for the household portfolio. This influences expectations of an increase in the aggregate NPL ratio over the next six months.



# Romania

## 1. Key statistics<sup>24</sup>

- Number of banks/subsidiaries participating in the survey: ten
- Approximate share of assets covered (as percentage of total assets): roughly 67%
- Current level of NPLs as percentage of total loans: 21% - Q2:2013
- Latest credit growth – yoy: -3.5% - Sept 2013
- Loan-to-deposit ratio: 111.5% - Sept 2013
- CAR: 14.67% - Q2:2013

## 2. Key Messages - *easing constraints, but credit quality concerns*

### International Groups' views:

- **Group Strategies:** Cross-border banks operating in Romania are still facing restructuring and deleveraging at the group level with a slightly more evident propensity to strategic restructuring primarily via sales of assets and raising of capital on the market than the overall sample of banks in the survey.
- **Group assessment of positioning and market potential:** The strategic approach to the CESEE region is increasingly selective. However, parents operating in Romania remain committed to the CESEE region as they do not signal intentions of reductions of operations. Groups operating in Romania tend to assess the market as difficult but promising. Market positioning in Romania is regarded as weak to satisfactory, whereas the market potential is rated as medium to high.

### Subsidiaries' / local banks' views:

- Subsidiaries operating in Romania report that **still tight supply** and **moderately increasing demand** are behind the persistently negative credit growth.
- **Credit supply:** Banks expect supply to shift from a tight to a neutral position. Changes in local regulation and high NPL figures at the local and group levels are the factors constituting a drag on supply conditions.
- **Credit demand:** The demand for loans is expected to continue expanding across the board. Within the corporate segment, the demand for credit for investment is expected to stop decreasing. Working capital and debt restructuring are expected to continue supporting demand over the next six months.
- **Access to funding:** Subsidiaries signal an improving funding situation whereby most of the increased funding comes from local sources, primarily retail and corporate deposits. The question remains whether domestic funding will be enough to sustain a more dynamic demand for credit, once recovery starts.
- **NPL figures:** credit quality remains a clear concern, with the NPL ratio tentatively bottoming-out but remaining high.

<sup>24</sup> Sources: The National Bank of Romania, Unicredit/Bank Austria and Raiffeisen Research

### 3. Relevant macroeconomic and banking conditions<sup>25</sup>

- **Growth:** After a weak performance in 2012, growth is expected to strengthen in the medium term. Growth rates are forecast to be above 2% until 2015. The growth pattern for 2013 shows a strong contribution of external demand to growth, but investment dips into negative territory. In 2014 and 2015, both investment and private and public consumption are expected to recover.
- **Unemployment:** unemployment decreased marginally to 7% in 2012. It is expected to remain slightly above 7% in the medium term.
- **Inflation:** inflation decreased substantially over the last few years on the back of weak demand-side pressures. Disinflation is reinforced by falling food prices. The inflation rate is expected to fall to 2.5% in 2014.
- **External and public sector balance:** the country is making progress both in terms of fiscal consolidation and correction of external imbalances. The current account deficit is expected to reach a long-time low of 1.2% of GDP. The budget deficit is forecast to decrease to 2.5% of GDP this year with further reduction in the medium term.
- **Banking sector:** The capitalisation of the banking sector is above the required minimum (CAR 14.67% Q2:2013). NPLs are high at 21%, having risen strongly since 2009. The loan-to-deposit ratio, which has been decreasing since the peak of 126% in 2008, stood at 112% in September 2013. Lending growth has been decreasing strongly during the financial crisis. In September 2013 lending shrank by 3.5% in annual terms. Growth in local deposits has been rather robust over the last three years.
- **Rating:** Romania is currently rated by Moody's (Baa3), Fitch (BBB-) and S&P (BB+).

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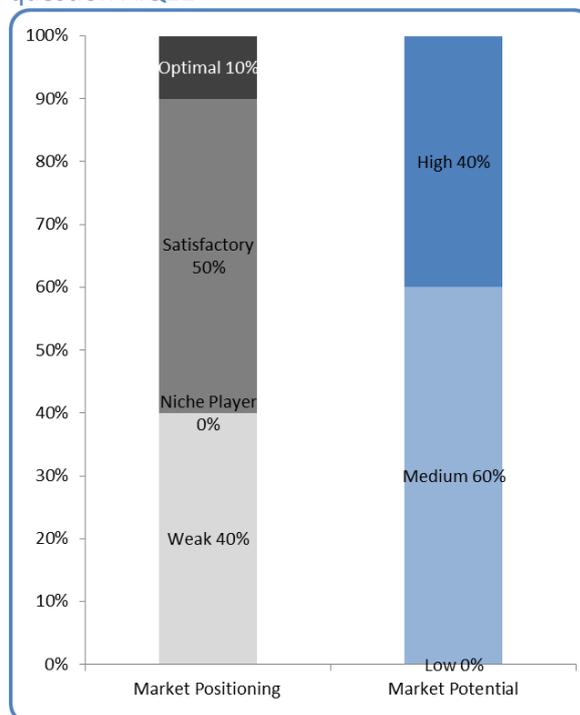
<sup>25</sup> Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

## 4. Results from the Bank Lending Survey:

### 4.1 Parent banks<sup>26</sup>

1. The parent banks operating in Romania tend to have the same assessment of the region as the overall sample of parent banks operating in CESEE. However, there is one difference: 60% of the bank groups active in Romania have restructured operations over the last six months and 60% are thinking about strategic restructuring at the Group level over the next six months. Both figures compare to 46% of the overall sample of groups included in the survey. Deleveraging is supposed to continue: 50% of the parent banks active in Romania expect the group loan-to-deposit ratio to decrease over the next six months.

Figure 1. Market potential and positioning – see question A.Q11



Source : EIB – CESEE Bank Lending Survey

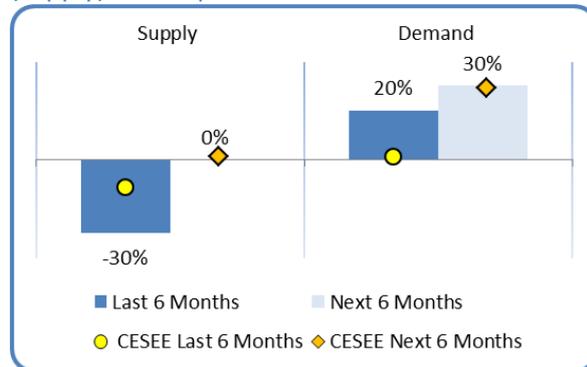
2. As for their longer-term strategic approach, groups operating in Romania tend to differentiate their regional strategy more over the next six months: on the one hand, reducing operations via some subsidiaries (30% of answers), and on the other, selectively expanding operations via subsidiaries in other countries (30% of answers). The profitability of their operations in CESEE in relation to overall profitability is also expected to improve over the next six months by parent banks operating in Romania. However the expectations are still below those of parent banks in the aggregate CESEE region. All in all, parent banks operating in Romania tend to assess the Romanian market as difficult but promising. 40% of the respondents consider their market positioning to be weak (Figure 1). However, no banking group considers the market potential to be low, which locates the assessment of the Romanian market in the upper league among the CESEE countries assessed in this survey.

<sup>26</sup> In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a specific country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

## 4.2 Local banks' / subsidiaries'

1. Subsidiaries operating in Romania describe supply conditions as tightening over the last six months while demand has been increasing. Over the next six months supply conditions are expected to take a neutral position whereas demand is expected to expand further (Figure 2).

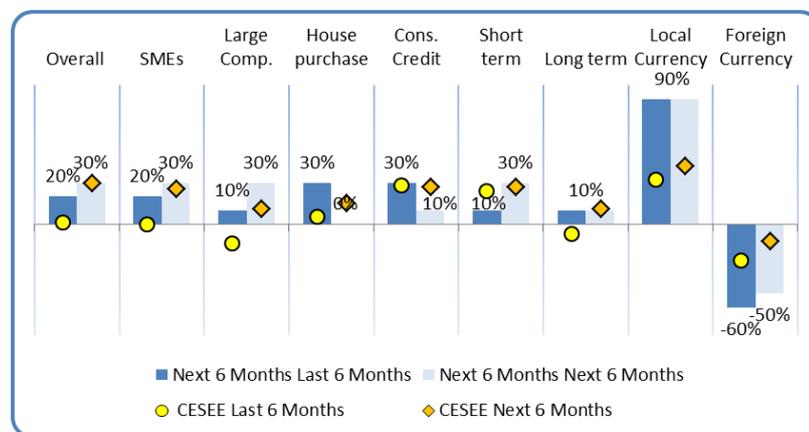
**Figure 2 : Credit Supply (credit standards) and Demand conditions – net percentages; positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q4**



Source : EIB – CESEE Bank Lending Survey

2. Demand in all sectors and maturities is seen to be on an increasing trend except demand for foreign currency loans (Figure 3). The latter feature can be observed in the overall CESEE region; however, it is more evident in Romania as mortgages in local currency are supported and interest rates on local currency denominated loans are falling. This should bring down the already existing high stock of foreign currency denominated debt.

**Figure 3. Demand components - (net percentages; positive figures refer to an increasing demand) – see question B.Q4**



Source : EIB – CESEE Bank Lending Survey

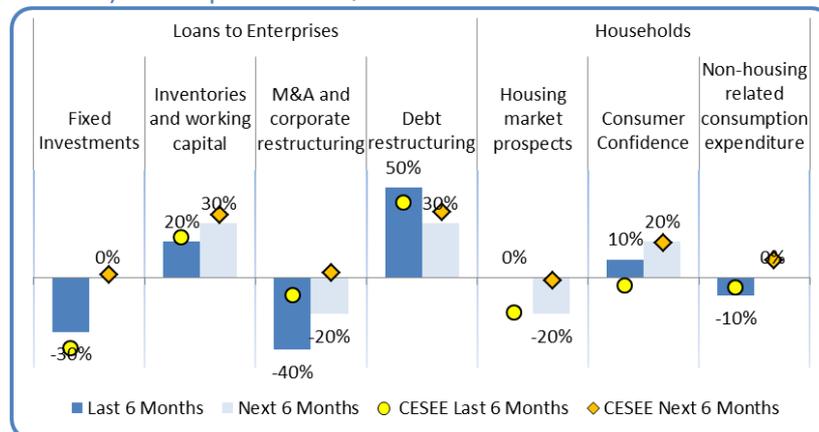
3. Figure 4 shows that mildly positive demand was derived primarily from working capital and debt restructuring over the past six months whilst investments and corporate restructuring had a negative impact. This is in line with the aggregate regional messages. Looking ahead, these trends remain intact over the next six months, and credit demand for investments is expected to turn from decreasing to stable in line with the aggregate CESEE region.

4. Supply has been tight over the past six months. This has been driven by tight credit standards for both companies and households and for both short and long-term credit. The supply of local currency credit eased, whereas the supply standards for foreign currency loans tightened rather strongly (Figure 5). Subsidiaries expect aggregate supply to stop tightening over the next six

months. One outstanding segment is mortgages, where supply contracted significantly over the last six months and is expected to turn neutral over the next six months. The slightly expanding supply of loans for SMEs, consumer credit and short-term credit, observed in other countries of the region, is not yet visible in Romania. Banks' terms and conditions, such as the size of loans and collateral requirements, are expected to tighten further in the next six months.

months. One outstanding segment is mortgages, where supply contracted significantly over the last six months and is expected to turn neutral over the next six months. The slightly expanding supply of loans for SMEs, consumer credit and short-term credit, observed in other

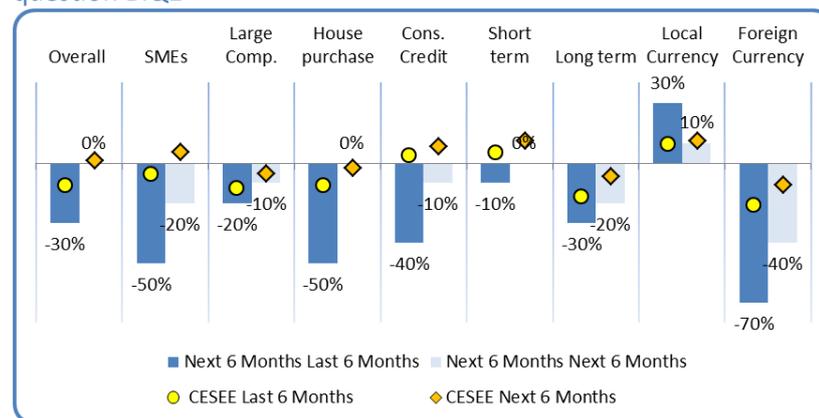
**Figure 4. Factors contributing to demand conditions – (net percentage; positive figures refer to a positive contribution to demand) – see question B.Q5**



Source : EIB – CESEE Bank Lending Survey

5. When SMEs are considered, the very same messages in terms of trends of demand and supply seem to emerge. Supply is still tightening, but to a lesser degree, whereas demand is picking up. In addition, the terms and conditions for

**Figure 5. Supply components – credit standards (net percentages; positive figures refer to a positive contribution to supply) – see question B.Q1**



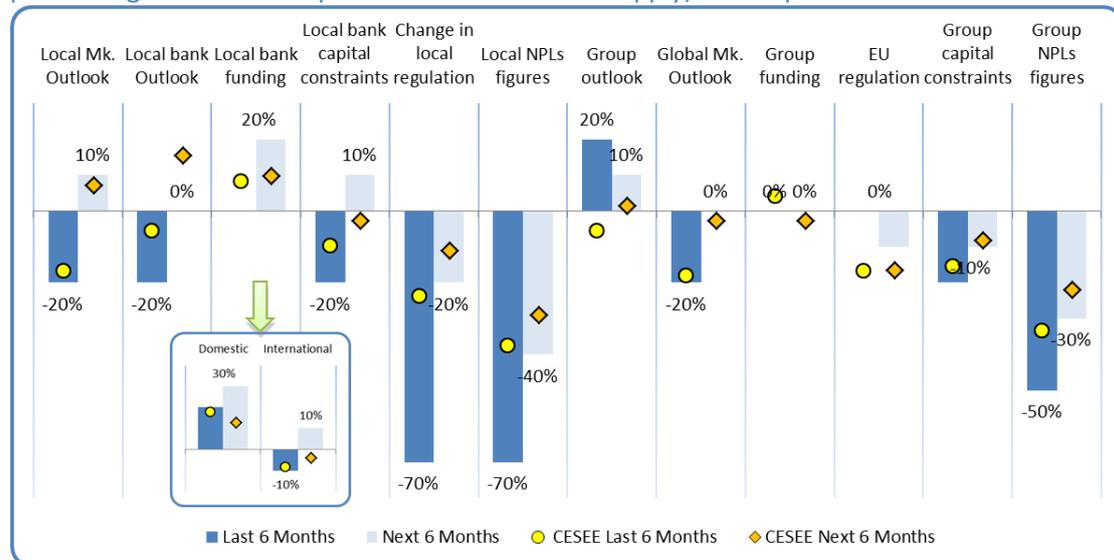
Source : EIB – CESEE Bank Lending Survey

SME financing are expected to continue to tighten. In detail, the average loan size is expected to be reduced, and collateral requirements as well as other conditions are expected to tighten further.

6. Both international and domestic factors played a role in determining supply conditions. Changes in local regulation and local NPL figures still constitute a drag on supply conditions. Among the international factors, NPL figures at the group level had the strongest negative impact on supply conditions (Figure 6).

Looking ahead, Group NPLs, local NPLs and changes in local regulation are thought as the main constraining factors.

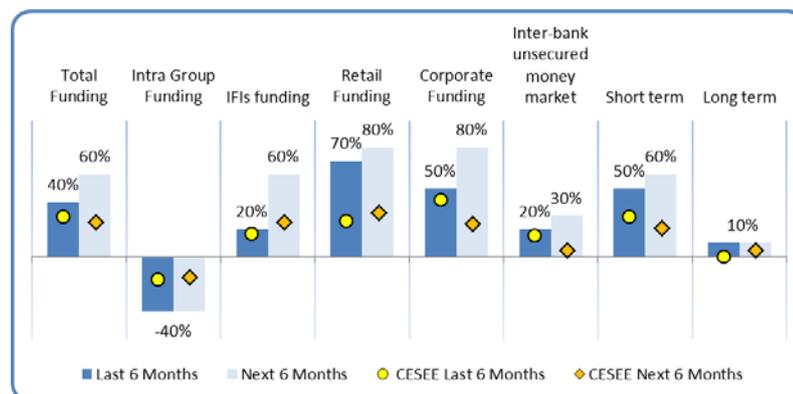
**Figure 6. Factors contributing to supply conditions (credit standards) – (net percentage; positive figures refer to a positive contribution to supply) – see question B.Q3**



Source : EIB – CESEE Bank Lending Survey

7. In a scenario of negative lending growth, subsidiaries report improving aggregate access to funding in the last six months (Figure 7). All domestic sources of funding expanded, with the most noticeable dynamic in retail and corporate funding. Short-term funding expanded more than long-term

**Figure 7: Access to Funding – (net percentage; positive figures indicate increasing access to funding) – see question B.Q7**



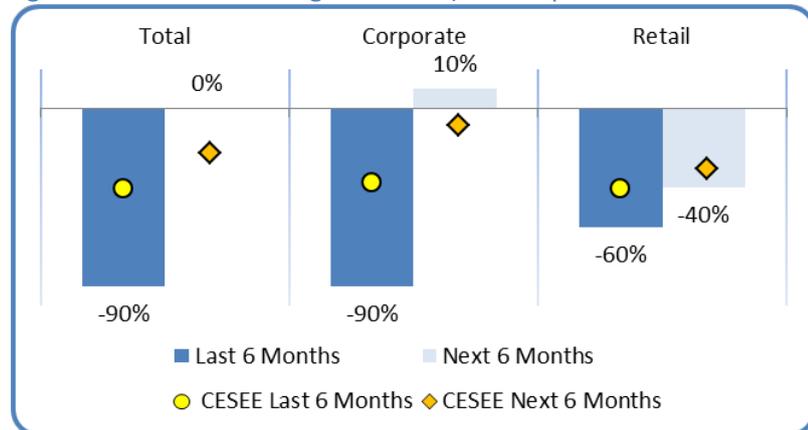
Source : EIB – CESEE Bank Lending Survey

funding. On the other hand, intra-group funding is on a decreasing trend as in the CESEE region as a whole. Over the next six months, this pattern is expected to improve further, with even more dynamism in retail and corporate funding. The question remains whether exclusive reliance on domestic funding will be enough to sustain a more dynamic demand for credit, once economic recovery restarts.

8. The survey points strongly to a continued deterioration of NPL figures over the last six months (Figure 8). This is in line with the latest available hard data. The survey notably indicates a larger increase in the corporate than the retail sector.

Past developments are in line with the aggregate region, but subsidiaries in Romania foresee a stabilisation in the NPLs ratio, still at the very high levels reached so far.

**Figure 8: Non-Performing Loan ratios – (net percentage; negative figures indicate increasing NPL ratios) – see question B.Q6**



Source : EIB – CESEE Bank Lending Survey



# Serbia

## 1. Key statistics<sup>27</sup>

- Number of banks/subsidiaries participating in the survey: ten
- Approximate share of assets covered (as percentage of total assets): roughly 55%
- Current level of NPLs as percentage of total loans: 19.9% - Q2:2013
- Latest credit growth – yoy: -6.8% - August 2013
- Loan-to-deposit ratio: 145% in 2012
- CAR: 20.2% - Q2:2013

## 2. Key Messages - *Banks report tightening supply on the backdrop of deteriorating market conditions and concerns for credit quality*

### International Groups' views:

- **Group Strategies:** in line with the overall sample of international banks included in the survey, cross-border banks operating in Serbia continue their restructuring and deleveraging processes at the global level.
- **Group assessment of positioning and market potential:** groups operating in Serbia remain committed to their CESEE strategy, despite being increasingly selective among countries. 60% of these groups record lower profitability in the CESEE region relative to their overall group profitability. However, some 80% of international banks active in the country assign a medium-high rating to the Serbian market's potential in the medium term.

### Subsidiaries' / local banks' views:

- **Credit supply** is still reported as tight and is expected to remain tight over the next six months. Both international and domestic factors play a role in determining such tight supply. The global market outlook, group-wide NPL levels and EU regulation are mentioned as having had a clear negative effect on credit conditions. Looking at the local factors, NPLs and the local market outlook were the key constraining factors over the past six months.
- **Demand for loans** has been moderately positive, driven by the consumer segment only. On the corporate side, the positive stimulus coming from demand for working capital and debt restructuring is more than balanced by strongly declining demand for investment.
- **Access to funding:** banks record access to funding as a constraining factor for supply, but they also report an easing of funding conditions. New funding comes from local sources, primarily retail and corporate deposits, and is mostly short term. IFI funding also made a notable positive contribution for Serbian banks.
- **NPL figures** remain on a deteriorating trend. Credit quality remains a key concern for Serbian banks, also in view of the relatively high NPL ratio.

<sup>27</sup> Sources: National Bank of Serbia, Unicredit/Bank Austria and Raiffeisen Research

### 3. Relevant macroeconomic and banking conditions<sup>28</sup>

- **Growth:** The economy dipped into a technical recession in 2012, while annual growth was consistently lower than pre-crisis levels in 2010 and 2011. A recovery started in 2013. However, real GDP grew only 0.2% yoy in the second quarter, while seasonally adjusted data point to mild negative growth. Exports were the only driver of growth (9.2% yoy in Q2:2013) whilst domestic demand continued to contract on the back of declining real incomes and large reductions in public consumption. Investments also contracted sharply, primarily driven by the freefall in the construction sector. Real GDP is forecast to grow by an average 1.8% in 2013 and 2014.
- **Unemployment:** Unemployment increased sharply over the last two years and currently averages around 24.1%. In line with the bleak labour market situation, gross and net wages have been declining in real terms during the past year.
- **Inflation:** Headline inflation was 7.3% yoy in August 2013, a relatively high level. However, inflation decreased substantially over the last year on the back of weak demand-side pressures, and it is forecast to fall further in 2014 (5.4% yoy).
- **External and public sector balance:** The current account is negative at roughly 6.8% of GDP in Q2:2013, on an improving trend compared to previous years. Public debt has been increasing rather fast, and stood at 60.7% of GDP in the second quarter of 2013. The fiscal deficit is increasing, with a 5.1% deficit reported in the second quarter of 2013.
- **Banking sector:** Aggregate profitability was positive in Q2:2013. However, it has been on average below average pre-crisis levels. The level of capitalisation for the entire banking sector (CAR 20.2% Q2:2013) exceeds the regulatory minimum. NPLs have been increasing sharply and reached levels of 19.9% in 2013 starting from 11.3% in 2008. The loan-to-deposit ratio stood at 145% in 2012. Bank lending continued to slow down, registering negative annual growth of 2.9% in the second quarter of 2013 (dipping more negative in August 2013, -6.8%) against a 12.9% yoy increase in 2012. Growth in local deposits has been rather robust over the last three years. This has partially offset the reduction of cross-border assets allocated to Serbia. Recently, however, the deposit growth rate decelerated. All in all, over the last year the cross-border external position of BIS-reporting banks vis-à-vis other banks has been marginally negative in both gross and net terms, with a more marked drop in Q2:2013.
- **Rating:** Serbia is currently rated by Moody's (B1, stable), S&P (BB-, negative) and Fitch (BB-, negative).

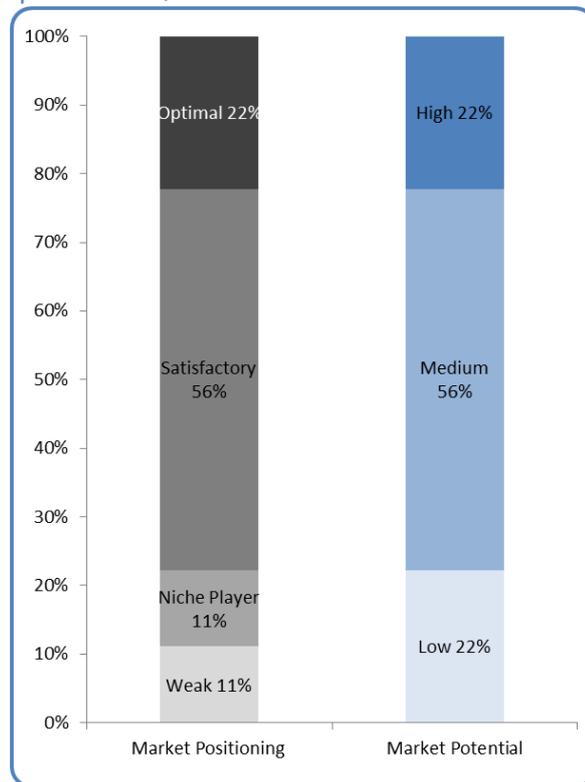
<sup>28</sup> Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

## 4. Results from the Bank Lending Survey:

### 4.1 Parent banks<sup>29</sup>

1. The parent banks operating in Serbia tend to have similar preferences to the overall set of parents included in the survey in terms of both strategic restructuring and any other form of operation to increase their capital ratio at a global level. Notably, the reported propensity to engage in the sale of branches and assets is very similar to the overall group preferences. All in all, roughly 40% of the parent banks operating in Serbia expect further reductions in the loan-to-deposit ratio over the next six months at the group level. This is perfectly in line with the expectations of the whole set of international banks included in the survey.

**Figure 1. Market potential and positioning – see question A.Q11**



Source : EIB – CESEE Bank Lending Survey

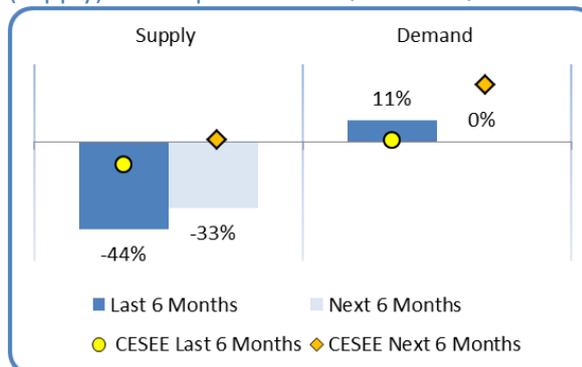
2. As their restructuring process continues, groups operating in Serbia remain committed to the regional strategy. However, they are increasingly selective in their local strategies within the CESEE region with an even distribution between the options of increasing and decreasing operations. These parent banks also signal a marginal deterioration of their profitability in the CESEE region relative to their group profitability (measured in terms of return on assets). They expect it to stabilise or increase further over the next six months. Overall, roughly 60% of the international bank active in Serbia see their CESEE profitability lower versus overall group profitability. Looking ahead, the situation is expected to marginally improve with 40% expecting the CESEE profitability to be lower than group profitability, while 20% expect it equal and 40% higher. The majority of the banks operating in Serbia are fairly satisfied with their current market positioning. 80% of these Groups assign a mid-high rating to the Serbian market's potential (Figure 1). However, 22% of the foreign groups consider the Serbian market to have low potential.

<sup>29</sup> In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a specific country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

## 4.2 Local banks' / subsidiaries'

1. In the context of negative credit growth, subsidiaries operating in Serbia report that supply factors were primarily behind the recent credit dynamics. Serbian banks have described supply conditions as being in a tightening phase whilst demand has been more positive than in the aggregate CESEE region over the past six months (Figure 2). In the next six months, demand conditions are expected to remain broadly unchanged whilst aggregate supply conditions are still described as being in a tightening phase, albeit at a slightly improved level. Hence supply is expected to be tighter than in the CESEE region as a whole.

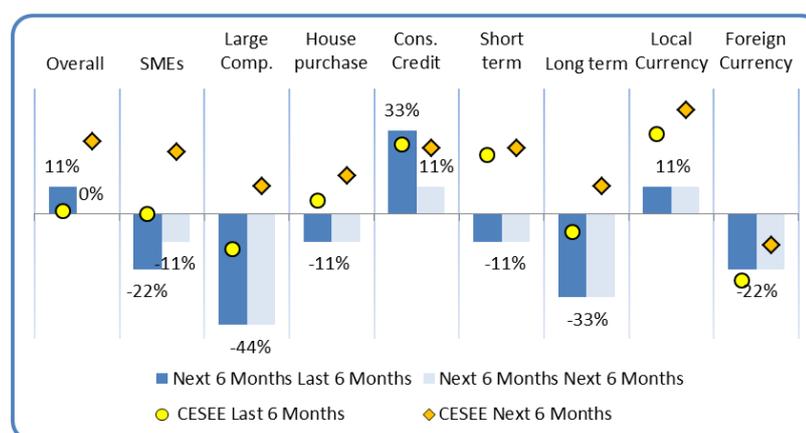
**Figure 2 : Credit Supply (credit standards) and Demand conditions – net percentages; positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q4**



Source : EIB – CESEE Bank Lending Survey

2. Demand for loans has been subdued across the board in CESEE and Serbia is no exception. After the 2012 recession and in line with an unstable on-going recovery, demand conditions are still described

**Figure 3. Demand components – (net percentages; positive figures refer to an increasing demand) – see question B.Q4**



Source : EIB – CESEE Bank Lending Survey

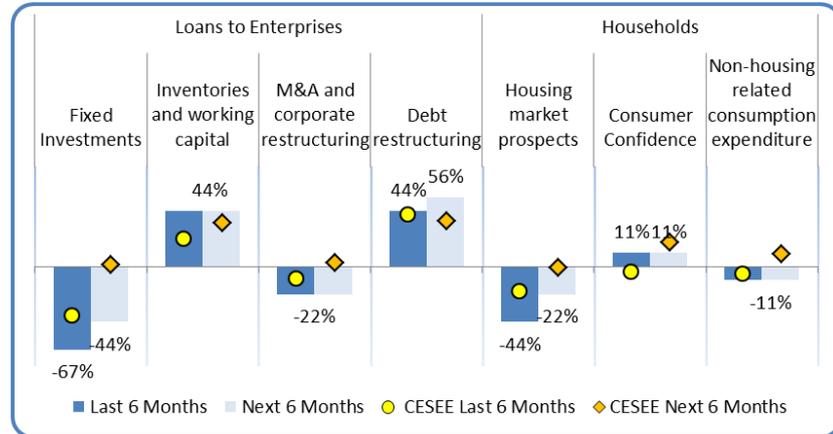
as soft in Serbia. After a marginal increase in demand over the next six months, Serbian subsidiaries expect a stabilisation of aggregate demand for credit against an expected rebound for the CESEE region (Figure 3). However, demand for loans in Serbia is expected to be rather gloomy across different products and maturities, with the notable exception of consumer credit and local currency loans. This last feature closely resembles the dynamics at the regional level.

3. Looking at the past six months, Figure 4 shows that mildly positive demand was derived primarily from working capital and debt restructuring, with also a slight positive contribution from consumer credit, whilst investments had a negative impact. This is very much in line with the aggregate regional messages. Looking

ahead, the same factors seem to be perceived as exerting a positive contribution to demand, in line with the results for the CESEE region.

- Supply (credit standards) has been tight over the past six months. This has primarily been driven by tight credit standards in the corporate sector (including

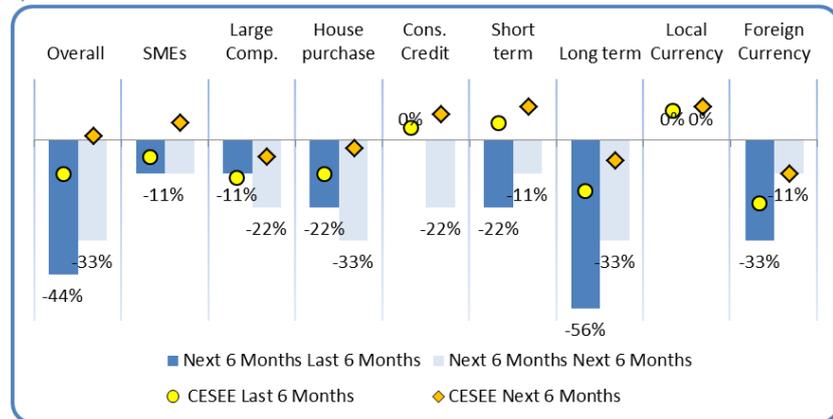
**Figure 4. Factors contributing to demand conditions – (net percentage; positive figures refer to a positive contribution to demand) – see question B.Q5**



Source : EIB – CESEE Bank Lending Survey

SMEs) and credit for house purchases (Figure 5). Aggregate credit standards are not expected to ease over the next six months. Notably, credit standards are expected to deteriorate further in some

**Figure 5. Supply components – credit standards (net percentages; positive figures refer to a positive contribution to supply) – see question B.Q1**



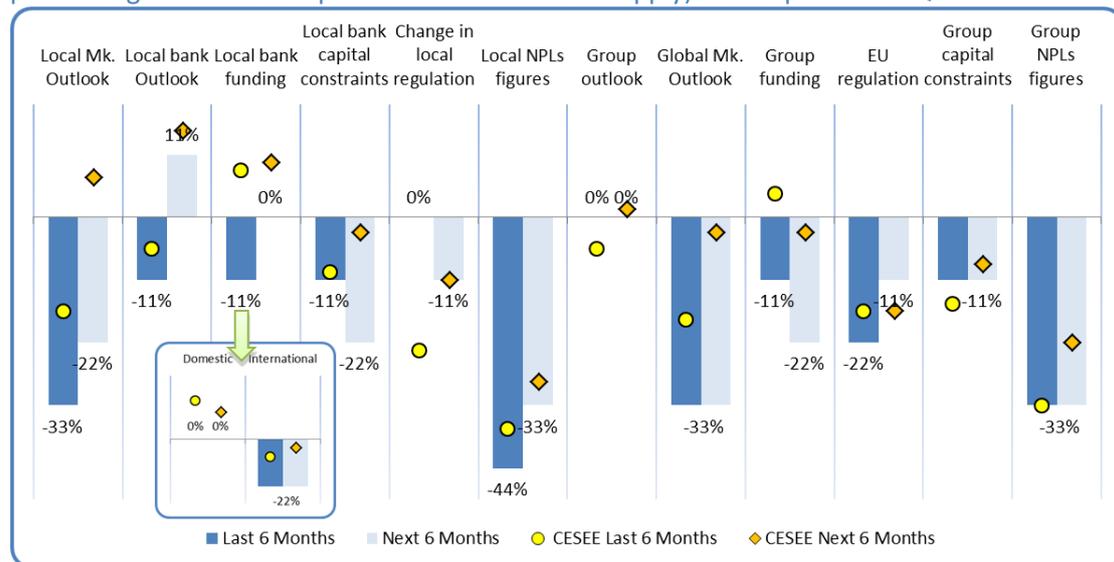
Source : EIB – CESEE Bank Lending Survey

of supply conditions is also expected in the consumer credit segment, in stark contrast to the aggregate CESEE results. Banks’ terms and conditions are not expected to ease, with further deteriorations predicted on two fronts: the maturity and size of credit lines.

- When SMEs are considered, the very same messages in terms of constraints on demand and supply seem to emerge. As a side message, collateral requirements and the average size of loans are expected to become tighter in the SME segment of the market.
- Both international and domestic factors have played a role in determining supply conditions. The global market outlook, group-wide NPL levels and EU

regulation (Figure 6) are mentioned as having had a clear negative effect on credit conditions over the past six months. This is well in line with the responses for the overall region. Looking at the local factors, NPL figures at the subsidiary level were the key constraining factor domestically as well as the local market outlook. This goes hand-in-hand with the high NPL ratio and with its deterioration over the recent past. Looking ahead, the same factors seem likely to play the same role with an unchanged direction in their contribution. Notably, NPL figures, both at the group and subsidiary level, continue to weigh heavily on the negative side.

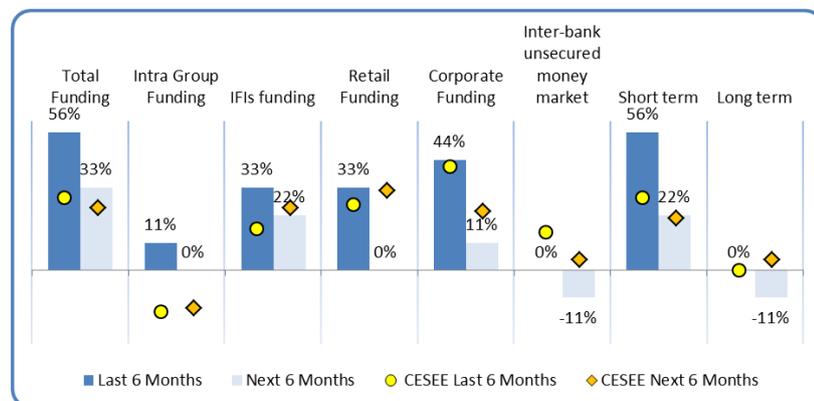
**Figure 6. Factors contributing to supply conditions (credit standards) – (net percentage; positive figures refer to a positive contribution to supply) – see question B.Q3**



Source : EIB – CESEE Bank Lending Survey

7. Local banks funding is reported as a constraining factor for credit supply, with banks expecting some improvement in the next six months (Figure 6). At the same

**Figure 7: Access to Funding – (net percentage; positive figures indicate increasing access to funding) – see question B.Q7**



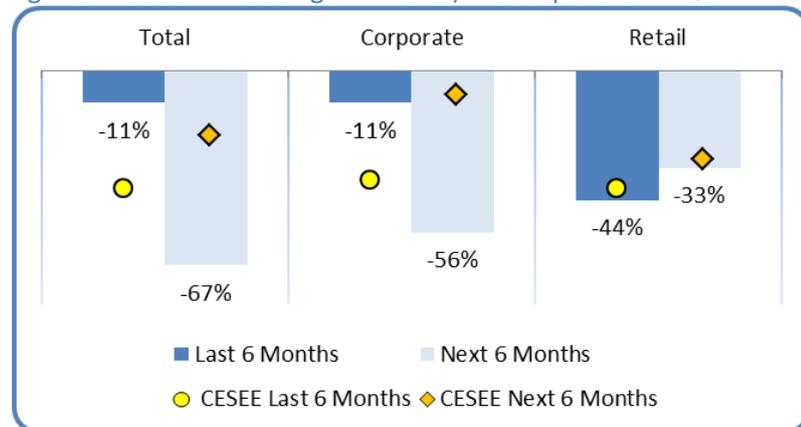
Source : EIB – CESEE Bank Lending Survey

time, Serbian banks signal some easing in access to funding in absolute terms (Figure 7), with most of the funding coming from local sources, primarily retail and corporate deposits. This is in line with the on-going funding conditions in the

CESEE region. Also, IFI funding in Serbia is thought to have contributed positively to the access to funding over the past six months. Notably, intra-group funding is also described as having been in a mild easing phase over the past six months, in contrast to the results for the CESEE region. Looking ahead, aggregate funding conditions are still described as being in an easing phase. However, a marginal deceleration of funding opportunities is expected across the whole spectrum of funding sources.

8. NPL figures continued to deteriorate in the last six months (Figure 8). The deterioration was more pronounced in the retail than in the corporate sector. Further

**Figure 8: Non-Performing Loan ratios – (net percentage; negative figures indicate increasing NPL ratios) – see question B.Q6**



Source : EIB – CESEE Bank Lending Survey

deteriorations are expected over the next six months. This dynamic should be monitored carefully, also taking into account the relatively high NPL ratio in the Serbian market.



# Slovakia

## 1. Key statistics<sup>30</sup>

- Number of banks/subsidiaries participating in the survey: five
- Approximate share of assets covered (as percentage of total assets): roughly 75%
- Current level of NPLs as percentage of total loans: 5.4% - Q2:2013
- Latest credit growth – yoy: 1.9% - Sept 2013
- Loan-to-deposit ratio: 92% - Sept 2013
- CAR: 16.17% - Q2:2013.

## 2. Key Messages - *banks report easing constraints, with challenges*

### International Groups' views:

- **Group Strategies:** Banking groups operating in Slovakia are generally more positive concerning their group strategies than the overall sample of banks included in the survey. These groups do not plan additional deleveraging, nor capital increases, while they expect to sell some assets.
- **Group assessment of positioning and market potential:** Parent banks operating in Slovakia are generally satisfied with their current positioning in the CESEE market. 80% record and continue to expect higher profitability from their CESEE operations compared to their global business. Focusing on Slovakia, almost 70% of the parent banks ascribe medium market potential to the local banking sector.

### Subsidiaries' / local banks' views:

- Slovak banks report that both **demand and supply factors** are behind the sluggish, but still positive, credit growth. They see demand and supply stances turning to neutral in the next six months.
- **Credit supply** has been rather tight in mortgages and for large companies as well as for long-term maturities and are expected to remain tight in the next six months. Although aggregate supply conditions are not expected to tighten further. Local NPL figures are and are expected to continue to be a key constraining factor for supply, together with group NPL and group capital.
- **Demand for loans:** household demand has been increasing in the last six months. In the corporate segment weak supply is matched by weak demand.
- **Access to funding:** Subsidiaries do not signal changes in funding conditions. This is in line with the fact that with a loan-to-deposit ratio below 100%, Slovak banks have traditionally been independent from parent bank funding. Financing from IFIs has been playing a more prominent role and is expected to continue to do so.
- **NPL figures** are low compared to other CESEE countries. In the past six months NPLs increased slightly, but they are expected to decrease over the next six months.

<sup>30</sup> Sources: National Bank of Slovakia, Unicredit/Bank Austria and Raiffeisen Research

### 3. Relevant macroeconomic and banking conditions<sup>31</sup>

- **Growth:** Real GDP growth is expected to be 0.9% in 2013, which is the lowest figure since the recovery started in 2010. The pattern of growth is changing: external demand, which was the backbone of the Slovak recovery after the financial crisis, is softening. Domestic demand has been weak over the last few years, and in 2012 and 2013 there was a significant drop in investment. However, private and public consumption is forecast to grow again from 2013 onwards and investments are expected to return to positive territory in 2014. This would reorient Slovak growth from external to internal drivers and take the growth rate to nearly 3% over the medium term.
- **Unemployment:** The unemployment rate stabilised at a high level. Unemployment is not expected to come down quickly as structural factors like gaps in education, lack of mobility and uneven distribution of economic activity undermine the efficiency of the labour market. Over the medium term unemployment is forecast to remain above 13%.
- **Inflation:** Inflationary pressures are expected to remain weak until 2015, with the harmonised index of consumer prices remaining below 2%.
- **External and public sector balance:** Since 2012 the current account has been producing a surplus which is expected to continuously rise over the medium term. In terms of fiscal consolidation the country managed to come down from the high budget deficit numbers seen during the crisis. Slovakia aims at exiting the Excessive Deficit Procedure and is projected to meet the Maastricht criterion of a 3% budget deficit to GDP ratio in 2013. However, the budget deficit is expected to widen again in 2014 and 2015, which would take public debt to 58.1% of GDP in 2015.
- **Banking sector:** The entire banking sector is relatively well capitalised (CAR 16.17% Q2:2013). NPLs are relatively low at 5.4%, although up from 2.5% in 2007. The loan-to-deposit ratio stood at 92% in September 2013 and has gone up from 72% in 2006. Lending growth has been moderate in the last few years and slowed down to 1.9% in September 2013. Retail loans show more solid growth in comparison to very volatile corporate loans. Growth in local deposits has been fairly robust over the last three years, with retail deposits holding up better than corporate deposits.
- **Rating:** Slovakia is currently rated by Moody's (A2), Fitch (A+) and S&P (A).

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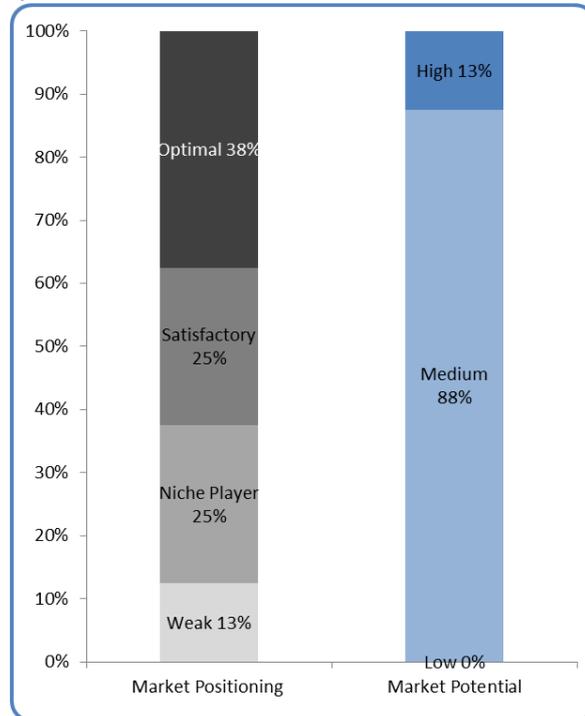
<sup>31</sup> Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

## 4. Results from the Bank Lending Survey:

### 4.1 Parent banks<sup>32</sup>

1. The sub-group of parent banks operating in Slovakia is generally more positive than the overall sample of parent banks included in the survey. They do not plan additional strategic operations to raise capital, while only some 20% expect to sell assets and/or branches. Parent banks also do not forecast additional deleveraging at the group level in the next six months.
2. Parent banks clearly reconfirm their commitment to CESEE. In fact, they intend to either maintain the same level of operations or selectively expand operations in certain countries. The CESEE strategy is indeed confirmed as being profitable. Measured in terms of ROA (return on assets) the profitability of the strategy in CESEE is assessed to be higher by bank groups active in Slovakia than by bank groups generally active in CESEE. All in all, parent banks operating in Slovakia seem to be satisfied with their positioning in the market. The optimal market positioning scores relatively high in comparison to other CESEE countries. Parent banks rate the potential of the market as 'medium'.

Figure 1. Market potential and positioning – see question A.Q11



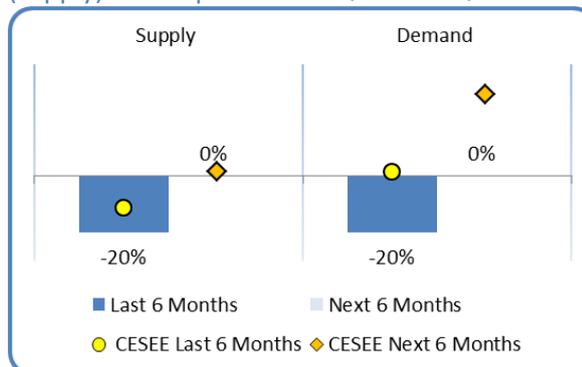
Source : EIB – CESEE Bank Lending Survey

<sup>32</sup> In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a specific country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

## 4.2 Local banks' / subsidiaries'

1. In the context of moderate but positive credit growth, subsidiaries operating in Slovakia report that both demand and supply factors have tightened slightly over the last six months. In the next six months, both supply and demand conditions are expected to take a neutral stance in Slovakia, whereas in the CESEE region as a whole demand is expected to increase.

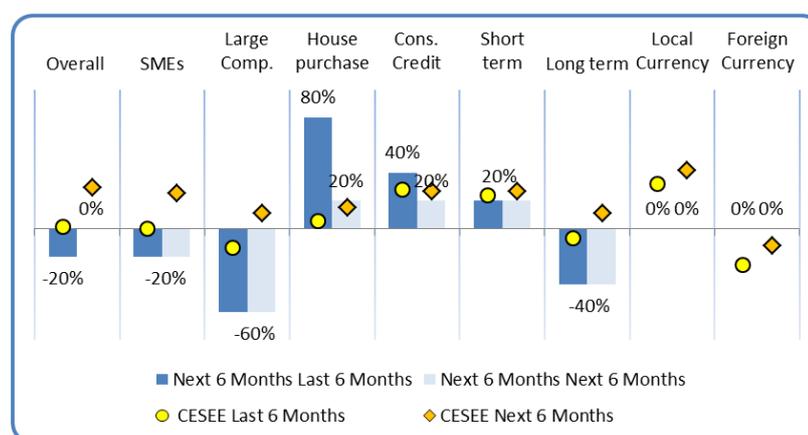
**Figure 2 : Credit Supply (credit standards) and Demand conditions – net percentages; positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q4**



Source : EIB – CESEE Bank Lending Survey

2. Demand for loans has been subdued in Slovakia, with an asymmetric performance across segments. Over the last six months, demand from corporates (including SMEs) tightened whereas demand from households increased (Figure 2). A great number of subsidiaries reported shrinking demand from large companies, while an even larger number of subsidiaries saw demand from households on a rising trend primarily in the housing and consumer credit segments. Looking ahead, subsidiaries generally expect these patterns to continue, albeit at softened levels in the household sector while still deteriorating in the corporate sector. Demand for short-term credit has been rising and is expected to continue to do so, whereas demand for long-term credit is expected to continue to shrink.

**Figure 3. Demand components - (net percentages; positive figures refer to an increasing demand) – see question B.Q4**



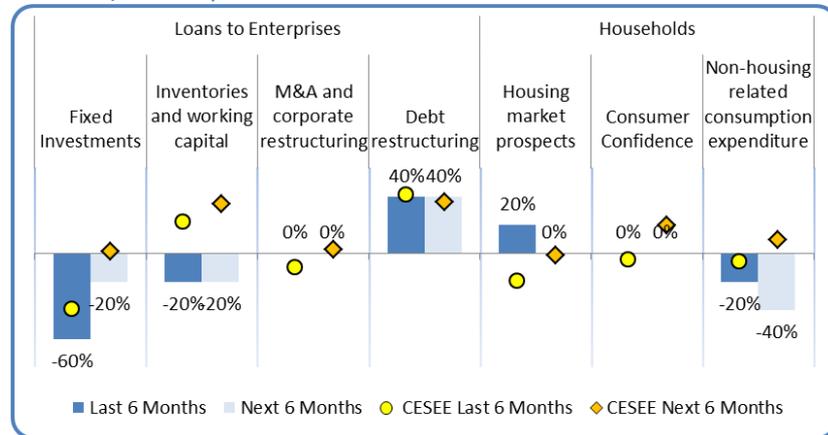
Source : EIB – CESEE Bank Lending Survey

3. Figure 3 shows that the mildly positive development of demand was derived primarily from debt restructuring over the past six months whilst investments had a strong negative impact and working capital had a milder negative effect. This is very much in line with the aggregate regional messages. Looking ahead, demand is expected to continue to be supported by debt restructuring. On the other hand, it is expected to be constrained by weak non-housing related

consumption and no major positive effect is expected from the household segment of the market. The aggregate effect of all factors does not show a dynamic picture; accordingly aggregate demand for credit is expected to remain subdued.

- Supply has been tight over the past six months. This has been primarily driven by tight credit standards for large companies and loans for house

**Figure 4. Factors contributing to demand conditions – (net percentage; positive figures refer to a positive contribution to demand) – see question B.Q5**



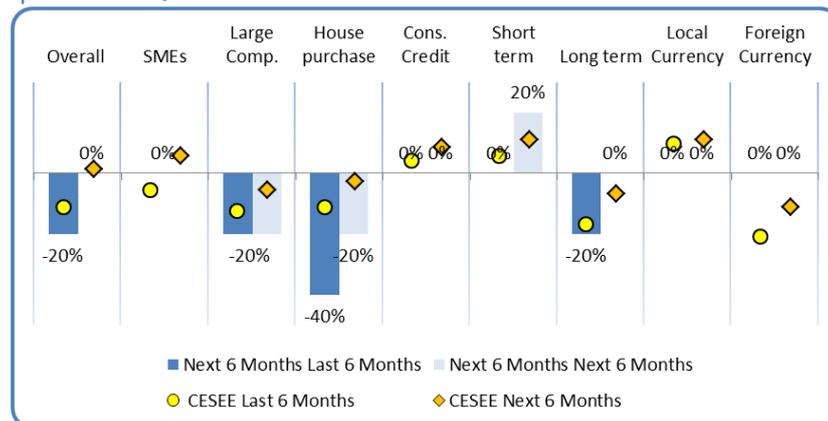
Source : EIB – CESEE Bank Lending Survey

purchases in the households sector (Figure 4). Over the next six months aggregate supply is expected to balance out while remaining tight for large companies and mortgages. The supply of short-term credit is expected to ease slightly over the next six months, whereas the supply of long-term loans, which tightened over the last six months, is expected to remain unchanged.

- Subsidiaries in Slovakia do not report supply problems for SMEs, while demand is described as being tight over the past and next six months. As a side message, slightly higher interest rates for SMEs are expected in the next six months.
- Both international and domestic factors played a role in determining supply conditions. The local market outlook, local bank funding, group outlook and group-wide

NPL levels (Figure 5) have been mentioned as having a clear negative effect on credit conditions. Looking at the next six months, local

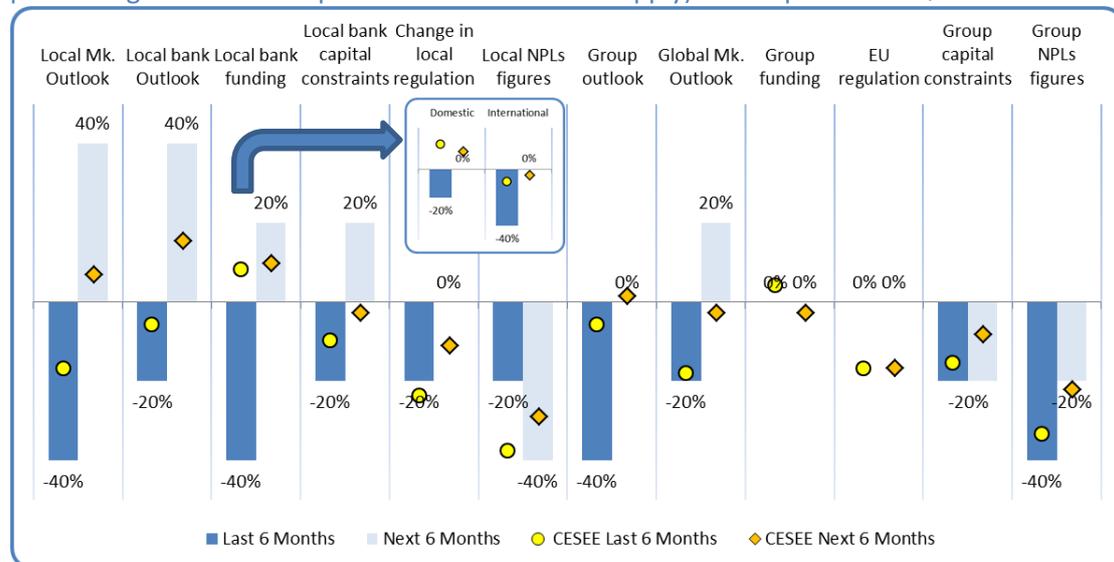
**Figure 5. Supply components – credit standards (net percentages; positive figures refer to a positive contribution to supply) – see question B.Q1**



Source : EIB – CESEE Bank Lending Survey

NPL figures – although expected to start decreasing (Figure 6) – are seen as the key constraining factor, as in other CESEE countries. However, other factors are expected to have an easing effect, the most important being local ones including the local market and bank outlook as well as local funding and local bank capital.

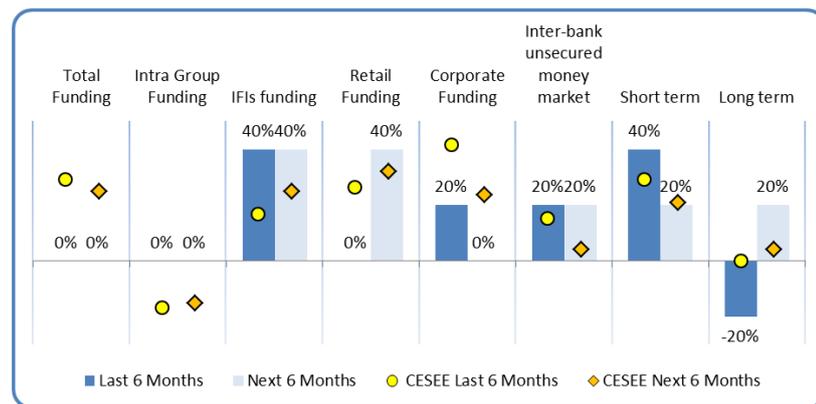
**Figure 6. Factors contributing to supply conditions (credit standards) – (net percentage; positive figures refer to a positive contribution to supply) – see question B.Q3**



Source : EIB – CESEE Bank Lending Survey

7. The overall funding situation of subsidiaries has been unchanged over the last six months (Figure 7), with IFI funding having had a positive effect along with the

**Figure 7: Access to Funding – (net percentage; positive figures indicate increasing access to funding) – see question B.Q7**

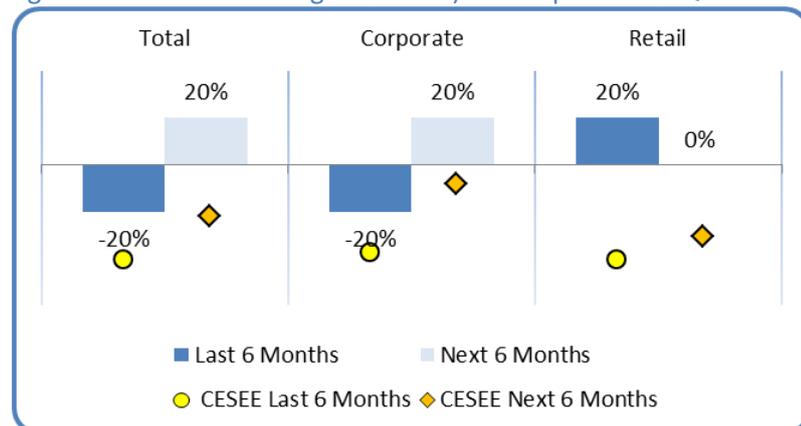


Source : EIB – CESEE Bank Lending Survey

corporate and inter-bank markets, albeit at lower levels. Short-term funding eased, whereas access to long-term funding contracted slightly. Looking ahead, access to funding is not expected to improve compared to the current situation, with some sources expected to ease. These developments have to be interpreted against the background of a loan-to-deposit level in the system below 100%. Slovak banks have usually been independent in their funding structure with respect to parent company funding.

8. NPL figures continued to deteriorate slightly in the last six months, with the corporate segment deteriorating and the retail sector improving.

**Figure 8: Non-Performing Loan ratios – (net percentage; negative figures indicate increasing NPL ratios) – see question B.Q6**



Source : EIB – CESEE Bank Lending Survey

Looking at the next six months, NPL ratios are expected to also start decreasing in the corporate segment and stabilise at improved levels in the retail segment. This translates into an expected slight overall improvement of NPL ratios, which are already broadly maintained at rather low levels.<sup>33</sup> Slovakia stands in contrast to general regional developments, whereby the peak in NPL ratios has not been reached yet, but the speed of deterioration has been decreasing over time.

<sup>33</sup> As mentioned in paragraph 8, the expected improvement does not have a positive effect on the constraining impact of NPL stocks on credit supply. This impact is expected to worsen even further.



# The Questionnaire

The questionnaire is divided into two parts:

- Part A addressed to parent banks
- Part B addressed to local / subsidiary banks

## PART A

**A.Q1** - Strategic operations: Has your group conducted strategic operations to increase the capital ratio and/or will conduct strategic operations? If so, what type?

*(possible answers= yes; no)*

	LAST 6 months	NEXT 6 months
Strategic restructuring		
Sale of assets		
Sale of branches of activities		
Raising capital on the market		
State contribution to capital		

**A.Q2** - Group funding: Group's access to funding...

*(possible answers= decreased considerably; decreased somewhat; remained basically unchanged; increased somewhat; increased considerably)*

	<i>...How has it changed over the last six months?</i>	<i>...How do you expect it to change over the next six months?</i>
Total		
Retail (deposits and customer bonds)		
Corporate (deposits and customer bonds)		
Interbank market		
IFIs		
Wholesale debt securities		
Loans or credit lines from the Central Bank		
Securitisation		
Short-term funding (any source)		
Long-term funding (any source)		

**A.Q3** - Deleveraging – over the next six months, do you expect the loan-to-deposit ratio of your group to...

*(possible answers= decrease; remain stable; increase)*

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**A.Q4** – Longer-term strategic approach (beyond 12 months): Looking at operations via subsidiaries in CESEE, your group intends to...

*(possible answers= reduce operations via subsidiaries; selectively reduce operations; maintain the same level of operations via subsidiaries; selectively expand operations via subsidiaries; expand operations via subsidiaries)*

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**A.Q5** - Profitability of the strategy in the CESEE region: the contribution of activities in CESEE to total ROA of the Group has/will...

*(possible answers= decreased considerably; decreased somewhat; remained basically unchanged; increased somewhat; increased considerably)*

	LAST 6 MONTHS	NEXT 6 MONTHS

**A.Q6** - Profitability of the strategy in the CESEE region: ROA of your CESEE operations is higher/lower/equal to that for the overall group...

*(possible answers= lower; equal; higher)*

	LAST 6 MONTHS	NEXT 6 MONTHS

**A.Q7** - Group total exposure to CESEE: concerning cross-border operations in CESEE countries, your group did/intends to...

*(possible answers= expand exposure; maintain the same level of exposure; increase exposure)*

	LAST 6 months	NEXT 6 months
Total exposure		
Exposure to subsidiaries - intra-group funding		
Exposure to subsidiaries – capital		
Direct cross-border lending to domestic clients, booked in the BS of the parent company		
MFIs - funding to banks not part of the group, booked in the BS of the parent		

**A. Q9 - Conditions of your funding to your own subsidiaries in CESEE...**

*(possible answers= decrease; unchanged; increase)*

	<i>...How have they changed over the last six months?</i>	<i>...How do you expect them to change over the next six months?</i>
Overall		
Pricing		
Maturity		

**A.Q10 How do you assess in each country...**

Country	<i>...market potential (possible answers= low; medium; high)</i>	<i>...your subsidiary's current positioning (possible answers= optimal; satisfactory; weak; niche player)</i>
Albania		
Bosnia-H.		
Bulgaria		
Croatia		
Czech Republic		
Estonia		
Hungary		
Latvia		
Lithuania		
Macedonia		
Poland		
Romania		
Serbia		
Slovakia		
Slovenia		
Ukraine		

## PART B

### B.Q1 - Credit supply: bank's (local subsidiary)'s credit standards applied when assessing credit applications...

*(possible answers= tighten considerably; tighten somewhat; remain basically unchanged; ease somewhat; ease considerably)*

	<i>...How have they changed over the last six months?</i>	<i>...How do you expect them to change over the next six months?</i>
<b>Overall</b>		
Loans to small and medium-sized enterprises		
Loans to large enterprises		
Loans to households for house purchase		
Consumer credit (other than loans for house purchase)		
Short-term loans		
Long-term loans		
Local currency		
Foreign currency		

**B.Q2 - Credit supply: have bank's terms and conditions** (e.g. maturity, pricing, size of average loan, etc.) **for approving loans or credit lines changed/will they change?...**

*(possible answers= -- tighten considerably; - tighten somewhat; 0 remain basically unchanged; + ease somewhat; ++ ease considerably)*

**OVER the LAST 6 months**

	<b>Overall</b>	<b>Loans to SMEs</b>	<b>Loans to large companies</b>	<b>Loans to households for house purchase</b>	<b>Consumer credit</b> (other than loans for house purchase)
<b>A) Your bank's margin over interbank rate</b> (wider margin = --, narrower margin = ++)					
<b>B) Size of the average loan or credit line</b>					
<b>C) Maturity</b>					
<b>D) Other terms and conditions</b>					
<b>E) Collateral requirements</b>					

**OVER the NEXT 6 months**

	<b>Overall</b>	<b>Loans to SMEs</b>	<b>Loans to large companies</b>	<b>Loans to households for house purchase</b>	<b>Consumer credit</b> (other than loans for house purchase)
<b>A) Your bank's margin over interbank rate</b> (wider margin = --, narrower margin = ++)					
<b>B) Size of the average loan or credit line</b>					
<b>C) Maturity</b>					
<b>D) Other terms and conditions</b>					
<b>E) Collateral requirements</b>					

**B.Q3 - Factors affecting your bank's credit standards (credit supply).**

**Have the following domestic and international factors contributed to tightening (easing) your credit standards over the past six months, and do you expect them to contribute to tightening (easing) your credit standards over the next six months?**

*(possible answers= contributed considerably to tightening; contributed somewhat to tightening; contributed to remaining basically unchanged; contributed somewhat to easing; contributed considerably to easing)*

	Over the <b>LAST</b> six months	Over the <b>NEXT</b> six months
<b>Impact on credit standards</b>		
<b>A) Domestic Factors - affecting your subsidiary</b>		
i) Local market outlook		
ii) Local bank outlook		
iii) Local banks' access to total funding		
iii.a) of which: domestic		
iii.b) of which: international/intra-group		
iv) Local bank capital constraints		
v) Change in local regulation		
vi) Competition		
vii) Credit quality (NPLs)		
<b>B) International Factors - affecting your subsidiary</b>		
i) Group company outlook		
ii) Global market outlook		
iii) Overall group access to funding		
iv) EU regulation		
v) Group capital constraints		
vi) Global competition		
vii) Credit quality (NPLs)		

**B.Q4 - Loan applications: demand for loans or credit lines to enterprises and households (to your local subsidiary/branch)...**

*(possible answers= decrease considerably; decrease somewhat; remain basically unchanged; increase somewhat; increase considerably)*

	<i>...How has it changed over the last six months?</i>	<i>...How do you expect it to change over the next six months?</i>
<b>Overall</b>		
Loans to small and medium-sized enterprises		
Loans to large enterprises		
Loans to households for house purchase		
Consumer credit (other than loans for house purchase)		
Short-term loans		
Long-term loans		
Local currency		
Foreign currency		

**B.Q5 - Factors affecting clients' demand for loan applications...**

*(possible answers=  
 contributed considerably to lower demand; contributed somewhat to lower demand; contributed to basically unchanged demand; contributed somewhat to higher demand; contributed considerably to higher demand)*

**...Loans or credit lines to enterprises**

	<i>...How have they changed over the last six months?</i>	<i>...How do you expect them to change over the next six months?</i>
--	---	--

**A) Financing needs**

Fixed investments		
Inventories and working capital		
M&A and corporate restructuring		
Debt restructuring		

**...Loans to households**

**A) Financing needs**

Housing market prospects		
Consumer confidence		
Non-housing related consumption expenditure		

**B.Q6 - Gross non-performing loans ratio in your local subsidiary/branch (excluding extraordinary operations)...**

*(possible answers= decrease; no change; increase)*

	<i>...Has the non-performing loans ratio changed over the last six months?</i>	<i>...How do you expect the non-performing loans ratio to change over the next six months?</i>
Total		
Retail		
Corporate		

**B.Q7 - In terms of funding: has access to funding of your local subsidiary/branch changed over the past six months, or do you expect it to change over the next six months?**

*(possible answers= decrease considerably; decrease somewhat; remain basically unchanged; increase somewhat; increase considerably)*

	Over the <b>LAST</b> six months	Over the <b>NEXT</b> six months
<b>A) Total funding</b>		
<b>A.1) Intra-group funding</b>		
<b>A.2) IFI (international financial institutions) funding</b>		
<b>A.3) Retail funding</b> (deposits and customer bonds)		
<b>A.4) Corporate funding</b> (deposits and customer bonds)		
<b>A.5) Inter-bank unsecured money market</b>		
<b>A.6) Wholesale debt securities</b>		
<b>A.7) Securitisation</b>		
<b>A.8) Net Central Bank position</b>		
<b>B.1) Local currency funding</b>		
<b>B.2) Short term (less than 1 year)</b>		
<b>C.1) Long term (more than 1 year)</b>		
<b>C.2) Foreign currencies funding</b>		

**B.Q8 - How have the following factors affected your local subsidiary's funding conditions over the past six months, and do you expect this to change over the next six months?**

*(possible answers= considerably negative effect; somewhat negative effect; basically no effect – neither positive nor negative; somewhat positive effect; considerably positive effect)*

	Over the <b>PAST</b> six months	Over the <b>NEXT</b> six months
<b>A) Exposure to sovereign debt</b>		
<b>B) Indirect exposure (via group company) to sovereign debt</b>		
<b>C) Value and availability of eligible collateral for repo transactions</b>		
<b>D) Intra-group funding restrictions</b> (e.g. company-specific rules and home/host regulatory rules)		
<b>G) Rating of group residence country</b>		
<b>H) Rating of parent company</b>		
<b>I) Rating of subsidiary</b>		
<b>J) Capital ratio of your subsidiary</b>		
<b>K) Capital ratio of your parent</b>		







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