European Investment Bank

The EU bank

CESEE Bank Lending Survey

H1-2014

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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 – H1 2014

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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.

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FOREWORD

The last fifteen years have witnessed many significant developments in the banking sector in Central Europe and South Eastern Europe (CESEE). From the late 1990s until 2008, the CESEE banking sector experienced an accelerated pattern of growth. A large number of international banks invested in the region and contributed to an inflow of capital and new banking practices. Lending growth was extraordinarily high, helping to close the region's financial penetration gap. On the flipside, it led to a build-up of imbalances and risks. The global financial crisis and EU sovereign debt crisis put a halt to the credit boom. Despite increased scarcity of capital and funding, the international banks' active in CESEE have remained committed to their CESEE growth strategy. The Vienna Initiative was crucial at the peak of the crisis. International banks formally undertook to provide capital and funding where needed to their subsidiaries, thus averting the risk of a disordered deleveraging. As the first acute phase of the crisis has faded, the CESEE banking sector continues to reshape. While there is still evidence of a financial penetration gap, a new banking model is emerging, with international banks calling for greater independence for their subsidiaries and a more balanced funding model, based on domestic resources. At the same time the recovery in lending has been slow, reflecting a mixture of demand and supply factors. Moreover, the international banks operating in the region have started to be more selective with regard to their CESEE strategies, clearly discriminating between countries and committing only to those markets that clearly offer long-term opportunities. Some of the international players have been subject to substantial restructuring at group level, with associated requests to reassess their own international position.

The Vienna Initiative (now known as "VI 2.0") has – via the Deleveraging and Credit Monitor – been monitoring the international banks' deleveraging process and related constraints on lending activity since the second quarter of 2012. In this context the EIB developed the CESEE Bank Lending Survey, which has been conducted on a semi-annual basis since October 2012 and investigates the strategies of international banks operating in CESEE as well as market conditions and market expectations, as perceived by the local subsidiaries/local banks. The survey seeks to disentangle the effects of demand and supply factors on credit developments, as well as the impact of national and international factors on demand and supply conditions. Results are key, to properly define policy actions.

International banks remain committed to the region, but they clearly discriminate between countries. Some of the banks in the region are either located in unappealing markets (i.e. with low levels of profitability) or do not have, according to their owners, the right market positioning to exploit the value of operating in a particular country. Those banks are potential targets for M&A or natural progressive market concentration.

Both supply and demand factors are behind the slow recovery in lending. Still, banks seem to believe that demand will pick up, at a slightly faster pace than supply. It is interesting to note that funding does not seem to be a constraint on lending activity at the current very low levels of demand, as banks have switched from declining parent bank funding to new domestic deposit taking and some new issuance in the local market. Credit quality, at both group and local level, is the biggest constraint on lending activity, together with regulation.

Looking ahead, important questions remain. If funding is not an issue at this level of demand, it might become a constraint in the event of a much stronger recovery. Developing local capital markets is key, as is finding the right balance to be able to still leverage the benefits of internationalisation for banking groups.
With credit quality remaining a constraint on the supply side, more could be done to create the right incentives for banks to accelerate NPL management and disposal. VI 2.0 is a major step in this direction.

Debora Revoltella
Director of the Economics Department
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Survey Description

Key statistics

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

The CESEE Bank Lending Survey – technical note

The CESEE Bank Lending Survey was developed in the context of the Vienna Initiative 2.0 and has been endorsed by the various institutions participating in 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 proportion 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 that end, the

[1] Details for Estonia, 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.

survey covers the major international banks operating in CESEE and their subsidiaries in the region. At the same time, to gain a full understanding of local market conditions, an effort has been made to also include in the survey the relevant domestic players 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.

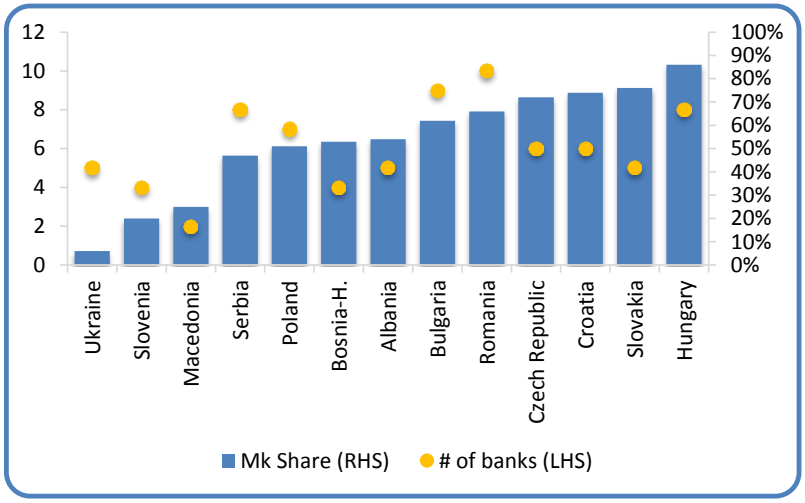
The survey is administered by the European Investment Bank, under a confidentiality agreement with the individual participating banks. It is addressed to senior officials of the banks involved and is conducted on a semi-annual basis in February/March and September. The first survey was carried out in 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 latest survey involved 15 international groups operating in CESEE and 90 local subsidiaries/independent domestic players. It is highly representative of international groups active in CESEE and also 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, Estonia, 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.

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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 (non-performing loans). 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 relating to financing needs in both the household and enterprise sectors are examined. For the enterprise sector, the survey includes fixed investment, 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 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 the funding conditions for banks in CESEE. Specifically it includes questions on NPL 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 funding, retail and corporate funding, funding from international financial institutions (IFIs) and wholesale funding.

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 size 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.

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Regional Overview

1. Summary – *Demand and supply conditions improving, while international banks reiterate a selective approach to CESEE*

International groups' views:

- **Global strategies**: Cross-border banking groups engaged in restructuring at the group level primarily via sales of assets or branches, as already foreshadowed in the September 2013 survey. Capital market activities played a reduced role, and capital injections by the state played no part in capital increases. Some deleveraging occurred, but it is slowing down. These results show that the overall picture is generally improving.
- **Commitment to CESEE**: Operations in CESEE remain a key component of the global international groups' strategy. Cross-border banks are more selective in their country-by-country strategies. Roughly 46 percent of the groups expect to expand operations, while 33 percent may reduce operations. Just over 50 percent of the groups signal that they have been reducing their total exposure to the region (primarily via intra-group funding), while only 33 percent expect to continue to do so. CESEE operations are expected to remain profitable, delivering on average higher returns on assets than overall group operations.

Subsidiaries'/local banks' views:

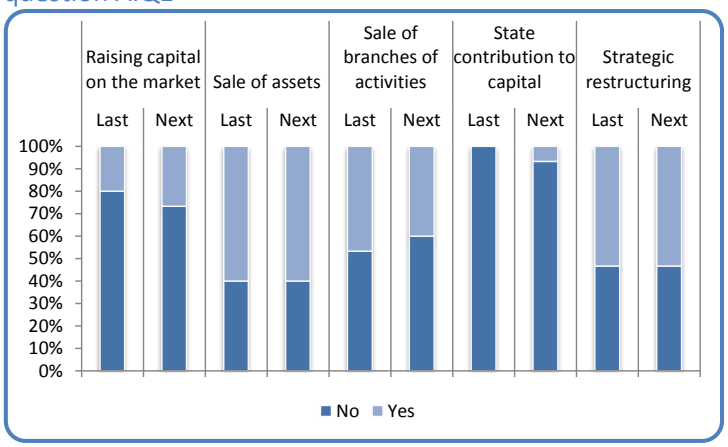
- Banks report a **stabilisation of credit demand and supply conditions**, albeit at low levels. Both supply and demand are expected to improve in the next six months.
- **Credit supply** (credit standards) eased for household lending (especially consumer credit), but continued to be tight for corporates (including SMEs). Banks expect an easing of supply conditions. NPLs and regulation, at both the national and international level, remain the most evident constraining factors affecting supply.
- **Demand for loans** improved marginally, although at a very slow pace, and was mostly accounted for by debt restructuring and working capital needs, while investment demand was very weak.
- **Access to funding:** Funding conditions are fairly favourable, with access to funding positive across all sources other than intra-group funding. Easy access to retail and corporate deposits and increased funding from IFIs support a positive outlook. Easier access to short-term funding was for the first time superseded by slightly easier longer-term funding. This may enable banks to begin reducing their maturity mismatches and start boosting their long-term funding ratios.
- **NPL figures** deteriorated further and remain a key concern for the region's banks. However, the speed of deterioration has been decreasing. NPL ratios in the corporate segment are expected to increase much less than in the retail segment, confirming the results already obtained in the September 2013 survey.

2. Results of the Bank Lending Survey:

2.1 Parent banks

1. **Restructuring at the group level is continuing, while only half of the groups report deleveraging activity in the pipeline.** Cross-border banking groups have engaged in various forms of restructuring at the group level with the aim of improving their overall capitalisation and expect to continue this process (Figure 1). Contributions to increased capital ratios and to the strengthening of core activities primarily came from sales of assets or branches, or both, as already foreshadowed in the September 2013 survey. Capital market activities played a reduced role, and capital injections by the government played no part in capital increases over the past six months. Looking at the next six months, contributions are still expected to come from sales of assets or branches and to a lesser extent from capital market activities, and only marginally from government capital injections. Some deleveraging at group level has been occurring, but there are indications that this is slowing down. Less than half the banking groups report that they have further deleveraging plans, which is broadly in line with the results of the September 2013 survey. On the other hand, one group expects an increase in the loan-to-deposit ratio for the first time since the inception of this survey. These results show a generally improving overall picture. Group-level access to funding has been easing (Figure 2), reflecting improvements in retail and corporate deposit funding, along with better conditions on interbank markets, and enabling banks to continue to reduce their recourse to central bank financing. Looking at the next six months, funding conditions are expected to remain fairly relaxed. Wholesale debt funding is expected to pick up for the first time. This signals a protracted improvement in banking system conditions at the global level.

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



Source: EIB – CESEE Bank Lending Survey.

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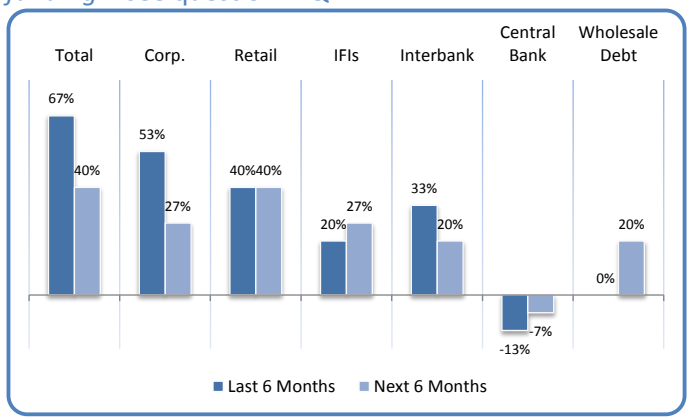
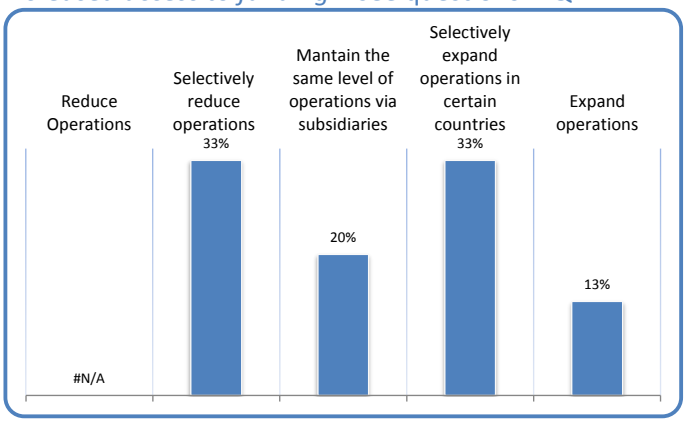
2. **Cross-border banks remain committed to the CESEE region. They are more selective, however, in their country-by-country strategies.** Operations in CESEE remain a key component of the global strategy for the majority of the international groups operating in the region. Their CESEE operations also remain profitable, delivering higher returns on assets than overall group operations for slightly more than half the groups. In addition, these profitability levels are expected to increase further in the next six months, signalling the enhanced attractiveness of the region. However, cross-border banking groups remain selective in terms of the countries in which they operate (Figure 3). Roughly 46 percent of the groups expect to expand operations in the future, while roughly 33 percent may reduce operations. This is broadly unchanged from the September 2013 survey.

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



Source: EIB – CESEE Bank Lending Survey.

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

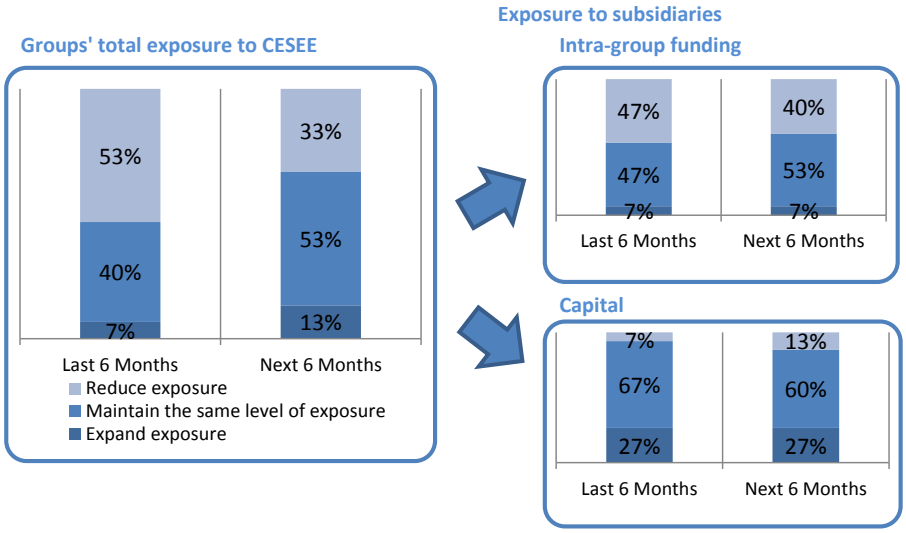


Source: EIB – CESEE Bank Lending Survey.

3. **Just over 50 percent of the groups signal that they have been reducing their total exposure to the region, while only 33 percent expect to continue to do so over the next six months.** Most of the decrease in exposure derived from reduced intra-group funding of subsidiaries, and this is also expected to occur in the next six months (Figure 4). Weak local demand may be directly influencing the amount of intra-group funding needed to sustain local business activities. In contrast, the vast majority of parent banks report that they intend to maintain the same level of capital exposure to their subsidiaries, or even increase it, and only a very limited number of banks reported a decline in that exposure. All in all, increased capital exposures seem to have partially compensated for decreased intra-group funding. In addition, the survey detected that emerging market volatility and FED tapering may have some negative impact on groups' exposures to the CESEE

region. Again, the impact is expected to be only on intra-group funding exposure, while capital exposures are expected to remain unaffected.

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



Source: EIB – CESEE Bank Lending Survey.

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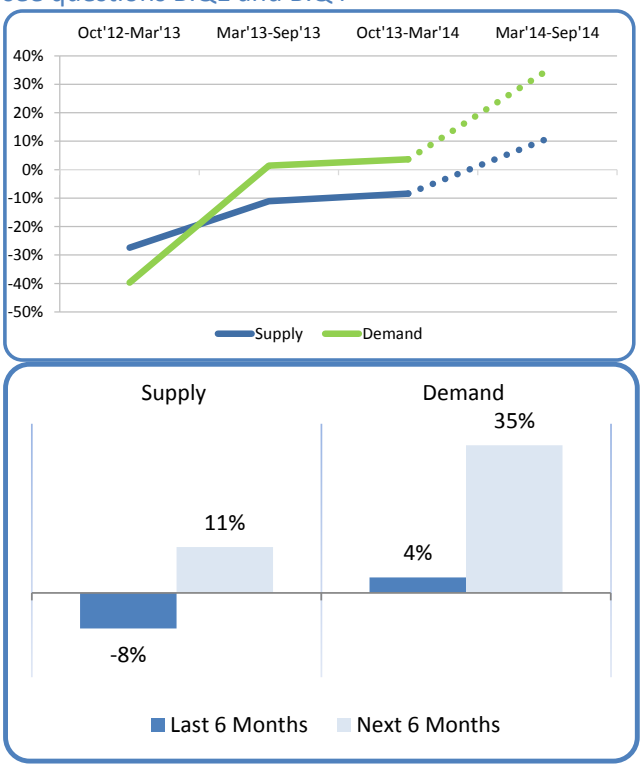
2.2 Local banks/subsidiaries

1. **CESEE subsidiaries/local banks report a stabilisation of credit demand and supply conditions, albeit at low levels. Both demand and supply are expected to improve in the next six months.** In the last six months, demand for loans and credit lines has been improving marginally, although at a very slow pace (Figure 5), and is mostly accounted for by debt restructuring and working capital requirements (see Annex A.1). On the other hand, investment demand has been very weak. Supply conditions tightened marginally at a pace similar to that observed in the September 2013 survey. Across the client spectrum, supply conditions (credit standards) eased for household lending (especially consumer credit) but continued to tighten for corporates (including SMEs). In the period ahead, banks expect a pickup in credit demand and an easing of supply conditions. On top of debt restructuring and working capital, consumer confidence and non-housing-related expenditures are expected to make a positive contribution to demand. Household demand for credit is expected to experience a more robust recovery than corporate (and SME) demand (see Annex A.2). Aggregate supply conditions are expected to ease for the first time since the survey was launched, with the easing being primarily driven by short-term maturities and consumer credit (see Annex A.3), while some mild tightening is still expected for large corporates. The terms and conditions for loan supply to the corporate market segment, especially collateral requirements, are expected to tighten further, although the maturity dimension has eased marginally.

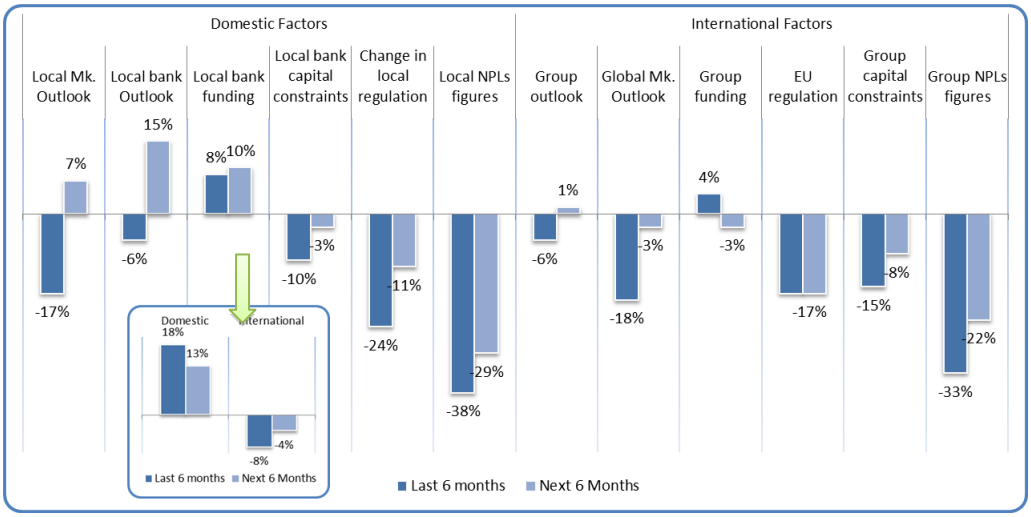
Figure 5: Total supply and demand, past and expected development – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. **NPLs and uncertainty concerning the regulatory environment, at both the national and group level, continue to be the most constraining factors affecting supply.** When looking at the causes of tightened supply (Figure 6), both international and domestic factors play a role. As in the previous surveys, access to domestic funding does not appear to be a constraining factor, unlike international funding. The global market outlook, group capital constraints, EU regulation and group-wide NPL levels are all mentioned as having a negative effect on credit conditions. In addition, 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. **CESEE funding conditions are fairly favourable, with access to funding being positive across all sources other than intra-group funding.** Easy access to retail and corporate deposits and increased funding from IFIs support a positive outlook (Figure 7). In addition, CESEE subsidiaries see easier access to short-term funding as making positive contributions to overall funding activities. For the first time slightly easier longer-term funding has been a positive contributor to overall funding. This may allow the banks to begin reducing their maturity mismatches and start boosting their long-term funding ratios. Subsidiaries still indicate that access to international and intra-group funding remains on a downward trend, which is consistent with the decrease in intra-group lending exposures to the region reported at the group level (see Figure 2).

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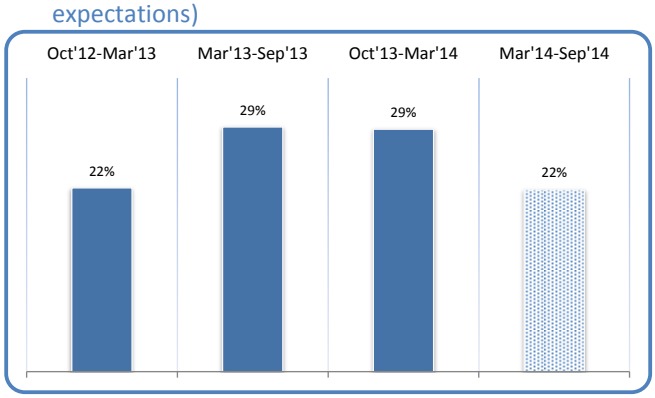
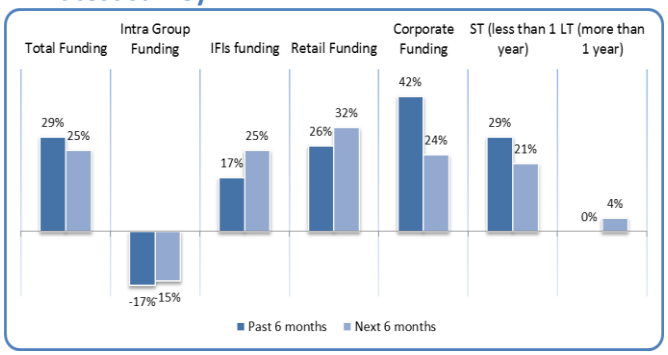
4. **Credit quality deteriorated further and remains a key concern for the region's banks.** According to the survey results, the peak in NPL ratios has not yet been reached, but the speed of deterioration has been decreasing (Figure 6). In absolute terms, less than 40 percent of banks continue to expect an increase in NPLs over the next six months. The share of subsidiaries indicating an increase in their NPL ratio fell to roughly 50 percent over the past six months, compared to 60 percent a year ago. All in all, there was an increase in the share of subsidiaries indicating either a stabilisation or decline in the NPL ratio. NPL ratios in the corporate segment are expected to increase much less than in the retail segment, confirming the results already obtained in the September 2013 survey.

Figure 7. Access to funding by CESEE subsidiaries – (*net percentage*; positive figures refer to an easing of access to funding) – see question B.Q7

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



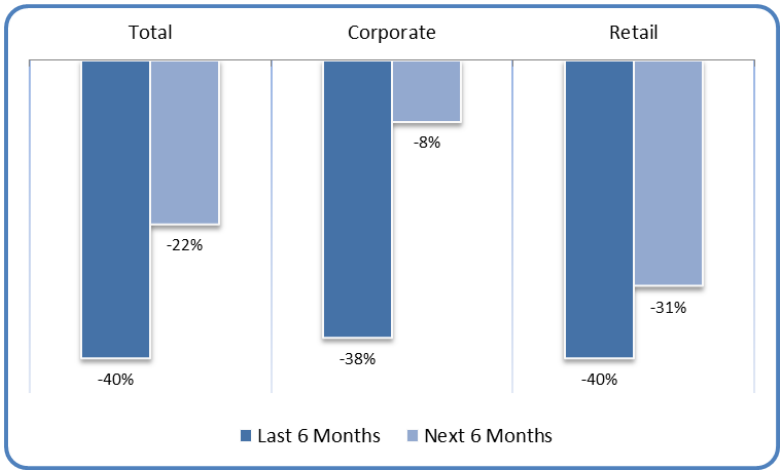
B. Breakdown of funding conditions – results from latest survey



Source: EIB – CESEE Bank Lending Survey.

5. **Overall the survey highlights some common risks across the region.** NPLs remain a drag on credit supply conditions, and NPL ratios are expected to continue to increase over the survey period. Therefore initiatives to tackle this problem remain a high priority on the policy agenda. The resolution of NPLs is key to engineering a resumption of the healthy flow of credit into the economy. Access to funding does not seem to be of particular concern at the current level of demand. However, should demand for productive investment pick up, additional financing sources may be needed to ensure that the CESEE convergence process resumes.

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



Source: EIB – CESEE Bank Lending Survey.

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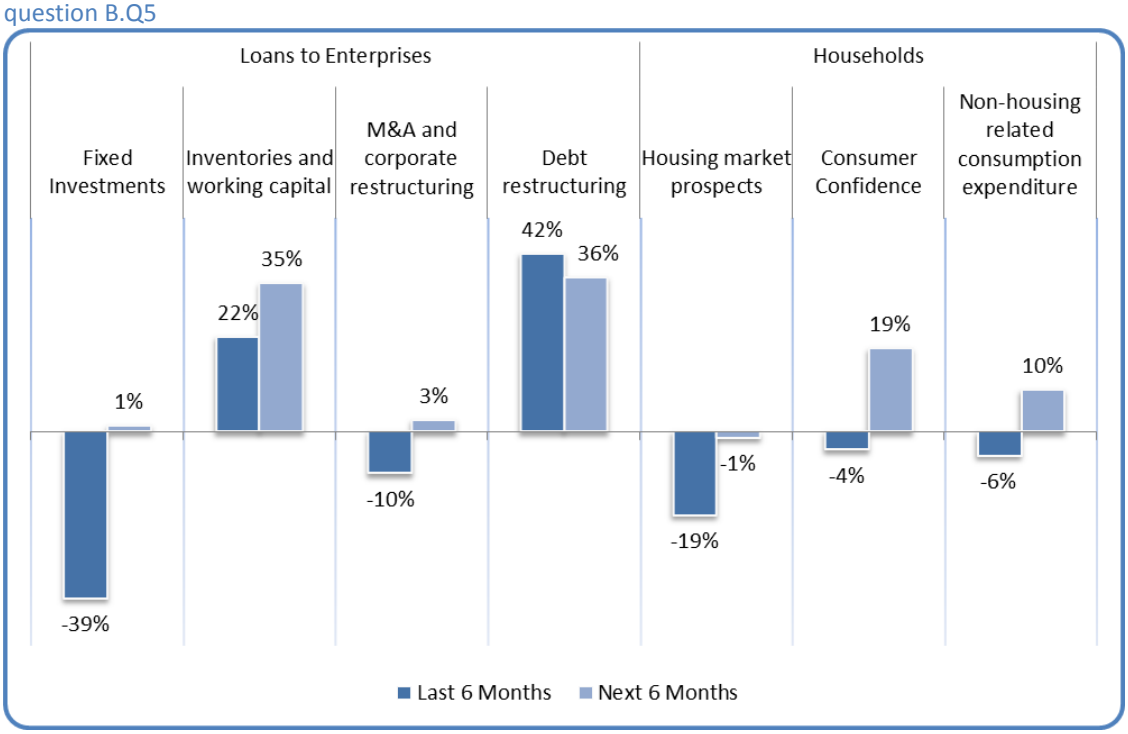
3. Annex

3.1 Supporting charts

A.1 Factors affecting demand for credit

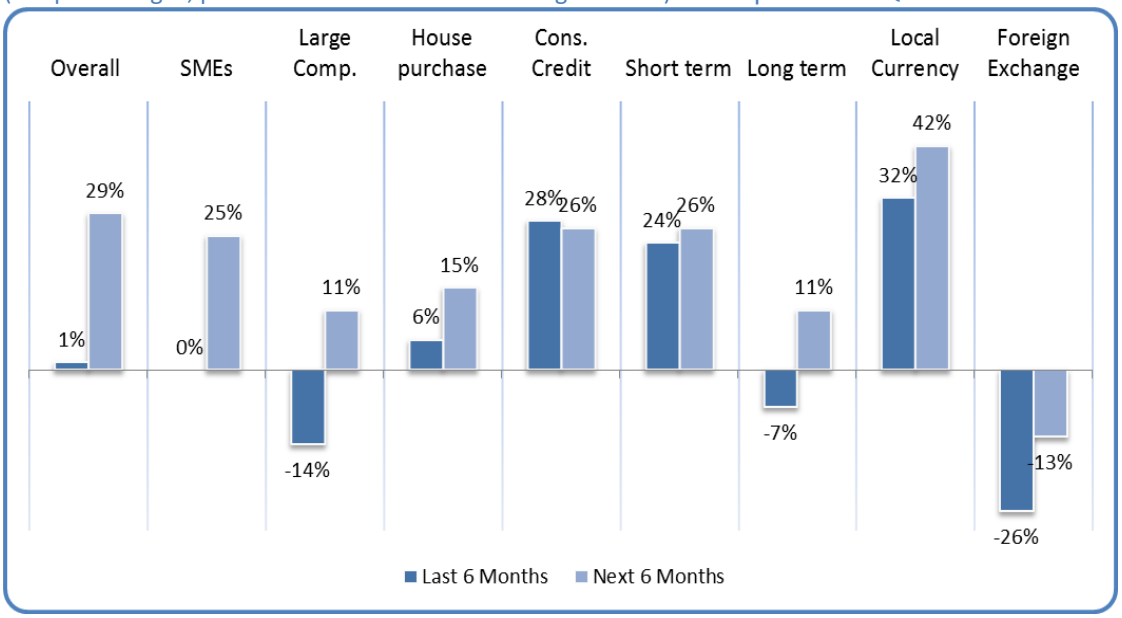
(net percentages; positive values indicate a positive contribution to demand conditions) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

A.2 Demand for loans or credit lines – client breakdown

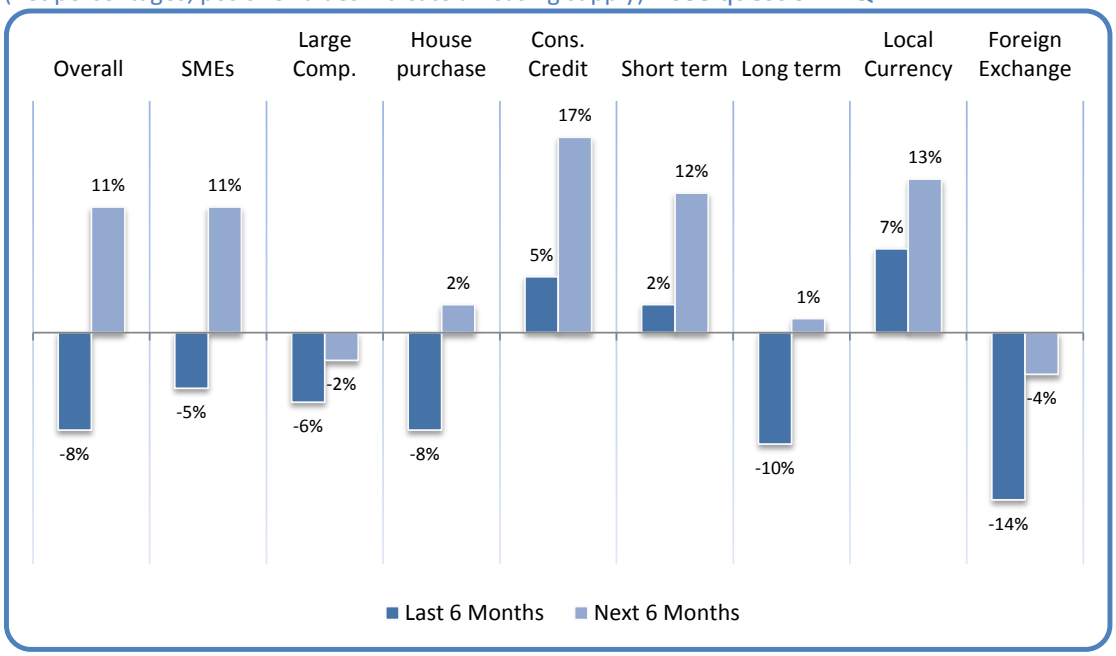
(net percentages; positive values indicate increasing demand) – see question B.Q4



Source: EIB – CESEE Bank Lending Survey.

A.3 Credit supply (credit standards) – client breakdown

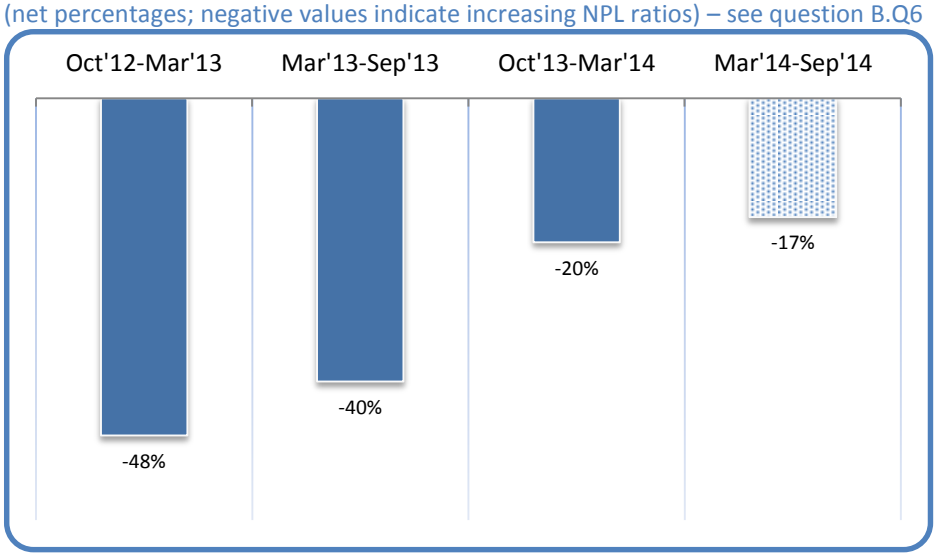
(net percentages; positive values indicate an easing supply) – see question B.Q1



Source: EIB – CESEE Bank Lending Survey.

A.4 NPL trend line

(net percentages; negative values indicate increasing NPL ratios) – see question B.Q6



Source: EIB – CESEE Bank Lending Survey.

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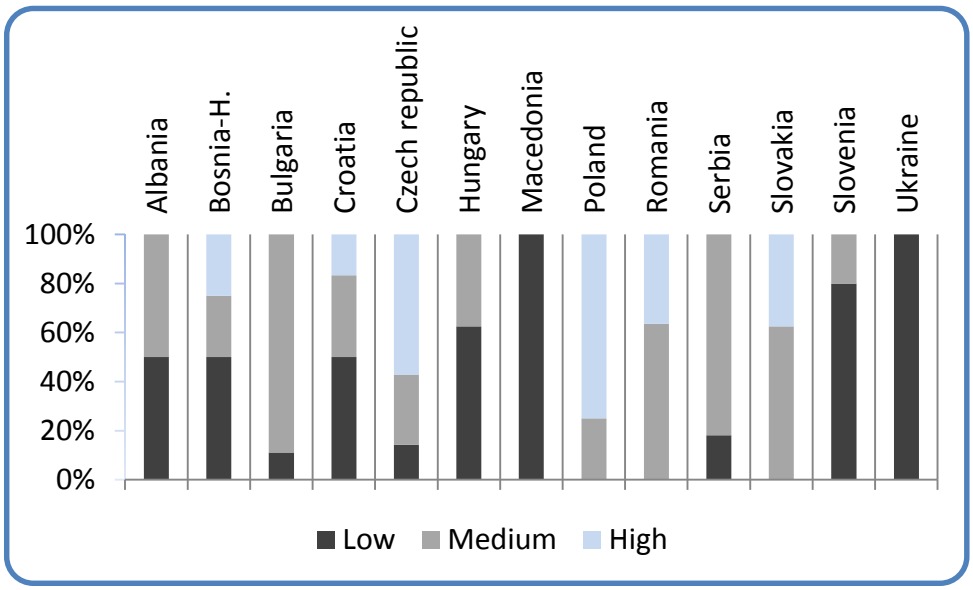
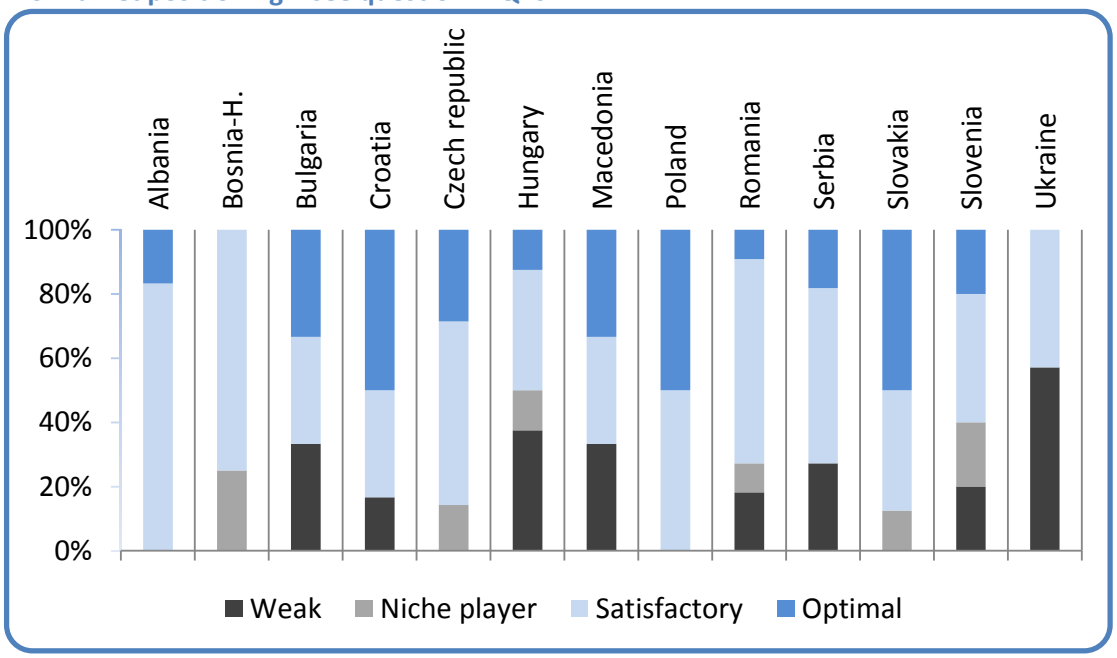
A.5 Market potential – see question A.Q10



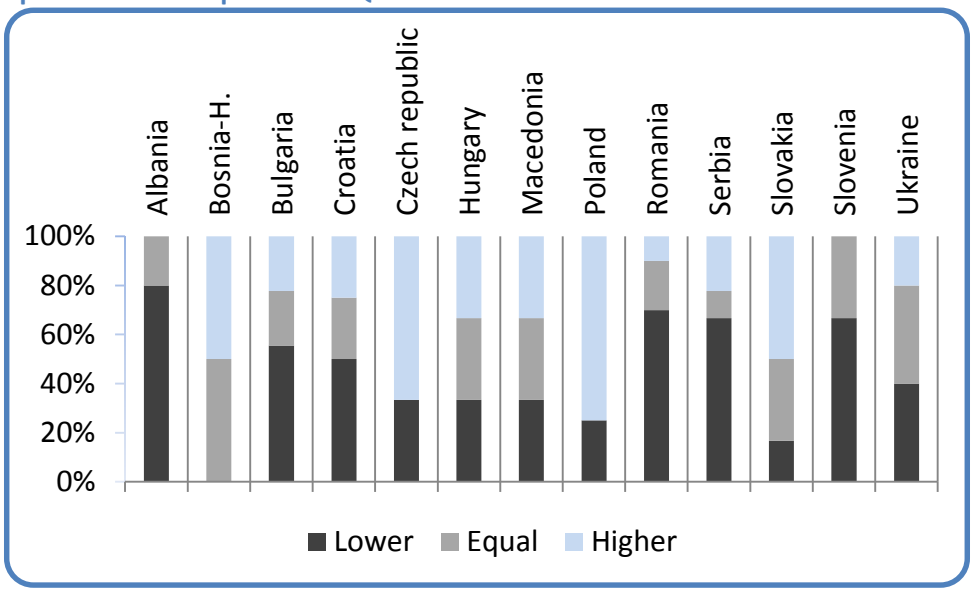
Source: EIB – CESEE Bank Lending Survey.

A.6 Market positioning – see question A.Q10



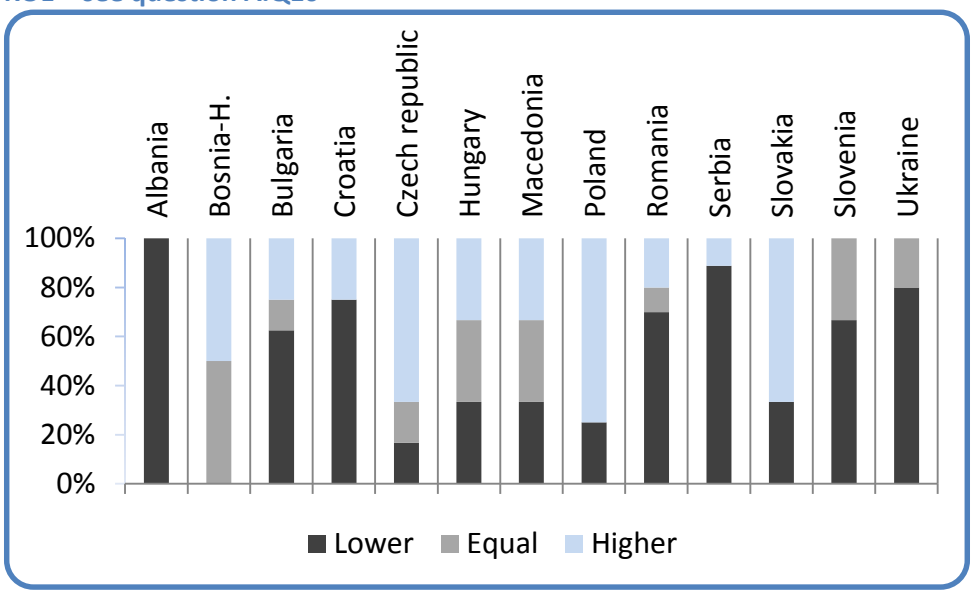
Source: EIB – CESEE Bank Lending Survey.

A.7 Return on assets (adjusted for cost of risk) compared to overall group operations – see question A.Q10



Source: EIB – CESEE Bank Lending Survey.

A.8 Return on equity (adjusted for cost of equity) compared to overall group ROE – see question A.Q10



Source: EIB – CESEE Bank Lending Survey.

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Albania

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: five
- Approximate share of assets covered (as proportion of total assets): roughly 60 percent
- Current level of NPLs as proportion of total loans: 23.2 percent (Q4 2013)
- Latest credit growth (yoy): -2.0 percent (Q4 2013)
- Loan-to-deposit ratio: roughly 60 percent
- CAR: 18 percent (Q4 2013)

2. Key messages – *Conditions are easing but banks record credit quality as their key concern.*

International groups' views:

- **Group strategies**: International banks operating in Albania seem to be slightly more likely than most banks to continue their deleveraging activities and engage in sales of assets, indicating a more negative view than the overall group of international banks included in the survey.
- **Group assessment of positioning and market potential**: Banking groups operating in Albania remain committed to CESEE operations whilst having a noticeable strategic bias toward downscaling operations. Groups report very poor ROE and ROA for Albanian operations, generally lower than for the group as a whole. Some 50 percent of the banks rate the potential of the market as relatively low/sub-optimal whilst still being satisfied with their positioning in the market.

Subsidiaries' views:

- **Subsidiaries** operating in Albania report that both **demand and supply** conditions have eased over the past six months.
- **Credit supply** has eased marginally and local subsidiaries expect further improvements in the near future. Credit quality, at the domestic and group level, is described as the main factor constraining credit supply.
- **Demand for loans** has been increasing in some loan categories and is expected to rebound across different products and maturities over the next six months.
- **Access to funding** has been easing in the context of negative lending growth. Most of the funding comes from local sources – retail and corporate deposits – and is mostly short term.
- **NPL figures** deteriorated in the last six months. Mild signs of improvement are expected going forward, primarily in the household segment. However, credit quality remains a key concern.

[1] Sources: The Bank of Albania, European Commission, Unicredit/Bank Austria and Raiffeisen Research.

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** Annual growth in 2013 is estimated at a meagre 0.4 percent, significantly lower than pre-crisis levels (e.g. 7.5 percent in 2008). In the first two quarters of 2013 real GDP decelerated even further but rebounded marginally in the second half of the year. The bounce back was driven primarily by manufacturing activity and partly by the construction sector, whilst services contracted.
- **Unemployment:** Unemployment (based on the labour force survey) increased marginally to 17 percent in 2013 from 14.4 percent in 2012. The number of employed declined 4.5 percent year-on-year in the fourth quarter owing to a sharp drop in the agricultural sector.
- **Inflation:** Headline inflation was 1.5 percent in the fourth quarter of 2013. Inflation decreased substantially over the last year on the back of weak demand-side pressures and low imported inflation.
- **External and public sector balance:** The current account was negative at roughly 10.6 percent of GDP in 2013, on a marginally deteriorating trend compared to 2012. Public debt continued to rise in the last quarter of 2014 and stood at 65.2 percent of GDP. The fiscal deficit is increasing, with an estimated 4.8 percent deficit in 2013. On 28 February the Executive Board of the IMF approved a 36-month EUR 330.9 million arrangement under the Extended-Fund Facility (EFF) for Albania in support of the authorities' reform programme.
- **Banking sector:** Aggregate profitability was marginally positive in the fourth quarter of 2013 and above 2011 levels. However, it has on average been well below average pre-crisis levels. The level of capitalisation for the entire banking sector (CAR 18 percent Q4 2013) exceeds the required minimum. NPLs reached rather high levels, increasing from 4.7 percent in 2008 to 23.2 percent in Q4 2013. The loan-to-deposit ratio stood at roughly 60 percent in 2011. Bank lending entered into negative territory, registering annual growth of -2.0 percent in Q4 2013 compared with a robust positive growth rate in the same period of the previous year. Growth in local deposits has been fairly robust over the last three years, partially offsetting 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 (B, stable).

[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria based on NCB data and Raiffeisen Research based on NCB data.

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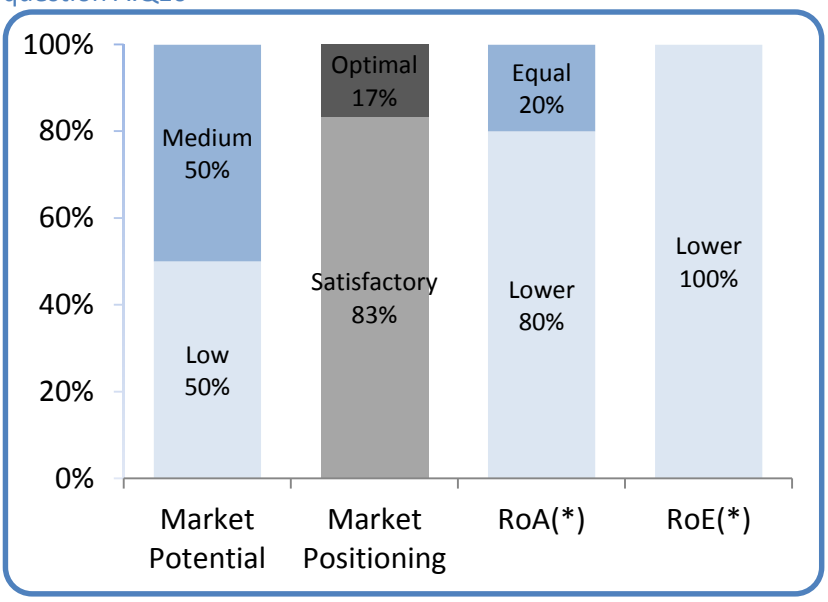
4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. The parent banks operating in Albania still 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 assets and stronger expected deleveraging at the group level. Eighty percent of the groups indicate that they intend to engage in sales of assets, against roughly 60 percent for the whole sample of groups included in the survey. Sixty percent of the parent banks operating in Albania expect further reductions in the loan-to-deposit ratio over the next six months at group level.

Figure 1. Market potential and positioning, ROE and ROA – see question A.Q10



Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; Return on equity (adjusted for cost of equity) compared to overall group ROE.

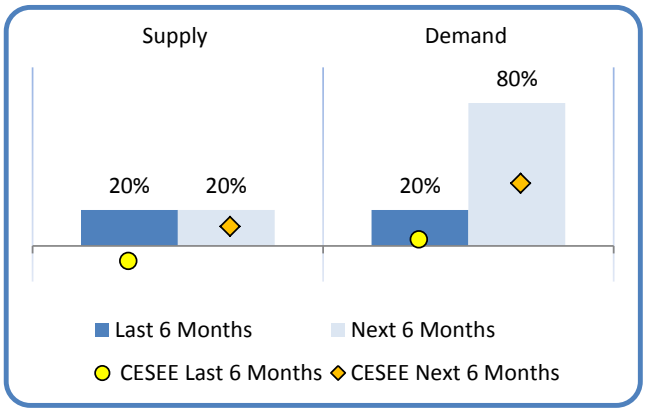
2. Groups operating in Albania are generally more selective in their local strategies and have a more noticeable strategic bias towards downscaling of operations. These parent banks, however, do not signal significantly lower profitability of their operations in the CESEE region relative to their group profitability (measured in terms of return on assets). On the contrary, these groups report very poor absolute returns (i.e. ROE and ROA adjusted for the cost of capital and equity respectively) for their Albanian operations, even worse than overall group profitability (Figure 1). Accordingly, 50 percent of the banks rate the potential of the market in the medium term as low (Figure 1). However, parent banks operating in Albania seem to be satisfied with their current positioning in the market.

[3] 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 particular 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. Against the background of negative credit growth, subsidiaries operating in Albania report that supply factors have been easing and also that demand has increased to some extent. In the last six months Albanian banks have experienced easing supply conditions, unlike the CESEE region as a whole, and also demand has been increasing more than in the aggregate CESEE region. In the next six months, supply conditions are expected to ease in line with the aggregate CESEE region (Figure 2), whilst demand is expected to rebound more markedly.

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

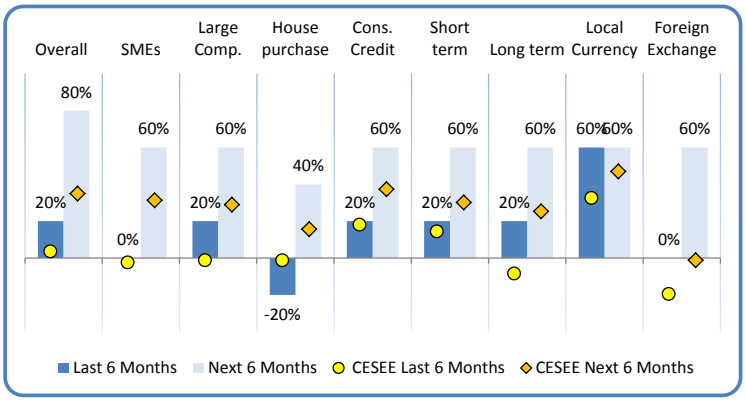


Source: EIB – CESEE Bank Lending Survey.

2. Demand for loan applications has been on a marginally increasing path over the last six months in Albania, on the back of a return to a pickup in economic activity. Subsidiaries generally expect a significant increase in the demand for credit across different products, maturities, sectors and clients over the next six months (Figure 3). Demand for mortgages in particular is expected to increase. These increases in demand are expected to come from both the household and the corporate side. This last feature closely resembles the dynamics at the regional level.

3. Looking at the past six months, Figure 4 shows that the marginally positive increases in demand were primarily derived from debt restructuring, whilst investments have been subdued, albeit less so than in the overall CESEE region. 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.

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



Source: EIB – CESEE Bank Lending Survey.

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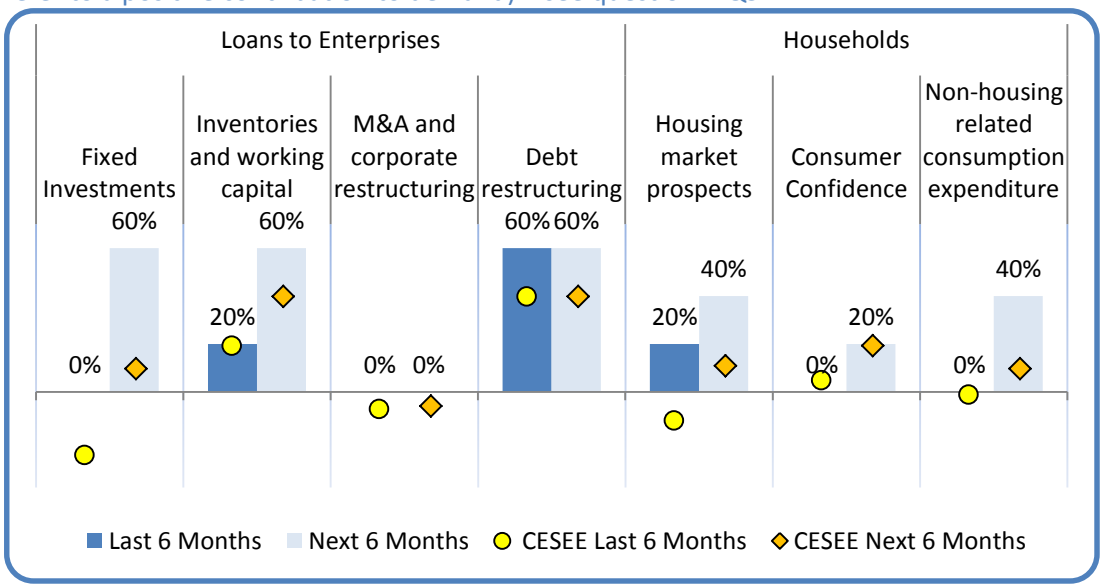
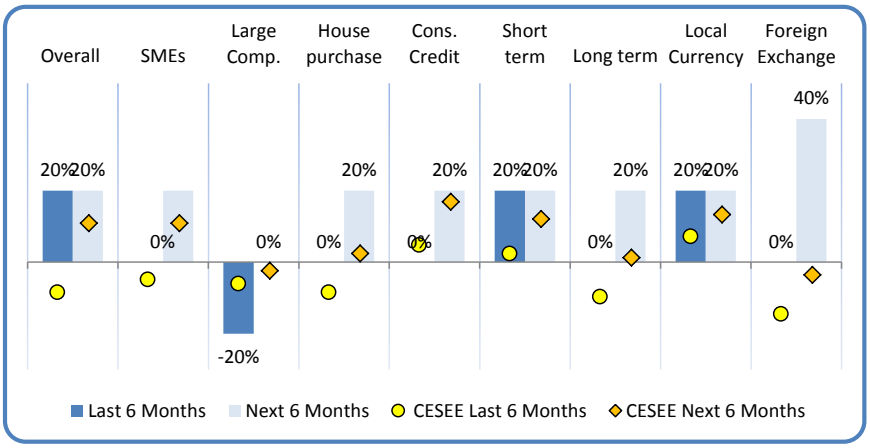
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. Supply (credit standards) has eased over the past six months, as already embedded in the expectations recorded in the H2 2013 survey. This easing has been primarily driven by looser standards for consumer credit (Figure 5). In fact credit standards for short-term local currency-denominated loans have been the main positive contributor to an easing of supply. Aggregate credit standards are expected to continue to ease over the next six months, with consumer credit accounting for a major part. This is in line with the trend emerging from the aggregate CESEE results. Banks' terms and conditions are expected to ease primarily in terms of size and maturity, but not in terms of collateral requirements and pricing.

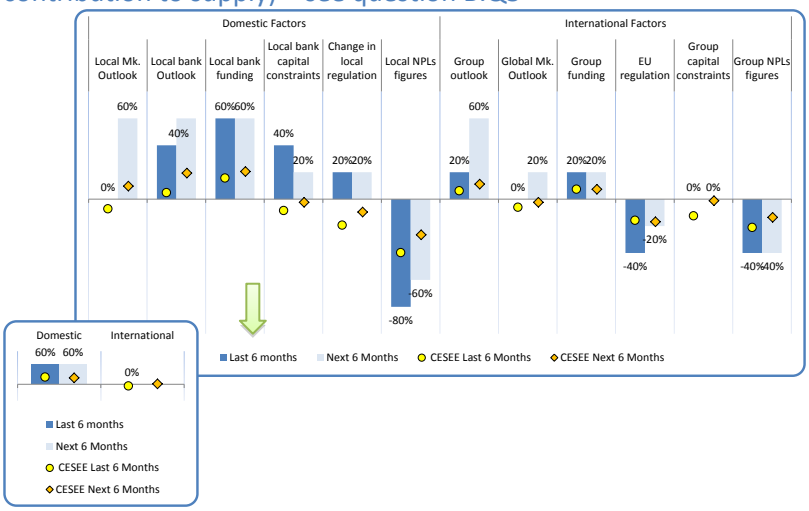
Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1



Source: EIB – CESEE Bank Lending Survey.

5. Both international and domestic factors have played a role in determining supply conditions. 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 were the key constraining factor domestically, with almost all respondents referring to them. This goes hand in hand with Albania's remarkably high NPL ratio. However, almost all the other local factors had a positive impact on credit supply. Access to funding for subsidiaries in particular had a strong positive impact, with the funding mainly derived from domestic sources. Looking ahead, the same factors are expected to continue to influence supply in the same way over the next six months. In particular, NPL figures 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.

6. With regard to SMEs, credit supply conditions are expected to turn positive and the demand for loans is expected to rebound sharply. Terms and conditions are also expected to ease, primarily in terms of maturity and loan size. On the other hand, collateral requirements have become tighter and this is expected to continue in the SME segment of the market.

7. At the current levels of negative credit growth, subsidiaries are not signalling any funding problems (Figure 7), with most of the funding coming from local sources, retail and corporate funding (e.g. deposits) and also being primarily short term and in local currency. This is largely in line with the current funding conditions in the CESEE region.

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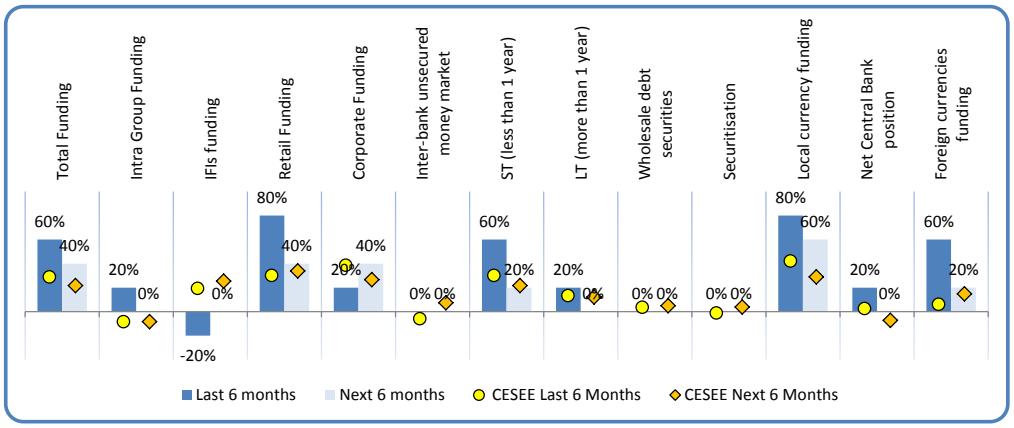
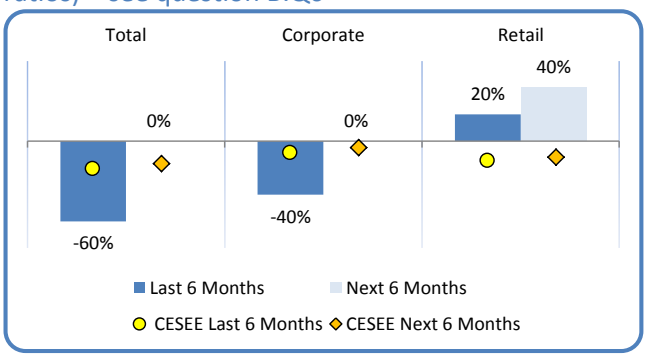
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

8. NPL figures continued to deteriorate over the last six months (Figure 8). However, mild signs of improvement are expected going forward. Indeed the NPL ratio decreased marginally in the last available statistics (i.e. fourth quarter 2013). This may have been primarily related to better conditions in the household segment. NPLs in the retail sector have been marginally decreasing and are expected to continue to decrease. NPL ratios are expected to stabilise over the next six months in the corporate segment, thus helping to stabilise the aggregate NPL levels.

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



Source: EIB – CESEE Bank Lending Survey.

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Bosnia-Herzegovina

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: four
- Approximate share of assets covered (as proportion of total assets): 50 percent
- Current level of NPLs as proportion of total loans: 15.1 percent (Q4 2013)
- Latest credit growth (yoy): 2.3 percent (Q4 2013)
- Loan-to-deposit ratio: roughly 116 percent in 2012
- CAR: 17 percent (Sept. 2013)

2. Key messages - *Declining demand and neutral supply*

International groups' views:

- **Group strategies**: Groups operating in Bosnia-Herzegovina report limited intentions to engage in sales of assets but slightly higher expectations of increasing capital compared to the overall set of international groups. They also do not expect deleveraging to continue at the group level.
- **Group assessment of positioning and market potential**: Groups operating in Bosnia-Herzegovina signal their intention to expand in the CESEE region in response to the higher expected profitability of operations in CESEE. Bosnia-Herzegovina is considered a fairly profitable market in terms of ROE and ROA. Parent banks are satisfied with their positioning in the market and also assess the market potential over the medium term as reasonably favourable.

Subsidiaries'/local banks' views:

- Subsidiaries operating in Bosnia-Herzegovina report that **unchanged demand** and still **tight supply conditions** are the main causes of the below-trend but still positive credit growth.
- **Credit supply** has tightened, with supply conditions tight in the corporate sector but easing in the household sector; credit standards are expected to ease over the next six months. Group and local capital constraints, as well as NPLs, regulation and local market outlook, had a negative effect on credit conditions.
- **Demand for loans** has been fairly neutral and is expected to continue to be so. Differences across products and maturities persist, with consumer credit demand expected to continue to increase.
- **Access to funding:** Subsidiaries report improved access to funding conditions. Retail and corporate funding (e.g. deposits), as well as a pickup in IFI funding, are expected to make a positive contribution.
- **NPL figures** did not deteriorate in the last six months, but are expected to do so over the next six months.

[1] Sources: European Commission, the Central Bank of Bosnia and Herzegovina, Unicredit/Bank Austria and Raiffeisen Research, IMF.

3. Relevant macroeconomic and banking conditions[2]

- **Weak growth**: After negative growth in 2012, economic activity rebounded in 2013, posting an estimated 1.7 percent GDP year-on-year increase in the third quarter of 2013. Countrywide industrial production steadily increased and the manufacturing sector registered the largest output increase and the construction sector posted the first positive growth since 2009. Domestic demand, in particular private consumption, continued its steady recovery.

- **Unemployment:** Unemployment remained at very high levels – about 44.5 percent in the fourth quarter of 2013. Nominal wage growth decelerated slightly in the fourth quarter of 2013, before accelerating again in early-2014.

- **Inflation:** The deflationary trend that started in August 2013 gathered pace on the back of falling high frequency purchased goods such as food and clothes. Annual CPI in 2013 turned negative (-0.1 percent), compared to a rate of 2% in 2012. Steeper deflation continued in January-February 2014.

- **External and public sector balance:** The current account was negative at roughly 5.5 percent of GDP in 2013, on an improving trend compared to previous years. The fiscal deficit has been increasing slightly compared to the target and settled at 1 percent in 2013.

- **Banking sector:** Aggregate profitability was marginally positive in 2013 and in line with 2012 levels. However, on average it has been well below pre-crisis levels. The level of capitalisation for the entire banking sector stood at a CAR of 17 percent in September 2013 and was at roughly the same level as the previous year. The ratio of non-performing loans relative to total loans rose from 12.7 percent in 2012 to 15.1 percent in the fourth quarter of 2013. The loan-to-deposit ratio stood at 116 percent in 2013. Bank lending continued to slow down, registering annual growth of only 2.3 percent in the fourth quarter of 2013. Growth in local deposits has been fairly resilient, accelerating from 3.8 percent in the first quarter to 6.7 percent in the fourth quarter of 2013, driven by robust increases in households' and firms' deposits. This may have partially offset the net reduction in cross-border assets allocated to Bosnia-Herzegovina.

- **Rating:** Bosnia is currently rated by Moody's (B3, stable) and S&P (B, stable).

[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

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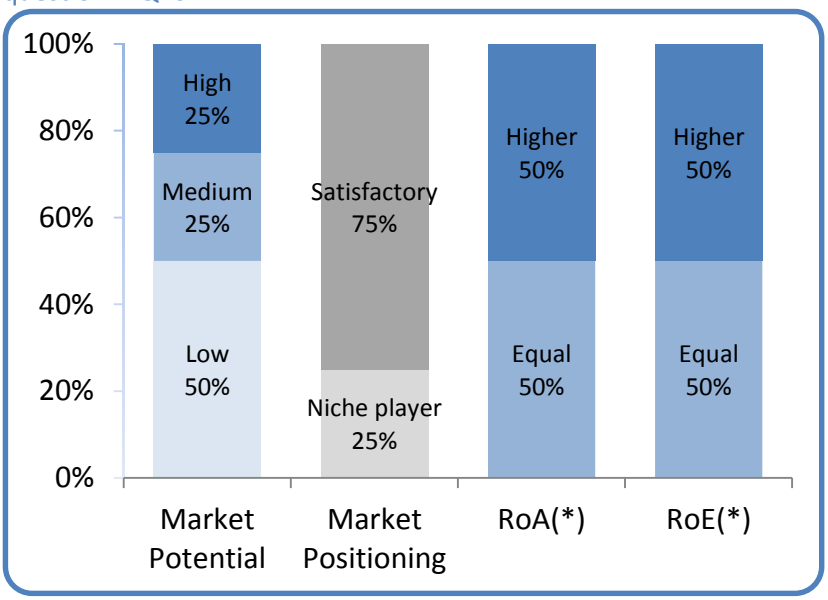
4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. The view of parent banks operating in Bosnia-Herzegovina is slightly different from that of the overall sample of parent banks operating in CESEE. These banks report marginally reduced intentions to engage in the sale of branches and assets, whilst having slightly higher expectations of increasing capital. They also do not expect deleveraging to continue at the group level, with the loan-to-deposit ratio estimated to be stable over the next six months. This confirms the results of the previous survey.

Figure 1. Market potential and positioning, ROE and ROA – see question A.Q10



Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

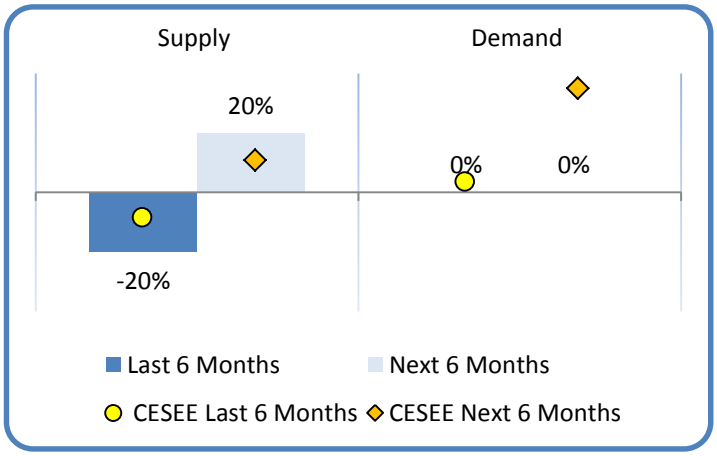
2. As they continue their restructuring, groups operating in Bosnia-Herzegovina remain committed to their regional strategy and signal primarily their intentions to expand. Parent banks report a somewhat less evident deterioration of their profitability in the CESEE region relative to their group profitability (measured in terms of return on assets). In detail, roughly 70 percent of parents expect the profitability of CESEE operations to be higher than that of group operations. Accordingly Bosnia-Herzegovina is considered a fairly profitable market in terms of ROE and ROA, both in absolute terms and relative to group performance (Figure 1). All in all, parent banks operating in Bosnia-Herzegovina are satisfied with their positioning in the market (Figure 1) and also provide a relatively acceptable rating of the market potential over the medium term.

[3] 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 particular 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

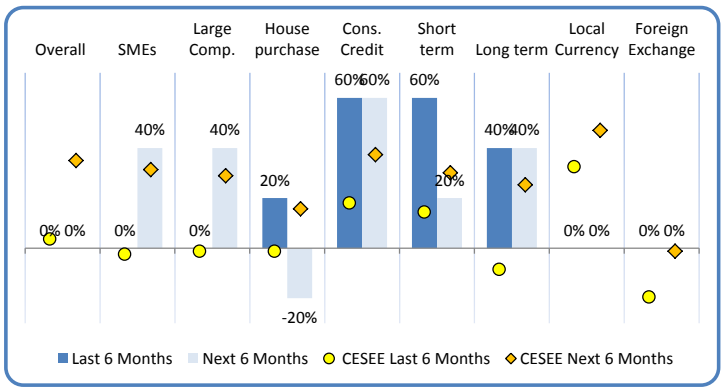
1. Subsidiaries operating in Bosnia-Herzegovina report that unchanged demand and relatively tight supply conditions are behind positive but still below-trend credit growth. Actual demand has been described as less negative than expected in the previous survey. On the other hand, demand is expected to remain more subdued than in the rest of the CESEE region over the next six months, whilst supply is expected to align with the CESEE trend (Figure 2).Demand has been fairly neutral in Bosnia-Herzegovina in line with demand conditions for the CESEE region as a whole over the last six months. Subsidiaries generally do not expect an increase in aggregate demand. However, differences across different products and maturities are expected to persist over the next six months (Figure 3). In particular, consumer credit demand is expected to continue to increase, and corporate sector demand (including SMEs) is expected to rebound. In addition, demand for long-term maturities is expected to remain sustained. All in all, demand conditions across different segments and clients 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, with the exception of foreign exchange lending.

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



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

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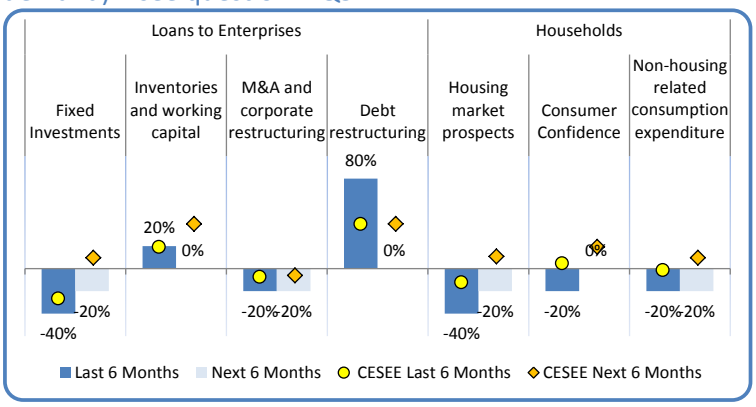
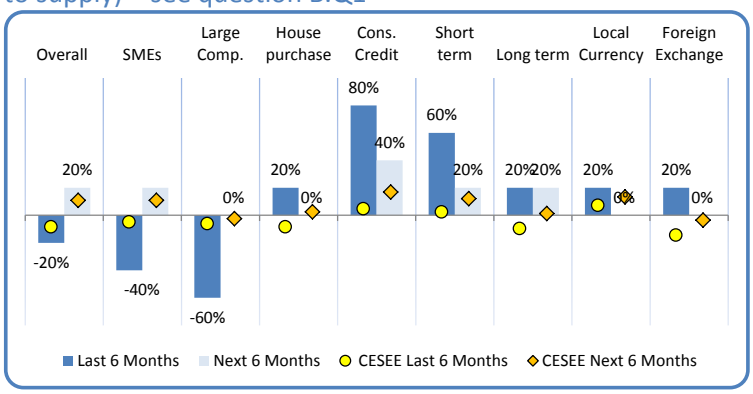
3. Figure 4 shows that the majority of factors did not make a positive contribution to overall demand conditions over the last six months. The exceptions were a strong positive contribution from debt restructuring and a marginal positive contribution from inventories and working capital. However, the contribution of the latter factors was balanced out by counteracting negative contributions from the other factors. Looking ahead, demand is not expected to increase, and the contributions from investments and the household segment are expected to continue to exercise a negative impact. All in all, the distribution of the factors contributing to demand highlights the fact that applications for loans and credit lines are still rather limited and of poor qualitSupply (credit standards) has tightened over the past six months. However, this hides a divergent behaviour of credit standards applied to the corporate and household sectors. Supply conditions have been rather tight in the corporate sector but have been easing for the household sector (Figure 5). Aggregate credit standards are expected to start to ease over the next six months, primarily driven by an improvement in the corporate sector and the continued easing in the household segment. This is partly in line with the trend emerging from the aggregate CESEE results, where an easing of credit standards is expected in the consumer credit segment of the market and a marginal easing in the corporate segment. In line with credit standards, banks' overall terms and

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



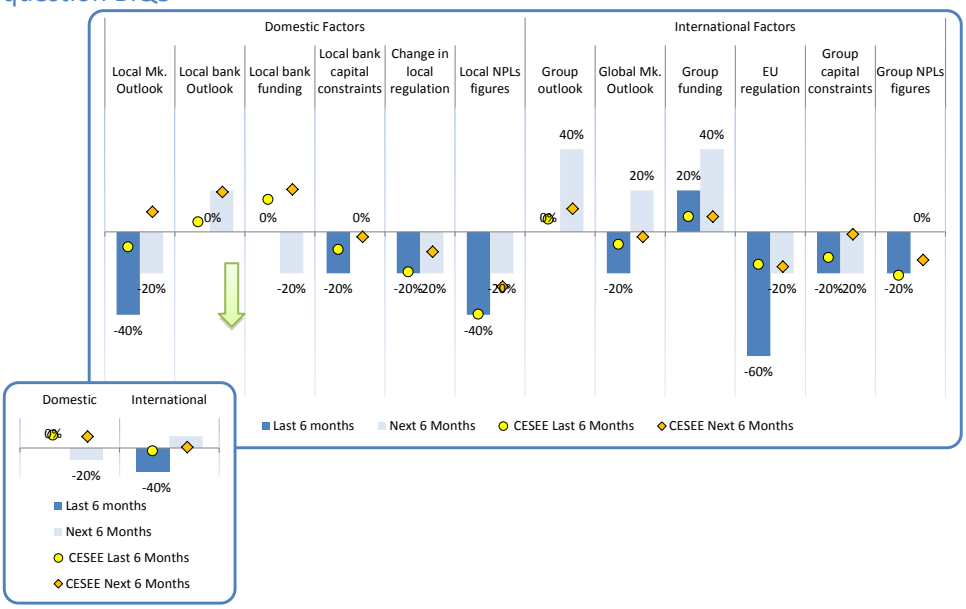
Source: EIB – CESEE Bank Lending Survey.

conditions are expected to ease primarily with regard to the size of the average loan in the consumer credit segment of the market.

5. Both international and domestic factors played a role in determining supply conditions. 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, as already reported in the previous survey. If we look at local factors, the domestic market outlook, changes in local regulation, NPLs and capital constraints were the key constraining factors. Contrary to the aggregate dynamics for the CESEE region, local funding has not contributed to a relaxation of supply conditions.

6. Demand and supply in the SME segment seem to be partly in line with the general trend in Bosnia-Herzegovina. In addition, a sharp rebound of demand for loans is expected, which will not be fully matched by an easing of supply conditions. The terms and conditions for loan approvals (i.e. maturity and collateral requirements) are expected to become tighter in the SME segment of the market, except for an easing of restrictions on the average loan size.

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.

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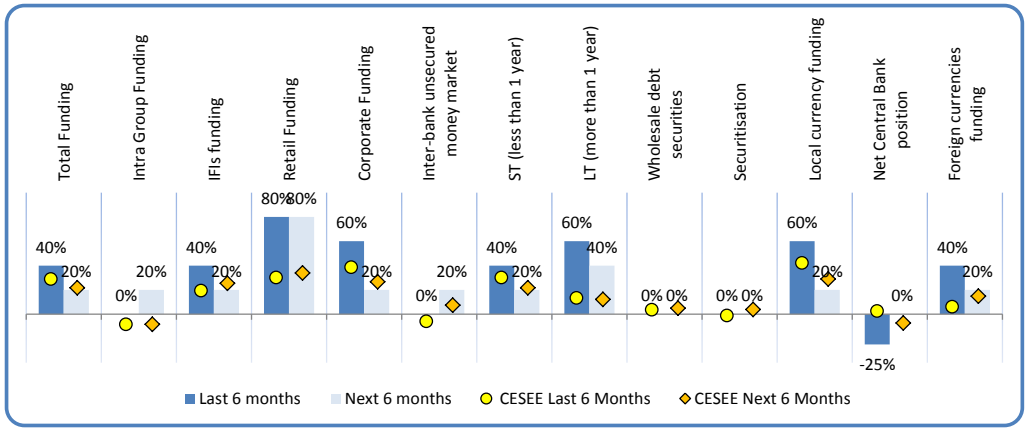
7. Subsidiaries in Bosnia-Herzegovina describe access to funding conditions (Figure 7) as having generally improved in line with the dynamics at the CESEE regional level. Most of the positive funding contributions in Bosnia-Herzegovina have come from retail and corporate funding (e.g. deposits) and from a pickup in IFI funding. This is partly in line with the ongoing funding conditions in the CESEE region. Conversely, corporate funding in Bosnia-Herzegovina is in a negative phase. Contrary to the CESEE trend, intra-group access to funding has not been diminishing.

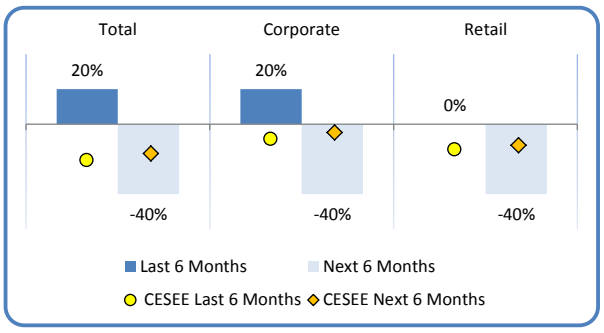
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

8. NPL figures continued to improve marginally over the last six months (Figure 8), following a trend noted in the previous survey. The survey in particular points to a significant decrease in the NPL ratio in the corporate sector. Looking at the next six months, however, NPL ratios are expected to increase again, reversing the positive gains.

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



Source: EIB – CESEE Bank Lending Survey.

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Bulgaria

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: nine
- Approximate share of assets covered (as proportion of total assets): 62 percent
- Current level of NPLs as proportion of total loans: 16.7 percent (Feb. 2014)
- Latest credit growth (yoy): 1.2 percent (Mar. 2014)
- Loan-to-deposit ratio: 95.4 percent (Mar. 2014)
- CAR: 17 percent (Q4 2013)

2. Key messages - *Falling demand for fixed-investment loans, high NPLs and regulation are perceived as constraining factors.*

International groups' views:

- **Group strategies**: The restructuring efforts of parent banks operating in Bulgaria have been more pronounced than for 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 expect slightly higher deleveraging.
- **Group assessment of positioning and market potential**: Although demonstrating a clear commitment to the CESEE region, parents operating in Bulgaria show more pronounced selectivity in their operations. This perhaps reflects the perception of the majority of parent banks that Bulgarian subsidiaries' profitability is low relative to that of the group. Two-thirds of the parents assessed their market positioning in Bulgaria as optimal or satisfactory, and about 80 percent indicated that the local market has medium potential.

Subsidiaries'/local banks' views:

- **Credit supply** is perceived as marginally easing and is expected to ease further in the near future largely due to domestic factors. Local bank and group NPLs are seen as the major constraints on supply conditions. Over the next six months EU and domestic regulation is expected to become a significant constraint.
- **Credit demand** fell significantly. By institutional sector, the largest decline came from SMEs. In the next six months, both corporates and households are expected to increase their demand for loans, even though overall loan demand is expected to remain broadly stable.
- **Access to funding** improved over the past six months due to strong domestic retail and corporate funding and is expected to improve further, despite the negative impact of intra-group funding.
- **NPL figures** were reported to have deteriorated over the past six months but are expected to improve slightly in the near future.

[1] Sources: Bulgarian National Bank, Unicredit/Bank Austria and Raiffeisen Research.

3. Relevant macroeconomic and banking conditions[2]

- **Output:** GDP growth in 2013 rose to 0.9 percent, from 0.6 percent in 2012. This increase came as growing net exports and public expenditure offset declines in private consumption and gross fixed capital formation. Growth is projected to strengthen to 1.7 percent in 2014 and 2 percent in 2015, as domestic demand recovers and complements the positive contribution of net exports.
- **Unemployment:** The unemployment rate in Bulgaria appears to have peaked at around 13 percent in 2013, although employment continued to contract throughout 2013. The labour market is expected to stabilise further in 2014 but to remain generally weak, with the unemployment rate projected to decline to 12.5 percent in 2015.
- **Inflation:** The increase in consumer prices, as measured by HICP, slowed sharply in 2013 to 0.4 percent due to falling global energy prices, lower food prices and cautious consumer behaviour. HICP is expected to decline by 0.8 percent in 2014, before increasing again moderately in 2015.
- **External and public sector balance:** General government debt stood at 18.9 percent of GDP at the end of 2013 and ranks as the second-lowest in the EU. It is projected to increase to 23.1 percent by the end of 2014. The general government deficit is expected to increase from 1.1 percent in 2013 to around 2 percent in both 2014 and 2015. The current account balance turned positive in 2013 (2 percent) and is expected to decline gradually to zero by the end of 2015.
- **Banking sector:** Return on equity at the end of 2013 stood at 4.9 percent. The profitability of Bulgarian banks has been stymied by the decreasing share of loans at the expense of a rising share of lower-interest bearing assets, thus lowering the margin between funding costs and interest-based income. A high ratio of non-performing loans (17 percent) still imposes large, albeit declining costs on the banking system. NPLs are well provisioned and the regulator estimates that the banking system could absorb even higher NPL ratios without major negative consequences for the system as a whole. The capital adequacy ratio stands at 17 percent, indicating a reasonably elevated level of capitalisation.
- **Rating:** Bulgaria is rated BBB- by Fitch, Baa2 by Moody's and BBB by S&P.

[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and NCB data.

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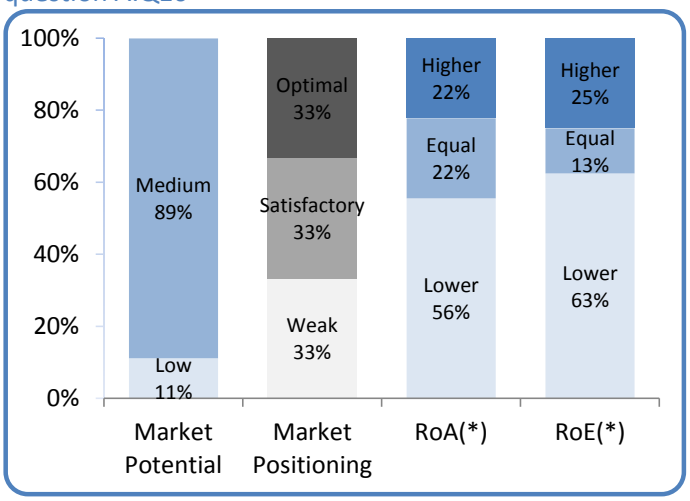
4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Parent banks operating in Bulgaria continued to restructure their businesses over the past six months and expect to carry on doing so over the next six months, like the full sample of parent banks operating in the region and considered in this survey. About 70 percent of banking groups with operations in Bulgaria still have strategic restructuring measures in the pipeline, such as the sale of branches and/or assets, which is slightly more than the groups in the full sample (60 percent). The restructuring activity probably reflects to some extent the perception of the majority of the parent banks with operations in Bulgaria that their market position is sub-optimal (Figure 1, second bar). Two-thirds of banking groups operating in Bulgaria expect the loan-to-deposit ratio of their global operations to fall further, which is well above the full sample of groups included in the survey (47 percent).

Figure 1. Market potential and positioning – see question A.Q10



Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

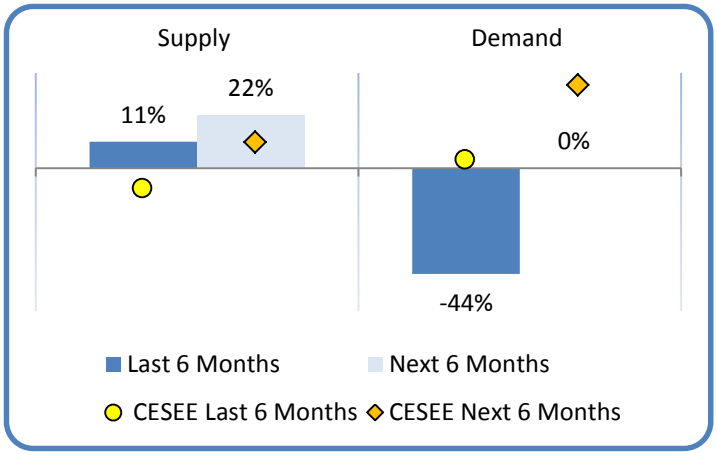
2. The restructuring process in parent banks is taking its toll on operations in the CESEE region. Nearly half of parent banks operating in Bulgaria (44 percent) intend to reduce operations selectively, while a third intends to expand operations selectively. This divergence of views is underlined by two additional facts. First, nearly all parent banks with operations in Bulgaria assess the CESEE market potential as medium. Second, a majority of parent banks report that risk-adjusted returns from their operations in Bulgaria are lower than those for group operations as a whole (Figure 1, last two bars).

[3] 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 particular 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 broadly stable over the last six months but expect them to ease somewhat in the near future. The perception of credit supply conditions is slightly better than the average perception in the CESEE region. Aggregate demand for loans and credit lines is assessed by a net 44 percent of subsidiaries as declining over the past six months and is expected to stagnate in the near future (Figure 2). These developments are in stark contrast with the rest of the region and most likely reflect significant political and economic uncertainty in the country.

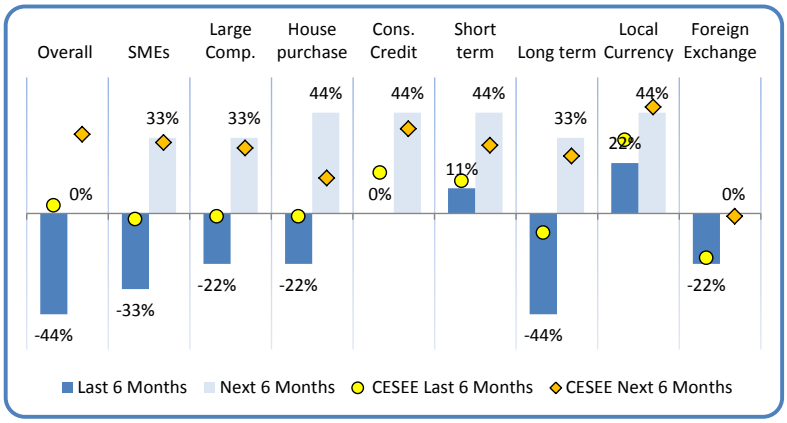
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. In the corporate sector more banks saw a decline in demand from SMEs (net 33 per cent) than in demand from large corporates (net 22 per cent of respondents, see Figure 3). For the household sector, banks predominantly noted a fall in demand for credit for house purchases, while the general perception of demand for consumer credit was unchanged. The maturity structure of demand tilted substantially towards short-term loans, which is consistent with the perceived stability of the demand for consumer credit. Somewhat surprisingly, the total decline in demand is larger than the decline in each of the components of demand. This is not necessarily inconsistent, because the numbers reflect the net percentage of banks that

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



Source: EIB – CESEE Bank Lending Survey.

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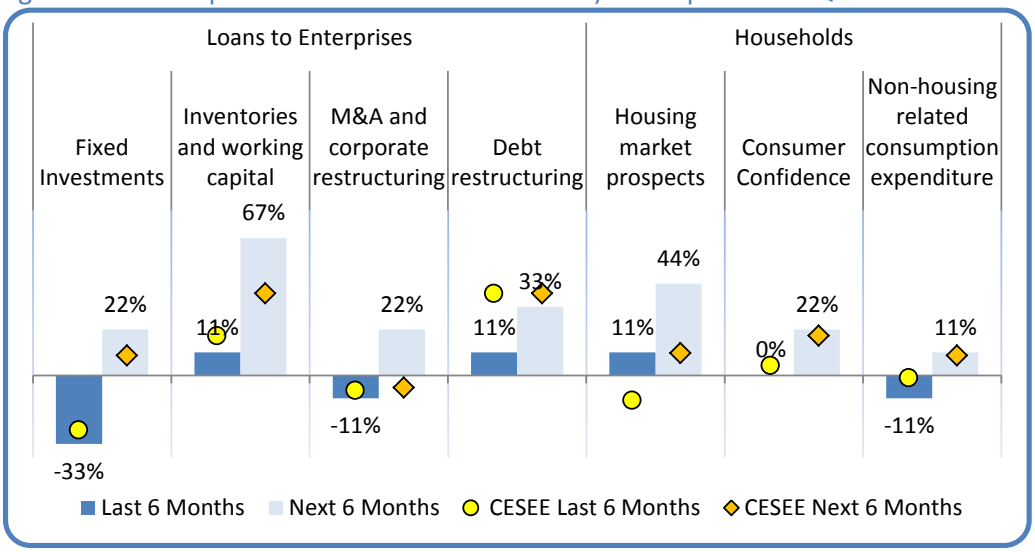
estimate a decline in demand.[4] Although overall demand is expected to remain unchanged over the next six months, a third of respondents expect demand for corporate loans, including the SME segment, to pick up, and nearly half expect credit to households to increase as well.

3. The biggest drag on demand over the past six months was the decline in demand for loans for fixed investment, followed by virtually unchanged M&A activity and corporate restructuring (Figure 4). This is broadly in line with the dynamics in the rest of the CESEE region. Household demand was affected negatively to a small extent by non-housing-related consumption expenditure. Looking ahead, demand is expected to increase in all segments, but in particular higher demand is expected for working capital and because of improving housing market prospects. Consumer confidence is also expected to make a positive contribution.

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



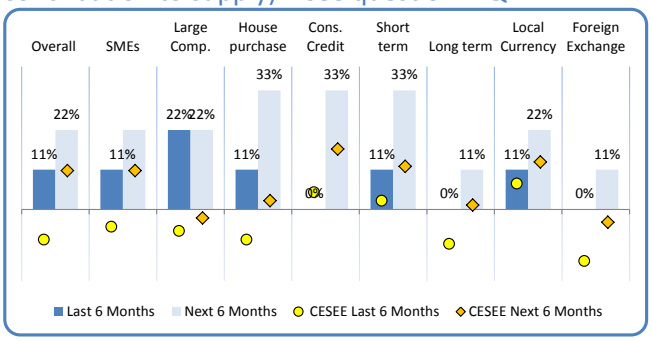
Source: EIB – CESEE Bank Lending Survey.

4. Supply (credit standards) eased marginally over the past six months. This was primarily driven by an easing of credit standards in the large corporates sector, whilst supply conditions were largely unchanged elsewhere (Figure 5). Aggregate credit standards are expected to continue to ease over the next six months, with loans to the household sector taking the lead. Expectations for the CESEE as a whole are for a lower degree of easing of credit standards, driven by the same market segments. Short-term loans benefited more from the marginal easing of credit standards overall, and this is expected to be even more pronounced over the next

[4] If 7 out of the 9 respondents replied no change in demand or in any component of demand, while 2 replied an overall decline, with one reporting a decline in SME demand but no change in the other components, while the other reported a decline in demand from large corporates but no change in the other components, there would be an overall decline of 22 percent (an 11 per cent decline in demand from SMEs plus an 11 percent decline in demand from large corporates).

six months. Credit standards for local currency loans moved in line with overall credit standards and are expected to keep pace over the next six months, while those for foreign exchange loans were broadly stable and are expected to ease only marginally over the next six months.

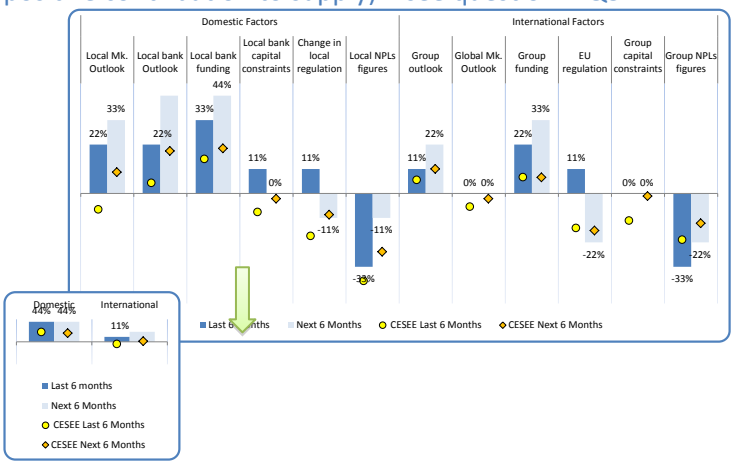
Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1



Source: EIB – CESEE Bank Lending Survey.

5. Domestic factors played a key role in determining supply conditions (Figure 6). Among the local factors, local bank funding and local bank and market outlooks contributed to easing credit conditions. Local NPL figures exerted the largest pull in the opposite direction. International factors had only a marginal net impact on credit conditions, with group funding and group outlook largely offsetting the drag of group NPLs. Compared to countries in the CESEE region, both domestic factors in Bulgaria and international factors had a more positive impact on credit standards. Looking ahead, the negative contribution of local and group NPLs is expected to decline. EU and local regulation are both expected to have a significant negative impact on credit supply, more specifically through tightening of standards.

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.

6. 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 deposits and in both local and foreign currency. Intra-group funding had a negative impact on subsidiaries' access to funding (Figure 7). Access to short-term loans improved for a number of banks, while

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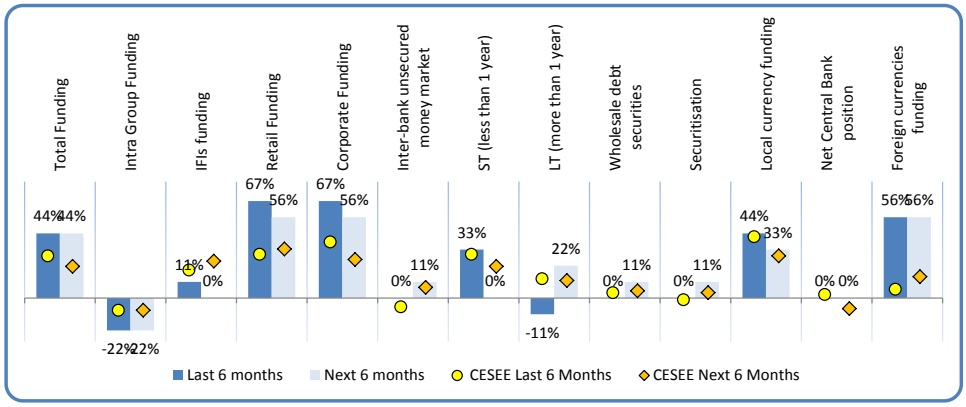
access to long-term loans declined marginally. Looking ahead, access to funding, including that in the long-term segment, is expected to improve further, driven by the same underlying factors.

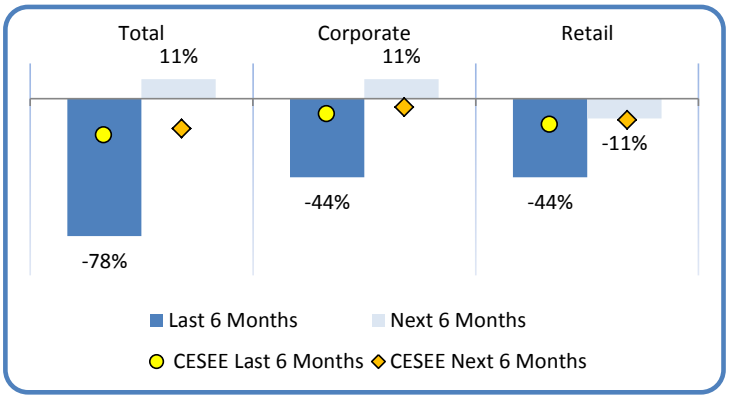
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

7. NPL ratios are reported to have increased across the board over the past six months, in both the corporate and retail sector (Figure 8). NPLs are expected to decline marginally over the next six months, driven by the corporate sector.

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



Source: EIB – CESEE Bank Lending Survey.

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Croatia

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as proportion of total assets): roughly 75 percent
- Current level of NPLs as proportion of total loans: 15.4 percent (Q4 2013)
- Latest credit growth (yoy): -1.2 percent (Sep. 2013)
- Loan-to-deposit ratio: 120 percent (Q1 2014)
- CAR: 21.26 percent (Q3 2013)

2. Key messages - *Recession weighing 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 the group level they are likely to stabilise or expand their CESEE operations and are not planning any sales of branches or activities. They also do not expect additional deleveraging.
- **Group assessment of positioning and market potential:** The lengthy economic recession is weighing on the assessment of market opportunities in Croatia. Many parent groups expect returns on assets and equity to be below group levels. About half of the parent banks consider the local banking market to have limited potential, but the overwhelming majority of the parents regard their market positioning as satisfactory or optimal.

Subsidiaries'/local banks' views:

- Croatian banks report that **declining demand and decreasing-to-neutral supply** were behind the negative credit growth in the last six months.
- **Credit supply** deteriorated slightly across all segments and is expected to continue to deteriorate. Besides funding, most domestic and international factors point towards tighter credit conditions and little improvement is expected in the short run.
- **Demand for loans:** Investment, housing market prospects and consumer confidence were behind declining demand, whilst debt restructuring had a positive impact. Looking ahead, demand is expected to expand slightly.
- **Access to funding:** A slight improvement in funding conditions was reported over the last six months, with IFI funding having a positive effect. Funding conditions are expected to improve further, driven by IFI and retail funding.
- **NPL figures:** All subsidiaries still report increasing NPLs.

[1] Sources: Croatian National Bank, Unicredit/Bank Austria and Raiffeisen Research.

3. Relevant macroeconomic and banking conditions[2]

- **Growth**: The Croatian economy has been in recession for five years. Real GDP fell by 1 percent in 2013, and a further decline of 0.6 percent is forecast for 2014. Increasing net exports and stagnating domestic demand are expected to bring about a moderate recovery from 2015 onwards.
- **Unemployment**: The unemployment rate is high and is expected to remain at around 18% over the next two years.
- **Inflation**: Inflation is expected to decline further due to weak domestic demand. The harmonised index of consumer prices was at 2.3 percent in 2013 but is expected to fall to 0.8 percent in 2014.
- **External and public sector balance:** The low domestic demand resulted in a current account surplus of 0.5 percent of GDP in 2013, which is expected to increase to 1.5 percent over the next few years. On the fiscal side, however, the consolidation is slow: the deficit will decline from 4.9 percent of GDP in 2013 to 3.8 percent in 2014. A pre-financing operation in late 2013 brought forward the increase in public debt, which will remain at just below 70 percent of GDP over the coming years.
- **Banking sector:** The Croatian banking sector is highly capitalised (CAR 21.3 percent in Q3 2013). Aggregate portfolio quality has been deteriorating in line with the recession: NPLs are relatively high at 15.3 percent. Lending growth turned negative around mid-2012, and has since been declining at a rate of about 1 percent per year. Partly as a consequence of the sluggish economy and the resulting low demand for credit, non-resident funding of the banking system had declined by 18 per cent by September 2013 on a year-on-year basis. Growth in domestic deposits, however, particularly from households, has been robust and has been gradually replacing foreign funding.
- **Rating:** Croatia is currently rated by Moody's (Ba1), Fitch (BB+) and S&P (BB).

[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

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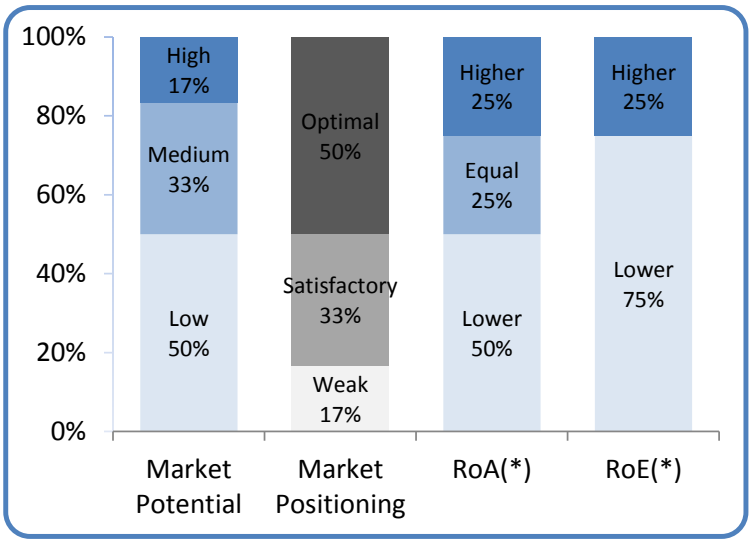
4. Results from the Bank Lending Survey:

4.1 Parent banks' section[3]

1. Parent banks operating in Croatia are generally more optimistic than the overall sample of international banks included in the survey. They are unlikely to engage in additional deleveraging and also less likely to sell branches or activities.

Figure 1. Market potential and positioning – see question A.Q10



Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

2. Parent banks operating in Croatia do not plan to reduce their operations in CESEE over the coming months. By way of comparison, one third of the parent banks in the full sample are still planning to withdraw from selected activities at a regional level. About half of the parent groups view Croatia's market potential as high or medium, which is a slight improvement compared with the previous survey and puts Croatia in the middle tier within the CESEE region. Most of the parent banks consider their current market positioning to be optimal or satisfactory. Possibly as a reflection of the country's severe and prolonged recession, local banking subsidiaries' risk-adjusted returns on assets and equity are generally expected to stay below the returns for the group as a whole (Figure 1).

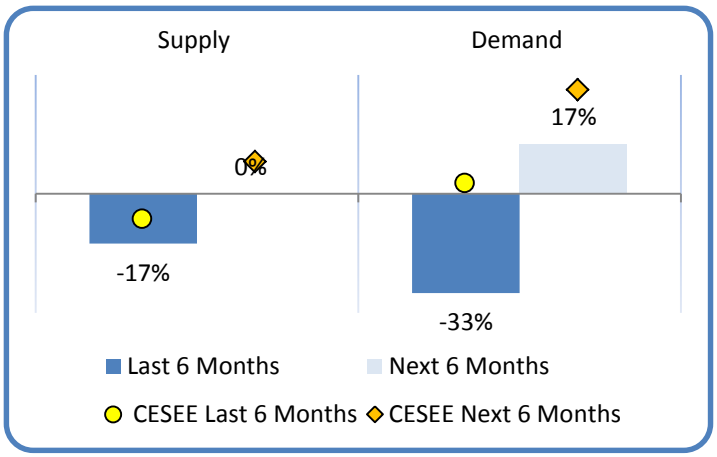
[3] In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market, whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular 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 Croatia reported further decreases in credit demand over the past six months, with supply factors being more restrictive (Figure 2). Over the next six months supply is expected to remain neutral, but demand may increase marginally. Expectations about credit supply and demand are somewhat less optimistic than indicated by the overall picture in the CESEE region.

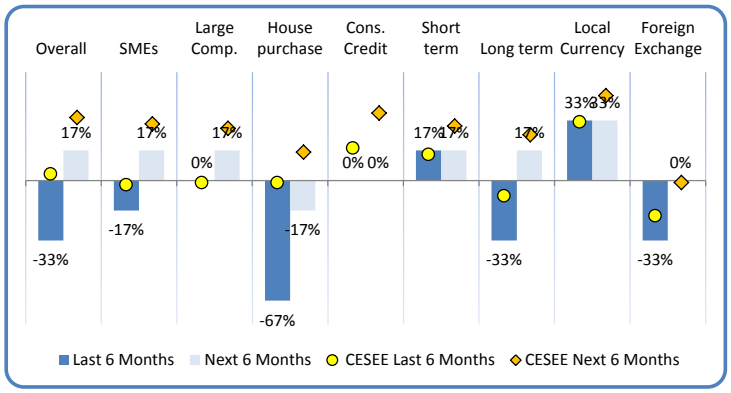
2. Overall demand for loans has been subdued. In the corporate segment, credit demand from large companies has not changed, whereas some banks reported a decline in the SME segment. Credit demand for retail mortgages suffered a particularly significant drop (Figure 3). All subsidiaries reported shrinking demand for long-term loans, while they considered short-term credit to be on a slightly rising trend. Looking ahead, only property-related lending is expected to continue to shrink, whereas a pickup in demand is expected primarily for the corporate sector. A shift from foreign to local currency-denominated credit can be observed, as elsewhere in the CESEE region.

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



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

3. As for the factors behind credit demand in the corporate segment, investment has been a major drag over the last few months, whereas working capital requirements and debt restructuring have contributed positively. In the case of households the recession had a strong negative impact on housing market prospects and consumer confidence, resulting in significantly lower credit demand over the past six months. Looking ahead, debt restructuring and working capital requirements are expected to continue to support demand in

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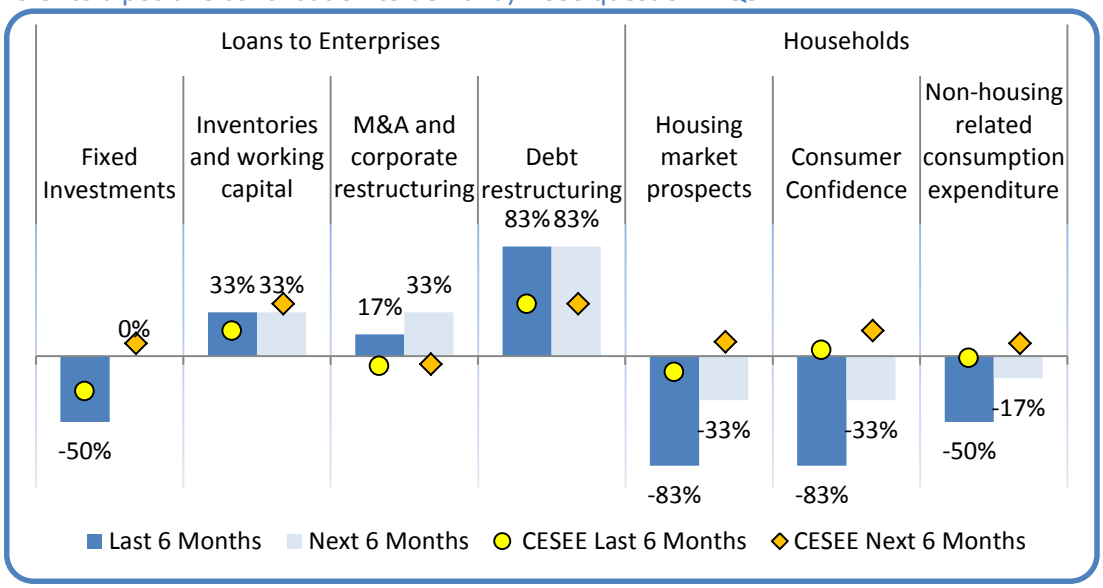
the corporate sector, and investment-related credit demand is not expected to contract any further. Demand factors behind household borrowing are expected to have a small, but still negative, impact on demand, making the segment less buoyant compared to elsewhere in the CESEE region.

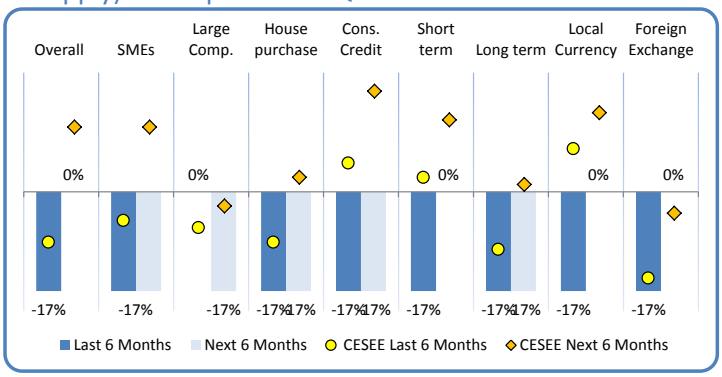
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. Credit supply factors were almost uniformly negative across market segments over the past six months, except for larger companies (Figure 5). Over the next six months, subsidiaries' credit supply is expected to move somewhat closer towards a neutral stance, but credit conditions are expected to remain fairly restrictive relative to the rest of CESEE.

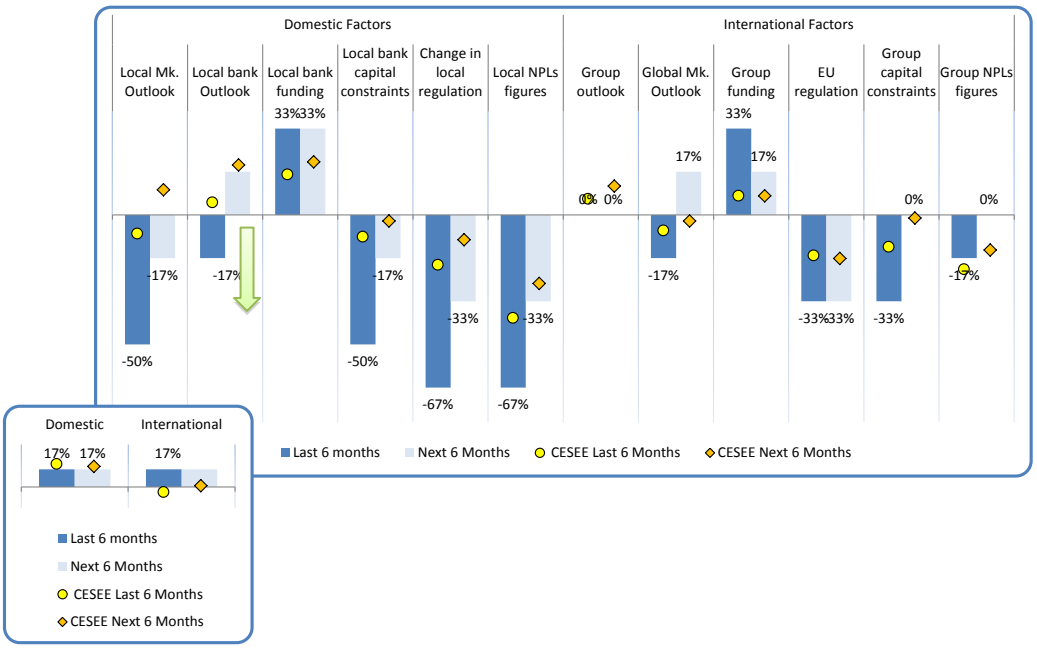
Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1



Source: EIB – CESEE Bank Lending Survey.

5. The majority of the domestic factors — local market outlook, capital constraints, regulation and non-performing loans – point to significantly tighter credit conditions in Croatia over the last six months, and not much improvement is expected in this respect. International factors had a less pronounced, but still negative impact. Funding, both locally and at group level, however, has been making a positive contribution, and this is expected to remain the case in the future (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.

6. As for SMEs, subsidiaries in Croatia report a tightening of credit supply over the past six months and expect the tightening to continue in the near future. Credit demand from SMEs, however, is expected to pick up, largely in line with the aggregate CESEE picture.

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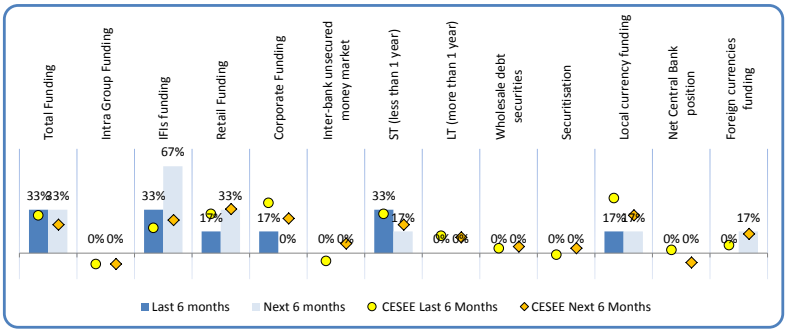
7. This relatively optimistic assessment of funding is confirmed by the detailed picture: the overall funding situation of subsidiaries has improved over the last six months (Figure 7). IFI funding had a marked positive effect and is expected to gain even greater prominence in the near future than in the CESEE region as a whole. As for the domestic sources, retail deposits played a positive role and are expected to increase further. These improvements are restricted to the shorter maturities though: no improvement has been observed in access to long-term funding and the outlook suggests further stagnation.

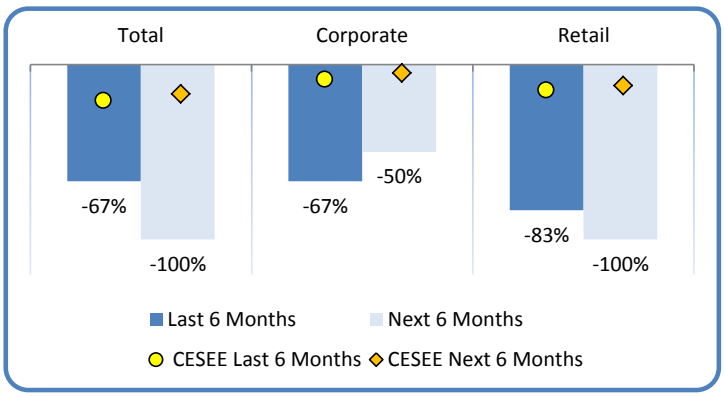
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

8. With regard to NPLs, the prolonged economic recession continues to weigh on banks' expectations. Most 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 it will rise further in the next six months, particularly insofar as the retail sector is concerned (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.

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Czech Republic

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as proportion of total assets): roughly 70 percent
- Current level of NPLs as proportion of total loans: 5.9 percent (February 2014)
- Latest credit growth (yoy): 3.2 percent (February 2014)
- Loan-to-deposit ratio: 74 percent (February 2014)
- CAR: 17.3 percent (Q3 2013)

2. Key messages - *Clearly perceived as a high-potential banking market, despite economic slowdown.*

International groups' views:

- **Group strategies**: The majority of international banks operating in the Czech Republic are not engaged in a restructuring process at group level. They present a more positive view in terms of group deleveraging than the overall sample of banks included in the survey.
- **Group assessment of positioning and market potential**: All the groups operating in the Czech Republic record higher profitability in both the Czech Republic and CESEE, compared to their overall group profitability. They are also more inclined to expand operations in the CESEE region than other groups in the overall sample. They are satisfied with their positioning in the Czech market, and 86 percent of them regard the Czech Republic as having medium or high market potential.

Subsidiaries'/local banks' views:

- **Credit supply:** Credit standards were broadly unchanged over the last six months and are expected to ease, mainly in the SME and household segments, over the coming period. The positive impact on supply conditions of the local market and bank outlook is expected to be partly offset by local and international regulation, as well as by the external market outlook.
- **Credit demand:** Following the stagnation over the last six months, demand is expected to increase on the back of the performance of each segment, except for housing loans.
- **Access to funding:** Subsidiaries indicated a decrease in access to funding, mainly due to a decline in corporate funding. Although the latter is projected to continue, access to total funding is expected to remain unchanged thanks to improved access to IFIs, retail deposits and interbank funding.
- **NPL figures:** In contrast with the trend in the CESEE region, NPLs decreased in the Czech Republic and are expected to decline further.

[1] Sources: The Czech National Bank, Unicredit/Bank Austria and Raiffeisen Research.

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** Following the contraction driven by domestic demand in 2012, economic activity declined further on the back of falling gross capital formation and net exports in 2013. Real GDP is expected to rebound with annual growth of around 2 percent in 2014. The contribution of both domestic and external demand is forecast to turn positive, with the latter mainly driven by the weakening of the koruna and accelerating economic activity in the main trading partners. Growth is expected to accelerate slightly in 2015, mostly due to strengthening domestic demand.
- **Unemployment:** The unemployment rate has been hovering around 7 percent over the last few years. Although the decrease in the labour force stemming from demographic changes will exert upward pressure on the unemployment rate, the strengthening of the economy is expected to result in a gradual decline in the unemployment rate over the medium term.
- **Inflation:** Sluggish economic activity contributed to the drop in inflation from 3.5 percent in 2012 to 1.4 percent in 2013. Despite the weakening of the koruna and stronger growth, inflation is expected to fall to around 1 percent in 2014, mainly as a result of declining administered electricity prices and indirect tax hikes dropping out of the calculation. Inflation is forecast to increase to around 2 percent in 2015, thanks to stronger domestic demand.
- **External and public sector balance:** The current account posted a slight deficit in 2013, while it is expected to decrease to close to zero in 2014-15 on the back of the weaker koruna, accelerating growth in the main trading partners and increasing absorption of EU funds. Following the fiscal consolidation that brought down the budget deficit to 1.5 percent of GDP in 2013, the fiscal stance is expected to be slightly eased in 2014. However, the deficit is forecast to stay well below the Maastricht criterion of 3 percent of GDP. In 2015, further fiscal easing is expected, with the deficit increasing to around 2.4 percent of GDP. Public debt is relatively low, at just under 50 percent of GDP, and is expected to remain stable in the medium term.
- **Banking sector:** The capital adequacy ratio of the banking sector (17.3 percent in Q3 2013) comfortably exceeds the regulatory minimum. NPLs are around 6 percent, which is low compared with the rest of the region. The loan-to-deposit ratio (74 percent in February 2014) is very low in relation to the rest of the region. Credit growth is well below the pre-crisis level, albeit still positive (around 3 percent at the beginning of 2014), with retail loans increasing at a slightly higher rate than corporate loans.
- **Rating:** The Czech Republic is currently rated A1 by Moody's, A+ by Fitch and AA- by S&P.

[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

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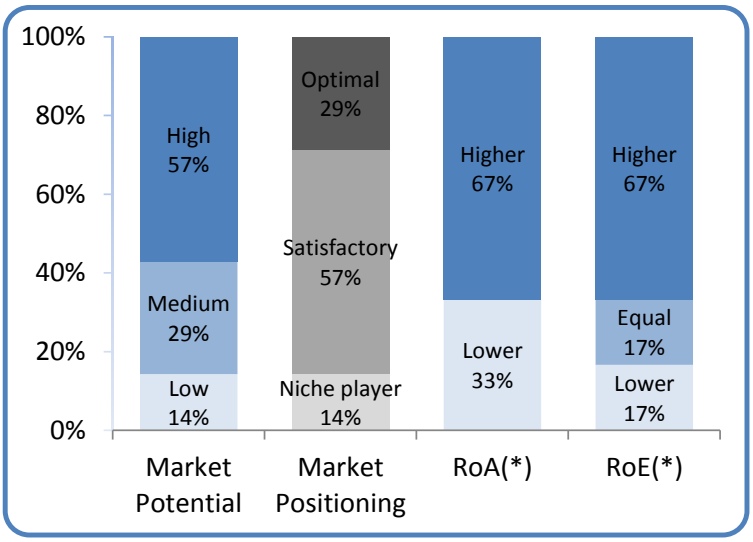
4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Parent banks operating in the Czech Republic have a more favourable view than the overall sample of groups included in the survey. Although more than half of banks are considering the sale of assets and strategic restructuring, the majority of them do not plan other strategic operations such as raising capital, selling branches or receiving capital from the government. Parent banks operating in the Czech Republic do not envisage further strong deleveraging, as reflected in the fact that 83 percent of banks expect their loan-to-deposit ratio to remain stable or increase over the next six months.

Figure 1. Market potential and positioning – see question A.Q10



Source: EIB – CESEE Bank Lending Survey.

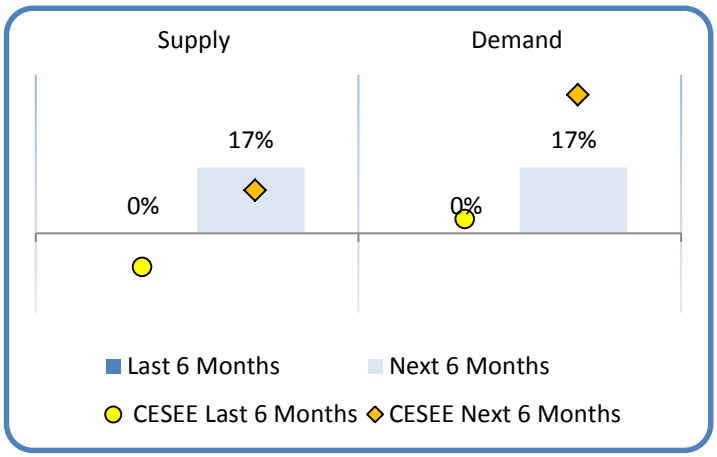
2. Groups operating in the Czech Republic remain strongly committed to the region. Two thirds of such banks intend to expand operations, while none of them plan to reduce their regional activity. A large majority of parent banks operating in the Czech Republic reported higher profitability, in both the Czech Republic and in CESEE, than at group level. Moreover, each bank expects either an unchanged or increasing contribution of activities in CESEE to the group level return-on-assets ratio over the next six months. Parent banks are satisfied with their market positioning, with 29 percent of respondents considering it to be optimal and 57 percent regarding it as satisfactory (Figure 1). Banks' overall assessment of market potential is also favourable, with 86 percent of banks considering it to be medium-to-high (Figure 1).

[3] 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 particular 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 the Czech Republic reported unchanged supply and demand conditions over the last six months, while they expect both supply and demand to increase over the coming period (Figure 2). The former is broadly in line with the CESEE average; however, demand is expected to increase more in the CESEE region.

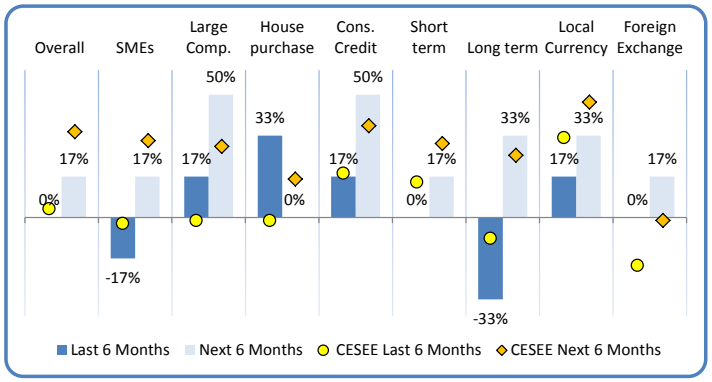
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. In the last six months demand has remained unchanged on balance as an increase in demand from large corporations and households was offset by a decrease in demand from SMEs. Looking ahead, most banks expect an increase in demand, driven by SMEs, large corporations and consumer credit, while demand for house purchase loans is forecast to be largely unchanged. In terms of maturity and currency denomination, the most dynamic segments are expected to be long-term and local currency loans (Figure 3).

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



Source: EIB – CESEE Bank Lending Survey.

3. In the corporate segment over the last six months demand was negatively affected by fixed investment, while M&A, corporate and debt restructuring had a positive impact on demand conditions. Looking ahead, demand is expected to increase thanks to the continuous positive contribution of M&A, corporate and debt restructuring, as well as the recovery of fixed investment, inventories and working capital. In the household segment, demand was supported by favourable housing market prospects, increasing consumer confidence and non-housing-related consumption expenditure. This is expected to continue over the next six months in line with the aggregate CESEE outlook (Figure 4).

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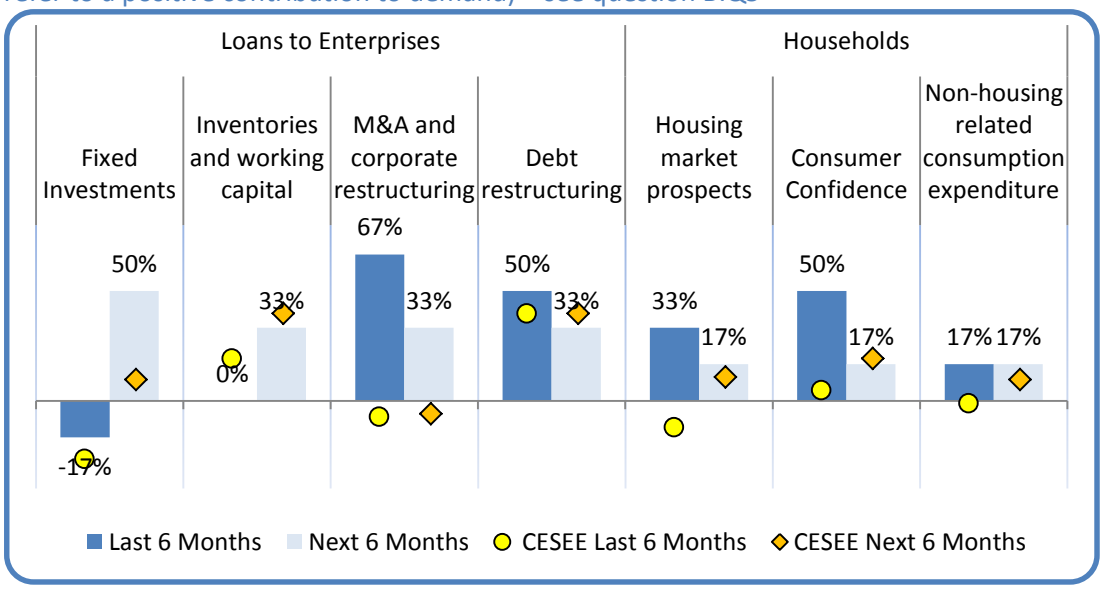
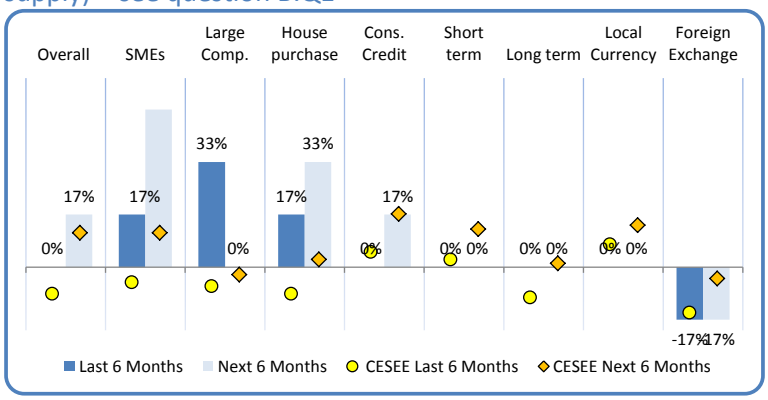
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. Supply conditions remained broadly unchanged in the Czech Republic, whereas they were tighter in the CESEE region over the last two quarters. Subsidiaries operating in the Czech Republic expect credit conditions to ease over the next six months, primarily in the SME and household segments, in line with the CESEE region as a whole (Figure 5).

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



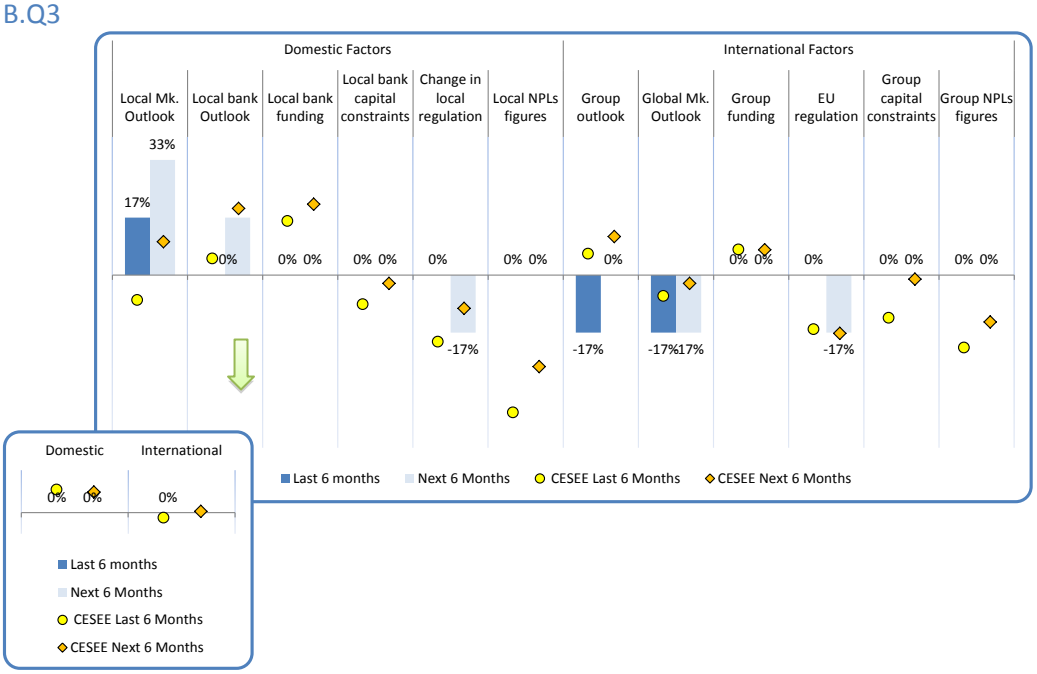
Source: EIB – CESEE Bank Lending Survey.

5. Both domestic and international factors made broadly neutral contributions to supply conditions over the last six months. However, domestic factors – mainly the local market outlook – pointed toward the easing of credit standards, whilst international factors such as the group and global market outlook contributed to a tightening of supply conditions. Looking ahead, although domestic and EU regulation, as well as an unfavourable global market outlook, are expected to constrain credit supply, most banks forecast that this will be offset by the favourable local bank and market outlook (Figure 6).

6. As regards SMEs, banks on balance reported a decline in demand in the last six months and an easing of credit standards. Looking ahead, demand is expected to recover and credit conditions are forecast to ease further, in line with the

general developments in the CESEE region. However, there are slight differences regarding the components of credit standards. Specifically, interest rate margins are expected to fall in the Czech Republic and be tighter in the CESEE region as a whole.

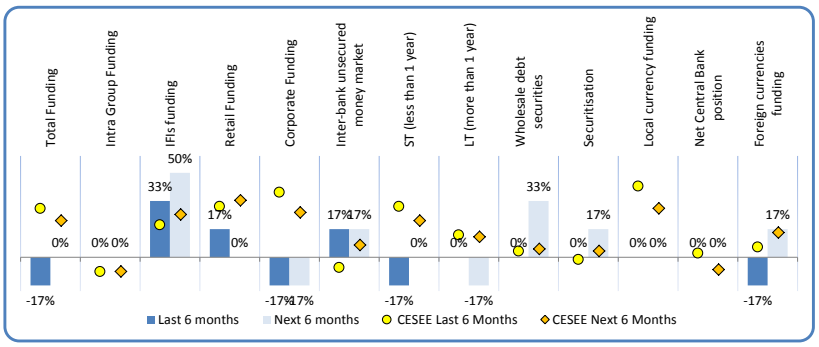
Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q3



Source: EIB – CESEE Bank Lending Survey.

7. With a loan-to-deposit ratio comfortably below 100 percent, Czech banks generally had no pressing need to rely on intra-group funding to support credit growth. However, subsidiaries reported a deterioration in funding conditions, driven mainly by corporate funding, while IFIs, retail and interbank funding increased over the last six months. Access to funding is expected to remain unchanged, as an increase in funding from IFIs is forecast to be offset by a further decrease in corporate funding. This is in contrast with 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.

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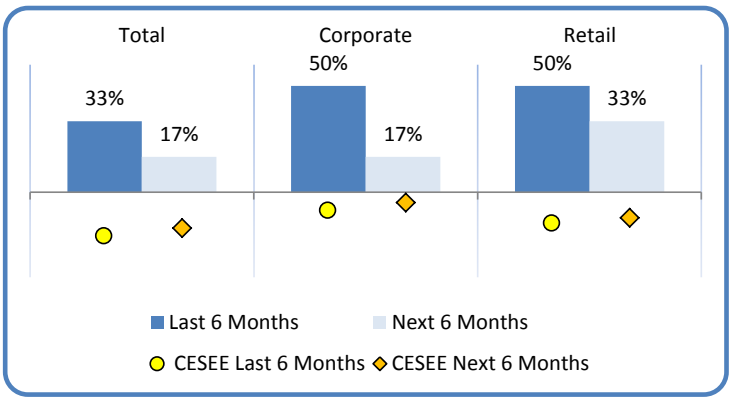
as a whole, where access to corporate funding makes a strong positive contribution to total funding (Figure 7).

8. Both corporate and retail NPL ratios decreased over the last six months and are expected to decline further in the Czech Republic. This is in contrast with developments in the CESEE region, where NPL ratios are forecast to continue to increase in both the corporate and retail segments.

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



Source: EIB – CESEE Bank Lending Survey.

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Hungary

1. Key statistics[1]

- Number of local banks/subsidiaries participating in the survey: seven
- Approximate share of assets covered (as proportion of total assets): 75 percent
- Current level of NPLs as proportion of total loans: 18.8 percent (Q4 2013)
- Latest credit growth, yoy: -3.2 percent (Q4 2013)
- Loan-to-deposit ratio: 112.2 percent (Q2 2013)
- CAR: 17.4 percent (Q4 2013)

2. Key messages - *low profitability makes international banks more selective, while a policy stimulus is attempting to revive lending.*

International groups' views:

- **Group strategies**: Banking groups operating in Hungary are somewhat less likely to raise capital or consider sales of assets than the full sample of banks included in the survey. Only 15 percent of the respondents 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 see only medium-to-low potential in the Hungarian market. About half of them consider their 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 optimistic relative to the CESEE average. Credit has been particularly accessible for SMEs, the sector targeted by the central bank's Funding for Growth initiative. However, looking ahead, banks expect further easing of credit conditions for corporates and households alike. Hungarian banks report much stronger supply of long-term lending than their peers in the region. They regard international factors, domestic NPLs and the domestic regulatory environment as potential drags on lending but are optimistic about domestic funding and the local market outlook.
- **Credit demand** has been increasing in line with the moderate economic recovery after a prolonged recession and is expected to remain high for both the household and corporate sectors.
- **Access to funding** from most sources is reported to be limited, suggesting that the central bank's funding scheme plays an important role in generating the optimistic credit supply expectations.
- **NPL figures** are expected to stabilise.

[1] Sources: National Bank of Hungary, Unicredit/Bank Austria and Raiffeisen Research.

3. Relevant macroeconomic and banking conditions[2]

- **Output:** After a modest increase of 1.1 percent in 2013, GDP is expected to rise by 2.3 percent in 2014. Following a long period of contraction, domestic demand – strengthened by indirect fiscal measures and substantial monetary easing – has become the primary driver of growth.
- **Unemployment:** Despite an increase in the participation rate, unemployment declined below 10 percent in the second half of 2013 and is expected to stay at around 9 percent in 2014. Employment has been increasing mainly as a result of the extension of the Public Work Scheme, the rising number of frontier workers, and the "whitening" of the labour market.
- **Inflation:** Cuts in regulated energy and utility prices, together with favourable global factors, contributed to a further fall in headline inflation to 0.4 percent in Q1 2014. Inflation is projected to rise to 1 percent in 2014 and is expected to continue to increase in 2015 as a result of the weaker exchange rate and closing of the output gap.
- **External and public sector balance:** The 2013 ESA deficit stood at 2.2 percent of GDP and is expected to widen somewhat to 2.9 percent in 2014. Public debt is expected to remain at around 80 percent of GDP. The current account will continue to be in surplus, amounting to 3 percent of GDP in 2014.
- **Banking sector:** After two years of losses, the banking system produced a positive, albeit small profit in 2013 according to Hungarian accounting rules. However, on an IFRS basis the eight largest banks made a loss. Bank P&Ls are still heavily impacted by loan losses (aggregate NPL ratio is 18.8 percent) and various policy measures (bank levy, transaction tax). Profits in 2014 may be further hit by the government's planned bailout programme for households with FX loans. Capitalisation is adequate (CAR 17.4 percent). External funding stands at around half of its 2008 value, the highest decline within CESEE. The loan-to-deposit ratio fell from its early 2009 peak of 162 percent to around 110 percent by the end of 2013. Credit flows have been consistently negative since Q4 2008. The central bank's Funding for Growth initiative was intended to provide the corporate (mainly SME) sector with cheap funding, to slow down somewhat the decline in corporate credit. The foreign currency-denominated household credit portfolio remains a key vulnerability of the banking sector.
- **Rating:** Hungary's rating is BB+ (Fitch), Ba1 (Moody's) and BB (S&P).

[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

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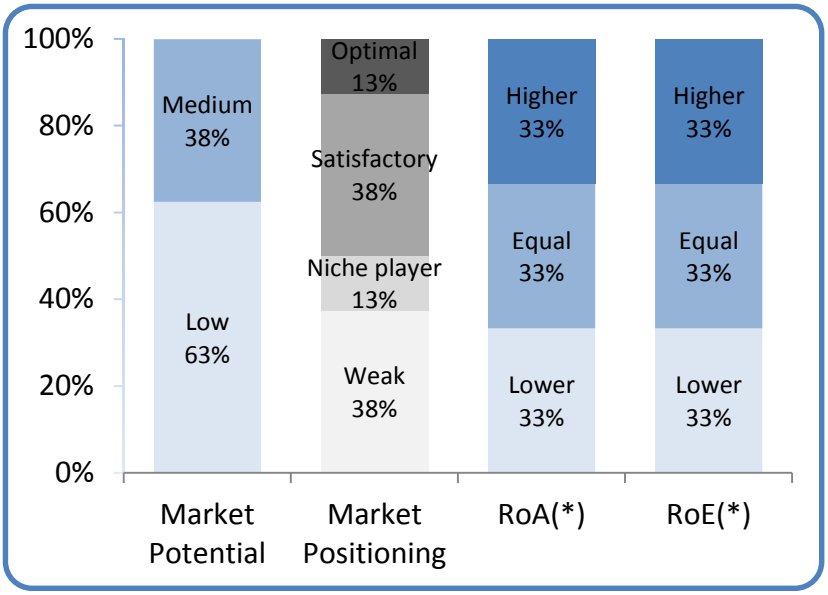
4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Banking groups operating in Hungary do not on average differ significantly from the overall sample of parent banks in terms of their global strategies. They are somewhat less likely to raise capital over the next six months (less than 20 percent of parents) or to sell assets (less than 50 percent of parents) or branches of activities (less than 20 percent of parents), or to restructure their operations in general (roughly 30 percent of parents). As for deleveraging, they are planning to stabilise the groups' loan-to-deposit ratios in the near future, with only 15 percent of groups still expecting a decrease in the loan-to-deposit ratio.

Figure 1. Market potential and positioning – see question A.Q10



Source: EIB – CESEE Bank Lending Survey
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

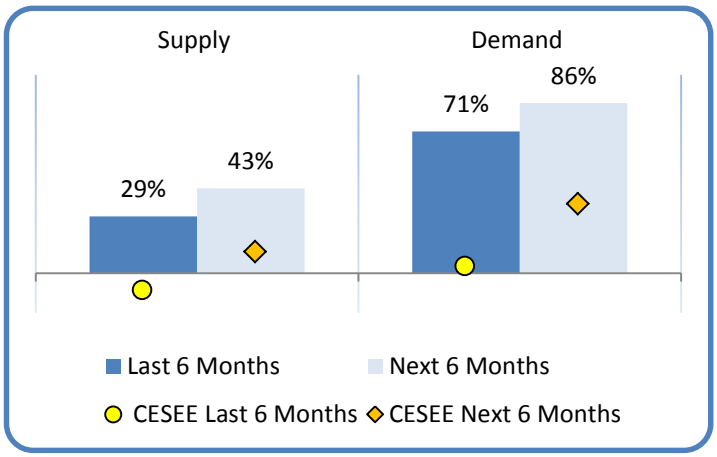
2. About 38 percent of respondents believe that the potential of the Hungarian market is 'medium', while 63 percent answered 'low' (Figure 1). This indicates that the parents' view of the Hungarian banking market is less favourable than their perception of the other Visegrad 4 countries (Czech Republic, Poland and Slovakia). As to market positioning, about half the parents believe it to be satisfactory or optimal, which is also below the results observed in the other Visegrad 4 countries. Parents, on average, however, do not report risk-adjusted returns on assets and equity in Hungary as being significantly different from the overall group levels.

[3] In this subsection the results refer to the views of parent banks. Results on market positioning and potential refer to questions about behaviour within a specific market, while 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 particular country. This makes it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a particular country.

4.2 Local banks/subsidiaries

1. Hungarian subsidiaries and local banks generally reported high overall demand for credit. Survey participants also indicated a parallel, somewhat less pronounced easing of credit standards. Both credit supply and demand exceed the overall CESEE results (Figure 2).

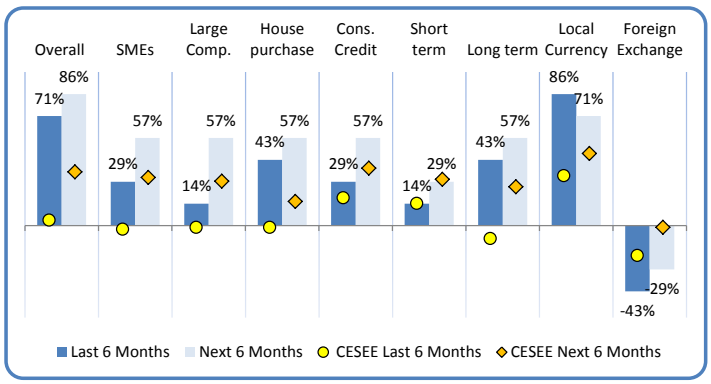
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. The buoyant demand may be due to the moderate economic recovery that followed several years of recession. As for the supply side, significant monetary easing was achieved through a series of cuts in the policy rate by the central bank and through unconventional measures, such as the successive phases of the Funding for Growth programme, providing subsidised funding to SMEs and mid-caps. Financial institutions have faced significant demand for credit from households, in particular for property purchases, and from SMEs, and they expect even higher demand from both wholesale and retail clients over the next six months. The replacement of foreign currency loans with borrowing in HUF is also visible (Figure 3).

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



Source: EIB – CESEE Bank Lending Survey.

3. As for the factors behind credit demand, corporate demand for investment and working capital financing in particular is expected to increase well above the CESEE average (Figure 4). As for households' demand for credit, increasing consumer confidence is in line with the pickup in the economy after a prolonged recession. The marked improvement expected in housing lending prospects may signal a turning point in the decline of property prices.

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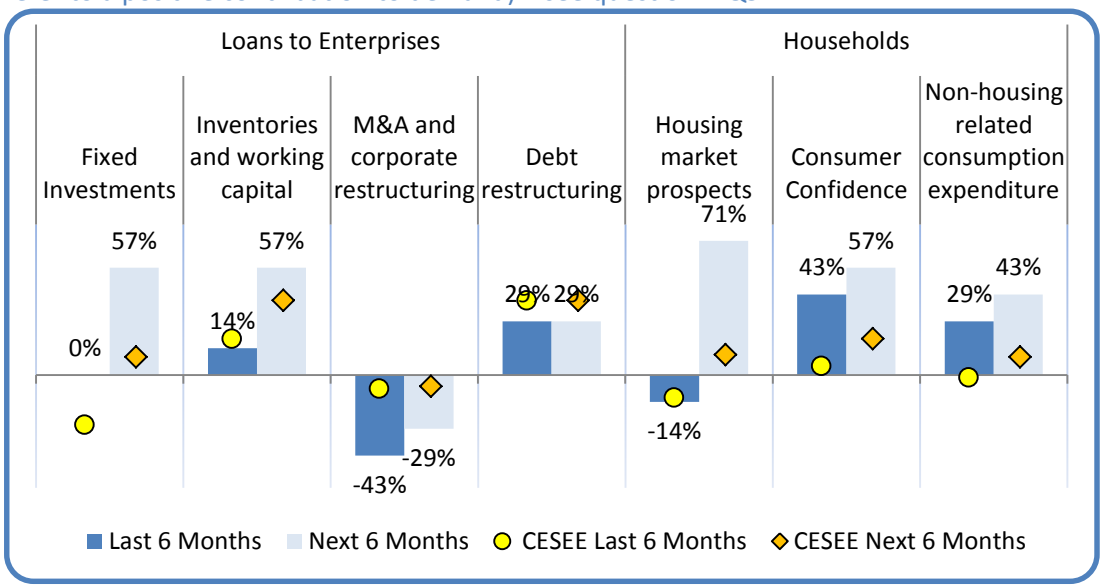
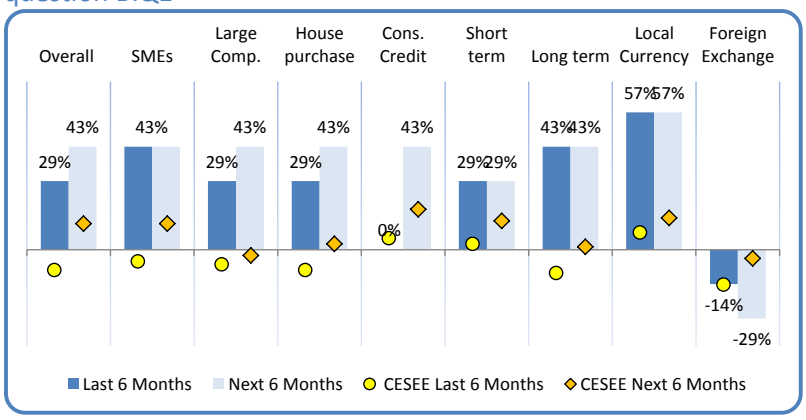
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. A marked easing in credit supply has been observed across most market segments in the last six months, and banks expect further easing of access to finance for corporates as well as households (Figure 5). The overall dynamics of credit supply conditions are significantly above the CESEE average. Banks believe that the individual components of credit terms and conditions are mostly unchanged, except for loan maturity. In this regard Hungarian banks – unlike their CESEE peers – report a marked improvement in access to long-term finance and expect this trend to continue.

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

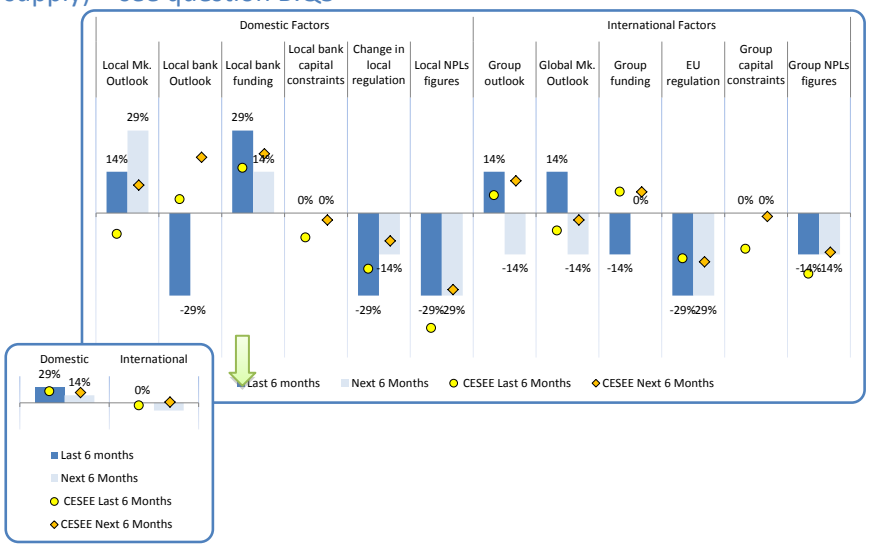


Source: EIB – CESEE Bank Lending Survey.

5. In line with results elsewhere in the CESEE region, Hungarian subsidiaries and local banks view international factors influencing credit supply as neutral/slightly negative. EU regulation and, to a lesser extent, group NPLs are considered to be impediments to credit growth (Figure 6). As for the domestic components, high domestic NPLs and the unpredictability of local regulation are still expected to weigh negatively on credit standards, while for the next six months banks expect

both the local market outlook and domestic funding to continue to be positive contributors 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

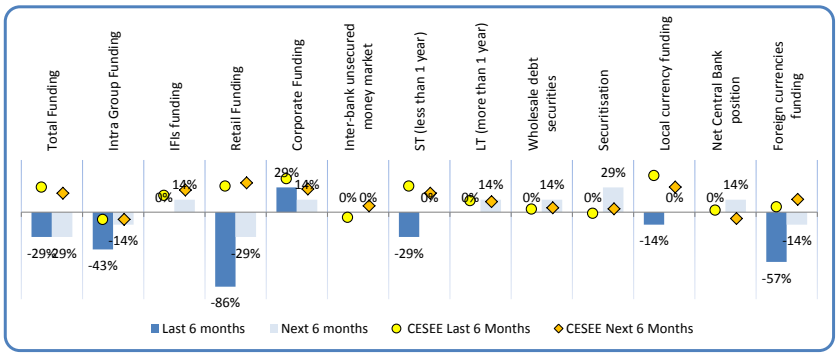


Source: EIB – CESEE Bank Lending Survey.

6. The SME sector recorded the most pronounced easing in credit supply, as the central bank's Funding for Growth programme is targeted mainly at SMEs and mid-caps. As a result, the increasing demand in this segment was matched by the banking system, and this is expected to continue, given that actual disbursements are still well below the total approved amount of the central bank facility.

7. While relatively optimistic about credit supply, Hungarian subsidiaries and local banks are much more concerned about funding than their CESEE peers (Figure 7). Corporate deposits still provide a positive contribution to total funding, whereas retail funding is perceived to be on the decline, probably as a result of increasing competition with the government for attracting domestic retail savings. The apparent difference between the funding outlook and the credit supply projection may be explained by the central bank's generous Funding for Growth programme, which may be used to address eventual shortfalls in funding if needed.

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



Source: EIB – CESEE Bank Lending Survey.

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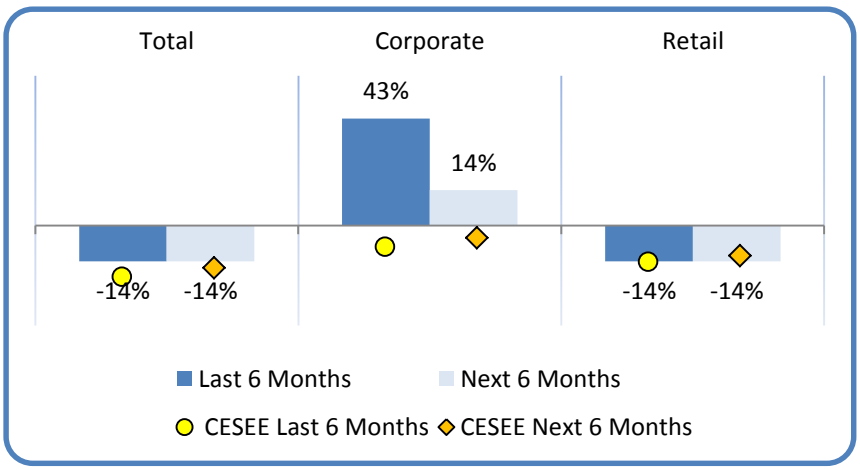
8. NPL ratios are expected to stabilise slowly, in line with most other CESEE peers and with further improvements in the corporate segment (Figure 8). In this respect Hungarian banks seem to have become significantly more optimistic during the last six months: in the previous survey, their assessment of credit quality, especially in the retail sector, was well below the CESEE average.

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



Source: EIB – CESEE Bank Lending Survey.

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Poland

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: seven
- Approximate share of assets covered (as proportion of total assets): 50 percent
- Current level of NPLs as proportion of total loans: 8.5 percent (Q3 2013), source: NBP FSR
- Latest credit growth, yoy: 2.3 percent (Q3 2013), source: NBP FSR
- Loan-to-deposit ratio: 104.5 percent
- CAR: 15.7 percent (Q3 2013), source: NBP FSR

2. Key messages – *Highly attractive market, with expected increase in demand and somewhat smaller improvement in supply conditions.*

International groups' views:

- **Group strategies**: Parent banks operating in Poland are less likely to reduce their CESEE operations and more likely to selectively expand them than the overall sample. They expect to maintain a stable LTD ratio at group level over the next six months. They also remain committed to their regional strategy.
- **Group assessment of positioning and market potential**: Parent banks consider that the Polish market has greater potential than most other markets within CESEE and that the risk-adjusted returns are also among the highest in the region. They are satisfied with their current positioning.

Subsidiaries'/local banks' views:

- Polish banks report that credit **demand** is expected to increase in the next six months, reflecting expectations of an improvement in economic conditions. Credit **supply** is also expected to ease, but in a more subdued manner.
- **Credit supply** conditions are likely to ease for consumer credit, and to a lesser extent for SMEs, while they are expected to remain tight for large corporates and mortgage loans. Polish banks do not see EU regulation or group NPLs as an impediment to credit supply. Changes in local regulations and their own NPLs contributed to limited supply over the last six months, but these constraints are expected to ease. As for capital constraints, they are easing at group level but expected to become tighter at the local level.
- **Demand for loans** is expected to pick up significantly across both the corporate and retail segments over the coming months.
- **Access to funding:** Polish banks have not reported funding problems. They experienced a strong inflow of corporate and retail deposits. These are expected to remain the main sources of funding in the near future.
- **NPL figures** have improved in the corporate segment and levelled off for households. They are expected to improve overall in the future.

[1] Sources: The National Bank of Poland, Unicredit/Bank Austria and Raiffeisen Research

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** After a short-lived slowdown, the Polish economy has begun to regain strength since the second half of 2013. Real GDP increased by 1.6 percent in 2013 and is forecast to improve further to 2.9 percent in 2014. The previously sluggish domestic demand will gradually replace net exports as the key driver behind output growth.
- **Unemployment:** In parallel with the recovery, unemployment in Poland is expected to improve gradually from its 2013 level of 10.4 percent to 10.1 percent for 2015.
- **Inflation:** Inflation declined rapidly to 0.8 percent in 2013, due to weak domestic demand and low commodity and gas prices. It is forecast to pick up moderately to 1.4 percent in 2014 and 2 percent in 2015.
- **External and public sector balance:** The current account deficit is expected to remain at around 1.5 percent of GDP over the next two years. On the fiscal side, Poland managed to reduce its budget deficit from 7.9 percent in 2010 to 3.9 percent in 2012. The deficit widened somewhat to 4.4 percent with the economic slowdown in 2013. In 2014 the asset transfer from pension funds to the government will result in a headline surplus of 5 percent, corresponding to a deficit of 3.8 percent without the one-off windfall revenues from the pension scheme. In 2015 a budget deficit of 2.9 percent is expected. Excluding cyclical factors and one-off revenues, the structural budget deficit is likely to improve by 1.2 percentage points between 2013 and 2015.
- **Banking sector:** The Polish banking system weathered the financial crisis well and remained profitable, well capitalised and liquid. The CAR in Q3 2013 stood at 15.7 percent, while ROE in Q3 2013 was 11.9 percent. Asset quality is deteriorating slightly, but Polish banks' average NPL ratio of 8.5 percent is still low relative to other CESEE countries. The orderly withdrawal of parent funding, reflected in the decline in the loan-to-deposit ratio, was offset by increasing domestic funding. As a result credit flow remained consistently positive, declining to 2.3 percent in Q3 2013. Regulatory action has contained foreign currency mortgage lending in Poland, but more than half of mortgages are still denominated in foreign currency, 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- (stable) by Fitch.

[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

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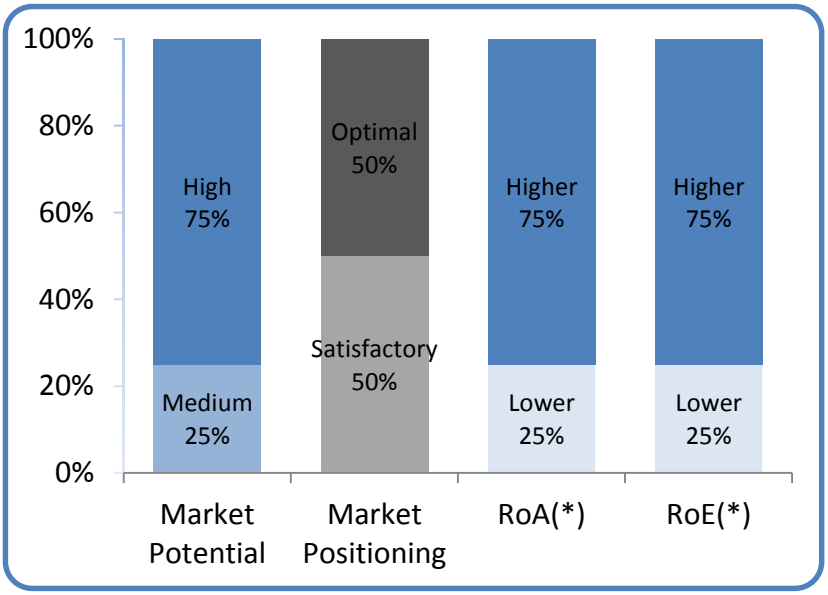
4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Parent banks operating in Poland tend to be somewhat more optimistic about their global operations than the overall sample of parent banks. It seems that these banking groups have also reached their targeted leverage at group level, as they signal that they mainly intend to maintain a stable loan-to-deposit ratio over the next six months.

Figure 1. Market potential and positioning – see question A.Q10



Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

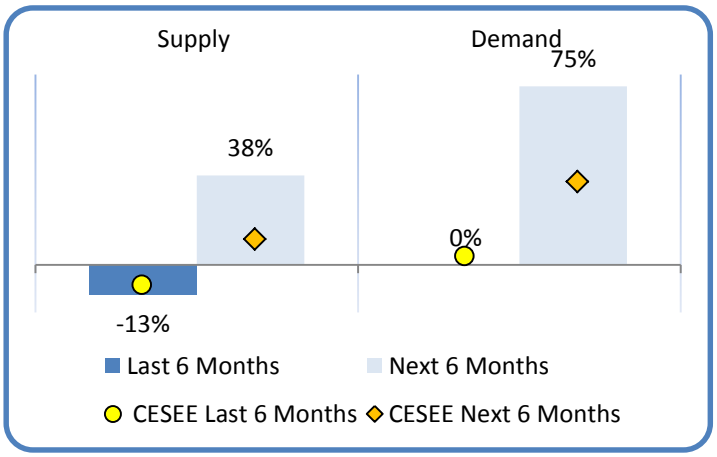
2. Parent banks operating in Poland show a strong commitment towards the region and are less likely to reduce – and more likely to selectively expand – their CESEE operations relative to the full sample. Parent banks consider the Polish market to be probably the most attractive within CESEE. About 75 percent of the groups operating in Poland find that the country's market potential is high, while risk-adjusted returns on equity and assets are also believed to be among the highest in the region. Overall, parent banks operating in Poland seem to be satisfied with their current market positioning in the country (Figure 1).

[3] In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviour 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 particular 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. The signs of economic recovery are reflected in the general view of Polish banks on future credit activity. The sluggish overall credit demand observed in the last six months is likely to increase significantly – more so than in the CESEE average. Credit supply is also expected to ease more than in the CESEE region as a whole (Figure 2).

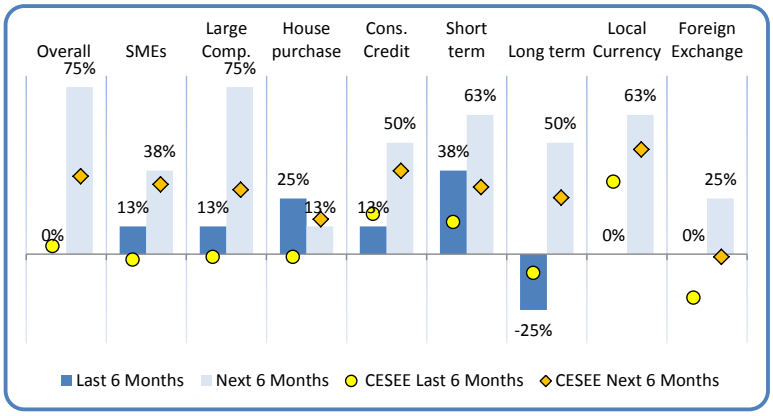
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. Demand for credit has begun to pick up already in certain segments of the market, such as property lending, over the last six months. However, looking ahead, financial institutions expect to face high credit demand across the board from wholesale clients, SMEs and consumer finance as well. The expected increase in demand for corporate credit, together with the expected turning point in the demand for longer-term loans, suggests increasing demand for investment financing. The answers reflect stronger than expected demand for foreign currency-denominated lending as well – an important risk factor in CESEE in the past, especially in the case of loans granted to households or SMEs without offsetting incomes in foreign currency (Figure 3).

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



Source: EIB – CESEE Bank Lending Survey.

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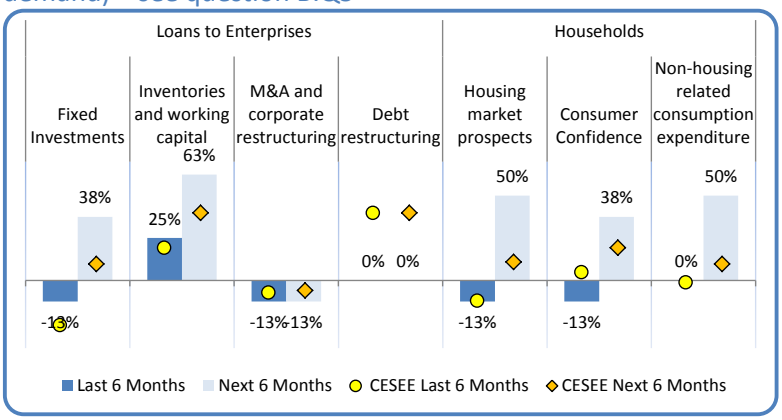
3. The individual factors contributing to credit demand provide stronger positive signals in Poland than in other economies within the CESEE region. Working capital finance has been and is expected to remain an important driver of corporate credit demand, but the survey confirms that for companies in Poland borrowing for investment is becoming increasingly important (Figure 4). Household credit demand is likely to be driven by both housing- and consumption-related lending.

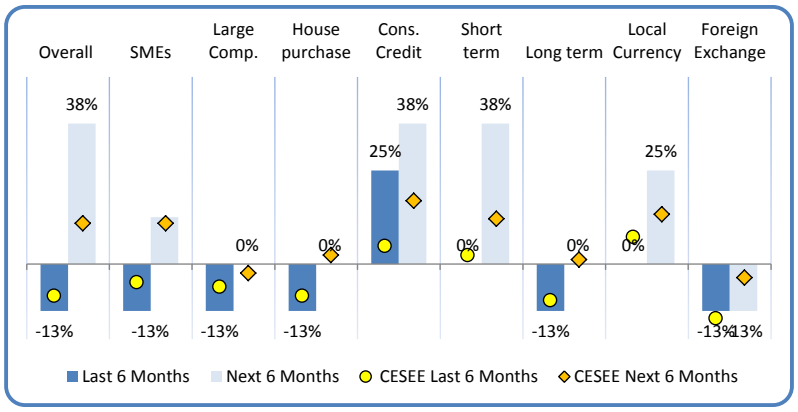
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. Credit supply conditions are also expected to ease in some segments, but to a lesser extent than demand conditions. As for households, the supply of consumer credit is expected to remain strong, while for housing finance the conditions are unlikely to match the expected increase in demand. On the corporate side, however, larger corporates' increasing propensity to borrow is not reflected in increased bank willingness to lend. Also, while banks expect the demand for longer-maturity products to increase, this is unlikely to be matched by increased supply (Figure 5). The demand for foreign currency lending is projected to increase, but credit standards in this area are expected to tighten.

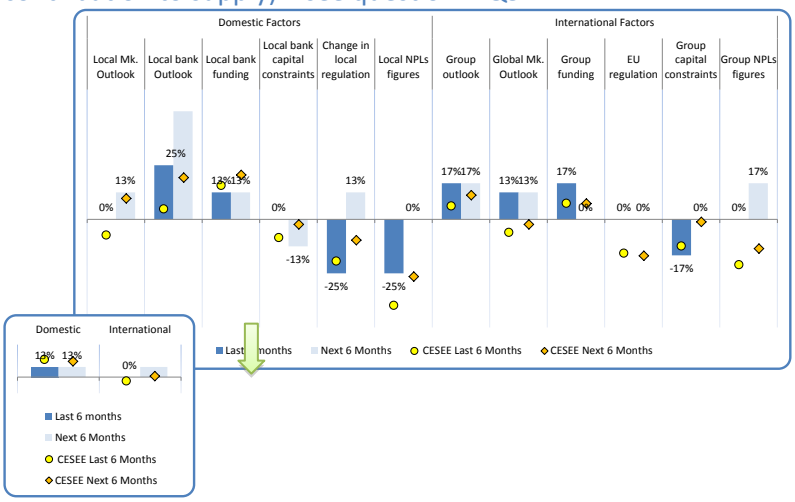
Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1



Source: EIB – CESEE Bank Lending Survey.

5. Unlike many of their CESEE peers, Polish banks do not see international factors, such as EU regulation or group NPLs, as an important impediment to credit supply. With regard to domestic factors, changes in local regulation and NPL figures have constrained supply conditions in the past, in line with the CESEE average. However, looking ahead, Polish subsidiaries are becoming significantly more optimistic. The local bank outlook and local funding are expected to continue to make a positive contribution over the next six months, in line with the general regional picture. As for capital constraints, they are easing at group level but expected to become tighter at the local level (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

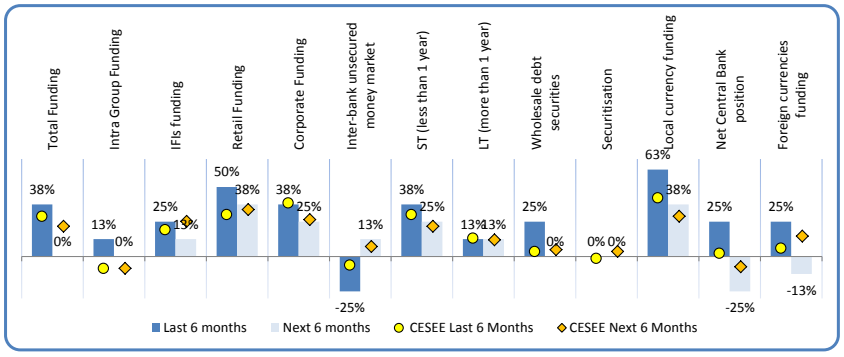


Source: EIB – CESEE Bank Lending Survey.

6. SMEs may face slightly easier credit conditions than the corporate sector as a whole. However, the easing of supply-side constraints is unlikely to match fully the more pronounced expected increase in SME credit demand.

7. Funding does not seem to be a constraint for Polish banks at the moment (Figure 7). Banks indicate that they experienced strong inflows in the form of corporate and retail deposits and expect some improvement in access to the interbank market over the next six months

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



Source: EIB – CESEE Bank Lending Survey

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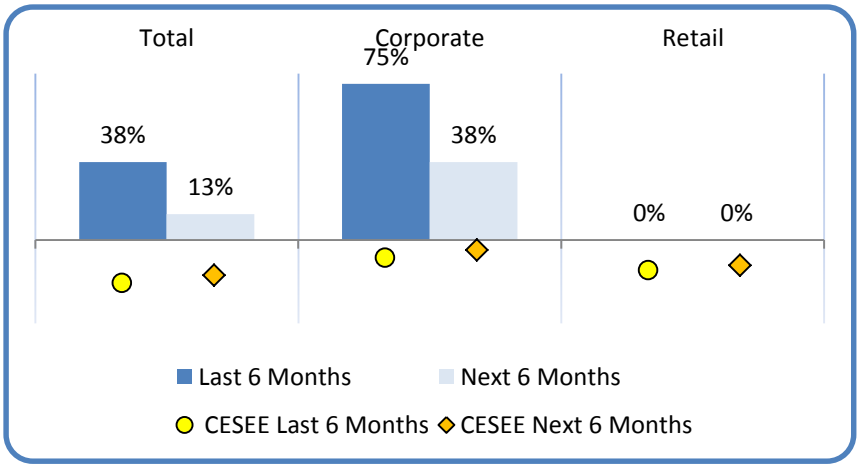
compared with the past. Intra-group funding is on the decline, despite the county's highly positive assessment by parent banks. Banks also expect to rely less on central bank financing in the near future.

8. NPL figures in Poland have started to improve significantly in the corporate segment according to the banks, and this improvement is likely to continue. In the household segment, asset quality is perceived as having levelled off (Figure 8). Overall, it seems that according to Polish banks NPLs in the country have reached a turning point and asset quality can be expected to improve over the coming months.

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



Source: EIB – CESEE Bank Lending Survey.

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Romania

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: ten
- Approximate share of assets covered (as proportion of total assets): roughly 71 percent
- Current level of NPLs as proportion of total loans: 21.9 percent (end-2013)
- Latest credit growth (yoy): -1.1 percent (end-2013)
- Loan-to-deposit ratio: 105 percent (end-2013)
- CAR: 13.92 percent (Q2 2013)

2. Key messages - *Easing constraints, but credit quality concerns.*

International groups' views:

- **Group strategies**: The restructuring efforts of parent banks operating in Romania are more pronounced than those of the full sample of parents included in the survey. They report a somewhat higher propensity to engage in the sale of branches and assets at group level and are more likely to engage in further deleveraging activities in the period ahead.
- **Group assessment of positioning and market potential**: Despite low (current) profitability, groups operating in Romania have a positive view of Romania's market potential. A large majority also consider their market positioning as good and remain – if somewhat more tentative in their assessment than the overall sample – committed to the region.

Subsidiaries'/local banks' views:

- Subsidiaries operating in Romania report tight supply and moderately increasing demand for credit.
- **Credit supply:** Banks expect supply to shift from tight to marginally positive in the next six months. While high NPL figures at the local and group levels continue to constrain supply, local bank funding – primarily driven by domestic funds – is expected to counteract this and exert an easing effect.
- **Credit demand:** The demand for loans is expected to continue to expand across the board. Within the corporate segment, demand for credit for investment is expected to turn positive again, while working capital and debt restructuring are expected to remain important drivers of demand over the coming months.
- **Access to funding:** Subsidiaries signal an improving funding situation, with most of the increased funding coming from local sources. The question remains, however, whether domestic funding will be enough to sustain more dynamic demand, once the positive recent economic developments begin to consolidate.
- **NPL figures:** Credit quality remains a clear concern, with the NPL ratio expected to increase further over the next six months.

[1] Sources: The National Bank of Romania, Unicredit/Bank Austria and Raiffeisen Research.

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** An abundant harvest and strong exports helped boost real GDP growth to nearly 5 percent in the second half of 2013. Full-year growth thus accelerated to 3.5 percent. As the contribution of agriculture normalises again and demand starts to shift towards the domestic side, growth in real GDP is expected to slow down somewhat in 2014 (to 2.5 percent).
- **Unemployment:** Both total and youth unemployment remained roughly unchanged in 2013 (7.3 percent and 23 percent, respectively). No major changes in unemployment are expected in 2014.
- **Inflation:** Inflation fell sharply in 2013. While the decline was partly due to the very good harvest and a reduction in VAT on certain food products, underlying price pressures slowed too: 12-month core inflation – adjusted for changes in prices for food, energy and administered items – fell to 0.1 percent in February from 3.1 percent the previous year.
- **External and public sector balance:** In 2013 Romania's current account deficit came in at around 1.1 percent of GDP. The estimated fiscal deficit for the year is 2.3 percent. For 2014, both balances are expected to remain roughly unchanged.
- **Banking sector:** The situation of the banking sector in Romania is mixed. On the one hand, banks' profitability turned positive again in 2013 after a particularly poor year in 2012. Capitalisation of banks is also good (CAR: 14 percent). On the other hand, withdrawals of parent funding in 2013 meant a substantial increase in the need for banks to rely on local funding. Also, asset quality is still poor (NPLs: 21.9 percent). And, while the "euro-isation" of loans has started to decrease recently, the share of FX loans (at above 60 percent) remains a source of concern.
- **Rating:** Romania is currently rated by Moody's (Baa3), Fitch (BBB-) and S&P (BB+).

[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and IMF.

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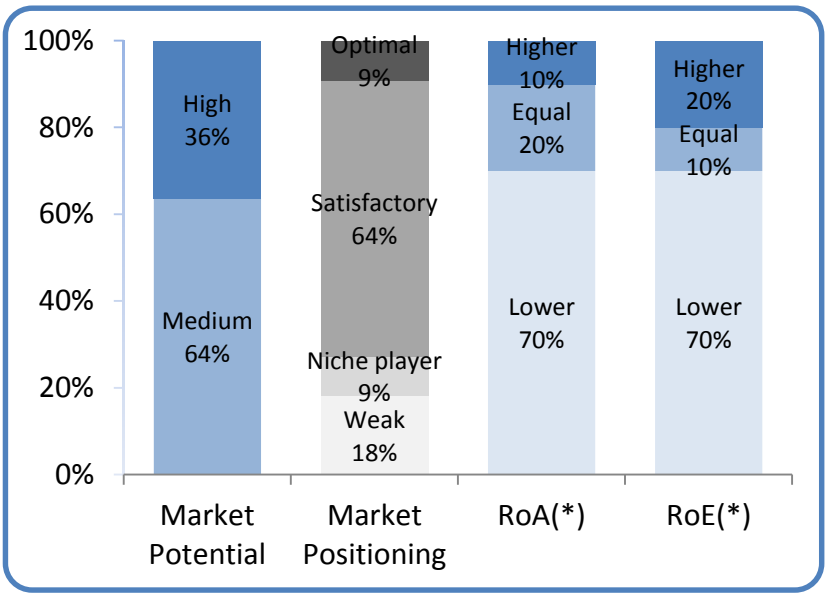
4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Banking groups operating in Romania do not differ significantly in terms of their global strategies from the pool of parent banks in the survey. They are somewhat more likely to sell assets or branches of activities or to restructure their operations in general. But the differences are rather small. As for deleveraging activities, roughly 60 percent of banking groups operating in Romania expect reductions in their loan-to-deposit ratios over the next six months, compared with 50 percent for the international banks surveyed overall.

Figure 1. Market potential and positioning – see question A.Q10



Source: EIB – CESEE Bank Lending Survey.

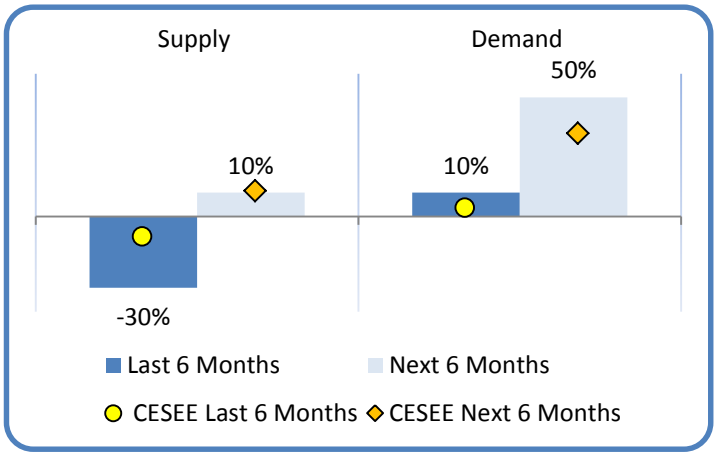
2. Parent banks operating in Romania have a fairly positive view of the Romanian market: 100 percent believe that market potential is 'high' (36 percent) or at least 'medium' (64 percent), with nearly three out of four considering their market positioning as 'optimal'/'satisfactory'. At the same time, this view seems to be driven by expectations rather than current experience. For the past six months 70 percent of parent banks report low profitability from their operations in Romania compared to their overall group profitability. This is a much higher proportion than for the CESEE region as a whole. When it comes to expanding activities, parent banks operating in Romania are therefore – not surprisingly – less enthusiastic than their peers in the region, with none considering a general expansion and only 30 percent envisaging a selective expansion of their activities.

[3] 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, while 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 particular 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. According to the subsidiaries operating in Romania, aggregate demand for loans and credit lines increased over the past six months – if only by a small margin. Over the next six months, this positive trend is expected to continue – and even to gather momentum (mirroring the developments at CESEE level). As for credit supply, the local subsidiaries describe credit conditions as still in a tightening phase – with a slight hope of a turnaround over the coming six months.

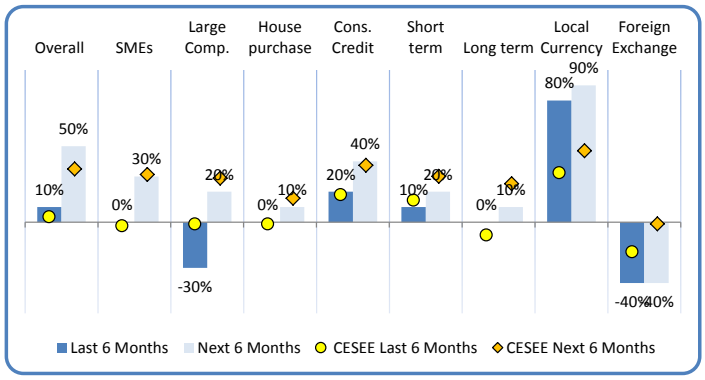
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. Demand for loans has been on an upward trend across almost all the different products (Figure 3). By institutional sector, the largest perceived increase came from households, particularly in the consumer credit segment. Demand from the corporate sector has been less positive, especially in the large company segment. In terms of maturities, demand for short-term loans has increased recently, while demand for longer-term loans has been mostly stagnant. As for the next six months, subsidiaries expect demand in the consumer segment to pick up further and corporate sector demand to turn positive again.

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



Source: EIB – CESEE Bank Lending Survey.

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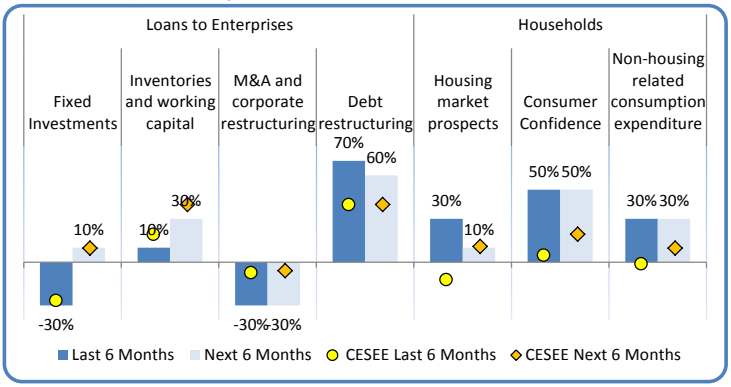
3. In terms of the main drivers of credit demand, Figure 4 shows that debt restructuring and working capital made a positive contribution to demand in the corporate sector, whilst demand for investment contributed negatively. On the household side, consumer confidence, housing market prospects and non-housing-related consumption expenditure all contributed positively to demand for loans. Going forward, the drivers of demand (in both the corporate and household segment) are expected to remain broadly unchanged – except for housing prospects, which are expected to weaken somewhat.

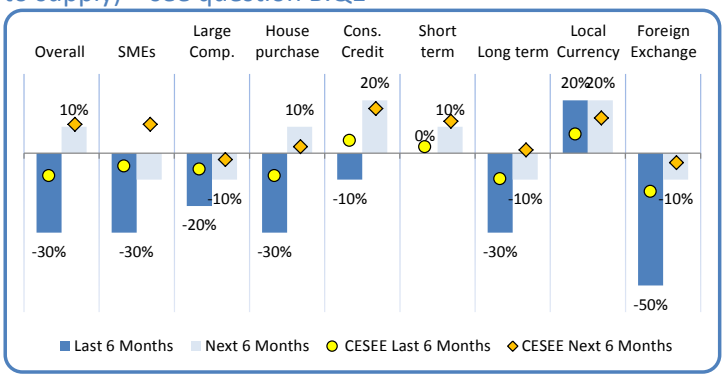
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. Supply (credit standards) remained in a tightening phase in Romania over the past six months. This is not what was expected six months ago – and was mainly driven by the still difficult situation in the SME and housing segments. While over the next six months aggregate credit standards are set to ease a little, banks in Romania expect the overall terms and conditions to remain rather strict, particularly with respect to the size and maturity of the average loan.

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

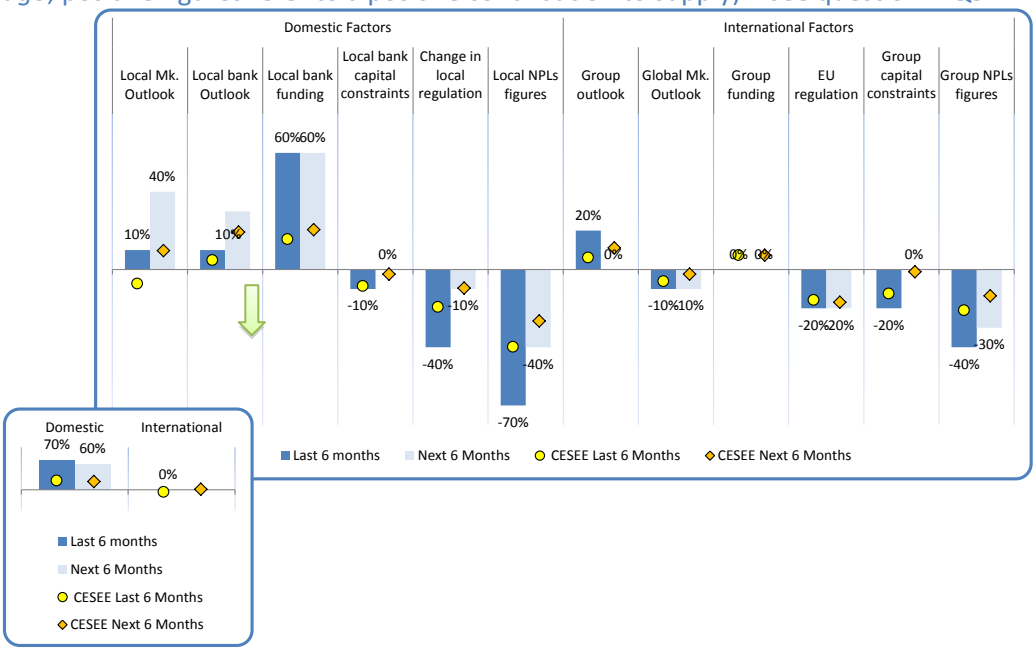


Source: EIB – CESEE Bank Lending Survey.

5. Both international and domestic factors played a role in determining supply conditions (Figure 5). Among the local factors, NPLs in particular, but also changes in local regulation and local bank capital constraints, have exerted tightening pressures on credit standards, whereas local bank (primarily domestic) funding, a positive local bank outlook and benign overall market develop-

ments exerted an easing effect. Among the international factors, group NPLs, group capital constraints and EU regulations have had a significant negative effect on credit standards. Looking ahead, the picture is likely to remain broadly unchanged: local funding is expected to contribute positively, whereas local and group NPLs are expected to contribute negatively to credit standards over the next six months.

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.

6. Supply and demand in the SME segment are roughly in line with the aggregate figures for Romania. Supply conditions tightened, while credit demand remained more positive/unchanged over the last six months. Looking ahead, supply conditions are set to ease marginally for the SME sector, while demand is expected to pick up rather strongly. Margins charged on SME loans have stabilised recently and are expected to remain at more or less the same level going forward. Loan size and maturities, on the other hand, are likely to tighten further, as are collateral requirements.

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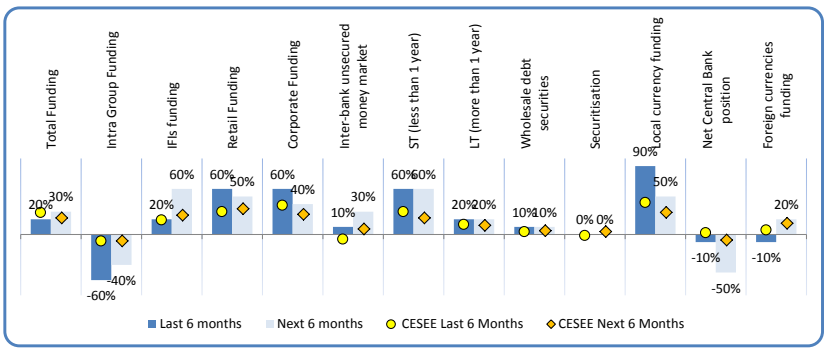
7. Subsidiaries' access to funding has improved in Romania over the past six months, in line with the dynamics at the CESEE regional level. This has been driven primarily by improvements in retail and corporate funding, while intra-group funding had a markedly negative impact on banks' access to funding (Figure 7). Over the next six months access to funding is expected to ease across the board, except again for intra-group funding, which is expected to continue to contribute negatively to aggregate access to funding.

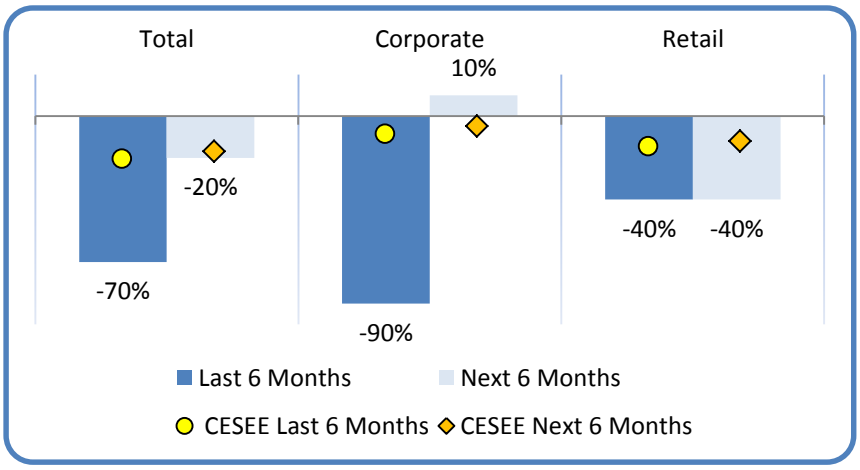
Figure 7: Access to Funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

8. NPL ratios are reported to have worsened again over the past six months – with a more pronounced deterioration in the corporate sector than in the retail sector (Figure 8). Over the next six months, NPLs are likely to continue to increase. However the decline in credit quality is expected to moderate somewhat and, in the case of the corporate sector, even to reverse.

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



Source: EIB – CESEE Bank Lending Survey.

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Serbia

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: eight
- Approximate share of assets covered (as proportion of total assets): roughly 50%
- Current level of NPLs as proportion of total loans: 21.1% (Q3 2013)
- Latest credit growth (yoy): -6.2% (January 2014)
- Loan-to-deposit ratio: 136.2% (2013)
- CAR: 20.9% (Q4 2013)

2. Key messages - *Banks report tightening supply against a backdrop of deteriorating market conditions and concerns for credit quality.*

International groups' views:

- **Group strategies**: Cross-border banks operating in Serbia continue their deleveraging processes at the global level and report more pronounced strategic restructuring plans and higher expected sales of assets compared to international banks as a whole.
- **Group assessment of positioning and market potential**: Groups show increased intentions to reduce operations. Roughly 75% of the banks operating in Serbia are fairly satisfied with their current market positioning and 82% assess the Serbian market's potential as medium. However, they also describe the market as having lower returns than the groups' global operations.

Subsidiaries'/local banks' views:

- **Credit supply** was tight over the past six months primarily for SME clients and in the household segment. Credit standards are not expected to ease over the next six months. Both international and domestic factors play a role in determining supply conditions. Global market outlook, group funding, group capital constraints, group NPLs, local market outlook and NPLs were key constraining factors.
- **Demand for loans** has been subdued. It is expected to turn positive across the product spectrum. Working capital and debt restructuring are described as the main positive contributors to demand conditions.
- **Access to funding:** Banks record access to funding on an easing trend across the whole range of products and segments. Long-term funding and intra-group funding have also been increasing.
- **NPL figures** did not deteriorate further. However, a mild deterioration is expected in the next six months.

[1] Sources: National Bank of Serbia, Unicredit/Bank Austria and Raiffeisen Research.

3. Relevant macroeconomic and banking conditions[2]

- **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 and growth was fairly robust in the fourth quarter of 2013. Exports were the main driver of growth (16.7% yoy in Q4 2013). Also domestic demand exerted a positive contribution in Q4 2013. However, investment continued to contract, although its decline decelerated to -4.9% yoy. Real GDP is forecast to grow by an average of 1.3% in 2014.
- **Unemployment:** Unemployment increased sharply over the last two years and currently averages around 22.1%. In line with the bleak labour market situation, gross and net wages declined in real terms in January and February 2014.
- **Inflation:** Headline inflation was 2.6% yoy in February 2014, on a mildly accelerating path. Food prices, weak domestic demand and a stable exchange rate are the main factors behind below central bank target inflation developments.
- **External and public sector balance:** The current account was negative at roughly 4.9% of GDP in 2013, on an improving trend compared to previous years. Public debt has been increasing fairly fast and is forecast at 64.2% of 2014 GDP. The fiscal deficit is increasing, with a 5.0% deficit reported in 2013.
- **Banking sector:** Aggregate profitability was positive in 2013. However, it was on average below average pre-crisis levels and over the fourth quarter of 2013 declined sharply. The level of capitalisation for the entire banking sector (CAR 20.9% in Q4 2013) exceeds the regulatory minimum. NPLs have been increasing sharply and rose from 11.3% in 2008 to 21.1% in Q3 2013. The loan-to-deposit ratio stood at 136.2% in 2013. Bank lending continued to slow, registering negative annual growth of 2.9% in 2013 and also in January 2014 (-6.2%) against a 12.9% yoy increase in 2012. Growth in local deposits has been rather robust over the last three years, favouring a noticeable deleveraging. This has partially offset the reduction of cross-border assets allocated to Serbia. All in all, over the last year the gross cross-border external position of BIS reporting banks vis-à-vis other banks has been negative.
- **Rating:** Serbia is currently rated by Moody's (B1, stable), S&P (BB-, negative) and Fitch (BB-, negative).

[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

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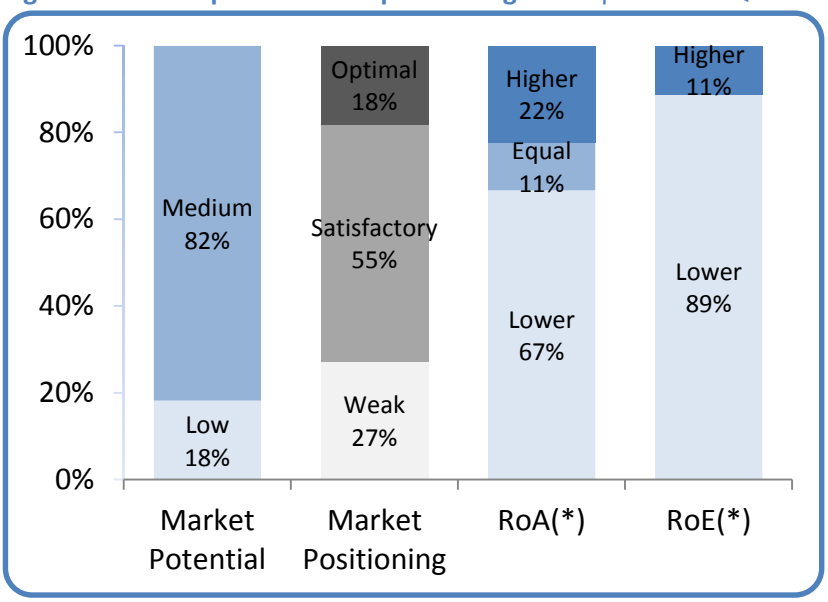
4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. The parent banks operating in Serbia differ slightly from the overall sample of parents included in the survey, reporting more pronounced strategic restructuring plans as well as higher than expected sales of assets to increase their capital ratio at the global level. Also these groups seem to be more likely to raise capital on the market. 50% of the groups expect the loan-to-deposit ratio to remain stable, whilst 50% expect it to decrease over the next six months. This is marginally less positive than the aggregate expectations of all international banks included in the survey.

Figure 1. Market potential and positioning – see question A.Q10



Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

2. As a consequence of a higher propensity to restructure, groups operating in Serbia show increased intentions to reduce operations in CESEE compared to the previous survey and also compared to banks operating in the CESEE region as a whole. On the other hand, the profitability of groups operating in Serbia in the CESEE region is expected to increase at the CESEE level in line with the full sample of groups operating in the CESEE region. Roughly 75% of the banks operating in Serbia are fairly satisfied with their current market positioning and 82% regard the Serbian market's potential as medium. However, they also describe the market as having lower returns (i.e. ROA and ROE adjusted for the cost of capital and cost of equity, respectively) than the groups' global operations (Figure 1).

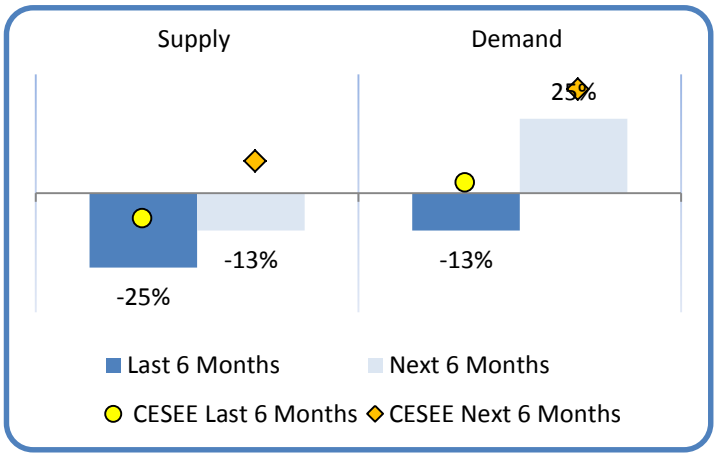
[3] In this subsection results refer to the views of parent banks. Results on market positioning and potential refer to questions addressing behaviours within a specific market, whilst the other data (e.g. restructuring strategies, ROA, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular 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. Both supply and demand factors were behind a still negative credit growth and both were described as being more negative than the CESEE aggregate (Figure 2). Supply conditions were described as being in a tightening phase and demand for loans as being on a contracting trend. Over the next six months demand conditions are expected to rebound in line with the CESEE dynamics, while supply is still expected to tighten further. This differs from an expected mild easing of credit standards at CESEE level.

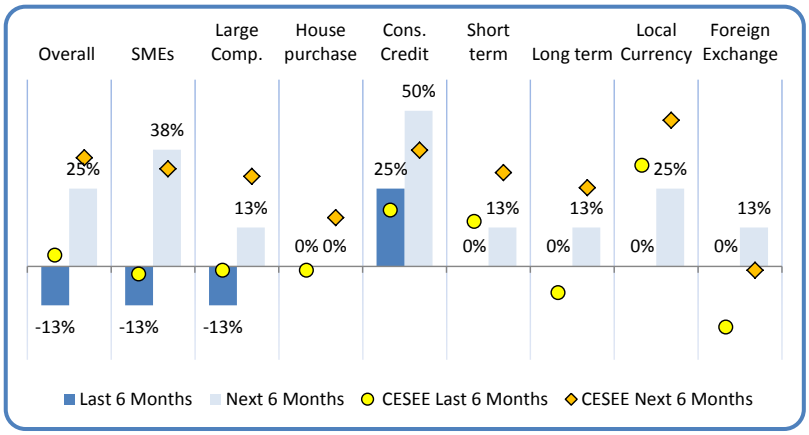
2. Demand for loans has been subdued (Figure 3), contradicting the expectations embedded in the September 2013 survey of a rebound in demand. In line with a gloomy employment situation and still contracting investment, demand for loans has been rather negative except in the consumer credit segment, probably supported by an unexpected increase in household consumption. However, it is expected to turn positive across different products and maturities over the next six months in line with the CESEE region. In particular, demand for loans from SMEs and consumer segments is expected to increase.

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



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

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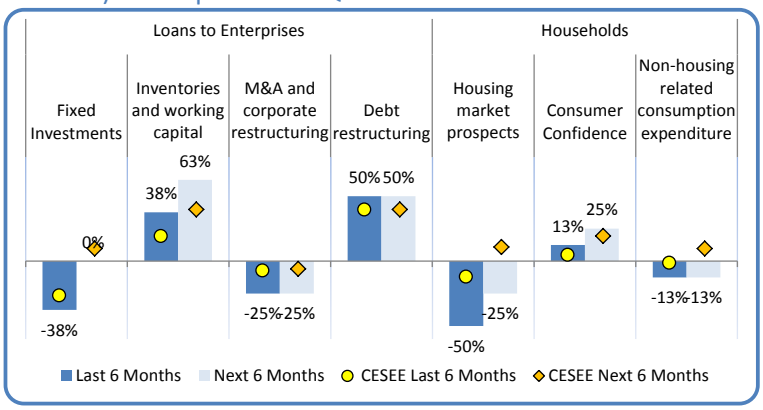
3. Over the past six months, Figure 4 shows that working capital and debt restructuring were the main positive contributors to demand conditions and also consumer confidence made a mild positive contribution. However, these did not offset the negative influence of housing market conditions, investment or M&A and corporate restructuring. Looking ahead, the same factors seem to be perceived as exerting a positive contribution to demand, while investment is turning neutral.

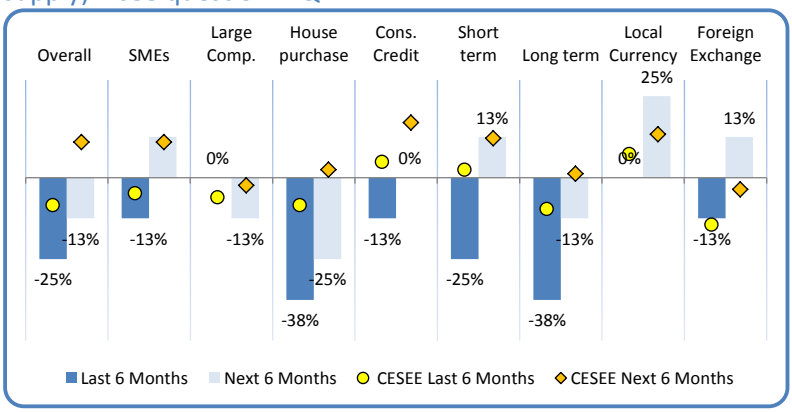
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. Credit standards have been tight over the past six months (Figure 5), but not as negative as expected in the September 2013 survey. The slight improvement, albeit still in a tightening phase, was mainly linked to non-negative supply conditions in the large companies segment of the market. Credit standards applied to SMEs customers as well as to the household segment remained in a tightening phase. Credit standards are not expected to ease over the next six months. However, they are expected to tighten less, on the back of improved conditions applied across all segments except for large corporates. Banks' terms and conditions are expected to tighten further, mainly on the pricing side.

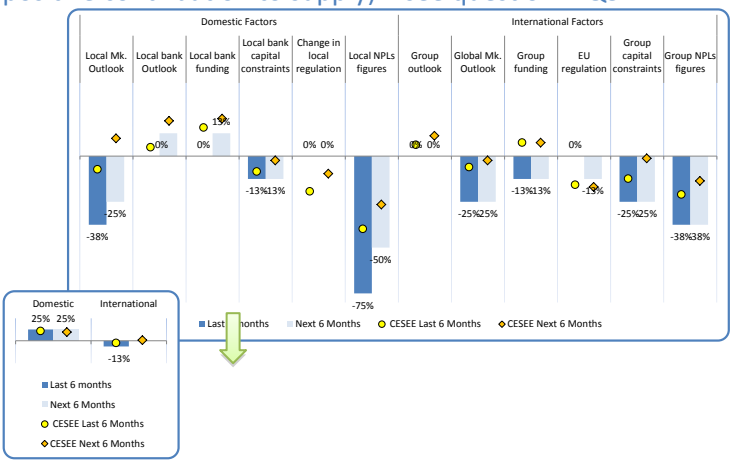
Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1



Source: EIB – CESEE Bank Lending Survey.

5. Both domestic and international factors have played a role in determining supply conditions (Figure 6). The global market outlook, group funding, group capital constraints and NPLs at the group level are mentioned as having had a clear negative effect on credit conditions over the past six months. At the domestic level, the market outlook and local NPL figures were the key constraining factors. In line with the CESEE main messages, NPLs are a key constraining factor in Serbia. On the other hand, the regulatory environment does not seem to be perceived as a limiting factor. Over the next six months all factors are expected to continue to exercise a similar impact as in the past on 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

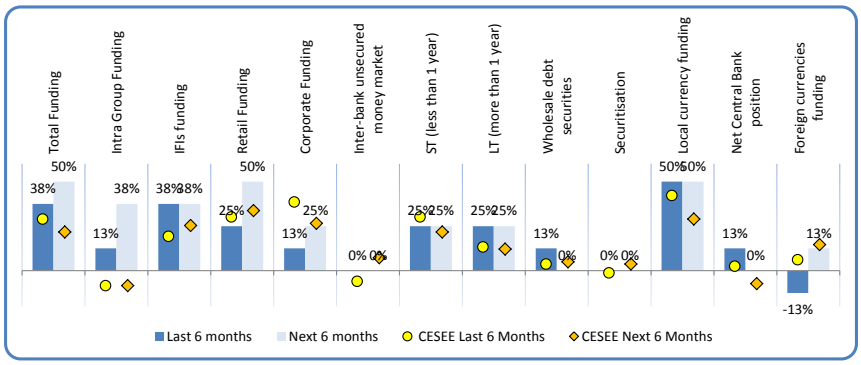


Source: EIB – CESEE Bank Lending Survey.

6. With regard to the SME segment, supply (credit standards) has been described as being in a tightening phase, and demand for loans has been partly negative. Looking ahead, demand is expected to rebound and supply is expected to start to ease in line with the CESEE trend. Collateral requirements and maturities have been tightening in Serbia over the past six months.

7. Local funding was not reported as a constraining factor on supply conditions, so access to funding has been on an easing trend across the whole range of products and segments (Figure 7). Retail and corporate funding has been easing as well as IFI funding. Long-term funding has also been increasing, as has intra-group funding. This also corresponds to

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



Source: EIB – CESEE Bank Lending Survey.

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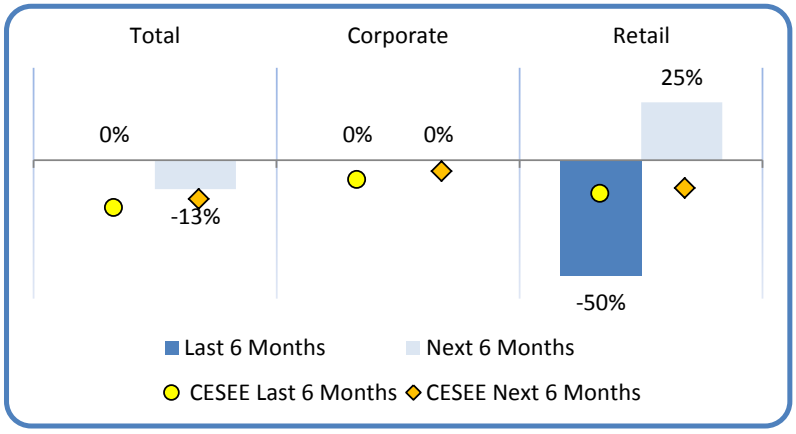
the information on the factors affecting supply, which suggests that intra-group funding did not exercise a negative contribution. Looking ahead, funding conditions are still described as being on an easing phase, with all factors contributing positively including intra-group funding. This is in line with an expected easing effect from intra-group funding on supply conditions.

8. Aggregate NPL figures did not deteriorate further. However, NPLs in the household sector have increased over the past six months (Figure 8) and have been significantly worse than in the CESEE region. A mild deterioration in aggregate NPLs is expected over the next six months.

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



Source: EIB – CESEE Bank Lending Survey.

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Slovakia

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: five
- Approximate share of assets covered (as proportion of total assets): roughly 75 percent
- Current level of NPLs as proportion of total loans: 5.3 percent (February 2014)
- Latest credit growth (yoy): 5.0 percent (February 2014)
- Loan-to-deposit ratio: 94 percent (February 2014)
- CAR: 16.17 percent (Q2 2013)

2. Key messages - *Banks report easing constraints.*

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. They do not plan any additional strategic operations or further deleveraging.
- **Group assessment of positioning and market potential**: Parent banks operating in Slovakia are generally satisfied with their current positioning in Slovakia. They report higher profitability from their Slovak and CESEE operations than their global business. Each parent bank indicates medium or high market potential in Slovakia.

Subsidiaries'/local banks' views:

- **Credit supply** eased in consumer loans, SMEs and the large corporate segments over the last six months. The easing of credit standards was supported by domestic factors such as the local market and bank outlook, capital constraints and NPLs. Credit standards are expected to ease further for large corporates over the next six months. In addition to domestic developments, international factors are also expected to make a positive contribution to credit supply.
- **Demand for loans:** Household demand has been increasing in the last six months and is expected to rise further. After having stagnated over the last six months, the demand for loans from both SMEs and large corporates is expected to recover in the period ahead.
- **Access to funding:** Subsidiaries reported an improvement in funding conditions over the last six months and expect unchanged access to funding in the coming period. The improvement was driven by intra-group, IFI and corporate funding.
- **NPL figures** are low compared to other CESEE countries. Over the past six months NPLs increased slightly, while they are expected to be stable in the six months to come.

[1] Sources: National Bank of Slovakia, Unicredit/Bank Austria and Raiffeisen Research

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** Economic growth slowed to 0.9 percent in 2013, mostly on the back of falling gross fixed capital formation and a decreasing, albeit still positive contribution from net exports. Growth is expected to accelerate to 2-3 percent in 2014-15. In contrast with the past few years, when net exports were the main driver of the economy, growth is expected to rebalance towards domestic demand. Both private and public consumption are expected to make a stronger contribution to growth, while gross fixed capital formation is projected to increase in 2014, after declining substantially for two consecutive years.
- **Unemployment:** The unemployment rate has stabilised at above 14 percent in recent years. As structural factors such as gaps in education and lack of mobility have a negative effect on labour market developments, the unemployment rate is forecast to decrease to only just under 13 percent in the medium term.
- **Inflation:** As a result of weak economic activity, declining energy prices and moderating growth of food prices, inflation dropped from 3.7 percent in 2012 to 1.5 percent in 2013. Inflation is expected to decrease further to below 1 percent in 2014 on the back of falling commodity prices, the reduction of administered energy prices and low growth. In 2015 inflation is forecast to increase due to stronger domestic demand.
- **External and public sector balance:** Since 2012 the current account has been posting a surplus that is expected to be around 2.5 percent of GDP in the medium term. The budget deficit was reduced from 7.5 percent of GDP in 2010 to 2.8 percent of GDP in 2013 and is expected to remain slightly below 3 percent of GDP in 2014-15. Public debt is forecast to increase in the medium term.
- **Banking sector:** The entire banking sector is relatively well capitalised (CAR 16.17 percent in Q2 2013). NPLs are relatively low at 5.3 percent, although up from 2.5 percent in 2007. The loan-to-deposit ratio stood at 94 percent in February 2014, up from 72 percent in 2006. Lending growth has been moderate in the last few years.
- **Rating:** Slovakia is currently rated by Moody's (A2), Fitch (A+) and S&P (A).

[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission, Unicredit/Bank Austria and Raiffeisen Research based on NCB data.

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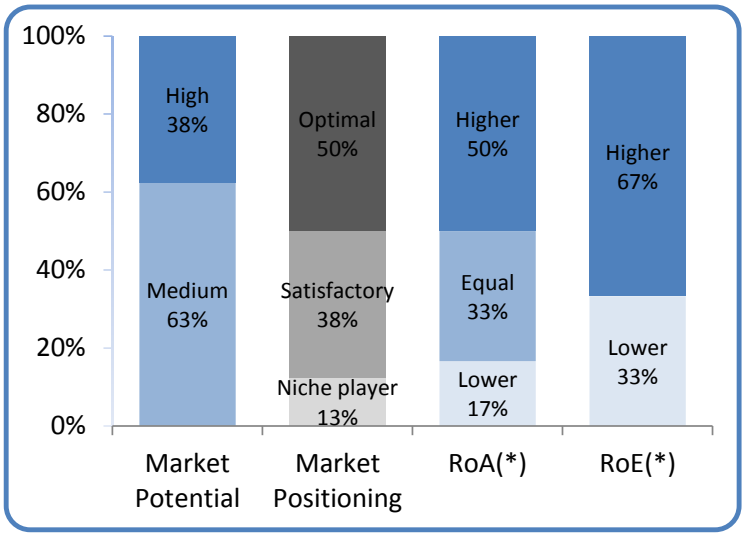
4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Parent banks operating in Slovakia are more positive than the overall sample of groups included in the survey. They are not planning additional strategic operations to raise capital. Banks do not expect further deleveraging at the group level, with 83 percent of them forecasting that their loan-to-deposit ratio will remain stable over the next six months and 17 percent forecasting an increase.

Figure 1. Market potential and positioning – see question A.Q10



Source: EIB – CESEE Bank Lending Survey.

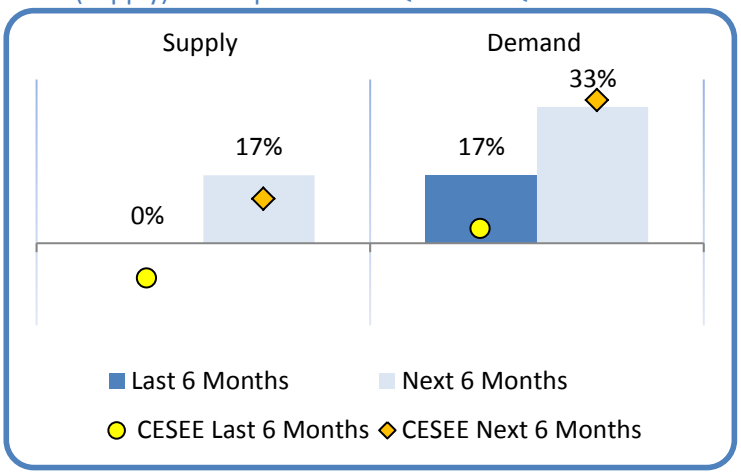
2. Parent banks operating in Slovakia remain strongly committed to the region, with none of them planning to reduce operations. The majority of banks reported higher profitability in both Slovakia and the CESEE region than at the group level, as well as expecting an increased contribution of activities in CESEE to group-level profitability. Parent banks are satisfied with their market positioning in Slovakia. Specifically, 50 percent of banks indicated optimal positioning and a further 38 percent satisfactory positioning (Figure 1). Furthermore, they also have a positive view about market potential, with each bank reporting either medium or high potential (Figure 1).

[3] 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 particular 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 Slovakia reported unchanged supply conditions and increasing demand over the last six months. Looking ahead, they expect supply to ease and demand to increase. This is broadly in line with the expectations of banks for the CESEE region as a whole (Figure 2).

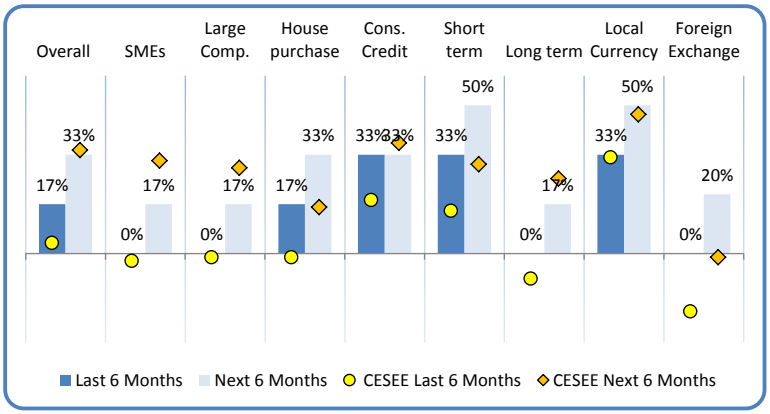
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. The increase in overall demand was driven by the household segment, while demand for loans from SMEs and large corporates was unchanged over the last six months. In terms of maturity and currency denomination, banks reported an increase in demand for short-term and local currency loans. Looking ahead, banks expect a further strengthening of demand. Households are expected to increase their demand and the SME and large corporate segments are forecast to recover, thereby also contributing positively in the next six months to overall demand. This is broadly in line with developments in the CESEE region as a whole (Figure 3).

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



Source: EIB – CESEE Bank Lending Survey.

3. In the corporate segment demand was positively affected by M&A and corporate restructuring, while inventories and working capital made a negative contribution over the last six months. Inventory and working capital loans are expected to continue to constrain credit demand over the coming period. In the household segment the impact on demand of housing market prospects is

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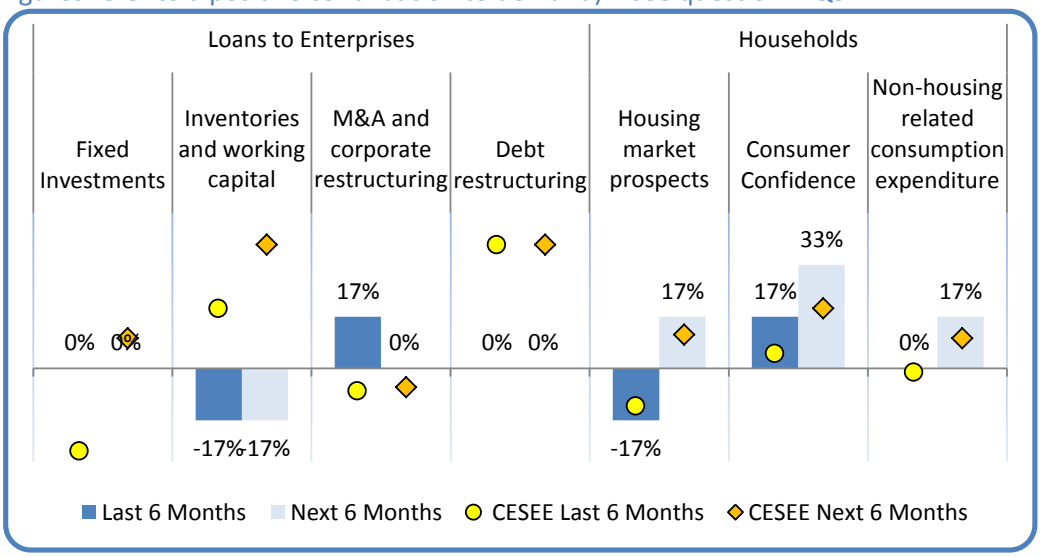
forecast to turn from negative to positive. Demand is also supported by consumer confidence and non-housing-related consumption expenditure. The overall outlook is similar to that of the CESEE region as a whole in the household segment, while it is less favourable in the case of loans to enterprises (Figure 4).

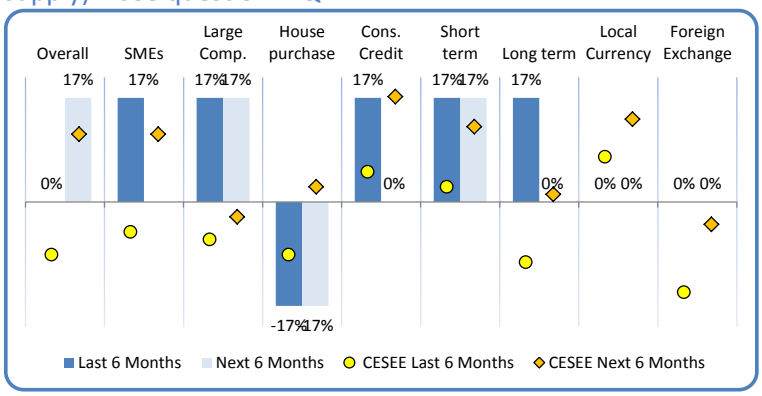
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. Although credit standards were eased for SMEs and large corporates, overall supply conditions remained broadly unchanged due to mixed developments in the household segment. This is in contrast with the overall CESEE region, where credit standards were tightened in the corporate segment. Credit standards in Slovakia are expected to ease over the next six months. This is mostly driven by large corporates, while credit standards for house purchases are forecast to tighten further (Figure 5).

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



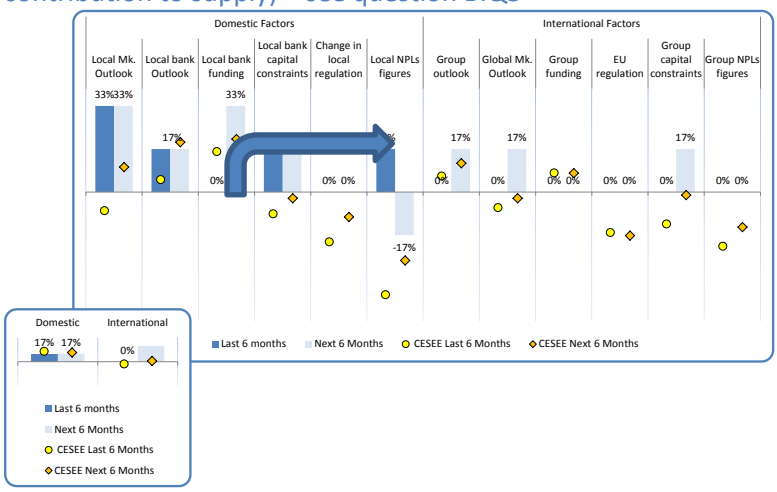
Source: EIB – CESEE Bank Lending Survey.

5. Credit standards were supported by domestic factors, namely the local market and bank outlook, capital constraints and NPLs, while international factors played a neutral role over the last six months. Looking ahead, both domestic and international factors are expected to contribute to the easing of credit

standards. As regards the latter, the main supportive factors are group and global market outlook as well as group capital constraints (Figure 6). It is worth noting that NPLs are not mentioned as contributing negatively to supply conditions.

6. As regards SMEs, subsidiaries in Slovakia reported stable demand and an easing of credit standards over the last six months, while they expect increasing demand and unchanged supply conditions over the period ahead. Despite overall credit terms and conditions being supportive, interest rate margins widened and are expected to rise further.

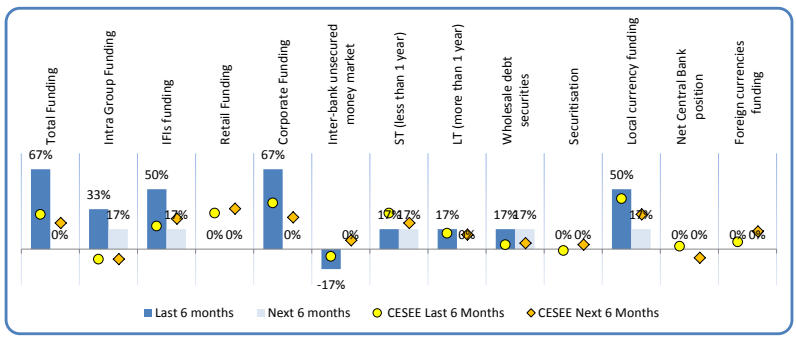
Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q3



Source: EIB – CESEE Bank Lending Survey.

7. The overall funding situation of subsidiaries improved in the last six months, mostly on account of better access to intra-group, IFI and corporate funding. Both short and long-term funding conditions eased. Looking ahead, access to funding is expected to remain broadly unchanged; however, intra-group and IFI funding are forecast to continue to improve slightly (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.

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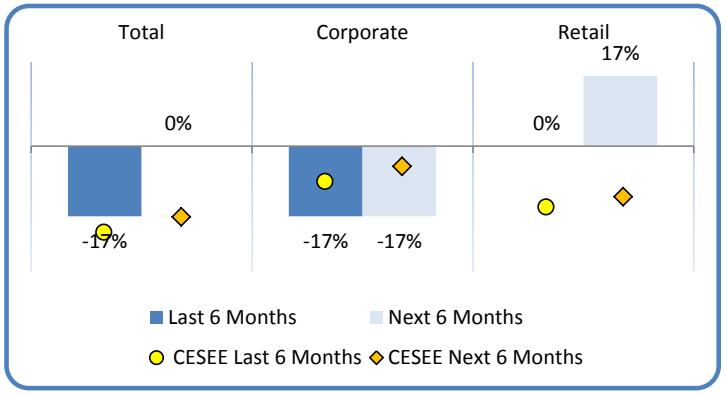
8. NPL ratios continued to increase over the last six months, mainly due to corporate sector developments. Looking ahead, NPLs are expected to level off as a result of the offsetting of deteriorating corporate loan portfolio quality and improving retail loans. This is in contrast with the CESEE region, where both corporate and retail NPLs are expected to increase further 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.

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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)

	…How has it changed over the last six months?	*…How do you expect it to change over the next six months?*
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)

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.Q8 - How has FED tapering/Emerging markets volatility impacted on your Group external exposure? How do you expect it to impact?

	LAST 6 months	NEXT 6 months
Total Exposure to Emerging Markets		
Total Exposure to CESEE region		
of which:		
Exposure to CESEE Subsidiaries - intra-group funding		
Exposure to CESEE Subsidiaries - capital		
Direct cross border lending to CESEE domestic clients, booked in the BS of the parent company		
MFIs - funding to CESEE 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)

	…How have they changed over the last six months?	*…How do you expect them to change over the next six months?*
Overall		
Pricing		
Maturity		

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A.Q10 How do you assess in each country…

Country	…market potential	…your subsidiary current positioning	…Return on assets (adjusted for cost of risk)	…Return on assets (adjusted for cost of risk) compared to overall Group operations	…Return on equity (adjusted for cost of equity)	…Return on equity (adjusted for cost of equity) compared to overall Group ROE
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)

	…How have they changed over the last six months?	*…How do you expect them to change over the next six months?*
Overall		
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		

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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

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

OVER the NEXT 6 months

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

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 **LAST** six months	Over the **NEXT** six months
Impact on credit standards		
A) Domestic Factors - *affecting your subsidiary*		
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) International Factors *- affecting your subsidiary*		
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)		

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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)

	…How has it changed over the last six months?	*…How do you expect it to change over the next six months?*
Overall		
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		
	…How have they changed over the last six months?	*…How do you expect them to change over the next six months?*
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		

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

(possible answers= decrease; no change; increase)

	…Has the non-performing loans ratio changed over the last six months?	*…How do you expect the non-performing loans ratio to change over the next six months?*
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 **LAST** six months	Over the **NEXT** six months
A) Total funding		
A.1) Intra-group funding		
A.2) IFI (international financial institutions) **funding**		
A.3) Retail funding (deposits and customer bonds)		
A.4) Corporate funding (deposits and customer bonds)		
A.5) Inter-bank unsecured money market		
A.6) Wholesale debt securities		
A.7) Securitisation		
A.8) Net Central Bank position		
B.1) Local currency funding		
B.2) Short term (less than 1 year)		
C.1) Long term (more than 1 year)		
C.2) Foreign currencies funding		

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

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