CESEE Bank Lending Survey

H2-2016

CESEE Bank Lending Survey – H2 2016

Coordinator
Luca Gattini

Economic Editors
Luca Gattini
Barbara Marchitto
Debora Revoltella

Lead authors
Gattini, Luca – CESEE regional chapter
Gereben, Aron – Countries: Hungary, Poland
Kolev, Atanas – Countries: Bulgaria
Kollar, Miroslav – Countries: Croatia, Slovakia
Slacik, Thomas – Countries: Albania, Bosnia, Czech Republic, Kosovo, Romania, Serbia

Data and layout
Tomasz Olejnik

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EIB's Economics Department: 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.

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Regional Overview

International banks have been reducing their aggregate exposure to the region, strategically discriminating among countries of operations. Regional demand for credit has continued to increase over the last six months, while supply has remained stagnant – thus furthering the perceived distance between demand and supply conditions. NPL ratios have continued to decline, hinting at a regional turnaround. Group capital, asset quality and changes in regulation continue to weigh negatively on subsidiaries' supply stance.

Summary

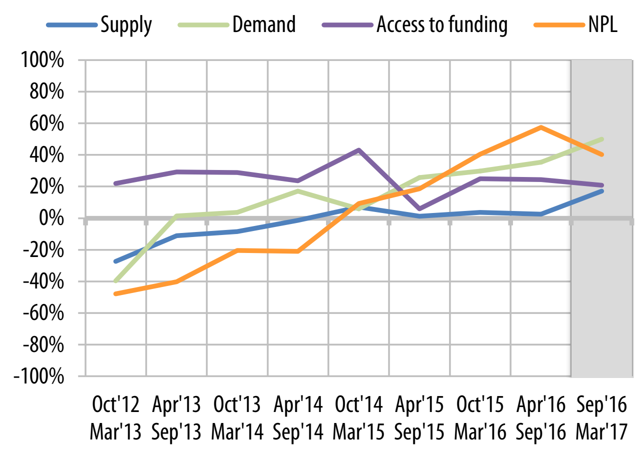
Global strategies: Restructuring of global activities has continued for several banking groups, albeit less intensely than in 2013. Capital increases have been mainly achieved via sales of assets, whilst no state contribution is expected. At group level, deleveraging expectations stabilised at levels seen in 2015. However, a consistent number of groups continue to deleverage.

Commitment to CESEE: Cross-border banking groups continue to discriminate between their countries of operation in CESEE. At the same time, a significant number of banking groups signals the intention to expand operations selectively in the long term, whilst a smaller set of groups reports intentions to reduce operations. About a third of banking groups continued to somewhat reduce their total exposure to the CESEE region. Market potential continues to differ across countries and was low (or deteriorated) in Albania, Croatia, Hungary, Slovenia, Ukraine; it remains partially low in Bosnia-Herzegovina, Serbia and Slovakia.

In the region: Aggregate **supply conditions** were mostly stagnant over the past six months. Across the client spectrum, credit standards eased slightly only for corporates, including SMEs, whilst they tightened on mortgages. Changes in regulation and banks' capital constraints (at domestic and international level) are perceived as key factors adversely affecting supply conditions. NPLs (primarily at groups level) are also consistently indicated as a drag on supply conditions.

In the last six months, **demand** for loans improved again across the board. This marks the seventh consecutive semester of positive developments. All factors influencing demand had a positive contribution. Working capital and investment accounted for a good part of the strengthening in demand, whilst debt restructuring started being less relevant.

Access to funding continued to ease in the CESEE region. It was supported by easy access to domestic sources, mainly retail and corporate deposits.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages
Supply/Demand: positive figures refer to increasing (easing) demand (supply)
Access to funding: positive values indicate increased access to funding
NPL: Negative figures indicate increasing NPL ratios

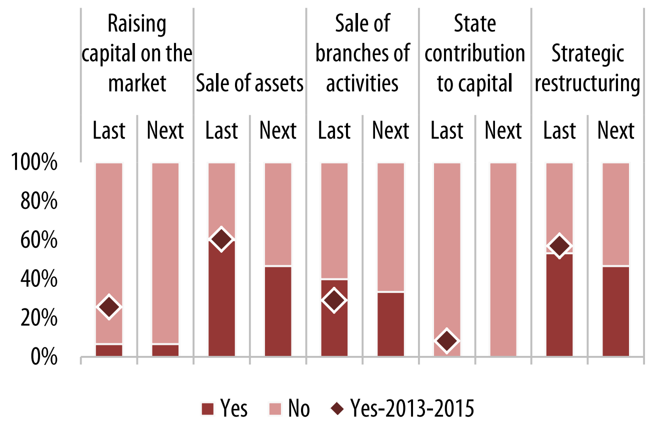
The flow of **NPL ratios** continued to improve. In absolute terms, the share of subsidiaries still reporting an increase in their NPL ratios fell to 12 percent, down from 60 percent in 2013.

Results of the Bank Lending Survey – Parent banks level

Restructuring of global activities has continued for several banking groups, albeit less intensely than in 2013. Capital increases have been mainly achieved via sales of assets, whilst no state contribution is expected. At group level, deleveraging expectations stabilised at levels seen in 2015. However, a consistent number of groups continue to deleverage.

Several cross-border banking groups continue to be engaged in various forms of restructuring at the global level to increase their group capital ratios, and they expect this process to continue (Figure 1). However strategic restructuring expectations are lower than in 2013. Lately, capital was raised primarily through sales of assets. In contrast to the previous survey, no state contribution is envisaged anymore. A small set of banking groups continued to raise capital on the market. This is slightly lower than in 2013 and significantly lower than in 2014, but in line with 2015. Looking at the next six months, contributions to balance sheet strengthening are again expected to come mainly from sales of assets and branches. As for the previous releases of the survey, capital market activities are expected to play a limited role. Deleveraging at the group level (Figure 2) has significantly decelerated compared to 2013 and 2014, whilst it remained at about the same levels as those recorded in 2015. In 2016 H2 around a third of the banking groups expect a decrease in group-level loan-to-deposit (LTD) ratios. In line with the 2015 results an equal share of banking groups reports expectations of an increase in their LTD ratio. All in all, these outcomes continue to show a mixed picture whereby rather balanced, but subdued, expectations continue to prevail.

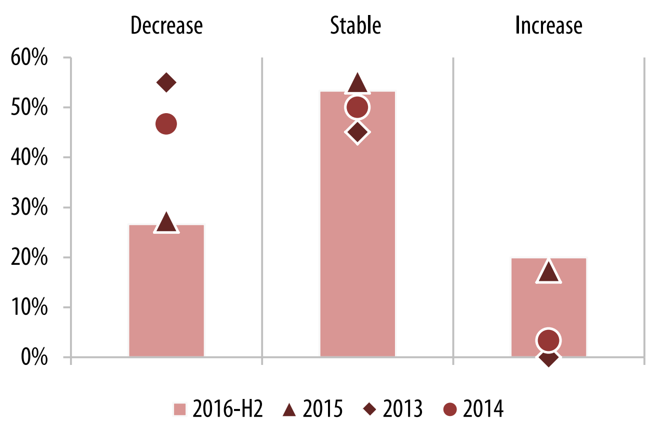
Figure 1 **Strategic operations to increase capital ratio**



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q1 – questionnaire in the Annex

Figure 2 **Deleveraging: loan-to-deposit ratio (expectations over the next 6 months)**



Source: EIB – CESEE Bank Lending Survey.

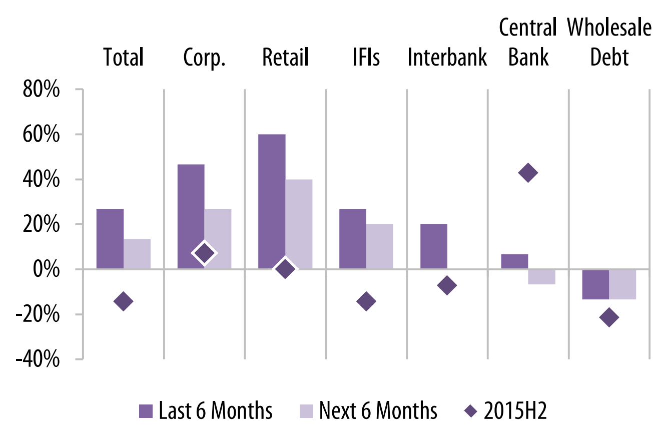
Note: See question A.Q3 – questionnaire in the Annex

Group-level funding conditions improved significantly over the past six months compared to a year ago (Figure 3.a), marking the first significant increase in access to funding after two consecutive modest declines. This is in line with the expectations embedded in the previous release of the survey.

In the past we considered the diminished access to funding to be a temporary event. At the same time the previous release of the survey pointed to expectations of a rebound in access to funding. This release of the survey confirms those expectations. Access to funding has been easing over the past six months. This is also in line with the expected effect of ECB long-term refinancing operations launched in March 2016 and carried out from June 2016 onwards. Moreover, the long tail effects generated by the spring/summer 2015 Greek crisis as well as the

consequent accentuated financial stress gradually vanished. In detail, the detected dynamics in aggregate access to funding mainly reflect a significant improvement in retail and corporate funding as well as in access to the interbank market and positive contributions from IFIs over the past six months. Moreover, central bank liquidity played a supportive role. Looking at the next six months, funding conditions are expected to continue easing (Figure 3.b). More funding is predicted primarily from corporates, retail and IFIs.

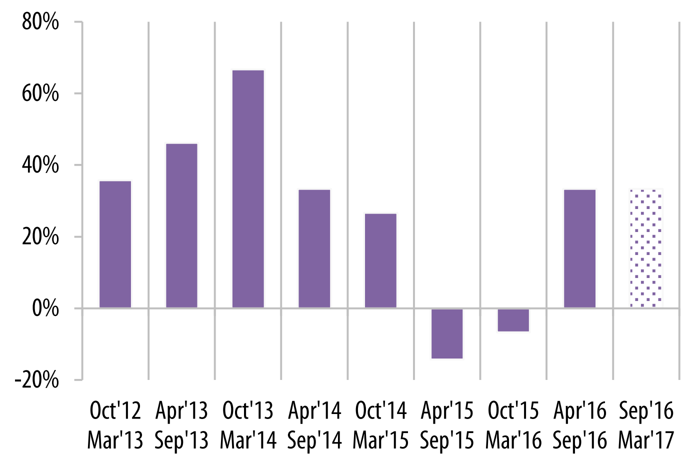
Figure 3a **Access to funding conditions**



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages; positive values indicate increased access to funding – see question A.Q2 – questionnaire in the Annex

Figure 3b **Total access to funding conditions**



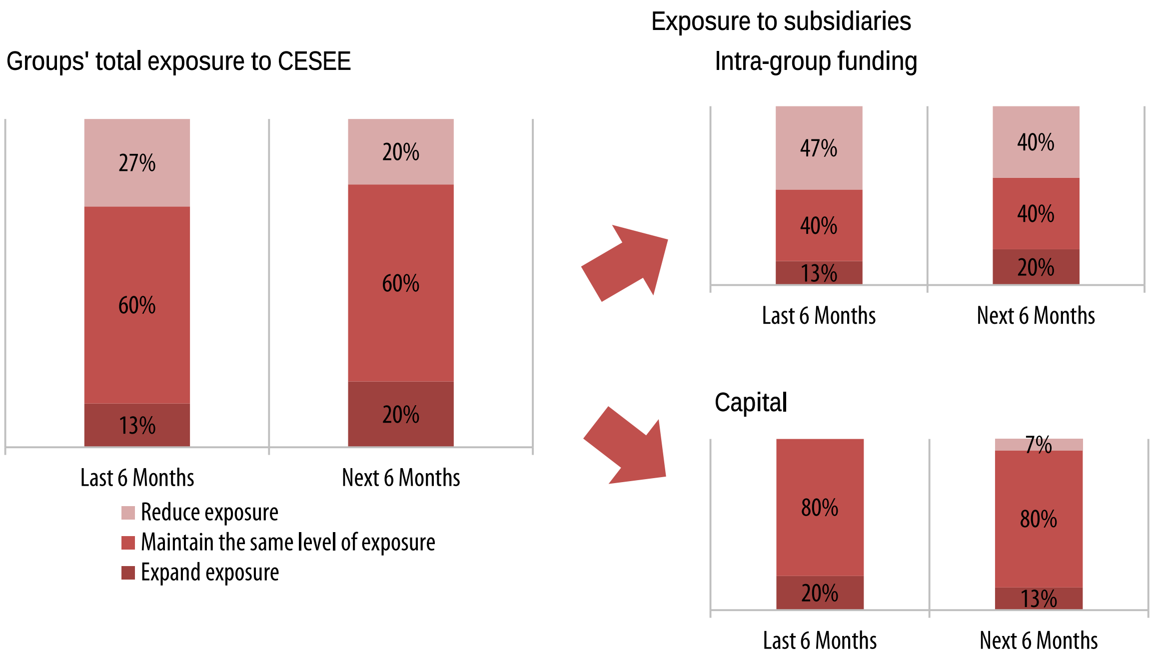
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages; positive values indicate increased access to funding – see question A.Q2 – questionnaire in the Annex

About a third of banking groups have continued to reduce their total exposure to the CESEE region. As a result the aggregate trend has still been negative over the last six months. On the other hand, the negative trend shows signs of bottoming out, whereby an evenly split number of groups expects either a decrease or an increase in exposure over the next six months, thus generating an aggregate stabilisation.

In line with the expectations embedded in the H1 2016 release of the survey, only a few groups expanded intra-group funding of CESEE subsidiaries. Most of the decline in exposure to the CESEE region stemmed from reduced intra-group funding to subsidiaries as in the previous release of the survey. This process has been slightly less pronounced over the past six months than a year ago. It is expected to continue over the next six months, although at a marginally slower pace (Figure 4.a). All parent banks report that they maintained the level of their capital exposure to their subsidiaries, or even marginally increased it; moreover they expect to continue to do so. No group reports a decrease in capital exposure. Over the recent past increasing capital exposures have partially compensated for decreased intra-group funding, although the aggregate net balance has been negative (Figure 4.b). Looking at the next six months, the net balance is expected to hover around zero because an evenly split number of groups expects either a decrease or an increase in exposure, thus generating an aggregate stabilisation.

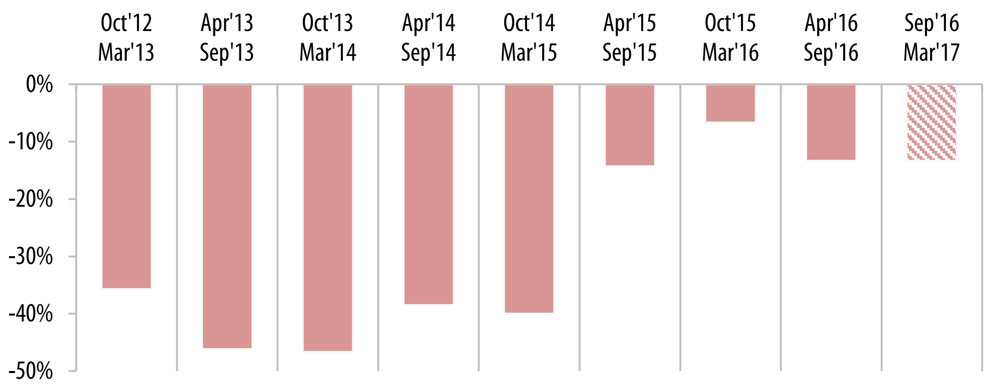
Figure 4a **Groups' total exposure to CESEE**



Source: EIB – CESEE Bank Lending Survey.

Note: Cross-border operations involving CESEE countries – see questions A.Q7 – questionnaire in the Annex

Figure 4b **Groups' total exposure to CESEE**



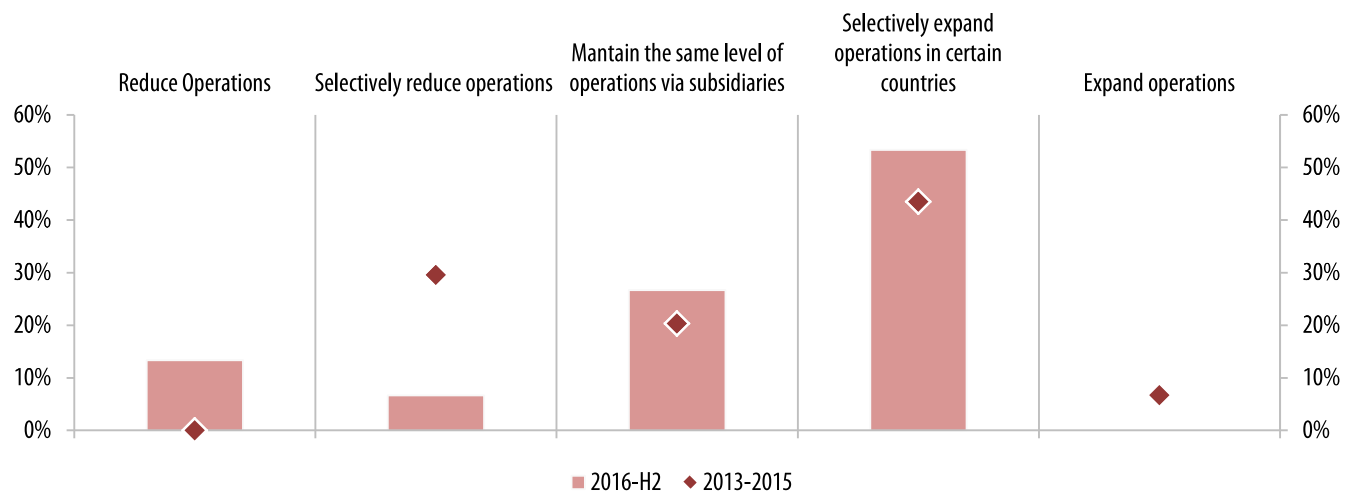
Source: EIB – CESEE Bank Lending Survey.

Note: Cross-border operations involving CESEE countries – see questions A.Q7 – net percentages; negative figures refer to decreasing exposure – questionnaire in the Annex

Cross-border banking groups continue to discriminate between their countries of operation in CESEE. At the same time, a significant number of banking groups signals their intention to expand operations selectively in the long term (Figure 5), whilst a smaller set of banking groups reports the intention to reduce operations.

A large majority of international groups described their CESEE operations as an important part of their global strategies. The contribution of CESEE operations to Group ROA increased somewhat for a large number of groups over the past six months, whereas it decreased for only a very few groups. It is expected to continue to increase in net balances. Moreover, two-thirds of international banking groups report higher profitability (measured by return on assets) for CESEE operations than for overall group operations, whilst one-third describe it as being lower than overall group returns. This confirms the positive trend that emerged more than a year ago. While cross-border banking groups continue to discriminate in terms of countries of operation (Figure 5) as they reassess their country-by-country strategies, they are also increasingly signalling their intentions to expand operations selectively in the region. Around 50 percent of the groups have a medium-to-long term strategy of selective expansion of operations, up from an average of 30 percent for 2013-2014. On the other hand, a smaller number of groups (roughly 20 percent) consistently indicate that they may reduce operations in the long term. Looking more carefully at the results, most but not all of such banking groups are based in Greece. In addition, market potential and positioning continue to differ significantly across countries (Annex A.4 and A.5). The assessment of market prospects is consistent with the results reported in previous releases of the survey. However some changes in assessments, both positive and negative, also occurred. Surveyed banks see the market potential (Annex A.8 for data on low market potential) as being low or having deteriorated in Albania, Croatia, Hungary, Slovenia and Ukraine, and as marginally low in Bosnia-Herzegovina, Serbia and Slovakia. In the other countries of the region, prospects are more encouraging and most banking groups see medium to reasonable market potential. In terms of market positioning, most banks in the majority of the markets remain comfortable with their scale of operations. However, weak positioning should be seen as combined with limited market potential. Some surveyed banks find their positions in Bulgaria in the weak or niche category (Annex A.9 for data on weak positioning), and this is also the case in Hungary, Romania, Serbia, Slovakia, Slovenia and Ukraine. For a few banking groups, more limited – but still significant – weak positioning is also detected in Croatia, FYR Macedonia and Poland. This assessment is also generally reflected in the assessed profitability of markets in terms of ROA (adjusted for cost of risk) and ROE (adjusted for cost of equity) where prospects differ across countries (Annex A.6 and A.7). Broadly speaking, low profitability is associated with operations in most countries of the region. However, it is more pronounced in Albania, Bosnia-Herzegovina, Croatia, Hungary, Romania, Serbia, Slovenia and Ukraine.

Figure 5 **Group-level long-term strategies (beyond 12 months) in CESEE**



Source: EIB – CESEE Bank Lending Survey.

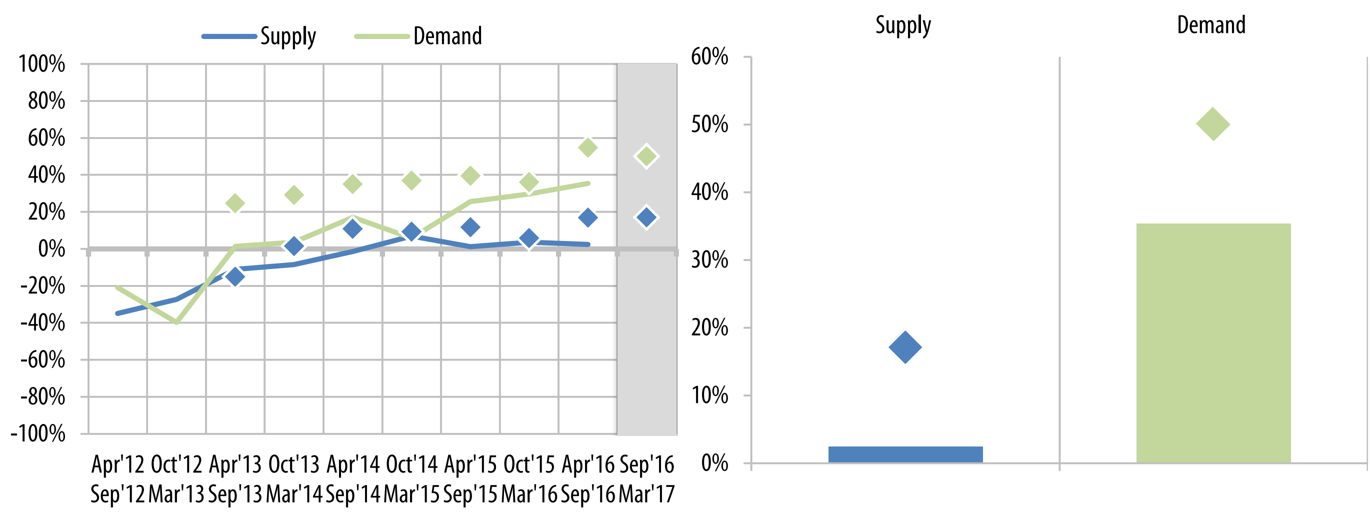
Note: See question A.Q4 – questionnaire in the Annex

Results of the Bank Lending Survey – Local banks/subsidiaries

CESEE subsidiaries and local banks continue to report an increase in demand for credit, whilst supply conditions were almost unchanged over the past six months. Demand is expected to continue to increase robustly. In contrast, supply conditions are expected to ease only slightly during the next six months. This has generated a perceived steadily increasing demand-supply gap.

In the last six months, **demand** for loans and credit lines continued to improve (Figure 6). Moreover, the improvement was broadly in line with the expectations embedded in the March 2016 release of the survey. For the third consecutive time, past expectations are aligned with actual realisations. This signals that, on average, banks are starting to be able to better predict future conditions of demand. Consequently it suggests that their operating environment is less volatile and uncertain than before. In addition the results of the present release of the survey mark the seventh consecutive semester of positive increase in credit demand for loans. For the fourth time in a row all factors influencing demand had a positive contribution. Working capital (see Annex A.1) accounted for a good part of the demand stemming from enterprises. Debt restructuring continues to propel demand. However, its contribution is way lower than in previous years. Moreover, contributions to demand from investment exerted a significant positive impact for the third consecutive time. This is a further indication of an improving and stabilising macroeconomic and financial environment, which seems to be more conducive to investment. Contributions to demand from housing-related and non-housing-related consumption also continued to be robust and positive, while consumer confidence continues to exert a positive effect. Looking ahead, demand is expected to continue to increase. **Supply** conditions have remained basically neutral over the past six months, largely unchanged from the previous release of the survey. Across the client spectrum, supply conditions (credit standards) eased partially in the corporate segment, specifically on SME lending, whilst credit standards tightened on mortgages and did not change on consumer credit (see Annex A.3). Supply conditions slightly eased on short-term loans, primarily in local currency. In the period ahead, banks foresee a pick-up in **expected** credit **demand** and an easing of **expected supply** conditions. Debt restructuring, working capital, investment, consumer confidence, housing and non-housing-related expenditures are all expected to make a positive contribution to demand. Credit demand from enterprises (primarily SMEs) and from households is also expected to be robust (see Annex A.2). Aggregate supply conditions are expected to ease and the easing seems to be broader-based than before (see Annex A.3). The general terms and conditions of loan supply to the corporate segment continued to partially ease over the past six months. However, collateral requirements tightened further, as expected in the March 2016 release. A cumulated index, built on the demand and supply changes reported in

Figure 6 **Total supply and demand, past and expected development**



Source: EIB – CESEE Bank Lending Survey.

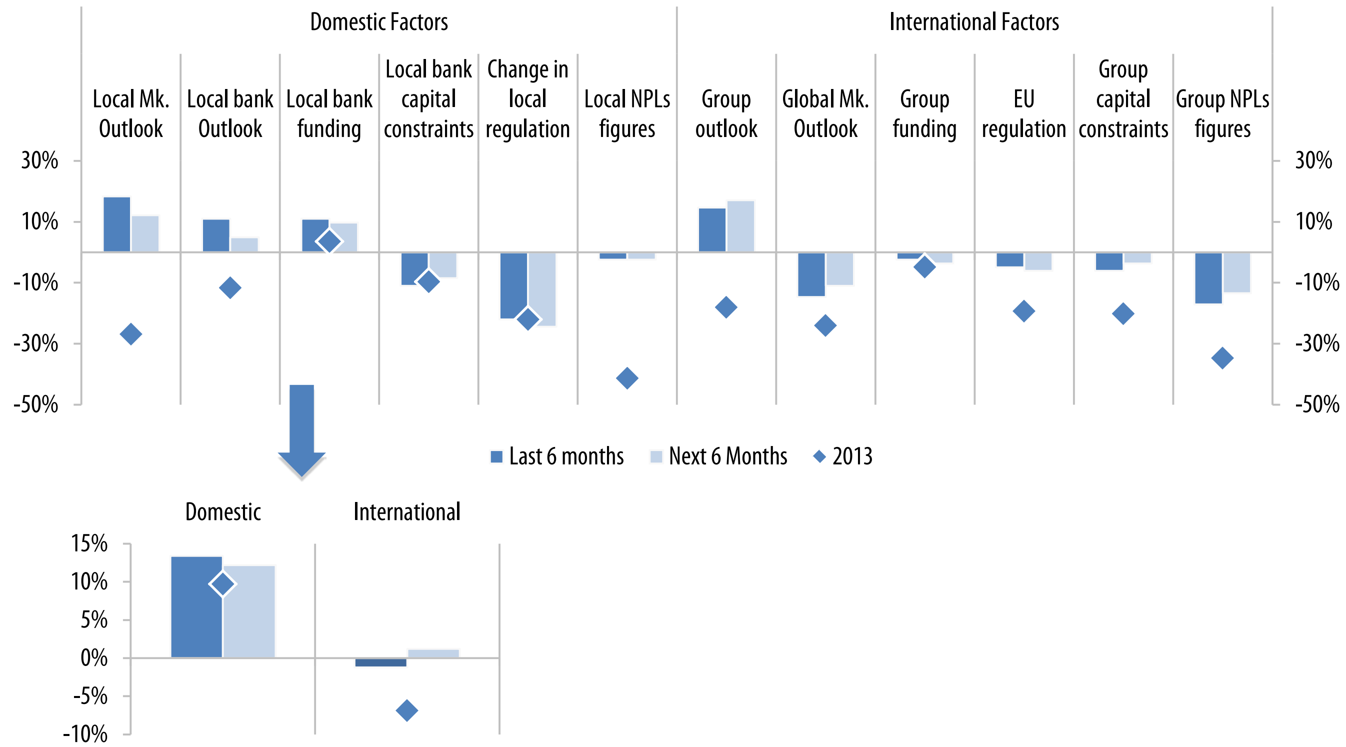
Note: Net percentages; positive figures refer to increasing (easing) demand (supply) (triangles refer to expectations derived from previous runs of the survey, lines report actual values and dotted lines expectations in the last run of the survey) – see questions B.Q1 and B.Q5 – questionnaire in the Annex

Figure 6, hints at a further widening of the gap between demand and supply positions, where optimism on the demand side continues to be frustrated by the aggregate stagnation of conditions on the supply side.

The regulatory environment, banks' capital constraints (at both domestic and group levels), NPLs and the global market outlook are the main factors adversely affecting supply conditions.

Few domestic factors are actively limiting supply developments (Figure 7). The number of limiting factors at domestic level has been decreasing over time compared to 2013 recordings. Figure 7 shows that almost all domestic and international factors were adversely affecting supply conditions in the first half of 2013. However, the last release shows that the regulatory environment, banks' capital constraints, and only marginally NPLs, remained limiting elements at the domestic level. As in the previous surveys, neither access to domestic funding nor domestic outlook are constraints. The same international factors are playing a constraining role compared to 2015, although less than in 2013 (Figure 7). Global market outlook, group NPLs, EU regulation and group capital constraints are mentioned as having a negative effect on credit supply conditions. Overall, an improvement is detected compared to the previous release of the survey, whereby the net negative effects are less pronounced. Looking ahead, almost all the same factors are expected to affect supply conditions in the same direction as in the recent past.

Figure 7 **Factors contributing to supply conditions (credit standards)**



Source: EIB – CESEE Bank Lending Survey.

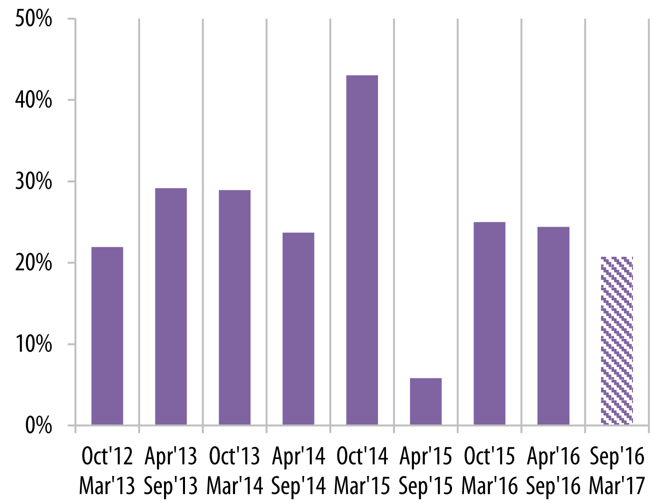
Note: Net percentage; positive figures refer to a positive contribution to supply) – see question B.Q4 – questionnaire in the Annex

Access to funding continued to ease in the CESEE region at the same pace detected in the previous release of the survey.

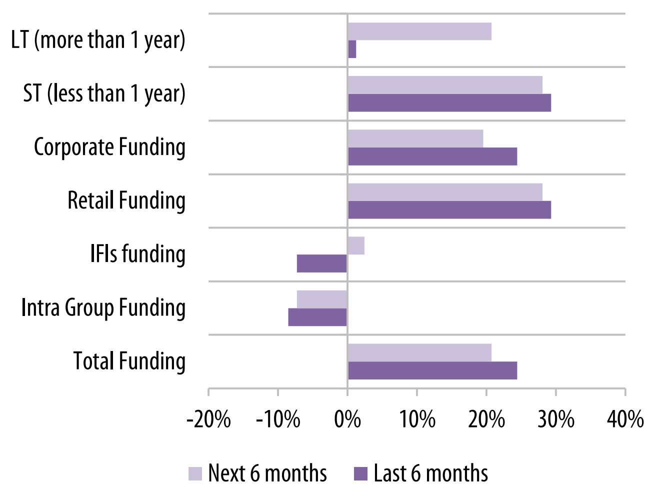
Easy access to retail and corporate deposits supports a positive outlook (Figure 8). In addition, CESEE subsidiaries report easier access to short-term funding as making a positive contribution to overall funding activities. Longer-term funding conditions did not deteriorate, but remained practically unchanged. This does not support a reduction of maturity mismatches and does not help to boost banks' long-term stable funding ratios. Subsidiaries indicate that access to international and intra-group funding decreased on balance during the past six months. This is consistent with the information provided by the parent banks, where a majority of groups also indicated that they were still reducing their net exposure to the region (see Figure 5) primarily via lower intra-group funding

Figure 8 **Access to funding by CESEE subsidiaries**

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



B. Breakdown of funding conditions – results from latest survey



Source: EIB – CESEE Bank Lending Survey.

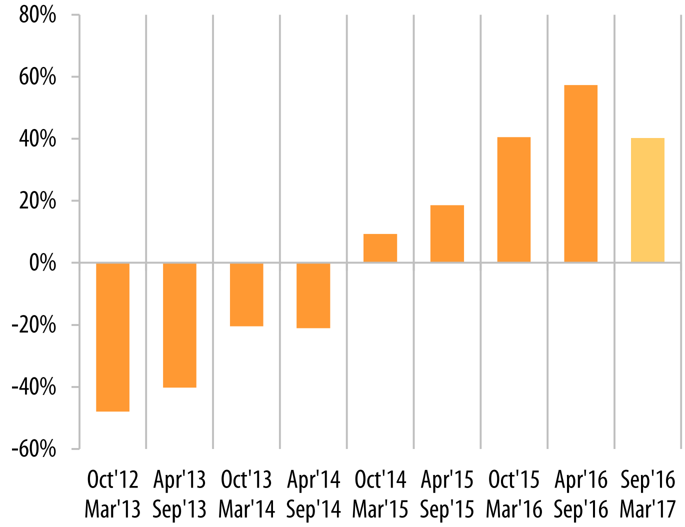
Note: Net percentage; positive figures refer to an easing of access to funding) – see question B.Q9 – questionnaire in the Annex

Credit quality has continued to improve, and is expected to continue to do so over the next six months.

The speed of deterioration in NPL ratios has been slowing down over time, as already pointed out more than a year ago. The September 2015 release of the survey indicated a turning point in the negative spiral of NPL flows. Over the past six months, and for the fourth time, aggregate regional NPL ratios recorded an improvement in net balance terms (Figure 9). In absolute terms, the share of subsidiaries indicating an increase in their NPL ratios over the past six months fell to 12 percent. This figure is marginally down from the 17 percent indicated in the March 2016 release and substantially lower than 60 percent reported in the September 2013 survey release. All in all, the share of subsidiaries indicating either a stabilisation or decline in their NPL ratios increased. It currently stands at close to 90 percent, while only 9 percent of banks continue to expect an increase in NPLs over the next six months. NPL ratios for both the corporate and retail segments are expected to decrease.

Figure 9 **Non-performing loan ratios**

Developments over time



Last run of the survey

Source: EIB – CESEE Bank Lending Survey.

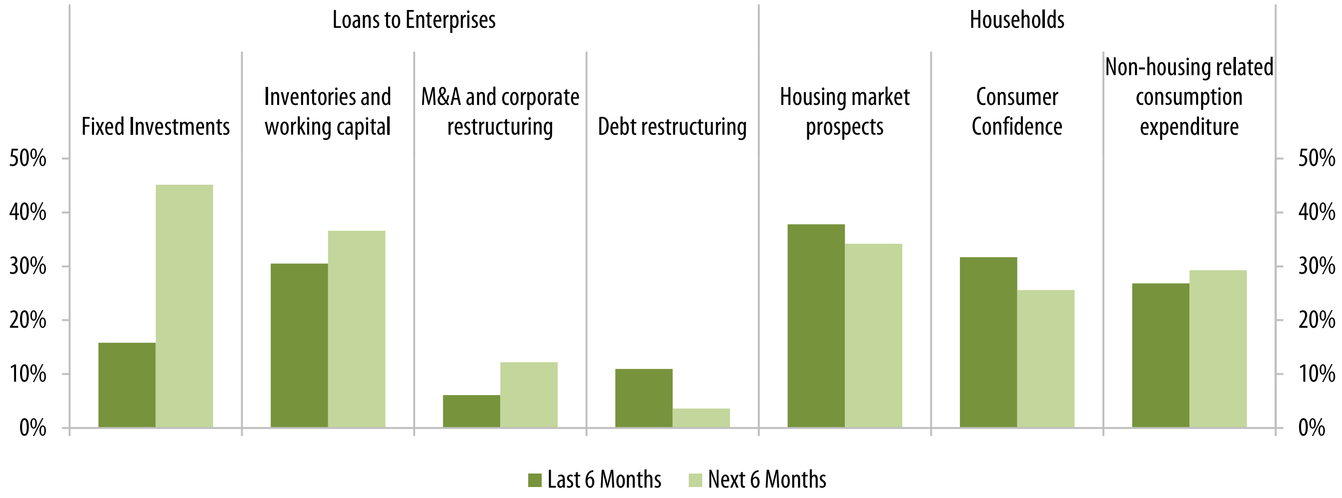
Note: Net percentage; negative figures indicate increasing NPL ratios) – see question B.Q8 – questionnaire in the Annex

The survey shows a stabilisation in the regional environment, although aggregate lending levels still remain unsatisfactory. At the same time, some risks are still detected, primarily deriving from the international environment and banking networks.

Aggregate credit demand conditions continued to be positive across the board. However, supply conditions did not ease over the past six months, thus increasing a perceived gap between robust demand and unchanged supply conditions. Capital constraints and the regulatory environment remain a drag on a further easing of credit standards. NPL levels (primarily at the group level) constrain supply of credit. Last but not least, a differentiation in the attractiveness of certain markets continues to persist, triggered by groups' positioning, the assessed potential of individual markets and local profitability as well as diverse groups' aggregate balance sheet positions in terms of capital structure and asset quality levels. As a result further restructuring could be in the pipeline. Risks may emanate from its scale and timing as well as its degree of cross-border coordination.

Annex

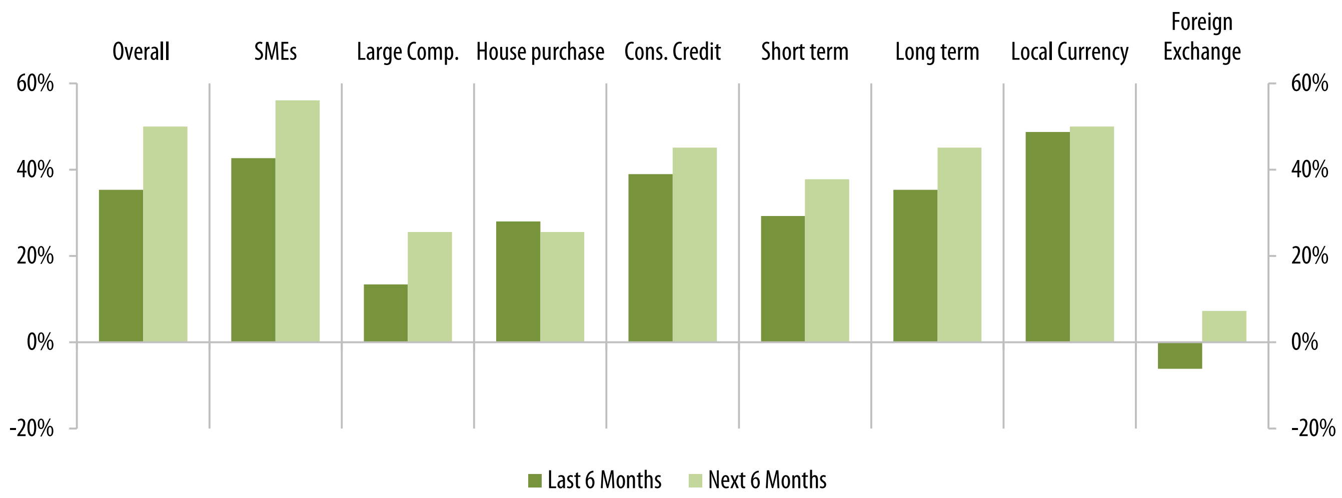
Annex A.1 Factors affecting demand for credit



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages; positive values indicate a positive contribution to demand conditions) – see question B.Q7 – questionnaire in the Annex

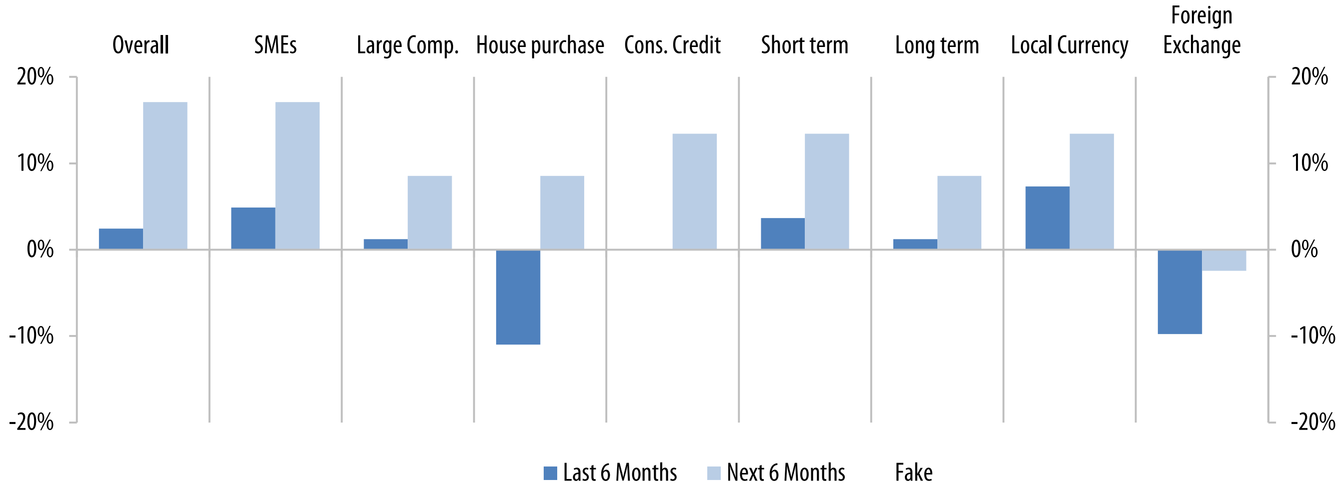
Annex A.2 Demand for loans or credit lines – client breakdown



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages; positive values indicate increasing demand) – see question B.Q5 – questionnaire in the Annex

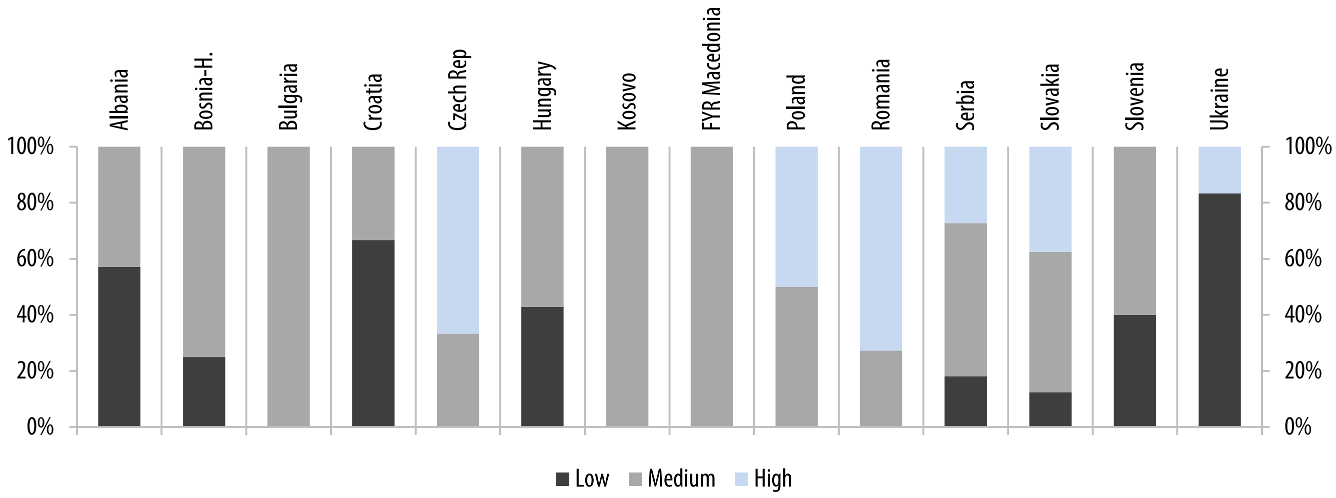
Annex A.3 **Credit supply (credit standards) – client breakdown**



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages; positive values indicate an easing supply) – see question B.Q1 – questionnaire in the Annex

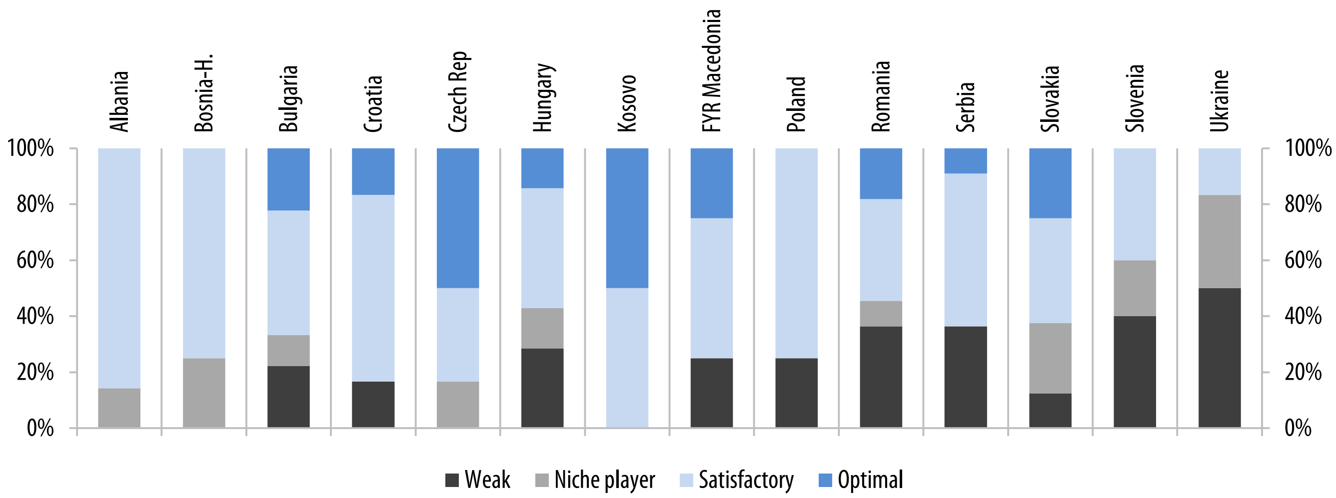
Annex A.4 Market potential



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15 – questionnaire in the Annex

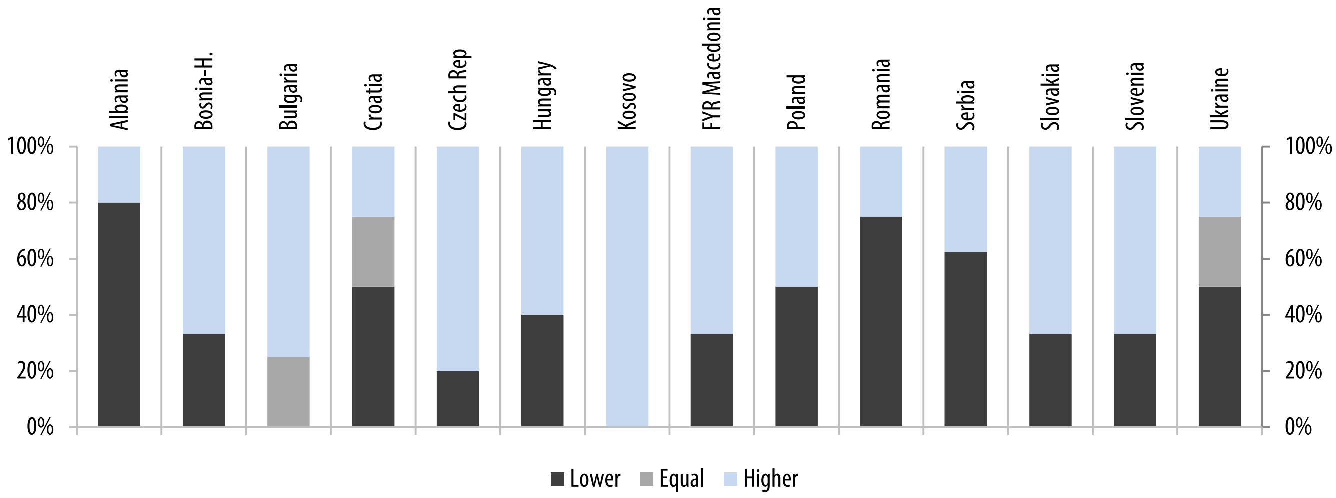
Annex A.5 Market positioning



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15 – questionnaire in the Annex

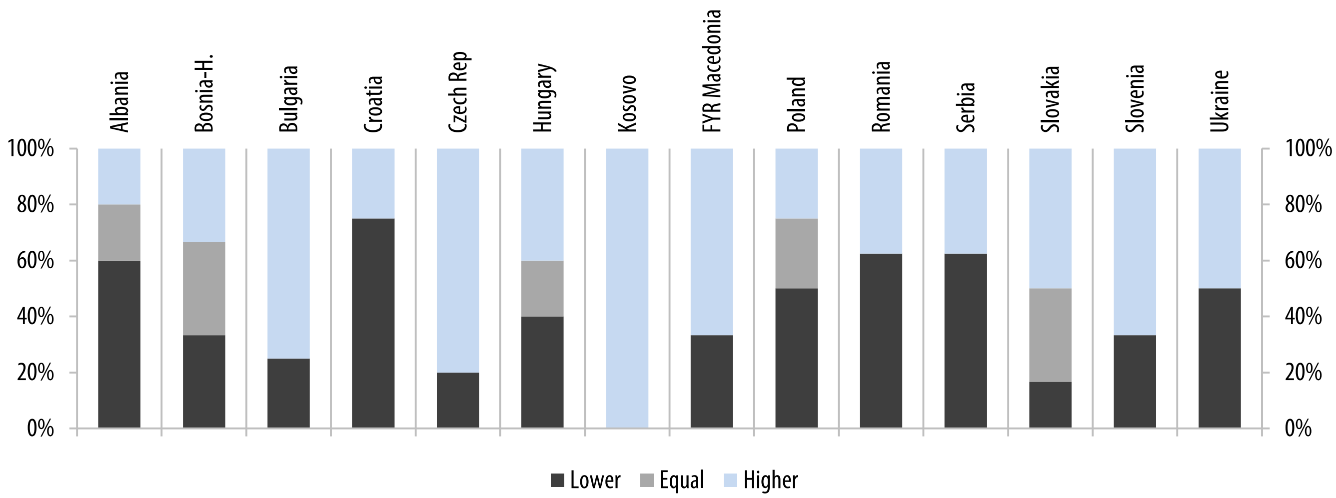
Annex A.6 Return on assets (adjusted for cost of risk) compared to overall group operations



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15 – questionnaire in the Annex

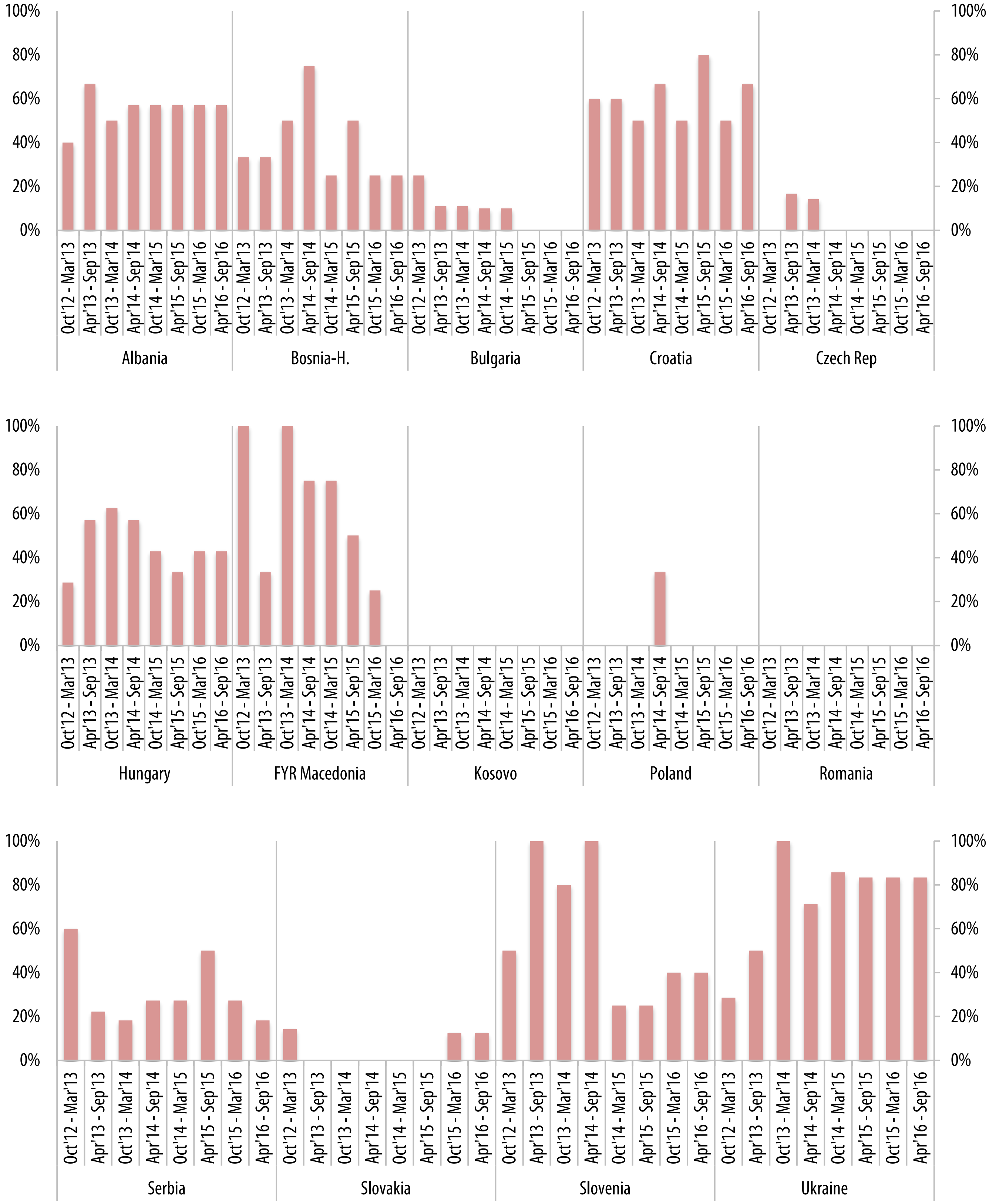
Annex A.7 Return on equity (adjusted for cost of equity) compared to overall group ROE



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15 – questionnaire in the Annex

Annex A.8 Share (%) of parent banks indicating a "low" market potential



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15 – questionnaire in the Annex

Annex A.9 Share (%) of parent banks indicating a "weak/niche" positioning

Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15 – questionnaire in the Annex

Albania

Mixed picture of a market with limited potential and comparatively low profit where credit demand has been moderately recovering

Summary

Group assessment of positioning and market potential: Parent banks operating in Albania keep indicating a rather mixed perception of the market and thus draw a gloomier picture than the overall survey sample. Albania is still seen as a market with rather limited potential and typically comparatively low profit perspectives. These mixed figures are reflected also in the strategic plans of the surveyed bank groups as an equal share of respondents (one third) plan to selectively expand but also reduce their operations.

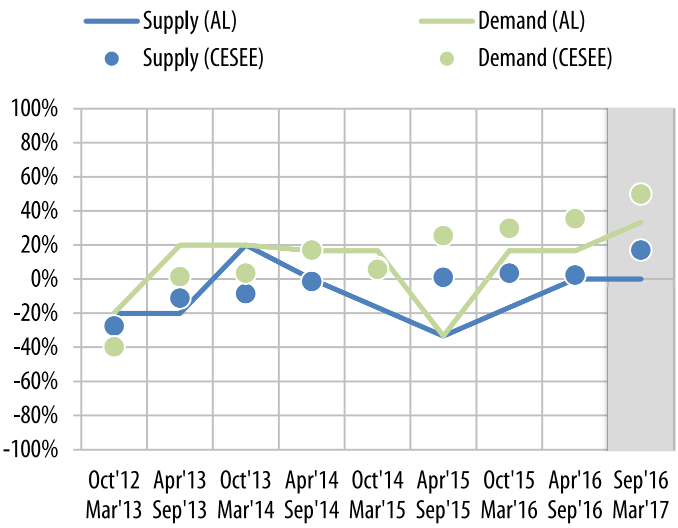
Credit demand in Albania has been recovering at a relatively low level**,** while **supply conditions have been stagnating**.

The stagnant **credit supply** conditions over the spring and summer could suggest that the tightening trend of the last couple of survey rounds has been reversed. The recent development in Albania is thus roughly in line with the CESEE region as a whole where credit conditions have been broadly neutral for more than three years. Overall, supply components remained unchanged as the tightening of credit standards in the large corporates' sector was counterbalanced by loosening conditions for consumer credits.

The increase in aggregate **demand for loans** has been driven primarily by higher loan applications, both short- and long-term, from SMEs and to a lesser extent by consumer credit. In contrast, demand from large corporates and for mortgages has contracted over the past six months. On the enterprise side, most factors have positively contributed to an increase in demand. In the household segment consumer confidence and non-housing consumption expenditure have dampened the overall credit demand in the last months.

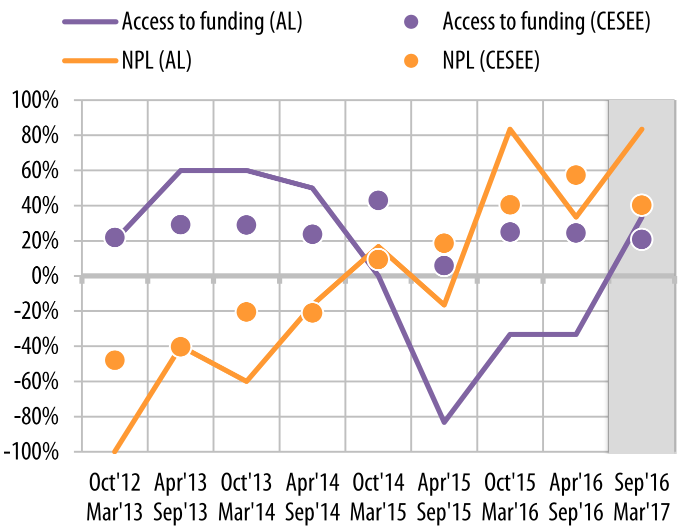
Access to funding: A majority of subsidiaries in Albania report a deteriorating access to finance across most funding categories. Yet some slight improvement is expected over the next six months.

NPL figures have improved both in the retail and corporate segments and they should continue falling.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)



Source: EIB – CESEE Bank Lending Survey.

Note: Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

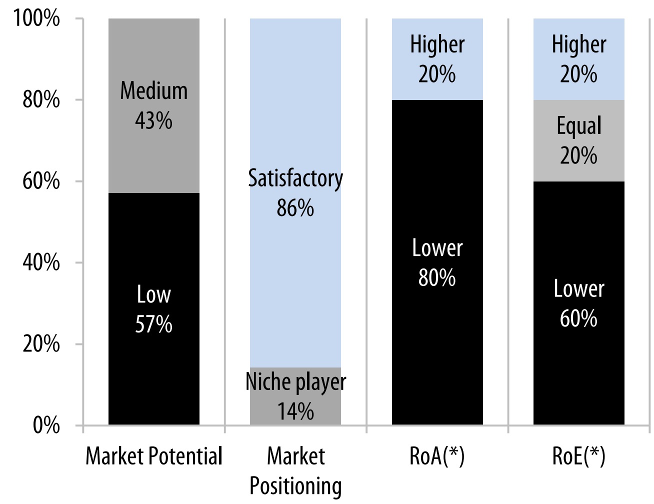
Results of the Bank Lending Survey – Parent banks level

Groups operating in Albania signal a rather mixed perception of the market. Albania is still seen as a market with a rather limited potential (medium to low). However, nine out of ten parent banks continue to view their market positioning as satisfactory.

Only every fifth bank indicates that returns on assets (adjusted for the cost of risk) and equity (adjusted for the cost of equity) in Albania are higher than overall group operations.

Only every third bank group operating in Albania (compared to every second in the overall sample) reports that it intends to selectively expand operations in the region. The same share of banks (as opposed to just 20% in the overall sample) plan to (selectively) reduce their activities.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15. (*) 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.

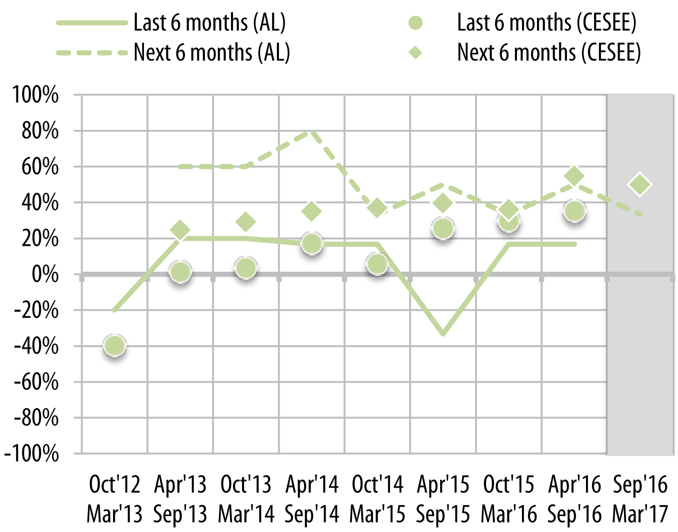
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Following a dip a year ago credit demand in Albania started recovering somewhat in late 2015/early 2016 and the slight recovery was confirmed also over the last six months. However, as has been the case for the last three years, the actual outcome was significantly less optimistic than the previously articulated expectations. Against this background, the projected moderate demand increase for the next six months possibly needs to be interpreted with some caution.

Similar holds true also for the CESEE region as a whole for which actual outcomes have typically not quite lived up to the rather exuberant expectations over the last years. Nonetheless, in the CESEE aggregate demand has also been strengthening continuously and the trend is expected to continue.

Figure 2 **Demand side developments**

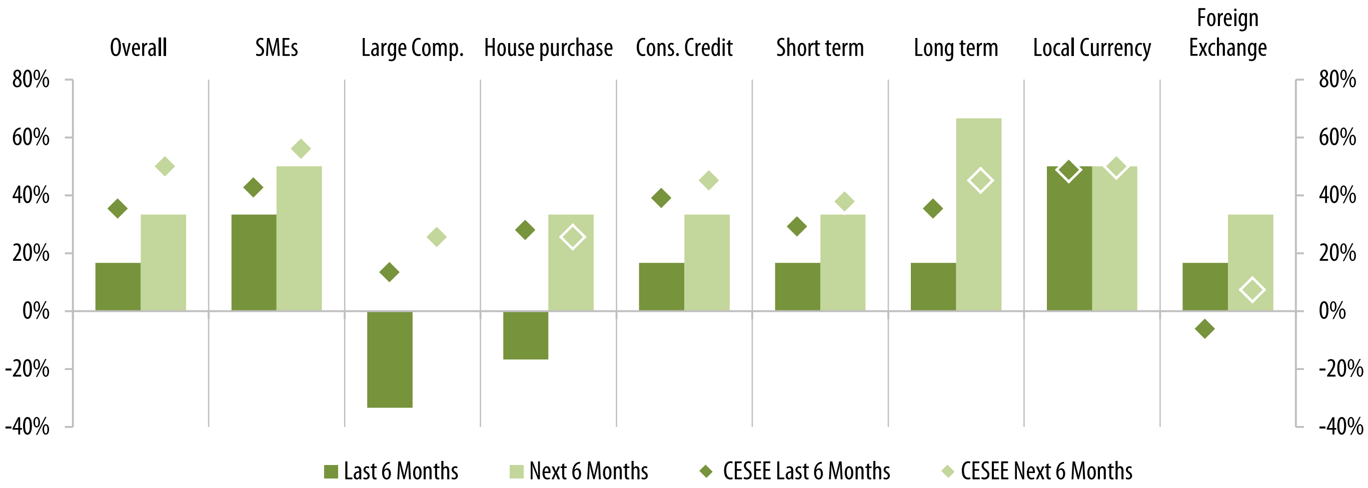


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 3 Demand components and segments

The increase in aggregate demand in Albania has been driven primarily by higher loan applications, both short- and long-term, from SMEs and to a lesser extent by consumer credit. In contrast, demand from large corporates and for mortgages has contracted over the past six months. Generally the demand for loans in local currency dominates. Credit demand is expected to strengthen across the board, particularly in the SME segment, over the next six months with the exception of large corporates.

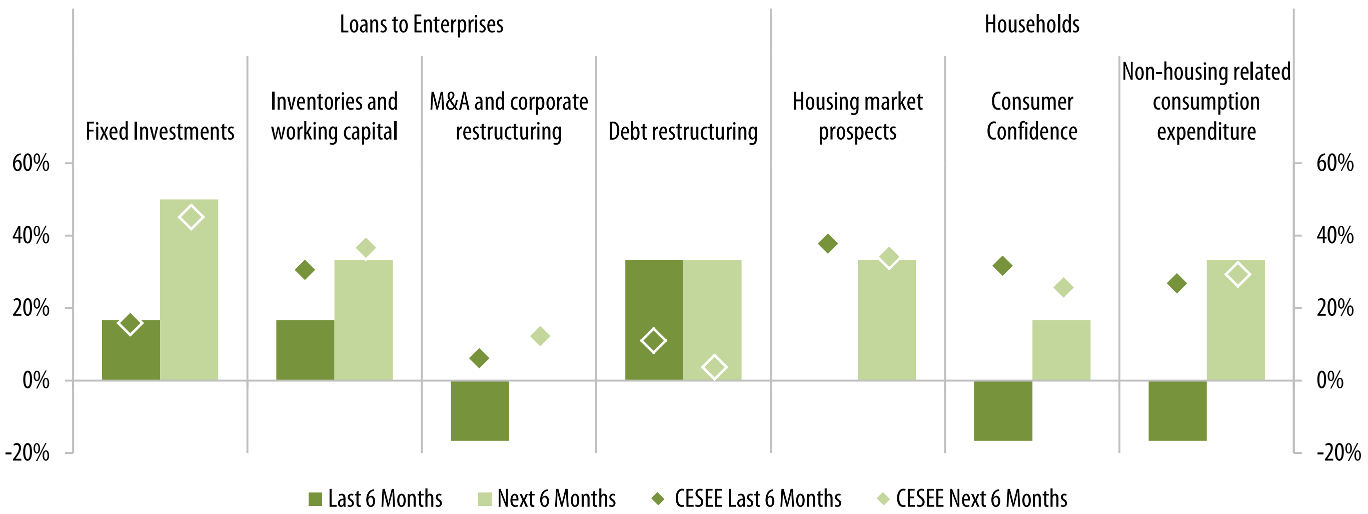


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Figure 4 Factors affecting demand for loans

On the enterprise side, most factors have positively contributed to an increase in demand. The positive influence of investments, inventories and working capital and debt restructuring was counteracted by a dampening effect of M&A and corporate restructuring. In the months ahead all factors should make a positive contribution. In the household segment, consumer confidence and non-housing consumption expenditure have dampened the overall credit demand in the last months. This strongly contrasts with positive contributions of all factors reported for the whole CESEE region. Looking ahead, however, developments in Albania should align with the CESEE aggregate.

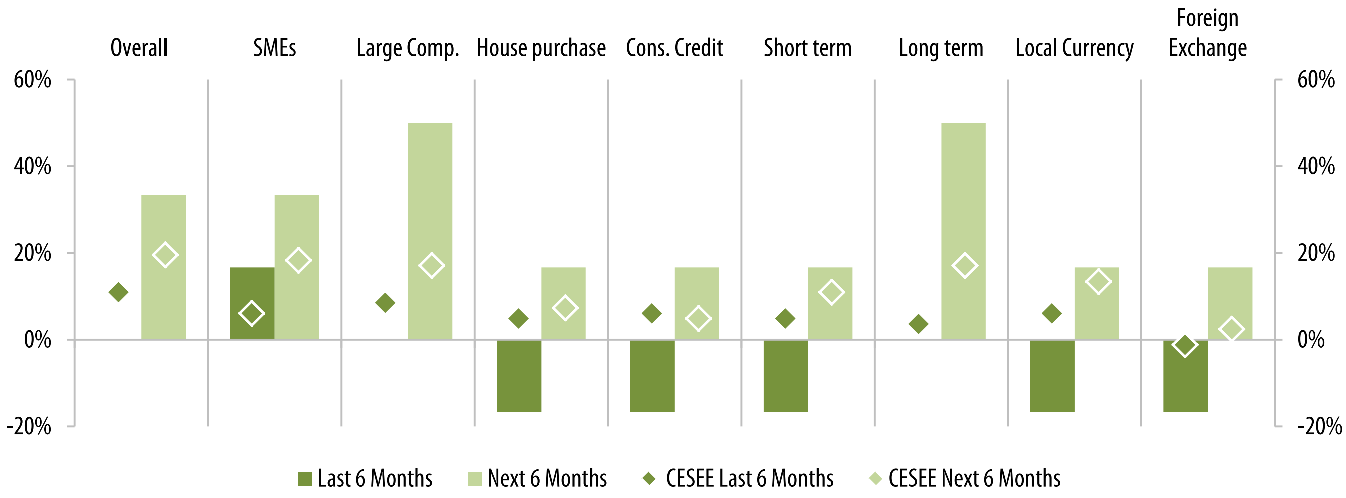


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex

Figure 5 Quality of loan applications

On balance, the quality of loan applications in Albania has remained unchanged over the last months. While this is broadly in line with the CESEE average, the breakdown shows a slightly different composition. In Albania improvements were centred on the SME segment and they have been offset by deteriorations in the retail segment. For the upcoming period bank subsidiaries in Albania are very optimistic and expect a significant enhancement of the quality of loan applications.



Source: EIB – CESEE Bank Lending Survey

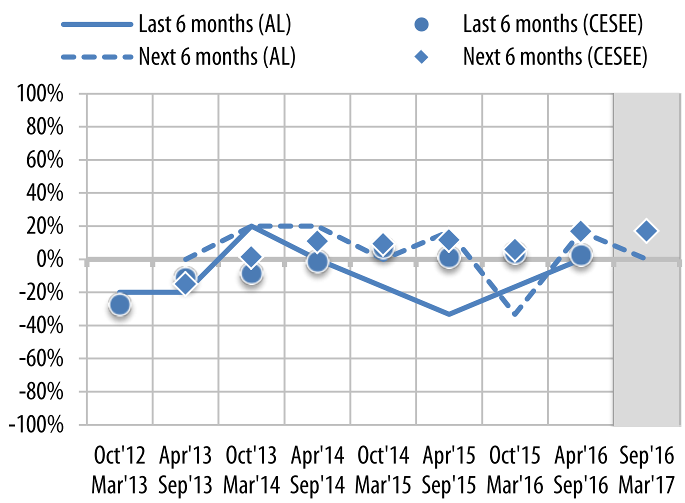
Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q6 in the Annex

Aggregate supply developments

On the credit supply side, the tightening trend of the last couple of survey rounds seems to have been reversed. Hence, credit supply conditions in Albania remained, largely in line with expectations, broadly neutral over the spring and summer. This situation is not expected to change in either direction in the near future.

This recent development in Albania is thus roughly in line with the CESEE region as a whole where credit conditions have been broadly neutral for more than three years. Nonetheless, some slight loosening is expected in the months to come.

Figure 6 **Supply developments**

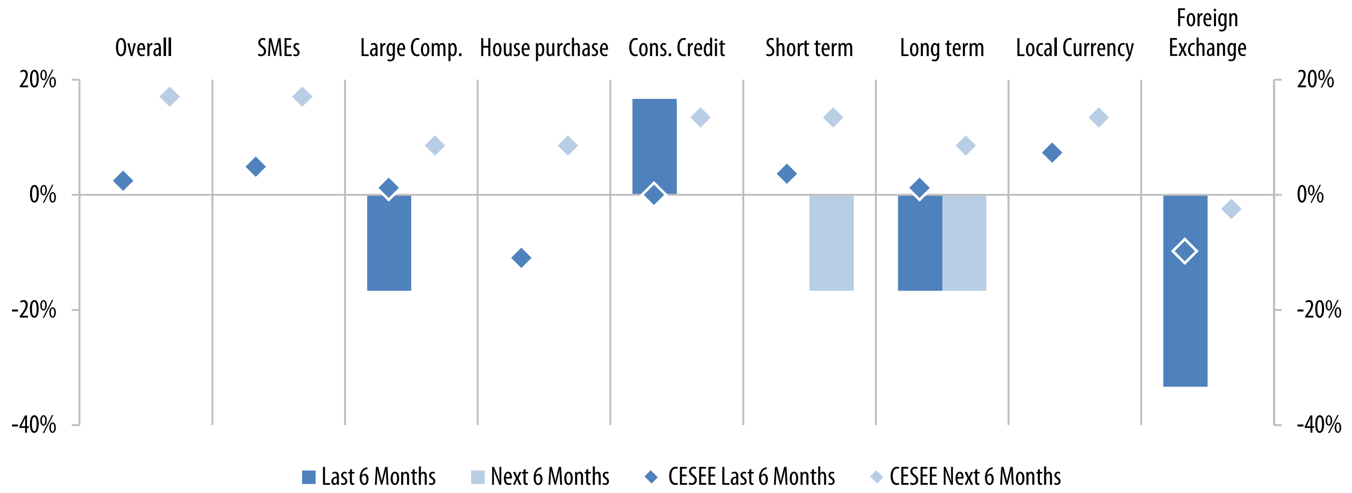


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 7 Supply components and segments

Overall, supply components remained unchanged in the six months under study as the slight tightening of credit standards in the large corporates' sector was counterbalanced by loosening conditions for consumer credits. For other credit categories conditions remained largely unchanged and no significant changes across the board are expected in the months to come.

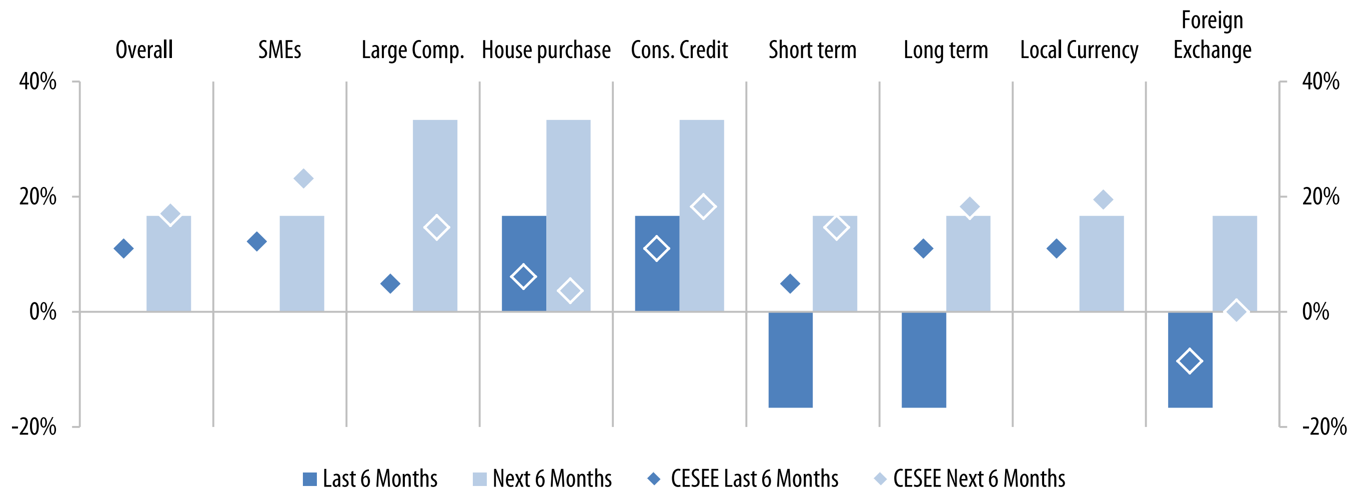


Source: EIB – CESEE Bank Lending Survey

Note: Net percentages; positive figures refer to easing supply conditions. See Question B.Q1 in the Annex

Figure 8 Credit Supply: banks' (local subsidiaries') approval rate for loan applications

Overall, the approval rates for loan applications stagnated in Albania. On the one hand, some increase in approval rates was reported for consumer credits and mortgages. On the other hand, however, approvals of loan applications in foreign currency deteriorated. In contrast, in the CESEE region it has become easier to obtain a credit, particularly in the SME and consumer credit segments. Looking ahead, Albania should align with the CESEE region where the slight upward trend in approval rates is expected to be upheld.

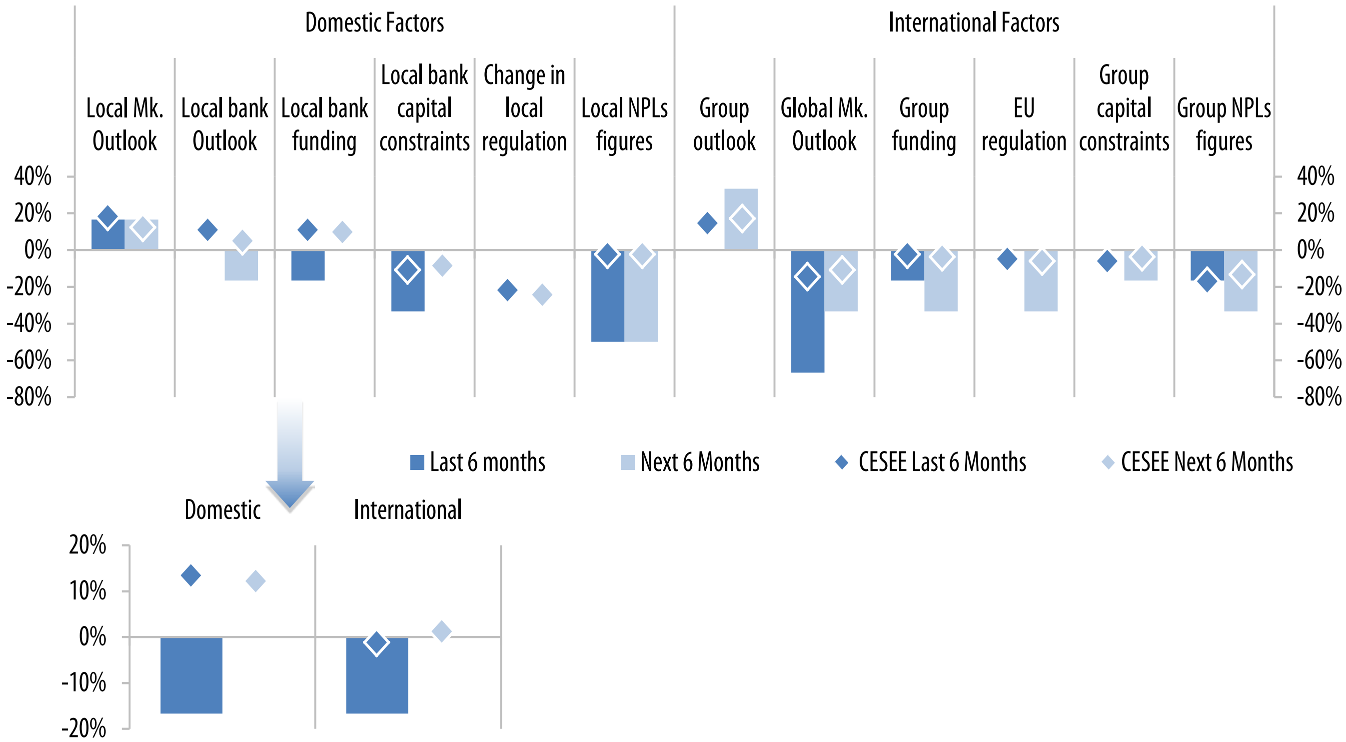


Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex

Figure 9 Factors contributing to supply conditions

On balance, both domestic and international factors affected credit supply conditions in Albania negatively. The high levels of NPLs continue to be a big burden on domestic supply conditions. In addition, local bank capital constraints and funding were limiting factors on supply conditions while local market outlook made a positive contribution. Among international factors global market outlook had the decisive negative impact on credit supply conditions. All in all, the contributions from most factors were significantly more negative than in the CESEE region.

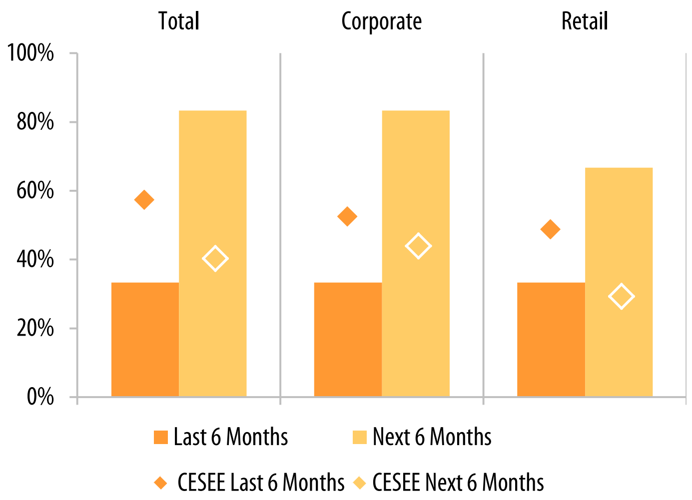


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

A slightly smaller majority of bank subsidiaries than in the entire CESEE region have reported an improving credit quality over the last six months on account of both the corporate and retail sectors. The share of nonperforming loans is projected to continue falling in the next six months, especially in the corporate sector, reportedly at a significantly faster pace than in the CESEE region.

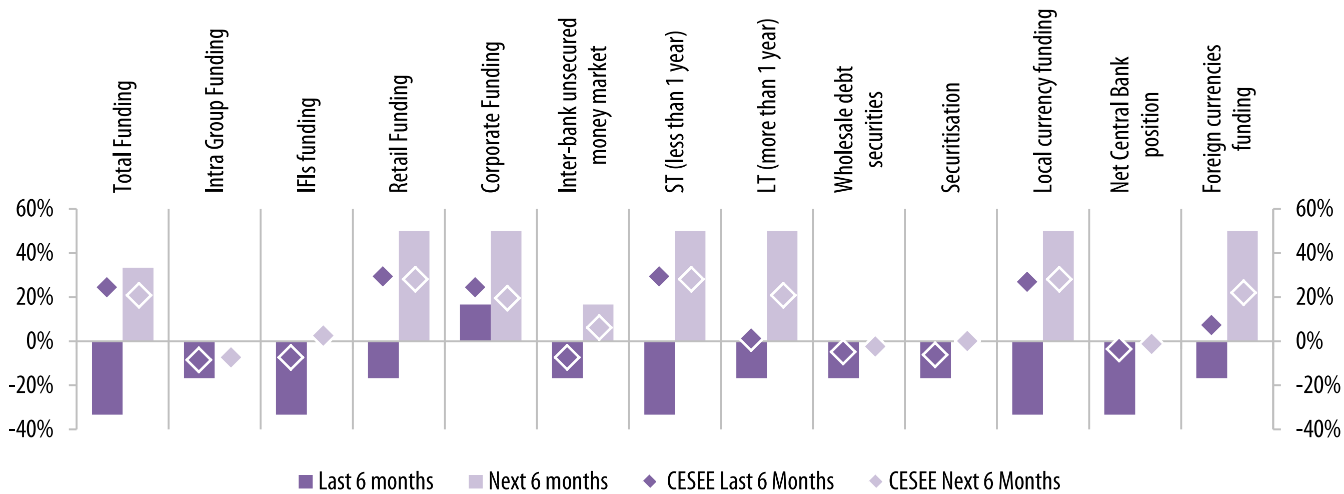


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; negative figures indicate increasing NPL ratios.See Question B.Q8 in the Annex

Figure 11 Access to funding

A majority of subsidiaries operating in Albania report a deteriorating access to finance across all funding categories but corporate funding. At the same time, however, some slight improvement is expected over the next six months due to retail and corporate funding. This contrasts with the CESEE region which has witnessed an improving access to funding. This is expected to continue. The specific feature of the Albanian market may be related to the relatively significant presence of Greek subsidiaries which may still have been impacted by the uncertainty derived from Greece.



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

Bosnia-Herzegovina

A slight easing trend of credit supply conditions contrasts with strongly contracting demand amid improving credit quality

Summary

Group assessment of positioning and market potential: Three quarters of the groups operating in Bosnia and Herzegovina report a medium potential for the local market. The same share of respondents indicates a satisfactory positioning in the market which reflects, inter alia, also a relatively positive achievement on the profitability indicators.

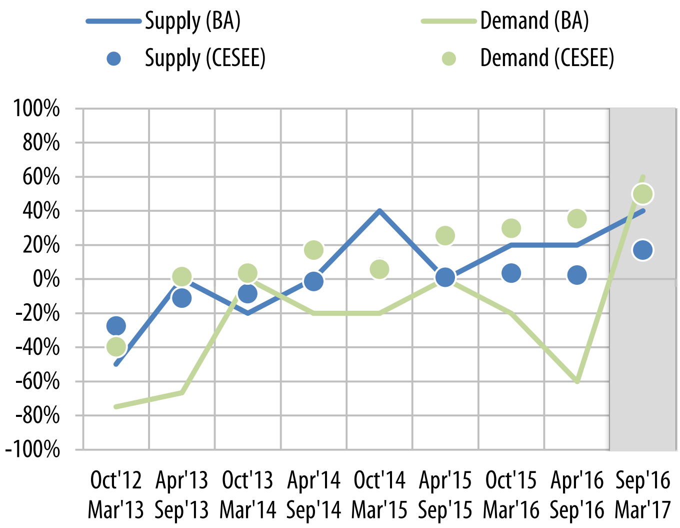
Aggregate **credit demand has continued and strengthened its long-term contraction,** while **supply conditions have moderately eased**.

Driven mainly by domestic factors, especially local bank funding, **credit supply** conditions have eased predominantly due the SME and consumer credit segments. These have overcompensated some slight tightening of conditions for large corporates. Banks' approval rates for loan applications have increased across the board in the last half a year, particularly with respect to local currency loans.

The shrinking **demand for loans** has been widely spread across both the corporate and, to a lesser extent, retail segment. It strikes especially against the background of the developments in CESEE where demand has been firming across the board. Contrary to the long-term negative trend demand is expected to strengthen in Bosnia and Herzegovina in all market segments. Investment, inventories and working capital have put the largest drag on corporate credit demand while all factors in the retail segment have made a neutral contribution.

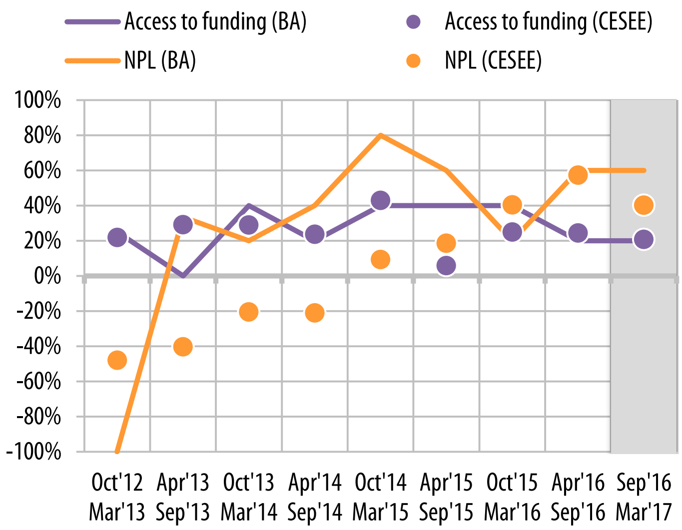
Access to funding has become somewhat easier for banks in Bosnia and Herzegovina, mainly on the back of retail and corporate funding in both domestic and foreign currencies at all maturities.

NPL figures have fallen noticeably, mainly in the retail sector. While no further improvement in credit quality is expected in the latter sector the decline in NPLs in the corporate sector should accelerate.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)



Source: EIB – CESEE Bank Lending Survey.

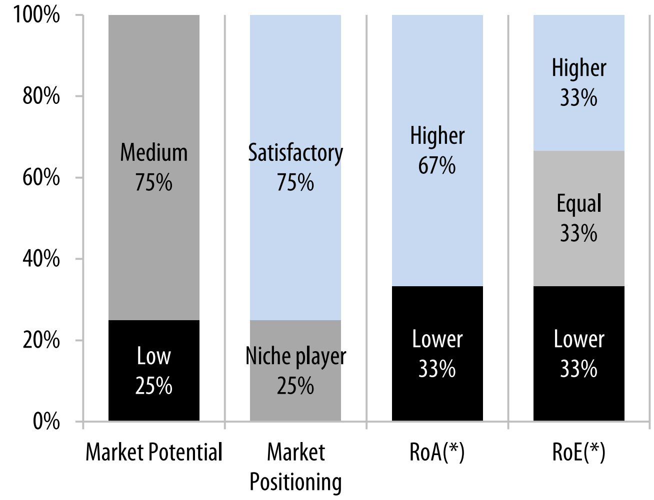
Note: Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

Three quarters of the groups operating in Bosnia and Herzegovina – compared to two thirds in the previous survey round – report a medium potential for the local market. The same share of respondents indicates a satisfactory positioning in the market which reflects, inter alia, also a relatively optimistic view of the profitability indicators.

Two out three surveyed bank groups describe their returns on assets (adjusted for the cost of risk) to be above group's returns. Returns on equity (adjusted for the cost of equity) are reported to be higher compared to overall group operations for one third of banking groups while another third considers this indicator to be equal as the group-wide level.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15. (*) 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.

Results of the Bank Lending Survey - local banks/subsidiaries level

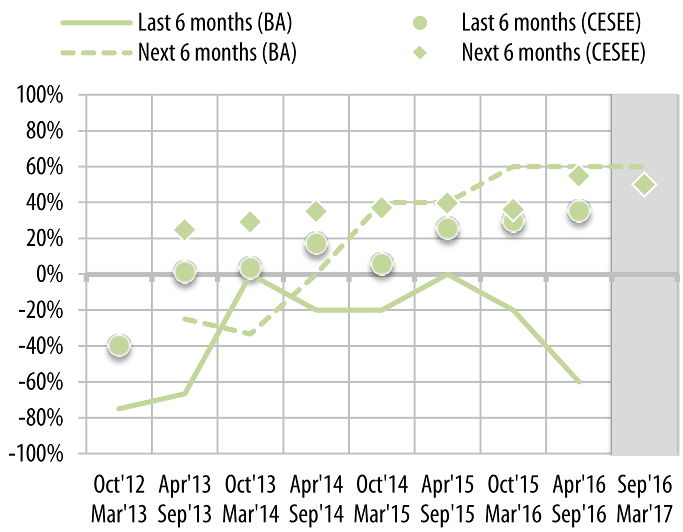
Aggregate demand developments

In a strong contrast to very optimistic expectations articulated in the last survey round aggregate credit demand in Bosnia and Herzegovina contracted rather massively in the spring and summer months of the year. Hence, credit demand has thus been shrinking for practically four consecutive years and the extent of retrenchment has been apparently widening over the last one and half years.

This development is striking not only against the benchmark of banks' expectations which have continuously pointed to an increasingly recovering demand but also against developments in the CESEE region. In the latter demand has been firming gradually for the last three years.

For the months to come bank subsidiaries expect aggregated demand to strengthen in Bosnia and Herzegovina to a similar extent as in the CESEE region. However, while in the latter this would be a plausible continuation of a long-term momentum in Bosnia and Herzegovina this would imply a massive U-turn of the downward trend.

Figure 2 **Demand side developments**

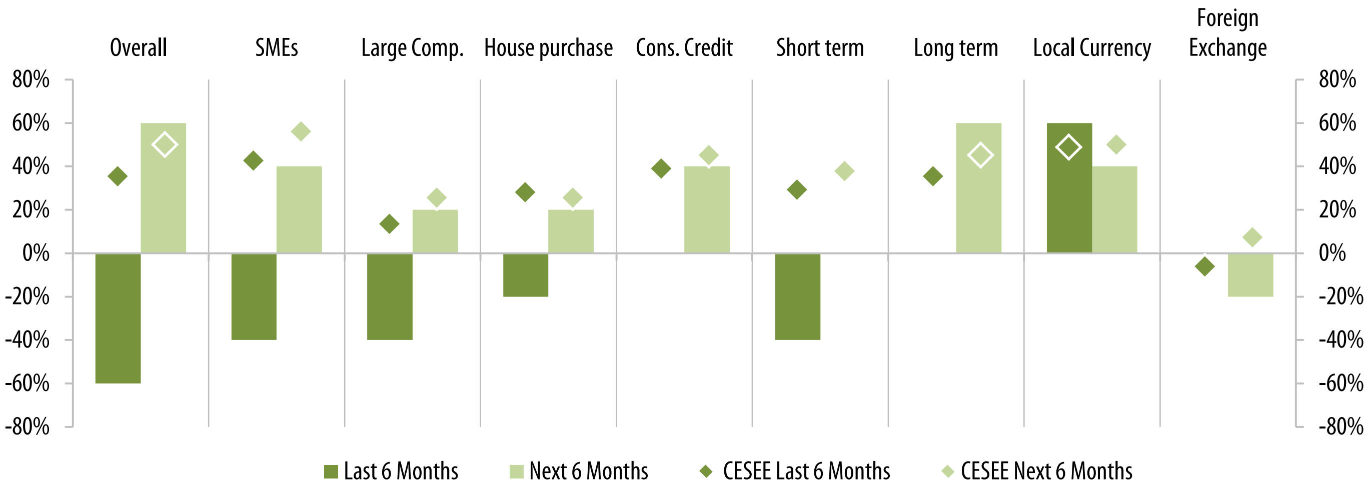


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 3 Demand components and segments

The shrinking demand has been widely spread across both the corporate and, to a lesser extent, retail segment. Even the consumer credit segment, where demand was improving in the previous couple of survey rounds, has been making only a neutral contribution most recently. This is not a comforting signal and indicates the persistent uncertainty in the market. It strikes especially against the background of the developments in CESEE where demand has been firming across the board. Contrary to the long-term negative trend demand is expected to strengthen in Bosnia and Herzegovina in all market segments, particularly long-term loans in local currency in the SME and consumer credit segments.



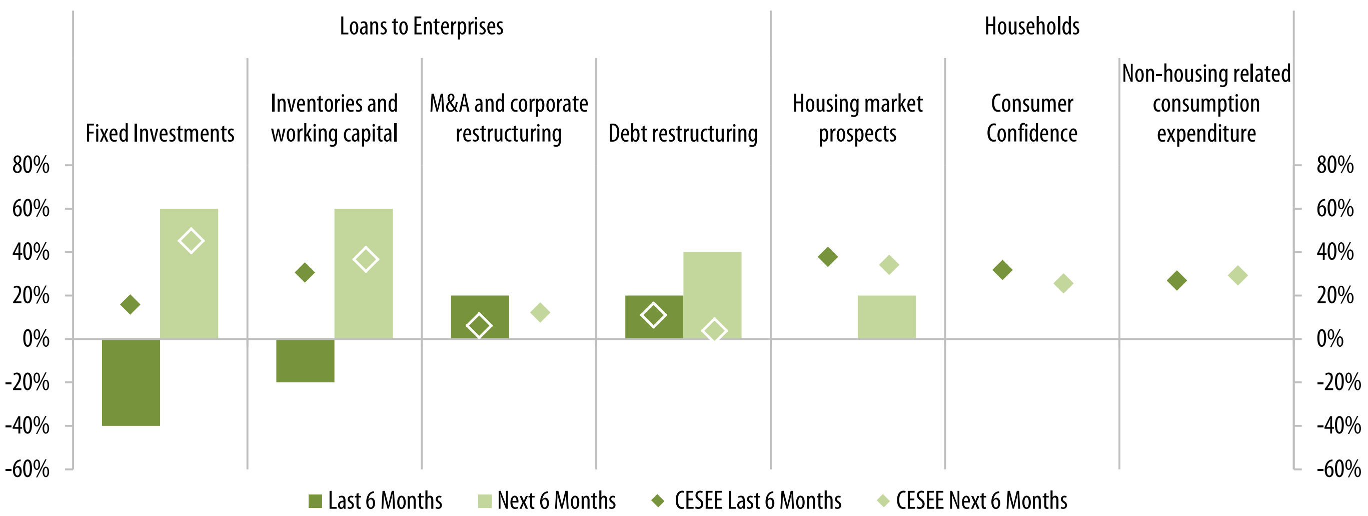
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Figure 4 Factors affecting demand for loans

Among the individual factors affecting credit demand on the enterprise front, investment followed by inventories and working capital put a significant drag on demand which was only partially offset by a positive effect of corporate and debt restructuring. Interestingly, the negative impact of investment, inventories and working capital is expected to turn strongly positive in the following months.

Concerning households, the contribution of all factors has been rather neutral over the last months. This is expected to remain in the near future apart from housing market prospects, which may slightly boost demand.

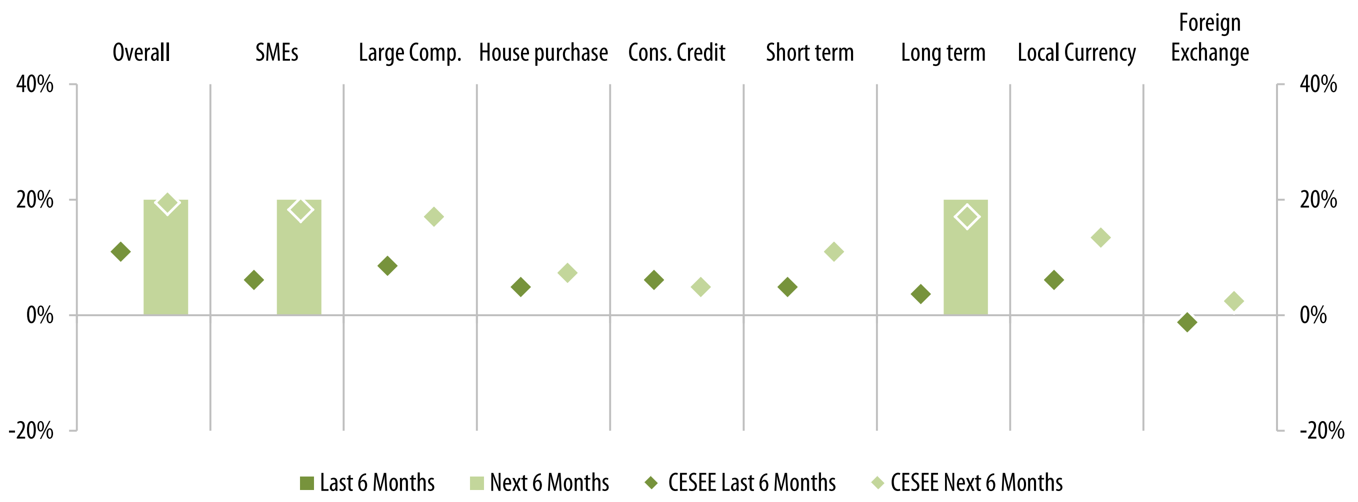


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex

Figure 5 Quality of loan applications

The quality of loan applications on Bosnia and Herzegovina has remained unchanged on balance as well as across the board. This contrasts with some slight improvement in the CESEE region where the quality of loan applications has improved moderately for all credit categories, especially in the large corporates segment. This trend in CESEE is foreseen to continue and, in fact, further strengthen, so that the quality of loan applications should noticeably improve particularly in the corporate sector. Interestingly, a similar quality increase is expected also in Bosnia and Herzegovina for the upcoming period, but only with respect to long-term loan applications submitted by SMEs.



Source: EIB – CESEE Bank Lending Survey

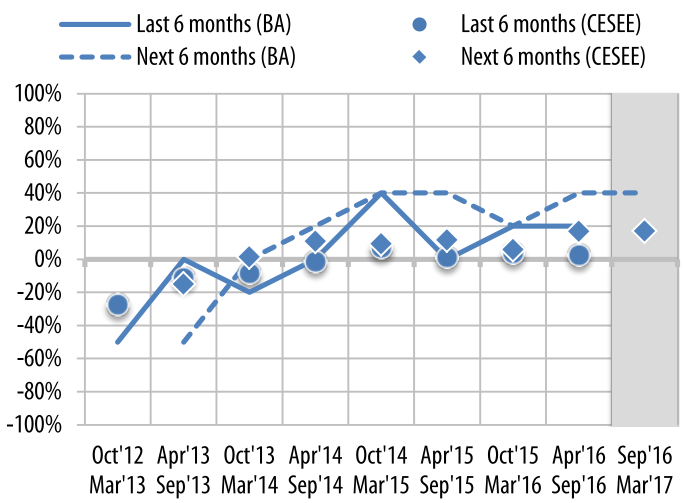
Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit supply conditions have moderately eased in Bosnia and Herzegovina thus slightly outperforming the CESEE aggregate where supply conditions have stagnated for more than two years.

Despite some setbacks a very gradual upward trend is recognizable in Bosnia and Herzegovina with credit supply conditions temperately improving over the last four years. This trend is set to continue also in the coming months in which the loosening of credit supply in Bosnia and Herzegovina should again be somewhat stronger than the CESEE average.

Figure 6 **Supply developments**

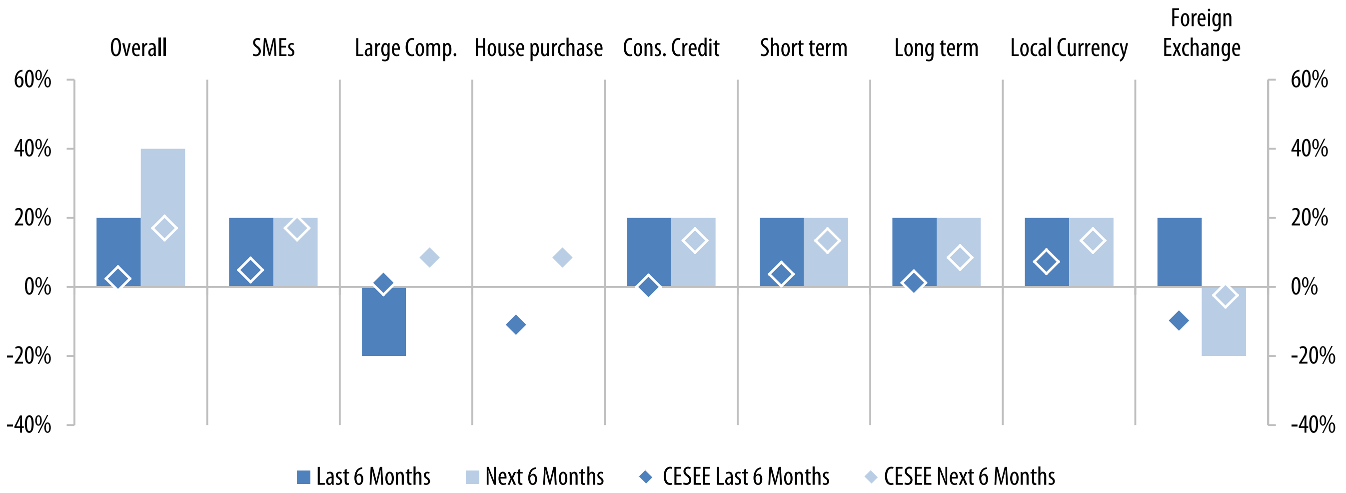


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 7 Supply components and segments

A breakdown of the supply components suggests that a slight tightening of conditions for large corporates has been overcompensated by some easing in the SME and consumer credit segments. Overall, credit conditions have eased for credits in both local and foreign currency at all maturities. The same pattern is projected to persist in the comings months although there might be some slight tightening of foreign currency loans.

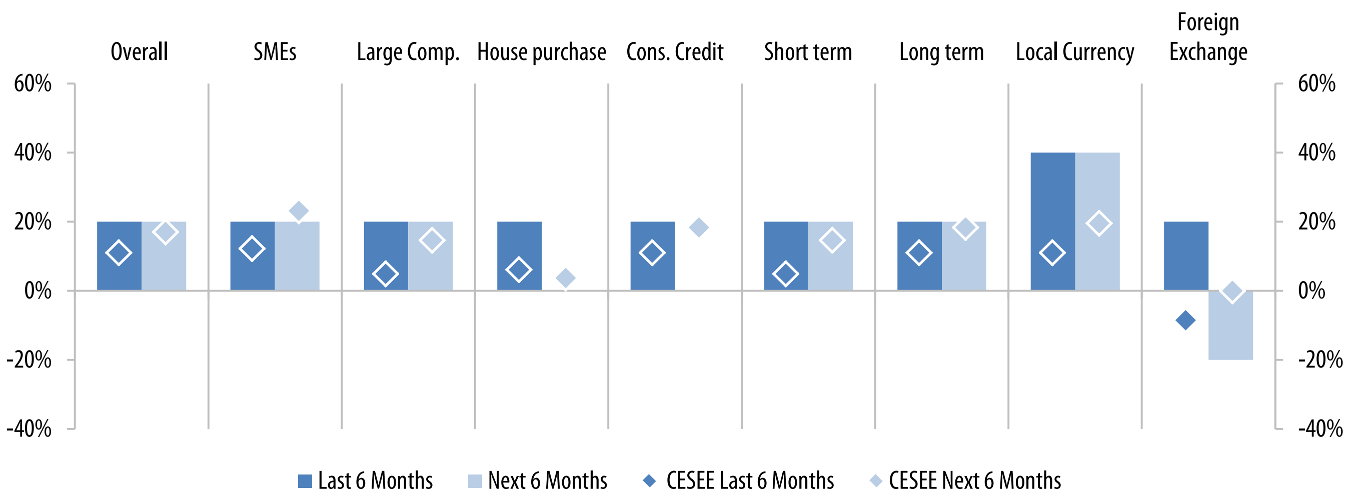


Source: EIB – CESEE Bank Lending Survey

Note: Net percentages; positive figures refer to easing supply conditions. See Question B.Q1 in the Annex

Figure 8 Credit Supply: banks' (local subsidiaries') approval rate for loan applications

Banks' approval rates for loan applications have increased across the board in the last half a year in Bosnia and Herzegovina. However, banks have become more willing to grant particularly local currency loans. Looking ahead, the situation should not change significantly apart from the retail sector for which banks do not expect any further increase in approval rates. In contrast, banks might become more hesitant to approve loans in foreign currency which is in line with the expected overall tightening of credit conditions for this type of loan.

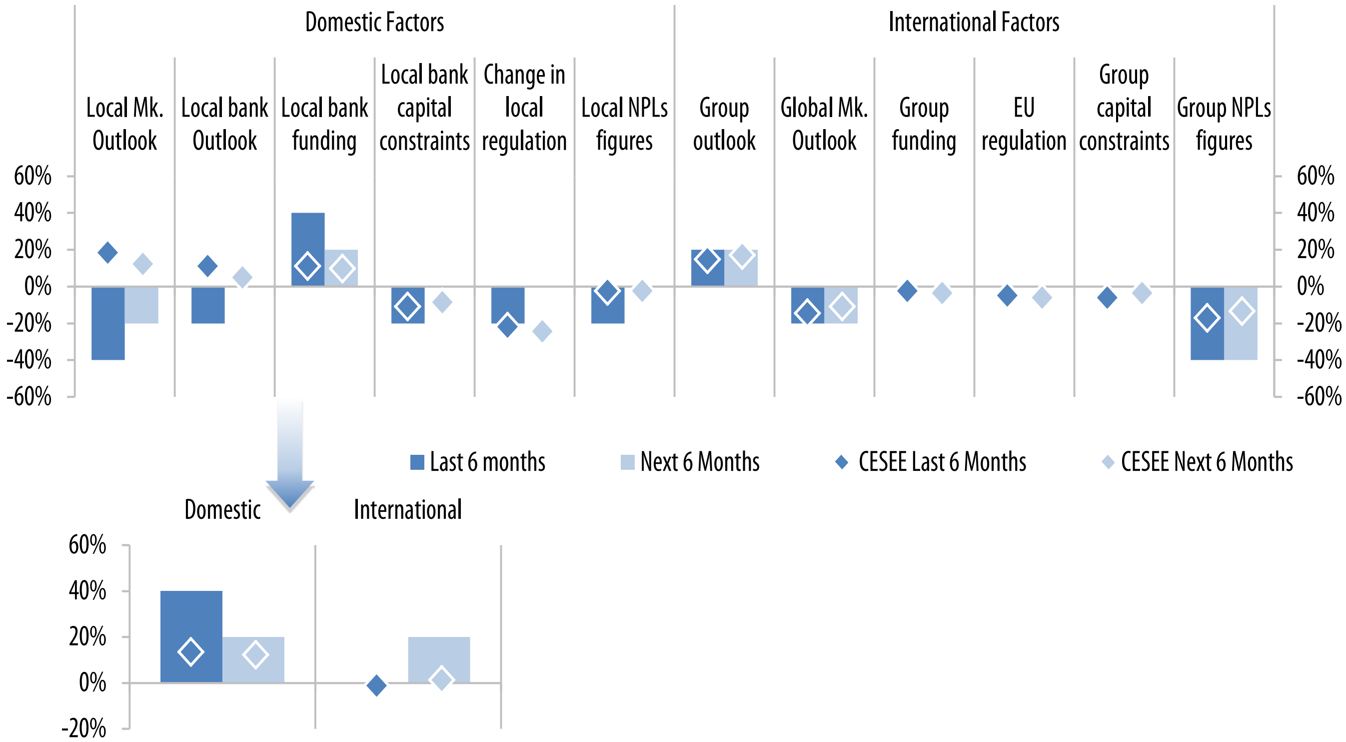


Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex

Figure 9 Factors contributing to supply conditions

Turning to the driving forces behind credit supply developments bank subsidiaries state that predominantly domestic factors have played a positive role while international factors have not really mattered. A more granular decomposition of the domestic factors provides an interesting picture. The positive impact of local bank funding must have been strong enough to overcompensate all remaining domestic factors which have put a damper on the credit supply conditions. In the following months the contribution of most domestic factors should neutralize while local bank funding should still offset a negative contribution of local market outlook. On the side of international factors group NPLs and to a lesser extent global market outlook tend to hamper credit supply but this affect has been compensated by a relatively positive group outlook.

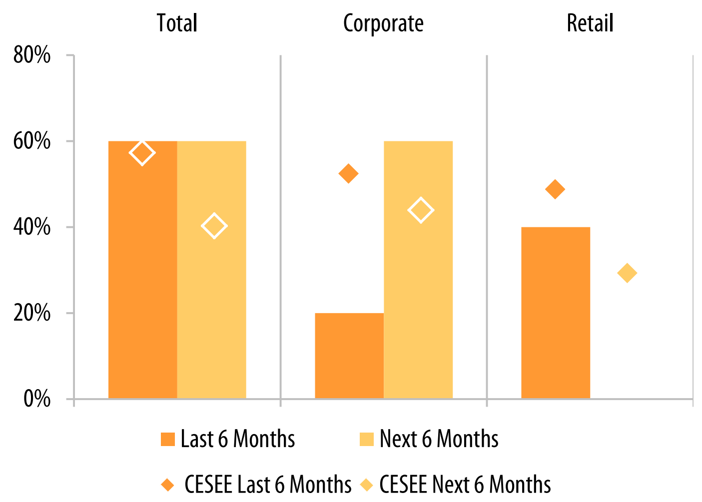


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

Broadly in line with developments in the CESEE as a whole NPL figures in Bosnia and Herzegovina have been falling quite significantly over the last months, especially in the retail sector. Interestingly, no further decline of non-performing loans is expected in the retail sector in the months to come. On the contrary, however, credit quality should significantly progress in the corporate sector.

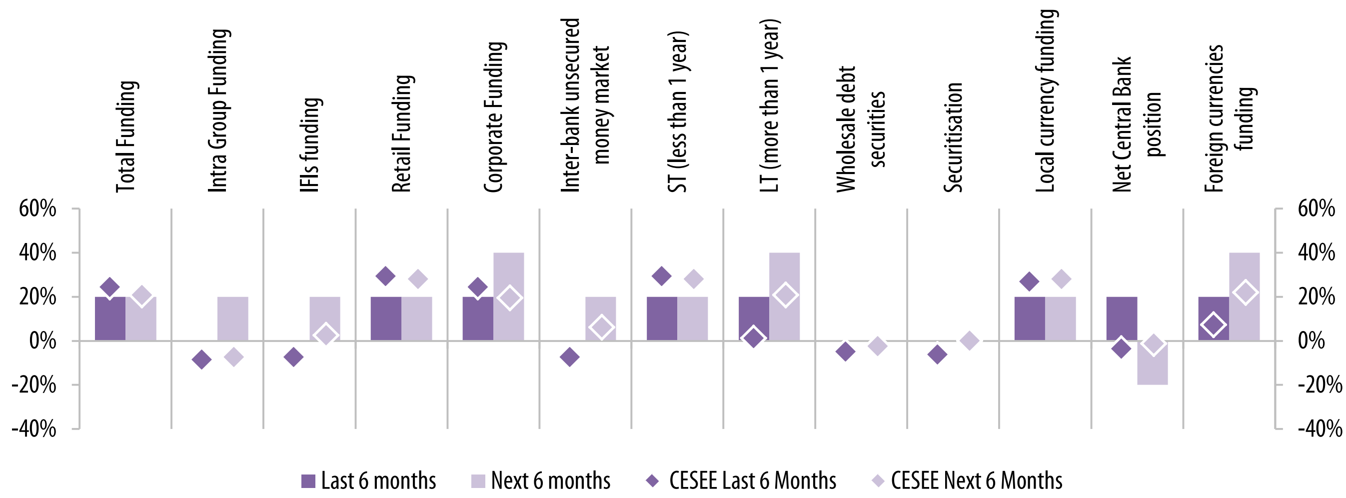


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; negative figures indicate increasing NPL ratios.See Question B.Q8 in the Annex

Figure 11 Access to funding

Overall access to funding has become somewhat easier for banks in Bosnia and Herzegovina, mainly on the back of retail and corporate funding in both domestic and foreign currencies at all maturities. This trend is likely to continue in the months ahead. While corporate funding is expected to dominate the easing also other funding sources are likely to make a positive contribution. Moreover, it catches the observer's eye that while funding in foreign currencies has and will further become easier for banks, FX lending to clients is rather expected to tighten.



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

Bulgaria

A market with average potential, with signs of increasing credit demand, but with a still large legacy of NPLs.

Summary

Group assessment of positioning and market potential: Parent banks operating in Bulgaria show a strong commitment towards the region. All groups find that the country's market potential is medium. Returns on equity and assets in Bulgaria are seen as high and exceeding those of the overall group. This has been the case consistently over the past two years. The majority of the parent banks operating in Bulgaria seem to be relatively satisfied with their current market positioning.

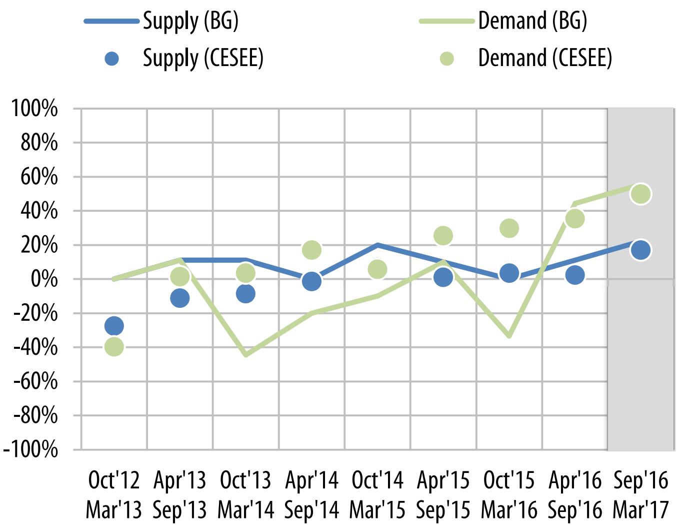
Credit demand has been increasing in Bulgaria for the first time in four years**,** while **supply conditions have been stable**.

Credit supply conditions have been broadly neutral in the last 6 months. There has been some easing for corporates, while housing finance conditions have not changed. Looking ahead, a high share of local subsidiaries expects credit supply to improve across all segments, reflecting easier funding conditions and significant loan-portfolio restructuring.

Demand for loans has increased appreciably for the first time since the beginning of this survey. This has been driven by SMEs and households. A majority of respondents expect this to continue over the next six months.

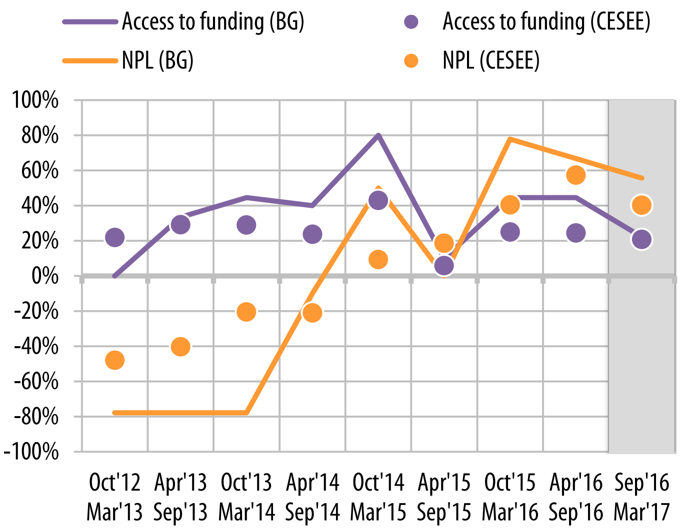
Access to funding: Access to funding has continued improving over the past six months following a multiannual trend. The improvement is mostly due to high and sustained growth of household and corporate deposits.

NPL figures have improved in all segments.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)



Source: EIB – CESEE Bank Lending Survey.

Note: Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

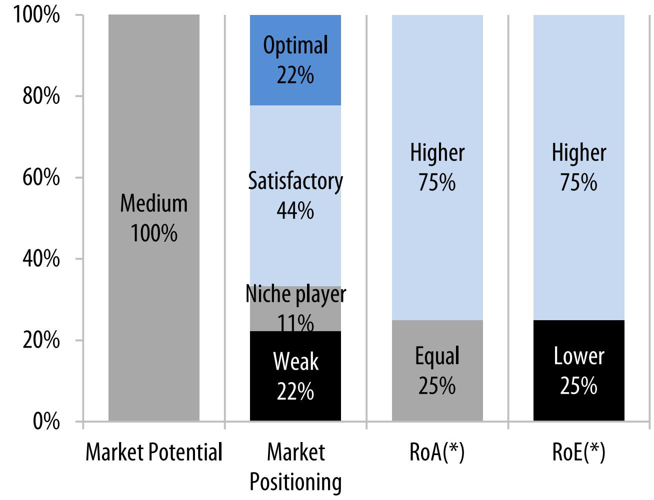
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Bulgaria show a strong commitment towards the region. Three quarters of groups present in the country plan to expand regional operations.

Parent banks consider the Bulgarian market to have a medium market potential and two-thirds assess their market positioning as satisfactory or optimal.

A majority of parent banks assesses returns from operations in Bulgaria as higher than those for the group as a whole. This continues a tendency that began in the second half of 2014. The last time a majority of respondents assessed returns from operations in Bulgaria as lower than those for the group as a whole was in H1 2014.

Figure 1 Market potential and positioning



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15. (*) 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.

Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

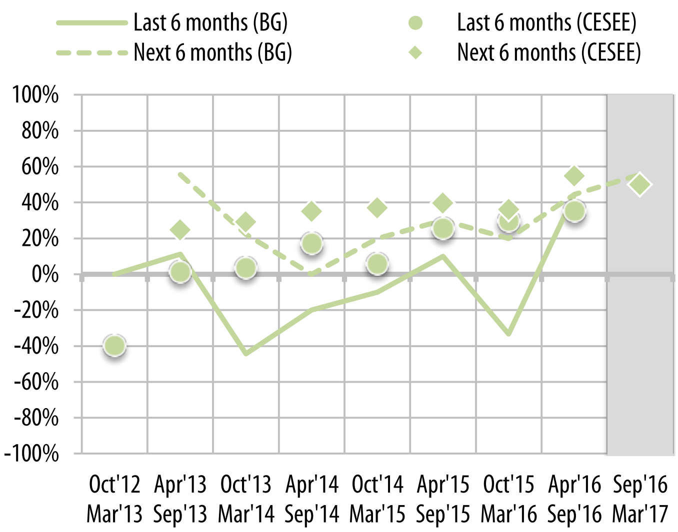
Demand for loans in Bulgaria has gradually strengthened over the past two years, driven mostly by private consumption and external demand. Investment, however, has been weak in comparison to levels attained before the financial crisis in 2008.

This weakness is characterises both corporate and household sectors. Only government investment has been more resilient to the protracted economic weakness of the country. This resilience is largely due to European Structural and Investment Funds.

Subdued investment activity has manifested itself in the local bank's assessment of loan demand. That said, the latest figures show that a substantial share of local banks see loan demand increasing again and expect this to continue in the next six months.

This new development brings the dynamics of loan demand in Bulgaria closer to that of peer countries in the CESEE region.

Figure 2 Demand side developments

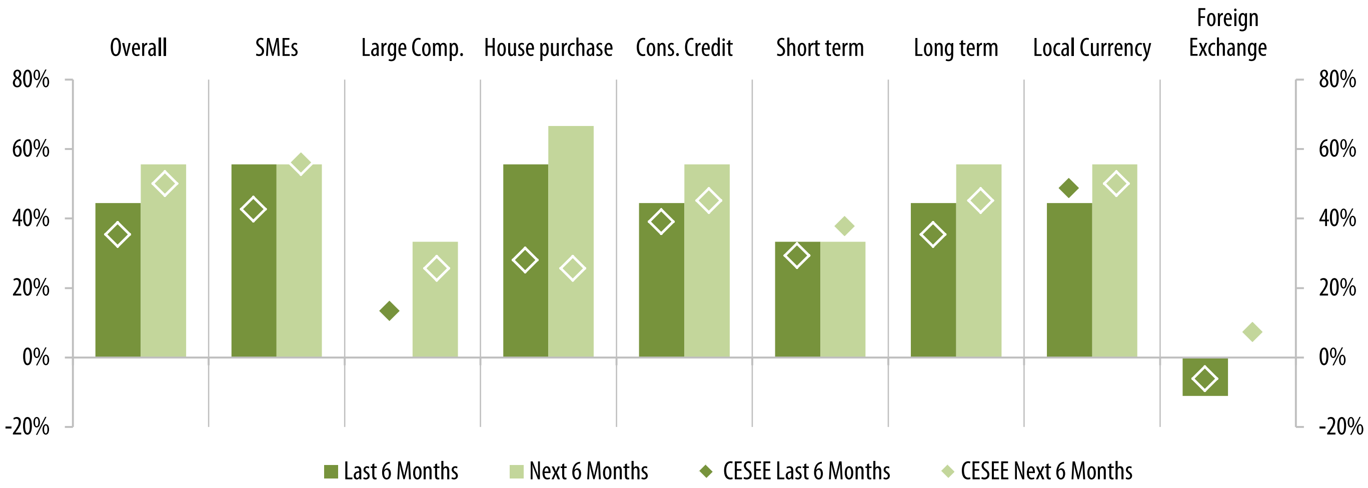


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 3 Demand components and segments

Stronger investment demand comes largely from SMEs and households. The increase of households' demand for loans is both for house purchases and consumer spending. Demand from these market segments is expected to increase also over the next six months. Strengthening household demand is in line with observed strengthening of aggregate consumer spending and the bottoming out of house prices. Strengthening loan demand from SMEs raises hopes, ahead of release of investment statistics, that corporate investment in the country has finally started recovering.



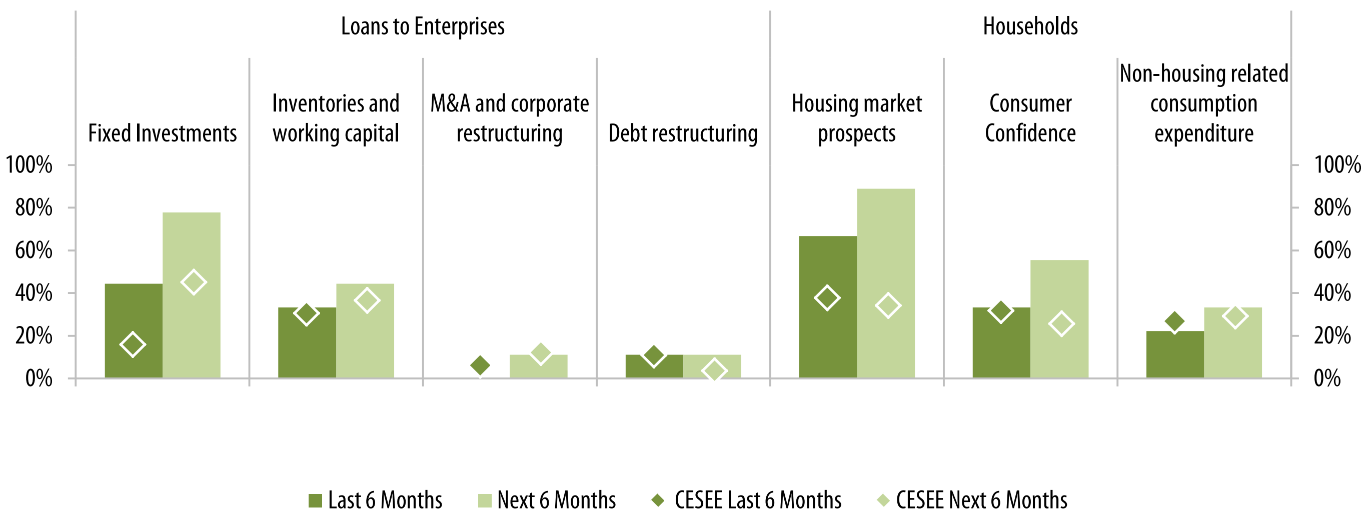
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Figure 4 Factors affecting demand for loans

Among the individual factors contributing to credit demand, investment and working capital have been the strongest, and they are expected to remain so in the text six months by an even higher share of respondents.

Households demand for loans is underpinned by housing market expectations and to a lesser degree by consumer confidence in the last few months. The role of these drivers is expected to increase in the coming two quarters, with the housing market expected to remain more important by a higher share of local banks.

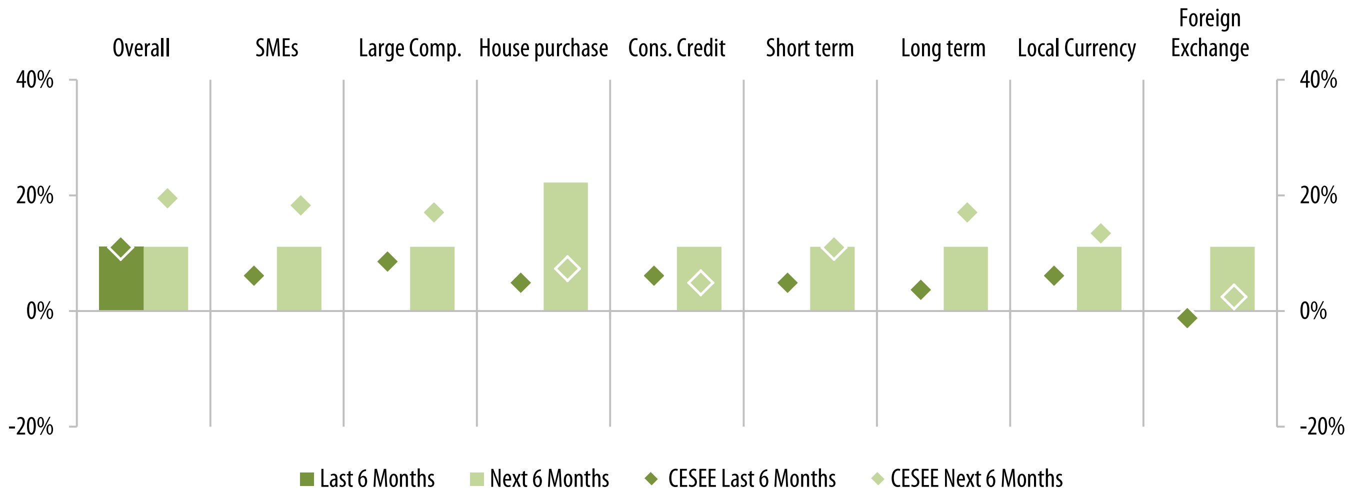


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex

Figure 5 Quality of loan applications

Increasing demand has come with a slightly increased quality of loan applications across institutional sectors and corporate sizes. Quality of loan applications is expected to increase over the next six months by a small majority of banks.



Source: EIB – CESEE Bank Lending Survey

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q6 in the Annex

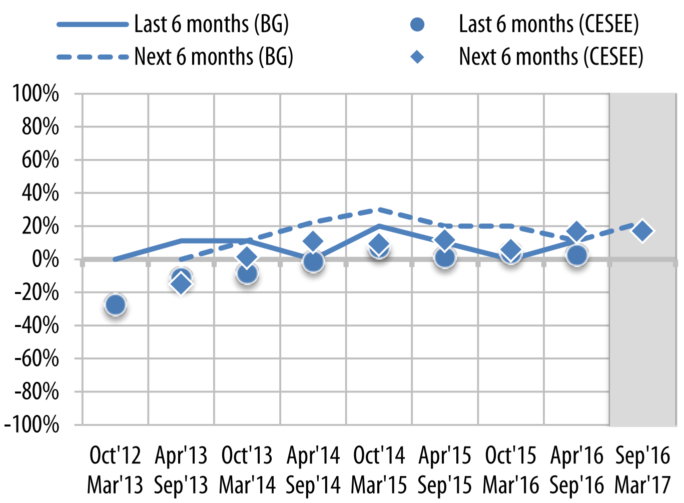
Aggregate supply developments

Credit supply conditions have been broadly neutral in the last six months, as it has been the case over the past four years. There has been a slight improvement of credit conditions for corporates across size classes, while credit conditions for households have not changed over the past six months.

The lack of a significant improvement of credit conditions is likely related to the local banks' aversion to taking more risk, as well as their focus on portfolio restructuring with a view of reducing non-performing loans.

The dynamics of supply conditions in Bulgaria over the past six months is similar to that of the aggregate CESEE region, where credit conditions have been stable over the past two years.

Figure 6 Supply developments

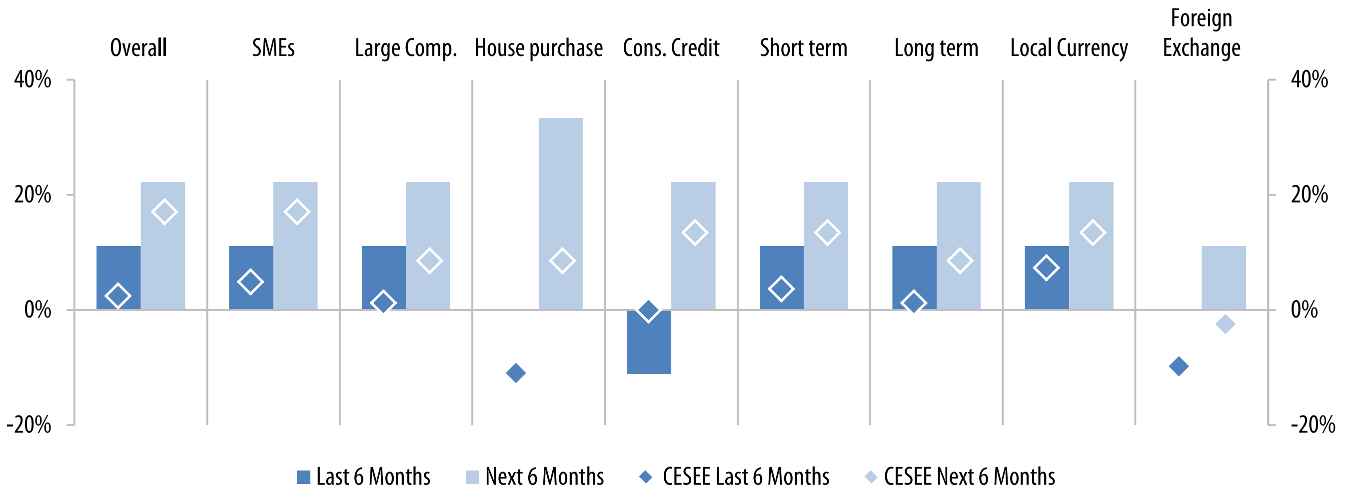


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 7 Supply components and segments

A small majority of survey respondents see credit conditions slightly improving for the corporate sector, while they are described as stable for the households segment. A higher share of local banks, about 20%, expect supply conditions to improve over the next six months and this optimism is the highest for credit conditions on mortgages.

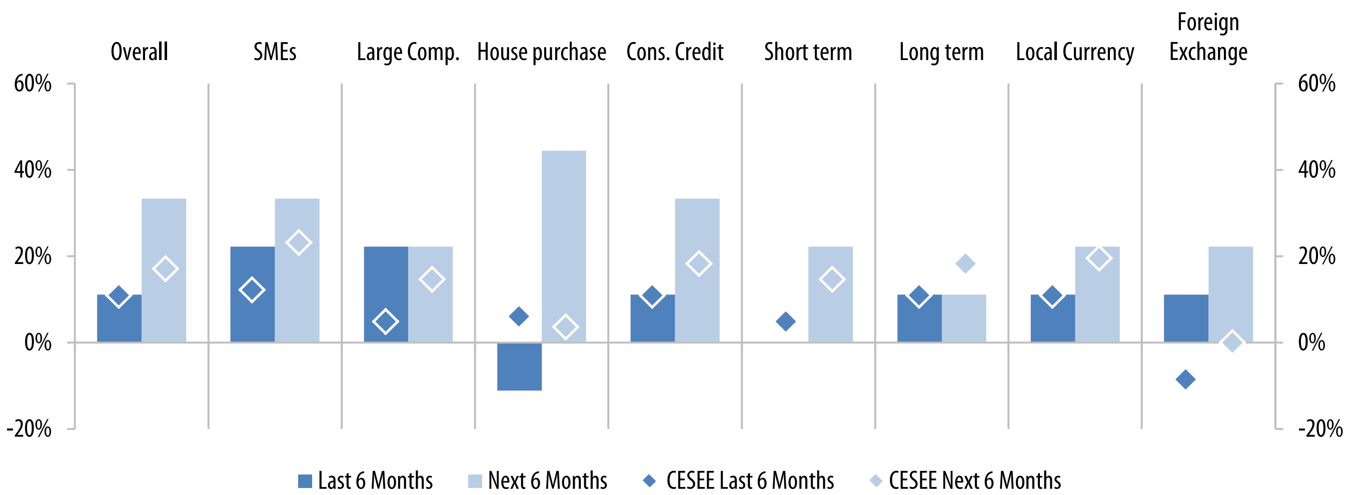


Source: EIB – CESEE Bank Lending Survey

Note: Net percentages; positive figures refer to easing supply conditions. See Question B.Q1 in the Annex

Figure 8 Credit Supply: banks' (local subsidiaries') approval rate for loan applications

In line with the CESEE region, approval rates have improved somewhat over the past six months and the corporate sector has been the main beneficiary. This is in line with data showing an increase in new business to corporates since the beginning of 2016. Approval rates for house purchases in Bulgaria have been assessed as declining by a small majority of local banks and this has been the case in all survey waves. A significant majority of banks see this tendency coming to an end over the next six months, whereby net 40% responses see increases in approval rates for house purchases. This optimism is evident in responses about approval rates for corporates, regardless of their size.

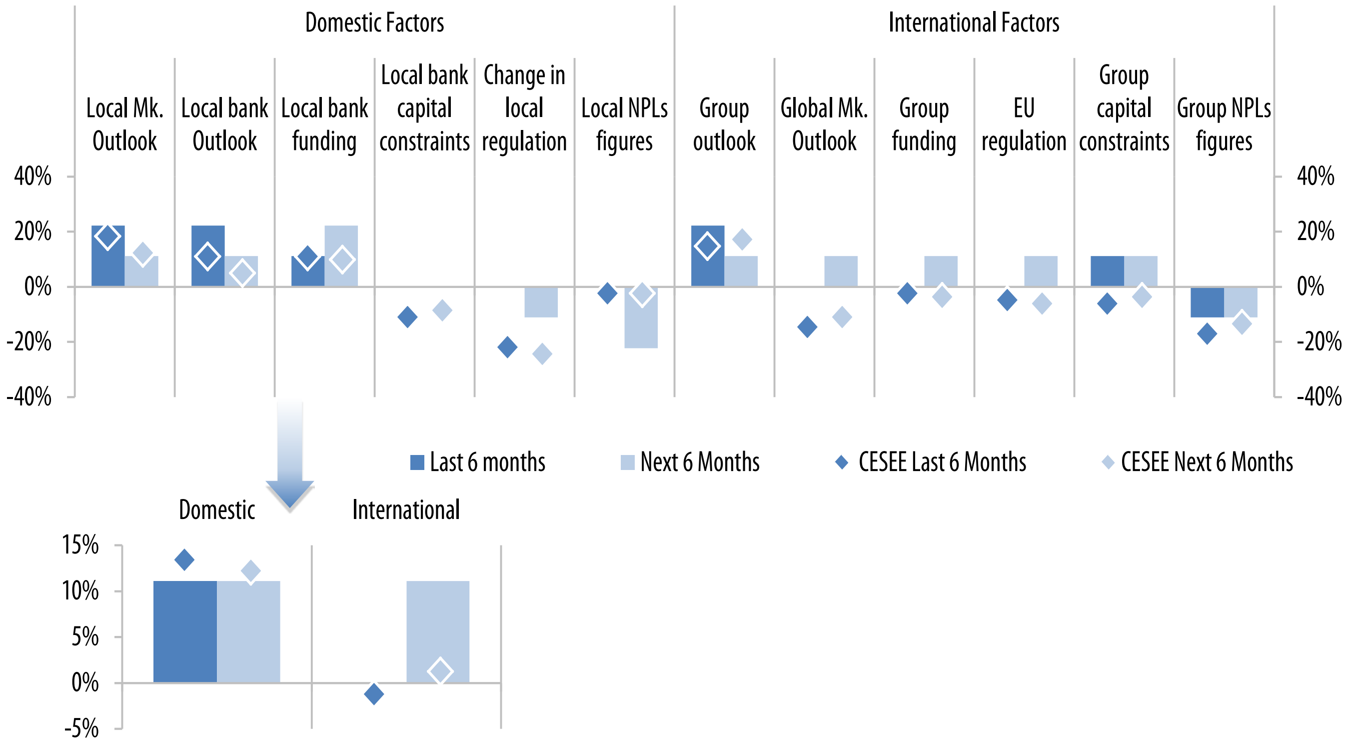


Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex

Figure 9 **Factors contributing to supply conditions**

Local market outlook and bank funding are the main positive contributors to supply conditions in Bulgarian. International factors are seen as neutral, with group NPL figures offsetting positive group outlook.



Source: EIB – CESEE Bank Lending Survey.

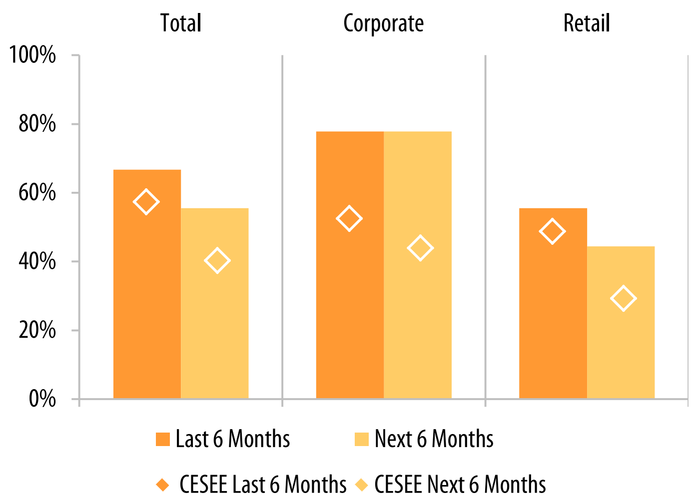
Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

High share of non-performing loans has been a major factor for tight credit conditions since the beginning of the global financial crisis in 2008. Until recently, banks have been reluctant to reduce NPLs, but this seems to have changed in 2016.

NPL figures in Bulgaria have been described as improving across institutional sectors and this is seen in the data: NPL figures have been coming down throughout 2016 albeit only gradually. Restructuring of corporate portfolios has had a bigger contribution.

Developments in overall NPL figures over the past six months are expected to continue. This is broadly similar to what is observed in the CESEE region on average. That said, data show that NPLs in peer countries have come down much faster recently.

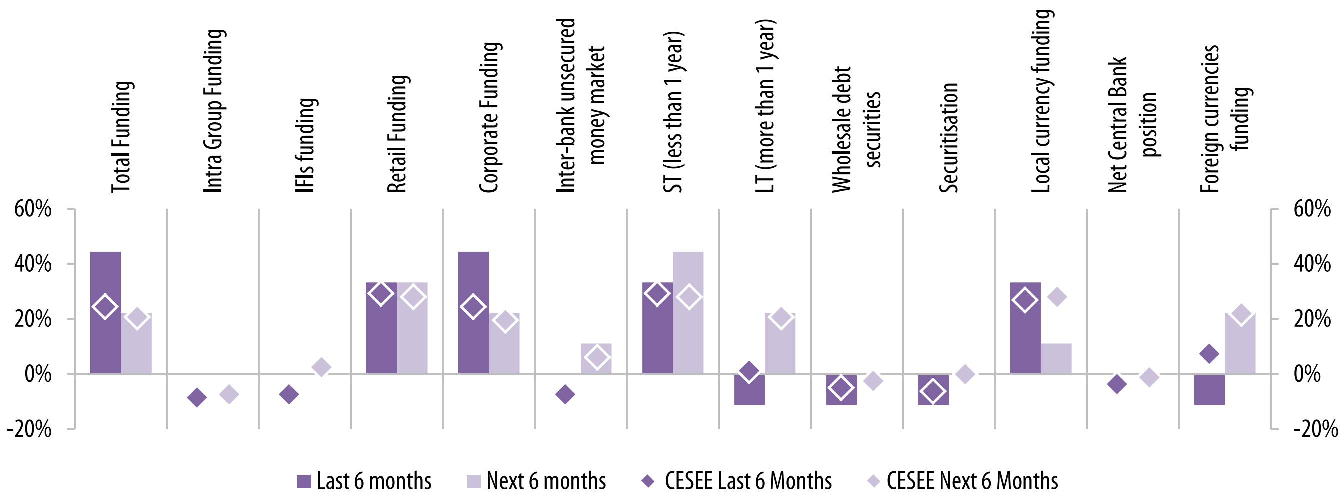


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; negative figures indicate increasing NPL ratios.See Question B.Q8 in the Annex

Figure 11 Access to funding

Access to funding for Bulgarian subsidiaries have improved over the past six months following a trend that started in the second half of 2013. Main contributors are improved retail and corporate funding. This is largely due to continued deleveraging in both the household and corporate sectors, which followed the burst of the real estate bubble in 2009. As a result, household and corporate deposits in the banking sector have been growing at an average rate of 7.5% since 2009 (in real terms), while average annual real GDP growth has been about 1.5%.



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

Croatia

Continued progress on NPLs reduction drives the credit turnaround and supports corporate and household lending. Banks have been shifting towards domestic funding.

Summary

Group assessment of positioning and market potential: Despite the prevailing low market potential as judged from the perspective of the parent banks operating in Croatia, the overarching majority of them regard their current market positioning as satisfactory or optimal. Profitability of the parent banks' operations in Croatia has been hampered by the high NPL ratios and is below the group level.

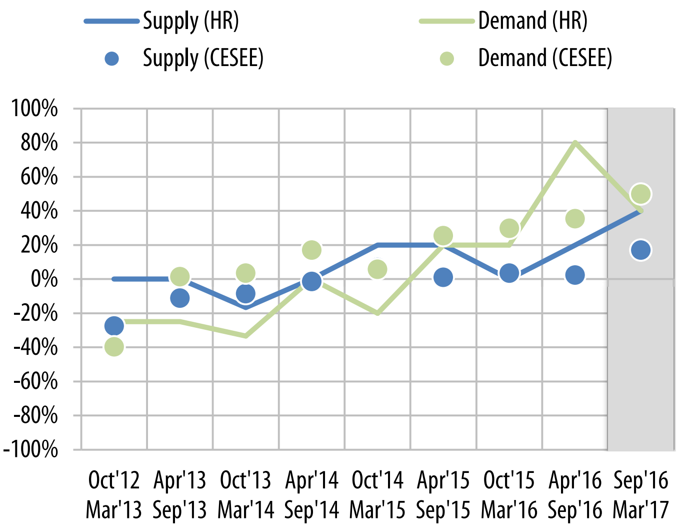
Both **credit demand** and **credit supply** has been increasing recently in Croatia, although the supply conditions have been lagging behind credit demand. The turn in the NPL cycle bodes well for the credit recovery going forward.

Credit supply conditions have been easing in the last six months and are expected to ease further over the next six months, surpassing the CESEE aggregate.

Demand for loans has been increasing across most of the spectrum of products and segments over the last six months. Credit demand in Croatia has recently surpassed the past expectations from six months ago, as well as the credit demand observed in the CESEE region.

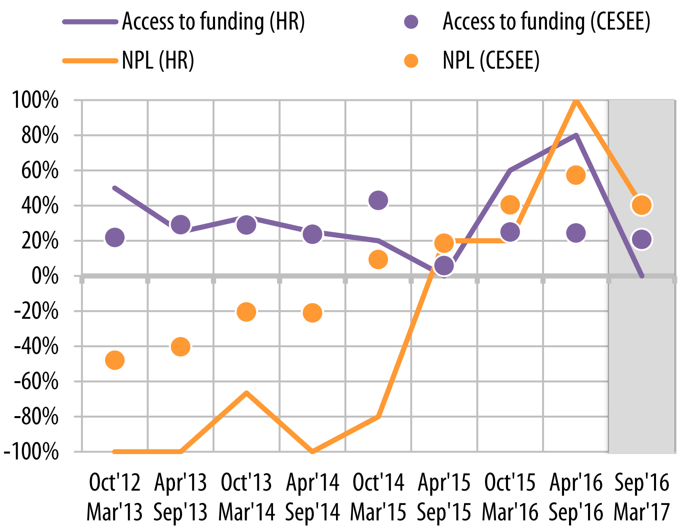
Access to funding has improved significantly over the last six months, as banks continue tapping more stable domestic sources of finance from corporate and household deposits.

NPL figures have improved substantially in all segments, and the process is expected to continue at a slightly lower, but solid pace.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)



Source: EIB – CESEE Bank Lending Survey.

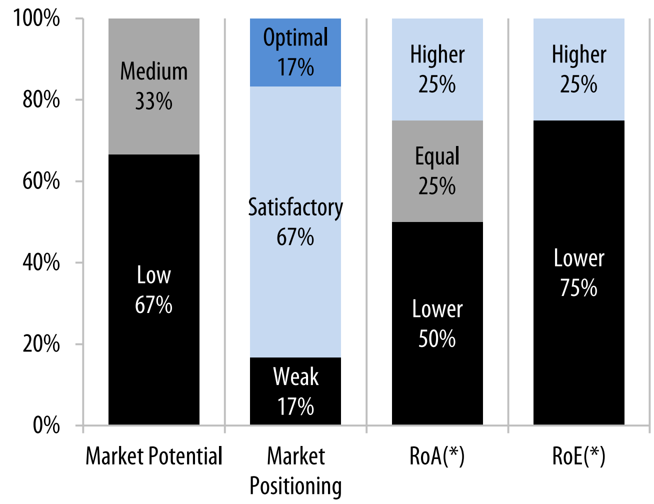
Note: Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

A growing number of parent banks operating in Croatia view the market potential as low. This negative view on the market prospects can partly be attributed to the significant share of correspondents reporting lower profitability compared to overall group operations, even when adjusted for cost of risk and cost of equity. The non-performing loans overhang as well as the conversion of households' Swiss franc loans into euro loans has weighed negatively on banks' profitability and market prospects.

Nevertheless, 84 percent of the banking groups are satisfied with their current market position or regard it as optimal.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15. (*) 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.

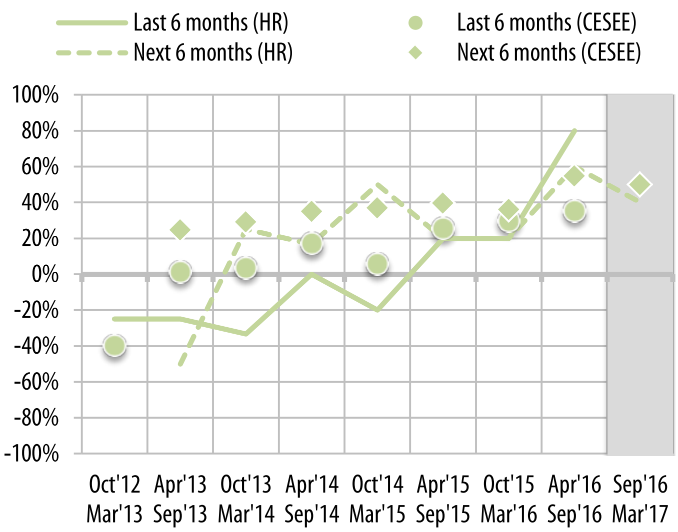
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Strong consumption and investment growth have recently been the main drivers of economic growth in Croatia, recovering sharply from a long recession.

In line with this development, credit demand in Croatia has recently surpassed the past expectations from six months ago, as well as the credit demand observed in the CESEE region.

Figure 2 **Demand side developments**



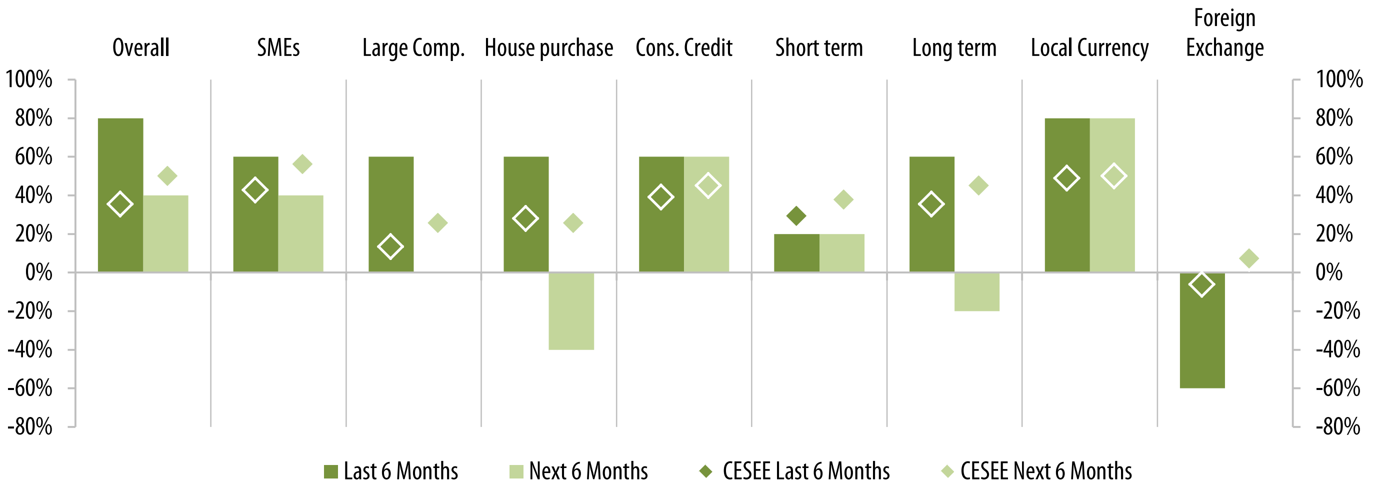
Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 3 Demand components and segments

Strong credit demand has been observed across most components, except for loans denominated in foreign currencies. The appetite for local currency loans confirms a shift from foreign to local currency- credit, which is consistent with the continued trend of banks' greater reliance on local deposit funding.

Looking ahead, healthy credit demand is expected to persist, although large companies are on balance not expected to contribute as much to credit demand, and house purchase credit demand as well as demand for long term loans is expected to shrink.



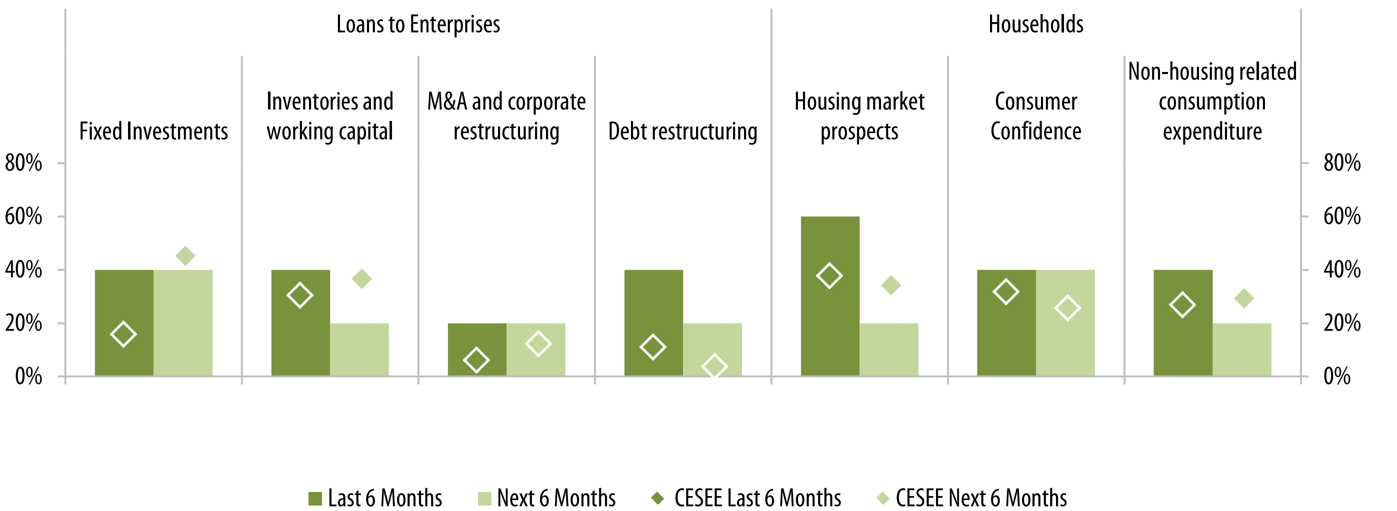
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Figure 4 Factors affecting demand for loans

Domestic demand factors have been supporting the demand for loans.

Continued progress on NPLs reduction and strong recovery in gross fixed capital formation are reflected in positive contributions of fixed investments and inventories to corporate loan demand. Debt restructuring, while still a significant factor, is expected to contribute less to corporate loan demand, which is a welcome sign. Consumer confidence continues to drive household loan demand, although housing market is expected to be less of a driving force.

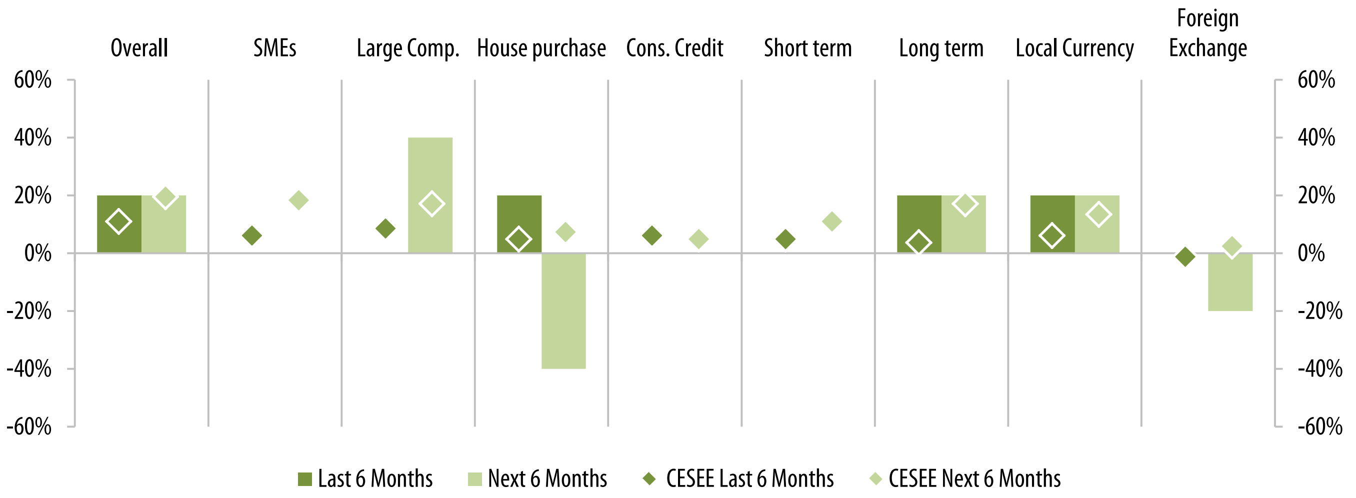


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex

Figure 5 **Quality of loan applications**

While the quality of loan applications for long term loans and local currency loans remains stable, the quality of loan applications from households for home purchase as well as applications for foreign currency loans is expected to deteriorate.



Source: EIB – CESEE Bank Lending Survey

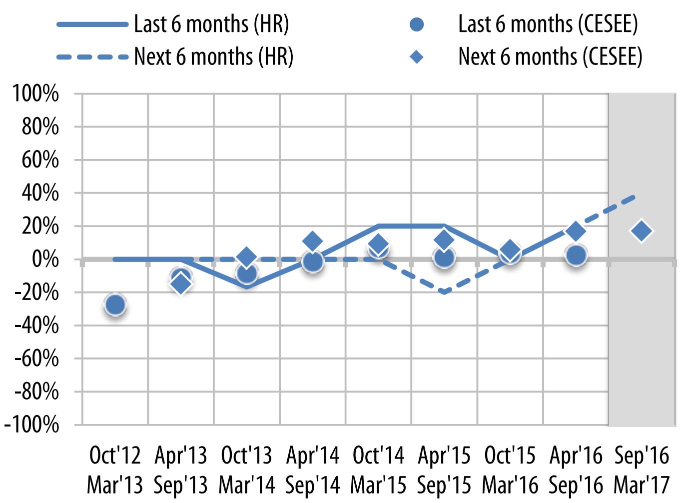
Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit supply developments continue lagging behind credit demand. As elsewhere in the CESEE region, optimism on the credit demand side is not fully reflected in corresponding easing of conditions on the credit supply side.

Nevertheless, lending standards have eased recently and are running ahead those of the CESEE region. Further easing of lending standards is expected over next six months.

Figure 6 **Supply developments**

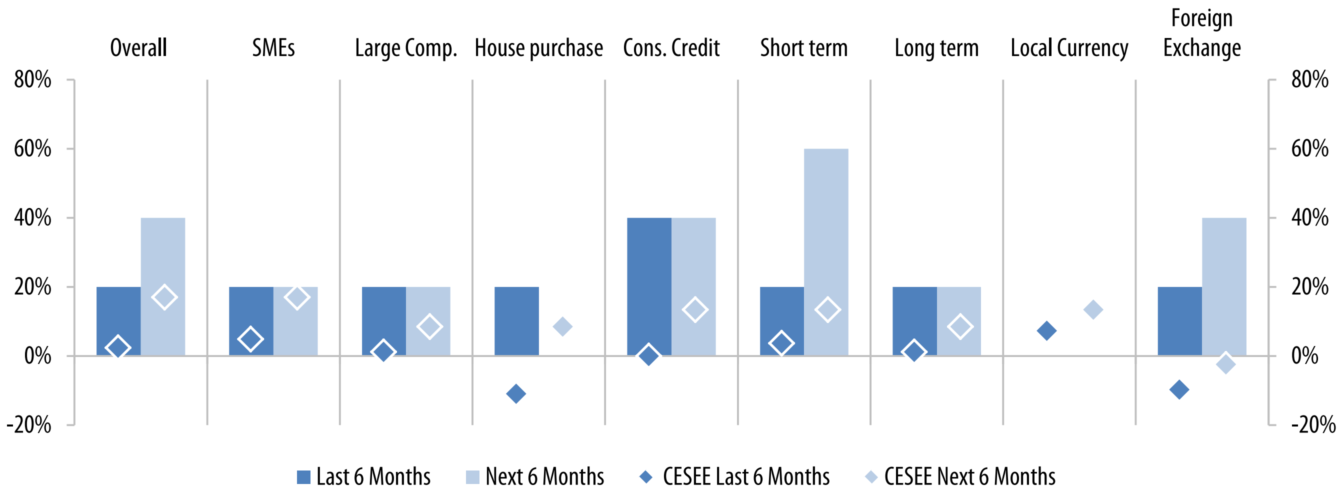


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 7 Supply components and segments

Credit supply conditions have eased over the last six months across the main components and segments, with the exception of local currency loans. Credit standards are expected to ease most for short term loans, consumer credit, and foreign exchange loans, and remain easy for SMEs, large companies and long term loans.

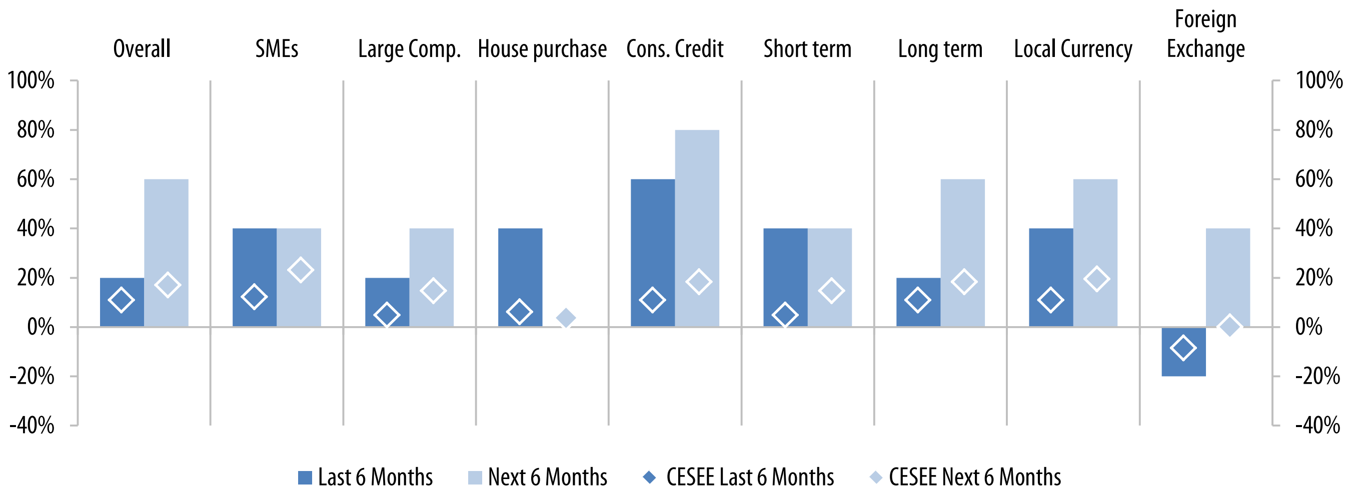


Source: EIB – CESEE Bank Lending Survey

Note: Net percentages; positive figures refer to easing supply conditions. See Question B.Q1 in the Annex

Figure 8 Credit Supply: banks' (local subsidiaries') approval rate for loan applications

Increasing approval rates across all loan segments during the last six months support the story of a broader credit recovery in Croatia. Going forward, the approval rate should continue to increase for consumer credit, long term loans and local currency loans, and an improvement is expected also for foreign exchange loans. From a regional perspective, the increase in the approval rate was among the highest in Croatia in last six months, and is expected to be the highest in the region over the course of next six months.



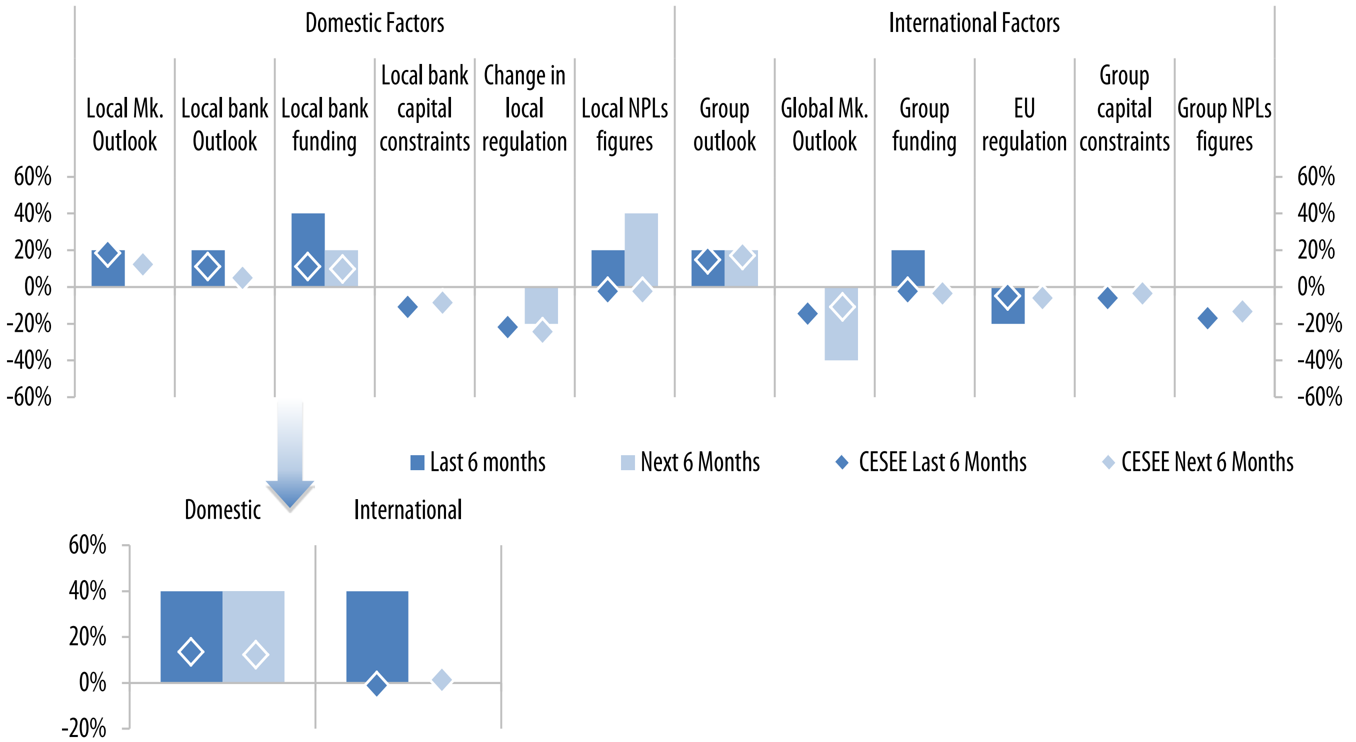
Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex

Figure 9 Factors contributing to supply conditions

Progress on NPLs reduction has manifested itself in positive contribution of this factor to easier credit standards. Local bank outlook no longer contributes to tighter credit standards, and local bank outlook and local bank funding contributed to easing banks' credit standards. The shift of banks towards domestic funding continues to be a positive factor.

On the other hand, changes in local and EU regulation as well as global market outlook have been detrimental to supply conditions in Croatia. In line with the broader development in the CESEE region, international factors seem to be weighing more negatively on credit standards in Croatia than local factors.



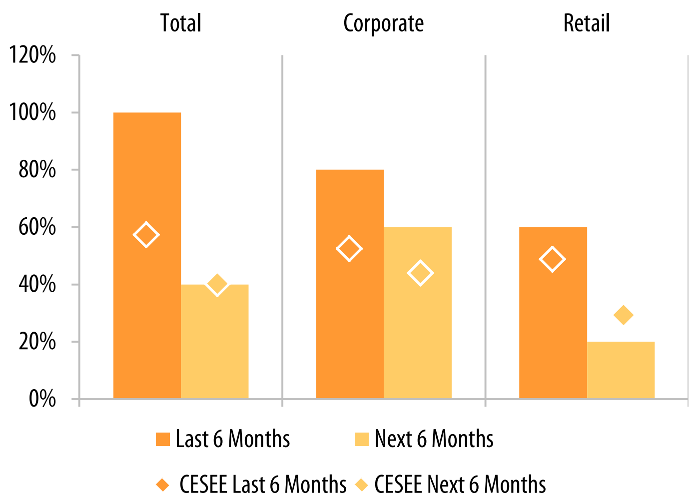
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

All responding banks in Croatia reported a decline in the NPL ratio over the last six months, with the higher share among corporate loans. Croatia has experienced the sharpest decline in NPLs in the region during the last six months. This trend should continue during the next six months, particularly for the corporate sector, although at a slower pace.

The continued progress on NPLs reduction will feed positively to banks' profitability and their ability to easy credit standards going forward.

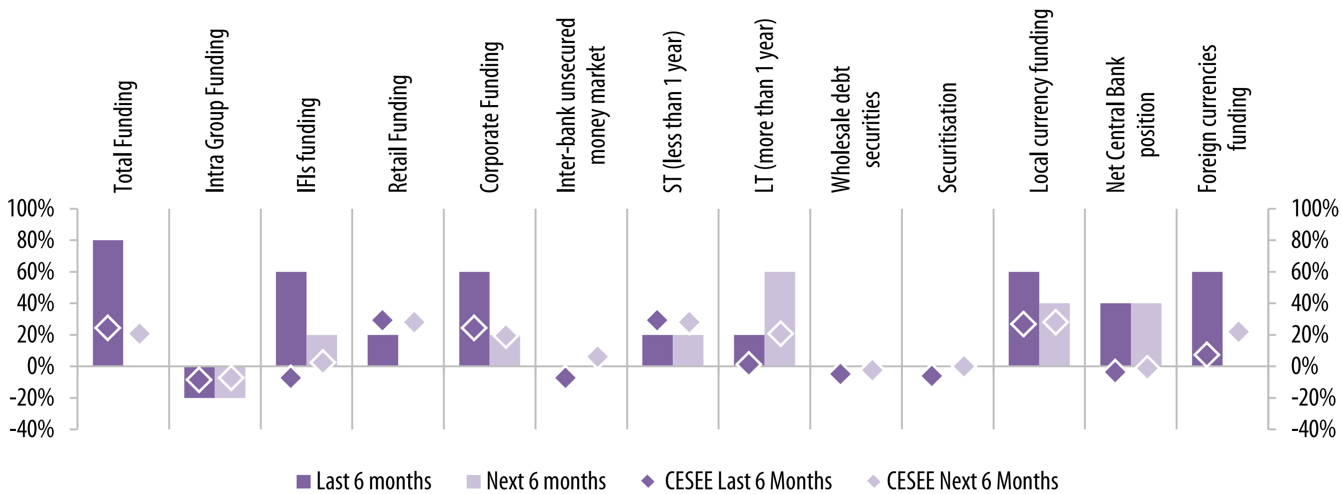


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; negative figures indicate increasing NPL ratios.See Question B.Q8 in the Annex

Figure 11 Access to funding

Access to funding of Croatian banks continues to improve. IFIs funding, corporate and retail deposits have been and are expected to be among the main drivers of this development, which together with better access to long term funding indicates that the Croatian banks are supporting their current lending with more stable sources of finance. Access to intragroup funding has been decreasing as access to domestic deposit funding is picking up.



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

Czech Republic

A highly profitable market with a promising potential where strong credit demand meets easing supply.

Summary

Group assessment of positioning and market potential: A large majority of banks operating in the Czech Republic consider their market positioning optimal or satisfactory and their profitability in the Czech Republic is higher than at the group level. Moreover, the market offers a highly promising potential. Against this background, it is not surprising that all groups operating in the Czech Republic remain strongly committed to the region and all of them intend to selectively expand operations.

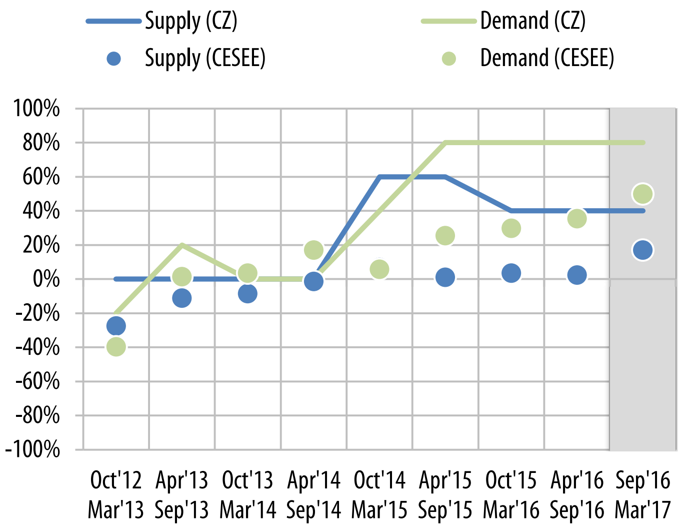
Czech banks report that **credit demand has been strongly increasing,** while **supply conditions have also eased noticeably**, outperforming expectations voiced in the previous survey round.

On the **credit supply** side the trend of the last more than two years has continued as supply conditions have eased significantly for credits in both local and foreign currency at all maturities, particularly for consumer credits, SME and to a lesser extent large corporate lending. Moreover, approval rates for loan applications have improved significantly in the Czech Republic for all sectors and across all credit types and maturities. The developments in the Czech Republic contrast with the continued, rather broad-based stagnation of credit supply conditions in the CESEE region.

Demand boost for loans in the Czech Republic has been driven particularly by the SME sector and to a lesser extent by mortgages and consumer credit in the retail segment. Looking ahead, credit demand will be driven mainly again by SMEs and, to an increasing extent, consumer credit. In contrast, the demand for mortgages is expected to cool down.

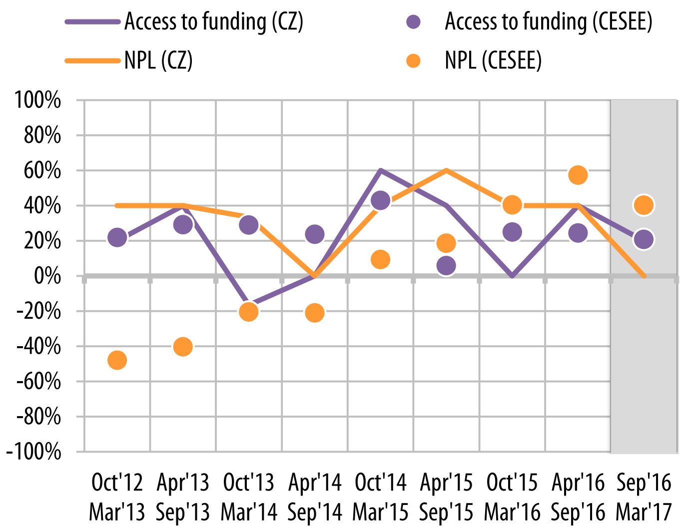
Access to funding: Access to funding has become easier for bank subsidiaries in the Czech Republic, especially on the back of intra group and retail funding at shorter maturities. Some further easing is foreseen also in the near future.

NPL figures have improved significantly in all segments.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)



Source: EIB – CESEE Bank Lending Survey.

Note: Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

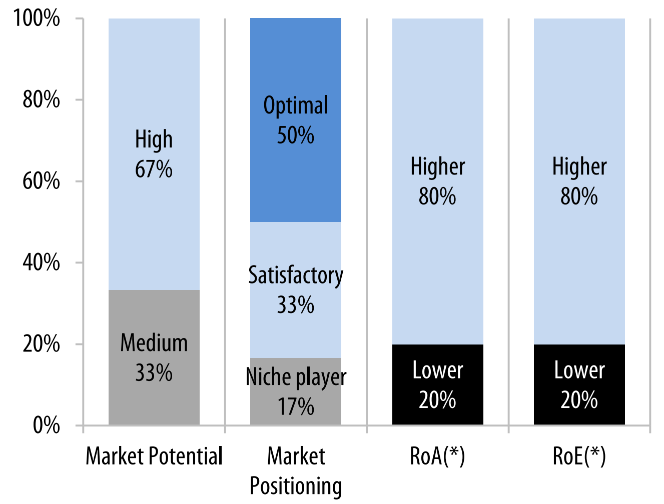
Results of the Bank Lending Survey – Parent banks level

Four out of five parent banks reported higher profitability in the Czech Republic than at group level in the six months to September 2016. Moreover, an equal proportion of surveyed banks expect either an unchanged or increasing contribution of activities in the Czech Republic to the group level return-on-assets ratio over the next months.

A large majority of parent banks (83 percent) consider their market positioning optimal or satisfactory and all interviewed bank groups believe their market potential is medium-to-high.

Against this background, it is not surprising that all groups operating in the Czech Republic remain strongly committed to the region and all of them intend to selectively expand operations.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15. (*) 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.

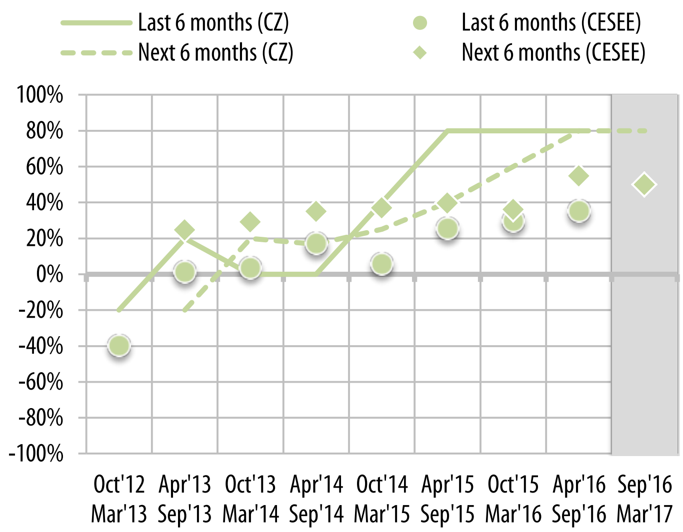
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Credit demand in the Czech Republic strengthened noticeably the second and third quarter of 2016. This development was exactly in line with expectations voiced in the previous survey round as well as with the robust demand performance of the last year. Moreover, the strong momentum is projected to persist in the months ahead.

The demand development in the Czech Republic thus strongly outperforms the CESEE region as a whole. There too demand firmed in the spring and summer, although to a much lesser extent than in the Czech Republic and also less strongly than was expected for the period in the last survey round. While demand is expected to further strengthen in the CESEE region the gap vis-à-vis the Czech Republic will remain.

Figure 2 **Demand side developments**

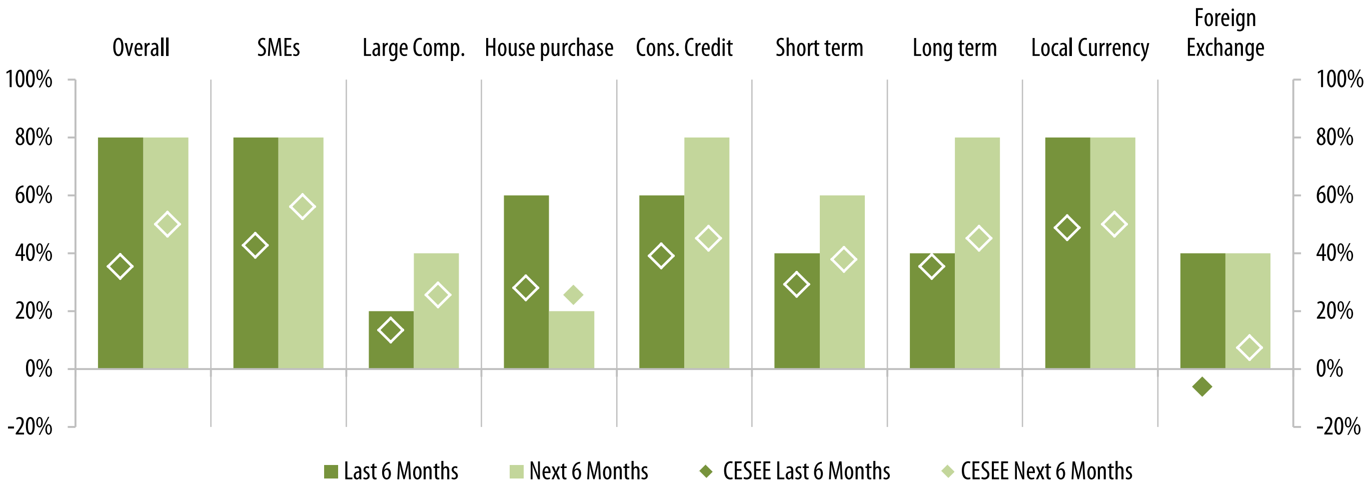


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 3 Demand components and segments

The demand boost in the Czech Republic over the six months to September was driven particularly by the SME sector and to a lesser extent by mortgages and consumer credit in the retail segment. In contrast, credit demand growth among large corporates, while still positive, noticeably weakened in comparison to the spring survey round and it was also much less pronounced than for other credit categories. A possible explanation might be that large firms have enough own liquidity and their need for external financing is smaller. Looking ahead, credit demand will be driven mainly again by SMEs and, to an increasing extent, consumer credit. In contrast, the demand for mortgages is expected to cool down.

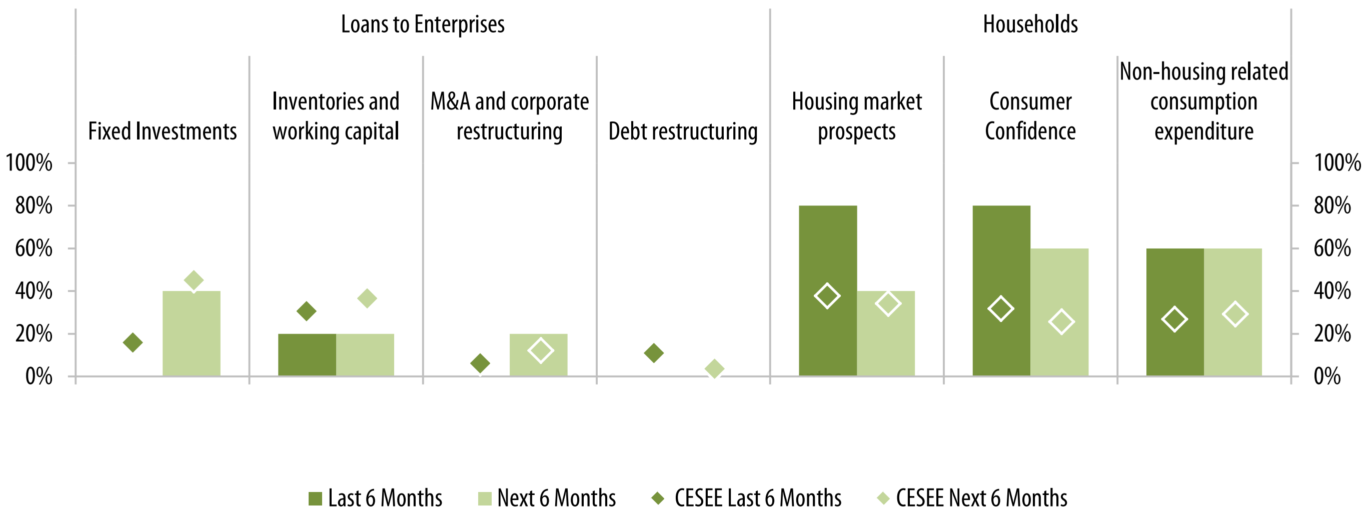


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Figure 4 Factors affecting demand for loans

Factors behind the retail demand surge were broadly equally distributed. Hence, while housing market prospects and consumer confidence were the main drivers, non-housing related consumption expenditure made also a significant contribution. Overall, the pattern is projected to remain similar in the next six months. However, the housing market prospects are likely to play a less significant role thus explaining the excepted cooldown in demand for mortgages. On the corporate side, credit demand was dominated by the need to finance inventories and working capital. While this will remain, in the months ahead credit should be increasingly demanded also for fixed investments and corporate restructuring.

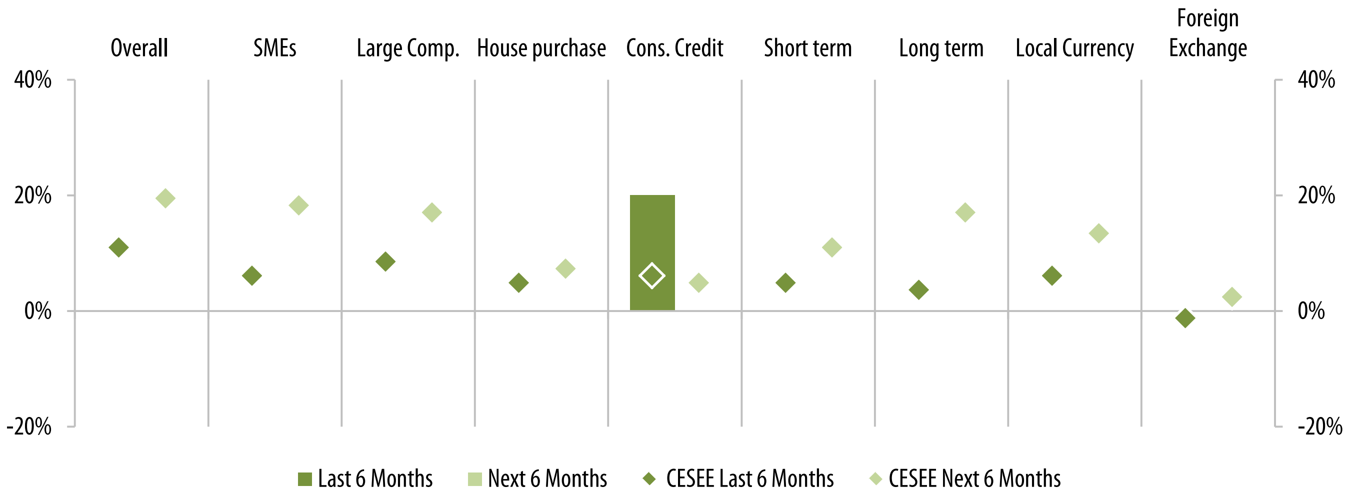


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex

Figure 5 Quality of loan applications

The quality of loan applications in the Czech Republic has remained largely stable over the last months and no major changes are expected in the near future. The only notable exception is the consumer credit category for which some improvements in the quality of applications have been reported. The broadly neutral developments in the Czech Republic contrast with CESEE region as whole where the quality of applications has moderately improved virtually for all credit categories, types and across all company sizes. Moreover, this trend is expected to further strengthen in the next six months, especially in the corporate sector and for long-term loans.



Source: EIB – CESEE Bank Lending Survey

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q6 in the Annex

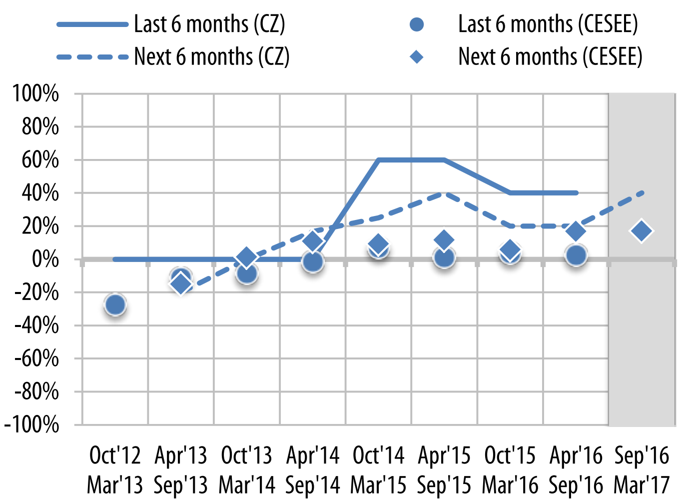
Aggregate supply developments

On the credit supply side, the trend of the last more than two years has continued and credit supply conditions eased noticeably again over the report period in the Czech Republic. Moreover, the loosening of credit conditions outpaced expectations for the fourth consecutive time by a significant margin.

In contrast, credit conditions in the CESEE region as a whole have been broadly neutral for more than three years. While in the previous rounds this was broadly in line with expectations, in the current round a slight easing of supply was foreseen so that the actual outcome did not quite live up to expectations.

Looking ahead, the easing trend is projected to continue at about the same pace in the Czech Republic while also in the CESEE region some slight loosening is in the offing.

Figure 6 **Supply developments**

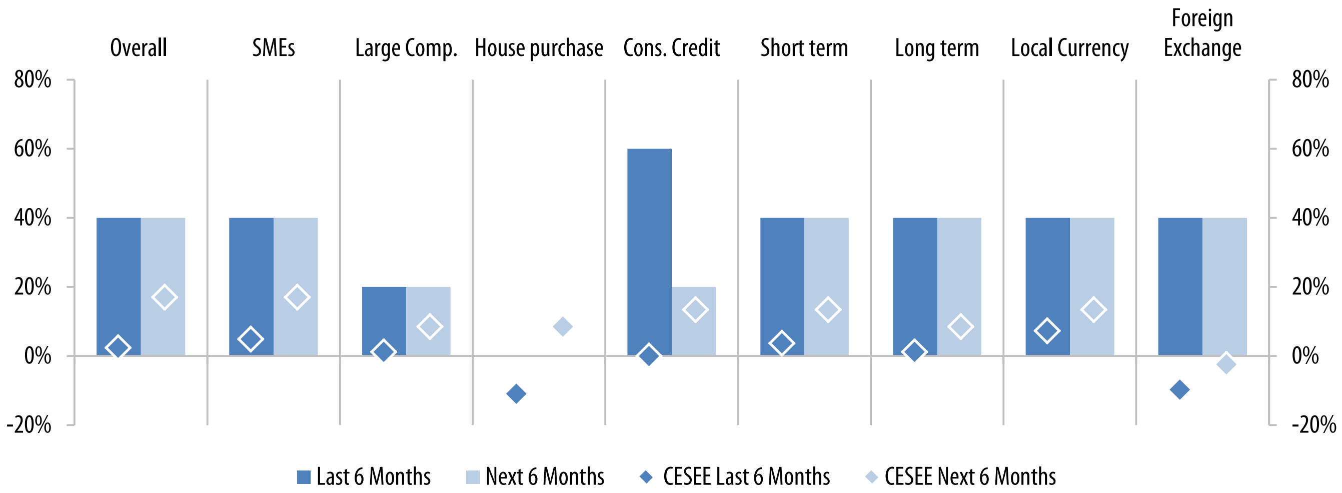


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 7 Supply components and segments

In contrast to the broad-based stagnation (and partial tightening) in the CESEE region, in the Czech Republic conditions eased for credits in both local and foreign currency at all maturities, particularly for consumer credits, SME and to a lesser extent large corporate lending. In contrast, mortgage conditions remained largely unchanged over the last six months. This trend is expected to continue, although in case of consumer credit at a significantly slower pace. In the months ahead, the loosening of credit standards will again be significantly more pronounced in all market segments in the Czech Republic than in the CESEE region as a whole.

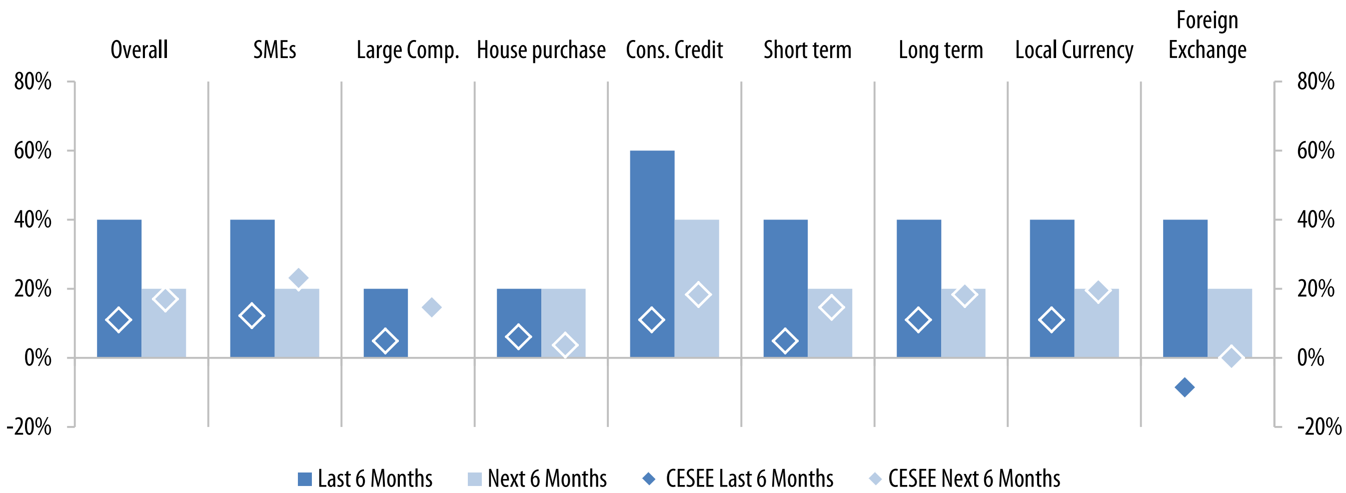


Source: EIB – CESEE Bank Lending Survey

Note: Net percentages; positive figures refer to easing supply conditions. See Question B.Q1 in the Annex

Figure 8 Credit Supply: banks' (local subsidiaries') approval rate for loan applications

Subsidiaries' approval rates for loan applications improved significantly in the Czech Republic for all sectors and across all credit types and maturities. The highest increase was reported for the consumer credit segment but also SMEs found it noticeably easier to obtain bank financing. A similar pattern, although much less pronounced, was reported also for the entire CESEE region. Looking ahead, the slight upward trend in approval rates is expected to be upheld in the CESEE region across the board without any major changes. For the Czech Republic, in contrast, while respondents still expect the approval rates for applications to continue rising, the extent to which this will happen is likely to become much smaller.

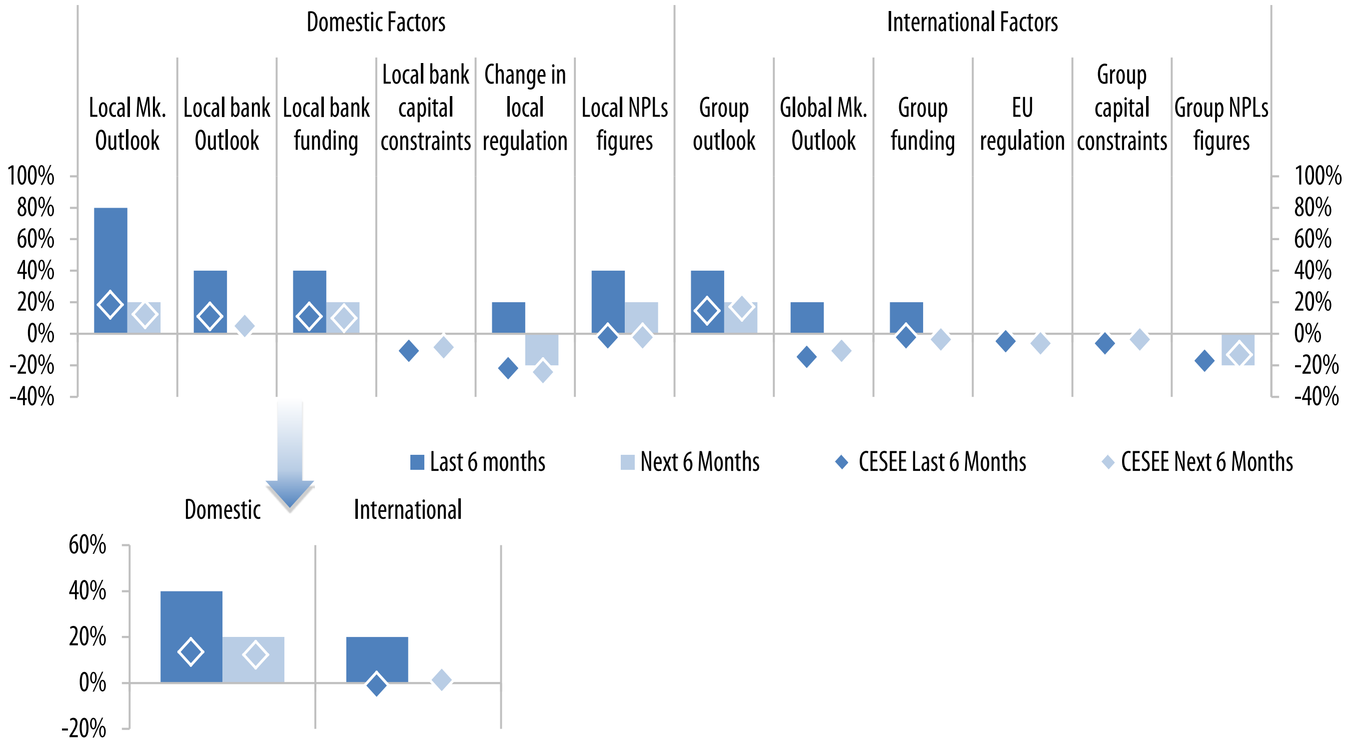


Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex

Figure 9 Factors contributing to supply conditions

According to the interviewed Czech banks international and even more so domestic factors contributed to the development of supply conditions. Among the latter it was basically all factors but local bank capital constraints that made a positive contribution. However, local market outlook was the single most important positive domestic factor. In contrast, when looking at the individual international factors only group and global market outlook as well as group funding made banks relax their supply conditions while other factors did not really matter. While international factors are unlikely to affect supply conditions in the Czech Republic in the near future a still positive, though no longer so significant role of domestic factors is expected. This is broadly in line with the expectation for the CESEE aggregate.



Source: EIB – CESEE Bank Lending Survey.

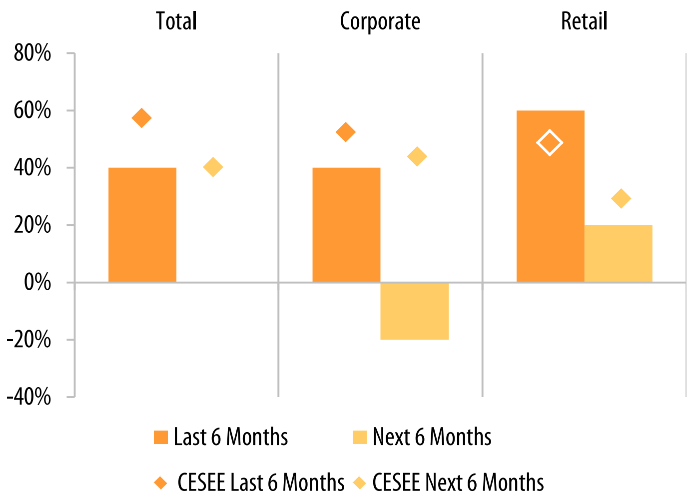
Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

Credit quality in the Czech Republic improved significantly over the last half a year both in the corporate and particularly in the retail sector. This was broadly in line with the CESEE aggregate where, however, the decline in non-performing loans was even stronger, particularly in the corporate segment.

In the months to come, subsidiaries operating in the Czech Republic expect a sideward development of the NPL figures as some slight improvement in the retail sector will be offset by some deterioration in the corporate sector.

In contrast, in the CESEE region as a whole the NPL ratio is projected to continue falling in both sectors, although in the retail sector the pace is likely to slow down.

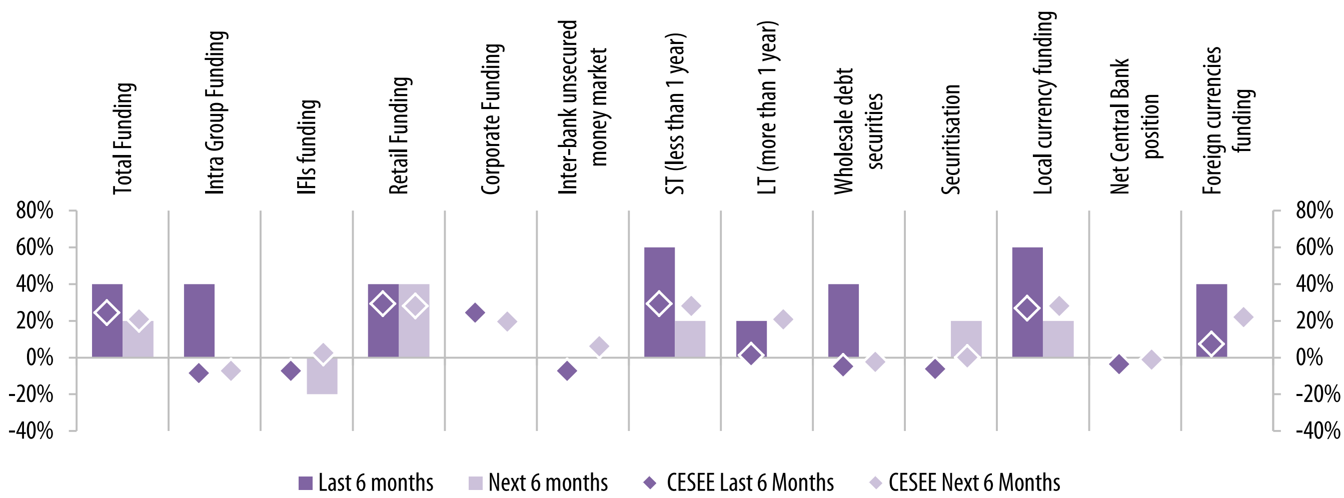


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; negative figures indicate increasing NPL ratios.See Question B.Q8 in the Annex

Figure 11 Access to funding

Overall, access to funding has become easier for bank subsidiaries in the Czech Republic, especially on the back of intra group and retail funding at shorter maturities. Some further easing is foreseen also in the near future although the positive contribution of intra group funding is likely to fade away. Retail funding has been the major driver behind the overall improved funding conditions also in the CESEE aggregate where the trend is set to continue in the months ahead.



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

Hungary

Despite strong credit demand and improving supply conditions, parent banking groups remain to be cautious about the Hungarian market.

Summary

Group assessment of positioning and market potential: Parent banks operating in Hungary show a strong commitment towards the region. More than 80 per cent of the groups present in the country plan to selectively expand their operations in CESEE. Parent banks, however, consider the Hungarian market to be among the less attractive within the CESEE region and also within the Visegrad 4 group. Less than 60 per cent of the banking groups find that their position in the Hungarian market is satisfactory or optimal. Risk-adjusted return on equity is in line with overall group operations: an improvement relative to the previous editions of the survey.

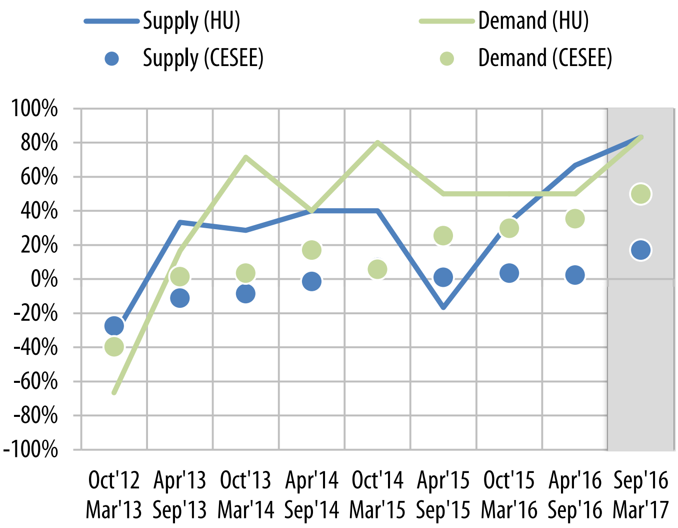
Hungarian banks report that **credit demand has been increasing significantly and supply conditions have been catching up**.

Credit supply conditions have been improving in the last 6 months, and they are expected to strengthen again in the near future. The broadening of credit supply in Hungary is well above the CESEE average.

Demand for loans has also been increasing across most of the spectrum of products and segments over the last six months.

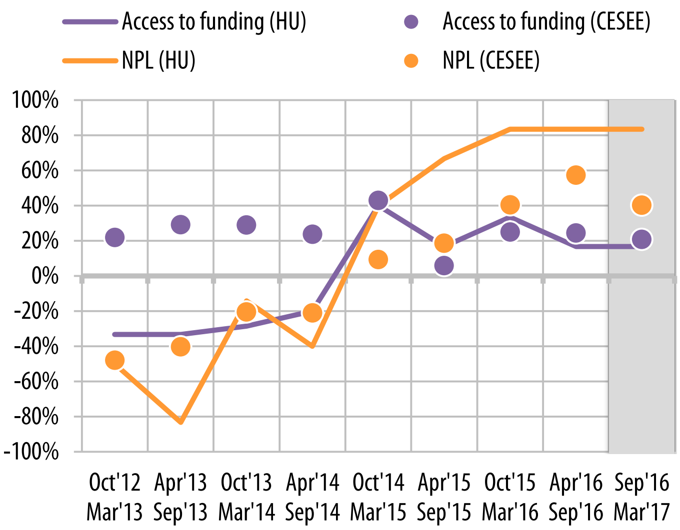
Access to funding: Overall access to funding by Hungarian banks improved in line with the CESEE region. As for foreign funding sources, a clear deterioration is indicated by the survey. Moreover, central bank funding is on the decline, in line with the phase-out of the National Bank of Hungary's Funding for Growth programme.

NPL figures have improved in all segments.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)



Source: EIB – CESEE Bank Lending Survey.

Note: Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

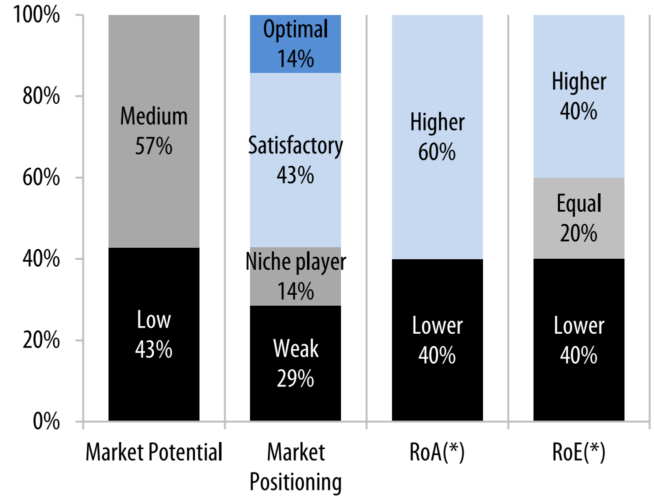
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Hungary show a strong commitment towards the region. More than 80 per cent of the groups present in the country plan to selectively expand their operations in CESEE.

Parent banks, however, consider the Hungarian market to be among the less attractive within the CESEE region, confirming the results of the previous surveys. About 57 per cent of the groups responding find the country's market potential to be medium, while the rest of the banking groups find it low, which makes Hungary the lowest-scoring market within the Visegrad 4 group.

About 57 per cent of the banking groups find that their position in the Hungarian market is satisfactory or optimal. Parent banks find, on average, that risk-adjusted return on equity is in line with overall group operations. It is an improvement relative to the previous editions of the survey.

Figure 1 Market potential and positioning



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15. (*) 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.

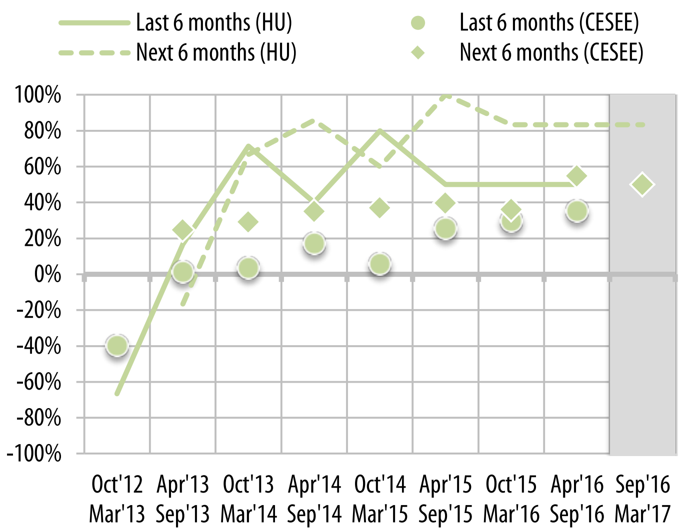
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

In line with the earlier editions of the survey, Hungarian banks report strong and stable credit demand for the past six months, and expect a further increase for the forthcoming period.

Both the data referring to the past and the dynamics expected by the financial institutions for the next six months suggest a demand for loans to be much more buoyant in Hungary than in the CESEE region.

Figure 2 Demand side developments



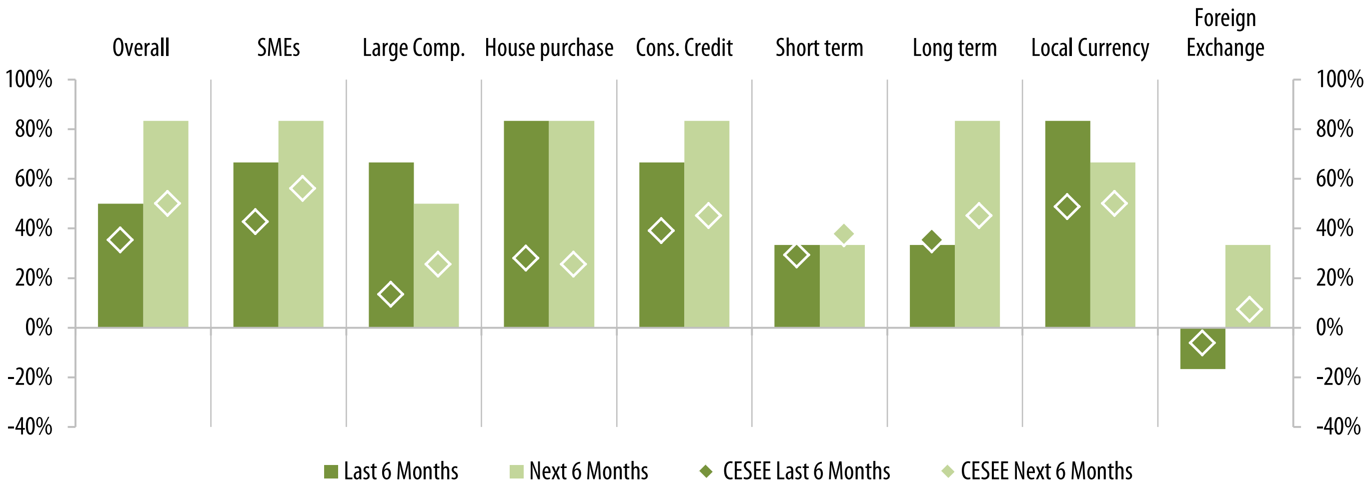
Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 3 Demand components and segments

Strong demand can be observed in almost all market segments and subcategories. Demand is particularly strong and increasing in the household segment.

As to the currency denomination, data shows a clear preference towards borrowing in Hungarian forint versus foreign currency denominated loans, which could reflect the negative experiences of the crisis, the regulatory measures to avoid excessive build-up of foreign exchange risk and the low interest rate premium.



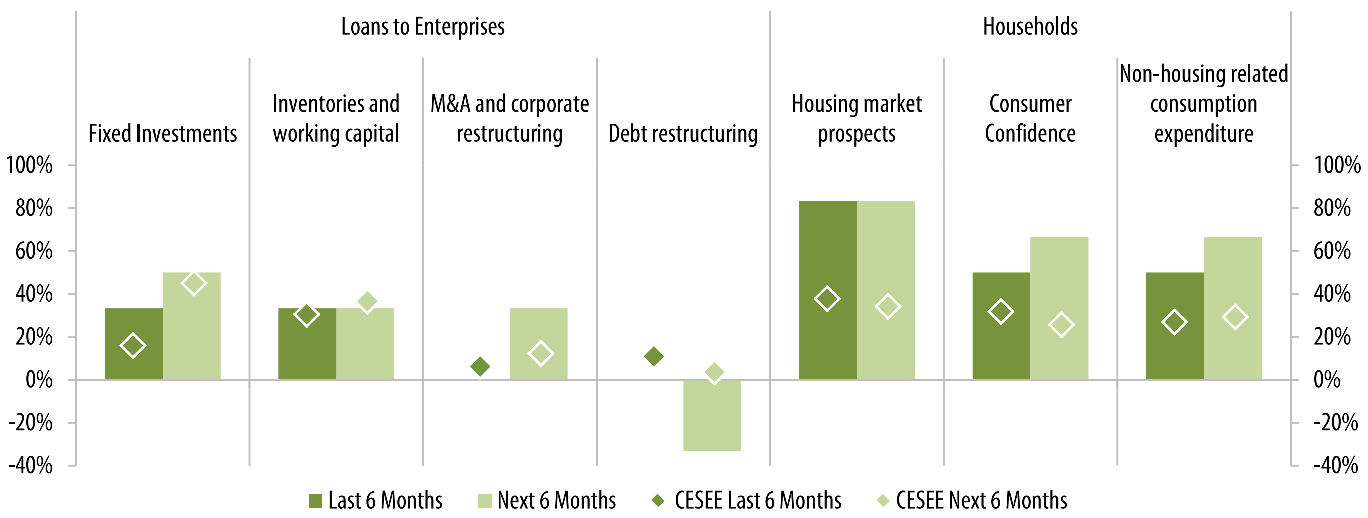
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Figure 4 Factors affecting demand for loans

Among the individual factors contributing to credit demand, investment and working capital have been the strongest in the corporate sector, and they are expected to remain so in the next six months.

As for households, housing market expectations seem to be the strongest factor behind credit demand; however, consumer confidence and consumption expenditure are also providing a strong positive contribution.

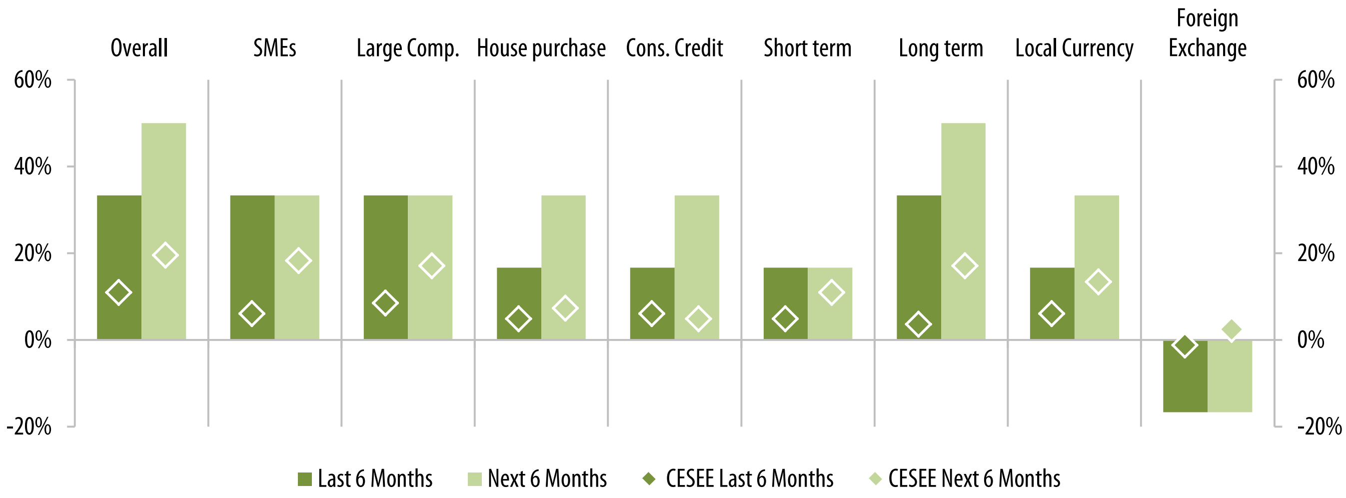


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex

Figure 5 Quality of loan applications

The perceived quality of loan applications has improved in the last six months, and Hungarian banks expect this to improve further in the coming months. The quality of loan applications also exceeds the CESEE levels.



Source: EIB – CESEE Bank Lending Survey

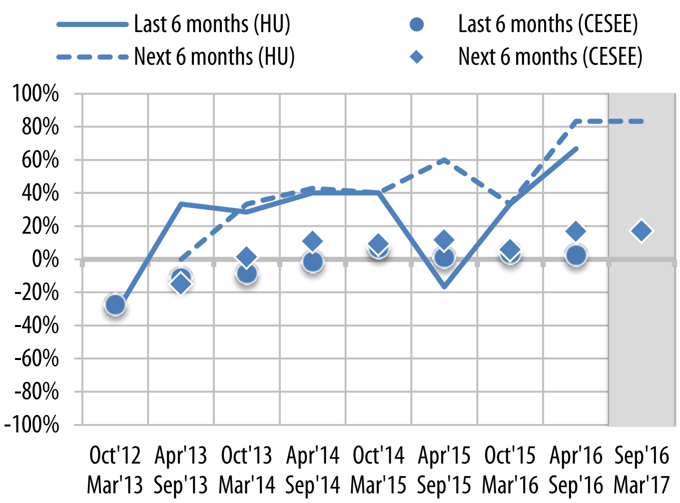
Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Just as expected by the banks in the earlier survey vintage, credit supply conditions have been improving further in the last 6 months, and they are expected to strengthen again in the near future.

Banks report credit supply conditions to be clearly more expansionary in Hungary than in the rest of the CESEE.

Figure 6 Supply developments

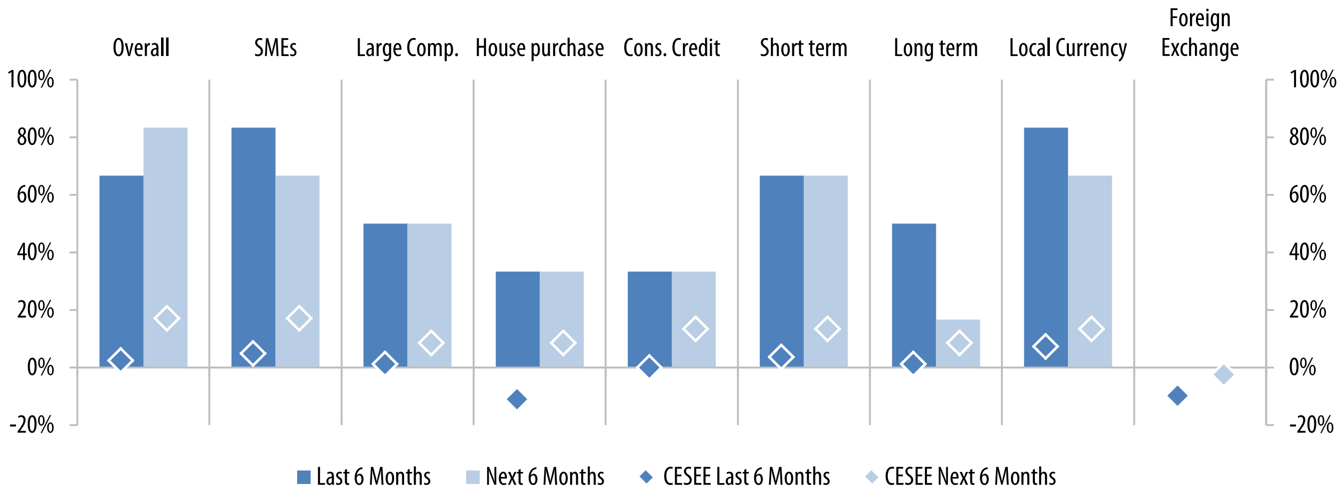


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 7 **Supply components and segments**

Although credit supply conditions have been improving in all segments, the strongest positive developments can be observed in the case of SME loans; whereas credit supply conditions for households improved at a slower pace than the corresponding increase in demand. Credit supply is easing only in the local currency segment.

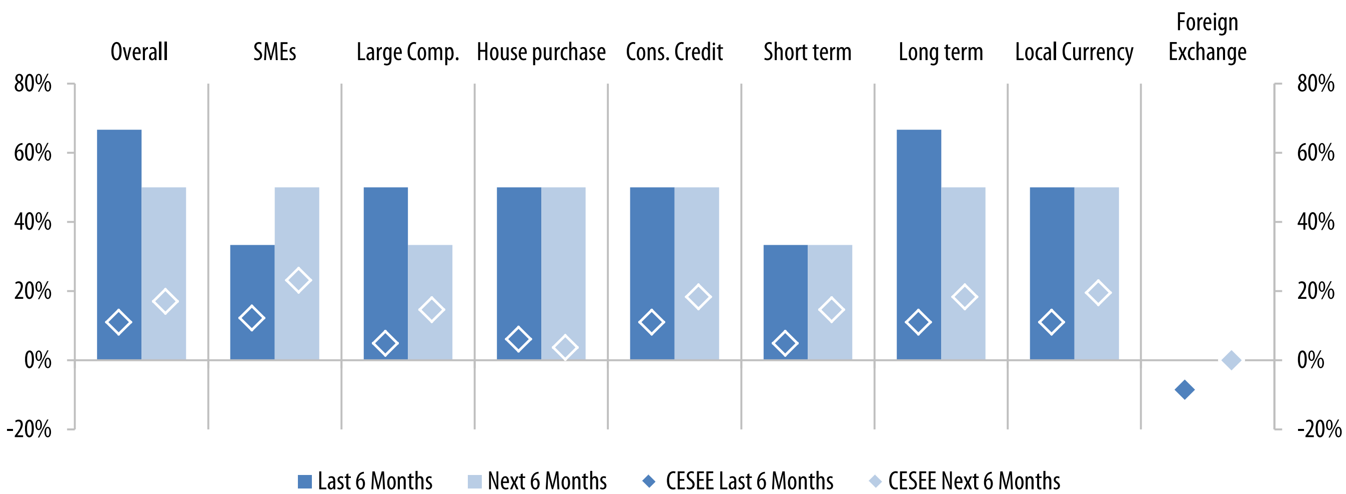


Source: EIB – CESEE Bank Lending Survey

Note: Net percentages; positive figures refer to easing supply conditions. See Question B.Q1 in the Annex

Figure 8 **Credit Supply: banks' (local subsidiaries') approval rate for loan applications**

The approval rates of credit applications have become higher in the last two quarters, and are expected to improve further in the coming months. Again, these developments exceed the CESEE average in all segments of the market.

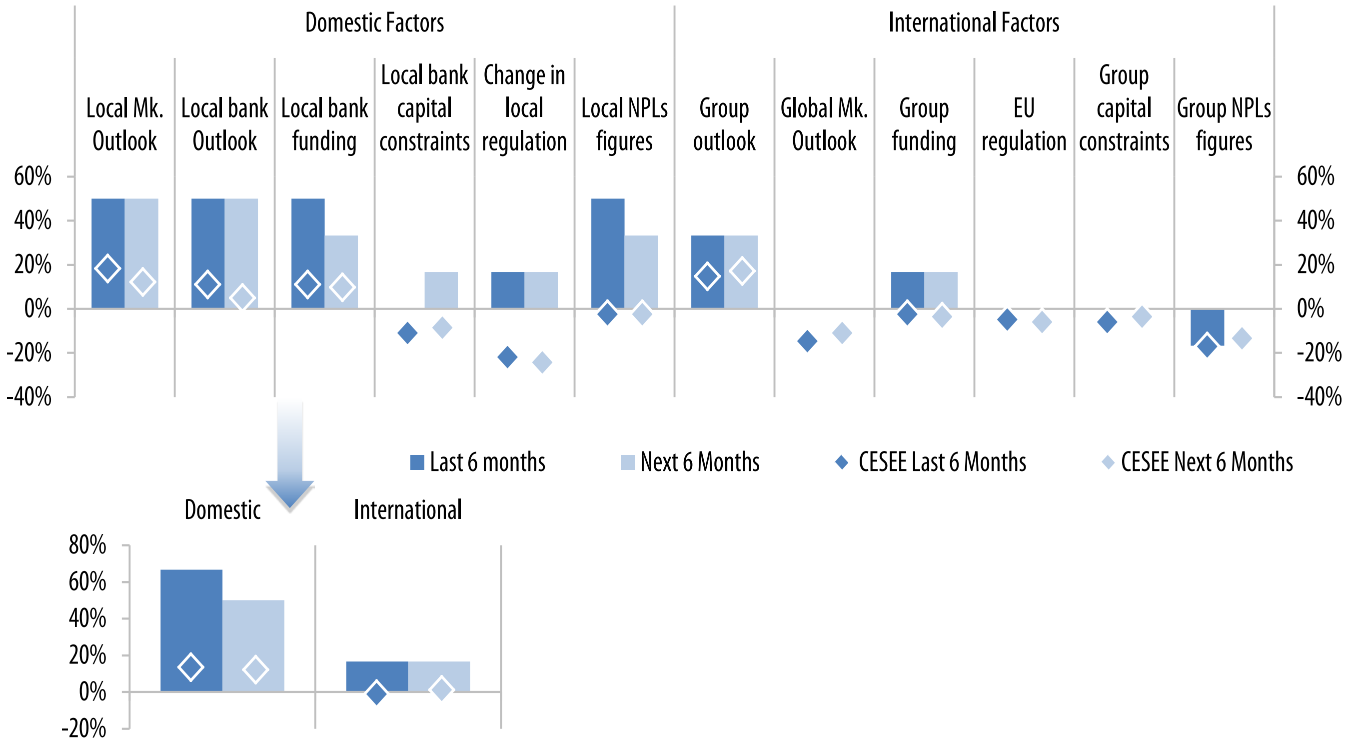


Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex

Figure 9 Factors contributing to supply conditions

The improvement in credit supply conditions is mainly due to domestic factors. These include better local market and bank outlook, better funding conditions, and improving NPL figures. On the other hand, the regulatory environment, local capital constraints, the international factors have a close to neutral impact on credit supply.



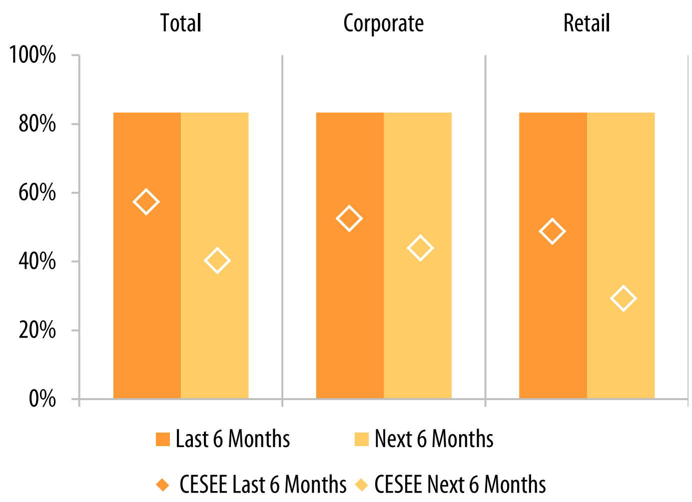
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

NPL figures in Hungary have been improving significantly both in the corporate and the retail segments. The improvement is in line with the general developments of NPLs in CESEE, but yet more pronounced.

Further progress in the resolution of non-performing loans is expected in the coming months.



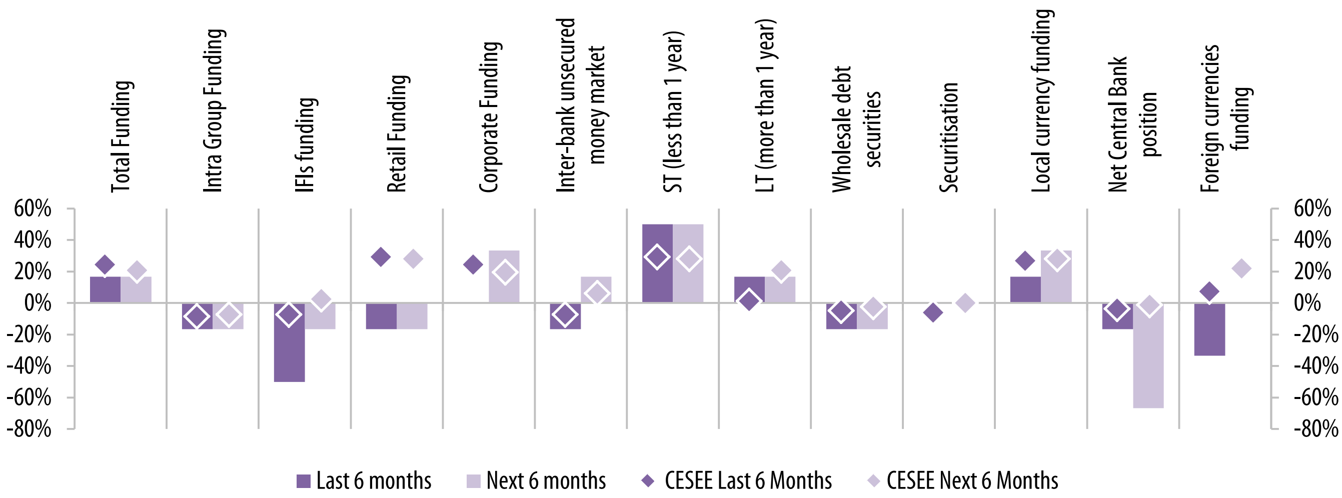
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; negative figures indicate increasing NPL ratios.See Question B.Q8 in the Annex

Figure 11 Access to funding

In line with the developments in CESEE, overall access to funding by Hungarian banks improved only marginally, if at all. As to international sources of funding (group, IFIs) a clear deterioration has been observed.

The importance of central bank funding has already declined, and is expected to decline further. This most likely reflects the ongoing phase-out of the National Bank of Hungary's *Funding for Growth* programme.



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

Kosovo

A profitable market with improving credit quality where robust credit demand growth faces increasingly tightening credit supply conditions

Summary

Group assessment of positioning and market potential: Parent banks operating in Kosovo continue to be rather satisfied with their position in the market. Bank groups consider their market position either satisfactory or optimal on the back of a rather profitable banking market. Despite or possibly rather because of the already comparably high returns, banking groups perceive further market potential in Kosovo as medium.

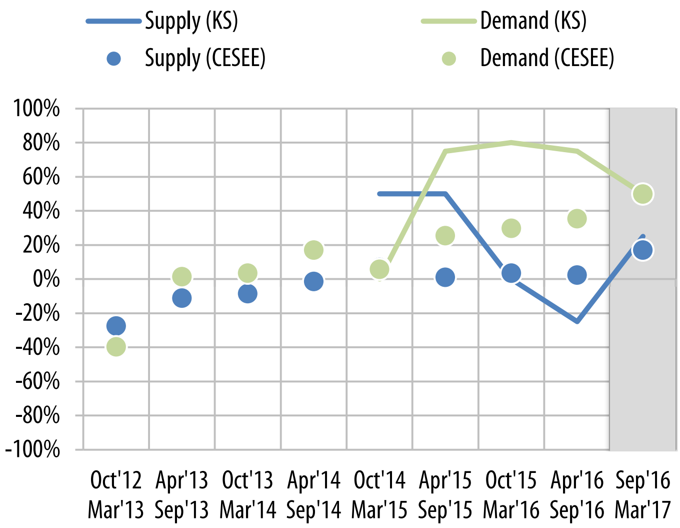
Banks report a continued strong increase in **credit demand,** while **supply conditions have tightened**.

The overall tightening of **credit supply** conditions has been driven mainly by a significant limitation in the SME sector which has been only partially counteracted by some loosening in the consumer credit segment. The expected moderate loosening of supply conditions in the next half a year will largely be the result of the faded negative effect in the SME segment. In line with the tightening credit supply conditions also banks' approval rates for loan applications have gone down over the last six months. While domestic factors, in particular local bank funding, have had a slight positive impact on the overall supply conditions, international factors have played a neutral role.

Demand for loans has been driven by boosting demand in the retail and particularly in the SME segment. In contrast, there have been no significant changes for the large corporate segment. Investment and especially inventories and working capital have been the most decisive factors behind the demand boom in the enterprise segment while all factors have made a positive contribution in the retail segment. Despite some partial improvements, quality of loan applications is reported to have stayed unchanged. However, some slight quality progress is in the offing in the months to come.

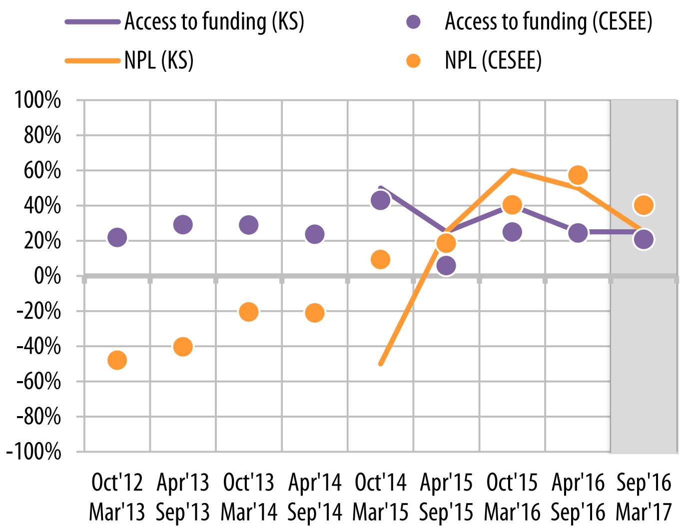
Access to funding has moderately improved for Kosovar subsidiaries, mainly on the back of retail, corporate and to a lesser extent IFI's funding, equally short- and long-term.

NPL figures have declined noticeably over the last six months, especially in the retail sector.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)



Source: EIB – CESEE Bank Lending Survey.

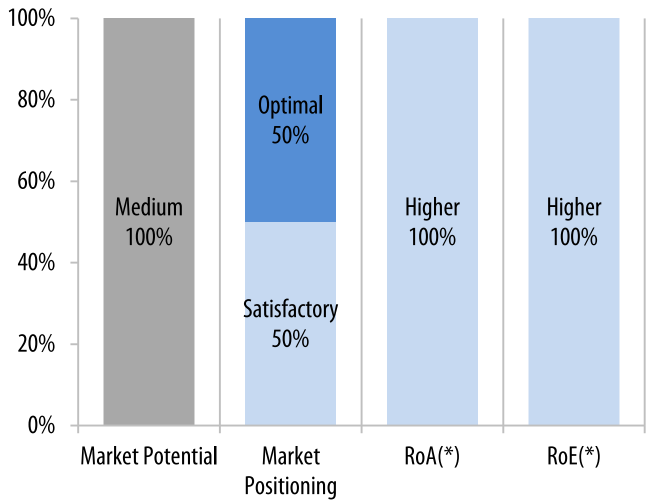
Note: Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Kosovo continue to be rather satisfied with their position in the market. As in the previous survey round half of the interviewed banking groups consider their market position satisfactory while the other half find it even optimal. This is possibly a consequence of the fact that Kosovo is perceived as a highly profitable market. For all surveyed parent banks return on assets as well as return on investment are higher compared to overall group operations.

Despite or possibly rather because of the already comparably high returns parent banks perceive further market potential in Kosovo as medium.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15. (*) 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.

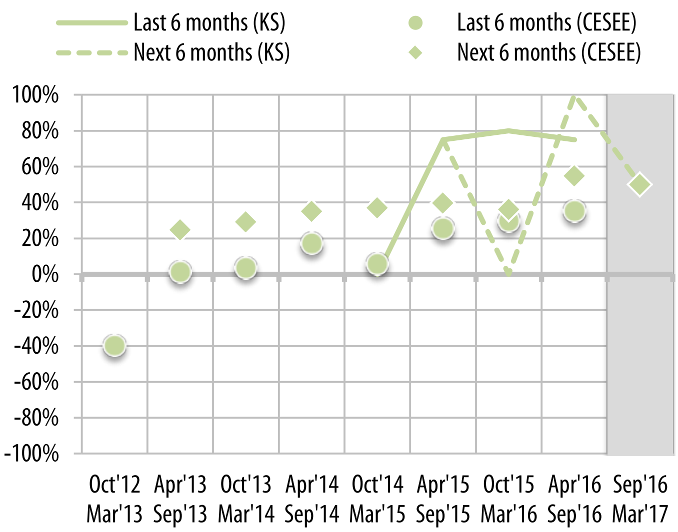
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Following stagnation in late 2014/early 2015 aggregate credit demand in Kosovo bounced back vigorously in the spring and summer 2015 as nearly all bank subsidiaries reported an increase in demand. Credit demand has been buoyant on a high and relatively stable level since, strongly outperforming a rather gradual, though incessant upward trend in the CESEE aggregate.

In the next months subsidiaries operating in Kosovo expect the credit demand boom to cool down slightly and thus to align with the CESEE aggregate.

Figure 2 **Demand side developments**

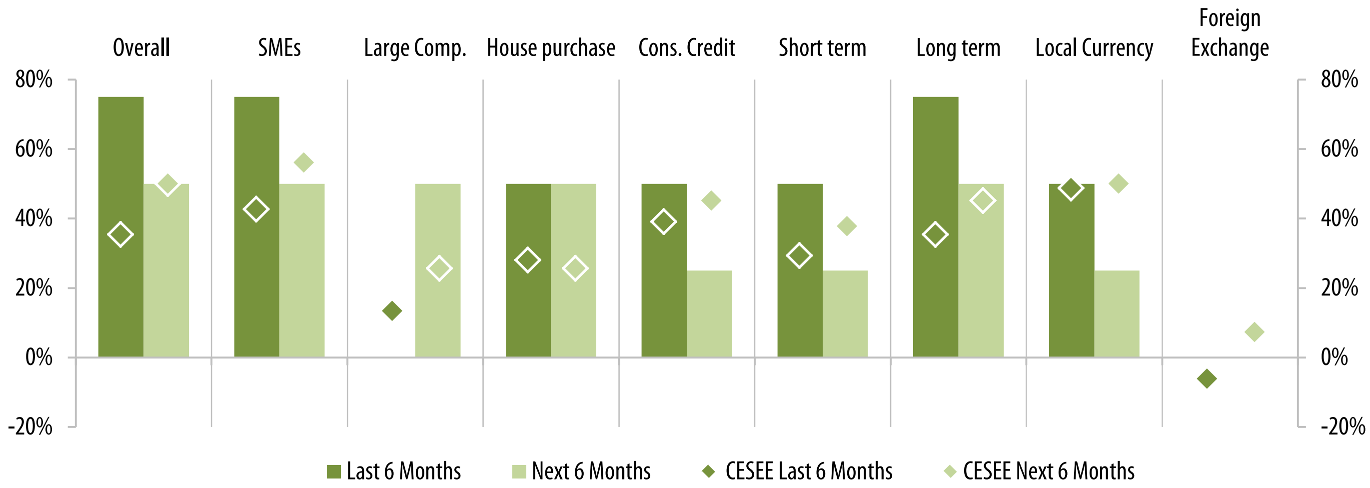


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 3 Demand components and segments

Apart from the large corporate sector in which demand has not changed in the last half a year subsidiaries report robust demand boosts in the retail and particularly in the SME segment. Due to the unilateral euroisation, companies and households tend to ask for local currency loans. The pattern of the last six months is expected to roughly continue in the near term. While credit demand by SMEs should continue rising, though at a somewhat lower pace, large corporates are projected to start asking for more bank funding as well. Long-term loans will remain the preferred option but short-term loans are also expected to stay in relatively high demand.

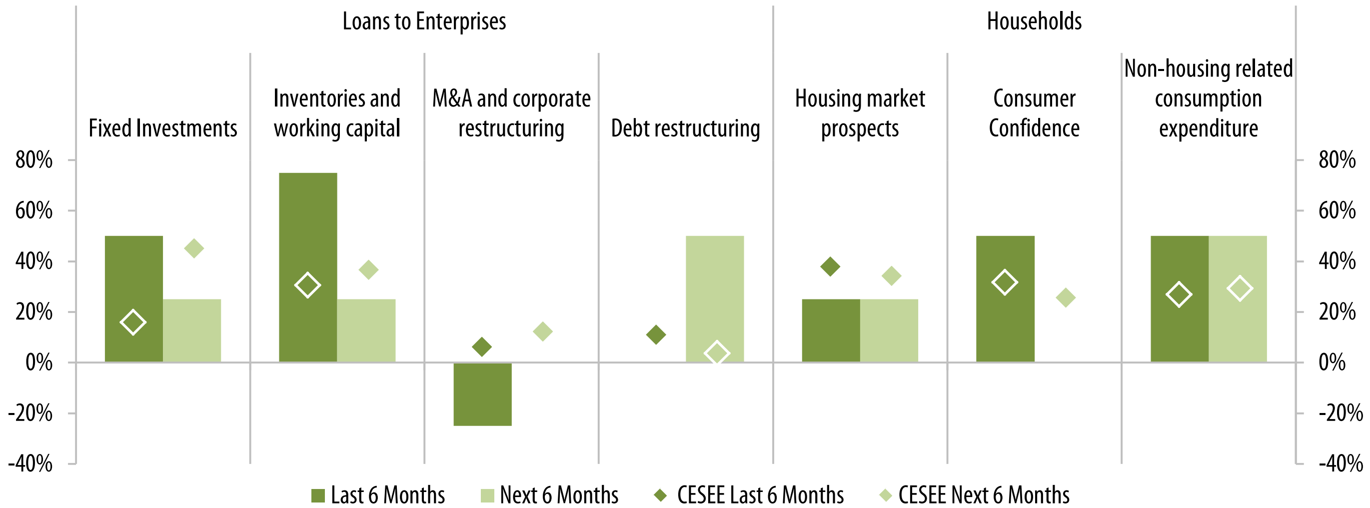


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Figure 4 Factors affecting demand for loans

Looking at individual factors which have driven the credit demand boom on the firms' side, investment and especially inventories and working capital have been the most decisive factors whose combined effect has by far exceeded the slightly contracting impact of corporate restructuring. Looking ahead, the contribution of investment and working capital will remain positive, to be sure, but significantly weaker than has been the case to date. In contrast debt restructuring is expected to become the single most decisive factor in enterprise segment. In the retail market segment all factors have played an important role in strengthening demand and apart from consumer confidence they should continue doing so.

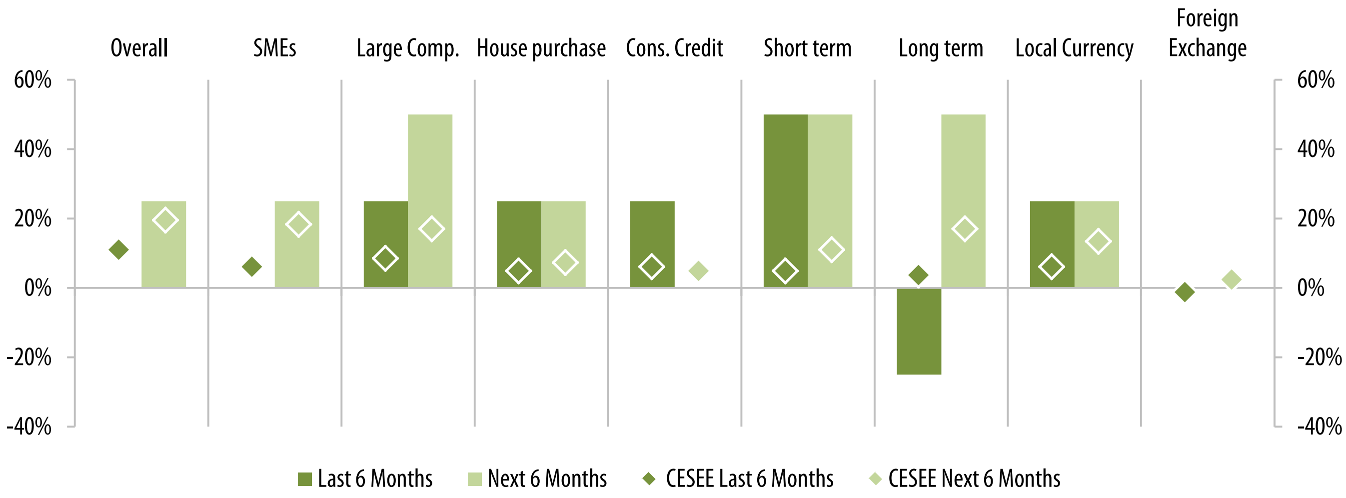


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex

Figure 5 Quality of loan applications

Quality of loan applications in Kosovo has remained unchanged on balance even though bank subsidiaries do report some partial improvements, especially among large corporates and in the retail sector. However, some quality progress with short-term loans has been largely offset by a deteriorated quality on long-term loan applications. Similar to the CESEE region, banks expect a slight overall improvement in quality of loan applications also in Kosovo in the months to come. While this should be rather broad-based the most significant quality enhancement is expected in the large corporate segment.



Source: EIB – CESEE Bank Lending Survey

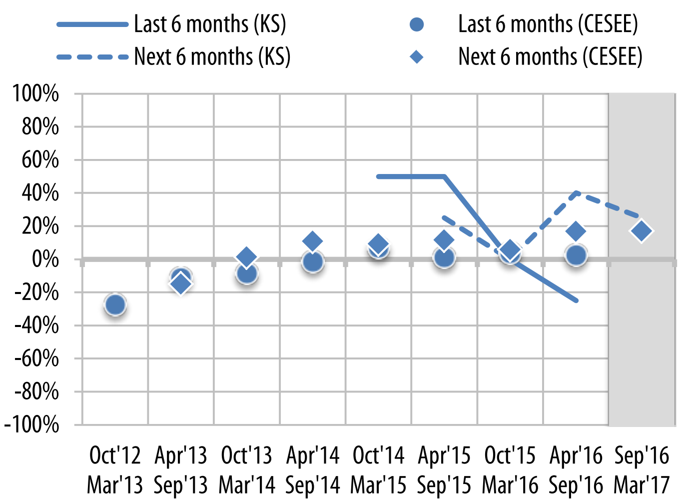
Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q6 in the Annex

Aggregate supply developments

The trend in credit supply conditions in Kosovo has dramatically changed over the last two years. Following a significant loosening of supply conditions in the year before September 2015 stagnation was reported by the banks in the previous survey release. The most recent survey results suggest a continuation of the downward trend and some slight tightening of credit conditions in the last months. Hence, this actual outcome does not only contrast with the stagnating supply conditions in the CESEE region but particularly with the rather optimistic expectations articulated in the last survey round.

Despite the recent tightening of supply conditions banks expect a significant U-turn in the coming months and thus a slight easing of supply conditions in Kosovo, just in line with the CESEE average.

Figure 6 Supply developments

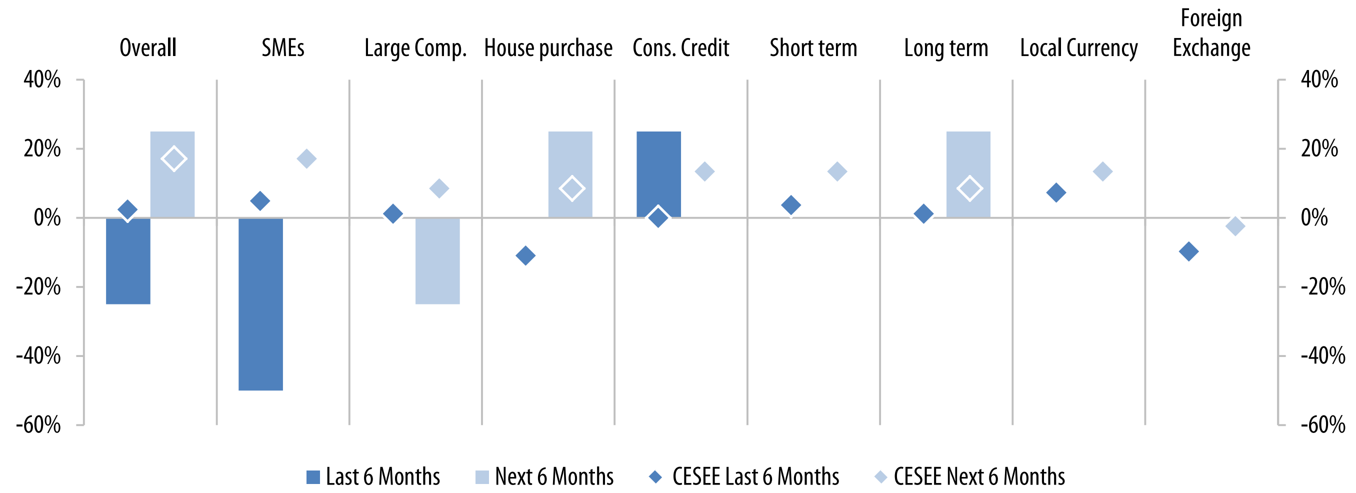


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 7 Supply components and segments

The overall development of supply conditions stems mainly from a significant constriction in the SME sector which has been only partially counteracted by some loosening in the consumer credit segment. Other loan categories and products have not seen major changes in supply conditions over the last months. The expected moderate loosening of conditions, mainly with respect to long-term loans in the next half a year will largely be the result of the faded negative effect in the SME segment. Other than that, a positive contribution in the mortgage segment will be basically neutralized by some tightening of lending conditions to large firms.

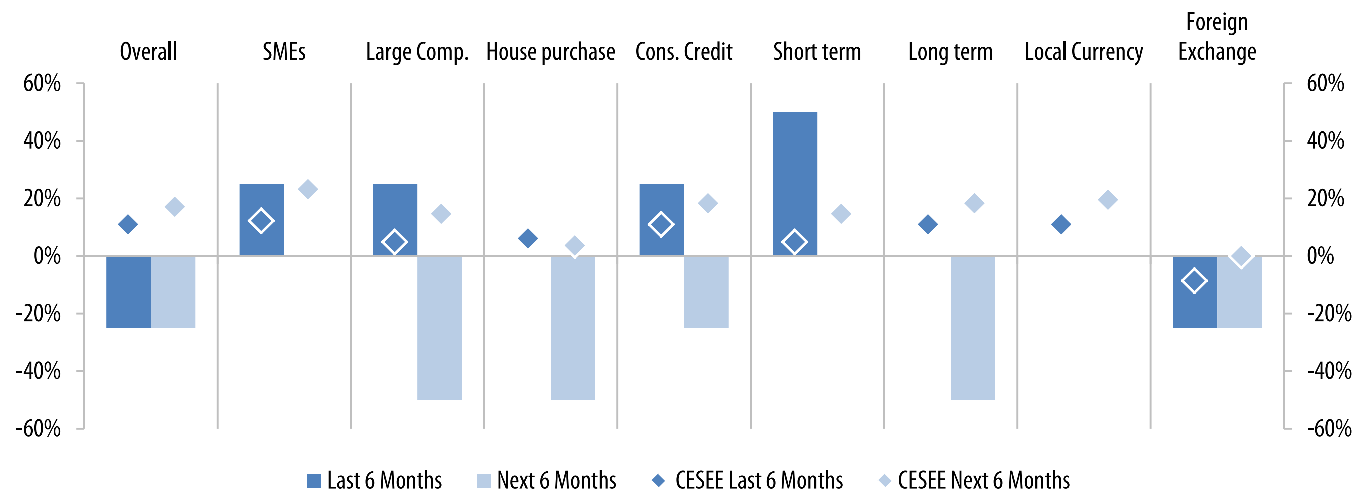


Source: EIB – CESEE Bank Lending Survey

Note: Net percentages; positive figures refer to easing supply conditions. See Question B.Q1 in the Annex

Figure 8 Credit Supply: banks' (local subsidiaries') approval rate for loan applications

Contrary to the developments in the CESEE aggregate but in line with the tightening credit supply conditions also overall banks' approval rates for loan applications have gone down over the last six months in Kosovo. However, the detailed picture provided by the subsidiaries is not entirely conclusive in the sense that approval rates are reported to have gone up in most individual loan categories and segments. In the next months approval rates are projected to keep falling on account of long-term loans in the large corporate and mortgage segments and to a lesser extent in the consumer credit segment.

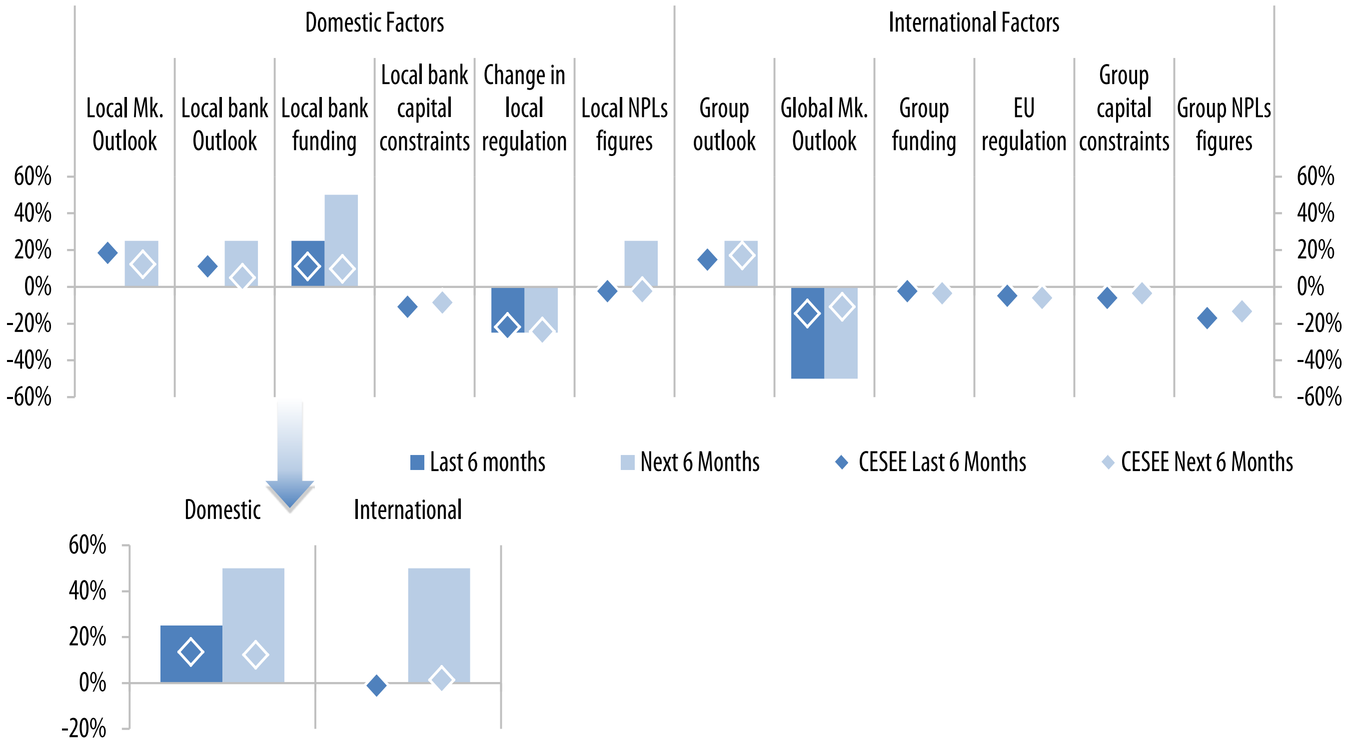


Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex

Figure 9 Factors contributing to supply conditions

While domestic factors, in particular local bank funding, have had a slight positive impact on the overall supply conditions, international factors are reported to have played a neutral role. This has been the case despite a reportedly rather significant negative impact of the global market outlook. In the next six months both domestic and international factors are expected to contribute significantly to supply conditions. On the domestic front, especially local bank funding and outlook as well as local market outlook and local NPL figures will make a positive contribution. Among international factors the tightening effect of global market outlook will be (over-)compensated by a positive group outlook.

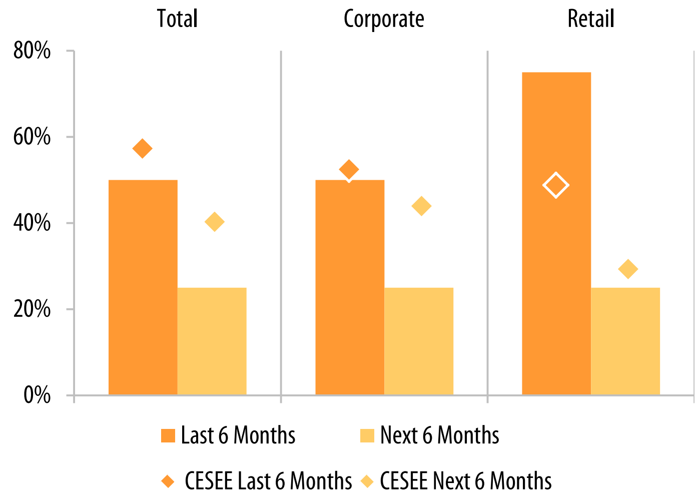


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

Credit quality has improved noticeably over the last six months in Kosovo, especially in the retail sector. NPLs are set to keep falling, although at a slower a pace, in the months ahead, equally distributed across the retail and the corporate sectors.

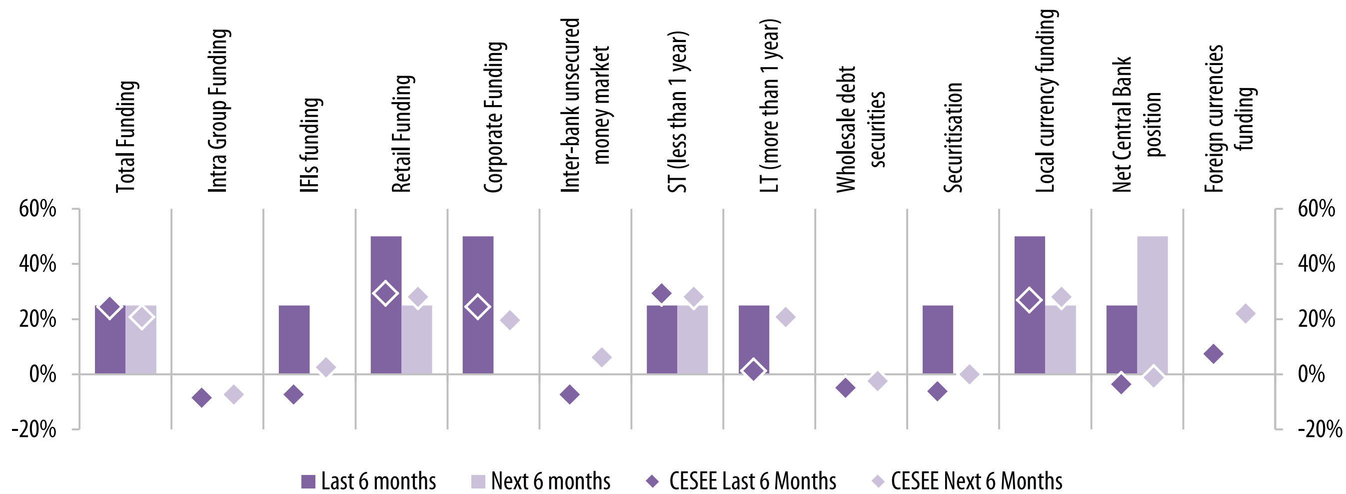


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; negative figures indicate increasing NPL ratios.See Question B.Q8 in the Annex

Figure 11 Access to funding

Access to funding has moderately improved for Kosovar subsidiaries, mainly on the back of retail, corporate and to a lesser extent IFI's funding, equally short- and long-term. Naturally, Kosovar banks finance themselves in their local currency, i.e. the euro. In line with the CESEE aggregate access to funding should continue improving in the months ahead also for Kosovar banks, particularly thanks to short-term retail funding.



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

Poland

The Polish banking market has lost some of its attractiveness amid weakening credit demand and tougher regulatory environment affecting international banks' interests.

Summary

Group assessment of positioning and market potential: Parent banks operating in Poland show a relatively strong commitment towards the region. They still consider the Polish market to be among the more attractive ones within CESEE. However, deterioration in the assessment of market potential can be observed relative to the earlier editions of the survey. As to profitability, while a year ago risk-adjusted returns on equity and assets in Poland had been believed to be among the highest in the region, by now half of the parent banks believe that returns are below the group average

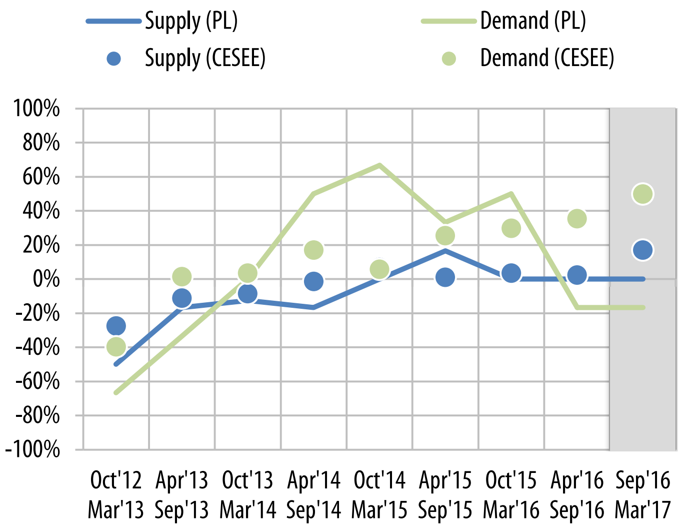
Polish banks report that **credit demand has been decreasing,** while **supply conditions have been stagnating**.

Credit supply conditions have been broadly neutral in the last six months. Looking ahead, Polish banks expect the overall neutral stance for credit supply to continue, in line with the rest of the region

While Poland's robust economic growth had been reflected in a strong credit demand in the past, the current survey results indicate **a marked slowdown in demand for loans** – more or less in line with the expectations formed six month ago. Credit demand is below the CESEE average in all market segments.

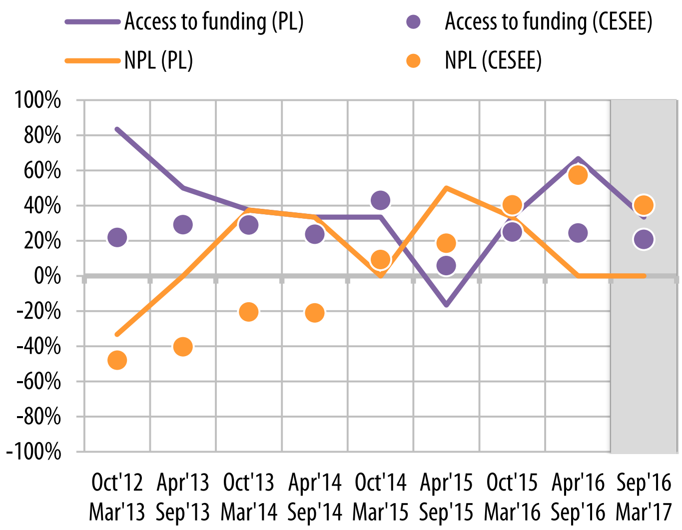
On aggregate, Polish banks' **access to funding has improved** in the last six months. This is partly due to better conditions on the retail market segment, and partly to the increasing activity of international financial institutions.

NPLs have been described as stable on aggregate.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)



Source: EIB – CESEE Bank Lending Survey.

Note: Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

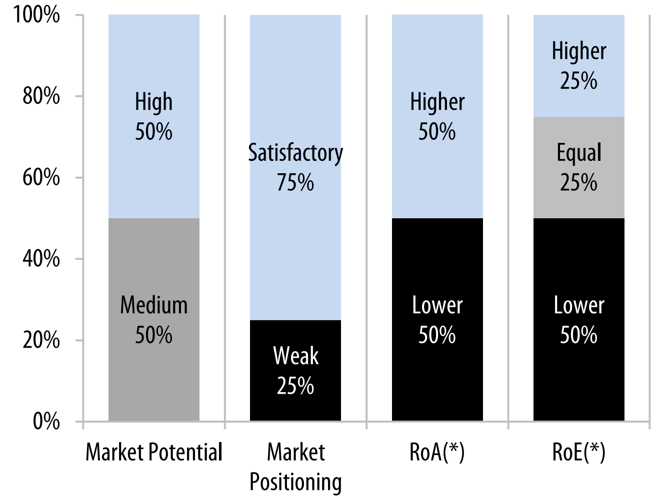
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Poland show a relatively strong commitment towards the region. Three quarter of groups present in the country plan to maintain their regional operations at their current level, while the rest of them plan to selectively expand its CESEE activity.

Parent banks still consider the Polish market to be among the more attractive ones within CESEE. However, deterioration in the assessment of market potential can be observed relative to the earlier editions of our survey.

As to profitability, while a year ago risk-adjusted returns on equity and assets in Poland had been believed to be among the highest in the region, by now half of the parent banks believe that returns are below the group average.

Figure 1 Market potential and positioning



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15. (*) 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.

Results of the Bank Lending Survey - local banks/subsidiaries level

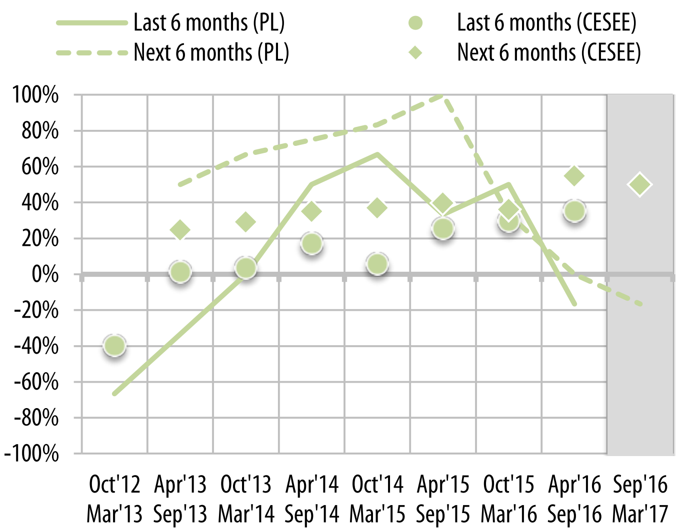
Aggregate demand developments

While Poland's robust economic growth had been reflected in a strong credit demand in the past, the current survey results indicate a marked slowdown in demand for loans – more or less in line with the expectations formed six month ago.

This is in stark contrast with the developments in the CESEE region as a whole, where a mild improvement in credit demand has been observed.

Looking ahead, Polish banks are expecting a further moderation in credit demand.

Figure 2 Demand side developments



Source: EIB – CESEE Bank Lending Survey.

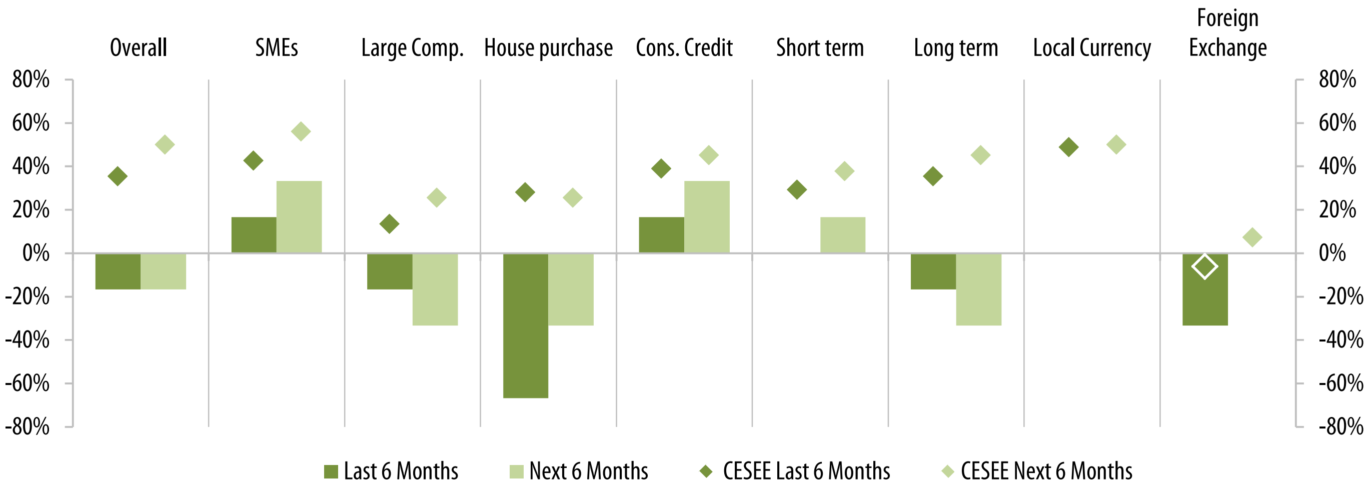
Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 3 **Demand components and segments**

Large corporations' demand for loans has been declining significantly, whereas SMEs have shown an increasing interest towards borrowing.

As to the households, the interest toward mortgage products suffered a severe drop, while the demand consumer credit has proven to be resilient.

In all market segments credit demand increased below the CESEE average.



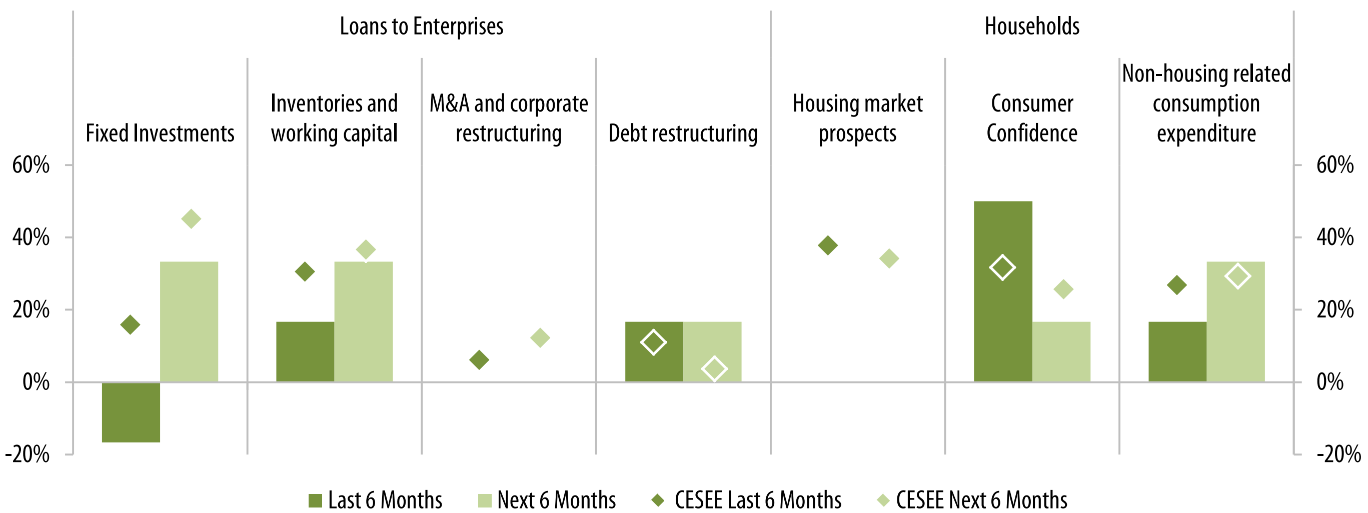
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Figure 4 **Factors affecting demand for loans**

Demand for investment loans has been contracting in the past six months, whereas demand for working capital has been increasing slightly. Looking ahead, banks expect an improvement in both categories.

Unlike in the rest of the CESEE, housing market prospects have been broadly neutral in Poland, while consumer confidence and consumption expenditure exerted a positive influence on credit demand.



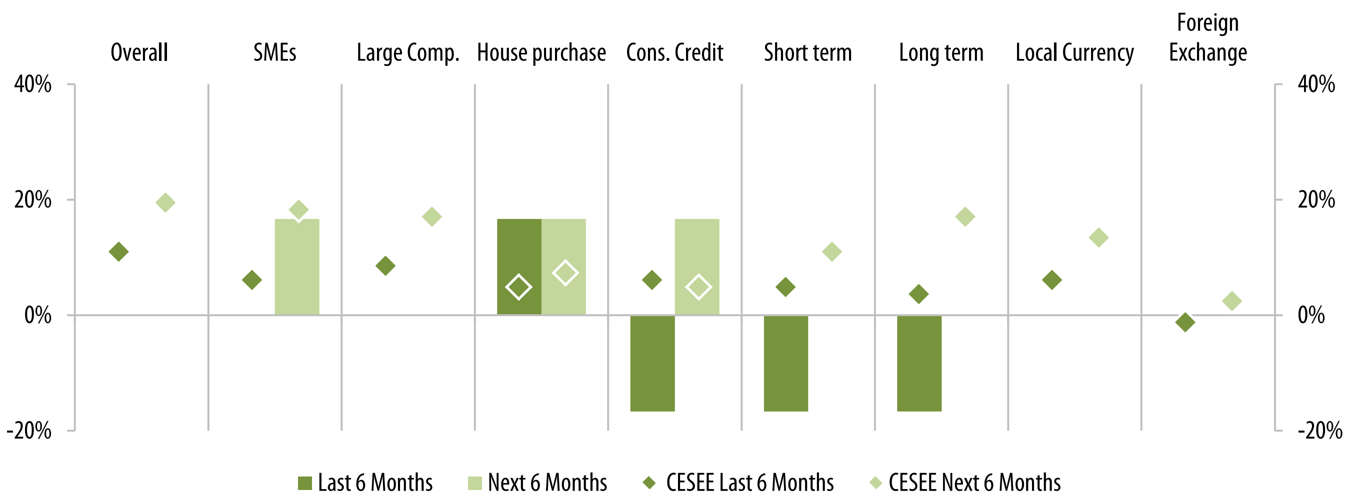
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex

Figure 5 Quality of loan applications

The quality of loan applications has been steady in the corporate sector, while a slight improvement was reported for housing loans, in parallel with a minor decline for the consumer credit segment.

Looking ahead, banks expect a slight improvement in the quality of loan applications in selected market segments.



Source: EIB – CESEE Bank Lending Survey

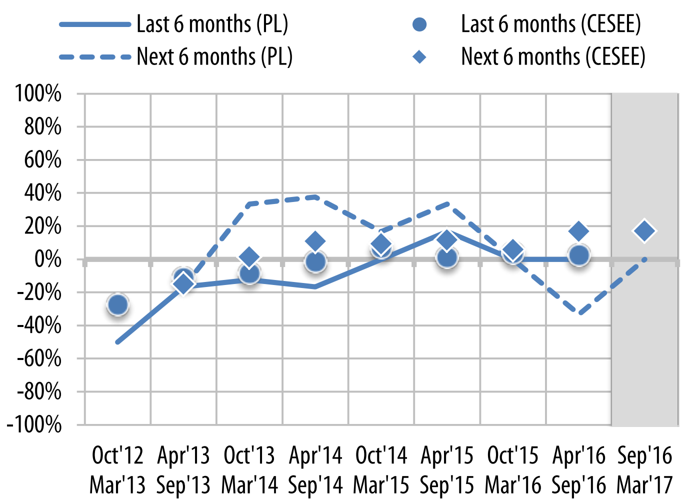
Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Just like in CESEE in general, credit supply conditions in Poland, have been broadly neutral in the last six months. Although banks expected a significant strengthening in the previous edition of the survey, this decline has not materialised.

Looking ahead, Polish banks expect the overall neutral stance for credit supply to continue, roughly in line with the rest of the region.

Figure 6 Supply developments



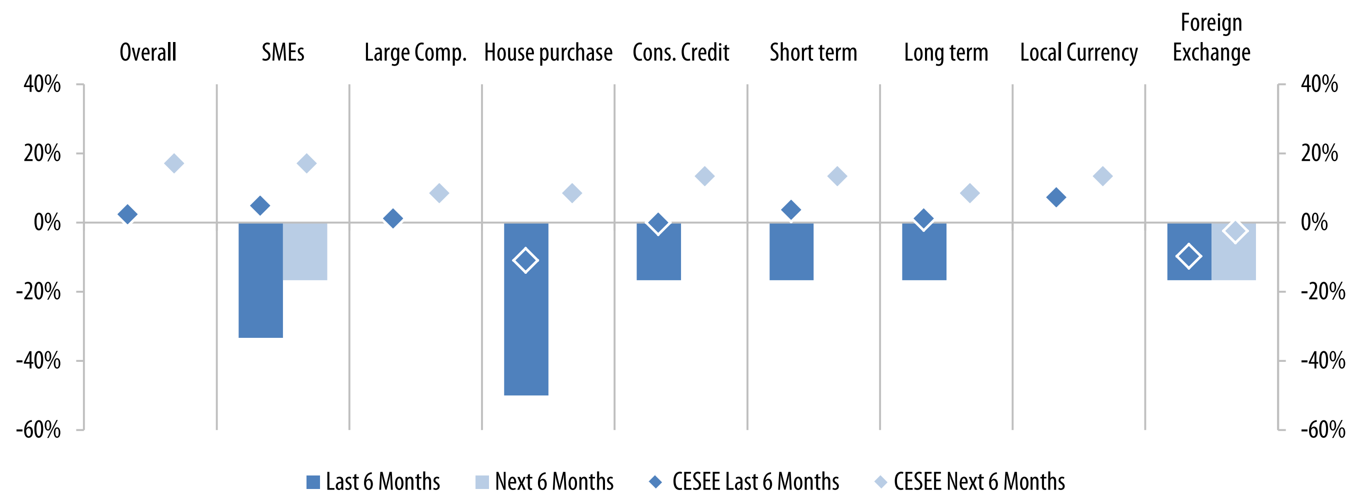
Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moreover the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 7 Supply components and segments

The supply of loans to small- and medium-sized enterprises in Poland has declined in the last six months, whereas the supply of loans to large companies has been stable. In the retail segment, the supply of mortgage products has been significantly reduced. Looking ahead, banks expect fairly neutral supply conditions in all segments.

The decline in the supply of foreign currency based loans is in line with the tightening of the regulatory environment.

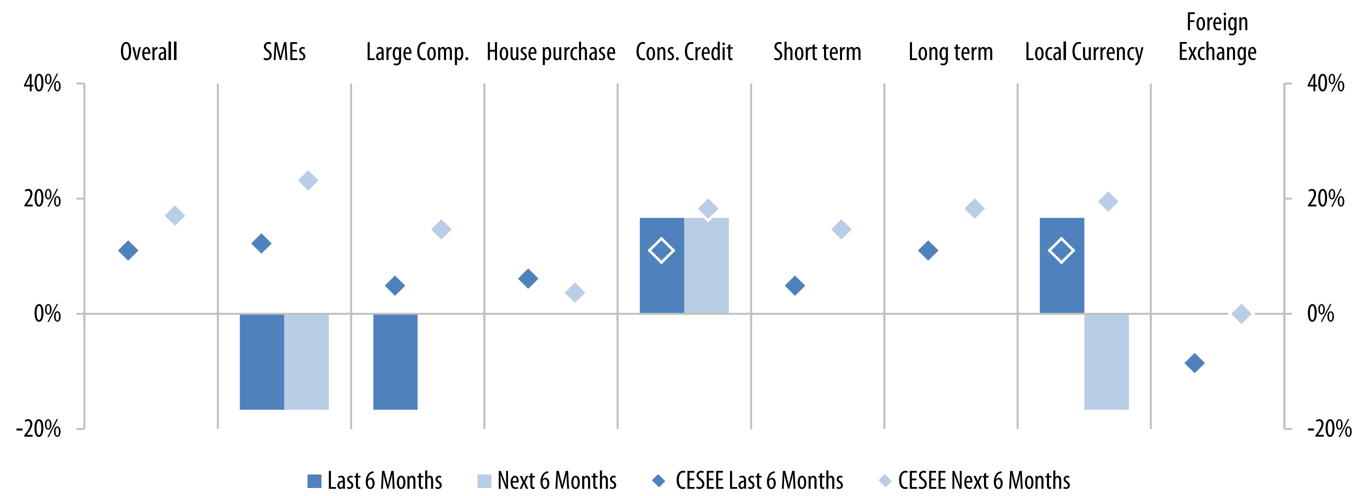


Source: EIB – CESEE Bank Lending Survey

Note: Net percentages; positive figures refer to easing supply conditions. See Question B.Q1 in the Annex

Figure 8 Credit Supply: banks' (local subsidiaries') approval rate for loan applications

Loan approvals have become somewhat stricter in the corporate segment, whereas a slight easing has been observed in the case of consumer lending products.



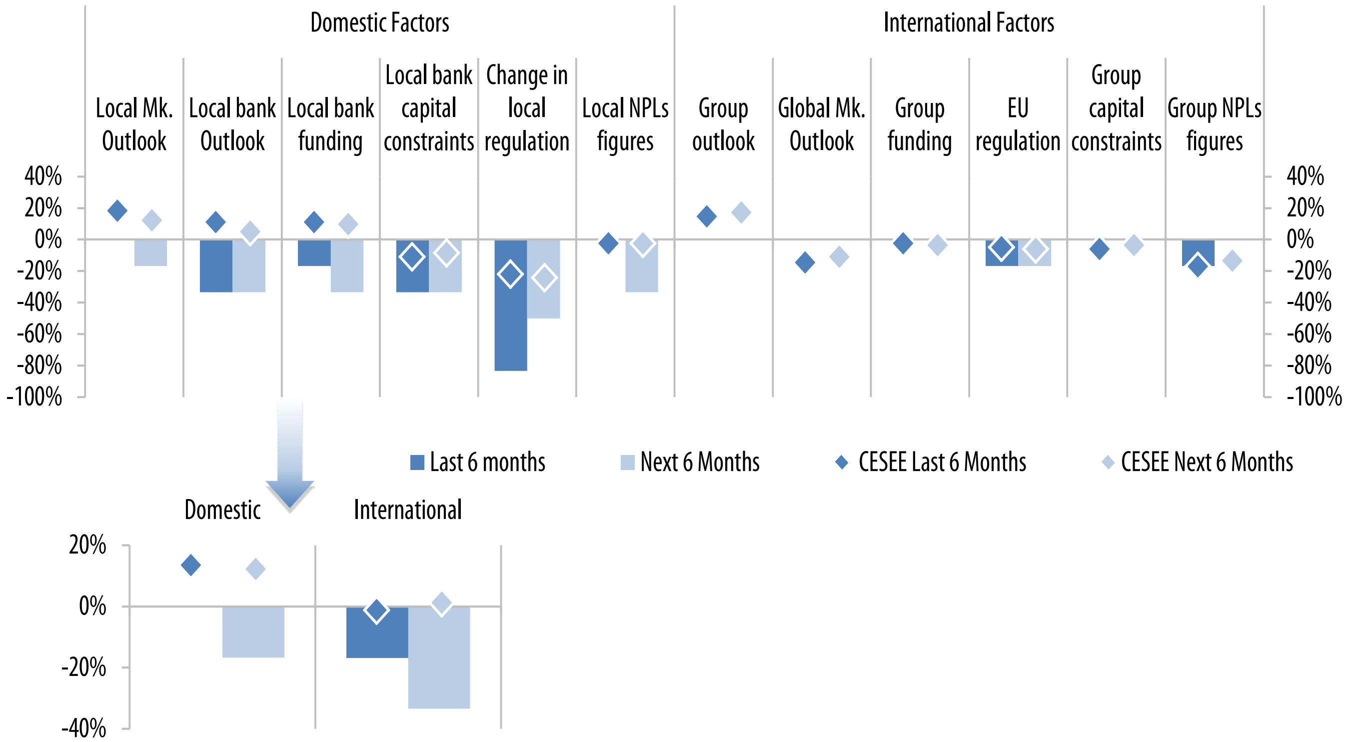
Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex

Figure 9 **Factors contributing to supply conditions**

Broadly in line with their CESEE peers, Polish banks see international factors as broadly neutral. Domestic factors, however, assert a negative influence on credit supply.

In particular, the domestic regulatory environment, the outlook of the local banking market, and the capital constraints are highlighted as the key factors behind the slowdown of credit supply.



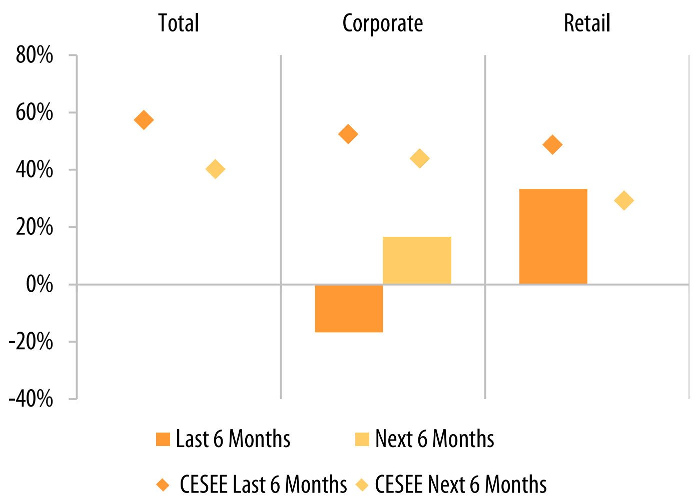
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

NPL figures in Poland have been described as stagnating on aggregate. A clear improvement in the household segment is compensated with a slight deterioration on the corporate side.

Unlike for the CESEE average, where improvements are projected, asset quality in in Poland is expected to remain neutral over the next six months. However, Poland has already the lowest level of NPLs in the region; therefore there is also less room for improvement.

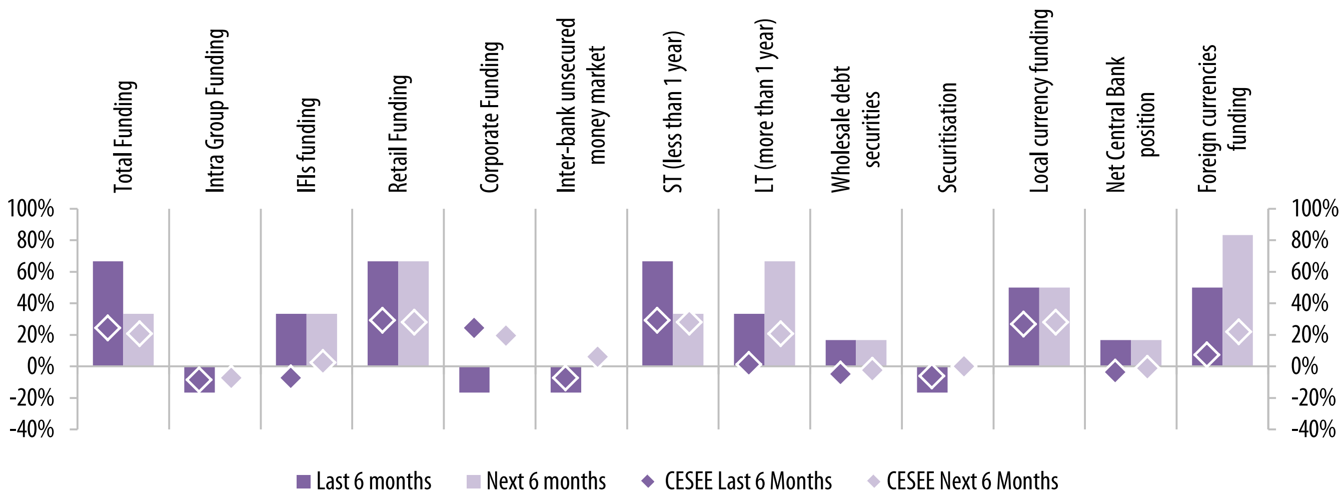


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; negative figures indicate increasing NPL ratios.See Question B.Q8 in the Annex

Figure 11 Access to funding

On aggregate, Polish banks' access to funding has improved in the last six months. This is partly due to better conditions on the retail market segment, and partly to the increasing activity of international financial institutions. Conditions for both short- and long-term funding have improved.



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

Romania

A heterogeneous market with uneven profitability and market position assessment but with promising potential despite stagnant credit demand

Summary

Group assessment of positioning and market potential: Parent banks operating in Romania provide a rather mixed picture. While a large majority of banks report a lower profitability compared to overall group operations, a third of parent banks achieve higher profitability. This heterogeneity is reflected in groups' assessment of their market positioning. While more than a third consider their market position satisfactory, the same proportion of respondents find it weak. Nonetheless, banks look optimistically into the future.

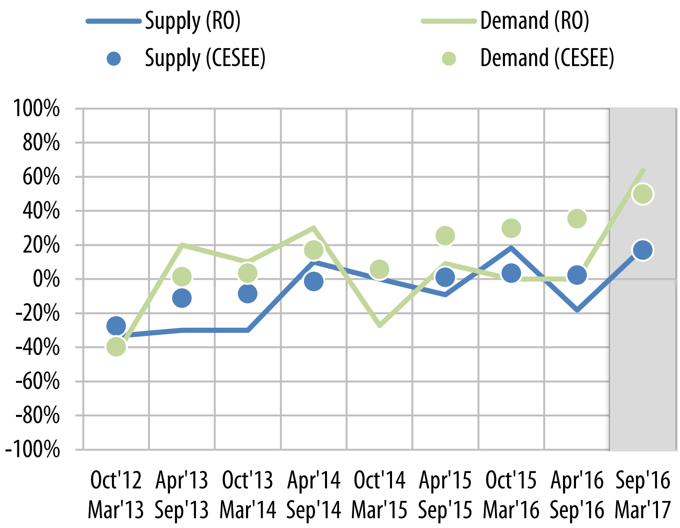
Credit demand has been stagnant, underperforming both past expectations and the regional aggregate**,** while **supply conditions have tightened slightly.**

Credit supply conditions have tightened in spite of previous expectations and a neutral development in the CESEE region and have thus continued the zigzag course of the last three years. The tightening has stemmed from the retail, particularly mortgage segment. In line with the deteriorated supply conditions in the retail sector also banks' approval rates for mortgages and particularly consumer credit have decreased in the last months. Domestic and international factors have mutually offset their impact on supply conditions

Aggregated **demand for loans** has stagnated despite a reported (moderate) increase in the corporate sector and the consumer credit segment. In contrast, demand for mortgages has weakened somewhat. In the months to come, banks are expecting, broadly in line with the CESEE peers, a significant strengthening of demand, especially thanks to the corporate sector. All surveyed factors have made a positive contribution to demand. The quality of loan applications in Romania has improved significantly across all loan categories and maturities, strongly outperforming the CESEE average.

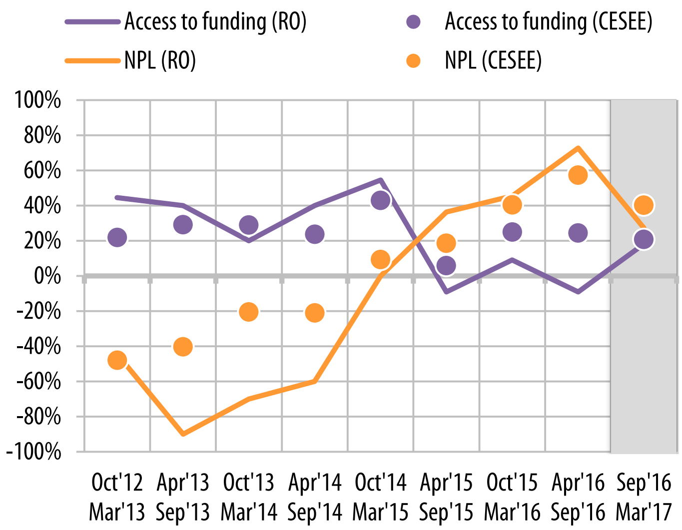
Access to funding has not changed much as positive developments in retail and corporate funding have been neutralized by deteriorated availability of particularly intra group and IFI funding.

NPL figures have continued the long-term trend and improved in all segments.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)



Source: EIB – CESEE Bank Lending Survey.

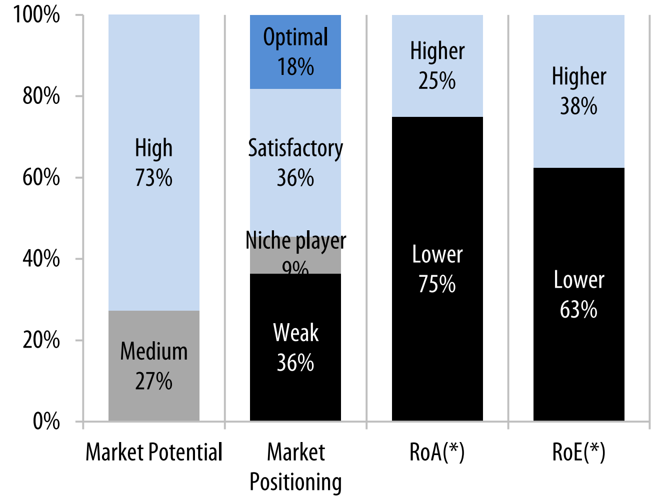
Note: Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Romania provide a rather mixed picture about their market potential and positioning suggesting a relatively high heterogeneity in the Romanian market. On the one hand, a large majority of banks report a lower profitability compared to overall group operations (three in four banks report a lower return on assets while two thirds face a lower return on equity). On the other hand, (nearly) a third of parent banks achieve higher profitability compared to overall group results.

This heterogeneity is reflected in groups' assessment of their market positioning. While more than a third consider their market position satisfactory, the same proportion of respondents find it weak. Despite this rather mediocre picture banks look optimistically into the future as three quarters of them see the market potential as high.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15. (*) 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.

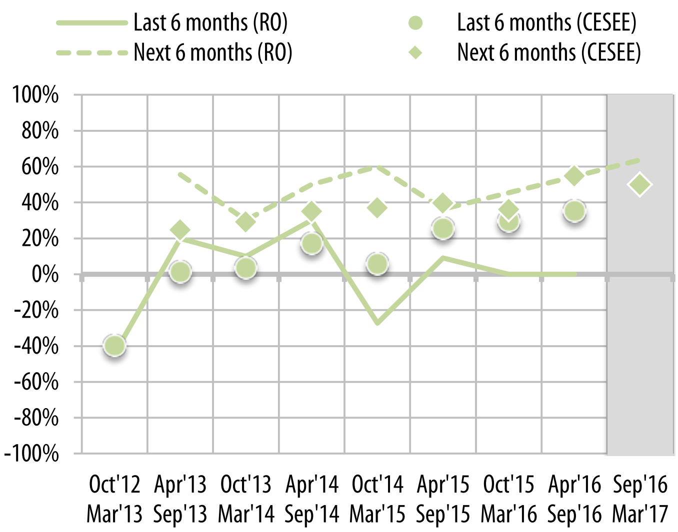
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Credit demand in Romania is reported to have stagnated over the last months again, strongly underperforming banks' expectations voiced in the last round. Hence, the two years lasting trend of stagnant or partially even shrinking demand has continued. Moreover, Romania's credit demand has not been able to match the gradual but steady recovery in the CESEE aggregate.

For the next half a year banks foresee a robust increase in credit demand in Romania, outperforming even the CESEE average. However, this projection for Romania might probably have to be discounted for the long record of banks' overly optimistic expectations.

Figure 2 **Demand side developments**

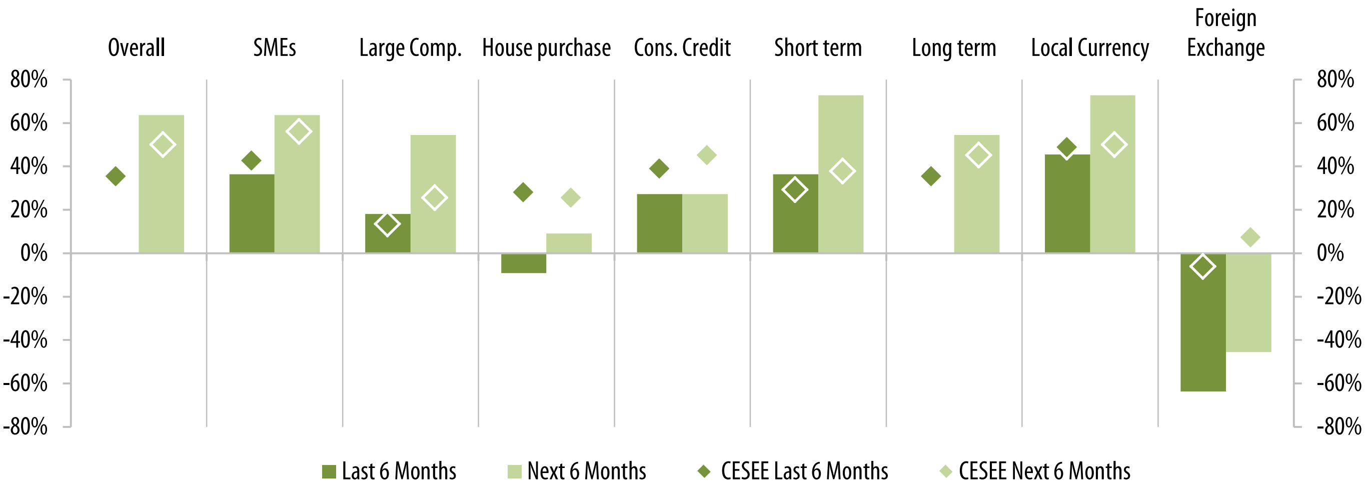


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 3 Demand components and segments

Aggregated demand in Romania has stagnated despite a reported (moderate) increase in the corporate sector and the consumer credit segment. In contrast, demand for mortgages has weakened somewhat. Interestingly, clients tend to require increasingly credit in local currency while FX lending has been losing appeal. This trend is expected to continue in the next months. However, bank subsidiaries are expecting a significant strengthening of demand among large and, even more so, small and medium-sized firms. Also consumer credit demand should keep rising while demand for mortgages is projected to get a small lift.

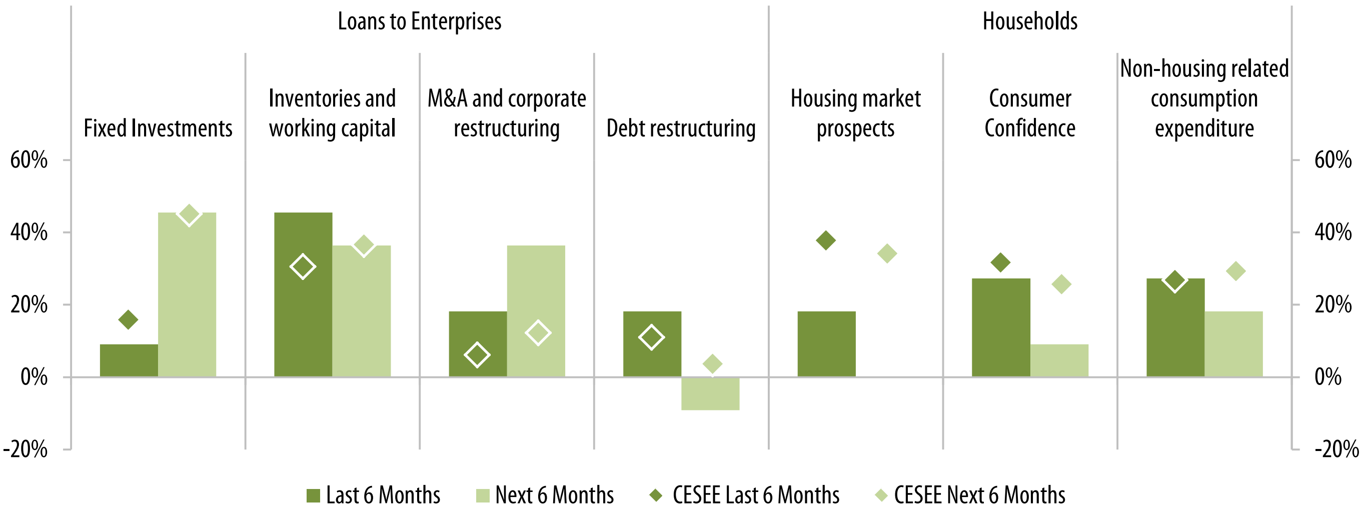


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Figure 4 Factors affecting demand for loans

All surveyed factors have made a positive contribution to demand over the last months, both in the corporate and the retail segment. On the corporate side demand has been driven predominantly by inventories and working capital, followed by M&A and corporate and debt restructuring. Investment has played only a minor, though also positive role. Strikingly, fixed investment is projected to become the major driving force of credit demand in the months ahead, in line with the CESEE region. In the household segment, rising consumer confidence and non-housing related consumption expenditures have been the strongest factors to affect demand. However, their effect is likely to weaken in the months ahead.

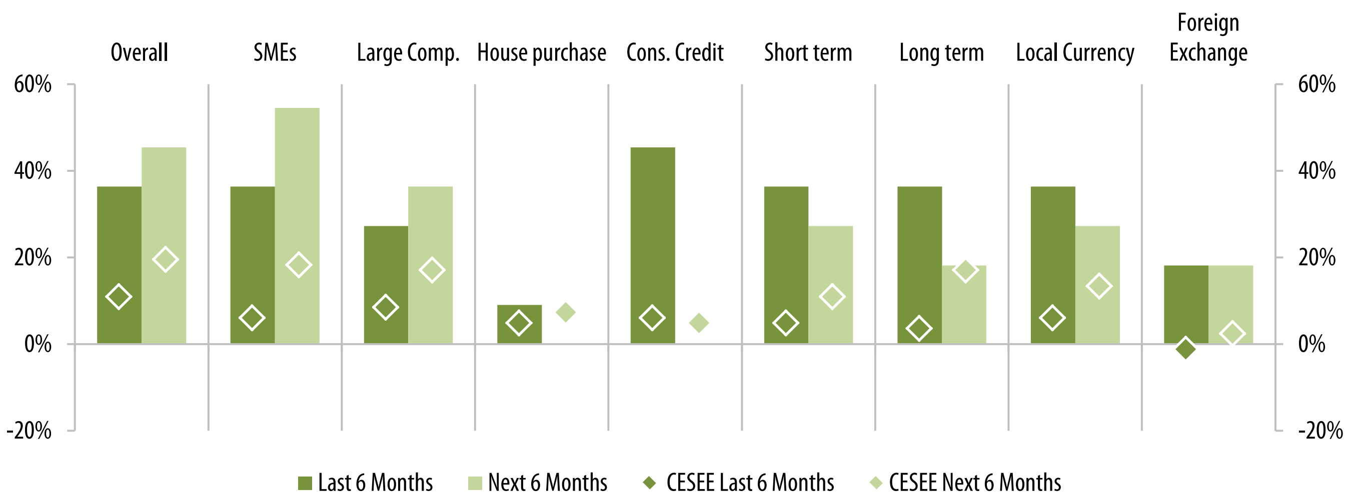


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex

Figure 5 Quality of loan applications

The quality of loan applications in Romania has improved significantly across all loan categories and maturities, strongly outperforming the CESEE average. The largest improvements have been recorded in the consumer credit and the SME segments. The overall quality progress is likely to further strengthen in the near future. However, in contrast to the past six months it will be driven solely by the corporate, especially the SME sector. A very similar, although less pronounced pattern is expected for the CESEE aggregate.



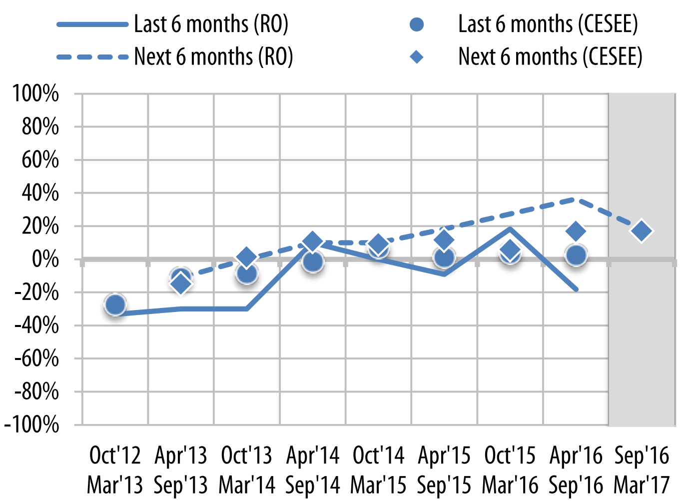
Source: EIB – CESEE Bank Lending Survey

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit supply conditions have not been able to live up to banks' earlier expectations and to what seemed to be a trend reversal towards relaxation in the previous survey round. Instead, credit conditions have tightened slightly over the last months, contrasting with a neutral development in the CESEE region. Hence, the indecisive zigzag course of the last three years has continued and is projected to be prolonged also in the next months as banks foresee some slight relaxation of credit supply conditions in Romania, just in line with the CESEE average.

Figure 6 Supply developments

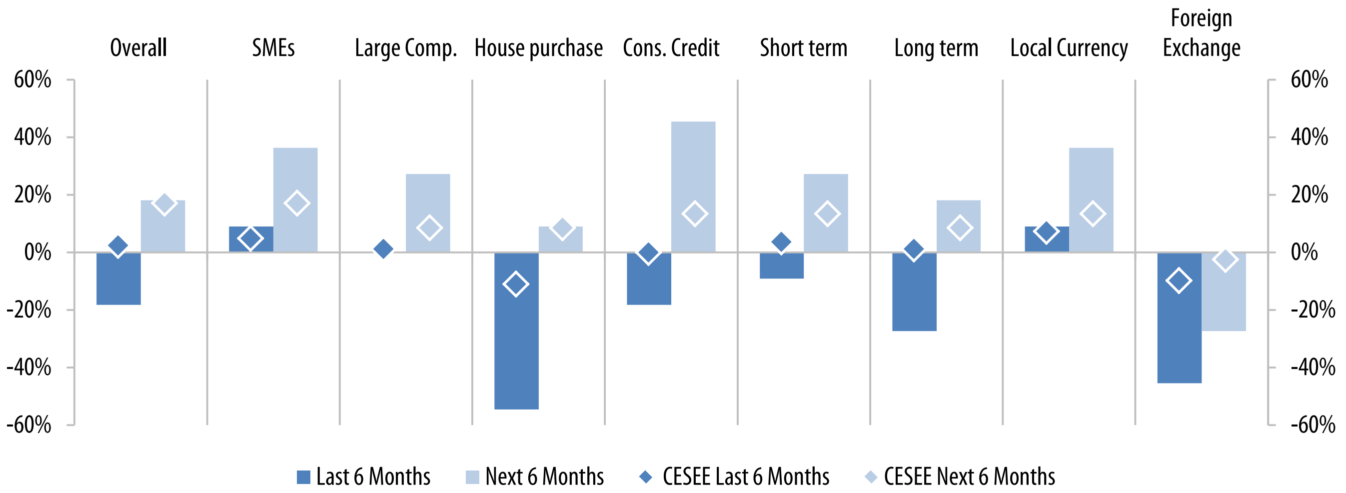


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 7 Supply components and segments

The tightening of credit supply conditions has stemmed from the retail segment where households have faced stricter conditions particularly when asking for mortgages and for loans in foreign currency. Looking ahead, a relatively broad-based relaxation of credit conditions is apparently in the pipeline. In particular, it should be easier for households to obtain a consumer credit as well as for SMEs and to a lesser extent for large corporates to secure bank funding as long as it is in local currency. In contrast, loans in foreign currency will be increasingly difficult to get.

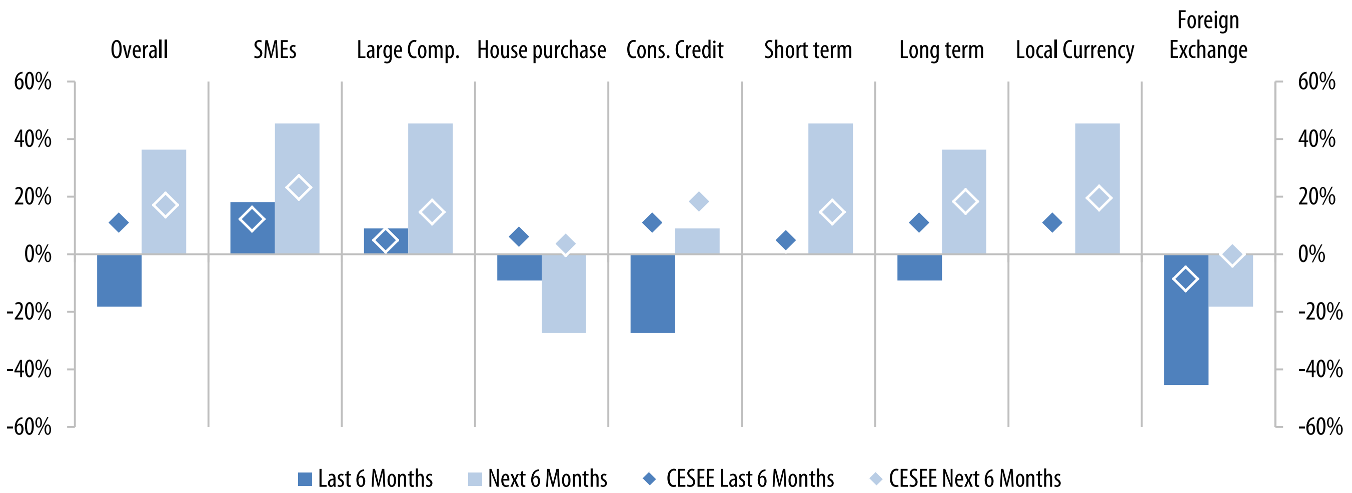


Source: EIB – CESEE Bank Lending Survey

Note: Net percentages; positive figures refer to easing supply conditions. See Question B.Q1 in the Annex

Figure 8 Credit Supply: banks' (local subsidiaries') approval rate for loan applications

In line with the deteriorated overall supply conditions in the retail sector also banks' approval rates for mortgages and particularly consumer credit applications have decreased in the last half a year. The decline in the household sector has thus overcompensated some increase in approval rates in the corporate sector. In the months ahead, banks are prepared to approve more easily both short- and long-term loan applications in local currency from companies while they will be increasingly cautious with mortgages and requests for foreign currency loans.

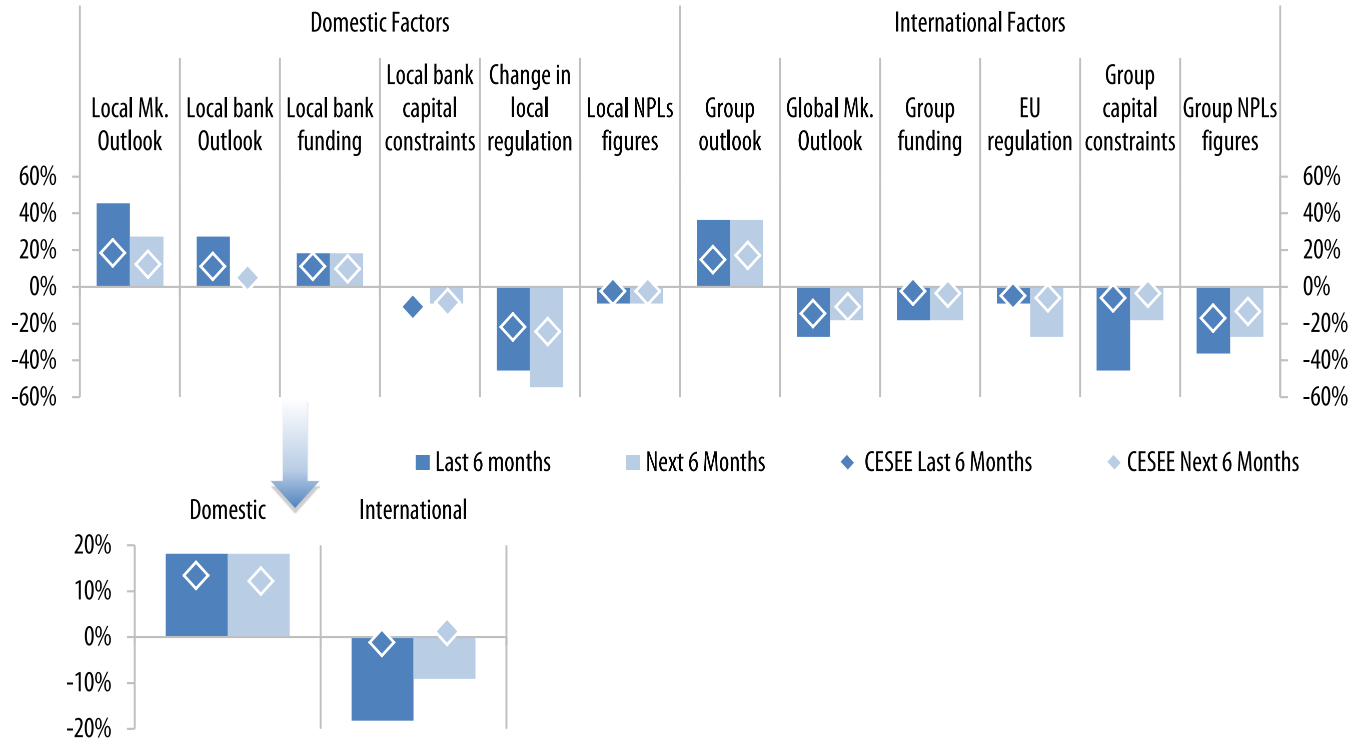


Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex

Figure 9 Factors contributing to supply conditions

Domestic and international factors have mutually offset their impact on supply conditions in Romania in the last months. Notwithstanding the drag of changes in local NPLs, domestic factors have had an overall beneficial impact on credit supply thanks to local market and local bank outlook as well as local bank funding. In contrast, on the side of international factors only global market outlook has exercised an easing effect on credit supply. However, this has been counteracted by a combined negative impact of all other factors, especially group capital constraints and group NPLs. A similar pattern is expected for the upcoming period for both domestic and international factors.



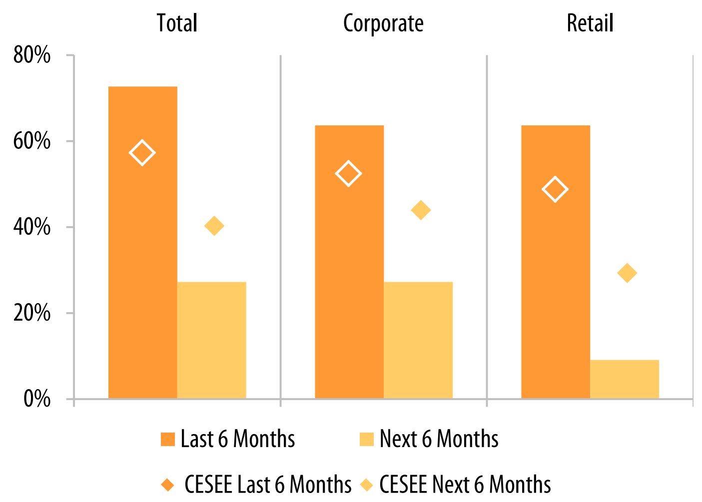
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

NPL figures in Romania have been described as improving strongly and above the CESEE average both in the corporate and retail segments.

The trend is expected to continue, although to a somewhat lesser extent than so far and to a lower extent than in CESEE peers. Especially in the retail sector the decline in NPL figures is projected to slow down noticeably.

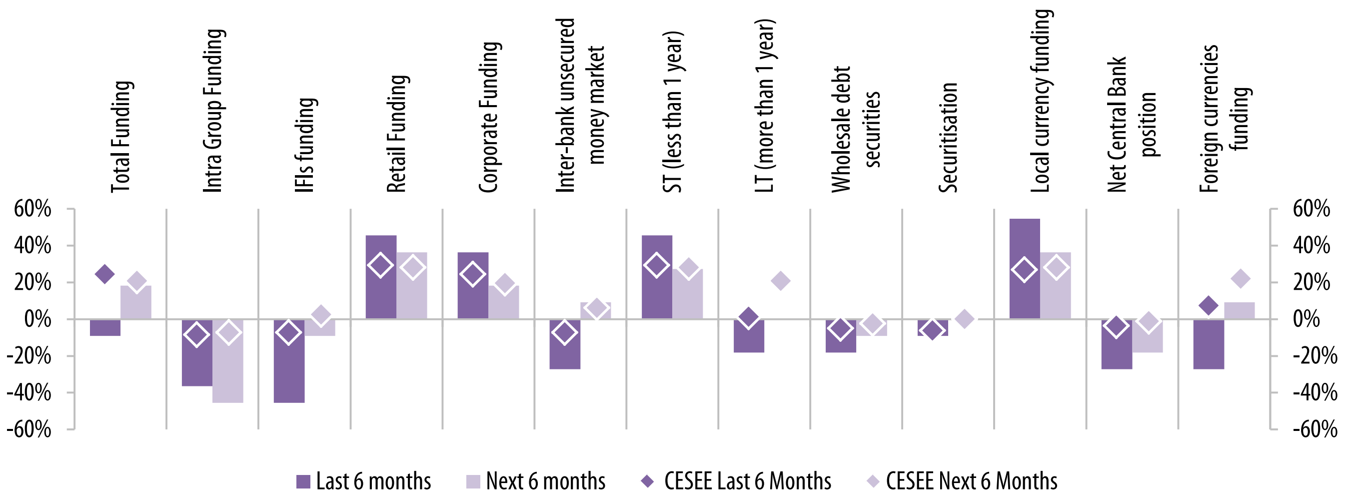


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; negative figures indicate increasing NPL ratios.See Question B.Q8 in the Annex

Figure 11 Access to funding

On balance, access to funding has not changed much for subsidiaries in Romania over the past months as positive developments in retail and corporate funding have been neutralized by deteriorated availability of intra group and IFI funding as well as worse access to funding on the inter-bank money market. Reportedly, particularly long-term financing in foreign currency has been more challenging for banks to get. In contrast, short-term financing in local currency has been improving. For the months ahead banks expect the overall balance of funding sources to tip to the slightly positive territory.



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

Serbia

Continuously strengthening credit demand vs. moderately tightening supply amid improving credit quality and mixed market perceptions

Summary

Group assessment of positioning and market potential: Parent banks have a mixed view of the Serbian market. Two thirds of them report that their profitability is lower compared to overall group operations, for one third profitability indicators are higher. This dichotomy is reflected also in the assessment of market positioning and potential. A slight majority consider their market position satisfactory. Yet more than a third of banks are not satisfied with their market position and nearly every fifth bank perceives also the market potential as low. Nonetheless, a large majority of banks believe the market potential is medium to high.

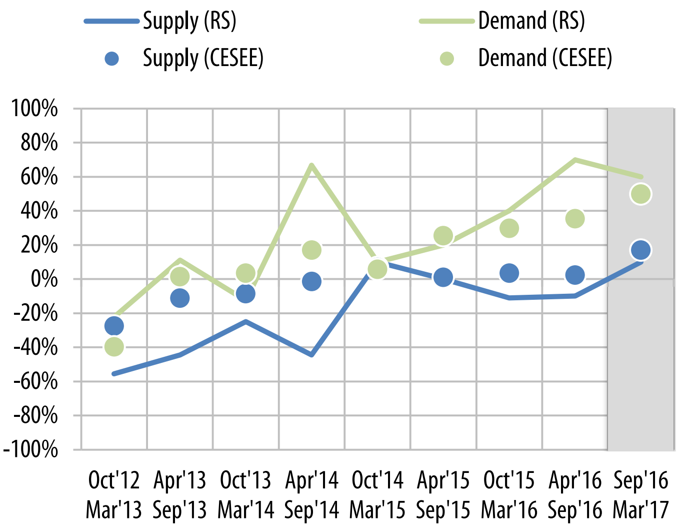
According to Serbian banks **credit demand has further strengthened,** while **supply conditions have moderately tightened**.

Credit supply conditions have deteriorated somewhat virtually for the whole spectrum of credit segments and products. However, the most significant tightening has been reported in the large corporate sector. The overall deterioration of credit supply conditions is reflected also in the slight decline in banks' approval rates for loan applications, especially with large corporates. Both domestic and international factors have put a small damper on credit supply conditions in Serbia and are expected to continue doing so.

Demand for loans has been increasing across the entire spectrum of products. However, the strongest growth is reported in consumer credit and house purchase segments as well as among SMEs. While firms have asked for credit particularly to cover their inventories and working capital needs, in the retail sector all factors have driven the demand surge. The slight improvement in quality of loan applications is expected to strengthen.

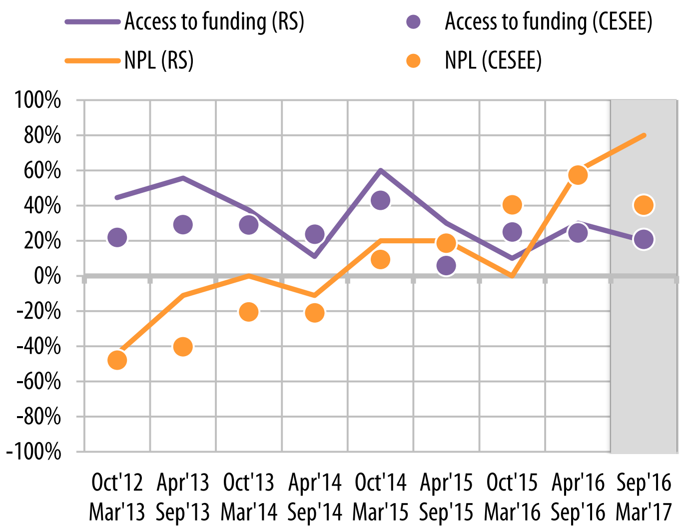
Access to funding has become somewhat easier for Serbian subsidiaries especially thanks to retail and corporate short-term funding in foreign currencies.

In contrast to stagnation of **NPL figures** reported in the spring credit quality has improved strongly lately.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)



Source: EIB – CESEE Bank Lending Survey.

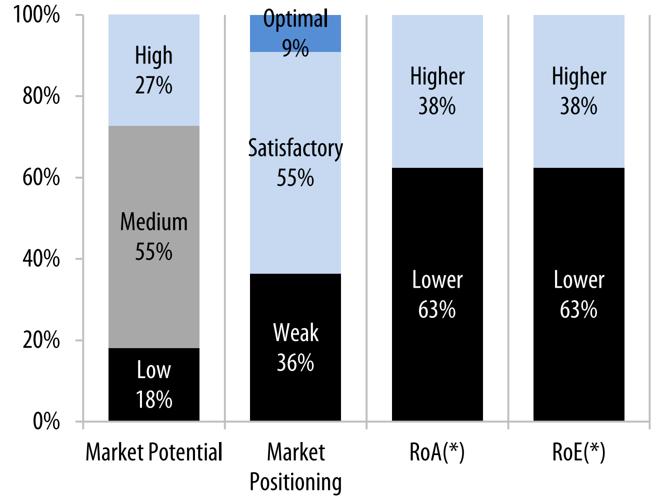
Note: Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

Parent banks have a mixed view of the Serbian market. Two thirds of them report that their profitability, both in terms of returns on assets and equity, is lower in Serbia compared to overall group operations. In contrast, the remaining bank groups achieve higher profitability than the overall group level.

This dichotomy is reflected also in parent banks' assessment of the market positioning and potential. A majority of banks consider their market position satisfactory and 9% even optimal. However, still more than a third of banks are not satisfied with their market position. Moreover, nearly every fifth bank perceives also the market potential as low. Nonetheless, despite the relatively gloomy current situation a large majority of banks (more than 80%) believe the market potential in Serbia is medium to high.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15. (*) 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.

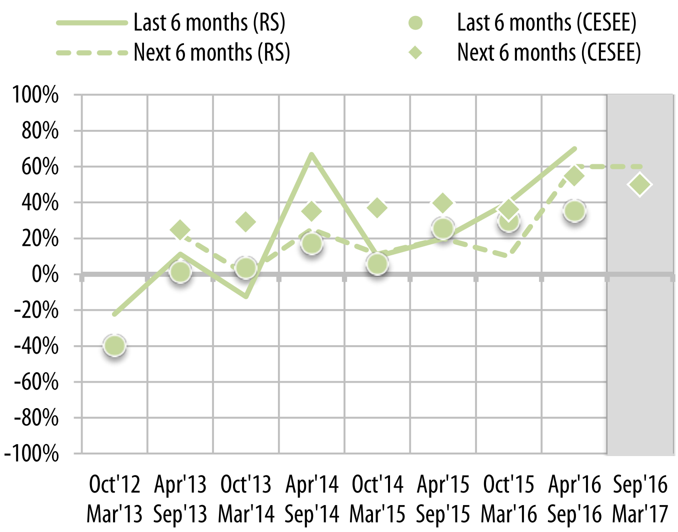
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

In line with expectations expressed in the previous round, aggregate credit demand strengthened in the six months to September and thus continued the upward trend started some two years ago.

While credit demand in Serbia has outperformed the recovery in the CESEE region over the last months, similarly robust developments are expected for the near future.

Figure 2 **Demand side developments**

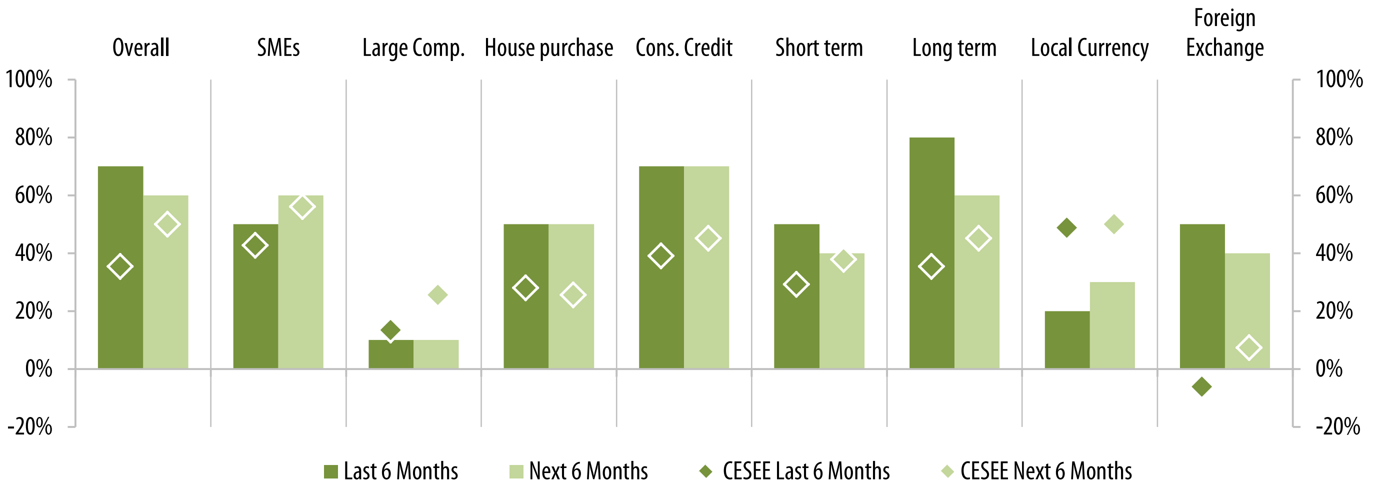


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 3 Demand components and segments

The demand recovery in Serbia has been broad-based. However, the strongest growth is reported in consumer credit and house purchase segments as well as among SMEs. Large corporates have also made a positive, though comparatively small, contribution. Interestingly, clients have particularly asked for long-term loans in foreign currency. This partially contrasts with the CESEE aggregate where demand for FX loans has contracted and also long-term loans have been less popular. In the months to come banks do not expect major changes to the trend and pattern.

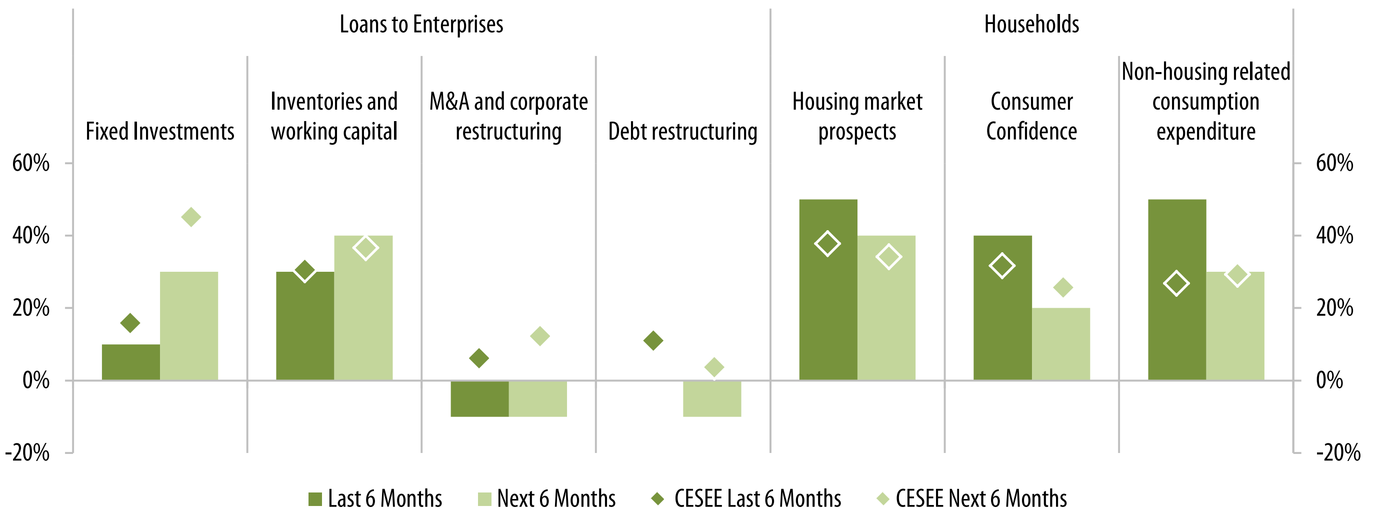


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Figure 4 Factors affecting demand for loans

Over the last six months, corporate clients have asked for credit particularly to cover their inventories and working capital needs. The relatively moderate effects of investments and M&A have pointed into opposite directions. In the next six months, banks expect that firms' external financing need for inventories and working capital will further increase but also investments should become an important credit demand driver. On the retail side, all factors have contributed strongly to the demand increase and pattern is not expected to change significantly in the future.

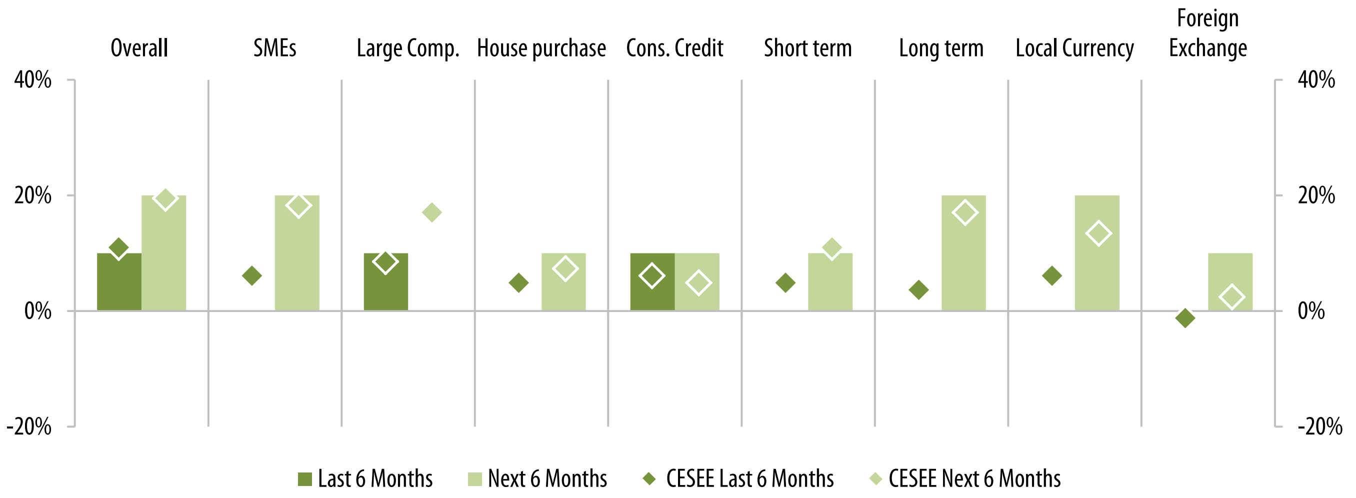


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex

Figure 5 Quality of loan applications

Banks report a slight improvement of the overall quality of loan applications over the last months, especially on the back of large corporate and consumer credit. In the next half a year, however, a more significant improvement in quality of loan applications is expected, especially for long-term and local currency loans in the SME and, to a lesser extent, in the retail segments.



Source: EIB – CESEE Bank Lending Survey

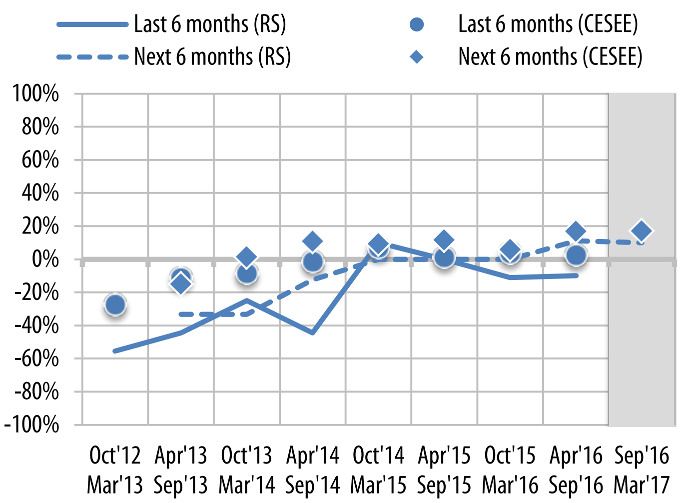
Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q6 in the Annex

Aggregate supply developments

In contrast to a vigorous demand side and just short of the stagnation in CESEE peers credit supply conditions in Serbia have mildly tightened over the last months.

The trend is expected to continue also in the following six months although some light easing of conditions might be possible.

Figure 6 **Supply developments**

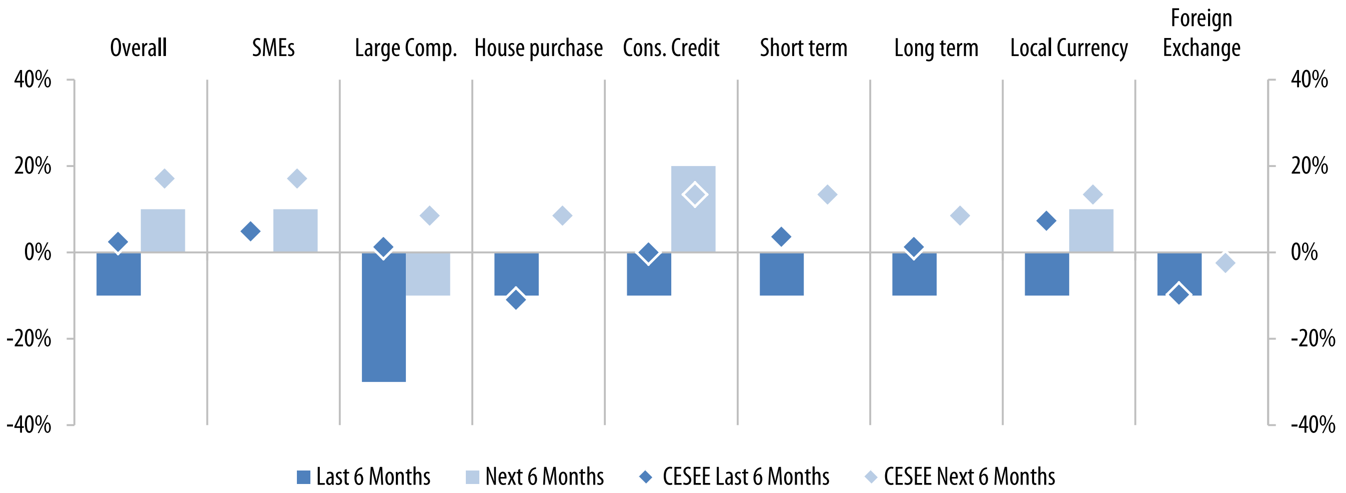


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 7 Supply components and segments

While credit conditions have deteriorated somewhat for the whole spectrum of credit segments and products the most significant tightening has been reported in the large corporate sector. This is expected to continue, although at a much slower pace. In addition, banks project some slight loosening of credit conditions in the SME and particularly in the consumer credit segment. A combination of these effects might thus bring about a moderate overall easing of credit conditions in Serbia.

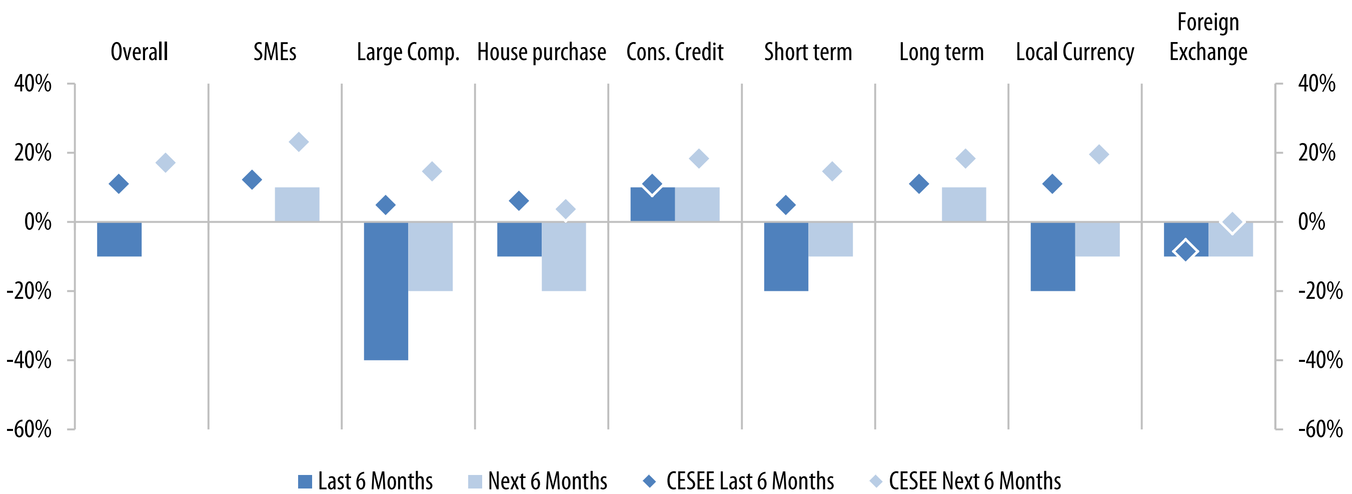


Source: EIB – CESEE Bank Lending Survey

Note: Net percentages; positive figures refer to easing supply conditions. See Question B.Q1 in the Annex

Figure 8 Credit Supply: banks' (local subsidiaries') approval rate for loan applications

The overall deterioration of the credit supply conditions is reflected also in the slight decline in banks' approval rates for loan applications, especially with respect to loans for large corporates, short-term and local currency loans. In contrast, banks have become somewhat more willing to approve consumer credits. Looking ahead, banks are not planning any major changes in their approval behaviour except that they might become slightly less strict with large corporates. Hence, overall, approval rates are expected to move sideward in Serbia in the months ahead as opposed to a moderate increase in CESEE.

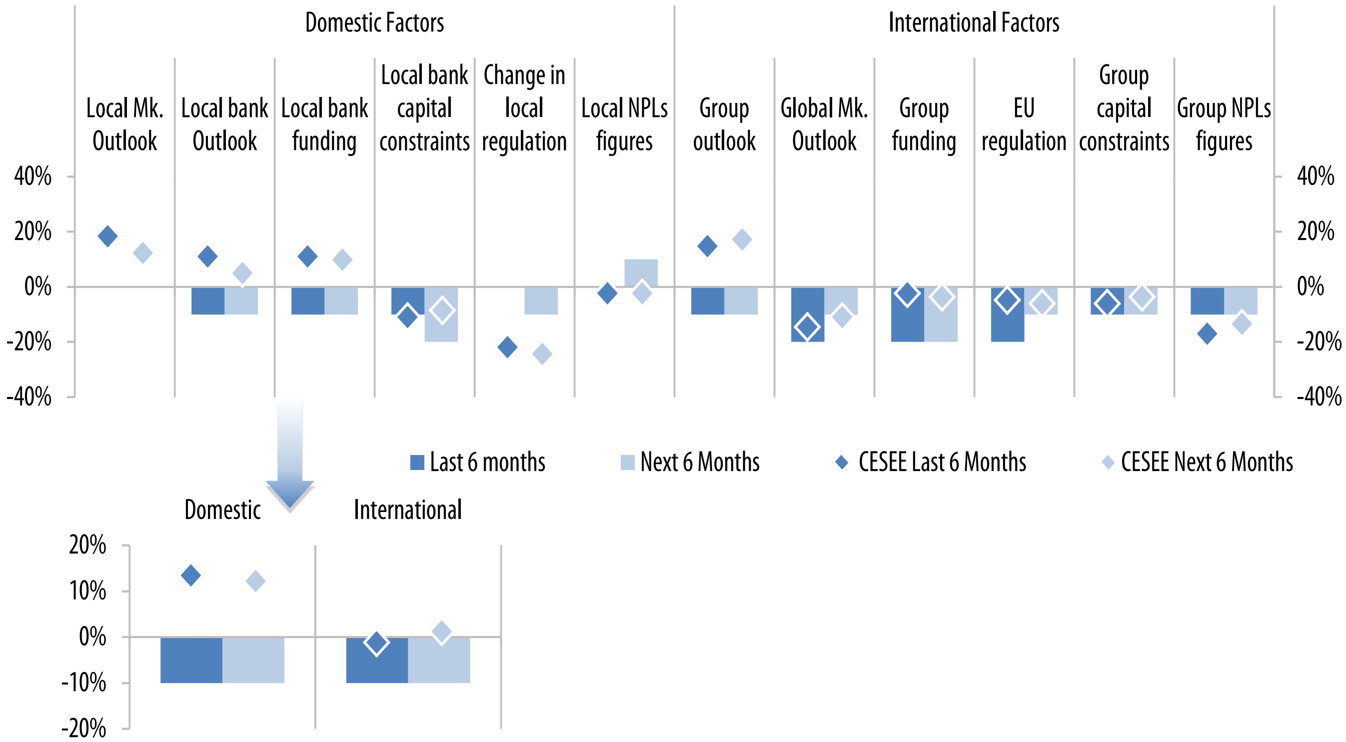


Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex

Figure 9 **Factors contributing to supply conditions**

Both domestic and international factors have put a small damper on credit supply conditions in Serbia and are expected to continue doing so in the months to come. Concerning domestic factors, it has been particularly local bank outlook, funding and capital constraints while other factors have made a neutral contribution to credit supply in the last months. In contrast, all international factors have contributed to a tightening of credit supply conditions to some extent in Serbia. While this has been broadly in line with developments in CESEE peers, one notable exception has been group outlook which has been assessed much more positively in CESEE than in Serbia.

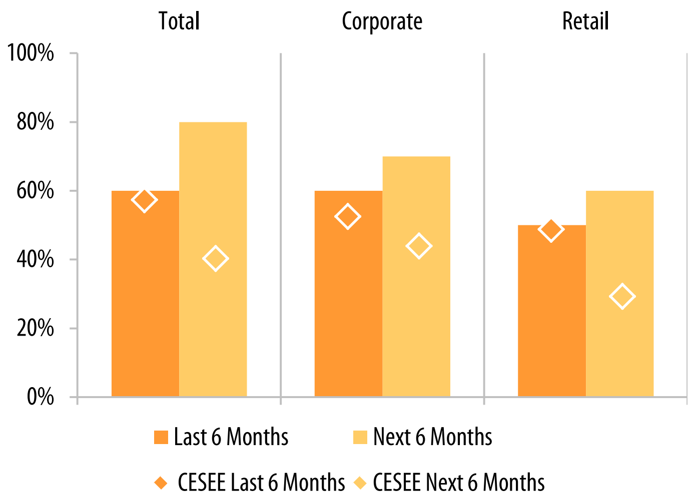


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

In contrast to stagnation of NPL figures reported in the spring round credit quality has improved significantly over the last six months both in the corporate and retail sectors. This encouraging development is projected to continue in the following half a year outperforming the CESEE region.

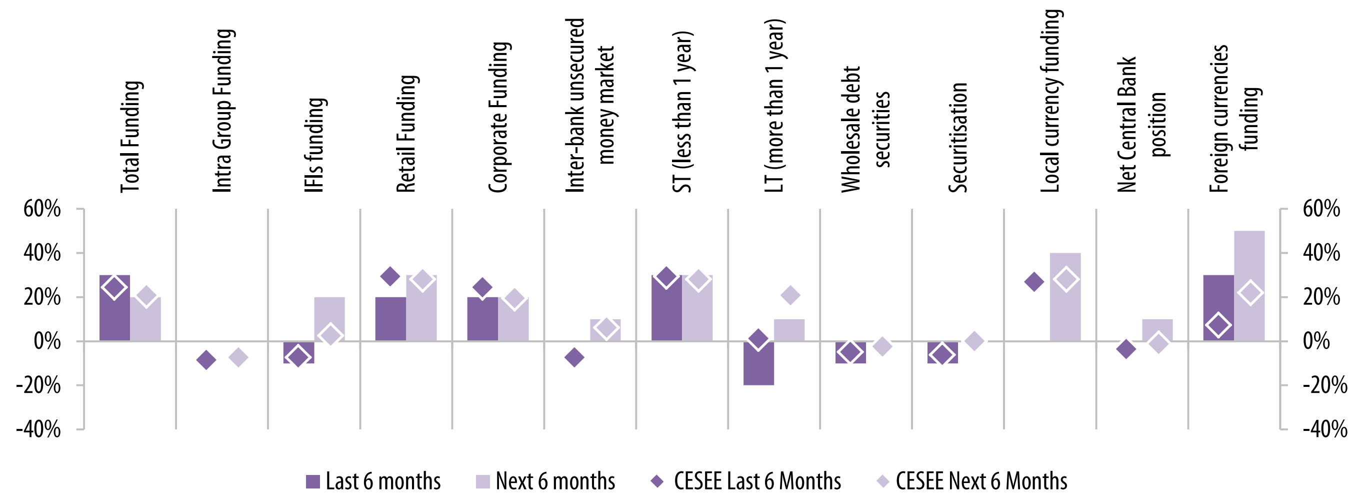


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; negative figures indicate increasing NPL ratios.See Question B.Q8 in the Annex

Figure 11 Access to funding

In line with the CESEE aggregate access to funding has become somewhat easier for Serbian subsidiaries especially thanks to retail and corporate short-term funding in foreign currencies. A similar pattern is expected for the next six months. Moreover also local currency funding is expected to become more easily available.



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

Slovakia

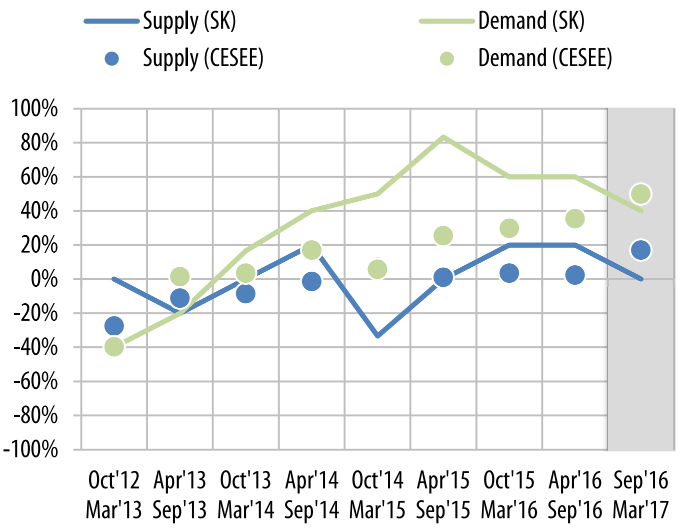
Highly profitable market with stable domestic funding. Amidst recent robust credit growth, first signs of healthy cooling off could be emerging.

Summary

Group assessment of positioning and market potential: Slovakian banking sector is predominantly owned by foreign banking groups. In light of the high profitability of the Slovakian banks, the parent banking groups continue to see high to medium market potential. Majority of the parent banking groups are satisfied with their current market position in Slovakia. Group outlook is contributing positively to local credit supply conditions.

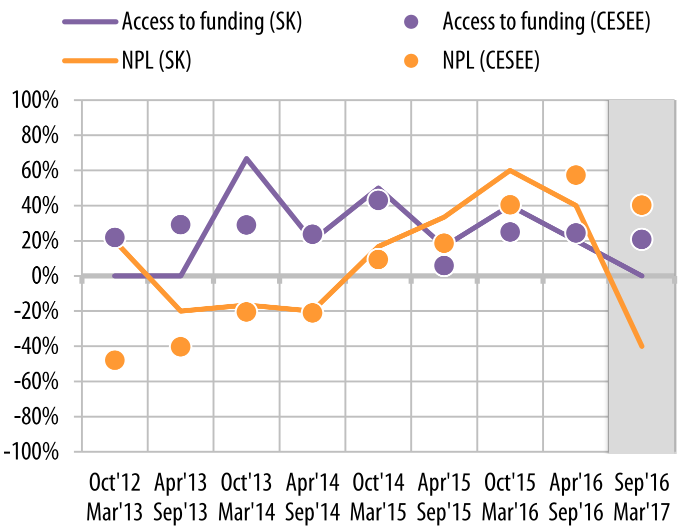
While **credit demand** has been running ahead the **credit supply** during the past few years, the latest survey data can show some tentative signs of changing dynamics. **Credit supply conditions** have been easier in Slovakia than in the CESEE region, but more neutral conditions are expected in the next six months. Credit standards are expected to tighten for consumer loans and the approval rate for house purchase loans and consumer loans is expected to decline. On the other hand, SMEs and large companies continue benefiting from easy credit supply conditions. **Demand for loans** is expected to slow down over the next six months, particularly for house purchase loans and consumer credit. It is expected to increase for SME loans. Excessive leveraging by households during the past few years, and recently also by companies, led to the first increase in the level of the countercyclical capital buffer for banks in July 2016 (effective in August 2017), and the readiness of the National Bank of Slovakia (NBS) to act further if the rapid credit growth from the last years continues. NBS will also have the ability to recalibrate some of the prudential regulation for mortgages at the beginning of 2017.

Access to funding: Slovakian banks rely predominantly od domestic deposits. During the last six months, banks' access to domestic deposits from households and companies increased. Looking ahead, the local banks expect better access to intra group funding over the next six months, too. **NPL figures** for companies decreased during the last six months in line with the trend of the recent years, but are expected to increase for both companies and households over the next six months.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)



Source: EIB – CESEE Bank Lending Survey.

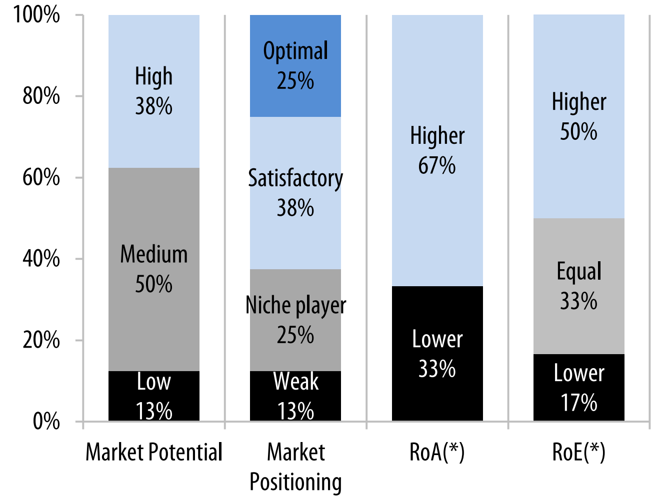
Note: Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

The Slovakian banks remain highly profitable for their parent banking groups. From this perspective, 88 percent of the parent banking groups operating in Slovakia continue to see high or medium market potential in Slovakia, and 63 percent of the respondents regard their current market positioning as optimal or satisfactory.

Going forward, local banks' profitability can be negatively affected by narrowing net interest margins.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q15. (*) 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.

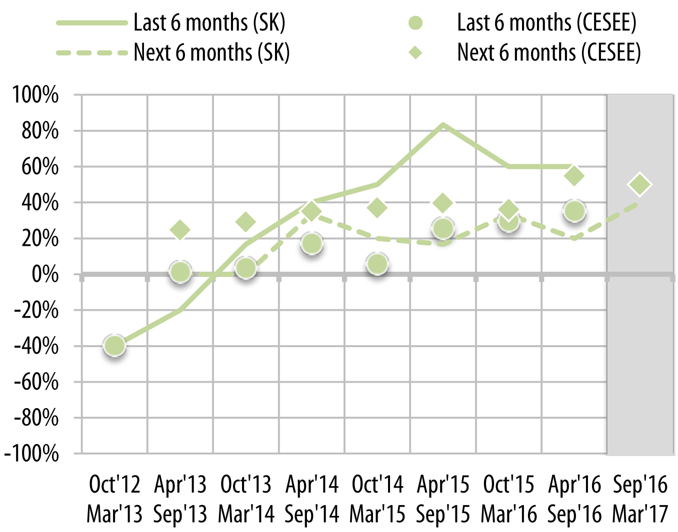
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Credit demand has been slowing down recently from the heights experienced in 2015. Credit demand dynamics in Slovakia remains above the CESEE peers, although the expectations are converging.

Local banks' expectations about the demand for loans over the next six months continue to be conservative and biased downwards vis-à-vis the actual perceptions. This might indicate that the slowdown of loan demand in the next six months might be actually milder than expected.

Figure 2 **Demand side developments**



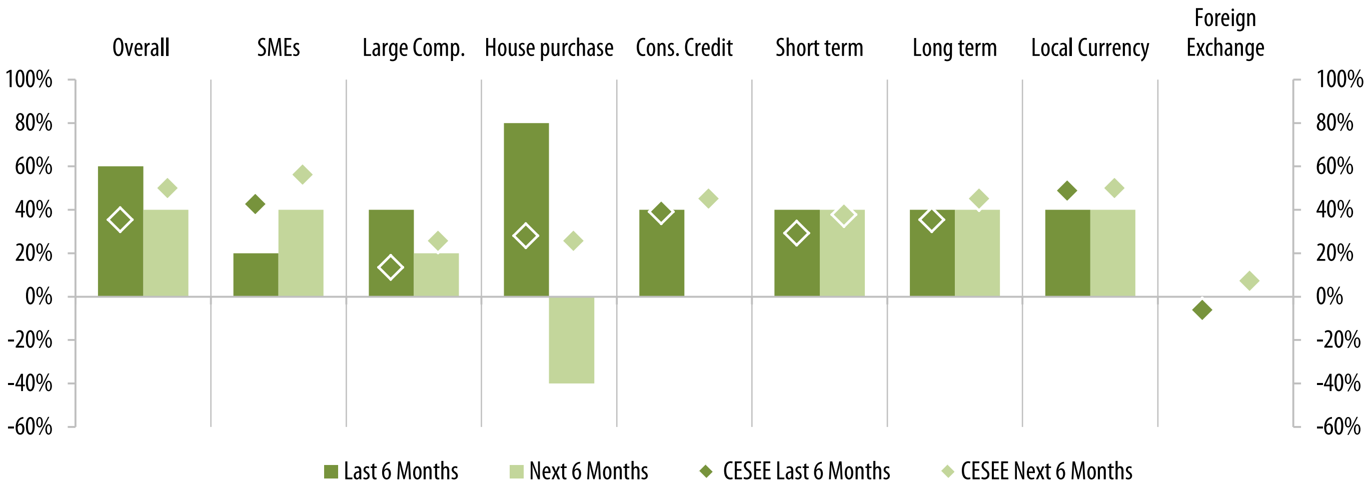
Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 3 Demand components and segments

Credit demand remains robust, although weaker than in previous periods. House purchases have been contributing most to the credit demand (far ahead the CESEE peers) during the past six months, alongside consumer credit and demand from large companies. As previously, banks have not been facing any changes in the demand for foreign currency loans.

Demand for loans from SMEs is expected to accelerate in the next six months. On the other hand, some of the previous drivers – house purchases and consumer credit – are expected to slow down sharply.

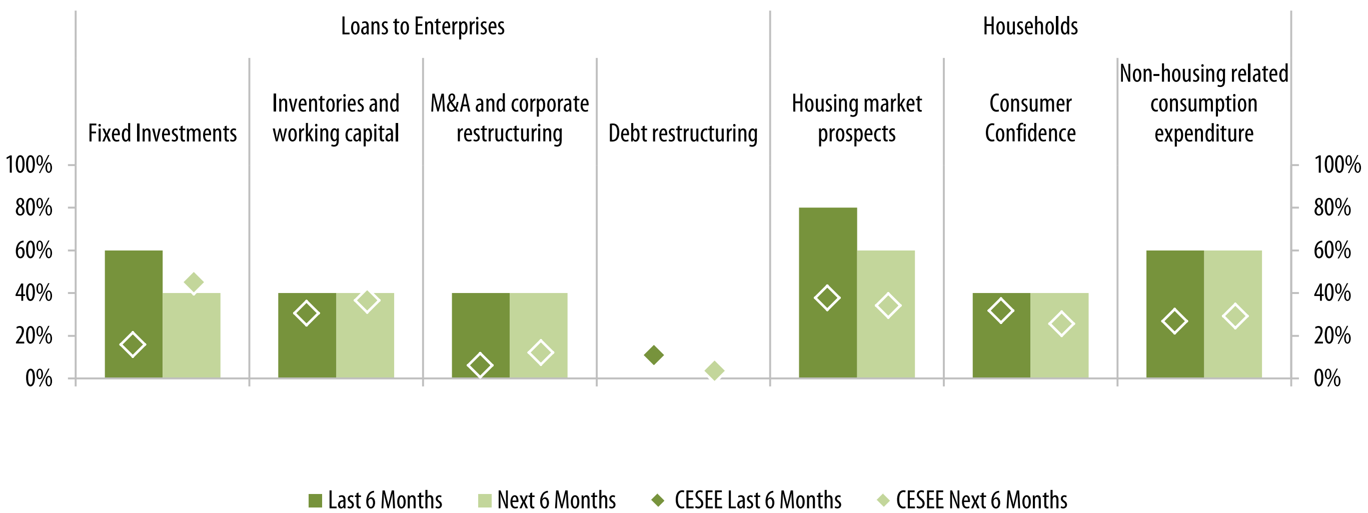


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Figure 4 Factors affecting demand for loans

Among the individual factors contributing to credit demand, fixed investments and housing market prospects have been the strongest during the last six months, and they were contributing stronger to the credit demand than in the CESEE aggregate. This observation supports the broader macroeconomic story of continued strong domestic demand growth in Slovakia.

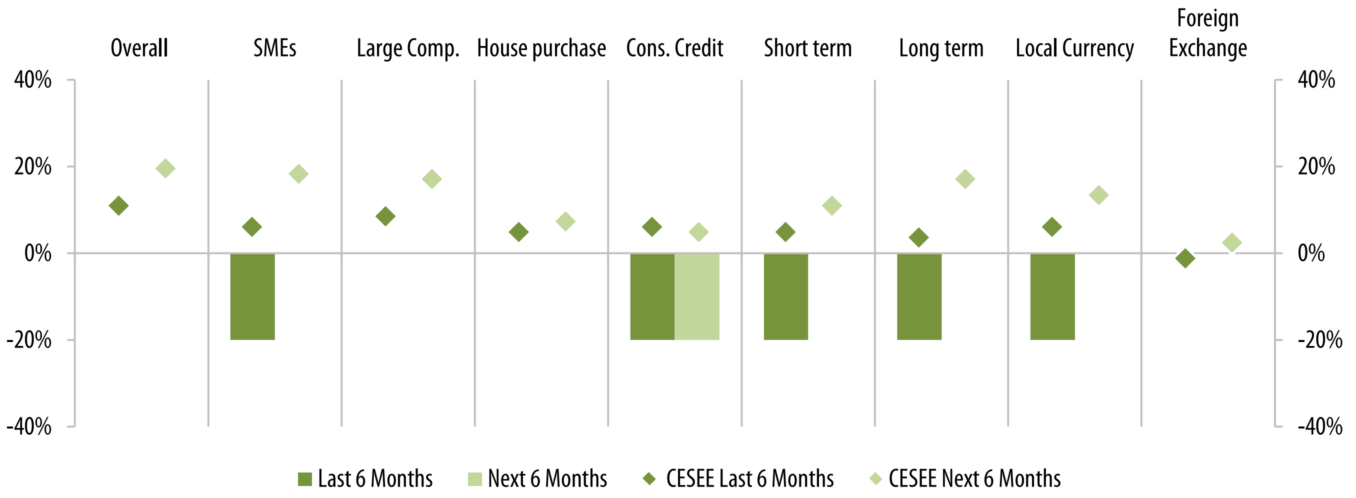


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex

Figure 5 Quality of loan applications

The quality of loan applications has been broadly deteriorating during the last six months, including for SME loans and consumer credit. Looking ahead, the quality of loan applications is not expected to have strong impact on credit demand, except for the continued deterioration for consumer credit.



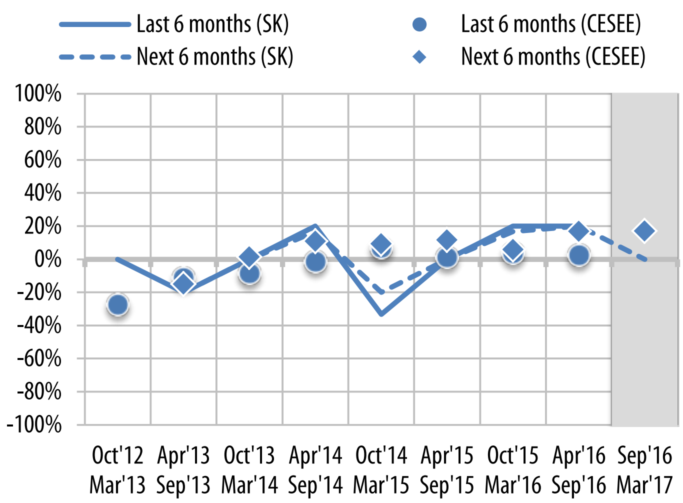
Source: EIB – CESEE Bank Lending Survey

Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Lending standards in Slovakia have been easing since 2015 and they have been easier than the CESEE aggregate. Nevertheless, they are expected to become broadly neutral during the next six months.

Figure 6 **Supply developments**



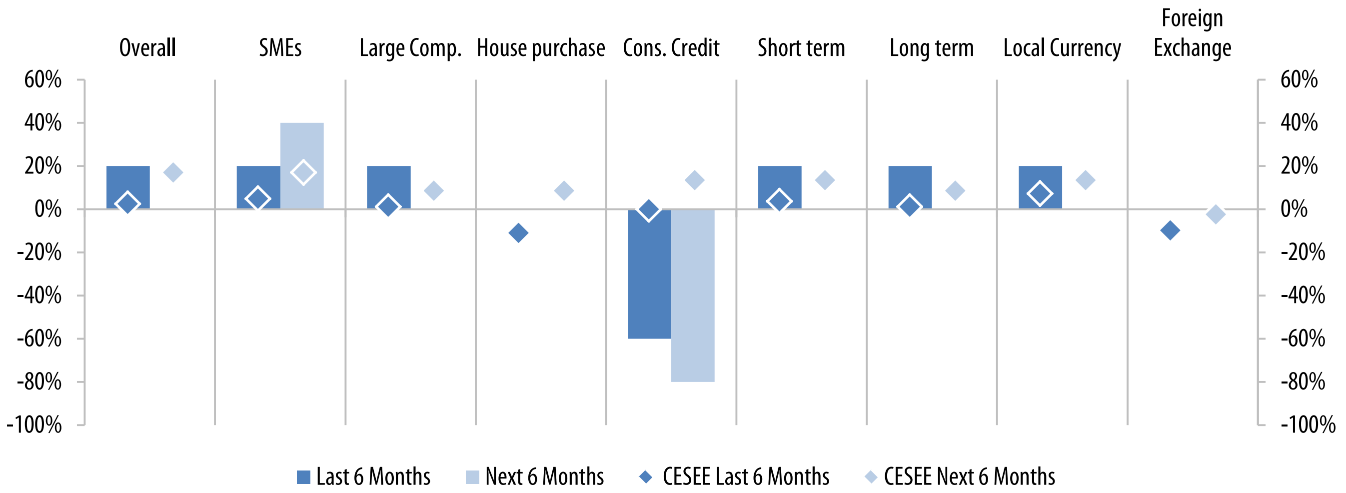
Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moroever the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.

Figure 7 Supply components and segments

While credit standards for the CESEE region were mostly unchanged in the last six months, they eased somewhat in Slovakia. Credit standards remained easy during the last six months particularly for SMEs and large companies. More credit easing is expected for SMEs over the next six months.

On the contrary, credit standards started to tighten for consumer credit during the last six months and they are expected to tighten even more in the coming six months, while they should remain broadly unchanged (or become slightly easier going forward) in the CESEE region.

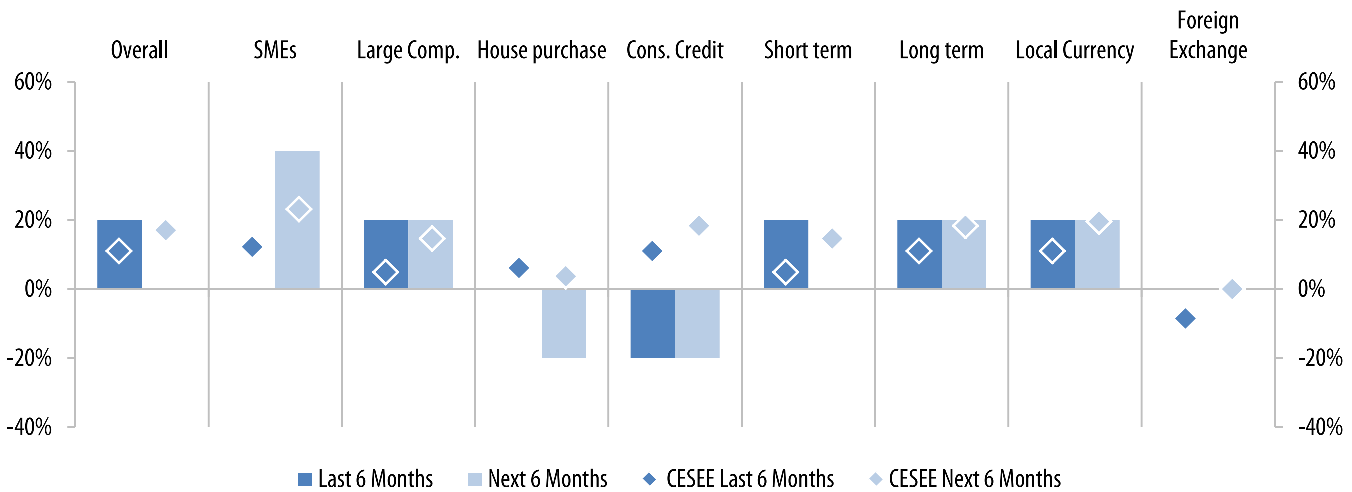


Source: EIB – CESEE Bank Lending Survey

Note: Net percentages; positive figures refer to easing supply conditions. See Question B.Q1 in the Annex

Figure 8 Credit Supply: banks' (local subsidiaries') approval rate for loan applications

The banks' approval rate for loan applications in Slovakia during the last six months has been increasing than in the CESEE region, with large companies being the main beneficiary. The approval rate for consumer credit has been decreasing during the last six months and is expected, together with the approval rate for house purchase loans, to continue to do so in the next six months – in line with the expected tighter credit standards. On the other hand, the approval rate for SME loans is expected to pick up significantly in the course of the next six months.

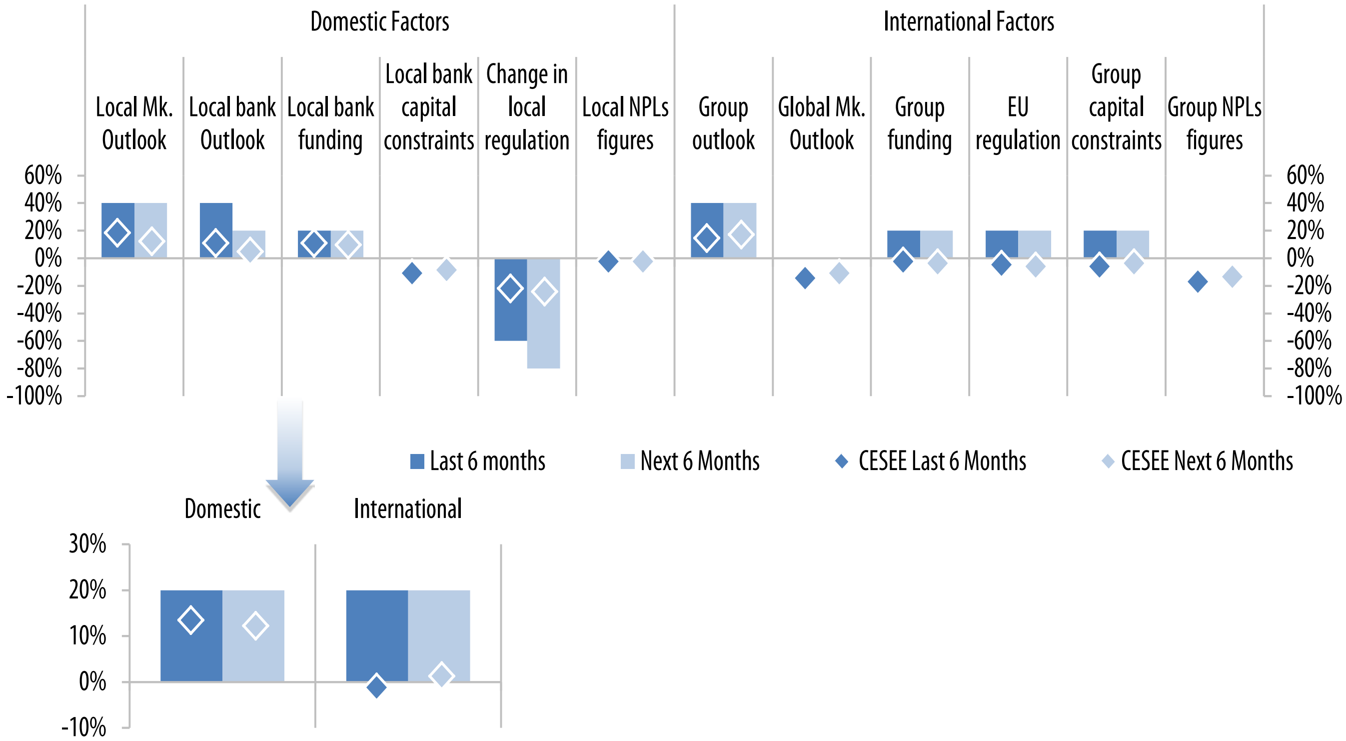


Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex

Figure 9 Factors contributing to supply conditions

Local market, local bank outlook and local funding continue contributing positively to credit supply conditions in Slovakia, even stronger than for the CESEE peers. On the other hand, changes in local regulation seem to be weighing more negatively on credit supply in Slovakia than in the CESEE region. Unlike for the region in aggregate, international factors have been and are expected to be a positive factor, particularly the group outlook.



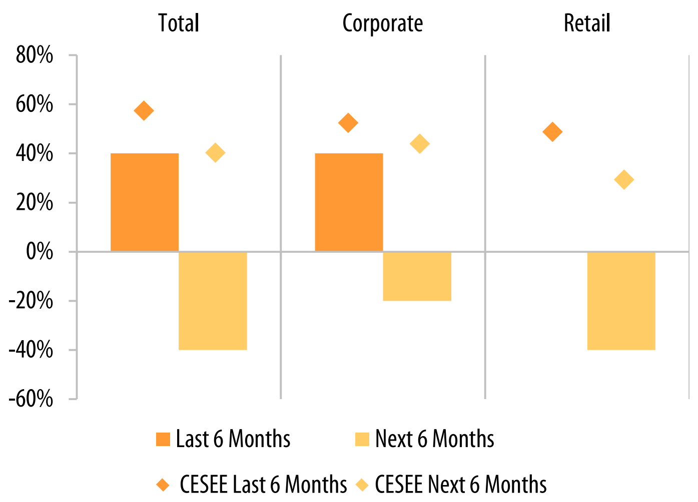
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

As continuation of the trend from the recent years, NPL ratios have been decreasing for the Slovakian corporate sector during the last six months. They are expected to increase for both the corporate and retail loans in the next six months.

Even though the total NPL ratios in Slovakia have been declining during the recent years, over the course of the next six months, banks in Slovakia are the only ones in the CESEE region expecting an increase in NPL ratios. Nevertheless, continued strong economic growth in Slovakia, improvements on the labour market, and low interest rates environment bode well for the households' ability to service their debt. Loan provisioning is also relatively high in Slovakia.

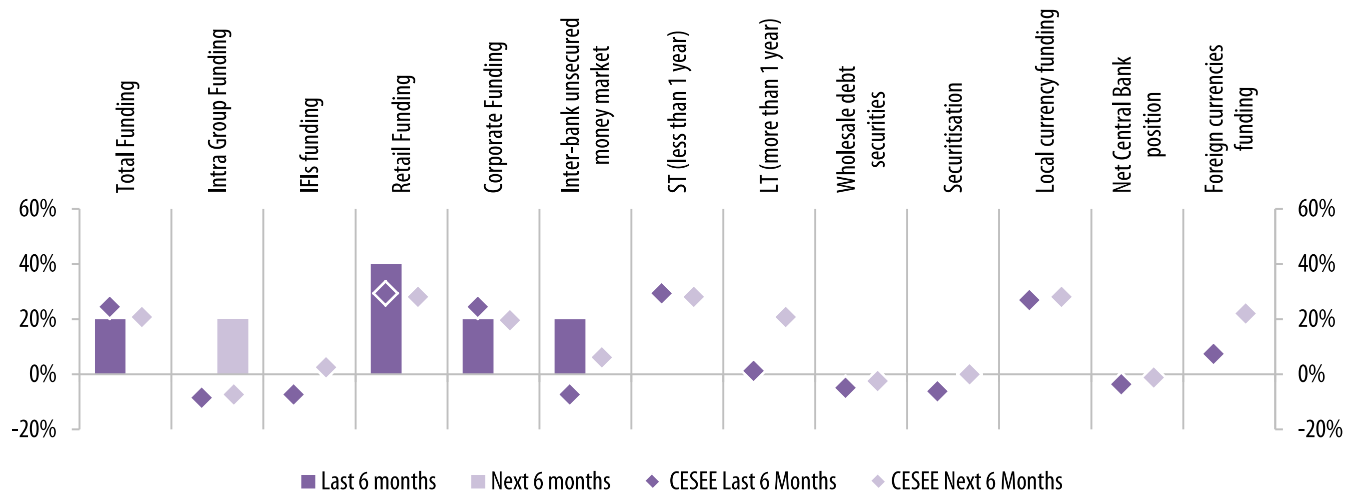


Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; negative figures indicate increasing NPL ratios.See Question B.Q8 in the Annex

Figure 11 Access to funding

Access to funding for Slovakian banks has improved during the last six months, although the improvements have been marginally smaller since end-2015. Funding conditions remain stable, with banks predominantly funding their activities form domestic deposits. Retail and corporate deposits have been the main positive factors to funding conditions during the last six months. Over the course of the coming six months, the intragroup funding conditions are expected to improve as well.



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

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
- 85 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 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

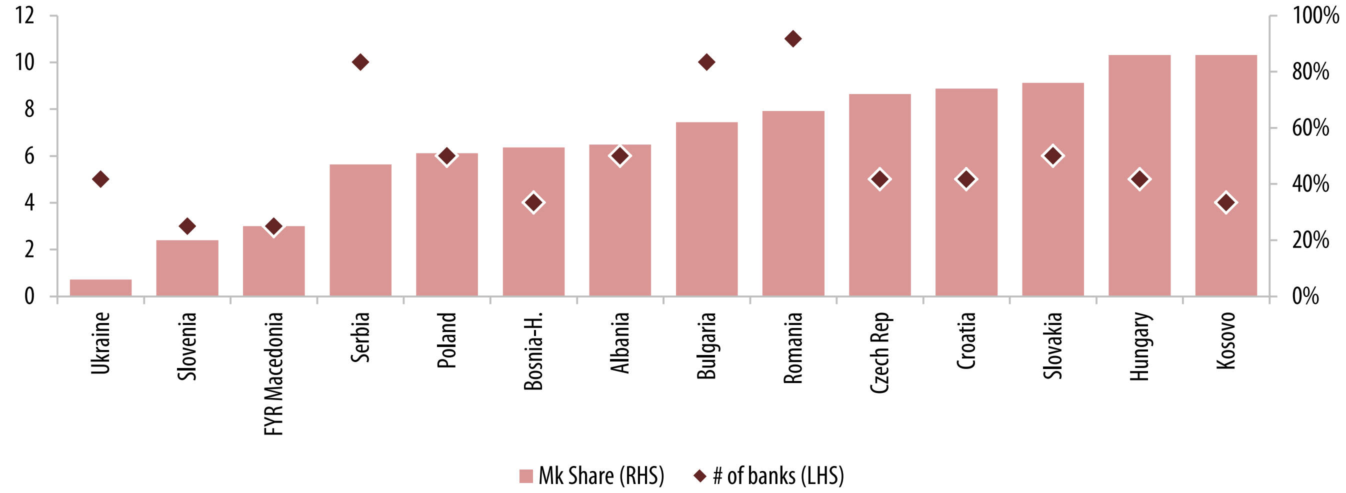
[1] Details for Estonia, Macedonia, Slovenia and Ukraine are not presented on a stand-alone basis, due to the relatively low coverage in terms of number of banks.

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.

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



Source: EIB – CESEE Bank Lending Survey.

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.

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.

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 yes, which type?		
	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...		
	*…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 bond to clients)		
Corporate (deposits and bond to clients)		
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…		

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

A.Q5 - Profitability of the strategy in CESEE region: the contribution of activities in CESEE in total ROA of the Group is/will…		
	LAST 6 months	**NEXT** 6 months

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

	LAST 6 months	**NEXT** 6 months

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

	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 - ECB measures:

1) Did you have access (as a group) to the ECB announced TLTROs?	
2) If answered yes to 1), did you withdraw the full amounts allowed by your (group) collateral or only partially?	
3) Was the access to the two initial TLTROs able to satisfy your demand for long-term liquidity at group level?	
4) Did you utilize the TLTROs to (multiple yes or no are possible)…	
…fund non-financial corporates lending growth in jurisdictions where TLTROs access is available?	
…indirectly fund non-financial corporates lending growth in jurisdictions where TLTROs access is NOT available (e.g. via intra-group funding)?	
…fund the investment/acquisition of bonds?	

A.Q10 - How have the TLTROs impacted on your Group external exposure? How do you expect them 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		
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.Q11 - How do the asset purchase programs (incuding public sector bonds) impact on your Group external exposure? How do you expect them 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		
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.Q12 - How have other ECB measures (e.g. negative depo rate, stop to SMP sterilisation) affected your Group external exposure? How do you expect them 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		
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.Q13 - Conditions of your funding to your own subsidiaries in CESEE…

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

A.Q15 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						
Kosovo						
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…**

	…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		

B.Q2 - Credit Supply: bank's (local subsidiary)'s approval rate for loan applications…

	…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.Q3 - Credit supply: have bank's conditions and terms (e.g. maturity, pricing, size of average loan, etc.) **for approving loans or credit lines changed/will they change?...**

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 on average loan (wider margin = --, narrower margin = ++)					
B) Size of the average loan or credit line					
C) Maturity					
D) Non-interest rate charges					
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 on average loan (wider margin = --, narrower margin = ++)					
B) Size of the average loan or credit line					
C) Maturity					
D) Non-interest rate charges					
E) Collateral requirements					

B.Q4 - Factors affecting your bank's credit standards (credit supply).
Have the following domestic and international factors contributed to tighten (ease) your credit standards over the past six months, and do you expect them to contribute to tighten (ease) your credit standards over the next six months?

	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)		
viii) Bank's liquidity position		
ix) Risk on collateral demanded		
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)		

B.Q5 - Loan Applications: Demand for loans or credit lines to enterprises and households (to your local subsidiary/branch)…

	…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.Q6 - Has the quality of the Loan Applications changed / Do you expect it to change?

	…How has it changed over the last six months?	*…How do you expect it to change over the next six months?*
Overall		
Applications from small and medium-sized enterprises		
Applications from large enterprises		
Applications from households for house purchase		
Applications for consumer credit (other than loans for house purchase)		
Applications for short-term loans		
Applications for long-term loans		
Applications for Local Currency		
Applications for Foreign Currency		

B.Q7 - Factors affecting clients' demand for loan applications...

...Loans or credit lines to enterprises

A) Financing needs	*…How have they changed over the last six months?*	*…How do you expect them to change over the next six months?*
Fixed Investments		
Inventories and working capital		
M&A and corporate restructuring		
Debt restructuring		

...Loans to Household

A) Financing needs		
Housing market prospects		
Consumer Confidence		
Non-housing related consumption expenditure		

B.Q8 - Gross non-performing loans ratio in your local subsidiary/branch (excluding extraordinary operations)…

	…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.Q9 - 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?

	Over the **LAST** six months	Over the **NEXT** six months
A) Total funding		
A.1) Intra Group Funding		
A.2) IFIs (international financial institutions) **funding**		
A.3) Retail funding (deposits and bonds to clients)		
A.4) Corporate funding (deposits and bonds to clients)		
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.Q10 - How have the following factors affected your local subsidiary funding conditions over the past six months, and do you expect this to change over the next six months?

	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		

European Investment Bank

The EU bank

Economics Department
economics@eib.org
www.eib.org/economics

Information Desk
+352 4379-22000
+352 4379-62000
info@eib.org

European Investment Bank
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg
+352 4379-1
+352 437704
www.eib.org

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