CESEE Bank Lending Survey

H1-2016

CESEE Bank Lending Survey – H1 2016

Coordinator

Luca Gattini

Economic Editors

Debora Revoltella

Luca Gattini

Lead authors

Gattini, Luca - CESEE regional chapter, Albania, Bosnia, Serbia,

Gereben, Aron - Croatia, Hungary, Poland

Kolev, Atanas - Bulgaria

Slacik, Thomas - Czech Republic, Slovakia, Romania

Wolski, Marcin - Kosovo

Data and analytical support

Tomasz Olejnik

Acknowledgements

This survey was developed in the context of the Vienna Initiative. The results were discussed and approved by the Vienna Initiative Steering Committee and initially presented at an aggregate level in the Vienna Initiative Deleveraging and Credit Monitoring Report. The EIB designed, conducted and administered the survey. The EIB wishes to thank the banks for their contribution and participation in the survey. Last but not least, it wishes to thank all Vienna Initiative members and Steering Committee members for their comments and support in developing the survey.

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.

Table of Contents

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
    - 86 local banks/subsidiaries.
- Average coverage: 50% of regional banking assets.
- Countries covered: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine[1].
- Periodicity: semi-annual (Sep/Oct and Mar/Apr). The first survey was conducted in October 2012.

The CESEE Bank Lending Survey – technical note

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

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

Taking into account the unique nature of the regional banking sector, with a large proportion of banks being foreign-owned, the survey investigates both the strategies of international banks active in CESEE and the market conditions and market expectations as perceived by the local subsidiaries/local banks. To that end, the

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

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

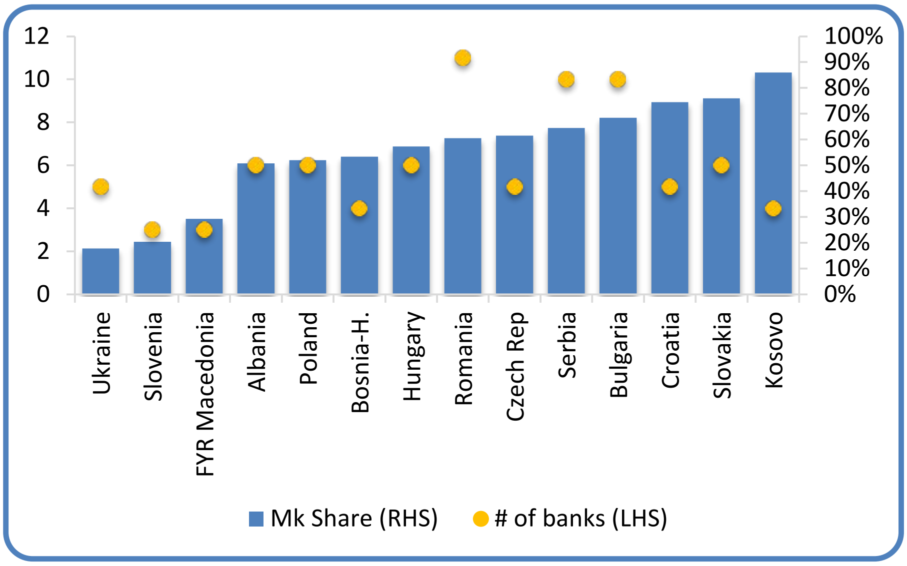
Given these features, the survey is a unique instrument for monitoring banking sector trends and challenges in CESEE. It complements domestic bank lending surveys by adding the value of comparability across countries and the unique feature of specifically addressing the parent/subsidiary nexus. It also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

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

In terms of coverage, the latest survey involved 15 international groups operating in CESEE and 90 local subsidiaries/independent domestic players. It is highly representative of international groups active in CESEE and also of local market conditions, as it relates on average to 50% of local banking assets.

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

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.

Regional Overview

1. **Summary –** *International banks decreased somewhat on balance their aggregate exposure to the region, whilst they continue to discriminate among countries. On the back of a more predictable domestic environment demand for credit improved over the last six months, while supply conditions were basically unchanged – thus increasing the perceived distance between demand and supply. NPL ratios continued to reduce, however the levels remain considerably high. Group capital and asset quality continue to weigh on subsidiaries supply stance.*

International groups' views:

- **Global strategies:** Some cross-border banking groups continue to engage in various forms of restructuring to increase their group capital ratios, including sales of assets. State contributions have been partially on the rise again for few Groups. Deleveraging at the group level partially continued and around 30 percent of the banking groups expect a further decrease in group-level LTD ratios.

- **Commitment to CESEE**: Banking Groups continue to discriminate between countries of operation. Only 20 percent of groups describe profitability in CESEE operations to be lower than Groups' profitability; this explains why roughly 50 percent of the banking groups signal intentions to expand operations selectively. Market potential continues to differ across countries, with low market potential seen in Albania, Croatia, Hungary, Slovenia, Ukraine, and still marginally low in Bosnia-Herzegovina, FYR Macedonia and Serbia. Low profitability is also associated with operations in Albania, Bosnia-Herzegovina, Croatia, Hungary, Romania, Serbia, Slovenia and Ukraine.

Subsidiaries' / local banks' views:

- Aggregate **supply conditions** were mostly unchanged over the past six months. Across the client spectrum, credit standards continued to ease for consumer credit as well as for SMEs and large corporates. The regulatory environment and bank's capital constraints (at domestic and international level) are perceived as the main 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 sixth consecutive semester of positive developments. All factors influencing demand had a positive contribution. Debt restructuring, working capital and investment accounted for a good part of the improved demand.

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

- The flow of **NPL ratios** improved. In absolute terms, the share of subsidiaries reporting an increase in their NPL ratios over the past six months fell to 17 percent.

2. Results of the Bank Lending Survey:

2.1 Parent banks

1. **Restructuring continues for several global banking Groups. Lately increases of capital have been mainly achieved via sale of assets (including branches) at the global level and also some state contributions restarted. Deleveraging at the group level seems to have stabilised. However a consistent number of Groups continues to deleverage.** As already highlighted in the previous releases of the survey, 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 practically unaltered over the next six months (Figure 1). Capital was raised primarily through the sales of assets and partially by sales of branches. Contrary to the previous surveys but in line with the expectations embedded in the previous release, state contributions started again to play a small but significant role. A smaller, but still significant, set of banking groups continued to raise capital on the market. This is slightly higher than 2013 and 2015 but significantly lower than in 2014. Looking at the next six months, contributions to balance sheet strengthening are again expected to come mainly from sales of assets and branches, but state contributions should still make a contribution. As for the previous releases of the survey, capital market activities are expected to play

Figure 1: Strategic operations to increase capital ratio – see question A.Q1 – questionnaire in the Annex

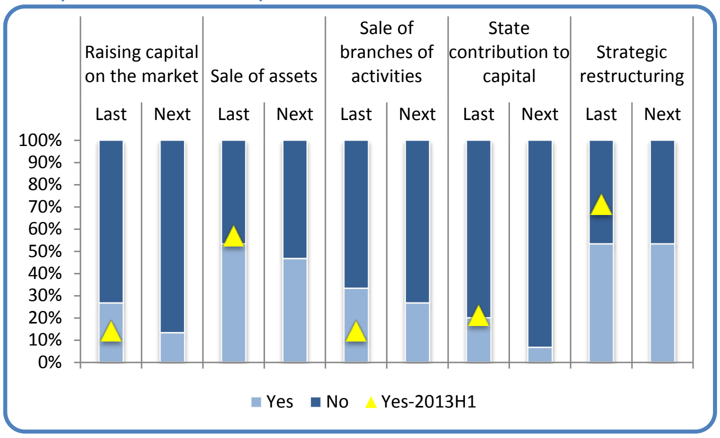
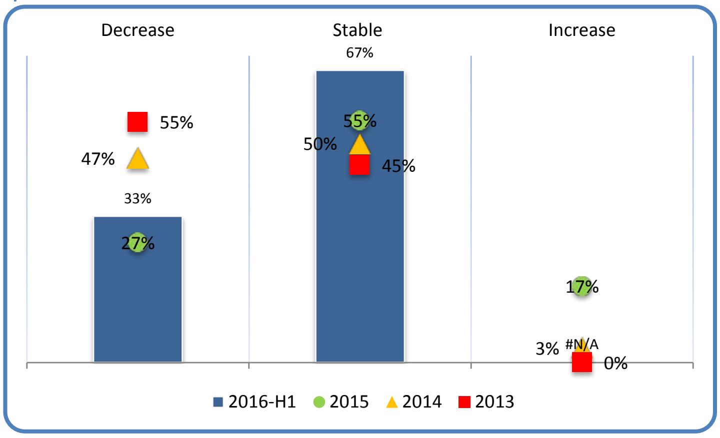


Figure 2: Deleveraging: loan-to-deposit ratio (expectations over the next 6 months) – see question A.Q3 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

a still positive but more limited role. Some of these results are influenced by the strategic orientations of Greece-based Groups. Deleveraging at the group level (Figure 2) has significantly decelerated compared to 2013 and 2014. However it is still revolving around the same levels recorded in 2015. Now around a third of the banking groups expect a decrease in group-level loan-to-deposit (LTD) ratios. Contrary to the 2015 results indicating an increase of the LTD for some banking Groups, this time no banking Group reports expectations of an increase in the LTD ratio. All in all, these outcomes show a mixed picture whereby the aggregate global picture has stabilised at rather subdued levels compared to a clear-cut bettering recorded roughly a year ago.

2. **Group-level funding conditions continued to deteriorate moderately** (Figure 3.a) **over the past six months, marking the second time in a row modest decline. To the contrary, they are expected to rebound over the next six months.** The diminished access to funding is considered a temporary, although protracted in time, and rather localised phenomenon. First, the decrease in access to funding comes in a period of accentuated financial stress derived from the Greek crisis in spring/summer 2015, global slowdown and generalised retrenchment of capital flows. Second, most of the decline in the access to funding came from groups headquartered in Greece. Filtering these banks from the aggregate results, we find that the overall access to funding remained positive for all other

Figure 3a: Access to funding conditions – *net percentages; positive values indicate increased access to funding* – see question A.Q2 – questionnaire in the Annex

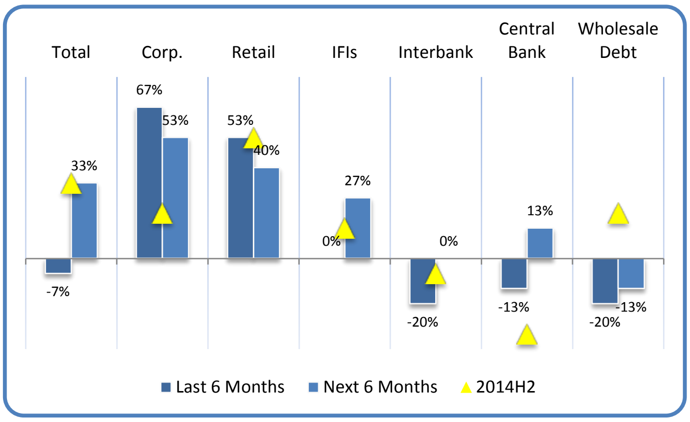
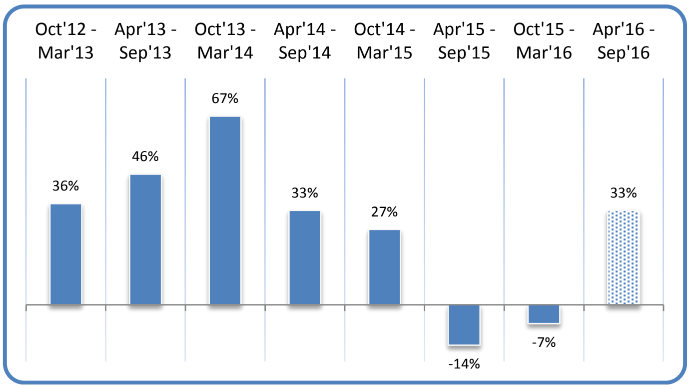


Figure 3b: Total access to funding conditions – *net percentages; positive values indicate increased access to funding* – see question A.Q2 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

groups over the past six months, albeit with some deterioration compared to the previous release of the survey. In detail, the detected dynamics in aggregate access to funding mainly reflect the deterioration in interbank market access as well as wholesale debt issuance and a reduced contribution from IFIs over the past six months. All in all, Groups did not alter their recourse to central bank financing compared to a year and half ago. Looking at the next six months, funding conditions are expected to recover, returning to levels of improvement detected in the past (Figure 3.b). More funding is predicted, primarily from corporates, retail, IFIs and also from the central bank most likely reflecting the measures announced in March 2016 by the European Central Bank. The expected easing in access to funding is broad-based, with a rebound detected also for the banks headquartered in Greece.

3. **Less than a third of the banking groups continued to reduce somewhat their total exposure to the region. As a result the aggregate trend has been still negative over the last six months. On the other hand, the negative trend shows signs of bottoming out in aggregate whereby more and more groups expect a substantial stabilisation of exposure over the next six months.** Almost all the decrease in exposure to the CESEE region arose from reduced intra-group funding to subsidiaries. This process has been slightly more pronounced over the past six months than a year ago. It is expected to continue over the next six months, although at a significantly slower pace (Figure 4.a). Moreover, the net reductions in intra-group exposures have been continuing over the last year or so and accelerated over the past six months. However this acceleration is expected to be temporary. Contrary to the expectation embedded in the September 2015 release of the survey, virtually no group expanded intra-group funding of CESEE subsidiaries. Most parent banks report that they maintained their capital exposure to their subsidiaries, or even marginally increased it, and they expect to continue to do so. However one Group consistently reports a decrease in the capital exposure and expects to continue to decrease it. Over the past increasing capital exposures have partially compensated for decreased intra-group funding, although the aggregate net balance has been still negative (Figure 4.b). Looking at the next six months, the net balance is expected to turn slightly positive for the first time since the inception of the survey. In addition, the survey does not detect a significant positive direct impact of ECB unconventional monetary policy operations (TLTROs and asset purchase programmes) on groups’ exposures to the CESEE region.

Figure 4.a: Groups' total exposure to CESEE – Cross-border operations involving CESEE countries – see questions A.Q7 – questionnaire in the Annex

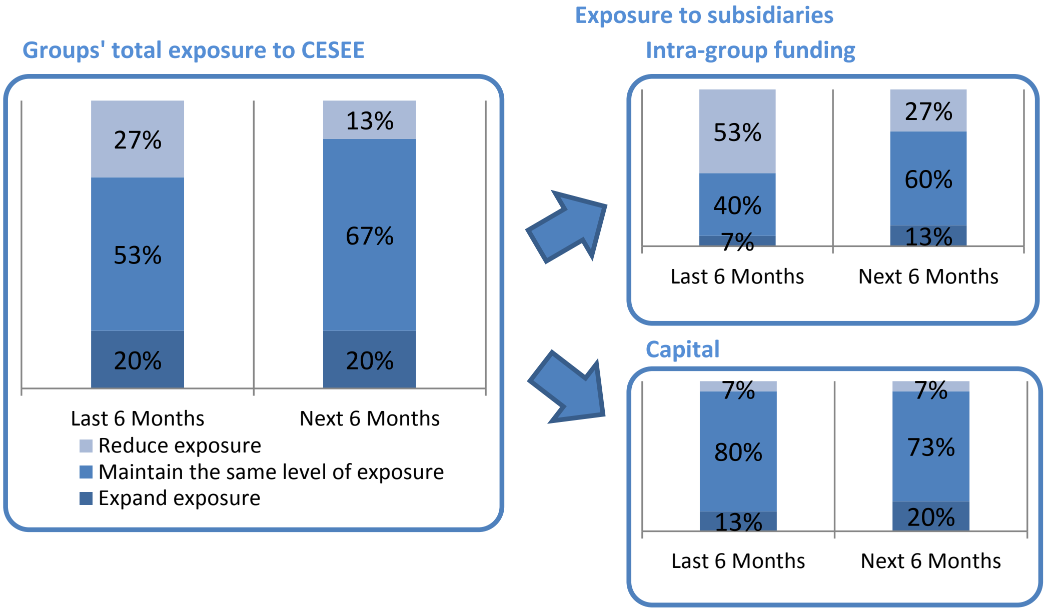
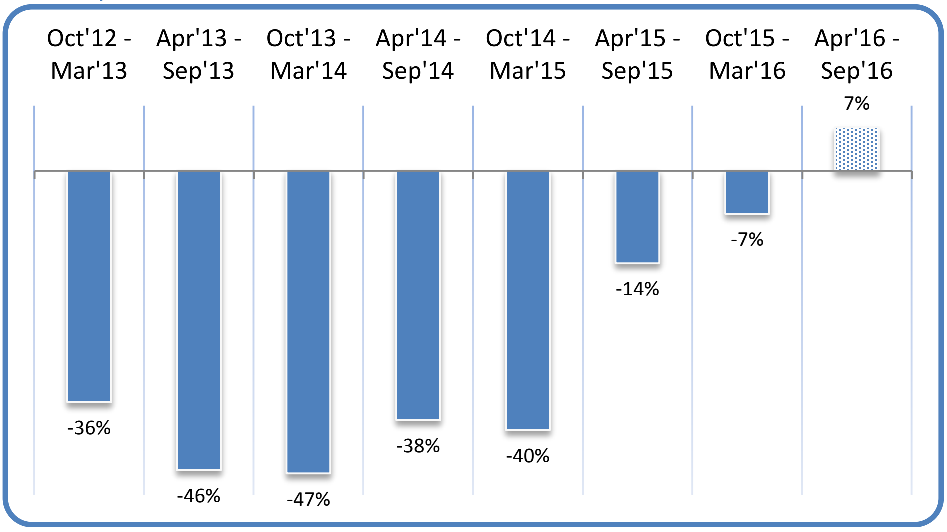


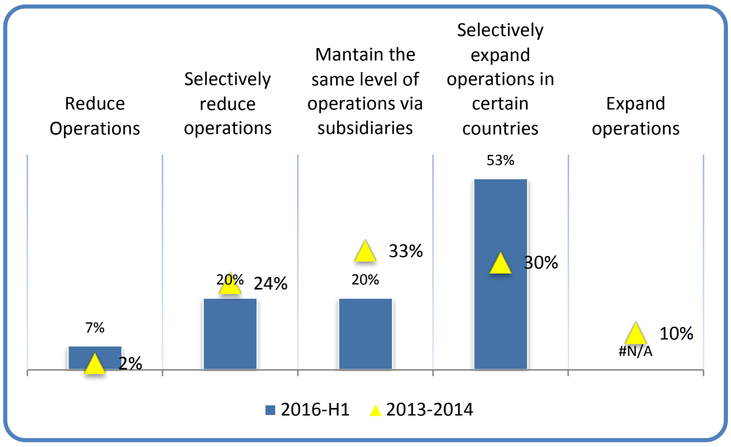
Figure 4.b: Groups' total exposure to CESEE – Cross-border operations involving CESEE countries – see questions A.Q7 – *net percentages;* negative figures refer to decreasing exposure – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

4. **Cross-border banking Groups continue to reassess their country strategies and to discriminate between their countries of operation in CESEE: at the same time a significant number of banking groups are signalling their intention to expand operations selectively over the next year** (Figure 5)**, whilst a smaller set of banking Groups signals intensions to (selectively) reduce operations.** A large majority of the international groups described their CESEE operations as an important part of their global strategies. However the contribution of their CESEE strategy to the Group ROA decreased over the past six months and it is expected to continue to decrease. On the other hand, a large number of international banking groups report profitability for CESEE operations as higher than overall group performance. As for the previous release of the survey, roughly 70 percent of groups describe profitability of CESEE operations (measured by return on assets) as outperforming the profitability of the group as a whole. This confirms the new positive trend that emerged more than a year ago. While cross-border banking groups continue to discriminate in terms of the 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 expected to expand their operations selectively, up from an average of 30 percent for 2013-2014. On the other hand, a smaller number of groups (roughly 30 percent) consistently indicate that may selectively reduce operations over the next twelve months. 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.5 and A.6). The assessment of market prospects is consistent with the results reported in the previous releases of the survey. However some changes in assessments, both positive and negative, also occurred. Surveyed banks see the market potential (Annex A.9 for data on low market potential) as being low or having deteriorated in Albania, Croatia, Hungary, Slovenia, Ukraine, and still marginally low in Bosnia-Herzegovina,

Figure 5: Group-level long-term strategies (beyond 12 months) in CESEE – see question A.Q4 – questionnaire in the Annex



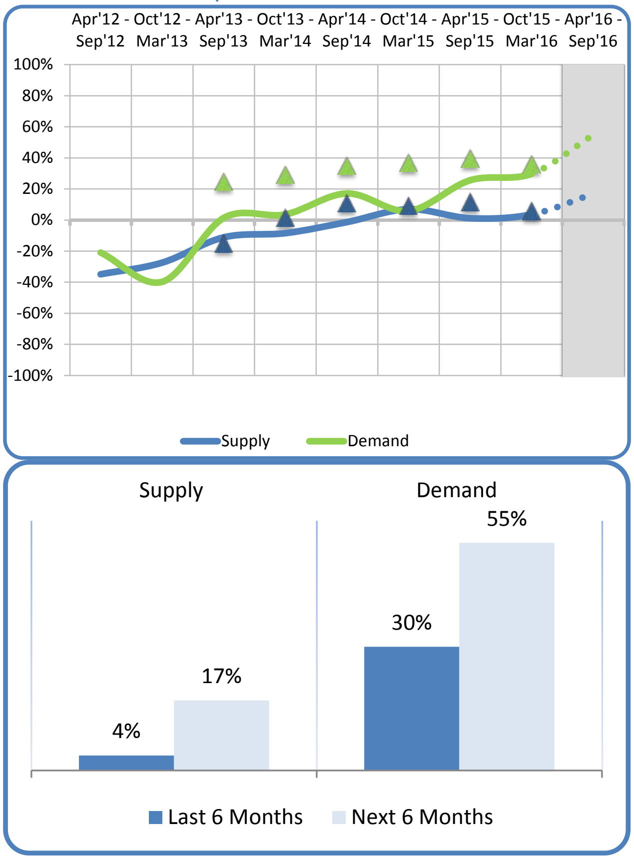
Source: EIB – CESEE Bank Lending Survey.

FYR Macedonia and Serbia. In the other countries of the region, poor prospects are basically absent, while most banking Groups see reasonable market potential. In terms of market positioning, most banks in the majority of the markets remain comfortable with the scale of their operations. However, weak positioning should be seen as combined with limited market potential. A good part of the surveyed banks find their positions in Bulgaria in the weak or niche category (Annex A.10 for data on weak positioning), and this is also the case in Croatia, Hungary, Romania, Serbia, Slovenia and Ukraine. For a few banking groups a more limited, but still significant, weak positioning is also detected in Albania and FYR Macedonia. 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 are seen to be quite differentiated from one country to another (Annex A.7 and A.8). Low profitability is associated with operations in Albania, Bosnia-Herzegovina, Croatia, Hungary, Romania, Serbia, Slovenia and Ukraine.

2.2 Local banks/subsidiaries

1. **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. However supply conditions are expected to improve significantly less during the next six months. This generates an increasing demand-supply gap.** In the last six months, **demand** for loans and credit lines continued to improve (Figure 6). Moreover the improvement was fully in line with the expectations embedded in the September 2015 release of the survey. This tentatively signals that on average banks start to be able to better predict future conditions of demand. Consequently it somewhat suggests that the operating environment is less volatile and uncertain than before. In addition the results of this release of the survey mark the sixth consecutive semester with a positive increase in credit demand for loans. For the third time all factors influencing demand had a positive contribution. Debt restructuring and working capital (see Annex A.1) accounted for a good part of the demand stemming from enterprises. Furthermore, the contribution to demand conditions from investment also exerted a significant positive impact for the second time in a row. Contributions to demand from housing-related and non-housing-related consumption also continued to be positive as well as consumer confidence continues to exert a positive effect. Looking ahead, demand is expected to continue to increase. **Supply** conditions were basically neutral over the past

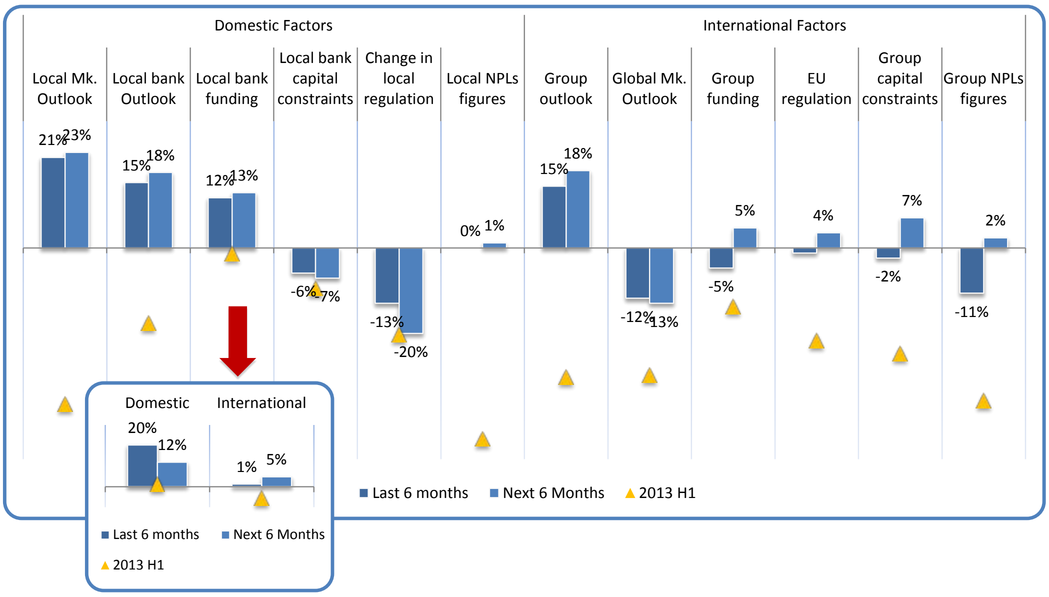
Figure 6: Total supply and demand, past and expected development – *net percentages;* positive figures refer to increasing (easing) demand (supply) (triangles refer to expectations derived from previous runs of the survey, lines report actual values and dotted lines expectations in the last run of the survey) – see questions B.Q1 and B.Q5 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

six months, largely unchanged from the previous release of the survey. Across the client spectrum, supply conditions (credit standards) continued to ease for consumer credit (see Annex A.3). Conditions in this segment are consistently easing the most, as already highlighted in the last four releases of the survey. For the third consecutive time, supply conditions for SMEs eased. In addition credit standards for large corporates also eased. 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 from SMEs) and from households is also expected to be robust (see Annex A.2). Aggregate supply conditions are expected to ease. Roughly two years, a tentative easing was coming from short-term maturities and consumer credit only. This time, the easing of supply conditions seems to be more broader-based, except for loans for house purchases and longer-term maturities (see Annex A.3). General terms and conditions for loan supply to the corporate market segment continued to ease over the past six months, as expected in the September 2015 release of the survey. Collateral requirements tightened further as expected in the September 2015 release. A cumulated index, built on the demand and supply changes reported in Figure 6, hints at a still widening gap between demand and supply situations, where optimism on the demand side continues to be frustrated by an aggregate stagnation of conditions on the supply side.

Figure 7. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4 – questionnaire in the Annex

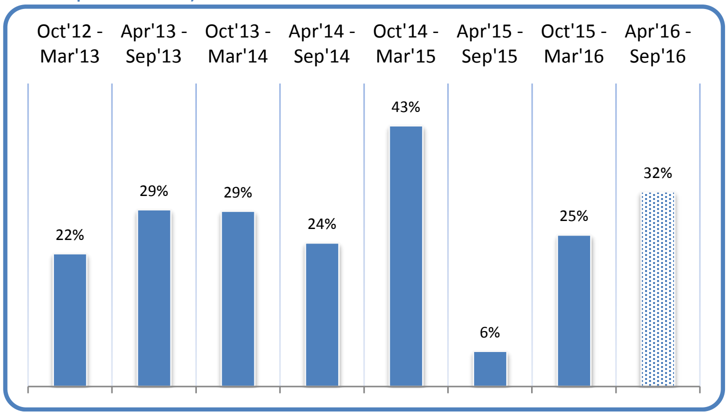


Source: EIB – CESEE Bank Lending Survey.

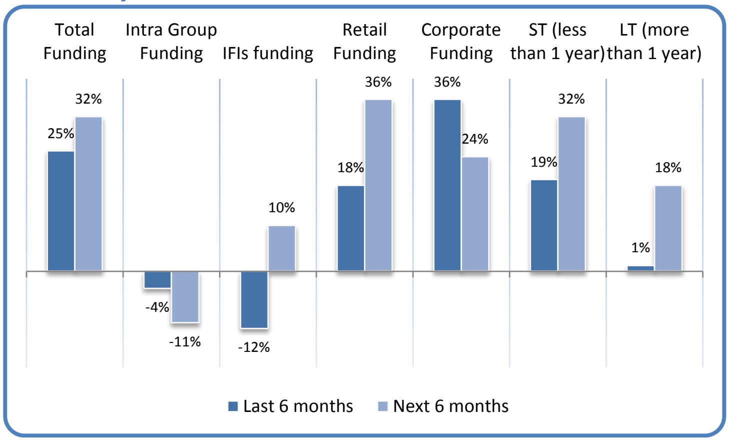
2. **The regulatory environment, bank's capital constraints (at both the domestic and group levels) and NPLs at Group level are the main factors still persistently and adversely affecting supply conditions.** Fewer domestic factors are still actively limiting supply developments (Figure 7). The number of limiting factors has been decreasing over time since this survey started in 2012. 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 only the regulatory environment and bank's capital constraints remained limiting elements at the domestic level, with NPL figure tentatively not exerting a negative effect. As in the previous surveys, access to domestic funding does not appear to be a constraint. Fewer international factors are now playing a constraining role compared to the September 2015 release and the results for 2013 (figure 7). Global market outlook, EU regulation and group capital constraints are still mentioned as having a negative effect on credit conditions. Overall, a bettering is detected compared to the previous release of the survey, which is also reflected in slightly more positive aggregate supply conditions. Looking ahead the almost all the same factors are expected to affect supply conditions in the same direction as in the recent past, albeit not so strongly.

Figure 8. Access to funding by CESEE subsidiaries – (*net percentage*; positive figures refer to an easing of access to funding) – see question B.Q9 – questionnaire in the Annex

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



B. Breakdown of funding conditions – results from latest survey



Source: EIB – CESEE Bank Lending Survey.

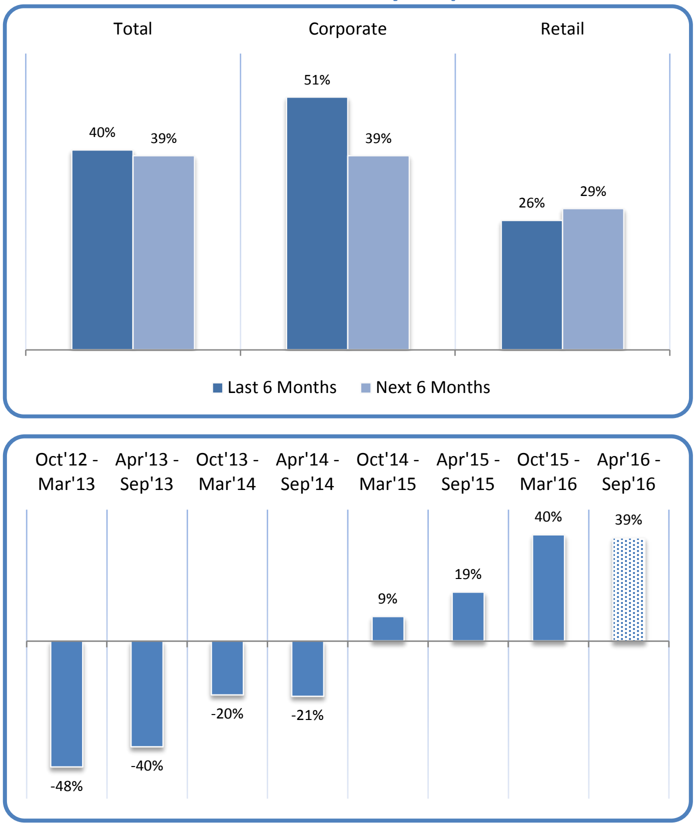
3. **Access to funding continued to ease in the CESEE region and accelerated compared to the previous release of the survey.** Easy access to retail and

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. Contrary to the previous release of the survey, longer-term funding conditions did not deteriorate and remain unchanged. This however does not support a reduction of maturity mismatches and does not help boosting banks' long-term stable funding ratios. Subsidiaries indicate that access to international and intra-group funding was unchanged on balance during the past six months, thus confirming a stabilisation, albeit at very low levels. 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.

4. **Credit quality has continued to improve, and is expected to continue to do so over the next six months. However NPLs remain high.** The speed of deterioration in NPLs ratios has been slowing down over time, as already pointed out a year ago. The September 2015 release of the survey pointed at a turning point in the negative spiral of NPL flows. Over the past six months, and for the third time, aggregate regional NPL ratios recorded an improvement in net balances terms (Figure 9). In absolute terms, the share of subsidiaries indicating an increase in their NPL ratios over the past six months fell to 17 percent. This figure is marginally down from the 22 percent indicated in the September 2015 release and substantially lower than 50 percent reported in September 2014 survey releases respectively. All in all, the share

Figure 9: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8 – questionnaire in the Annex

Last run of the survey – April 2016



Source: EIB – CESEE Bank Lending Survey.

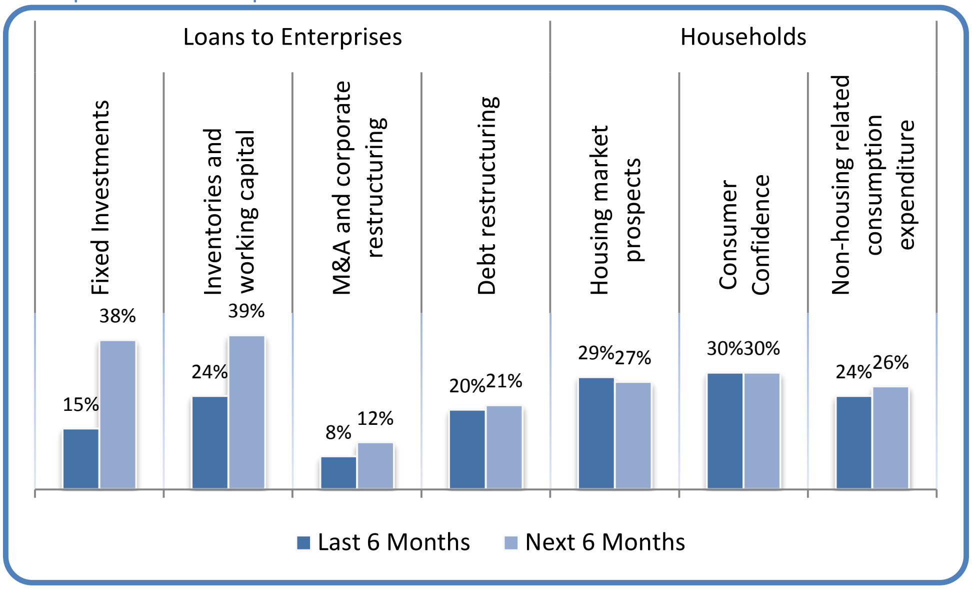
of subsidiaries indicating either a stabilisation or decline in their NPL ratios increased. It currently stands at little more than 80 percent and is expected to increase to above 90 percent, while only 6 percent of banks continue to expect an increase in NPLs over the next six months (down from 30 percent of a year ago). NPL ratios for both corporate and retail segments are expected to decrease.

5. **As already pointed out in the previous publication, the survey shows a tentative stabilisation in the regional environment, although aggregate lending levels still remain unsatisfactory. At the same time, risks are still detected.** Aggregate credit demand conditions continued to be positive across the board. However supply conditions did not ease over the past six months, thus generating a further distance between a continuously increasing demand and a still unchanged supply. Capital constraints and the regulatory environment (both at the domestic and international level) remain a drag on a further easing of credit standards. NPL levels (primarily at the Group level) remain a drag on the supply of credit. Therefore the resolution of NPLs (also at the parent bank level) is key to engineering the resumption of a healthy flow of credit at the subsidiary bank level to support the recovery on the demand side of the market. Last but not least, a differentiation in the attractiveness of certain markets continues to persist. This is directly connected to groups' positioning and assessed potential of individual markets, thus their local profitability. As a result further restructuring could be in the pipeline and risks may emanate from the scale and timing of any ownership change in the region.

Annex

A.1 Factors affecting demand for credit

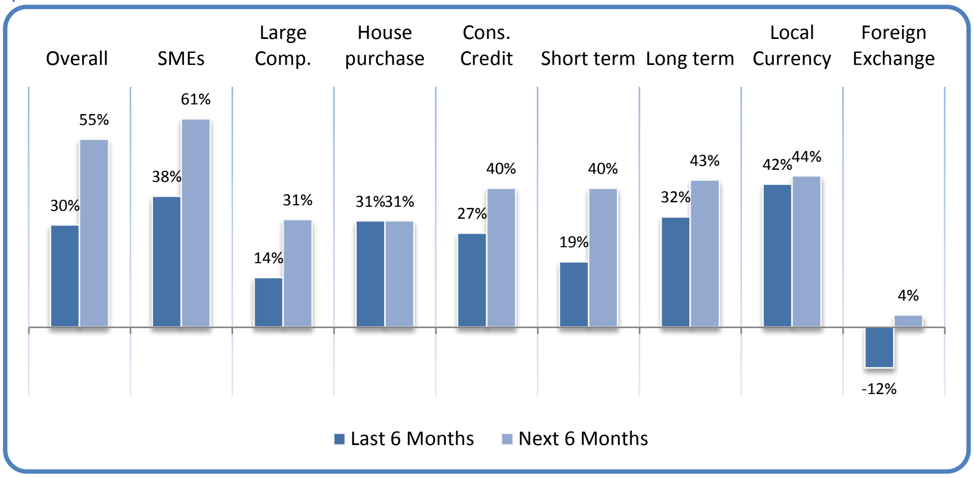
(net percentages; positive values indicate a positive contribution to demand conditions) – see question B.Q7 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

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

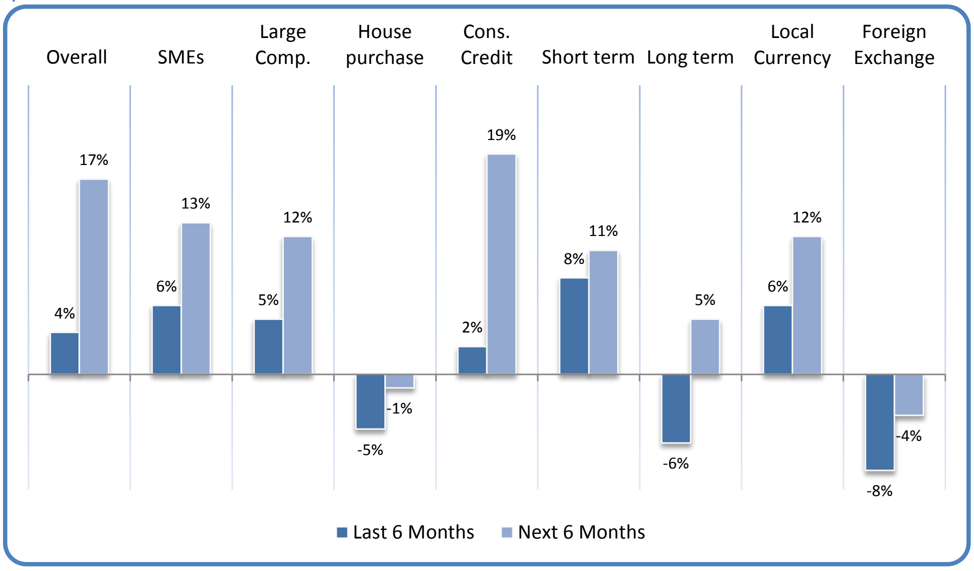
(net percentages; positive values indicate increasing demand) – see question B.Q5 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

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

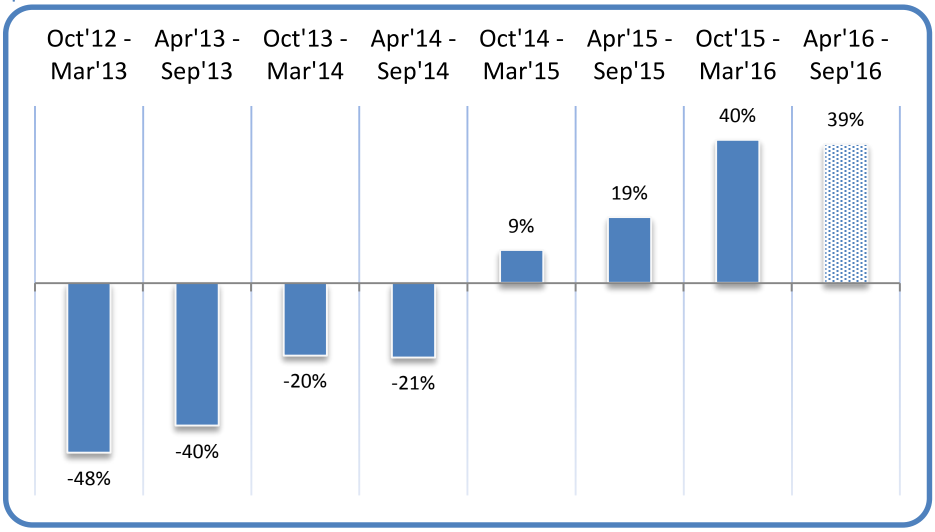
(net percentages; positive values indicate an easing supply) – see question B.Q1 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

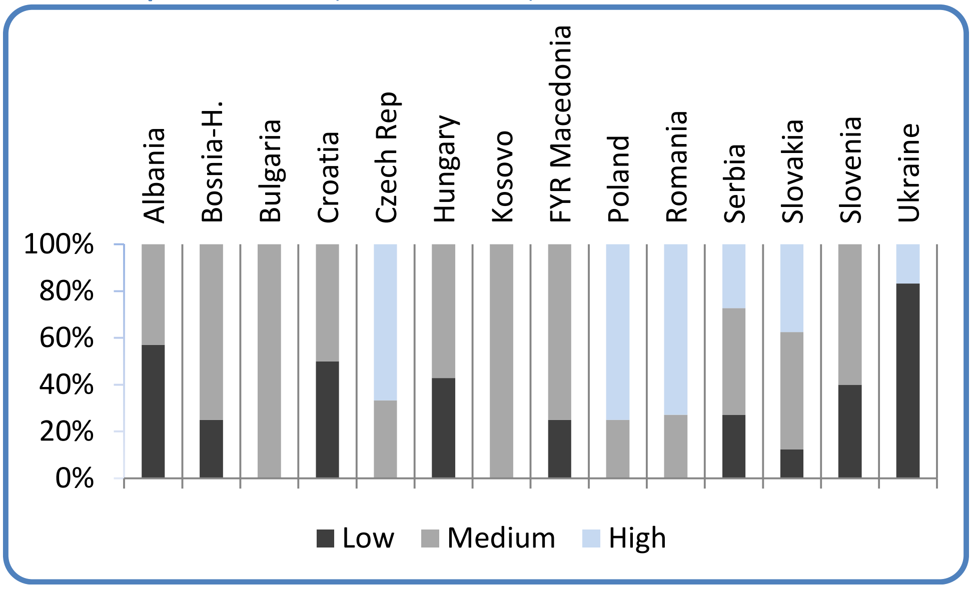
A.4 NPL trend line

(net percentages; negative values indicate increasing NPL ratios) – see question B.Q8 – questionnaire in the Annex



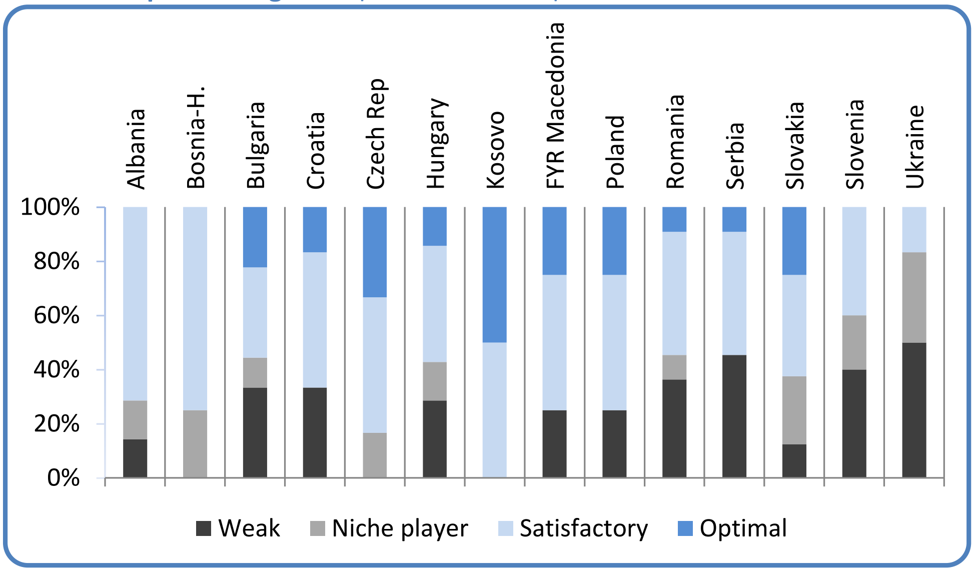
Source: EIB – CESEE Bank Lending Survey.

A.5 Market potential – see question A.Q15 – questionnaire in the Annex



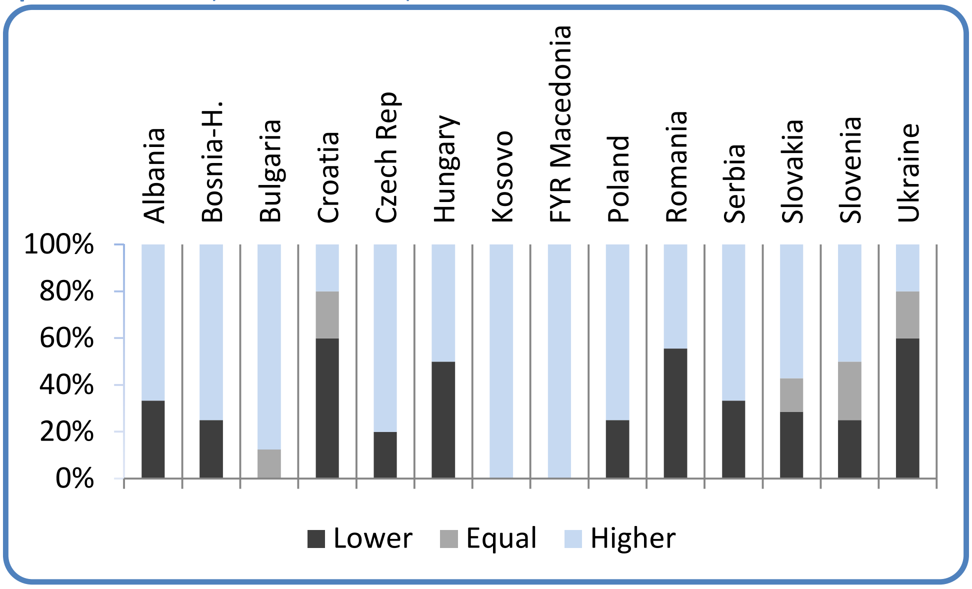
Source: EIB – CESEE Bank Lending Survey.

A.6 Market positioning – see question A.Q15 – questionnaire in the Annex



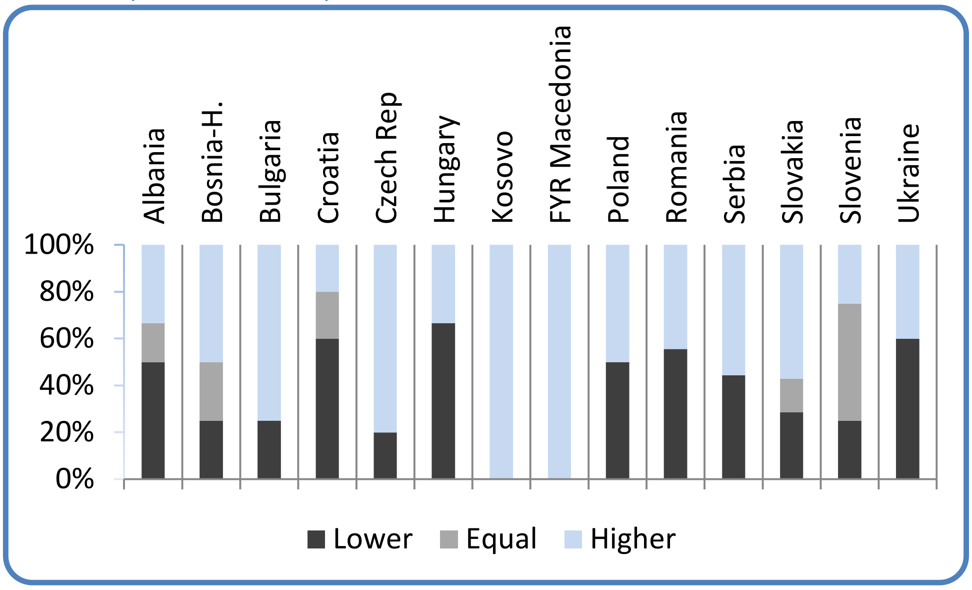
Source: EIB – CESEE Bank Lending Survey.

A.7 Return on assets (adjusted for cost of risk) compared to overall group operations – see question A.Q15 – questionnaire in the Annex



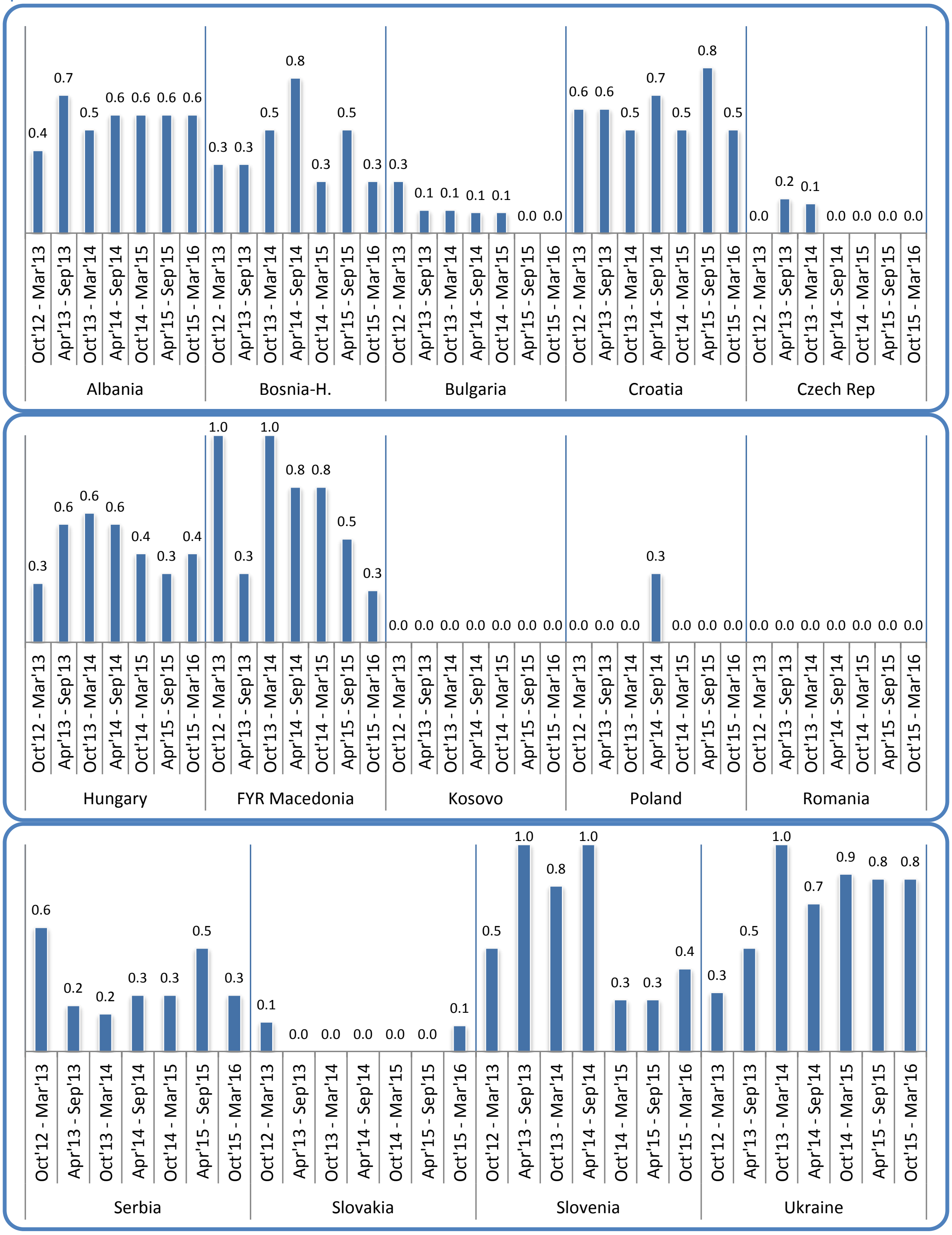
Source: EIB – CESEE Bank Lending Survey.

A.8 Return on equity (adjusted for cost of equity) compared to overall group ROE – see question A.Q15 – questionnaire in the Annex



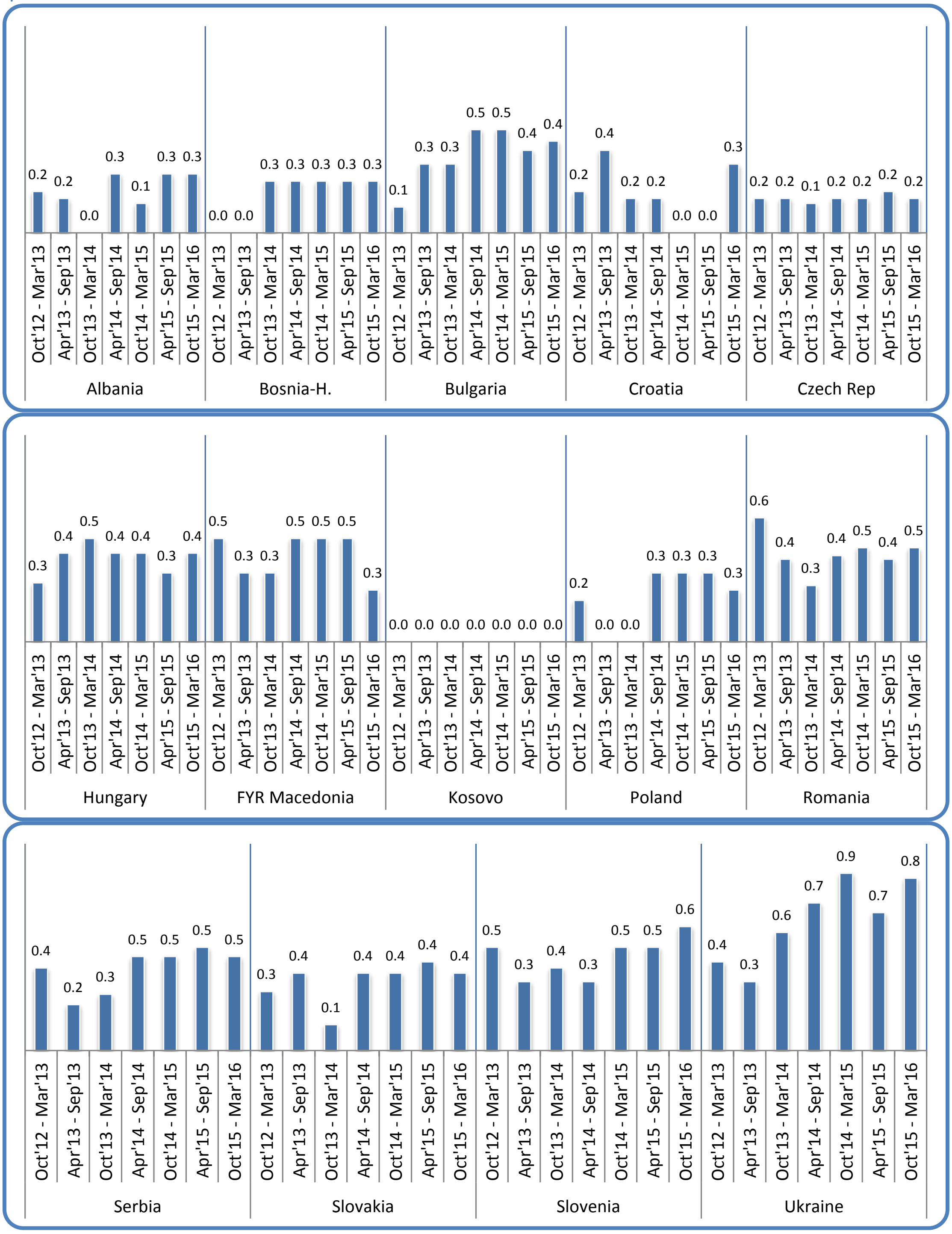
Source: EIB – CESEE Bank Lending Survey.

A.9 Share (%) of parent banks indicating a "low" market potential – see question A.Q15 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

A.10 Share (%) of parent banks indicating a "weak/niche" positioning – see question A.Q15 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

Albania

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as proportion of total assets): approx. 51 percent
- Current level of NPLs as proportion of total loans: 17.7 percent (2015)
- Latest credit growth (yoy): -2.7 percent (Jan. 2016)
- Loan-to-deposit ratio: 55 percent (2015)
- CAR: 15.7 percent (Q4 2015)

2. Key messages – *Demand for credit increased, whilst supply conditions tightened further with banks' capital constraints, funding and NPLs described as main limiting factors.*

International groups' views:

- **Group strategies**: several Groups operating in Albania report their leverage to have stabilized and they expect to engage in restructuring processes primarily via the sale of assets (including branches).
- **Group assessment of positioning and market potential**: Albania is still perceived as a market with medium to low potential. However the majority of parent banks view their market positioning as satisfactory. Aggregate profitability figures are mixed with a polarization among Groups. All in all 40 percent of the groups operating in Albania intend to selectively reduce operations in the CESEE region.

Subsidiaries' views:

- **Credit supply conditions** deteriorated in the last six months due to a tightening on corporates (especially SMEs) and on households. The high levels of NPLs have been and will remain a burden on domestic supply conditions. In addition, negative domestic, Group and global outlooks, tightening funding, capital constraints and regulation also added a negative contribution.
- **Demand for loans** has been increasing in Albania over the past six months and it is expected to increase again over the next six months. This has been driven primarily by an increase in demand from SMEs, whilst demand from corporates and mortgages was stable and consumer credit demand decreased.
- **Access to funding** has been decreasing in stark contract with the CESEE region. The decrease was recorded across all funding sources (including retail and corporates).
- **NPL figures** improved, mainly in the corporate segment. However NPL levels are still elevated.

[1] Sources: Bank of Albania and European Commission

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** The Albanian economy grew by 2.4 percent in 2015. Real GDP slowed to 2.2 percent y-o-y in the fourth quarter of 2015. These developments were primarily driven by a slight deceleration in investment growth, still sluggish foreign trade and contracting government consumption. Annual growth is expected to reach 3.2 percent in 2016 and 3.5 percent in 2017.

- **Unemployment:** The unemployment rate was 17.7 percent in the fourth quarter of 2015, slightly above the first half of 2015 (17.3 percent). At the same time, the rate of youth unemployment (15-29 years) declined somewhat. However it is still very high at 32.2 percent in the fourth quarter of 2015.

- **Inflation:** Headline inflation was estimated at 0.6 percent in the first quarter of 2016. This low inflation was due to low imported inflation and still below-potential output. The Bank of Albania (BoA) reacted in early April 2015 by cutting its policy rate by 25 bps to a new historic low of 1.5 percent to counter the risk of not reaching the 3 percent target in the medium term.

- **External and public sector balance:** In relation to GDP, the current account deficit decreased from 12.9 percent in 2014 to 11.2 percent in 2015. More than three quarters of the current account was financed by FDI in 2015. Overall, favourable balance-of-payment flows resulted in a 27.4 percent increase in foreign-exchange reserves in 2015. They stood at EUR 2.66 bn in December 2015, covering seven months of imports. Following a 6.7 percent y-o-y increase, public debt stood at 72.3 percent of GDP in 2015. The budget deficit was in line with the target and stood at 4 percent of GDP in 2015.

- **Banking sector:** Credit growth was mildly positive in 2015 (0.3 percent y-o-y), however it was negative in January 2016 (-2.7 percent y-o-y). The NPLs ratio decreased in the fourth quarter of 2015 to 17.7 percent. This probably reflects various efforts to improve the quality of loan portfolios, including a mandatory write-off of NPLs. Nevertheless, the stock of NPLs remains a major constraint on Albanian banks. Despite the loose monetary policy stance, local currency lending interest rates did not show a significant decline. The level of capitalisation for the entire banking sector (CAR 15.7 percent Q4 2015) exceeds the required minimum of 12 percent. All in all, the loan-to-deposit ratio was 55 percent in 2015.

- **Rating:** Albania is currently rated B1 stable by Moody's and B+ by S&P with a stable outlook.

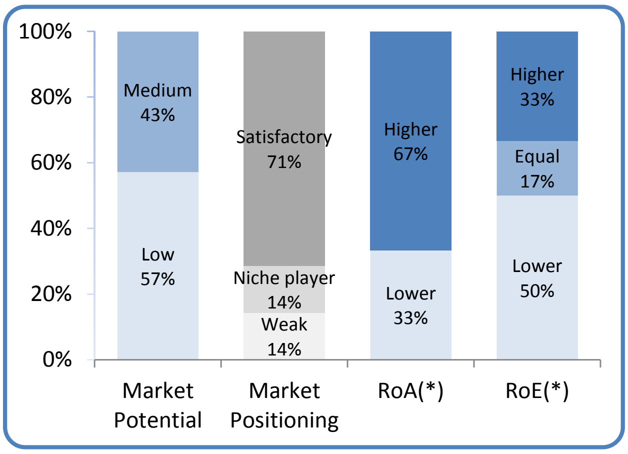
[2] Sources for the macroeconomic data: European Commission and Institute of Statistics (Albania). Sources for the banking data: European Commission and Bank of Albania.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. A third of parent banks operating in Albania report their leverage to have stabilized (less than in the previous release of the survey), with around 30 percent of them indicating the need to further decrease their group-wide loan-to-deposit ratios. A significant proportion of groups operating in Albania engaged in restructuring processes primarily via the sale of assets (including branches). Compared to the previous survey, a higher number of groups are willing to raise additional capital from the market whilst an equal proportion of them expect to carrying out strategic restructuring over the next six months. A small but significant number of Groups continues to expect an increase in capital to come from state contributions. The latter is probably influenced by the recapitalisation exercise in Greece.

Figure 1. Market potential and positioning, ROE and ROA – see question A.Q15



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

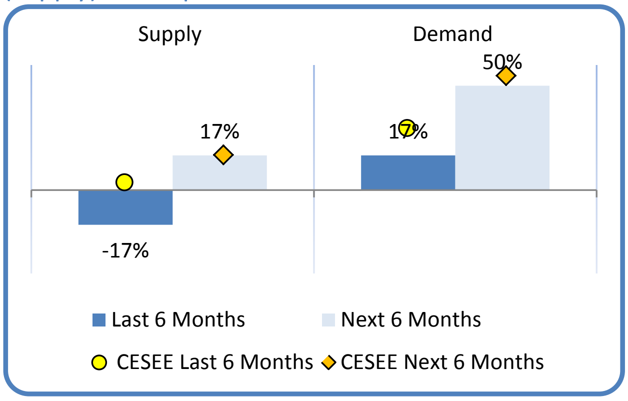
2. Albania is still perceived as a market with a rather limited potential (medium to low). However the majority of parent banks continue to view their market positioning as satisfactory (Figure 1). A significant majority of parent banks indicates returns on assets (adjusted for the cost of risk) in Albania to be higher than overall group operations. However returns on equity (adjusted for the cost of equity) are reported to be lower than overall Group returns. These figures coupled with a stable quota of banks reporting low profitability signals a mixed perception of the market among participants. Forty percent of the groups operating in Albania report that they intend to selectively reduce operations in the region. This percentage is partially higher than for the whole set of Groups included in the survey. To the contrary, roughly a third of them intend to selectively expand operations in the CESEE region. All in all, these figures are influenced by the relatively significant presence of Greek banking Groups in Albania.

[3] In this subsection results refer to the views of parent banks. Results on market positioning, potential, ROE and ROA refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, LTD, capital contributions, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. By doing so, it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. Credit supply conditions continued to tighten in Albania over the last six months (in line with the expectations embedded in the previous release of the survey), whereas the results for the aggregate CESEE region reported almost no change in credit standards. Overall and with the exception of one release of the survey, credit standards have been tightening in Albania over the last two years and a half. Albanian banks are expected to partially ease their credit standards in the coming six months in line with the regional trend. On the demand side, and in line with expectations, Albanian banks have seen a mild increase in loan applications over the past six months; however less robustly than in the CESEE region. Demand conditions are expected to rebound markedly in line with the CESEE region over the next six months (Figure 2).

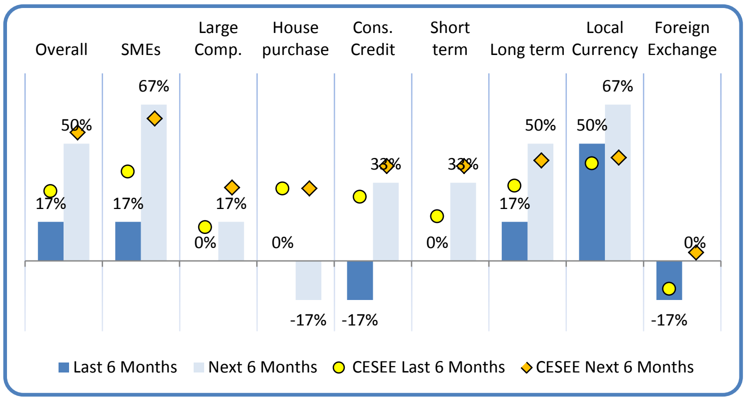
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. Following the ascending trend recorded for the CESEE region, aggregate loan applications have been increasing in Albania over the past six months (Figure 3), albeit at a slower pace. The increase in aggregate demand has been driven primarily by higher loan applications from SMEs. Demand from large corporates and for mortgages has been stagnating, whilst consumer credit demand contracted over the past six months. Generally most of the demand for loans was in local currency and longer maturities. Demand for loans is expected to increase across the board over the next six months. The aggregate rebound in demand for loans is primarily supported by a sharp increase in demand from SMEs and consumer credit. Demand for long term financing and in local currency is expected to robustly increase over the next six months.

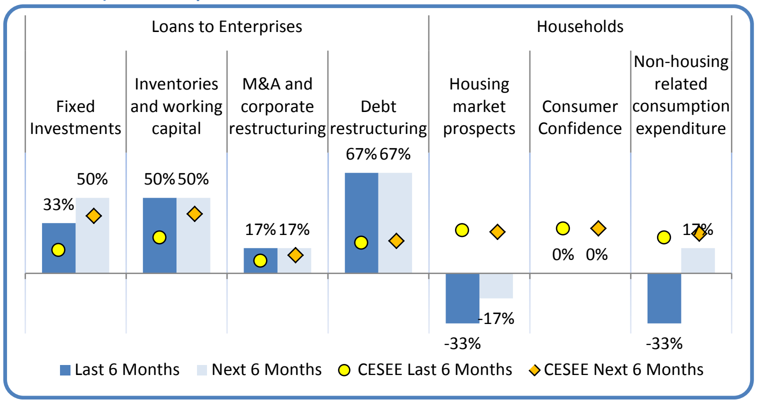
Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

3. Figure 4 highlights some of the factors contributing to demand conditions. On the enterprise side, most factors have positively contributed to an increase in demand. These include investments, inventories and working capital as well as M&A and restructuring. The household segment however did not positively contribute to demand conditions. The latter feature is decisively in contrast with the positive contributions registered for the whole CESEE region. The same enterprise driven factors are expected to continue to generate similar contributions over the next six months. In addition the household segment is expected to take a more neutral stance.

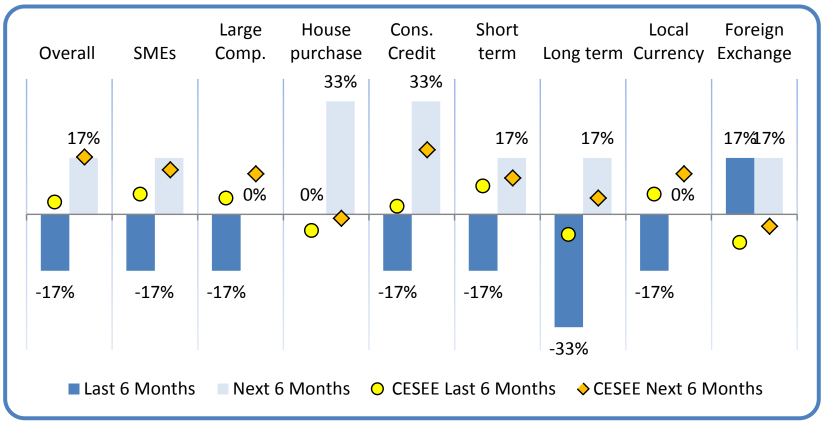
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

4. The overall supply components deteriorated in the last six months due to a tightening of credit standards in the corporate sector, including in the SMEs segment (Figure 5). Credit standards have been tightening also in the household segment. An easing is expected across the board over the next six months. Notably a more marked easing is expected in the household segment. Supply conditions on long and short term maturity products have been tightening, whilst they are expected to ease across the board over the next six months.

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



Source: EIB – CESEE Bank Lending Survey.

5. Several domestic and international factors affected negatively credit supply conditions. The high levels of NPLs have been a big burden on domestic supply conditions (Figure 6). In addition, local bank outlook, local market outlook, funding (primarily international/intra-group) and changes in local regulation were limiting factors on supply conditions. All international factors also had a negative impact on supply conditions. These include Group's NPLs, Groups'

capital constraints and funding as well as Group's and global outlook. All in all, the contributions from most factors were significantly more negative than in the CESEE region. Looking ahead a bettering is expected. However all factors will contribute less robustly or more negatively than in the aggregate CESEE region.

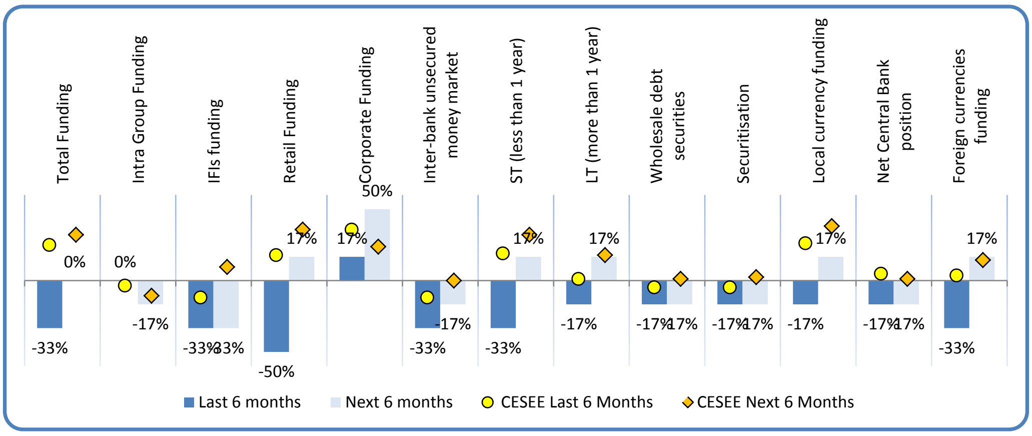
6. Demand for loans from SMEs has been increasing over the past six months, whilst supply conditions tightened further in this segment. While demand increased several times over the past two years, supply conditions on SMEs lending have been tightening for an extended period of time. This divergent medium term trend is not conducive to further improvements in access to credit for SMEs. Collateral requirements have been and are expected to remain an important obstacle to SMEs financing. Loan maturities and the average size of loans on SMEs portfolios did not ease. To the contrary, banks' margin on average loan has been reducing. This is a possible consequence of the loose monetary policy.

7. Contrary to a relatively positive trend detected for the CESEE region, subsidiaries operating in Albania have seen a decreasing access to finance. At the same time no significant improvement is expected over the next six months (Figure 7). This is in stark contrast to the region which has witnessed a deceleration in funding conditions roughly a year ago and access to funding increased again over the past six months. The specific feature of the Albanian market could be related to the relatively significant presence of Greek subsidiaries. The latter may have been impacted by the uncertainty derived from Greece. Indeed a negative trend in access to funding was already detected in the previous release of the survey. Over the past six months, all funding sources – including retail and corporate funding – are reported to have contributed negatively to total access to funding. Looking ahead, a tentative stabilisation is expected. This cautiously signals a stabilisation in the negative trend started roughly a year ago.

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4

Source: EIB – CESEE Bank Lending Survey.

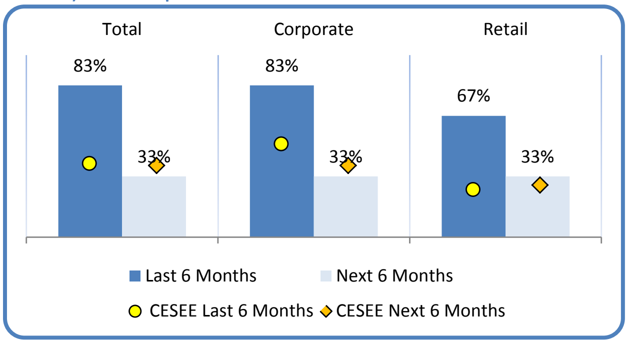
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



Source: EIB – CESEE Bank Lending Survey.

8. For the first time, most Albanian banks report a decrease in NPL ratios, primarily driven by the corporate segment (Figure 8). In contrast, the NPL ratio started to decrease in the CESEE region much earlier. The same Albanian banks expect the improvement to continue in the next six months. This timid positive turnaround in the NPL ratio can reflect the various efforts to improve the quality of loan portfolios in the Albanian banking sector, including a mandatory write-off of NPLs.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Bosnia-Herzegovina

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: four
- Approximate share of assets covered (as proportion of total assets): approx. 53 percent
- Current level of NPLs as proportion of total loans: 13.7 percent (Q4 2015)
- Latest credit growth (yoy): 3.1 percent (February 2016)
- Loan-to-deposit ratio: 102 percent (January 2016)
- CAR: 15 percent (Q4 2015)

2. Key messages – *Supply is easing while demand conditions continue to be weak; NPLs also decelerated*

International groups' views:

- **Group strategies**: most parent banks operating in Bosnia-Herzegovina report that their deleveraging process has stabilized. Groups are as keen in selling assets as the whole set of group operating in region.
- **Group assessment of positioning and market potential**: two thirds of the Groups operating in Bosnia-Herzegovina report a medium potential for the local market and 75 percent of the Groups indicate a satisfactory positioning. This is also reflected in the profitability indicators whereby returns are described to be above Group's returns for two-thirds of the respondents.

Subsidiaries'/local banks' views:

- **Credit supply:** overall credit standards eased over the past six months. Consumer credit eased. Supply conditions are expected to ease over the next six months. Local market outlook, local bank capital constraints, regulatory changes, NPL figures, poor global market outlook, EU regulation and Groups' NPLs were the major obstacles to credit supply whilst funding primarily from domestic sources generated an easing contribution over the past six months.

- **Demand for loans** has been decreasing over the last six months. Nevertheless, it is expected to rebound in the near future. It deteriorated in the corporate segment while households increased their demand for consumer credit.

- **Access to funding:** Subsidiaries in Bosnia-Herzegovina report that their access to funding has generally improved, mainly driven by retail and corporate funding.

- **NPL ratios** continued to improve over the last six months; however expectations are less positive than in recent past.

[1] Sources: European Commission, Central Bank of Bosnia and Herzegovina and IMF.

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** The economy continued to recover during the fourth quarter of 2015, albeit at a lower year-on-year growth rate (1.7 percent). Economic activity was largely driven by manufacturing as well as retail trade and repair. To the contrary agriculture sector output was subdued. In 2015 GDP growth was 3.2 percent, substantially higher than the previous four years.

- **Unemployment:** Unemployment is very high, although the increased economic activity led to a rise in registered employment during 2015. Wholesale, retail, repair and manufacturing were the main contributors to employment. The difficult labour market situation is also reflected in low wage dynamics. Gross nominal wages have been declining during most of 2015.

- **Inflation:** In 2015 aggregate consumer level prices were 1 percent lower than a year before. The decline was mainly driven by clothing and footwear and transport. In 2016 this pattern seems to continue.

- **External and public sector balance:** The current account balance improved in 2015, reaching a deficit of 5.6 percent of GDP compared to a deficit of 7.5 percent in 2014. Spending for imports was some 6 percent lower than a year before, which however to some extent reflects lower energy and commodity prices. Net FDI inflows averaged 1.4 percent of GDP in 2015 as opposed to 2.6 percent of GDP in 2014. The fiscal performance in the first three quarters of 2015 has been marked by higher than budgeted revenues, whilst current spending remained largely unchanged during this period. The general government deficit target for 2015 was 1.6 percent of GDP. Total public debt was 42.3 percent of GDP at the end of 2015.

- **Banking sector:** Credit grew 2.4 percent y-o-y in the fourth quarter of 2015, and accelerated further in 2016. Credit growth has been increasingly driven by the corporate segment (including SMEs) as opposed to the negative dynamics of 2014. Households and corporates accounted for 90 percent of total credits, while the share of loans to the public sector has dropped slightly. Total deposits increased by 7.7 percent in the fourth quarter of 2015, and accelerated further in early 2016. As a result, the downward adjustment of the loans-to-deposit ratio continued. It settled at 102 percent as of end-January 2016. The share of non-performing loans in total loans was 13.7 percent in the fourth quarter of 2015. Banking sector profitability dropped in the fourth quarter of 2015 (return on average equity around 2.4 percent and return on average assets at 0.3 percent). The system's overall capital adequacy ratio deteriorated slightly and settled at 15 percent end-2015.

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

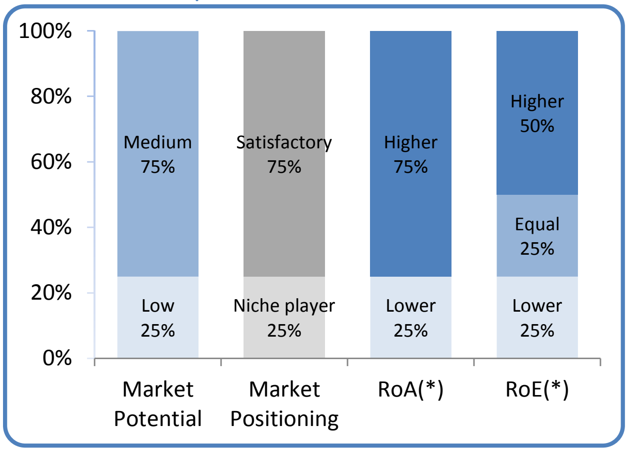
[2] Sources for the macroeconomic data: European Commission and Central Bank of Bosnia and Herzegovina (CBBH). Sources for the banking data: European Commission and CBBH data.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. In line with the results reported in the previous releases of the survey, most parent banks operating in Bosnia-Herzegovina state that their deleveraging process has stabilized. Contrary to the past release of the survey, no reference is done on a potential increase in Groups' loan to deposit ratio. Half of the Groups operating in Bosnia-Herzegovina refer intentions to continue to conduct strategic restructuring in line with the evidence gathered for the whole region. There is no clear-cut evidence of plans to raise additional capital on the market in the coming months. Moreover these Groups are as keen in selling assets as the overall set of group operating in the whole region. No state contribution to capital is expected.

Figure 1. Market potential and positioning, ROE and ROA – see question A.Q15



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

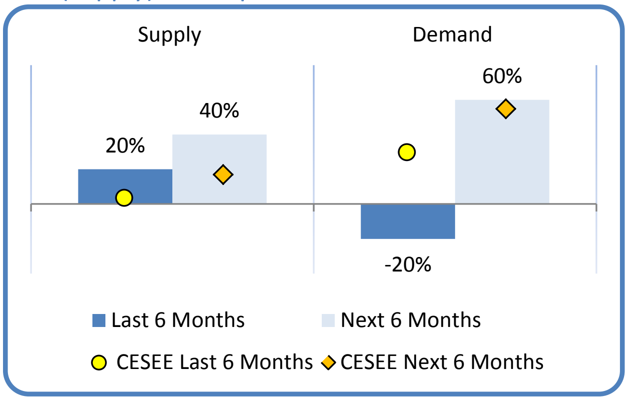
2. Two thirds of the Groups operating in Bosnia-Herzegovina report a medium potential for the local market. At the same time also 75 percent of the Groups indicate a satisfactory positioning in the market. This is also reflected in the profitability indicators whereby returns on assets (adjusted for the cost of risk) are described to be above Group's returns for two-thirds of the respondents (Figure 1). Returns on equity (adjusted for the cost of equity) are also considered to be high by several Groups.

[3] In this subsection results refer to the views of parent banks. Results on market positioning, potential, ROE and ROA refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, LTD, capital contributions, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. By doing so, it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. Subsidiaries operating in Bosnia-Herzegovina report eased supply and contracting demand conditions over the last six months. Supply conditions are in line with what was expected in the previous release of the survey and eased much more than in the CESEE region. To the contrary demand conditions continued to surprise to the downside as in the previous release of the survey. In addition, demand conditions have been weaker than in the overall CESEE region over the past year or so. However, both supply and demand are expected to ease and increase respectively in the coming six months (Figure 2).

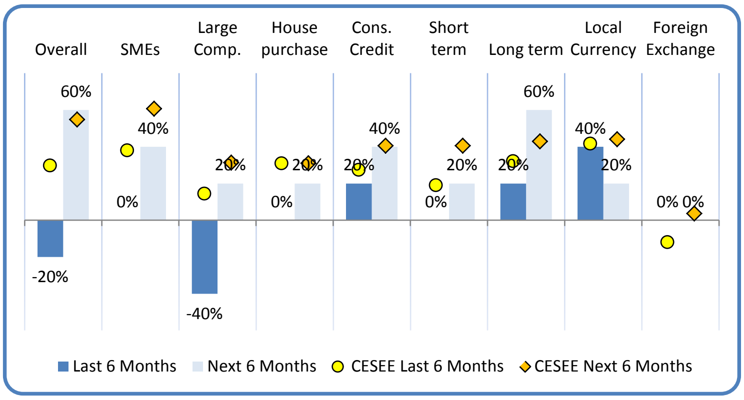
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. Subsidiaries report a contraction of aggregate demand conditions (Figure 3). This is not a comforting signal and still indicates uncertainty in market conditions. Except for the previous release of the survey, demand has been described on a decreasing trend for the past two years. Therefore the negative effects of the 2014 floods coupled with volatile emerging markets seem to have impacted on the aggregate demand conditions. On the other hand, consumer credit segment demand conditions continued to improve in line with the overall CESEE region over the last six months. To the contrary, demand for loans from large corporates was still robustly shrinking over the past six months, whilst demand from SMEs and for mortgages did not change. Demand is expected to ease across the board in the coming months. The largest improvement in demand is expected to come from SMEs and for long term maturities.

Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5

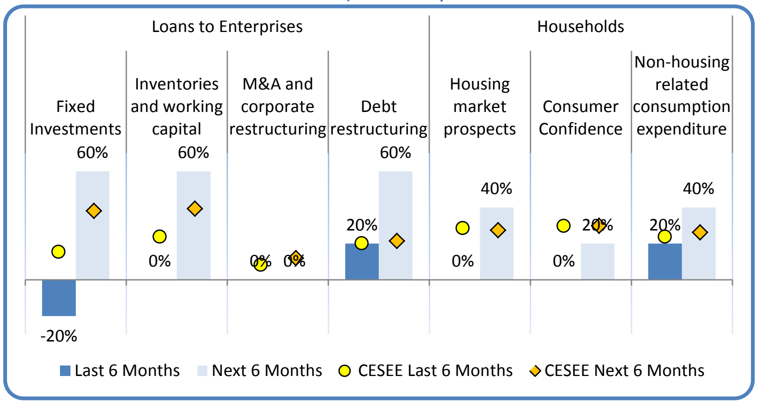


Source: EIB – CESEE Bank Lending Survey.

3. Most factors did not support demand conditions over the past six months, and accordingly demand contracted. The few positive contributors came from debt restructuring on the corporate side and non-housing household related

consumption (Figure 4). Loan demand for investment still contracted over the past six months as already detected in the previous releases of the survey. All other factors did not have a material impact. Subsidiaries expect an improvement across the board. Corporate credit demand is expected to be supported by investment, working capital and debt restructuring in line with the expectations for the CESEE region. Household factors are also expected to contribute positively. These include housing market prospects, consumer confidence and non-housing related consumption.

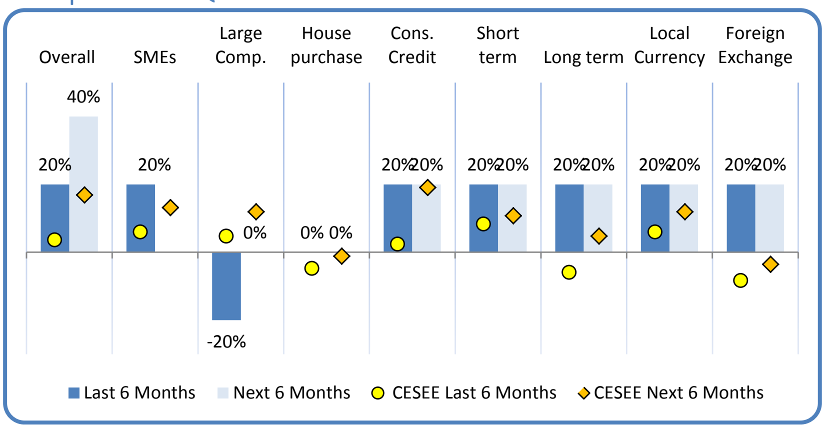
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

4. Supply conditions (credit standards) eased more in Bosnia-Herzegovina than in the CESEE region over the past six months, as expected in the previous release of the survey. The easing in credit standards primarily happened in the household segment, specifically on consumer credit (Figure 5). Credit standards on mortgages did not ease over the past six months, contrary to what was detected in the previous release of the survey. The easing in the household segment was more robust than in the overall CESEE region. Supply conditions also eased for both short- and long-term maturities more than in the CESEE region. Supply conditions are also expected to continue to ease in the household segment. As a result credit easing is expected to be more significant in Bosnia-Herzegovina than in the CESEE region over the next six months.

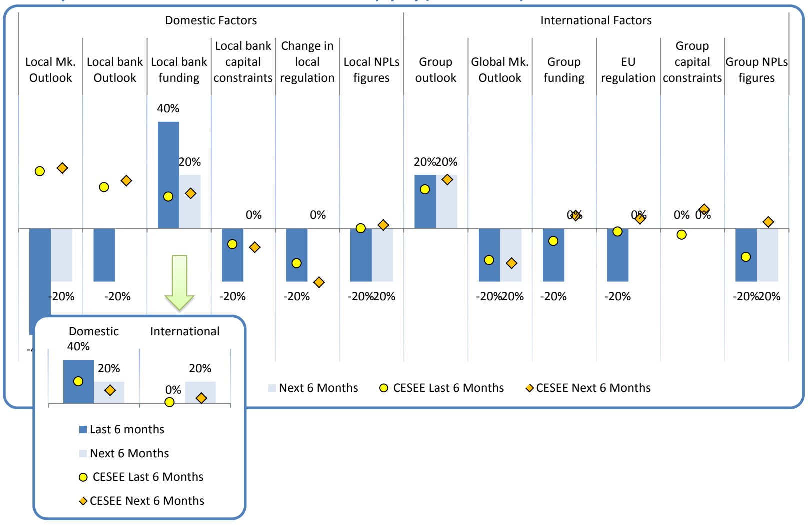
Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1



Source: EIB – CESEE Bank Lending Survey.

5. Both domestic and international factors affected supply conditions. Among the former, local market outlook, local bank capital constraints, regulatory changes and NPL figures were the major obstacles to credit supply whilst funding, primarily from domestic sources, generated an easing contribution (Figure 6), as in the previous release of the survey. Most of these factors are expected to have similar effects on supply in the coming months. As far as international factors are concerned, the most prominent supply constraints came from poor global market outlook, EU regulations and group wide NPLs. All in all, group-wide NPL figures and EU regulation are expected to continue to exert a negative impact on credit supply in the coming months.

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4

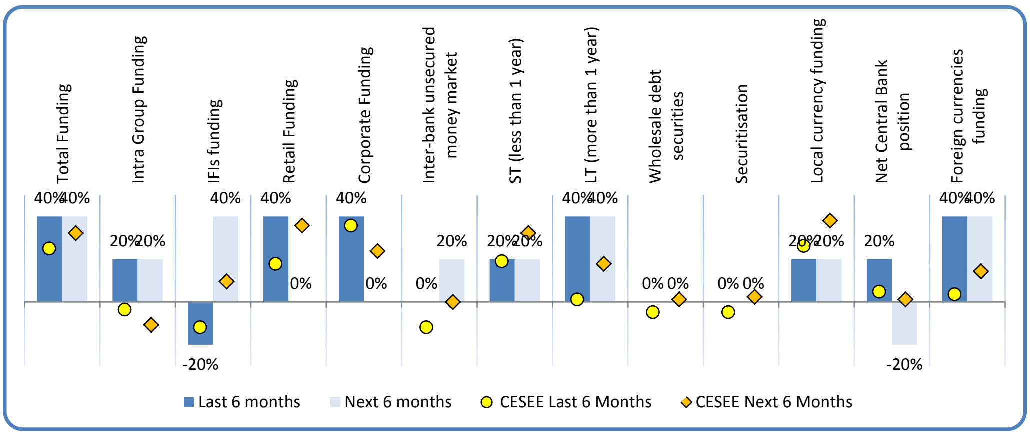


Source: EIB – CESEE Bank Lending Survey.

6. Credit supply conditions for SMEs eased marginally over the past six months, after a long period of tightening. However this is considered a rather temporary development as these conditions are not expected to ease in the coming months. Credit demand from the SME sector has been stagnant over the last six months in line with the lacklustre conditions over the past two years. In the near future it is expected to rebound along the general demand for credit. Terms and conditions for loan approvals did not ease in terms of pricing and loan size, whilst banks tightened collateral requirements.

7. Subsidiaries in Bosnia-Herzegovina report that their access to funding has generally improved in line with the CESEE average (Figure 7). Banks have observed positive funding contributions from retail and corporate funding over the last six months, whilst IFIs funding did not exert a positive effect. Access to all these sources of funding is expected to further improve in the near future, particularly funding from IFIs. We can also observe an easier access to the long-term funding as well as to local currency sources.

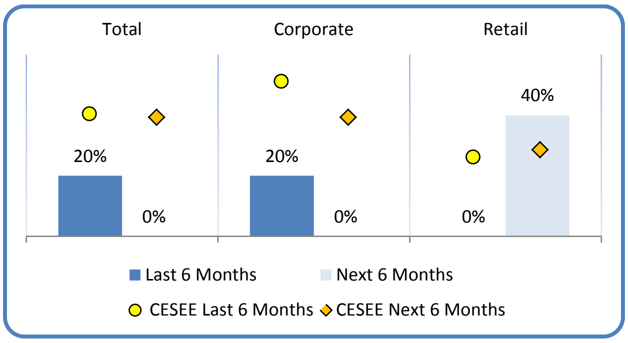
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



Source: EIB – CESEE Bank Lending Survey.

8. Continuing on a trend already detected in the previous three releases of the survey, NPL ratios have been decreasing over the past six months. This time the compression of NPL ratios has been primarily driven by the corporate segment NPLs (Figure 8). Expectations are tentatively less positive than the downward trend recorded over the recent past.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Bulgaria

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: ten
- Approximate share of assets covered (as proportion of total assets): approx. 62 percent
- Current level of NPLs as proportion of total loans: 14.5 percent (March 2016)
- Latest credit growth (YOY): -2.2 percent (March 2016)
- Loan-to-deposit ratio: 98 percent (March 2016)
- CAR: 22.2 percent (December 2015)

2. Key messages – *Demand for investment loans is still low and falling, but is widely expected to pick up; noticeable progress on non-performing loans; access to funding continues to improve, driven by domestic factors.*

International groups' views:

- **Group strategies**: Parent banks operating in Bulgaria have continued restructuring their businesses, broadly in line with the full sample of parent banks included in the survey.
- **Group assessment of positioning and market potential**: Views of different banks about the market outlook in Bulgaria are gradually improving. Groups' assessments of subsidiaries' profitability continue to improve, with net three-quarters of respondents seeing profitability above their group's average.

Subsidiaries'/local banks' views:

- **Credit supply** conditions have been broadly stable and are expected to improve in the near future due largely to domestic factors. Group and local NPLs, EU regulation and global outlook are seen as constraining supply conditions. The influence of these factors is expected to turn positive over the next six months, too.
- **Credit demand** declined the past six months, driven by a decline in the corporate segment. In the next six months, loan demand across all segments is expected to increase, especially for house purchases and from SMEs. Loan demand for fixed investment is expected to increase by a majority of respondents.
- **Access to funding** improved over the past six months due to strong domestic retail and corporate funding and is expected to improve further, driven mostly by these two sources.
- **NPL figures** have improved substantially over the past six months, consistent with reports from the banking sector regulator.

[1] Sources: Bulgarian National Bank.

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** GDP grew 3 percent in 2015 Q4 relative to 2014 Q4 with a solid contribution of domestic demand, also boosted by substantial government spending in the second half of 2015. The European Commission projects average annual growth to be 2 percent in 2016 and 2.4 percent in 2017 with gradually strengthening domestic demand.
- **Unemployment:** The unemployment rate in Bulgaria appears to have peaked at around 13 percent in 2013 and stood at 7.3 per cent in 2016 Q1. The labour market continues its gradual improvement as the economic activity and the employment rate have increased. The labour market is expected to continue its gradual improvement in 2016 and 2017 with further increases of employment growth and a reduction of the unemployment rate
- **Inflation:** The harmonised index of consumer prices (HIPC) continued its decline in 2016 Q1 following two years of consumer-price deflation. Nevertheless, house prices have continued the positive movement that started in 2014, growing by 4 per cent in 2015. HIPC is expected to continue its decline throughout 2016 and begin increasing again in 2017.
- **External and public sector balance:** Exports of goods and services outpaced imports throughout 2015 narrowing the trade deficit and contributing to a current account surplus of 1.4 per cent of GDP in 2015. The deficit in the budget of the general government in 2015 was 2 per cent of GDP. As a result, general government debt continued to increase in 2015 to 26.7 per cent of GDP after it jumped up sharply in 2014 by 9.3 percentage points, relative to 2013, as general government budget deficit worsened by 2.2 percentage points and additional debt to address banking sector turmoil was issued. The deficit is expected to decline slowly in 2016 and 2017 and remain above 1.5 percent.
- **Banking sector:** Profits of Bulgarian banks have been growing in 2015 and in the first quarter of 2016, but at a rather slow pace and profitability remains low. It is curbed by a low and stagnating share of non-performing loans and a high and rising share of lower-interest bearing assets: In March 2016 the ratio of liquid, low-return assets was 37 percent. A high ratio of non-performing loans (NPL) of about 14.5 per cent still imposes large, albeit declining, costs on the banking system. NPLs remain well provisioned.
- **Rating:** Bulgaria is rated BBB- by Fitch, Baa2 by Moody's and BB+ by S&P.

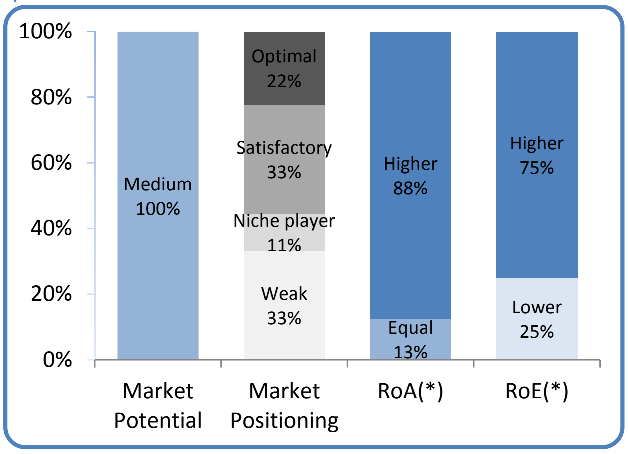
[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission and Bulgarian National Bank data.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Restructuring activity of banks with foreign operations in Bulgaria has been gradually declining as restructuring goals are being achieved. Whereas over the past three years a large majority of such banks reported consistent engagement in strategic restructuring and sale of assets at the global level, over the past six months half of respondents of the survey did not engage in any strategic restructuring and the share of those that have not sold assets has increased. Over the next six months restructuring activity is expected to slightly decrease. Shedding assets and strategic restructuring are the most widely used measures. These results broadly hold for the global operations of all parent banks operating in the CESEE region.

Figure 1. Market potential and positioning – see question A.Q15



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

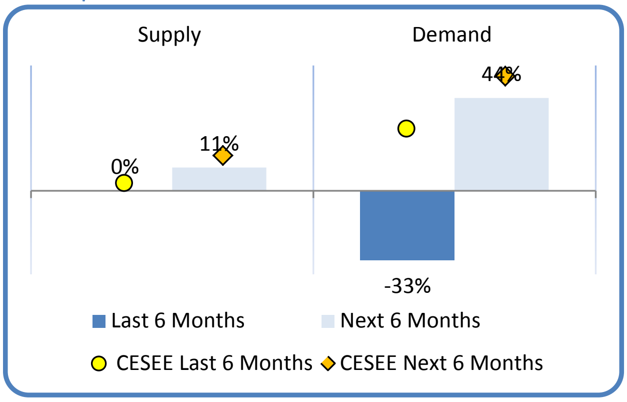
2. Views among parent banks operating in Bulgaria about their operations in the CESEE region gradually converge: Two-thirds of banks plan to expand selectively. This is underlined by the common view of all respondents that the market has medium potential and by the fact that three-quarters have not achieved an optimal market positioning. Moreover, a large majority of banks reports superior risk-adjusted returns from their operations in Bulgaria compared to their overall returns (Figure 1, last two bars). Total exposure of parent banks operating in Bulgaria to CESEE subsidiaries stabilised over the past six months, following marked declines reported in all previous waves of the survey. Reductions over the next six months are not foreseen either.

[3] In this subsection results refer to the views of parent banks. Results on market positioning, potential, ROE and ROA refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, LTD, capital contributions, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. By doing so, it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. Supply conditions (credit standards) have remained unchanged over the past six months and are expected to improve by a narrow majority in the near future. Aggregate demand for loans and credit lines fell, but is expected to rebound in the near future (Figure 2). Compared to the region, supply conditions are seen as broadly the same in Bulgaria, whereas demand is deemed as worse.

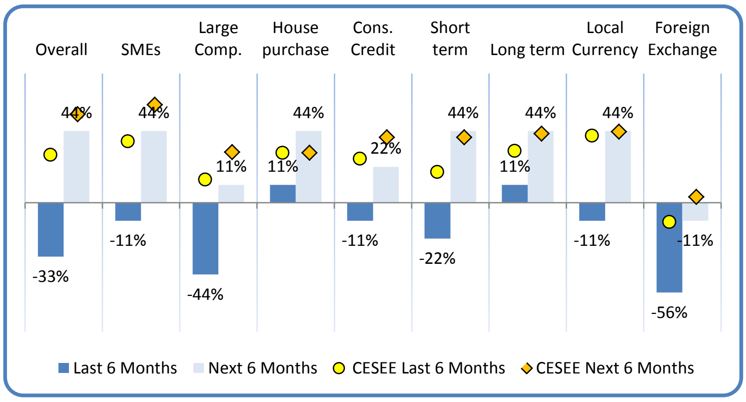
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. Falling credit demand in Bulgaria is mostly the result of weak demand from the corporate sector. Household demand for housing loans is seen as more robust (see Figure 3) by subsidiaries in Bulgaria. As in all previous waves of the survey, demand for foreign exchange (FX) loans is estimated as declining by a majority of banks. Over the next six months, more banks expect an increase in loan demand. Subsidiaries are more optimistic about SMEs, house purchases and consumer credit. The increase is expected both in the long-term and the short-term segment. A small majority of banks sees deterioration in the quality of loan applications across all market segments. Stronger credit demand from households is underpinned by subsidiaries' views of improving housing market prospects and consumer confidence (Figure 4).

Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5

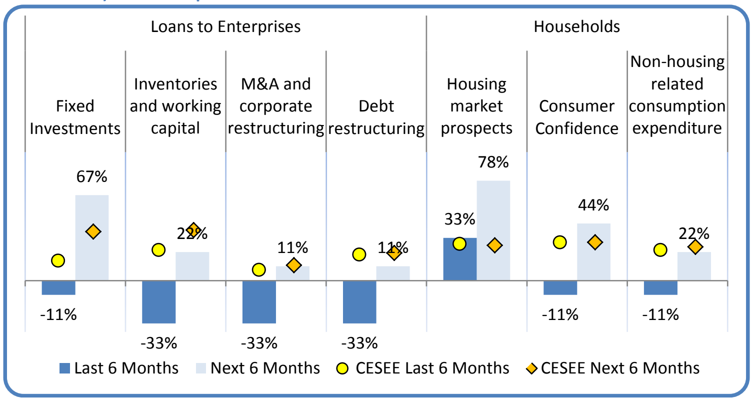


Source: EIB – CESEE Bank Lending Survey.

3. Demand for loans for fixed investment appears to have reached a turning point. While a narrow majority of subsidiaries sees it as falling over the past six months, a net two-thirds of respondents expects increase of demand for loans for fixed investment (Figure 4). Demand for loans for working capital, corporate and debt restructuring is expected to increase over the next six months by a small majority of banks.

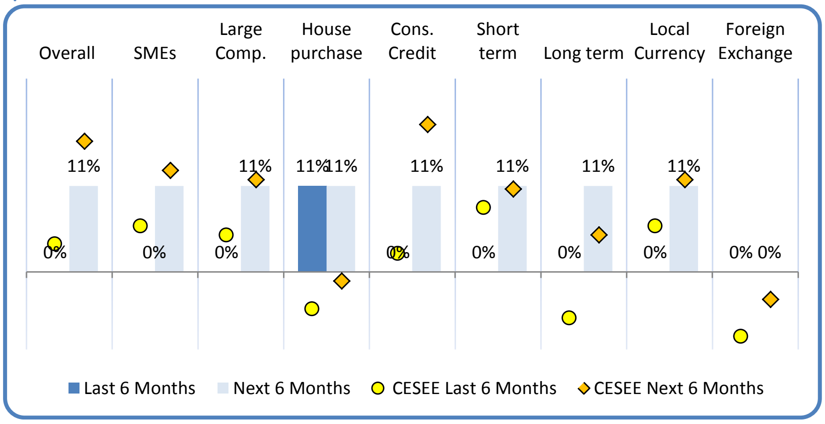
4. Overall supply conditions (credit standards) in Bulgaria were deemed unchanged over the past six months (Figure 5). A narrow majority of banks expects credit standards to ease further over the next six months. Only credits for house purchases benefited from improved supply conditions. Credit standards for corporations (including SMEs) and for consumer credit have not changed materially, but are expected to improve in the near future by a small majority of respondents. Dynamics of overall supply conditions in Bulgaria does not differ significantly from those of the CESEE region as a whole. Nevertheless drivers of supply conditions do differ. (Figure 6).

Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

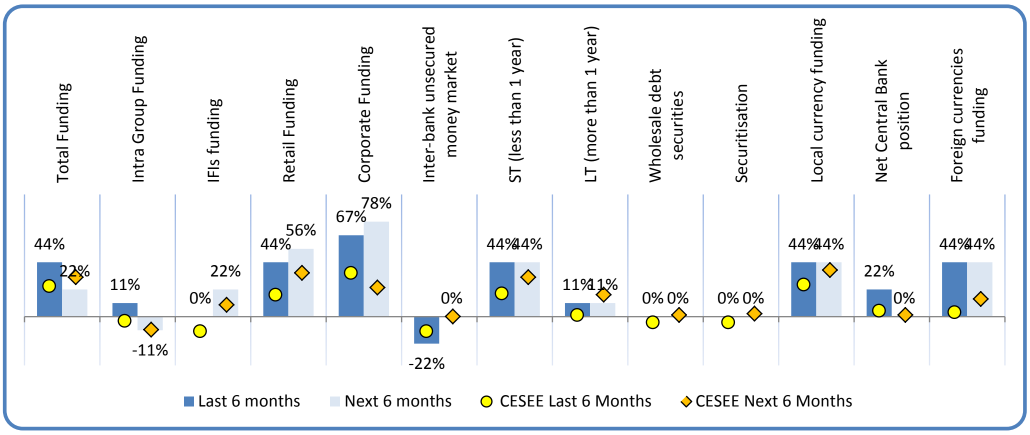
5. Domestic factors, except local NPLs, had a positive effect credit supply conditions (Figure 6). On a group level, group outlook and capital constraints have had positive effects on credit conditions and are expected to continue exerting positive effects in the near future. Unlike in the previous round of the survey, EU regulation is not expected to have negative effects on credit supply.

6. Focusing on SMEs, a narrow majority of banks sees overall credit supply conditions as improved and as continuing to do so over the next six months. Positive developments of narrowing bank margins are the main driver of these developments. Credit demand from SMEs was perceived as stable, in contrast to worsening regional average. Demand from SMEs is expected to increase by a large majority of respondents over the next six months, clearly exceeding the regional average.

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4

Source: EIB – CESEE Bank Lending Survey.

Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9

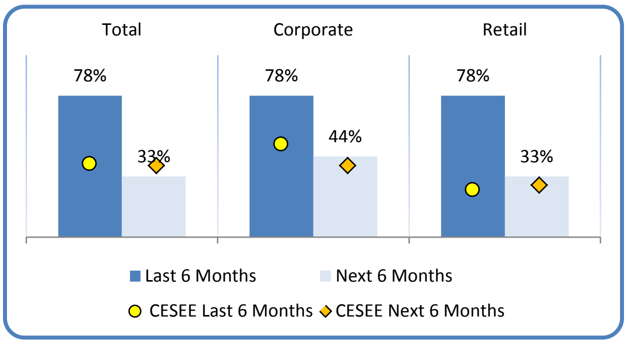


Source: EIB – CESEE Bank Lending Survey.

7. Access to funding has improved for a majority of banks during the past six months, exceeding the CESEE regional average. Retail and corporate funding have been the main drivers of this improvement, offsetting net negative assessment for the remaining funding sources (Figure 7). Short-term funding benefited the most from this improvement.

8. NPL ratios improved for a large majority of respondents over the past six months, significantly exceeding developments in the CESEE region. Improvements were reported for both the corporate and the retail segment (Figure 8). This is consistent with reports from the central bank in Bulgaria for large write-offs and portfolio restructuring across the banking sector in the country. Improvements are expected to continue over the next six months in both segments.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Croatia

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: five
- Approximate share of assets covered (as proportion of total assets): 75 percent
- Current level of NPLs as proportion of total loans: 17 percent (Q3 2015)
- Latest credit growth (yoy): 0.3 percent (Q4 2015)
- Loan-to-deposit ratio: 83 percent (Q4 2015)
- CAR: 19.9 percent (Q3 2015)

2. Key messages – *Banking groups indicate low profitability and low market potential. Funding conditions improved, supported by domestic deposits; credit supply is lagging behind demand.*

International groups' views:

- **Group strategies**: When it comes to strategic objectives, global groups operating in Croatia are broadly in line with the sample of international banks included in the survey. They are somewhat less likely to engage in raising capital over the next six months.
- **Group assessment of positioning and market potential:** Parent banks operating in Croatia are strongly committed to the CESEE region, and typically expect to (selectively) expand their operations in the area. As to their view on the Croatian market, banking groups reports low to medium potential. Many parent groups also see returns on assets and equity to be below group levels. About two third of the respondents are at least satisfied with their current market positioning.

Subsidiaries'/local banks' views:

- Banks operating in Croatia reported an **increase in the demand** for loans over the past six months, while **supply conditions have been stagnating**.
- **Credit supply** conditions have tightened somewhat in the household segment, while large corporates have enjoyed easier access to finance.
- **Demand for loans:** On aggregate, demand for consumer credit and SME loans has been increasing, driven mainly by corporate debt restructuring and improved consumer confidence.
- **Access to funding:** Funding conditions have been improving, with a strong contribution from domestic corporate and retail funding.
- **NPL figures:** After many periods of continuing deterioration, banks have indicated a positive shift in corporate NPLs, and expect improvements in the household segment, too.

[1] Sources: Croatian National Bank and European Commission

3. Relevant macroeconomic and banking conditions[2]

- **Growth**: Croatia's real GDP grew by 1.6 percent in 2015, the first year of positive growth since 2008. The pace of the recovery decelerated somewhat in the last quarter of 2015 as the positive impact of a very good summer tourism season faded away, and public investment contracted more than expected. GDP growth is set to reach 1.8 percent in 2016, and 2.1 percent in 2017. The main source of growth will be domestic demand.
- **Unemployment**: The unemployment rate is high, but declining. It reached 14.4 percent in May 2016 – the lowest level since 2009.
- **Inflation**: HICP inflation is expected to fall by about 0.6 percent in 2016 and to return to positive territory in 2017.
- **External and public sector balance:** The rebalancing of the external debt is underway, and Croatia is posting a comfortable current account surplus – 5.1 percent of GDP in 2015. A consolidation is also taking place on the fiscal side. Croatia has been under an Excessive Deficit Procedure since January 2014. The general government deficit decreased to 3.2 percent of GDP in 2015, down from 5.5 percent of GDP in 2014. The main driver of the sizeable improvement was a 22 percent drop in public investment. In 2016, the general government deficit is projected to improve further. The debt-to-GDP ratio continued to increase moderately in 2015 to 86.7 percent.
- **Banking sector:** Banks are well-capitalised (CAR 19.9 percent in Q4 2014), although the legislation on the currency conversion of household CHF loans adopted in September 2015 has taken a toll on financial sector profitability. Total assets of the banking sector in Croatia stood at 122 percent of GDP in end-2015. Portfolio quality has been stagnating, and NPLs are still high at above 17 percent. Lending growth has been negative since mid-2012, but it seems that it have reached its trough and showed a mild growth (0.3 percent in Q3 2015). Partly as a consequence of the sluggish economy and the resulting low demand for credit, non-resident funding of the banking system had declined: the loans-to-deposit ratio has gradually declined since 2012 and stood at 83 percent in Q3 2015. Growth in domestic deposits, however, particularly from households, has been positive and has been gradually replacing foreign funding, thus supporting the deleveraging process. Despite the legislative changes affecting FX mortgages, the domestic borrowers remain exposed to currency risk, in turn implying high exposure of the financial sector to currency-induced credit risk. However, a high degree of euroisation in the economy, on both assets and liabilities, together with the tightly managed float of the domestic currency to EUR mitigates this risk.
- **Rating:** Croatia is currently rated by Moody's (Ba2, negative outlook), Fitch (BB, negative outlook) and S&P (BB, negative outlook).

[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: Croatian National Bank and European Commission data.

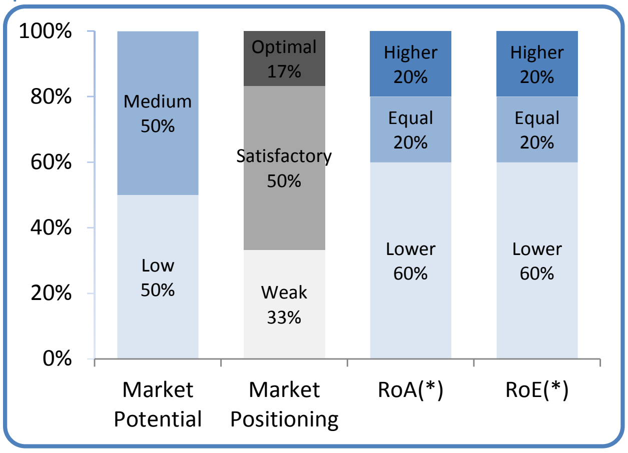
4. Results from the Bank Lending Survey:

4.1 Parent banks[3]

1. Parent banks operating in Croatia generally share their view on global operations with the overall sample of international banks included in the survey. They are somewhat less likely to engage in raising capital than the others.

2. Relative to the full sample, parent banks operating in Croatia are more strongly committed to the CESEE region, and typically they expect to selectively or generally expand their operations in the region over the coming months. The banking groups report a rather negative view on the market prospects in Croatia; 50 percent of the respondents view Croatia's market potential as low (Figure 1). The majority of the banks describe the profitability (i.e., ROE and ROA) of Croatian operations as lower than that of the overall group operations, even when corrected for the cost of risk and cost of equity. However, taking these factors into account, two-third of the banking groups are at least satisfied with their current positioning on the Croatian banking market, and only 33 percent finds its market positioning weak.

Figure 1. Market potential and positioning – see question A.Q15



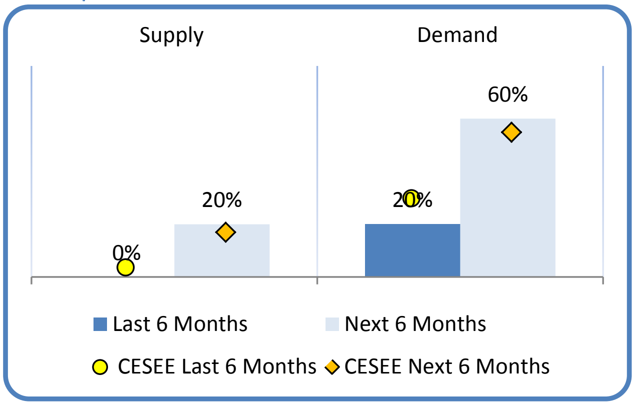
Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

[3] In this subsection results refer to the views of parent banks. Results on market positioning, potential, ROE and ROA refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, LTD, capital contributions, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. By doing so, it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. Subsidiaries operating in Croatia reported an increase in the demand for loans over the past six months, more or less in line with the CESEE region. Supply conditions, however, have been stagnating in the past quarters (Figure 2). As to the demand, banks project a significant strengthening. On the supply side only a limited increase expected over the next six months. The outlook is very much similar to the overall picture for the CESEE.

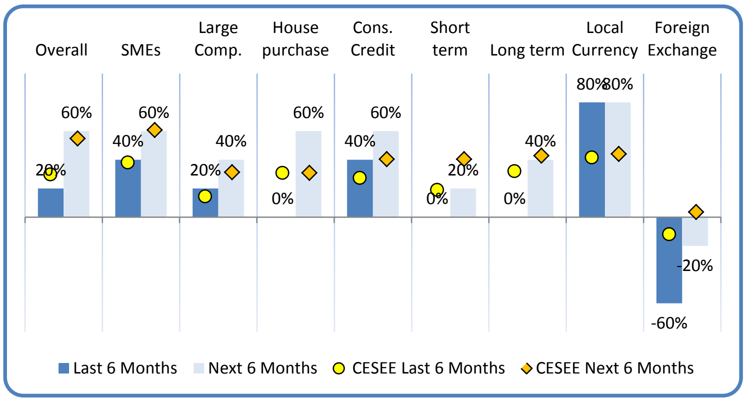
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. The overall increase in demand for loans has not been uniform across segments. Among corporate clients, credit demand from SMEs has increased the most, while large companies have shown only a limited growth in their borrowing activity in the last six month (Figure 3). Looking ahead, demand is likely to pick up further in both corporate segments. Within the household segment, consumer credit is the area that has seen increased activity, and demand is expected to strengthen further over the coming quarters. Demand for housing loans have been stagnating, but is expected to pick up, too, in the coming quarters. A shift from foreign to local currency-denominated credit can be observed in Croatia – even more than in the other countries of the CESEE region.

Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5

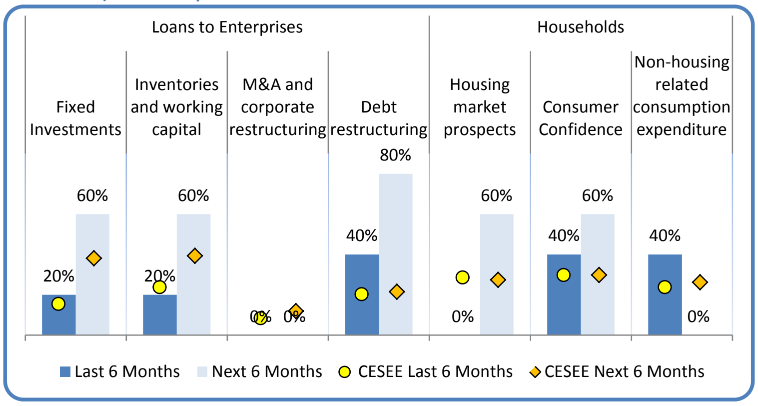


Source: EIB – CESEE Bank Lending Survey.

3. As for the factors behind credit demand on the households' side, stronger consumer confidence and expenditure have all been contributing positively in the last few months. Strong consumer confidence is expected to remain a driving factor in the coming months, together with improving housing market prospects. For the corporate sector, debt restructuring has been the main positive factor behind the stronger credit demand, but fixed investments and

inventories also helped to support demand. All these factors are expected to improve further in the next six months (Figure 4).

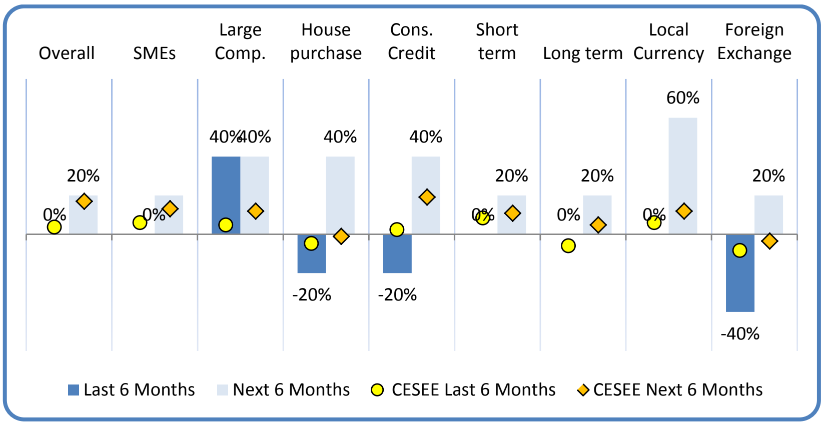
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

4. Credit supply components have been neutral overall in the past six months (Figure 5). There has been a slight tightening of credit standards for households – both for housing loans and consumer finance, and an easing in access to credit for the corporate sector. Credit standards for both short-term and long-term lending have been neutral overall. Looking ahead, a pronounced easing is expected in all segments.

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



Source: EIB – CESEE Bank Lending Survey.

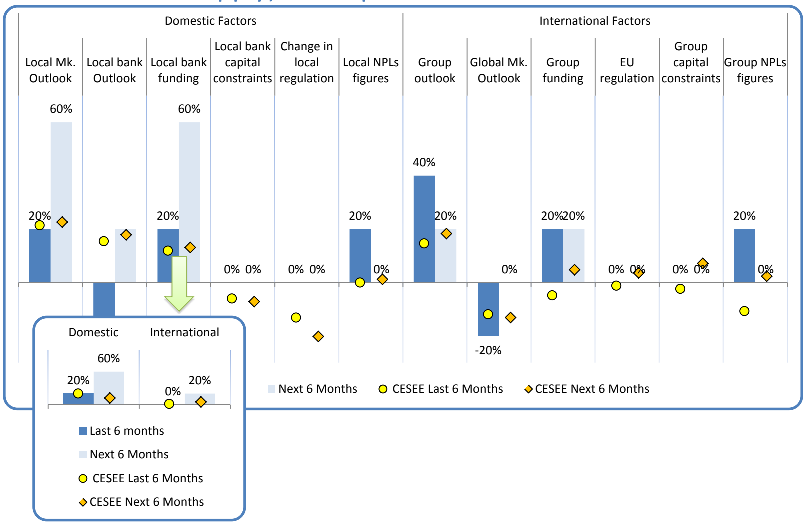
5. Domestic factors had a neutral effect on credit supply in Croatia. (Figure 6). Among the international factors, the outlook for parent groups, group funding and the evolution of group-level NLPs have been contributing positively, while the global market outlook has been a drag on credit supply. In the period ahead, local outlook and local bank funding are expected to contribute positively towards credit supply on the domestic side. At the international level, improvements and positive contributions are projected for group-level outlook and for group funding.

6. Subsidiaries in Croatia have reported no change in the credit standards for SMEs, and no significant credit easing or tightening is expected for the coming months. At the same time, demand for loans by SMEs has been picking up, and it is

expected to strengthen further in the period ahead, thus generating an increasing perceived gap between demand and supply.

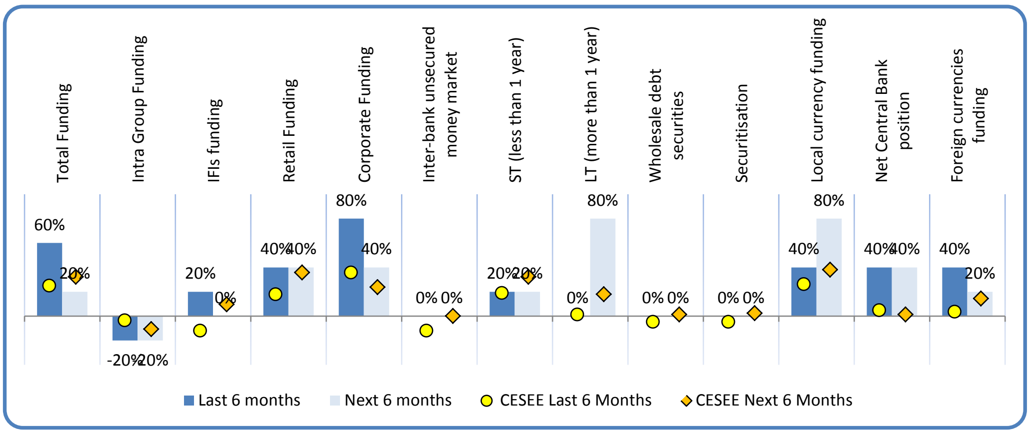
7. According to the survey results the overall funding situation of Croatian banks has been improving over the last six months. Corporate, retail and, to a smaller extent, IFIs funding had a positive contribution (Figure 7). Intra-group funding, on the other hand, has been drying out, and the situation is not expected to improve in the near future.

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



Source: EIB – CESEE Bank Lending Survey.

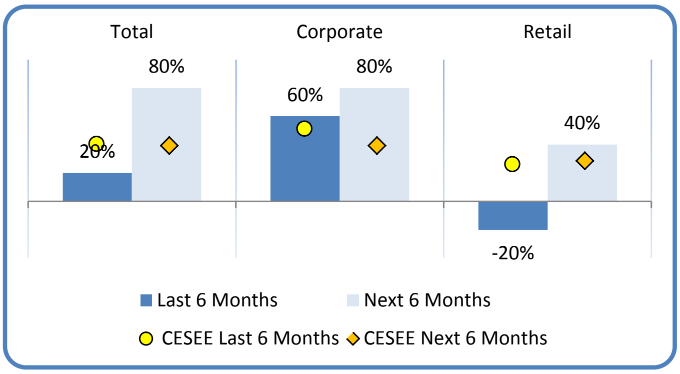
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



Source: EIB – CESEE Bank Lending Survey.

8. Aggregate NPL ratios have been described on a decreasing path over the past six months. Although NPLs in the retail segment still rose over the past six months, significant improvements have been detected in the corporate segment. Furthermore, most subsidiaries believe now that in both segments NPLs will decrease in the next six months (Figure 8).

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Czech Republic

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: five
- Approximate share of assets covered (as proportion of total assets): approx. 62 percent
- Current level of NPLs as proportion of total loans: 5.5 percent (March 2016)
- Latest credit growth (yoy): 6.9 percent (March 2016)
- Loan-to-deposit ratio: 75.3 percent (March 2016)
- CAR: 18.4 percent (December 2015)

2. Key messages – *High-potential market amid a strengthening economic and credit recovery*

International groups' views:

- **Group strategies**: The view of international banks operating in the Czech Republic regarding strategic plans has become less optimistic. In contrast to past rounds and the overall sample they present a less positive view in terms of the envisaged sale of assets. Also, one in five parent banks are preparing to decrease the loan-to-deposit ratio which implies the first deleveraging plans in two years.
- **Group assessment of positioning and market potential**: A majority of groups keep recording higher profitability in the Czech Republic than at the overall group level. Hence, they are also very much inclined to selectively expand operations in the CESEE region. They are satisfied with their positioning in the Czech market, and all of them still regard the Czech Republic as having medium or high market potential.

Subsidiaries'/local banks' views:

- **Credit supply:** In contrast to the stagnation in the CESEE region as a whole supply conditions eased significantly over the last six months in all market segments. The improvement was driven by international factors, particularly the group outlook. Yet domestic factors played even a more significant role, especially local market outlook and bank funding and, to a lesser extent, local bank outlook. While the loosening of supply conditions should continue relatively strongly in the retail segment, it will slow down noticeably for SMEs and come to a halt in the large corporate sector.
- **Credit demand:** Outperforming strongly developments in the CESSE region, credit demand strengthened noticeably in the Czech Republic over the last six months and will continue to do so across the board.
- **Access to funding:** Subsidiaries indicated an overall rather stagnant access to funding despite somewhat easier access to intra-group, IFI and corporate funding over the last six months. The overall rather easing trend is expected to continue.
- **NPL figures:** Both corporate and retail NPL ratios decreased noticeably over the last six months and will continue doing so although at a slower pace.

[1] Sources: The Czech National Bank.

3. Macroeconomic and banking conditions[2]

- **Growth:** After the Czech economy returned to growth in 2014 (2 percent) GDP expanded by 4.2 percent in 2015, the fastest rate since 2007. While the rebound in the last two years was driven particularly by domestic demand the boost in 2015 was brought about particularly by a surge in inventories and investment. The latter benefited from continued inflows of EU transfers, as the country had to use up the funds from the MFF 2007–13. Private and government consumption rose moderately in 2015, while net exports had a slightly negative impact on 2015 growth. In its spring forecast the European Commission estimates real GDP to rise by 2.1 percent in 2016 and 2.6 percent in 2017.
- **Unemployment:** On the back of a strengthening economy unemployment has dropped from more than 7 percent in early 2013 to just above 4 percent in March 2016, currently the lowest level in the EU.
- **Inflation:** Despite CNB's exchange rate interventions since November 2013 HICP inflation rate has been well below the target (2 percent ± 1 pp). After averaging 0.4 percent in 2014 inflation dropped further to 0.3 percent in 2015, reflecting, inter alia, falling commodity and other import prices. The substantial decline in oil prices is forecast to put downward pressure on inflation also in the medium term, although tighter labour market conditions and an expansionary monetary policy should counteract. Although inflation seems to be accelerating slightly most recently and is expected to average at 0.5 percent in 2016 it will remain - despite CNB's exchange rate interventions and the 0 policy rate - rather low and well below CNB's target in the medium term.
- **External and public sector balance:** The current account surplus reached 0.9 percent of GDP in 2015, the highest level since 1993. The current-account balance improved despite a shrinking surplus on the goods account and was driven by narrowing income and current-transfers deficits and a widening services surplus. As a result of fiscal consolidation budget deficit came down from 5.5 percent in 2009 to 0.4 percent of GDP in 2015. A small deterioration of the budget deficit is projected for 2016 (0.7 percent of GDP) before improving to 0.6 percent of GDP in 2017. Public debt fell to around 41 percent in 2015, one of the lowest levels in EU, and is projected to move sideways in the medium term.
- **Banking sector:** The capital adequacy ratio (above 18 percent) of the banking sector comfortably exceeds the regulatory minimum. NPLs hover around 5.5 percent which is low compared to regional peers as is the loan-to-deposit ratio. Credit growth is well below the pre-crisis level but strengthening.
- **Rating:** The Czech Republic is currently rated A1 by Moody's, A+ by Fitch and AA- by S&P.

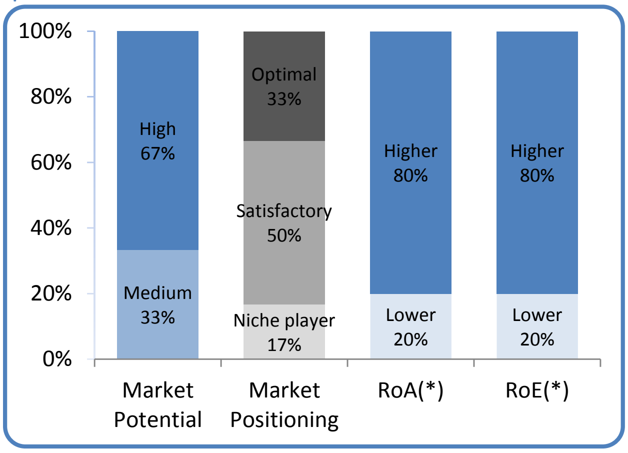
[2] Sources for the macroeconomic data: European Commission, Eurostat and the IMF. Sources for the banking data: European Commission and Czech National Bank.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Banks operating in the Czech Republic do not really maintain the more favourable view than the overall sample of groups in the survey any more as has been the case so far. The share of parent banks which are considering the sale of assets at the global level in the next six months went up from 50 percent in the last round to 60 percent most recently, noticeably above the 47 percent in the overall sample. The parent bank's view on other strategic operations is mixed. As in the past, no bank is planning to raise capital on the market or take it from the government, although one in five bank groups did receive state contribution to capital in the last six months. In addition, 20 percent of parent banks are planning to sell branches and 60 percent of respondents want to undertake some strategic restructuring at the global level. While 80 percent of parent banks operating in the Czech Republic do not envisage any deleveraging and are going to keep their loan-to-deposit (LTD) ratio stable, 20 percent of banks are planning to decrease the LTD over the next six months. This is for the first time since H2 2014 that some parent banks operating in the Czech Republic do report partial deleveraging in the pipeline.

Figure 1. Market potential and positioning – see question A.Q15



Source: EIB – CESEE Bank Lending Survey.

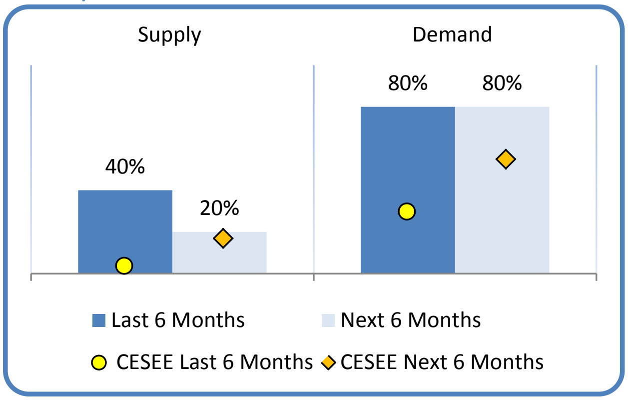
2. All groups operating in the Czech Republic remain strongly committed to the region as all of them intend to selectively expand operations. Four out of five parent banks reported higher profitability in the Czech Republic than at group level in the last six months and expect the same also for the upcoming months. Moreover, 80 percent of 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 six months. A large majority of parent banks (83 percent) consider their market positioning optimal or satisfactory and all surveyed banks believe their market potential is medium-to-high (Figure 1).

[3] In this subsection results refer to the views of parent banks. Results on market positioning, potential, ROE and ROA refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, LTD, capital contributions, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. By doing so, it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. Contrasting with the stagnating CESEE average and also outpacing to some extent expectations voiced in the last survey, subsidiaries operating in the Czech Republic reported a rather significant easing in supply conditions over the last six months. In the next half a year supply conditions are expected to loosen in the Czech Republic in accordance with the CESEE region (Figure 2). However, on the demand side the gap between the Czech Republic and the CESEE region is more apparent. Demand strengthened noticeably in the Czech Republic in the last six months outperforming significantly the CESEE region. A similar pattern is projected to continue in the months ahead although demand is expected to get a further boost also in the CESEE region.

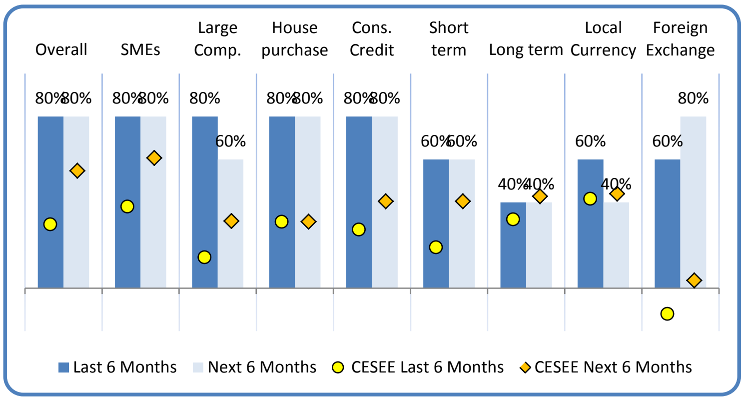
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. When it comes to components behind the strong increase in demand in the Czech Republic over the last six months we see that the boost was driven by all types of lending, i.e. loans to all sizes of enterprises as well as mortgages and consumer credit in the retail segment. Looking ahead, the trend is expected to continue as a significant majority of banks expect a further strong increase in all demand components. While overall demand should rise for credit in all currencies and at all maturities, a particularly strong demand boom is expected in the foreign exchange segment and for credit at shorter maturities (Figure 3).

Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5

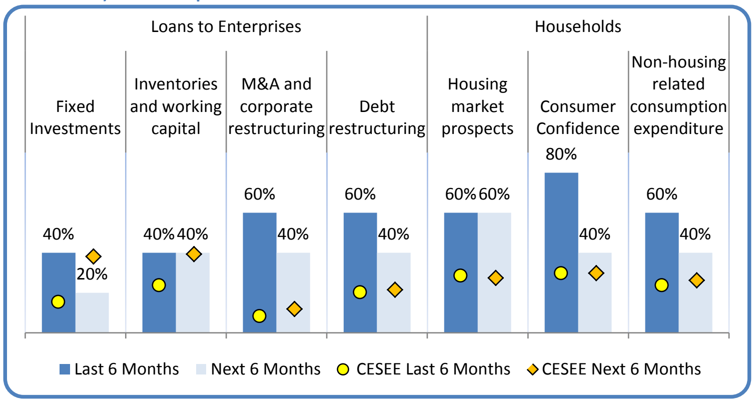


Source: EIB – CESEE Bank Lending Survey.

3. The rising demand in the corporate segment in the last six months was spread across most business needs, outpacing strongly the developments in the CESEE aggregate. The most decisive factor behind the corporate demand surge was financing need for M&A, corporate and debt restructuring. However, also financing for investment and inventories was in high demand. This survey result thus very much confirms the revival of investment and inventories as the major driver of GDP growth observed in the macroeconomic data. Looking ahead, a

very similar demand composition is expected also in the next six months although the demand boom is expected to cool off slightly in most components. In the household segment, demand was supported particularly by robust consumer confidence but also favourable housing market prospects and non-housing expenditures played an important role. All three components will continue to drive household credit demand in the months to come, way stronger than in the CESEE aggregate (Figure 4). Nonetheless, except for the housing market prospects the contribution of the other two components is expected to slow down somewhat.

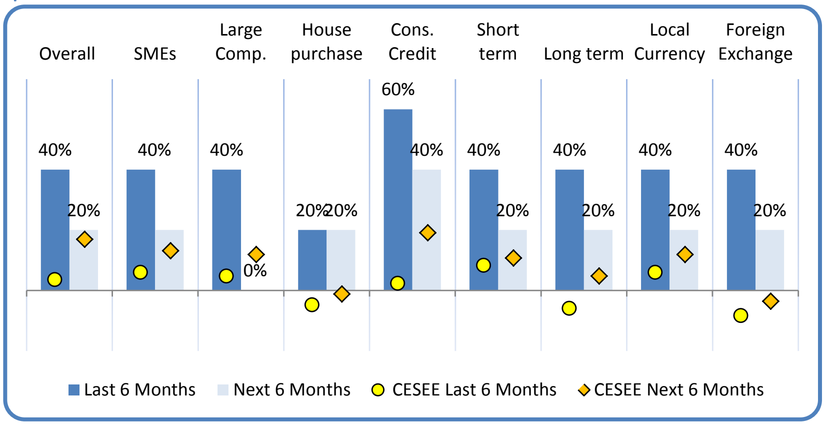
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

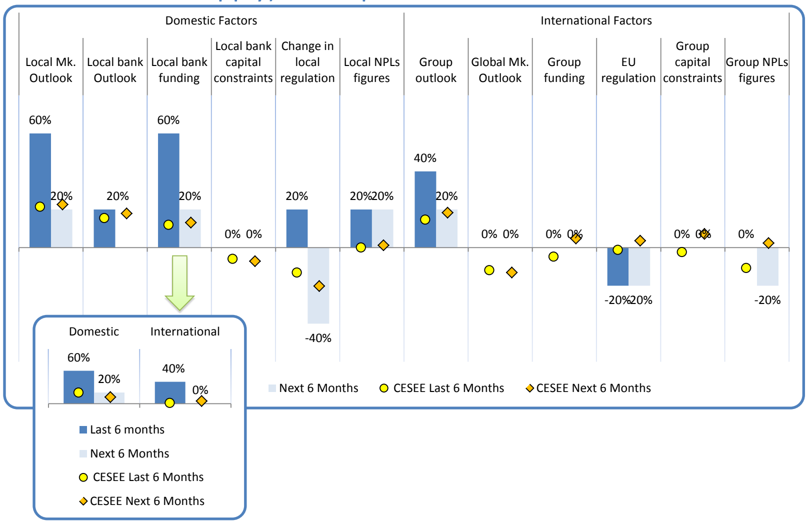
4. In contrast to the stagnation in the CESEE region as a whole supply conditions eased significantly in the Czech Republic over the last six months in all market segments. Subsidiaries operating in the Czech Republic expect this trend to continue over the next six months, although at a significantly slower pace. While the loosening of supply conditions should continue relatively strongly in the retail segment it will slow down noticeably for SMEs and probably come to a halt in the large corporate sector. Nevertheless, apart from the latter the loosening of credit standards will be significantly more pronounced in all market segments in the Czech Republic than in the CESEE region as a whole (Figure 5) thus matching the developments on the demand side.

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



Source: EIB – CESEE Bank Lending Survey.

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



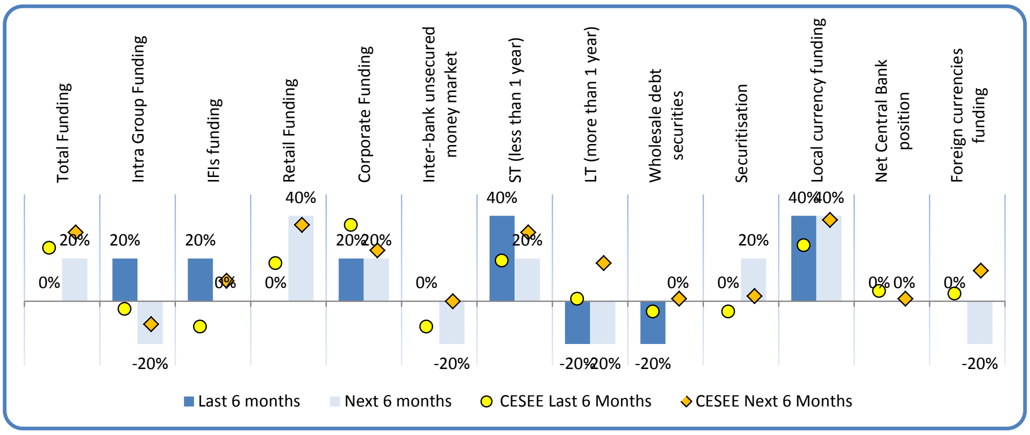
Source: EIB – CESEE Bank Lending Survey.

5. Both, international and even more so domestic factors made a positive contribution to the easing of supply conditions over the last six months. In case of the latter, local market outlook and bank funding were the main drivers but also local bank outlook made a positive contribution. While the supply side loosening is set to continue over the next six months it will slow down significantly as a result of less exuberant local bank funding and market outlook and a neutral contribution of the other domestic factors. As regards international factors, the group outlook was and will remain - although to a smaller extent - the only significant force contributing to the easing of supply conditions. In contrast, EU regulation has pointed towards tightening credit standards and along with group NPLs it will counteract the overall easing trend also in the months to come (Figure 6).

6. When it comes to SMEs, banks on balance reported quite a significant easing of credit supply conditions in the last six months. This was a rather divergent development to the broadly stagnating supply in the CESEE region. The demand side, in contrast, improved also in CESEE. However, it did so at a much slower pace than the robust increase in the Czech Republic. Looking ahead, the trend is expected to continue with some slowdown on the supply side in the Czech Republic so that the development there would be broadly aligned with the CESEE aggregate. Demand is expected to continue booming in the Czech Republic and the recovery should strengthen noticeably also in the CESEE as a whole. A more granular view suggests that the supply side easing in the Czech Republic over the last six months took particularly the form of lower interest rate margins. However, banks were also less restrictive with respect to the size of the average loan and maturity as well as other conditions and terms. Interest rate margins will remain the main instrument for banks to ease credit supply conditions also in the months to come. Overall, subsidiaries indicated a rather stagnating access to funding. With a loan-to-deposit ratio well below 100 percent, Czech banks generally have no pressing need to rely on intra-group funding to support credit growth. Nonetheless, respondents report that access to the intra-group funding eased somewhat over the last six months as did IFIs and corporate funding. Overall access to financing is expected to continue easing in the next six months although to a lesser extent than in the rest of the

CESEE region. In line with peers, the improvement in the Czech Republic will be driven particularly by corporate and retail funding. However, the overall easing will be offset partially by developments in the inter-bank money market and some deterioration in intra group funding (Figure 7).

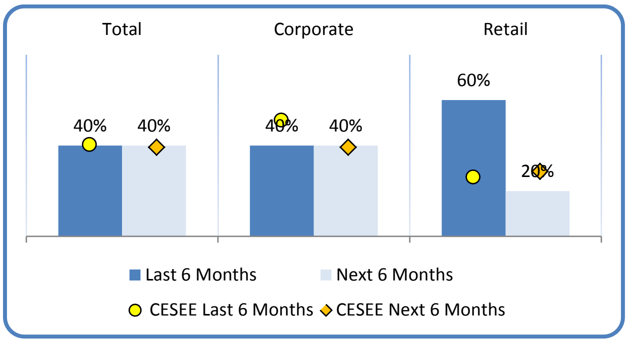
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



Source: EIB – CESEE Bank Lending Survey.

8. Corporate and even more so retail NPL ratios decreased noticeably over the last six months and the trend should continue in the near future, although at a slower pace in the retail segment. In line with developments in the Czech Republic also in the CESEE region as a whole NPL ratios improved, particularly in the corporate sector. The improvement is expected to continue at a similar pace both in the corporate and retail sectors.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Hungary

1. Key statistics[1]

- Number of local banks/subsidiaries participating in the survey: five
- Approximate share of assets covered (as proportion of total assets): approx. 86 percent
- Current level of NPLs as proportion of total loans: 21.0 percent (Q4 2015)
- Latest credit growth, yoy: -9.5 percent (Q4 2015)
- Loan-to-deposit ratio: 91 percent (Q4 2015)
- CAR: 20.0 percent (Q4 2015)

2. Key messages – *Lower than average profitability still renders the Hungarian market less attractive compared to the Visegrad 4, while an easing in supply is somewhat lagging behind a strong demand.*

International groups' views:

- **Group strategies**: Banking groups operating in Hungary are somewhat less likely to raise capital relative the overall sampled population. They are more likely to selectively expand, and less likely to reduce their CESEE activities.
- **Group assessment of positioning and market potential**: Groups operating in Hungary remain committed to the CESEE region. About 43 percent of respondents still believe that the potential of the Hungarian market is 'low', while the rest consider it 'medium'. As to their own market positioning in Hungary, 57 percent of the parents believe it to be satisfactory or optimal, while 29 percent find it weak.

Subsidiaries'/local banks' views:

- Hungarian banks continue to report **improvements in demand for credit, and a somewhat less pronounced pick-up in credit supply conditions -** with a positive outlook.
- **Credit supply** expectations are more optimistic than the CESEE average. In the past, credit has been accessible to SMEs, the key target sector of the central bank's various initiatives. Looking ahead, banks expect easing of credit conditions also for large corporates and, to a smaller extent, for households.
- **Credit demand** has been further increasing in line with the return of economic growth, stronger disposable income and house price increases, and is expected to remain strong in all segments.
- **Funding** has been shifting towards domestic sources: corporate savings and the central bank. The phase-out of the Funding for Growth Scheme does not affect the credit supply outlook yet.
- **NPLs are reported to improve** in all segments by the survey participants.

[1] Sources: National Bank of Hungary, IMF and European Commission.

3. Relevant macroeconomic and banking conditions[2]

- **Output:** Real GDP growth reached 2.9 percent in 2015, after growing by 3.7 percent in 2014. This surge was mainly due to an increase in domestic demand, which contributed to growth by 2.1 percentage points. Demand was fuelled mainly by households' private consumption, while investment growing only by 1.9 percent after a double-digit increase in 2014. Net exports had a small positive contribution to the overall increase of economic output. Growth is forecast at 2.5 percent in 2016.
- **Unemployment:** The unemployment rate reached an all-time low of 6.8 percent in 2015. It is expected to further decrease to around 6 percent by the end of the forecast horizon, as activity continues to expand. Employment is set to continue growing, driven by higher job creation in the private sector and the government's – somewhat controversial - Public Works Scheme.
- **Inflation:** Consumer prices remained broadly stable in 2015. HICP inflation is expected to accelerate moderately to 0.4 percent in 2016. Lower-than-expected oil prices, subdued imported inflation and low inflationary expectations imply that the central bank's 3 percent inflation target is not likely to be reached over the forecast horizon.
- **External and public sector balance:** The headline fiscal deficit declined significantly in 2015 and will remain around 2 per cent, but the structural deficit will deteriorate. While structural measures helped to decrease the deficit, future improvements will be mostly due to better economic conditions. Based on the Commission's latest forecast, the general government deficit is expected to have declined to 2 percent of GDP in 2015, from 2.3 percent in 2014 and the deficit is projected to remain at this level. The current account is in surplus, amounting to 4.9 percent of GDP in 2015.
- **Banking sector**: In 2015, the relative easing in the government's unfavourable policies towards the banking system helped the banks to return to profitability. Vulnerabilities of the banking sector also declined. The system is at present adequately capitalised - with a Tier 1 capital ratio of 20.5 percent - and liquid. However, banks continue to deleverage: the loan to value ratio is estimated to decline further to 94 percent by mid-2015. Credit flows have been consistently negative since Q4 2008. While the central bank launched various schemes to promote lending to SMEs, so far these managed to only stabilise the stock of loans to SMEs. Loan quality remains low. A recent adjustment of the personal bankruptcy legislation and the expansion of the National Asset Management Agency, and the establishment of the Hungarian Restructuring and Debt Management Company (MARK Ltd.) may facilitate the resolution of some of the bad loans.
- **Rating:** Hungary's rating is BBB- (Fitch), Ba1 (Moody's) and BB+ (S&P).

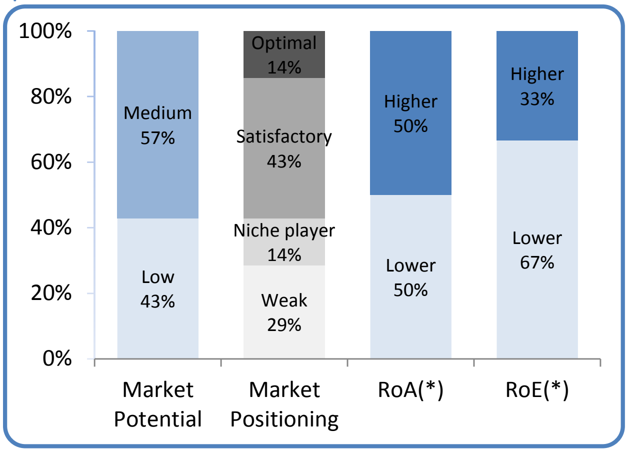
[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission and National Bank of Hungary data.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Banking groups operating in Hungary do not differ significantly on average from the overall sample of parent banks in terms of their global strategies. They are less likely to raise capital over the next six months. As to their long-term strategic approach towards the region, they are more likely to selectively expand, and less likely to reduce their CESEE activities, relative to the full sample.

Figure 1. Market potential and positioning – see question A.Q15



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

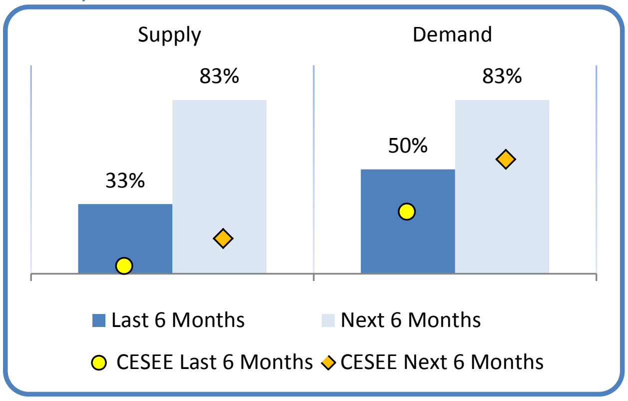
2. Groups operating in Hungary remain committed to their operations in the CESEE region. However the prospects for the Hungarian market are described as being gloomy relative to its peers. About 43 percent of respondents still believe that the potential of the Hungarian market is 'low' (Figure 1). This is a slight deterioration relative to the survey results from H2 2015, and indicates that the parents' view of the Hungarian banking market remains significantly less favourable than their perception of the other Visegrad 4 countries (Czech Republic, Poland and Slovakia). In addition, parents also stress that the profitability of the Hungarian operations is still below the regional standards, with roughly two thirds of the respondents reporting risk-adjusted returns on equity in Hungary as being significantly lower than the overall group levels. This is despite the easing in some of the the government's unfavourable policies towards the banking system, which helped banks to return to profitability in 2015. The survey indicates that despite the easing, Hungarian banks still continue to function in a difficult business environment characterised by a high tax burden on the financial system. As to market positioning, 57 percent of the parents believe it to be satisfactory or optimal, while 29 percent find it weak, which is a deterioration from the previous survey rounds.

[3] In this subsection results refer to the views of parent banks. Results on market positioning, potential, ROE and ROA refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, LTD, capital contributions, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. By doing so, it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. Banks in Hungary reported a sizable increase in overall demand for credit. This is against the background of increases already detected in the previous survey release. As to the supply side, the survey indicates a similar, although less pronounced increase. Credit demand was stronger than the overall CESEE results (Figure 2). Credit demand is expected to increase further over the next six months, with supply catching up at a similar pace.

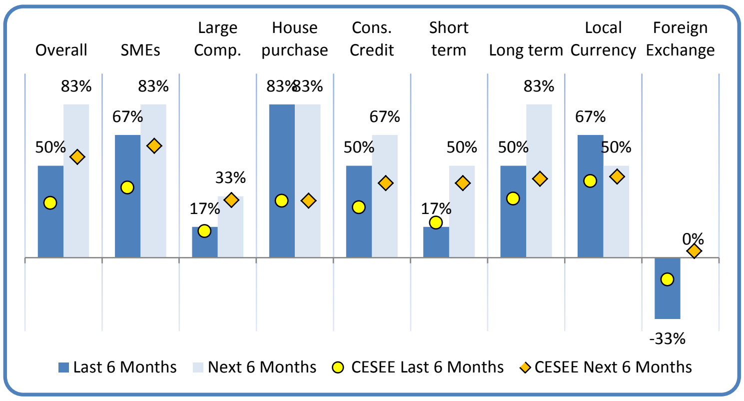
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. As to the composition of credit demand, financial institutions have faced significant demand for credit across the board, and they expect it to increase even further over the next six months (Figure 3). The strong and increasing demand for credit is due to the pick-up in economic activity that followed several years of recession. Household's demand for mortgages – which remained sluggish for many years as a legacy of the problems associated with FX-based lending – was particularly strong. The fact that the long-suppressed demand for housing finance started to increase is due to the positive wage and employment dynamics, and the various government measures that were aimed at alleviating the burden of FX loans on the households. Demand for SME loans is also strong, while credit demand by larger corporates is less pronounced – in line with the CESEE results. The replacement of foreign currency loans with borrowing in HUF is visible, with a contraction in the demand for foreign currency denominated products.

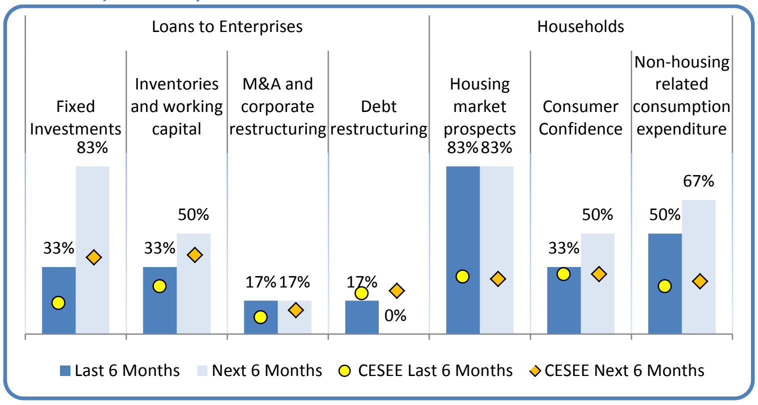
Figure 3. Demand components (*net percentages*; positive figures refer to increasing demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

3. For corporates, both fixed investment and working capital have been contributing to credit demand, and both factors are also expected to become an even stronger driver in the near future. For households, housing market prospects has been an important factor behind credit growth. The property market in Budapest has become buoyant over the last year, partially driven by investors attempting to capitalise on the rapidly developing short-term rental market. However, when looking ahead, consumer confidence and expenditure are also expected to become important drivers (Figure 4).

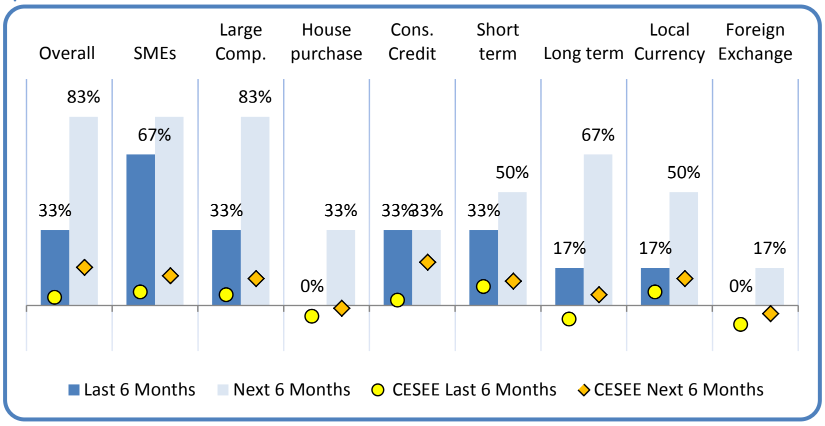
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

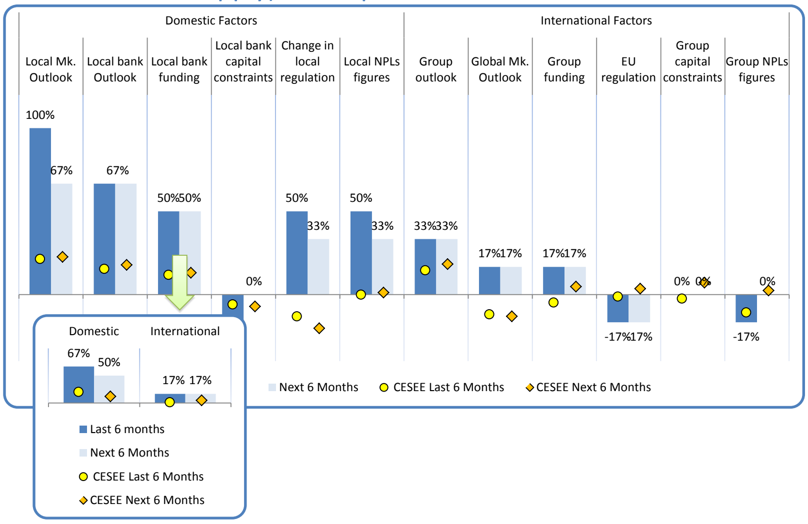
4. An easing in credit supply has been observed in certain market segments in the last six months (Figure 5.) These include the SME sector, where the central bank's Funding for Growth scheme has still continued to have a positive impact on supply, although it will be phased out by the end of 2016. In the household sector, conditions for consumer credit have been eased. Looking ahead, banks expect a more pronounced easing of credit supply to corporates, and a somewhat more cautious easing towards households. The overall improvement of the credit supply conditions are expected to be significantly stronger relative to the CESEE average.

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



Source: EIB – CESEE Bank Lending Survey.

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



Source: EIB – CESEE Bank Lending Survey.

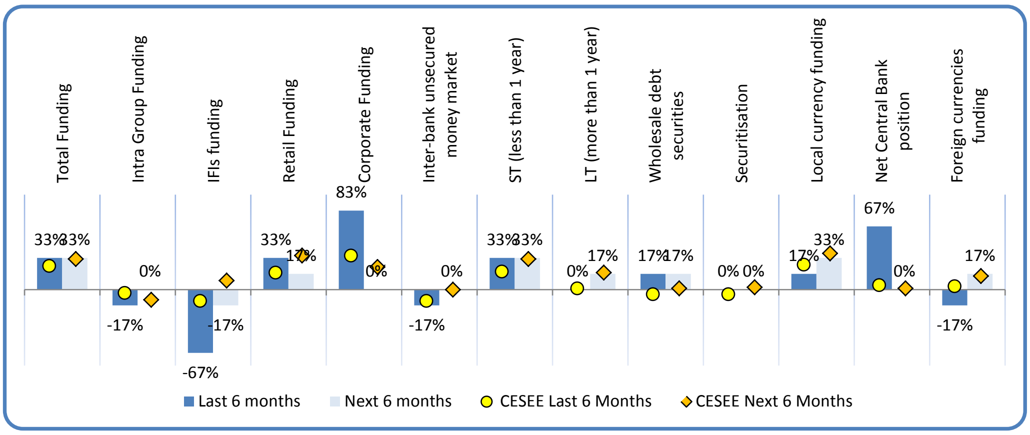
5. International factors had, on average, a neutral impact on supply conditions of Hungarian banks. While on one hand group outlook – and to a smaller extent, group funding – have been a support to credit supply, other components of the external environment such as the EU regulatory framework and group-level NPL figures has been a drag for many banks. This environment is expected to remain broadly similar in the next six months (Figure 6). On average, Hungarian banks take a somewhat more optimistic view than their CESEE peers when assessing external factors as well as domestic factors.

6. As for the domestic components, the local market and bank outlooks have had a significant positive influence, and banks have been satisfied with their domestic funding capabilities, too. The easing of the earlier government policies, which had affected negatively the banks' profitability, showed up in the survey as a marked improvement in the local regulatory environment. However, capital constraints are reported to be somewhat binding, and expected to remain at least on the neutral side. For the next six months, banks are optimistic about the local outlook and domestic funding, more than their regional peers. As to domestic NPLs, Hungarian banks' expectations improved significantly since the last survey, potentially reflecting the positive institutional changes.

7. The SME sector recorded a rather pronounced easing in the conditions for credit supply. This is chiefly a result of the Hungarian central bank's Funding for Growth Scheme (FGS) targeted mainly at SMEs and mid-caps. Our survey reflects further increase in the credit supply towards SMEs in the near future, although 2016 is the last year of the programme. In the phase-out the central bank is planning to provide an additional HUF 600bn of lending to the corporate sector through financial intermediaries. Simultaneously with the gradual phasing-out of the FGS, the MNB is planning to announce a new package of measures supporting banks in switching to market-based lending. The so-called Market-

Based Lending Scheme will consist of the following three elements: supplementing the central bank instruments with an interest rate swap conditional on lending activity (LIRS) and a preferential deposit facility; creating incentives through capital adequacy requirements for banks; and opportunity for the banking sector to have access to the corporate credit reporting system.

Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9

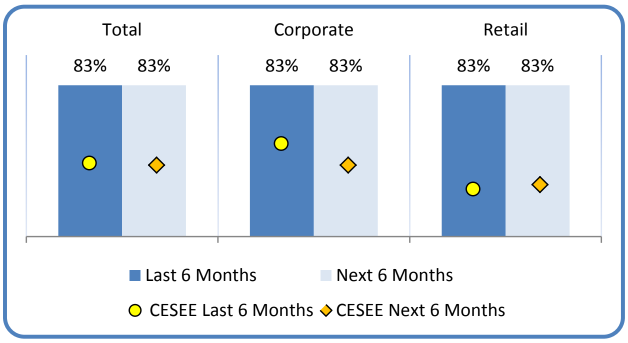


Source: EIB – CESEE Bank Lending Survey.

8. When it comes to funding, banks in Hungary have been increasingly relying on domestic sources. Corporate saving has been a key source of financing in the past (Figure 7). Central bank funding has also been more important to Hungarian banks than to other financial institutions in the region, while funding from international financial institutions have been declining in the last 6 months.

9. NPL ratios have been perceived to improve both in the corporate and the retail sector over the past six months. Looking ahead, NPL ratios are expected to show further pronounced improvements over the next six months (Figure 8). The restructuring and work-out of non-performing loans remain high on the agenda of Hungarian authorities. The elimination of the CHF-based mortgage portfolio represented a major first step, but a recent adjustment of the personal bankruptcy legislation, the expansion of the National Asset Management Agency for mortgage loans have also been important to incentivise portfolio cleaning in the household segment.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

In the corporate segment, the activity of the ‚bad bank' (MARK Ltd.) may be one step towards a solution.

Kosovo*

1. Key statistics[1]

- Number of local banks/subsidiaries participating in the survey: four
- Approximate share of assets covered (as proportion of total assets): 78.5 percent
- Current level of NPLs as proportion of total loans: 6.1 percent (February 2016)
- Latest credit growth (yoy): 8.1 percent (February 2016)
- Loan-to-deposit ratio: 76.1 percent (February 2016)
- CAR: 19.7 percent (February 2016)

2. Key messages – *Credit demand rebounds substantially whilst supply conditions still remain subdued; NPL ratios perceived as decreasing*

International groups' views:

- **Group strategies**: Banking groups operating in Kosovo are equally likely to conduct strategic restructuring at the global level as the full sample of banks included in the survey. Global banking groups operating in Kosovo report stable loan-to-deposit levels, with no further plans to deleverage.
- **Group assessment of positioning and market potential**: A medium market potential in the Kosovar market with profitability of the Kosovar operations better than overall the groups' operation in the CESEE region.

Subsidiaries'/local banks' views:

- **Credit demand** strongly increased over the last six months, outperforming significantly the CESEE aggregate and last survey release's expectations. Amid strengthening private consumption subsidiaries faced vivid demand in the retail segment whilst demand was subdued in corporate segment. Nevertheless, corporate demand is expected to pick up strongly in the months ahead.
- **Credit supply** developments in Kosovo were stagnant, in line with the credit conditions in the CESEE region. Nevertheless, credit standards are expected to ease more markedly in the coming months, mostly in the retail segment.
- **Access to funding** has been easier for Kosovar banks than their CESEE peers and is expected to ease further.
- **NPL levels have decreased in the recent months** in both corporate and retail sectors. Banks expect loan quality to further improve at a slower pace and mostly in the corporate sector.

---

[1] Sources: Central Bank of the Republic of Kosovo.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** Economic growth in Kosovo has been positive in every year of the post-crisis period, averaging 3.5 percent during 2009–13. In 2014 growth decelerated markedly (roughly 1 percent) due to weak investments, a negative contribution of net exports and extended political stalemate. Nevertheless, in 2015 economic growth has recovered to the pre-2014 level, driven by accelerating remittance and FDI inflows, stronger bank credit, and solid exports. Looking ahead, the growth is expected to accelerate to 3.8 percent in 2016 and hover above 4 percent from 2017 onwards.
- **Unemployment:** Although unemployment has gone down significantly from some 45 percent in 2009 it remains high even by regional standards. Moreover, it increased again by 5 percentage points during the slowdown in 2014 (to around 35 percent) and is even higher (and rising) among women and youth. This is particularly worrisome as Kosovo is the youngest country in Europe with more than 50 percent of the population younger than 25. Widespread unemployment and gloomy job perspectives contributed to an increased exodus of Kosovars to the EU in the recent years.
- **Inflation:** Despite robust domestic demand, inflation remains very low, similarly to other countries in the region. A deflation of -0.4 percent was recorded in 2015. The drop into deflation is ascribable mainly to plunging energy and food prices. Consumer prices are expected to pick up in 2016, and to normalize towards 2 percent until 2020.
- **External and public sector balance:** Kosovo's economy is based largely on low-value-added sectors heavily boosted by remittances, which fuel domestic demand. Such an economic structure naturally results in rather large current account deficits (around 7.9 percent in 2014, 7.2 percent in 2015). External imbalances are further expected to increase in the coming years due to high investment, consumption-induced imports and a negative primary income balance. In contrast, fiscal situation is quite favourable. The general government deficit reached 1.7 percent and total public debt stands at below 20 percent of GDP as of 2015.
- **Banking sector:** The banking sector has virtually fully developed within the last decade. Banks are well-capitalized, liquid and profitable and have proven resilient to the deterioration in the external environment. The loan-to-deposit ratio keeps hovering around 76 percent. The capital adequacy ratio has further increased to more than nearly 20 percent while NPLs have dropped to 6.1 percent of total loans as of February 2016. Supportive banking environment resulted in healthy credit growth in corporate and household sectors.
- **Rating:** Kosovo is not rated by the major rating agencies.

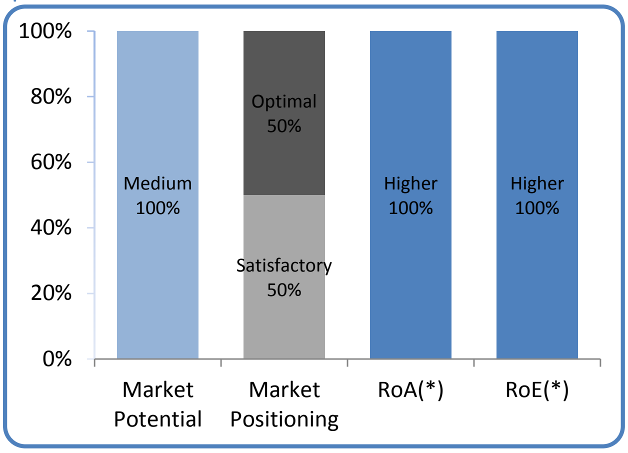
[2] Sources for the macroeconomic data: Central Bank of the Republic of Kosovo, World Bank, IMF. Sources for the banking data: Central Bank of the Republic of Kosovo.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. The differences between global strategies of banking groups operating in Kosovo are marginal and they are approximately equally likely to conduct strategic restructuring operations (50 percent) to raise capital over the next six months. Additionally, the banking groups active in Kosovo plan to continue selling assets at the global level. They report stable leverage levels, with no further plans of deleveraging in the near future. This compares to 67 percent of respondents in the whole set of international bank groups which expect to leave the loan-to-deposit ratio stable.

Figure 1. Market potential and positioning – see question A.Q15



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

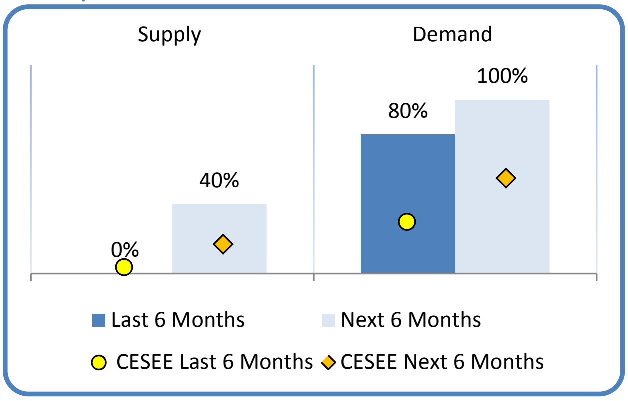
2. Groups operating in Kosovo signalled needs to selectively expand operations in the CESEE region. Similarly, groups operating in Kosovo maintain their relatively flattering view on the prospects for the Kosovar market which they assess as 'medium' (Figure 1). The profitability of the Kosovar operations continues to be higher than the overall group profitability. However, this view might still be to some extent driven by the exceptionally positive profit figures in Kosovo, although the profit growth in 2015 was visibly smaller than in the previous year. High profits in 2014 were mainly a result of a strong drop in expenditures on the back of lower provisions and funding costs. Although the profits are still at above-average levels, these positive effects seem to fade away. With respect to market positioning, the group opinions have marginally deteriorated but are still at very comfortable levels.

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

4.2 Local banks/subsidiaries

1. Demand substantially increased and all participating banks expect it to increase in the next six months. On the supply side, developments in Kosovo were in line with the stagnant credit supply conditions in the CESEE region, however, they are expected to ease in the coming months (Figure 2), more than the regional average. The supply-side results confirm the H2 2015 responses, when the survey participants indicated on average no change in credit standards. However, the demand side significantly outperformed the predictions from the last survey. In H2 2015 the respondents predicted stagnant demand conditions, whereas the current survey reports significantly higher demand in the last 6 months. (Figure 2). This can be largely attributed to a rebound in economic performance of Kosovo.

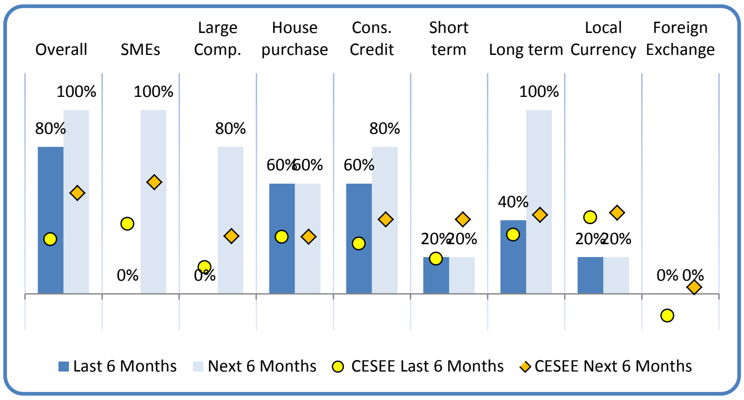
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. In line with the strengthening of private consumption, financial institutions have faced significant demand in the retail sector, both for mortgages and, to the same extent, for consumer credit (Figure 3). The corporate sector's demand didn't increase in the last months, underperforming the region's averages. Nevertheless, except for foreign exchange, the demand is expected to strengthen on all fronts in the months ahead. Compared to the last survey round, the most pronounced pick-up is to be expected in the corporate sector, particularly in the SME segment which is key for the Kosovar economy. On the maturity side, although the demand for short-term funds is forecasted to marginally increase on average, all of the banks expect the long-term borrowings to surge more markedly. The corporate and private demands in the months ahead are about to be substantially above the region's averages, confirming economic optimism in Kosovo.

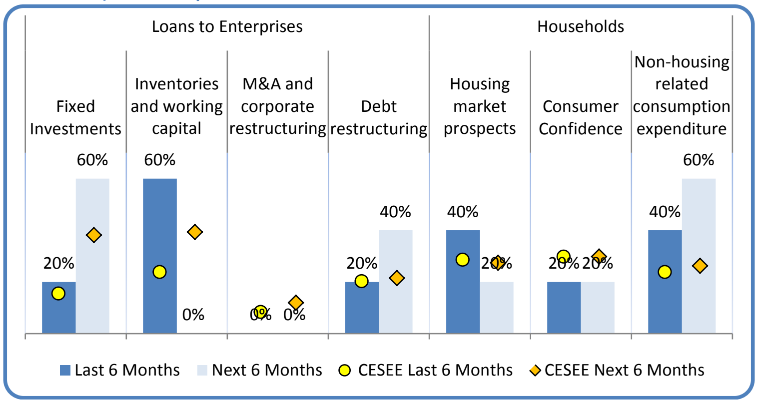
Figure 3. Demand components (*net percentages*; positive figures refer to increasing demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

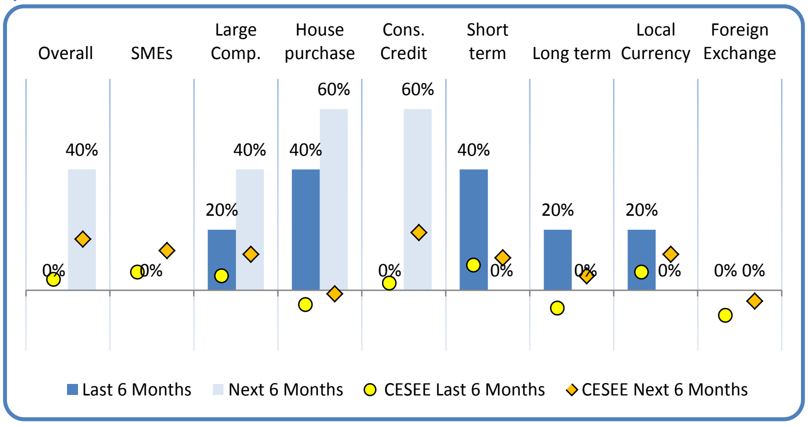
3. As for the factors behind credit demand, in the household sector demand was boosted by rising consumer confidence and particularly by housing market prospects and non-housing related expenditures. In the corporate sector inventories and working capital made the biggest positive contribution to demand increases, followed by fixed investments and debt restructuring efforts (Figure 4). Looking ahead, in the household segment the non-housing related consumption will drive credit demand to the largest extent. Consumer confidence and housing market prospects will also benefit the demand, however, to a lesser degree. With respect to the corporate sector, demand will be further supported by fixed investments and debt restructuring. Inventories, working capital as well as M&A and corporate restructuring would be neutral for the credit demand. Fixed investments are reported as the main driver for corporate credit demand, being in line with the projections on the macroeconomic level according to which investment should increasingly play a supportive role for growth.

Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

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



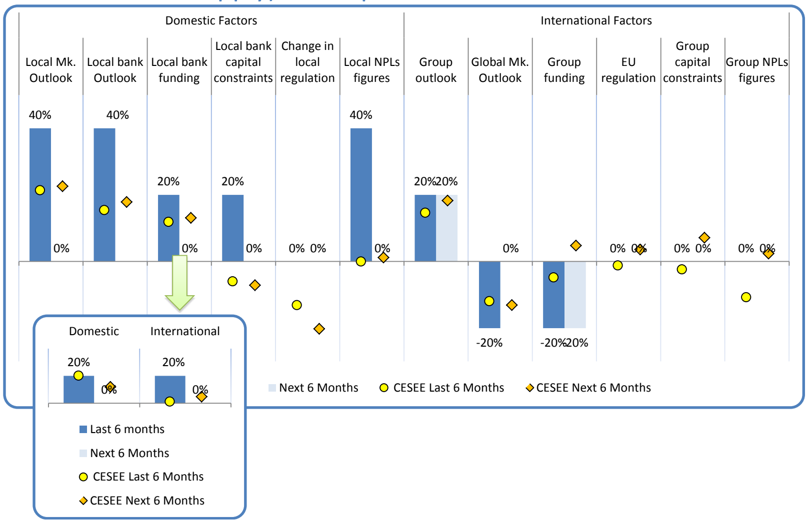
Source: EIB – CESEE Bank Lending Survey.

4. As predicted by the last round's results, the overall supply conditions remained unchanged in the last 6 months. Nevertheless, they have eased for the large companies as well as for mortgages, being significantly above the peer average (Figure 5). The conditions for SME lending have remained unchanged. On the maturity side, short-term lending conditions have eased more markedly than for the long-term financing, showing a somehow reverse pattern to the demand conditions. Looking ahead, banks still expect further, and somewhat stronger, easing of access to finance for large companies, house purchases and consumer

credit, being substantially above the region's averages. A more worrisome observation is that the supply conditions in the SME segment are expected to be consecutively unchanged, whereas the CESEE countries expect the SME credit standard to ease in the coming months. These developments can suggest that banks do not want to engage in relatively more risky SME-related financing, but rather focus on exploiting standard business lines with large corporates and activities related to housing and consumer credit.

5. Largely in line with the results for the CESEE region as a whole, international factors had a marginally negative impact on supply conditions in the last six months. Negative global market outlook and difficult group funding conditions were the two major factors tightening the supply conditions (Figure 6). As for domestic components, credit standards benefited from a bright outlook of local market and local banks as well as declining NPL levels in Kosovo. Similarly, easier capital constraints and favourable local bank funding benefited the supply conditions, but to a lower extent. Looking ahead, banks do not expect any of the domestic factors to change the supply conditions. With respect to international forces, the positive effect from the group outlook is going to be largely offset by the negative impact from the deteriorating group funding structure.

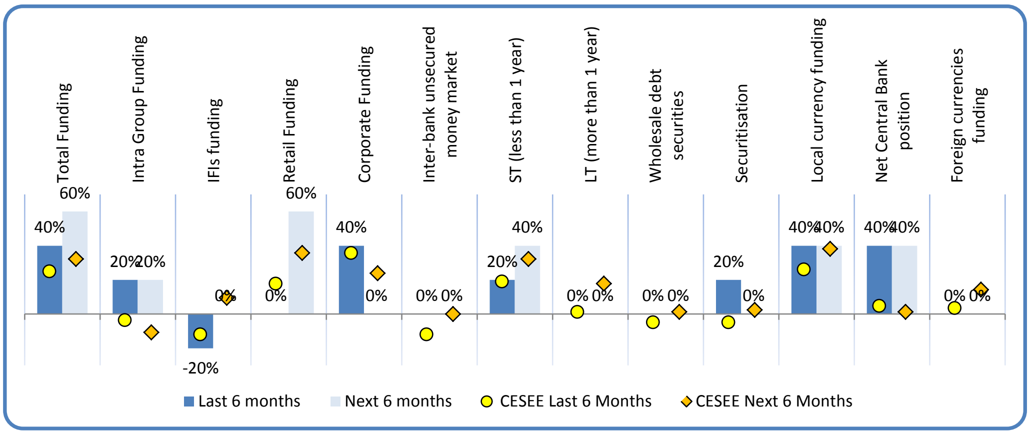
Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



Source: EIB – CESEE Bank Lending Survey.

6. In contrast to slowly recovering supply conditions for SMEs in the CESEE as a whole, in Kosovo the SME sector has been, and is expected to be, stagnant in terms of credit supply in the period under review. Despite the recent efforts to reach out to SMEs, especially those for which access to financing has been particularly difficult and the conditions almost prohibitively unfavourable, banks do not report any further credit easing in the months ahead. Together with an expected pick-up in the SME's credit demand, this can suggest that banks await the results from their recent actions as it can take time for the SMEs to adjust to new procedures and funding schemes.

Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9

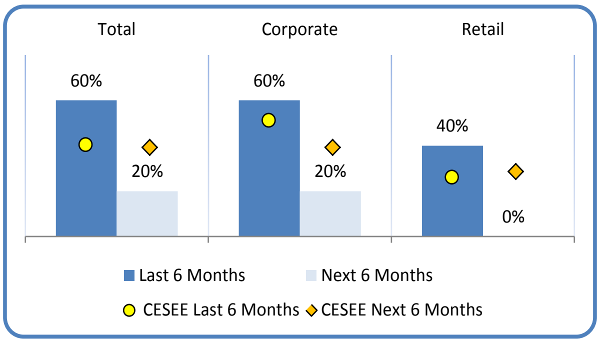


Source: EIB – CESEE Bank Lending Survey.

7. Overall, funding has been easier for Kosovar subsidiaries and local banks over the last months than for their CESEE peers (Figure 7) largely thanks to corporate funding, local currency funding and central bank liquidity. These sources of funding thus compensated for the deterioration in IFIs funding. Looking ahead, access to funding is expected to ease further, beyond the average levels observed in other CESEE countries.

8. NPL ratios in the corporate and in the retail sector decreased over the past six months more than indicated in the previous survey release (Figure 8). This is consistent with the figures reported by the central bank. Credit quality is expected to improve further in the corporate sector, however less than observed in the previous months. The retail credit quality is expected to remain stable. It has to be born in mind that NPLs, although low by regional standards, in general impair banks' lending business in Kosovo.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Poland

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as proportion of total assets): approx. 52 percent
- Current level of NPLs as proportion of total loans: 7.4 percent (Q1 2016)
- Latest credit growth, yoy: 4.4 percent (Q1 2016)
- Loan-to-deposit ratio: 98.7 percent (Q1 2016)
- CAR: 16.3 percent (Q4 2015)

2. Key messages – *An attractive market, with strong credit demand, but with a deteriorating regulatory and tax environment for banks.*

International groups' views:

- **Group strategies**: Groups operating in Poland tend to see their global operations approximately in line with sampled banking groups. They seem to be somewhat less inclined to raise new capital, or to sell assets or branches. However, they are slightly more inclined towards restructuring than the sample population.
- **Group assessment of positioning and market potential**: Parent banks operating in Poland show a strong commitment towards the region. About 75 percent of the groups find that the country's market potential is high. While in the previous survey editions the returns on equity and assets in Poland had been believed to be among the highest in the region, this is not the case anymore, possibly reflecting the recent changes in the regulatory and tax environment. Nevertheless, the majority of the parent banks operating in Poland seem to be relatively satisfied with their current market positioning.

Subsidiaries'/local banks' views:

- Polish banks report that **credit demand has been increasing,** while **supply conditions have been stagnating**.
- **Credit supply** conditions have been broadly neutral in the last 6 months. For SMEs, some easing has been detected, while housing finance conditions became tighter. Looking ahead, lower credit supply is expected across all segments, reflecting declining bank profitability, and regulatory uncertainty.
- **Demand for loans** has been increasing across most of the spectrum of products and segments over the last six months.
- **Access to funding:** Funding conditions have been improving, and they are expected to ease further over the next 6 months. Banks indicate that they experienced inflows mainly in the form of retail deposits.
- **NPL figures** have improved in all segments.

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

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** Poland's real GDP grew by 3.6 percent in 2015: its fastest annual pace since 2011. Consumption of the private sector was the main driver behind growth. It was supported by wage increases and a record level of employment. Investment also contributed to GDP expansion, rising by 5.8 percent on a year-on-year basis. Significant increases in housing and equipment investment were supported by strong household disposable income, corporate profits and favourable financing conditions. Net exports had a positive contribution to output growth. GDP growth is expected to reach 3.7 percent in 2016 and 3.6 percent in 2017.
- **Unemployment:** After many years of moderate increase, unemployment fell substantially from 10.3 percent in 2013 to 7.5 percent in 2015. The improvement resulted from strong employment growth on the back of a robust rise of private investment.
- **Inflation:** Despite the strong domestic demand, the CPI fell slightly in 2015 due to external factors. Inflation is projected to turn positive over the course of 2016, but price pressures should remain subdued as energy prices are expected to stay low. Consumer prices are forecast to remain flat on average in 2016 and to grow by 1.6 percent in 2017.
- **External and public sector balance:** The current account deficit contracted dramatically from 2012 to 2013, and it is expected to remain below 1 percent of GDP over the next years. On the fiscal side, Poland's deficit narrowed to 2.6 percent of GDP in 2015, which is the lowest level since 2007. The 2016 deficit is expected to remain around 2.6 percent as the new expenditure plans – a new child benefit scheme – are partially met by one-off from the sale of mobile internet frequencies, and the new tax on assets of financial institutions. Regarding public debt, the general government debt-to-GDP ratio is expected to slightly increase from 51.3 percent in 2015 to 52.7 percent in 2017.
- **Banking sector:** The Polish banking sector remains well capitalised, liquid and profitable. The size of the banking sector has been increasing relative to GDP; however, the ratio of banks assets to GDP at just over 90 percent is comparatively low even within the CEE region. The banks' capital position is strong: the capital adequacy ratio for the banking system reached 15.4 percent in Q3 2015. The share of non-performing loans is close to the EU average but has recently been falling. The profitability of the sector decreased in 2015, mainly due to a new tax on financial sector assets. A draft law enabling FX mortgages to be converted into zloty was presented by the government in January 2016, which, if enacted, may cause further losses.
- **Rating:** Poland is currently rated BBB+ (negative) by S&P, A2 (negative) by Moody's and A- (stable) by Fitch.

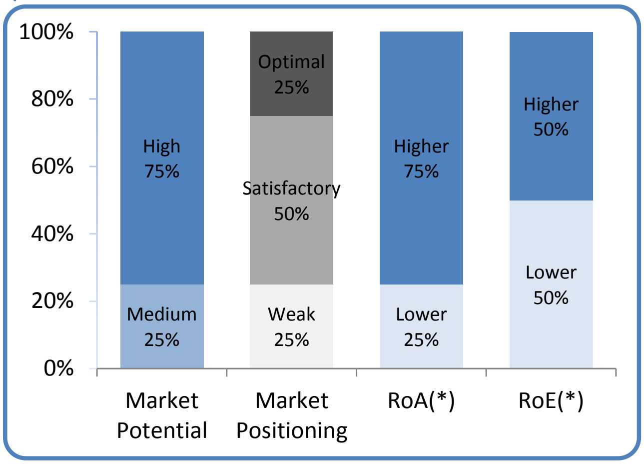
[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission and National Bank of Poland data.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Groups operating in Poland tend to see their global operations more or less in line with the overall set of groups included in the survey. They seem to be somewhat less inclined to raise new capital, or to sell assets or branches. However, they are slightly more inclined towards strategic restructuring than the overall sample population.

Figure 1. Market potential and positioning – see question A.Q15



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

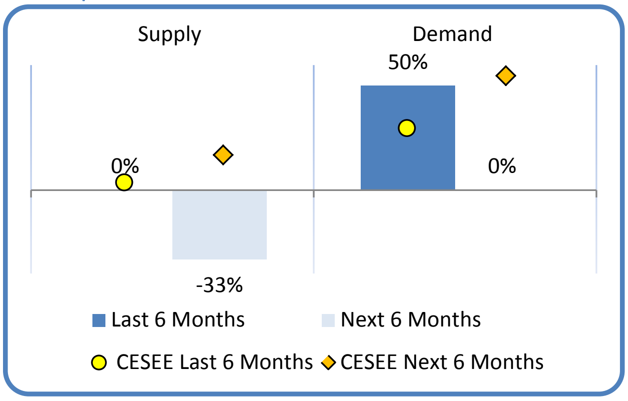
2. Parent banks operating in Poland show a strong commitment towards the region. About one half of groups present in the country plan to maintain their regional operations at current levels, while the other half plans to selectively expand it. All groups operating in Poland consider their CESEE operations to be more profitable than their group's global operations. Parent banks consider the Polish market to be the most attractive within CESEE, confirming the results of the previous surveys. About 75 percent of the groups responding find that the country's market potential is high. However, while in the previous survey editions the risk-adjusted returns on equity and assets in Poland had been believed to be among the highest in the region, this is not the case anymore, possibly reflecting the recently introduced financial sector tax and the planned FX mortgage conversion scheme. The majority of the parent banks operating in Poland seem to be relatively satisfied with their current market positioning, while one quarter finds it weak (Figure 1).

[3] In this subsection results refer to the views of parent banks. Results on market positioning, potential, ROE and ROA refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, LTD, capital contributions, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. By doing so, it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. Poland's robust economic growth driven by domestic demand has been reflected in a strong credit demand as described in the past survey editions. Although the assessment remains positive, it currently reflects a somewhat more balanced stance than six months ago. That said, credit demand has been still dynamic in the last six months, but it is expected to peter out in the near future, in contrast with the CESEE average. Credit supply has been neutral, and a modest tightening is expected for the coming months (Figure 2).

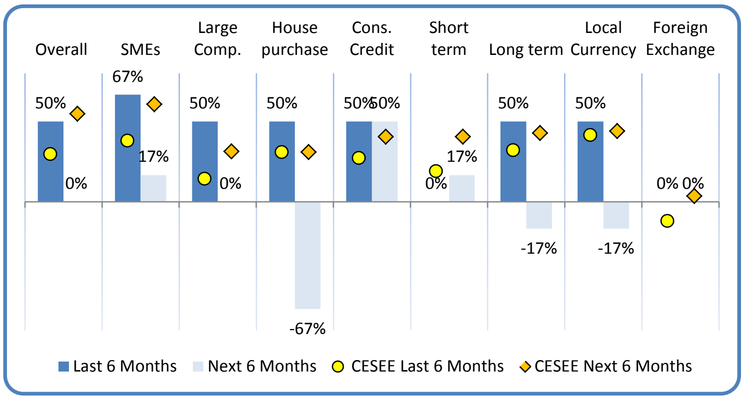
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. Demand for credit has been increasing across most of the spectrum of products and segments over the last six months, both in the corporate and in the retail segments, including housing-related lending. The reported increases by segment have been somewhat higher than the CESEE results. Looking ahead, financial institutions expect neutral credit demand in all segments except consumer credit. An important change relative to the previous surveys is that the demand for FX loans has now been stagnating, possibly reflecting the intense political debate about such loans, which remained an important topic of public discussions over the last months in Poland. (Figure 3).

Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5

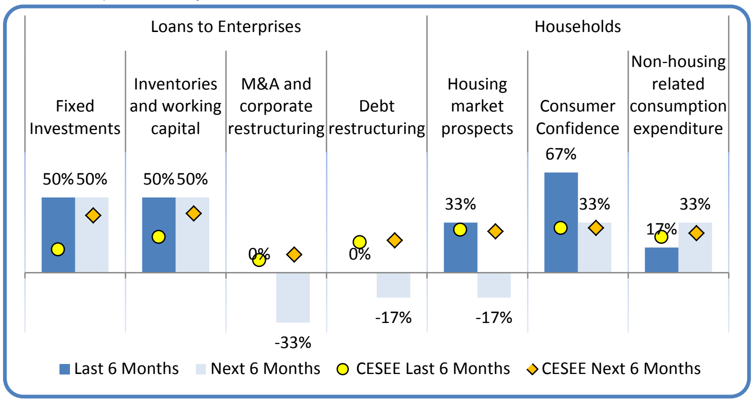


Source: EIB – CESEE Bank Lending Survey.

3. 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. (Figure 4). Mergers, acquisitions or debt restructuring have not been considered important drivers behind the demand for credit. As to the households, housing market expectations seem to be less important than

consumer confidence in the last few months, and this difference between these two components is expected to increase in the coming two quarters.

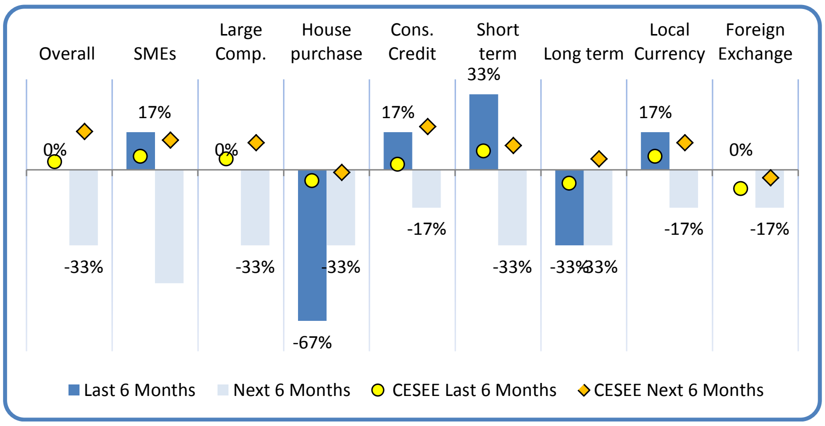
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

4. Credit supply conditions have been broadly neutral in the last 6 months. For SMEs, a slight increase has been detected. As for housing finance, the conditions became significantly tighter; again, possibly as a result of the uncertainty around the proposed conversion plan for foreign currency based mortgages. Looking ahead, an overall decline in credit supply is expected across all segments, possibly reflecting the declining profitability of the banking sector and the general uncertainty of the regulatory environment (Figure 5).

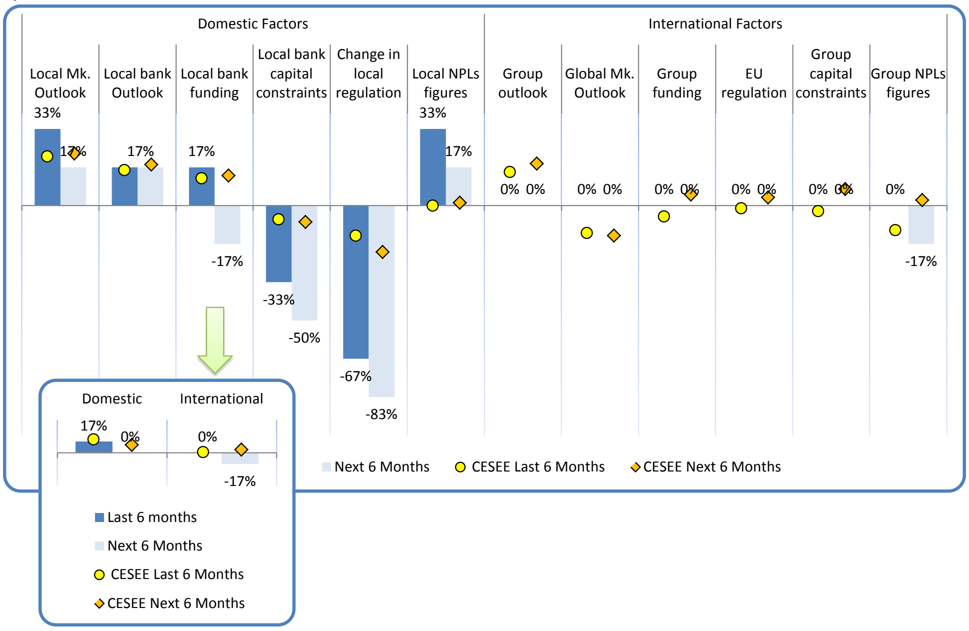
Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1



Source: EIB – CESEE Bank Lending Survey.

5. Broadly in line with their CESEE peers, Polish banks see international factors as neutral. (Figure 6). Certain domestic factors, such as local market and bank outlook, or the availability of local funding affect credit supply positively. However, local capital constraints and, most importantly, the local regulatory environment exert a very strong negative influence on credit supply, both in the recent past and for the near future.

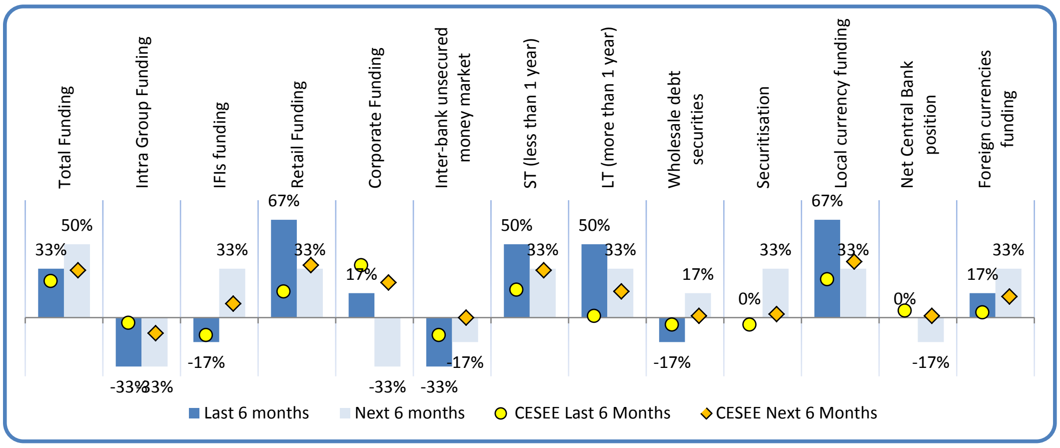
Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



Source: EIB – CESEE Bank Lending Survey.

6. Credit conditions for SMEs became tighter in Poland, as opposed to the CESEE average, which reflects improving access to finance for small firms. SMEs in Poland have been facing tighter margins and less favourable lending conditions than in the past, and this deterioration is likely to continue in the coming quarters.

Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



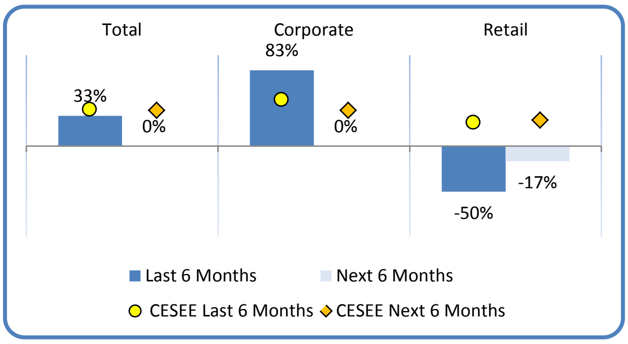
Source: EIB – CESEE Bank Lending Survey

7. Funding conditions have been improving, and they are expected to ease further over the next 6 months (Figure 7). Banks indicate that they experienced inflows mainly in the form of retail - and to some extent corporate - deposits, in both

long and short term maturities, and in zloty. Interbank funding became less important. Intra-group funding contributed negatively, despite parent bank's highly positive assessment of the Polish market, and funding from IFIs has declined, too. Looking ahead, banks expect funding increases from IFIs and retail clients.

8. NPL figures in Poland have been described as improving in the corporate segment and deteriorating for households. Unlike for the CESEE average, where improvements are projected, asset quality in in Poland is expected to remain neutral over the next six months, with a slight further deterioration in the household loan portfolio. (Figure 8).

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Romania

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: eleven
- Approximate share of assets covered (as proportion of total assets): approx. 61%
- Current level of NPLs as proportion of total loans: 13.6% (December 2015)[2]
- Latest credit growth (yoy): 2.3% (March 2016)
- Loan-to-deposit ratio: 90.9% (March 2016)
- CAR: 17.5% (December 2015)

2. Key messages – *Stagnating credit demand is expected to pick up amid improving quality of loans and strengthening economy.*

International groups' views:

- **Group strategies**: Banking groups operating in Romania have maintained their slightly more active stance in terms of global strategies over the last six months compared to the overall pool of parent banks in the survey. In particular, despite some decline banking groups in Romania are still more likely to sell branches and assets or to restructure their operations in the period ahead.
- **Group assessment of positioning and market potential**: Despite comparably low profitability, groups operating in Romania keep a positive view of Romania's market potential. Despite some recent decline in this figure a majority of banking groups active in Romania still consider their market positioning as optimal or satisfactory. The majority of groups remain committed to the region.

Subsidiaries'/local banks' views:

- A slight majority of subsidiaries operating in Romania reported stagnation in aggregate **credit demand** while a small majority of banks stated easing credit **supply conditions**.
- **Credit supply** conditions eased slightly over the past six months, especially with respect to SME loans. Looking ahead, credit standards are set to ease more strongly in Romania than in the CESEE as a whole especially due to short-term consumer credits in local currency.
- **Credit demand** has improved particularly due to short-term loans in local currency. Especially demand for mortgages and consumer credits has increased quite noticeably. Over the next six months demand should pick up quite significantly particularly owing to the corporate sector.
- **Access to funding:** Subsidiaries' access to funding has improved marginally in Romania over the past six months particularly on the back of corporate funding. The easing trend both in Romania and CESEE is expected to accelerate
- **NPL figures:** Credit quality has improved and is set to continue doing so.

[1] Sources: The National Bank of Romania and European Commission.
[2] EBA definition (September 2015: 12.3% in NBR-definition (last data available), EBA-definition: 15.7%)

3. Relevant macroeconomic and banking conditions[3]

- **Growth:** After GDP growth slowed down somewhat in 2014 it picked up last year so that the Romanian economy expanded by 3.8% in 2015 and further acceleration is expected for this year. The composition of growth has increasingly shifted from net exports to domestic demand over the last two years. Growth was thus driven particularly by surging domestic demand, while strong imports led to a significantly negative growth contribution of net exports in 2015. Private consumption has been boosted by hikes in minimum and public wages, low interest rates and fuel prices, and a VAT reduction. Investment benefited last year from a catch-up in absorption of EU funds.
- **Unemployment:** The unemployment rate dropped from 7.1% in 2013 to 6.8% in 2014 and, despite GDP growth acceleration, has plateaued since. Only very slight decline is expected in the medium term. Yet while unemployment is relatively low and contained it is mostly due to persistently low activity rates.
- **Inflation:** Annual inflation has been continuously decreasing over the last years to reach current record lows. HICP inflation thus came in at -0.4% in 2015 due to cuts in the VAT rate on food items, seasonal declines in food prices and low global energy prices. Inflation is expected to stay in the negative territory until mid-2016, when the base effect of the food VAT cut from June 2015 will wear out and the output gap is projected to close.
- **External and public sector balance:** Following significant improvements in Romania's current account deficit over the last years the balance turned positive in 2015 (1.9% of GDP). As economic growth and import demand pick up the current-account balance is expected to drop below zero and deteriorate gradually in the medium term. Public finances considerably improved under successive EU/IMF assistance programmes so that the budget deficit came down from more than 6% of GDP in 2010 to 0.7% of GDP in 2015. However, despite robust economic growth, the headline deficit is set to rise significantly (to just below 3% in 2016) on the back of further tax cuts and expenditure increases.
- **Banking sector:** After banks' profitability had come under pressure over the last years in the wake of increasing loan-loss provisions, clean-up of balance sheets and high funding costs it improved in 2015. The banking sector's capital and liquidity buffers not only remain comfortable (CAR: 17.5% in December 2015). As a result of foreign parent banks withdrawing funds banks in Romania have increasingly shifted their funding structure towards lei. Following a comprehensive action plan of the central bank asset quality has improved significantly. The prevailingly high, though falling share of FX loans remains one of the largest risks for the sector.
- **Rating:** Romania is rated by Moody's (Baa3), Fitch (BBB-) and S&P (BBB-).

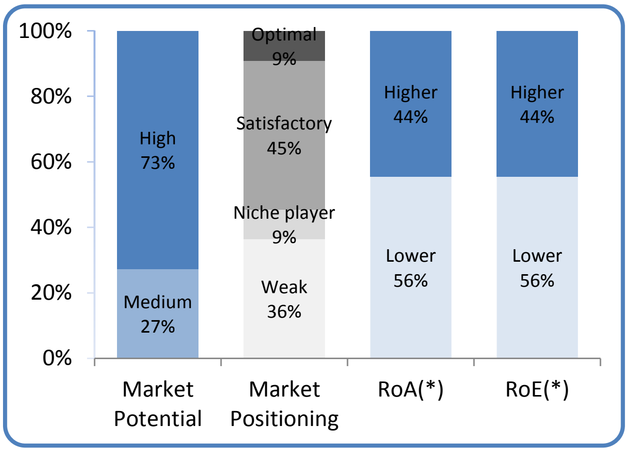
[3] Sources for the macroeconomic data: European Commission and Eurostat. Sources for the banking data: The National Bank of Romania and European Commission.

4. Results of the Bank Lending Survey:

4.1 Parent banks[4]

1. Banking groups operating in Romania maintain their somewhat more active stance in terms of global strategies compared to the overall pool of parent banks in the survey. While the share of banks planning to sell branches of activities has come down significantly (from 60% in the last survey to 36% in this round), it is still higher than the overall pool of parent banks in the survey (26%). Moreover, parent banks operating in Romania are also (partially significantly) more likely to undertake some strategic restructuring of their operations in general and to sell assets in particular. In contrast, deleveraging activities in Romania correspond roughly to the overall sample as roughly one third of parent banks plan to decrease the loan-to-deposit ratio in the months to come.

Figure 1. Market potential and positioning – see question A.Q15



Source: EIB – CESEE Bank Lending Survey.

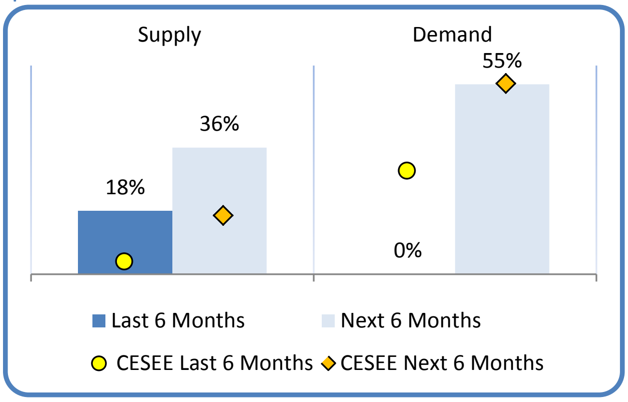
2. Parent banks operating in Romania keep their fairly positive view of the Romanian market: all believe that market potential is 'high,' or at least 'medium' (Figure 1). The share of banks which consider their market positioning as 'optimal'/'satisfactory,' has decreased slightly to 54% compared to the last survey round. Hence, it remains significantly below the level reached in early 2014 (73%). This deterioration in satisfaction with their market position may be related to subpar profitability. For the past six months, about 27% of parent banks active in Romania report lower profitability compared to their overall group profitability. This is still a significantly higher proportion than in the overall pool of parent banks (20%). Therefore, when it comes to plans about future activities, the picture is somewhat less exuberant that that in the CESEE region as a whole. On the one hand, the share of banks which want to selectively expand their operations amount to roughly 55% both in Romania and CESEE as a whole. On the other hand, however, only 9% of banks active in Romania plan to maintain its operations compared to 20% in CESEE. Moreover, more than a third of bank groups operating in Romania plan to (selectively) reduce their operations in the long run, compared to around 27% in CESEE as a whole.

[4] In this subsection results refer to the views of parent banks. Results on market positioning, potential, ROE and ROA refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, LTD, capital contributions, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. By doing so, it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. The credit market in Romania has seen quite the opposite development compared to the CESSE aggregate over the last six months. A slight majority of subsidiaries operating in Romania reported an increase in aggregate supply of loans (or rather an easing of credit standards) over the past six months and a stagnation in demand. This contrasts with unchanged credit supply conditions and rather surging demand in the overall sample. Looking ahead, however, demand in Romania is set to boom in the coming months mirroring similar developments at the CESEE level. As for credit supply, the recent easing of conditions in Romania is projected to gain momentum and while also in the CESEE average credit will be easier to get (Figure 2).

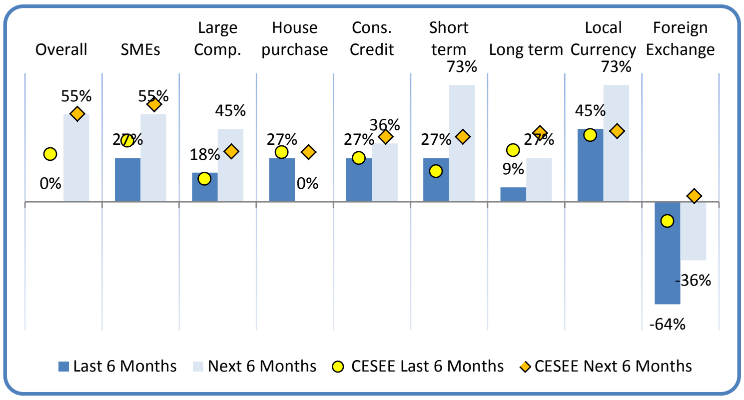
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. A more granular view on the demand side unveils that broadly in line with the CESEE aggregated both corporate and retail clients in Romania have asked for more, particularly short-term loans in local currency (Figure 3). Especially demand for mortgages and consumer credits has increased quite noticeably. In contrast, demand for financing in foreign currency has dropped quite massively. This phenomenon, while also observable, was significantly less pronounced in the CESEE as a whole. By and large the trend is expected to continue although with some noteworthy changes. Over the next six months, credit demand both in Romania and the CESEE aggregate will pick up significantly in the corporate sector, particularly among SMEs. Romanian households will be asking increasingly for consumer credits but their demand for mortgages, unlike in CESEE, is likely to rather stagnate. This explains probably also the differences in the expected currency and

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

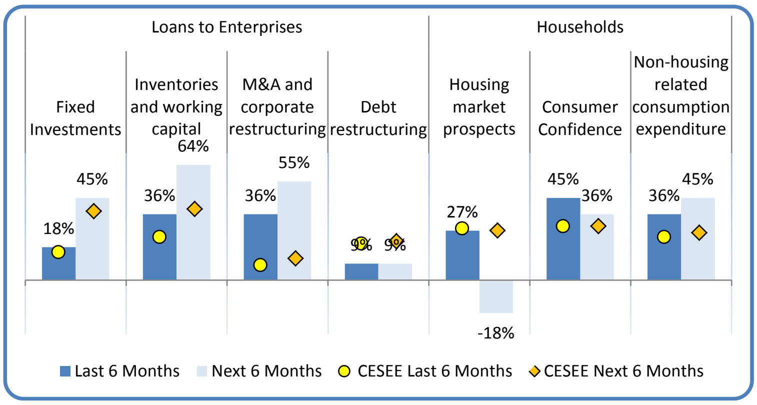


Source: EIB – CESEE Bank Lending Survey.

maturity pattern. In Romania demand for short-term loans in local currency will prevail and while demand for FX denominated loans will shrink further. In the CESEE aggregate credit with both short- and long-term maturity will increase.

3. Credit demand in the enterprise sector has been spread across a whole spectrum of factors. The strongest demand has reportedly stemmed from M&A and corporate restructuring as well as inventories followed by fixed investment and debt restructuring (Figure 4). In the months ahead, a similar composition of driving factors is expected with inventories being in the driving seat followed again by M&A loans. However, also demand for fixed investment financing is expected to strengthen further. On the household side, all factors (housing market prospects, non-housing-related consumption expenditure and particularly consumer confidence) contributed positively and quite strongly to the demand for loans. Also in the retail sector the pattern of the last six months is expected to continue in the next half a year with the exception of housing market prospects which will rather dampen the retail credit demand.

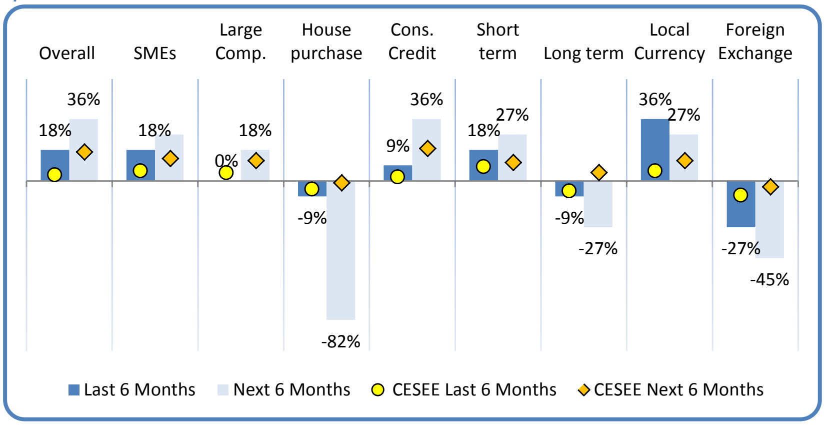
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. In line with expectations voiced six months ago supply conditions in Romania eased somewhat over the past six months, especially with respect to corporate loans for SMEs. It is also interesting to note, however, that while credit standards have tightened significantly for FX loans they have eased strongly for loans in local currency. Looking ahead, credit standards are set to ease more strongly

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

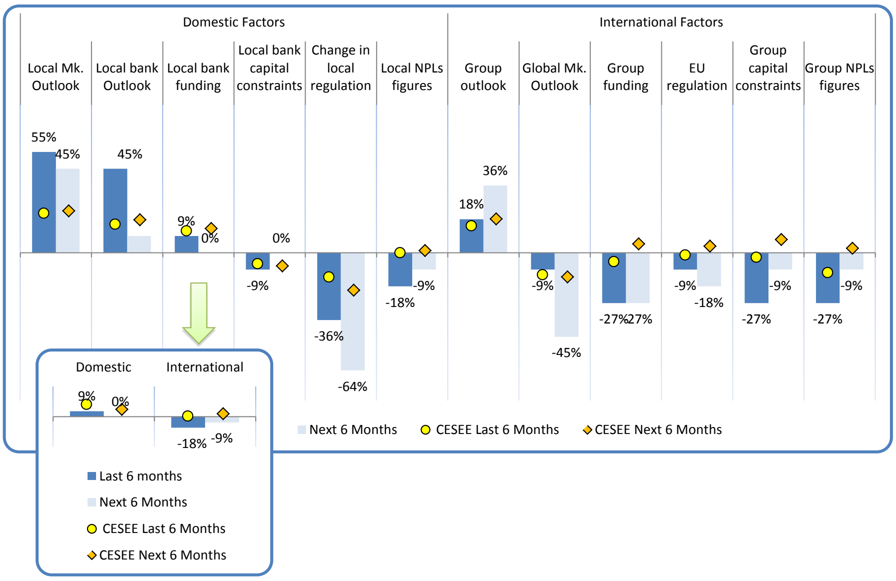


Source: EIB – CESEE Bank Lending Survey.

in Romania than in the CESEE as a whole especially due to short-term consumer credits in local currency (Figure 5). However, also for enterprises the access to bank funding should become easier. In contrast, mortgages, long-term and FX loans will be much more difficult to obtain.

5. While domestic factors played a very moderate positive role in determining supply conditions in the last six months, international factors put, overall, some damper on them (Figure 6). Among domestic factors, local market and bank outlook and to a lesser extent local bank funding made a positive contribution. The latter, however, was largely offset by changes in local regulation, local NPL figures as well as local bank capital constraints. In contrast, most international factors contributed to the tightening of supply conditions while only the rather positive group outlook counteracted. Looking ahead, while the overall impact of domestic and international factors is expected to be broadly neutral in the coming months the composition will change somewhat. In particular, on the side of domestic factors the positive impact of local bank outlook is expected to weaken significantly while changes in local regulation will increasingly tighten credit standards. Regarding international factors, the growing, positive impact of group outlook is expected to be overcompensated by all other factors, particularly by the global market outlook.

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



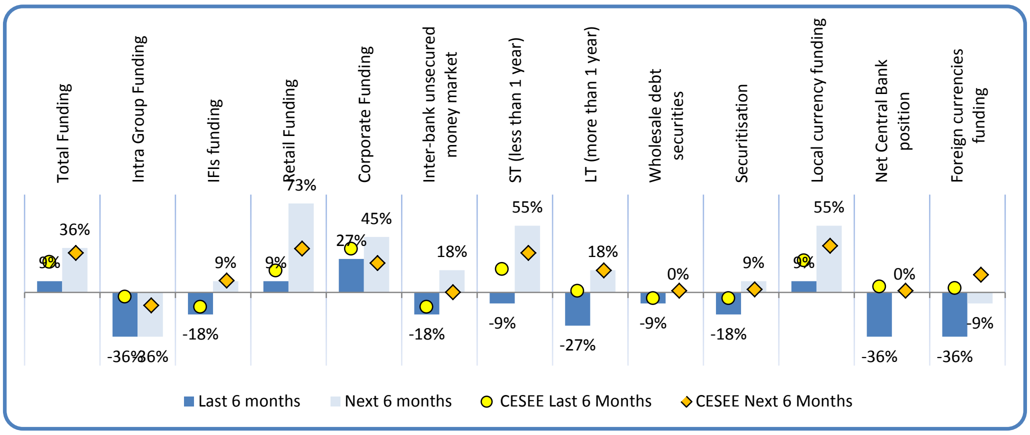
Source: EIB – CESEE Bank Lending Survey.

6. In the SME segment a slight majority of banks reported easing supply conditions whilst credit demand picked up over the last six months. Looking ahead, supply conditions are set to ease further for the SME sector in Romania thus meeting the reviving credit demand in the segment. This will be broadly in line with developments in the CESEE region although there the easing of supply conditions is

likely to come in less pronounced. The credit supply easing in Romania will reportedly take particularly the form of bigger loan sizes. In return, however, banks will increase their collateral requirements and be also stricter on other terms and conditions.

7. Subsidiaries' access to funding has improved marginally in Romania over the past six months, particularly on the back of corporate funding. Several other sources of funding, however, especially intra group funding have become more difficult to access. In CESEE as a whole, access to funding eased more significantly, predominantly thanks to corporate funding (Figure 7). The easing trend both in Romania and CESEE is expected to accelerate especially on the back of easier retail and corporate funding.

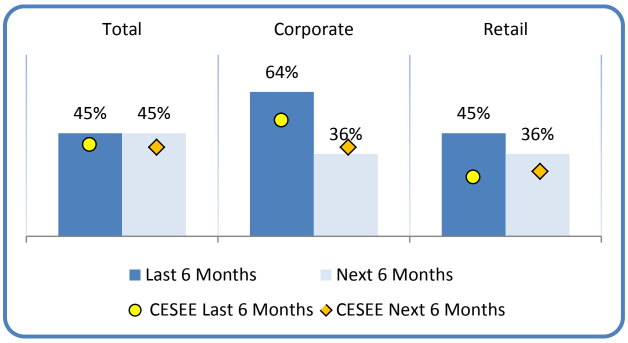
Figure 7: Access to Funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

8. Perfectly in line with hard data and the CESEE aggregate, NPL ratios are reported to have improved over the past six months in both the corporate and retail sectors in Romania (Figure 8). Moreover, on balance, NPLs are expected to keep decreasing over the next six months, although at somewhat lower pace.

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



Source: EIB – CESEE Bank Lending Survey.

Serbia

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: ten
- Approximate share of assets covered (as proportion of total assets): approx. 65%
- Current level of NPLs as proportion of total loans: 22% (Q3 2015)
- Latest credit growth (yoy): 5% (Jan. 2016)
- Loan-to-deposit ratio: 100% (Q4 2015)
- CAR: 18.8% (Q4 2015)

2. Key messages – *Supply conditions tightened, whilst demand for loans (primarily from SMEs) continued to increase robustly*

International groups' views:

- **Group strategies**: Roughly 70 percent of the groups operating in Serbia expect their global loan-to-deposit ratio to remain stable. Strategic restructuring plans of the Groups operating in Serbia are aligned with the strategies for the overall region. Most Groups engaged and/or expect to engage in sales of assets whilst a small number of Groups intends to increase capital on the market.
- **Group assessment of positioning and market potential**: 30 percent of the Groups show intentions to reduce operations in CESEE, whilst more than 50 percent intends to selectively expand their operations. Roughly 50 percent of the Groups are fairly satisfied with their current market positioning in Serbia, while the rating on Serbian market potential bettered compared to the past.

Subsidiaries'/local banks' views:

- **Credit supply** tightened across the board over the past six months whilst it is expected to slightly ease over the next six months. Local market bank outlook and domestic funding had a more prominent role in supporting supply whilst domestic NPLs, local bank capital constraints, changes in local regulation, global outlook, group capital constraints and group NPLs have been reported as limiting factors.
- **Demand for loans** continued to increase across the board, with significant contributions from corporate (primarily SMEs) and household segments. Demand is anticipated to increase further over the next six months.
- **Access to funding** did not substantially eased as in the past. However it is expected to resume an easing trend over the next six months, supported by IFIs as well as corporate and retail funding.
- **NPL figures** did not improve, whilst they are expected to decrease in the next six months.

[1] Sources: National Bank of Serbia and European Commission.

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** Low oil prices helped the economy recover faster than initially expected and to expand by an estimated 0.7 percent in 2015. GDP growth stood at 1.2 percent y-o-y in the fourth quarter of 2015 supported by a robust growth in investment and export. Exports growth was sustained by a revived growth in the euro area, specifically the main trading partners. All in all, remittances and lower commodity prices have continued to support consumption. Public consumption maintained its growth momentum by the end of the year. Industry, construction and financial activities were the main contributors to growth.
- **Unemployment:** Unemployment continued to remain high at 17.9 percent, according to the Labour Force Survey. Registered private sector employment increased further mainly due to a drop in informal employment.
- **Inflation:** Annual inflation was below the central bank target tolerance band of 4±1.5 percent and fell to 0.6 percent y-o-y in March 2016. It averaged 1.5 percent y-o-y in the first quarter of 2016. The cycle of monetary policy easing continued with a 25 basis points cut of the key policy rate to 4.25 percent in February 2016. Depreciating pressures and seasonal factors also prompted interventions by the central bank. These interventions contributed to a decrease in the level of central bank foreign exchange reserves, which stood at six months’ worth of imports in March 2016.
- **External and public sector balance:** The growth of exports continued unabated throughout 2015 and early 2016. As a result, in the first two months of 2016 the growth in exports has been high, accelerating to 12.8 percent y-o-y in euro terms. The current account deficit reduced substantially to 4.8 percent of GDP in 2015. Moreover preliminary data indicate that the current account turned into a small surplus in January 2016. Net FDI grew markedly by 46 percent in 2015. Central bank foreign exchange reserves fell to EUR 9.5 bn in March 2016, covering about six months' worth of imports.
- **Banking sector:** Annual credit growth was around 5 percent in the January 2016. Banks' deposits grew by 7.2 percent, underpinned by a rise in the long-term deposits' segment. Over the last year, in an environment of low inflation and broadly stable exchange rate, dinar and dinar indexed deposits more than doubled. The level of non-performing loans for the banking system was 22 percent in Q3:2015. The central bank commissioned an asset quality review. The results indicate that the level of NPLs is higher than currently reported. Banking sector profitability has been marginally deteriorating in the fourth quarter of 2015, with 0.3 percent return on assets and 1.6 percent return on equity. The level of capitalisation for the entire banking sector (CAR 18.8 percent in Q4 2015) exceeds the regulatory minimum of 12 percent. The loan-to-deposit ratio for the banking sector lately stabilised around 100 percent.
- **Rating:** Serbia is currently rated by Moody’s (B1, stable), S&P (BB-) and Fitch (BB-).

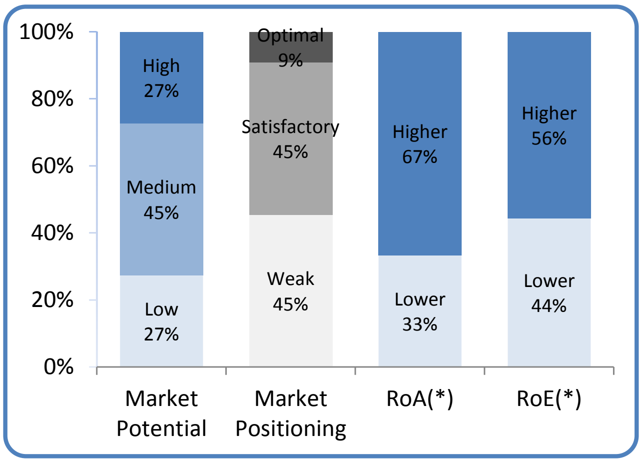
[2] Data sources and information: European Commission and National Bank of Serbia.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Roughly 70 percent of the groups operating in Serbia expect their global loan-to-deposit ratio to remain stable, whilst 30 percent expect it to decrease over the next six months. This is in line with the regional trend. Strategic restructuring plans of the Groups operating in Serbia are aligned with the strategies for the overall region. Most Groups engaged and/or expect to engage in sales of assets whilst a small number of Groups intends to increase capital on the market. Few capital contributions from the state were also envisaged at the Group level.

Figure 1. Market potential and positioning – see question A.Q15



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

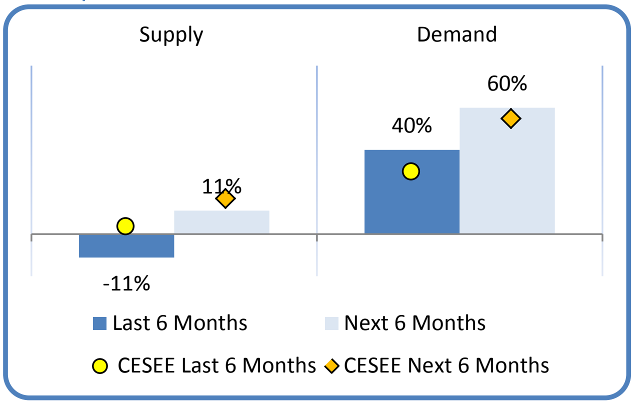
2. Groups operating in Serbia show slightly higher intentions (almost 30 percent of respondents) to reduce operations in CESEE compared to the overall set of Groups operating in all other countries of the CESEE region (Figure 1). To the contrary more than 50 percent reports intentions to selectively expand operations, which is in line with the regional trend. Roughly 50 percent of the Groups operating in Serbia are fairly satisfied with their current market positioning, while 30 percent of them rates the Serbian market's potential as low. The rating on Serbian market potential bettered compared to the September 2015 release of the survey. This is also backed by an increased number of Groups indicating higher returns on equity and assets than Group's return.

[3] In this subsection results refer to the views of parent banks. Results on market positioning, potential, ROE and ROA refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, LTD, capital contributions, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. By doing so, it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. After a short period of mild loosening, credit standards slightly tightened again over the past six months (Figure 2). In contrast to tightening supply conditions, demand for loans was reported to be increasing similarly to the CESEE region. Over the next six months demand conditions are expected to continue to increase at the same levels of the CESEE aggregate. Supply is expected to ease in line with the CESEE region.

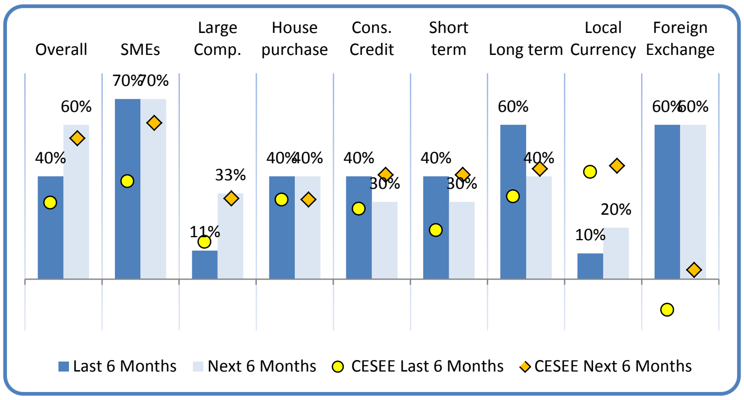
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. Demand for loans continued to increase (Figure 3), even more than expected in the September 2015 release of the survey. Demand has been increasing across the board, with significant contributions from the corporate (primarily SMEs) and household segments. Demand is anticipated to increase robustly in line with the expectations for the CESEE region. Demand from corporates is envisaged to be substantial. Demand from households for mortgages and consumer credit is expected to significantly increase. Demand for long term loans increased over the past six months and it is expected to continue increasing over the next six months. Demand for foreign currency loans has been stronger than demand for local currency loans over the past year and is expected to continue increasing over the next six months.

Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5

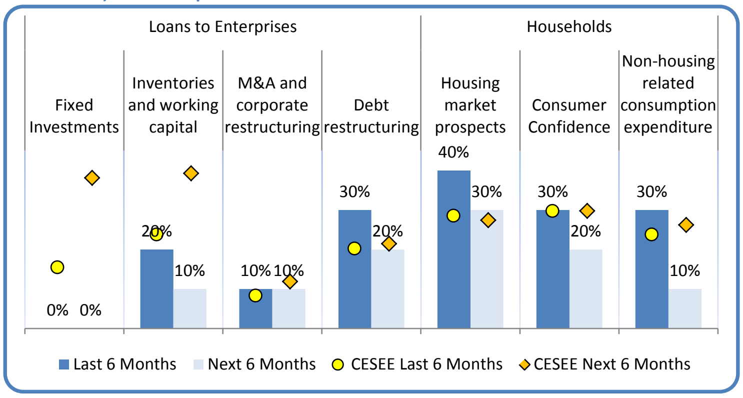


Source: EIB – CESEE Bank Lending Survey.

3. Figure 4 shows that working capital and debt restructuring were the main positive contributors to corporates' demand conditions over the past six months, as already detected in the previous release of the survey. Demand factors from households have been also contributing positively, contrary to the results of the September 2015 release of the survey. Looking ahead, only working capital and debt restructuring are expected to support demand for

loans, whilst investments, housing market prospects and consumer confidence are not expected to be supportive to demand conditions.

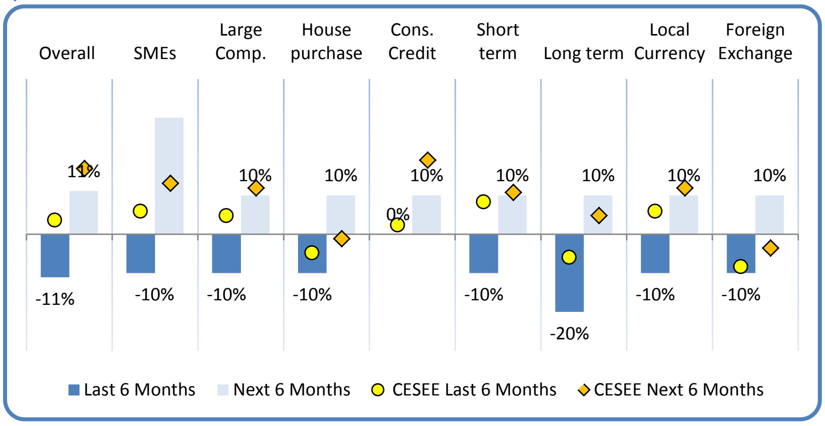
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

4. Credit standards tightened slightly over the past six months (Figure 5). This is in line with the expectations recorded in the previous release of the survey. Credit standards tightened across all client segments as well as currency and maturity spectrum. Credit standards are expected to ease over the next six months in line with a mild easing trend expected for the whole CESEE region. Supply conditions are expected to ease evenly across all client segments.

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



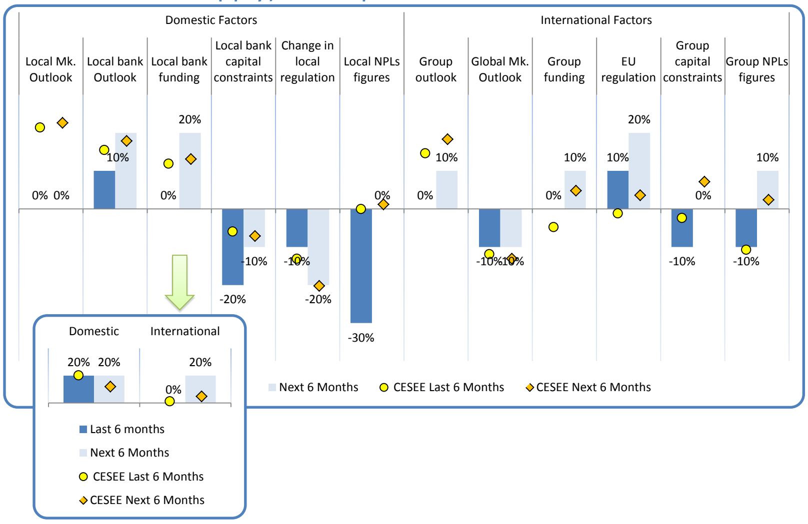
Source: EIB – CESEE Bank Lending Survey.

5. Both domestic and international factors have played a role in determining credit supply conditions in Serbia (Figure 6). Domestic funding and bank outlook had a more prominent role in supporting supply whilst domestic NPLs, local bank capital constraints and changes in local regulation have been reported as limiting factors. Some international factors continued to play a tightening role as detected in the previous release of the survey. Global outlook, group capital constraints and group NPLs have been reported as constraints to credit standards over the past six months. Over the next six months, the negative

effect of local bank capital constraints and changes in local regulation is expected to continue. The other factors are expected to continue to exercise a similar impact on supply conditions as in the past six months, except NPLs.

6. With regard to the SME segment, supply (credit standards) conditions tightened, whilst demand for loans has been increasing robustly and more than in the CESEE region over the past six months. Looking ahead, demand is expected to continue expanding in line with the developments in the CESEE region. Credit standards applied to SMEs are expected to ease somewhat. Last but not least, maturity and size of loans eased in Serbia at an extent similar to the CESEE region, whilst collateral requirements continued to tighten.

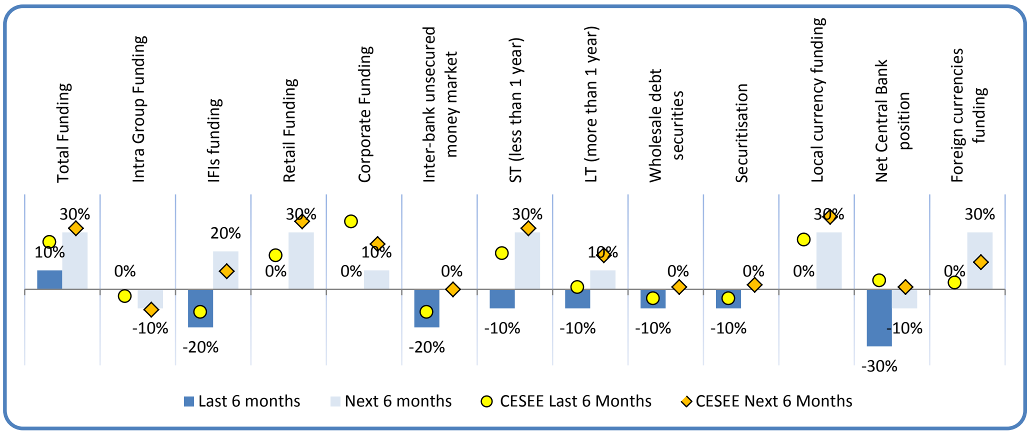
Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4



Source: EIB – CESEE Bank Lending Survey.

7. Contrary to an easing in the CESEE region, access to funding did not change significantly over the last six months. However it did not constraint supply conditions as already highlighted in the previous release of the survey. Funding was unchanged primarily in the corporate and retail segments (Figure 7) and mainly in local currency, whilst IFIs funding, inter-bank and long term funding recorded mild declines. Looking ahead, funding conditions are expected to ease, in line with the CESEE aggregate. However inter-bank money market resources and debt markets are not expected to provide any additional support to overall access to funding, whilst IFIs are expected to contributed positively.

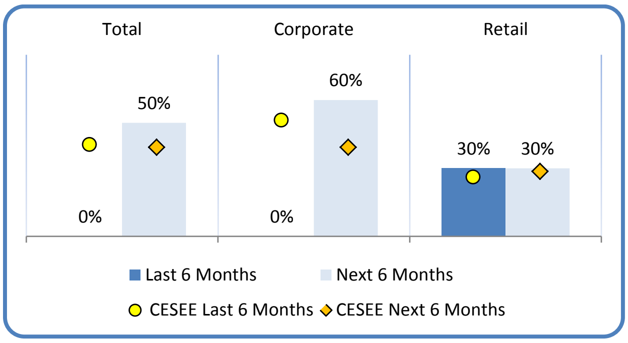
Figure 7: Access to Funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



Source: EIB – CESEE Bank Lending Survey.

8. Aggregate NPL figures did not improve over the past six months, thus underperforming compared to the CESEE region and contrary to the expectations embedded in the September 2015 release of the survey. However, the improvement in NPLs detected in the bank lending survey over the last year started to be reflected in the actual data on NPLs. All in all, some decrease in the NPLs ratio was described in the retail segment (Figure 8); while further improvements are expected over the next six months both in corporate and retail sectors.

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

Slovakia

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as proportion of total assets): 76 percent
- Current level of NPLs as proportion of total loans: 4.1 percent (March 2016)
- Latest credit growth (yoy): 12.5 percent (March 2016)
- Loan-to-deposit ratio: 98.4 percent (March 2016)
- CAR: 17.8 percent (December 2016)

2. Key messages – *Noticeably recovering credit market against the background of a strong rebound in domestic demand*

International groups' views:

- **Group strategies**: The stance of banking groups operating in Slovakia with regard to their strategies has been more confident than the overall sample of groups included in the survey. Hence, lower shares of banking groups have been selling assets, undertaking strategic restructuring or selling branches to raise capital. The majority of banks still do not plan further deleveraging.

- **Group assessment of positioning and market potential**: A large majority of parent banks active in Slovakia remain strongly committed to the CESEE region, and they see medium or high market potential in Slovakia. Moreover, most banking groups describe profitability higher in Slovakia compared to overall group's operations and they are generally satisfied with their current positioning in the market. While still very optimistic, the most recently reported figures do not quite live up to the positive expectations voiced six months ago.

Subsidiaries'/local banks' views:

- **Credit supply** eased slightly in Slovakia over the last six months for all types of loans but consumer credit. This contrasted with rather stagnating conditions in the entire CESEE region. Credit supply standards were supported by several international and nearly all domestic factors but changes in local regulation which weighed heavily on supply conditions. In the upcoming months more significant easing of credit conditions is expected all over the shop with the exception of mortgages and FX loans.

- **Demand for loans** increased significantly again in Slovakia driven by all market segments although to diverging extents. Looking ahead, the increase in demand is expected to continue, although at a slower pace, driven by all market segments but particularly mortgages.

- **Access to funding:** The overall funding situation of subsidiaries improved slightly in the last six months on account of several short- and long-term funding means.

- **NPL figures** improved over the last months due to both corporate and retail sectors thus confirming hard data findings. The trend is expected to continue.

[1] Sources: National Bank of Slovakia, IMF and European Commission.

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** Real GDP growth had rebounded to 2.4 percent in 2014 and the recovery accelerated further to 3.6 percent in 2015, the fastest pace since 2011. Since 2014 domestic demand has replaced net exports as the main growth engine. Particularly fixed investment has expanded robustly. Booming investment in 2015 reflected heavy use of EU funds, as the possibility to draw on funds available under the 2007-13 programming period came to an end. Net exports, in contrast, had a negative impact on GDP in 2014 and 2015. The European Commission estimates real GDP to rise by 3.2 percent in 2016.

- **Unemployment:** Unemployment has been gradually falling since September 2013 (14.3 percent) to 11.5 percent in 2015. Nevertheless, it remains relatively high and a key challenge for Slovakia as structural factors such as gaps in education and lack of mobility have a negative effect on labour market developments. However, unemployment is expected to fall further on the back of strengthening domestic and global economy.

- **Inflation:** As a result of weak economic activity, declining energy prices and moderating growth of food prices, inflation dropped from 3.7 percent in 2012 to - 0.3 in 2015. The deflationary pressures are expected to dissipate gradually in line with the pickup in household demand and solid nominal wage growth so that inflation should hover just below 0 this year and climb to 1.5 percent in 2017.

- **External and public sector balance:** After three years of surplus Slovakia's current account turned negative in 2015 (-1.3 percent of GDP). The deteriorated goods and income balances were only partially offset by modestly strengthened services surplus and an improved current-transfers balance in the wake of increased inflows of EU funds. Slovak net exports are expected to accelerate on the back of strengthening demand in key markets and a deceleration in imports as a result of the slowdown in overall investment growth. The budget deficit was reduced from 7.5 percent of GDP in 2010 to 2.7 percent of GDP in 2014 and it deteriorated to 3.0 percent of GDP in 2015. This was in part due to the accelerated drawdown of EU funds and the ensuing increases in co-financed spending. The budget deficit is projected to drop to 2.4 percent of GDP in 2016. Public debt continued falling to 52.9 percent of GDP in 2015 and is forecast to stay broadly stable in the medium term.

- **Banking sector:** The banking sector is well capitalised (CAR at nearly 18 percent end-2015). NPLs are rather low (4.1 percent in March 2016) and falling. The loan-to-deposit ratio stands at just above 98 percent, up from 72 percent in 2006. Lending growth has been moderate in the last years but has picked up in recent months.

- **Rating:** Slovakia is rated by Moody's (A2), Fitch (A+) and S&P (A+) with a stable outlook.

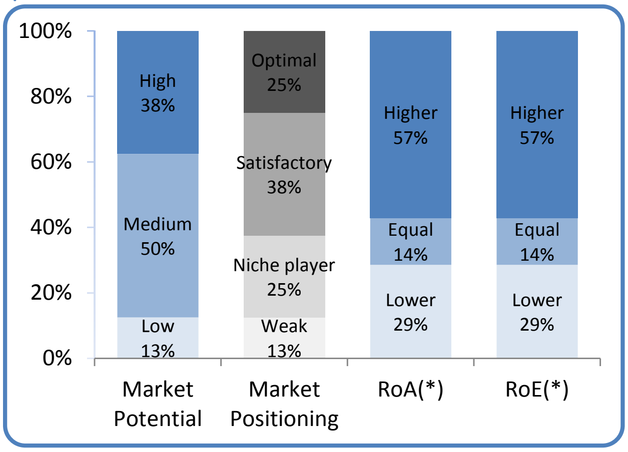
[2] Sources for the macroeconomic data: European Commission, Eurostat and IMF. Sources for the banking data: National Bank of Slovakia, IMF and European Commission.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. The stance of parent banks operating in Slovakia has been more confident than the overall sample of groups included in the survey. To raise capital, parent banks operating in Slovakia have been carrying out some strategic operations and are planning to continue doing this in the months to come. Only some Groups have been selling assets and undertaking some strategic restructuring compared to, respectively, 53 percent in the overall sample. Unlike in the previous survey round, banks do partially expect some deleveraging at the group level. Nonetheless, a vast majority of them expects the loan-to-deposit ratio to stay stable (80 percent) and only 20 percent see it decreasing in the coming months. Hence, also in this respect the parent banks' view is more optimistic than in the overall sample, where 67 percent of banks forecast a stable loan-to-deposit ratio and 33 percent plan to lower it.

Figure 1. Market potential and positioning – see question A.Q15



Source: EIB – CESEE Bank Lending Survey.

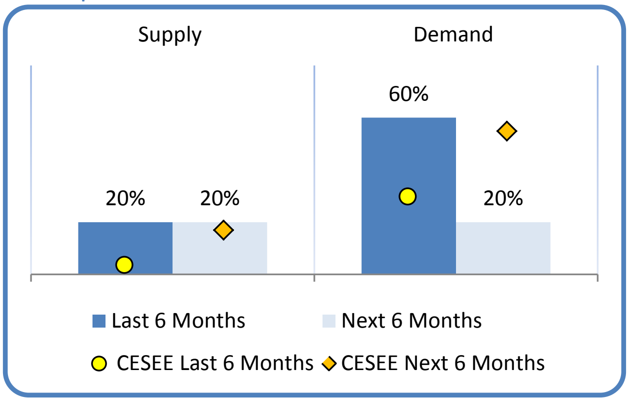
2. Parent banks operating in Slovakia remain strongly committed to the region, with 20 percent intending to maintain and 80 percent to selectively expand their business. Hence, unlike in the past round, no parent bank is now planning to selectively reduce operations. Compared to 100 percent of parent banks in the last survey, 80 percent reported higher profitability in the CESEE region than at the group level this time. Similar tendency is projected for the next six months. These figures thus do not quite live up to the positive expectations voiced six months ago. Parent banks' view on the market position and potential in Slovakia has not changed dramatically since the last survey and banks are in general still satisfied with their market positioning. Hence, 25 percent of respondents find their positioning optimal and 38 percent satisfactory (Figure 1). Banks' maintain also a very positive view about market potential as nearly 90 percent of them believe there is medium to high potential in Slovakia (Figure 1).

[3] In this subsection results refer to the views of parent banks. Results on market positioning, potential, ROE and ROA refer to questions addressing behaviours within a specific market whilst the other data (e.g. restructuring strategies, LTD, capital contributions, etc.) are derived results. These are obtained by filtering out from the parents' views for the CESEE region as a whole the views of those parents effectively operating in a particular country. By doing so, it possible to assess whether there is a divergent attitude of a sub-group of parents operating in a specific country.

4.2 Local banks/subsidiaries

1. Compared to the recent past in which a strong rebound in demand faced rather stagnating supply the development on the two sides of the credit market is a bit more balanced this time. Hence, subsidiaries operating in Slovakia reported a very strong increase in demand – much more pronounced than in the CESEE region as a whole. At the same time, also supply conditions eased partially compared to stagnation in the CESEE region. Looking ahead, the increase in demand is expected to continue but to slow down noticeably in Slovakia, while it is projected to boom in the CESEE aggregate. Broadly in line with CESEE peers supply in Slovakia is predicted to continue improving slightly (Figure 2).

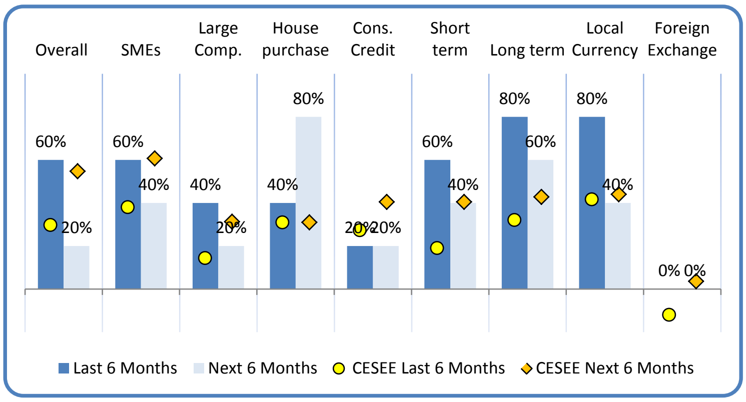
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. The increase in overall demand was driven by all market segments although to diverging extents. While the SME segment was in the driving seat, also demand for mortgages and from large companies rebounded rather strongly followed by a less strong increase in consumer credits demand. As regards maturity, the increase in demand for long-term loans was again significantly stronger than in the segment of short-term loans although the letter also picked up compared to six months ago. In terms of currency denomination clients continue asking exclusively for loans in euro. Looking ahead, the improvement in demand in the corporate sector is expected to continue. While it will accelerate in the mortgage segment and remain stable in the consumer credit segment, it is likely to slow down somewhat on the side of both large and small corporates. In the CESEE region as a whole the revival in demand will be relatively broadly distributed across all categories with the strongest contribution from SMEs followed by consumer credits (Figure 3).

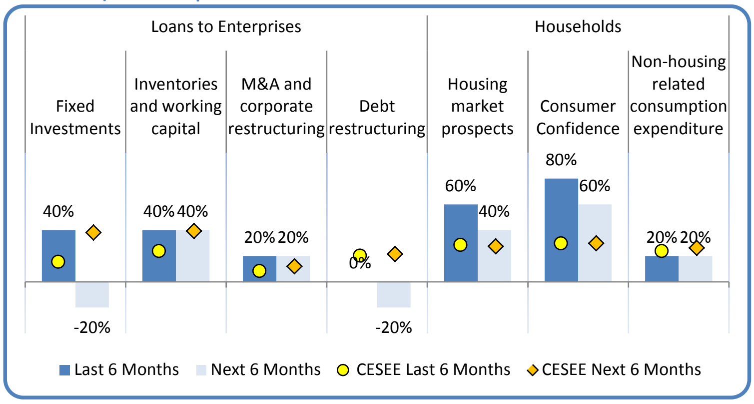
Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

3. When it comes to demand drivers in the corporate segment, similarly to the last survey round, the strongest positive contribution was made by fixed investment and, this time, also by inventories. In addition, corporates increasingly asked for financing for M&A while there was no change in loan demand for debt restructuring over the last six months. Over the coming period the pattern is likely to change somewhat. While loan demand for inventories, working capital and M&A will continue rising at the previous pace demand for fixed investment and debt restructuring will rather go down. In the household segment all factors contributed to the support of credit demand, particularly the growing consumer confidence and improving housing market prospects. These two factors are expected to drive households' credit demand also in the six months ahead, although to a lesser extent. The factor composition driving the projected credit demand among corporates looks somewhat different in the CESEE region. Significant differences strike particularly in the fixed investments and debt restructuring segments for which loan demand will, unlike in Slovakia, keep growing in CESEE peers. In the retail sector, in contrast, developments in Slovakia and the CESEE aggregate are expected to be broadly in accord. Only consumer confidence is likely to play a less important role in CESEE (Figure 4).

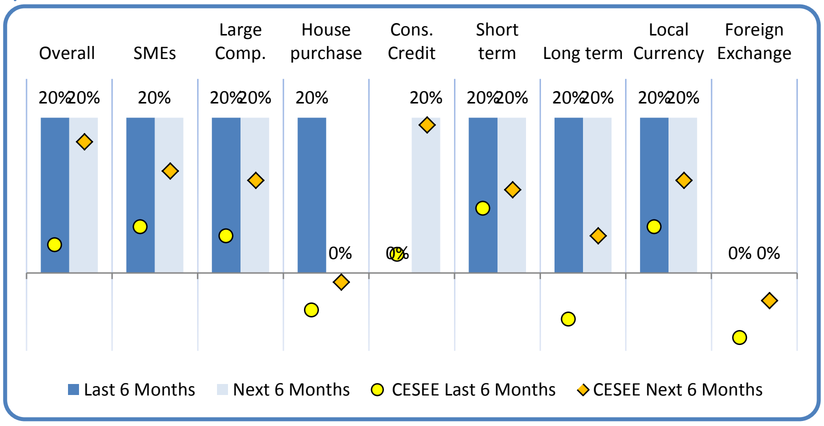
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

4. In contrast to the CESEE region as a whole where supply conditions remained broadly unchanged on balance they eased somewhat in Slovakia. In the CESEE aggregate some easing in the corporate segment was largely offset by some tightening in mortgage conditions. Looking from another perspective, some easing of short-term and local currency loans was counteracted by a tightening of, respectively, long-term and FX lending. In

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

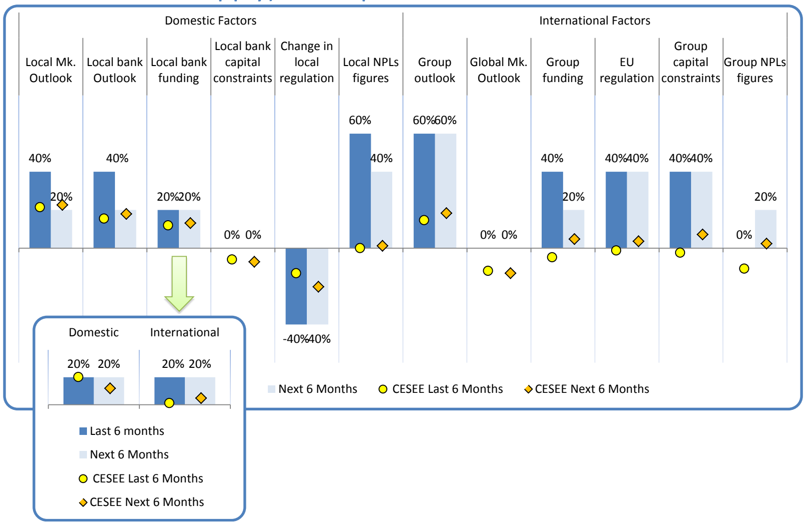


Source: EIB – CESEE Bank Lending Survey.

Slovakia, however, supply conditions eased to some extent for all types of loans but consumer credit. In the upcoming half-year, more significant easing of supply conditions is expected virtually all over the shop, in Slovakia to an even larger extent than in the CESEE aggregate. An exception will be slightly tightening conditions for mortgages and FX loans (Figure 5).

5. In the last six months, standards for credit supply in Slovakia were supported by nearly all domestic factors but changes in local regulation which weighed heavily on supply conditions. However, overall, the deep damper of the latter was more than offset by the sum of (mostly rather significantly) positive contributions of all other factors. Also several international determinants such as group funding, EU regulation and group capital constraints made a positive contribution to supply conditions. Over the six months to come, the pattern is expected to remain broadly similar. On the side of the domestic factors, the positive contribution of local market and bank outlook is set to decelerate somewhat. So will also the effect of group funding among international factors. On the other hand, however, group NPLs should also exercises some easing role in the next six months (Figure 6).

Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q4

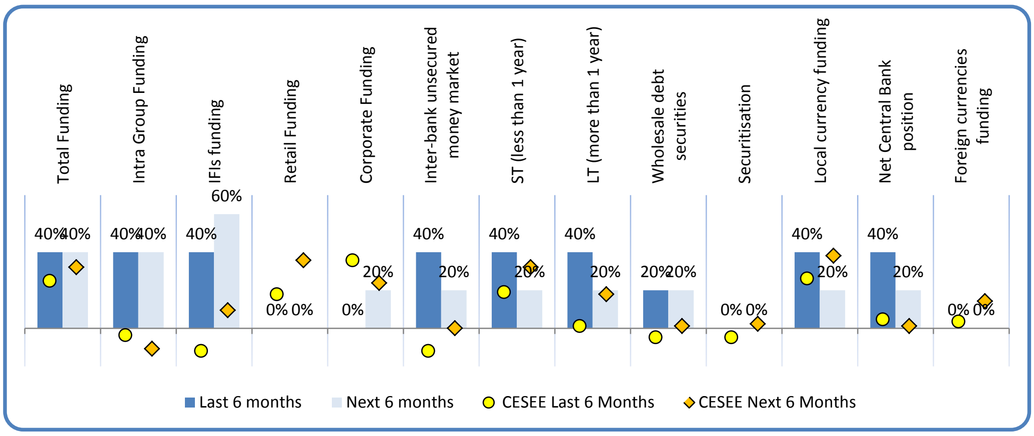


Source: EIB – CESEE Bank Lending Survey.

6. As regards credit to SMEs, developments largely mirror the overall picture described above. A very strong increase in demand faced slightly easing credit supply standards over the last six months. Looking ahead, demand is expected to strengthen further, although less massively than to date and supply conditions should continue relaxing somewhat particularly due to lower interest rate margins. This will be broadly in line with developments in the CESEE region as a whole where, however, also bigger loans should be easier to get.

7. The overall funding situation of subsidiaries improved in the last six months on account of better access to several funding means, both short- and long-term. In particular, even intra group and IFIs funding as well as the inter-bank money market contributed to the improvement in the financing situation of subsidiaries since the last survey round. The trend is expected to continue in the months ahead thanks particularly to IFIs and to a lesser extent intra group, corporate and money-market funding (Figure 7).

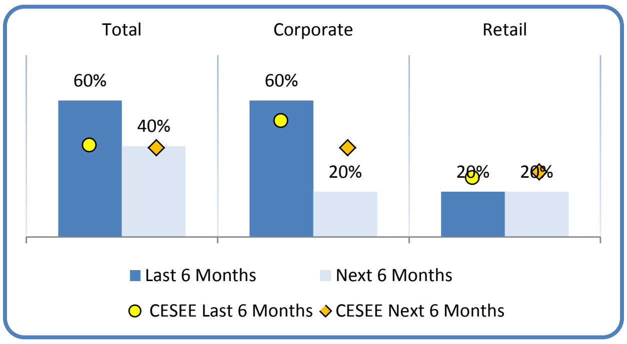
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q9



Source: EIB – CESEE Bank Lending Survey.

8. In line with hard data our survey results confirm that NPL ratios improved over the last six months. While they did so in both the retail and the corporate sectors the decline was more pronounced in the latter. The trend is expected to continue although the decline in NPLs is likely to slow down somewhat in the corporate sector, fairly in line with the CESEE region as a whole (Figure 8).

Figure 8: Non-performing loan ratios – (*net percentage*; negative figures indicate increasing NPL ratios) – see question B.Q8



Source: EIB – CESEE Bank Lending Survey.

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		

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

CESEE Bank Lending Survey

H1-2016