CESEE Bank Lending Survey – H2 2019 – Autumn Edition

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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 are presented at an aggregate level in the Vienna Initiative Deleveraging and Credit Monitoring Report. The EIB designed, conducted and managed the survey. The EIB wishes to thank the banks for their contribution and participation in the survey. Finally yet importantly, 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.

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Regional Overview

An optimistic attitude towards the CESEE region, positive profitability and an upbeat selective bias make the regional strategy appealing for the vast majority of banking groups. On aggregate, supply-side conditions eased and demand for loans was robust. Although exposures to the region were trending negatively – with ample swings over the recent past – the overall access to funding was positive.

**Summary**

**Global strategies:** about 30% of banking groups, less than the 2013-2018 average, continued some restructuring activities at global level. Capital increases have been achieved exclusively via sales of assets and branches. Overall, banking groups report a generalised stability stance in their loan-to-deposit (LTD) ratio. Nevertheless, around 10% expect a decrease in their LTD, whilst on balance slightly less than 20% of banking groups expect a re-leveraging. Group-level funding conditions continued to ease.

**Commitment to CESEE:** a large majority of banking groups reported that the RoA of CESEE operations was on average higher than that of the overall group. Also, group strategies continue to be tilted towards expansion or stability in the CESEE region. Less than 20% of banking groups report a combination of diminishing regional returns and intentions to reduce operations. On the other hand, around 30% of banking groups have reduced their total exposure to the CESEE region whilst only a small share have increased their exposure. As a result, the aggregate net balance has been negative over the last six months. Overall, large swings have been recorded in 2018 and 2019, suggesting increased volatility. Expectations are more balanced.

**CESEE subsidiaries and local banks** report another increase in demand for credit, and supply conditions eased over the past six months. In the last six months, demand for loans improved again across the board. This marks the fourteenth consecutive half-year of positive developments. Notably, investment contributed significantly to push up demand for loans. At the same time, almost no contribution was recorded from restructuring activities. The spring survey recorded a mild tightening of the supply conditions, whilst the autumn survey detects a somewhat easing stance. Across the client spectrum, supply conditions eased in the enterprise segment, including SME lending, whilst they tightened slightly in the household segment, including consumer credit and mortgages. All domestic factors supported an easing of supply, except changes in local regulations. International factors are not a constraint anymore, but they are not a clear easing element either.

**Access to funding** has continued to ease in the CESEE region, supported by local sources and IFIs. Long-term funding has been improving visibly. On the other hand, intra-group funding has not been assisting these positive developments.

**NPL ratios** continued to improve. In absolute terms, the share of subsidiaries reporting an increase in their NPL ratios was around 11%, somewhat higher than a year ago but well below the 60% recorded in 2013.
About 30% of banking groups, less than the 2013-2018 average, continued some restructuring activities at the global level. Capital increases have been achieved exclusively via sales of assets and branches. Overall, banking groups report a generalised stability stance in their loan-to-deposit (LTD) ratio. Nevertheless, around 10% expect a decrease in the LTD in the next six months, whilst on balance slightly less than 20% of banking groups expect a re-leveraging.

About 30% of banking groups, less than the 2013-2018 average, continued their restructuring activities at the global level to increase group capital ratios, and the same share expects this process to continue over the next six months (Figure 1). Capital has been raised only through sales of assets and branches, whilst no state intervention on capital has been introduced or is expected. Between 2013 and 2018, capital was also funded on the market, whereas lately this contribution has essentially disappeared. This was a finding in the previous wave of the survey and it is confirmed this time around.

Looking at the next six months, contributions to balance sheet strengthening are again expected to come mainly from sales of assets and, to a lesser extent, branches. Deleveraging at the group level (Figure 2) has slowed significantly compared to 2013 and 2014. The share of banks expecting deleveraging has never been so low over the past six years. Around 10% of banking groups expect a decrease in their LTD in the next six months—a decrease compared to the 2017-2018 average, whereby around 20% of banking groups expected a decrease. At the same time, almost 20% of banking groups expect an increase in their LTD over the next six months. Although less pronounced today, this is part of a re-leveraging attitude for some banking groups initiated in 2017. Overall, groups report a generalised stability stance in their LTD ratios contrary to a polarisation tendency in the tail options recorded in 2017-2018.

Group-level access to funding conditions continued to be easy, as in the previous waves of the survey (Figure 3). Notably, retail deposits made a significant positive contribution to total access to funding. Corporate deposits and debt issuance have also contributed positively.

The global access to funding of the banking groups has eased significantly over the past six months, thus consolidating the results obtained in the previous waves of the survey. Following a contraction during 2015, access to funding resumed an easing trend in the first half of 2016, and accelerated further in 2017. Moreover, it seems to have speeded up further at the end of 2018 / beginning of 2019. Therefore, the contraction in access to funding in
2015 can be seen in retrospect as a temporary event. The developments in the H2 2019 survey release can be described as building on the solid 2017 and 2018 outcomes. The dynamics detected in aggregate access to funding reflect prolonged improvements in retail funding, and also positive contributions from wholesale debt issuance and corporate funding in the past six months. Notably, banking groups have continued to rely less and less on central bank liquidity. This is a further positive signal of a more stable and self-supporting funding environment. End-2019 and early 2020 are also expected to be positive for access to funding conditions (Figure 3b). This relatively benign expectation seems to be primarily supported by increasing inflows of retail and corporate deposits and higher wholesale funding, whilst other sources of funding are not expected to play a significant role.

The trend of total exposure to the CESEE region has been negative over the past six months, because the number of banks declaring a reduction in their exposures to the region was significantly higher than those declaring an increase in exposures. As a result, the survey detects a turnaround compared to the previous release, in which a balanced picture prevailed. Nonetheless, the latest readings are in line with the expectations embedded in the H1 2019 release of the survey. Over the past two years, exposures have been oscillating, reflecting an increased level of global uncertainty and volatility. This calls for a cautious approach when interpreting the current outcomes. As in the past five years, most of the enduring negative contributions to the CESEE exposures stemmed from reduced intra-group funding to subsidiaries. At the same time, no banking group has expanded their intra-group funding to CESEE subsidiaries recently (Figure 4b). Most parent banks report that they have maintained their capital exposure to their subsidiaries and expect to continue to do so. Looking at the next six months, the net balance of total exposure to the region is expected to be balanced again, like a year ago, mainly on the back of more banking groups indicating intentions to increase exposures compared to the past six months.
Figure 4a  Groups’ total exposure to CESEE

Source: EIB – CESEE Bank Lending Survey.

Note: Cross-border operations involving CESEE countries – see questions A.Q8 – questionnaire in the Annex

Figure 4b  Groups’ total exposure to CESEE

Source: EIB – CESEE Bank Lending Survey.

Note: Cross-border operations involving CESEE countries – see questions A.Q8 – net percentages; negative figures refer to decreasing exposure – questionnaire in the Annex
A large majority of banking group strategies continues to be tilted towards expansion or stability in the CESEE region. This is also supported by the profitability (RoA) of CESEE operations, which is largely defined as higher than that of the overall group. On the other hand, less than 20% of banking groups report a combination of diminishing regional returns and intentions to reduce operations. All in all, the assessment of market prospects shows a diversified potential and profitability across countries.

Cross-border banking groups signal positive strategic intentions towards their regional operations. More than 80% intend to either maintain or expand operations in the region (Figure 5). Nevertheless, they continue to discriminate in terms of countries of operation as they reassess their country-by-country strategies. Around 45% of the groups have a medium- to long-term strategy of selective expansion of operations (more than before) whilst about 40% of groups intend to maintain the same level of operations in the region (slightly less than before). Around 15% of banking groups indicated that they might reduce operations in the long term. Reflecting this positive strategic stance, only 20% of international banking groups reported lower returns on assets (RoA) in the CESEE operations than in overall group operations over the last six months, reinforcing a positive trend that emerged in 2016. Accordingly, the market potential has been increasing across countries in the region and also the market positioning has improved compared to couple of years ago. Nevertheless, peculiarities across countries continue to emerge (Annexes A.4 / A.5).

The assessment of market prospects builds on the previous wave of the survey. It suggests a stabilisation at somewhat improved levels compared to one or two years ago. Surveyed banks see the market potential (Annex A.8 for data on low market potential) as being relatively low in Ukraine only, albeit less than in the past. Some marginal signs of low market potential are reported for Albania, Bosnia-Herzegovina, Croatia, Poland, Serbia, Slovenia and Slovakia. In the other countries of the region, banking groups see essentially medium to reasonable market potential. In terms of market positioning, most banks remain comfortable with the scale of their operations in the majority of markets. Weak positioning should be seen as combined with limited market potential. Some surveyed banks find their positions in the Czech Republic to be in the weak category (Annex A.9 for data on weak positioning). This is also the case in Hungary, Romania, Serbia, Slovenia and Ukraine. Conversely, no weak positioning is detected in Albania, Bosnia-Herzegovina, Poland or Slovakia. Overall, this picture suggests that in very few markets there was a negative combined effect of low market potential and weak positioning. Finally, yet importantly, the assessed profitability of markets in terms of RoA (adjusted for cost of risk) and RoE (adjusted for cost of equity) differs across countries (Annexes A.6 and A.7). Except for the countries with profitability on balance higher than group levels, the percentage of responses indicating low profitability ranges between a minimum of 20% and a maximum of 60%.

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

Source: EIB – CESEE Bank Lending Survey.
Note: See question A.Q5 – questionnaire in the Annex
Results of the Bank Lending Survey – Local banks/subsidiaries

CESEE subsidiaries and local banks report an increase in demand for credit and an easing of supply conditions. Healthy factors contributed to pushing up demand for loans, including investment. At the same time, almost no element constraining supply is recorded.

**Demand** for loans and credit lines continued to increase in the last six months (Figure 6). These results mark the fourteenth consecutive increase in demand for credit, an improvement fully aligned with the expectations embedded in the spring 2019 release of the survey. For the ninth time in a row, all factors influencing demand made a positive contribution (see Annex A.1). Working capital accounted for a large share of the demand stemming from enterprises. Contributions to demand from investment exerted a significant positive impact and were among the highest positive contributors. This continues to indicate that the macroeconomic and financial environment is conducive to investment. Corporate and debt restructuring as well as M&A did not contribute to propelling demand, and all stand currently near zero. Housing- and non-housing-related consumption also continued to make robust and positive contributions to demand. Consumer confidence continues to exert a positive effect, although lower than in previous waves of the survey. In the period ahead, banks expect continued expansion in credit demand. Working capital, investment, consumer confidence, housing- and non-housing-related expenditures are all expected to make a positive contribution to demand (see Annex A.2).

**Supply** conditions eased over the past six months in line with the expectations recorded in the H1 2019 release of the survey. Across the client spectrum, credit standards eased somewhat in the enterprise segment, including SME lending, but tightened slightly in the household segment, including consumer credit and mortgages (Annex A.3). Supply conditions eased on short-term loans as well as on long-term loans, primarily in local currency. Aggregate supply conditions are expected to tighten slightly in the next six months (see Annex A.3). The terms and conditions of loan supply loosened visibly in terms of size of the loans and only slightly in terms of maturity and collateral requirements for enterprises over the past six months. On the other hand, collateral requirements tightened on mortgages and maturity tightened on consumer credit. The protracted inertia of supply-side conditions did not follow the robust demand conditions, leaving a noticeable perceived gap between demand and supply. Nevertheless, aggregate credit growth for the CESEE region is in positive territory. This may suggest that most of the new credit extended should, on average, be of better quality than in previous credit cycles.

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

Source: EIB – CESEE Bank Lending Survey.

*Note: Net percentages; positive figures refer to increasing (easing) demand (supply) (triangles refer to expectations derived from previous releases of the survey, lines report actual values and dotted lines expectations in the last one) – see questions B.Q1 and B.Q5 – questionnaire in the Annex*
Most of the domestic and international factors no longer limit supply, although the latter are not significant positive contributors. On the other hand, the domestic regulatory environment is still constraining supply conditions.

The number of domestic and international factors limiting supply has decreased substantially compared to 2013 (Figure 7). The latest survey release shows that changes in the domestic regulatory environment remained a limiting element. As in previous surveys, domestic NPLs are no longer a limiting factor. Moreover, international factors are no longer playing a constraining role, although they are not a source of major easing either. Looking ahead, almost all the same factors are expected to affect supply conditions in the same direction as in the recent past.

**Figure 7**

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

Source: EIB — CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply – see question B.Q4 – questionnaire in the Annex
Access to funding continued to ease in the CESEE region, supported mostly by local sources and IFIs. Long-term funding is also a positive contributor. On the other hand, intra-group funding is no longer assisting these positive developments.

Easy access to retail and corporate deposits supports a positive outlook (Figure 8). In addition, CESEE subsidiaries report easier access to short-term funding as making a positive contribution to overall funding activities. Longer-term funding conditions have also eased, continuing the positive trend initiated in the spring 2019 survey wave. In contrast to the more recent survey releases, subsidiaries did not indicate a positive contribution from access to international and intra-group funding during the past six months.

Figure 8  Access to funding for CESEE subsidiaries

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

B. Breakdown of funding conditions – results from latest survey

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to an easing of access to funding – see question B.Q9 – questionnaire in the Annex
Credit quality has continued to improve, albeit less than earlier in the cycle. This trend is expected to continue over the next six months, although few banks started to signal an increase in their NPL ratio.

In 2015, the survey indicated a turning point in the negative spiral of NPL flows. Accordingly, the deterioration in NPL ratios has been reversing gradually over time. Over the past six months, aggregate regional NPL ratios recorded an improvement in net balance terms (Figure 9). In absolute terms, the share of subsidiaries indicating a decline in their NPL ratios currently stands at roughly 75%, whilst 11% indicated an increase. The latter figures are substantially below the 60% reported in the September 2013 survey release. Nevertheless, the survey records for the second time in a row a slight increase in the number of banks reporting a rise in their NPL ratio. Moreover, around 15% of banks expect an increase in their NPL ratio over the next six months.

Figure 9. Non-performing loan ratios

Developments over time

Last run of the survey

The CESEE strategy continues to pay off as reflected in positive regional profitability. A selective approach, tilted towards an expansion attitude, to the region continues to be part of the global strategies. Regional supply conditions improved and demand for loans continued to be robust. Exposures to the region recorded ample swings during the recent past. Finally, yet importantly, NPL ratios continued to improve. However, a small number of banks signalled an increase in their ratios.

Supply conditions eased over the past six months. Aggregate credit demand conditions continued to be robustly positive across the board. Nevertheless, positive demand has not been matched by cautious behaviour in supply conditions, suggesting that new credit should, on average, be of better quality than in previous cycles. Very few factors still constrain credit standards, whilst access to funding has been easing significantly across the board, except for intra-group funding. Broadly speaking, the survey reveals the appeal to international groups of their CESEE operations and strategy as reflected in the regional profitability levels – mostly described as being above group profitability – and in satisfactory overall positioning. At the same time, cross-border exposures to the region have shown ample swings during the recent past. Finally, yet importantly, NPL ratios continued to improve. However, a small number of banks signalled an increase in their ratios.
Annex A.1  Factors affecting demand for credit

Source: EIB – CESEE Bank Lending Survey.

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

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

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages; positive values indicate increasing demand – see question B.Q5 – questionnaire in the Annex
Annex A.3  Credit supply (credit standards) – client breakdown

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages; positive values indicate an easing supply – see question B.Q1 – questionnaire in the Annex.
Annex A.4  Market potential

Source: EIB – CESEE Bank Lending Survey.
Note: See question A.Q1 – questionnaire in the Annex

Annex A.5  Market positioning

Source: EIB – CESEE Bank Lending Survey.
Note: See question A.Q1 – questionnaire in the Annex
Annex A.6  
**Return on assets (adjusted for cost of risk) compared to overall group operations**

![Graph showing the return on assets](image1)

Source: EIB – CESEE Bank Lending Survey.
Note: See question A.Q1 – questionnaire in the Annex

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

![Graph showing the return on equity](image2)

Source: EIB – CESEE Bank Lending Survey.
Note: See question A.Q1 – questionnaire in the Annex
Annex A.8 Share (%) of parent banks indicating a “low” market potential

Source: EIB – CESEE Bank Lending Survey.
Note: See question A.Q1 – questionnaire in the Annex
Annex A.9  Share (%) of parent banks indicating a “weak/niche” positioning

Source: EIB – CESEE Bank Lending Survey.
Note: See question A.Q1 – questionnaire in the Annex
Albania

Moderating credit demand amid neutral supply conditions. NPL ratios continued to improve but are still among the highest in the region. In terms of profitability, positioning the worst among CESEE countries.

Summary

Group assessment of positioning and market potential: majority of parent banks consider the Albanian market to have medium or high potential but most of them reported operations less profitable than those at group level.

Credit demand in Albania has been improving, while supply conditions remained neutral after some softening one year ago. Banks expect credit demand to keep the positive trend. Demand for loans increased both in the corporate and households segment, especially for large companies and mortgages.

Credit supply conditions are lagging behind credit demand, very much in line with the CESEE region. Still, approval rate of loan applications increased during the last six months for all segments.

Access to funding in Albania improved further on the back of better access to local retail and corporate deposits and IFI’s funding.

NPL ratios have been improving and this trend is expected to continue in both corporate and retail segments for the next six months, but yet less pronounced than in the recent past.

Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)
Results of the Bank Lending Survey – Parent banks level

The continuous write-down of bad loans and the sluggish lending activity have been weighting negatively on bank profitability, positioning Albania on the worst position among CESEE countries.

A large majority of international banking groups reported a lower return on both equity and assets for Albanian operations than for overall group operations, contrary to the relatively higher than group level profitability of other CESEE operations.

Still, most of the parent banks consider the Albanian market to have medium to high potential and satisfactory or optimal market positioning, and only less than one third of parent banks find their market potential low.

![Market potential and positioning](chart)

Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q1. (*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

Aggregate demand developments

Demand for loans in Albania came just according to the expectations and slightly decelerating compared to the last six months.

Demand kept a positive trend of the last two years. This is in line with the still positive macroeconomic outlook of the country that should also result in higher financial penetration from the current low level (32% of total private loans to GDP as of Aug. 2019). The outstanding loans started to grew as of June 2019 for both households and firms, after one year of contraction and long-term stagnation of the portfolio (since 2013).

![Demand side developments](chart)

Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moreover the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.
Figure 3  Demand components and segments

Demand for loans increased both in the corporate and households segment, especially for large companies and mortgages. Contrary to the previous survey and more in line with regional trends, survey data shows a preference towards borrowing in local currency during the last six months.

For the following six months, the increasing trend of demand is expected to continue for all segments, except for large companies for which a stagnation is anticipated.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Figure 4  Factors affecting demand for loans

Just in line with the regional trend, all household factors contributed positively to demand for loans, while on the enterprise side, only fixed investment had a positive contribution.

Regarding expectations, all the current positive factors are projected to keep their positive influence for the next six months, except consumer confidence, that is expected to remain neutral. A stronger recovery is expected for loans’ demand for working capital.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex
Figure 5  
Quality of loan applications

The perceived quality of loan applications have been improving further during the last six months across all segments. The strongest enhancement has been registered for the mortgage loans. Over the next six months, quality of loan applications is expected to improve further for SMEs and mortgage loans.

Source: EIB – CESEE Bank Lending Survey  
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit standards remained neutral after the first positive evolution registered one year ago. The current trend is just in line with the CESEE average.

Banks’ expectations on credit standards for the next six months is moderate, keeping the current standards for both Albania and the CESEE region.

Source: EIB – CESEE Bank Lending Survey
Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moreover the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.
Figure 7  Supply components and segments

Overall credit supply conditions stayed neutral, while they tightened for foreign currency loans and eased for local currency. In terms of clients, loans for SMES and consumer credit conditions were eased. Looking ahead, banks expect lending conditions to stay at the current level on average but to ease for couple of segments.

Source: EIB – CESEE Bank Lending Survey

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

Figure 8  Credit Supply: bank’s (local subsidiary)’s approval rate for loan applications

The approval rate increased during the last six months for all segments, more than in the CESEE. The approval rate have improved the most for large companies and consumer loans. Over the next six months, improvement of credit applications’ approval is expected across the board.

Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex
Figure 9  
Factors contributing to supply conditions

Most of the domestic factors contributed positively on credit supply conditions in Albania, such as local market and bank outlook, capital requirements and NPL figures.

From international factors, group funding turned positive while global market outlook and EU regulation contributed negatively.

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex
The cleaning-up process of the bank’s portfolio in Albania remained strong, for both corporate and retail segment.

The NPL ratio is still among the highest in the CESEE region, stagnating at around 11.2 percent as of mid-2019. Further improvement is expected for the next six months, but yet less pronounced.

Source: EIB – CESEE Bank Lending Survey.

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

Bank funding in Albania has improved slightly in the last six months mainly supported by the domestic retail and corporate funding and IFI funding, while local currency funding and net central bank position contributed negatively. For the next six months, domestic retail and corporate funding are expected to remain the major source of funding.

Source: EIB – CESEE Bank Lending Survey.

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

Credit demand decelerating below supply dynamic, contrary to the regional trend. Improving profitability and strong commitment to the region, according to parent banks’ assessment.

Summary

Group assessment of positioning and market potential: three quarter of parent banks operating in Bosnia and Herzegovina report a medium potential for the local market. The same share of respondents indicates a satisfactory or optimal positioning in the market. Moreover, profitability have improved during the last six months. Two third of the banking groups find that profitability of Bosnian operations are marginally higher or equal to the overall group operations.

Demand for loans remained unchanged during the last six months, with positive developments in some segments, especially on corporate loans.

Credit supply conditions eased for the fourth time and above the CESEE average. Banks approval rate has improved across the board. Nevertheless, most of the domestic factors and NPL figures at the group level were still considered a drag to credit supply.

Access to funding: the improvement has been broad-based across different sources, while the major enhancement has been for domestic retail and corporate funding.

NPL figures have been decreasing strongly during the last two and half years and are expected to continue improving over the next six months, albeit at a moderate pace.

Source: EIB – CESEE Bank Lending Survey.
Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Bosnia and Herzegovina continue to show a strong commitment to the region. Three quarter of the banking groups present in the country plan to selectively expand and the rest to maintain their operations in CESEE.

The overwhelming majority of parent banks still consider the Bosnian market to have medium potential and they consider their market positioning satisfactory or optimal.

Profitability have improved compared to the previous survey. Now, only one third of the banking groups find that returns on both assets and equity are marginally lower, compared to overall group operations, compared to the two third that reported it in the previous survey.

![Figure 1: Market potential and positioning](image)

*Source: EIB – CESEE Bank Lending Survey.*

*Note: See question A.Q1. (*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.*

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

Aggregate demand developments

Demand for credit remained unchanged during the last six months, following a period of two years of improvement. Now, it is positioning below expectations and regional average.

Banks expect reacceleration of the demand in the coming months, in line with regional trend.

![Figure 2: Demand side developments](image)

*Source: EIB – CESEE Bank Lending Survey.*

*Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moreover the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.*
Despite of unchanged demand on the balance, there is a positive dynamic among some items, especially on the corporate side. There is a clear preference for long-term and local-currency loans. Over the next six months, banks expect a continuation of the positive trend, in line with the CESEE average.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Among the factors affecting credit demand, housing market prospects was the main driver while consumer confidence and fixed investments contributed also positively. Over the next period, all factors, except consumption expenditure, are expected to contribute positively to credit demand.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex
The quality of loan applications in Bosnia and Herzegovina has improved during the last six months, in particular for SMEs and mortgage loans. For the next six months, quality of applications is expected to improve for the same segments.

**Aggregate supply developments**

Supply conditions have continued to ease during the last six months.

On the longer term, contrary to the CESEE region, credit supply conditions in Bosnia and Herzegovina had been running ahead of loan demand.

Credit conditions are expected to ease further in the next six months, above the CESEE region.
Credit standards have eased during the last six months, in particular for SMEs and mortgage loans. Looking ahead, banks expect further easing for the same segments of loans.

Figure 7  Supply components and segments

Credit standards have eased during the last six months, in particular for SMEs and mortgage loans. Looking ahead, banks expect further easing for the same segments of loans.

Figure 8  Credit Supply: bank's (local subsidiary)'s approval rate for loan applications

The loan approval rate in Bosnia and Herzegovina has been stagnating on the balance during the last six months and no change is expected for the next period. Some segments benefited from a higher approval rate, such as mortgage and consumer credit loans.
Local bank funding remains the only positive element among domestic factors while all the other domestic factors have been contributing negatively to credit supply conditions in Bosnia and Herzegovina. Among the international factors, group outlook contributed positively to credit supply conditions, while group NPL have been a drag.

In the coming months, the major drag for supply conditions is expected to remain the change in local regulation, the worsening local bank and market outlook, the local bank capital constraints and the less favourable NPLs on both local and group level.

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex.
NPL ratios have been declining strongly in Bosnia and Herzegovina during the last six months, outpacing the CESEE region. Although improving, NPL ratio is still relatively high on a regional comparison (8.0 percent at the mid-2019).

Over the next six months, local banks expect a continuation of the drop of NPL ratio of corporate loans while of retail loans is expected to remain unchanged.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage; negative figures indicate increasing NPL ratios. See Question B.Q8 in the Annex.

Access to bank funding has improved during the last six months. The increase was broad-based across different sources but relatively higher for domestic retail and corporate funding, while funding from wholesale debt and securitisation remained unchanged. Banks in Bosnia and Herzegovina expect further improvement in access to funding over the next six months, keeping generally the same pattern of the previous period.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex.
Bulgaria

A market with medium potential and increasing credit demand, especially for house purchases and consumer loans.

Summary

Group assessment of positioning and market potential: Parent banks operating in Bulgaria show a strong commitment towards the region and assess the country’s market potential as medium. Most parent banks see returns on assets in Bulgaria as high and mostly exceeding those of the overall group. This has been the case consistently over the past two years. The majority of the parent banks operating in Bulgaria seem to be satisfied with their current market positioning.

Credit supply conditions have slightly improved in the last six months, driven mostly by developments in the retail sector, both for consumer and mortgage credit. This improvement is expected to peter out in the next six months.

Demand for loans has continued to strengthen, albeit at a more moderate pace, driven mostly by households, especially for house purchases. Demand is expected to stabilise over the next six months.

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

NPL figures have continued to improve in all segments, but their level remains above those in EU peers.

Source: EIB – CESEE Bank Lending Survey.

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

Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios
Results of the Bank Lending Survey – Parent banks level

All respondents plan to expand selectively regional operations in CESEE, showing strong commitment to the region. Answers from parent banks have been very stable over the past three years.

All foreign banks with operations in Bulgaria see a market of medium and high potential (Figure 1). For the first time since the beginning of the survey in 2013, no bank sees its market positioning as weak. All respondents consider their market positioning as satisfactory or optimal.

All parent banks assess returns from operations in Bulgaria as higher than or equal to their overall group returns (Figure 1). This assessment has been very stable over the past five years.

As a result, a majority of parent banks have increased exposure to subsidiaries (net 17% of respondents), at the expense of intragroup funding.

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

Aggregate demand developments

Changes in demand for loans in Bulgaria in since 2016 have been of a similar magnitude to those in the aggregate CESEE region, but have been more volatile. After a substantial moderation in H1 2018, loan demand picked up again in H2 2018 only to return to H1 2018 levels in H2 2019. Expectations point to deteriorating demand in the six months ahead. This deterioration comes after a rebound period of two years. Before 2016, credit demand was very weak as economic growth was very slow and there was a protracted period of significant private-sector deleveraging.

Expectations about weakening loan demand appears to be driven by developments in nearly all market segments. Banks see weakening demand mostly for investment and housing loans. Expectations about worsening consumer sentiment also affect negatively expectations about loan demand. Banks perceive a deterioration of quality of loan applications, particularly by SMEs and expect that this will continue over the next six months.

Source: EIB – CESEE Bank Lending Survey.
Note: See question A.Q1. (*) 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.
The household sector continues to be the main contributor to strong loan demand. The corporate sector, both large companies and SMEs, contributed less to loan demand. The increase of households’ demand for loans is entirely due to house purchases. In the next six months, demand for consumer credit is expected to improve, while demand for mortgage loans should remain unchanged. Robust household demand is in line with observed strong aggregate consumer spending and the increase of house prices, as household disposable incomes continue to increase. Corporate demand, however, does not indicate that a durable recovery in corporate investment is underway.

Source: EIB – CESEE Bank Lending Survey.

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

Financing of working capital is the main driving force of corporate demand growth, while investment loans had a smaller contribution. The effect of these two components is expected to decline further in the next six months.

As in the previous survey waves, household demand for loans is buoyed by positive housing market expectations and rising consumer confidence in the last few months. The role of these drivers is, however, expected to moderate in the coming two quarters.

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex
Slowing credit demand is accompanied by a general perception of a stable quality of loan applications both in the large corporate and in the house purchase segment. Quality of loan applications is perceived as deteriorating by a majority of respondents, while the opposite is the case for consumer credit applications. Overall quality of loan applications is expected to remain unchanged across all market segments. These developments are in line with improving economic conditions in the country, growing employment and incomes.

Aggregate supply developments

After significant improvements in supply in 2017 and early 2018, supply conditions have stabilised in line with developments in the aggregate CESEE region, where credit conditions have been stable over the past two years.

Previous improvement of supply conditions is in line with the improving aggregate economy and balance sheets in the Bulgarian banking system. Bulgarian banks have substantially reduced the share of non-performing loans on their books over the past two years, enabling them to relax loan conditions and expand their loan portfolios after years of decline and stagnation. The current stabilisation can be perceived as a normalisation of credit conditions in the country.
Stability of credit supply conditions is across all market segments. Improvements in the next six months are expected to remain stable with the exception of consumer credit, where a majority of subsidiaries of foreign banks in Bulgaria expect an improvement.

Source: EIB – CESEE Bank Lending Survey

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

Approval rates have increased for a majority of respondents in the past six months. The increase appears entirely due to the retail segment, where both housing and consumer loan approval rates have increased. Approval rates have been largely stable in the corporate segment. Overall approval rates are expected to remain stable over the next six months. Some improvements in mortgage loan approvals are expected, but they do not seem to affect expectations for overall rates.

Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex
Domestic factors continue to be the main source of improvements in supply conditions. Local market outlook is a main contributor to improving supply conditions in Bulgaria, while capital constraints remain the largest obstacle to improving supply conditions, as in earlier survey waves. International factors, pertaining to parent banks had a small positive effect, except group NPLs. Looking ahead, capital constraints, regulatory changes, and NPL figures, both locally and on group level, are expected to hold back further improvements of supply conditions.

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex.
The recession following the global financial crisis, and the bursting of the real estate bubble in the Bulgaria resulted in a very high share of non-performing loans on the books of Bulgarian banks. These have been a major factor for tight credit conditions since 2008. Until 2016, banks have been reluctant to reduce NPLs, but this has changed.

In 2017 and 2018, the vast majority of local subsidiaries report improving NPL figures across institutional sectors. Hard data confirms this: NPL ratios have been coming down throughout 2016-18. They nevertheless remain among the highest in the region. Restructuring of corporate portfolios has had a bigger contribution, partly because NPLs are concentrated in the corporate segment.

Developments in overall NPL figures over the past six months are expected to continue in the near future by a large majority of survey respondents. This is broadly similar to what is observed in the CESEE region on average.

Access to funding for Bulgarian subsidiaries has continued improving over the past six months on a trend that started in the second half of 2013. This improvement is expected to continue in the coming six months. The main contributors remain retail and corporate funding that are mostly short term and in local currency. As a result, the growth rate of household and corporate deposits in the banking sector has significantly outpaced the average annual real GDP growth since 2009. Continued deleveraging in both the household and corporate sectors play an important role in the supply of cheap deposits.
Croatia

Tightening supply conditions amid decelerating demand for loans. NPLs and liquidity conditions improved. Higher profitability of local operations but still lower potential than regional peers.

Summary

Group assessment of positioning and market potential: Profitability of Croatian operations improved considerably during the last year. More than half of the international banking groups reported a higher return on equity over the last six months compared to the overall group level. Two third of parent banks operating in Croatia consider the market potential as medium.

Credit demand was on a positive trend over the last six months while credit supply conditions tightened, preserving a visible gap between demand and supply. Demand for loans has increased across most components, except foreign currency loans and those for large companies. Demand was driven mainly by house purchase and consumer credit.

Credit supply conditions turned negative on balance. The tighter conditions were related to consumer and SMEs loans, while the other segments remained neutral. Credit standards are expected to tighten further in the next six months, mainly for the households segment.

Access to funding has improved over the last six months, mainly due to the higher domestic retail funding. On the contrary, access to inter-bank funding decreased.

NPL figures have improved strongly over the last two year, after a negative impact of Agrokor restructuring at the beginning of 2017. The improvement is expected to continue for the next six months but the NPL ratio remains still among the highest in the region.

Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Croatia show an optimistic approach towards the region, as 60% of them plan to selectively expand while the rest intends to maintain their presence. Most of the parent banks declared higher or at least the same level of profitability than on the group level and only 20% of them stated a lower than group’s profitability.

Two third of parent banks operating in Croatia continue to consider the market potential as medium, while the rest with low potential, which position the country behind its regional peers, such as Slovenia. In terms of market positioning, Croatia is considered relatively better than peers, with either satisfactory (67%) or optimal (33%) positioning.

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

Aggregate demand developments

The slowdown of demand during the last six months is remarkable, getting closer to the CESEE average trend.

Expectations compared to actual realisation remains optimistic, positioning above the CESEE average.
Credit demand has increased in the last six months mainly in local currency loans in the segment of house purchase and consumer credit while loans for companies either stagnated (SMEs) or decreased (large companies). Overall, loan demand expectations remain slightly above CESEE average. Lending demand is shifted clearly towards local currency and it is expected to remain so for the next six months.

**Figure 3  Demand components and segments**

All households segments contributed positively to loan demand during the last six months. Regarding the enterprises’ segment, only financing of fixed investments affected positively the demand for loans, while M&A and debt restructuring contributed negatively. For the next six months, similar trend is expected, with households’ factors leading the demand.

**Figure 4  Factors affecting demand for loans**
**Figure 5  Quality of loan applications**

The perceived quality of overall loan applications has improved during last six months, in particular for mortgages, while the quality of applications for companies’ loans was unchanged. Regarding the next six months, improvements are expected in the quality of all type of corporate and household loans.

![Quality of loan applications chart]

Source: EIB – CESEE Bank Lending Survey
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

**Aggregate supply developments**

Credit supply developments in Croatia turned negative and even further tightening is expected during the next six months.

The private loans’ portfolio of the banking system started to grow at the beginning of 2018, following a prolong period of contraction since end-2012. Still, given the tight lending conditions, Croatia's loans portfolio growth is among the lowest in the region (2.6% yoy as of Aug. 2019) while for the corporate segment remained negative.

![Supply developments chart]

Source: EIB – CESEE Bank Lending Survey.
Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moreover the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.
Overall, credit supply conditions have deteriorated. The tighter conditions were related to the consumer loans and loans for SMEs while for the rest of the segments remained neutral. Credit standards are expected to tighten further in the next six months, mainly for the households segment.

Source: EIB – CESEE Bank Lending Survey

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

Overall approval rate remained unchanged in Croatia during the last six months, while for the CESEE region have been slightly improving. The only positive evolution was registered for mortgage loans. On the contrary, loans for large companies have experienced a decline of approval rate. Over the next six months, some improvement is expected for SMEs and mortgage loans.

Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex
In line with the previous survey’s outcome, the local market and local bank outlook remained negative, while change in local regulation seems to be the major drag among the domestic factors. These have been counterbalanced by improving local NPL figures and better local bank funding. Among international factors, group outlook and group funding are lifting up domestic credit conditions, while NPL figures at the group level still contribute negatively.

For the next six months, supply conditions are expected to be neutral, whilst change in local regulation is expected to contribute negatively.

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex.
Figure 10  Non-performing loan ratios

All of the banks in Croatia reported a decrease in NPL ratio over the last six months, with a higher degree on retail loans’ portfolio.

Despite improvements, the level of NPL in Croatia is one of the highest in the region at 9.2 percent overall and even higher for corporate segment at 18.8 percent at mid 2019. The write-off of NPLs has been enhanced through tax-treatment in 2016, but implementation is still ongoing.

The progress on NPLs reduction is expected to continue for the next six months, especially on the corporate side.

Figure 11  Access to funding

Access to funding of Croatian banks improved during the last six months, slightly above expectations of previous survey. Although most of the sources contributed positively to banks’ financing, access to inter-bank money market have declined. The overall better funding is expected to originate from corporate, retail and IFIs funding for the next six months, while intra-group funding is expected to decline slightly.

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1 WIW database based on CNB
Czech Republic

Profitable market, funded mostly from local deposits. House purchase loans experiencing a soft landing, on the back of still robust overall credit dynamics. NPL reduction bounced back.

Summary

Group assessment of positioning and market potential: Banks operating in the Czech Republic see predominantly high market potential and regard their current market positioning largely as optimal. Local bank profitability remains higher than at the group level.

Czech banks report that overall lending standards became slightly easier during the last six months, while the overall loan demand posted a net increase. Over the next six months, loan demand is expected to continue increasing at a moderate pace, as lending standards are expected to be neutral.

Behind the overall shift to easing on the credit supply side, the lending conditions for house purchase loans continued tightening during the last six months and are expected to get tighter in the next six months. This development is in line with the banks adjusting to the recent tightening of mortgage lending standards by the Czech National Bank. Credit conditions for consumer credit got tighter as well during the last six months. Credit conditions for large firms and SMEs remain accommodative to neutral.

Demand for credit in the Czech Republic increased overall during the last six months. Large corporates and SMEs continued experiencing healthy demand for loans. On the other hand, demand for house purchase loans was unchanged and is expected to weaken over the next six months.

Access to funding for banks in the Czech Republic improved during the last six months and is expected to remain favourable over the next six months, albeit less than in the CESEE region as a whole. Retail and corporate deposit funding continue contributing to the healthy funding base of the Czech banking sector.

NPL figures reportedly posted a strong improvement during the last six months. The overall NPL ratio is expected to decrease in the next six months.

Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)
Results of the Bank Lending Survey – Parent banks level

Local bank profitability in comparison to overall group operations remains favourable and has improved from six months ago. More banks in the Czech Republic report higher or equal profitability than the overall group.

The favourable profitability performance is translated into the parent banks’ perception of high market potential in the Czech Republic and market positioning. In comparison to the previous six months, market potential and positioning as seen from parent banks’ perspective has improved. 80% of parent banks see high potential on the Czech market (compared to 60% six months ago).

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

Aggregate demand developments

Net increases in the overall loan demand levelled off in the last six months; 20% of Czech banks on a net basis reported an increase in overall loan demand (compared to 40% in the previous wave of the survey). The same demand-side dynamics are expected over the next six months.

Credit demand in the Czech Republic is currently running at a slightly softer pace than the CESEE average.
As Czech banks have been adjusting to the recent prudential tightening for mortgages, demand for house purchase loans remained unchanged during the last six months. It remains the only segment that is expected to record a net decline in the next six months, in contrast to a net increase for the CESEE region as a whole. On the other hand, large firms and SMEs have posted an increase in loan demand and this development is expected to continue. Consumer credit demand remains vibrant.

As for the factors affecting demand for loans in the Czech Republic, firm fixed investments continue having a positive influence on loan demand. Consumer confidence had a positive impact on loan demand over the last six months and is also expected to exert a positive influence over the next six months. Housing market prospects had a neutral impact on loan demand during the last six months, and are expected to make a negative contribution to credit demand over the next six months.
Over the last six months, the quality of loan applications has been broadly stable, in contrast with the CESEE region as a whole where the quality of loan applications has been experiencing a broad-based improvement. The two segments that registered a deterioration in the quality of loan applications in the last six months were loans to SMEs and consumer credit.

Credit standards in the Czech Republic became slightly more accommodative in the last six months. The expectations series points to more neutral credit conditions over the next six months.
While overall credit standards eased during the last six months, the credit conditions for house purchase loans and consumer credit tightened. Credit standards are expected to tighten further for house purchase loans over the next six months. Credit standards for house purchase loans are currently perceived as tighter than the CESEE average. On the other hand, lending conditions for SMEs eased during the last six months.

Source: EIB – CESEE Bank Lending Survey
Note: Net percentages; positive figures refer to easing supply conditions. See Question B.Q1 in the Annex

As with credit conditions, while the overall banks’ loan approval rate increased during the last six months, the approval rate for house purchase loans and consumer credit decreased. A further net decrease in the loan approval rate for house purchases is expected over the next six months. On the other hand, the approval rate for loans to SMEs and large corporations continued increasing during the last six months.

Source: EIB – CESEE Bank Lending Survey
Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex
Figure 9  Factors contributing to supply conditions

In line with the recent macro-prudential tightening, changes in local regulation continue being the dominant factor contributing negatively to credit supply conditions in the Czech Republic. On the other hand, both the local as well as the group/global outlook made a positive contribution to credit supply conditions, together with local NPL figures.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex.
The total NPL reduction in the Czech Republic bounced back to a strong pace during the last six months, in line with the CESEE average. Over the next six months, the total NPL ratio is expected to decrease further.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage; negative figures indicate increasing NPL ratios. See Question B.Q8 in the Annex

Access to funding of Czech banks improved during the last six months. It is expected to improve further over the next six months. Retail and corporate funding remained the strongest positive contributions to total funding.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex
Hungary

The Hungarian market continues to be characterised by rapidly increasing credit demand. Supply conditions have also been improving, but they are lagging behind demand. Parent banks’ assessment of market potential is positive, yet below that of the Visegrad peers.

Summary

Group assessment of positioning and market potential: The overwhelming majority of parent banks consider the Hungarian market to have medium potential, which puts the country somewhat behind the rest of the four Visegrad peers. The majority of banking groups find that their position in the Hungarian market is satisfactory or optimal, yet one-third of the groups find their positioning weak. Risk-adjusted returns on equity and assets are on average equal to or higher than those seen in the groups’ other operations.

Hungarian banks report that credit demand has been improving dynamically over the last six months, while the improvements in credit supply conditions have been more moderate.

Overall, credit supply conditions have improved in the last six months, significantly above the rest of the CESEE region. Nevertheless, banks do not expect to see further improvements in the coming months.

Demand for loans has at the same time been increasing dynamically across the whole spectrum of products and segments over the last six months, especially in the retail segments: housing, consumer credit and SMEs.

Access to funding: Overall access to funding improved in line with the CESEE region as a whole. The improvement is due chiefly to domestic retail sources. The funding landscape is expected to improve further in the next six months.

NPL ratios have been improving in an unequivocal manner in both the corporate and retail segments.
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Hungary show commitment towards the region. Two-thirds of the banking groups present in the country plan to selectively expand their operations in the CESEE region, while the rest of the groups indicate that they will maintain their presence at the current level.

The overwhelming majority of parent banks consider the Hungarian market to have medium potential, which puts the country somewhat behind the rest of the four Visegrad peers, but ahead of Slovenia.

The majority of the banking groups find that their position in the Hungarian market is satisfactory or optimal, yet one-third of the groups find their positioning weak. Most parent banks find that risk-adjusted returns on assets and equity are equal to or higher than those seen in other operations of the group.

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

Aggregate demand developments

Hungarian banks continued to report strong improvements in credit demand in the past six months, somewhat above their previous expectations. Furthermore, they expect further increase in demand in the forthcoming period.

Both the data referring to the past and the change expected by the financial institutions in the next six months generally suggest the dynamics of the demand for loans in Hungary continue to be well above those in the rest of the CESEE region, where the data suggest a somewhat more moderate increase in credit demand.
Increasing demand is observed in all market segments and sub-categories. Demand is expected to strengthen even more for mortgages and consumer loans. Loan demand is more dynamic for longer maturities than for short-term banking products. While a strong preference exists for borrowing in Hungarian forint versus foreign currency denominated loans, banks continue to report a moderate, yet positive demand for foreign currency loans, too.

When looking at the individual factors, both investment and working capital have been driving the demand for loans in the corporate sector. Demand related to acquisitions and restructuring has been modest, while demand related to debt restructuring has been slightly negative.

As for households, all listed components – housing market expectations, consumer confidence, and consumption expenditure – have been providing strong stimulus to loan demand.
Quality of loan applications

The overall perceived quality of loan applications has improved in the last six months, except for large corporates where the banks have not perceived any change. Banks operating in Hungary expect further positive developments in the coming months for SMEs and consumer credit, and a decline in the quality of applications by larger corporates.

When it comes to the quality of applications for FX-denominated loans, banks report a decline, and they expect further deterioration in the coming period.

Aggregate supply developments

Credit supply conditions have shown moderate improvements in Hungary over the last six months. The improvement was in line with the banks’ own expectations. Looking ahead, banks are expecting to see credit supply stagnate in the near future.

While still lagging behind the demand side, credit supply conditions have been significantly more dynamic in Hungary than in the rest of the CESEE economies, where credit supply conditions are broadly stagnating. Looking ahead, however, the expected stagnation in supply is in line with the CESEE average.

Source: EIB – CESEE Bank Lending Survey

Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex
Although credit supply conditions have been improving in all segments, the strongest positive developments can be observed for loans to SMEs and for mortgages. Credit supply conditions for large companies have improved only marginally in the last six months. Supply conditions for foreign currency loans have not changed. Looking ahead, lending growth is forecast to remain high for SMEs, but a slowdown is expected in the other segments. Improvements in credit supply exceeded the CESEE average in all categories.

Source: EIB – CESEE Bank Lending Survey

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

The approval rates of credit applications have improved overall. Strong improvements have been reported for SMEs and mortgages, while for large corporates and consumer credit the approval rates have stagnated. The increase in approvals was pronounced for local currency loans, while in the FX-denominated segment approvals declined. These developments are broadly in line with the CESEE average, but more pronounced.

Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex
Figure 9  
Factors contributing to supply conditions

Domestic factors have been contributing mainly positively to credit supply, while international factors have been neutral on average. The local outlook, funding conditions, and non-performing loans are pointing towards increasing supply. Local regulation is having a neutral effect. Looking ahead, banks do not expect further large improvements in the domestic factors, except in the case of NPLs.

On the international side, the group outlook is having a positive impact on credit supply.

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex.
Figure 10  Non-performing loan ratios

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

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

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage; negative figures indicate increasing NPL ratios. See Question B.Q8 in the Annex.

Figure 11  Access to funding

In line with developments in the rest of the CESEE, overall access to funding for Hungarian banks has improved over the last months. The strongest contributor is domestic funding. Improvements are most pronounced for longer-term funding in local currency.

Looking ahead, banks expect the improvements in access to funding in the corporate, retail and intra-group segments to continue.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex.
Kosovo

A small but profitable market with medium to low market potential. Credit demand remains strong, supported by easy credit standards. Banks’ access to funding bounced back.

Summary

**Group assessment of positioning and market potential:** Half of the parent banks operating in Kosovo see medium market potential; the other half sees only low market potential. Their market positioning is regarded as optimal. The profitability of all local banks is above that of overall group operations.

**Credit demand** increased steadily during the last six months. **Credit supply** conditions continue easing. Over the next six months, a broadly similar picture is expected to emerge.

During the last six months, **credit supply** conditions eased for consumer credit, but became tighter for large corporate loans. Banks’ loan approval rate increased for consumer credit, house purchase loans and SME loans. However, the banks’ loan approval rate decreased for large corporate loans. The expectations concerning credit standards and the loan approval rate for large corporate loans are mixed for the coming six months.

A favourable economic environment in Kosovo added to a growing **demand for loans** during the last six months. With the exception of house purchase loans – demand for which decreased – all other loan segments registered a net increase in loan demand during the last six months. Looking ahead, demand for house purchase loans is expected to increase again, but demand for large corporate loans is expected to decrease.

**Access to funding** improved during the last six months, and a further improvement is expected over the next six months. Intra-group and IFI sources, as well as corporate and retail deposits, registered an increase in terms of access to funding.

**NPL figures** declined during the last six months and this favourable trend in NPL reduction is expected to continue.
Results of the Bank Lending Survey – Parent banks level

The profitability of local banks in Kosovo remains above the overall group levels. 50% of parent banking groups regard the market potential as medium and all parent banks see their current market positioning as optimal. Compared to the previous wave, there is an increase in parent banks that see a low market potential (50% vs 0% in the last wave of the survey).

![Market potential and positioning](image)

Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q1. (*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

Aggregate demand developments

After being rather volatile for a while, credit demand in Kosovo registered its third-in-a-row net increase during the last six months. The expectations point towards further increases in credit demand over the next six months. These developments are broadly in line with the CESEE average.

![Demand side developments](image)

Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moreover, the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.
During the last six months, credit demand increased across the board for most loan segments. The only exception was demand for house purchase loans, which registered a net decrease. Over the next six months, further broad-based strengthening in credit demand is expected, with the exception of demand for large corporate loans, which is expected to decrease.

Source: EIB – CESEE Bank Lending Survey.

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

During the last six months, both firm- and household-related factors had a positive impact on demand for loans. In particular, firms’ fixed investment as well as inventories and working capital build-up contributed strongly to demand for loans, above the CESEE average. In the next six months, while firm-related factors are expected to have a neutral impact on loan demand, household-related factors are expected to impact loan demand favourably.

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex
Figure 5  Quality of loan applications

The overall quality of loan applications improved during the last six months, above the CESEE average. Further strong improvements in the overall quality of loan applications is also expected in the next six months. The quality of applications for house purchase loans and consumer credit keeps on improving.

Source: EIB – CESEE Bank Lending Survey
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit supply conditions in Kosovo have been accommodative since 2016. Further easing in credit standards is also expected over the next six months, albeit at a slightly more modest pace. Credit standards in Kosovo have recently been easier than the CESEE average.

Source: EIB – CESEE Bank Lending Survey.
Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moreover, the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.
Figure 7 Supply components and segments

During the last six months, credit conditions eased strongly for consumer credit, but tightened for large corporate loans. Looking ahead, credit standards are expected to ease for loans to SMEs and large corporate loans over the next six months.

Source: EIB – CESEE Bank Lending Survey

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

Figure 8 Credit supply: banks’ (local subsidiaries’) approval rate for loan applications

During the last six months, the overall banks’ approval rate increased, with particular improvements for house purchase loans and consumer credit and a smaller improvement for SME loans. On the other hand, the banks’ approval rate for large corporate loans declined and a further decline is expected.

Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex
The local market outlook and local bank outlook as well as local NPL figures contributed positively to credit supply conditions in Kosovo during the last six months. Group funding also exerted a favourable impact. Over the next six months, while the local bank outlook and local NPL figures will remain accommodative, the local market outlook, group funding and EU regulation are expected to have a negative impact on lending conditions in Kosovo.

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex.
NPL reduction was strong during the last six months in Kosovo, particularly on the back of declining corporate NPLs. On the retail side, the NPL reduction stabilised and there is the expectation of a net decrease in the retail NPL ratios over the next six months.

Source: EIB – CESEE Bank Lending Survey.

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

Access to total funding for banks in Kosovo improved during the last six months and further improvement is expected in the next six months. Better access to funding came predominantly from intra-group sources, IFIs and corporate deposits. Retail deposits also contributed positively to banks’ funding.

Source: EIB – CESEE Bank Lending Survey.

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

A profitable market with medium potential. Credit demand is increasing broadly while credit standards are accommodative across all loan categories.

Summary

Group assessment of positioning and market potential: All parent banking groups operating in North Macedonia regard the market potential as medium and their market positioning is seen as mostly satisfactory. Local banks’ profitability is on balance better than the overall group operations.

During the last six months, credit demand increased, in line with the CESEE average, and credit supply conditions became easier, surpassing the CESEE average. Further strengthening of credit demand on the back of neutral credit standards is expected over the next six months.

Credit supply conditions eased broadly across all loan segments during the last six months. The loan approval rate increased during the last six months. Credit standards are expected to remain unchanged over the next six months, supporting further credit growth.

Demand for loans increased across all loan segments during the last six months on the back of strong credit demand from both households and companies. Further strengthening of overall credit demand is expected over the next six months. The quality of loan applications improved for loans to SMEs and large corporate loans during the last six months.

Access to funding for local banks improved and the favourable trend is expected also in the next six months, mainly thanks to improving access to retail and corporate funding. Access to intra-group funding started to deteriorate.

NPL ratios increased slightly during the last six months. Overall, NPL reduction is expected to regain pace over the next six months.
Results of the Bank Lending Survey – Parent banks level

75% of the parent banking groups operating in North Macedonia regard their current market positioning as satisfactory. All parent banks see the market potential in North Macedonia as medium.

The majority of local banks in North Macedonia reported profitability equal or exceeding the profitability of the overall group operations.

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

Aggregate demand developments

Credit demand in North Macedonia increased during the last six months, slightly above the CESEE average.

Looking ahead, demand for loans is expected to increase further over the next six months, far surpassing the CESEE benchmark.
The net increases in loan demand were more evenly distributed across households and firms during the last six months in comparison to the previous wave of the survey. Broadly similar, although stronger, development in credit demand is expected over the next six months, supporting a picture of a continued broad-based strengths in credit demand.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Similarly to the previous wave of the survey, a healthy credit demand related to firm investment as well as housing market prospects and consumer confidence is pushing the overall loan demand upwards. These factors are expected to support loan demand during the next six months, too.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex
The quality of loan applications in North Macedonia was unchanged during the last six months and it is expected to improve over the next six months. The quality of the applications for loans to SMEs and large corporate loans improved during the last six months. Over the next six months, the largest improvements in the quality of loan applications are expected for loans to SMEs and consumer credit.

Source: EIB – CESEE Bank Lending Survey
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Credit standards eased strongly during the next six months, surpassing the CESEE average. Looking ahead, overall credit standards in North Macedonia are expected to remain unchanged over the next six months.

Source: EIB – CESEE Bank Lending Survey.
Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moreover the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.
Credit standards eased broadly for all loan categories during the last six months. Over the next six months, credit standards are expected to remain unchanged for all loan categories except consumer credit that is expected to witness further easing of credit standards.

Source: EIB – CESEE Bank Lending Survey

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

Banks’ loan approval rate in North Macedonia increased strongly again across most loan segments during the last six months, and above the CESEE average. The increases in the loan approval rate are expected to be less pronounced over the next six months, although still above the CESEE average. The exception is house purchase loans, where the approval rate is expected to be flat over the next six months.

Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex
Global market outlook was again the only negative factor contribution to the local credit supply conditions during the last six months and it is expected to remain negative over the next six months. Domestic factors remained supportive during the last six months and are expected to contribute positively to local credit supply conditions also over the next six months. Changes in local regulation are the only factor expected to contribute negatively to credit conditions in North Macedonia over the next six months, in line with the overall CESEE development.

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex
Total NPL ratios were assessed to be on a rise slightly during the last six months. While NPL reduction was seen as strong for retail loans, the NPL ratio increased for corporate loans.

Over the next six months, total NPL ratios are expected to decrease in North Macedonia, more predominantly for corporate loans.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage; negative figures indicate increasing NPL ratios. See Question B.Q8 in the Annex

Access to total funding improved in North Macedonia during the last six months and it is expected to register further improvement over the next six months. Retail and corporate deposits were the strongest contributors to the improved funding conditions of banks in North Macedonia. Access to intra-group funding deteriorated during the last six months, and further worsening is expected over the next six months.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex
Parent banks have a heterogeneous view on the Polish banking market’s potential and relative profitability, as well as on their own positioning in the market. Credit demand has been stagnating for the second semester in a row. Supply conditions are also unchanged.

Summary

Group assessment of positioning and market potential: Parent banks operating in Poland show commitment towards the region. About two-thirds of them have positive views on the potential of the Polish market. However, parent banks operating in Poland have heterogeneous views about their current market positioning. The diversity of the views extends also to the banks’ assessment of risk-adjusted returns relative to the regional peers.

Polish banks report that credit demand has been stagnating for the last year, while supply conditions have been broadly unchanged for an even longer period.

Credit supply conditions also continued to be neutral in the last six months, in line with the rest of the CESEE region. Looking ahead, Polish banks expect the neutral stance for credit supply to continue.

Credit demand stagnated again for the second semester in a row. Credit demand is lagging behind the dynamics observed in the CESEE region, but the stagnation is in line with the banks’ own past expectations. Looking ahead, banks expect further stagnation, well below the overall CESEE outlook.

On aggregate, Polish banks’ access to funding has been slightly deteriorating in the last six months.

NPLs have been described as unchanged in all segments. However, banks expect NPL ratios to deteriorate for households and corporates in the months ahead.
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Poland show commitment towards the region and plan to maintain their regional operations at their current level.

The strong commitment aside, parent banks have heterogeneous views on the market potential of the Polish market within the CESEE region. One-third of them report it to be low, while two-thirds believe the market’s potential to be high. Parents have even more diverging views about their own current market positioning, and the relative profitability of their Polish operations compared to the regional peers (Figure 1).

![Market potential and positioning](image)

Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q1. (**) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

Aggregate demand developments

Credit demand in Poland continued to remain stable over the last six months. While credit dynamics are slowly moderating throughout the CESEE region, the Polish market has been showing a significantly more pronounced slowdown. The stagnation of credit demand is in line with the banks’ own expectations formed six months ago.

Looking ahead, Polish banks are expecting the stagnation of demand to continue. This is a more pessimistic outlook than the CESEE average (Figure 2).

![Demand side developments](image)

Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moreover, the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.
Figure 3  Demand components and segments

While demand for housing loans and consumer credit has been showing significant increases, credit demand by both large and smaller companies has been decreasing.

Looking ahead, demand is expected to mildly increase further in the consumer credit segments, while the banks are expecting a decline in all other areas (Figure 3).

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex

Figure 4  Factors affecting demand for loans

Consumer confidence, together with housing market prospects and non-housing-related consumption expenditure, has been improving in the last six months, thus supporting credit demand from the households side. On the corporate side, most components of demand have been neutral. Investment demand, however, has been contributing negatively.

Looking ahead, banks expect mild positive developments in the factors affecting households, while they have a neutral view for the enterprise segment (Figure 4). This cautious optimism is broadly in line with the rest of the CESEE.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage - positive figures refer to a positive contribution to demand. Full question see B.Q7 in the Annex
The quality of loan applications has been improving for consumer credit, whereas in other segments it has been stagnating. Looking ahead, further strong improvements are expected in the consumer credit segment.

Elsewhere in the CESEE region, banks report mild improvements in the quality of loan applications across all segments.

Credit supply conditions in Poland continued to be neutral in the last six months, in the same way as in the past three years. These supply developments are in line with the close-to-neutral situation in the overall CESEE region. The stagnating credit supply is also in line with the banks’ own expectations formulated six months ago.

Looking ahead, Polish banks expect the overall neutral credit supply situation to continue in the future.
**Figure 7  Supply components and segments**

The supply of loans to Polish SMEs has been declining, and lending to larger corporates has been stagnating. When it comes to households, the supply of consumer credit products has increased somewhat over the course of the last six months.

Looking ahead, banks on average expect a neutral to negative supply situation for both corporates and households. The overall picture represents a marginally more pessimistic outlook relative to the CESEE average.

**Figure 8  Credit supply: banks’ (local subsidiaries’) approval rate for loan applications**

Loan approval rates have been broadly stagnating, except for SMEs where a decline was reported by the banks. Looking ahead, banks expect approval rates to remain at their current levels. The only segment with a positive outlook is consumer credit. The picture contrasts with other CESEE markets, where approval rates increased, and are expected to continue to do so.
Polish banks see the majority of factors behind credit supply to be neutral to slightly negative, and they expect them to remain so in the coming months too. The local market outlook had a mild negative effect on credit supply, together with local bank capital constraints.

According to the banks, local NPL figures are expected to have a negative impact in the coming months.

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex.
In the banks’ own perception, NPL figures in Poland have been stagnating in the last six months. Stagnation has been reported both in the retail segment and for corporate clients.

The reported developments go against the trend observed in the rest of the CESEE. Nevertheless, Poland’s NPL ratio is already well below the regional average.

Looking ahead, a marked deterioration is projected for non-performing loans in Poland. The decline is expected to be stronger in the retail segment and somewhat less pronounced in the corporate sector.

Source: EIB – CESEE Bank Lending Survey.

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

Polish banks’ total access to funding has deteriorated somewhat in the last six months. A worsening of funding conditions was reported in the corporate and interbank funding segments, as well as in funding from international financial institutions. Nevertheless, retail funding conditions are reported to be improving (Figure 11).

Looking ahead, however, the funding picture is slightly more positive for the next six months.

Source: EIB – CESEE Bank Lending Survey.

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

Second best market potential in the region. Credit demand remained positive but the consumer segment shows weakening dynamics. Supply conditions tightened, particularly for consumer loans. NPLs improved.

Summary

Group assessment of positioning and market potential: Seventy percent of the parent banks consider Romania a market with high potential. This is the second highest score among the CESEE countries. Assessment of market positioning remains divided with about 50 percent considering positioning satisfactory or optimal but also 40 percent describing their position as weak. Still more than half of respondents find profitability higher or equal in Romania compared to group operations.

Credit demand has increased over the past six months surpassing prior expectations and current regional developments despite weakening economic growth in Romania. On the other hand, supply conditions have tightened again on balance.

Credit supply tightened in the past six months. Stricter credit standards were recorded across all segments except for loans to SMEs. Looking ahead, credit conditions are expected to stay unchanged for households but ease for corporate clients. Domestic regulatory changes were again perceived as limiting supply and banks expect them to remain a limiting factor for the upcoming months.

Increased aggregated demand for loans is driven by developments in the corporate segment. Despite economic cooling and interest rate hikes in 2018, demand for credit is still expected to grow for corporates in the next six months.

Access to funding has become more difficult on balance, contrasting with the regional trend. Intra-group funding deteriorated the most. Looking ahead, banks expect the overall access to funding to improve again on balance.

NPL figures improved further both in corporate and retail segments largely in line with the regional trend.

Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply); Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios.
Views on the market potential and positioning in Romania are broadly in line with the last release of the survey but assessment of profitability is less upbeat. Exactly half of parent banks report higher RoE on domestic operations compared to overall group results (-13pp compared to H1 2019) and 38 percent report higher RoA (-12pp). While the share of banks reporting lower returns remained constant, more banks see profitability as on par with the region.

Views on market positioning show divisions among competitors. While 40 percent of respondents report satisfactory market positioning (+4 pp) a similar share finds it weak (-5pp).

With 70 percent of banks considering Romania as a market with high potential, Romania ranks second among CESEE peers. Structural characteristics – country size and low levels of financial penetration (25 percent of GDP) – add to the market’s attractiveness.

Results of the Bank Lending Survey – Parent banks level

Credit demand in Romania is reported to have increased over the last six months, continuing to grow and surpassing banks’ expectations stated in the last round. The trend towards increasing demand still seems to continue on balance.

For the next six months, banks continue to expect an increase in credit demand in Romania, albeit coming in line with the CESEE average.

Credit demand recovery has been lagging behind the economic cycle. While Romania registered robust growth in the last four years, reaching a post-crisis high in 2017 (almost +7 percent GDP increase) growing demand for loans started to be visible since end-2016. After a period of contraction and subdued lending activity since 2013, credit growth for corporates started to increase in the second half of 2017, with accelerated annual dynamics in 2019 (about +7 percent Q1-Q3). Credit to households continued to grow faster than for corporates.

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

Aggregate demand developments

Credit demand in Romania is reported to have increased over the last six months, continuing to grow and surpassing banks’ expectations stated in the last round. The trend towards increasing demand still seems to continue on balance.

For the next six months, banks continue to expect an increase in credit demand in Romania, albeit coming in line with the CESEE average.

Credit demand recovery has been lagging behind the economic cycle. While Romania registered robust growth in the last four years, reaching a post-crisis high in 2017 (almost +7 percent GDP increase) growing demand for loans started to be visible since end-2016. After a period of contraction and subdued lending activity since 2013, credit growth for corporates started to increase in the second half of 2017, with accelerated annual dynamics in 2019 (about +7 percent Q1-Q3). Credit to households continued to grow faster than for corporates.

Note: See question A.Q1. (*) 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.
Figure 3  Demand components and segments

Aggregated demand for loans in Romania has increased on balance in the last six months. Both large corporations and SMEs contributed to the positive move. In contrast, the household segment showed weaker demand. Demand for short-term financing was stronger than for longer-term loans with increases again above the regional average. Appetite for foreign currency lending rebounded and demand for funds in local currency remained strong. Looking ahead, growth in credit demand is expected to continue. Views are most positive for funds in local currency, short-term credit and lending to corporates.

Figure 4  Factors affecting demand for loans

The corporate segment has been the key driver of demand over the last six months. On the enterprise side, banks recorded the strongest demand for fixed investment and inventories and working capital, continuing developments of the previous wave. In the household segment, the contribution of housing turned negative. However, looking ahead, demand for the consumer loan segment is expected to remain subdued and below expectations for the CESEE average, pointing to some cool-down after a period of accelerated dynamics. In contrast, the outlook for the demand in the corporate segment remains optimistic on balance, indicating particularly strong demand for fixed investments.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentages - positive figures refer to increasing demand. Full question see B.Q5 in the Annex
Figure 5  Quality of loan applications

The quality of loan applications in Romania has strongly improved overall, surpassing the general positive trend in the region. Credit to corporates and in the household segment record similar improvements. Improvements are particularly pronounced for short-term and foreign currency loan applications. The overall quality strengthening is expected to continue in the near future, supported by all segments. Notably, banks expect strong improvements in the quality of loan applications by for house purchases, consumer credit and short-term loans over the next six months.

Source: EIB – CESEE Bank Lending Survey
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

The tightening of credit supply conditions has slowed in the past six months. Developments in Romania have started to align with the regional trend. On average, banks in CESEE are keeping supply conditions unchanged.

In Romania, credit standards have tightened on a cumulative basis since 2015 – having contrasted for a prolonged period with expectations. Banks had started to revise their outlook downward since 2017, also reflecting moves towards monetary tightening.

The outlook is slightly more positive for the next six months. Divergences between supply expectations of banks in Romania and the CESEE region appear to narrow further according to banks’ expectations. Banks in Romania are for the first time since 2017 more positive than peers in the CESEE region and even expect a slight easing on balance.

Source: EIB – CESEE Bank Lending Survey.
Note: See Question B.Q1 in the Annex - Net percentages - positive figures refer to easing supply. Moreover the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.
Stricter credit standards were recorded across all credit segments with the exception of loans for SMEs. Changes were again most pronounced for consumer loans. Supply conditions to corporates tightened at a slower pace diverging from the regional trend. Lending across different maturities saw accelerated tightening. Tightening conditions were more pronounced for lending in RON than in foreign currency contrasting with H2 2018. Looking ahead, credit conditions are expected to stay unchanged for households but ease for corporate clients.

Source: EIB – CESEE Bank Lending Survey

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

Overall approval rates continued to increase during the last six months. In particular, getting loans got easier for corporates. Higher approval rates are similarly reported for lending with different maturities. In the household segment, however, banks again lowered approval for credit. Looking ahead, banks appear set to approve loans more easily for both corporates and households, at longer maturities and in local currency. In contrast, banks take a stricter view on approval of short term credit and loans in foreign currency for the upcoming months.

Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex
Figure 9  Factors contributing to supply conditions

While most of the domestic and international factors played a facilitating role in easing credit standards, changes in local regulation contributed negatively. Also, domestic regulation was a negative contributor in Romania more so than across the region, likely reflecting ad-hoc regulatory changes (emergency ordinance 114) and related uncertainties since the start of the year in the sector. Internationally, a positive global market and group outlook, group funding and lower NPLs showed the strongest positive contribution over the last six months. Looking ahead, the negative impact of changes in local regulation is expected to remain a negative for supply in Romania and across the CESEE region.

Source: EIB – CESEE Bank Lending Survey.
Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex.
NPL figures in Romania have been described as improving further both in the corporate and retail segments. While the pace of improvement decelerated compared to the previous releases of the survey, it surpassed banks’ expectations stated in H1 2019.

The non-performing loan ratio in Romania reached 4.7 percent at the end of Q2 2019, a level below the EBA threshold of 8 percent, i.e. within the EBA-defined medium-risk bucket.

NPL ratios in the past six months again recorded stronger decreases in the corporate segment. Looking ahead, further improvements are expected for both segments albeit at a slower pace.

Source: EIB – CESEE Bank Lending Survey.

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

Figure 10  Non-performing loan ratios

On balance, access to funding has slightly worsened for banks in Romania over the past months. In particular, tapping intra-group funding became more difficult. In contrast, access to retail funding again became easier. Similarly, access to funding in foreign currency improved. For the months ahead, banks expect the overall access to funding to improve again even though banks in Romania are less optimistic than peers in the region.

Source: EIB – CESEE Bank Lending Survey.

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

Figure 11  Access to funding
Serbia

Healthy growth in credit demand on the back of broadly neutral credit standards. Overall NPL reduction continues. Access to funding has improved.

Summary

Group assessment of positioning and market potential: The majority of parent banking groups operating in Serbia regard the market potential as medium, and their market positioning is seen as mostly satisfactory. Local banks’ profitability is on balance better or equal to that of the overall group.

During the last six months, credit demand increased, above the CESEE average, while credit supply conditions became slightly more accommodative. With credit standards remaining broadly neutral and loan demand growing robustly, the ongoing credit expansion could be seen in the more healthy parts of the credit market.

Credit supply conditions eased for loans to SMEs and house purchase loans during the last six months. On the other hand, they tightened for consumer credit and foreign currency loans. Loan approval rates were unchanged, with mixed developments.

Demand for loans increased across all loan segments during the last six months, with once again particularly strong growth of loan demand from larger corporates and SMEs. Fixed investments and housing market prospects were the strongest factors behind the growth in loan demand. A broadly similar trend is expected in the next six months. The quality of loan applications increased, particularly for consumer credit.

Access to funding for local banks increased during the last six months (above the CESEE average) and is also expected to remain favourable in the next six months. Access to retail and corporate funding as well as to intragroup funding continues to be robust.

The positive trend in NPL reduction has continued for corporate and retail loans in the last six months. Retail NPL reduction is expected to turn negative in the next six months.
Results of the Bank Lending Survey – Parent banks level

80% of parent banking groups see medium to high market potential in Serbia and 70% regard their current market positioning as satisfactory to optimal.

In terms of profitability, 63% (76%) of local banks report a higher or equal return on assets (return on equity) compared to the overall group operations.

![Market potential and positioning chart](chart1)

Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q1. (*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

Aggregate demand developments

Loan demand in Serbia increased during the last six months, and expectations point to a further increase in loan demand over the next six months.

Both the currently perceived and the expected credit demand series in Serbia have been steadily above the CESEE averages.

![Demand side developments chart](chart2)

Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moreover, the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.
Demand for loans in Serbia increased again across the board during the last six months and a further strengthening is expected over the next six months. In comparison to the CESEE average, loan demand in Serbia is particularly strong for loans to SMEs and large corporate loans. Over the next six months, demand for consumer credit is the only segment that is expected to be unchanged.

The firm-related factors affecting credit demand in Serbia contributed positively in the last six months and further strengthening is expected in the next six months. Debt restructuring had a slightly negative impact on credit demand. The contribution of fixed investment (on the firms side) and housing market prospects (on the households side) were stronger than the CESEE average.
The overall quality of loan applications improved broadly across all segments in the last six months and this trend is expected to continue. The improvement in the quality of loan applications during the last six months was smaller than in the previous wave of the survey, and more in line with the CESEE average.

Aggregate supply developments

During the last six months, credit standards returned to having a more accommodative impact and being closer to the CESEE average. The expectation series points to slightly tighter credit standards over the next six months. The growth in loan demand since 2015 has so far been supported by broadly neutral credit standards.
While credit standards eased during the last six months for loans to SMEs and house purchase loans, they tightened for consumer credit and foreign currency loans. Over the next six months, credit standards are expected to tighten more broadly.

Source: EIB – CESEE Bank Lending Survey

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

The overall banks’ approval rate was unchanged during the last six months and is expected to increase in the next six months. The approval rate increased for loans to SMEs, large corporate loans and house purchase loans, but it decreased for consumer credit. Over the next six months, despite the overall improvement expected, the approval rate is expected to decrease for house purchase loans, consumer credit and foreign currency loans.

Source: EIB – CESEE Bank Lending Survey

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex
During the last six months, among the domestic factors, local bank capital constraints and changes in local regulation contributed negatively to credit supply conditions in Serbia. On the other hand, the impact of the local market and bank outlook was positive. International factors were broadly positive.

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex.
The NPL reduction was strong during the last six months, above the CESEE average. In particular, the NPL reduction for corporate loans continues to be strong. On the other hand, the NPL reduction for retail loans was below the CESEE average and is expected to turn negative.

Source: EIB – CESEE Bank Lending Survey.

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

Access to funding for banks located in Serbia increased strongly during the last six months, above the CESEE average. This trend is also expected to continue over the next six months. The main contributors to better access to funding remained intra-group and IFI funding as well as retail and corporate deposits.

Source: EIB – CESEE Bank Lending Survey.

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

Profitable market with stable domestic funding. Visible tightening of credit standards for house purchase loans, but demand for house purchase loans remains vibrant.

Summary

**Group assessment of positioning and market potential:** Despite some recent deterioration, the Slovakian banking sector remains marginally more profitable than the overall group global operations. Thanks to the profitable environment, the parent banking groups continue seeing high to medium market potential in Slovakia, and they regard their current market position as mostly optimal or satisfactory.

**Credit demand,** while weaker than before, bounced back to a small net increase during the last six months.

**Credit standards** have become tighter once again. As the National Bank of Slovakia tightened the macro-prudential standards further during the last six months, expectations point to further tightening of banks’ credit standards and weaker loan demand over the next six months.

**Demand for loans** declined predominantly for consumer credit, while it increased for house purchase loans and for loans to SMEs during the last six months. Housing market prospects continue to have a positive impact on credit demand.

**Credit supply conditions** tightened predominantly for house purchase loans and consumer credit during the last six months, and further tightening in these two loan segments is expected over the next six months. Credit standards for large corporate loans and for loans to SMEs were accommodative during the last six months, but are also expected to tighten over the next six months. The loan approval rate declined for house purchase loans during the last six months.

**Access to funding:** during the last six months, banks reported that in line with the CESEE average their access to funding improved, underpinned by progress across most categories.

**NPL ratios** declined during the last six months, and they are expected to remain unchanged over the next six months.

Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)
Results of the Bank Lending Survey – Parent banks level

The majority of parent banking groups operating in Slovakia regard the market potential as high to medium and their market positioning as optimal to satisfactory. There are no parent banks that regard their market positioning in Slovakia as weak.

The local bank profitability in Slovakia marginally surpasses that of the parent banking groups. However, this wave of the survey reveals a second consecutive decline in the share of banks that see their local bank profitability in terms of return on assets as higher than that of the overall group operations (40% currently versus 60% and 80% in the previous two waves). Correspondingly, more banks see their local bank profitability in terms of return on assets as lower than that of the overall group operations (40% currently versus 20% in the previous wave).

Figure 1  Market potential and positioning

![Market Potential and Positioning Chart]

Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q1. (*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

Aggregate demand developments

The demand for loans bounced back and recorded a small net increase during the last six months. Nevertheless, overall credit demand remains weak and is expected to decline in the coming six months. Both actual and expected demand for loans in Slovakia is perceived as weaker than the CESEE average.

Figure 2  Demand side developments

![Demand Side Developments Chart]

Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. Moreover, the two expectations series (circles and diamonds) are shifted forward so as to be comparable to the perceptions series (lines), i.e. expectations reported at time t for the next six months are plotted in the chart at time t+1.
Demand for house purchase loans and SME loans increased during the last six months, while demand for consumer credit decreased. Looking ahead, the weakness in credit demand in the coming six months is expected to come from loans to SMEs, large corporate loans and consumer credit.

Figure 3  Demand components and segments

Housing market prospects continue to make a positive contribution to credit demand in Slovakia, albeit less than the CESEE average. On the other hand, consumer confidence is deteriorating as a factor affecting credit demand. Demand by firms for loans for fixed investments also contributed negatively to credit growth and is expected to be the major negative factor in the next six months.

Figure 4  Factors affecting demand for loans
The quality of loan applications was unchanged during the last six months and is expected to remain unchanged going forward, while the quality of loan applications has been improving in the CESEE region overall. The only two segments that registered an improvement in the quality of loan applications over the last six months were loans to SMEs and short-term loans.

Aggregate supply developments

Credit standards continued tightening over the last six months and further tightening is expected in the next six months. This is in line with the ongoing macro-prudential tightening by the central bank. Credit conditions in Slovakia are tighter than the CESEE average.
Figure 7  Supply components and segments

Credit standards tightened most for house purchase loans and consumer credit, and these two segments are expected to experience further tightening of lending conditions over the next six months. On the firms side, while credit standards for loans to SMEs and larger corporates eased during the last six months, they are also expected to register net tightening over the next six months.

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

Figure 8  Credit supply: banks’ (local subsidiaries’) approval rate for loan applications

The overall banks’ loan approval rate in Slovakia continues to decline, in contrast to an overall improvement in the loan approval rate for the CESEE as a whole. The main drivers of this decline in Slovakia have been large corporate loans, house purchase loans and consumer credit. The loan approval rate for house purchase loans is expected to further decline over the next six months.

Note: Net percentage; positive figures refer to higher approval rates. See Question B.Q2 in the Annex
Changes in local regulations and local bank capital constraints once again had the biggest negative impact on local credit supply conditions in Slovakia. The same negative impact of these two factors is predicted over the next six months as well. On the other hand, the local bank outlook and local bank funding as well as local NPL figures contributed favourably to credit supply conditions in Slovakia during the last six months.

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex.
**Figure 10  Non-performing loan ratios**

Total NPL reduction in Slovakia was strong during the last six months. The NPL figures are expected to be unchanged during the next six months. While the retail NPL ratio is expected to decrease, the NPL ratio for corporates is expected to worsen in the next six months.

Source: EIB – CESEE Bank Lending Survey.

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

**Figure 11  Access to funding**

Total funding for banks improved during the last six months in Slovakia, in line with the CESEE region as a whole. The improvement in access to funding was broad-based across the different categories. Looking ahead, access to intra-group funding and retail deposits is expected to improve over the next six months, while access to IFI funding is expected to worsen.

Source: EIB – CESEE Bank Lending Survey.

Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex.
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</tr>
<tr>
<td>2023Q4</td>
<td>-15</td>
<td>40</td>
<td>21</td>
<td>-25</td>
<td>38</td>
<td>-25</td>
<td>36</td>
<td>86</td>
<td>48</td>
<td>-43</td>
<td>-45</td>
<td>62</td>
<td>23</td>
</tr>
<tr>
<td>2024Q1</td>
<td>-21</td>
<td>38</td>
<td>12</td>
<td>-20</td>
<td>28</td>
<td>-59</td>
<td>26</td>
<td>76</td>
<td>45</td>
<td>-30</td>
<td>-65</td>
<td>54</td>
<td>17</td>
</tr>
<tr>
<td>2024Q2</td>
<td>-12</td>
<td>29</td>
<td>00</td>
<td>-15</td>
<td>41</td>
<td>-44</td>
<td>26</td>
<td>65</td>
<td>33</td>
<td>-34</td>
<td>-49</td>
<td>54</td>
<td>15</td>
</tr>
<tr>
<td>2024Q3</td>
<td>-17</td>
<td>19</td>
<td>07</td>
<td>-25</td>
<td>24</td>
<td>-16</td>
<td>29</td>
<td>38</td>
<td>30</td>
<td>-34</td>
<td>-46</td>
<td>48</td>
<td>12</td>
</tr>
<tr>
<td>2024Q4</td>
<td>10</td>
<td>17</td>
<td>10</td>
<td>-47</td>
<td>19</td>
<td>-54</td>
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<td>38</td>
<td>21</td>
<td>-12</td>
<td>-05</td>
<td>44</td>
<td>06</td>
</tr>
</tbody>
</table>

Source: WIIW
Survey Description

Key statistics

Developed in the context of the Vienna Initiative (VI) 2.0 as an additional instrument to monitor:

- cross-border banks’ deleveraging in CESEE
- the determinants/constraints influencing credit growth in CESEE
- market expectations of future developments.

Target groups: international banks active in CESEE interviewed at group level and local banks/local subsidiaries of these groups interviewed at single-entity level:

- 15 international groups
- 85 local banks/subsidiaries.

Average coverage: 50% of regional banking assets.

Countries covered: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, North Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine1.

Periodicity: semi-annual (Sep/Oct and Mar/Apr). The first survey was conducted in October 2012.

The CESEE Bank Lending Survey – technical note

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

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

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

1 Details for Slovenia and Ukraine are not presented on a stand-alone basis, due to the relatively low coverage in terms of number of banks.
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 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 part of the survey investigates international banks’ strategies, restructuring plans, access to funding and deleveraging at the global and group level. It includes questions on the long-term strategic approaches adopted for CESEE, the level of profitability of CESEE operations and the groups’ exposure to the CESEE region.

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

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

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

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

The survey includes specific questions on credit quality and the funding conditions for banks in CESEE. Specifically it includes questions on NPL ratio developments, providing a breakdown between the retail and corporate subsectors. The survey investigates aggregate access to funding as well as funding conditions for an extensive list of funding sources. These include intra-group funding, retail and corporate funding, funding from international financial institutions (IFIs) and wholesale funding.
Most of the responses are illustrated in the following chapters of this report as net percentages, i.e. the percentage of positives minus negatives (excluding the neutral responses). For example, the percentage difference between responses reporting an increase in demand for loans and responses reporting a decrease – irrespective of the size of the increase or decrease. This is an oft-cited indicator, which has a barometer function. It helps to detect potential drifts and tendencies in the panel of respondents. Answers are not weighted by the size of the participating banks.
The Questionnaire

The questionnaire is divided into two parts:

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

### A.Q1 How do you assess in each country...

<table>
<thead>
<tr>
<th>Country</th>
<th>...market potential</th>
<th>...your subsidiary current positioning</th>
<th>...Return on assets (adjusted for cost of risk) compared to overall Group operations</th>
<th>...Return on equity (adjusted for cost of equity) compared to overall Group ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Bosnia-H.</td>
<td></td>
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<tr>
<td>Bulgaria</td>
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<tr>
<td>Croatia</td>
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<td></td>
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<tr>
<td>Czech Republic</td>
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<td></td>
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<tr>
<td>Estonia</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Kosovo</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Latvia</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Lithuania</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Macedonia</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Poland</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Romania</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Serbia</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Slovakia</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Slovenia</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Croatia</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ukraine</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### A.Q2 - Strategic operations: Has your group conducted strategic operations to increase the capital ratio and/or will conduct strategic operations? If yes, which type?

<table>
<thead>
<tr>
<th>Last 6 months</th>
<th>Next 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic restructuring</td>
<td></td>
</tr>
<tr>
<td>Sale of assets</td>
<td></td>
</tr>
<tr>
<td>Sale of branches of activities</td>
<td></td>
</tr>
<tr>
<td>Raising capital on the market</td>
<td></td>
</tr>
<tr>
<td>State contribution to capital</td>
<td></td>
</tr>
</tbody>
</table>
### A.Q3 - Group funding: Group's access to funding...

<table>
<thead>
<tr>
<th>Source of Funding</th>
<th>How has it changed over the LAST six months?</th>
<th>How do you expect it to change over the NEXT six months?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail (deposits and bond to clients)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate (deposits and bond to clients)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interbank market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFIs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale debt securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans or credit lines from the Central Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securitisation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term funding (any source)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term funding (any source)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### A.Q4 - Deleveraging —over the next six months, do you expect the loan-to-deposit ratio of your group to...

### A.Q5 - Longer term strategic approach (beyond 12 months): Looking at operations via subsidiaries in CESEE, your group intends to...

### A.Q6 - Profitability of the strategy in CESEE region: the contribution of activities in CESEE in total ROA of the Group is/will...

<table>
<thead>
<tr>
<th>Last 6 months</th>
<th>Next 6 months</th>
</tr>
</thead>
</table>

### A.Q7 - Profitability of the strategy in CESEE region: ROA of your CESEE operations is higher/lower/equal of that for the overall group...

<table>
<thead>
<tr>
<th>Last 6 months</th>
<th>Next 6 months</th>
</tr>
</thead>
</table>
A.Q8 - Group total exposure to CESEE: Concerning cross-border operations to CESEE countries, your group did/intends to...

<table>
<thead>
<tr>
<th>Total Exposure</th>
<th>LAST 6 months</th>
<th>NEXT 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exposure to Subsidiaries - intra-group funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exposure to Subsidiaries - capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct cross border lending to domestic clients, booked in the BS of the parent company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MFIs - funding to banks not part of the group, booked in the BS of the parent</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A.Q9 - 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?

<table>
<thead>
<tr>
<th>Overall</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pricing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maturity</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### PART B

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

<table>
<thead>
<tr>
<th>Category</th>
<th>How have they changed over the last six months?</th>
<th>How do you expect them to change over the next six months?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overall</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to small and medium-sized enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to large enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to households for house purchase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer credit (other than loans for house purchase)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Currency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Currency</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Category</th>
<th>How has it changed over the last six months?</th>
<th>How do you expect it to change over the next six months?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overall</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to small and medium-sized enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to large enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to households for house purchase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer credit (other than loans for house purchase)</td>
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<tr>
<td>Short-term loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Currency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Currency</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th></th>
<th>Overall</th>
<th>Loans to SMEs</th>
<th>Loans to large companies</th>
<th>Loans to households for house purchase</th>
<th>Consumer credit (other than loans for house purchase)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Your bank’s margin on average loan (wider margin = --, narrower margin = ++)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B) Size of the average loan or credit line</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C) Maturity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D) Non-interest rate charges</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E) Collateral requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### OVER the NEXT 6 months

<table>
<thead>
<tr>
<th></th>
<th>Overall</th>
<th>Loans to SMEs</th>
<th>Loans to large companies</th>
<th>Loans to households for house purchase</th>
<th>Consumer credit (other than loans for house purchase)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Your bank’s margin on average loan (wider margin = --, narrower margin = ++)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B) Size of the average loan or credit line</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C) Maturity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D) Non-interest rate charges</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E) Collateral requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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?

<table>
<thead>
<tr>
<th>Impact on credit standards</th>
<th>Over the <strong>LAST</strong> six months</th>
<th>Over the <strong>NEXT</strong> six months</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A) Domestic Factors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Local market outlook</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) Local bank outlook</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii) Local banks access to total funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii.a) of which: domestic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii.b) of which: international/intra-group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iv) Local bank capital constraints</td>
<td></td>
<td></td>
</tr>
<tr>
<td>v) Change in local regulation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>vi) Competition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>vii) Credit quality (NPLs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>viii) Bank's liquidity position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ix) Risk on collateral demanded</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>B) International Factors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Group Company outlook</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) Global market outlook</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii) Overall group access to funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iv) EU Regulation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>v) Group capital constraints</td>
<td></td>
<td></td>
</tr>
<tr>
<td>vi) Global Competition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>vii) Credit quality (NPLs)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### B.Q5 - Loan Applications: Demand for loans or credit lines to enterprises and households (to your local subsidiary/branch)...

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

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

<table>
<thead>
<tr>
<th></th>
<th>...How has it changed over the last six months?</th>
<th>...How do you expect it to change over the next six months?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overall</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications from small and medium-sized enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications from large enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications from households for house purchase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications for consumer credit (other than loans for house purchase)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications for short-term loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications for long-term loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications for Local Currency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications for Foreign Currency</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### B.Q7 - Factors affecting clients' demand for loan applications...

<table>
<thead>
<tr>
<th>Loans or credit lines to enterprises</th>
<th>...How have they changed over the last six months?</th>
<th>...How do you expect them to change over the next six months?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A) Financing needs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories and working capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M&amp;A and corporate restructuring</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt restructuring</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Loans to Household</th>
<th>...Has the non-performing loans ratio changed over the last six months?</th>
<th>...How do you expect the non-performing loans ratio to change over the next six months?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A) Financing needs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing market prospects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer Confidence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-housing related consumption expenditure</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Gross non-performing loans ratio</th>
<th>Total</th>
<th>Retail</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>...Has the non-performing loans ratio changed over the last six months?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>...How do you expect the non-performing loans ratio to change over the next six months?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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?

<table>
<thead>
<tr>
<th></th>
<th>Over the <strong>LAST</strong> six months</th>
<th>Over the <strong>NEXT</strong> six months</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Total funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.1) Intra Group Funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.2) IFIs (international financial institutions) funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.3) Retail funding  (deposits and bonds to clients)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.4) Corporate funding  (deposits and bonds to clients)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.5) Inter-bank unsecured money market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.6) Wholesale debt securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.7) Securitisation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.8) Net Central Bank position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B.1) Local currency funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B.2) Short term (less than 1 year)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C.1) Long term (more than 1 year)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C.2) Foreign currencies funding</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>