

ECONOMICS – REGIONAL STUDIES

CESEE

Central, Eastern and South-Eastern Europe

Bank Lending Survey

H2-2018



European
Investment
Bank



The EU bank

CESEE Bank Lending Survey – H2 2018

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

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Regional Overview

The survey detects an improving landscape wherein slightly upbeat expectations prevail. Although country differentiation remains significant, the appeal of the CESEE strategy for international banking groups is reflected in an increased regional profitability. Regional supply side conditions improved only very slightly. On the contrary, demand for loans was robust. Some signs of intensified volatility in the exposures to the region appeared lately.

Summary

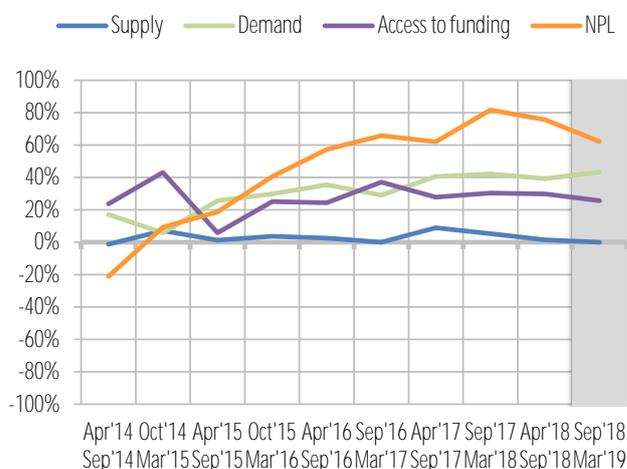
Global strategies: about a third of banking groups, less than 2013-2017 average, continued some restructuring activities at global level. Capital increases have been achieved exclusively via sales of assets and branches. A fifth of banking groups, fewer than in 2013-2017, have continued to deleverage; whilst on balance an equal number of banking groups have been re-leveraging. Group-level funding conditions continued to ease.

Commitment to CESEE: the self-declared net balance of banking groups' total exposure to the CESEE region has been negative over the last six months. This marks a significant turnaround compared to the positive outcome recorded in the previous wave of the survey, thus pointing at increased uncertainty and volatility. It also suggests a cautious reading of positive and negative swings at the current stage of the economic and financial cycle. A large **majority of banking group strategies' is tilted toward an expansion-stability** attitude, supported by a RoA of CESEE operations on average higher than that of the overall group. Only twenty percent of banking groups report a combination of diminishing returns and intentions to reduce the scale of regional operations. The assessment of market prospects shows a continued stabilisation with diversified potential and profitability across countries.

CESEE subsidiaries and local banks report another robust increase in demand for credit whilst supply conditions essentially did not ease much over the past six months. Across the client spectrum, supply conditions eased again in the SME and consumer credit segments, while credit standards have tightened again on mortgages. Changes in local regulation and **groups' NPLs** are still perceived to adversely affecting supply conditions. Nevertheless, almost all the other domestic and international factors are more supportive lately than a couple of years ago. In the last six months, demand for loans improved again across the board. This marks the eleventh consecutive half-year of positive developments. All factors affecting demand have made a positive contribution. Notably, investment contributed significantly to push up demand for loans. At the same time, almost no contribution was recorded from restructuring activities.

Access to funding has continued to ease in the CESEE region, supported mostly by local sources and IFIs. Intra-group funding is also assisting these positive developments. Long term funding does not follow the overall trend though.

NPL ratios continued to improve. In absolute terms, the share of subsidiaries still reporting an increase in their NPL ratios fell to 4%, down from 60% in 2013.



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

Results of the Bank Lending Survey – Parent banks

About 30% of banking groups, less than 2013-2017 average, continued some restructuring activities at global level. Capital increases have been achieved exclusively via sales of assets and branches. 20% of banking groups, fewer than in 2013-2017, have continued to deleverage; whilst on balance an equal number of banking groups have been re-leveraging.

About 30% of banking groups, less than the 2013-2017 average, continued restructuring activities at the global level to increase group capital ratios, and an equal 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 to capital has been introduced and/or is expected. Between 2013 and 2017, capital was also funded on the market whilst lately this contribution has vanished. 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, but also compared to already improved conditions in 2015 and 2016. Around 20% of banking groups expect a decrease in their loan-to-deposit (LTD) ratio in the next six months – a slight improvement compared to the 2017, wherein around 25-30% of the banking groups expected a decrease. At the same time, an equal share of banking groups (20%) expects an increase in their LTD over the next six months. Overall, the even distribution between increases and decreases **in Groups' LTD** shows a tentative polarization in the (de)leveraging **attitude of banking Groups'** operating in the region.

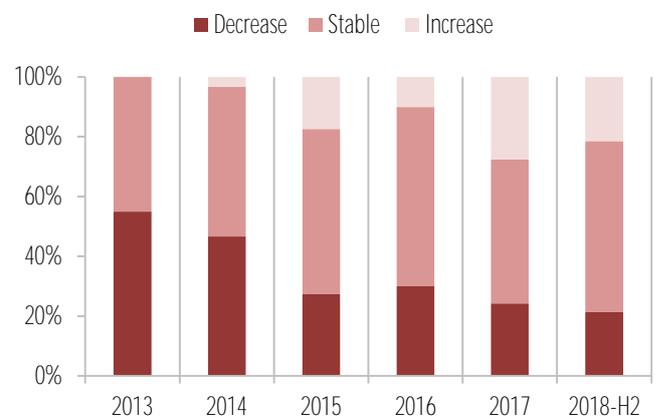
Figure 1 Strategic operations to increase capital ratio



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q2 – questionnaire in the Annex

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



Source: EIB – CESEE Bank Lending Survey.

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

Group-level funding conditions continued to ease over the past six months (Figure 3). Notably, corporate and retail deposits made a significant positive contribution to total access to funding. Also interbank market and debt issuance have contributed positively.

The global access to funding of the banking Groups has continued to ease over the past six months, thus strengthening further the results obtained in the previous releases. Following a contraction during 2015, access to funding resumed an easing trend in the first half of 2016, and accelerated further in 2017. The contraction in access to funding in 2015 can be interpreted as a temporary event, which coincided with the long tail effects generated by the Greek crisis of spring/summer 2015. The 2018 developments can be described as broadly in line with 2017 outcomes. The dynamics detected in aggregate access to funding reflect prolonged improvements in retail and corporate funding, and positive contributions from wholesale debt issuance in the past six months.

Notably, the interbank market continued to play a positive role and 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. Nevertheless, a tentative deceleration, albeit in a still positive funding landscape, is reported at the inception of 2019 (Figure 3.b). The possible deceleration in expected access to funding conditions seems to be primarily ascribed to a lower inflow of corporate and retail deposits.

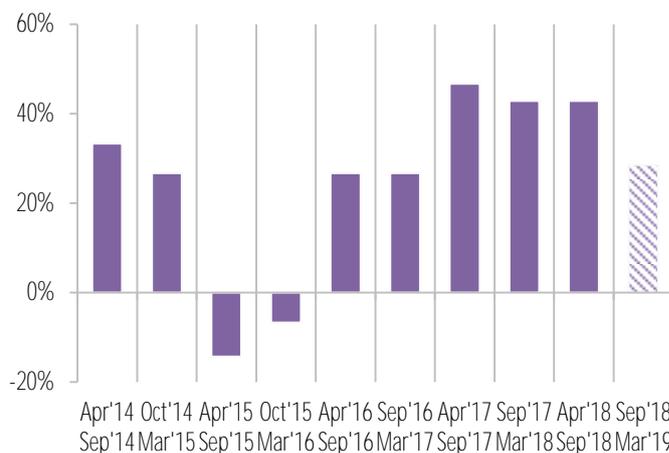
Figure 3a Access to funding conditions



Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages; positive values indicate increased access to funding – see question A.Q3 – questionnaire in the Annex

Figure 3b Total access to funding conditions



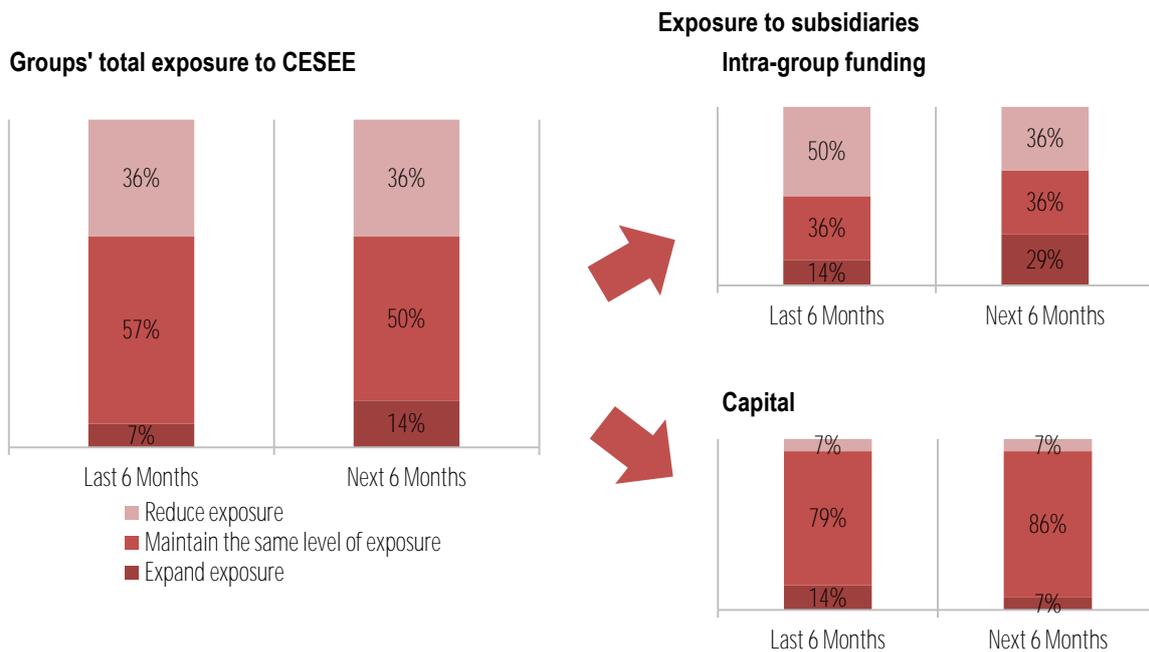
Source: EIB – CESEE Bank Lending Survey.

Note: Net percentages; positive values indicate increased access to funding – see question A.Q3 – questionnaire in the Annex

Almost 40% of banking groups have reduced their total exposure to the CESEE region, whilst only less than 10% have increased theirs. As a result, the aggregate net balance has been negative over the last six months. This scores a significant turnaround compared to the positive outcome recorded in the previous wave of the survey. It also suggests that developments should be interpreted with caution at the current stage of the economic and financial cycle.

The trend of total exposure to the CESEE region has plunged into negative territory over the past six months, as the number of banks declaring a reduction in their exposure is only slightly higher than in H2 2017 whilst the number increasing it is significantly lower than in past waves of the survey. This is a rather ample reversal compared to the positive upturn recorded in the previous wave of the survey. Nevertheless it squares with the cautious approach taken in interpreting the previous positive outcomes. Most of the enduring negative contributions to the CESEE exposures stemmed from reduced intra-group funding to subsidiaries. At the same time, only a small percentage of groups expanded their intra-group funding to CESEE subsidiaries. This process is expected to continue over the next six months, although at a slower pace (Figure 4a), with more groups maintaining the same level of exposure. Most parent banks report that they have maintained their capital exposure to their subsidiaries and expect to continue to do so. However, this time the survey detects a slight increase in the banking groups reporting to have decreased their capital exposure (Figure 4.b). Looking at the next six months, the net balance is expected to still be hanging in negative territory. The recent developments highlight a certain negative impact coming from an increased emerging markets volatility. Therefore, negative and positive developments should be interpreted with caution at the current stage of the economic and financial cycle.

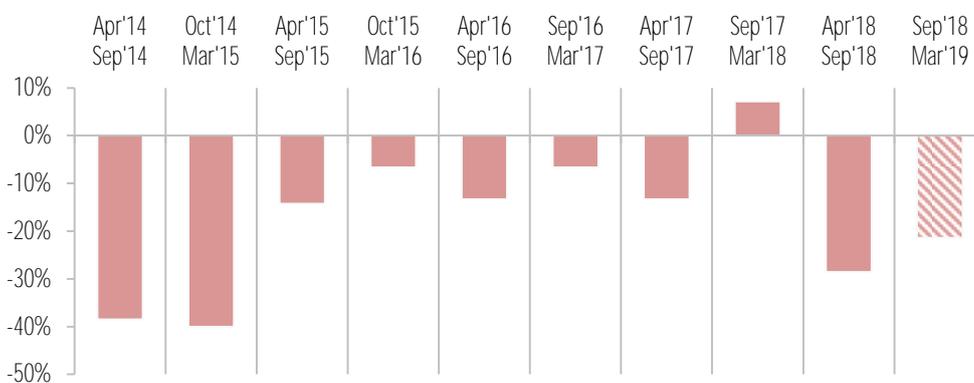
Figure 4a **Groups' total exposure to CESEE**



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.

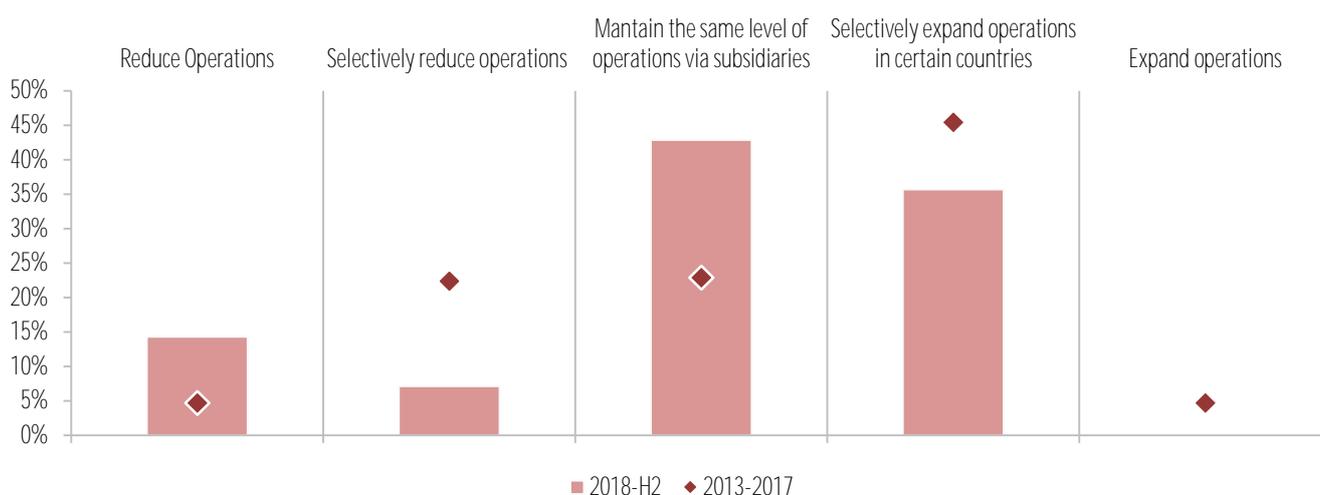
Note: Cross-border operations involving CESEE countries – see questions A.Q8 – net percentages; negative figures refer to decreasing exposure – questionnaire in the Annex

A large majority of **banking group strategies** is tilted toward an expansion-stability attitude. This is also supported by a RoA of CESEE operations described as being higher than that of the overall group. Only 20 percent 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 continued stabilisation in the region with diversified potential and profitability across countries.

A large majority of international banking groups reported higher return on assets (RoA) of the CESEE operations than overall group operations over the last six months, reinforcing a positive trend that emerged three years ago. Nonetheless, less than a fifth of groups report lower regional RoAs than their global RoAs, reflecting a persistent subset of banking groups who continue to point to positive but diminishing returns in the region versus the group. Cross-border banking groups signal an intention to expand operations selectively 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 35 percent of the groups have a medium- to long-term strategy of selective expansion of operations (less than before) whilst about 45% of groups intend to maintain the same level of operations in the region (more than before). Around 20 percent of banking groups, predominantly (but not exclusively) those based in Greece, indicated that they may reduce operations in the long term. Market potential and positioning continue to differ across countries, albeit less than before and with some tentative signs of realignment (Annexes A.4 / A.5).

The assessment of market prospects essentially shows a stabilisation at somewhat improved levels compared to the results reported more than a year ago. Surveyed banks see the market potential (Annex A.8 for data on low market potential) as being significantly low in Ukraine only. 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 Bulgaria in the weak or niche category (Annex A.9 for data on weak positioning). This is even more the case in Hungary, Romania, Slovenia and Ukraine. Conversely, no weak positioning is detected in Croatia or Poland. 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 responses indicating low profitability range between a minimum of 20% and a maximum of 80%. Spikes of low profitability are detected in Ukraine but also in Albania and Bosnia, whilst in other countries the low profitability share revolves around 20% to 40%.

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

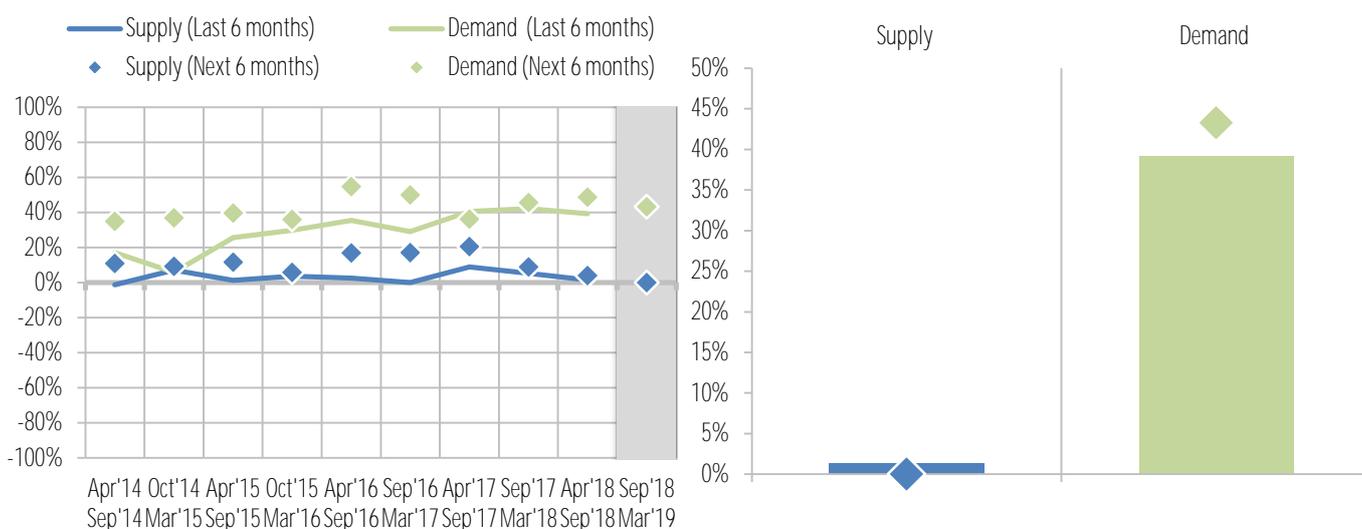
Results of the Bank Lending Survey – Local banks/subsidiaries

CESEE subsidiaries and local banks report another robust increase in demand for credit whilst supply conditions essentially did not ease much. Investment contributed significantly to push up demand for loans. At the same time, almost no contribution was recorded from restructuring activities.

In the last six months, demand for loans and credit lines continued to increase robustly in net balances (Figure 6). These results mark the eleventh consecutive half-year of increased demand for credit, an improvement partially aligned to the expectations embedded in the April 2018 release of the survey. A slight disconnect between expectations and actual realisation can be detected this time around though. This may be a reflection of increased volatility and uncertainty, which partially limit **banks' ability to predict** precisely demand. Nevertheless this disconnect is way smaller than four years ago, when results disappointed expectations. For the eighth 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, scoring increasingly higher than in previous releases of the survey. This indicates a stronger economic cycle and an improved macroeconomic and financial environment more conducive to investment. Corporate and debt restructuring as well as M&A have been contributing less and less to propelling demand, and all currently stand near zero. Housing- and non-housing-related consumption also continued to make robust and positive contributions to demand, and consumer confidence continues to exert a positive effect.

Supply conditions eased only very marginally over the past six months. Nevertheless, this represents the third timid easing over the past two years. Across the client spectrum, credit standards eased on SME lending and consumer credit, whilst they continued to tighten on mortgages (Annex A.3). Supply conditions eased on short-term loans and only slightly on long-term loans, primarily in local currency. In the period ahead, banks expect a 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. Credit demand from enterprises (primarily SMEs) and from households is also expected to be robust (see Annex A.2). Aggregate supply conditions are not expected to ease (see Annex A.3). The general terms and conditions of loan supply to the corporate segment loosened over the past six months. Notably, collateral requirements also eased for the third time and did so robustly in terms of maturity as well as average size of the loans. Optimism on the demand side is still frustrated by the legacy of protracted stagnation of supply-side conditions, leaving a noticeable perceived gap between demand and supply. Aggregate credit figures for the CESEE region are in positive territory. This may

Figure 6 Total supply and demand, past and expected development



Source: EIB – CESEE Bank Lending Survey.

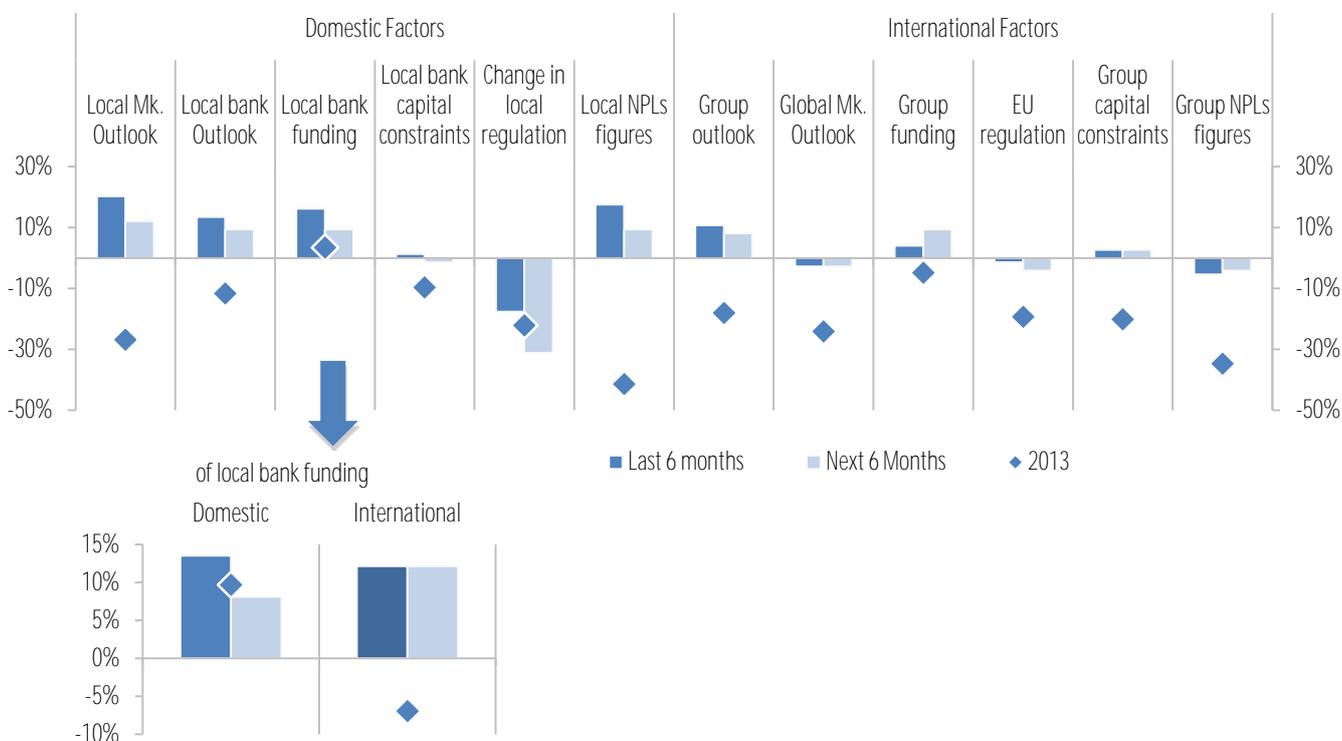
Note: Net percentages; positive figures refer to increasing (easing) demand (supply) (triangles refer to expectations derived from previous releases of the survey, lines report actual values and dotted lines expectations in the lastst one) – see questions B.Q1 and B.Q5 – questionnaire in the Annex

suggest that most of the new credit extended should, on average, be of a better quality than in previous credit cycles because credit standards did not change/eased substantially.

The domestic regulatory environment and **group'** NPLs are partially constraining supply conditions. However, their negative contributions have diminished over time. On the other hand, most of the domestic and international factors are not a limit to supply anymore.

The number of domestic and international factors limiting supply has decreased substantially compared to 2013 (figure 7). However, the latest survey release shows that volatility in the regulatory environment remained a primary limiting element at domestic level. As in previous surveys, neither access to domestic funding nor the domestic outlook are considered a constraint, nor are other factors previously weighing negatively, including domestic NPLs. Fewer international factors are playing a constraining role compared to 2013. Nonetheless, group NPLs and slightly the global market outlook are mentioned as having a limited negative effect on credit supply conditions. 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

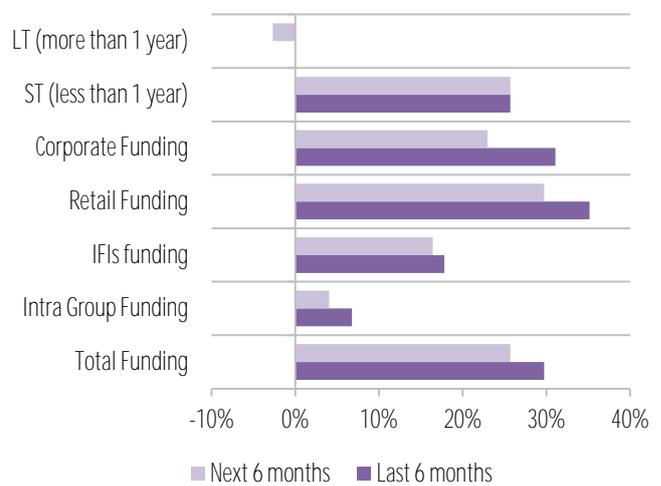
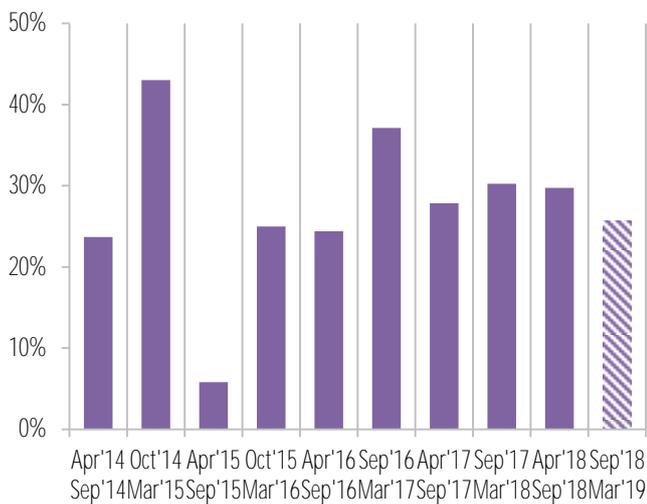
Access to funding continued to ease in the CESEE region, supported mostly by local sources and IFIs. Intra-group funding is also assisting these positive developments. Long term funding does not follow the overall trend though.

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 not eased though. This does not **help to boost banks' long-term** stable funding ratios as well as it does not support the funding of assets with a long-term lifetime. Subsidiaries indicate that access to international and intra-group funding increased slightly on balance during the past six months. This is a positive signal of additional **shareholders' support to the region**.

Figure 8 Access to funding by CESEE subsidiaries

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

B. Breakdown of funding conditions – results from latest survey



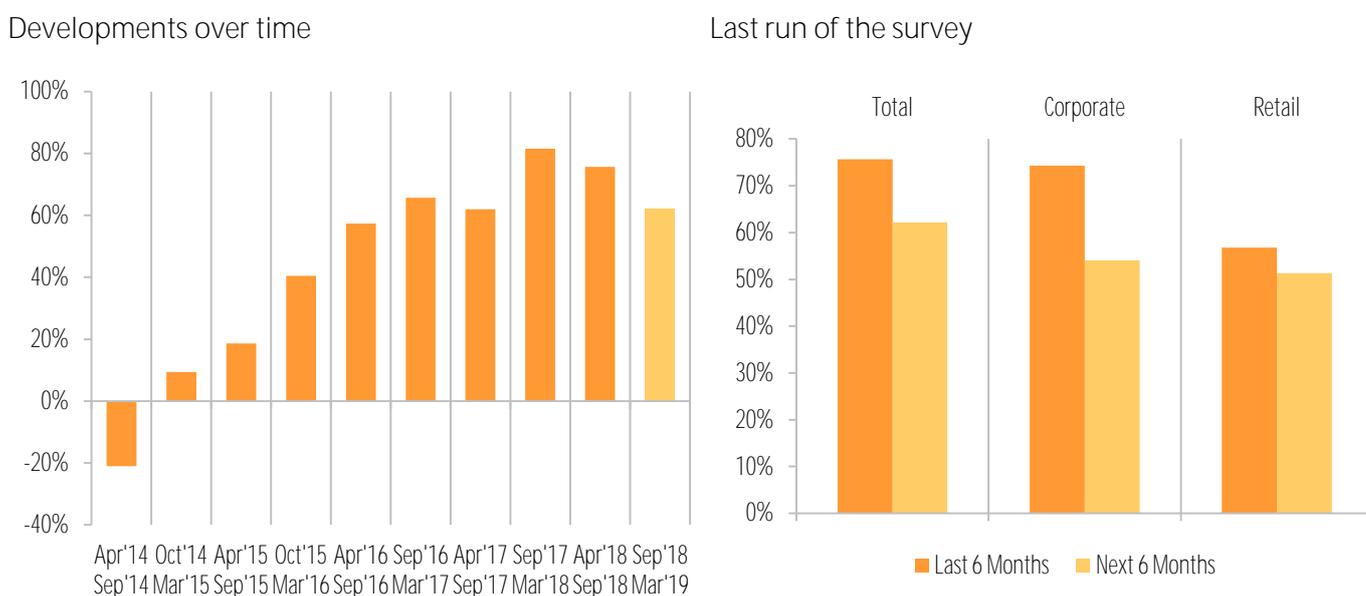
Source: EIB – CESEE Bank Lending Survey.

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

Starting from high NPL levels, credit quality has continued to improve, albeit less than earlier on in the credit cycle. This trend is expected to continue over the next six months.

The speed of deterioration in NPL ratios has been slowing over time, as already demonstrated two years ago. In 2015, the survey firmly indicated a turning point in the negative spiral of NPL flows. Over the past six months, and for the eighth time, aggregate regional NPL ratios recorded an improvement in net balance terms (Figure 9). In absolute terms, the share of subsidiaries indicating an increase in their NPL ratios over the past six months fell to 4%. This figure is substantially lower than the 60% reported in the September 2013 survey release. Overall, the share of subsidiaries indicating a decline in their NPL ratios currently stands at 80%. Only a very small share of banks continue to expect an increase in NPLs over the next six months, whilst signs of stabilisation in the ratio are emerging.

Figure 9. Non-performing loan ratios



Source: EIB – CESEE Bank Lending Survey.

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

The survey continues to highlight an improving picture wherein slightly upbeat expectations prevail. The appeal of the CESEE strategy for international groups is reflected in an increased regional profitability. Although country differentiation remains significant. Regional supply conditions improved only slightly. On the contrary, demand for loans was robust. In addition, some increased volatility in the exposures to the region has been detected.

Supply conditions eased only slightly over the past six months. Aggregate credit demand conditions continued to be robustly positive across the board. Nonetheless, positive demand remains frustrated by the still cautious improvement 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, including for intra-group funding. Broadly speaking, the survey reveals a generalised fine-tuning in the assessment of market potential, with a cautious alignment of all indicators. Ultimately, the appeal of the CESEE strategy for international banking groups is reflected in the regional profitability levels mostly described to be above the groups profitability. At the same time, some signs of increased volatility emerged lately.

Annex

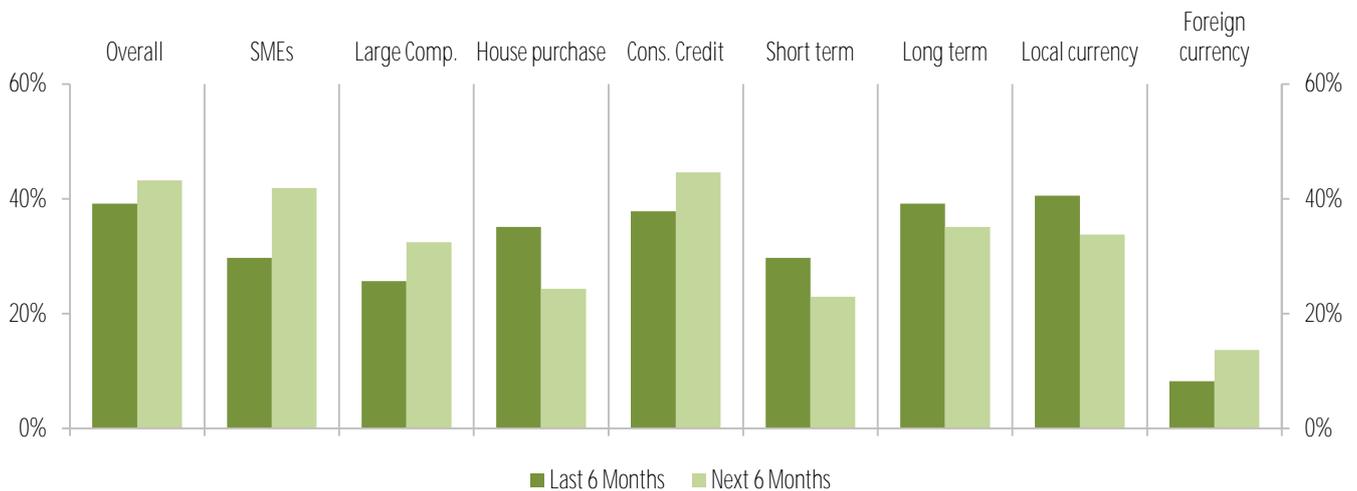
Annex A.1 Factors affecting demand for credit



Source: EIB – CESEE Bank Lending Survey.

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

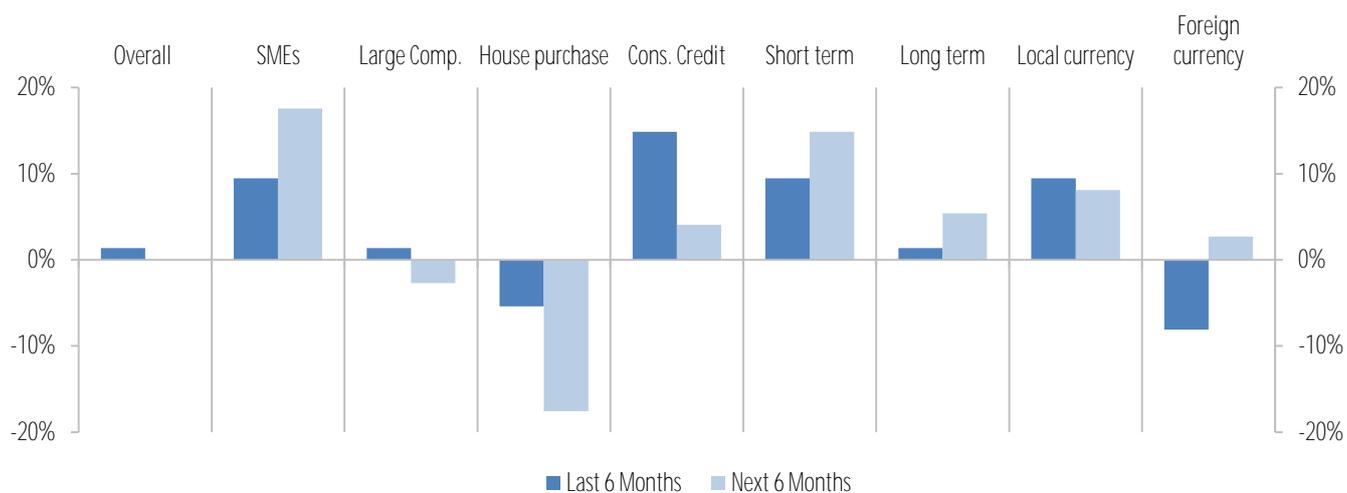
Annex A.2 Demand for loans or credit lines – client breakdown



Source: EIB – CESEE Bank Lending Survey.

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

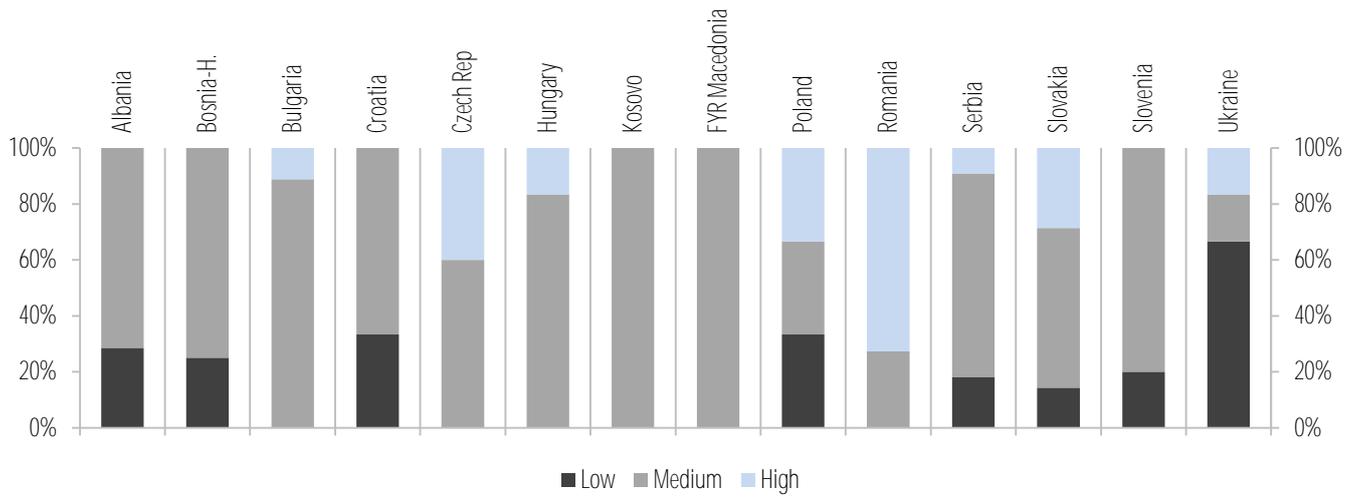
Annex A.3 Credit supply (credit standards) – client breakdown



Source: EIB – CESEE Bank Lending Survey.

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

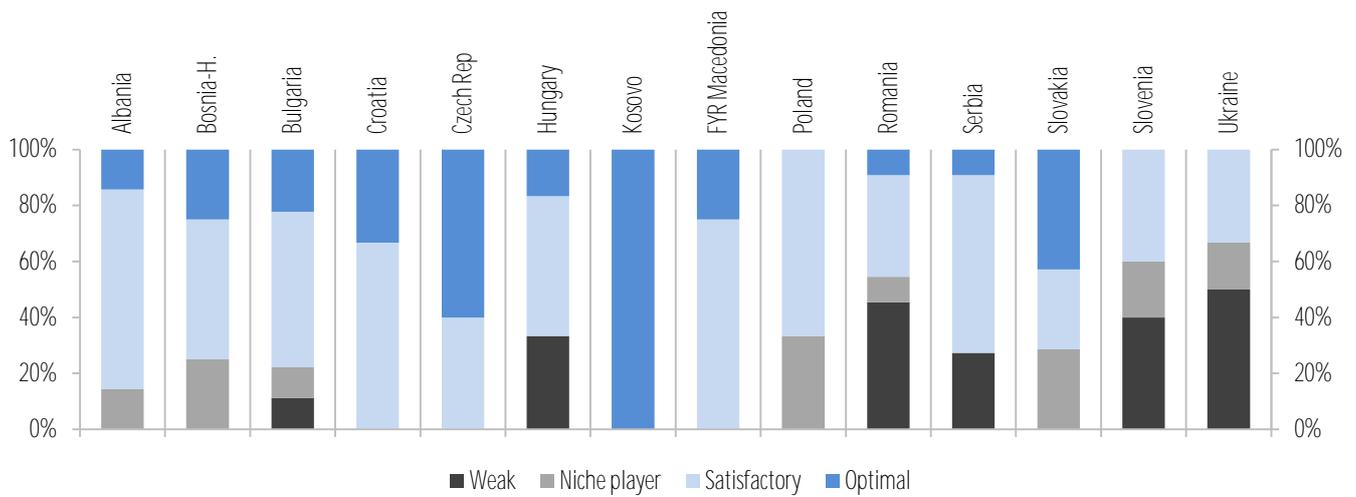
Annex A.4 Market potential



Source: EIB – CESEE Bank Lending Survey.

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

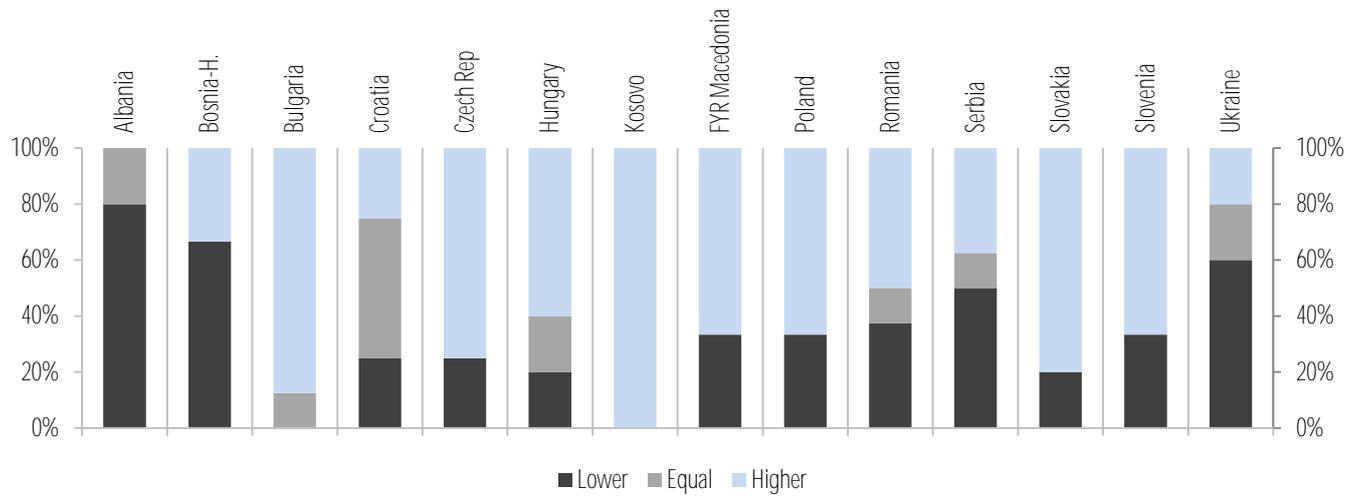
Annex A.5 Market positioning



Source: EIB – CESEE Bank Lending Survey.

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

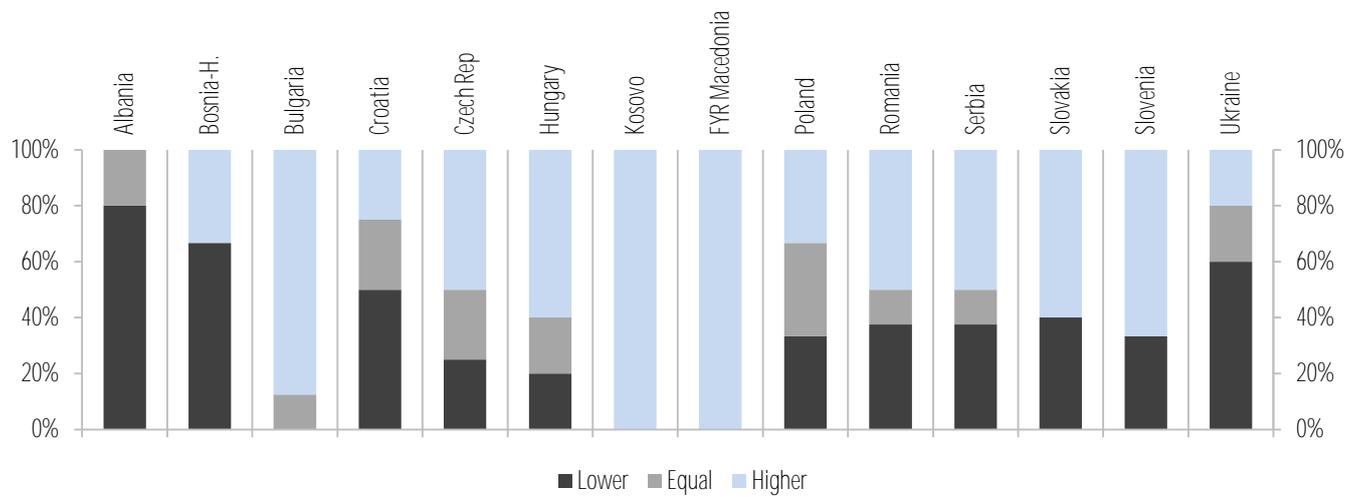
Annex A.6 Return on assets (adjusted for cost of risk) compared to overall group operations



Source: EIB – CESEE Bank Lending Survey.

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

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



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.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

Banks have reported moderate increase in both credit demand and supply conditions. NPL ratios continued to improve, but are still among the highest in the region. Average profitability of Albanian operations is reported to be lower than the overall group.

Summary

Group assessment of positioning and market potential: parent banks consider the Albanian market to have medium potential but operations are less profitable than those on the group level. At the same time, the majority of parent banks find that their position is either satisfactory or optimal.

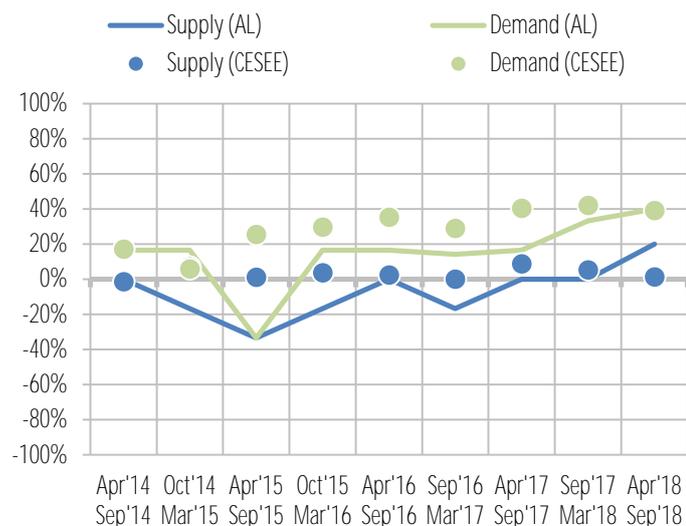
Credit demand in Albania has been gradually improving, while supply conditions turned positive for the first time since the second semester of 2014. Banks expect credit demand to keep the current positive trend.

Credit supply conditions are lagging behind credit demand although with a narrower demand-supply gap compared to the CESEE region. Supply conditions have eased for household loans in particular.

Demand for loans in Albania have been driven by the household segment in the last six months, while demand from corporations remained unchanged. The quality of loan applications continued to improve across the board during the last six months.

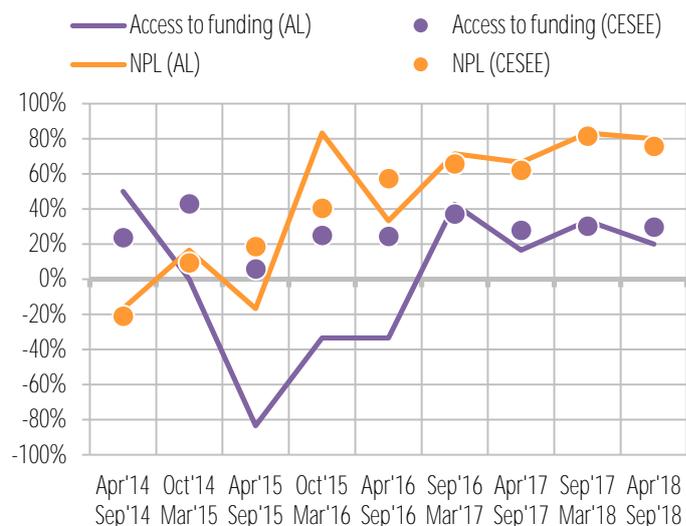
Access to funding in Albania improved further on the back of better access to corporate deposits and intra-group funding.

NPL ratios have been improving and this trend is expected to persist across both corporate and retail segments for the next six months.



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

Note: 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

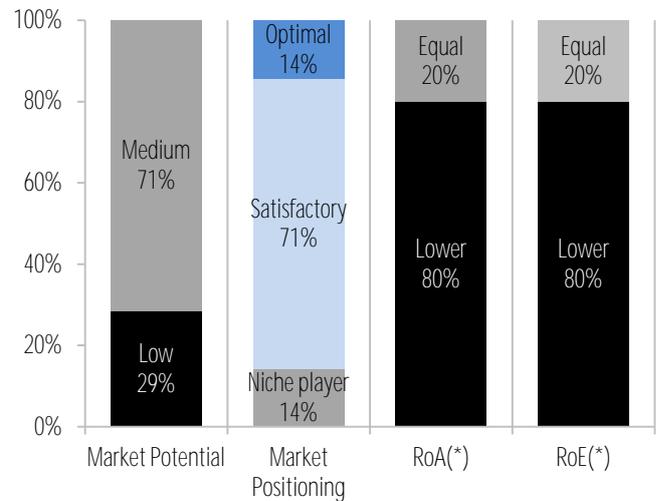
The continuous write-down of bad loans and the sluggish lending activity have been weighting negatively on bank profitability.

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 profitability of CESEE operations. The share of firms declaring lower profitability stayed unchanged for the last one and half year.

Moreover, one third of parent banks declared that the market potential in Albania is rather low and 14 percent of them reported as being a niche player.

Still, some three quarter of the parent banks consider the Albanian market to have medium potential and satisfactory market positioning. Furthermore, 14 percent of parent banks see their market positioning as even optimal.

Figure 1 Market potential and positioning



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.

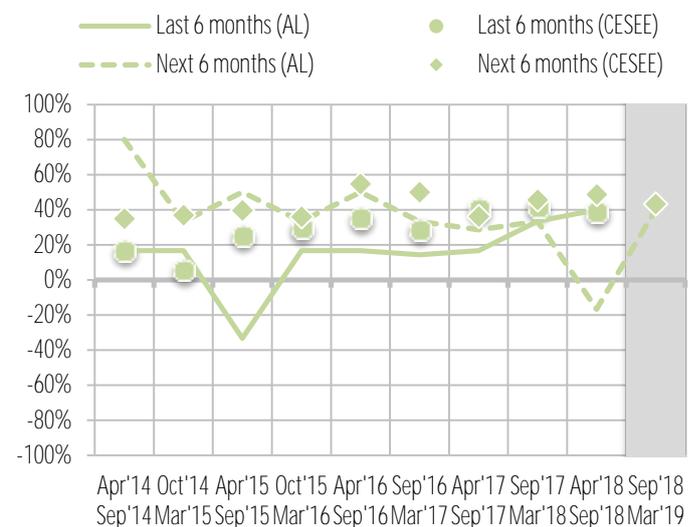
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Demand for loans in Albania came above expectations and slightly improving compared to the last six months.

Demand kept a positive trend of the last two years. This is in line with the overall positive macroeconomic outlook of the country that should also result in higher financial penetration from the current low level (33% of total private loans to GDP as of H1 2018).

Figure 2 Demand side developments



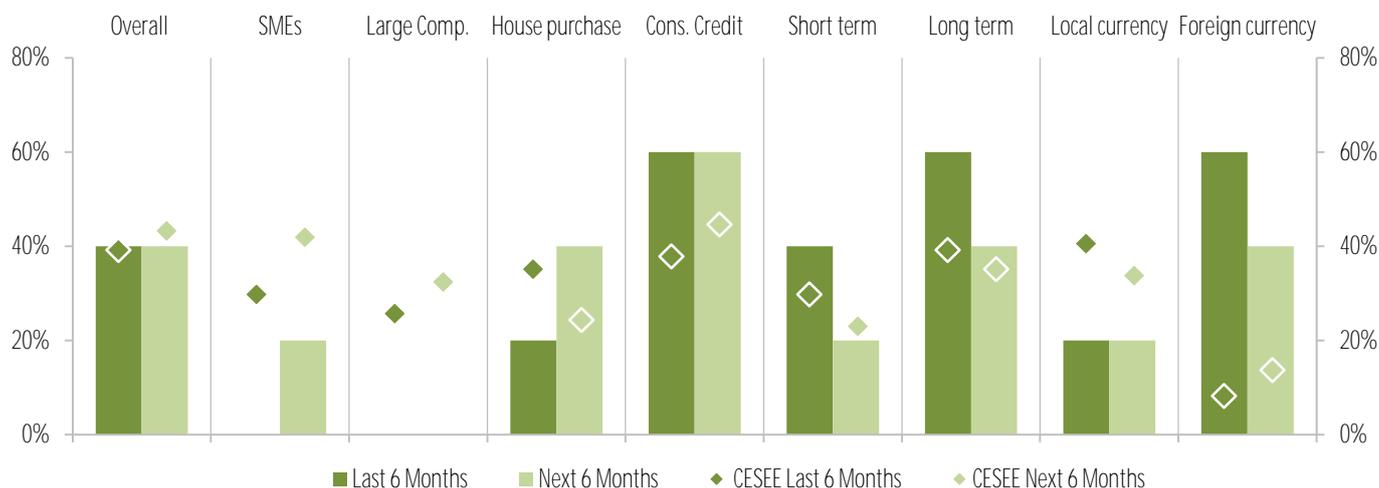
Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. 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 in the household segment, while demand for corporate loans stagnated. Contrary to the regional trend, survey data shows a preference towards borrowing in foreign currency denominated loans.

For the next six months, the increasing trend is expected to continue for most of the segments, except for large companies' loans for which demand is anticipated to remain unchanged.



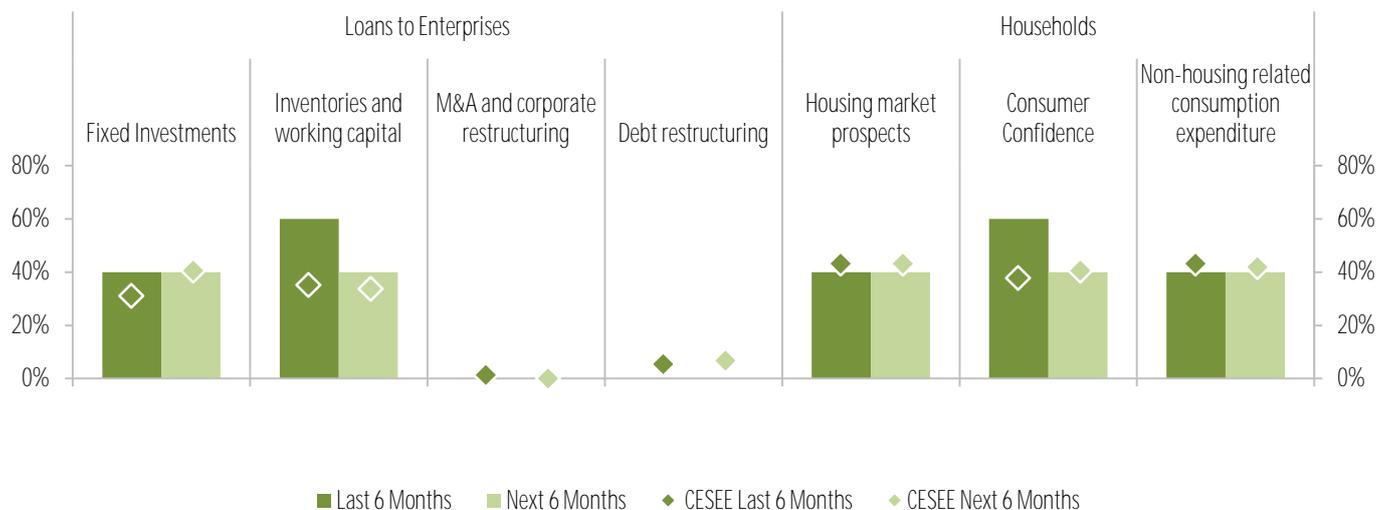
Source: EIB – CESEE Bank Lending Survey.

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. The dominant drivers of loans to enterprises are fixed investments and working capital financing, while six months ago debt restructuring had the strongest influence.

Regarding expectations, all the current positive factors are projected to keep their positive contribution for the next six months, and no negative impact is expected.

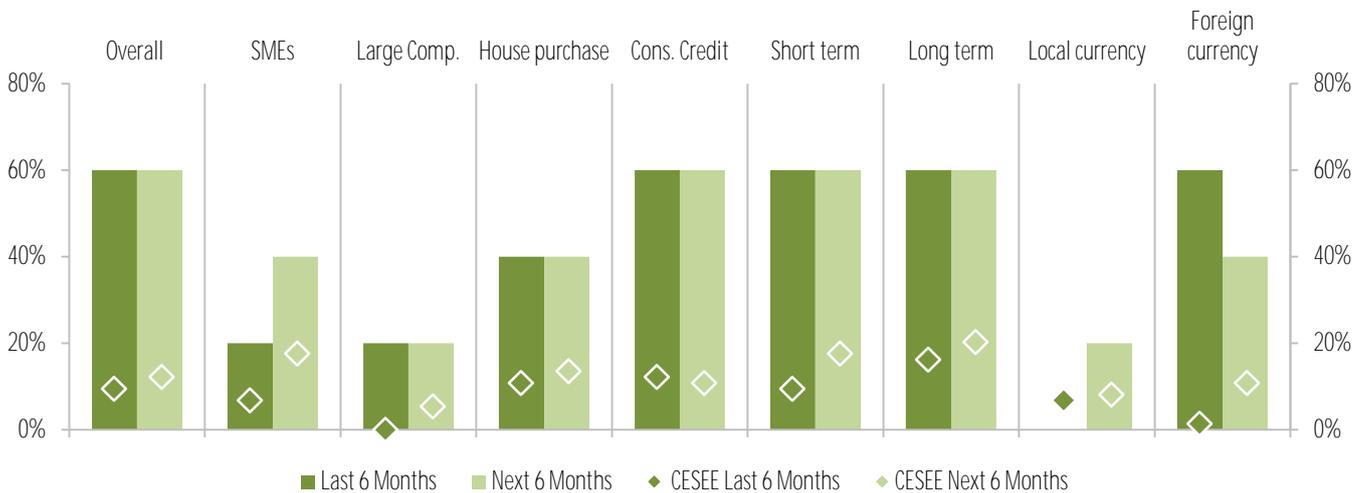


Source: EIB – CESEE Bank Lending Survey.

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 most of the loan segments, except the local currency loans. The strongest enhancement has been registered in the household segment. Over the next six months, quality of loan applications is expected to improve further on all categories of loans.



Source: EIB – CESEE Bank Lending Survey

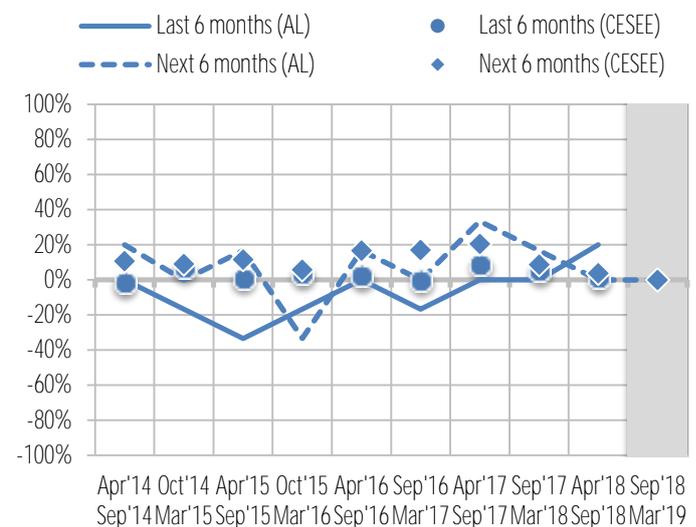
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit standards improved for the first time since the second quarter of 2014. The easing of conditions came above expectations and above the CESEE average trend.

Banks' expectations on credit standards for the next six months is to stay neutral, just in line with the overall CESEE trend.

Figure 6 Supply developments



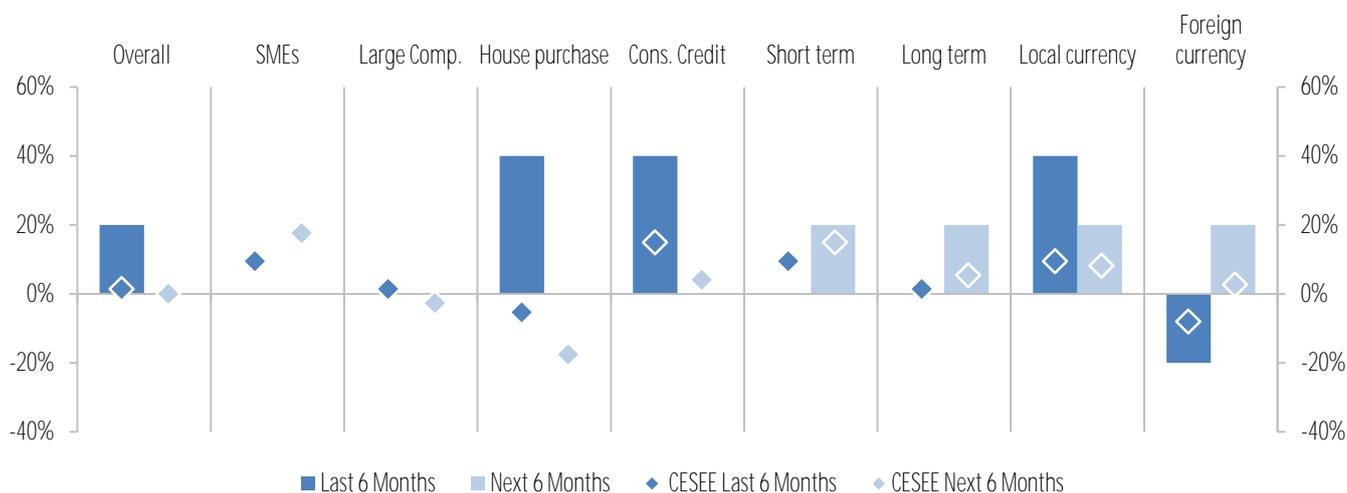
Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Overall credit supply conditions have eased, but they tightened on foreign currency denominated loans and stayed neutral on corporate loans. The driver of the improvement was clearly the households segment.

Looking ahead, banks expect lending conditions to stay rather neutral, in line with the CESEE average. Supply conditions for local-currency lending are expected to improve further.



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 remained overall unchanged during the last six months, lagging behind the CESEE region average. A decreasing approval rate on loans for SMEs and large companies was counterbalanced by a hike in banks' approval rate on consumer loans. Over the next six months, an increase of approval rate is expected.

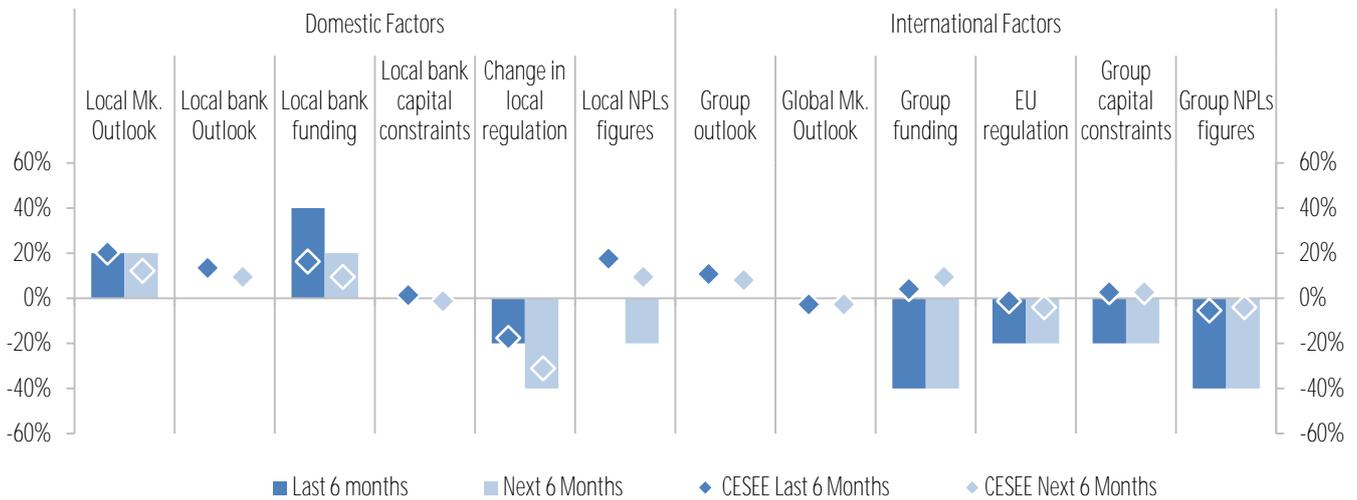


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

Change in local regulation continues to weigh negatively on credit supply conditions in Albania, while local bank funding contributed positively to credit supply. All international factors, but group outlook and global market outlook, have had a negative contribution to lending conditions. The same contribution is expected for the following 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

The cleaning-up process of the bank’s portfolio in Albania remained strong, even above the CESEE average, for both corporate and retail loans.

Despite the continuous improvement since end-2014, from the peak of 25 percent to 13.3 percent in June 2018, the NPL ratio is still one of the highest in the CESEE region.

Further improvement is expected for 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

Bank funding in Albania has improved slightly in the last six months mainly supported by the domestic corporate and retail funding. Intra-group funding and wholesale debt securities contributed also positively and some lower access to local currency and long-term funding have been recorded. No change 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

Bosnia-Herzegovina

*Credit demand and supply have shown positive developments coupled with a narrowing demand-supply gap. Nevertheless, profitability deteriorated, **according to parent banks' assessment**, during the last six months.*

Summary

Group assessment of positioning and market potential: three quarter of the 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, similar to previous assessment. Nevertheless, an increasing share of parent banks' **consider market profitability as being lower compared to overall group operations**.

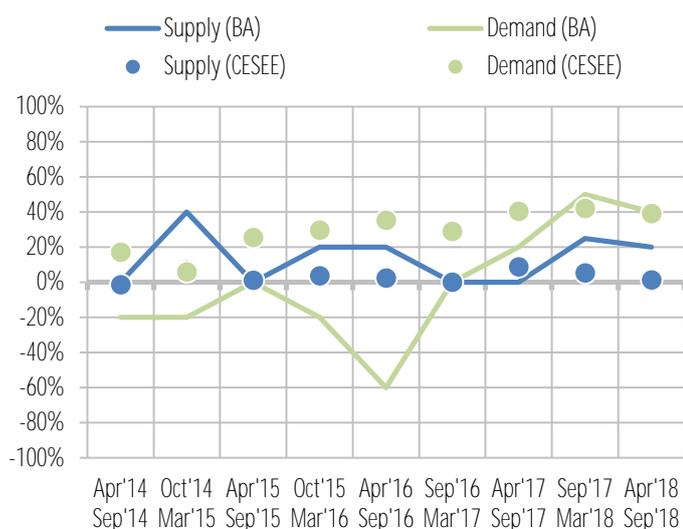
Demand for loans have kept the positive trend although moderating during the last six months, with a broad-based support from both corporate and housing segments.

Credit supply conditions eased for the second time and above the CESEE average. Banks approval rate has improved across the board. Nevertheless, local bank capital constraints and change in local regulation still considered as a drag to credit supply.

Unlike the regional trend, loan demand in Bosnia-Herzegovina has been lagging behind credit supply. After the upturn in 2017, both demand and supply conditions are expected to improve with a positive demand-supply gap.

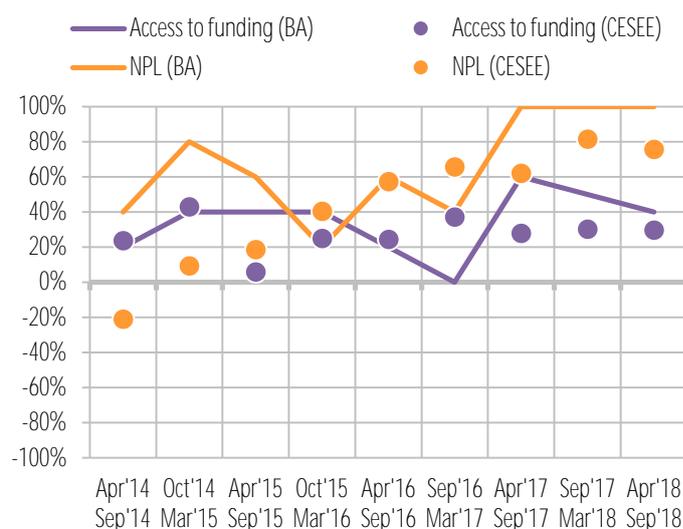
Access to funding: improvement has been broad-based across different sources, with visible better access to IFIs funding and domestic retail and corporate funding.

NPL figures have been improving strongly during the last eighteen months and is expected to continue this trend for the coming months.



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

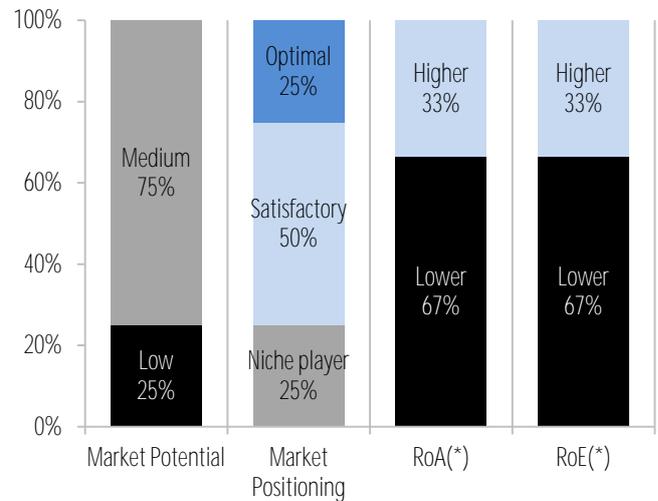
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Bosnia and Herzegovina show a strong commitment to the region. Three quarter of the banking groups present in the country plan to selectively expand 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 deteriorated, however, according to the latest assessment. Two third of the banking groups find that risk-adjusted returns on assets and equity are marginally lower, compared to overall group operations, while the same share reported a higher than group level profitability in the previous survey.

Figure 1 Market potential and positioning



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.

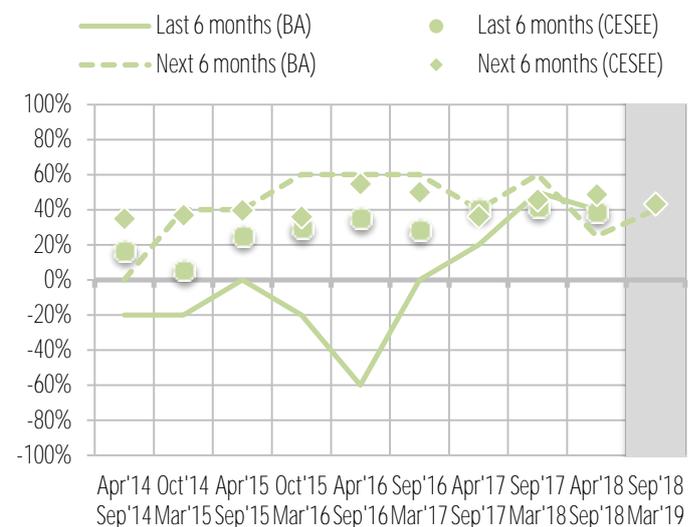
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Demand for credit have improved further during the last six months, in line with expectations. This is the third positive evolution since early 2013.

Banks expect further positive developments in the coming months, in line with regional trend.

Figure 2 Demand side developments



Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. 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

The improvement in the loan demand remained broad-based among corporates and households. All segments have contributed to the increasing demand, except foreign currency loans. 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, just 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

Figure 4 Factors affecting demand for loans

Among the factors affecting credit demand, both housing market prospects and financing demand for inventories and working capital registered a positive contribution in the last six months. Over the next six months, the same factors are expected to be the main drivers of a positive loan demand.

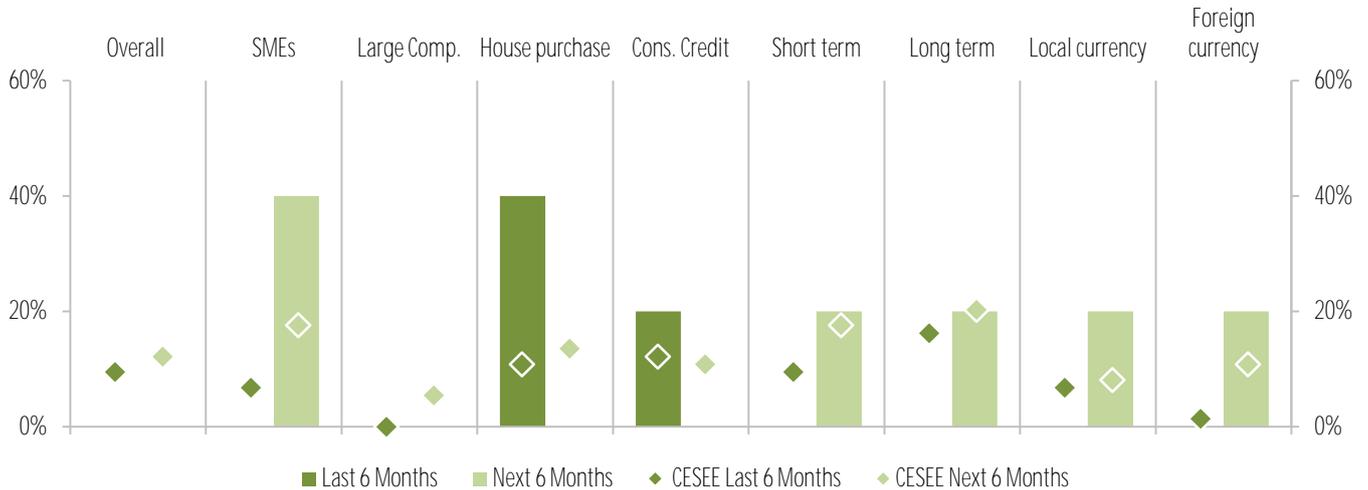


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

The quality of loan applications in Bosnia and Herzegovina has remained unchanged during the last six month, while it recorded an improvement for the CESEE region as a whole. Still, it improved for household loans, both for house purchase and consumer credit. For the next six months, quality of applications is expected to remain broadly unchanged (again below CESEE average), with the only improvement expected for SMEs 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

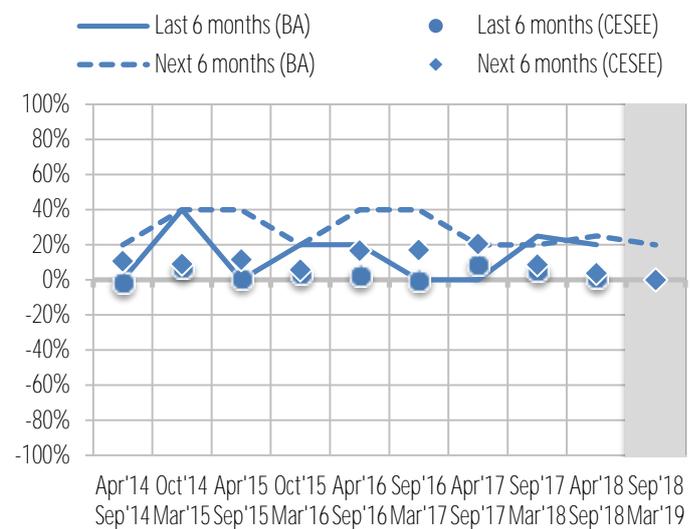
Aggregate supply developments

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.

Supply conditions are expected to ease further in the next six months, above the CESEE region.

Figure 6 Supply developments

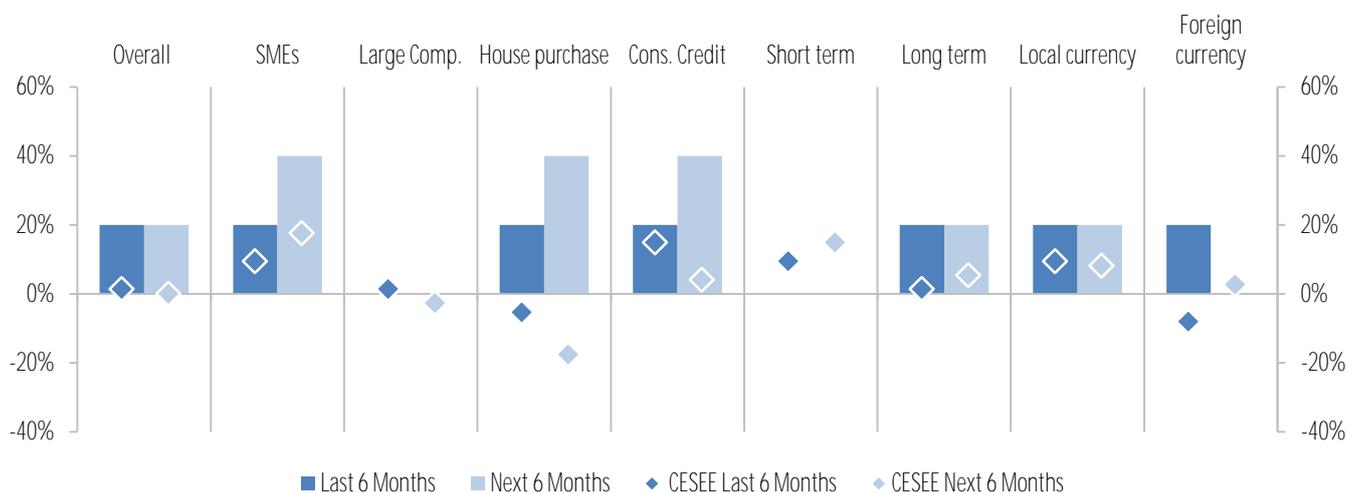


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Credit standards have eased during the last six months for all segments, except for large companies. Looking ahead, local banks expect further easing of credit standards, driven by the same components as during the last six months.

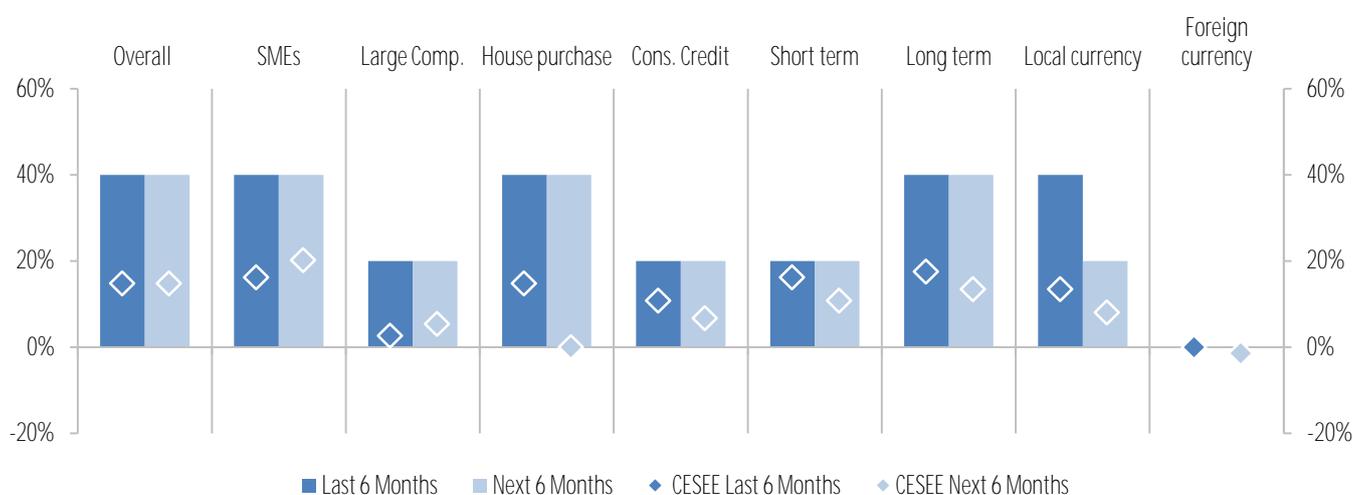


Source: EIB – CESEE Bank Lending Survey

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

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

The loan approval rate in Bosnia and Herzegovina has been improving during the last six months and further improvement is expected. All segments benefited from a higher approval rate, except foreign currency loans. Over the next six months, the same pattern is expected.

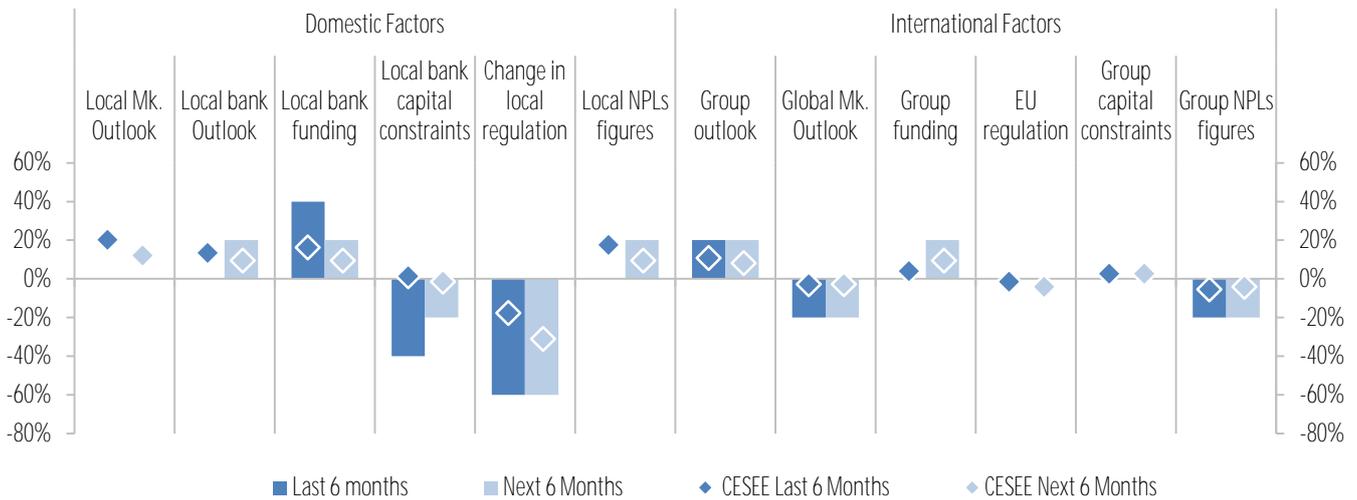


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

Local bank funding remains the only positive element among domestic factors while capital constraints and local regulation have been contributing negatively to credit supply conditions in Bosnia and Herzegovina. Local NPL evolution remained neutral. Among the international factors, group outlook contributed positively to credit supply conditions, while global market outlook and group NPL have been a drag. Broadly speaking, a similar pattern is expected for both domestic and international factors 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

Figure 10 Non-performing loan ratios

NPL ratios have been declining strongly in Bosnia and Herzegovina during the last six months, outpacing the CESEE region.

Over the next six months, local banks expect a positive evolution in NPL ratios, but with some moderation.



Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Access to bank funding has improved during the last six months, even more than for the CESEE region. The increase was broad-based across different sources but especially from IFIs funding and domestic retail and corporate funding. Both local and foreign currency funding have improved. Banks in Bosnia and Herzegovina expect a further improvement in access to funding over the next six months, keeping the same pattern of the previous period, except the net Central Bank position, for which a drop is expected.



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 signs of an increasing credit demand, especially for house purchases and consumer loans.

Summary

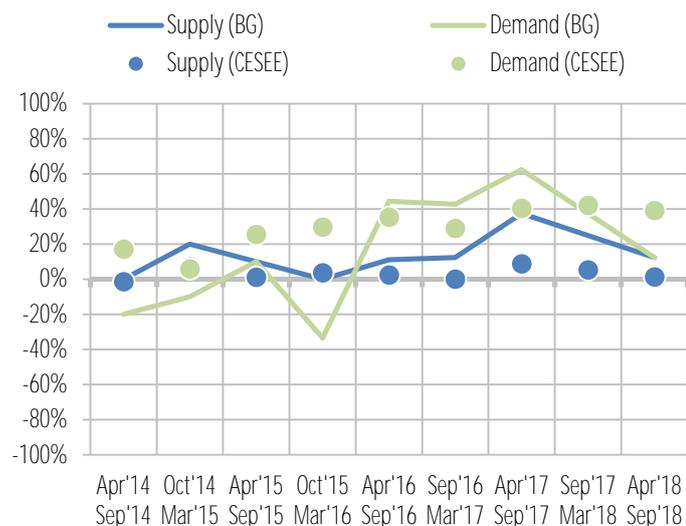
Group assessment of positioning and market potential: Parent banks operating in Bulgaria show a strong commitment towards the region and assess **the country's market potential** as medium. Most parent banks see returns on assets in Bulgaria as high and mostly exceeding those of the overall group. This 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 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 continue 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. A majority of respondents expect demand to strengthen further over the next six months.

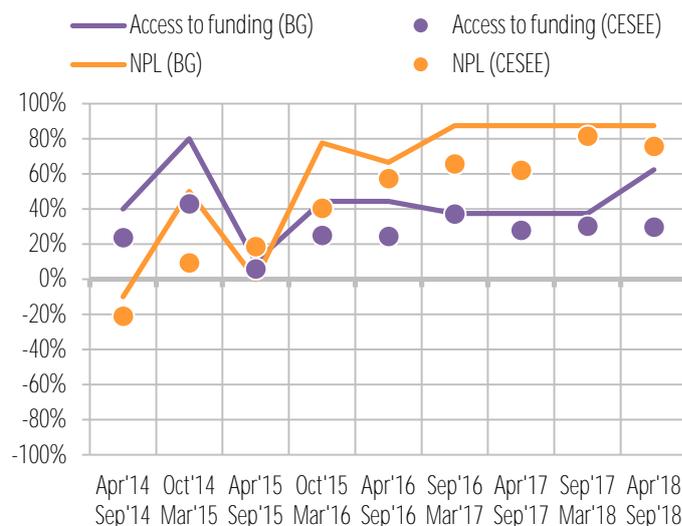
Access to funding has continued improving over the past six months following a multiannual trend. The improvement is mostly due to high and sustained growth of corporate deposits and to a lesser extent of household deposits.

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

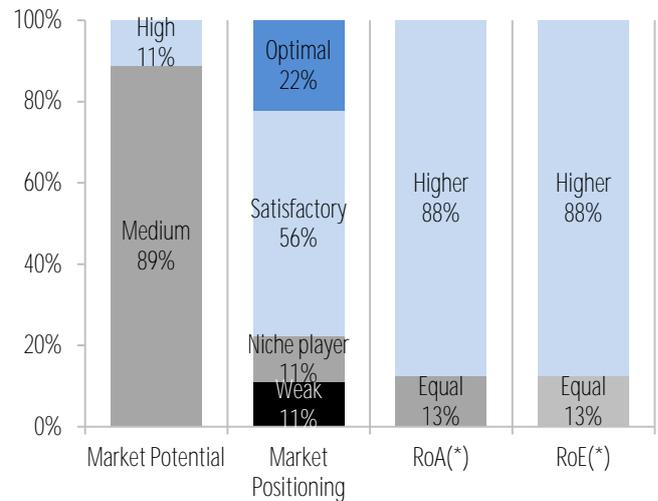
Nearly 90 per cent of the foreign banks present in the country plan to maintain or expand regional operations, showing strong commitment to the region.

All foreign banks with operations in Bulgaria see a market of medium or high potential (Figure 1). Following several years of strategic repositioning, the share of banks that consider their market positioning as satisfactory or optimal is very high (78 percent).

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 four years.

As a result, a majority of parent banks have increased capital exposure to subsidiaries, at the expense of intragroup funding.

Figure 1 Market potential and positioning



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

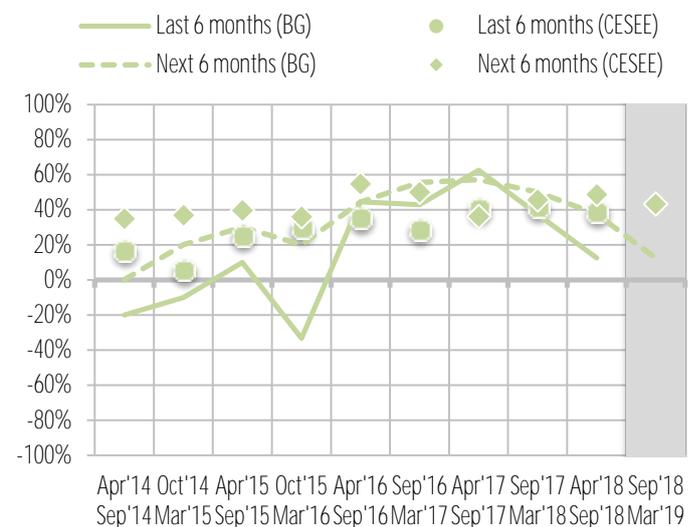
Aggregate demand developments

The growth of demand for loans in Bulgaria moderated in the past six months, deviating from the growth trends in other countries in the region. This moderation 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.

Following years of stagnation, investment has also finally picked up in 2017 and early 2018. This has further reinforced credit demand.

As surging economic activity encouraged loan demand, a virtuous loop emerges feeding back into stronger demand and output growth.

Figure 2 Demand side developments

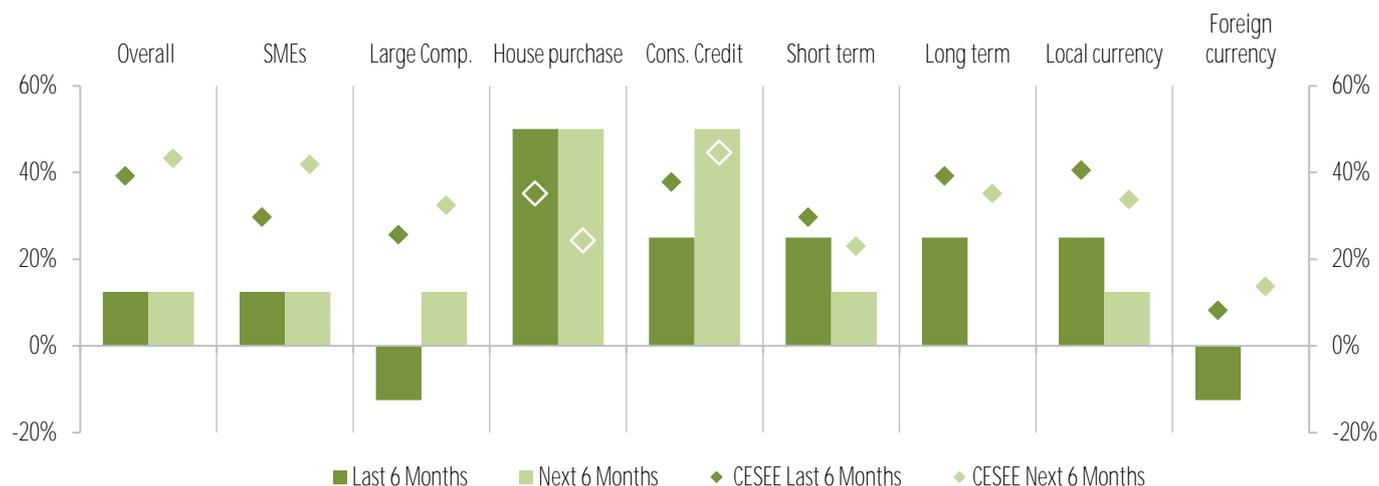


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. 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

Stronger loan demand comes predominantly from the household sector. Demand from the corporate sector has also seen some improvement but to a smaller degree. The improvement is entirely due to SMEs. The increase of **households' demand for loans** is more pronounced for house purchases than for consumer spending but demand for consumer credit is expected to accelerate over the next six months. Strengthening household demand is in line with observed strengthening of aggregate consumer spending and the increase of house prices. Strengthening loan demand from corporates, albeit to a smaller degree, raises hope that a more robust recovery of corporate investment in the country has finally set in.



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

Credit to finance fixed investment, inventories and working capital is the main driving force of corporate demand growth. These two components are expected to continue their positive contributions in the next six months.

As in the previous survey waves, household demand for loans is underpinned by housing market expectations and consumer confidence in the last few months. The role of these drivers is expected to increase 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

Figure 5 Quality of loan applications

Increasing credit demand is accompanied by increasing quality of loan applications both in the corporate and in the retail segment. Overall quality of loan applications is expected to improve due to better prospective of the retail sector, where quality of both mortgage and consumer credit applications is expected to increase. These developments are in line with improving economic conditions in the country, whereby household disposable income is growing and labour markets are rapidly 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

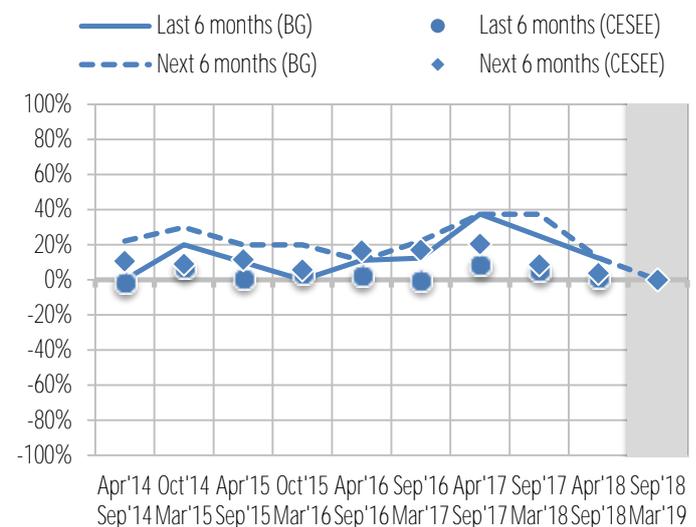
Aggregate supply developments

After significant improvements in supply in 2017 and early 2018, supply conditions have stabilised similar to those of the aggregate CESEE region, where credit conditions have been stable over the past two years.

About 15 percent (net) of local subsidiaries assess credit supply conditions as improving in the last six months. The same share of local subsidiaries expects an improvement in the next six months.

Improving supply conditions are in line with the improving 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.

Figure 6 Supply developments

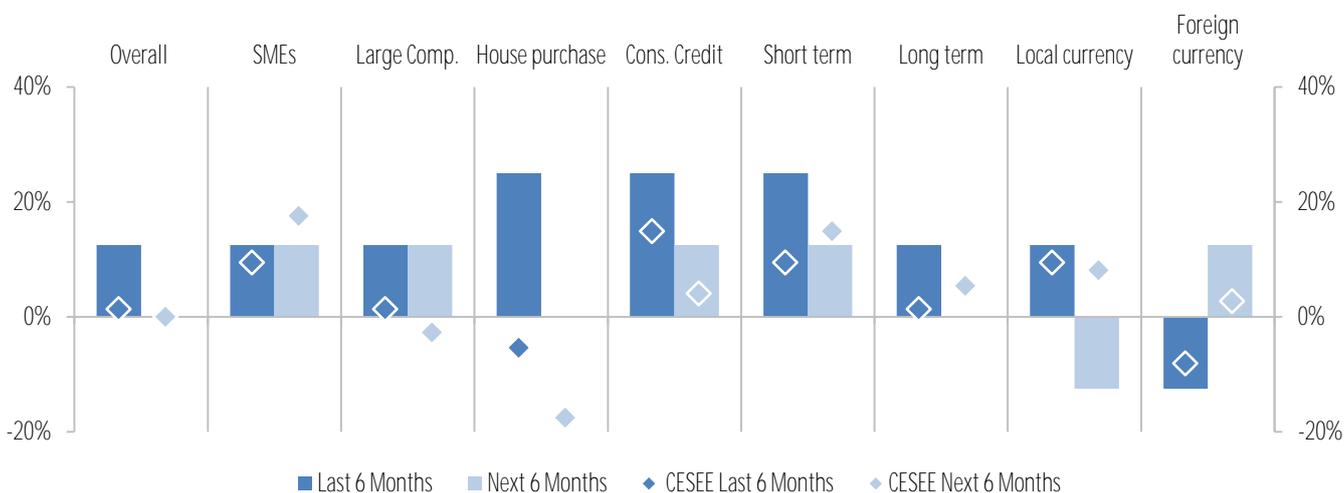


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

The retail segment continues to make the largest contributions to improving supply conditions. Supply conditions improved for both mortgage and consumer loans over the past six months. The corporate sector has also benefitted from some improvements in supply conditions, albeit to a lesser extent. Further improvements in the next six months are not expected mostly due to expected stabilisation in mortgage lending conditions.

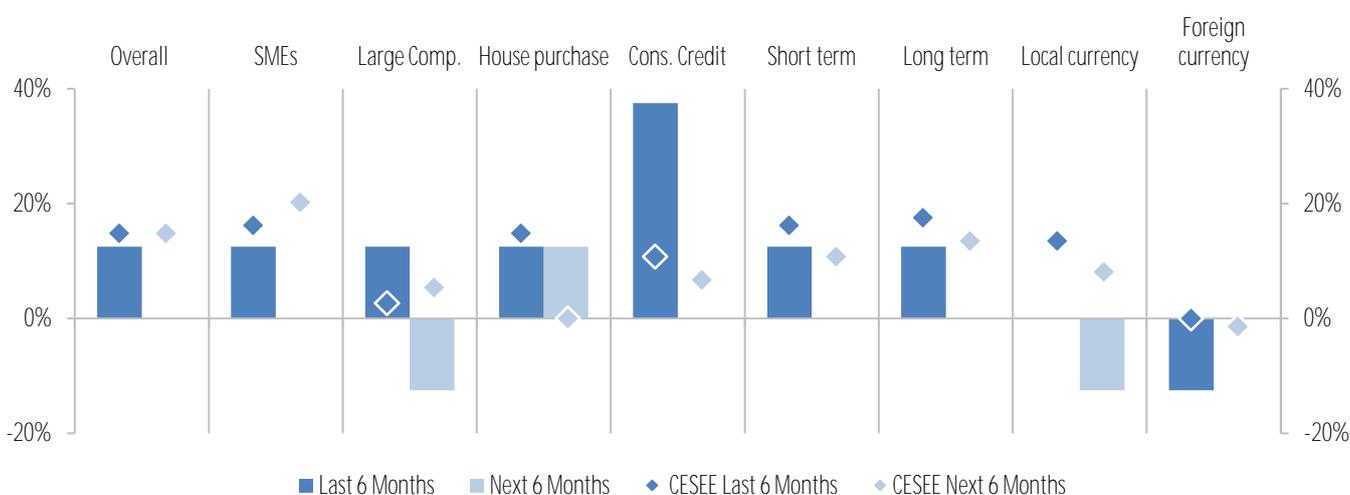


Source: EIB – CESEE Bank Lending Survey

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

Approval rates have been improving. The retail sector is the main beneficiary. Approval rates for consumer credit in Bulgaria are assessed as improving substantially. Also corporate loans have seen improvements (including the SMEs segment). Overall approval rates are expected to remain stable over the next six months. Some improvements in mortgage loans are expected to be offset by declines of approval rates for large corporates.

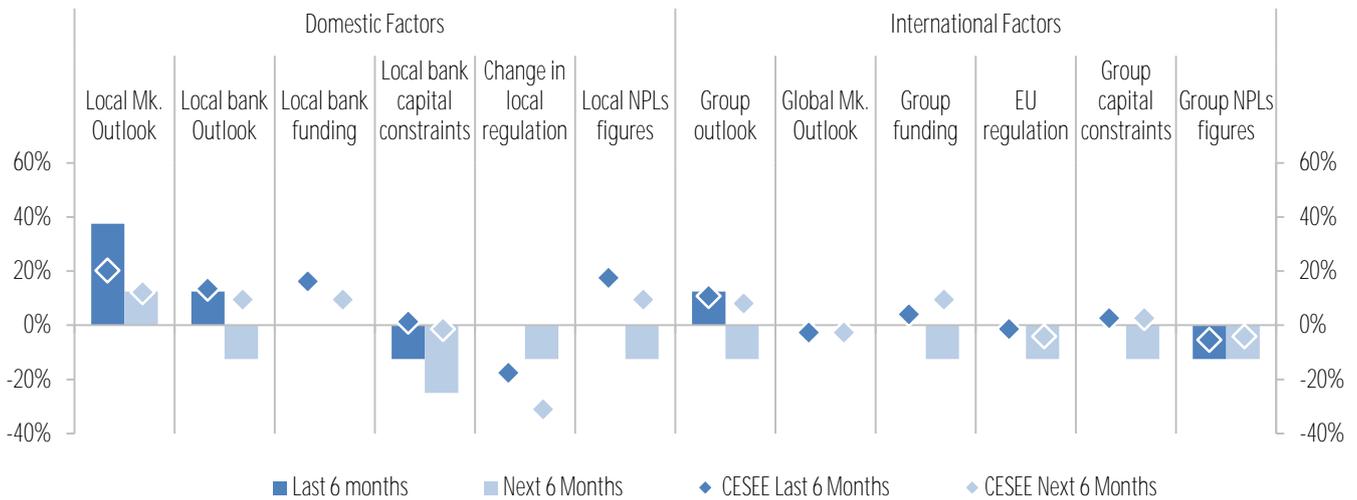


Source: EIB – CESEE Bank Lending Survey

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 continue to underpin improvements in supply conditions. Local market outlook is a main contributor to improving supply conditions in Bulgaria. 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, regulatory changes, NPL figures and capital constraints, 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

Figure 10 Non-performing loan ratios

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 recently, banks have been reluctant to reduce NPLs, but this seems to have changed in 2016.

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. This is broadly similar to what is observed in the CESEE region on average.

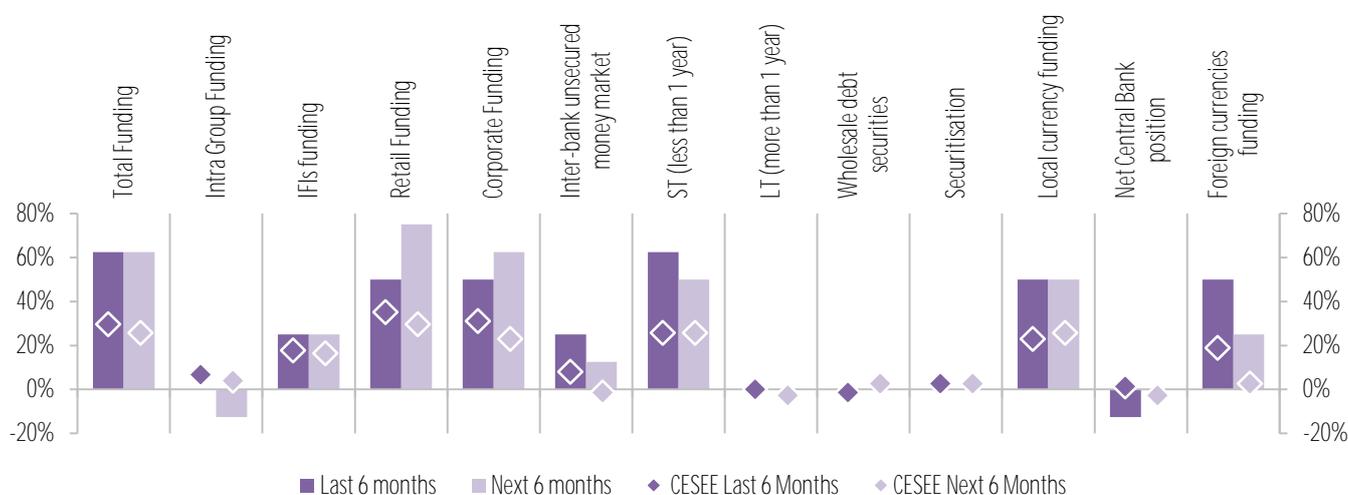


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Access to funding for Bulgarian subsidiaries has continued improving over the past six months on a trend that started in the second half of 2013 and is expected to continue improving. Main contributors remain the retail and corporate funding that are mostly short term. 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.



Source: EIB – CESEE Bank Lending Survey.

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

Croatia

Widening gap between demand and supply. Ongoing strong NPLs improvement while liquidity conditions are slightly improving.

Summary

Group assessment of positioning and market potential: Profitability improved considerably. Half of the international banking groups reported a higher return on equity (ROE) over the last six months in Croatian operations than for overall group operations while in previous survey all parent banks declared that their subsidiaries perform below those of the overall group operations, in terms of ROE. Moreover, three quarter of parent banks reported higher or equal profitability in terms of return on assets compared to group level. Just as in previous wave of survey, two third of parent banks consider the Croatian market potential as medium and all of them consider their market positioning as satisfactory or optimal.

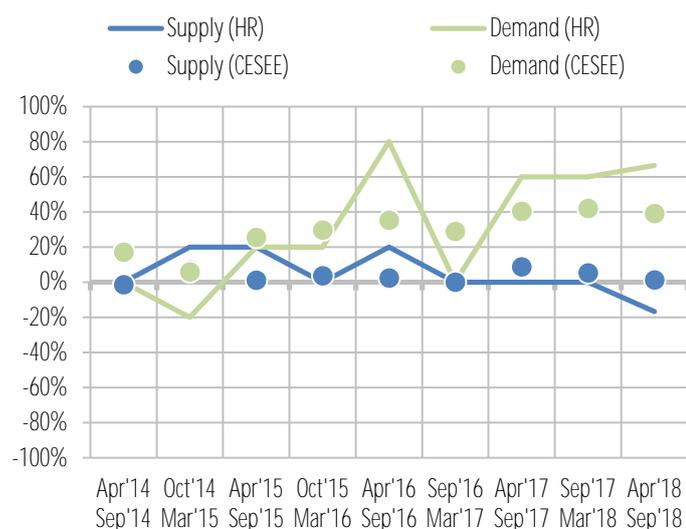
Credit demand has increased further over the last six months while credit supply conditions deteriorated, leading to a widening of the gap between demand and supply. The credit supply conditions have tightened over the last six months on mortgages in particular.

Credit supply conditions although have tightened overall, some softening of conditions have been registered for short-term and consumer loans, for the third time. Credit standards are expected to stay neutral on overall for the next period.

Demand for loans has increased across most components, except foreign currency loans. All factors contributed positively to loan demand during the last six months, with the strongest demand coming for financing of working capital and consumption expenditure.

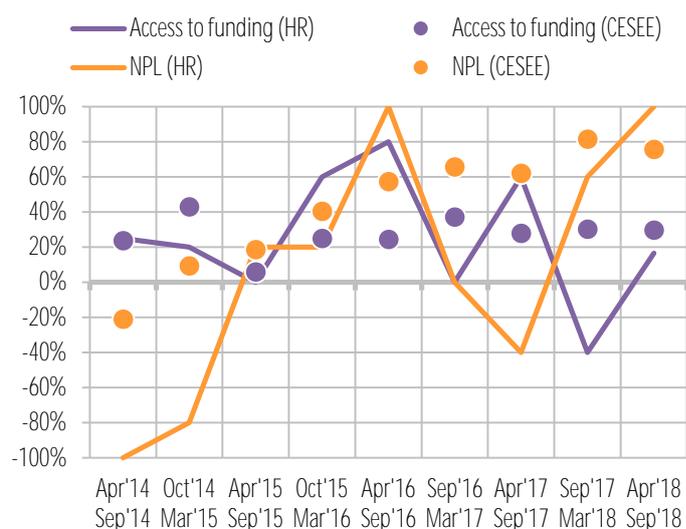
Access to funding has improved over the last six months, mainly due to the higher domestic retail funding. On the contrary, intra-group funding decreased.

NPL figures have improved strongly over the last one and half year, after a negative impact of Agrokor restructuring at the beginning of 2017. The improvement is expected to continue for the next six months.



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

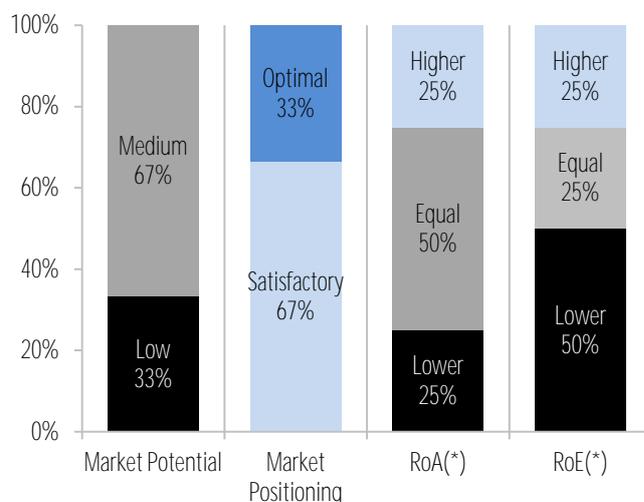
Results of the Bank Lending Survey – Parent banks level

Profitability increased during the last six months. Half of the parent banks declared that they perform below those of the overall group operations in terms of return on equity (adjusted for the cost of equity), compared to the 100 percent, six months ago. Moreover, one quarter of parent banks declared that Croatian banks generated a higher return both on assets and equity compared to those on the group level.

Two third of parent banks operating in Croatia consider the market potential as medium.

The share of parent banks that considers their current market position as optimal has increased to 33 percent from 17 percent, six months ago (and 50 percent one year ago) and all of them considers their market positioning at least satisfactory.

Figure 1 Market potential and positioning



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.

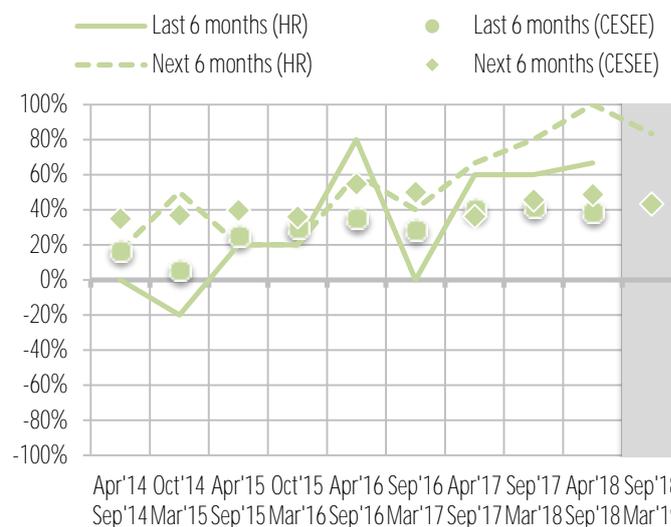
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

After a temporary slowdown at the end-2016, demand for loans continued to increase in Croatia above the CESEE average, although below initial expectations.

Expectations compared to actual realisation continue to be disconnected, indicating uncertainty and **banks'** limited ability to predict precisely demand. Nevertheless, expectations for the next six months, are downward adjusted, closer to the current realisation. Confirming the promising macroeconomic trend, local banks expect the credit demand to increase further, above the CESEE average.

Figure 2 Demand side developments



Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. 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

Credit demand has increased in the last six months across most components except foreign currency loans. Consumer loans again have been the most dynamic component. Overall, loan demand expectations remain very strong and above CESEE average. Lending demand is shifted clearly towards local currency and it is expected to remain so for the next six months.



Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

All segments contributed positively to loan demand during the last six months. Regarding the enterprises’ segment, financing of inventories and working capital was the major driver. For the next six months, a rebound in demand for fixed investments is expected, while **households’ factors are leading the trend.**



Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

The quality of overall loan applications has remained unchanged during last six months and no change is expected over the next period. Still, quality of applications for mortgage loans has deteriorated. Regarding the next six months, improvements are expected for the quality of loan applications of large companies and foreign-currency loans.



Source: EIB – CESEE Bank Lending Survey

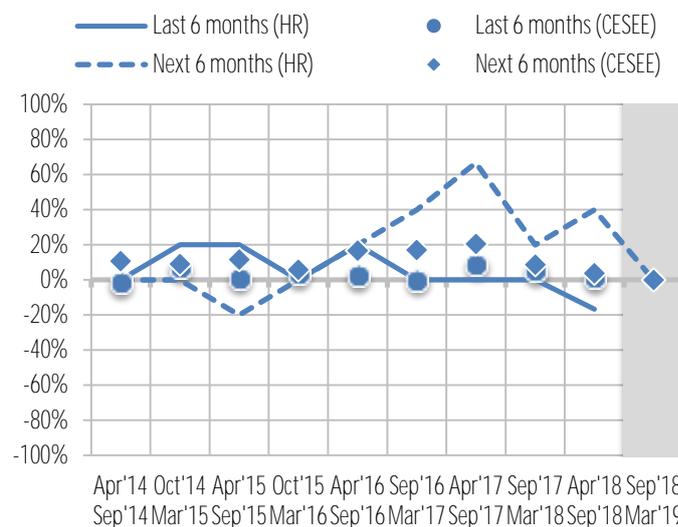
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit supply developments in Croatia have deteriorated, the continuous positive expectation.

For the next six months, lending standards are expected to remain neutral, just as in whole CESEE region.

Figure 6 Supply developments

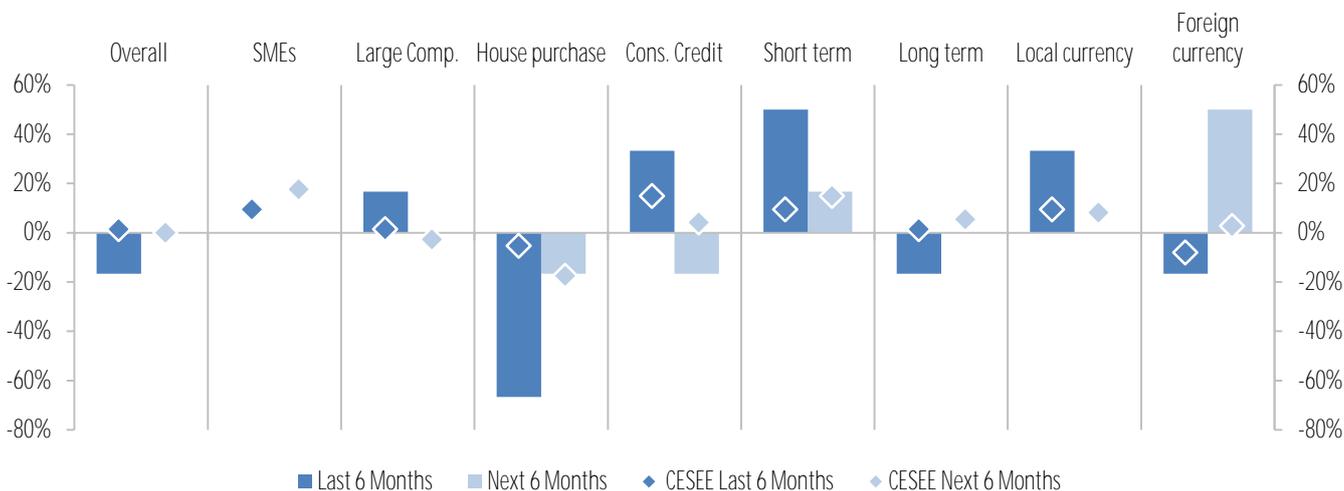


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Overall, credit supply conditions have tightened over the last six months, especially for mortgage loans. Still, they have eased considerably for short-term consumer loans. Credit standards are expected to stay neutral in the next six months for enterprises, both large companies and SMEs.



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

Overall approval rates remained unchanged in Croatia during the last six months, below the CESEE region average. Only **banks' approval rates for short-term and households' loans** have increased. On the contrary, loans for SMEs have experienced a net decline in the approval rate. Over the next six months, the approval rate is expected to improve or stay the same for all type of loans, except for house purchase.



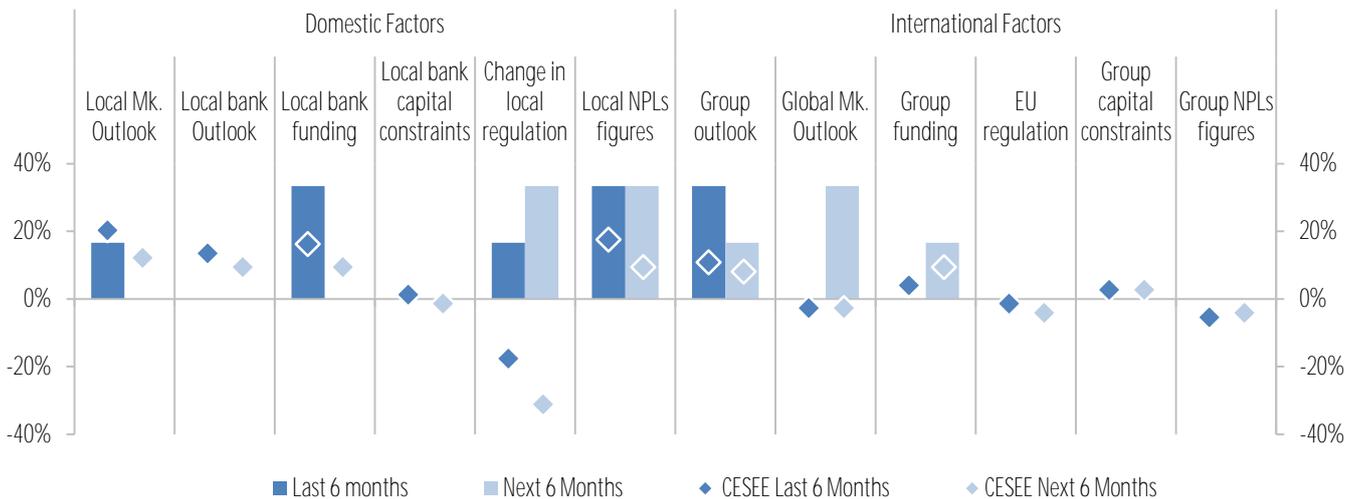
Source: EIB – CESEE Bank Lending Survey

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 to the credit supply conditions, just as the group outlook from the international factors bucket. Contrary to previous **survey's result**, the change in local regulation are lifting up domestic credit standards. Local capital constraints had no impact on supply conditions, just as in previous survey.

For the next six months, the supportive effects are expected to come from local NPLs (see also figure 10) and local regulation, whilst global market outlook should contribute from international factors. No negative contribution on supply conditions is expected.



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 banks in Croatia reported a decrease in NPL ratio over the last six months, both on corporate and **retail loans'** portfolio.

Despite improvements, the level of NPL in Croatia is one of the highest in the region, at 11.2 percent overall and even higher for non-performing corporate loans at 22.1 percent as of H1 2018.¹ The write-off of NPLs has been enhanced through a one-off tax-treatment in 2016, but implementation is still ongoing.

The progress on NPLs reduction is expected to continue for 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

Access to funding of Croatian banks slightly improved during the last six months in line with expectations of previous survey. While the retail and corporate deposits contributed positively to banks' funding, the intra-group funding decreased during the last six months. Access to long-term and foreign currency funding of the Croatian banks is expected to decrease in the next 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

¹ WIW database based on CNB

Czech Republic

Profitable market, funded mostly from local deposits. Loan demand has been stable recently, after a few periods of softer growth. Overall credit standards have become neutral, but they are becoming tighter for house purchase loans.

Summary

Group assessment of positioning and market potential: Banks operating in the Czech Republic see high to medium market potential and all of them regard their current market positioning as optimal or satisfactory. Local bank profitability is generally higher than or equal to the group level.

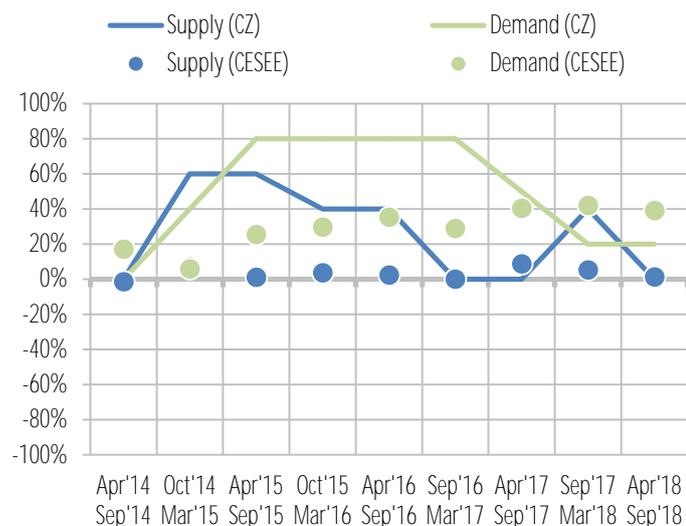
Czech banks report that overall lending standards have become more neutral from being accommodative, while the overall loan demand has stabilized after a few periods of softer but still positive growth. Over the next six months, loan demand should strengthen somehow, while lending standards are expected to remain neutral.

Behind the overall neutral picture on the credit supply side, the lending conditions for house purchase loans have tightened and are expected to tighten further. This development is in line with both monetary and macroprudential tightening of the Czech National Bank. Credit standards for consumer credit are expected to become tighter in the next six months.

Demand for credit in Czech Republic has decreased for house purchase loans in reaction to the tightening credit conditions for house purchase loans. Credit demand for all other loan segments remains strong.

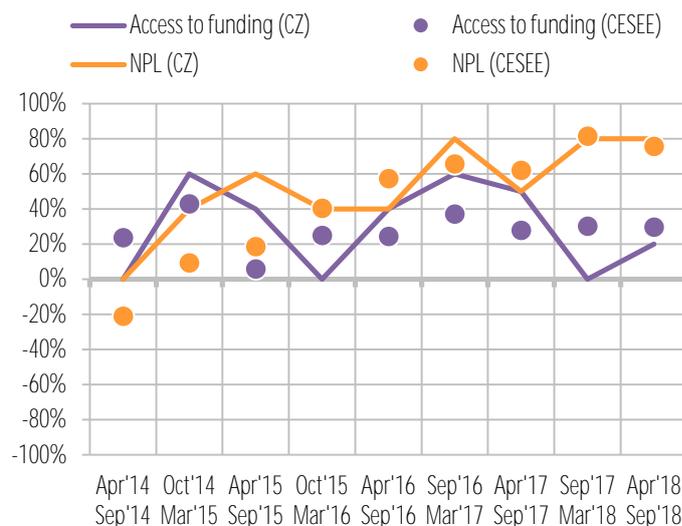
Access to funding has improved for bank subsidiaries in the Czech Republic in the last six months and is expected to remain unchanged over the next six months. **Retail bank funding from households' deposits** is expected to improve in the next six months.

NPL figures have improved over the last six months, and further NPL reduction is expected 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)



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

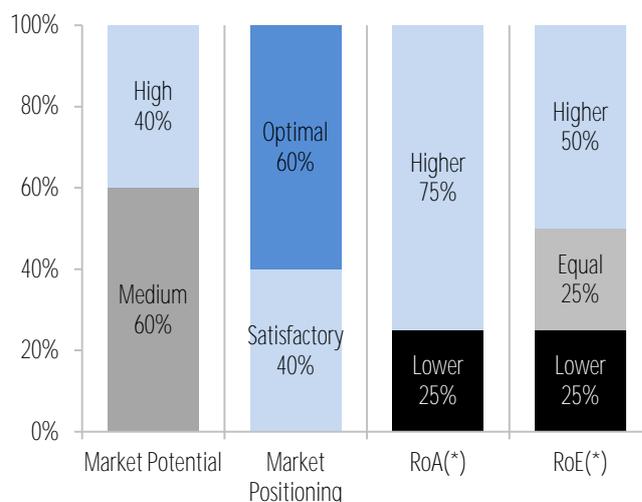
Results of the Bank Lending Survey – Parent banks level

In comparison to the previous six months, market **potential and positioning as seen from parent banks’ perspective** has remained broadly unchanged.

Local bank profitability (in terms of ROE adjusted for cost of equity) in comparison to overall group operations seems to be improving, as more banks report higher profitability than the overall group (50 percent versus 25 percent six months ago)

The favourable profitability performance is translated **into the parent banks’ perception of high market potential** in the Czech Republic (40 percent of respondents) and optimal market positioning (60 percent of respondents).

Figure 1 Market potential and positioning



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.

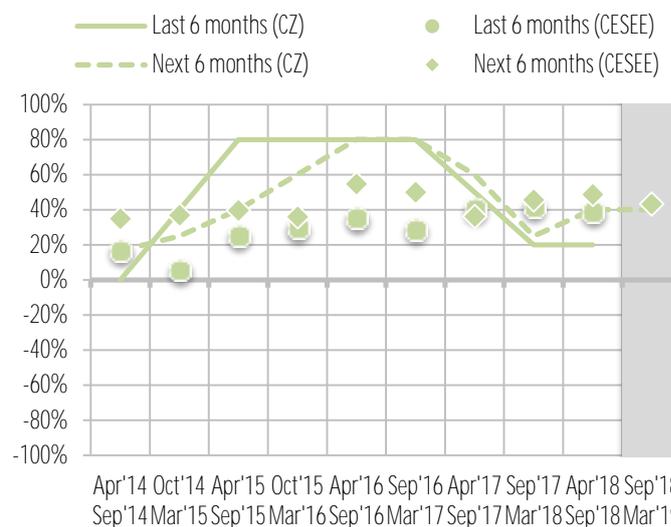
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

The recent slowdown of net increases in loan demand has stabilized and currently 20% of banks on net basis report an increase in overall loan demand over the last six months. However, this is still below the overall CESEE average.

Going forward, local banks expect further strengthening in loan demand during the next six months.

Figure 2 Demand side developments

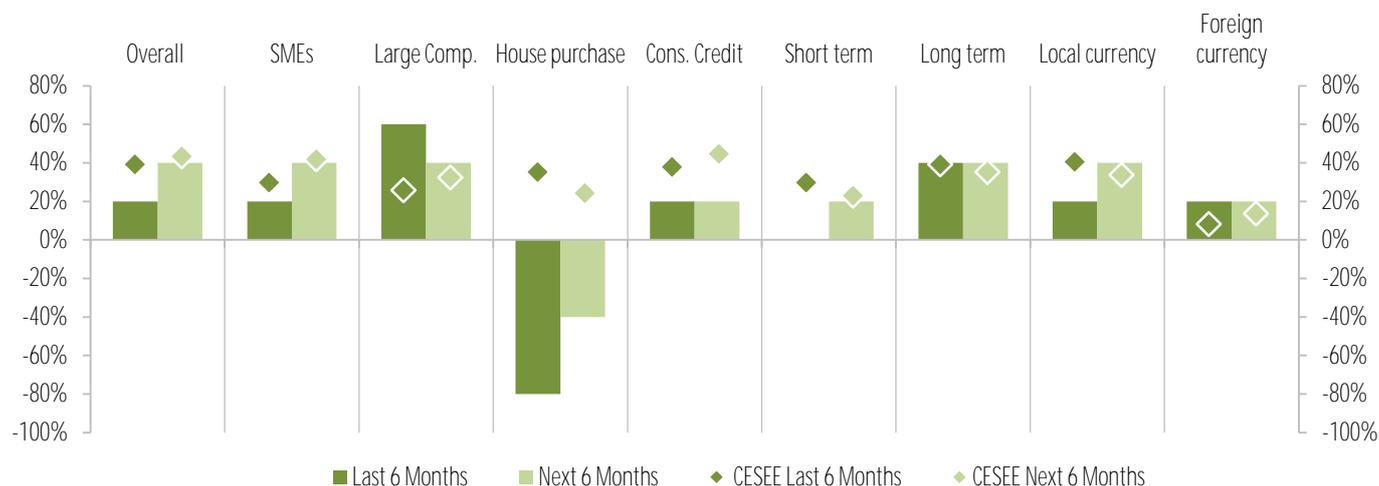


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. 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

In line with monetary and macro-prudential tightening, demand for house purchase loans registered a strong net decline during the last six months. Over the next six months, house-purchase loan demand is expected to decline again. On the other hand, large firms and SMEs have registered an increase in loan demand and this development is expected to continue. Consumer credit demand, while increasing, remains below CESEE average. Consumer credit demand, while increasing, remains below CESEE average.

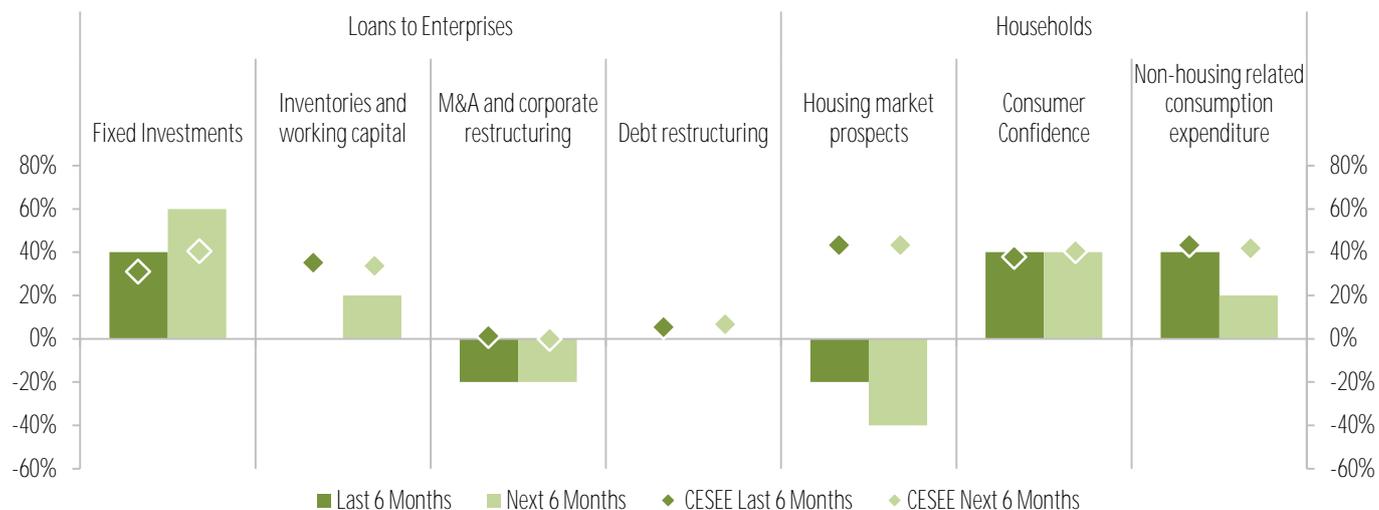


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

Factors affecting demand for loans in the Czech Republic paint the same picture as the demand components and segments. Fixed investments continue to have increasingly positive influence on loan demand, but housing market prospects are having increasingly negative impact on loan demand. Consumer confidence and non-housing related consumption expenditures have had positive influence on loan demand over the last six months and similar development is expected in the next six months.



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

Over the last six months, the quality of loan applications has been stable, in contrast with the CESEE region as a whole where the quality of loan applications has been witnessing a broad-based improvement. Similar development is foreseen over the next six months, with no expected change to the quality of loan applications in the Czech Republic.



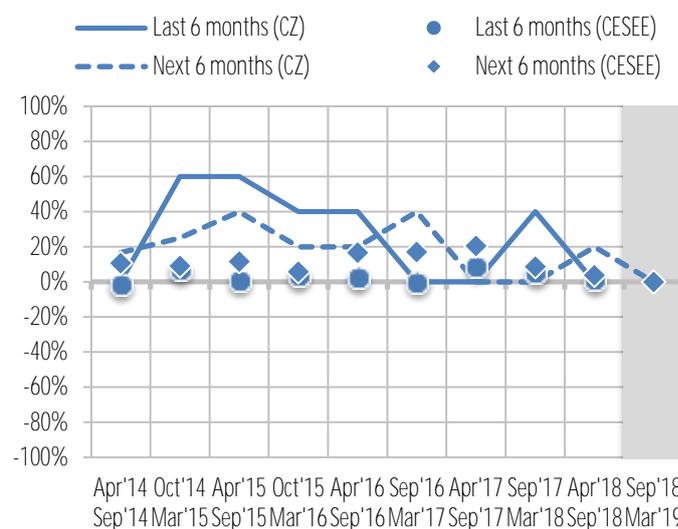
Source: EIB – CESEE Bank Lending Survey

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

Aggregate supply developments

Credit standards in the Czech Republic have once again turned neutral, from easing in the previous survey wave. Going forward, the expectations series points to the continuation of neutral lending conditions on the Czech credit market. These developments are broadly similar to the CESEE average.

Figure 6 Supply developments

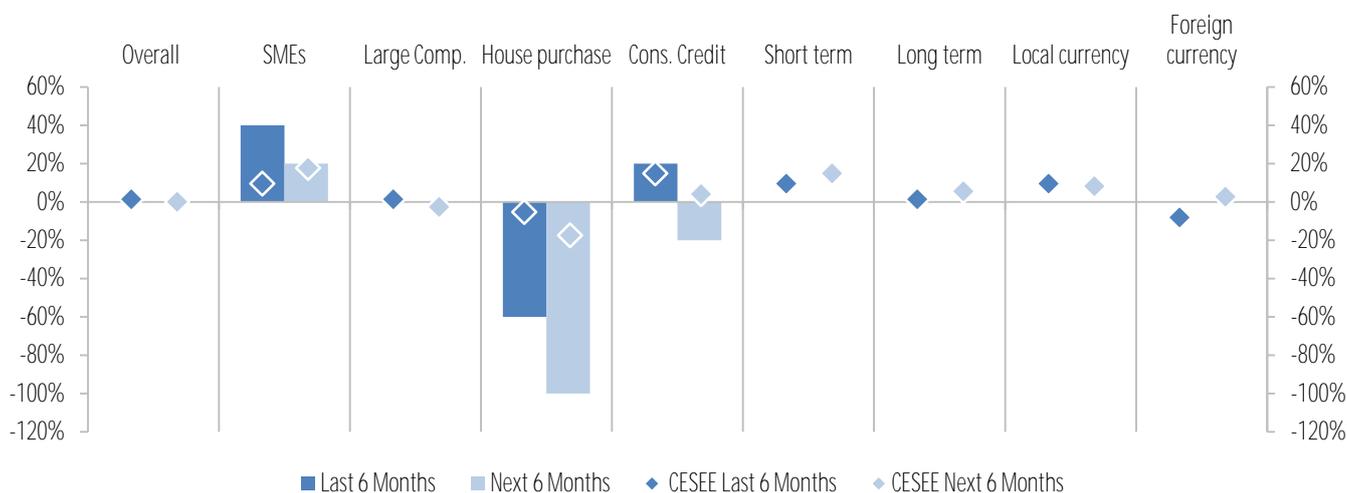


Source: EIB – CESEE Bank Lending Survey.

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

Credit standards for house purchase loans have continued becoming tighter over the last six months, and more tightening is envisioned by the banks in the next six months. Credit standards for consumer credit, while being accommodative over the last six months, are expected to tighten going forward. On the other, lending conditions for SMEs have eased over the last six months, and further (albeit smaller) easing is envisioned in the next six months.

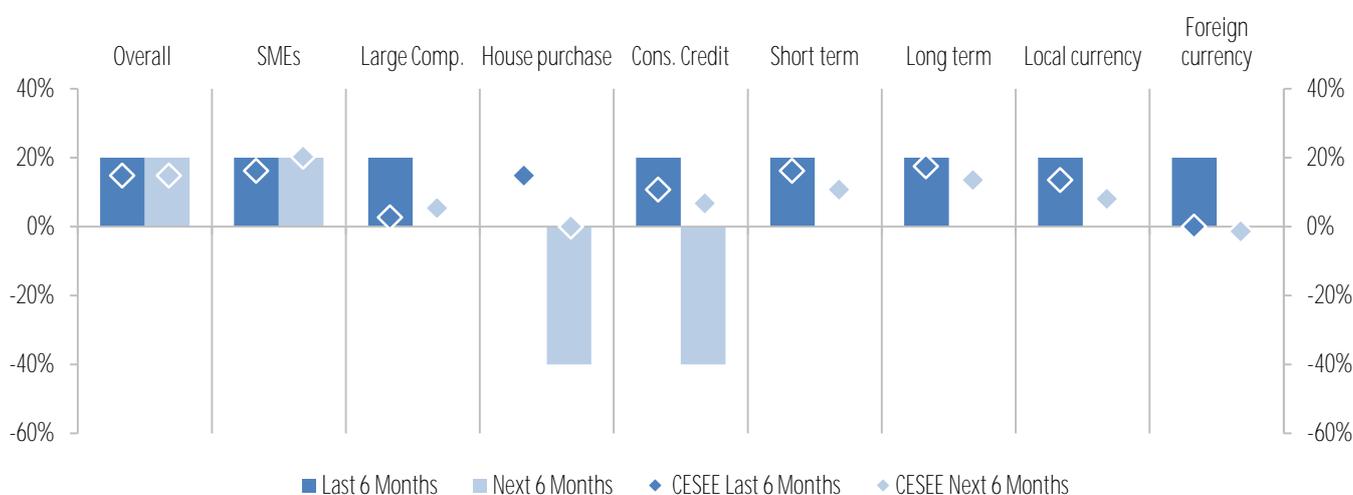


Source: EIB – CESEE Bank Lending Survey

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

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

Overall banks' loan approval rate has increased during the last six months and the same is expected in the next six months. Looking at the individual components, house purchase loans have been the only ones that have not changed over the last six months. The approval rate for house purchase loans and consumer credit is expected to decline in the next six months. The approval rate for loans to SMEs is expected to increase in the next six months.

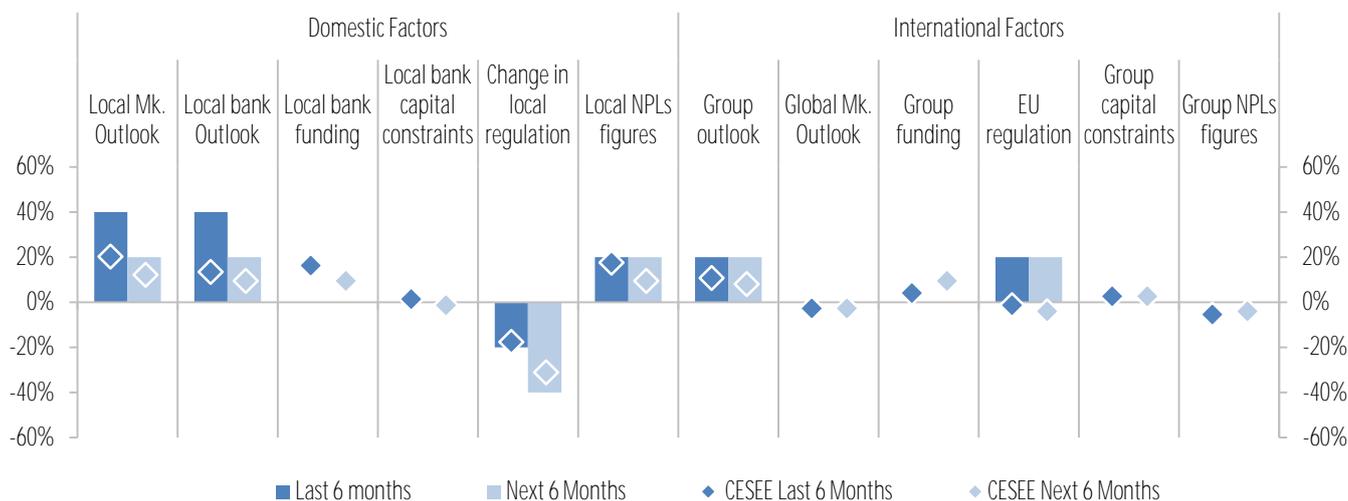


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

As in the previous two survey periods, changes in local regulation have been the only factor contributing negatively to credit supply conditions over the last six months. Further negative contribution of local regulation is expected in the next six months. On the other hand, local market outlook, local bank outlook, local NPL figures as well as group outlook and EU regulation continue having positive contribution to credit supply conditions in the Czech Republic.



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 the Czech Republic has continued favourably during the last six months.

Over the next six months, both corporate and retail NPL reduction is expected to continue.

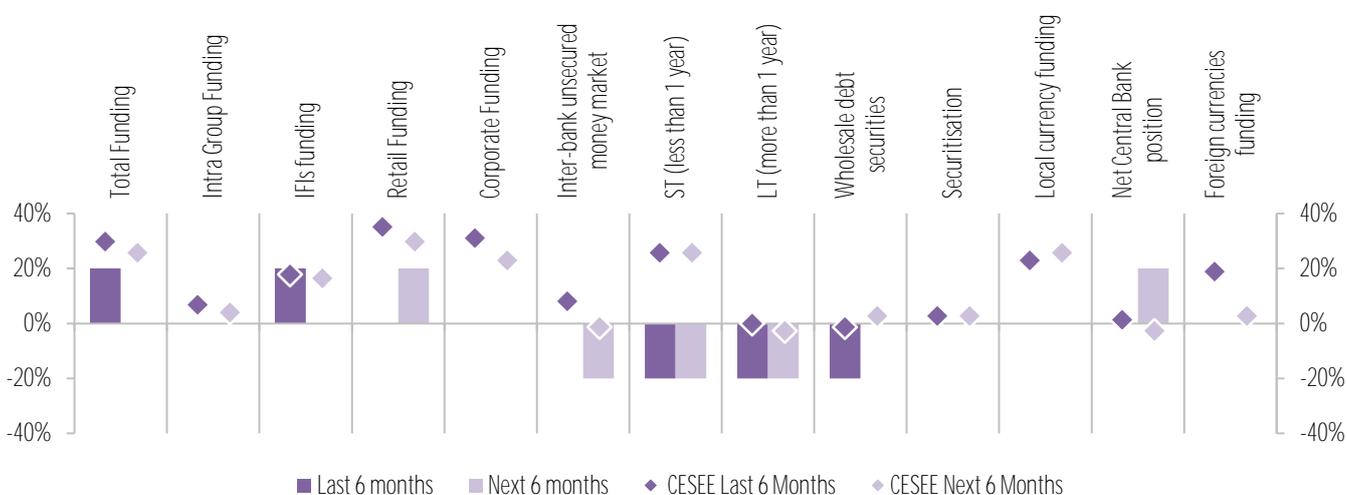


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Access to funding of the Czech banks has improved over the last six months. Going forward, it is expected to turn more neutral again. While retail funding is expected to improve in the next six months, intra-group funding and corporate funding are expected to remain neutral.



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 with rapidly improving credit demand, and with supply conditions lagging somewhat **behind**. Parent banks' assessment of the market potential is positive, and in line with Visegrad peers.

Summary

Group assessment of positioning and market potential: Most parent banks consider the Hungarian market to have medium potential, and to be broadly in line with the rest of the Visegrad 4 group. More than 50 percent of the banking groups find that their position in the Hungarian market is satisfactory or optimal. Risk-adjusted returns on equity and assets on average exceed those of the overall group operations.

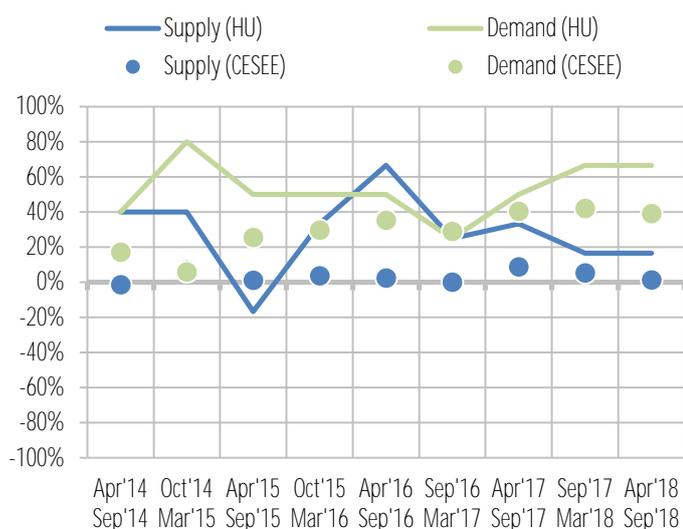
Hungarian banks report both credit demand has been improving dynamically over the last six months, while the improvements in credit supply conditions have been lagging behind demand.

Credit supply conditions have improved somewhat in the last six months, yet more than for the rest of the CESEE region. Banks expect to see further minor improvements again in the near future.

Demand for loans at the same time has been increasing very dynamically across the whole spectrum of products and segments over the last six months. Demand for foreign-currency loans are on the rise again.

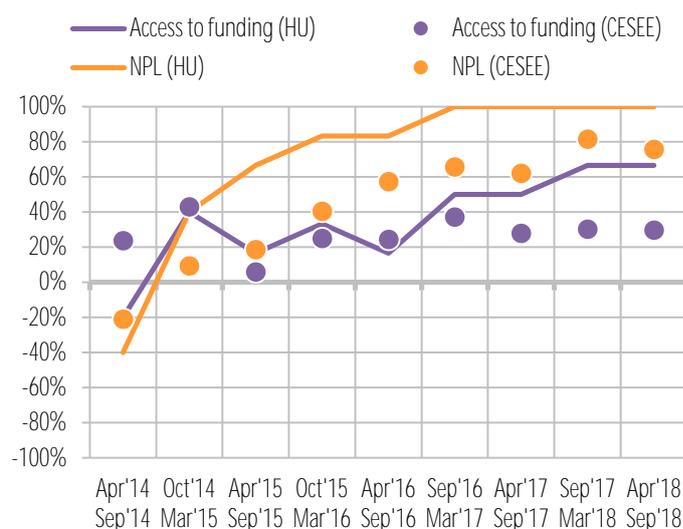
Access to funding: Overall access to funding by Hungarian banks improved in line with the CESEE region. The improvement is due chiefly to domestic sources; both retail and corporate funding have been contributing strongly to that.

NPL ratios have been improving in an unequivocal manner both in the corporate and the retail segments.



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

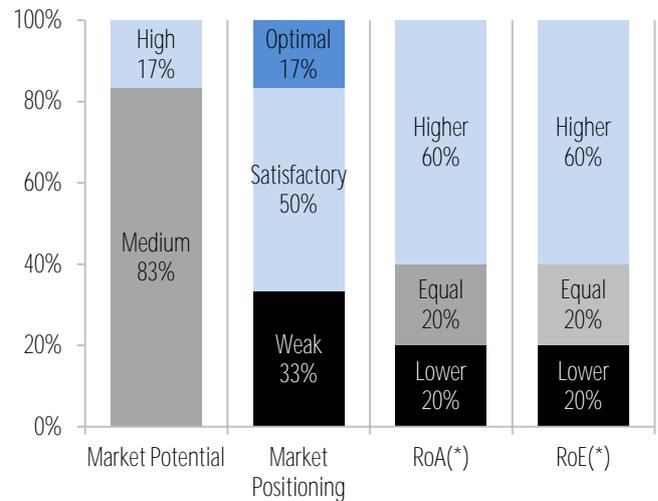
Results of the Bank Lending Survey – Parent banks level

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 CESEE, while the others indicate maintaining their presence at the current level.

Most parent banks consider the Hungarian market to have medium potential. This reflects a steady improvement in the assessment relative to a few years ago. Hungary is now broadly in line with the rest of the Visegrad 4 peers.

More than 50 percent of the banking groups find that their position in the Hungarian market is satisfactory or optimal, yet more than 30 percent of the groups find their positioning weak. Most parent banks find that risk-adjusted returns on assets and equity are high on average compared to overall group operations.

Figure 1 Market potential and positioning



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.

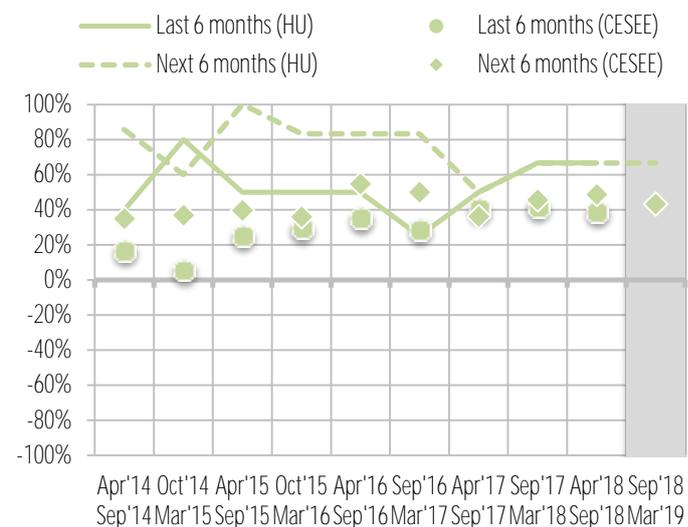
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Hungarian banks continued to report strong credit demand in the past six months – in line with their previous expectations. They expect an increase in demand of similar scale for the forthcoming period.

Both the data referring to the past, and the change expected by the financial institutions for the next six months generally suggest the dynamics of the demand for loans in Hungary to continue to be above the rest of the CESEE region.

Figure 2 Demand side developments



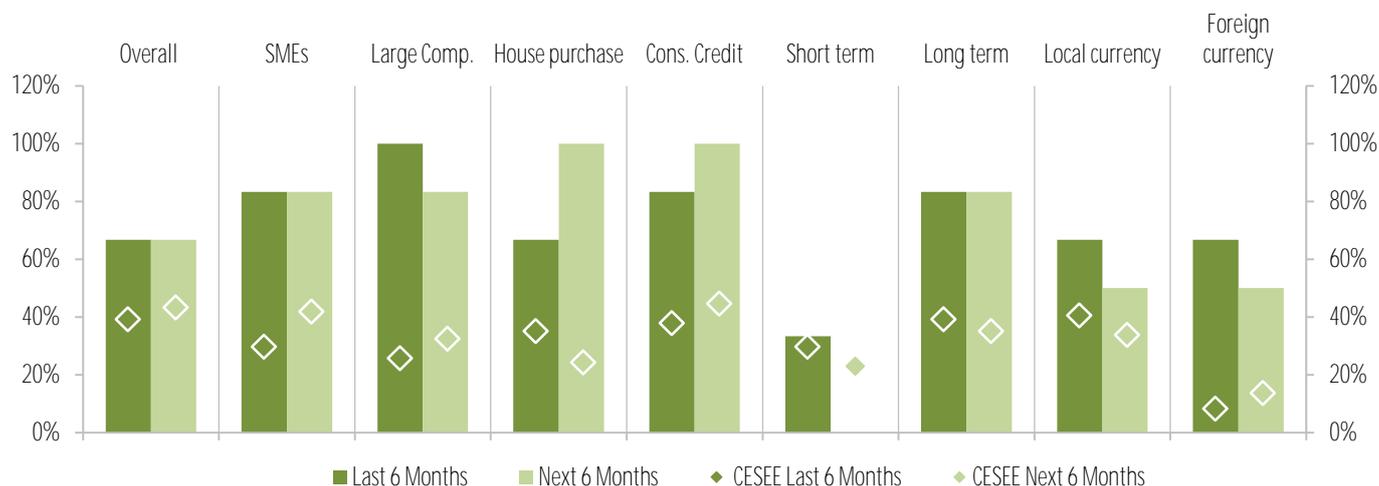
Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. 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

An increasing demand is observed in all market segments and subcategories. Demand is expected to strengthen even more for mortgages.

Loan demand is more dynamic for longer maturities than for short-term banking products. While earlier survey rounds indicated a strong preference towards borrowing in Hungarian forint versus foreign currency denominated loans, banks now report a dynamic demand for foreign currency loans too.



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

When looking at the individual factors, both investment and working capital has been driving the demand for loans in the corporate sector. Demand related to acquisitions, as well as to debt restructuring has been close to stagnating.

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

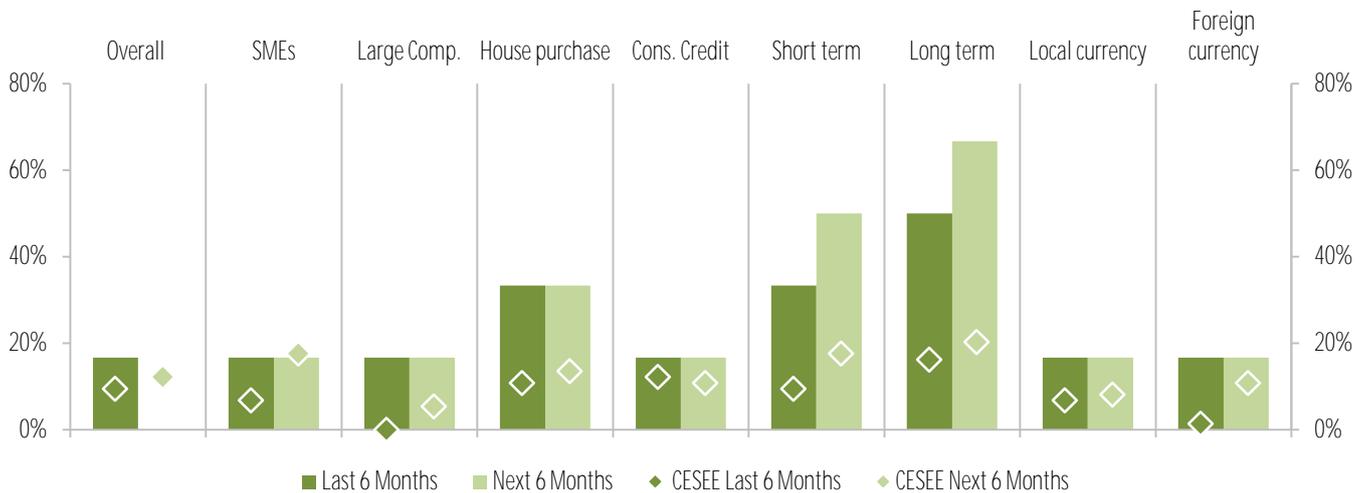


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

The perceived quality of loan applications has improved in the last six months, and banks operating in Hungary expect further positive developments in the coming months, in particular for mortgages.



Source: EIB – CESEE Bank Lending Survey

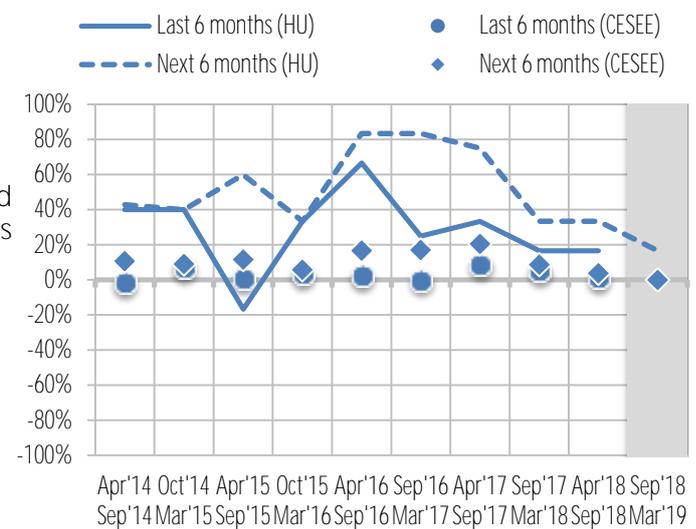
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit supply conditions have been easing somewhat in the last six months. The improvement was less pronounced than the **banks' own** expectations. When looking ahead, banks are expecting to see further mild increase in supply again in the near future, similar in magnitude to the improvement experienced in the last six months.

While lagging behind the demand side, current and expected improvements in the credit supply conditions are larger in Hungary than in the rest of the CESEE.

Figure 6 Supply developments

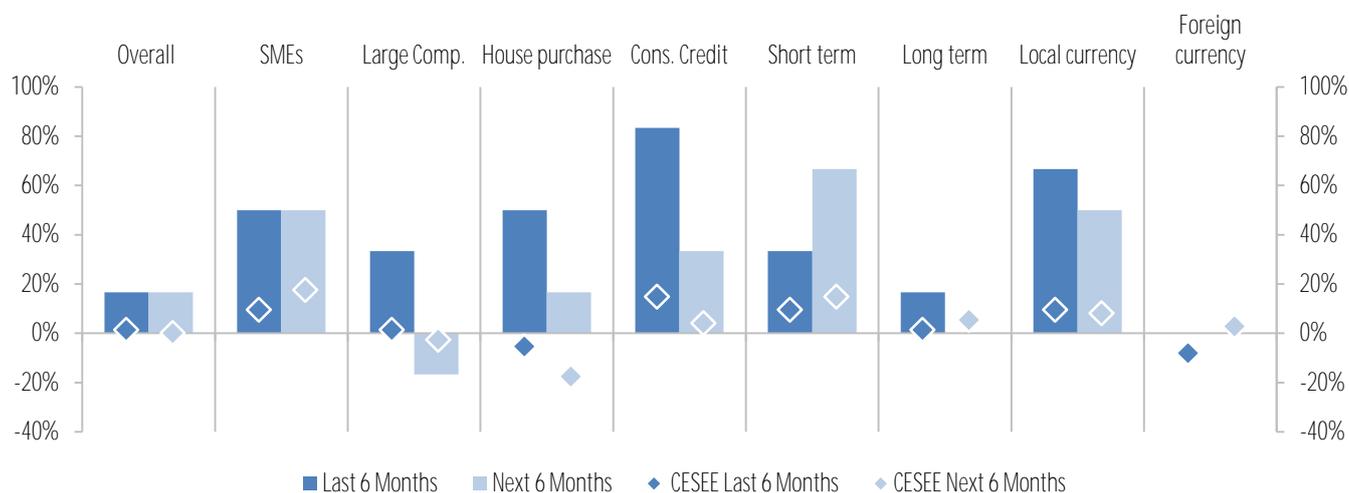


Source: EIB – CESEE Bank Lending Survey.

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

Although credit supply conditions have been improving in all segments, the strongest positive developments can be observed in consumer credit. Credit supply conditions for the corporate sector have been improving at a slower pace than for households. Supply for large companies is expected to stagnate in the next six months, whereas the lending growth is forecasted to remain high for SMEs. The expected improvements are above the CESEE average in most categories.

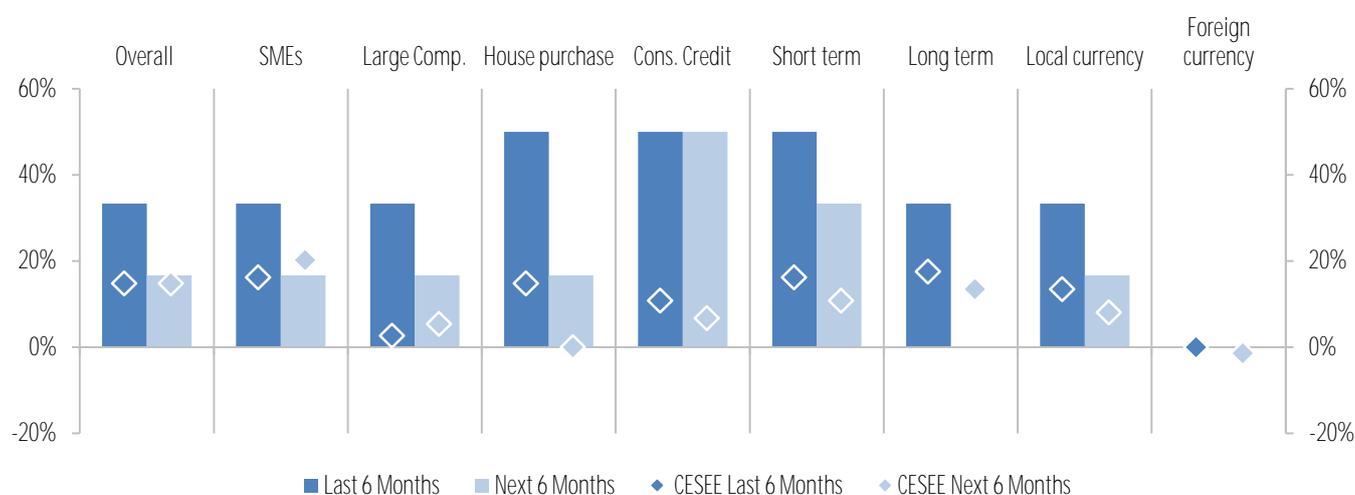


Source: EIB – CESEE Bank Lending Survey

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 rates of credit applications have improved in all market segments in the last two quarters, and are expected to improve further in the coming months. These developments are broadly in line with the CESEE average, but significantly more pronounced.

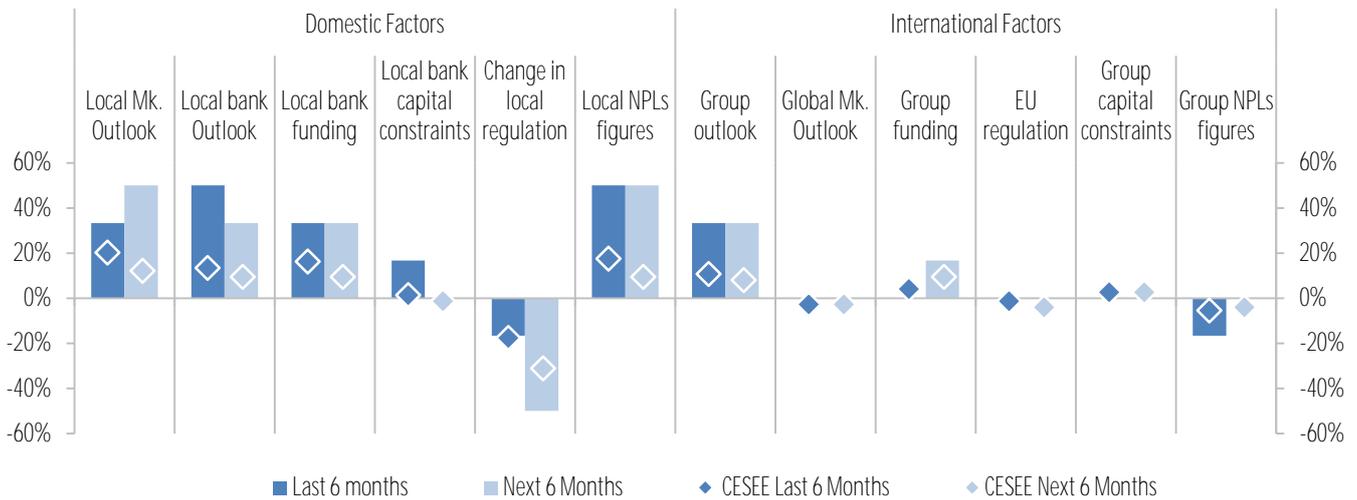


Source: EIB – CESEE Bank Lending Survey

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 broadly neutral. Local outlook, funding conditions, and non-performing loans are pointing towards increasing supply. Local regulation, however, is considered to be a drag, and is expected to be as such even more in the coming months. On the international side, group outlook is having a mild 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 an unequivocal manner both in the corporate and the retail segments. The improvement is in line with the general developments of NPLs in CESEE, but yet more pronounced.

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



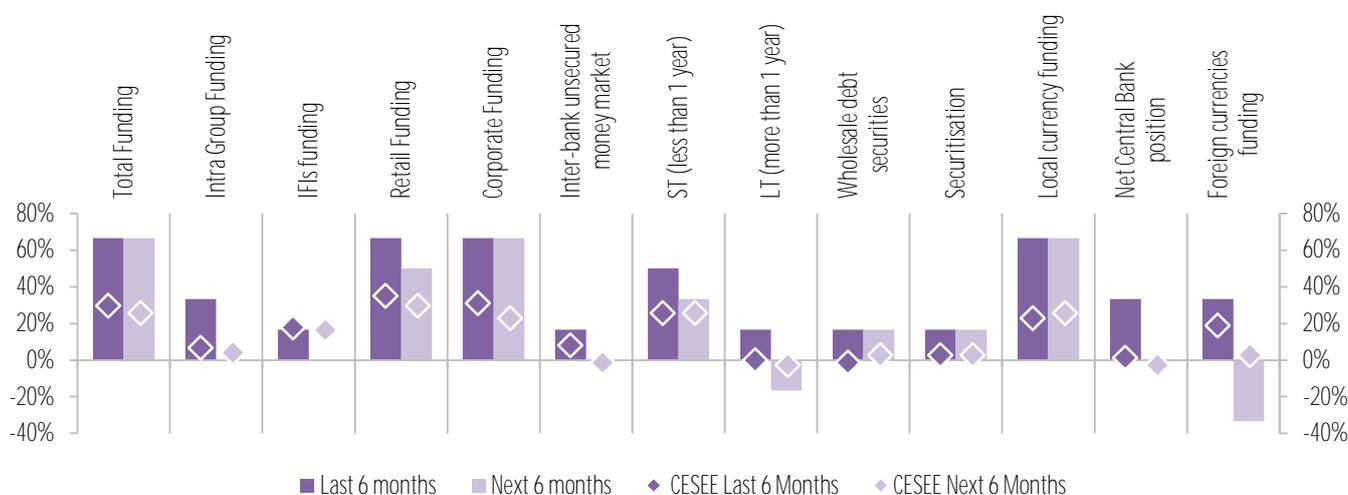
Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

In line with the developments in CESEE, overall access to funding by Hungarian banks has improved over the last months. The strongest contributors are domestic retail and corporate funding. Improvements are pronounced in the short-term segment, whereas for longer maturities the improvements in the past are mild.

Looking ahead, banks expect the continuation of the improvements in access to funding across the board. Nevertheless, long-term funding is expected to deteriorate over the coming months, together with foreign currency 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

KOSOVO

A small but profitable market with medium market potential. Credit demand has been volatile but growing recently. Credit conditions have eased. NPL reduction continues for corporate loans, it has stopped for retail loans.

Summary

Group assessment of positioning and market potential: Parent banks operating in Kosovo continue seeing a medium market potential. Their market positioning is regarded as optimal. The profitability of all local banks has been above the overall group operations.

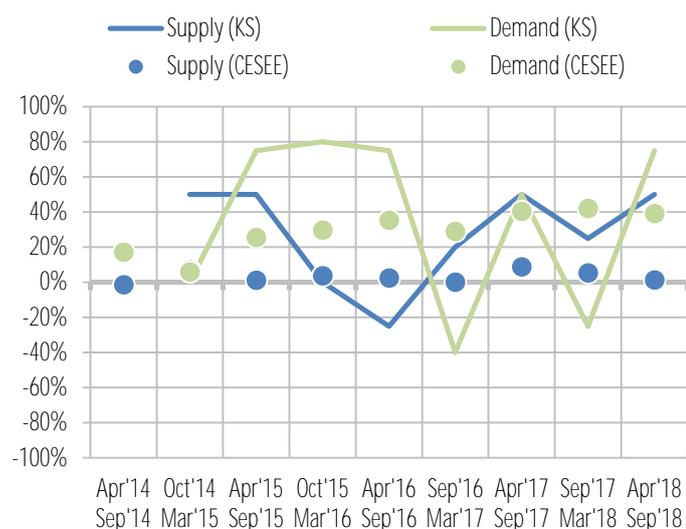
Credit demand has strengthened in the last six months but it remains volatile. On the other hand, credit supply conditions continue easing. Over the next six months, local banks expect further easing in credit standards, while credit demand is expected to become more neutral again.

In the last six months, credit supply conditions have eased for all loan segments. **Banks'** loan approval rate has been broadly favourable across the board. Nevertheless, the loan approval rate has declined for large corporate loans during the last six months and is expected to remain unchanged in the next six months.

Favourable economic environment in Kosovo has also translated into an increasing demand for loans in the last six months. Nevertheless, demand for large corporate loans has increased the least compared to other loan segments during the last six months and it is expected to register a decline in the next six months.

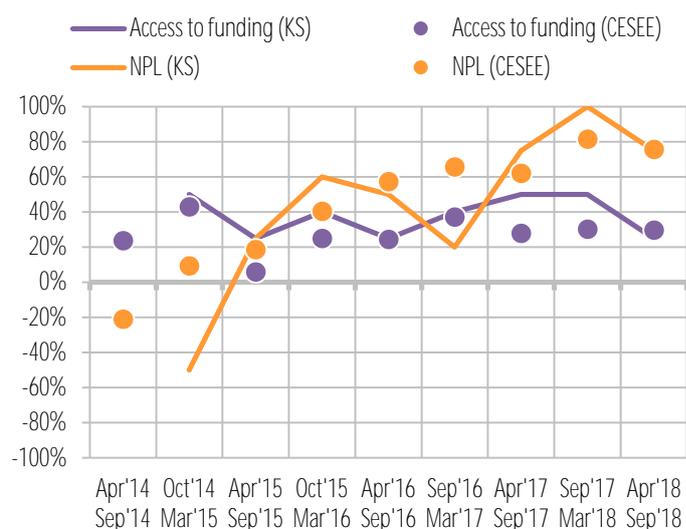
Access to funding has improved in the last six months and is expected to improve further over the next six months. Access to intra-group funding, IFIs funding and retail deposits have improved in the last six months, but access to corporate deposits has worsened recently and it is expected to remain unchanged in the next six months.

NPL figures as a total have declined during the last six months at a healthy pace. Further NPL reduction is envisioned for corporate loans. NPL reduction for retail loans has been unchanged during the last six months and it is expected to remain unchanged also 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)



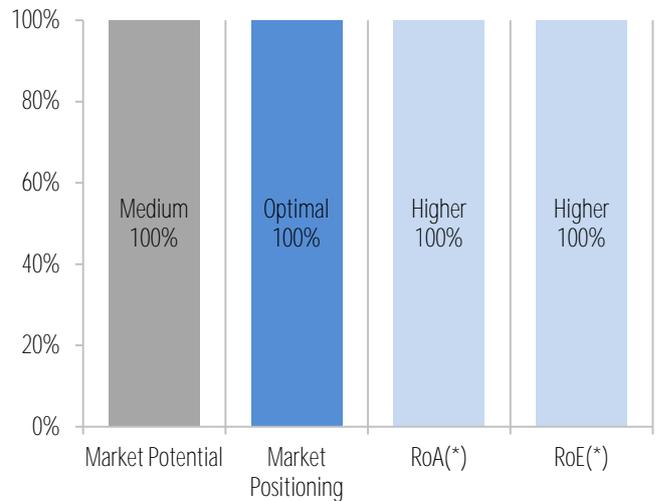
Source: EIB – CESEE Bank Lending Survey.

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

The profitability of banks in Kosovo remains above the overall group levels. Parent banking groups regard the market potential as medium and their current market positioning is broadly seen as optimal. This picture remains unchanged from the last period.

Figure 1 Market potential and positioning



Source: EIB – CESEE Bank Lending Survey.

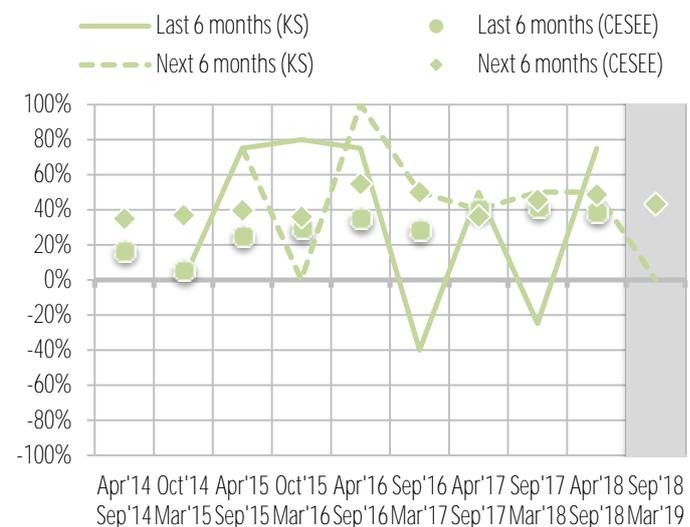
Note: See question A.Q1. (*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

Aggregate demand developments

Credit demand perceptions have been rather volatile in Kosovo. After a net decline in loan demand in the previous period, loan demand has registered a net increase during the last six months. However, the expectations point towards a more neutral credit demand development in the next six months.

Figure 2 Demand side developments

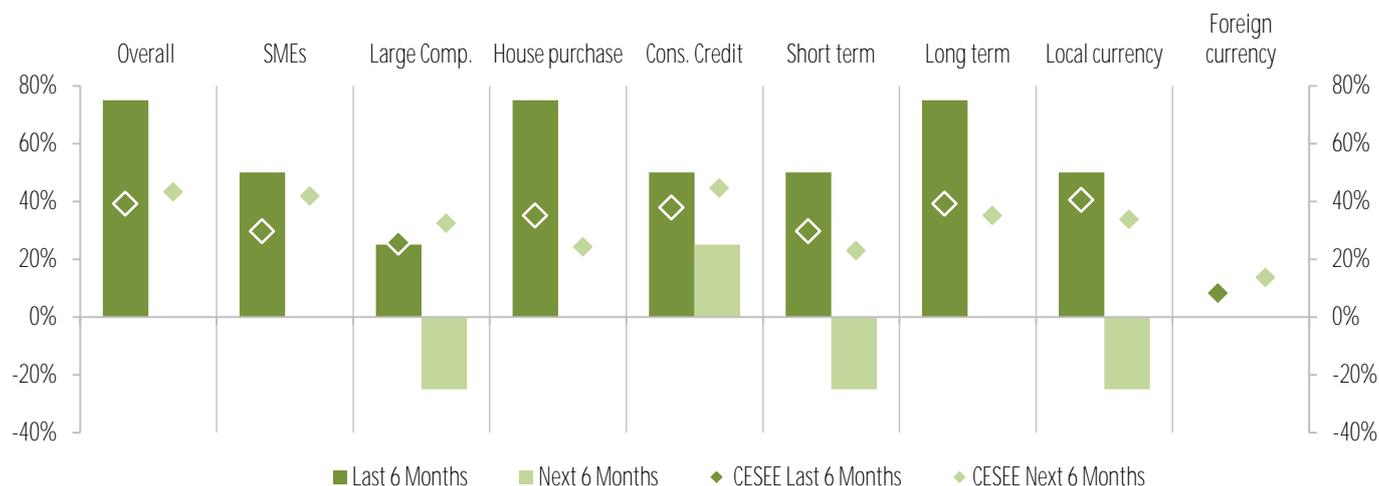


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. 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

The increased demand for loans has been broad-based across most segments, and it has been particularly strong for house purchase loans. Going forward, demand for large corporate loans, short term and local currency loans is expected to contract.

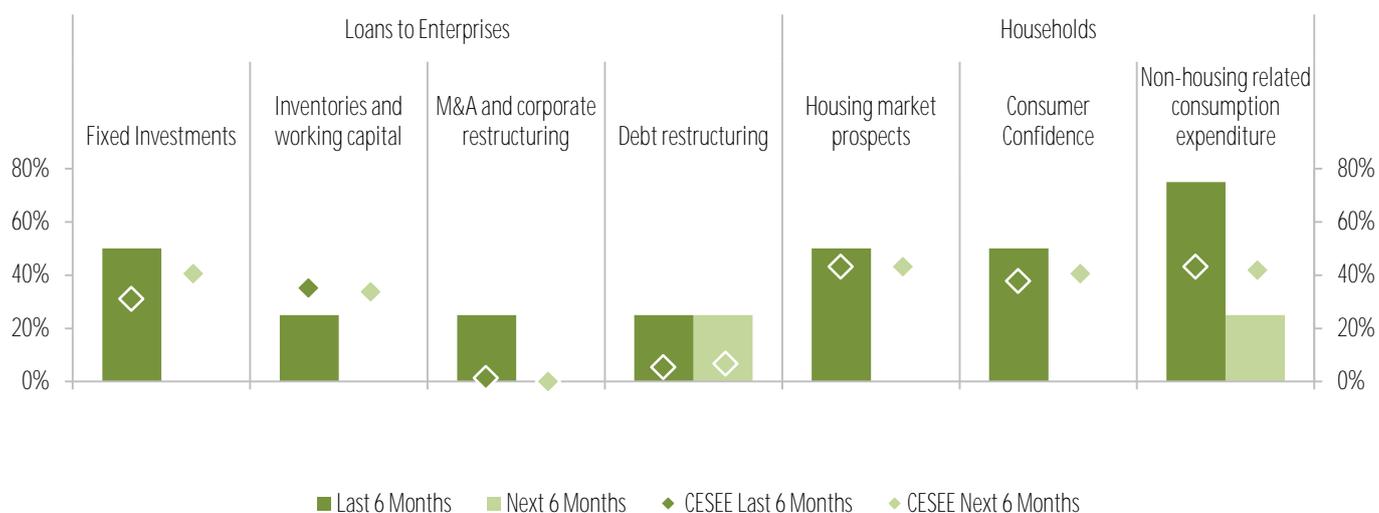


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

Corporate fixed investments as well as all household-related factors have been the main factors contributing positively to loan demand in Kosovo over the last six months. Looking ahead, except a positive contribution of debt restructuring and non-housing related consumption expenditures, all the remaining factors are expected to remain unchanged in the next six months.

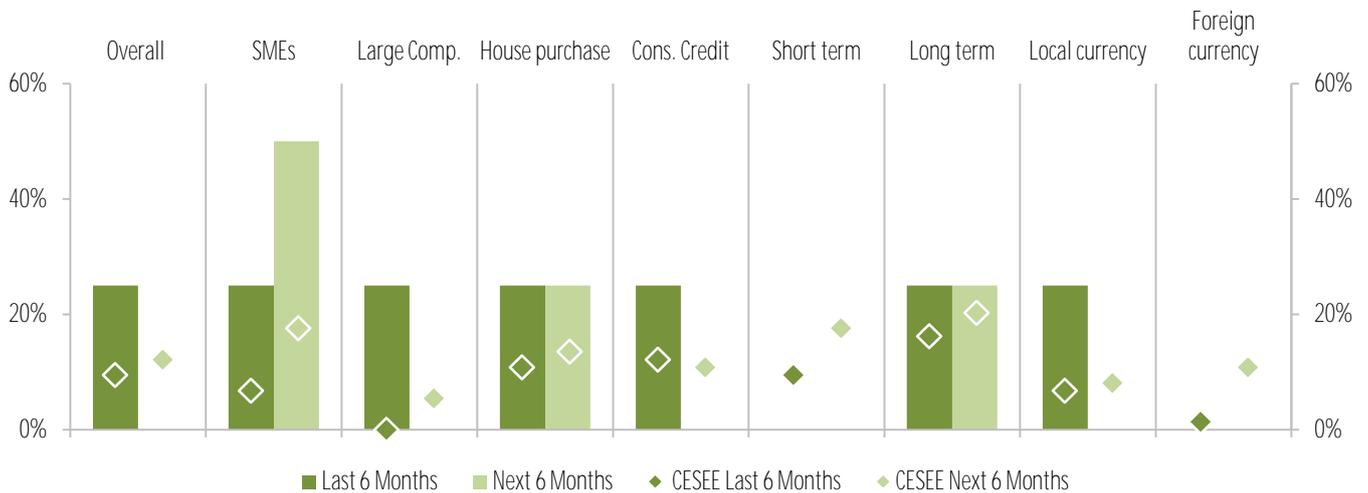


Source: EIB – CESEE Bank Lending Survey.

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 has improved during the last six months, driven mainly by improvements in the quality of demand for loans to SMEs, large corporate loans, house purchase loans and consumer credit. In the next six months, the quality of loan applications for loans to SMEs is expected to improve further, together with the quality of loan applications for house purchase loans.



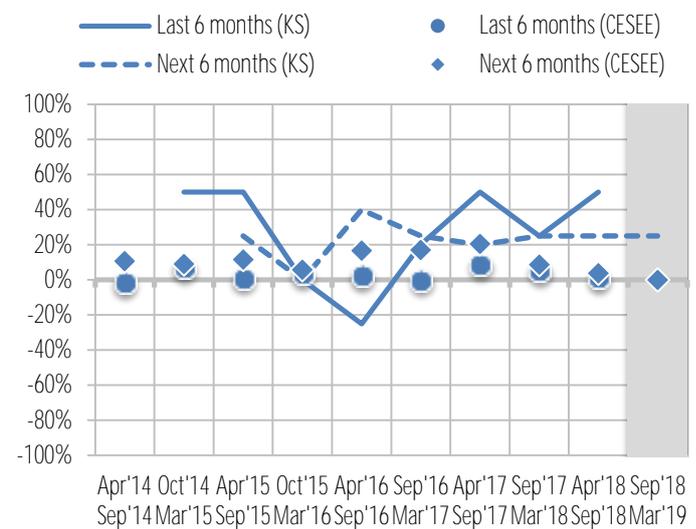
Source: EIB – CESEE Bank Lending Survey

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

Aggregate supply developments

Credit supply conditions in Kosovo have become more persistent than credit demand. Over the last six months, there has been further easing in credit standards, above the CESEE average, and this accommodative credit environment is expected to persist also in the next six months.

Figure 6 Supply developments

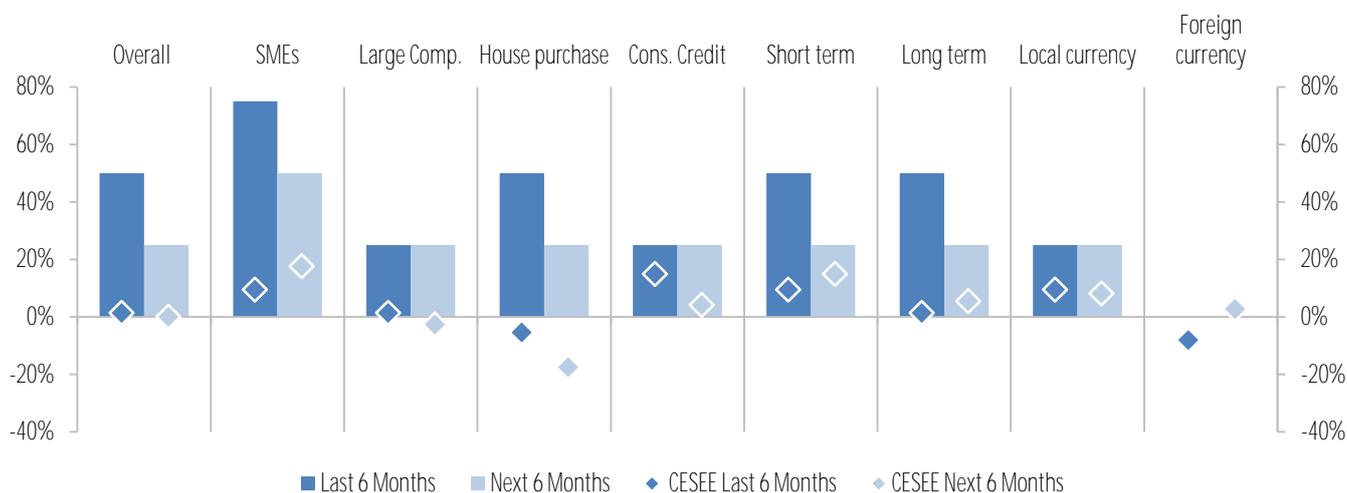


Source: EIB – CESEE Bank Lending Survey.

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

Over the last six months, credit standards have eased across the board, mostly for loans to SMEs and house purchase loans. This favourable credit supply environment is expected to persist in the next six months, too.

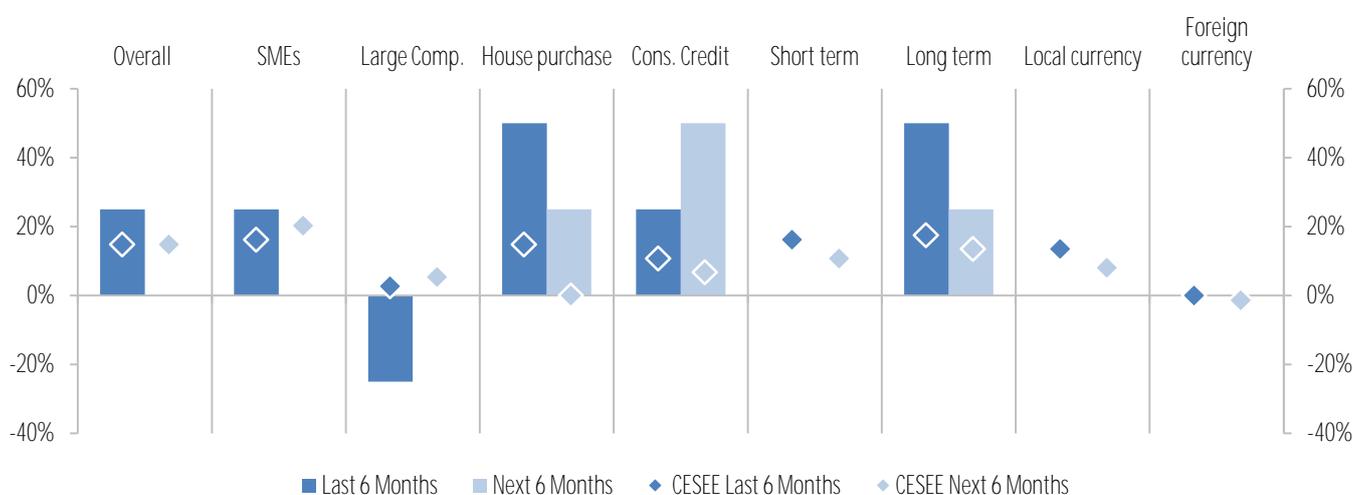


Source: EIB – CESEE Bank Lending Survey

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

During the last six months, the banks' approval rate has increased for loans to SMEs, house purchase loans and consumer credit, but it has declined for large corporate loans. Looking ahead, the overall approval rate for loan applications is expected to remain unchanged, except for further increases in the approval rate for house purchase loans and consumer credit in particular.

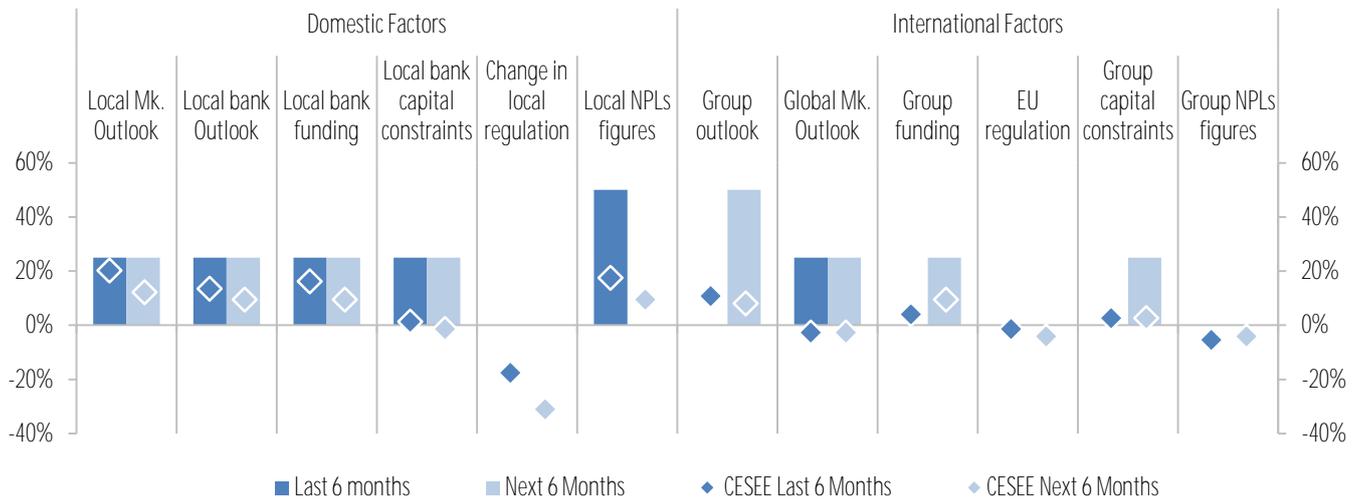


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

During the last six months, almost all domestic factors have contributed positively to the local credit supply conditions in Kosovo, particularly the local NPLs figures. International factors have been broadly favourable to local credit supply conditions in Kosovo as well. The expectations point to a continuation in this environment in the next 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

NPL reduction in Kosovo has been strong in the last six months only for corporate loans, with retail NPL ratio being unchanged. Further NPL reduction is expected over the next six months for corporate loans, but the NPL ratio for retail loans is expected to remain unchanged again. This confirms the continuation of the downward trend in retail NPL reduction from the last survey period.



Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Access to funding for banks in Kosovo has increased in the last six months and is expected to increase further over the next six months. While intra-group funding, IFIs funding and retail deposits have contributed to better access to funding, access to corporate deposits has worsened in the past six months. Last but not least, it is expected to remain unchanged in 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

Poland

*The Polish banking **market's potential** and profitability is considered to be broadly in line with the rest of the CESEE according to the assessment of parent banks. Credit demand has been mildly increasing, while supply conditions are broadly unchanged.*

Summary

Group assessment of positioning and market potential: Parent banks operating in Poland show commitment towards the region. They have heterogeneous views on the market potential of the Polish market, entailing a deterioration compared to a few years ago, when the Polish market was considered the one with highest potential. The majority of the parents find their current market positioning satisfactory. **Banks'** assessment of risk-adjusted returns is in line with the results of regional peers.

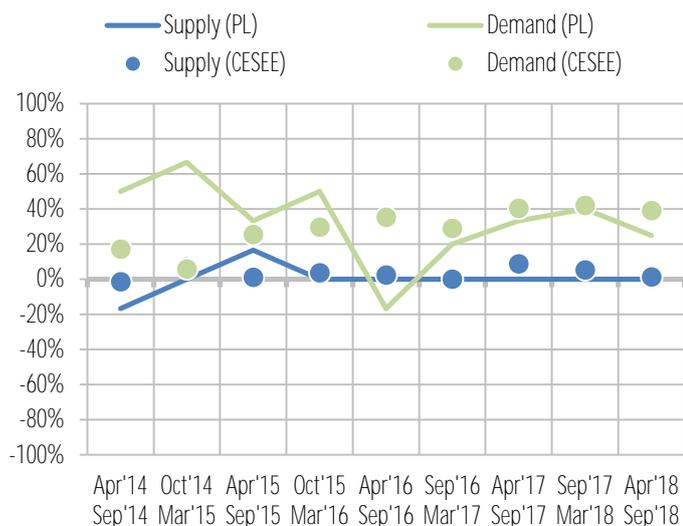
Polish banks report that credit demand has been slowly increasing, while supply conditions have been stagnating.

Credit supply conditions have been broadly 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 continued to grow in Poland, yet at a lower pace than before. The overall broadening of demand more or less conforms with the dynamics observed in CESEE, and with **the banks' own** past expectations. Looking ahead, a mild additional expansion of credit demand is expected, somewhat below the overall CESEE outlook.

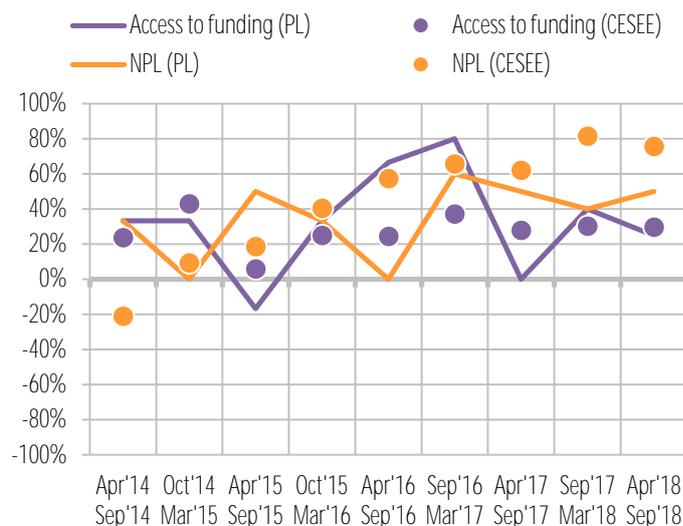
On aggregate, Polish banks' access to funding has been mildly improving in the last six months.

NPLs have been described as improving in all segments. No additional improvements are expected in the months ahead.



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

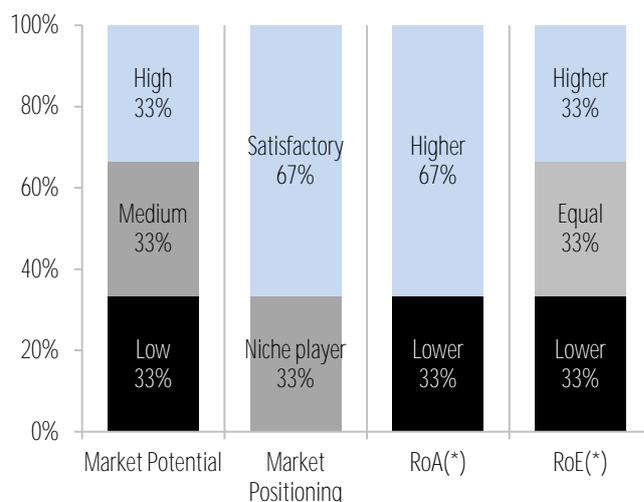
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Poland show commitment towards the region. One third of the groups present in the country plan to selectively expand their CESEE activity, while two-third of them plan to maintain their regional operations at their current level.

Parent banks have heterogeneous views on the market potential of the Polish market within CESEE. This is a deterioration compared to a few years ago when the Polish market was considered the one with highest potential. The majority of the parents find their current market positioning satisfactory.

As to profitability, the parent banks' **assessment of risk-adjusted returns** is broadly in line with the results of regional peers (Figure 1).

Figure 1 Market potential and positioning



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.

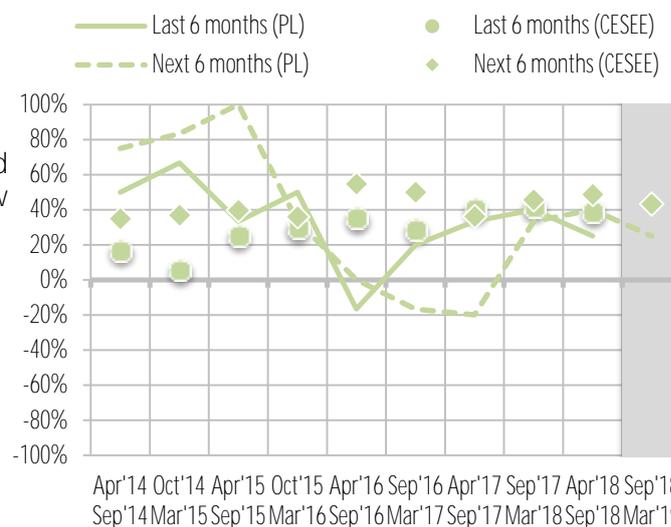
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Credit demand has continued to increase in Poland, although at a slower pace than before. The broadening of demand is marginally below the dynamics observed in the CESEE region, and is also below **the banks' own expectation formed six month ago**.

Looking ahead, Polish banks are expecting a mild additional expansion of credit demand, somewhat below the overall CESEE outlook (Figure 2).

Figure 2 Demand side developments



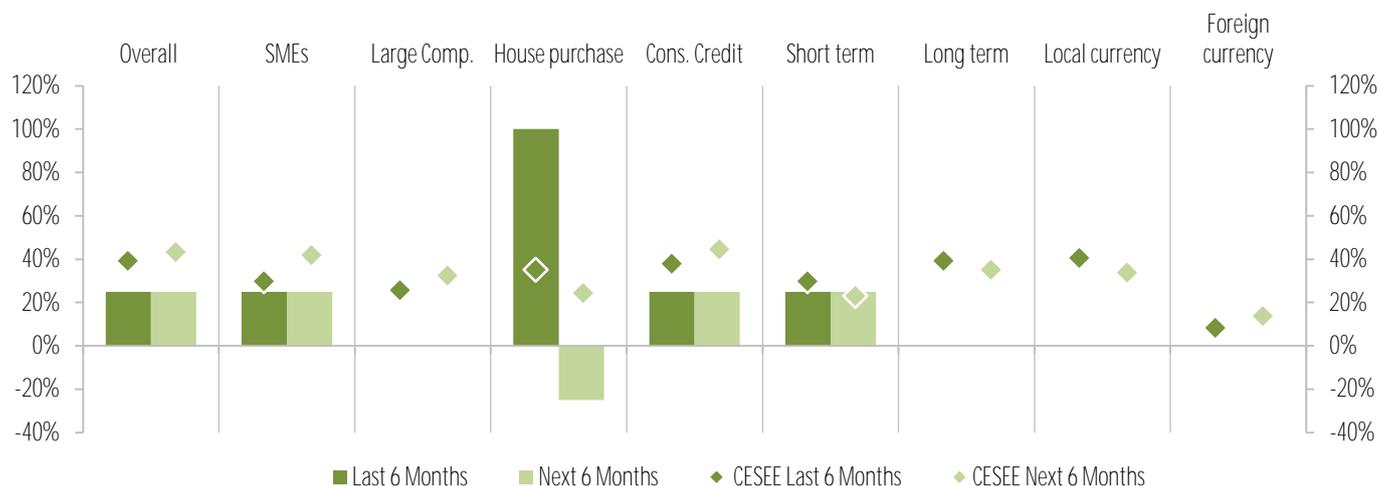
Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. 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

Housing loans have been the key driver of the increase in credit demand over the last six month. Demand for consumer loans and loans for SMEs have been showing a mild increase, whereas demand for credit by large corporations has been neutral. Looking ahead, demand is expected to increase mildly in the SME and consumer credit segments (Figure 3).

Credit demand in general has been below the average observed in the CESEE region in each segment, except for loans for housing.

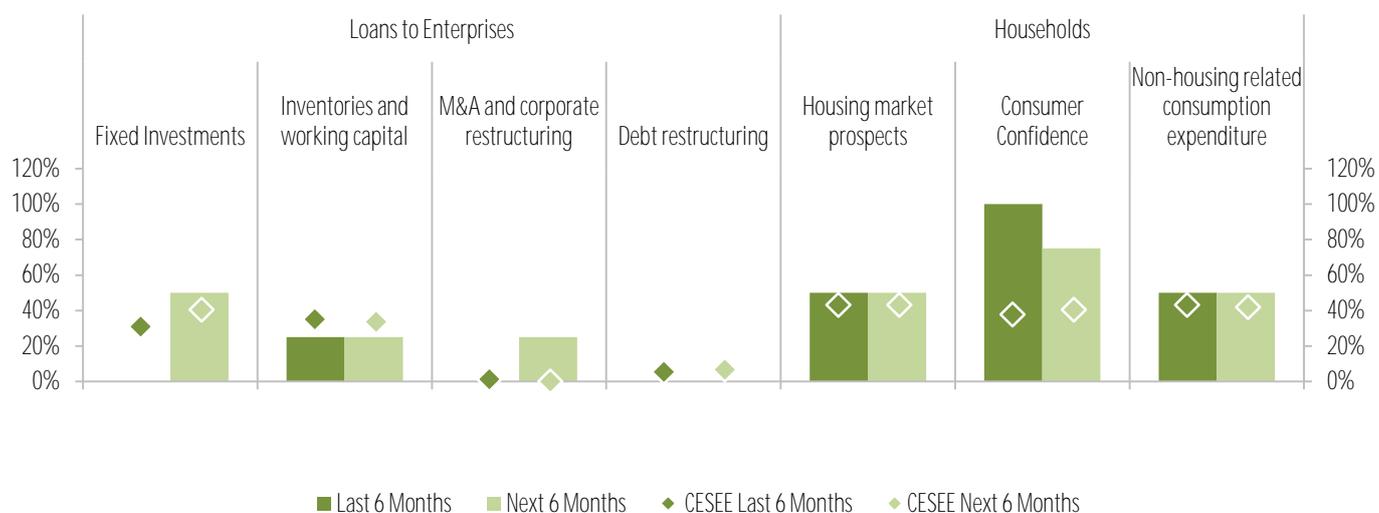


Source: EIB – CESEE Bank Lending Survey.

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 have been improving, thus supporting credit demand from the households. On the corporate side, demand for both investment loans and working capital has been broadly stagnating in the past six months. Looking ahead, banks expect further positive developments in the investment outlook (Figure 4). The cautious, yet broad-based optimism about the factors affecting demand for credit is 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

Figure 5 Quality of loan applications

The quality of loan applications have been improving for SMEs, whereas in other segments it has been stagnating. Looking ahead, further strong improvements are expected in the SME segment. Elsewhere in CESEE, banks report mild improvements in the quality of loan applications across all the segments.



Source: EIB – CESEE Bank Lending Survey

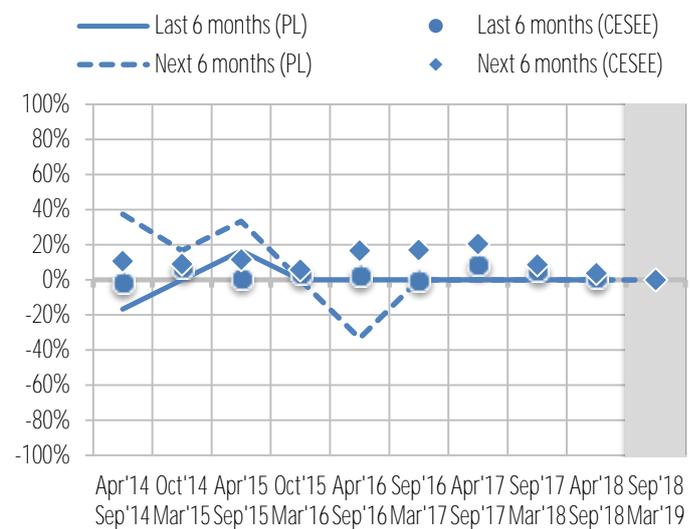
Note: Net percentages - positive figures refer to increasing of quality demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit supply conditions in Poland have been neutral in the last six months. Supply developments are in line with the close-to-neutral stance of the overall CESEE region. Stagnating credit supply is also in line with the banks' own expectation formulated six months ago.

Looking ahead, Polish banks expect the overall neutral stance for credit supply to continue.

Figure 6 Supply developments

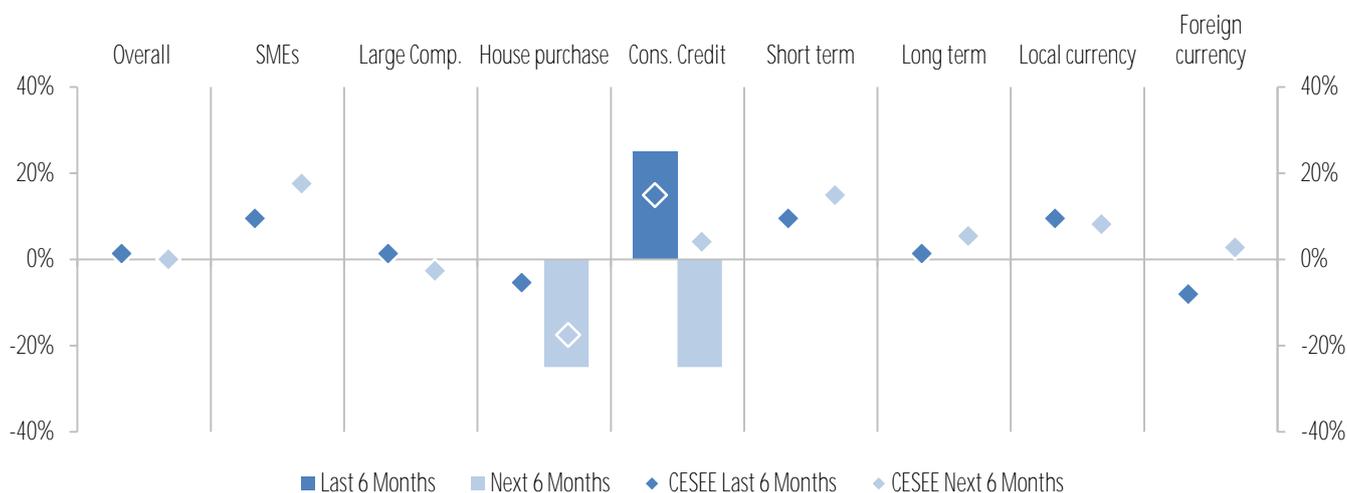


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

The supply of loans to Polish SMEs and larger corporates have been stagnating, and this is expected to continue in the coming months. For households, the supply of consumer credit has widened over the course of the last six months. Looking ahead, banks on average expect neutral supply conditions for corporates, and a decline in credit supply for households. The overall picture represents a marginally more pessimistic outlook relative to the CESEE average.

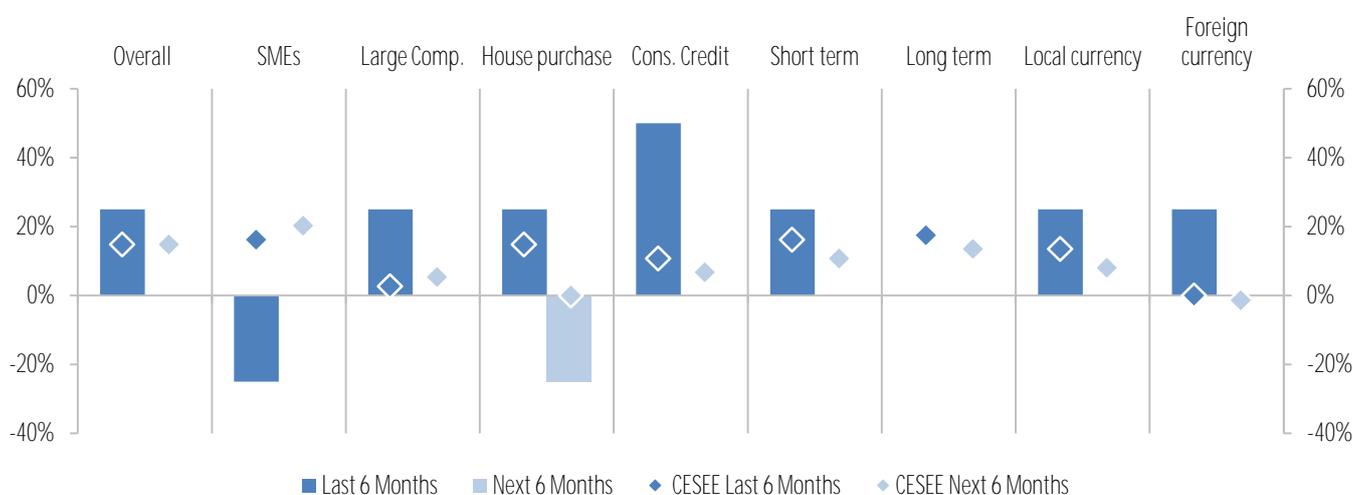


Source: EIB – CESEE Bank Lending Survey

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

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

Loan approval rates have been improving in all segments. The largest increase has been observed in the case of the approval of consumer credit applications. Looking ahead, banks expect approval rates to remain at their current levels in almost all segments. However, they expect some decline in approval rates of housing loans.

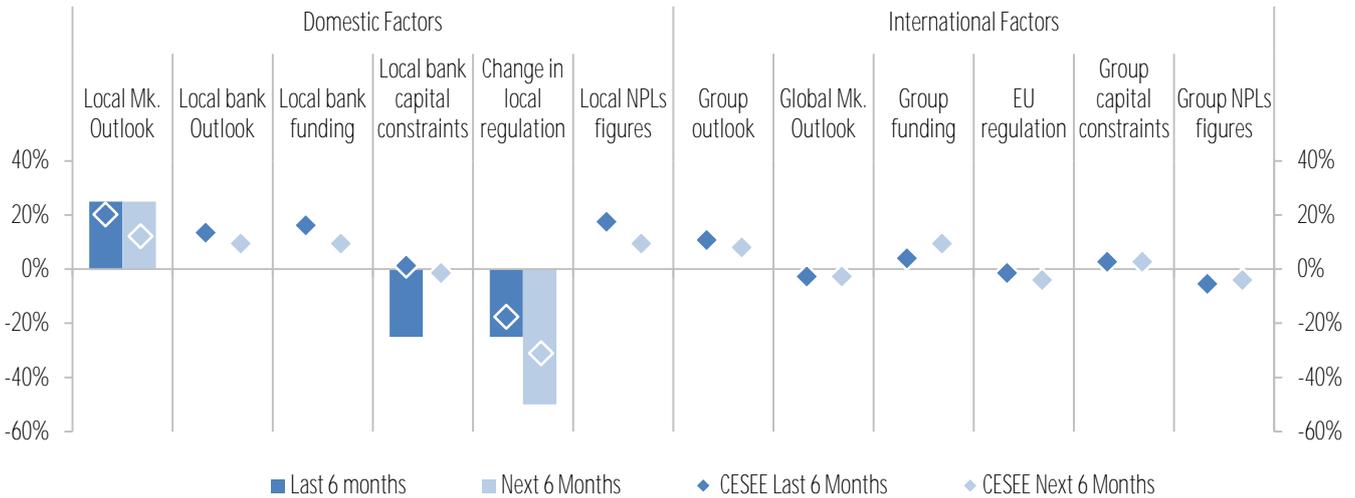


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

Polish banks see the majority of factors behind credit supply to be neutral; and they are expected to be as such in the coming months too. Local market outlook had a mild positive contribution to credit supply, while international factors were broadly neutral. Capital constraints at local level, as well as the regulatory environment has been asserting some negative influence on credit supply. The restraining effect of local regulation is expected to remain strong in the future, too.



Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 Non-performing loan ratios

NPL figures in Poland have been improving in the last six months. Strong positive trends have been observed in the retail segment, whereas for corporate clients banks reported somewhat milder improvements. The positive developments are less pronounced than in the rest of the CESEE, however, **Poland's NPL ratio has always been well below the regional average.**

While for the rest of the CESEE region a dynamic progress in the resolution of non-performing loans is projected, the outlook for Poland is broadly neutral.



Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

On aggregate, Polish banks' access to funding has improved in the last six months. This is due to better access to IFIs funding, interbank loans and securitisation. Intragroup funding, retail and wholesale securities contributed negatively (Figure 11). Looking ahead, the funding picture is broadly neutral 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

Best market potential in the region. Credit demand remained positive, despite the tightening interest rates in local currency. Access to funding and NPLs improvement still positive but below regional trend.

Summary

Group assessment of positioning and market potential: 73 percent of the parent banks consider Romania a market with high potential. This is the highest score among the CESEE countries. Assessment of market positioning remains divided with about 45 percent considering positioning satisfactory or better but the same share describing their position as weak. About half of respondents find profitability higher in Romania compared to group operations.

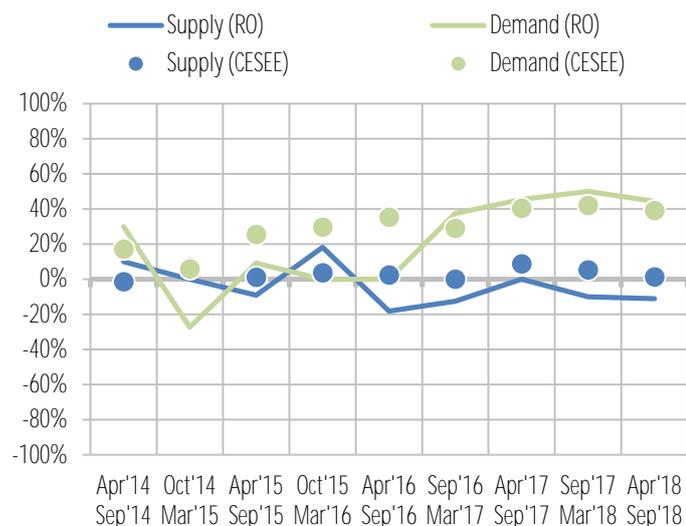
Credit demand has increased over the past six months in line with expectations and is boosted by still robust economic growth. Supply conditions have tightened again on balance.

Expectations on credit supply conditions suggest further tightening. Stricter credit standards were recorded for the household segment in particular with further tightening foreseen for the next six months. **Banks'** approval rates indicate higher approval for corporates, but more stringent approvals on consumer credit. Domestic regulatory changes were again perceived as limiting supply and with a persistent negative impact expected looking ahead.

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

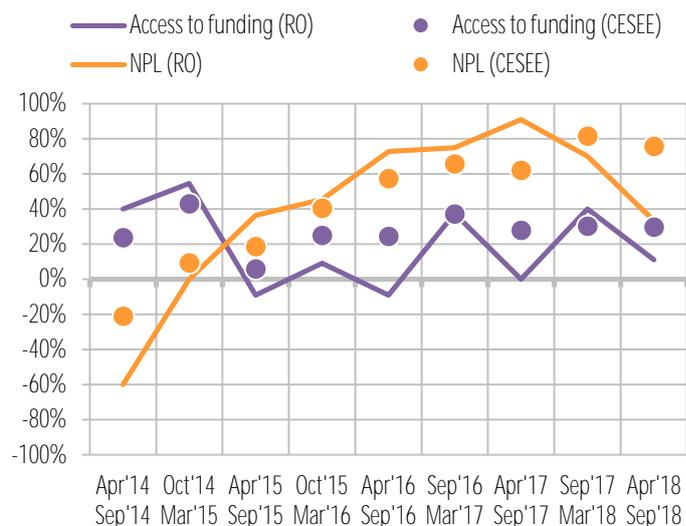
Access to funding has slightly improved on balance with conditions for retail, corporate and short-term funding improving the most. Contrasting with the general trend, intra-group funding slightly deteriorated. On balance, banks expect the overall access to funding to improve over the next six months in line with the regional trend.

NPL figures have been described as further improving both in the corporate and retail segments, albeit at a slower pace.



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

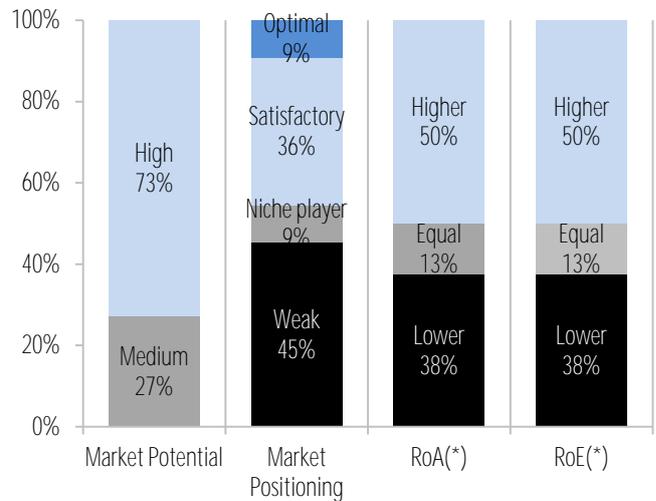
Results of the Bank Lending Survey – Parent banks level

Views on operations in Romania are in line with the last release of the survey. Exactly half of parent banks report higher RoA and RoE on domestic operations compared to overall group results. A slightly higher share of banks now finds RoE below their overall group operations (+7pp compared to H1).

Views on market positioning are similarly unchanged. However, the share of respondents reporting satisfactory market positioning stands lower than a year ago (-9pp compared to H2-2017) and those finding weak market positioning continue to make up the largest group (45 percent, +9pp compared to H2-2017).

Romania continues to rank first compared to CESEE peers in terms of market potential, with 73 percent considering it as a market with high potential. Consistently positive views also reflect structural characteristics – country size and low levels of financial penetration – that add to the market’s attractiveness.

Figure 1 Market potential and positioning



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

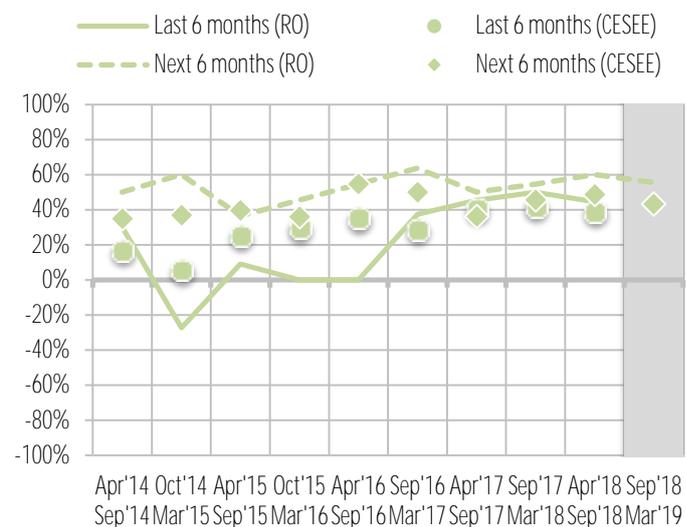
Aggregate demand developments

Credit demand in Romania is reported to have increased over the last six months, continuing to grow albeit slightly below **banks’ expectations voiced in the last round**. On balance, the trend towards increasing demand still seems to continue.

For the next six months ahead, banks expect a robust increase in credit demand in Romania, slightly above the CESEE average and despite the increasing interest rates since fall 2017.

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 only since end-2016. Credit growth for corporates accelerated in the second half of 2017 after a period of contraction and subdued lending activity since 2013. Credit to households continued to grow faster than for corporates.

Figure 2 Demand side developments

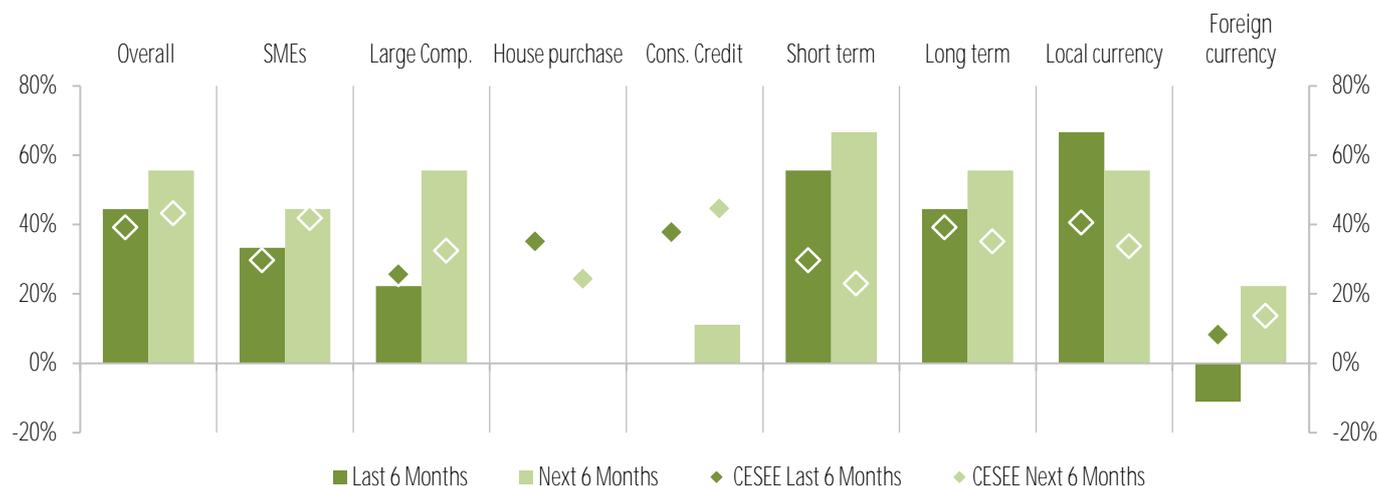


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. 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

Aggregated demand for loans in Romania has increased on balance in the last six months. Both SMEs and large corporations contributed to the positive move. Developments in the household segment were stable. Demand for short-term financing was slightly stronger than for longer-term loans with increases well above the regional average. While appetite for foreign currency lending dropped, demand for funds in local currency surged. Looking ahead, growth in credit demand is expected to continue and see a slight acceleration. Views are most positive for funds in local currency, short-term and lending to corporates.

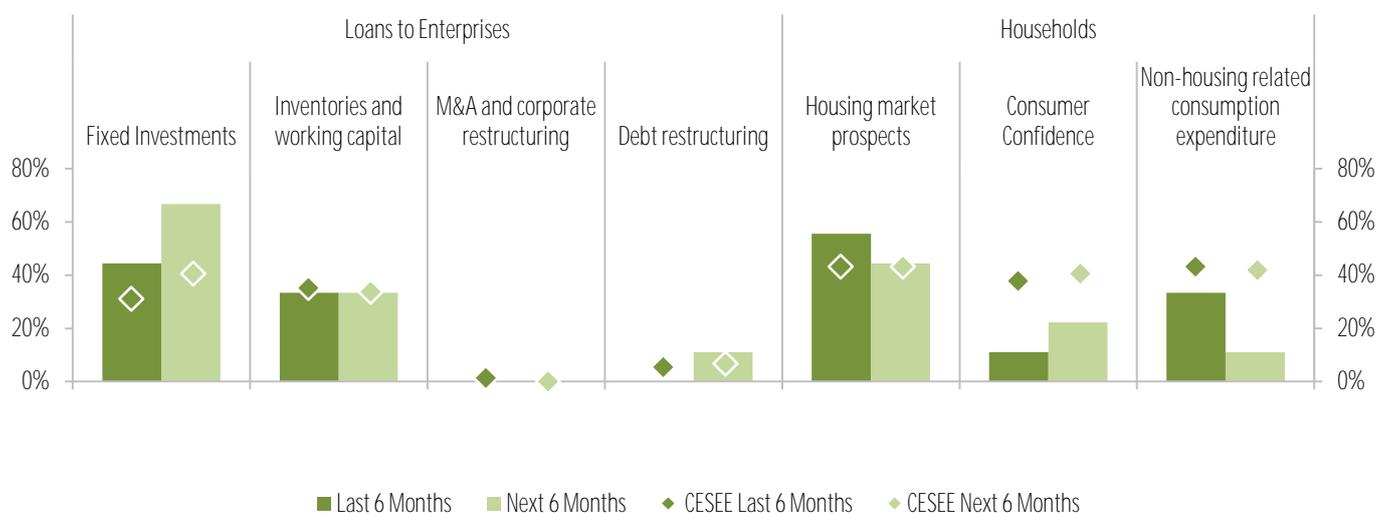


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

None of the surveyed factors in the corporate and household segments have made a negative contribution to demand over the last six months. On the enterprise side, banks recorded the strongest demand for fixed investment, continuing developments of the previous wave. Demand was also positive for inventories and working capital. Demand in the last six months and expectations for fixed investment by corporates are more positive compared to the overall CESEE developments. In the household segment, all factors were positive and are expected to remain so. Housing market prospects are seen as a main impetus for demand looking ahead while demand for consumption expected to remain below regional trend.

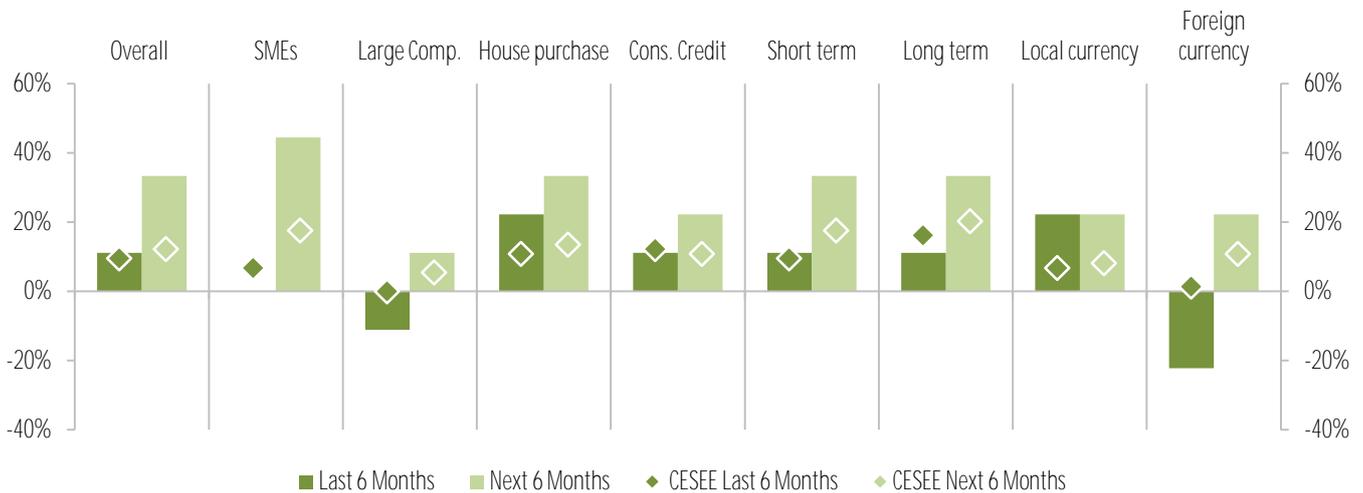


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

The quality of loan applications in Romania has continued to improve overall, in line with the CESEE trend, but loan categories show mixed developments. Credit to SMEs recorded no change on balance and large corporations again showed a deterioration in quality over the past six months. In contrast, improvements are reported on the household side. Applications for local currency have improved while those for foreign currency have deteriorated. The overall quality strengthening is expected to continue in the near future, supported by basically all segments.



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

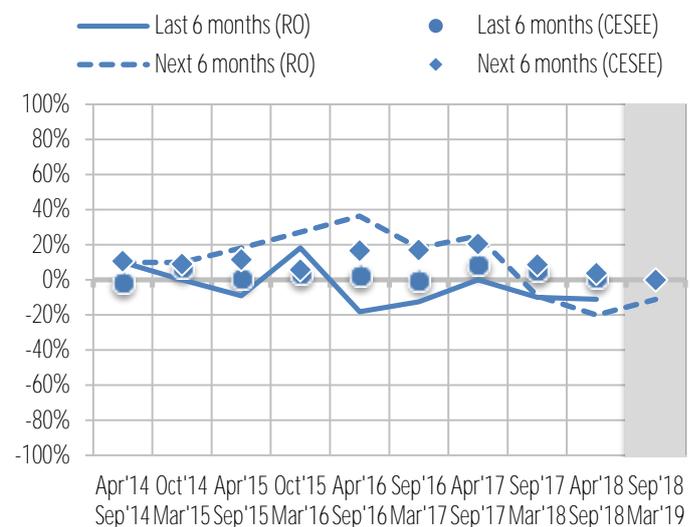
Aggregate supply developments

Credit supply conditions have tightened again in the past six months. Developments in Romania continue to contrast with the regional trend. On average, banks in CESEE are keeping supply conditions unchanged.

In Romania, credit standards have slightly tightened on a cumulative basis since 2015 – having contrasted for a prolonged period with expectations. Since 2017, banks had started to revise their outlook downward significantly. This shift in perception seems to continue, also reflecting moves towards monetary tightening, with a majority of banks expecting further tightening for the next six months.

Divergences between supply expectations of banks in Romania and the CESEE region appear to narrow looking ahead.

Figure 6 Supply developments

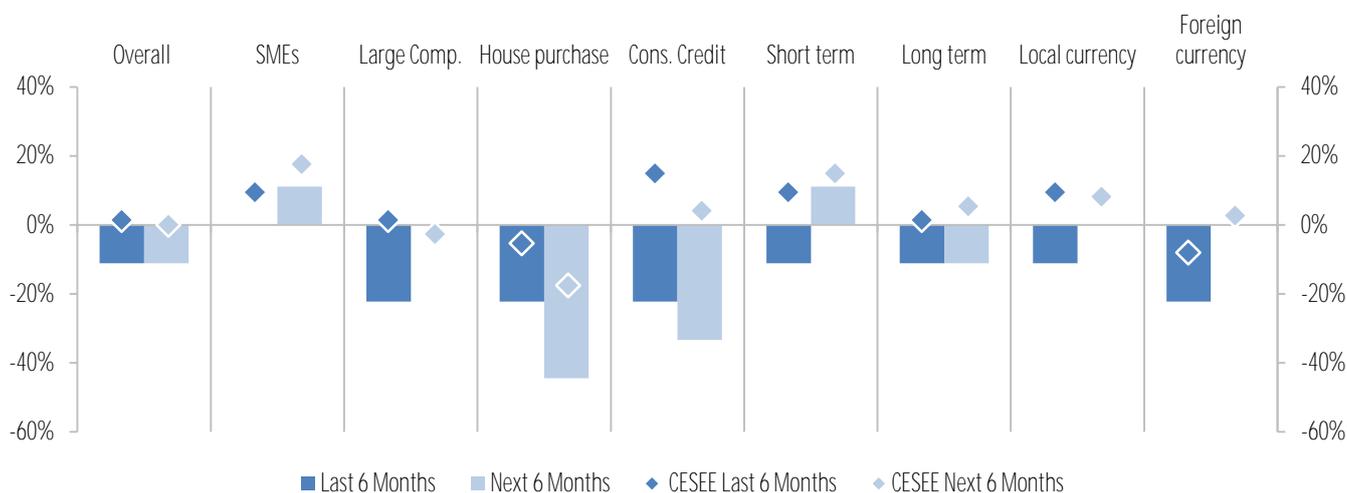


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Stricter credit standards were recorded across most credit segments. Only conditions for SME lending remained broadly unchanged. In contrast, supply conditions to large corporates and households strongly tightened. Lending across different maturities saw moderate tightening. Tightening conditions were more pronounced for foreign currency lending than in RON. Looking ahead, credit conditions are expected to further tighten on balance contrasting with the CESEE region.

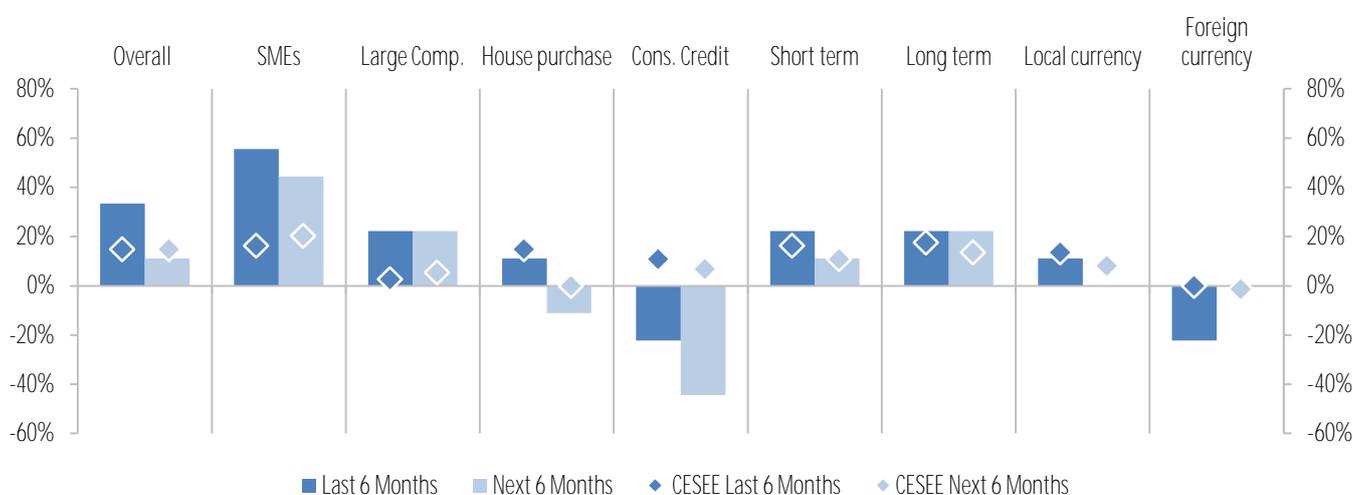


Source: EIB – CESEE Bank Lending Survey

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

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

Overall approval rates increased during the last six months. In particular, getting corporate loans got easier. Higher approval rates are similarly reported for lending with different maturities. The household segment shows heterogeneous developments with banks lowering approval on consumer credit. Looking ahead, banks look set to approve loans more easily in the corporate lending contrasting with expectations for the credit to households.

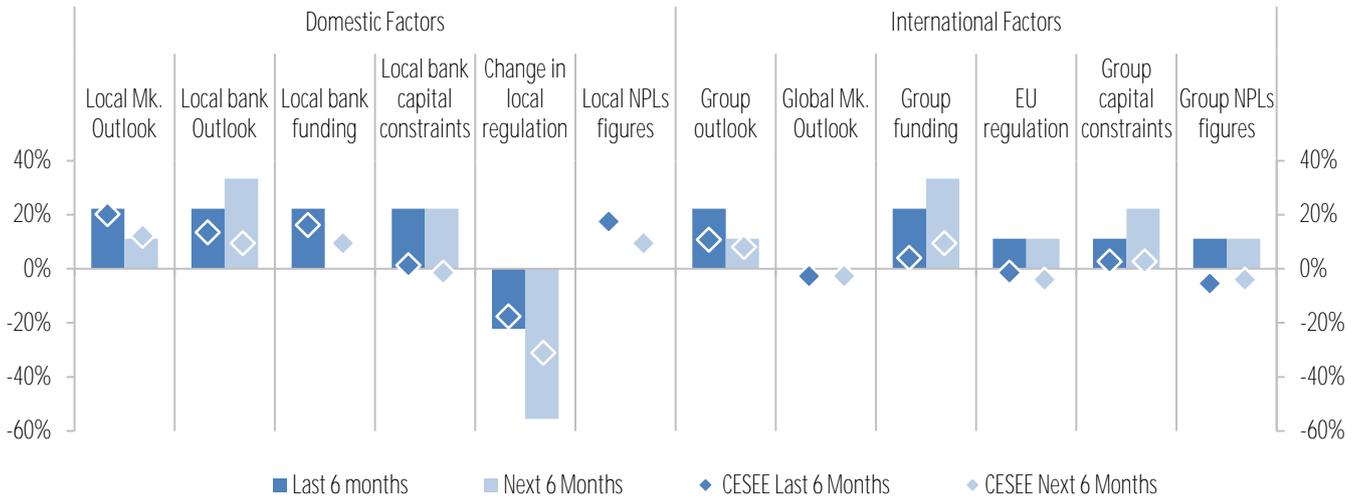


Source: EIB – CESEE Bank Lending Survey

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. Other domestic factors mostly acted as a positive contributor in Romania more so than across the region with the exception of NPL developments. Internationally, a positive group outlook and group funding showed the strongest positive contribution over the last six months and are expected to do so looking ahead. Over the next six months, the negative impact of changes in local regulation is expected to increase more in Romania than in CESEE region while other factors to keep a neutral or positive contribution to 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 Romania have been described as improving further both in the corporate and retail segments. The pace of improvement decelerated compared to the previous releases of the survey.

The non-performing loan ratio in Romania reached 5.5 percent as of August 2018, 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 recorded stronger decreases in the corporate segment. Looking ahead, further improvements are expected for both segments.

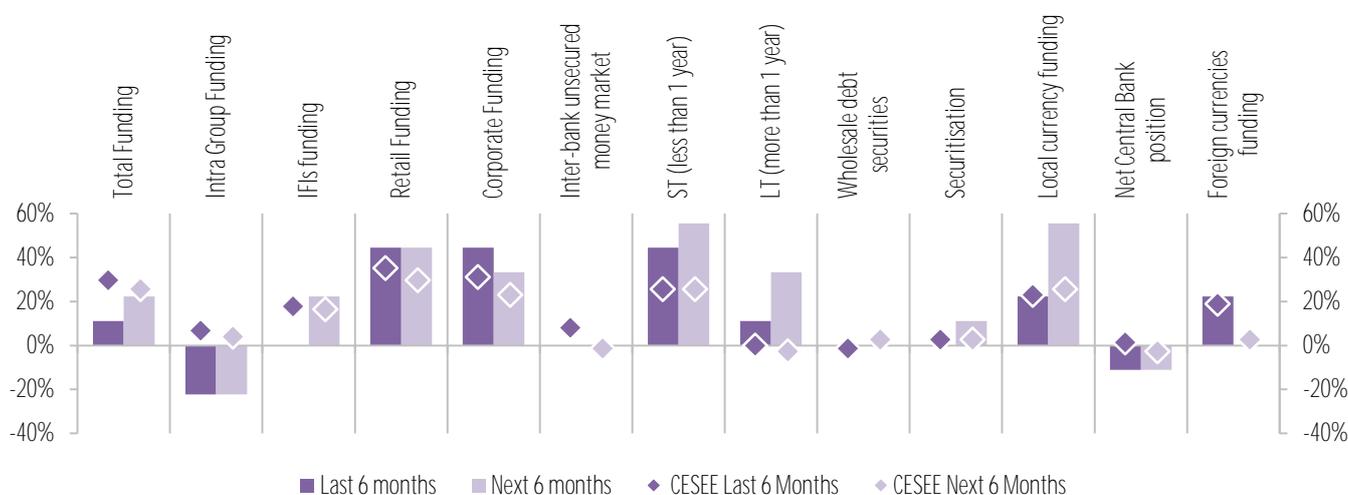


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

On balance, access to funding has slightly improved for subsidiaries in Romania over the past months. In particular tapping corporate and retail funding became easier. Access to short-term funding also continued to improve strongly. In contrast, intra-group funding registered some deterioration again. For the months ahead, banks expect the overall access to funding to improve in line with views 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

Serbia

Growth in demand for loans across most loan segments is ongoing; however, credit conditions have become tighter. Overall NPL reduction is continuing, although retail NPL reduction is slowing down.

Summary

Group assessment of positioning and market potential: The majority of parent banking groups operating in Serbia regards the market potential as medium and their market positioning is seen as mostly satisfactory. Banks' profitability, particularly in ROE terms, has been improving recently.

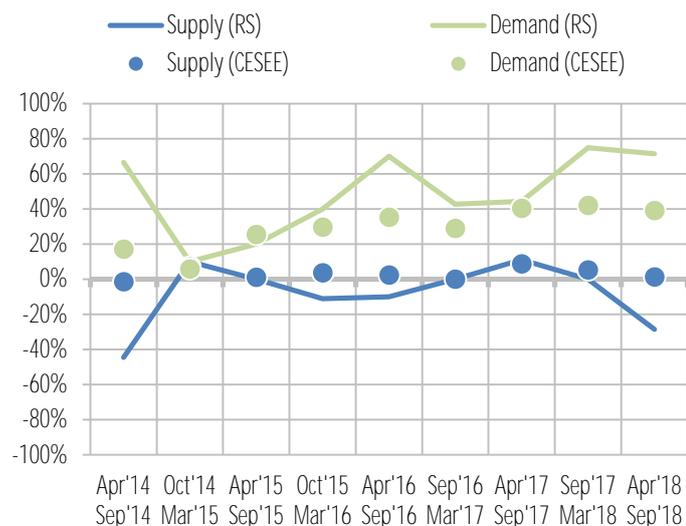
During the last six months, credit demand has strengthened further, above the CESEE average, while credit supply conditions have turned from neutral to tighter. The demand-supply wedge is expected to widen further, as credit demand is expected to continue increasing over the next six months, while credit supply conditions are expected to tighten.

Credit supply conditions have tightened mainly for loans to SMEs and large corporations in the last six months, but they have remained favourable for consumer credit. Credit standards are expected to tighten in the next six months for large corporate loans, but they are expected to ease for loans to SMEs and further ease for consumer credit. Loan approval rate has declined for larger corporate loans during the last six months.

Demand for loans has increased strongly across almost all loan segments during the last six months except for **large corporate loans, for which demand has remained unchanged. Households' demand for loans has been strong.** A broadly similar trend is expected in the next six months, with demand for large corporate loans slightly improving but still lagging behind the CESEE average. Quality of loan applications for large corporate loans has deteriorated during the last six months.

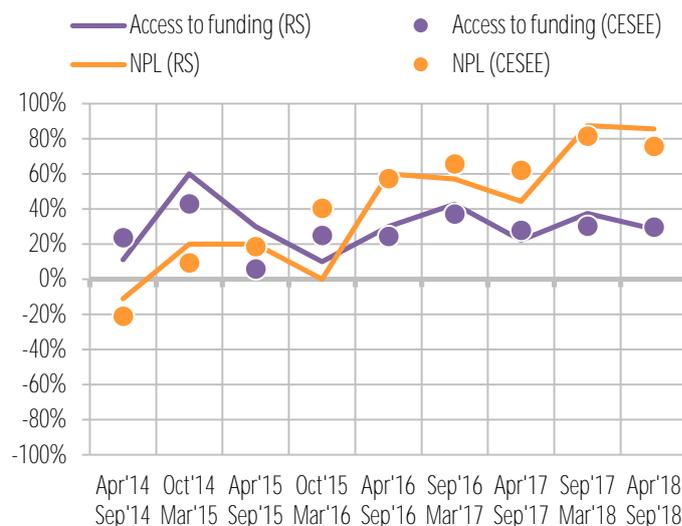
Access to funding for local banks has improved and the favourable trend is expected also in the next six months, mainly thanks to better access to retail and corporate funding as well as to intragroup funding.

The positive trend in NPLs reduction has continued for corporate and retail loans in the last six months. Retail NPL reduction is expected to remain unchanged in the next six months, below CESEE average.



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.

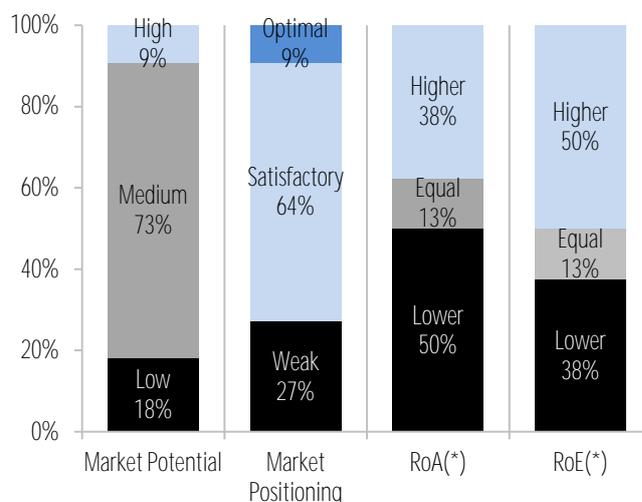
Note: All indicators in net percentages; Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

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

In terms of return-on-equity terms (adjusted for cost of equity), the situation has improved during the last six months in comparison to the previous period. About 50 percent of local banks report higher return on equity than the overall group operations (versus 38 percent previously).

Figure 1 Market potential and positioning



Source: EIB – CESEE Bank Lending Survey.

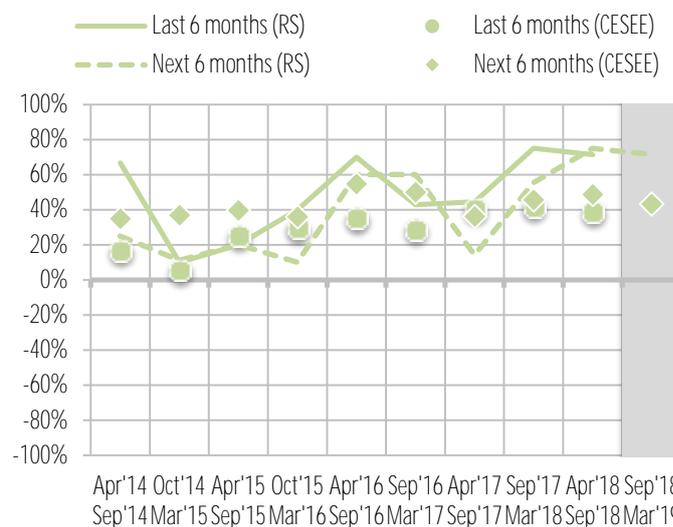
Note: See question A.Q1. (*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

Aggregate demand developments

Overall loan demand in Serbia has increased during the last six months. Expectations point to further increase in the demand for credit in Serbia over the next six months. Both the currently perceived and the expected credit demand series in Serbia are above the CESEE averages, reflecting strong credit and economic recovery in the country.

Figure 2 Demand side developments

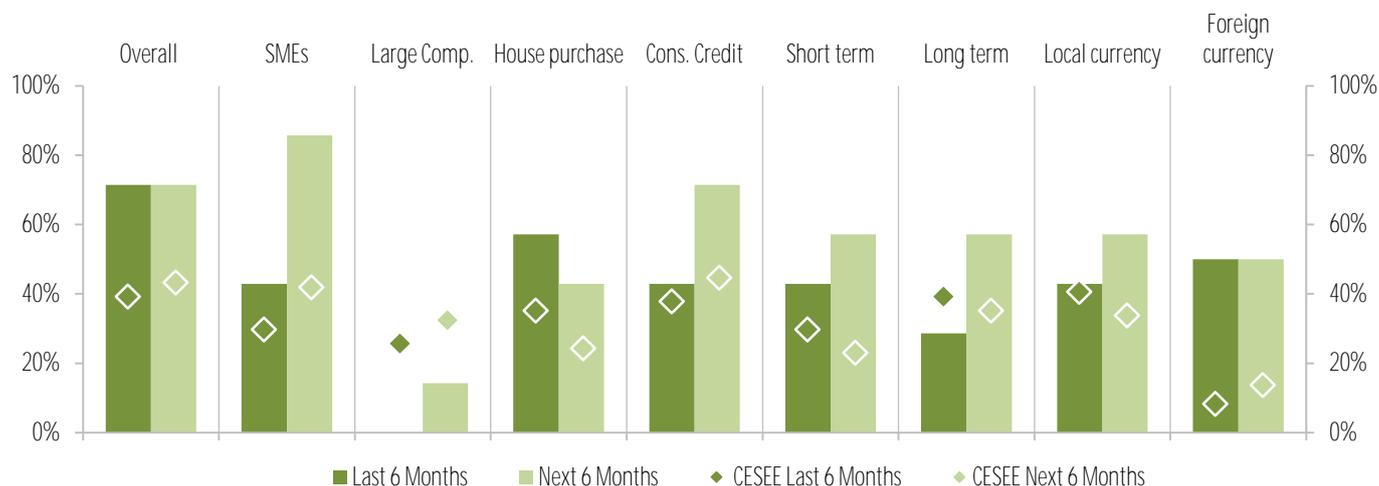


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. 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 in Serbia has increased across the board during the last six months and a further strengthening is expected over the next six months. The only exception has been demand for large corporate loans, that has remained unchanged in the last six months and is expected to increase less than the CESEE average in the next six months.

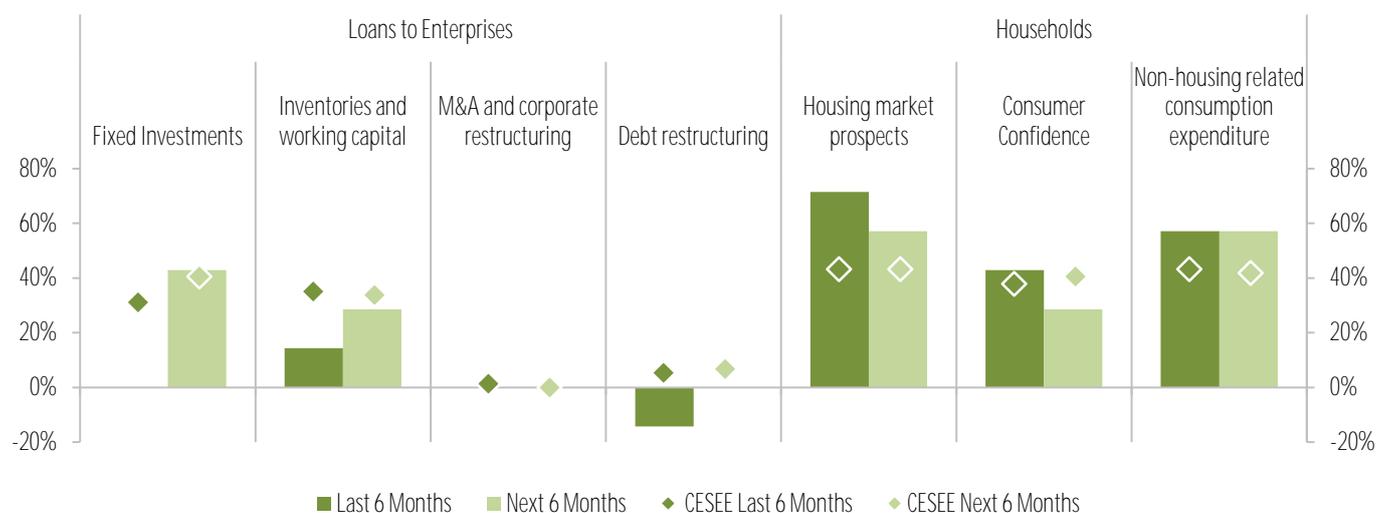


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

All households-related factors have contributed positively to credit demand over the last six months and they are expected to have favourable contribution also in the next six months. The contribution of firm-related factors to credit demand in Serbia has been mixed. Debt restructuring has once again become a drag on credit demand. The contribution of fixed investment has become more neutral, although it is expected to increase in the next six months.



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 has improved over the last six months and this overall trend is expected to continue. Nevertheless, loans to large corporations have registered a decline in the quality of loan applications. Looking ahead, the quality of loan applications for house purchase and consumer credit is expected to remain unchanged.



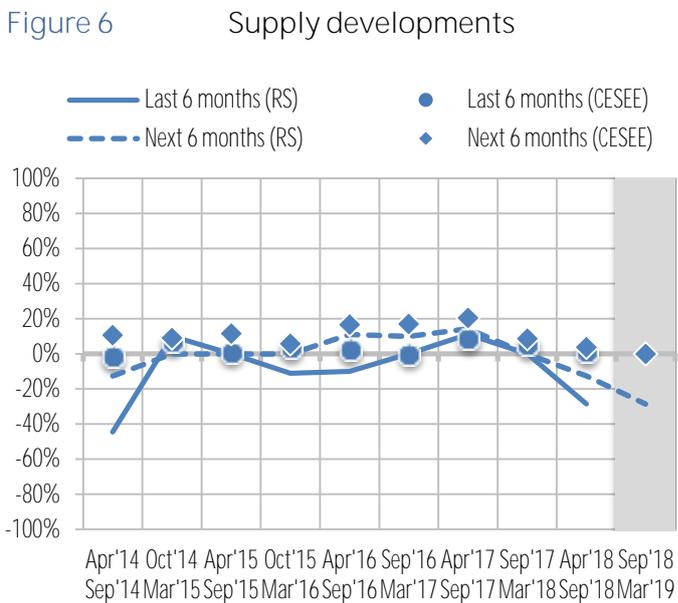
Source: EIB – CESEE Bank Lending Survey

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

Aggregate supply developments

Unlike the strong performance of loan demand, credit standards in Serbia have become tighter over the last six months. The expectations series points to further credit tightening in the months ahead.

The pace of credit tightening in Serbia is stronger than for the CESEE as a whole.

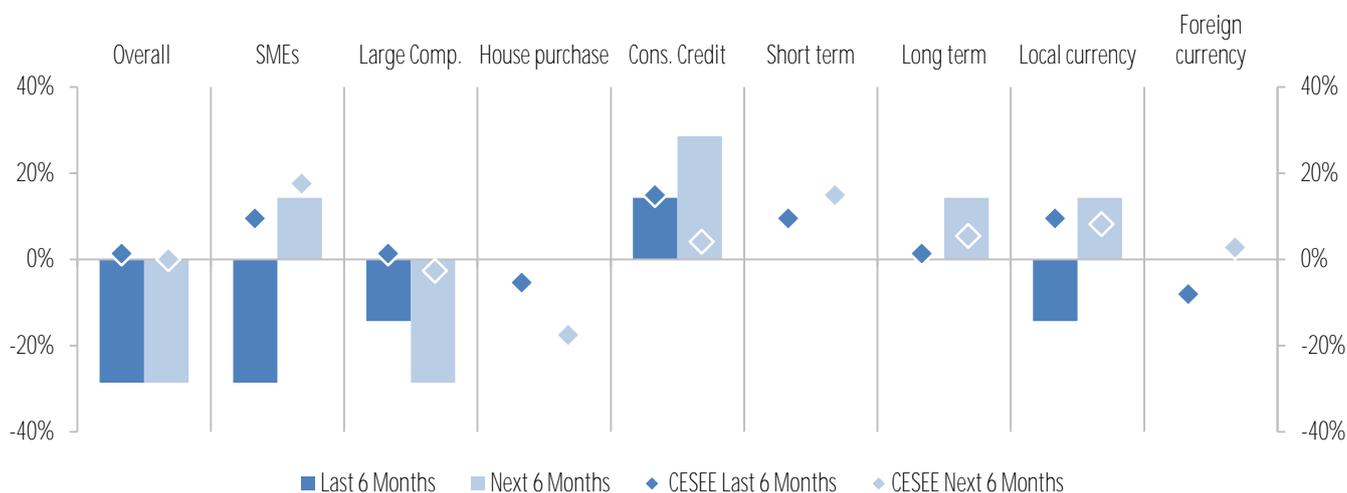


Source: EIB – CESEE Bank Lending Survey.

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

An overall tightening of lending conditions can be linked primarily to tighter credit standards for loans to SMEs, large corporate loans and loans in local currency. Credit standards for large corporate loans are expected to tighten further in the next six months. On the other hand, credit standards for corporate credit have eased and are expected to ease further.

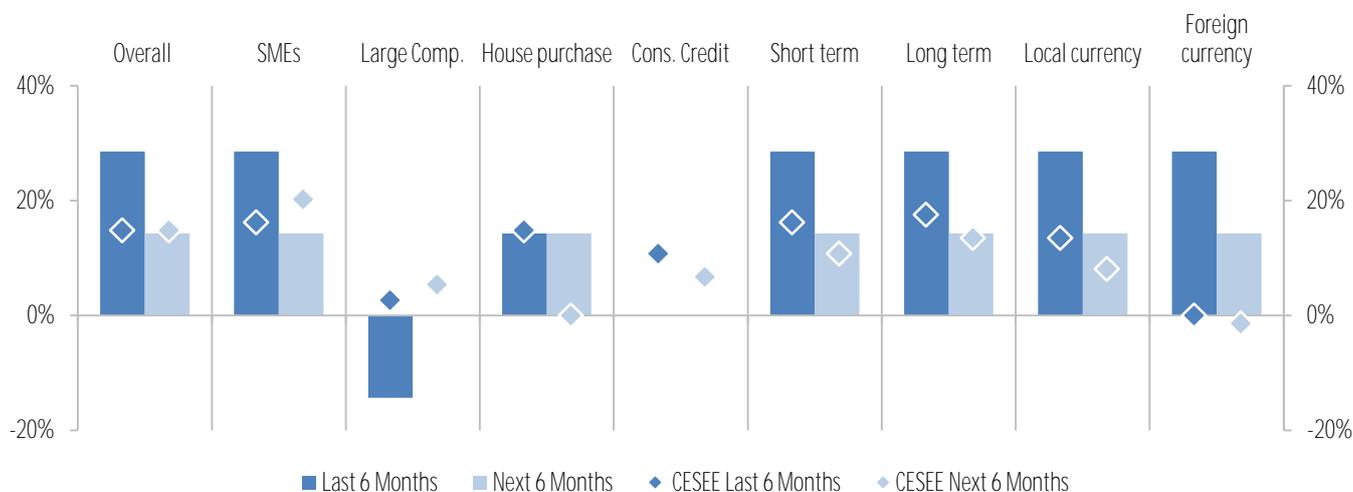


Source: EIB – CESEE Bank Lending Survey

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 overall banks' approval rate has increased during the last six months and is expected to improve again in the next six months. The approval rate increase over the last six months has been broad-based across most loan segments, except a decline for large corporate loans and no change in the approval rate for consumer credit.

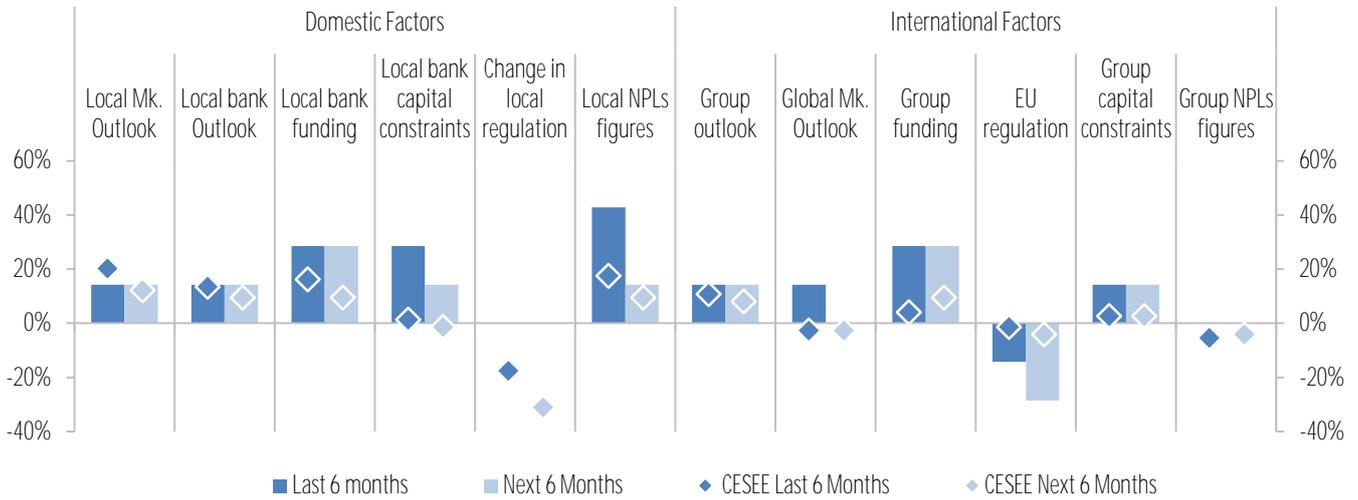


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

During the last six months, almost all domestic factors have contributed positively to credit supply conditions in Serbia and the same favourable environment is expected to continue. International factors are also having broadly a positive contribution to credit supply conditions in Serbia, except for the negative effect of EU regulation; which is expected to continue also in the next 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

The NPL reduction has been strong during the last six months, particularly for the corporate loans. Over the next six months, further NPL reduction is expected, however NPL ratios for retail loans are expected to remain unchanged and below the CESEE average. The NPL reduction in retail loans has now been in a downward trend for two consecutive survey periods.



Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Access to funding of banks located in Serbia has improved over the last six months and this positive environment is expected to persist going forward. The main contributors to better access to funding have been intra-group funding, as well as retail and corporate 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

Slovakia

Profitable market with stable domestic funding and declining trend of NPL ratios. Tighter credit conditions for house purchase loans and consumer credit have translated to more neutral loan demand dynamics.

Summary

Group assessment of positioning and market potential: Slovakian banking sector is predominantly owned by foreign banking groups and remains generally more profitable than the overall group. 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.

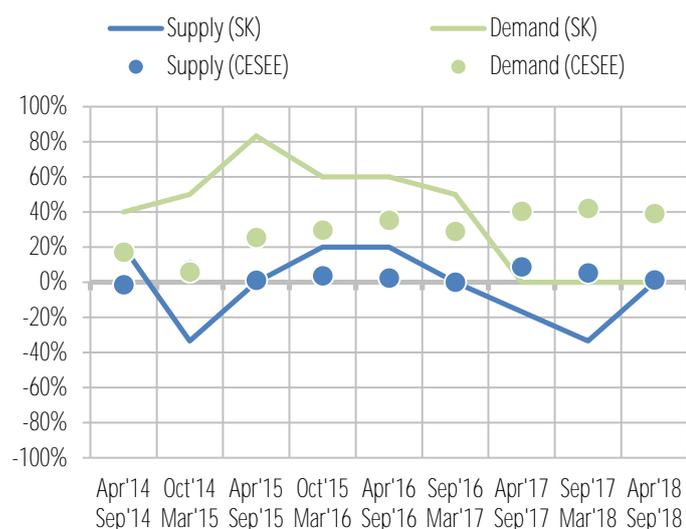
The recent macroprudential tightening by the National Bank of Slovakia has been already having effect on the domestic credit market. After a number of periods of strong growth, credit demand has become broadly neutral, while credit standards have become neutral and are expected to tighten once again.

Demand for loans has been broadly neutral and it has improved for house purchase loans and consumer credit during the last six months. Nevertheless, demand for house purchase loans and consumer credit is expected to decline in the next six months.

Credit supply conditions have become tighter for house purchase loans and consumer credit. Further tightening of credit standards for house purchase loans and consumer credit is expected over the next six months. Loan approval rate has declined also for corporate credit over the last six months.

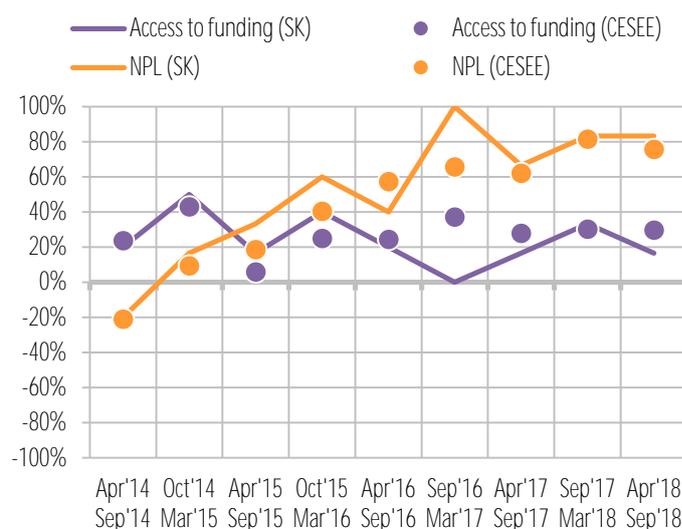
Access to funding: Slovakian banks rely predominantly on domestic deposits. During the last six months, banks' access to funding has improved and further improvement is expected in the next six months, although below the CESEE average. Access to retail and corporate deposits has improved over the last six months, and it is expected to strengthen further in the next six months.

NPL ratios decreased over the last six months and are expected to decrease further at a healthy pace.



Source: EIB – CESEE Bank Lending Survey.

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



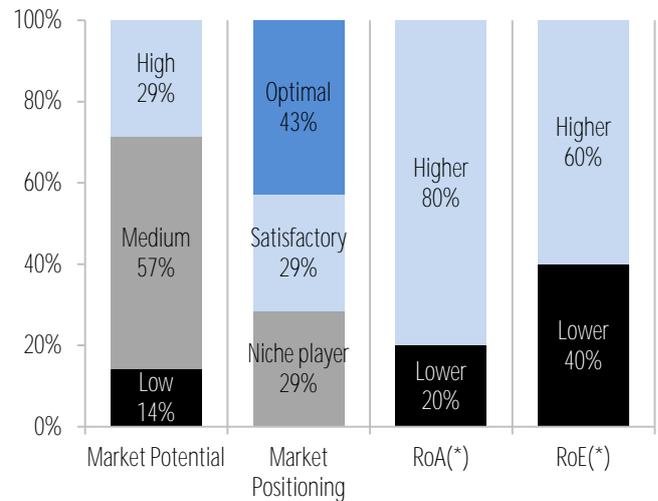
Source: EIB – CESEE Bank Lending Survey.

Note: 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

More parent banks than in the previous wave of the survey see the local bank profitability as higher than the overall group operations. In turn, 86 percent of parent banking groups operating in Slovakia see medium to high market potential in Slovakia, and 72 percent of the parent groups see their current market positioning in Slovakia as optimal or satisfactory – unchanged from the previous period.

Figure 1 Market potential and positioning



Source: EIB – CESEE Bank Lending Survey.

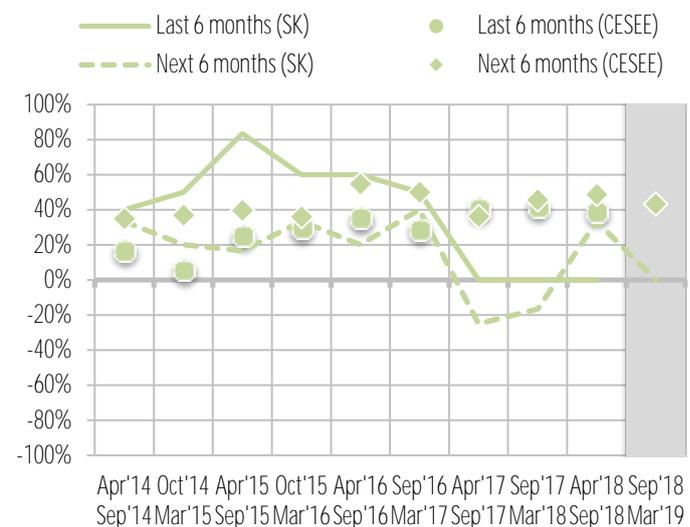
Note: See question A.Q1. (*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

Aggregate demand developments

The demand for loans has continued being neutral over the last six months and it is expected to remain broadly neutral in the next six months. Both actual and expected demand for loans in Slovakia is below the CESEE overall average.

Figure 2 Demand side developments

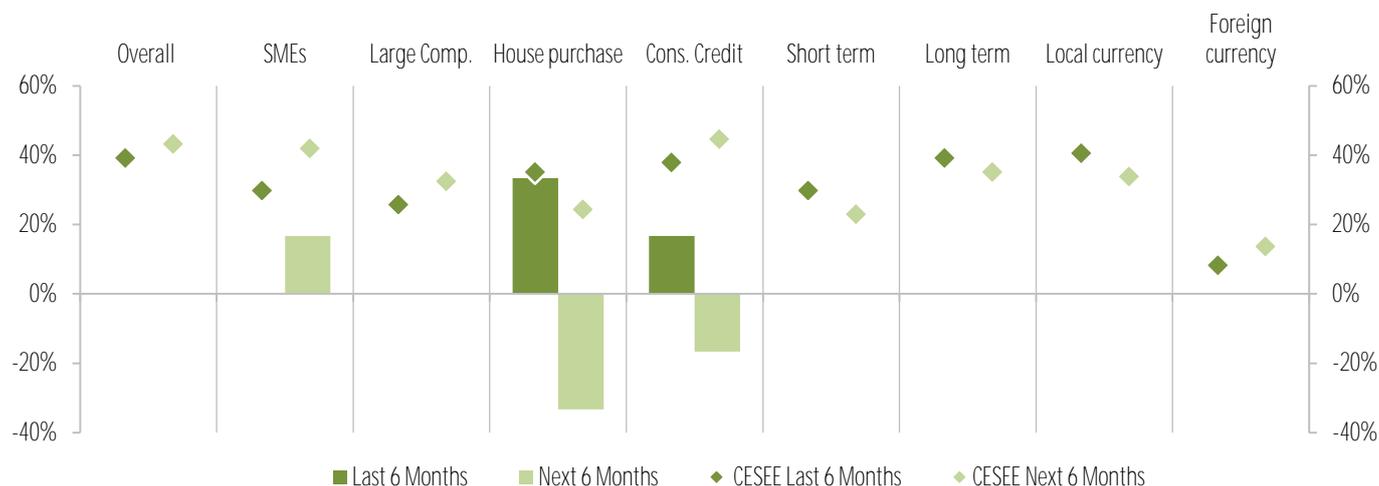


Source: EIB – CESEE Bank Lending Survey.

Note: See Question B.Q5 in the Annex - Net percentages - positive figures refer to increasing demand. 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

Even though demand for loans for house purchases and for consumer credit has increased during the last six months, it is expected to decline for both in the next six months. Only demand for loans to SMEs is expected to increase in the next six months. Almost all demand components and segments have been and are expected to remain broadly below the CESEE average.

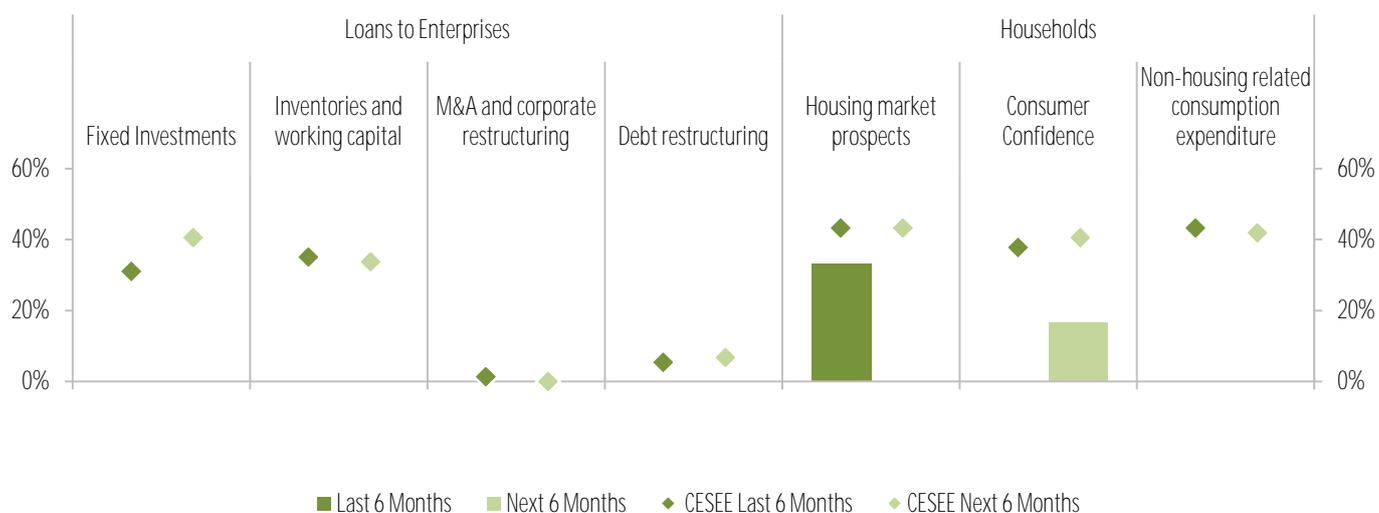


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

Housing market prospects have still contributed positively to demand for loans in Slovakia over the last six months, but they are expecting to have a neutral influence going forward. Consumer confidence is expected to have positive contribution to demand for loans in the next six months. Overall, almost all factors affecting demand for loans in Slovakia are having less positive contribution than CESEE average.



Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

The quality of loan applications has remained broadly unchanged during the last six months and the same development is expected over the next six months. In contrast, the quality of loan applications for the CESEE overall has improved over the last six months and is expected to further improve in the next six months.



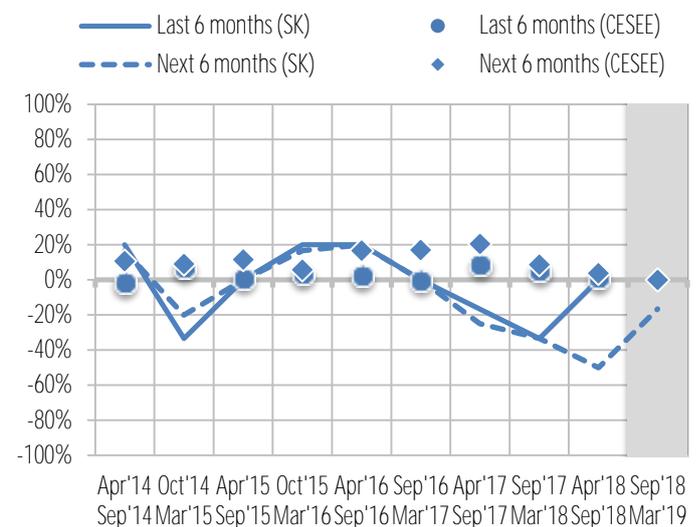
Source: EIB – CESEE Bank Lending Survey

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

Aggregate supply developments

After an episode of tightening overall credit standards, lending conditions in Slovakia have become neutral during the last six months, in line with CESEE average. Over the next six months, credit standards are expected to tighten, but to a lesser extent than previously. Nevertheless, the expected tightening of credit standards in Slovakia is stronger than for the CESEE overall where the expectations are for a more neutral credit supply side development.

Figure 6 Supply developments

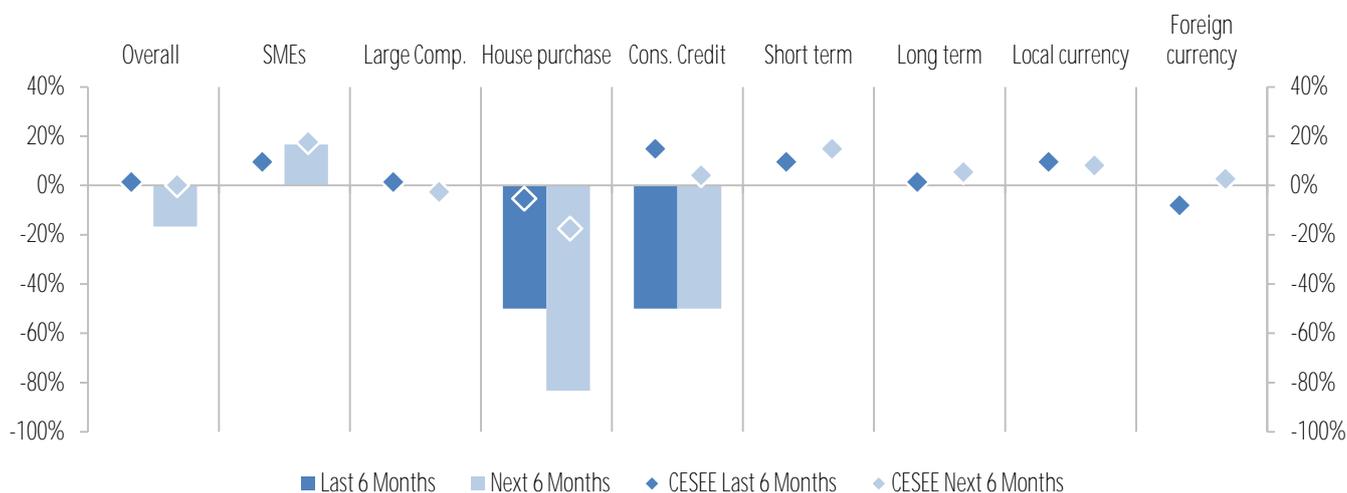


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

The tightening in credit standards during the last six months has occurred for house purchase loans and consumer credit. For both segments, further tightening is expected in the next six months, surpassing the CESEE average. Supply conditions are expected to ease in the next six months only for loans to SMEs.

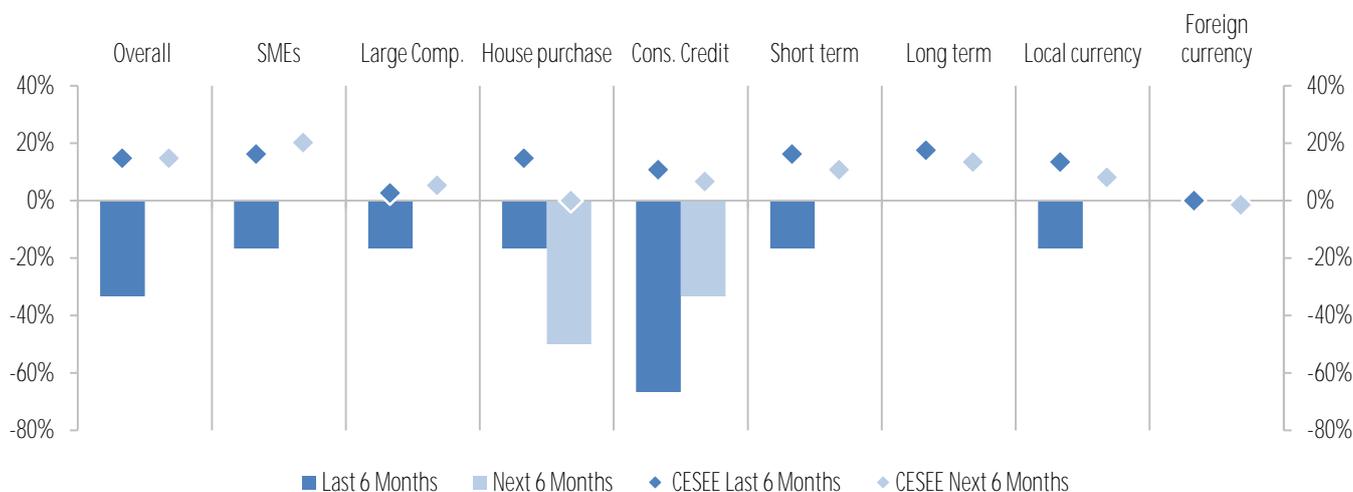


Source: EIB – CESEE Bank Lending Survey

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 overall banks' loan approval rate has declined during the last six months and it is expected to remain unchanged in the next six months. The decline in the loan approval rate has been broad-based across most loan segments, most for consumer credit. Going forward, the approval rate is expected to decline further for house purchase loans and consumer credit.

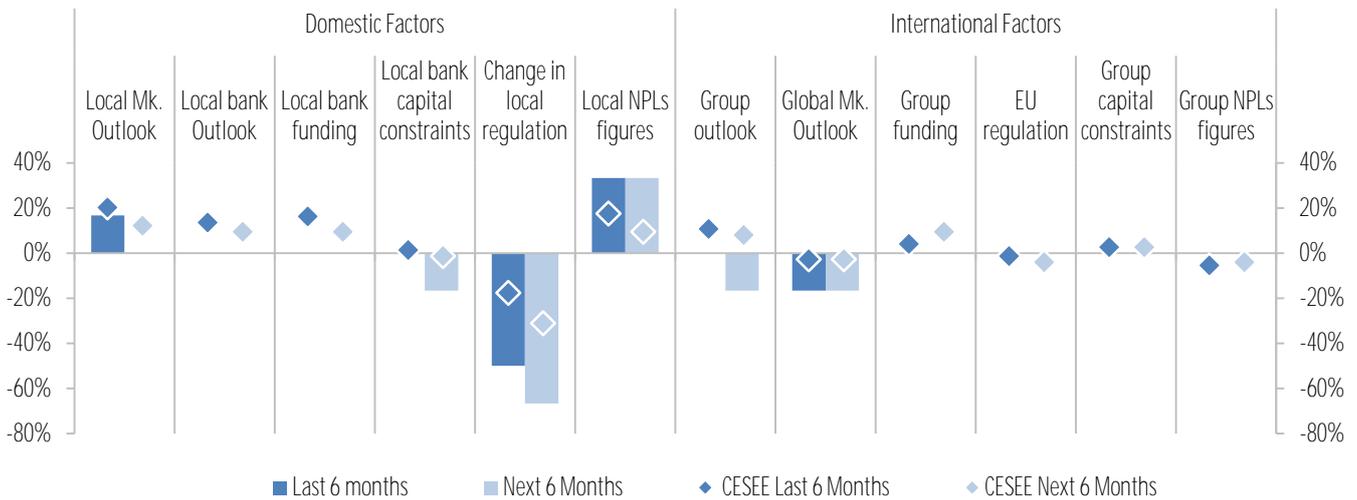


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

Changes in local regulation has been the key domestic factor weighing negatively on credit supply conditions in Slovakia over the last six months, and this impact is expected also over the next six months. Local NPL figures and local market outlook have contributed positively to credit supply conditions. Group outlook and group market outlook are expected to affect credit supply conditions in Slovakia negatively in the next 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 over the last six months has been strong, for both the corporate and retail sectors. Over the next six months, the NPL reduction is expected to continue, but at a slower pace.

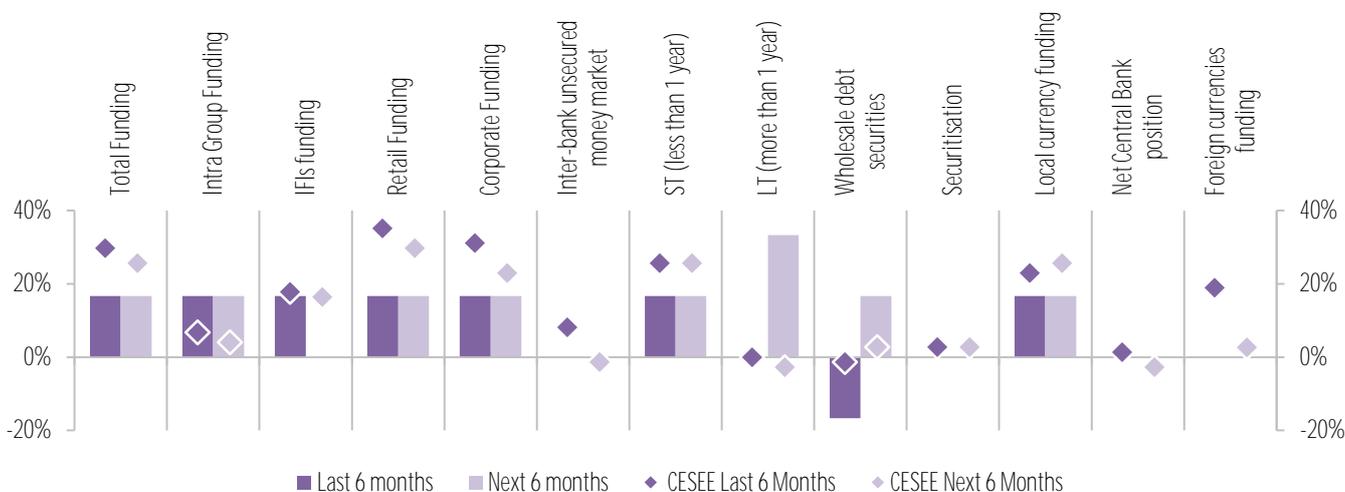


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Total funding for banks in Slovakia has improved during the last six months and it is expected to strengthen over the next six months, although less than the CESEE average. Access to intragroup funding, and access to retail and corporate deposits have continued their improvements.



Source: EIB – CESEE Bank Lending Survey.

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

Annex

Non-performing loans in % of total loans (more than 90 days overdue)										
	AL	BA	BG	HR	CZ	HU	PL	RO	RS	SK
2018 Q2	13.3	9.3	13.1	11.2	3.4	4.1	--	5.7	7.8	3.6
2018 Q1	13.4	9.7	13.5	11.4	3.6	4.6	--	6.2	9.2	3.9
2017 Q4	13.2	10.0	14.8	11.4	4.0	5.3	6.8	6.4	9.8	3.9
2017 Q3	14.8	10.8	16.6	12.5	4.0	6.1	6.9	8.0	12.2	4.2
2017 Q2	15.6	11.1	17.0	13.2	4.3	6.7	6.9	8.3	15.6	4.3
2017 Q1	17.4	11.5	18.2	13.9	4.5	7.7	6.9	9.4	16.8	4.5
2016 Q4	18.3	11.8	18.3	13.8	4.8	9.3	7.1	9.6	17.0	4.7
2016 Q3	21.3	12.1	19.3	14.7	5.2	11.4	7.3	10.0	19.5	4.9
2016 Q2	20.0	12.1	19.7	15.0	5.3	12.2	7.3	11.3	20.2	5.0
2016 Q1	19.3	13.2	20.2	16.1	5.5	13.2	7.4	13.5	20.9	5.1
2015 Q4	18.2	13.7	20.4	16.7	5.8	13.6	7.5	13.5	21.5	5.2
2015 Q3	20.6	13.8	19.7	17.1	6.1	15.6	7.9	15.7	22.0	5.7
2015 Q2	20.9	14.1	20.0	17.3	6.0	14.9	8.0	16.2	22.8	5.8
2015 Q1	22.9	14.2	19.6	17.1	6.1	14.8	8.2	20.2	22.6	5.9
2014 Q4	22.8	14.2	16.7	17.1	6.1	16.7	8.1	13.9	21.5	6.0
2014 Q3	25.0	16.1	18.1	17.2	6.2	17.8	8.2	15.3	23.0	6.1
2014 Q2	24.1	15.5	18.0	16.6	6.3	18.1	8.3	19.2	23.0	5.8
2014 Q1	24.0	14.9	16.7	16.1	6.5	18.2	8.4	20.4	22.3	5.9
2013 Q4	23.2	15.1	16.9	15.7	5.9	17.7	8.5	21.9	21.4	5.8
2013 Q3	24.3	14.9	17.2	15.3	5.9	18.1	8.5	21.6	21.1	5.9
2013 Q2	24.4	14.3	17.1	15.1	6.0	18.2	8.7	20.3	19.9	5.9
2013 Q1	24.0	13.8	16.9	14.6	6.0	17.9	8.9	19.1	19.9	5.8

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, Estonia, Hungary, 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 gain a full understanding of local market conditions, an effort has been made to also include in the survey the relevant domestic players in a specific local market.

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

The survey is administered by the European Investment Bank, under a confidentiality agreement with the individual participating banks. It is addressed to senior officials of the banks involved and is conducted on a semi-annual basis in February/March and September. The first survey was carried out in September/October 2012. Most

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

of the questions have a backward and a forward-looking component, covering the six months before and expectations over the following six months.

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

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

Figure 1 Market share and number of banks



Source: EIB – CESEE Bank Lending Survey.

The detailed survey questionnaire is contained in the annex. The survey is divided into two sections, the first addressed to international groups, the second to domestic banks/subsidiaries of international groups.

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

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

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

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

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

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

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

The Questionnaire

The questionnaire is divided into two parts:

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

PART A

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

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

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?

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

A.Q3 - Group funding: Group's access to funding...	...How has it changed over the LAST six months?	...How do you expect it to change over the NEXT six months?
Total		
Retail (deposits and bond to clients)		
Corporate (deposits and bond to clients)		
Interbank market		
IFIs		
Wholesale debt securities		
Loans or credit lines from the Central Bank		
Securitisation		
Short-term funding (any source)		
Long-term funding (any source)		

A.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...	LAST 6 months	NEXT 6 months

A.Q7 - Profitability of the strategy in CESEE region: ROA of your CESEE operations is higher/lower/equal of that for the overall group...	LAST 6 months	NEXT 6 months

A.Q8 - Group total exposure to CESEE: Concerning cross-border operations to CESEE countries, your group did/intends to...

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

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

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

PART B

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

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

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

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

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

OVER the LAST 6 months

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

OVER the NEXT 6 months

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

B.Q4 - Factors affecting your bank's credit standards (credit supply).

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

Over the LAST six months

Over the NEXT six months

Impact on credit standards

A) Domestic Factors - affecting your subsidiary

i) Local market outlook

ii) Local bank outlook

iii) Local banks access to total funding

iii.a) of which: domestic

iii.b) of which: international/intra-group

iv) Local bank capital constraints

v) Change in local regulation

vi) Competition

vii) Credit quality (NPLs)

viii) Bank's liquidity position

ix) Risk on collateral demanded

B) International Factors - affecting your subsidiary

i) Group Company outlook

ii) Global market outlook

iii) Overall group access to funding

iv) EU Regulation

v) Group capital constraints

vi) Global Competition

vii) Credit quality (NPLs)

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

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

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

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

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

...Loans or credit lines to enterprises

...How have they changed over the last six months?

...How do you expect them to change over the next six months?

A) Financing needs

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

...Loans to Household

A) Financing needs

Housing market prospects		
Consumer Confidence		
Non-housing related consumption expenditure		

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

...Has the non-performing loans ratio changed over the last six months?

...How do you expect the non-performing loans ratio to change over the next six months?

Total		
Retail		
Corporate		

B.Q9 - In terms of funding: has access to funding of your local subsidiary/branch changed over the past six months, or do you expect it to change over the next six months?

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

ECONOMICS – REGIONAL STUDIES

CESEE

Central, Eastern and South-Eastern Europe

Bank Lending Survey

H2-2018



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