ECONOMICS – REGIONAL STUDIES

CESEE

Central, Eastern and South-Eastern Europe

Bank Lending Survey

Autumn 2020

European Investment Bank
The EU bank

CESEE Bank Lending Survey

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CESEE Bank Lending Survey – H2 2020 – Autumn Edition

December 2020

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About the EIB Economics Department
The mission of the EIB Economics Department is to provide economic analyses and studies to support the Bank in its operations and in the definition of its positioning, strategy and policy. The department, a team of 40 economists, is headed by Director Debora Revoltella.

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Regional Overview

Following the COVID-19 shock, demand for loans decreased and credit supply conditions tightened in the CESEE region in March-September 2020. NPLs have started increasing, but less rapidly than had been expected by banks in spring 2020. Against this backdrop, international banking groups show a substantial commitment to the region over the medium term, with their strategies tilted towards expansion or stability.

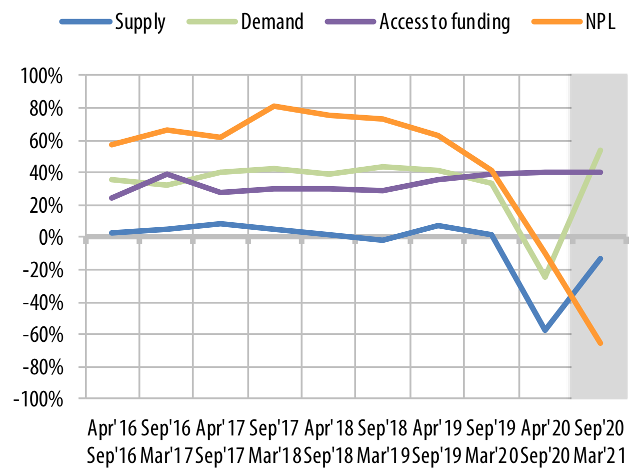
Summary

International banking group strategies and commitment to the CESEE region: Banking group strategies are tilted towards expansion or stability in the CESEE region. This is also supported by the profitability (return on assets – RoA) of CESEE operations. Banking groups' medium-term market assessment in terms of their potenatial and positioning does not show any sigfincant deterioration compared to the pre-COVID-19 period. Overall, banking groups report a generalised stability stance in their loan-to-deposit (LTD) ratios and group-level access to funding conditions continued to be easy. Nonetheless, COVID-19 has brought about a deceleration in activities to increase capital.

CESEE subsidiaries and local banks report a decrease in **demand** for credit and they have tightened **supply** conditions over the past six months. Demand contracted for the first time over the past five years. Investment became a contractionary element whilst working capital needs continue to play a positive contributing role. Consumer confidence fell, hitting non-housing-related consumption, which led to a contraction in demand for credit. Credit standards tightened across the board, including on SME lending. Collateral requirements tightened significantly across the board. Many domestic and international factors tightened supply conditions over the past six months, including market and bank outlook and non-performing loans (NPLs) at the local level. Global market outlook, group funding and, to a lesser extent, group NPLs started playing a constraining role. Changes in the domestic regulatory environment played an easing role for the first time.

Access to funding has continued to ease in the CESEE region over the past six months.

NPL ratios deteriorated, albeit less than anticipated in the Spring 2020 survey wave. This trend is expected to continue over the next six months in both corporate and retail segments.



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.

Policy response to the COVID-19 shock: Regulatory and policy measures have played a supportive role to lending activity and public guarantee schemes have been effective so far, whilst central banks' long-term liquidity provisions have also helped to some degree. Flexibility on treatment of NPLs, relaxation of liquidity ratios, various forms of capital relief measures and adjustments of risk weights were deemed supportive.

Moratoria on loans: Many countries and banks have implemented moratoria measures, with total outstanding loan portfolio coverage between 0% and 20% for roughly 50% of banks and between 20% and 60-70% for the other reporting banks.

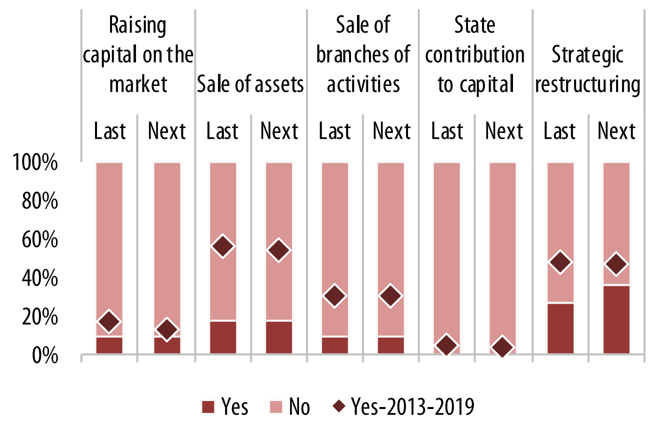
Digitalisation processes in response to COVID-19: Banks have sped up their propensity to digitalise, notably in terms of client outreach and in the area of risk management.

Results of the Bank Lending Survey – Parent banks

COVID-19 has brought about a significant reduction in activities to increase capital with fewer sales of assets or branches. About 20% of banking groups – less than the 2013-2019 average – continued restructuring activities in their global operations. Overall, banking groups report a generalised stability stance in their LTD ratios, thus reducing worries of unwarranted deleveraging linked to the COVID-19 shock. This is also a signal that the policy response has been instrumental in limiting the most abrupt negative effects so far.

About 20% of banking groups– less than the 2013-2019 average – continued restructuring activities at the global level to increase group capital ratios, and a similar share expects this process to persist over the next six months (Figure 1). COVID-19 brought about a significant decrease in activities to increase capital. Capital has been raised only through sales of assets and branches as well as on the market, but fewer banks have engaged in sales over the past six months than in previous rounds, whilst no state intervention on capital has been introduced or is expected. 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, albeit at still compressed levels compared to the recent past. Deleveraging at the group level (Figure 2) has slowed significantly compared to 2013 and 2014. Overall, banking groups report a generalised stability stance in their LTD ratios, thus reducing worries of unwarranted deleveraging linked to the COVID-19 shock. This is also a signal that the policy response has been able to limit the most abrupt negative effects so far. The share of banks expecting deleveraging is at its lowest level in the past six years. Around 10% of banking groups expect a decrease in their LTD ratio in the next six months – also less than the 2017-2019 average – when around 15-20% of banking groups expected a decrease. At the same time, almost 20% of banking groups expect an increase in their LTD over the next six months.

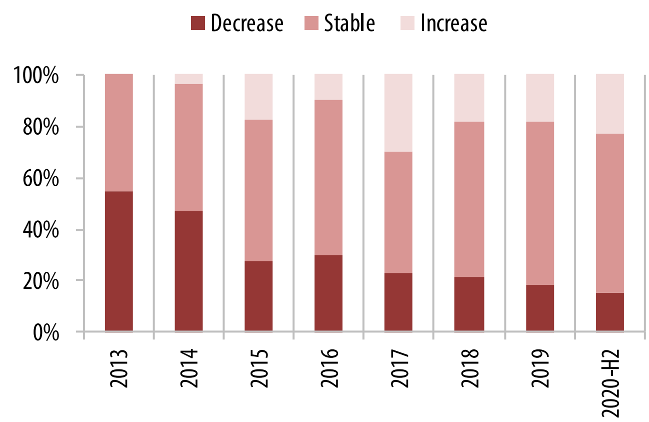
Figure 1 **Strategic operations to increase capital ratio**



Source: EIB – CESEE Bank Lending Survey.

Note: "Last" indicates the past six months – March/Sept 2020 and "Next" indicates the next six months – Oct 2020/March 2021; See question A.Q2 for details – questionnaire in the Annex.

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



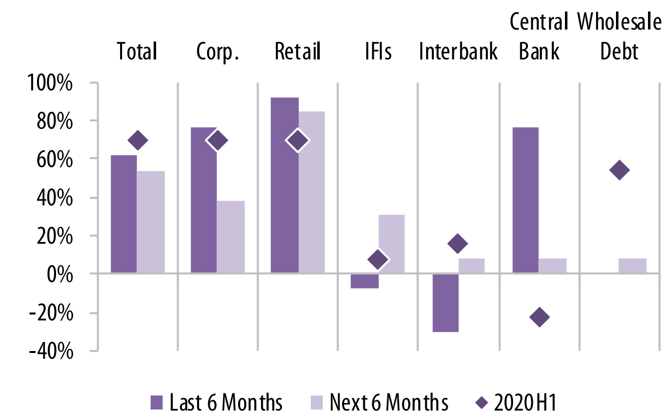
Source: EIB – CESEE Bank Lending Survey.

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

Following the COVID-19 shock, group-level access to funding continued to be easy. This suggests that monetary and regulatory policy responses have generated accommodative buffers to alleviate potential stresses derived from COVID-19. The aggregate developments reflect sustained improvements in retail and corporate funding as well as significant positive contributions from liquidity injections by central banks. On the other hand, wholesale debt issuance did not contribute significantly to easing funding conditions and interbank markets have been tightening.

Banking groups' global access to funding has continued to ease over the past six months. This suggests that monetary and regulatory policy responses have generated accommodative buffers (see COVID-19 special module on policy responses – pages 14-15) to alleviate potential stresses derived from the COVID-19 shock. The dynamics detected in the aggregate access to funding figures reflect sustained improvements in retail and corporate funding as well as significant positive contributions from central banks' liquidity injections (Figure 3a). On the other hand, wholesale debt issuance did not contribute significantly to easing funding conditions and interbank markets have been tightening, thus pointing to the importance of policy support to secure stability. Over the next six months, a positive trend in easy access to funding is expected to continue (Figure 3b). Notably, all sources of funding are expected to contribute to an easing in access to funding conditions, with a positive contribution from international financial institutions (IFIs).

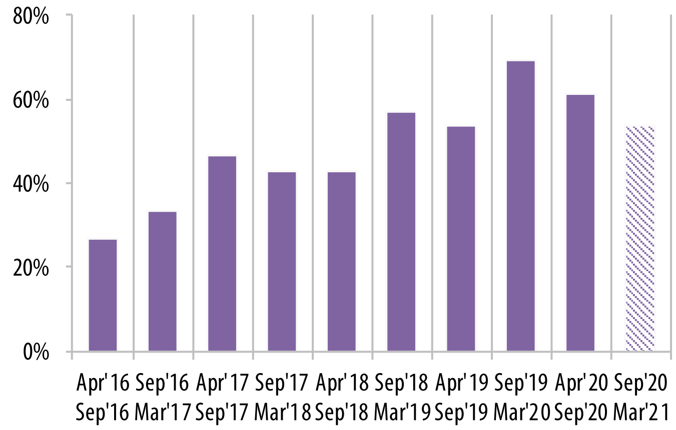
Figure 3a **Access to funding conditions**



Source: EIB – CESEE Bank Lending Survey.

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

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



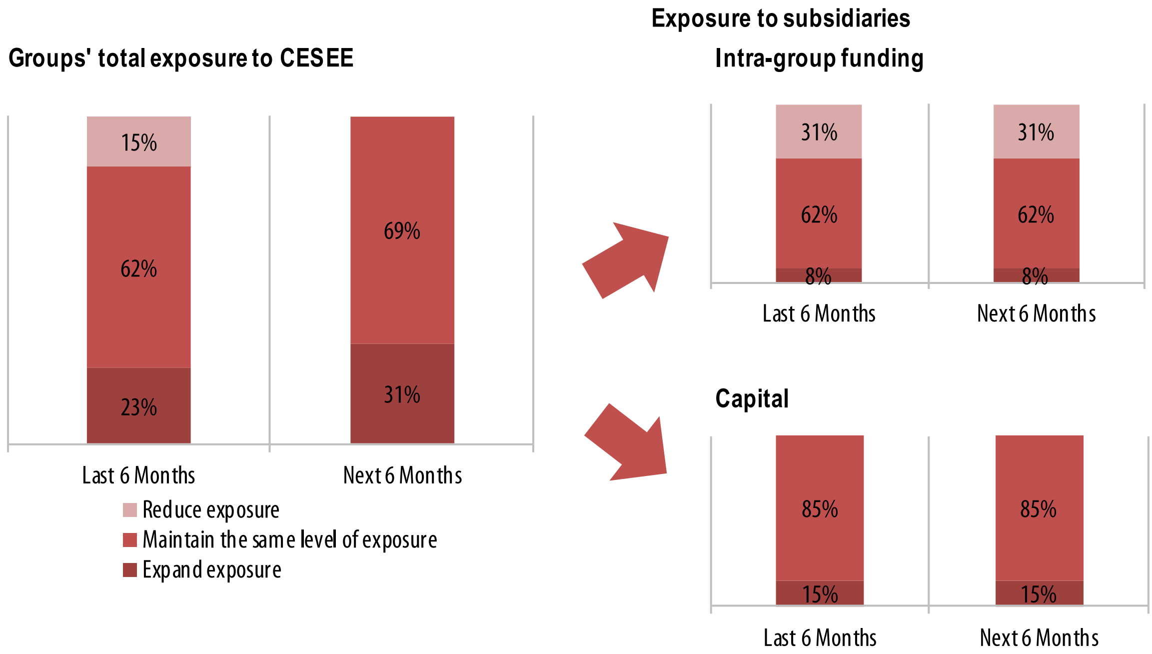
Source: EIB – CESEE Bank Lending Survey.

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

The COVID-19 shock has caused an initial sharp outflow of capital – in various forms – from the region. Nonetheless, banks report that over a more prolonged period – i.e. the past six months – they did not contract exposures in net balances. Overall, large swings have been recorded over the recent past, suggesting increased volatility even before the COVID-19 shock.

The trend of total exposure to the CESEE region has been slightly positive over the past six months, because the number of banks declaring a reduction in their exposures to the region was lower than those declaring an increase in exposures. The COVID-19 shock has caused an initial sharp outflow. Nonetheless, banks report that over a prolonged period – i.e. the past six months – they did not contract exposures in net balances. This is in contrast with the expectations formed in March 2020, whereby a contraction was anticipated for the same period. Even in the absence of the COVID-19 shock, exposures had been oscillating, reflecting an increased level of global uncertainty and volatility over the past two years. This calls for a cautious approach when interpreting the current outcomes. As in the past five years, most of the enduring negative contributions to the CESEE exposures stemmed from reduced intra-group funding for subsidiaries (Figure 4a). Most parent banks report that they have maintained their capital exposure to their subsidiaries and expect to continue to do so. Looking at the next six months, the net balance of total exposure to the region is expected to be largely positive, with no banking groups indicating intentions to decrease exposures.

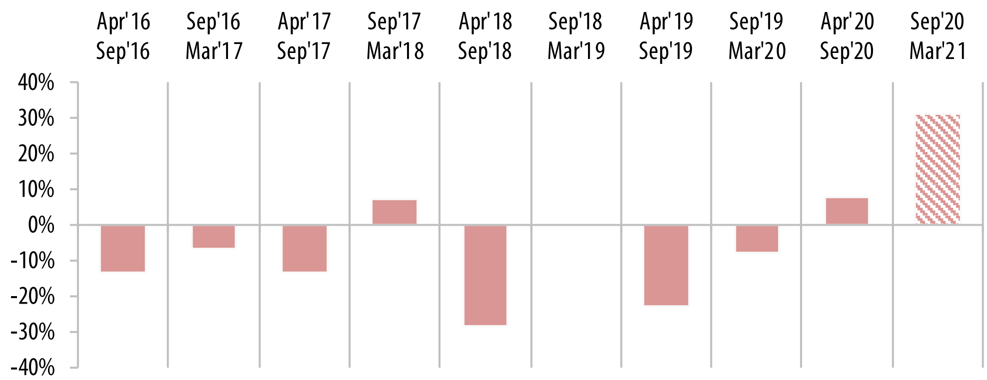
Figure 4a **Groups' total exposure to CESEE**



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.

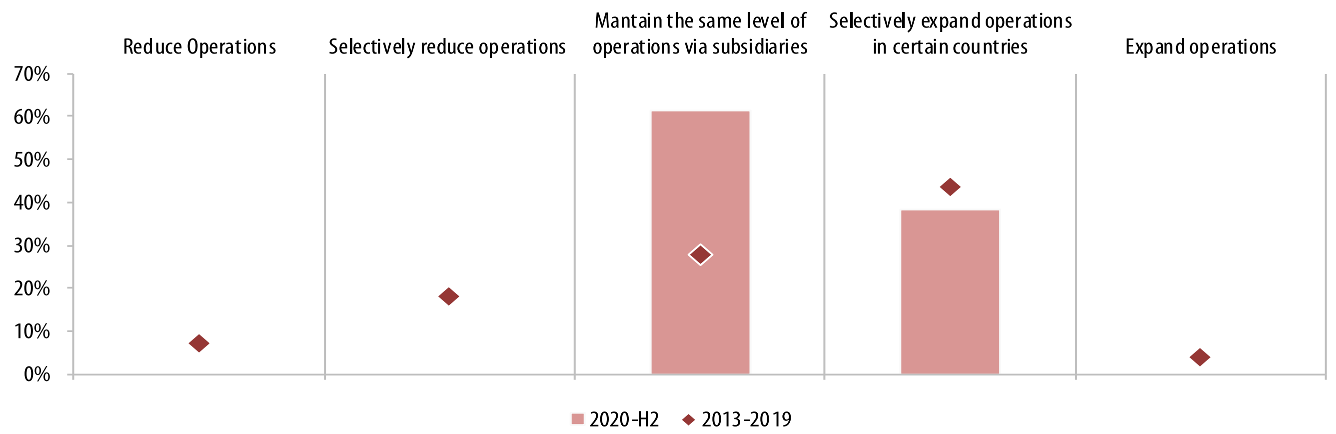
Note: Cross-border operations involving CESEE countries – see questions A.Q8 – net percentages; negative figures refer to decreasing exposure – questionnaire in the Annex.

Banking group strategies are tilted towards expansion or stability in the CESEE region. This is also supported by the profitability (RoA) of CESEE operations, which is largely reported to be higher than that of the overall group. Overall, the assessment of market prospects shows diversified potential and profitability across countries. Nonetheless, the current assessment does not show any significant deterioration compared to the pre-COVID-19 period.

Cross-border banking groups signal positive strategic intentions towards their regional operations, thus pointing at full support during the COVID-19 pandemic. No cross-border banking group intends to reduce operations. Around 60% intend to maintain operations in the region (Figure 5), whilst 40% intend to expand operations selectively. This scores a net improvement from the past whereby on average 20% to 30% of banking groups signalled intentions to either reduce or selectively reduce operations. It also suggests that many of the restructuring processes launched in the past either reached completion or have been put on hold given the current high level of uncertainty linked to COVID-19. Reflecting this positive strategic stance, only 15% of international banking groups reported lower returns on assets (RoA) in CESEE operations than in overall group operations over the last six months, reinforcing a positive trend that emerged in 2016. Accordingly, market potential has not been deteriorating across countries in the region.

At the same time, banking groups continue to discriminate in terms of countries of operation as they reassess their country-by-country strategies and heterogeneity between countries continues to emerge (Annexes A.4/A.5). The assessment of market prospects at country level builds on the previous waves of the survey. It suggests a stabilisation compared to one or two years ago. Surveyed banks see signs of somewhat low market potential (Annex A.8 for data on low market potential) in Albania, Bosnia-Herzegovina, Croatia, Kosovo 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. Some surveyed banks find their market positions in the Czech Republic to be in the weak category (Annex A.9 for data on weak positioning). This is also the case in Hungary, Romania, Serbia, Slovakia, Slovenia and Ukraine. Conversely, no weak positioning is detected in the other countries. Overall, this picture suggests that in many markets there was no negative combined effect of low market potential and weak positioning. Finally, yet importantly, the assessed profitability of markets in terms of RoA (adjusted for cost of risk) and return on equity (RoE – adjusted for cost of equity) differs across countries (Annexes A.6 and A.7). Except for the countries with profitability on balance higher than group levels, the percentage of responses indicating low profitability ranges between a minimum of 20% and a maximum of 50%.

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.

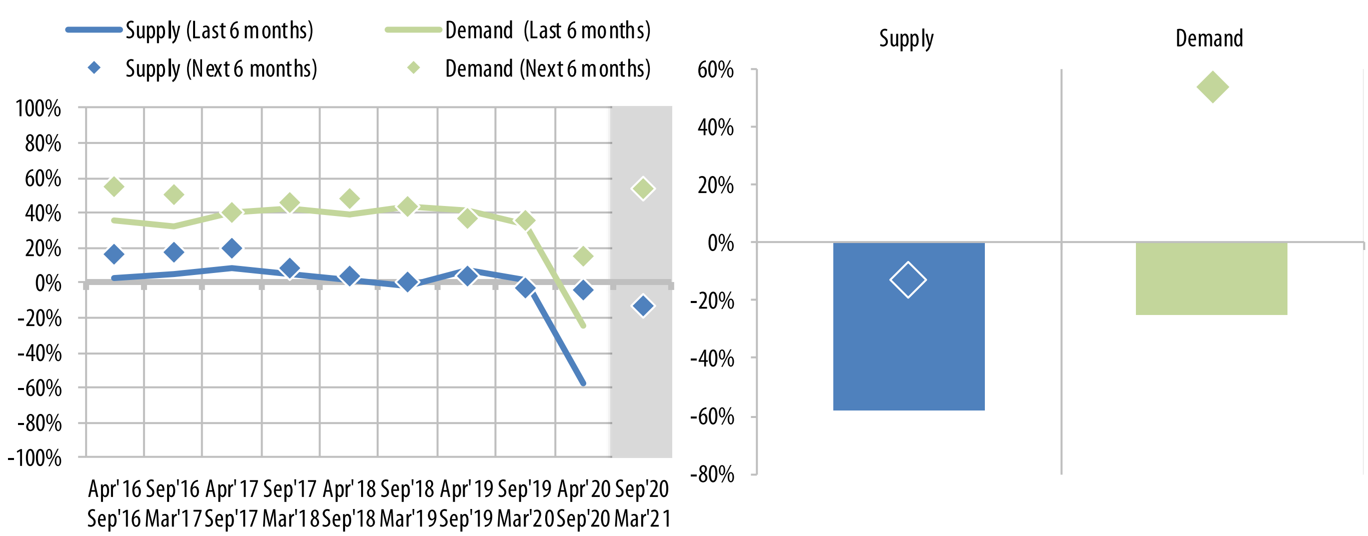
Results of the Bank Lending Survey – Local banks/subsidiaries

CESEE subsidiaries and local banks report a decrease in demand for credit and a tightening of supply conditions. Demand contracted for the first time over the past five years. Investment became a contractionary element whilst working capital needs continue to play a positive contributing role. Credit standards tightened across the board, including on SME lending. Approval rates have also dropped significantly, notably for SMEs and consumer credit. Collateral requirements have tightened significantly across the board over the past six months.

Demand for loans and credit lines has contracted in the last six months due to the COVID-19 shock (Figure 6). This result marks the first contraction in aggregate demand in the past five years. This contraction is also aligned with the expectations embedded in the spring 2020 release of the survey. Many factors started to reduce demand for loans (see Annex A.2). Notably, the contribution from investment turned strongly negative. This is a significant turnaround because fixed investment was among the highest positive contributors over the past two years. Debt restructuring started to be a positive contributing element, contrary to the past three years when its contribution was close to zero. Working capital continued to play a supportive role. Non-housing-related consumption and consumer confidence pushed demand into contractionary territory whilst housing-related demand has been only mildly contractionary. In the period ahead, banks expect a rebound in credit demand. This is primarily expected to come from working capital and debt restructuring. The other components of demand are expected to positively contribute only mildly.

Supply conditions tightened significantly over the past six months (Figure 6). Across the client spectrum, credit standards tightened across the board, including on SME lending (Annex A.3) – see Figure 7 for the underlying driving factors. Aggregate supply conditions are still expected to tighten slightly in the next six months, albeit moving towards a gradual normalisation. Alongside this tightening, approval rates have dropped significantly, notably for SMEs and consumer credit. The terms and conditions of loan supply tightened in terms of size of the loans and only slightly in terms of maturity. Collateral requirements tightened significantly across the board over the past six months, even more so for SMEs.

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



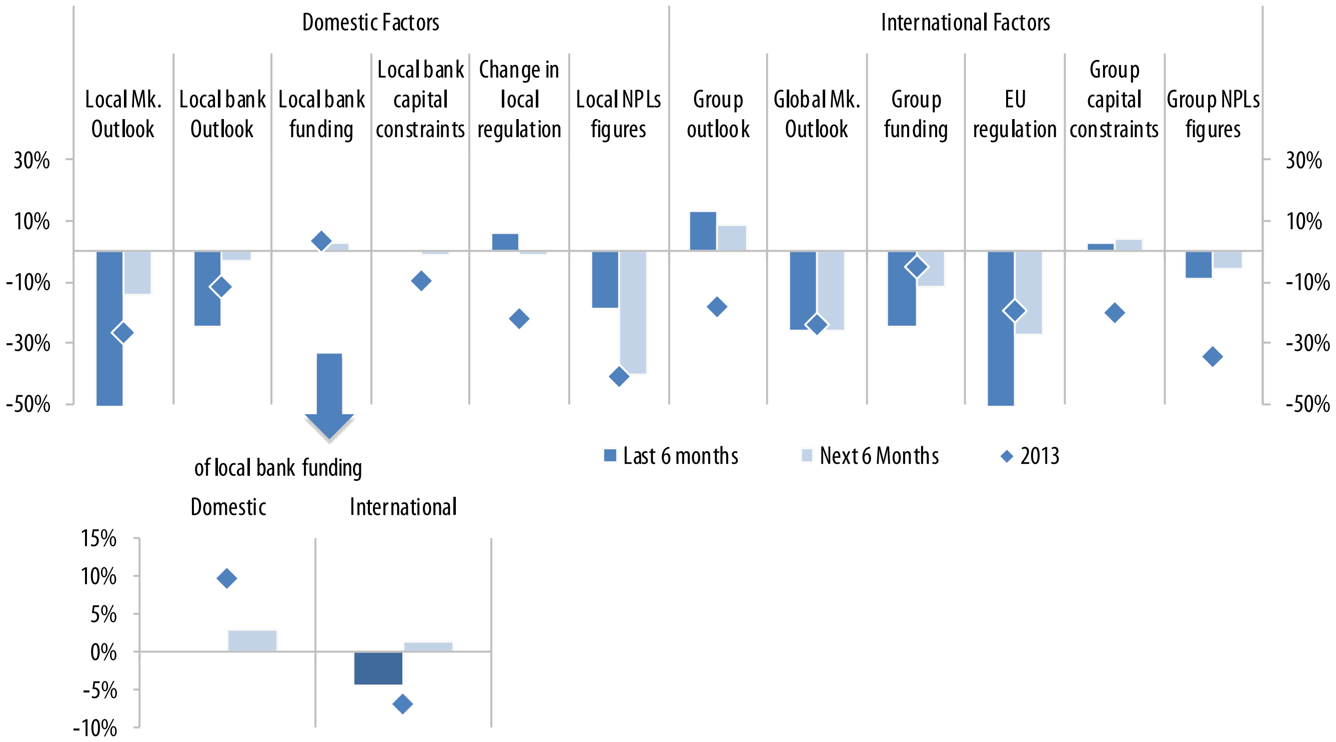
Source: EIB – CESEE Bank Lending Survey.

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

Many domestic and international factors limited supply over the past six months. Market and bank outlooks were limiting factors as well as NPLs at the local level. Changes in the domestic regulatory environment played an easing role for the first time. Global market outlook, group funding and EU regulation and, to a lesser extent, group NPLs started playing a constraining role.

The number of domestic and international factors limiting supply has increased substantially compared to 2019 and in some instances started to move closer to the tightening levels recorded in 2013 (Figure 7). The latest survey release shows that local market and bank outlooks are limiting factors as well as local NPLs. Changes in the domestic regulatory environment played an easing role for the first time, thus suggesting that local regulatory actions are playing their part in alleviating the negative effects of the COVID-19 crisis. Moreover, many international factors play a constraining role. Notably, global market outlook, group funding (via the intra-group channel) and EU regulation have contributed to a tightening of supply conditions. NPLs at the group level also played a mild constraining role. Looking ahead, almost all the same factors are expected to affect supply conditions in the same direction, with local NPLs expected to exercise an even stronger negative effect.

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



Source: EIB – CESEE Bank Lending Survey.

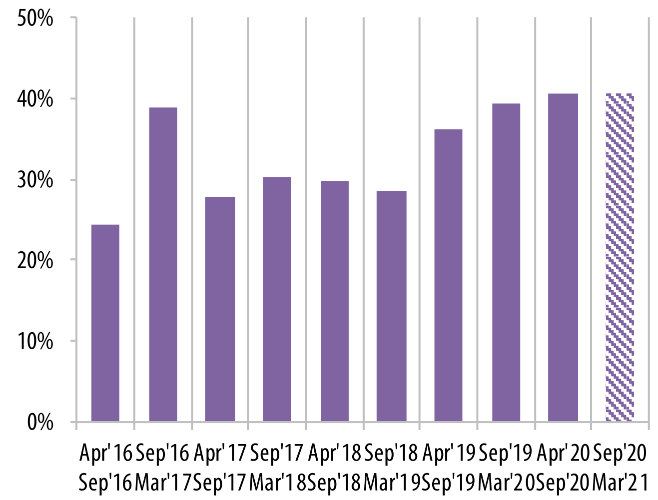
Note: Net percentage; positive figures refer to a positive contribution to supply – see question B.Q4 – questionnaire in the Annex.

Access to funding continued to ease in the CESEE region, supported mostly by local sources and IFIs. This suggests that the policy response was correct to support liquidity in the CESEE region. On the other hand, intra-group funding is no longer assisting these positive developments.

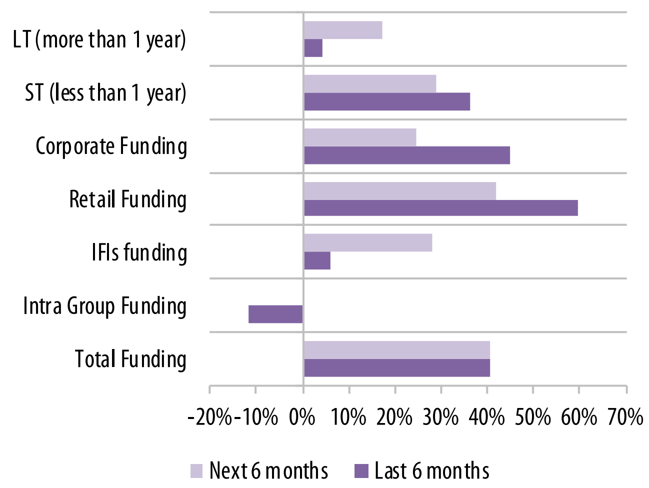
Easy access to retail and corporate deposits supports a positive outlook (Figure 8). In addition, CESEE subsidiaries report that easier access to short-term funding is making a positive contribution to overall funding activities. IFI funding contributed positively. Longer-term funding conditions have only marginally eased. Subsidiaries did not indicate a positive contribution from access to international and intra-group funding over the past six months.

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

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



B. Breakdown of funding conditions – results from latest survey



Source: EIB – CESEE Bank Lending Survey.

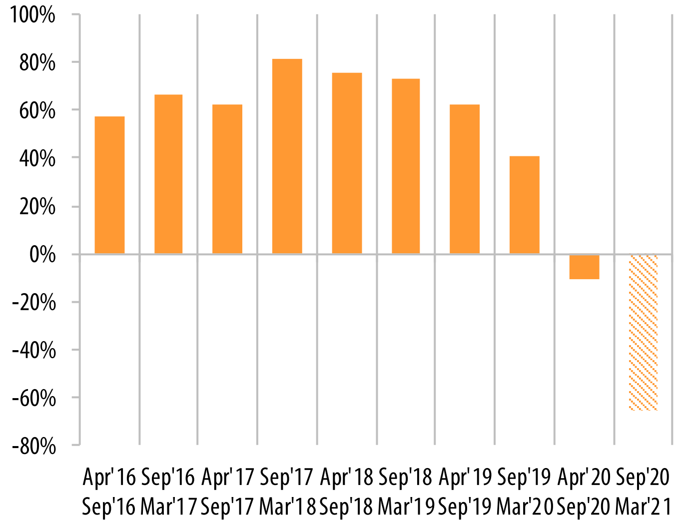
Note: Net percentage; positive figures refer to an easing of access to funding – see question B.Q9 – questionnaire in the Annex.

Credit quality has deteriorated, albeit less than anticipated in March 2020. This negative trend is expected to continue over the next six months in both corporate and retail segments.

The COVID-19 crisis has brought about a significant change to the asset quality in portfolios. The fall in NPLs recorded over the past four years came to an end. NPL figures deteriorated at the regional level over past six months (Figure 9). However, NPLs increased less dramatically than was expected in the spring 2020 wave of the survey. This suggests that the policy and banks' strategic responses may have played a mitigating role. NPLs deteriorated primarily in the retail rather than the corporate segment. Nonetheless, NPL ratios are expected to deteriorate further across the board over the next six months. In absolute terms, the share of subsidiaries indicating an increase in their NPL ratios currently stands at roughly 36%, whilst 26% still indicated a decrease over the past six months. Over the next six months, 75% of banks expect an increase in NPL ratios and almost no banks expect a decrease.

Figure 9 **Non-performing loan (NPL) ratios**

Developments over time



Last run of the survey

Source: EIB – CESEE Bank Lending Survey.

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

Following the COVID-19 shock, CESEE subsidiaries and local banks report a decrease in demand for credit and a tightening of supply conditions over the past six months. NPL ratios deteriorated but less than expected in the spring 2020 wave of the survey. Banking groups report a generalised stability stance in their LTD ratios, thus reducing worries of unwarranted deleveraging linked to the COVID-19 shock. The CESEE strategies continued to pay off and banking groups are committed to the CESEE region and their operational strategies are tilted towards expansion or stability. Overall, this suggests that monetary and regulatory policy responses have contributed to generate accommodative buffers to alleviate COVID-19-induced stresses to the regional markets.

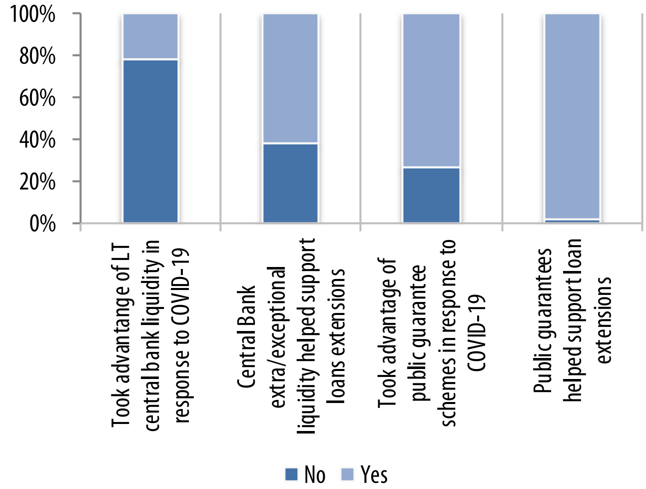
Following the COVID-19 shock, CESEE subsidiaries and local banks report a decrease in demand for credit and a tightening of supply conditions over the past six months. Credit standards tightened across the board, including on SME lending. Approval rates have dropped significantly, notably for SMEs and consumer credit. Collateral requirements tightened significantly across the board. Many domestic and international factors limited supply over the past six months. Credit quality has deteriorated, albeit less than anticipated in March 2020. This trend is expected to continue over the next six months. Access to funding continued to ease in the CESEE region. Group-level access to funding conditions also continued to be good. This suggests that monetary and regulatory policy responses have generated accommodative buffers to alleviate potential stresses derived from the COVID-19 shock. COVID-19 has brought about a significant decrease in activities to increase capital with fewer sales of assets or branches. Overall, banking groups report a generalised stability stance in their LTD ratios, thus reducing worries of unwarranted deleveraging linked to the COVID-19 shock. Finally yet importantly, banking groups are committed to the CESEE region and their operational strategies are tilted towards expansion or stability. This is also supported by the profitability (RoA) of CESEE operations, which is largely defined as higher than that of the overall group. The assessment of market prospects shows diversified potential and profitability across countries. Nonetheless, the current assessment does not show any sigfincant deterioration compared to the pre-COVID-19 period.

COVID-19 Special Module

Regulatory and policy measures supporting lending

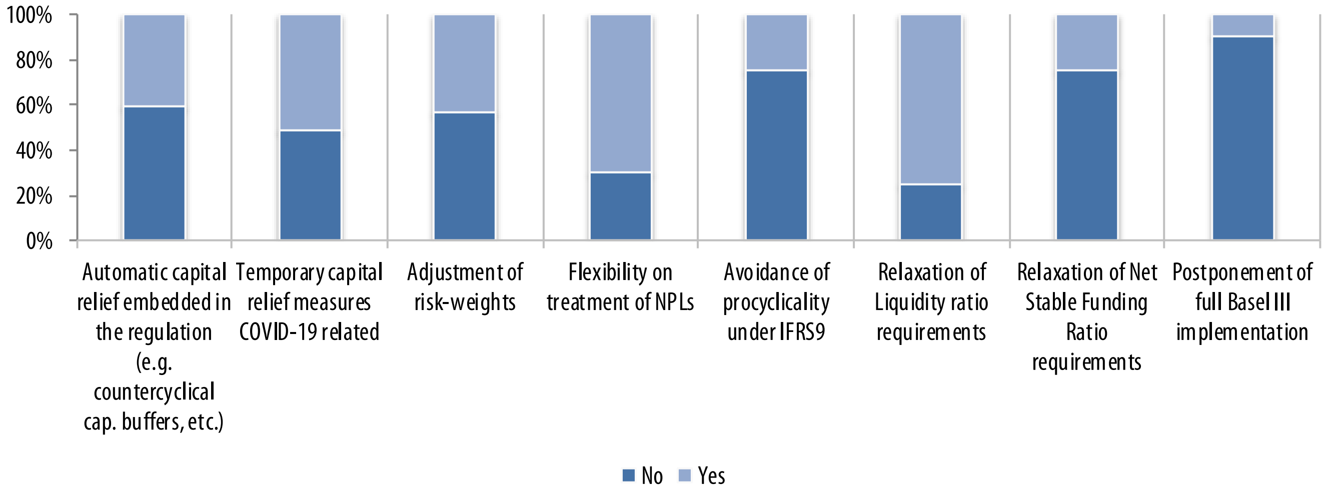
Banks operating in the region report that regulatory and policy measures to support lending have played a significant positive role. Notably, banks that took advantage of public guarantee schemes indicate that these have been very effective in supporting loan extensions (Figure 1). A smaller group of banks took advantage of central bank long-term refinancing operations. These facilities are identified as being supportive to credit conditions by the vast majority of banks drawing from the liquidity lines. Among the set of regulatory and policy actions, some seem to have a more active role than others in supporting lending to the economy (Figure 2). Specifically, flexibility on NPL treatment and relaxation of liquidity ratios are deemed extremely supportive. Various forms of capital relief measures, including the release of regulatory buffers, have also contributed significantly. Adjustment of risk weights was also considered a relevant measure.

Figure 1 **Uptake and impact on lending of Central Banks liquidity facilities and government interventions in terms of public guarantees**



Source: EIB – CESEE Bank Lending Survey.

Figure 2 **Did the following regulatory and policy measures help to support/maintain lending to the economy?**



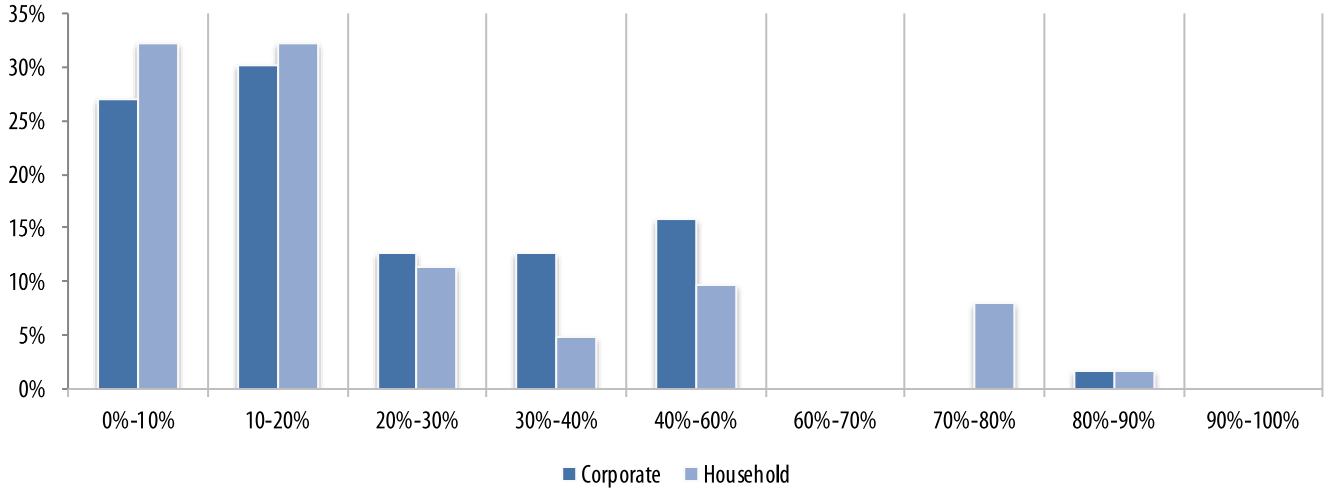
Source: EIB – CESEE Bank Lending Survey.

Note: PTI = payment-to-income ratio; LTV = loan-to-value ratio.

Moratoria incidence and uptake

Many countries and banks in the region have implemented moratoria measures on existing loans in response to the COVID-19 shock. The participation in moratoria on outstanding loans varies across the region. 25% to 30% of banks indicate that moratoria have equalled 0% to 10% of outstanding loan portfolios. Another 25% to 30% of banks indicate a 10-20% share of outstanding portfolios. For the remaining 50-60% of banks, moratoria ranged between 20% and 60-70% of total outstanding portfolios.

Figure 3 **Percentage of your corporate/household portfolio/clients' loans**

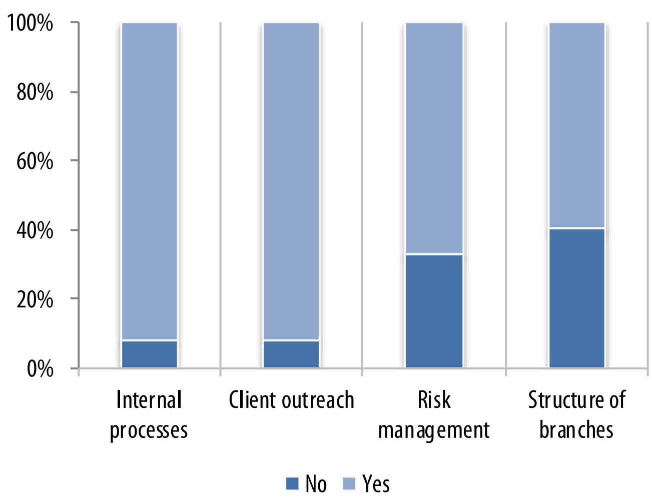


Source: EIB – CESEE Bank Lending Survey.
Note: x-axis – shares of loan portfolio are in terms of total balance sheet size; y-axis percentage of banks

Impact on strategic priorities in terms of digitalisation

Banks have sped up digitalisation processes in response to COVID-19. Notably, their propensity to digitalise in various layers of their internal and external processes increased. Specifically, banks report that they are speeding up implementation of digitalisation strategies to increase their client outreach. In this context, digitalisation is also expected to impact the structure of bank branches. The acceleration of digitalisation processes is expected to impact the area of risk management as well as other internal processes.

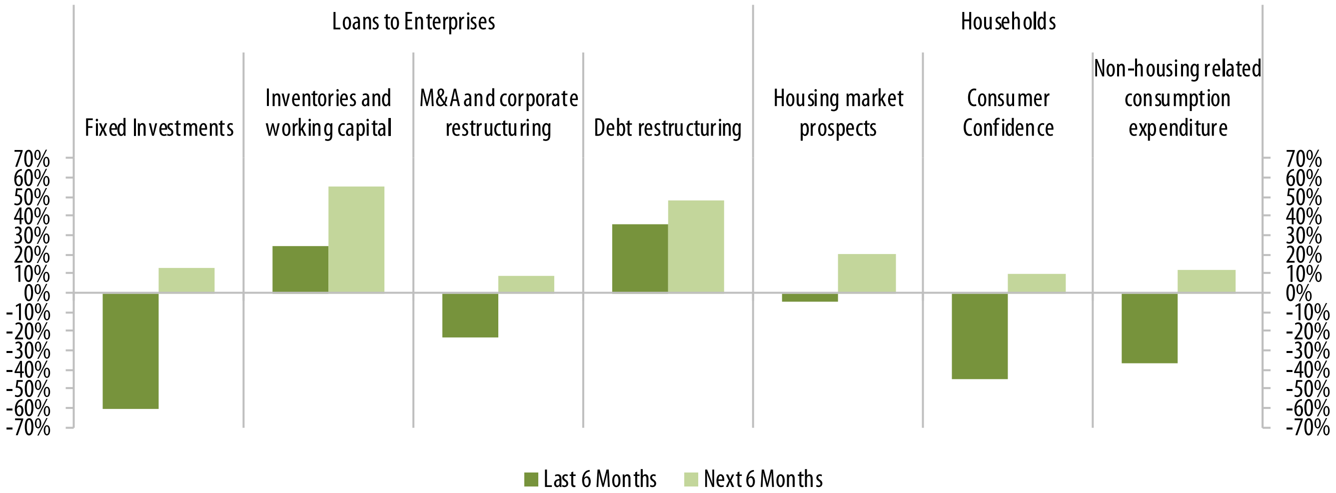
Figure 4 **Due to COVID-19 propensity to speed up digitalisation in terms of:**



Source: EIB – CESEE Bank Lending Survey.

Annex

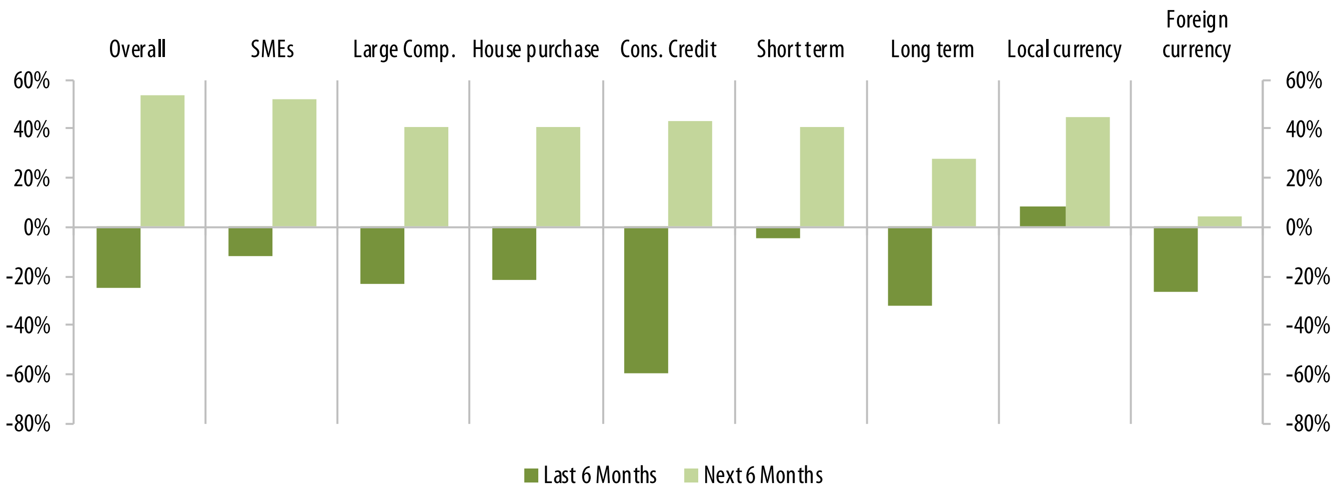
Annex A.1 Factors affecting demand for credit



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.

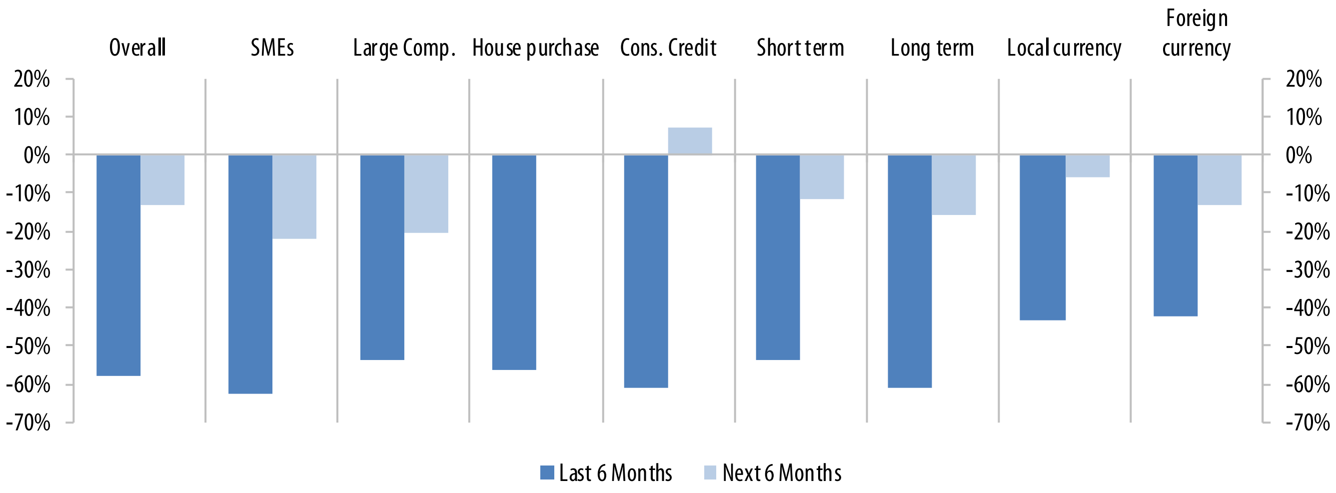
Annex A.2 Demand for loans or credit lines – client breakdown



Source: EIB – CESEE Bank Lending Survey.

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

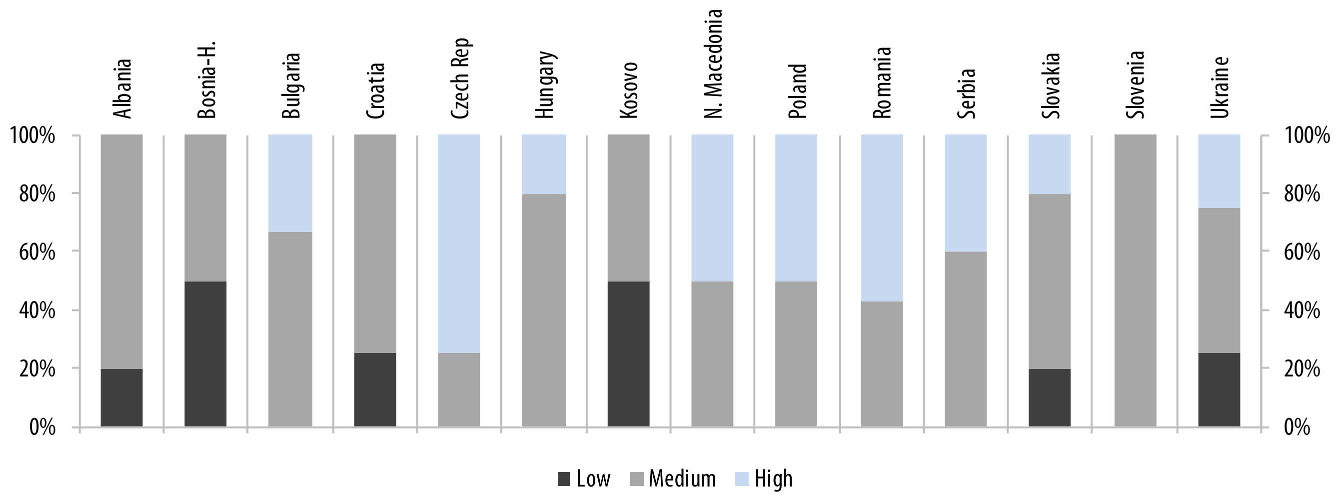
Annex A.3 **Credit supply (credit standards) – client breakdown**



Source: EIB – CESEE Bank Lending Survey.

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

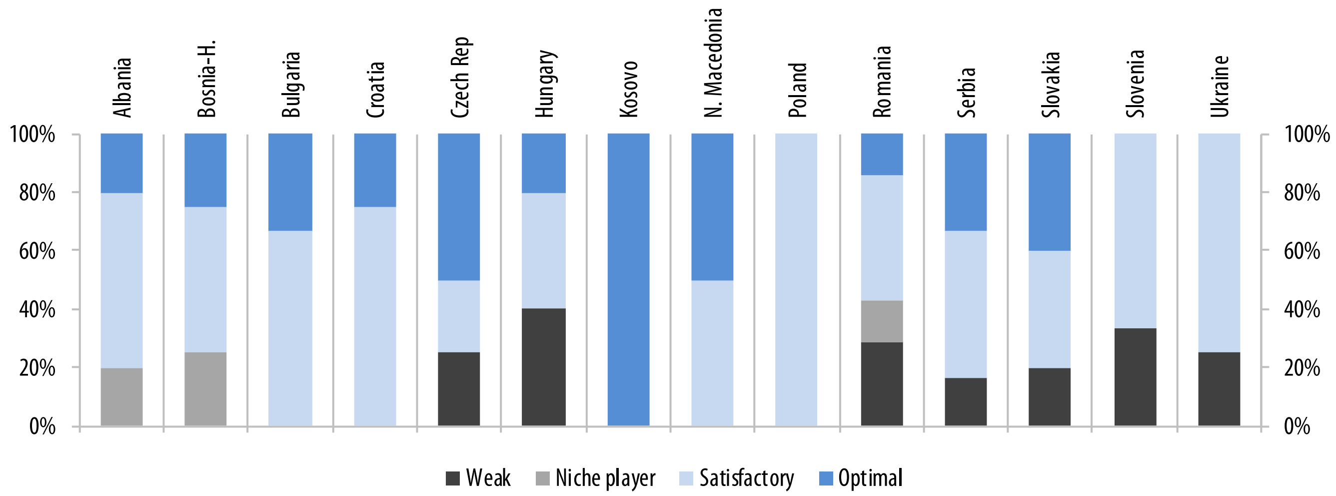
Annex A.4 Market potential



Source: EIB – CESEE Bank Lending Survey.

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

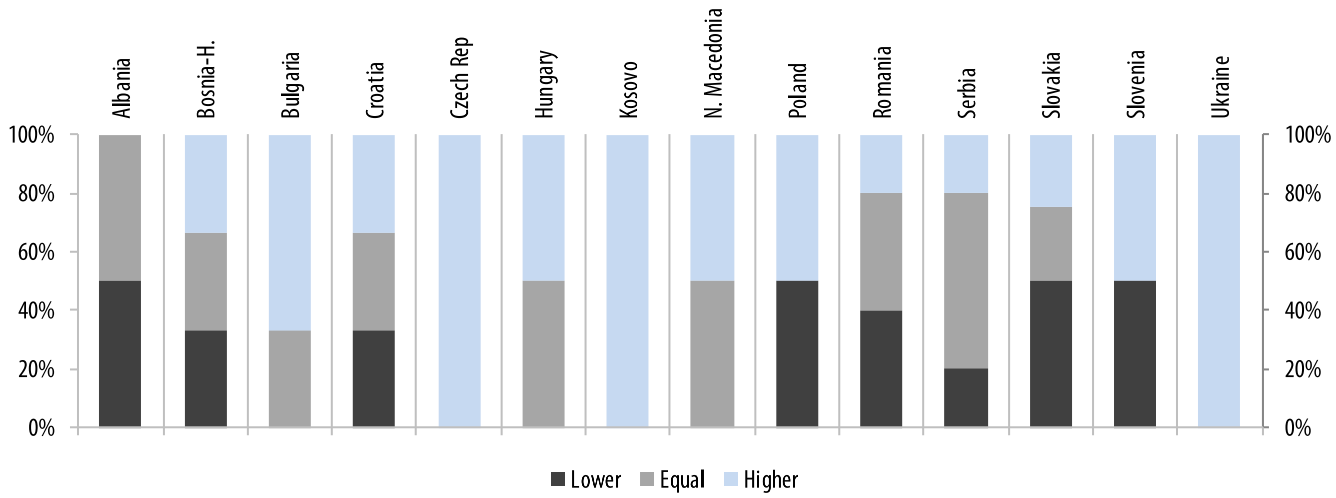
Annex A.5 Market positioning



Source: EIB – CESEE Bank Lending Survey.

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

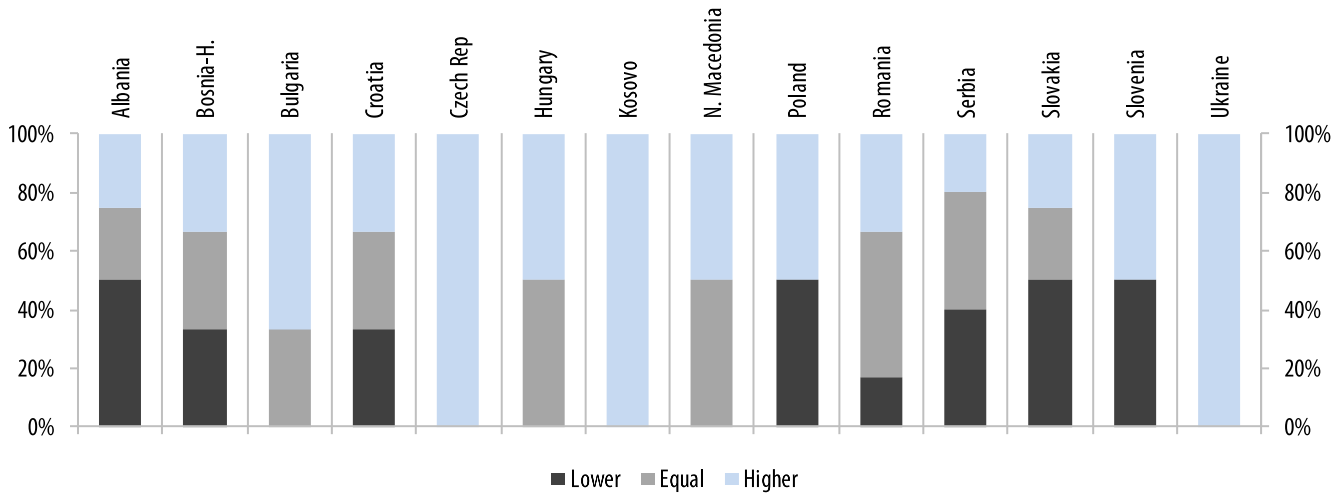
Annex A.6 Return on assets (adjusted for cost of risk) compared to overall group operations



Source: EIB – CESEE Bank Lending Survey.

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

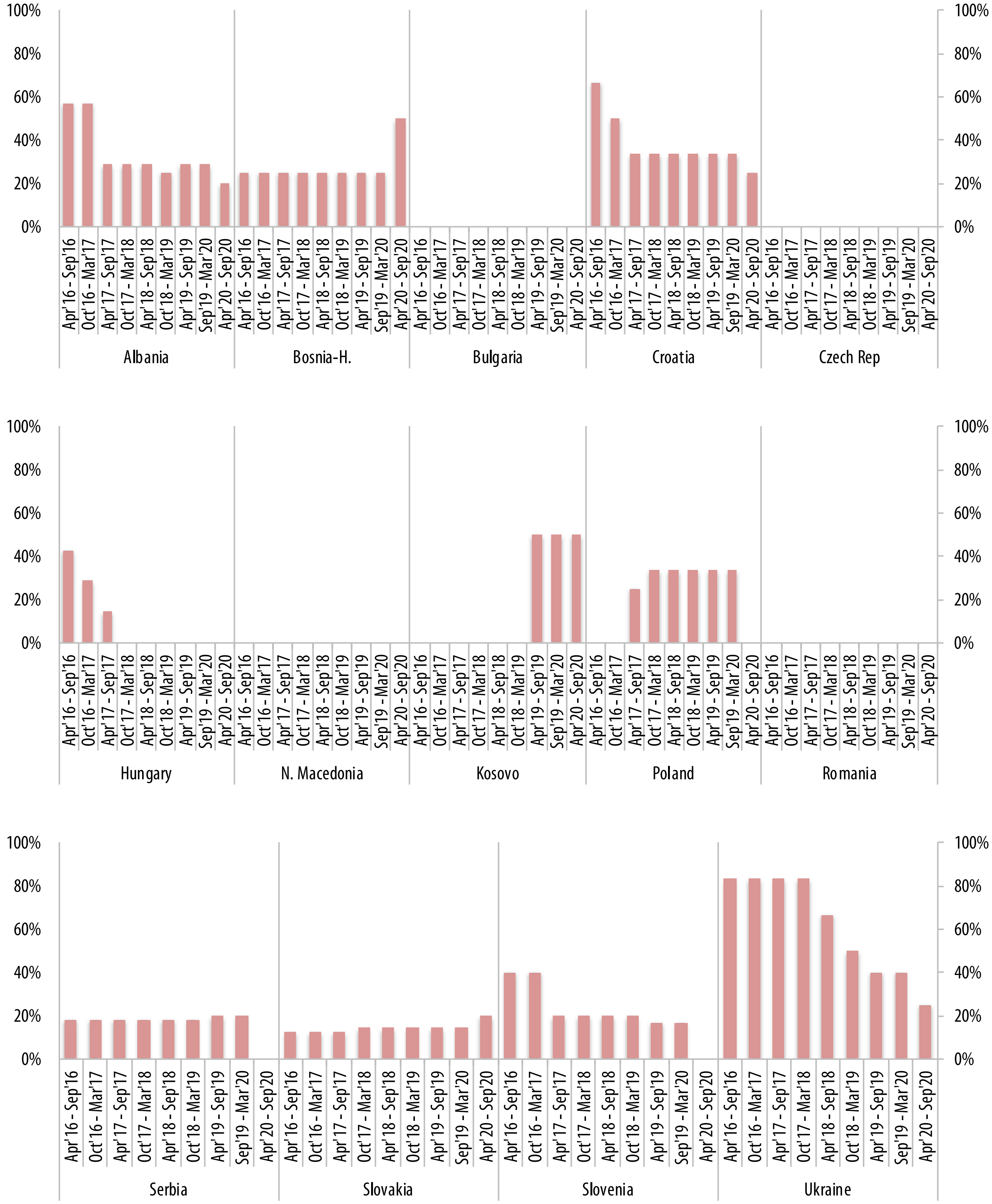
Annex A.7 Return on equity (adjusted for cost of equity) compared to overall group RoE



Source: EIB – CESEE Bank Lending Survey.

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

Annex A.8 Share (%) of parent banks indicating "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

As an impact of COVID-19, credit demand declined but less than in the region while supply conditions remained neutral. Expectations for the next six months indicate recovering demand amid improving supply conditions but worsening NPL ratios.

Summary

Group assessment of positioning and market potential: the large majority of international banking groups reported a lower or equal profitability for Albanian operations than for overall group operations, placing Albania below other CESEE countries. Still, most of the parent banks considered the Albanian market to have medium potential and satisfactory or optimal market positioning.

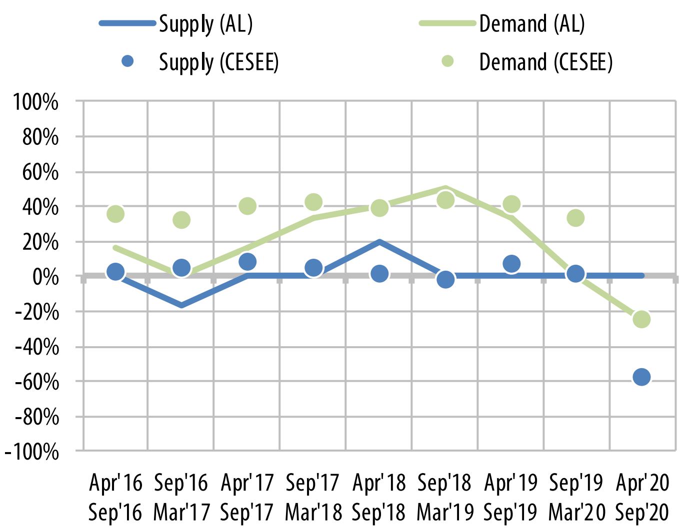
Credit demand and supply conditions in Albania deteriorated following the COVID-19 outbreak, but less than the regional average. Demand decreased on both corporate and household segments.

Credit supply conditions remained neutral, contrary to the tightening regional trend. Still, approval rate of loan applications decreased during the last six months for almost all segments, except for mortgage loans.

Access to funding in Albania continued to improve further on the back of better access to local retail deposits and intra-group funding.

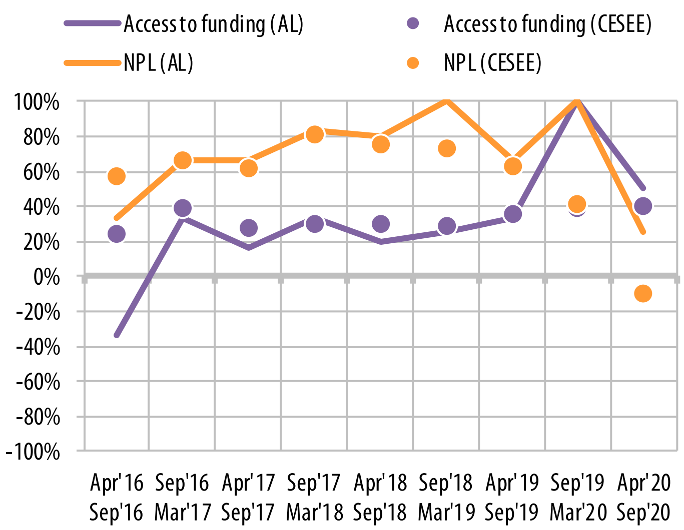
NPL ratios continued to improve slightly for the corporate segment during the last six months but a worsening is expected for the next six months, when the loan moratoria expire.

COVID-19 measures: local banks find that guarantee programmes, together with the flexibility of the NPL treatment and the relaxation of the liquidity ratio requirements are the most helpful in maintaining credit during the pandemic shock.
Loan Moratoria affects around 20-60% of the corporate portfolio while the incidence is relatively lower in the household segment of 10-30%.



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

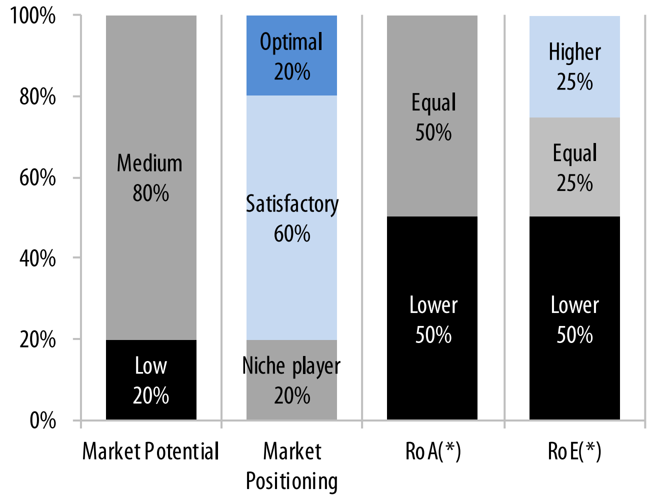
Results of the Bank Lending Survey – Parent banks level

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

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

Still, most of the parent banks considered the Albanian market to have medium potential and satisfactory or optimal market positioning, and only 20% of parent banks find their market potential low.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

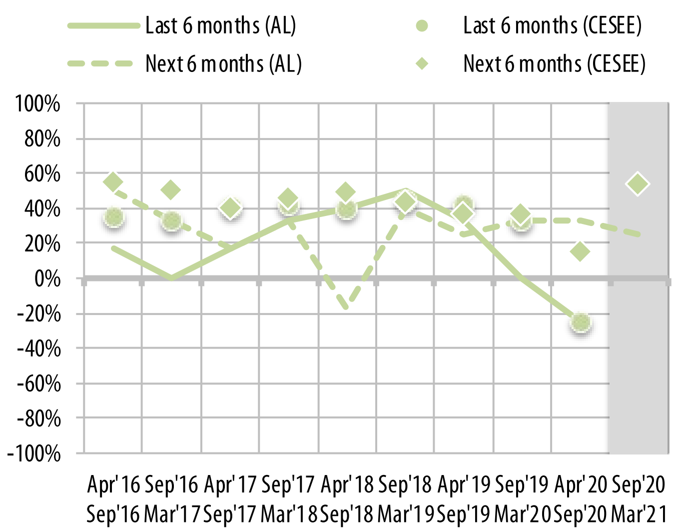
Note: See question A.Q1. (*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

Aggregate demand developments

Demand for loans in Albania came below expectations and it decreased during the last six months, after a positive trend, which lasted more than two years. Expectations for the next six months shows a slight recovery.

Figure 2 **Demand side developments**

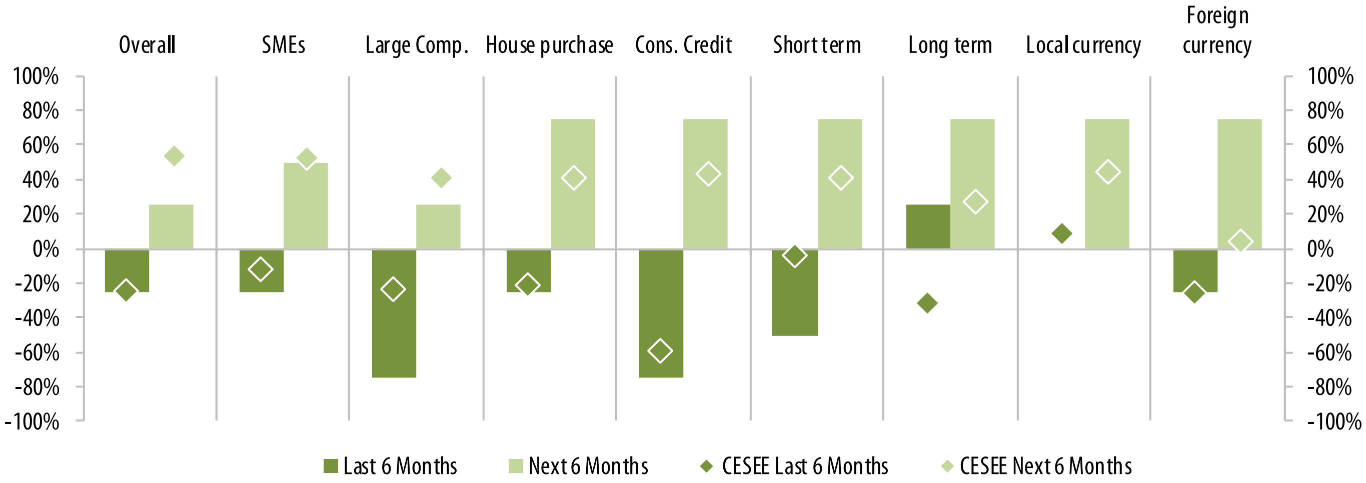


Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 Demand components and segments

Demand for loans decreased overall and across all type of loans in line with regional trend. A general recovery in demand is expected for the next six months.

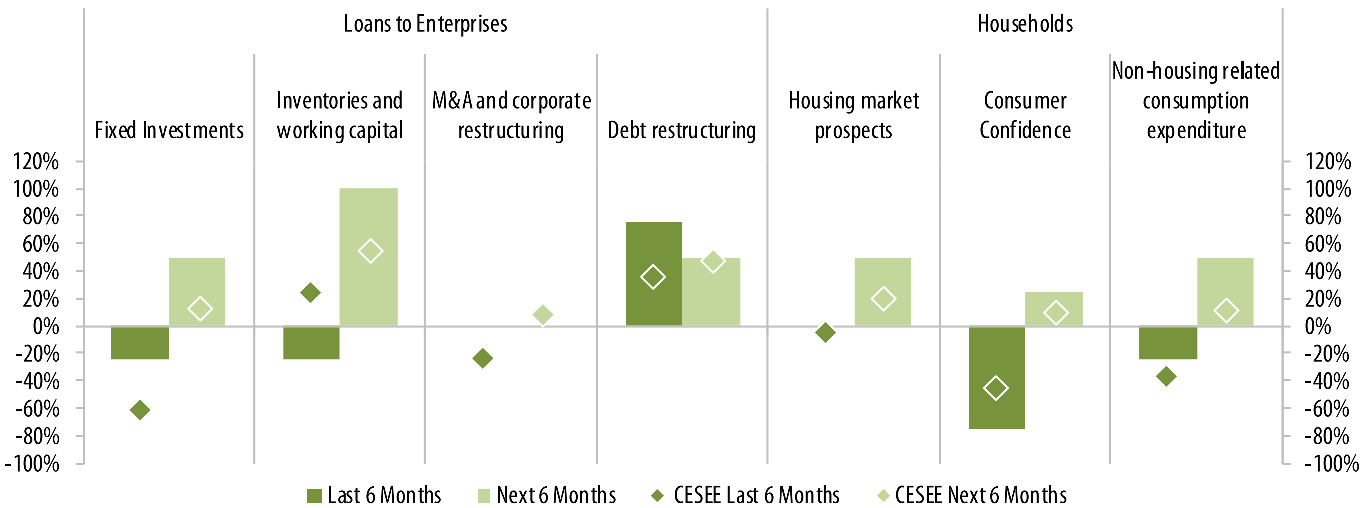


Source: EIB – CESEE Bank Lending Survey.

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 household factors had a neutral or negative contribution to demand for loans, while on the enterprise side, only debt restructuring had a positive contribution. Consumer confidence had the strongest decline while a recovery in demand is expected on the back of corporate loans for inventories and working capital.

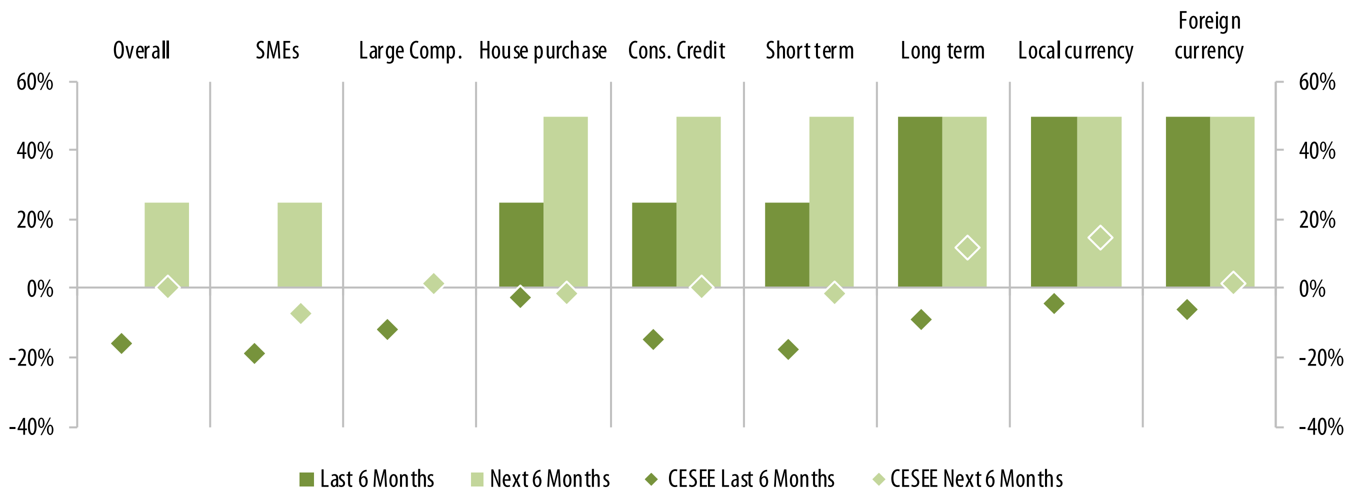


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

Contrary to the regional trend, the perceived quality of loan applications remained neutral during the last six months for corporations, while improving for household segments. Further improvements are expected for the next six months.



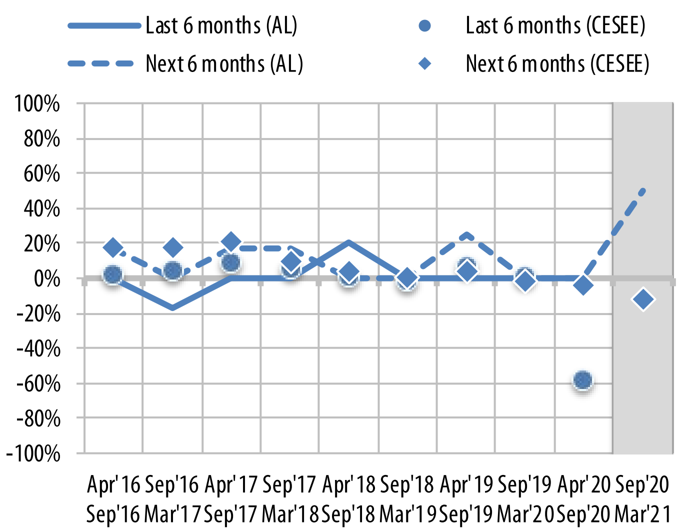
Source: EIB – CESEE Bank Lending Survey

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

Aggregate supply developments

Credit standards remained neutral for the fourth consecutive period, while the CESEE average shows a strong tightening. Improvement of supply conditions is expected for the next six months, above the regional average.

Figure 6 Supply developments

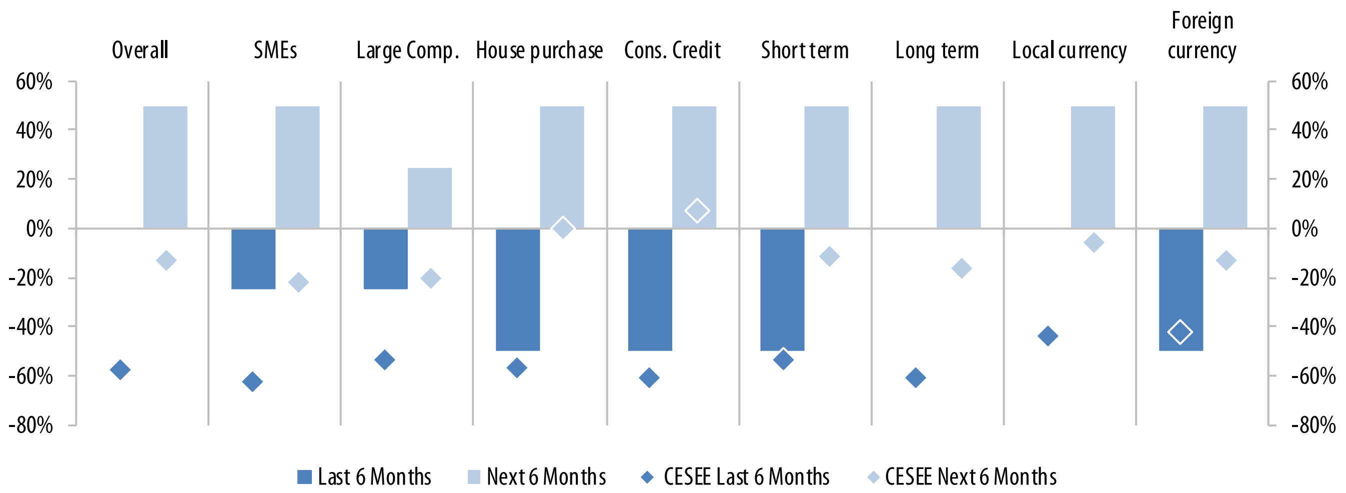


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Overall credit supply conditions stayed neutral also for loans with long-term maturities and local currency loans. Conditions tightened for all type of corporate and household loans, while a loosening of conditions is expected across the board for the next six months.

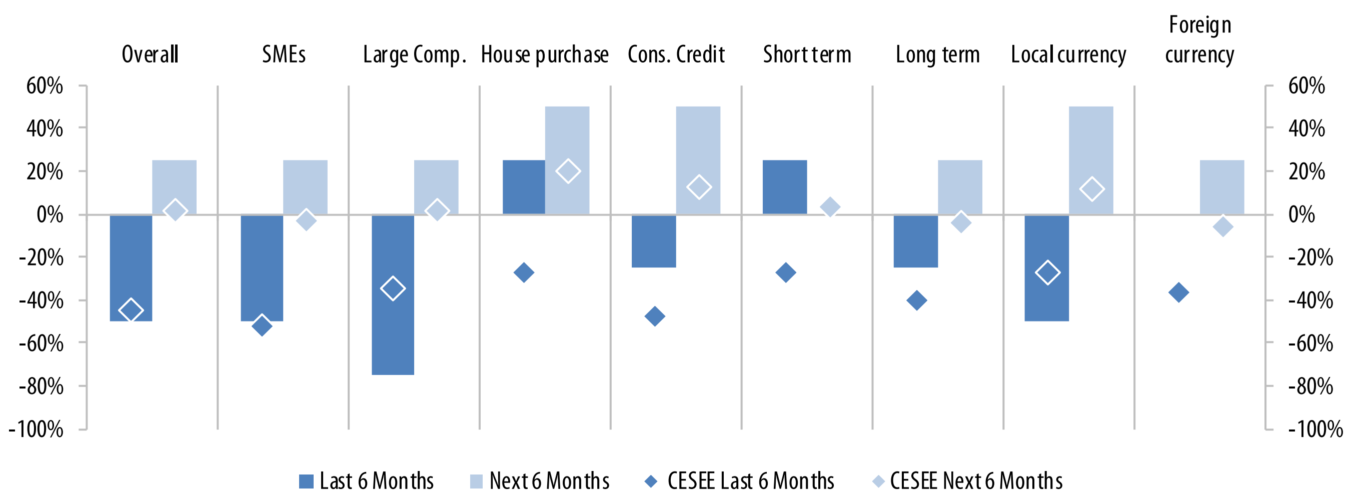


Source: EIB – CESEE Bank Lending Survey

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

The approval rate decreased during the last six months for most of the segments, except for short-term and mortgage loans. The highest increase in approval rate have been registered for mortgage loans.



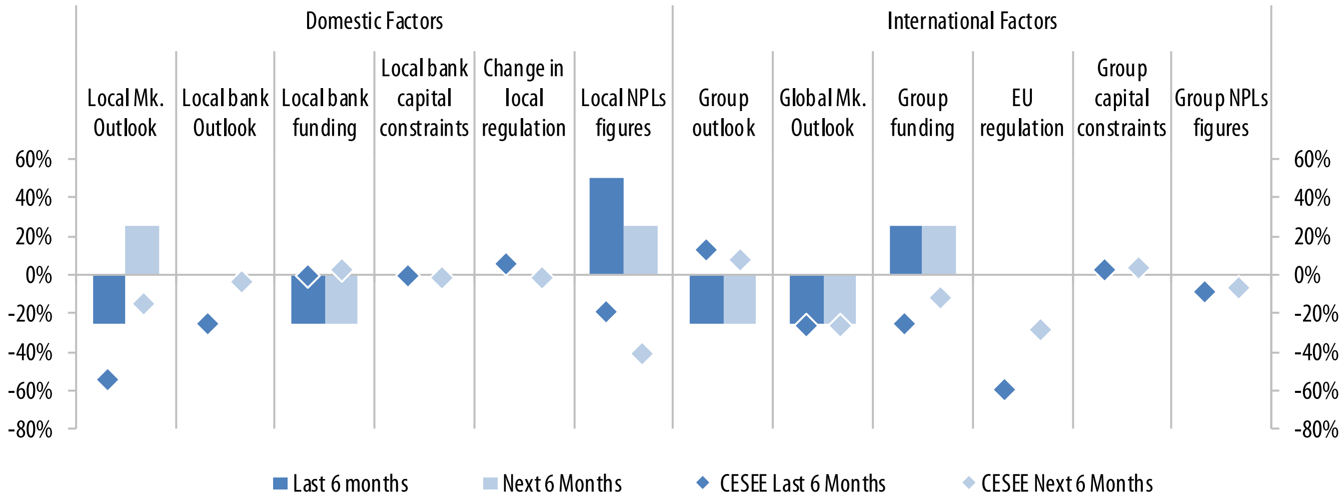
Source: EIB – CESEE Bank Lending Survey

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

Figure 9 **Factors contributing to supply conditions**

Among the domestic factors, local market outlook turned negative in Albania in line with the regional trend, while local bank funding remained negative for the second period. Local NPL figures contributed positively for the fourth consecutive period.

From international factors, group funding remained positive while global market outlook and group outlook contributed negatively.



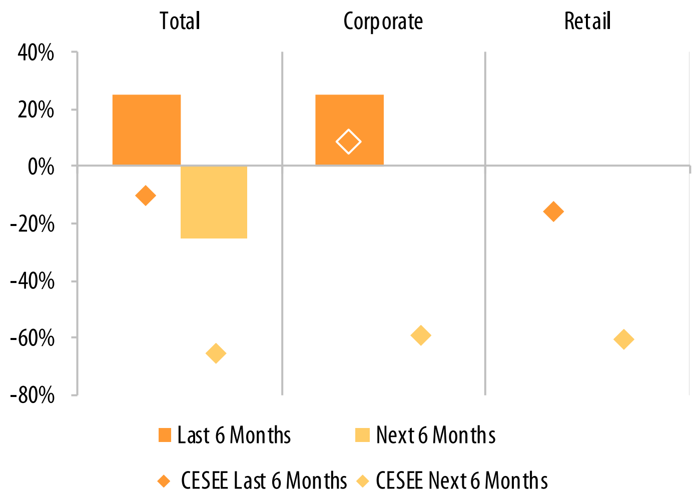
Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 Non-performing loan ratios

The cleaning-up process of the bank's portfolio in Albania continued for corporate segment over the past six months. However, the deterioration in the NPL might not be visible yet thanks to the crisis relief measures, such as loan moratoria, while an increase in NPL is expected for the next six months, when such measures expire.

The NPL ratio although decreasing, remained among the highest in the CESEE region, at around 8.1 percent as of mid-2020.



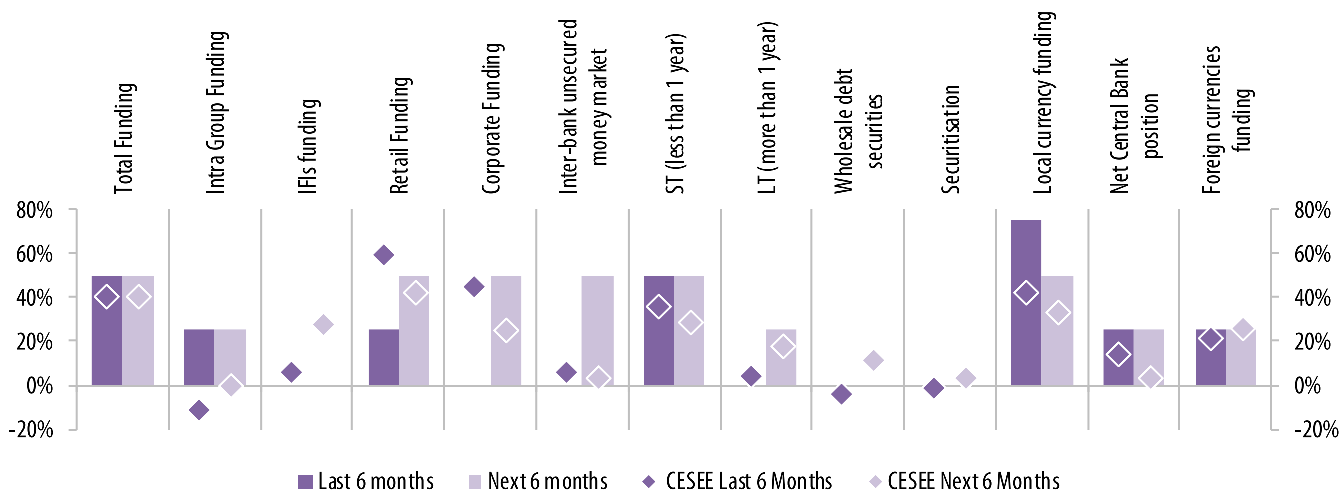
Source: EIB – CESEE Bank Lending Survey.

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 continued to improve in the last six months mainly supported by domestic retail and intra-group funding, while access to corporate funding turned neutral.

Both local and foreign-currency funding improved during the last six months while net central bank position increased. Further improvements in funding is expected 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

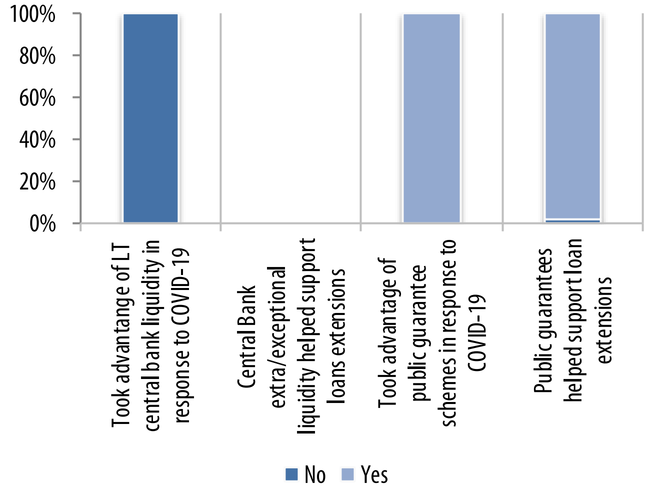
COVID19 Special Module

Regulatory and policy measures supporting lending

All Albanian banks participating to the survey took advantage of the public guarantee schemes launched as a response to the COVID-19 pandemic. All respondents believe that the public guarantees helped in supporting loan extensions.

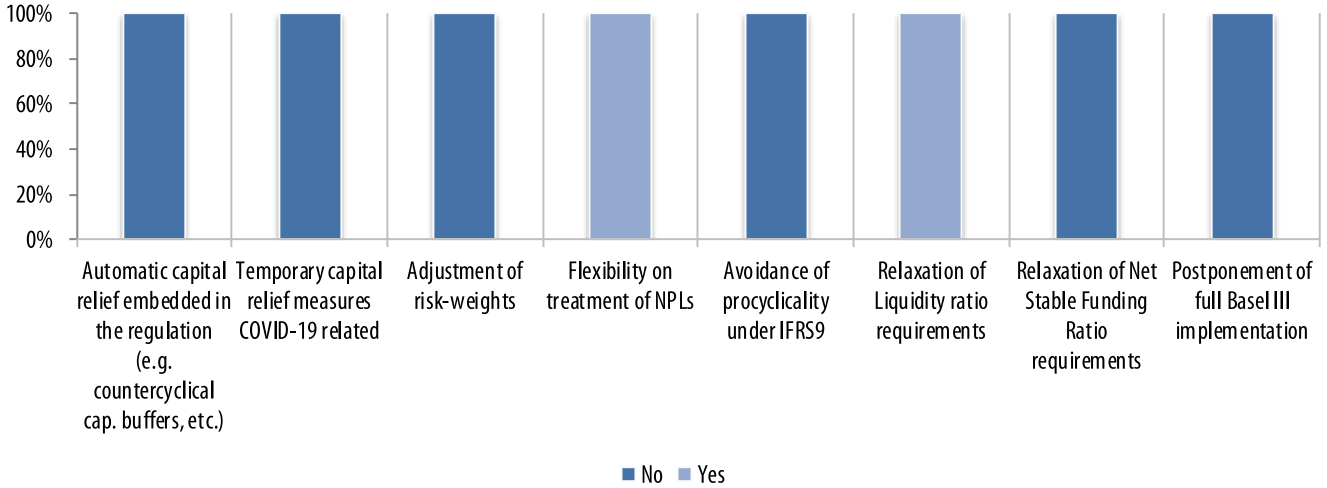
Looking at the impact of the various regulatory measures, Albanian banks believe that the most helpful steps to support lending during the pandemic are the flexibility of the NPL treatment and the relaxation of the liquidity ratio requirements.

Figure 12 **Uptake and impact on lending of Central Banks liquidity facilities and government interventions in terms of public guarantees**



Source: EIB – CESEE Bank Lending Survey.
Note:

Figure 13 **Regulatory and policy measures that helped to support/maintain lending to the economy**



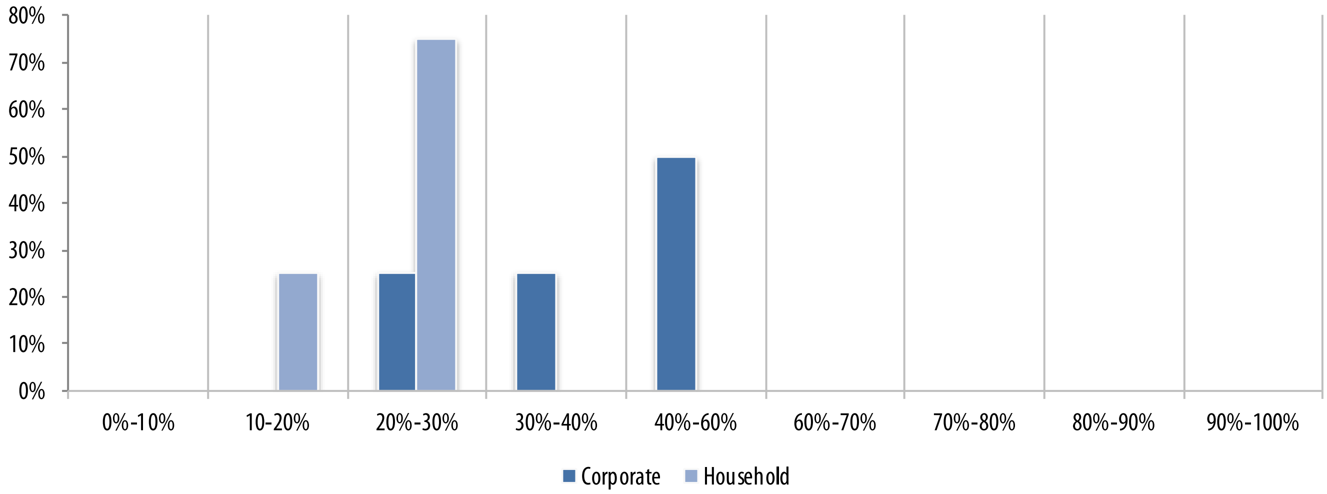
Source: EIB – CESEE Bank Lending Survey.

Note: PTI means payment-to-income ratio; LTV means Loan-to-value ratio

Moratoria incidence and uptake

Moratoria on interest payments and capital repayments affects around 20-60% of the Albanian bank's corporate client portfolios. The incidence is lower in the household segment, where 10-30% of the clients are typically taking advantage of the payment moratoria.

Figure 14 **Percentage of your corporate/household portfolio/clients' loans**

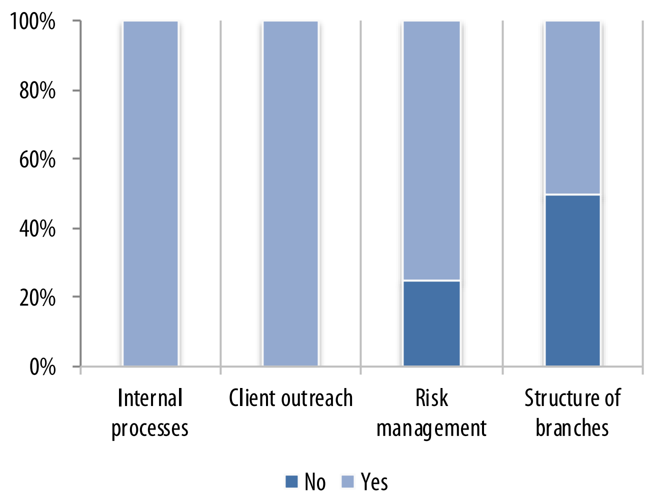


Source: EIB – CESEE Bank Lending Survey.
Note: shares are in terms of total balance sheet size

Impact on strategic priorities in terms of digitalisation

The COVID-19 pandemic pushed local banks assigning stronger priorities towards digitalisation. All banks are increasing digitalisation efforts in the areas of internal processes and client outreach. Additionally, 80% of banks also pursue faster digitalisation in risk management and half of them also in the structure of branches.

Figure 15 **Due to COVID-19 propensity to speed up digitalisation in terms of:**



Source: EIB – CESEE Bank Lending Survey.
Note: shares are in terms of total balance sheet size

Bosnia-Herzegovina

The COVID-19 shock has triggered a rapidly declining credit demand and deteriorating supply conditions. Expectations for the next six months indicate a recovering demand amid improving access of funding but further tightening of supply conditions and worsening of NPLs.

Summary

Group assessment of positioning and market potential: The overwhelming majority of parent banks considered the Bosnian market positioning satisfactory or optimal. On the other hand, the market potential of Bosnia and Herzegovina is considered relatively worse compared to other countries in the region. Profitability of the local banks remained comparable to group-level metrics.

Demand for loans declined during the last six months across all household and corporate segments. The overall quality of loan applications deteriorated, particularly for corporate loans.

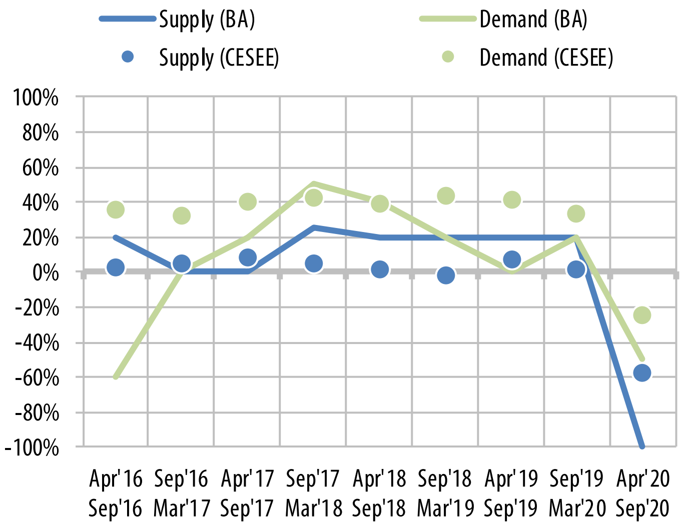
Credit supply conditions tightened severely following the COVID-19 outbreak and after more than two years of improving credit conditions, while banks approval rate decreased for all segments.

Access to funding improved further, in line with regional trend, but supported only by the IFI funding.

NPL figures started to deteriorate and further deterioration is expected.

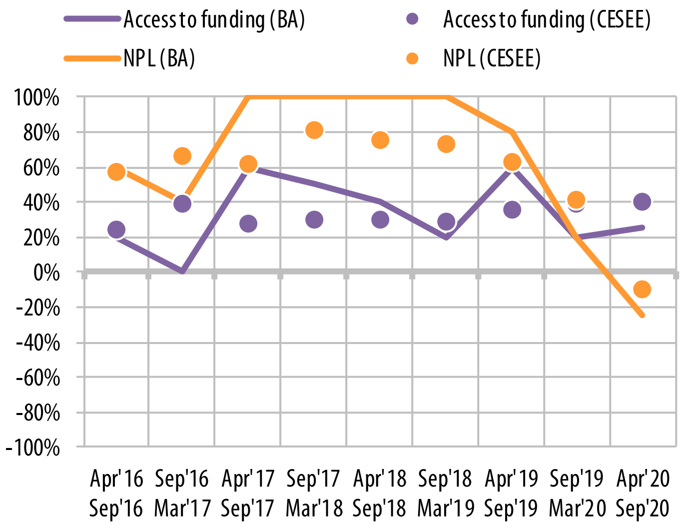
COVID-19 measures: local banks find that guarantee programmes, together with the flexibility of the NPL treatment and the relaxation of the liquidity ratio requirements are the most helpful maintaining credit during the pandemic shock. About 70% of banks consider also automatic and COVID-19 related capital relief measures as well as the relaxation of the net stable funding ratio requirements to support credit extensions.

Loan Moratoria affects around 30-60% of the corporate portfolio while the incidence is relatively lower in the household segment.



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

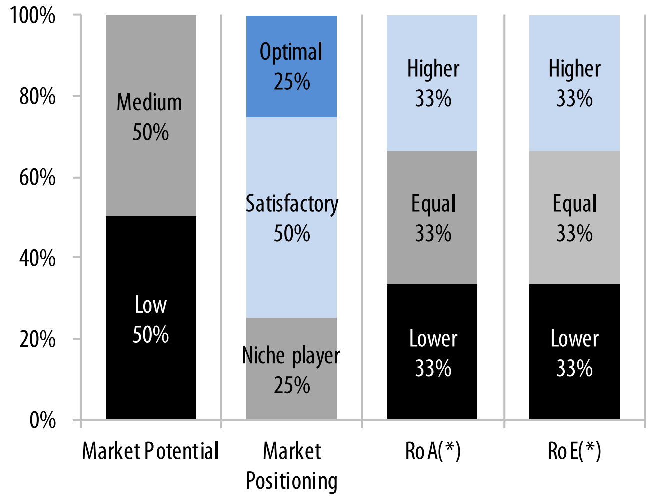
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Bosnia and Herzegovina continued to show a strong commitment to the region. Two third of the banking groups present in the country planned to selectively expand and the rest to maintain their operations in CESEE.

The overwhelming majority of parent banks considered the Bosnian market positioning satisfactory or optimal. Market potential in Bosnia and Herzegovina is relatively worse compared to other countries in the region, with half of the parent banks considering the country a low potential market.

Profitability of the local banks was comparable to group-level metrics.

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.

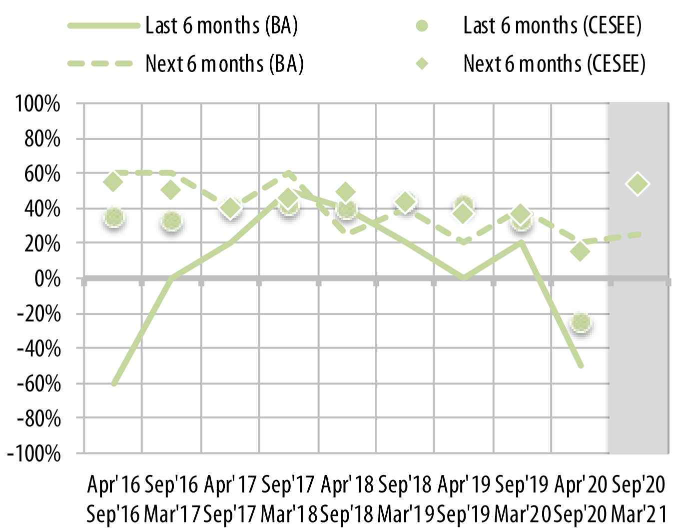
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Demand for credit declined during the last six months, below expectations but in line with the regional trend.

A recovery is expected already for the next period, just as for the region.

Figure 2 **Demand side developments**

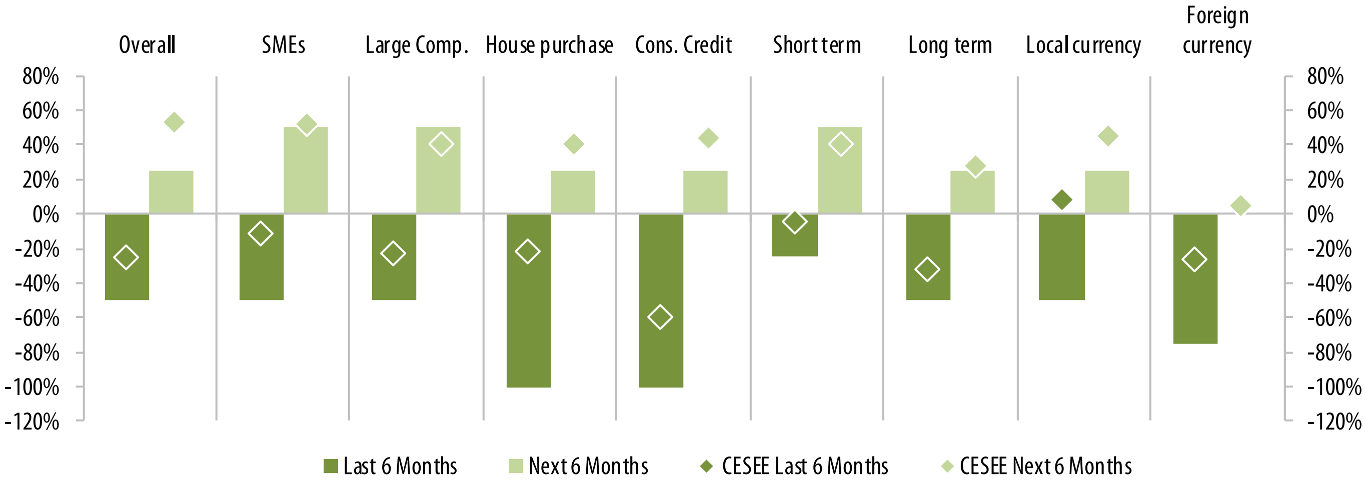


Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 Demand components and segments

Demand for loans decreased on balance, especially for households and scored worse than the regional trend. Some recovery is expected for the next six months.

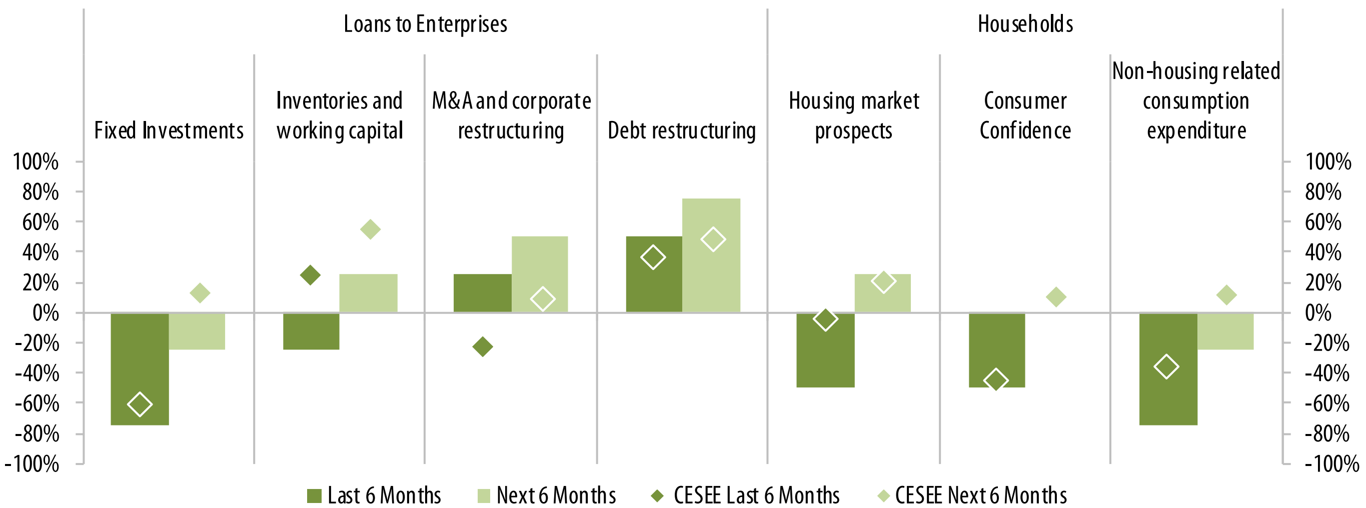


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

Among the factors affecting credit demand, all household factors and loans for inventories and working capital contributed negatively. Corporate restructuring and debt restructuring contributed positively and they are expected to continue to do so over the next six months.

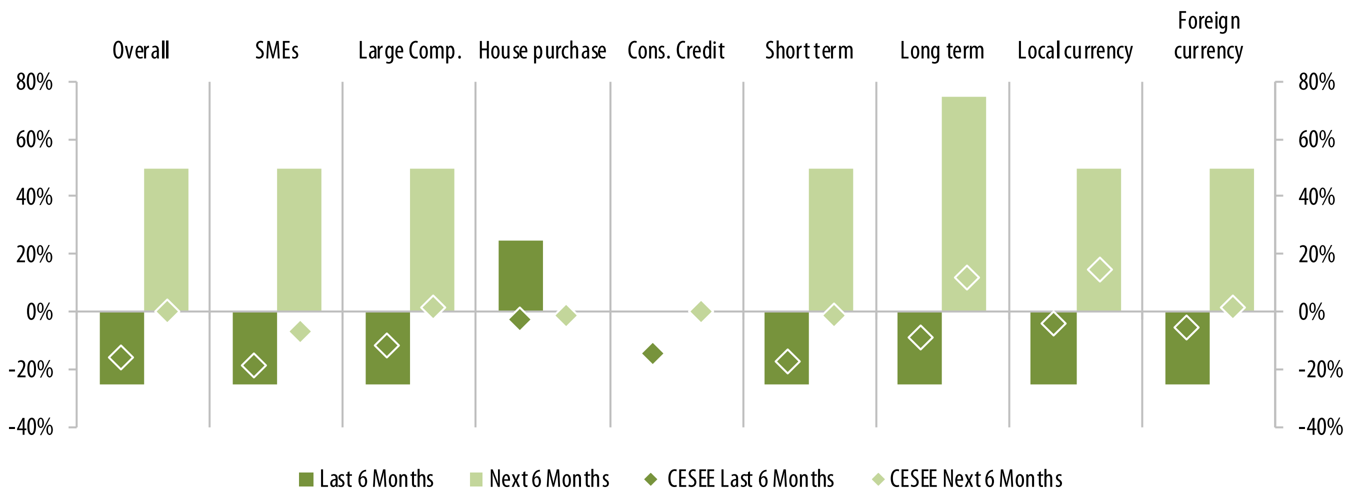


Source: EIB – CESEE Bank Lending Survey.

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 quality of loan applications in Bosnia and Herzegovina deteriorated during the last six month for almost all type of loans, except for mortgage loans. A general improvement is expected for the next period.



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

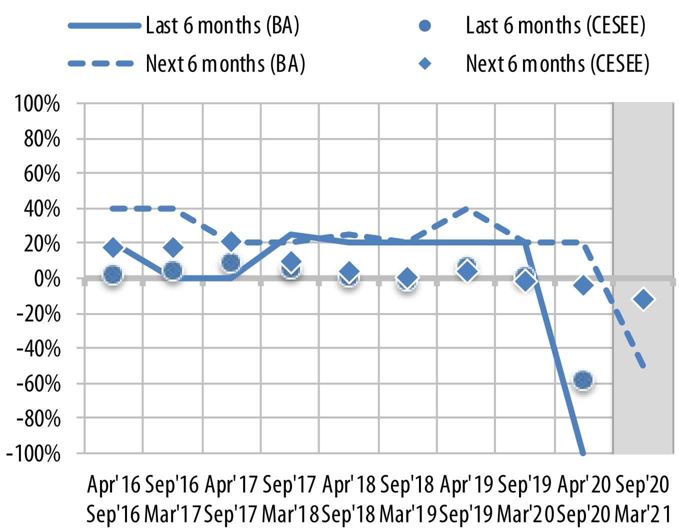
Aggregate supply developments

Supply conditions tightened sharply during the last six months, more than the regional average.

On the longer term, credit supply conditions in Bosnia and Herzegovina had been above the regional trend.

The lending portfolio started to decline as of September 2020 (-1% annual growth compared to 7% at the end-2019) while the rest of the countries in the region registered still a positive growth.

Figure 6 **Supply developments**

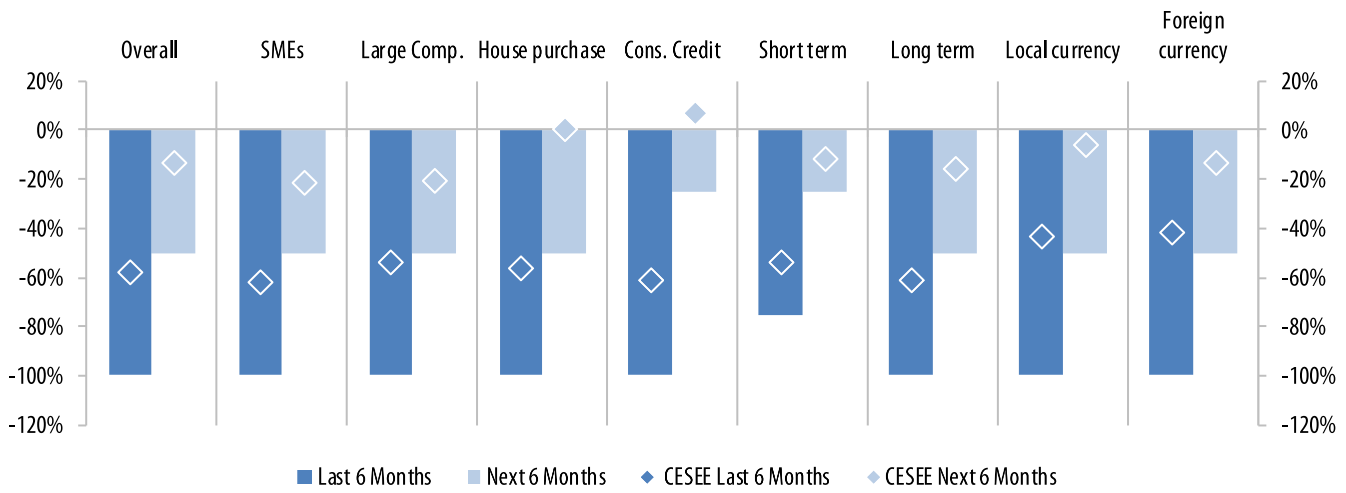


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Credit standards have tightened strongly across all segments during the last six months and further tightening is expected for the next period, with developments markedly worse than the regional average.

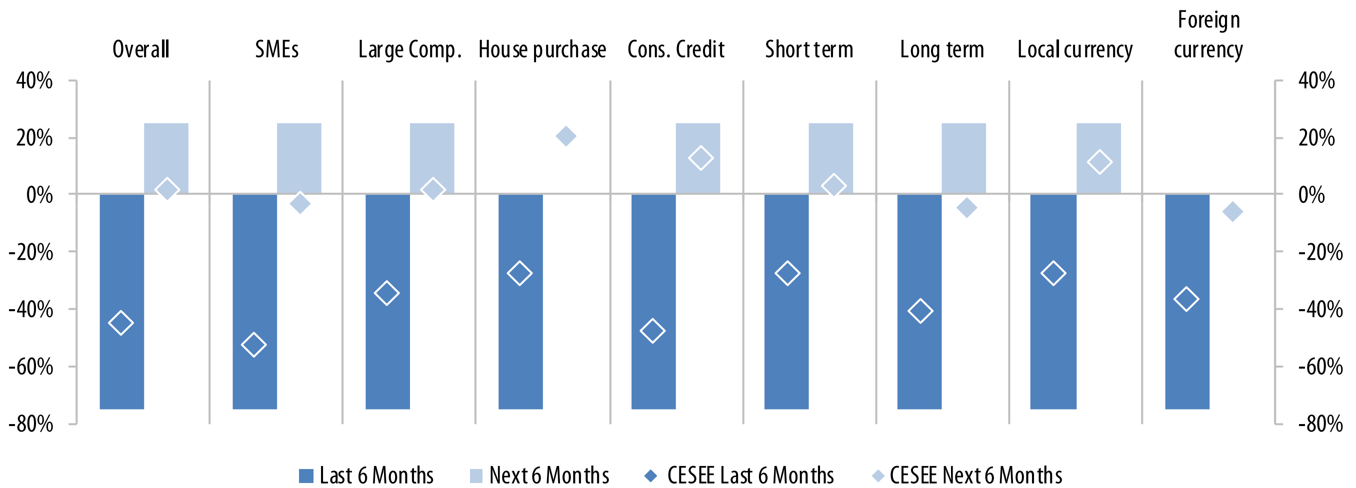


Source: EIB – CESEE Bank Lending Survey

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

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

Loan approval rates in Bosnia and Herzegovina decreased strongly during the last six months, more than the regional average. A slight improvement is expected for the next six months.



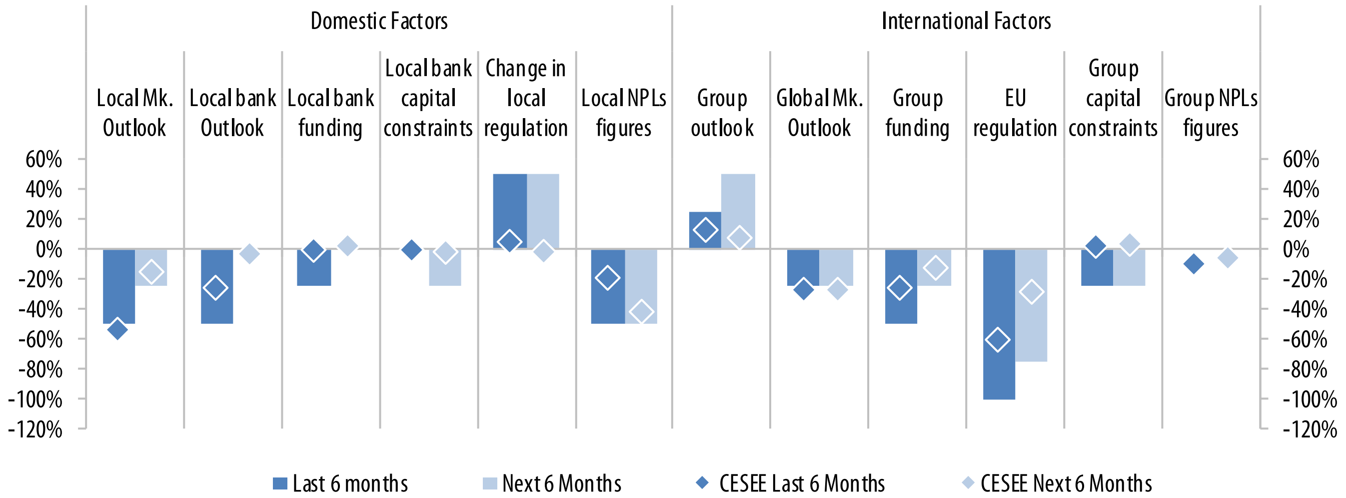
Source: EIB – CESEE Bank Lending Survey

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

Figure 9 **Factors contributing to supply conditions**

Local market outlook, local bank funding and local NPL figures turned negative among supply factors while local bank outlook continued to hinder credit standards. The only supportive factor has been the change in local regulation.

Among international factors, EU regulation shows the strongest negative contribution while group outlook has been slightly positive.

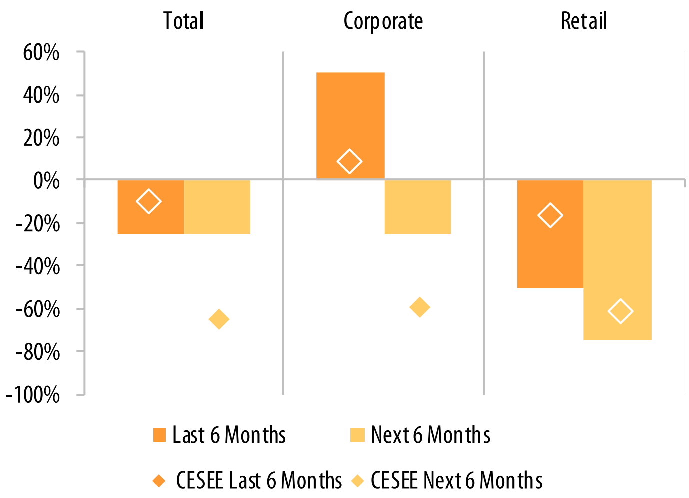


Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 **Non-performing loan ratios**

NPL ratios started to deteriorate in Bosnia and Herzegovina during the last six months, in line with the CESEE region. The deterioration was driven by the retail segment while the corporate NPLs were still improving. On a general note, the NPL ratio was still relatively high on a regional comparison (6.7 percent as of mid- 2020). Further deterioration is expected for the next six months for both segments.

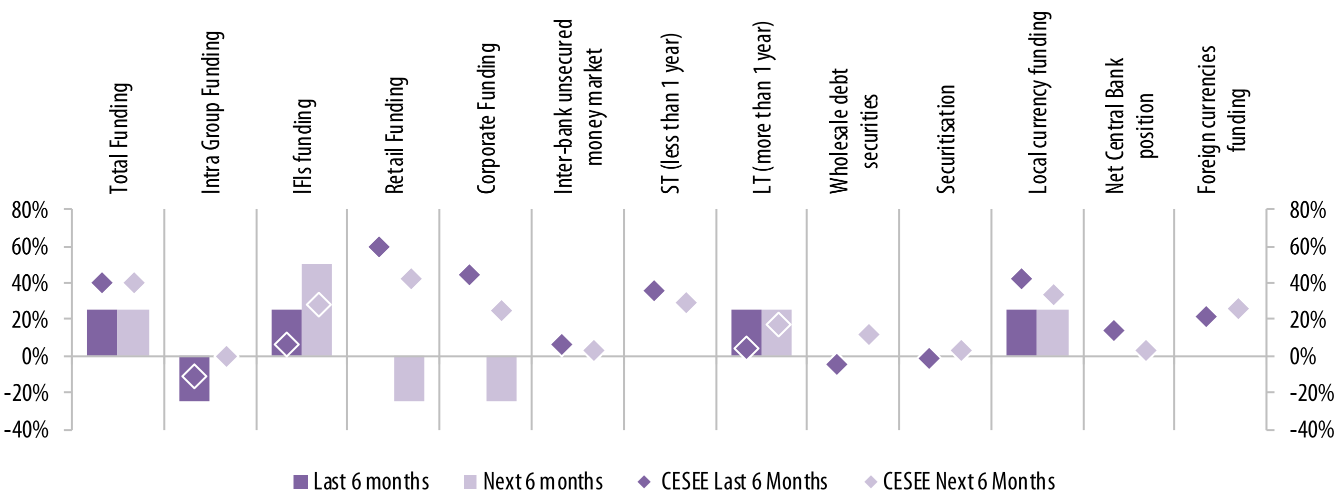


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 **Access to funding**

Access to bank funding improved during the last six months mainly thanks to better IFIs funding while intra-group funding turned negative. Domestic retail and corporate deposits turned neutral, while they were the major source of funding in the last three years. Net central bank position remained neutral while local currency funding improved. In the context of the COVID-19 crisis, the Central Bank and IFIs pledged to step in to support liquidity conditions.



Source: EIB – CESEE Bank Lending Survey.

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

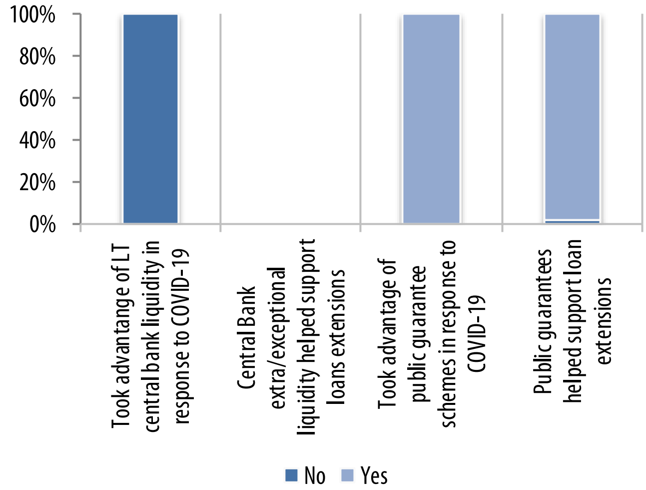
COVID19 Special Module

Regulatory and policy measures supporting lending

All banks participating to the survey took advantage of the public guarantee schemes launched as a response to the COVID-19 pandemic. All respondents believe that the public guaranties helped supporting loan extensions.

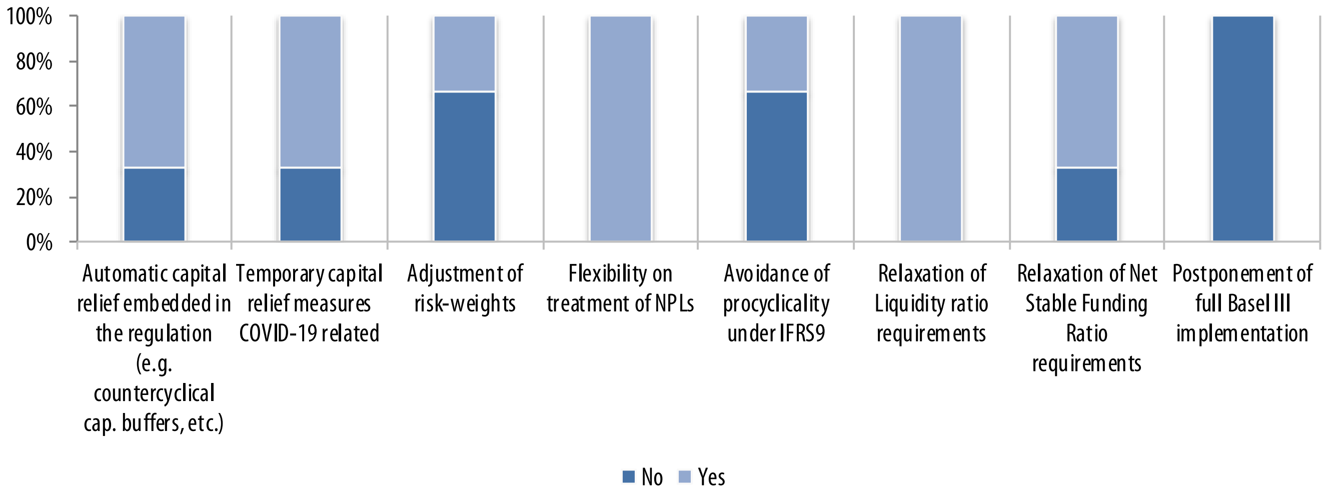
Looking at the impact of the various regulatory measures, local banks believe that the most helpful steps to support lending during the pandemic are the flexibility of the NPL treatment and the relaxation of the liquidity ratio requirements. About 70% of banks consider also that automatic and Covid-19 related temporary capital relief measures and the relaxation of the net stable funding ratio requirements contributed to support credit supply.

Figure 12 Uptake and impact on lending of Central Banks liquidity facilities and government interventions in terms of public guarantees



Source: EIB – CESEE Bank Lending Survey.

Figure 13 Regulatory and policy measures that helped to support/maintain lending to the economy



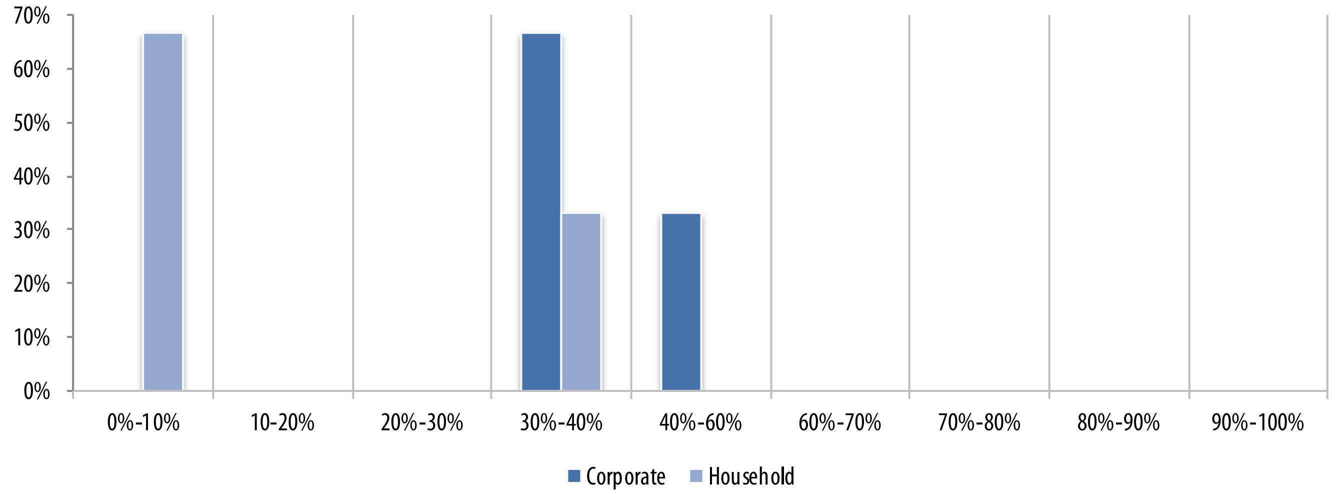
Source: EIB – CESEE Bank Lending Survey.

Note: PTI means payment-to-income ratio; LTV means Loan-to-value ratio

Moratoria incidence and uptake

Moratoria on interest payments and capital repayments affect around 30-60% of the local bank's corporate portfolio. The incidence is relatively lower in the household segment, whereby only 0-10% of the client portfolios took advantage of the payment moratoria for 50% of the respondent banks and 30% to 60% for the other half.

Figure 14 **Percentage of your corporate/household portfolio/clients' loans**

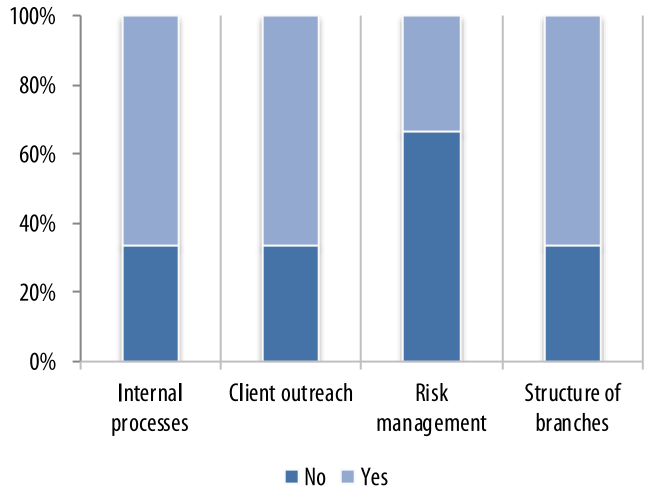


Source: EIB – CESEE Bank Lending Survey.
Note: shares are in terms of total balance sheet size

Impact on strategic priorities in terms of digitalisation

The COVID-19 pandemic pushed most of the local banks assigning stronger priorities towards digitalisation. Around 70% of banks are increasing digitalisation efforts in the areas of internal processes, client outreach and branches' structure. In addition, 30% of banks also pursue faster digitalisation in the risk management area.

Figure 15 **Due to COVID-19 propensity to speed up digitalisation in terms of:**



Source: EIB – CESEE Bank Lending Survey.

Bulgaria

A market with medium potential, as described before the COVID-19 crisis, that has seen a large deterioration in credit demand, tightening supply, and a widely-perceived increase in NPLs.

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 saw returns on assets in Bulgaria as high and mostly exceeding those of the overall group. This has been the case consistently over the past three years. The majority of the parent banks operating in Bulgaria seemed to be satisfied with their current market positioning even after internalising the COVID-19 impact.

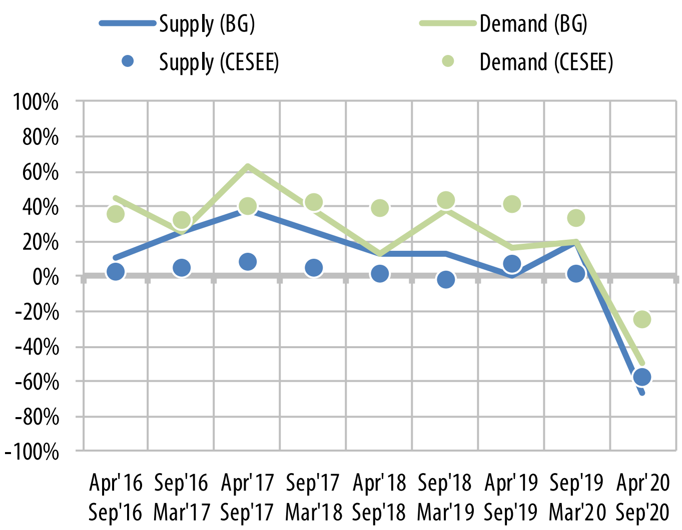
Credit supply conditions have significantly deteriorated in the last six months across market segments, especially for the corporate sector. This deterioration is expected to continue in the next six months, albeit with reduced intensity.

Demand for loans sharply deteriorated over the past six months across segments, but especially from large corporates. Two opposing forces will shape the demand in the near future – the drive of the corporate sector to secure liquidity and the decline of economic activity.

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

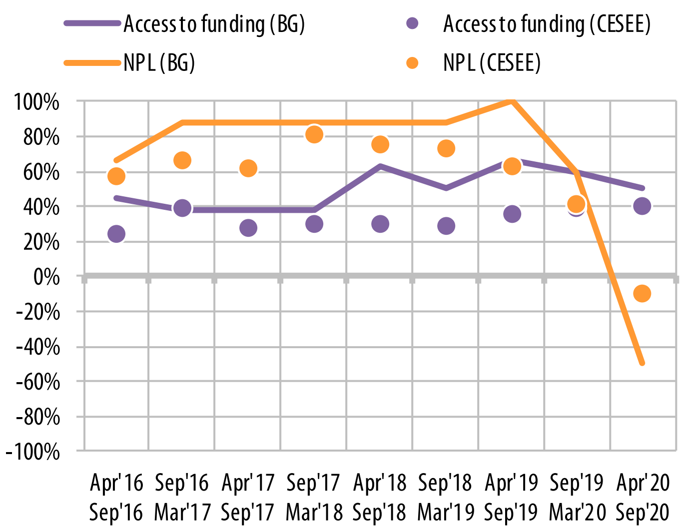
NPL figures have been increasing over the past six months, reversing the positive trend over the past three years, and this process is expected to intensify over the next six months.

COVID-19 has spurred digitalisation plans across Bulgarian banking sector. Measures to counter the economic effects of the pandemic introduced by local monetary and fiscal authorities were well received by Bulgarian banks.



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

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

Results of the Bank Lending Survey – Parent banks level

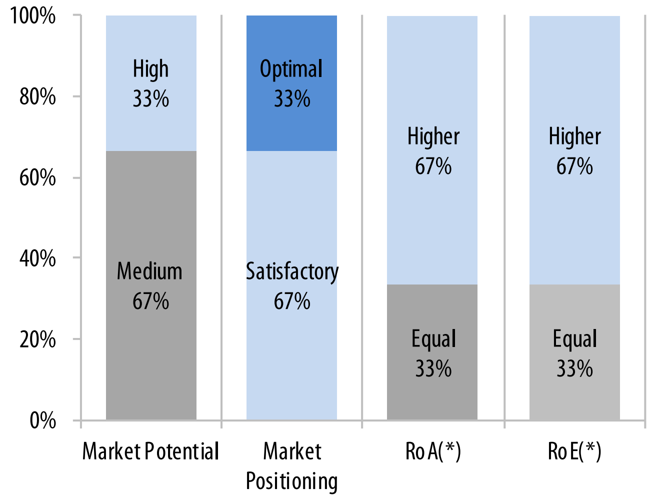
All respondents plan to maintain or expand selectively regional operations in CESEE. Answers from parent banks have been very stable over the past three years, showing strong commitment to the region.

All foreign banks with operations in Bulgaria saw a market of medium and high potential (Figure 1). All respondents considered their market positioning as satisfactory or optimal.

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

As a result, a majority of parent banks have increased exposure to subsidiaries (net 33% of respondents) increasing capital but reducing intra-group funding (both by net 40% 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

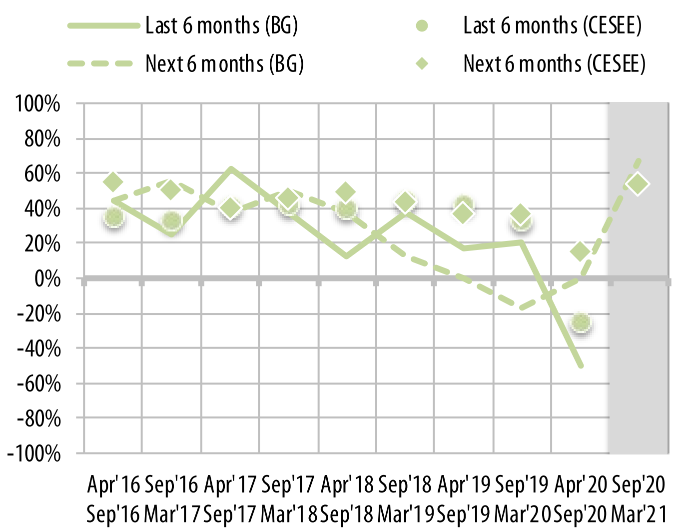
Aggregate demand developments

Changes in demand for loans in Bulgaria since 2016 have been of a similar magnitude to those in the aggregate CESEE region, but more volatile. After a substantial moderation in H1 2018, loan demand picked up again in H2 2018 only to return to H1 2018 levels in H2 2019. Demand is assessed as declining by nearly 60% of respondents (net) in H1 2020. It is expected to rebound in the six months ahead by about two-thirds of respondents (net). These expectations should be assessed with the caveat that the ongoing COVID-19 crisis embeds substantial uncertainty in them.

The second caveat is that expectations about demand for six months ahead have consistently undershot actual numbers over the past two years.

Expected increase in demand for loans may be undermined by weaker and more protracted recovery, increasing leverage ratios and declining net worth of businesses resulting from a long period of weak cash flows.

Figure 2 **Demand side developments**

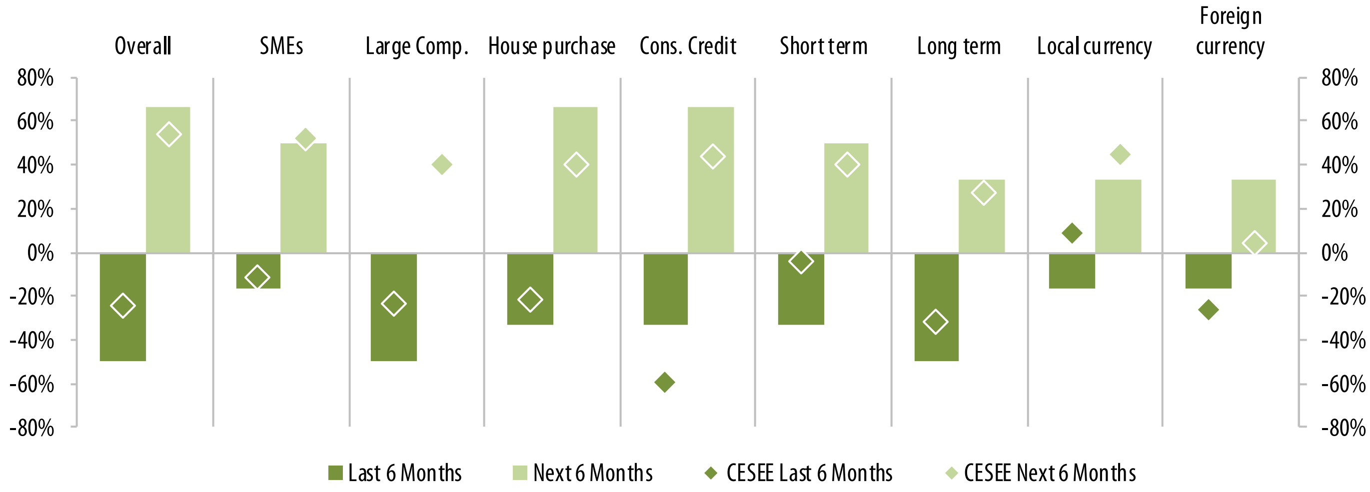


Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 **Demand components and segments**

Loan demand from the household sector fell in H1 2020 (net 33% of respondents) both for consumer credit and for house purchases, discontinuing robust growth over the past two years. Among corporates, demand for loans of large companies and SMEs declined, too. The decline from large corporates is perceived by more respondents (net 50%) than the decline in demand from SMEs (net 17% of respondents). Declining demand from the household sector is consistent with observed decline in private consumption in Bulgaria, which fell 0.2% in H1 2020, relative to H1 2019. The decline in residential investment was 11.5% over the same period. Across maturities, the decline in demand in H1 2020 is larger for long-term loans.

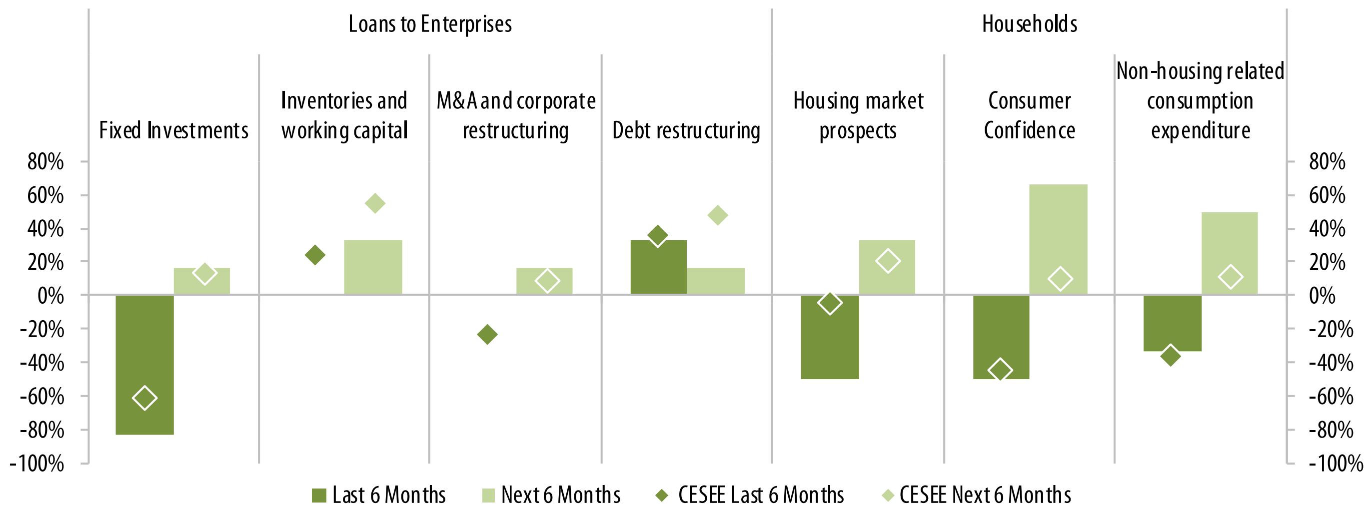


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 **Factors affecting demand for loans**

Collapsing corporate investment is behind the decline of corporate demand for loans. Net 83% of respondents see declining demand for loans for fixed investment. Demand for loans to finance working capital, M&A and corporate restructuring remained unchanged in H1 2020 despite the deteriorating economic situation. This effect comes as companies with viable businesses, but significantly reduced cash flows, were struggling to shore up liquidity. In the next six months, corporate demand for loans is expected to resume growth. Household demand for loan decreased across segments due to deteriorating hosing-market prospects and consumer confidence. Household demand is expected to pick up again in the next six months as consumers regain their confidence

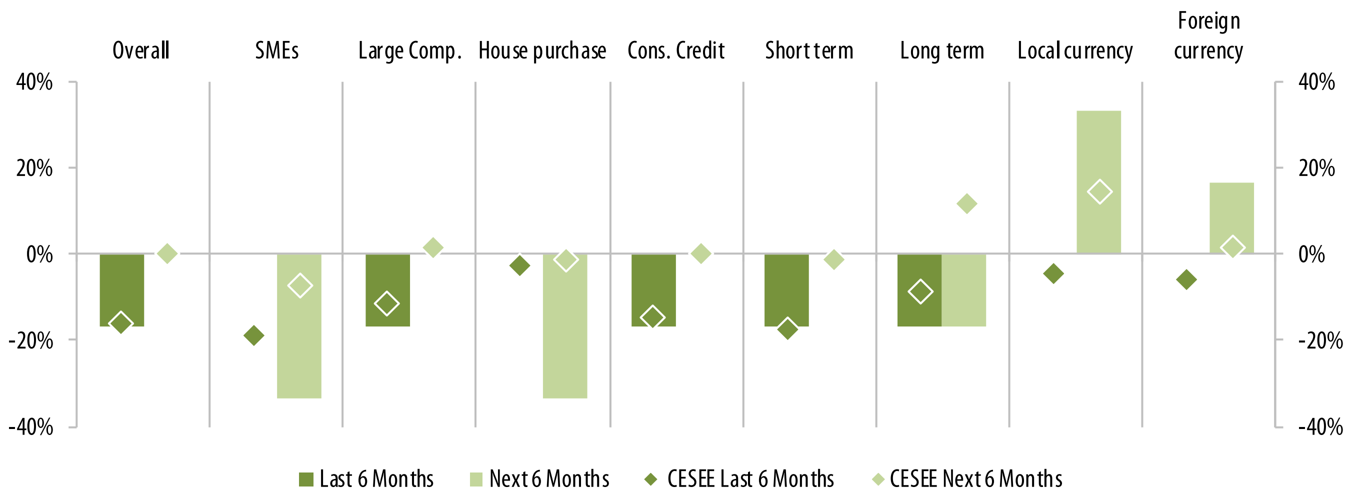


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

Quality of loan applications fell in H1 2020 (net 17% of respondents). In the retail segment, quality of applications for consumer credit was perceived as declining by net 17% of respondents, while perceptions about quality of applications for house purchases remained unchanged. In the corporate segment, quality was seen as declining for applications by large corporates and as unchanged for SMEs. Quality of loan applications in the next six months will very likely decrease for applications of SMEs and for house purchases, as the economic environment deteriorates.



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

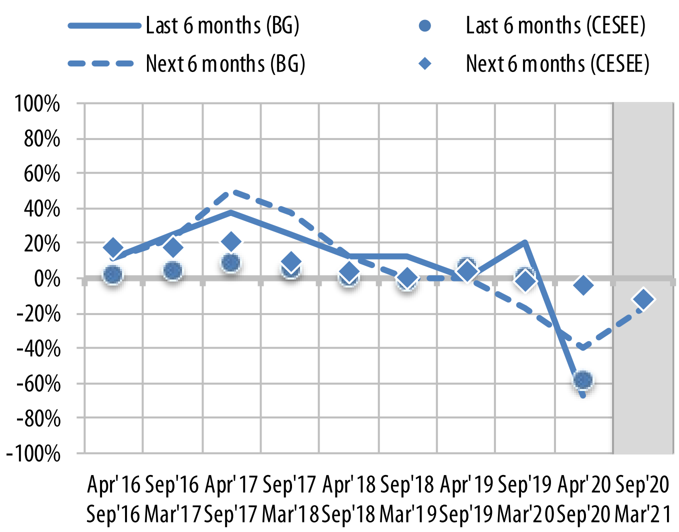
Aggregate supply developments

After significant improvements in supply in 2017 and early 2018, supply conditions stabilised in line with developments in the aggregate CESEE region, where credit conditions have been stable over the past two years. In the last six months, supply conditions deteriorated substantially (net 67% of respondents).

The latest deterioration, due to worsening economic conditions during the pandemic, follows years of improvements in supply conditions. These improvements were the result of strengthening aggregate economy and balance sheets in the Bulgarian banking system. This allowed Bulgarian banks to relax loan conditions and expand their loan portfolios after years of decline and stagnation following the Global financial crisis.

Over the next six months, downward pressures on supply appear to wane, but there remains a net majority (17% of respondents) that perceives supply conditions as further deteriorating.

Figure 6 Supply developments

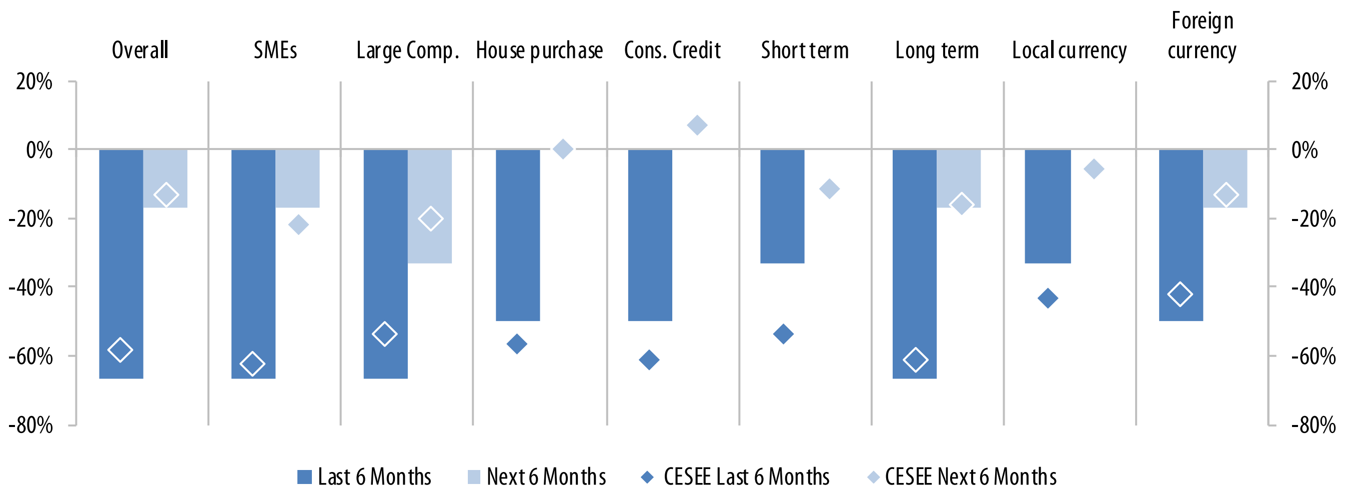


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Credit supply conditions were seen as deteriorating across all market segments over the past six months and most notably in the corporate segment (net 67% of respondents). Conditions deteriorated more for long-term loans, consistent with reduced demand in this segment. Looking forward, it is very likely that banks will tighten credit standards further for corporates and keep them broadly unchanged in the retail segment.

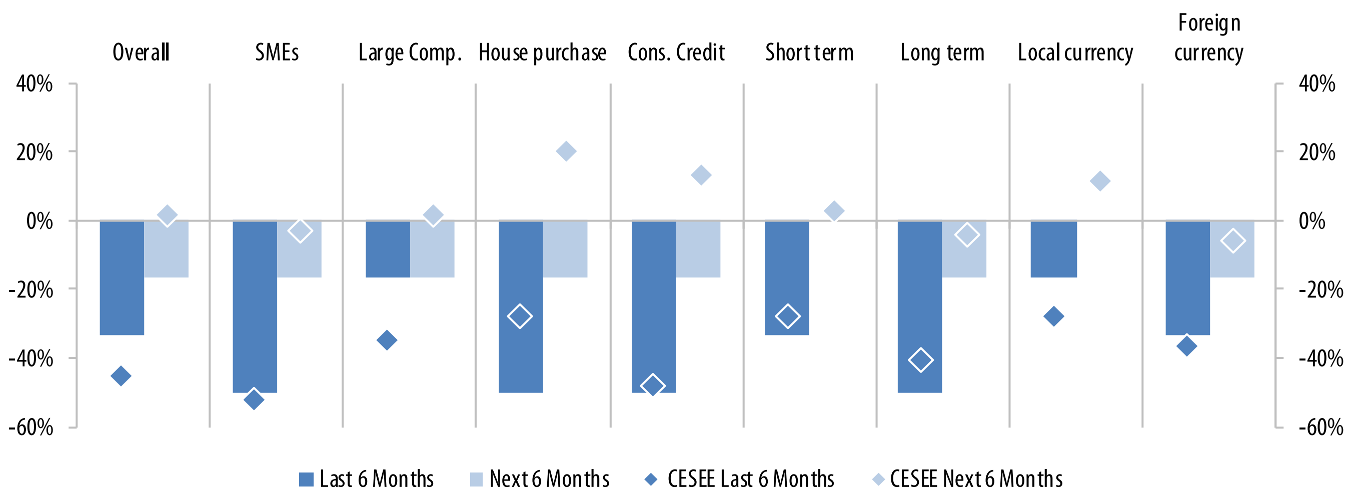


Source: EIB – CESEE Bank Lending Survey

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

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

Approval rates have declined for a majority of respondents (net 33% of respondents) in the past six months. The decline was spread across segments, but stronger for SMEs and households. Approval rates are very likely to decline further over the next six months, as credit risk increases and the general quality of loan applications decline.

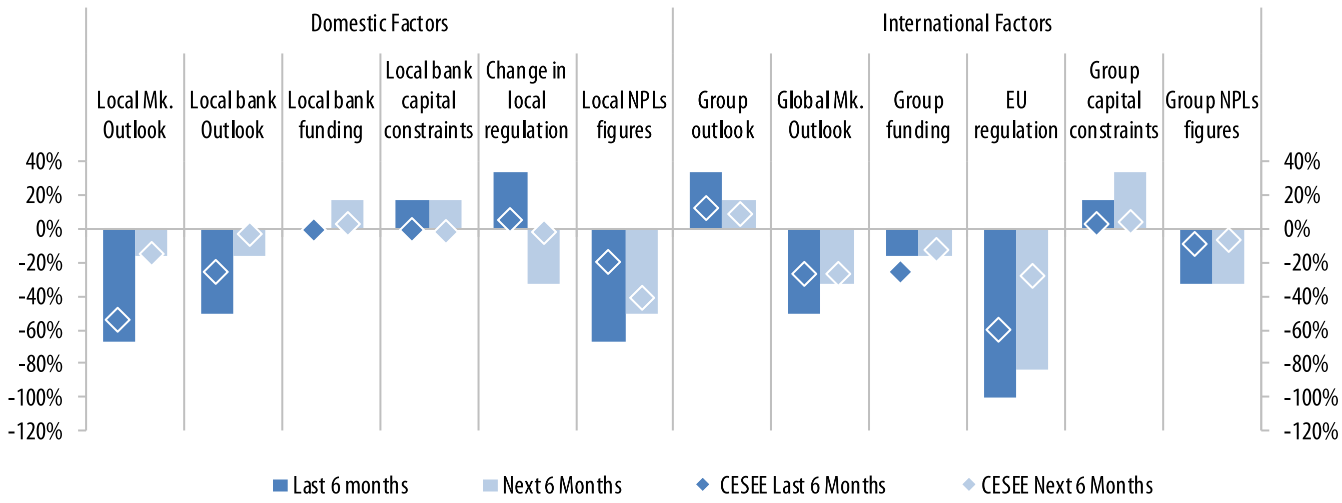


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 **Factors contributing to supply conditions**

Both domestic and international factors contributed to the deterioration in supply conditions. On the domestic side, local market and bank outlook, as well as local NPL figures had a significant negative contribution. Among international factors, the biggest negative contributions came from the deteriorating global market outlook and EU regulation, whereas the group outlook contributed to offsetting strong downward pressure. In the next six months, local NPL figures and EU regulation are expected to contribute significantly to a deterioration of supply conditions.



Source: EIB – CESEE Bank Lending Survey.

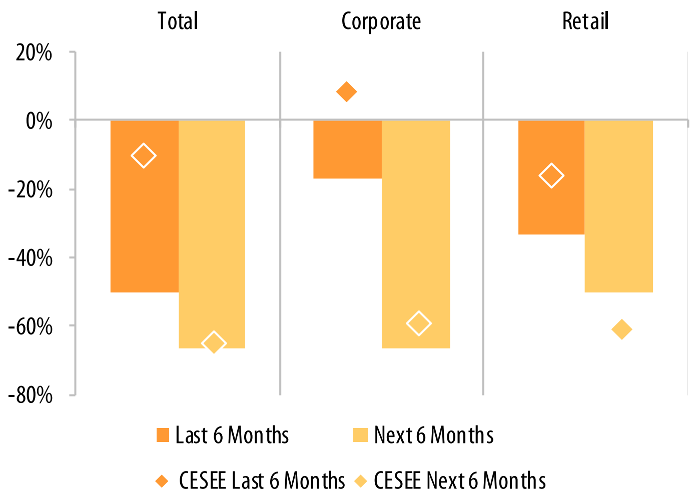
Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

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 constraining factor on credit conditions since 2008. Until 2016, banks have been reluctant to reduce NPLs, but this has changed since.

Between 2017 and 2019, the vast majority of local subsidiaries report improving NPL figures across institutional sectors. Hard data confirms this: NPL ratios have been coming down throughout 2016-19. 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.

The positive developments since 2016 were abruptly terminated with the economic crisis following the COVID-19 outbreak. NPL ratios in Bulgaria have deteriorated during the past six months in both the retail and the corporate segment. This process is expected to intensify over the next six months.

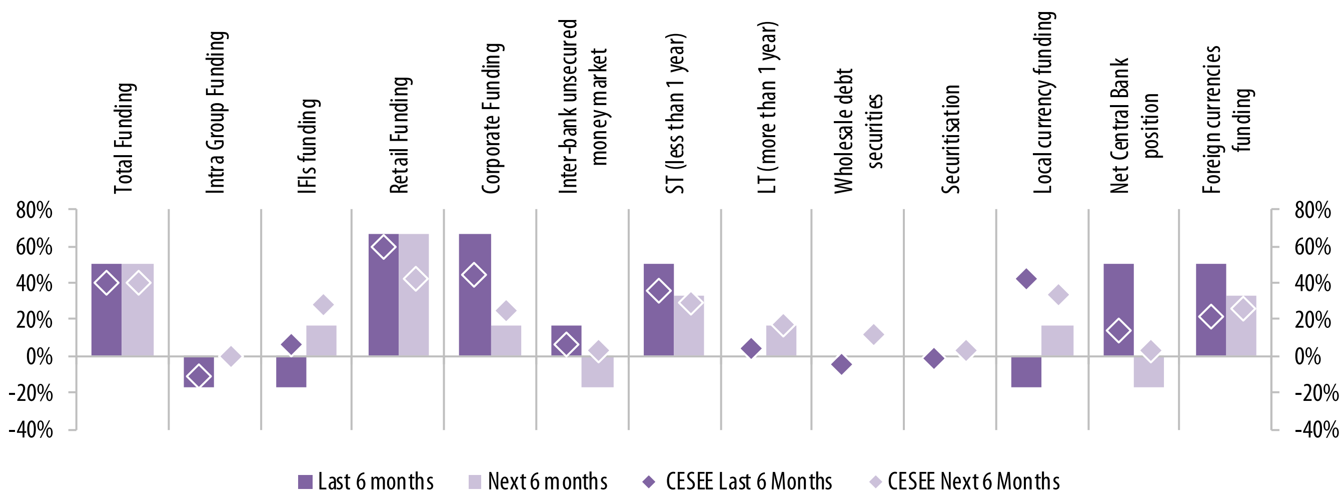


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Access to funding for Bulgarian subsidiaries has made a substantial improvement over the past six months continuing a trend that started in the second half of 2013. This improvement is expected to continue in the coming six months, following aggressive measures of the ECB and local monetary authorities. The main contributors, as before, are retail and corporate funding that are mostly short term and in local currency.



Source: EIB – CESEE Bank Lending Survey.

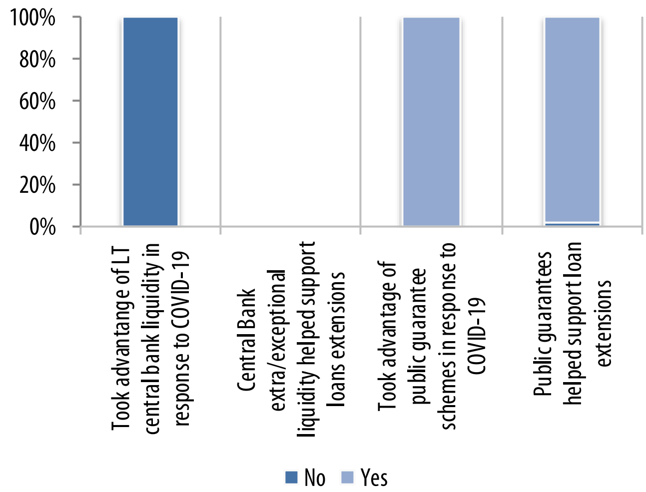
Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

COVID19 Special Module

Regulatory and policy measures supporting lending

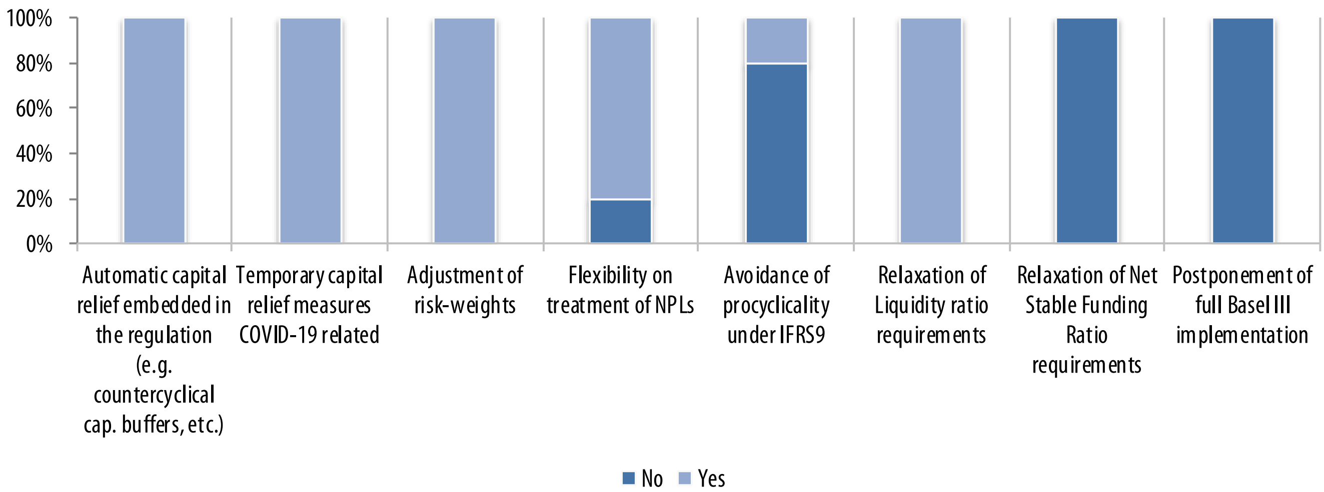
Bulgarian monetary authorities did not provide additional direct financing. Rather measures were focused on freeing up internal resources of commercial banks, like revoking the foreseen increase of counter-cyclical capital buffers for 2020-21, as well as requiring banks to capitalise their full profit that amounts to aggregate BGN 1.6bn (Figure 13). Bulgarian fiscal authorities made available several guarantee schemes that were taken up by all of the respondents (Figure 12) and reporting banks assessed them as very supportive to their lending operations.

Figure 12 Uptake and impact on lending of Central Banks liquidity facilities and government interventions in terms of public guarantees



Source: EIB – CESEE Bank Lending Survey.

Figure 13 Regulatory and policy measures that helped to support/maintain lending to the economy



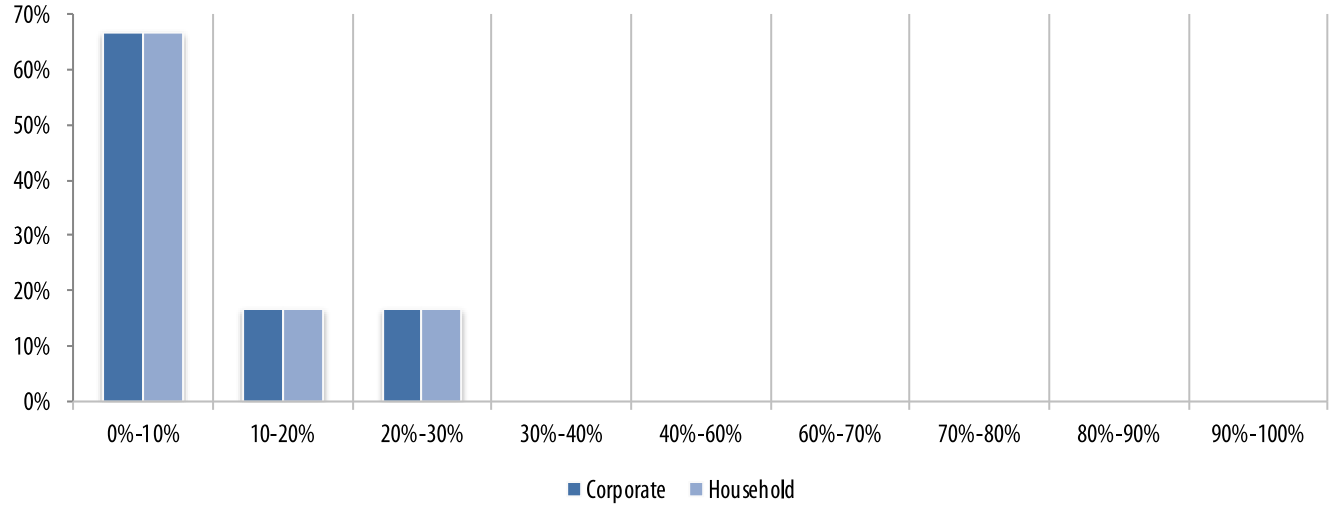
Source: EIB – CESEE Bank Lending Survey.

Note: PTI means payment-to-income ratio; LTV means Loan-to-value ratio

Moratoria incidence and uptake

The association of Bulgarian banks co-ordinated an agreement between commercial banks and the Bulgarian Central Bank to introduce the possiblity of temporary suspension of payments on loans and interest by borrowers that are not in arrears or in default. Such a suspension can be implemented at the request of the borrower and subsequent approval by the lender. The majority of respondents seem to have implemented this measure for a small part of their porfolio.

Figure 14 Percentage of your corporate/household portfolio/clients' loans



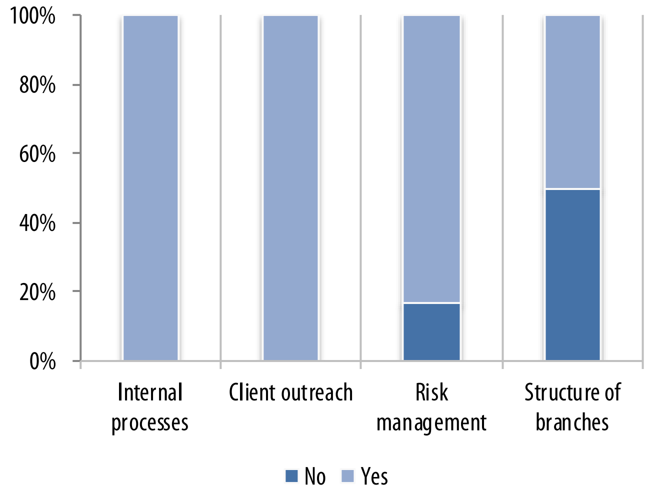
Source: EIB – CESEE Bank Lending Survey.
Note: shares are in terms of total balance sheet size

Impact on strategic priorities in terms of digitalisation

COVID-19 appears to have a significant impact on digitalisation plans of Bulgarian banks. This is part of a broader drive of the corporate sector to spur digitalisation in line with new realities after the pandemic outbreak.

All respondents see a rationale to speed up digitalisation of their internal processes and client outreach due to COVID-19 outbreak. A large majority also sees the need to speed up digitalisation of their risk management practices. Half of respondents is inclined to speed up digitalisation of their branches.

Figure 15 Due to COVID-19 propensity to speed up digitalisation in terms of:



Source: EIB – CESEE Bank Lending Survey.

Croatia

Following the COVID-19 shock, credit demand declined rapidly and supply conditions deteriorated. Expectations for the next six months point at a recovering demand, improving access to funding but further tightening of supply conditions and worsening of NPLs.

Summary

Group assessment of positioning and market potential: Profitability of Croatian operations deteriorated during the last six months. An evenly split share of international banking groups reported higher and lower return on equity compared to the overall group performance over the last six months, whilst preserving a relatively stable market positioning - assessed as satisfactory or optimal. Three fourth of parent banks operating in Croatia consider the market potential medium and one fourth considers it low, thus marking an improvement compared to the past survey releases.

Credit demand declined sharply over the last six months following the COVID-19 outbreak while **credit supply** conditions tightened strongly, preserving a visible gap between demand and supply. Demand for loans has been decreasing mainly for households segments.

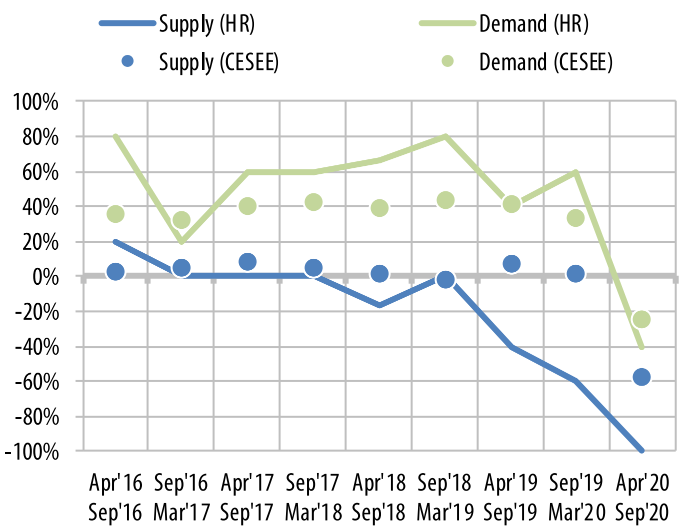
Credit supply conditions tightened severely and among all segments. Moreover, local NPL figures were still considered a drag to credit supply while local market and bank outlook deteriorated strongly and contributed negatively.

Access to funding has improved further over the last six months, while domestic retail and corporate funding remained the main sources of funding. On the contrary, access to intra-group funding decreased.

NPL figures deteriorated strongly during the last six months, after two years of positive trend.

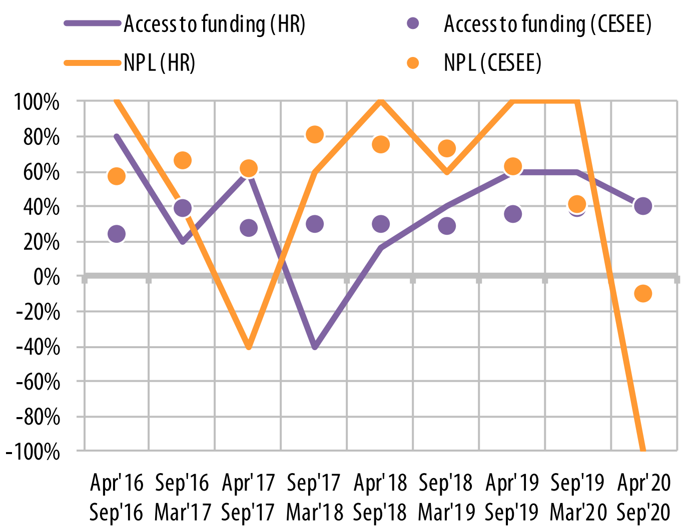
COVID-19 measures: local banks find that guarantee programmes, together with the flexibility of the NPL treatment, the relaxation of the liquidity ratio requirements and the Covid-19 related temporary capital relief measures are the most helpful maintaining credit during the pandemic shock.

Loan Moratoria affects around 10-40% of the Croatian corporations while the incidence is much lower in the household segment (only 0-10%).



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

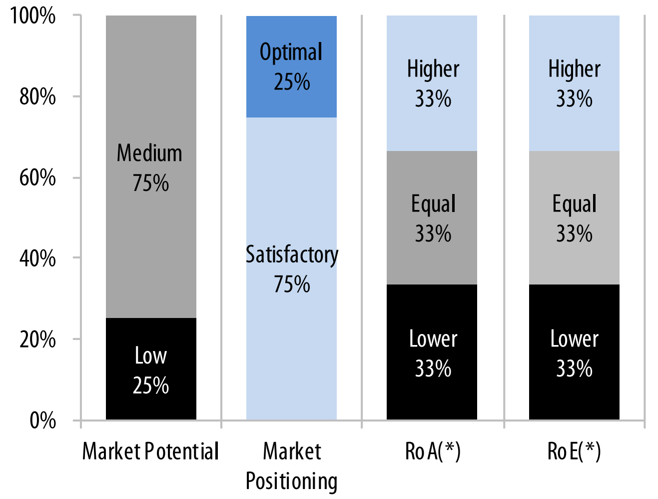
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Croatia kept the optimistic approach towards the region, as 60% of them plan to selectively expand while the rest intended to maintain their presence.

Three fourth of parent banks operating in Croatia continued to consider the market potential as medium, while one fourth assess it as low potential. This places the country behind its regional peers. In terms of market positioning, Croatia is assessed relatively better than peers, with either satisfactory (75%) or optimal (25%) positioning.

Profitability of Croatian banks is perceived to be comparable to group's profitability because the same share of parent banks considers return on assets and equity above and below those seen on the group level.

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.

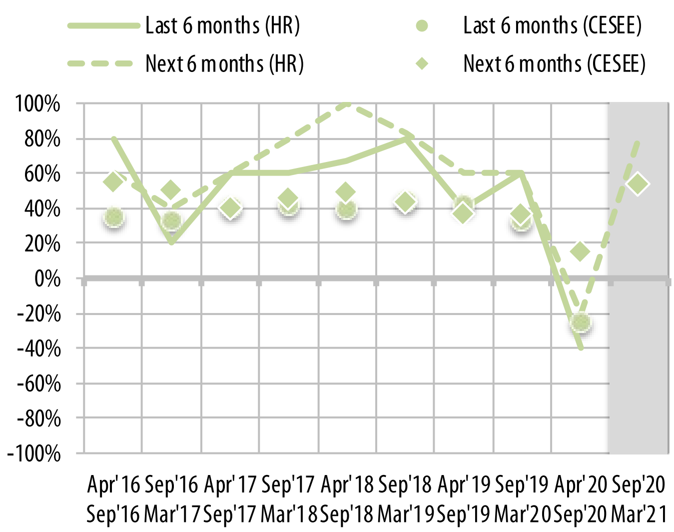
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Loan demand dropped for the first time since 2016, in line with the CESEE average, thus confirming the expectations formulated at the beginning of the COVID-19 outbreak.

For the next six months, Croatian banks already expect a recovery even above the regional trend. While plummeting consumption has affected negatively demand for household loans, emergency liquidity needs of companies under lockdown pushed for a higher loan demand from corporates, also supported by policy measures.

Figure 2 **Demand side developments**

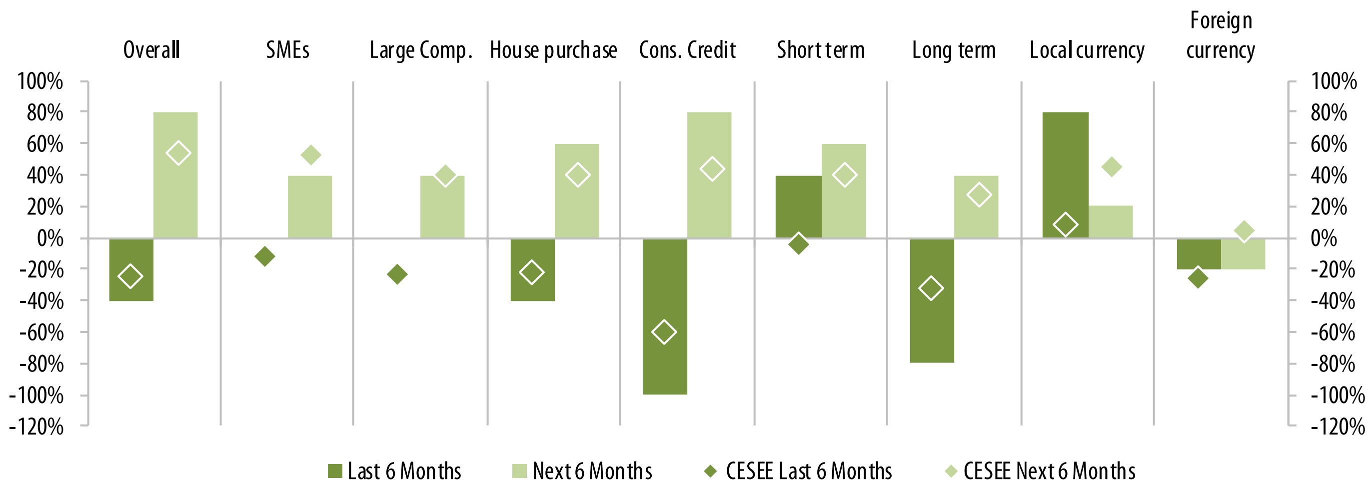


Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 Demand components and segments

Credit demand has decreased in the last six months mainly driven by contracting demand for consumer credit and house purchase. Demand for corporate loans remained neutral. Demand shifted further towards local currency. A recovery in loan demand is expected both for corporate and household segments in the next six months.

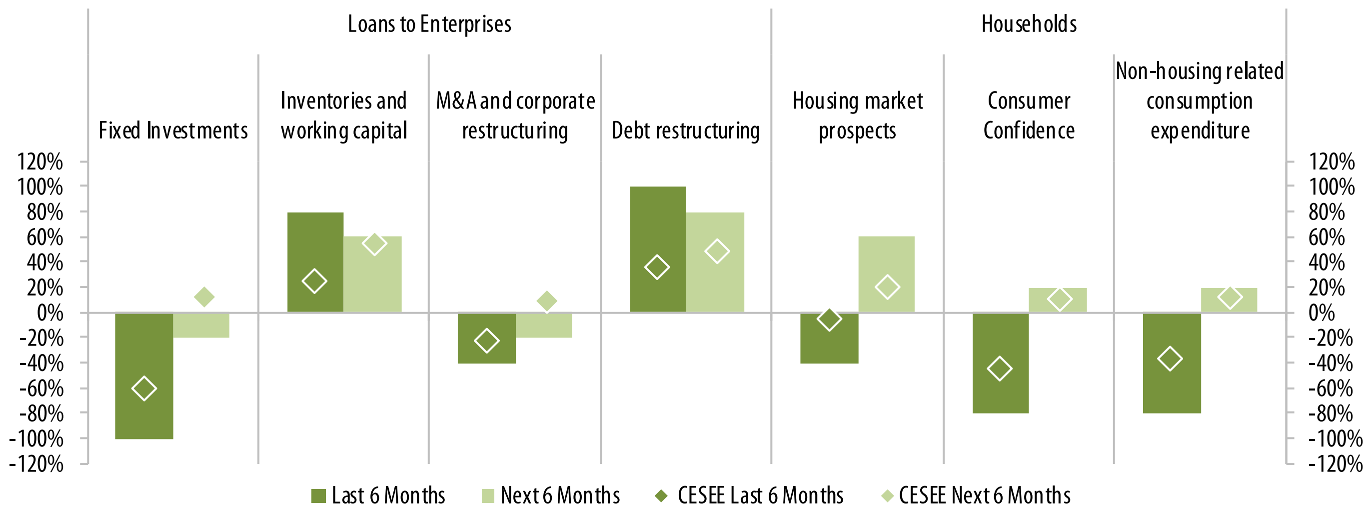


Source: EIB – CESEE Bank Lending Survey.

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 elements making up demand turned negative during the last six months. Looking at the corporate segment, inventories, working capital and debt restructuring contributed positively to demand for loans whilst fixed investment drove demand down.

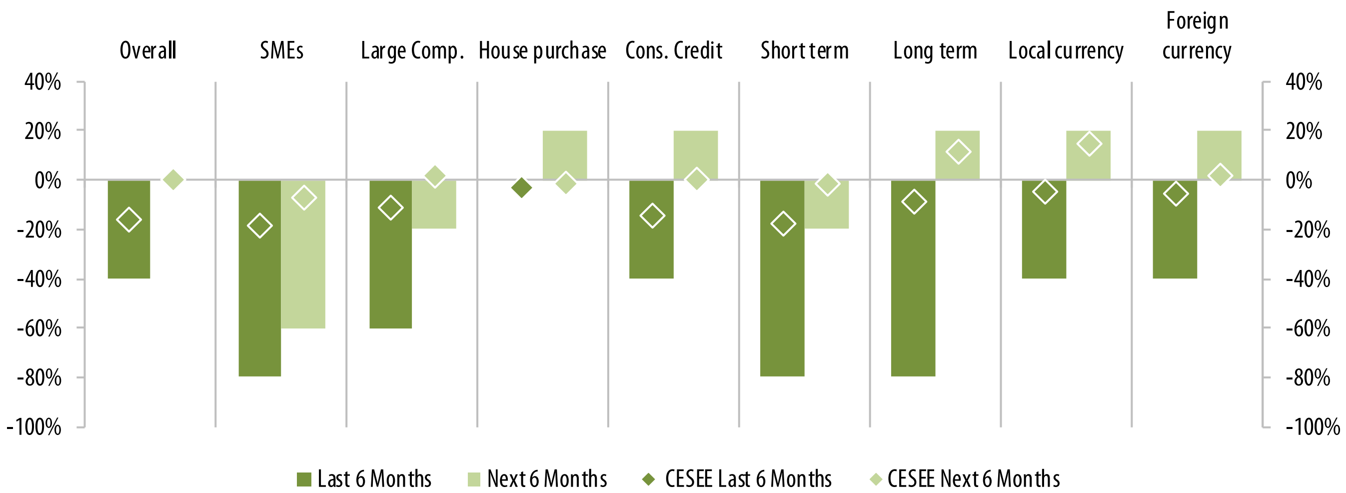


Source: EIB – CESEE Bank Lending Survey.

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 overall loan applications deteriorated during the last six months in almost all segments, except mortgage loans. Further deterioration of quality is expected for corporate loan applications while some improvement in quality is expected for retail loans.



Source: EIB – CESEE Bank Lending Survey

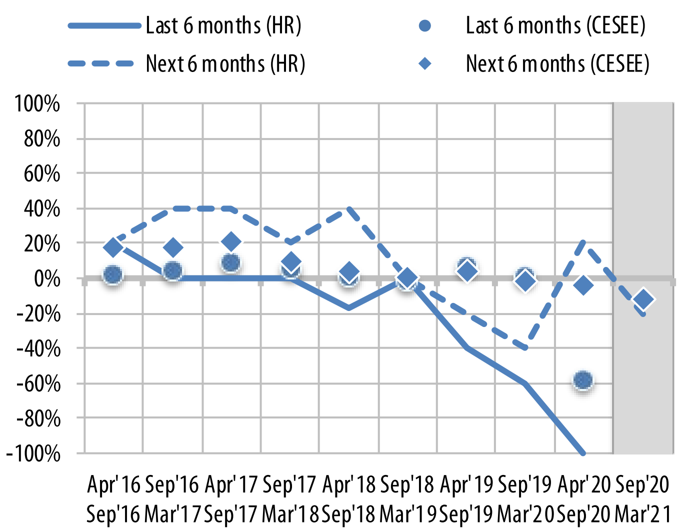
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit supply in Croatia tightened strongly for the second consecutive period, more severely than the regional average and below the expectations formulated six months ago at the beginning of the Covid-19 outbreak. Further tightening is expected for the next period, in line with regional average.

The tighter or neutral credit conditions since 2015 may suggest that most of the new credit extended should be of better quality than in previous credit cycles.

Figure 6 **Supply developments**

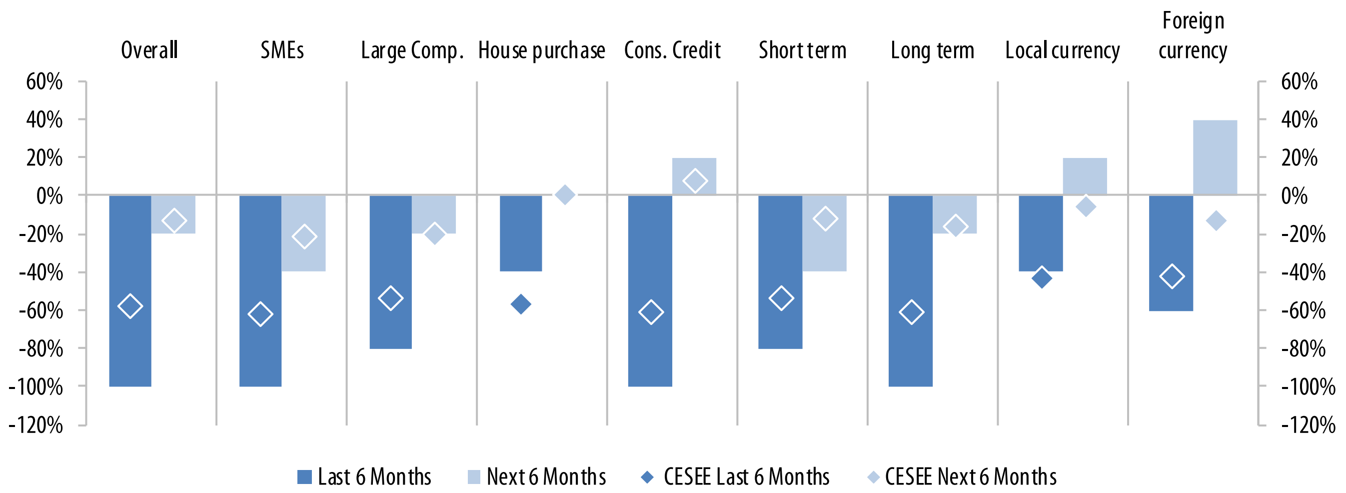


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 **Supply components and segments**

Credit supply conditions have tightened remarkably across the board during the last six months and further tightening is expected, except for consumer credit.

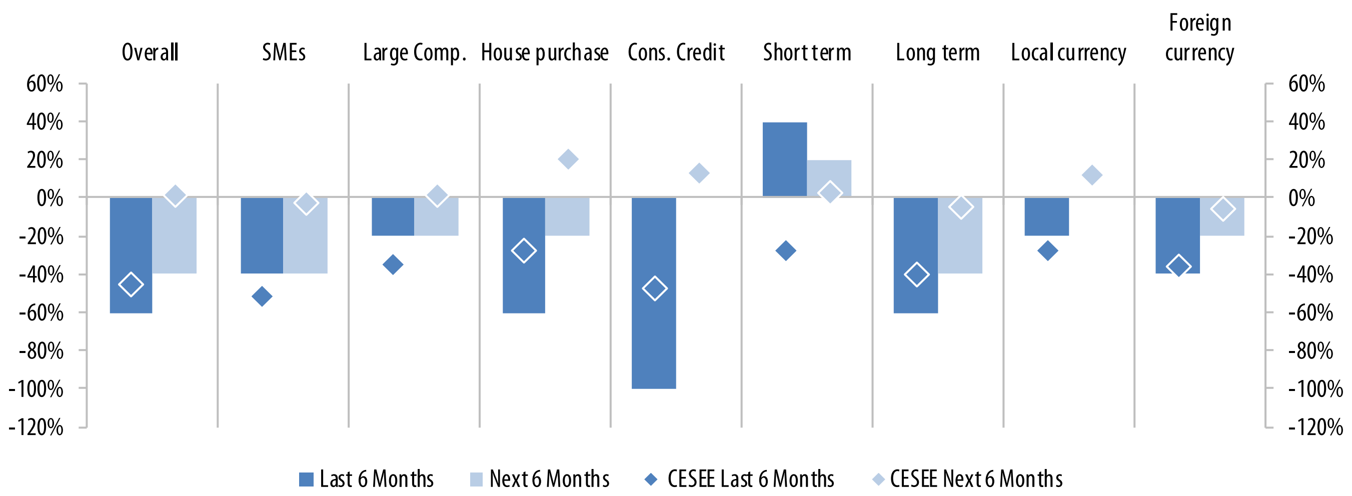


Source: EIB – CESEE Bank Lending Survey

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 rate continued to decrease in Croatia during the last six months, in line with the CESEE region. The only positive development was registered on short-term loans, while the strongest tightening was registered for consumer credit.

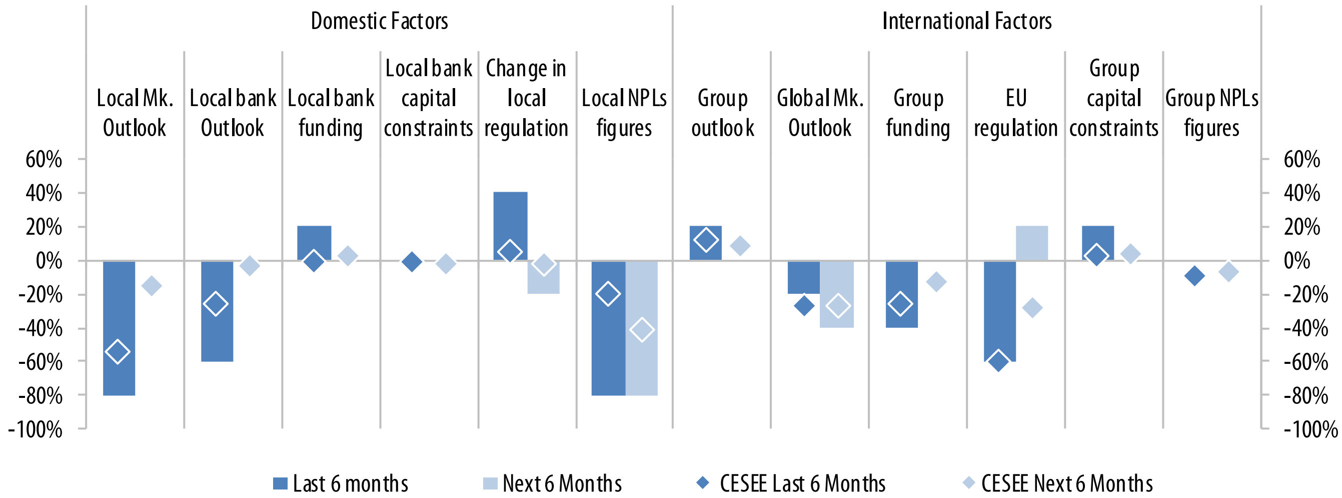


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

In line with the regional trend, local market outlook, local bank outlook and local NPL figures turned negative, while local bank funding and change in local regulation contributed positively to supply conditions. Among international factors, EU regulation, group funding and global market outlook contributed negatively to domestic credit conditions.

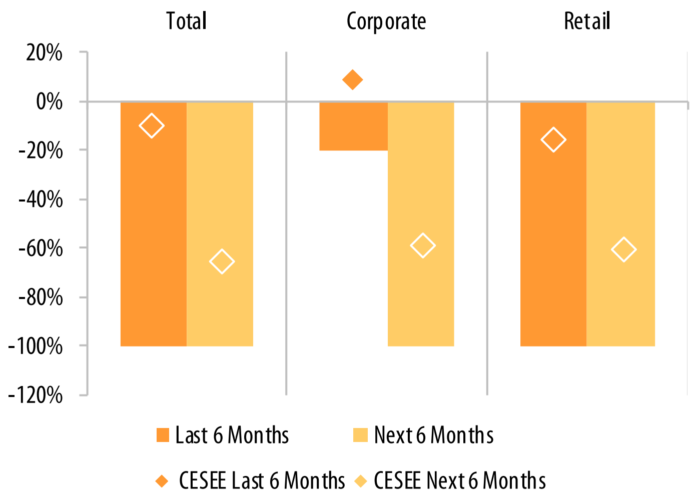


Source: EIB – CESEE Bank Lending Survey.

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

All banks in Croatia reported an increase in NPL ratio over the last six months, mainly in the retail segment. Further deterioration is expected across all segments over the next six months.

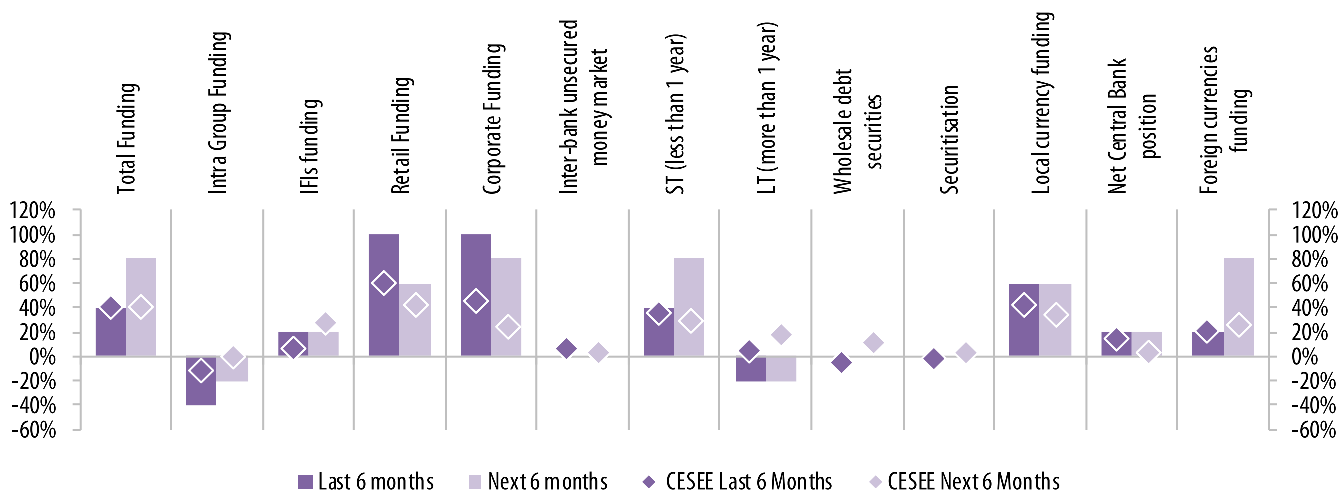


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Access to funding increased during the last six months, thanks to better access to corporate and retail funding. Access to IFI funding and net central bank position also improved. Both local and foreign currency funding increased. In the context of the COVID-19 crisis, policy measures have been taken to assure liquidity in both local and foreign currency. Starting March 2020 the Croatian National Bank (HNB) carried out forex interventions to ensure foreign currency liquidity. On 15th April 2020 HNB agreed with the European Central Bank (ECB) on EUR 2bn currency swap line for additional liquidity with maximum maturity for each drawing of three months. IFIs also announced to step up activity to provide additional liquidity.



Source: EIB – CESEE Bank Lending Survey.

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

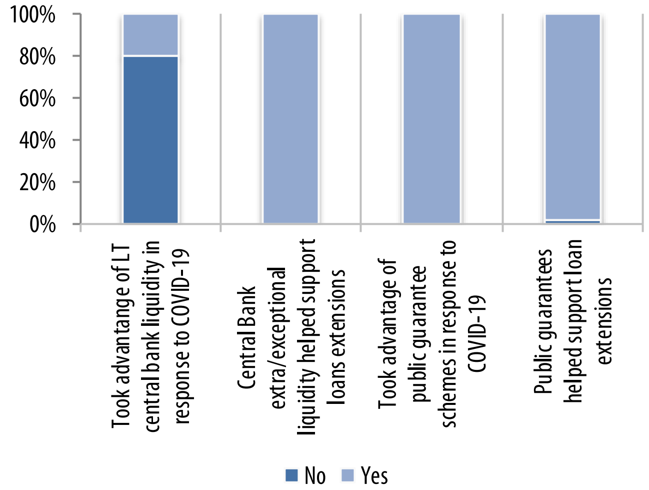
COVID19 Special Module

Regulatory and policy measures supporting lending

All Croatian banks participating into the survey took advantage of the public guarantee schemes launched as a response to the COVID-19 pandemic and 20% of them used the central bank's liquidity support. All respondents believe that both liquidity facilities and public guaranties helped in supporting loan extensions.

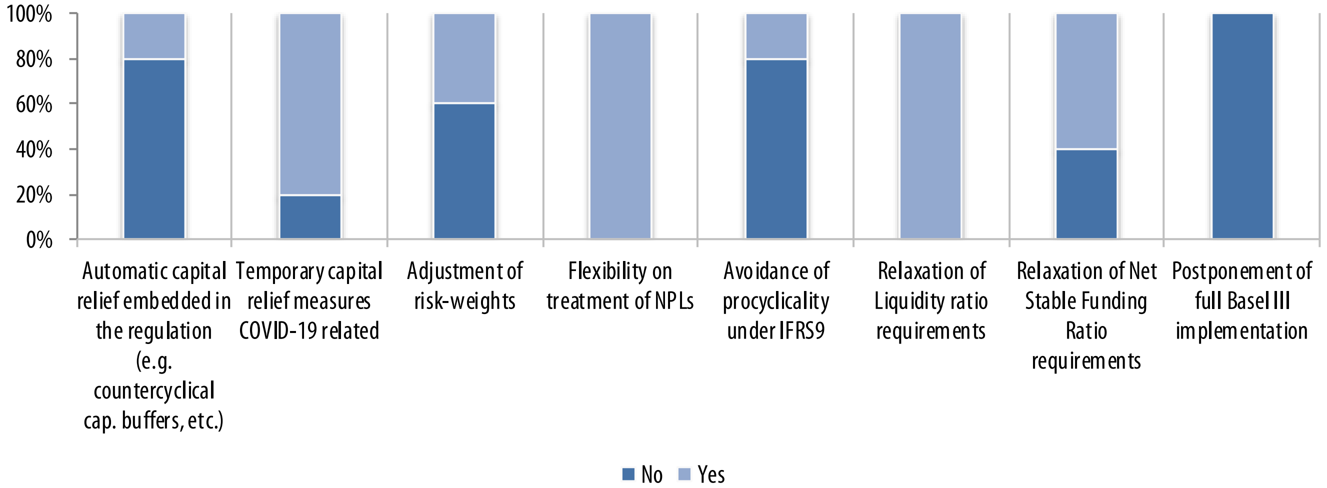
Looking at the impact of the various regulatory measures, Croatian banks believe that the most helpful steps to support lending during the pandemic include the flexibility of the NPL treatment, the relaxation of the liquidity ratio requirements and the Covid-19 related temporary capital relief measures.

Figure 12 Uptake and impact on lending of Central Banks liquidity facilities and government interventions in terms of public guarantees



Source: EIB – CESEE Bank Lending Survey.

Figure 13 Regulatory and policy measures that helped to support/maintain lending to the economy



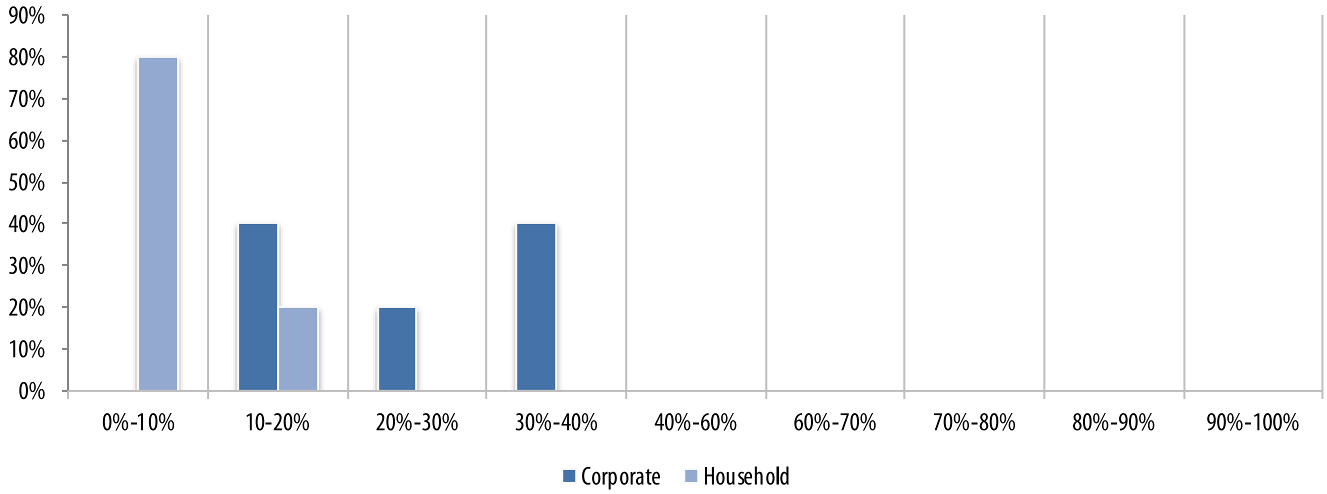
Source: EIB – CESEE Bank Lending Survey.

Note: PTI means payment-to-income ratio; LTV means Loan-to-value ratio

Moratoria incidence and uptake

Moratoria on interest payments and capital repayments affect around 10-40% of the Croatian bank's corporate portfolio. The incidence is lower in the household segment, where 0-10% of the portfolio took advantage of the payment moratoria.

Figure 14 **Percentage of your corporate/household portfolio/clients' loans**

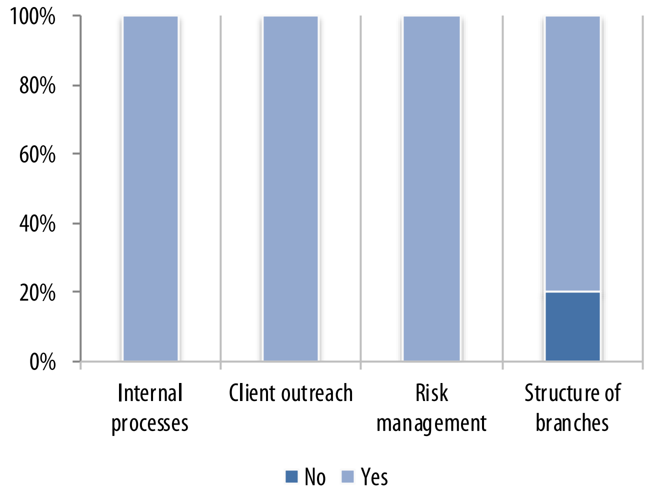


Source: EIB – CESEE Bank Lending Survey.
Note: shares are in terms of total balance sheet size

Impact on strategic priorities in terms of digitalisation

The COVID-19 pandemic pushed local banks assigning stronger priorities to digitalisation efforts. All banks are increasing digitalisation efforts in the areas of internal processes, client outreach and risk management. In addition, 80% of banks also pursue faster digitalisation in the structure of branches.

Figure 15 **Due to COVID-19 propensity to speed up digitalisation in terms of:**



Source: EIB – CESEE Bank Lending Survey.

Czech Republic

The Covid-19 pandemic has hit the real economy and is starting to impact banks. The composition of loan demand has shifted towards short-term lending to corporates. The quality of loan applications is falling and credit standards are tightening.

Summary

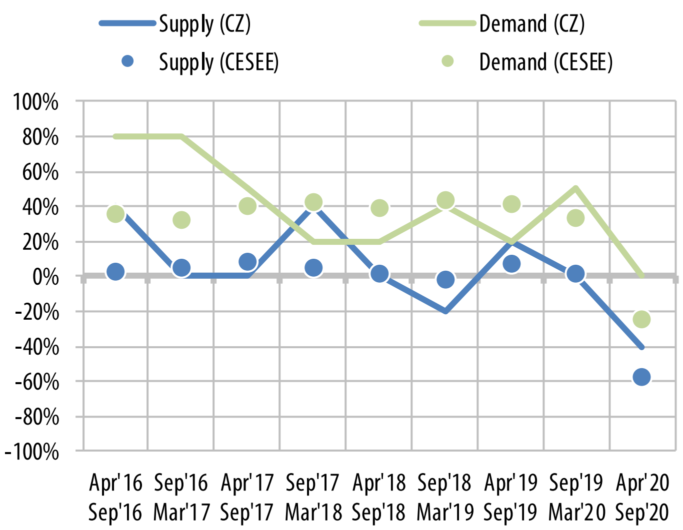
Group assessment of positioning and market potential: So far, banking was more profitable in the Czech Republic than in other countries. The majority of parents believed that the market potential of the Czech Republic is high and saw little reason to change their positioning.

On balance, banks in the Czech Republic reported no net change in aggregate **demand for loans** over the past six months. That said, the composition of demand changed: firms demanded more short-term funds to finance working capital and fewer loans to finance investment, while households demanded fewer loans for consumption purposes but upheld their demand for mortgages.

Meanwhile, **credit supply** fell, even though fiscal, monetary, and regulatory measures all appeared to have supported lending. Public loan guarantees, exceptional central bank facilities, the relaxation of liquidity requirements, and the release of the countercyclical capital buffer supported lending at all responding institutions. Banks expect further tightening over the next six months, perhaps because they expect that some of these measures will be unwound.

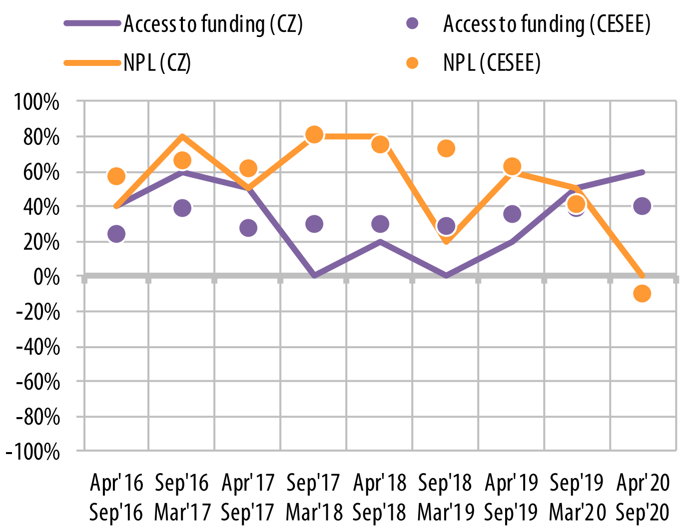
Despite the deteriorating macroeconomic environment, most banks report that **access to funding** improved. One reason is likely to have been the supportive monetary policy background.

A large majority of banks expect **non-performing loans** to rise in the coming months, from a low level of about 2.7% of gross loans at the end of 2019. All banks report that 10-20% of their household loans benefit from payments moratoria. For corporate loans, the incidence appears to be lower.



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.

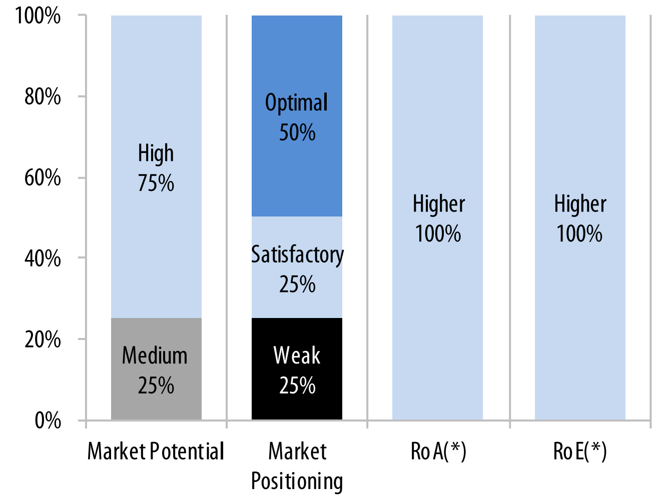
Note: All indicators in net percentages; Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

Most banks in the Czech Republic belong to banking groups that are also present in the rest of the CESEE region. The majority of parents believe that the potential of the Czech market is high and see little reason to change their positioning.

All banks report that returns on assets and on equity are higher in the Czech Republic than in their overall group.

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.

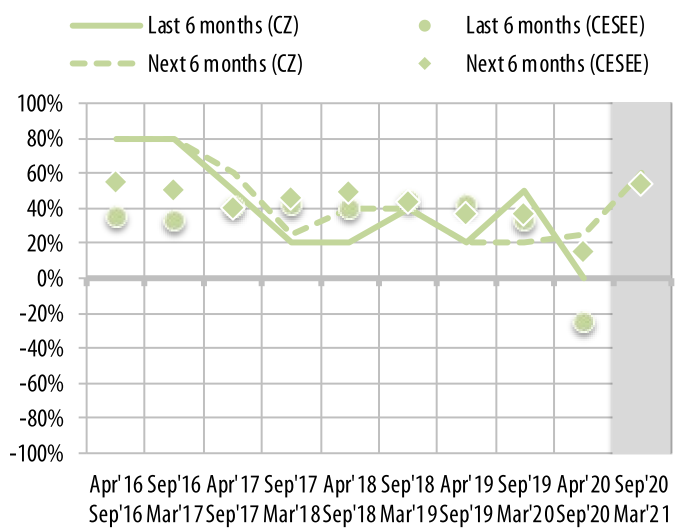
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

On balance, banks reported that aggregate demand for loans did not change over the past six months. That said, the composition of demand changed: firms increased their demand for short-term funds to finance working capital at the expense of loans to finance investment, while households demanded fewer loans for consumption purposes but upheld their demand for mortgages.

Looking ahead, most banks expect loan demand to increase, perhaps because they anticipate more widespread liquidity constraints in the household and corporate sector as the Covid-19 pandemic wears on.

Figure 2 **Demand side developments**

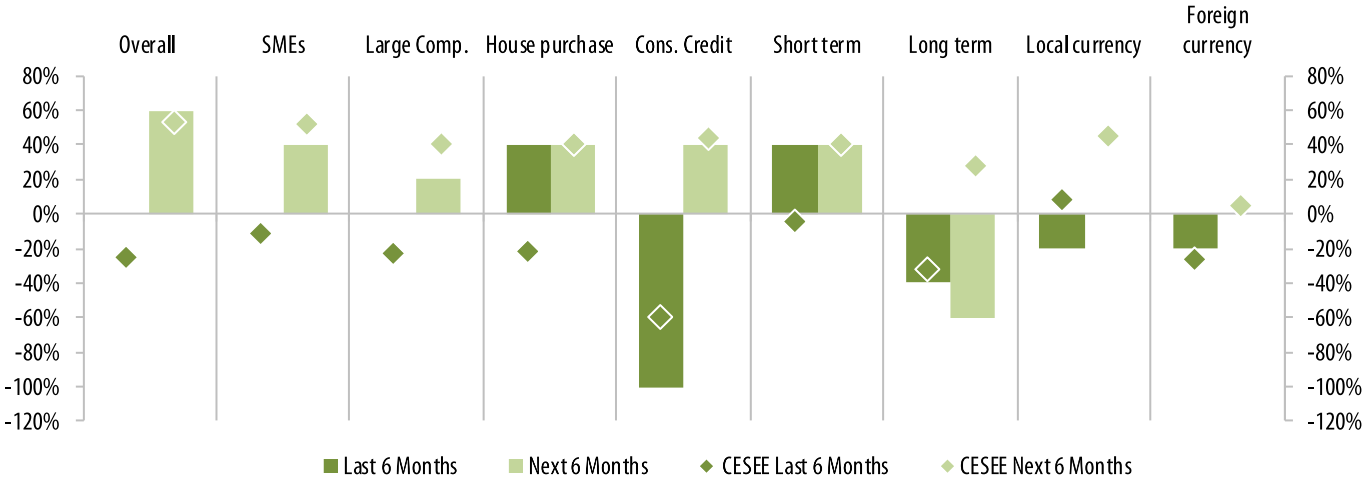


Source: EIB – CESEE Bank Lending Survey.

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

While demand for mortgages continued to increase, that for consumer credit fell at all reporting banks. Nevertheless, the majority of banks reported that demand for short-term lending increased while that for long-term lending fell, presumably reflecting the change in the composition of demand from corporates. These developments were roughly in line with those of the rest of the CESEE region.

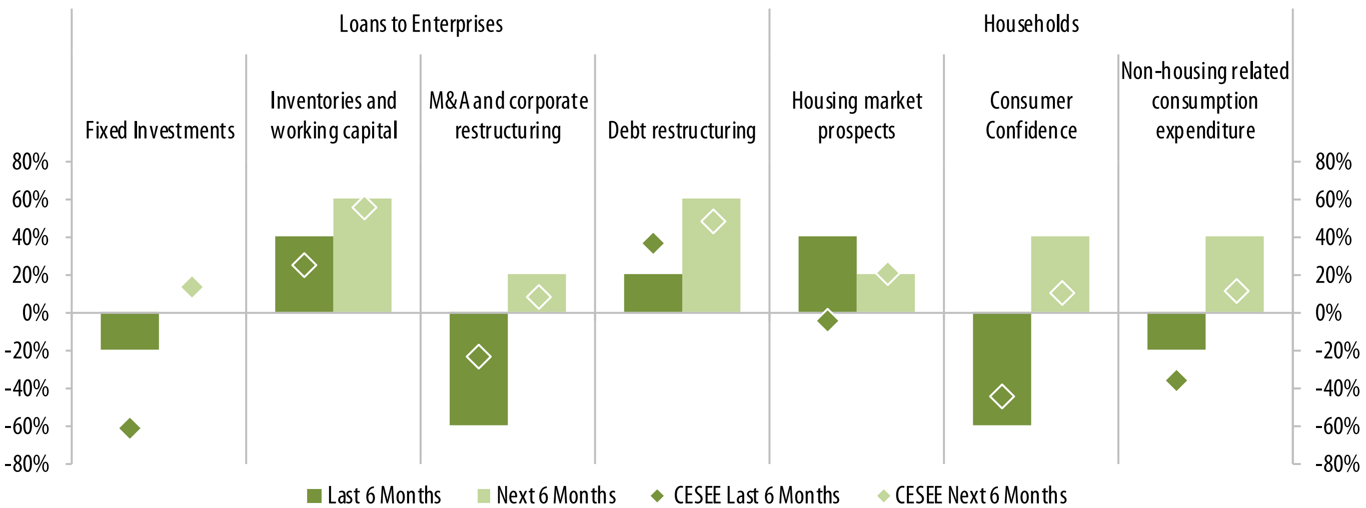


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

The belief that house prices would continue to rise presumably more than offset the impact of tighter lending standards and increasing economic uncertainty on mortgage lending. There was no such offsetting factor for consumer lending, where confidence weighed on the demand. This was similar to the rest of the CESEE region. For corporate loans, banks expect the composition of demand to continue to move in favour of loans to fund working capital. Debt restructuring is also expected to continue to add to corporate loan demand.

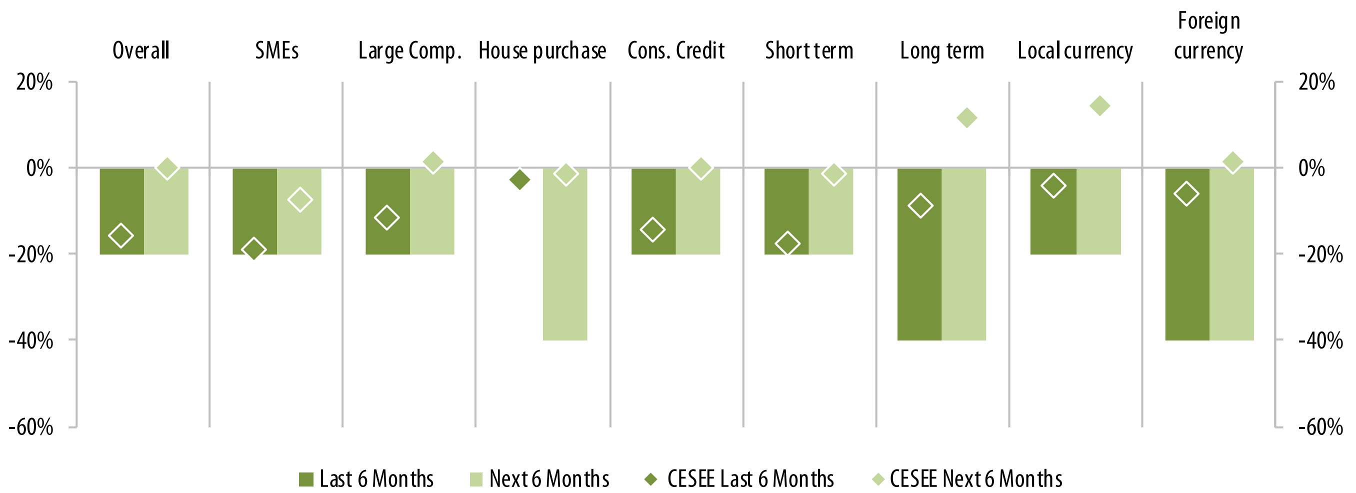


Source: EIB – CESEE Bank Lending Survey.

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 appears to have fallen, in particular for long-term and foreign currency loans. No substantial improvement appears in sight.



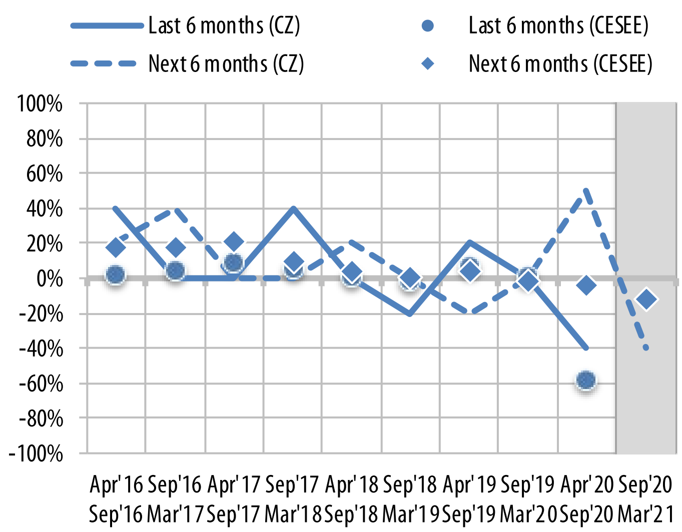
Source: EIB – CESEE Bank Lending Survey

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

Aggregate supply developments

As in the rest of the CESEE regions, banks responded to the Covid-19 pandemic by tightening their credit supply. On balance, banks expect that standards will tighten further over the next six months.

Figure 6 **Supply developments**

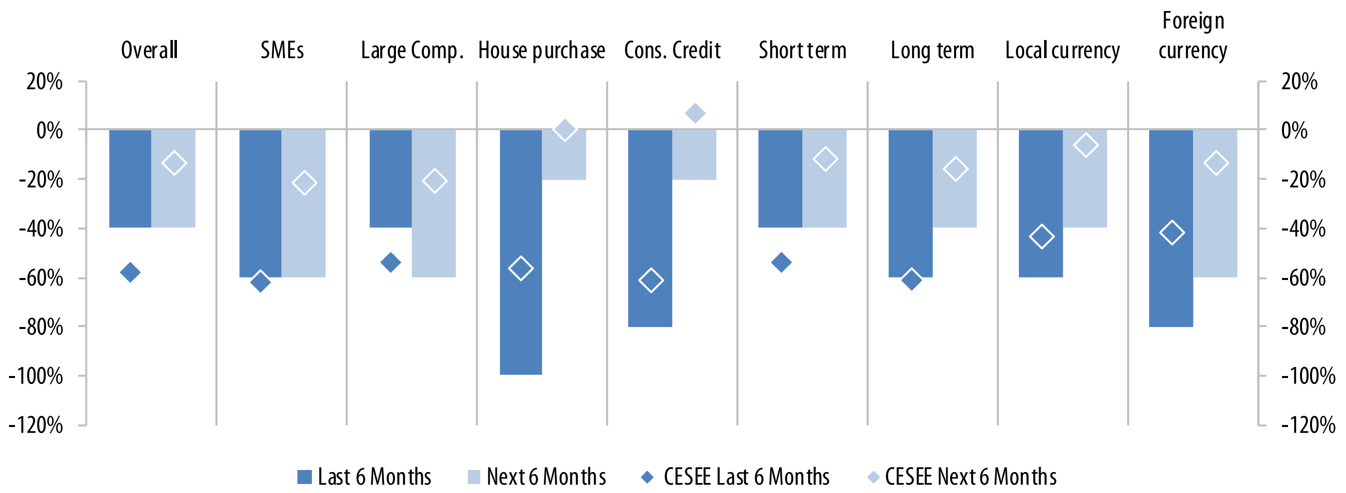


Source: EIB – CESEE Bank Lending Survey.

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

Almost all reporting banks tightened credit standards for mortgages and consumer credit over the past six months. Standards for corporate credit also tightened across market segments. This development is expected to continue over the next six months, albeit at a reduced pace.

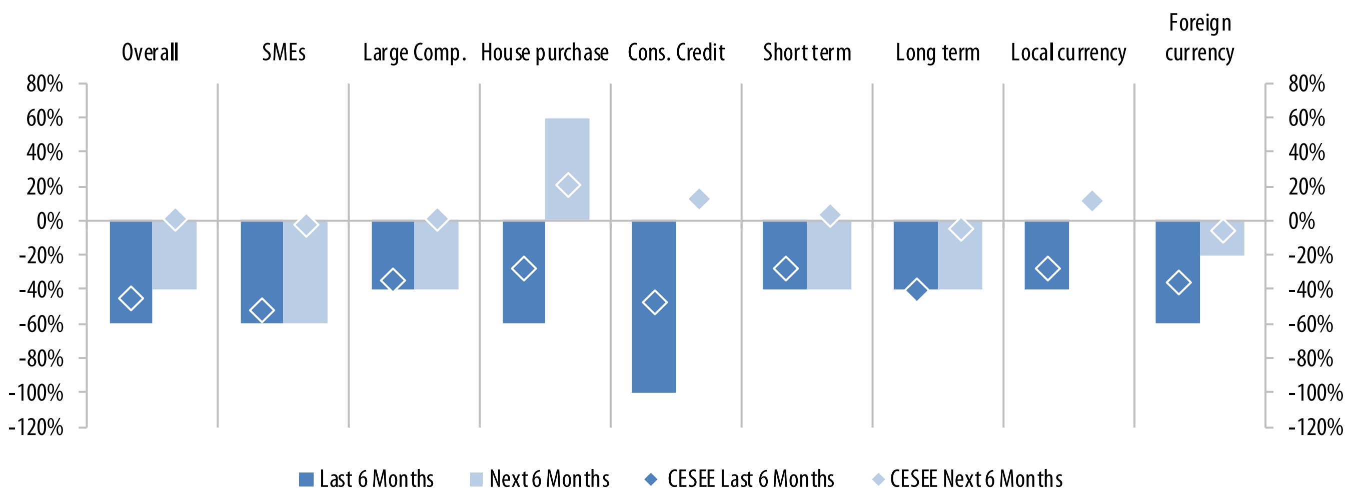


Source: EIB – CESEE Bank Lending Survey

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

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

In line with a perceived deterioration in the quality of loan applications, most responding banks approved a lower share of loans. This concerned all types of lending, particularly that for consumer credit, where banks in the Czech Republic appear to have been more restrictive than those in the rest of the region.



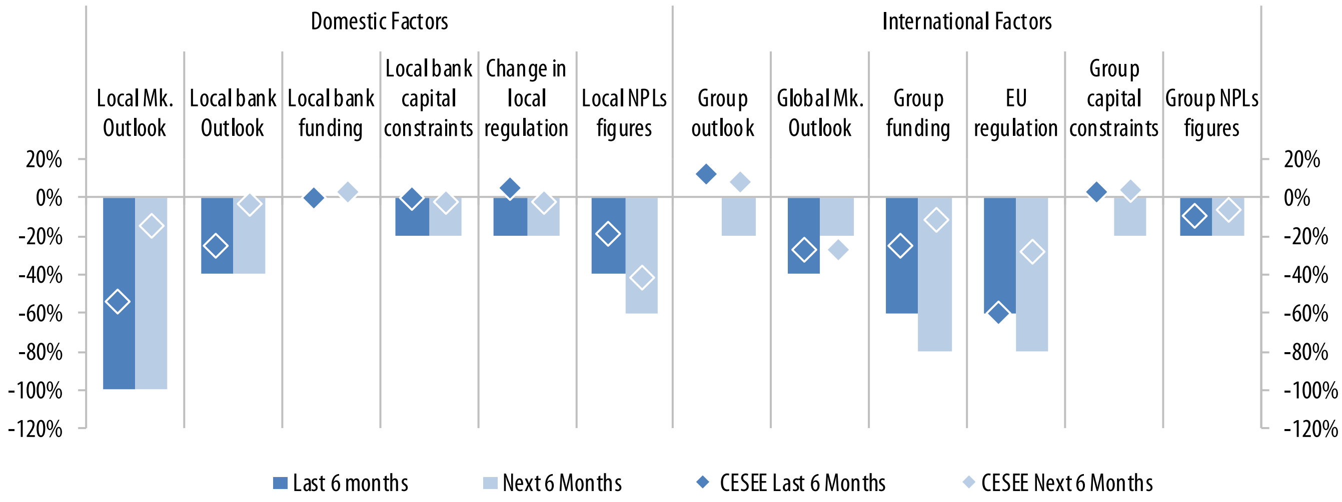
Source: EIB – CESEE Bank Lending Survey

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

Figure 9 **Factors contributing to supply conditions**

Banks primarily reduced their loan supply because their local market outlook worsened. Looking ahead, banks expect the local market outlook to deteriorate further. Increasing non-performing loans (NPLs) are another important reason for reducing loan supply, in particularly during the next six months when a large majority of banks expects NPLs to rise. The majority of banks also reported that funding from parent groups constrained their loan supply over the past six months and expect that this constraint will remain important.

A small majority of banks reported that changes in local regulation prompted them to reduce loan supply. This is despite the fact that Czech authorities released most of the countercyclical capital buffer (from 1.75% to 0.5%) and relaxed recommended mortgage underwriting standards (eg, the recommended maximum loan-to-value ratio was raised).

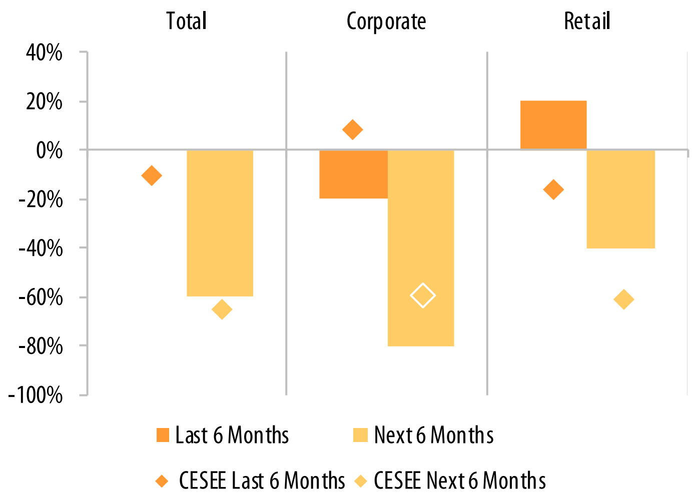


Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 Non-performing loan ratios

A large majority of banks expect non-performing loans (NPLs) to rise in the coming months, from a low 2.7% of gross loans at the end of 2019. So far, crisis relief measures, in particular borrowers' ability to defer loan repayments, appear have contained the increase: as of 2020 Q2, NPLs stood at 2.8%.

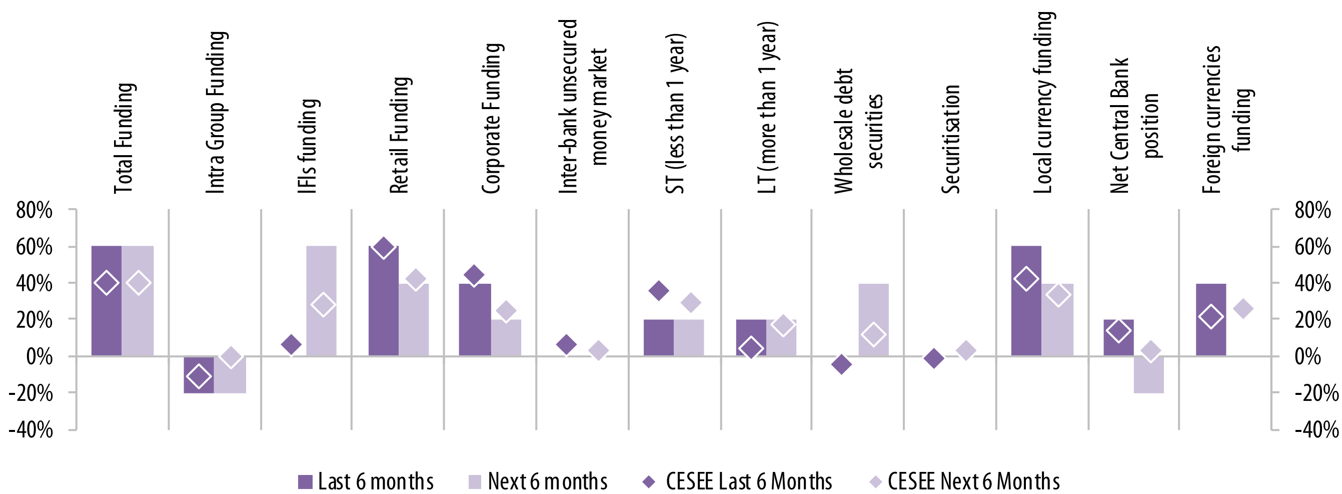


Source: EIB – CESEE Bank Lending Survey.

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 Czech banks improved during the last six months. Banks were already largely funded by stable domestic deposits. Their access to retail and corporate funding further increased, presumably reflecting increased precautionary savings by households. These developments are similar to those in the rest of the region.



Source: EIB – CESEE Bank Lending Survey.

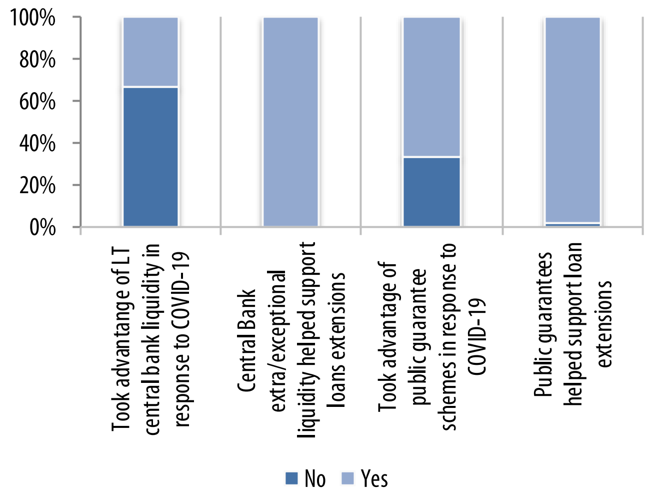
Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

COVID19 Special Module

Regulatory and policy measures supporting lending

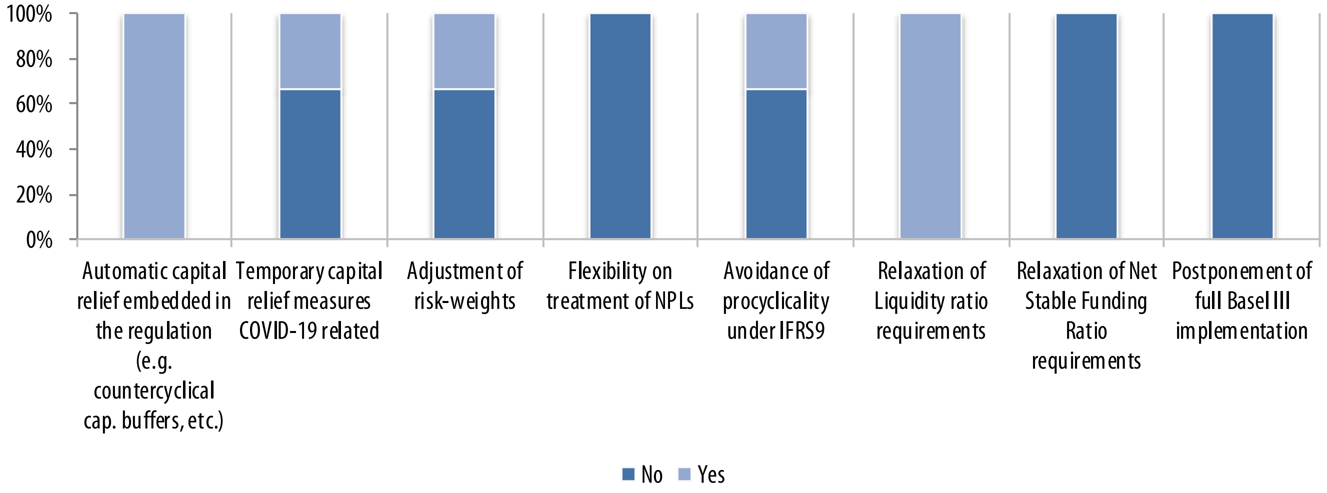
Fiscal, monetary, and regulatory measures all appeared to have supported lending. Public loan guarantees, exceptional central bank facilities, the relaxation of liquidity requirements, and the release of the countercyclical capital buffer supported lending at all responding institutions. The relaxation of other capital requirements appears to have been less effective.

Figure 12 Uptake and impact on lending of Central Banks liquidity facilities and government interventions in terms of public guarantees



Source: EIB – CESEE Bank Lending Survey.

Figure 13 Regulatory and policy measures that helped to support/maintain lending to the economy



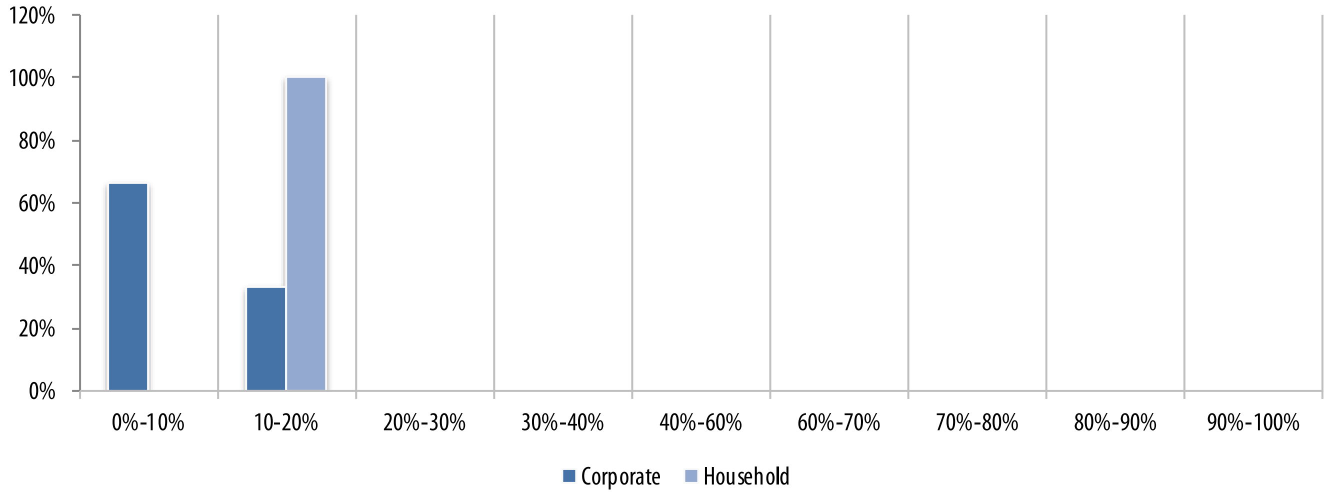
Source: EIB – CESEE Bank Lending Survey.

Note: PTI means payment-to-income ratio; LTV means Loan-to-value ratio

Moratoria incidence and uptake

All responding banks report that 10-20% of their household loans benefit from payments moratoria. For corporate loans, the incidence appears to be lower. The ability of borrowers to defer loan repayments is likely to have been a key factor in limiting the increase of non-performing loans so far (see above).

Figure 14 **Percentage of your corporate/household portfolio/clients' loans**

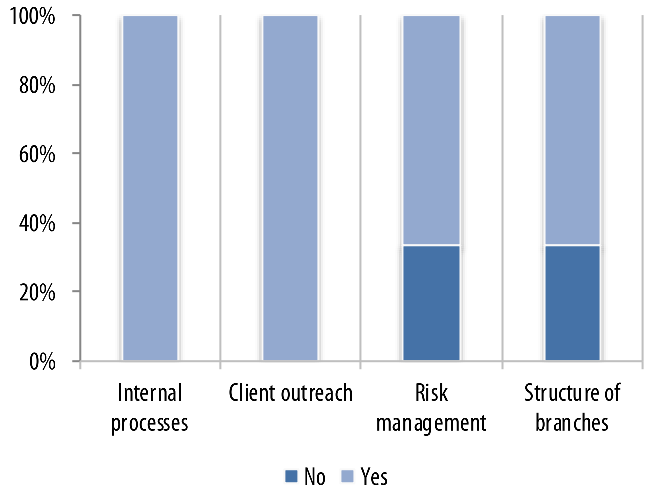


Source: EIB – CESEE Bank Lending Survey.
Note: shares are in terms of total balance sheet size

Impact on strategic priorities in terms of digitalisation

All banks report that the Covid-19 pandemic will prompt them to speed up the digitalisation of their internal processes and of their outreach to clients. In a majority of cases, the digitalisation of risk management and of the structure of bank branches will also pick up.

Figure 15 **Due to COVID-19 propensity to speed up digitalisation in terms of:**



Source: EIB – CESEE Bank Lending Survey.

Hungary

In the months after COVID-19 hit the region, the Hungarian market has been characterised by rapidly declining credit demand and deteriorating supply conditions. Expectations for the next six months indicate recovering demand, tight supply conditions, and a marked worsening of NPLs.

Summary

Group assessment of positioning and market potential: The majority of parent banks considered the Hungarian market to have medium potential, putting the country somewhat behind the Czech Republic and Poland, but ahead of Slovakia and Slovenia. The majority of banking groups find that their position in the Hungarian market was satisfactory or optimal, yet 40% of the groups find their positioning weak. Risk-adjusted returns on equity and assets were on average equal to or higher than those seen in the groups' other operations.

Hungarian banks report that **credit demand** fell sharply over the six months following the COVID-19 outbreak, with a matching deterioration in **credit supply** conditions.

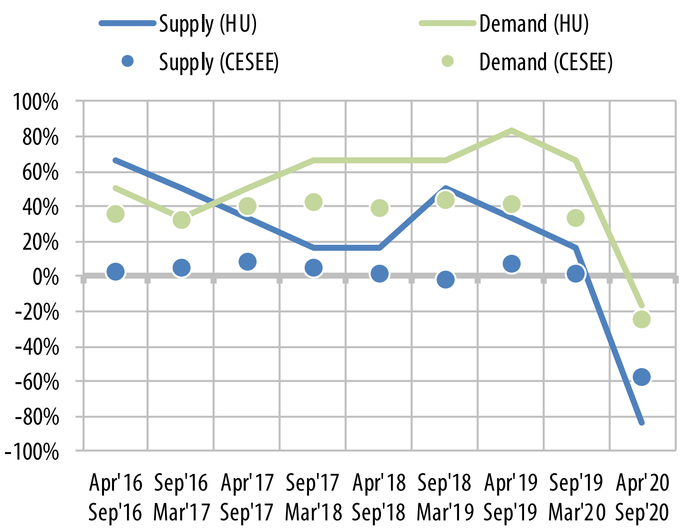
Credit supply: Credit supply conditions have been deteriorating severely and uniformly in all segments in the last six months. Looking ahead, banks projects further, but less pronounced tightening in all segments, except for house purchases.

Demand for loans: Hungarian banks reported a strong decline in credit demand in the past six months, especially for households, in line with their previous expectations formulated at the beginning of the COVID-19 outbreak. Looking ahead, banks expect the recovery of credit demand in all segments.

Access to funding: Overall access to funding remained adequate, in line with the CESEE region as a whole, over the past six months. The improvement was due chiefly to domestic sources: both corporate and retail deposits had a strong positive influence.

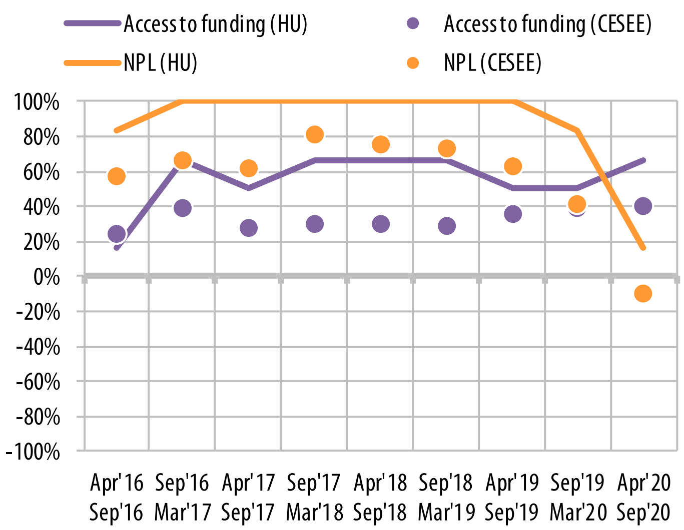
NPL ratios has not yet deteriorated significantly over the past six months, but banks expect a drastic worsening of credit quality over the upcoming period.

COVID-19 measures: Hungarian banks find that guarantee programmes, together with the relaxation of liquidity ratios and the temporary capital relief measures are the most helpful maintaining credit during the pandemic shock.



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

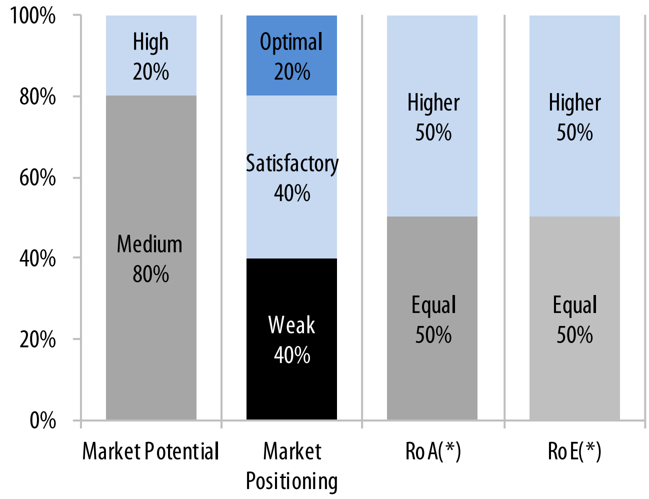
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Hungary show commitment towards the region. About 40% of the banking groups present in the country planned to selectively expand their operations in the CESEE region, while the rest of the groups indicated intentions to maintain their presence at the current level.

The overwhelming majority of parent banks consider the Hungarian market to have medium potential, which puts the country somewhat behind the Czech Republic and Poland, but slightly ahead of Slovenia or Slovakia.

About 40% of the banking groups find that their position in the Hungarian market is satisfactory, another 40% of the groups find their positioning weak, and 20% find it optimal. Parent banks' survey responses reveal that risk-adjusted returns on assets and equity are somewhat higher on average than those seen in other operations of the groups.

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.

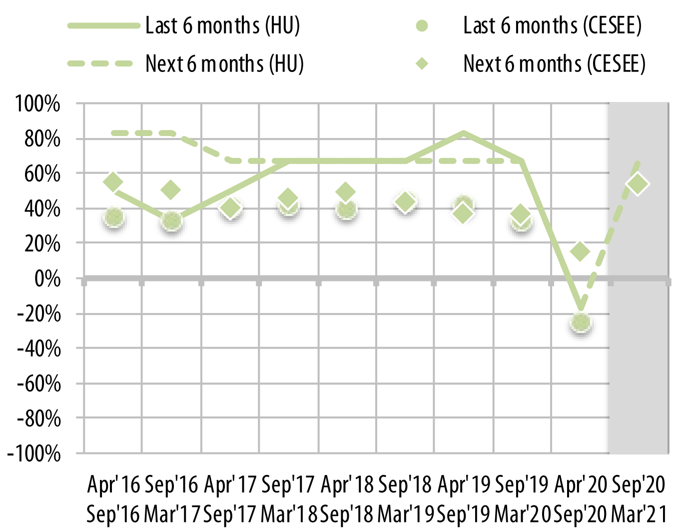
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Hungarian banks reported a strong decline in credit demand in the past six months, very much in line with their previous expectations formulated just at the beginning of the COVID-19 outbreak. The fall in demand for loans in Hungary was more pronounced than in the rest of the CESEE region.

Banks expect a recovery of credit demand for the next six months, both in Hungary and in the rest of the region.

Figure 2 **Demand side developments**

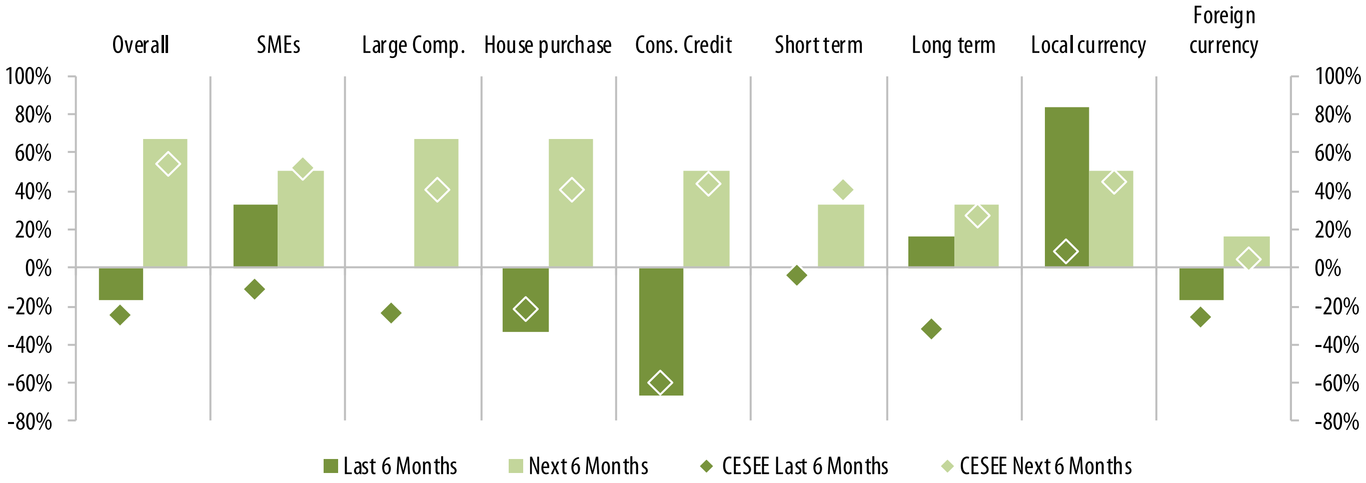


Source: EIB – CESEE Bank Lending Survey.

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

Loan demand in the past six months was relatively more stable for the corporate sector, and for SMEs in particular, where demand actually increased. Credit demand by households, however, was severely affected by the COVID-19 outbreak, causing strong decline in consumer credit demand and a somewhat more moderate decline in the mortgage segment. These developments are broadly in line with the overall picture for CESEE. Looking ahead, banks expect the recovery of credit demand in all segments.

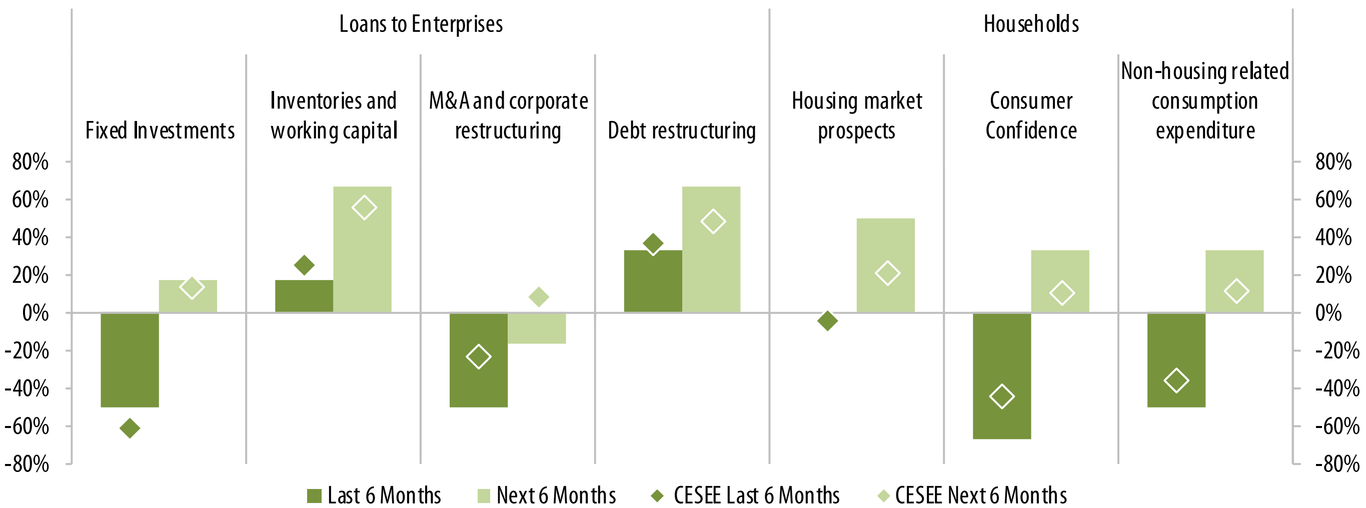


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

When looking at individual factors of loan demand in the corporate segment, investment-related demand, as well as M&A activity was severely curbed, while demand for working capital and debt restructuring remained slightly positive. As for households, housing market prospects remained neutral, while consumer confidence asserted a strong negative influence on loan demand. Working capital, housing and consumer outlook are expected to influence credit demand positively in the next six months, whereas investment demand is expected to recover only marginally.

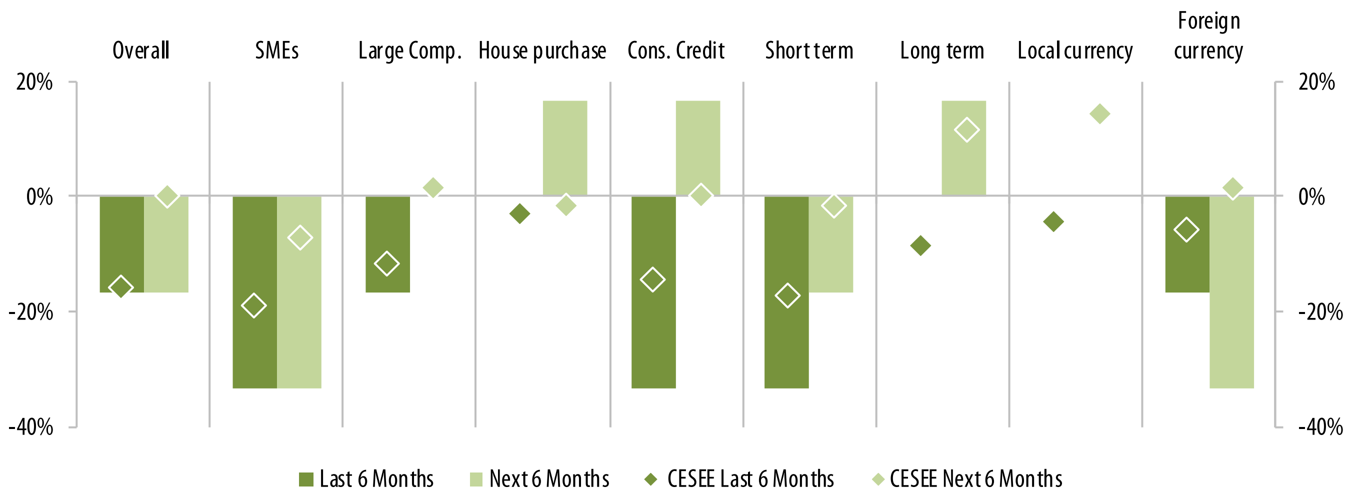


Source: EIB – CESEE Bank Lending Survey.

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 perceived quality of loan applications has declined in the last six months in all client categories, with the exception of housing loans where the quality has not changed significantly. The decline in loan quality is expected to fall further in the SME segment in the coming months, whereas banks expect improvements in the household segment.



Source: EIB – CESEE Bank Lending Survey

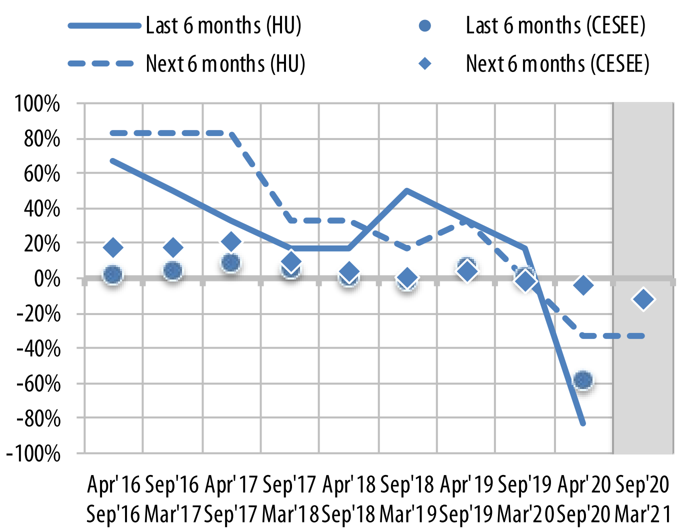
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit supply conditions in Hungary have deteriorated severely over the last six months, exceeding the banks' own expectations formulated just around the beginning of the COVID-19 outbreak. Looking ahead, supply is expected to tighten further, reflecting the the pandemic's continuing impact on banks' credit policy.

Credit supply conditions declined in Hungary more severely than in the rest of the CESEE, but from a higher base, as supply conditions in the country were relatively looser before the outbreak than in the rest of the CESEE. Looking ahead, the expected tightening in the next six months is also more pronounced than the region's average.

Figure 6 Supply developments

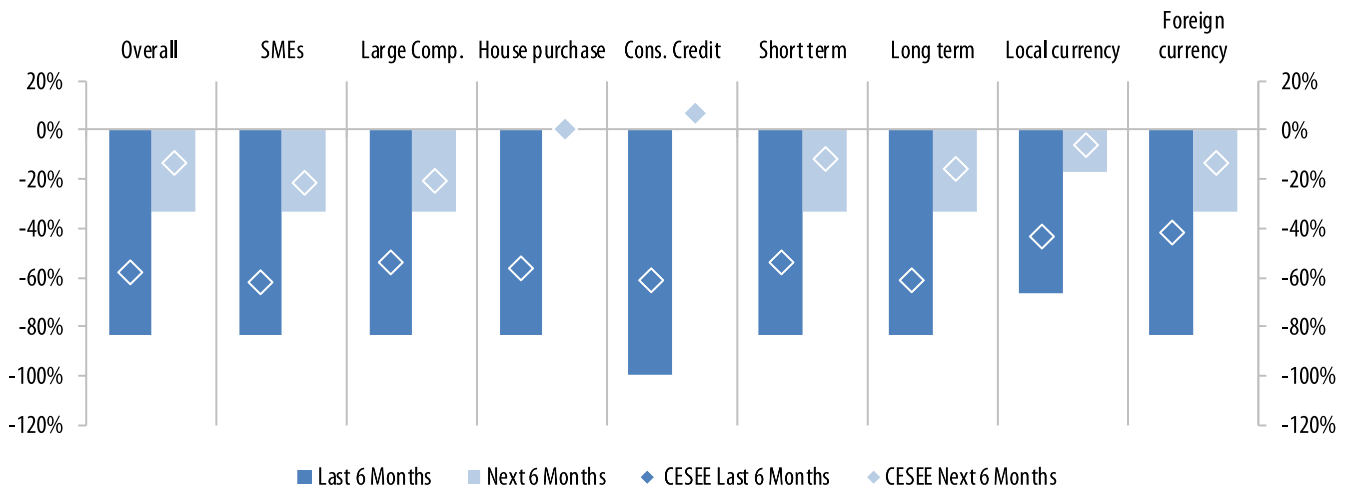


Source: EIB – CESEE Bank Lending Survey.

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 supply conditions have been deteriorating severely and uniformly in all segments in the last six months, in line with the developments elsewhere in the region. Looking ahead, banks project further, but less pronounced tightening in all segments, except for households: in the retail segment a neutral stance is expected for the next six months.

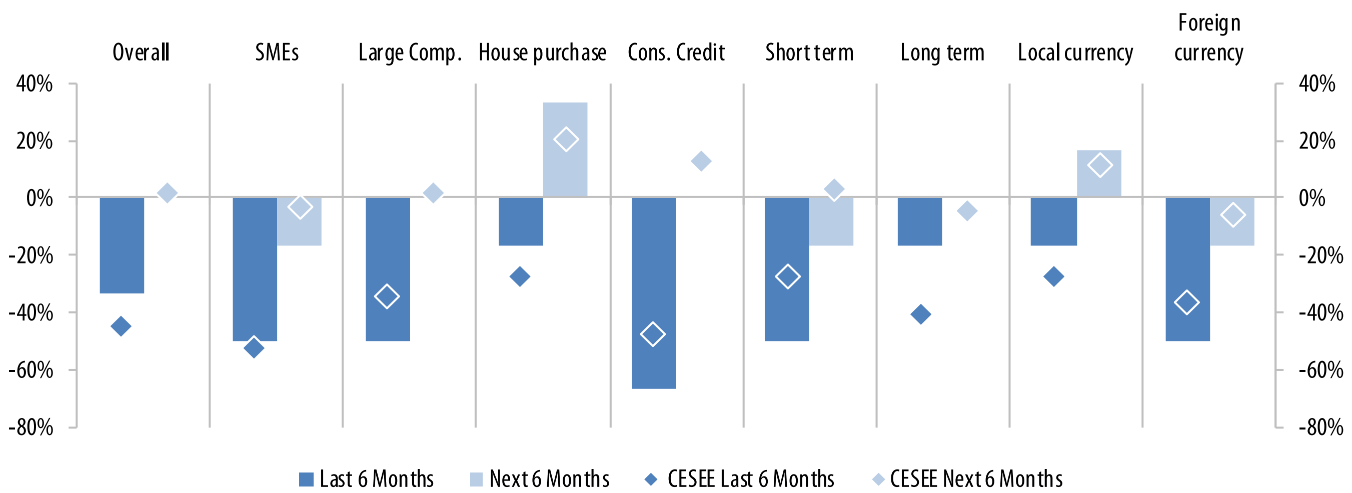


Source: EIB – CESEE Bank Lending Survey

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

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

The approval rates of credit applications also deteriorated uniformly across all the segments over the past six months. The least affected business area was the housing loan segment. These developments are in line with the rest of the region. Looking ahead, approval rates are expected to stagnate for corporates, and improve only for mortgage loan applications.

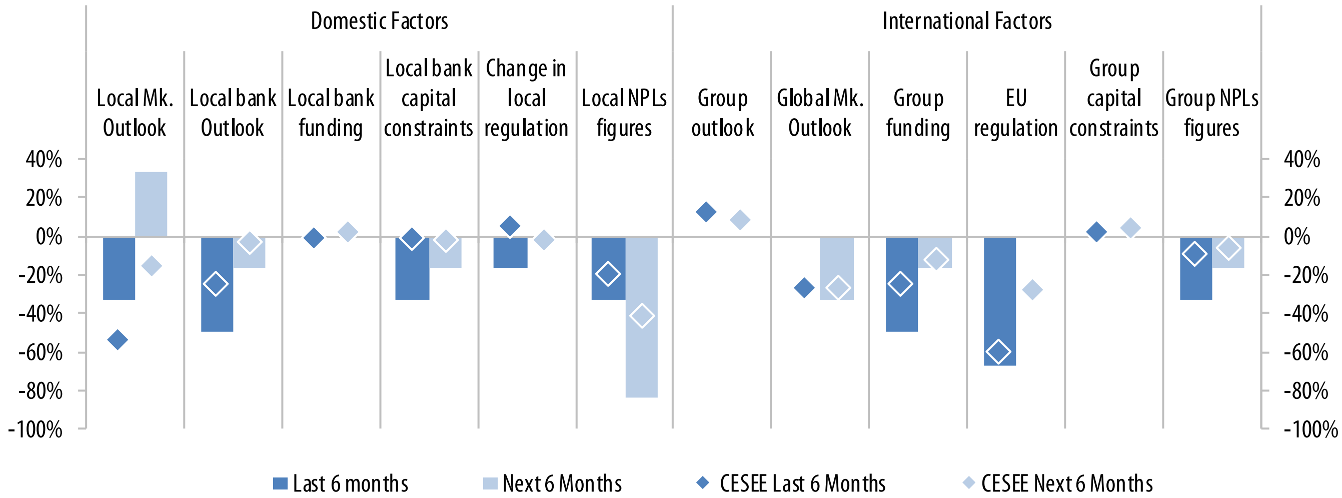


Source: EIB – CESEE Bank Lending Survey

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 domestic factors were contributing negatively to credit supply, except local bank funding, which remained broadly neutral. When it comes to international factors group funding, EU regulations and group NPL figures exerted a negative impact over the past six months. Looking ahead, banks are most worried about local NPLs as a key negative factor of influence on credit supply in Hungary.

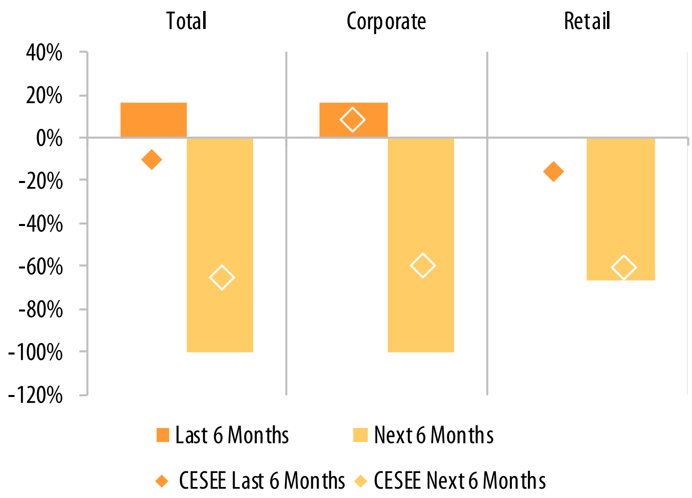


Source: EIB – CESEE Bank Lending Survey.

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 were close to neutral in both the corporate and retail segments over the past six months, in line with the developments of the CESEE as a whole. Looking ahead, however, banks expect a dramatic deterioration in the rate of non-performing loans. This expected deterioration – possibly linked to the eventual phasing out of the various COVID-19 emergency support measures targeting the different types of borrowers - is somewhat more pronounced in Hungary than in the rest of the region.

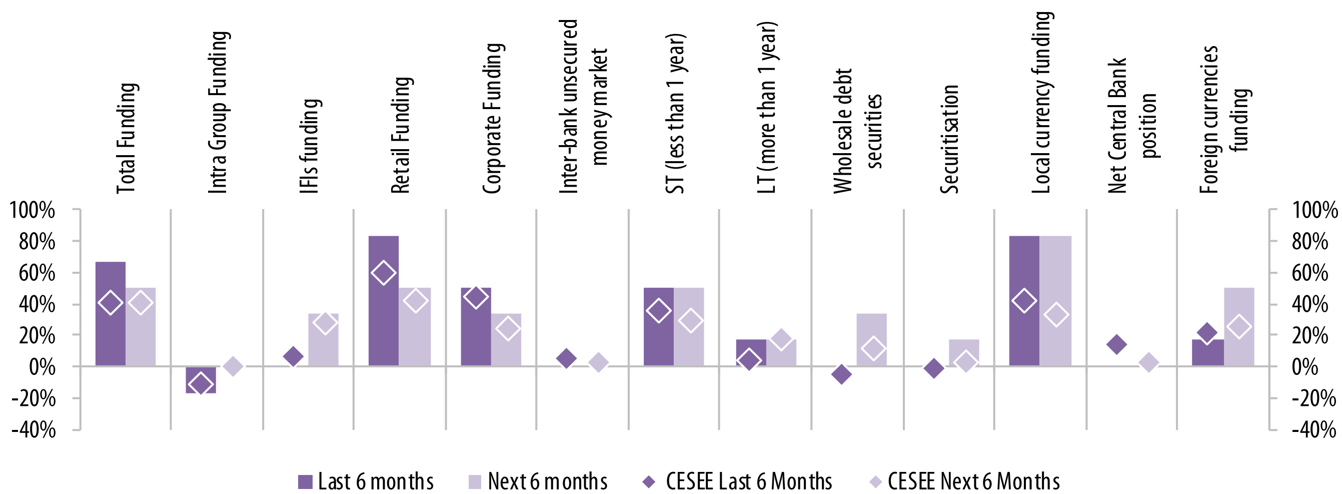


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

In line with developments in the rest of the CESEE region, overall access to funding for Hungarian banks has improved over the last months. The strongest contributor is the domestic side: both corporate and retail deposits (with short maturity) had a strong positive influence. These improvements are broadly in line with the CESEE developments.



Source: EIB – CESEE Bank Lending Survey.

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

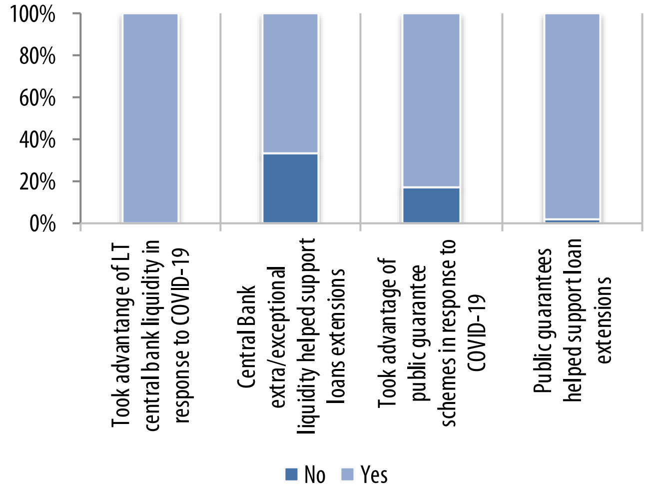
COVID19 Special Module

Regulatory and policy measures supporting lending

All Hungarian banks in the survey took advantage of the central bank's liquidity facilities, and most of them used the public guarantee schemes launched as a response to the COVID-19 pandemic. About two-third of the respondents believe that the liquidity facilities had a key role in supporting credit supply, and all banks have a positive view on the usefulness of guarantee programmes in supporting lending activity.

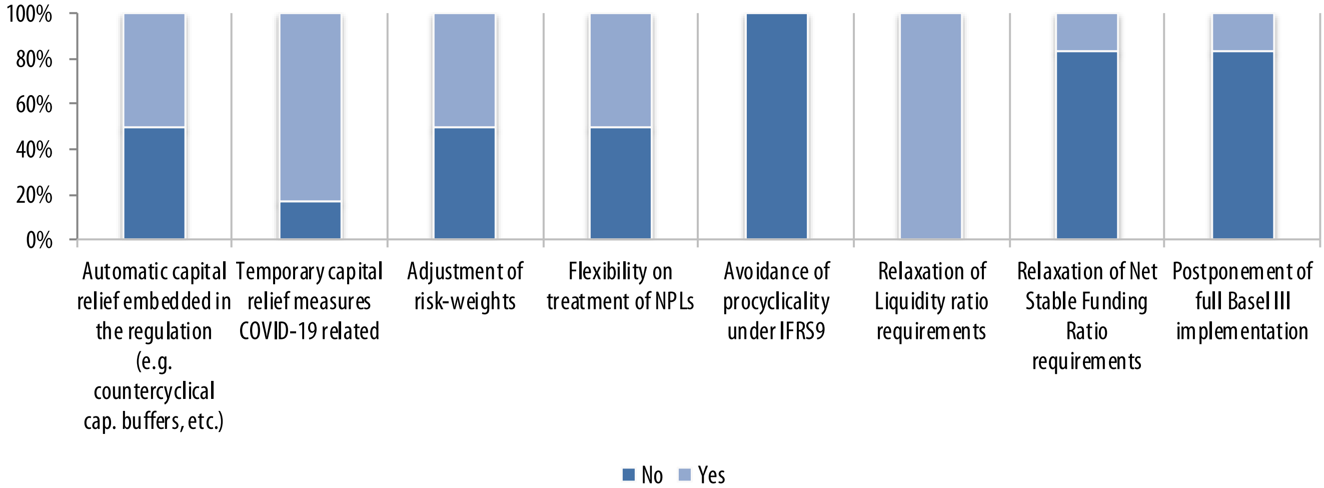
Looking at the impact of the various regulatory measures, Hungarian banks believe that the most helpful steps to support lending during the pandemic include the relaxation of liquidity ratios and the temporary capital relief measures.

Figure 12 **Uptake and impact on lending of Central Banks liquidity facilities and government interventions in terms of public guarantees**



Source: EIB – CESEE Bank Lending Survey.

Figure 13 **Regulatory and policy measures that helped to support/maintain lending to the economy**



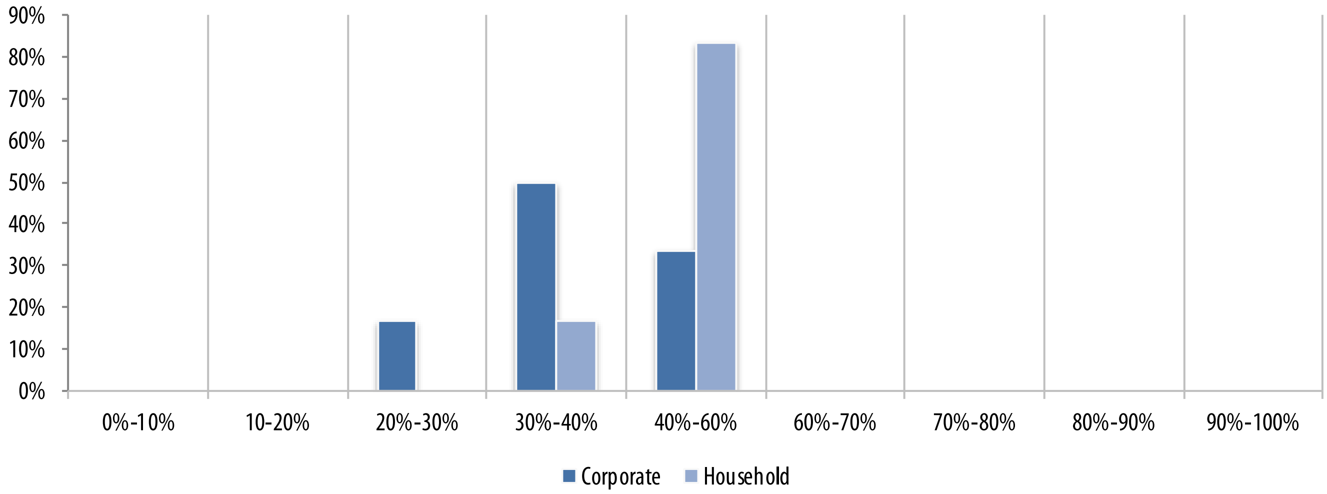
Source: EIB – CESEE Bank Lending Survey.

Note: PTI means payment-to-income ratio; LTV means Loan-to-value ratio

Moratoria incidence and uptake

Moratoria on interest payments and capital repayments affect around 30-50% of the bank's corporate clients in Hungary. The incidence is much higher in the household segment, where more than half of the clients are typically taking advantage of the payment moratoria.

Figure 14 **Percentage of your corporate/household portfolio/clients' loans**

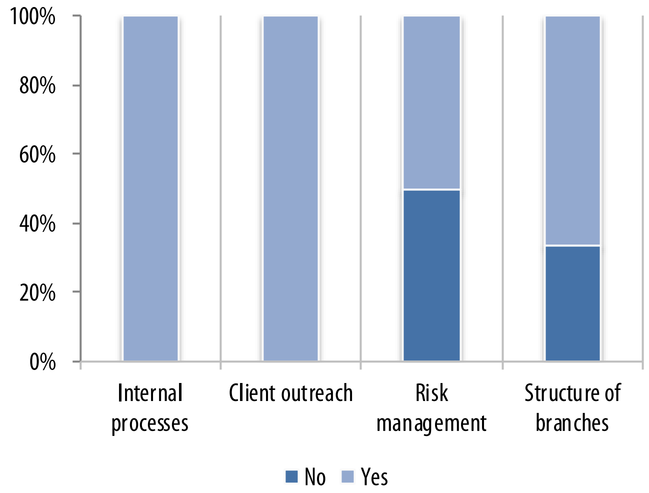


Source: EIB – CESEE Bank Lending Survey.
Note: shares are in terms of total balance sheet size

Impact on strategic priorities in terms of digitalisation

According to the survey, the COVID-19 pandemic pushed Hungarian banks assigning stronger priorities towards digitalisation. All banks are increasing digitalisation efforts in the areas of internal processes and client outreach. In addition, many banks also pursue faster digitalisation in the structure of branches and risk management.

Figure 15 **Due to COVID-19 propensity to speed up digitalisation in terms of:**



Source: EIB – CESEE Bank Lending Survey.

Kosovo

The pandemic has influenced strongly loan supply and loan demand in Kosovo across all major segments and more than in the CESEE aggregate. Moreover, NPL ratios increased and are likely to increase further.

Summary

Group assessment of positioning and market potential: the profitability of local banks in Kosovo remains universally above the overall group levels also in this survey. On the other hand, 50% of parent banking groups regard the market potential as either medium or low, whilst all parent banks see their current market positioning as optimal.

Credit demand declined substantially over the past six months in Kosovo, much more than in the CESEE aggregate, which is consistent with a stronger contraction of output. Also **credit supply** conditions tightened more strongly than in the CESEE average over the last six months.

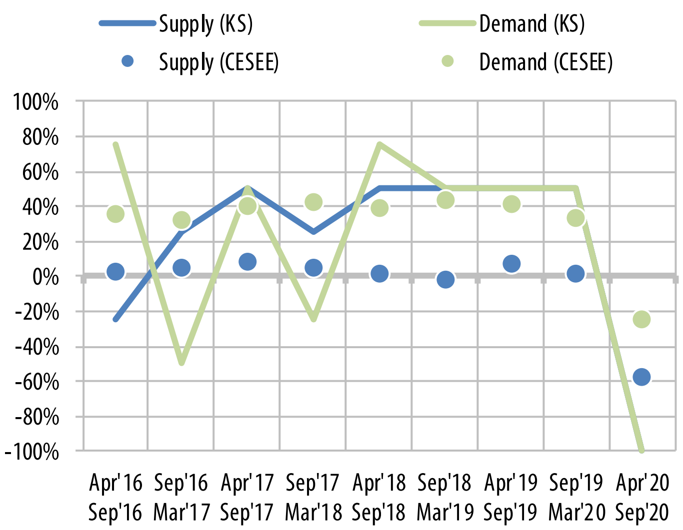
During the last six months, **credit supply** conditions tightened across all major segments and particularly for SMEs. Nevertheless, banks in Kosovo expect to ease credit standards somewhat in the next six months, while in the CESEE region they expect, on average, further tightening.

Demand for loans declined considerably across all segments of loans. In the next six months, credit demand is expected to recover somewhat.

Access to funding improved during the last six months, but was very diverse across segments.

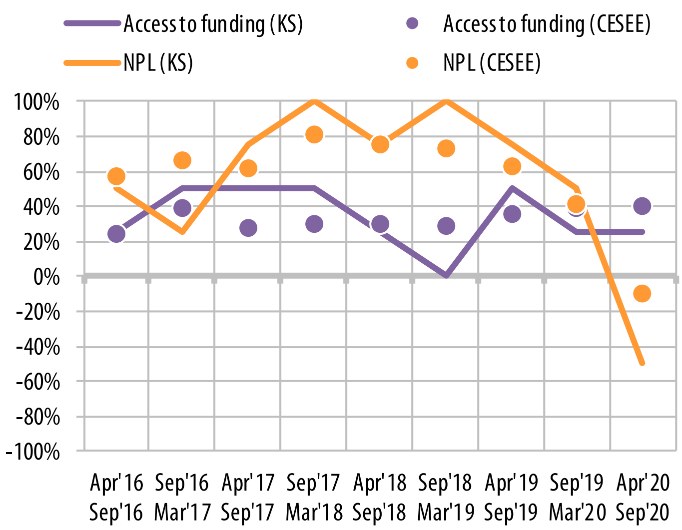
NPL increase was much stronger in Kosovo than in the CESEE aggregate during the last six months. NPL ratios increased for both corporate and retail loans. According to banks, NPLs are likely to increase further in the coming six months.

The **COVID-19 module** suggest that introduced policy measures were important for banks, thereby alleviating the negative economic impacts of the pandemic. A number of banks have also speeded up their digitalization processes.



Source: EIB – CESEE Bank Lending Survey.

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



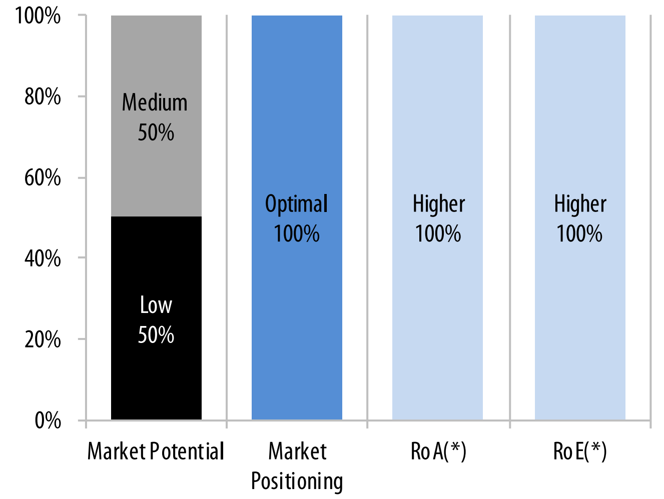
Source: EIB – CESEE Bank Lending Survey.

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 local banks in Kosovo remains universally above the overall group levels also in this survey. 50% of parent banking groups regard the market potential as either medium or low and all parent banks see their current market positioning as 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.

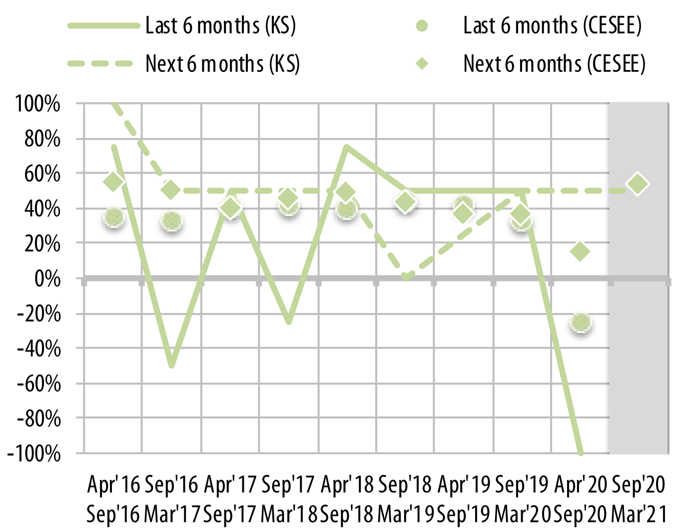
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Credit demand declined substantially over the past six months in Kosovo, much more than in the CESEE aggregate.

This is consistent with a substantial macroeconomic impact of the pandemic on the Kosovar economy. According to the October 2020 WEO projections, GDP is expected to decline by 7.5% this year. Losses of income and overall consumption contraction will affect strongly demand for loans from households, while contraction in business investments is likely to attract fewer demand for loans from corporates. Nevertheless, emergency liquidity needs of companies should provide some support to overall loan demand. As a matter of fact, banks signal that as the economy opens up, loan demand should pick up in the coming six months.

Figure 2 **Demand side developments**

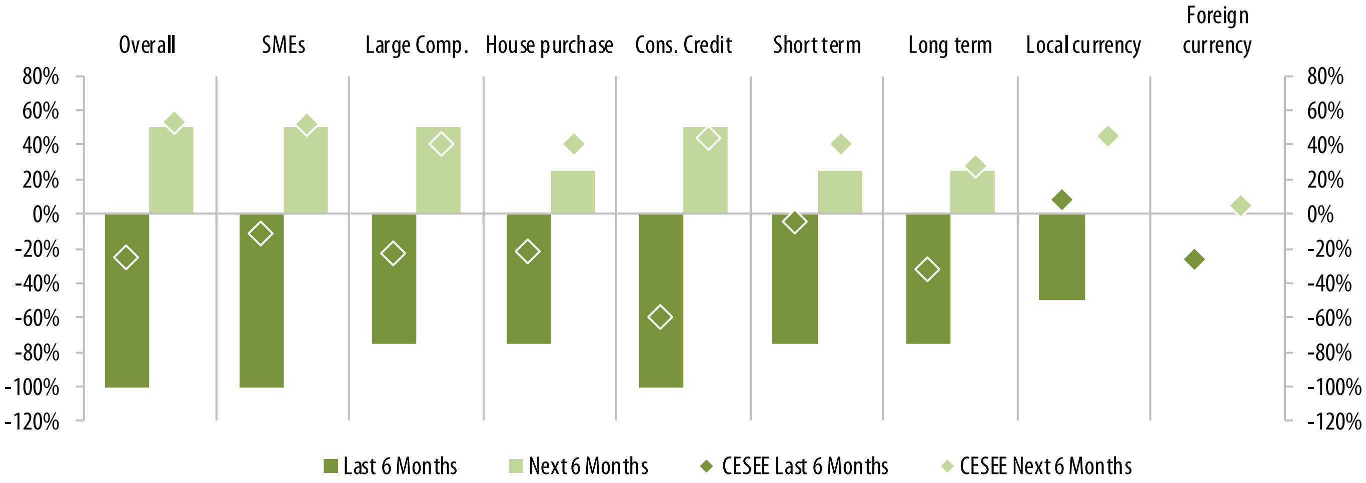


Source: EIB – CESEE Bank Lending Survey.

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

Credit demand declined substantially in the last six months and was more pronounced than in the CESEE region across all segments of loans. In the next six months, credit demand is expected to recover, similarly as in the CESEE average, in most segments.

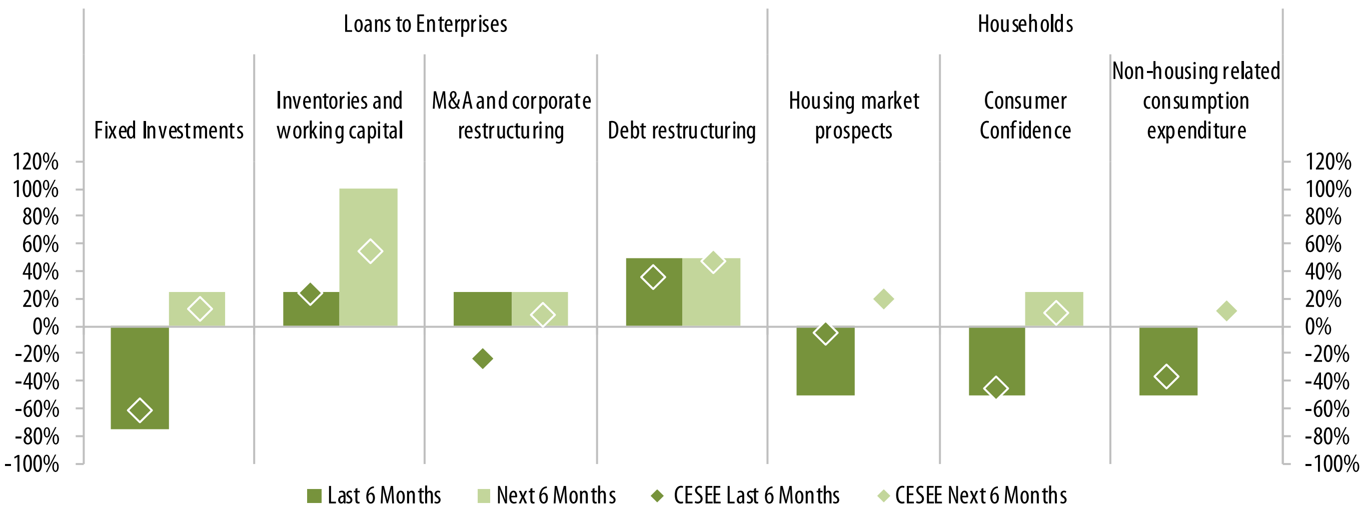


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

During the last six months, firm fixed investment was the major factor contributing negatively to credit demand in Kosovo and was even more pronounced than in the CESEE aggregate. On the other hand, inventories and working capital, and even more strongly debt restructuring, were factors contributing positively to credit demand for enterprises. On the other hand, factors affecting household were all contributing negatively to loan demand.

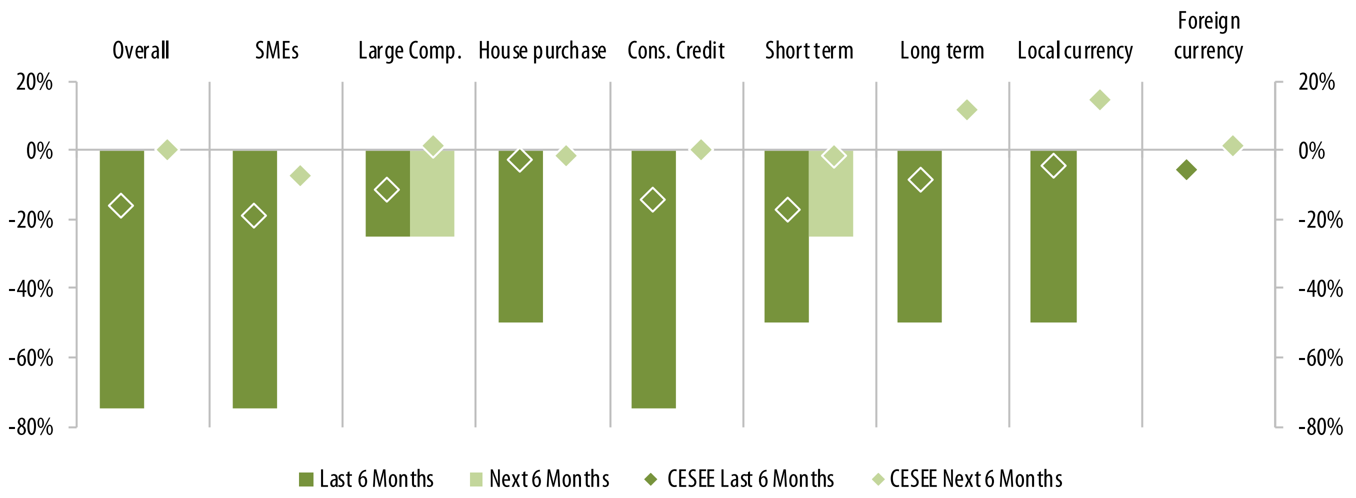


Source: EIB – CESEE Bank Lending Survey.

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 overall quality of loan applications deteriorated substantially in Kosovo during the last six months. The decline was yet again much more substantial than in the average of the CESEE region. The major declines in the quality of loan applications were registered for loans to SMEs and consumer credit. In their assessment for the coming six months, banks remain cautious as regards the quality of loan applications, as in the broader region.



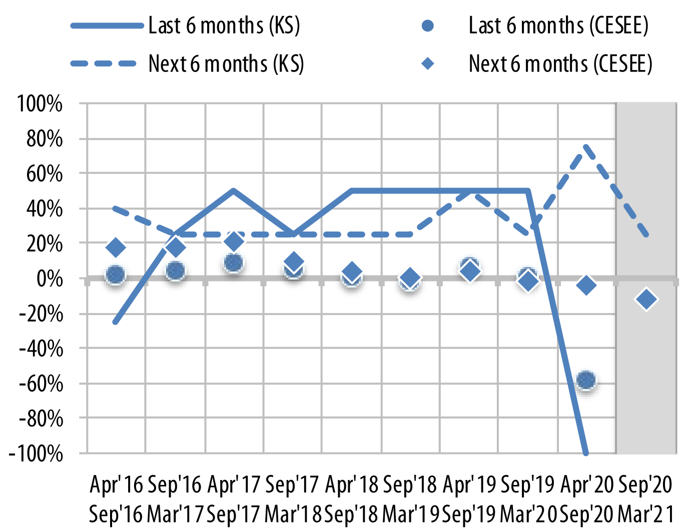
Source: EIB – CESEE Bank Lending Survey

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

Aggregate supply developments

Just like credit demand conditions, credit supply tightened substantially over the last six months. The net tightening of credit standards was stronger than in the CESEE aggregate. Nevertheless, banks expect some softening in the coming six months.

Figure 6 Supply developments

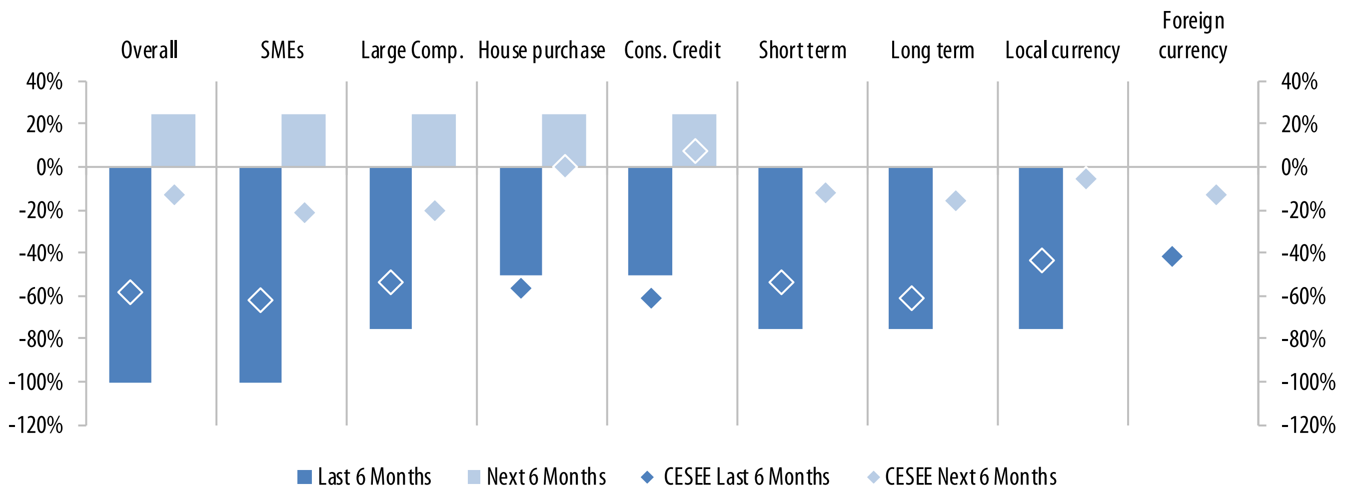


Source: EIB – CESEE Bank Lending Survey.

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

Credit conditions tightened considerably for all categories of loans and even more strongly for loans to SMEs during the last six months. Compression was more pronounced than the CESEE average for a number of segments. However, banks expect some easing of credit standards in the next six months, while banks in the CESEE region, on average, signal further tightening.

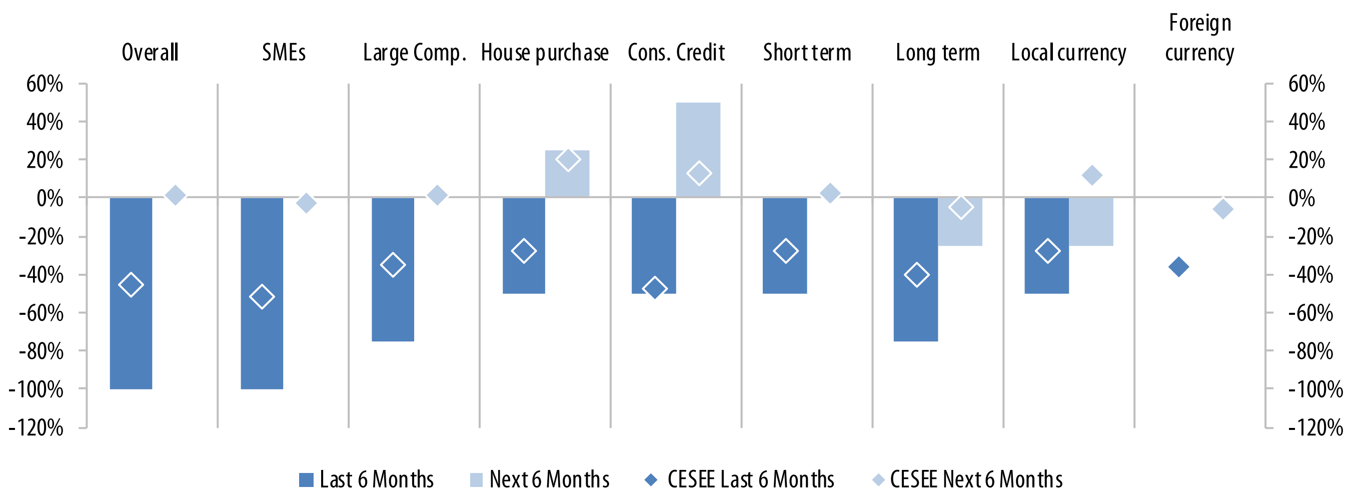


Source: EIB – CESEE Bank Lending Survey

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

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

The overall banks' approval rate for loan applications declined markedly in Kosovo during the last six months, above the CESEE aggregate. Declines were registered in all major segments and were again more pronounced in the SME category. In the coming six months, banks expect to remain cautious with loan approvals. Nevertheless, they are signalling to increase the loan approval rate for consumer credit.

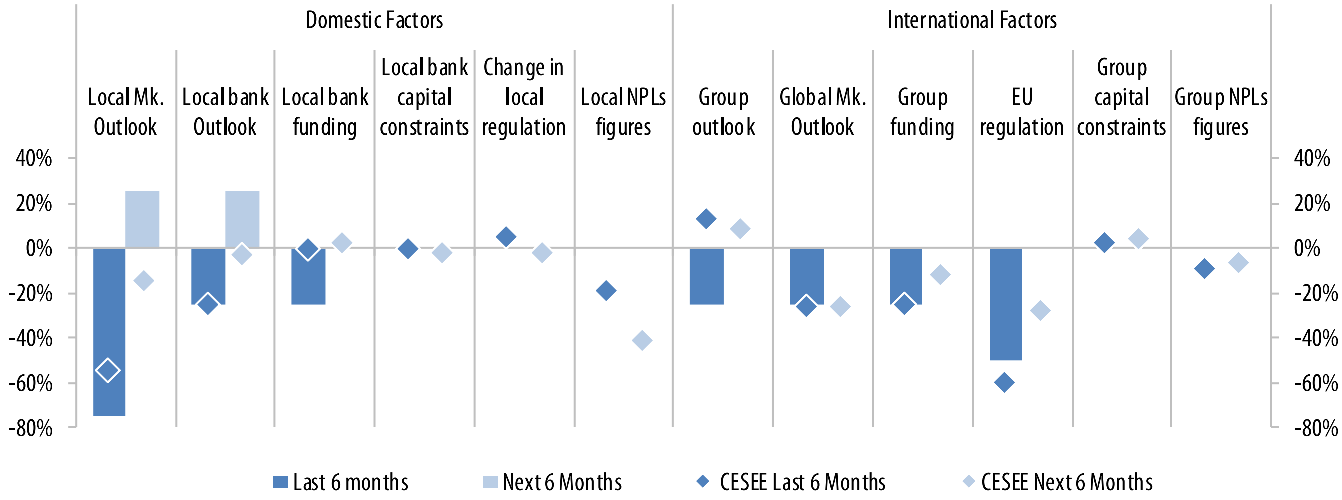


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 **Factors contributing to supply conditions**

Negative impact on credit supply conditions in Kosovo was driven by both domestic and foreign factors over the last six months. Among domestic ones, local market outlook was particularly negative, while EU regulation was the most pronounced among the international factors. As a matter of fact, none of the listed factors was contributing positively to loan supply conditions over the last six months, while only local bank and market outlook are likely to contribute positively in the next six months. Contrary to the regional aggregate, local NPLs have not been driving the supply conditions in Kosovo.



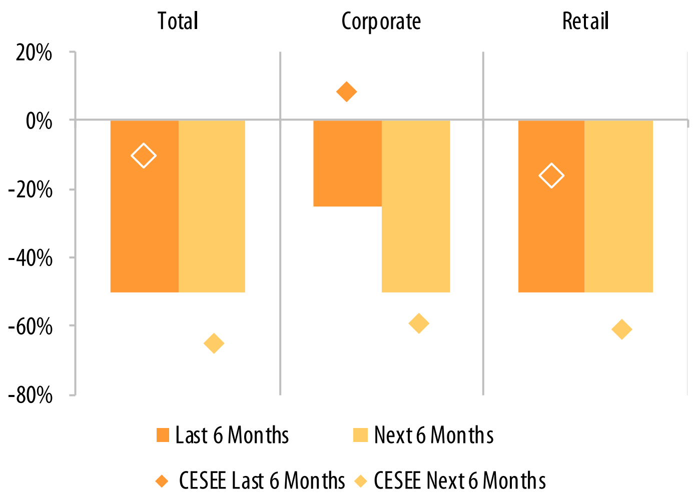
Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 Non-performing loan ratios

The NPLs ratio increase was much stronger in Kosovo than in the CESEE aggregate during the last six months. NPL ratios increased for both corporate and retail loans. According to banks, NPLs are likely to increase further in the coming six months in Kosovo and in the region.

In the context of the pandemic, the Central Bank of Kosovo announced loan repayments moratorium for distressed borrowers to be decided on a case-by-case basis by the lender and a regulatory change on loan provisions and capital requirements on deferred loans (see also the COVID-19 module).

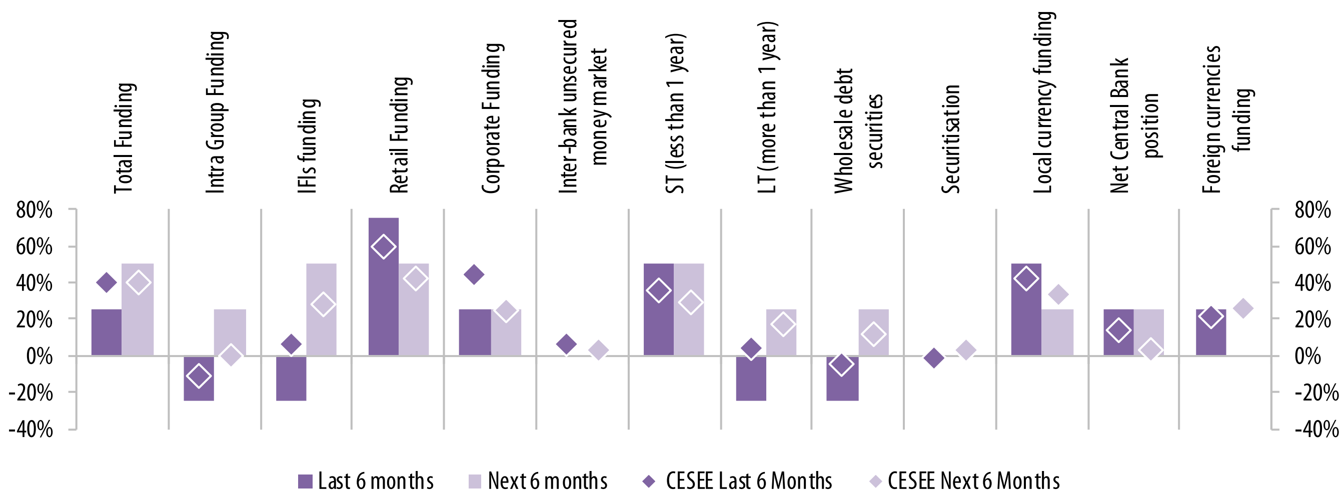


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Access to total funding for banks in Kosovo improved during the last six months, but was very diverse across categories. Retail funding and corporate funding, particularly in the short-term segment, seem to have positively influencing access to funding, while longer-term and wholesale debt securities funding, as well as intra-group and IFI funding, were contributing negatively. In the coming six months, intra group and IFI funding are expected to contribute more positively, while retail funding is also expected to remain strong. The latter is also the case for the CESEE aggregate, which should, similar as in Kosovo, still be more robust in the short-term segment.



Source: EIB – CESEE Bank Lending Survey.

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

COVID19 Special Module

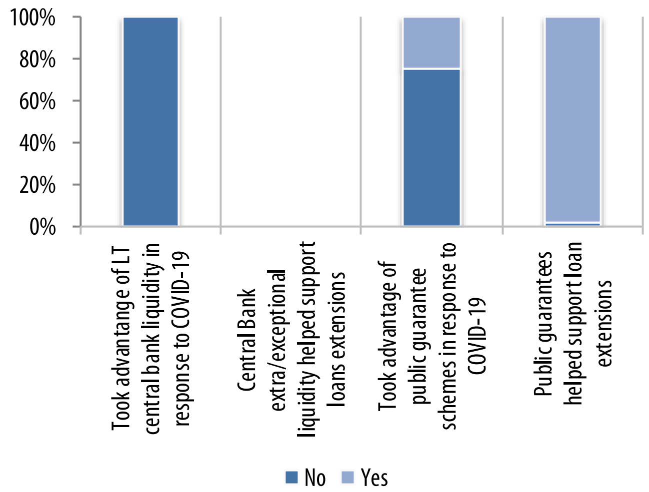
Regulatory and policy measures supporting lending

A number of measures to alleviate pressures on households, corporates and banks were undertaken by the authorities in response to the pandemic.

Among others (see also the IMF COVID-19 policy tracker), the Central Bank of Kosovo (CBK) together with the Kosovo Banking Association allowed banks to suspend payments of loan instalments for businesses and individuals for three months. This measure ended in June. The CBK also permitted banks to restructure loans for up to one year in June, with the process of applications lasted until the end of September. The CBK will apply regulatory forbearance on loan provisions and capital requirements on reprogrammed loans.

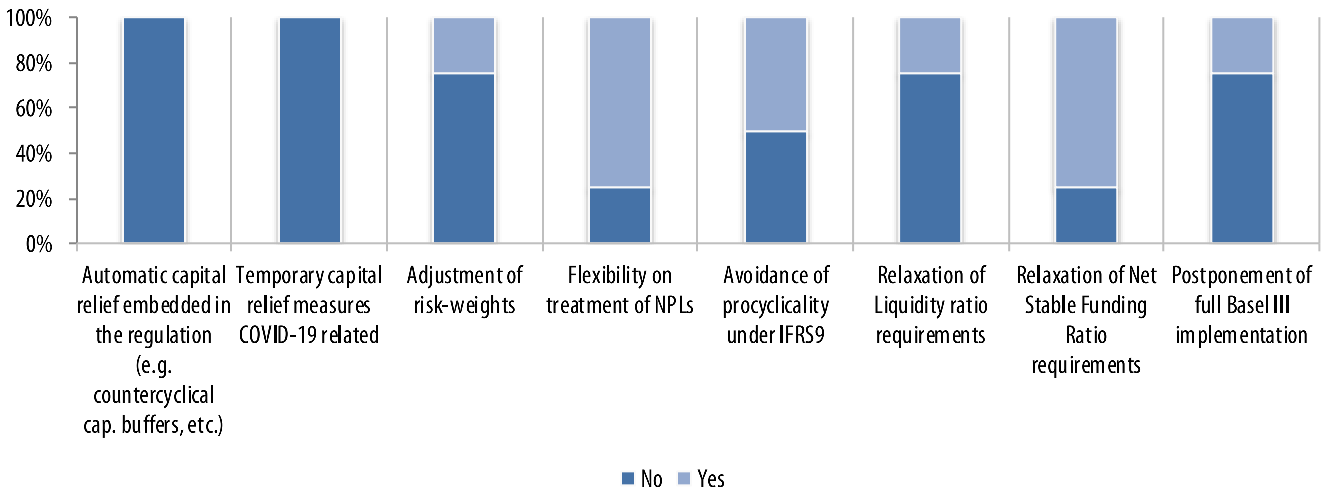
A number of fiscal measures were also undertaken, some of them in a form of loans and guarantees for affected businesses and households. These measures seem to have been utilized by a number of banks (Figures 12 and 13).

Figure 12 **Uptake and impact on lending of Central Banks liquidity facilities and government interventions in terms of public guarantees**



Source: EIB – CESEE Bank Lending Survey.

Figure 13 **Regulatory and policy measures that helped to support/maintain lending to the economy**



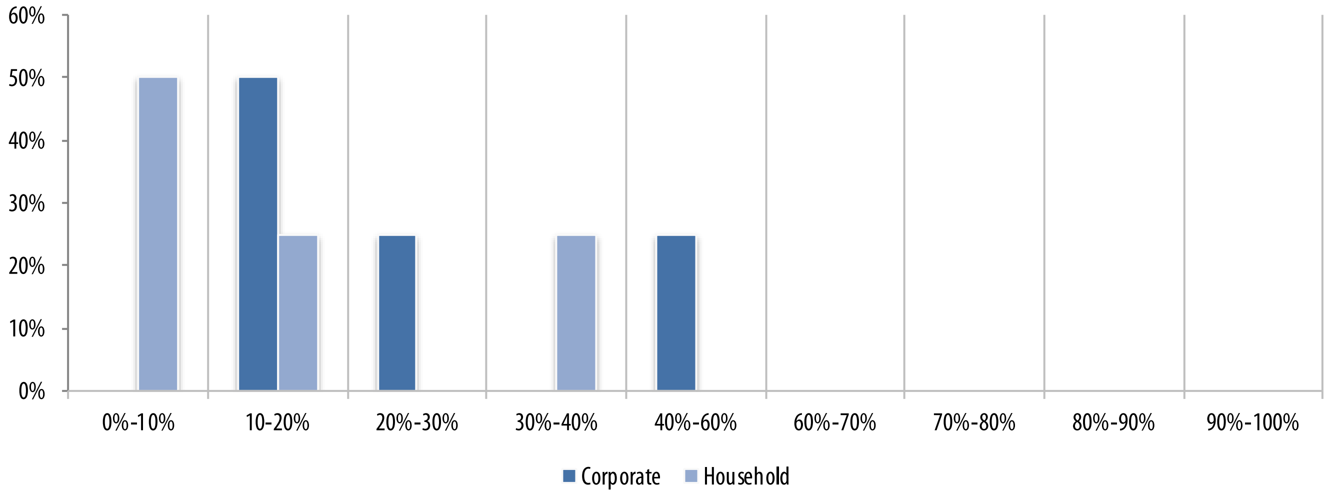
Source: EIB – CESEE Bank Lending Survey.

Note: PTI means payment-to-income ratio; LTV means Loan-to-value ratio

Moratoria incidence and uptake

The pandemic-related measure on moratoria (see also above) was utilized by banks in both segments, corporate and household, with the vast majority of banks declaring between a 0% to 20% coverage of their portfolios, while some banks reported even higher coverage (Figure 14).

Figure 14 **Percentage of your corporate/household portfolio/clients' loans**

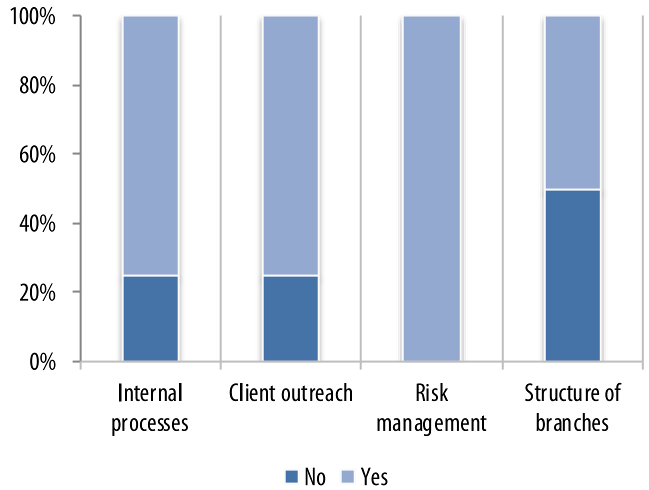


Source: EIB – CESEE Bank Lending Survey.
Note: shares are in terms of total balance sheet size

Impact on strategic priorities in terms of digitalisation

A number of banks have also speeded up their digitalization in response to the pandemic. Many of them adjusted risk management practices, digitalized internal processes or client outreach, while for some digitalisation may even affect the structure of their branches (Figure 15).

Figure 15 **Due to COVID-19 propensity to speed up digitalisation in terms of:**



Source: EIB – CESEE Bank Lending Survey.

North Macedonia

The pandemic has already had important consequences for loan demand in North Macedonia. Credit standards also tightened and loan approval rates deteriorated. Banks' response to the introduced policy measures has been adequate, while the digitalisation process advanced in the banking sector.

Summary

Group assessment of positioning and market potential: over the last six months, there was an increase in the share of parent banks that saw the market potential or market positioning in North Macedonia as high or optimal.

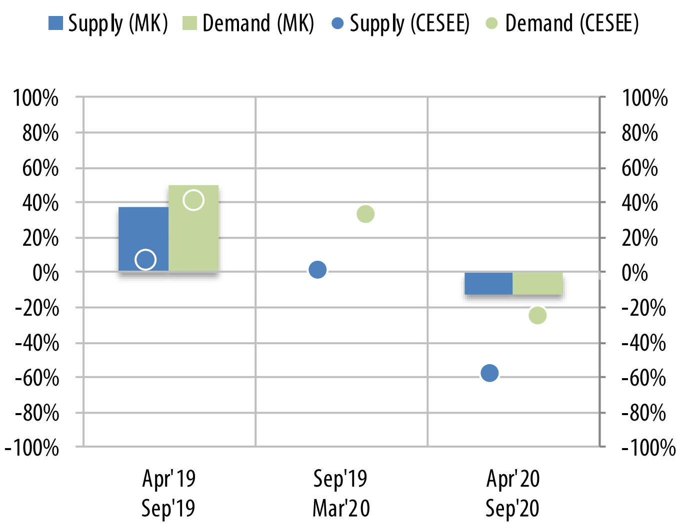
Due to the pandemic, **credit demand** started to decline in the last six months and was particularly muted for fixed investments, house purchases and consumer loans. Nevertheless, expectations for the coming six months are more optimistic and largely in line with the CESEE average.

Credit supply conditions tightened in the last six months, but by less than in the CESEE region. Following a market easing in the previous survey, credit standards tightened for practically all loan segments. Banks' overall loan approval rate also deteriorated substantially during the last six months, driven by a sharper rejection rate for SMEs.

Access to funding improved during the last six months, mainly via access to retail and corporate deposits. Looking ahead, funding is expected to improve, with similar driving forces supporting the expansion.

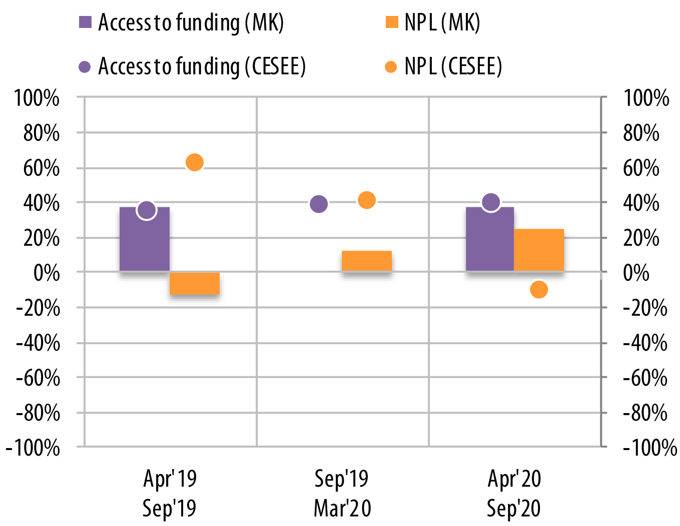
The NPL ratios decreased during the last six months in North Macedonia, while they increased and deteriorated in the CESEE on average. The improvement was driven by corporate NPL ratio, while the retail ones were already increasing. Nevertheless, banks indicate increasing NPL ratios in the coming six months across both categories, but by less than in the regional aggregate.

A number of measures have been taken to alleviate pressure on banks in response to the pandemic. The **COVID-19 module** shows that banks responded substantially to these measures and also speeded up their digitalization process.



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.

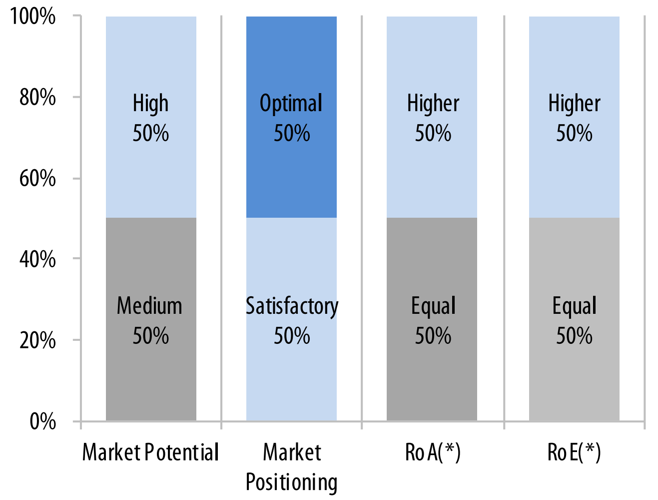
Note: All indicators in net percentages; Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

50% of the parent banking groups operating in North Macedonia regarded their current market positioning as either satisfactory or optimal. The same share of parent banks saw the market potential in North Macedonia as either medium or high.

Profitability profile also changed somewhat, with banks now expecting equal (50%) or higher (50%) RoA and RoE, compared to the overall group profitability.

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.

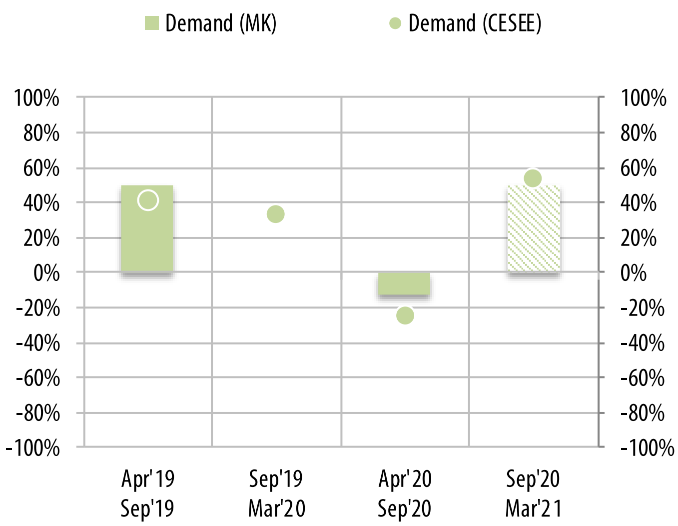
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Credit demand in North Macedonia dropped from registering net increases to becoming unchanged and even declining in the most recent period. Nevertheless, expectations for the coming six months are more optimistic and in line with the CESEE average.

The pandemic has had a strong negative impact on the economy (e.g. a 5.4% GDP drop is expected in 2020, IMF October 2020 WEO), as consumption and investment are both expected to contract sharply. In line with the survey, demand for corporate and household loans tightened as lockdown measures were introduced. Thanks to a targeted policy response (eg. direct financial assistance to firms, reduced interest rates – see the COVID-19 module) and improvement in external environment, a rebound of economic activity is foreseen in 2021 (e.g. +5.5% GDP in 2021, IMF October 2020 WEO. Consistently, demand for loans is expected to pick up in coming months.

Figure 2 Demand side developments

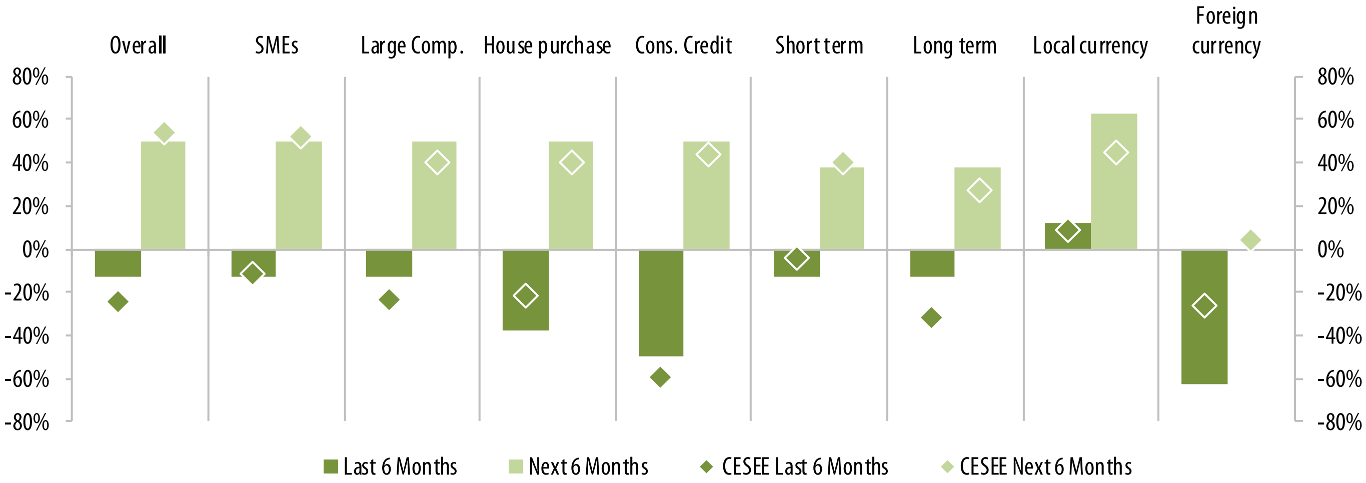


Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 Demand components and segments

Due to the pandemic and in line with the CESEE region, credit demand was contracting over a large majority of segments in the previous six months. The contraction was particularly strong for house purchases and consumer credit. As restrictions are gradually lifted and the economy recovers, credit demand is expected to pick up substantially in the coming six months.

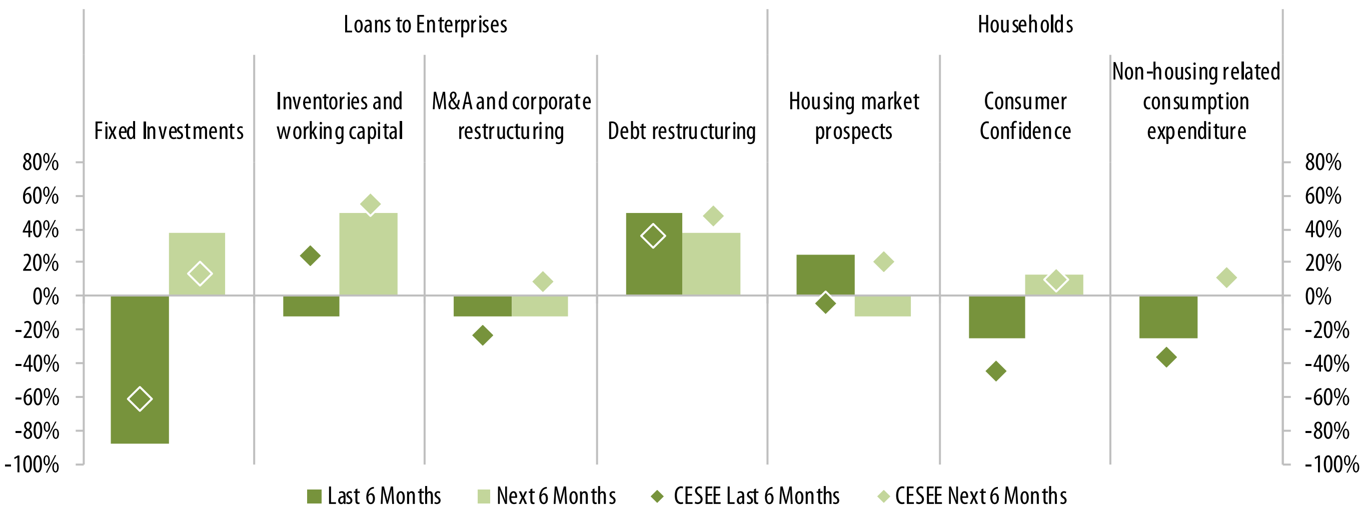


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

Business investment shrank substantially in North Macedonia in Q2 2020. Therefore, demand loans for fixed investment was also impaired. On the other hand, firms undertook measures to restructure their debt, as demand remained substantial in this category. Looking ahead, loans for fixed investment and debt restructuring, together with loans for inventories and working capital, are expected to drive demand for corporate loans, while demand from households will remain more muted.

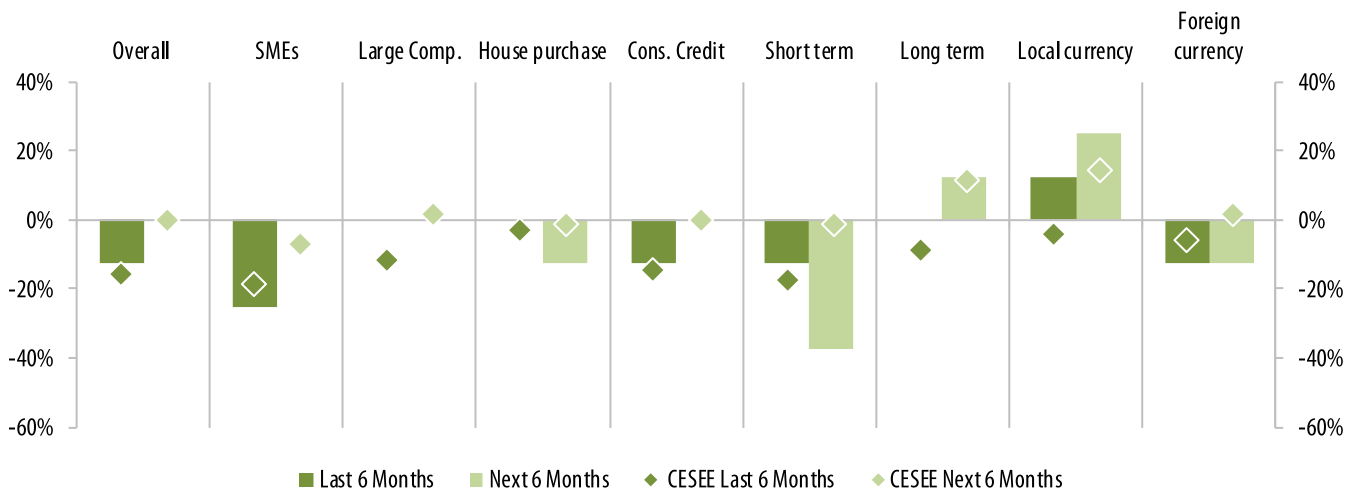


Source: EIB – CESEE Bank Lending Survey.

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

According to banks, the overall quality of loan applications deteriorated in North Macedonia, as well as in the CESEE region. The survey also shows that the quality of SMEs' loan applications was fading strongly, confirming the view that the SME segment is particularly vulnerable to the pandemic. In addition, the quality of loan applications for consumer credit also worsened, in line with the diminishing purchasing power of households. Looking ahead, banks expect the quality of loan applications to remain at the similar level over the next six months.



Source: EIB – CESEE Bank Lending Survey

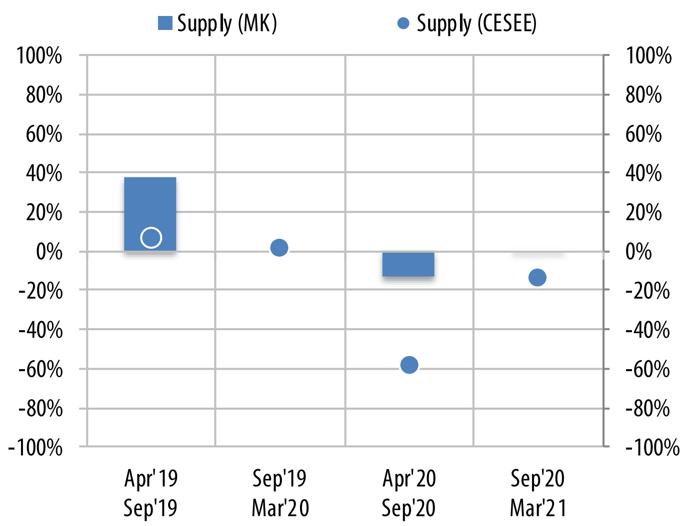
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

After remaining broadly neutral in the previous survey, credit standards in North Macedonia tightened in the last six months, but by less than in the CESEE region.

A number of policy measures introduced (see the COVID-19 module) tried to alleviate further tightening of credit standards at the start of the pandemic. Looking ahead, banks expect credit standards to remain largely unchanged in the coming months, while a milder deterioration is expected in the region.

Figure 6 **Supply developments**

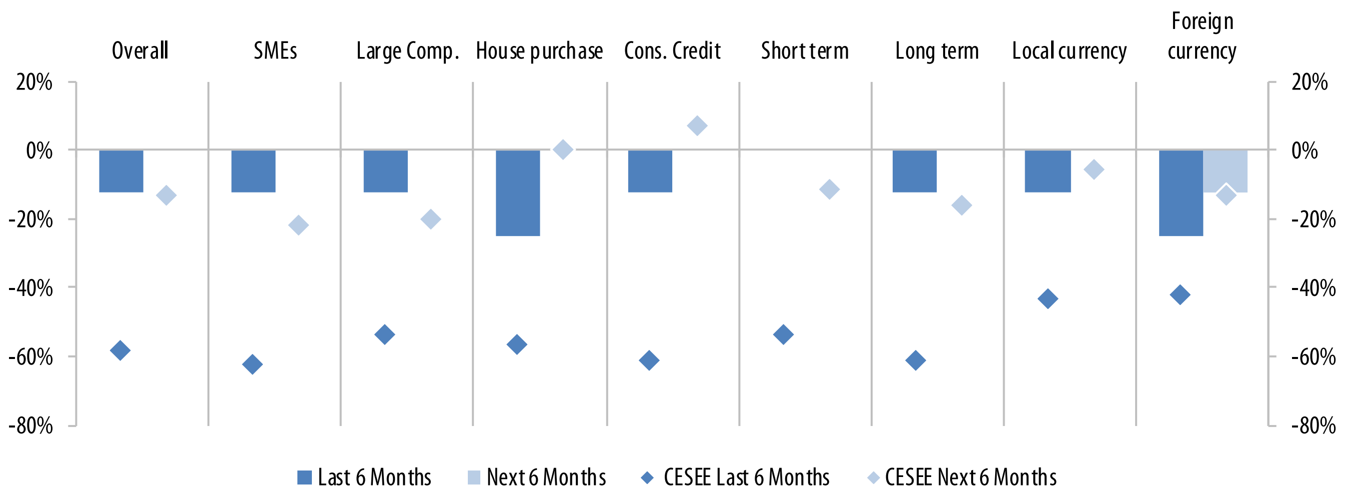


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Looking more granularly, credit standards tightened for practically all loan segments. Following a marked easing in credit standard in the previous survey, house purchase loans registered more significant tightening over the last six months. In the coming six months, credit standards are expected to remain largely unchanged across segments, with a slight deterioration among foreign currency loans. A further contraction in supply across a number of segments is foreseen at the regional level.



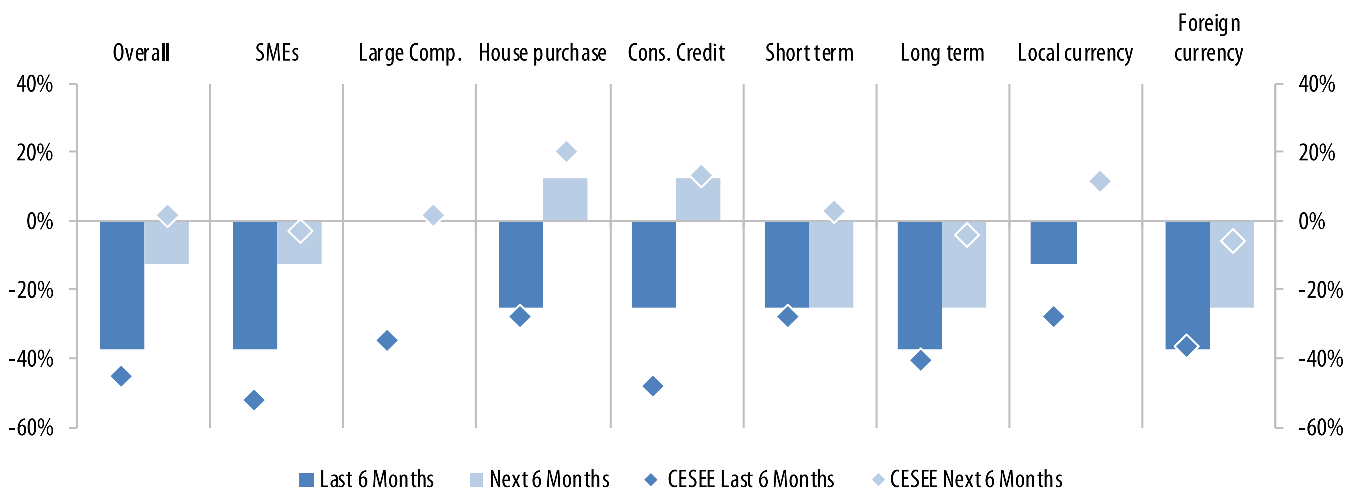
Source: EIB – CESEE Bank Lending Survey

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

Banks' overall loan approval rates in North Macedonia deteriorated substantially during the last six months, driven by a sharper rejection rate for SMEs. Deterioration was, however, below the CESEE average across a large number of categories. While the approval rate for large corporations remained broadly unchanged, it worsened similarly for house purchases and consumer credit, and more strongly for longer maturities and for loans in foreign currency.

The approval rates are expected to deteriorate further in the next six months, mostly for SMEs, while they are expected to improve for households.

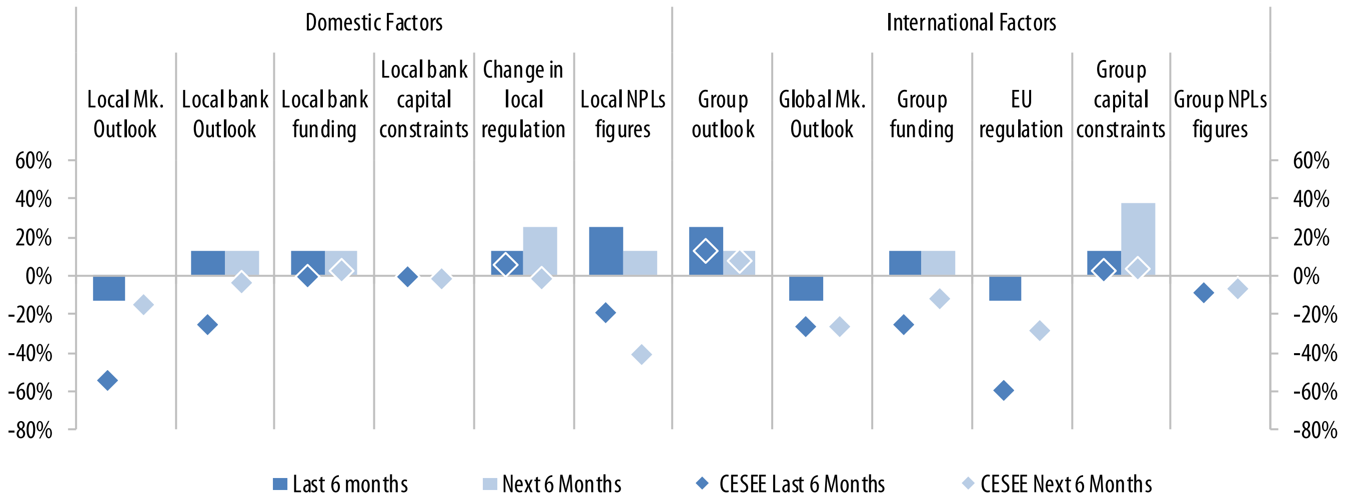


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 **Factors contributing to supply conditions**

In the previous six months, negative supply conditions were impacted mostly by local and global market outlook, while the EU regulation was also a significant factor. These factors were, however, less pronounced than in the CESEE region. On the other hand, local bank funding and outlook, as well as the change in local regulation and local NPL figures, were among major softening factors. Looking at the international factors, group outlook was contributing most positively to supply. Looking ahead, group capital constraints among the international factors and change in the local regulation among the domestic factors, should positively impact the supply conditions in the coming six months.



Source: EIB – CESEE Bank Lending Survey.

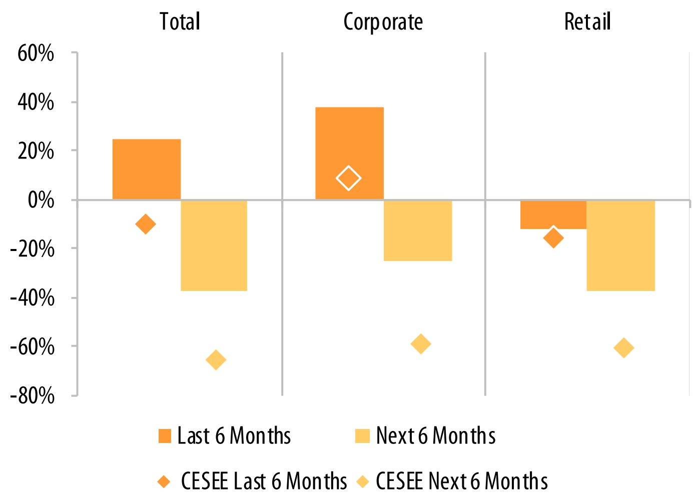
Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

As in the previous survey, the total NPL ratio improved over the last six months, while it deteriorated in the CESEE aggregate. The improvement was driven by corporate NPL ratio, while retail NPL ratios were already increasing in North Macedonia over the last six months.

In the context of the pandemic, the National Bank of the Republic of North Macedonia took policy measures and relaxed the loan classification standards for NPLs (extension of time period to classify a loan as NPL from 90 to 150 days, by end-September). It also announced three- to six-month loan payment deferral, which combined had an impact on NPL ratios (see also the COVID-19 module).

This is also reflected in the survey, as banks indicate increasing NPL ratios in the coming six months for both categories of loans, but by less than in the regional aggregate.

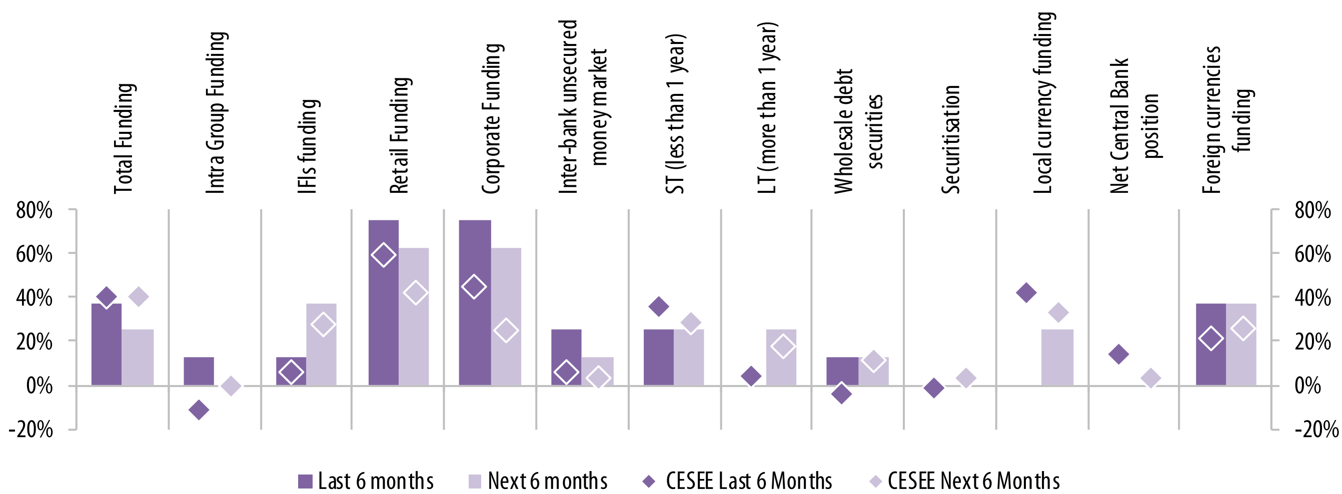


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Access to total funding improved in North Macedonia during the last six months, with some divergence within the subgroups. Access to retail and corporate deposits improved again significantly in the last six months. Across maturities and currencies, short-term and foreign-currency funding was increasing. Looking ahead, access to funding is expected to improve in the coming six months, with similar driving forces.



Source: EIB – CESEE Bank Lending Survey.

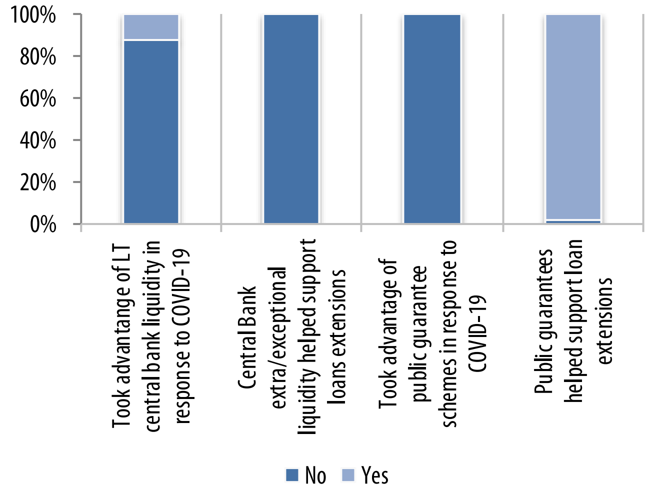
Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

COVID19 Special Module

Regulatory and policy measures supporting lending

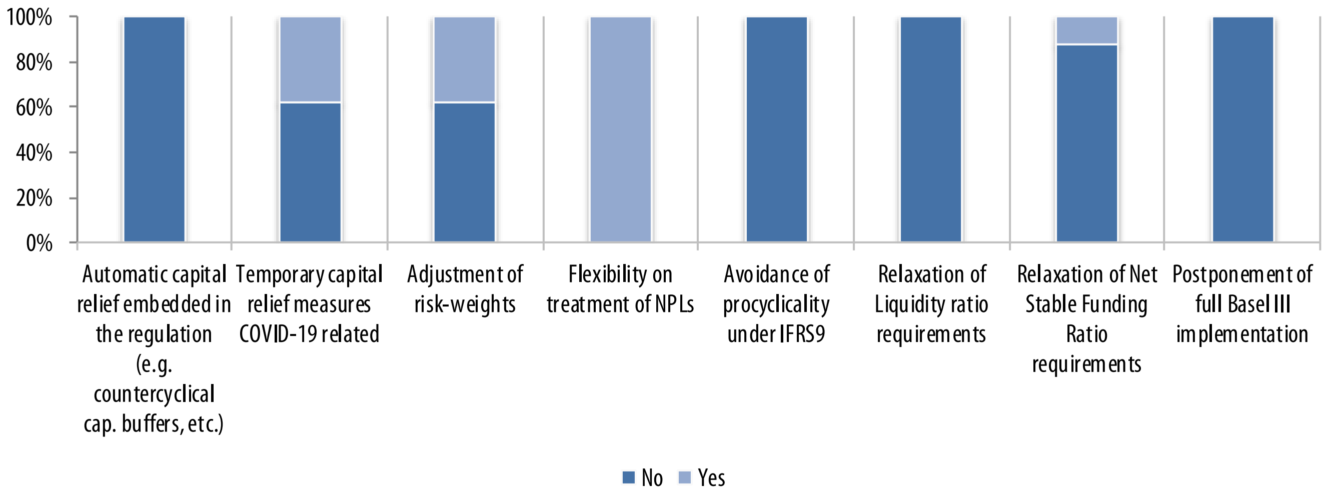
A number of measures were undertaken to alleviate pressure on economic agents in response to the pandemic. The National Bank of the Republic of North Macedonia (NBRNM) cut its policy rate by a cumulative 50 basis points to 1.5%. It also set up repo line with the ECB (open until June 2021) that will provide access to liquidity assets of up to EUR 400m . To guarantee additional liquidity, the NBRNM also reduced by 60% the amount of CB bills offered to banks and revised its credit risk regulation to encourage banks to restructure loans temporarily (now extended through March 2021). In addition, it relaxed the loan classification standards for NPLs and eliminated fees for some activities. It also reduced the base for the reserve requirement by the amount of new loans to firms in affected sectors etc. Some of these measures were utilized substantially by banks (Figures 12 and 13). The Development Bank of North Macedonia offered direct financial assistance to firms, offering loans at zero interest rate and soft loans at low interest rate through commercial banks. On the fiscal front, guarantees and sector-specific support was also undertaken among other measures (see also the IMF COVID-19 policy tracker).

Figure 12 **Uptake and impact on lending of Central Banks liquidity facilities and government interventions in terms of public guarantees**



Source: EIB – CESEE Bank Lending Survey.

Figure 13 **Regulatory and policy measures that helped to support/maintain lending to the economy**



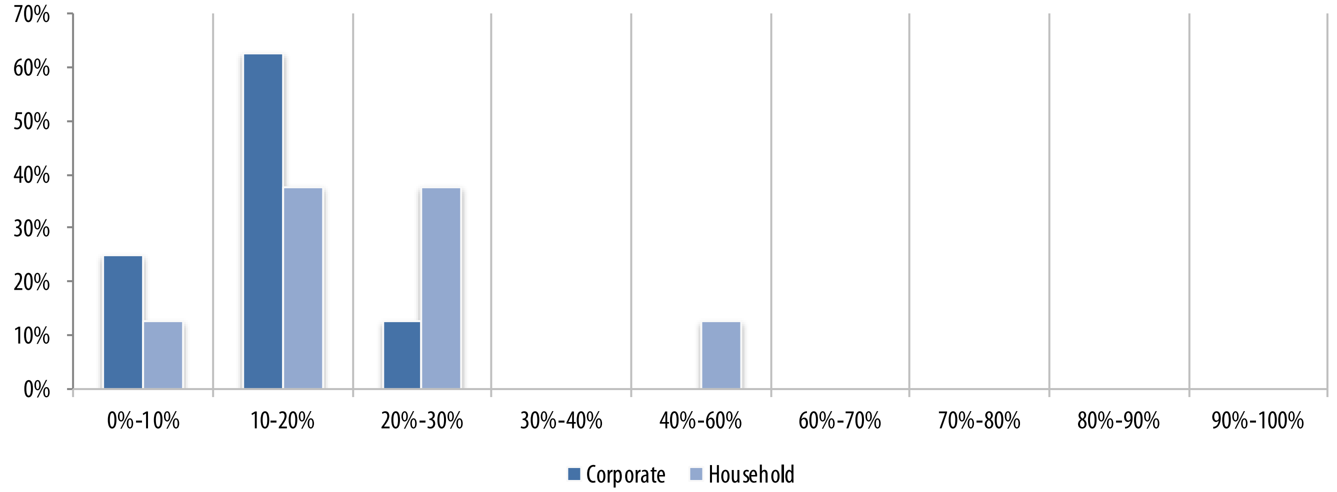
Source: EIB – CESEE Bank Lending Survey.

Note: PTI means payment-to-income ratio; LTV means Loan-to-value ratio

Moratoria incidence and uptake

Among the most important measures were the loan repayment moratorium and the loan reclassification moratorium (see above). Both measures seem to have already been deployed by banks with the vast majority of banks declaring a 10% to 20% coverage of their portfolios (Figure 14).

Figure 14 **Percentage of your corporate/household portfolio/clients' loans**

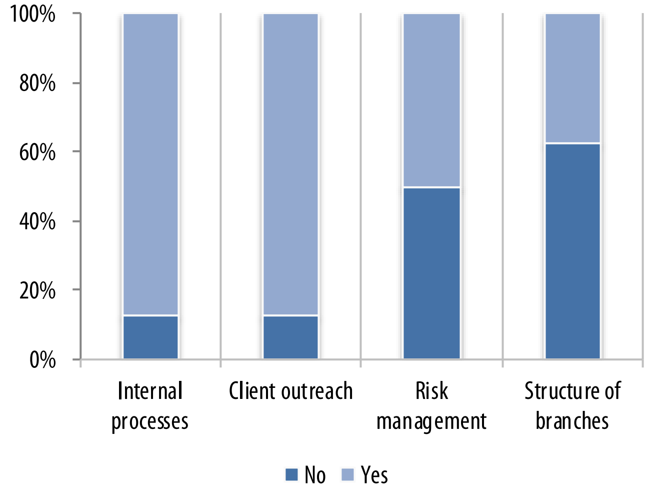


Source: EIB – CESEE Bank Lending Survey.
Note: shares are in terms of total balance sheet size

Impact on strategic priorities in terms of digitalisation

The digitalisation process of the banking sector in North Macedonia seem to have also advanced promptly in response to the pandemic. 90% of bank speeded up their internal processes and client outreach, while 50% of them adjusted and automated risk management practices.

Figure 15 **Due to COVID-19 propensity to speed up digitalisation in terms of:**



Source: EIB – CESEE Bank Lending Survey.

Poland

As COVID-19 hit the CESEE region, the Polish banking market has shown severely declining credit demand and deteriorating supply conditions. For the upcoming half-year, banks expect a partial recovery of demand, unchanged supply conditions, and a worsening of NPLs

Summary

Group assessment of positioning and market potential: Parent banks operating in Poland show commitment towards the region, but they hold heterogeneous views on the potential of the Polish market. Their views also diverge about their current market positioning and their assessment of risk-adjusted returns relative to the regional peers.

Polish banks report that **credit demand** has deteriorated markedly since the beginning of the COVID-19 outbreak, and **supply conditions** have also become significantly tighter than before.

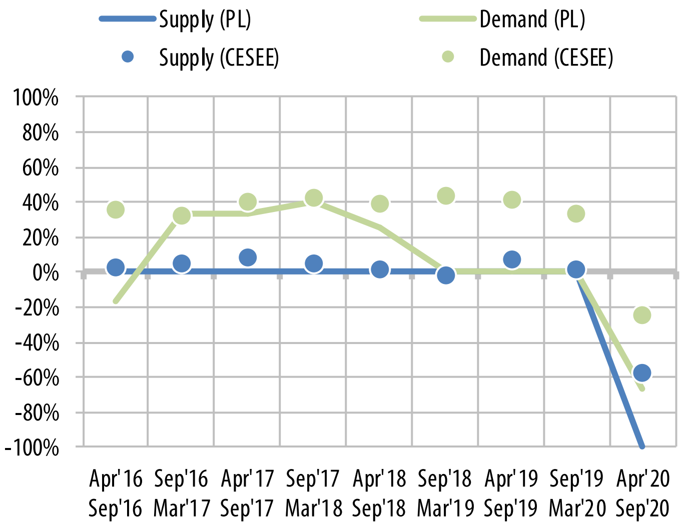
Credit supply: A marked and uniform tightening in credit supply conditions took place in Poland in the last six months. Looking ahead, Polish banks expect overall credit supply to remain broadly unchanged in the coming months.

Credit demand: Credit demand decelerated uniformly across all segments, and the decline exceeds the CESEE average. Looking ahead, Polish banks are expecting the credit demand to rebound in the next quarter

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

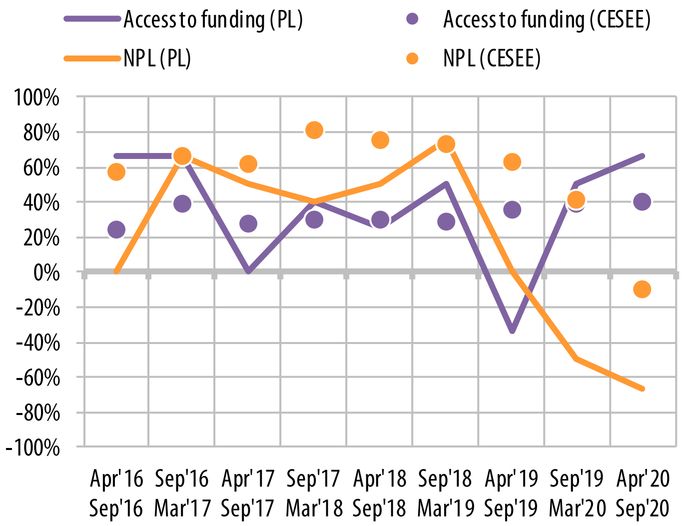
NPLs have been described as deteriorating in the retail segments, and are expected to increase further in all segments in the next six months.

COVID-19 measures: Polish banks find that guarantee programmes, together with the relaxation of liquidity ratios and the automatic capital relief measures have been the most helpful public policy measures to maintain credit during the pandemic shock. Moratoria affects only a small share of the banks' credit portfolios. Banks are speeding up the implementation of their digitalisation strategies.



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.

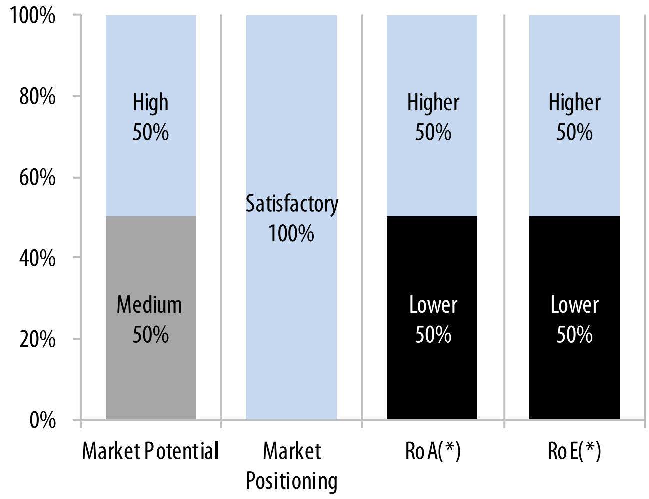
Note: All indicators in net percentages; Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Poland show commitment towards the region and planned to maintain their regional operations at their current level. They consider their market positioning as satisfactory.

However, parent banks have somewhat heterogeneous views on the Polish market's strategic outlook within the CESEE region, with views split equally between high and medium potential. Views are even more divergent about the relative profitability (measured as return on equity and return on assets) of Polish operations compared to 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.

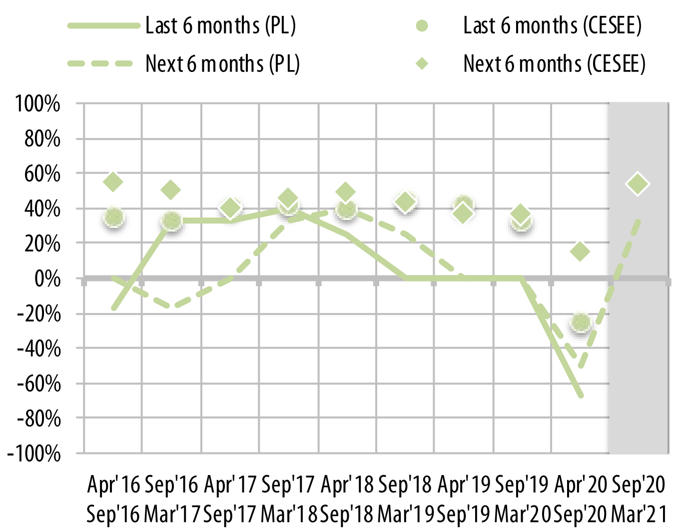
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Credit demand in Poland declined sharply over the last six months as the effects of the COVID-19 lockdown hit the economy. While credit dynamics were falling throughout the CESEE region, the Polish market has been showing an even more pronounced deceleration. The fall in credit demand was broadly in line with the banks' own expectations formed in March 2020 during the initial phase of the outbreak.

Looking ahead, Polish banks are expecting the credit demand to rebound in the next quarter, in line with the rest of the CESEE (Figure 2).

Figure 2 Demand side developments

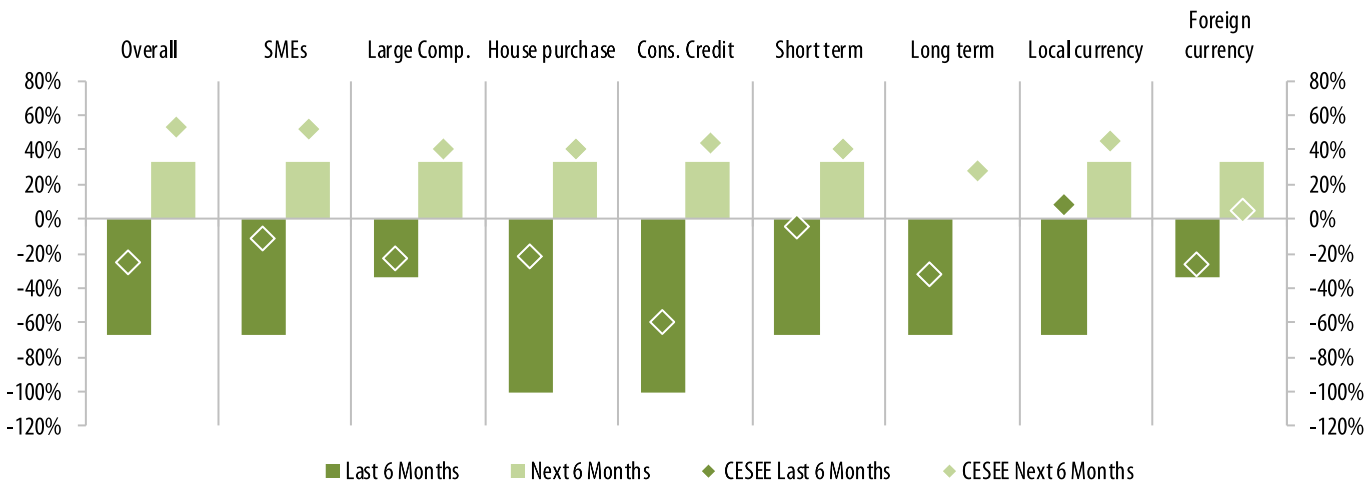


Source: EIB – CESEE Bank Lending Survey.

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

Credit demand decelerated uniformly across all segments, and the decline exceeds the CESEE average across the board. The fall in demand is somewhat more pronounced for the household segment, whereas it is relatively muted for large corporates. (Figure 3). Looking ahead, banks expect a partial recovery of demand for loans in the next 6 months in all business areas.

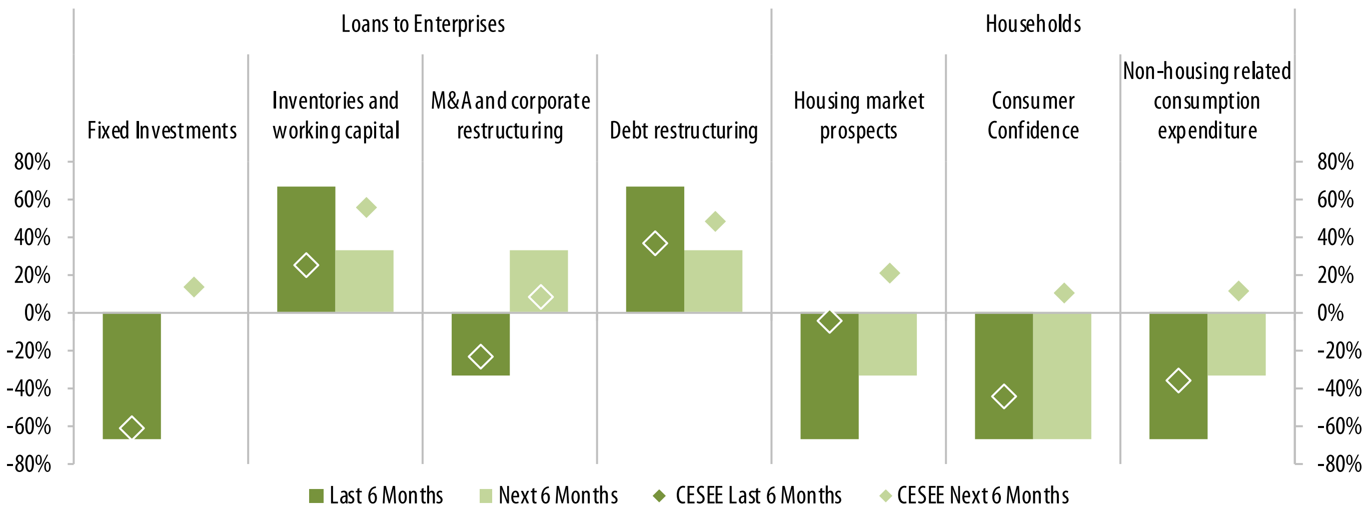


Source: EIB – CESEE Bank Lending Survey.

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, consumption expenditure prospects and housing market outlook all deteriorated in the last six months, thus moderating credit demand from the households' side. As for the corporates, investment demand an mergers had a negative influence, while working capital needs and debt restructuring had a minor positive impact on demand (Figure 4). The pattern of the various factors is in line with the overall CESEE picture. Looking ahead, improvement is expected on the corporate side, but the factors affecting households' credit demand are projected to put a brake on retail borrowing in the next six months.

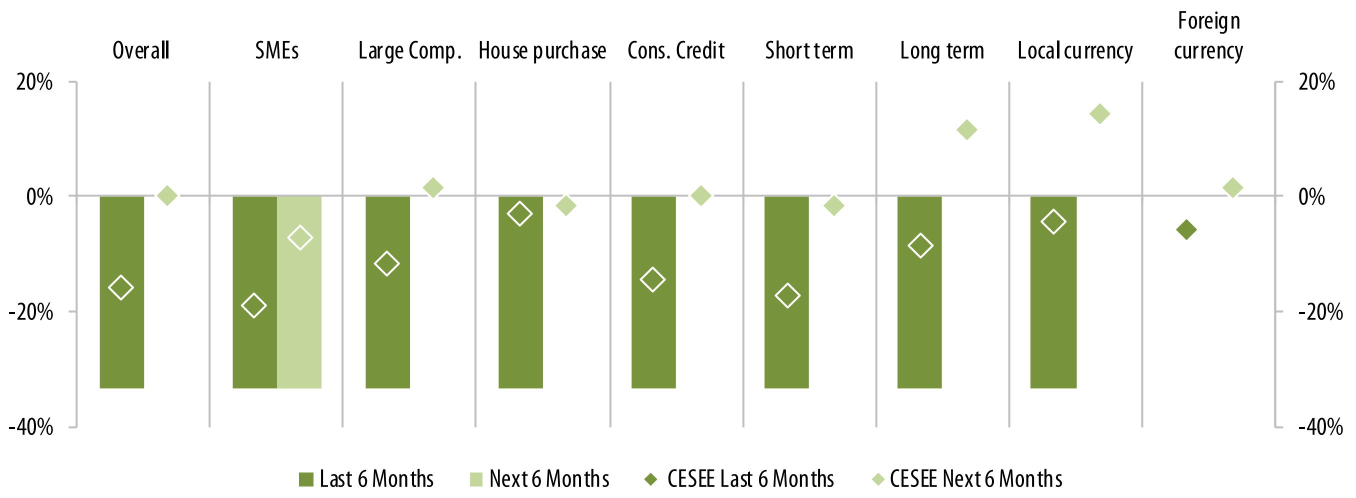


Source: EIB – CESEE Bank Lending Survey.

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 quality of loan applications were deteriorating sharply in all segments covered by the survey. Further worsening is expected only for SMEs – potentially as a reflection of the possible phase-out of some COVID-19 related emergency measures to companies. Elsewhere in the CESEE region, banks also reported deterioration in the quality of loan applications, but to somewhat smaller extent (Figure 5).



Source: EIB – CESEE Bank Lending Survey

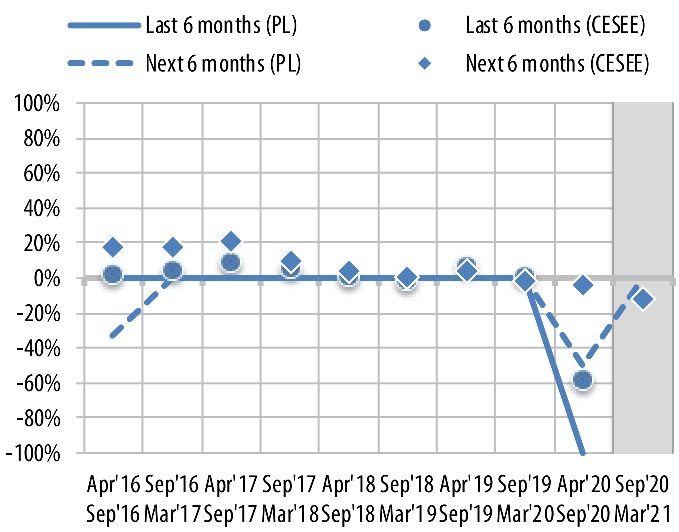
Note: Net percentages - positive figures refer to increasing of quality demand. Full question see B.Q6 in the Annex

Aggregate supply developments

A marked and uniform tightening in credit supply conditions took place in Poland in the last six months. This was in line with the overall tightening in the CESEE region, but yet more pronounced. The reduction in credit supply also exceeded the banks' own expectations formulated six months ago – at the early phase of the COVID-19 outbreak.

Looking ahead, Polish banks expect overall credit supply to remain broadly unchanged in the coming months.

Figure 6 Supply developments

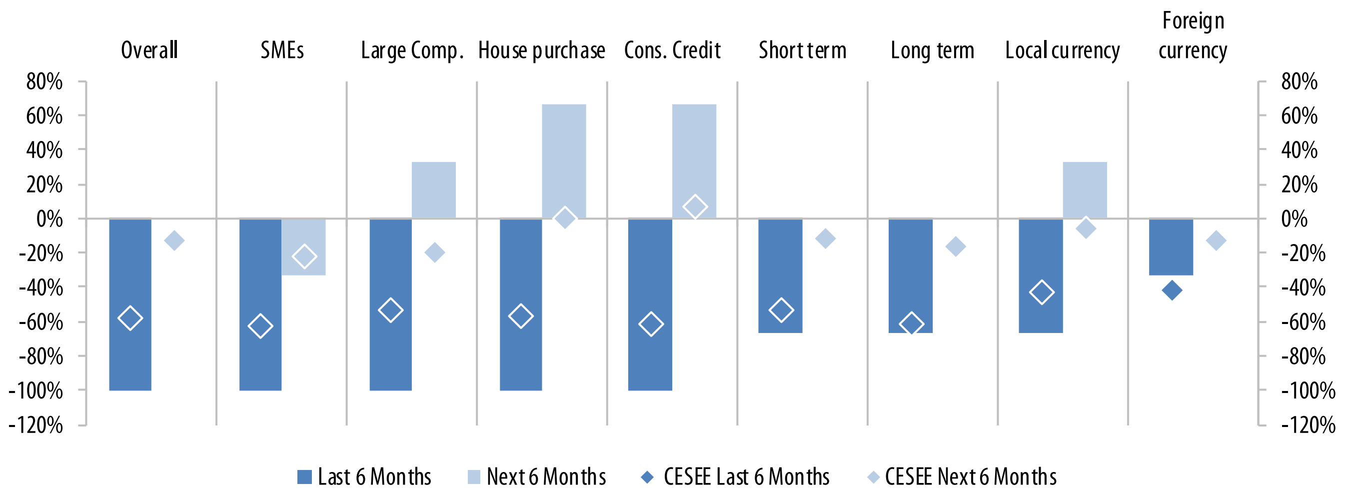


Source: EIB – CESEE Bank Lending Survey.

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

Credit demand fell sharply in all business segments. Banks expect credit supply conditions towards households to improve in the next six months. However, no such improvement is projected for the corporate sector. On the contrary, SMEs may face even tighter conditions in the future, possibly as a result of the eventual phase-out of public credit support measures (Figure 7).

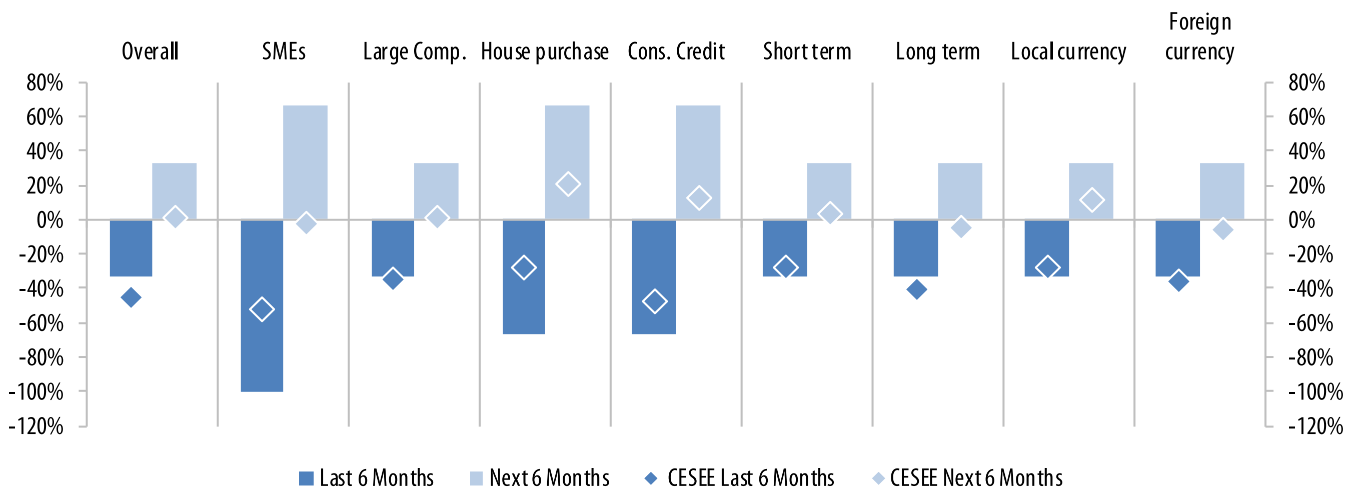


Source: EIB – CESEE Bank Lending Survey

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 declining in all segments, especially in retail business lines (SMEs and households). The picture is in line with other CESEE markets. Banks project improvements in loan approvals in the upcoming period (Figure 8).

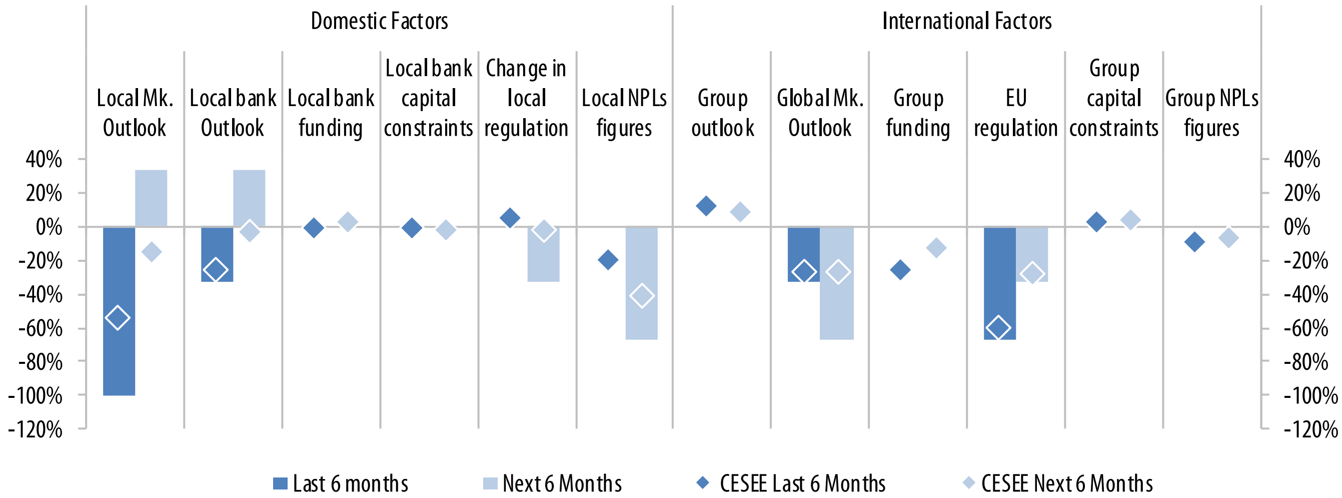


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 **Factors contributing to supply conditions**

According to Polish banks, the sharply deteriorating credit supply conditions experienced over the last six months are due to the worsening of local and global market outlook, worse local banking outlook, and changes in the EU regulations. For the next six month, they expect improvements in the local outlook, but a negative influence from local regulations, NPLs and some international factors (Figure 9).



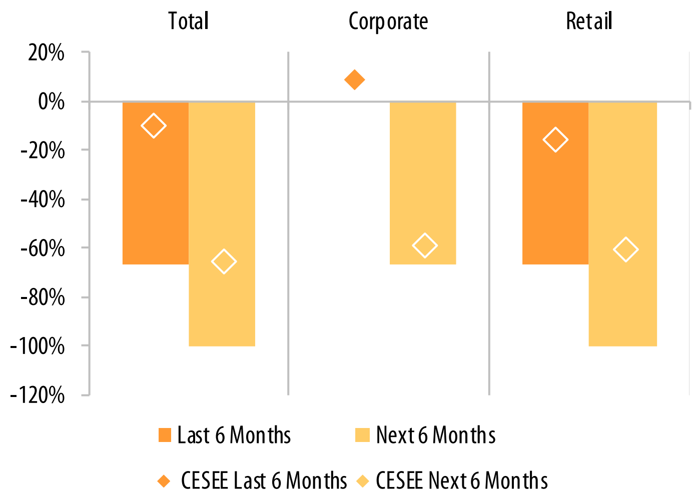
Source: EIB – CESEE Bank Lending Survey.

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

According to the banks' own perceptions, NPL ratios in Poland have been deteriorating in the last six months. This deterioration was so far confined to the retail segment, and has not yet affected the corporate loan portfolio (Figure 10).

Further deterioration of the credit quality is expected over the next six months, affecting both corporate clients as well as the household segment.

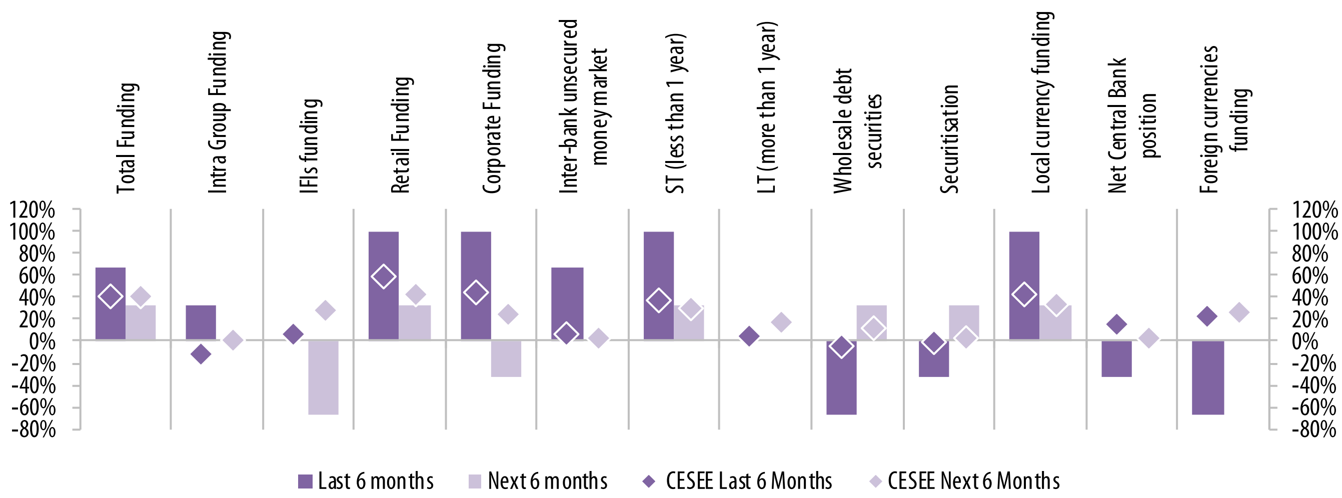


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Polish banks' total access to funding has improved somewhat in the last six months. Better funding conditions were reported in the retail, corporate and interbank funding segments, while funding from international financial institutions, securitisation and central bank instruments have decreased (Figure 11).



Source: EIB – CESEE Bank Lending Survey.

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

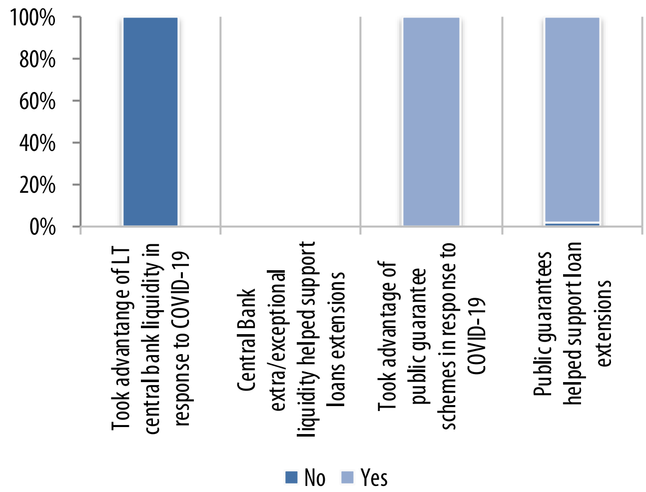
COVID19 Special Module

Regulatory and policy measures supporting lending

All Polish respondents to the survey took advantage of public guarantee schemes as a response to the COVID-19 crisis. They also believe that the guarantee programmes helped to support access to credit (Figure 12). The respondents have not actively sought emergency central bank liquidity facilities over the last months.

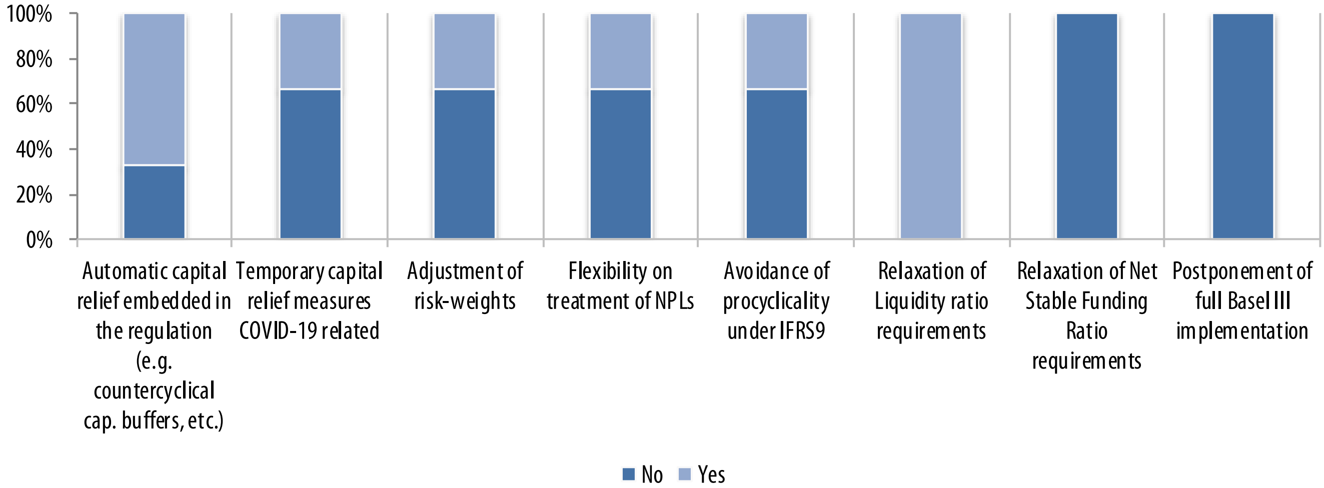
When it comes to regulatory measures, banks believe that the relaxation of liquidity ratio requirements, together with automatic capital relief rules were the most useful in supporting credit flow to the economy (Figure 13).

Figure 12 Uptake and impact on lending of Central Banks liquidity facilities and government interventions in terms of public guarantees



Source: EIB – CESEE Bank Lending Survey.

Figure 13 Regulatory and policy measures that helped to support/maintain lending to the economy



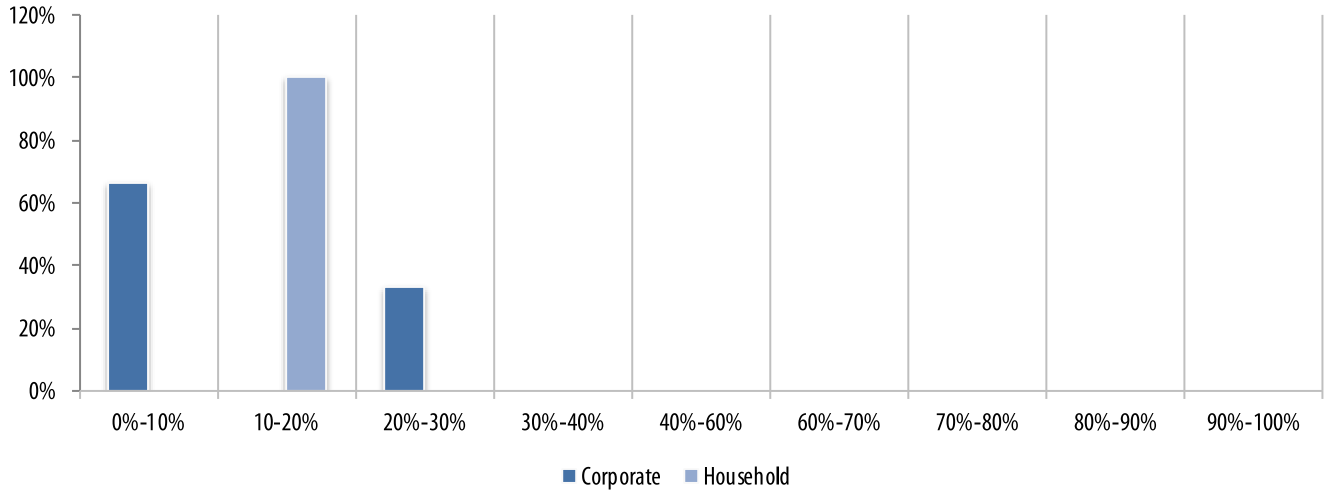
Source: EIB – CESEE Bank Lending Survey.

Note: PTI means payment-to-income ratio; LTV means Loan-to-value ratio

Moratoria incidence and uptake

Polish banks' portfolios are not much influenced by loan moratoria. In both segments the affected share of the portfolio are below 20 per cent.

Figure 14 **Percentage of your corporate/household portfolio/clients' loans**

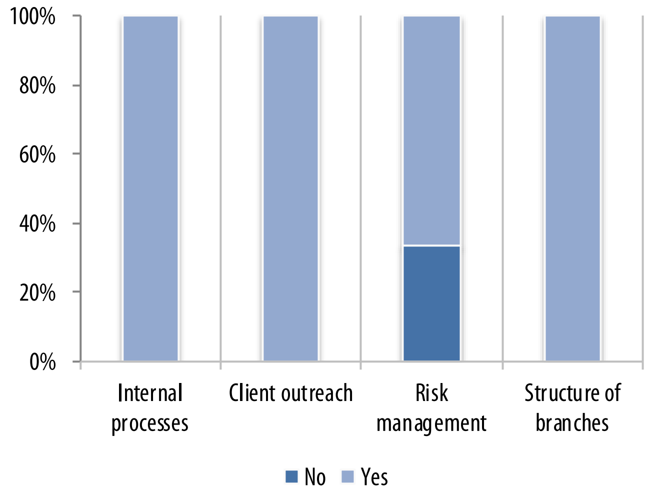


Source: EIB – CESEE Bank Lending Survey.
Note: shares are in terms of total balance sheet size

Impact on strategic priorities in terms of digitalisation

As a response to the COVID-19 shock and the subsequent measures, Polish banks are speeding up the implementation of their digitalisation strategies in all business segments.

Figure 15 **Due to COVID-19 propensity to speed up digitalisation in terms of:**



Source: EIB – CESEE Bank Lending Survey.

Romania

COVID-19 took its toll on credit developments. Supply conditions tightened and demand decreased. NPLs stopped their multi-year declining trend.

Summary

Group assessment of positioning and market potential: roughly 60 percent of the parent banks considered Romania a market with high potential. While fewer than previously, this was still the second highest score among the CESEE countries. Assessment of market positioning remained divided with about 60 percent considering positioning satisfactory or optimal but also 30 percent describing a weak positioning. Still most respondents found profitability higher or equal in Romania compared to group operations.

Credit demand has dropped over the past six months in line with the regional trend. This was driven by developments in the household segment and large corporations.

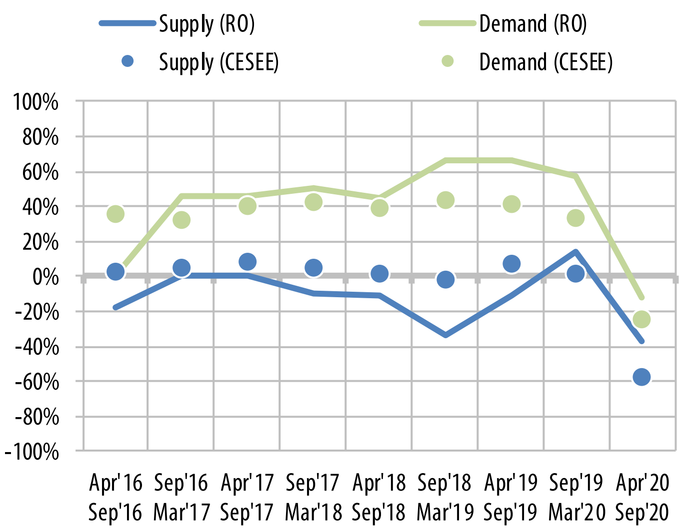
Credit supply tightened in the past six months. Tightening of credit standards affected the household and the corporate segments.

Access to funding has improved on balance over the last six months, in line with the regional development. Both retail and corporate funding contributed to improvements.

NPL figures had stopped their multi-year declining trend, starting to point at an increase over the past six months.

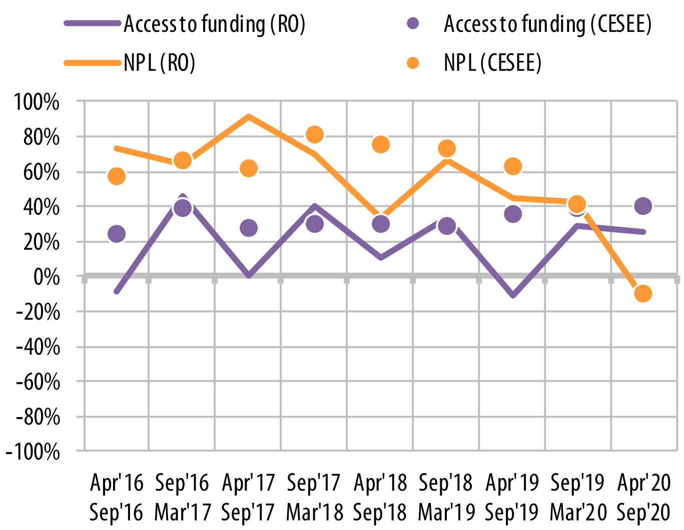
Covid-19 measures: Most regulatory and policy measures for banks aimed at supporting lending are also viewed favourably with changes to risk weight adjustments and relaxation of liquidity ratio requirements considered most important to support lending activity. The guarantees put in place have helped to provide loan extensions according to local banks and the majority of responding institutions took advantage of public guarantee schemes aimed to mitigate the impact of the pandemic. Focusing on the longer-term impact of COVID-19, banks clearly expect the pandemic to boost digitalisation of their activities.

Loan Moratoria: Moratoria on interest payments and capital repayments affect up to 20% of Romanian banks' corporate portfolios and around 10-20% of the household portfolio in most banks.



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

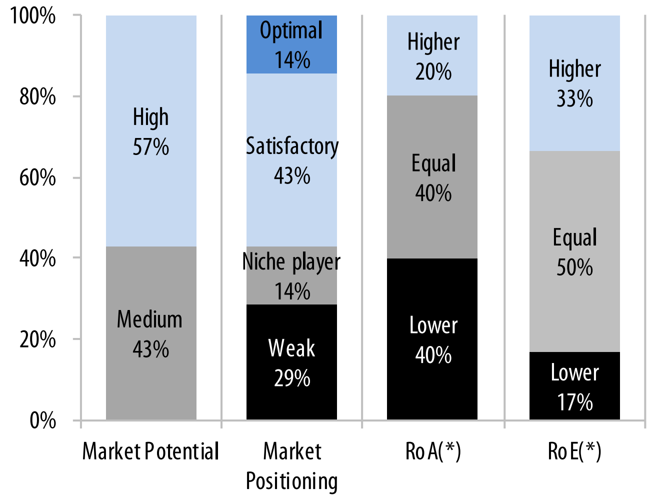
Results of the Bank Lending Survey – Parent banks level

Views on market potential and profitability in Romania cooled compared to the last wave of the survey. Exactly one third of parent banks reported higher RoE on domestic operations compared to overall group results and 20 percent report higher RoA (H1 2020 50 percent and 38 percent). Most banks saw profitability as on par with the region. The share of banks reporting lower returns on equity slightly decreased (H1 2020 25 percent) and a similar share expects lower returns on assets (H1 2020 38 percent).

Views on market positioning appear more confident but show divisions among competitors. 57 percent reported satisfactory or better market positioning (H1 2020 50 percent). The share of those with optimal position increased while fewer reported a weak positioning (H1 2020 10 percent and 40 percent).

Fewer banks than before view Romania as a market with high potential (H1 2020 70 percent) but it continues to have the 2nd best market assessment in relative terms across the region.

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

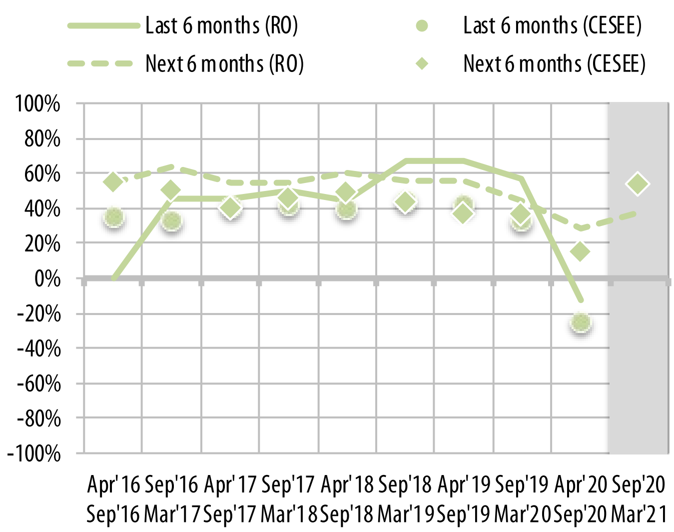
Credit demand in Romania dropped sharply over the last six months. The Autumn 2020 wave marks the strongest drop since the start of the survey.

Credit demand recovery before the COVID shock had lagged behind the economic cycle, with growing demand for loans only showing up at the end of 2016. Credit growth for corporates and households slowed notably compared to 2019.

Against this backdrop, credit to households continued to grow faster than for corporates (households: Q1-Q3 2020 + 3.6 percent, 2019 + 5.9 percent; corporates: Q1-Q3 2020 + 2.3 percent + 5.1 percent).

For the next six months, while not in a position to foresee the further development of the COVID-19 pandemic, banks expect weaker dynamics than prior to the COVID-19 shock. Persistent liquidity needs, policy support measures and hopes for the recovery to come may work to support demand. These include a higher allotment and guarantees for working capital and investment SME loans and the announcement of a stimulus package in summer.

Figure 2 **Demand side developments**

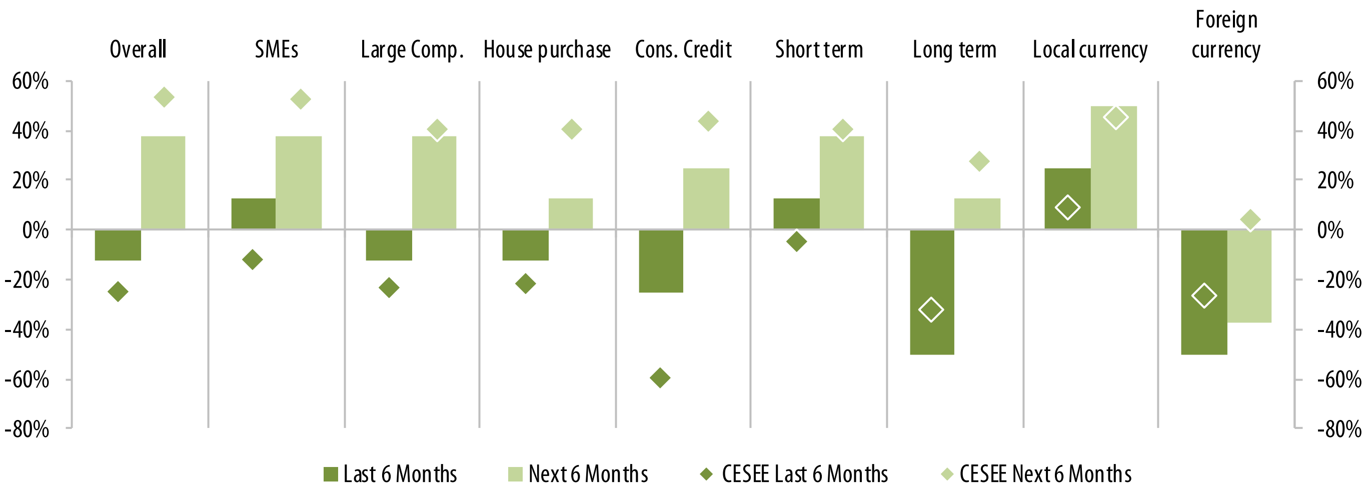


Source: EIB – CESEE Bank Lending Survey.

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 decreased on balance in the last six months. Demand for house purchases and consumer credit weakened against the background of higher economic uncertainty for many households due to the pandemic. On the corporate side, SMEs, often with smaller financial buffers and potential need for support, show an increase in credit demand. In contrast, demand by large corporates weakened. Demand for long-term financing, i.e. related to investment, dropped sharply and more than the regional average. Appetite for funds in foreign currency fell strongly. In contrast, demand for loans in local currency held up and remained positive on balance. Looking ahead, banks expect improvements in particular for the corporate segment.

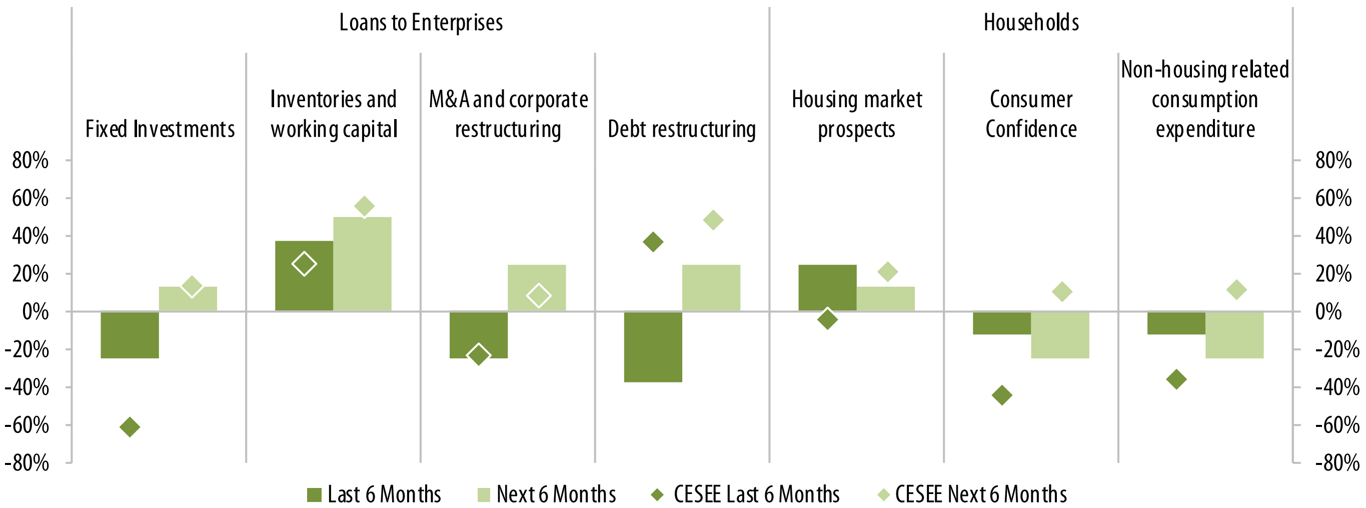


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

The drops in demand for the corporate segment over the last six months show across all loan categories with the exception of inventories and working capital. The contributions of all other activities turned negative compared to the last wave. In the household segment, housing continued to make a positive contribution to demand while consumer confidence and non-housing related expenditure weakened. Overall, assessments for the household sector in Romania for the last six months have been more positive than for regional peers contrasting with developments expected.

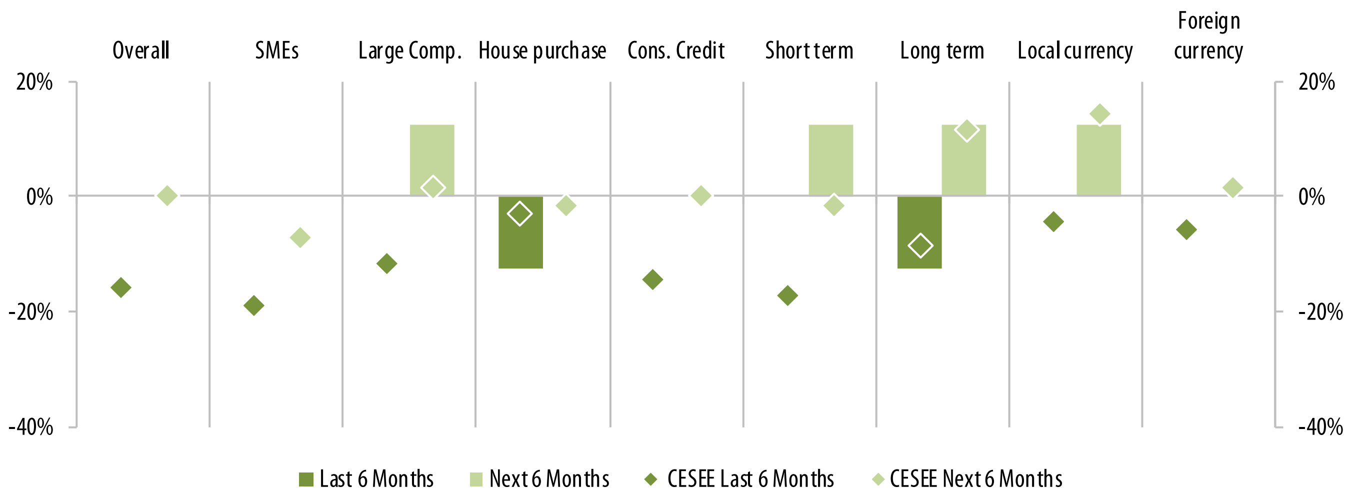


Source: EIB – CESEE Bank Lending Survey.

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 quality of loan applications in Romania has deteriorated only marginally over the last 6 months. A weaker quality of applications is reported for mortgages and long-term maturity loans.



Source: EIB – CESEE Bank Lending Survey

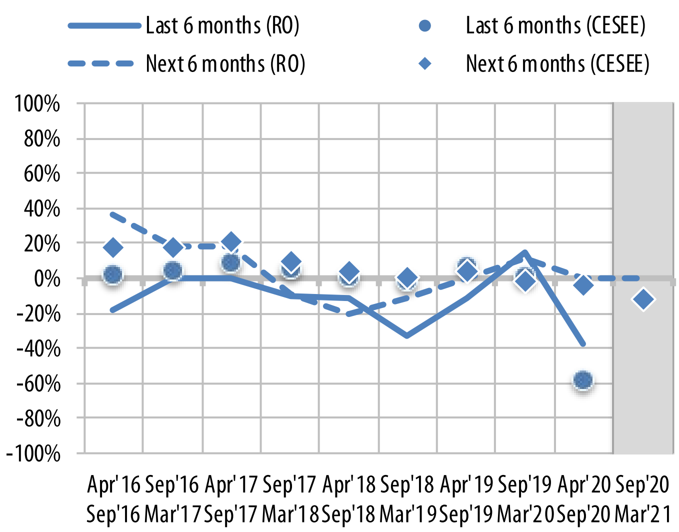
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit supply conditions sharply tightened in Romania and across the region. The change recorded for the last six months marks the sharpest move in supply conditions of banks in Romania and in CESEE since the start of the survey.

In Romania, credit standards have tightened on a cumulative basis since 2015 – having contrasted for a prolonged period with expectations. Banks had started to revise their outlook downward since 2017, also reflecting moves towards monetary tightening prior to 2020.

Figure 6 Supply developments

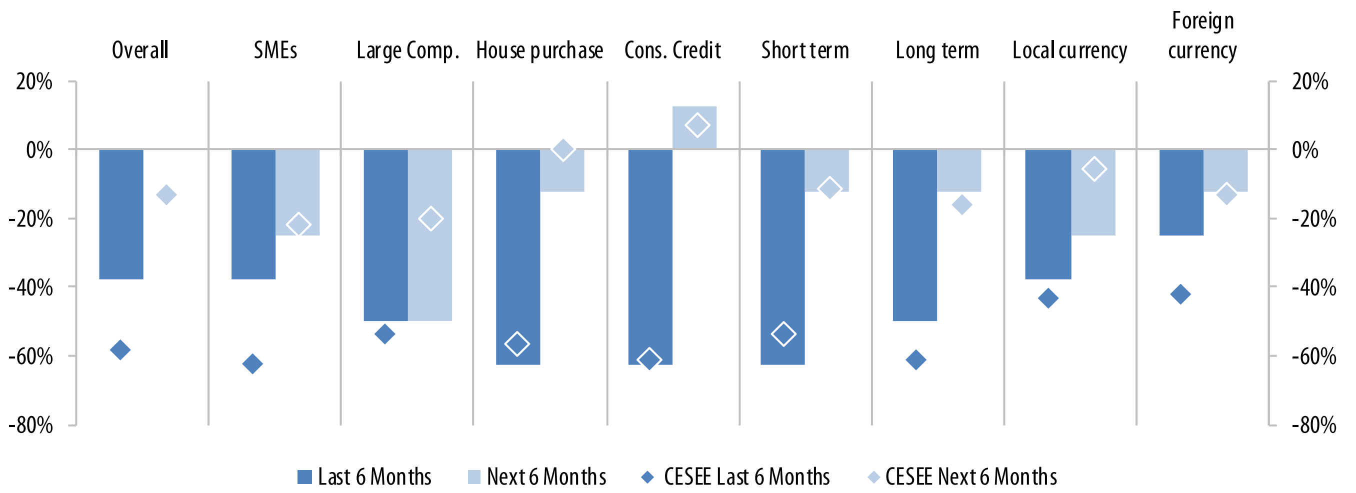


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Credit supply conditions showed similar developments across segments. Tighter credit standards were recorded in particular for the household segment and for short-term loans. In comparison with the region, however, the tightening was somewhat less pronounced. Looking ahead, the only category for which banks expect easing is consumer credit.

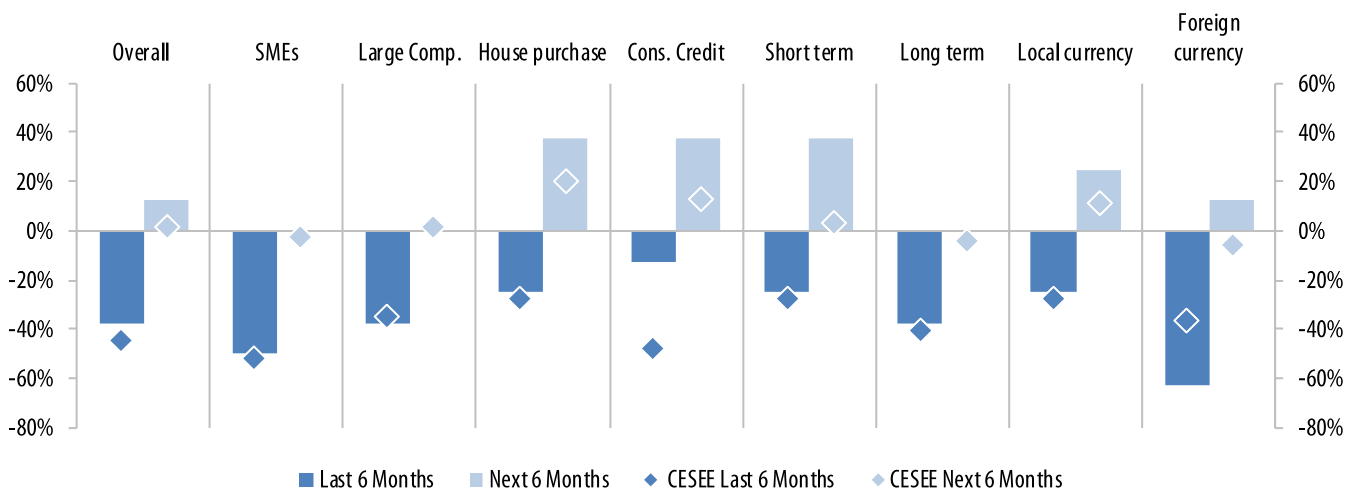


Source: EIB – CESEE Bank Lending Survey

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 dropped sharply during the last six months, in line with regional patterns. In particular, getting loans got harder for corporates. Lower approval rates were similarly reported for lending to households. Across maturities, longer-term credit saw greater tightening. Conditions for foreign currency lending had previously started tightening but continued to do so at accelerated pace over the last six months.

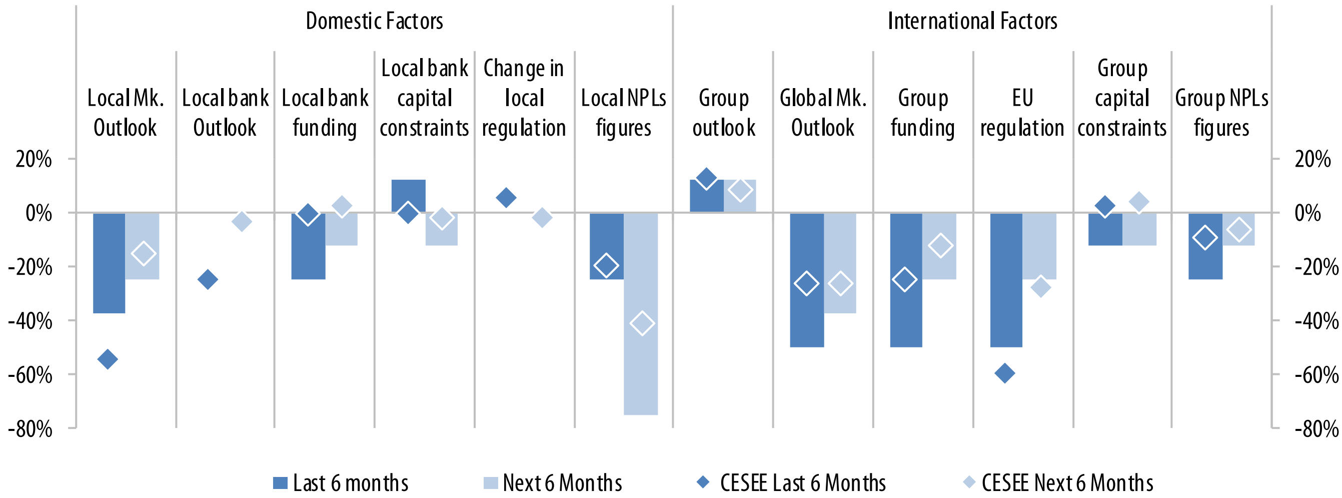


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

While most of the domestic and international factors contributed to the tightening of credit standards, changes in local bank capital constraints and the group outlook stand out against the trend. The contribution of local NPL figures turned negative in Romania for the first time since 2016. However, the impact of NPLs on supply is viewed less negatively compared to regional peers. Internationally, a deteriorating global market outlook, group funding conditions, capital constraints and views on NPLs sharply contrast with previous assessments.



Source: EIB – CESEE Bank Lending Survey.

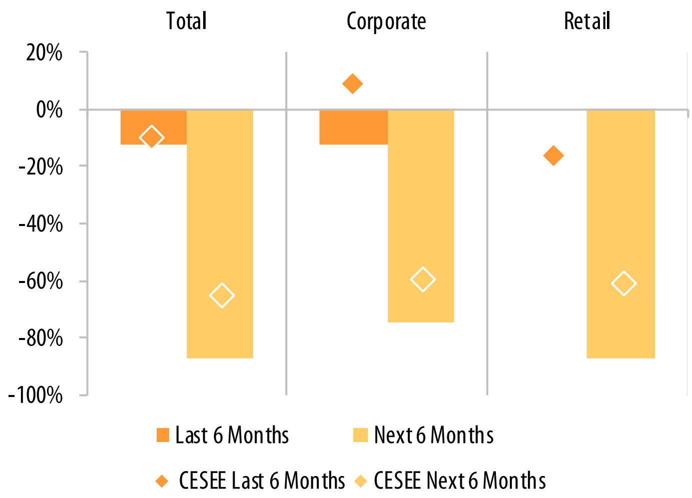
Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

NPL figures in Romania have been described as worsening over the last six months for the first time since 2015. The overall pace of worsening is in line with the regional average. Looking ahead, most banks expect non-performing loan ratios to increase.

Prior to the COVID-19 shock, the non-performing loan ratio in Romania reached 4.1 percent at the end of Q4 2019, a level below the EBA threshold of 8 percent, i.e. within the EBA-defined medium-risk bucket. In June, NPL ratios had increased to 4.4 percent.

In the context of COVID-19 crisis, a nine-month loan payment deferral has been announced for those companies and households that have been affected by the crisis. The National Bank of Romania stated that it will use the flexibilities in the legislative framework in terms of reclassification and provisioning of deferred loans and not to count them as default for the given period.

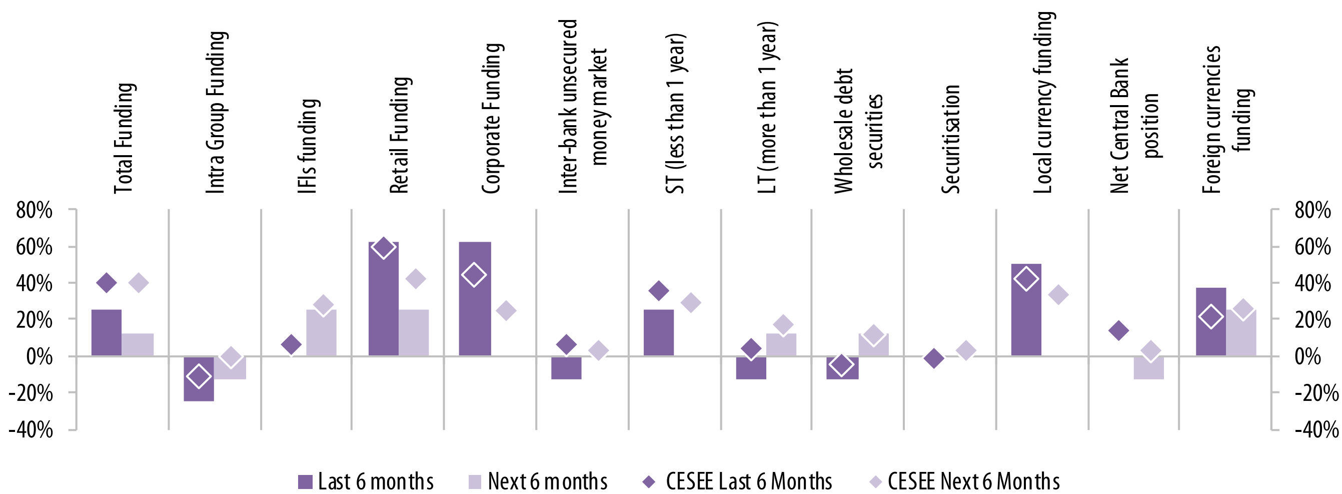


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

On balance, access to funding has improved for banks in Romania over the past months. In particular, tapping retail and corporate funding became easier. Similarly, access to funding in local and foreign currency improved. In contrast, access to intra-group funding again worsened. Looking ahead, banks remain cautiously optimistic with regards to the funding situation. In the context of the COVID-19 crisis, the National Bank of Romania has signalled liquidity support. The central bank committed to provide liquidity to credit institutions through repo operations and by purchasing RON-denominated government bonds on the secondary market.



Source: EIB – CESEE Bank Lending Survey.

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

COVID19 Special Module

Regulatory and policy measures supporting lending

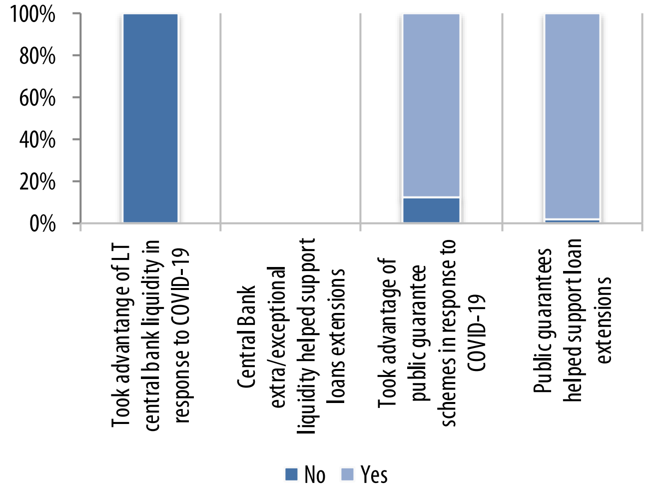
In the context of the COVID-19 pandemic the Romanian government has provided RON15 billions of guarantees for loan guarantees and subsidized interest for working capital and investment of SMEs. Moreover, a new guarantee scheme for SMEs was adopted to support the procurement of work equipment.

Banks in Romania almost unilaterally agree that the guarantees put in place have helped to provide loan extensions. Also, the majority of responding institutions took advantage of public guarantee schemes aimed to mitigate the impact of the pandemic on corporates over the last six months.

Banks' responses suggest that policy measures put in place might have played a role in supporting loan provision and demand, particularly with a view to SME lending activities.

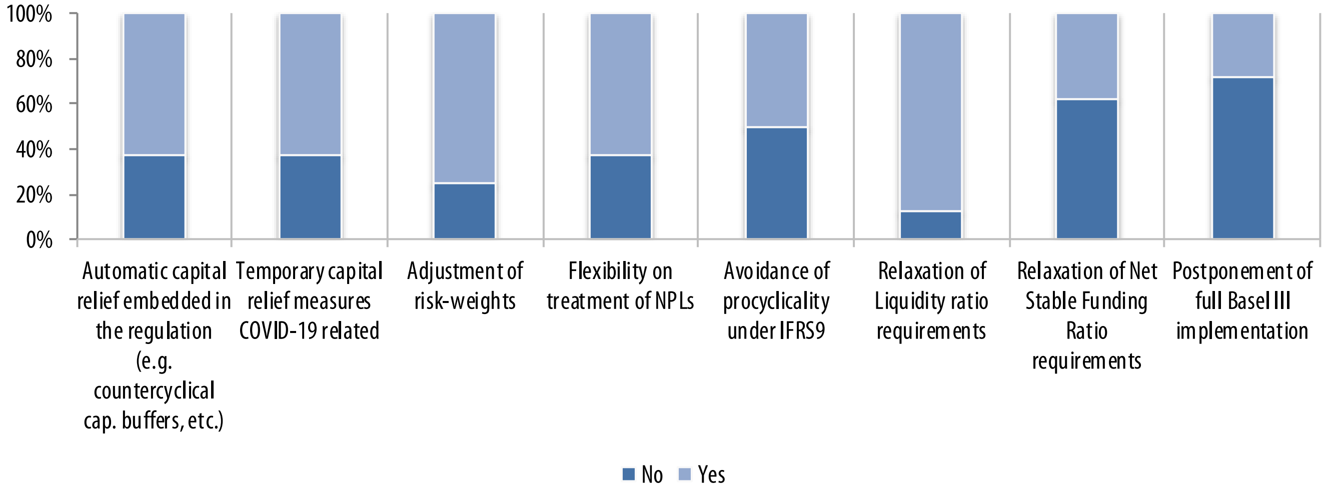
Most regulatory and policy measures for banks aimed at supporting lending are also viewed favourably with changes to risk weight adjustments and relaxation of liquidity ratio requirements considered most important to support lending activity.

Figure 12 Uptake and impact on lending of Central Banks liquidity facilities and government interventions in terms of public guarantees



Source: EIB – CESEE Bank Lending Survey.

Figure 13 Regulatory and policy measures that helped to support/maintain lending to the economy



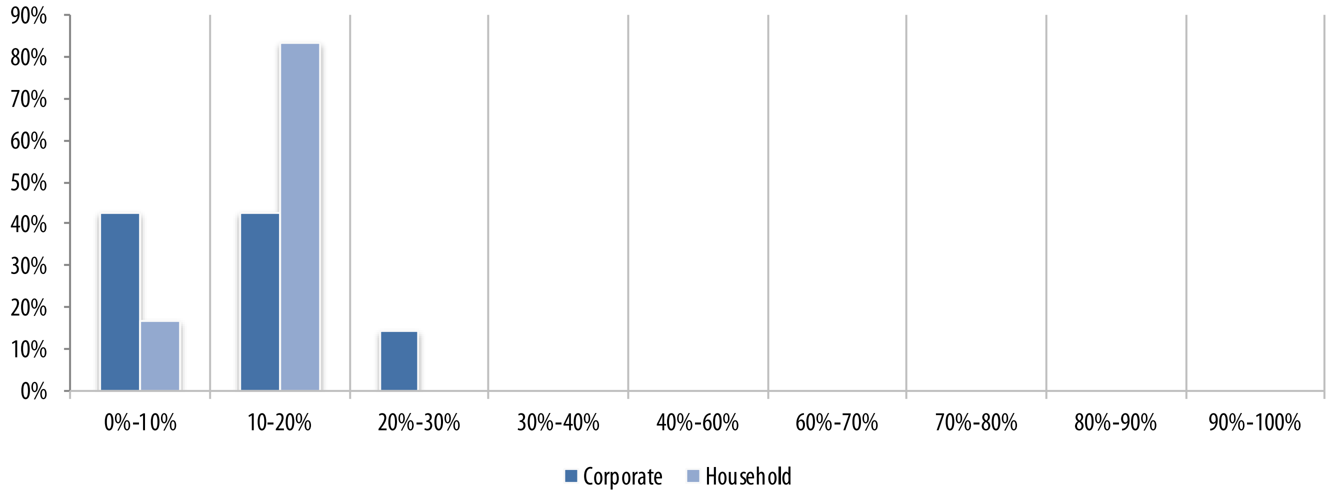
Source: EIB – CESEE Bank Lending Survey.

Note: PTI means payment-to-income ratio; LTV means Loan-to-value ratio

Moratoria incidence and uptake

Moratoria on interest payments and capital repayments affect up to 20% of Romanian banks' corporate portfolios in most banks with up to 30% for a few. For the household segment, moratoria affect around 10-20% of the portfolio for most banks.

Figure 14 Percentage of your corporate/household portfolio/clients' loans



Source: EIB – CESEE Bank Lending Survey.
Note: shares are in terms of total balance sheet size

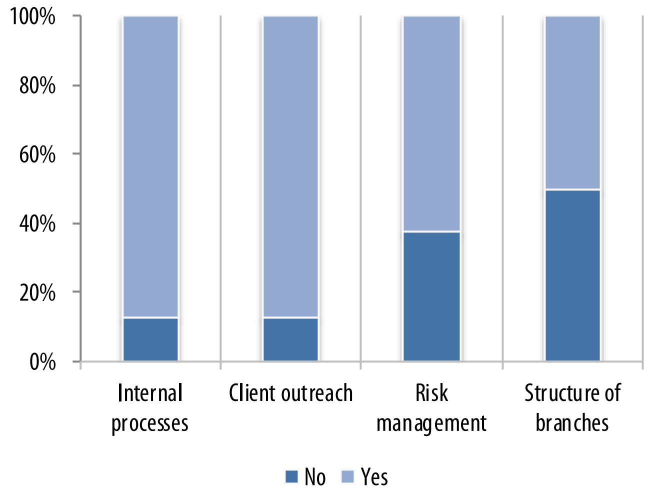
Impact on strategic priorities in terms of digitalisation

Banks clearly expect the COVID-19 shock to boost digitalisation of their activities in Romania. Most notably, they expect changes for internal processes and client outreach to make more use of digital channels looking ahead.

About 60 percent of banks also expect digitalisation to accelerate for risk management processes.

About half of the banks are expecting accelerated digitalisation to impact on branches. Romania has a relatively thin branch network, especially in rural areas, which is one of the factors that contributed to low financial intermediation and financial exclusion. Banks have invested in new ways of delivering banking services, including agents and via digital channels over the last years. Stronger use of digital financial service provision can in principle help to address access gaps while providing savings on infrastructure. However, these would best be complemented with support for financial literacy to address access and intermediation issues.

Figure 15 Due to COVID-19 propensity to speed up digitalisation in terms of:



Source: EIB – CESEE Bank Lending Survey.

Serbia

The pandemic has already had a strong impact on banks in Serbia. While credit demand remained resilient, banks tightened credit standards and reduced loan approvals. NPL reduction continued, but banks signal a potential reversal of this trend, while remaining cautious overall.

Summary

Group assessment of positioning and market potential: market attractiveness remained solid, as 40% and 60% of parent banking groups saw market potential as either high or medium, respectively. More than 80% of all parent banking groups also perceive their current market positioning as satisfactory to optimal, while a heathy share of banks sees profitability higher or equal compared to the overall group operations.

During the last six months, **credit demand** increased slightly, contrary to the CESEE average where it reduced, while **credit supply conditions** tightened.

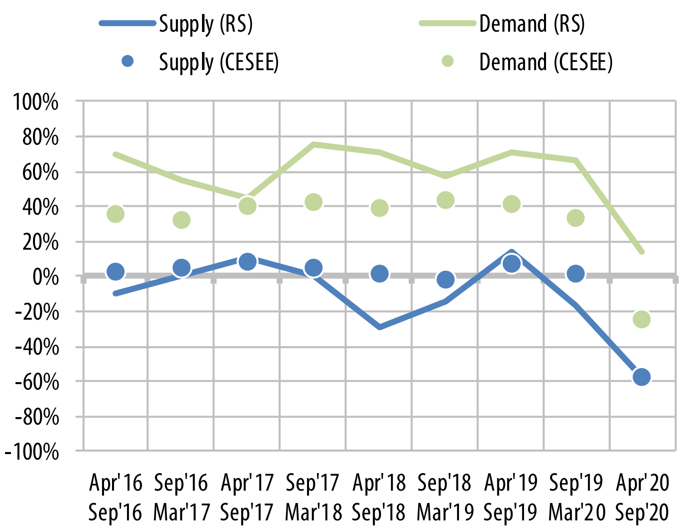
Credit supply conditions tightened substantially during the last six months for all segments. Banks seem to have taken a more cautious stance towards the vulnerable enterprises, particularly for SMEs.

Contrary to the CESEE regional average, **demand for loans** in Serbia increased again across a number of segments during the last six months. Nevertheless, demand for consumer credit declined, while most of the increase was driven by short-term maturities, potentially signalling emerging liquidity needs in the SME segment.

Access to funding for banks located in Serbia increased during the last six months, and remained above the CESEE aggregate. Apart from the intra-group funding and inter-bank unsecured money market, which both remained neutral, other components (eg. from IFIs, retail and corporate deposits) contributed to this improvement.

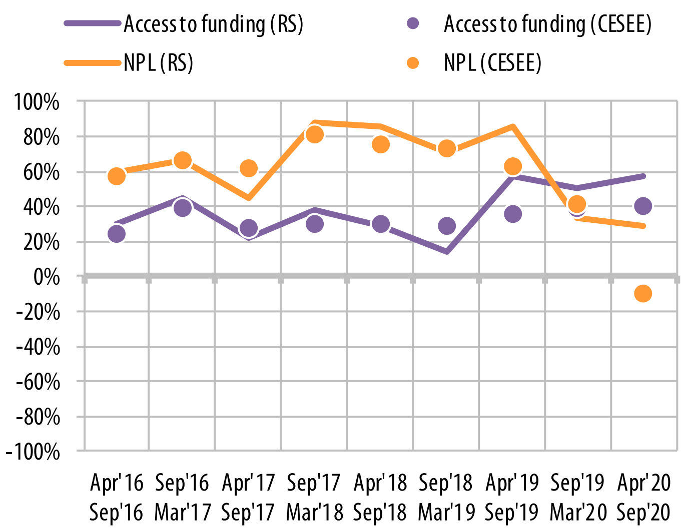
The positive trend in **NPL** reduction has continued, but is likely to reverse in coming months.

A number of **COVID-19-realted policy measures** has been taken to support corporates, households and banks. The uptake of these measures seem to have been strong among banks in Serbia according to the COVID-19 module. There is evidence that digitalization was also stepped up.



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.

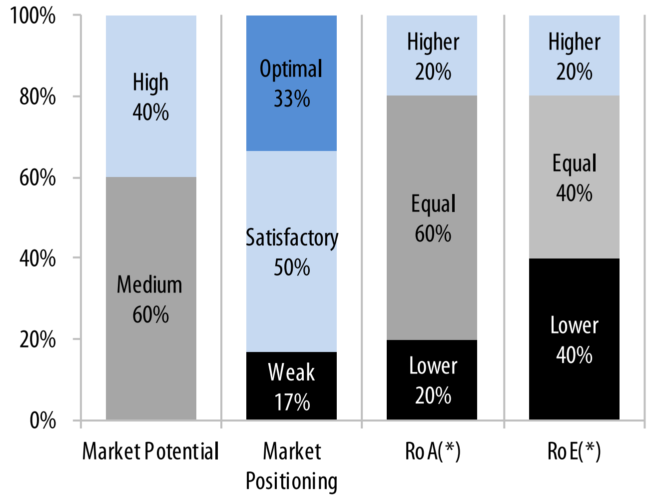
Note: All indicators in net percentages; Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

Market attractiveness remained solid, as 40% and 60% of parent banking groups saw market potential as either high or medium, relatively. More than 80% of all parent banking groups also perceive their current market positioning as satisfactory to optimal.

In terms of profitability, 80% (60%) of local banks report a higher or equal return on assets (return on equity) compared to the 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

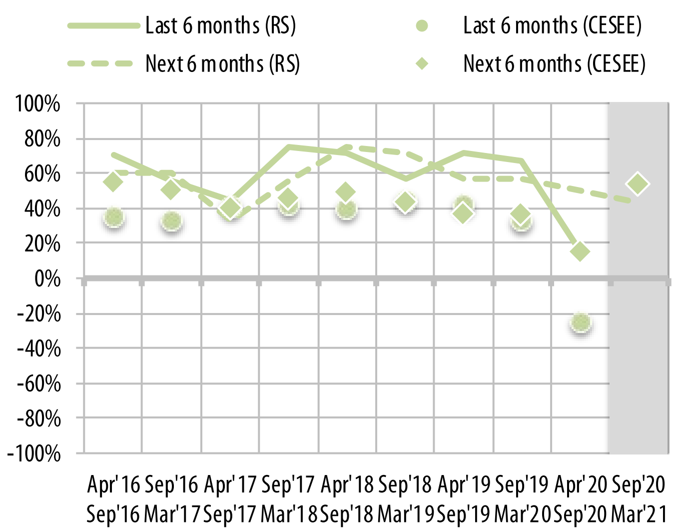
Aggregate demand developments

Loan demand in Serbia increased during the last six months, but by much less than in the previous surveys. Nevertheless, credit demand series in Serbia has been steadily above the CESEE averages over the past five years and is expected to remain strong in the coming six months.

The economic impact of the pandemic will be likely less severe this year as expected in the previous survey but many risks remain. According to the October 2020 IMF staff projections, the economy is expected to contract by about 1.5% in 2020 (previously about -3%), also due to one of the strongest policy supports in the region (estimated at about 10% of GDP – see also the COVID-19 module).

While consumer credit might be more strongly affected by the plummeting consumption. On the other hand, a higher demand for loans might still be supported by emergency liquidity needs of corporates, as the economy is gradually re-opening.

Figure 2 **Demand side developments**

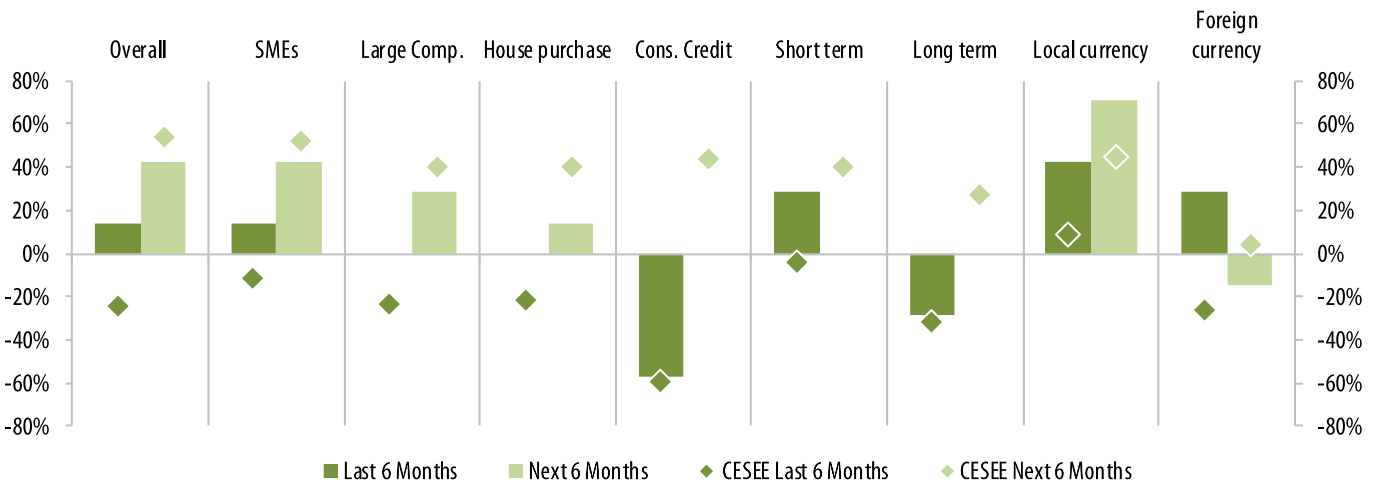


Source: EIB – CESEE Bank Lending Survey.

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

Contrary to the CESEE regional average, demand for loans in Serbia increased again across a number of segments during the last six months. Nevertheless, demand for consumer credit declined, while most of the increase was driven by short-term maturities, potentially signalling emerging liquidity needs in the SME segment. Consistently, demand for loans from large companies was more muted and declined for longer-term maturities. Looking ahead, a stronger credit demand is expected in the coming six months.

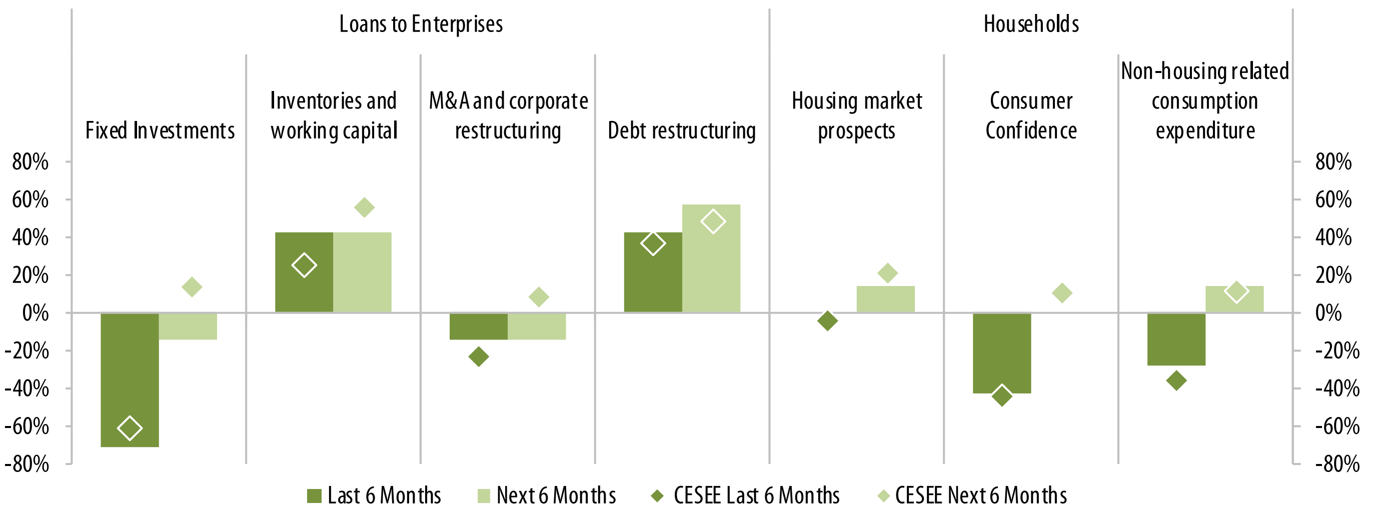


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

Among the firm-related factors, financing of fixed investments shrank most drastically, while demand for inventories and working capital and debt restructuring was strong and largely in line with the CESEE aggregate. On the households side, consumer confidence and non-housing related consumption expenditures were negatively affecting demand for credit. Going forward, most of the factors are expected to improve in the coming six months.

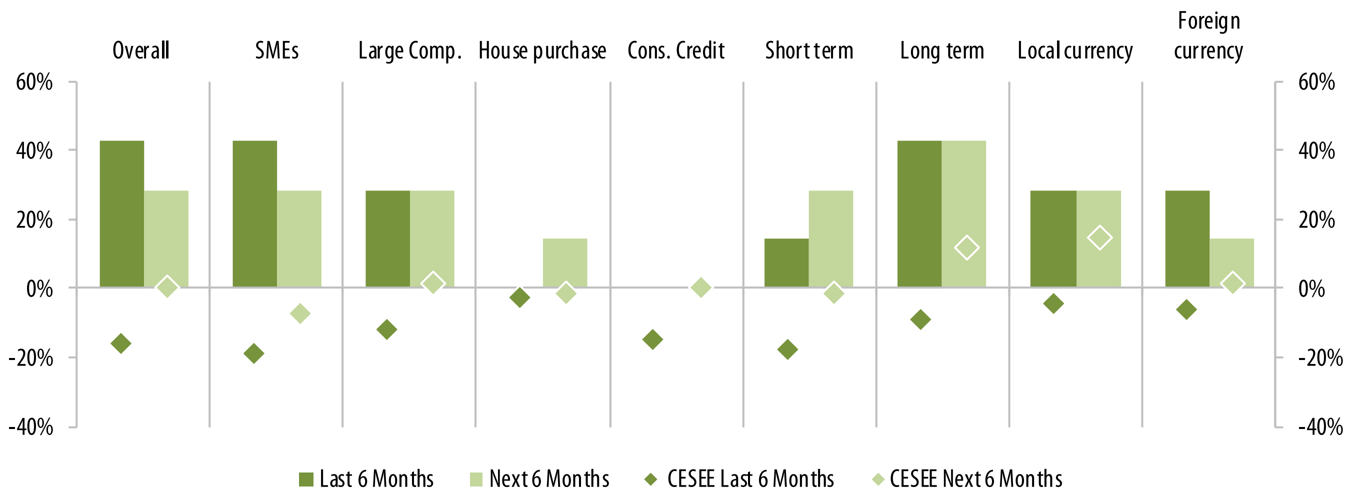


Source: EIB – CESEE Bank Lending Survey.

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 improved across all segments in the last six months. Contrary to the CESEE average, which experienced a deterioration in the quality of loan applications, the improvement was mainly driven by SMEs and for longer-term maturities. Among households, the quality of loan applications remained broadly unchanged. The quality of loan applications is expected to improve across the majority of segments in the coming six months.



Source: EIB – CESEE Bank Lending Survey

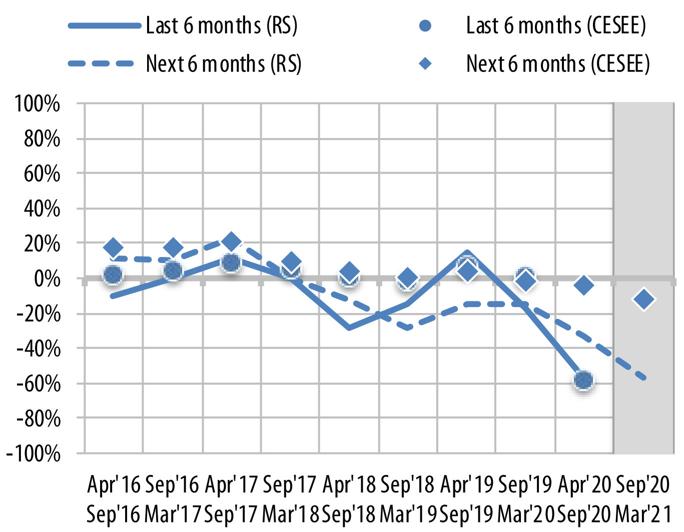
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

During the last six months, credit standards tightened further in Serbia and became aligned more strongly with the CESEE average.

The sustained loan demand since 2015 has now met tighter credit standards and given the pandemic environment and ongoing policy response it will be interesting to observe how credit provisioning will evolve in the coming months.

Figure 6 Supply developments

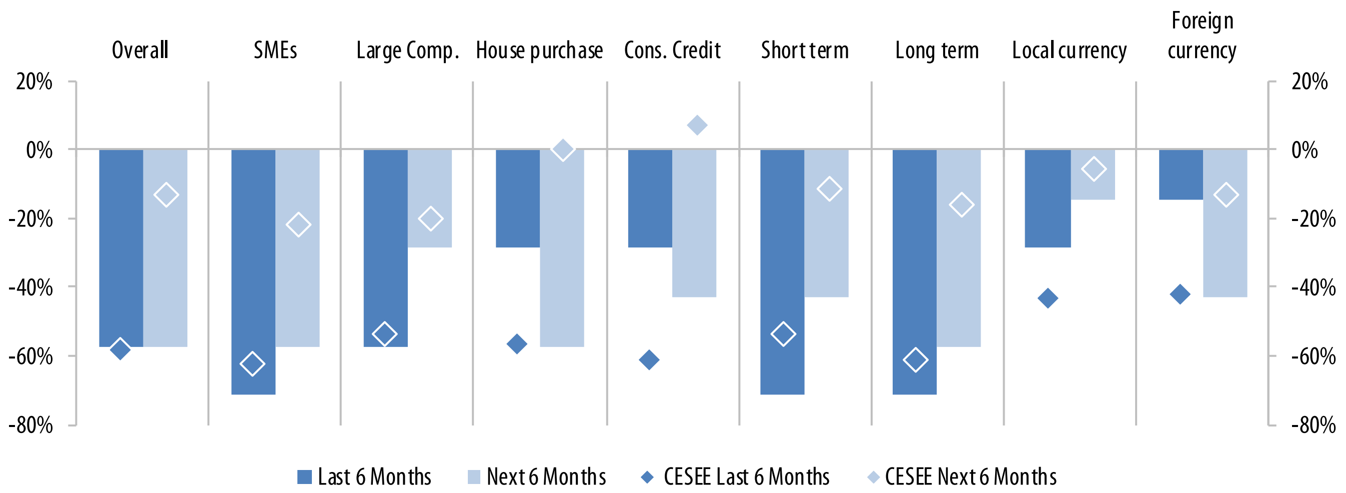


Source: EIB – CESEE Bank Lending Survey.

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**

Credit standards tightened substantially during the last six months for all segments and particularly for SMEs. Banks seem to have taken a more cautious stance towards these enterprises, which are likely to be hit harder by the pandemic. Also for the next six months, banks seem to preserve a more rigorous stance compared to the CESEE average.

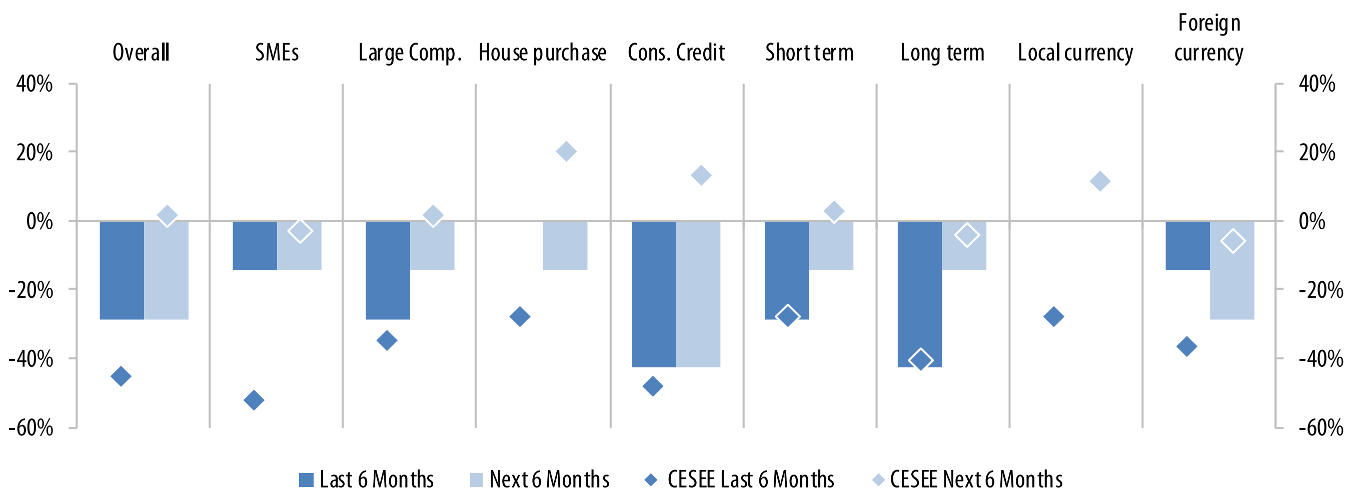


Source: EIB – CESEE Bank Lending Survey

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**

The overall banks' approval rate declined during the last six months and the same dynamic is expected in the coming six months. This is in sharp contrast to the CESEE average, where approval rate is expected to stabilize going forward. The approval rate declined particularly for large corporations and for consumer credit in the last six months.

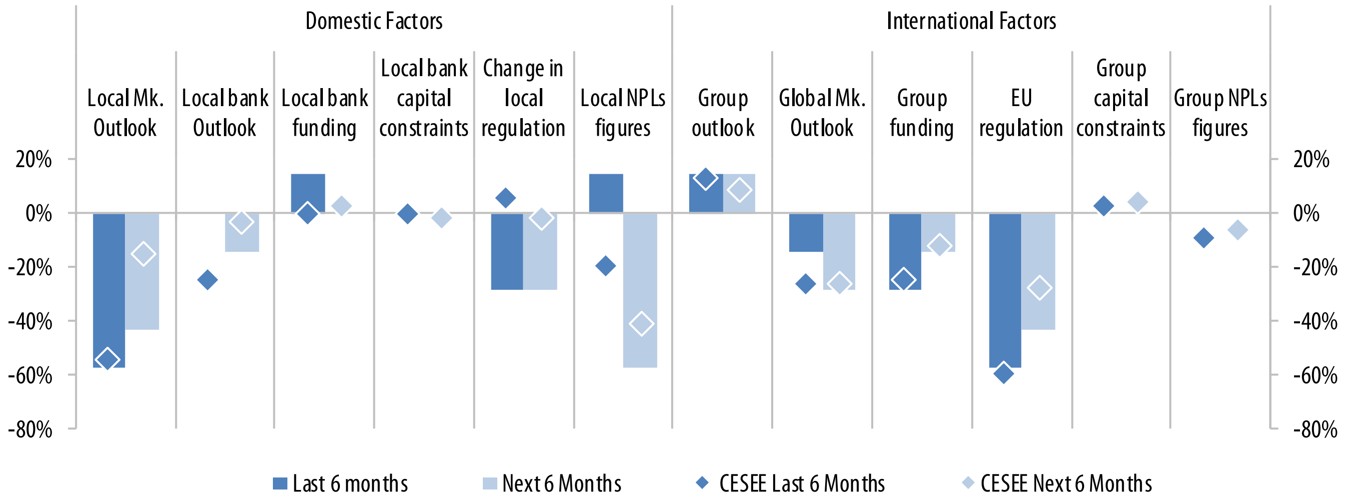


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

During the last six months, changes in local market outlook (among the domestic factors) and EU regulation (among the international factors) contributed most negatively to credit supply conditions in Serbia. On the other hand, the impact of local bank funding and local NPLs figures (among the domestic factors) and group outlook (among the international factors) was positive. Similar to the CESEE aggregate, local NPLs figures are expected to become the main negative driver of supply conditions in the next six months.



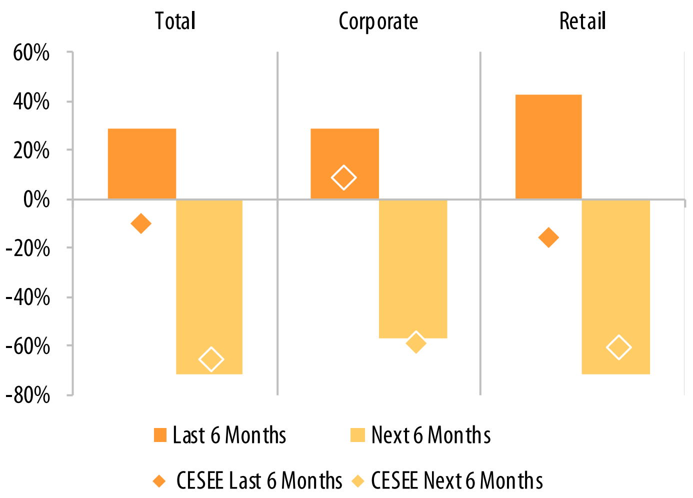
Source: EIB – CESEE Bank Lending Survey.

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

Contrary to the CESEE average, where it was already increasing, the NPL reduction has been only moderating during the last six months. Nevertheless, a strong increase in NPL ratios is expected for the next six months, possibly signalling the deteriorating strengths of banks' balance sheets due to the pandemic.

In the context of the pandemic, the National Bank of Serbia announced three-month loan payment deferral for all repayments under bank loans and financial leasing agreements and adjusted supervision approach in terms of deferred loans' classification and provisioning not to count them as default for the given period (see also the COVID-19 module).



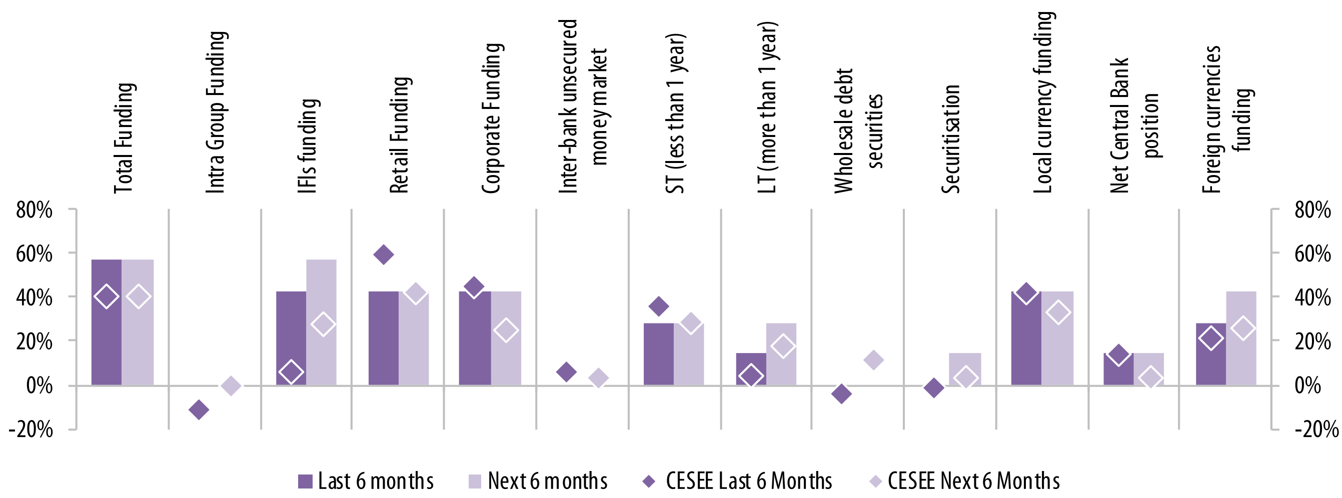
Source: EIB – CESEE Bank Lending Survey.

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 located in Serbia increased during the last six months, and remained above the CESEE average. Apart from the intra-group funding and inter-bank unsecured money market, which both remained neutral, other components (eg. from IFIs, retail and corporate deposits) contributed to this improvement.

As reported previously, in the context of the pandemic, the National Bank of Serbia announced liquidity support to banks through an additional EUR/RSD swap auction and repo purchase auction of dinar government securities. IFIs also announced to step in to provide additional liquidity (see also the next section).



Source: EIB – CESEE Bank Lending Survey.

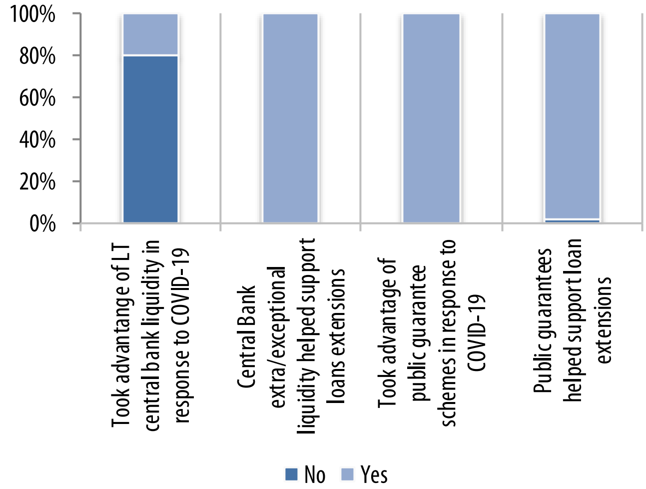
Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

COVID19 Special Module

Regulatory and policy measures supporting lending

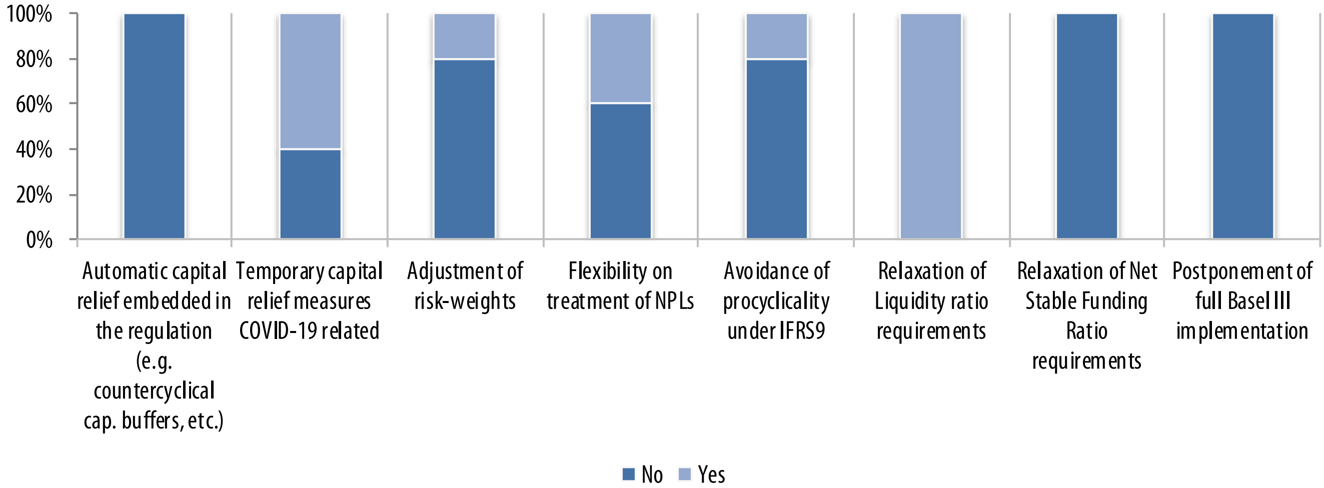
Among other important measures (see also the IMF COVID-19 policy tracker), the National Bank of Serbia (NBS) cut the key policy rate from 2.25% to 1.25% and engaged in a series of EUR/RSD swap auctions/repo/outright purchases of government securities, while also reducing the FX swap interest rates. In addition, a 3-months moratorium on all repayments under bank loans and financial leasing agreements was implemented. LC-denominated corporate bonds became eligible for open market operations and accepted as collateral for banks to receive liquidity from the central bank. The NBS also relaxed the loan-to-value (LTV) cap for first-home buyers mortgage loans and set up a repo line arrangement with the ECB to address possible euro liquidity needs. Moreover, a new 2-month moratorium was introduced, relieving debtors of repaying their liabilities during August and September. In August, the NBS adopted a new set of measures through 2021 intended to provide easier access to housing loans for individuals. On the fiscal front, guarantees, tax reliefs, etc. were introduced. All these measures seem to have had a significant impact on banks (Figures 12 and 13).

Figure 12 **Uptake and impact on lending of Central Banks liquidity facilities and government interventions in terms of public guarantees**



Source: EIB – CESEE Bank Lending Survey.

Figure 13 **Regulatory and policy measures that helped to support/maintain lending to the economy**



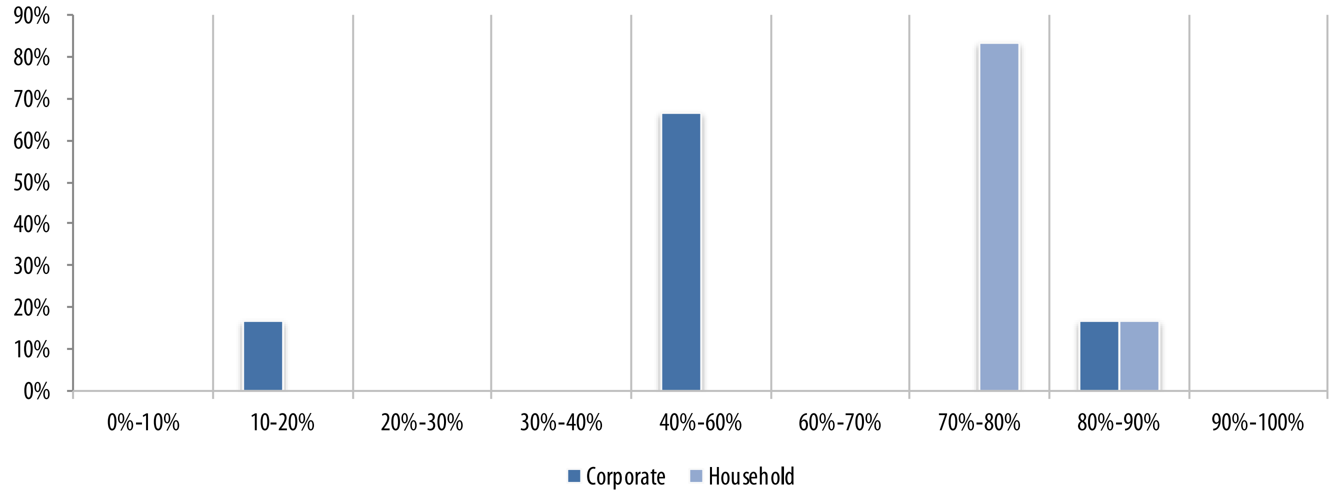
Source: EIB – CESEE Bank Lending Survey.

Note: PTI means payment-to-income ratio; LTV means Loan-to-value ratio

Moratoria incidence and uptake

The uptake of the moratoria measures (see above) was strong according to banks and might offer an explanation why NPL ratio was not increasing in Serbia. In the household segment, more than 70% of the portfolio was influenced by these measures, while it was somewhat less significant in the corporate segment (Figure 14).

Figure 14 **Percentage of your corporate/household portfolio/clients' loans**

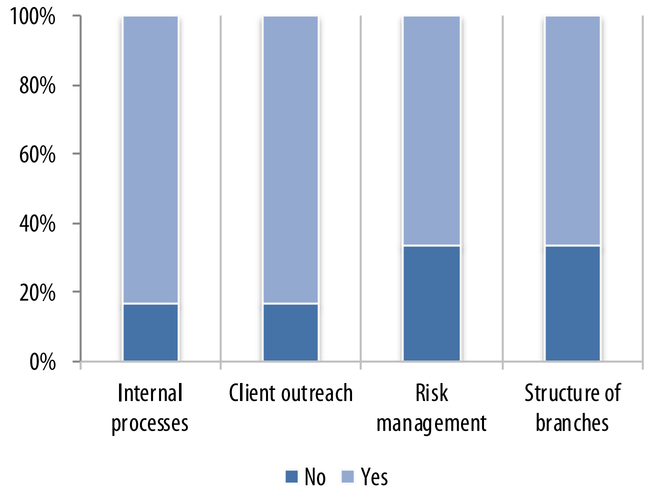


Source: EIB – CESEE Bank Lending Survey.
Note: shares are in terms of total balance sheet size

Impact on strategic priorities in terms of digitalisation

The impact of the pandemic is also reflected in bank's propensity to speed up digitalization, particularly in terms of internal processes and client outreach, while a significant proportion of banks also accelerated digitalization in terms of risk management and structure of branches.

Figure 15 **Due to COVID-19 propensity to speed up digitalisation in terms of:**



Source: EIB – CESEE Bank Lending Survey.

Slovakia

The COVID-19 pandemic started to impact banks in Slovakia. Aggregate loan demand fell while credit standards tightened. The impact is likely to become more pronounced as crisis relief measures, such as allowing borrowers to defer loan repayments, expire.

Summary

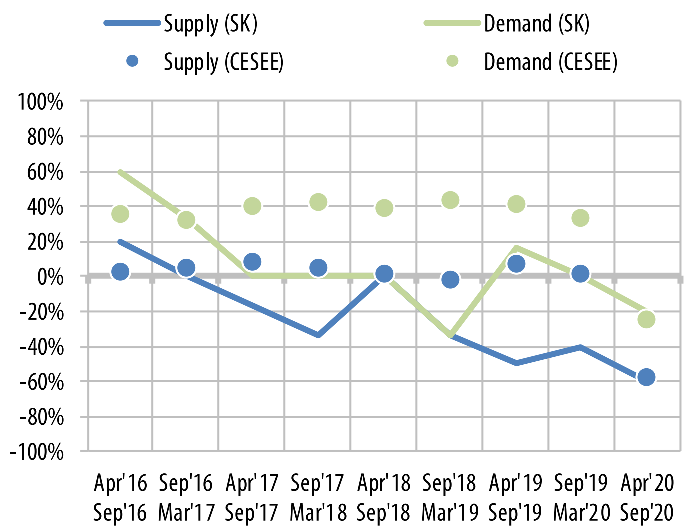
Group assessment of positioning and market potential: As COVID-19 hit the region, parents of banking groups became somewhat more pessimistic about the profitability of their operations in Slovakia. However, most are content with their market positioning.

On balance, banks in Slovakia reported that aggregate **credit demand** declined over the past six months. With the exception of mortgages, the number of loan applications fell and the quality of these applications worsened for most responding banks. For corporate lending, banks observed a change in the composition of demand: As the COVID-19 crisis weighed on corporate cash flows, firms intended to borrow less for funding investment and more for funding working capital. At the same time, households responded to economic uncertainty by raising their precautionary savings and reducing their demand for consumer loans.

A large share of banks reported that their **credit supply** fell. In with the CESEE region, banks in Slovakia tended to tighten their **credit standards**. Collateral requirements increased in particular for loans to SMEs. Most banks reduced the average size of loans and, with the exception of housing loans, also their maturity. Credit supply fell despite a very supportive policy environment. For example, public loan guarantees were the most quoted measure that supported lending.

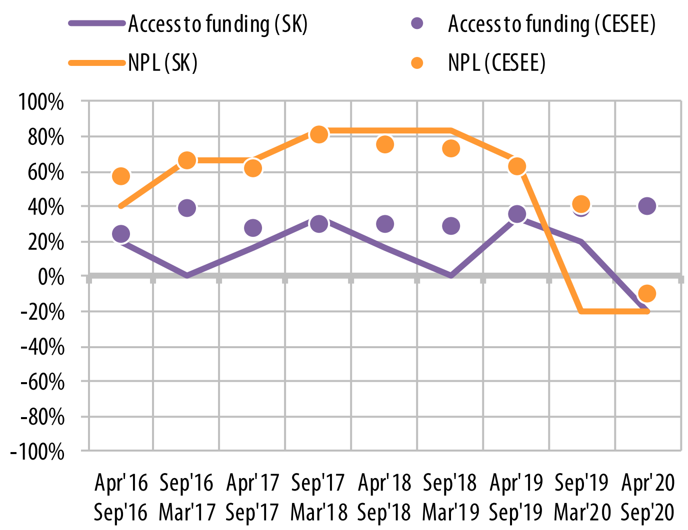
Despite the deteriorating macroeconomic environment, **access to funding** only deteriorated for a small share of banks. One reason is likely to have been the supportive monetary policy background.

So far, only a small majority of banks reported higher **NPL ratios** over the past six months, similar to the rest of the CESEE region. That said, the increase has already weighed on bank profits. Looking ahead, most banks expect NPLs to increase further as crisis relief measures, such as allowing borrowers to defer loan repayments, expire. For example, most banks report that 10-20% of their corporate loans benefit from payments moratoria.



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.

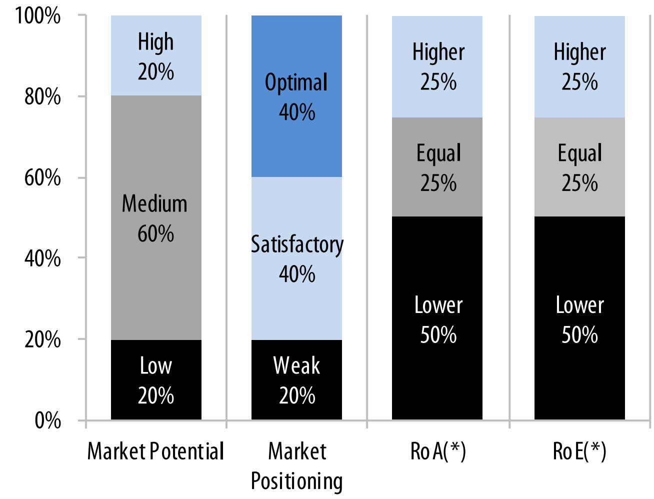
Note: All indicators in net percentages; Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

Most banks in Slovakia belong to banking groups that are also present in the rest of the CESEE region. The majority of parents regarded Slovakia's market potential as medium or high and saw little reason to change their positioning.

Parents became somewhat more pessimistic about the profitability of their operations in Slovakia. Half of the respondents believed that the return on equity (RoE) and the return on assets (RoA) was below that of their overall group operations. In previous surveys, the majority had found Slovakia to be more profitable than other CESEE regions.

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.

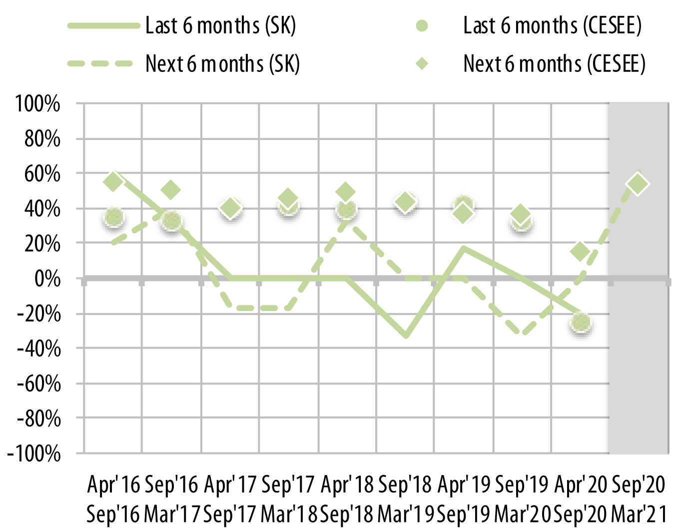
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

On balance, banks in Slovakia reported that aggregate demand for loans had declined over the past six months. With the exception of mortgages, the number of loan applications fell and the quality of these applications worsened at most responding banks. The composition of lending to corporates changed (see below).

Over the next six months, banks expect corporate demand for new loans to increase as firms need to fund working capital and may have to restructure loans. This assessment is broadly in line with that of banks operating in other CESEE markets.

Figure 2 **Demand side developments**

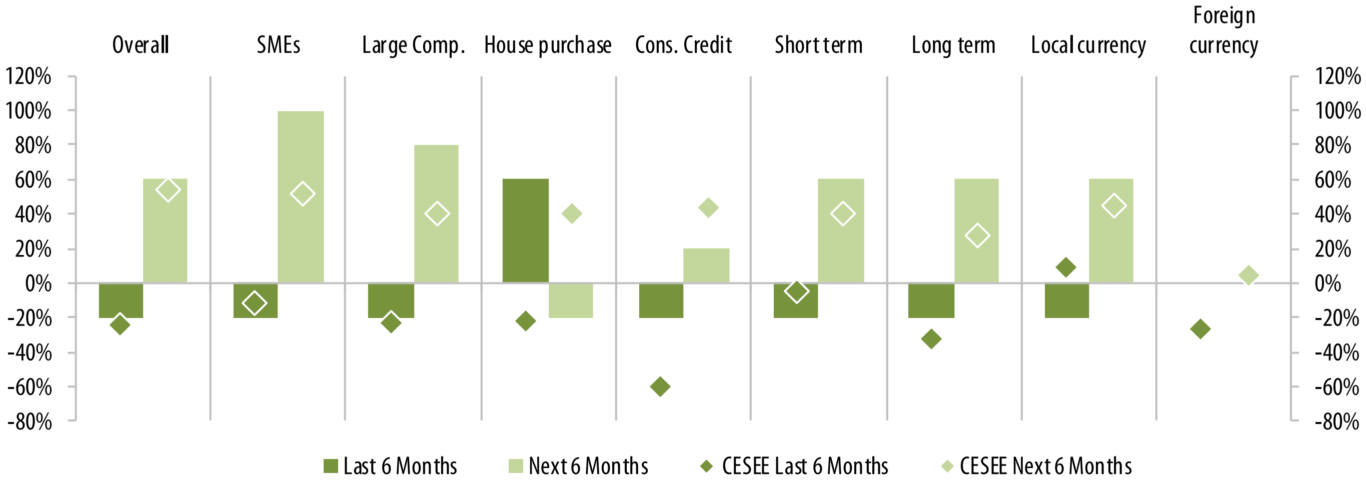


Source: EIB – CESEE Bank Lending Survey.

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

Among the components of loan demand, only demand for house purchase increased over the past six months. Overall lending to corporates is expected to increase. The developments are broadly in line with the rest of the region.

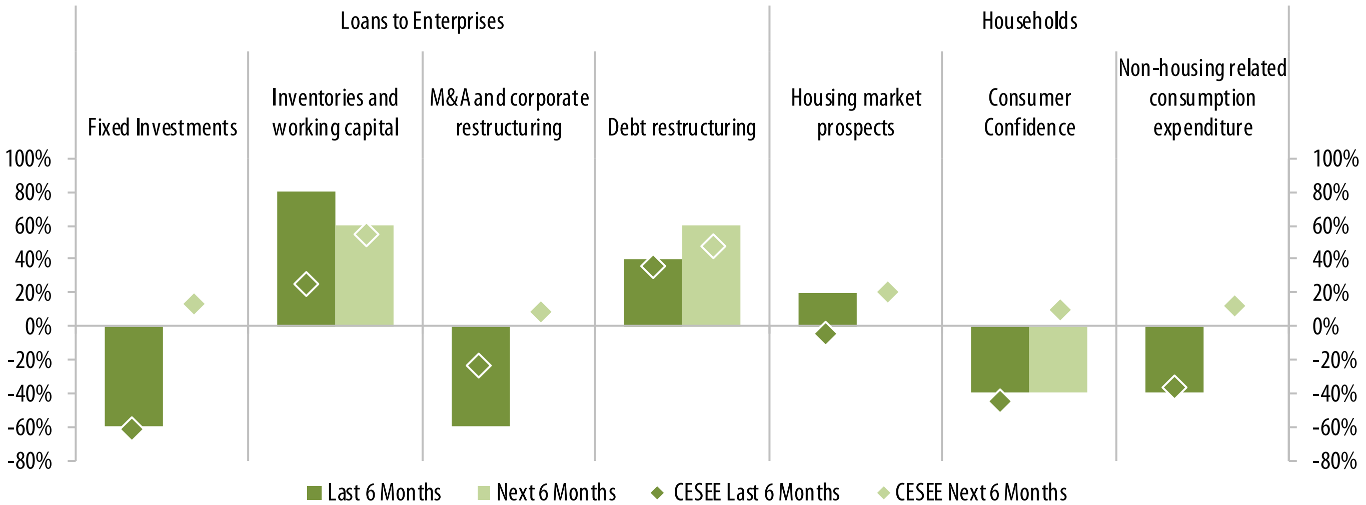


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

The belief that house prices would continue to rise presumably more than offset the impact of tighter lending standards and increasing economic uncertainty on mortgage lending. This balance is expected to turn over the next six months as the Slovakian property market appears to be slowing. In contrast, there was no such offsetting factor for consumer lending, where confidence weighed on the demand. This was similar to the rest of the CESEE region. For corporate loans, the composition of demand changed: As the Covid-19 crisis weighed on corporate cash flows, firms reduced their demand for loans funding investment but increased that for funding working capital. Debt restructuring is also expected to continue to add to corporate loan demand.

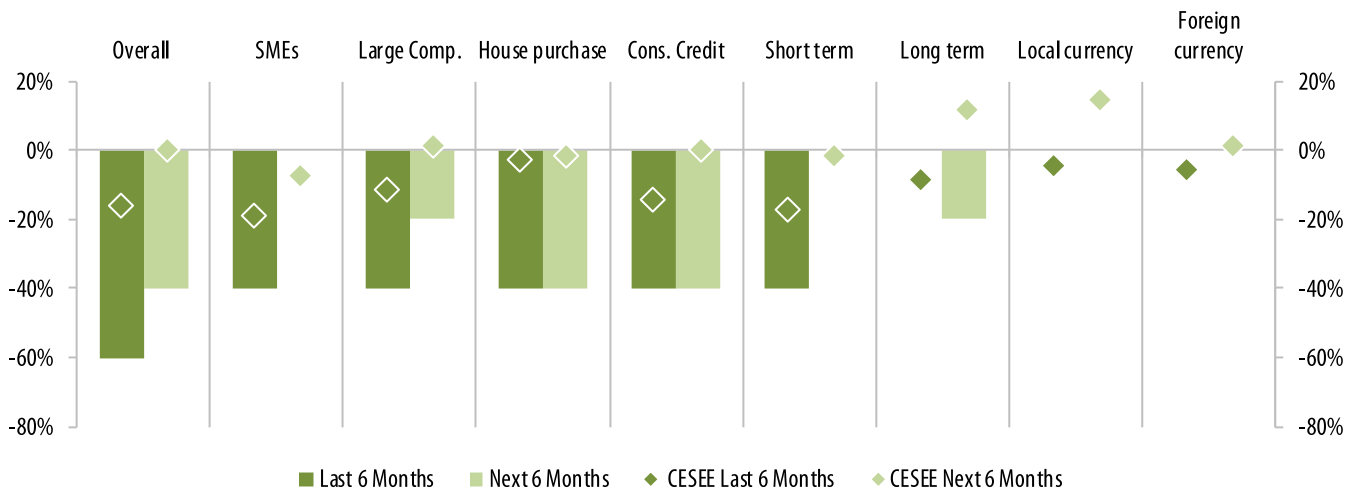


Source: EIB – CESEE Bank Lending Survey.

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

While households and firms on balance scaled back their loan demand, the quality of their loan applications fell. And most responding banks believe that the quality of loan applications will continue to fall, in contrast with the rest of the CESEE region.



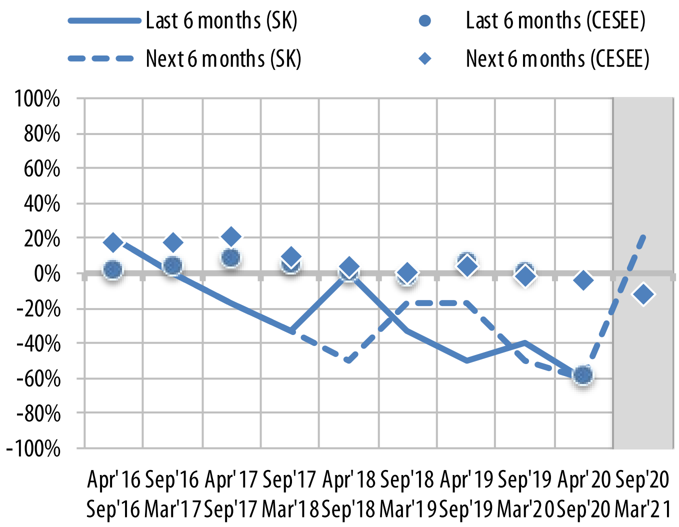
Source: EIB – CESEE Bank Lending Survey

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

Aggregate supply developments

As in the rest of the CESEE regions, banks responded to the Covid-19 pandemic by tightening their credit supply. That said, some of this tightening might be reversed.

Figure 6 Supply developments

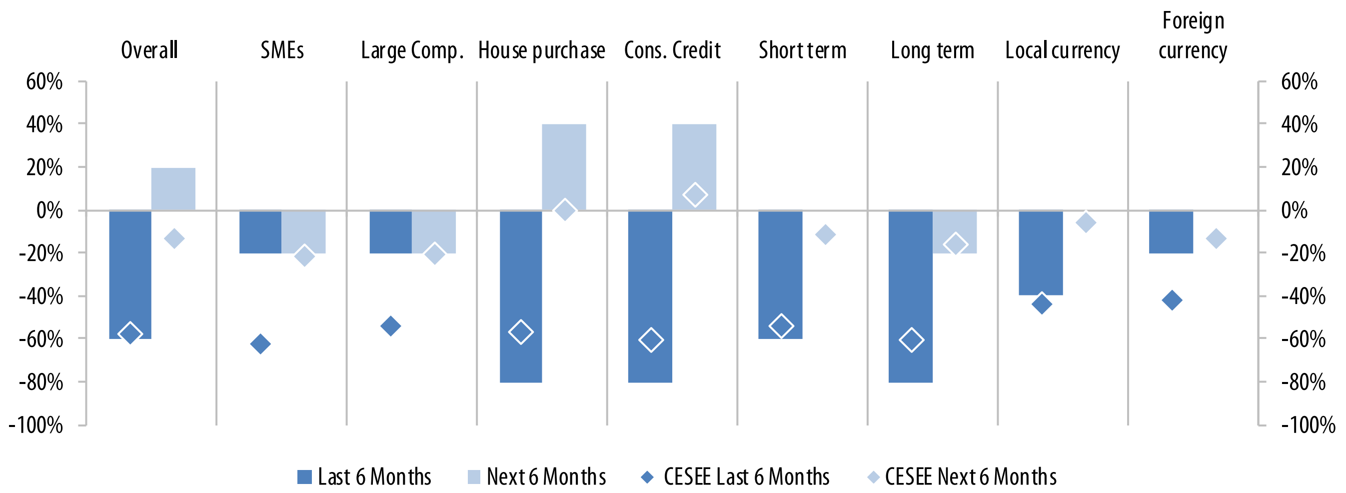


Source: EIB – CESEE Bank Lending Survey.

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

A large majority of banks tightened credit standards for mortgages and consumer credit over the past six months, in line with developments in the rest of the region. That said, answers suggest that some of this tightening might be reversed.

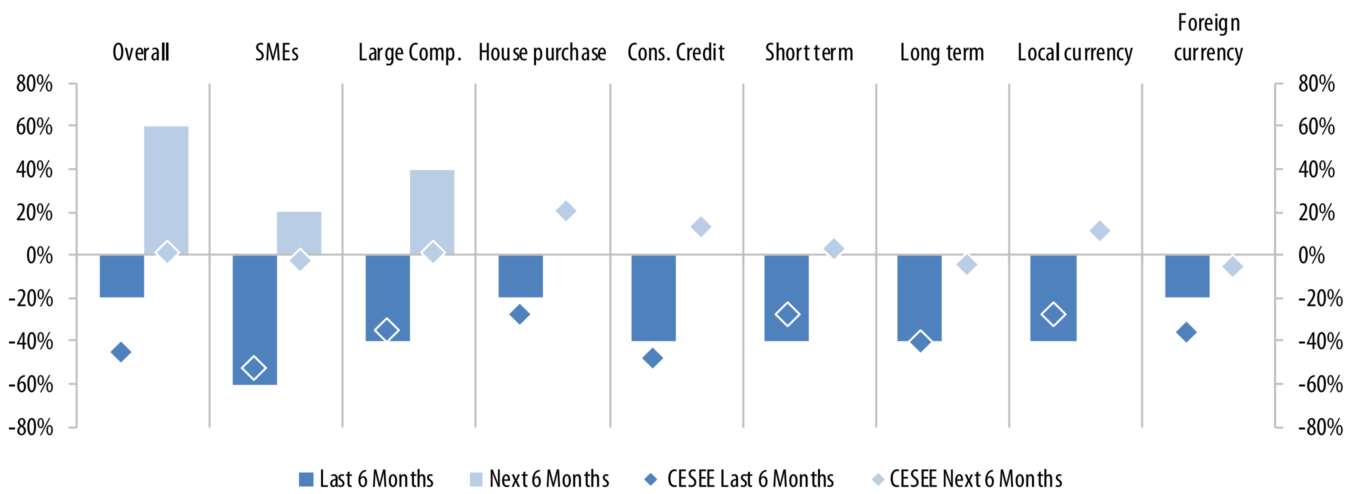


Source: EIB – CESEE Bank Lending Survey

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

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

In line with a perceived deterioration in the quality of loan applications, a majority of responding banks approved a lower share of loans. This concerned all types of lending, particularly that to SMEs – a development also observed in other CESEE countries. Looking ahead, banks in Slovakia appear somewhat more optimistic than their CESEE peers, with most believing that their loan approval rate will rise again.

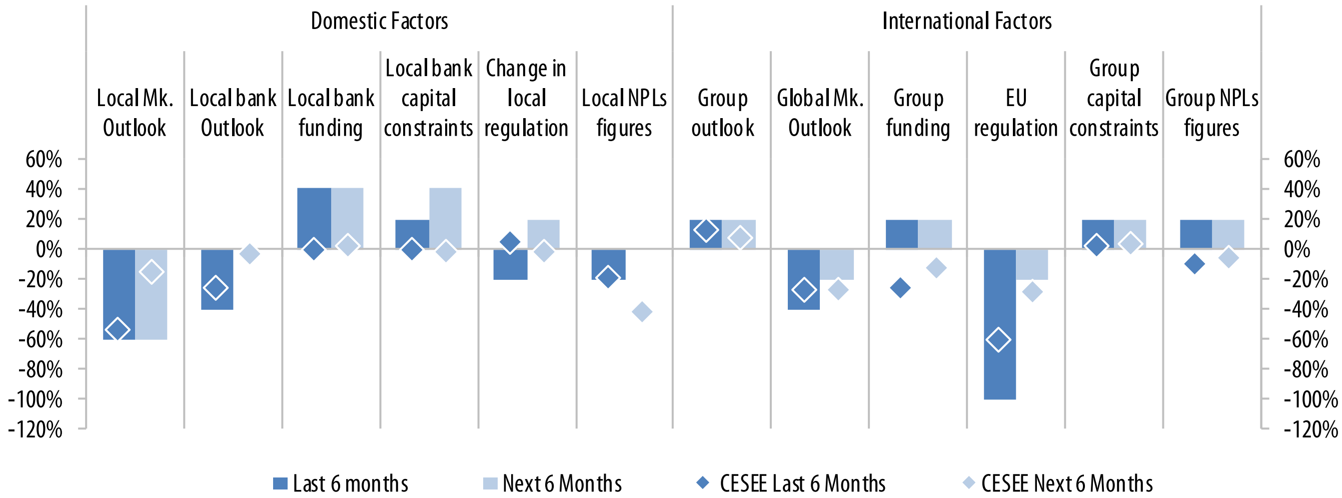


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 **Factors contributing to supply conditions**

Unsurprisingly, the largest balance of respondents attributed lower loan supply to the pandemic-induced deterioration in the market outlook. In contrast, funding conditions supported loan supply. Capital also became less of a constraint. The release of macroprudential capital buffers by the National Bank of Slovakia may have played a supportive role. EU regulation, in contrast, is believed to have reduced loan supply.

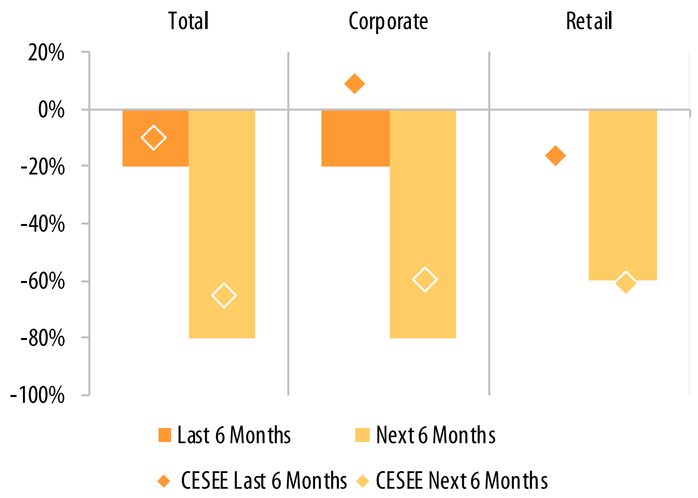


Source: EIB – CESEE Bank Lending Survey.

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

A large majority of banks expect non-performing loans to rise in the coming months. So far, crisis relief measures, in particular the borrowers' ability to defer loan repayments, appear have contained the increase. Nevertheless, some households saw a marked decline in income, which may reduce their ability to repay their debt. The situation is similar in other CESEE countries.

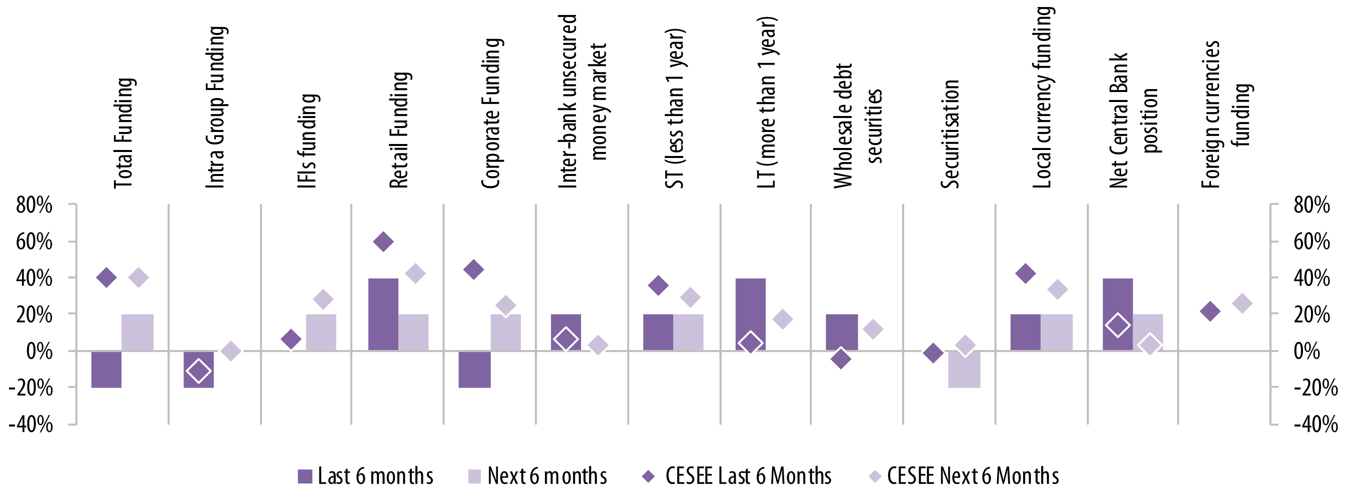


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Banks' funding conditions remained broadly unchanged over the past six months in Slovakia. On balance, banks report that short- and long-term funding improved, most likely reflecting monetary policy measures. Most banks found that their retail funding also increased, arguably because households increased their savings in the face of higher economic uncertainty. Overall, these developments left funding conditions in Slovakia somewhat worse than in the rest of the CESEE region. Over the next six months banks expect funding conditions to improve, in line with other countries in the CESEE region.



Source: EIB – CESEE Bank Lending Survey.

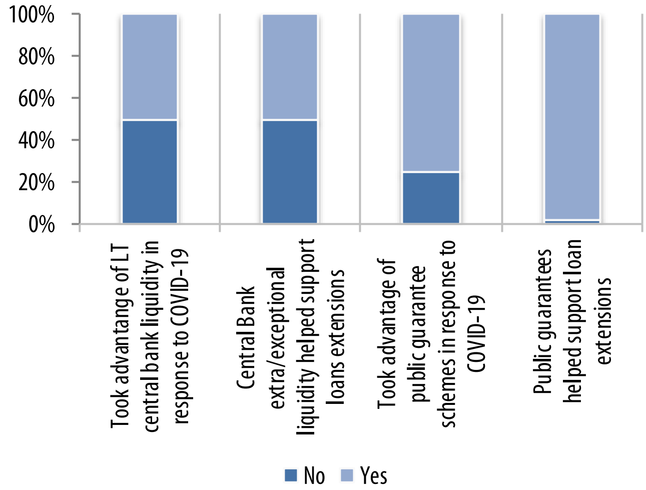
Note: Net percentage; positive figures indicate increasing/better access to funding. See Question B.Q9 in the Annex

COVID19 Special Module

Regulatory and policy measures supporting lending

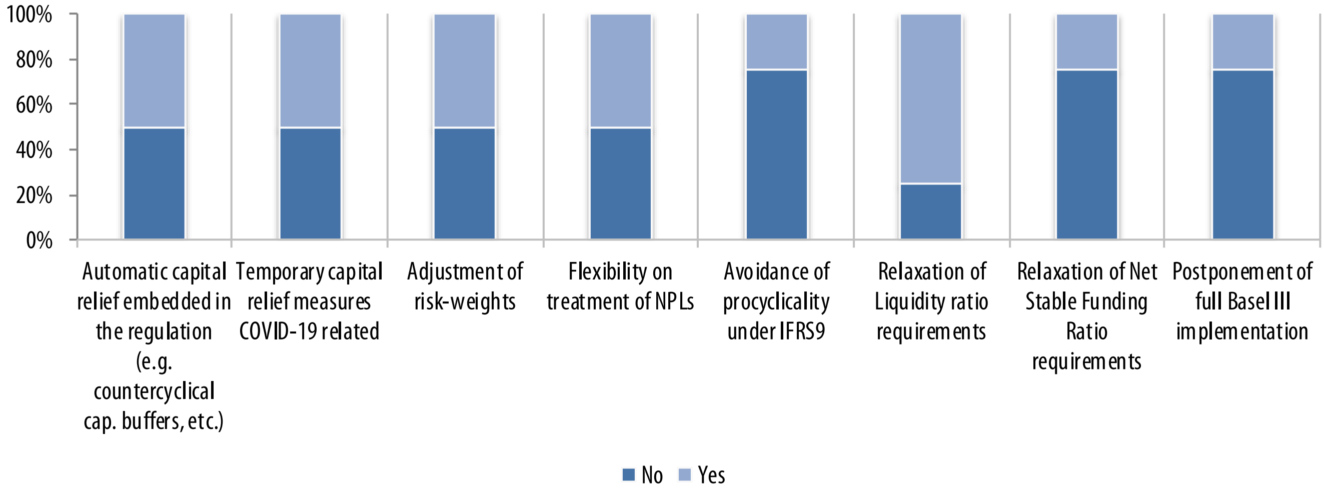
Public loan guarantees were the most quoted measure that supported lending, with almost all banks participating in a corresponding scheme. But the relaxation of regulatory requirements also helped, in particular that of short-term liquidity requirements. Opinions were more divided about the extent to which the relaxation of capital requirements supported lending. Similarly, only half of banks thought that central bank exceptional liquidity support increased lending.

Figure 12 **Uptake and impact on lending of Central Banks liquidity facilities and government interventions in terms of public guarantees**



Source: EIB – CESEE Bank Lending Survey.

Figure 13 **Regulatory and policy measures that helped to support/maintain lending to the economy**



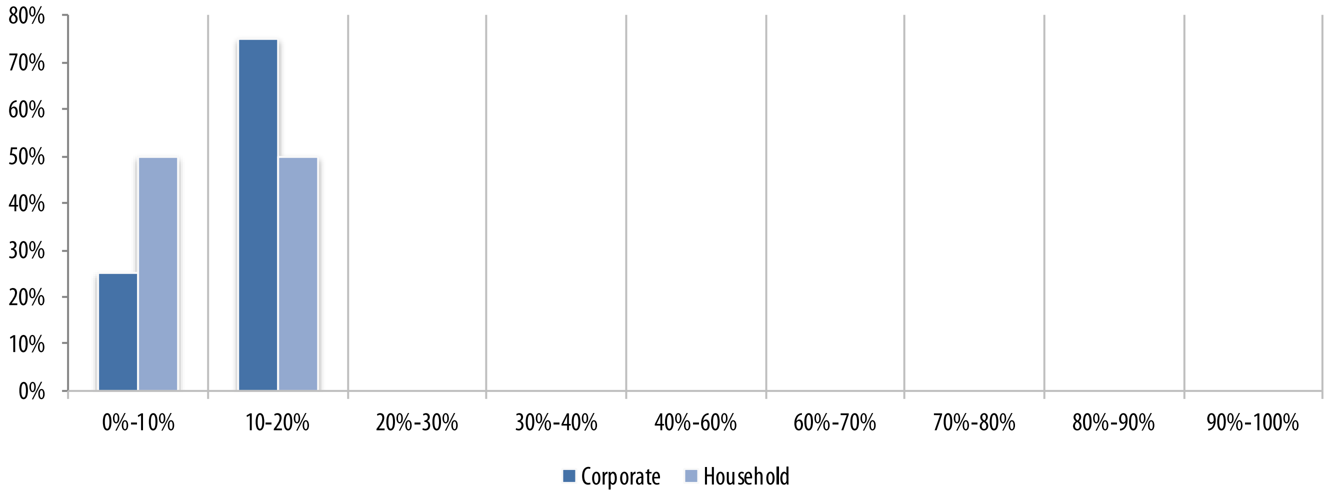
Source: EIB – CESEE Bank Lending Survey.

Note: PTI means payment-to-income ratio; LTV means Loan-to-value ratio

Moratoria incidence and uptake

Most banks report that 10-20% of their corporate loans benefit from payments moratoria. For household loans, only half of banks reporting an incidence of 10-20%. The ability of borrowers to defer loan repayments is likely to have been a key factor limiting the increase in non-performing loans so far (see above).

Figure 14 **Percentage of your corporate/household portfolio/clients' loans**

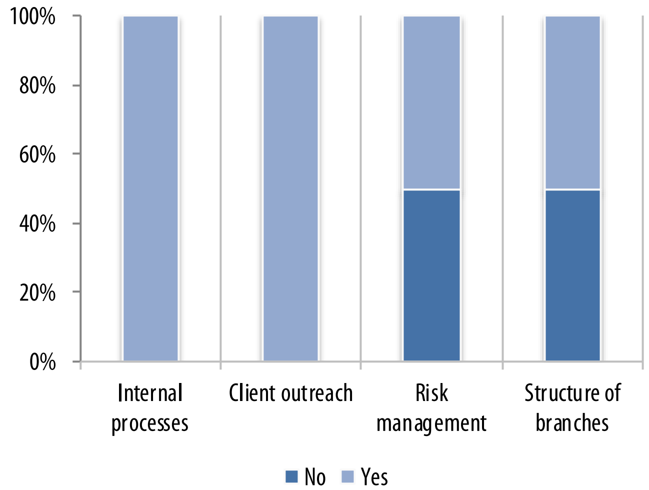


Source: EIB – CESEE Bank Lending Survey.
Note: shares are in terms of total balance sheet size

Impact on strategic priorities in terms of digitalisation

All banks report that the COVID-19 pandemic will prompt them to speed up the digitalisation of their internal processes and of their outreach to clients. In a majority of cases, the digitalisation of risk management and of the structure of bank branches will also pick up.

Figure 15 **Due to COVID-19 propensity to speed up digitalisation in terms of:**



Source: EIB – CESEE Bank Lending Survey.

Annex

Non-performing loans in % of total loans (more than 90 days overdue)

	AL	BA	BG	HR	CZ	HU	XK	MK	PL	RO	RS	SK	CESEE
2020Q2	8.09	6.70	8.11	5.50	2.40	3.98	2.60	4.56	6.90	4.38	3.70	2.69	5.15
2020Q1	8.21	6.60	8.00	5.39	2.40	4.15	2.90	4.83	6.60	3.94	4.00	2.81	5.01
2019Q4	8.37	7.40	6.62	5.53	2.50	4.06	2.00	4.61	6.60	4.09	4.10	2.81	4.99
2019Q3	10.61	7.74	7.56	6.03	2.70	4.48	2.30	4.81	6.80	4.58	4.70	2.80	5.29
2019Q2	11.23	8.03	7.31	7.25	2.80	4.92	2.50	5.36	6.80	4.74	5.20	2.89	5.44
2019Q1	11.38	8.50	7.55	7.40	3.20	5.22	2.60	5.11	6.80	4.90	5.50	2.95	5.59
2018Q4	11.08	8.80	7.80	7.56	3.30	5.43	2.70	5.11	6.80	4.96	5.70	3.06	5.66
2018Q3	12.89	9.39	8.68	8.07	3.30	6.17	2.80	4.95	7.00	5.56	6.41	3.40	5.99
2018Q2	13.27	9.31	9.29	8.89	3.40	6.59	2.80	5.02	7.10	5.71	7.81	3.46	6.21
2018Q1	13.43	9.66	9.56	8.92	3.60	6.98	2.90	5.04	7.70	6.16	9.20	3.60	6.64
2017Q4	13.23	10.05	10.43	11.35	4.00	7.52	3.10	6.24	6.80	6.41	9.85	3.61	6.59
2017Q3	14.78	10.78	11.73	12.51	4.00	8.47	3.60	6.49	6.90	7.96	12.21	3.92	7.08
2017Q2	15.58	11.09	12.39	13.16	4.30	9.23	3.90	6.63	6.90	8.32	15.58	4.02	7.42
2017Q1	17.44	11.49	12.92	13.91	4.50	10.16	4.50	6.18	6.90	9.36	16.82	4.26	7.77
2016Q4	18.27	11.78	13.17	13.80	4.80	10.75	4.90	6.39	7.10	9.62	17.03	4.37	8.03
2016Q3	21.29	12.12	14.02	14.65	5.20	12.50	5.10	7.19	7.30	10.00	19.51	4.67	8.56
2016Q2	19.96	12.11	14.40	14.99	5.30	13.59	5.30	7.41	7.30	11.30	20.22	4.70	8.86
2016Q1	19.31	13.24	14.74	16.12	5.50	14.50	5.90	10.52	7.40	13.52	20.92	4.71	9.35
2015Q4	18.22	13.71	14.51	16.65	5.80	13.59	6.20	10.43	7.50	13.51	21.58	4.81	9.46
2015Q3	20.57	13.83	14.48	17.05	6.10	15.54	6.80	11.26	7.90	15.73	21.98	5.31	10.16
2015Q2	20.94	14.07	15.01	17.34	6.00	14.90	7.20	11.02	8.00	16.20	22.78	5.48	10.30
2015Q1	22.85	14.19	17.17	17.14	6.10	14.71	8.10	11.12	8.20	20.20	22.60	5.57	10.92
2014Q4	22.80	14.17	16.75	17.06	6.10	16.65	8.30	10.89	8.10	13.93	21.54	5.54	10.49
2014Q3	24.98	16.08	18.13	17.24	6.20	17.78	8.50	11.75	8.20	15.33	23.01	5.64	11.01
2014Q2	24.07	15.47	17.97	16.59	6.30	18.07	8.20	11.38	8.30	19.19	23.01	5.46	11.42
2014Q1	24.02	14.89	16.74	16.11	6.50	18.23	8.60	10.70	8.40	20.39	22.25	5.46	11.53
2013Q4	23.22	15.12	16.87	15.70	5.90	17.74	8.70	11.07	8.50	21.87	21.37	5.32	11.58
2013Q3	24.34	14.86	17.22	15.32	5.90	18.14	8.50	11.32	8.50	21.56	21.06	5.57	11.63
2013Q2	24.39	14.28	17.09	15.11	6.00	18.25	7.80	11.86	8.70	20.30	19.93	5.49	11.62
2013Q1	23.99	13.83	16.92	14.57	6.00	17.86	7.60	11.44	8.90	19.08	19.88	5.35	11.46
2020Q2	8.09	6.70	8.11	5.50	2.40	3.98	2.60	4.56	6.90	4.38	3.70	2.69	5.15

Source: WIIW

Credit to private sector, y/y growth rate

	AL	BA	BG	HR	CZ	HU	XK	MK	PL	RO	RS	SK	CESEE
2020Q3	5.28	-0.55	4.25	4.50	4.75	12.54	7.65	7.40	0.56	4.19	14.38	5.29	3.93
2019Q2	6.60	0.36	4.88	4.13	5.61	13.68	6.39	6.71	2.91	4.10	13.89	6.05	5.14
2020Q1	8.85	3.46	7.05	5.97	6.40	18.36	9.17	5.88	5.97	6.23	11.47	6.56	7.25
2019Q4	6.62	6.68	7.36	3.87	5.20	13.19	10.02	6.07	4.65	7.02	8.93	6.55	6.06
2019Q3	5.06	6.04	6.51	1.77	5.15	13.31	10.26	5.53	6.05	7.15	9.71	7.63	6.61
2019Q2	3.62	6.03	5.98	2.57	5.43	11.43	10.51	8.07	5.34	6.66	8.95	7.22	6.13
2019Q1	-0.77	5.28	7.51	3.54	6.79	11.59	11.47	8.97	7.07	7.73	9.61	8.54	7.42
2018Q4	-3.59	5.48	7.54	2.26	6.83	10.57	10.81	7.21	7.17	7.84	9.91	9.78	7.44
2018Q3	-3.53	6.32	6.10	1.68	6.70	9.63	11.47	7.83	5.84	6.44	6.40	9.52	6.46
2018Q2	-2.44	6.98	5.73	2.20	6.12	8.72	11.41	6.15	5.50	6.95	4.44	10.20	6.21
2018Q1	0.36	7.19	3.80	0.67	5.52	5.05	10.57	5.65	4.44	5.89	2.16	9.86	5.06
2017Q4	0.72	7.33	3.27	-0.10	6.53	5.47	11.65	5.43	3.08	5.26	2.13	9.85	4.57
2017Q3	0.88	7.34	4.14	0.33	6.47	4.63	10.26	4.01	4.10	7.24	0.77	11.20	5.24
2017Q2	-1.52	6.22	3.57	-1.33	7.27	2.30	10.17	4.09	4.02	3.94	2.21	11.74	4.81
2017Q1	0.09	4.75	3.33	-2.26	6.75	0.14	10.93	-1.16	4.69	2.67	4.48	11.24	4.64
2016Q4	0.24	3.54	0.97	-4.29	6.73	-1.33	10.50	-0.06	5.28	0.89	2.35	9.30	4.15
2016Q3	0.49	2.41	-0.69	-5.97	6.48	-4.59	9.67	1.52	4.90	0.46	5.97	8.75	3.56
2016Q2	-0.10	2.18	-1.21	-6.24	6.51	-5.75	8.33	2.50	5.22	0.57	4.65	7.36	3.38
2016Q1	-2.05	3.31	-2.27	-6.95	7.94	-6.44	8.80	8.53	5.38	2.34	2.07	8.02	3.73
2015Q4	-2.64	2.02	-1.57	-3.09	6.63	-12.34	7.23	9.60	7.07	2.50	3.02	9.69	4.17
2015Q3	-1.89	0.96	-10.07	-1.55	8.57	-9.36	7.76	8.89	6.43	0.37	3.11	8.15	3.70
2015Q2	0.72	0.69	-10.17	-0.62	5.88	-8.26	7.87	9.09	6.82	-0.45	5.43	8.69	3.59
2015Q1	2.48	-0.10	-9.20	-0.49	3.81	-6.72	6.06	9.25	6.67	-3.62	7.31	7.78	3.00
2014Q4	2.39	1.68	-8.15	-2.03	2.69	-0.27	6.23	10.00	5.80	-3.71	4.46	6.70	2.71
2014Q3	1.92	3.24	1.98	-3.58	2.78	-3.90	4.71	9.51	5.69	-4.87	-0.81	7.45	2.59
2014Q2	-1.55	3.97	2.10	-2.55	3.84	-2.46	3.63	8.61	4.76	-4.29	-4.48	6.22	2.34
2014Q1	-2.07	3.81	1.22	-1.99	2.85	-5.95	2.57	7.55	4.51	-2.98	-6.50	5.37	1.71
2013Q4	-1.15	2.86	-0.01	-1.46	4.06	-4.43	2.56	6.51	3.31	-3.43	-4.95	5.41	1.45
2013Q3	-1.73	1.94	0.68	-2.47	2.38	-1.62	2.89	3.76	2.95	-3.42	-4.60	4.78	1.18
2013Q2	0.98	1.69	0.99	-4.72	1.92	-5.44	3.42	3.83	2.11	-1.22	-0.52	4.42	0.61
2013Q1	1.36	2.16	2.34	-6.77	2.84	-4.52	4.36	4.43	2.34	0.25	1.76	4.04	1.11

Source: WIIW

Survey Description

Key statistics

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

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

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

- 15 international groups
- 85 local banks/subsidiaries.

Average coverage: 50% of regional banking assets.
Countries covered: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, North Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine[1].

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

The CESEE Bank Lending Survey – technical note

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

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

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

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

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

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

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

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

The countries currently included in the survey are: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine.

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

The first 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…

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

PART B

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

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

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

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

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

OVER the LAST 6 months

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

OVER the NEXT 6 months

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

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

	Over the **LAST** six months	Over the **NEXT** six months
Impact on credit standards		
A) Domestic Factors - *affecting your subsidiary*		
i) Local market outlook		
ii) Local bank outlook		
iii) Local banks access to total funding		
iii.a) of which: domestic		
iii.b) of which: international/intra-group		
iv) Local bank capital constraints		
v) Change in local regulation		
vi) Competition		
vii) Credit quality (NPLs)		
viii) Bank's liquidity position		
ix) Risk on collateral demanded		
B) International Factors *- affecting your subsidiary*		
i) Group Company outlook		
ii) Global market outlook		
iii) Overall group access to funding		
iv) EU Regulation		
v) Group capital constraints		
vi) Global Competition		
vii) Credit quality (NPLs)		

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

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

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

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

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

...Loans or credit lines to enterprises

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

...Loans to Household

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

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

	…Has the non-performing loans ratio changed over the last six months?	*…How do you expect the non-performing loans ratio to change over the next six months?*
Total		
Retail		
Corporate		

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

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

ECONOMICS – REGIONAL STUDIES

CESEE

Central, Eastern and South-Eastern Europe

Bank Lending Survey

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