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CESEE Bank Lending Survey

H2-2015

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

CESEE Bank Lending Survey – H2 2015

Coordinator

Luca Gattini

Lead authors

Luca Gattini: CESEE regional chapter, Albania, Bosnia, Serbia,
Aron Gereben: Croatia, Hungary, Poland
Atanas Kolev: Bulgaria
Tomas Slacik: Czech Republic, Kosovo, Slovakia, Romania

Economic Editors

Debora Revoltella
Mark Allen
Luca Gattini

Data and analytical support

Tomasz Olejnik

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

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FOREWORD

The last fifteen years have witnessed many significant developments in the banking sector in Central Europe and South Eastern Europe (CESEE). From the late 1990s until 2008, the CESEE banking sector experienced an accelerated pattern of growth. A large number of international banks invested in the region and contributed to an inflow of capital and new banking practices. Lending growth was extraordinarily high, helping to close the region's financial penetration gap. On the flipside, it led to a build-up of imbalances and risks. The global financial crisis and EU sovereign debt crisis put a halt to the credit boom. Despite increased scarcity of capital and funding, the international banks' active in CESEE have remained committed to their CESEE growth strategy.

The Vienna Initiative was crucial at the peak of the crisis. International banks formally undertook to provide capital and funding where needed to their subsidiaries, thus averting the risk of a disordered deleveraging. As the first acute phase of the crisis has faded, the CESEE banking sector continues to reshape. While there is still evidence of a financial penetration gap, a new banking model is emerging, with international banks calling for greater independence for their subsidiaries and a more balanced funding model, based on domestic resources. At the same time the recovery in lending has been slow, reflecting a mixture of demand and supply factors. Moreover, the international banks operating in the region have started to be more selective with regard to their CESEE strategies, clearly discriminating between countries and committing only to those markets that clearly offer long-term opportunities. Some of the international players have been subject to substantial restructuring at group level, with associated requests to reassess their own international position.

The Vienna Initiative (now known as "VI 2.0") has – via the Deleveraging and Credit Monitor – been monitoring the international banks' deleveraging process and related constraints on lending activity since the second quarter of 2012. In this context the EIB developed the CESEE Bank Lending Survey, which has been conducted on a semi-annual basis since October 2012 and investigates the strategies of international banks operating in CESEE as well as market conditions and market expectations, as perceived by the local subsidiaries/local banks. The survey seeks to disentangle the effects of demand and supply factors on credit developments, as well as the impact of national and international factors on demand and supply conditions. Results are key, to properly define policy actions. The latest administration of the survey was finalised in September 2015.

Debora Revoltella
Director of the Economics Department
European Investment Bank

Survey Description

Key statistics

- Developed in the context of the Vienna Initiative (VI) 2.0 as an additional instrument to monitor:
    - cross-border banks' deleveraging in CESEE
    - the determinants/constraints influencing credit growth in CESEE
    - market expectations of future developments.
- Target groups: international banks active in CESEE interviewed at group level and local banks/local subsidiaries of these groups interviewed at single-entity level:
    - 15 international groups
    - 86 local banks/subsidiaries.
- Average coverage: 50% of regional banking assets.
- Countries covered: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine[1].
- Periodicity: semi-annual (Sep/Oct and Mar/Apr). The first survey was conducted in October 2012.

The CESEE Bank Lending Survey – technical note

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

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

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

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

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

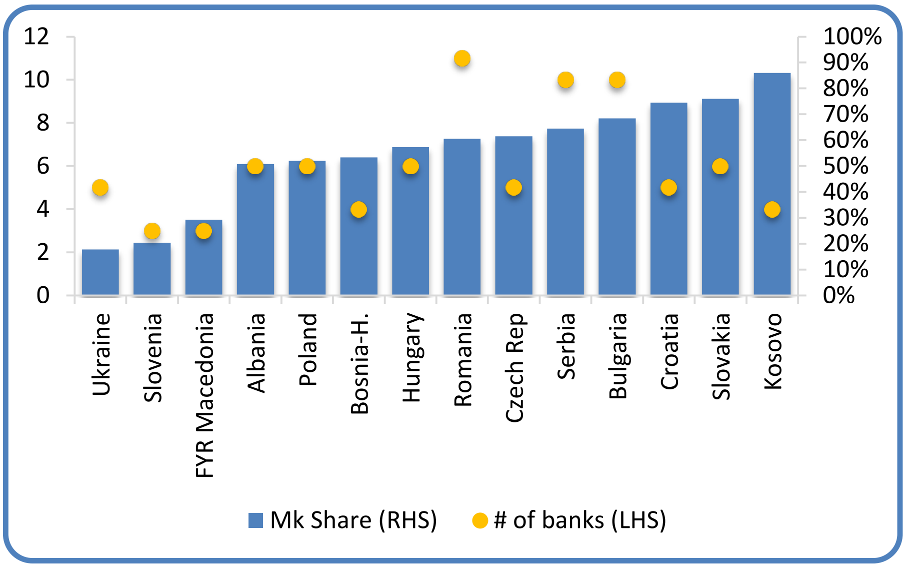
Given these features, the survey is a unique instrument for monitoring banking sector trends and challenges in CESEE. It complements domestic bank lending surveys by adding the value of comparability across countries and the unique feature of specifically addressing the parent/subsidiary nexus. It also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

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

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

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

Figure 1: Market share and number of banks



Source: EIB – CESEE Bank Lending Survey.

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

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

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

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

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

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

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

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

Regional Overview

1. Summary – *Demand for credit improved further over the last six months, while supply conditions did not change – thus increasing the demand-supply gap. NPL ratios started to fall, however the levels remain considerably high. International banks continue to decrease somewhat their aggregate exposure to the region, but not in all markets thus continuing to discriminate among them*

International groups' views:

- **Global strategies:** Cross-border banking groups continue to sell assets and engage in other forms of restructuring to increase their group capital ratios. Deleveraging at the group level has significantly decelerated, with only a fifth of the banking groups expecting a further decrease in group-level LTD ratios.

- **Commitment to CESEE**: Banking Groups continue to reassess their country strategies and discriminate between countries of operation. Roughly 70 percent of groups describe profitability in CESEE operations as outperforming the profitability of the group as a whole; this explains why a significant number of banking groups (60 percent) signal intentions to expand operations selectively. Market potential continue to differ significantly across countries, with low or deteriorating market potential seen in Albania, Bosnia-Herzegovina, Croatia, FYR Macedonia, Hungary, Serbia, Ukraine, and marginally in Slovenia. Relatively low profitability is also associated with operations in Albania, Bosnia-Herzegovina, Croatia, FYR Macedonia, Romania, Serbia and Ukraine.

Subsidiaries' / local banks' views:

- Aggregate **supply conditions** did not change fundamentally over the past six months. Across the client spectrum, credit standards continued to ease for consumer credit and for SMEs eased marginally, whilst they did not change for large corporates. NPLs, the regulatory environment and bank's capital constraints are perceived as the main factors adversely affecting supply conditions.

- In the last six months, **demand** for loans improved across the board. This marks the fifth consecutive semester of positive developments. All factors influencing demand had a positive contribution. Debt restructuring, working capital and investment accounted for a good part of the improved demand.

- **Access to funding** continued to become easier in the CESEE region, albeit at a much lower pace than in the past. It was supported by easy access to retail and corporate deposits. Contrary to the previous release of the survey, longer-term funding conditions deteriorated. Also on balance intra-group funding contracted.

- **NPL ratios** continued to improve for the second time since the inception of the survey. In absolute terms, the share of subsidiaries indicating an increase in their NPL ratios over the past six months fell to 22 percent (down from 50 percent a year ago). However the NPLs stock remains a crucial problem for most countries.

2. Results of the Bank Lending Survey:

2.1 Parent banks

1. **Restructuring continues, and increases of capital have been mainly achieved via sale of assets at the global level. Deleveraging at the group level seems to have decelerated; however some reductions in the groups' LTDs are still expected.** Cross-border banking groups continue to be engaged in various forms of restructuring at the global level to increase their group capital ratios, and they expect this process to continue over the next six months (Figure 1). Capital was raised primarily through the sales of assets and partially by sales of branches, and there was no resort to capital provision from the state. A smaller, but still significant, set of banking groups continued to raise capital on the market, as reported in the previous releases of the survey. Looking at the next six months, contributions to balance sheet strengthening are again expected to come mainly from sales of assets, but an increase in sales of branches at the global level should make a contribution too. Capital market activities are expected to play a still positive but more limited role. In addition some government contributions to increase capital are also expected. Some of these results are influenced by a strategic positioning coming from the Greece-based groups. Deleveraging at the group level (Figure 2) has significantly decelerated. Now only roughly a fifth of the banking groups expect a decrease in group-level loan-to-deposit (LTD) ratios,

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

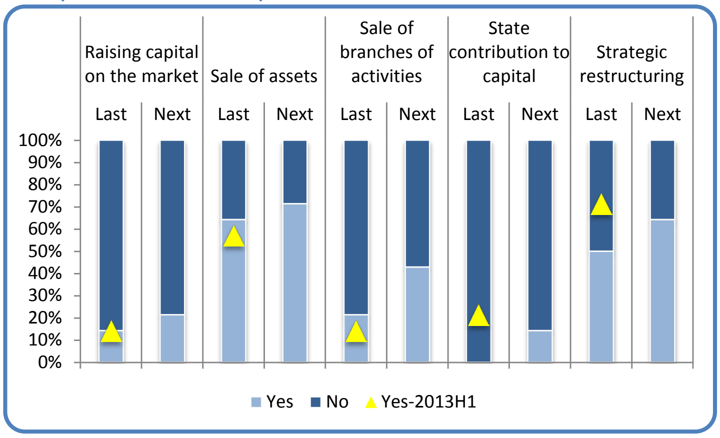
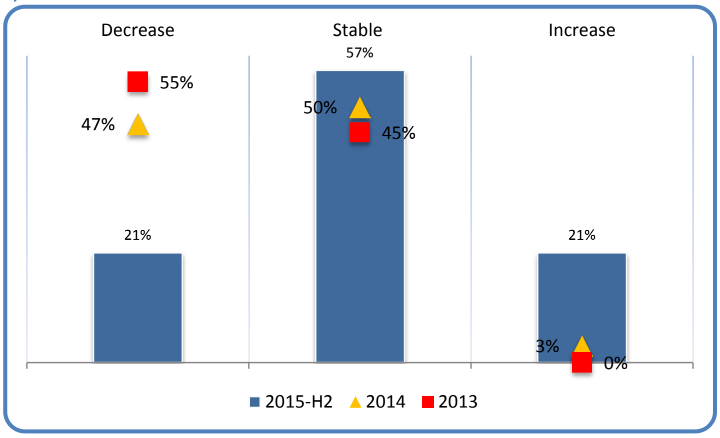


Figure 2: Deleveraging: loan-to-deposit ratio (expectations over the next 6 months) – see question A.Q3 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

well below the average survey outcomes recorded in 2013 and 2014, and also below the level recorded in the previous release of the survey. Moreover an increasing number of groups report expectations of an increase in the LTD ratio. These results show a picture of consistently more active banking sector.

2. **Group-level funding conditions deteriorated moderately** (Figure 3.a) **for the first time for two years.** The diminished access to funding is considered a temporary and rather localised phenomenon. First, the decrease in access to funding comes in a period of accentuated financial stress derived from the Greek crisis in spring/summer 2015. Second, most of the decline in the access to funding came from groups headquartered in Greece. Filtering these banks from the aggregate results, we find that the overall access to funding remained positive for all other groups over the past six months, albeit with visible deterioration compared to the recent past. In detail, the recently detected dynamics in access to funding mainly reflect deterioration in retail, IFI funding and interbank market access, as well as wholesale debt issuance over the past six months. The size of the latter segment, however, remains a relatively small source of funding. All in all, groups increased their recourse to central bank financing rather substantially compared to a year and half ago. Looking at the next six months, funding conditions are expected to recover, returning to levels of improvement detected a year ago (Figure 3.b). More funding is predicted, primarily from corporates, retail, IFIs and marginally from the interbank

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

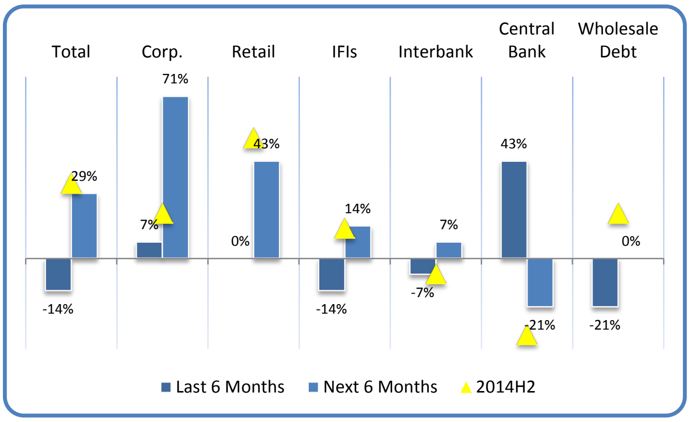
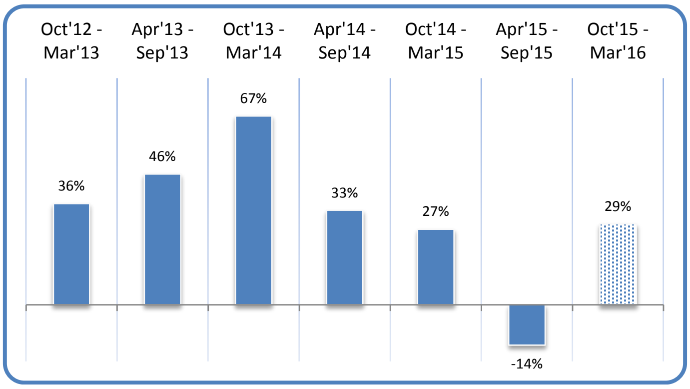


Figure 3b: Total access to funding conditions – *net percentages; positive values indicate increased access to funding* – see question A.Q2 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

market. In addition, central bank funding is expected to shrink somewhat. The expected easing in access to funding is broad-based, with a more pronounced rebound detected for banks headquartered in Greece.

3. **Around a third of the banking groups continued to reduce their total exposure to the region over the last six months. On the other hand, the improving trend detected earlier is continuing whereby more and more groups expect a substantial stabilisation of exposure and even an increase over the next six months.** Almost all the decrease in exposure to the CESEE region arose from reduced intra-group funding to subsidiaries. This process is expected to continue over the next six months, although at a slower pace (Figure 4.a). Moreover, the net reductions in intra-group exposures have been continuing over the last year or so, but on a diminishing scale. As expected in the March 2015 release of the survey, some groups even expanded their intra-group funding of CESEE subsidiaries. This trend solidifies the tentative signals of stabilisation. On the other hand, all parent banks report that they maintained their capital exposure to their subsidiaries, or even marginally increased it, and they expect to continue to do so. Increasing capital exposures have partially compensated for decreased intra-group funding, although the aggregate net balance has been still negative over the past six months (Figure 4.b). Looking at the next six months, the net balance is expected to turn neutral, tentatively indicating an end to net outflows. In addition, the survey detects that the expansionary monetary policy operations implemented by the ECB (TLTROs and asset purchase programmes) may continue to have an indirect positive impact at the margin on groups' exposures to the CESEE region over the next six months.

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

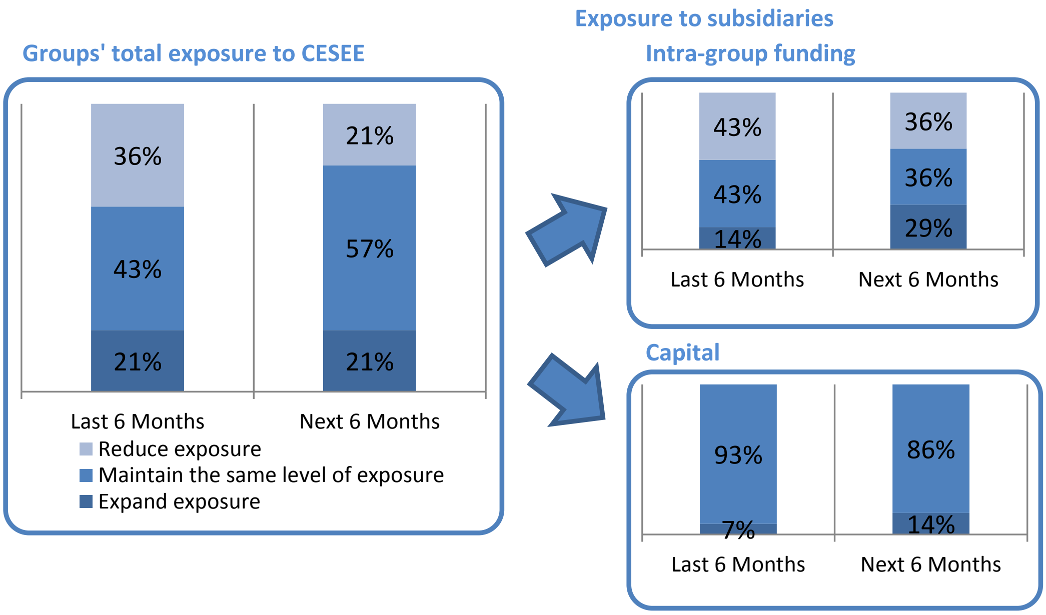
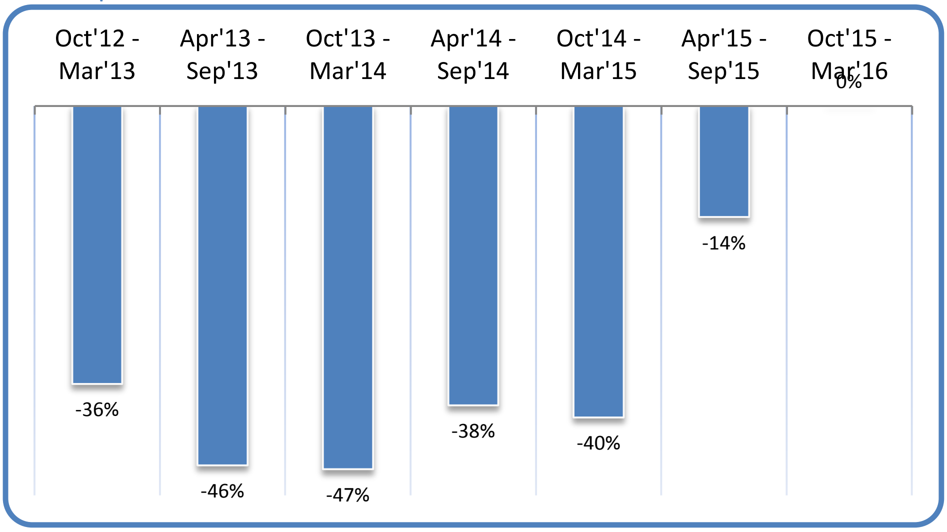


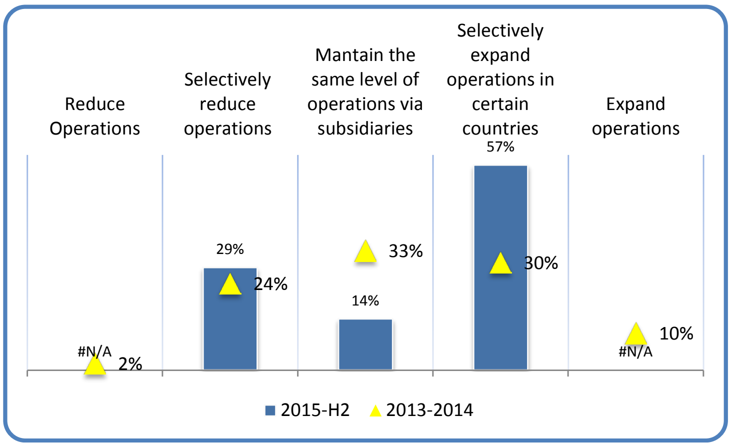
Figure 4.b: Groups' total exposure to CESEE – Cross-border operations involving CESEE countries – see questions A.Q7 – *net percentages;* negative figures refer to decreasing exposure – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

4. **Cross-border banking Groups continue to reassess their country strategies and to discriminate between their countries of operation in CESEE: at the same time a significant number of banking groups are signalling their intention to expand operations selectively over the next year** (Figure 5)**.** A large majority of the international groups operating there described their CESEE operations as an important part of their global strategies. In addition, a large number of international banking groups report profitability for CESEE operations as higher than overall group performance.

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



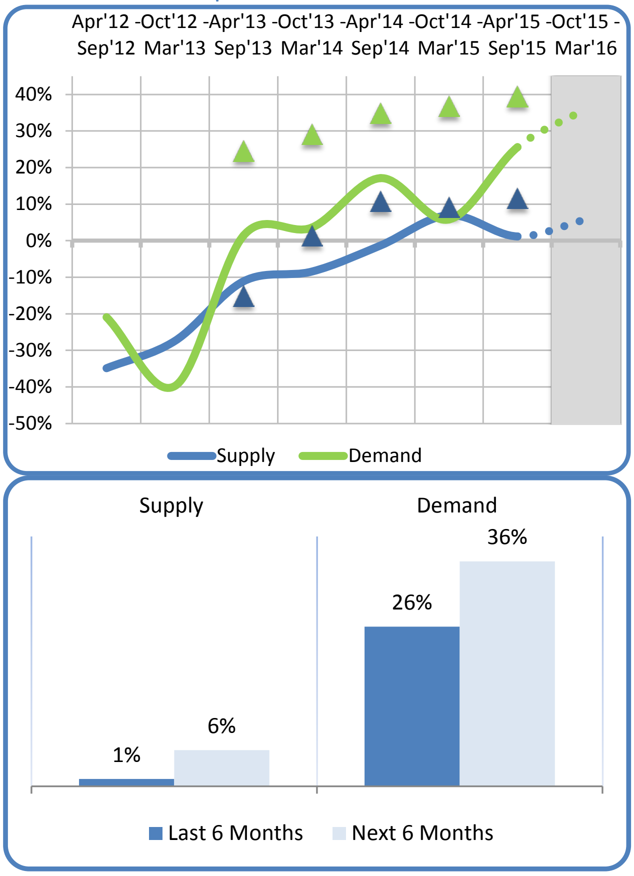
Source: EIB – CESEE Bank Lending Survey.

Roughly 70 percent of groups describe profitability in CESEE operations (measured by return on assets) as outperforming the profitability of the group as a whole. This is marginally lower than in the previous release of the survey. At the same time this confirms the new positive trend that emerged a year ago. While cross-border banking groups continue to discriminate in terms of the countries in which they operate (Figure 5) as they reassess their country-by-country strategies, they are also increasingly signalling their intentions to expand operations selectively in the region. Almost 60 percent of the groups expected to expand their operations selectively, up from an average of 40 percent for 2013-2014. On the other hand, a smaller number of groups (roughly 30 percent) consistently indicate that may selectively reduce operations over the next twelve months. Looking more carefully at the results, most but not all of such banking groups are based in Greece. In addition, market potential and positioning continue to differ significantly across countries (Annex A.5 and A.6). The assessment of market prospects is consistent with the results reported in the previous releases of the survey. However some changes in assessments, both positive and negative, also occurred. Surveyed banks see the market potential (Annex A.9 for data on low market potential) as being low or having deteriorated in Albania, Bosnia-Herzegovina, Croatia, FYR Macedonia, Hungary, Serbia, Ukraine, and marginally in Slovenia. In the other countries of the region, relatively few banks see poor prospects, while most see reasonable market potential. In terms of market positioning, most banks in the majority of markets remain comfortable with the scale of their operations. However, weak positioning is frequently seen as combined with limited market potential. A good part of the surveyed banks find their positions in Serbia in the weak or niche category (Annex A.10 for data on weak positioning), and this is also the case in FYR Macedonia, Ukraine and Slovenia. For a few banking groups a lower, but still significant, weak positioning is also detected in Albania, Bulgaria, Hungary, Poland, Romania and Slovakia. This assessment is also generally reflected in the assessed profitability of markets in terms of ROA (adjusted for cost of risk) and ROE (adjusted for cost of equity) where prospects are seen to be quite differentiated from one country to another (Annex A.7 and A.8). Low profitability is associated with operations in Albania, Bosnia-Herzegovina, Croatia, FYR Macedonia, Romania, Serbia and Ukraine. Hungary is also described as a relatively poorly performing market in terms of returns on equity.

2.2 Local banks/subsidiaries

1. **CESEE subsidiaries and local banks report an increase in demand for credit and almost unchanged supply conditions over the past six months. While demand is expected to continue to increase robustly, supply conditions are expected to improve only marginally during the next six months. This generates an increasing demand-supply gap.** In the last six months, **demand** for loans and credit lines has improved (Figure 6). Moreover the improvement was basically in line with the expectations embedded in the March 2015 release of the survey. This marks the fifth consecutive semester with a positive increase in credit demand for loans. For the second time all factors influencing demand had a positive contribution. Debt restructuring and working capital (see Annex A.1) accounted for a good part of the demand stemming from enterprises. Furthermore, the contribution to demand conditions from investments also started to exert a significant positive impact. Contributions to demand from housing-related and non-housing-related consumption also continued to be positive. Looking ahead, demand is expected to continue to increase. It should be noted that expectations have been consistently overoptimistic in the recent past (see green triangles in Figure 6). Therefore the expected improvement may be exaggerated. However the generalised return to growth may support the current positive expectations. **Supply** conditions were basically neutral over the past six months, whilst they eased marginally a year ago. Across the

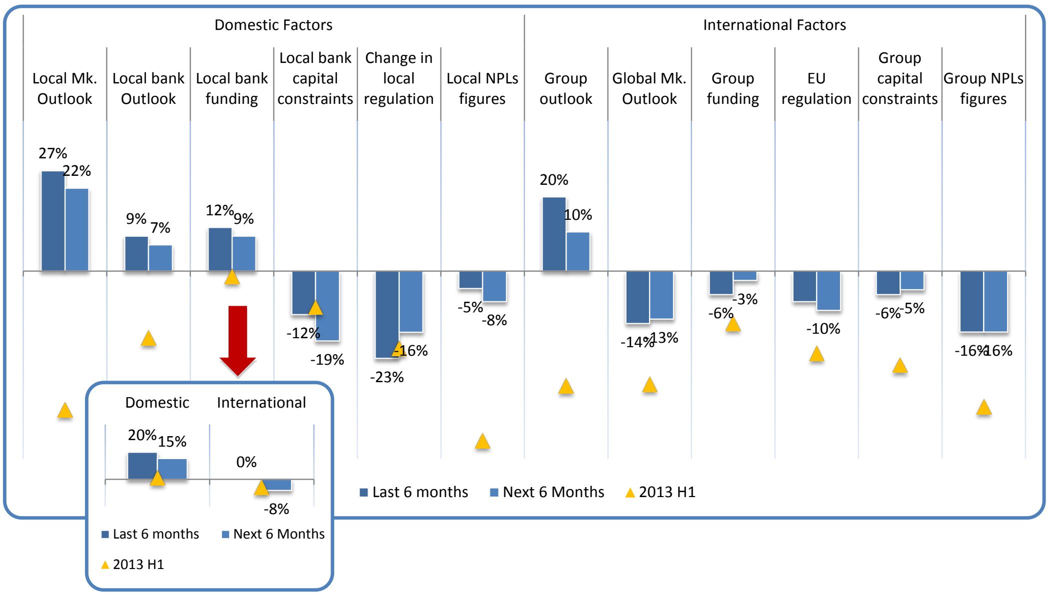
Figure 6: Total supply and demand, past and expected development – *net percentages;* positive figures refer to increasing (easing) demand (supply) (triangles refer to expectations derived from previous runs of the survey, lines report actual values and dotted lines expectations in the last run of the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



Source: EIB – CESEE Bank Lending Survey.

client spectrum, supply conditions (credit standards) continued to ease for consumer credit (see Annex A.3), as already highlighted in the last three releases of the survey. For the second time, supply conditions for SMEs eased, while credit standards for large corporates did not change. In the period ahead, banks foresee a pick-up in **expected** credit **demand** and a gradual easing of **expected supply** conditions. Debt restructuring, working capital, investment, consumer confidence, housing and non-housing-related expenditures are all expected to make a positive contribution to demand. Credit demand from enterprises (including SMEs) and from households is also expected to be robust (see Annex A.2). Aggregate supply conditions are expected to ease. Roughly a year and a half ago, a tentative easing was coming from short-term maturities and consumer credit only. This time, the easing of supply conditions seems to be broader-based, except for loans for house purchases (see Annex A.3). General terms and conditions for loan supply to the corporate market segment continued to ease over the past six months, as expected in last year's release of the survey; however, collateral requirements tightened further. A cumulated index, built on the demand and supply changes reported in Figure 6, hints at a widening gap between demand and supply situations, where growing optimism on the demand side continues to be frustrated by a much slower improvement of conditions on the supply side.

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



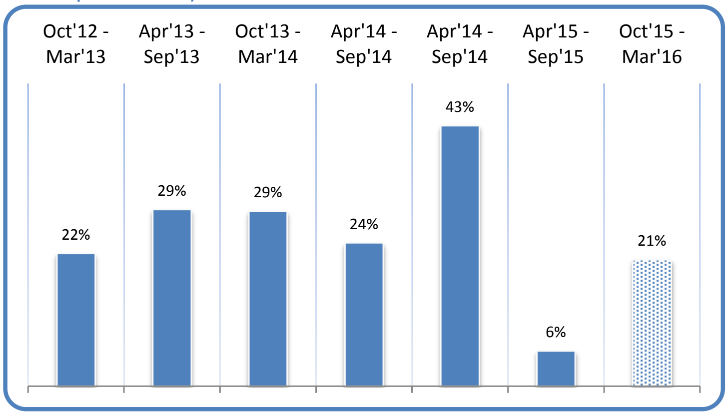
Source: EIB – CESEE Bank Lending Survey.

2. **NPLs, the regulatory environment and bank's capital constraints, at both the domestic and group levels, are the main factors still adversely affecting supply conditions.** Fewer domestic factors are still actively limiting supply

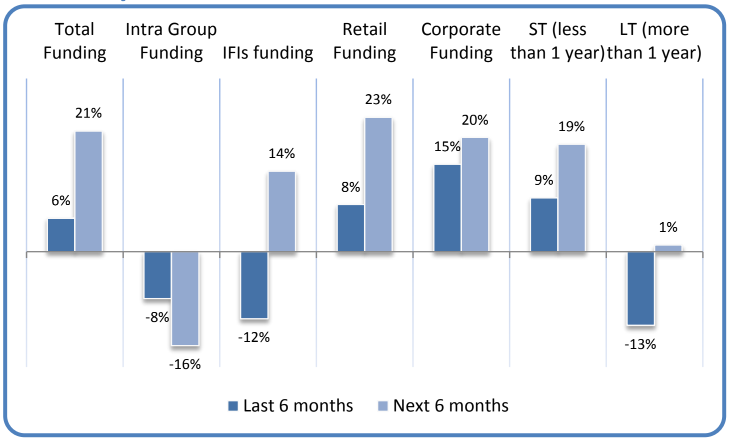
developments (Figure 7). The number of limiting factors has been decreasing over time since this survey started in 2012. Figure 7 shows that almost all domestic and international factors were adversely affecting supply conditions in the first half of 2013. However, the last release shows that only NPLs, the regulatory environment and bank's capital constraints remained limiting elements at the domestic level. As in the previous surveys, access to domestic funding does not appear to be a constraint. On the contrary, a significant set of international factors are now playing a constraining role compared to the March 2015 survey. Global market outlook, group funding, EU regulation, group capital constraints and group-wide NPLs are mentioned as having a negative effect on credit conditions. Overall, a worsening is detected compared to the previous release of the survey, which is also reflected in less positive aggregate supply conditions. This may be also related to temporary factors. One of those could have been the uncertainty affecting Greece-based banks during the discussions on the Greek macroeconomic adjustment programme. Looking ahead the same factors are expected to affect supply conditions in the same direction as in the recent past, albeit not so strongly.

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

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



B. Breakdown of funding conditions – results from latest survey



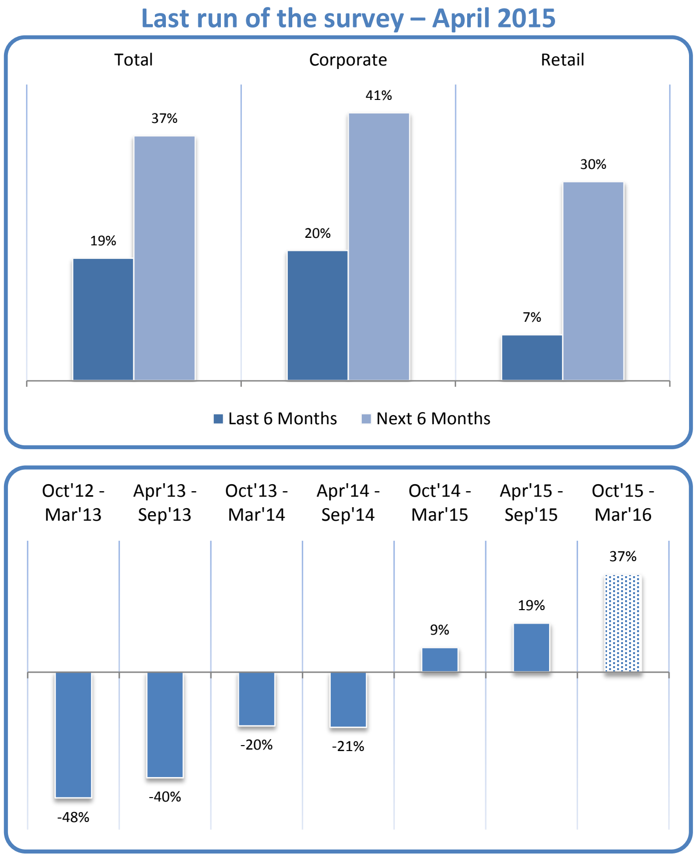
Source: EIB – CESEE Bank Lending Survey.

3. **Access to funding continued to ease in the CESEE region, although at much lower levels than in the past.** Easy access to retail and corporate deposits supports a positive outlook (Figure 8). In addition, CESEE subsidiaries report easier access to short-term funding as making a positive contribution to

overall funding activities. Contrary to the previous release of the survey, longer-term funding conditions have deteriorated. This does not support a reduction of maturity mismatches and does not help boosting banks' long-term stable funding ratios. Subsidiaries indicate that access to international and intra-group funding contracted on balance during the past six months, thus confirming the continuous downward trend and also reaffirming banks' expectations as reported in the March 2015 survey release. This is consistent with the information provided by the parent banks, where a majority of groups also indicated that they are still reducing their net exposure to the region (see Figure 5) primarily via lower intra-group funding.

4. **Credit quality has continued to improve, and is expected to continue to do so over the next six months. However NPLs remain high.** The speed of deterioration in NPLs ratios has been slowing down over time, as already pointed out a year ago. The March 2015 release of the survey pointed at a potential turning point in negative regional NPLs flows. Over the past six months, and for the second time, aggregate regional NPL ratios recorded an improvement in net balances terms (Figure 9). In absolute terms, the share of subsidiaries indicating an increase in their NPL ratios over the past six months fell to 22 percent (down from the 30 percent and 50 percent indicated in the March 2015 and September 2014 survey releases respectively). All in all, the share of subsidiaries indicating either a stabilisation or decline in their NPL ratios increased. It currently stands at almost 80 percent and is expected to increase to 90 percent, while only 10

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



Source: EIB – CESEE Bank Lending Survey.

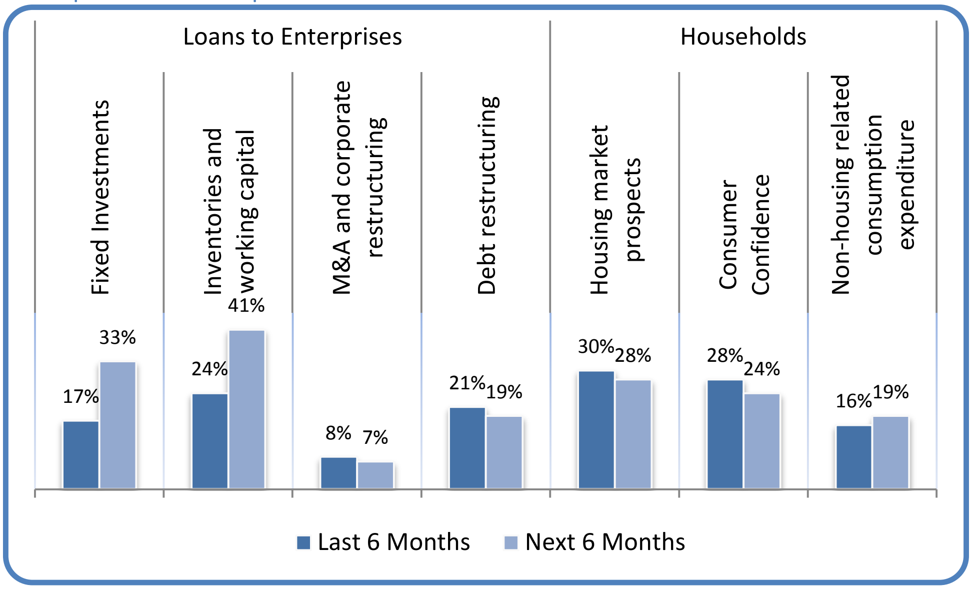
percent of banks continue to expect an increase in NPLs over the next six months (down from 22 percent in the March 2015 survey release). NPL ratios for both corporate and retail segments are expected to decrease robustly, providing even more positive signals than in March 2015 release of the survey.

5. **Overall the survey shows a stabilisation in the regional environment for lending, although lending levels still remain unsatisfactory. Moreover, the survey continues to highlight risks.** Aggregate credit demand conditions continued to be positive across the board. However supply conditions did not ease over the past six months, thus generating a further distance between an increasingly positive demand and a still subdued supply. NPL levels remain a drag on the supply of credit, despite NPL ratios slightly decreased. The resolution of NPLs is key to engineering the resumption of a healthy flow of credit to the economy to support the soft recovery on the demand side of the market. In addition capital constraints also remain a drag on further easing of credit standards. Last but not least, the survey documents an emerging differentiation in the attractiveness of certain markets. This is also directly connected to groups' positioning and assessed potential of individual markets. Therefore, risks may emanate from the scale and timing of any ownership change in the region.

Annex

A.1 Factors affecting demand for credit

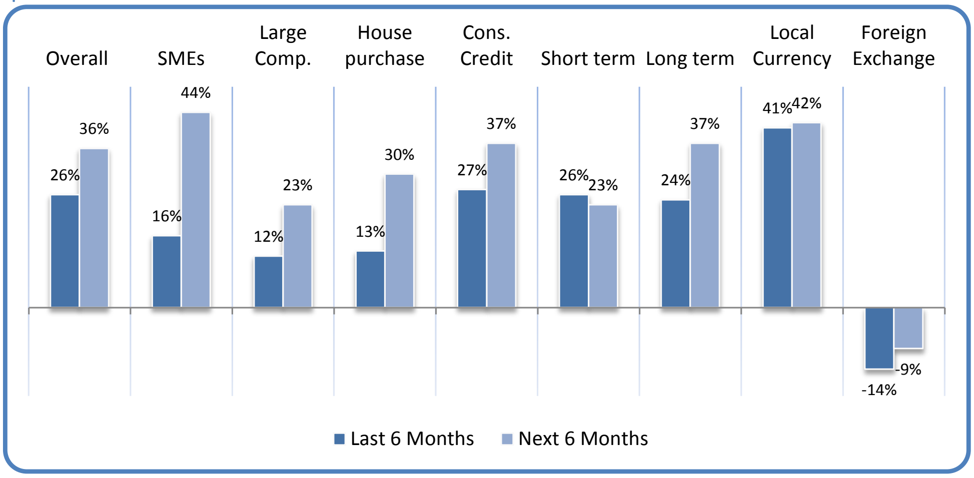
(net percentages; positive values indicate a positive contribution to demand conditions) – see question B.Q7 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

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

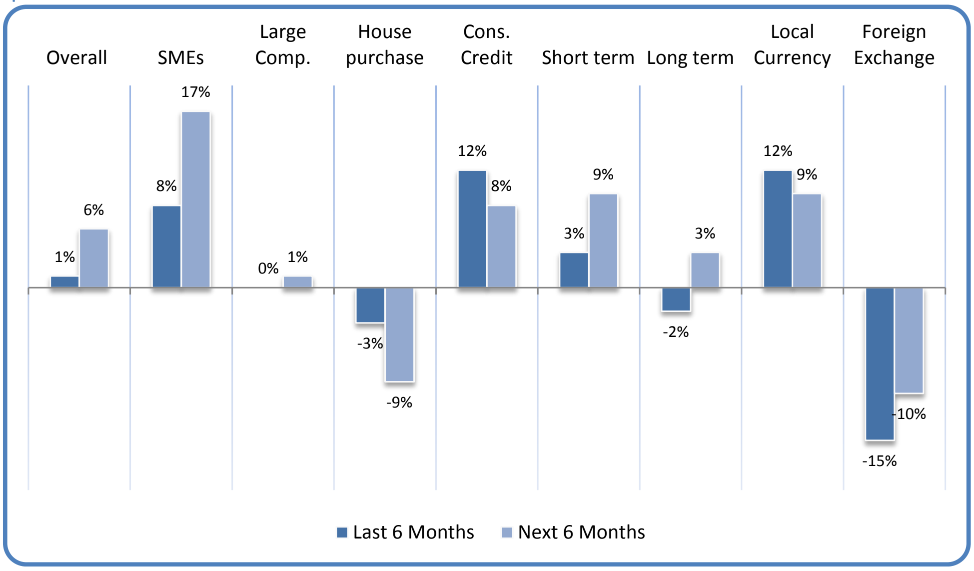
(net percentages; positive values indicate increasing demand) – see question B.Q5 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

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

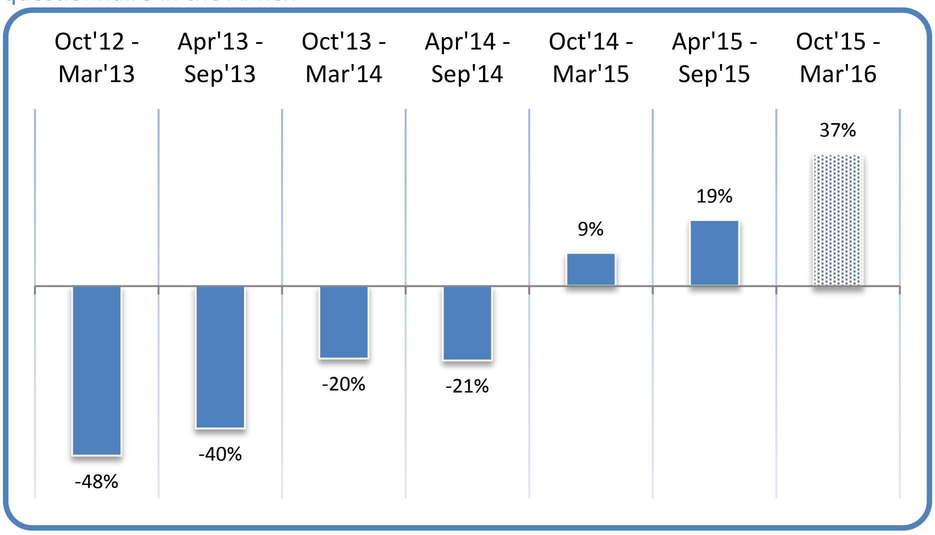
(net percentages; positive values indicate an easing supply) – see question B.Q1 – questionnaire in the Annex



Source: EIB – CESEE Bank Lending Survey.

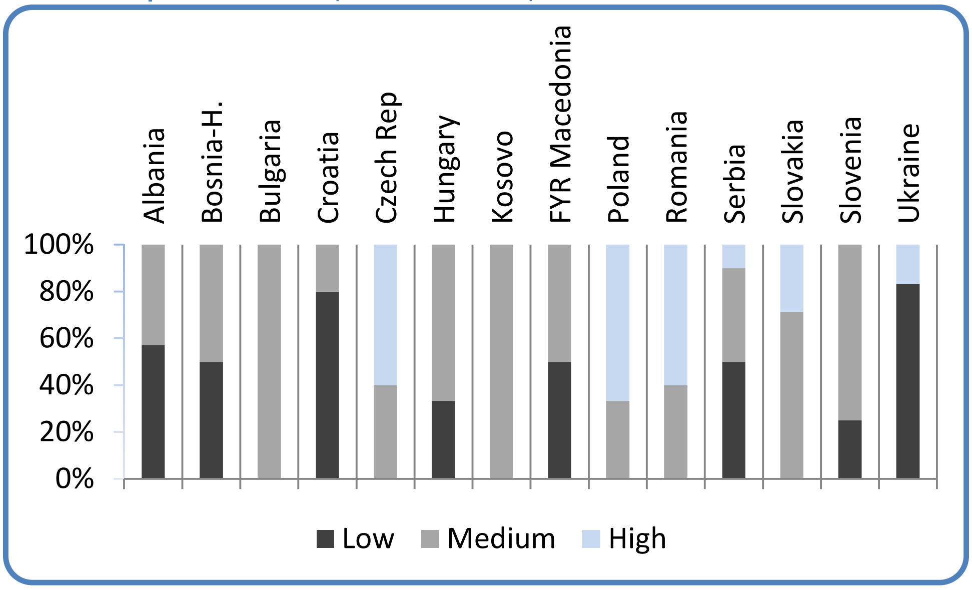
A.4 NPL trend line

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



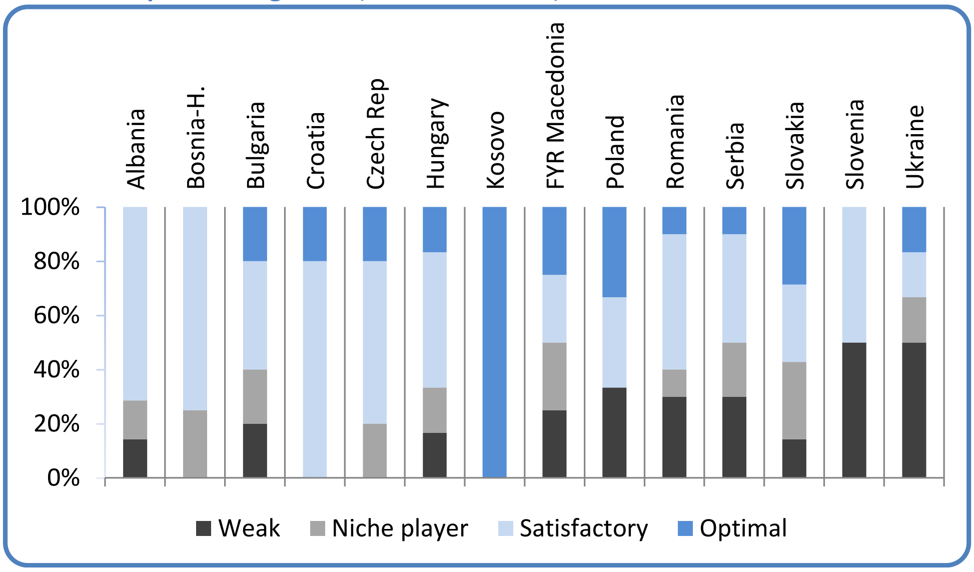
Source: EIB – CESEE Bank Lending Survey.

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



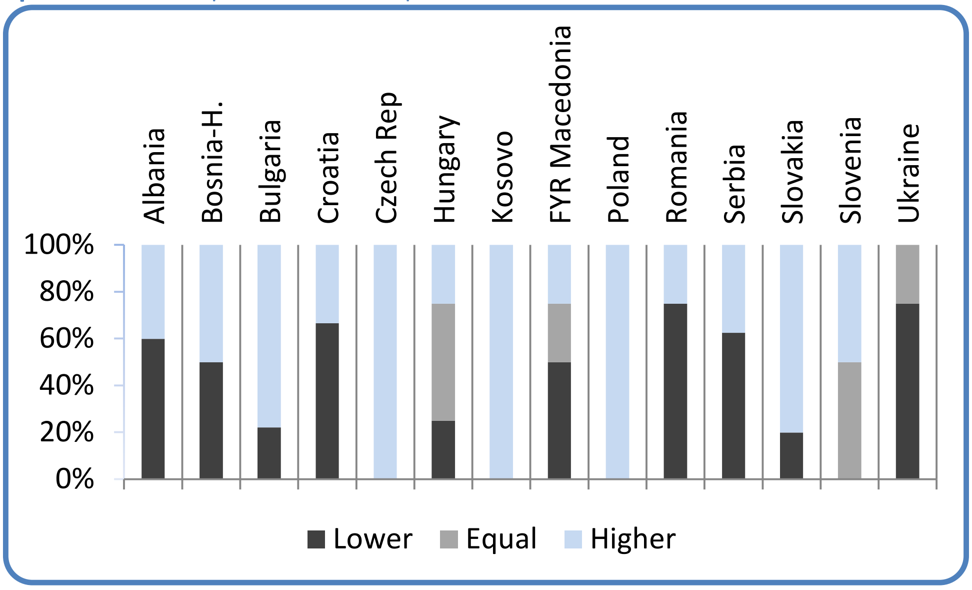
Source: EIB – CESEE Bank Lending Survey.

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



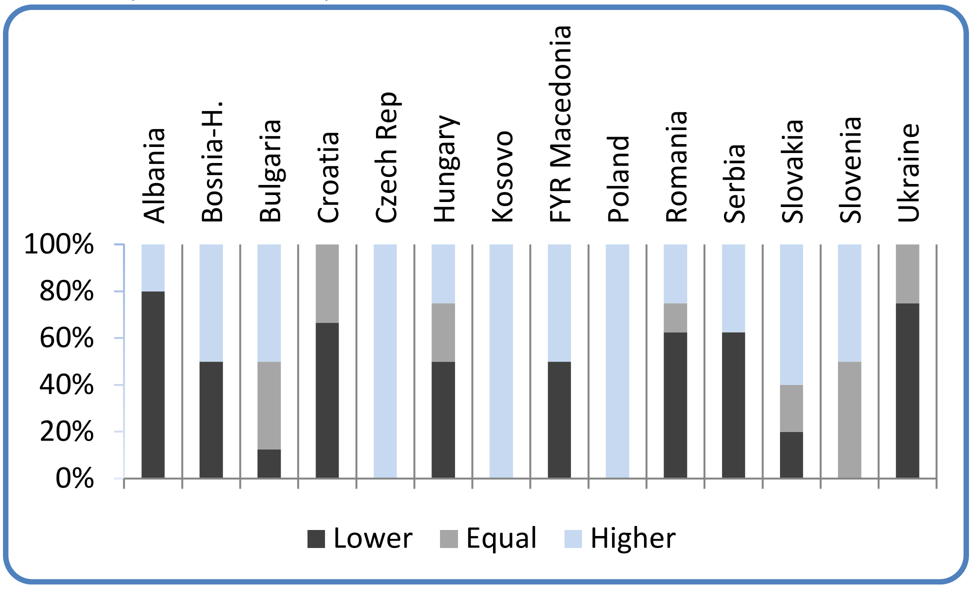
Source: EIB – CESEE Bank Lending Survey.

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



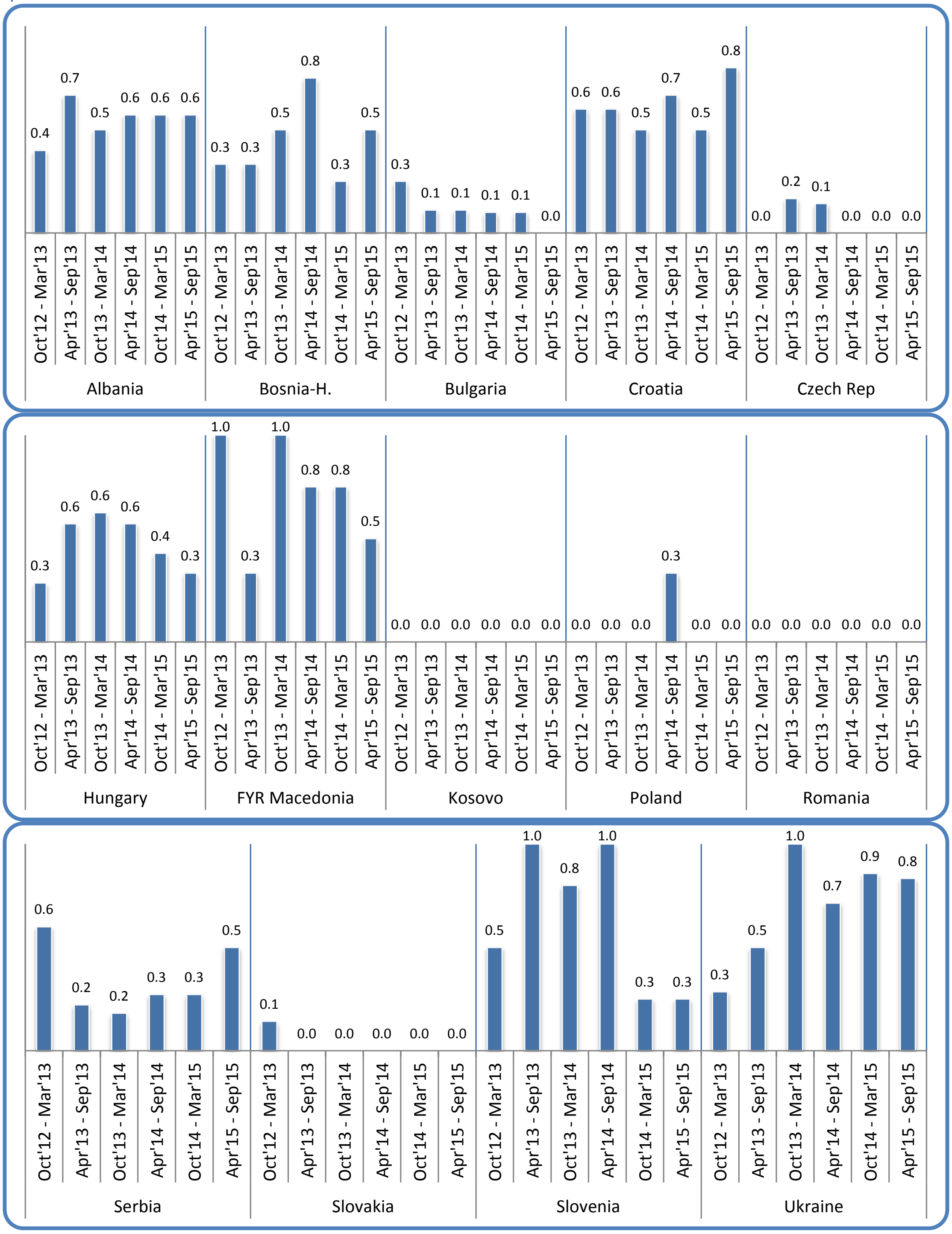
Source: EIB – CESEE Bank Lending Survey.

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



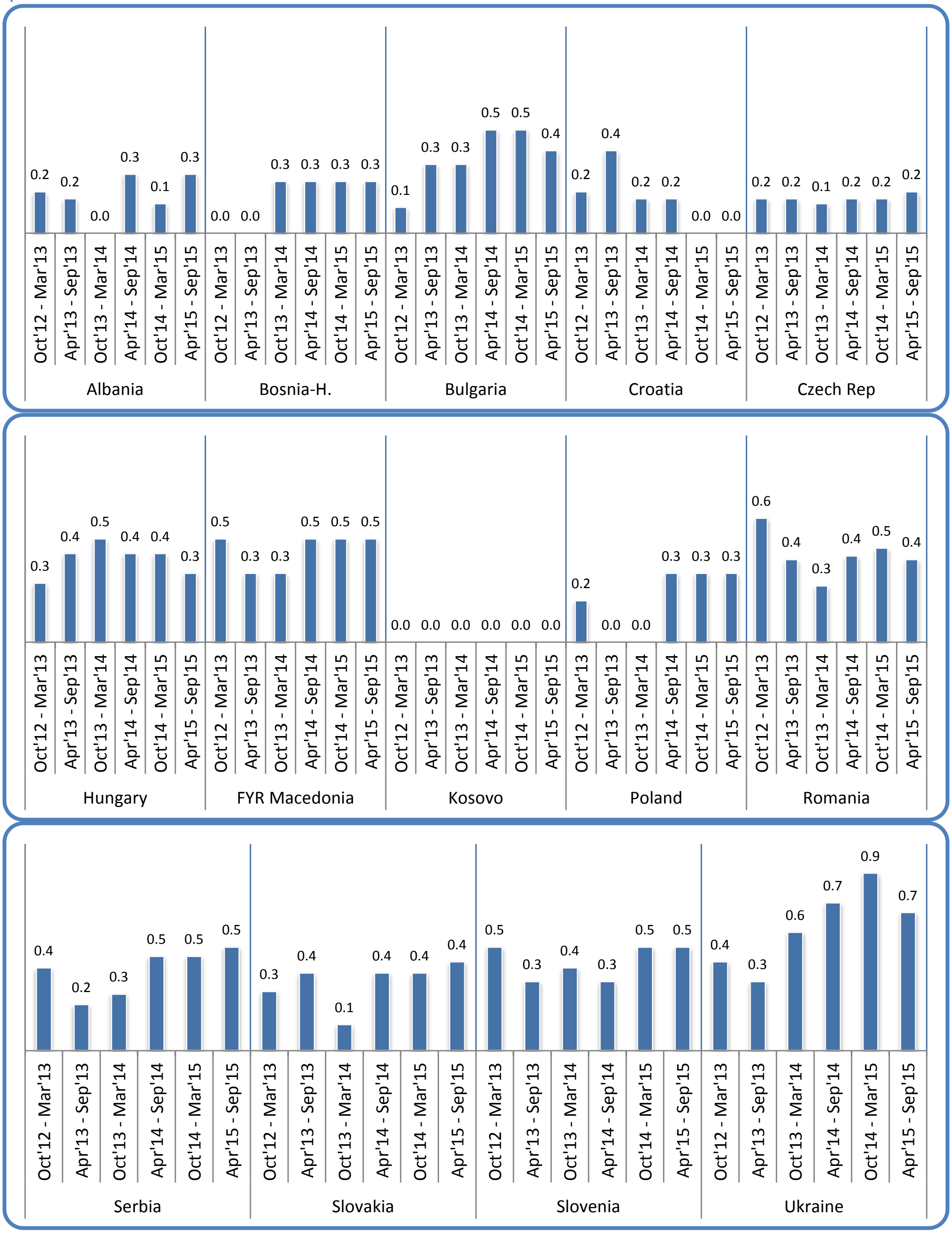
Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

Albania

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as proportion of total assets): approx. 51 percent
- Current level of NPLs as proportion of total loans: 20 percent (Q2 2015)
- Latest credit growth (yoy): 2 percent (Q2 2015)
- Loan-to-deposit ratio: 54.7 percent (end of June 2014)
- CAR: 16 percent (Q2 2015)

2. Key messages – *A deterioration both on demand and supply conditions is detected, with banks' capital constraints and NPLs described as main limiting factors*

International groups' views:

- **Group strategies**: most of the Groups operating in Albania report their leverage to have stabilized and they are expected to engage in restructuring processes primarily via the sale of assets.
- **Group assessment of positioning and market potential**: Albania is still perceived as a market with medium to low potential, with lower return on assets and on equity compared to overall group operations. However the majority of parent banks view their market positioning as satisfactory. All in all 70% of the groups operating in Albania intend to selectively reduce operations in the region.

Subsidiaries' views:

- **Credit supply conditions** deteriorated in the last six months due to a tightening on corporates, especially SMEs, and on households. A further deterioration is expected over the next six months. The high levels of NPLs have been and will remain the biggest burden on domestic supply conditions. In addition, bank outlook, funding, capital constraints and changes in local regulation also added a negative contribution.
- **Demand for loans** has been declining in Albania over the past six months whilst it is expected to increase again over the next six months. This has been driven by a generalised decline in demand from SMEs, large corporates and for mortgages, whilst consumer credit demand was stable.
- **Access to funding** has been decreasing and it is expected to continue to marginally decline over the next six months.
- **NPL figures** marginally deteriorated, mainly in the corporate segment. A robust improvement is expected over the next six months.

[1] Sources: Bank of Albania and European Commission

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** The Albanian economy grew by 1.9 percent in 2014. Real GDP increased 2.5 percent y-o-y in the second quarter of 2015, down from a rate of 2.8 percent y-o-y in the first quarter. Investments and net exposrts have been the main drivers of growth in 2015, with the construction sector reporting a substantial surge. Annual growth is expected to reach 3 percent in 2015 and 3.6 percent in 2016.
- **Unemployment:** In 2014 the unemployment rate reached 17.9 percent whilst it marginally decreased in the first half of 2015 (17.3 percent). At the same time, the rate of youth unemployment (15-29 years) continued to increase and reached 34.2 percent in the second quarter of 2015.
- **Inflation:** Headline inflation was estimated at 1.9 percent in the first quarter of 2015. After being on a decreasing trend for three years, inflation is expected to move back to the lower bound of the inflation target range set by the Bank of Albania, reaching on average 2 percent in 2015.
- **External and public sector balance:** In 2014 the current account deficit increased by 25.7 percent compared to the previous year and reached 12.9 percent of GDP. This trend has been inverted in the first half of 2015. Net FDI inflows rose for the second consecutive quarter in 2015. Latest foreign reserves figures also increased and stood at EUR 2.17 bn., equal to 6.8 months of total imports. Following a 10.7 percent y-o-y increase, public debt stood at 70.4 percent of GDP in the first quarter of 2015. The budget deficit for the first eight months of 2015 undershot the revised target and stood at 1.1 percent of estimated full-year GDP.
- **Banking sector:** Credit growth was mildly positive in the second quarter of 2015 (2% percent y-o-y). However it turned negative in August 2015 (-1.2 percent y-o-y). The NPLs ratio decreased in the second quarter of 2015, as already indicated in the H1 2015 release of the Bank Lending Survey. This probably reflects various efforts to improve the quality of loan portofolios, including a mandatory write-off of NPLs. Nevertheless, the stock of NPLs remains the major constraint on Albanian banks. Average interest rates on new loans declined over the summer, probably as a consequence of Bank of Albania's decision to cut the key interest rate to a historic low earlier this year. The level of capitalisation for the entire banking sector (CAR 16 percent Q2 2015) exceeds the required minimum of 12 percent. The loan-to-deposit ratio stood at 55.5 percent in 2014, slightly up from previous years. The liquidity ratios (in domestic and foreign currency) were above the minimum regulatory ratios. All in all the loan-to-deposit ratio was 55.5%, slightly up from the previous periods.
- **Rating:** Albania is currently rated B1 stable by Moody's and B by S&P with a positive outlook.

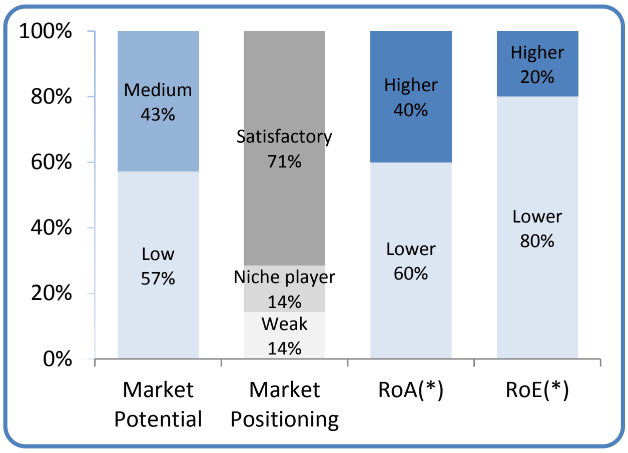
[2] Sources for the macroeconomic data: European Commission and Institute of Statistics (Albania). Sources for the banking data: European Commission and Bank of Albania.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. The large majority of parent banks operating in Albania report their leverage to have stabilized (as in March 2015 release), with less than 20 percent of them indicating the need to further decrease their group-wide loan-to-deposit ratios. All in all more than 80 percent of Groups expect their ratio to stabilise over the next six months compared to 40 percent of a year and half ago. A significant proportion of groups operating in Albania engaged in restructuring processes primarily via the sale of assets. Compared to the previous survey, a higher number of groups are willing to raise additional capital from the market whilst an equal proportion of them expects to raise capital selling branches of activities and carrying out strategic restructuring over the next six months. A small but significant number of Groups expects to increase the capital via capital contributions from the state. The latter is probably influenced by the ongoing recapitalisation exercise in Greece.

Figure 1. Market potential and positioning, ROE and ROA – see question A.Q13



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

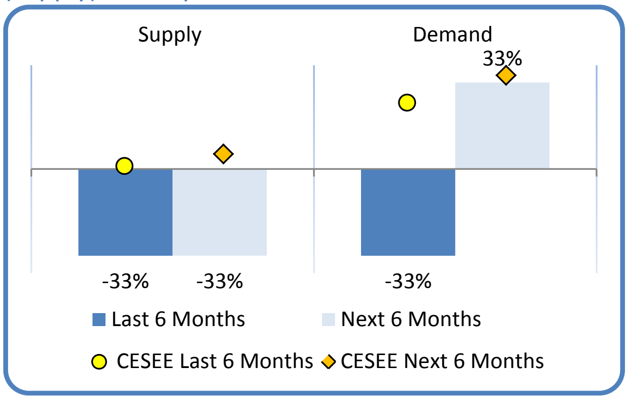
2. Albania is still perceived as a market with medium to low potential. However the majority of parent banks view their market positioning as satisfactory (Figure 1). A significant majority of parent banks still indicates lower return on assets and on equity in Albania compared to overall group operations; and this quota has been rather stable over the past year. Seventy percent of the groups operating in Albania report that they intend to selectively reduce operations in the region. This percentage is substantially higher than for the whole set of Groups included in the survey. To the contrary, only a third of them intend to selectively expand operations in the CESEE region. These figures are influenced by the relatively significant presence of Greek banking Groups in Albania.

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

4.2 Local banks/subsidiaries

1. Credit supply conditions continued to tighten in Albania in the last six months, whereas the results for the aggregate CESEE region reported no change in credit standards. Overall and with the exception of one release of the survey, credit standards have been tightening in Albania over the last two years. Albanian banks are expected to tighten further their credit standards in the coming six months. On the demand side, and contrary to expectations, Albanian banks have seen a drop in loan applications over the past six months. This is in stark contrast to continued rebound in demand for the CESEE region. Moreover, this has been the first significant decline in demand registered over the past two years. Demand conditions are expected to rebound markedly in line with the CESEE region over the next six months (Figure 2).

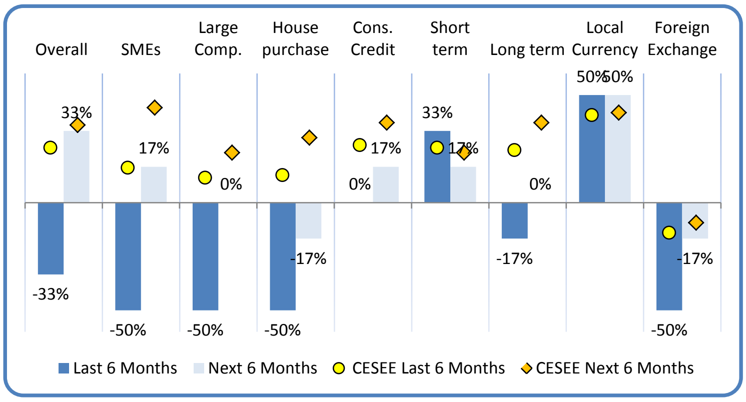
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to an increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. Contrary to the ascending trend recorded for the CESEE region, aggregate loan applications have been declining in Albania over the past six months (Figure 3). The decline in aggregate demand has been driven by a generalised decline of loan applications from SMEs, large corporates and of mortgages, whilst consumer credit demand was stable over the past six months. Generally most of the demand for loans was in local currency. On a positive note, demand for loans is expected to increase over the next six months. The aggregate rebound in demand for loans is primarily supported by an increase in demand from SMEs and consumer credit. After dropping over the past six months, demand for long term financing is expected to be stable over the next six months.

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

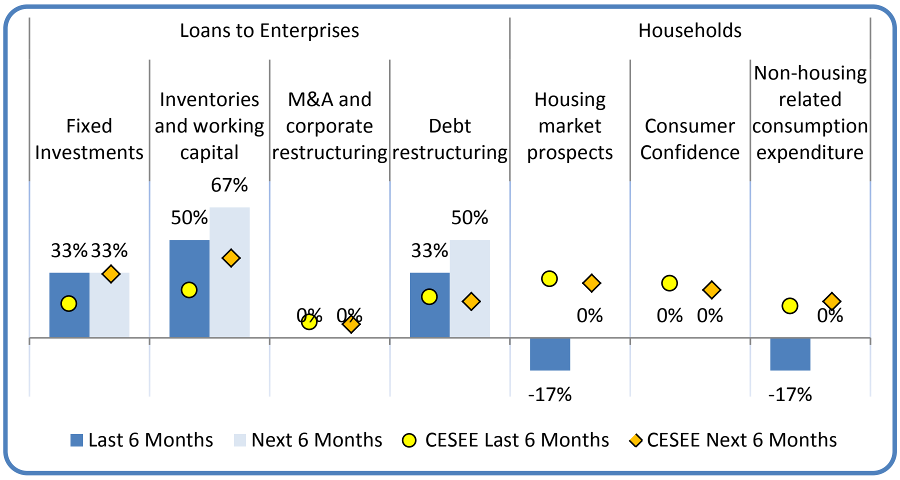


Source: EIB – CESEE Bank Lending Survey.

3. Figure 4 highlights some of the factors contributing to demand conditions. Despite the reduction in aggregate demand, some factors are described as

positively supporting to demand. Investment, working capital and debt restructuring have been supportive to demand conditions over the past six months, whilst household sector factors (e.g. housing market conditions and general consumption) have negatively affected demand conditions. The latter is decisively in contrast with the positive contributions registered for the whole CESEE region. The same factors are expected to continue to generate similar contributions over the next six months.

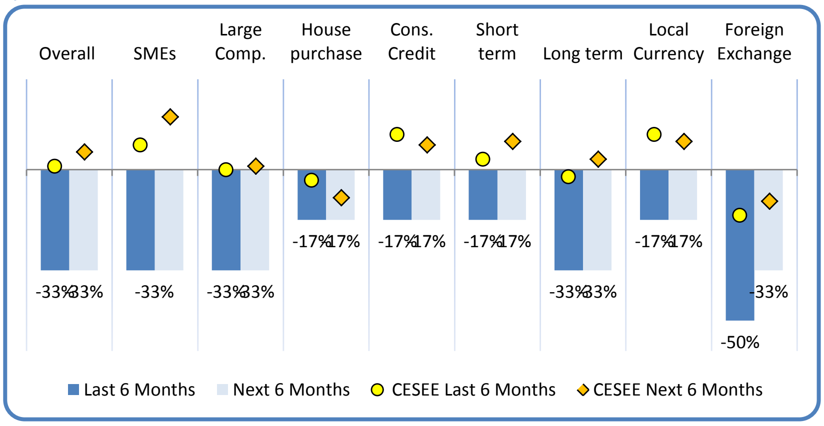
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. The overall supply components deteriorated in the last six months due to a tightening of credit standards in the corporate sector, especially in the SMEs segment (Figure 5). Credit standards have been tightening also in the household segment. A further deterioration is expected across the board over the next six months. To the contrary supply conditions are expected to better in the CESEE region for certain client categories and product lines. Supply conditions on long and short term maturity products have been tightening. They are expected to tighten across the board, primarily for the long term maturities.

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



Source: EIB – CESEE Bank Lending Survey.

5. Several domestic and international factors affected negatively credit supply conditions. Most of these factors are expected to continue to affect negatively supply conditions over the next six months. The high levels of NPLs have been and will remain the biggest burden on the domestic supply conditions (Figure 6). In addition, local bank outlook, funding, capital constraints and changes in local regulation were a drug and are expected to continue to be limiting factors on supply conditions. Almost all international factors also have a negative impact on supply conditions. These include Group's NPL levels, Groups' capital constraints and funding. All in all, the contributions from most factors are significantly more negative than in the CESEE region.

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

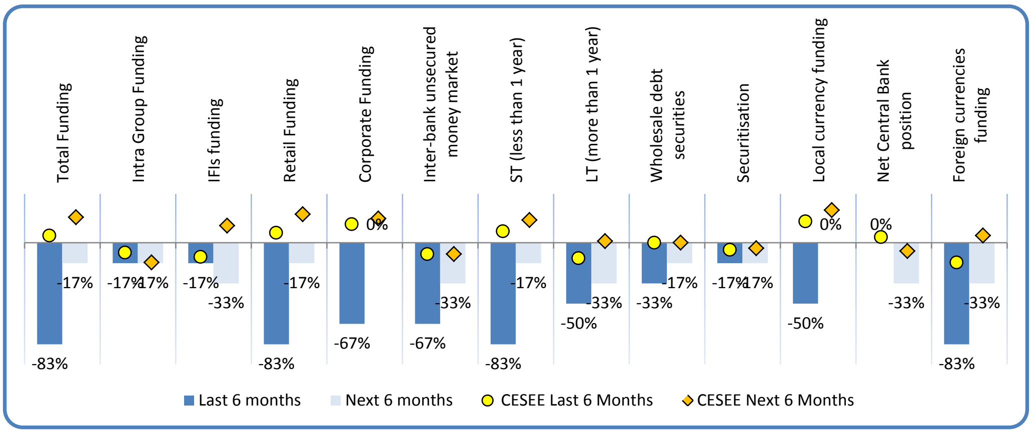
Source: EIB – CESEE Bank Lending Survey.

6. Demand for loans from SMEs has been decreasing over the past six months and supply conditions tightened further in this segment. While the contraction in demand materialised for the first time over the past two years, supply conditions on SMEs lending have been tightening for a rather extended time. This divergent medium term trend is not conducive to further improvements in access to credit for SMEs. Collateral requirements have been and may remain an important obstacle to increase SMEs financing. On the other hand, loan maturities and the average size of loans on SMEs portfolios have been gradually easing. All in all, also the banks' margin on average loan has been reducing. This is a possible sign of a successful monetary policy transmission at work as a consequence of loose monetary policy - with the key interest rate of the Bank of Albania set to a historic low of 2 percent.

7. In the context of decelerating credit growth, subsidiaries have seen a decreasing access to finance and they expect this trend to continue at a certain extent over the next six months (Figure 7). This is in stark contrast to the region which has witnessed deceleration in funding conditions but not a sharp decrease. The specific feature of the Albanian market could be related to the relatively significant presence of Greek subsidiaries. The latter may have been impacted by the uncertainty derived from Greece. A decelerating trend in access to funding was already detected in the previous release of the survey, whereby funding conditions were detected as neutral contrary to a significant expansion

in the CESEE region. Over the past six months, all funding sources – including retail and corporate funding – are reported to have contributed negatively to total access to funding. Looking ahead, the same negative contribution is expected to persist, albeit more limited in size and magnitude.

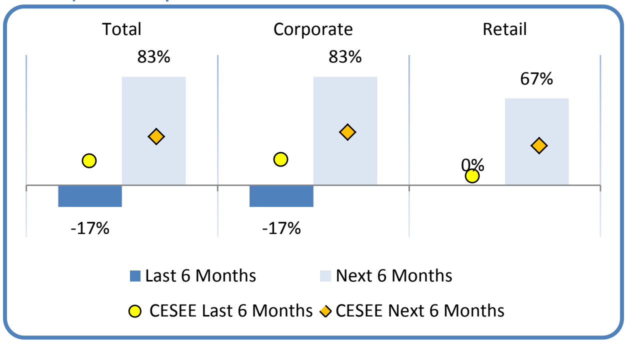
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

8. Albanian banks report a marginal increase in NPL ratios, primarily driven by the corporate segment (Figure 8). In contrast, the NPL ratio has been decreasing in the CESEE region over the same period. The same Albanian banks signalled a bettering in NPLs in the previous release of the survey and also they expect a robust improvement of the next six months. These swings in NPL ratios can reflect the various efforts to improve the quality of loan portfolios in the Albanian banking sector, including a mandatory write-off of NPLs.

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



Source: EIB – CESEE Bank Lending Survey.

Bosnia-Herzegovina

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: four
- Approximate share of assets covered (as proportion of total assets): approx. 53 percent
- Current level of NPLs as proportion of total loans: 14.1 percent (Q2 2015)
- Latest credit growth (yoy): 2 percent (Q2 2015)
- Loan-to-deposit ratio: 107 percent (August 2015)
- CAR: 16.2 percent (Q2 2015)

2. Key messages – *Supply is easing while demand conditions are still weak; NPLs also started to decelerate*

International groups' views:

- **Group strategies**: all parent banks operating in Bosnia-Herzegovina report that their deleveraging process has stabilized and some Groups signal an expected increase in their loan to deposit ratio. Groups are as keen in selling assets as the overall set of group operating in the whole region.

- **Group assessment of positioning and market potential**: Half of the Groups operating in Bosnia-Herzegovina report a low potential for the local market as well as low profitability of their subsidiary operations compared to the overall Group's operations. To the contrary, 75 percent of the Groups report a satisfactory positioning.

Subsidiaries'/local banks' views:

- Credit growth has been slowing and both **stagnant demand** and **neutral supply conditions** were behind it.
- **Credit supply:** overall credit standards did not change over the past six months. Consumer credit and mortgages eased. Supply conditions are expected to ease over the next six months. Local market outlook, local bank capital constraints, regulatory changes, NPL figures, poor global market outlook and EU regulations were the major obstacles to credit supply whilst funding primarily from domestic sources generated an easing contribution over the past six months.
- **Demand for loans** has been stagnant over the last six months. Nevertheless, it is expected to ease in the near future. It deteriorated in the corporate segment while households increased their demand for credit lines and mortgages.
- **Access to funding:** Subsidiaries in Bosnia-Herzegovina report that their access to funding has generally improved, mainly driven by IFIs, retail and corporate funding.
- **NPL ratios** continued to improve over the last six months.

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

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** The economy continued to recover during the second quarter of 2015. Like in the first quarter, economic activity was largely driven by a strong increase in retail trade and repair. Moreover, growth has started to be broader based, with important contributions from manufacturing, agriculture and mining.

- **Unemployment:** Unemployment is very high, although the increased economic activity led to a rise in registered employment, with wholesale, retail and repair and manufacturing as main contributing sectors. The difficult labour market situation is also reflected in low wage dynamics. Gross nominal wages have been declining during most of 2014.

- **Inflation:** In the first eight months of 2015, aggregate consumer level prices were 0.6 percent lower than a year before. The decline was mainly driven by clothing and footwear and transport.

- **External and public sector balance:** The current account deficit widened in the second quarter of 2015 (7.8 percent of GDP). This was driven by a strong growth of imports. However, the trade deficit is slightly lower than a year ago. Net FDI inflows rose to 3.7 percent of GDP in the second quarter of 2015. The import coverage of foreign exchange reserves still settles at comfortable levels (6.1 months by end August 2015). On the back of reconstruction activities related to the spring floods, fiscal imbalances widened in 2014. However, revenues from taxes still increased on a yearly basis. Total expenditures also rose stronger than planned. Capital spending soared by some 10.7%, but from a very low base. The 2015 budget foresees a deficit target of 5.5 % of GDP. In the second quarter of 2015, public foreign debt declined slightly and reached some 30% of GDP.

- **Banking sector:** Credit grew some 2 percent y-o-y in the second quarter of 2015. This hides a decrease in credit extensions to the corporate sector, including SMEs and an increase of credit to the household sector. Total deposits increased by 5.2 percent in the first eight months of 2015. As a result, the downward adjustment of the loans-to-deposit ratio continued. It settled at 107 percent as of end-August 2015. The share of non-performing loans in total loans was 14.1 percent in the second quarter of 2015. Banking sector profitability was positive, but return on equity almost halved to 2.3 percent and return on assets remained very low at 0.4 percent. The system's overall capital adequacy ratio remained at the comfortable level of 16.2 percent.

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

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

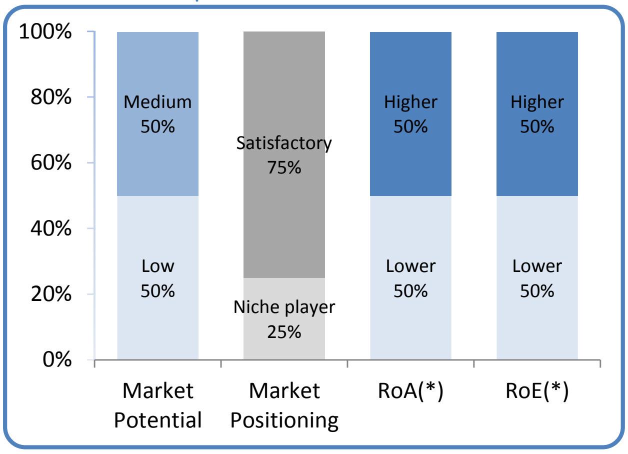
4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. In line with the expectations already embedded in the previous release of the survey, all parent banks operating in Bosnia-Herzegovina report that their deleveraging process has stabilized. In addition, some Groups signal an expected increase in their loan to deposit ratio. Few Groups active in Bosnia-Herzegovina signal to have plans to raise additional capital on the market in the coming months in line with the regional trend. Moreover these Groups are as keen in selling assets as the overall set of group operating in the whole region. Also a share of groups similar to the whole region signals plans to strategically restructure operations. No state contribution to capital is expected.

2. Half of the Groups operating in Bosnia-Herzegovina report a low potential for the local market. At the same time also 50 percent of the Groups indicate low profitability (return on equity and on assets) of their subsidiary operations compared to the overall Group's operations (Figure 1). This may still be a long tailed effect derived from the spring floods of 2014. All in all, it confirms the results already detected in the previous release of the survey. To the contrary, Groups' market positioning in Bosnia-Herzegovina is rather stable, with roughly 75% parent banks reporting a satisfactory positioning.

Figure 1. Market potential and positioning, ROE and ROA – see question A.Q10



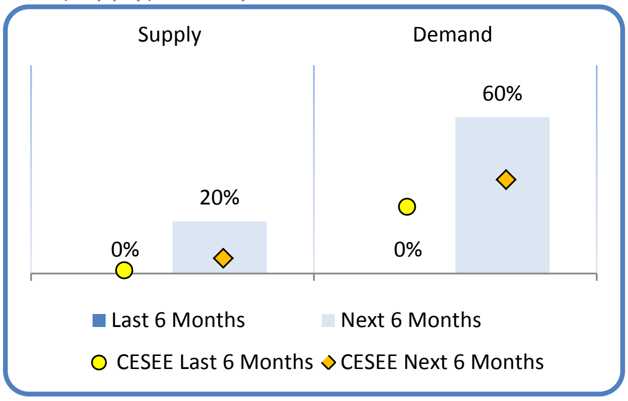
Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

4.2 Local banks/subsidiaries

1. Subsidiaries operating in Bosnia-Herzegovina report unchanged supply and demand conditions over the last six months. Supply conditions are partially in line with what was expected in the March 2015 survey. To the contrary demand conditions surprised to the downside as in the previous release of the survey. In addition, demand conditions have been weaker than in the overall CESEE region over the past six months. However, the poor performance of credit conditions is likely to be a temporary phenomenon, as both supply and demand are expected to ease and increase respectively in the coming six months (Figure 2).

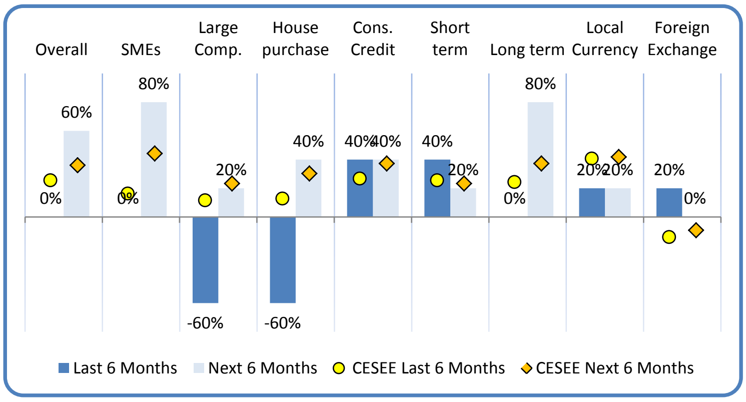
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. Subsidiaries report a stabilisation of aggregate demand conditions (Figure 3). This is a comforting signal of bettering in market conditions as demand for loans was contracting over the past year and a half. Therefore the most significant negative effects of the 2014 floods seem to be over. On the other hand, short-term lending and consumer credit segment demand conditions continued to improve in line with the overall CESEE region over the last six months. To the contrary, demand for loans from large corporates and for mortgages was still shrinking over the past six months, whilst demand from SMEs stabilised. Nevertheless, demand is expected to ease across the board in the coming months. The largest improvement in demand is expected to come from SMEs and for long term maturities.

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

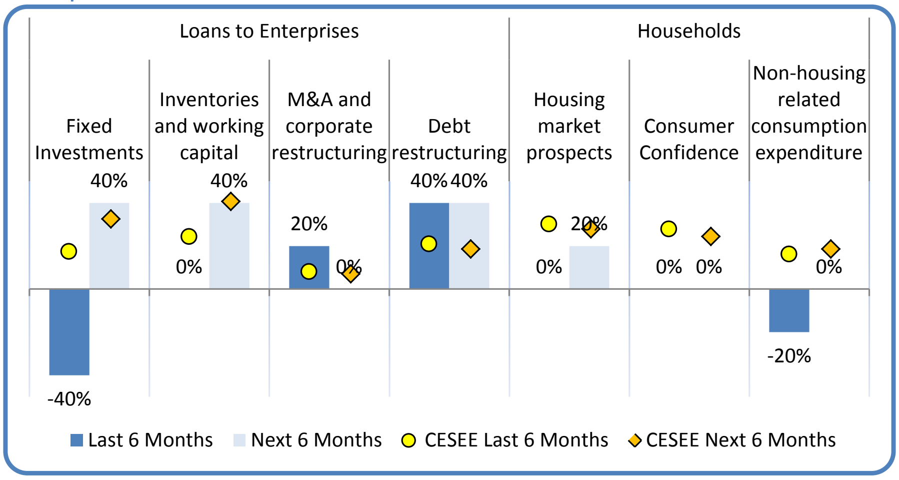


Source: EIB – CESEE Bank Lending Survey.

3. The positive contributors to demand conditions came from the corporate segment whereby debt restructuring, M&A and corporate restructuring played the most significant role over the past six months (Figure 4). To the contrary demand of loans for investment purposes still remained weak as in the previous

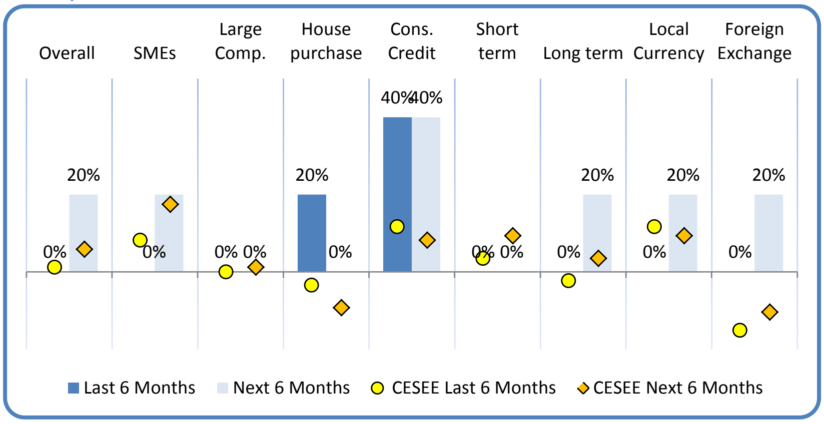
release of the survey. Non-housing consumption expenditure negatively contributed to overall demand whilst housing and consumer sentiment provided a neutral contribution to overall demand for loans. Subsidiaries expect an improvement in corporate credit demand in the coming months, mostly coming from investments and working capital in line with the expectations for the CESEE region. To the contrary household factors, except housing market prospects, are not expected to exert a significant positive contribution to overall demand conditions.

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



Source: EIB – CESEE Bank Lending Survey.

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



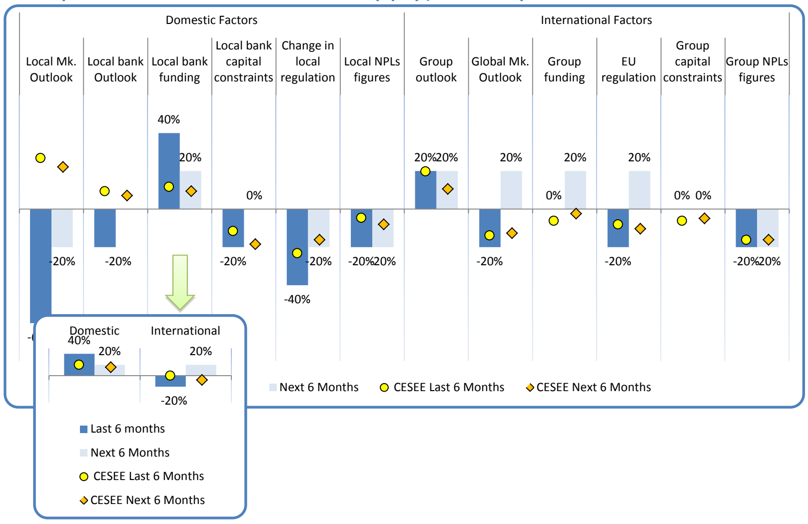
Source: EIB – CESEE Bank Lending Survey.

4. Supply conditions (credit standards) did not change in line with the overall CESEE region over the past six months. The easing in credit standards primarily happened in the household segment, specifically on consumer credit (Figure 5). Credit standards on mortgages also eased over the past six months as already detected in the previous release of the survey. The easing in the household segment was more robust than in the overall CESEE region. Supply conditions are also expected to ease in the corporate sector roughly in line with the CESEE region.

As a result credit easing is expected to be more significant in Bosnia-Herzegovina than in the CESEE region over the next six months.

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

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

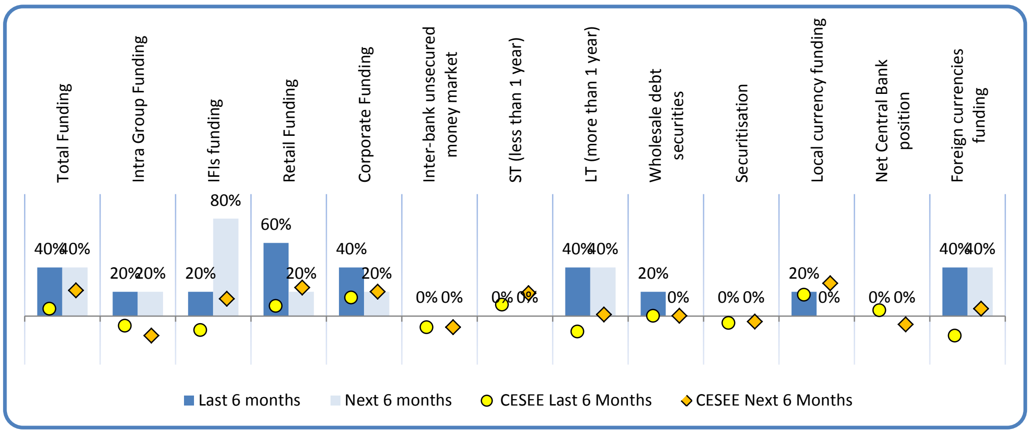


Source: EIB – CESEE Bank Lending Survey.

6. Credit supply conditions for SMEs did not ameliorate over the past six months. To the contrary they are expected to ease in the coming months. Credit demand from the SME sector has been stagnant over the last six months, bettering however compared to lacklustre conditions over the past year. It is expected to rebound in the near future. The terms and conditions for loan approvals have been eased in terms of pricing and loan size, whilst banks tightened collateral requirements. The same trend is expected to continue over the next six months.

7. Subsidiaries in Bosnia-Herzegovina report that their access to funding has generally improved more than in the CESEE average (Figure 7). Banks have observed positive funding contributions from IFIs, retail and corporate funding over the last six months. Both sources are expected to continue to improve in the near future, particularly funding from IFIs. In terms of the term structure, we can observe an easier access to the long-term funding.

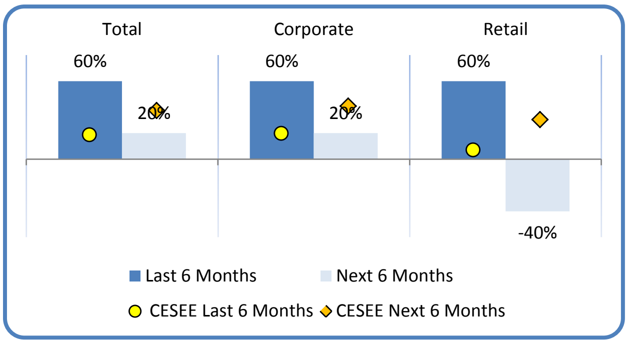
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

8. Continuing on a trend already detected in the previous two releases of the survey, NPL ratios have been decreasing over the past six months. This decrease has been evenly spread between retail and corporate NPLs (Figure 8). This decrease has outperformed the negative expectations from the March 2015 survey. The positive trend is expected to continue in the next six months, with banks expecting improving NPL ratios primarily in the corporate portfolio.

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



Source: EIB – CESEE Bank Lending Survey.

Bulgaria

1. Key statistics[1,2]

- Number of banks/subsidiaries participating in the survey: ten
- Approximate share of assets covered (as proportion of total assets): approx. 69 percent
- Current level of NPLs as proportion of total loans: 16.7 percent (December 2014)
- Latest credit growth (August 2015 relative to November 2014): -0.01 percent
- Loan-to-deposit ratio: 83 percent (August 2015)[3]
- CAR: 22.3 percent (June 2015)

2. Key messages – *Demand for investment loans is still low, but is expected to pick up; domestic funding conditions continue to improve; continued shift to high-liquidity, low-return assets curbs profitability.*

International groups' views:

- **Group strategies**: Parent banks operating in Bulgaria have continued restructuring their businesses, broadly in line with the full sample of parent banks included in the survey.
- **Group assessment of positioning and market potential**: Views about the market outlook in Bulgaria are more polarized than the regional average. Groups' assessments of subsidiaries' profitability continue to improve, with net 50 per cent of respondents seeing profitability above their group's average.

Subsidiaries'/local banks' views:

- **Credit supply** conditions have slightly improved and are expected to continue to do so in the near future due largely to domestic factors. Group NPLs, EU regulation and global outlook are seen as constraining supply conditions. These factors are expected to exert negative pressure over the next six months, too.
- **Credit demand** also improved slightly over the past six months. The improvement came largely from housing loan applications. In the next six months, loan demand from SMEs and for consumer loans is expected to pick up. A large majority of surveyed subsidiaries expects a pick up of demand for investment loans.
- **Access to funding** improved over the past six months due to strong domestic retail funding and is expected to improve further, despite the negative impact of most other funding sources.
- **NPL figures** remained unchanged over the past six months, but are expected to improve in the near future.

[1] Sources: Bulgarian National Bank.
[2] Do not include Corporate Commercial Bank group data.
[3] Loans and deposits of non-government institutions.

3. Relevant macroeconomic and banking conditions[4]

- **Growth:** GDP grew 2.2 percent in 2015 Q2 relative to 2014 Q2 with a solid contribution of domestic demand. Relative to 2015 Q1, the rate of growth of GDP has halved to 0.5 due to slowing exports and government consumption expenditures. The European Commission projects average annual growth to be 1 percent in 2015 and 1.3 percent in 2016, as demand is expected to remain weak against a backdrop of fiscal consolidation and negative demographic developments.
- **Unemployment:** The unemployment rate in Bulgaria appears to have peaked at around 13 percent in 2013 and stood at 9.9 per cent in 2015 Q2. The labour market continues its slow improvement as the economic activity and the employment rate have increased. Further recovery of the labour market, however, is expected to remain modest in 2015-16.
- **Inflation:** Deflation that started in middle 2013 has subsided in the first half of 2015, but price changes became negative again in May 2015. Annual change of HIPC remains negative and is expected to move closer to zero by the end of 2015.
- **External and public sector balance:** General government debt jumped up sharply in 2014 by 9.3 percentage points, relative to 2013, as general government budget deficit worsened by 2.2 percentage points and additional debt to address banking sector turmoil was issued. The deficit is projected to remain high at about 3 percent of GDP in 2015 and 2016. Despite this increase, general government gross debt is still low at 27.6 percent in 2014. It is expected to exceed 30 percent of GDP by 2016.
- **Banking sector:** Profits of Bulgarian banks have been growing in 2015, but at a rather slow pace and profitability remains low. It is curbed by a low and stagnating share of loans and a high and rising share of lower-interest bearing assets: In August 2015 the ratio of liquid, low-return assets was 33 percent. A high ratio of non-performing loans (NPL) of about 16.7 percent still imposes large, albeit declining, costs on the banking system. NPLs remain well provisioned.
- **Rating:** Bulgaria is rated BBB- by Fitch, Baa2 by Moody's and BB+ by S&P.

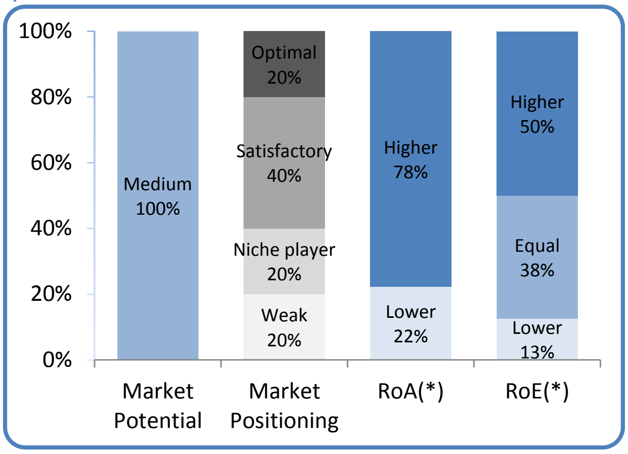
[4] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission and Bulgarian National Bank data.

4. Results of the Bank Lending Survey:

4.1 Parent banks[5]

1. A majority of parent banks operating in Bulgaria continued to restructure their businesses at the global level over the past six months. Over the next six months even more of these banks expect restructuring activity. Shedding assets and branches of activities, together with strategic restructuring are the most widely used measures. These results broadly hold for the global operations of all parent banks operating in the CESEE region.

Figure 1. Market potential and positioning – see question A.Q10



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

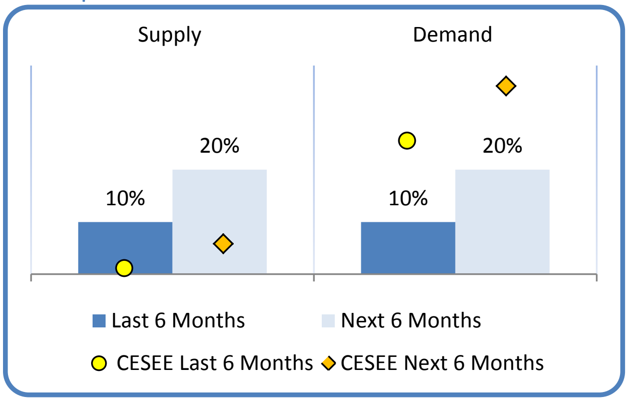
2. Views among parent banks operating in Bulgaria about their operations in the CESEE region continue to diverge. 40 percent of banks plan to reduce operations selectively, whereas 60 percent of banks plan to expand selectively. Such a divergence is underlined by two additional facts. First, no parent bank with operations in Bulgaria assesses the region's market potential as high (Figure 1, first bar). Second, a large majority of parent banks report that risk-adjusted returns from their operations in Bulgaria are higher or equal to those for group operations as a whole (Figure 1, last two bars). Parent banks operating in Bulgaria have continued to reduce total exposure to their subsidiaries. This decline has been due to all exposure categories except capital, which increased for a small group of banks and is expected to continue over the next six months. Funding conditions deteriorated for a small majority of banks, unlike previous rounds of the survey when they deteriorated for most banks.

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

4.2 Local banks/subsidiaries

1. Supply conditions (credit standards) have slightly improved over the past six months and are expected to continue improving in the near future. Aggregate demand for loans and credit lines was seen to be slightly increasing, too, both over the past six months and in the near future (Figure 2). Compared to the region, supply conditions in Bulgaria are seen as slightly better, whereas demand is seen as somewhat worse.

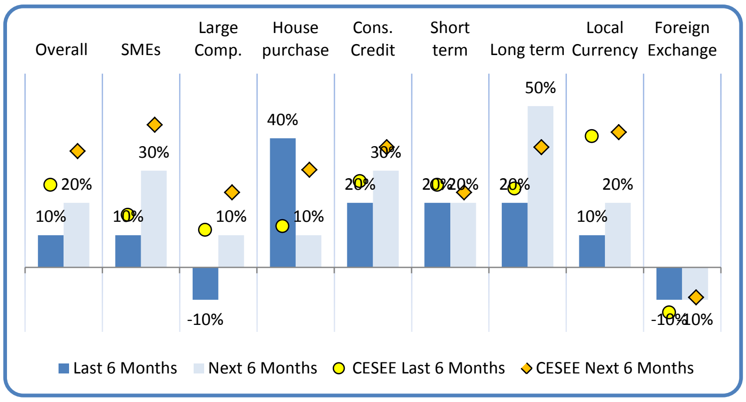
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. Stagnating credit demand in Bulgaria is mostly the result of worsening demand from large companies and weak demand from SMEs. Household demand for consumer- and, especially for housing loans is seen as more robust (see Figure 3) by subsidiaries in Bulgaria. Net 40 per cent of banks reported increasing demand for housing loans and 20 per cent saw increase in consumer credit. Demand for foreign exchange (FX) loans is estimated as declining by a majority of banks. Over the next six months, more banks expect increase in loan demand. Subsidiaries are more optimistic about SMEs and consumer credit. A large majority expects that the increase will be in the long-term segment. Demand for FX loans is expected to be weaker by a majority of subsidiaries. A small majority of banks sees an improvement in the quality of loan applications apparently stemming from higher quality of housing loan applications. Stronger credit demand from households is underpinned by subsidiaries' views of improving housing market prospects and consumer confidence.

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

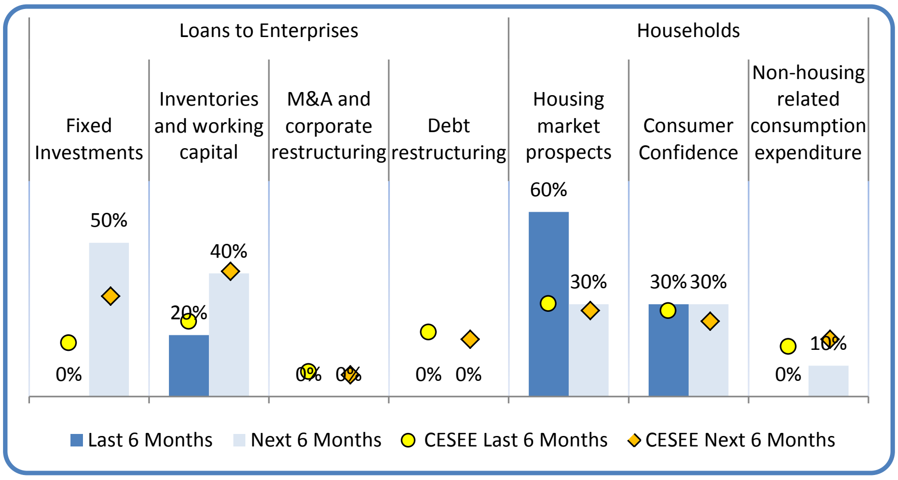


Source: EIB – CESEE Bank Lending Survey.

3. Demand for loans for fixed investment appears to have reached a turning point. It is judged by subsidiaries as stagnating after being seen as a drag on demand in the preceding survey rounds. For the next six months, a net majority of 50 per

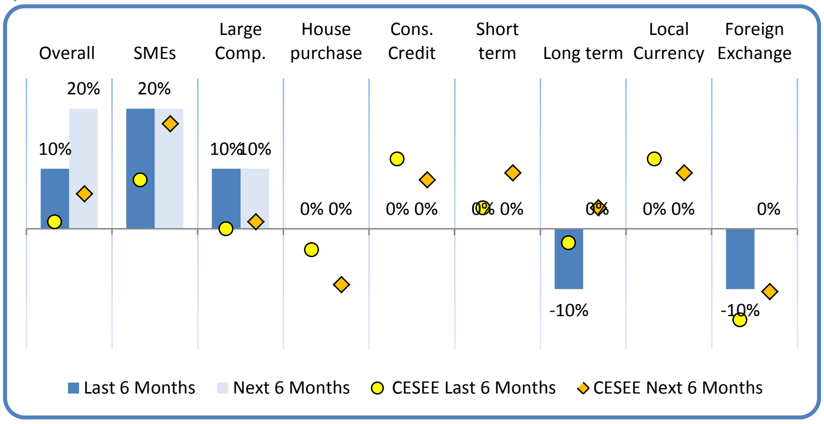
cent sees demand for investment loans as increasing (Figure 4). Demand for working capital has also increased and expected to increase even more over the next six months. Demand for loans for corporate and debt restructuring is seen as stagnating

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



Source: EIB – CESEE Bank Lending Survey.

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



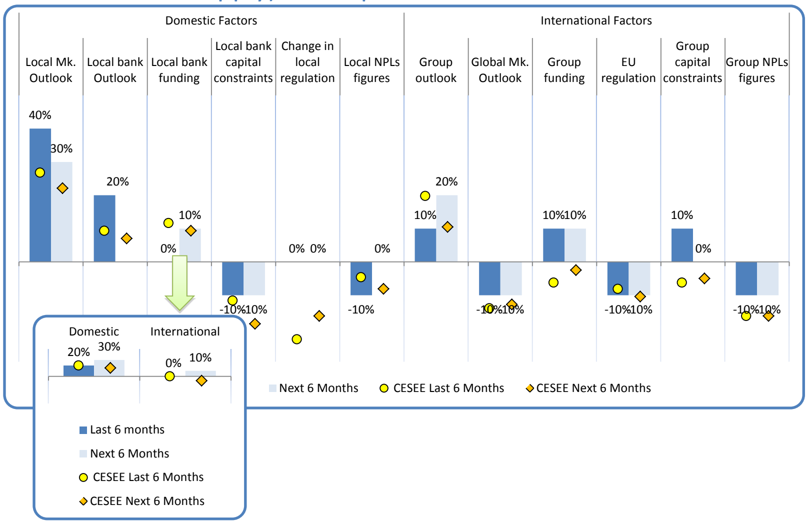
Source: EIB – CESEE Bank Lending Survey.

4. Overall supply (credit standards) improved slightly over the past six months in Bulgaria and in excess of average supply conditions in the CESEE region (Figure 5). Credit standards are expected to ease further over the next six months. SMEs and, to a lesser extent, large corporates are the main beneficiaries of improved supply conditions. Credit standards for households have not changed materially and are not expected to do so in the near future. A slightly higher net share of banks are more optimist about overall supply conditions in Bulgaria than in the CESEE region as a whole. This seems to be due largely to better than average local market and bank conditions (Figure 6). Narrower bank margins and conditions and terms, other than maturity, collateral and loan-size, are seen as the most important components of easing credit conditions over the next six months.

5. Improvement in supply conditions was driven largely by better domestic conditions (Figure 6). As in the previous round of the survey, both local and group NPL figures affected negatively supply conditions. As in the previous round, EU regulation is expected to have negative effects on credit supply, while changes in local regulations are expected to affect supply conditions over the next six months.

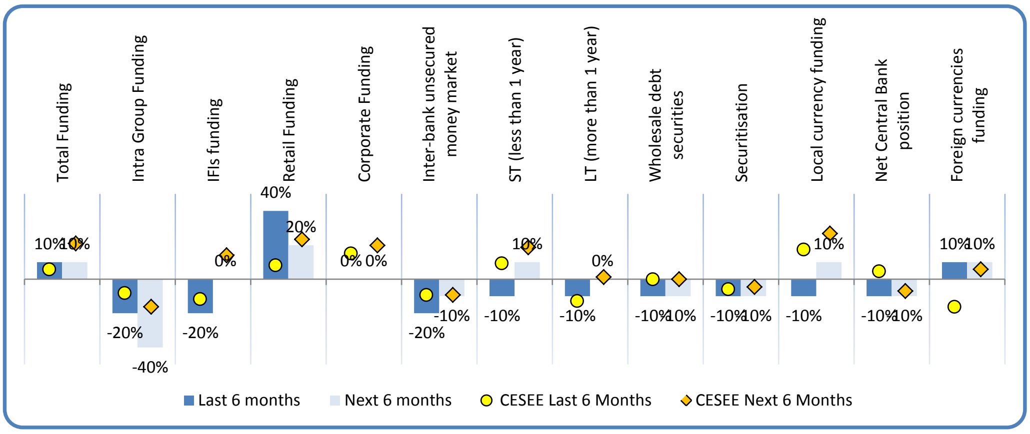
6. Focusing on SMES, a majority of banks sees overall credit supply conditions as improved and as continuing to do so over the next six months. Positive developments of narrowing bank margins are the main driver of these developments. Changes in credit demand from SMEs were perceived as slightly positive and broadly in line with the regional average. This improvement is expected to continue over the next six months, exceeding the regional average.

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



Source: EIB – CESEE Bank Lending Survey.

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

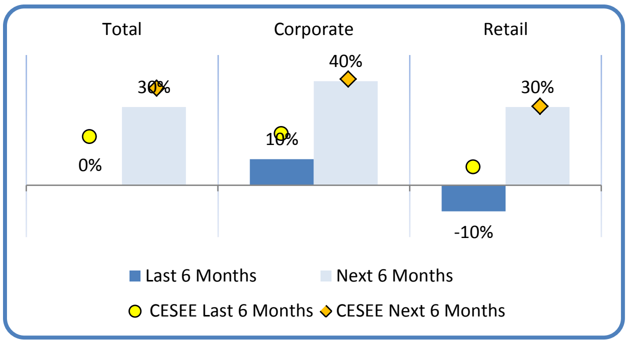


Source: EIB – CESEE Bank Lending Survey.

7. Access to funding has improved for a small majority of banks during the past six months, in line with the CESEE regional average. Retail funding has been the main driver of this improvement, offsetting net negative assessment for the rest of funding sources (Figure 7).

8. NPL ratios remained broadly stable over the past six months, unlike NPLs in the CESEE region, which improved, on average. The slight improvement in the Bulgarian corporate sector was offset by a deterioration in the retail sector (Figure 8). On average, NPLs are expected to continue improving over the next six months in both the corporate and retail segment.

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



Source: EIB – CESEE Bank Lending Survey.

Croatia

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: five
- Approximate share of assets covered (as proportion of total assets): 75 percent
- Current level of NPLs as proportion of total loans: 17.1% percent (Q1 2015)
- **Latest credit growth (yoy): -0.8% (Q2 2015)**
- Loan-to-deposit ratio: 94 percent (Q2 2015)
- CAR: 20.6 percent (Q1 2015)

2. Key messages – *Limited growth still constrains financial intermediation, but the outlook on NPLs has begun to improve.*

International groups' views:

- **Group strategies**: When it comes to strategic objectives, global groups operating in Croatia are broadly in line with the sample of international banks included in the survey. They are somewhat less likely to engage in raising capital over the next six months, and more inclined towards strategic restructuring than the others.

- **Group assessment of positioning and market potential:** Parent banks operating in Croatia are strongly committed to the CESEE region, and typically expect to selectively expand their operations in the area. As to their view on the Croatian market, a large majority of the groups reports low potential. Many parent groups also see returns on assets and equity to be below group levels. Nevertheless, most of the respondents are satisfied with their current market positioning.

Subsidiaries'/local banks' views:

- Croatian banks report that both **credit demand and supply eased slightly** in the last 6 months. Banks expect a neutral stance for supply, and a further increase in demand for the next 6 months.

- **Credit supply** conditions have been easing moderately in all – corporate, SME, household – segments.

- **Demand for loans** Overall demand for loans has been slightly increasing. Corporate debt restructuring, improved consumer confidence and favourable housing market conditions have been contributing positively to loan demand

- **Access to funding:** Funding conditions have been neutral overall, with improving domestic corporate and retail funding, and declining intra-group flows.

- **NPL figures:** After many periods of continuing deterioration, banks have indicated a positive shift in corporate NPLs.

[1] Sources: Croatian National Bank and European Commission

3. Relevant macroeconomic and banking conditions[2]

- **Growth**: Croatia's economy continued to contract in 2014. Real GDP growth amounted to -0.4% in 2014 indicating a mild improvement compared to 2013. Domestic demand – private investment in particular – contributed to the contraction, while net exports had a positive effect. Growth is expected to pick up, albeit slowly: a growth rate of around 0.5% is projected for 2015.
- **Unemployment**: The unemployment rate is high – about 19.7 percent in 2014. It is expected to remain close to 20 percent for the next two years.
- **Inflation**: The CPI decreased by 0.2 percent in 2014, and is expected to remain below zero in 2015 due to subdued demand.
- **External and public sector balance:** Low domestic demand resulted in a current account surplus of 0.7 percent of GDP in 2014, which is expected to increase further to around 2 percent in 2015. On the fiscal side, however consolidation is slow. In 2015 the deficit is expected to improve only marginally relative to the 2014 level (5.7 percent of GDP). In 2015 and 2016, public debt is forecast to rise further to above 90% of GDP, mainly as a result of underlying deficit trends.
- **Banking sector:** The Croatian banking sector has been relatively resilient to the country's deep economic recession. Monetary policy's focus on the stability of the kuna-euro exchange rate has managed to shield so far the otherwise highly euroized financial sector from external shocks. Banks are well-capitalised (CAR 20.6 percent in Q4 2014). Total assets of the banking sector in Croatia stood at 134% of GDP in 2014. Portfolio quality has been deteriorating, and NPLs are relatively high at above 17 percent. Lending growth have been negative since mid-2012, and total credit is still contracting (-2.6 percent in Q4 2014). Partly as a consequence of the sluggish economy and the resulting low demand for credit, non-resident funding of the banking system had declined: the loans-to-deposit ratio has gradually declined since 2012. Growth in domestic deposits, however, particularly from households, has been positive and has been gradually replacing foreign funding, thus supporting the deleveraging process. Besides the recession, the key challenges for the banks include a) risks stemming from a change in the kuna-euro exchange rate due to a large proportion of private debt denominated in euro, b) the involvement of the government in the banking sector, such as the policy uncertainty over the fate of the Swiss franc-denominated loans.
- **Rating:** Croatia is currently rated by Moody's (Ba1, negative outlook), Fitch (BB, negative outlook) and S&P (BB, negative outlook).

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

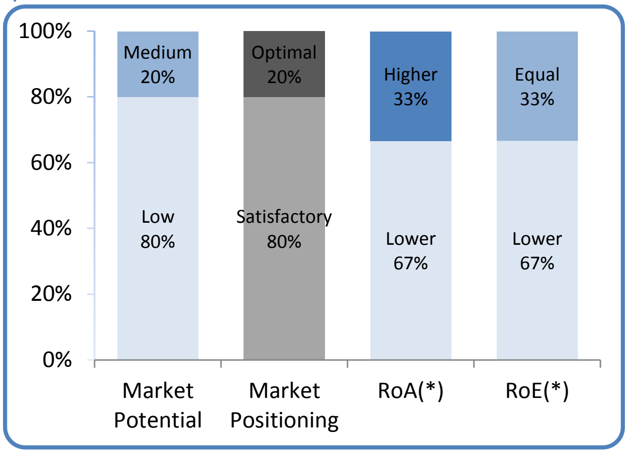
4. Results from the Bank Lending Survey:

4.1 Parent banks[3]

1. Parent banks operating in Croatia generally share their view on global operations with the overall sample of international banks included in the survey. They are somewhat less likely to engage in raising capital over the next six months, and more inclined towards strategic restructuring than the others.

2. Relative to the full sample, parent banks operating in Croatia are more strongly committed to the CESEE region, and typically they expect to selectively expand their operations in the region over the coming months. The banking groups report a deterioration in the market prospects in Croatia; now 80 percent of the respondents view Croatia's market potential as low (Figure 1), as opposed to our previous survey round, when it was only 50 percent. The majority of the banks describe the profitability (i.e., ROE and ROA) of Croatian operations as lower than that of the overall group operations, even when corrected for the cost of risk and cost of equity. However, taking these factors into account, banking groups are fairly satisfied with their current positioning on the Croatian banking market. About 80 percent of the parent banks consider their current market positioning to be satisfactory, and 20 percent assess their positioning as optimal.

Figure 1. Market potential and positioning – see question A.Q10



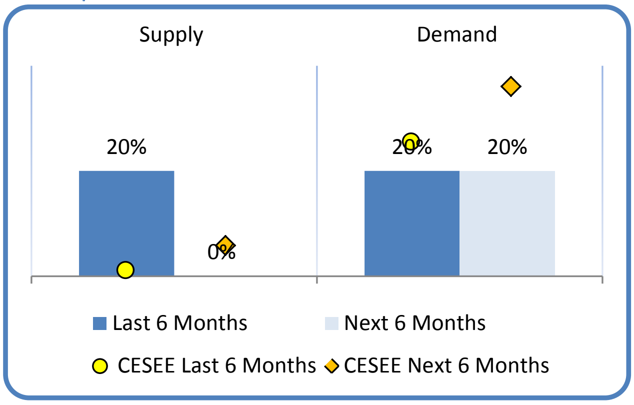
Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

4.2 Local banks/subsidiaries

1. Subsidiaries operating in Croatia reported a slight increase in the demand for loans over the past six months, in line with the CESEE region. Supply conditions have also been improving marginally in the past quarters (Figure 2). As to the demand, banks project a moderate strengthening. However, on the supply side a more neutral stance is expected over the next six months. The outlook is broadly similar to the overall picture for the CESEE.

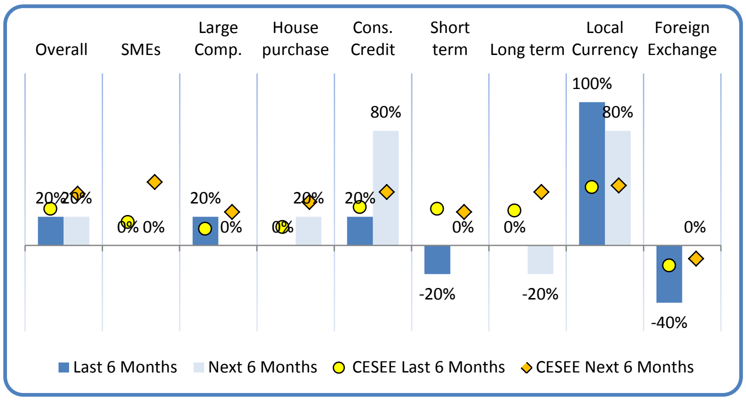
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. The overall increase in demand for loans has not been uniform across segments. Among corporate clients, credit demand from SMEs has stagnated, while large companies have shown an increase in their borrowing activity in the last six month (Figure 3). Looking ahead, demand is likely to stagnate in the corporate segment. Within the household segment, consumer credit is the area that has seen some activity, and demand is expected to strengthen significantly over the coming quarters. A shift from foreign to local currency-denominated credit can be observed in Croatia - as elsewhere in the CESEE region.

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

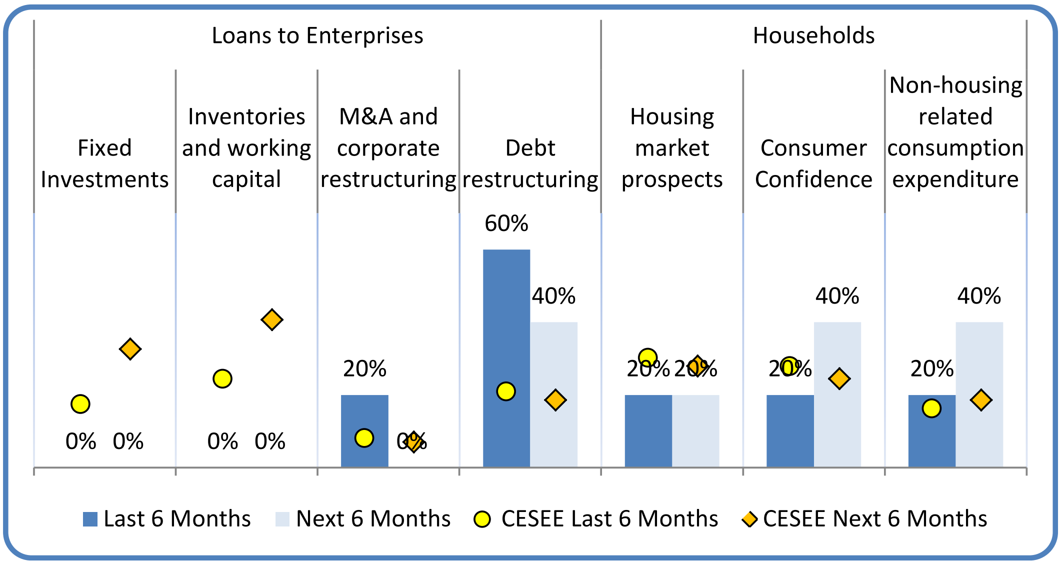


Source: EIB – CESEE Bank Lending Survey.

3. As for the factors behind credit demand on the households' side, improved housing market conditions, stronger consumer confidence and expenditure have all been contributing positively in the last few months. This optimism is expected

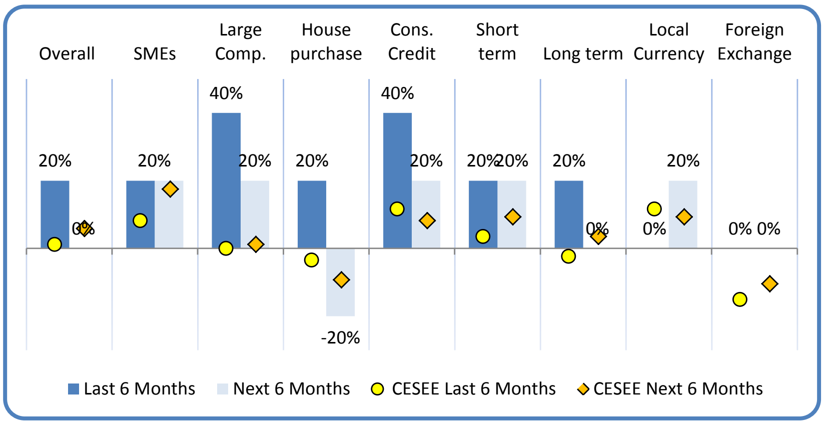
to remain the next six months, in line with the CESEE region. For the corporate sector, debt restructuring has been the main positive factor behind the stronger credit demand, and it is likely to remain so (Figure 4).

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



Source: EIB – CESEE Bank Lending Survey.

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

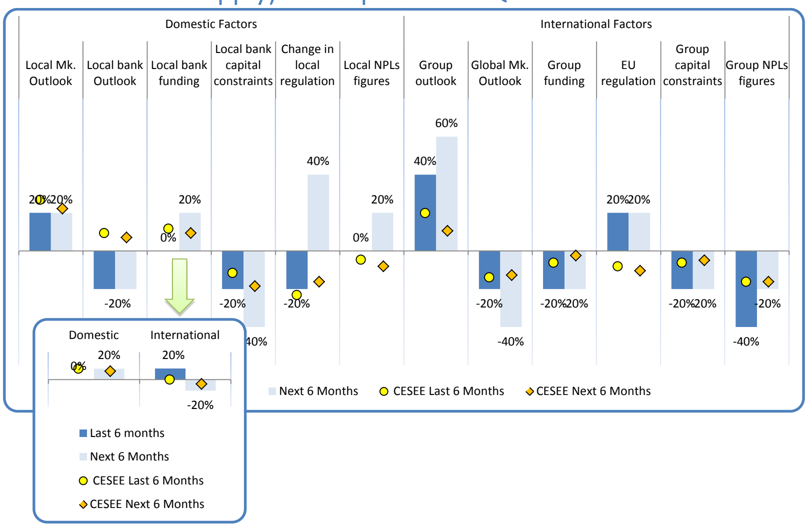


Source: EIB – CESEE Bank Lending Survey.

4. Credit supply components have been easing across the board over the past six months (Figure 5). There has been a loosening of credit standards for households – both for housing loans and consumer finance, and a similar scale of easing for the corporate sector. Credit standards for both short-term and long-term lending have been easing. Over the next six months, a reversal (e.g. tightening) is expected in the mortgage segment, whereas in other business areas further easing in credit standards is projected.

5. Many domestic factors (local banks' outlook, capital constraints and local regulation) contributed negatively to credit supply conditions in Croatia, with the exception of local market outlook. (Figure 6). Among the international factors, the outlook for parent groups was a significant positive factor, while group NPLs, capital constraints and group funding has been a drag on credit supply.In the period ahead, regulatory changes and NPLs are expected to contribute positively towards credit supply on the domestic side. At the international level, improvements and positive contributions are projected for group-level outlook and for the EU regulatory framework, whereas the other factors are expected to be restrictive.

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

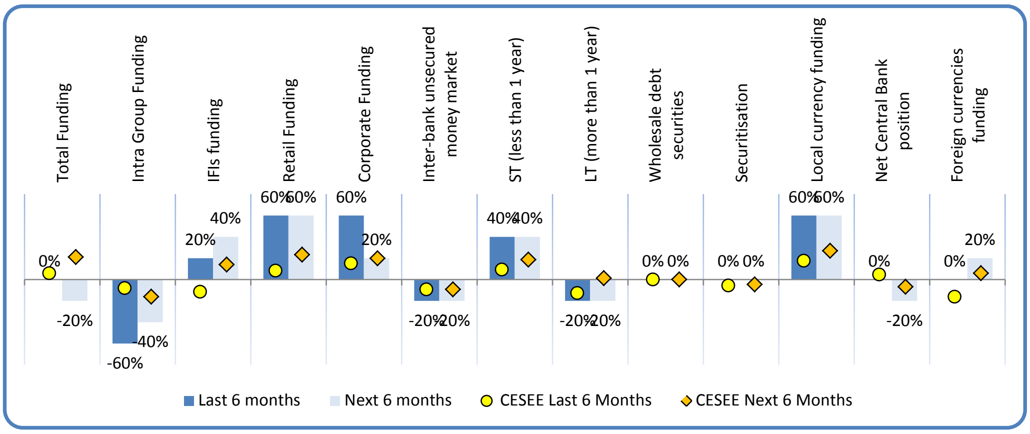


Source: EIB – CESEE Bank Lending Survey.

6. Subsidiaries in Croatia have reported an easing of credit standards for SMEs for the third time in a row, and the easing is expected to continue over the next six months. However, demand for credit from SMEs has been sluggish in the past and is not expected to pick up over the next six months despite the increased supply.

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

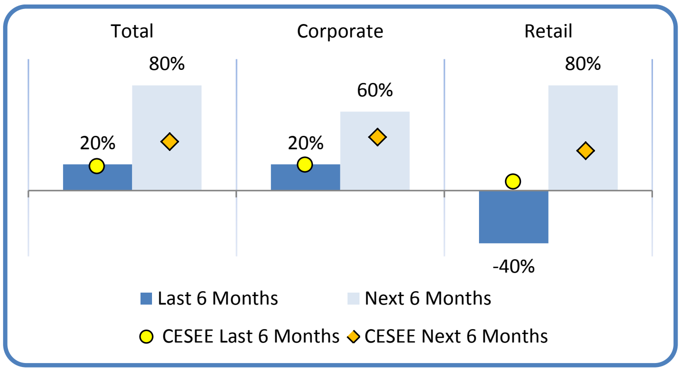
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

8. With regard to NPLs, after many periods of continuing deterioration, banks have indicated a positive shift overall. Although NPLs in the retail segment still rose over the past six months, improvements have been detected in the corporate segment. Furthermore, most subsidiaries believe now that in both segments NPLs will decrease in the next six months (Figure 8).

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



Source: EIB – CESEE Bank Lending Survey.

Czech Republic

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: five
- Approximate share of assets covered (as proportion of total assets): approx. 62%
- Current level of NPLs as proportion of total loans: 5.9% (August 2015)
- Latest credit growth (yoy): 7.3% (August 2015)
- Loan-to-deposit ratio: 76.4% (August 2015)
- CAR: 17.7% (June 2015)

2. Key messages – *high-potential market with continuing economic and credit recovery and new strategic restructuring in the cards.*

International groups' views:

- **Group strategies**: The view of international banks operating in the Czech Republic regarding strategic plans has become more mixed. On the one hand, they present a more positive view in terms of group deleveraging or planned sale of assets than the overall sample in the survey. On the other hand, unlike in recent survey rounds, every second bank group is now planning to sell branches.

- **Group assessment of positioning and market potential**: A majority of groups operating in the Czech Republic record higher profitability in CESEE than at the overall group level. Hence, they are also very much inclined to selectively expand operations in the CESEE region. They are satisfied with their positioning in the Czech market, and all of them regard the Czech Republic as having medium or high market potential.

Subsidiaries'/local banks' views:

- **Credit supply:** In contrast to the stagnation in the CESEE region as a whole supply conditions eased significantly over the last six months, particularly for SMEs but also large corporates. The improvement was driven both by domestic factors such local market outlook and bank funding as well as foreign factors, particularly the group outlook. The easing trend is expected to continue in the next months, again mainly in the SME segment but also for large corporates and households.

- **Credit demand:** Outperforming strongly developments in the CESSE region, credit demand strengthened noticeably in the Czech Republic over the last six months and will continue to do so, particularly thanks to SMEs and households' demand for mortgage.

- **Access to funding:** Subsidiaries indicated an overall significantly improved access to funding on the back of retail, corporate and to a lesser extent IFI funding. The trend is expected to continue.

- **NPL figures:** Corporate and even more so retail NPL ratios decreased noticeably over the last six months and will continue doing so in the near future.

[1] Sources: The Czech National Bank.

Relevant macroeconomic and banking conditions[2]

- **Growth:** After two years of contraction the Czech economy returned to growth in 2014 (2%) and is outperforming expectations in 2015. While growth has been strengthening since mid-2013 it surged to more than 4% in the first half of 2015 and in Q2 it was the strongest since 2007. The rebound has been driven by domestic demand, particularly fixed capital investment and household consumption. While the former has benefited from rising EU structural funds, the latter has been spurred by looser fiscal policy, improving labour market and continued low inflation. On the external front, net exports have had a limited impact on GDP growth. In its spring forecast the European Commission expected real GDP to rise by 2.5% in 2015 and 2.6% in 2016. The economic expansion will be driven by strengthening domestic demand, particularly investment. The contribution of net exports is forecast to remain fairly neutral in 2015 and turn somewhat positive in 2016.
- **Unemployment:** On the back of a strengthening economy unemployment has dropped from more than 7% in early 2013 to 5% in August 2015. It thus ranges at some of the lowest levels in the EU.
- **Inflation:** Despite CNB's exchange rate interventions since November 2013 HICP inflation rate has been well below the target (2% ± 1 pp). After averaging 0.4% in 2014 inflation dropped in the negative territory in early 2015. While it has been positive since, in August it reached mere 0.2% reflecting the decline in euro area industrial producer prices and the fall in energy commodity prices on global markets. This anti-inflationary effect of import prices is expected to fade out in the second half of 2016. This, combined with a strengthening domestic economy should increase headline inflation to some 0.8% in 2015 and 1.4% in 2016.
- **External and public sector balance:** The slight current account surplus achieved in 2014 is expected to strengthen this year. The diminishing effect of the CNB's exchange rate intervention against the koruna will be counteracted by accelerating growth of main trading partners and increasing absorption of EU funds. As a result of fiscal consolidation budget deficit came down from 5.5% in 2009 to 1.3% of GDP in the last two years. In 2015 the fiscal deficit is expected to slightly increase (2% of GDP) before improving to 1.5% of GDP in 2016. Public debt fell to around 44% in 2014 and is projected to gradually rise to around 45% in 2016.
- **Banking sector:** The capital adequacy ratio (above 17%) of the banking sector comfortably exceeds the regulatory minimum. NPLs hover around 6% which is low compared to regional peers as is the loan-to-deposit ratio. Credit growth is well below the pre-crisis level but strengthening.
- **Rating:** The Czech Republic is currently rated A1 by Moody's, A+ by Fitch and AA- by S&P.

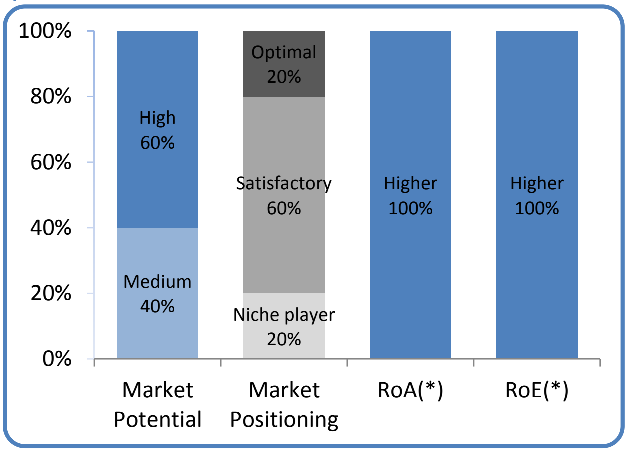
[2] Sources for the macroeconomic data: European Commission and the IMF. Sources for the banking data: European Commission and Czech National Bank.

3. Results of the Bank Lending Survey:

3.1 Parent banks[3]

1. Banks operating in the Czech Republic keep maintaining a more favourable view in several respects than the overall sample of groups in the survey. The share of parent banks which are considering the sale of assets at the global level in the next six months has dropped again from 60% to 50%, well below the 64% in the overall sample. The parent bank's view on other strategic operations is mixed. As in the past, no bank is planning to raise capital on the market or take it from the government. Yet 50% of parent banks are planning to sell branches and the same share wants to undertake some strategic restructuring at the global level. In contrast, parent banks operating in the Czech Republic do not envisage any deleveraging as all banks expect their loan-to-deposit ratio to remain stable (75%) or increase (25%) over the next six months.

Figure 1. Market potential and positioning – see question A.Q13



Source: EIB – CESEE Bank Lending Survey.

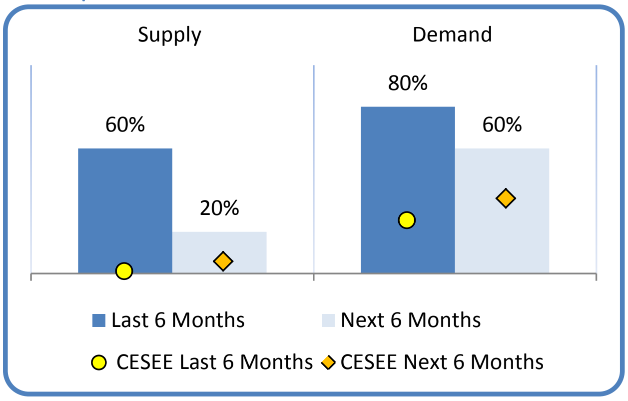
2. Most groups operating in the Czech Republic remain strongly committed to the region as 75% of them intend to selectively expand operations. However, unlike in the last survey rounds, one out of four surveyed groups plans to selectively reduce its regional activity. Three of four parent banks operating in the Czech Republic reported higher profitability in CESEE than at group level in the last six months. Moreover, 75% of banks expect either an unchanged or increasing contribution of activities in CESEE to the group level return-on-assets ratio over the next six months. A large majority of parent banks (80%) consider their market positioning optimal or satisfactory and all surveyed banks believe their market potential is medium-to-high (Figure 1).

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

3.2 Local banks/subsidiaries

1. Outpacing strongly the CESEE average and also expectations voiced in the last survey, subsidiaries operating in the Czech Republic reported significant easing in supply conditions over the last six months. Also in the next half a year supply is expected to increase more in the Czech Republic than in the CESEE region (Figure 2). The gap between the Czech Republic and the CESEE region is apparent also on the demand side. Demand strengthened noticeably in the Czech Republic in the last six months outperforming significantly the CESEE region. A similar pattern is expected to continue in the months ahead.

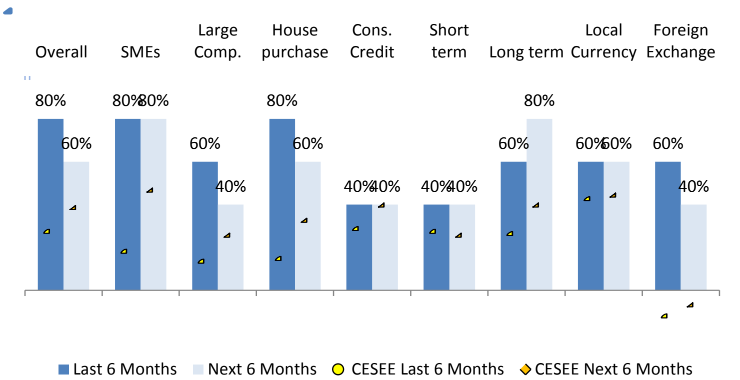
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. When it comes to components behind the strong increase in demand in the Czech Republic over the last six months we see that the boost was driven particularly by SMEs and households' demand for mortgage. Large corporations' credit demand and consumer loans also contributed but to a lesser extent. Looking ahead, a significant majority of banks expect a further strong increase in overall demand for credit in both local and foreign currencies at all maturities, although more long-term. The continued demand recovery will again be driven by all sectors, but predominantly by SMEs (Figure 3).

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

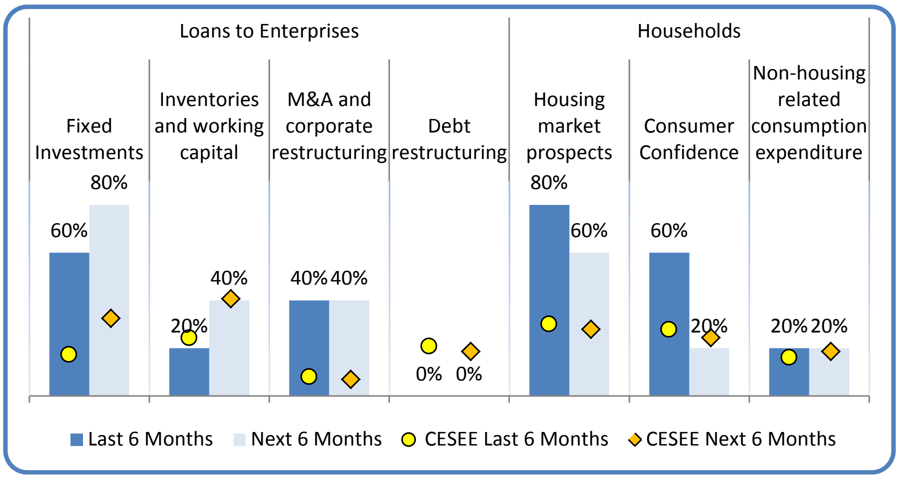


Source: EIB – CESEE Bank Lending Survey.

3. While the rising demand in the corporate segment in the last six months was spread across most business needs, the most decisive factor was financing need for fixed investment. This survey result thus very much confirms the revival of investment as the major driver of GDP growth observed in the macroeconomic data. At the same time, similarly to the CESEE region, loans for debt restructuring did not have any impact on overall loan demand. Looking ahead, a very similar demand composition is expected also in the next six months although investment financing and working capital is expected to strengthen further. In the household segment, demand was supported particularly by

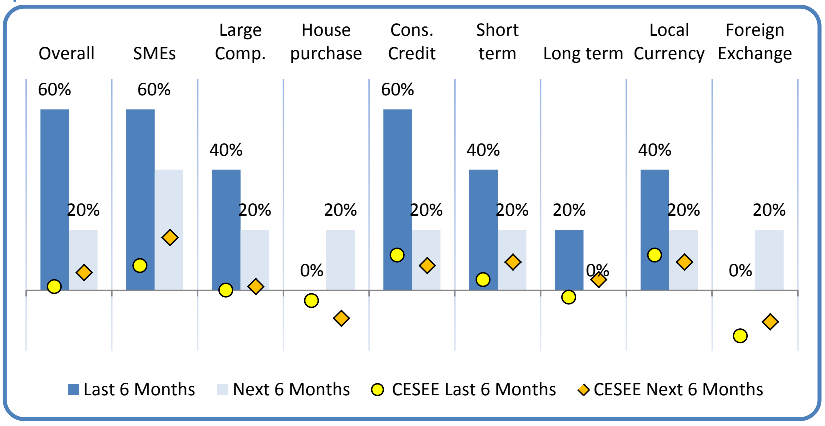
favourable housing market prospects but also consumer confidence played an important role. The former will remain the major driving force in the months to come, way stronger than in the CESEE aggregate (Figure 4), while the impact of consumer confidence will weaken noticeably to align with peers.

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



Source: EIB – CESEE Bank Lending Survey.

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



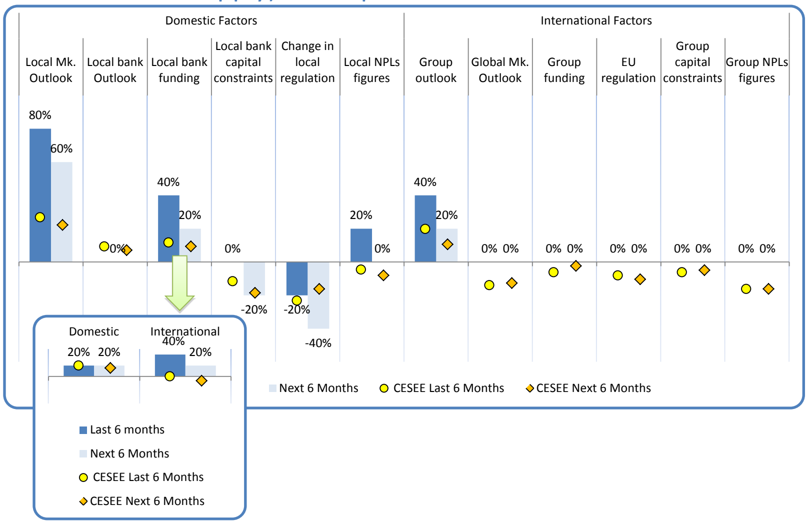
Source: EIB – CESEE Bank Lending Survey.

4. In contrast to the stagnation in the CESEE region as a whole supply conditions eased significantly in the Czech Republic over the last six months. Subsidiaries operating in the Czech Republic expect this trend to continue over the next six months, although at a much slower pace, driven particularly by the SME and, to a lesser extent, large corporate sectors. The loosening of credit standards in these two segments will still be significantly more pronounced in the Czech Republic than in the CESEE region as a whole (Figure 5) thus matching the developments on the demand side.

5. Both, domestic and even more so international factors made a positive contribution to supply conditions over the last six months. In case of the former, local market outlook and bank funding pointed toward easing of credit standards, while changes in local regulation counteracted somewhat. While a similar trend is expected to continue over the next six months the tightening

effect of local regulation is likely to strengthen further. As regards international factors, the group outlook was and will remain the only significant force contributing to the easing of supply conditions (Figure 6).

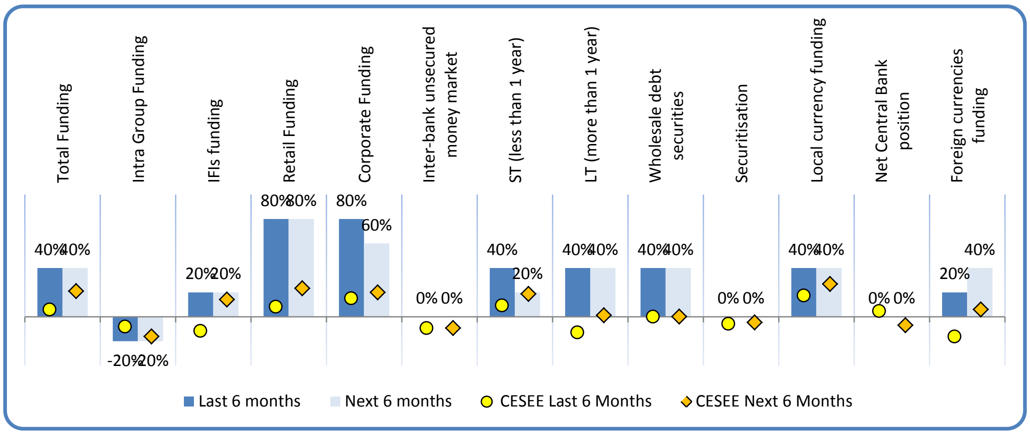
Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q3



Source: EIB – CESEE Bank Lending Survey.

6. When it comes to SMEs, banks on balance reported quite a significant easing of credit supply conditions in the last six months in line with a strong increase in demand. This was a rather divergent development to the broadly stagnating market in the CESEE region. Looking ahead, the trend is expected to continue with some slowdown on the supply side in the Czech Republic and a more muted market recovery in the CESEE. A more granular view suggests that the supply side easing in the Czech Republic over the last six months took particularly the form of lower interest rate margins. However, banks were also less restrictive with respect to the size of the average loan or credit line. Interest rate margins will remain the main instrument for banks to ease credit supply conditions also in the months to come.

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



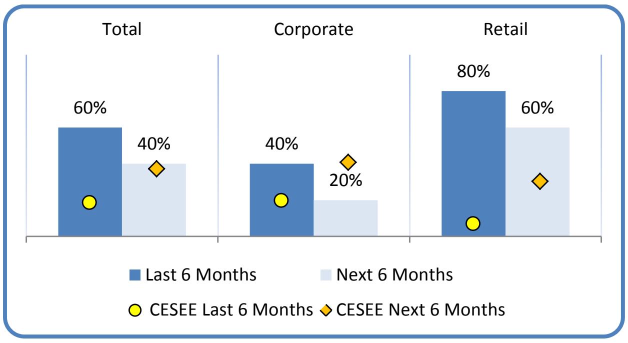
Source: EIB – CESEE Bank Lending Survey.

7. With a loan-to-deposit ratio well below 100 percent, Czech banks generally had no pressing need to rely on intra-group funding to support credit growth. Despite a deteriorated access to the intra-group funding, subsidiaries reported

an overall significantly improved access to funding on the back of retail, corporate and, to a lesser extent, IFI funding. Access to financing is expected to continue easing in the next six months and it will be again more significant than in the rest of the CESEE region. In line with peers, the improvement in the Czech Republic will be driven particularly by corporate and retail funding (Figure 7).

8. Corporate and even more so retail NPL ratios decreased noticeably over the last six months and the trend should continue in the near future. In the CESEE region as a whole NPL ratios improved particularly in the corporate sector, although at a much slower pace than in the Czech Republic. While the improvement is expected to strengthen in the corporate sector it should pick up also in the retail sector in the months to come.

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



Source: EIB – CESEE Bank Lending Survey.

Hungary

1. Key statistics[1]

- Number of local banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as proportion of total assets): approx. 57 percent
- Current level of NPLs as proportion of total loans: 15.0 percent (Q2 2015)
- Latest credit growth, yoy: -8.1 percent (Q2 2015)
- Loan-to-deposit ratio: 91 percent (Q2 2015)
- CAR: 20.6 percent (Q2 2015)

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

International groups' views:

- **Group strategies**: Banking groups operating in Hungary are somewhat less likely to raise capital and to sell assets at the global level relative the overall sample population. Only 20 percent of the respondents envisage further deleveraging of their global operations.
- **Group assessment of positioning and market potential**: Groups operating in Hungary remain committed to the CESEE region but about 50 percent of them consider the profitability of their Hungarian operations lower than the overall group's activities. However, more than 60 percent of the parents believe their positioning to be satisfactory or optimal.

Subsidiaries'/local banks' views:

- Hungarian banks continue to report strong **improvements in demand for credit,** and a **more neutral picture for credit supply conditions -** with a positive outlook.
- **Credit supply** expectations are more optimistic than the CESEE average. In the past, credit has been accessible to SMEs, the key target sector of the central bank's various 'Funding for Growth' initiatives. Looking ahead, banks expect easing of credit conditions also for large corporates and households.
- **Credit demand** has been further increasing in line with the return of economic growth, and is expected to remain strong in all segments.
- **Funding** has been shifting towards domestic sources. Besides corporate savings, the central bank's funding scheme has been playing a pivotal role in the optimistic credit supply expectations. Its planned phase-out in 2016 has not impacted the supply and funding outlook yet.
- **NPL figures** have already been improving in the corporate segment, and similar developments are expected for households, too.

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

3. Relevant macroeconomic and banking conditions[2]

- **Output:** Real GDP growth reached 3.6% in 2014, well above expectations, putting Hungary among the higher performing economies in the EU. This surge was mainly due to domestic demand, which contributed to growth by 4 percentage points. Demand was fuelled by the absorption of EU funds, and the central bank's subsidised SME lending programme ('Funding for Growth'). Net exports, had a small negative contribution to the increase of output. A growth rate of around 3 per cent is expected for 2015.
- **Unemployment:** In 2014, unemployment decreased to a low of 7.7%. With economic growth, job creation in the private sector has been continuing, but employment growth has also been supported by extensive public works and the rising number of cross-border workers.
- **Inflation:** Inflation in 2014 turned out to be 0%, and average inflation in 2015 stood at -0.2% in September. Low CPI inflation has been due to subdued imported inflation, low food prices, regulated energy price cuts, while inflation expectations have been declining. From the second half of 2015, inflation is expected to turn positive as these effects diminish. For 2016, most analysts expect a positive CPI inflation below 2 per cent**.**
- **External and public sector balance:** Hungary's government's deficit in 2014 amounted to 2.6% of GDP. Given the adopted budget, the 2015 deficit is forecasted at 2.5% of GDP. Looking ahead, positive risks are related to recent measures to combat VAT avoidance as well as to the realisation of asset sales. On the negative side, financial corrections related to EU-funded projects may turn out higher than planned. The current account is in surplus, amounting to 4.4 percent of GDP in 2014, and expected to increase further.
- **Banking sector:** The banking system was making losses on average in 2014. P&Ls are heavily impacted by loan losses and state interventions, such as the government's compensation program for households with FX loans, which resulted in a loss of EUR 1.5bn for the financial sector. Capitalisation, however, is adequate – CAR stands at around 20 percent mid-2015 –, mainly due to the subsequent recapitalisations. State ownership in the sector increased through a series of exits by foreign owners. Deleveraging and withdrawal of parent funding has been ongoing since the outbreak of the crisis. As a consequence, the loan-to-deposit ratio fell from its 2009 peak of 162 percent to around 90 percent by mid-2015. The central bank's Funding for Growth initiative was intended to provide the corporate sector with cheap funding. However, after remaining for two quarters in the positive range, corporate credit has begun to shrink again in Q1 2015. Credit to households has been decreasing by 12 per cent on a y-o-y basis in Q2 2015, partly as a result of the compulsory conversion of FX mortgages.
- **Rating:** Hungary's rating is BB+ (Fitch), Ba1 (Moody's) and BB+ (S&P).

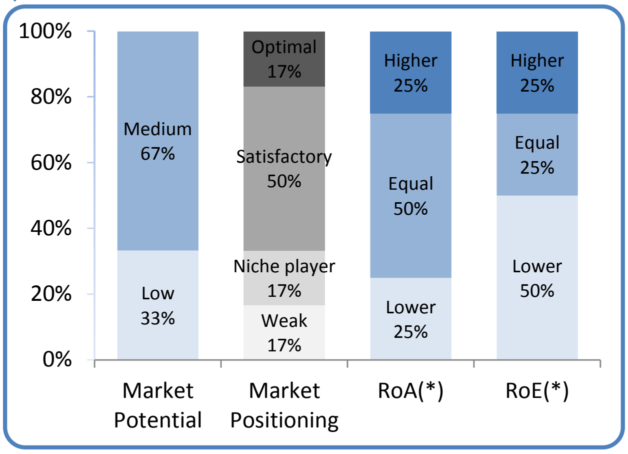
[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: European Commission and National Bank of Hungary data.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

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

Figure 1. Market potential and positioning – see question A.Q10



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

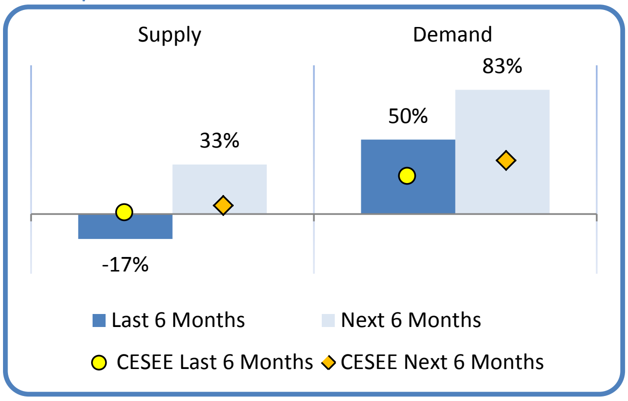
2. Groups operating in Hungary remain committed to their operations in the CESEE region. However the prospects for the Hungarian market are described as being gloomy relative to its peers. About 33 percent of respondents still believe that the potential of the Hungarian market is 'low' (Figure 1). This is a slight improvement relative to the survey results from H1 2015, but still indicates that the parents' view of the Hungarian banking market is less favourable than their perception of the other Visegrad 4 countries (Czech Republic, Poland and Slovakia). In addition, parents also stress that the profitability of the Hungarian operations is still below the regional standards, with roughly 50 percent reporting risk-adjusted returns on equity in Hungary as being significantly lower than the overall group levels. This is most likely a result of the compulsory conversion of FX mortgages and the associated compensation scheme for households, which severely deteriorated the banks' P&L in 2014. As to market positioning, more than 60 % of the parents believe it to be satisfactory or optimal. This is an improvement from the previous survey rounds. However, this improvement coincided with a sizable decline in foreign equity ownership in the Hungarian banking system (from 78% in end-2012 to 52% in mid-2015) and a parallel increase in public ownership.

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

4.2 Local banks/subsidiaries

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

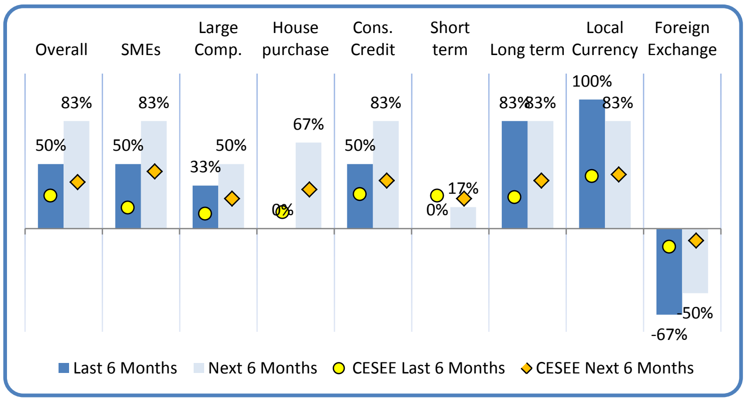
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q5



Source: EIB – CESEE Bank Lending Survey.

2. As to the composition of demand, financial institutions have faced significant demand for credit across the board, and they expect it to increase even further over the next six months (Figure 3). The strong and increasing demand for credit may be due to the pick-up in economic activity that followed several years of recession. Household demand has been concentrated mainly on consumer credit; however, looking ahead, banks expect a pick-up in mortgage lending, too in the next 6 months. The replacement of foreign currency loans with borrowing in HUF is visible, with a contraction in the demand for foreign currency denominated products.

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

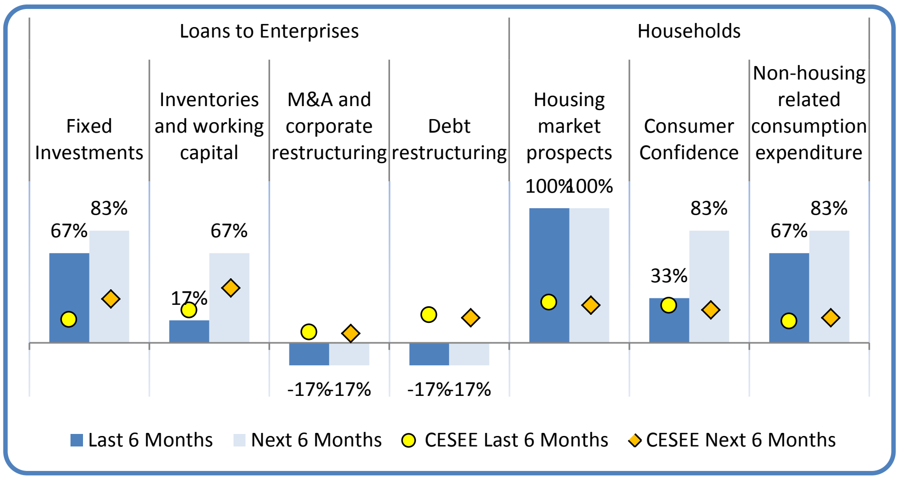


Source: EIB – CESEE Bank Lending Survey.

3. For corporates, fixed investment has been contributing strongly to the increase in credit demand, but working capital needs are also expected to become a prominent factor in the near future. For households, housing market prospects has been an important factor behind credit growth (the property market in

Budapest has become buoyant over the last months). However, when looking ahead, consumer confidence is expected to become a key driver, too (Figure 4).

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

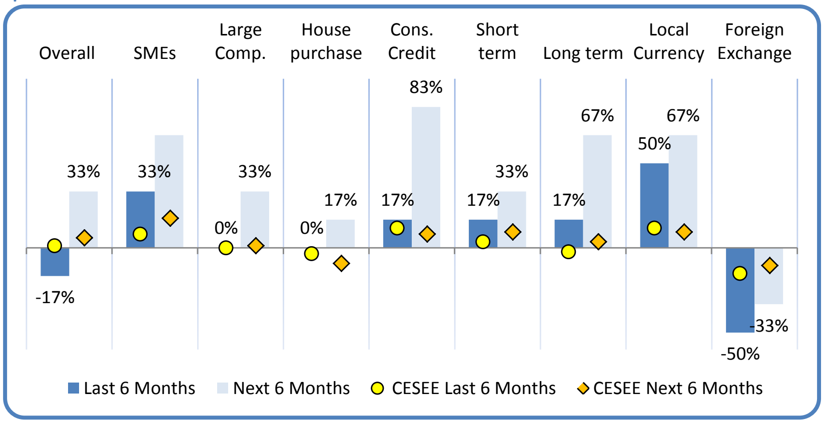


Source: EIB – CESEE Bank Lending Survey.

4. Some marginal easing in credit supply has been observed in a few segments in the last six months (Figure 5.) These include the SME sector, where the central bank's Funding for Growth scheme has continued to have a positive impact on supply. In the retail sector, conditions for consumer credit has been easing somewhat. Looking ahead, banks expect a more pronounced easing of credit supply to corporates and households, and the overall improvement of the credit supply conditions are expected to be stronger relative to the CESEE average.

5. International factors had a negative impact on supply conditions on average for Hungarian banks. While on one hand group outlook has been a support to credit supply, other components of the external environment such as the EU regulatory framework, the group-level funding conditions or group-level NPL figures has been a drag for many banks. This environment is expected to worsen further in the next six months (Figure 6). In many aspects of the international

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



Source: EIB – CESEE Bank Lending Survey.

environment the Hungarian banks take a significantly more pessimistic view than their CESEE peers.

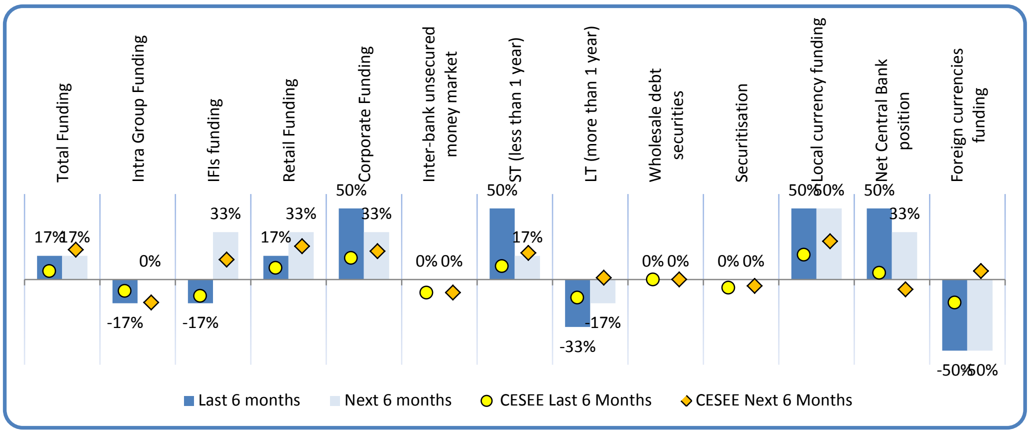
6. As for the domestic components, the local market outlook has had a significant positive influence, and banks has been satisfied with their domestic funding capabilities, too. The unpredictability of the local regulatory framework is now less of a concern than it has been in the past. However, capital constraints are reported to be binding, and expected to remain so. For the next six months, banks are optimistic about the local outlook and domestic funding, more than their regional peers. As to domestic NPLs, Hungarian banks' expectations are somewhat more optimistic than the rest of CESEE.

7. The SME sector recorded a rather pronounced easing in the conditions for credit supply. This is chiefly a result of the Hungarian central bank's Funding for Growth programme targeted mainly at SMEs and mid-caps. The programme has been further extended and broadened in February 2015, targeting the higher-risk segment of the SME sector as well. Unlike the original framework, the new 'Funding for Growth +' programme allows the partial transfer of the credit risk to the central bank. Due to the existence of these initiatives, the banking system has mostly been able to match the demand in this segment. Although the central bank's facility is expected to be phased out gradually in 2016, our survey reflects further increase in the credit supply towards SMEs in the near future.

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

Source: EIB – CESEE Bank Lending Survey.

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

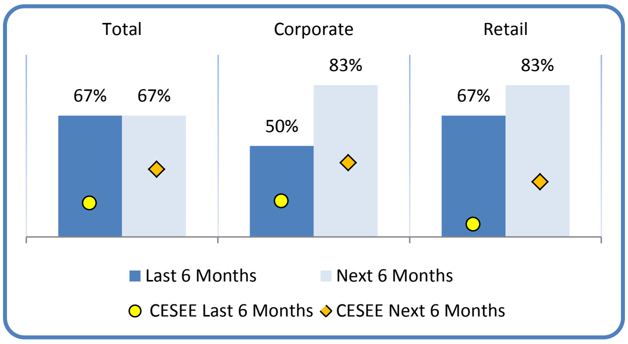


Source: EIB – CESEE Bank Lending Survey.

8. When it comes to funding, banks in Hungary have been increasingly relying on domestic sources. Corporate saving has been a key source of financing in the past, and it is expected to remain so (Figure 7). Central bank funding is also more important to Hungarian banks than to other financial institutions in the region. A decline in foreign currency funding is likely to be the reflection of the phasing-out of the foreign currency mortgages from the banks' balance sheet.

9. NPL ratios have been perceived to improve both in the corporate and the retail sector over the past six months. Looking ahead, NPL ratios are expected to show further pronounced improvements over the next six months (Figure 8). The particularly positive outlook for NPLs is likely to be a reflection of the generally benign economic environment and the elimination of the CHF-based mortgage portfolio, but could also reflect the central bank's recently announced plan to impose excess capital requirements on banks that do not take the necessary measures of portfolio cleaning.

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



Source: EIB – CESEE Bank Lending Survey.

Kosovo

1. Key statistics[1]

- Number of local banks/subsidiaries participating in the survey: four
- Approximate share of assets covered (as proportion of total assets): 78.5%
- Current level of NPLs as proportion of total loans: 7.5% (August 2015)
- Latest credit growth (yoy): 7.4% (August 2015)
- Loan-to-deposit ratio: 74.7% (August 2015)
- CAR: 19.3% (August 2015)

2. Key messages – *As deleveraging seems over, credit supply conditions have eased amid a strong revival in credit demand and falling NPLs*

International groups' views:

- **Group strategies**: Banking groups operating in Kosovo are equally likely to conduct strategic restructuring at the global level as the full sample of banks included in the survey. At the same time, both of the two interviewed banking groups active in Kosovo plan to continue selling assets as in the last six months. Yet parent banks operating in Kosovo are planning no further deleveraging.
- **Group assessment of positioning and market potential**: Regarding the commitment of groups operating in Kosovo the situation has become more mixed. Nevertheless, both respondents keep seeing a medium potential in the Kosovar market. The profitability of the Kosovar operations is for parent banks comparable to or even better than on the group level, although this view might still be to some extent influenced by the exceptionally positive last year.

Subsidiaries'/local banks' views:

- In line with expectations Kosovar subsidiaries voiced in the last survey **credit demand** strongly revived over the last six months, outperforming significantly the CESEE aggregate. Amid strengthening private consumption subsidiaries faced vivid demand in the retail sector but demand rebounded also among corporates.
- **Credit supply** developments in Kosovo were again a lot more positive than stagnant credit conditions in the CESEE region. A marked easing in credit supply has been driven by all market segments, especially SMEs and consumer credits thus meeting the strong demand in those segments. A significant share banks expect further easing of access to finance for SMEs.
- **Access to funding** has been easier for Kosovar banks than their CESEE peers and is expected to ease further.
- Contradicting past expectations **NPL figures** have improved in both the corporate and retail sectors and are expected to fall further in the months to come.

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

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** Economic growth in Kosovo has been positive in every year of the post-crisis period, averaging 3.5% during 2009–13. In 2014 growth decelerated markedly (roughly 1%) due to weak investments and a negative contribution of net exports. Subdued growth (0.2% year-on-year) continued in Q1 2015 as growing private consumption was dragged down by government consumption and investments. However, looking ahead, GDP growth is expected to pick up steam on account of both private and public consumption, the former fuelled by rising remittances, higher wages and firming credit growth. Exports as well as private investment boosted by higher FDI inflows will also support growth.

- **Unemployment:** Although unemployment has gone down significantly from some 45% in 2009 it remains high even by regional standards. Moreover, it increased again by 5 percentage points in 2014 (to around 35%) and is even higher (and rising) among women and youth. This is particularly worrisome as Kosovo is the youngest country in Europe with more than 50% of the population younger than 25, suggesting considerable development impacts in the medium term. Widespread unemployment and gloomy job perspectives contributed to an increased exodus of Kosovars to the EU earlier in the year.

- **Inflation:** Despite a record of low inflation owing particularly to the unilateral adoption of the euro as the legal tender Kosovo entered the uncharted deflationary territory end-2014. Consumer prices have continued on a downward path since so that annual inflation stood at -0.6% in August. The drop into deflation is ascribable mainly to plunging transport (fuel) and education prices.

- **External and public sector balance:** Kosovo's economy is based largely on low-value-added sectors heavily boosted by remittances which fuel domestic demand. Such an economic structure naturally results in rather large current account deficits (around 7.9% in 2014). External imbalances further increased in the first half of 2015 due to high investment- and consumption-induced imports and a negative primary income balance. In contrast, fiscal situation is quite favourable. The general government deficit averaged some 2.4% in the five years to 2014 and general government debt stands at some 11% of GDP.

- **Banking sector:** The banking sector has virtually fully developed within the last decade. Banks are well-capitalized, liquid and profitable and have proven resilient to the deterioration in the external environment. The loan-to-deposit ratio keeps hovering around 75%. The capital adequacy ratio has further increased to more than 19% while NPLs have dropped to 7.5% of total loans. Credit growth remains feeble but has picked up somewhat (particularly in the corporate sector) over the last months.

- **Rating:** Kosovo is not rated by the major rating agencies.

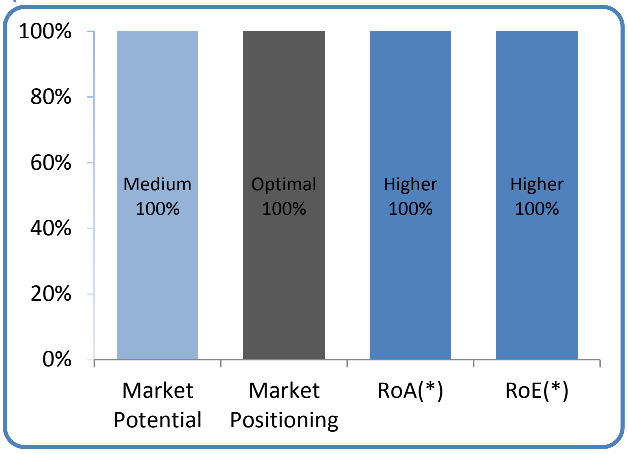
[2] Sources for the macroeconomic data: Central Bank of the Republic of Kosovo, World Bank, IMF. Sources for the banking data: Central Bank of the Republic of Kosovo.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Banking groups operating in Kosovo deviate slightly on average from the overall sample of parent banks in terms of their global strategies. While they are equally likely to conduct strategic restructuring operations (50%), every second parent bank operating in Kosovo plans to raise capital over the next six months (compared to roughly 21% in the overall sample). However, in contrast to 71% in the entire sample both of the two interviewed banking groups active in Kosovo plan to continue selling assets at the global level as in the last six months. In quite a sharp contrast to the last survey round in which one in two parent banks expected further deleveraging in the near future most recently none of the interviewed banks reported such plans. This compares to 57% of respondents in the whole set of international bank groups which intend to leave the loan-to-deposit ratio stable. Equal shares of the remainder in the overall sample plan to, respectively, decrease and increase the loan-to-deposit ratio.

Figure 1. Market potential and positioning – see question A.Q10



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

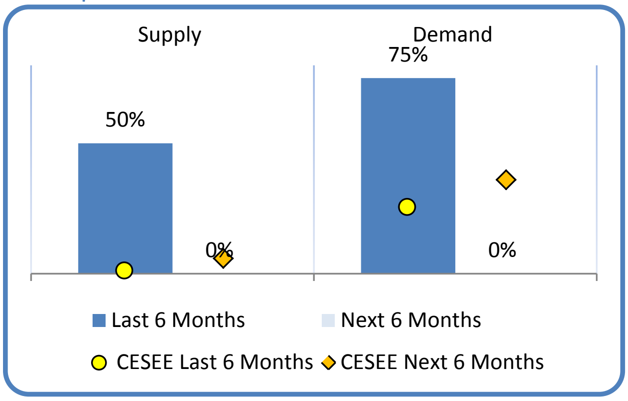
2. Whereas in the last survey both interviewed groups operating in Kosovo signalled their intention of either maintaining or even selectively expanding operations in the region this time the situation is mixed. One parent bank plans to selectively expend operations while the other reported that it will selectively reduce them. At the same time, however, both bank groups maintain their relatively flattering view on the prospects for the Kosovar market which they assess as 'medium' (Figure 1). The profitability of the Kosovar operations is for parent banks equal or even higher than on the overall group levels. However, this view might still be to some extent driven by the exceptionally positive last year in which profits of the banking sector nearly doubled compared to 2013. This was mainly due to a strong drop in expenditures on the back of lower provisions and funding costs. However, this trend is unlikely to continue. As to market positioning, all parent banks believe it to be satisfactory.

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

4.2 Local banks/subsidiaries

1. Corroborating expectations Kosovar subsidiaries voiced in the last survey demand for credit strongly revived over the last six months, outperforming significantly the overall CESEE results. On the supply side, developments in Kosovo were again significantly more positive than the stagnant credit conditions in the CESEE region. In Kosovo survey participants indicated a rather pronounced easing of credit standards. However, the situation is expected to change dramatically on both sides of the market in the near future as both of them are projected to remain unchanged on balance in Kosovo while demand will pick up in the CESEE region (Figure 2).

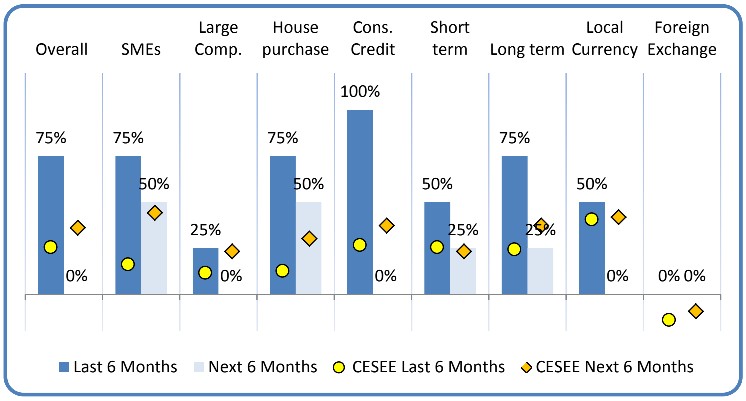
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. In line with the strengthening private consumption financial institutions have faced significant demand in the retail sector, both for mortgages and, even more so, for consumer credit. Interestingly, while the interviewed subsidiaries expect demand for house purchases to strengthen further in the months ahead, demand for consumer credit is foreseen to stabilize. Perfectly in line with last survey rounds' expectations, demand rebounded quite strongly in the corporate sector over the last half a year, especially in the SME segment which is key for the Kosovar economy. While in the latter demand will reportedly further strengthen in the next six months, credit demand among large corporates seems saturated for the time being. Hence, while the credit demand revival was much stronger in all segments in Kosovo than in the CESEE region over the last six months, in the months ahead Kosovo will be more aligned with aggregated developments in several segments (Figure 3).

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

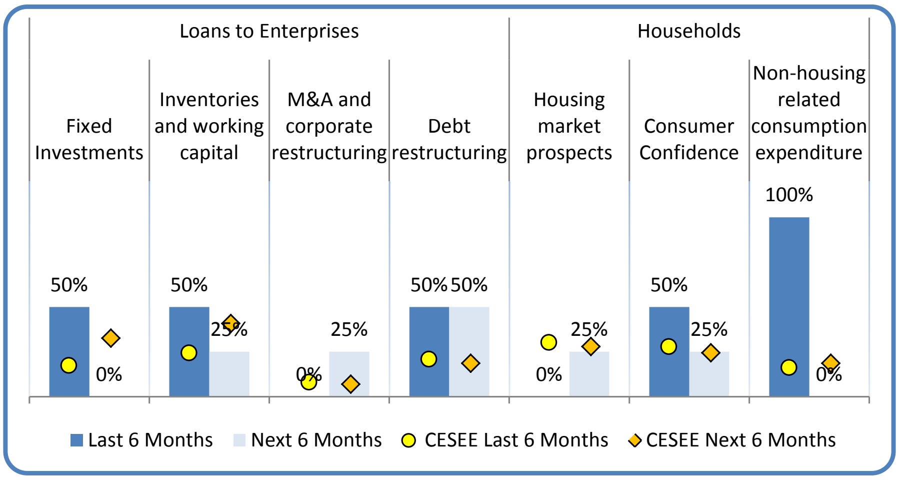


Source: EIB – CESEE Bank Lending Survey.

3. As for the factors behind credit demand, in the household sector demand was boosted by rising consumer confidence and particularly by non-housing related expenditures. In the

corporate sector debt restructuring, inventories and working capital as well as fixed investments made a similar positive contribution to demand increases (Figure 4). Looking ahead, in the household segment consumer confidence and housing market prospects will drive credit demand but less strongly than over the last six months. As regards the corporate sector, demand will be further supported by debt restructuring and to a lesser degree inventories, working capital as well as M&A and corporate restructuring. Interestingly, fixed investments were no longer reported as expected credit demand drivers in the near future. This somewhat contradicts projections on the macroeconomic level according to which investment should increasingly play a supportive role for growth.

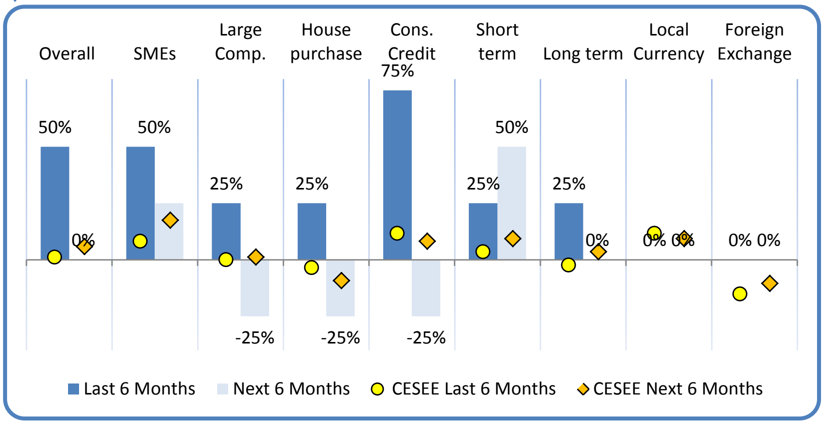
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. A marked easing in credit supply was observed across all market segments in the last six months. Conditions have eased especially for consumer credits and SMEs meeting (or reinforcing) the strong demand growth there. Looking ahead, banks still expect further, though somewhat weaker, easing of access to finance for SMEs, while supply conditions in other segments are tentatively expcented to slightly tighten (Figure 5). Hence, whereas the overall dynamics of credit

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



Source: EIB – CESEE Bank Lending Survey.

supply conditions were significantly more positive than in the CESEE as a whole in the recent past the expected stagnation of conditions in the near future is Kosovo sharing with the overall sample. Regarding the maturity structure Kosovar banks report a marked improvement in customer's access to both short- and long-term finance. Moreover, short-term financing should become even easier to get in the months ahead. These developments reflect the fact that while banks have been pursuing for various reasons a rather conservative strategy so far, they have started leaving their comfort zone and easing their lending standards in search for a more sustainable profit path. Therefore, 2014 saw the strongest increase in credit activity in the last three years while average credit interest rates have dropped to record lows.

5. Unlike the results for the CESEE region as a whole, international factors had an overall positive impact on supply conditions in the last six months. Notably, a negative contribution of the global market outlook was more than offset by the strong positive group outlook which, however, will fade away in the months to come (Figure 6). As for domestic components, credit standards benefited from a bright outlook of local banks and their easier capital constraints on the one hand as well as particularly from declining NPLs in Kosovo and easier local bank funding on the other. While falling NPLs and less binding capital constraints should further exercise a positive impact on supply conditions in the next half a year other domestic factors are likely to rather stagnate.

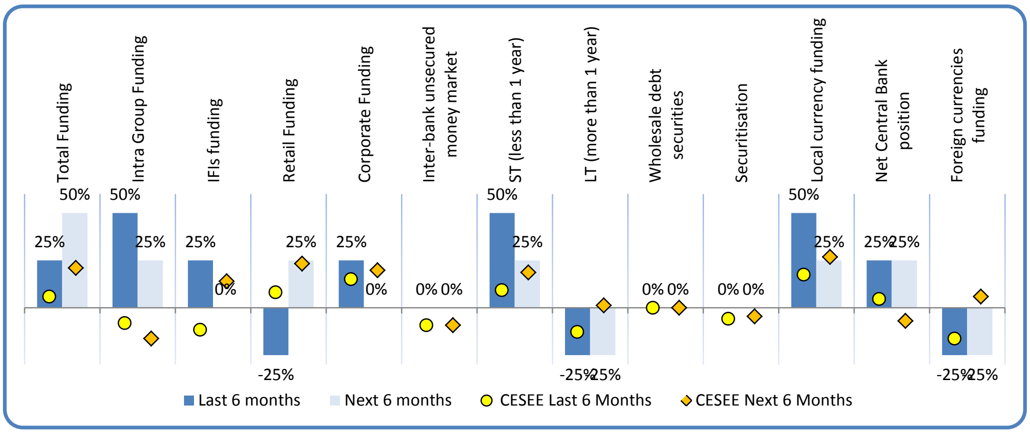
6. In contrast to the broadly stagnating supply conditions for SMEs in the CESEE as a whole, in Kosovo the SME sector recorded a pronounced easing in credit supply in the period under review. Reportedly banks try to reach out to SMEs, especially those for which access to financing has been particularly difficult and the conditions almost prohibitively unfavourable such as start-ups, agricultural companies and businesses run by women. Against this background, banks have been training entrepreneurs how to provide relevant documentation and in case of credits below EUR 50 000 banks send credit officers who themselves collect necessary data on the ground. As a result of

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

Source: EIB – CESEE Bank Lending Survey.

these efforts, the easing of credit conditions for SMEs took place through virtually all possible channels such as collateral requirements, maturity, loan size as well as lower interest rate margins.

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

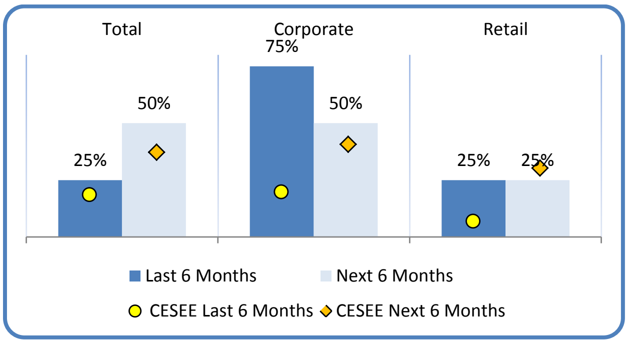


Source: EIB – CESEE Bank Lending Survey.

7. Overall, funding has been easier for Kosovar subsidiaries and local banks over the last months than for their CESEE peers (Figure 7) thanks to short-term intra-group, IFIs and corporate funding. These sources of funding thus compensated for the deterioration in retail, long-term and foreign currency funding. Looking ahead, access to funding is expected to ease further.

8. Contradicting expectations articulated in the last survey round NPL ratios in the corporate and to a lesser extent retail sector decreased over the past six months (Figure 8). Moreover, the credit quality is expected to improve further over the next six months in both sectors. It has to be born in mind that NPLs, although low by regional standards, in general impair banks' lending business in Kosovo. This is because in case of default it is difficult for banks to sell the collateral not only for slow legal processes but reportedly also for cultural reasons[4]. Therefore, a gradual improvement in asset quality should have an important catalysing role for credit growth.

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



Source: EIB – CESEE Bank Lending Survey.

[4] Since Kosovo is a very small country anecdotal evidence suggests that people are reluctant to buy property that a neighbour is selling.

Poland

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as proportion of total assets): approx. 52 percent
- Current level of NPLs as proportion of total loans: 8 percent (Q2 2015)
- Latest credit growth, yoy: 7.4 percent (Q2 2015)
- Loan-to-deposit ratio: 101.9 percent (Q2 2015)
- CAR: 15.3 percent (Q2 2015)

2. Key messages – *A highly attractive market, with increasing demand for loans but somewhat slower improvement in supply conditions.*

International groups' views:

- **Group strategies**: Groups operating in Poland tend to view their global operations generally in line with the overall set of groups included in the survey. They seem to be somewhat less inclined to raise new capital and slightly more inclined towards strategic restructuring at the global level.
- **Group assessment of positioning and market potential**: Groups operating in Poland show a strong commitment to the region and are likely maintain their CESEE operations. Parent banks consider the Polish market to be among the most attractive within CESEE. Risk-adjusted returns on equity and assets are believed to be among the highest in the region, and the majority of the groups seem to be relatively satisfied with their current market positioning.

Subsidiaries'/local banks' views:

- Polish banks report that **credit demand has been increasing** whilst **supply conditions are lagging somewhat behind**.
- **Credit supply** conditions have slightly improved, but are expected to remain neutral overall. Supply is still expected to improve for corporate and SME clients, but not for households, as the supply of mortgages is forecasted to tighten over the next few months.
- **Demand for loans** increased sharply and is expected to continue to increase significantly across most of the spectrum of products and segments over the coming months.
- **Access to funding:** Funding for Polish banks has become marginally tighter, but it is expected to improve. Banks experience strong inflow of domestic corporate and retail deposits, while foreign funding has been weaker.
- **NPL figures** have improved for corporates, and stagnated for the household segment.

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

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** Poland's GDP grew by 3.4% in 2014 despite a negative external environment (Russia-Ukraine conflict). Growth is expected to remain robust in 2015, too: forecasts range between 3.3-3.6%. The economic activity has been fuelled by domestic demand, and both consumption and investment are expected to remain solid. For the latter, the low funding cost and government support measures for housing construction are likely to compensate for the temporary slowdown of EU funds absorption. Net exports are expected to have a negative contribution to growth in 2015 and 2016.
- **Unemployment:** In parallel with the recovery, unemployment in Poland improved from its 2013 level of 10.4% to 9% in 2014. A further decline is expected for 2015.
- **Inflation:** Consumer prices were stable in 2014: inflation on a HICP basis amounted to 0.1 %. Inflation is expected to be negative in 2015, and to pick up slowly again to around 1% in 2016.
- **External and public sector balance:** The current account deficit contracted dramatically from 2012 to 2013, and it is expected to remain between 1 to 2 % of GDP over the next years. On the fiscal side, Poland's deficit was 3.2% in 2014, compared to 4 percent of 2013. The improvement was to a large extent driven by the partial reversal of the systemic pension reform of 1999. The general government deficit is projected to reach 2.8% of GDP in 2015. On the expenditure side, higher indexation of low-income pensions and the cost of restructuring of the mining sector will partially offset expenditure savings in other areas, such as the continued partial freeze of public wages. As to public debt, the general government debt-to-GDP ratio has fallen from 55.7% in 2013 to 50.1% in 2014 due to the transfer of assets accumulated in private pension funds, and is expected to remain slightly above 50% in 2015.
- **Banking sector:** The Polish banking system weathered the financial crisis well and remains profitable, well capitalised and liquid. The CAR in Q2 2015 stood at 15.3 percent, while ROE in Q1 2015 was 11.8 percent. Polish banks' average NPL ratio of 8 percent is still low relative to other CESEE countries. The orderly withdrawal of parent funding, reflected in the decline in the loan-to-deposit ratio, was offset by increasing domestic funding. As a result, the credit flow has remained consistently positive, reaching 7.4 per cent in 2015. Regulatory action has contained foreign currency mortgage lending in Poland, but more than half of mortgages are still denominated in foreign currency. A conversion plan for those mortgages is in the pipeline, and it has become a campaign issue for the next parliamentary elections.
- **Rating:** Poland is currently rated A- (positive) by S&P, A2 (stable) by Moody's and A- (stable) by Fitch.

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

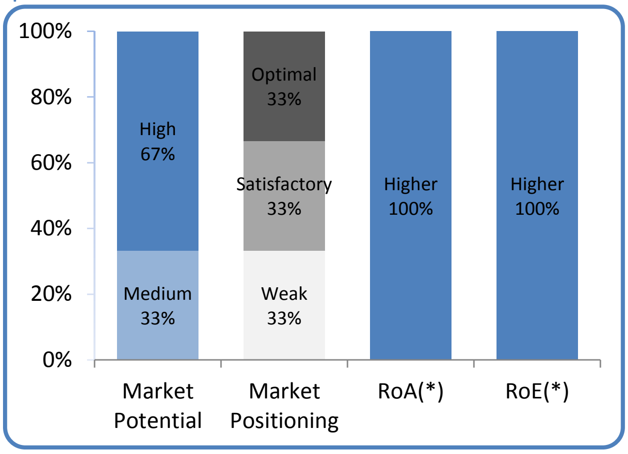
4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

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

2. Parent banks operating in Poland show a strong commitment towards the region. In the previous release of the survey no bank present in the Polish market signalled plans to selectively reduce operations in the CESEE. To the contrary, 25 percent of the respondents indicated such plans in the current release of the survey. Still, the majority of the groups present in the country plan to maintain their regional operations at current levels. All groups operating in Poland consider their CESEE operations to be more profitable than their group's global operations. Parent banks consider the Polish market to be the most attractive within CESEE, confirming the results of the previous surveys. Two-third of the groups operating in Poland find that the country's market potential is high. Risk-adjusted returns on equity and assets in Poland – together with the Czech Republic – are also believed to be among the highest in the region by all groups. Two third of the parent banks operating in Poland seem to be relatively satisfied with their current market positioning, while one-third finds it weak (Figure 1).

Figure 1. Market potential and positioning – see question A.Q10



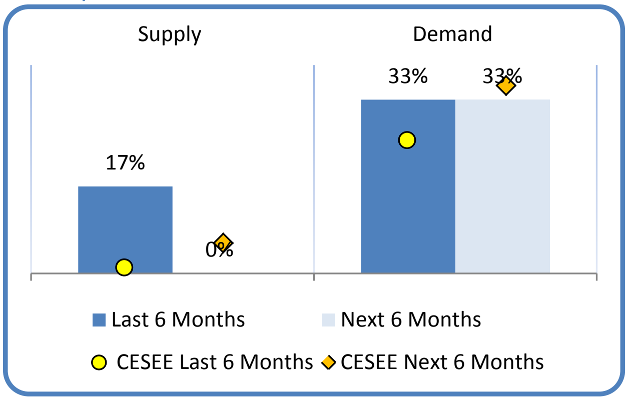
Source: EIB – CESEE Bank Lending Survey.
(*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

4.2 Local banks/subsidiaries

1. Poland's robust economic growth driven by domestic demand has been reflected in very strong credit demand as described in the past survey editions. Although the assessment remains positive, it currently reflects a somewhat more balanced stance than six months ago. That said, credit demand has been still robust in the last six months, and it is likely to continue to do so over the next half-year, in line with the CESEE average. Credit supply has been easing only marginally, but it is expected to remain neutral over the next six months (Figure 2).

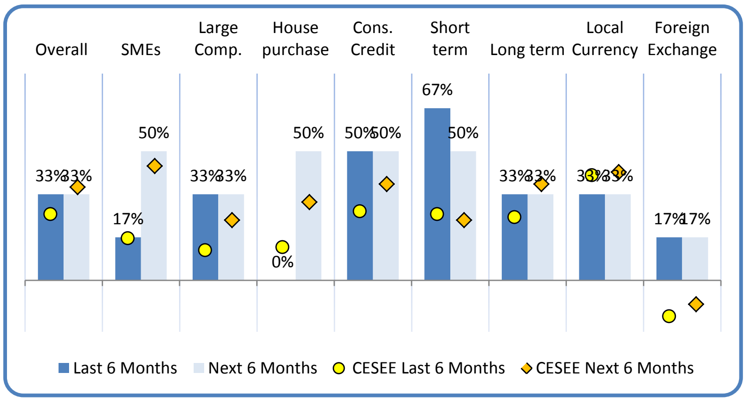
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. Demand for credit has been increasing across most of the spectrum of products and segments over the last six months, both in the corporate and in the retail segments. The only exception has been housing-related lending. The reported increases by segment have been somewhat higher than the CESEE results. Looking ahead, financial institutions expect to face further increases in demand for credit across the board. This signals that the growth of domestic demand is solid and broad-based. Unlike in other CESEE countries, the demand for FX loans has still been increasing, albeit only slowly. Such loans have been an important source of vulnerability in CESEE in the past, especially in the case of loans granted to households or SMEs without offsetting incomes in foreign currency (Figure 3).

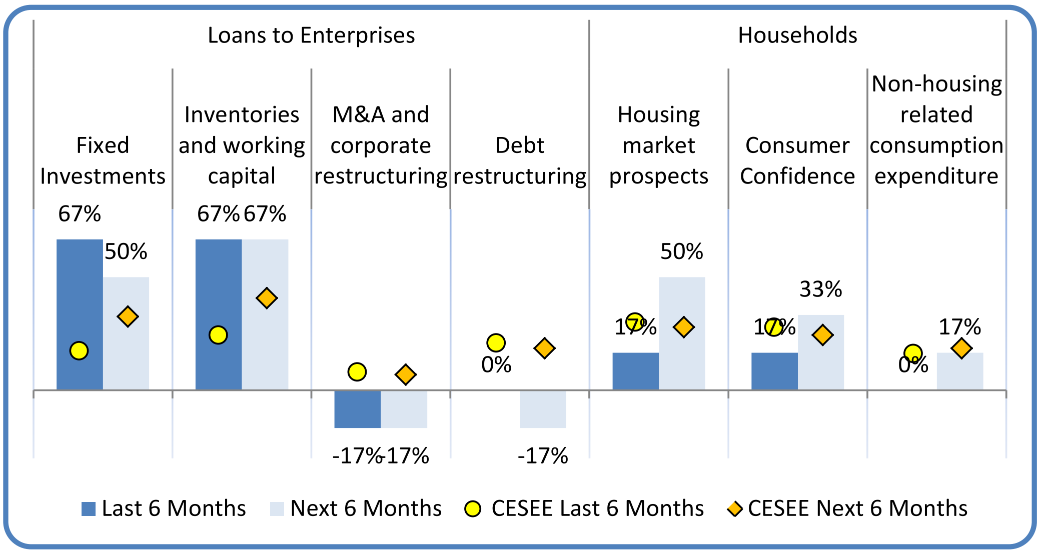
Figure 3. Demand components - (*net percentages*; positive figures refer to increasing demand) – see question B.Q4



Source: EIB – CESEE Bank Lending Survey.

3. Among the individual factors contributing to credit demand, investment and working capital have been the strongest, and they are expected to remain so in the text six months. (Figure 4). Mergers, acquisitions or debt restructuring have not been considered important drivers behind the demand for credit. As to the households, both housing market expectations and consumer confidence contributed positively, albeit marginally, in the last few months. However, these two components are expected to contribute much stronger in the coming two quarters.

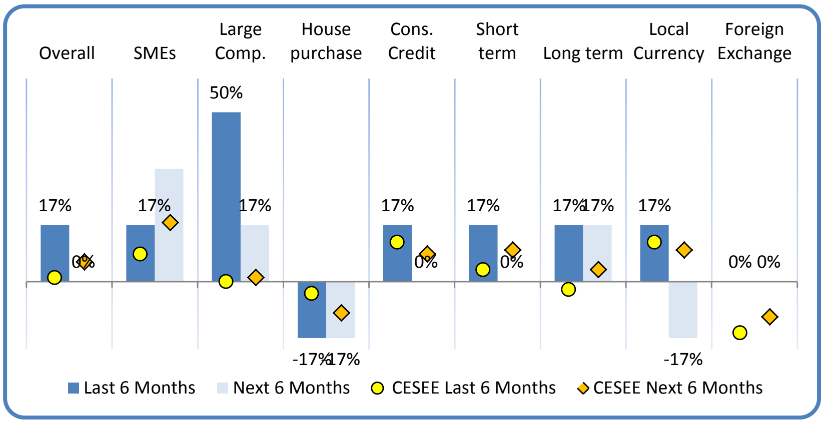
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. Credit supply conditions have also been easing slightly in most segments. For large corporations, the increase has been more robust. As for housing finance, the conditions became tighter, possibly as a result of the uncertainty around the proposed conversion plan for foreign currency based mortgages, which has become a key

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

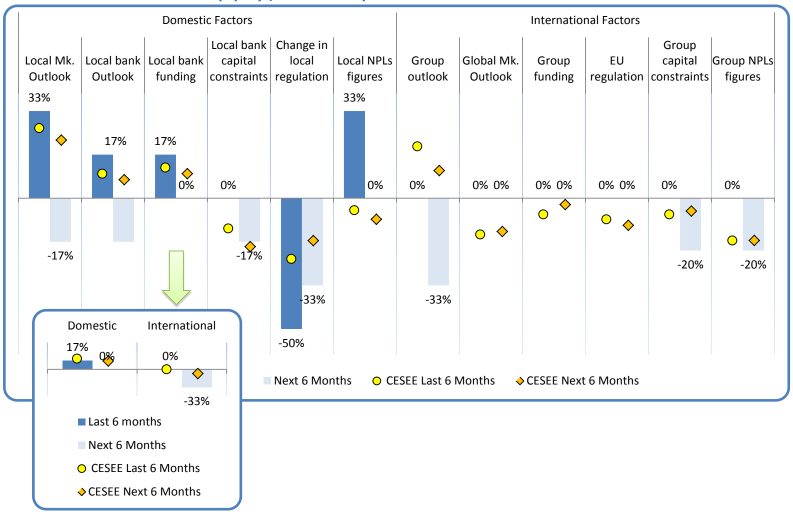


Source: EIB – CESEE Bank Lending Survey.

campaign issue for the parliamentary elections. Looking ahead, further increases of credit supply are expected on the corporate side, but a more neutral stance is projected for households (Figure 5).

5. Broadly in line with their CESEE peers, Polish banks see international factors as neutral. Looking ahead, group outlook, and group capital constraints are expected to have a contractionary influence on credit supply. (Figure 6). Most domestic factors – market outlook, local funding and NPLs – have played a positive role on average, but a slight reversal is expected for the next few months. Local regulatory changes have been already considered as a severe impediment to credit supply over the past six months, and this is expected to continue. This factor is stronger on the Polish market compared to the CESEE region, and may be due to the politically-charged debate on the conversion plan for FX mortgages.

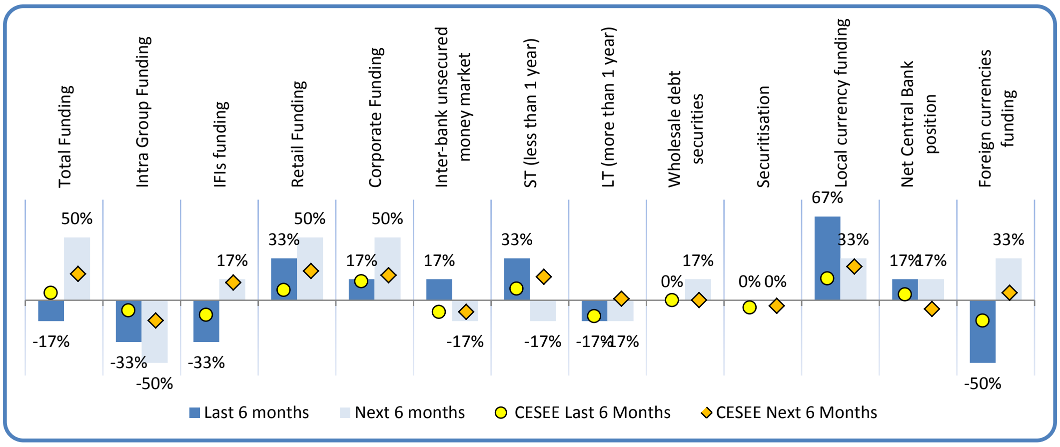
Figure 6. Factors contributing to supply conditions (credit standards) – (*net percentage*; positive figures refer to a positive contribution to supply) – see question B.Q3



Source: EIB – CESEE Bank Lending Survey.

6. SMEs have been facing very similar credit conditions than the corporate sector as a whole. The easing of supply constraints was also in line with a similar increase in SME credit demand. Nonetheless, some terms and conditions of

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

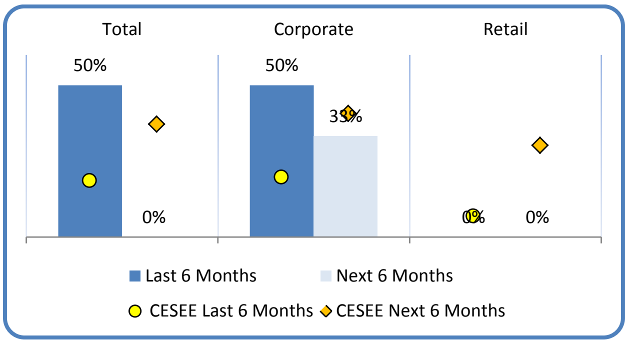


Source: EIB – CESEE Bank Lending Survey lending – margins in particular – have been becoming less favourable in the SME segment.

7. Funding conditions have become marginally tighter, but they are expected to ease over the next 6 months (Figure 7). Banks indicate that they experienced inflows in the form of retail and corporate deposits, and they expect to see even stronger inflows over the next six months. Intra-group funding contributed negatively, despite parent bank's highly positive assessment of the Polish market. Banks reduced their foreign currency funding, and their funding from IFIs has declined, too. Access to funding improved for the short end of the maturity spectrum, but has become tighter at the longer end of the curve.

8. NPL figures in Poland have been described as improving in the corporate segment and remained broadly stable for households. Unlike for the CESEE average, where improvements are projected, asset quality in the household segment in Poland is expected to remain neutral over the next six months. Further improvements are expected only for corporate exposures (Figure 8).

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



Source: EIB – CESEE Bank Lending Survey.

Romania

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: eleven
- Approximate share of assets covered (as proportion of total assets): approx. 61%
- Current level of NPLs as proportion of total loans: 12.8% (June 2015)
- Latest credit growth (yoy): 0.1% (August 2015)
- Loan-to-deposit ratio: 97.9% (August 2015)
- CAR: 18.1% (June 2015)

2. Key messages – *Strengthening credit demand has faced slightly tightening supply amid improving quality of loans.*

International groups' views:

- **Group strategies**: Banking groups operating in Romania have become slightly more active in terms of global strategies over the last six months compared to the overall pool of parent banks in the survey. Banking groups in Romania are somewhat more likely to sell branches and assets or to restructure their operations in the period ahead.
- **Group assessment of positioning and market potential**: Despite comparably low profitability, groups operating in Romania keep a positive view of Romania's market potential. Although there has been a sharp decline in this figure in the last year a majority of banking groups active in Romania still consider their market positioning as satisfactory and the share has slightly increased over the last six months. The majority of groups remain – if somewhat more tentative in their assessment than the overall sample – committed to the region.

Subsidiaries'/local banks' views:

- A slight majority of subsidiaries operating in Romania reported an increase in aggregate **credit demand** while a similarly small majority of banks stated tightening credit **supply conditions**.
- **Credit supply** conditions deteriorated slightly over the past six months, especially with respect to mortgages and (predominantly large) corporate loans. Looking ahead, credit standards are set to ease more strongly in Romania than in the CESEE as a whole especially due to short-term consumer credits in local currency.
- **Credit demand** has improved particularly due to short-term loans for households while other segments have stagnated. Over the next six months demand should pick up quite significantly particularly owing to the corporate sector.
- **Access to funding:** Subsidiaries' access to funding has worsened slightly in Romania over the past six months as opposed to a broad stagnation in CESEE. The trend is expected to turn positive thanks to easier retail and corporate funding
- **NPL figures:** Credit quality has improved and is set to continue doing so.

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

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** Following feeble growth in the first half of 2014, economic activity regained grip in the second half of the year and in the first half of 2015. Hence, after some deceleration to 2.8% in 2014 the economy expanded by nearly 4% in the first half of 2015 and the recovery should continue further. Growth has been driven by private consumption boosted by rising real disposable income as a result of higher (minimum) wages, pensions, historically low inflation, reviving credit growth and improving consumer confidence. Fixed capital investment has been playing an increasing role mostly due to construction works, particularly in the residential sector. Further support to GDP growth has come from public consumption.

- **Unemployment:** The unemployment rate dropped from 7.1% in 2013 to 6.8% in 2014 and has plateaued since. A gradual decline is expected to continue to 6.4% in 2016. However, while unemployment is relatively low and contained it is mostly due to persistently low activity rates.

- **Inflation:** After annual inflation (HICP) came in at 1.4% in 2014 it has continued to decelerate in 2015 and has been in the negative territory since June due to cuts in the VAT rate on food items, seasonal declines in food prices and low global energy prices. Inflation is likely to remain negative for the rest of the year and well into 2016 and only gradually climb up thereafter.

- **External and public sector balance:** Romania's current account deficit dropped from 4.4% of GDP in 2012 to 0.4% of GDP in 2014 and is expected to increase only gradually this year and next. Under the umbrella of the EU-IMF precautionary assistance programme fiscal deficit dropped from 6.6% in 2010 to just below 2% of GDP in 2014. The deficit is aimed to come in at 1.8% of GDP this year bolstered by stronger economic growth. However, it is likely to deteriorate by more than half a percentage point in 2016 due to a significant fiscal loosening adopted earlier this year by the government.

- **Banking sector:** Although banks' profitability turned slightly positive in 2013 and strengthened in 2014 it is still under pressure from the ongoing clean-up of banks' balance sheets. The banking sector's capital and liquidity buffers not only remain comfortable but keep rising (CAR: 18.1% in June 2015). As a result of foreign parent banks withdrawing funds banks in Romania have increasingly shifted their funding structure towards lei. Following a comprehensive action plan of the central bank and EU-wide methodological changes, asset quality has improved significantly (NPLs dropped by more than 9 percentage points to less than 13% in June 2015). The prevailing though falling share of FX loans remains the largest risk for the sector which has partially materialised this year for borrowers in Swiss francs US dollars as these currencies strengthened.

- **Rating:** Romania is rated by Moody's (Baa3), Fitch (BBB-) and S&P (BBB-).

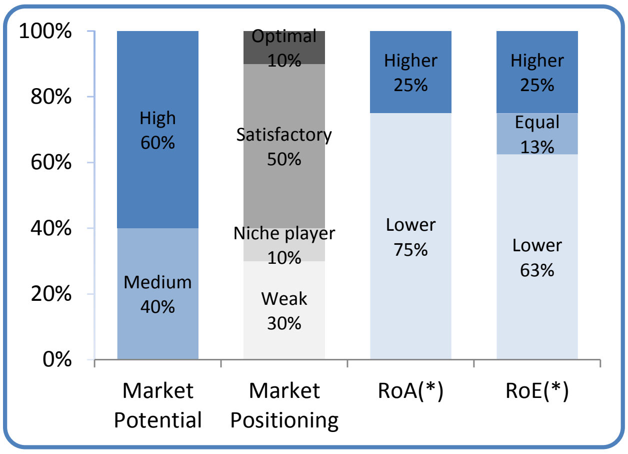
[2] Sources for the macroeconomic data: European Commission. Sources for the banking data: The National Bank of Romania and European Commission.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Banking groups operating in Romania have become slightly more active in terms of global strategies compared to the overall pool of parent banks in the survey. Unlike in the previous survey round where the share was akin, currently banking groups operating in Romania are more likely to sell branches of activities than the pool of parent banks in the survey (60% vs. 42%, respectively in the next six months). Moreover, in Romania they are also more likely to restructure their operations in general and to sell assets even though the differences are not tremendous. Also deleveraging activities in Romania correspond roughly to the overall sample.

Figure 1. Market potential and positioning – see question A.Q13



Source: EIB – CESEE Bank Lending Survey.

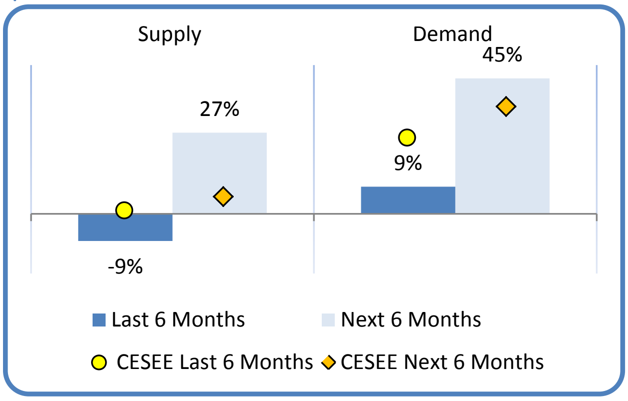
2. Parent banks operating in Romania have a fairly positive view of the Romanian market: all believe that market potential is 'high,' or at least 'medium' (Figure 1). The share of banks which consider their market positioning as 'optimal'/'satisfactory,' has increased slightly to 60% compared to the last survey round, yet still significantly below the level in early 2014 (73%). This deterioration in satisfaction with their market position may be related to subpar profitability. For the past six months, about 30% of parent banks active in Romania report lower profitability compared to their overall group profitability. This is a significantly higher proportion than in the overall pool of parent banks (21%). Therefore, when it comes to plans about future activities, the picture differs somewhat from that in the CESEE region as a whole. On the one hand, the share of banks which want to selectively expand their operations amount to roughly 60% both in Romania and CESEE as a whole. On the other hand, however, no bank active in Romania plans to maintain its operations compared to 14% in CESEE. Hence, 40% of bank groups operating in Romania plan to reduce their operations selectively in the long run, a significantly higher share than 29% in CESEE as a whole.

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

4.2 Local banks/subsidiaries

1. A slight majority of subsidiaries operating in Romania, well below the overall sample, reported an increase in aggregate demand for loans over the past six months. Looking ahead, however, demand should gain momentum in the months to come mirroring similar developments at the CESEE level. As for credit supply, following the stagnation reported last time in this survey round a small majority of subsidiaries stated that supply conditions tightened in the past six months. However, the trend is expected to turn and supply conditions should improve noticeably over the coming six months, outperforming the CESEE region (Figure 2).

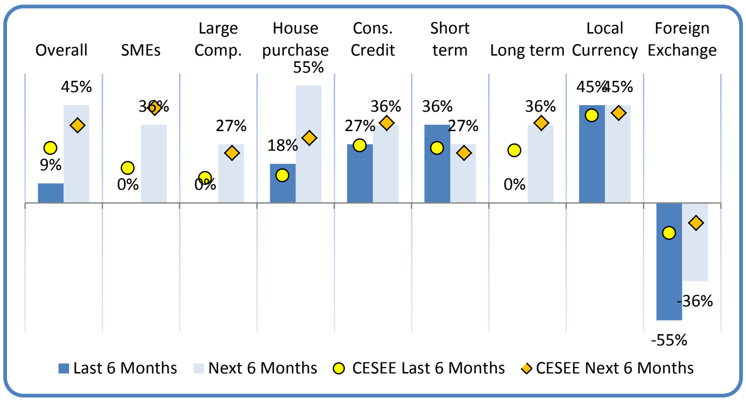
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. Credit demand has improved particularly due to short-term loans for households (Figure 3) while other segments have stagnated. In terms of currency denomination clients have been strongly asking for loans in local currency while demand for FX loans has again dramatically weakened. This trend is expected to continue in the months to come. In contrast to the recent past, over the next six months demand should pick up quite significantly particularly on the back of strengthening loan demand in the corporate sector. Also demand for mortgages is expected to pick up significantly, much more so than in the CESEE aggregate. For other segments the expected demand development in Romania is broadly in line with the CESEE aggregate.

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

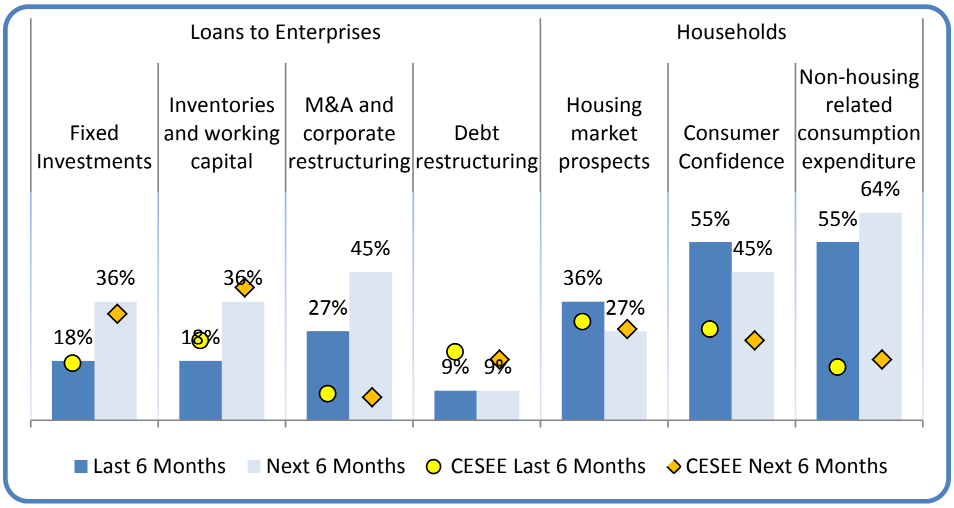


Source: EIB – CESEE Bank Lending Survey.

3. Credit demand in the enterprise sector has been broadly equally spread across a whole spectrum of factors with the strongest demand reportedly stemming from M&A and corporate restructuring (Figure 4). In the months ahead, a similar composition of driving factors is expected while corporate demand should strengthen in most segments. On the household side, all factors (housing market prospects, non-housing-related consumption expenditure and particularly con-

sumer confidence) contributed positively and quite strongly to the demand for loans. Also in the retail sector the pattern of the last six months is expected to continue in the next half a year across all demand drivers.

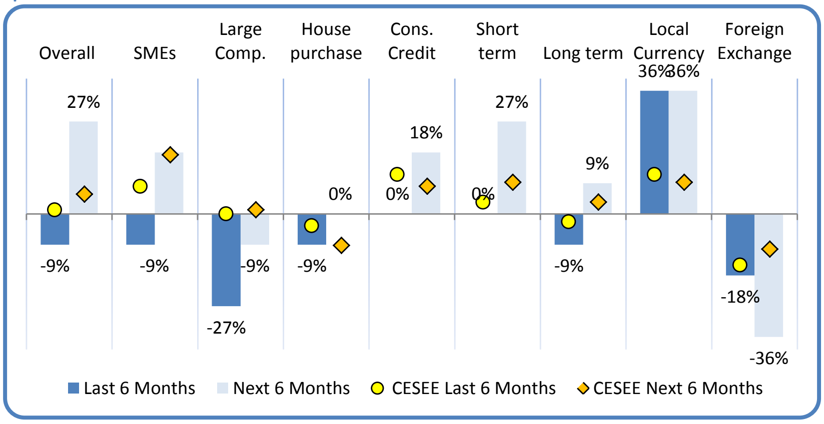
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. In contrast to the expected stagnation voiced six months ago supply conditions in Romania deteriorated slightly over the past six months, especially with respect to mortgages and (predominantly large) corporate loans. It is also interesting to note, however, that while credit standards have tightened significantly for FX loans they eased even more strongly for loans in local currency. Looking ahead, credit standards are set to ease more strongly in Romania than in the CESEE as a whole especially due to short-term consumer credits in local currency (Figure 5).

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

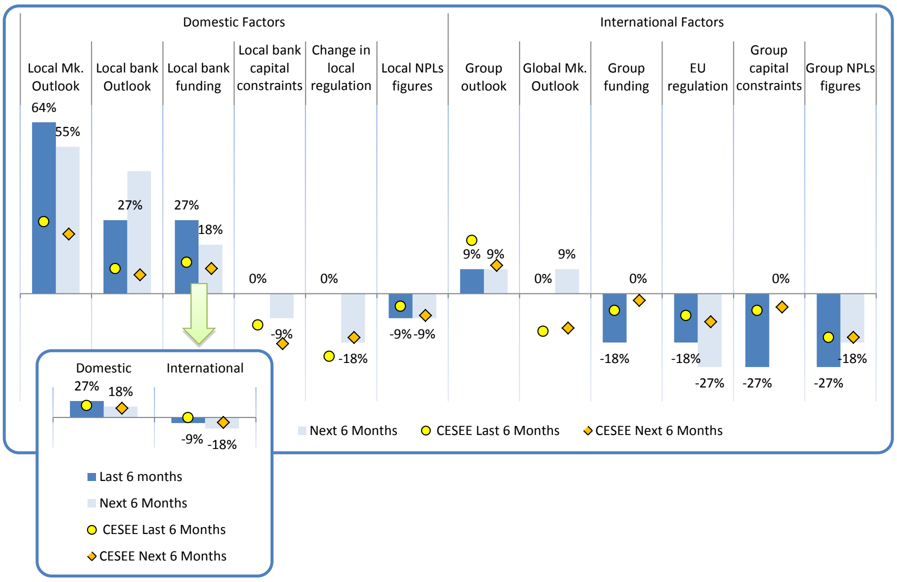


Source: EIB – CESEE Bank Lending Survey.

5. While domestic factors played a relatively moderate positive role in determining supply conditions in the last six months, international factors put, overall, a

small damper on them (Figure 6). The significant positive domestic factors were confined to local market and bank outlook as well as local bank funding, although for a slight minority of subsidiaries high NPLs played a negative role. In contrast, most international factors contributed to the tightening of supply conditions while only the rather positive group outlook counteracted. Looking ahead, while the overall impact of domestic and international factors will remain broadly unchanged the composition will change somewhat. In particular, on the side of domestic factors the positive impact of local bank outlook is expected to strengthen while local bank capital constraints and changes in local regulation will tighten credit standards. Regarding international factors, the positive impact of group and global market outlook is expected to be overcompensated by EU regulation and the persistently high NPL figures.

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



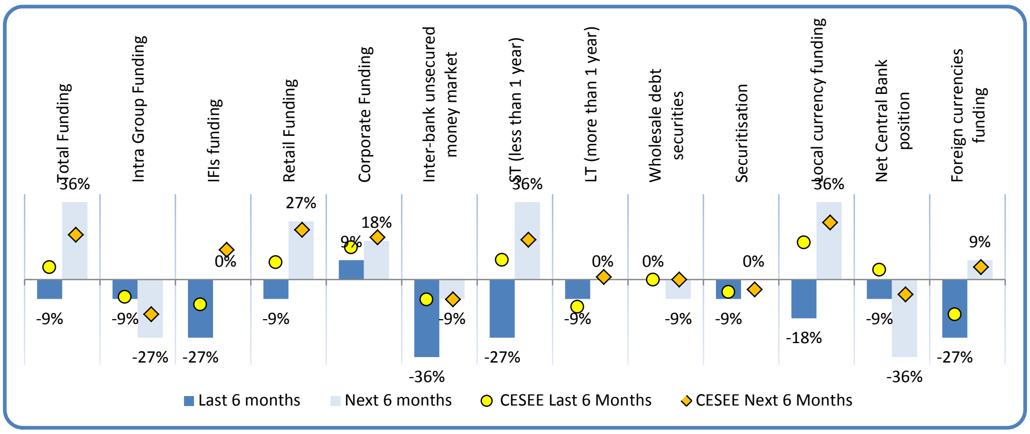
Source: EIB – CESEE Bank Lending Survey.

6. In the SME segment a small majority of banks reported deteriorating supply conditions whilst credit demand stagnated over the last six months. Looking ahead, in line with the CESEE region as a whole supply conditions are set to ease for the SME sector in Romania thus meeting the reviving credit demand in the segment. The credit supply easing will reportedly take the form of less strict collateral requirements for SMEs while the size and maturity of the average loan should increase. In contrast, however, margins charged on SME loans are expected to tighten in the next six months.

7. Subsidiaries' access to funding, both short- and long-term, has worsened slightly in Romania over the past six months as opposed to a broad stagnation at the CESEE regional level. This deterioration has been driven primarily by the interbank unsecured money market and IFIs funding while also intra group and retail

funding became more difficult (Figure 7). However, the negative trend is expected to turn positive on the back of easier retail and corporate funding.

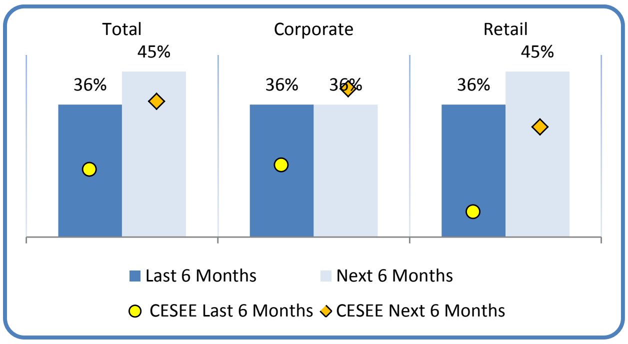
Figure 7: Access to Funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

8. In line with hard data NPL ratios are reported to have improved over the past six months in both the corporate and retail sectors (Figure 8), significantly outperforming the CESEE aggregated. Moreover, on balance, NPLs are expected to decrease further strongly in both segments over the next six months, particularly the credit quality of retail loans is expected to improve significantly. For the CESEE as a whole a broadly similar development is expected, although the NPL decline in the retail segment is likely to be much less pronounced than in Romania.

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



Source: EIB – CESEE Bank Lending Survey.

Serbia

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: ten
- Approximate share of assets covered (as proportion of total assets): approx. 65%
- Current level of NPLs as proportion of total loans: 22.8% (Q2 2015)
- Latest credit growth (yoy): 4.3% (Q1 2015)
- Loan-to-deposit ratio: 98% (Q2 2015)
- CAR: 21.4% (Q2 2015)

2. Key messages – *Supply conditions are unchanged, whilst demand for loans continued to increase*

International groups' views:

- **Group strategies**: Roughly 60 percent of the groups operating in Serbia expect their loan-to-deposit ratio to remain stable, whilst an equally shared 20 percent expect it to decrease or increase over the next six months. Strategic restructuring plans of the Groups operating in Serbia are aligned with the strategies for the overall region. Most Groups engaged and/or expect to engage in sales of assets.
- **Group assessment of positioning and market potential**: Groups operating in Serbia show increased intentions to reduce operations in the CESEE region. At the same time more than 50 reports intentions to selectively expand operations. Roughly 50 percent of the Groups operating in Serbia are fairly satisfied with their market positioning, while 50 percent of them rates the Serbian market's potential as low as it provides rather low returns on assets and equity.

Subsidiaries'/local banks' views:

- **Credit supply** did not change over the past six months and is not expected to change over the next six months. Some easing was reported for consumer credit and local currency loans. Domestic funding, local market and bank outlook had a more prominent role in supporting supply whilst domestic NPLs, local bank capital constraints, changes in local regulation, global outlook, group capital constraints and group NPLs have been reported as limiting factors.
- **Demand for loans** continued to increase across the board, with significant contributions from corporate (including SMEs) and household segments. Demand is anticipated to increase marginally over the next six months.
- **Access to funding:** Banks report access to funding as being on an easing trend and expect it to continue to ease. However, IFIs funding has become more limited.
- **NPL figures** improved, in line with the expectations and are expected to continue to do so in the next six months.

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

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** After the 2014 recession the economy started to grow again, supported by low international commodity prices and foreign demand. Real GDP increased by 1.0 percent y-o-y in the second quarter of 2015. The main drivers were strong export and a good investment performance. In particular, a strong pick-up in construction activity and a modest recovery in the trade sector are supporting the slow recovery.
- **Unemployment:** Unemployment continued to remain high, however down to 17.9 percent from 20.3 percent a year before, according to the Labour Force Survey. The employment rate also started expanding. Real wages continued to be influenced by last year's cut in public sector wages and declined by 2.2 percent y-o-y in the period January-August 2015.
- **Inflation:** Headline inflation was 2.1 percent y-o-y in August 2015. It increased over the past months. However it still settles at levels well below the Central Bank targeted band (4±1.5 percent). Weak domestic demand and low commodity prices are the main factors behind the subdued inflation developments.
- **External and public sector balance:** The growth of exports continued unabated throughout the summer. As a result, in the first seven months the cumulative current account deficit shrank substantially and it stood at 5.3 percent of GDP, down from 6 percent of GDP in 2014. In the period January-July net FDI went up 6.0 percent y-o-y. Central bank foreign exchange reserves stood at EUR 10.6 bn. in August 2015. The consolidated budget deficit stood at 1.1 percent and government debt reached 72.3 percent of the estimated annual GDP.
- **Banking sector:** Annual credit growth was 4.3 percent in the first quarter of 2015. Corporate loans, however, still decreased (7.8 percent y-o-y). These developments are influenced by the expiration of the programme of subsidised lending. Deposits grew 3.9 percent y-o-y in August 2015 and long-term households' deposits continued to increase strongly. Banking sector profitability has been marginally improving in the second quarter of 2015, with 1.1 percent return on assets and 5.4 percent return on equity. The level of capitalisation for the entire banking sector (CAR 21.4 percent in Q2 2015) exceeds the regulatory minimum of 12 percent. The level of non-performing loans inched up from an already very high level to reach 22.8% in the second quarter. The central bank has commissioned an asset quality review of the total banking sector assets. The loan-to-deposit ratio for the banking sector lately stabilised below 100%.
- **Rating:** Serbia is currently rated by Moody's (B1, stable), S&P (BB-, negative) and Fitch (B+, stable).

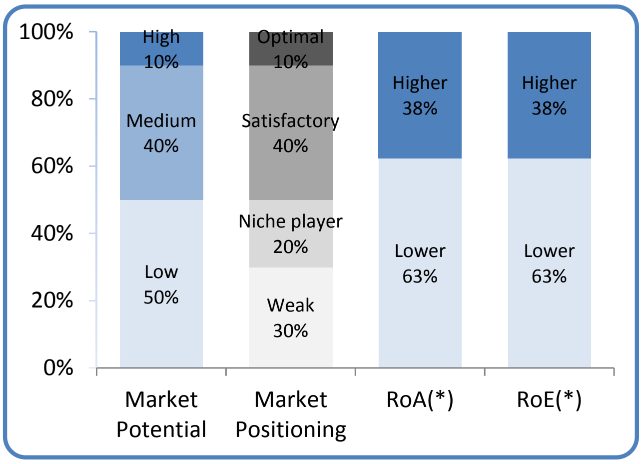
[2] Data sources and information: European Commission and National Bank of Serbia.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. Roughly 60 percent of the groups operating in Serbia expect their loan-to-deposit ratio to remain stable, whilst 20 percent expect it to decrease and 20 percent to increase over the next six months. This is in line with the regional trend. Strategic restructuring plans of the Groups operating in Serbia are aligned with the strategies for the overall region. Most Groups engaged and/or expect to engage in sales of assets whilst a small number of Groups intends to increase capital on the market.

Figure 1. Market potential and positioning – see question A.Q10



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

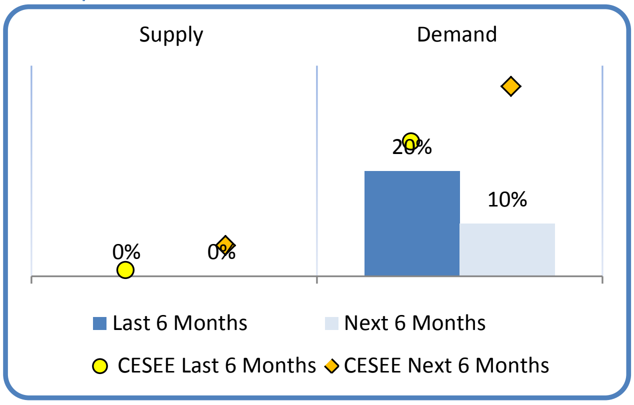
2. Groups operating in Serbia show higher intentions (40 percent) to reduce operations in CESEE compared to the overall set of Groups operating in all other countries of the region (Figure 1). To the contrary more than 50 percent reports intentions to selectively expand operations, which is in line with the regional trend. Roughly 50 percent of the Groups operating in Serbia are fairly satisfied with their current market positioning, while 50 percent of them rates the Serbian market's potential as low. The rating on Serbian market potential decreased compared to the March 2015 release of the survey. This is also backed by an increased number of Groups indicating lower returns on equity and assets than Group's return.

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

4.2 Local banks/subsidiaries

1. In contrast to previous releases of the survey, credit standards did not change over the past six months (Figure 2). This is in line with the trend detected for the CESEE region. In contrast to unchanged supply conditions, demand for loans was reported to be increasing. Over the next six months demand conditions are expected to continue to increase, albeit at lower levels than the CESEE aggregate, while supply is expected to maintain a neutral stance. This contrasts with an expected mild easing of credit standards at the CESEE level.

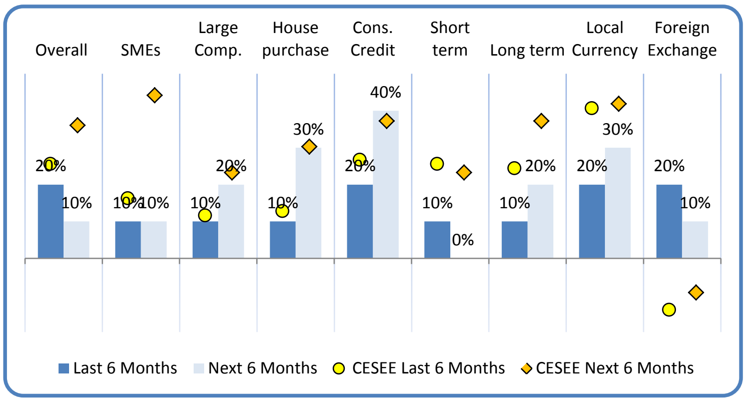
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. Demand for loans continued to increase (Figure 3), in line with the expectations embedded in the march 2015 survey. Demand has been increasing across the board, with significant contributions from corporate (including SMEs) and household segments. Demand is anticipated to increase marginally and less than the expectations for the CESEE region. Demand from corporates is envisaged to rebound. Demand from households for mortgages and consumer credit is expected to significantly increase. Demand for long term loans increased over the past six months and it is expected to continue increasing over the next six months. Particularly, demand for local currency loans has been strong over the past year and is expected to continue increasing over the next six months.

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

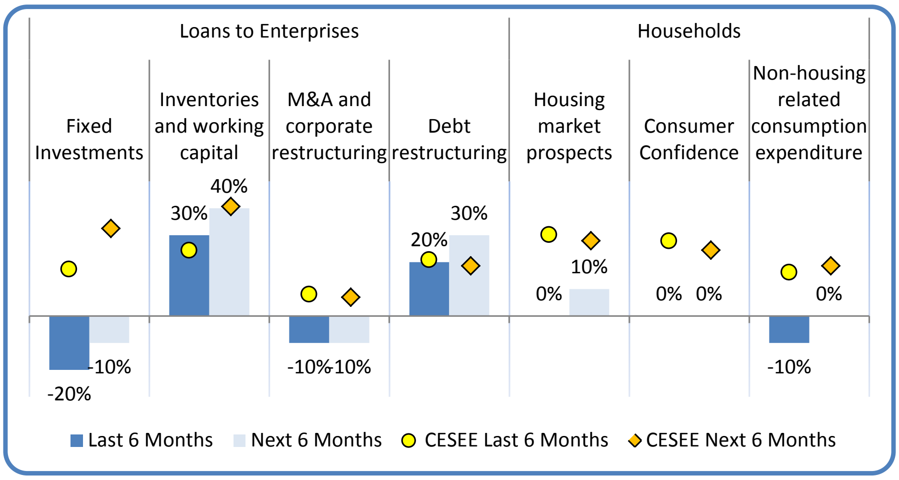


Source: EIB – CESEE Bank Lending Survey.

3. Figure 4 shows that working capital and debt restructuring were the main positive contributors to demand conditions over the past six months, as already detected in the previous release of the survey. Demand factors from households have been neutral. Looking ahead, only working capital and debt restructuring are expected to support demand for loans, whilst investments, housing market

prospects and consumer confidence are not expected to be supportive to demand conditions.

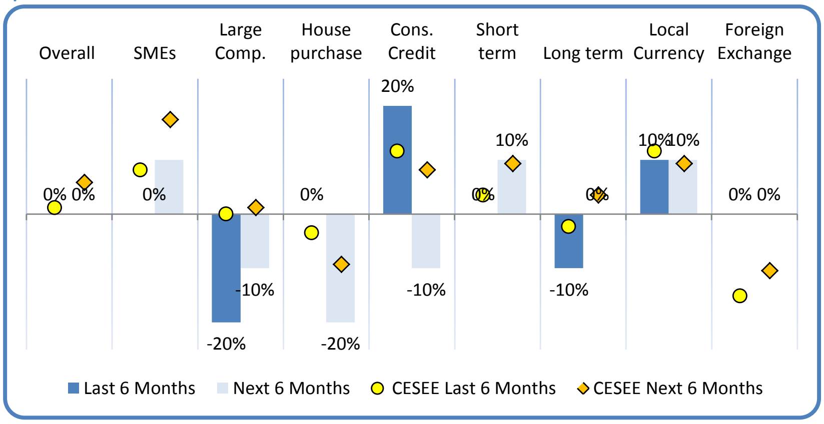
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. Credit standards did not change over the past six months (Figure 5). This is in line with the expectations recorded in the previous release of the survey. Again as expected from the March 2015 survey, easing of credit standards are reported for consumer credit and local currency loans, while large corporates register a tightening. Credit standards are expected to stay neutral over the next six months in contrast to a mild easing trend expected for the whole CESEE region. Supply conditions are expected to tighten further for large corporates and mortgages. In general terms and conditions are expected to ease, particularly in terms maturity and margins.

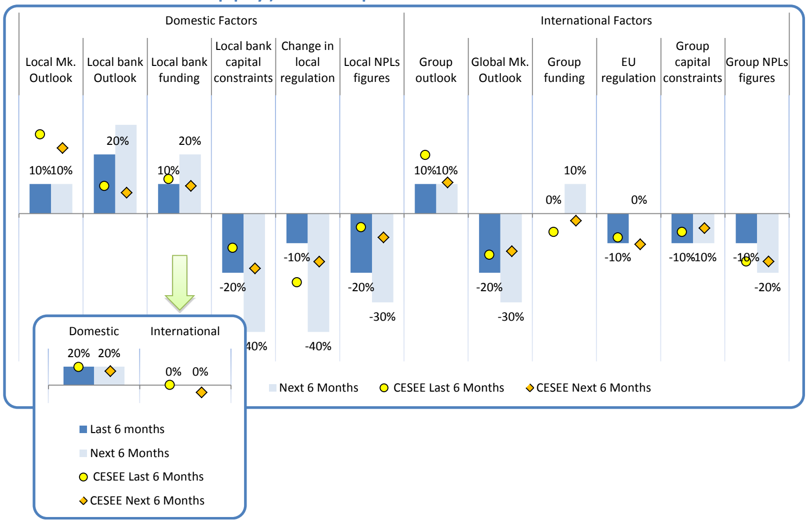
Figure 5. Supply components – credit standards (*net percentages*; positive figures refer to a positive contribution to supply) – see question B.Q1



Source: EIB – CESEE Bank Lending Survey.

5. Both domestic and international factors have played a role in determining credit supply conditions in Serbia (Figure 6). Domestic funding, local market and bank outlook had a more prominent role in supporting supply whilst domestic NPLs, local bank capital constraints and changes in local regulation have been reported as limiting factors. The role of international factors deteriorated compared to the past release of the survey. Global outlook, group capital constraints and group NPLs have been reported as constraints to an easing of credit standards over the past six months. Over the next six months, the effects of local bank capital constraints, changes in local regulation and NPLs are expected to turn even more negative. The other factors are expected to continue to exercise a similar impact on supply conditions as in the past six months.

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

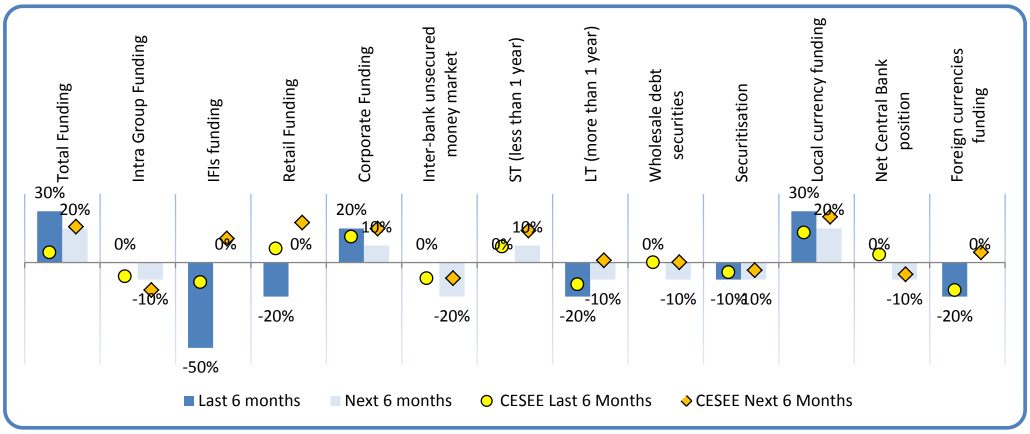


Source: EIB – CESEE Bank Lending Survey.

6. With regard to the SME segment, supply (credit standards) conditions did not change, whilst demand for loans has been increasing over the past six months. Looking ahead, demand is expected to continue expanding, however at a slower pace than for the CESEE region. Credit standards applied to SMEs are expected to ease somewhat, however they are anticipated to remain more restrictive than in the CESEE region. Last but not least, maturity and size of loans are expected to ease more in Serbia than in the CESEE region.

7. Access to funding has been on an easing trend and contributed to easing supply conditions as already highlighted in the previous release of the survey. Funding improved primarily in the corporate segment (Figure 7) and mainly in local currency, whilst IFIs funding, retail and long term funding recorded mild declines. Looking ahead, funding conditions are still expected to ease, in line with the CESEE aggregate. Long-term funding and inter-bank money market resources are not expected to provide additional support to overall access to funding.

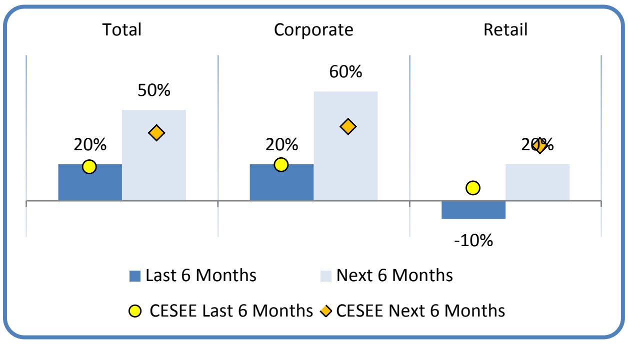
Figure 7: Access to Funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

8. Aggregate NPL figures improved over the past six months, in line with the recorded expectations in the March 2015 release. However, this detected improvement is not reflected yet in the actual NPLs data. Improvement was driven primarily by NPLs in the corporate sector (Figure 8). Further improvements in NPLs are expected over the next six months both in corporate and retail sectors.

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



Source: EIB – CESEE Bank Lending Survey.

Slovakia

1. Key statistics[1]

- Number of banks/subsidiaries participating in the survey: six
- Approximate share of assets covered (as proportion of total assets): 76 percent
- Current level of NPLs as proportion of total loans: 4.6% (August 2015)
- Latest credit growth (yoy): 8.5% (August 2015)
- Loan-to-deposit ratio: 95% (August 2015)
- CAR: 17.5% (June 2015)

2. Key messages – *Generally boosting credit demand is facing tightening supply conditions for households*

International groups' views:

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

- **Group assessment of positioning and market potential**: A large majority of parent banks active in Slovakia remain strongly committed to the CESEE region, where they see medium or high market potential. Moreover, all banking groups expect profitability to remain higher in the CESEE region compared to overall group's operations and they are generally satisfied with their current positioning in the market. Nonetheless, unlike in the recent past, one parent bank is now planning to selectively reduce operations in the region.

Subsidiaries'/local banks' views:

- **Credit supply** conditions in Slovakia - just as in the entire CESEE region - remained unchanged over the last six months on balance as counteracting developments in different segments mutually neutralized. Credit supply standards were supported by several international factors and all domestic factors but changes in local regulation. Credit conditions are expected to loosen, especially for large firms but also for consumer credits in the retail sector.

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

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

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

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

3. Relevant macroeconomic and banking conditions[2]

- **Growth:** After real GDP growth had strengthened in 2014 (2.4% after 1.4% in 2013) it kept on accelerating in the first half of 2015 (approximately 3%). A similar pace is expected for the whole year while growth will gradually rise to more than 3% in 2016. Since 2014 economic expansion has been powered by strengthening domestic demand while the contribution of net exports has counteracted due to low export demand. Domestic demand which recorded the highest annual growth in four years in Q2 has been driven by surging fixed investment and rising inventories. Public consumption has also had a noticeable positive impact. In contrast, the revival of private consumption has been comparatively weaker. Looking ahead, a similar growth pattern tilted to domestic demand is expected for this year and the next.
- **Unemployment:** Unemployment has been gradually falling since September 2013 (14.3%) to 11.1% in August 2015. Nevertheless, it remains relatively high and a key challenge for Slovakia as structural factors such as gaps in education and lack of mobility have a negative effect on labour market developments. However, unemployment is expected to fall further on the back of strengthening domestic and global economy.
- Inflation: As a result of weak economic activity, declining energy prices and moderating growth of food prices, inflation dropped from 3.7% in 2012 to -0.1 in 2014. Inflation has hovered at or below zero since the beginning of 2014. Most recently prices declined by 0.2% in August 2015. Inflation is projected to gradually increase, spurred by a weaker euro, rising wages and other prices in the wake of the recovery in domestic demand.
- **External and public sector balance:** In 2012 the current account turned into a surplus and increased to 1.5% of GDP in 2013 reflecting the improvement in the trade and services balances and lower domestic demand. In 2014 and in the first half of 2015 the surplus contracted noticeably owing particularly to a shrinking surplus in trade with goods. However, Slovak net exports are expected to accelerate in the medium term on the back of strengthening demand in key markets such as Germany and the Czech Republic and low oil prices. The budget deficit was reduced from 7.5% of GDP in 2010 to 2.8% of GDP in 2013. It remained just below the Maastricht limit also in 2014 (2.9% of GDP) and is projected to drop to 2.6% in 2016. Public debt fell slightly to 53.6% of GDP in 2014 and is forecast to rise marginally in the medium term.
- **Banking sector:** The banking sector is well capitalised (CAR at 17.5% mid-2015). NPLs are relatively low (4.6% in August 2015) and have been declining lately. The loan-to-deposit ratio stood at 95% in August 2015, up from 72% in 2006. Lending growth has been moderate in the last few years but has been picking up in recent months.
- **Rating:** Slovakia is rated by Moody's (A2), Fitch (A+) and was upgraded recently by one notch by S&P (A+).

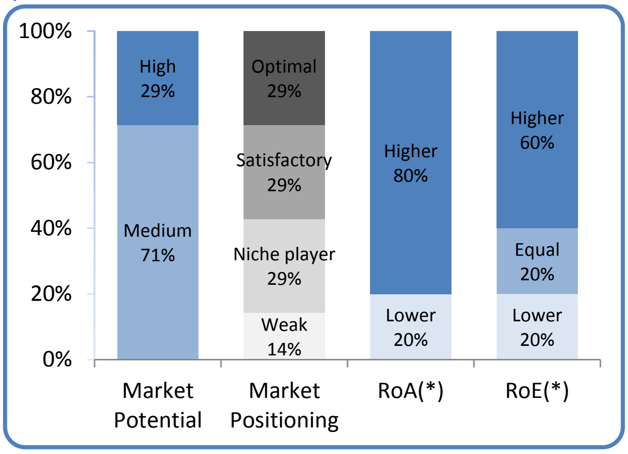
[2] Sources for the macroeconomic data: European Commission and IMF. Sources for the banking data: National Bank of Slovakia, IMF and European Commission.

4. Results of the Bank Lending Survey:

4.1 Parent banks[3]

1. The stance of parent banks operating in Slovakia is broadly in line with the overall sample of groups included in the survey. To raise capital, parent banks operating in Slovakia have been carrying out some strategic operations and are planning to continue doing this in the months to come. Three out of five banks have been selling assets and undertaking some strategic restructuring. Only one bank has sold branches. These are similar shares as in the complete sample. Overall, banks do not expect further deleveraging at the group level, with a vast majority of them expecting the loan-to-deposit ratio to stay either stable (60%) or even increase (20%). Hence, also in this respect the parent banks' view is comparable to the overall sample, where 57% of banks forecast a stable loan-to-deposit ratio and 21% plan to raise it.

Figure 1. Market potential and positioning – see question A.Q10



Source: EIB – CESEE Bank Lending Survey.

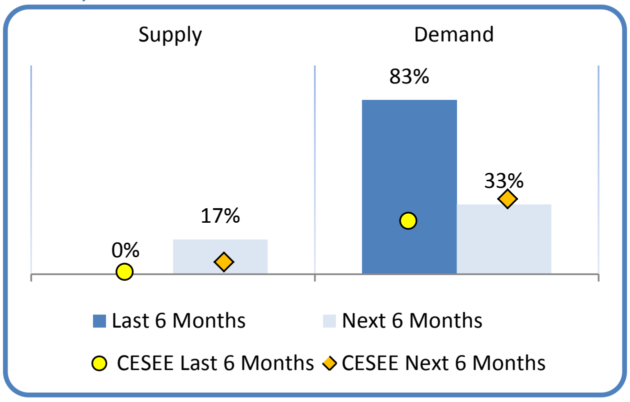
2. Parent banks operating in Slovakia remain strongly committed to the region, with more than 80% intending to selectively expand their business. However, unlike in the past, one parent bank is now planning to selectively reduce operations. This time all banks reported higher profitability in the CESEE region than at the group level compared to two thirds in the last survey. This figure thus even outperforms the positive expectations voiced six months ago. Better still, 100% of respondents also expect profitability to remain higher in the CESEE region than the in the overall banking group in the next six months. Even though parent banks view has slightly deteriorated since the last survey they are still satisfied with their market positioning in Slovakia. Hence, 29% of respondents find their positioning optimal and 29% satisfactory (Figure 1). Banks' maintain also a positive view about market potential although it is also slightly less exuberant than six months ago. While all banks still see either medium or high potential in Slovakia the share of banks reporting high potential has dropped from 50% last time to 29% in this round (Figure 1).

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

4.2 Local banks/subsidiaries

1. As in the last round the development of the credit market remains to be rather uneven. On the one hand, subsidiaries operating in Slovakia reported a very strong increase in demand – much more pronounced than in the CESEE region as a whole. On the other hand, supply conditions stayed unchanged, just line with the CESEE region. Looking ahead, in Slovakia the increase in demand is expected to continue but to slow down noticeably, thus converging to expectations for the CESEE region. Broadly in line with CESEE peers supply in Slovakia is predicted to improve only marginally (Figure 2).

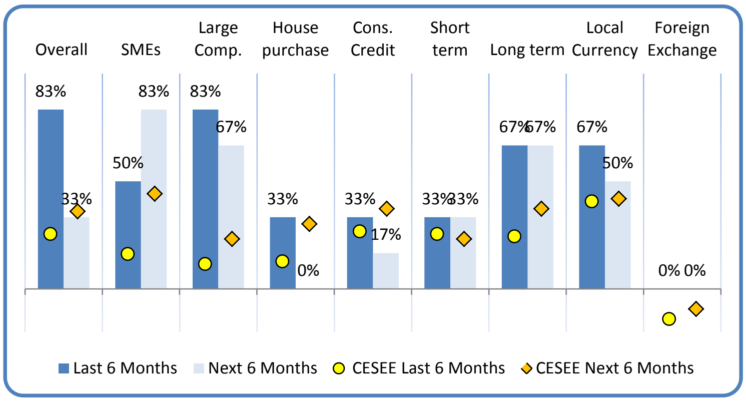
Figure 2: Credit supply (credit standards) and demand conditions – *net percentages;* positive figures refer to increasing (easing) demand (supply) – see questions B.Q1 and B.Q4



Source: EIB – CESEE Bank Lending Survey.

2. The increase in overall demand was driven by all market segments although particularly large companies were in the driving seat. As regards maturity, the increase in demand for long-term loans seems about twice as strong as in the segment of short-term loans. In terms of currency denomination clients seem to exclusively ask for loans in euro. Looking ahead, the improvement in demand in the corporate sector is expected to continue. While it will even accelerate in the SME segment it is likely to slow down somewhat on the side of large corporates. In contrast, some cooling-down in retail banking is projected, particularly with regard to mortgages. In the CESEE region as a whole the revival in demand will be relatively broadly distributed across all categories with the strongest contribution from SMEs followed by consumer credits (Figure 3).

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

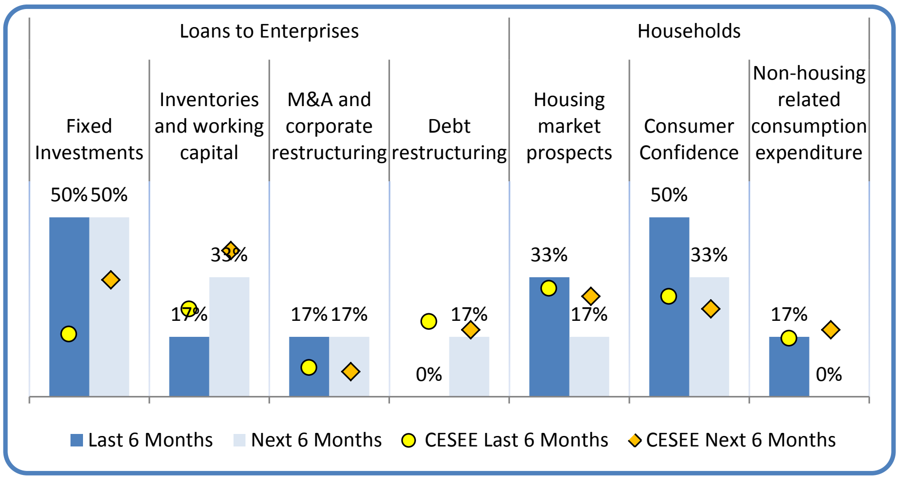


Source: EIB – CESEE Bank Lending Survey.

3. When it comes to demand drivers in the corporate segment, similarly to the last survey round, the strongest positive contribution was made by fixed investment. In addition, corporates increasingly asked for financing for inventories and working capital as well as M&A while there was no change in loan demand for corporate restructuring over the last six months. Over the coming period all

categories are expected to contribute to the credit demand boost, predominantly fixed investments followed by inventories and working capital. In contrast to the most recent past also debt restructuring will increasingly play a role on loan demand. In the household segment all factors contributed to the support of credit demand, particularly the growing consumer confidence and improving housing market prospects. These two factors are expected to drive households' credit demand also in the six months ahead, although to a lesser extent. The overall outlook for credit demand in Slovakia is broadly in line with the CESEE region and also the composition of factors is going to be fairly similar. Significant differences strike only in the fixed investments segment for which loan demand will remain much stronger in Slovakia than in CESEE peers. In the latter, in contrast, non-housing consumption expenditures should play a significant role (Figure 4).

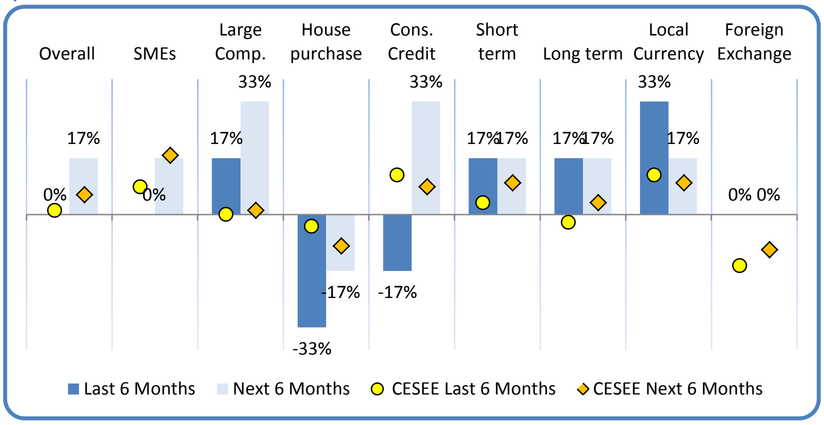
Figure 4. Factors contributing to demand conditions – (*net percentage*; positive figures refer to a positive contribution to demand) – see question B.Q5



Source: EIB – CESEE Bank Lending Survey.

4. Similarly to the CESEE region as a whole supply conditions in Slovakia remained unchanged on balance. However, while supply conditions in the CESEE region did not see major changes in any segment apart from some slight easing for SMEs and consumer credit, in Slovakia the loosening of credit standards for large companies was offset by tightening conditions in the retail sector, particularly for house purchases. For SMEs supply conditions

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



Source: EIB – CESEE Bank Lending Survey.

stayed unchanged. A very similar development is expected in the CESEE region also in the upcoming half-year, with possibly some stronger easing in the SME sector. In Slovakia credit conditions are expected to be loosened in the corporate sector, especially for large firms, but also in the retail sector with regard to consumer credit (Figure 5).

5. In the last six months, standards for credit supply were supported by all domestic factors but changes in local regulation which weighed heavily on supply conditions. However, overall, the deep damper of the latter was more than offset by the sum of (partially relatively moderate) positive contributions of all other factors. Also several international determinants such as group outlook or, to a lesser extent, EU regulation, group capital constraints and NPL figures, made a positive contribution to supply conditions. Over the six months to come, domestic factors are not expected to play a noteworthy role on balance as changes in local regulation will again neutralize positive contributions of other factors which will partially weaken compared to the last half a year. Nevertheless, supply conditions in Slovakia will ease somewhat thanks to some international factors, such as group funding, NPL figures as well as group capital constraints. (Figure 6).

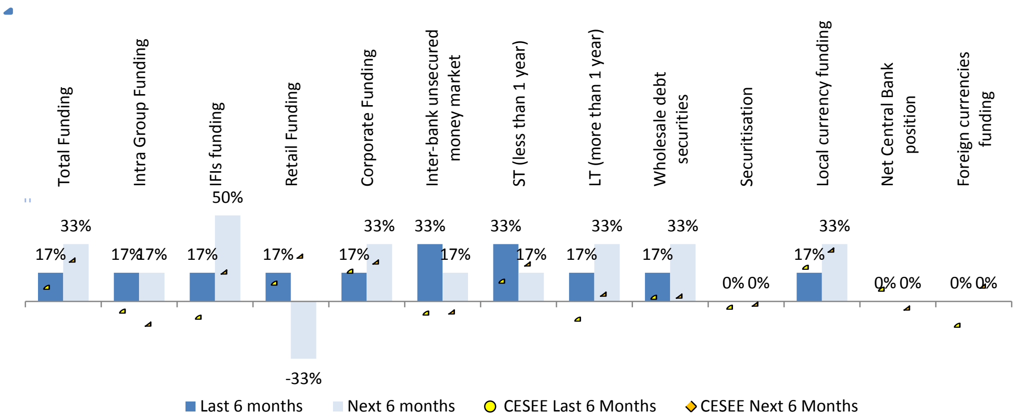
6. As regards credit to SMEs, developments were quite uneven on both sides of the market and largely mirror the overall picture described above. A very strong increase in demand faced unchanged credit standards over the last six months. Looking ahead, while demand is expected to strengthen massively further, supply conditions should relax somewhat particularly due to lower interest rate margins and, to a lesser extent, bigger credit volumes. This will be broadly in line with developments in the CESEE region as a whole.

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

Source: EIB – CESEE Bank Lending Survey.

7. The overall funding situation of subsidiaries improved slightly in the last six months on account of better access to all funding means, both short- and long-term. Hence, even intra group funding which put a drag on the financing situation of subsidiaries in the last survey round has made a positive contribution most recently. The situation is expected to become even more positive in the months ahead thanks particularly to corporate and IFI funding which will more than offset the reportedly worsening retail funding (Figure 7).

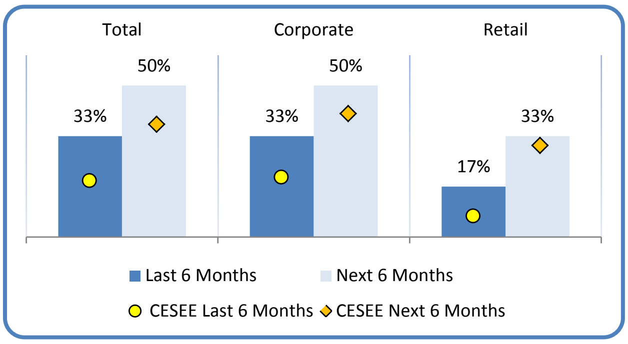
Figure 7: Access to funding – (*net percentage*; positive figures indicate increasing access to funding) – see question B.Q7



Source: EIB – CESEE Bank Lending Survey.

8. In line with hard data our survey results confirm that NPL ratios improved over the last six months, both in the retail and even more so in the corporate sectors. The trend is expected to continue and to strengthen in both segments in the next six months, fairly in line with the CESEE region as a whole (Figure 8).

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



Source: EIB – CESEE Bank Lending Survey.

The Questionnaire

The questionnaire is divided into two parts:

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

PART A

A.Q1 - Strategic operations: Has your group conducted strategic operations to increase the capital ratio and/or will conduct strategic operations? If yes, which type?		
	LAST 6 months	**NEXT** 6 months
Strategic restructuring		
Sale of assets		
Sale of branches of activities		
Raising capital on the market		
State contribution to capital		

A.Q2 - Group funding: Group's access to funding...		
	*...How has it changed over the **LAST** six months?*	*...How do you expect it to change over the **NEXT** six months?*
Total		
Retail (deposits and bond to clients)		
Corporate (deposits and bond to clients)		
Interbank market		
IFIs		
Wholesale debt securities		
Loans or credit lines from the Central Bank		
Securitisation		
Short-term funding (any source)		
Long-term funding (any source)		

A.Q3 - Deleveraging —over the next six months, do you expect the loan-to-deposit ratio of your group to...		

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

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

A.Q6 - Profitability of the strategy in CESEE region: ROA of your CESEE operations is higher/lower/equal of that for the overall group…		
	LAST 6 months	**NEXT** 6 months

A.Q7 - Group total exposure to CESEE: Concerning cross-border operations to CESEE countries, your group did/intends to…		
	LAST 6 months	**NEXT** 6 months
Total Exposure		
Exposure to Subsidiaries - intra-group funding		
Exposure to Subsidiaries - capital		
Direct cross border lending to domestic clients, booked in the BS of the parent company		
MFIs - funding to banks not part of the group, booked in the BS of the parent		

A.Q8 - ECB measures:	
1) Did you have access (as a group) to the ECB announced TLTROs?	
2) If answered yes to 1), did you withdraw the full amounts allowed by your (group) collateral or only partially?	
3) Was the access to the two initial TLTROs able to satisfy your demand for long-term liquidity at group level?	
4) Did you utilize the TLTROs to (multiple yes or no are possible)…	
…fund non-financial corporates lending growth in jurisdictions where TLTROs access is available?	
…indirectly fund non-financial corporates lending growth in jurisdictions where TLTROs access is NOT available (e.g. via intra-group funding)?	
…fund the investment/acquisition of bonds?	

A.Q10 - How have the TLTROs impacted on your Group external exposure? How do you expect them to impact?

	LAST 6 months	**NEXT** 6 months
Total Exposure to Emerging Markets		
Total Exposure to CESEE region		
of which:		
Exposure to CESEE Subsidiaries - intra-group funding		
Direct cross border lending to CESEE domestic clients, booked in the BS of the parent company		
MFIs - funding to CESEE banks not part of the group, booked in the BS of the parent		

A.Q11 - How do the asset purchase programs (incuding public sector bonds) impact on your Group external exposure? How do you expect them to impact?		
	LAST 6 months	**NEXT** 6 months
Total Exposure to Emerging Markets		
Total Exposure to CESEE region		
of which:		
Exposure to CESEE Subsidiaries - intra-group funding		
Direct cross border lending to CESEE domestic clients, booked in the BS of the parent company		
MFIs - funding to CESEE banks not part of the group, booked in the BS of the parent		

A.Q12 - How have other ECB measures (e.g. negative depo rate, stop to SMP sterilisation) affected your Group external exposure? How do you expect them to impact?		
	LAST 6 months	**NEXT** 6 months
Total Exposure to Emerging Markets		
Total Exposure to CESEE region		
of which:		
Exposure to CESEE Subsidiaries - intra-group funding		
Direct cross border lending to CESEE domestic clients, booked in the BS of the parent company		
MFIs - funding to CESEE banks not part of the group, booked in the BS of the parent		

A.Q13 - Conditions of your funding to your own subsidiaries in CESEE…		
	*…How have they changed over the **LAST** six months?*	*…How do you expect them to change over the **NEXT** six months?*
Overall		
Pricing		
Maturity		

A.Q15 How do you assess in each country…

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

PART B

B.Q1 - Credit Supply: bank's (local subsidiary)**'s credit standards applied when assessing credit applications…**		
	…How have they changed over the last six months?	…How do you expect them to change over the next six months?
Overall		
Loans to small and medium-sized enterprises		
Loans to large enterprises		
Loans to households for house purchase		
Consumer credit (other than loans for house purchase)		
Short-term loans		
Long-term loans		
Local Currency		
Foreign Currency		

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

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

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

OVER the LAST 6 months

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

OVER the NEXT 6 months

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

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

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

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

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

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

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

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

...Loans or credit lines to enterprises

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

...Loans to Household

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

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

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

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

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

B.Q10 - How have the following factors affected your local subsidiary funding conditions over the past six months, and do you expect this to change over the next six months?

	Over the **PAST** six months	Over the **NEXT** six months
A) Exposure to sovereign debt		
B) Indirect exposure (via Group company) to sovereign debt		
C) Value and availability of eligible collateral for repo transactions		
D) Intra-group funding restrictions (e.g. company specific rules and home/host regulatory rules)		
G) Rating of Group residence country		
H) Rating of Parent company		
I) Rating of Subsidiary		
J) Capital ratio of your subsidiary		
K) Capital ratio of your parent		

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

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

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

CESEE Bank Lending Survey

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