ECONOMICS – REGIONAL STUDIES

CESEE
Bank Lending Survey

H1-2018

European Investment Bank

The EU bank

60 years

CESEE Bank Lending Survey – H1 2018

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

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Regional Overview

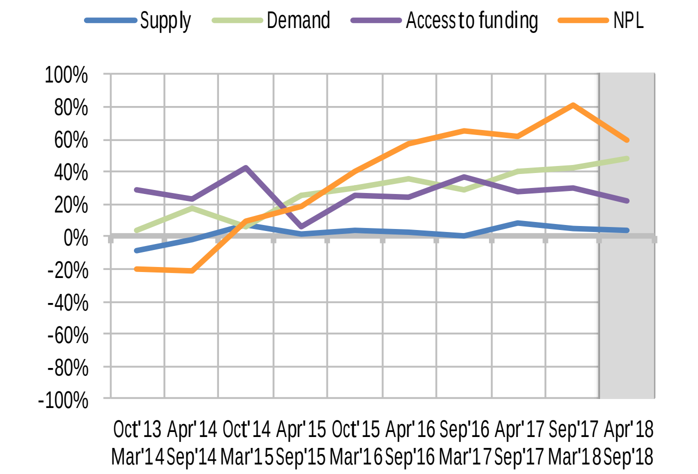
The survey shows positive developments in the credit market. Banking groups consider their positioning in the region to be either improving or stabilising, on the back of brighter profitability performances. Regional supply conditions improved, but still lagged behind very robust demand. Survey-based qualitative and quantitative indicators continue to progress, thus signalling further support to already positive aggregate net credit extensions.

Summary

Global strategies: Restructuring of global activities has been less intense than in the past. Capital increases have been mainly achieved via sales of assets and branches. Fewer banking groups than in 2015-2017 have continued to deleverage. Group-level funding conditions continued to ease robustly over the past six months, with a sizable improvement compared to 2015-2016.

Commitment to CESEE: For the first time since the inception of the survey, the aggregate groups' exposures to the CESEE region has been positive in net balance terms over the last six months. These positive developments are tentative and should be interpreted with caution; although banking groups' strategies are tilted towards a selective expansion in the CESEE region. A large majority of international groups described the ROA of CESEE operations as being higher than that of the overall group. Only 20% of banking groups report intentions to reduce operations as well as diminishing returns. All in all, the assessment of market prospects shows a stabilisation at somewhat improved levels compared to previous semi-annual results.

CESEE subsidiaries and local banks continue to report an increase in **demand** for credit, and **supply** conditions have eased visibly for the second time in a row over the past six months. Across the client spectrum, supply conditions eased in the SME segment and in respect of consumer credit, while credit standards have tightened again on mortgages. Changes in local regulation and groups' NPLs are perceived to be still adversely affecting supply conditions. However, their weight is very much diminished compared to the past. In the last six months, demand for loans improved again across the board. This marks the tenth consecutive half-year of positive developments. All factors affecting demand have made a positive contribution. Notably, investment accounted for a good part of the increase in demand, whilst debt and corporate restructuring were essentially irrelevant, as in the previous release of the survey.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages
Supply/Demand: positive figures refer to increasing (easing) demand (supply)
Access to funding: positive values indicate increased access to funding
NPL: Negative figures indicate increasing NPL ratios

Access to funding has continued to ease in the CESEE region, supported by easy access to domestic sources, mainly retail and corporate deposits. IFI funding has also contributed positively and intra-group funding supported local access to funding.

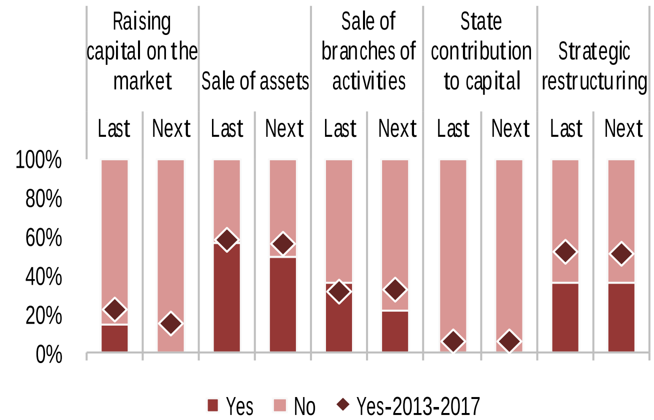
NPL ratios continued to improve. In absolute terms, the share of subsidiaries still reporting an increase in their NPL ratios fell well below 5%, down from 60% in 2013.

Results of the Bank Lending Survey – Parent banks

Restructuring of global activities has been less intense than in the past. Capital increases have been achieved mainly via sales of assets and branches. Fewer banking groups than in 2015-2017 have continued to deleverage, whilst on balance more banking groups have been re-leveraging than deleveraging.

A limited number of banking groups have continued restructuring at the global level to increase group capital ratios, and a similar number expect this process to continue (Figure 1). Moreover, strategic restructuring expectations are, on average, lower than the 2013-2017 average. Capital has been raised primarily through sales of assets and branches, whilst no state intervention to capital has been introduced and/or is expected. Compared to 2013-2017, a slightly smaller number of banking groups has raised capital on the market. Looking at the next six months, contributions to balance sheet strengthening are again expected to come mainly from sales of assets and, to a lesser extent, branches. Deleveraging at the group level (Figure 2) has slowed significantly compared to 2013 and 2014, but also compared to already improved conditions in 2015 and 2016. Around 20% of banking groups expect a decrease in their loan-to-deposit (LTD) ratio in the next six months – an improvement compared to the 2017, wherein around 30% of the banking groups expected a decrease. Last but not least, the latest release of the survey shows that a small but significant number of groups expect an increase in their LTD over the next six months.

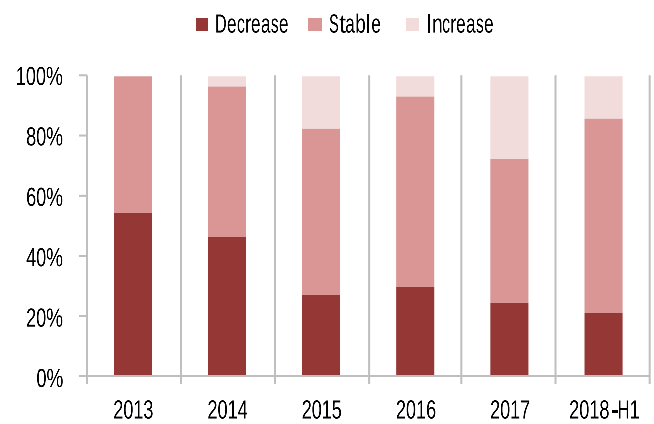
Figure 1 **Strategic operations to increase capital ratio**



Source: EIB – CESEE Bank Lending Survey.

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

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



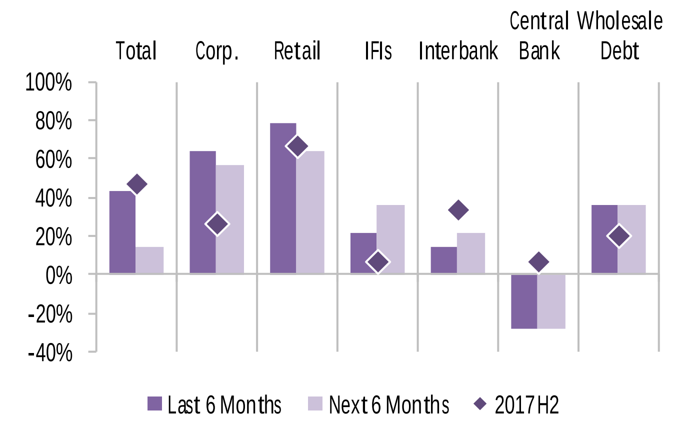
Source: EIB – CESEE Bank Lending Survey.

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

Group-level funding conditions continued to ease robustly over the past six months, with a sizable improvement compared to 2015-2016 (Figure 3). Notably, most of the funding sources made a significant positive contribution to total access to funding.

Access to funding has continued to ease over the past six months, strengthening even further the results obtained in the previous releases. Following a mild contraction during 2015, access to funding resumed an easing trend in the first half of 2016, and accelerated further in 2017. The contraction in access to funding in 2015 can be interpreted as a temporary event, which coincided with the long tail effects generated by the Greek crisis of spring/summer 2015. The dynamics detected in aggregate access to funding reflect prolonged improvements in retail and corporate funding and positive contributions from IFIs over the past six months. Notably, the interbank market has played a positive role and banking groups have continued to rely less and less on central bank liquidity. This is a further positive signal of a more stable and self-supporting funding environment. Funding conditions are expected to ease over the next six months (Figure 3.b), albeit less than in the past two years, with positive contributions to funding anticipated from all sources except central banks.

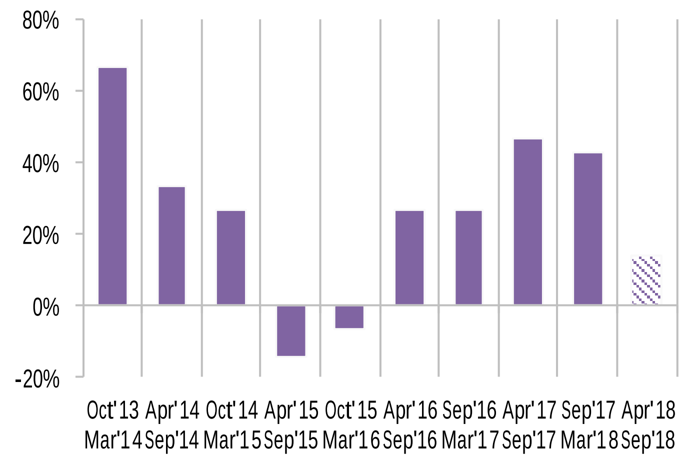
Figure 3a **Access to funding conditions**



Source: EIB – CESEE Bank Lending Survey.

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

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



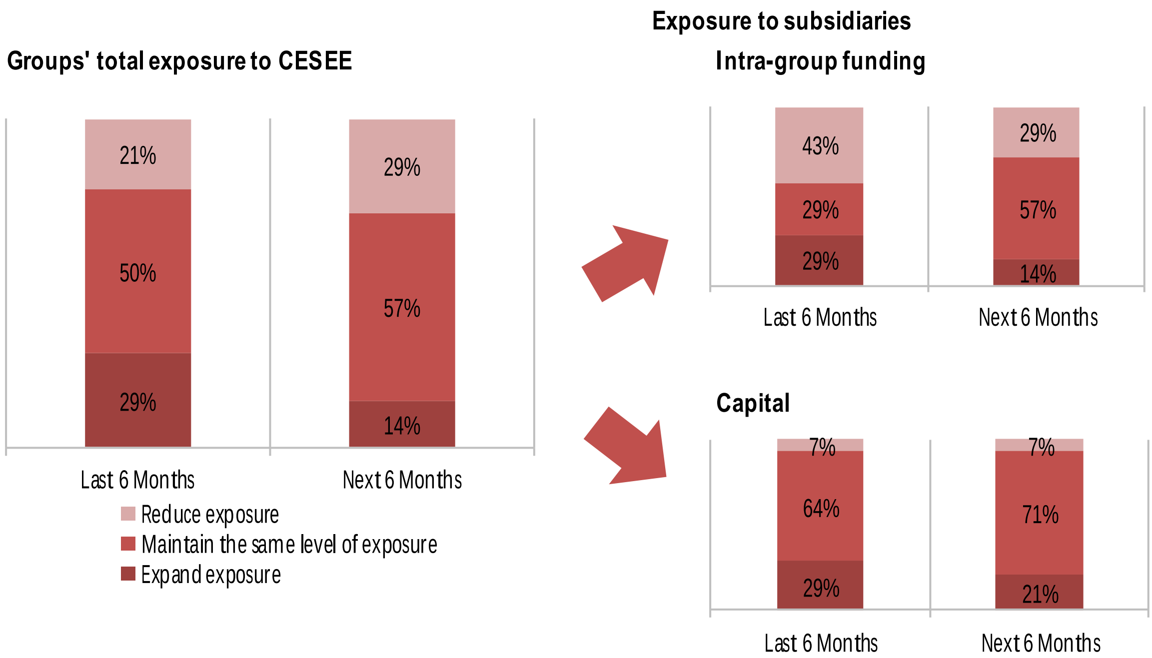
Source: EIB – CESEE Bank Lending Survey.

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

About a fifth of banking groups have reduced their total exposure to the CESEE region, whilst around 30 percent have increased eithers. As a result, and for the first time, the aggregate net balance has been positive over the last six months. Looking at the next six months, the net balance is expected to turn slightly negative again. As a result, the positive developments are tentative and should be interpreted with caution.

Total exposure to the region has been trending positively over the past six months, as the number of banks declaring a reduction in their exposure is lower than in H2 2017 and the number increasing it higher than in past waves of the survey. This is the first positive development recorded since late 2012. Most of the enduring negative contributions to the CESEE exposures stemmed from reduced intra-group funding to subsidiaries. At the same time, 30 percent of groups expanded their intra-group funding to CESEE subsidiaries. This process is expected to continue over the next six months, although at a marginally slower pace (Figure 4a), with more groups maintaining the same level of exposure. Most parent banks report that they have maintained their capital exposure to their subsidiaries and expect to continue to do so. Notably, more groups than in the past waves report to have increased their capital exposure. Nevertheless, increasing capital exposures did not fully compensate for decreased intra-group funding in the past (Figure 4.b). Looking at the next six months, the net balance is expected to turn slightly negative again. This suggests that the tentative positive developments should be interpreted with caution.

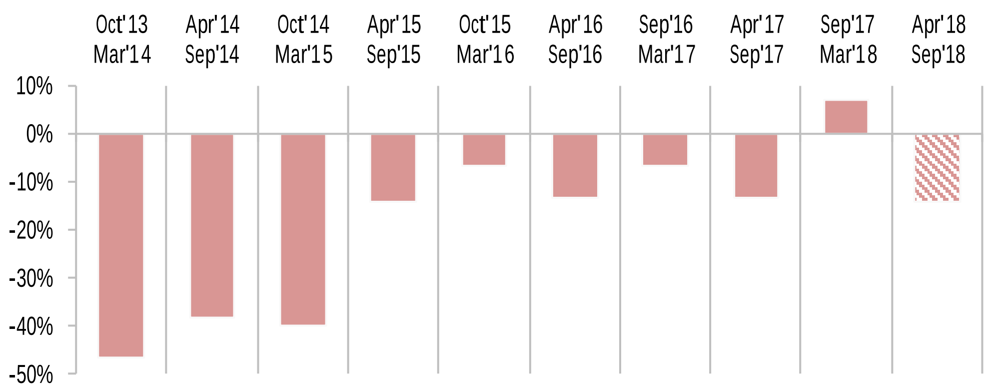
Figure 4a **Groups' total exposure to CESEE**



Source: EIB – CESEE Bank Lending Survey.

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

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



Source: EIB – CESEE Bank Lending Survey.

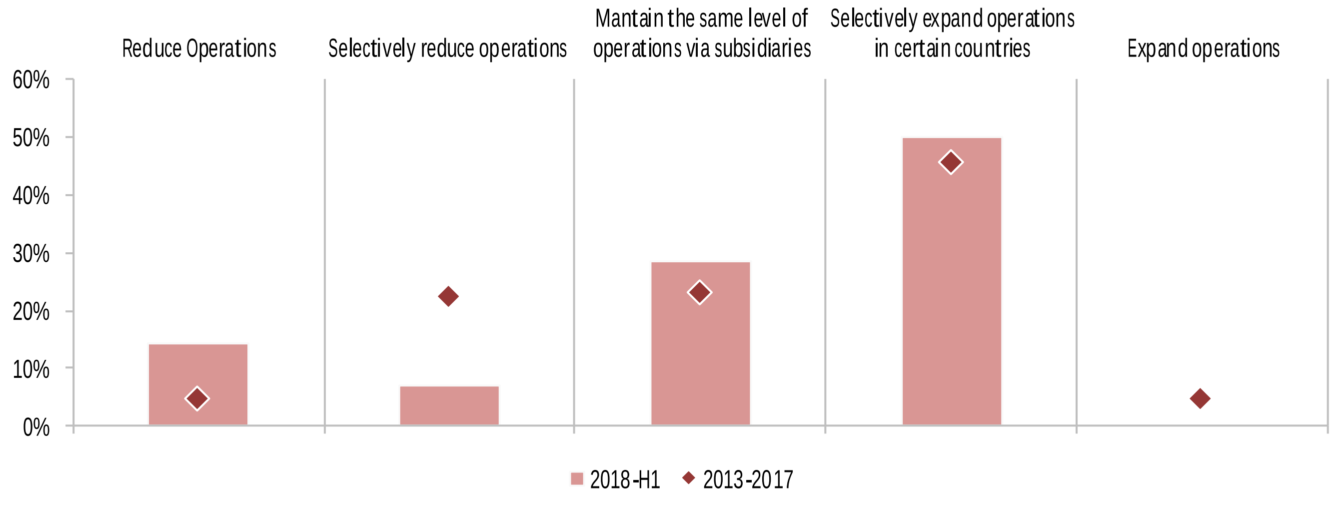
Note: Cross-border operations involving CESEE countries – see questions A.Q8 – net percentages; negative figures refer to decreasing exposure – questionnaire in the Annex

Banking group strategies' are tilted towards selective expansion in the CESEE region. A large majority of international groups described the ROA of CESEE operations as being higher than that of the overall group. Only 20 percent of banking groups report a combination of diminishing returns and intentions to reduce operations. All in all, the assessment of market prospects shows a stabilisation at somewhat improved levels compared to the results reported a year ago and previous years.

The majority of international banking groups reported a higher return on assets (ROA) over the last six months in CESEE operations than for overall group operations, reinforcing a positive trend that emerged three years ago. Nonetheless, a fifth of groups report lower ROAs in the region than overall, reflecting a persistent subset who continue to point to positive but diminishing returns in the region versus the group. Cross-border banking groups continue to discriminate in terms of countries of operation (Figure 5) as they reassess their country-by-country strategies, but signal an intention to expand operations selectively in the region. Around 50 percent of the groups have a medium- to long-term strategy of selective expansion of operations; however, around 20 percent of banking groups indicated that they may reduce operations in the long term, predominantly (but not exclusively) those based in Greece. Market potential and positioning continue to differ across countries, albeit less than before and with some tentative signs of realignment (Annexes A.4 and A.5).

The assessment of market prospects essentially shows a stabilisation at somewhat improved levels compared to the results reported a year ago and previous years. Surveyed banks see the market potential (Annex A.8 for data on low market potential) as being significantly low in Ukraine only. Some marginal signs of low market potential are reported for Albania, Bosnia-Herzegovina, Croatia, Poland, Serbia, Slovenia and Slovakia. In the other countries of the region, banking groups see essentially medium to reasonable market potential. In terms of market positioning, most banks remain comfortable with the scale of their operations in the majority of markets. Weak positioning should be seen as combined with limited market potential. Some surveyed banks find their positions in Bulgaria in the weak or niche category (Annex A.9 for data on weak positioning). This is even more the case in Hungary, Romania, Serbia, Slovakia, Slovenia and Ukraine. Conversely, no weak positioning is detected in Croatia or Poland. The assessed profitability of markets in terms of ROA (adjusted for cost of risk) and ROE (adjusted for cost of equity) differs across countries (Annexes A.6 and A.7). Broadly speaking, the survey reveals a realignment of perceptions of market potential with those of positioning and profitability. Ultimately, this suggests a generalised fine-tuning in the assessment of market potential, with a cautious alignment of all indicators ultimately uncovering prospective value.

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



Source: EIB – CESEE Bank Lending Survey.

Note: See question A.Q5 – questionnaire in the Annex

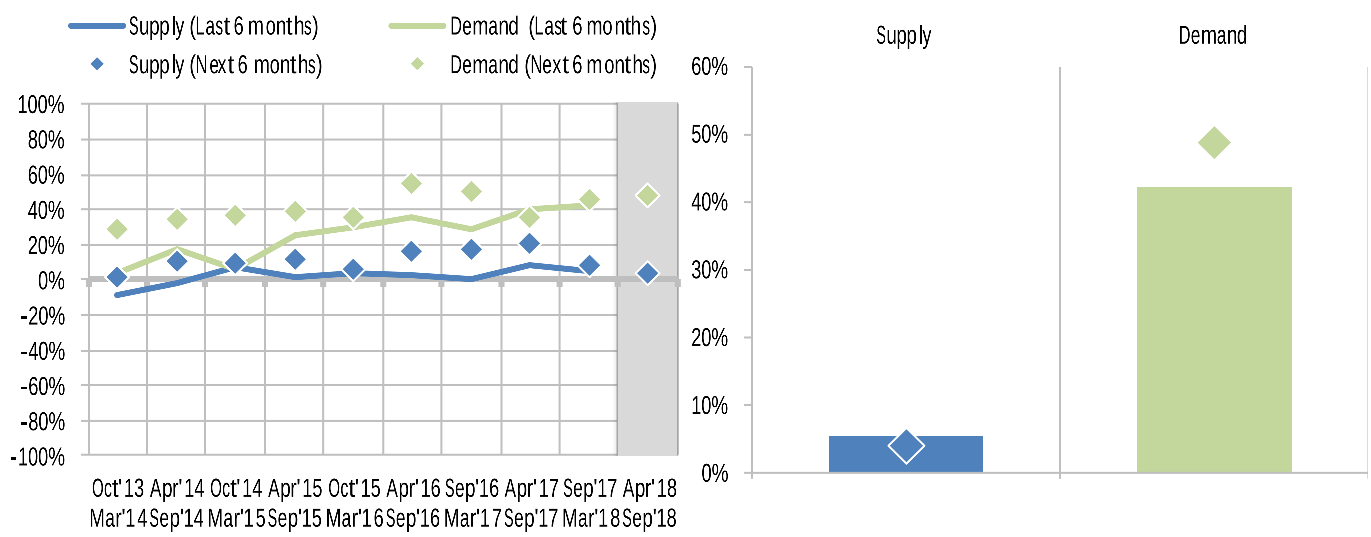
Results of the Bank Lending Survey – Local banks/subsidiaries

CESEE subsidiaries and local banks report another robust increase in demand for credit as well as a second consecutive period of easing of supply conditions. Optimism on the demand side is still not fully compensated by developments in credit standards. This may suggest that new credit extended can, on average, be of a better quality than in previous credit cycles.

In the last six months, **demand** for loans and credit lines continued to increase robustly in net balances (Figure 6). These results mark the tenth consecutive half-year of increased demand for credit, an improvement fully aligned to the expectations embedded in the September 2017 release of the survey. The continued alignment of reality to expectations indicates a reduction in volatility and uncertainty, and an improvement in banks' ability to predict demand vis-a-vis four years ago, when results disappointed expectations. For the seventh time in a row all factors influencing demand made a positive contribution (see Annex A.1). Working capital accounted for a large part of the demand stemming from enterprises. Contributions to demand from investment exerted a significant positive impact, scoring increasingly higher than in previous releases of the survey. This indicates a strengthening of the economic cycle and improving macroeconomic and financial environment, which is more conducive to investment. Corporate and debt restructuring as well as M&A have been contributing less and less to propelling demand, and all currently stand near zero. Housing- and non-housing-related consumption also continued to make robust and positive contributions to demand, and consumer confidence continues to exert a positive effect.

Supply conditions eased over the past six months – the second significant easing over the past two years. Across the client spectrum, credit standards eased on SME lending and consumer credit, whilst they continued to tighten on mortgages (Annex A.3). Supply conditions eased on both short- and long-term loans, primarily in local currency. In the period ahead, banks expect continued expansion in credit demand and some further mild easing of supply conditions. Working capital, investment, consumer confidence, housing and non-housing-related expenditures are all expected to make a positive contribution to demand. Credit demand from enterprises (primarily SMEs) and from households is also expected to be robust (see Annex A.2). Aggregate supply conditions are expected to ease somewhat and the easing seems to be broad-based, except on mortgages (see Annex A.3). The general terms and conditions of loan supply to the corporate segment loosened over the past six months. Notably, collateral requirements also eased for the second time and did so robustly for SMEs. Optimism on the demand side is still frustrated by the legacy of protracted stagnation of supply-side conditions, leaving a relatively noticeable gap between demand and supply. Aggregate credit figures for the CESEE region are positive territory.

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



Source: EIB – CESEE Bank Lending Survey.

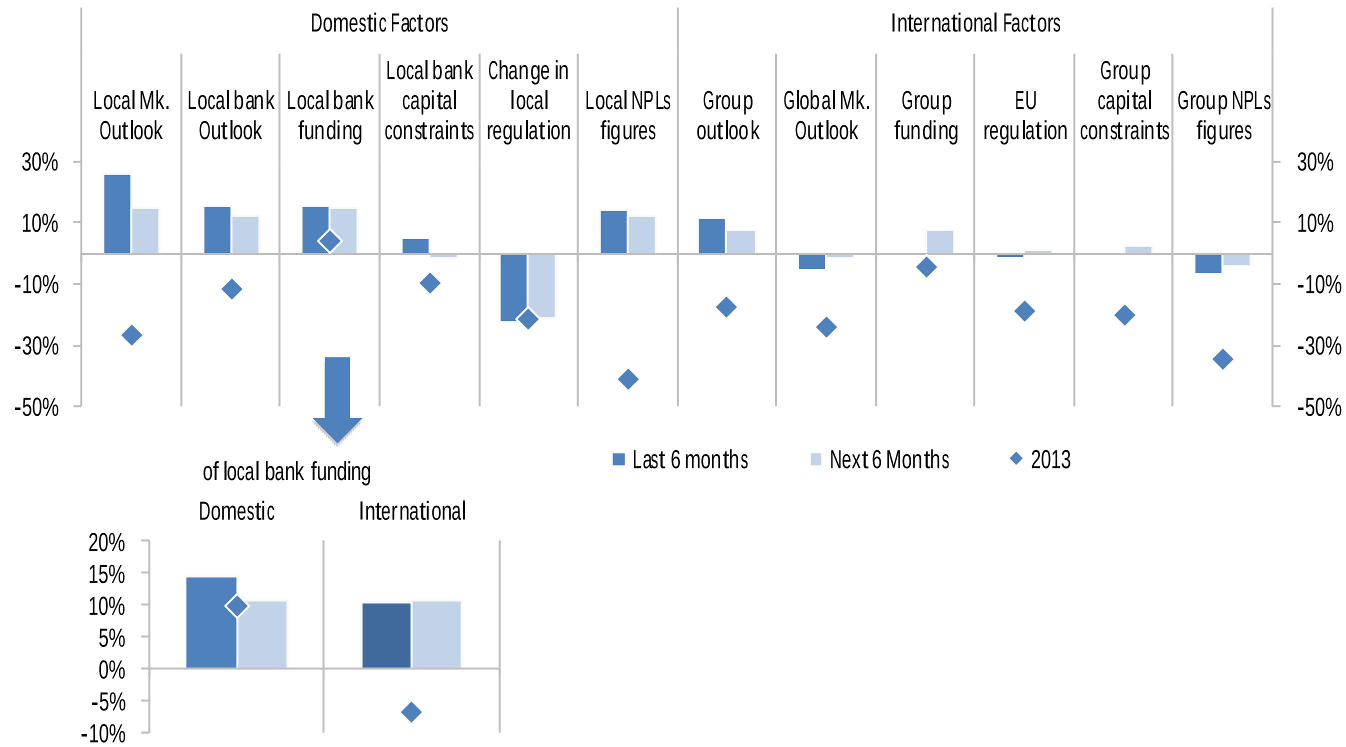
Note: Net percentages; positive figures refer to increasing (easing) demand (supply) (triangles refer to expectations derived from previous releases of the survey, lines report actual values and dotted lines expectations in the lastst one) – see questions B.Q1 and B.Q5 – questionnaire in the Annex

This may suggest that most of the new credit extended should, on average, be of a better quality than in previous credit cycles.

The domestic regulatory environment, group' NPLs and the global market outlook are partially constraining supply conditions. However, their contributions have diminished over time, signalling a stabilisation in those conditions.

The number of domestic and international factors limiting supply has decreased substantially compared to 2013 (figure 7). However, the latest survey release shows that regulatory environment volatility remained a primary limiting element at domestic level. As in previous surveys, neither access to domestic funding nor the domestic outlook are considered a constraint, nor are other factors previously weighing negatively, including NPLs. Fewer international factors are playing a constraining role compared to 2013, and improvement on the previous release of the survey is visible. Nonetheless, group NPLs and the global market outlook are mentioned as having a limited negative effect on credit supply conditions. Looking ahead, almost all the same factors are expected to affect supply conditions in the same direction as in the recent past. This signals a situation of significant stabilisation for supply conditions.

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



Source: EIB – CESEE Bank Lending Survey.

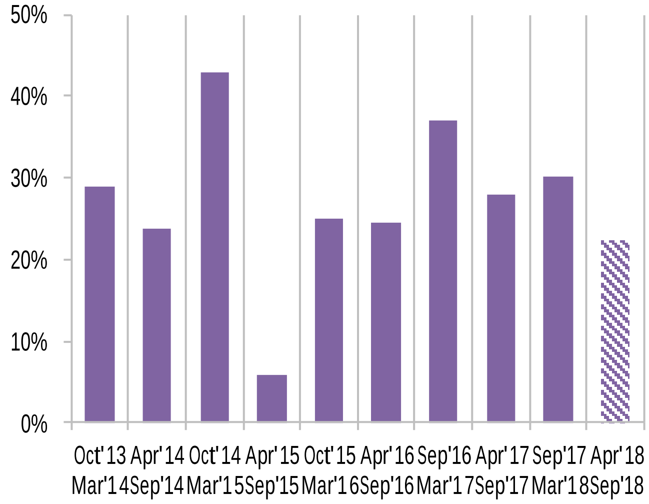
Note: Net percentage; positive figures refer to a positive contribution to supply – see question B.Q4 – questionnaire in the Annex

Access to funding continued to ease in the CESEE region, marking a prolonged period of ample availability of funding in the region mostly from local sources and IFIs. Intra-group funding also started to support these positive developments.

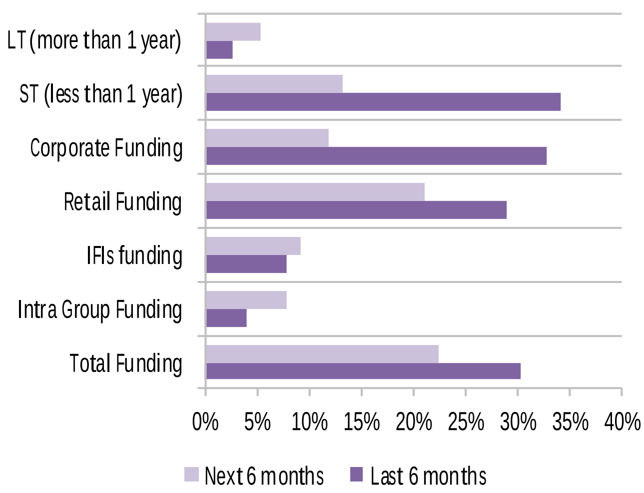
Easy access to retail and corporate deposits supports a positive outlook (Figure 8). In addition, CESEE subsidiaries report easier access to short-term funding as making a positive contribution to overall funding activities. Longer-term funding conditions have eased only marginally. This does not help to boost banks' long-term stable funding ratios as well as it does not support the funding of assets with a long-term lifetime. Subsidiaries indicate that access to international and intra-group funding increased slightly on balance during the past six months. This is a positive signal of additional shareholders' support to the region, which is likely increasing in potential and appeal.

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

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



B. Breakdown of funding conditions – results from latest survey



Source: EIB – CESEE Bank Lending Survey.

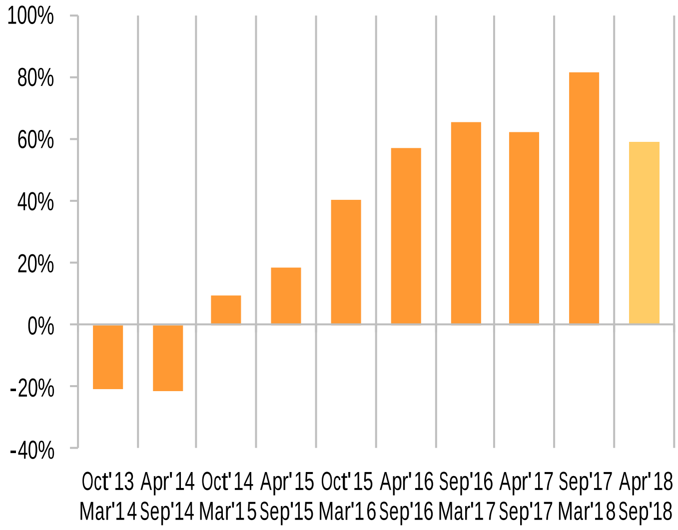
Note: Net percentage; positive figures refer to an easing of access to funding – see question B.Q9 – questionnaire in the Annex

Starting from high NPL levels, credit quality has continued to improve, even accelerating further over the past six months. This positive trend is expected to continue over the next six months.

The speed of deterioration in NPL ratios has been slowing over time, as already demonstrated two years ago. In 2015, the survey firmly indicated a turning point in the negative spiral of NPL flows. Over the past six months, and for the seventh time, aggregate regional NPL ratios recorded an improvement in net balance terms (Figure 9). In absolute terms, the share of subsidiaries indicating an increase in their NPL ratios over the past six months fell to well below 5%. This figure is substantially lower than the 60% reported in the September 2013 survey release. Overall, the share of subsidiaries indicating a decline in their NPL ratios increased substantially to currently stand at more than 80%. Only a very small share of banks continue to expect an increase in NPLs over the next six months, and NPL ratios for both the corporate and retail segments are expected to decrease.

Figure 9. **Non-performing loan ratios**

Developments over time



Last run of the survey

Source: EIB – CESEE Bank Lending Survey.

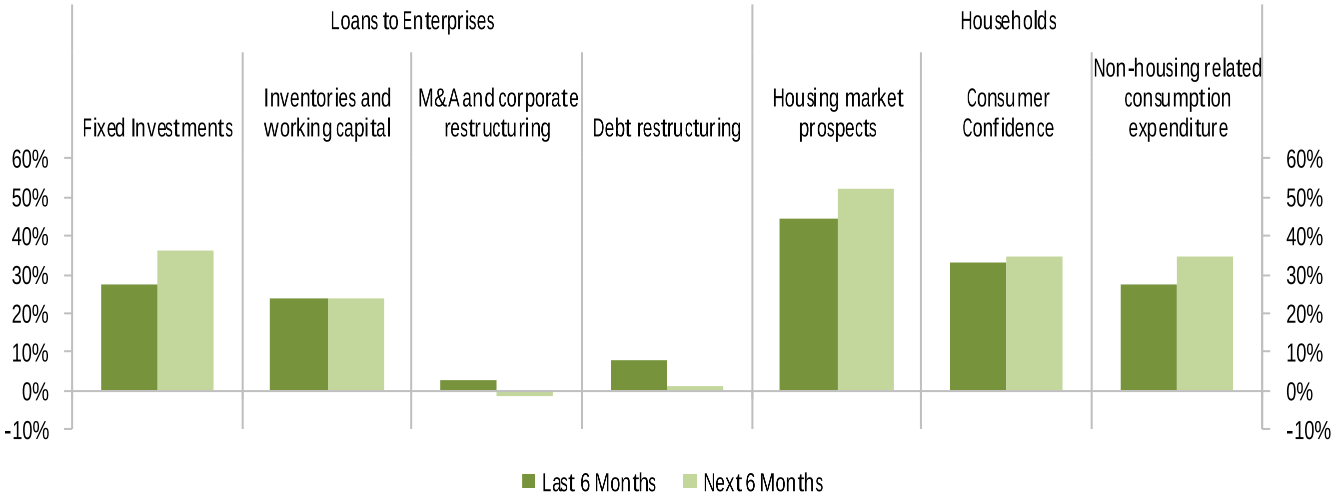
Note: Net percentage; negative figures indicate increasing NPL ratios – see question B.Q8 – questionnaire in the Annex

The survey shows positive developments in the credit market, with potential improving and positioning stabilising on the back of brighter profitability performances. Regional supply conditions improved, supporting a positive and robust demand. Quantitative and qualitative indicators continued to improve although aggregate lending levels remain rather subdued compared to pre-crisis levels. The survey continues to highlight an improving picture wherein slightly upbeat expectations prevail.

Supply conditions eased over the past six months for the second time in the recent past. Aggregate credit demand conditions continued to be robustly positive across the board. Nonetheless, positive demand remains frustrated by the still cautious improvement in supply conditions, suggesting that new credit should on average be of better quality than in previous cycles. Very few factors still constrain credit standards, and only do so on a limited scale, whilst access to funding has been easing significantly across the board, including for intra-group funding. Broadly speaking, the survey reveals a realignment of perceptions of market potential with those of positioning and profitability. Ultimately, this suggests a generalised fine-tuning in the assessment of market potential, with a cautious alignment of all indicators ultimately uncovering prospective value.

Annex

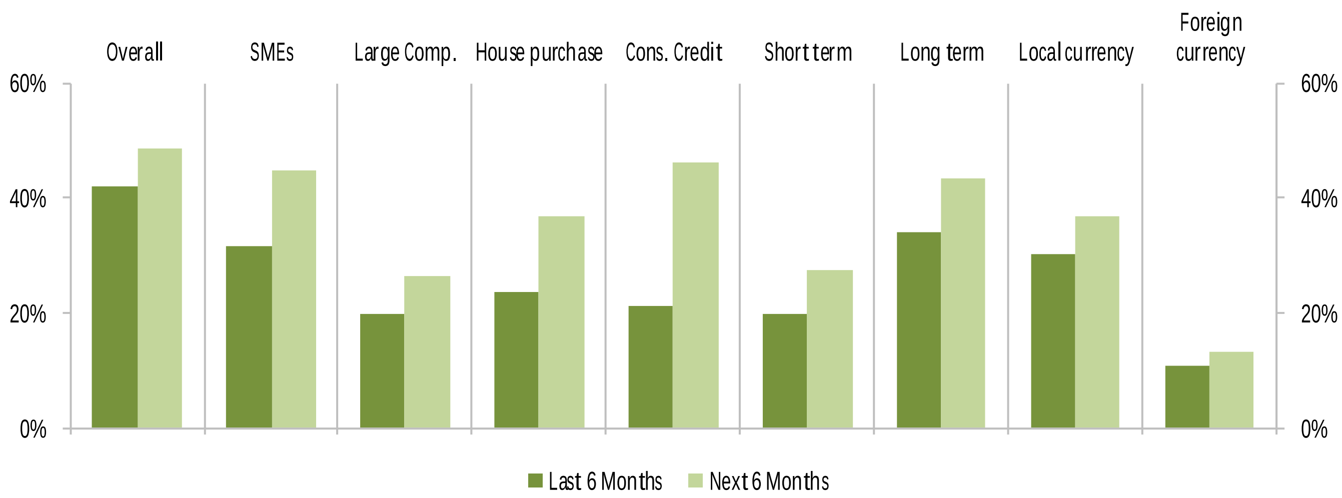
Annex A.1 Factors affecting demand for credit



Source: EIB – CESEE Bank Lending Survey.

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

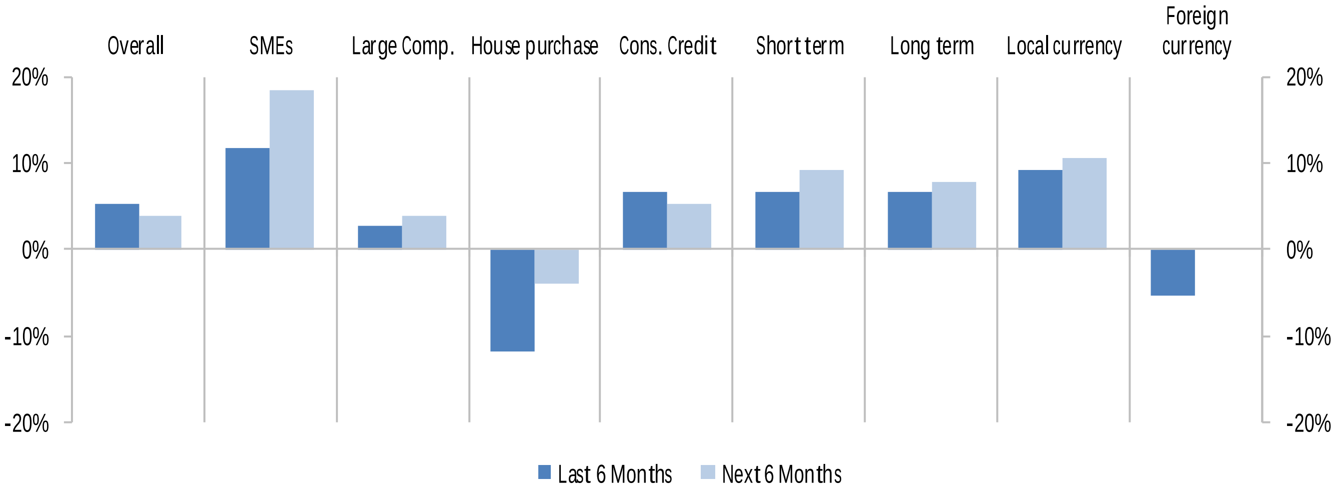
Annex A.2 Demand for loans or credit lines – client breakdown



Source: EIB – CESEE Bank Lending Survey.

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

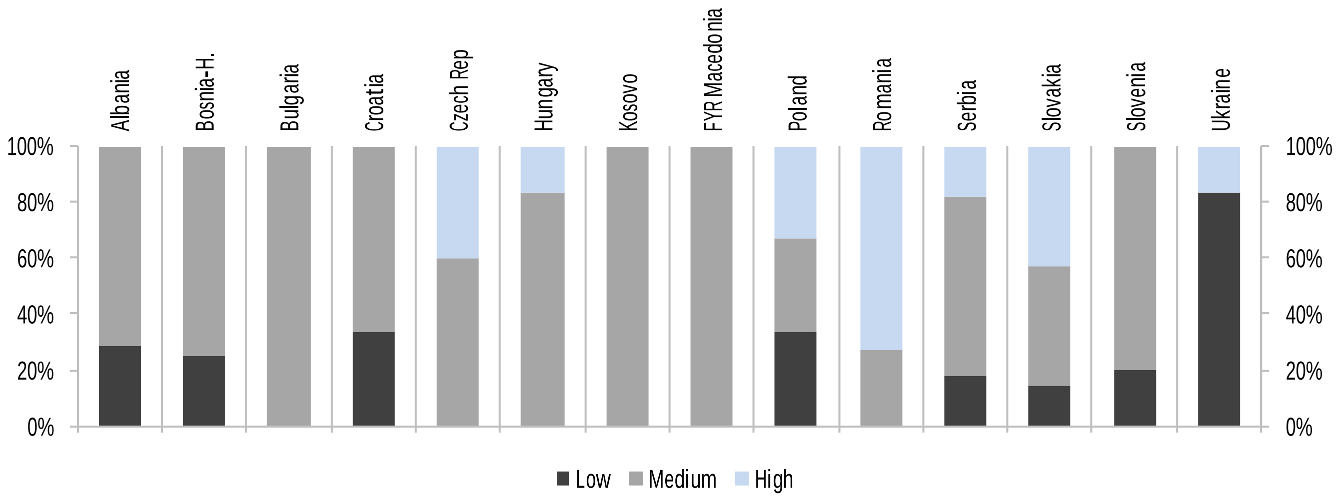
Annex A.3 Credit supply (credit standards) – client breakdown



Source: EIB – CESEE Bank Lending Survey.

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

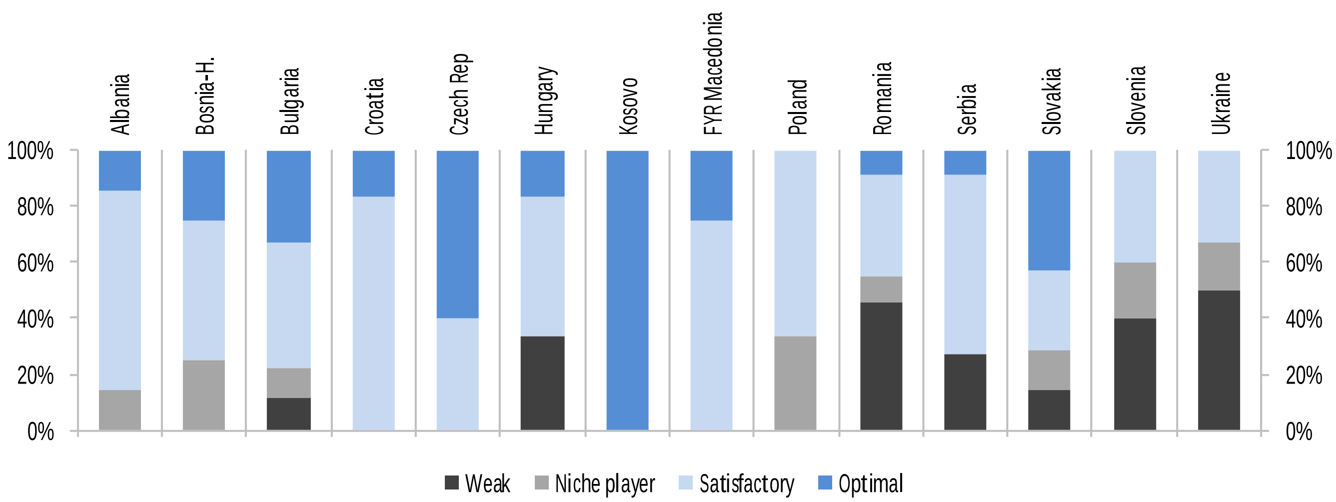
Annex A.4 Market potential



Source: EIB – CESEE Bank Lending Survey.

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

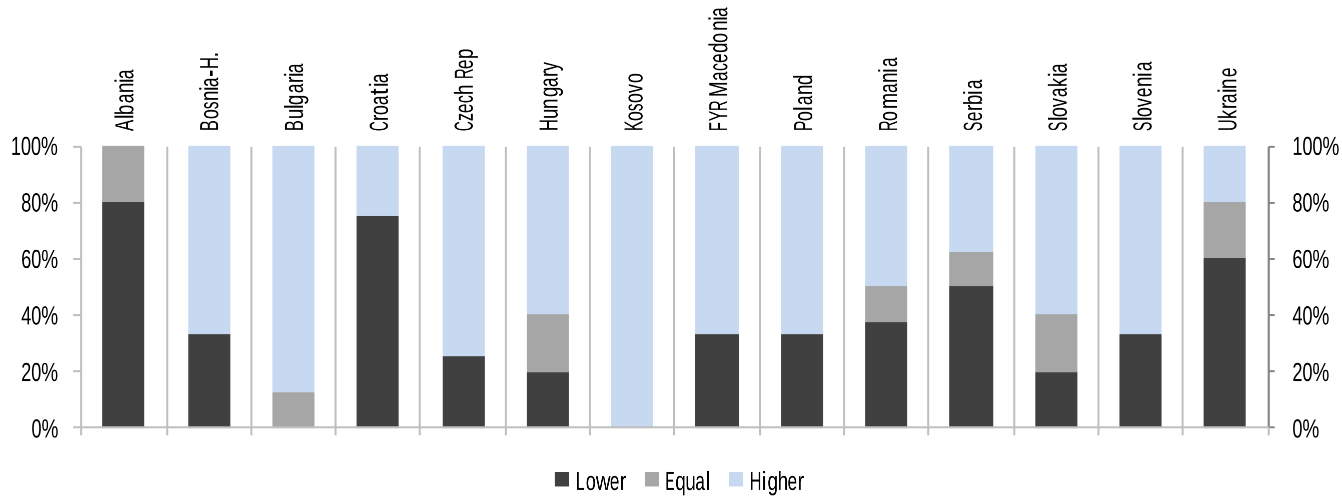
Annex A.5 Market positioning



Source: EIB – CESEE Bank Lending Survey.

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

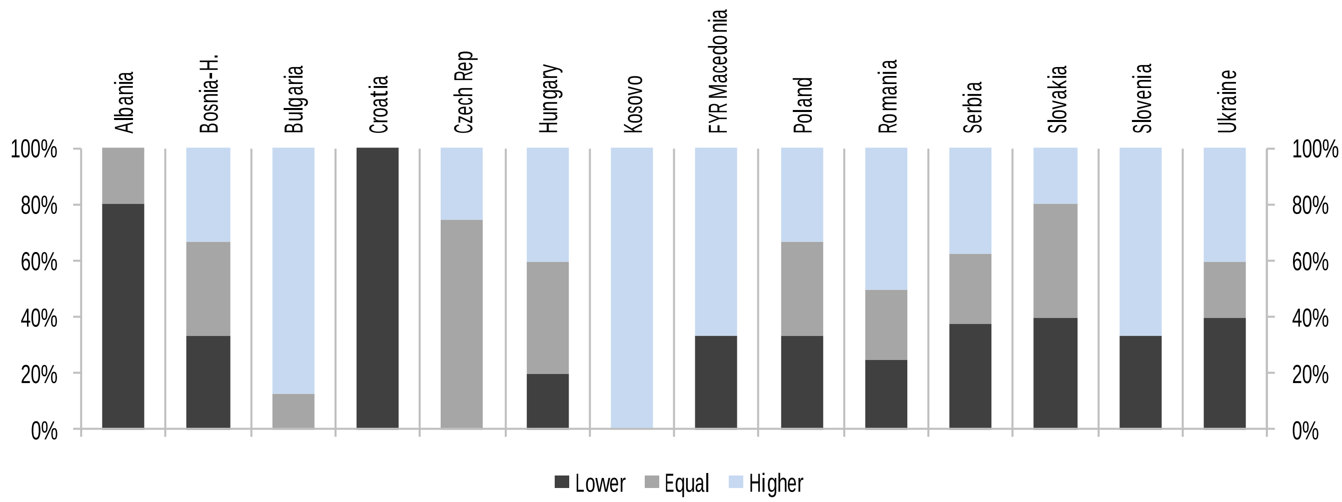
Annex A.6 Return on assets (adjusted for cost of risk) compared to overall group operations



Source: EIB – CESEE Bank Lending Survey.

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

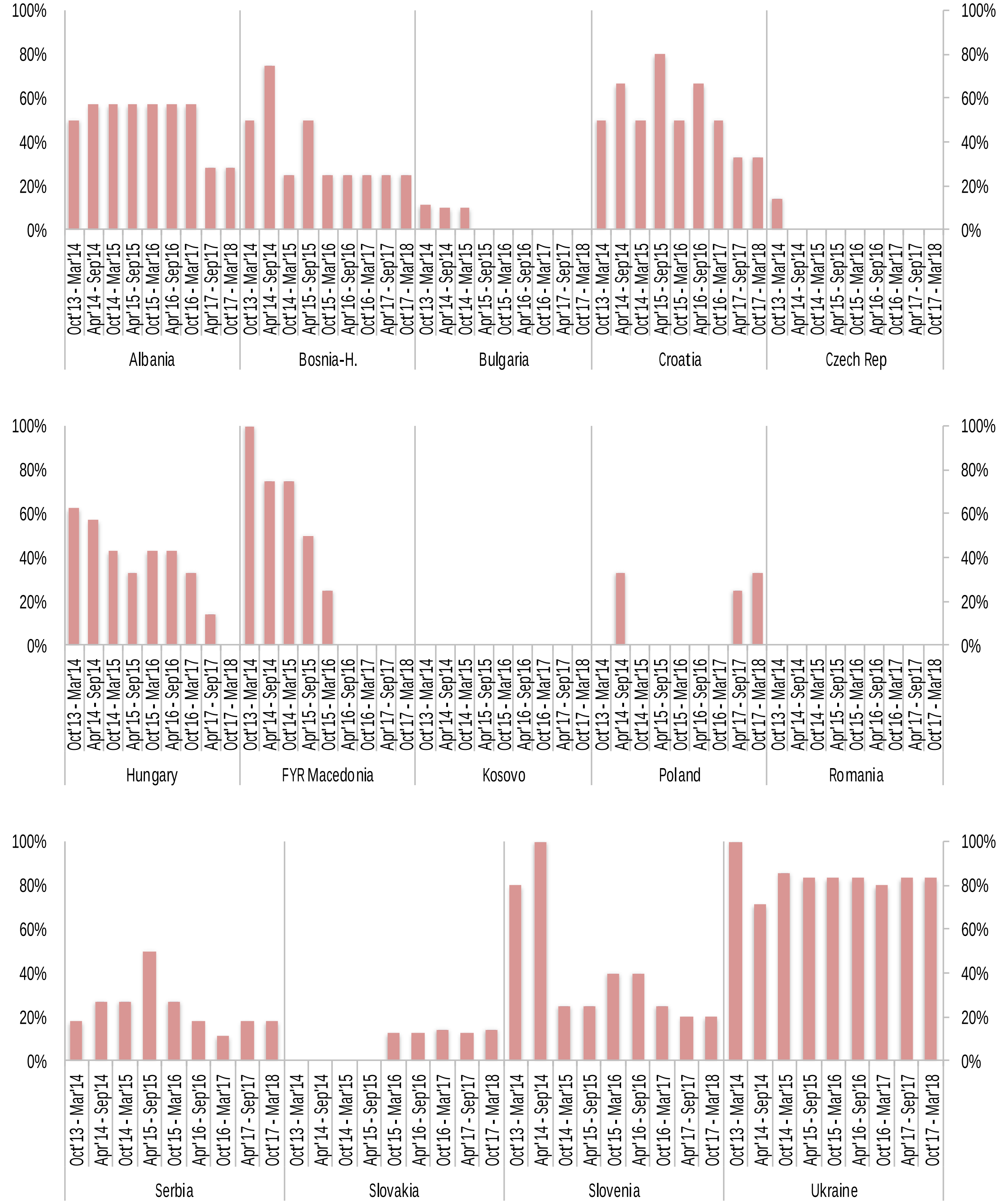
Annex A.7 Return on equity (adjusted for cost of equity) compared to overall group ROE



Source: EIB – CESEE Bank Lending Survey.

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

Annex A.8 Share (%) of parent banks indicating a "low" market potential



Source: EIB – CESEE Bank Lending Survey.

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

Annex A.9 Share (%) of parent banks indicating a "weak/niche" positioning

Source: EIB – CESEE Bank Lending Survey.

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

Albania

NPL ratios continue improving but still among the highest in the region. Profitability is described as rather low.

Summary

Group assessment of positioning and market potential: parent banks consider the Albanian market to have medium potential but with lower profitability than those of the group operations. At the same time, 85% of parent banks find that their position is either satisfactory or optimal.

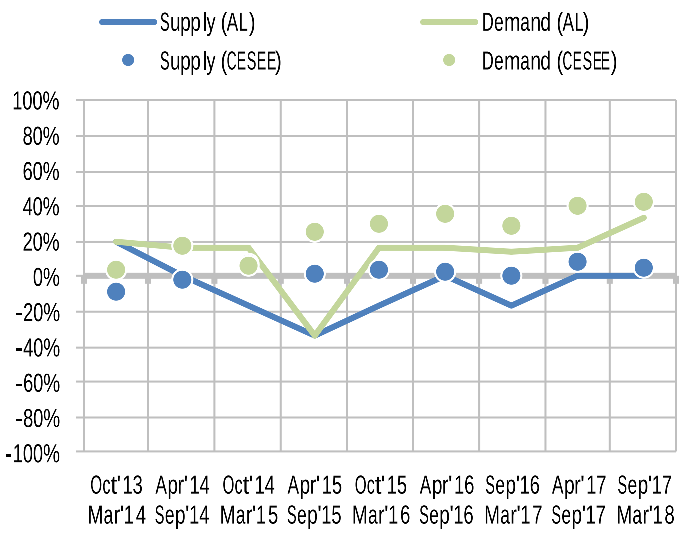
Credit demand in Albania has been gradually improving, while **supply conditions** were more neutral during the last six months. Expectations on credit demand turned more pessimistic despite a broad based improving macroeconomic environment.

C**redit supply conditions** are lagging behind credit demand and improvements are continuously below expectations. While overall conditions stayed neutral, supply conditions continued to ease for consumer credit.

Demand for loans in Albania was driven by foreign-currency loans for SMEs. On the contrary, loan demand from large companies and households declined. The quality of loan applications continued to improve across most loan segments during the last six months.

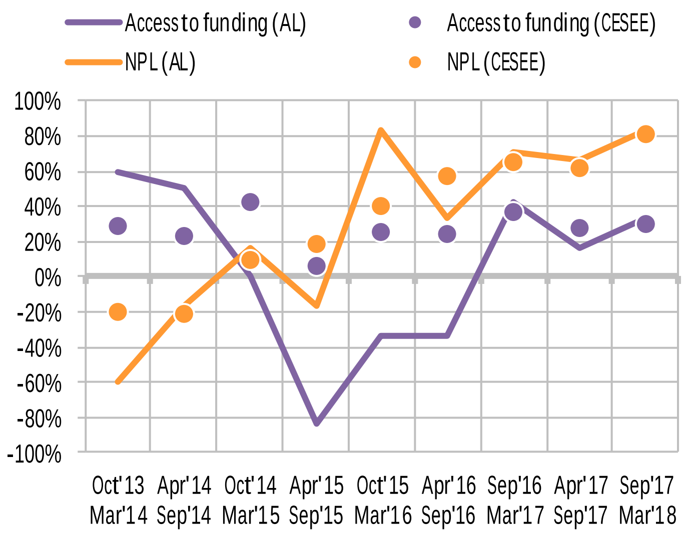
Access to funding in Albania continued to improve, on the back of foreign-currency funding and retail deposits.

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



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

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

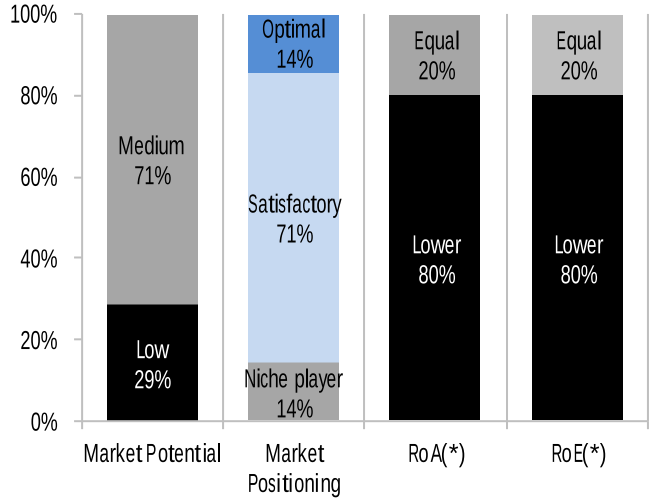
Results of the Bank Lending Survey – Parent banks level

Profitability of Albanian banks, measured by risk-adjusted returns on equity and assets, are lower than those of the overall group operations. It is one of the lowest among CESEE countries.

The continuous write-down of bad loans has been weighting negatively on bank profitability.

Despite low profitability, 71% of the parent banks consider the Albanian market to have medium potential and satisfactory market positioning. Moreover, 14 percent of parent banks see their market positioning as even optimal.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

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

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

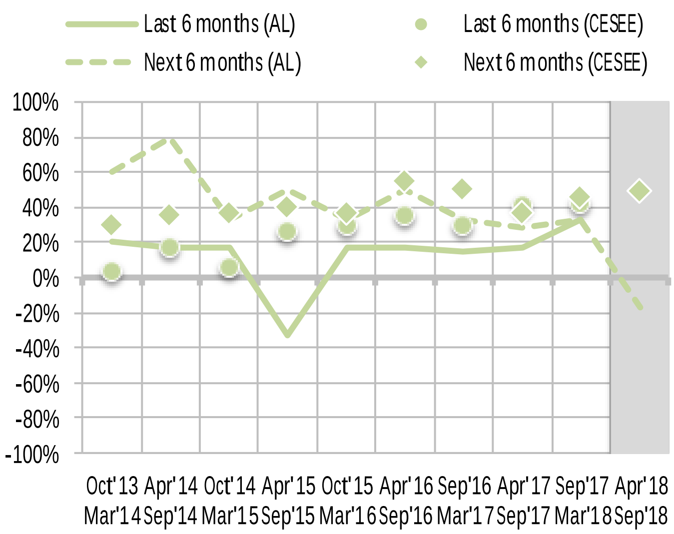
Aggregate demand developments

Demand for loans in Albania came just in line with expectations, slightly improving compared to the last six months.

Demand turns negative for the expected six months, after a continuously positive dynamic of last two years. The positive evolution of demand for loans during the last couple of years have been driven by both corporate investment and household consumption.

This negative turning point is surprising, given the overall positive outlook of the economy with robust domestic demand.

Figure 2 **Demand side developments**



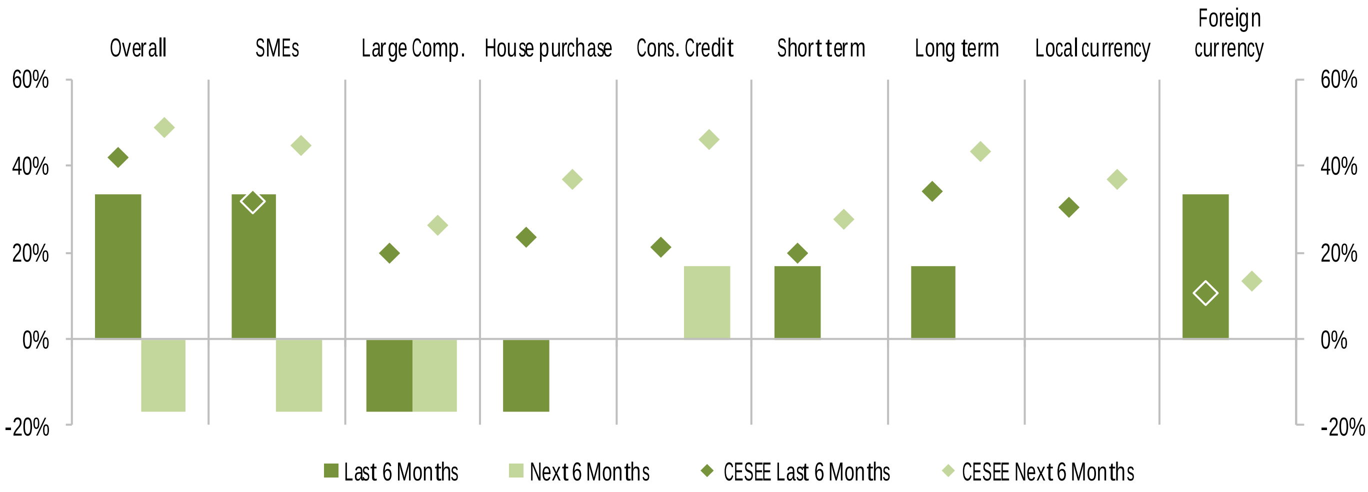
Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 Demand components and segments

Demand for loans increased only for SME while demand for loans for large companies and households declined. Contrary to the regional trend, survey data shows a preference towards borrowing in foreign currency denominated loans during the last six months.

For the next six months, the only positive dynamic is expected for consumer loans. Overall trend in loan demand is expected to decline, contrary to the expected growth in the CESEE region.



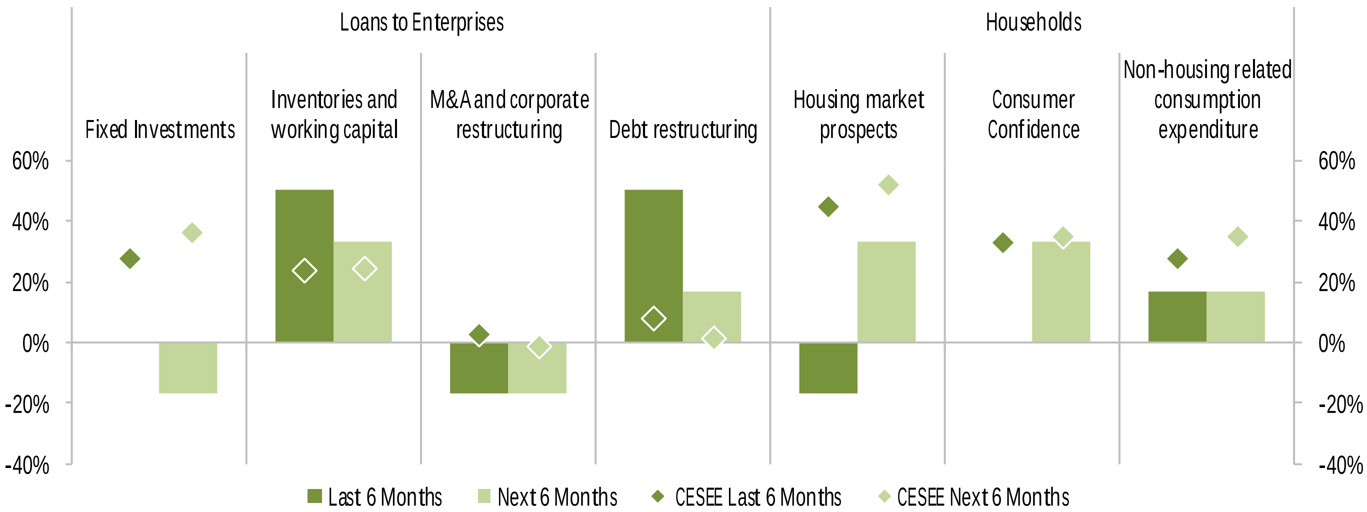
Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

Debt restructuring remained one of the dominant driver of loans to enterprises, well above the CESEE average, in line with the ongoing cleaning-up of the portfolio. Loans for working capital contributed also strongly in the last six months.

Regarding expectations, debt restructuring and fixed investments is anticipated to have a negative impact on the demand for loans and only the need for working capital's financing is expected to contribute positively. For the households, all segments are expected to support the loan demand.

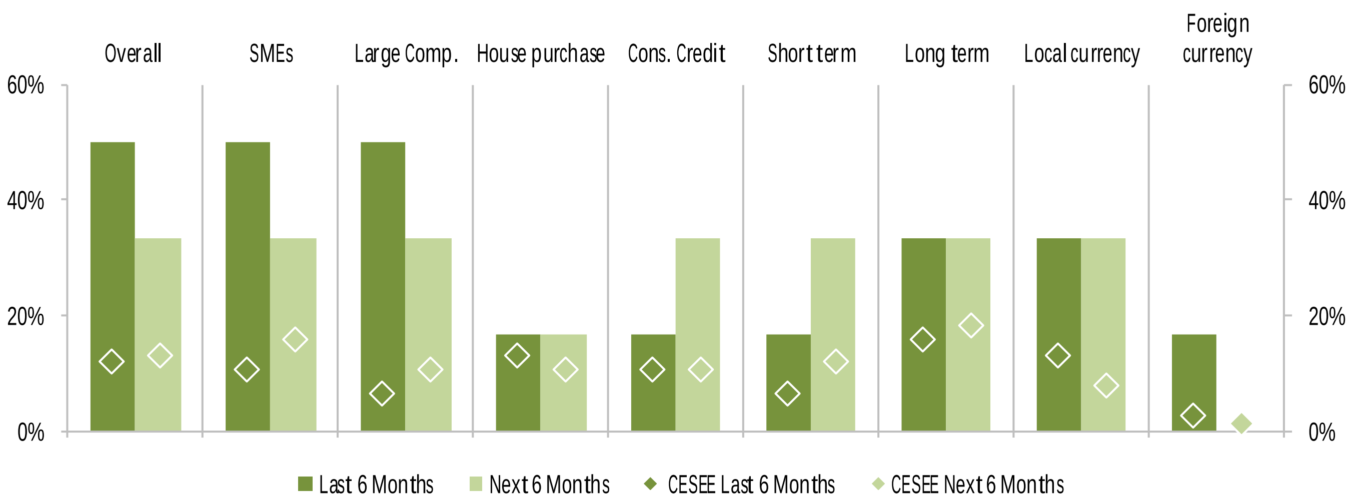


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 **Quality of loan applications**

The quality of loan applications continued to improve across most of the loan segments. The strongest enhancement has been registered on the companies segment, both SMEs and large companies. Over the next six months, the quality of loan applications is expected to improve further on all categories of loans, except the foreign currency loans.



Source: EIB – CESEE Bank Lending Survey

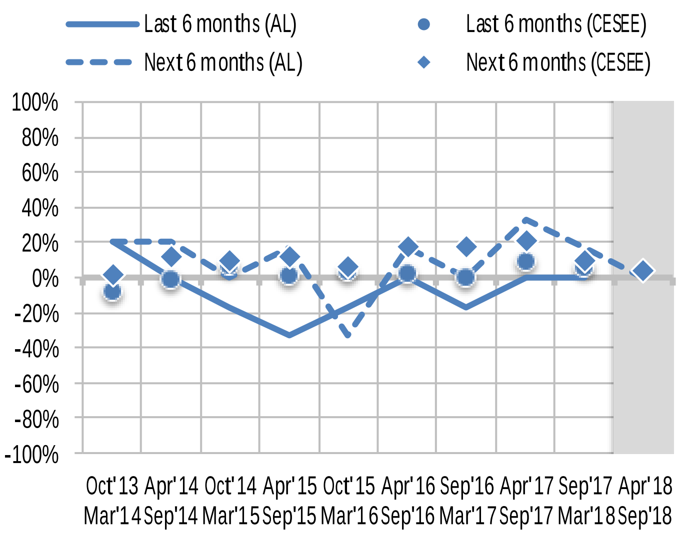
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit standards remained neutral during the last six months, bellow the easing expectations.

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

Figure 6 **Supply developments**



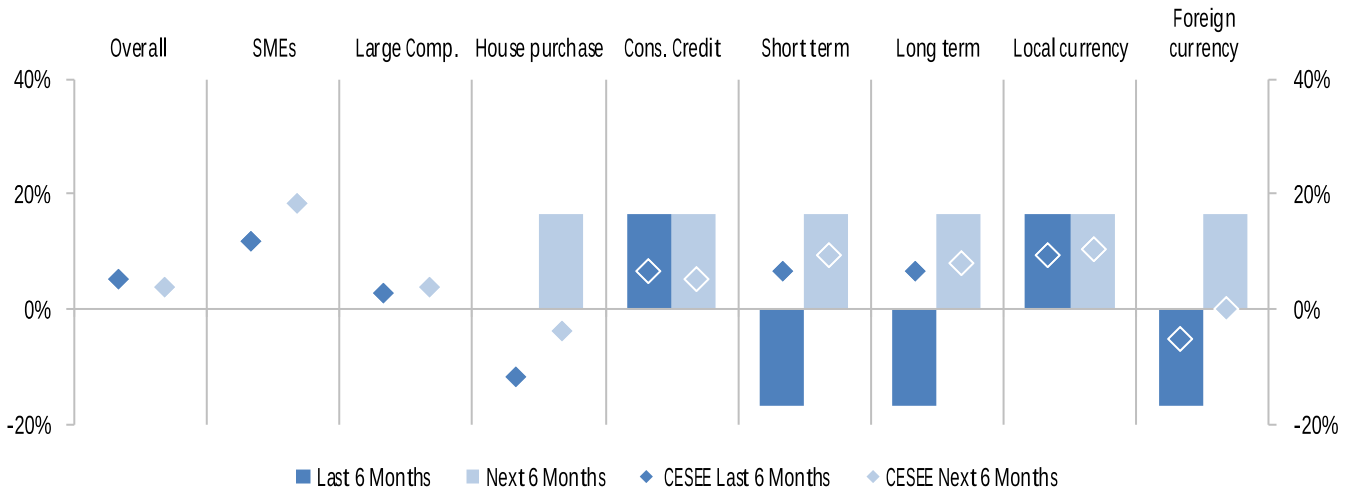
Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Credit supply conditions remained neutral on overall but they tightened in the foreign currency denominated loans and improved for those denominated in local currency. On the other hand, credit standards eased in the households segment for consumer credit.

Looking ahead, banks expect an easing of lending conditions for loans to the household sector (above the CESEE average) and no change in lending condition for companies. Supply conditions for local-currency lending are expected to improve further.

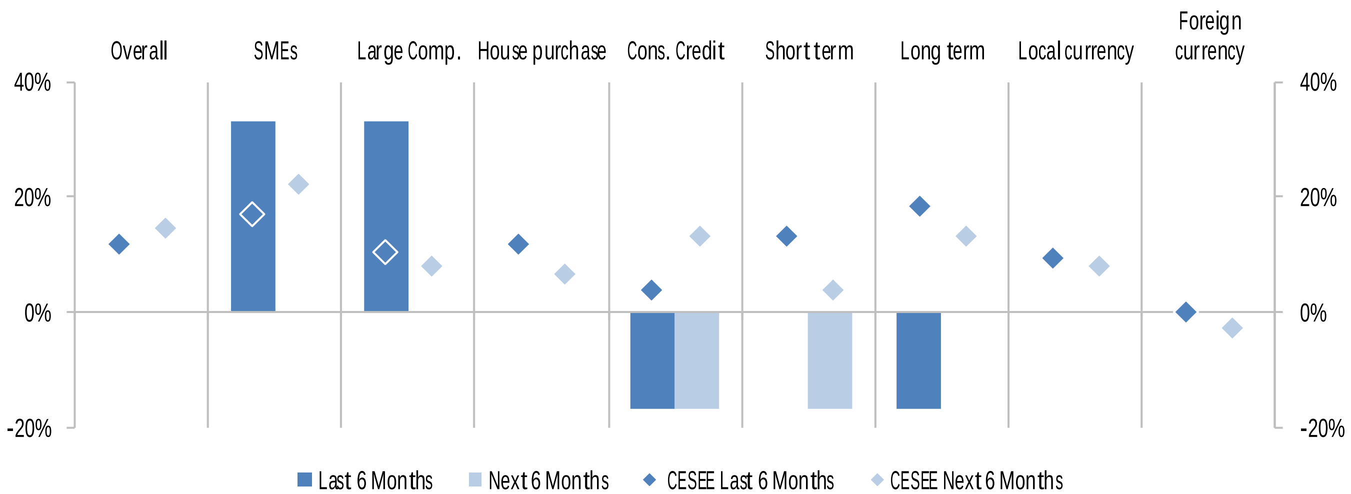


Source: EIB – CESEE Bank Lending Survey

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

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

The approval rate remained overall unchanged during the last six months, lagging behind the one in the CESEE region. The increasing approval rate of loans for SMEs and large companies was counterbalanced by the drop in the banks' approval rate for consumer loans. Over the next six months, no change is expected, while for the CESEE region further improvement is expected.

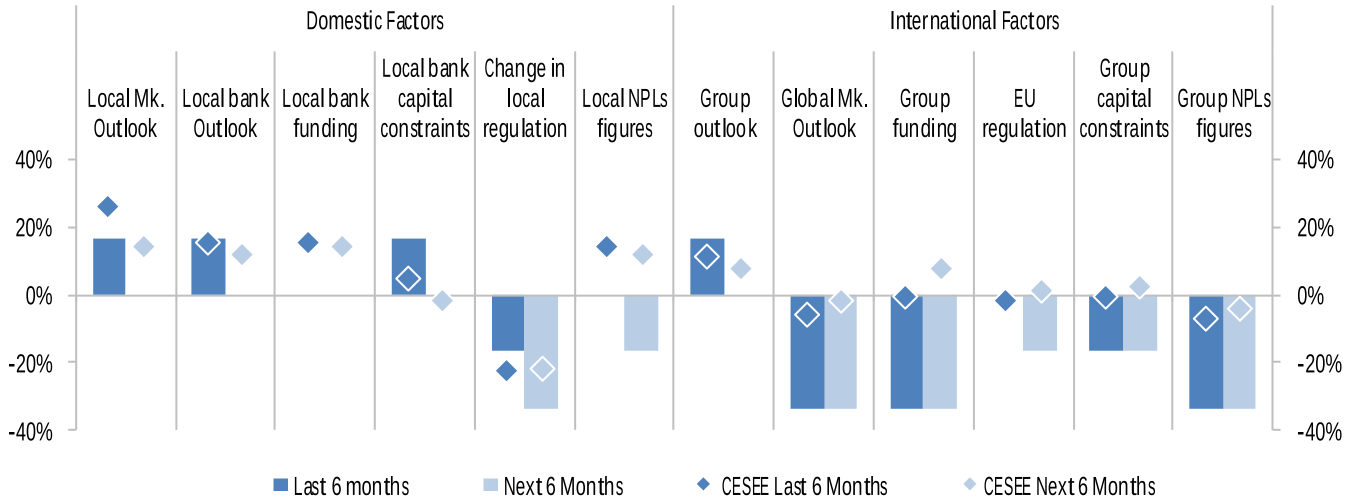


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

Change in local regulation continues to weigh negatively on credit supply conditions in Albania. Nevertheless, other domestic factors, like local market outlook, bank outlook and capital requirements, contributed positively to credit supply. All international factors, but group outlook and EU regulation, have had a negative contribution to lending conditions in Albania over the last six months and same trend is expected for the following six months.



Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 Non-performing loan ratios

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

Survey results confirm the aggregated figures on non-performing loans that dropped around additional 2 percentage points during the last six months. Despite of continuous improvement since end-2014, from the peak of 25 percent to 13.5 percent in January 2018, the NPL ratio is still one of the highest in the CESEE region.

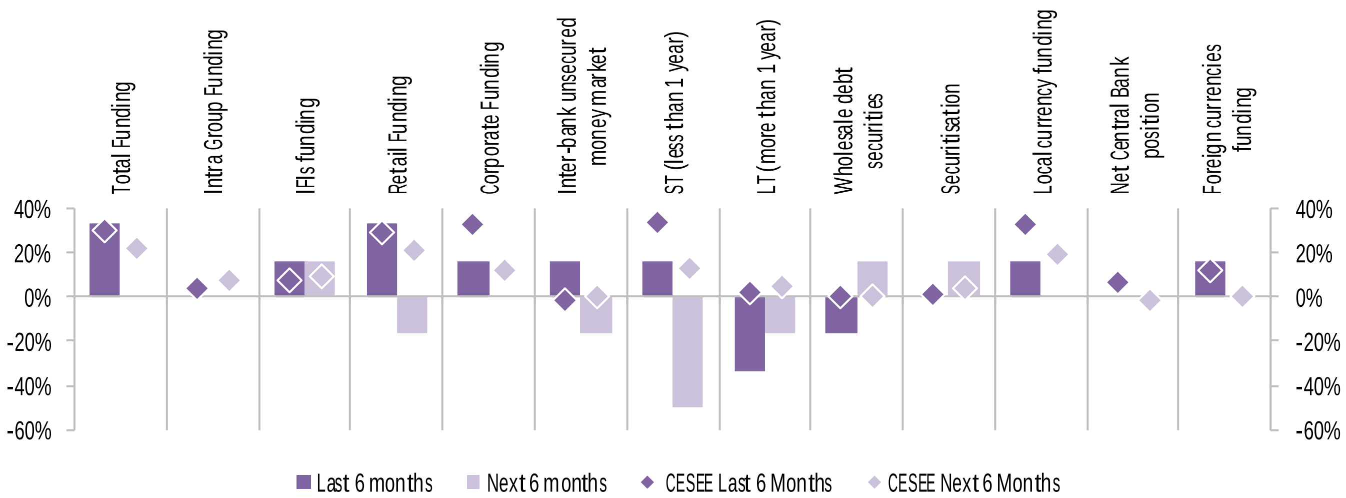
Further improvement is expected for the next 6 months.

Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Bank funding in Albania has improved in the last six months mainly supported by the domestic retail and corporate funding. Both access to local currency as well as to foreign currency funding has improved. Access to intra-group funding stayed unchanged, while the long-term funding and through wholesale debt securities deteriorated. No change is expected over the next six months.



Source: EIB – CESEE Bank Lending Survey.

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

Bosnia-Herzegovina

Demand for loans increased and supply conditions have eased. Credit quality continued to improve considerably.

Summary

Group assessment of positioning and market potential: three quarter of the parent banks operating in Bosnia and Herzegovina report a medium potential for the local market. The same share of respondents indicates a satisfactory or optimal positioning in the market. Parent banks find that profitability is marginally higher compared to overall group operations, despite the continuous write-downs of the non-performing loans.

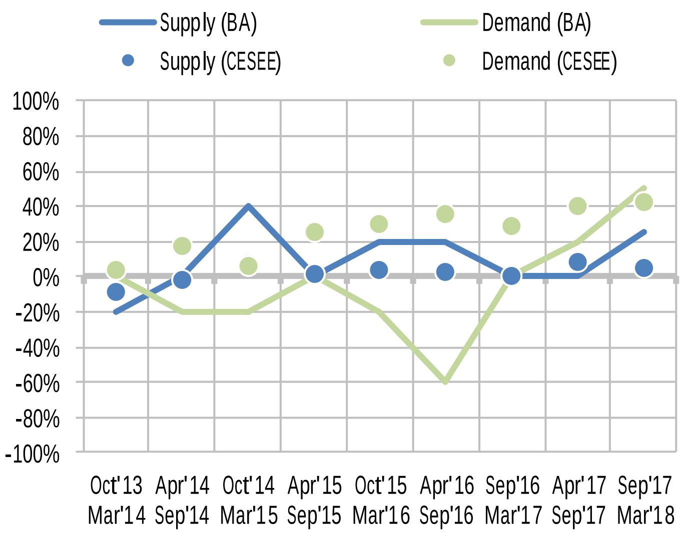
Demand for loans have improved during the last six months, with a broad-based support from both housing market prospects and the consumer confidence. On the enterprise side, fixed investments was the only factor recording a net increase.

Credit supply conditions have eased for large companies, SMEs and households. Nevertheless, capital constraints and local regulation have been still contributing negatively to the credit supply conditions.

Unlike the regional trend, loan demand in Bosnia-Herzegovina has been lagging behind credit standards. After the current upturn, both demand and supply conditions are expected to remain positive over the next six months.

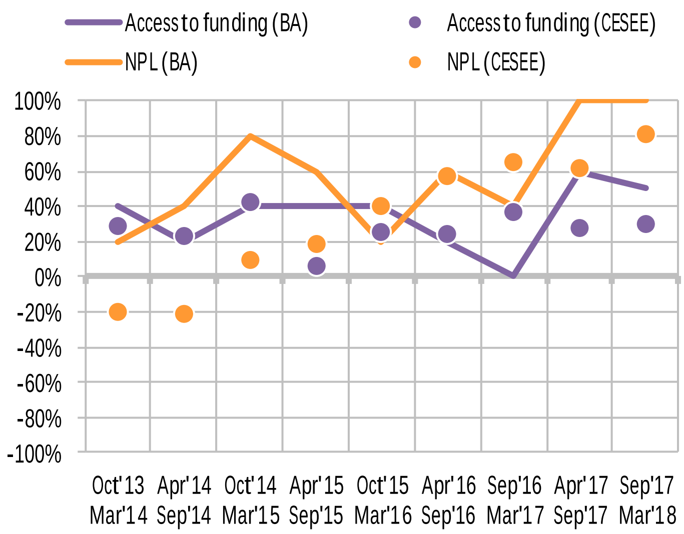
Access to funding: improvement have been broad-based across different sources, but especially from domestic retail and corporate funding.

NPL figures registered strong reduction during the last six months and it is expected to improve further.



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

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

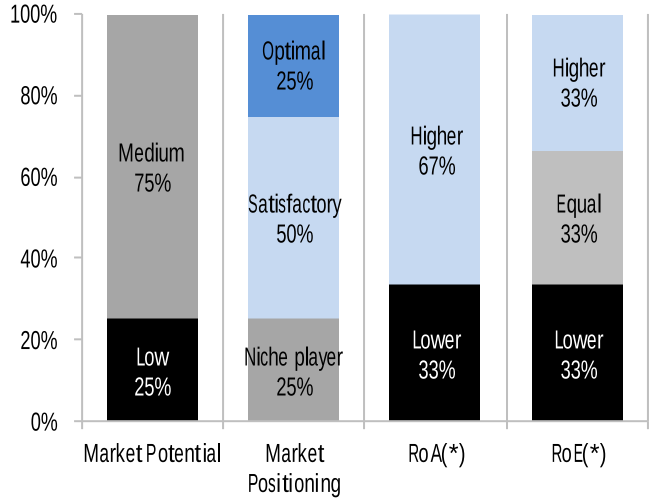
Results of the Bank Lending Survey – Parent banks level

The market positioning of the banking groups in Bosnia and Herzegovina stayed the same during the last six months according to the parent banks assessment, as 25 percent of respondents consider their position as optimal and 50 percent as satisfactory.

In terms of market potential, 75 percent of them see it as being medium.

Parent banks find that profitability is marginally higher compared to overall group operations, despite the continuous write-downs of the non-performing loans. About 67 percent of local banks report higher return on assets (adjusted for the cost of risk) than the overall group operations, and higher or equal return on equity (adjusted for the cost of equity).

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

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

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

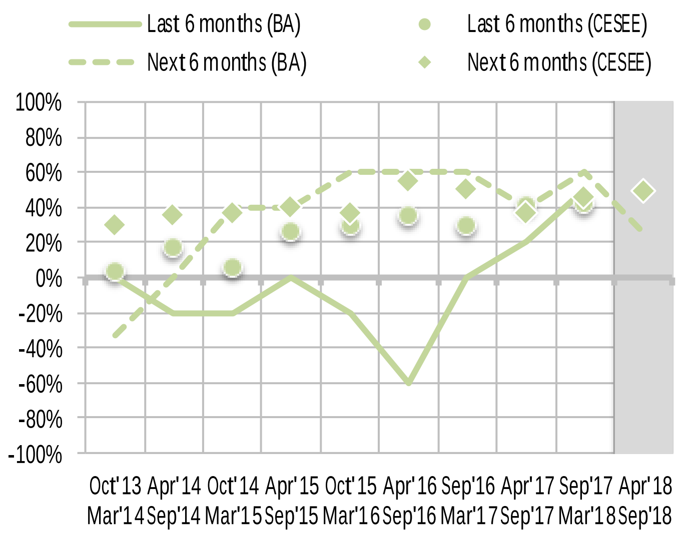
Aggregate demand developments

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

Credit demand lags behind the economic recovery started two years ago. Nevertheless, some structural weaknesses, such as the high unemployment rate and weak governance, persist. As a recent positive impact, the three-year extended fund facility with the IMF have been resumed as of February 2018.

Over the next six months, demand for credit is expected to increase further, although with a lower phase.

Figure 2 **Demand side developments**

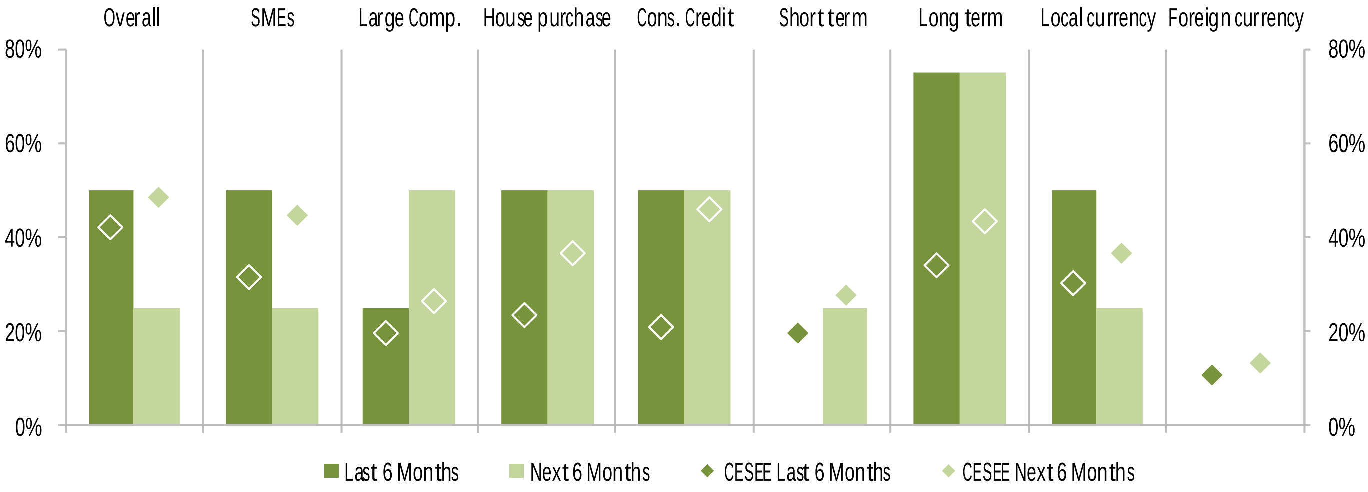


Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 **Demand components and segments**

The improvement in the loan demand remained broad-based among large companies, SMEs and households. All segments have contributed to the recovery. There is a clear preference for long-term loans denominated in local-currency. Over the next six months, banks expect continuation of the positive trend but decelerating below the CESEE average.

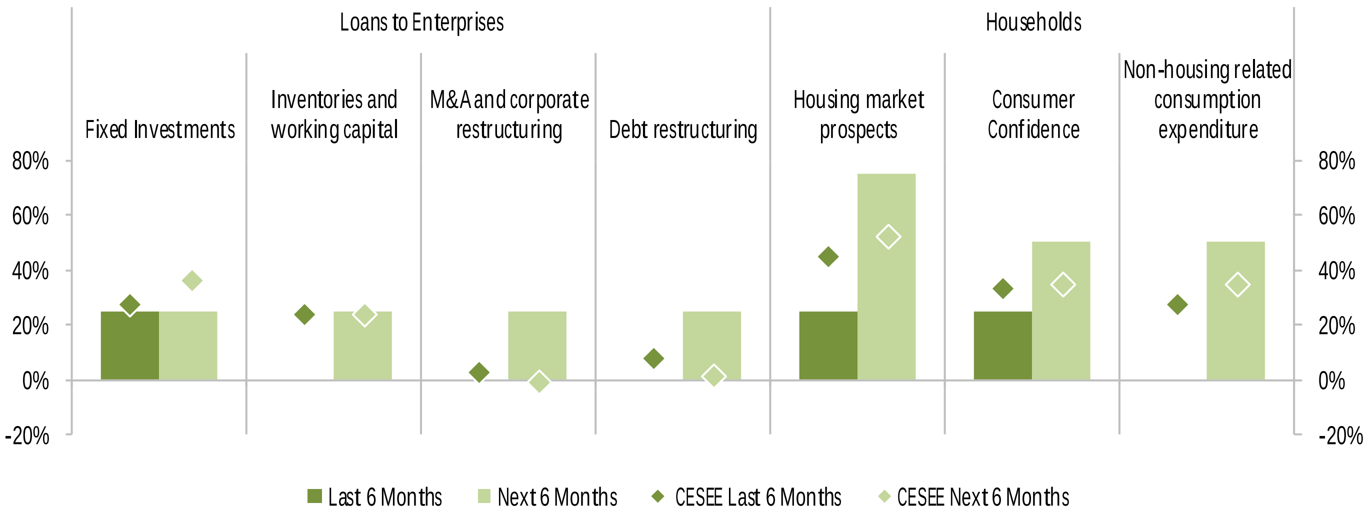


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 **Factors affecting demand for loans**

Among the factors affecting credit demand, both housing market prospects and the consumer confidence registered a positive contribution in the last six months, in line with improving economic development. On the enterprise side, fixed investments was the only factor recording a net increase. Over the next six months, all segments are expected to contribute positively to the loan demand.

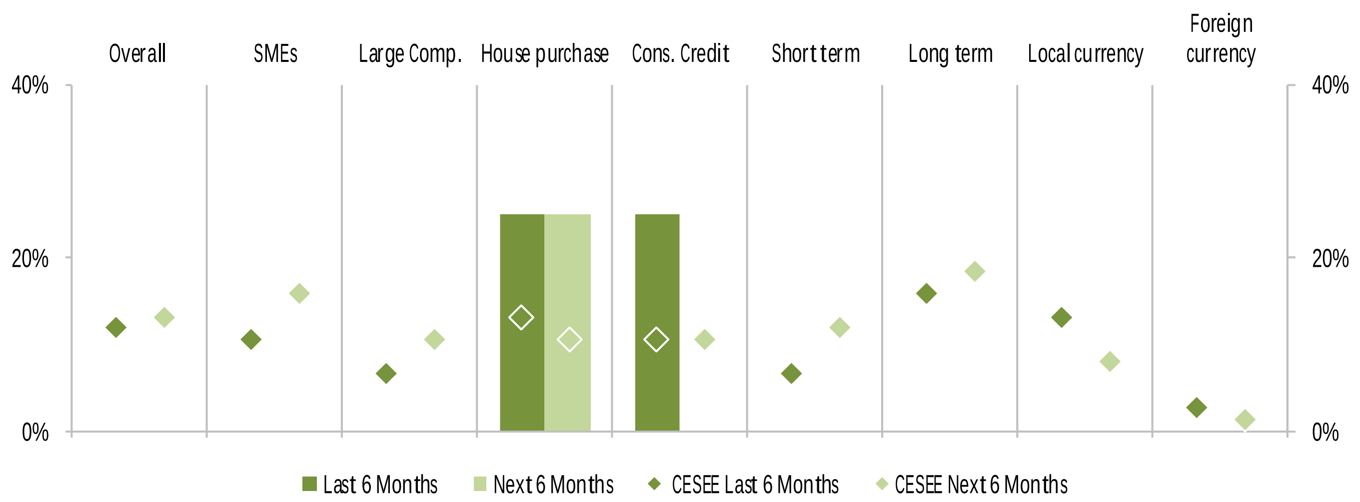


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

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



Source: EIB – CESEE Bank Lending Survey

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

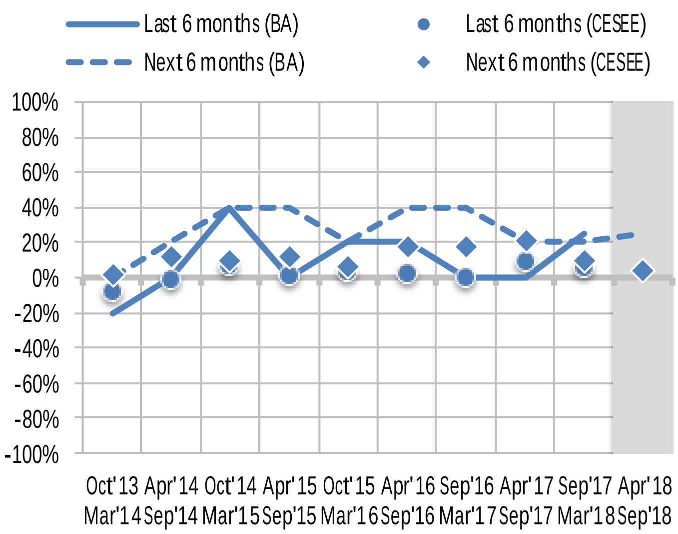
Aggregate supply developments

Supply conditions have eased during the last six months, after a period of neutral stance.

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

The current easing supply is expected to continue in the next six months, above the CESEE region.

Figure 6 Supply developments

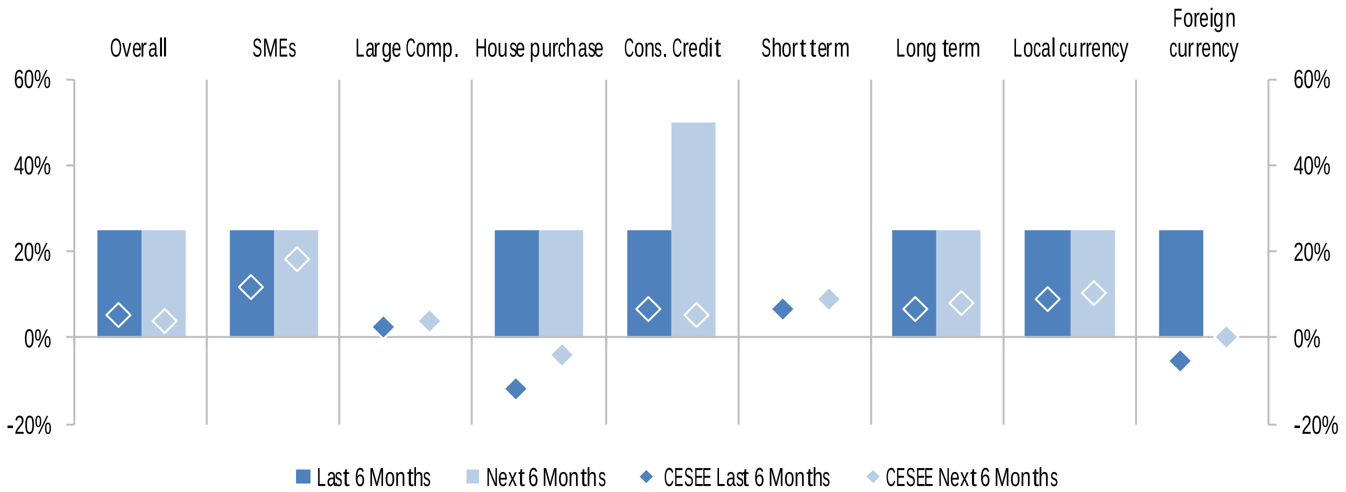


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Overall credit standards eased during the last six months and in particular for SMEs and household segment. Both for house purchase loans and consumer credit, the improvement is above the CESEE region. Looking ahead, local banks expect further easing of credit standards for SMEs and household segment, while no change is expected for large companies.

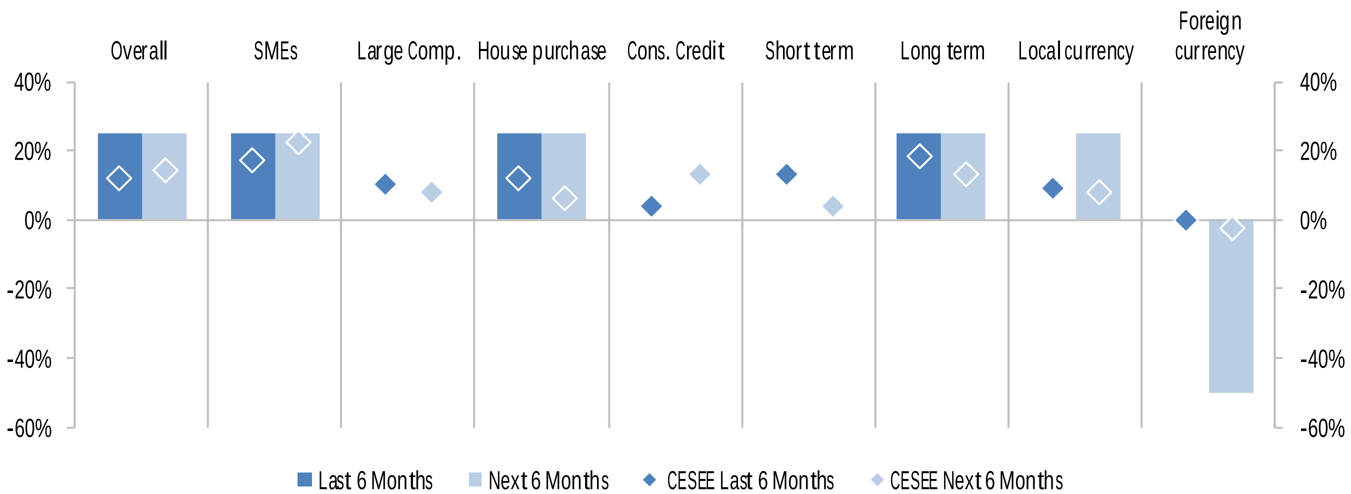


Source: EIB – CESEE Bank Lending Survey

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

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

The loan approval rate in Bosnia and Herzegovina has been improving during the last six months and further improvement is expected. The loan approval rate increased recently for house purchase loans and SMEs, while it has dropped for foreign currency loans. Over the next six months, better approval rates are expected for the same segments.

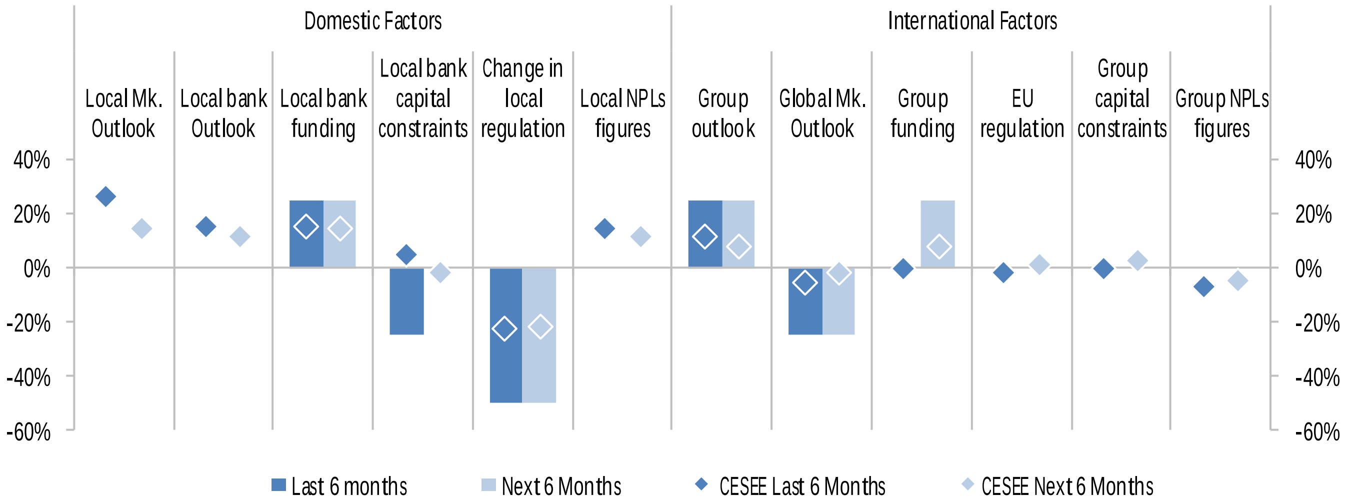


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

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



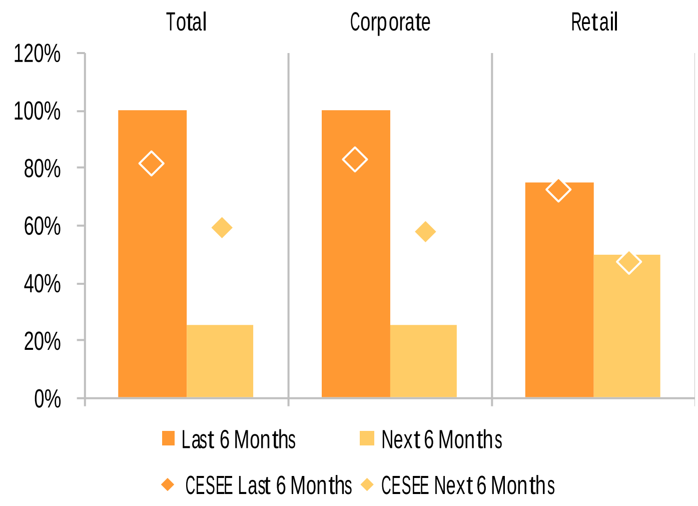
Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 **Non-performing loan ratios**

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

Over the next six months, local banks expect still positive evolution in NPL ratios but with a tempering of the drop.

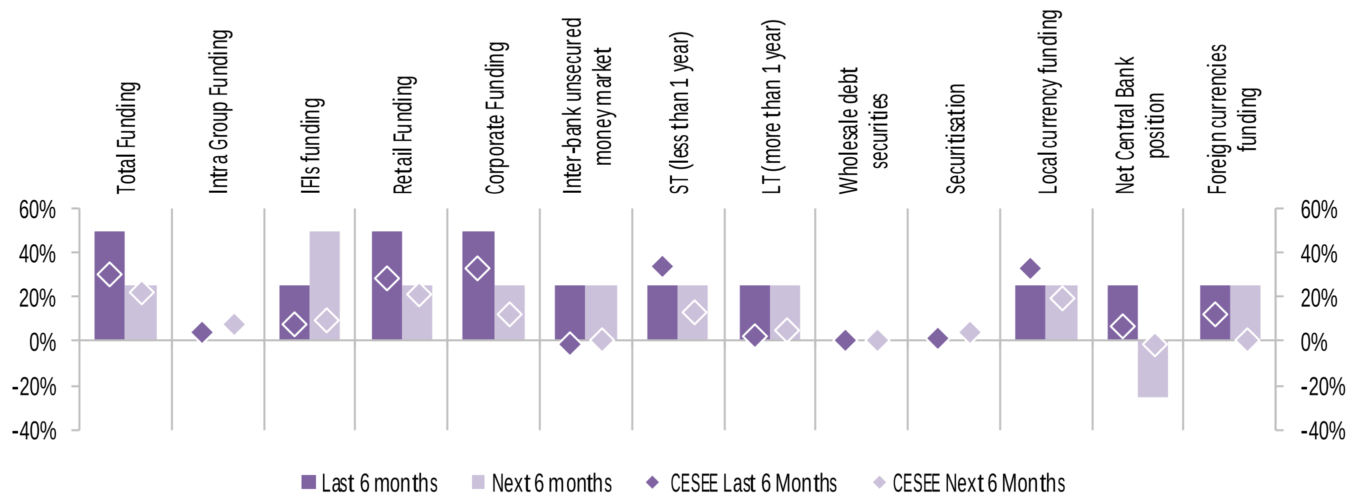


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 **Access to funding**

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



Source: EIB – CESEE Bank Lending Survey.

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

Bulgaria

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

Summary

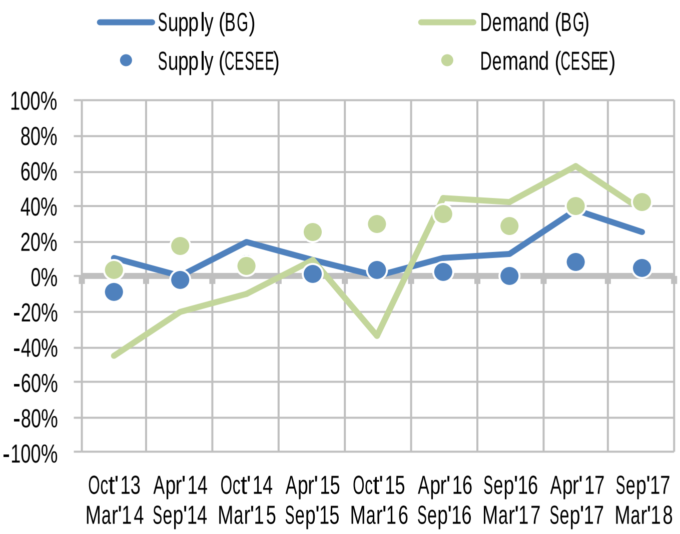
Group assessment of positioning and market potential: Parent banks operating in Bulgaria show a strong commitment towards the region and assess the country's market potential as medium. Returns on assets in Bulgaria are seen as high and exceeding those of the overall group by most parent banks. This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

Credit supply conditions have improved in the last six months, especially in the retail sector, after a long period of stagnation. This improvement is expected to continue in the next six months.

Demand for loans has continued to strengthen over the past year, driven mostly by households, especially for house purchases. A majority of respondents expect demand to strengthen further over the next six months.

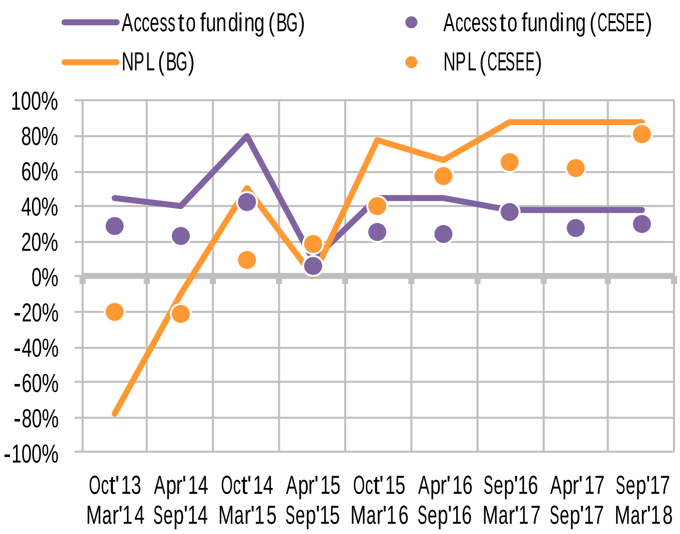
Access to funding has continued improving over the past six months following a multiannual trend. The improvement is mostly due to high and sustained growth of corporate deposits and to a lesser extent of household deposits.

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



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

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

Results of the Bank Lending Survey – Parent banks level

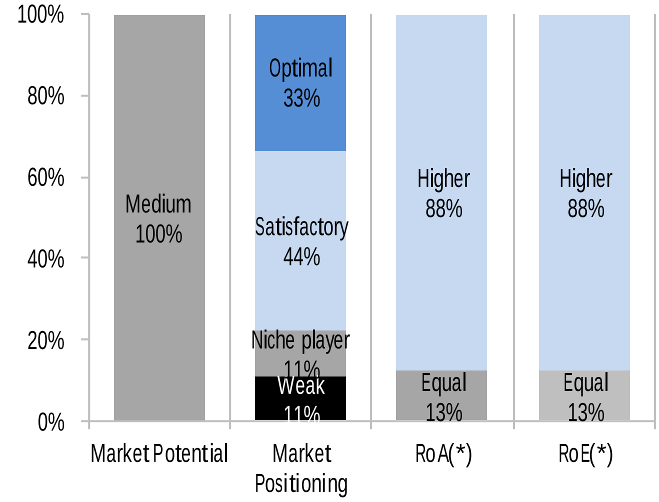
Nearly 90 per cent of the foreign banks present in the country plan to maintain or expand regional operations, showing strong commitment to the region.

All foreign banks with operations in Bulgaria see the market as have a medium potential (Figure 1). Following several years of strategic repositioning, the share of banks that consider their market positioning as satisfactory or optimal is very high (77 percent).

A large majority of parent banks assesses returns from operations in Bulgaria as higher than the overall group returns. This assessment has been very stable over the past four years.

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

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

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

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

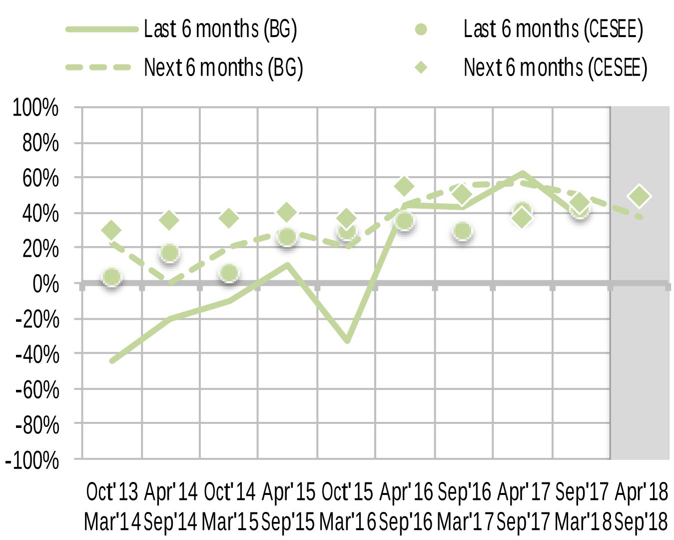
Aggregate demand developments

Having experienced significant weakness between 2013 and 2016, demand for loans in Bulgaria has gradually increased over the past two years as the economy improved. This strengthening has put loan demand broadly in line with the CESEE average.

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

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

Figure 2 **Demand side developments**

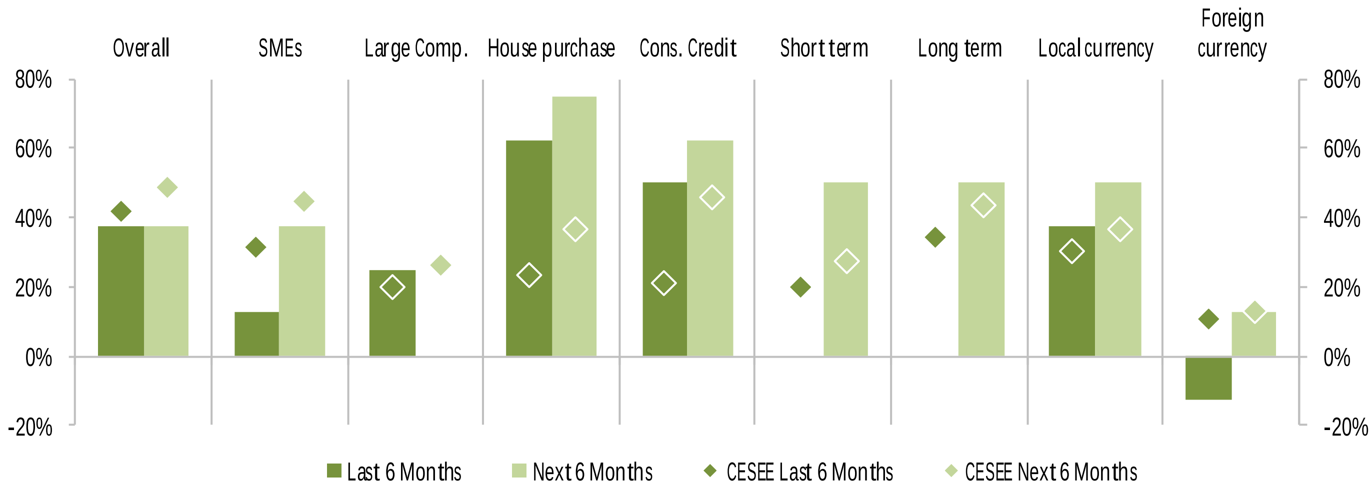


Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 Demand components and segments

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



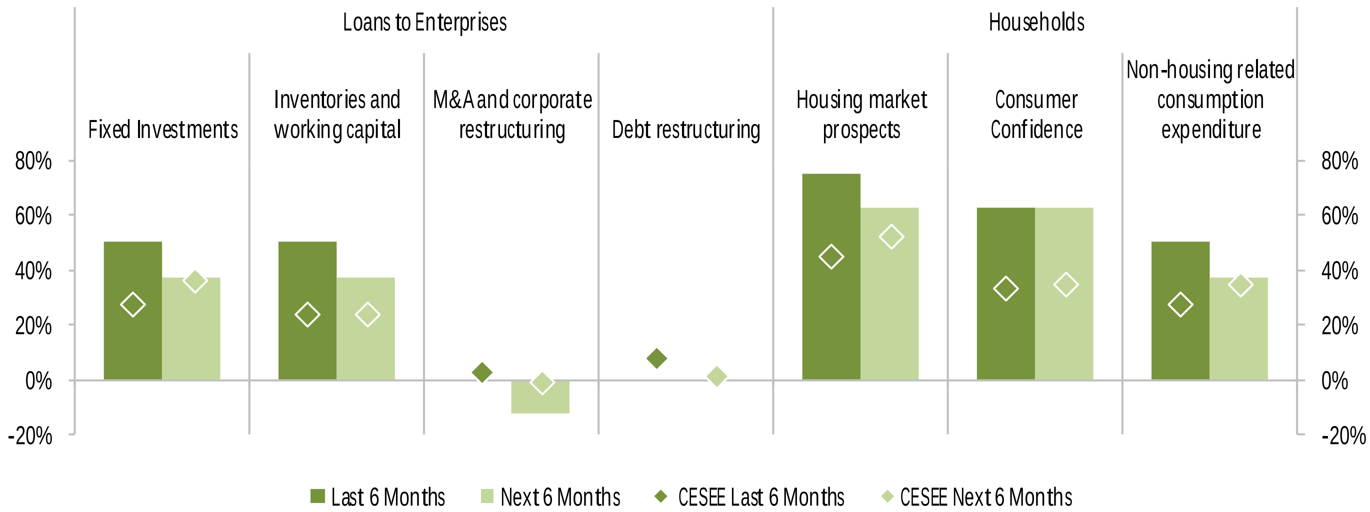
Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

Among the individual factors contributing to corporate credit demand, a net 50 per cent see fixed investment and working capital as positively contributing to improving demand. These two components are expected to continue their positive contributions in the next six months.

As in the previous survey waves, households demand for loans is underpinned by housing market expectations and consumer confidence in the last few months. The role of these drivers is expected to remain broadly the same in the coming two quarters.

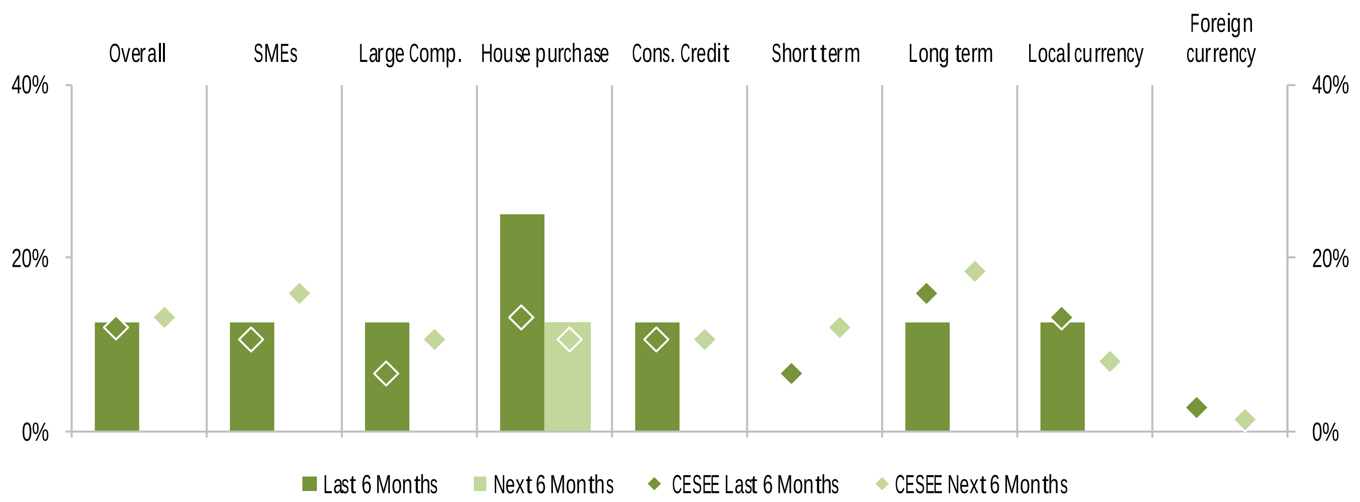


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 **Quality of loan applications**

Increasing demand for mortgage and consumer loans is accompanied by higher quality of loan applications in these two segments. Quality in remaining segments has improved, too. Looking forward, quality of loan applications is expected to remain stable across segments. Only applications for loans for house purchases are expected to increase in quality.



Source: EIB – CESEE Bank Lending Survey

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

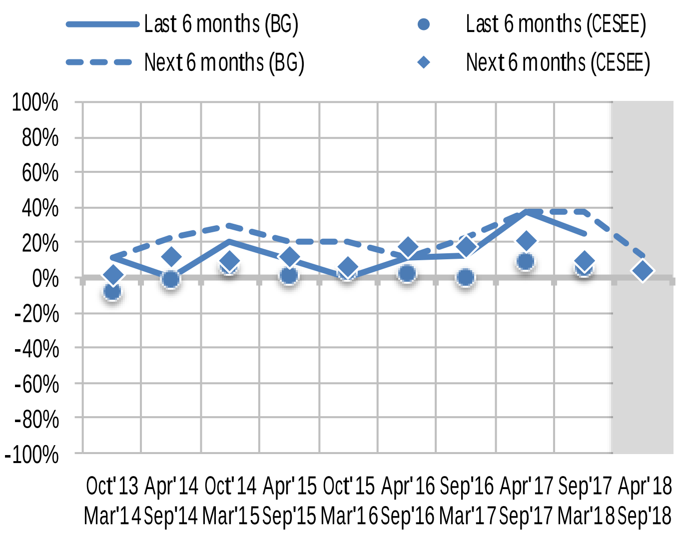
Aggregate supply developments

Until the first half of 2017, the dynamics of supply conditions in Bulgaria was similar to that of the aggregate CESEE region, where credit conditions have been stable over the past two years. The second half of 2017 marks a clear improvement in Bulgaria and local subsidiaries expect to sustain it at least over the next six months.

About 20 percent (net) of local subsidiaries assess credit supply conditions as improving in the last six months. This continuous the positive developments since 2015, remaining above the CESEE average.

Bulgarian banks have stepped up efforts over the past 18 months to improve the quality of their balance sheets by reducing the share of non-performing loans. This puts them in a position to relax loan conditions and expand their loan books after years of decline and stagnation.

Figure 6 **Supply developments**

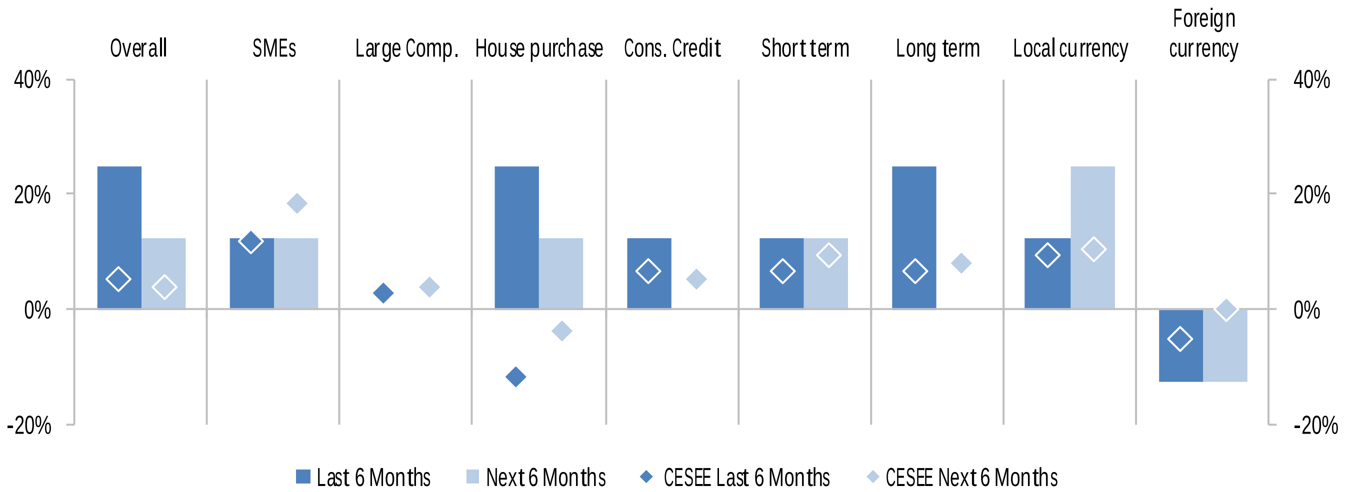


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

As in previous waves, the largest contribution to improving supply conditions comes from the mortgage loan segment. In the corporate sector, loans to SMEs have also benefitted from some improvements in supply conditions. A lower net share of local subsidiaries expects further improvements in the these two segments in the next six months and this improvement will most likely be associated with conditions on short-term loans.

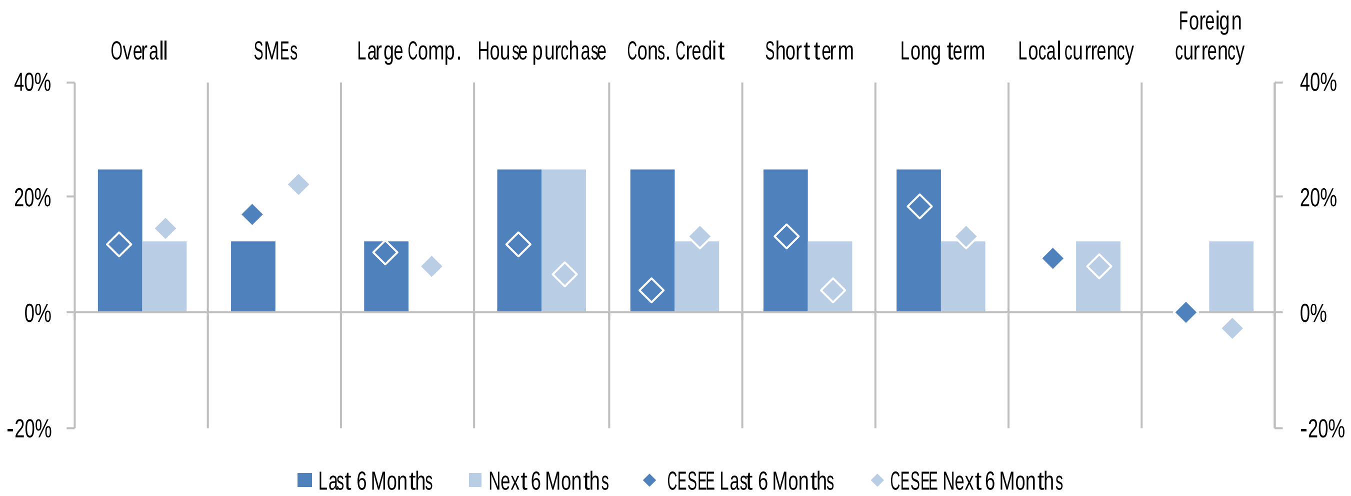


Source: EIB – CESEE Bank Lending Survey

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

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

Overall approval rates have also been assessed as improving by a quarter (net) of local subsidiaries. The retail sector has been the main beneficiary. Approval rates for house purchases and consumer credit in Bulgaria have been assessed as improving by about a quarter (net) of local banks. Ten per cent (net) of respondents see improvements in approval rates for corporate loans. Approval rates are expected to continue improving over the next six months in the retail segment and especially for house purchases.

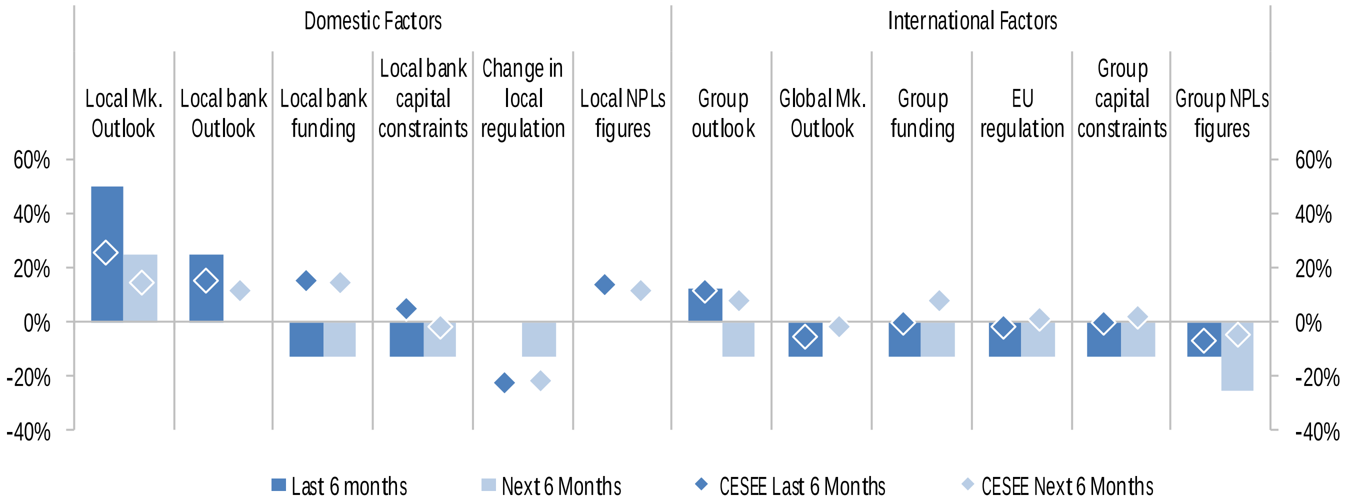


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

As in previous waves, domestic factors underpin the improvements in supply conditions. A fifth of respondents see the local market outlook the main positive contributor to supply conditions in Bulgaria. Funding and capital constraints continue to exert negative influence on supply conditions as in earlier waves. International factors, pertaining to parent banks remained a drag to supply conditions.



Source: EIB – CESEE Bank Lending Survey.

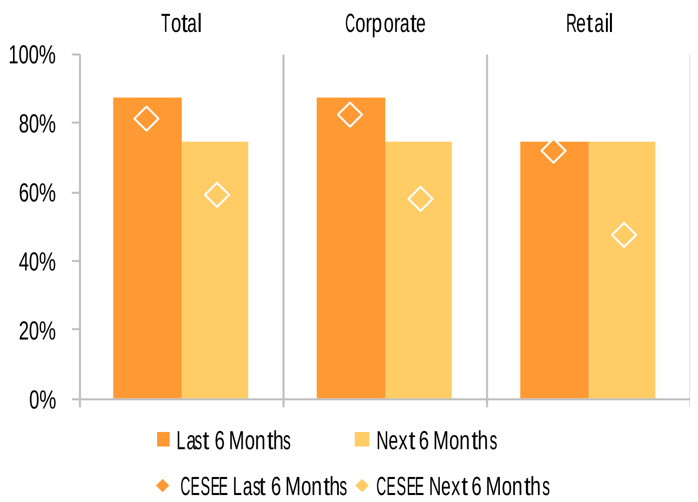
Note: Net percentage; positive figures refer to a positive contribution to supply. See Question B.Q4 in the Annex

Figure 10 Non-performing loan ratios

High share of non-performing loans has been a major factor for tight credit conditions since the beginning of the global financial crisis in 2008. Until recently, banks have been reluctant to reduce NPLs, but this seems to have changed in 2016.

In 2017 and early 2018, banks continued to report improving NPL figures across institutional sectors. Hard data confirms this: NPL ratios have been coming down throughout 2016 and 2017. They nevertheless remain among the highest in the region. Like in 2016-2017, restructuring of corporate portfolios has had a bigger contribution.

Developments in overall NPL figures over the past six months are expected to continue in the near future. This is broadly similar to what is observed in the CESEE region on average.

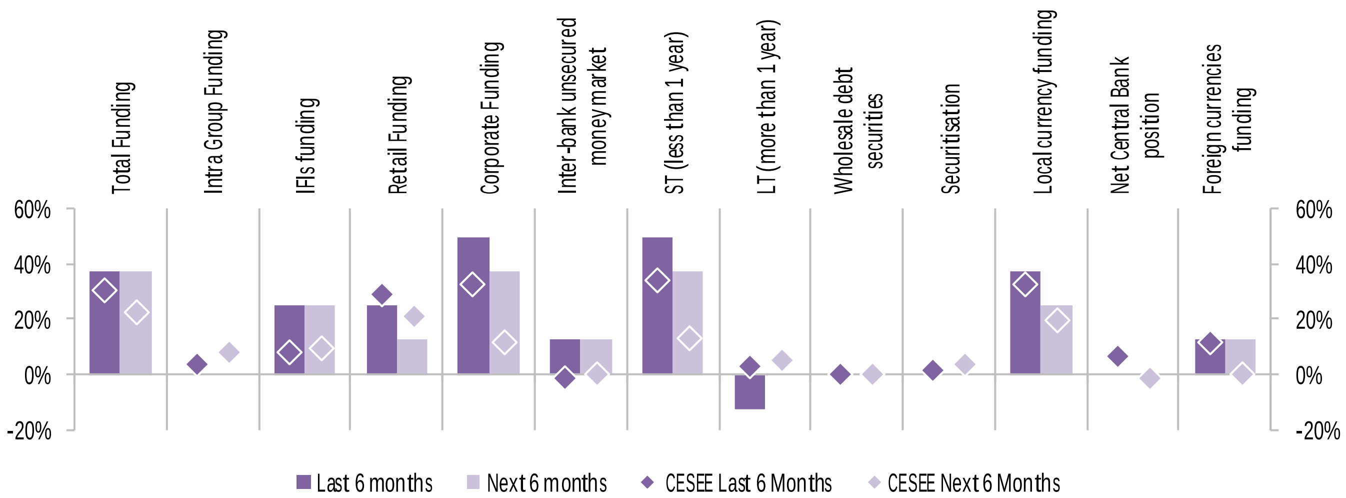


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

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



Source: EIB – CESEE Bank Lending Survey.

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

Croatia

Credit demand increased and supply remained neutral. NPLs restarted to improve but liquidity conditions deteriorated.

Summary

Group assessment of positioning and market potential: All parent banks declared that their subsidiaries perform below those of the overall group operations, in terms of return on equity. Still, two third of parent banks consider the Croatian market potential as medium and all of them consider their market positioning as satisfactory or optimal.

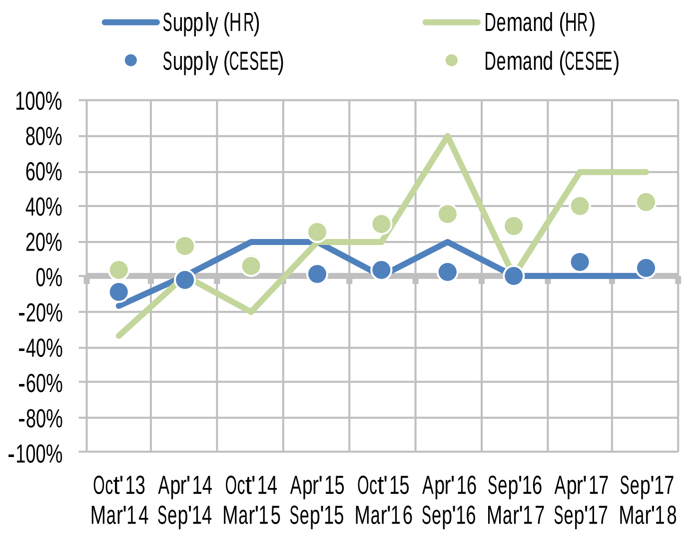
Credit demand has increased further over the last six months while **credit supply conditions** remained neutral. Credit supply conditions are persistently lagging behind credit demand.

Credit supply conditions remained neutral. Still, they have eased considerably for short-term consumer loans. On the other hand, the supply of loans for house purchase tightened. Credit standards are expected to ease on overall for the next period.

Demand for loans has increased across most components, except large companies' loans. All demand components and segments contributed positively to loan demand during the last six months, except fixed investments investment.

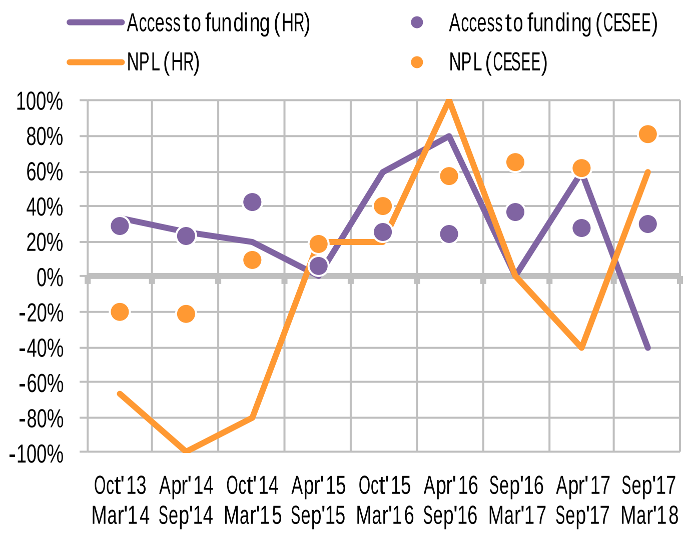
Access to funding has deteriorated over the last six months, mainly due to lower IFIs funding in foreign currency. On the contrary, short-term funding in local currency improved.

NPL figures have improved for both corporate and retail loans over the last six months. The improvement is expected to continue for the next six months.



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

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

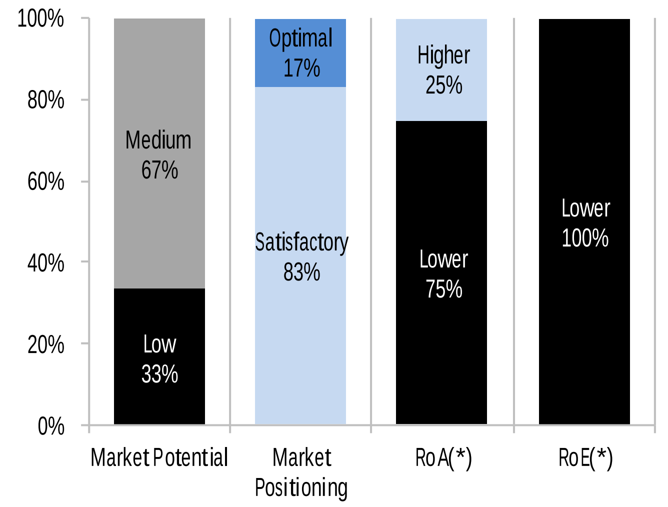
Results of the Bank Lending Survey – Parent banks level

The revival in non-performing loans and its necessary provisioning took its toll on profitability of banks in Croatia. All parent banks declared that they perform below those of the overall group operations in terms of return on equity (adjusted for the cost of equity), compared to the 50%, 6 months ago. Still, some 25% of parent banks declared that Croatian banks has a higher return on assets compared to those on the group level.

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

The share of parent banks that considers their current market position as optimal has declined further to 17 percent from 33 percent, 6 months ago (and 50 percent one year ago). However, all of them considers their market positioning at least satisfactory.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

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

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

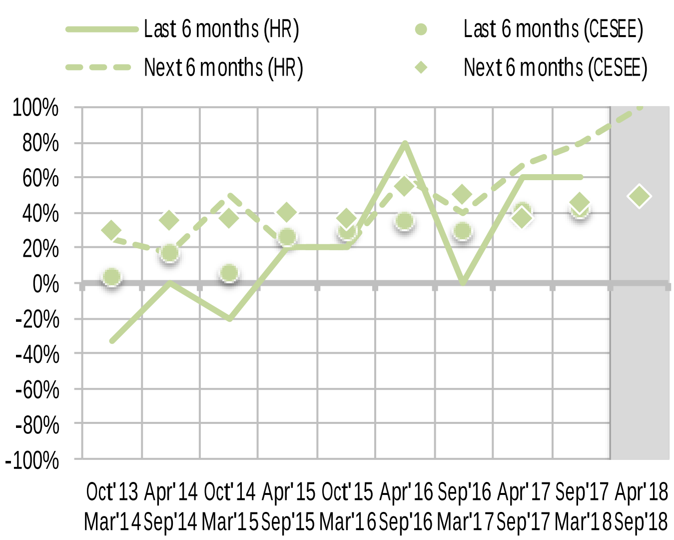
Aggregate demand developments

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

Consumption has been boosted by the improving labour market and the tax easing at the end of 2016. Moreover, investment has been the driver of the economic growth for the last two years and further more to come with the pick-up in the EU funding cycle.

Confirming the macroeconomic trends, local banks expect the credit demand to increase further, above the CESEE average.

Figure 2 **Demand side developments**

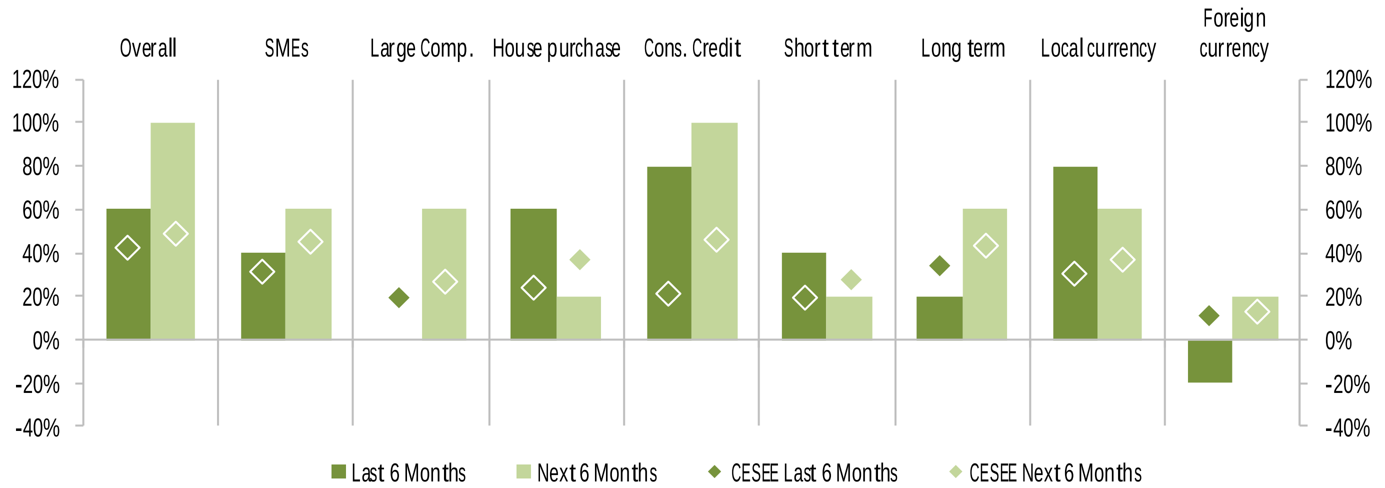


Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 Demand components and segments

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

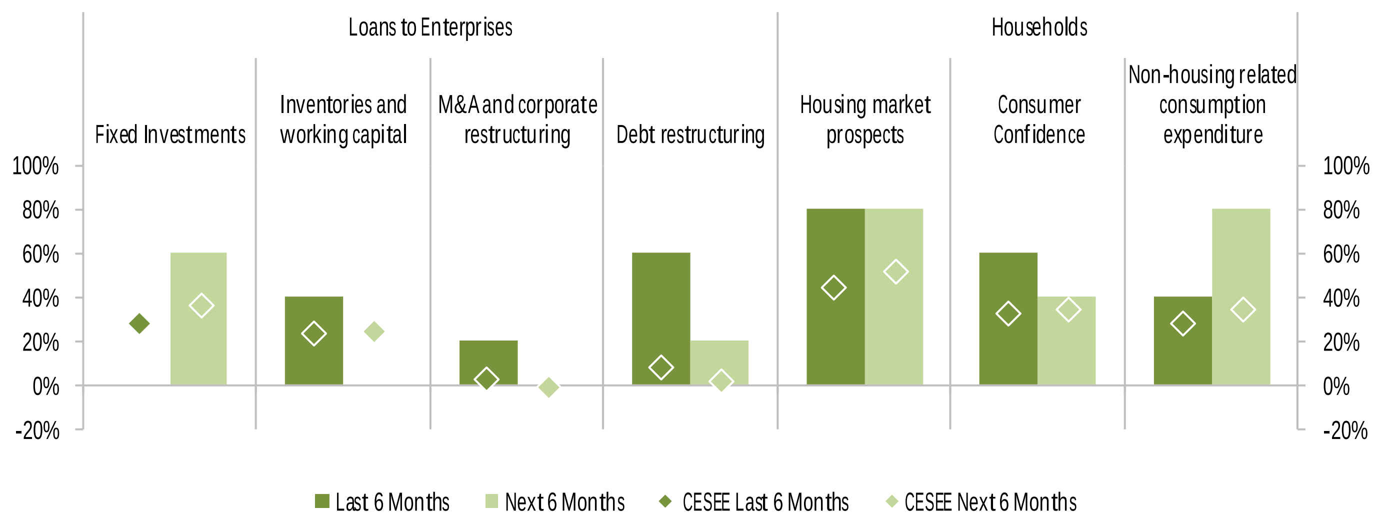


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

On the households side, all segments contributed positively to loan demand during the last six months. Regarding the enterprises'segment, debt restructuring was the major driver, but financing need of working capital and M&A activity contributed also positively. For the next six months, a rebound in demand is expected for fixed investments, while consumption expenditures and house market prospects are leading the trend. Debt restructuring, with some softening, remains above the regional average.

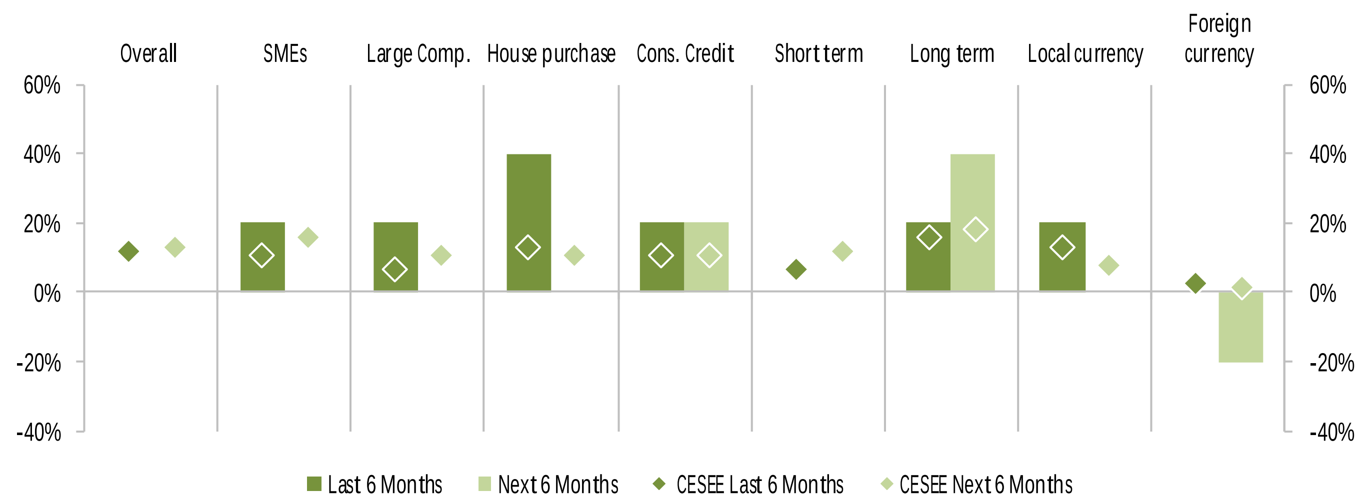


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 **Quality of loan applications**

The quality of overall loan applications has remained unchanged during last six months and no change is expected over the next period. Still, it has been improving the quality of applications for house purchase loans and consumer credit. The quality of applications for loans for SMEs and Large companies improved also, and runs above the CESEE average. Regarding the next six months, improvements are expected for the quality of consumer loans and long-term loans.



Source: EIB – CESEE Bank Lending Survey

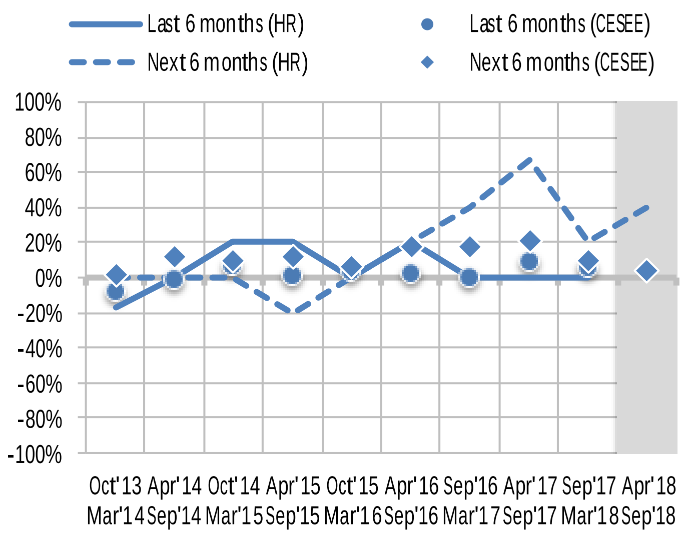
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit supply developments in Croatia have remained neutral and continue to lag behind credit demand, despite the continuous positive expectation.

For the next six months, lending standards are expected to ease.

Figure 6 **Supply developments**

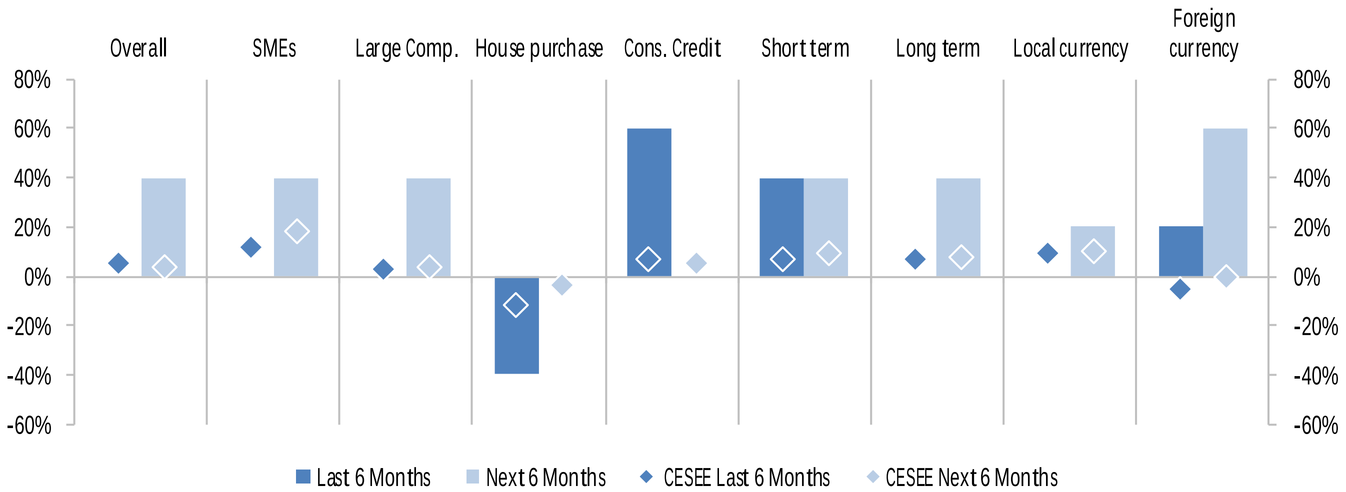


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Overall, credit supply conditions have remained broadly neutral over the last six months. Still, they have eased considerably for short-term consumer loans. On the other hand, the supply of loans for house purchase have been tightened. Credit standards are expected to ease in the next six months for enterprises, both large companies and SMEs.

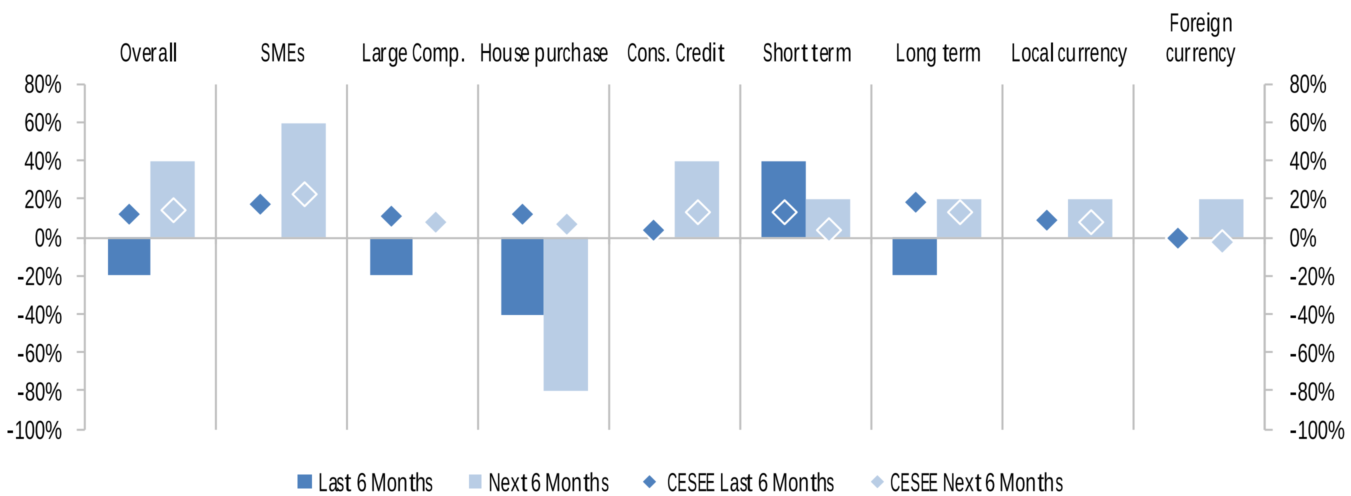


Source: EIB – CESEE Bank Lending Survey

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

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

Overall approval rates have decreased in Croatia during the last six months, and they have been less favourable than in the CESEE region. Only short-term loans have increased in the banks' approval rate. On the contrary, loans for large companies, long-term loans and those for house purchase have experienced a net decline in the approval rate. Over the next six months, the overall approval rate is expected to improve, except for house purchase loans.



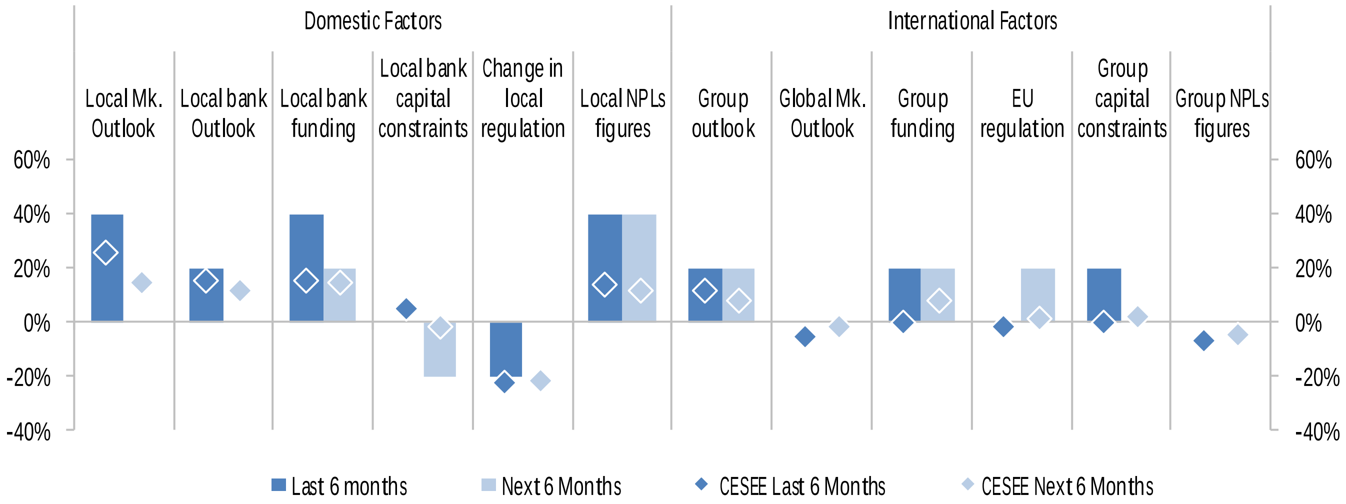
Source: EIB – CESEE Bank Lending Survey

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

Figure 9	Factors contributing to supply conditions

The positive local market and bank outlook contributed positively to the credit supply conditions, just as the bank funding and the evolution of the NPL. Nevertheless, the change in local regulation are dragging down on domestic credit standards. Local capital constraints had no impact on supply conditions.

Among the international factors, group outlook, group funding and capital requirements on the group level contributed positively to credit supply conditions in Croatia.



Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 Non-performing loan ratios

NPL ratio improved over the last six months after the previous period worsening. Agrokor's operations have been resumed after the government took over last year the company's administration, thus reducing the risk of a chaotic restructuring. Nevertheless, the outcome is still uncertain and creditors might suffer further losses. Until July 2018 the state administration should reach a final deal with creditors.

Despite improvements, the level of NPL in Croatia is one of the highest in the region, at 11.4 percent overall and even higher for non-performing corporate loans at 22.3 percent as of end 2017.[1] The write-off of NPLs has been enhanced through a one-off tax-treatment in 2016, but implementation is still ongoing.

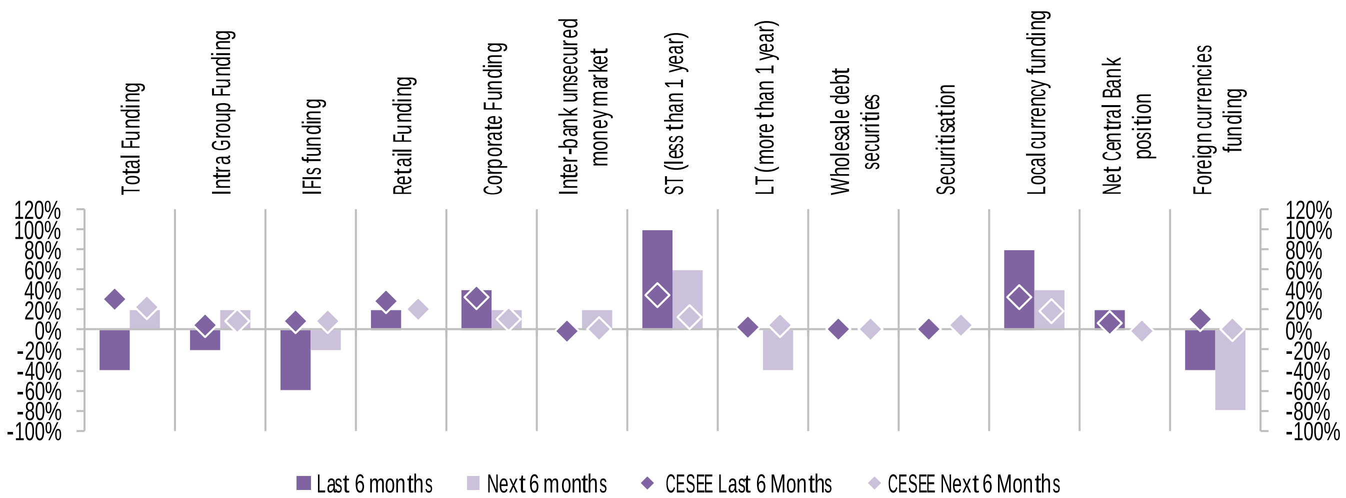
The progress on NPLs reduction is expected to continue.

Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Access to funding of Croatian banks deteriorated during the last six months in line with expectations of previous survey. While the retail and corporate deposits contributed positively to banks' funding, the funding sources from IFIs and intra-group decreased during the last six months. Access to short-term and local currency funding of the Croatian banks has been improving and is expected to continue in the next period.



Source: EIB – CESEE Bank Lending Survey.

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

[1] WIW database based on CNB

Czech Republic

Profitable market, funded mostly from local deposits. Loan demand has been slightly softening, mainly related to mortgages, on the back of monetary policy normalization and prudential recommendations. Lending standards tightened on mortgages.

Summary

Group assessment of positioning and market potential: Majority of banks operating in the Czech Republic envisage high to medium market potential and vast majority regard their current market positioning as optimal or satisfactory. Local bank profitability is higher than at the group level.

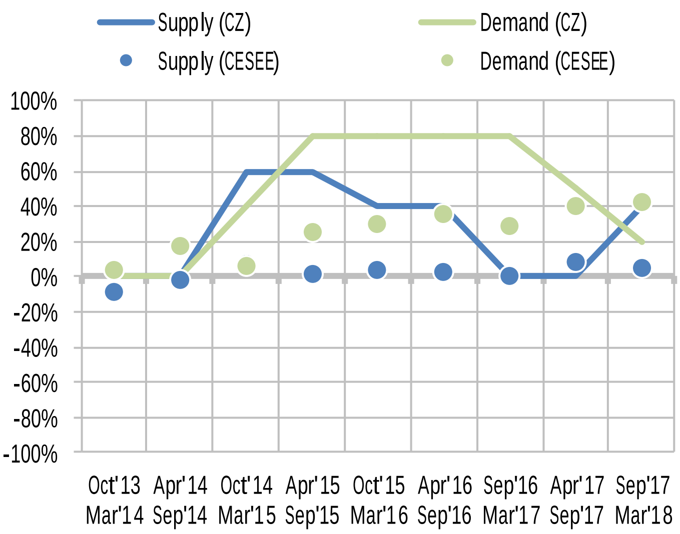
Czech banks report that **easing of lending standards has been surpassed the strength of the overall loan demand**, while the opposite interplay is seen for CESEE overall. Over the next six months, the net increases of credit demand should stabilize at low levels, while credit standards will be easy. Both demand and supply credit factors are beginning to signal a turn on the Czech housing market.

On the **credit supply** side the lending conditions have again moved from neutral to easy and they are expected to remain easy over the next six months. However, credit standards for house purchase loans have tightened during the last six months and are expected to tighten further.

Credit Demand in the Czech Republic has decreased for house purchase loans in line with the gradual normalization of monetary policy conditions and the banks' adjustment to the macro-prudential recommendations on mortgages by the Czech National Bank. Credit demand for corporate loans and loans to SMEs remains strong.

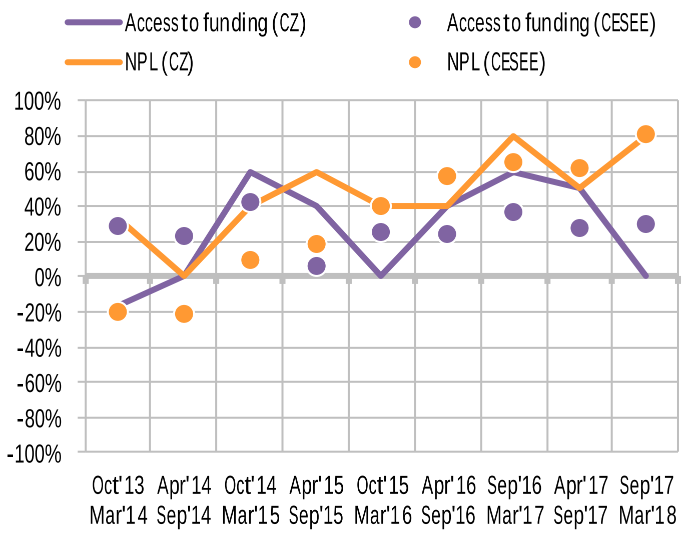
Access to funding has turned more neutral for bank subsidiaries in the Czech Republic in the last six months and is expected to remain unchanged over the next six months. The Czech banking sector is predominantly funded by domestic corporate and retail deposits.

NPL figures have improved recently, and further NPL reduction is expected going forward.



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

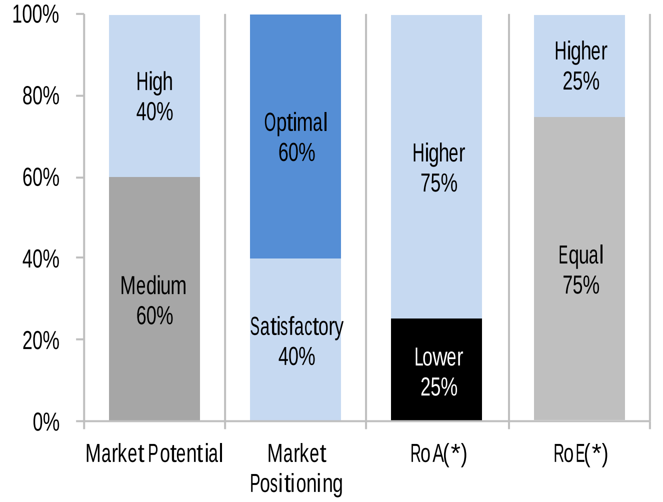
Note: All indicators in net percentages; Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

In comparison to the previous six months, a smaller share of banks located in the Czech Republic reports higher profitability than their parent groups. In particular, in return on equity terms (adjusted for cost of equity), the share of banks having higher ROE than their parent group dropped from 80 percent in the previous period to 25 percent.

Nevertheless, still 40 percent of the local banks see high market potential in the Czech Republic and 60 percent of them regard their current market positioning as optimal.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

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

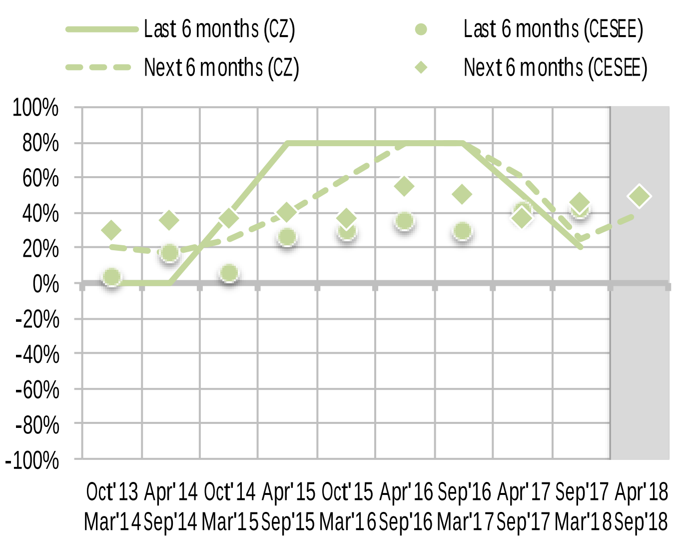
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Loan demand keeps on weakening, as the net increases in the loan demand have been consecutively smaller in the two subsequent periods of the survey.

Currently, the loan demand is less strong than is the CESEE average. Going forward, local banks expect some stabilization of the loan demand during the next six months to get more in line with the CESEE average.

Figure 2 **Demand side developments**

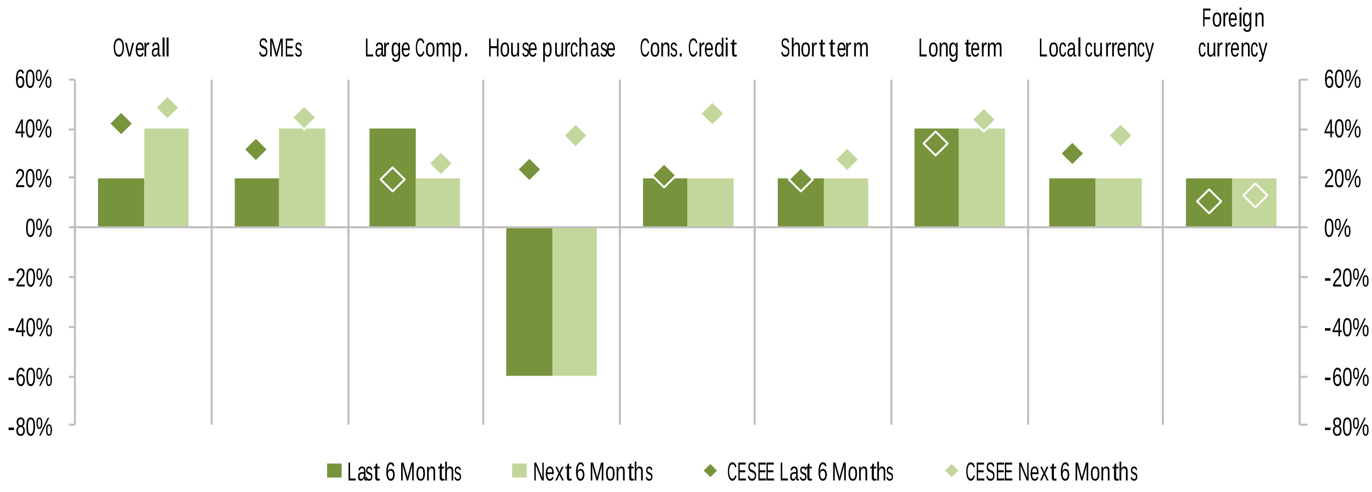


Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 Demand components and segments

Demand for house purchase loans is the main factor behind the slowdown in the total loan demand dynamics. House purchase loans have registered a net decline in demand during the last six months (in line with the previous period's expectations) and the same is expected for the next six months. This seems to correspond to the gradual normalization of monetary policy conditions and the banks' adjustment to the macro-prudential recommendations on mortgages by the Czech National Bank.

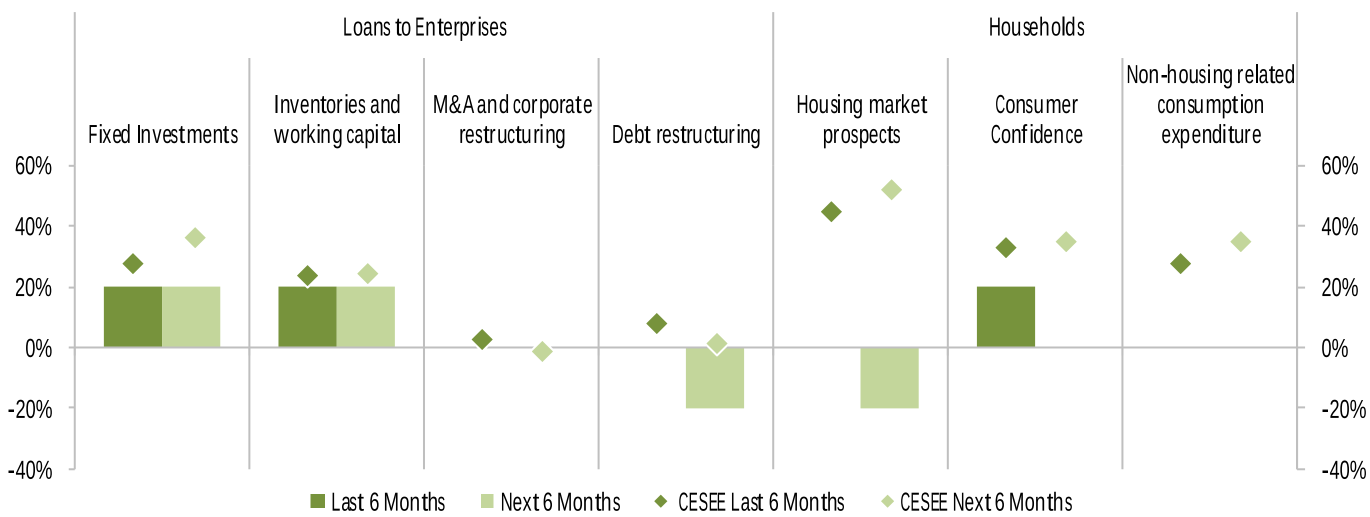


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

While fixed investments continue to exhibit a positive influence on loan demand, corporate debt restructuring is expected to have a negative impact on loan demand. On the households' side, the effect of housing market prospects has turned from positive to neutral during the lasts six months and is expected to become negative in the next six months. Consumer confidence, while having a positive impact on loan demand, is expected to become more neutral.

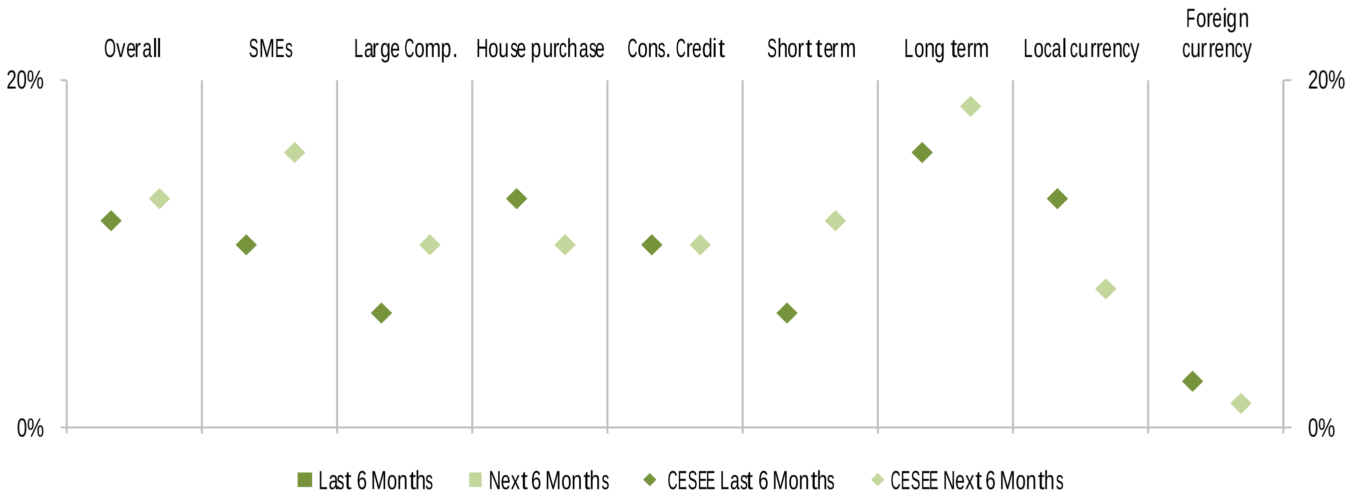


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

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



Source: EIB – CESEE Bank Lending Survey

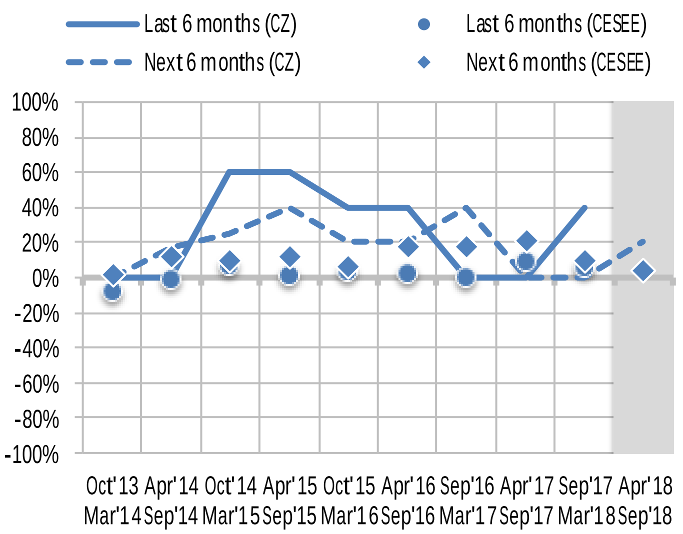
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

After two consecutive six-month periods of neutral lending conditions, the credit standards have eased during the last six months. This easing was stronger than the CESEE average.

Going forward, the expectations series points to a further, albeit smaller, easing over the next six months – above the CESEE average.

Figure 6 **Supply developments**

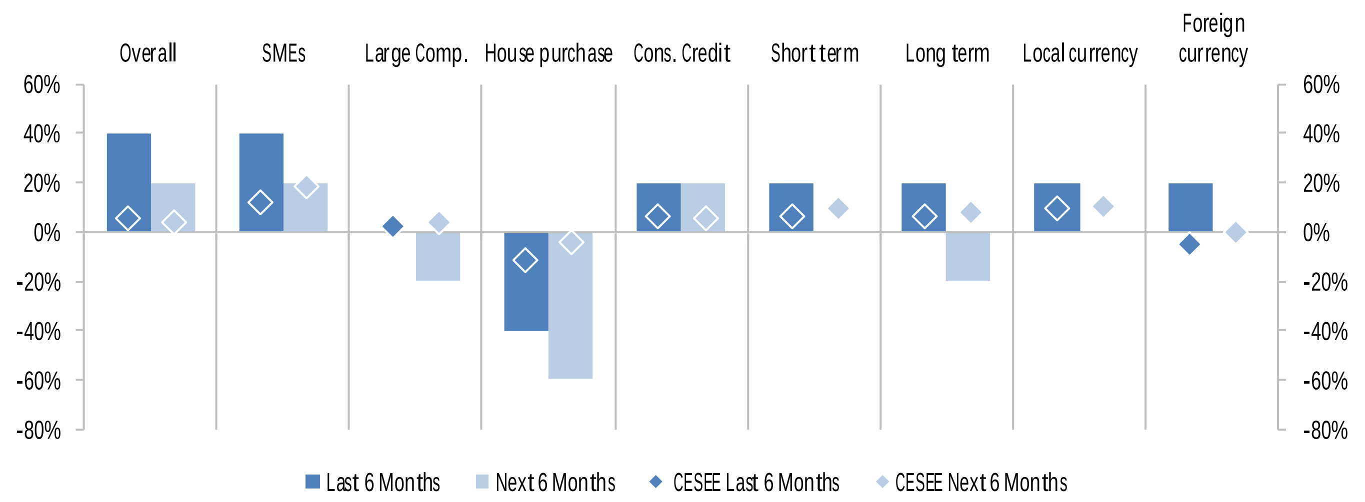


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

In line with previous expectations, credit standards have tightened for house purchase loans over the last six months and are expected to tighten even further in the next six months, more than the CESEE average. Credit standards for large corporate loans and long term loans are also expected to tighten somehow. On the other hand, credit standards for loans to SMEs and for consumer credit have eased during the last six months and are expected to ease slightly also over the next six months. Banks' collateral requirements for house purchase loans have also become tighter.

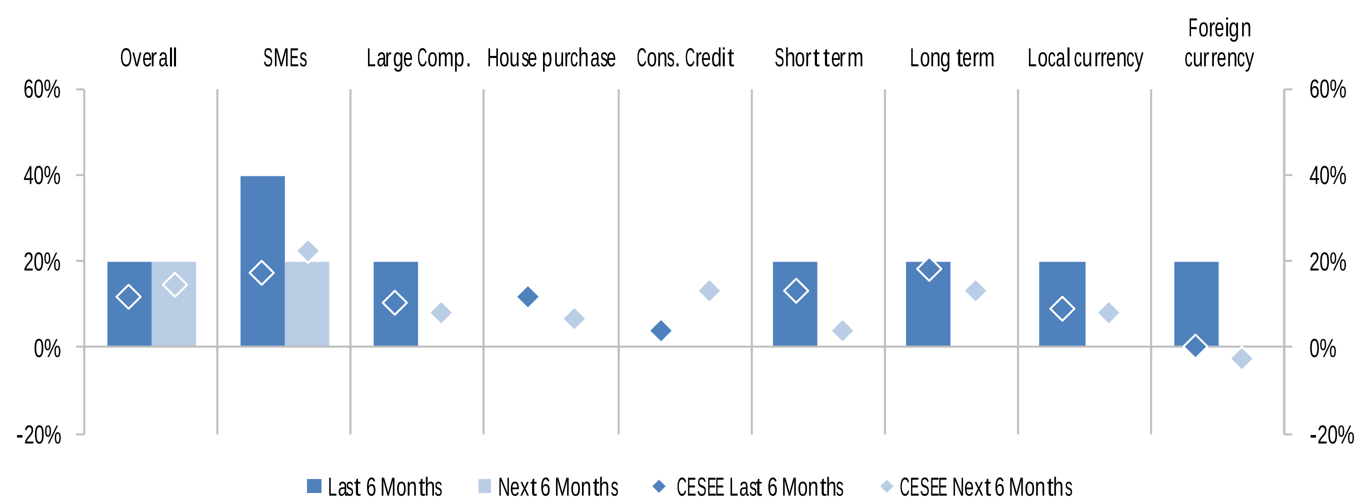


Source: EIB – CESEE Bank Lending Survey

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

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

Overall banks' loan approval rate has increased during the last six months. Loans to SMEs registered the largest increase in approval rate, followed by loans to large corporates (for both above the CESEE average). Going forward, the overall approval rate is expected to increase further, mainly for loans to SMEs. The approval rate for house purchase loans and consumer credit registered no net changes during the last six months, and the same pattern is expected over the next six months.

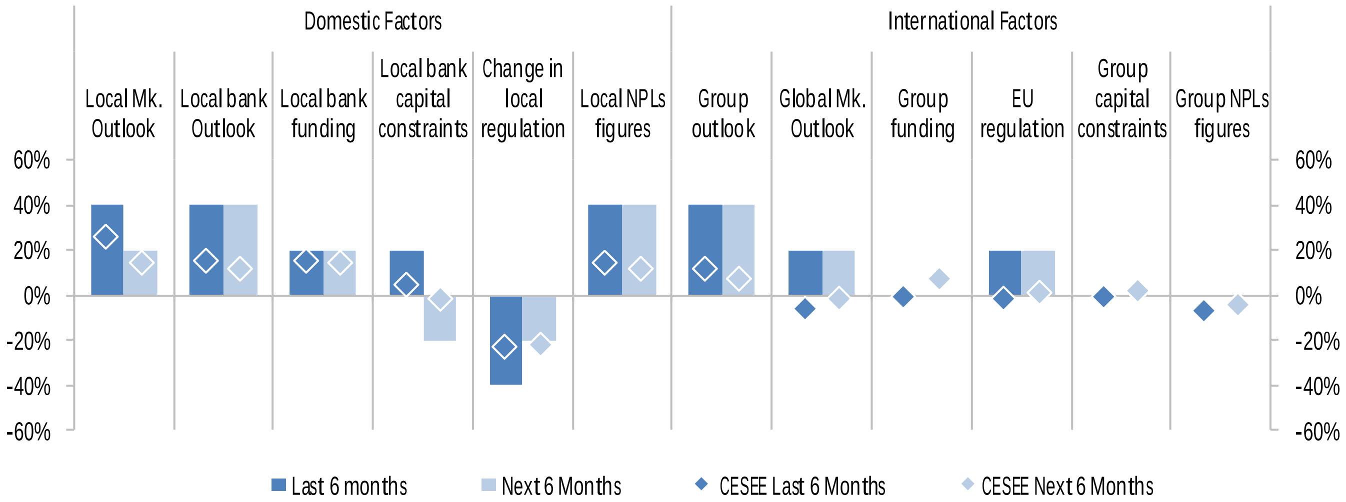


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 **Factors contributing to supply conditions**

As in the previous six-months periods, changes in local regulation have been the only factor contributing negatively to credit supply conditions over the last six months. Further negative contribution of local regulation is expected for the next six months, together with a negative contribution of local bank capital constraints. On the other hand, local market outlook, local bank outlook, local bank funding as well as group outlook, group market outlook and EU regulation continue having positive contribution to credit supply conditions in the Czech Republic.



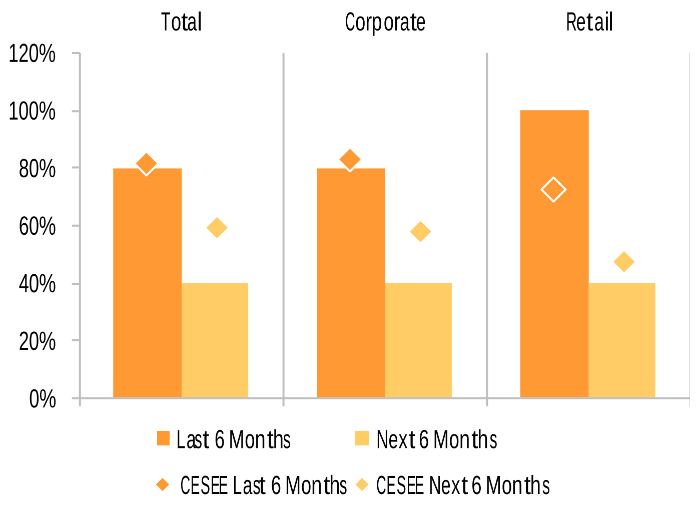
Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 Non-performing loan ratios

Total NPL reduction in the Czech Republic has continued during the last six months. The reduction in retail non-performing loans has been the most prominent and above the CESEE average.

Over the next six months, both corporate and retail NPL reduction is expected to continue, albeit at a somehow slower pace than the CESEE average.

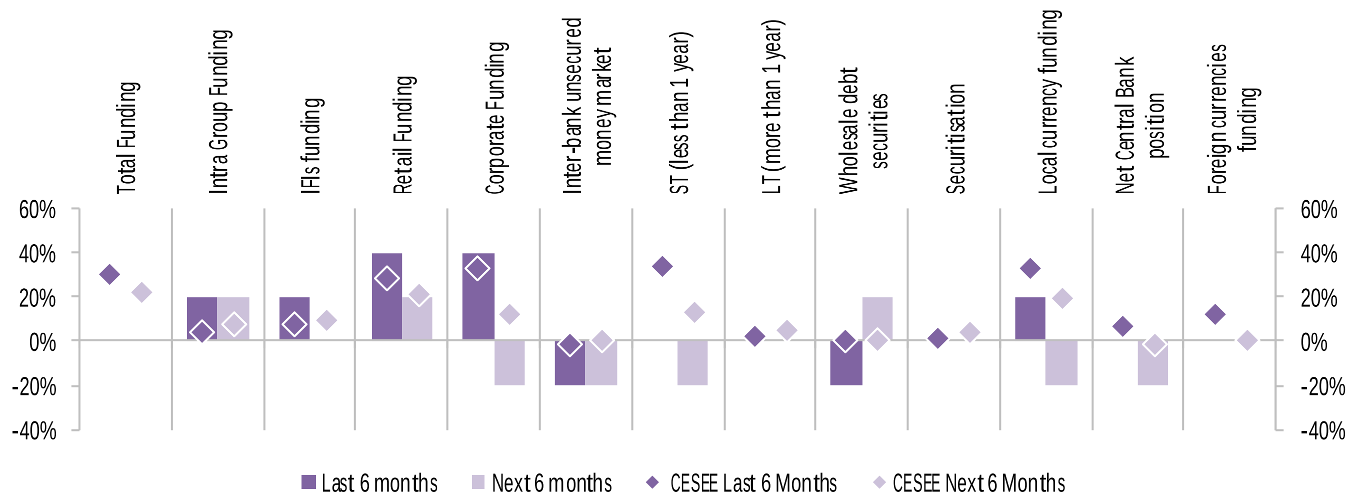


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Access to funding of the Czech banks has turned more neutral during the last six months (below the CESEE average). Retail and corporate deposits remain the strongest pillars of banks' access to finance. On the other hand, access to interbank money market and wholesale debt securities funding worsened. Over the next six months, while overall access to funding is expected to remain unchanged, intragroup and retail deposit funding are expected to increase, but access to corporate deposits, interbank money market, local currency funding is expected to deteriorate.



Source: EIB – CESEE Bank Lending Survey.

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

Hungary

The Hungarian market continues to be characterised with dynamically improving credit demand and supply conditions lagging somewhat behind. Parent banks' assessment of the market potential has gradually improved, and now is in line with Visegrad peers.

Summary

Group assessment of positioning and market potential: Parent banks in general consider the Hungarian market to have medium potential within the CESEE region, and put it somewhat behind the rest of the Visegrad 4 group. More than 50 percent of the banking groups find that their position in the Hungarian market is satisfactory or optimal. Risk-adjusted returns on equity and assets marginally exceed those of the overall group operations.

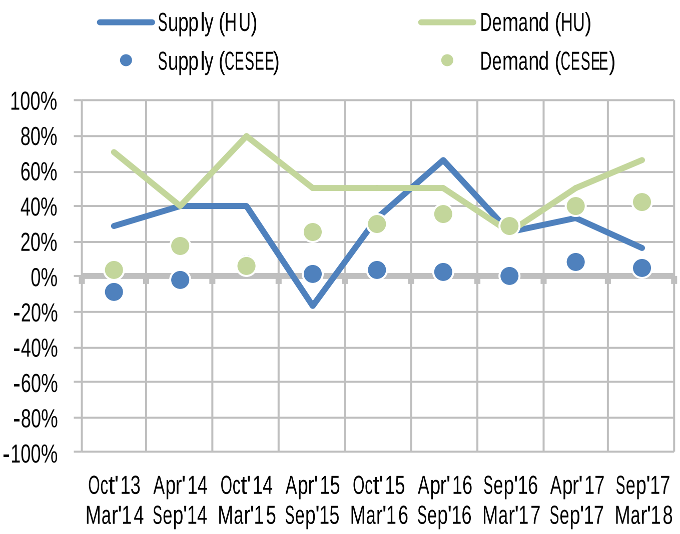
Hungarian banks report both **credit demand has been improving dynamically** over the last six months, while the improvements in **credit supply conditions has been somewhat lagging behind**.

Credit supply conditions have been improving in the last six months, and more so than for the rest of the CESEE. Banks expect to see further improvements again – although less dynamic – in the near future.

Demand for loans has also been increasing dynamically across the whole spectrum of products and segments over the last six months.

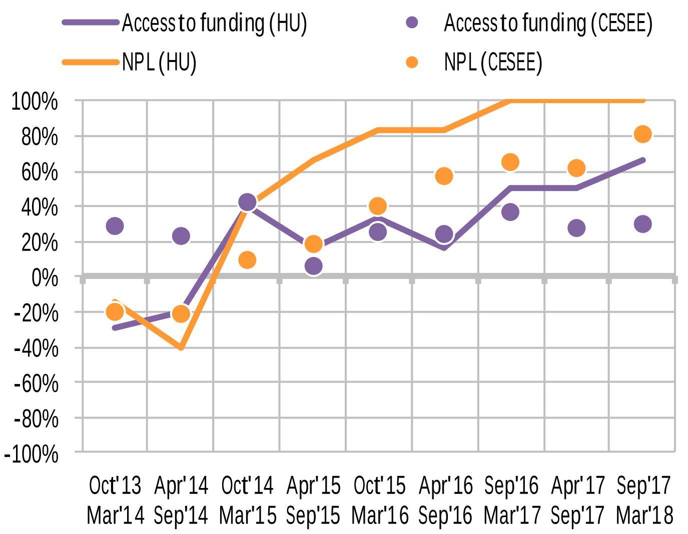
Access to funding: Overall access to funding by Hungarian banks improved in line with the CESEE region. The improvement is due chiefly to domestic sources; both retail and corporate funding have been contributing strongly to that.

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



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

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

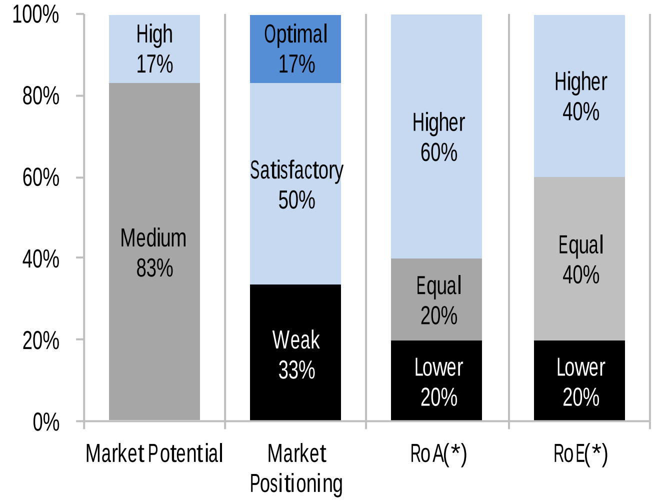
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Hungary show a strong commitment towards the region. The overwhelming majority of the banking groups present in the country plan to selectively expand their operations in CESEE.

Most parent banks consider the Hungarian market to have medium potential. This reflects a slow but steady improvement in the assessment over the last 2 years, and Hungary is now broadly in line with the rest of the Visegrad 4 peers.

More than 50 percent of the banking groups find that their position in the Hungarian market is satisfactory or optimal, yet almost 30 percent of the groups find it weak. Parent banks find that risk-adjusted returns on assets and equity are marginally higher, compared to overall group operations.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

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

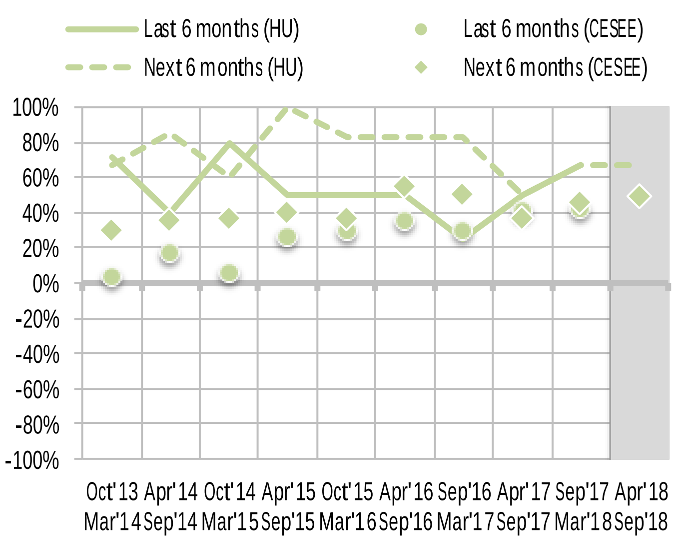
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Hungarian banks continue to report a strengthening of credit demand for the past six months – in line with their previous expectations. They expect further increase in demand for the forthcoming period.

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

Figure 2 **Demand side developments**



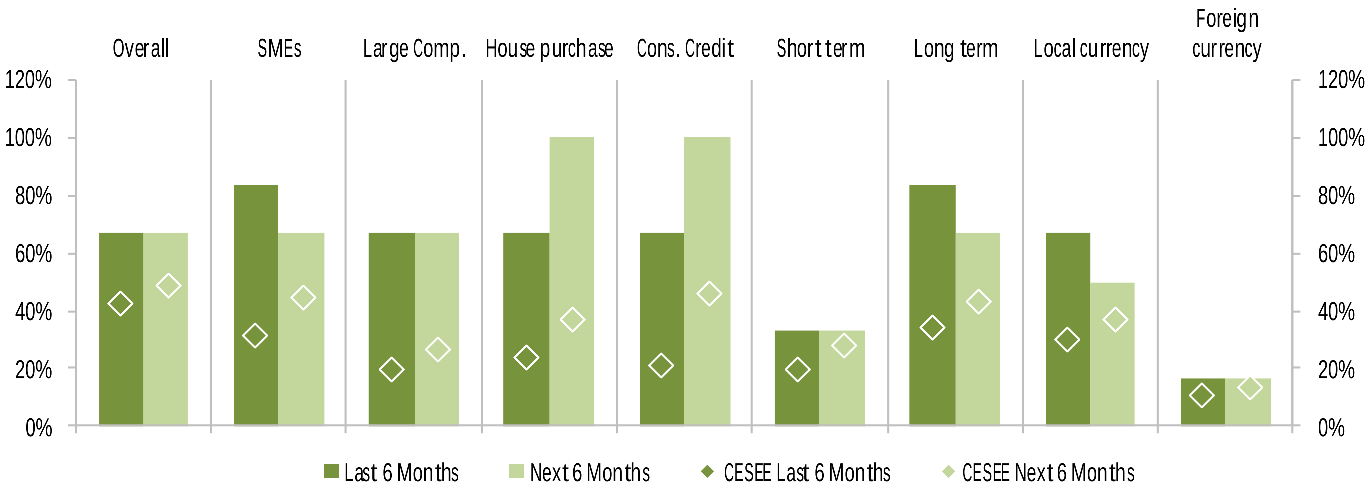
Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 Demand components and segments

Increasing in demand is observed in all market segments and subcategories. Demand is expected to strengthen even more for households, both for home loans and consumer credit.

Loan demand is more dynamic for the longer maturities than for short-term banking products. The survey data also indicates a strong preference towards borrowing in Hungarian forint versus foreign currency denominated loans, although a mild increase is expected for the foreign currency loan demand, too.



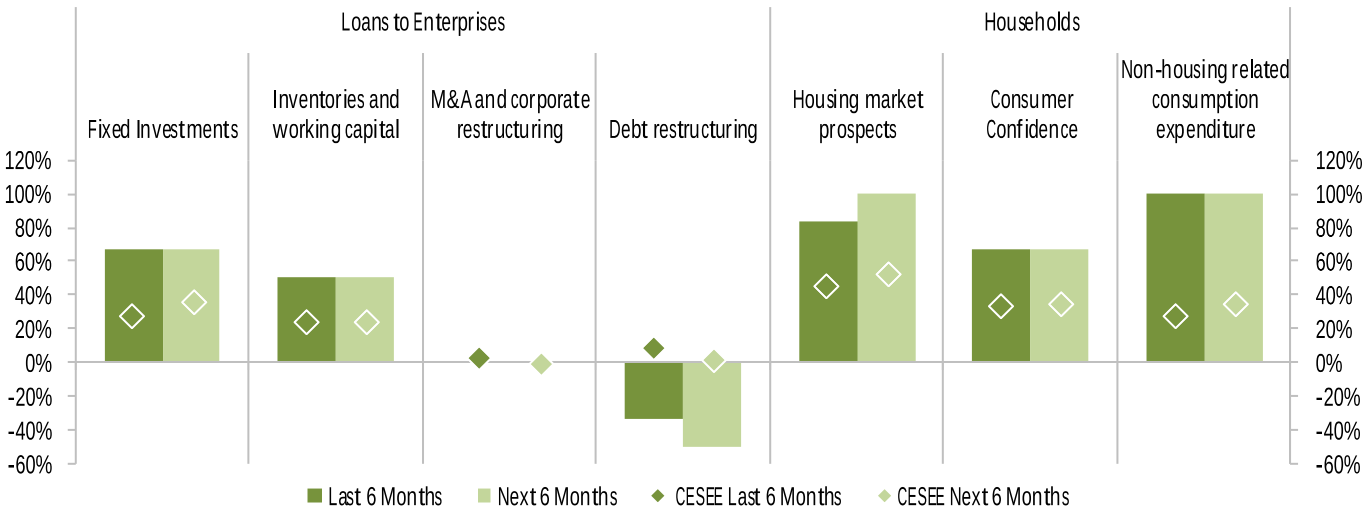
Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

When looking at the individual factors, both investment and working capital has been driving the demand for loans in the corporate sector. Demand related to acquisitions has been stagnating, while demand stemming from debt restructuring is on the decline.

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

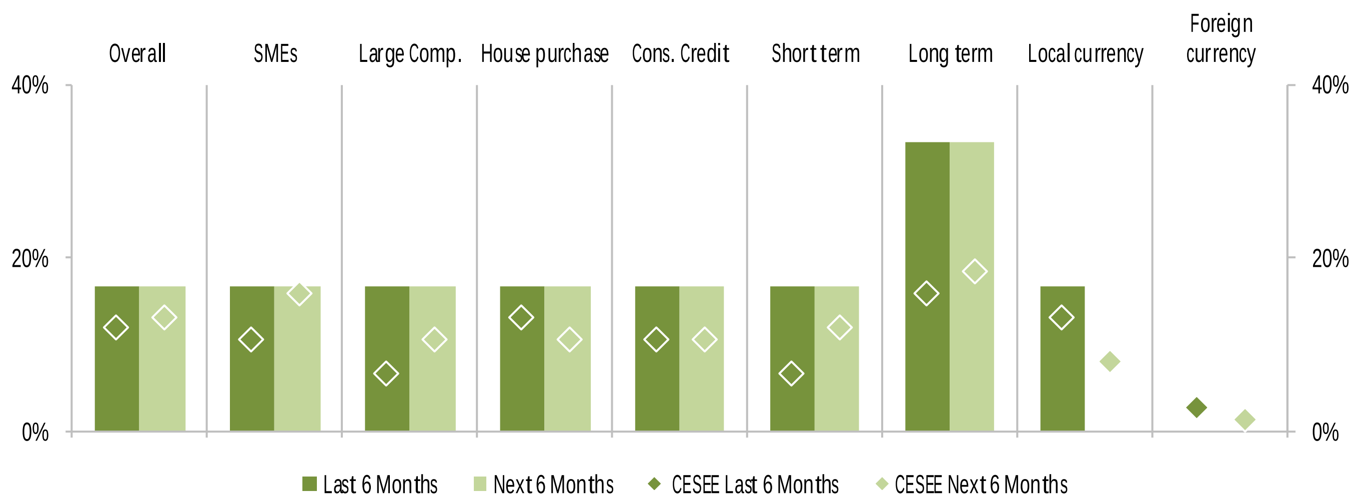


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

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



Source: EIB – CESEE Bank Lending Survey

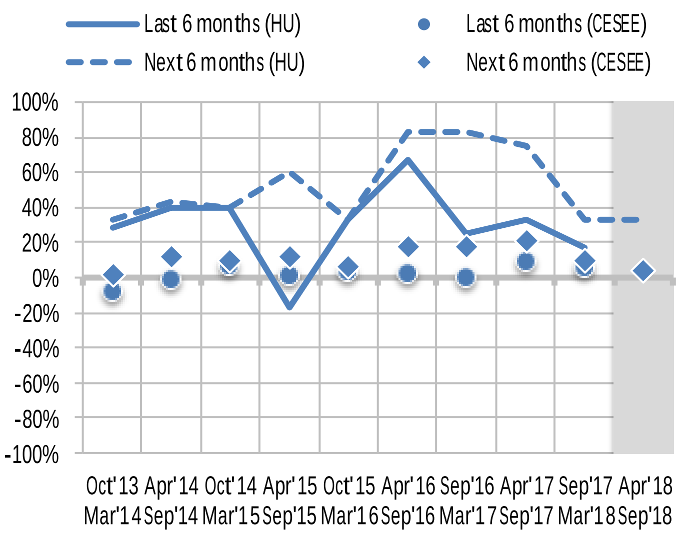
Note: Net percentages - positive figures refer to increasing quality of demand. Full question see B.Q6 in the Annex

Aggregate supply developments

Credit supply conditions have been easing somewhat further in the last six months. Nevertheless, the improvement was clearly less pronounced than the perceived increase in credit demand, and stayed also below earlier expectations. When looking ahead, banks are expected to see further mild increase in the supply again in the near future, similar in magnitude to earlier projections.

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

Figure 6 **Supply developments**

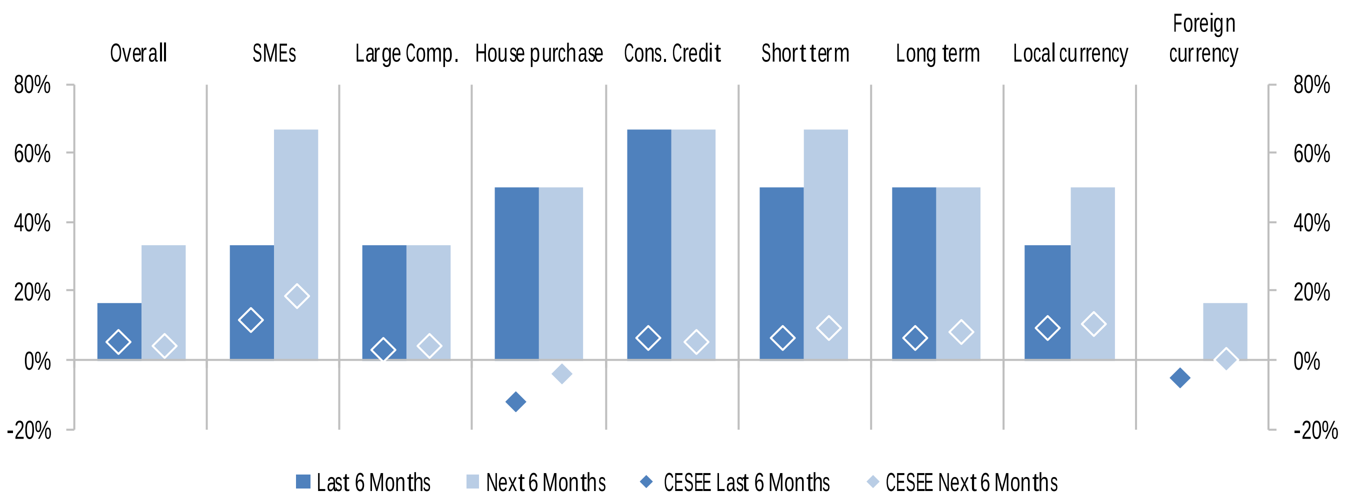


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Although credit supply conditions have been improving in all segments, the strongest positive developments can be observed in the case of products targeting households, and consumer credit in particular. Credit supply conditions for the corporate sector have been improving at a slower pace. Supply for large companies is expected to stagnate in the next six months, whereas the lending growth is forecasted to pick up for SMEs . The expected improvements are clearly above the CESEE average.

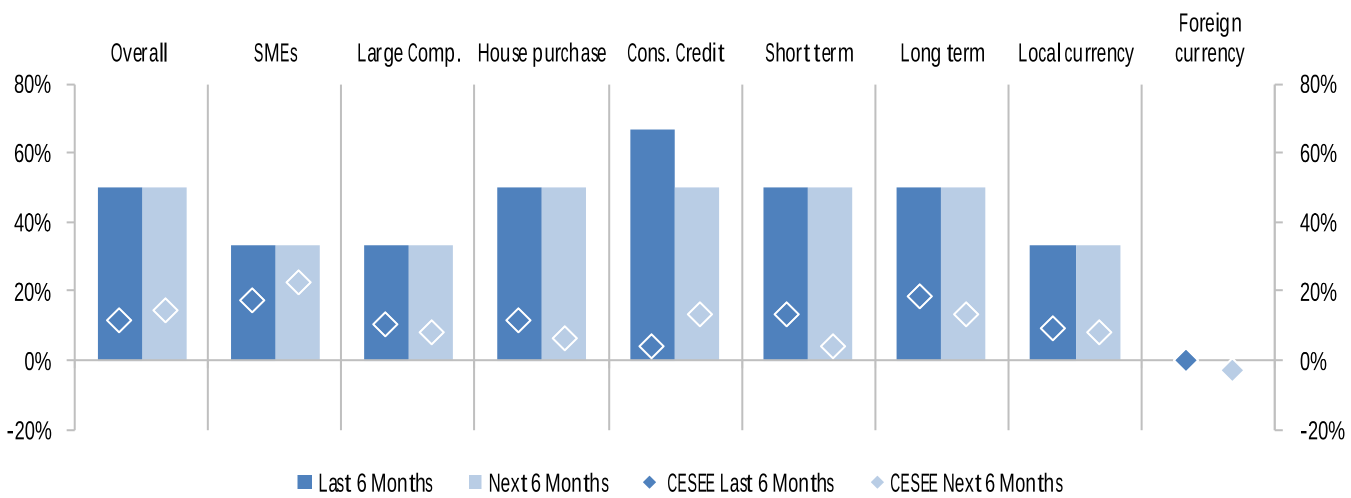


Source: EIB – CESEE Bank Lending Survey

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

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

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

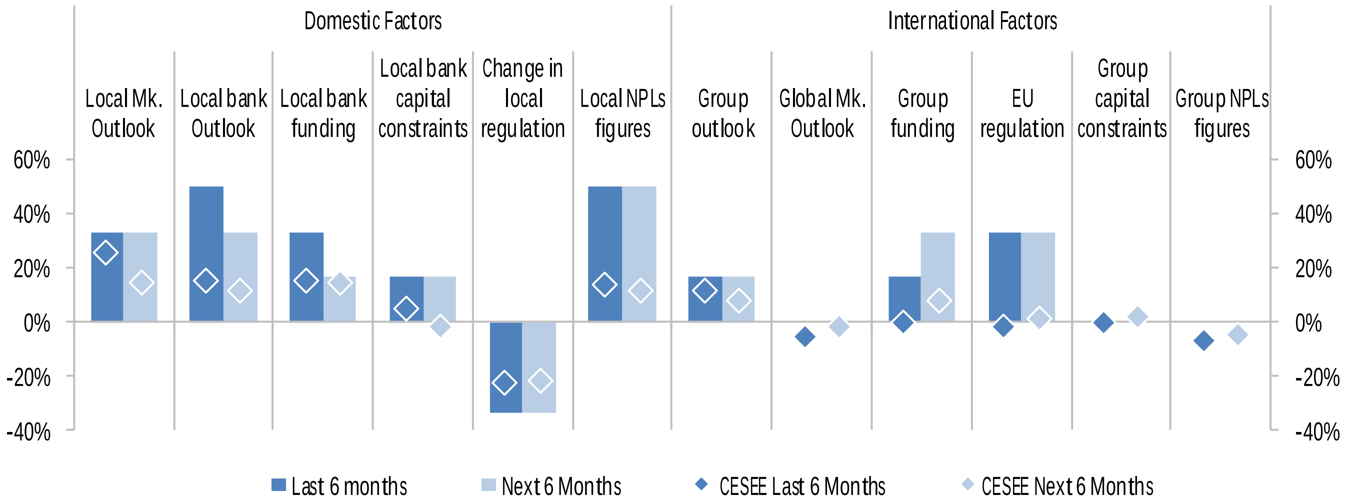


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

Domestic factors are contributing somewhat more to the credit supply than international ones. Local outlook, funding conditions, and capital position are pointing towards increase. Local regulation, however, is a drag to credit supply. On the international side, group outlook and funding, together with the EU regulatory framework, are having a mild positive impact on credit supply.



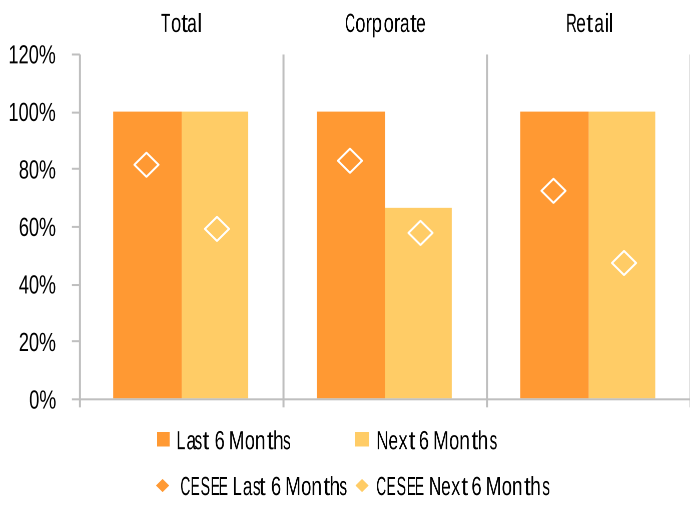
Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 Non-performing loan ratios

NPL figures in Hungary have been improving in an unequivocal manner both in the corporate and the retail segments. The improvement is in line with the general developments of NPLs in CESEE, but yet more pronounced.

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



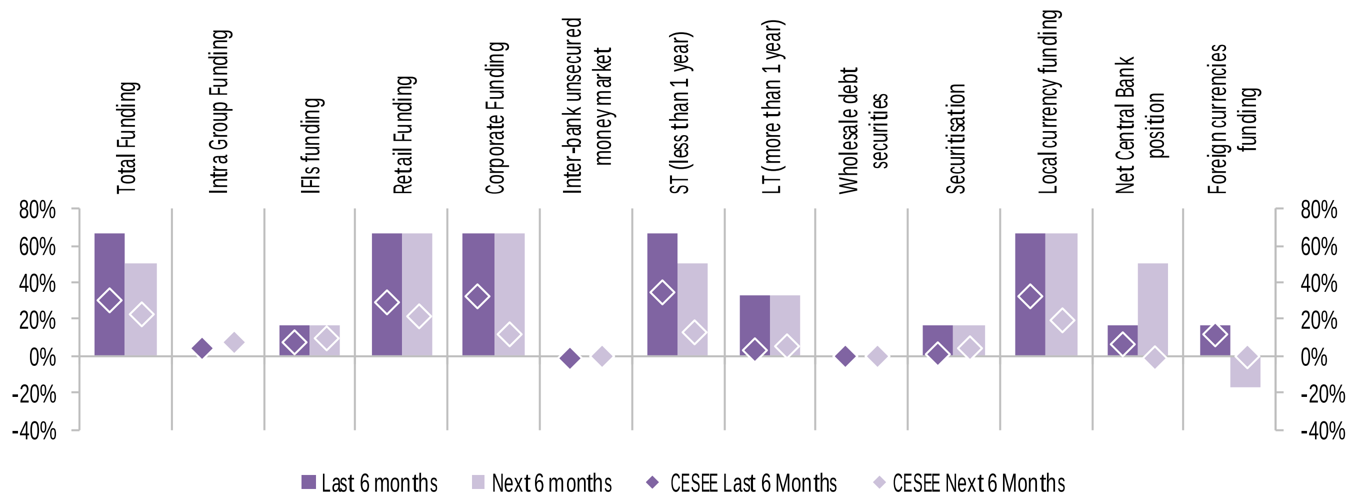
Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

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

Looking ahead, banks expect the continuation of the improvement in access to funding across the board.



Source: EIB – CESEE Bank Lending Survey.

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

Kosovo

A small but profitable market with medium market potential. Credit demand has been volatile, but credit conditions and banks' access to funding remain supportive, which has been translated into strong credit growth. NPL reduction goes on.

Summary

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

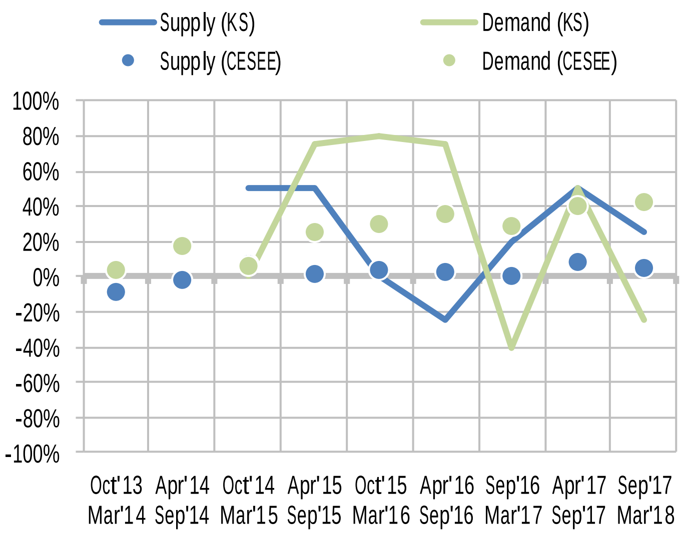
While **credit demand** has contracted in the last six months and remains volatile**, credit supply conditions** have now eased for three consecutive six-month period. Over the next six months, local banks expect further easing in credit standards.

In the last six months, **credit supply conditions** have eased most for loans to SMEs and large corporates. Banks' approval rate has been high for house purchase loans, loans to SMEs and corporate loans. Banks' collateral requirements have eased for all loan segments, the most for loans to SMEs.

Favourable economic environment in Kosovo has not fully translated into **demand for loans** in the last six months. Demand for loans to SMEs, large companies and consumer credit has decreased. Nevertheless, corporate fixed investment have been a strong positive factor behind loan demand in the last six months and this is expected also over the next six months.

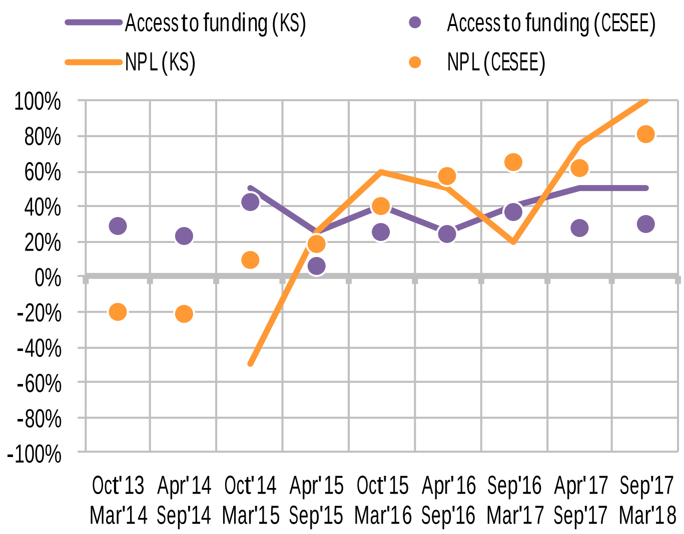
Access to funding has improved in the last six months, mostly thanks to better IFIs and retail funding. Access to retail deposits is expected to exhibit positive influence on bank funding also over the next six months.

NPL figures have declined during the last six months. They are expected to decline further over the next six months, although at a slower pace and below the CESEE average.



Source: EIB – CESEE Bank Lending Survey.

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



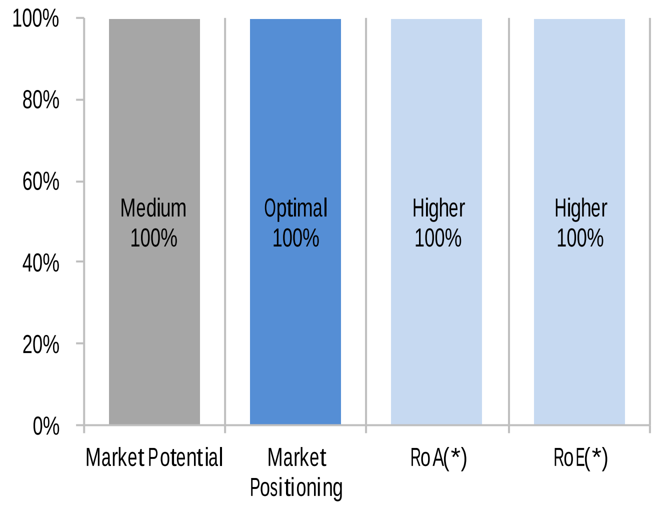
Source: EIB – CESEE Bank Lending Survey.

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

Results of the Bank Lending Survey – Parent banks level

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

Figure 1 Market potential and positioning



Source: EIB – CESEE Bank Lending Survey.

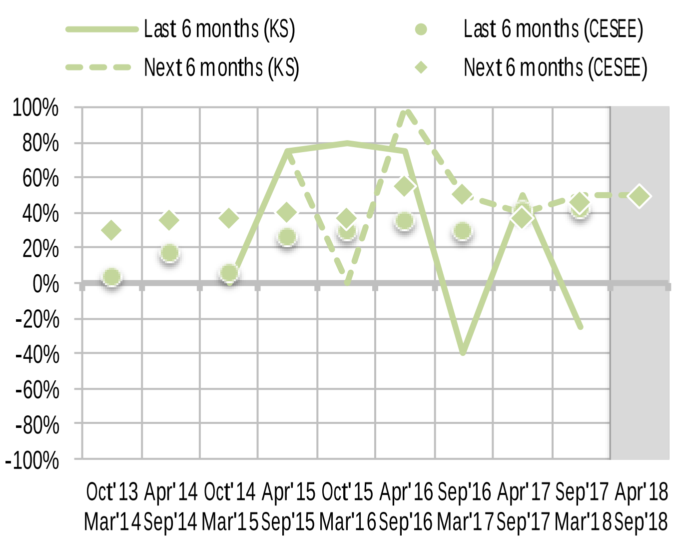
Note: See question A.Q1. (*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

Aggregate demand developments

Credit demand perceptions have been rather volatile in Kosovo. After an increase in loan demand in the previous period, loan demand decrease during the last six months. An increase in loan demand is expected over the next six months, in line with CESEE average.

Figure 2 Demand side developments

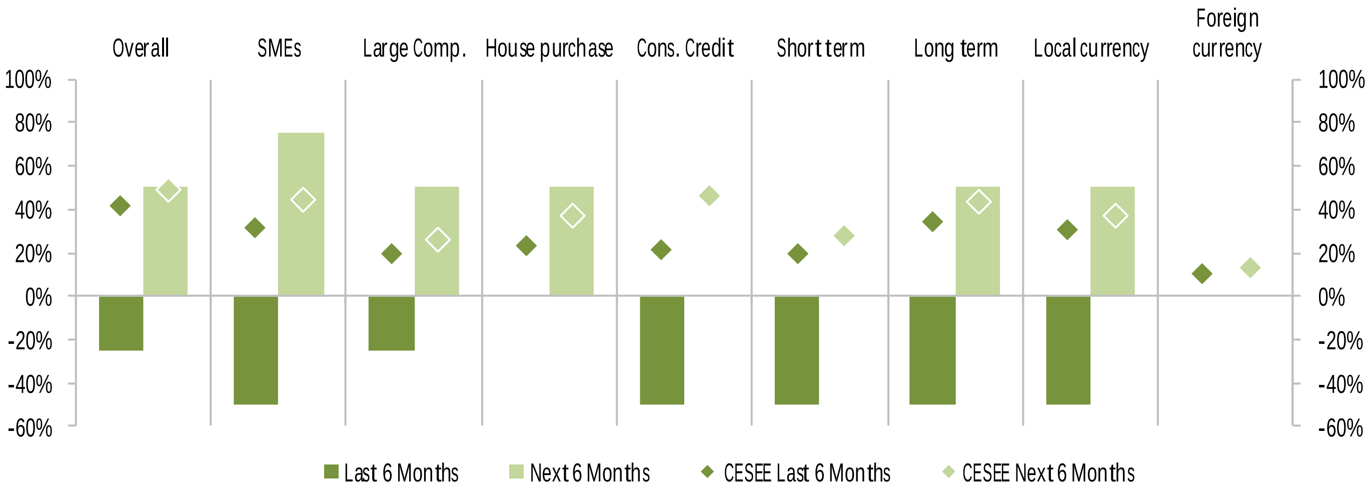


Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 Demand components and segments

The main contribution to the net decrease in loan demand during the last six months has come from loans to SMEs, large corporate loans and consumer credit. Demand for house purchase loans has been unchanged. Over the next six months, local banks expect an increase in demand for SMEs loans, large corporate loans, and house purchase loans. Demand for consumer credit is expected to remain unchanged.

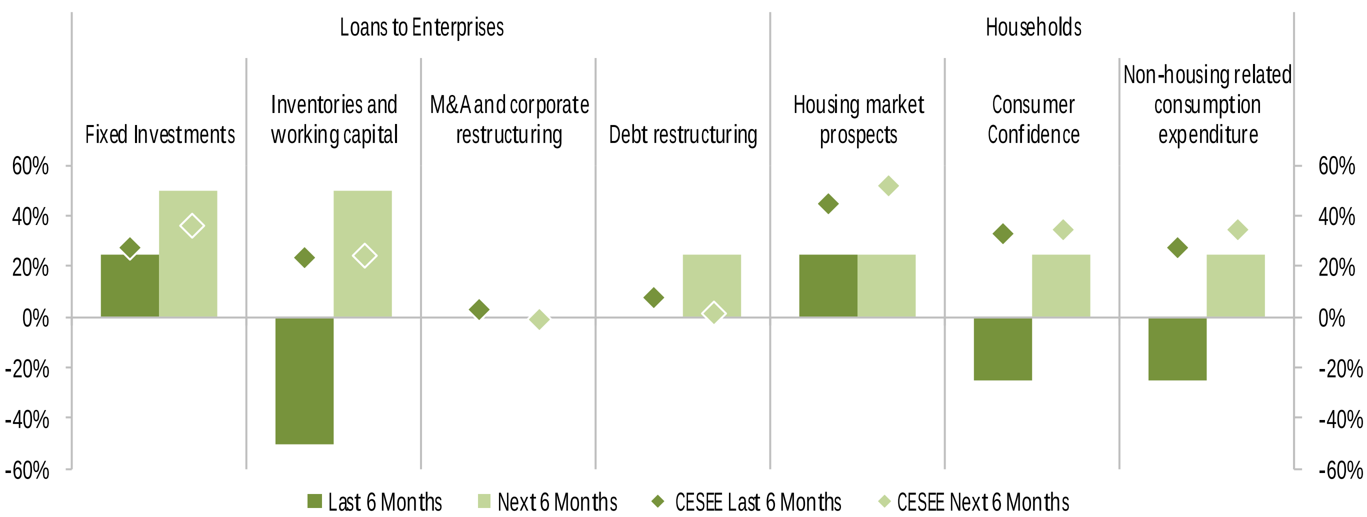


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

While fixed investments and housing market prospects have contributed positively to the loan demand in Kosovo in the last six months, purchases of inventories and working capital as well as consumer confidence have contributed negatively. Going forward, fixed investment should continue strongly supporting loan demand, followed by purchases of inventories and working capital, debt restructuring, housing market prospects and consumer confidence.

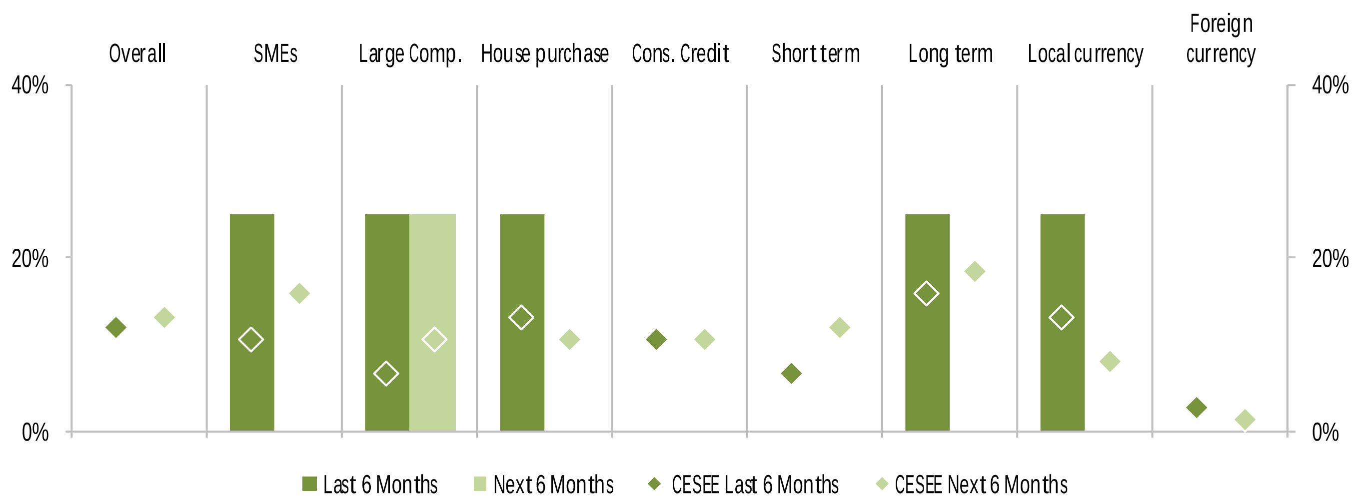


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

Despite the strong improvement during the last period, the overall quality of loan applications has remained unchanged in the last six months (below the CESEE average). Nevertheless, the quality of loan applications has improved for loans to SMEs, large corporations and house purchase loans. It is expected to improve further for large corporate loans over the next six months.



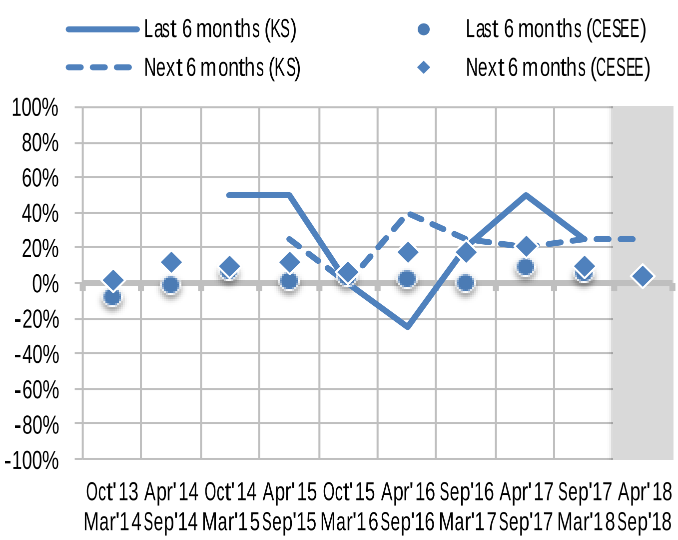
Source: EIB – CESEE Bank Lending Survey

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

Aggregate supply developments

Credit supply conditions have also been rather volatile in Kosovo. Nevertheless, credit standards have continued being easy in the last six months for the third consecutive six-month period (and above CESEE average) as also reflected in the strong credit growth for both households and corporates. The expectations series points to further credit easing in Kosovo over the next six months.

Figure 6 **Supply developments**

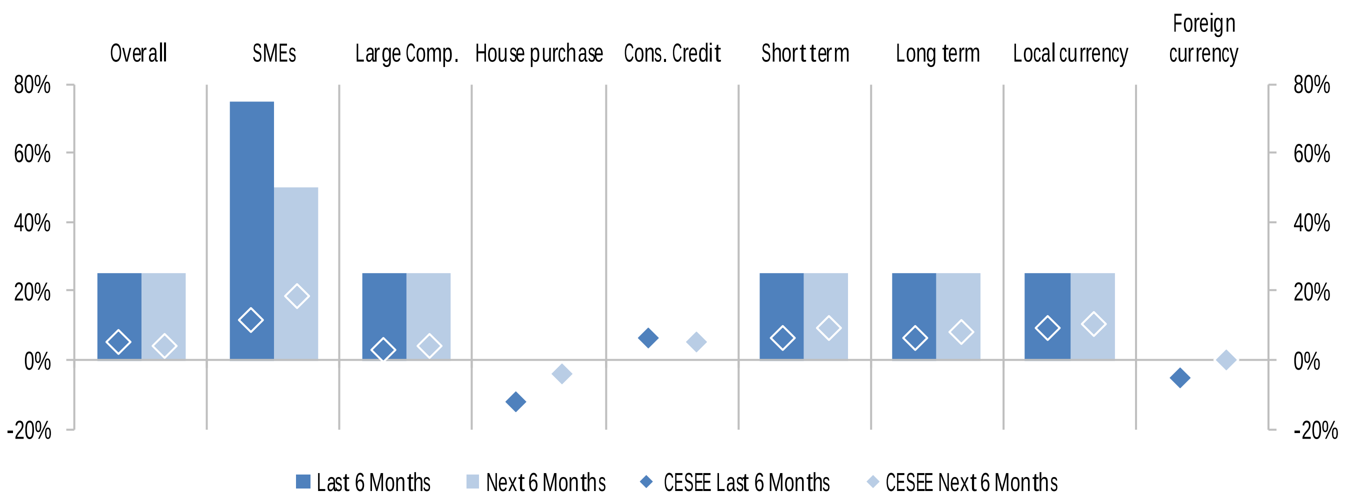


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

During the last six months, credit standards have eased most for loans to SMEs. Further easing has also been experienced for large corporate loans. Going forward, this favourable pattern for the corporate sector is expected to continue, while credit standards for the households remain unchanged.

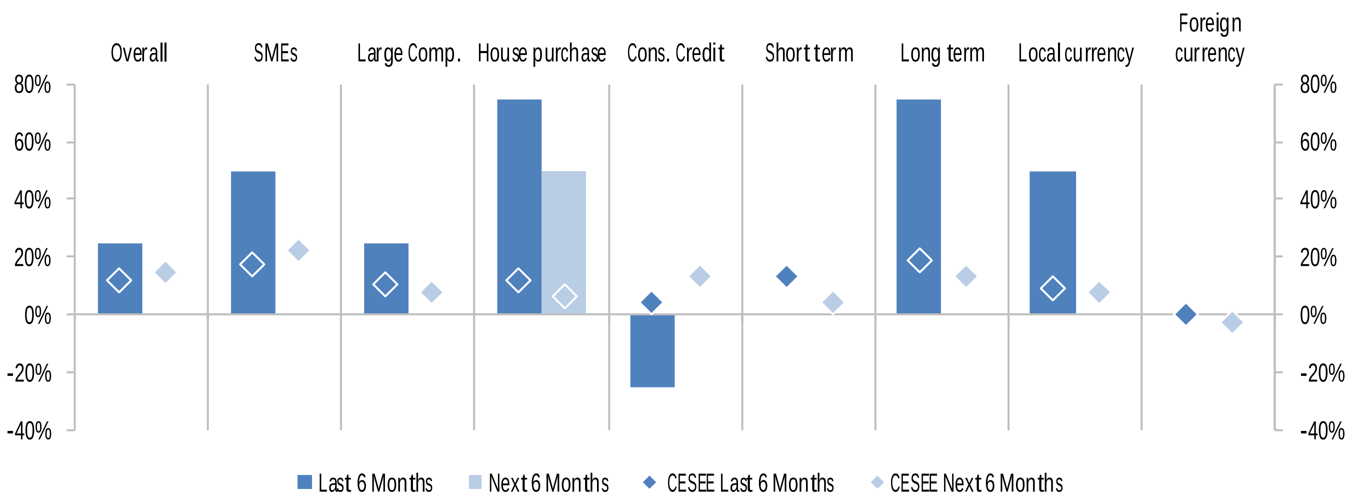


Source: EIB – CESEE Bank Lending Survey

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

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

During the last six months, he banks' loan approval rate in Kosovo has increased for loans to SMEs, large corporate loans and house purchase loans. On the other hand, it has decreased for consumer credit in line with previous expectations. Over the next six months, further increases to the banks' loan approval rate are expected for house purchase loans.

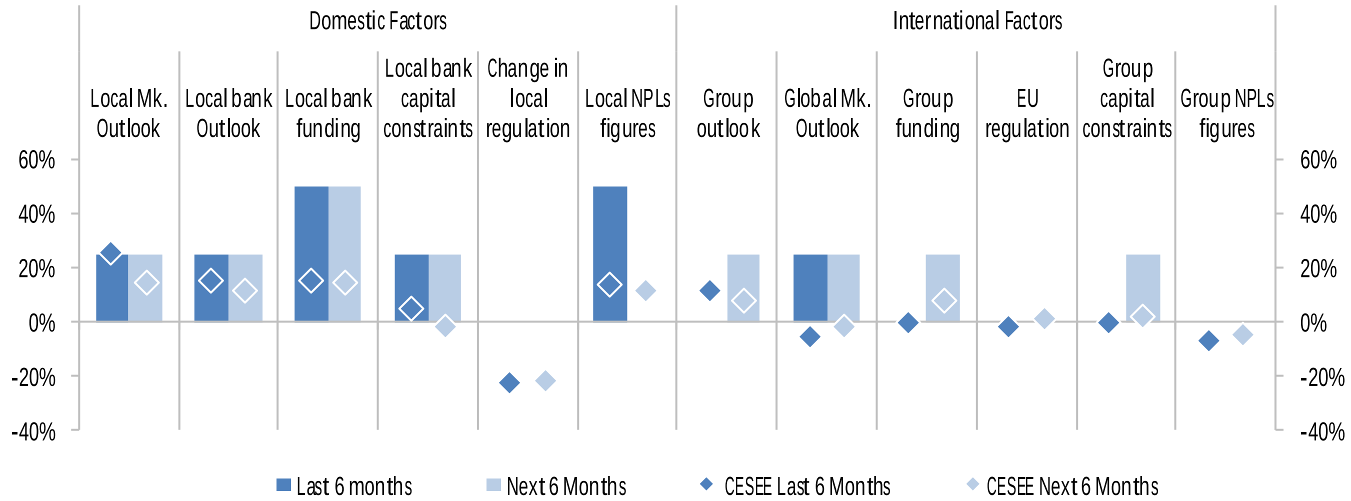


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

During the last six months, most domestic and international factors have contributed positively to the local credit supply conditions in Kosovo, or have remained unchanged. The most positive influence came from local bank funding and local NPLs figures. Going forward, a similar pattern is expected over the next six months.

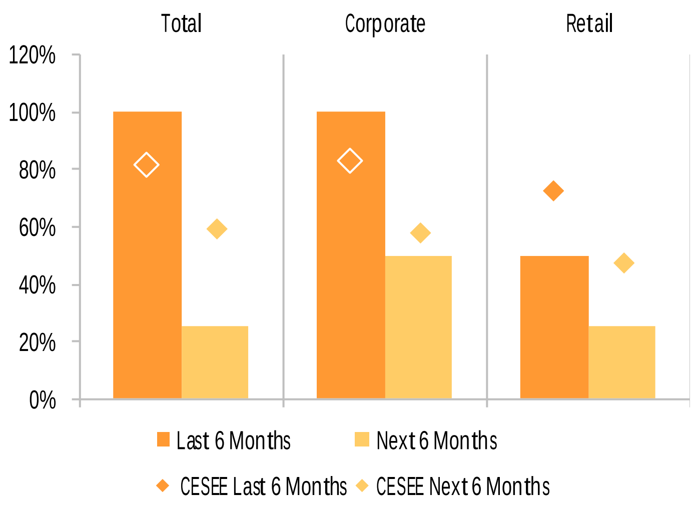


Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 Non-performing loan ratios

NPL reduction in Kosovo has been strong in the last six months, particularly for corporate loans. Further NPL reduction is expected over the next six months for both corporate and retail loans, although at a slower pace and below the CESEE average.

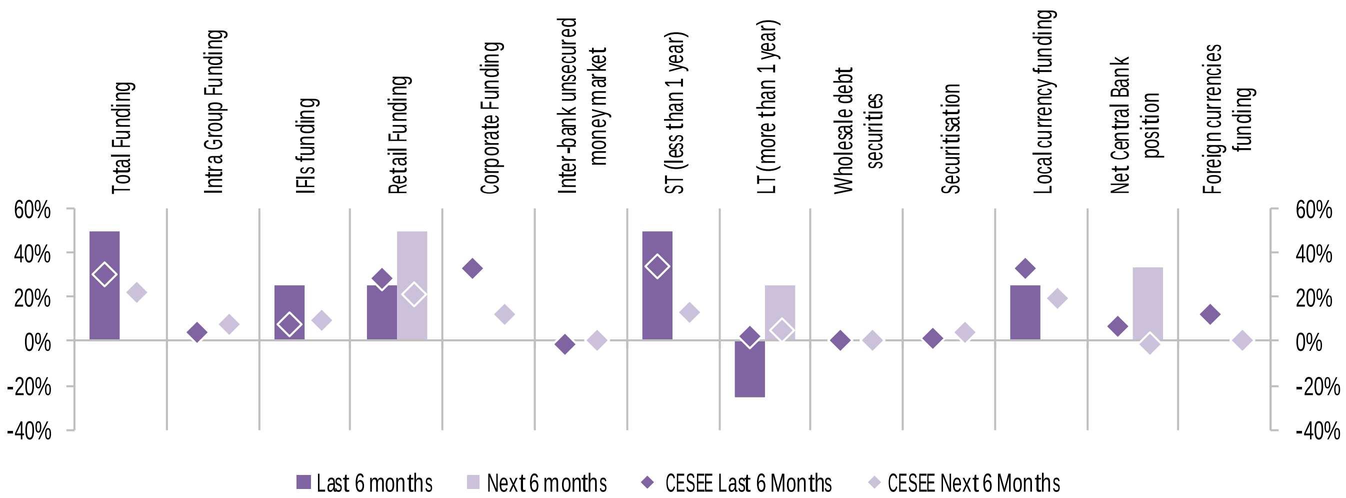


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Access to funding for banks in Kosovo has continued improving in the last six months and is expected to remain unhanged over the next six months. Most of the improvement has come from IFIs funding and retail deposits. Looking ahead, further improvement to bank's funding is expected to come from retail deposits, contributing to the favourable loan-to-deposits performance.



Source: EIB – CESEE Bank Lending Survey.

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

Poland

Polish banking market's potential is considered to be in line with the rest of the CESEE by parent banks, although profitability is lower than it was to a few years ago. Credit demand is increasing, while supply conditions are broadly unchanged.

Summary

Group assessment of positioning and market potential: Parent banks operating in Poland show a strong commitment towards the region. They consider the Polish market's potential to be in line with other CESEE economies. The majority find their current market positioning satisfactory. Banks' assessment of risk-adjusted returns is in line with the results of regional peers; nevertheless, the assessment of returns is far from the levels observed a few years ago, when banks had reported business prospects in Poland to be the best in the region.

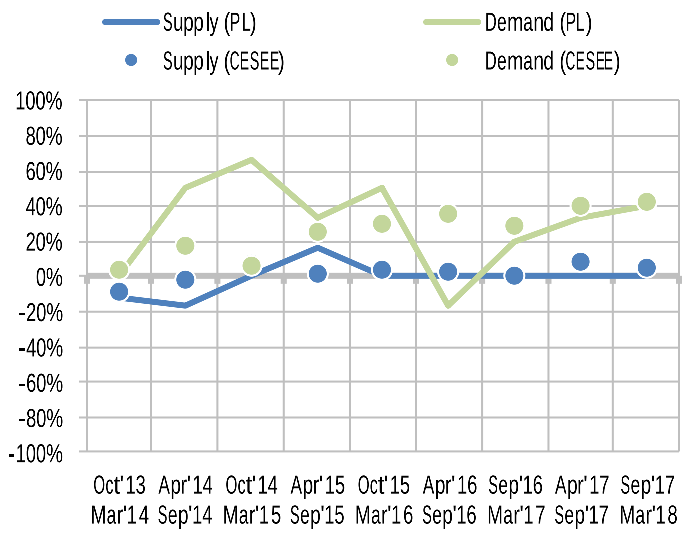
Polish banks report that **credit demand has continued increasing,** while **supply conditions have been stagnating**.

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

Credit demand continued to grow in Poland. The overall broadening of demand more or less conforms with the dynamics observed in CESEE, and with the banks' own past expectations. Looking ahead, banks are expecting a further dynamic increase in demand for credit.

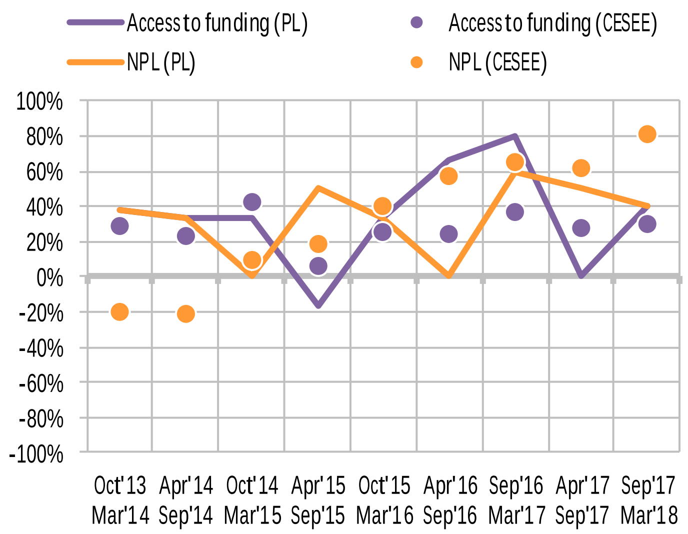
On aggregate, Polish banks' **access to funding has been improving** in the last six months.

NPLs have been described as improving in all segments, and further improvements are expected in the months ahead.



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

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

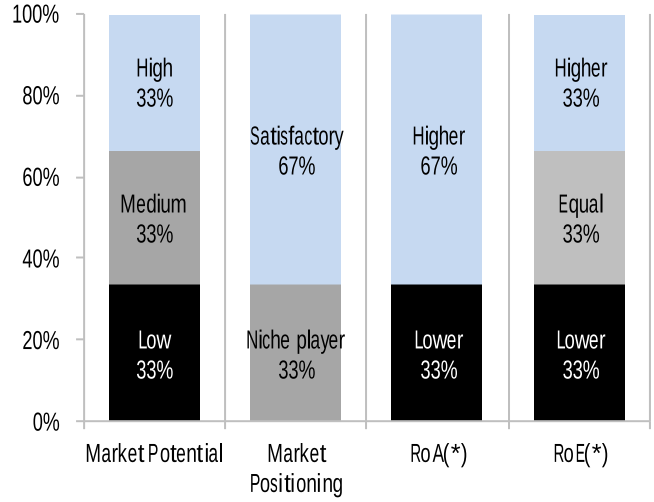
Results of the Bank Lending Survey – Parent banks level

Parent banks operating in Poland show a relatively strong commitment towards the region. Two third of the groups present in the country plan to selectively expand its CESEE activity, while the rest plan to maintain their regional operations at their current level.

Parent banks consider the Polish market to have medium potential within CESEE, which is a deterioration compared to earlier editions of our survey. The majority of the parents find their current market positioning satisfactory.

As to profitability, the parent banks' assessment of risk-adjusted returns is broadly in line with the results of regional peers. However, the assessment on returns is far from the levels observed a few years ago, when banks had reported business prospects in Poland to be among the best in the region (Figure 1).

Figure 1 Market potential and positioning



Source: EIB – CESEE Bank Lending Survey.

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

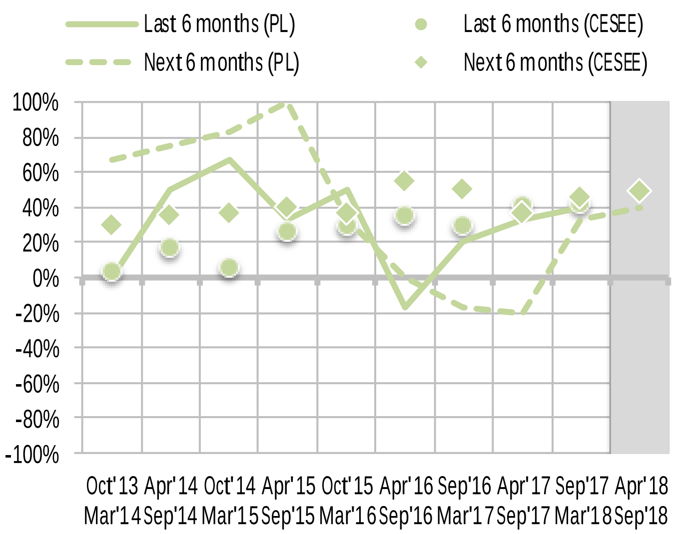
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

Credit demand has continued to increase in Poland. The overall broadening of demand is more or less in line with the dynamics observed in the CESEE region, and is also broadly in line with the banks' own expectation formed six month ago, when the survey participants indicated that they are expecting further increase in credit demand.

Looking ahead, Polish banks are expecting the continuation of the broadening in demand for credit, in line with the overall CESEE outlook (Figure 2).

Figure 2 Demand side developments



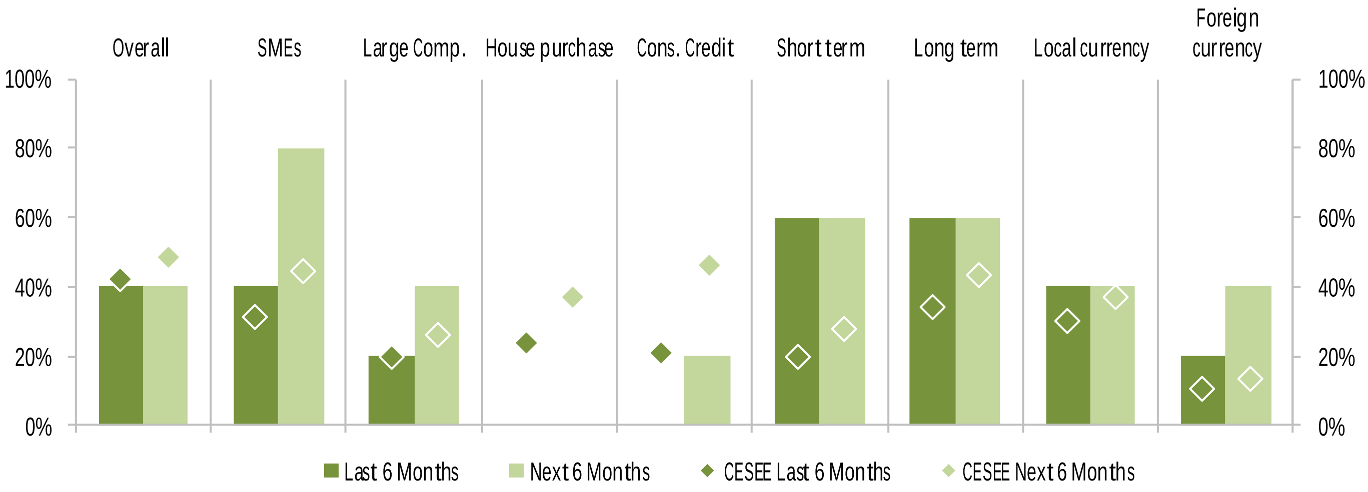
Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 Demand components and segments

The corporate sector is driving the increase in credit demand. SMEs are showing rapidly increasing interest towards borrowing, whereas demand by large corporations has been improving only mildly. Looking ahead, demand is expected to increase dynamically in both segments (Figure 3).

As to the households, demand towards both mortgage products and consumer loans has stagnated. Credit demand in the household segment is below the average observed in the CESEE region.



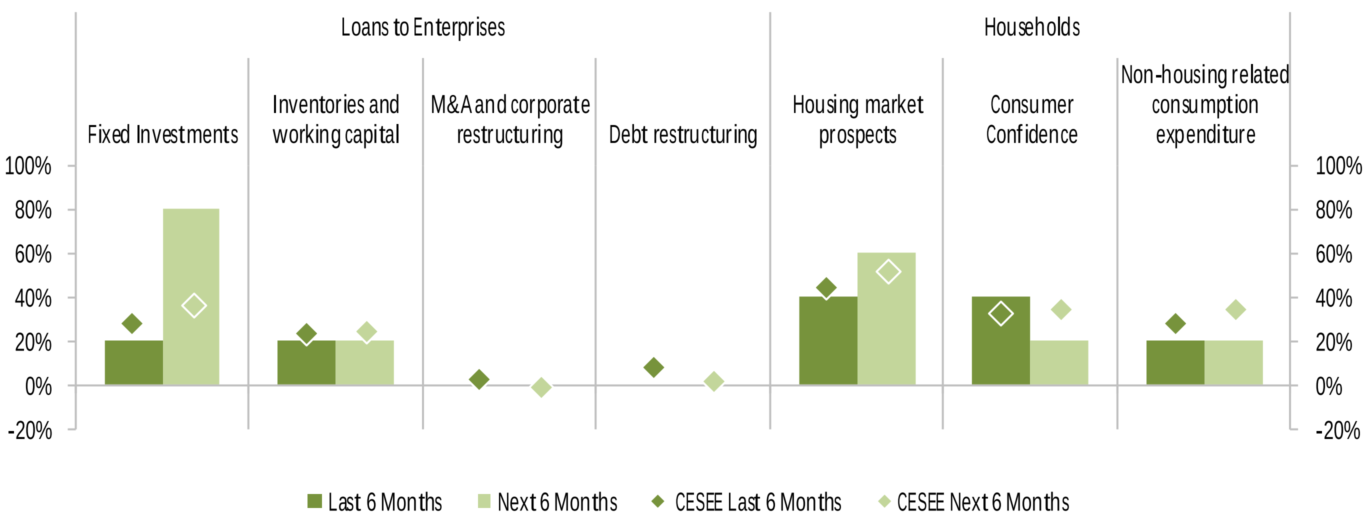
Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

Demand for both investment loans and working capital has been increasing mildly in the past six months. As to households, consumer confidence, together with housing market prospects, and non-housing related consumption expenditure have been improving. Looking ahead, banks expect further positive developments in the investment outlook in particular (Figure 4).

The cautious, yet broad-based optimism about the factors affecting demand for credit is in line with the rest of the CESEE



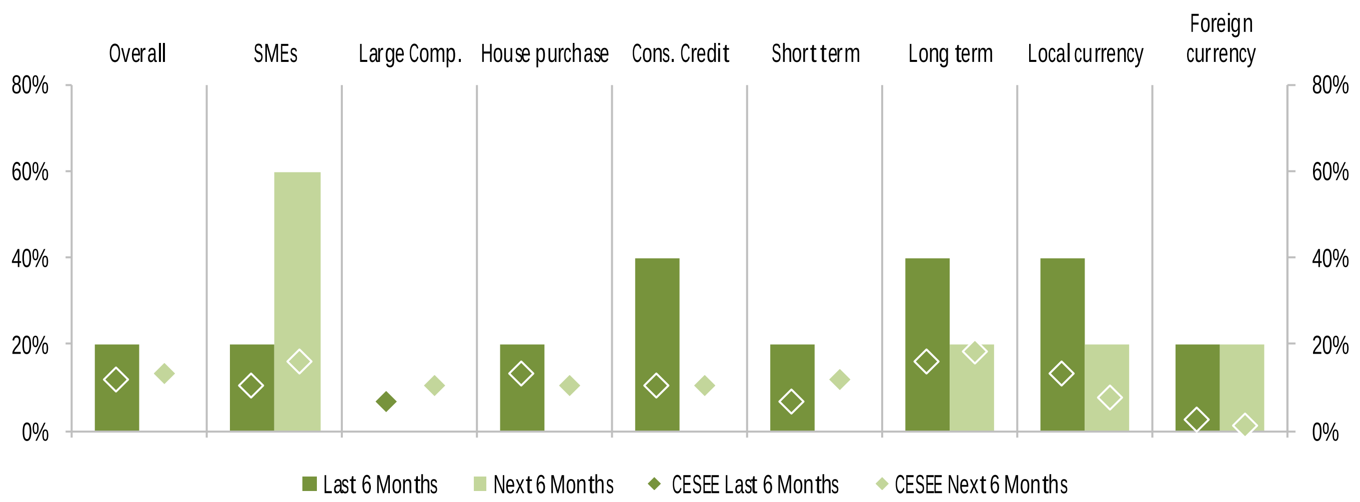
Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

The quality of loan applications have been improving across the board, with the exception of large corporates, where the quality is stagnating. Looking ahead, further strong improvements are expected in the SME segment.

Elsewhere in CESEE banks also report mild improvements in the quality of the loan application across all the segments.



Source: EIB – CESEE Bank Lending Survey

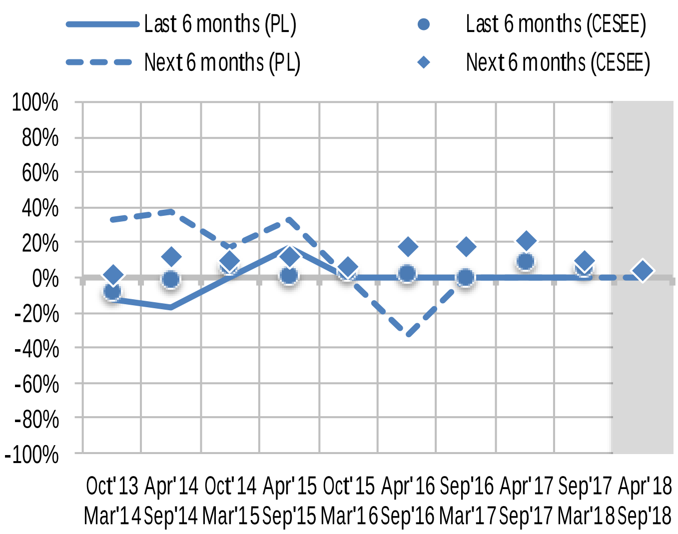
Note: Net percentages - positive figures refer to increasing of quality demand. Full question see B.Q6 in the Annex

Aggregate supply developments

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

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

Figure 6 Supply developments



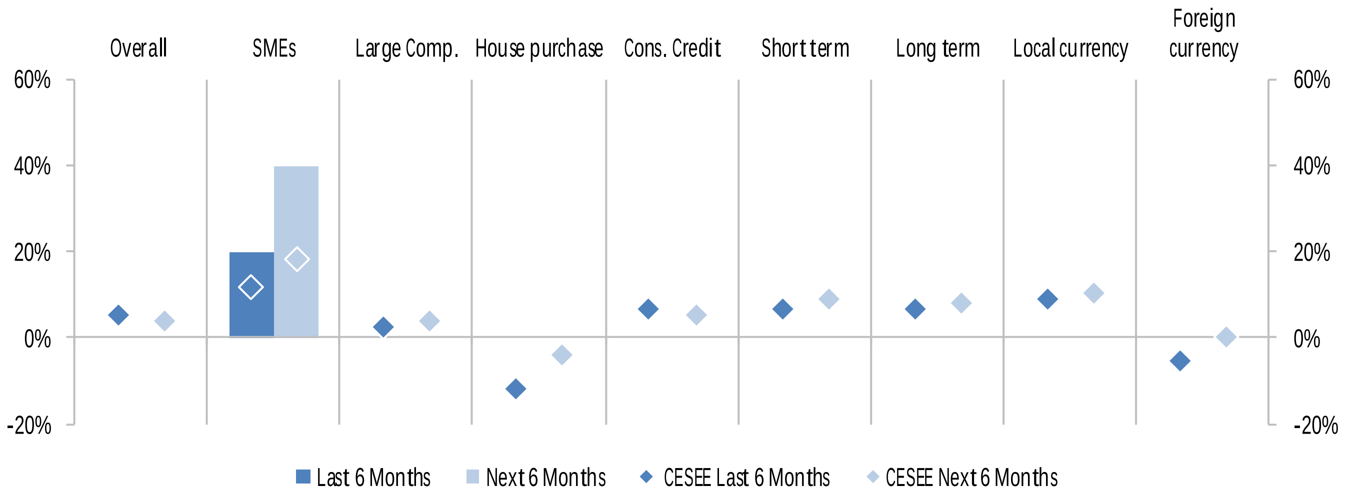
Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

The supply of loans towards Polish SMEs have been increasing further, and this increase is expected to continue dynamically in the coming months. For large corporates, as well as for the overall households segment, credit supply has been steady over the course of the last six months.

Looking ahead, banks expect neutral supply conditions in all segments, except for SMEs. The overall picture represents a marginally more pessimistic outlook relative to the CESEE average.



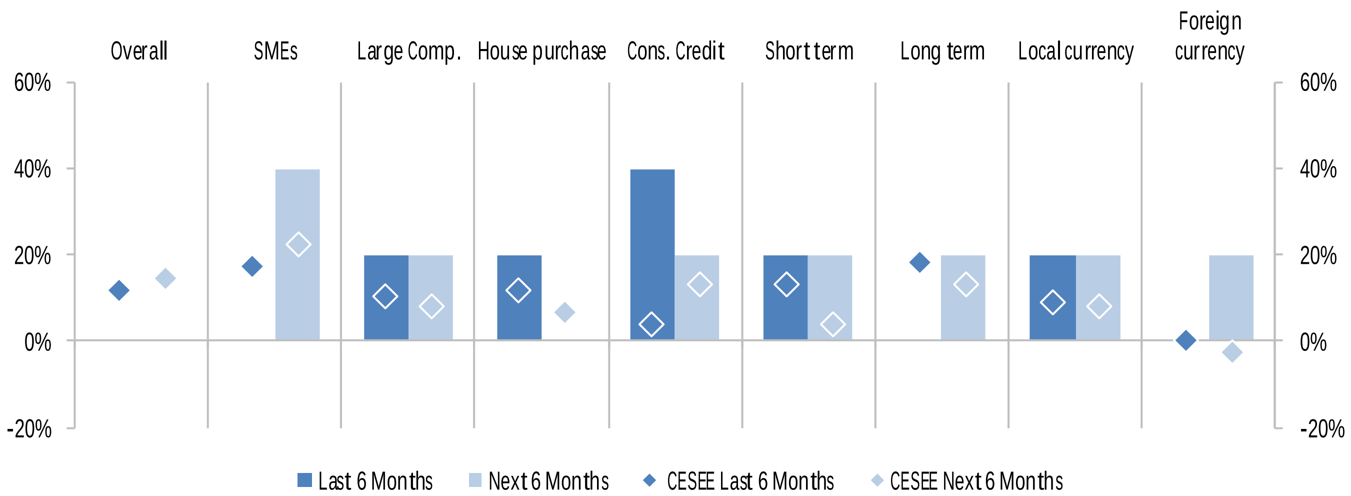
Source: EIB – CESEE Bank Lending Survey

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

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

Loan approval rates have been improving marginally in all segments. The largest increase was observed in the case of the approval of consumer credit applications.

Looking ahead, banks expect the gradual increase of approval rates to continue across the board. In particular, a significant easing is expected in the segment of SME loans.



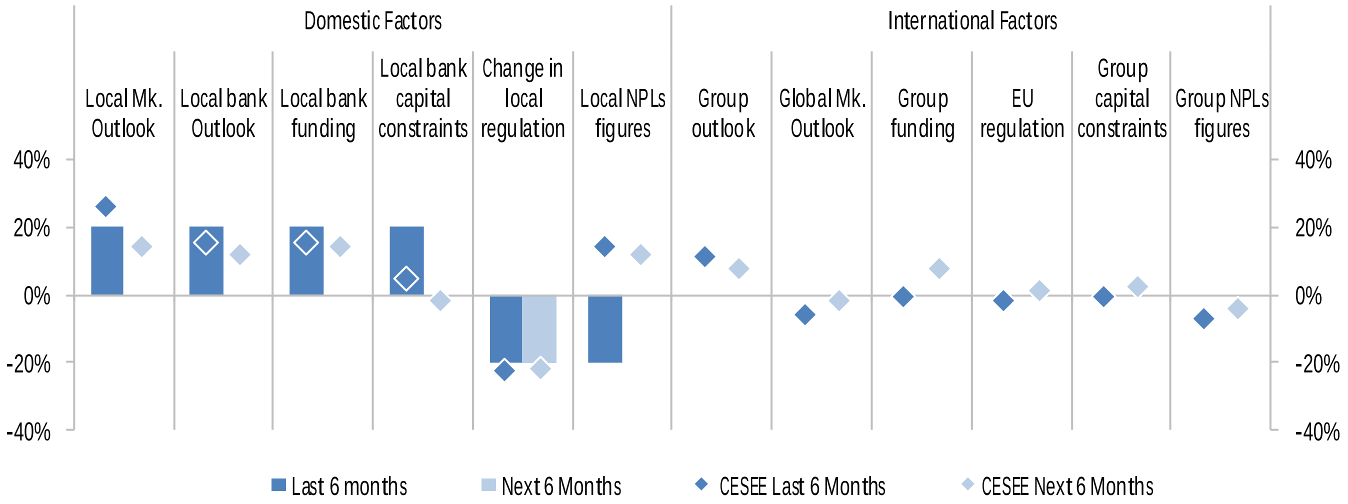
Source: EIB – CESEE Bank Lending Survey

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

Figure 9 Factors contributing to supply conditions

Polish banks see most domestic factors contributing positively to credit supply, while international factors are broadly neutral. On the domestic side, one exception is the regulatory environment, which has been asserting a negative influence on credit supply, and this restraining effect is expected to remain strong in the future, too. NPL figures have also been exerting a negative influence to credit supply conditions in the past.

In the coming months, domestic and international are expected to be broadly neutral on average with respect to the supply of credit.



Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 Non-performing loan ratios

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

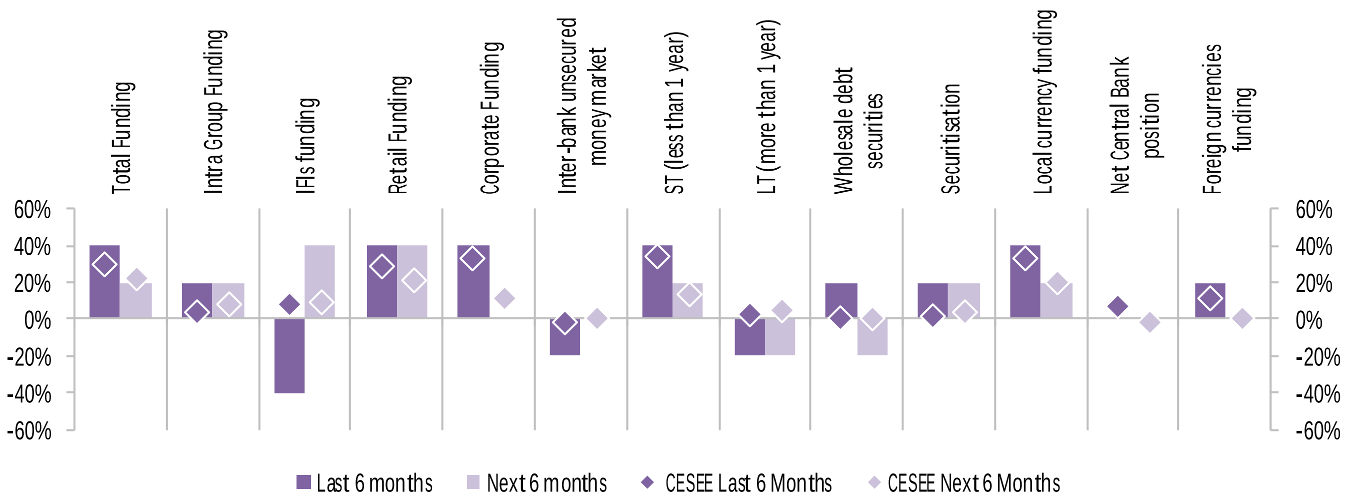
More dynamic progress in the resolution of non-performing loans are projected for the by the banks operating in Poland, in line with the rest of the CESEE region.

Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

On aggregate, Polish banks' access to funding has improved in the last six months. Better conditions were observed on the retail market segment and for corporate funding, whereas interbank funding and IFIs contributed negatively to overall funding (Figure 11).



Source: EIB – CESEE Bank Lending Survey.

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

Romania

Best market potential in the region reflecting structural factors. Continued decrease of NPLs. Credit demand remained positive and continued to outpace supply, despite the tightening interest rates in local currency.

Summary

Group assessment of positioning and market potential: 73 percent of the parent banks consider Romania a market with high potential. This is the highest score among the CESEE countries. About 45 percent consider their market positioning satisfactory or optimal. However, the share of banks stating weak market positioning increased compared to the previous wave. About half of respondents find profitability higher in Romania compared to group operations.

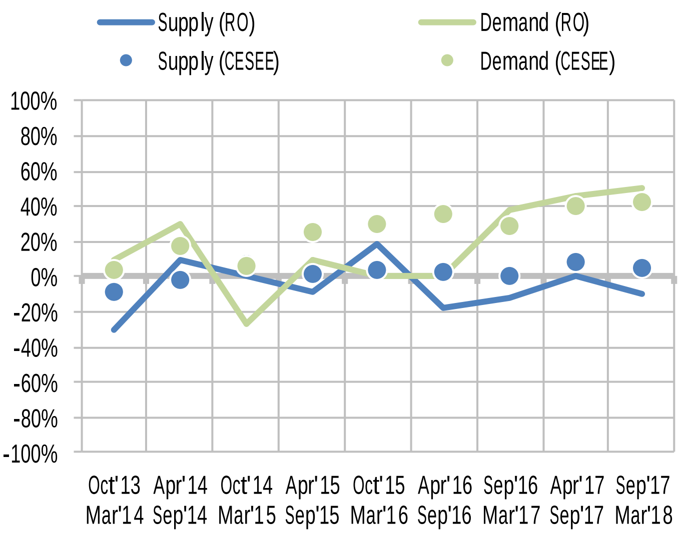
Credit demand has increased over the past six months in line with expectations and boosted by buoyant economic growth. **Supply conditions have tightened on balance.**

Expectations for credit supply conditions have also adjusted downwards. Stricter credit standards were recorded for the household segment in particular with further tightening foreseen for the next six months. Banks' approval rates show heterogeneous developments with higher approval rates for corporates but lower ones for households. Domestic regulatory changes were perceived as limiting supply and are expected to exercise a negative impact looking ahead.

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

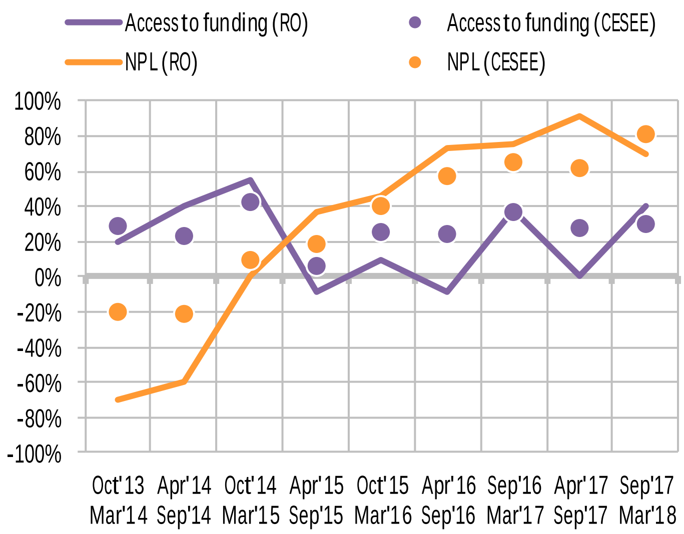
Access to funding has become easier on balance with conditions for corporate, local currency and short-term funding improving the most. Contrasting with the general trend conditions for intra-group and interbank unsecured money market funding slightly deteriorated. On balance, banks expect the overall access to funding to improve over the next six months.

NPL figures have been described as further improving both in the corporate and retail segments.



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

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

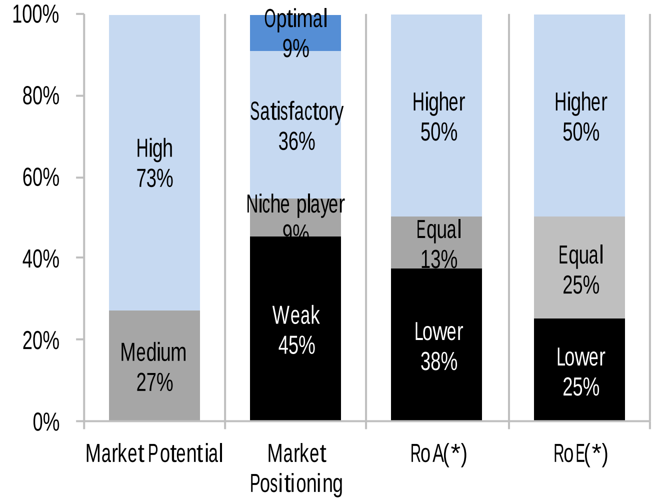
Results of the Bank Lending Survey – Parent banks level

Views on operations in Romania have become more nuanced compared to the last release of the survey. Exactly half of banks report higher RoA and RoE on domestic operations compared to overall group results, i.e. down from 63 and 75 percent previously. A larger share of banks now finds profitability in line with their overall group operations.

Views on market positioning point to cooling enthusiasm. The share of respondents reporting satisfactory market positioning decreased (-9pp compared to H2-2017) and those finding weak market positioning now make up the largest group (45 percent, +9pp compared to H2).

Romania still ranks first compared to CESEE peers in terms of market potential. 73 percent of bank groups consider it as a market with high potential. Consistently positive views likely reflect also structural characteristics – country size and low levels of financial penetration – adding to the market's attractiveness.

Figure 1 Market potential and positioning



Source: EIB – CESEE Bank Lending Survey.

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

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

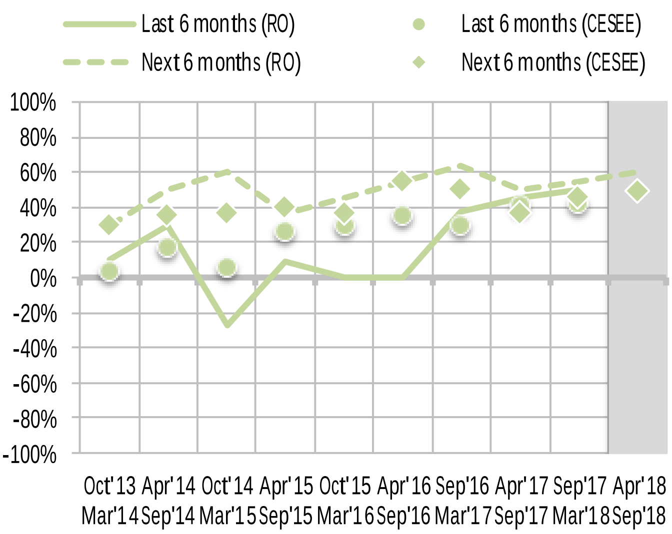
Aggregate demand developments

Credit demand in Romania is reported to have increased over the last six months, growing largely in line with banks' expectations voiced in the last round. On balance, the trend towards increasing demand seems to continue.

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

Credit demand recovery has been lagging behind the economic cycle. While Romania registered robust growth in the last four years, reaching a post-crisis high in 2017 (almost +7 percent GDP increase) growing demand for loans started to be visible only since end-2016. Credit growth for corporates accelerated in the second half of 2017 after a period of contraction and subdued lending activity since 2013. Credit to households continued to grow, approaching increases around 8 percent (yoy).

Figure 2 Demand side developments

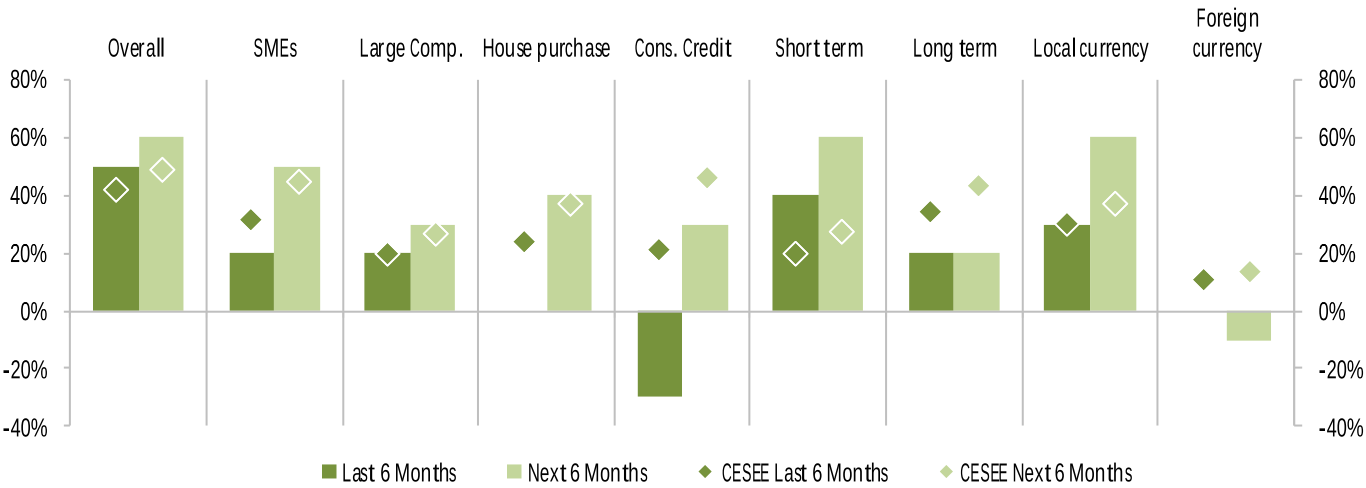


Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 **Demand components and segments**

Aggregated demand for loans in Romania has increased on balance in the last six months. Both SMEs and large corporations contributed to the positive move. Developments in the household segment were more subdued and demand for consumer credit even dropped according to banks. Demand for short-term financing was stronger than for longer-term loans. While appetite for foreign currency lending was stagnant, funds in local currency were increasingly sought. Looking ahead, growth in credit demand is expected to continue with a slight acceleration. Views are most positive for funds in local currency, short-term and SME financing.

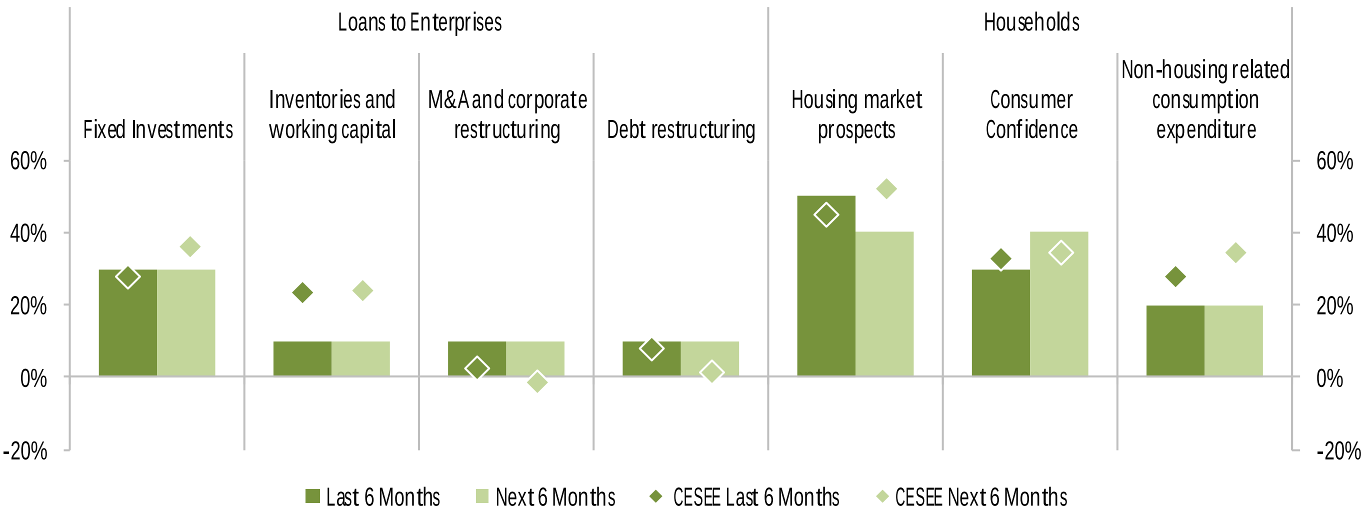


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 **Factors affecting demand for loans**

All surveyed factors in the corporate and household segments have made a positive contribution to demand over the last six months. On the enterprise side, banks recorded the strongest demand for fixed investment, a notable change compared to the previous wave. Demand was also positive for inventories and working capital, debt restructuring and M&A. Higher corporate investments counteract subdued public investment dynamics in 2017. Expectations for fixed investment by corporates continue to be optimistic for the next six months. In the household segment, all factors were strongly positive and are expected to remain so.

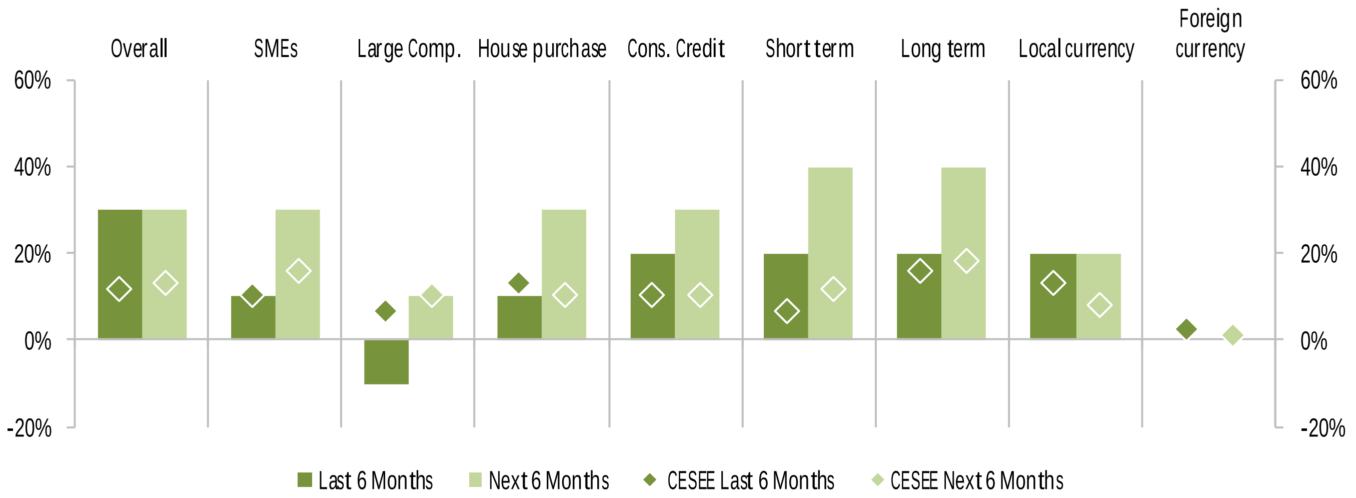


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

The quality of loan applications in Romania has continued to improve across most loan categories, in line with the CESEE overall trend. Large corporations are the exception here, on balance even recording a deterioration in quality over the past six months. Improvements have been recorded for SMEs and on the household side. Applications for short and long-term loans show higher quality, similarly for local currency. The overall quality strengthening is expected to continue in the near future, supported by basically all segments.



Source: EIB – CESEE Bank Lending Survey

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

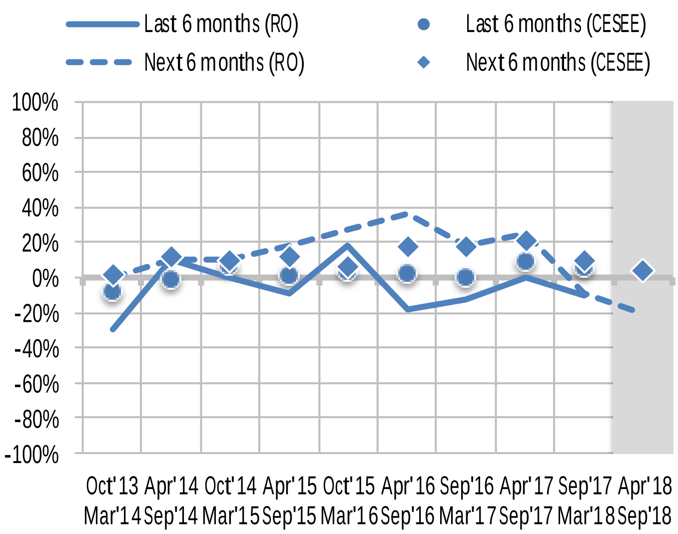
Aggregate supply developments

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

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

Expectations look set for continuing divergence with the CESEE region where banks expect a neutral stance.

Figure 6 Supply developments

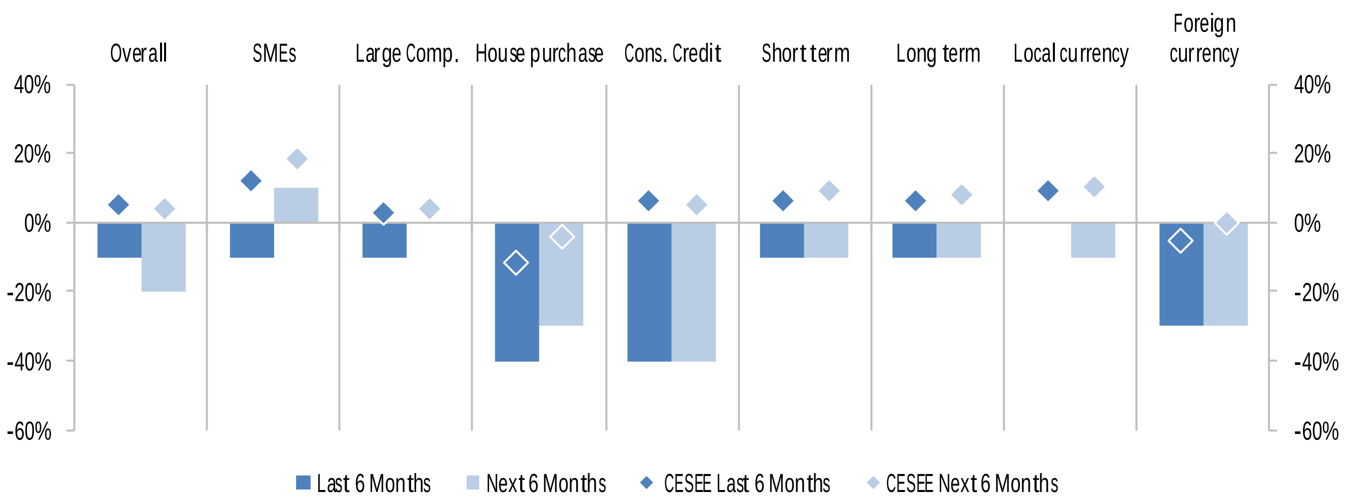


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

Stricter credit standards were recorded across most credit segments. Only conditions for local currency credit remained broadly unchanged. In contrast, supply for foreign currency lending strongly tightened. Lending across different maturities both saw moderate tightening. Developments on the corporate side are also in line with this pattern. Loans for households saw more pronounced tightening. Looking ahead, credit conditions are expected to tighten further on balance contrasting with the CESEE region.

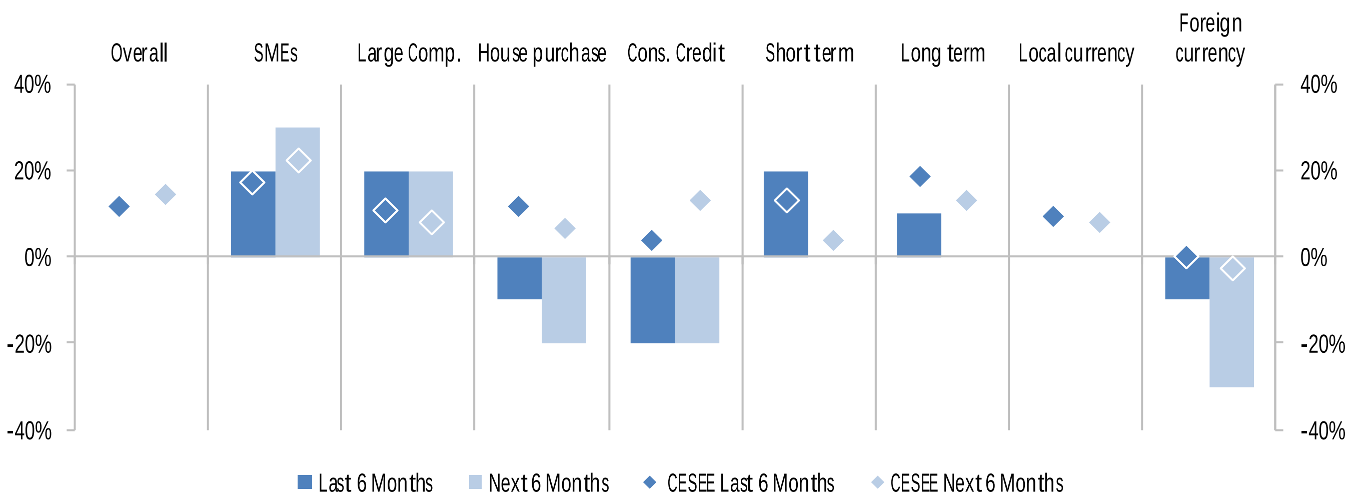


Source: EIB – CESEE Bank Lending Survey

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

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

Overall approval rates remained unchanged during the last six months. The aggregate masks divergent developments in the household and corporate segments. While approval for corporate loans got easier, households show lower approval rates. In addition, banks were less inclined to approve credit in foreign currency. Looking ahead, banks are even more cautious on foreign currency lending and credit to households. On balance, they look set to approve corporate lending more easily.

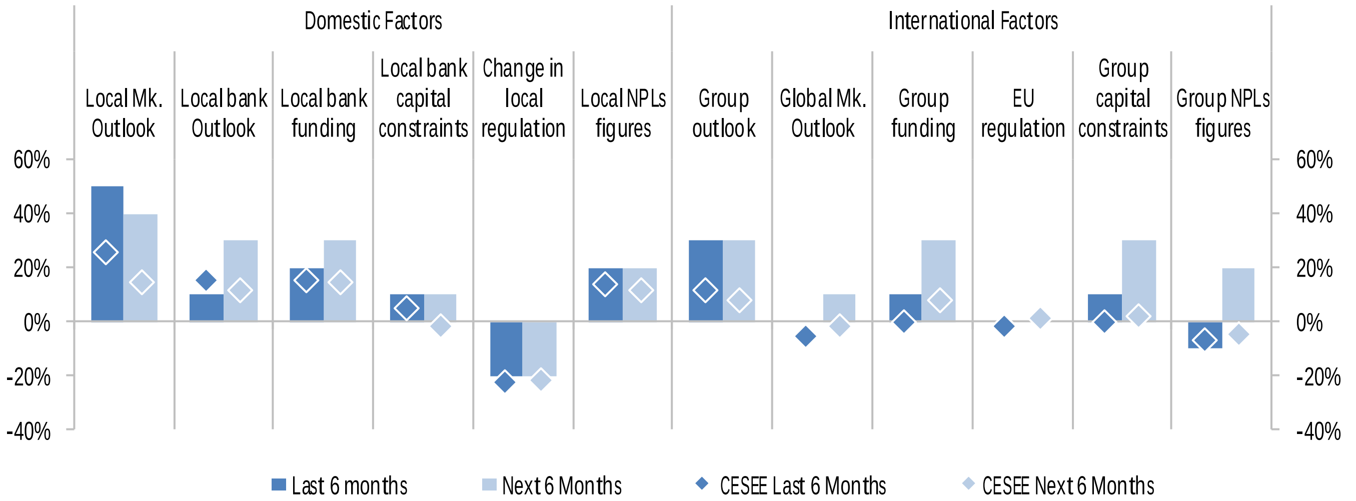


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 **Factors contributing to supply conditions**

While most of the domestic and international factors played a facilitating role in easing credit standards, changes in local regulation and group NPL figures contributed negatively. Nevertheless, the local NPL figures had a positive effect. Other positive domestic sources are the local market and bank outlook and bank funding conditions. Internationally, a positive group outlook is expected to have a notable contribution. Over the next six months, the negative contribution of changes in local regulation is expected to persist, in line with views in the CESEE region. On balance, domestic and international factors are expected to positively contribute to supply.



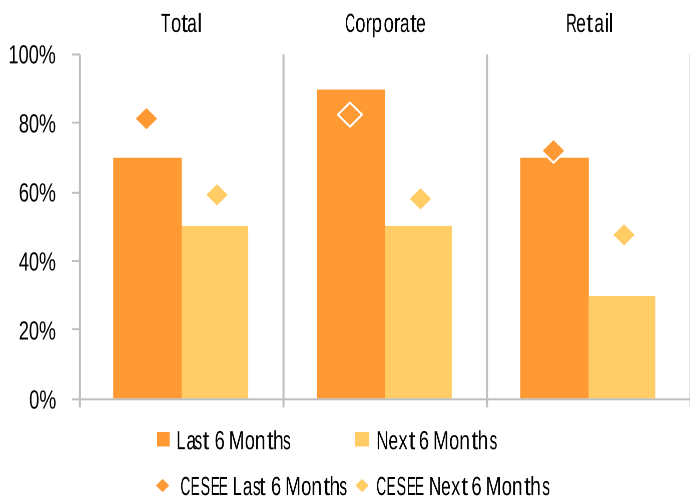
Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 Non-performing loan ratios

NPL figures in Romania have been described as improving strongly both in the corporate and retail segments. This trend was also recorded in previous releases of the survey.

The non-performing loan ratio in Romania dropped below the EBA threshold of 8 percent, thereby entering the EBA-defined medium-risk bucket. They recorded stronger decreases in NPL ratios in the past six months and expect further improvements looking ahead.

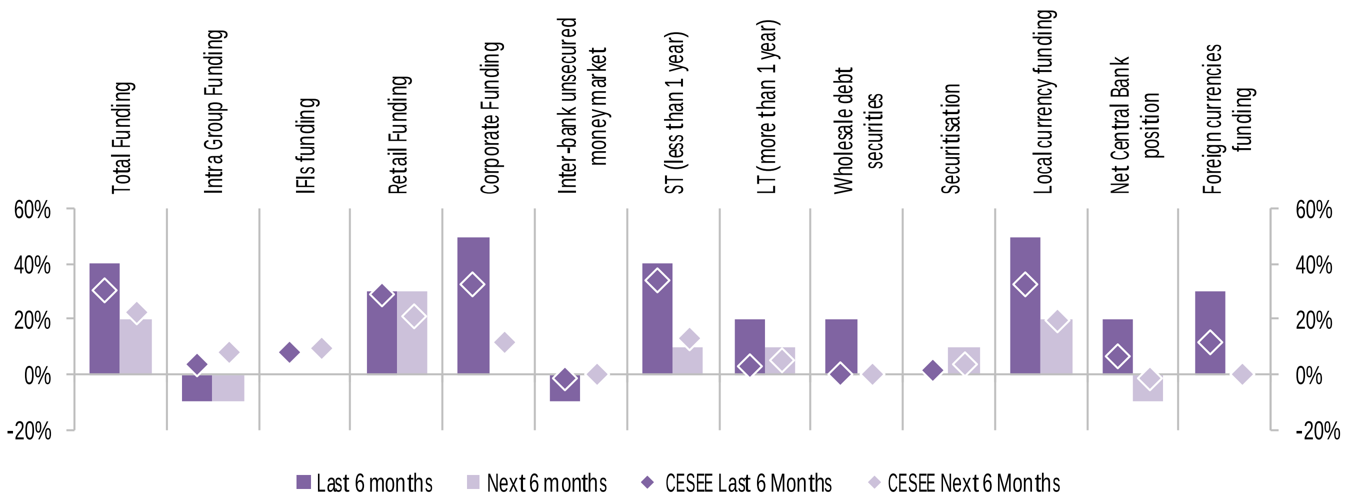


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

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



Source: EIB – CESEE Bank Lending Survey.

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

Serbia

Positive momentum in demand for loans is ongoing, while credit conditions have turned form easy to more neutral again. NPL reduction is continuing.

Summary

Group assessment of positioning and market potential: The majority of parent banking groups operating in Serbia regards the market potential as high to medium and their market positioning is seen as satisfactory to optimal. As GDP growth and NPL reduction are keeping their momentum, banks' profitability has also been improving.

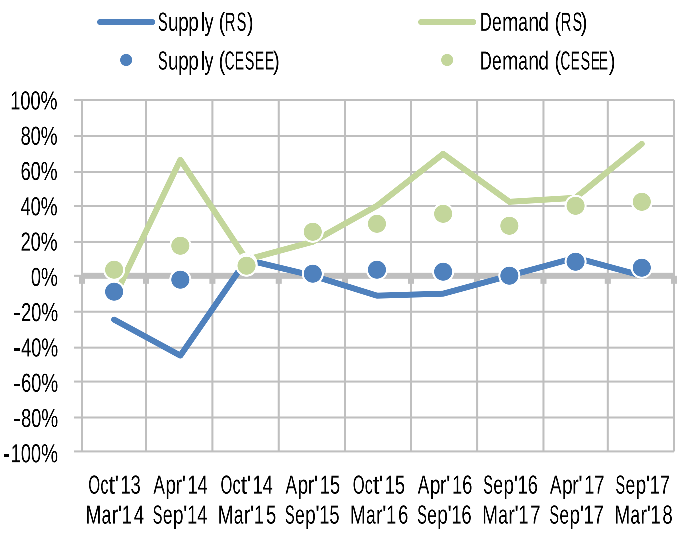
During the last six months, **credit demand has increased** further**,** surpassing the CESEE average, while **credit supply conditions have become neutral**. Credit demand is expected to continue increasing over the next six months, while credit supply conditions are expected to turn negative.

Credit supply conditions have tightened for house purchase loans and FX loans during the last six months, while they eased for consumer credit and local currency loans. Credit standards are expected to tighten in the next six months for loans to large corporates. The loan approval rate for consumer credit is increasing. Factor-wise, local bank funding from domestic sources has contributed negatively during the last six months, while other domestic factors have had broadly a positive impact.

Demand for loans has increased strongly across all components and sectors during the last six months and this trend is expected to continue. Among the factors affecting loan demand, housing market prospects remain as a strong driver. The quality of loan application has been increasing for loans to SMEs.

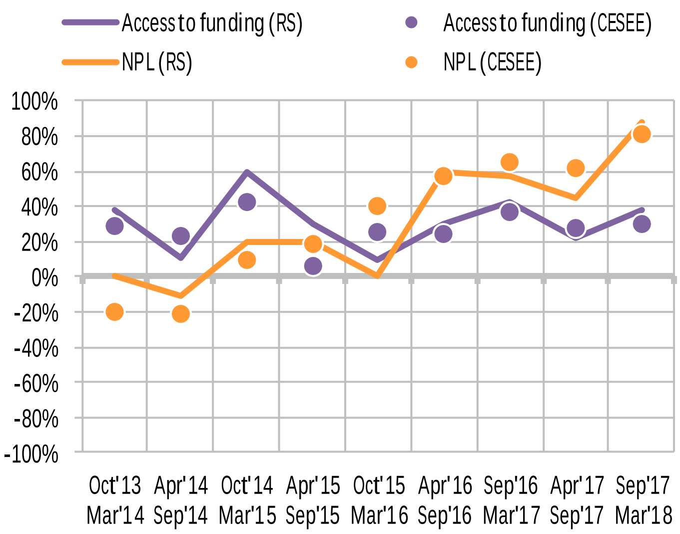
Access to funding for local banks continues improving, mainly thanks to better retail and corporate funding as well as intragroup funding.

The positive trend in **NPLs** reduction has continued for both corporate and retail loans.



Source: EIB – CESEE Bank Lending Survey.

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



Source: EIB – CESEE Bank Lending Survey.

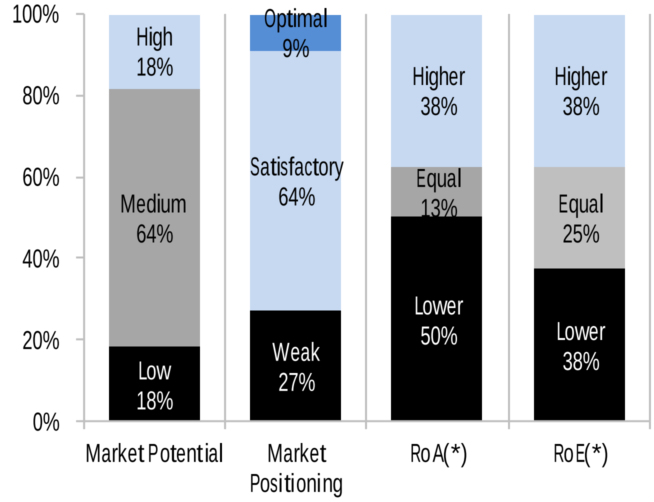
Note: All indicators in net percentages; Access to funding: positive values indicate increased access to funding; NPL: Negative figures indicate increasing NPL ratios

Results of the Bank Lending Survey – Parent banks level

Like in the previous six-month period, a vast majority of parent banking groups see medium to high market potential in Serbia and regard their current market positioning as satisfactory to optimal.

As for the bank profitability indicators, in return-on-assets terms (adjusted for cost of risk) the situation has remained unchanged during the last six months and about 51% of local banks report higher or equal return on assets in comparison to the overall group operations. In return-on-equity terms (adjusted for cost of equity), 63% of local banks report a higher profitability ratio than the overall group. Nevertheless, the share of local banks reporting higher return on equity than the overall group has one down during the last six months from 50% to 38%.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

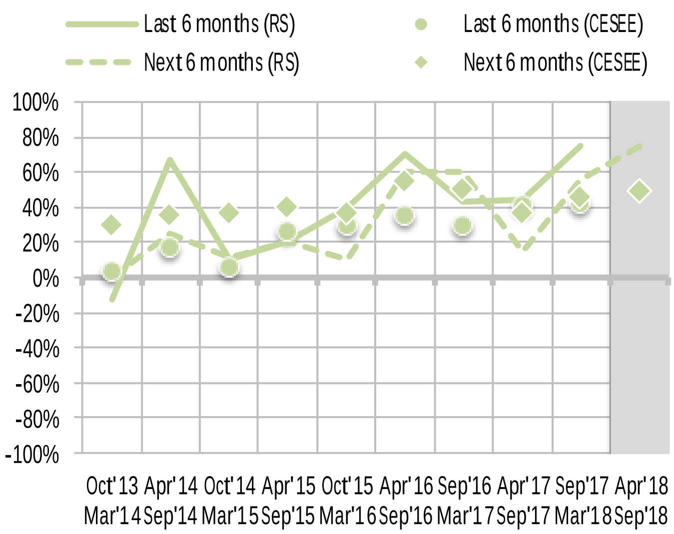
Note: See question A.Q1. (*) Return on assets (adjusted for cost of risk) compared to overall group operations; return on equity (adjusted for cost of equity) compared to overall group ROE.

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

Aggregate demand developments

Amidst favourable economic environment, loan demand in Serbia continues strengthening further, surpassing the CESEE average. Looking ahead, the expectations series points to further increase in the demand for credit in Serbia.

Figure 2 **Demand side developments**

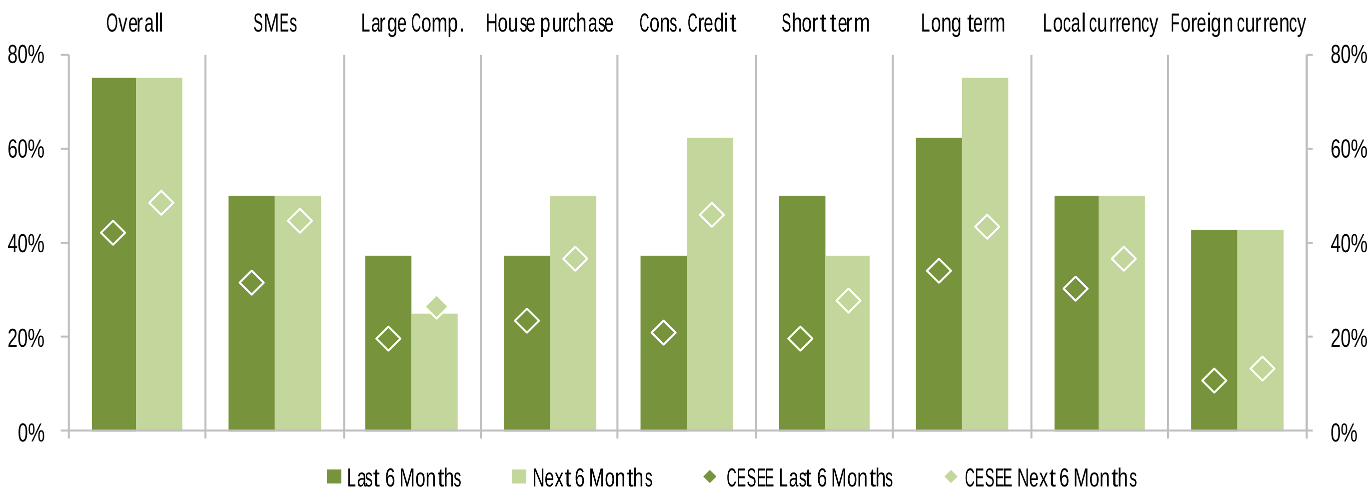


Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 Demand components and segments

Demand for loans in Serbia has continued increased across the board during the last six months and further strengthening is expected over the next six months. Demand for loans to SMEs has been the strongest sectoral component.

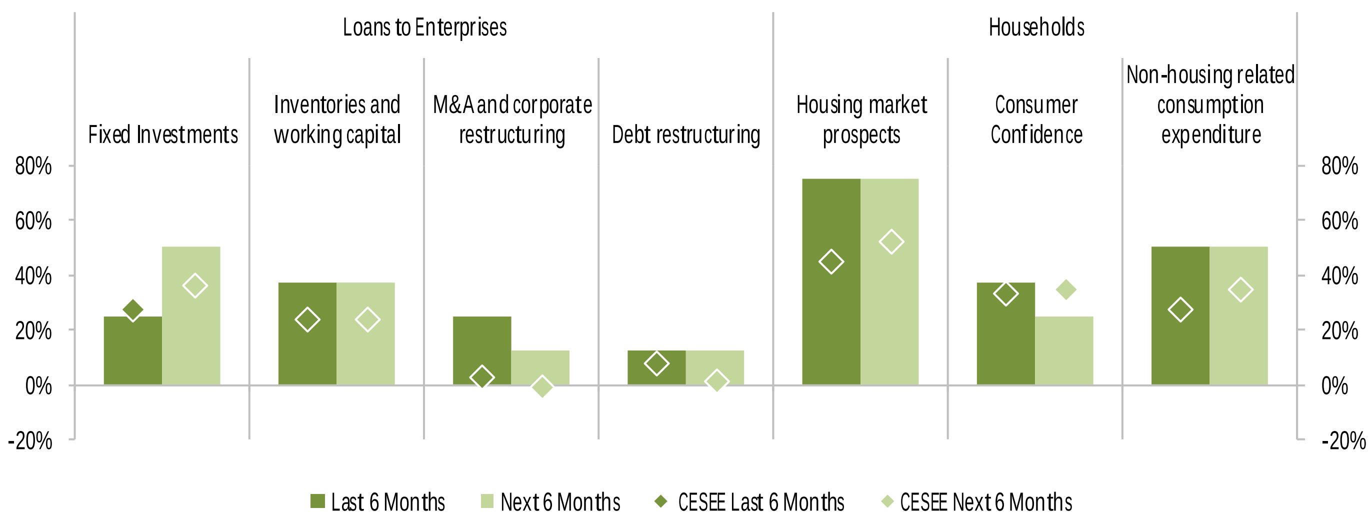


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

Housing market prospects have been the strongest positive factor affecting demand for loans during the last six months. Over the next six months, housing market prospects are expected to exhibit the strongest effect on overall loan demand, followed by corporate fixed investments. Debt restructuring is also contributing mildly to the increase in loan demand.

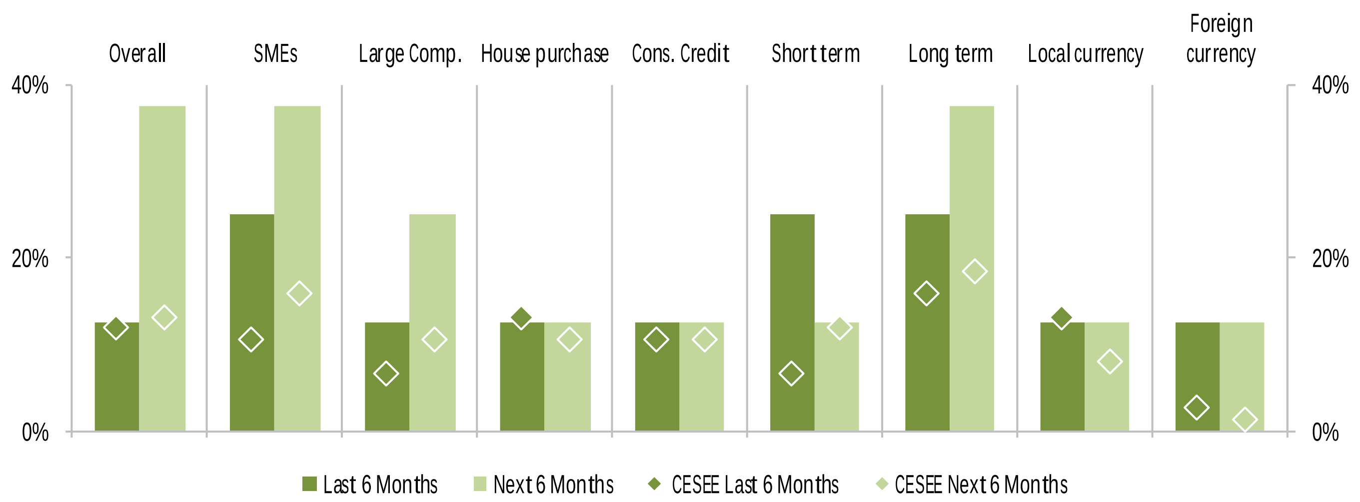


Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

In comparison to the previous six-month period, the overall quality of loan applications has improved significantly for all loan components and segments. Loans to SMEs are registering the largest increase in the quality of loan applications. Looking ahead, the overall quality of loan applications in Serbia is expected to improve further.



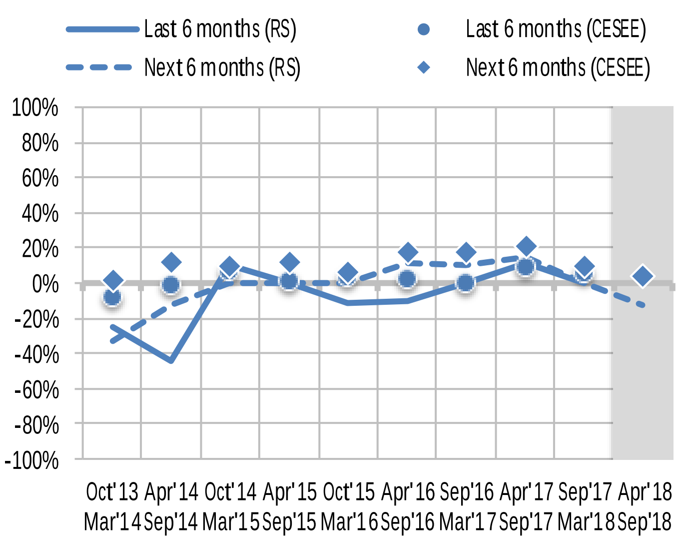
Source: EIB – CESEE Bank Lending Survey

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

Aggregate supply developments

After one period of credit easing, Serbian banks report that credit standards have become more neutral once again during the last six months. In addition, the expectations series points to a net tightening of the credit standards over the next six months, which can be a warning sign down the road as the expectations series has been consistently more optimistic than the actual survey outcomes.

Figure 6 Supply developments

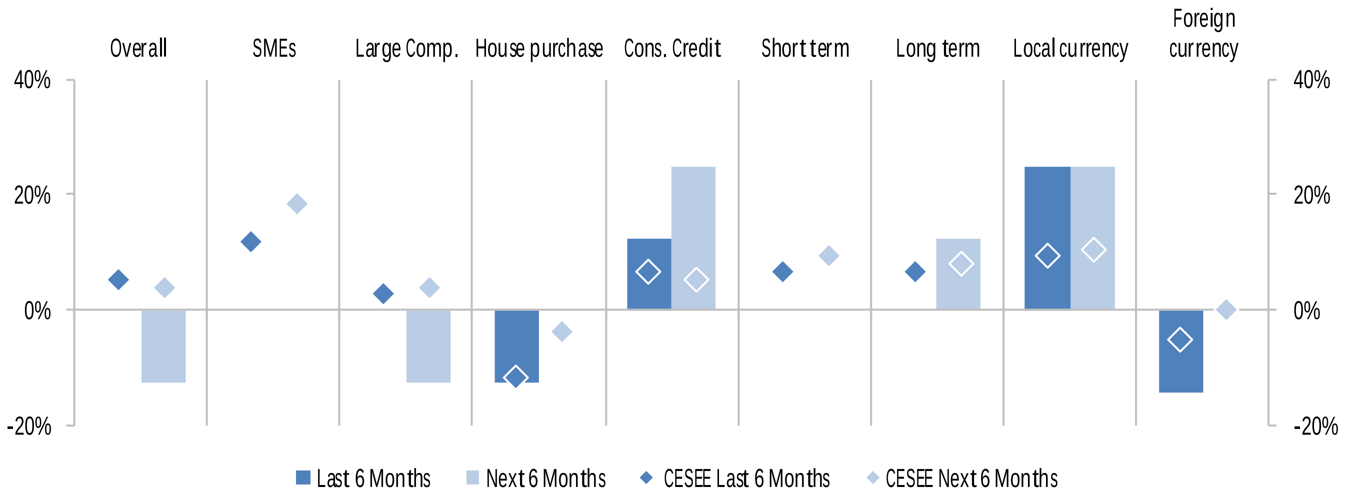


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

During the last six months, credit standards have tightened for house purchase loans and loans in foreign currency and they have eased for consumer credit and local currency loans. Over the next six months, while consumer credit, long term and local currency loans are expected to experience easing in lending conditions, the credit standards for large corporate loans are expected to tighten. This is in line with the expected tightening of banks' collateral requirements for large corporate loans.

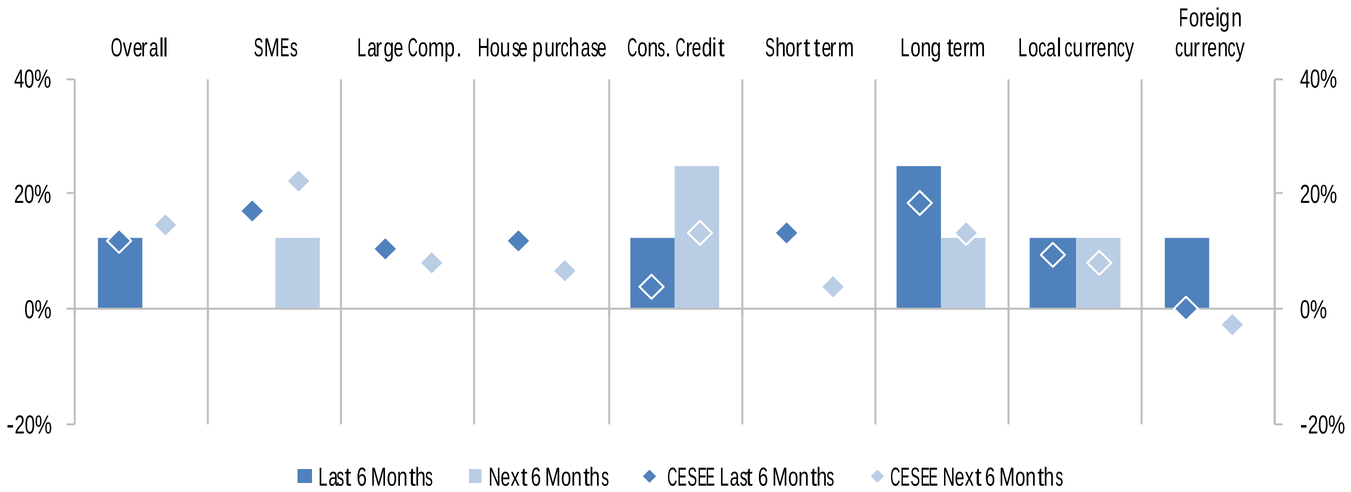


Source: EIB – CESEE Bank Lending Survey

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

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

The overall banks' approval rate has improved during the last six months and is expected to remain unchanged over the next six months. The approval rate for consumer credit and loans in foreign currency has increased during the last six months. Looking ahead, the approval rate for consumer credit is expected to increase further over the next six months, together with the approval rate for loans to SMEs.

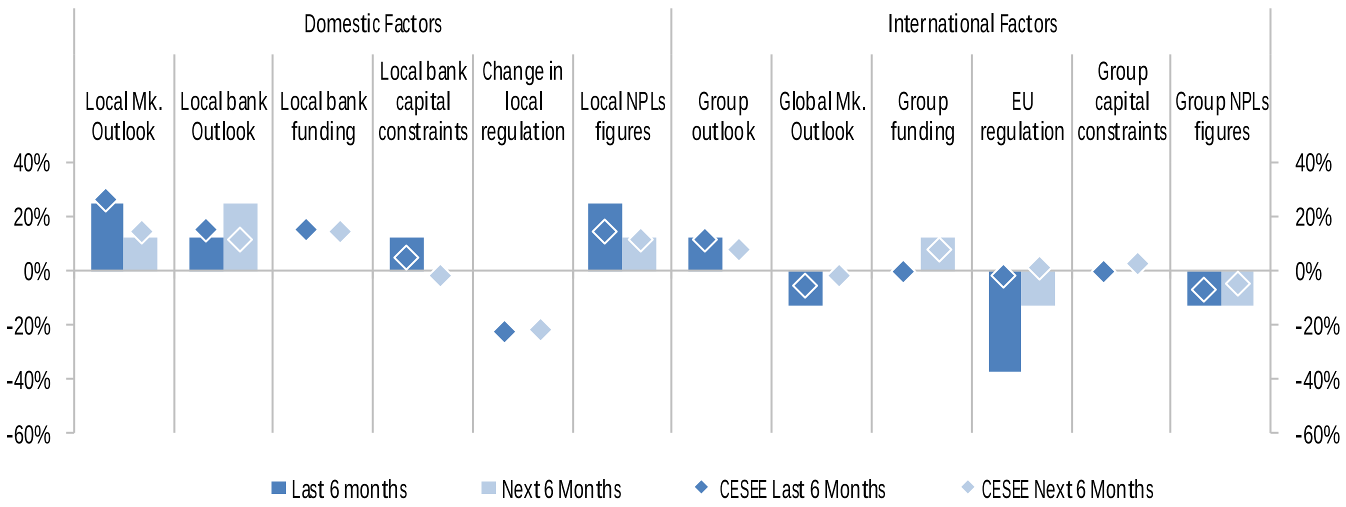


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 **Factors contributing to supply conditions**

During the last six months, EU regulation, group market outlook and group NPLs figures have been the factors contributing to credit supply conditions in Serbia. On the positive side, domestic factors have broadly contributed positively to credit supply conditions. While local bank funding as such has had an unchanged impact, when looking in more detail, local bank funding from domestic sources has had a negative impact on domestic credit supply conditions in Serbia.

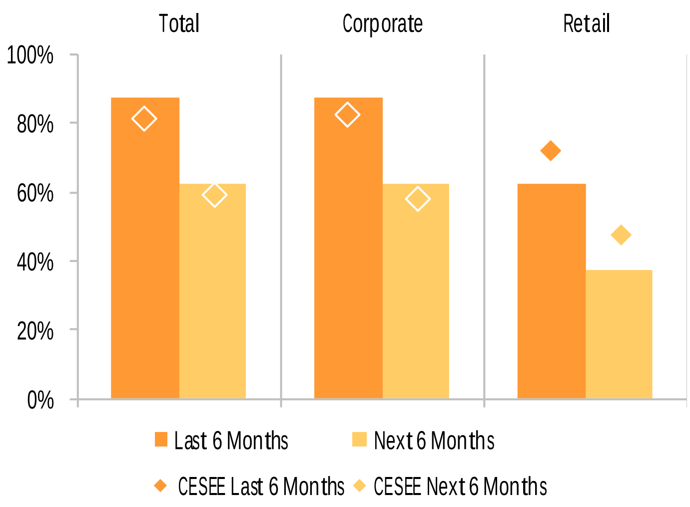


Source: EIB – CESEE Bank Lending Survey.

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

Figure 10 Non-performing loan ratios

The NPL reduction has been strong during the last six months, in line with previous expectations (particularly for the corporate loans segment). Over the next six months, the positive trend in NPL reduction is expected to continue, albeit at somewhat slower pace (particularly for the retail loans segment).

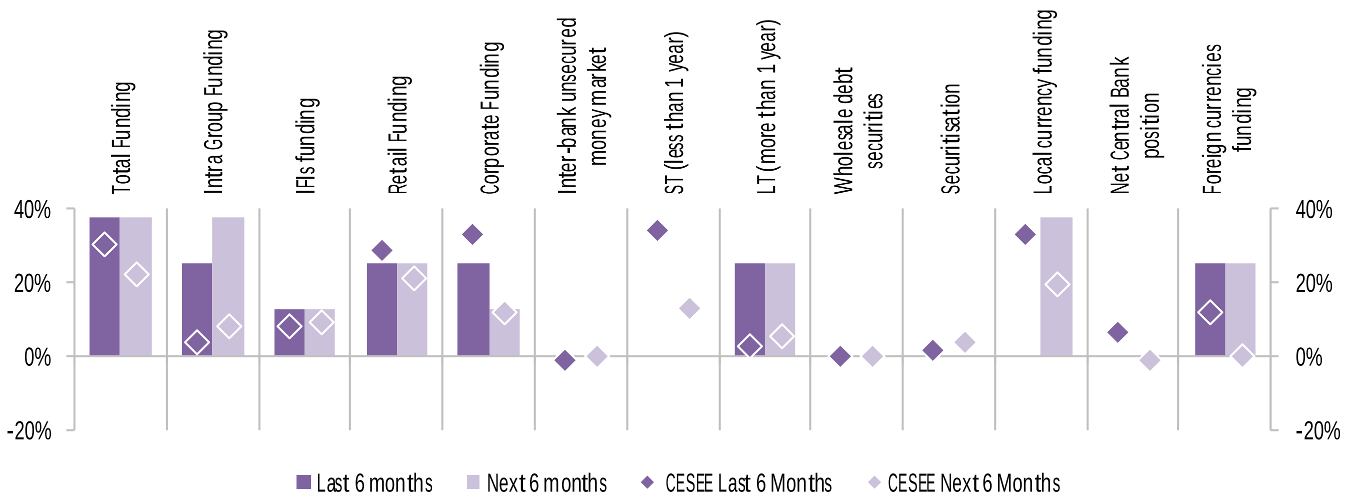


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11 Access to funding

Overall, access to funding continues registering further improvements as the economy deleverages and household and corporate balance sheets gradually improve. This is particularly visible on the improvements in access to retail and corporate deposits. In addition, intra-group bank funding has also been improving strongly. Better access to funding is also expected for both local currency and foreign currency funding.



Source: EIB – CESEE Bank Lending Survey.

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

Slovakia

Profitable market with stable domestic funding and declining trend of NPL ratios. The onset of macro-prudential tightening has contributed to tighter credit conditions and more neutral loan demand dynamics.

Summary

Group assessment of positioning and market potential: Slovakian banking sector is predominantly owned by foreign banking groups and remains more profitable than the overall group. The parent banking groups continue seeing high to medium market potential in Slovakia.

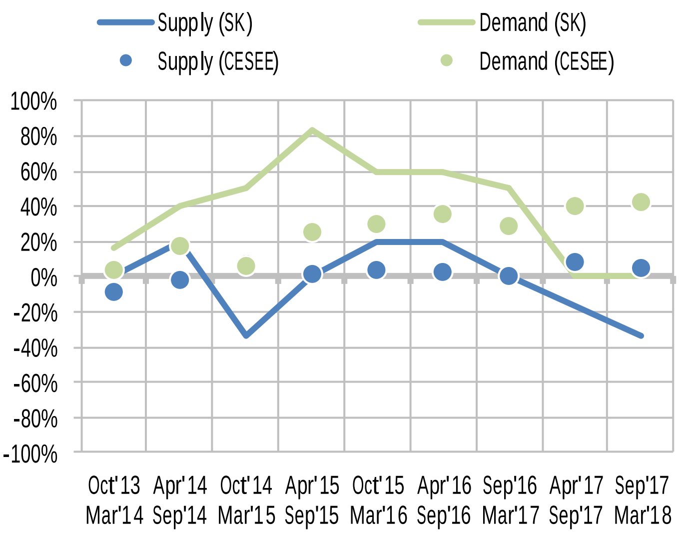
The introduction of tighter prudential measures for loans to households as well as the increase in countercyclical capital buffer for banks are already having effect on the domestic credit market. After a number of periods of strong performance, **credit demand** has become broadly neutral, while **credit standards** have become tighter.

Demand for loans has been neutral for SMEs and large corporates during the last six months, it has still increased for house purchase loans. Demand for house purchase loans and consumer credit is expected to increase over the next six months.

Credit supply conditions have become tighter for house purchase loans and consumer credit. Further tightening of credit standards for house purchase loans and consumer credit is expected over the next six months. Changes in local regulation continue contributing negatively to credit standards in Slovakia.

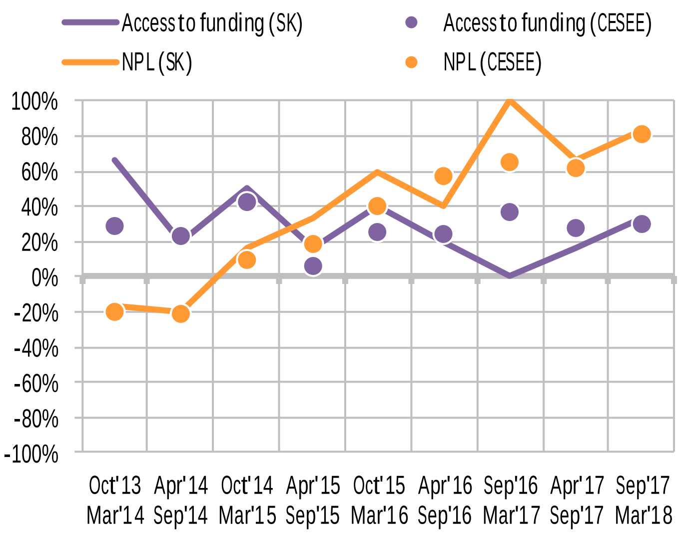
Access to funding: Slovakian banks rely predominantly on domestic deposits. During the last six months, banks' access to deposits from households has been unchanged, but access to corporate retail funding and intragroup funding has increased.

NPL ratios decreased over the last six months and are expected to decrease further.



Source: EIB – CESEE Bank Lending Survey.

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



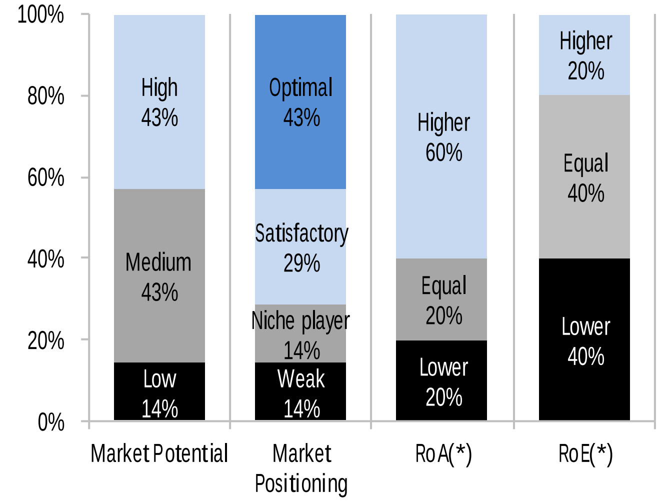
Source: EIB – CESEE Bank Lending Survey.

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

Results of the Bank Lending Survey – Parent banks level

About 86% of parent banking groups operating in Slovakia see medium to high market potential in Slovakia. In turn, 72% of the parent groups see their current market positioning in Slovakia as optimal or satisfactory. This relates also the profitability of the local banks in Slovakia. Overall, 80% of the local banks report higher or equal return on assets than the overall group operations, and 60% report higher or equal return on equity than the overall group. The share of local banks whose profitability measures are higher than the group have been slightly lower during the last 6 months than the previous period.

Figure 1 **Market potential and positioning**



Source: EIB – CESEE Bank Lending Survey.

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

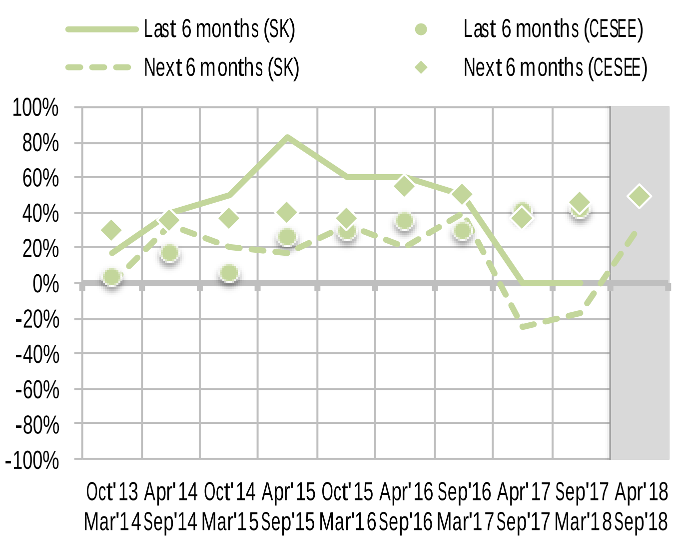
Results of the Bank Lending Survey - local banks/subsidiaries level

Aggregate demand developments

The demand for loans came down from a period of strong increases and has been neutral for two consecutive six-month periods. This has been below the CESEE average.

The expectations series has moved from a negative territory to positive expected demand for the coming six months.

Figure 2 **Demand side developments**

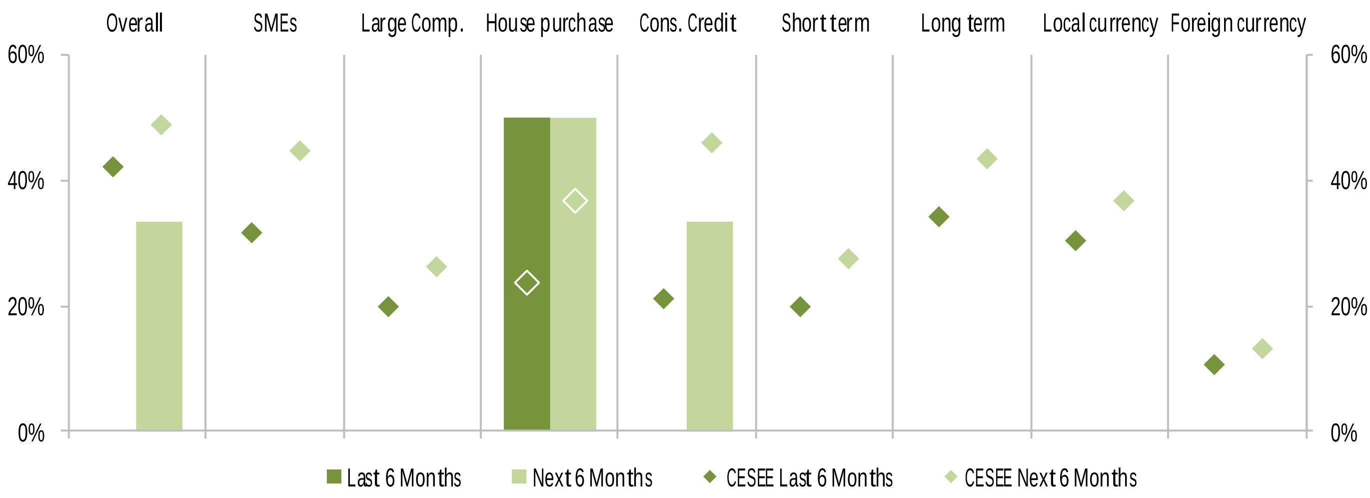


Source: EIB – CESEE Bank Lending Survey.

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

Figure 3 Demand components and segments

Despite the start of the macro-prudential tightening by the National Bank of Slovakia, demand for loans for house purchases has increased substantially during the last six months (above CESEE average) and is expected to increase strongly also over the next six months. Demand for consumer credit is also expected to increase in the next six months.

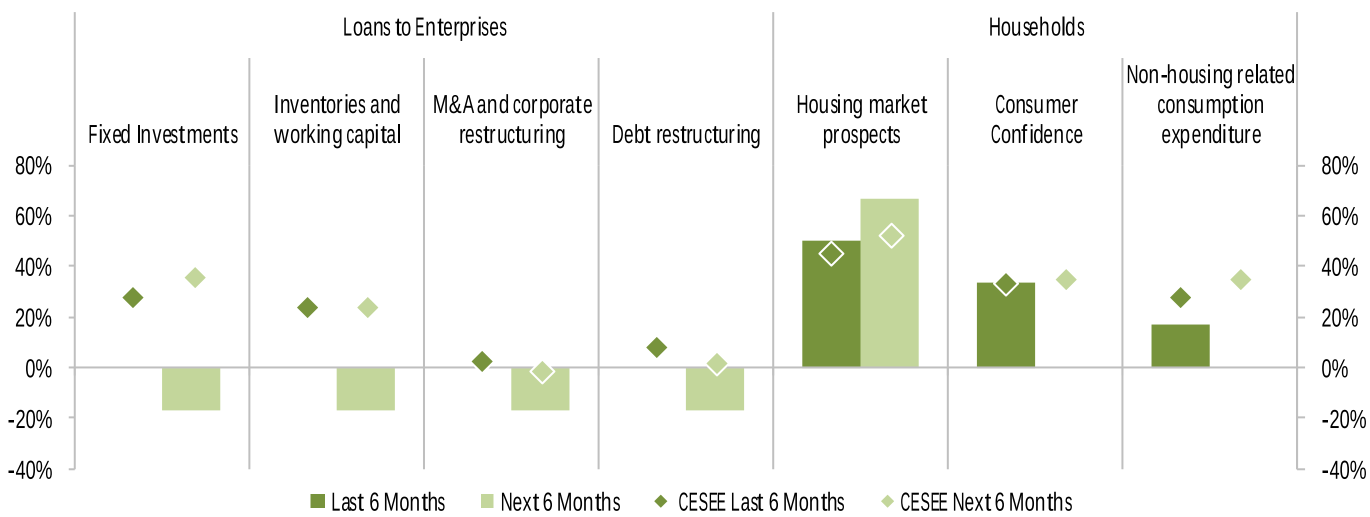


Source: EIB – CESEE Bank Lending Survey.

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

Figure 4 Factors affecting demand for loans

Housing market prospects and consumer confidence have been the main factors contributing to loan demand during the last six months. Housing market prospects are expected to contribute even more positively over the next six months. On the corporate side, the demand factors have been neutral during the last six months and are expected to affect demand for loans negatively over the next six months.



Source: EIB – CESEE Bank Lending Survey.

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

Figure 5 Quality of loan applications

The quality of loan applications has remained broadly unchanged during the last six months and the same development is expected also over the next six months.

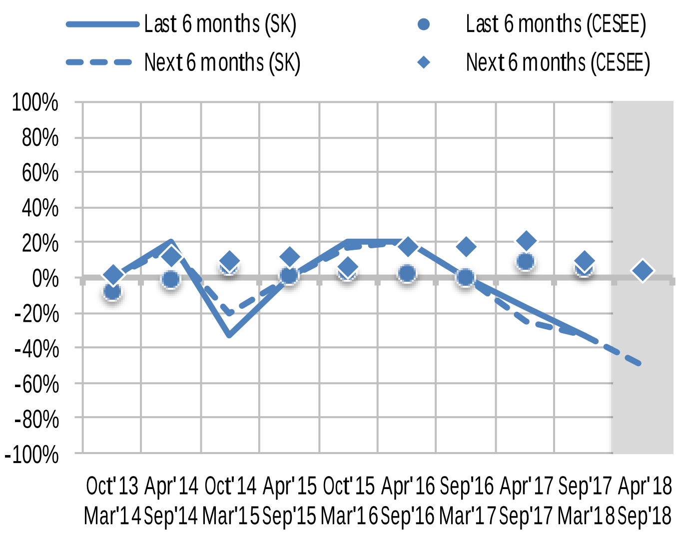
Source: EIB – CESEE Bank Lending Survey

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

Aggregate supply developments

While the effects of the marginal macro-prudential tightening have not yet led to net decreases in credit demand, they have already led to tighter lending standards. Credit conditions in Slovakia have turned more negative during the last six months, and they are expected to tighten even further during the next six months (far tighter than the CESEE average).

Figure 6 Supply developments

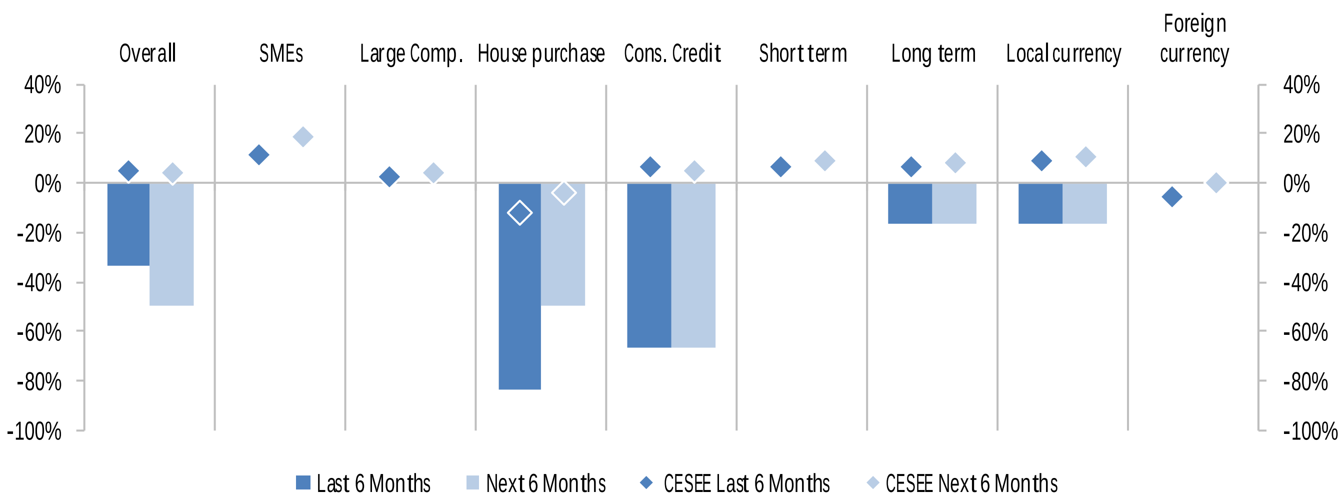


Source: EIB – CESEE Bank Lending Survey.

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

Figure 7 Supply components and segments

The largest tightening in credit standards during the last six months has occurred for house purchase loans, followed by consumer credit. This corresponds to the increase in collateral requirements for banks for house purchase loans. Further tightening in credit standards is expected for both house purchase loans and consumer credit.

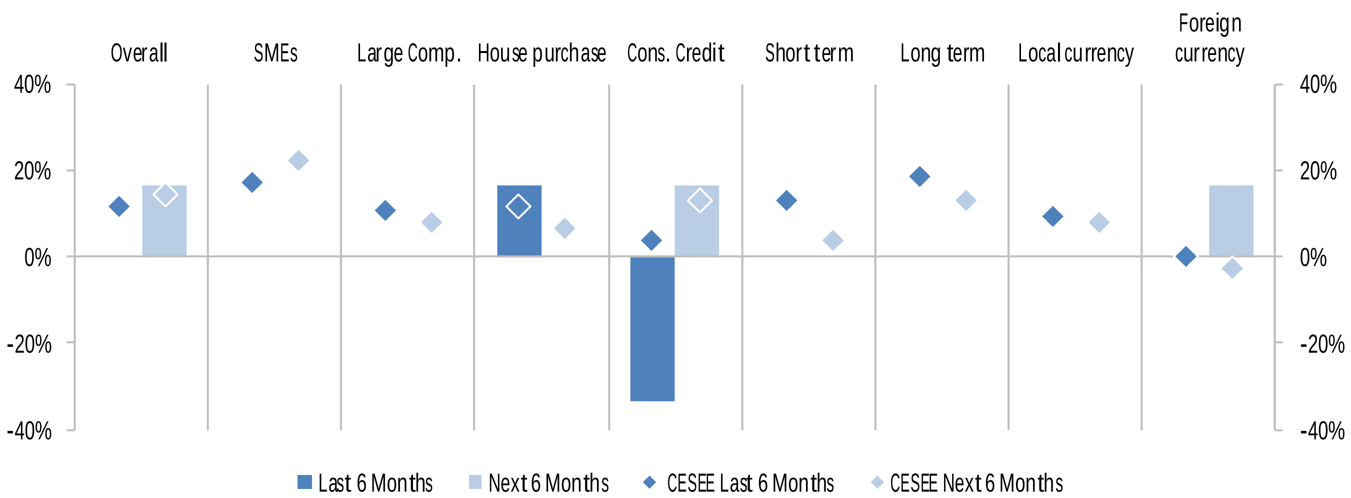


Source: EIB – CESEE Bank Lending Survey

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

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

The overall banks' loan approval rate has been unchanged during the last six months, thanks to still positive approval rate for house purchase loans. Nevertheless, the approval rate for consumer credit has been negative during the last six months. Over the next six months, the approval rate for house purchase loans is expected to be unchanged while the approval rate for consumer credit is expected to improve.

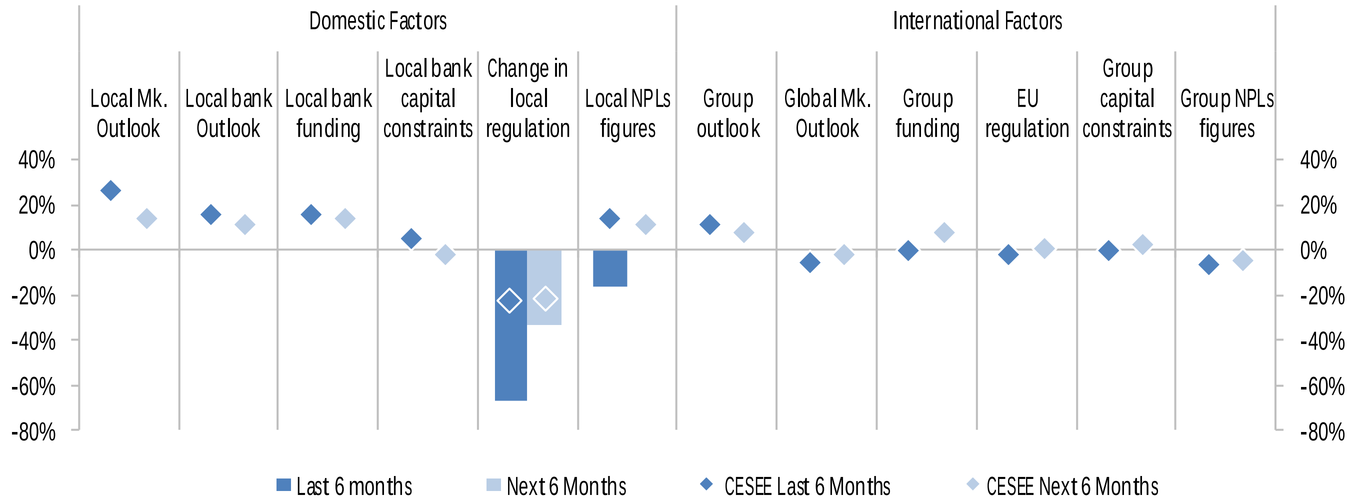


Source: EIB – CESEE Bank Lending Survey

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

Figure 9 **Factors contributing to supply conditions**

Changes in local regulation are the key domestic factor weighing negatively on credit supply conditions in Slovakia, and this impact is expected also over the next six months. Local NPL figures have also had a negative impact on domestic credit supply conditions during the last six months.

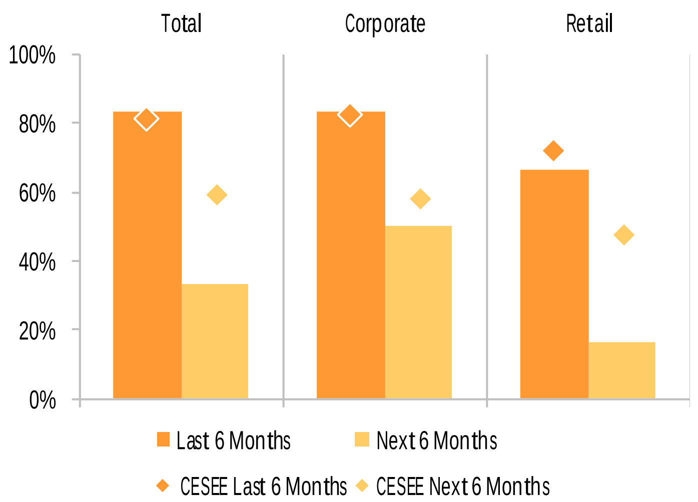


Source: EIB – CESEE Bank Lending Survey.

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

Figure 10	Non-performing loan ratios

Total NPL reduction in Slovakia over the last six months has been strong, for both the corporate and retail sectors, and in par with the rest of CEEE. Over the next six months, the NPL reduction is expected to continue, but at a slower pace and below the CESEE average.

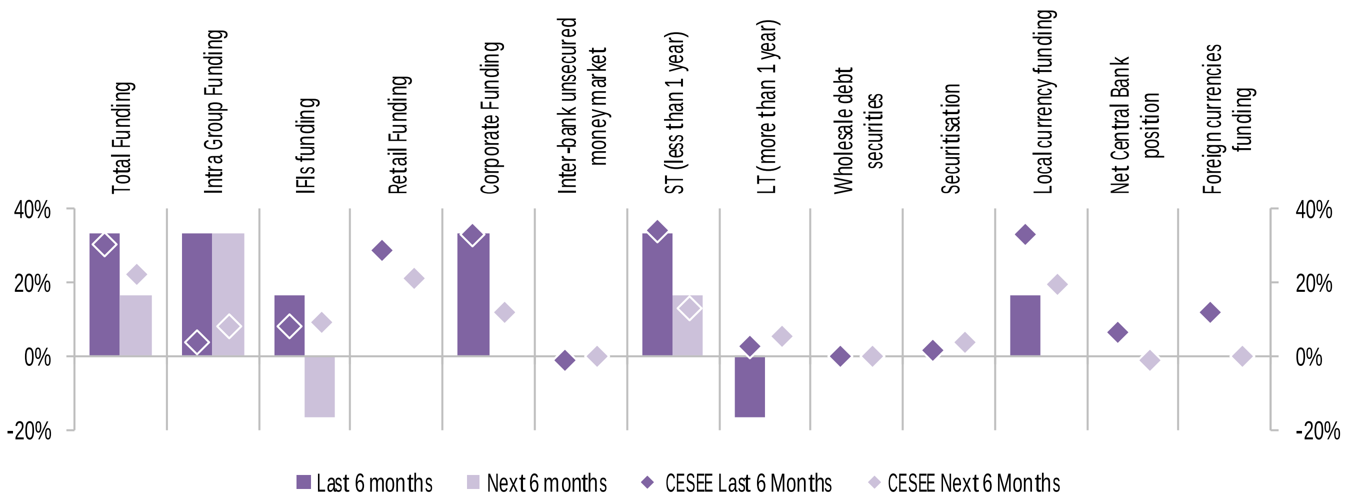


Source: EIB – CESEE Bank Lending Survey.

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

Figure 11	Access to funding

Total funding for banks in Slovakia has improved strongly during the last six months and it is expected to strengthen over the next six months. Intragroup funding and corporate deposits have been mainly behind the recent improvements. Intragroup funding is expected to improve further in the next six months. Access to retail deposits remains unchanged.



Source: EIB – CESEE Bank Lending Survey.

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

Survey Description

Key statistics

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

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

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

- 15 international groups
- 85 local banks/subsidiaries.

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

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

The CESEE Bank Lending Survey – technical note

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

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

Taking into account the unique nature of the regional banking sector, with a large proportion of banks being foreign-owned, the survey investigates both the strategies of international banks active in CESEE and the market conditions and market expectations as perceived by the local subsidiaries/local banks. To that end, the survey covers the major international banks operating in CESEE and their subsidiaries in the region. At the same time, to gain a full understanding of local market conditions, an effort has been made to also include in the survey the relevant domestic players in a specific local market.

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

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

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

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

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

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

Figure 1 **Market share and number of banks**

Source: EIB – CESEE Bank Lending Survey.

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

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

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

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

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

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

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

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

The Questionnaire

The questionnaire is divided into two parts:

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

PART A

A.Q1 How do you assess in each country…

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

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

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

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

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

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

A.Q6 - Profitability of the strategy in CESEE region: the contribution of activities in CESEE in total ROA of the Group is/will…		
	LAST 6 months	**NEXT** 6 months

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

A.Q8 - Group total exposure to CESEE: Concerning cross-border operations to CESEE countries, your group did/intends to…		
	LAST 6 months	**NEXT** 6 months
Total Exposure		
Exposure to Subsidiaries - intra-group funding		
Exposure to Subsidiaries - capital		
Direct cross border lending to domestic clients, booked in the BS of the parent company		
MFIs - funding to banks not part of the group, booked in the BS of the parent		

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

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

PART B

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

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

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

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

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

OVER the LAST 6 months

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

OVER the NEXT 6 months

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

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

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

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

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

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

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

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

...Loans or credit lines to enterprises

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

...Loans to Household

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

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

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

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

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

ECONOMICS – REGIONAL STUDIES

CESEE
Bank Lending Survey

H1-2018

European Investment Bank
The EU bank

60 years

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