

# **Bank Lending Survey for Bosnia and Herzegovina**

## **(Report for the first quarter of 2021)**

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## Introduction

The results of bank lending survey (BLS) relate to changes observed during the first quarter of 2021 and expectations for the second quarter of 2021. The survey was conducted between 12 and 16 April 2021. The representative sample of banks consist of eight largest banks in Bosnia and Herzegovina. A total of eight banks were surveyed in this round and a response rate was 100%.

### *1 General notes*

The BLS questionnaire contains 16 standard questions on realized and expected future developments on the supply and demand side of loans: 4 forward-looking questions and 12 backward-looking questions. Those questions distinguish between three loan categories: loans or credit lines to enterprises; household loans for housing purchase; and consumer and non-purpose loans. For all three categories, questions are asked about the credit standards applied to the approval of loans, the change of terms and conditions of new loans approval, loan demand, the factors affecting loan supply and demand conditions, and the percentage of loan applications being rejected. Survey questions are generally phrased in terms of changes over the past three months or expected changes over the next three months. Survey participants are asked to indicate in a qualitative way the strength of any tightening or easing (for standards and conditions) or the strength of any decrease or increase (for demand), reporting changes using the following five-point scale: (1) tightened/decreased considerably, (2) tightened/decreased somewhat, (3) basically no change, (4) eased/increased somewhat or (5) eased/increased considerably.

The responses of the individual banks participating in the BLS are aggregated and processed to form results for whole banking sector in Bosnia and Herzegovina.

The results of the survey are presented as a net percentage. The net percentage for answers to questions about credit standards is defined as the difference between the total share of the banks answering that credit standards were "significantly eased" and "moderately eased" and the total share of the banks answering "significantly tightened" and "moderately tightened".

A negative net percentage indicates that a larger proportion of banks has tightened credit standards ("net tightening"), whereas a positive net percentage indicates that a larger proportion of banks has eased credit standards ("net easing").

Likewise, the term "net demand" refers to the difference between the percentage of banks reporting an increase in loan demand and the percentage of banks reporting a decline. Net demand will therefore be positive if a larger proportion of banks has reported an increase in loan demand, whereas negative net demand indicates that a larger proportion of banks has reported a decline in loan demand.

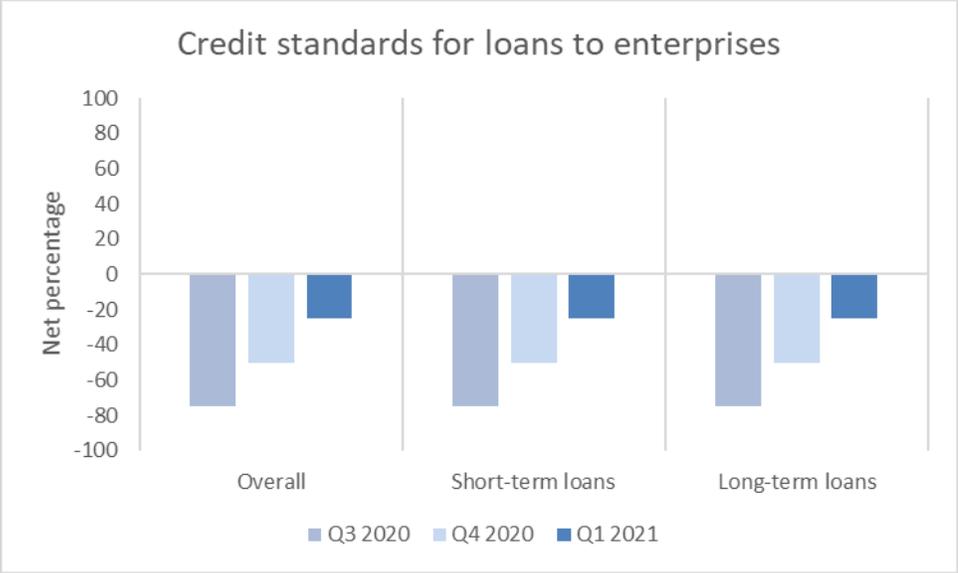
In addition to the “net percentage” indicator, the CBBH also publishes diffusion index as an alternative measure of banks’ responses to questions relating to changes in credit standards and net demand. The diffusion index is constructed in the following way: respondents who have answered “considerably” are given a score of 1, which is twice as large as that given to respondents who have answered “somewhat” (score of 0.5). The interpretation of the diffusion index follows the same logic as the interpretation of net percentages.

## 2 Loans to enterprises

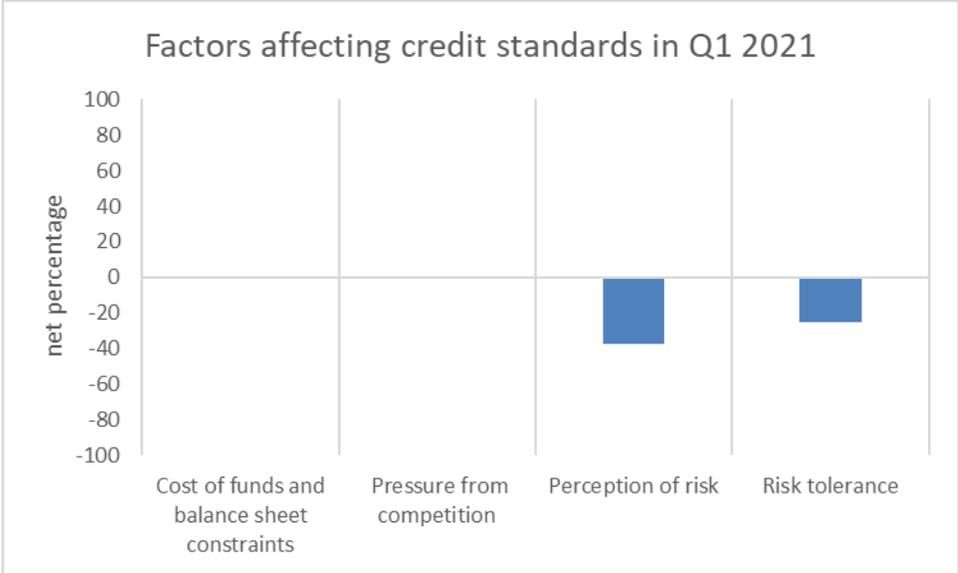
### 2.1 Supply

#### 2.1.1 Credit standards for loans to enterprises

Credit standards (i.e. banks’ internal guidelines or loan approval criteria) for loans or credit line to enterprises continued to tighten in the first quarter of 2021, but with less intensity than in the third and the fourth quarter of 2020 (net percentage -25%). Banks reported a net tightening of credit standards for both short-term loans and long-term loans (see Annex, Question 1). The tightening was higher than expected by banks in the previous survey round.

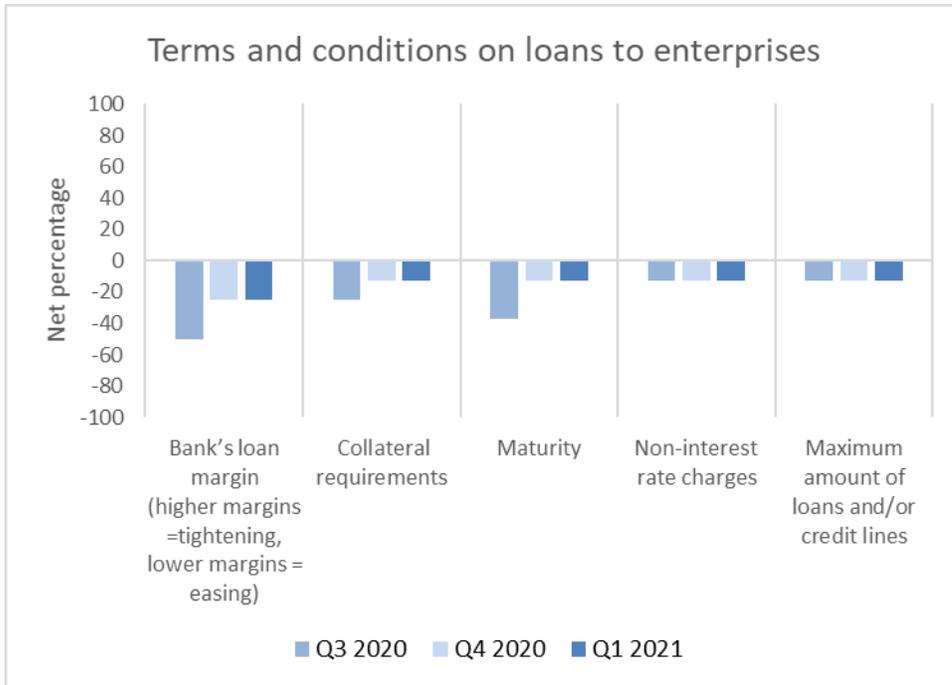


This tightening was mainly driven by banks’ risk perceptions, and risk tolerance. The tightening impact of risk perceptions related to the deterioration in the general economic situation became considerably smaller comparing with previous quarter (net percentage -38% after -63%), but continued to be the main factor contributing to the tightening of credit standards on corporate loans. Cost of funds and balance sheet constraints and pressure from competition had no impact on banks credit standards as applied in the process of the approval of loans or credit lines to enterprises (see Annex, Question 2).



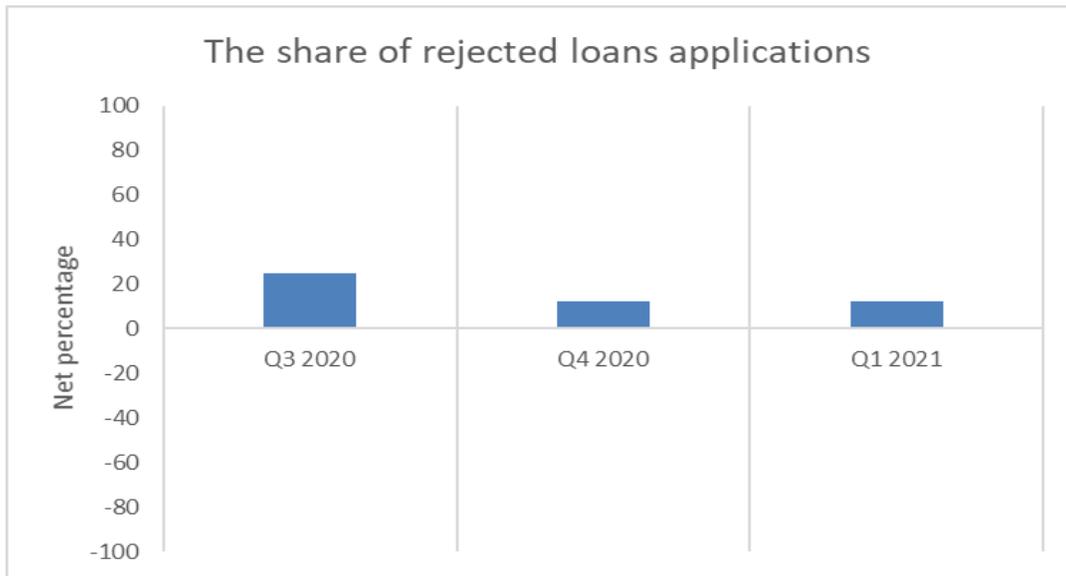
**2.1.2 Terms and conditions on loans to enterprises**

Bank’s terms and conditions (i.e. banks’ actual terms and conditions agreed in the loan contract) for new loans or credit lines to enterprises continued tightening in the first quarter of 2021, but this tightening was of less intensity than in the third quarter and of similar intensity as in fourth quarter of 2020. In this quarter, margins on corporate loans tightened (i.e. margins increased) more compared to other terms and conditions related to loan approval (see annex, Question 3).



### 2.1.3 Rejected application share for loans to enterprises

In the first quarter of 2021, banks reported net increase in the share of rejected applications for loans to enterprises (net percentage 13%) (see Annex, Question 4).

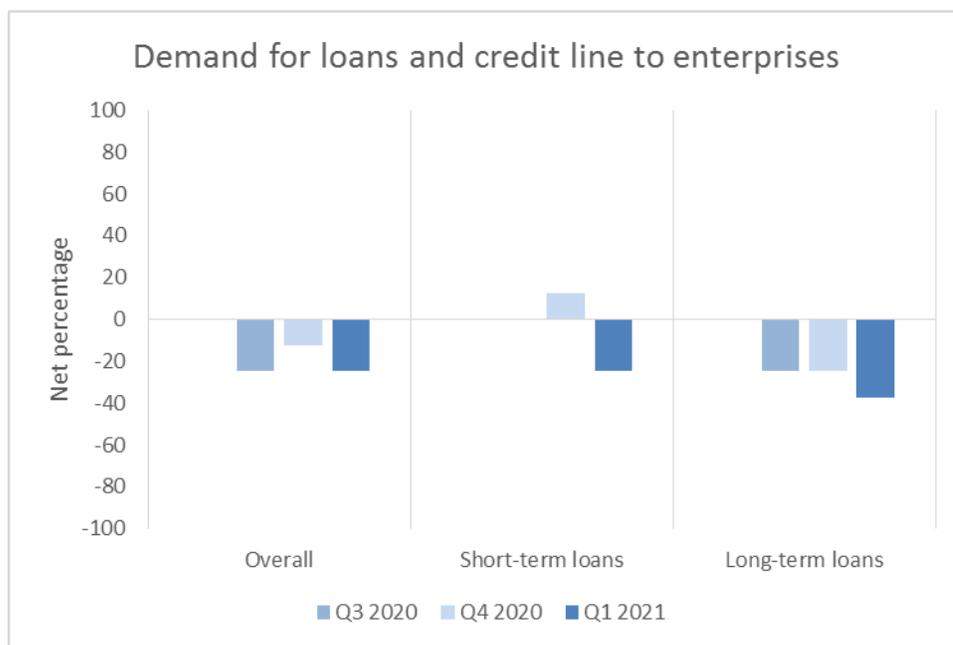


## 2.2 Demand for loans or credit lines to enterprises

Enterprises' overall demand for loans or credit lines decreased in the first quarter of 2021 (a net percentage of banks reporting a decrease in overall loan demand at -25%), which is in line with reported decrease in demand from the previous third and fourth quarter of 2020. Such lowered demand for loans is probably related to ongoing economic difficulties for many enterprises.

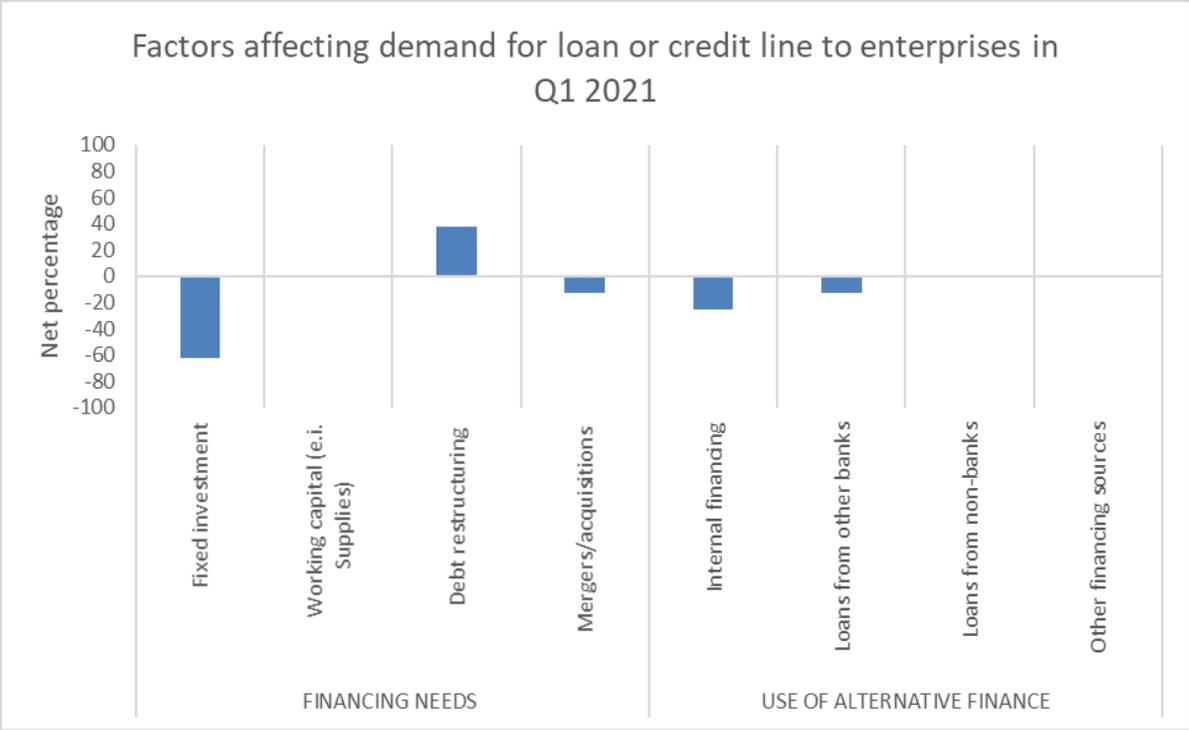
Looking by maturity, loan demand for long-term loans (net percentage of -38%) is weaker, comparing with overall loans (-25%) and short-term loans (-25%).

This is the third consecutive quarter for which banks reported a net decrease in demand for overall and long-term loans. Concerning the short-term loans, banks reported net decrease for demand for short-term loans in first quarter of 2021, contrary to reported increase demand in fourth quarter of 2020.



Banks reported that financing needs for debt restructuring contributed to higher demand and it was the single factor for increased corporate loans demand. Contrary to this, corporates do not have financing needs for fixed investment and for mergers and acquisitions, and therefore, loan demand for these purposes is low. In addition, financing needs for inventories had no impact to demand.

In reference to use of alternative finance, banks reported that internal financing and loan from other banks contributed to lower demand. On the other side, other financing sources and loans from non-banks had no impact on corporates demand.



**Expectations for Q2 2021**

In the second quarter of 2021, banks expect to have a net easing of credit standards on total and short-term corporate loans (net percentage of 13%), while credit standards on long-term loans will remain mostly unchanged (see Annex, Question 7).

Banks expect that net demand for overall and short-term corporate loans will increase while demand for long-term loans will remain basically unchanged in the second quarter of 2021 (see Annex, Question 8) .

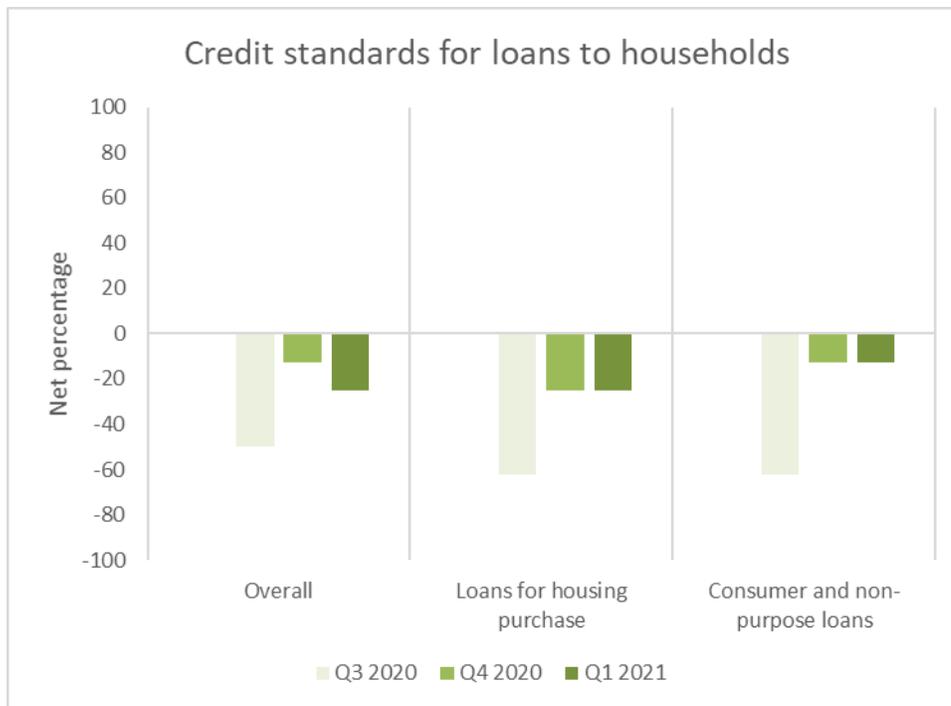
### 3 Loans to households

#### 3.1 Supply

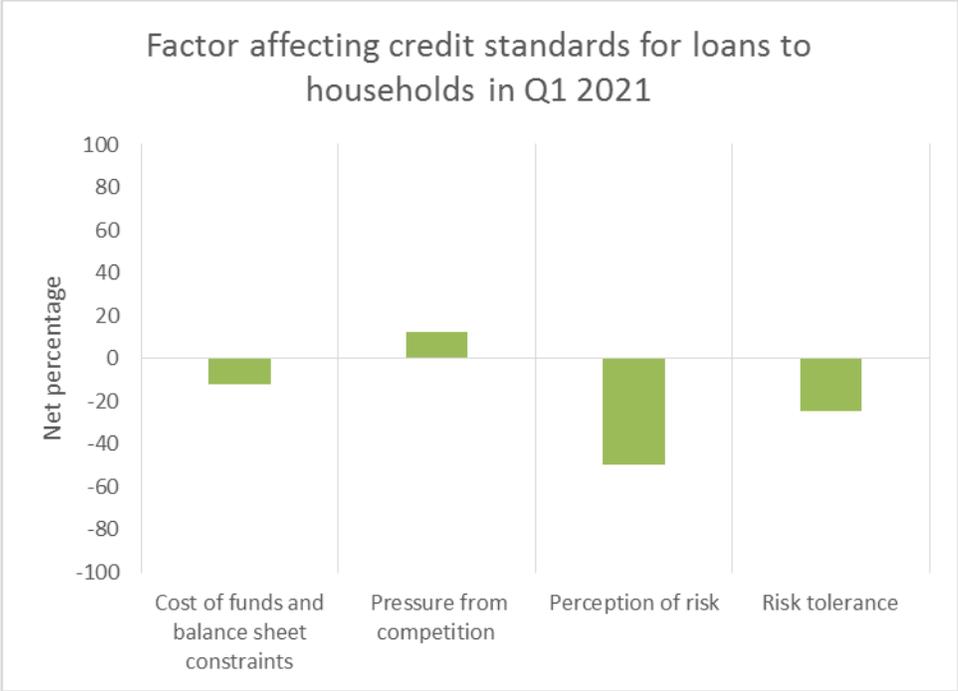
##### 3.1.1 Credit standards for loans to households

Banks indicated a general net tightening of credit standards (i.e. banks' internal guidelines or loan approval criteria) for loans to households in the first quarter of 2021, i.e. the percentage share of banks reporting a change of credit standards towards a tightening was larger than the share of banks reporting an easing. The net tightening of credit standards was more evident for overall loans than in fourth quarter 2020 (net percentage -25%, after -13%). Looking by purpose, the net tightening in credit standards for loans for house purchase was stronger than for consumer and non-purpose loans.

The tightening of credit standards for loans for house purchase was higher than expected by banks in the previous survey round, while tightening of credit standards for consumer and non-purpose loans is contrary to banks expectations from previous quarter (banks expected easing of credit standards for consumer and non-purpose loans).

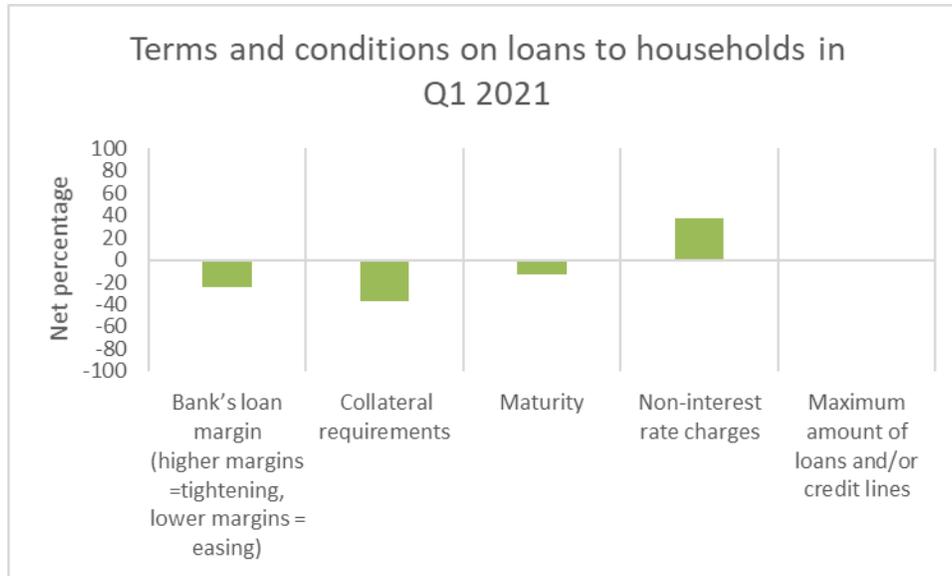


Risk perception related to the general economic outlook was reported by banks as the main factor contributing to the tightening of credit standards. Banks have also indicated risk tolerance as a relevant factor contributing to the tightening of credit standards. In addition to this, the cost of funds and balance sheet constraints forced banks contributed to tightening of credit standards. On the other hand, banks indicate pressure from competition as a factor contributing to the easing credit standards.



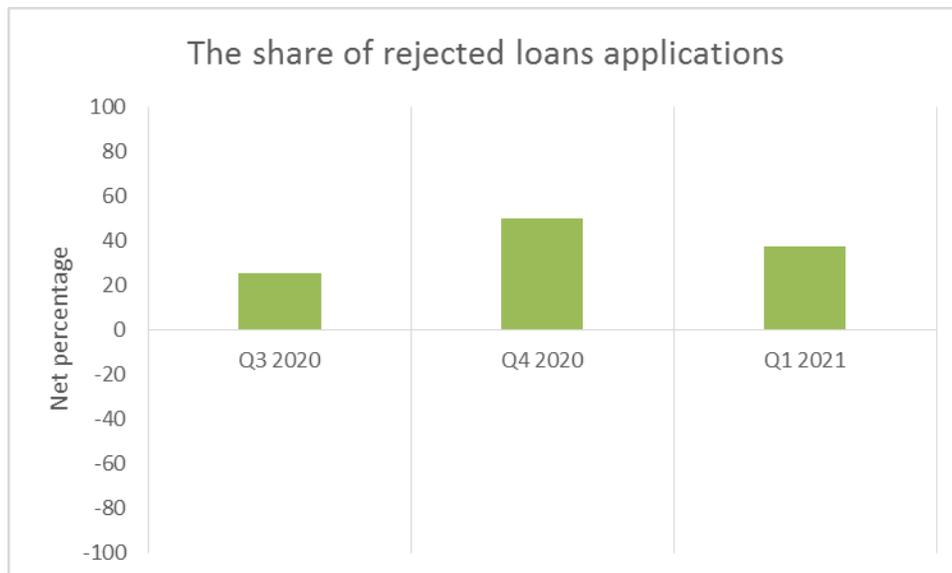
**3.1.2 Terms and conditions on loans to households**

Bank’s terms and conditions (i.e. banks’ actual terms and conditions agreed in the loan contract) for new household loans generally tightened in the first quarter of 2021. Bank’s loan margin increased, collateral and maturity requirements were tightened, while non-interest rate charges were eased. Maximum amount of loans and /or credit line remained basically unchanged (see Annex, Question 11).



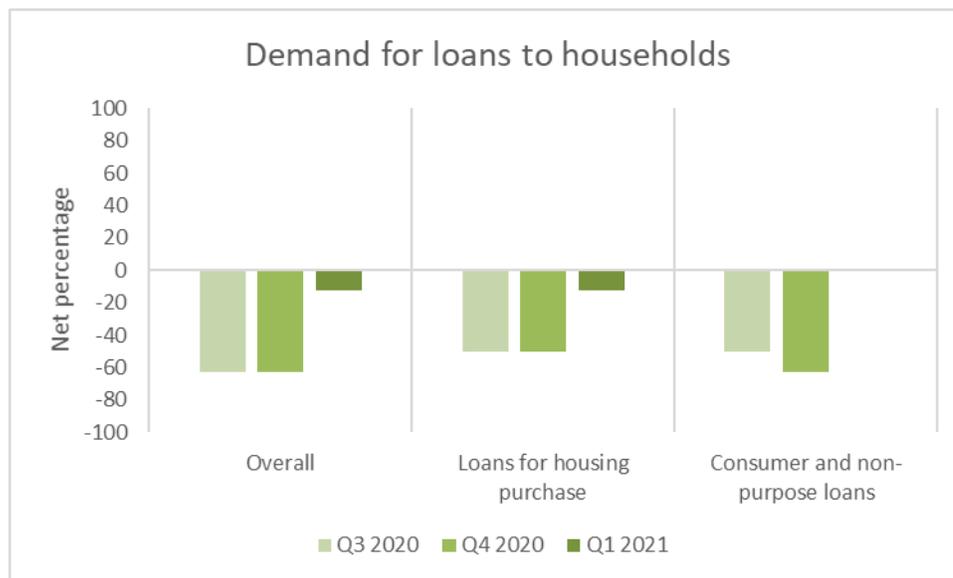
### 3.1.3 Rejected application share for loans to households

In the first quarter of 2021, banks indicated a net increase in the share of rejected loan applications for household loans (see Annex, Question 12). The net percentage was lower than in the previous quarter (net percentage of 38%, after 50% in the previous survey round).

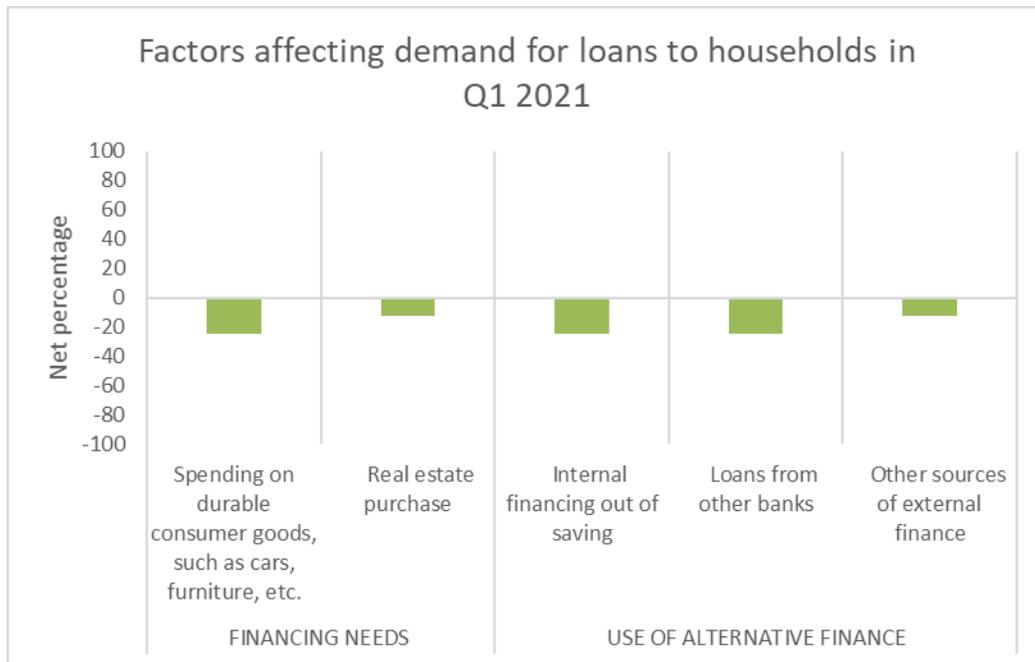


### 3.2. Demand for loans to households

In the first quarter of 2021, the situation about demand for loans to households is better than in the previous quarter. After two quarters (Q3 and Q4 in 2020) with significant deterioration in demand, demand for consumer and non-purpose loans was basically unchanged and demand for loans for housing purchase just slightly declined (see Annex, Question 13). Earlier banks' expectations from the previous round were quite optimistic, in terms of an increase in demand for consumer loans and non-purpose loans, and such expectations were realized to some extent.



During the first quarter of 2021, all factors affecting household demand had negative contribution on loan demand. Spending on durable consumer goods contributed quite a lot to lower demand. Real estate purchase as a factor affecting households demand had small effect on lowered demand, what signals that real estate purchases are gradually recovering. From the perspective of alternative financing, banks recognize that loan demand was affected by an increase in use of alternative finance in first quarter of 2021. To be more specific households increasingly use internal financing, loans from other banks and other sources, what drives down demand for loans in Q1. Banks reported that remittances from abroad were an additional factor that affected household demand.



### Expectations for Q2 2021

Based on questions about expectation, banks anticipate net tightening of credit standards for household loans in the second quarter of 2021 and so, with stronger tightening of standards for housing purchase loans than standards for consumer and non-purpose loans.

Banks have relatively optimistic view about demand for loans in the second quarter of 2021. Surveyed banks reported expectations for a net percentage increase of 25%, with the same time increase in demand for consumer and non-purpose loan, as well as demand for loans for housing purchase.

ANNEX

**Consolidated answers of banks for the first quarter of 2021, related to the questions from the survey questionnaire**

**I. Loans or credit lines to enterprises**

1. Over the past three months, how have your bank's credit standards as applied to the approval of loans or credit lines to enterprises changed?

(in percentages, unless otherwise stated)	Overall	Short-term loans	Long-term loans
Tightened considerably	0	0	0
Tightened somewhat	25	25	25
Remained basically unchanged	75	75	75
Eased somewhat	0	0	0
Eased considerably	0	0	0
Total	100	100	100
Net percentage	-25	-25	-25
Diffusion index	-13	-13	-13

2. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of loans or credit lines to enterprises?

(in percentages, unless otherwise stated)	Cost of funds and balance sheet constraints	Pressure from competition	Perception of risk	Risk tolerance
Contributed considerably to tightening	0	0	0	0
Contributed somewhat to tightening	13	0	38	25
Contributed to keeping basically unchanged	75	100	63	75
Contributed somewhat to easing	13	0	0	0
Contributed considerably to easing	0	0	0	0
Total	100	100	100	100
Net percentage	0	0	-38	-25
Diffusion index	0	0	-19	-13

3. Over the past three months, how have your bank's terms and conditions for new loans or credit lines to enterprises changed?

(in percentages, unless otherwise stated)	Bank's loan margin (higher margins =tightening, lower margins = easing)	Collateral requirements	Maturity	Non-interest rate charges	Maximum amount of loans and/or credit lines
Tightened considerably	0	0	0	0	0
Tightened somewhat	50	25	13	25	13
Remained basically unchanged	25	63	88	63	88
Eased somewhat	25	13	0	13	0
Eased considerably	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	-25	-13	-13	-13	-13
Diffusion index	-13	-6	-6	-6	-6

4. Over the past three months (apart from normal seasonal fluctuations), has the share of enterprise loan applications that were completely rejected by your bank increased, remained unchanged or decreased?

(in percentages, unless otherwise stated)	Share of rejected applications
Decreased considerably	0
Decreased somewhat	0
Remain basically unchanged	88
Increased somewhat	13
Increased considerably	0
Total	100
Net percentage	13
Diffusion index	6

5. Over the past three months (apart from normal seasonal fluctuations), how has the demand for loans or credit lines to enterprises changed at your bank?

(in percentages, unless otherwise stated)	Overall	Short-term loans	Long-term loans
Decreased considerably	0	0	0
Decreased somewhat	38	38	50
Remain basically unchanged	50	50	38
Increased somewhat	13	13	13
Increased considerably	0	0	0
Total	100	100	100
Net percentage	-25	-25	-38
Diffusion index	-13	-13	-19

6. Over the past three months (apart from normal seasonal fluctuations), how have the following factors affected the overall demand for loans or credit lines to enterprises?

(in percentages, unless otherwise stated)	FINANCING NEEDS				USE OF ALTERNATIVE FINANCE			
	Fixed investment	Working capital (e.i. Supplies)	Debt restructuring	Mergers/ acquisitions	Internal financing	Loans from other banks	Loans from non-banks	Other financing sources
Contributed considerably to lower demand	25	0	0	13	0	0	0	0
Contributed somewhat to lower demand	38	25	25	0	25	38	0	0
Contributed to keeping basically unchanged	38	50	13	88	75	38	100	100
Contributed somewhat to higher demand	0	13	50	0	0	25	0	0
Contributed considerably to higher demand	0	13	13	0	0	0	0	0
Total	100	100	100	100	100	100	100	100
Net percentage	-63	0	38	-13	-25	-13	0	0
Diffusion index	-44	6	25	-13	-13	-6	0	0

7. Please indicate how you expect your bank's credit standards as applied to the approval of loans or credit lines to enterprises to change over the next three months?

(in percentages, unless otherwise stated)	Overall	Short-term loans	Long-term loans
Tighten considerably	0	0	0
Tighten somewhat	0	0	13
Remained basically unchanged	88	88	75
Ease somewhat	13	13	13
Ease considerably	0	0	0
Total	100	100	100
Net percentage	13	13	0
Diffusion index	6	6	0

8. Please indicate how you expect demand for loans or credit lines to enterprises to change over the next three months at your bank (apart from normal seasonal fluctuations).

(in percentages, unless otherwise stated)	Overall	Short-term loans	Long-term loans
Decrease considerably	0	0	0
Decrease somewhat	13	13	38
Remain basically unchanged	38	25	25
Increase somewhat	38	50	38
Increase considerably	0	0	0
Total	88	88	100
Net percentage	25	38	0
Diffusion index	13	19	0

## II. Loans to households

9. Over the past three months, how have your bank's credit standards as applied to the approval of loans to households changed?

(in percentages, unless otherwise stated)	Overall	Loans for housing	Consumer and non-purpose
Tightened considerably	0	13	0
Tightened somewhat	50	38	38
Remained basically unchanged	25	25	38
Eased somewhat	25	25	25
Eased considerably	0	0	0
Total	100	100	100
Net percentage	-25	-25	-13
Diffusion index	-13	-19	-6

10. Over the past three months, how have the following factors affected your bank's credit standards as applied to the approval of loans to households?

(in percentages, unless otherwise stated)	Cost of funds and balance sheet constraints	Pressure from competition	Perception of risk	Risk tolerance
Contributed considerably to tightening	0	0	13	13
Contributed somewhat to tightening	13	13	50	38
Contributed to keeping basically unchanged	88	63	25	25
Contributed somewhat to easing	0	25	13	25
Contributed considerably to easing	0	0	0	0
Total	100	100	100	100
Net percentage	-13	13	-50	-25
Diffusion index	-6	6	-31	-19

11. Over the past three months, how have your bank's terms and conditions for new loans to households changed?

(in percentages, unless otherwise stated)	Bank's loan margin (higher margins = tightening, lower margins = easing)	Collateral requirements	Maturity	Non-interest rate charges	Maximum amount of loans and/or credit lines
Tightened considerably	0	13	0	0	0
Tightened somewhat	50	25	25	13	0
Remained basically unchanged	25	63	63	38	100
Eased somewhat	25	0	13	50	0
Eased considerably	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	-25	-38	-13	38	0
Diffusion index	-13	-25	-6	19	0

12. Over the past three months (apart from normal seasonal fluctuations), has the share of households loan applications, that were completely rejected by your bank increased, remained unchanged or decreased?

(in percentages, unless otherwise stated)	Share of rejected applications
Decreased considerably	0
Decreased somewhat	0
Remain basically unchanged	63
Increased somewhat	38
Increased considerably	0
Total	100
Net percentage	38
Diffusion index	19

13. Over the past three months (apart from normal seasonal fluctuations), how has the demand for loans to households changed at your bank?

(in percentages, unless otherwise stated)	Overall	Loans for housing purchase	Consumer and non-purpose loans
Decreased considerably	0	13	0
Decreased somewhat	38	25	38
Remain basically unchanged	38	38	25
Increased somewhat	25	25	38
Increased considerably	0	0	0
Total	100	100	100
Net percentage	-13	-13	0
Diffusion index	-6	-13	0

14. Over the past three months (apart from normal seasonal fluctuations), how have the following factors affected the overall demand for households loans?

(in percentages, unless otherwise stated)	FINANCING NEEDS		USE OF ALTERNATIVE FINANCE		
	Spending on durable consumer goods, such as cars, furniture, etc.	Real estate purchase	Internal financing out of saving	Loans from other banks	Other sources of external finance
Contributed considerably to lower demand	0	0	0	0	0
Contributed somewhat to lower demand	50	38	25	25	13
Contributed to keeping basically unchanged	25	38	75	75	88
Contributed somewhat to higher demand	25	25	0	0	0
Contributed considerably to higher demand	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	-25	-13	-25	-25	-13
Diffusion index	-13	-6	-13	-13	-6

15. Please indicate how you expect your bank's credit standards as applied to the approval of households loans to change over the next three months?

(in percentages, unless otherwise stated)	Overall	Loans for housing purchase	Consumer and non-purpose loans
Tighten considerably	0	0	0
Tighten somewhat	38	38	38
Remained basically unchanged	38	50	38
Ease somewhat	25	13	25
Ease considerably	0	0	0
Total	100	100	100
Net percentage	-13	-25	-13
Diffusion index	-6	-13	-6

16. Please indicate how you expect demand for loans to households to change over the next three months at your bank (apart from normal seasonal fluctuations)?

(in percentages, unless otherwise stated)	Overall	Loans for housing purchase	Consumer and non-purpose loans
Decrease considerably	0	0	0
Decrease somewhat	25	13	25
Remain basically unchanged	25	50	25
Increase somewhat	50	38	50
Increase considerably	0	0	0
Total	100	100	100
Net percentage	25	25	25
Diffusion index	13	13	13