

Bank Lending Survey for Bosnia and Herzegovina (Report for the second quarter of 2022)

Statistics and Publications Department

Section for Monetary and Financial Sector Statistics

Central Bank of Bosnia and Herzegovina

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Introduction

The results of bank lending survey (BLS) relate to changes observed during the second quarter of 2022 and expectations for the third quarter of 2022. The survey was conducted between 4 and 15 July 2022. Due to status changes in the first quarter of 2022, one bank has been excluded from the representative sample of banks, which previously consisted of the 8 largest banks in Bosnia and Herzegovina. A total of 7 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 general 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 and 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.

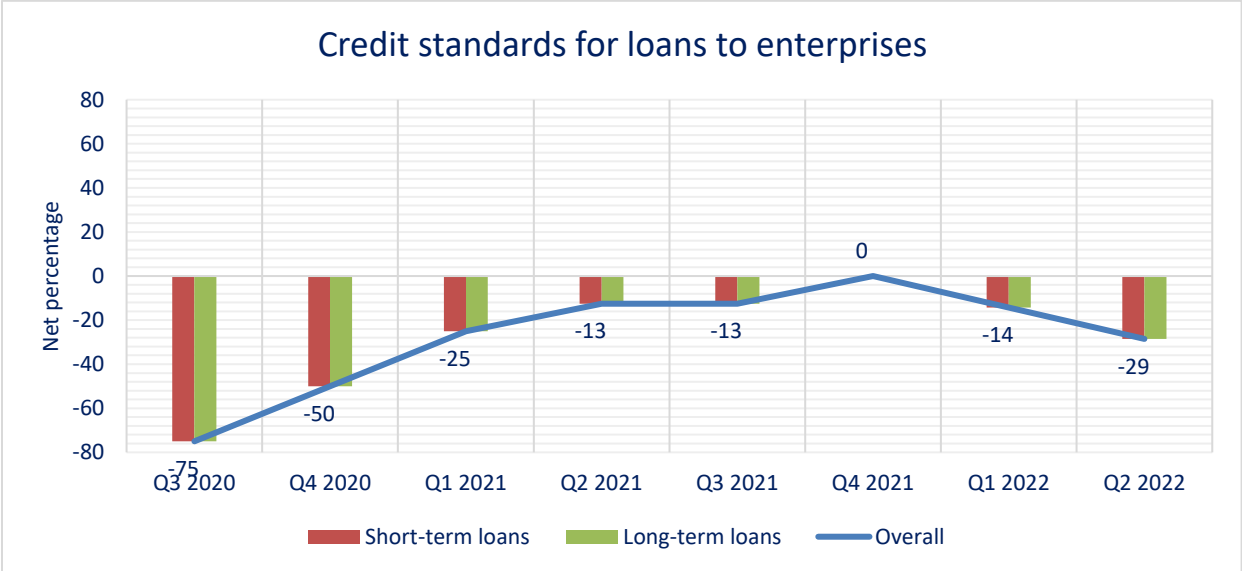
In addition to the “net percentage” indicator, the CBBH also publishes diffusion index as an alternative measure of banks’ responses to questions relating to changes in credit standards and net demand. The diffusion index is constructed in the following way: respondents who have answered “considerably” 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

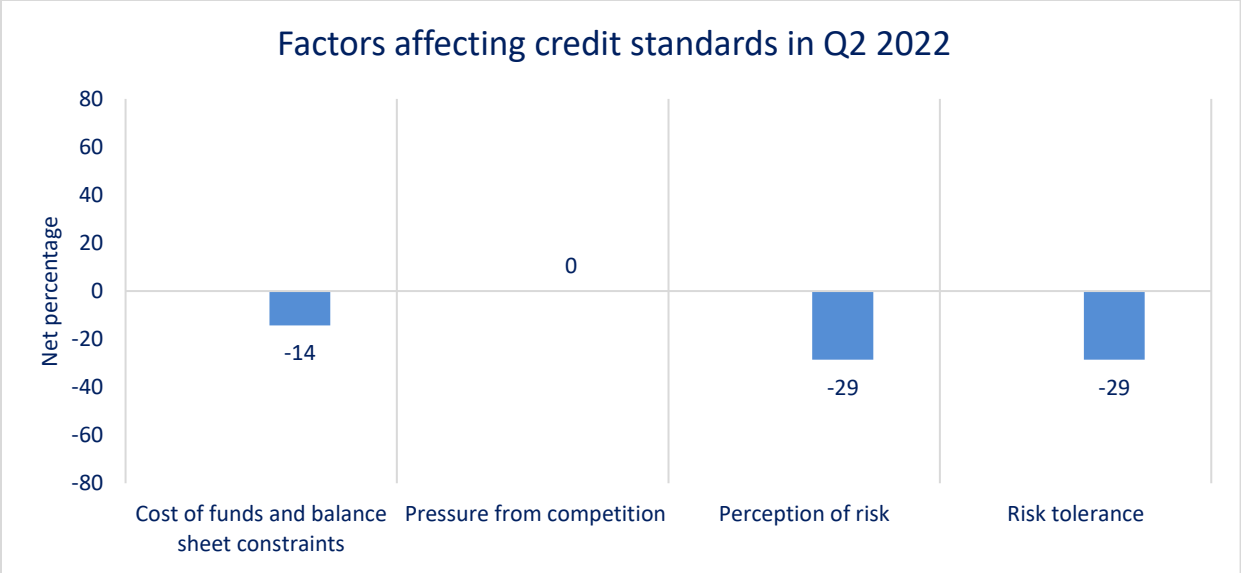
2.1.1 Credit standards for loans to enterprises

Credit standards for loans to enterprises slightly tightened in the second quarter of 2022 (net percentage -29%). A slight tightening of credit standards is observed for approval of both short-term loans and long-term loans to enterprises (see Appendix, Question 1).



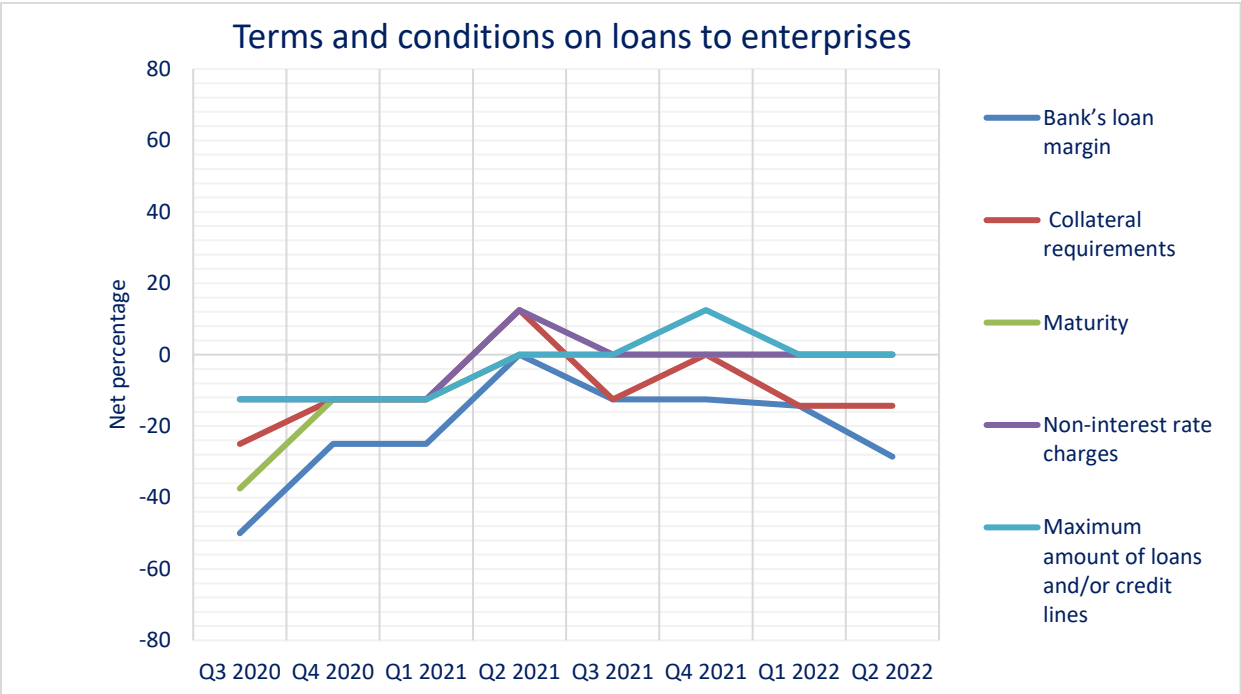
*A lower (higher) percentage value shows that a larger number of banks tightened (eased) credit standards compared to the previous quarter. In all graphs, the comparison is between reports from one quarter with the reports from the previous quarter.

This tightening of the credit standards was mainly driven by risk perception, risk tolerance, costs of funds and balance sheet constraints (see Appendix, Question 2).



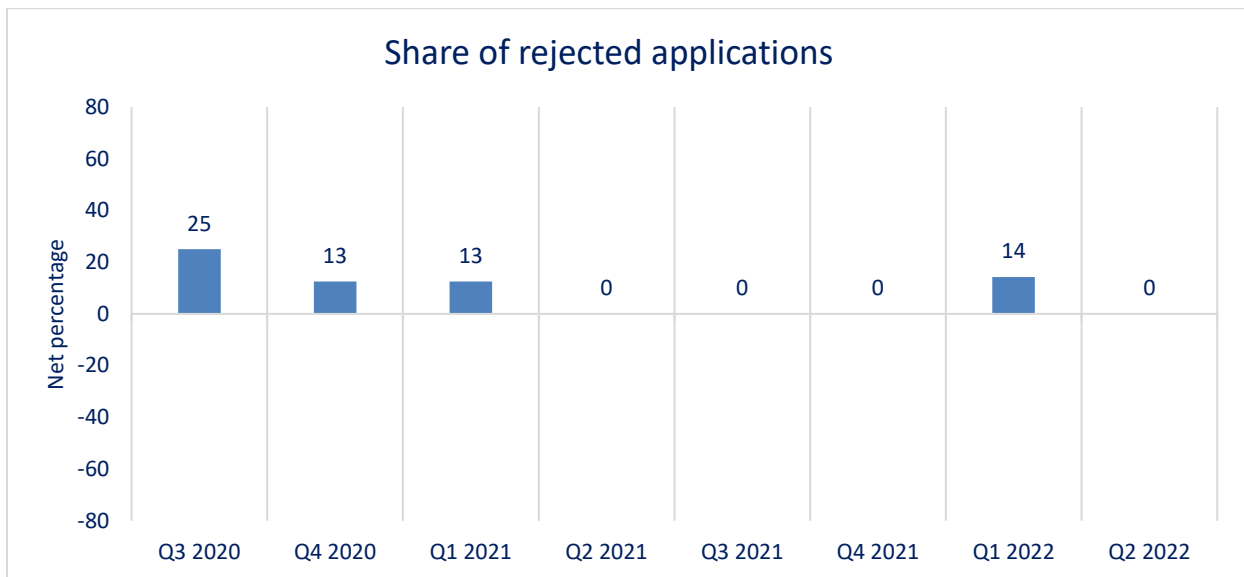
2.1.2 Terms and conditions on loans to enterprises

In the second quarter of 2022, the conditions for approving loans to enterprises were slightly tightened (i.e. contractual provisions from loan contracts), related to bank’s loan margin and the collateral requirements. Other conditions for loan approvals to enterprises remained the same compared to the previous quarter (see Appendix, Question 3).



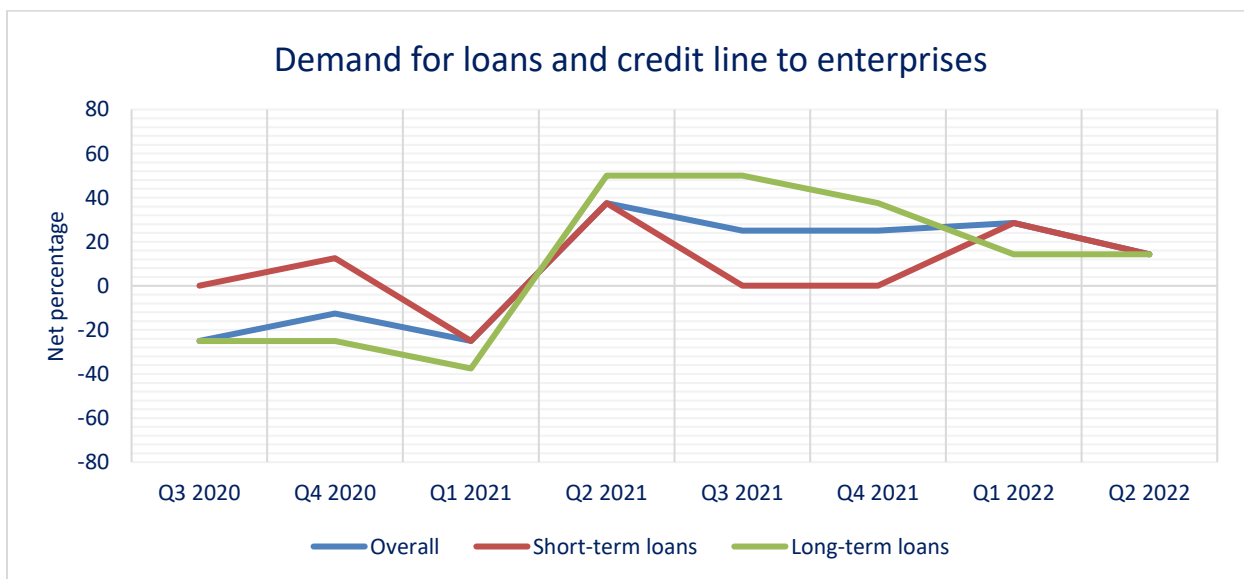
2.1.3 Share of rejected application for loans to enterprises

In the second quarter of 2022 share of rejected applications for loans to enterprises remained at the same level compared to the previous quarter (see Appendix, Question 4).

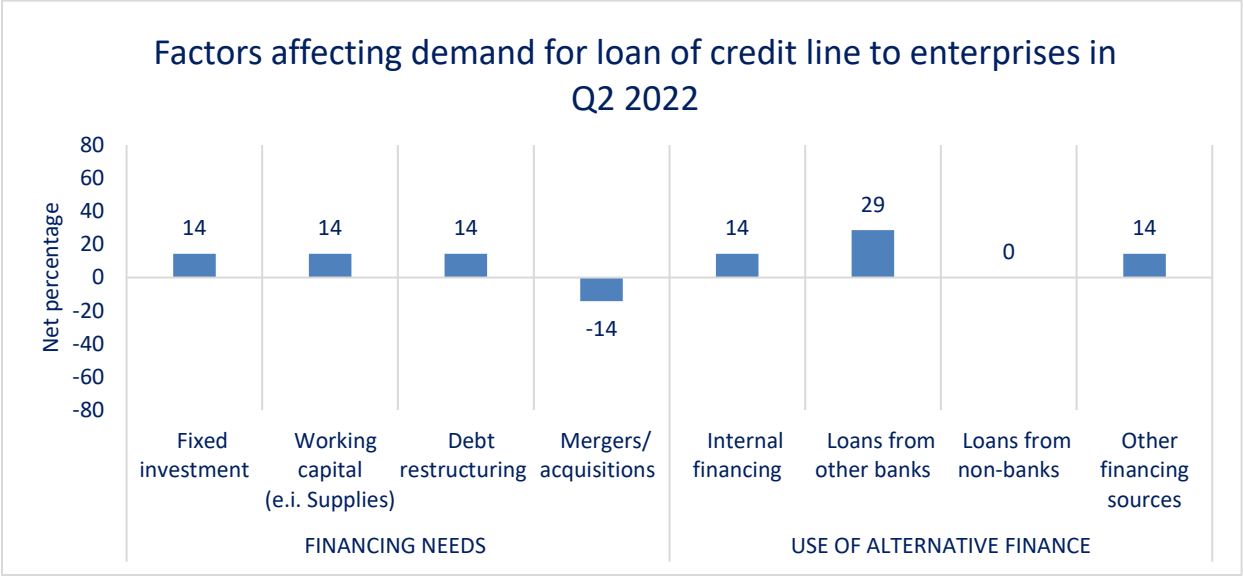


2.2 Demand for loans and/or credit lines to enterprises

Enterprise demand for loans and / or credit lines continued to grow in the second quarter of 2022 (net percentage 14%) (see Appendix question 5).



Banks reported that financing needs for fixed investment in their clients' working capital and debt restructuring contributed to higher enterprises demand for loans in the second quarter of 2022. Also, regarding the use of alternative financing sources had positive impact on demand, except for loans from non-bank financial institutions that had no impact on demand of enterprises for loans and/or credit lines (see Appendix, Question 6).



Expectations for the third quarter of 2022

Concerning the expectations for the third quarter, the net result from the collected answers indicates slight tightening of credit standards for approval of short-term as well as long-term loans to enterprises (see Appendix, Question 7).

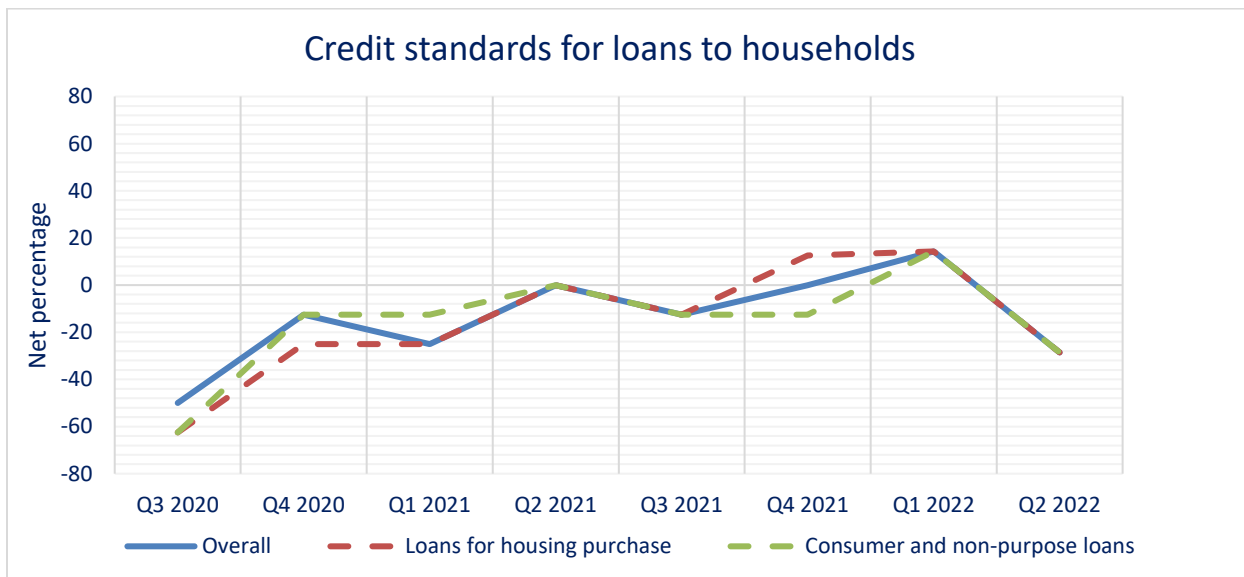
Banks expect that the demand will decrease in third quarter 2022 (see Appendix, Question 8), with slightly higher decrease in demand for long-term than short-term loans and / or credit lines to enterprises (more banks expect an decrease in demand for long-term loans than short-term).

3 Loans to households

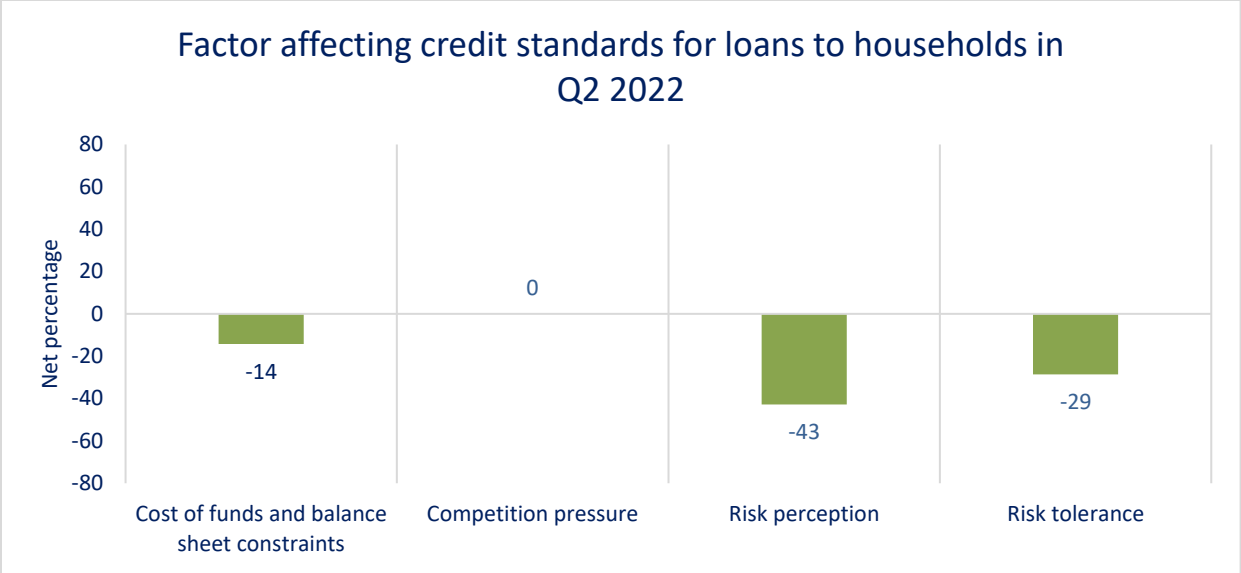
3.1 Supply

3.1.1 Credit standards for loans to households

The net percentage of changes in the second quarter of 2022 indicate slight tightening of credit standards (i.e. internal guidelines or credit approval criteria) for loans for housing purchase as well as consumer and non-purpose loans (see Appendix, Question 9), in contrast to the previous quarter, in which the easing of credit standards was recorded.

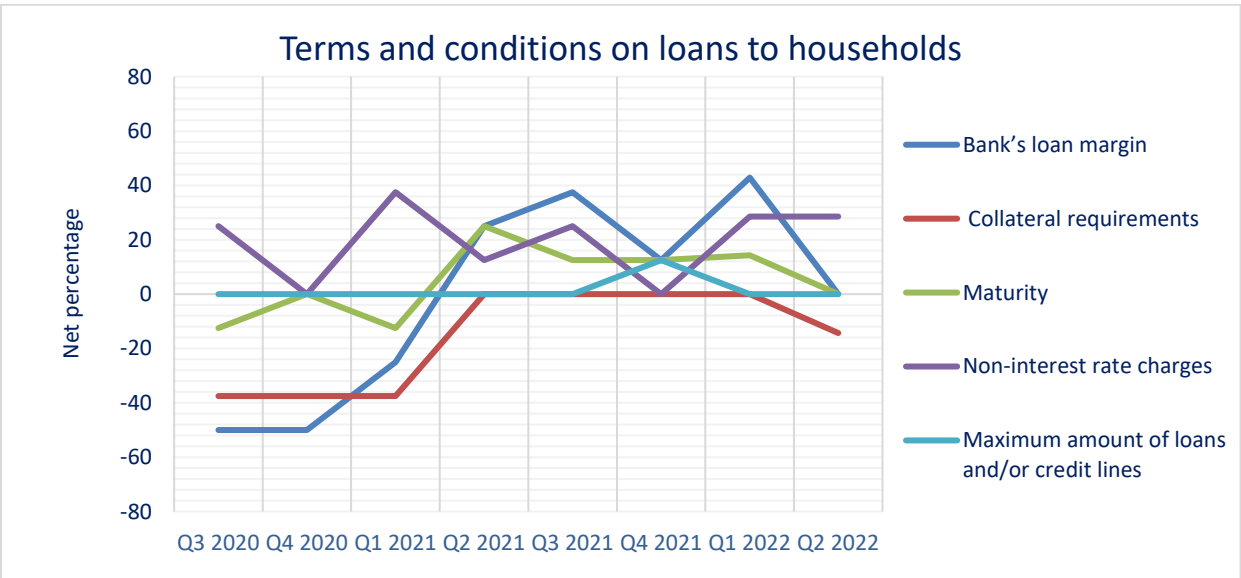


According to the banks' report, the tightening of the standards was mainly driven by banks' risk tolerance, risk perception, cost of funds and balance sheet constraints, while competition pressure had no impact on banks' credit standards as applied in the process of the approval of loans to households (see Appendix, Question 10).



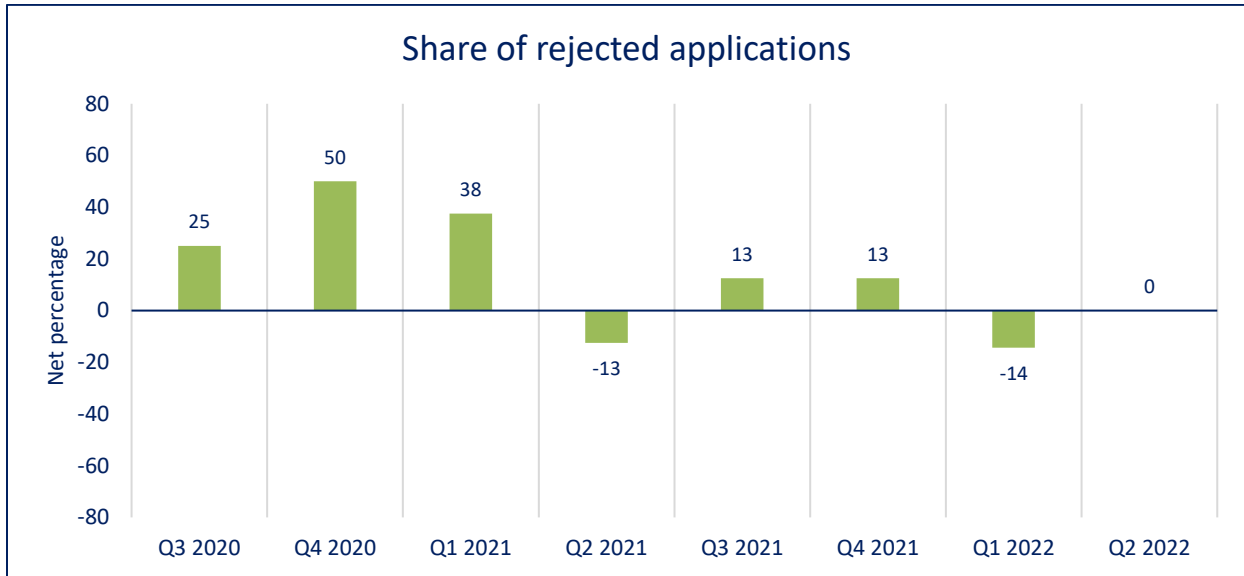
3.1.2 Terms and conditions on loans to households

Non-interest rate charges were slightly eased in the second quarter of 2022 (net percentage 29%) while one bank from the sample reported tightening collateral requirements (net percentage -14%). Related to bank’s loan margins, some banks increased, while others decreased, resulting in no change in the bank’s loan margins (net percentage 0%) (see Appendix, Question 11).



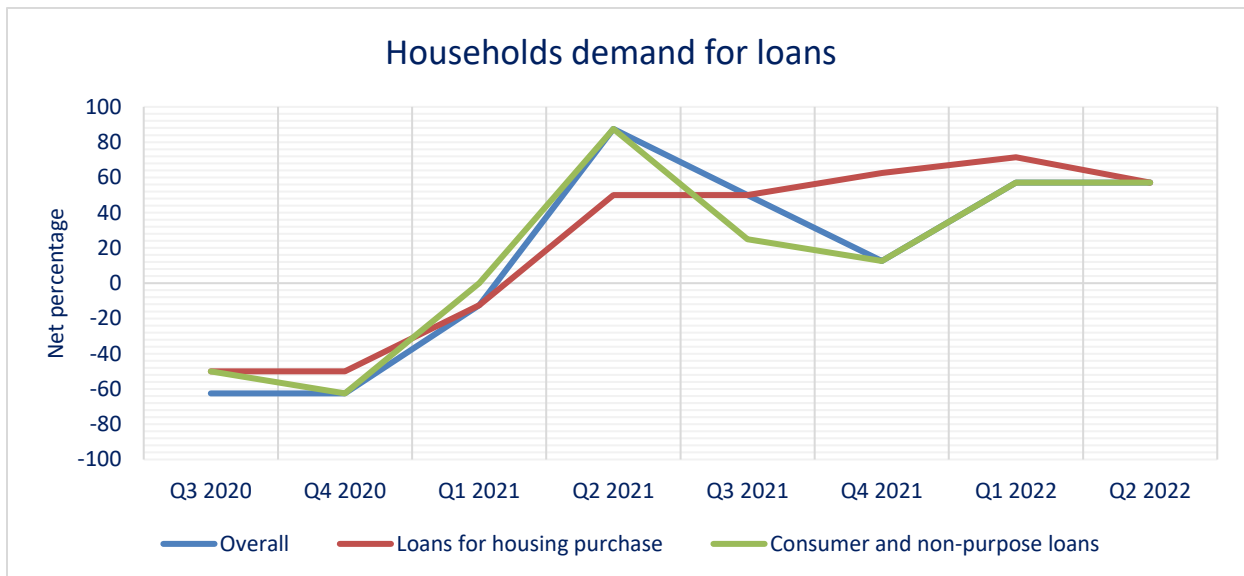
3.1.3 Share of rejected application for loans to households

In the second quarter of 2022 share of rejected applications for loans to enterprises remained at the same level compared to the previous quarter (see Annex, Question 12).

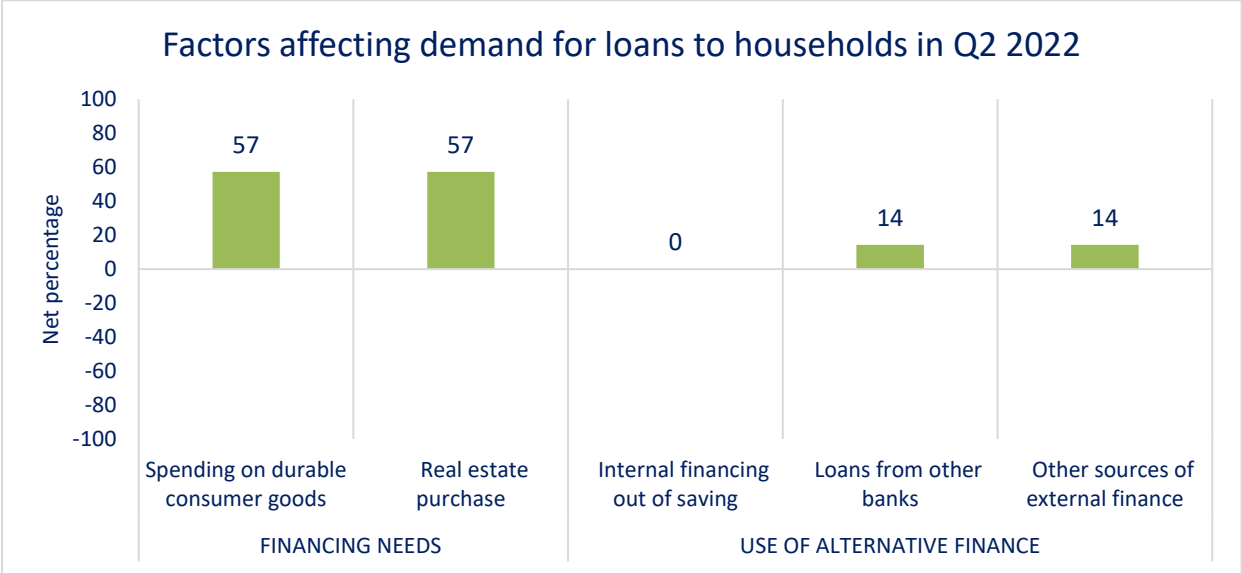


3.2. Demand for loans to households

Banks reported that household demand for loans continued to increase in the second quarter of 2022, which is in line with expectations from the previous round of reporting and continued trend of increase from previous 4 quarters (see Appendix, Question 13).



During the second quarter of 2022 all factors had a positive contribution to demand for loans, mostly financial needs for spending on durable consumer goods and real estate purchases. From the standpoint of alternative financing, internal financing out of saving had no impact on household demand for loans. Loans from other banks and other sources of external finance had slight impact on demand (see Appendix, Question 14).



Expectations for the third quarter of 2022

Based on the question on expectations, banks predict tightening of credit standards for loans for housing purchase as well as for consumer and general purpose loans in the third quarter of 2022 (see Appendix, question 15).

Banks have a rather pessimistic view of household demand for loans in the third quarter of 2022. Therefore, the decrease in the demand is expected for consumer and general purpose loans while demand for housing purchase loans is expected to be at the same level in the third quarter (see Annex, Question 16).

ANNEX

Consolidated answers of banks for the second quarter of 2022, 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 and/or credit lines to enterprises, changed?

(in percentages)	Overall	Short-term loans	Long-term loans
Tightened considerably	0	0	0
Tightened somewhat	29	29	29
Remained basically unchanged	71	71	71
Eased somewhat	0	0	0
Eased considerably	0	0	0
Total	100	100	100
Net percentage	-29	-29	-29
Diffusion index	-14	-14	-14

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

(in percentages)	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	14	0	29	29
Contributed to keeping basically unchanged	86	100	71	71
Contributed somewhat to easing	0	0	0	0
Contributed considerably to easing	0	0	0	0
Total	100	100	100	100
Net percentage	-14	0	-29	-29
Diffusion index	-7	0	-14	-14

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

(in percentages)	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	29	14	0	0	0
Remained basically unchanged	71	86	100	100	100
Eased somewhat	0	0	0	0	0
Eased considerably	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	-29	-14	0	0	0
Diffusion index	-14	-7	0	0	0

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)	Share of rejected applications
Decreased considerably	0
Decreased somewhat	14
Remain basically unchanged	71
Increased somewhat	14
Increased considerably	0
Total	100
Net percentage	0
Diffusion index	0

*Since the second quarter of 2021, there were changes in the analysis of the share of rejected loan applications compared to previous quarters. Instead of the number of rejected loan applications, an information on the change of volume of rejected loans applications during the observed quarter is provided.

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

(in percentage)	Overall	Short-term loans	Long-term loans
Decreased considerably	0	0	0
Decreased somewhat	14	14	14
Remain basically unchanged	57	57	57
Increased somewhat	29	29	29
Increased considerably	0	0	0
Total	100	100	100
Net percentage	14	14	14
Diffusion index	7	7	7

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

(in percentages)	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	0	0	0	0	0	0	0	0
Contributed somewhat to lower demand	14	14	0	14	0	0	0	0
Contributed to keeping basically unchanged	57	57	86	86	86	71	100	86
Contributed somewhat to higher demand	29	29	14	0	14	29	0	14
Contributed considerably to higher demand	0	0	0	0	0	0	0	0
Total	100	100	100	100	100	100	100	100
Net percentage	14	14	14	-14	14	29	0	14
Diffusion index	7	7	7	-7	7	14	0	7

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

(in percentages)	Overall	Short-term loans	Long-term loans
Tighten considerably	14	14	14
Tighten somewhat	29	29	29
Remained basically unchanged	57	57	57
Ease somewhat	0	0	0
Ease considerably	0	0	0
Total	100	100	100
Net percentage	-43	-43	-43
Diffusion index	-29	-29	-29

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

(in percentages)	Overall	Short-term loans	Long-term loans
Decrease considerably	0	0	0
Decrease somewhat	29	29	43
Remain basically unchanged	57	57	43
Increase somewhat	14	14	14
Increase considerably	0	0	0
Total	100	100	100
Net percentage	-14	-14	-29
Diffusion index	-7	-7	-14

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)	Overall	Loans for housing purchase	Consumer and non-purpose loans
Tightened considerably	0	0	0
Tightened somewhat	29	29	29
Remained basically unchanged	71	71	71
Eased somewhat	0	0	0
Eased considerably	0	0	0
Total	100	100	100
Net percentage	-29	-29	-29
Diffusion index	-14	-14	-14

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)	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	14	14	43	29
Contributed to keeping basically unchanged	86	71	57	71
Contributed somewhat to easing	0	14	0	0
Contributed considerably to easing	0	0	0	0
Total	100	100	100	100
Net percentage	-14	0	-43	-29
Diffusion index	-7	0	-21	-14

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

(in percentages)	Bank's loan margin (higher margins =tightening, lower margins = easing)	Collateral requirements	Maturity	Non-interest rate charges	Maximum amount of loans
Tightened considerably	0	0	0	0	0
Tightened somewhat	29	14	0	0	0
Remained basically unchanged	43	86	100	71	100
Eased somewhat	29	0	0	29	0
Eased considerably	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	0	-14	0	29	0
Diffusion index	0	-7	0	14	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)	Share of rejected applications
Decreased considerably	0
Decreased somewhat	14
Remain basically unchanged	71
Increased somewhat	14
Increased considerably	0
Total	100
Net percentage	0
Diffusion index	0

*Since the second quarter of 2021, there were changes in the analysis of the share of rejected loan applications compared to previous quarters. Instead of the number of rejected loan applications, an information on the change of volume of rejected loans applications during the observed quarter is provided.

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)	Overall	Loans for housing purchase	Consumer and non-purpose loans
Decreased considerably	0	0	0
Decreased somewhat	14	0	14
Remain basically unchanged	14	43	14
Increased somewhat	71	57	71
Increased considerably	0	0	0
Total	100	100	100
Net percentage	57	57	57
Diffusion index	29	29	29

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

(in percentages)	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	14	0	14	0	0
Contributed to keeping basically unchanged	14	43	71	86	86
Contributed somewhat to higher demand	71	57	14	14	14
Contributed considerably to higher demand	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	57	57	0	14	14
Diffusion index	29	29	0	7	7

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)	Overall	Loans for housing purchase	Consumer and non-purpose loans
Tighten considerably	14	14	14
Tighten somewhat	71	57	71
Remained basically unchanged	0	14	0
Ease somewhat	14	14	14
Ease considerably	0	0	0
Total	100	100	100
Net percentage	-71	-57	-71
Diffusion index	-43	-36	-43

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)	Overall	Loans for housing purchase	Consumer and non-purpose loans
Decrease considerably	0	0	0
Decrease somewhat	57	29	57
Remain basically unchanged	14	43	14
Increase somewhat	29	29	29
Increase considerably	0	0	0
Total	100	100	100
Net percentage	-29	0	-29
Diffusion index	-14	0	-14