

# Bank Lending Survey for Bosnia and Herzegovina (Report for the third quarter of 2021)

*Section for Monetary and Financial Sector Statistics*

*Statistics and Publications Department*

*Central Bank of Bosnia and Herzegovina*

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## Introduction

The results of bank lending survey (BLS) relate to changes observed during the third quarter of 2021 and expectations for the fourth quarter of 2021. The survey was conducted between 15 and 20 September 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.

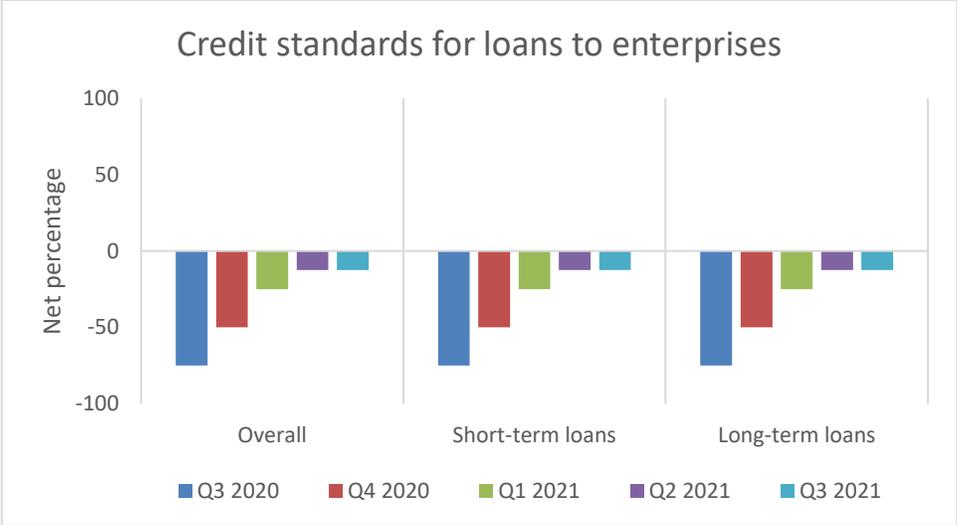
In addition to the “net percentage” indicator, the CBBH also publishes diffusion index as an alternative measure of banks’ responses to questions relating to changes in credit standards and net demand. The diffusion index is constructed in the following way: respondents who have answered “considerably”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

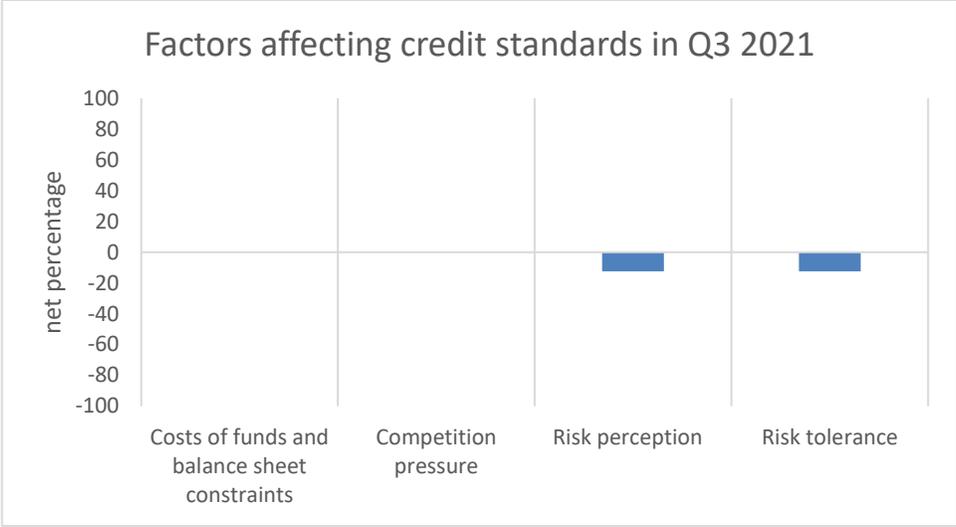
**2.1 Supply**

**2.1.1 Credit standards for loans to enterprises**

The net percentage for credit standards for loans to enterprises was -13% in the third quarter, which means that standards slightly tightened. This slight tightening of net credit standards was recorded at only one bank and applies to both short-term and long-term loans (see Appendix, Question 1).

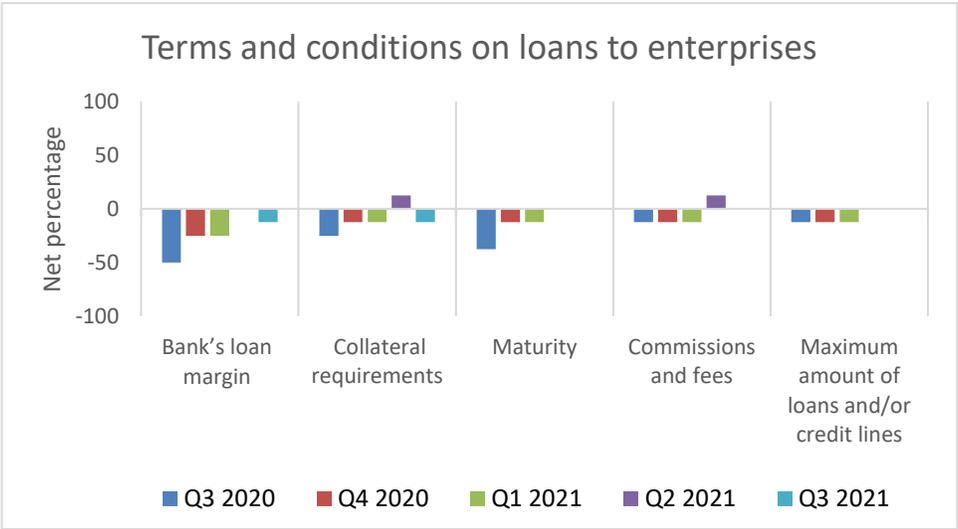


The tightening of the standards was mainly driven by risk perception and risk tolerance (net percentage -13%). Other factors, costs of funds and balance sheet constraints and competition pressure, had no impact on banks' credit standards as applied in the process of approval of loans and / or credit lines to enterprises (see Appendix, Question 2).



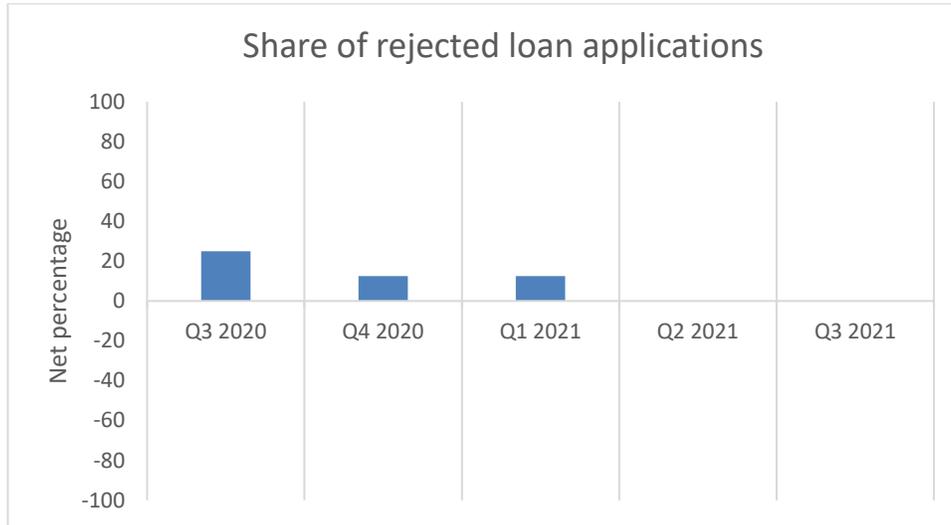
**2.1.2 Terms and conditions on loans to enterprises**

In the third quarter of 2021, the conditions for approving loans to enterprises were slightly tightened (i.e. contractual provisions from loan contracts), related to bank’s loan margin and collateral requirements, while other conditions remained the same compared to the previous quarter (see Appendix, Question 3). The net percentage of change for the third quarter for margins and collateral requirements was -13%.



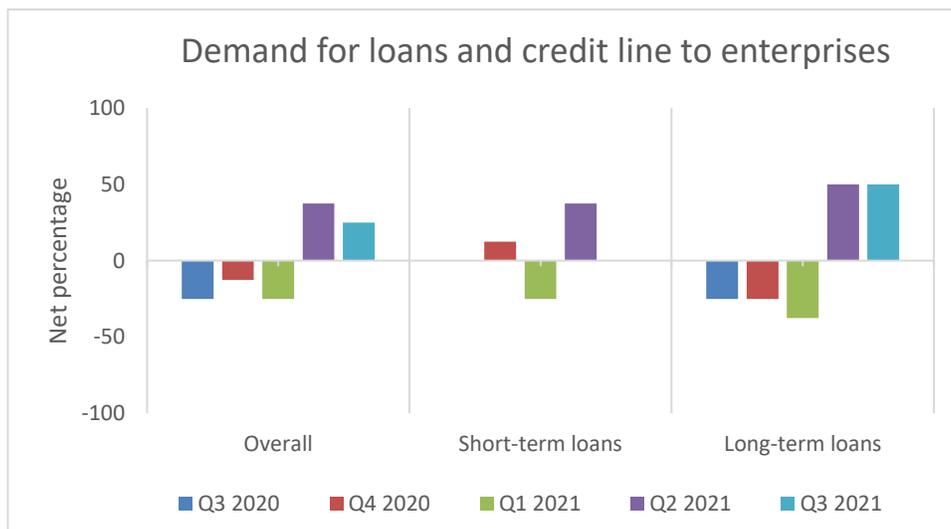
### 2.1.3 Rejected application share for loans to enterprises

No change in the share of rejected loan applications was observed in the third quarter of 2021 (see Appendix, question 4), so in two consecutive quarters the share of rejected applications remained at the same level, which indicates that banks have not tightened the selection of submitted loans application.



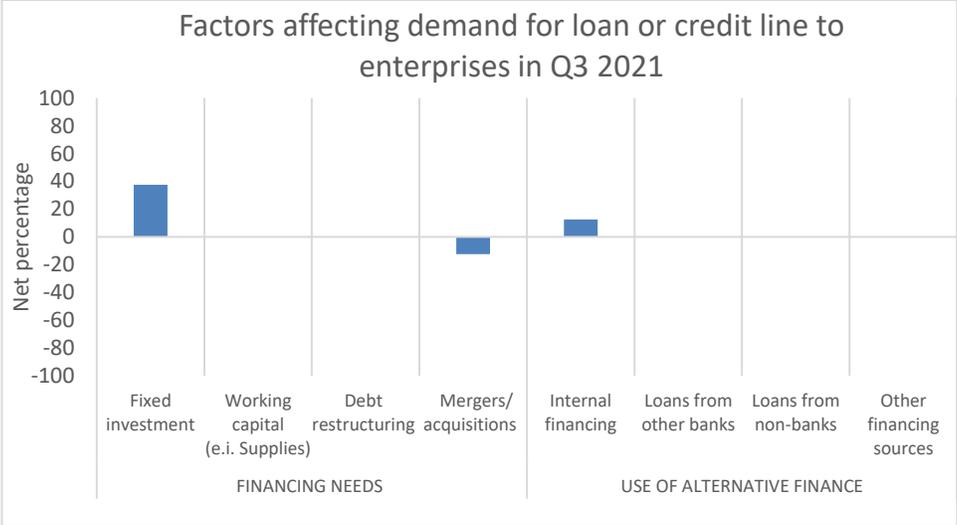
### 2.2 Demand for loans and/or credit lines to enterprises

The overall demand of enterprises for loans and / or credit lines increased in the third quarter of 2021 (net percentage of 25%), which is the second consecutive quarter with increased demand. The majority of demand refers to the increase in demand for long-term loans (see Appendix question 5).



Banks reported that financing needs for fixed investment, for their clients, contributed to the higher demand by enterprises for loans in the third quarter of 2021. Contrary to this, the financing needs for mergers/acquisitions contributed to the lower demand by enterprises.

In reference to the use of alternative financing sources, banks reported that internal financing slightly contributed to higher demand, while other factors had no impact on demand for loans to enterprises (see Appendix, question 6).



**Expectations for the fourth quarter of 2021**

Concerning the expectations for the fourth quarter, a small percentage of banks in the sample expect a slight tightening of credit standards (Net percentage of -13%) for loans and/or credit lines to enterprises. However, most banks expect that there will be no changes in credit standards (see Appendix, Question 7).

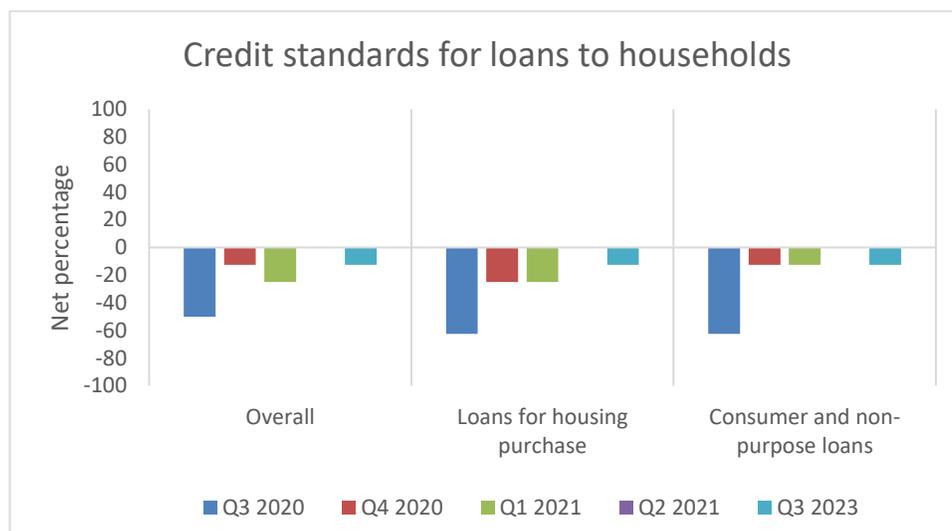
Banks expect that the upward trend in the demand for both short-term and long-term loans to enterprises will continue in the fourth quarter of 2021 (see Appendix, Question 8), with slightly higher demand for short-term than long-term loans and / or credit lines to enterprises.

### 3 Loans to households

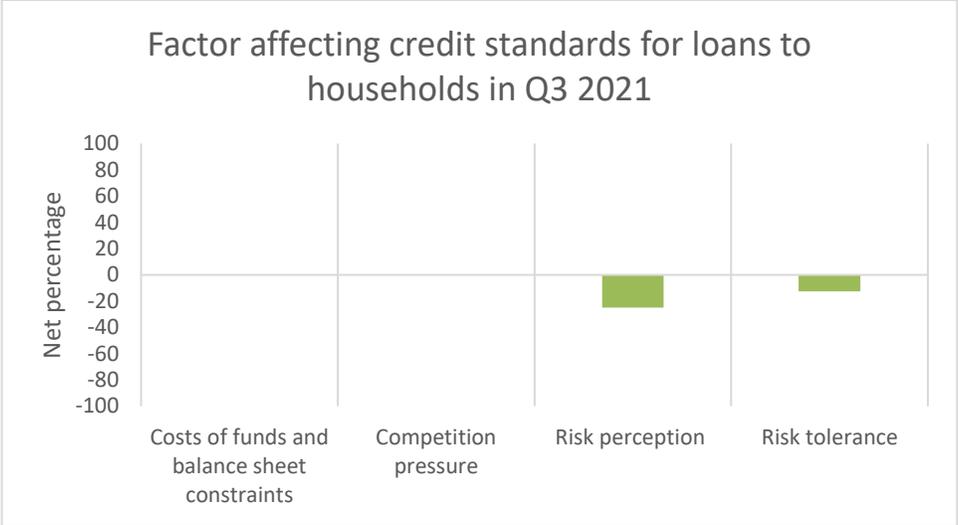
#### 3.1 Supply

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

In terms of credit standards, there was a slight tightening of standards (only one bank in the sample reported tightening of credit standards). In the third quarter of 2021, the net percentage for credit standards (i.e. internal guidelines or credit approval criteria) for loans to households was -13%. Concerning loans by purpose, the net percentage for credit standards was the same for both housing purchase and consumer / non-purpose loans (see Appendix, question 9).

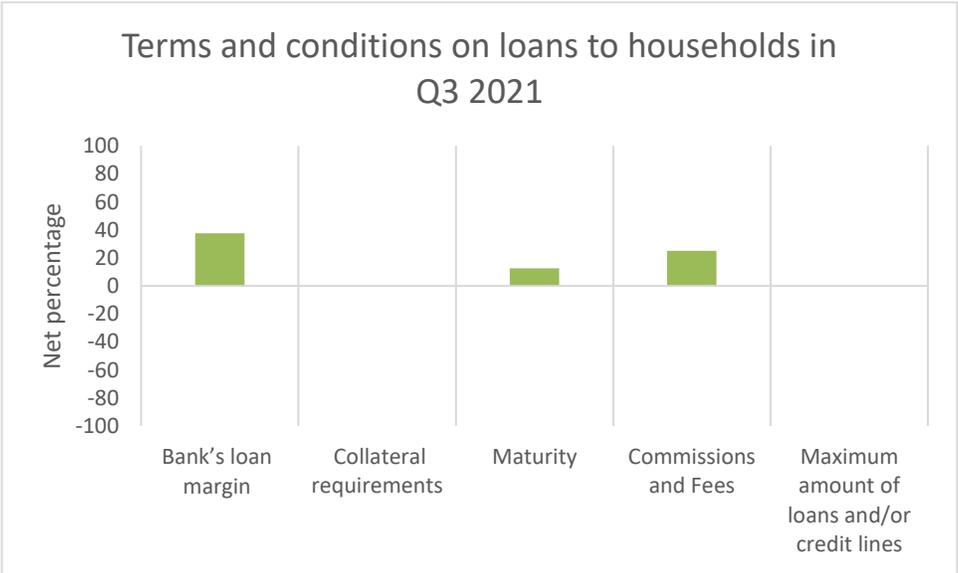


The change in credit standards was mainly driven by banks' risk perception and risk tolerance (see Appendix, question 10), while competition pressure, costs of funds and the balance sheet constraint had no impact.



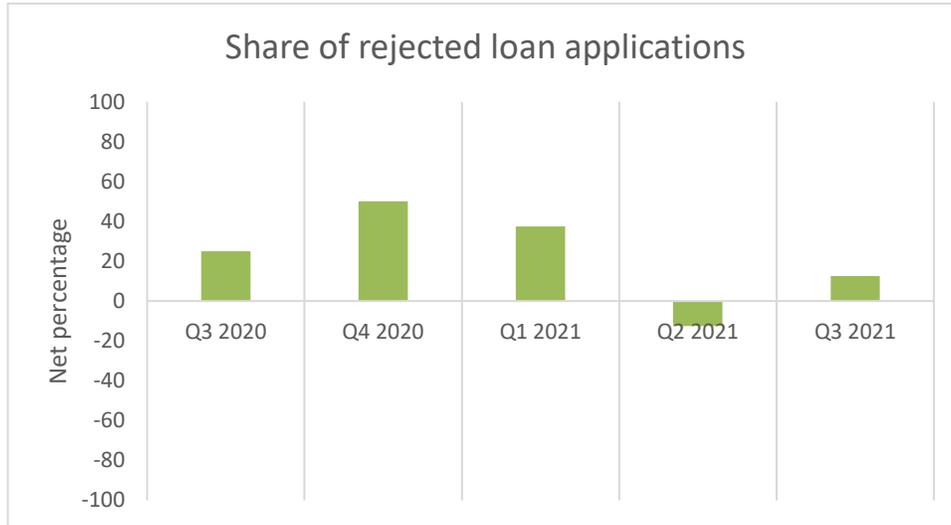
*3.1.2 Terms and conditions on loans to households*

Bank’s terms and conditions (i.e. banks’ actual terms and conditions agreed in the loan contract) for approving loans to households were eased in the third quarter of 2021. The easing applied to the bank’s loan margins, maturity, commissions, and fees, while the collateral requirements and maximum loan amounts remained unchanged (see Annex, Question 11).



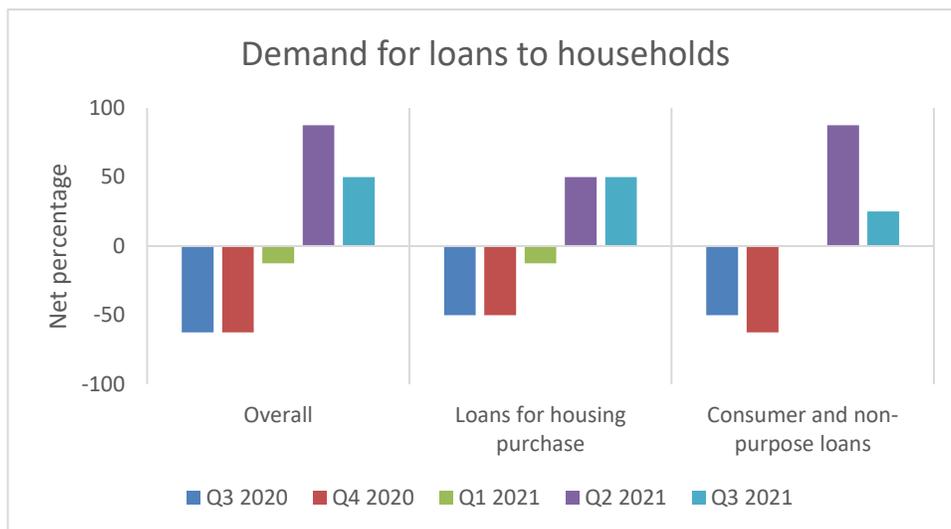
### 3.1.3 Rejected application share for loans to households

In the third quarter of 2021, banks indicated a net increase of the share of rejected household loan applications (see Annex, Question 12), in contrast to the previous quarter, in which a decrease in the share of rejected loan applications was recorded.

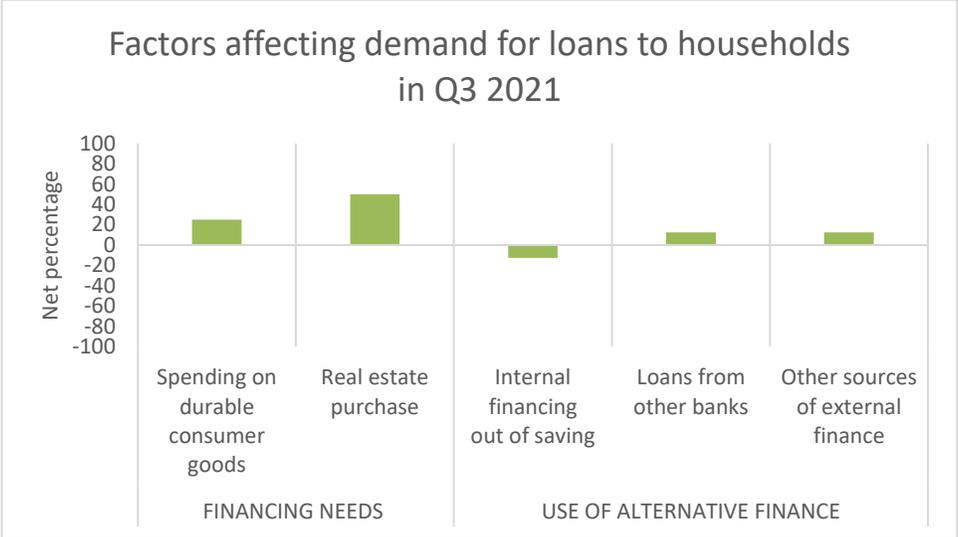


### 3.2. Demand for loans to households

Banks reported that demand of households for loans increased in the third quarter of 2021. The increase of demand for housing loans was more pronounced in comparison to the consumer and non-purpose loans (see Annex, Question 13). Banks' expectations from the previous round were rather optimistic concerning the growth of demand for consumer and non-purpose loans, and those expectations were mainly realized.



During the third quarter of 2021, almost all factors affecting household demand (spending on durable consumer goods, real estate purchases, loans from other banks and other sources of external financing) had a positive contribution to demand for loans. From the standpoint of alternative financing, household savings stand out as a factor with a negative effect on household demand for loans (see Annex, Question 14).



**Expectations for the fourth quarter of 2021**

Based on the question on expectations, banks predict net easing of credit standards for loans to households in the fourth quarter of 2021. More banks expect easing of standards for housing loans than for consumer and non-purpose loans (see Appendix, question 15).

Banks have a rather optimistic view of household demand for loans in the fourth quarter of 2021. Therefore, the increase in the demand is expected for consumer and non-purpose loans as well as for housing loans to households (see Annex, Question 16).

## ANNEX

*Consolidated answers of banks for the third 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 and/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	13	13	13
Remained basically unchanged	88	88	88
Eased somewhat	0	0	0
Eased considerably	0	0	0
Total	100	100	100
Net percentage	-13	-13	-13
Diffusion index	-6	-6	-6

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, unless otherwise stated)	Costs of funds and balance sheet constraints	Competition pressure	Risk perception	Risk tolerance
Contributed considerably to tightening	0	0	0	0
Contributed somewhat to tightening	0	0	13	13
Contributed to keeping basically unchanged	100	100	88	88
Contributed somewhat to easing	0	0	0	0
Contributed considerably to easing	0	0	0	0
Total	100	100	100	100
Net percentage	0	0	-13	-13
Diffusion index	0	0	-6	-6

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, unless otherwise stated)	Bank's loan margin (higher margins = tightening, lower margins = easing)	Collateral requirements	Maturity	Commissions and Fees	Maximum amount of loans and/or credit lines
Tightened considerably	0	0	0	0	0
Tightened somewhat	13	13	0	0	0
Remained basically unchanged	88	88	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	-13	-13	0	0	0
Diffusion index	-6	-6	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, unless otherwise stated)	Share of rejected loan applications
Decreased considerably	0
Decreased somewhat	0
Remained basically unchanged	100
Eased somewhat	0
Eased 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 percentages, unless otherwise stated)	Overall	Short-term loans	Long-term loans
Decreased considerably	0	0	0
Decreased somewhat	0	13	0
Remain basically unchanged	75	75	50
Increased somewhat	25	13	50
Increased considerably	0	0	0
Total	100	100	100
Net percentage	25	0	50
Diffusion index	13	0	25

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, 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	0	0	0	13	0	0	0	0
Contributed somewhat to lower demand	0	13	0	0	0	0	0	0
Contributed to keeping basically unchanged	63	75	100	88	88	100	100	100
Contributed somewhat to higher demand	38	13	0	0	13	0	0	0
Contributed considerably to higher demand	0	0	0	0	0	0	0	0
Total	100	100	100	100	100	100	100	100
Net percentage	38	0	0	-13	13	0	0	0
Diffusion index	19	0	0	-13	6	0	0	0

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, unless otherwise stated)	Overall	Short-term loans	Long-term loans
Tighten considerably	0	0	0
Tighten somewhat	13	13	25
Remained basically unchanged	88	88	75
Ease somewhat	0	0	0
Ease considerably	0	0	0
Total	100	100	100
Net percentage	-13	-13	-25
Diffusion index	-6	-6	-13

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, unless otherwise stated)	Overall	Short-term loans	Long-term loans
Decrease considerably	0	0	0
Decrease somewhat	13	13	25
Remain basically unchanged	50	38	38
Increase somewhat	38	50	38
Increase considerably	0	0	0
Total	100	100	100
Net percentage	25	38	13
Diffusion index	13	19	6

## 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 purchase	Consumer and non-purpose loans
Tightened considerably	0	0	0
Tightened somewhat	13	13	13
Remained basically unchanged	88	88	88
Eased somewhat	0	0	0
Eased considerably	0	0	0
Total	100	100	100
Net percentage	-13	-13	-13
Diffusion index	-6	-6	-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)	Costs of funds and balance sheet constraints	Competition pressure	Risk perception	Risk tolerance
Contributed considerably to tightening	0	0	0	0
Contributed somewhat to tightening	0	0	25	13
Contributed to keeping basically unchanged	100	100	75	88
Contributed somewhat to easing	0	0	0	0
Contributed considerably to easing	0	0	0	0
Total	100	100	100	100
Net percentage	0	0	-25	-13
Diffusion index	0	0	-13	-6

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	Commissions and Fees	Maximum amount of loans and/or credit lines
Tightened considerably	0	0	0	0	0
Tightened somewhat	0	13	0	0	0
Remained basically unchanged	63	75	88	75	100
Eased somewhat	38	13	13	25	0
Eased considerably	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	38	0	13	25	0
Diffusion index	19	0	6	13	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	88
Increased somewhat	13
Increased considerably	0
Total	100
Net percentage	13
Diffusion index	6

\*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, unless otherwise stated)	Overall	Loans for housing purchase	Consumer and non-purpose loans
Decreased considerably	0	0	0
Decreased somewhat	0	13	25
Remain basically unchanged	63	25	38
Increased somewhat	38	50	38
Increased considerably	0	13	0
Total	100	100	100
Net percentage	38	50	13
Diffusion index	19	31	6

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

(u procentima)	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	0	13	13	0	0
Contributed to keeping basically unchanged	75	25	88	88	88
Contributed somewhat to higher demand	25	63	0	13	13
Contributed considerably to higher demand	0	0	0	0	0
Ukupno	100	100	100	100	100
Neto procenat	25	50	-13	13	13
Difuzni indeks	13	25	-6	6	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	13	13	13
Remained basically unchanged	63	38	50
Ease somewhat	25	50	38
Ease considerably	0	0	0
Total	100	100	100
Net percentage	13	38	25
Diffusion index	6	19	13

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	0	0	0
Remain basically unchanged	63	50	50
Increase somewhat	38	50	50
Increase considerably	0	0	0
Total	100	100	100
Net percentage	38	50	50
Diffusion index	19	25	25