

Bank Lending Survey for Bosnia and Herzegovina (Report for the second 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 second quarter of 2021 and expectations for the third quarter of 2021. The survey was conducted between 12 and 16 July 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.

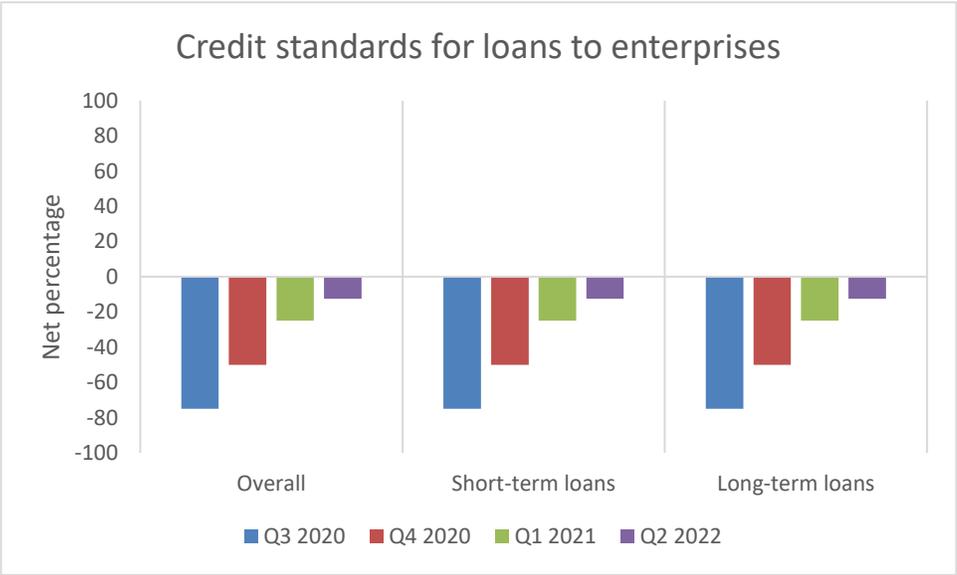
In addition to the “net percentage” indicator, the CBBH also publishes diffusion index as an alternative measure of banks’ responses to questions relating to changes in credit standards and net demand. The diffusion index is constructed in the following way: respondents who have answered “considerably”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

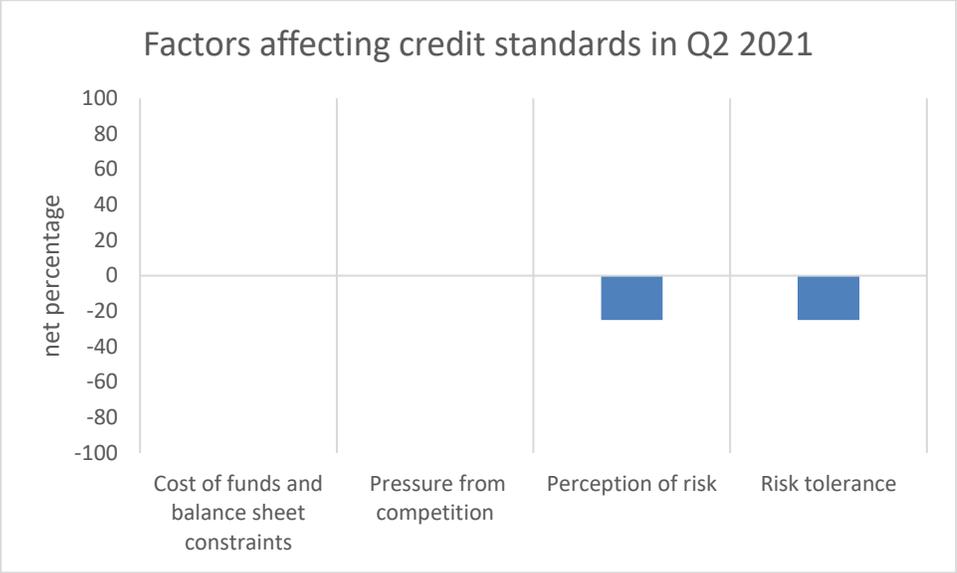
2.1 Supply

2.1.1 Credit standards for loans to enterprises

Credit standards (i.e. banks’ internal guidelines or loan approval criteria) for loans and/or credit lines to enterprises slightly tightened in the second quarter of 2021, but with less intensity than in the first quarter of 2021, i.e. credit standards were tightened by a lower number of banks than in the previous quarter (net percentage -13% following -25% in the previous quarter). Banks reported net credit standards tightening for both short-term loans and long-term loans (see Annex, Question 1).

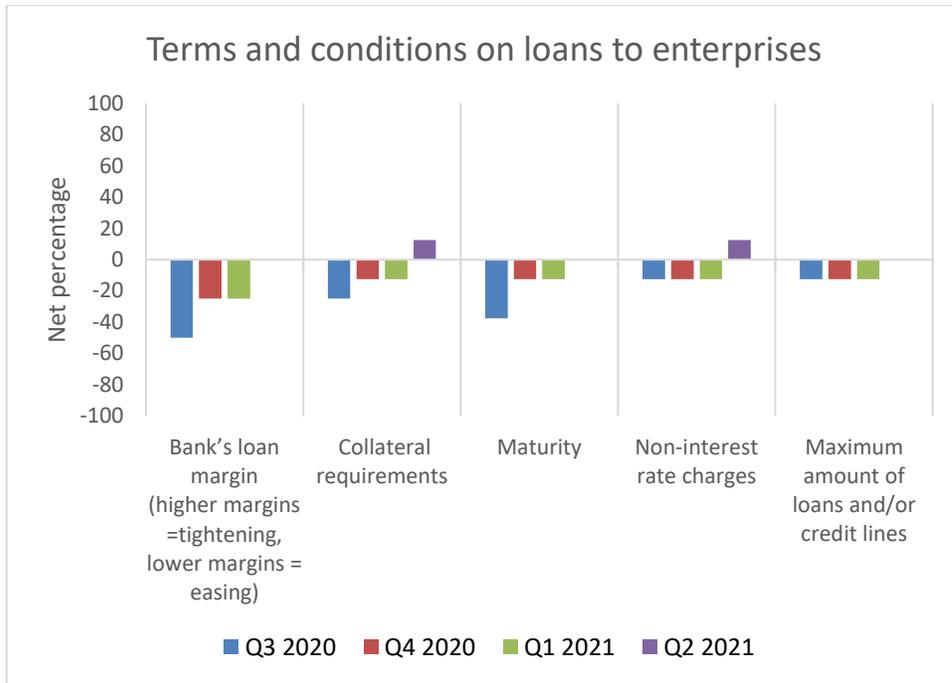


This tightening of the standards was mainly driven by risk perception and risk tolerance. The tightening impact of risk perception, related to the deterioration in the general economic situation, became considerably lower compared to the previous quarter (net percentage -25% following -38%), still remaining the main factor contributing to the tightening of credit standards for loans to enterprises. Costs 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 and/or credit lines to enterprises (see Annex, Question 2).



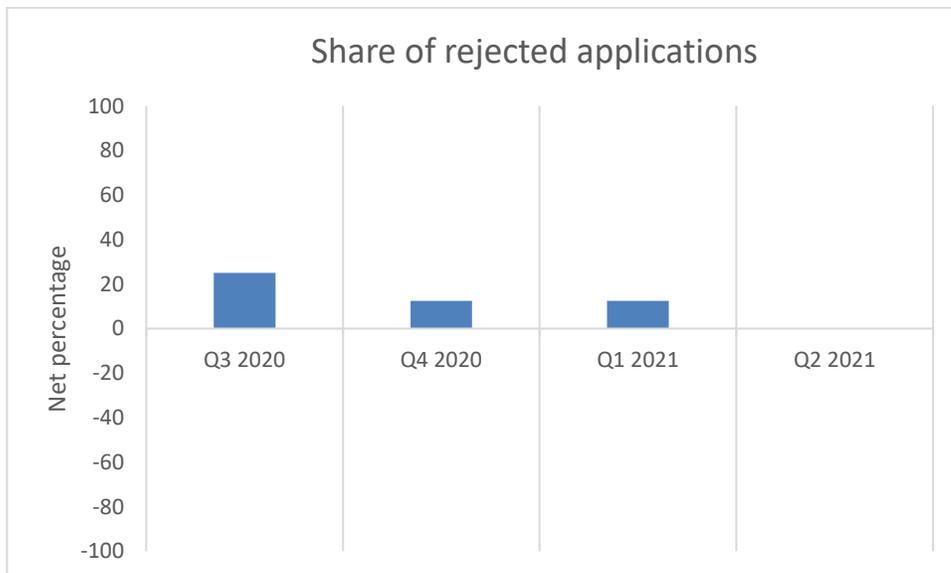
2.1.2 Terms and conditions on loans to enterprises

In the second quarter of 2021, the conditions for approving loans and/or credit lines to enterprises were slightly eased (i.e. contractual provisions from loan contracts), related to collateral requirements and non-interest rate charges (net percentage 12%), while other conditions remained the same compared to the previous quarter (see Annex, Question 3).



2.1.3 Rejected application share for loans to enterprises

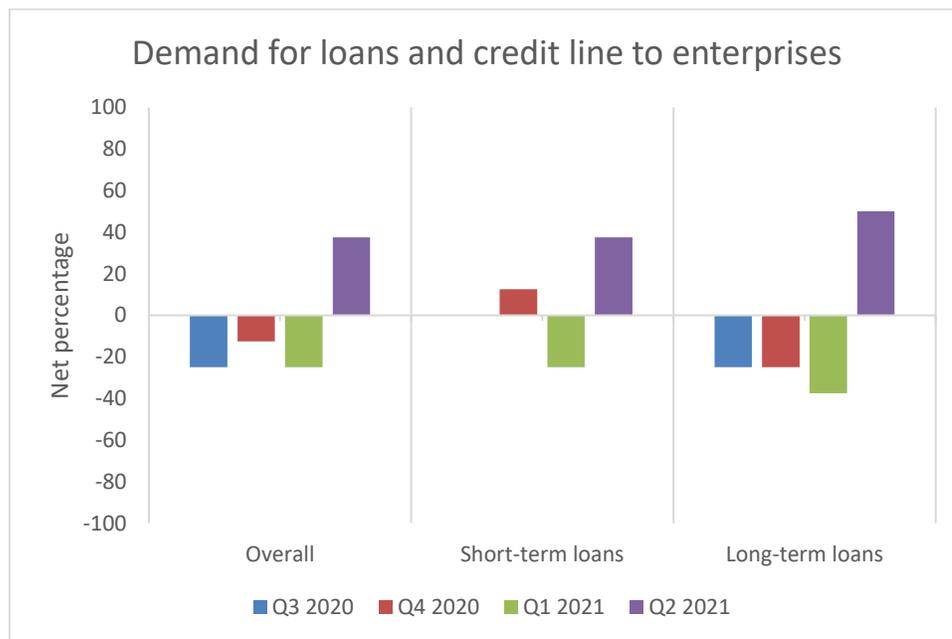
On the basis of banks' responses, no change of the share of rejected loan applications was observed in the second quarter of 2021 (see Annex, Question 4).



2.2 Demand for loans and/or credit lines to enterprises

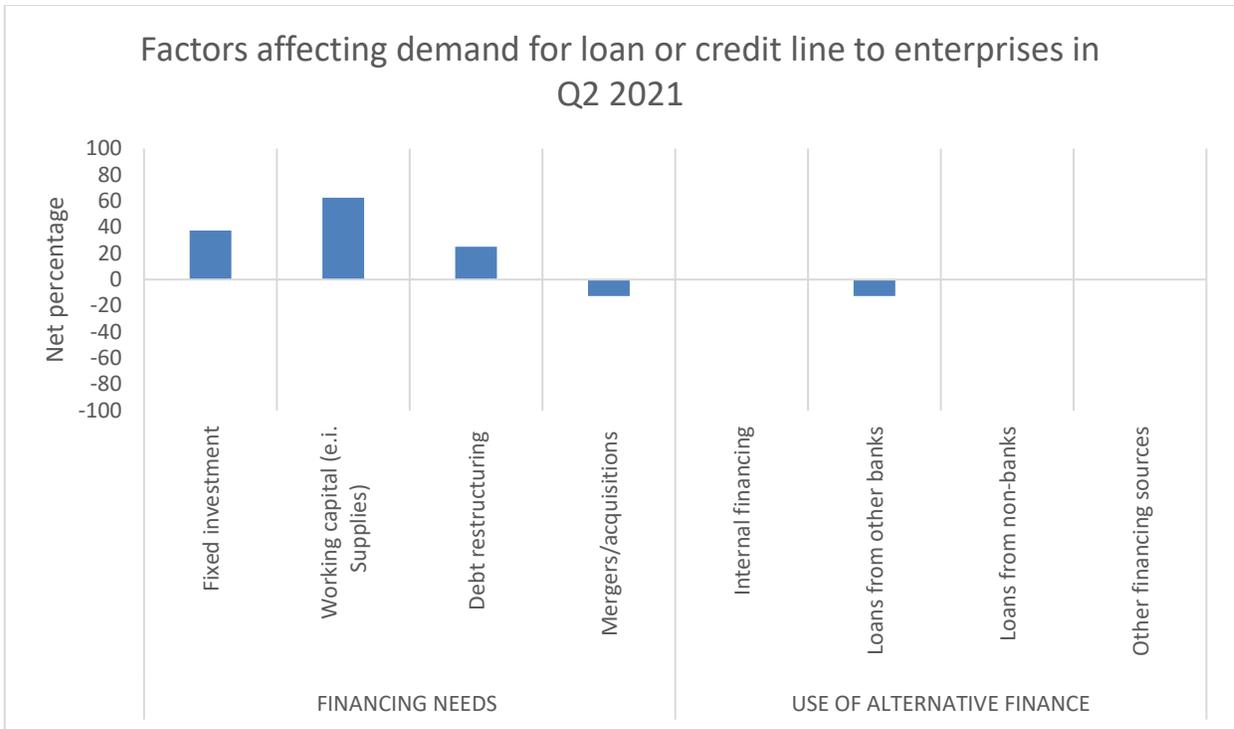
The overall demand of enterprises for loans and/or credit lines increased in the second quarter of 2021 (net percentage of 38%), following three previous quarters with decreased demand of enterprises for loans and/or credit lines (see Annex, Question 5).

By maturity, the increase of demand for long-term loans (net percentage of 50%) exceeded that for short-term loans (net percentage of 38%).



Banks reported that financing needs for fixed investment, working capital and debt restructuring contributed to higher demand of enterprises for loans. Contrary to this, enterprises did not have any needs to finance mergers and acquisitions.

In reference to use of alternative financing sources, banks reported that loans from other banks had a negative effect on demand of enterprises for loans. Internal financing, loans from non-banking institutions and other financing sources had no impact on enterprises' demand (see Annex, Question 6).



Expectations for the third quarter of 2021

In the third quarter of 2021, banks expect credit standards for long-term loans to enterprises to slightly tighten (net percentage of -13%), while credit standards for short-term loans will mainly remain unchanged (see Annex, Question 7).

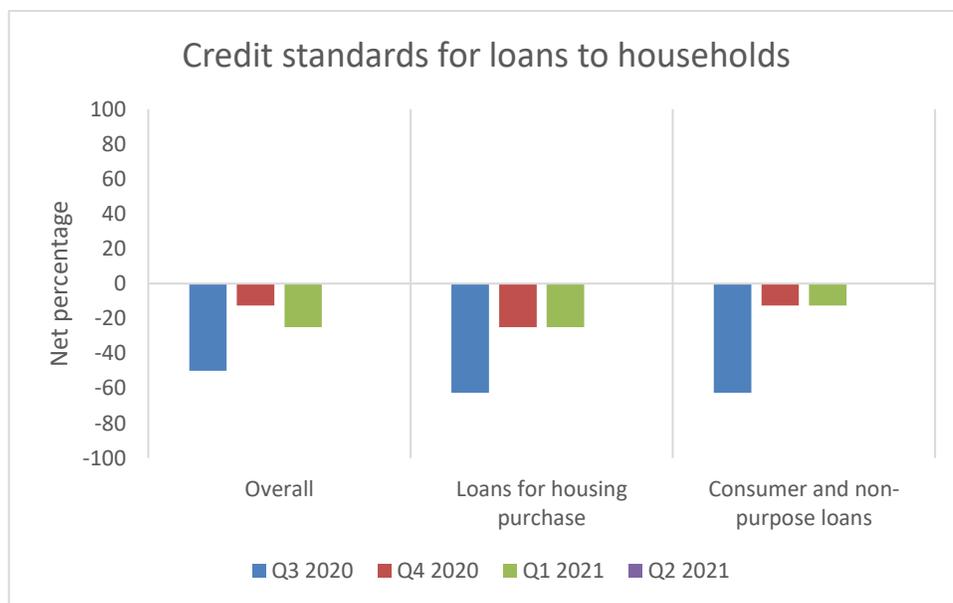
Banks expect the net demand for short-term loans to enterprises to increase, with the demand for long-term loans expected to stay basically the same in the third quarter of 2021 (see Annex, Question 8).

3 Loans to households

3.1 Supply

3.1.1 Credit standards for loans to households

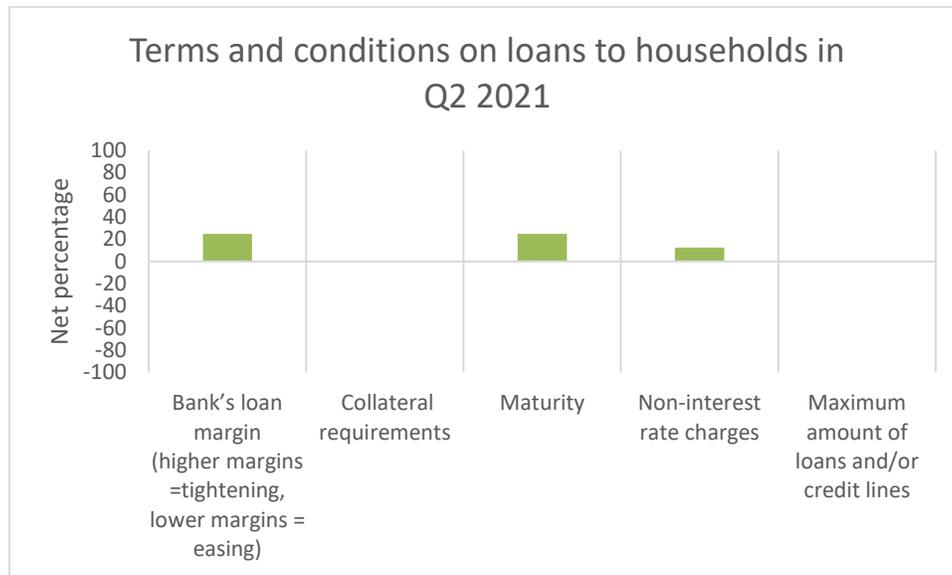
Banks reported that credit standards (i.e. banks' internal guidelines or loan approval criteria) for loans to households stayed the same in the second quarter of 2021, unlike the previous three periods when the tightening of credit standards had been recorded. The percentage share of banks reporting a change of credit standards towards tightening was the same as the share of banks reporting the easing of standards (the net percentage 0%). Observing the purpose of loans, there were no changes of credit standards for housing loans or consumer/non-purpose loans (see Annex, Question 9).



The banks with changed credit standards stated risk perception and risk tolerance as factors influencing the mentioned standard changes (see Annex, Question 10).

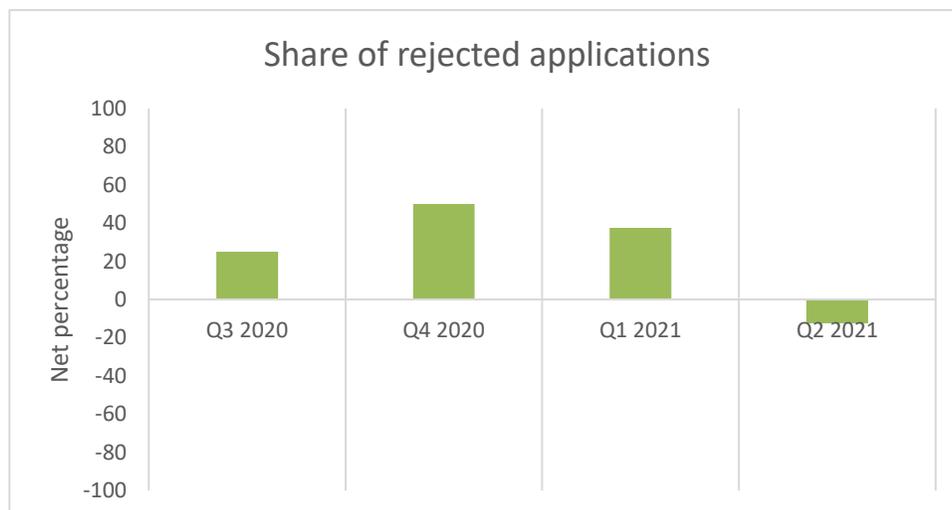
3.1.2 Terms and conditions on loans to households

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 second quarter of 2021 compared to the previous quarter when they had been tightened. The easing applied to bank's loan margins, maturity and non-interest rate charges, with the collateral requirements and maximum loan amounts remaining the same (see Annex, Question 11).



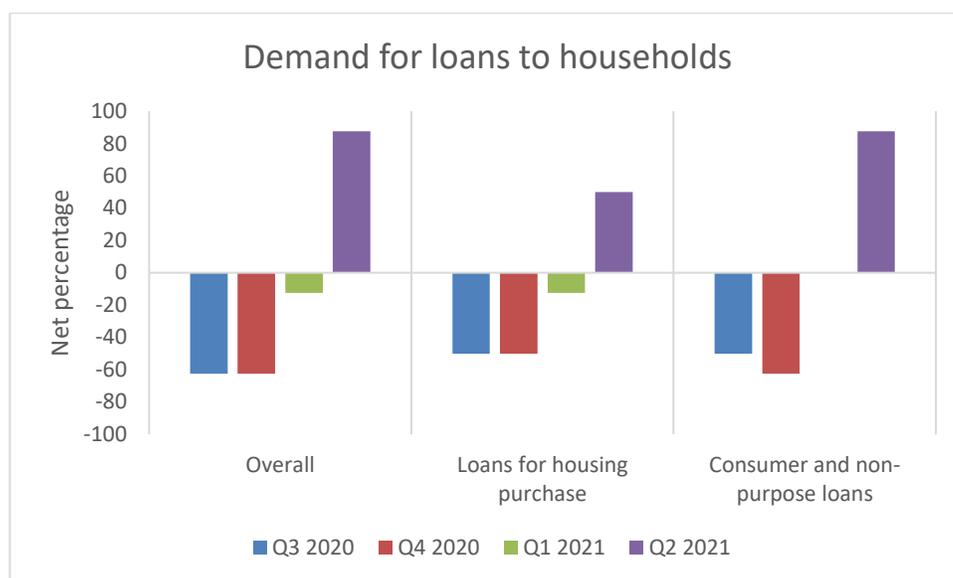
3.1.3 Rejected application share for loans to households

In the second quarter of 2021, banks indicated a net decrease of the share of rejected household loan applications compared to earlier periods (see Annex, Question 12).

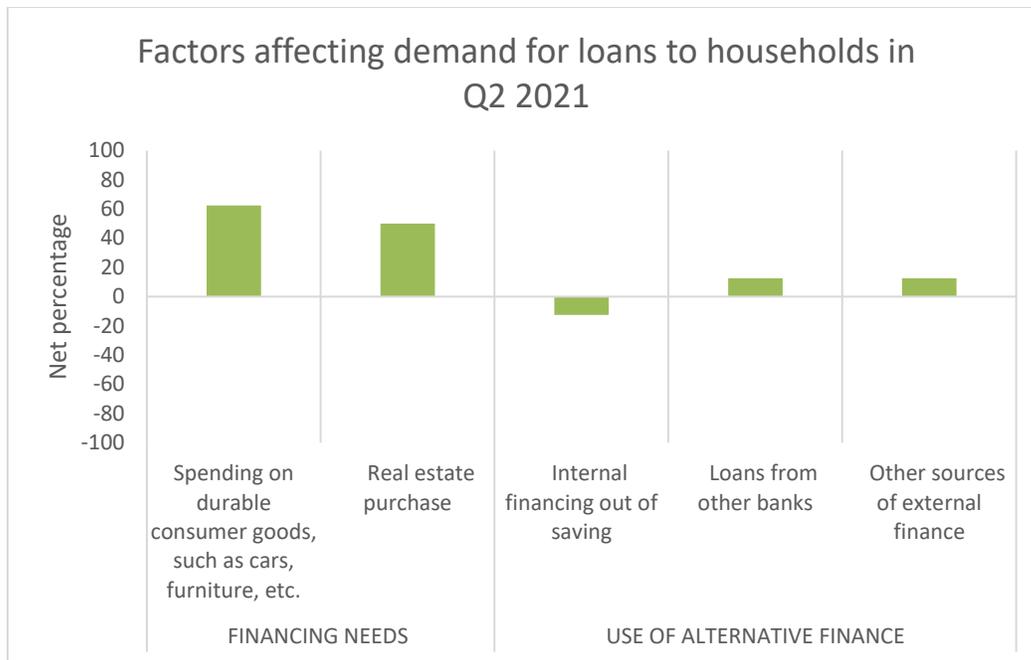


3.2. Demand for loans to households

Banks reported that demand of households for loans increased in the second quarter of 2021. The increase of demand for consumer and non-purpose loans exceeded that for housing loans (see Annex, Question 13). Earlier banks' expectations from the previous round were rather optimistic with regard to the growth of demand for consumer and non-purpose loans, and they were actually realised.



During the second 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 view of alternative financing, internal financing out of savings stand out as a factor with a negative effect on household demand for loans (see Annex, Question 14).



Expectations for the third quarter of 2021

On the basis of the question on expectations, banks forecast net easing of credit standards for loans to households in the third quarter of 2021, with stronger easing of standards for consumer and non-purpose loans than that for housing loans (see Annex, Question 15).

Banks have a rather optimistic view of the demand for loans in the third quarter of 2021, so the increase in the net percentage of 63% is expected, with a simultaneous growth of demand for consumer and non-purpose loans and demand for housing loans (see Annex, Question 16) .

ANNEX

Consolidated answers of banks for the second 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)	Cost of funds and balance sheet	Pressure from competition	Perception of risk	Risk tolerance
Contributed considerably to tightening	0	0	0	0
Contributed somewhat to tightening	0	0	25	25
Contributed to keeping basically unchanged	100	100	75	75
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	-25
Diffusion index	0	0	-13	-13

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	Non-interest rate charges	Maximum amount of loans and/or credit lines
Tightened considerably	0	0	0	0	0
Tightened somewhat	25	0	0	0	0
Remained basically unchanged	50	88	100	88	100
Eased somewhat	25	13	0	13	0
Eased considerably	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	0	13	0	13	0
Diffusion index	0	6	0	6	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 applications
Decreased considerably	0
Decreased somewhat	0
Remain basically unchanged	100
Increased somewhat	0
Increased considerably	0
Total	100
Net percentage	0
Diffusion index	0

**In 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	0	0
Remain basically unchanged	63	63	50
Increased somewhat	38	38	50
Increased considerably	0	0	0
Total	100	100	100
Net percentage	38	38	50
Diffusion index	19	19	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	0	0	0	0	25	0	0
Contributed to keeping basically unchanged	63	38	75	88	100	63	100	100
Contributed somewhat to higher demand	38	63	25	0	0	13	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	63	25	-13	0	-13	0	0
Diffusion index	19	31	13	-13	0	-6	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	0	0	13
Remained basically unchanged	100	100	88
Ease somewhat	0	0	0
Ease considerably	0	0	0
Total	100	100	100
Net percentage	0	0	-13
Diffusion index	0	0	-6

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	63	38	50
Increase somewhat	25	50	25
Increase considerably	0	0	0
Total	100	100	100
Net percentage	13	38	0
Diffusion index	6	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	0	0
Tightened somewhat	13	13	13
Remained basically unchanged	75	75	75
Eased somewhat	13	13	13
Eased considerably	0	0	0
Total	100	100	100
Net percentage	0	0	0
Diffusion index	0	0	0

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	0	0
Contributed somewhat to tightening	0	0	13	13
Contributed to keeping basically unchanged	100	100	75	75
Contributed somewhat to easing	0	0	13	13
Contributed considerably to easing	0	0	0	0
Total	100	100	100	100
Net percentage	0	0	0	0
Diffusion index	0	0	0	0

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	0	0	0	0
Tightened somewhat	0	13	0	0	0
Remained basically unchanged	75	75	75	88	100
Eased somewhat	25	13	25	13	0
Eased considerably	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	25	0	25	13	0
Diffusion index	13	0	13	6	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	25
Remain basically unchanged	63
Increased somewhat	13
Increased considerably	0
Total	100
Net percentage	-13
Diffusion index	-6

**In 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	0
Remain basically unchanged	13	25	13
Increased somewhat	88	50	88
Increased considerably	0	13	0
Total	100	100	100
Net percentage	88	50	88
Diffusion index	44	31	44

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	0	13	13	0	0
Contributed to keeping basically unchanged	38	25	88	88	88
Contributed somewhat to higher demand	63	63	0	13	13
Contributed considerably to higher demand	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	63	50	-13	13	13
Diffusion index	31	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	50	63	50
Ease somewhat	38	25	38
Ease considerably	0	0	0
Total	100	100	100
Net percentage	25	13	25
Diffusion index	13	6	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	38	38	38
Increase somewhat	63	63	63
Increase considerably	0	0	0
Total	100	100	100
Net percentage	63	63	63
Diffusion index	31	31	31