

# Bank Lending Survey for Bosnia and Herzegovina (Report for the fourth 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 fourth quarter of 2021 and expectations for the first quarter of 2022. The survey was conducted between 15 and 20 January 2022. 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 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 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.

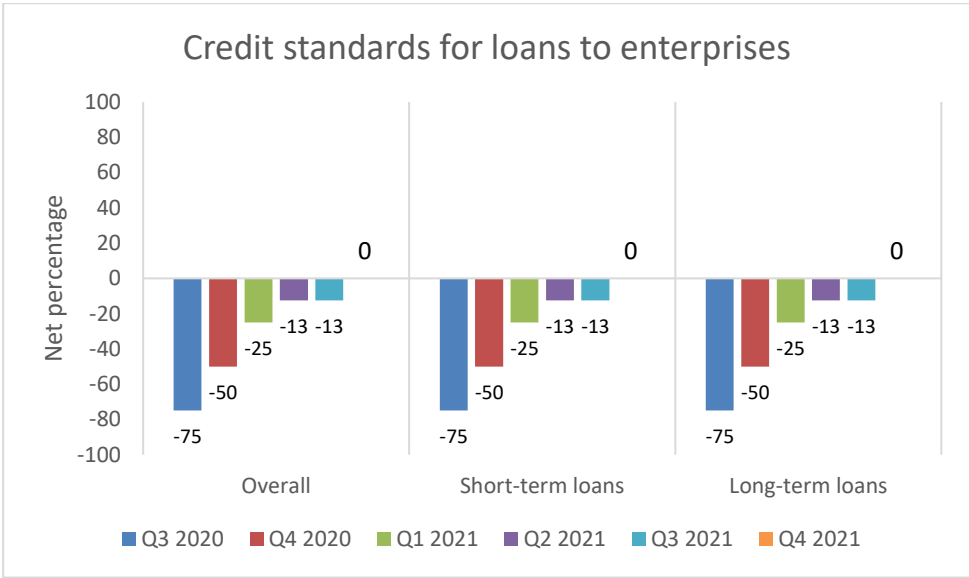
In addition to the “net percentage” indicator, the CBBH also publishes diffusion index as an alternative measure of banks’ responses to questions relating to changes in credit standards and net demand. The diffusion index is constructed in the following way: respondents who have answered “considerably”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

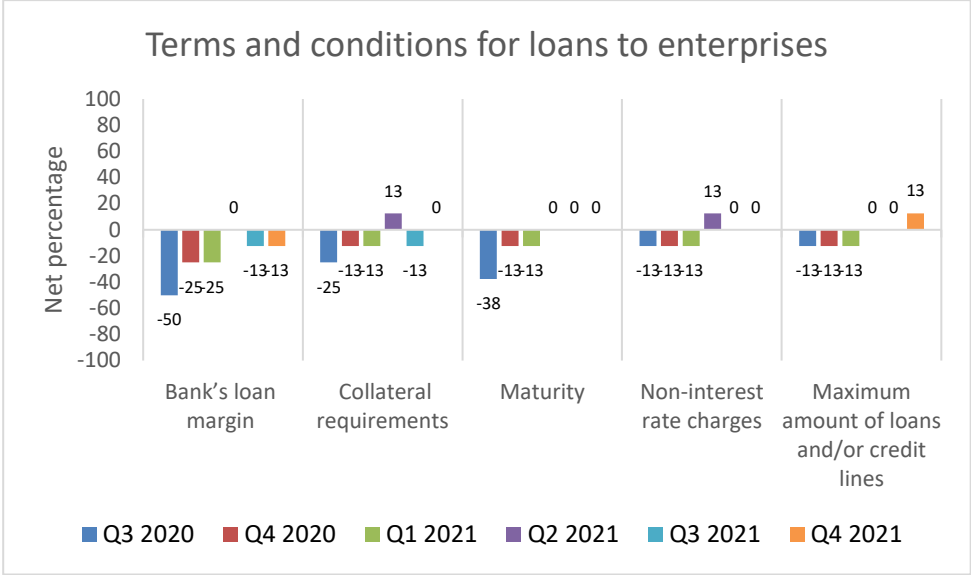
Unlike previous quarters when credit standards for loans to enterprises were tightened, in the fourth quarter of 2021 banks reported no change in credit standards for both short-term and long-term loans (see Appendix, Question 1).



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

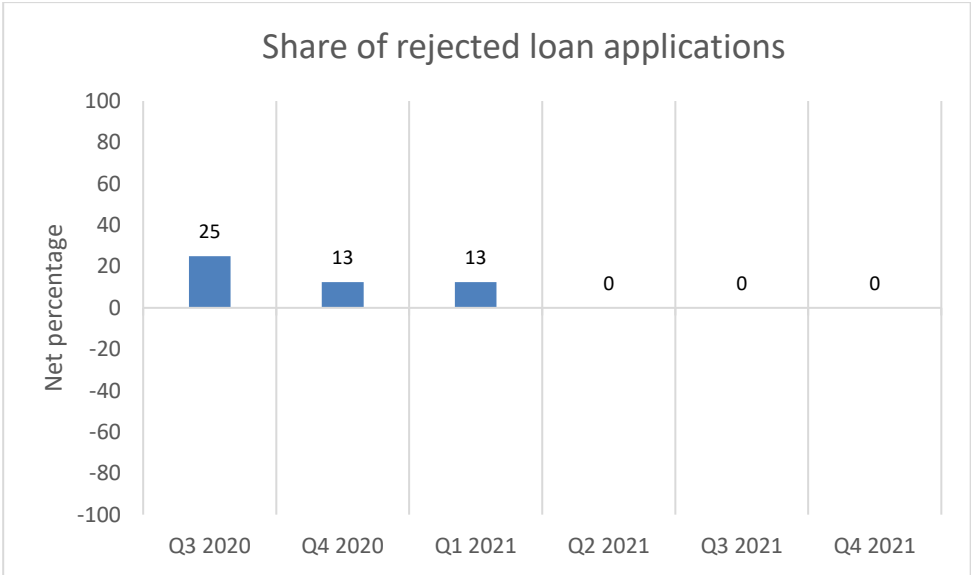
In the fourth quarter of 2021, the conditions for approving loans to enterprises were slightly changed (i.e. contractual provisions from loan contracts), related to bank’s loan margin and the maximum amount of loans. The bank’s loan margin was slightly tightened (only one bank tightened its bank’s loan margin), while the maximum amount of loans was eased (only one bank reported

easing). Other conditions for loan approvals to enterprises remained the same compared to the previous quarter (see Appendix, Question 3).



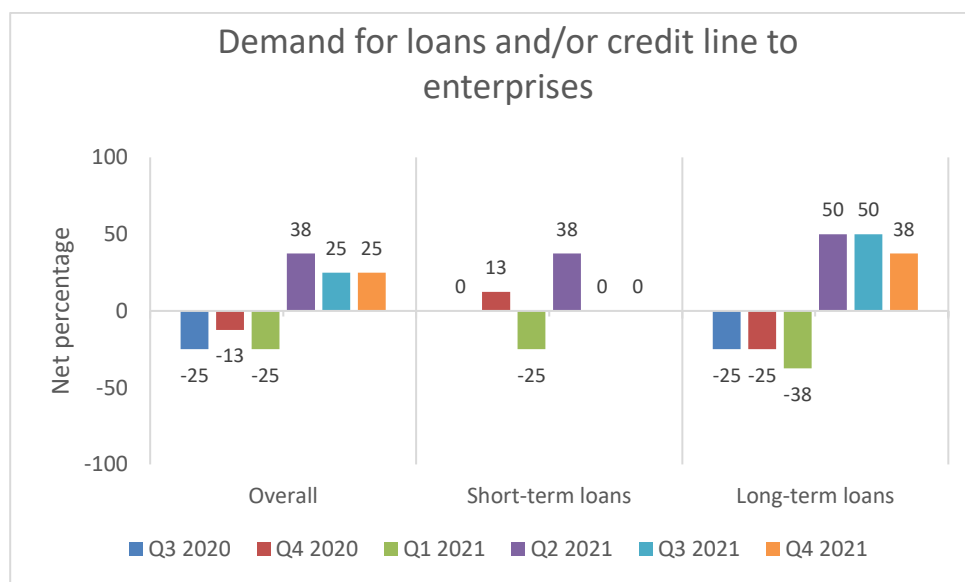
**2.1.3 Share of rejected application for loans to enterprises**

On the basis of banks' responses, no change of the share of rejected loan applications was observed in the fourth quarter of 2021, which is the third consecutive quarter in which the share of rejected loan applications remained at the same level (see Appendix, 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 fourth quarter of 2021, due to the increase in demand for long-term loans, while demand of enterprises for short-term loans remained at the same level (see Appendix question 5). The further increase in demand for loans is a reflection of the exit from the recession in 2021 and higher level of optimism regarding borrowing.



Banks reported that financing needs for fixed investment and merges/acquisitions contributed to higher demand of enterprises for loans in fourth quarter 2021, while use of alternative financing sources had no impact on demand of enterprises for loans and/or credit lines (see Annex, Question 6).

### Expectations for the first quarter of 2022

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

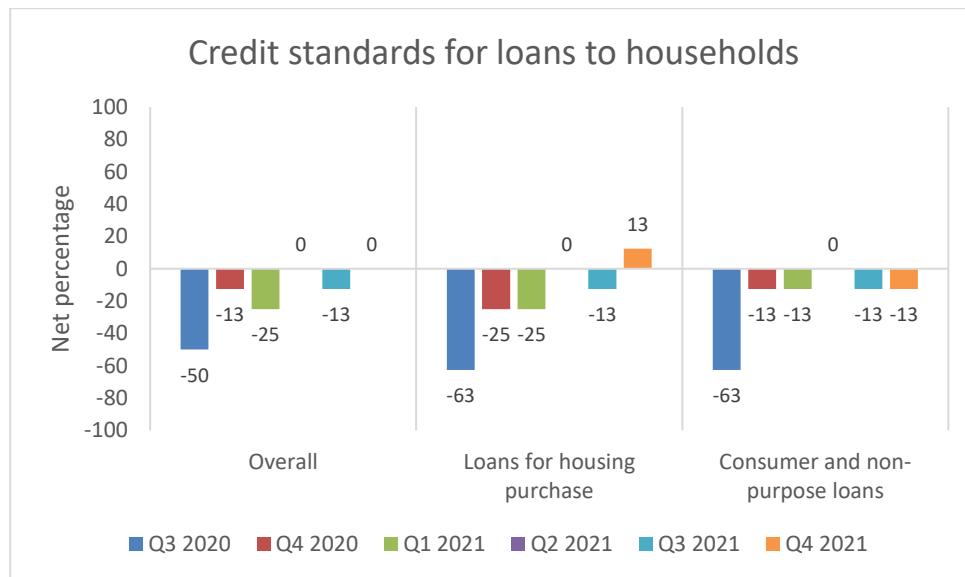
Banks expect that the upward trend in the demand for both short-term and long-term loans to enterprises will continue in the first quarter of 2022 (see Appendix, Question 8), with slightly higher demand for short-term than long-term loans and / or credit lines to enterprises (more banks expect an increase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

### 3 Loans to households

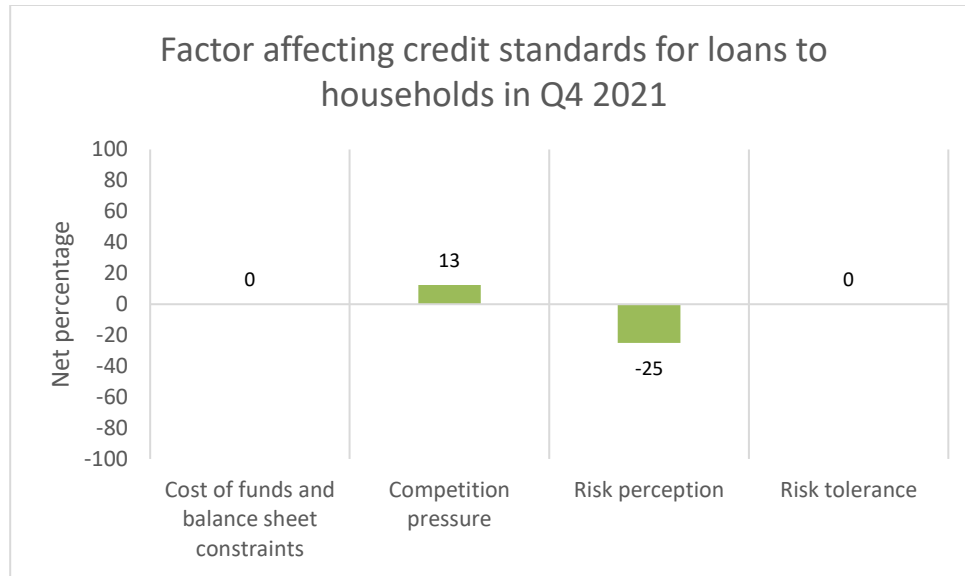
#### 3.1 Supply

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

The net percentage in the fourth quarter of 2021 for credit standards (i.e. internal guidelines or credit approval criteria) for housing purchase, consumer and general purpose loans had an opposite directions. While standards for housing purchase loans were slightly eased (net percentage 13%), credit standards for consumer / general purpose loans were slightly tightened (net percentage -13%) (see Appendix, Question 9).

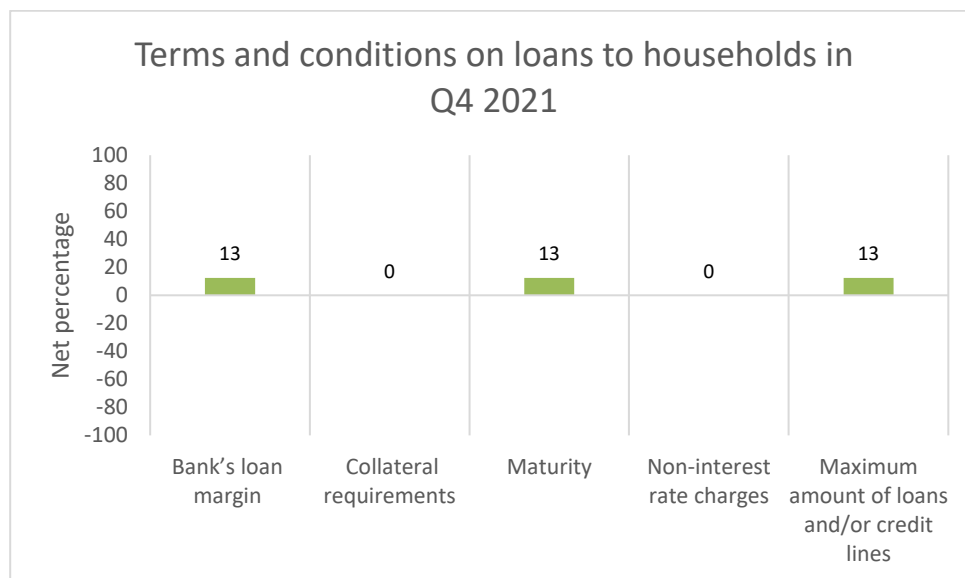


According to the banks' report, the competition pressure had a positive effect on credit standards, while the risk perception had tightening effect on credit standards for loan approvals to households (see Appendix, Question 10).



### 3.1.2 Terms and conditions on loans to households

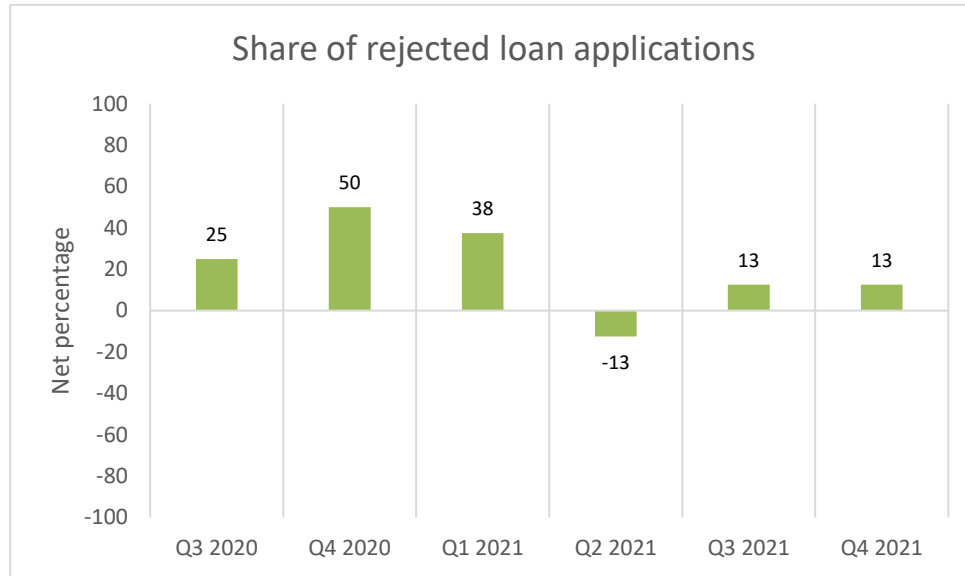
Banks' terms and conditions (i.e. banks' actual terms and conditions agreed in the loan contract) for loans approvals to households were eased in the fourth quarter of 2021, because of easing of bank's loan margins, maturity and maximum loan amounts, while collateral requirements and non-interest rate charges remained unchanged (see Annex, Question 11).





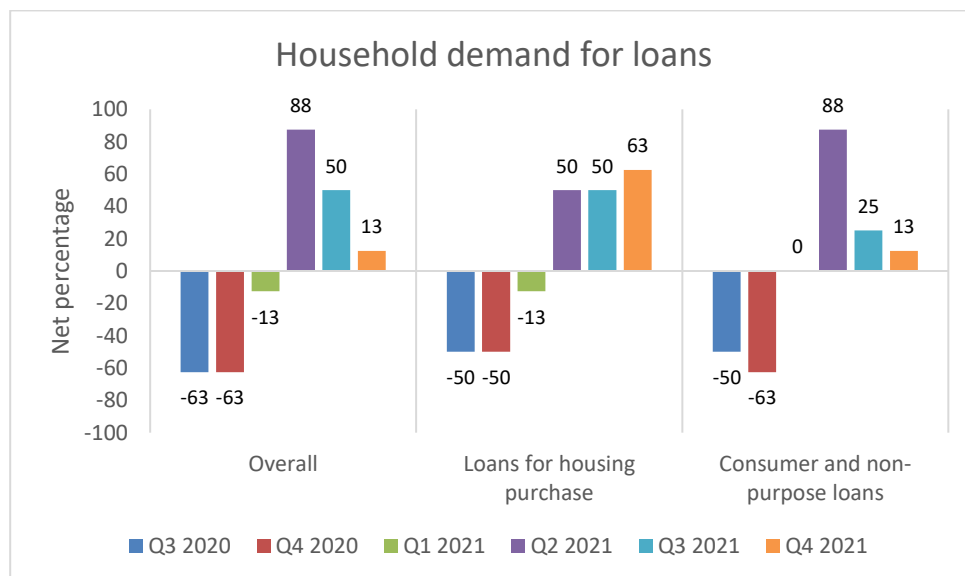
### 3.1.3 Share of rejected application for loans to households

In the fourth quarter of 2021, banks indicated a net increase of the share of rejected household loan applications (see Annex, Question 12).

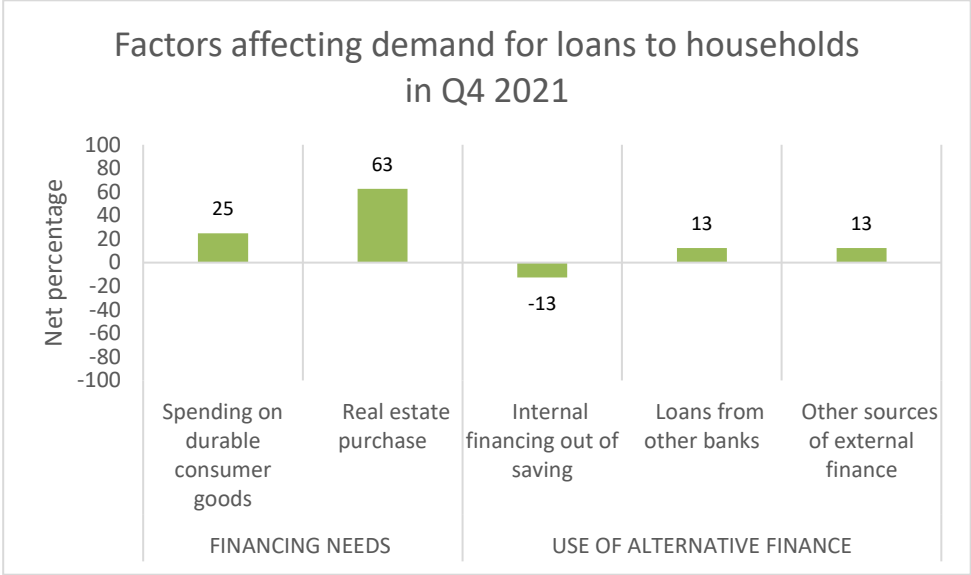


### 3.2. Demand for loans to households

Banks reported that household demand for loans increased in the fourth quarter of 2021, which is in line with expectations from the previous round of reporting. The increase in demand for housing loans is very pronounced, while the increase in demand for consumer and general purpose loans is much smaller (see Appendix, question 13). It is interesting to note that the last 3 quarters had a significant increase in demand, which is a reflection of improving economic conditions and growth in 2021, after a period of recession in 2020.



During the fourth 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, internal financing from saving appeared as a factor with a negative effect on household demand for loans (see Annex, Question 14).



**Expectations for the first quarter of 2022**

Based on the question on expectations, banks predict net easing of credit standards for loans to households in the first quarter of 2022. More banks expect easing of standards for consumer and general purpose loans rather than housing loans (see Appendix, question 15).

Banks have a rather optimistic view of household demand for loans in the first quarter of 2022. Therefore, the increase in the demand is expected for consumer and general purpose loans as well as for loans for housing purchase (see Annex, Question 16).

## ANNEX

### Consolidated answers of banks for the fourth 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)	Overall	Short-term loans	Long-term loans
Tightened considerably	0	0	0
Tightened somewhat	0	0	0
Remained basically unchanged	100	100	100
Eased somewhat	0	0	0
Eased considerably	0	0	0
Total	100	100	100
Net percentage	0	0	0
Diffusion index	0	0	0

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	Risk perception	Risk tolerance
Contributed considerably to tightening	0	0	0	0
Contributed somewhat to tightening	0	0	0	0
Contributed to keeping basically unchanged	100	100	100	100
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	0	0
Diffusion index	0	0	0	0

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	13	0	0	0	0
Remained basically unchanged	88	100	100	100	88
Eased somewhat	0	0	0	0	13
Eased considerably	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	-13	0	0	0	13
Diffusion index	-6	0	0	0	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)	Share of rejected loan 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

\*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)	Overall	Short-term loans	Long-term loans
Decreased considerably	0	0	0
Decreased somewhat	0	0	0
Remain basically unchanged	75	100	63
Increased somewhat	25	0	38
Increased considerably	0	0	0
Total	100	100	100
Net percentage	25	0	38
Diffusion index	13	0	19

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	0	0	0	0	0	0	0	0
Contributed to keeping basically unchanged	63	100	100	88	100	100	100	100
Contributed somewhat to higher demand	38	0	0	13	0	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	0	0	0	0
Diffusion index	19	0	0	6	0	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)	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)	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)	Overall	Loans for housing purchase	Consumer and general purpose loans
Tightened considerably	0	0	0
Tightened somewhat	0	0	13
Remained basically unchanged	100	88	88
Eased somewhat	0	13	0
Eased considerably	0	0	0
Total	100	100	100
Net percentage	0	13	-13
Diffusion index	0	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)	Cost of funds and balance sheet constraints	Pressure from competition	Risk perception	Risk tolerance
Contributed considerably to tightening	0	0	0	0
Contributed somewhat to tightening	0	0	25	0
Contributed to keeping basically unchanged	100	88	75	100
Contributed somewhat to easing	0	0	0	0
Contributed considerably to easing	0	13	0	0
Total	100	100	100	100
Net percentage	0	13	-25	0
Diffusion index	0	13	-13	0

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

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 loan 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)	Overall	Loans for housing purchase	Consumer and general purpose loans
Decreased considerably	0	0	0
Decreased somewhat	38	0	38
Remain basically unchanged	13	38	13
Increased somewhat	50	50	50
Increased considerably	0	13	0
Total	100	100	100
Net percentage	13	63	13
Diffusion index	6	38	6

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	13	0	13	0	0
Contributed to keeping basically unchanged	50	38	88	88	88
Contributed somewhat to higher demand	38	63	0	13	13
Contributed considerably to higher demand	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	25	63	-13	13	13
Diffusion index	13	31	-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)	Overall	Loans for housing purchase	Consumer and general purpose loans
Tighten considerably	0	0	0
Tighten somewhat	0	0	0
Remained basically unchanged	63	75	63
Ease somewhat	38	25	38
Ease considerably	0	0	0
Total	100	100	100
Net percentage	38	25	38
Diffusion index	19	13	19

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 general purpose loans
Decrease considerably	0	0	0
Decrease somewhat	13	0	13
Remain basically unchanged	25	50	25
Increase somewhat	63	50	63
Increase considerably	0	0	0
Total	100	100	100
Net percentage	50	50	50
Diffusion index	25	25	25