Bank lending survey in BiH
(Report for the fourth quarter of 2020)

Statistics and Publications Department

Section for Monetary and Financial Sector Statistics

Central Bank of Bosnia and Herzegovina

Content

Introduction

The results of the bank lending survey (BLS) relate to changes observed during the third and fourth quarters of 2020 and expectations for the first quarter of 2021. The survey was conducted between 10 and 15 October and 11 and 15 January 2021. The representative sample of banks consists of the 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; households loans for houseing 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 have reported a decline in loan demand.

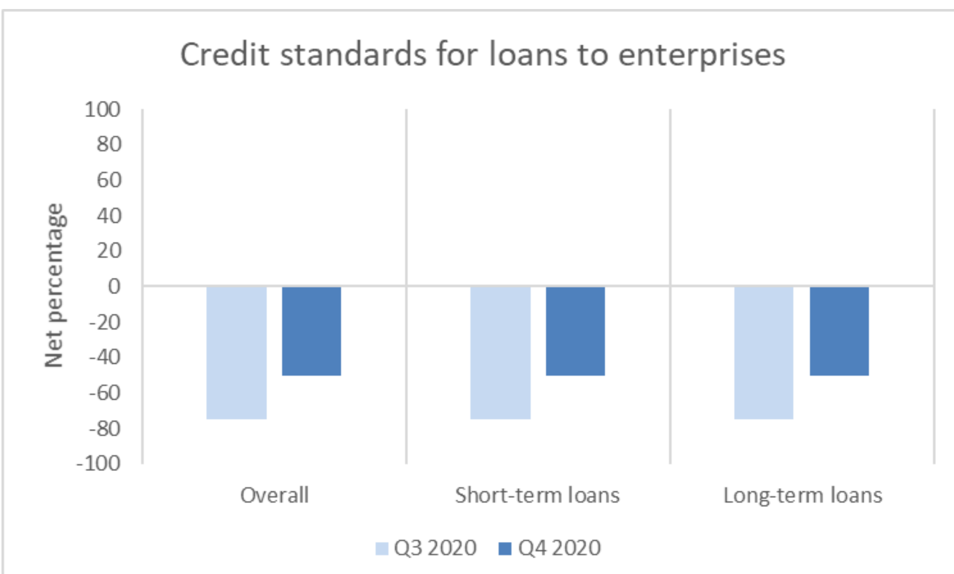
In addition to the "net percentage" indicator, the CBBH also publishes diffusion index as an alternative measure of banks' responses to questions relating to changes in credit standards and net demand. The diffusion index is constructed in the following way: respondents who have answered "considerably"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

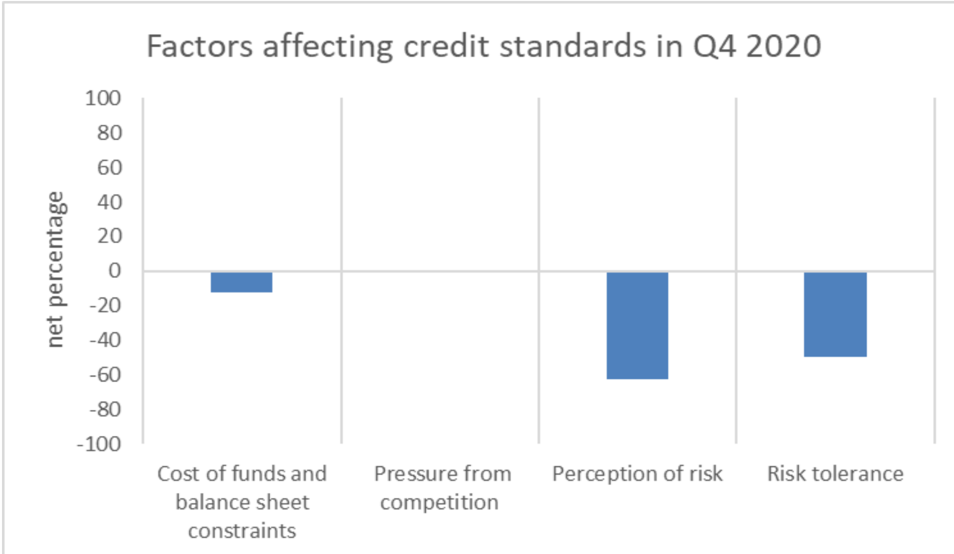
2.1 Supply

2.1.1 Credit standards for loans to enterprises

Credit standards for loans or credit lines to enterprises continued to tighten in the fourth quarter, but with less intensity than in the third quarter of 2020 (net percentage -50% after -75%). Banks reported a net tightening of credit standards for both short-term loans and long-term loans (see Annex, Question 1).



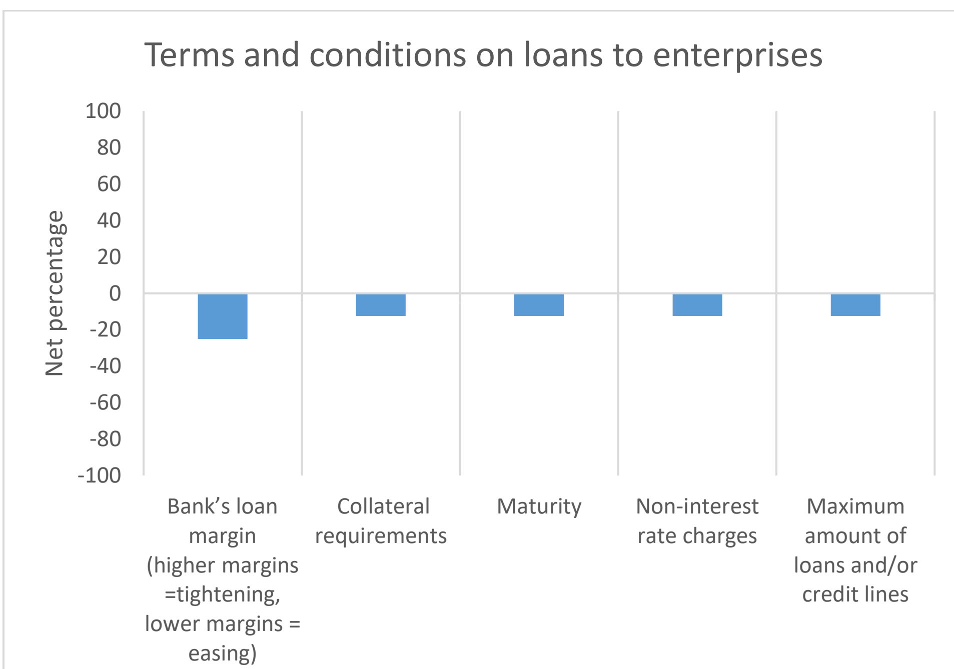
This tightening was mainly driven by banks' risk perceptions and risk tolerance. Cost of funds and balance sheet constrains had a tightening impact, but smaller impact than banks' risk perceptions and risk tolerance, while pressure from competition had no impact on banks credit standards as applied in the process of the approval of loans or credit lines to enterprises (see Annex, Question 2).



Based on a question about expectation bank's answers indicated net tightening of credit standards for overall, short-term loans and long-term loans in the first quarter of 2021 (see Annex, Question 7).

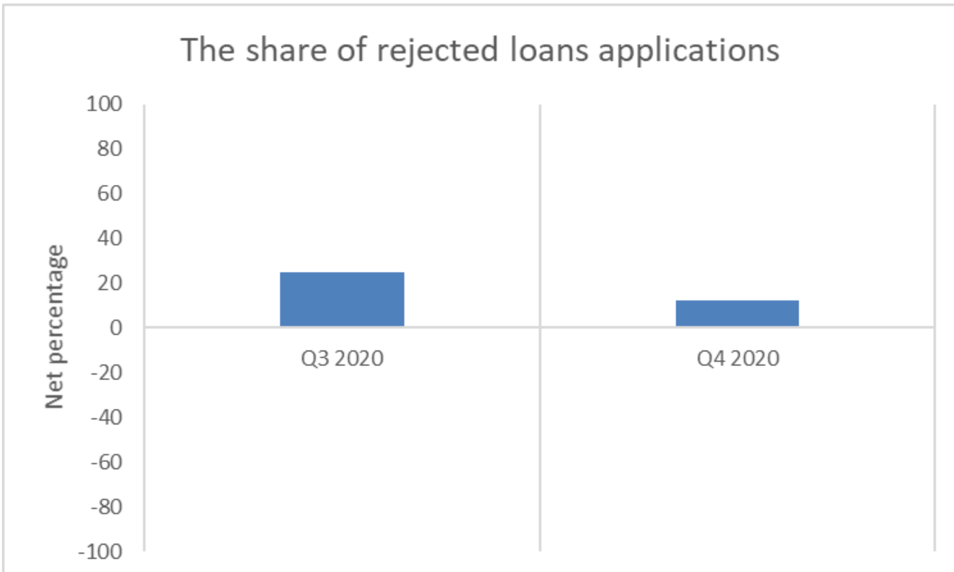
2.1.2 Terms and conditions on loans to enterprises

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 fourth quarter of 2020, but this tightening was of less intensity than in the third quarter. In this quarter, margins on loans to enterprises 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

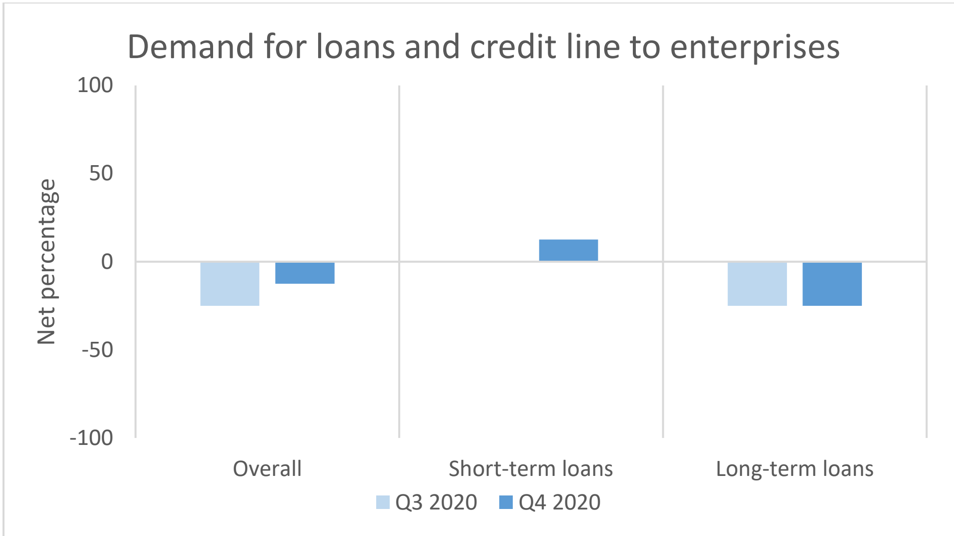
In the fourth quarter of 2020, compared to the previous quarter, banks reported a slight decrease in the share of rejected applications for loans to enterprises.



2.2 Demand for loans or credit lines to enterprises

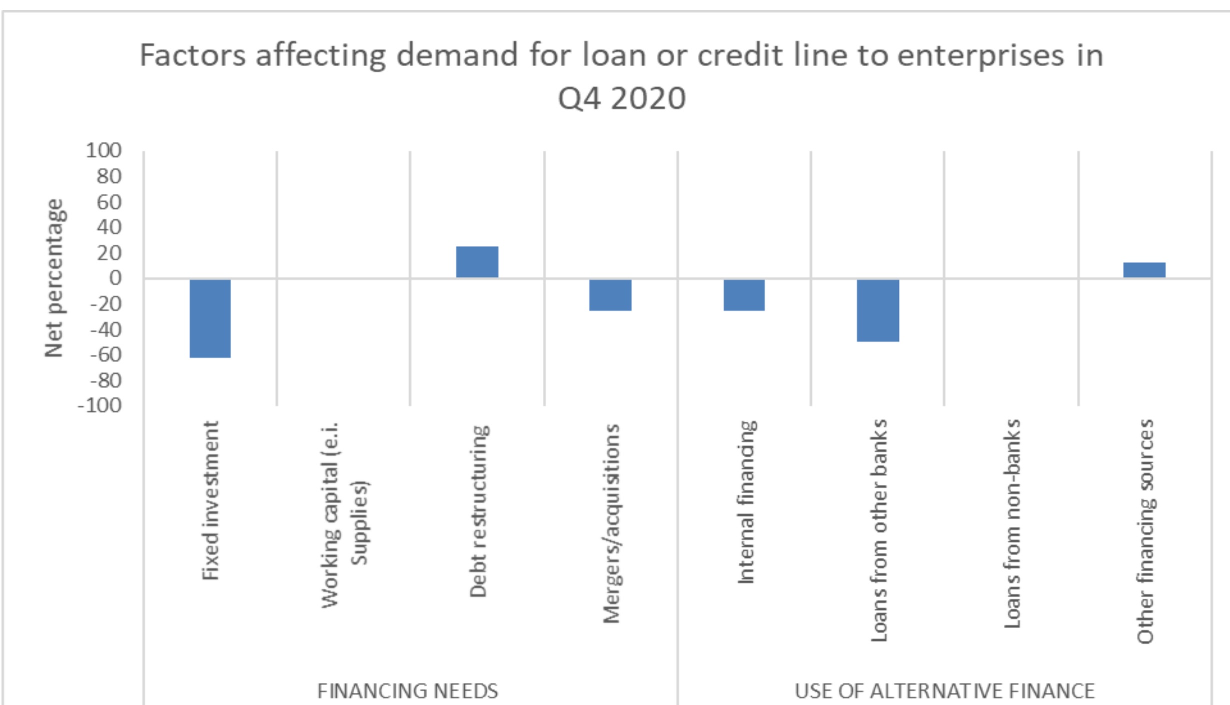
Firms' overall demand for loans or credit lines decreased in the fourth quarter of 2020 (a net percentage of banks reporting a decrease in overall loan demand at - 13 %), which is line with the reported decrease in demand from the previous quarter (a net percentage -25%). Such lowered demand for loans is probably related to economic difficulties for many enterprises during 2020. But there is a noticeable difference by the maturity of the loans, demand for long-term loans or credit line decreased considerably (a net percentage -25%) while demand for short-term loans increased (a net percentage 13 %) (see Annex, Table 5).

Banks reported even stronger decrease of the overall demand in the third quarter of 2020 (net percentage -25%). Looking by maturity, demand for short-term loans increased in the fourth quarter of 2020 compared to the third quarter, while in the previous quarter demand remained unchanged.



Banks reported that financing needs for debt restructuring contributed to higher demand and it was the main factor for increased enterprise' loan demand. Contrary to this, the negative contribution of financing needs for fixed investment and for mergers and acquisitions dampened loan demand. 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 source contributed to higher demand, while loans from non-banks had no impact on enterprise' demand.



Expectations for Q1 2021

Credit standards are going to be somewhat tighter in the first quarter of 2021, for both short-term and long-term loans.

Banks expect that net demand for overall loans to firms will remain basically unchanged in the first quarter of 2021. Concerning maturity, bank's expectation is that demand for short-term loans will increase (a net percentage of 13%), while demand for long-term loans will further decrease (a net percentage of -25%) (see Annex, Question 8).

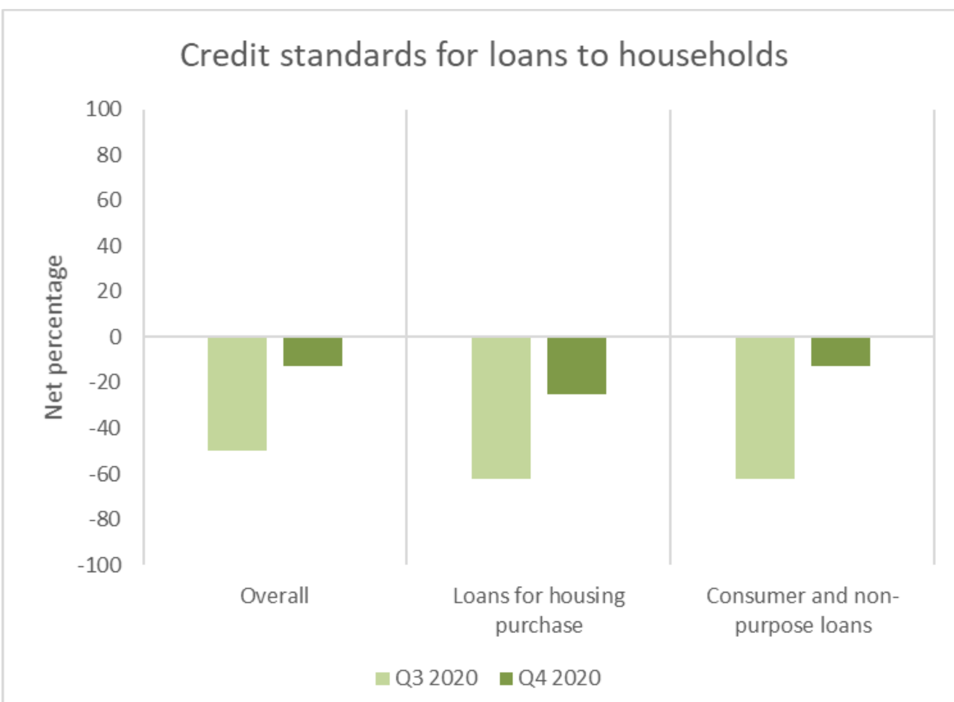
3 Loans to households

3.1 Supply

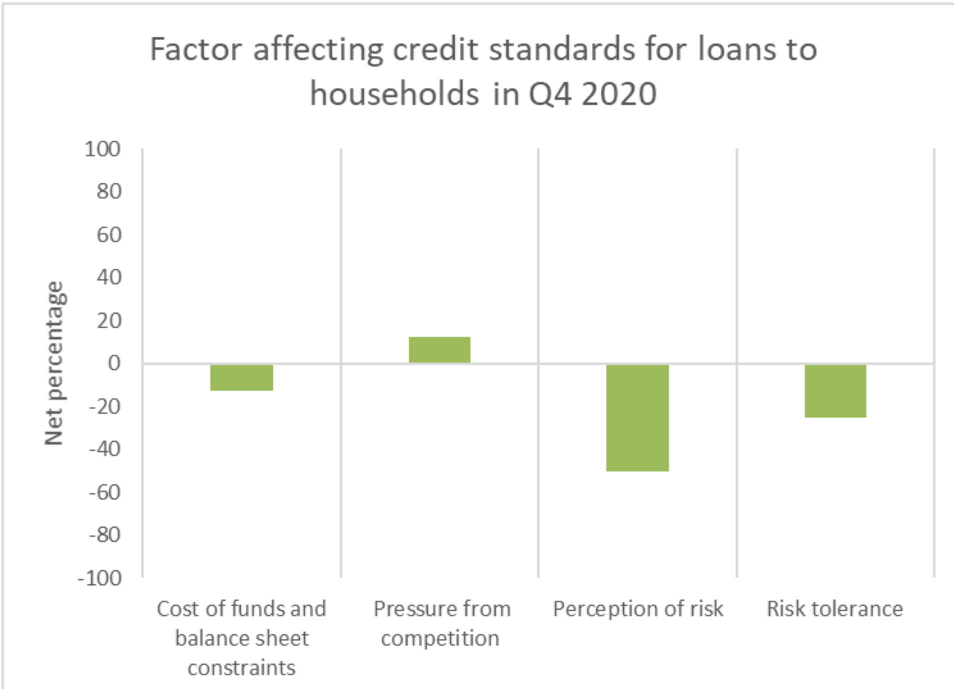
3.1.1 Credit standards for loans to households

Credit standards for overall loans to households were tightened in the fourth quarter of 2020, what was in line with banks expectation for this quarter (from the previous quarter).

The net tightening was smaller than in the previous quarters of 2020 (a net percentage for loans for house purchase was -25% in Q4 after -62,5% in Q3, the net percentage for consumer and non-purpose loans -13% after -63% in the previous quarter).



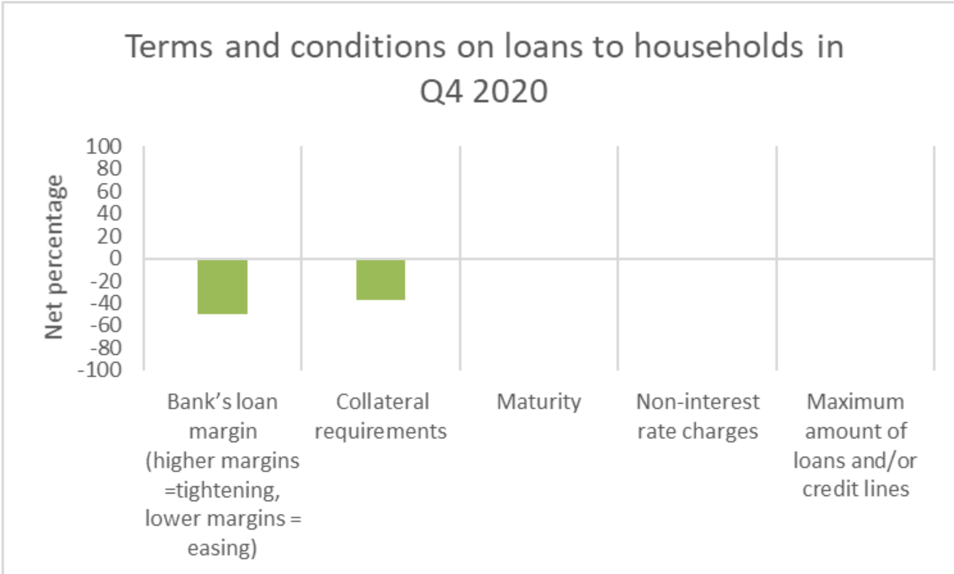
Banks referred to risk perceptions related to the general economic outlook as the most important factor for the tightening. Banks have also indicated risk tolerance as a relevant factor contributing to the tightening. In addition to this, there was also a significant contribution from the cost of funds and balance sheet constraints, while banks indicate pressure from competitions as a factor contributing to the easing credit standards.



Based on questions about expectation, the bank's answers indicate that credit standards for overall loans to households will remain unchanged in the first quarter of 2021. Concerning the purpose of loans, banks indicate there will be tightening of standards for house purchase loans, while loosening of conditions is expected for standards for consumer and non-purpose loans.

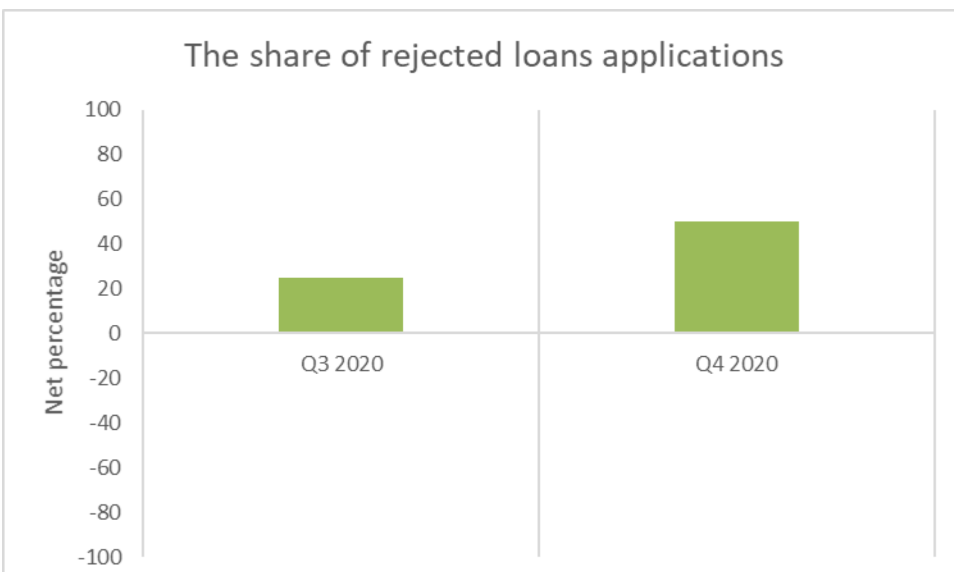
3.1.2 Terms and conditions on loans to households

Bank's terms and conditions (i.e. banks' actual terms and conditions agreed in the loan contract) for new loans to households mainly tightened in the fourth quarter of 2020. Bank's loan margin and collateral requirements were tightened while the maximum amount of loans, non-interest, rate and maturity remained basically unchanged. Margins on loans to households tightened to a higher degree than collateral requirements (see Annex, Question 11).



3.1.3 Rejected application share for loans to households

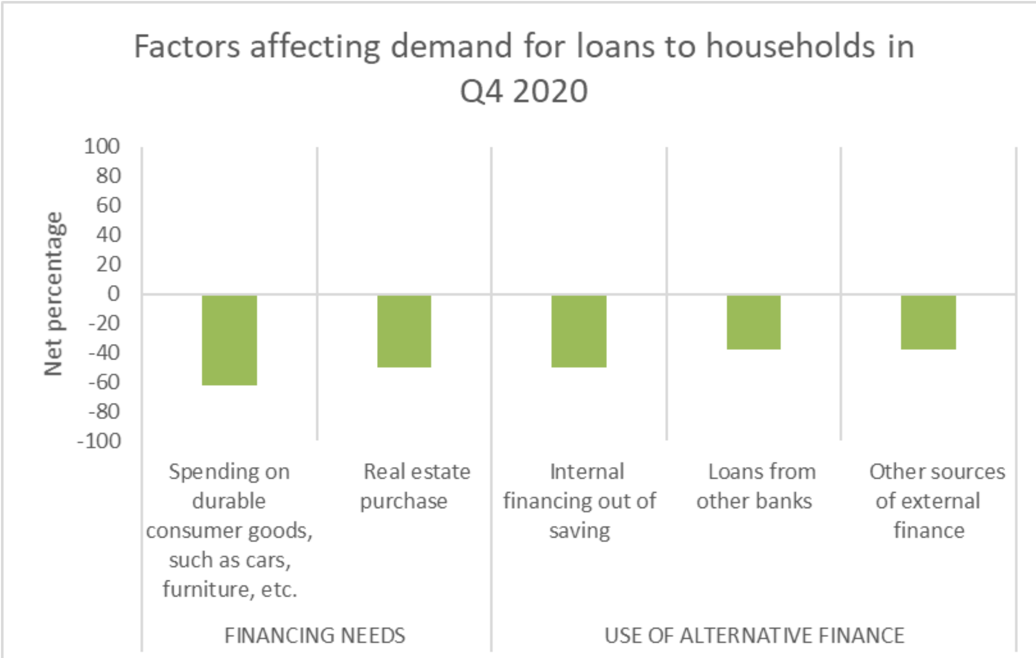
In the fourth quarter of 2020, banks indicated a net increase in the share of rejected loan applications for loans to households (see Annex, Question 12). The net percentage in answers was higher than in the previous quarter (net percentage of 50%, after 25% in the previous survey round).



3.2. Demand for loans to households

In the fourth quarter of 2020, banks reported a net decline in demand for loans to households (see Annex, Question 13), which is line with the reported decrease in demand from the previous quarter. Demand for overall loan and demand for consumer and non-purpose loans decreased at a similar rate. In the third and fourth quarters the net decline in loan demand was similar for overall loans and loans for housing purchase, while a decline in demand for consumer and non-purpose loans was slightly larger in the fourth quarter. Banks' expectations from the previous round were to have an increase in demand for consumer loans and a smaller decline for house purchases.

During the last three months, all factors affecting household demand had a negative contribution to loan demand. Financing needs (both spending on durable consumer goods and real estate purchases) lowered demand quite a lot, which is similar to developments in Q3. Similarly, the use of alternative finance also contributed to lower demand in the fourth quarter of 2020. Banks perception was that households increasingly use internal financing, loans from other banks, and other sources and, therefore, demand for loans declined in Q4.



Expectations for Q1 2021

Concerning credit standards, banks indicated there will be further tightening of standards for housing purchase (mortgage loans), (a net percentage -13%), while standards will be somewhat looser for consumer loans (a net percentage 13%). However, standards for these two categories are very different at the moment, so these expected changes do not implicate any convergence in a term of standards

Banks have a relatively optimistic view about the demand for loans in Q1 2021. Surveyed banks reported expectations for a net increase in demand for consumer and non-purpose loans to households (a net percentage of 13%), while demand for loans for housing purchase will remain basically unchanged (see Annex, Table 16).

ANNEX

Consolidated answers of banks for the fourth quarter of 2020 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	50	50	50
Remained basically unchanged	50	50	50
Eased somewhat	0	0	0
Eased considerably	0	0	0
Total	100	100	100
Net percentage	-50	-50	-50
Diffusion index	-25	-25	-25

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	12,5	0
Contributed somewhat to tightening	13	0	50	50
Contributed to keeping basically unchanged	88	100	38	50
Contributed somewhat to easing	0	0	0	0
Contributed considerably to easing	0	0	0	0
Total	100	100	100	100
Net percentage	-13	0	-63	-50
Diffusion index	-6	0	-38	-25

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	13	13	25	13
Remained basically unchanged	25	88	88	63	88
Eased somewhat	25	0	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 decreased, remained unchanged or increased in total number of loan applications of the enterprises?

(in percentages, unless otherwise stated)	The share of rejected loans 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	25	13	38
Remain basically unchanged	63	63	50
Increased somewhat	13	25	13
Increased considerably	0	0	0
Total	100	100	100
Net percentage	-13	13	-25
Diffusion index	-6	6	-13

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	13	0	0	13	0	0	0	0
Contributed somewhat to lower demand	50	25	25	13	25	50	0	0
Contributed to keeping basically unchanged	38	50	25	75	75	50	100	88
Contributed somewhat to higher demand	0	13	38	0	0	0	0	13
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	25	-25	-25	-50	0	13
Diffusion index	-38	6	19	-19	-13	-25	0	6

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	13	13	13
Remained basically unchanged	88	88	88
Ease somewhat	0	0	0
Ease considerably	0	0	0
Total	100	100	100
Net percentage	-13	-13	-13
Diffusion index	-6	-6	-6

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	25	25	38
Remain basically unchanged	50	38	50
Increase somewhat	25	38	13
Increase considerably	0	0	0
Total	100	100	100
Net percentage	0	13	-25
Diffusion index	0	6	-13

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

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

(in percentages, unless otherwise stated)	The share of rejected loans applications
Decreased considerably	0
Decreased somewhat	0
Remain basically unchanged	50
Increased somewhat	50
Increased considerably	0
Total	100
Net percentage	50
Diffusion index	25

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	13	25	13
Decreased somewhat	50	38	50
Remain basically unchanged	38	25	38
Increased somewhat	0	13	0
Increased considerably	0	0	0
Total	100	100	100
Net percentage	-63	-50	-63
Diffusion index	-38	-38	-38

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

(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	63	63	50	38	38
Contributed to keeping basically unchanged	38	25	50	63	63
Contributed somewhat to higher demand	0	13	0	0	0
Contributed considerably to higher demand	0	0	0	0	0
Total	100	100	100	100	100
Net percentage	-63	-50	-50	-38	-38
Diffusion index	-31	-25	-25	-19	-19

15. Please indicate how you expect your bank's credit standards as applied to the approval of loans to households 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	25	38	13
Ease somewhat	38	25	50
Ease considerably	0	0	0
Total	100	100	100
Net percentage	0	-13	13
Diffusion index	0	-6	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	38	25	25
Remain basically unchanged	25	50	38
Increase somewhat	38	25	38
Increase considerably	0	0	0
Total	100	100	100
Net percentage	0	0	13
Diffusion index	0	0	6