



Lending landscape in the CESEE region: the EIB Bank Lending Survey

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Intro

- The latest EIB Bank Lending Survey (BLS) shows that the ***policy support has kept the credit channel partially open*** in 2020
- Despite a ***sharp drop in demand and tightening supply conditions***, the gap between the two remained stable at pre-crisis levels
- ***Foreign/parent banks*** reported a positive (although selective) approach in terms of their operations, commitment and profitability in the CESEE region
- ***Liquidity*** conditions were ample and ***NPLs*** did not deteriorate too much, albeit quality of loan applications declined
- This projects the image of a targeted and functioning (at least in 2020) policy support as well as a “stability” anchor from parent bank

Today's menu

- ❖ **Short intro to the EIB Bank Lending Survey**
- ❖ Demand and supply conditions in the CESEE region
 - ❖ Factors affecting demand
 - ❖ Domestic and international elements influencing supply
- ❖ Parent / Groups' CESEE strategies and commitment
- ❖ Liquidity conditions for local and parent banks
- ❖ NPL trends and quality of loan applications
 - ❖ Moratoria coverage
- ❖ Policy response to the COVID-19 crisis
- ❖ Conclusions



The EIB Bank Lending Survey: *intro*

- Semi-annual bank lending survey to ***monitor, analyse and interpret banking and credit developments*** in the CESEE region
- ***Unique nature of the regional banking sector***, with a large proportion of banks being foreign-owned
- ***Unique tool:***
 - ***Covers*** the CESEE region in detail
 - ***Complements*** national surveys (where available) adding a comparative and cross-border angle
 - ***Addresses*** parent banks and subsidiaries as well as domestic banks at the same time
 - ***Investigates*** the strategies of international banks active in CESEE and market conditions / expectations the local banks



The EIB Bank Lending Survey: intro

- ***Ample client spectrum***: SMEs, corporates, households
- Includes backward and forward looking (expectations) information
- ***Coverage*** 14 groups and 80 subsidiaries/local banks for an average of more than 50% of domestic banking sectors
- ***Designed*** in the context of the Vienna Initiative
- ***In the field*** during the month of September 2020
- ***COVID-19 special module on policy response***

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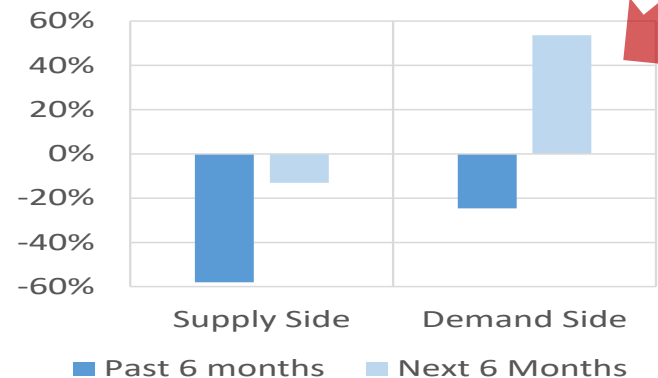
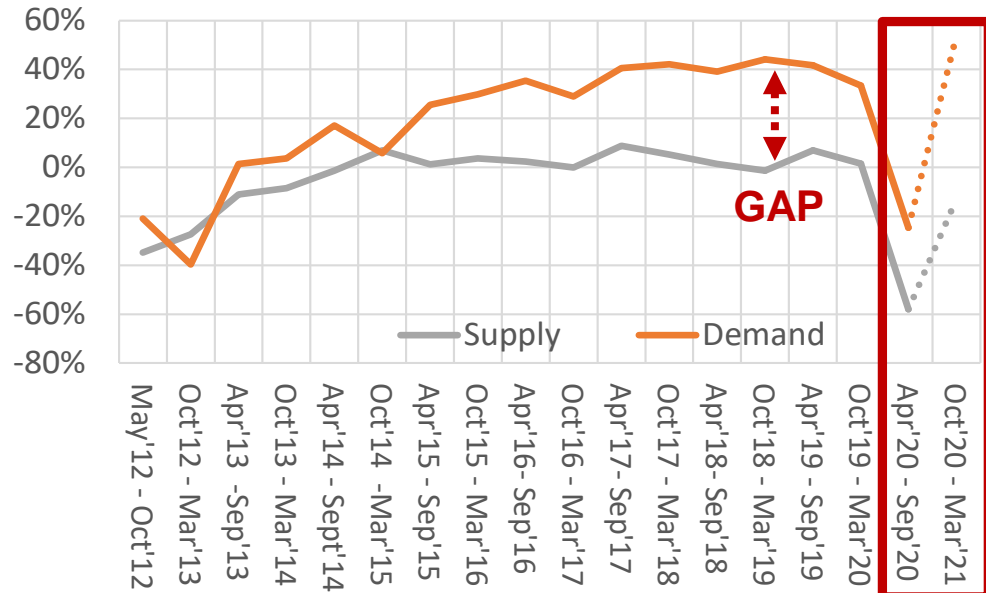
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Regional credit demand and supply conditions



- Demand (D) and supply (S) conditions entered into negative territory during the first COVID-19 wave:
 - Past 6M: supply tightened and demand decreased
 - Still leaving a stable gap between D and S
 - Next 6M: demand expected to rebound whilst supply conditions still in mild tightening territory

Demand and supply conditions; *net percentages* - positive figures refer to increasing (easing) demand (supply)



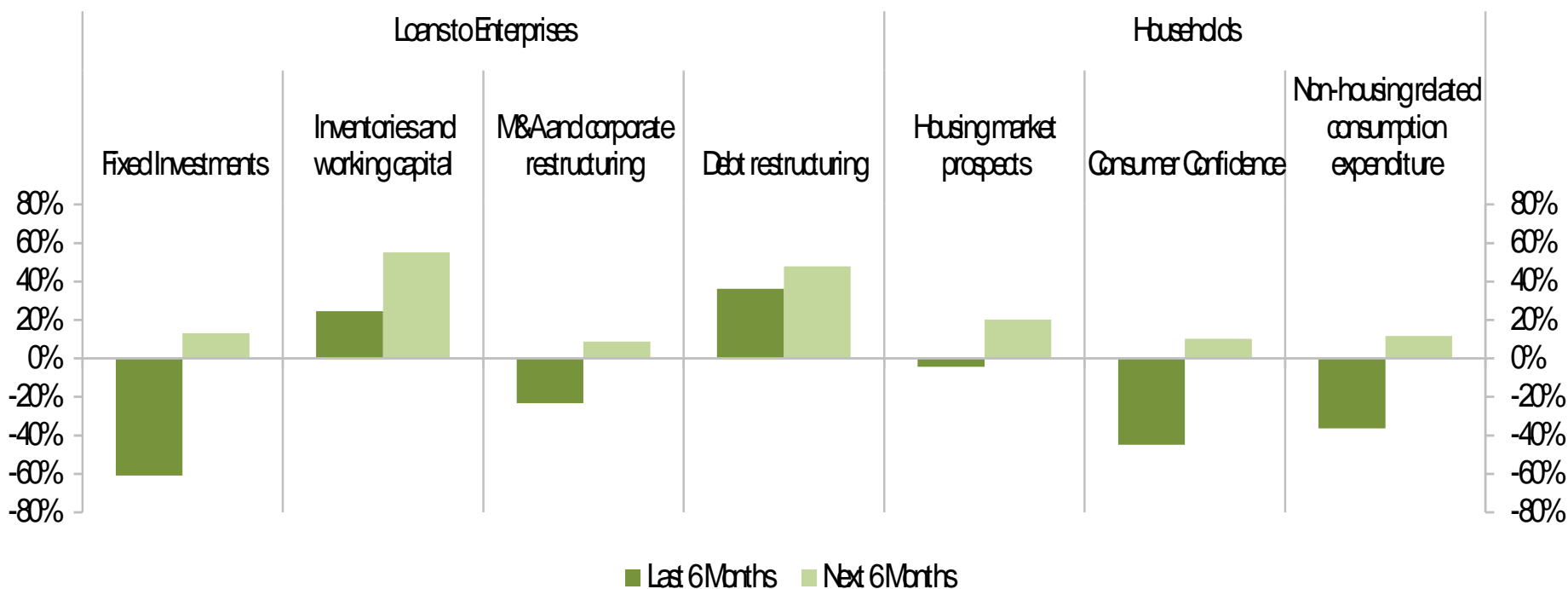
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- Significant negative contribution from investment, consumer confidence and non-housing consumption; mild negative contribution from M&A and corporate restructuring

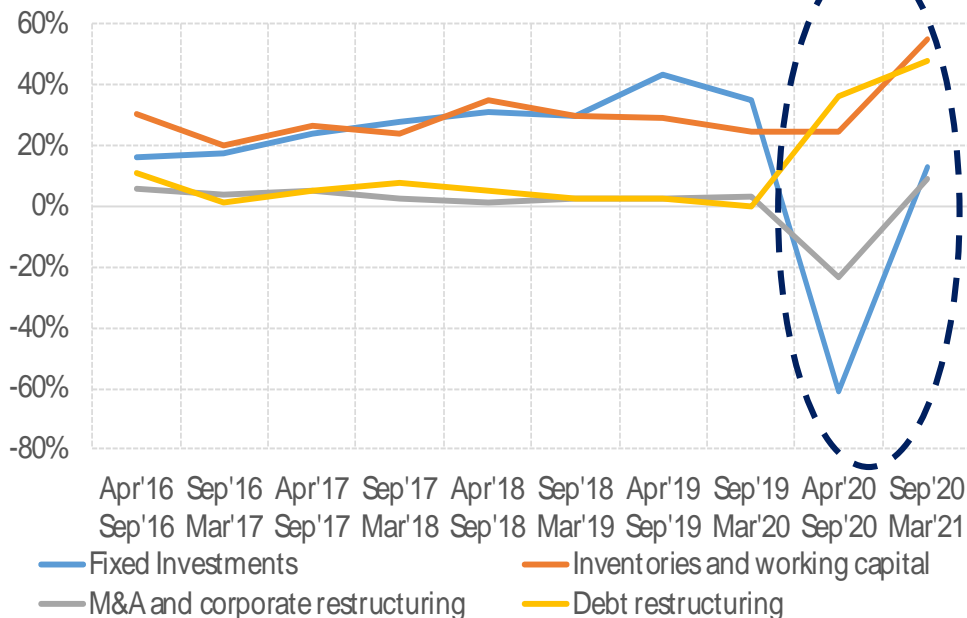
Net percentages; positive figures indicate a positive contribution to demand conditions



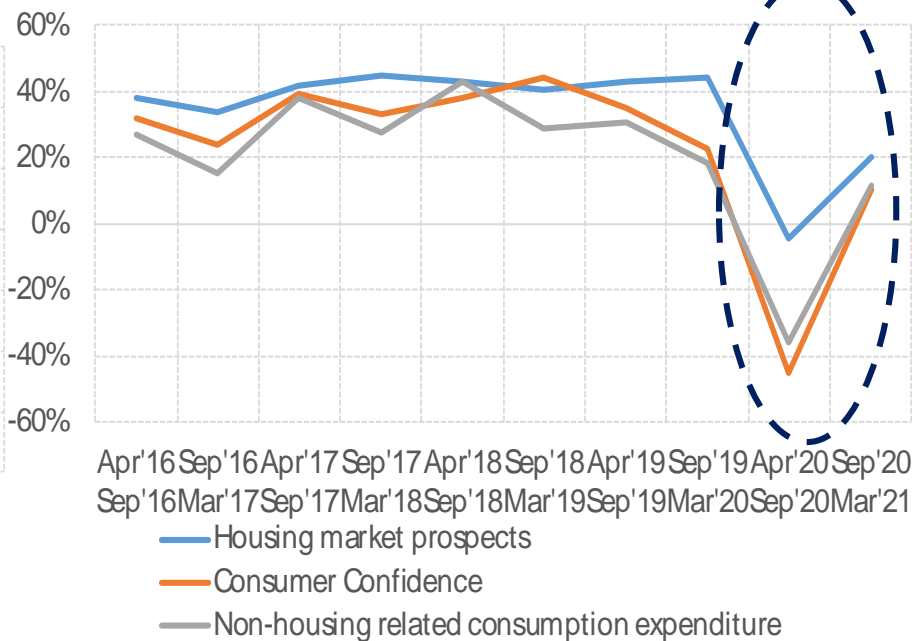


- **Not healthy demand:** positive contribution from debt restructuring (also expected) – in contrast to the past
- Enterprises: **Sharp drop in fixed investment** as well as M&A
- Household: decrease across the board but marginal only on housing market

Loans to firms



Loans to Households



Net percentages; positive figures indicate a positive contribution to demand conditions

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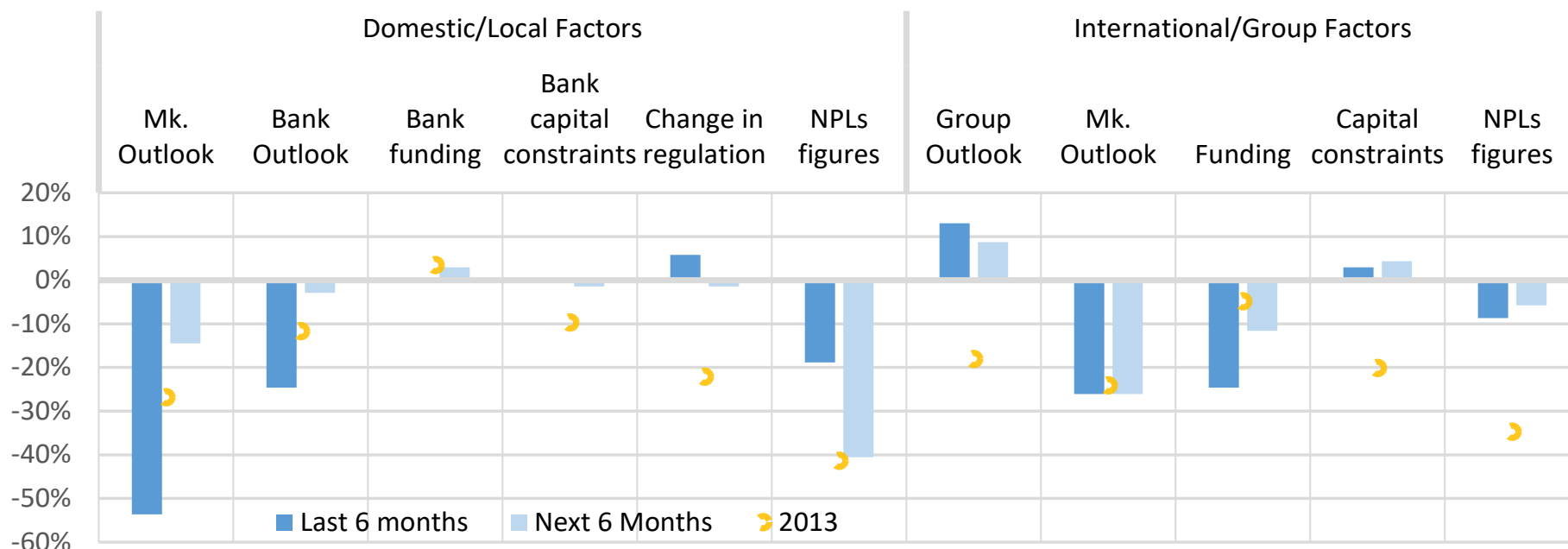
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- **Overall mixed picture with some evident deteriorations**
- **Domestic factors:** constraining elements are mainly NPLs, Mk outlook and bank outlook, whilst for the first time changes in local regulation supportive
- **International/Group factors:** main constraints coming from Mk outlook, funding from Groups and mild from NPLs

Factors contributing to supply conditions

Net percentages; positive figures indicate a positive contribution to supply conditions



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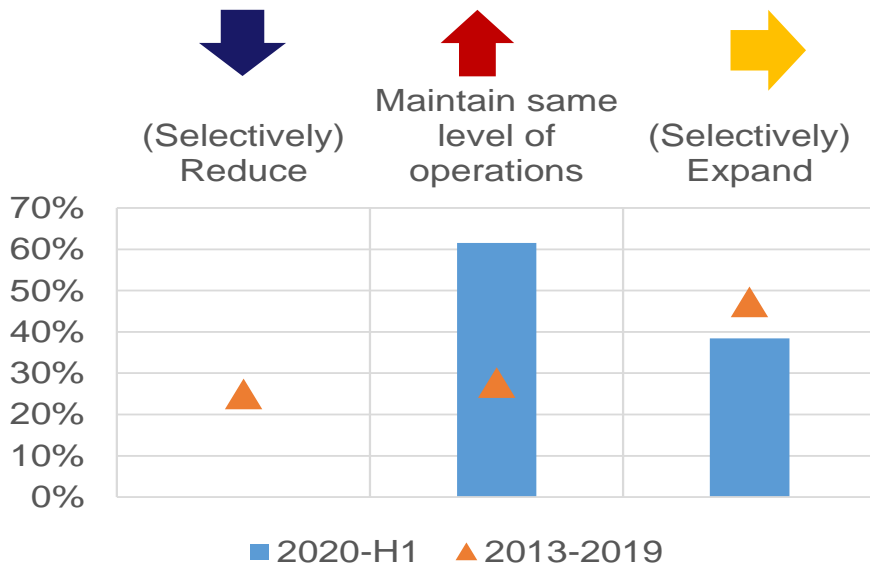
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Group CESEE strategic orientations and assessment supportive

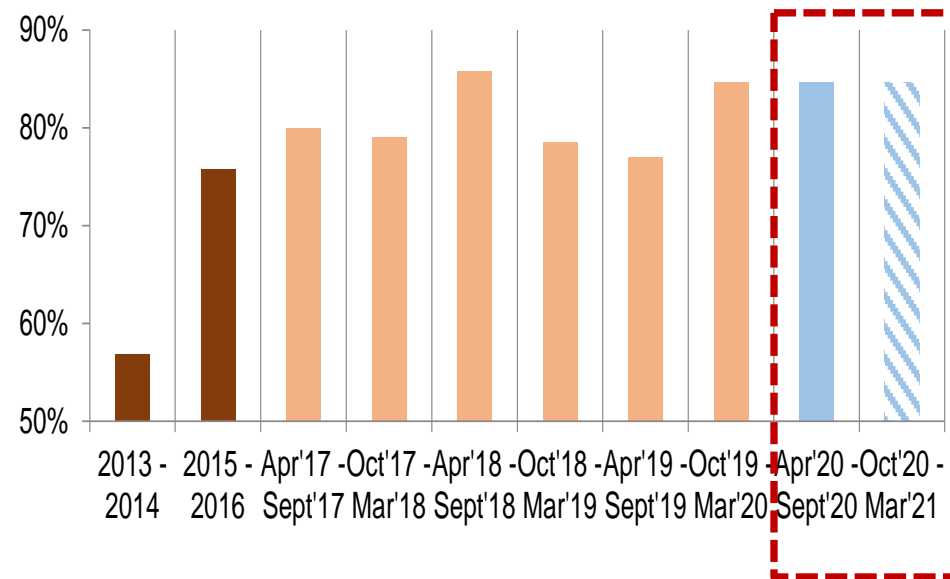


- **Positive and selective** approach to the CESEE region
 - Around 60% of Groups indicate intentions to maintain the same level of operations and 40% (selectively) expand operations in the region
 - Good news: contrary to the past, no Group signals selective reductions
- **CESEE strategy appealing** – 85% of the Groups see the region profitable – with a sustained outlook in profitability over the near future

Groups' intentions on aggregate operations in CESEE



ROA of your CESEE operations - % of responses with ROA higher/equal than overall group ROA

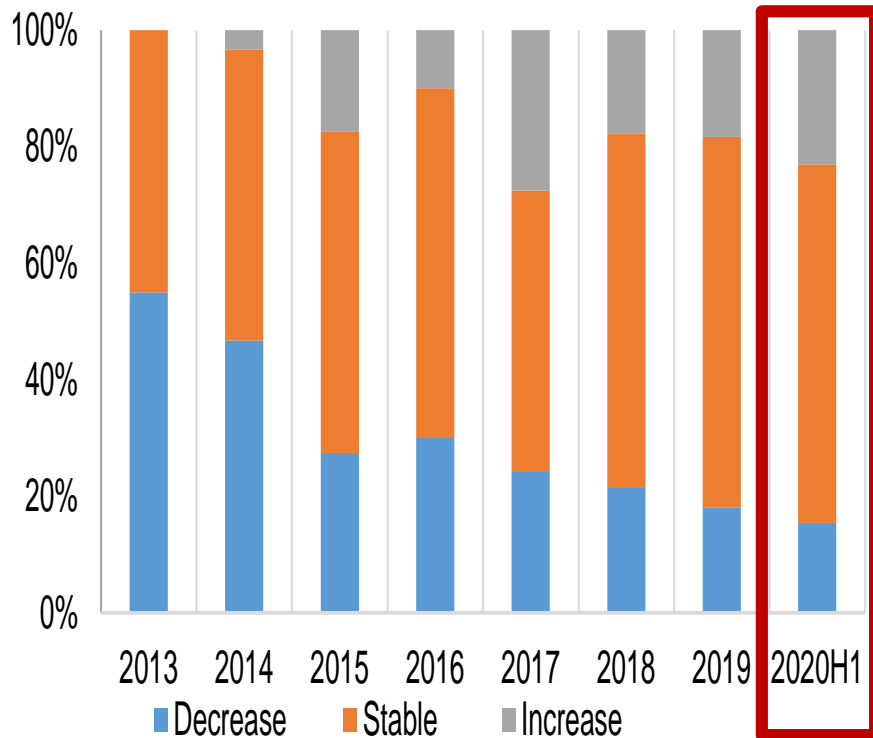


Global banks - balance sheet stability and positive attitude to the region

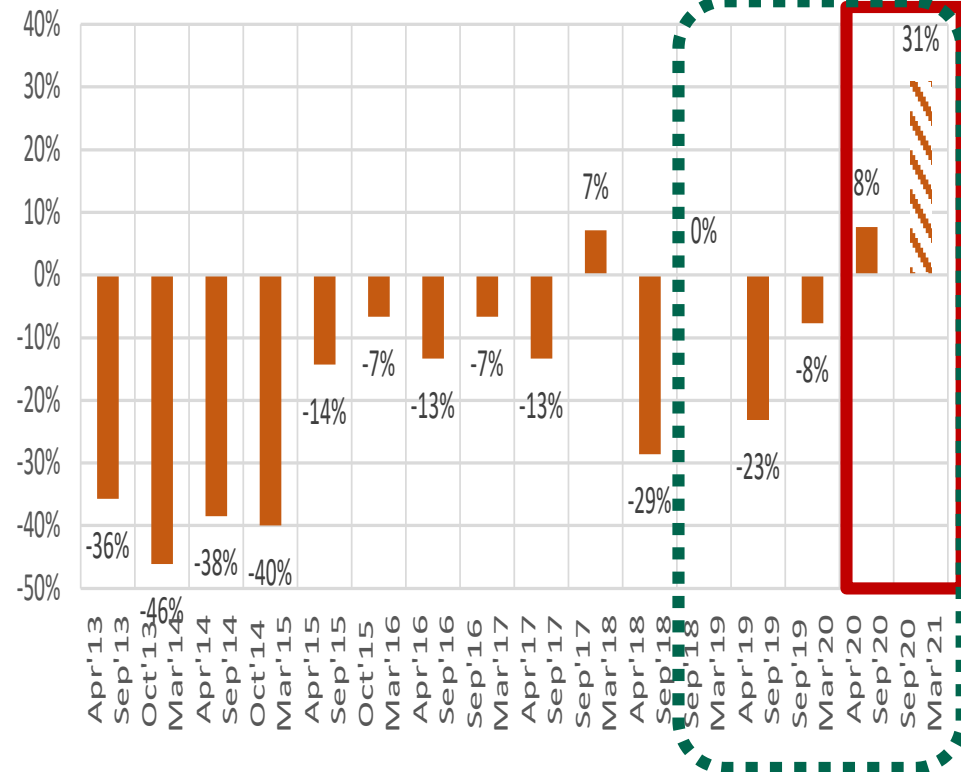


- **At global level**, groups expect their LTD ratio to remain relatively stable
- **Mild positive trend in exposure** to the CESEE region and expected to improve – however ample swings over the recent past

Groups' expectations on their LTD



Groups' total exposure to CESEE - net percentages - positive figures refer to increasing exposure

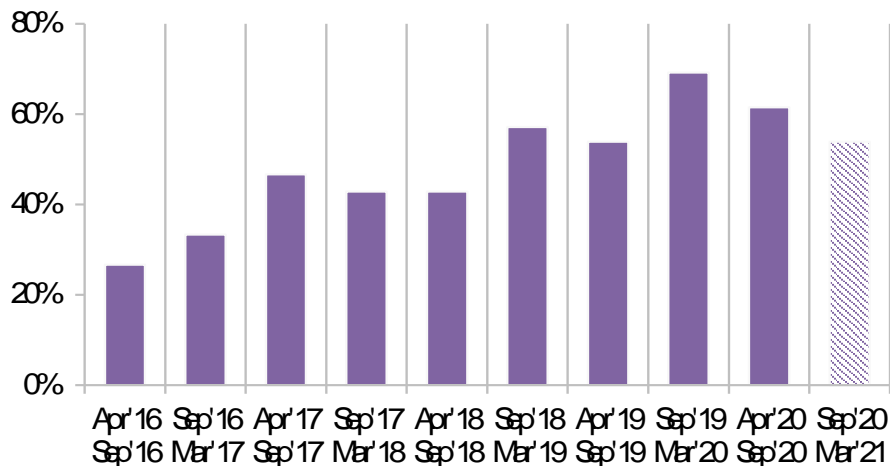


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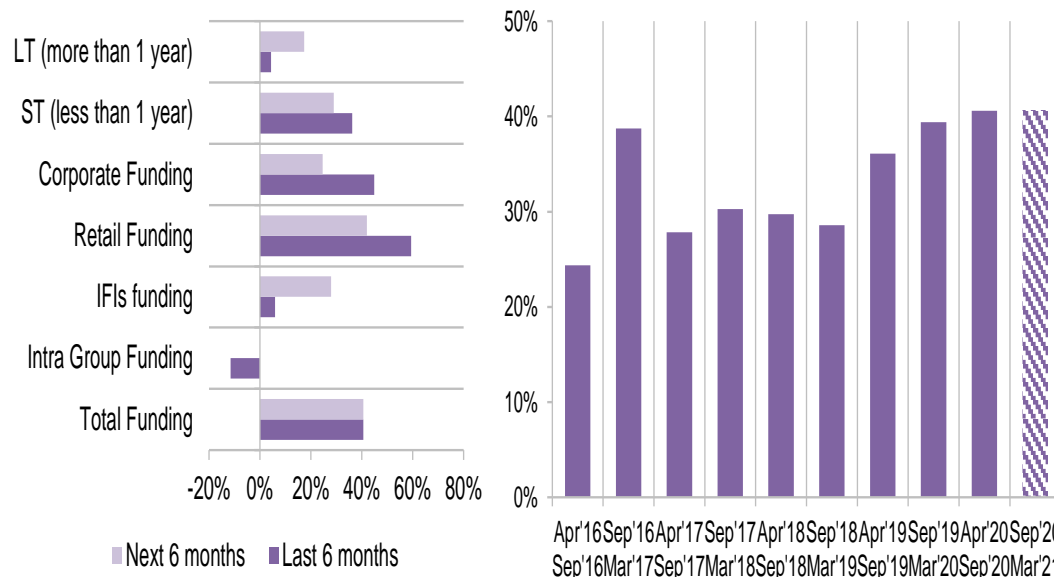


Groups' funding (net percentages; positive means easing)



➤ **Groups' funding conditions** were supportive and are expected to stay so over the next six months

Subsidiaries and local banks funding (net percentages; positive means easing)



➤ **Local banks funding conditions** were supportive and are expected to stay so over the next six months

➤ **Many factors supportive** with main contributions from corporate and retail funding; some negative contribution from intra-group funding



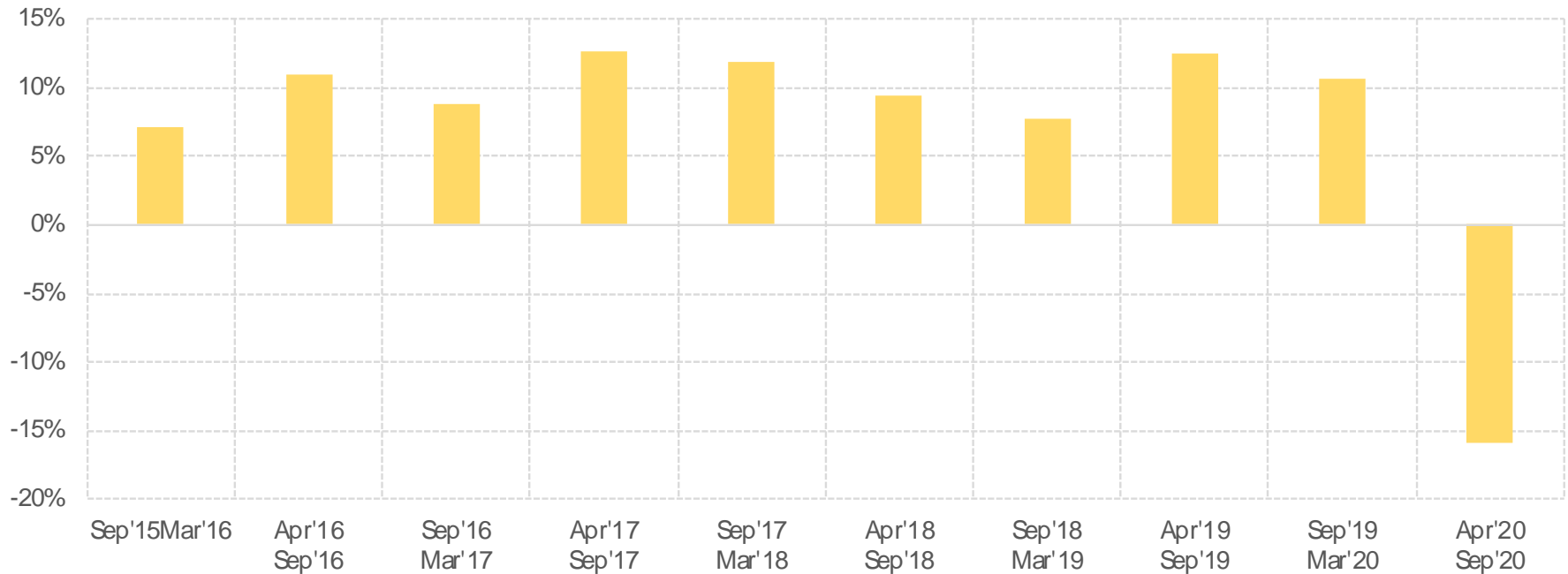
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- After a long stretch of improvements in the quality of loan applications, application quality decreased sharply in 2020
- This is a further demand-side element suggesting a deterioration in “new” and not “stock” asset quality

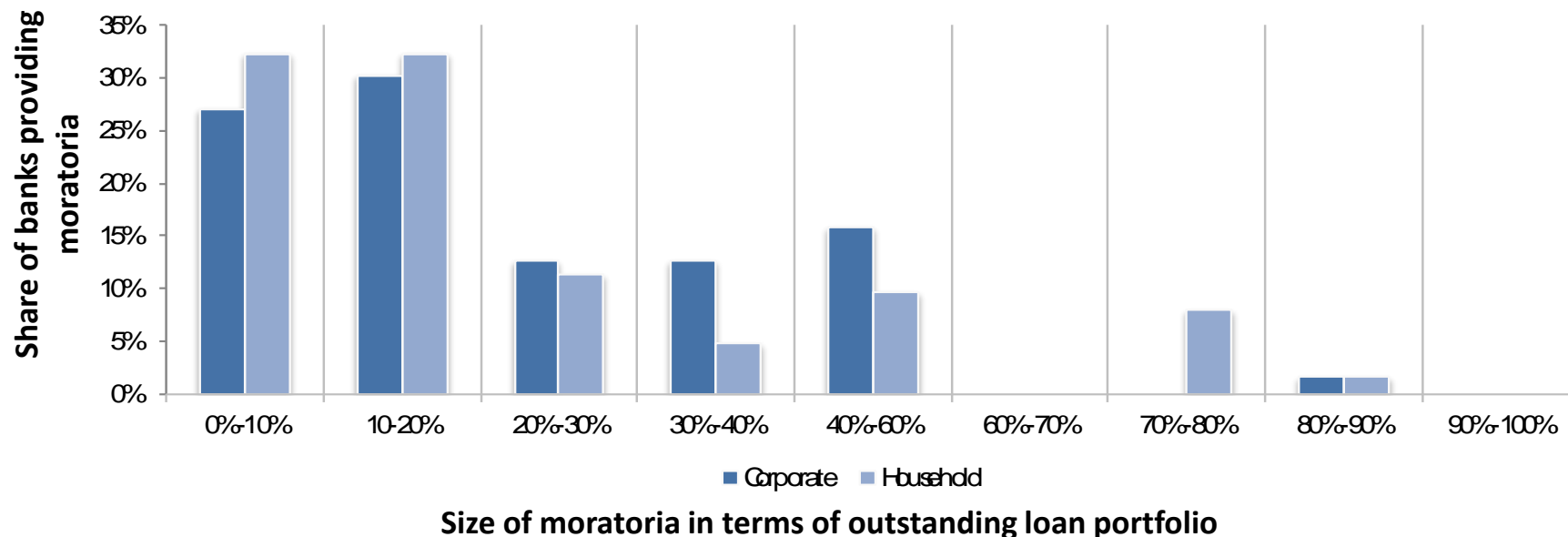
Net percentages – negative figures indicate an decreasing quality





- Roughly 50% of the banks extended a moratoria between 0% and 20% of their outstanding loans
 - Slightly more on household than on corporate exposures
- Another 40% of banks extended moratoria between 20% and 60% of outstanding stock of loans
 - Slightly more pronounced on corporate segment

Distribution of banks in terms of total balance sheet size taking up moratoria on outstanding loans



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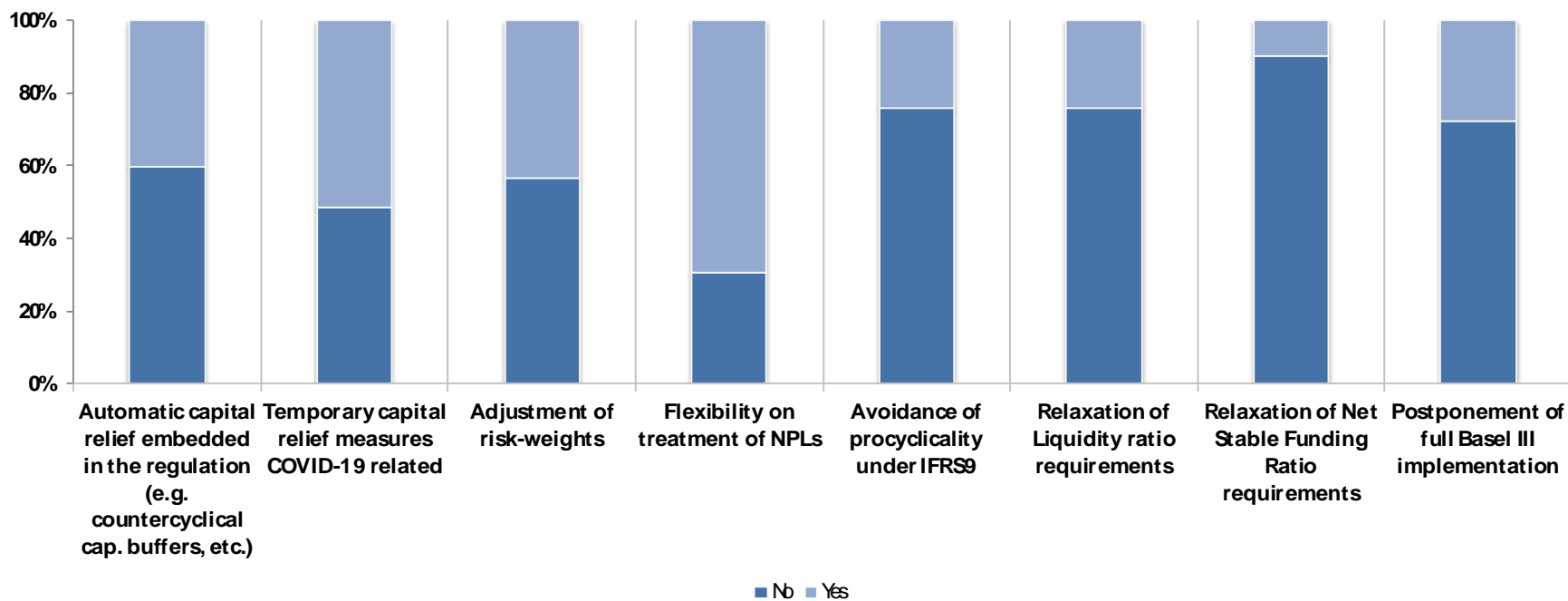
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Effects of COVID-19 policy response: *Regulatory*

- **Most relevant measures contributing to maintain lending to the economy:**
 - Flexibility on treatment of NPLs
 - Release of automatic capita buffers
 - Temporary capital reliefs COVID-19 related
 - Adjustment of RWAs

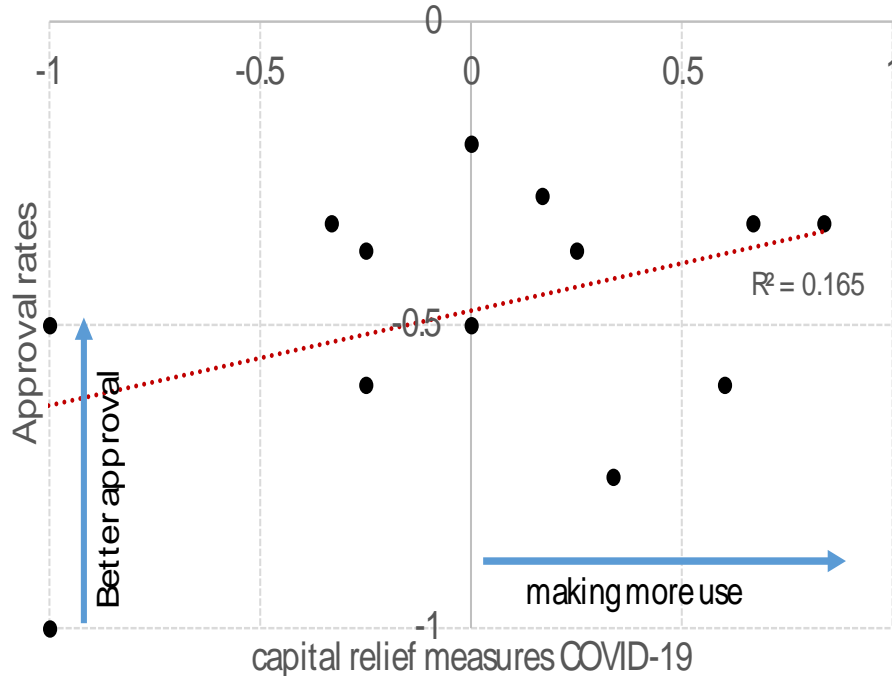
Policy measures contributing to maintain lending to the economy



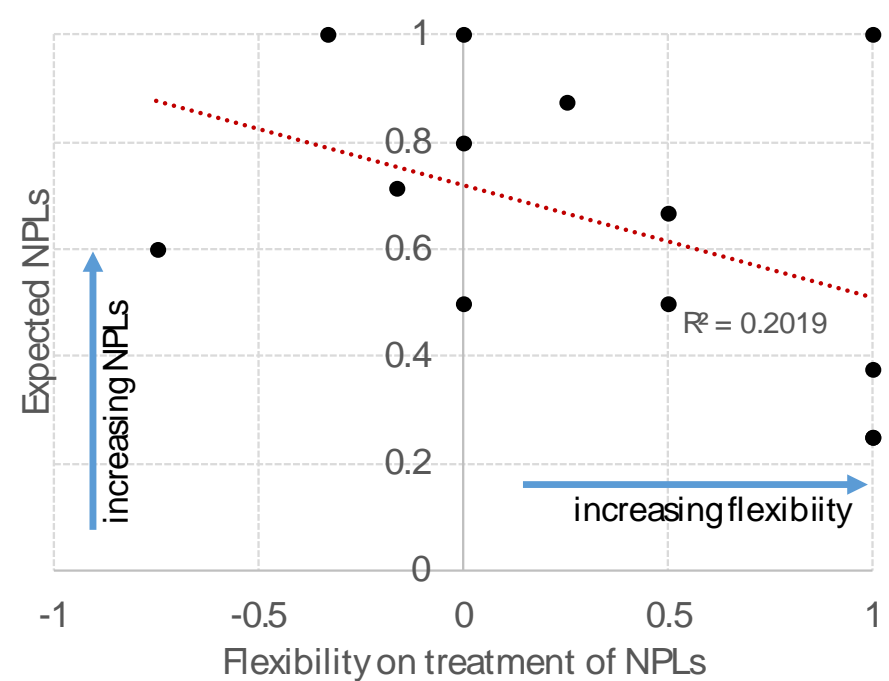
■ No ■ Yes

Positive effects on NPLs and approval rates

Capital measures limiting negative effects on loan approval rates...



...flexibility on NPLs limiting expected negative effects from asset quality

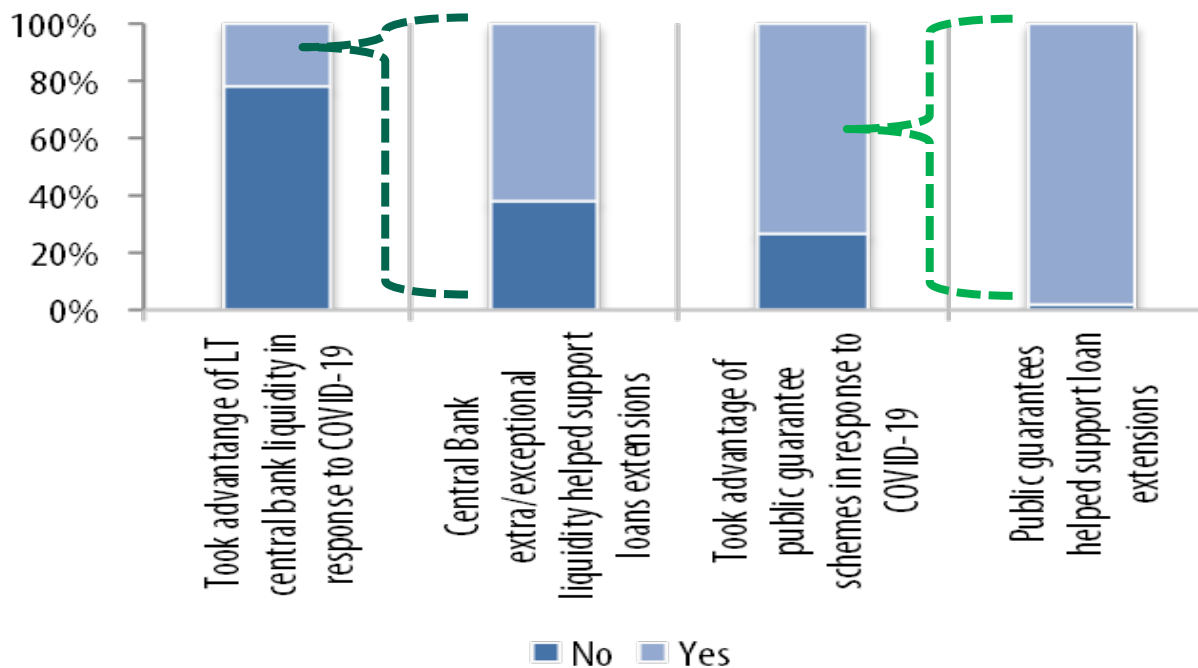




Effects of COVID-19 policy response: *Quantitative measures*

- **Public guarantee schemes** largely utilized and supportive to lending
- **Central banks extra liquidity** less in use but very supportive when utilised

Central bank liquidity and guarantee schemes



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- ❖ ***The COVID-19 pandemic affected demand and supply conditions in the CESEE region***
 - ❖ Demand dropped across the board, mostly driven by investment, hh confidence and non-housing expenditure
 - ❖ Supply tightened, with constraining elements being NPLs, Mk outlook (domestic and international), local bank outlook; whilst changes in local regulation supportive
 - ❖ Nonetheless the perceived pre-crisis GAP did not increase
- ❖ ***Supportive strategic assessment*** of banking groups operating in the CESEE region, with a positive and selective approach in terms of operations and profitability
- ❖ ***Stabilisation in LTD and exposure*** – albeit ample swings over the recent past



- ***Funding conditions easing*** at any level

- ***NPLs increased but less than expected in March/April 2020***, reversing the positive trend of the past years, with expectations of further deterioration over the next six months
 - **NPLs expected to increase** along a deterioration in demand quality

- ***Policy response was swift and targeted with many measures supporting credit conditions:***
 - Regulatory: flexibility on treatment of NPLs, release of capita buffers and temporary capital reliefs and adjustment of RWAs
 - Quantitative: guarantee schemes and extra central bank liquidity provisions



Thank you !

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ANNEX

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COVID-19 – impact on digitalization as a strategic priority



- COVID-19 is speeding up the advances in digitalization
- Largely for internal processes and client outreach; to a certain extent for risk management and structure of branches

COVID-19 speeding up changes to digitalization strategic priorities

