European Bank
for Reconstruction and Development

Banking Environment and Performance Survey III

Contents

Banking profiles

Banking profiles could not be produced for seven economies in which the EBRD operates. The banks surveyed as part of BEPS III in Greece, Morocco, Slovenia, Tunisia and Türkiye accounted for less than 50 per cent of total banking assets, so were unrepresentative. These countries are, therefore, not included in this publication. The implementation of BEPS III was not feasible in Egypt and Turkmenistan.

Foreword

These banking profiles draw on the third round of the Banking Environment and Performance Survey (BEPS III), a comprehensive survey of bank chief executive officers and heads of credit that took place in 34 economies over the course of 2021. As was the case for the first two rounds, the goal of the BEPS III was to further our understanding of the rapidly changing conditions for banks across the EBRD regions. In total, 345 banks shared the views of their top management on the main opportunities and challenges for banks over the coming years. The survey delved into the role of competitive changes in national banking systems; the increased role of fintech; the way climate change and environmental degradation are affecting banks' activities and strategies; the internal organisation of multinational banks; and the role of cultural differences between banks.

Each profile highlights the most salient developments in these areas in a particular banking system. Taken together, the snapshots reveal some important emerging themes, not least the transformative role of digitalisation. Around 40 per cent of all banks interviewed already make commercial use of digital technologies such as biometric authentication, credit decision-making algorithms and digital wallets. Many others are researching these and similar technologies or have concrete plans to introduce them in the near term. The speed of further digitalisation appears to depend on the role of security and regulatory issues. When it comes to digital technologies, 80 per cent of banks report concerns about information technology security and regulatory uncertainty.

A second key theme is the swift changes banks are making to their strategies and policies on the environment and climate change. A sizeable minority of banks has already started to undertake environmental and climate impact assessments before extending credit to clients. Banks in the European Bank for Reconstruction and Development's (EBRD) regions are also offering credit for the specific purpose of improving clients' energy efficiency. Three-quarters of all banks surveyed provide loans to improve the energy efficiency of small businesses, while over half do the same for residential housing and commercial real estate. There is further potential for growth in this area. The vast majority of CEOs expect their banks to benefit from the financing of environmentally friendly business practices over the next 25 years. The banking profiles also show that banks are focusing more and more on their own internal green governance, with two-thirds of all banks surveyed now having environmental policies and targets themselves.

These findings only scratch the surface of the wealth of information that the BEPS III survey has generated. We hope that, like the first two rounds of the survey, these banking profiles provide useful input for practitioners and policymakers across the EBRD regions.

Beata Javorcik (Chief Economist) and Ralph De Haas (Director of Research)

Acknowledgements

The third Banking Environment and Performance Survey (BEPS) was organised by the Office of the Chief Economist (OCE) of the EBRD and funded by the EBRD Special Shareholder Fund. Survey management and implementation was overseen by Victoria Marino. Individual country profiles were prepared by Rhea Colaco, Vincenzo Langella and Victoria Marino (team leader).

Banking profile

Albania

Albania

Albania is covered by both domestic and foreign banks, with those surveyed accounting for 98 per cent of the country's total banking assets (Chart 1).[1] Forty per cent of Albanian banks expect branch networks to decrease over the next five years, while 30 percent expect them to increase. Just under 60 per cent of banks in south-eastern Europe (SEE), in contrast, expect branch networks to shrink.

Banks' perception of the court system is similar to that of the SEE economies and lags that of the EBRD regions as a whole. Approximately 30 per cent of Albanian banks believe the courts to be fair and impartial, while a small minority say they are quick and efficient. In the EBRD regions as a whole, the comparable figures are around 45 per cent and 10 per cent, respectively.

Climate change risk is cited as an explicit part of risk management by 40 per cent of Albania's banks. Even so, only a small minority of banks have any climate change policies and targets in place or undertake any climate change-related impact assessments before lending to small and medium-sized enterprises (SMEs) (Charts 2 and 3).[2] Meanwhile, in the SEE and EBRD economies, at least a third of banks, on average, have climate targets or undertake climate change-related impact assessments. When it comes to social and environmental policies and targets, Albanian banks fare better. At least 60 per cent have such policies and targets in place, just a few percentage points behind the EBRD regional average. However, the proportion of Albanian banks undertaking environmental, corporate governance and social impact assessments before lending to SMEs is similar to the average in other SEE and EBRD economies.

Around 80 per cent of Albanian banks provide loans specifically to improve the energy efficiency of residential housing, a far greater share than in the SEE or EBRD economies, on average (Chart 4).

Chart 1 Branch presence of surveyed banks

Chart 2 ESG policies and targets

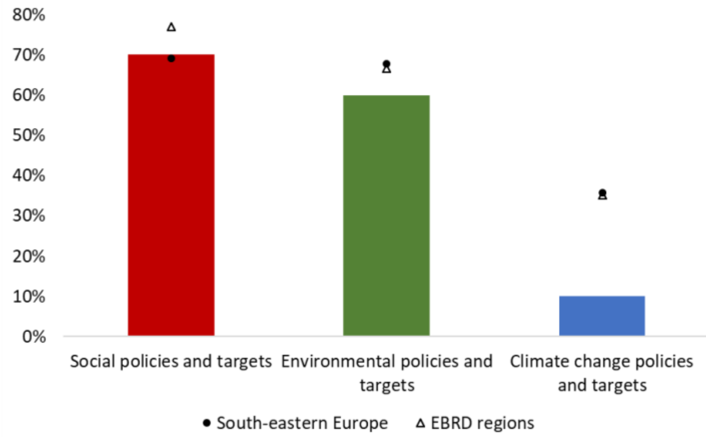


Chart 3 Impact assessment of SMEs before loan approval

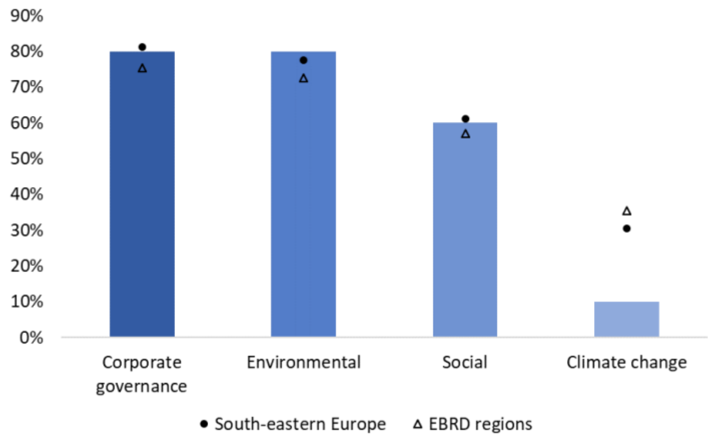
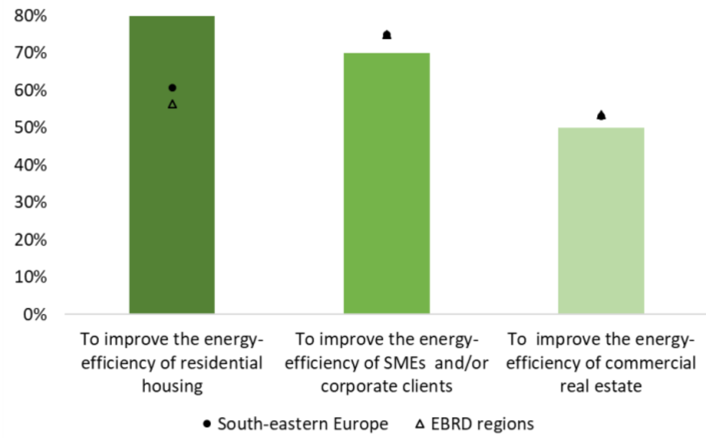


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Based on surveyed banks, domestic banks own close to 60 per cent of total banking assets.

[2] In Charts 2, 3, 4, 7 and 8, bars refer to the percentage share of banks in Albania.

At least half of the Albanian banks surveyed report corporate lending, SME lending, asset management, retail lending and leasing as business lines with the potential to gain from fintech, reflecting similar perceptions across the EBRD economies (Chart 5). However, when it comes to trade finance, Albanian banks are more pessimistic, with only one in four viewing fintech as an opportunity, compared with more than half of banks, on average, in the SEE and EBRD economies.

On the uptake of digital technology, around 40 per cent of Albanian banks say they use biometric authentication for customer identification, roughly on a par with the EBRD average (Chart 6). However, on most other technologies, such as digital wallet solutions and the use of cloud computing, they lag their SEE and EBRD peers, on average. It follows suit, then, that all banks say they are concerned about information technology (IT) security and regulatory uncertainty with regard to fintech, the highest share in the SEE region (Chart 7).

Despite their lacklustre adoption of digital technologies, half of the Albanian banks surveyed accept online applications for SME and large enterprise loans. In addition, more than 20 per cent and 40 per cent of banks, respectively, consider non-bank online lenders and non-bank finance companies to be strong competitors in SME or retail lending. However, no bank surveyed in Albania deems internet banks to be strong competitors in SME or retail lending.

All participants lend to innovative, research and development (R&D)-intensive industries, such as IT, chemicals and pharmaceuticals, with these loans making up just under 10 per cent of total loans (by volume). Insufficient demand for credit, a lack of government loan-guarantee programmes, and loan officers' lack of skills in evaluating credit risks are most frequently cited as the biggest constraint on lending to such industries (Chart 8). The latter two stand out as particularly prevalent in Albania, compared with the SEE and the EBRD regions, where approximately 10 per cent and 6 per cent of banks, respectively, face these constraints, on average. In contrast, only a small minority of Albanian banks report a lack of creditworthy customers as the main constraint on lending. This is much lower than in the SEE and EBRD regions, where 20 per cent and 30 per cent of banks, respectively, cite this as the main issue.

Chart 5 How fintech will affect banks' business lines

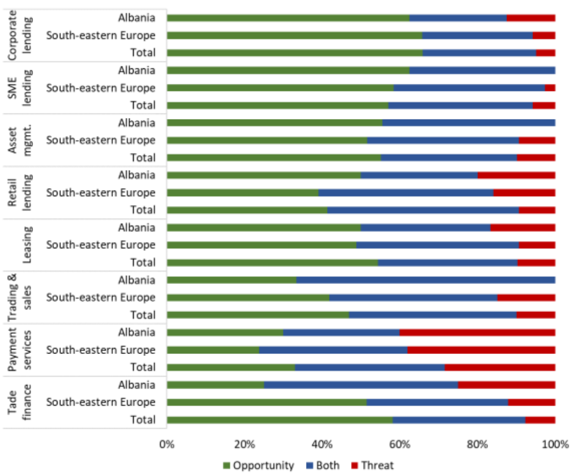
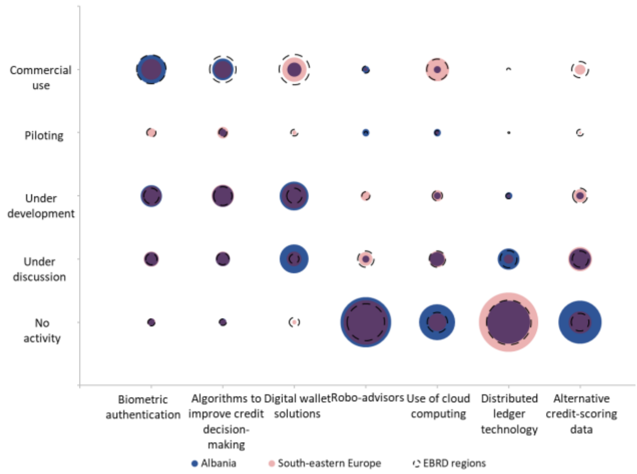


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns about digital technologies

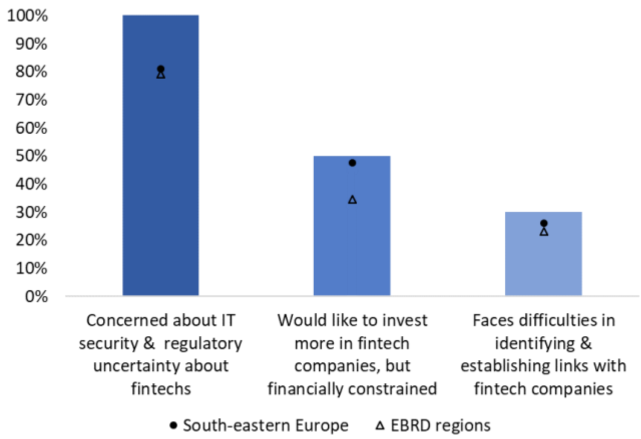
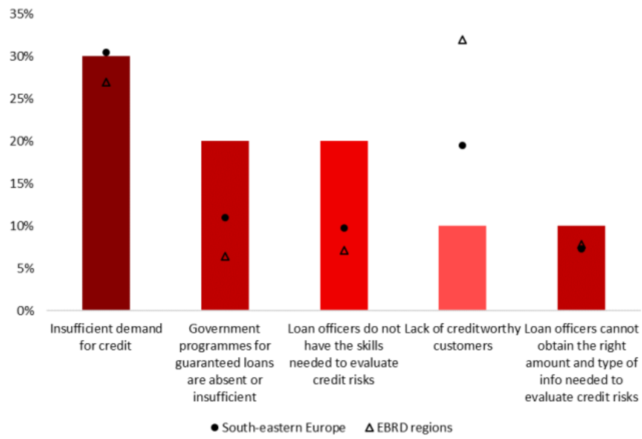


Chart 8 Constraints on lending to innovative industries



Banking profile

Armenia

Armenia

The Armenian banks covered by the survey account for approximately 95 per cent of the country's banking assets, the majority of them domestic banks (Chart 1).[1] About 40 per cent of these institutions expect their branch networks to expand over the next five years, while 33 per cent expect a decline (Chart 2).[2]

More than 90 per cent of banks in Armenia report having explicit social and environmental policies and targets in place, while 40 per cent say they have specific climate change policies and targets. In all three categories, the share of Armenian banks reporting such practices is higher than in Eastern Europe and the Caucasus (EEC) and the EBRD economies, on average. Likewise, more than 80 per cent of Armenian banks surveyed say they undertake corporate governance, environmental or social impact assessments before lending to small and medium-sized enterprises (SMEs) – higher than the EEC and EBRD regions, on average – while just under 50 per cent report conducting climate-change impact assessments prior to loan approval (Chart 3).

Some 93 per cent of Armenian banks provide loans to improve the energy efficiency of commercial real estate, residential housing, SMES and/or corporate clients (Chart 4). The share of Armenian banks providing such loans is between 18 and 54 percentage points higher than in the EEC and EBRD regions, on average.

When it comes to the use of digital technologies, at least 40 per cent of Armenian banks view fintech as an opportunity in various business lines (Chart 5). Over half of the banks surveyed said that fintech could be an opportunity in corporate lending, leasing, trade finance and asset management, in line with or above the average in the EEC and EBRD economies. In addition, although 28 per cent of banks in the EEC and EBRD regions view fintech as a threat to payment services, only a small minority of Armenian banks are of the same view.

Chart 1 Branch presence of surveyed banks

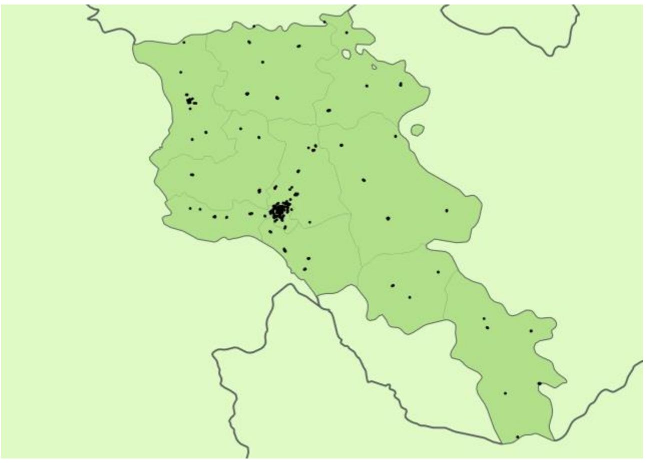


Chart 2 Branch network expectations, next five years

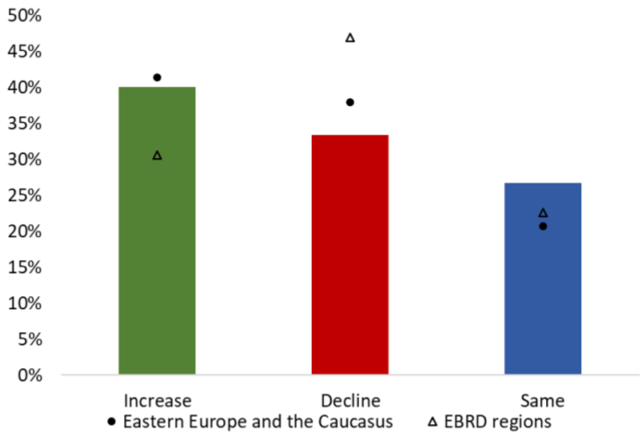


Chart 3 Impact assessment of SMEs before loan approval

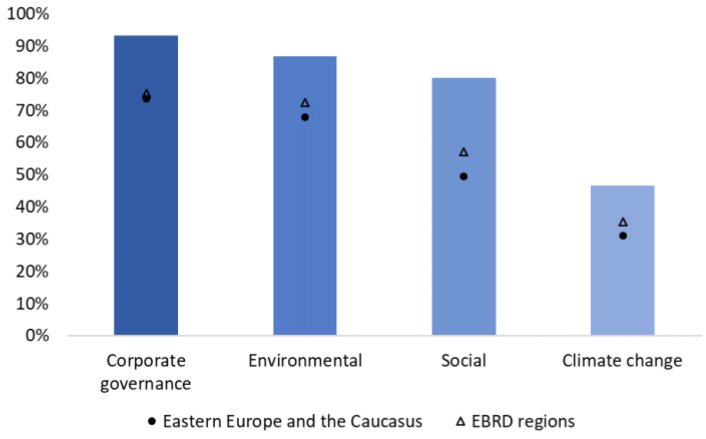
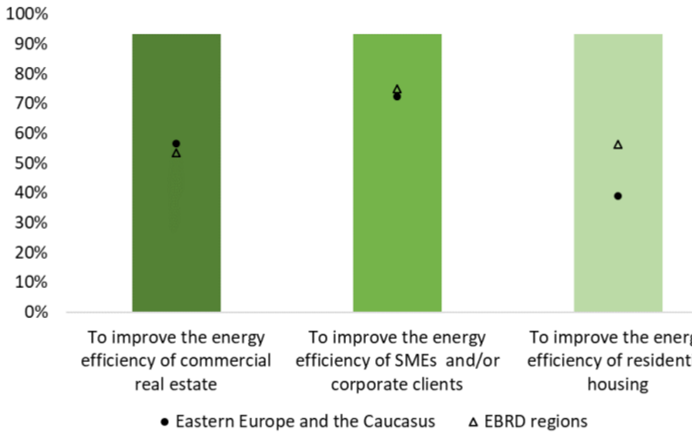


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Domestic banks account for 80 per cent of these banking assets.

[2] Bars in Charts 2, 3, 4, 7 and 8 refer to the percentage share of banks in Armenia.

On average, the Armenian banks surveyed are ahead of their peers in other EEC economies in the uptake and use of most digital technologies (Chart 6). About two-thirds of Armenian banks say they have already launched the use of digital wallet solutions, compared with just over 40 per cent in the broader EEC and EBRD economies. Close to half of Armenian banks also report the commercial use of alternative credit-scoring data, biometric authentication and algorithms to improve credit decision-making. While the uptake of robo-advisors and distributed ledger technology is very low across the EEC and EBRD economies, a higher share of Armenian banks say the use of such technologies is at least under discussion.

Just over 70 per cent of Armenian banks are concerned about IT security and regulatory uncertainty in the fintech space, compared with 80 per cent in the EEC economies, on average (Chart 7). Moreover, 27 per cent of Armenian banks would like to invest more in fintech, but are too financially constrained to do so.

Just over half of the Armenian banks surveyed accept online loan applications for SMEs, on a par with the EEC average. In addition, close to 50 per cent say they face strong competition from non-bank finance companies in retail lending and SME lending, while 29 per cent see strong competition from internet banks in retail lending.

As far as lending to innovative research and development-intensive industries such as information technology, chemicals and pharmaceuticals is concerned, banks cite a lack of sufficient collateral, insufficient demand for credit and a lack of creditworthy customers as the main constraints (Chart 8).

Chart 5 How fintech will affect banks' business lines

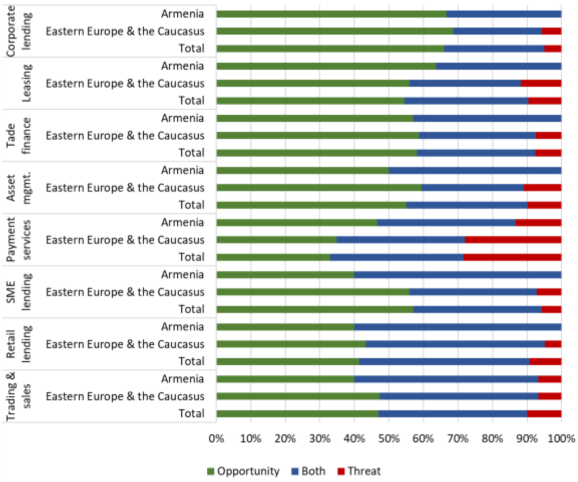
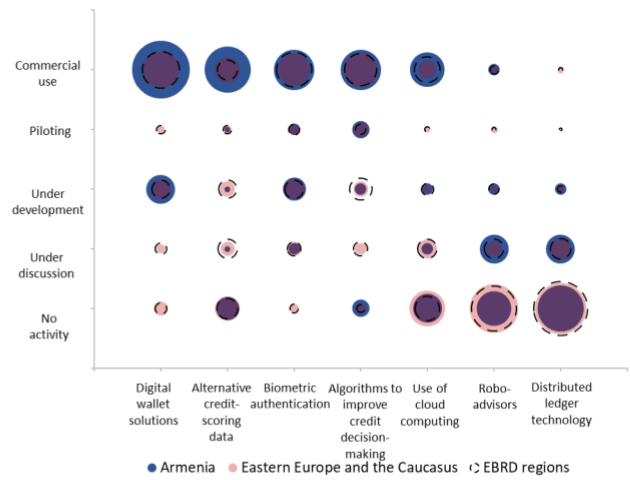


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns about digital technologies

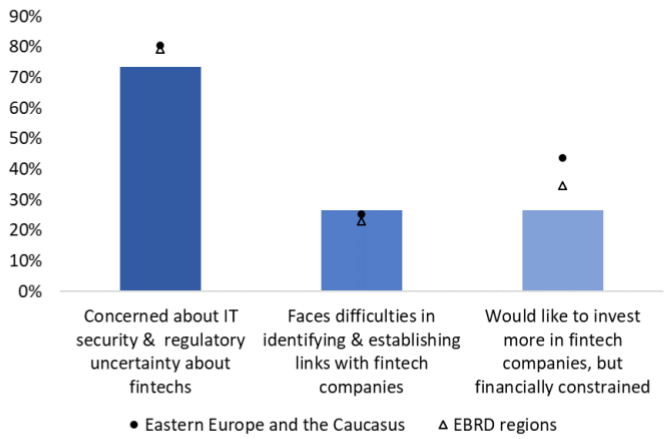
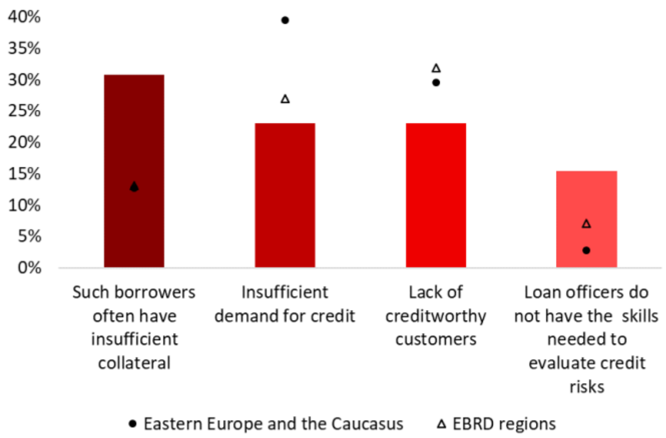


Chart 8 Constraints on lending to innovative industries



Banking profile

Azerbaijan

Azerbaijan

The banks covered by the survey account for about 85 per cent of Azerbaijan's total banking assets, with a majority of assets owned by domestic banks (Chart 1).[1] Just under 75 per cent of Azerbaijani banks surveyed expect their branch network to grow over the next five years, almost 33 percentage points and 43 percentage points above the average in Eastern Europe and the Caucasus (EEC) and the EBRD regions, respectively.

Of all the EBRD economies in which the BEPS III survey was conducted, Azerbaijan boasts the fewest banks that report having explicit environmental and climate-change policies and targets (Chart 2).[2] Azerbaijani banks also lag the EEC and EBRD economy averages when it comes to undertaking impact assessments prior to lending to small and medium-sized enterprises (SMEs) (Chart 3). Close to 60 per cent of Azerbaijani banks say they conduct corporate governance impact assessments, in contrast to almost 75 per cent of banks in the EEC and EBRD economies, on average. The share of Azerbaijani banks undertaking environmental, social or climate-change impact assessments is less than 40 per cent and at least 25 percentage points below that of the EEC, on average.

Azerbaijan has the lowest share of banks providing specific loans to improve the energy efficiency of commercial real estate, residential housing and SMES and/or corporate clients among the EEC economies – in all three categories. Only a small handful of the banks surveyed provide such loans.

Turning to the use of digital technologies, at least 60 per cent of banks view fintech as an opportunity for most business lines in Azerbaijan, higher than the average of the EEC economies (Chart 5). More than 70 per cent of Azerbaijani banks surveyed report seeing an opportunity in fintech for SME lending, trading and sales, corporate lending and asset management. However, just under 30 per cent view fintech as a threat to asset management services, almost triple the average proportion in the EEC and EBRD economies. In addition, as in most EBRD economies, payment services are perceived as facing the biggest threat from fintech.

Chart 1 Branch presence of surveyed banks

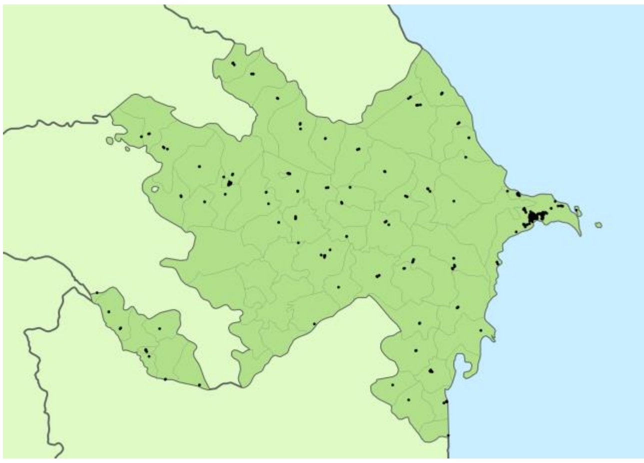


Chart 2 ESG policies and targets

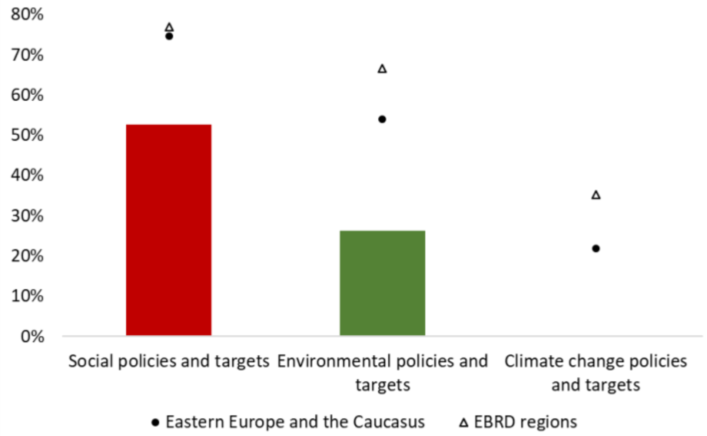


Chart 3 Impact assessment of SMEs before loan approval

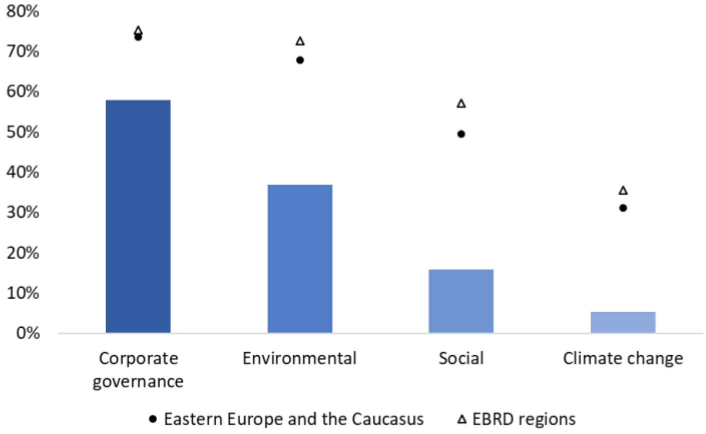
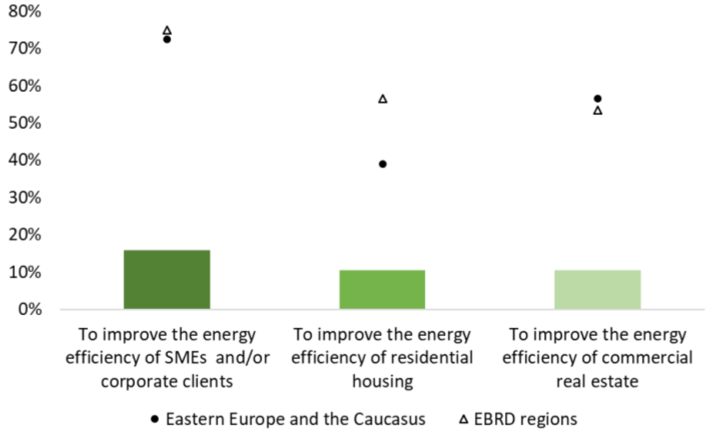


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Domestic banks account for 97 per cent of these banking assets.

[2] Bars in Charts 2, 3, 4 and 8 refer to the percentage share of banks in Azerbaijan.

On average, Azerbaijani banks trail their peers in the EEC and EBRD economies when it comes to the uptake and use of digital technologies (Chart 6). Just over 40 per cent of banks in the EBRD regions use digital wallet solutions commercially, while only 16 per cent of Azerbaijani banks do so. While around four out of five banks across the EBRD regions express concern about IT security and regulatory uncertainty in the fintech space, this is true for around 95 per cent of Azerbaijani banks. Moreover, more than half of Azerbaijani banks say they would like to invest more in fintech, but are too financially constrained to do so.

Just over 60 per cent of Azerbaijani banks accept online loan applications from SMEs. Lending to SMEs is slightly less streamlined than in neighbouring economies, with 2.4 layers of hierarchical approval for loan applications compared with an average of 2.2 layers in the EEC region (Chart 7). This is an increase from the previous BEPS survey in 2011. When it comes to banks' perception of the courts, some progress has been made over the past decade. Compared with BEPS II, a greater share of Azerbaijani banks agree that the court system is "fair and impartial" and "able to enforce its decisions". However, the share of banks viewing the system as quick and efficient remains a small minority.

The main concern with regard to lending to innovative research and development-intensive industries, such as information technology, chemicals and pharmaceuticals, is a lack of sufficient demand for credit from firms in these sectors. Just under 65 per cent of Azerbaijani banks view this as the main constraint on lending, a much higher share than in the EEC or EBRD economies, on average (Chart 8).

Chart 5 How fintech will affect banks' business lines

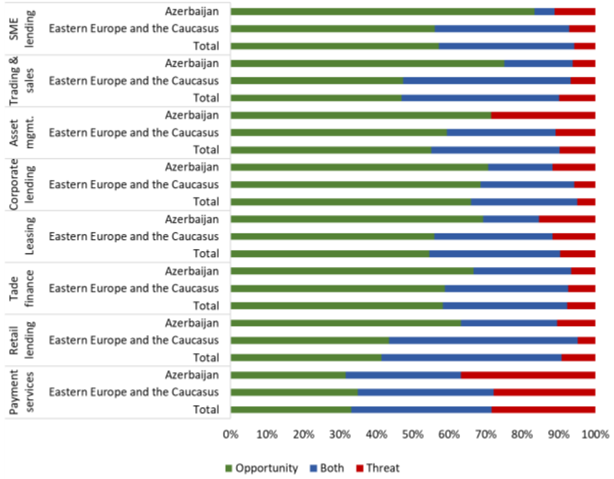
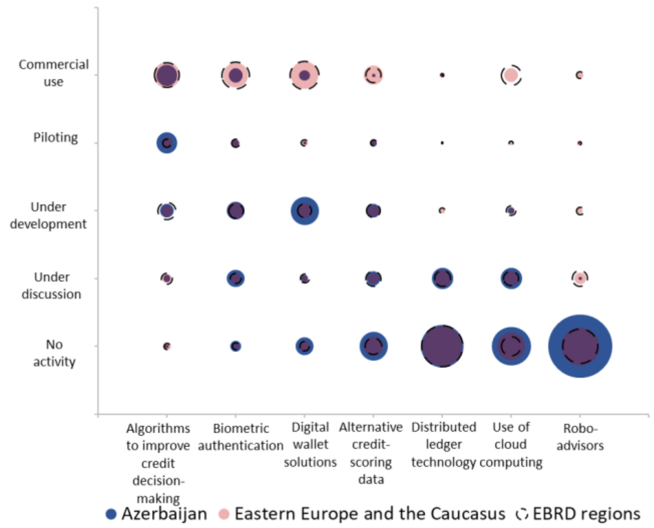


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Average decision layers, SME lending

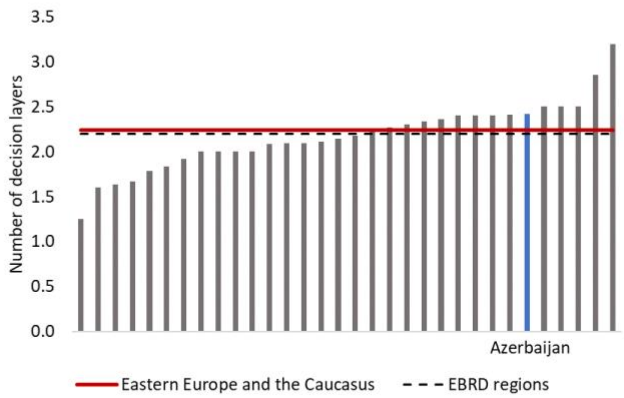
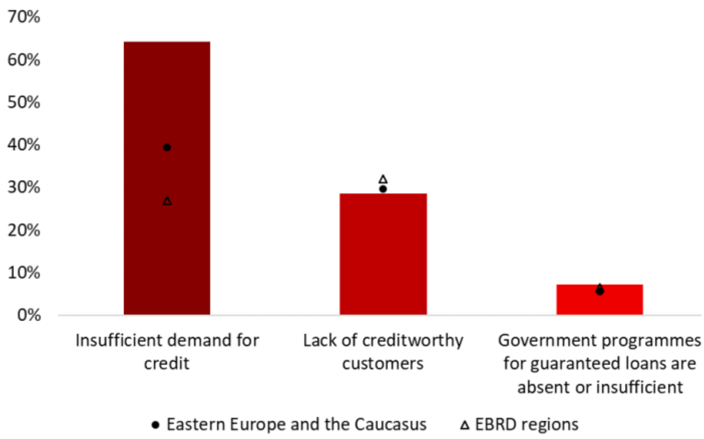


Chart 8 Constraints on lending to innovative industries



Banking profile

Belarus

Belarus

The EBRD announced on 4 April 2022 that, following the invasion of Ukraine, its Board of Governors had formally suspended Belarus's access to EBRD funding for projects or technical cooperation.

Banks covered by the survey account for around 74 per cent of total banking assets in Belarus, the majority of which are owned by domestic banks (Chart 1).[1] More than 80 per cent of the banks surveyed expect their branch networks to shrink over the next five years, the highest percentage in Eastern Europe and the Caucasus (EEC) (Chart 2).[2]

Almost all banks surveyed in Belarus report having specific social policies and targets in place, while close to 65 per cent of them say they have explicit environmental policies and targets (Chart 3). The share of Belarusian banks that undertake corporate governance, social, environmental or climate change impact assessments prior to lending to small and medium-sized enterprises (SMEs) is below the average in the EEC and EBRD economies (Chart 4). Notably, a far smaller proportion of Belarusian banks undertake environmental or climate-change assessments than in the EEC and the EBRD economies, on average.

More than 70 per cent of banks surveyed in Belarus provide loans to help improve the energy efficiency of SMEs, corporate clients and commercial real estate (Chart 5). In contrast, only 36 per cent of banks provide loans to improve the energy efficiency of residential housing. Although this is in line with the EEC average, it is much lower than the average share in the EBRD economies.

Chart 1 Branch presence of surveyed banks

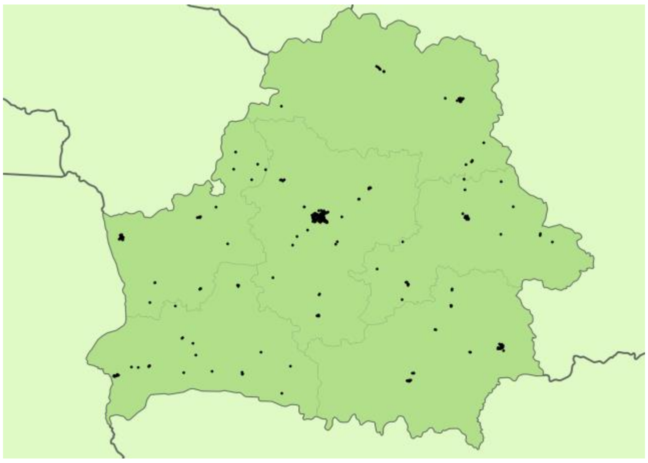


Chart 2 Branch network expectations, next five years

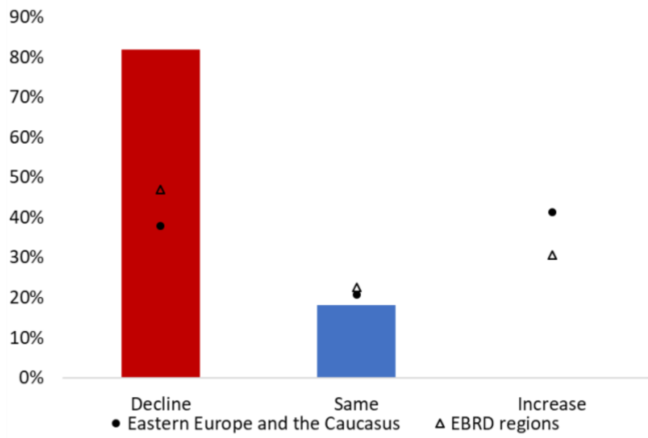


Chart 3 ESG policies and targets

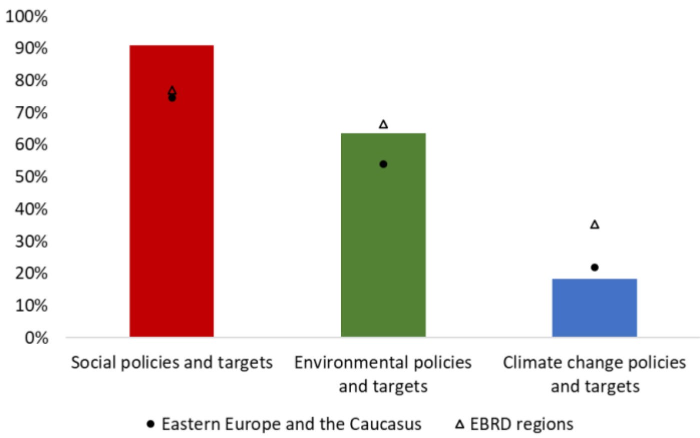
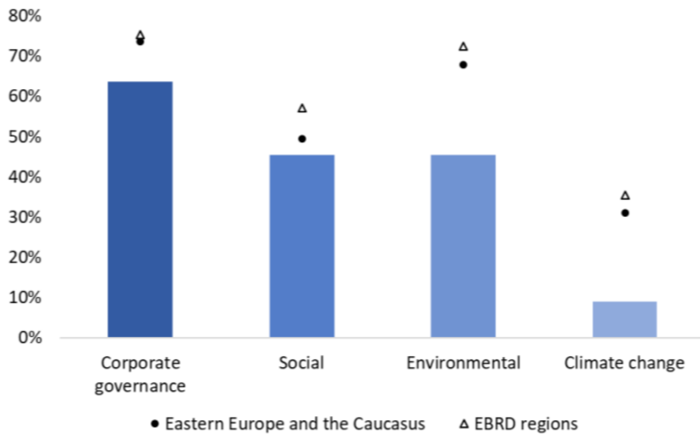


Chart 4 Impact assessment of SMEs before loan approval



[1] Domestic banks account for 70 per cent of these banking assets.
[2] Bars in Charts 2, 3, 4, 5, 7 and 8 refer to the percentage share of banks in Belarus.

When it comes to the uptake of most digital technologies, the Belarusian banks surveyed are either ahead of or on a par with the average of their peers in the EEC economies (Chart 6). Just under 75 per cent of Belarusian banks already use digital wallet solutions, the highest share in the EEC region. In addition, 55 per cent of banks surveyed report putting distributed ledger technology, such as block chain in smart contracts, to commercial use. This stands in sharp contrast to the EEC and EBRD regions as a whole, where only 8 per cent and 4 per cent of banks, respectively, report using this technology.

Of the banks surveyed in Belarus, 82 per cent are concerned about information technology (IT) security and regulatory uncertainty in the fintech space, while 36 per cent would like to invest more in fintech, but are too financially constrained to do so (Chart 7). None cite any difficulty in establishing links with fintech companies.

Almost three-quarters of Belarusian banks accept online loan applications from SMEs. This is substantially more than in other EBRD economies, where typically only half of surveyed banks do so. On the retail lending front, only a small minority of banks say they face strong competition from internet banks and non-bank online lenders, while 40 per cent of banks see non-bank finance companies as strong competitors.

In Belarus, insufficient demand for credit and a lack of creditworthy customers are the most frequently cited constraints on lending to innovative research and development-intensive industries such as IT, chemicals and pharmaceuticals (Chart 8). While credit demand is a common constraint among banks surveyed in all EEC economies, a lack of creditworthy customers is reported by 40 per cent of Belarusian banks, 10 percentage points higher than the EEC average. While almost all Belarusian banks provide loans to innovative industries, on average, these account for less than 10 per cent of all loans issued by these banks (by volume).

Chart 5 Prevalence of loans to improve clients' energy-efficiency

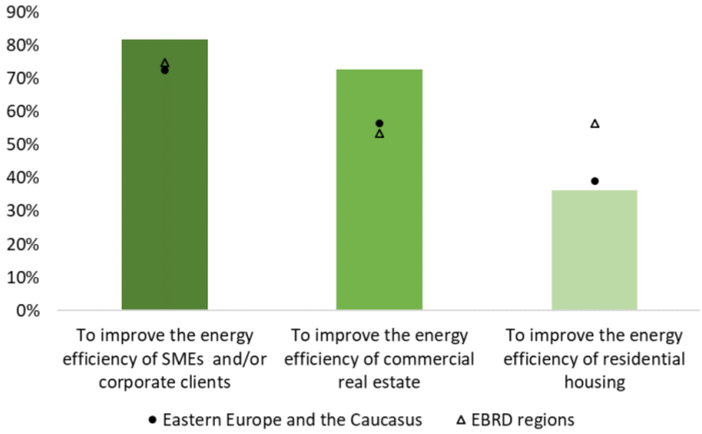
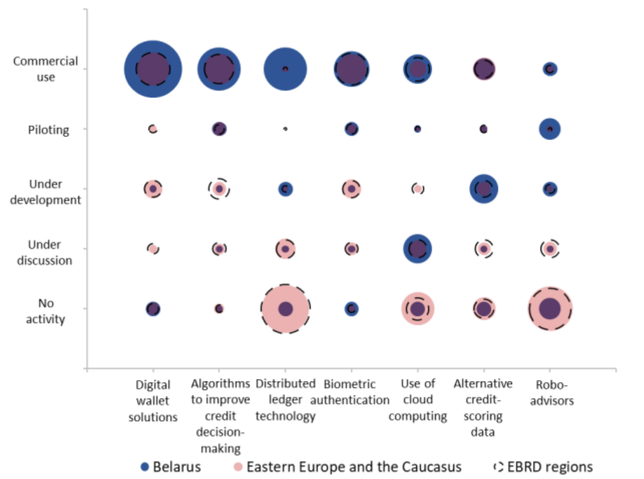


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns about digital technologies

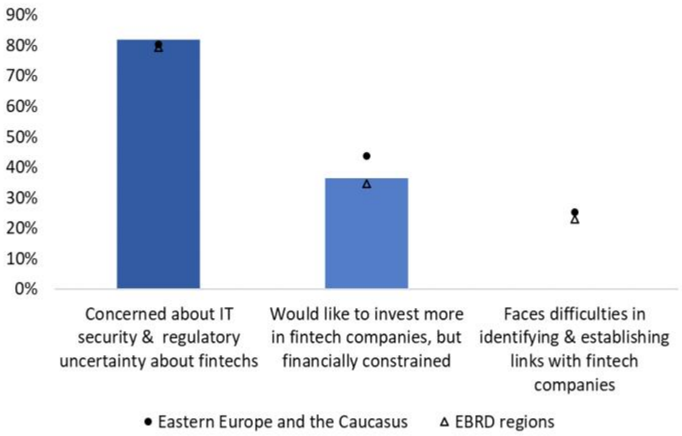
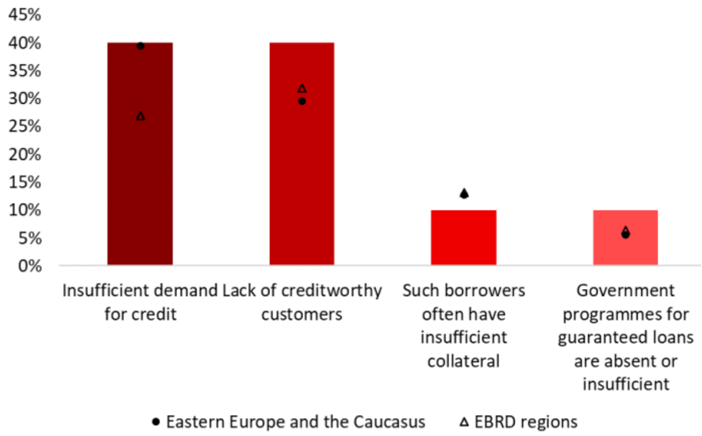


Chart 8 Constraints on lending to innovative industries



Banking profile

Bosnia and Herzegovina

Bosnia and Herzegovina

The banks surveyed in Bosnia and Herzegovina account for 81 per cent of the country's total banking assets, with foreign banks controlling the majority of assets (Chart 1).[1] More than 70 per cent of banks in Bosnia and Herzegovina expect their branch networks to shrink over the next five years. This is far higher than the average in south-eastern Europe (SEE), where 56 per cent of banks expect their branch network to decline (Chart 2).[2]

Around 70 per cent of Bosnian banks have social and environmental policies and targets in place, while 36 per cent have climate change-related policies. Across all categories, the share of banks with environmental, social and governance (ESG) policies is on par with the SEE and EBRD economies, on average. Approximately 80 per cent of Bosnian banks undertake environmental and/or corporate governance impact assessments before lending to SMEs, putting them roughly on a par with or above the average of the EBRD economies (Chart 3).

Only half of the Bosnian banks surveyed undertake social impact assessments before disbursing SME loans, compared with 60 per cent in the SEE region. Fewer than 60 per cent and 40 per cent of surveyed banks in Bosnia and Herzegovina provide loans to improve the energy efficiency of SMEs and/or corporate clients and commercial real estate, respectively (Chart 4). Each of these shares is 17 percentage points below average for banks in the SEE and EBRD economies. On average, just under 60 percent of Bosnian banks provide loans to improve the energy efficiency of residential housing, roughly on a par with SEE and slightly below the EBRD regions.

More than half of Bosnian banks, meanwhile, view fintech as an opportunity in corporate lending, asset management and trade finance, in line with the SEE and EBRD averages (Chart 5). Conversely, almost a third of banks interviewed view fintech as a threat to trade finance. What's more, only a small minority of Bosnian banks view fintech as an opportunity in retail lending, compared with more than 40 per cent of banks across the EBRD regions.

Chart 1 Branch presence of surveyed banks

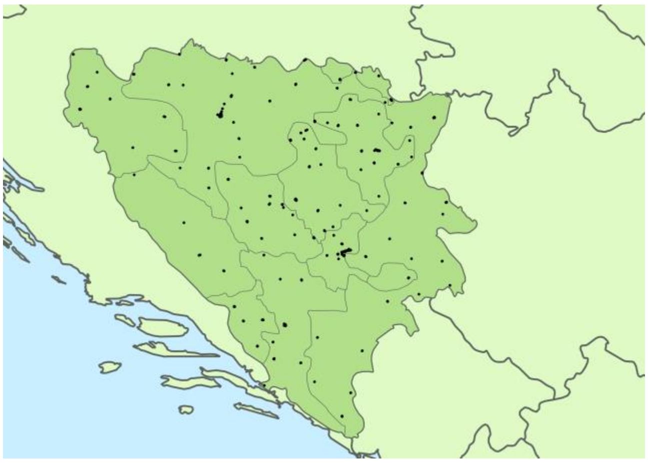


Chart 2 Branch network expectations, next five years

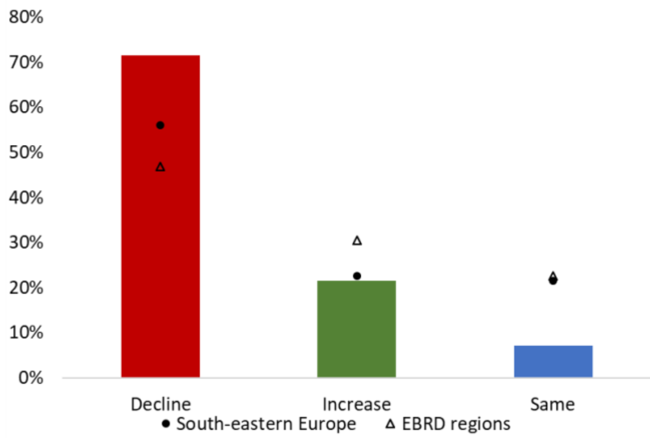


Chart 3 Impact assessment of SMEs before loan approval

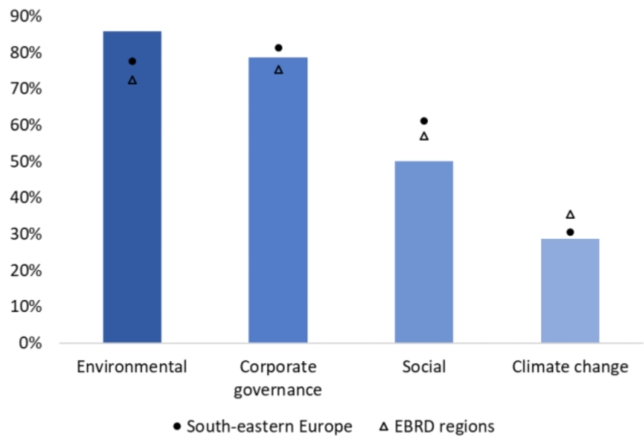
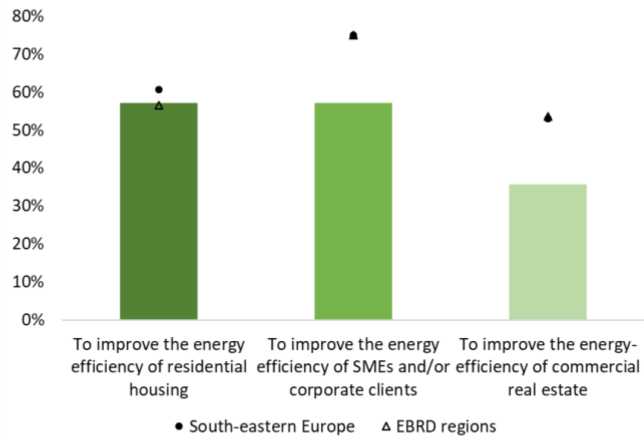


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Foreign banks control 96 per cent of the banking assets owned by surveyed banks. In Bosnia and Herzegovina, where a parent bank has two subsidiaries, both are included in the pool of banks from which we draw the sample.

[2] In Charts 2, 3, 4, 7 and 8, bars refer to the percentage share of banks in Bosnia and Herzegovina.

With the exception of cloud computing, Bosnian banks lag their peers in the SEE and EBRD economies on the adoption of digital technologies (Chart 6). Fewer than 40 per cent of banks use digital wallet solutions and only 20 per cent use biometric authentication for customer identification. Meanwhile, more than 40 per cent of banks in EBRD countries report the commercial use of these technologies.

Only 36 per cent of banks in Bosnia and Herzegovina accept online applications, while just under half of banks in the EBRD economies do so. The adoption of digital technologies contrasts with bank branch expectations. On average, banks surveyed in Bosnia and Herzegovina lag those of the SEE and EBRD regions in terms of digital technology adoption, but exceed them when it comes to expectations of bank branch closures over the next five years.

Bosnian banks are as concerned as their SEE and EBRD peers about IT security and regulatory uncertainty, financial constraints on investing and difficulties in identifying and establishing links with companies in the fintech space (Chart 7).

More than 90 per cent of Bosnian banks lend to innovative research and development (R&D)-intensive industries such as information technology (IT), chemicals and pharmaceuticals. Close to 40 per cent of banks lending to these industries cite insufficient demand for credit as the main constraint on lending in this area. Loan officers' lack of skills in evaluating credit risks is the second-most frequently cited concern. Both of these constraints are reported more often by banks in Bosnia and Herzegovina than those in the SEE or the EBRD regions, on average (Chart 8).

Chart 5 How fintech will affect banks' business lines

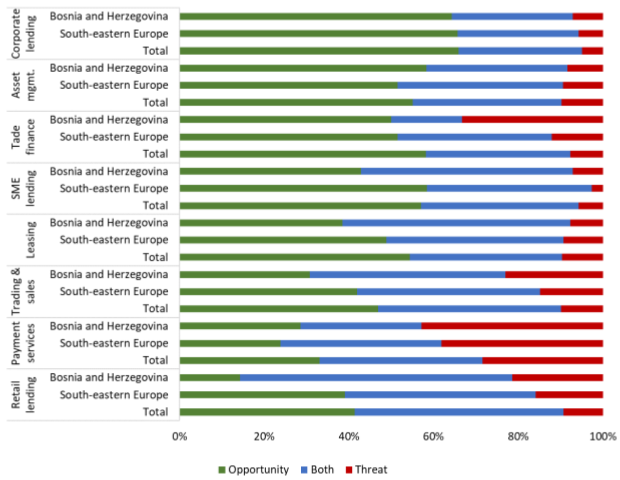
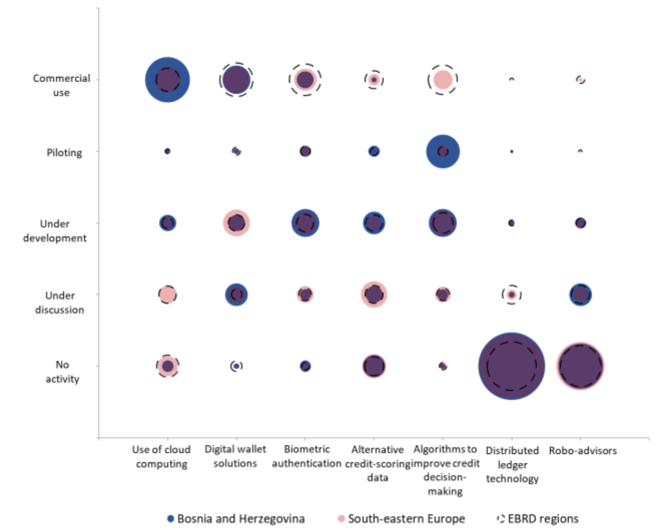


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns about digital technologies

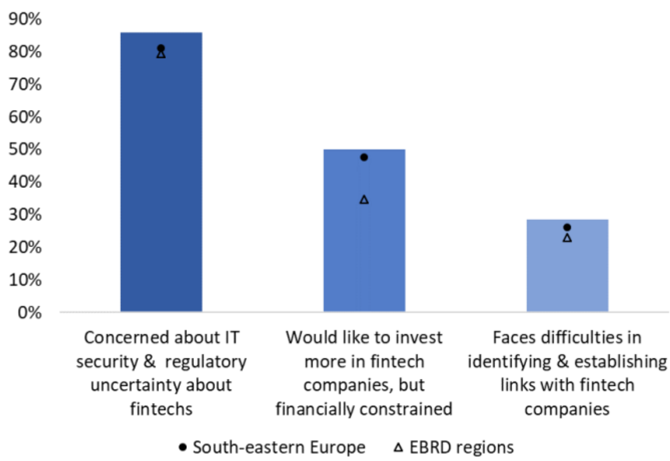
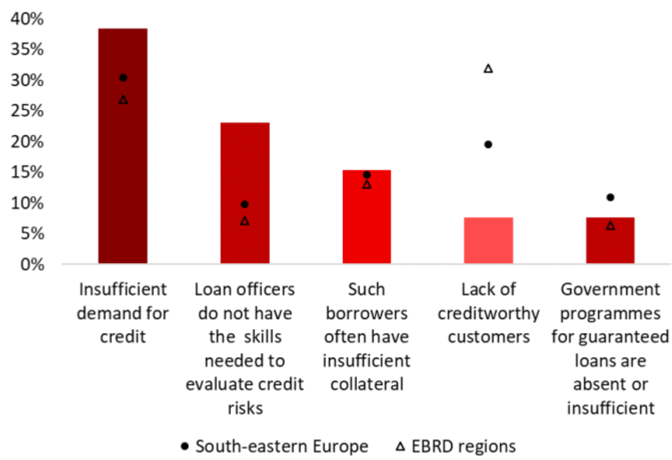


Chart 8 Constraints on lending to innovative industries



Banking profile

Bulgaria

Bulgaria

Bulgarian banks covered by BEPS III account for 71 per cent of the country's total banking assets (Chart 1). Foreign banks make up just under 93 per cent of surveyed assets. Almost all of the Bulgarian banks interviewed expect their branch network to shrink over the next five years, the second-highest proportion among all economies surveyed (Chart 2).[1] Meanwhile, the share of banks expecting a decline in south-eastern Europe (SEE) and the EBRD economies, on average, is 56 per cent and 47 per cent, respectively.

Over 80 per cent of Bulgarian banks report having explicit social and environmental policies and targets, while half have climate change policies and targets (Chart 3). Across all three categories, the share of Bulgarian banks that report having such policies exceeds the average share of the SEE and EBRD economies. Similarly, more than 90 per cent of Bulgarian banks report undertaking corporate governance impact assessments before lending to small and medium-sized enterprises (SMEs), 10 percentage points more than banks across SEE, on average. However, they appear to be lagging the share of banks undertaking social and environmental impact assessments before loan approval. Relatedly, at least 80 per cent of Bulgarian banks provide loans for the specific purpose of improving the energy efficiency of SMEs and/or corporate clients, commercial real estate and residential housing (Chart 4). The share of banks providing these loans in SEE and EBRD economies is at least 15 to 20 percentage points lower, on average.

Bulgarian banks appear to be much further ahead of banks in the SEE and EBRD economies more broadly in the commercial use of certain digital technologies (Chart 5). More than half of banks surveyed say they are already using technologies such as biometric authentication for customer identification, algorithms to improve decision-making and alternative credit-scoring data. The use of digital wallet solutions slightly lags that of banks across the EBRD economies as a whole, however, almost 70 per cent of Bulgarian banks say the technology is either being developed or piloted.

Chart 1 Branch presence of surveyed banks

Chart 2 Branch network expectations, next five years

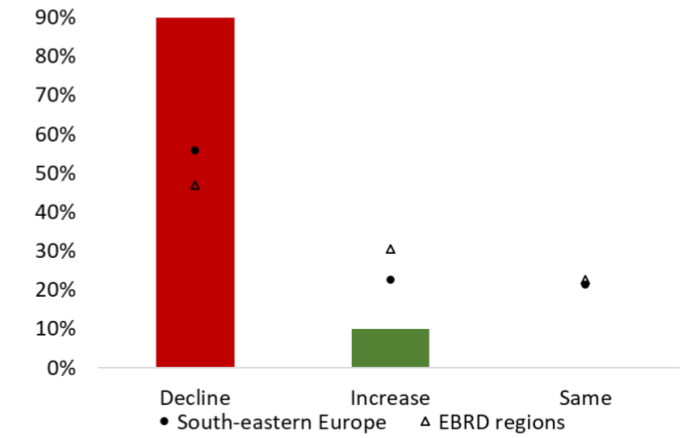


Chart 3 ESG policies and targets

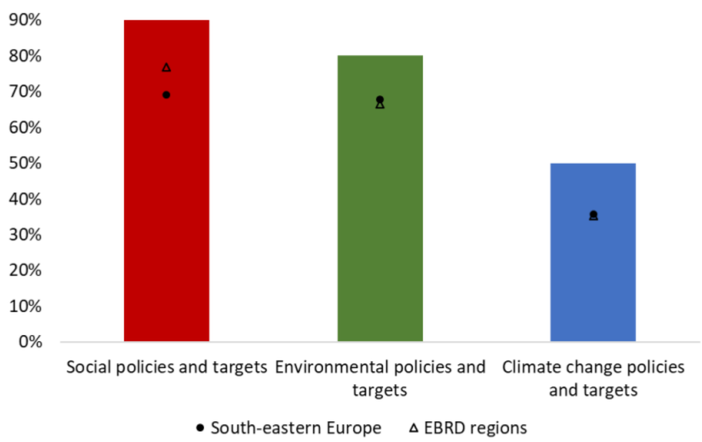
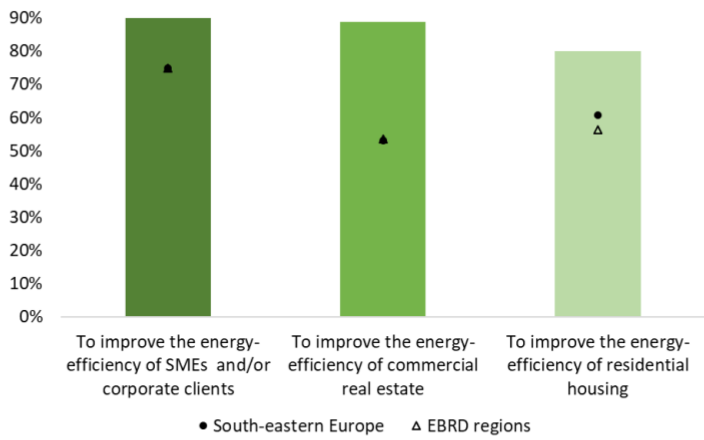


Chart 4 Prevalence of loans to improve clients' energy-efficiency



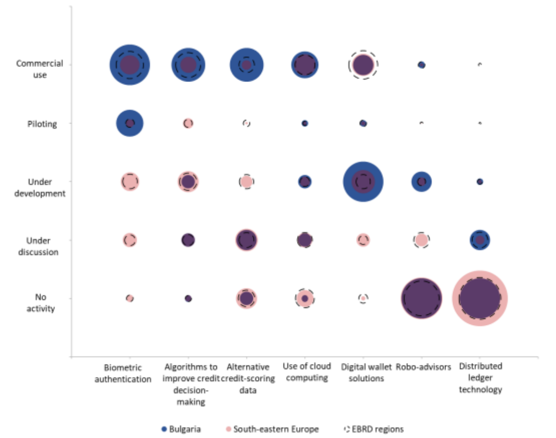
[1] In Charts 2, 3, 4, 6 and 8, bars refer to the percentage share of banks in Bulgaria.

Eighty per cent of banks surveyed in Bulgaria are concerned about information technology (IT) security and regulatory uncertainty, in line with the SEE and EBRD regions more broadly (Chart 6). Unlike banks across the SEE region, Bulgarian banks do not report difficulties in establishing links with fintech companies or say they would like to invest more in fintech companies, but are financially constrained.

When it comes to SME lending, about 40 per cent of Bulgarian banks accept online applications for loans. Bulgarian banks do not view internet banks or non-bank online lenders as strong competitors in SME lending (Chart 7). However, in retail lending, close to 40 per cent of Bulgarian banks view internet banks as strong rivals, while more than two-thirds of Bulgarian banks view non-bank online lenders and non-bank finance companies as strong competitors.

A lack of creditworthy customers, insufficient demand for credit and insufficient government programmes for guaranteed loans are the three main constraints faced by banks in Bulgaria when lending to innovative industries such as IT, chemicals and pharmaceuticals (Chart 8). The lack of government programmes appears to be a constraint faced by a greater proportion of banks in Bulgaria than in SEE or EBRD economies, on average. Still, 90 per cent of Bulgarian banks surveyed provide loans to innovative industries, with these accounting for 10 per cent of loans (by volume), on average.

Chart 5 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 6 Concerns about digital technologies

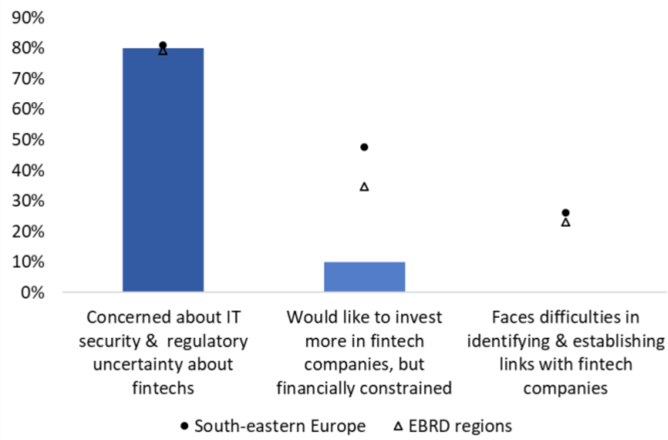


Chart 7 Banks face strong competition from non-bank lenders

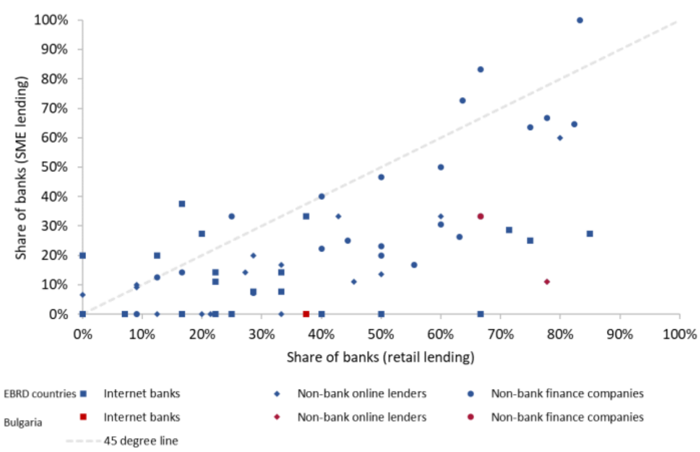
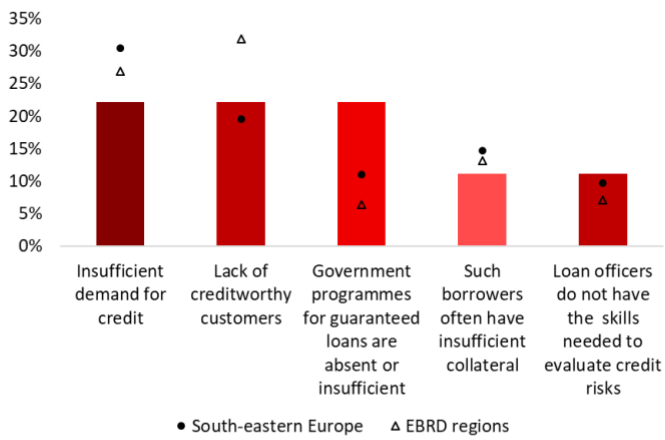


Chart 8 Constraints on lending to innovative industries



Banking profile

Croatia

Croatia

The Croatian banks surveyed account for 91 per cent of the country's total banking assets, with the majority owned by foreign banks (Chart 1).[1] In line with their peers in other economies in central Europe and the Baltic States (CEB), 70 per cent of Croatian banks expect their branch network to shrink over the next five years.

Fewer than half of the Croatian banks surveyed have environmental and climate change-related policies and targets in place, 15-20 percentage points below the other CEB economies, on average. When it comes to lending to small and medium-sized enterprises (SMEs), only a small minority of Croatian banks undertake climate change-related impact assessments before loan approval, one of the lowest levels in CEB. In contrast, Croatian banks are, on average, ahead of their peers in the CEB and other EBRD economies in undertaking corporate governance-related impact assessments (Chart 2).[2]

The share of banks providing loans to improve the energy efficiency of SMEs and/or corporate clients is the lowest of the CEB economies surveyed. However, the share of banks offering such loans for residential housing is on a par with the CEB and higher than the EBRD economies, on average. The proportion of banks providing such loans for commercial real estate slightly lags the EBRD average and leads that of CEB (Chart 3).

Croatia is the only country in BEPS III where the share of banks viewing fintech as an opportunity is lower than the CEB and EBRD average for every single business line (Chart 4). Even in corporate lending, where, on average, more than 60 per cent of banks in the CEB and EBRD economies view fintech as a business opportunity, only a small

Chart 1 Branch presence of surveyed banks

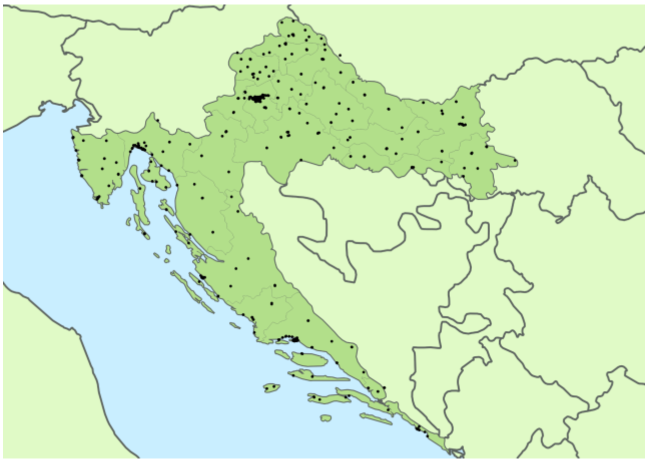


Chart 2 Impact assessment of SMEs before loan approval

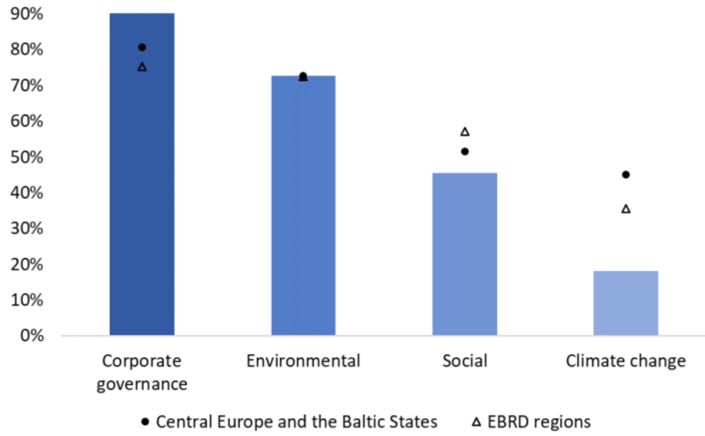


Chart 3 Prevalence of loans to improve clients' energy-efficiency

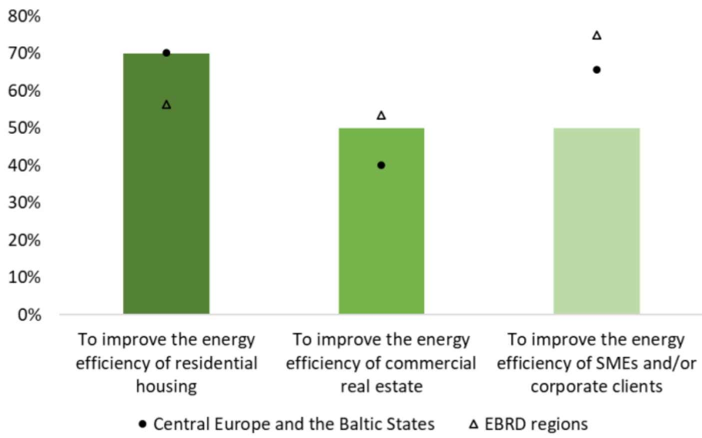
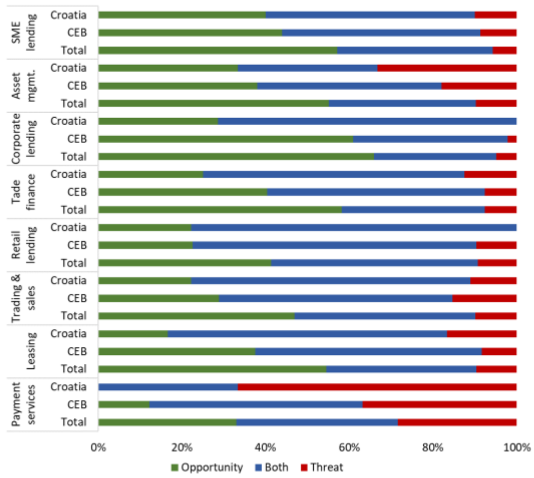


Chart 4 How fintech will affect banks' business lines



[1] Foreign banks make up 92 per cent of the banks covered, by share of assets.
[2] Bars in Charts 2, 3, 6, 7 and 8 correspond to the percentage share of banks in Croatia.

minority of Croatian banks concur. Conversely, just under 40 per cent of banks in the CEB economies, on average, see fintech as a threat to payment services, compared with 67 per cent of Croatian banks.

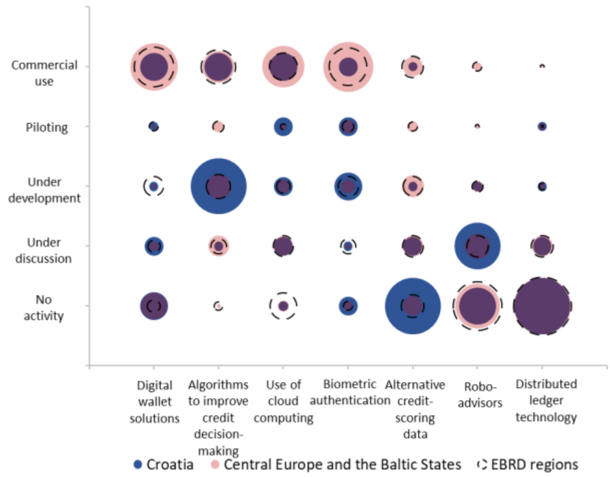
Croatian banks lag the CEB and EBRD economies when it comes to the uptake and commercial use of digital technologies (Chart 5). Close to half of banks surveyed in the CEB economies, on average, have launched the commercial use of biometric authentication for customer identification, digital wallet solutions and algorithms to improve credit decision-making, compared with less than a third in Croatia. This relatively slow pace of adoption is reflected in the share of banks accepting online applications for lending to SMEs. Only a few Croatian banks accept online applications, compared with nearly half of all surveyed banks in the CEB and EBRD economies.

Like most banks in the CEB and EBRD economies, 80 per cent of Croatian banks say they are concerned about information technology (IT) security and regulatory uncertainty in the fintech space (Chart 6). However, half of Croatian banks cite difficulties in identifying and establishing links with fintech companies, double the share of the CEB and EBRD economies, on average.

Loan officers' lack of skills in evaluating credit risk, a lack of sufficient collateral and insufficient demand for credit are among the key constraints Croatian banks face when lending to innovative research and development-intensive industries such as IT, chemicals and pharmaceuticals. However, the main constraint on bank lending to innovative industries – a majority of Croatian banks and more than the CEB or EBRD averages – is a perceived lack of creditworthy customers (Chart 7).

None of the Croatian banks surveyed view the court system as quick and efficient. Moreover, since the previous survey in 2011, fewer banks say the law adequately protects secured creditor rights, enables the efficient creation of security rights or efficiently enforces security rights relating to mortgages – below the CEB and the EBRD regions, on average (Chart 8).

Chart 5 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 6 Concerns about digital technologies

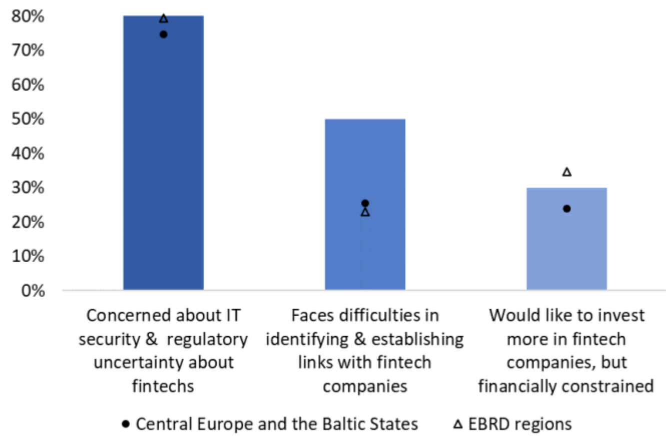


Chart 7 Constraints on lending to innovative industries

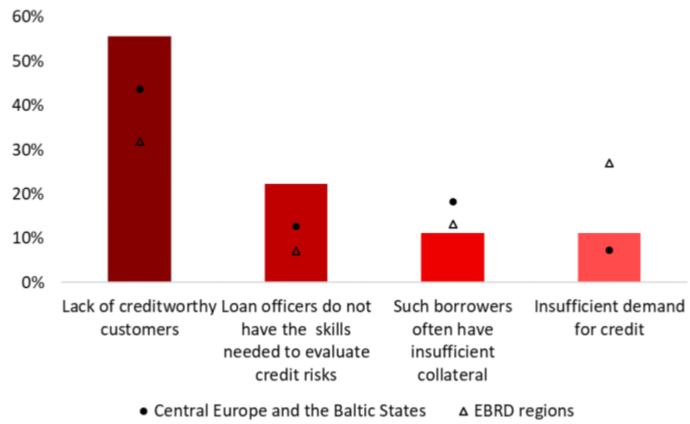
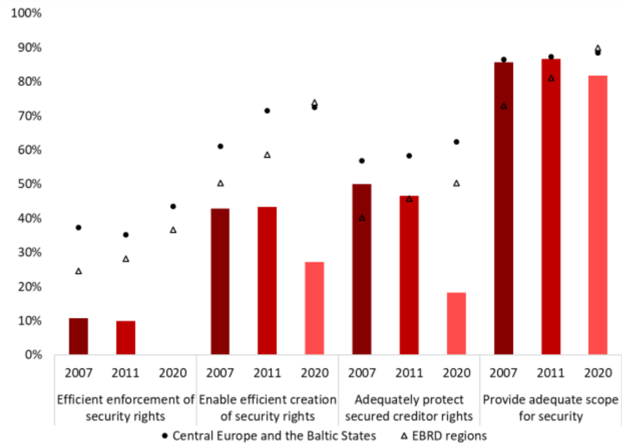


Chart 8 Laws related to mortgages and pledges



Banking profile

Czech Republic

Czech Republic

The Czech banks covered by the survey account for 80 per cent of the country's total banking assets, with the majority of those assets owned by foreign banks (Chart 1).[1] Nearly 78 per cent of banks in the Czech Republic expect their branch network to decline over the next five years. While this is in line with average expectations in Central Europe and the Baltic States (CEB), it is much higher than in the EBRD economies as a whole, where just under half of banks expect their branch network to shrink.

On average, Czech banks are in line with their CEB peers in having environmental and social policies and targets, while exceeding the regional average in terms of climate change-related policies and targets. Around 60 per cent of banks in the Czech Republic cite climate change risk as an explicit part of the bank's risk management and an even higher proportion (around 70 per cent) have their own policies on climate change and the environment. On a similar note, as far as lending to SMEs is concerned, a much higher proportion of Czech banks undertake environmental, social and climate change-related impact assessments than banks in the CEB and EBRD economies (Chart 2).[2]

The Czech Republic has one of the highest shares of banks providing loans for the specific purpose of improving the energy efficiency of residential housing. Some 80 per cent of banks offer such loans, compared with 70 per cent and 56 per cent, on average, in the CEB and EBRD economies, respectively (Chart 3).

When it comes to the use of digital technologies, all of the banks surveyed in the Czech Republic cited corporate lending as the business line offering most opportunity from fintech, closely followed by asset management and leasing. Although there is consensus among Czech banks in this regard, views in CEB and the EBRD economies as a whole remain divided (Chart 4). In the retail lending segment, only one in five Czech banks – similar to banks across

Chart 1 Branch presence of surveyed banks

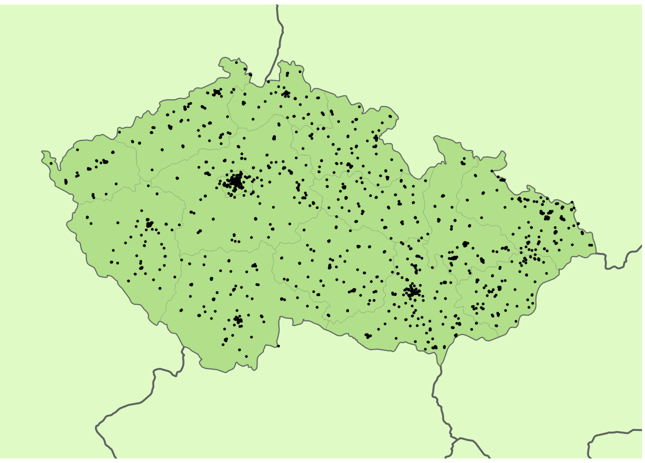


Chart 2 Impact assessment of SMEs before loan approval

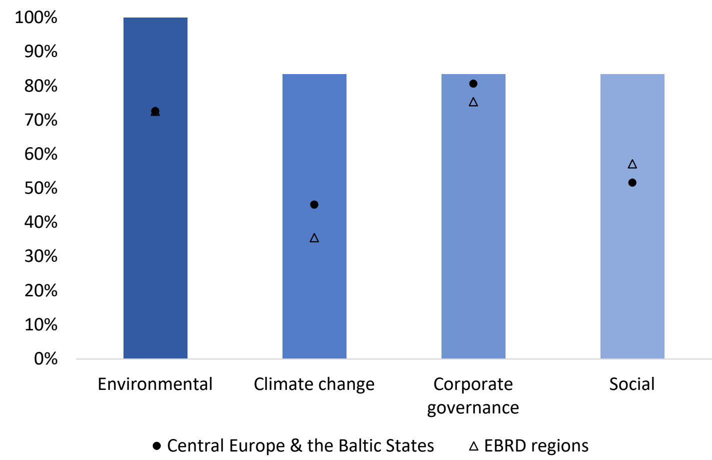


Chart 3 Prevalence of loans to improve clients' energy-efficiency

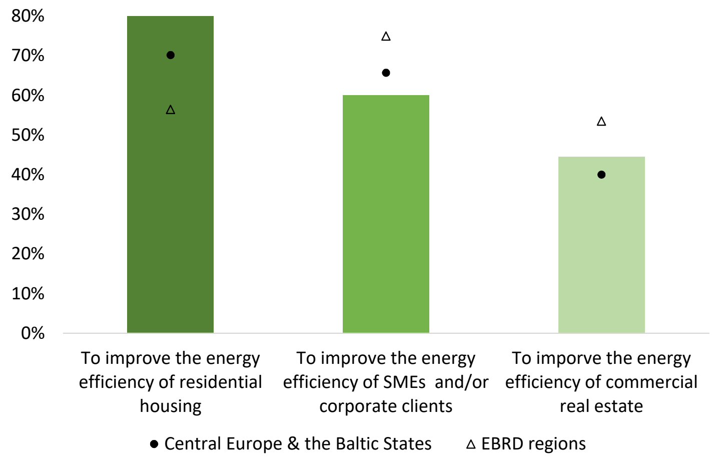
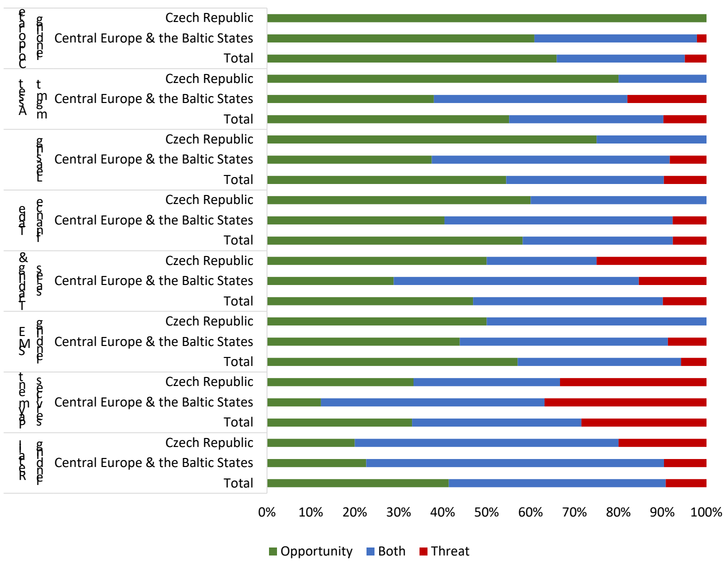


Chart 4 How fintech will affect banks' business lines



[1] Foreign banks account for 96 per cent of these banking assets.

[2] Bars in Charts 2, 3, 6 and 7 refer to the percentage share of banks in Czech Republic.

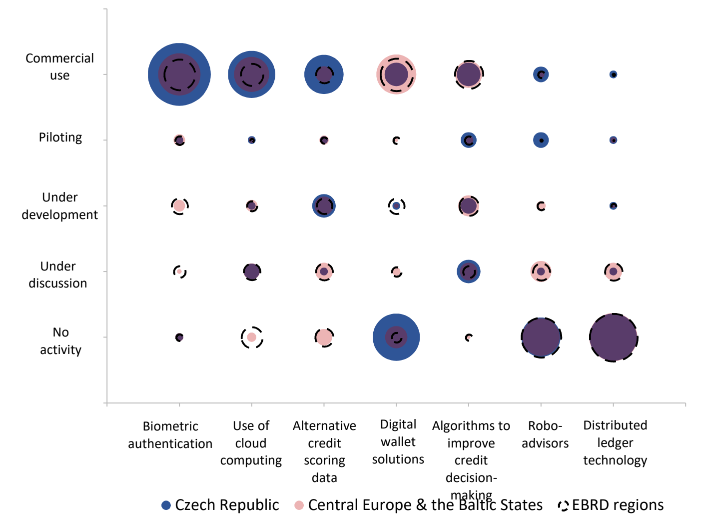
CEB on average, view fintech as an opportunity. However, in the EBRD regions as a whole, almost double the percentage of banks view fintech as an opportunity for retail lending.

Czech banks are, on average, ahead of their peers in CEB and the EBRD regions in the uptake and use of certain digital technologies (Chart 5). The proportion of Czech banks that report the commercial use of biometric authentication for customer identification services, cloud computing and alternative credit-scoring data sources is double the EBRD economy average. However, Czech banks lag on the uptake of digital wallet solutions, with 60 per cent of banks reporting no activity, while close to half of banks across CEB and the EBRD regions report the commercial use of this technology. Reflecting this shift to digital technologies in the retail lending segment, just over half of Czech banks report strong competition from non-bank financing companies, while a third report strong competition from non-bank online lenders.

Banks in the Czech Republic appear far less concerned than other banks in the EBRD regions about information technology (IT) security and regulatory uncertainty, difficulties in establishing links and financial constraints with regard to investing in the fintech space (Chart 6).

A lack of creditworthy customers and loan officers' lack of skills in evaluating credit risks are two of the main constraints faced by Czech banks in lending to innovative industries such as IT, chemicals and pharmaceuticals (Chart 7). Notably, the proportion of Czech banks citing loan officers' skills as the main constraint is three and five times the average in the CEB and EBRD economies, respectively. Even so, 60 per cent of banks in the Czech Republic lend to innovative industries, with these loans accounting for just over 20 per cent of all loans (by volume), on average, the highest share in the EBRD regions (Chart 8).

Chart 5 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 6 Concerns about digital technologies

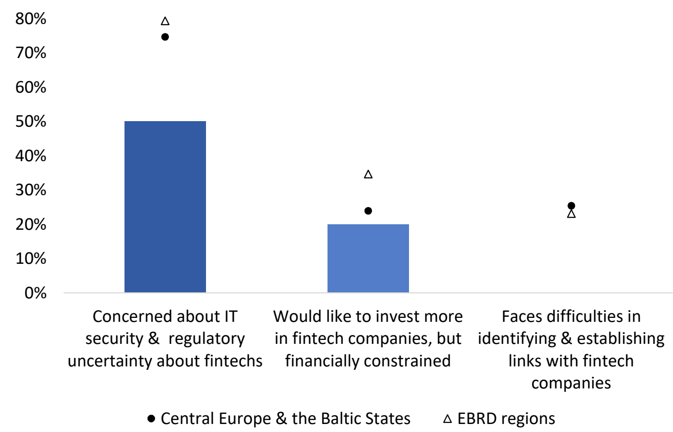


Chart 7 Constraints on lending to innovative industries

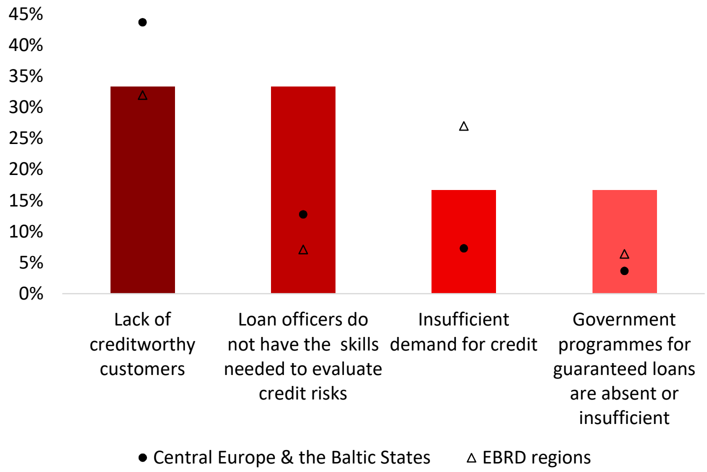
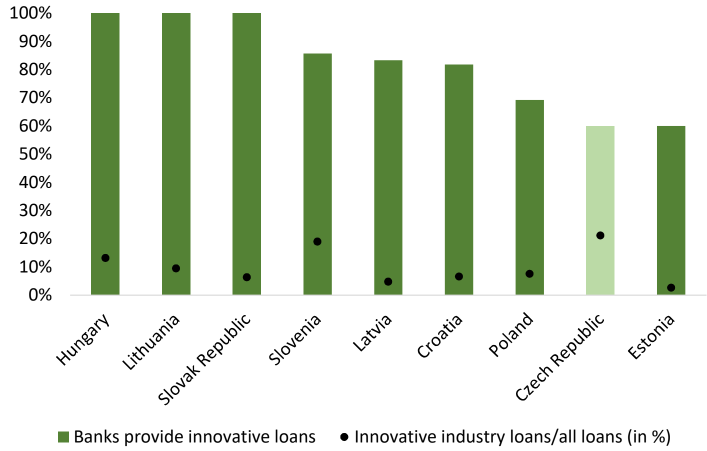


Chart 8 Lending to innovative industries



Banking profile

Estonia

Estonia

Estonia is well served by both domestic and foreign banks, with the surveyed banks accounting for 96 per cent of the country's total banking assets.[1] Approximately one-fifth of their branches are concentrated in the capital, Tallinn (Chart 1). In line with the average of the EBRD economies as a whole, half of the Estonian banks surveyed expect their branch network to shrink over the next five years, while the remaining 50 per cent expect no change. This is much lower than the average in central Europe and the Baltic States (CEB), where nearly 75 per cent of banks expect their branch network to decline (Chart 2).[2]

Although 75 percent of Estonian banks surveyed say climate change is an economic risk factor considered in their internal stress-testing for capital adequacy assessment purposes, only a small minority of the surveyed banks have their own policies on climate change (Chart 3). Furthermore, even on environmental and social-related policies and targets, the Estonian banks surveyed tend to lag their counterparts in CEB.

When lending to small and medium-sized enterprises (SMEs), 75 per cent or more of Estonian banks undertake social, environmental and climate-change related impact assessments, putting them on par with or ahead of the CEB and EBRD regions, on average (Chart 4). When lending to commercial real estate, however, only around one in four Estonian banks offers loans to improve energy efficiency, compared with 40 per cent of CEB banks and 53 per cent of EBRD peers, on average.

When it comes to the use of digital technologies, Estonia is leading the way in the application of digital wallet solutions. It is one of two EBRD economies in which all of the banks surveyed report the commercial uptake of the technology (Chart 5). The share of Estonian banks citing the commercial use of cloud computing and algorithms to

Chart 1 Branch presence of surveyed banks

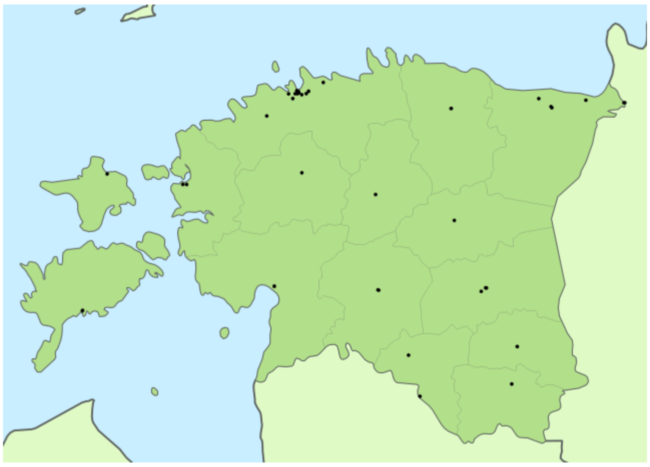


Chart 2 Branch network expectations, next five years

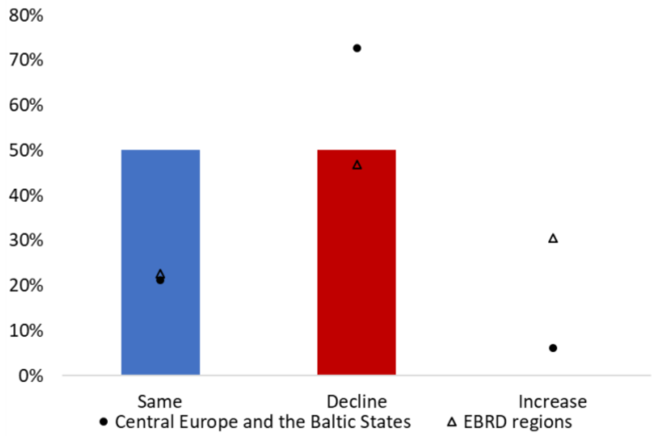


Chart 3 ESG policies and targets

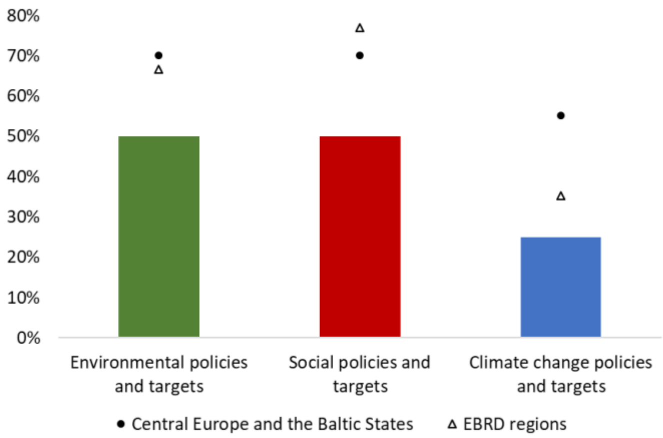
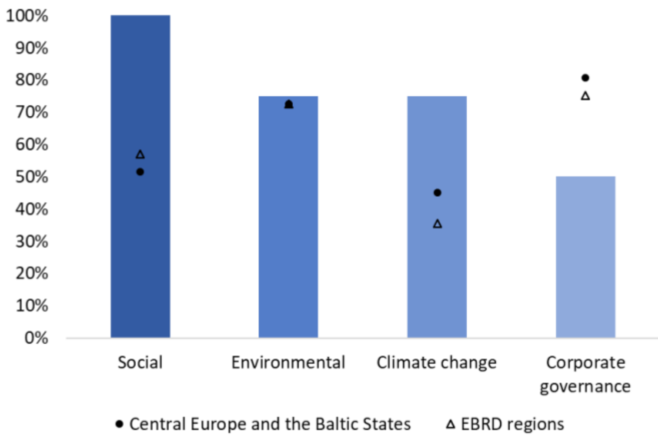


Chart 4 Impact assessment of SMEs before loan approval



[1] Based on the banks surveyed in Estonia, total banking assets are almost evenly distributed between foreign and domestic banks. Some banks in Estonia only responded to the Head of Credit questionnaire and did not respond to the CEO questionnaire. For all charts and numbers presented in the Estonian country profile, the share of the country's total banking assets owned by the banks responding to the corresponding question is at least 33 per cent.

[2] Bars in Charts 2, 3, 4, and 7 correspond to the percentage share of banks in Estonia.

improve credit decision-making is also higher than the CEB and EBRD regions, on average. However, the economy lags when it comes to the adoption of biometric authentication; more than 50 per cent of CEB economies report commercial use of the technology, while in Estonia, there are none as yet.

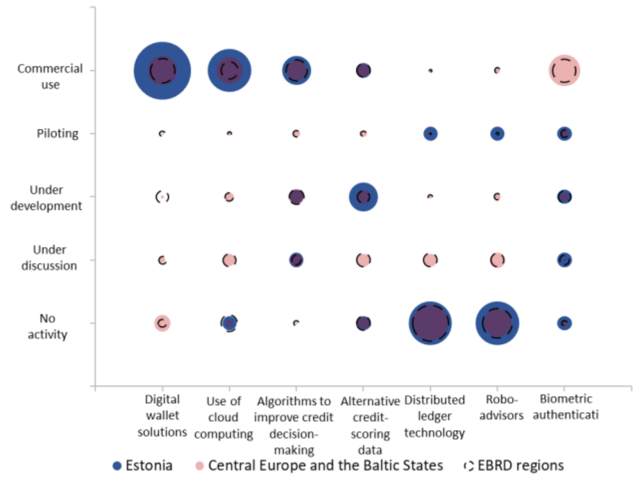
The shift towards digital technologies is also evident in the proportion of banks accepting online applications for lending to SMEs. While 75 per cent of Estonian banks accept online applications, just under half of banks in the CEB and EBRD economies do so. In a similar vein, only half of banks surveyed in Estonia are concerned about information technology (IT) security and regulatory uncertainty in the fintech space. This is lower than in the other CEB and EBRD economies, where just under 80 per cent of banks have such concerns.

Estonian banks still have few hierarchical layers when processing SME loan applications (Chart 6). With an average of 1.3 layers prior to loan approval – the lowest number in the EBRD economies surveyed – down from 1.6 layers in the BEPS II survey, Estonian banks remain at the forefront of streamlined decision-making.

Estonian banks cite equally a lack of sufficient collateral, a dearth of loan officer skills in evaluating credit risks and a lack of creditworthy customers (Chart 7) as hindrances to lending to innovative research and development-intensive industries such as IT, chemicals and pharmaceuticals.

Estonian banks view their court system as fair, but inefficient, more than the other CEB countries, on average. While all of the banks surveyed in Estonia believe the court system to resolve business disputes in a fair and impartial manner, no bank deems it quick and efficient. This is 16 percentage points below the CEB average (Chart 8).

Chart 5 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 6 Typical number of decision layers, SME lending

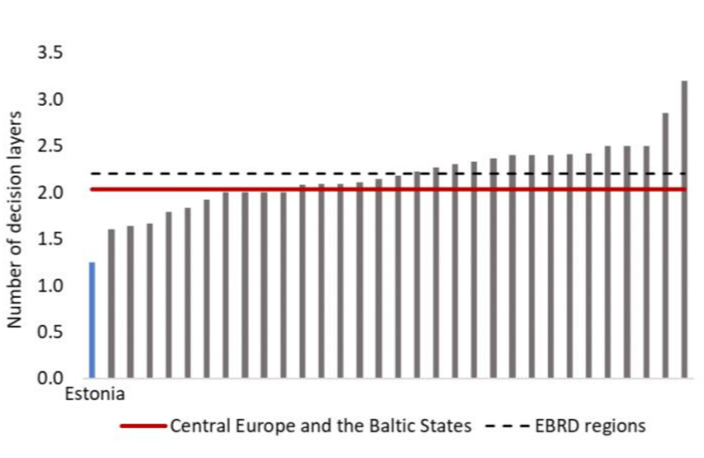


Chart 7 Constraints on lending to innovative industries

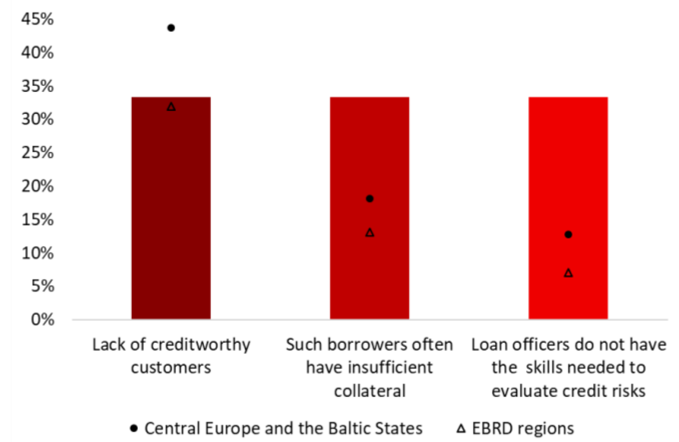
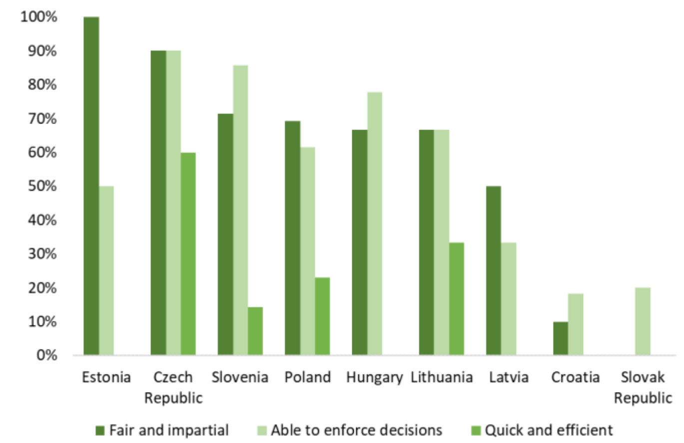


Chart 8 How the court system resolves business disputes



Banking profile

Georgia

Georgia

Georgian banks interviewed as part of the BEPS III survey account for around 94 per cent of the country's total banking assets, with almost 80 per cent of banking assets owned by domestic banks (Chart 1). As in many other EBRD economies, banks in Georgia are split in their expectations for branch networks. About 44 per cent expect their network to grow over the next five years, while another 44 per cent expect it to shrink.

The share of Georgian banks with explicit environmental and climate change policies and targets is slightly above the average in eastern Europe and the Caucasus (EEC) economies and about the same as the EBRD regional average (Chart 2).[1] Some 67 per cent of Georgian banks cite climate change risk as an explicit part of risk management, the highest proportion among the EEC economies.

All of the Georgian banks surveyed report undertaking corporate governance and environmental impact assessments prior to lending to small and medium-sized enterprises (SMEs) (Chart 3). Close to 50 per cent of banks undertake social and climate change-related impact assessments, on a par with or above the EEC and EBRD economies, on average.

More than 60 per cent of Georgian banks surveyed provide loans to improve the energy efficiency of commercial real estate, SMEs and/or corporate clients, similar to the average of the EEC and EBRD economies (Chart 4). The share of Georgian banks offering such loans for residential housing is just over 55 per cent, 15 percentage points higher than the average of the EEC economies.

Chart 1 Branch presence of surveyed banks

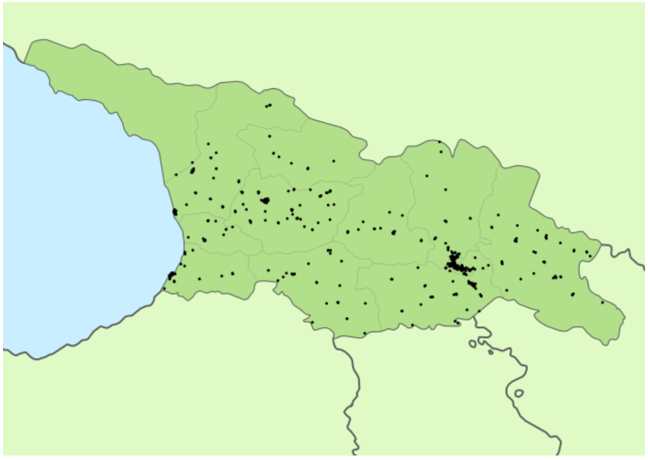


Chart 2 ESG policies and targets

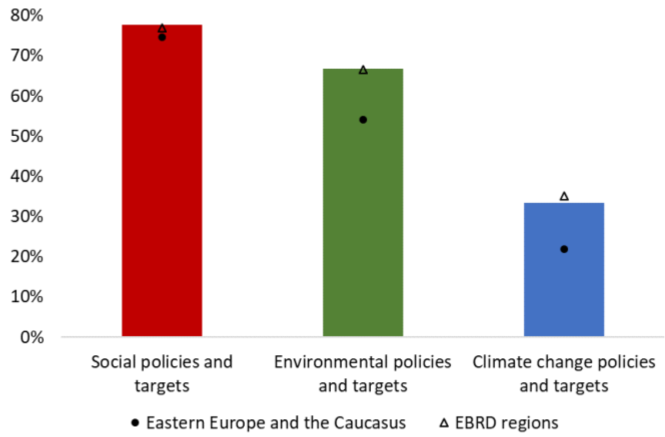


Chart 3 Impact assessment of SMEs before loan approval

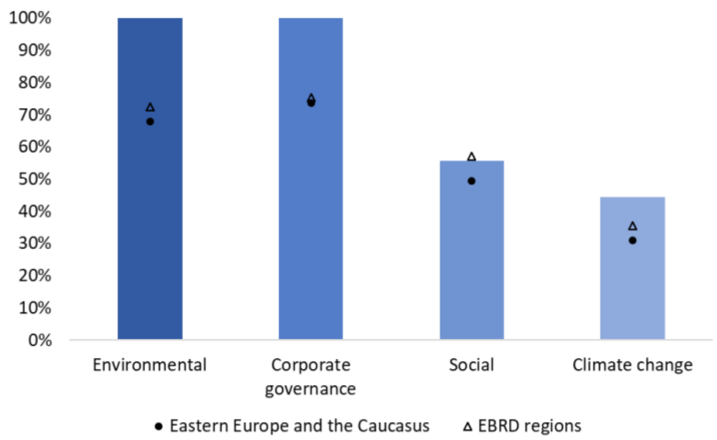
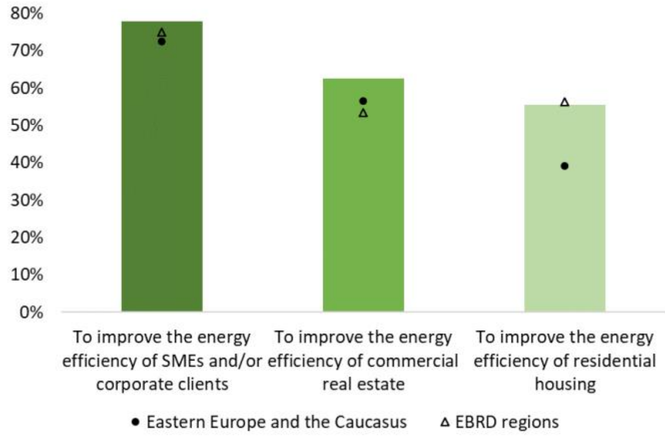


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Bars in Charts 2, 3, 4, 7 and 8 refer to the percentage share of banks in Georgia.

Fewer than half of the banks surveyed in Georgia view fintech as an opportunity for any of their business lines (Chart 5). Just over 43 per cent say fintech could be an opportunity in retail lending and trading and sales, similar to the EEC and EBRD economies, on average. Only a small minority of Georgian banks see fintech as an opportunity in trade finance and leasing, in contrast to more than half of banks in the EEC and EBRD economies, on average.

On the uptake of digital technologies, 44 per cent of banks in Georgia say they use algorithms to improve decision-making, biometric authentication for customer identification and alternative credit-scoring data (Chart 6). The Georgian banks surveyed generally express clear concerns and constraints in relation to fintech (Chart 7). Just under 90 per cent of them would like to invest more in fintech, but are too financially constrained to do so. This compares with fewer than 45 per cent of banks in the EEC and EBRD economies, on average. Similarly, two-thirds of Georgian banks face difficulties in identifying and establishing links with fintech companies, something that is an issue for fewer than a quarter of banks in the EEC and EBRD economies, on average.

Two-thirds of Georgian banks accept online loan applications from SMEs, above the EEC average. In addition, just under 40 per cent of banks surveyed cite strong competition from internet banks in SME lending, one of the highest shares of the EBRD economies.

Banks in Georgia cite insufficient demand for credit and a lack of equity capital as the main constraints on lending to innovative research and development-intensive industries such as information technology (IT), chemicals and pharmaceuticals (Chart 8). Indeed, the share of Georgian banks reporting these as their main constraints is 28 percentage points higher than the EEC average.

Chart 5 How fintech will affect banks' business lines

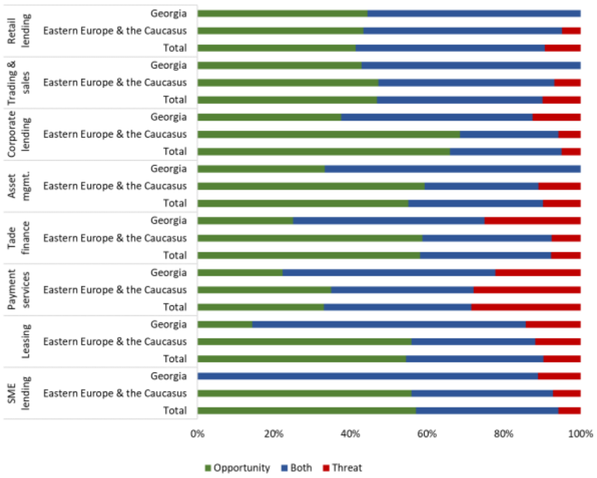
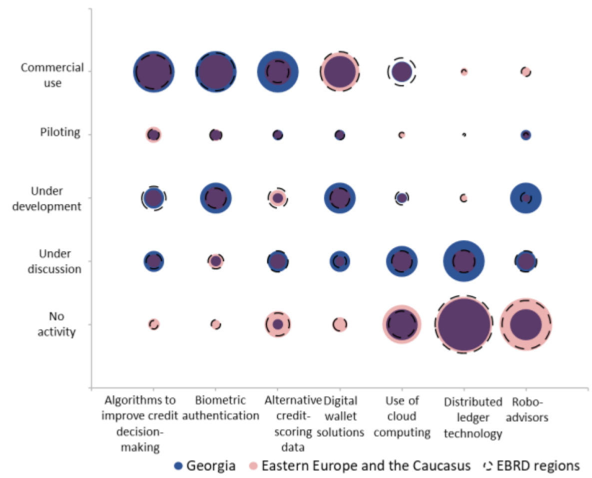


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns about digital technologies

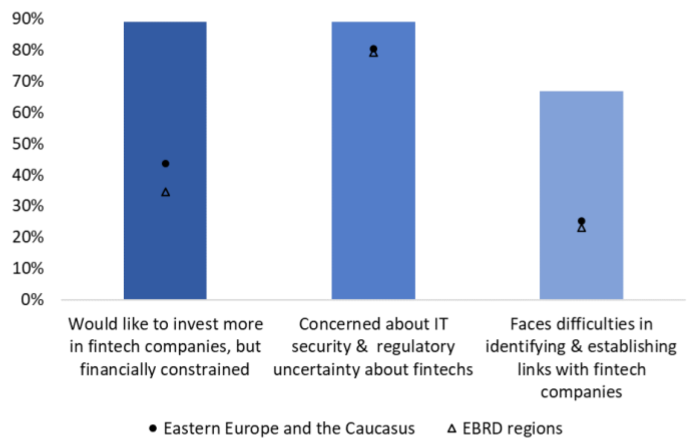
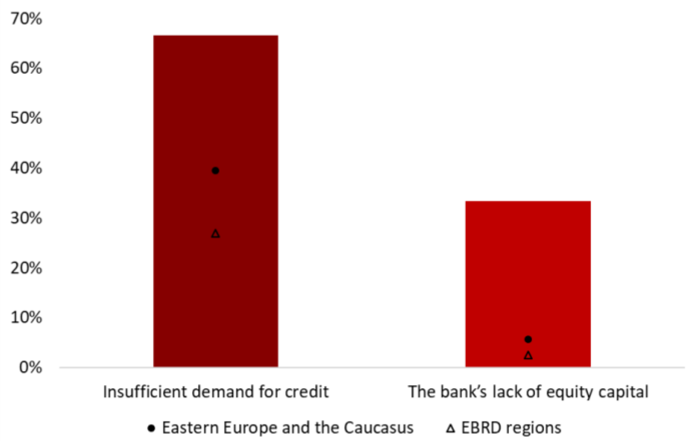


Chart 8 Constraints on lending to innovative industries



Banking profile

Hungary

Hungary

Hungarian banks covered by the survey account for 73 per cent of the country's total banking assets, with the majority owned by domestic banks (Chart 1).[1] Two-thirds of banks in Hungry expect their branch networks to decline over the next five years, while the rest expect no meaningful change (Chart 2).[2] This anticipated decline is slightly below the average in Central Europe and the Baltic States (CEB), but higher than the EBRD economy average.

Nearly 90 per cent of Hungarian banks have explicit environmental policies and targets, while almost 80 per cent have climate change policies and targets, exceeding CEB and EBRD regional averages by around 20 percentage points (Chart 3). However, only 44 per cent of Hungarian banks have explicit social policies and targets, some 26 and 33 percentage points below the averages of the CEB and EBRD economies, respectively.

When lending to small and medium-sized enterprises (SMEs), the proportion of Hungarian banks undertaking environmental, social and governance (ESG)-related impact assessments lags the CEB average (Chart 4). This is especially the case with regard to social impact assessments where, on average, Hungarian banks lag the CEB and EBRD economies by 30 and 35 percentage points, respectively (Chart 4).

Moreover, while the proportion of Hungarian banks providing loans for the specific purpose of improving the energy efficiency of SMEs and/or corporate clients is on par with the CEB average, the share of banks providing loans to improve the energy efficiency of commercial real-estate is among the lowest of the countries surveyed.

Chart 1 Branch presence of surveyed banks

Chart 2 Branch network expectations over the next five years

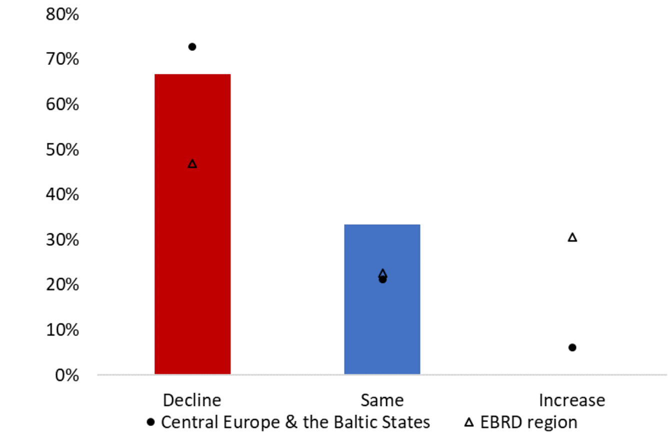


Chart 3 ESG policies and targets

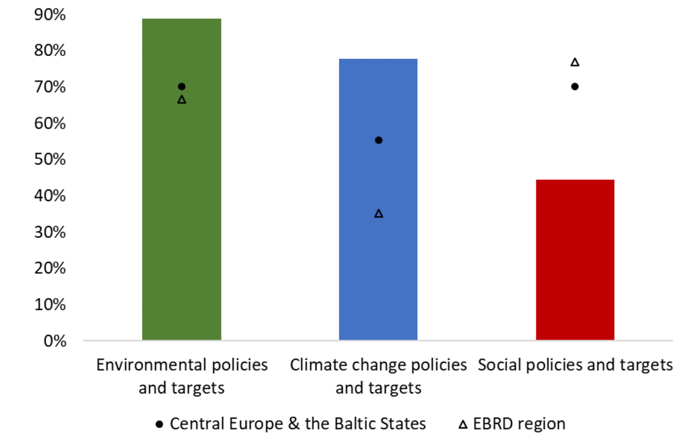
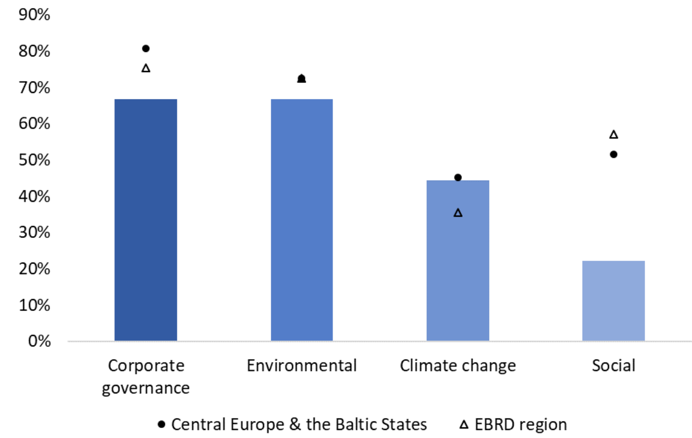


Chart 4 Impact assessment of SMEs before loan approval



[1] Domestic banks account for 68 per cent of these banking assets.
[2] Bars in charts 2, 3, 4, 7 and 8 refer to the percentage share of banks in Hungary.

In line with the EBRD region as a whole, when it comes to the adoption of digital technologies, more than half of Hungarian banks view corporate lending, followed by trade finance, SME lending and leasing, as the businesses with the most to gain from fintech (Chart 5). Conversely the share of Hungarian banks that perceive fintech as a threat to asset management, retail lending and trading and sales is above the CEB and EBRD regional averages.

Hungarian banks are ahead of the CEB and EBRD regional averages in their uptake and use of biometric authentication for customer identification services, with 78 per cent of banks citing commercial use of the technology (Chart 6). More generally, however, Hungarian banks lag the CEB economies in the commercial use of digital technologies. Reflecting this hesitancy, almost 90 per cent of banks surveyed said they were concerned about IT security and regulatory uncertainty with regard to fintech.

Only a third of Hungarian banks say they accept online applications for loans, compared with an average in the CEB and EBRD economies of just under half. More than half of Hungarian banks surveyed say they do not face strong competition from internet banks in lending to SMEs and retail clients; all banks are of the same view with regard to lending to large enterprises. About a quarter of participants report strong competition from internet banks in the retail lending segment, just below the CEB and EBRD regional averages.

When it comes to lending to innovative industries, such as information technology (IT), chemicals and pharmaceuticals, all of the banks surveyed in Hungary say they provide loans to firms in these sectors. Such loans make up 13 per cent of bank loans (by volume), above the CEB and EBRD regional averages of 8 per cent and 10 per cent, respectively (Chart 7). Even so, local banks continue to face a variety of lending constraints in this regard. Notably, loan officers' inability to obtain sufficient and correct information to evaluate credit risk is a difficulty that Hungarian banks tend to cite more frequently than their CEB and EBRD peers, on average (Chart 7).

Chart 5 How fintech will affect banks' business lines

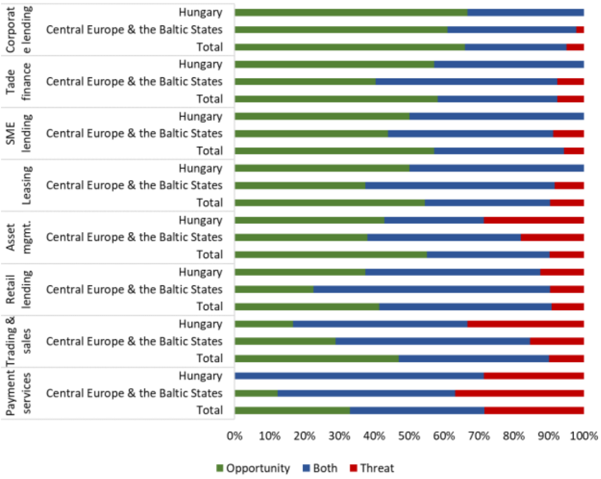
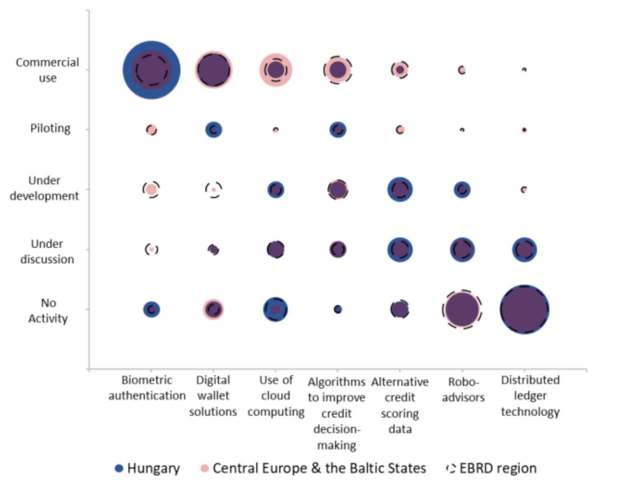


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Lending to innovative industries

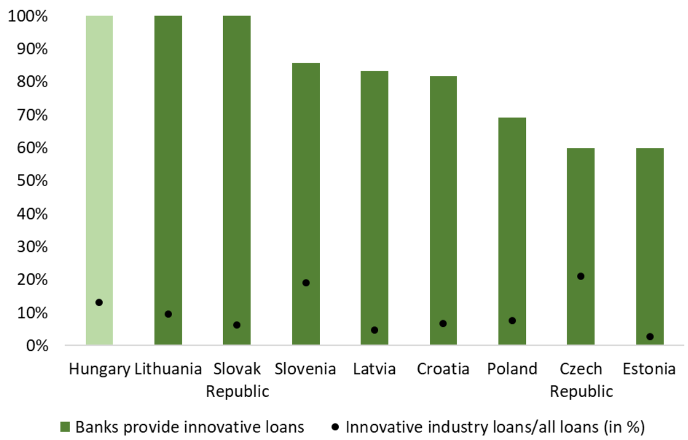
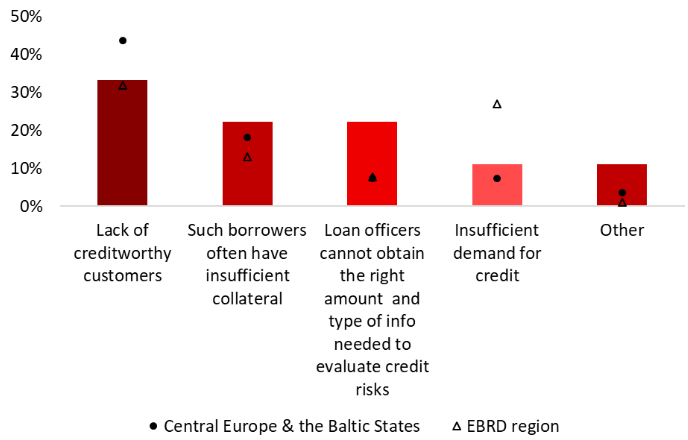


Chart 8 Constraints on lending to innovative industries



Banking profile

Jordan

Jordan

The Jordanian banks covered by the survey account for 88 per cent of the country's total banking assets, with the majority domestic banks (Chart 1).[1] About 36 per cent of Jordanian banks expect their branch networks to stay the same or increase over the next five years. This is similar to expectations in the Southern and Eastern Mediterranean (SEMED) region and Türkiye, where just under 40 percent of banks expect networks to grow and 30 per cent expect no change. By comparison, close to 50 per cent of banks across the EBRD regions expect their networks to shrink.

On average, Jordanian banks lag their counterparts in SEMED and Türkiye on having social, environmental and climate change-related policies and targets (Chart 2).[2] Although close to 40 per cent of banks in Jordan have climate change-related policies and targets in place, only a small minority of the banks surveyed cite climate change risk as an explicit part of their risk management.

On the provision of loans to small and medium-sized enterprises (SMEs), the share of Jordanian banks conducting at least some social, environmental, corporate governance or climate change-related impact assessments is on par with or higher than the average in SEMED and Türkiye and the EBRD regions (Chart 3). Around 90 per cent of Jordanian banks say they conduct social impact assessments before lending to SMEs, the second-highest share in the EBRD regions after Estonia. In SEMED and Türkiye, in contrast, only 67 per cent of banks undertake social impact assessments before loan approval.

Over 60 per cent of Jordanian banks provide loans specifically to improve energy-efficiency of residential housing (Chart 4). Indeed, all of the Jordanian banks surveyed say they provide loans for the specific purpose of improving the energy efficiency of SMEs and/or corporate clients, the highest share in the EBRD economies (along with Lithuania, Mongolia, Romania and Uzbekistan). More than 70 per cent of Jordanian banks provide loans to improve the energy efficiency of commercial real estate, compared with around 55 per cent, on average, in SEMED and Türkiye or the EBRD economies.

Chart 1 Branch presence of surveyed banks

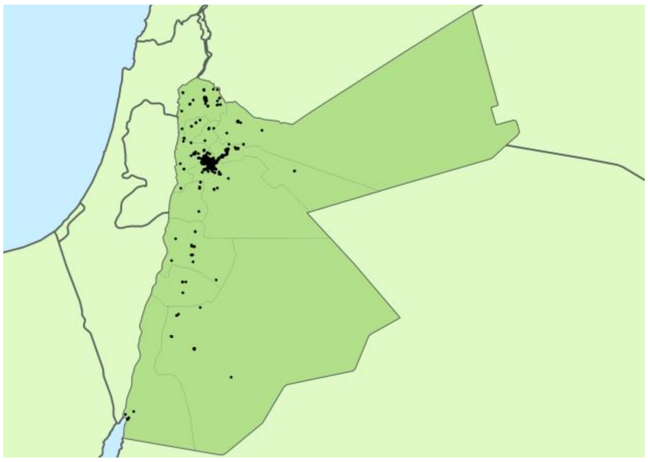


Chart 2 ESG policies and targets

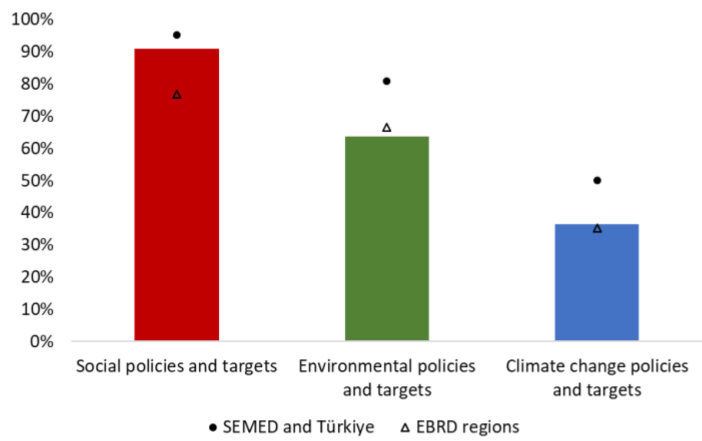


Chart 3 Impact assessment of SMEs before loan approval

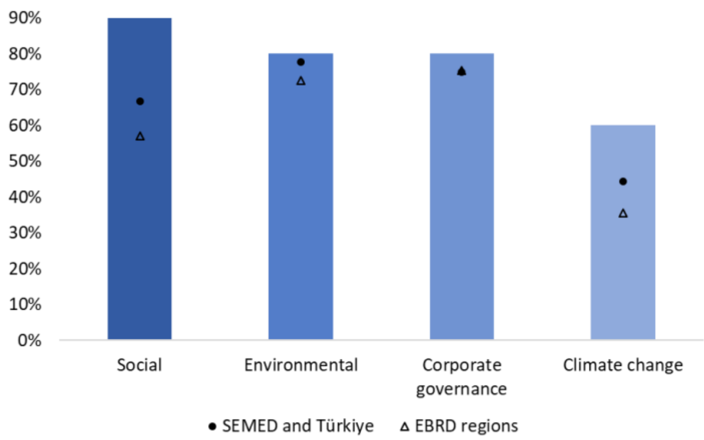
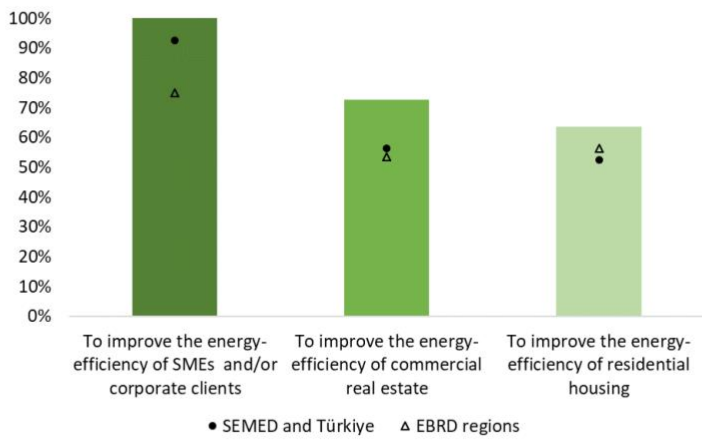


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Domestic banks account for 86 per cent of these banking assets.
[2] Bars in Charts 2, 3, 4, 7 and 8 refer to the percentage share of banks in Jordan.

Meanwhile, the largest proportion of Jordanian banks surveyed cite trading and sales as the business line offering most opportunity from fintech, closely followed by trade finance and corporate lending (Chart 5). Even in other business segments, such as retail lending, payment services, SME lending and asset management, a majority of banks say they view fintech as a source of opportunity. However, in leasing, only a quarter of Jordanian banks view fintech as an opportunity. In comparison, on average, across the EBRD regions as well as SEMED and Türkiye, more than double the percentage of banks view fintech as an opportunity for leasing.

Jordanian banks, on average, are ahead of their peers in SEMED and Türkiye on adopting most digital technologies (Chart 6). Just under 75 per cent of Jordanian banks report having already launched the use of digital wallet solutions for mobile payments using near-field communication, compared with just under half of banks in SEMED and Türkiye and 40 per cent of banks in the EBRD regions. Alongside Belarus, Jordan boasts the highest share of banks in the EBRD economies reporting the commercial use of digital wallet solutions. Close to two-thirds of banks surveyed in Jordan also say that they use cloud computing and biometric authentication for customer identification services, while just 30 per cent of banks in the EBRD regions have launched services incorporating cloud computing and 40 per cent use biometric authentication commercially.

Nearly 90 per cent of banks in Jordan are concerned about information technology (IT) security and regulatory certainty surrounding fintechs, a slightly higher share than the average in SEMED and Türkiye and the EBRD regions (Chart 7). However, only a small minority of Jordanian banks face financial constraints on investing in fintechs or experience difficulties in establishing links with them. About half of the Jordanian banks surveyed accept online applications for SME loans, a higher share than in SEMED and Türkiye, on average, but similar to the EBRD regional average. More than two-thirds of Jordanian banks report facing strong competition from non-bank finance companies in both SME and retail lending.

A lack of creditworthy customers and loan officers' inability to obtain the right amount and type of information needed to evaluate credit risks are two of the main constraints Jordanian banks face in lending to innovative industries such as IT, chemicals and pharmaceuticals (Chart 8). As compared to SEMED and Türkiye and the EBRD regions more widely a relatively small proportion of Jordanian banks surveyed cite insufficient demand for credit as a constraint on lending here.

Chart 5 How fintech will affect banks' business lines

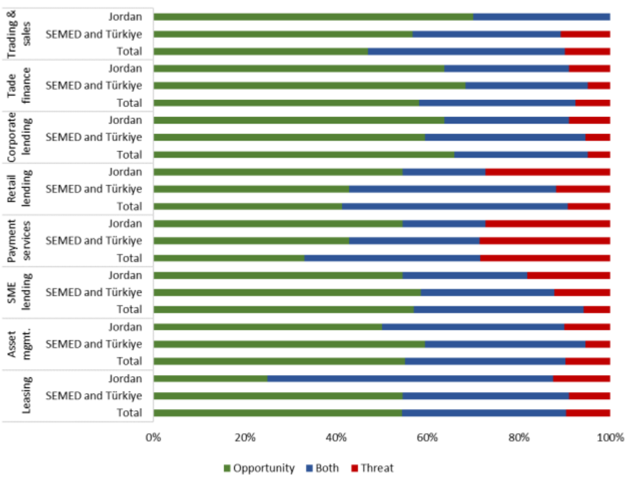
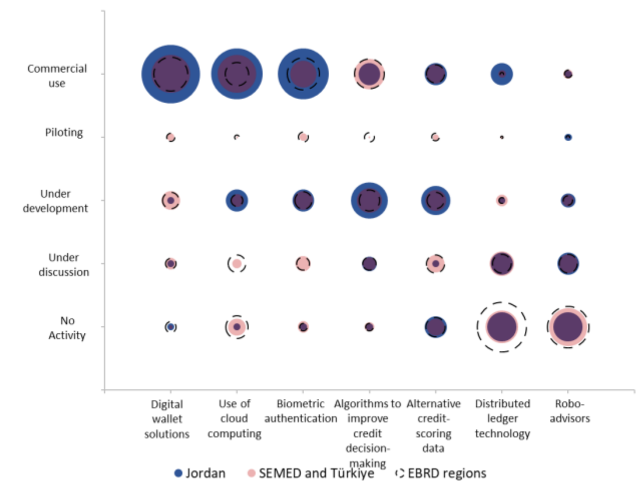


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns about digital technologies

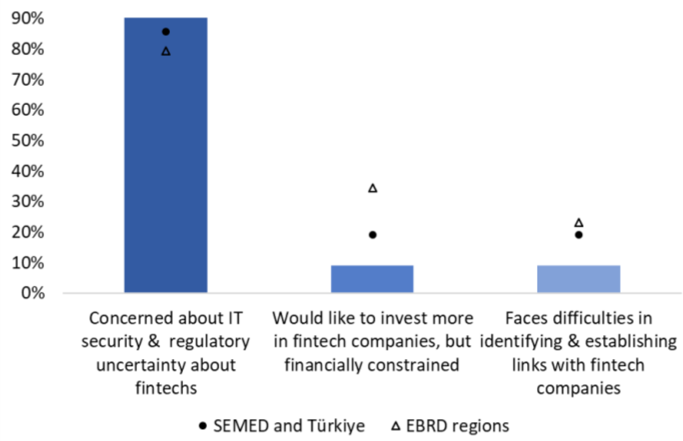
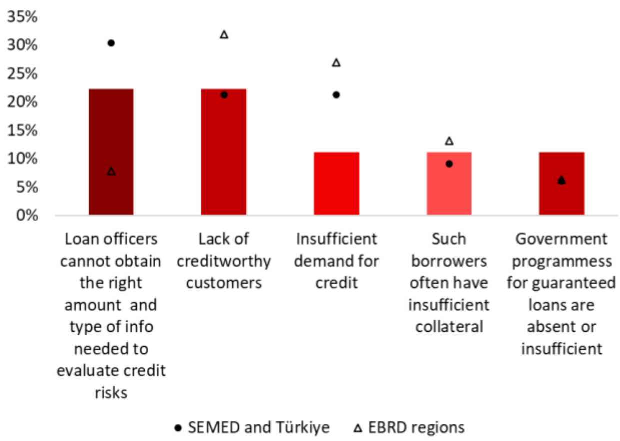


Chart 8 Constraints on lending to innovative industries



Banking profile

Kazakhstan

Kazakhstan

Kazakhstan remains well served by both domestic and foreign banks, with the surveyed banks accounting for 87 per cent of the country's total banking assets (Chart 1).[1] Nearly 36 per cent of banks in Kazakhstan expect their branch network to decline over the next five years, while just over 20 per cent expect it to grow. In comparison, just under half of banks in Central Asian economies, on average, expect their branch network to increase and just under 30 per cent expect it to shrink (Chart 2).[2]

Although climate change risk is an explicit part of the risk management process for 40 per cent of banks in Kazakhstan, just over 20 per cent have explicit policies and targets on climate change, on a par with the average of the Central Asian economies. Meanwhile, over 80 per cent of Kazakh banks surveyed have specific environmental and social policies and targets, exceeding the Central Asian average. The share of banks in Kazakhstan that undertake environmental and climate change-related impact assessments before lending to small and medium-sized enterprises (SMEs), however, is half the Central Asian and EBRD average (Chart 3).

The share of Kazakh banks providing loans specifically to improve the energy efficiency of residential housing, commercial real estate and SMEs and/or corporate clients is at least 13 percentage points below the average of the Central Asian economies (Chart 4).

When it comes to the use of digital technologies, more than two-thirds of Kazakh banks view fintech as an opportunity for a majority of business lines, such as leasing, SME lending, trade finance, corporate lending, trading and sales, and asset management (Chart 5). This attitude towards fintech is in line with the average of the Central Asian economies overall.

Chart 1 Surveyed bank branch coverage

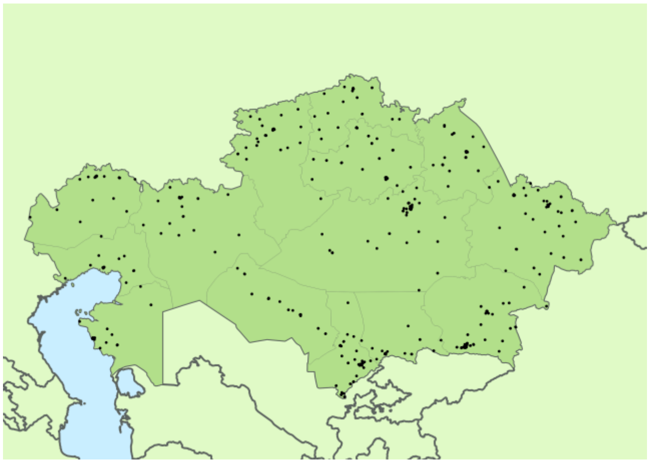


Chart 2 Branch network expectations, next five years

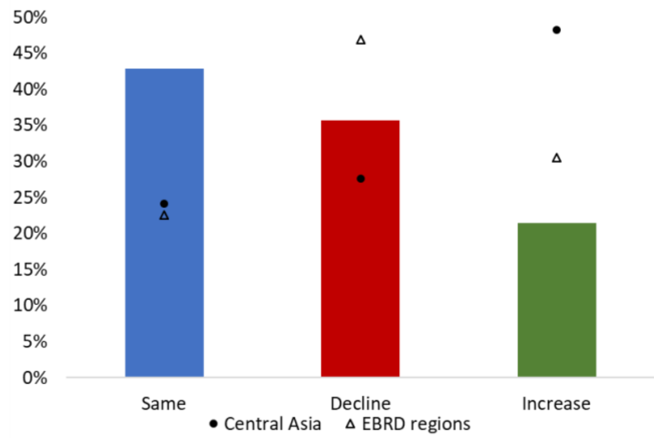


Chart 3 Impact assessment of SMEs before loan approval

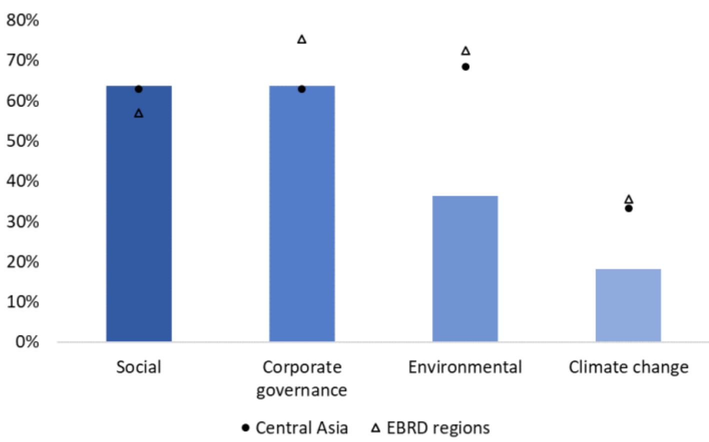
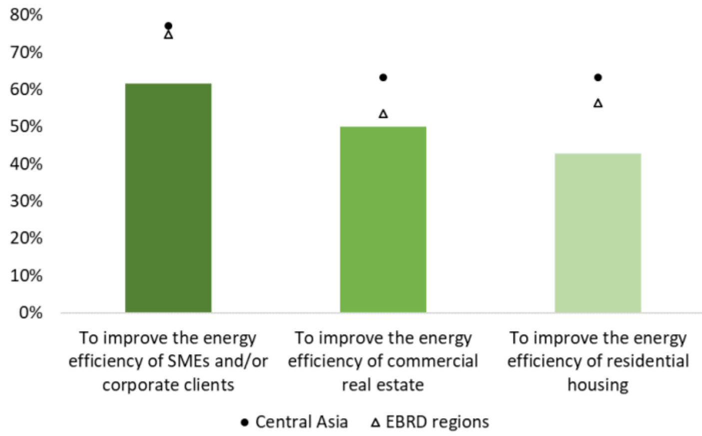


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Based on banks surveyed in Kazakhstan, a majority of banking assets are owned by domestic banks.

[2] Bars in Charts 2, 3 and 4 refer to the percentage share of banks in Kazakhstan.

The survey shows Kazak banks leading the way on the commerical use of algorithms to improve credit decision-making. Eighty-six per cent – the highest share in the EBRD economies surveyed – say such technology is already in commercial use (Chart 6). Approximately 80 per cent and 50 per cent of Kazakh banks, respectively, report using biometric authentication for customer identification and alternative credit-scoring data for e-commerce activities. While Kazakh banks indicate that they are shifting to digital technologies, just over 55 per cent of them accept online applications for lending to SMEs, 10 percentage points below the Central Asian average.

Over two-thirds of Kazakh banks surveyed report strong competition from non-bank financial companies in SME and retail lending (Chart 7). In addition, just over 85 per cent of Kazakh banks cite concerns about information technology (IT) security and regulatory uncertainty in the fintech space, 10 percentage points and 5 percentage points, respectively, above the Central Asian and EBRD averages.

A lack of creditworthy customers is the greatest constraint on lending to innovative research and development (R&D)-intensive industries such as IT, chemicals and pharmaceuticals, according to 70 per cent of Kazakh banks surveyed. Similarly, among banks in Central Asia and the EBRD regions more broadly, we find a lack of creditworthy customers to be the most frequently cited constraint on lending to such industries.

The lending process of Kazakh banks appears to be the most streamlined in Central Asia, involving the fewest hierarchical layers for SME lending (Chart 8).

Chart 5 How fintech will affect banks' business lines

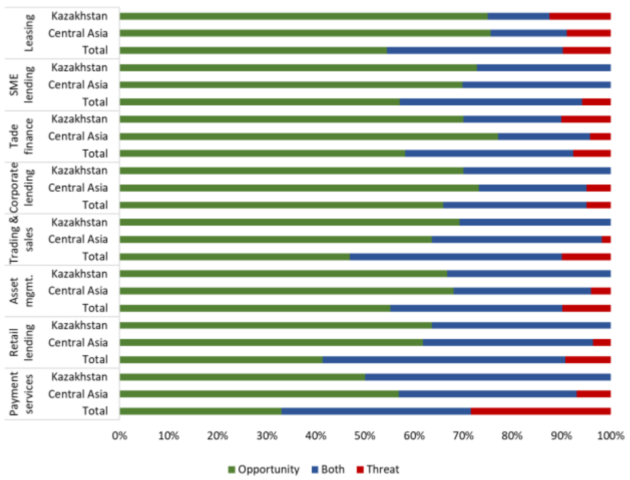
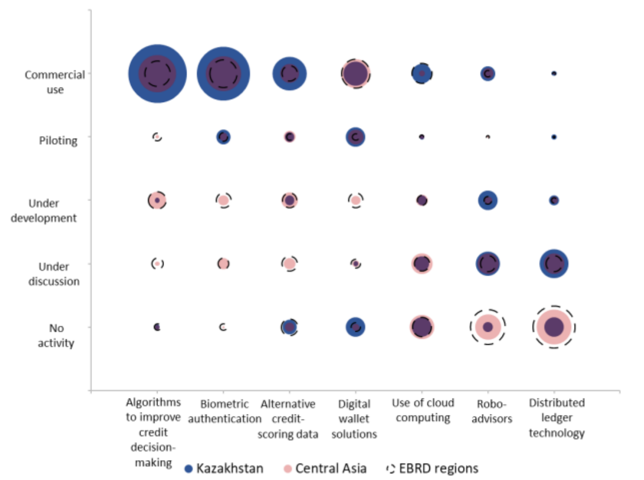


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Banks face strong competition from non-bank alternatives

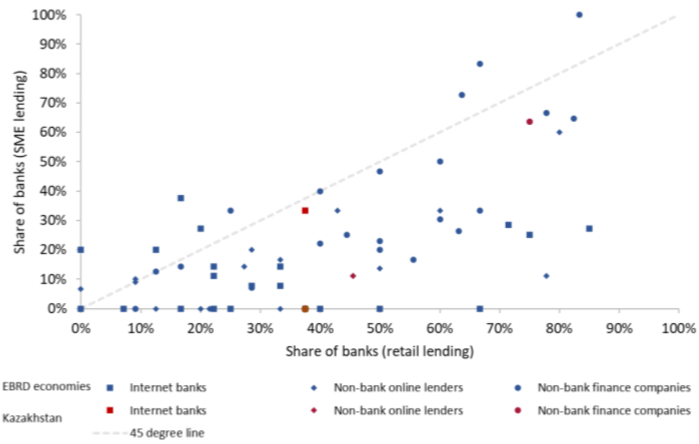
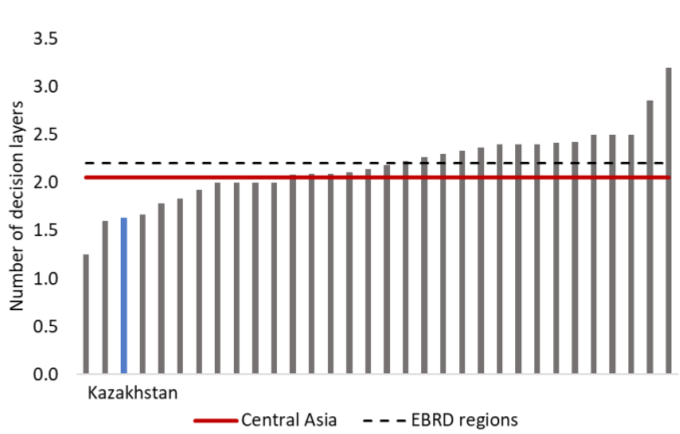


Chart 8 Typical number of decision-making layers, SME lending



Banking profile

Kosovo

Kosovo

Banks that participated in the survey account for of 89 per cent of banking assets in Kosovo, the majority of them foreign owned (Chart 1).[1] While half of Kosovan banks expect no change to branch networks over the next five years, around a third expect branch networks to shrink. This is much lower than in south-eastern Europe (SEE) as a whole, where 56 per cent of banks, on average, expect branch networks to decline (Chart 2).[2]

When asked whether climate change risk was a part of their risk management, not a single bank in Kosovo said it was – the lowest share in the SEE economies. Only a small minority of banks say they have climate change policies and targets in place, around half the proportion of banks, on average, in the SEE and EBRD regions. However, nearly all banks surveyed in Kosovo say they have social policies and targets, while all have environmental policies and targets, ahead of the average shares across the SEE region.

In lending to small and medium-sized enterprises (SMEs), banks in Kosovo are roughly on par with the average in the SEE region when it comes to undertaking corporate governance, social and climate change impact assessments. However, they lag on environmental impact assessments (Chart 3). Only half of the Kosovan banks surveyed say they conduct environmental impact assessments before lending to SMEs, compared with 70 per cent of banks, on average, in the SEE and EBRD regions.

More than 80 per cent of banks provide loans for the specific purpose of improving the energy efficiency of residential housing, SMEs and/or corporate clients (Chart 4). Even on the provision of energy-efficiency loans for commercial real estate, Kosovan banks outpace the average of other SEE and EBRD economies, where just over half of survey participants provide such loans.

Chart 1 Branch presence of surveyed banks

Chart 2 Branch network expectations, next five years

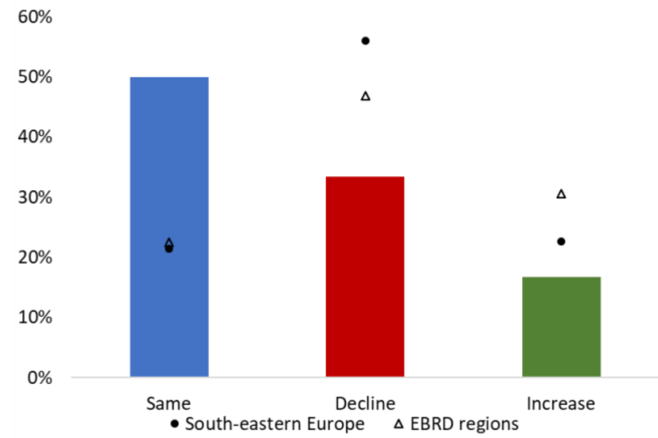


Chart 3 Impact assessment of SMEs before loan approval

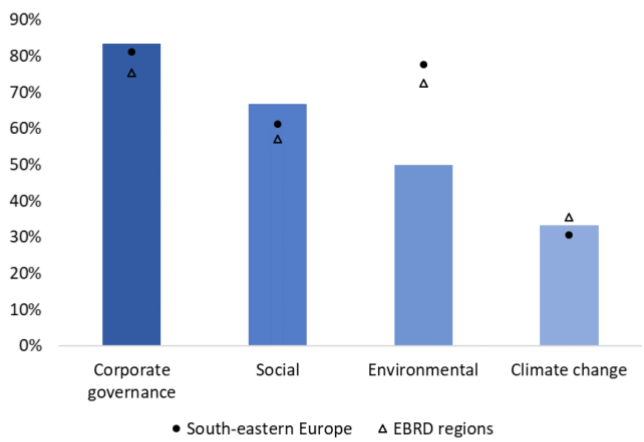
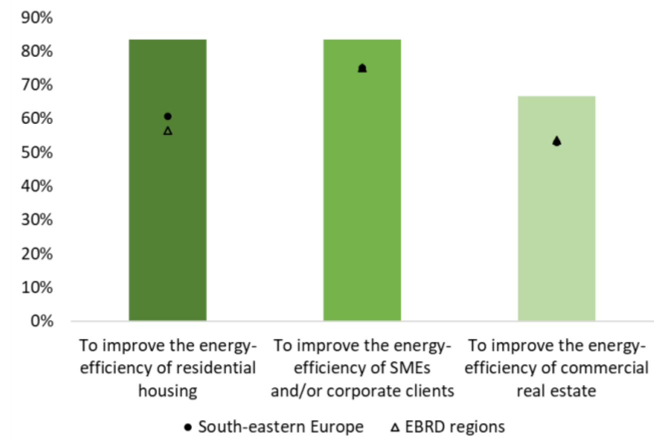


Chart 4 Prevalence of loans to improve clients' energy efficiency



[1] Foreign banks account for 84 per cent of banking assets in Kosovo.

[2] Bars in Charts 2, 3, 4, 7 and 8 refer to the percentage share of banks in Kosovo.

As far as the use of digital technologies is concerned, all participating banks in Kosovo see corporate lending as a business with the potential to gain from fintech, much more so than in the SEE and EBRD regions more broadly, where roughly two-thirds view fintech as an opportunity in this business category (Chart 5). At least half of the banks surveyed see fintech as an opportunity for SME lending, leasing, asset management and trading and sales. However, half of Kosovan banks also consider fintech to be a threat to asset management, while two-thirds of them view it as a threat to payment services.

Banks in Kosovo generally lag those in the SEE and EBRD economies when it comes to the uptake of digital technologies (Chart 6). The exception is in the use of cloud computing; one in three banks uses this technology commercially – roughly on par with the SEE and EBRD regions. Indeed, only a few banks in Kosovo have launched the use of digital wallet solutions or algorithms to improve credit decision-making commercially, while almost 40 per cent of banks in the EBRD regions report already using such technology.

This hesitancy to adopt digital technologies is reflected in banks' concerns about fintech. All banks in Kosovo say they are concerned about information technology (IT) security and regulatory uncertainty in the fintech space (Chart 7). Moreover, one in two say they have difficulties in identifying and establishing links with fintech companies, while only one in four banks cite this as a concern across the SEE economies, on average.

Insufficient demand for credit and a lack of sufficient collateral are the first and second most reported constraints faced by banks in Kosovo when lending to innovative research and development (R&D)-intensive industries such as IT, chemicals and pharmaceuticals (Chart 8). The share of banks seeing these as the main concerns is far higher than in the rest of the SEE or EBRD regions as a whole.

Chart 5 How fintech will affect banks' business lines

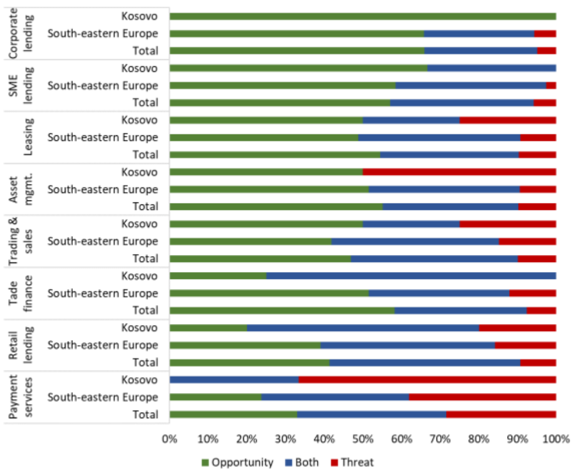
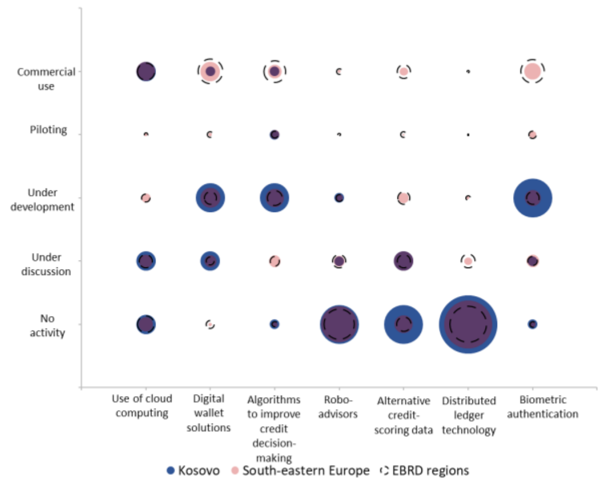


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns related to digital technologies

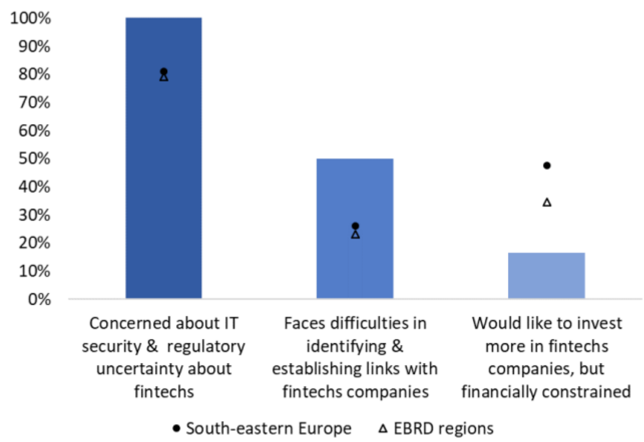
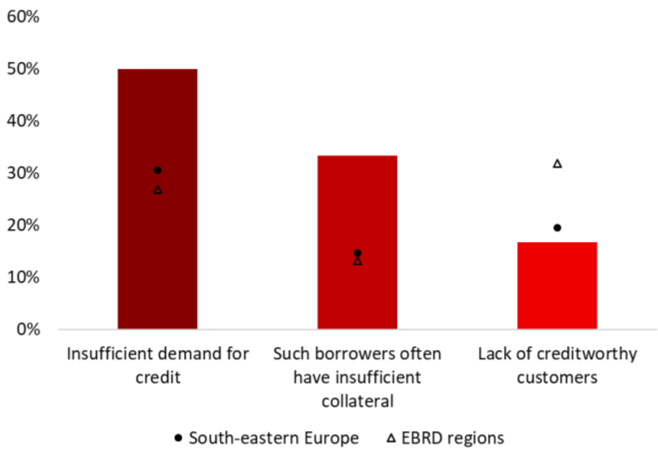
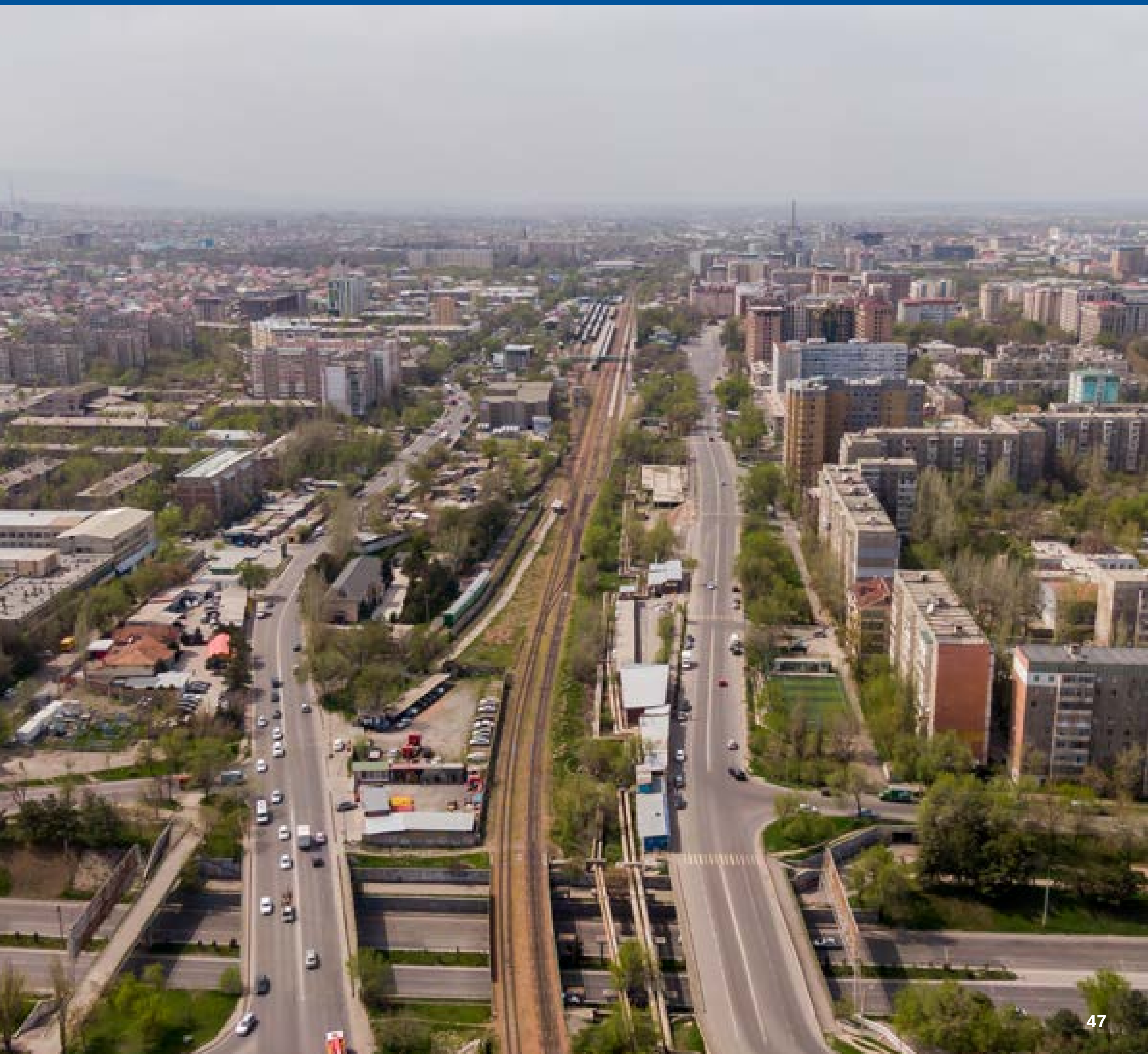


Chart 8 Constraints on lending to innovative industries



Banking profile

Kyrgyz Republic



Kyrgyz Republic

Banks covered by the survey account for 84 per cent of all banking assets in the Kyrgyz Republic, most of them domestic.[1] Bank branches are concentrated around the country's capital, Bishkek, and along the border with Uzbekistan (Chart 1). Just over 50 per cent of Kyrgyz banks expect their branch networks to grow over the next five years, on a par with the average in Central Asia and well above that of the EBRD regions as a whole (Chart 2).[2]

The share of Kyrgyz banks with climate change policies and targets lags the Central Asian average by 15 percentage points, while the share of banks with environmental policies and targets lags by 28 percentage points (Chart 3). When it comes to lending to small and medium-sized enterprises (SMEs), at least half of the banks surveyed in the Kyrgyz Republic undertake social, corporate governance and environmental impact assessments before loan approval. However, similar to their policy and target setting, the share of Kyrgyz banks conducting environmental and climate-change impact assessments prior to lending remains far lower than the Central Asian average.

Approximately 65 per cent of Kyrgyz banks provide loans to improve the energy efficiency of commercial real estate, residential housing, SMEs and/or corporate clients. The proportion of banks offering such loans to SMEs and/or corporate clients lags that of Central Asia and the EBRD regions by 10 percentage points, on average, but is similar in the other two areas.

At least 80 per cent of Kyrgyz banks view fintech as an opportunity for trade finance and leasing, marginally higher than the average in Central Asia (Chart 5). Only a few Kyrgyz banks view fintech as a threat to any business line, even payment services, where just under 30 per cent of banks in the EBRD regions see it as a risk.

When it comes to the uptake of digital technologies, the proportion of banks that have already launched products and services using biometric authentication, algorithms to improve credit decision-making, digital wallet solutions

Chart 1 Branch presence of surveyed banks

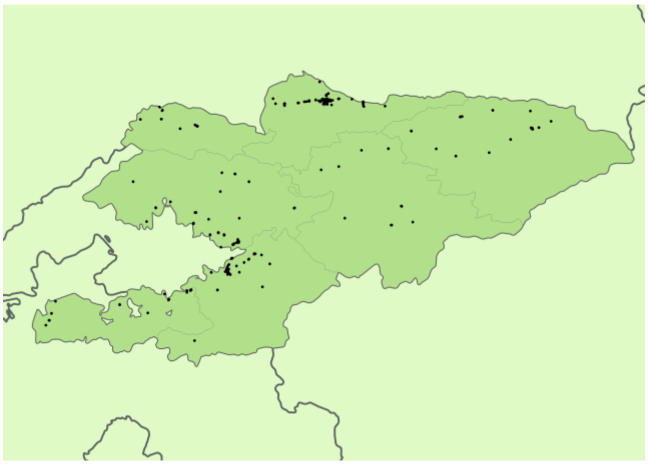


Chart 2 Branch network expectations, next five years

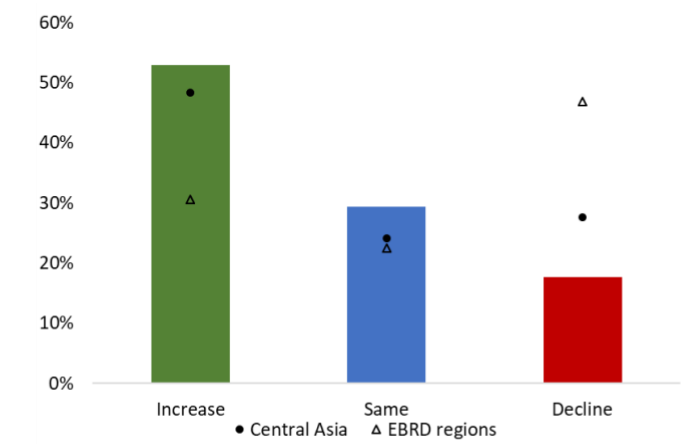


Chart 3 ESG policies and targets

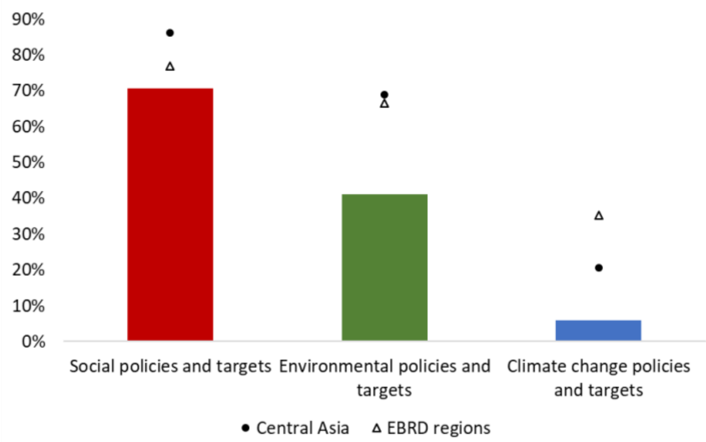
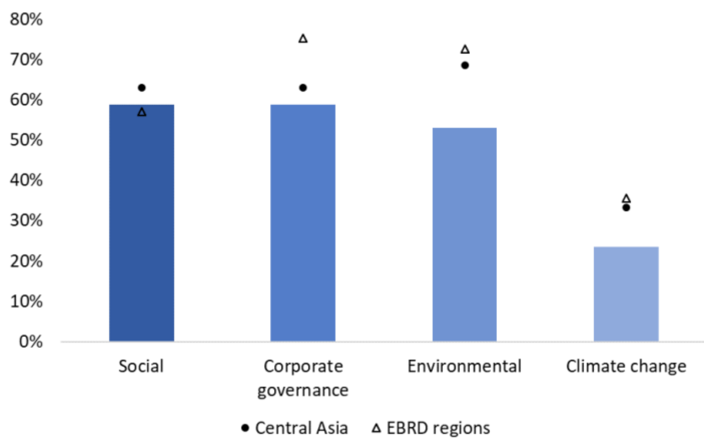


Chart 4 Impact assessment of SMEs before loan approval



[1] Domestic bank assets account for almost 75 per cent of this.

[2] Bars in Charts 2, 3, 4 and 8 refer to the percentage share of banks in the Kyrgyz Republic.

and alternative credit-scoring data for e-commerce activities is roughly the same in the Kyrgyz Republic as in Central Asia and the EBRD economies, on average (Chart 6). However, the share of banks not pursuing any development of cloud computing and distributed ledger technology is higher than in other Central Asian economies.

Just over half of the banks surveyed in the Kyrgyz Republic accept online applications for loans to SMEs, a lower share than in other Central Asian economies, on average. Even so, when lending to SMEs, 65 per cent of Kyrgyz banks say they face strong competition from non-bank financing companies. Likewise, in retail lending, more than 70 per cent of banks report strong competition from internet banks and non-bank financing companies.

Banks in the Kyrgyz Republic express a number of concerns about fintech companies and emerging technologies. Over 80 per cent of banks are worried about information technology (IT) security and regulatory uncertainty in the fintech space, while almost 60 per cent say they would like to invest more in fintech, but are too financially constrained to do so.

At the time of the last BEPS survey in 2011, Kyrgyz banks reported having fewer than two hierarchical layers involved in making lending decisions to SMEs. In the latest BEPS, with an average of 2.4 approval layers, Kyrgyz banks appear to have become slightly less streamlined in terms of lending procedures for small business loan applications (Chart 7).

A lack of creditworthy customers, insufficient demand for credit and deficient loan officer skills in evaluating credit risks are cited as key constraints on providing loans to innovative research and development (R&D)-intensive industries such as IT, chemicals and pharmaceuticals (Chart 8).

Chart 5 How fintech will affect banks' business lines

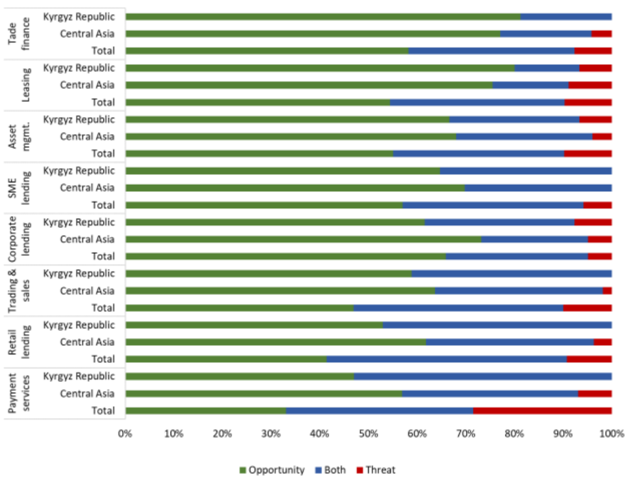
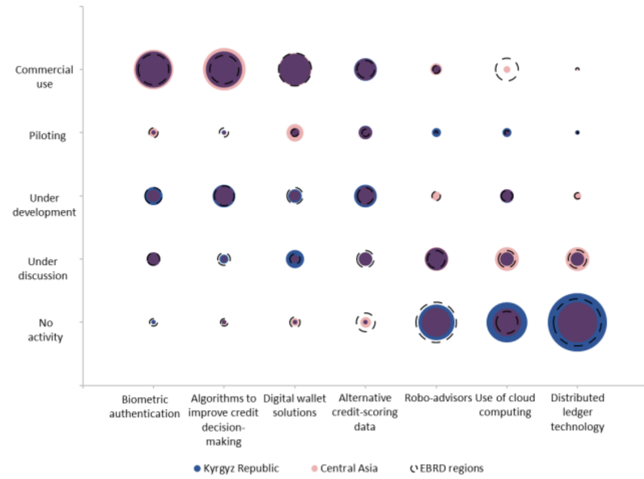


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Typical number of decision layers, SME lending

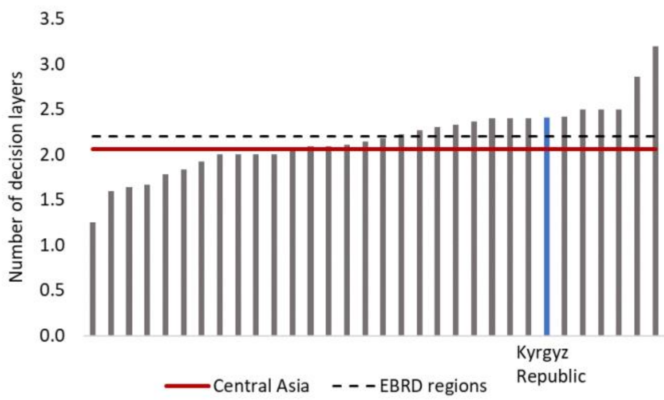
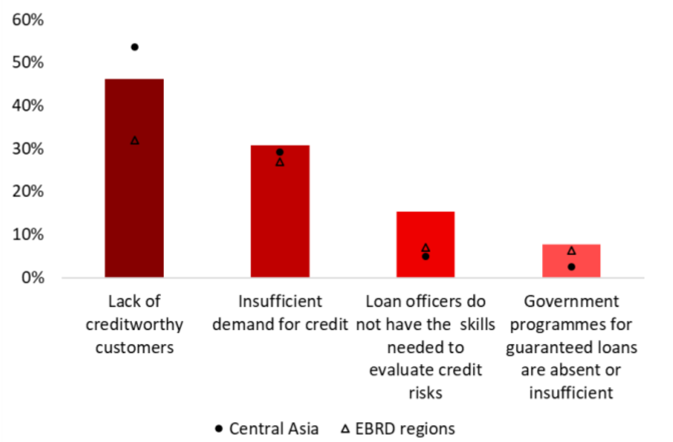


Chart 8 Constraints on lending to innovative industries



Banking profile

Latvia

Latvia

The banks surveyed in Latvia account for 67 per cent of the country's total banking assets, with foreign banks accounting for almost two-thirds of this share (Chart 1). Approximately two-thirds of the institutions surveyed expect their branch network to decline over the next five years, just below the average for central Europe and the Baltic States (CEB) (Chart 2).[1]

Although climate change risk is an explicit part of risk management for more than 80 per cent of Latvian banks, only half of those surveyed have explicit climate change-related policies and targets in place (Chart 3). In addition, the share of Latvian banks having specific environmental policies and targets is among the lowest in the CEB economies. When lending to small and medium-sized enterprises (SMEs), all Latvian banks undertake corporate governance impact assessments, while half conduct climate change-related impact assessments. In general, the share of Latvian banks undertaking corporate governance, social and climate change-related impact assessments is at or above the level seen in other CEB banking sectors, on average.

In CEB, Latvia has one of the highest shares of banks providing loans specifically to improve the energy efficiency of SMEs and/or corporate clients. Some 83 per cent of banks offer such loans, compared with 66 per cent and 75 per cent of banks, on average, in the CEB and EBRD regions, respectively (Chart 4).

When it comes to the use of digital technologies, 75 per cent Latvian banks view corporate lending as a business line offering opportunity from fintech (Chart 5). This view is shared by more than 60 per cent of banks across the EBRD regions, on average. Around half of Latvian banks also see opportunity for fintech in SME lending. Conversely, in payment services, some 50 per cent of Latvian banks see a threat from fintech, some 13 percentage points and 22 percentage points higher than the CEB and EBRD averages, respectively.

Chart 1 Branch presence of surveyed banks

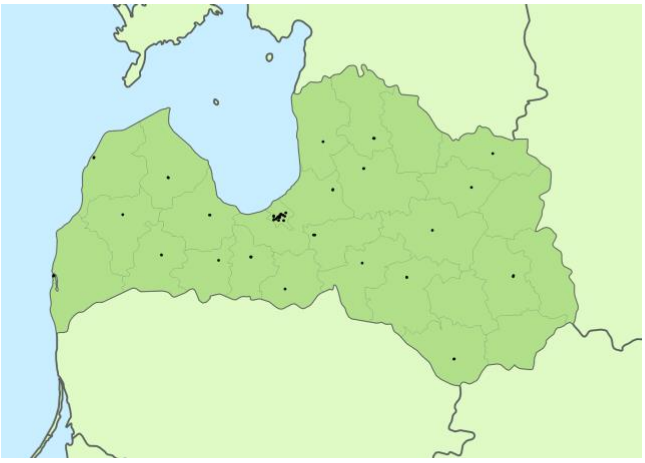


Chart 2 Branch network expectations, next five years

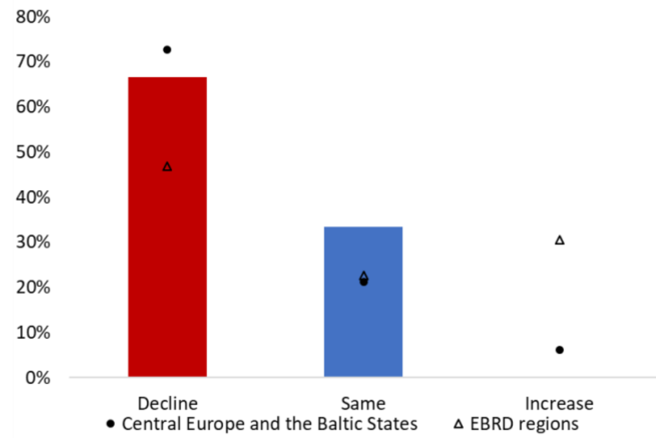


Chart 3 ESG policies and targets

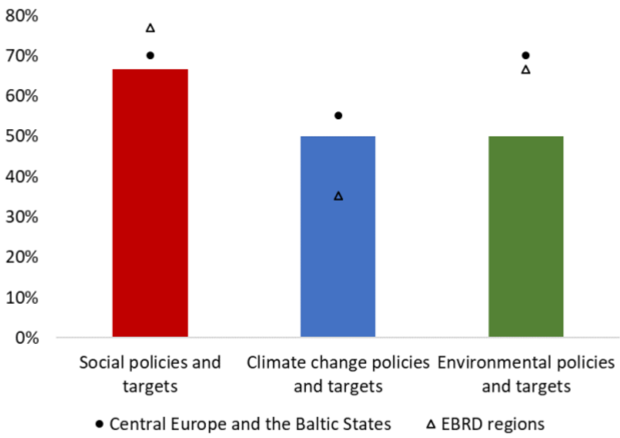
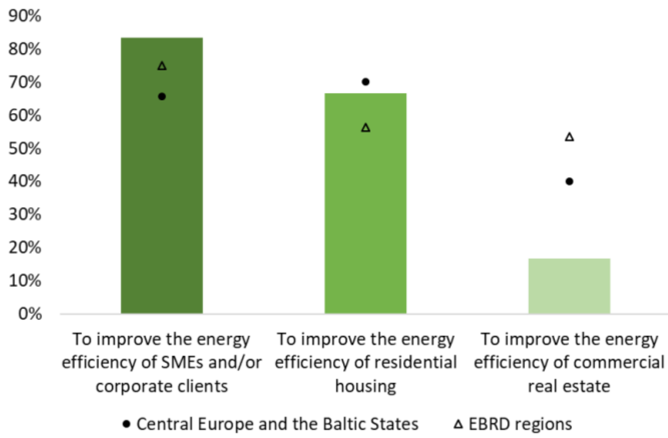


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Bars in Charts 2, 3, 4, and 8 correspond to the percentage share of banks in Latvia.

When it comes to the use of digital technologies, Latvian banks are generally below or on par with the averages of the CEB and EBRD economies, other than on the use of robo-advisors (Chart 6). On the use of distributed ledger technology, such as blockchain in smart contracts, none of the Latvian banks surveyed reported activities underway with a view to trialling or adopting it. In contrast, at least 40 per cent of all banks across the EBRD regions say the use of this technology is at least under discussion.

Although Latvian banks are not at the forefront of digital technology adoption, more than two-thirds accept online loan applications from SMEs, 18 percentage points higher than the EBRD average. In addition, some Latvian banks say they face strong competition from internet banks in SME lending, as well as from non-bank online lenders and non-bank finance companies (Chart 7). All banks surveyed in Latvia report being concerned about information technology (IT) security and regulatory uncertainty in the fintech space, above the share reported across the EBRD regions.

Sixty per cent of Latvian banks view a lack of creditworthy customers as the main constraint on lending to innovative research and development-intensive industries such as IT, chemicals and pharmaceuticals (Chart 8). This is 16 percentage points and 28 percentage points higher than the CEB and EBRD averages, respectively. A lack of sufficient collateral and loan officers' inability to obtain the right amount and type of information to evaluate credit risks are the other two main constraints mentioned by Latvian banks when lending to innovative industries, in particular.

Chart 5 How fintech will affect banks' business lines

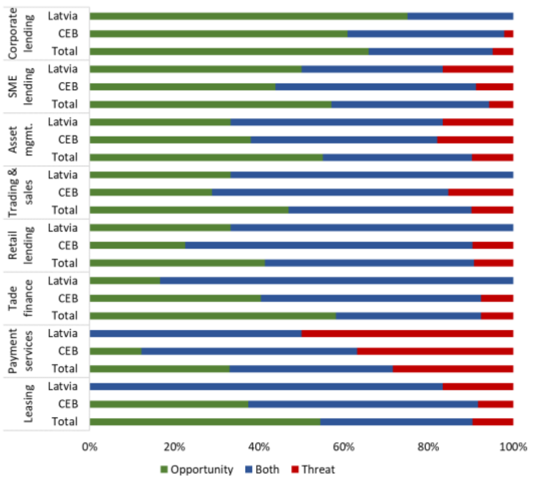
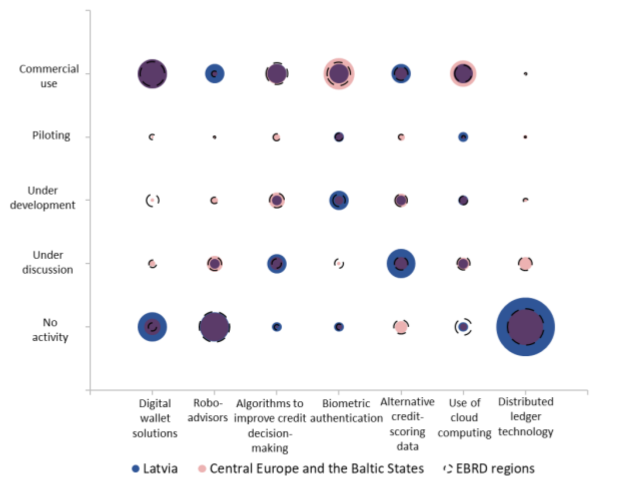


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Banks face strong competition from non-bank alternatives

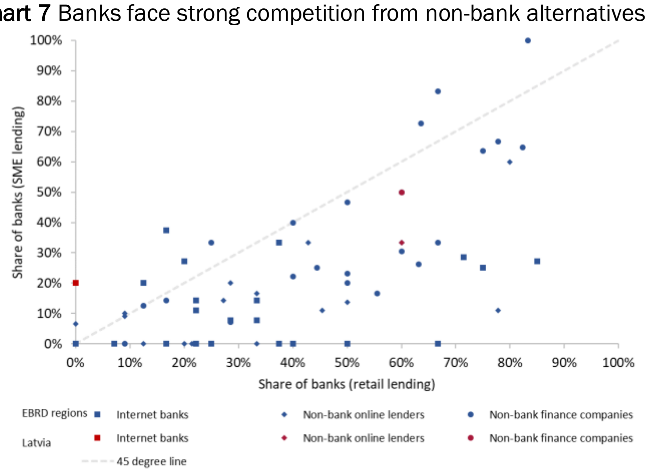
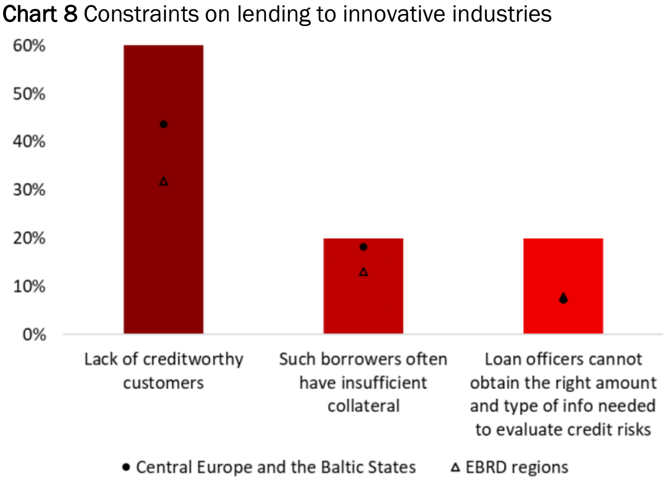


Chart 8 Constraints on lending to innovative industries



Banking profile

Lithuania

Lithuania

The Lithuanian banks covered by the survey account for 98 per cent of the country's total banking assets (Chart 1). The share of assets owned by foreign banks is just below 90 per cent. All of the banks surveyed expect their branch network to shrink over the next five years, the only EBRD economy surveyed where this is the case. The proportion of banks expecting a network decline in central Europe and the Baltic States (CEB) during the same period is 73 per cent, while the share of banks across the EBRD economies as a whole is 47 per cent, on average.

All of the banks surveyed in Lithuania say that they have explicit policies and targets on social and climate change issues, exceeding the average share of banks with such policies in the CEB and EBRD regions, on average (Chart 2).[1] When it comes to lending to small and medium-sized enterprises (SMEs), most Lithuanian banks undertake social, climate change, environmental and corporate governance-related impact assessments.

All of the Lithuanian banks surveyed provide loans to improve the energy efficiency of SMEs and/or corporate clients and residential housing, compared with just under 70 per cent of banks in the CEB economies more broadly. However, no Lithuanian bank surveyed offers loans to improve the energy efficiency of commercial real estate (Chart 3).

As far as the use of digital technologies is concerned, a minority of Lithuanian banks view fintech as a threat to payment services, in line with the CEB and EBRD averages. In retail lending, however, fewer than 10 per cent of banks in the CEB and EBRD regions, on average, view fintech as a threat, in contrast to one in every three banks surveyed in Lithuania. Lithuanian banks also report strong competition from non-bank online lenders and internet banks in the retail lending segment.

Chart 1 Branch presence of surveyed banks

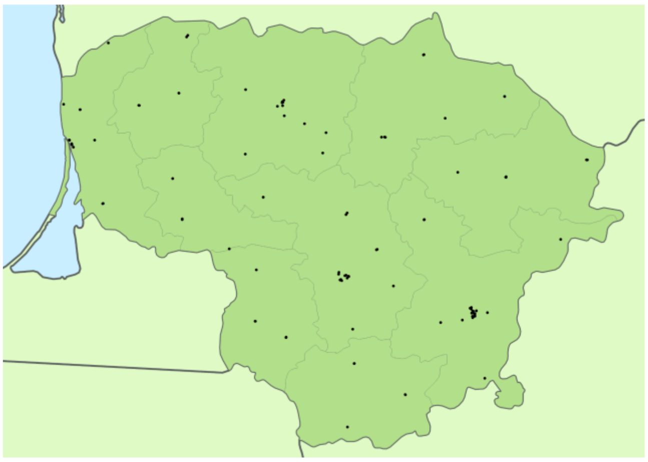


Chart 2 ESG policies and targets

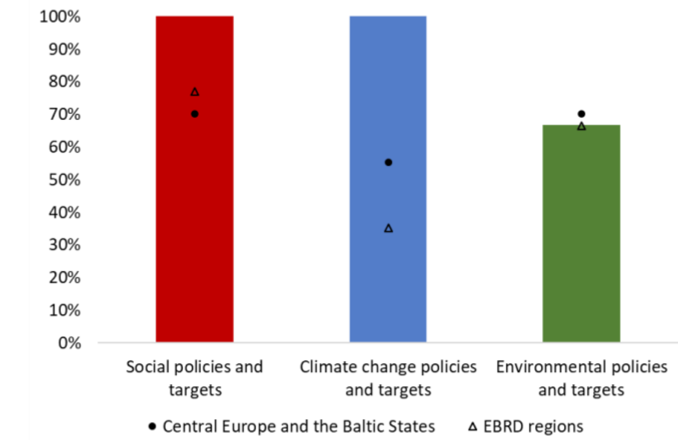


Chart 3 Prevalence of loans to improve clients' energy efficiency

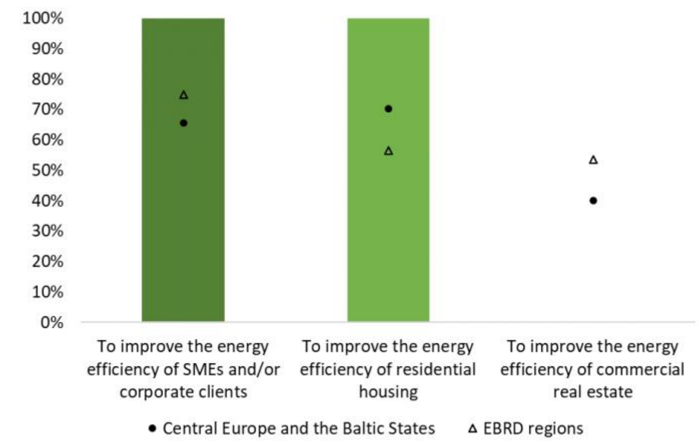
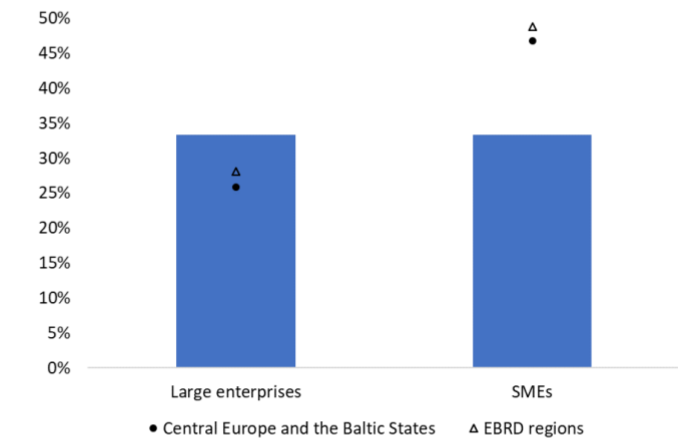


Chart 4 Bank accepts online loan applications



[1] Bars in Charts 2, 3, 4, 7 and 8 correspond to the percentage share of banks in Lithuania.

Only a minority of the Lithuanian banks surveyed accept online applications for loans to SMEs (Chart 4). As in Estonia, Lithuanian banks have few hierarchical layers involved in the processing of SME loan applications, with typically just 1.6 decision layers of approval compared with CEB and EBRD averages of 2 and 2.2, respectively (Chart 5).

On the uptake and use of digital technologies, banks in Lithuania appear to lag their peers in the CEB and EBRD regions, on average (Chart 6). Only a minority of Lithuanian banks report the commercial use of biometric authentication for customer identification and digital wallet solutions for mobile payments, while at least half of banks in the CEB economies have launched these technologies commercially.

A majority of banks in Lithuania are concerned about information technology (IT) security and regulatory uncertainty, and face difficulties in establishing links to fintech companies. Banks in the EBRD economies more broadly are more often concerned about the former and less often concerned about the latter (Chart 7).

A lack of creditworthy customers, insufficient collateral and insufficient government loan guarantee programmes are the three most important constraints Lithuanian banks report facing when lending to innovative industries, such as IT, chemicals and pharmaceuticals (Chart 8). Even so, all of the Lithuanian banks surveyed provide loans to innovative industries. These account for 10 per cent of all loans (by volume).

Chart 5 Typical number of decision layers, SME lending

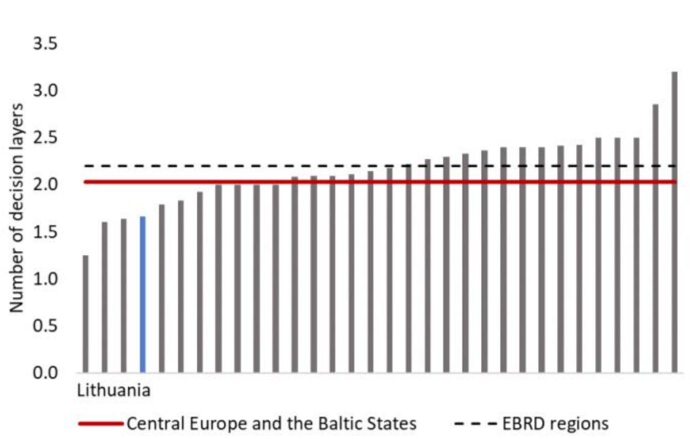
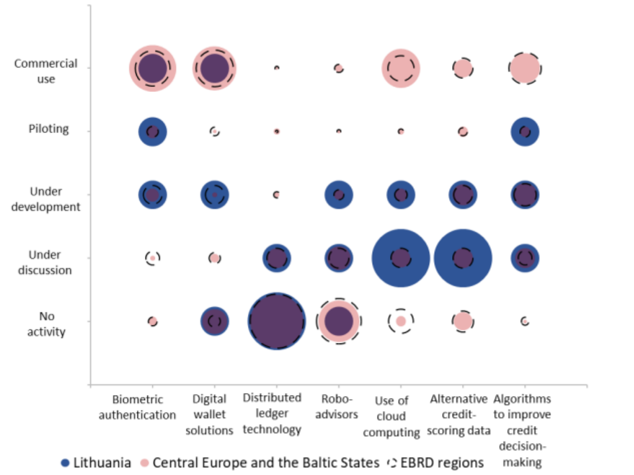


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns related to digital technologies

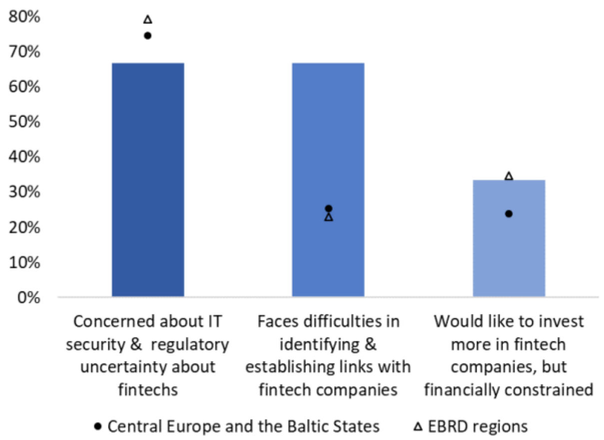
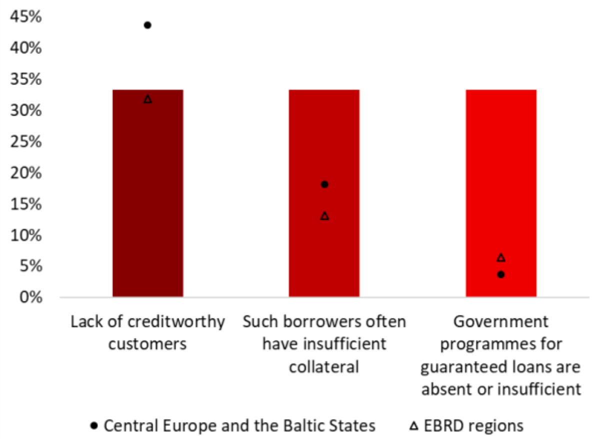


Chart 8 Constraints on lending to innovative industries



Banking profile

Moldova

Moldova

The banks surveyed in Moldova account for 95 per cent of the country's total banking assets, with more than half of them domestic owned. Bank branches are concentrated in the capital, Chisinau (Chart 1).

Moldovan banks' perception of the court system diverges from the averages of economies in eastern Europe and the Caucasus (EEC) and the EBRD regions more widely. Close to 78 per cent of Moldovan banks believe the court system is able to enforce its decisions. At the same time, however, no banks believe it to be fair and impartial. In contrast, just over half of the banks surveyed in the EEC and the EBRD regions say their courts are able to enforce their decisions. Meanwhile the average perception of the courts as fair and impartial in the EEC and EBRD economies is just over 30 per cent and 40, respectively.

Only a small minority of the Moldovan banks surveyed report having climate change-related policies and targets in place, while 44 per cent have social and environmental policies and targets (Chart 3).[1] These shares are much lower, on average, than in the EEC and EBRD economies more broadly. When lending to small and medium-sized enterprises (SMEs), all of the Moldovan banks surveyed say they undertake corporate governance-related impact assessments, more than 25 percentage points above the EEC and EBRD averages (Chart 4). However, only a few banks surveyed in Moldova say they conduct climate change-related impact assessments, below the EEC and EBRD regions, on average.

Meanwhile, just over 80 per cent of Moldovan banks provide specific loans to improve the energy efficiency of commercial real estate, SMEs and/or corporate clients, above that of EEC or EBRD economies, on average (Chart 5). Conversely, Moldova has one of the lowest shares in the EBRD regions when it comes to the provision of loans to improve the energy efficiency of residential housing.

Chart 1 Branch presence of surveyed banks

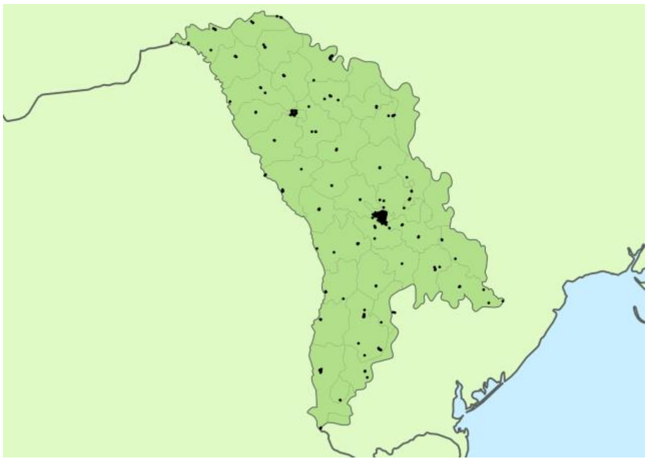


Chart 2 Branch network expectations, next five years

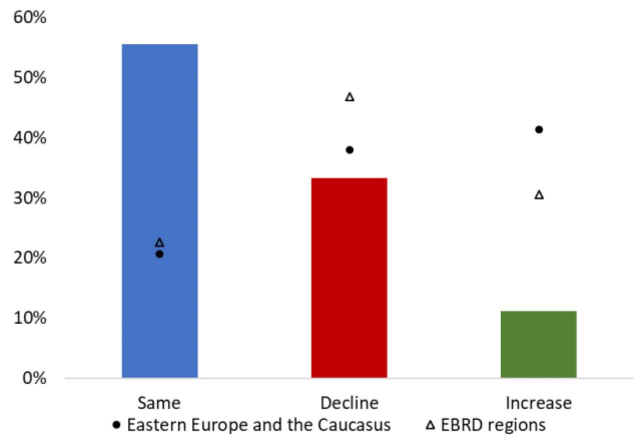


Chart 3 ESG targets and policies

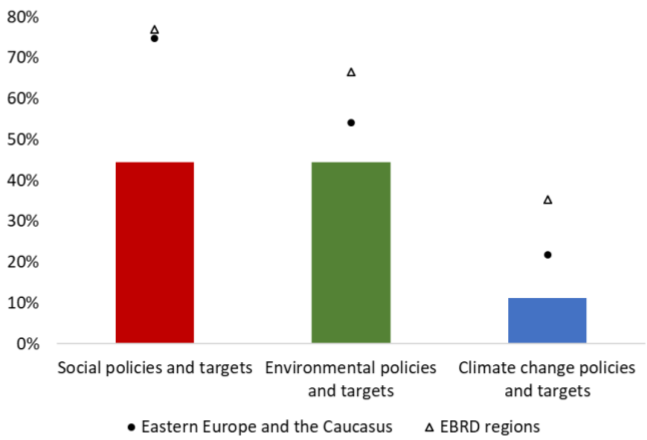
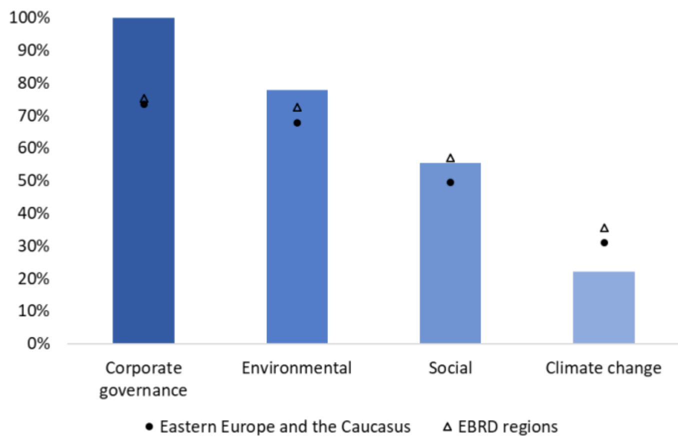


Chart 4 Impact assessment of SMEs before loan approval



[1] Bars in Charts 2, 3, 4, 5, 7 and 8 correspond to the percentage share of banks in Moldova.

Turning to the uptake and use of digital technologies in banking, two-thirds of Moldovan banks say they already use biometric authentication for customer identification on a commercial basis (Chart 6). Similarly, about 44 per cent of banks say they have launched commercially the use of algorithms to improve credit decision-making. However, Moldovan banks lag their EEC and EBRD peers, on average, on the uptake of all other digital technologies, such as alternative credit-scoring data, digital wallet solutions and the use of cloud computing.

Only 22 per cent of banks accept online applications for SME loans, while across the EEC and EBRD economies, on average, this share is about 50 per cent. In retail lending, 43 per cent and 78 per cent of banks say they face strong competition from non-bank online lenders and non-bank finance companies, respectively (Chart 6). Most Moldovan banks report concerns about information technology (IT) security and regulatory uncertainty in the fintech space (Chart 7). Moreover, 67 per cent face difficulties in establishing links with fintech companies, almost three times the proportion of banks voicing this concern across the EBRD economies, on average.

Close to 80 per cent of banks in Moldova lend to innovative research and development-intensive industries such as IT, chemicals and pharmaceuticals. The main constraints on lending to these innovative industries are varied, with banks citing six different factors (Chart 8).

Chart 5 Prevalence of loans to improve clients' energy-efficiency

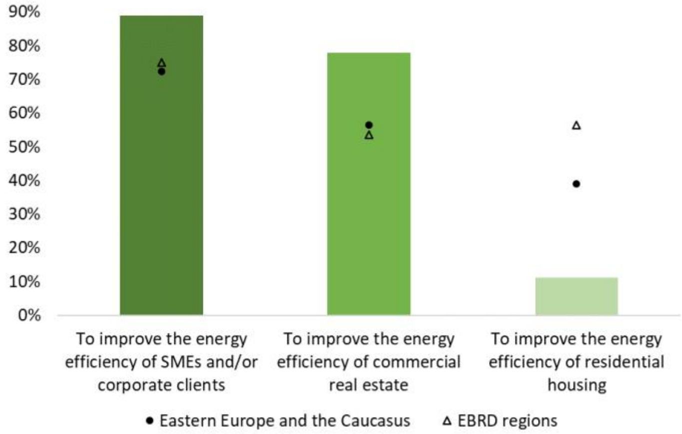
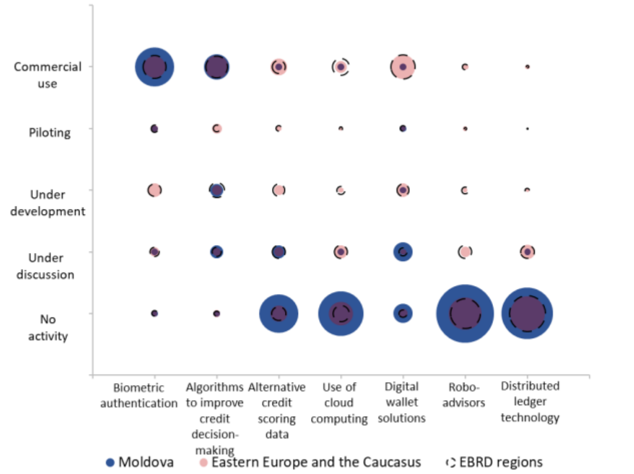


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns about digital technologies

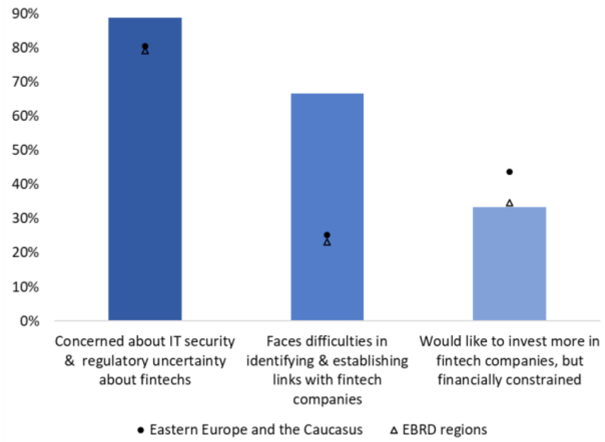
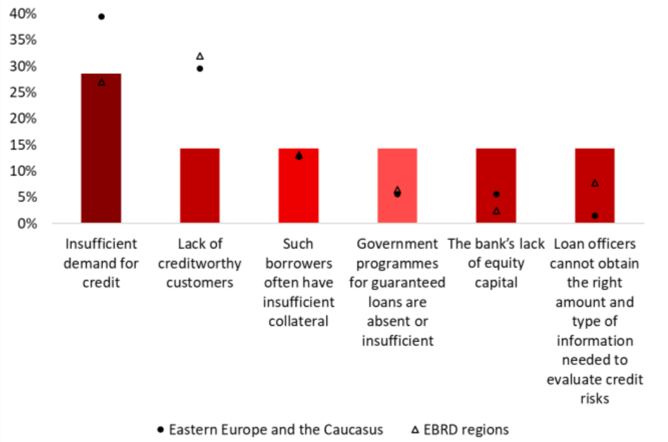
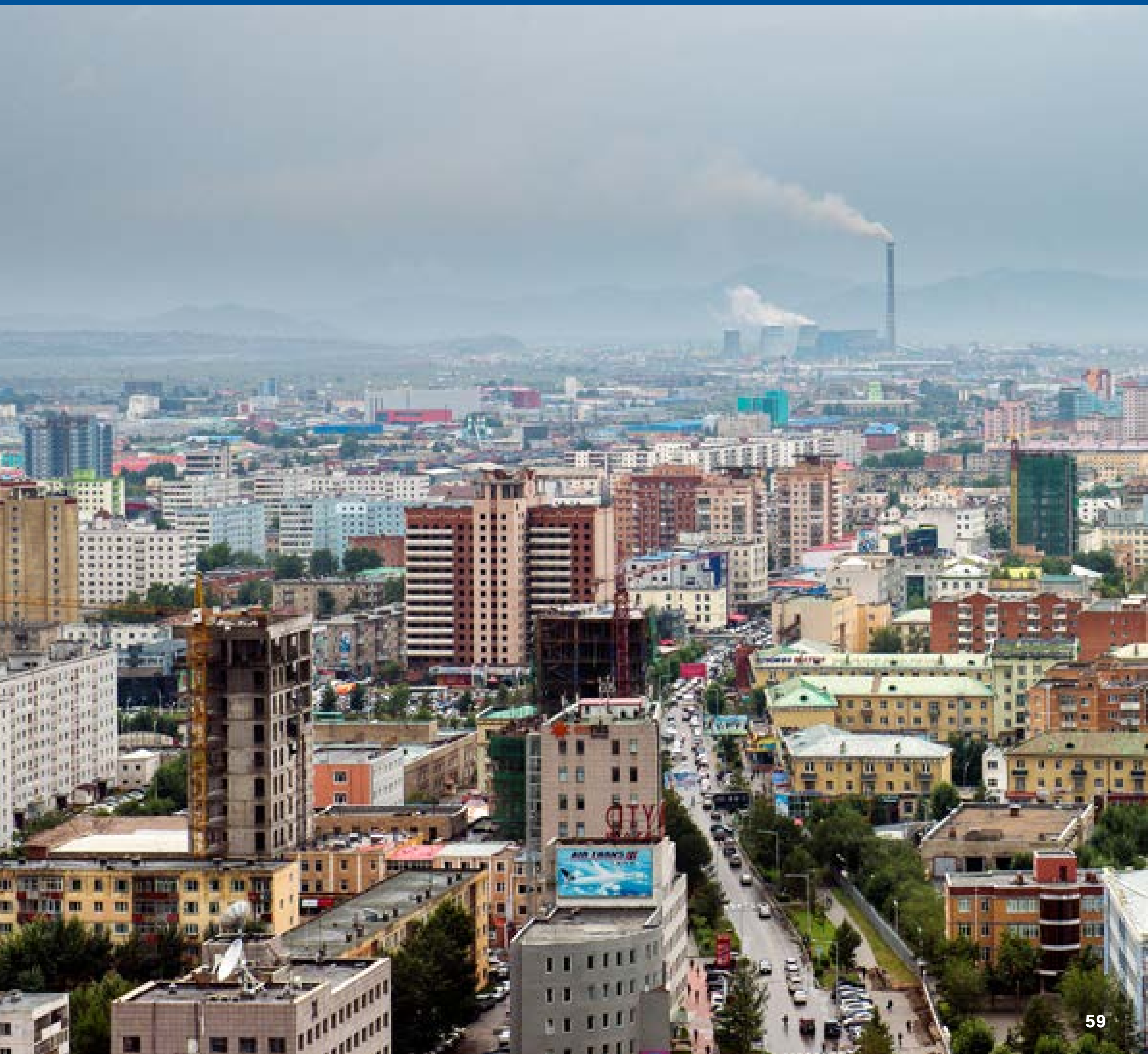


Chart 8 Constraints on lending to innovative industries



Banking profile

Mongolia



Mongolia

The Mongolian banks covered by the survey account for 90 per cent of the country's total banking assets and all are domestic (Chart 1). Uzbekistan and the West Bank and Gaza are the only other EBRD economies where only domestic banks were surveyed as part of BEPS III. Half of the surveyed banks in Mongolia expect their branch network to decline over the next five years, while the other half expect it to grow (Chart 2).[1] The latter is in line with average expectations in Central Asia. In the EBRD economies as a whole, however, just under half of banks surveyed expect their branch networks to shrink, while just over 30 per cent of banks expect them to increase.

More than two-thirds of Mongolian banks have explicit climate change, environmental and social policies and targets, outstripping their peers in Central Asia, especially on climate change. As regards lending to SMEs, more than 80 per cent of Mongolian banks surveyed undertake environmental and corporate governance impact assessments, a higher proportion than in Central Asia and the EBRD economies, on average. However, the share of banks in Mongolia that undertake climate change or social impact assessments is on par with or below the EBRD and Central Asian averages (Chart 3).

In this vein, all Mongolian banks surveyed say they provide loans for the specific purpose of improving the energy efficiency of residential housing, small and medium-sized enterprises (SMEs) and/or corporate clients. More than 80 per cent provide loans to improve the energy efficiency of commercial real estate. Across all three categories, the share of Mongolian banks is higher than the Central Asian average by at least 20 percentage points (Chart 4).

Banks in Mongolia view fintech as an opportunity across most of their business lines (Chart 5). More than 80 per cent of them saw opportunity in fintech for asset management, trade finance, leasing and corporate lending. One-third of Mongolian banks, in contrast, viewed fintech as a threat to payment services, higher than the Central Asian average, but on par with the EBRD economy average.

Chart 1 Branch presence of surveyed banks

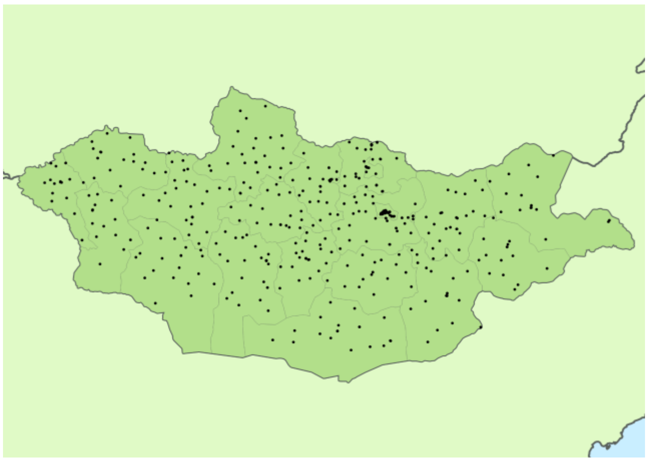


Chart 2 Branch network expectations, next five years

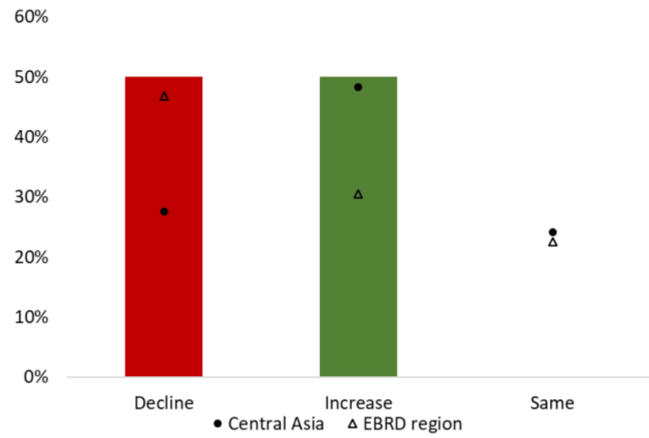


Chart 3 Impact assessment of SMEs before loan approval

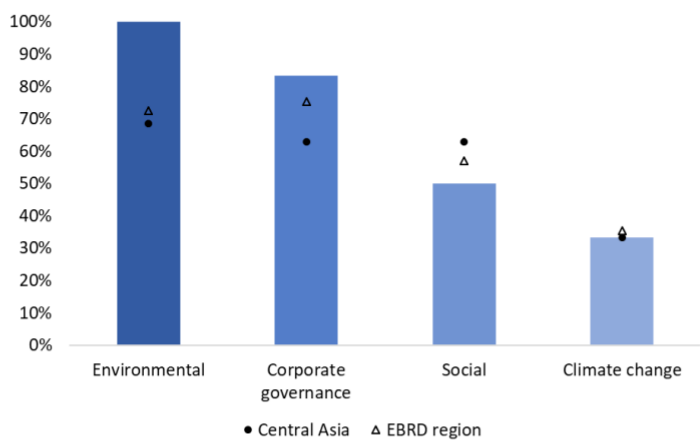
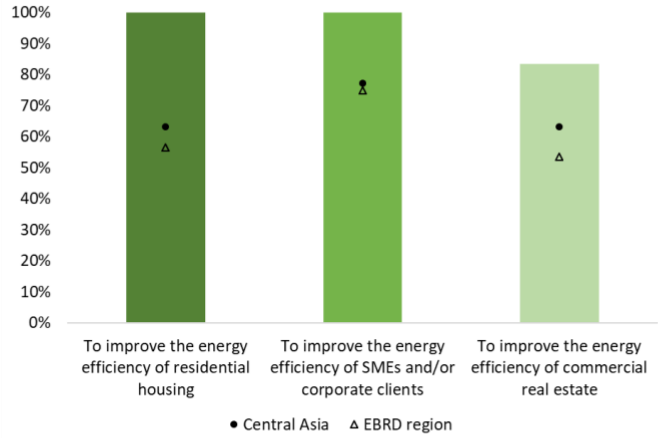


Chart 4 Prevalence of loans to improve clients' energy efficiency



[1] Bars in Chart 2, 3, 4 and 8 refer to the percentage share of banks in Mongolia.

Mongolian banks lag the Central Asian and EBRD averages when it comes to the uptake and use of most digital technologies (Chart 6). The exception is that two-thirds of Mongolian banks report using biometric authentication for customer identification, some 15 percentage points above the Central Asian average. However, when it comes to launching services that use alternative credit-scoring data sources and algorithms or machine learning to improve credit decision-making, Mongolian banks lag their Central Asian peers.

Although Mongolian banks are slower to adopt these fintech technologies, there is a shift towards digital banking. Notably, more than 80 per cent of local banks report accepting online loan applications from SMEs. A similar share say they face strong competition from non-bank financing companies in the SME lending segment and non-bank online lenders in the retail segment (Chart 7).

The survey reveals that banks in Mongolia are more concerned than their Central Asian peers about information technology (IT) security and regulatory uncertainty in the fintech space (Chart 8). In addition, more than 80 per cent of Mongolian banks face difficulties in identifying and establishing links with fintech companies, 60 percentage points above the EBRD regional average.

Approximately two-thirds of banks surveyed in Mongolia lend to innovative industries, such as IT, chemicals and pharmaceuticals. In line with the Central Asian average, banks cite a lack of creditworthy customers as the most frequent constraint on lending to these industries.

Chart 5 How fintech will affect banks' business lines

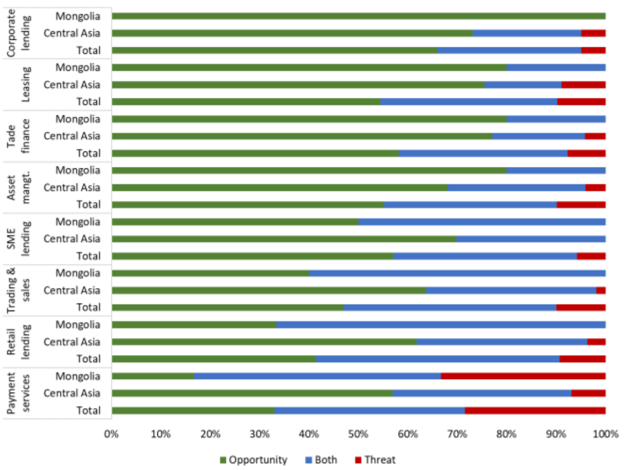
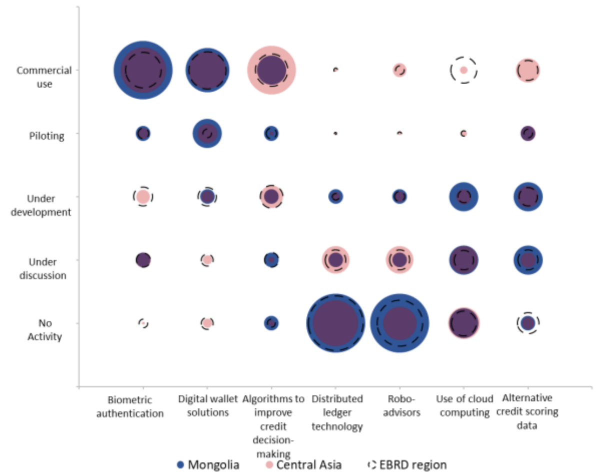


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Banks face strong competition from online lenders

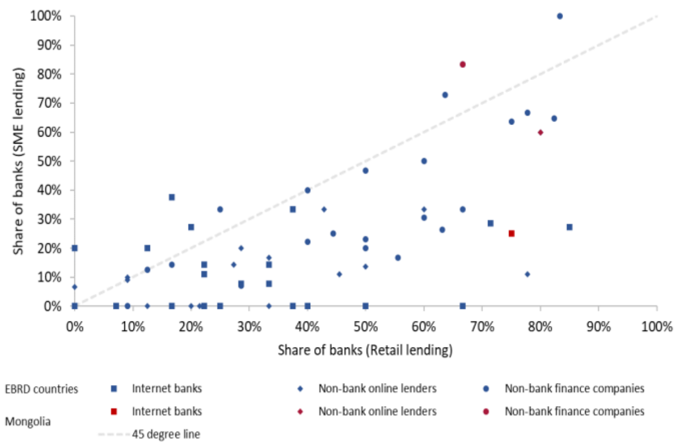
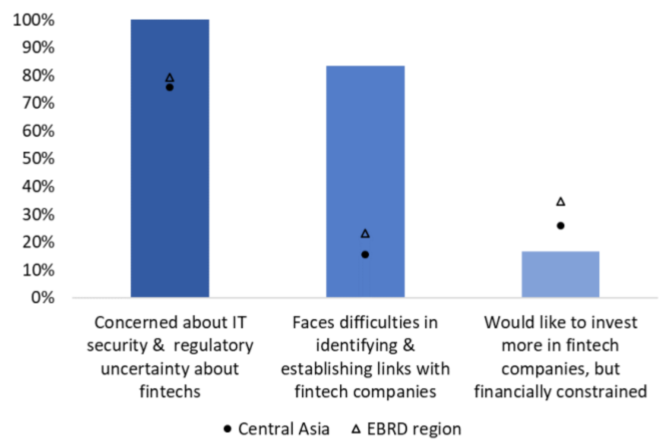


Chart 8 Concerns related to digital technologies



Banking profile

Montenegro

Montenegro

Montenegrin banks covered by the survey account for 86 per cent of the country's total banking assets (Chart1), the majority of which are owned by foreign banks.[1] About 70 per cent of banks in Montenegro expect their branch network to grow over the next five years (Chart 2).[2] This is the highest share recorded in south-eastern Europe (SEE), where only 20 per cent of banks, on average, expect their networks to expand. In the SEE and EBRD economies more broadly, about half of banks expect their branch network to shrink, but only a couple of Montenegrin banks expect a decline.

Montenegrin banks generally lag their counterparts in the SEE and EBRD regions when it comes to environmental, social and governance policies and targets. Only half of Montenegrin banks surveyed have social and environmental policies and targets in place, compared with nearly 70 per cent of banks in the SEE region. Similarly, only one in five banks has climate change-related policies and targets, 15 percentage points below average in the SEE and EBRD economies. Where lending to small and medium-sized enterprises (SMEs) is concerned, 80 per cent and 60 per cent of Montenegrin banks, respectively, conduct corporate governance and social impact assessments, in line with SEE and EBRD regional averages (Chart 3). However, with only 60 per cent of banks conducting environmental assessments and a small minority conducting climate-change impact assessments, Montenegrin banks lag the SEE regional average.

At least half of the banks surveyed in Montenegro provide loans specifically to improve the energy efficiency of SMEs, corporate clients and commercial real estate (Chart 4). However, only 40 per cent of banks provide loans to improve the energy-efficiency of residential housing, compared with 60 per cent of banks in SEE.

Turning to the effects of fintech on banks' business lines, the survey shows that more than 60 per cent of banks in Montenegro view SME lending, trade finance and corporate lending as businesses with potential to gain from fintech,

Chart 1 Branch presence of surveyed banks

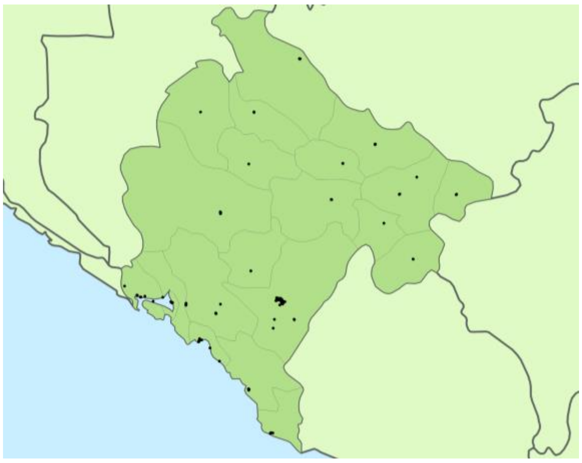


Chart 2 Branch network expectations, next five years

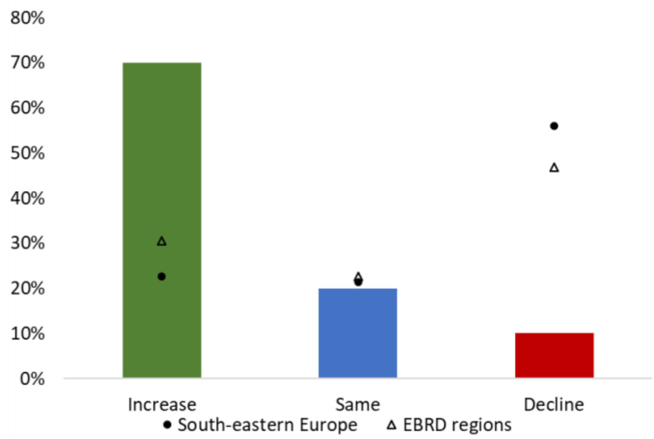


Chart 3 Impact assessment of SMEs before loan approval

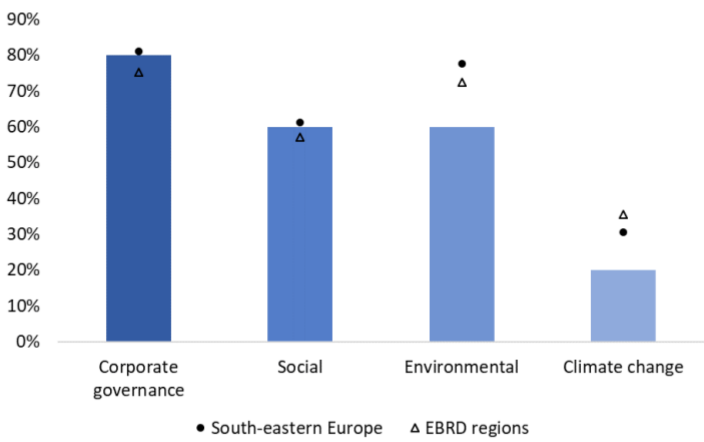
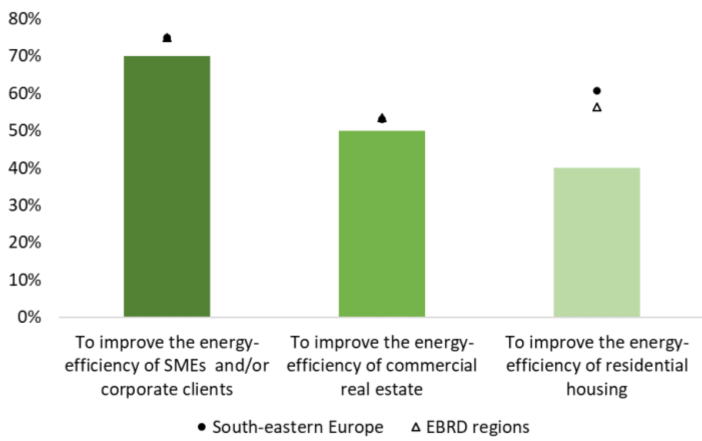


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Foreign banks account for 65 per cent of these banking assets.

[2] Bars in Charts 2, 3, 4, 7 and 8 refer to the percentage share of banks in Montenegro.

similar to the average of the SEE and EBRD economies (Chart 5). However, in the case of retail lending and leasing, while half of Montenegrin banks surveyed view fintech as an opportunity, more than a quarter view it as a threat. In the trading and sales segment, only a fifth of Montenegrin banks view fintech as an opportunity. However, in the SEE and EBRD regions more broadly, almost double the percentage of banks see fintech as an opportunity for trading and sales.

When it comes to the adoption of digital technologies, 40 per cent of Montenegrin banks say they use alternative credit-scoring data commercially, double the average of the EBRD economies and three times the SEE average (Chart 6). Montenegrin banks are on a par with banks in SEE on the use of algorithms to improve credit decision-making and digital wallet solutions. However, with just 30 per cent of surveyed banks having launched these technologies in Montenegro, this is still shy of the 40 per cent EBRD regional average. Moreover, only 10 per cent of Montenegrin banks have adopted the use of biometric authentication for customer identification services or cloud computing compared with a 30 per cent average in SEE. Only a small minority of banks surveyed in Montenegro accept online applications for loans to SMEs; one of the lowest shares in the EBRD economies surveyed.

About 90 per cent of Montenegrin banks say they would like to invest more in fintech companies, but are financially constrained, reflecting a hesitancy to shift to digital technologies (Chart 7). This is the highest share in the EBRD regions and double the share reported, on average, by banks in the SEE and EBRD regions. However, banks in Montenegro appear far less concerned than other banks in the SEE or EBRD regions about information technology (IT) security and regulatory uncertainty,

A lack of creditworthy customers and insufficient demand for credit are two of the main constraints Montenegrin banks face in lending to innovative industries, such as information technology (IT), chemicals and pharmaceuticals (Chart 8). It is worth noting that 40 per cent of banks cite a lack of creditworthy customers as the main constraint, double the SEE average.

Chart 5 How fintech will affect banks' business lines

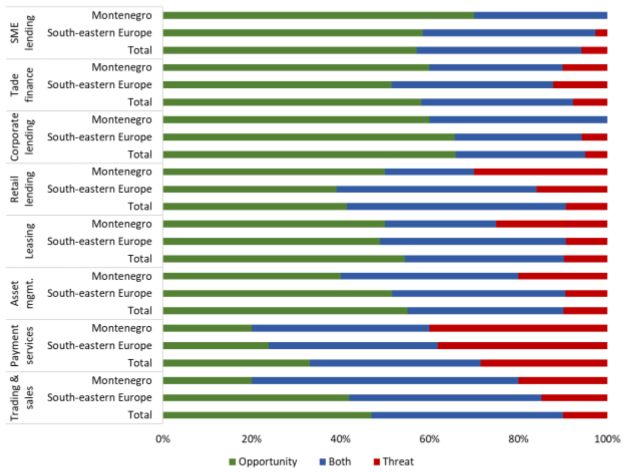
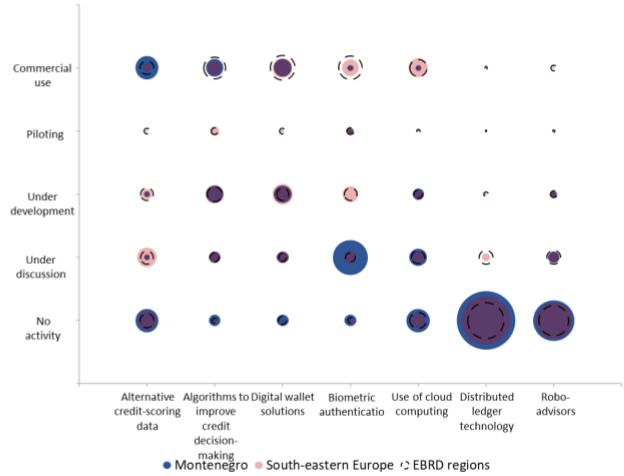


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns about digital technologies

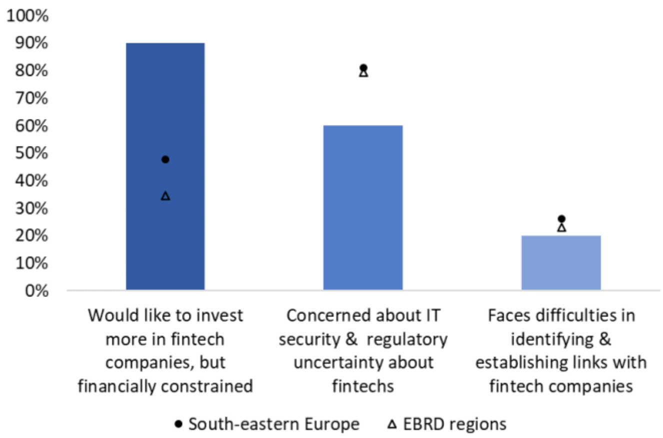
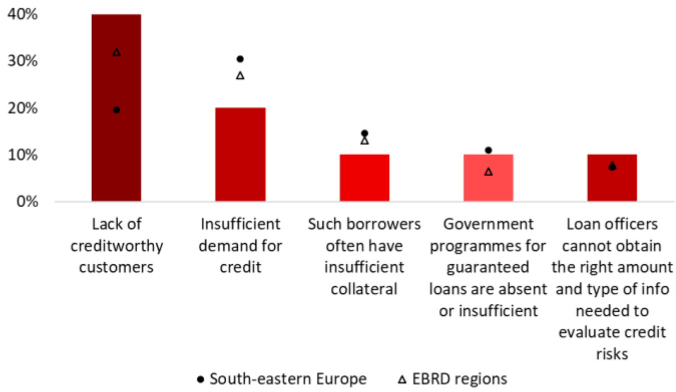


Chart 8 Constraints on lending to innovative industries



Banking profile

North Macedonia

North Macedonia

The banks surveyed in North Macedonia account for 85 per cent of the country's banking assets, with foreign-owned banks making up the majority (Chart 1).[1] About 55 per cent of banks surveyed expect their branch network to shrink over the next five years, in line with the average across south-eastern Europe (SEE) (Chart 2).[2]

None of the banks surveyed in North Macedonia view their court system as quick and efficient, similar to the rest of SEE, where the figure is 3 per cent on average. Only a small minority of banks believe their court system to be fair and impartial, below the 30 per cent and 40 per cent averages reported in the SEE and EBRD regions, respectively. In contrast, more than 70 per cent believe the court system is able to enforce its decisions, one of the highest shares in SEE.

Banks in North Macedonia are ahead of their SEE peers in having climate change-related policies and targets, but lag in terms of environmental policies and targets (Chart 3). However, as far as lending to SMEs is concerned, a higher proportion of banks in North Macedonia undertake environmental, social and climate-change-related impact assessments than in other SEE and EBRD economies, on average (Chart 4). Just over 80 per cent say they conduct a social impact assessment before loan approval, the highest share in the SEE region.

Just under 65 per cent of banks in North Macedonia provide loans to improve the energy-efficiency of commercial real estate, compared with 53 per cent, on average, in the SEE and EBRD economies (Chart 5). Meanwhile, the share of banks providing loans to improve the energy efficiency of SMEs and/or corporate clients and residential housing is similar to the averages in the SEE and EBRD regions.

Chart 1 Branch presence of surveyed banks

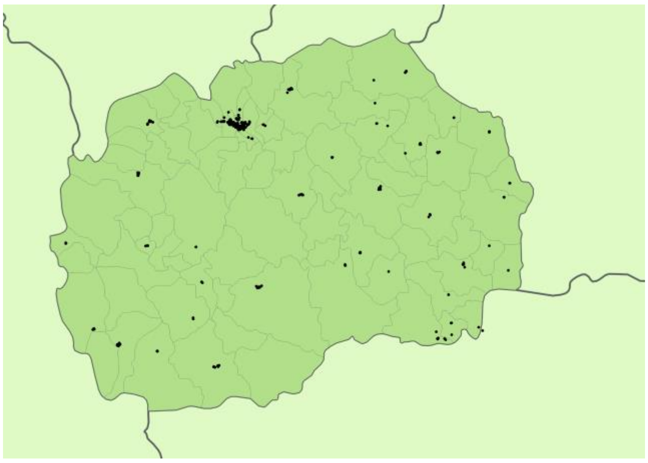


Chart 2 Branch network expectations, next five years

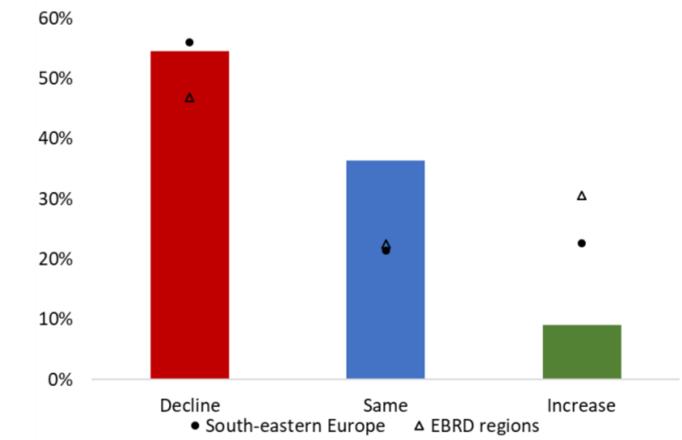


Chart 3 ESG policies and targets

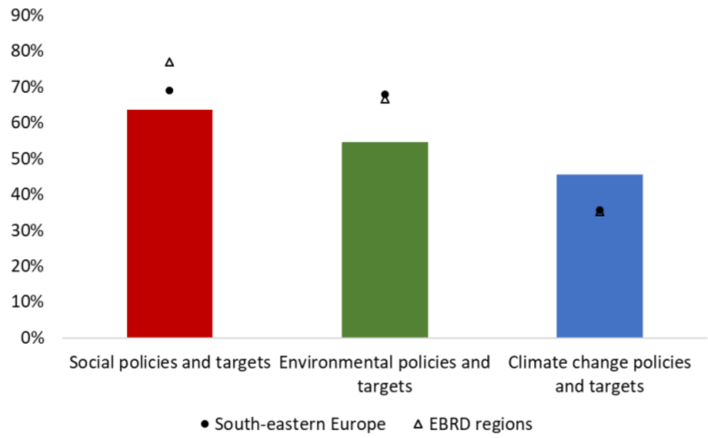
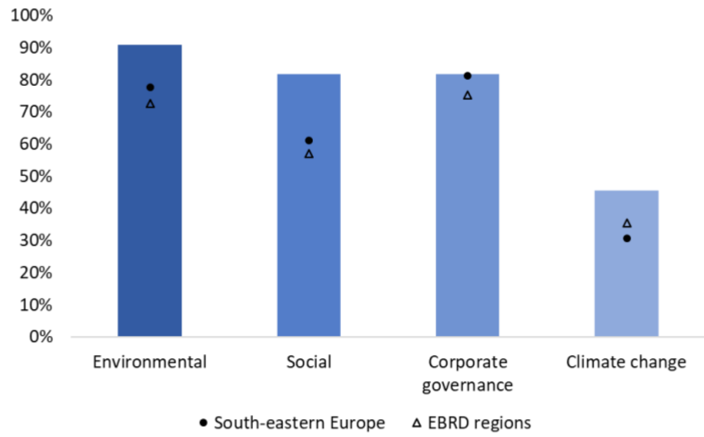


Chart 4 Impact assessment of SMEs before loan approval



[1] Foreign banks account for 61 per cent of these banking assets.

[2] Bars in Charts 2, 3, 4, 5, 7 and 8 refer to the percentage share of banks in North Macedonia.

Regarding the adoption of digital technologies, on average, banks in North Macedonia appear to lag those in the SEE and EBRD regions (Chart 6). Just under 30 per cent of banks say they are using cloud computing and/or digital wallet solutions for mobile payments commercially, compared with more than 40 per cent in the EBRD regions as a whole. While almost 30 per cent of banks in SEE say they have already launched the commercial use of biometric authentication for customer identification, only a small minority of the banks surveyed in North Macedonia say the same. However, it should be noted that more than half of the banks surveyed in North Macedonia say they have this particular technology in development.

More than 90 per cent of banks in North Macedonia are concerned about information technology (IT) security and regulatory uncertainty surrounding fintech, meanwhile, slightly above the average of the SEE region (Chart 7). Close to half of participating banks cite difficulties in identifying and establishing links with fintech companies – at least 20 percentage points higher than the SEE and the EBRD averages.

Insufficient demand for credit, followed by a lack of creditworthy customers are the top two constraints that banks in North Macedonia face on lending to innovative industries, such as IT, chemicals and pharmaceuticals (Chart 8).

Chart 5 Prevalence of loans to improve clients' energy-efficiency

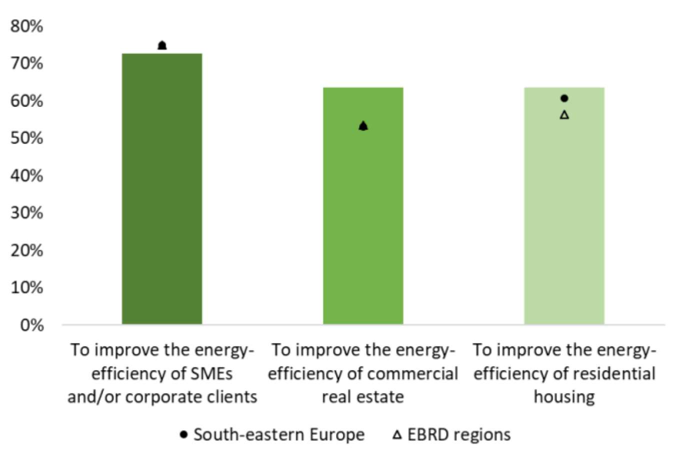
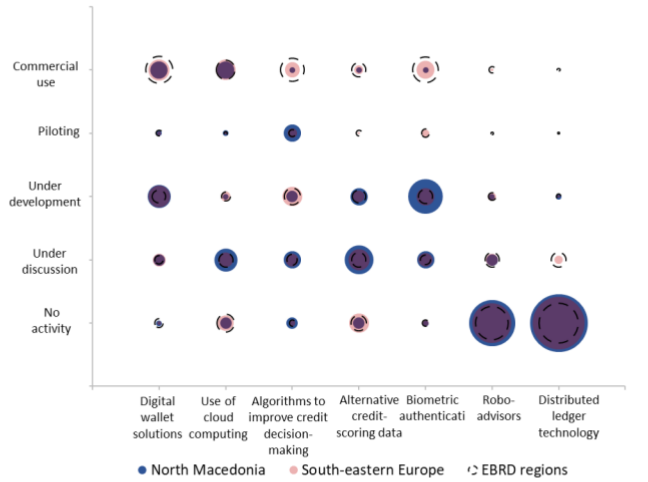


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns about digital technologies

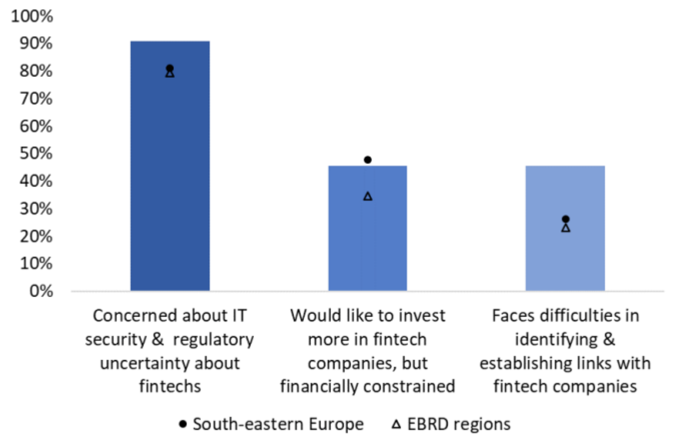
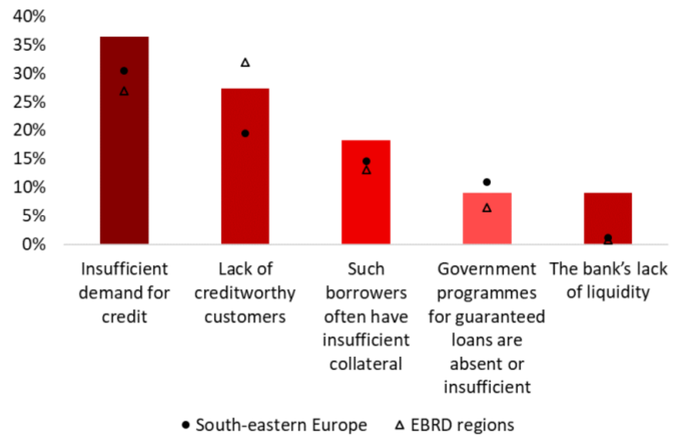


Chart 8 Constraints on lending to innovative industries



Banking profile

Poland

Poland

Poland continues to be well served by both domestic and foreign banks, with surveyed banks accounting for 70 per cent of the country's total banking assets (Chart 1).[1] In line with Central Europe and the Baltic States (CEB), nearly 75 per cent of banks in Poland expect their branch network to shrink over the next five years (Chart 2).[2] This is much higher than in the EBRD economies, on average, where just under half of banks expect their branch network to decline.

While climate change risk is not an explicit part of risk management for most banks in Poland, more than 60 per cent report having clear environmental, climate change and social policies and targets. On undertaking environmental, corporate governance and climate change-related impact assessments prior to lending to small and medium-sized enterprises (SMEs), banks in Poland are on par with or slightly ahead of their CEB and EBRD economy peers, on average (Chart 3). They lag, however, on conducting social impact assessments.

Poland's banking sector is among those leading the way in terms of extending loans to the residential sector for the specific purpose of improving energy efficiency. Eighty-five per cent of Polish banks currently provide such loans, compared with 70 per cent and 56 per cent, on average, in the CEB and EBRD economies, respectively (Chart 4).

Chart 1 Branch presence of surveyed banks

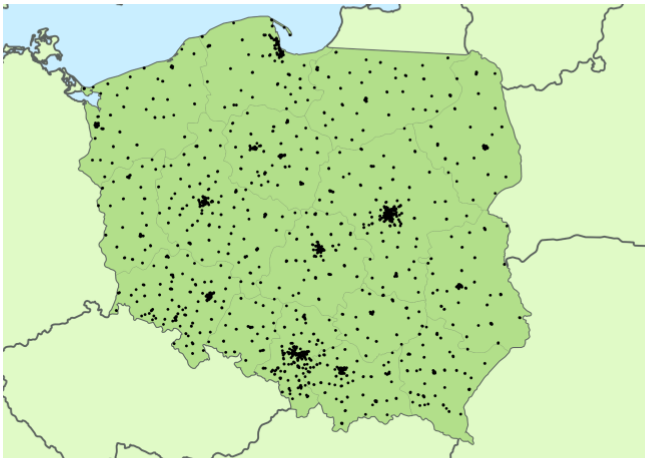


Chart 2 Branch network expectations, next five years

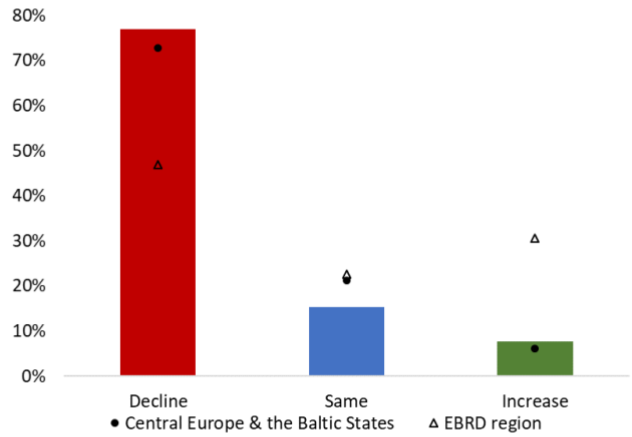


Chart 3 Impact assessment of SMEs before loan approval

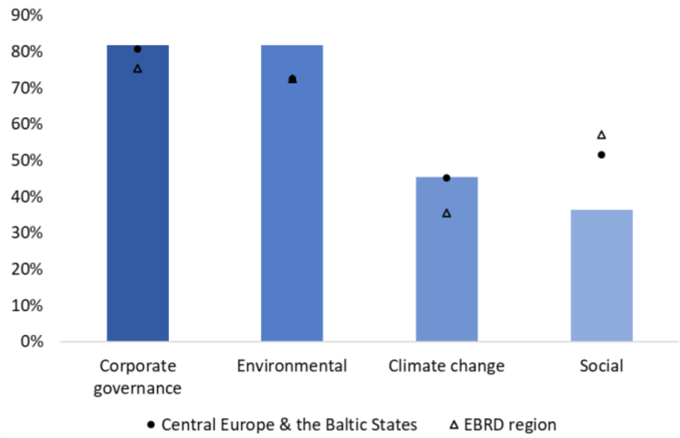
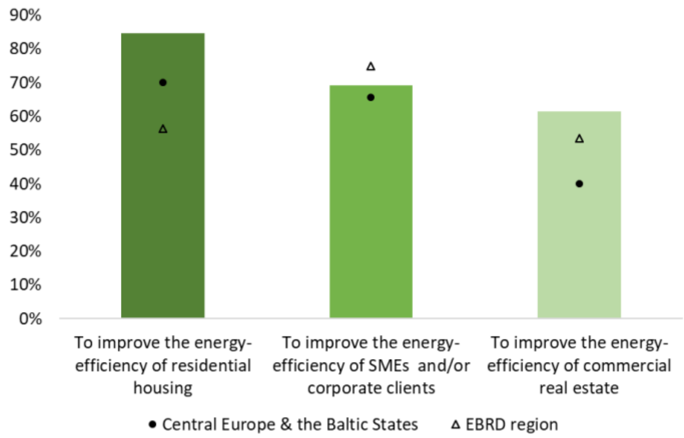


Chart 4 Prevalence of loans to improve clients' energy efficiency



[1] The total banking assets of the surveyed banks are almost evenly distributed between foreign and domestic banks.

[2] Bars in Charts 2, 3, 4, 7 and 8 refer to the percentage share of banks in Poland.

When it comes to the use of digital technologies, more than 75 per cent of Polish banks view corporate lending and supply-chain/trade finance as the businesses with most to gain from fintech (Chart 5). In the retail lending sphere, a majority of Polish banks view fintech as both an opportunity and a threat. Perceptions are more divided in in the EBRD regions, on average, where more than 40 per cent of banks view fintech as a retail-lending opportunity and half of banks cite it as both an opportunity and a threat.

Polish banks are also leading on the uptake and use of digital technologies (Chart 6). Around 70 per cent of banks surveyed say they already use biometric authentication for customer identification and cloud computing. In addition, the majority of Polish banks are piloting or have commercially launched digital wallet solutions, algorithms to improve credit decision-making or alternative credit-scoring data sources. Mirroring this enthusiastic uptake of digital technologies, online applications for lending to SMEs are accepted by 64 per cent of Polish banks – some 15 percentage points higher than the average for banks across the EBRD regions.

Although Poland is at the forefront in terms of digital technology use, 77 per cent of Polish banks cite concerns about information technology (IT) security and regulatory uncertainty in the fintech space (Chart 7). In addition, they cite concerns about financial constraints and difficulties in identifying and establishing links with fintech companies more frequently than their CEB and EBRD peers, on average. Poland has the highest share of banks in the CEB economies that say they would like to invest more in fintech companies, but are financially constrained.

In general, a lack of sufficient collateral and loan officers' lack of skills in evaluating credit risks are two of the three most often reported constraints faced by Polish banks when lending to innovative, research and development-intensive industries such as IT, chemicals and pharmaceuticals. This is higher than in the CEB or the EBRD regions, on average (Chart 8). Borrowers' lack of sufficient collateral is the main constraint for a third of Polish banks, though fewer than 20 per cent of banks in the CEB economies identify this issue as a major limitation.

Chart 5 How fintech will affect banks' business lines

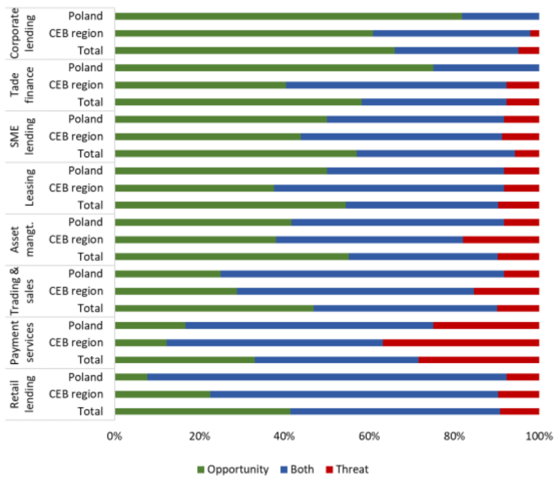


Chart 6 Digital technology development and use

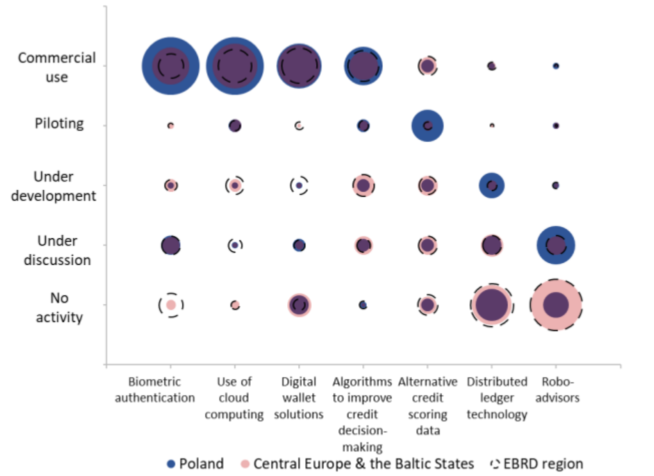


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Chart 7 Concerns related to digital technologies

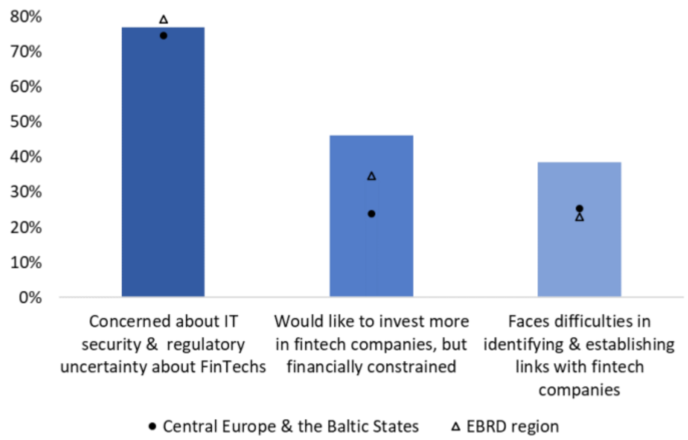
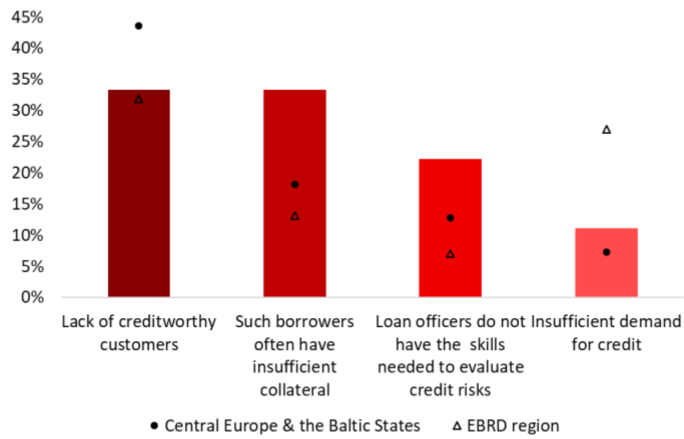
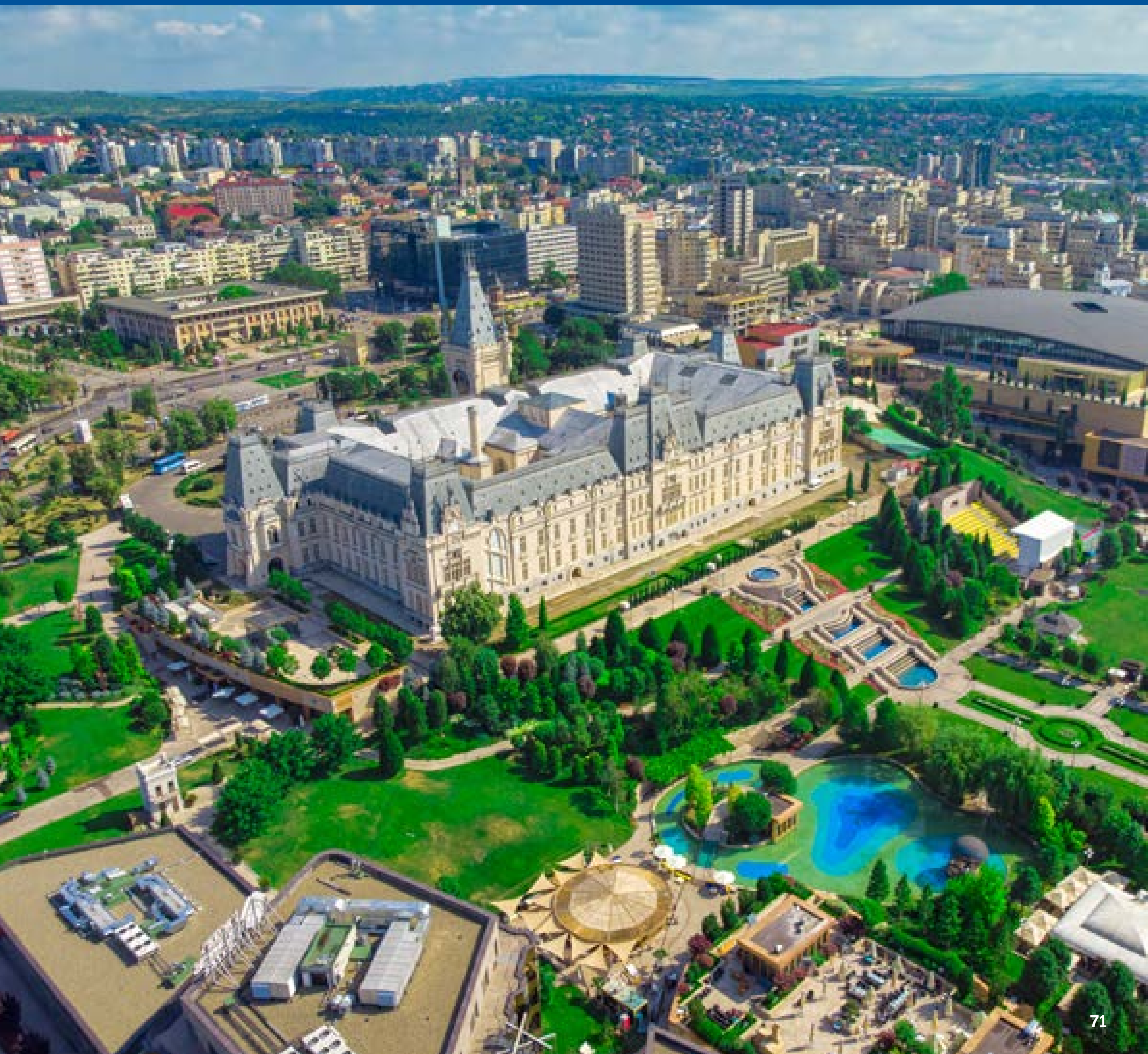


Chart 8 Constraints on lending to innovative industries



Banking profile

Romania



Romania

The Romanian banks surveyed account for 84 per cent of the country's total banking assets, with the majority of assets owned by foreign banks (Chart 1).[1] Nearly two-thirds of banks in Romania expect their branch networks to shrink over the next five years, slightly above average for south-eastern Europe (SEE) and the EBRD regions, while a small minority expect an increase, slightly below their peer-group averages (Chart 2).[2]

More than 70 per cent of Romanian banks have environmental and social policies and targets in place, in line with the SEE and EBRD average. Some 55 per cent report having climate change policies and targets, 15 percentage points higher than average in the EBRD or SEE regions.

When it comes to lending to small and medium-sized enterprises (SMEs), all Romanian banks say they undertake environmental impact assessments on at least some loans, the highest share in SEE (Chart 3). On average, just under 80 per cent of SEE banks undertake such assessments. The proportion of Romanian banks undertaking corporate governance and climate change-related impact assessments is similar to the average share across the EBRD regions.

All of the Romanian banks surveyed say they provide loans for the specific purpose of improving the energy efficiency of SMEs and/or corporate clients, the only SEE economy to do so (Chart 4). By comparison, three out of four banks in the SEE and EBRD regions provide similar loans. Conversely, only 45 per cent and 36 per cent of banks in Romania, respectively, provide loans to improve the energy efficiency of residential housing or commercial real-estate – among the lowest in the SEE region.

Chart 1 Branch presence of surveyed banks

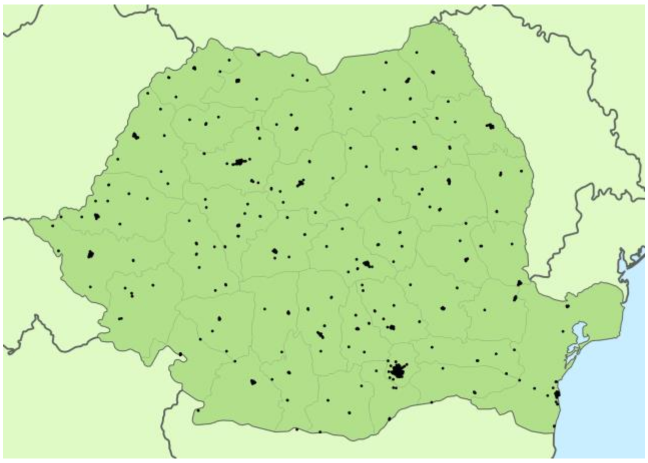


Chart 2 Branch network expectations, next five years

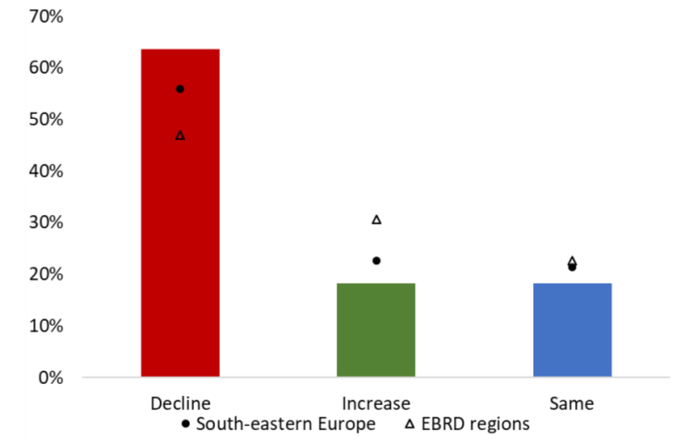


Chart 3 Impact assessment of SMEs before loan approval

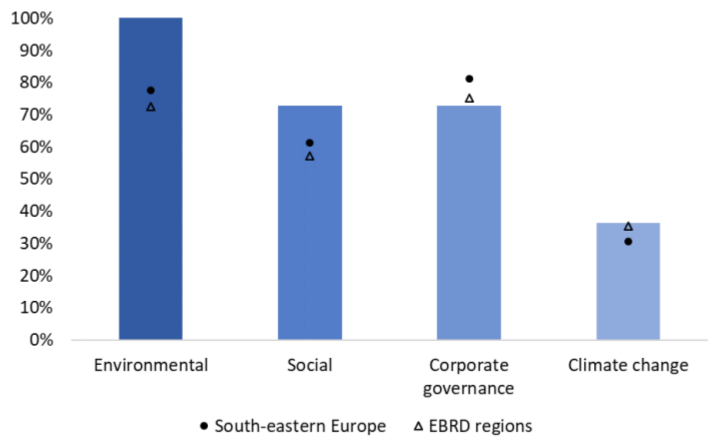
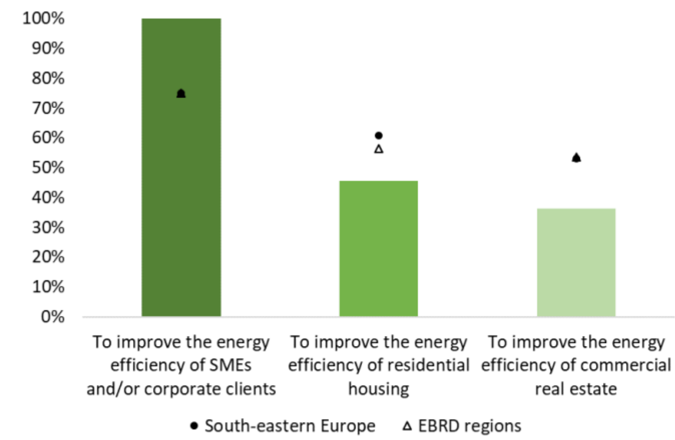


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Foreign banks account for 72 per cent of surveyed banking assets.

[2] In Charts 2, 3, 4, 7 and 8, the bars refer to the percentage share of bank in Romania.

On the adoption of digital technologies, more than 60 per cent of Romanian banks view trade finance, corporate lending and asset management as the businesses with most to gain from fintech (Chart 5). Close to 30 per cent of Romanian banks perceive fintech as a threat to trading and sales, a much higher proportion than the average 15 per cent and 10 per cent of banks with similar views in the SEE and EBRD regions, respectively.

Romanian banks also appear to be ahead of the EBRD and SEE regional averages in the uptake of most digital technologies (Chart 6). More than 60 per cent of Romanian banks have launched commercially the use of biometric authentication for customer identification and digital wallet solutions. In comparison, on average, just 30 per cent and 40 per cent of banks in the SEE and EBRD regions, respectively, use these technologies on a commercial basis.

In general, while Romanian banks are actively adopting the use of digital technologies in banking, 80 per cent are concerned about IT security and regulatory uncertainty with regard to fintech (Chart 7). Around 45 per cent say they would like to invest more in fintech, but are financially constrained, while 30 per cent say they face difficulties in establishing links with fintech companies. About 25 per cent of banks report strong competition from internet banks and non-bank online lenders, while half report stiff competition from non-bank finance companies in retail lending.

Insufficient demand for credit is the main constraint on Romanian banks lending to innovative industries, such as information technology (IT), chemicals and pharmaceuticals. Forty per cent of banks in Romania identify this as the most important concern, compared with 30 per cent or fewer in the SEE and EBRD regions (Chart 8). A lack of creditworthy customers, insufficient collateral, the absence of government loan guarantee programmes and loan officers' inability to evaluate credit risks are some of the other challenges they face when lending in this sector.

Among the SEE economies, Romania has the highest proportion of banks that perceive their court system to be fair and impartial. Indeed, 70 per cent of Romanian banks describe it as such. The comparable figures in SEE and the wider EBRD regions are 30 per cent and 44 per cent, respectively.

Chart 5 How fintech will affect banks' business lines

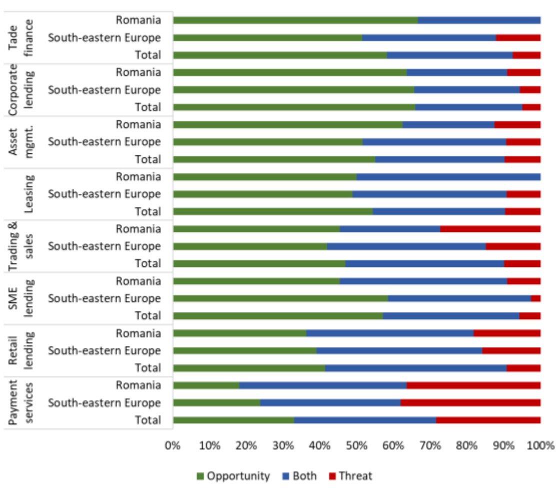
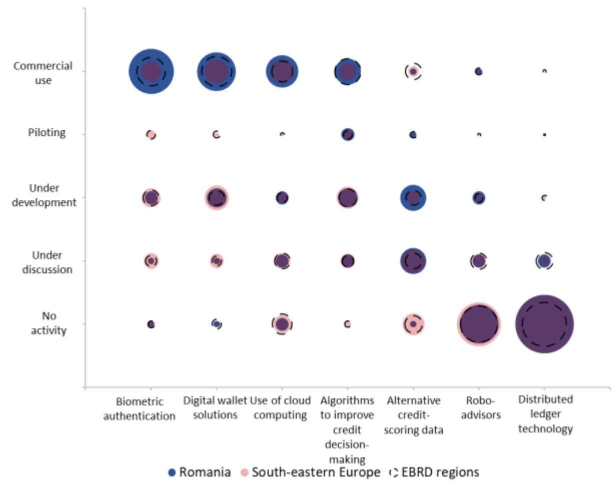


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns about digital technologies

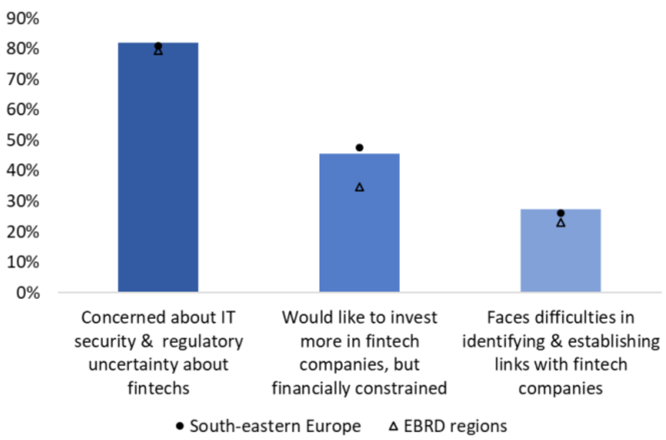
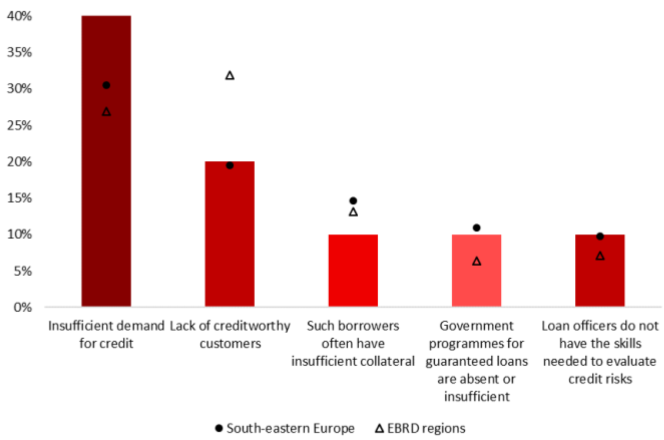


Chart 8 Constraints on lending to innovative industries



Banking profile

Serbia

Serbia

Serbian banks covered by the survey account for 72 per cent of the country's total banking assets, the majority of which are owned by foreign banks (Chart 1).[1] Two-thirds of Serbian banks expect their branch network to decline over the next five years, slightly higher than the average for south-eastern Europe (SEE), where just over half of banks surveyed expect their branch networks to shrink.

Serbian banks are, on average, in line with banks in the SEE and EBRD regions in having environmental and climate change-related policies and targets in place (Chart 2).[2] However, just under 60 per cent of Serbian banks have social policies and targets, below the 77 per cent average of the broader EBRD region. The proportion of Serbian banks that conduct environmental and social impact assessments lags the SEE average by about 10 percentage points (Chart 3). However, with 85 per cent and 40 per cent, respectively, of banks undertaking corporate governance and climate change-related impact assessments, Serbian banks exceed the SEE and EBRD regional averages in these categories.

Serbian banks lag their peers in the SEE region by about 10 percentage points when it comes to lending to improve the energy efficiency of residential housing and small and medium-sector enterprises (SMEs) or corporate clients (Chart 4). Around half of Serbian banks surveyed provide such loans for residential housing, while two out of three offer such loans to SMEs or corporate clients.

On the adoption of technologies such as digital wallet solutions, Serbian banks are on par with the EBRD regions, with just over 40 per cent of banks already using this particular technology commercially (Chart 5). However, while a quarter of Serbian banks already use algorithms to improve credit decision-making – in line with the SEE average – this is far lower than the 40 per cent of banks using this tool commercially in the wider EBRD regions. Likewise, only

Chart 1 Branch presence of surveyed banks

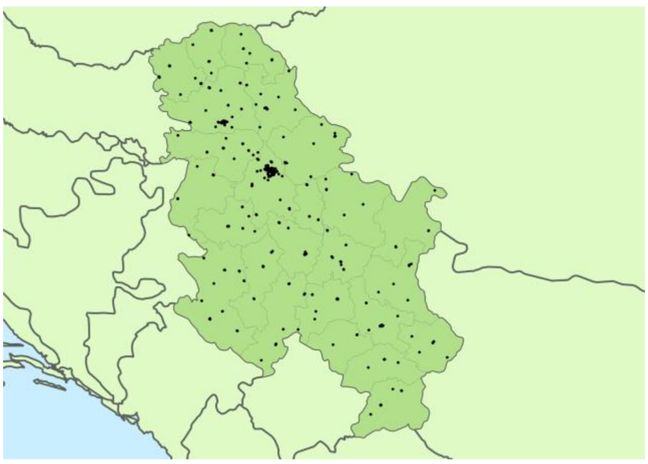


Chart 2 ESG policies and targets

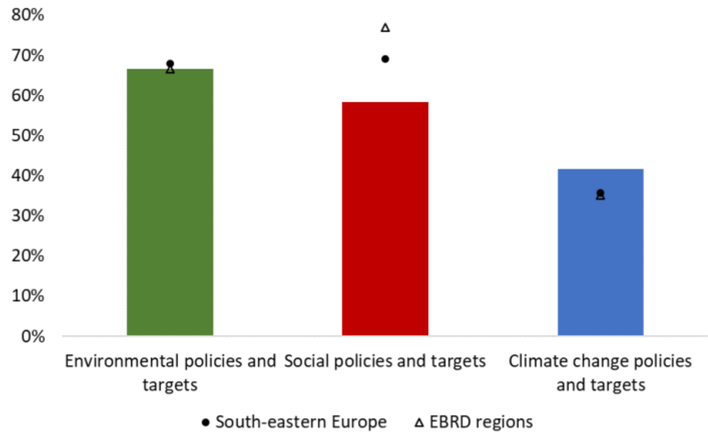


Chart 3 Impact assessment of SMEs before loan approval

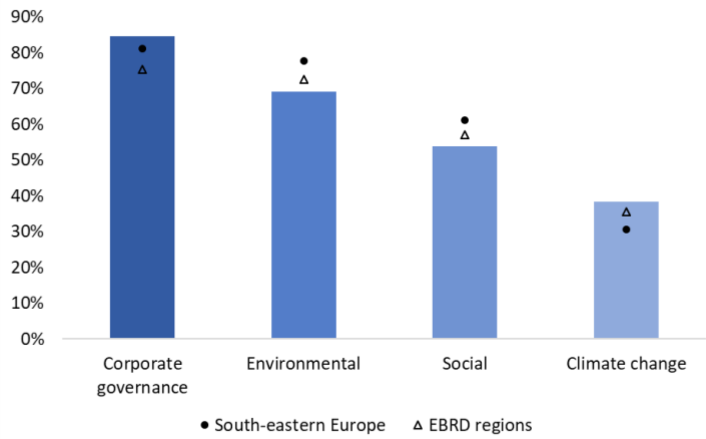
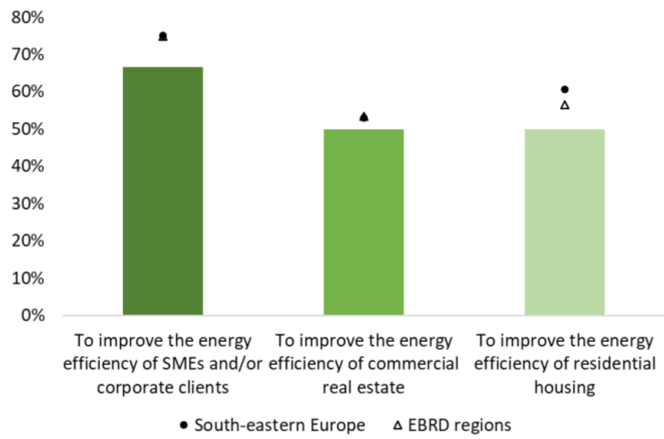


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Foreign banks account for 92 per cent of these banking assets.

[2] In Charts 2, 3, 4, 6 and 7, the bars refer to the percentage share of banks in Serbia.

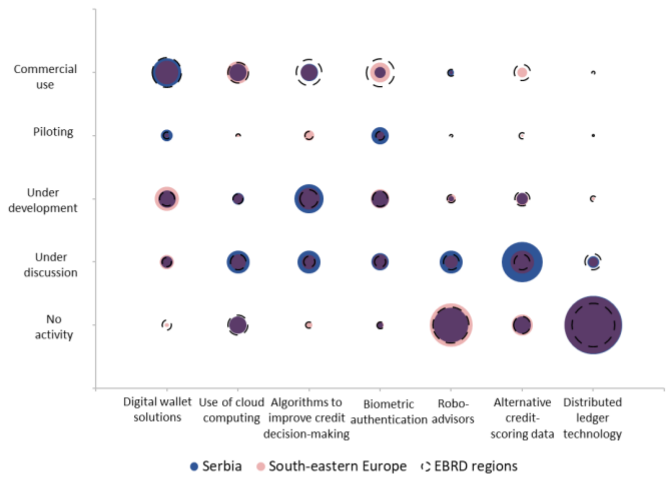
a small minority of Serbian banks report having launched the use of biometric authentication for customer identification. On average, 30 per cent and 40 per cent of banks in the SEE and EBRD regions, respectively, say this technology is in commercial use.

Almost 60 per cent of Serbian banks say that they would like to invest more in fintech companies, but are financially constrained from doing so. By comparison, fewer than 50 per cent of banks in SEE and 35 per cent of banks in the EBRD regions report this as a concern. Fewer than 60 per cent of Serbian banks say they are concerned about IT security and regulatory uncertainty with regard to fintech, a far smaller proportion, on average, than in the SEE or EBRD regions, where 80 per cent of banks share this worry (Chart 6). Only a small minority of Serbian banks surveyed report facing difficulties in identifying and establishing links with fintech companies. Fewer than 40 per cent of Serbian banks accept online loan applications for SMEs, on a par with SEE countries, on average, but lower than the EBRD economies as a hole, where half of banks accept online submissions.

In Serbia, borrowers' lack of sufficient collateral is the most frequently cited constraint on lending to innovative industries such as information technology (IT), chemicals and pharmaceuticals (Chart 7). Almost a quarter cite this as the main limitation, compared with just 15 per cent of banks in the SEE and EBRD regions. Although insufficient demand for credit is one of the top constraints among banks in the SEE region, with 30 per cent of banks declaring it the main issue, this is double the share reported by Serbian banks. A lack of creditworthy customers, loan officers' inability to obtain information to evaluate credit risks and banks' lack of equity capital are also some of the other main constraints on lending to these industries, the latter reported by banks in only four other EBRD economies.

Serbia has the lowest share of banks in SEE viewing the court system in a positive light (Chart 8). Only a small minority of Serbian banks see the courts as fair and impartial or believe in their ability to enforce decisions. No bank deemed the court system to be quick and efficient. The latter appears to be a common theme across SEE economies, where fewer than 5 per cent of banks report the same; this figure is just over 10 per cent for the EBRD regions as a whole.

Chart 5 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 6 Concerns about digital technologies

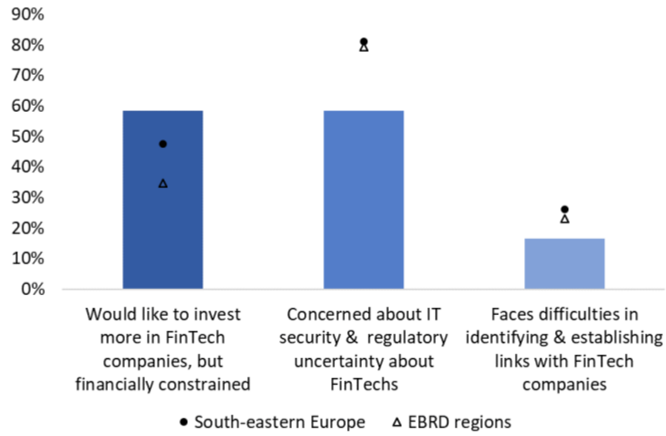


Chart 7 Constraints on lending to innovative industries

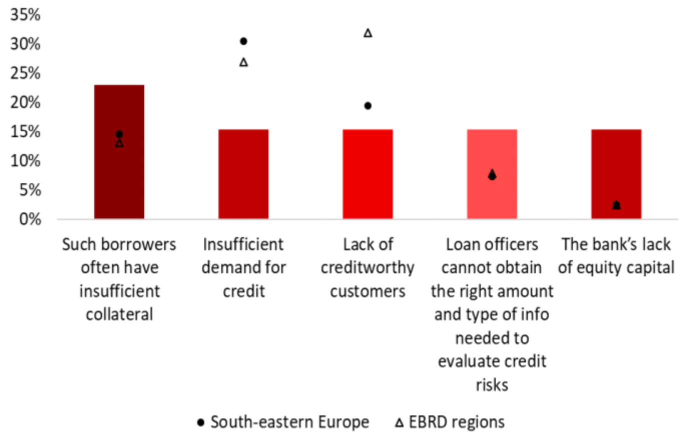
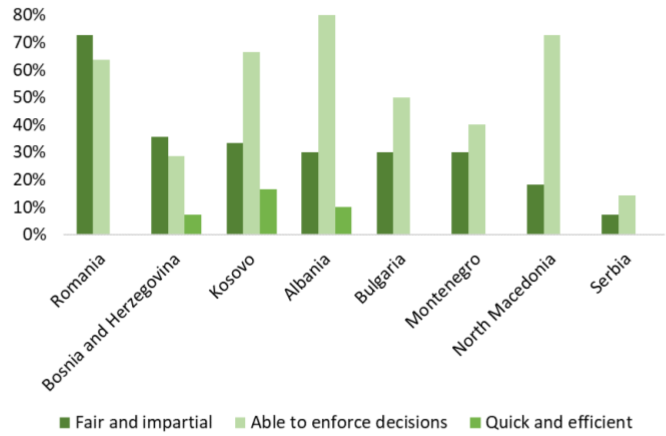


Chart 8 How the court system resolves business disputes



Banking profile

Slovak Republic

Slovak Republic

The banks covered by the survey account for 86 per cent of total banking assets in the Slovak Republic. Most of them are owned by foreign banks.[1] Bank branch networks in the Slovak Republic are highly concentrated in the most densely populated cities (Chart 1). Nearly 80 per cent of the country's banks expect their branch network to shrink over the next five years – the second-highest level in Central Europe and the Baltic States (CEB) and well above the average of the EBRD economies as a whole (Chart 2).[2]

More than 60 per cent of banks surveyed in the Slovak Republic say they have climate change and social policies and targets in place, while all banks have environmental policies and targets, the highest share in CEB (Chart 3). Likewise, when it comes to SME lending, Slovak banks lead the way in CEB in undertaking corporate governance-related impact assessments. (Chart 4). Sixty per cent of banks also provide loans for the specific purpose of improving the energy efficiency of commercial real estate, residential housing, and SMEs and/or corporate clients. While this proportion is above the average for commercial real estate in the CEB and EBRD economies, it lags in the other two areas.

In the sphere of digital technology, the Slovak Republic is one of the economies leading the way. It is one of only two EBRD economies where all of the banks surveyed say they have adopted digital wallet technology (the other being Estonia) (Chart 5). The comparable averages in the CEB and EBRD regions are around 50 and 40 per cent, respectively. The use of biometric authentication for customer identification and algorithms to improve credit decision-making is also widely used by Slovak banks, with 80 per cent and 60 per cent of banks, respectively, employing these tools commercially, nearly double the CEB average.

Chart 1 Branch presence of surveyed banks

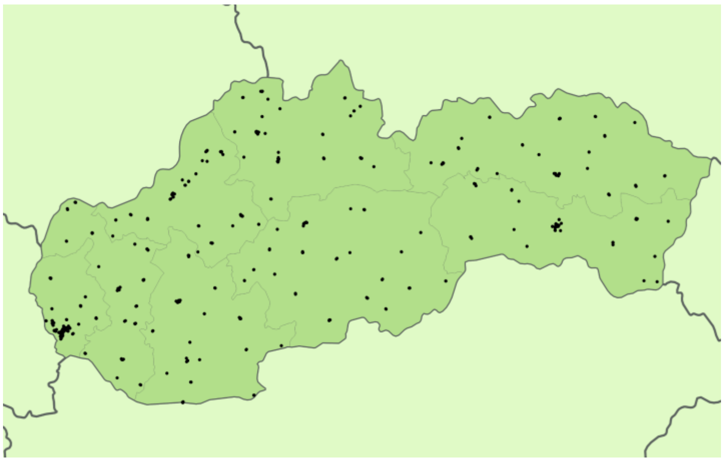


Chart 2 Branch network expectations, next five years

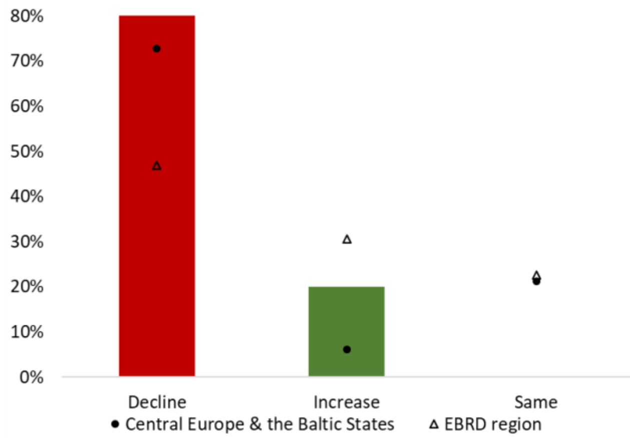


Chart 3 ESG policies and targets

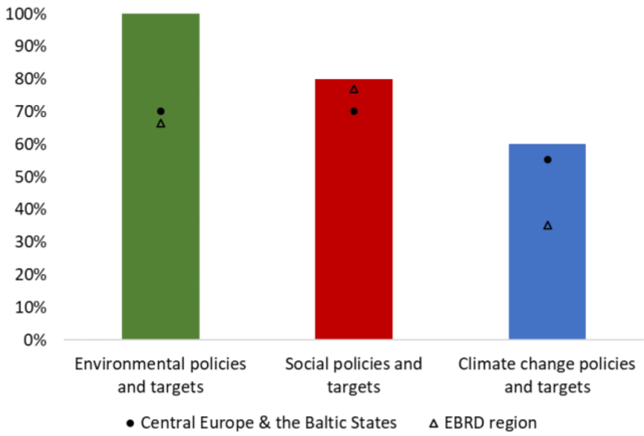
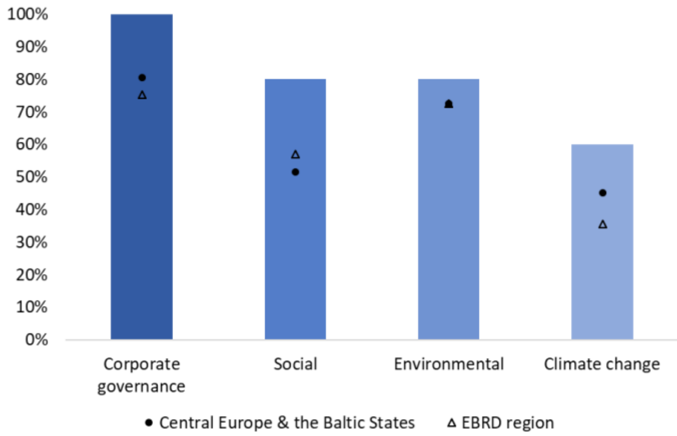


Chart 4 Impact assessment of SMEs before loan approval



[1] Foreign bank assets account for almost 93% of this.

[2] Bars in Charts 2, 3, 4, 6 and 8 refer to the percentage share of banks in the Slovak Republic.

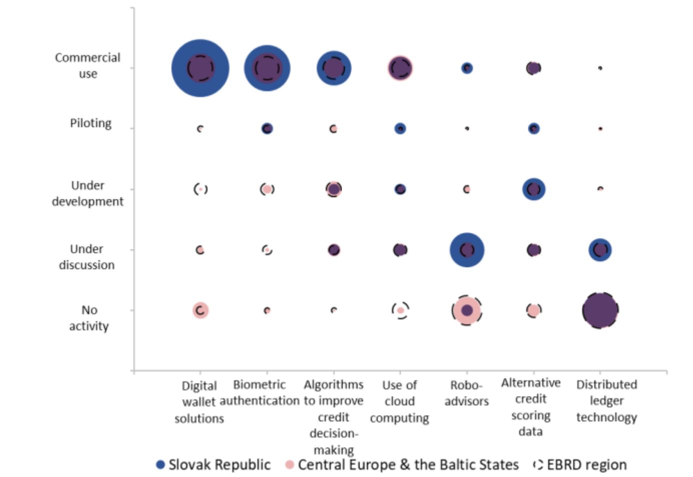
Meanwhile, only a small minority of banks consider the use of automated credit scoring using an algorithm to be important or very important for lending to small and medium-sized enterprise (SME) customers. The shift to digital technologies is also apparent in the high percentage (80 per cent) of Slovak banks accepting online applications for loans to SMEs (Chart 6). Perhaps unsurprisingly, lending to SMEs is very streamlined in terms of decision-making, with an average of just 1.6 layers of approval. The Slovak Republic has the second-lowest number of approval layers in the EBRD regions (after Estonia), 27 per cent below the EBRD economy average (Chart 7).

Slovak banks also tend to have fewer concerns about fintech companies and emerging technologies than their peers. On average, a lower proportion of banks report concerns about information technology (IT) security and regulatory uncertainty in the fintech space than in the CEB and EBRD economies overall, while no Slovak bank cites financial constraints or difficulties in identifying and establishing links with fintech companies.

Unlike the CEB region, on average, where a lack of creditworthy customers, sufficient collateral and loan officers' skills in evaluating credit risks are said to be key constraints on lending to innovative research and development-intensive industries such as IT, chemicals and pharmaceuticals, all banks surveyed in the Slovak Republic say the main constraint is simply a lack of creditworthy customers (Chart 8). This is further reflected in Slovak bank lending to innovative industries, which accounts for just 6 per cent or so of all lending (by volume).

Turning to the impact of COVID-19, all of the banks surveyed in the Slovak Republic say their enforcement of debt recovery has been negatively affected by the temporary closure or suspension of the courts or increased delays in court proceedings. This is the highest percentage in the EBRD regions, where just under 75 per cent of all banks say they encountered such issues during the pandemic.

Chart 5 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 6 Accepts online applications for loans

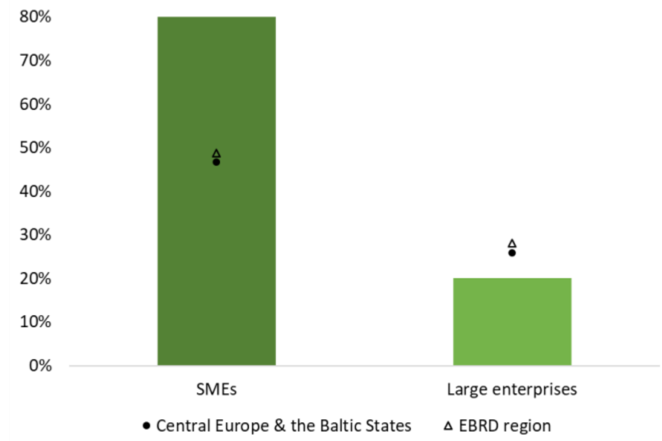


Chart 7 Typical number of decision layers, SME lending

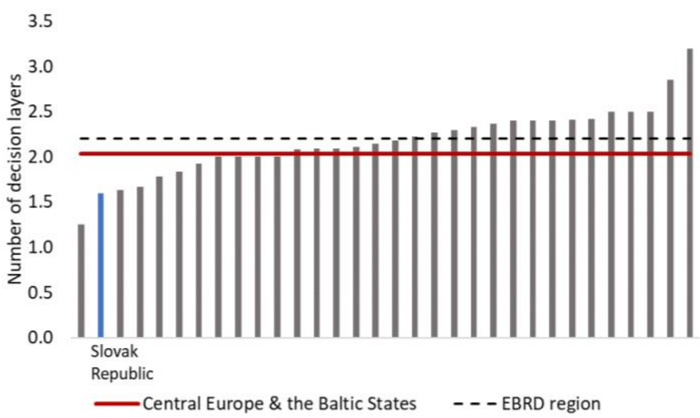
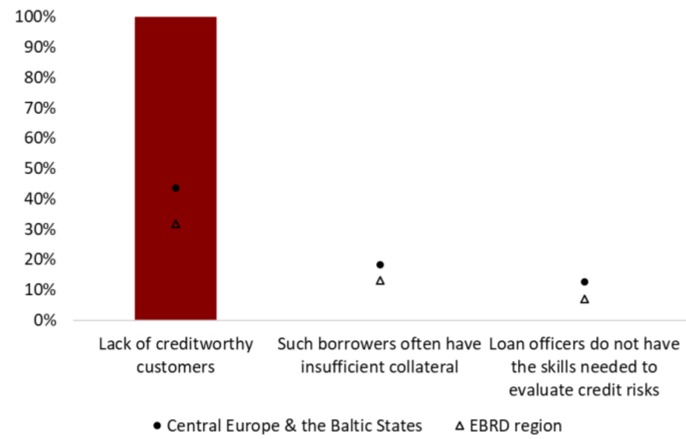


Chart 8 Constraints on lending to innovative industries



Banking profile

Tajikistan

Tajikistan

Banks covered by the survey in Tajikistan account for approximately 70 per cent of the country's total banking assets, most of which are owned by domestic banks.[1] Foreign bank branches are present only in the larger cities (Chart 1). Just over 70 per cent of Tajik banks expect their branch network to grow over the next five years, 20 percentage points and 40 percentage points above the Central Asian and EBRD regional averages, respectively (Chart 2).[2]

Although only a small minority of the Tajik banks surveyed have explicit policies and targets on climate change in place, more than half of them cite climate change risk as an explicit part of risk management, while fewer undertake climate change-related impact assessments when lending to small and medium-sized enterprises (SMEs) (Charts 3 and 4). In addition, between 86 per cent and 100 per cent of banks surveyed in Tajikistan have explicit policies and targets for environmental and social issues, one of the highest shares in Central Asia. However, when lending to SMEs, only a few undertake corporate governance impact assessments, almost half the share, on average, of the Central Asian and EBRD regions.

The share of Tajik banks providing loans to improve residential, SME and corporate clients' energy efficiency, meanwhile, is just below the average for Central Asia. In contrast, while more than 60 per cent of banks surveyed in Central Asia and 50 per cent of banks polled in the EBRD regions provide loans for commercial real estate, the same is true for just a small minority of banks in Tajikistan.

On average, the banks surveyed in Tajikistan are slower than banks elsewhere in Central Asia and the EBRD regions in taking up and using most digital technologies (Chart 5). Close to 60 per cent of Tajik banks have launched the use of digital wallet solutions commercially, while just over 40 per cent use biometric authentication. Although the share

Chart 1 Branch presence of surveyed banks

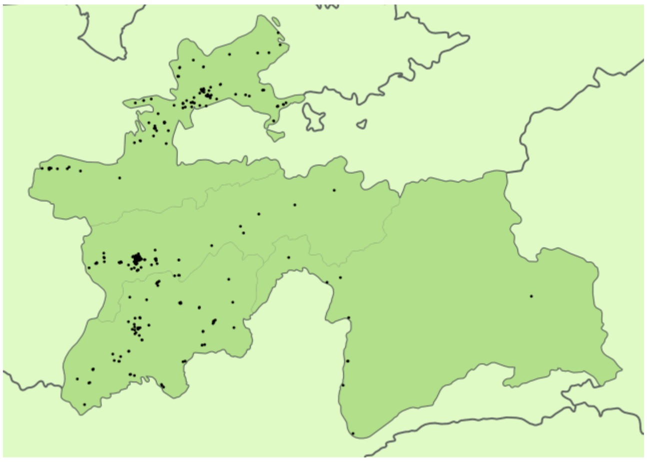


Chart 2 Branch network expectations, next five years

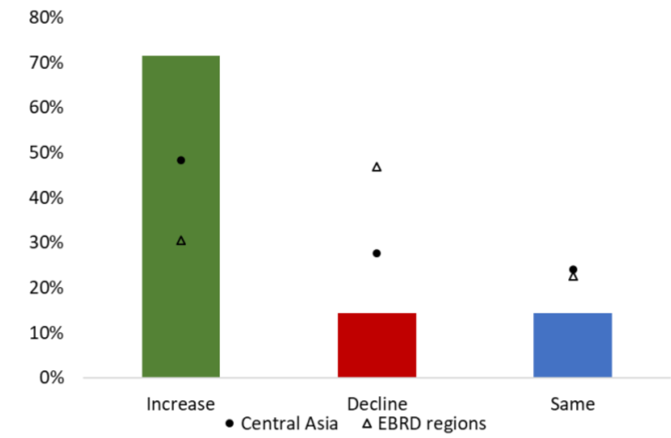


Chart 3 ESG policies and targets

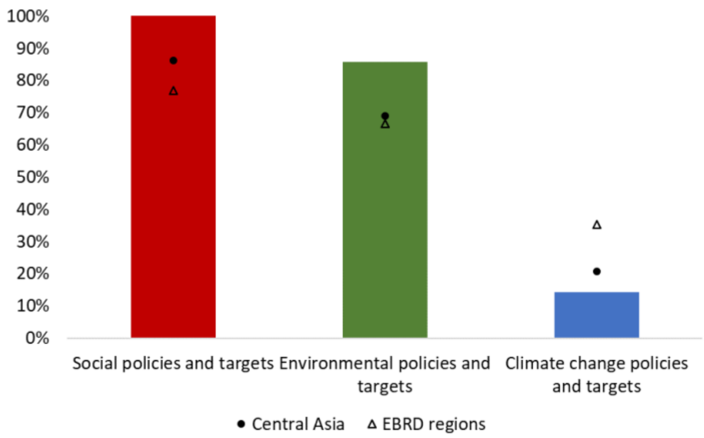
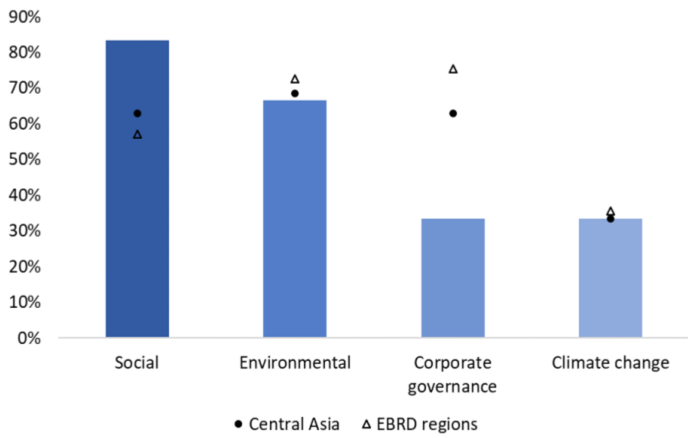


Chart 4 Impact assessment of SMEs before loan approval



[1] Domestic banks account for 94 per cent of these banking assets

[2] Bars in Charts 2, 3, 4, 6 and 8 refer to the percentage share of banks in Tajikistan.

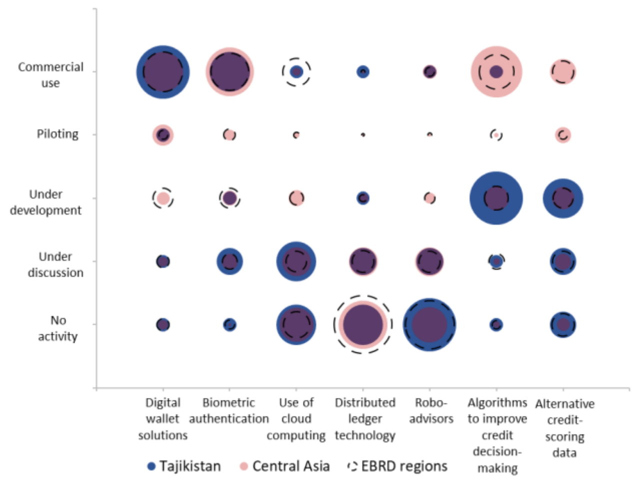
of banks that have adopted these technologies is higher than or on a par with the average in Central Asia and the EBRD regions more broadly, Tajik banks lag severely in the adoption of algorithms to improve credit decision-making or the use of alternative credit-scoring data.

All Tajik banks surveyed report being concerned about information technology (IT) security and regulatory uncertainty in the fintech space, almost 25 percentage points higher than the average in Central Asia (Chart 6). More than 40 per cent of banks in Tajikistan also say they would like to invest more in fintech companies, but are too financially constrained to do so.

Half of banks in Tajikistan accept online loan applications for SMEs, 15 percentage points below the average of the Central Asian economies. Inefficiencies in the lending process are also evident in the average number of hierarchical approval layers involved in lending to SMEs (Chart 7). Loan applications typically go through 2.5 decision-making layers prior to approval, on average, in Tajikistan, compared with a Central Asian average of 2.1.

The survey reveals that around 70 per cent of Tajik banks lend to innovative industries. However, some banks identified a lack of creditworthy customers and insufficient demand for credit as the main constraints on lending more to innovative research and development (R&D)-intensive industries such as IT, chemicals and pharmaceuticals (Chart 8).

Chart 5 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 6 Concerns about digital technologies

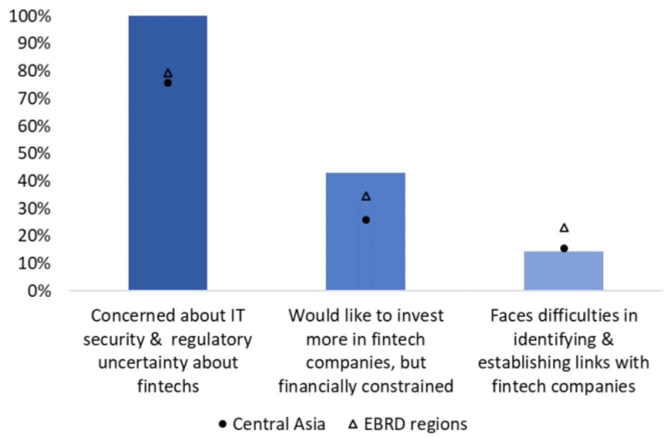


Chart 7 Typical number of decision layers, SME lending

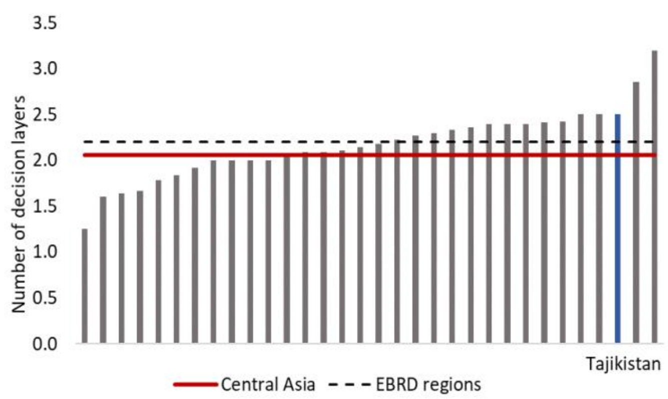
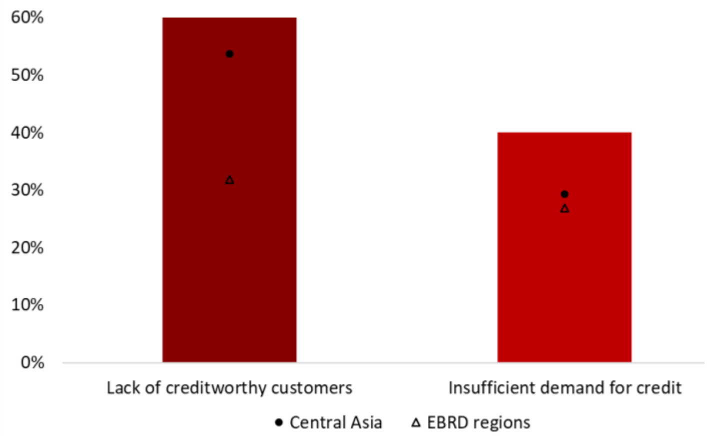


Chart 8 Constraints on lending to innovative industries



Banking profile

Ukraine

Ukraine

The Ukrainian banks in the survey account for 81 per cent of the country's total banking assets, most of them owned by domestic banks (Chart 1).[1] It is important to highlight that the Ukrainian survey took place before the 2022 Russian invasion; all interviews took place subsequently, between March and June 2021. Consistent with the average in eastern Europe and the Caucasus (EEC), more than 45 per cent of Ukrainian banks expect their branch network to increase over the next five years (Chart 2).[2]

Ukrainian banks appear to lack confidence in the court system. Fewer than 10 per cent of the banks surveyed perceive the court system to be fair and impartial and no bank deems it to be quick and efficient. The equivalent figures in the EEC region are 31 per cent and 7 per cent, respectively, while in the EBRD economies more broadly, they are 44 per cent and 11 per cent. In contrast, at least two in three Ukrainian banks deem the regulator to be fair and impartial and quick and efficient, in line with or better than the averages in the EEC and EBRD economies.

Fewer than half of Ukrainian banks have explicit environmental policies and targets in place, lagging both the EEC and EBRD regional averages. In addition, although only 30 per cent of Ukrainian banks have climate change policies, half of those surveyed undertake climate change impact assessments before lending to small and medium-sized enterprises (SMEs), exceeding the EBRD and EEC regional averages (Chart 3). However, while 75 per cent of banks across the EBRD economies undertake corporate governance impact assessments before approving SME loans, the corresponding share among Ukrainian banks is less than 60 per cent.

Chart 1 Branch presence of surveyed banks

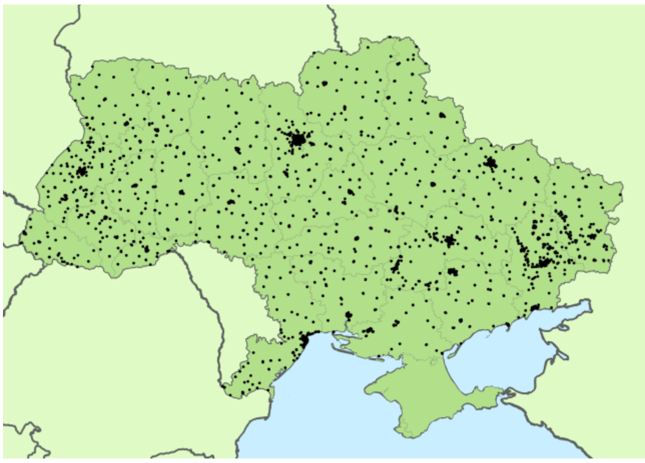


Chart 2 Branch network expectations, next five years

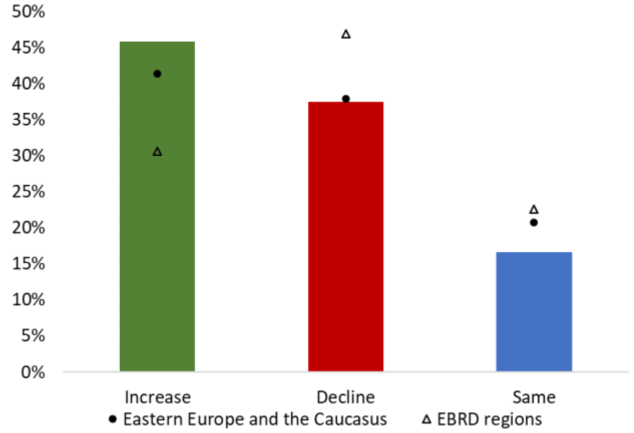


Chart 3 Impact assessment of SMEs before loan approval

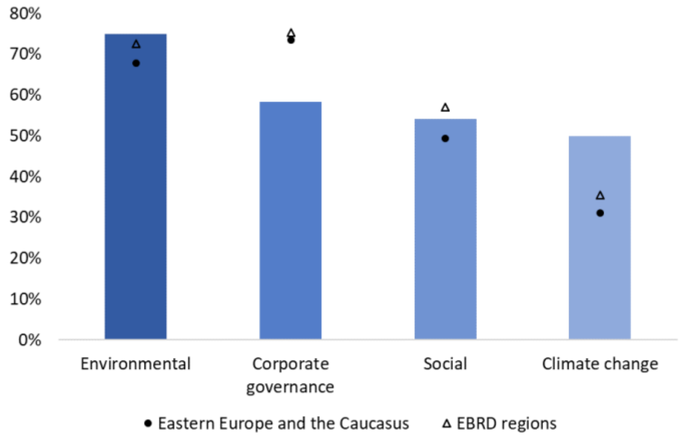
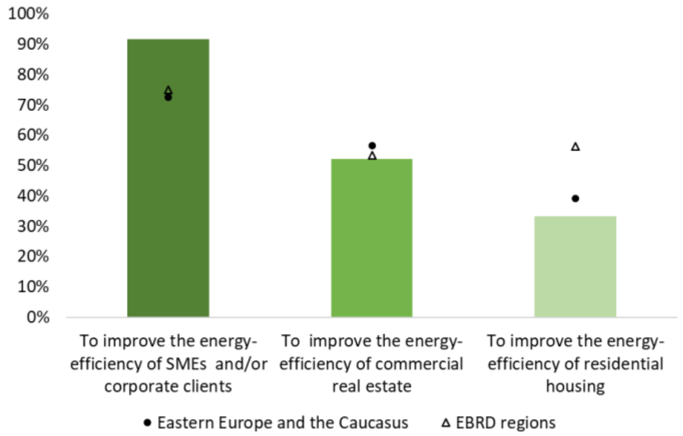


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Domestic banks account for 77 per cent of these banking assets.

[2] Bars in Charts 2, 3, 4 and 8 refer to the percentage share of banks in Ukraine.

The share of Ukrainian banks providing loans specifically to improve the energy efficiency of SMEs and/or corporate clients is relatively high. More than 90 per cent of banks offer such loans, compared with 75 per cent, on average, in the EEC and EBRD economies.

Turning to digital technology use in banking, three in four Ukrainian banks view corporate lending and trade finance as the business lines in which fintech offers most opportunity (Chart 5). In retail lending, only a fifth of Ukrainian banks view fintech as an opportunity, in contrast to banks in the EEC and other EBRD economies, which see more scope for fintech in this business segment.

On the uptake of certain digital technologies, such as digital wallet solutions and the use of alternative credit scoring data, Ukrainian banks fare better than or similar to other EBRD economies, on average (Chart 6). More than 40 per cent of banks use or are piloting cloud computing in banking services commercially, a greater share than in the EEC region. However, Ukrainian banks lag the regional average on the commercial use and adoption of biometric authentication for customer identification, as well as on the use of algorithms to improve credit decision-making.

Just over 40 per cent of Ukrainian banks accept online applications for SME loans, while fewer than 30 per cent report strong competition from internet banks and non-bank finance companies on SME lending (Chart 7). However, in retail lending, 85 per cent of banks cite internet banks as strong competitors, the highest of all countries surveyed. Ukrainian banks seem to be less concerned than other banks in the region about difficulties in establishing links with fintech companies, information technology (IT) security, regulatory uncertainty or financial constraints with respect to investing in the fintech space.

Just under 90 per cent of Ukrainian banks lend to innovative industries such as IT, chemicals and pharmaceuticals. The most frequently cited constraint on these banks when lending to these sectors is a lack of creditworthy customers, followed by insufficient demand for credit (Chart 8).

Chart 5 How fintech will affect banks' business lines

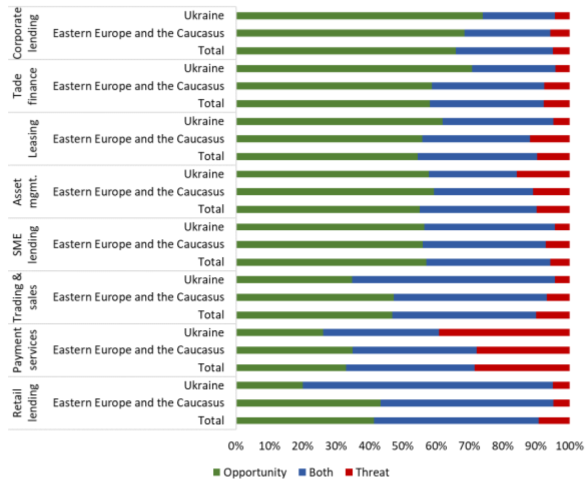
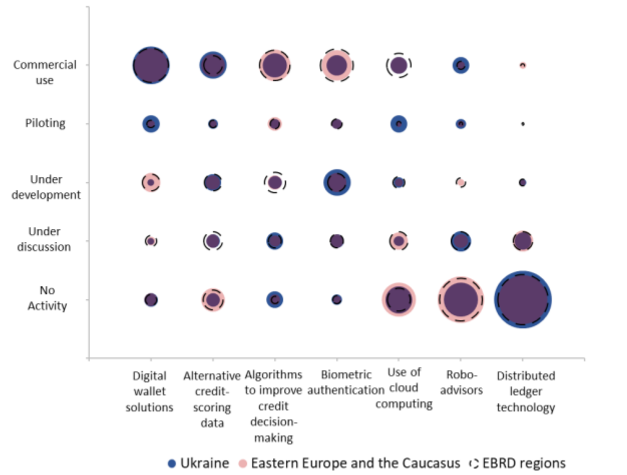


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Banks face strong competition from online lenders

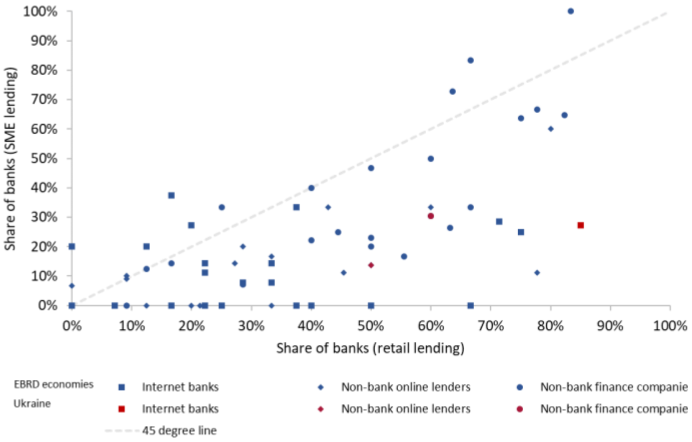
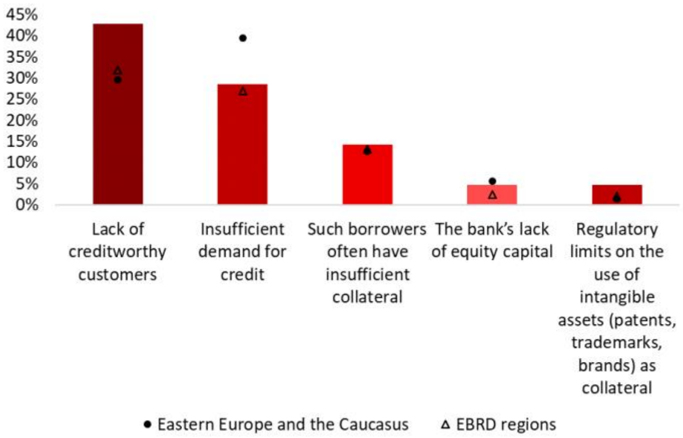


Chart 8 Constraints on lending to innovative industries



Banking profile

Uzbekistan

Uzbekistan

The banks surveyed in Uzbekistan account for 91 per cent of the country's total banking assets. They are all domestically owned, with state banks making up 89 per cent (by assets) (Chart 1). Uzbekistan, Mongolia and the West Bank and Gaza are the only three EBRD economies where only domestic banks were surveyed as part of BEPS III.

In line with other Central Asian (CA) economies, 57 per cent of the banks surveyed in Uzbekistan say they expect their branch network to increase over the next five years. This is much higher than in the EBRD economies, on average, where just over 30 per cent of banks expect their branch network to increase.

The share of surveyed Uzbek banks saying that they have explicit policies and targets on social issues and climate change is on par with banks in other CA economies (Chart 2).[1] The share of banks with environmental policies in place is 10 percentage points higher than the average in the CA and EBRD regions. However, on climate change issues, in particular, Uzbekistan lags the EBRD regions as a whole. When lending to small and medium-sized enterprises (SMEs), a majority of the Uzbek banks surveyed report undertaking environmental, climate change, corporate governance and/or social impact assessments before loan approval (Chart 3). Indeed, Uzbekistan is one of only six economies in the survey in which all banks report conducting environmental impact assessments prior to loan approval.

All of the Uzbek banks surveyed say they provide loans to SMEs and/or corporate clients specifically for the purpose of improving energy efficiency, outpacing most other EBRD economies. More than 69 per cent and 85 per cent of Uzbek banks also report the provision of loans to improve the energy efficiency of commercial real estate and residential housing, respectively (Chart 4).

When it comes to the use of digital technologies, more than 70 per cent of the banks surveyed in Uzbekistan see opportunity in fintech for trade finance, retail lending, payment services, SME lending and corporate lending, ahead

Chart 1 Branch presence of surveyed banks

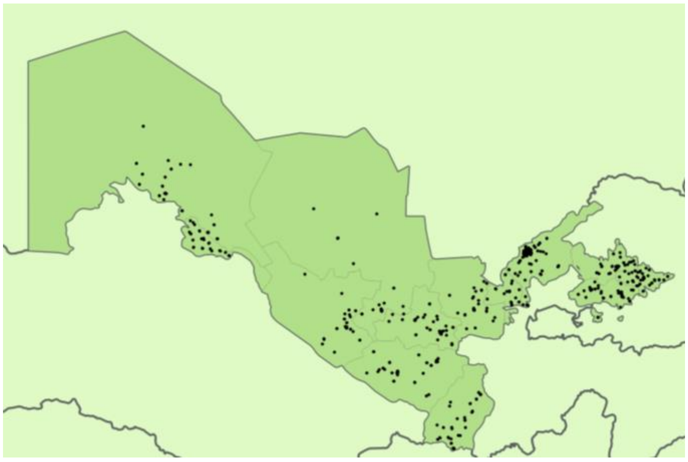


Chart 2 ESG policies and targets

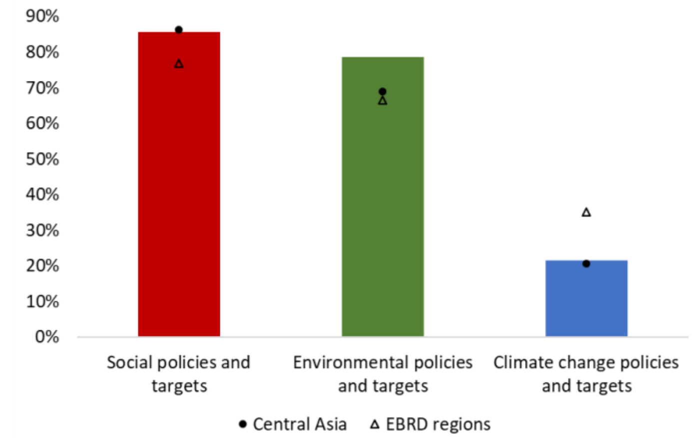


Chart 3 Impact assessment of SMEs before loan approval

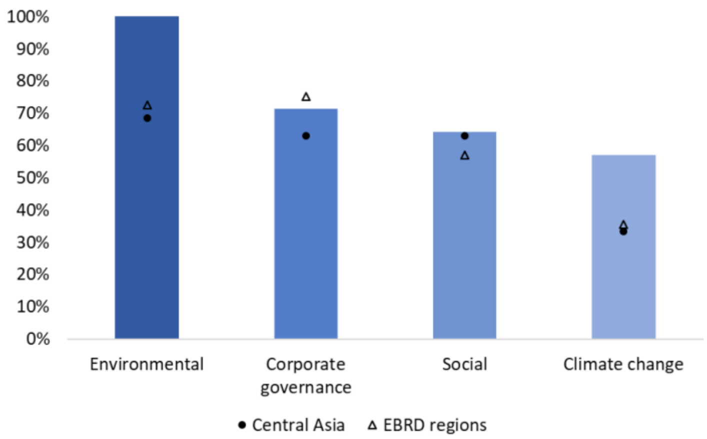
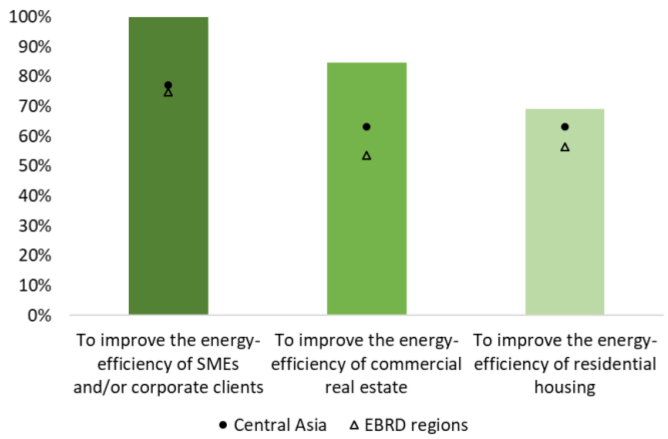


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Bars in Charts 2, 3, 4, 7, and 8 refer to the percentage share of banks in Uzbekistan.

of both the CA regional average and the EBRD regions as a whole (Chart 5). In fact, a majority of surveyed Uzbek banks say that fintech presents an opportunity for all business lines and fewer than 10 per cent say it poses a threat.

Among the EBRD economies, Uzbekistan has one of the highest shares of banks that have launched the use of algorithms to improve credit decision-making (Chart 6). The Uzbek banks surveyed are on par with other CA economies in their use of digital technologies, such as digital wallet solutions, alternative credit scoring data sources and robo-advisors. However, they have been slower to adopt biometric authentication and cloud computing than in CA as a whole or the other EBRD economies. It is worth noting that the slow adoption of cloud computing may be explained by legislative limitations on the storage of data under personal data protection laws.

The shift towards digital technologies is also evident in the share of banks accepting online applications for loans. For SMEs and large enterprises, 86 per cent and 64 per cent, respectively, of banks surveyed accept online loan applications. In both cases, this is about 20 percentage points higher than in the CA and EBRD economies, on average. Even for retail lending, 33 per cent and 50 per cent of Uzbek banks say that they face strong competition from internet banks and non-bank finance companies, respectively.

While more than a third of surveyed Uzbek banks say they are concerned about information technology (IT) security and regulatory uncertainty in the fintech space, this is about half the CA average.

Over 85 per cent of banks surveyed in Uzbekistan offer loans to innovative R&D intensive industries such as IT, chemicals and pharmaceuticals. These loans account for 17 per cent of all loans issued by surveyed banks in Uzbekistan (by volume). When questioned, these banks cited a lack of creditworthy customers and insufficient demand for credit as the main constraints on lending to innovative industries. Indeed, the problem of insufficient demand for credit is experienced by a greater share of Uzbek banks than banks in the CA economies, on average.

Chart 5 How fintech will affect banks' business lines

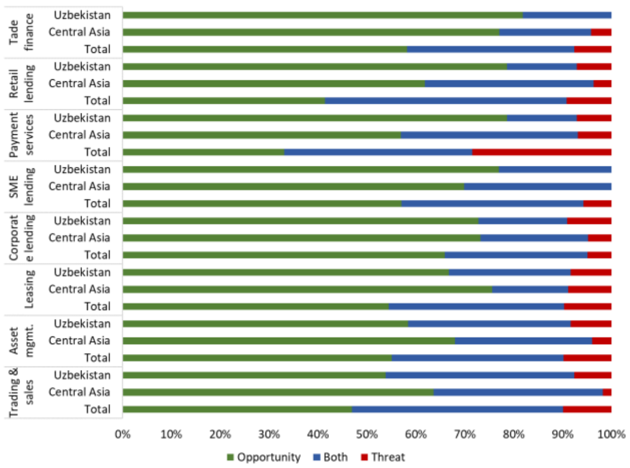
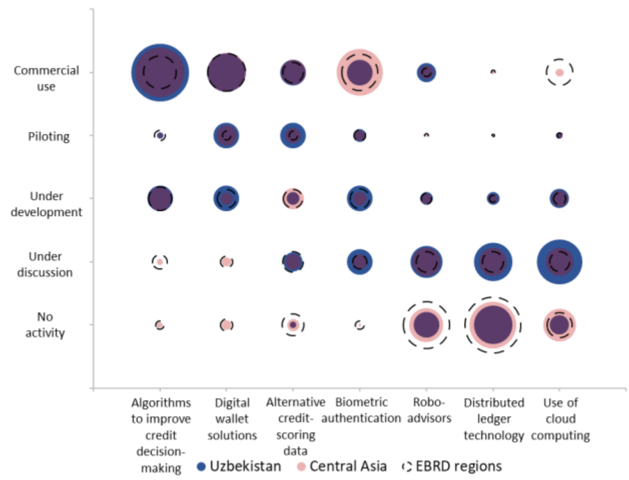


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns about digital technologies

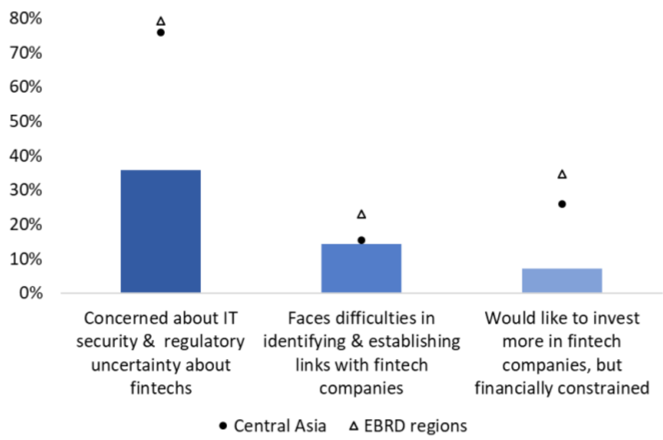
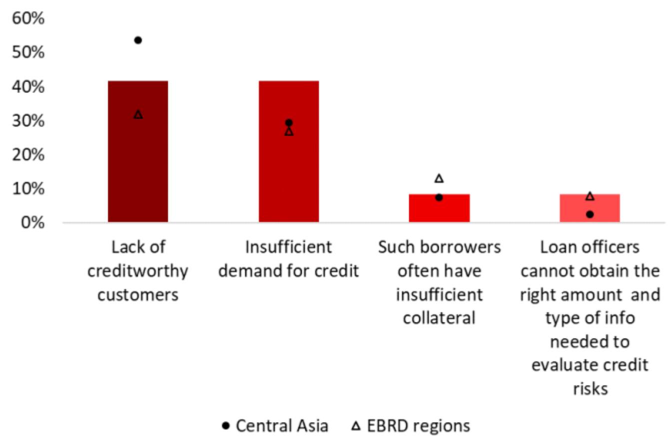


Chart 8 Constraints on lending to innovative industries



Banking profile

West Bank and Gaza

West Bank and Gaza

Banks covered by the survey account for 98 per cent of all banking assets in the West Bank and Gaza, all of which are domestic (Chart 1). The West Bank and Gaza, along with Mongolia and Uzbekistan, are the only economies in the survey where no foreign banks participated. Half of all banks surveyed across the EBRD regions say they expect their branch networks to expand over the next five years, while, on average, just under 40 per cent of banks in the West Bank and Gaza expect their branch networks to increase. A third of the banks surveyed in the West Bank and Gaza expect their networks to shrink, on a par with the average in the Southern and Eastern Mediterranean (SEMED) region and Türkiye, but less than the average in the EBRD regions as a whole.

All banks in the West Bank and Gaza say they have social policies and targets in place, however, only half have environmental and climate change polices and targets (Chart 2).[1] While the proportion of banks with social and climate change-related policies in the West Bank and Gaza is similar to the average of SEMED and Türkiye, on environmental policies, it lags the average shares in the EBRD regions and SEMED and Türkiye by 17 and 30 percentage points, respectively. Relatedly, when lending to small and medium-sized enterprises (SMEs), only 40 per cent of banks in the West Bank and Gaza undertake environmental impact assessments before loan approval. This is around half the share reported, on average, in SEMED and Türkiye and the EBRD regions. Similarly, none of the banks in the West Bank and Gaza say they undertake any climate change impact assessments, in sharp contrast to the average shares – at 43 per cent and 35 per cent, respectively – in SEMED and Türkiye and the EBRD regions (Chart 3).

Over 80 per cent of banks in the West Bank and Gaza offer loans to improve the energy-efficiency of commercial real estate, residential housing, and SMEs and/or corporate clients (Chart 4). In terms of SMEs and/or corporate clients, this lags the share of banks in SEMED and Türkiye by 10 percentage points, but is much higher than the averages in both SEMED and Türkiye and the EBRD regions in the other two areas.

Chart 1 Branch presence of surveyed banks

Chart 2 ESG policies and targets

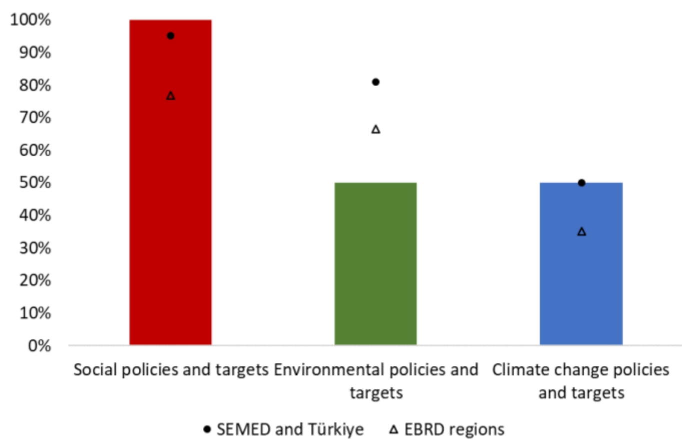


Chart 3 Impact assessment of SMEs before loan approval

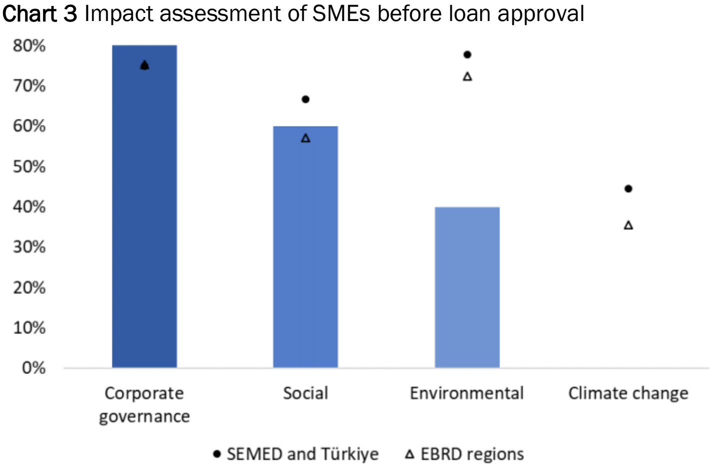
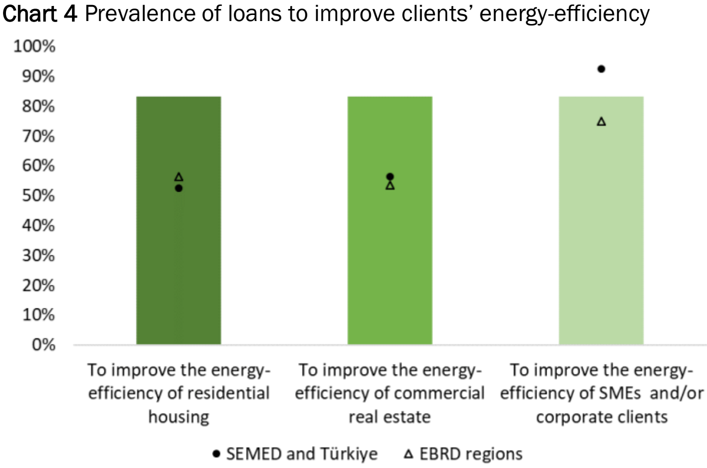


Chart 4 Prevalence of loans to improve clients' energy-efficiency



[1] Bars in Charts 2, 3, 4 and 8 refer to the percentage share of banks in the West Bank and Gaza.

All banks in the West Bank and Gaza view fintech as an opportunity for trading and sales, a much higher proportion than the average in SEMED and Türkiye or the EBRD regions (Chart 5). Similarly, 80 per cent of banks view fintech as an opportunity for SME lending, corporate lending and trade finance. A third of banks in the West Bank and Gaza also perceive fintech as a threat to leasing, while fewer than 10 per cent of banks in SEMED and Türkiye and the EBRD regions view it as a threat.

The share of banks reporting the commercial use of digital technologies in banking lags the average share in SEMED and Türkiye and the EBRD regions (Chart 6). A third of banks in the West Bank and Gaza have launched products and services that use biometric authentication for customer identification, the same as the average in SEMED and Türkiye. However, while more than 40 per cent of banks in SEMED and Türkiye say they use digital wallet solutions, algorithms to improve credit decision-making and cloud computing in their products and services, fewer than 20 per cent (and, in some cases, none) of the surveyed banks in West Bank and Gaza have reached that stage of commercial use.

Reflecting this slower pace of digital adoption, only 20 per cent of surveyed banks in the West Bank and Gaza accept online applications for loans to SMEs, half the average in SEMED and Türkiye. Similarly, none of the surveyed banks view internet banks or non-bank online lenders as strong competition in SME or retail lending. However, 83 per cent and a 100 per cent, respectively, of banks in the West Bank and Gaza view non-bank finance companies as strong competitors in retail and SME lending. Perhaps unsurprisingly, banks in the West Bank and Gaza also report the highest number of hierarchical layers in making lending decisions to SMEs. On average, they report 3.2 layers of approval, compared with 2.7 and 2.2, respectively, in SEMED and Türkiye and the EBRD regions (Chart 7).

More than 80 per cent of banks in the West Bank and Gaza report concerns about information technology (IT) security and regulatory uncertainty in the fintech space. However, a third of banks say they would like to invest more in fintech, but are too financially constrained to do so.

Half of surveyed banks report a lack of creditworthy customers as the main constraint on providing loans to innovative research and development-intensive industries such as IT, chemicals and pharmaceuticals (Chart 8). In addition, banks also consider insufficient demand for credit and a lack of government programmes for guaranteed loans to be among the main constraints on lending to these sectors. Notably, the former and the latter constraints appear more relevant in West Bank and Gaza than in SEMED and Türkiye or the EBRD regions more broadly.

Chart 5 How fintech will affect banks' business lines

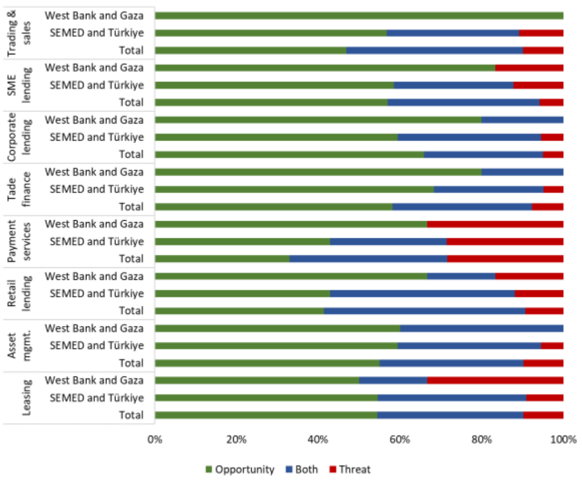
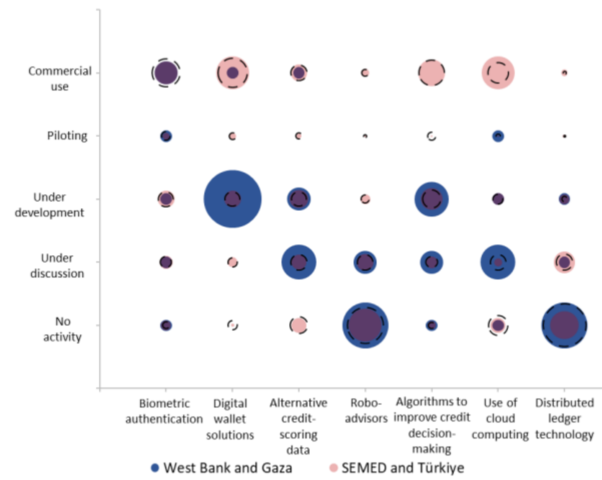


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Typical number of decision layers, SME lending

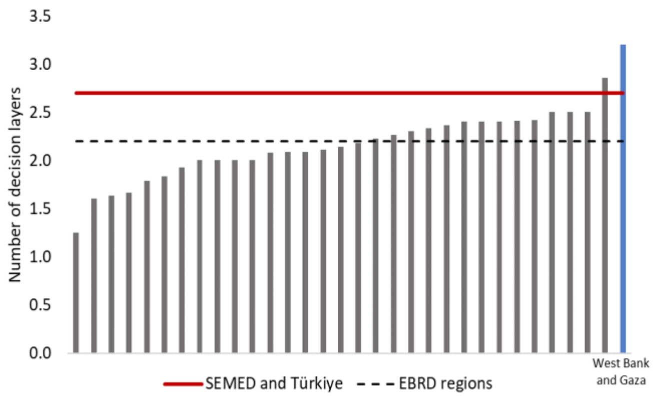
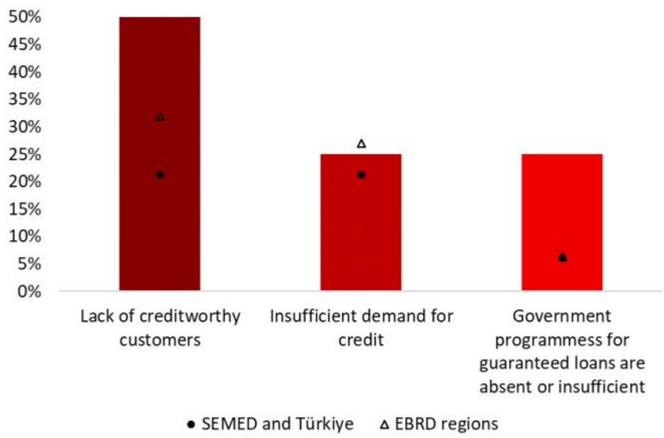


Chart 8 Constraints on lending to innovative industries



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1515 Banking Environment and Performance Survey III