NATIONAL BANK OF SERBIA
Economic Research and Statistics Department

TRENDS IN LENDING

Fourth QuarterReport 2020

Belgrade, March 2021

Introductory note

Trends in Lending is an in-depth analysis of the latest trends in lending, which aims to ensure better understanding of the conditions prevailing in the domestic lending market. It looks into lending developments, cost of borrowing by households and corporates and lending market conditions, by examining factors behind loan supply and demand.

Credit aggregates, as a quantified expression of movements in the lending market, are calculated based on banking sector balance sheet statistics as a source of data on the balance of domestic banks' loan receivables. Given the relatively high share of foreign currency-indexed loans in loan portfolios, the growth rates are calculated excluding the effect of changes in the dinar exchange rate against other currencies in the loan portfolio.

The Report also draws on the results of the bank lending survey conducted by the National Bank of Serbia since early 2014. Participation in the survey is voluntary. This survey has greatly improved the understanding of developments in the domestic lending market, allowing insight into bankers' perceptions of actual and expected changes with regard to loan supply and private sector loan demand.

The Report also relies on the results of the survey developed by the European Investment Bank in the context of the Vienna Initiative 2 to monitor deleveraging by cross-border banking groups and the resultant constraints on lending activity. This survey, conducted since October 2012 on a semi-annual basis, monitors subsidiaries of international banking groups in Central, Eastern and South-Eastern Europe, focusing on their strategies, market conditions and expectations. The purpose of the survey is to observe the effects of movement in supply and demand on lending activity, and to gauge the impact of domestic and international factors on supply and demand conditions. Ten Serbian banks participate in this survey, their assets making up around 50% of total assets of the Serbian banking sector.

ABBREVIATIONS

GDP – gross domestic product
bn – billion
y-o-y – year-on-year
NPL – non-performing loan
pp – percentage point
Q – quarter

Other generally accepted abbreviations are not cited.

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Overview

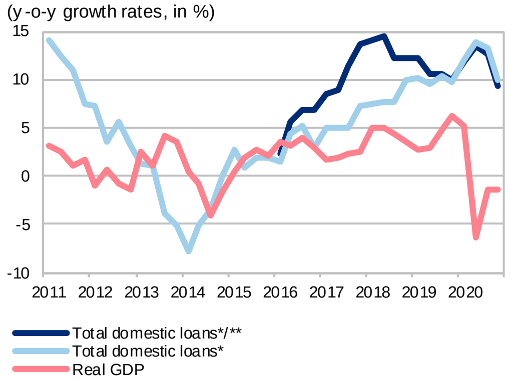
Even in crisis conditions caused by the COVID-19 pandemic, domestic lending activity in 2020, for a third year in the row, posted almost two-digit growth which is among the highest in the region. **Total domestic loans in 2020,** in nominal terms and excluding the exchange rate effect,[1] **rose by 9.9%** owing to excellent loan disbursement early in the year, the easing of the NBS's monetary policy stance, the moratorium on loan repayment, and the approval of loans under the Guarantee Scheme.[2] At the end of the year, there was a slowdown in y-o-y growth in lending, which was anticipated and is attributable to the high base from the prior year, as well as the increased number of matured loans as of October, after the expiry of the second moratorium. Growth in domestic loans in 2020 was propped by **household loans** with 5.3 pp, which **rose 11.4%, while corporate loans** contributed with 4.7 pp, posting **growth of 9.1%**.

Total bank receivables (which, in addition to loan receivables, also include receivables from investments in securities, interests and fees and other receivables) **rose 10.7%** in 2020. Besides the rising lending activity, this was also the result of banks' investments in dinar corporate bonds in the second half of the year.

Driven by the disbursement of liquidity and working capital loans in conditions of increased liquidity needs of corporates, **corporate loans rose RSD 114.4 bn at the annual level,** excluding the exchange rate effects, while at the level of **Q4 alone, they declined by RSD 6.7 bn,** partly due to larger maturities following the expiration of the second moratorium. During Q4, commercial banks approved EUR 333.3 mn worth of loans under the Guarantee Scheme to micro, small and medium-sized enterprises and entrepreneurs, whereby the total stock of realised loans during 2020 came close EUR 1.5 bn. Though a fall in lending was recorded in Q4 across sectors, the stock of loans increased in all sectors annual-wise, and most notably in real estate, transport and construction.

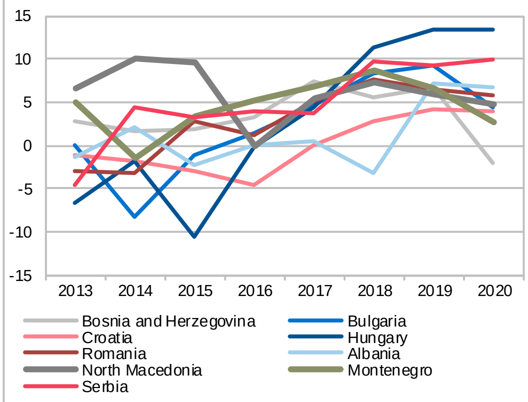
Excluding the exchange rate effect and owing primarily to higher housing loans, **household lending rose RSD 7.8 bn during Q4,** whereby **its growth came at RSD 127.0 bn at the level of 2020.** At the year level, this growth was driven by cash and housing loans, as usual, while lending to entrepreneurs under the Guarantee Scheme gave a greater contribution than before.

Lending in 2020 achieved almost two-digit growth
(y-o-y growth rates, in %)



Sources: NBS and SORS.
* Excluding the exchange rate effect.
** Excluding the effect of NPL write-off and sale since early 2016.

Lending growth in Serbia in 2020 was among the highest in the region
(nominal y-o-y growth rates, in %)



Sources: Websites of central banks and NBS calculation.

Monetary policy easing, lending under the Guarantee Scheme at favourable terms, and most importantly dinar lending thanks to the NBS's preferential policy of reserve requirements, as well as low interest rates in the international money market, enabled the **financing conditions in the domestic lending market to remain favourable** throughout Q4. Interest rates hovered around the previously recorded lowest values. Key policy rate cuts in 2020 significantly translated onto interest rates on new dinar loans, which edged down 0.8 pp at the annual level for corporates, to 3.2% at end-

[1] Calculated at the dinar exchange rate against the euro, Swiss franc and US dollar as at 30 September 2014 (the so-called programme exchange rate used for monitoring the performance under the arrangement with the IMF), taking into account the currency structure of loan receivables.

[2] In accordance with the Decree, i.e. the Law Establishing a Guarantee Scheme as a Measure of Support to the Economy to Mitigate the Consequences of the COVID-19 Disease Caused by the SARS-CoV-2 Virus (RS Official Gazette, No 57/20, i.e. No 153/20).

2020, and by 0.7 pp for households, to 8.5%. Thereby the difference between rates on dinar and euro-indexed loans narrowed further, especially with corporate loans (where interest rates on euro-indexed loans remained unchanged at 3.0% in 2020), contributing to the increase in the degree of dinarisation and, in turn, additional strengthening of financial stability.

Dinarisation of receivables to corporates and households, according to outstanding amounts, reached a **new record high at end-2020. The share of dinar receivables in total corporate and household receivables equalled 37.3% in December,** up by 0.7 pp from September and by as much as 4.2 pp from end-2019. Of this, the dinarisation of corporate receivables increased during Q4 by 1.8 pp (by 7.1 pp in 2020) to 21.0%, owing to the NBS's monetary policy easing, disbursement of dinar loans under the Guarantee Scheme and banks' purchase of dinar corporate bonds. On the other hand, during Q4 the dinarisation of household receivables edged down 0.6 pp to 55.9%, which is attributable to the continued growth in housing loans. At the year level, dinarisation of household receivables increased 0.5 pp during 2020.

The share of NPLs in total loans equalled 3.7% at end-2020, and was 0.4 pp lower relative to end-2019, and 18.7 pp relative to July 2015, i.e. just before the start of the implementation of the NPL Resolution Strategy. Compared to end-Q3, a mild rise was recorded (0.3 pp) – as a consequence of the negative effects of the pandemic and larger amounts of maturing loans following the expiration of the second moratorium on loan repayment.

Having in mind the complexity of the pandemic's fallout on households and businesses, in December 2020 the NBS adopted **additional measures aimed at facilitating the repayment of liabilities of debtors faced with difficulties amidst the pandemic, to banks and financial lessors**. In accordance with the adopted measures,[3] banks are obligated to approve debt repayment facilities to debtors (natural persons, farmers, entrepreneurs and companies) who, due to the conditions caused by the pandemic, have or may have difficulties in the repayment of liabilities. The facilities involve loan rescheduling and refinancing, along with a six-month grace period and a corresponding extension of the repayment term, so that the debtor's monthly liabilities are not higher than those envisaged by the repayment schedule prior to the approval of the facilities. During the grace period, the bank shall calculate interest, but it is up to the debtor to decide whether to pay the interest during the grace period or after its expiry.

[3] Decision on Temporary Measures for Banks to Enable Adequate Credit Risk Management amid COVID-19 Pandemic, RS Official Gazette, No 150/20.

I. Corporate sector

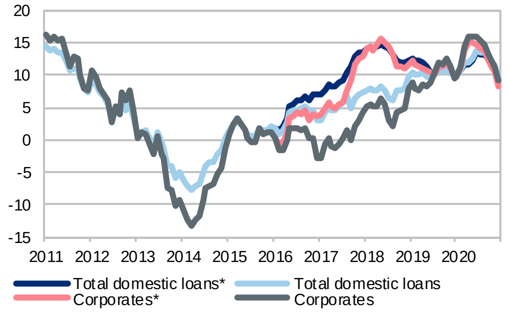
1. Corporate loans

Driven mainly by growth in liquidity and working capital loans, **corporate loans rose by RSD 114.4 bn or 9.1% in 2020**, excluding the exchange rate effect. This was achieved owing to the NBS's monetary policy easing, loans under the Guarantee Scheme intended for micro, small and medium-sized enterprises, and the moratorium on the repayment of loan liabilities. During Q4, y-o-y growth in corporate loans slowed down, on account of the higher maturing liabilities after the expiry of the moratorium and the high base effect from the prior year. In nominal terms, the stock of corporate loans measured RSD 1,359.1 bn in December 2020, and the share of these loans in annual GDP measured 24.9%, up by 1.9 pp from end-2019.

Excluding the exchange rate effect, **corporate loans decreased by RSD 6.7 bn or 0.5% in Q4,** partly due to the higher volume of maturing loans after the expiry of the moratorium. The decrease is attributable to debt repayment by companies (by RSD 14.2 bn), while public enterprises increased their loan liabilities to banks by RSD 7.4 bn. Also, Q4 saw an increase in lending to enterprises in **electricity supply, real estate and construction**, while other sectors saw a decline. **By purpose,** and as a result of stepped-up needs for liquid assets and the approval of loans from the Guarantee Scheme, credit growth in Q4 continued to be led by working capital loans. Loans for other purposes were either unchanged (import and other unclassified loans) or on the decline (investment and current account overdrafts). As of November, liquidity and working capital loans are the dominant corporate loan category, accounting for 43.7% in December, followed by investment loans with a share of 43.0%. The maturity of corporate loans shortened slightly during Q4, hence long-term loans accounted for 86.7% of total corporate loans in December, down by 1.1 pp from September.

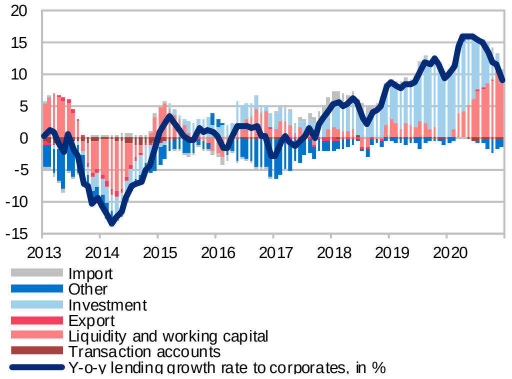
A significant portion of working capital loans were **loans under the Guarantee Scheme,**[4] which targeted the segment of the corporate sector which is the most vulnerable to this crisis – micro, small and medium-sized enterprises and entrepreneurs, and is at the same

Corporate lending slowed down its y-o-y growth in Q4 due to larger loan maturities and high base from 2019.
(y-o-y growth rates at the programme exchange rate, in %)



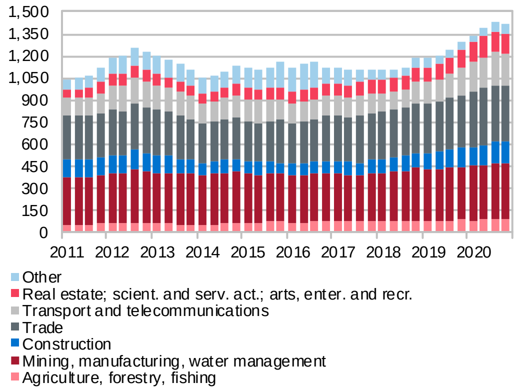
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

The Guarantee Scheme helped working capital loans make the biggest contribution to y-o-y growth in corporate lending
(in pp, excluding the exchange rate effect)



Source: NBS.

The bulk of corporate receivables are loans to manufacturing industry and trade
(stock, in RSD bn)



Source: NBS.

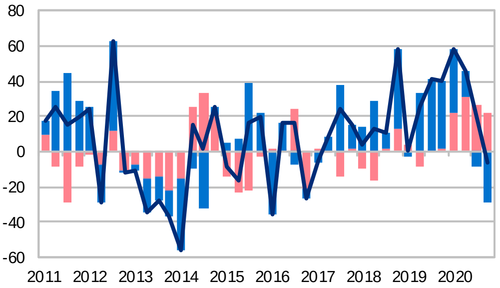
[4] For more details on loans under the Guarantee Scheme, see: *Inflation Report – August 2020*, Text box 2, pp. 31–33.

time a significant generator of GDP and jobs. In Q4, EUR 333.3 mn worth of loans was approved under the Guarantee Scheme, which drove the total amount of loans disbursed since the start of this programme up to almost EUR 1.5 bn.[5] At the same time, almost three-fifths of the approved loans were in dinars, contributing to the rise in the degree of dinarisation and, by extension, to increased efficiency of the monetary policy and further strengthening of financial stability. As 85.4% of total loans approved were new loans, we can expect their positive impact on economic activity in the coming period. These loans were mostly disbursed to small-sized enterprises (44.3%), followed by medium-sized (33.2%) and microenterprises (22.5%). Amendments to the Law on the Guarantee Scheme extended the duration of the Guarantee Scheme by six months, and according to announcements of the Ministry of Finance, support to the most vulnerable companies will be secured through an additional guarantee scheme worth EUR 500 mn and with a higher level of government guarantees.[6] Additionally, the Guarantee Scheme[7] in cooperation with the US International Development Finance Corporation (DFC) should be available to micro, small and medium-sized enterprises for working capital and investments until end-Q2 2021.

The volume of new corporate loans in Q4 was RSD 258.2 bn, or 4.0% more than in Q3, and 6.1% less than in the same period last year. Slightly more than one half of corporate loans approved in Q4 were liquidity and working capital loans, with almost two-thirds of these loans being approved to the segment of micro, small and medium-sized enterprises. The approval of loans to this segment was also supported by the favourable terms of financing under the Guarantee Scheme. They were followed by investment loans, which accounted for one-third of new corporate loans and were also predominantly approved to micro, small and medium-sized enterprises (63.3%).

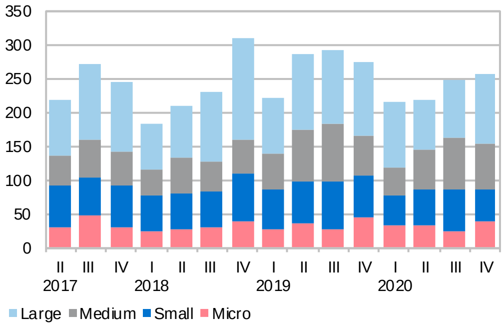
The dinarisation of the stock of corporate receivables continued to **rise in Q4** and reached 21.0% in December, its highest level since July 2015. The degree of dinarisation of corporate receivables was 1.8 pp higher than in September, and by as much as 7.0 pp relative to end-2019. The rise in dinarisation of receivables was also facilitated by the disbursement of dinar loans under the Guarantee Scheme and the purchase of dinar corporate bonds by banks. An additional impetus to this growth also came from the July decision of the NBS to pay a 50 bp higher remuneration rate on the amount of dinar reserve

Owing to the Guarantee Scheme, dinar corporate lending continued to rise in Q4
(yield, in RSD bn)



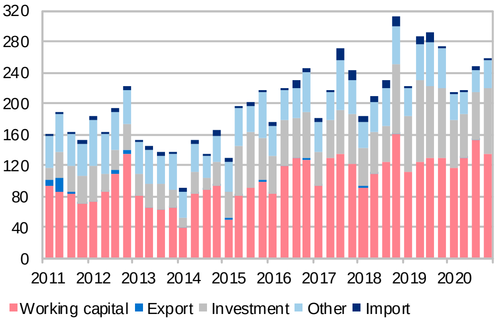
Source: NBS.
* Excluding the exchange rate effect.

Loans to micro, small and medium-sized enterprise made up three-fifths of new loans in Q4
(in RSD bn)



Source: NBS.

Working capital and investment loans were dominant in Q4 as well
(new loans, in RSD bn)



Source: NBS.

[5] Of the total EUR 2 bn, which banks could initially approve by end-January 2021, with government guarantees.

[6] https://www.mfin.gov.rs/aktivnosti/mali-novi-paket-vredan-250-milijardi-dinara-dosadasnja-pomoc-8-milijardi-evra/

[7] https://www.mfin.gov.rs/aktivnosti/potpisan-medjudrzavni-sporazum-o-podsticanju-investicija-sa-sad/

allocations to banks which approve dinar loans under the Guarantee Scheme at rates that are at least 50 bp lower than the maximum rate.[8] During 2020, the share of euro-indexed and euro receivables declined by 6.9 pp to 78.7% in December, while the share of dollar receivables (0.2%) edged down 0.1 pp, as did that of Swiss francs, which came close to zero at end-2020.

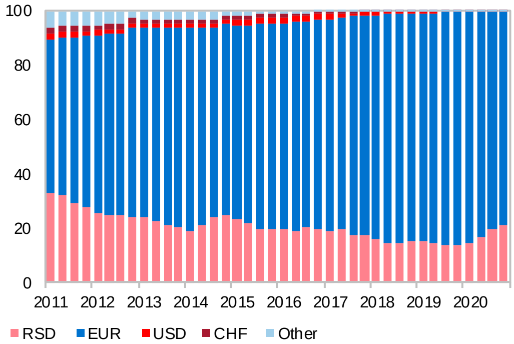
The share of NPLs[9] in total corporate loans equalled 3.1% in December, down by 0.1 pp from a year earlier and by 21.9 pp from July 2015, i.e. just before the Strategy was implemented. Relative to end-September, this share rose by 0.6 pp due to the negative effects of the pandemic and the larger maturities of loans following the expiry of the second moratorium. In the segment of companies, the share of NPLs in total loans increased by 0.4 pp to 3.1% in Q4, and touched new lows in the construction and real estate sectors, while a contribution to mild NPL growth during Q4 stemmed from manufacturing, transport and trade. Compared to the start of the implementation of the Strategy, the sharpest drop was recorded in construction, real estate and trade.

NPL coverage remains high – allowances for impairment of total loans stood at 93.2% of NPLs in December, while allowances for impairment of NPLs equalled 58.5% NPLs. The domestic banking sector is highly capitalised as confirmed by the capital adequacy ratio, which stood at 22.4% at end-September.[10] This is well above the prescribed 8% minimum. After the introduction of Basel III standards[11] into the domestic regulatory framework, this ratio is at a high level.

2. Cost of corporate borrowing

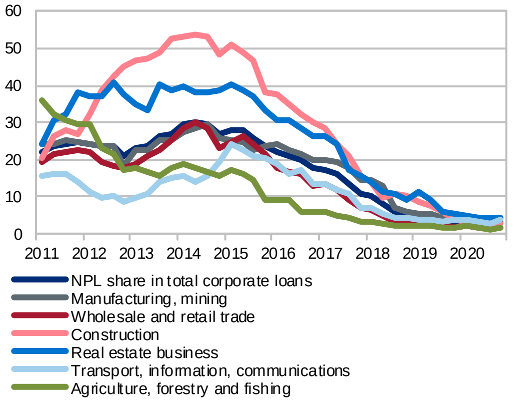
In Q4, the corporate sector continued to borrow under favourable terms – interest rates continued to move around the lowest values and the difference between dinar interest rates and euro interest rates contracted further. Such trends reflect the NBS's monetary policy easing, lower rates in the euro area money market and increased interbank competition in the domestic loan market, despite heightened risk aversion globally. The fact that interest rates on dinar loans remained low was also

The Guarantee Scheme and purchase of dinar corporate bonds contributed to the rise in the dinarisation of corporate receivables in Q4
(currency structure, in %)



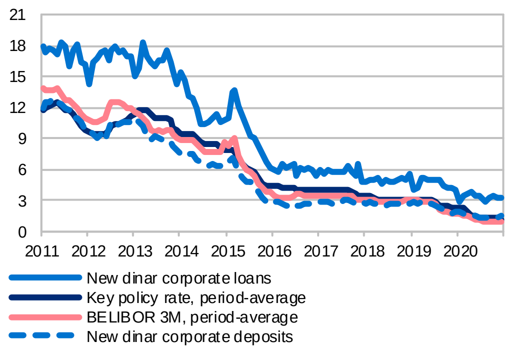
Source: NBS.

In some sectors, the NPL share touched new minimums during Q4
(gross principle, in %)



Source: NBS.

Interest rates on dinar loans remained favourable during Q4
(weighted average values, per annum, in %)



Source: NBS.
* Excluding revolving loans, current account overdrafts and credit card debt.

[8] https://nbs.rs/en/scripts/showcontent/index.html?id=15656

[9] Important factors behind a sharp fall in NPLs since 2016 are the successful implementation of the NPL Resolution Strategy and the Decision on the Accounting Write-off of Bank Balance Sheet Assets. In accordance with the Strategy, the NBS adopted the Action Plan (http://www.nbs.rs/internet/english/55/npl/action_plan.pdf), aimed at strengthening banks' capacity to resolve NPLs and contributing to the development of the NPL market, which were fully implemented, some before the deadline.

[10] The latest available data.

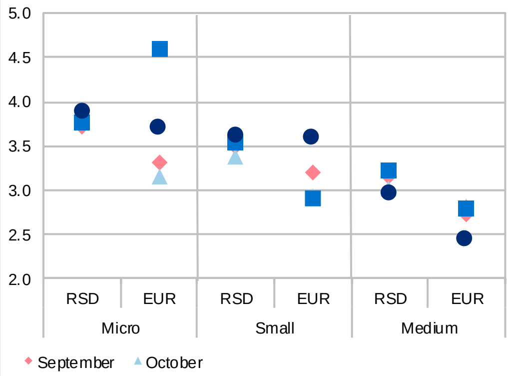
[11] The Basel III regulatory framework is applied as of 30 June 2017, with the application of the Decision on Capital Adequacy of Banks (RS Official Gazette, Nos 103/2016, 103/2018, 88/2019, 67/2020, 98/2020 and 137/2020), which introduced this standard in the domestic legislation.

due to the July decision of the NBS to pay a higher remuneration rate (0.5 pp higher than the standard rate) to banks approving dinar loans under the Guarantee Scheme at a rate at least 0.5 pp lower than the maximum rate stipulated by the Law on the Guarantee Scheme (1M BELIBOR + 2.5 pp).

The weighted average interest rate on new dinar corporate loans measured 3.3% in Q4, somewhat higher than the Q3 average (3.1%). In December, the rate stood at 3.2%, which is 13.2 pp lower than in May 2013, when the NBS began with the monetary policy easing. Going forward, there might be additional lowering of the average interest rate on dinar loans, bearing in mind the anticipated manifestation of the full effects of the key policy rate cut from December 2020. Observed by purpose, an increase in the average rate on dinar loans during Q4 was dictated by the rise in the average rate on working capital loans (by 0.3 pp to 3.4%) and other unclassified loans (by 0.1 pp to 3.1%), while the average price of dinar investment loans declined (by 0.6 pp to 3.2%). In terms of company size, average interest rates on loans to small and medium-sized companies remained almost unchanged (3.5% and 3.0%, respectively), while the cost of borrowing for microenterprises edged up 0.1 pp to 3.8%, and large enterprises by 0.5 pp to 3.1%.

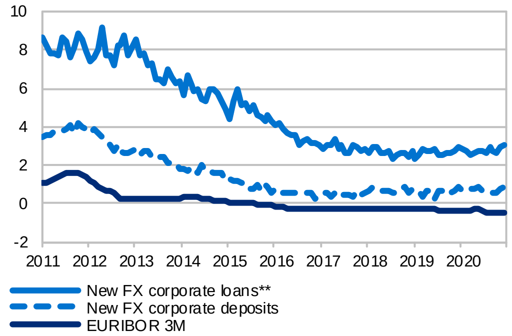
The weighted average interest rate on new euro and euro-indexed loans to corporates rose 0.1 pp in Q4 (to 2.8%) relative to Q3. The weighted average interest rate on euro-indexed and euro loans in December equalled 3.0%, the same as at end-2019. The increase in the average interest rate in Q4 was dictated by the rise in the rates on working capital loans (by 0.1 pp to 2.5%) and other unclassified euro-indexed loans (by 0.1 pp to 2.5%), while the average price of investment loans in Q4 (3.3%) edged down identically. In terms of company size, micro, small and medium-sized enterprises borrowed on average at higher costs in Q4 (3.8%, 3.2% and 2.7%, respectively), while the price of loans to large enterprises (2.4%) was lower than in Q3.

The cost of borrowing for micro, small and medium sized enterprises remained favourable during Q4
(weighted average values, p.a., in %)



Source: NBS.

Interest rates on FX loans to corporates were also close to the minimum*
(weighted average values, per annum, in %)

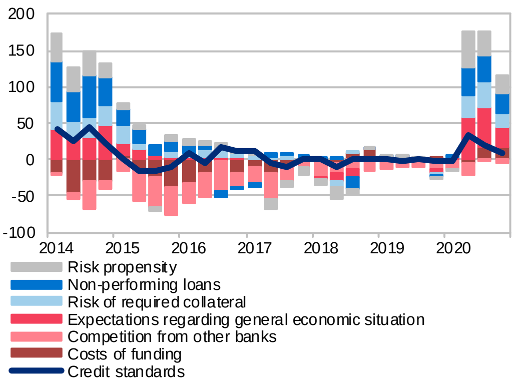


Sources: NBS and European Banking Federation.
* Excluding revolving loans, current account overdrafts and credit card debt.
** Euro and euro-indexed.

3. Assessment of loan supply and demand – based on the results of bank lending surveys

The results of the NBS Bank Lending Survey in January indicate that, in accordance with expectations voiced in the previous survey, banks **tightened their corporate loan standards during Q4 2020**. The tightening was less pronounced than in Q3 and Q2, and was mainly due to the higher risk aversion, and to a lesser extent to higher costs of lending sources. Banks expect corporate credit standards to remain unchanged in Q1 2021.

Corporate credit standards were tightened in Q4 as well, mostly due to increased risk aversion
(in net %)



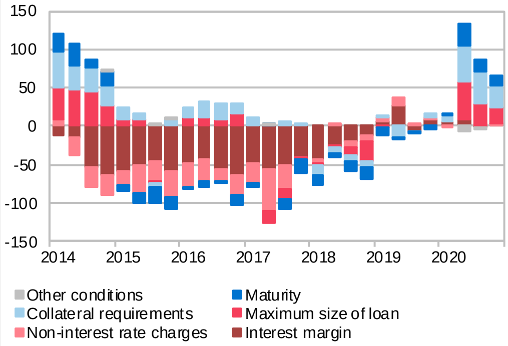
Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

According to survey results, **collateral requirements were tightened further, maximum loan amount was reduced and loan maturity shortened** for all categories of enterprises in Q4 2020. Interest rate margins and fees and commissions were raised for large enterprises, and lowered for small and medium-sized ones.

Corporate loan demand continued up in Q4 2020, though to a lesser extent than anticipated in the previous survey. According to banks, this was led by the need to finance working capital and restructure debt. Conversely, the financing of capital investments and the acquisition of other companies diminished as investments were deferred due to the pandemic. Increased reliance on own sources of funding and loans of non-banking institutions (Development Fund) were cited as factors exerting downward pressure on loan demand. Corporate loan demand is expected to go up further in Q1 2021 as well.

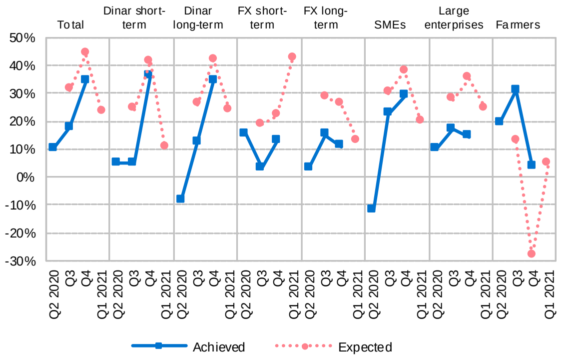
The results of the survey conducted by the European Investment Bank for the period March–September 2020 indicate that, unlike the average for the Central and Southeast Europe, corporate loan demand in Serbia continued to rise. Demand growth is mainly associated with shorter maturity loans, which might point to a growing need for liquidity in the segment of small and medium-sized enterprises. Besides small and medium-sized enterprises, estimates indicate that large enterprises will also contribute to increased demand going forward, and that, as in the prior period, demand will be driven by the need to secure liquidity and restructure debt.

Conditions in terms of loan collateral, amount and maturity were less favourable in Q4
(in net %)



Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

Loan demand in Q4 2020 rose less than anticipated in the October survey, and is expected to continue up in Q1 2021
(in net percentage)



Source: NBS.
* Positive value indicates an increase in demand, and negative value indicates a decrease.

II. Household sector

1. Household loans

Due to the high base effect from the same period last year and the expiry of the second moratorium, the y-o-y growth in household loans decelerated gradually in Q4 and equalled 11.4% in December. Excluding the exchange rate effect, the stock of household loans increased by RSD 127.0 bn at the annual level. In nominal terms, the stock of household loans measured RSD 1,232.5 bn at end-year, accounting for around 47% of bank loan receivables from the non-monetary sector and 22.6% of estimated annual GDP.

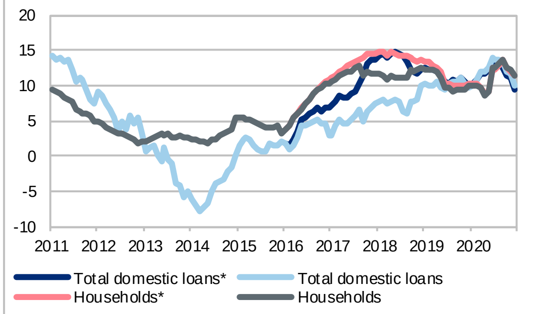
Q-o-q, **household loans increased by RSD 7.8 bn or 0.6% in Q4,** excluding the exchange rate effect. Observed by purpose, the largest growth in Q4 was recorded by housing loans (RSD 13.5 bn), followed by cash loans (RSD 3.0 bn), while other unclassified loans declined by almost RSD 6 bn. At end-2020, the highest share in the structure of household loans was that of cash loans (44.4%), which is slightly lower than in September, while the share of housing loans edged up to 36.8% (from 35.9% in September).

In addition to measures adopted during Q3 (another moratorium, extended loan repayment term, etc.), in December the NBS passed a decision to enable additional facilities to debtors unable to settle their liabilities regularly due to the pandemic. These facilities include loan rescheduling and refinancing, granting a six-month grace period and a corresponding extension of repayment terms.

With a view to ensuring a further development of the housing loan category, the NBS took a decision in the past months to reduce the minimum downpayment requirement for first-time home buyers from 20% to 10%. The minimum degree of completion of the building eligible for financing by a bank housing loan was also lowered. These measures should contribute to the continuation of good realisation of housing loans going forward. Growth in housing loan demand was also facilitated by favourable borrowing terms, as well as the increase in disposable income, while the number of completed flats has been rising continuously since 2016 thanks to the accelerated procedure for obtaining building permits electronically.

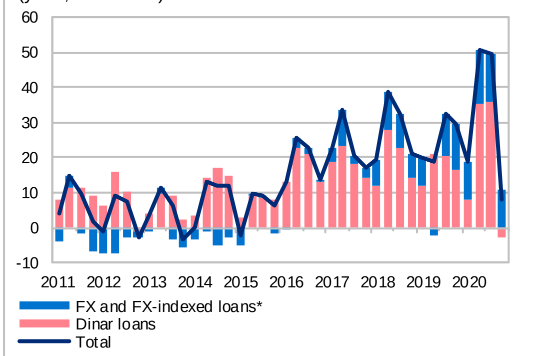
The volume of new household loans in Q4 was higher than in Q3 (by 9.5%), equalling RSD 131.5 bn,

Y-o-y growth in household lending slowed down during Q4
(y-o-y growth rates at the programme exchange rate, in %)



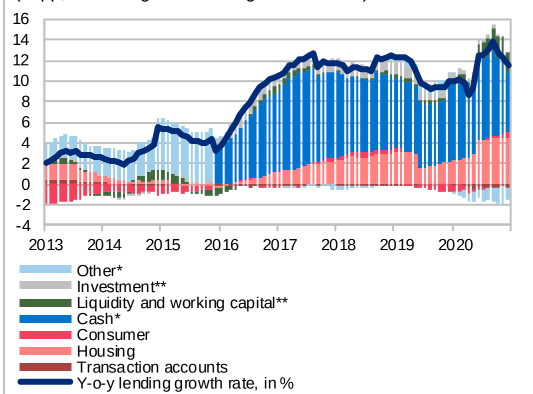
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

Lending growth in Q4 was driven by euro-indexed loans
(yield, in RSD bn)



Source: NBS.
* Excluding the exchange rate effect.

In Q4, cash and housing loans again made the biggest contribution to y-o-y growth in household
(in pp, excluding the exchange rate effect)



Source: NBS.
* Until December 2015, the contribution of cash loans is shown within the contribution of other loans.
** Loans extended to entrepreneurs.

while compared to the same period last year, it was lower by 6.4%. The bulk of disbursed loans were cash loans (60.0%), which were almost entirely in dinars, as usual. They are followed by housing loans with a 22.6% share, and their volume grew by almost 15% relative to the amount approved in Q3, which is proof of the continuation of positive trends in the housing loan category. Other unclassified loans accounted for 14.4% of new loans to households, of which an important share pertains to loans to entrepreneurs under the Guarantee Scheme.

Dinarisation of household receivables[12] equalled 55.9% in December, down by 0.6 pp from September, due to the stepped-up disbursement of housing loans in Q4. Even so, the degree of dinarisation of household receivables is still higher than at end-2019 (by 0.6 pp). At the end of the year, the share of euro receivables stood at 43.8%, and of Swiss francs at 0.2%.

The share of NPLs in total household loans at end-2020 remained at the September minimum of 3.6%.[13] It decreased by 7.6 pp relative to the period just before the adoption of the NPL Resolution Strategy. In terms of purpose, the NPL ratio declined further for housing and consumer loans during Q4, while less dominant categories – credit cards and current account overdrafts – recorded growth.

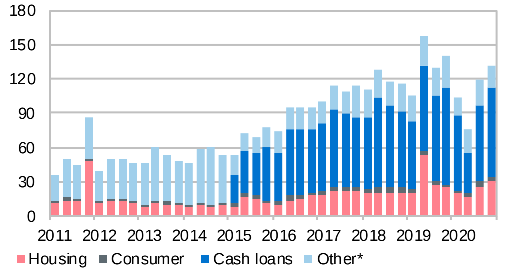
2. Cost of household borrowing

Lending activity in the household sector continued owing to the positive impact of favourable borrowing conditions.

The weighted average interest rate on new dinar loans to households in Q4 equalled 8.6%, 0.3 pp above the average level recorded in the previous quarter. In December, the rate stood at 8.5%, which is 12.1 pp lower than in May 2013, when the cycle of NBS monetary policy easing began. The increase in the average rate on dinar loans during Q4 is primarily attributable to the rise in interest rates on other unclassified loans, by 0.3 pp to 5.9%. On the other hand, interest rates on the dominant, cash loans dipped by 0.1 pp to 9.1% on average in Q4, as did the rates on consumer loans (to 2.7%).

The weighted average interest rate on new euro-indexed loans to households measured 3.3% in Q4, unchanged compared to the previous quarter. Also, interest rate on euro-indexed housing loans edged

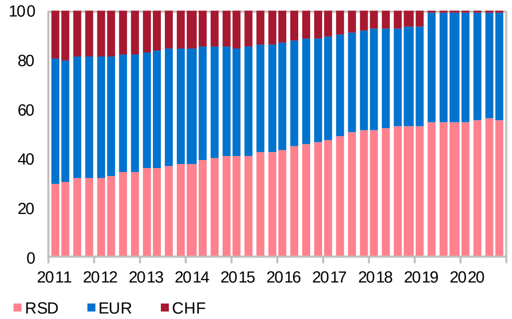
The bulk of new loans in Q4 were cash loans, though the amount of housing loans also increased
(new loans, in RSD bn)



Source. NBS.

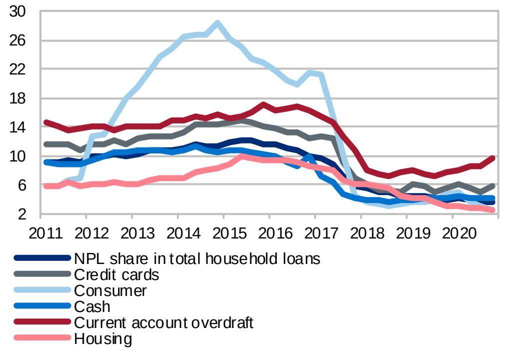
* Until December 2014, the 'other loans' category implied cash and other loans together.

More than a half of household receivables were dinar loans
(currency structure, in %)



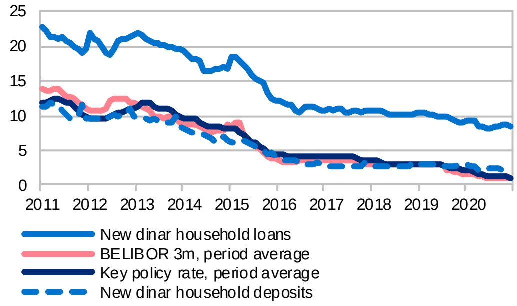
Source: NBS.

At end-Q4, the share of NPLs in total household loans remained at the September minimum
(gross principle, in %)



Source: NBS.

Average price of dinar loans* to households remaind favourable during Q4
(weighted average values, per annum, in %)



Source: NBS.

* Excluding revolving loans, current account overdrafts and credit card debt.

[12] Including non-profit institutions and entrepreneurs.

[13] Including entrepreneurs and private households, the share was also kept at the September level (3.6%).

down further in Q4 and stood at 2.6% in December. Rates on consumer loans (4.6% on average in Q4) were slightly higher than in Q3, and the price of cash loans (2.9%) almost unchanged.

3. Assessment of loan supply and demand – based on the results of bank lending surveys

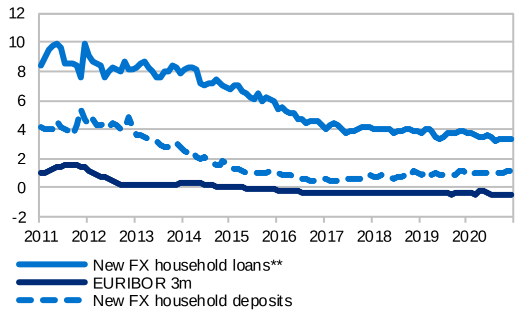
The results of the NBS's January Bank Lending Survey indicate that, consistent with banks' expectations set out in the October survey, household credit standards were eased in Q4. According to banks' estimates, this was facilitated by positive prospects in the real estate market and increased competition in the banking sector. The easing of standards referred primarily to cash and refinancing loans, as well as housing loans. As for Q1 2021, banks expect a slight tightening of standards for household loan approval due to increased risk aversion against the backdrop of the still present uncertainty as to the global outlook of the pandemic and efficiency in suppressing it.

Non-price conditions under which household loans were approved during Q4 remained mostly unchanged, while a slight increase in interest rate margins was accompanied by a decrease in commissions and fees. At the same time, maximum loan maturity was extended, which may be associated with the NBS's proactive measures aimed at mitigating the effects of the crisis and creating conditions for additional household spending, whereby banks are enabled to offer refinancing to their clients, or a change in the maturity date of the last loan instalment.

According to banks, **household loan demand increased during Q4** and was primarily focused on dinar loans for refinancing and euro-indexed housing loans.

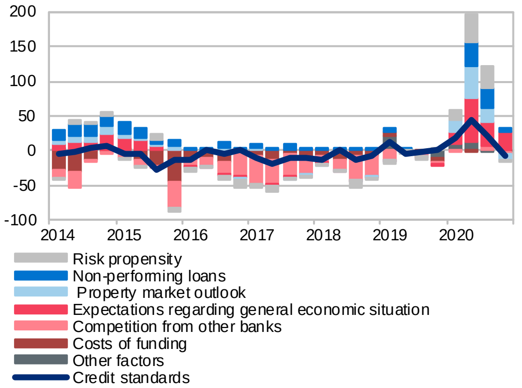
The results of the survey conducted by the European Investment Bank for the period March–September 2020 indicate that household loan demand in this period was negatively affected by the restrained spending in pandemic conditions, while in the upcoming six months housing loan demand, which did not record a major fall since the pandemic broke out, is expected to continue to contribute to the rising demand, together with growing consumer confidence.

Average price of FX loans close to the minimum*
(weighted average values, per annum, in %)



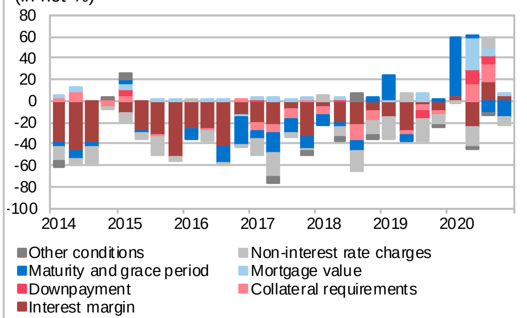
Sources: NBS and European Banking Federation.
* Excluding revolving loans, current account overdrafts and credit card debt.
** Euro and euro-indexed.

Credit standards for households eased in Q4
(in net %)



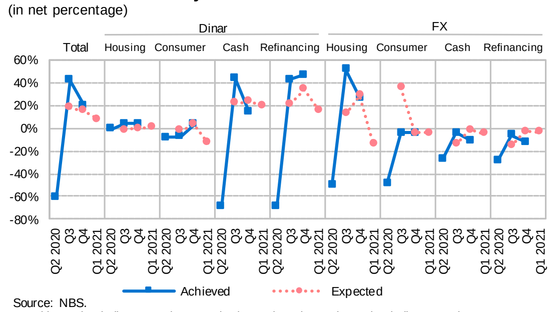
Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

Q4 saw a relaxation in terms of loan maturity and grace period, as well as commissions and fees
(in net %)



Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

In Q4, the recovery of citizens' loan demand exceeded expectations from the October survey
(in net percentage)



Source: NBS.
* Positive value indicates an increase in demand, and negative value indicates a decrease.

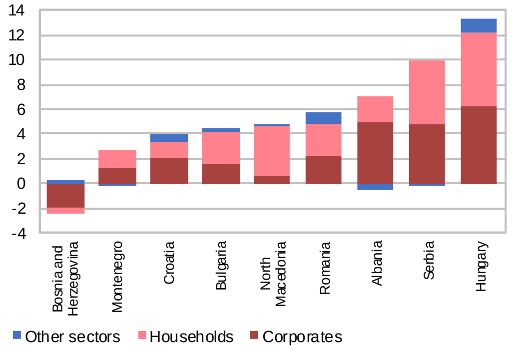
III. Regional comparison[14]

The 9.9% rise in domestic loans in Serbia in 2020 (both nominally and excluding the exchange rate effect) was among the highest in the region. A higher loan increase was achieved only in Hungary (13.4%). In other countries of the region, lending mostly rose between 4% and 7%, while in Bosnia and Herzegovina it posted a fall. In the majority of countries in the region, household loans were behind the rise in lending activity in 2020.

Such developments, together with a fall in economic activity caused by the coronavirus pandemic, resulted in the increased share of domestic lending in GDP in all countries of the region in 2020, notably in countries that recorded the sharpest economic fall (Montenegro and Croatia). In Serbia, this share equalled 48.3% at end-2020, which is slightly lower than the regional average. The share of domestic loans in GDP in the region ranged from 28% (in Romania) to 62% (in Croatia).[15]

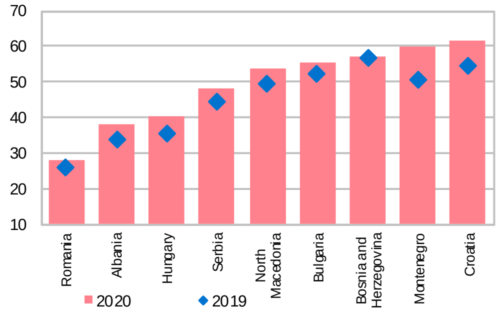
The results of the **CESEE Bank Lending Survey – H2 2020 – Autumn**,[16] conducted by the European Investment Bank and covering the period from March to September 2020, indicate that for the most part, developments in the Serbian loan market were more favourable than the regional average. Thus, unlike the regional average, loan demand in Serbia continued to increase. Along with the assessment that loan demand in Serbia is always above the regional average, the survey voiced expectations that its growth will continue going forward. In contrast, the tightening of credit standards was at the average level for the region. Thanks to the funds from international financial institutions and a rise in corporate and household deposits, access to funding was facilitated in the prior period and continued to be above the regional average. In the observed period, unlike the regional average, the trend of NPL reduction continued. Going forward, expectations are that there might be an increase in NPLs similarly as in the region, which might indicate a deterioration of the quality of banks' balance sheet assets amid the pandemic.

In most countries of the region, household lending gave a greater boost to lending growth in 2020
(contributions to nominal y-o-y growth rates, in pp)



Sources: Websites of central banks and NBS calculation.

The share of loans in GDP increased in all countries of the region during 2020
(in %)



Sources: Websites of central banks, Eurostat and NBS calculation.
Note: The shares for Bosnia and Herzegovina, Montenegro, Bulgaria, Romania, Albania and North Macedonia were estimated based on GDP data as at Q3 2020.

[14] According to the NBS's calculation, based on data from the websites of central banks and Eurostat.

[15] The shares of loans in GDP for Bosnia and Herzegovina, Montenegro, Bulgaria, North Macedonia, Romania and Albania were estimated based on their GDP data as at Q3 2020.

[16] https://www.eib.org/en/publications/cesee-bls-2020-h2

Measures of the NBS and the Serbian Government aimed at supporting lending activity in conditions of the COVID-19 pandemic

	2020										2021
	March	April	May	June	July	August	September	October	November	December	January
Monetary policy measures											
Key policy rate											
	Cut by 0.5 pp, to 1.75%	Cut by 0.25 pp, to 1.5%		Cut by 0.25 pp, to 1.25%						Cut by 0.25 pp, to 1.00%	
More favourable conditions for Guarantee Scheme loans											
					Stimulated approval of dinar loans under the Guarantee Scheme at lower interest rates – a reduction of at least 50 bp below the maximum rate (1M BELIBOR + 2.5 pp) is compensated by the NBS through a 50 bp higher remuneration rate on allocated required reserves						
Additional NBS measures											
Moratorium											
		Moratorium on debt payments				Moratorium on debt payments				Moratorium on debt payments for debtors unable to settle their liabilities due to the pandemic, with the extension of the repayment period so that the debtor's monthly liabilities are not higher than before the approval of facilities	
Housing loans											
				Reduction of mandatory downpayment for first-time home buyers from 20% to 10%							
						Reduction of the minimum degree of completion of a building eligible for financing via bank housing loans					
						Extension of repayment term for housing loans by up to five years					
Other loans											
					Extension of repayment term for household loans (except housing) by up to eight years						
						Until end-2021 banks allowed to extend household dinar loans (up to 90,000 dinars) only based on signed statement on employment/pension					
Serbian Government measures											
Guarantee Scheme											
		With Government guarantees, commercial banks may approve to micro, small and medium-sized enterprises and entrepreneurs a total of EUR 2 bn in loans for liquidity and the procurement of working capital which should be put into use by end-2021. Loans under the Guarantee Scheme may be approved in dinars at the maximum interest rate of 1M BELIBOR + 2.5 pp or in euros, at the maximum interest rate of 3M EURIBOR + 3.0 pp. Maximum loan maturity is 36 months, including the grace period of 9-12 months									

Source: NBS.

Methodological notes

- Loans imply bank receivables under the loan principal.
- Receivables imply receivables under loans, interests and charges, paid deposits, securities and shares of companies.
- All types of receivables are disclosed according to the gross principle, i.e. not reduced by allowances for impairment.
- Dinar receivables are receivables extended in dinars without an FX-clause. The FX clause implies a currency clause that defines hedging against changes in the dinar exchange rate.
- When excluding the exchange rate effect, the calculation is based on the original currency composition and the exchange rate of the dinar against the euro, the US dollar and the Swiss franc as at 30 September 2014.
- New business includes all financial arrangements (credits and deposits) the terms of which are agreed for the first time during the reporting month, as well as all existing contracts the terms of which were re-agreed (through annexes), with the active participation of the client.
- The sectoral classification of monetary statistics is used. The corporate sector includes public enterprises, companies and the non-financial sector in bankruptcy, while the household sector includes citizens, entrepreneurs, private households with employed persons and registered farmers. By way of exception:
  - with newly-approved loans, the household sector includes non-profit institutions serving households (in accordance with the ECB methodology);
  - with non-performing loans, the sectors are presented separately, but are aggregated for the sake of comparison with the monetary statistics data.
- The term non-performing loans implies the stock of the total outstanding debt under individual loans (including the amount of arrears):
  - where the payment of principal or interest is past due (within the meaning of the decision on classification of balance sheet assets and off-balance sheet items) over 90 days;
  - where 90 days of interest payments (or more) have been attributed to the loan balance, capitalized, refinanced or delayed;
  - where payments are less than 90 days overdue, but the bank assessed that the borrower's repayment ability has deteriorated and doubts that the payments will be made in full.