National Bank of Serbia

ECONOMIC RESEARCH AND STATISTICS DEPARTMENT

TRENDS IN LENDING

Third Quarter Report 2024

Belgrade, November 2024

Introductory note

Trends in Lending is an in-depth analysis of the latest trends in lending, which aims to ensure a 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 the 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 increment and 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 (NBS) 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' perception 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 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. Assets of banks participating in the survey on average account for 50% of total bank assets in the region.

ABBREVIATIONS

GDP – gross domestic product
ECB – European Central Bank
mn – million
bn – billion
y-o-y – year-on-year
NPL – non-performing loan
pp – percentage point
Q – quarter

Other generally accepted abbreviations are not cited.

Contents

Overview

Y-o-y growth in **total domestic loans**, excluding the exchange rate effect, accelerated further to 6.6% in September (from 4.7% in June), thanks to softened credit standards and lower funding costs. **Corporate loans** sped up to 5.0% y-o-y and **household loans** – to 7.8%.

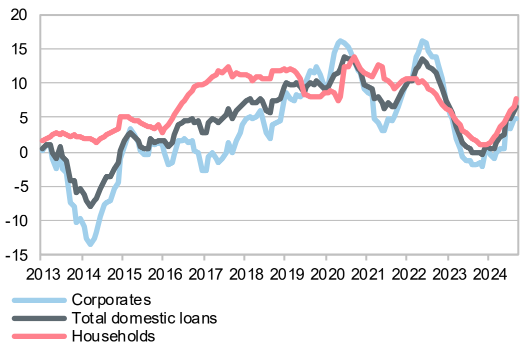
Total domestic bank receivables from the non-monetary sector (which apart from loan receivables also include receivables on account of investment in securities, interest and fees and other receivables) picked up y-o-y to a similar extent as domestic loans, to 6.9% in September.

Corporate loans, excluding the exchange rate effect, rose by 1.9% or RSD 32.2 bn in Q3, with more than three-fifths of the increase referring to dinar loans. Corporates mostly resorted to liquidity and working capital loans, followed by investment loans. Corporates increased their borrowing across almost all sectors, most notably in transport and manufacturing. Banks lent the most to large enterprises. As a result, the share of loans approved to micro, small and medium-sized enterprises in total corporate loans declined to 58.7% in September, though their stock was 5.6% higher y-o-y and 0.9% higher q-o-q.

Household loans, excluding the exchange rate effect, increased by RSD 48.7 bn or 3.2% in Q3, of which more than two-thirds referred to dinar loans. The increase was guided by cash loans, supported by promotional offers of banks, lower interest rates and softened credit standards. Next were housing loans, the demand for which increased for the third quarter in a row according to banks. Households' borrowing under cash loans and current accounts also rose marginally. In September, y-o-y growth in cash loans accelerated to 11.6% and that in housing loans – to 4.4%.

The NBS continued to ease monetary conditions cautiously in Q3, spurring **a further fall in interest rates on dinar loans** initiated already late last year due to banks' expectations that the NBS would start easing its monetary policy soon. As the ECB started relaxing its monetary policy, **interest rates on euro-denominated loans also declined moderately in the domestic market** in Q3. The average interest

Y-o-y growth in lending activity continued to accelerate in Q3
(y-o-y growth rates at the programme exchange rate, in %)



Source: NBS.

rate on dinar household loans dropped to 11.3% in Q3 (from 12.0% in Q2), and on dinar corporate loans to 7.8% (from 8.1%). The average interest rate on euro household loans fell by 0.1 pp to 6.1%, and the rate on corporate loans – by 0.3 pp to 6.5%.

The **dinarisation** of total corporate and household receivables gained 0.7 pp in Q3, coming to 36.8% in September, mostly thanks to **higher dinar lending.** The degree of dinarisation of corporate receivables rose to 20.0% in September (from 19.3% in June), and the degree of dinarisation of household receivables to 55.3% (from 54.9%). Continued rise in dinar loans has been supported by the provisions of the Decision on Capital Adequacy of Banks. Under this decision, when calculating the capital adequacy ratio, as of 2025, banks shall reduce their capital if the share of FX-indexed and FX loans in total loans to the non-financial and non-governmental sector approved after 1 July 2023 exceeds a specific threshold (71% in 2025).

As a result of lending growth and lower non-performing receivables, the **share of NPLs in total loans dropped to a new low of 2.7% in August, where it stayed in September.** This is a confirmation of the banking sector's financial soundness, underpinned by the robust regulatory framework for banks and the adopted macroprudential policy measures synchronised with monetary policy measures. NPL coverage remained high – allowances for impairment of total loans measured 104.7% of gross NPLs in September, while allowances for impairment of NPLs stood at 61.8% of gross NPLs.

The capital adequacy ratio[1] at end-Q3 measured 21.85%, significantly above the regulatory minimum (8.0%), which indicates high capitalisation and resilience of the banking sector to external and domestic risks.

[1] The Basel III regulatory framework has been applied since 30 June 2017.

I Corporate sector

1 Corporate loans

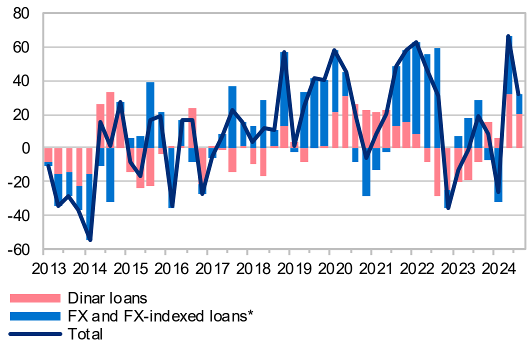
In Q3, corporate loans stepped up their y-o-y growth further, to 5.0% in September (from 4.2% in June). This reflected softened credit standards and lower funding costs, while the negative impact on the loan stock from the maturing of guarantee scheme loans continued to lose strength. In nominal terms, the stock of corporate loans stood at RSD 1,681.9 bn in September, making up a half of banks' loan receivables from the non-monetary sector.

Corporate loans increased in Q3 by RSD 32.2 bn. Borrowing by both companies and public enterprises went up, with more than three-fifths of the increase referring to dinar loans. Continued growth in dinar loans over the past months has been supported by the provisions of the Decision on Capital Adequacy of Banks. Under this decision, when calculating the capital adequacy ratio, as of 2025, banks shall reduce their capital if the share of FX-indexed and FX loans in total loans approved to the non-financial and non-governmental sector after 1 July 2023 exceeds a specific threshold (71% in 2025)[2].

In terms of loan purpose, in Q3 companies resorted the most to liquidity and working capital loans, and to investment loans, which gained RSD 21.8 bn and RSD 16.7 bn, respectively. At the same time, there was a decline in borrowing under import loans (by RSD 4.3 bn), current accounts (by RSD 1.5 bn) and other non-categorised loans (RSD 0.4 bn). As a result, the share of liquidity and working capital loans in total corporate loans climbed by 0.4 pp in Q3 to 47.8% in September, and the share of investment loans – by 0.2 pp to 40.6%.

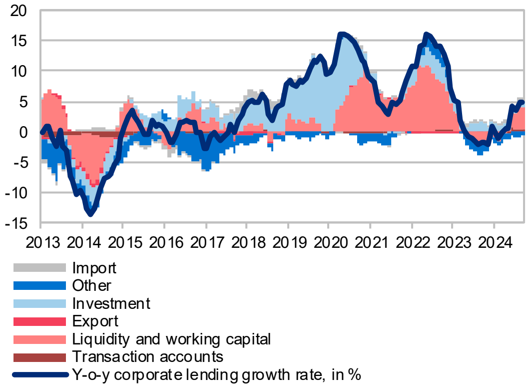
Company borrowing across most sectors expanded in Q3, particularly in transport and manufacturing. Borrowing by companies in the energy sector was the only to go down. The share of long-term loans in total corporate loans measured 82.9% in September (compared to 84.8% in June). **In terms of company size,** banks lent to large enterprises the most. As a result, the share of loans approved to micro, small and medium-sized enterprises in total corporate loans shrank to 58.7% in September from 59.3% in June, though their stock was 5.6% higher y-o-y and 0.9% higher q-o-q.

Dinar loans accounted for more than three-fifths of the increment in corporate loans in Q3
(increment, in RSD bn)



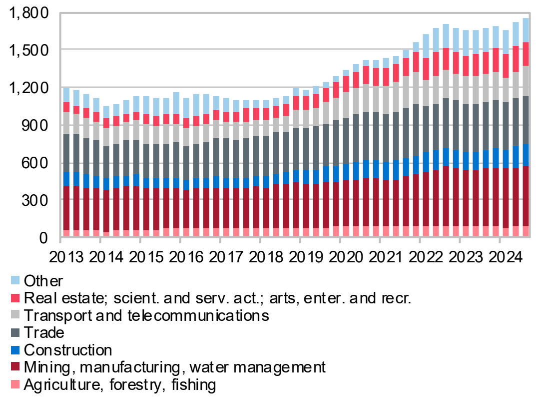
Source: NBS.
* Excluding the exchange rate effect.

Working capital and investment loans contributed the most to y-o-y growth in corporate loans in late Q3
(in pp, excluding the exchange rate effect)



Source: NBS.

Loans to manufacturing and trade make up the bulk of corporate receivables
(stock, in RSD bn)



Source: NBS.

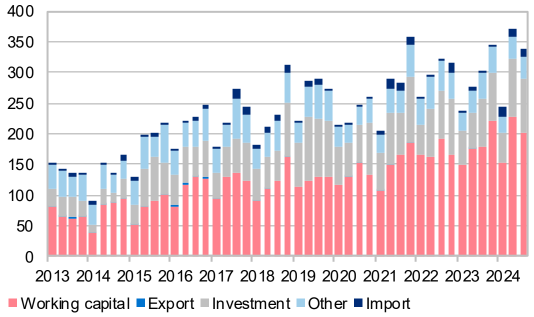
[2] This threshold will go down to 64% in 2026 and 57% in 2027.

The volume of new corporate loans measured RSD 339.1 bn in Q3, up by 12.3% y-o-y. Liquidity and working capital loans remained dominant, making up three-fifths of new corporate loans and rising by 13% y-o-y, with slightly less than a half of these loans approved to micro, small and medium-sized enterprises. Investment loans made up 26% of new loans, and almost 60% of these loans were used by micro, small and medium-sized enterprises.

As dinar receivables increased more than FX-indexed ones, **the degree of dinarisation of corporate receivables** rose from 19.3% in June to 20.0% in September. The share of euro-indexed and euro receivables shrank by 0.7 pp to 79.8% in September, while the share of US dollar receivables stayed the same (0.1%). Of FX and FX-indexed loans, 79% were linked to the EURIBOR, mostly three-month. Of dinar corporate loans, 27% were linked to the BELIBOR, mostly one-month.

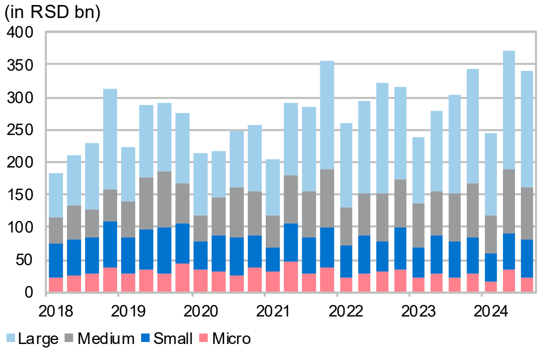
The share of NPLs in total corporate loans continued down in Q3, measuring 1.8% in September, and 2.0% for loans to companies only, which is a decrease by 0.2 pp and 0.3 pp, respectively, from June.[3] Observed by industry, the share of NPLs shrank across almost all sectors, moving from 0.4% in the real estate sector to 3.5% in agriculture in September, and dropping to new lows in construction (1.35%) and real estate in August. This indicates that economic support measures during the pandemic were adequate and timely and bank asset quality was preserved even after their expiry, as well as that the rise in the costs of repayment of existing corporate loans did not lead to any significant increase in NPLs. **Relative to July 2015,** i.e. immediately before the start of implementation of the NPL Resolution Strategy**, the share of NPLs in total corporate loans went down by 23.2 pp,** and the most pronounced decrease was recorded in construction, real estate and trade.

Working capital and investment loans were dominant in Q3 as well
(new loans, in RSD bn)



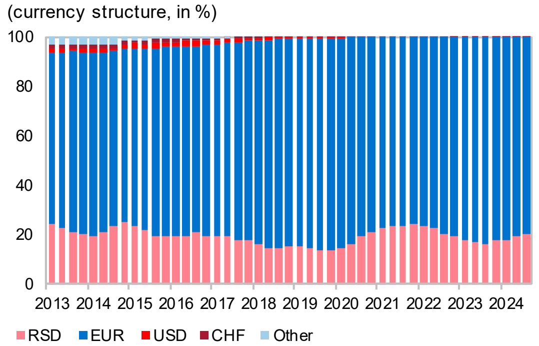
Source: NBS.

Loans to micro, small and medium-sized enterprises made up slightly more than a half of new loans in Q3
(in RSD bn)



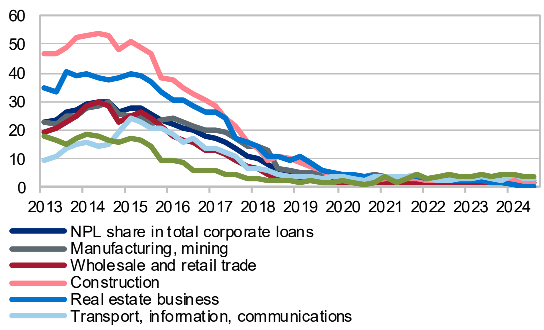
Source: NBS.

Robust growth in dinar loans led to a further rise in dinarisation of receivables in Q3
(currency structure, in %)



Source: NBS.

In some sectors, the share of NPLs fell to new lows in Q3
(gross principle, in %)



Source: NBS.

[3] Important factors contributing to the sharp fall in NPLs from 2016 onwards were the successful implementation of the NPL Resolution Strategy and implementation of the Decision on the Accounting Write-Off of Bank Balance Sheet Assets. In accordance with the Strategy, the NBS adopted the Action Plan (https://nbs.rs/en/scripts/showcontent/index.html?id=8678), aimed at strengthening banks' capacity for NPL resolution and contributing to the development of the NPL market. Some activities in the action Plan have been fully implemented, in some cases even before the deadline.

2 Cost of corporate borrowing

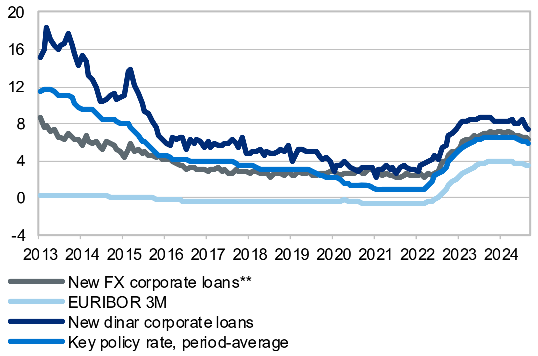
The NBS continued to ease monetary conditions cautiously in Q3, spurring a further fall in interest rates on dinar loans initiated already late last year due to banks' expectations that the NBS would start easing its monetary policy soon. Rates on euro-denominated loans also decreased moderately in Q3 due to the start of monetary policy easing by the ECB.

In June, the NBS first trimmed its key policy rate by 0.25 pp, lowering it by the same amount in July and September. As a result of monetary policy easing, **the weighted average interest rate on new dinar loans declined by 0.3 pp in Q3 to 7.8%**. This reduction reflected the decrease in interest rates on working capital loans to 7.3% (from 8.0%) and on other non-categorised loans – to 8.1% (from 8.5%). The rate on investment loans rose to 8.8% (from 8.2%). In terms of enterprise size, the cost of borrowing decreased for micro, small and medium-sized enterprises and increased for large enterprises. The average interest rate moved between 7.4% for medium-sized to 8.8% for micro enterprises.

The weighted average interest rate on new euro and euro-indexed loans to corporates also decreased in Q3 by 0.3 pp to 6.5%, with rates decreasing in almost all loan categories – liquidity and working capital loans (by 0.3 pp to 6.3%), import loans (by 0.4 pp to 6.3%), investment loans (by 0.5 pp to 6.6%) and other non-categorised loans in euros (by 0.8 pp to 6.7%). The cost of borrowing declined for enterprises of all sizes, so the average cost of borrowing ranged between 6.3% for large to 7.3% for micro enterprises.

Interest rates on corporate loans continued down in Q3*

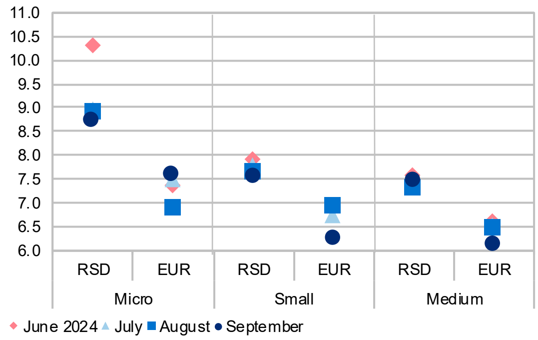
(weighted average values, p.a., in %)



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

All interest rates declined in Q3, except on euro loans to micro enterprises

(weighted average values, p.a., in %)



Source: NBS.

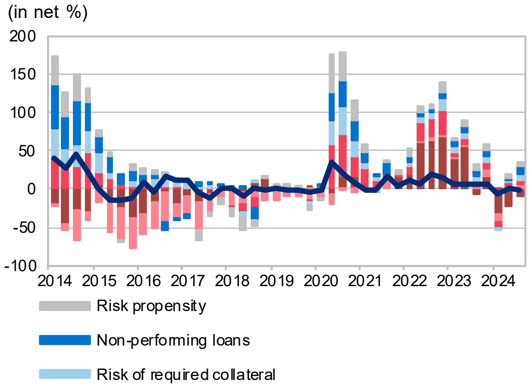
3 Assessment of loan supply and demand – based on the results of bank lending surveys

According to the October NBS bank lending survey, banks slightly relaxed credit standards for corporate loans in Q3, and expect a similar easing in Q4. Standards were eased for long-term dinar loans, but tightened for short-term loans. Standards relaxation was driven by lower funding costs, which can also be associated with NBS and ECB policy rate cuts. Working in the opposite direction were NPLs, lower interbank competition, higher risk perception (lower risk propensity and collateral requirements), and in part also general economic and geopolitical situation.

In Q3, banks additionally lowered interest margins and commissions and fees for enterprises of all sizes,

Corporate credit standards were eased slightly in Q3

(in net %)



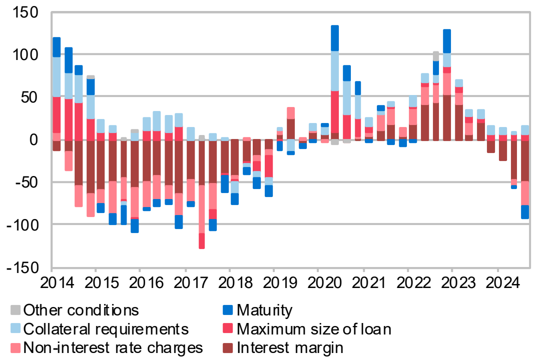
Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

while also extending loan maturity for SMEs. On the other hand, collateral requirements were tightened further and maximum loan amount was reduced.

According to banks, corporate demand for dinar and short-term FX-indexed loans expanded in Q3, but decreasing demand for long-term FX-indexed loans determined the overall assessment that corporate loan demand declined. Demand drivers were working capital, as well as investment and debt restructuring needs, while internal company financing, loans of non-bank institutions and other sources of funding, including internal sources, worked in the opposite direction. Banks expect corporate loan demand to expand in Q4.

Interest rate margins, fees and commissions declined in Q3, and loan maturity was extended

(in net %)

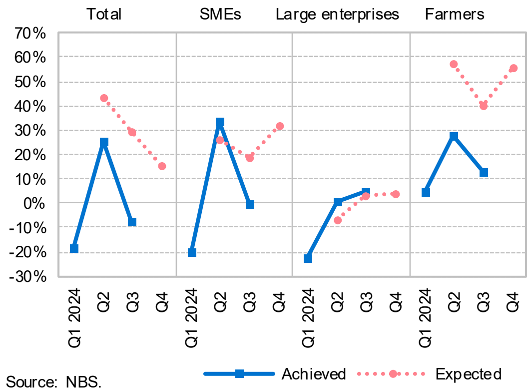


Source: NBS.

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

Contrary to expectations, demand by small and medium-sized enterprises did not change in Q3

(in net %)



Source: NBS.

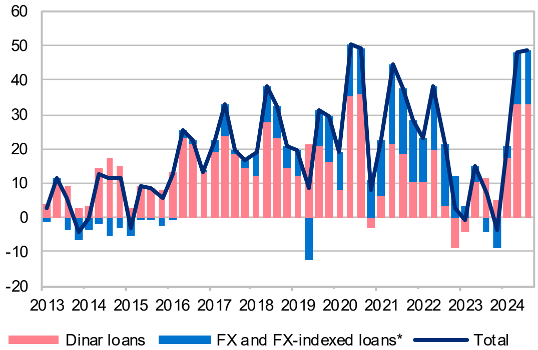
* Positive value indicates an increase in demand, and negative value indicates a decrease.

II Household sector

1 Household loans

Y-o-y growth in household loans gained further momentum in Q3, to 7.8% in September (from 4.9% in June), propped up by further easing of credit standards, increased household loan demand and more favourable financing conditions. Y-o-y growth accelerated also on the back of a gradual waning of the impact of the accounting treatment of housing loan receivables on the stock of loans owing to the adoption of the decision which capped the interest rates on housing loans in September 2023.[4] In nominal terms, the stock of household loans was RSD 1,582.6 bn in September, making up 47.4% of banks' loan receivables from the non-monetary sector.

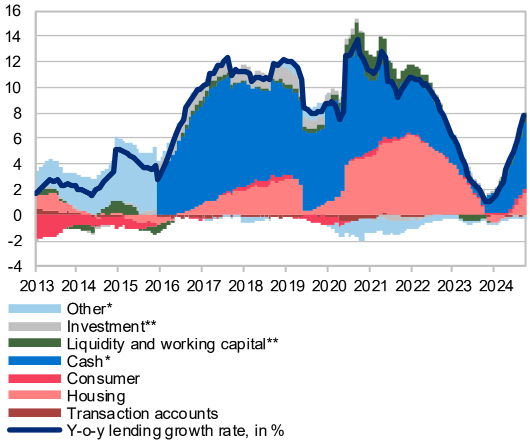
In Q3, more than two-thirds of increase in household loans related to dinar loans
(increment, in RSD bn)



Source: NBS.
* Excluding the exchange rate effect.

Household loans went up by RSD 48.7 bn in Q3, an increase almost identical to that from Q2. The impetus came from cash loans, which gained RSD 31.7 bn, supported by banks' promotional offers, lower interest rates and relaxed credit standards. Almost one third of the increase related to housing loans (up by RSD 15.2 bn) which recorded a demand increase for the third consecutive quarter. This can be associated with the NBS's decision temporarily capping interest rates on housing loans and the initiated monetary policy easing by the ECB, as well as the wage increase. Further, household borrowing went up under consumer loans (RSD 1.5 bn) and current accounts (RSD 1.0 bn), while the stock of other non-categorised loans decreased (by RSD 1.6 bn). Pronounced growth in cash loans led to their increased share in total household loans in Q3, by 0.6 pp to 45.9%, while the share of the next largest category – housing loans edged down by 0.2 pp to 38.5% in September. At the same time, within loans to entrepreneurs, the stock of liquidity and working capital loans increased (RSD 1.4 bn), while the stock of investment loans declined (by RSD 0.3 bn).

In Q3, cash loans remained the greatest contributor to y-o-y household loan growth
(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.

In order to relieve the burden of housing loan users amid rising interest rates, in September 2023, the NBS adopted a decision[5] temporarily capping the interest rate for first-time users of housing loans subject to a

[4] The decline in the stock of housing loans in Q4 2023 was a reflection of the accounting treatment of housing loans due to the decision to temporarily cap the interest rates on housing loans as the value of these receivables was modified down on account of changes in contracted cash flows in its early application. This amount will be gradually returned to the stock of housing loans during the 15 months of the application of this decision.

[5] Decision on Temporary Measures for Banks related to Housing Loans to Natural Persons (RS Official Gazette, Nos 78/2023).

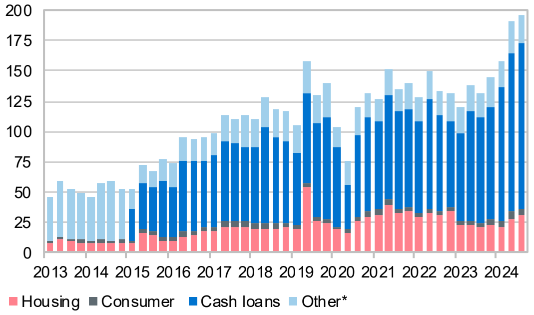
variable interest rate approved before the entry into force of the decision and with the contracted amount of up to EUR 200,000. For those borrowers, the nominal interest rate was temporarily capped, for a 15-month period, starting from the October instalment, and the bank will not be allowed to request from the borrower the interest rate difference arising from the application of this Decision. Through the interest rate capping, instalments of most loans were reduced by 10% to 25%, whereby the disposable household income increased. This Decision temporarily capped the interest rates on new housing loans approved in the period of the Decision implementation, while also enabling early repayment of a housing loan under favourable conditions. Housing loans were also supported by earlier amendments to regulations. Namely, since 2020 banks were permanently given the option to approve a loan for first-time home buyers amounting to 90% (instead of 80%) of the estimated value of the real estate securing the loan. As for other loan categories, since December 2022, the rescheduling of cash, consumer and other loans without a specific purpose was enabled on a permanent basis, without any repercussions for the banks' capital. In addition, the application of the measure enabling the approval of consumer loans worth up to RSD 90,000 under a simplified procedure was extended until the end of 2024.

The volume of new household loans amounted to RSD 196.5 bn in Q3, up by 48.6% y-o-y. This was driven mainly by cash loans, which accounted for 70% of new household loans. The next largest category were housing loans, which made up 16% of new household loans, rising in volume by 48% y-o-y.

More than two-thirds of household loan growth in Q3 related to dinar borrowing (mostly in the form of cash loans), boosting further the **dinarisation of household receivables,**[6] by 0.4 pp to 55.3% in September. At the same time, the share of euro receivables declined by the same degree, to 44.6%, while the share of receivables in Swiss francs (0.1%) was unchanged. In the structure of FX and FX-indexed household loans, 72% of loans were linked to EURIBOR, mostly six-month. In the structure of dinar household loans, around four-fifths of loans were granted at a fixed rate while the most dominant loans among those approved at a variable rate were loans linked to the three-month BELIBOR.

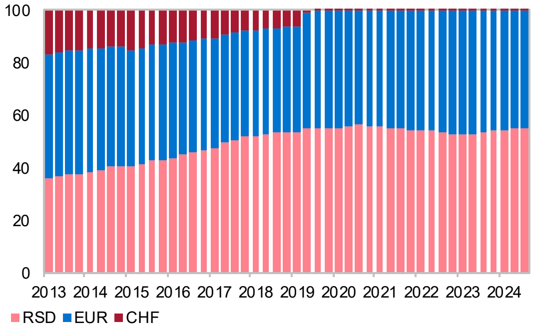
The share of NPLs in total household loans continued down in Q3, dropping to a new historical low in September – 3.7%,[7] down by 0.2 pp from June and by 0.6 pp from end-2023. This share

Cash loans made up the greatest share of new loans in Q3 as well
(new loans, in RSD bn)



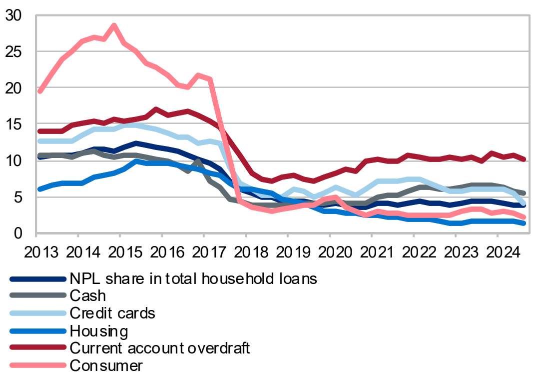
Source. NBS.
* Until December 2014, the 'other loans' category implied cash and other loans together.

As households continued to mostly borrow in dinars in Q3, the dinarisation of household receivables exceeded 55%
(currency structure, in %)



Source: NBS.

NPL share decreased for almost all household loan categories in Q3
(gross principle, in %)



Source: NBS.

[6] Including non-profit institutions and entrepreneurs.
[7] Including natural persons, entrepreneurs and private households.

decreased across almost all loan categories. The NPL indicators, still close to their lowest values, suggest that the NBS and Government measures were timely and that they helped avoid a more serious adverse impact of the crises we have been facing in the past four years on citizens' creditworthiness. Compared to the period just before the adoption of the NPL Resolution Strategy, the NPL share in the household sector is lower by 8.4 pp.

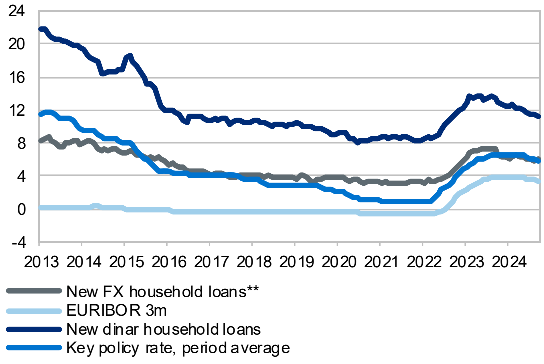
2 Cost of household borrowing

The average cost of household borrowing in dinars and euros slid further in Q3. The decline in interest rates on euro loans was guided by the onset of monetary easing by the NBS and ECB, as well as by the implementation of the NBS decision on capping interest rates on housing loans to natural persons. In case of dinar interest rates, this was the result of cash loan promotional activities taken by some banks.

In Q3, the weighted average interest rate on new dinar household loans equalled 11.3%, down by 0.6 pp from Q2, owing to interest rate decline across all loan categories. The decrease was mostly driven by the further reduction in rates on cash and other non-categorised loans, which slid 0.7 pp each, to 11.75% and 9.3%, respectively. The price of consumer loans edged down by 0.5 pp to 3.1%, and of housing loans[8] by 2.2 pp to 14.7%.

The weighted average rate on new euro-indexed household loans went down by 0.1 pp on average, to 6.1% in Q3. The average interest rate on new housing loans (5.1%), subject to the NBS Decision capping the housing loan interest rates, remained broadly unchanged. Decreasing by 0.2 pp each were interest rates on cash loans (3.2%) and other non-categorised loans (9.7%), while the interest rate on consumer loans edged up slightly (to 6.2%).

Interest rates on household loans dropped further in Q3*
(weighted average values, p.a., in %)

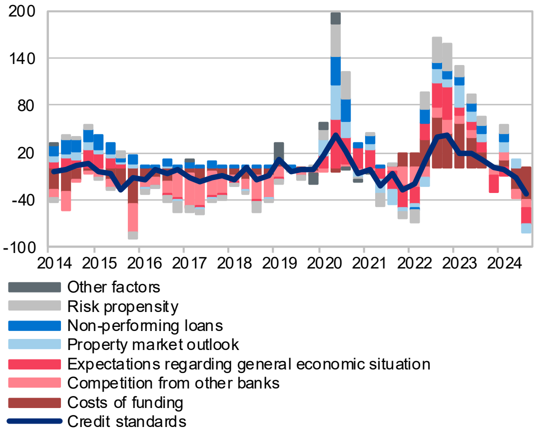


Sources: NBS and European Banking Federation.
* Excluding revolving loans, current account overdrafts and credit card debt.
** Euro and euro-indexed.

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

According to the October NBS bank lending survey, banks further relaxed their credit standards for households in Q3, more so than anticipated in the previous survey. Standards were eased for dinar cash loans, refinancing loans and consumer loans, as well as for FX-indexed housing loans. Standard relaxation was motivated by lower funding costs, positive expectations regarding

Several factors impacted the easing of household credit standards in Q3
(in net %)



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

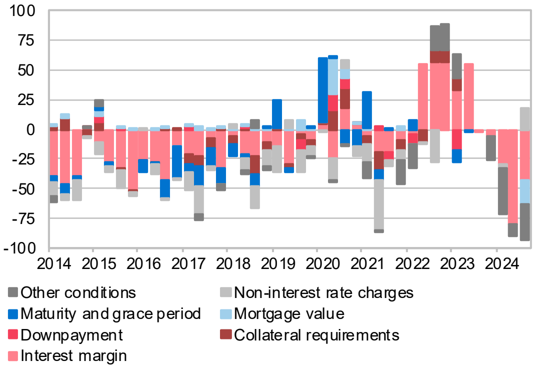
[8] Loans used for housing adaptation and energy efficiency which are costlier than housing loans.

economic activity, interbank competition and positive outlook in the real estate market. Banks expect that lower funding costs and interbank competition will drive further standards easing in Q4.

Survey results suggest that interest margins narrowed in Q3 as well, somewhat more for dinar loans. For the first time after a long while mortgage value decreased, while commissions and fees went up. Other credit conditions (collateral requirements, down payment, deposit and maturity) remained unchanged.

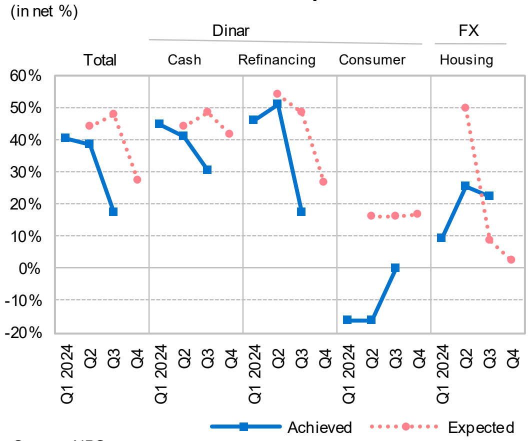
Household loan demand continued up in Q3, though less so than anticipated in the July survey. Demand for dinar cash and refinancing loans, as well as FX-indexed housing and consumer loans, went up. In banks' view, the rise in demand was driven by the need to refinance outstanding loans and purchase real estates and durable consumer goods, with a positive impetus coming from higher wages. The same factors should continue to drive demand in Q4.

In Q3, banks lowered interest margins further, and after a longer while, also the value of mortgage for household loans
(in net %)



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

Household demand for housing loans expanded in Q3 for the third consecutive quarter
(in net %)



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

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 expressed 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 31 October 2022.
- 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 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.