NATIONAL BANK OF SERBIA
Economic Research and Statistics Department

TRENDS IN LENDING

Second Quarter Report 2022

Belgrade, September 2022

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 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 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. The assets of banks participating in the survey make up on average 50% of total assets of banks in the region.

ABBREVIATIONS

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

Other generally accepted abbreviations are not cited.

Contents

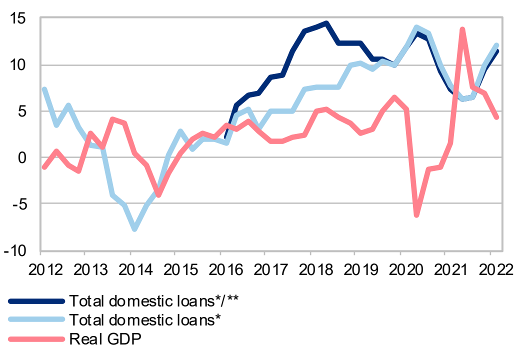
Overview

Y-o-y growth in lending to the non-monetary sector accelerated further in June relative to March **and equalled 13.1%,** excluding the exchange rate effect. **Lending growth in Serbia, which was again among the highest in the region this June,**[1] **was still largely propped by corporate rather than by household lending** (from 8.0 pp compared to 4.6 pp).

Driven by the expansion in lending, **total domestic bank receivables to the non-monetary sector** (which, in addition to loan receivables, also include receivables in respect of investment in securities, interest and fees and other receivables) also picked up their y-o-y growth to 12.9% in June.

Corporate loans went up **RSD 48.3 bn** in Q2, excluding the exchange rate effect. Unlike Q1, this time such growth was more supported by company lending than by lending to public enterprises. Corporates still largely relied on working capital loans, though to a significantly lower extent than in Q1, while the realisation of investment and other non-categorised loans increased. Corporates from the majority of sectors stepped up their borrowing, notably the ones from trade, energy and manufacturing. In terms of size, large corporates borrowed the most, followed by SMEs.

Y-o-y lending growth accelerated further in Q2
(y-o-y growth rates, in %)

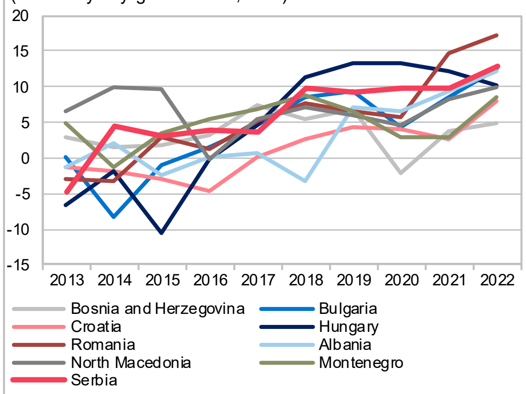


Sources: NBS and SORS.
* Excluding the exchange rate effect.
** Excluding the effect of NPL write-off and sale since early 2016.

Household loans rose by RSD 38.4 bn in Q2, excluding the exchange rate effect, which is lower than the increase in the corresponding period in 2021, when citizens were able to use facilities that enabled a halt in the repayment of loans, as well as extension of the payment term and loan refinancing with a six-month grace period. Cash and housing loans gave an equal contribution to lending growth in Q2, leading to further growth in the share of housing loans in total household lending (to 39.4% in June). Housing loans continued to rise in two digits, measuring 14.3% in June (excluding the exchange rate effect), supported by the rise in employment and wages, favourable borrowing terms and NBS measures (reduced minimum downpayment for first-time home buyers, lower degree of completion of a building, up-to-five year extension in repayment term for housing loans), as well as the high demand and supply of real estate.

Despite the rise in loan interest rates during Q2, **terms of borrowing in the domestic market can still be assessed as favourable** from the standpoint of bolstering lending activity and, by extension, economic growth. Given that last October the NBS began with gradual monetary policy tightening through an increase in the weighted average rate at one-week reverse repo auctions, and since this April by raising its key policy rate, the interest rates on new dinar loans to corporates and households, continued gradually up, averaging 3.8% and 9.1% respectively in Q2 (compared to 3.3% and 8.5%,

Lending growth in Serbia in Q2 was among the highest in the region
(nominal y-o-y growth rates, in %)



Sources: Websites of central banks and NBS calculation.

respectively in the first quarter). Simultaneously, interest rates on euro loans were adjusted less than those on dinar loans (by 0.2 pp each), averaging 2.6% for the corporate and 3.6% for the household sector in Q2.

Dinarisation of total corporate and household receivables in Q2 edged down by 0.6 pp to 37.2% in June, due to a faster rise in FX-indexed compared

[1] The comparison includes Albania, Bosnia and Herzegovina, Bulgaria, Hungary, Romania, North Macedonia, Croatia and Montenegro.

to dinar receivables. Of this, the degree of dinarisation of corporate receivables dipped 1.0 pp to 22.5% in June, owing to the rise in FX-indexed receivables as well as the dinar loans under the guarantee scheme falling due. Dinarisation of household receivables remained unchanged in Q2, measuring 54.4%.

The NPL share in total loans stood at 3.26% in June, down by 0.2 pp from March. Thus, this ratio dropped to its **new minimum on record**, indicating that the quality of bank assets has not deteriorated even after the termination of government economic assistance measures, as well as that it does not pose an obstacle to continued expansion in lending. Relative to July 2015, i.e. right before the start of the implementation of the NPL Resolution Strategy, this share dropped by 19.1 pp. Sector-wise, this ratio for corporates also dipped by 0.2 pp in Q2, equalling 2.2% in June, while with households it edged down 0.1 pp to 4.2%. The NPL coverage remains high – allowances for impairment of total loans stood at 90.7% of gross NPLs in June, while allowances for impairment of NPLs equalled 57.0% of gross NPLs.

I Corporate sector

1 Corporate loans

Corporate loans continued to record **two-digit y-o-y growth rates in Q2 as well,** and **their y-o-y growth in June (15.8%) was higher than in March** (13.9%). In nominal terms, corporate loans stood at RSD 1,604.7 bn in June, and their share in GDP[2] at 24.1%, up by 0.2 pp from end-2021.

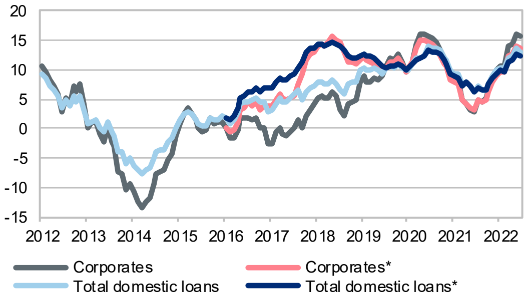
Excluding the exchange rate effect, **corporate loans gained RSD 48.3 bn or 3.1% during Q2,** with almost three-fifths of growth pertaining to company loans. **In terms of purpose**, liquidity and working capital loans recorded the highest growth (RSD 18.7 bn), followed by other non-categorised loans (RSD 15.1 bn) and investment loans (RSD 11.7 bn). In addition, borrowing under import loans also went up (RSD 2.0 bn), as did transaction account overdrafts (RSD 0.7 bn). Liquidity and working capital loans, and investment loans still account for the bulk of corporate loans, though their shares in June (47.7% and 39.3%, respectively) were somewhat lower than in March. **Sector-wise**, during Q2 banks mostly lent to **trade companies**, followed by companies in the **energy**, **manufacturing, transport** and **real estate sectors**, while companies in construction and agriculture, and trade were the only ones to reduce their loan liabilities. Loans approved to micro, small and medium-sized enterprises made up somewhat more than three-fifths of total corporate loans in June, and their y-o-y growth equalled 3.6%. At the same time, the maturity of corporate loans remained almost unchanged from March, with long-term loans accounting for 84.1% of total corporate loans in June.

The volume of new corporate loans in Q2 equalled RSD 294.9 bn, similar to where it stood in the same period last year (up by 1.4%). In Q2, companies continued to predominantly use liquidity and working capital loans (55.4%), with almost three-fifths of these loans being channelled to micro, small and medium-sized enterprises. Investment loans accounted for 25.9% of new corporate loans in Q2, with 56.6% of this loan category being absorbed by the micro, small and medium-sized segment of the market.

Due to the rise in FX-indexed corporate receivables and shrinking of dinar receivables as the guarantee

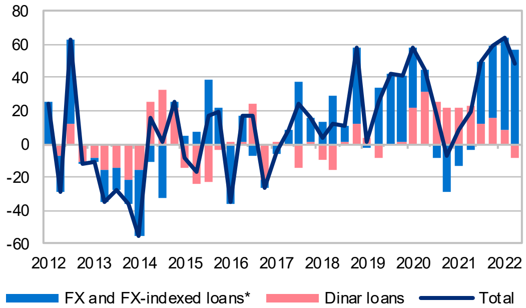
[2] GDP realised in the last four quarters.

Corporate loans continued to record two-digit y-o-y growth rates in Q2
(y-o-y growth rates under the programme exchange rate, in%)



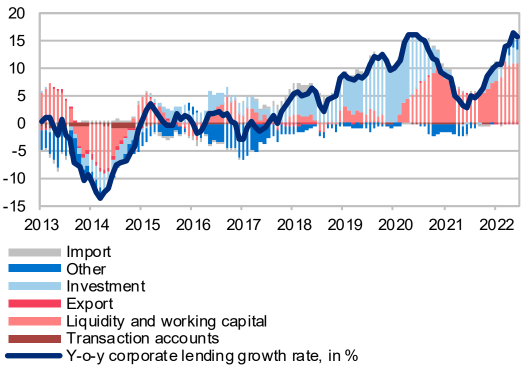
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

Growth in corporate loans was led by euro-indexed loans in Q2 as well
(increment, in RSD bn)



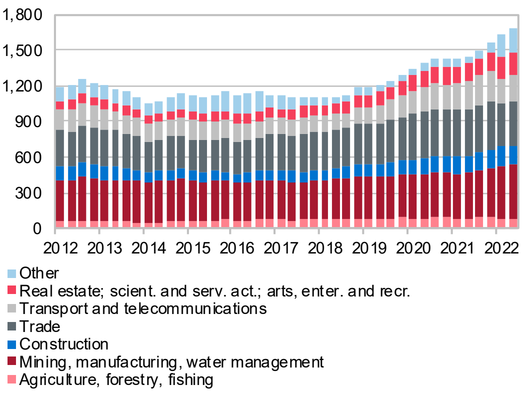
Source: NBS.
* Excluding the exchange rate effect.

Due to the pandemic, working capital loans gave the strongest contribution to y-o-y growth in corporate loans
(in pp, excluding the exchange rate effect)



Source: NBS.

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



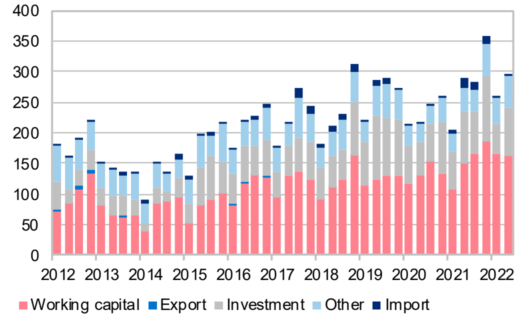
Source: NBS.

scheme loans fell due, the **degree of dinarisation of corporate receivables** dropped in Q2 by 1.0 pp, to **22.5% in June**. The share of euro-indexed and euro receivables increased by the same degree, to 77.2% in June, while the share of dollar receivables (0.3%) remained unchanged.

The NPL share in total corporate loans edged down by 0.2 pp in Q2, to 2.2% in June, its new minimum. Relative to July 2015, i.e. right before **the** beginning of implementation of the NPL Resolution Strategy, **this share dropped by 22.7 pp.**[3] The NPL share in total loans extended to companies also contracted by 0.2 pp to 2.4% in June. This indicates that economic aid measures were adequate and timely and even after they ceased banks managed to maintain asset quality. Compared to March, this indicator decreased in all sectors except in agriculture, with manufacturing, construction and real estate indicators dropping to their new record lows. Relative to the start of Strategy implementation, the most pronounced decrease was recorded in construction, real estate and trade.

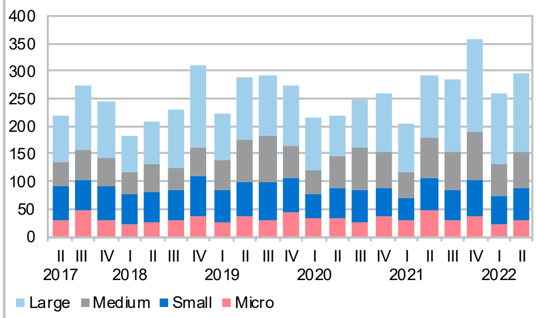
The capital adequacy ratio[4] at end-Q2 measured 19.4%. This is well above the regulatory minimum (8.0%) and signals high capitalisation and resilience of the banking sector to external and domestic risks.

Working capital and investment loans were the most popular in Q2 as well
(new loans, in RSD bn)



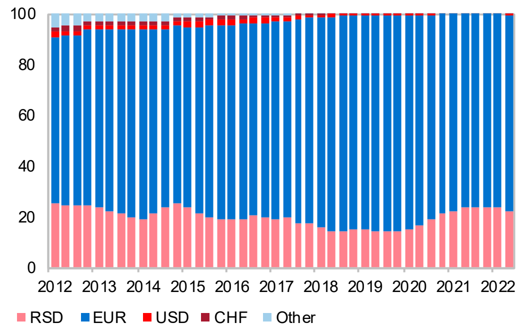
Source: NBS.

Loans to micro, small and medium-sized enterprises made up a half of new loans in Q2
(in RSD bn)



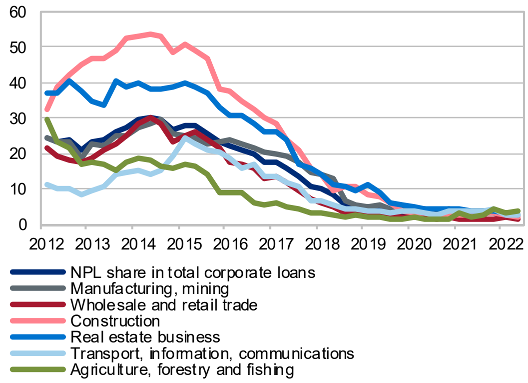
Source: NBS.

The maturing of loans under the guarantee scheme contributed to a decline in dinarisation in Q2 (currency structure, in %)



Source: NBS.

NPL share in some sectors declined to new lows in Q2
(gross principle, in %)



Source: NBS.

2 Cost of corporate borrowing

A moderate tightening in monetary conditions has gradually reflected on the rise in interest rates on dinar corporate loans, while rates on euro-indexed loans continued to move close to the lowest levels. Nevertheless, terms of borrowing can still be assessed as favourable.

Since October 2021 the NBS has embarked on phased monetary tightening by raising the weighted average interest rate on one-week reverse repo auctions, and since April 2022 also by elevating the key policy rate, which led to an **increase in the weighted average interest rate on new dinar corporate loans, by 0.5 pp to 3.8%.** In terms of purpose, interest rates on working capital loans and investment loans went up by 0.7 pp each (to 4.3% and 5.7%, respectively), while rates on other non-categorised loans remained almost unchanged (2.3%). In terms of company size, average

[3] Important drivers behind the strong fall in NPLs from 2016 onwards were the successful implementation of the NPL Resolution Strategy and implementation of the Decision on Accounting Write-off of Bank Balance Sheet Assets. In line with the Strategy, the NBS adopted the Action Plan (*https://nbs.rs/sr_RS/scripts/showcontent/index.html?id=8661*) aimed at strengthening banks' NPL resolution capacities and contributing to the NPL market development. The envisaged activities were fully implemented, some even ahead of the timeframe.

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

interest rates moved from 2.8% for large to 5.7% for micro enterprises.

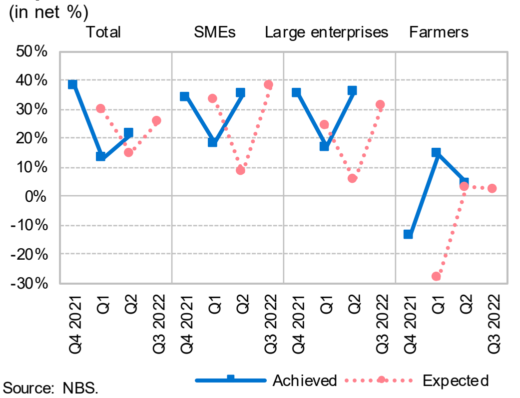
The weighted average interest rate on new corporate euro and euro-indexed loans increased by 0.2 pp to 2.6% in Q2. This increase was driven by the rise in the average interest rate on liquidity and working capital loans (by 0.3 pp to 2.5%) and non-categorised euro-indexed loans (by 0.1 pp to 2.2%), while interest rates on investment loans (2.9%) and import loans (1.8%) remained unchanged. In terms of company size, the average price of borrowing moved from 2.2% for large to 3.7% for micro-enterprises.

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

The results of **the NBS July bank lending survey** indicate that banks additionally tightened their corporate credit standards in Q2, as expected. The tightening was more pronounced for FX-indexed loans and for large enterprises. In banks' view, more stringent standards resulted mainly from higher costs of funding sources, general economic uncertainty and, consequently, lower risk appetite. Apart from this, the categories relating to the riskiness of the required collateral and non-performing receivables also worked toward standard tightening. Banks deem that the same factors will drive a further tightening of standards in Q3.

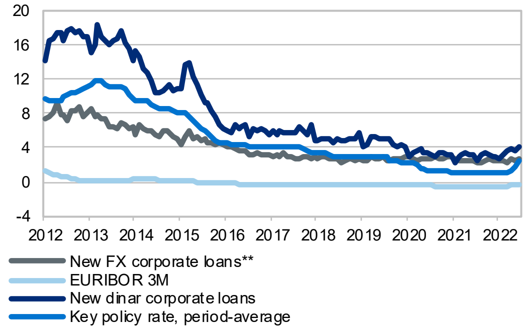
Corporate loan demand continued up in Q2, somewhat more than expected in the April survey. In banks' view, corporate loan demand expanded equally for all company sizes, mainly driven by working capital and refinancing needs. Some banks deem that their loan offer is more favourable compared to the competitors', viewing this as a demand driver. Banks expect that the same factors, along with capital investment financing, will drive demand further in Q3.

Growth in loan demand in Q2 was below expectations from the April survey. A rise is expected in Q3 as well
(in net %)



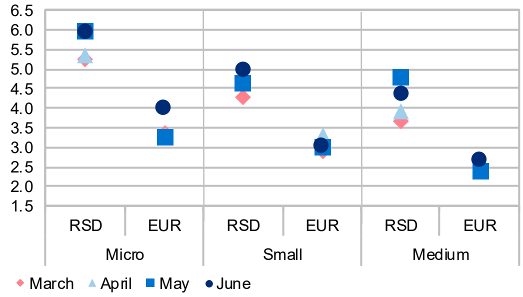
Source: NBS.
* Positive value indicates an increase in demand, and negative value indicates a decrease.

Despite a moderate rise, interest rates on corporate loans remain favourable*
(weighted average values, p.a., in %)



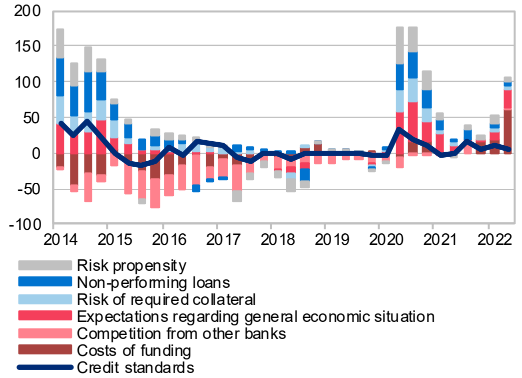
Sources: NBS and European Banking Federation.
* Excluding revolving loans, current account overdrafts and credit card debt.
** Euro and euro-indexed.

Cost of borrowing of micro, small and medium-sized enterprises increased slightly in Q2
(weighted average values, p.a., in %)



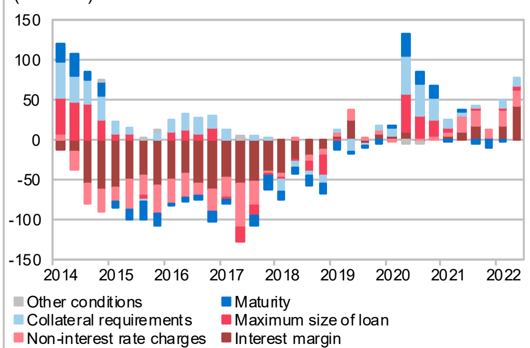
Source: NBS.

Credit corporate standards were tightened further in Q2
(in net %)



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

In Q2, banks tightened price conditions and collateral requirements, and lowered the maximum amount of corporate loans
(in net %)



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

II Household sector

1 Loans to households

In Q2, **y-o-y growth of household loans decelerated to 9.8% in June,** from 10.7% in March, in part reflecting the high base effect, due to the implementation of loan repayment facilities for debtors struck by the pandemic. In nominal terms, the stock of household loans in June stood at RSD 1,425.6 bn, or 46.2% of banks' credit receivables from the non-monetary sector and 21.4% of GDP.[5]

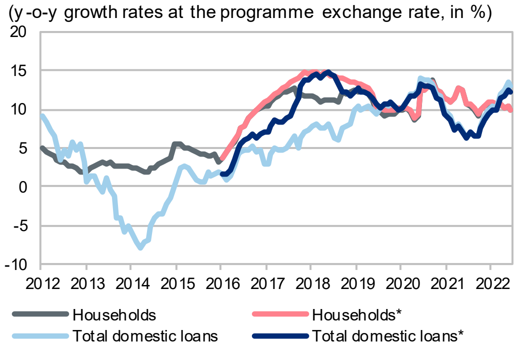
Excluding the exchange rate effect, **household loans gained 2.7%** or **RSD 38.4 bn in Q2,** which is a lesser increase than the one realised in the same period last year. This growth was mainly generated thanks to cash and housing loans which rose by almost equal amounts (by RSD 16.8 bn and RSD 16.6 bn, respectively). These two loan categories are the most dominant among household loans, with cash loans' share flatlining since the beginning of the year (44.0%) and housing loans continuing their stable growth, rising to 39.4% in June. As for loans of other purposes, household liabilities recorded minor changes. At the same time, within loans approved to entrepreneurs, liquidity and working capital loans rose by RSD 3.2 bn and investment loans by RSD 1.0 bn.

The solid disbursement of housing loans is supported by rising employment and wages, favourable borrowing conditions, elevated real estate demand and a continuously rising supply of apartments. Housing lending was also backed by NBS measures adopted in 2020 and extended into 2022. Banks were enabled to lengthen the repayment term for housing loans by five years at most, and to reduce the downpayment for first-time home buyers from 20% to 10%, with a lower minimum degree of construction of the facility whose purchase can be financed by housing loans. In addition, until late 2022 a bank may approve a loan up to RSD 90,000 with up to a two-year term for a client not receiving wage or pension via the account in that bank, whereby access to short-term dinar loans is further facilitated.

The amount of new household loans in Q2 (RSD 149.3 bn) was similar (down by 1.6%) to the Q2 2021 level. Cash loans made up 60.5% of new household loans in Q2, with housing loans constituting 21.7%. The volume of new housing loans worth RSD 32.5 bn

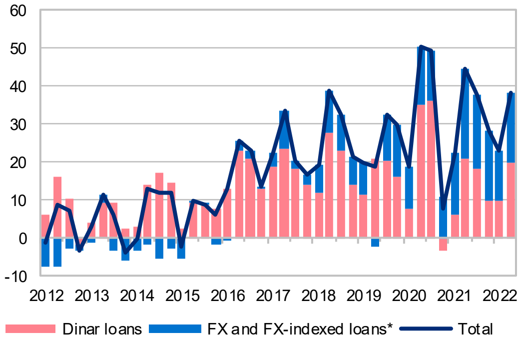
[5] GDP realised in the last four quarters.

Y-o-y growth in household loans decelerated in Q2
(y-o-y growth rates at the programme exchange rate, in %)



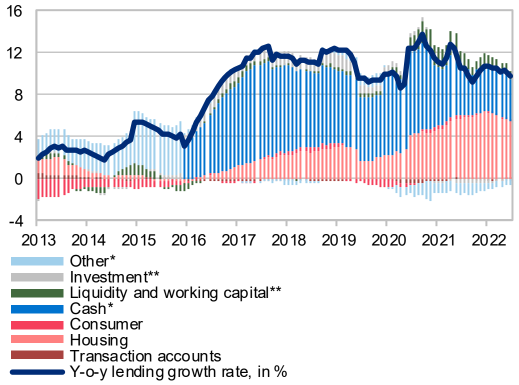
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

Dinar and FX-indexed loans rose at an almost equal pace in Q2
(increment, in RSD bn)



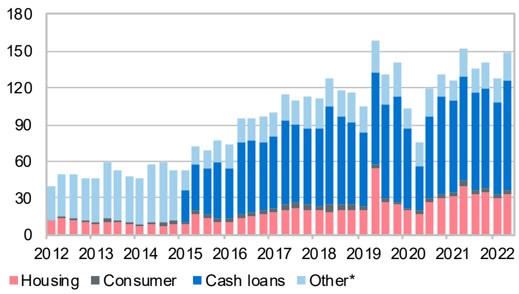
Source: NBS.
* Excluding the exchange rate effect.

Since June 2021, housing loans have been providing the strongest contribution to y-o-y growth in household loans
(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.

The bulk of new loans in Q2 constituted of cash and housing loans
(new loans, in RSD bn)



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

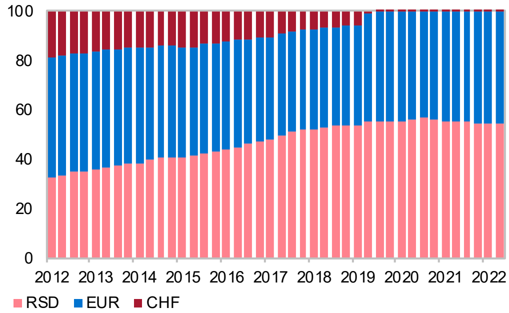
in Q2 testifies to the stable growth in household demand for real estate.

As dinar and FX-indexed receivables rose at an equal pace in Q2, the **dinarisation of the stock of household receivables**[6] did not change from March and stood at 54.4% in June. The shares of euro (45.5%) and Swiss franc (0.1%) receivables did not change relative to March either.

The NPL share in total household loans equalled 4.2%[7] in June, i.e. was unchanged from March. Favourable NPL indicators suggest that the measures of the NBS and the Government were timely, helping avoid any major negative effects of the pandemic on citizens' creditworthiness. Compared to the period just before the adoption of the NPL Resolution Strategy, the share declined by 7.0 pp. In terms of purpose, the NPL share in Q2 declined for housing loans (by 0.1 pp), current account overdrafts (0.3 pp) and credit cards (0.5 pp), while remaining unchanged for cash and consumer loans.

At end-Q2, somewhat less than 55% of household receivables were in dinars

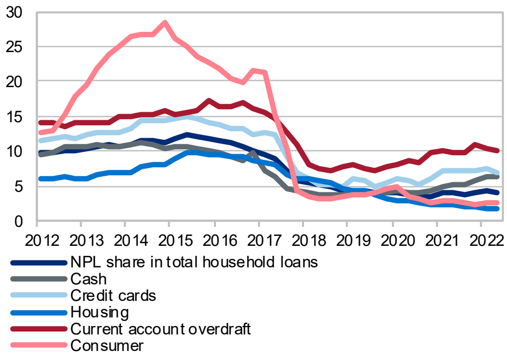
(currency structure, in %)



Source: NBS.

The NPL share in total household loans remained close to the lowest levels in Q2

(gross principle, in %)



Source: NBS.

2 Cost of household borrowing

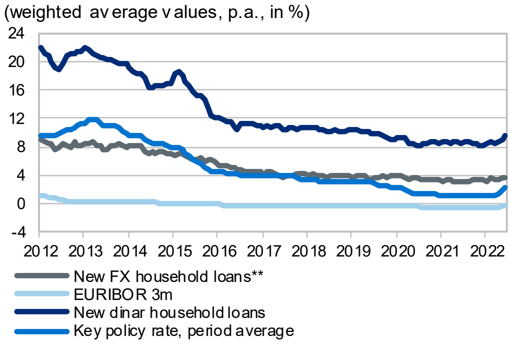
Just like the corporate sector, in Q2 households borrowed at somewhat higher rates than in Q1, but the price conditions of borrowing can still be assessed as favourable.

In Q2, the weighted average rate on new dinar household loans stood at 9.1%, up by 0.6 pp from Q1. Interest rates on all types of dinar loans went up. The rate on the most commonplace, cash loans rose by 0.6 pp to 9.6%. Rates on other non-categorised loans () and housing loans[8] went up by 0.5 pp each (7.0% and 7.6%, respectively), while rates on consumer loans increased by 0.4 pp (2.1%).

In Q2, the weighted average rate on new euro-indexed household loans was up by 0.2 pp to 3.6%. The average rates on housing and cash loans increased by 0.2 pp and 0.4 pp to 2.8% and 3.3%, respectively. Conversely, a 0.2 pp reduction was observed for the average rates on consumer (4.3%) and other non-categorised (6.3%) loans.

Average price of dinar and FX loans rose slightly in Q2 as well*

(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.

[6] Including non-profit institutions and entrepreneurs.
[7] With entrepreneurs and private households included, the share declined by 0.1 pp to 4.2% in June, or by 7.9 pp compared to July 2015.
[8] They are used for the refurbishment of residential space and are more expensive than loans for real estate purchases.

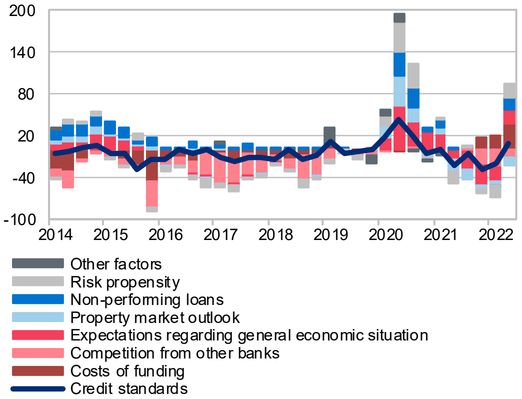
3 Assessment of loan supply and demand – based on the results of the bank lending survey

According to the results of the NBS July bank lending survey, after one year of easing**, in Q2 banks slightly tightened their household credit standards.** The tightening concerned primarily dinar cash loans, refinancing loans and housing loans with an FX clause. Credit standards were tightened mainly under the influence of higher financing costs, uncertainty as to the overall economic situation and the consequently diminished risk propensity, including the expected rise in NPLs. On the other hand, interbank competition and the situation in the real estate market worked in the opposite direction. Banks expect the tightening of standards in Q3 as well, on the back of the same factors as in Q2 and interbank competition.

According to banks' estimate, Q2 saw an increase in interest spreads both for dinar and FX-indexed loans, while collateral requirements were eased. Other conditions remained unchanged relative to Q1.

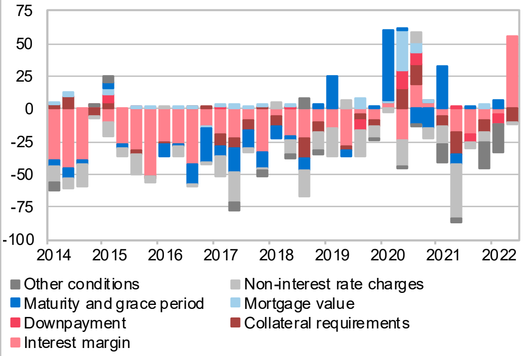
In Q2, household loan demand continued up and was targeted at dinar consumer, cash, refinancing and euro-indexed housing loans. As assessed by banks, the rise in demand was led by the refinancing of current liabilities, purchases of real estate and durable consumer goods. **Banks expect a decline in demand in Q3**, primarily for housing and dinar cash loans, amid reduced purchases of real estate and durable consumer goods, and expectations that citizens will use the earlier accumulated funds in their savings accounts for current consumption and investment.

In Q2, banks tightened household credit standards for the first time after one year
(in net %)



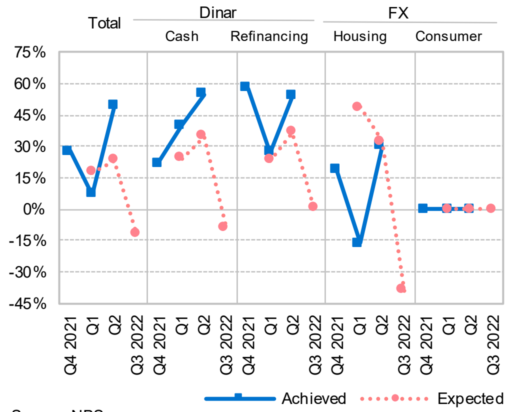
Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

Interest spreads increased and collateral requirements were eased in Q2
(in net %)



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

Household loan demand exceeded expectations from the April survey, while a decline is expected in Q3, (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 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 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.