NATIONAL BANK OF SERBIA
Economic Research and Statistics Department

TRENDS IN LENDING

Second Quarter Report 2023

Belgrade, August 2023

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 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 account for 50% of total banking 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.

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Overview

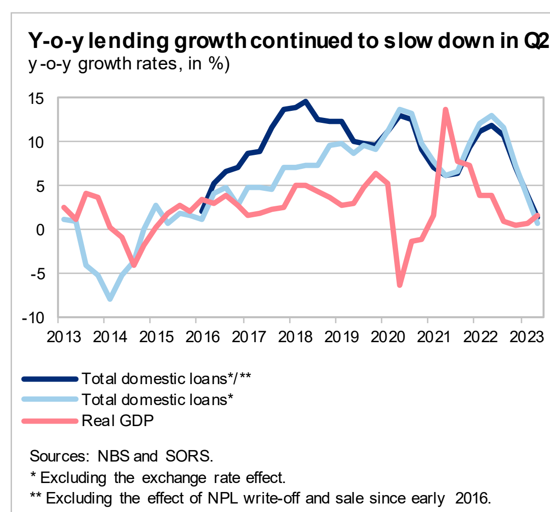
In y-o-y terms, **bank lending to non-monetary sector** continued to decelerate in Q2. Excluding the exchange rate effect, y-o-y growth in total loans to non-monetary sector stood at 0.8% in June with corporate loans going down by 1.1% and household loans up by 2.7%. The slowdown in domestic lending resulted from high last year's base, maturing of guarantee scheme loans and higher lending interest rates due to tightened NBS and ECB monetary policies.

Total domestic receivables to non-monetary sector (which, in addition to receivables under loans, include receivables under securities, interests and charges, and other receivables) continued decelerating in y-o-y terms and their growth stood at 0.5% in June.

Corporate loans excluding the exchange rate effect dropped by RSD 1.3 bn in Q2, or by 0.1%, which is a milder decline compared to Q1. The decline in receivables from uncategorised loans and liquidity and working capital loans was largely offset by the rise in investment and import loans. Investment loans continue to record y-o-y growth which stood at 3.1% in June and their share in total corporate loans reached 41%. A decline in liquidity and working capital loans was also driven by the maturity of guarantee scheme loans and the impact, which was the most prominent in H1, will gradually weaken in the next period with the decrease in the amount of maturing loans. The maturity of guarantee scheme loans reflected on the decline in loans to small enterprises which received the bulk of these loans (46%). Loans to large enterprises also decreased while borrowing to micro and medium-sized enterprises went up. By industry, borrowing of companies operating in manufacturing and energy dropped the most while lending to construction companies and real estate businesses increased the most.

In Q2, **household loans** went by RSD 14.9 bn or by 1.0%, excluding the exchange rate effect, driven by the rise in cash loans, followed by housing loans and investment loans approved to entrepreneurs. A sharper rise in cash loans pushed up the share of these loans in total household lending to 44.0% in June, while the next highest share was that of housing loans (40.1%).

The NBS continued tightening monetary conditions in Q2 which passed through to **further growth** in



the interest rates in the interbank money market and **interest rates on dinar loans**, which averaged 6.5% in Q2 for corporates and 13.5% for households (vs 6.4% and 13.4%, respectively in Q1). In addition, continued monetary policy tightening by the ECB drove **further up** the interest rates in the euro area money market and hence the rise in the **interest rates on euro loans in the domestic market** which averaged 6.4% for corporates and 7.2% for households in Q2 (vs 5.8% and 6.8%, respectively in Q1).

Dinarisation of the stock of total corporate and household receivables in Q2 dropped by 0.4 pp, to 34.0% in June, on account of the rising FX-indexed and declining dinar receivables. Of this, the degree of dinarisation of corporate receivables declined by 1.1 pp, to 17.0% in June, and the fall in dinar receivables was also driven by the maturing of guarantee scheme loans the bulk of which (over 60%) were approved in dinars. Dinarisation of household receivables increased by 0.2 pp, to 53.0% on account of a sharper increase in dinar loans (whose dominant portion is made of cash loans) than in housing loans, almost entirely euro-indexed.

The share of NPLs in total loans in June remained close to the minimum of around 3% indicating that a rise in the costs of loan repayment which resulted from the rise in interest rates and cessation of some measures which supported the private sector during the pandemic has not affected bank asset quality. NPL coverage remained high – allowances for impairment of total loans measured 101.3% of gross NPLs in June, while allowances for impairment of NPLs stood at 57.9% of gross NPLs.

I. Corporate sector

1. Corporate loans

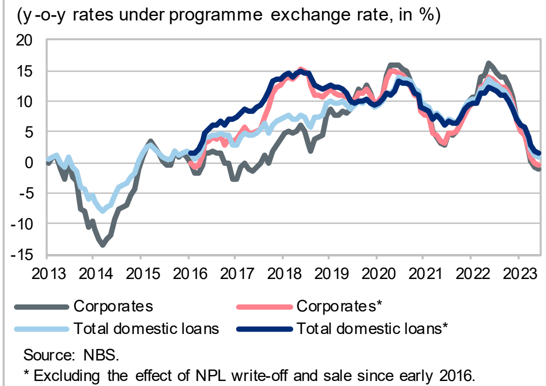
The y-o-y growth rate for corporate loans entered a negative zone in Q2 after a longer period of decelerated rise. In June, the stock of corporate loans went down by 1.1% from a year earlier on account of high last year's base, maturity of guarantee scheme loans, and tightening of NBS and ECB monetary policies. In nominal terms, the stock of corporate loans equalled RSD 1,584.5 bn in June and their share in GDP[1] was 20.9%, down by 1.7 pp from end-2022.

Excluding the exchange rate effect, **corporate loans declined by RSD 1.3 bn or 0.1% in Q2**, with a drop in lending to public enterprises exceeding the rise in loans to companies. The maturing of guarantee scheme loans, approved mainly in dinars (over 60%), caused a decline in dinar loans, while FX-indexed corporate loans increased.

By purpose, the sharpest decline in Q2 was recorded by non-categorised loans (RSD 9.0 bn), followed by liquidity and working capital loans (RSD 5.9 bn) also reflecting the maturity of guarantee scheme loans. On the other hand, investment loans went up by RSD 7.6 bn, import loans by RSD 3.9 bn, and current account overdrafts by RSD 2.1 bn. Investment loans rose by 3.1% y-o-y in June contributing the most to the y-o-y increase in corporate loans. The structure of corporate loans in June changed insignificantly relative to March in favour of investment loans whose share increased to 40.9%, while liquidity and working capital loans remain dominant with the 47.1% share, followed by other non-categorised and import loans which make up 6.9% and 4.0% respectively, of corporate loans.

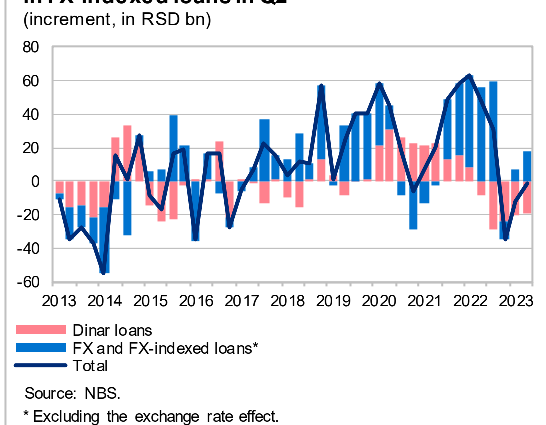
By industry, in Q2, the borrowing of corporates in manufacturing and energy was reduced the most, followed by a somewhat lesser reduction in agriculture. On the other hand, lending to construction sector corporates and real estate businesses increased the most, followed by corporates operating in trade, accommodation and transport sectors. The maturity of corporate loans went further up in Q2. At end-June, the share of long-term loans in total corporate loans stood at 84.6% (vs 82.2% in March). **Loans granted**

Corporate lending recorded a y-o-y fall in Q2 amid the maturing of guarantee scheme loans and a rise in interest rates
(y-o-y rates under programme exchange rate, in %)



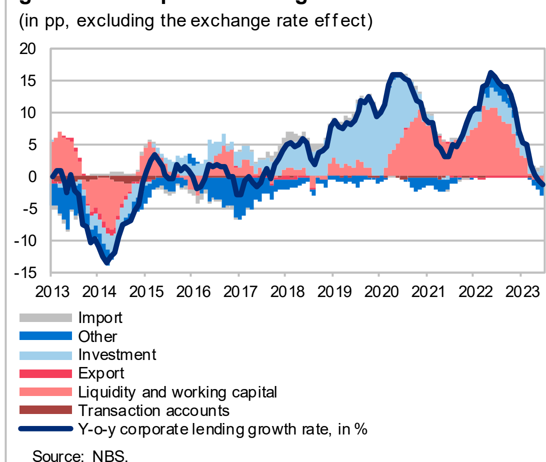
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

The decrease in dinar loans exceeded the increase in FX-indexed loans in Q2
(increment, in RSD bn)



Source: NBS.
* Excluding the exchange rate effect.

Investment and import loans supported the y-o-y growth in corporate lending in June
(in pp, excluding the exchange rate effect)



Source: NBS.

[1] GDP in the past four quarters.

to micro, small and medium-sized enterprises accounted for three-fifths of total corporate loans in June and their stock was 2.9% lower than a year earlier.

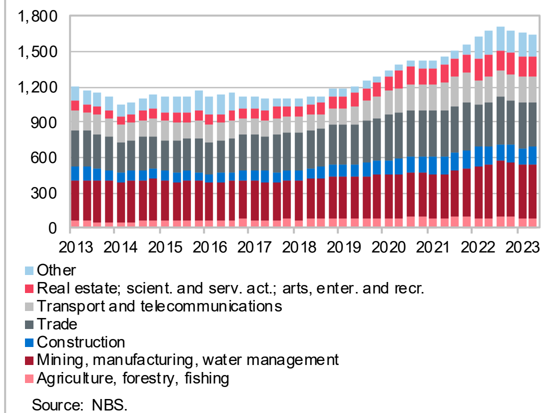
The volume of new corporate loans in Q2 equalled RSD 277.8 bn, down by 5.8% y-o-y as a reflection of tightened financial conditions in the previous period which was necessary to restrain the inflationary pressures. In Q2 as well, the corporate sector predominantly used liquidity and working capital loans (63.8%), and slightly over a half of these loans were channelled to micro, small and medium-sized enterprises. Investment loans accounted for 20.3% of new corporate loans in Q2 and 75.6% of these loans went to micro, small and medium-sized enterprises.

The degree of dinarisation of corporate receivables declined in Q2 by 1.1 pp, to 17.0% in June, since dinar receivables dropped partly on account of maturity of guarantee scheme loans approved dominantly in dinars while FX-indexed receivables continued up. At the same time, the share of euro-indexed receivables and euro receivables increased by 1.1 pp. to 82.8% in June, while the share of USD receivables was unchanged from the beginning of the year at 0.2%. In the structure of FX and FX-indexed loans, in June, loans approved at a fixed interest rate accounted for somewhat less than a fifth of loans and this share was relatively stable in 2023 while the rest were loans approved at variable interest rates, the bulk of which were attached to three-month EURIBOR. As for dinar corporate loans, a bit less than a quarter of loans were approved at a fixed rate while the rest relates to loans approved at variable rates, which are mostly attached to one-month BELIBOR.

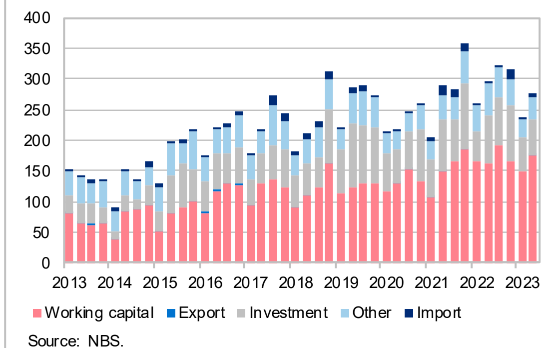
The share of NPLs in total corporate loans stood at 2.2% in June and at 2.6% including loans to companies.[2] By company activity, the share of NPLs in June ranged between 0.3% for energy and 4.4% for agriculture, while the real estate sector recorded the new low (2.2%). This indicates that economic support measures during the pandemic were adequate and timely and bank asset quality was preserved even after their expiry. At the same time, this confirms that the rise in costs of repayment of existing corporate loans did not push up NPLs. **Relative to July 2015**, i.e. immediately before the start of implementation of NPL Resolution Strategy, **the share of NPLs in total**

[2] 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.

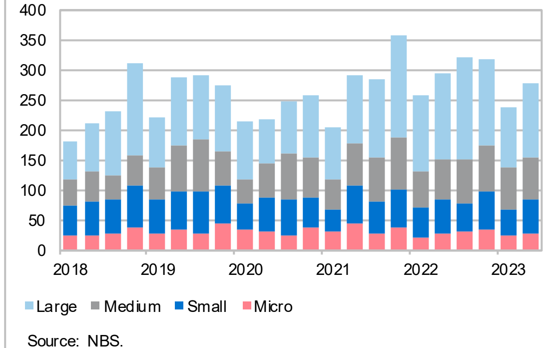
The bulk of corporate receivables were loans to manufacturing and trade companies
(stock, in RSD bn)



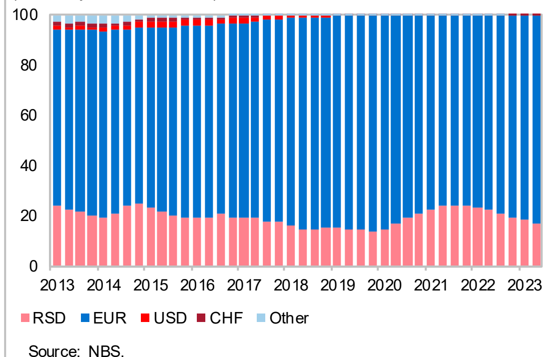
Working capital and investment loans remained dominant in Q2 as well
(new loans, in RSD bn)



Loans to micro and SMEs accounted for more than a half of new loans in Q2
(in RSD bn)



The maturity of guarantee scheme loans reflected on the fall in dinarisation in Q2
(currency structure, in %)



corporate loans went down by 22.7 pp, and the most prominent decrease was recorded in construction, real estate and trade.

The capital adequacy ratio[3] at end-Q2 measured 22.3% (1.8 pp higher than at end-Q1) and was significantly above the regulatory minimum (8.0%), which indicates a high capitalisation and resilience of the banking sector to external and domestic risks.

2. Cost of corporate borrowing

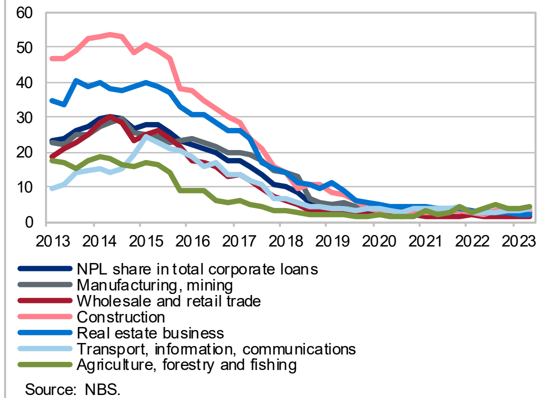
Continued tightening of NBS and ECB monetary conditions in Q2 pushed the interest rates on dinar and euro-indexed corporate loans further up but the rise was less pronounced than in the previous period. The interest rates on loans for all purposes went up.

Aiming to affect strengthened inflationary pressures mostly coming from the international environment since October 2021 the NBS gradually tightened monetary conditions by increasing the weighted average interest rate on one-week reverse repo auctions and as of April 2022 also by raising the key policy rate, driving up **the weighted average interest rate on new dinar corporate loans in Q2 by 0.1 pp, to 6.5%.** The interest rate on working capital loans increased by 0.2 pp, to 8.5%, and on investment loans by 0.3 pp, to 8.6%. By company size, the average interest rates ranged from 4.0% for large enterprises to 10.0% for micro-enterprises in Q2. Relative to September 2021, i.e. before the onset of NBS monetary policy tightening, the interest rate on new dinar corporate loans was higher by 3.3 pp as at June 2023.

The weighted average interest rate on new euro and euro-indexed loans to corporates was increased in Q2, by 0.6 pp on average to 6.4%. The interest rates on the most dominant loans, loans for liquidity and working capital increased by 0.4 pp, to 6.5%, and on investment loans by 1.0 pp, to 6.7%. The rates on non-categorised euro-indexed loans went up by 0.6 pp, to 4.9%, and on import loans by 2.4 pp, to 8.4%. By company size, the average cost of borrowing ranged from 6.3% for medium-sized and large enterprises to 7.0% for micro-enterprises. Relative to June 2022, i.e. immediately before the ECB launched the cycle of interest rate hikes, concluding with June, the average rate on new corporate euro loans went up by 3.8 pp.

The share of NPLs continued hovering close to the minimum level in almost all sectors

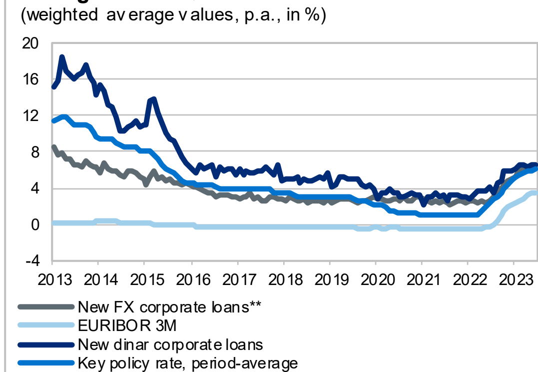
(gross principle, in %)



Source: NBS.

Interest rates on corporate loans slowed down their growth in Q2*

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



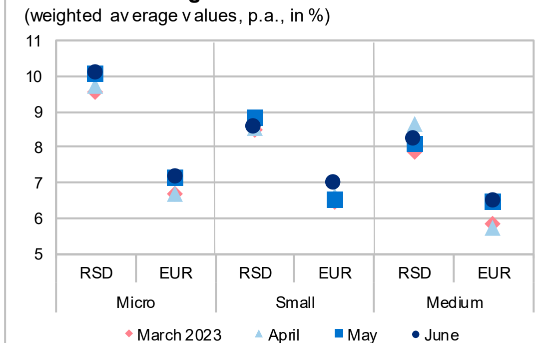
Sources: NBS and European Banking Federation.

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

** Euro and euro-indexed.

The price of borrowing for micro and SMEs increased during Q2

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



Source: NBS.

[3] The regulatory framework of Basel III is applied since 30 June 2017.

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

The results **of the July NBS Bank Lending Survey** show that in Q2, as expected in the previous survey, banks mildly tightened their corporate credit standards. Tightening was similar as in Q1 and standards tightened for FX-indexed loans while some banks eased their standards for dinar loans. Standard tightening pertained to corporates of all sizes and, as in the previous quarter, banks assessed that tightening was mostly driven by higher costs of sources of borrowing (in line with the effects of ECB and NBS monetary policy tightening amid inflationary pressures). Uncertainty as to the overall economic situation and riskiness of the required collateral and NPLs worked in the same direction, though to a lower degree, reflecting on lower risk appetite. Banks expect similar tightening in Q3, on account of the same factors as in Q2.

According to the survey, in Q2 price conditions for small and medium-sized enterprises tightened and maximum loan amount was reduced and collateral requirement tightened for enterprises of all sizes. Maturity requirements did not change.

Corporate loan demand increased in Q2, though to a lower degree than expected in the previous survey, while the demand of farmers rose more than expected. Banks estimated that the rise in demand was driven by the need for financing working capital and debt restructuring, while less intense activities of corporates in terms of mergers/acquisitions worked in the opposite direction. Banks expect the rise in corporate loan demand in Q3, driven by financing of working capital and less by debt restructuring.

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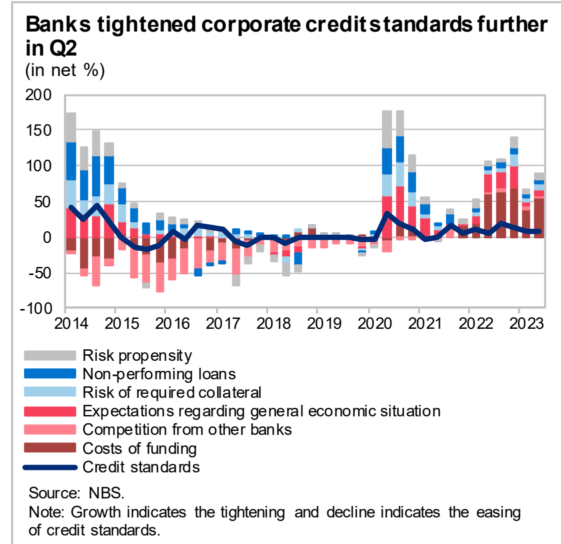
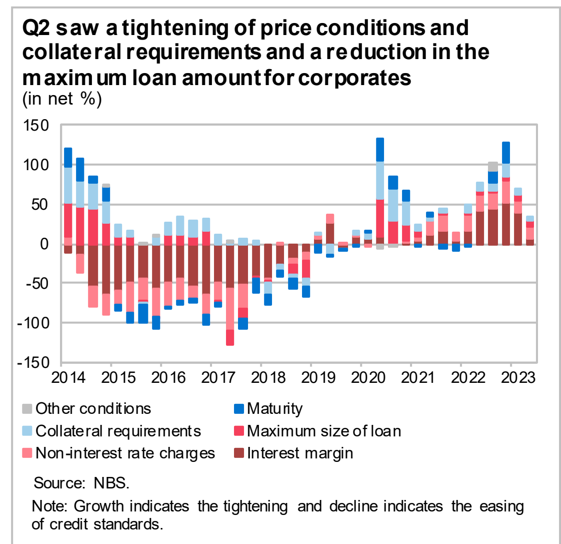
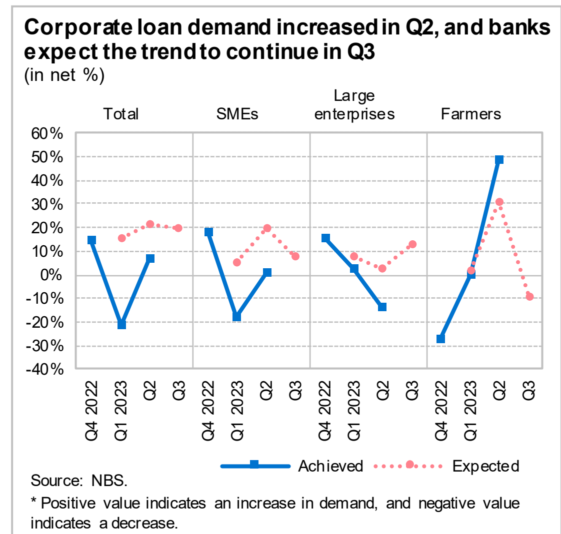






II. Household loans

1. Household loans

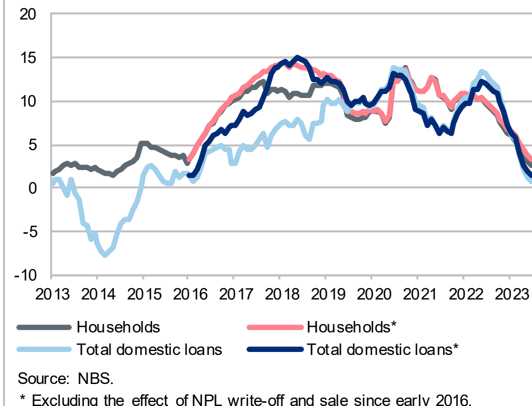
Y-o-y rise in household loans decelerated further in Q2, to 2.7% in June (vs. 4.4% in March). The deceleration reflects high last year's base and lower household borrowing due to interest rate increase. In nominal terms, the stock of household loans stood at RSD 1,462.9 bn in June, accounting for 47.1% of banks' loan receivables from the non-monetary sector, or 19.3% of GDP.[4]

In Q2, household loans went up by RSD 14.9 bn or 1.0%. By purpose, this growth was led by cash loans which increased by RSD 10.8 bn, followed by housing (RSD 1.4 bn) and consumer loans (RSD 0.7 bn), as well as borrowing under transaction accounts (RSD 0.5 bn). These movements resulted in the mild increase in the share of cash loans in Q2, as the dominant category in total household loans – to 44.0% in June from 43.7% in March, while the share of housing loans equalled 40.1% (40.4% in March). At the same time, within loans granted to entrepreneurs, investment loans continued up, by RSD 1.4 bn, while the stock of liquidity and working capital loans remained at the same level as in March.

Housing lending was supported by NBS measures adopted in 2020 and extended into 2023. Banks were enabled to extend the repayment term for housing loans by five years at the longest. Also, lower minimum degree of completion of works was required for purchase of apartments financed with a housing loan. In addition, in 2020 the down payment for the purchase of the first residential real estate was permanently trimmed from 20% to 10%. Bearing in mind the rise in the interest rates, in December 2022, the NBS supplemented the current regulations enabling banks to reschedule receivables from debtors faced with difficulties in loan repayment. Repayment term extension by up to nine years was enabled for cash and consumer loans and by 11 years for car loans.

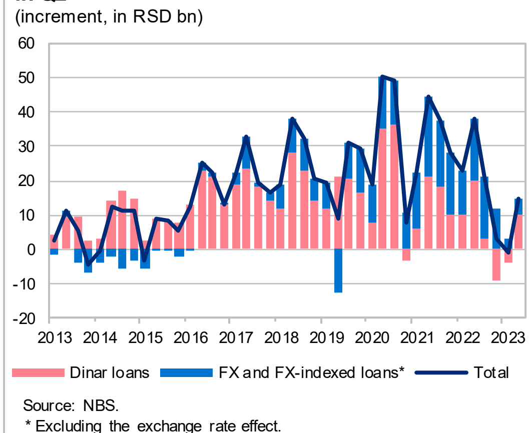
The volume of new household loans in Q2 (RSD 138.0 bn) dropped by 7.6% y-o-y, reflecting monetary tightening. Cash loans made up 64.9% of new loans in Q2, while housing loans accounted for 16.3% of new household loans (less than in 2022, when they made

Y-o-y growth in household lending continued to slow down in Q2
(y-o-y growth rates at the programme exchange rate, in %)



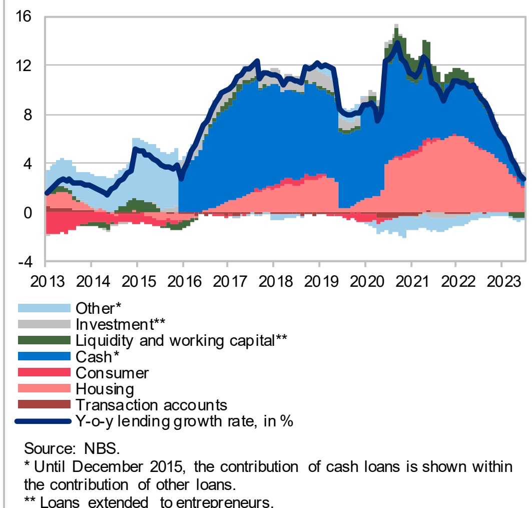
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

Dinar and FX-indexed household loans increased in Q2
(increment, in RSD bn)



Source: NBS.
* Excluding the exchange rate effect.

Since June 2021, housing loans have been the key contributor to the y-o-y houshold lending 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.

[4] GDP realised in the last four quarters.

up 23.5% of new household loans on average), as a consequence of elevated real estate prices and costs of borrowing.

Thanks to a sharper rise in dinar compared to FX-indexed receivables, **dinarisation of household receivables**[5] rose by 0.2 pp in Q2, to 53.0% in June. At the same time, the share of euro receivables edged down by 0.1 pp to 46.9%, while the Swiss franc kept an unchanged share (0.1%). In the structure of FX and FX-indexed household loans, one quarter of loans were approved at the fixed rate (in case of housing loans the share is also 25%) and their share has been on the rise in the last few months as EURIBOR increased. As for loans linked to the variable interest rate, the most prevalent are loans linked to the six-month EURIBOR. In the structure of dinar household loans, almost three-fifths of loans were approved at the fixed interest rate, while among those approved at variable rates, loans linked to three-month BELIBOR hold the major share.

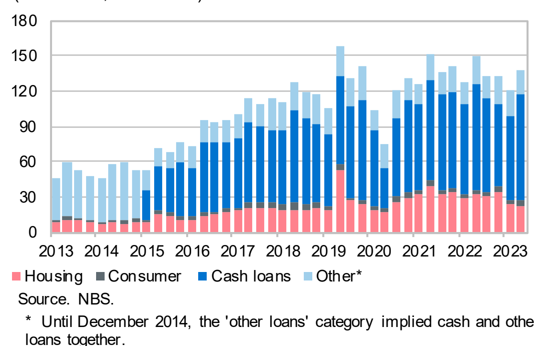
The share of NPLs in total household loans equalled 4.3% in June.[6] NPL ratios still trend close to the lowest values, proving that NBS and government measures were timely and helped stave off a more serious adverse impact of the crises we have faced in the past three years on citizens' creditworthiness. This share is lower by 6.9 pp than in the period just before the adoption of the NPL Resolution Strategy.

2. Cost of household borrowing

Tightening of NBS and ECB monetary policies in response to inflationary pressures keeps translating on the cost of household loans whose growth, same as in the corporate sector, has lost pace somewhat.

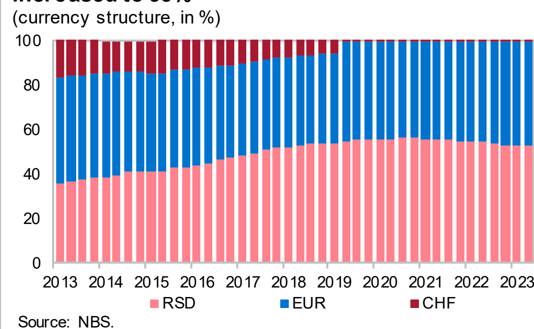
The weighted average rate on new dinar household loans increased slightly relative to Q1, measuring 13.5% in Q2. The average interest rate on the most dominant category, cash loans, did not change (14.1%), while the rate on other non-categorised loans dropped by 0.1 pp to 11.1%, and the rates on consumer and housing[7] loans increased by 0.1 pp each, to 2.9% and 12.4%, respectively. Relative to September 2021, i.e. prior to the beginning of NBS monetary tightening, and concluding with June 2023, the interest rate on new dinar household loans edged up 4.7 pp.

Cash and housing loans accounted for the major portion of new houshold loans in Q2
(new loans, in RSD bn)



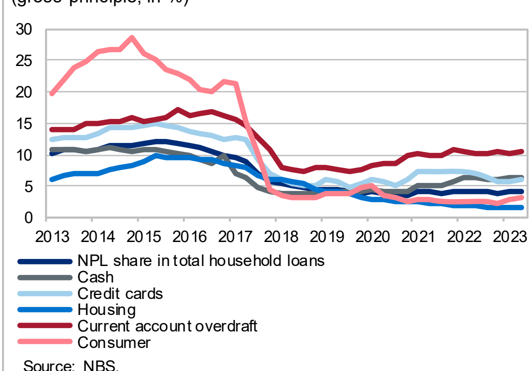
Source: NBS.
* Until December 2014, the 'other loans' category implied cash and other loans together.

Under the impact of a faster rise in dinar receivables in Q2, the dinarisation of household receivables increased to 53%
(currency structure, in %)



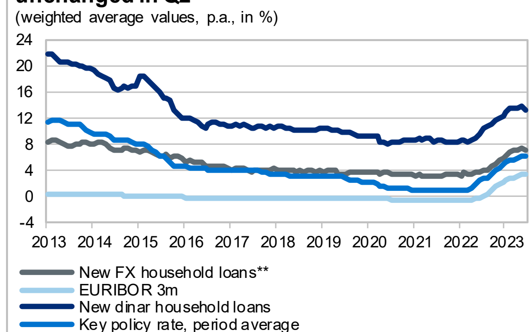
Source: NBS.

The share of NPLs in total household loans stayed close to the lowest levels in Q2
(gross principle, in %)



Source: NBS.

The average price of dinar loans remained broadly unchanged in Q2*
(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.

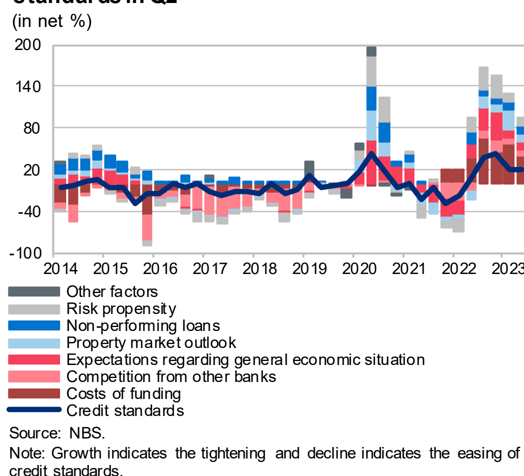
[5] Including non-profit institutions and entrepreneurs.

[6] If entrepreneurs and private households are included, the share also equalled 4.3%, down by 7.9 pp compared to July 2015.

[7] Used for housing refurbishment; more expensive than loans used for purchase of residential real estate.

In Q2, the weighted average rate on new euro-indexed household loans increased by 0.4 pp on average, coming at 7.2%. In that category, an increase was recorded for interest rates on housing loans (by 0.7 pp to 6.5%) and other non-categorised loans (by 0.3 pp to 9.2%), while the price of consumer loans fell by 0.1 pp to 6.3%, and of cash loans, which generally account for a very low share in euro-indexed loans, by 0.7 pp to 3.6%. Relative to June 2022, i.e. immediately before the ECB embarked on a cycle of rate increases, concluding with June 2023, the average rate on new household loans denominated in euros was 3.5 pp higher.

Banks continued tightening household credit standards in Q2

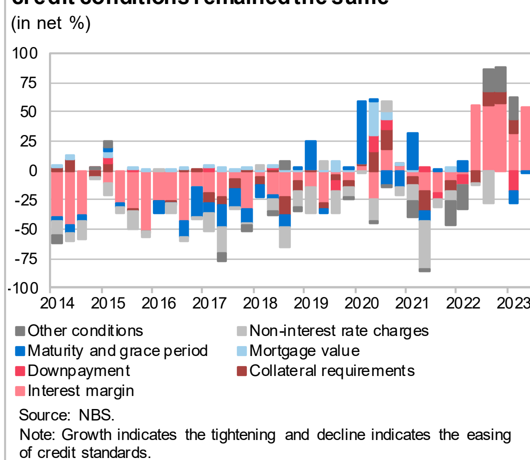


Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

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

According to NBS July Bank Lending Survey and in line with the expectations stated in the previous survey, **banks further tightened household credit standards in Q2**. The tightening mostly affected dinar consumer loans, as well as dinar cash and refinancing loans. Housing loans standards were also tightened at the same degree as in Q1. Credit standards were tightened mostly under the impact of higher costs of financing. Working in the same direction, though to a lesser degree, were the situation in the real estate market (rising prices of real estate coupled with the increase in interest rates on housing loans), the expected rise in non-performing receivables, uncertainty regarding the general economic situation and consequently lower risk appetite and competition in the banking sector. Banks expect further standards tightening in Q3, though weaker than in H1.

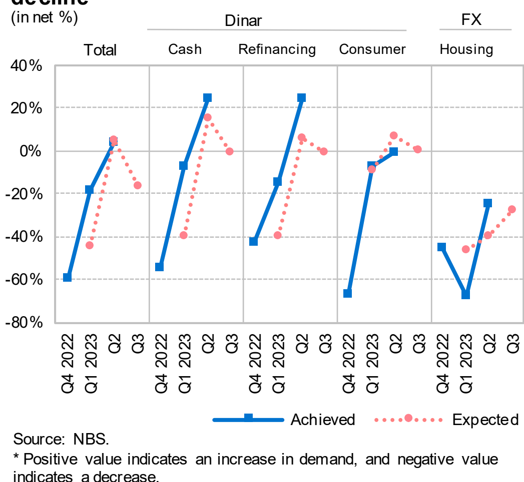
Only interest margins increased in Q2, while other credit conditions remained the same



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

Banks estimate that in Q2, interest margins increased for both dinar and FX-indexed loans, while other credit terms remained unchanged.

Household loan demand increased in Q2 in line with expectations, whereas for Q3, banks expect it to decline



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

Consistent with banks' expectations from the previous survey, **household credit demand expanded mildly in Q2.** Citizens were mostly interested in dinar cash loans, refinancing loans and FX-indexed consumer loans, while the demand for euro-indexed housing loans contracted. In banks' view, the rise in demand was fuelled by the refinancing of existing liabilities, while the key factor working in the opposite direction was the real estate market, with high apartment prices. Banks anticipate a contraction in demand in Q3, mostly due to the lower demand for housing loans.

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.