NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE BANK LENDING SURVEY

Third Quarter Report 2020

Belgrade, November 2020

Introductory note

In 2014, the National Bank of Serbia (NBS) launched the bank lending survey. The purpose of this survey is to improve the analysis of developments in the credit market by gaining insight into bank representatives' attitudes concerning actual and expected changes in bank loan supply and private sector loan demand.

The survey consists of ten questions relating to loans to enterprises and households. Respondents are asked about changes in credit standards,[1] factors affecting their change, changes in terms and conditions for loan approval, changes in loan demand and factors affecting loan demand.

This *Report* **presents the results of the bank lending survey carried out from 1 to 16 October 2020.** The survey reports bank representatives' views on changes during the third quarter of 2020 and the expected changes in the credit market in the fourth quarter of 2020. The survey included 24 banks, and thus provides for the representative coverage of the credit market as these banks account for over 99% of the banking sector balance sheet total.

The survey results are presented as net percentages. As regards credit supply, the net percentage is defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased considerably" and "eased somewhat". A positive value of the net percentage indicates net tightening, and negative – net easing of credit standards. As regards the factors, the net percentage is defined as the difference between the percentage of banks responding that a given factor contributed to the tightening of credit standards and the percentage of banks responding that the same factor contributed to their easing. As regards demand for loans, the net percentage is defined as the difference between the sum of the percentages of banks responding that demand "increased considerably" and "increased somewhat" and the sum of the percentages of banks responding that it "decreased considerably" and "decreased somewhat". Hence, a positive value of the net percentage indicates a net increase, and negative – a net decrease of demand.

The term "FX" in the analysis of results refers to loans granted in foreign currency or dinars, but indexed to foreign currency.

[1] Credit standards are written and unwritten internal guidelines or criteria that reflect the credit policy of a bank (e.g. priorities in terms of loan categories, collateral, sector, region, etc.).

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Overview

The October survey results indicate that the elevated risk aversion, still present amid the new wave of the coronavirus, brought about the tightening of corporate and household credit standards in Q3, though to a much smaller degree than in Q2.

The NBS measures contributed to the extension of maturities for household loans, while dinar terms of financing of small and medium-sized enterprises were more favourable owing to the approval of loans under the Guarantee Scheme.

Banks estimated that in Q3 corporates and households increased their demand for loans, primarily driven by the need for liquidity and refinancing, but also the purchase of real estate in the household sector.

Banks expect further improvements in the credit market in Q4 – a smaller number of banks expect credit standards for corporates to tighten compared to Q3, while even their easing is expected for households. Household and corporate loan demand is expected to rise further, led by almost the same needs as in Q3.

Table 1 Bank assessments regarding supply and demand for selected loan categories

	Supply (credit standards)		Demand	
	Q3 2020	Q4 2020 (expectations)	Q3 2020	Q4 2020 (expectations)
Corporate sector	↑	↑	↑	↑
SMEs	↑	↗	↑	↑
Large enterprises	↑	↑	↑	↑
Farmers	↓	-	↑	↓
Household sector	↑	↓	↑	↑
Cash (dinar)	↑	↘	↑	↑
Refinancing (dinar)	↑	↘	↑	↑
Housing (FX)	↑	↘	↑	↑
Consumer (FX)	↗	-	↘	↘

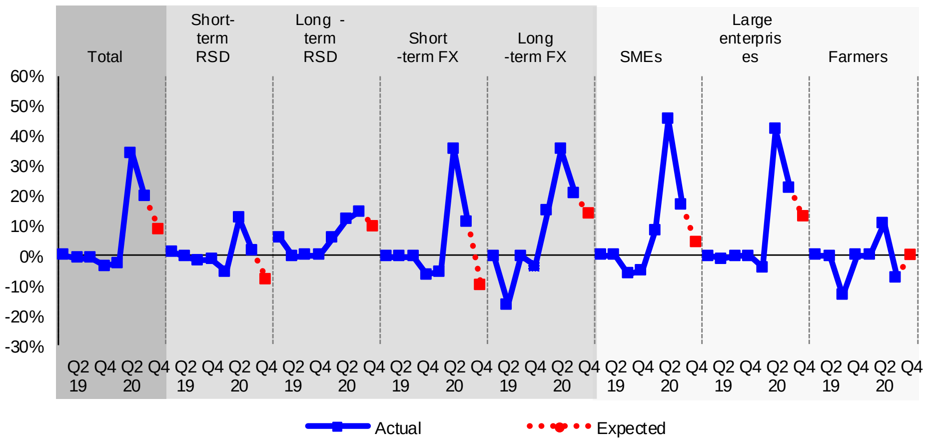
Legend:
- ↑ Increase in demand (net percentage above 5%)
- ↑ Tightening of credit standrads (net percentage above 5%)
- ↗ Increase in demand / tightening of credit standards (net percentage up to 5%)
- \- Without change
- ↘ Decrease in demand / easing of credit standards (net percentage up to 5%)
- ↓ Decrease in demand (net percentage above 5%)
- ↓ Easing of credit standrads (net percentage above 5%)

1. Loans to enterprises

1.1 Change in credit standards and contributing factors

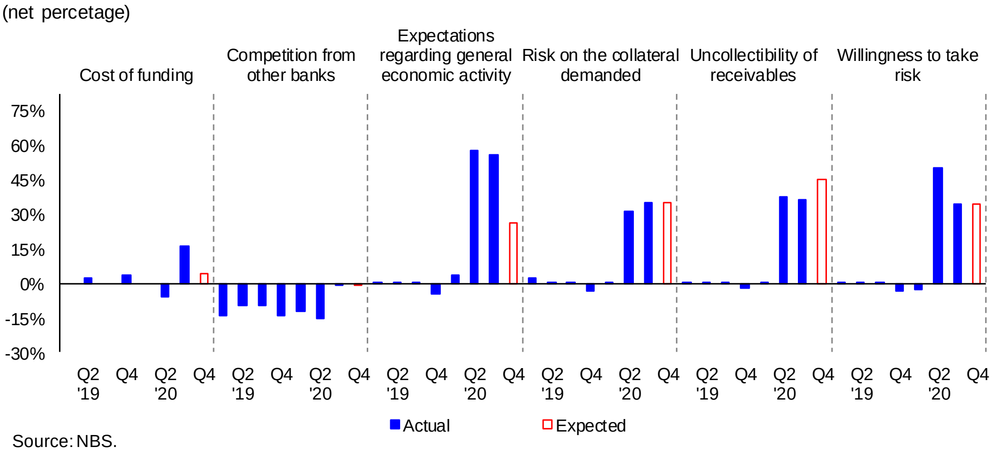
The October survey results indicate that banks tightened their corporate credit standards in Q3, though to a much smaller degree than in Q2. Standards were tightened due to a higher perceived risk and diminished risk propensity of banks. Standards were tightened more for large enterprises and FX loans. Conversely, according to banks, credit standards for farmers in Q3 were somewhat eased, probably as a result of an excellent agricultural season.

Change in credit standards as applied to the approval of loans or credit lines to enterprises
(net percentage)



Source: NBS.
* Positive value indicates tightening of credit standards and negative - easing.
** The intensity of change is not shown in charts.

Factors affecting credit standards as applied to the approval of loans or credit lines to enterprises
(net percetage)



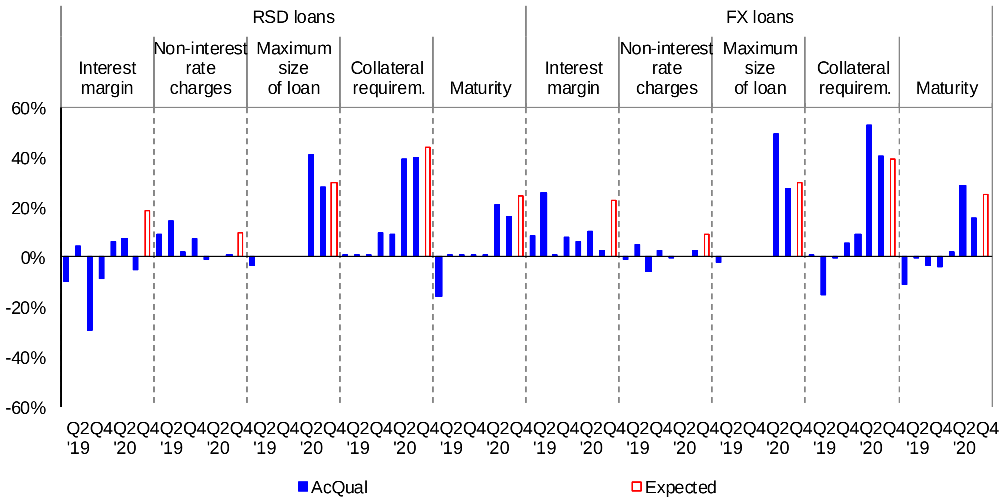
Source: NBS.
* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.
** The intensity of change is not shown in charts.

Compared to Q3, a smaller number of banks expect credit standards for corporates to tighten further in Q4, as well as moderate easing for short-term loans, as a result of the large-scale and adequate economic assistance programme intended for the corporate sector.

1.2 Conditions and terms for approving loans to enterprises

According to surveyed banks' representatives, corporate credit conditions were tightened in Q3 in relation to collateral requirements, maximum loan amount and loan maturity, consistent with lower risk propensity of banks. On the other hand, the dinar funding of small and medium-sized enterprises was cheaper, which can be attributed to the approval of loans from the Guarantee Scheme under favourable conditions.

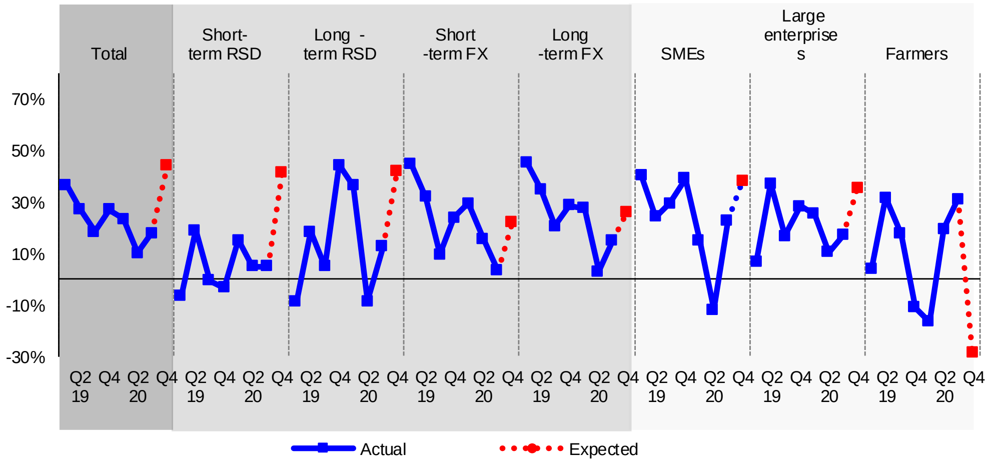
Change in conditions and terms for approving loans or credit lines to enterprises
(net percentage)



Source: NBS.
* Positive value indicates tightening of conditions and negative - easing.
** The intensity of change is not shown in charts.

The survey results show that banks expect further tightening of corporate credit standards in Q4 due to the still present heightened uncertainty regarding the duration of the coronavirus pandemic and the pace of economic recovery. This will relate mostly to non-price terms of bank loans.

Change in demand for loans or credit lines to enterprises
(net percentage)

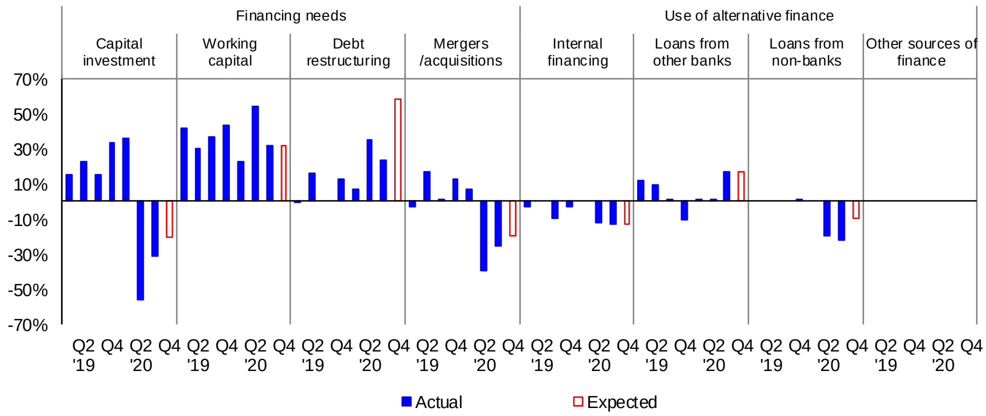


Source: NBS.
* Positive value indicates an increase in demand and negative - a decrease.
** The intensity of change is not shown in charts.

1.3 Demand for loans to enterprises and contributing factors

The survey results indicate that corporates increased their loan demand in Q3, driven by small and medium-sized enterprises and farmers. Corporate demand concerned primarily long-term sources of funding. By purpose, in the conditions of the crisis induced by the coronavirus pandemic, corporates increased their demand for working capital and refinancing loans, and decreased their demand for investment loans.

Factors affecting the demand for loans or credit lines to enterprises



Source: NBS.
* Positive value indicates the contribution of individual factors to an increase in demand, and negative - to a decrease .
** The intensity of change is not shown in charts.

Owing to the measures taken by the NBS and the Government (such as the moratorium on loan and financial lease liabilities, deferral of tax liabilities, wage subsidies, approval of loans through the Development Fund), enterprises relied more on their own sources of funding and on alternative sources since the start of the crisis.

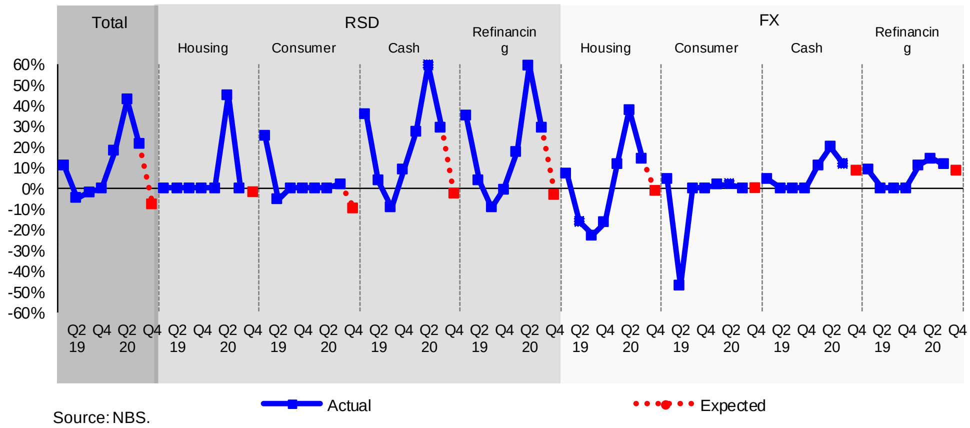
Banks expect this trend to extend into Q4, with an even more pronounced rise in corporate loan demand.

2. Household loans

2.1 Change in credit standards and contributing factors

The survey results indicate that banks tightened household credit standards in Q3, but as with corporates, to a much smaller degree than in Q2. Standards were tightened also mostly due to a rise in perceived risk amid the crisis induced by the pandemic and consequently a higher risk aversion of banks.

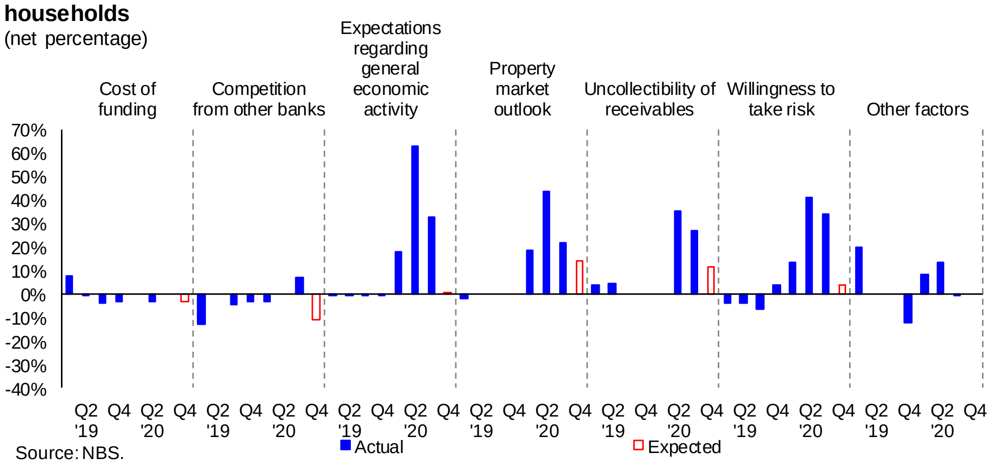
Change in credit standards as applied to the approval of loans or credit lines to households (net percentage)



Source: NBS.
* Positive value indicates tightening of credit standards and negative - easing.
** The intensity of change is not shown in charts.

Banks expect that credit standards in Q4 will be eased for all categories of dinar loans, and for FX-denominated housing loans, which will be facilitated by lower costs of funding sources and interbank competition.

Factors affecting credit standards as applied to the approval of loans or credit lines to households
(net percentage)



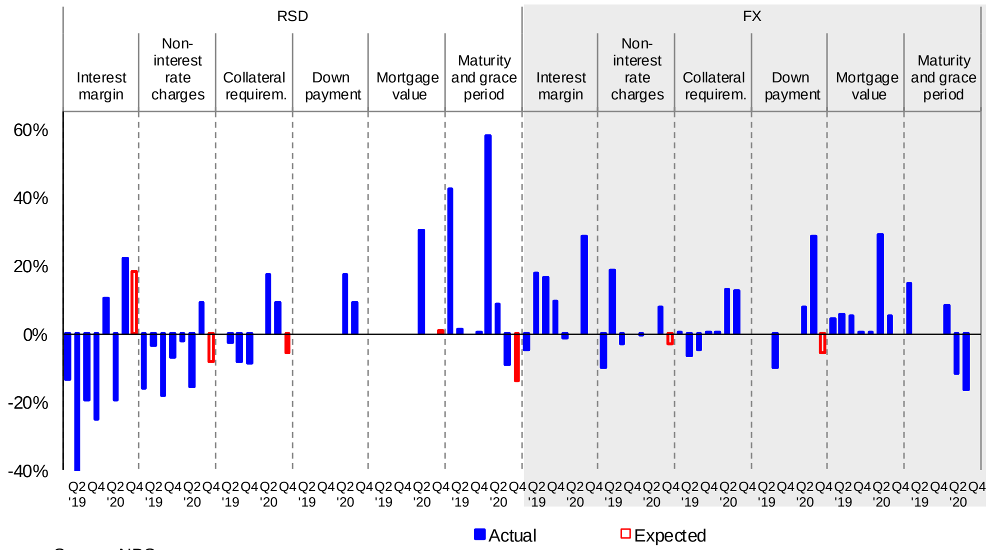
Source: NBS.
* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.
** The intensity of change is not shown in charts.

2.2 Conditions and terms for approving household loans

The tightening of household credit standards in Q3 can be attributed to a higher risk aversion of banks since the start of the crisis. On the other hand, owing to the proactive NBS measures aimed at alleviating the consequences of the crisis and spurring further household consumption, banks were able to offer clients the refinancing or change of the maturity date of the last instalment, which reflected on the extension of the maximum loan maturity.

Banks expect the easing of household credit standards in Q4 in relation to maximum loan maturity, required collateral and downpayment. In addition, Q4

Change in conditions and terms for approving loans or credit lines to households
(net percentage)



Source: NBS.
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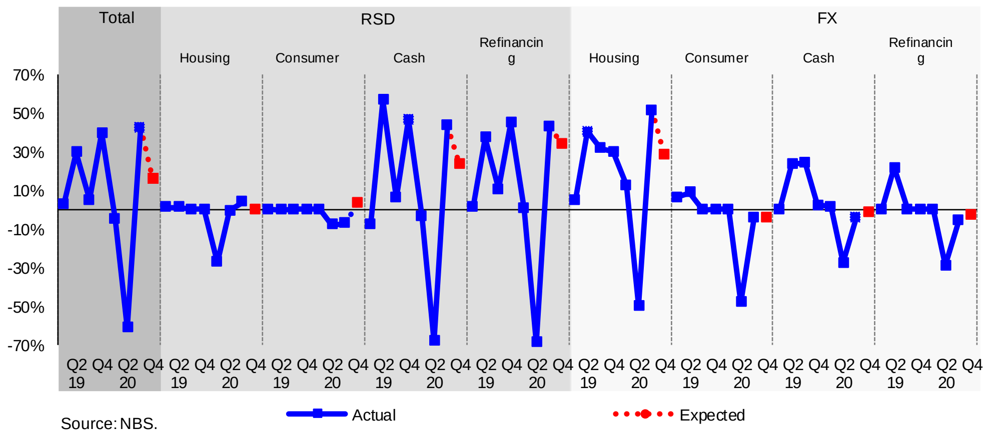
** The intensity of change is not shown in charts.

should also see a decrease in fees and commissions and a mild upward adjustment of interest margins for dinar loans.

2.3 Household loan demand and contributing factors

According to banks, after a temporary fall in Q2, households stepped up their demand for loans in Q3, primarily for FX-indexed housing loans and dinar cash and refinancing loans. The rising demand was driven by the need of households to refinance and purchase real estate, with a positive contribution coming from a favourable situation in the real estate market. Banks expect the continuation of positive trends in the market segment relating to the household sector in the coming quarter as well.

Change in demand for loans or credit lines to households
(net percentage)



Source: NBS.
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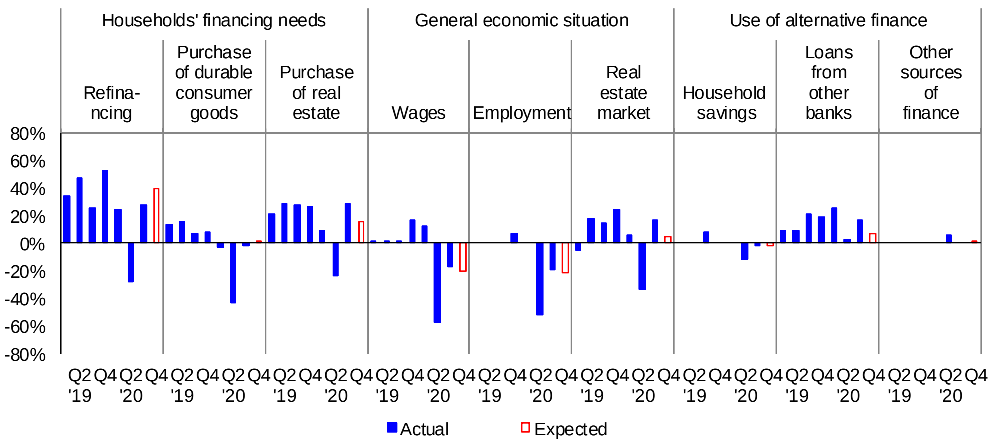
Factors affecting the demand for loans or credit lines to households
(net percentage)



Source: NBS.
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