National Bank of Serbia

REPORT ON THE RESULTS OF THE BANK LENDING SURVEY

Second quarter 2024

Belgrade, August 2024

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' perspectives of 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 household loans. 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 sums up the results of the bank lending survey conducted from 1 to 12 July 2024**. The survey presents the attitudes of banks' representatives about changes in Q2 2024 and expected changes in the credit market in Q3 2024. The survey included 18 banks, and thus provides 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. With regard to the factors, the net percentage is defined as the difference between the percentage of banks responding that a given factor contributed to 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 the bank (e.g. priorities in terms of loans categories, collateral, sector, region, etc.).

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Overview

The results of the July survey show that in Q2 banks eased their standards for corporate dinar loans and tightened them mildly for FX/FX-indexed loans. Banks expect moderate tightening of corporate credit standards in Q3, mainly for FX/FX-indexed loans.

Banks assess that household credit standards were mitigated further in Q2, affecting mostly dinar cash loans (including refinancing loans). Further easing of household credit standards is expected in Q3.

Overall, corporate demand increased in Q2, notably for short-term FX/FX-indexed loans. Banks expect a rise in corporate demand for all types of loans in Q3.

In banks' view, households stepped up their demand for almost all loans in Q2, and the trend is expected to continue in Q3.

Table 1: Banks' assessment of supply and demand for selected loan categories

	Supply (credit standards)		**Demand**	
	Q2 2023	Q3 2024 (expectation	Q2 2023	Q3 2024 (expectations
Corporate sector	-	↑	↑	↑
DINAR				
Short-term	↓	↗	↘	↑
Long-term	↘	↘	↘	↑
FX/FX-indexed				
Short-term	↗	↑	↑	↑
Long-term	↗	↑	↓	↗
Household sector	↓	↓	↑	↑
Cash (dinar)	↓	↓	↑	↑
Refinancing (dinar)	↓	↓	↑	↑
Housing (FX)	-	↘	↑	↑
Consumer (FX)	-	-	↑	↗

Legend:

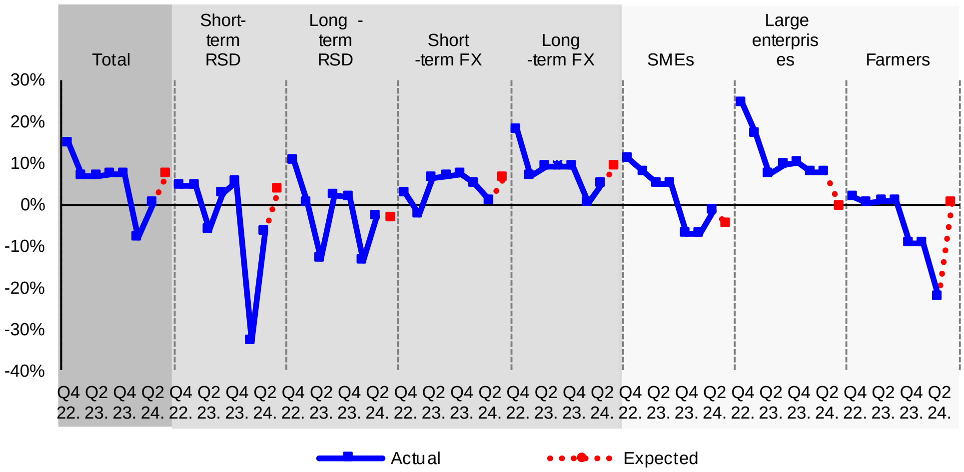
↑ Increase in demand (net percentage above 5%)
↑ Tightening of credit standrads (net percentage above 5%)
↗ Increase in demand / tightening of credit standards (net percentage up to 5%)
- Without change
↘ Decrease in demand / easing of credit standards (net percentage up to 5%)
↓ Decrease in demand (net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

1. Corporate loans

1.1 Change in credit standards and contributing factors

The July survey shows that, overall, in Q2 banks kept their corporate credit standards unchanged. However, a look at individual categories shows that the standards for dinar loans were eased and those for FX/FX-indexed mildly tightened. By enterprise size, the tightening referred to large enterprises and the easing to farmers and small and medium-sized enterprises.

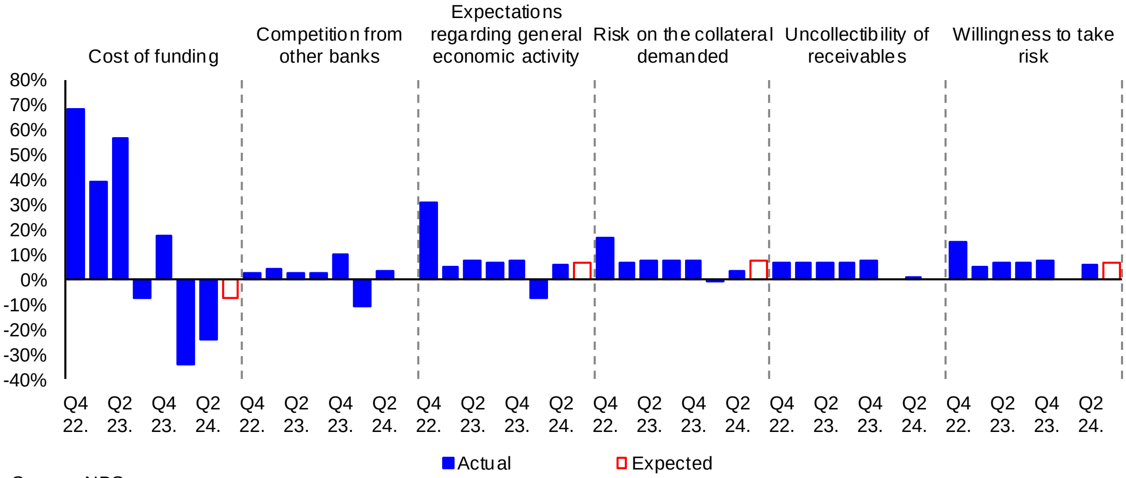
Change in credit standards as applied to the approval of loans or credit lines to enterprises
(net percentage)



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

What worked toward the easing of corporate credit standards in Q2 was the reduced cost of funding, which can be linked to the NBS and ECB monetary policy easing. Banks assessed that weaker banking sector competition and increased risk perception (lesser risk propensity and the collateral requirement) worked in the opposite direction, as did in part the general economic and geopolitical situation when it comes to FX-indexed loans. Banks expect moderate tightening of corporate credit standards in Q3 because of the same factors.

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

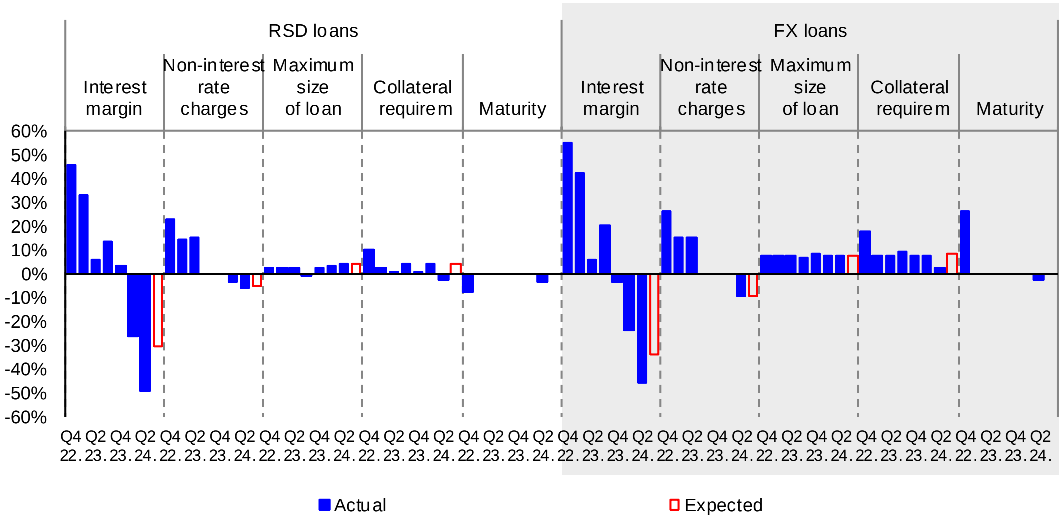


Source: NBS.
* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.
** The intensity of change is not shown in charts.

1.2 Conditions and terms for approving corporate loans

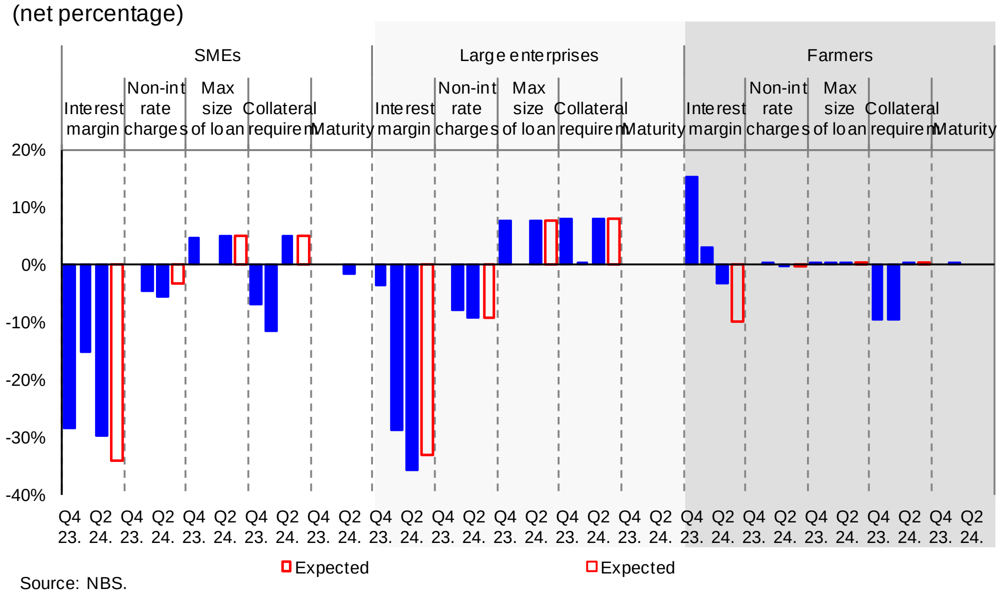
The terms of approval of corporate loans were generally alleviated in Q2 – banks cut their interest margins, for both dinar and FX/FX-indexed loans, and for all enterprises, irrespective of the size. Besides, commissions and fees were also lowered, and the maximum loan maturity extended. In contrast, banks reduced the maximum loan amount in Q2 and moderately tightened the collateral requirements.

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.

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



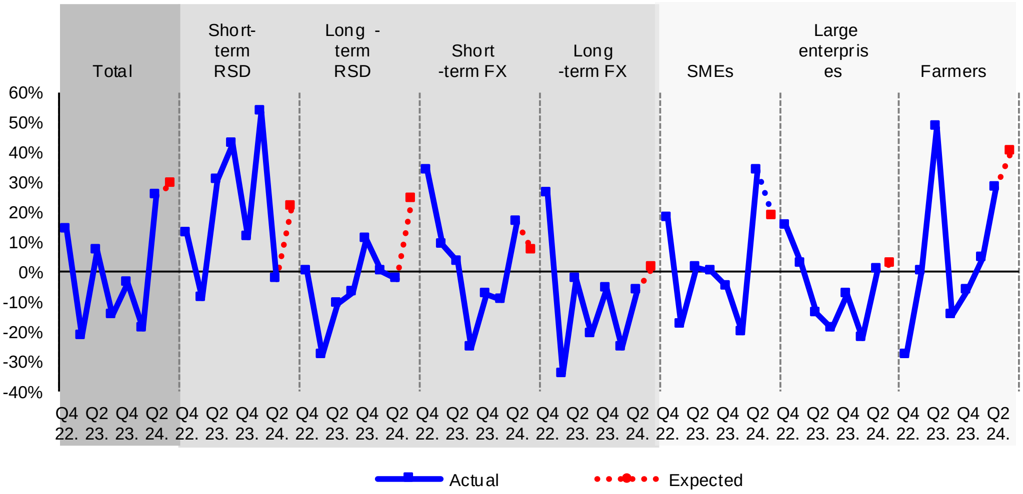
Source: NBS.
* Positive value indicates tightening of credit standards and negative - easing.
** The intensity of change is not shown in charts.

1.3 Demand for corporate loans and contributing factors

Banks assessed that overall corporate loan demand increased in Q2, primarily owing to growing demand for short-term FX/FX-indexed loans driven by the need to finance working capital. Demand growth also reflected the need to finance capital investment and reschedule debt. At the same time, the use of alternative sources of funding and abated activity regarding acquisitions exerted a downward pressure on corporate loan demand in Q2.

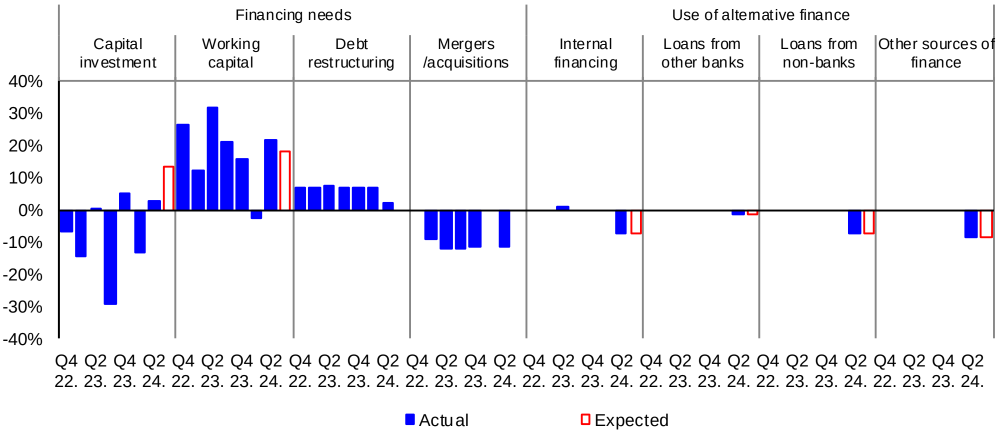
Banks expect corporate loan demand to continue in Q3, for both dinar and FX/FX-indexed loans, in response to the need to finance capital investment and working capital.

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.

Factors affecting the demand for loans or credit lines to enterprises
(net percentage)



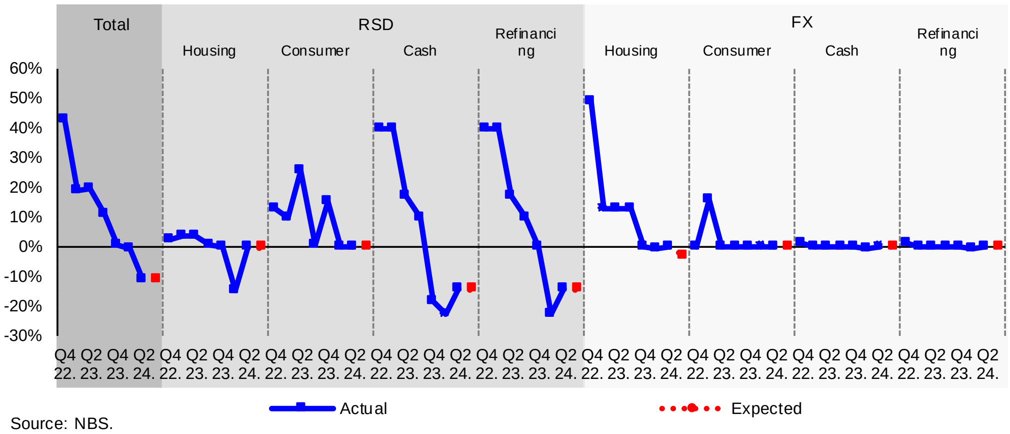
Source: NBS.
* Positive value indicates the contribution of individual factors to an increase in demand, and negative - to a decrease .
** The intensity of change is not shown in charts.

2. Household loans

2.1 Change in credit standards and contributing factors

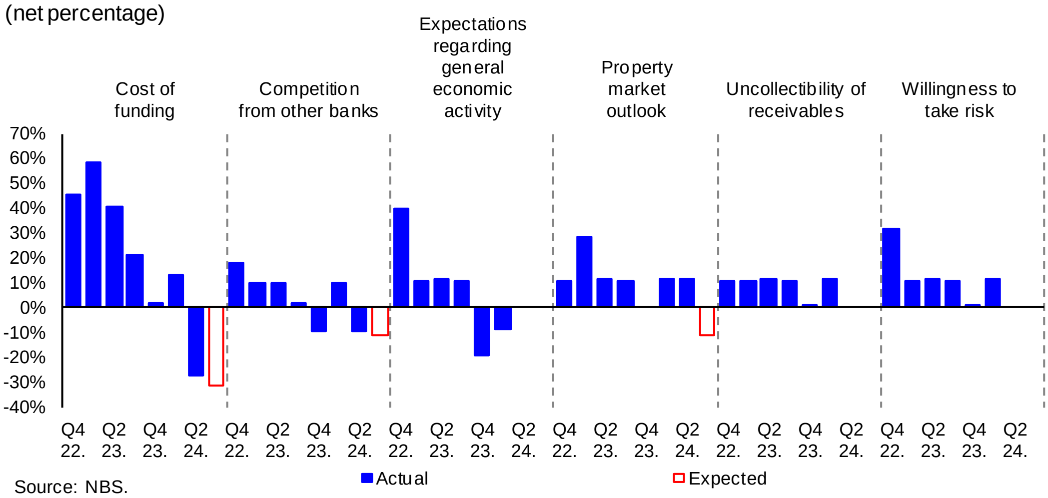
The results of the July survey indicate that household credit standards were mitigated in Q2, consistent with the expectations reported in the previous survey. The easing concerned dinar cash loans (including refinancing loans), while the standards for FX/FX-indexed loans and consumer loans remained unchanged.

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.

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.
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The easing of standards in Q2 reflects the reduced cost of funding and weaker competition in the market of household loans, while the situation in the real estate market worked in the opposite direction, which is probably why the standards for FX-indexed loans stayed unchanged.

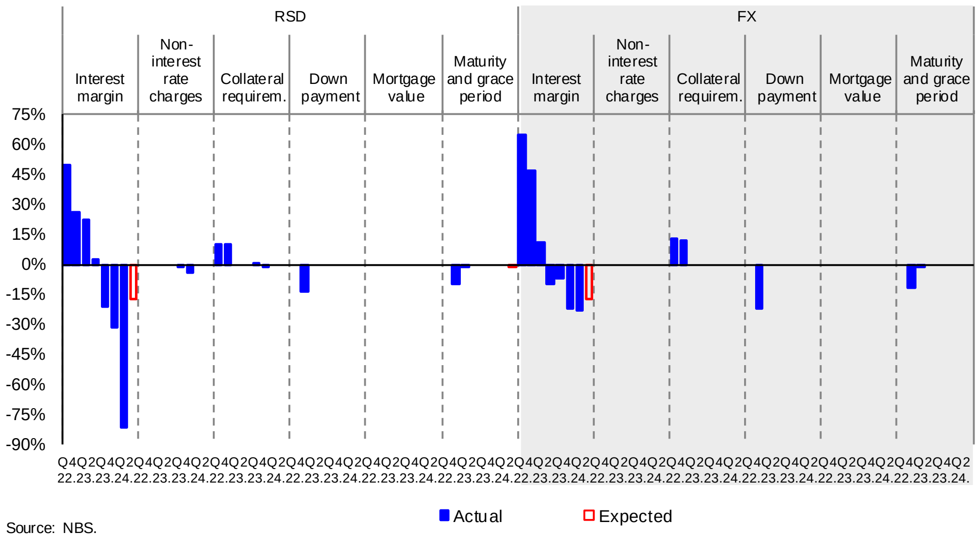
Banks expect the easing of household credit standards to continue in Q3 for dinar cash (including refinancing) loans and FX-indexed housing loans, on the back of lower cost of funding and competition from other banks, as well as a positive outlook for the real estate market.

2.2 Conditions and terms for approving household loans

The price terms of household loan approval in Q2 were loosened additionally relative to the quarter before – interest rate margins shrank for both dinar and FX-indexed loans. In the case of FX-indexed loans, this can be associated with the NBS's decision to temporarily cap interest rates on housing loans and, in the case of dinar loans, with the stabilisation of interest rates in the interbank money market.

Banks expect these trends to continue in Q3.

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



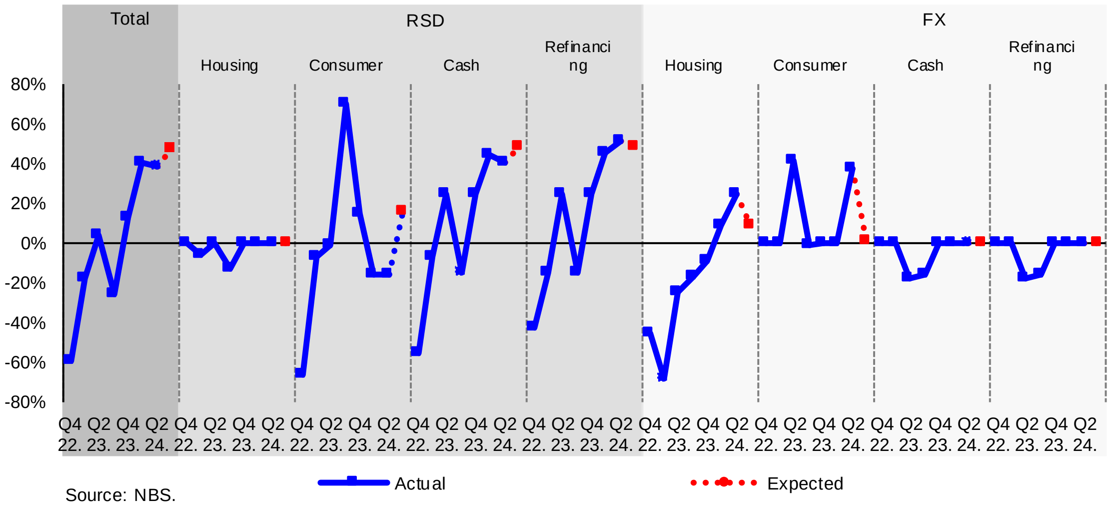
Source: NBS.
* Positive value indicates tightening of conditions and negative - easing.
** The intensity of change is not shown in charts.

2.3 Household loan demand and contributing factors

According to banks, household loan demand increased in Q2, consistent with the expectations reported in the previous survey. The increase in demand is mostly owed to dinar cash loans, driven by the need to refinance loans and purchase durable consumer goods. Banks assessed that the demand for FX/FX-indexed housing and consumer loans continued, which can be linked to the NBS's temporary cap on housing loan interest rates, the start of the ECB's monetary easing, and wage growth.

Banks expect demand growth to extend to Q3.

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



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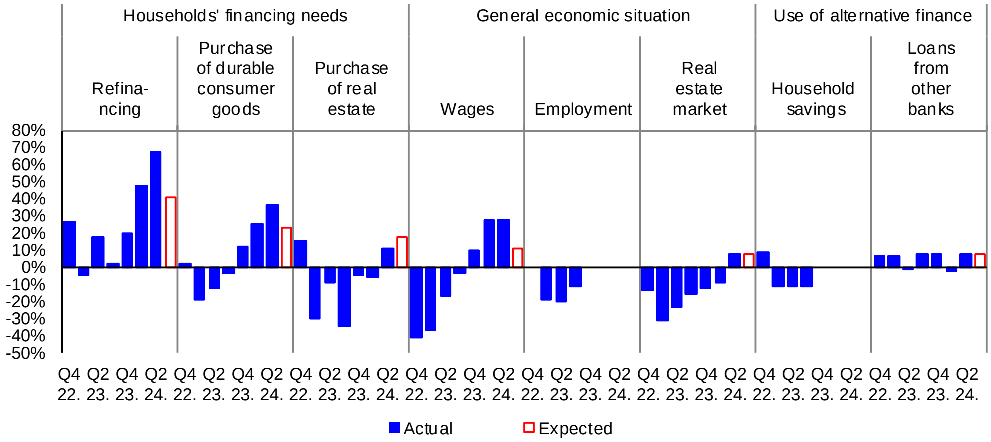
Factors affecting the demand for loans or credit lines to households
(net percentage)



Source: NBS.
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