National Bank of Serbia

REPORT ON THE RESULTS OF THE BANK LENDING SURVEY

First Quarter Report 2024

Belgrade, May 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.

Furthermore, this round of bank surveying included some additional questions which pertain to their expectations concerning lending activity, the share of dinar loans and deposits in total loans and deposits, the impact of Expo 2027 on lending activity and the real estate market situation this and the next year.

This Report **sums up the results of the bank lending survey carried out from 1 to 16 April 2024.** The survey presents the attitudes of banks' representatives about changes in Q1 2024 and expected changes in the credit market in Q2 2024, as well as expectations for 2024 and 2025 in the *ad hoc* section of the questionnaire. 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.

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[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 April survey shows that in Q1 banks mitigated corporate credit standards for the first time since Q2 2021 on account of lower costs of financing, sector competition and lower risk perception. Banks expect further alleviation of corporate credit standards in Q2.

Banks estimate that household credit standards were also eased in Q1, affecting almost all loan categories, but mostly dinar cash loans (and refinancing loans). Further easing of household credit standards is expected in Q2.

Corporate demand for FX-indexed loans went down while the demand for dinar loans went up in Q1. Banks expect a rise in corporate loan demand in Q2.

Banks estimate that household loan demand increased in Q1, primarily on account of the rising demand for dinar loans as well as for FX-indexed housing loans, and similar tendencies are expected in Q2 as well.

The results of the *ad hoc* survey show that almost all banks expect an increase in lending this year, which should further accelerate in 2025. They estimate that the implementation of the “Leap into the Future – Serbia Expo 2027" programme will contribute to higher loan demand and the majority expect the stabilisation of prices in the real estate market. At the same time, banks anticipate a higher degree of dinarisation of loans and deposits, which is also a strategic goal of the NBS.

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

	Supply (credit standards)		**Demand**	
	Q1 2024	Q2 2024 (expectation	Q1 2024	Q2 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 standards (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%)

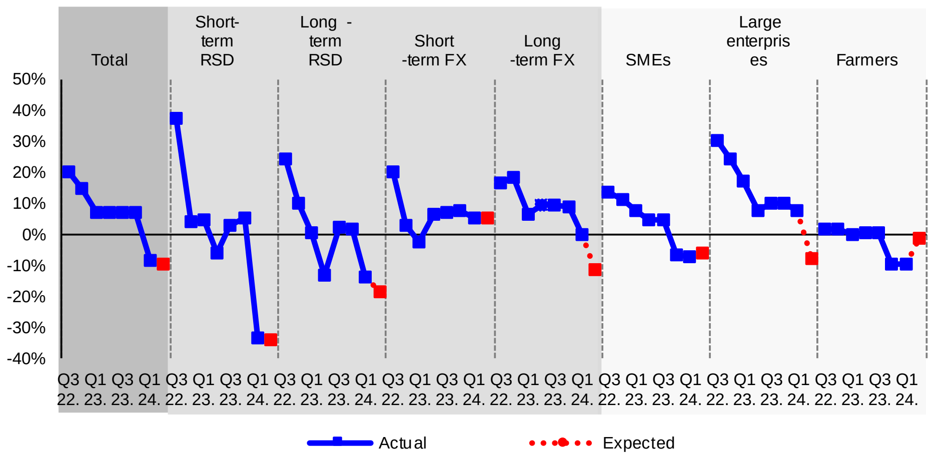
↓ Easing of credit standards (net percentage above 5%)

1. Corporate loans

1.1 Change in credit standards and contributing factors

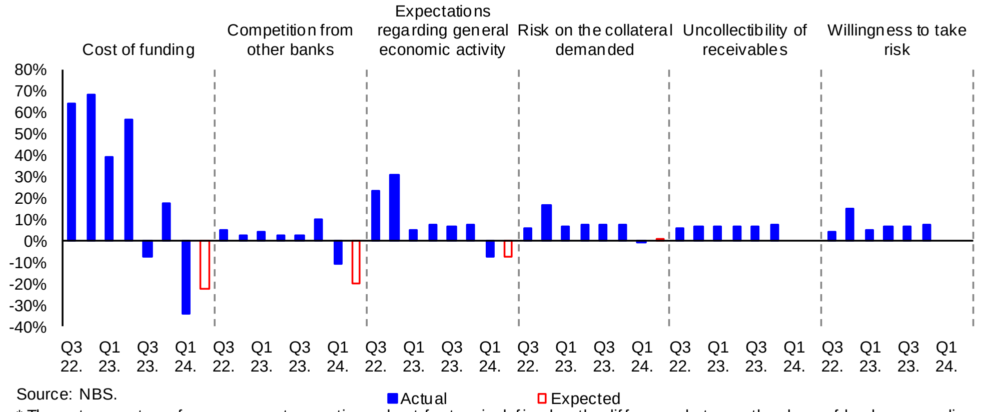
The April survey shows that in Q1 banks alleviated corporate credit standards for the first time in almost three years. The easing referred almost entirely to dinar loans, while standards for the approval of FX/FX-indexed loans were slightly tightened. By enterprise size, the easing referred to small and medium-sized enterprises as well as farmers. Banks anticipate a further relaxation of corporate credit standards in Q2.

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



Source: NBS.
* The net percentage for responses to questions about credit supply is defined as the difference between the sum of the shares of banks responding that the standards tightened and the sum of the shares of banks responding that they eased.
** A positive value indicates tightening of credit standards and a negative value indicates easing.

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



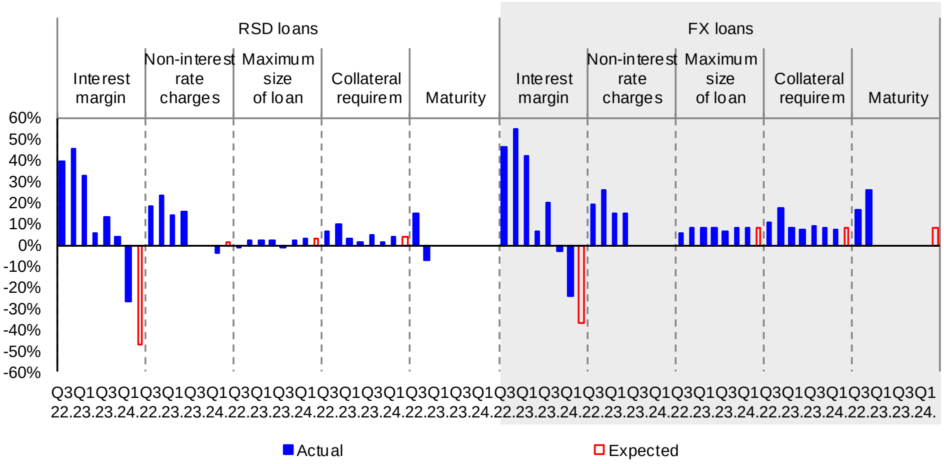
Source: NBS.
* The net percentage for responses to questions about factors is defined as the difference between the share of banks responding that a given factor contributed to tightening and the share of banks responding that it contributed to easing of credit standards.
** A positive value indicates that a given factor contributed to tightening, and a negative value that it contributed to easing of credit standards.

The alleviation of corporate credit standards was primarily driven by the lower costs of funding sources (a factor which will contribute to easing in Q2 as well). Banking sector competition worked in the same direction, as did positive expectations regarding the overall economic situation.

1.2 Conditions and terms for approving corporate loans

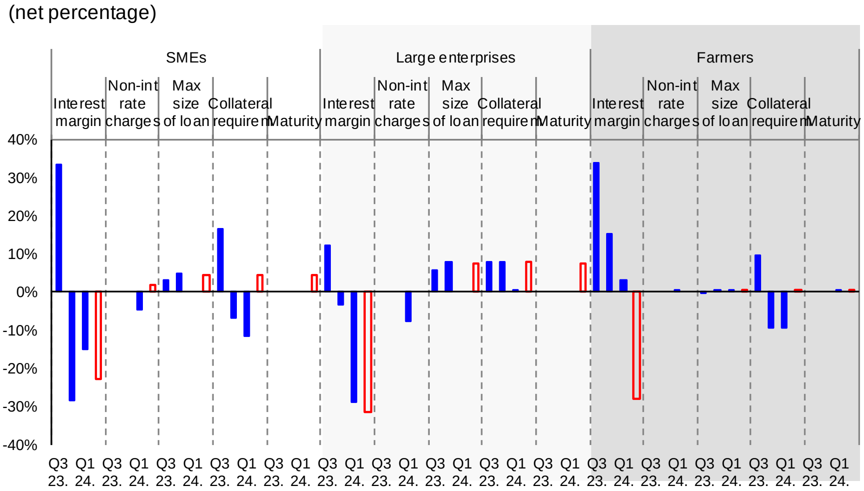
In parallel with the easing of standards, banks also reduced interest margins on corporate loans, both for dinar and FX/FX-indexed loans, particularly in the case of large enterprises. On the other hand, in Q1 banks lowered the maximum loan amount and moderately tightened collateral requirements.

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



Source: NBS.
* The net percentage for responses to questions about credit terms and conditions is defined as the difference between the share of banks responding that a given credit condition was tightened and the share of banks responding that it was eased.
** A positive value indicates tightening, while a negative value indicates easing.

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



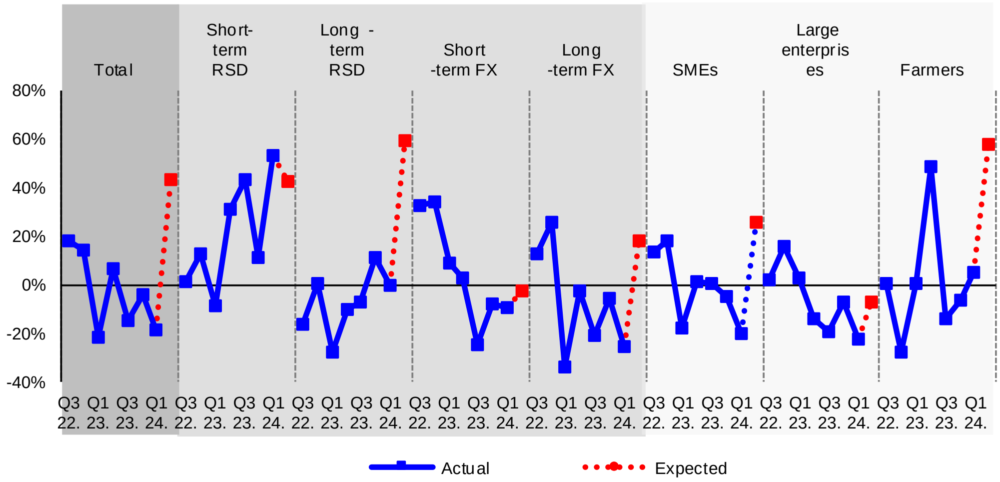
Source: NBS.
* The net percentage for responses to questions about credit terms and conditions is defined as the difference between the share of banks responding that a given credit condition was tightened and the share of banks responding that it was eased.
** A positive value indicates tightening, while a negative value indicates easing.

1.3 Demand for corporate loans and contributing factors

Banks estimate that overall corporate loan demand declined in Q1 due to reduced demand for FX/FX-indexed loans. In contrast, in Q1 corporate demand for dinar loans went up owing to the need to restructure existing liabilities.

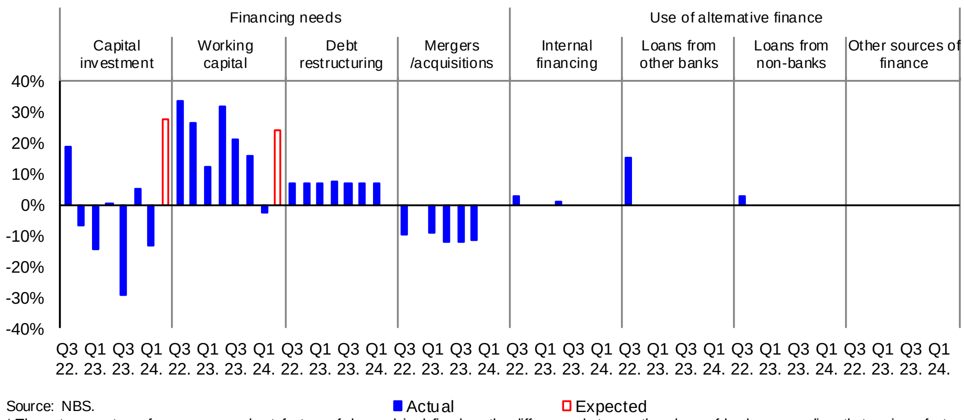
In Q2, banks expect higher corporate loan demand for dinar and long-term FX/FX-indexed loans, driven by the need to finance capital investments and working capital.

Change in corporate loan demand
(net percentage)



Source: NBS.
* The net percentage is defined as the difference between the sum of shares of banks responding that demand increased and the sum of shares of banks responding that demand decreased.
** A positive value indicates increased demand, while a negative value indicates decreased demand.

Factors affecting corporate loan demand
(net percentage)



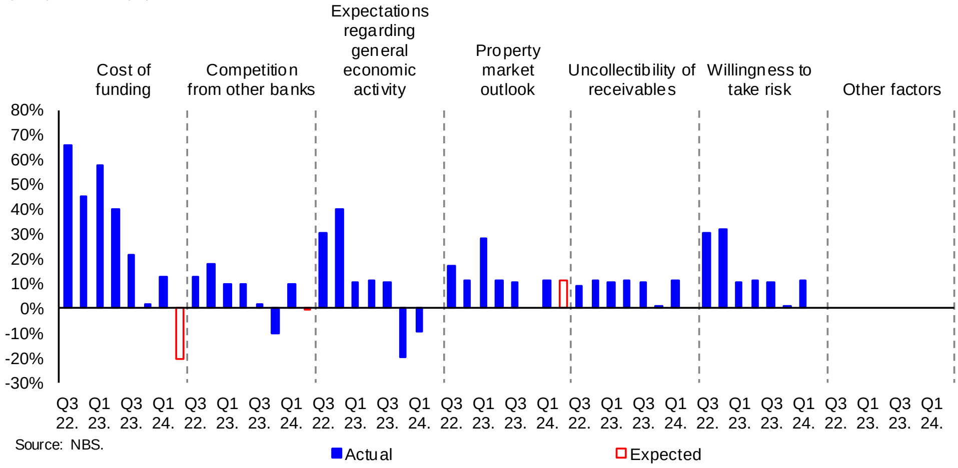
Source: NBS.
* The net percentage for responses about factors of demand is defined as the difference between the share of banks responding that a given factor contributed to increased demand and the share of banks responding that it contributed to decreased demand.
* A positive value indicates that the given factor contributed to increased demand, while a negative value indicates that it contributed to decreased demand.

2. Household loans

2.1 Change in credit standards and contributing factors

The survey results indicate that household credit standards were slightly eased in Q1, consistent with the expectations from the previous survey. The easing affected all categories of household loans (except consumer loans which remained unchanged), but was felt the most in the case of dinar cash loans (and refinancing loans).

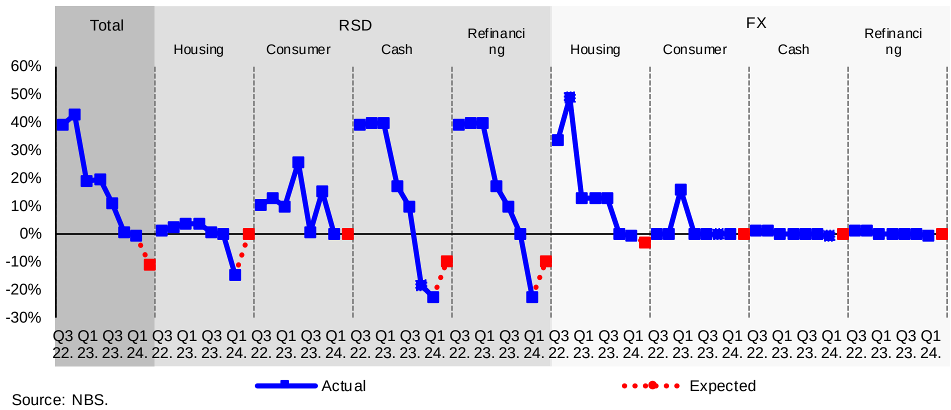
Factors affecting credit standards as applied to the approval of loans or credit lines to households
(net percentage)



Source: NBS.

* The net percentage for responses to questions about factors is defined as the difference between the share of banks responding that a given factor contributed to tightening and the share of banks responding that it contributed to easing of credit standards.
** A positive value indicates that a given factor contributed to tightening, and a negative value that it contributed to easing of credit standards.

Change in credit standards as applied to the approval of household loans
(net percentage)



Source: NBS.
* The net percentage for responses to questions about credit supply is defined as the difference between the sum of the shares of banks responding that the standards tightened and the sum of the shares of banks responding that they eased.
** A positive value indicates tightening of credit standards and a negative value indicates easing.

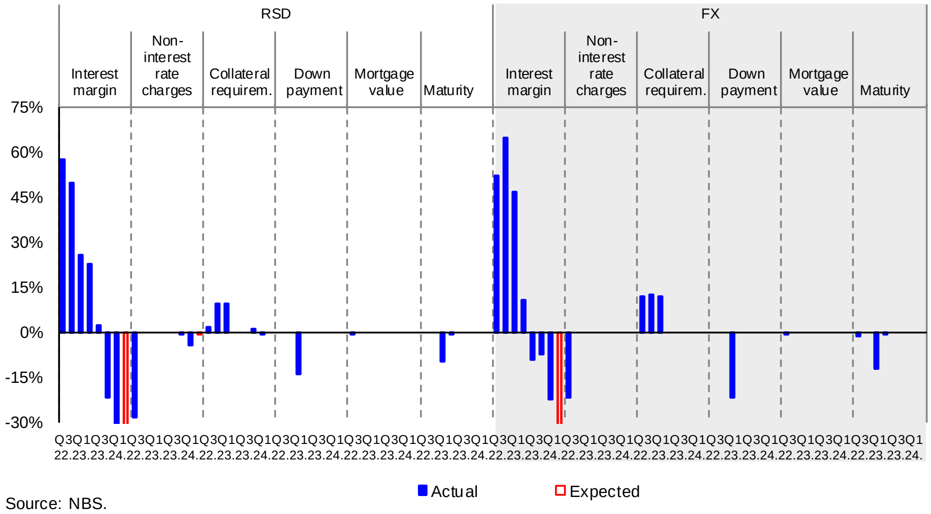
Banks expect household credit standards to be eased further in Q2 for dinar cash loans and FX-indexed housing loans, and believe that standards for other types of loans will remain unchanged.

The easing of standards were driven by positive expectations in terms of the overall economic activity, while a lower risk appetite of banks, NPLs and the real estate market situation (high prices of flats) work in the opposite direction.

2.2. Conditions and terms for approving household loans

The price terms of approval of household loans in Q1 were eased relative to a quarter earlier. 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.

Change in conditions and terms for approving household loans
(net percentage)

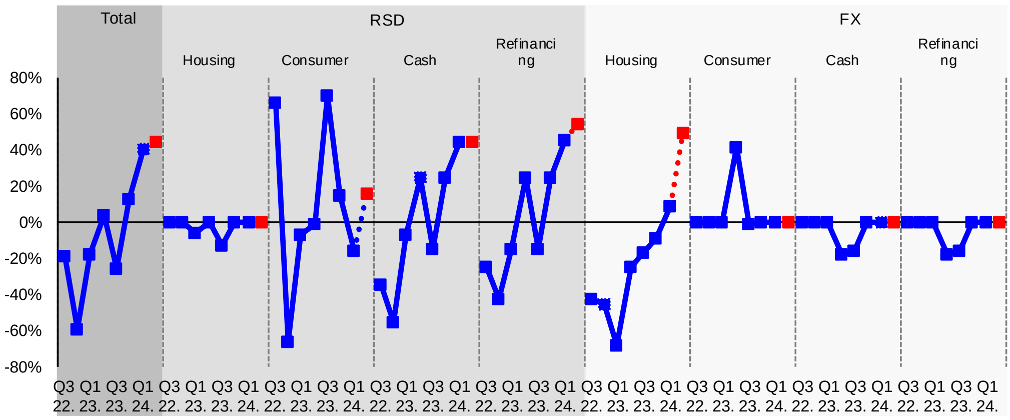


Source: NBS.
* The net percentage for responses to questions about credit terms and conditions is defined as the difference between the share of banks responding that a given credit condition was tightened and the share of banks responding that it was

2.3. Household loan demand and contributing factors

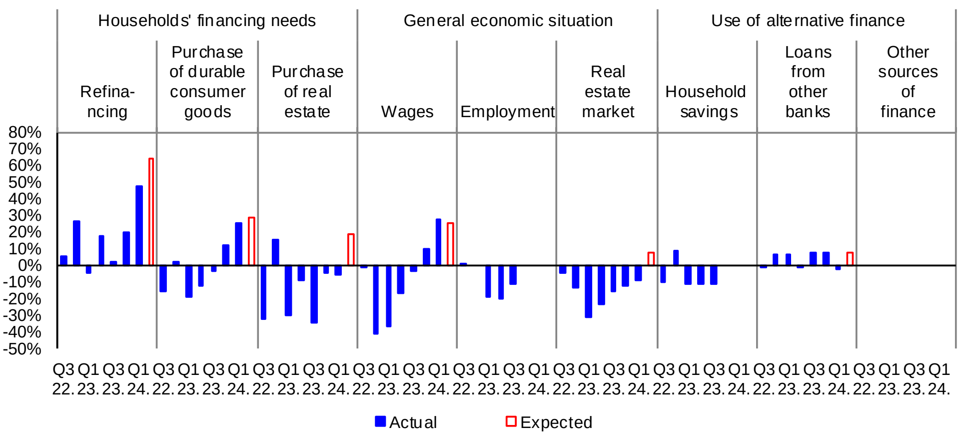
According to banks, household loan demand increased in Q1, consistent with the expectations from the previous survey. The increase in demand is mostly owed to dinar loans and is driven by the need to refinance and purchase durable consumer goods. Housing loan demand went up for the first time in the past two years, which can be associated with the NBS's decision to temporarily cap the interest rates on housing loans, as well as with wage growth and expectations that the ECB could soon start easing its monetary policy. Bank loan demand is expected go up further in Q2, which should be additionally supported by improved conditions in the real estate market.

Change in household loan demand
(net percentage)



Source: NBS.
* The net percentage is defined as the difference between the sum of shares of banks responding that demand increased and the sum of shares of banks responding that demand decreased.

Factors affecting household loan demand
(net percentage)



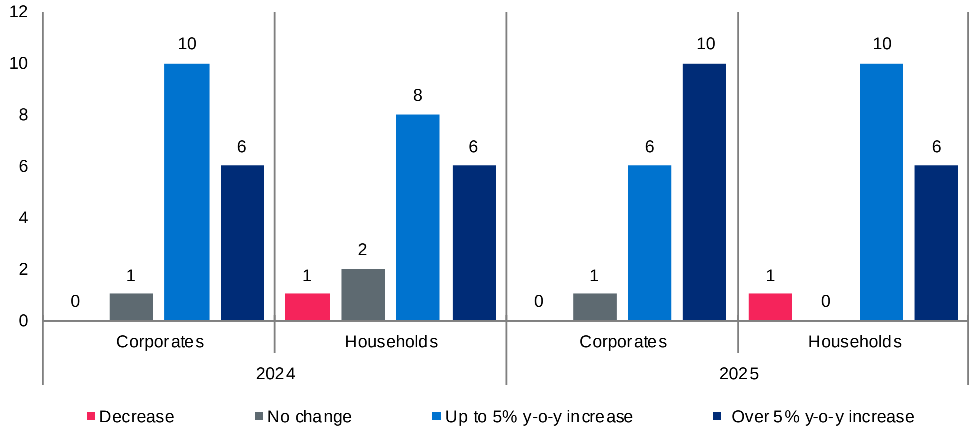
Source: NBS.
* The net percentage for responses about factors of demand is defined as the difference between the share of banks responding that a given factor contributed to increased demand and the share of banks responding that it contributed to decreased demand.

3. Additional questions in the survey

3.1. Expectations of lending activity in the current and the next year

Almost all surveyed banks responded that they **expect corporate and household loans to increase this and the next year,** with growth gaining further momentum next year. A substantial number of banks estimated that corporate and household loans growth in 2024 and 2025 will be higher than 5%.

Lending outlook for 2024 and 2025
(number of banks)

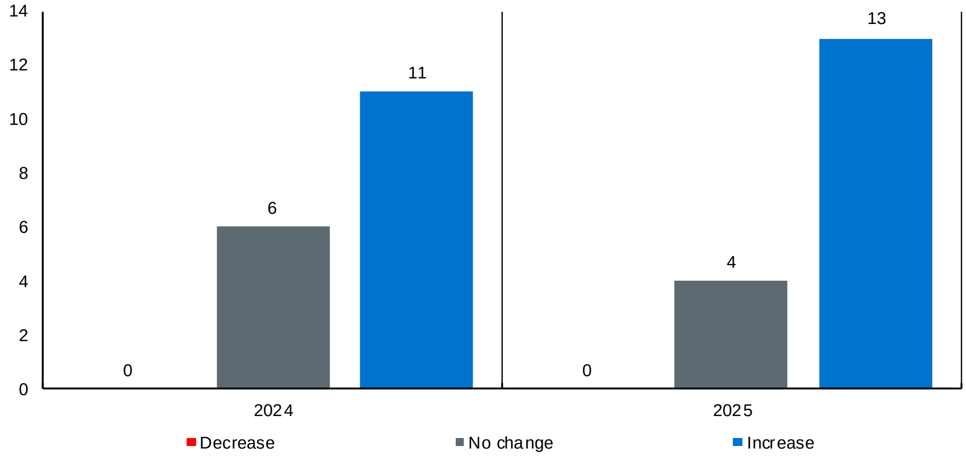


Source: NBS.

3.2. Impact of the "Leap in the Future – Serbia Expo 2027" programme on corporate loan demand in the current and the next year

According to banks, the implementation of the "Leap into the Future – Serbia Expo 2027" programme **will push up corporate loan demand,** and 11 out of 17 surveyed banks (with a joint share of 82% in the loans market) expect growth in 2024. An even higher number of banks expect a positive impact of Expo 2027 on loan demand in 2025 – 13 out of 17 surveyed banks (with a joint share of 90% in the corporate loans market).

Impact of Expo 2027 on corporate loan demand in 2024 and 2025
(number of banks)

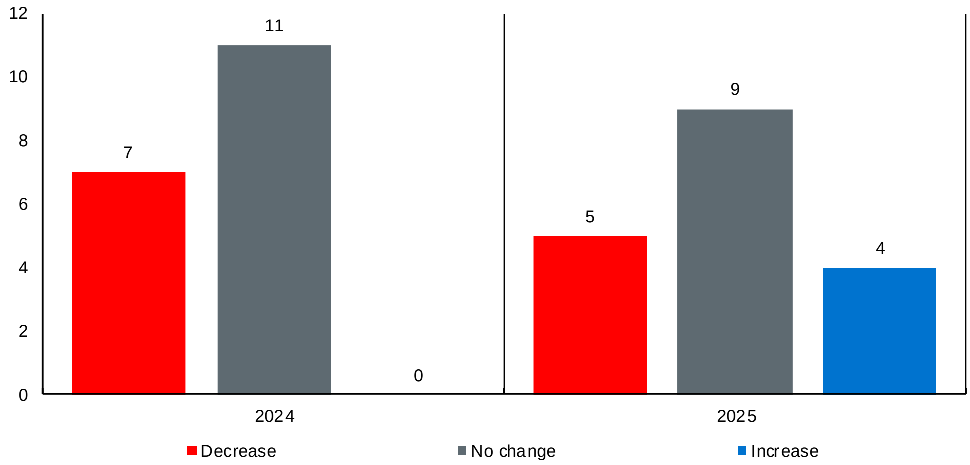


Source: NBS.

3.3. Expectations of changes in prices of flats in the current and the next year

A majority of banks, 11 out of 18, expect no change in the prices of flats in the current year. A total of seven banks, with a joint share of 44% in the housing loans market, expect a moderate decline in the prices of flats in the current year. Next year, nine banks expect no change in the prices of flats, five expect a further decline, and four banks estimate that prices will go up.

Expectations of changes in prices of flats in 2024 and 2025
(number of banks)



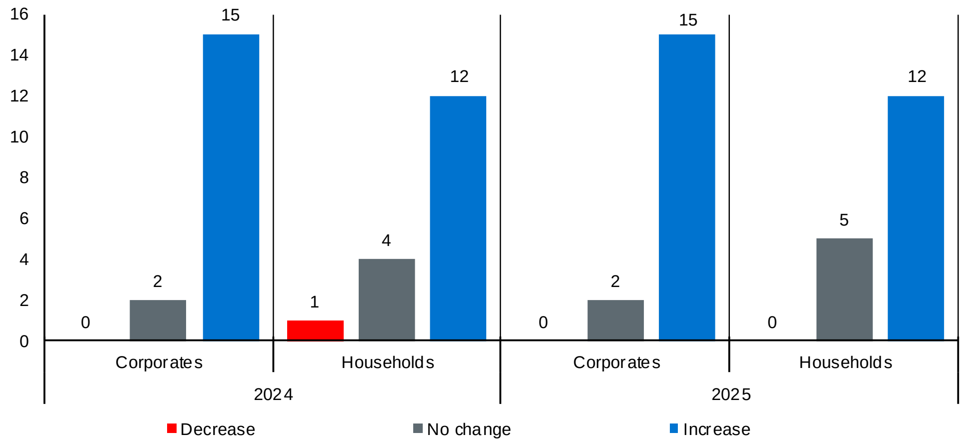
Source: NBS.

3.4. Expectations of dinarisation in the current and the next year

According to survey results, **most banks expect that the share of dinar loans in total loans will go up in 2024 and 2025,** more in the corporate sector, which can be associated with the NBS's decision on higher capital requirements if the amount of new non-investment euro-indexed corporate loans exceeds a certain prescribed limit.

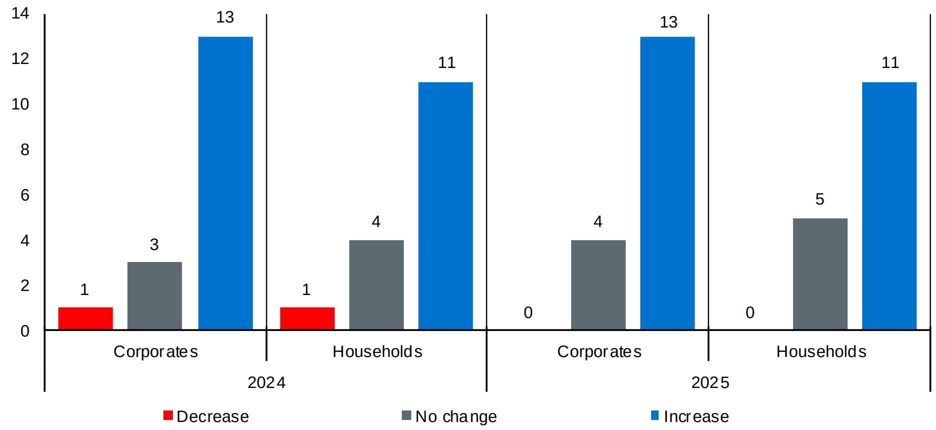
At the same time, **deposit dinarisation is expected to go up,** both in the corporate and in the household sector. This should support greater efficiency of the NBS's transmission mechanism through the interest rate channel.

Expectations of loans dinarisation in 2024 and 2025
(number of banks)



Source: NBS.

Expectations of deposit dinarisation in 2024 and 2025
(number of banks)



Source: NBS.