NATIONAL BANK OF SERBIA
Economic Research and Statistics Department

TRENDS IN LENDING

Second Quarter Report 2020

Belgrade, September 2020

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 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. Ten Serbian banks participate in this survey, their assets making up around 50% of total assets of the Serbian banking sector.

ABBREVIATIONS

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

Other generally accepted abbreviations are not cited.

Contents

Overview

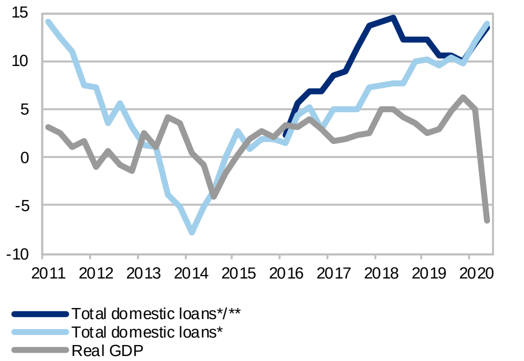
Y-o-y lending growth accelerated further in Q2. Excluding the exchange rate effect[1], it came at 13.9% in June and was among the highest in the region. Such trends also reflect the proactive stance of the NBS, which continued to ease monetary policy and introduced a moratorium on loan repayments to support businesses and citizens in the crisis caused by the coronavirus pandemic. Lending was also driven by the approval of loans under the Guarantee Scheme[2].

Lending growth remained supported mainly by **corporate loans**, whose **June y-o-y growth equalled 15.9%, while the stock of household loans was up by 12.6%**. Despite the growth, the share of loans in GDP stayed below the long-term trend[3], suggesting that lending activity poses no risk either to price or financial stability.

Owing to continued monetary policy easing, low interest rates in the international money market and increased interbank competition, the **conditions of financing** in the domestic market remained favourable and continued to support lending activity. In Q2, interest rates moved close to the earlier recorded lowest values, with the average price of dinar household loans falling to a new minimum in June.

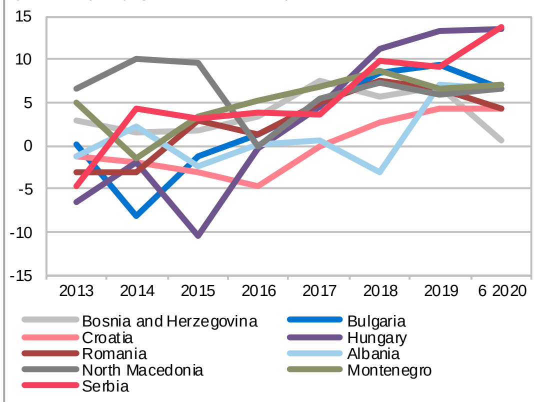
Corporate loans were up by RSD 45.3 bn in Q2, excluding the exchange rate effect. The bulk of this growth concerned liquidity and working capital loans, and was supported by the corporate sector's growing need for liquid assets in the pandemic and the disbursement of loans under the guarantee scheme as of May. In May and June, banks approved EUR 638.4 mn worth of government-guaranteed loans and disbursed EUR 558.5 mn worth of loans to micro, small and medium-sized enterprises and entrepreneurs. As these enterprises are targeted by the Guarantee Scheme and used the moratorium to a greater extent than large enterprises, over three fifths of lending growth in Q2 concerned micro, small and medium-sized enterprises. The stock of loans increased on accounts of enterprises in all sectors, mainly in construction, real estate, transport and energy.

Lending continued up in Q2, despite the crisis
(y-o-y growth rates, in %)



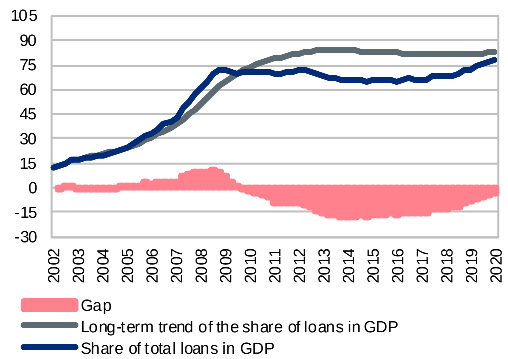
Sources: NBS and SORS.
* Excluding the exchange rate effect.
** Excluding the effect of NPL write-off and sale since early 2016.

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



Sources: Websites of central banks and NBS calculation.

Share of total loans* in GDP remained below the long-term trend
(in %)



Sources: NBS and SORS.
* Including cross-border corporate borrowing.

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[1] Calculated at the dinar exchange rate against the euro, Swiss franc and US dollar as at 30 September 2014 (the so-called programme exchange rate used for monitoring the performance under the arrangement with the IMF), taking into account the currency structure of loan receivables.

[2] In accordance with the Decree Establishing a Guarantee Scheme as a Measure of Support to the Economy to Mitigate the Consequences of the COVID-19 Disease Caused by the SARS-CoV-2 Virus (RS Official Gazette, No 57/20).

[3] Calculated in line with the methodology for the countercyclical capital buffer, including data for Q1 2020.

Excluding the exchange rate effect, **household loans increased by RSD 50.7 bn** in Q2. The growth in household loans, usually led by cash and household loans, was partly due to the application of the moratorium on loan repayment as well as stepped-up lending to entrepreneurs within the Guarantee Scheme as of May.

More than a half of loans approved under the Guarantee Scheme were dinar-denominated, which is why **the share of dinar receivables in total corporate and household receivables, according to new business, reached record 34.6% at end-June**. Of this, in Q2 the dinarisation of corporate and household receivables increased by 1.7 pp to 16.4%, and by 0.7 pp to 55.8%, respectively.

The share of NPLs in total loans continued to decline in Q2 and reached **3.7% in June – the new lowest level** since this assets quality indicator is monitored. This share was down by 0.3 pp compared to March 2020 and by 18.6 pp compared to July 2015, just before the start of implementation of the NPL Resolution Strategy.

After the adoption of the decision on the three-month moratorium on loan repayment in March and three cuts in the key policy rate from March to June by 1 pp in total, the **NBS continued to act proactively in order to mitigate the consequences of the crisis**. It adopted numerous measures to ensure smooth functioning of the credit channel and support faster recovery of the economy. In June, the NBS made the decision to lower the minimum loan downpayment for first flat purchases from 20% to 10%. In July, it enabled banks to extend the moratorium on credit liabilities by two months, starting from 1 August. It also adopted regulations encouraging banks to refinance or extend maturity by additional two years for cash, consumer and other loans (apart from housing loans and current account overdrafts). Dinar loans under the Guarantee Scheme should be even more favourable as the NBS will pay to banks which approve loans at rates lower by at least 50 bp than the maximum rate[4] a 50 bp higher remuneration rate on the amount of dinar required reserve allocations equivalent to the amount of loans approved at lower rates. In August, the NBS introduced temporary measures enabling banks to approve loans for new-build flats, regardless of the degree to which a building is completed – in case of project financing of the bank or in case when the Building Directorate of Serbia holds construction permits, or when a building is 60% complete (earlier limitation was 80%) – in case of project financing of another bank or in case the investor is a legal person. Moreover, the deadline of repayment of current housing loans can be extended by up to five years, and access to dinar short-term loans is facilitated – banks will be able to approve loans worth up to RSD 90,000 over the term of up to two years to clients who do not receive wages or pensions through accounts in a concrete bank.

[4] One-month BELIBOR + 2.5 pp.

I. Corporate sector

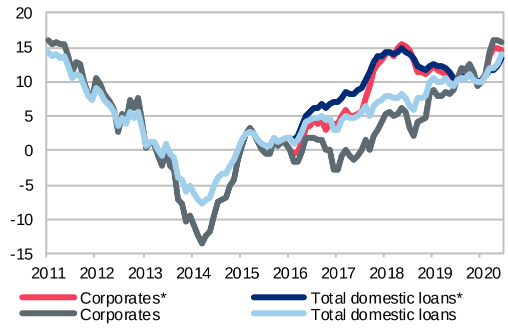
1. Corporate loans

Y-o-y lending to corporates stepped up to **15.9% in June**, reflecting NBS monetary policy easing, loans under the Guarantee Scheme intended for micro, small and medium-sized enterprises and entrepreneurs, and the moratorium on the repayment of credit liabilities. Despite the increased disbursement of working capital loans in the past several months, the strongest contribution to y-o-y corporate lending growth continued to stem from investment loans, which were up 22.8% y-o-y in June. In nominal terms, the stock of corporate loans was worth RSD 1,348.2 bn in June and their share in annual GDP[5] was 24.8%, up by 1.1 pp from March.

Excluding the exchange rate effect, **corporate loans increased by RSD 45.3 bn or 3.4% in Q2**, with over 70% of growth pertaining to companies. The **stock of loans increased** in the accounts of enterprises in **all sectors**, most notably **construction, real estate, transport and energy**. As a result of the growing needs for liquid assets in the past several months and the approval of loans from the Guarantee Scheme, in Q2 the bulk of corporate lending growth (almost 72%), **observed by purpose**, concerned working capital loans, whose share in total corporate loans went up to 40.8% in June. Investment loans were also a significant contributor and remained the most dominant category of corporate loans – they accounted for 29% of growth in Q2 and stood at 44.3% in June.

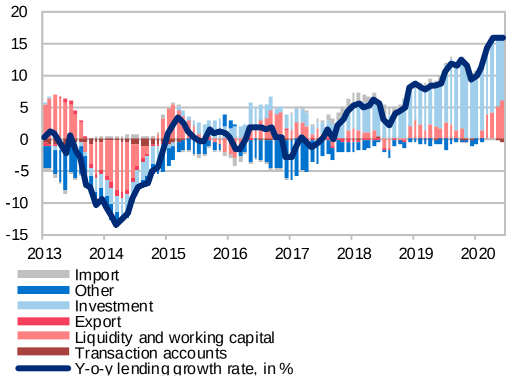
The disbursement of loans under the Guarantee Scheme[6] – targeting the segment of the corporate sector which is most vulnerable to the crisis (micro, small and medium-sized enterprises and entrepreneurs) and is at the same time a significant generator of GDP and jobs – has significantly mitigated the consequences of the coronavirus crisis in Q2. Of total EUR 2 bn worth of liquidity and working capital loans – the amount that banks can approve with government guarantee until late January 2021 – EUR 638.4 mn was approved in May and June. Of this amount, almost 90% (EUR 558.5 mn) of approved loans was disbursed until late June. More than a half of approved loans were in dinars (56.4%), contributing to the increase in the degree of dinarisation, higher efficiency of monetary policy and further strengthening of financial stability. As 86.9% of total loans approved were new loans, we can expect their

Owing to the Guarantee Scheme and the moratorium, corporate lending stepped up y-o-y
(y-o-y growth rates at the programme exchange rate, in %)



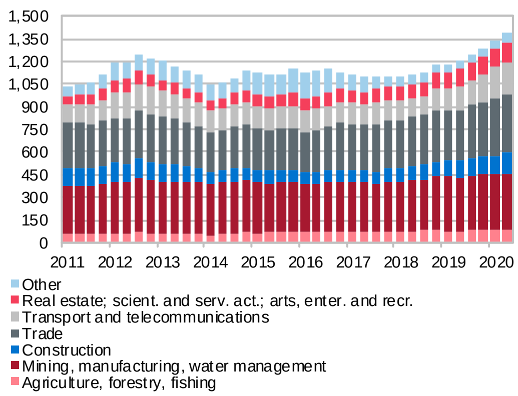
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

Investment loans remained the greatest contributor to y-o-y growth in corporate lending
(in pp, excluding the exchange rate effect)



Source: NBS.

The largest portion of corporate receivables were loans for manufacturing and trade
(stock, in RSD bn)



Source: NBS.

[5] GDP in the last four quarters.

[6] For more information about the conditions of financing and the disbursement of loans under the Guarantee Scheme see the *Inflation Report* – August 2020, Text box 2, p. 30–31.

positive impact on economic activity in the coming period.

The volume of new corporate loans was RSD 218.3 bn in Q2, with more than 50% of this amount approved in June within the Guarantee Scheme. This is a decline of 24.2% compared to Q2 2019, or 21.1% excluding loans refinanced with the same bank. As usual, working capital and investment loans were the most dominant, observed by purpose. The market segment of micro, small and medium-sized enterprises received over two thirds (67.0%) of new loans in Q2. This segment used 75% of new investment loans in Q2 and almost 70% of working capital loans.

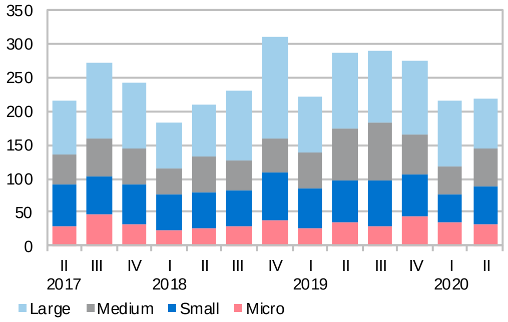
The dinarisation of corporate receivables increased to 16.4% at end-Q2 (from 14.7% at end-Q1) due to almost twice higher growth in dinar than in euro loans, which was also supported by the disbursement of dinar loans under the Guarantee Scheme – up by 2.4 pp compared to end-2019. Also, compared to end-2019, the share of euro-indexed and euro receivables declined by 2.4 pp to 83.2% in June. The share of dollar receivables declined somewhat (0.2%) and the share of Swiss franc receivables was unchanged (0.1%). An additional impetus to dinar lending is expected from the July decision of the NBS to pay to banks which approve dinar loans under the Guarantee Scheme at rates lower by at least 50 bp than the maximum rate (one-month BELIBOR + 2.5 pp) a 50 bp higher remuneration rate on the amount of dinar required reserve allocations (which currently equals 10 bp) equivalent to the amount of loans approved at lower rates and not exceeding the amount of calculated dinar required reserves.

The share of NPLs[7] in total corporate loans further declined in Q2, partly reflecting the loan repayment moratorium. The NPL ratio of the corporate sector **reached a new minimum of 2.8% in June**, down by 0.2 pp compared to March 2020 and by 22.1 pp compared to June 2015, just before the start of implementation of the Strategy. In the segment of companies, in Q2 the NPL ratio declined by 0.2 pp to 3.1% in June, and reached new lows in some activities. Compared to the start of the implementation of the Strategy, the sharpest drop was recorded in construction, real estate, trade and manufacturing.

Falling NPLs reduce the systemic risk, although from the aspect of financial stability it is important to underline that even at the earlier higher level,

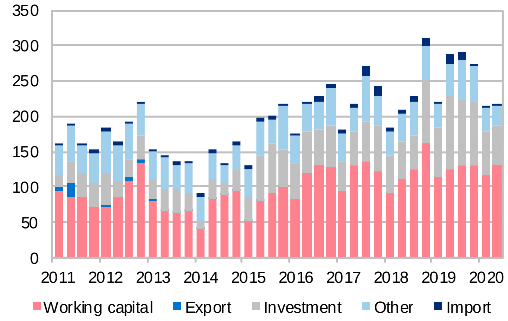
[7] Important factors behind a sharp fall in NPLs since 2016 are the successful implementation of the NPL Resolution Strategy and the Decision on the Accounting Write-off of Bank Balance Sheet Assets. In accordance with the Strategy, the NBS adopted the Action Plan (http://www.nbs.rs/internet/english/55/npl/action_plan.pdf), aimed at strengthening banks' capacity to resolve NPLs and contributing to the development of the NPL market, which were fully implemented, some before the deadline.

In Q2, over two thirds of new loans were approved to micro, small and medium-sized enterprises
(in RSD bn)



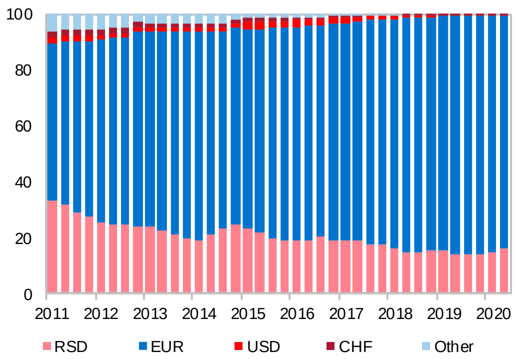
Source: NBS.

Working capital and investment loans remained the most dominant in Q2
(new loans, in RSD bn)



Source: NBS.

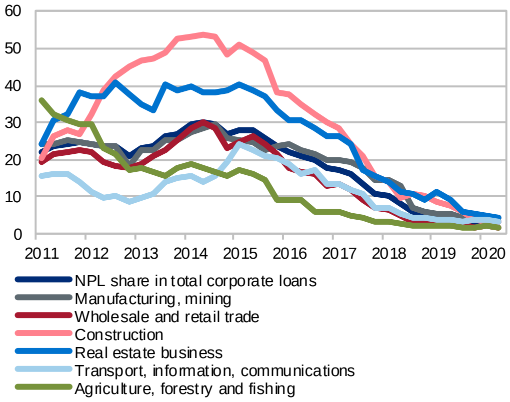
The Guarantee Scheme contributed to the rise in the dinarisation of corporate receivables in Q2
(currency structure, in %)



Source: NBS.

NPLs did not jeopardise financial sector stability. The NPL coverage remains high – allowances for impairment of total loans stood at 91.6% of NPLs in June, while allowances for impairment of NPLs reached 62.6% of NPLs. The domestic banking sector is highly capitalised as confirmed by the capital adequacy ratio, which stood at 22.7% at end-June. After the introduction of Basel III standards[8] into the domestic regulatory framework, this ratio is at a higher level than the prescribed 8% minimum.

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



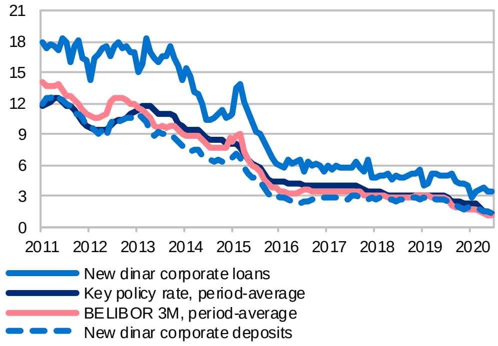
Source: NBS.

2. Cost of corporate borrowing

In Q2, the corporate sector continued to borrow under favourable terms – interest rates on both dinar and euro loans continued to move around the lowest values. Such trends reflect NBS monetary policy easing, lower rates in the euro area money market and increased interbank competition in the domestic market, despite the heightened risk aversion at the global level. Owing to a decline in interest rates in the previous period, interest expenses of corporates were reduced significantly, even though borrowing stepped up, which was conducive to the increase in the disposable income of the corporate sector.

The weighted average interest rate on new dinar corporate loans declined in Q2 by 0.2 pp, to 3.4% in June, or by 13.1 pp compared to May 2013 when the NBS began with monetary policy easing. A further decline in the average rate on dinar loans is possible in the coming period in view of the expected materialization of full effects of the latest key policy rate cuts and the NBS July decision to pay a higher remuneration rate to banks approving dinar loans under the Guarantee Scheme at a rate lower than maximum.

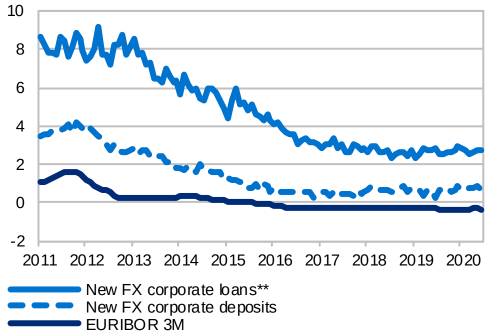
Interest rates on dinar loans remained favourable in Q2
(weighted average values, per annum, in %)



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

In terms of purpose, Q2 saw a drop in the price of dinar investment loans (by 0.1 pp to 4.4%), while rates on current assets and other unclassified loans remained unchanged, standing at 3.3%. Owing to loans under the guarantee scheme, the rates on loans to micro enterprises (3.8%), small (3.5%) and medium-sized enterprises (3.2%) declined by between 1.8 pp and 0.7 pp. At the same time, the cost of borrowing of large enterprises, not covered by this programme of support, increased by 0.8 pp to 3.2%.

Interest rates on FX corporate loans also moved close to the minimum*
(weighted average values, per annum, in %)



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

The weighted average interest rate on new euro and euro-indexed loans to corporates increased somewhat in Q2 (0.2 pp), to 2.7% in June. This was due primarily to rising interest rates on investment loans (by 0.5 pp to 3.2%), as well as on other unclassified loans – euro-indexed (2.6%) and euro

[8] The Basel III regulatory framework is applied as of 30 June 2017, with the application of the Decision on Capital Adequacy of Banks (RS Official Gazette, Nos 103/2016, 103/2018, 88/2019 and 67/2020), which introduced this standard in the domestic legislation.

loans (4.1%). On the other hand, loans on working capital loans fell by 0.1 pp to 2.4%. After a longer time, export loans were also approved, at a rate (1.8%) lower than average. In terms of company size, the rates on loans to micro enterprises (3.5%), small (2.9%) and medium-sized enterprises (2.6%) were higher compared to March (between 0.1 pp and 0.5 pp), while the price of loans to large enterprises (2.2%) remained almost unchanged.

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

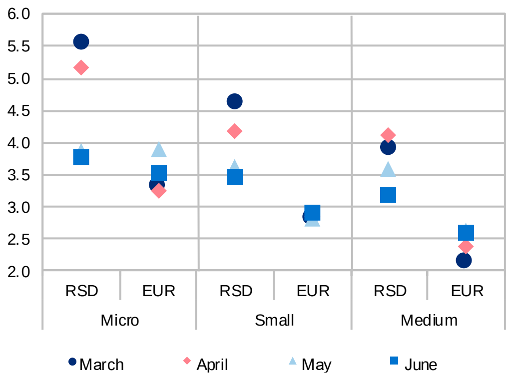
The results of the NBS Bank Lending Survey in July indicate that banks, consistent with the expectations set out in the April survey, **tightened their corporate loan standards in Q2.** In the conditions of higher perceived risk due to the coronavirus pandemic, most factors led to a tightening of standards. Competition, by contrast, continued to work towards an easing of standards, as did lower costs of sources for dinar loans, supported by NBS monetary policy accommodation. Standards are expected to be tightened in Q3 as well, but to a smaller degree.

According to survey results, most non-price conditions under which corporates borrowed in Q2 were less favourable – **maximum loan amount was smaller, collateral requirements stricter, and maturities shorter.**

At the same time, consistent with banks' expectations set out in the April survey, **corporate loan demand continued up in Q2.** According to banks, this was led by the need to finance working capital and restructure debt, while financing of capital investments diminished as investments were deferred due to the pandemic. Increased reliance on own sources of funding and loans of non-banking institutions (Development Fund) were cited as factors exerting downward pressure on loan demand. Corporate loan demand is expected to go up further in Q3 as well.

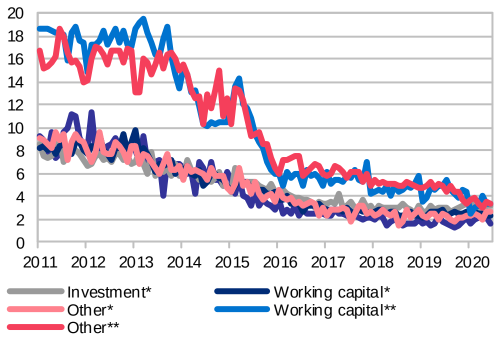
The results of the July survey are consistent with the analysis of the COVID-19 impact on banks' expectations published in the **CESEE Bank Lending Survey – H1 2020 – Spring Edition**[9] of the EIB. As the survey was conducted in March, the sample was split depending on the time of receiving banks' replies relative to the introduction of containment measures. As a result, two groups were obtained: banks which submitted replies before and banks which submitted replies after the introduction of containment measures. An overall conclusion is that banks revised sharply

The price of borrowing of micro, small and medium-sized enterprises declined in Q2
(weighted average values, p.a., in %)



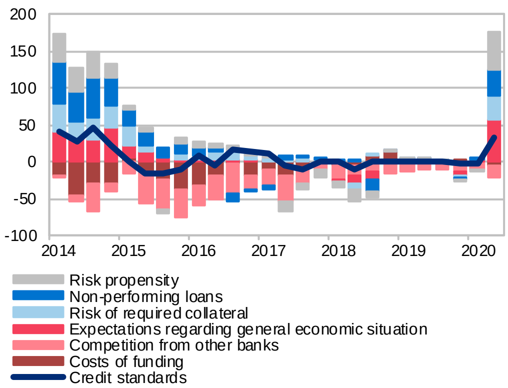
Source: NBS.

Interest rates on all types of corporate loans were lower multiple times than six years ago
(weighted average values, per annum, in %)



Source: NBS.
* Euro and euro-indexed.
** Dinar.

Corporate credit standards were tightened due to higher perceived risks in the pandemic
(in net %)

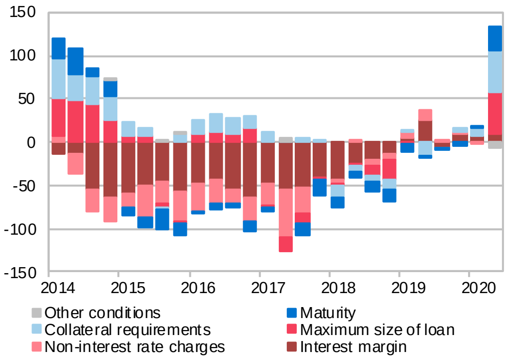


Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

[9] https://www.eib.org/en/publications/cesee-bls-2020-h1

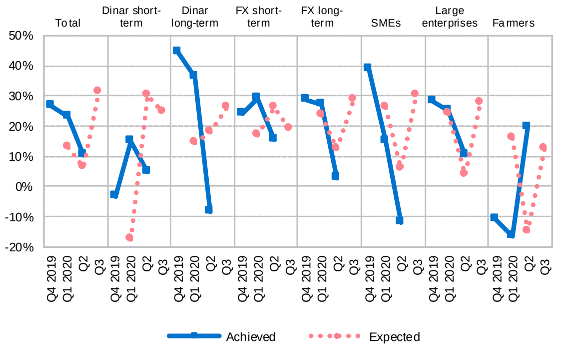
their expectations for the next six months (April to September 2020) from the moment when the coronavirus epidemic hit the region and containment measures were put in place.

Requirements in terms of collateral, maturity and amount of loans were less favourable in Q2
(in net %)



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

Loan demand in Q2 increased in accordance with expectations from the April Survey, and more significant growth is expected in Q3
(in net percentage)



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

II. Household sector

1. Household loans

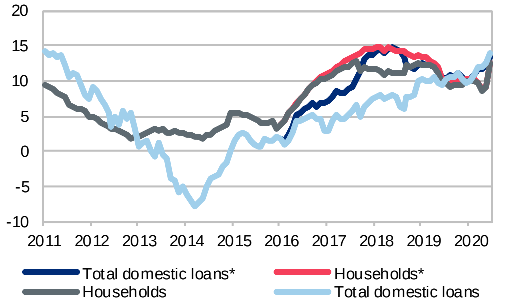
Y-o-y growth in household loans accelerated and, excluding the exchange rate effect, **equalled 12.6% in June. In addition to more favourable terms of borrowing, household loan growth was supported by the moratorium accepted by around 90% of banks' clients, and to a lesser extent, also by the base effect for housing loans** (on account of a write-off of receivables at the time of conversion of CHF-indexed into euro-indexed housing loans in May and June last year).[10] The stock of household loans equalled RSD 1,175.4 bn in June, accounting for around 46% of bank loan receivables from the non-monetary sector. Their share in estimated annual GDP[11] (21.6%) gained 1.1 pp from March.

In Q2, excluding the exchange rate effect, **household loans increased by RSD 50.7 bn or 4.5%.** Broken down by month, April saw minimum credit growth under the impact of containment measures and social distancing. As containment measures were relaxed and the economy opened, household lending rallied. In May and June, household loans gained RSD 49.5 bn, partly as a result of the moratorium on loan repayment. As of May, this growth was also supported by increased lending to entrepreneurs thanks to loans from the Guarantee Scheme. As before, growth was led by cash and housing loans, which persist as the two dominant categories of household loans, accounting for 44.4% and 36.0%, respectively. At the same time, banks' receivables under consumer loans and credit cards also picked up slightly, while current account overdrafts were somewhat lower in June than at end-Q1.

The volume of new household loans in Q2 was RSD 75.0 bn, down by 52.6% from the same period of 2019, or by 40.7%, excluding loans refinanced with the same bank. Cash loans were the most dominant category (47.0%), and were, as usual, almost entirely in dinars (99.5%). Housing loans accounted for 22.6% and other unclassified loans for 26.3% of new household loans; of the latter, the greatest part referred to loans to entrepreneurs under the Guarantee Scheme.

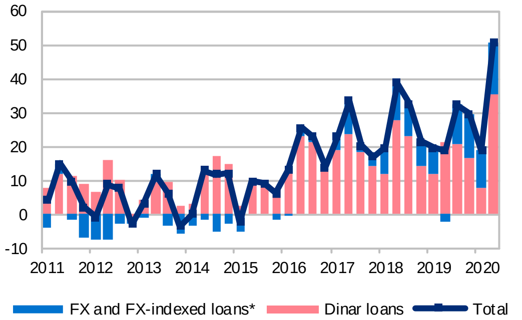
[10] Pursuant to the Law on the Conversion of Housing Loans Indexed to Swiss Francs into Euro-indexed Loans ("RS Official Gazette", No 31/2019), according to which 38% of the value of these loans is written-off at conversion.
[11] GDP in the past four quarters.

Y-o-y growth in household lending accelerated in June
(y-o-y growth rates at the programme exchange rate, in %)



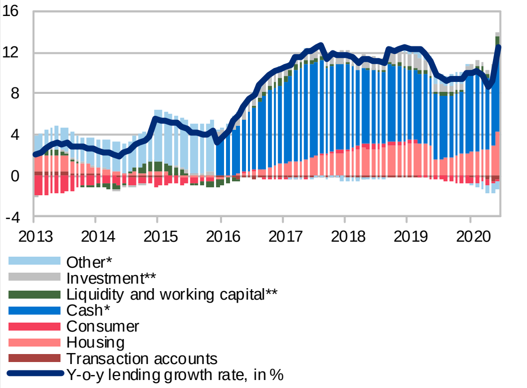
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

A larger part of the Q2 growth concerned dinar loans
(increase, in RSD bn)



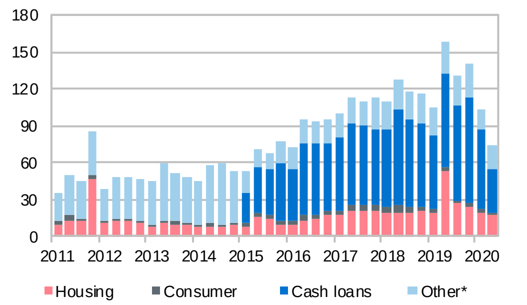
Source: NBS.
* Excluding the exchange rate effect.

In Q2, cash and housing loans remained the strongest contributors 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.

Cash loans accounted for the bulk of new loans
(new loans, in RSD bn)



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

The dinarisation of household receivables stood at 55.8% in June, up by 0.7 pp from March and 0.4 pp from end-2019. By contrast, the share of euro-indexed household loans dipped by 0.5 pp from end-2019 to 43.9% in June, while the share of CHF receivables fell to 0.2% in June.

The share of NPLs in total household loans came at 3.8% in June. This is the **new record low** of this indicator, which decreased by 0.3 pp[12] relative to March and by 7.5 pp relative to the period directly before the adoption of the NPL Resolution Strategy. In terms of purpose, the NPL ratio decreased for almost all loan categories in Q2.

2. Cost of household borrowing

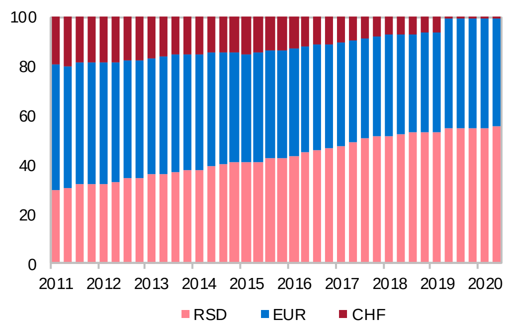
The cost of household borrowing in dinars fell to a new minimum in June, while interest rates on euro-denominated loans remained favourable throughout Q2, gravitating towards previously recorded minimum levels. The costs of repayment of previously approved loans decreased further, reflecting positively on the disposable income of households.

The weighted average interest rate on new dinar household loans was 8.0% in June, which is its new record low. Relative to March, it fell by 1.2 pp, and relative to May 2013, when the cycle of NBS monetary policy easing began, it decreased by 12.5 pp**.** The average rate subsided in Q2 due to a decrease in interest rates on other unclassified loans from 7.8% in March to 5.5% in June, which can be attributed to lending to entrepreneurs under the Guarantee Scheme at the prescribed maximum interest rate (1M BELIBOR + 2.5 pp). Rates also declined on housing loans (including loans for home adaptation) and consumer loans, to 7.0% and 2.9%, respectively, in June. By contrast, the weighted average interest rate on the most dominant cash loans remained unchanged from March and measured 9.3% in June.

The weighted average interest rate on new euro-indexed loans to households remained unchanged from March and measured 3.6% in June. The interest rate on housing loans equalled 2.7% in June, unchanged for five months in a row. By contrast, the interest rate on consumer loans (4.4%) decreased in Q2, while the interest rate on other unclassified loans went up (5.8%). The interest rate on cash loans remained unchanged in June (2.9%) relative to March.

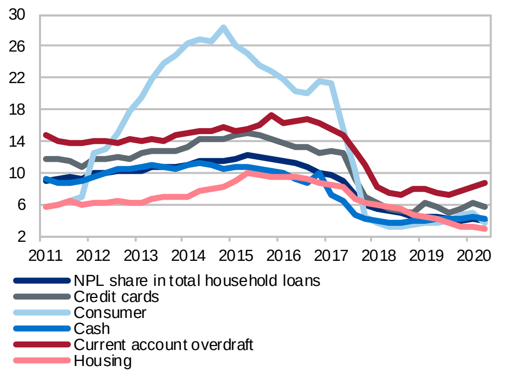
[12] Including entrepreneurs and private households, the share also decreased by 0.3 pp to 3.8% in June.

The dinarisation of household receivables reached a new maximum in June
(currency structure, in %)



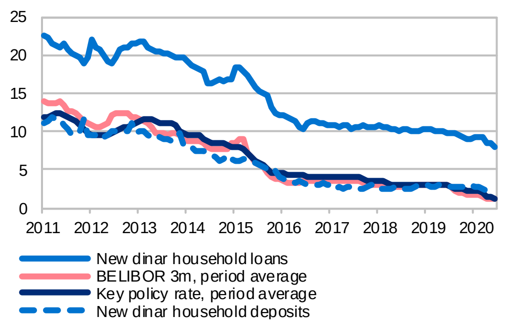
Source: NBS.

In June, the NPL share in total household loans declined to a new low
(gross principle, in %)



Source: NBS.

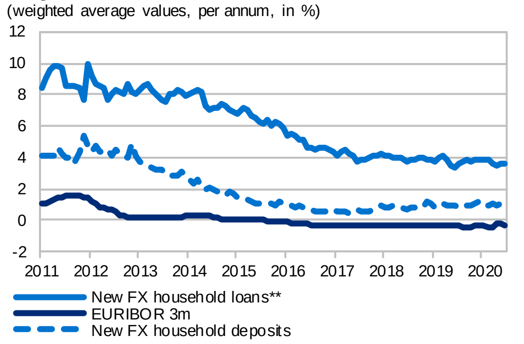
The average price of dinar* household loans touched a new low in June
(weighted average values, per annum, in %)



Source: NBS.

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

The price of FX borrowing remained favourable in Q2*
(weighted average values, per annum, in %)



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

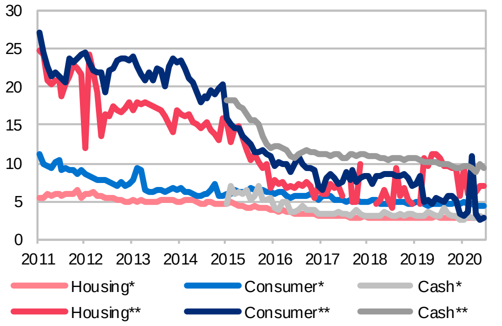
3. Assessment of loan supply and demand – based on the results of bank lending surveys

The results of the July Bank Lending Survey indicate that credit standards tightened in Q2, consistent with banks' expectations set out in the April survey. The tightening of standards referred primarily to cash, refinancing and housing loans. Standards were tightened due to increased risk aversion amid the coronavirus pandemic. At the same time, interbank competition had a neutral effect, while lower costs of funding worked in the opposite direction. According to banks' expectations, higher risk aversion will lead to a further, though much less pronounced, tightening of standards in Q3.

The tightening of standards reflected primarily on stricter requirements regarding loan security – level of mortgage, collateral and mandatory downpayment and deposit. On the other hand, the terms and conditions of household borrowing were more favourable due to lower interest margins and fees and commissions.

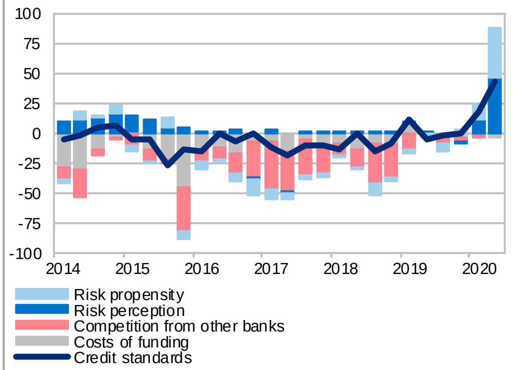
According to banks, **household loan demand decreased in Q2,** which can be associated with the containment measures put in place and the uncertainty related to the coronavirus spread. The fall in demand was due to the majority of factors – purchase of durable consumer goods, refinancing, real estate purchases, uncertainty regarding future employment and wages. In Q3, banks expect a rallying of demand for dinar cash and refinancing loans, as well as FX-indexed housing and consumer loans. Positive expectations are in part also based on large-scale measures taken by the Government and the NBS to mitigate the negative effect of the crisis and boost household consumption.

The price of euro-indexed dinar cash and housing loans remained unchanged in Q2
(weighted average values, per annum, in %)



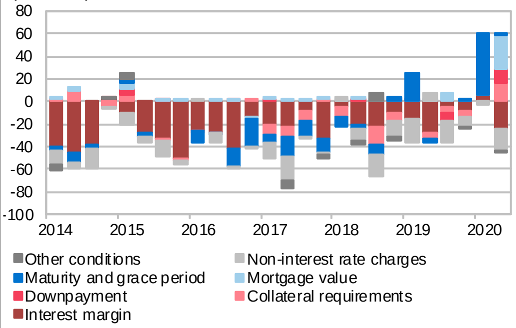
Source: NBS.
* Euro and euro-indexed.
** Dinar.

Unfavourable risk perception led to the tightening of standards in Q2
(in net %)



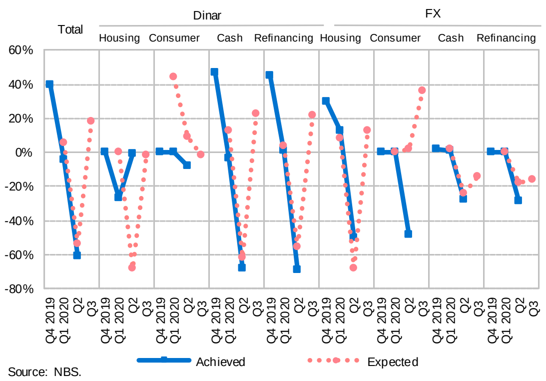
Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

The standards tightened in Q2 reflected primarily on collateral
(in net %)



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

In Q3, banks expect the recovery of household demand for loans
(in net percentage)



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 disclosed 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 (or more) 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.