National Bank of Serbia

ECONOMIC RESEARCH AND STATISTICS DEPARTMENT

TRENDS IN LENDING

Fourth Quarter Report 2024

Belgrade, March 2025

Introductory note

Trends in Lending is an in-depth analysis of the latest trends in lending, which aims to ensure a 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 the 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 (NBS) 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' perception 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 on average account for 50% of total bank 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

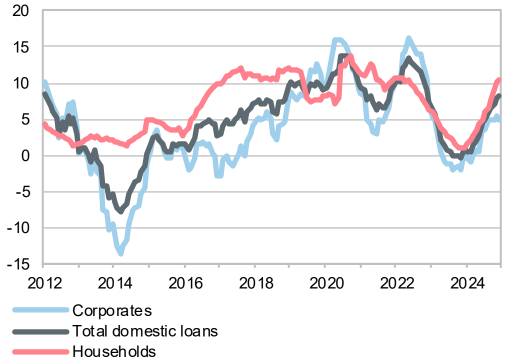
Supported by softened credit standards and lower funding costs, **total domestic loans** to the non-monetary sector continued to accelerate y-o-y, reaching 8.2% in December, excluding the exchange rate effect. This growth was led by **household lending** which increased at a double-digit rate in 2024 (10.4%) and **corporate lending**, going up by 4.8%. Lending growth also received a boost from lending to other financial oganisations and local self-governments.

Total domestic bank receivables from the non-monetary sector (which apart from loan receivables also include receivables on account of investment in securities, interest and fees and other receivables) picked up y-o-y somewhat faster than loans themselves, to 9.0% in December.

Corporate loans, excluding the exchange rate effect, rose by 0.4%, or RSD 6.2 bn in Q4, with more than half of the increase referring to dinar loans. Corporate loan growth was led by investment lending, which can be associated with the new investment cycle, while borrowing under other types of loans declined. Sector-wise, companies in real estate and construction borrowed the most, those in manufacturing were next in line, while other sectors cut down on borrowing. Banks lent the most to micro enterprises, followed by small and medium-sized enterprises, which, coupled with the decreased liabilities of large enterprises, led to an increased share of loans to micro, small and medium-sized enterprises (MSMEs) in total corporate loans, to 60.8% in December. Their stock rose 7.7% y-o-y and 4.0% q-o-q.

Household loans, excluding the exchange rate effect, increased by RSD 34.2 bn or 2.2% in Q4, of which more than three-fifths referred to dinar loans. The rise in household loans was supported by eased credit standards, banks' promotional offers, lower interest rates, and, according to the bank lending survey – wage growth as well. Cash loans made up more than three-fifths of increase in household loans, followed by housing loans, the demand for which has been increasing for the past year, according to banks. Consumer loans also continued up at a moderate pace.

Lending growth continued to accelerate y-o-y in Q4
(y-o-y growth rates at the programme exchange rate, in %)



Source: NBS.

Interest rates on dinar and euro-denominated loans in the domestic market went further down in Q4, under the impact of past monetary policy easing of the NBS and further lowering of ECB's interest rates. The average interest rate on dinar household loans dropped to 10.3% in Q4 (from 11.3% in Q3), and on dinar corporate loans to 7.2% (from 7.8%). The average interest rate on euro household loans decreased by 0.3 pp, coming at 5.8%, and on corporate loans by 0.6 pp, to 5.9%.

The NBS extended the housing loans interest rate cap[1] into 2025, when these rates will not exceed 5%. The cap was also imposed on interest rates on cash and consumer loans, credit card debt and current account overdrafts. The decision on capping the interest rates is temporary, effective until the adoption of the new law on the protection of financial service consumers, which systemically regulates interest rate capping for all credit products for the sake of protection of interests of financial service consumers, in parallel with preserving and strengthening financial system stability.

The **dinarisation** of total corporate and household receivables in Q4 increased by 0.6 pp, coming at 37.4% in December, on the back of **higher dinar lending**, among other things. The degree of

[1] Decision on Temporary Interest Rate Cap on Loan Agreements Concluded with Natural Person Consumers, RS Official Gazette, 102/2024.

dinarisation of corporate receivables rose to 20.9% in December (from 20.0% in September), and the degree of dinarisation of household receivables to 55.4% (from 55.3%). The rise in dinar corporate loans has been supported by the provisions of the Decision on Capital Adequacy of Banks. Under this decision, when calculating the capital adequacy ratio, as of 2025, banks shall reduce their capital if the share of FX-indexed and FX loans in total loans to the non-financial and non-governmental sector approved after 1 July 2023 exceeds a specific threshold (71% in 2025).[2]

As a result of lending growth and lower non-performing receivables, the **share of NPLs in total loans dropped to a new low of 2.5% in December.** This is a confirmation of the banking sector's financial soundness, underpinned by the robust regulatory framework for banks and the adopted macroprudential policy measures synchronised with monetary policy measures. NPL coverage remained high – allowances for impairment of total loans measured 109.6% of gross NPLs in December, while allowances for impairment of NPLs stood at 62.3% of gross NPLs.

The capital adequacy ratio[3] at end-Q3 measured 21.9%[4], significantly above the regulatory minimum (8.0%), which indicates high capitalisation and resilience of the banking sector to external and domestic risks.

[2] This threshold will go down to 64% in 2026 and 57% in 2027..

[3] The Basel III regulatory framework has been applied since 30 June 2017.

[4] The latest available data

I Corporate sector

1 Corporate loans

In Q4, y-o-y corporate loan growth decelerated slightly, to 4.8% in December (from 5.0% in September). Corporate lending was underpinned by softened credit standards and lower funding costs, while the negative impact on the loan stock from the maturing of guarantee scheme loans continued to lose strength. Corporate loans make up almost half of banks' loan receivables from the non-monetary sector and they stood at RSD 1,687.3 bn in December, in nominal terms. Their share in GDP declined to 17.6% (from 18.3% at end-2023), reflecting faster nominal GDP growth.

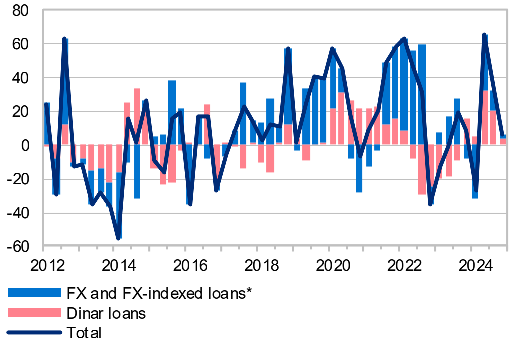
Corporate loans increased in Q4 by RSD 6.2 bn, owing to the higher lending to companies, while debt of public enterprises subsided. More than half of the increase in corporate loans in Q4 referred to dinar loans. A stronger growth in dinar loans in the past period (in 2024, dinar corporate loans increased by RSD 60.9 bn and FX-indexed by RSD 16.8 bn) has been supported by the Decision on Capital Adequacy of Banks. Under this decision, when calculating the capital adequacy ratio, as of 2025, banks shall reduce their capital if the share of FX-indexed and FX loans in total loans approved to the non-financial and non-governmental sector after 1 July 2023 exceeds a specific threshold (71% in 2025).[5]

In terms of loan purpose, corporate loan growth was driven by investment lending (RSD 40.1 bn), which can be associated with the new investment cycle, while borrowing under other types of loans went down. Such trends have pushed the share of investment loans in total corporate loans up by 2.2 pp in Q4 to 42.8% in December, with their y-o-y growth accelerating to 7.1%. At the same time, the share of liquidity and working capital loans edged down by 0.8 pp, to 47.1%, while their y-o-y growth slowed to 5.5%.

Sector-wise, companies in real estate and construction increased their borrowing the most, those in manufacturing to a smaller degree, while other sectors scaled it down. The share of long-term (loans with original maturity of over one year) in total corporate

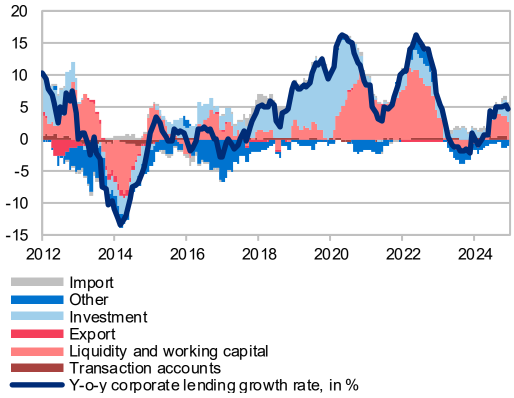
[5] This threshold will go down to 64% in 2026 and 57% in 2027.

More than half of the increase in corporate loans in Q4 referred to dinar loans (increment, in RSD bn)



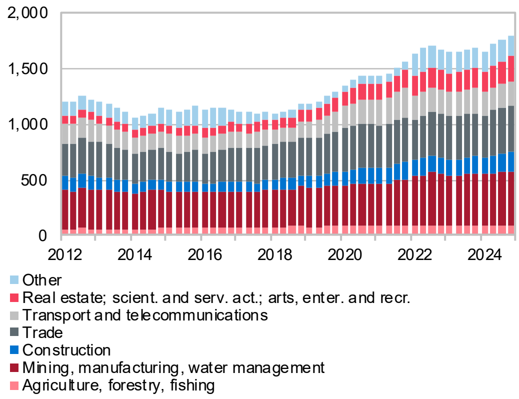
Source: NBS.
* Excluding the exchange rate effect.

Investment and working capital loans were the strongest contributors to y-o-y growth in corporate loans at end-Q4
(in pp, excluding the exchange rate effect)



Source: NBS.

The largest part of corporate receivables are loans to manufacturing and trade sectors
(stock, in RSD bn)



Source: NBS.

loans rose to 83.5% in December (from 82.9% in September). **In terms of company size**, Q4 saw a rise in borrowing by MSMEs, while credit liabilities of large enterprises declined, resulting in an increased share of loans to MSMEs in total corporate loans, to 60.8% in December (from 58.7% in September), with their y-o-y growth picking up to 7.7%.

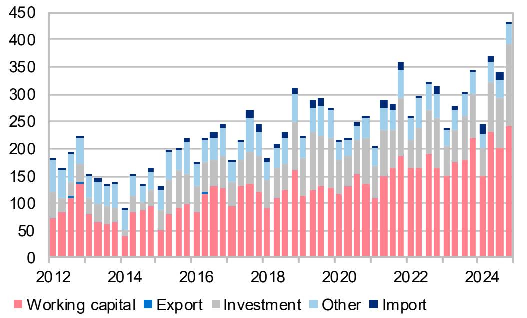
The volume of new corporate loans in Q4 measured RSD 432.6 bn, up by 25.4% y-o-y. Liquidity and working capital loans remained dominant, making up 56% of new corporate loans and rising by 9.3% y-o-y, with a half of these loans channelled to the MSME segment. Investment loans accounted for 35% of new loans, with almost two-thirds absorbed by MSMEs.

As dinar receivables increased more than FX-indexed ones, **the degree of dinarisation of corporate receivables** rose 0.9 pp in Q4, to 20.9% in December. The share of euro-indexed and euro receivables shrank by 0.8 pp to 79.1% in December, while the share of US dollar receivables was almost negligible. Of FX and FX-indexed loans, little less than 79% were linked to the EURIBOR, mostly three-month. Of dinar corporate loans, 23% were linked to the BELIBOR, mostly one-month.

The share of NPLs in total corporate loans measured 1.8% in December, unchanged from September and down by 0.3 pp relative to end-2023. Looking at companies only, NPL share in total loans amounted to 2.0% in December, also flatlining from September, while edging down by 0.4 pp relative to end-2023. Observed by industry, the share of NPLs ranged from 0.4% in the real estate sector, to 4.0% in agriculture, while the new lows in Q4 were registered in construction (1.3% in November) and real estate. This indicates that economic support measures during the pandemic were adequate and timely and bank asset quality was preserved even after their expiry, as well as that the rise in the costs of repayment of existing corporate loans during monetary tightening cycle did not lead to any significant increase in NPLs. **Relative to July 2015,**[6] i.e. immediately before the start of implementation of the NPL Resolution Strategy**, the share of NPLs in total corporate loans went down by 23.2 pp,** and the most pronounced decrease was recorded in construction, real estate and trade.

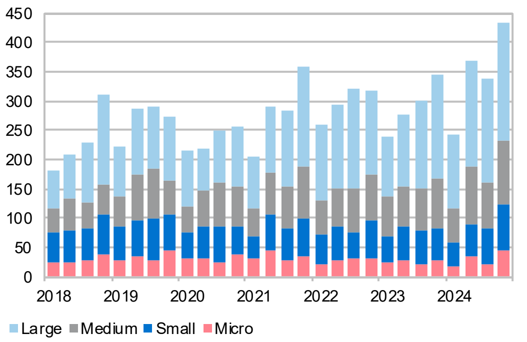
[6] Important factors contributing to the sharp fall in NPLs from 2016 onwards were the successful implementation of the NPL Resolution Strategy and implementation of the Decision on the Accounting Write-Off of Bank Balance Sheet Assets. In accordance with the Strategy, the NBS adopted the Action Plan (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.

Working capital and investment loans remained dominant in Q4
(new loans, in RSD bn)



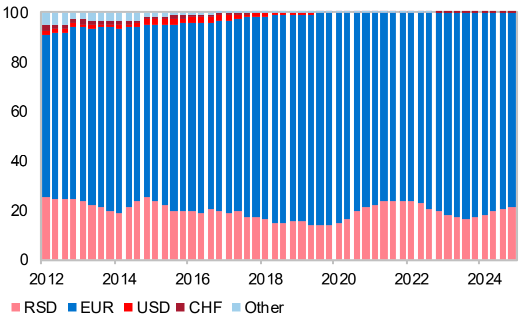
Source: NBS.

Loans to MSMEs made up little less than half of new loans in Q4
(in RSD bn)



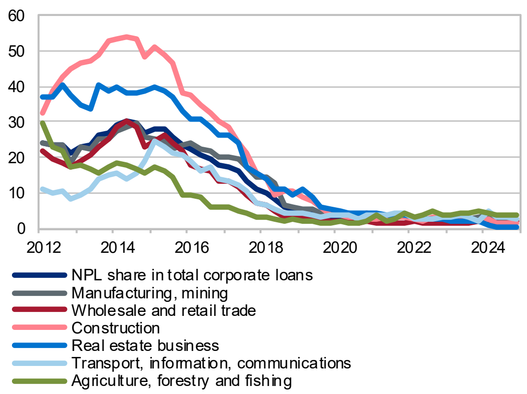
Source: NBS.

Growth in dinar loans contributed to a further rise in dinarisation of loan receivables in Q4
(currency structure, in %)



Source: NBS.

NPL share in some sectors dropped to new lows in Q4
(gross principle, in %)



Source: NBS.

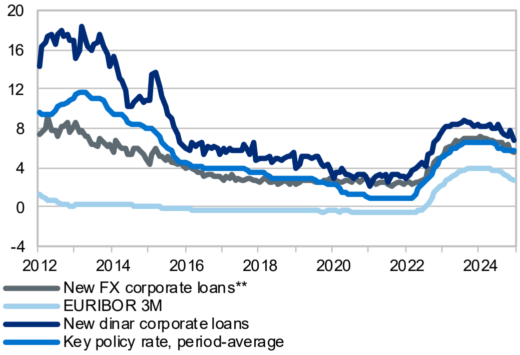
2 Cost of corporate borrowing

Interest rates on dinar and euro loans continued down in Q4, reflecting the effects of past monetary policy easing by the NBS and further trimming of ECB's interest rates. The fall in interest rates was initiated already in late 2023, due to banks' expectations that the NBS and ECB would soon embark on a monetary policy easing cycle. The fall intensified in June 2024, when the easing commenced.

The NBS started lowering its key policy rate in June 2024, by 0.25 pp, with additional same-size cuts ensuing in July and September. As a result of the past monetary policy accommodation, **the weighted average rate on new dinar loans dropped by 0.6 pp to 7.2% in Q4**. The decrease was mostly prompted by the fall in interest rates on investment loans – to 7.0% (from 8.8% in Q3) and other non-categorised loans – to 7.4% (from 8.1%), while the rate on working capital loans edged down slightly – to 7.3%. Observed by enterprise size, the price of borrowing declined across the board, with the average interest rate ranging from 6.8% for large to 8.7% for micro enterprises.

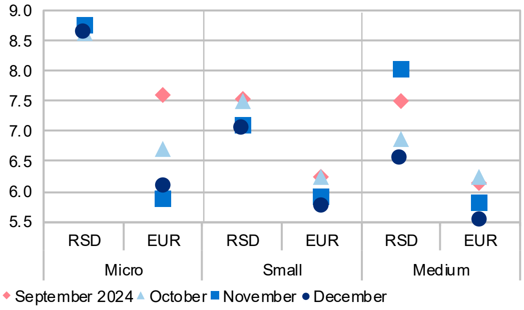
The weighted average interest rate on new euro and euro-indexed loans to corporates also decreased in Q4, by 0.6 pp to 5.9%, with rates decreasing across all loan categories – liquidity and working capital loans to 5.7% (from 6.3%), investment loans to 6.2% (from 6.6%), import loans to 5.6% (from 6.3%) and other non-categorised loans to 6.1% (from 7.2%). The cost of borrowing declined for enterprises of all sizes, so the average cost of borrowing ranged between 5.8% for medium-sized, to 6.3% for micro enterprises.

Interest rates on corporate loans continued down in Q4*
(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.

In Q4, lending interest rates declined for enterprises of all sizes
(weighted average values, p.a., in %)

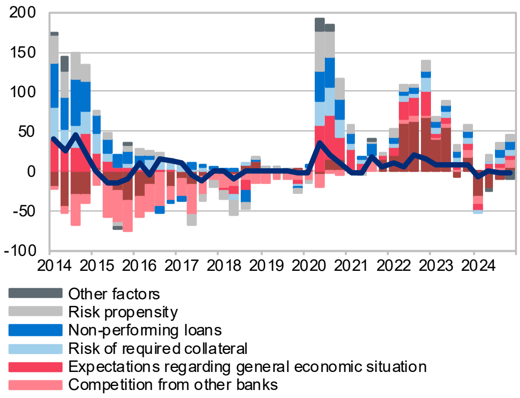


Source: NBS.

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

According to the January 2025 NBS bank lending survey, banks slightly relaxed credit standards for corporate loans in Q4 2024, while they expect tightening in Q1 2025. Standards were eased further for long-term dinar loans, but tightened for FX and dinar short-term corporate loans. Standards relaxation was driven by lower funding costs for dinar loans and shortening of the underwriting procedure. Working in the opposite direction, in banks' view, were NPLs, lower interbank competition, higher risk perception (lower risk propensity and collateral requirements), and, in part, also general economic and geopolitical situation.

Corporate credit standards were moderated mildly in Q4 as well
(in net %)



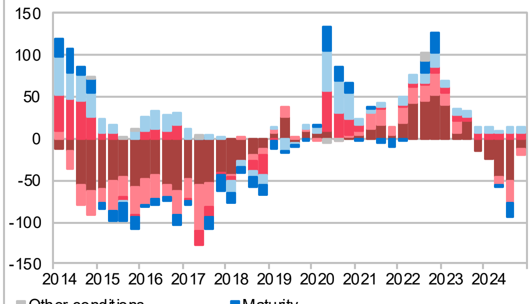
Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

In Q4, banks additionally lowered interest margins and commissions and fees for enterprises of all sizes, while maturity remained unchanged. On the other hand, collateral requirements were tightened further and maximum loan amount was reduced.

According to banks, corporate demand for dinar and long-term FX-indexed loans expanded in Q4, while shrinking for short-term FX loans. Demand growth was fuelled by investment financing, while internal company loans, loans of other banks and non-bank institutions worked in the opposite direction. Banks expect corporate loan demand to decline in Q1.

Interest margins and fees and commissions declined in Q4

(in net %)

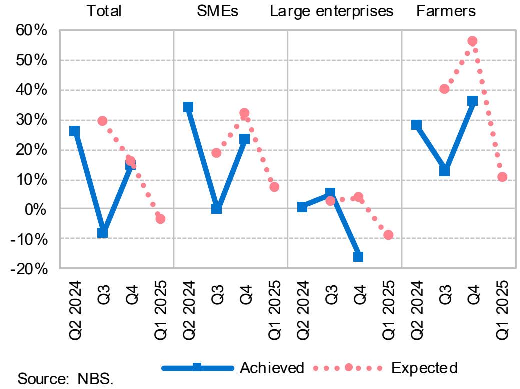


Source: NBS.

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

Growth in SME loan demand in Q4 was somewhat lower than expected

(in net %)



Source: NBS.

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

II Household sector

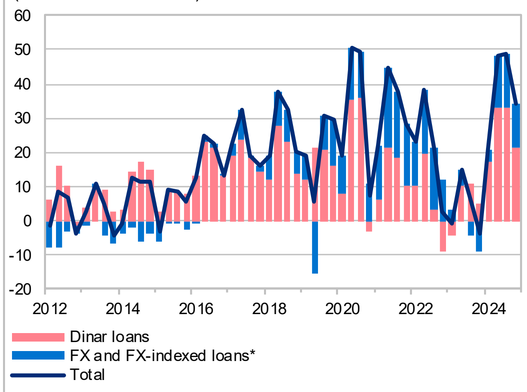
1 Household loans

Y-o-y growth in household loans gained further momentum in Q4, coming to 10.4% in December (from 7.8% in September), propped up by further easing of credit standards, increased household loan demand and more favourable financing conditions. In nominal terms, the stock of household loans was RSD 1,616.4 bn in December, making up 47.6% of banks' loan receivables from the non-monetary sector. The share of household loans in GDP went up by 0.2 pp in 2024, to 16.8% in December.

Household loans went up by 34.2 bn in Q4, primarily owing to the rise in cash loans (RSD 21.3 bn) and housing loans (RSD 12.0 bn). Further, household borrowing on account of consumer loans went slightly up (RSD 1.4 bn), while current account borrowing and other non-categorised loans dropped by RSD 2.6 bn and RSD 4.8 bn, respectively. Household loan growth was supported by relaxed credit standards, banks' promotional offers, lower interest rates, and wage growth. Cash loans accounted for more than three-fifths of the increment in household loans, whereby their share in total household loans in Q4 went up by 0.3 pp, to 46.3%, while that of the next dominant loan category – housing loans (38.4%), was almost unchanged from September. At the same time, within loans to entrepreneurs, the stock of liquidity and working capital loans increased by RSD 6.6 bn, and of investment loans by RSD 0.4 bn.

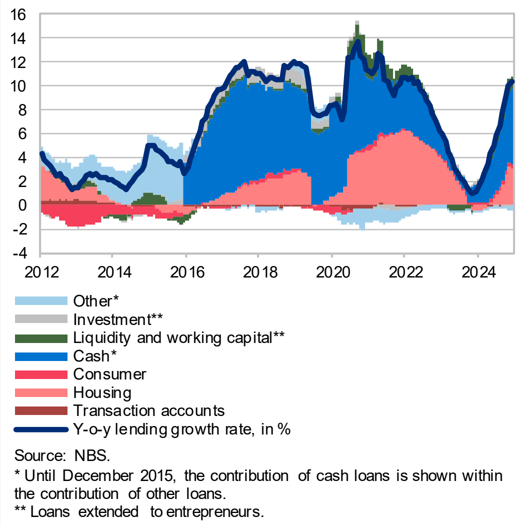
In order to relieve the burden of housing loan users amid rising interest rates, in September 2023 the NBS adopted a decision[7] temporarily capping the interest rate for first-time users of housing loans subject to a variable interest rate approved before the entry into force of the decision and with the contracted amount of up to EUR 200,000. For those borrowers, the nominal interest rate was temporarily capped, for a 15-month period, starting from the October instalment until the end of 2024, and the bank will not be allowed to request from the borrower the interest rate difference arising from the application of this Decision. Through the interest rate capping, instalments of most loans were reduced by 10% to 25%, whereby the disposable household income increased. This Decision temporarily capped the

In Q4, household lending growth was driven by dinar loans
(increment, in RSD bn)



Source: NBS.
* Excluding the exchange rate effect.

Cash loans provided the highest contribution to y-o-y household lending growth in Q4
(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.

[7] Decision on Temporary Measures for Banks related to Housing Loans to Natural Persons (RS Official Gazette, Nos 78/2023).

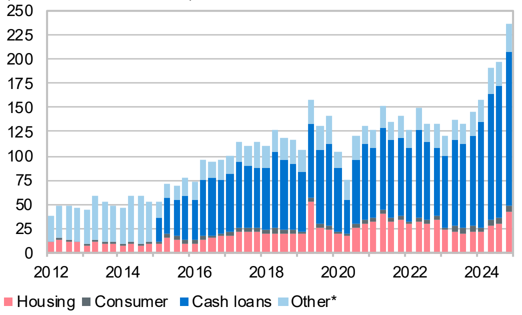
interest rates on new housing loans approved in the period of the Decision implementation, while also enabling early repayment of a housing loan under more favourable conditions. Housing loans were also supported by earlier amendments to regulations. Namely, since 2020 banks were permanently given the option to approve a loan for first-time home buyers amounting to 90% (instead of 80%) of the estimated value of the real estate securing the loan. As for other loan categories, since December 2022, the rescheduling of cash, consumer and other loans without a specific purpose was enabled on a permanent basis, without any repercussions for the banks' capital. In addition, the application of the measure enabling the approval of consumer loans worth up to RSD 90,000 under a simplified procedure was extended until the end of 2024.

The volume of new household loans amounted to RSD 237.2 bn in Q4, up by 63.7% y-o-y. This was driven mainly by cash loans, which accounted for two-thirds of new household loans. The next largest category were housing loans, which made up 18% of new household loans.

More than three-fifths of household loan growth in Q4 related to dinar borrowing (mostly in the form of cash loans), mildly increasing the **dinarisation of household receivables**[8], to 55.4% in December, from 55.3% in September. At the same time, the share of euro receivables declined to 44.5% (from 44.6%), while the share of receivables in Swiss francs (0.1%) was unchanged. In the structure of FX and FX-indexed household loans, 68% of loans were linked to EURIBOR, mostly six-month. In the structure of dinar household loans, around 84% of loans were granted at a fixed rate, while the most dominant loans among those approved at a variable rate were loans linked to the three-month BELIBOR.

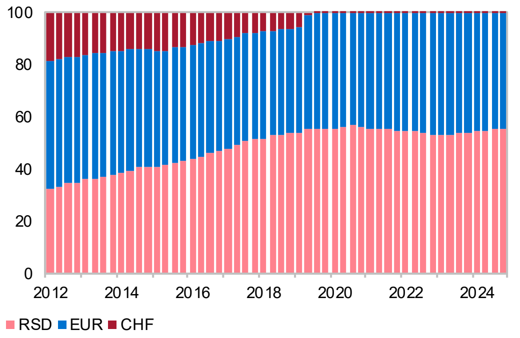
The share of NPLs in total household loans continued down in Q4, dropping to a new historical low in December – 3.4%,[9]**,** down by 0.3 pp from September and by 0.9 pp from end-2023. This share decreased across almost all loan categories. The NPL indicators, still close to their lowest values, suggest that the NBS and Government measures were timely and that they helped avoid a more serious adverse impact of the crises we have been facing in the past four years on citizens' creditworthiness. Compared to the period just before the adoption of the NPL Resolution Strategy, the NPL share in the household sector is lower by 8.7 pp.

Cash loans accounted for the bulk of new loans in Q4
(new loans, in RSD bn)



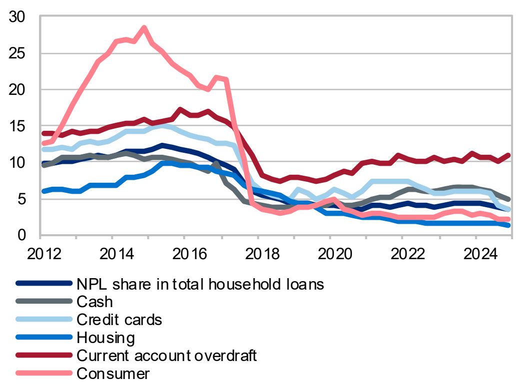
Source. NBS.
* Until December 2014, the 'other loans' category implied cash and other loans together.

Households borrowed mostly in dinars in Q4, further aiding growth in dinarisation of household receivables
(currency structure, in %)



Source: NBS.

NPL share in household lending dropped to a new low at end-2024
(gross principle, in %)



Source: NBS.

[8] Including not-for-profit institutions and entrepreneurs
[9] Including natural persons, entrepreneurs and private households.

2 Cost of household borrowing

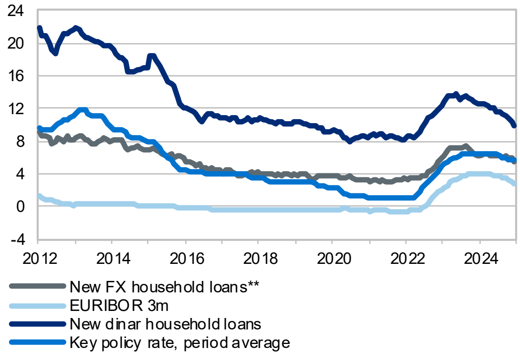
The average cost of household borrowing in dinars and euros slid further in Q4. In addition to previous NBS monetary policy easing, promotional activities for cash loans of individual banks also contributed to the decline in dinar interest rates. The implementation of the NBS decision on capping the interest rates on housing loans to natural persons who are first-time home buyers continued in Q4 as well.

The average interest rate on new dinar household loans went down to a single-digit level (9.9%) in December, for the first time since two and a half years. At quarterly level, **the weighted average rate on new dinar household loans stood at 10.3% in Q4, down by 1.0 pp from Q3**, with interest rates on almost all loan categories declining. A decrease in the average rate in was induced by the fall in rates on cash loans (by 1.0 pp to 10.7%) and other non-categorised loans (by 0.9 pp to 8.4%). Further, the cost of housing loans[10] dropped by 3.7 pp, to 11.0%, while the cost of consumer loans (3.1%) stayed almost unchanged.

In Q4, the weighted average interest rate on new euro-indexed household loans dropped by 0.3 pp on average, to 5.8%. The average rate on new housing loans, subject to the NBS decision on capping the interest rates on housing loans, went down by 0.1 pp, to 5.0%. At the same time, interest rates on cash and other non-categorised loans declined by 0.6 pp each, to 2.6% and 9.1%, respectively, while the interest rate on consumer loans stayed almost unchanged (6.1%).

Interests on household loans further declined in Q4*

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



Sources: NBS and European Banking Federation.

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

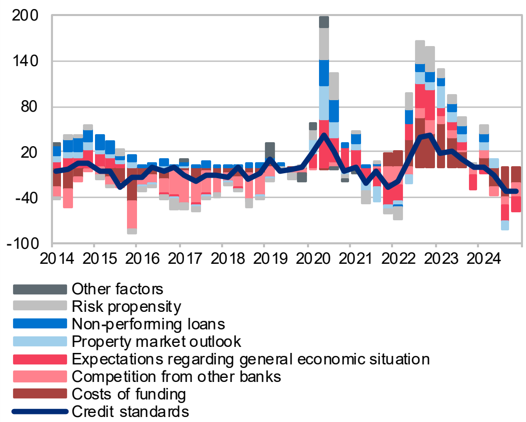
** Euro and euro-indexed.

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

According to the January 2025 NBS bank lending survey, banks further relaxed their credit standards for households in Q4, more so than anticipated in the previous survey. Standards were eased for dinar cash loans, refinancing loans and FX-indexed housing loans. Standard relaxation was motivated by lower funding costs, owing to NBS and ECB monetary policy easing, interbank competition and positive economic outlook. Banks expect that lower funding costs, interbank competition, greater risk appetite and more favourable outlook in the real estate market will drive further standards easing in Q1.

Multiple factors drove easing of household credit standards in Q4

(in net %)



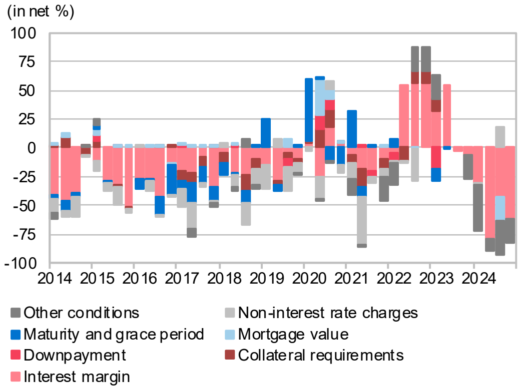
Source: NBS.

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

Survey results suggest that interest margins narrowed in Q4 as well, somewhat more for dinar loans. Other credit conditions (collateral requirements, down

In Q4, banks further lowered interest margins for both dinar and FX-indexed household loans

(in net %)



Source: NBS.

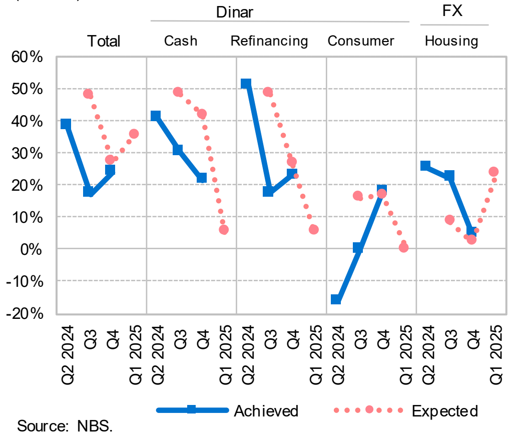
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

[10] Loans used for housing adaptation and energy efficiency which are costlier than housing loans.

payment, deposit, mortgage amount, fees and commissions, and maturity) remained unchanged.

Household loan demand continued up in Q4, in line with expectations from the October survey, with anticipation of a further rise in demand in Q1 as well. Demand for dinar consumer, cash and refinancing loans, as well as FX-indexed housing loans, went up. In banks' view, the rise in demand was driven by the need to refinance outstanding loans and purchase durable consumer goods and real estates, with a positive impetus coming from higher wages.

Household loan demand went up in Q4 in line with expectaions from the previous survey
(in net %)



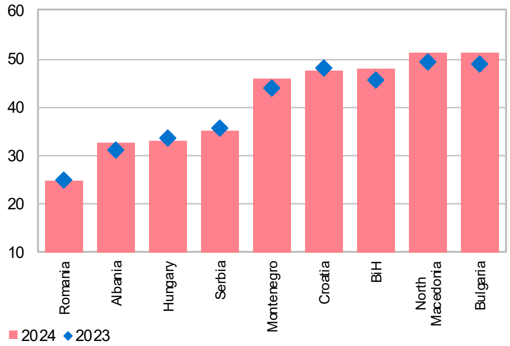
Source: NBS.
* Positive value indicates an increase in demand, and negative value indicates a decrease.

III Regional comparison[11]

Lending activity increased in 2024 in all observed countries of the region, with the nominal lending growth ranging between 6.8% in Hungary and 16.7% in Montenegro. Household loans contributed more to this growth in almost every observed country. The share of loans in GDP in 2024 ranged between around 25% (in Romania) and around 51% (Bulgaria and North Macedonia).[12] In Serbia the share stood at 35.3% and was almost unchanged from 2023, as in the case of Romania. In Hungary and Croatia this share dropped slightly in 2024, while it went up in other countries owing to a faster rise in lending than the rise in nominal GDP.

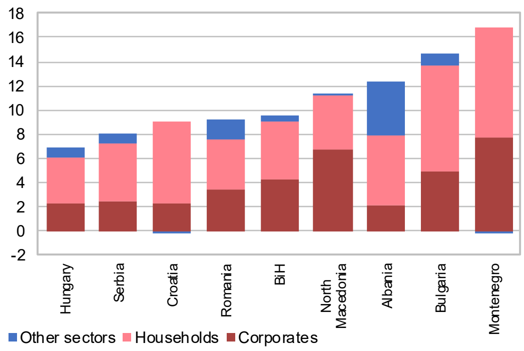
The **CESEE Bank Lending Survey – Autumn Edition**,[13] conducted by the European Investment Bank and covering April–September 2024, indicates that the rise in demand for loans in Serbia was below the regional average. The expectation for the coming period is that the demand will continue to grow somewhat below the regional average. In the last reporting period (April–September 2024), credit standards in Serbia were eased, somewhat more than the regional average, affecting mostly household loans. The expectation for the coming period is that standards will not change, in line with regional trends. Access to the sources of funding was not changed in the latest reporting period and in the financing of their lending activity banks relied the most on household and corporate deposits followed by international financial organisations' financing. Access to both dinar and FX sources of funding of all maturities was assessed as improved. A more favourable access to the sources of funding, though below the regional average, is expected in the coming period. According to the survey, banks-respondents whose subsidiaries operate in Serbia assessed well market potential, their market position and profitability. All banks assessed Serbian market potential as medium with a half of subsidiaries recording higher and the other half the same profitability compared to the group level.

Lending share in GDP increased in most countries of the region in 2024
(in %)



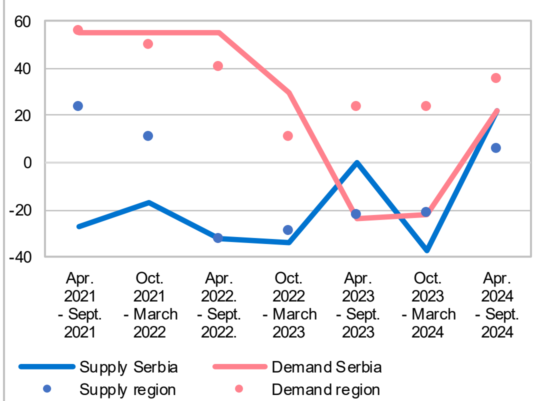
Sources: Websites of central banks, Eurostat and NBS calculation.
Note: Data for Q3 2023, except for Serbia and Bulgaria (Q4 2024).

In most countries of the region, lending growth in 2024 was led by household lending
(contributions to y-o-y growth rate, in pp)



Source: Websites of central banks and NBS calculation.

In the latest reporting period, credit standards in Serbia softened more than the region's average, while demand growth came close to the region's average
(in net percentages)



Source: EIB - CESEE Bank Lending Survey, Second half of 2024.
Note: Positive values indicate a rise in demand and standards easing.

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[11] According to NBS calculations, based on data available on the websites of central banks and Eurostat.

[12] The data about the share of loans in GDP for every country is the data for Q3 2024, except for Bulgaria and Serbia (Q4 2024).

[13] https://www.eib.org/en/publications/20240262-cesee-bls-2024-h2

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 30 September 2024.
- 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 corporate sector includes public enterprises and companies.
- 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.