



NATIONAL BANK OF SERBIA

**REPORT ON THE RESULTS OF THE BANK
LENDING SURVEY**

Fourth Quarter Report 2018

Belgrade, February 2019

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 standards¹, factors affecting their change, changes in terms and conditions for loan approval, changes in loan demand and factors affecting loan demand.

This Report presents the results of the bank lending survey carried out from 3 to 23 January 2019. The survey reports bank representatives' views on changes during the fourth quarter of 2018 and expected changes in the credit market in the first quarter of 2019. The survey included 25 banks, and thus provides for the representative coverage of the credit market as these banks account for over 99% of the banking sector balance sheet total.

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

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

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

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Overview

The results of the survey show that **standards for approving loans to enterprises were unchanged** in Q4 2018. At the same time competition from other banks, lower cost of funding and greater willingness to take risk are the main factors which contributed to the **relaxation of credit standards for dinar cash loans** (and refinancing loans) **and FX household housing loans**.

Price conditions and collateral requirements were more favourable for both sectors in Q4. Furthermore, banks increased the maximum maturity and size of loans to enterprises.

Banks estimated that **the demand for loans to enterprises rose** in Q4 driven by the need to finance working capital and capital investment, as well as activities pertaining to the acquisition of other enterprises. At the same time, **household demand was primarily oriented towards dinar consumer loans and foreign currency housing loans**, and was additionally boosted by the positive situation in the property market.

Banks expect **slight relaxation of credit standards for loans to enterprises** in Q1 2019. At the same time, they expect that standards for household loans will be slightly tightened as a reflection of “other factors”, while market factors will continue to work towards relaxation. Banks expect lower loan prices in both sectors in Q1. Also, a further rise in the demand for loans to enterprises is expected in Q1, while households will largely demand FX housing loans.

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

	Supply (credit standards)		Demand	
	Q4 2018	Q1 2019 (expectations)	Q4 2018	Q1 2019 (expectations)
Corporate sector	-	↓	↑	↑
SMEs	-	↓	↑	↑
Large enterprises	-	-	↑	↑
Agricultural producers	-	-	-	↑
Household sector	↓	↑	↔	↓
Cash (dinar)	↓	↑	↑	↓
Refinancing (dinar)	↓	↑	↔	↓
Housing (FX)	↓	↑	↑	↑
Consumer (FX)	-	↔	-	↑

Legend:

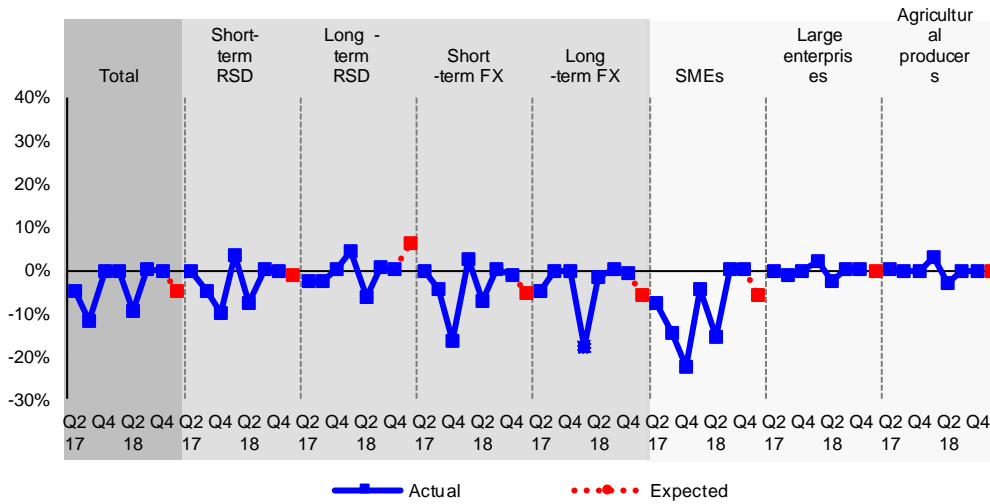
- ↑ Increase in demand (net percentage above 5%)
- ↑ Tightening of credit standards (net percentage above 5%)
- ↔ Increase in demand / tightening of credit standards (net percentage up to 5%)
- Without change
- ↔ Decrease in demand / easing of credit standards (net percentage up to 5%)
- ↓ Decrease in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

1. Loans to enterprises

1.1. Change in credit standards and contributing factors

The results of the survey show that banks saw no changes in credit standards for approving loans to enterprises in Q4 2018, this being the second quarter in a row – judging that the majority of factors had a neutral impact on them.

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

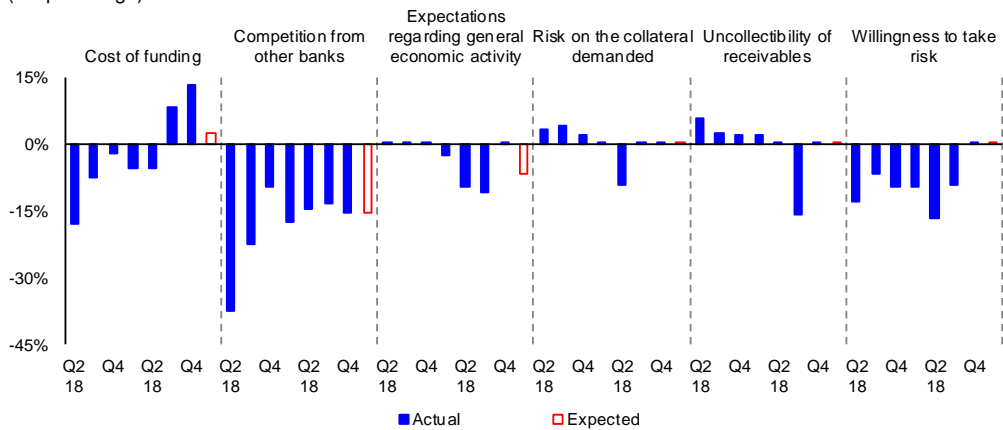


Source: NBS.

* Positive value indicates tightening of credit standards and negative - easing.

** The intensity of change is not shown in charts.

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



Source: NBS.

* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.

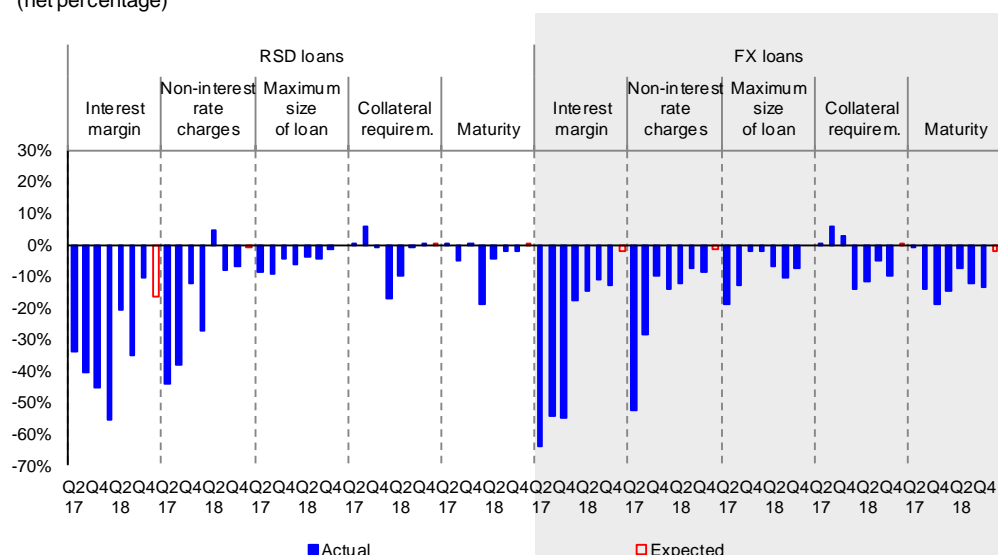
** The intensity of change is not shown in charts.

In Q1 2019 banks expect slight easing of credit standards for almost all types of loans, driven by the banking sector competition and positive expectations regarding general economic activity.

1.2. Conditions and terms for approving loans to enterprises

According to the results of the survey, in Q4 2018 banks continued to ease loan price conditions, extended maximum maturity, increased the size of loans and eased collateral requirements (for FX loans). The easing of conditions applied to all enterprises regardless of their size. In Q4 2018 loans to agricultural producers were approved at more favourable price conditions, and the maximum size of loans was increased.

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

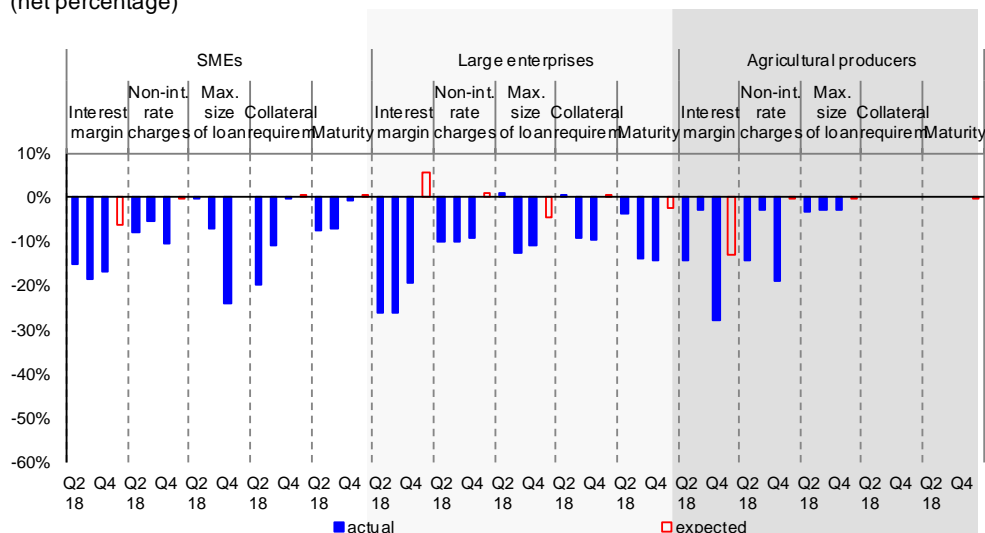


Source: NBS.

* Positive value indicates tightening of conditions and negative - easing.

** The intensity of change is not shown in charts.

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



Source: NBS.

* Positive value indicates tightening of credit standards and negative - easing.

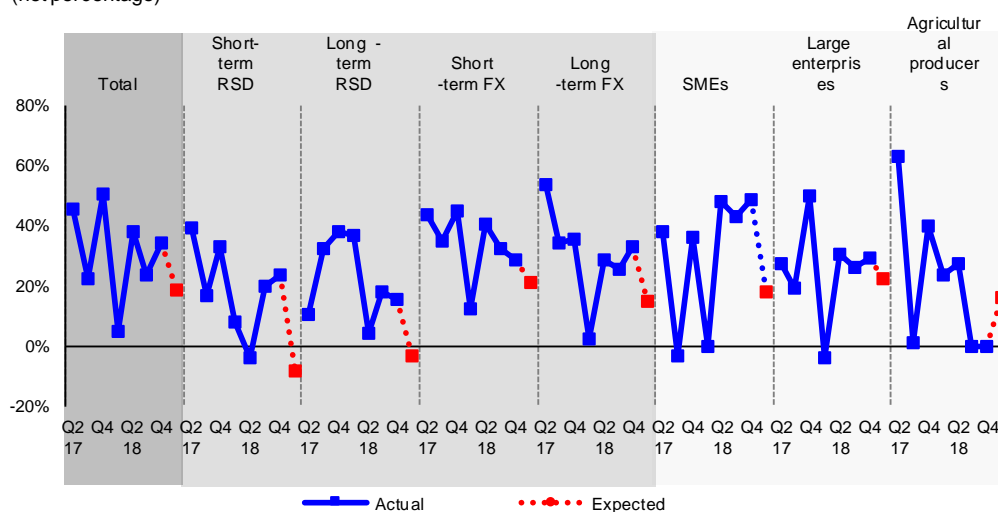
** The intensity of change is not shown in charts.

According to the survey results, banks expect that loan price conditions will be even more favourable for dinar loans to SMEs and agricultural producers in Q1 2019.

1.3. Demand for loans to enterprises

According to the survey results, banks estimate that in Q4 2018 the demand for loans to enterprises increased, largely driven by SMEs, followed by large enterprises.

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

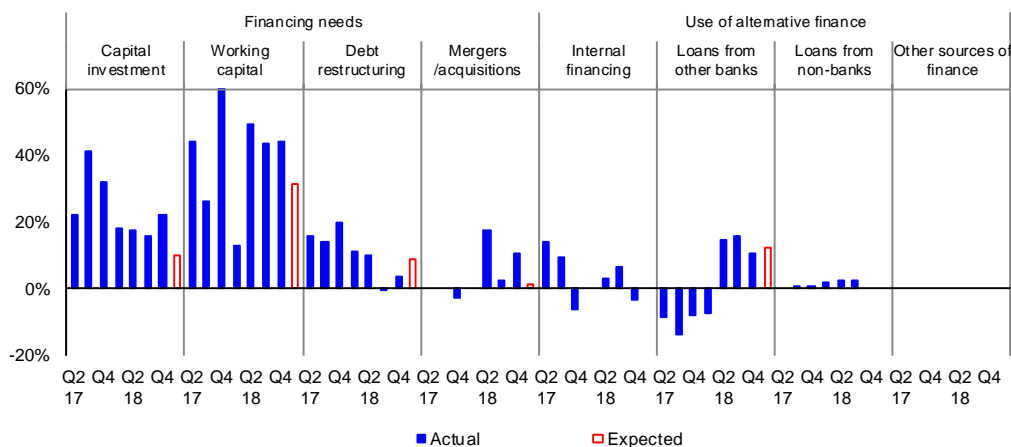


Source: NBS.

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

** The intensity of change is not shown in charts.

Factors affecting the demand for loans or credit lines to enterprises



Source: NBS.

* Positive value indicates the contribution of individual factors to an increase in demand, and negative - to a decrease.

** The intensity of change is not shown in charts.

An increase in the demand for loans to enterprises was mostly motivated by the need for financing working capital and capital investment, as well as company activities which pertain to mergers/acquisitions of other enterprises. In addition, a number of banks estimate that rising demand was a result of the attractiveness of their offer (compared to their competitors' offers).

In Q1 2019 banks expect a rising demand for loans to enterprises, almost equally driven by large enterprises, SMEs and agricultural producers.

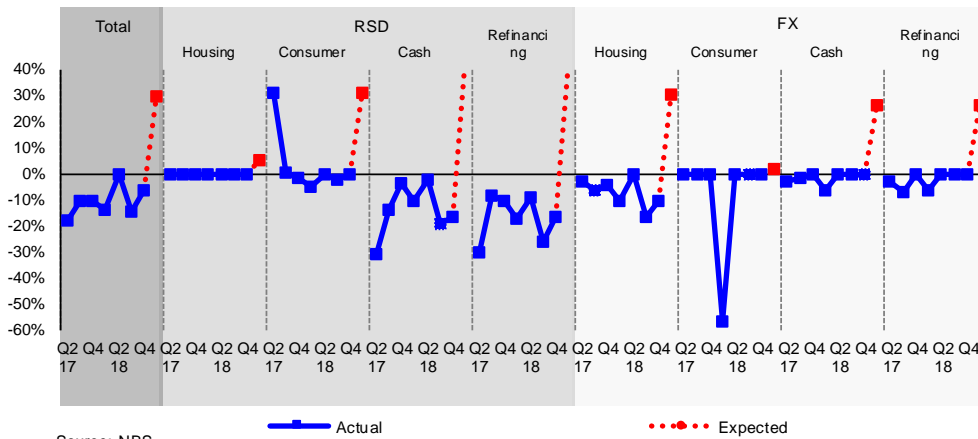
The need to finance working capital and capital investment, coupled with enterprises' need for restructuring of liabilities, will continue to reflect positively on the rise in demand in Q1 2019.

2. Household loans

2.1. Change in credit standards and contributing factors

Banks estimate that credit standards for household loans were eased in Q4 2018 for the most dominant loans – dinar cash loans and refinancing loans and for FX housing loans.

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



Source: NBS.

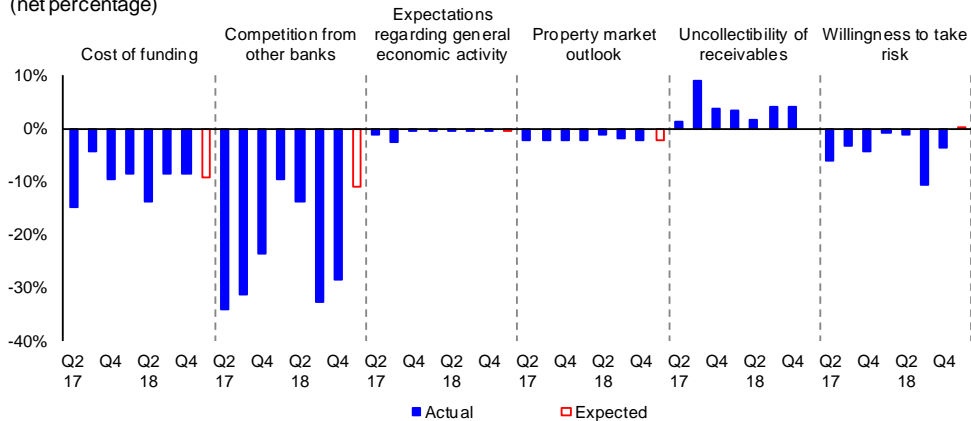
* Positive value indicates tightening of credit standards and negative - easing.

** The intensity of change is not shown in charts.

Survey results indicate that competition from other banks, lower borrowing costs and greater willingness to take risk are the main factors that contributed to the easing of credit standards.

It is expected that in Q1 2019 credit standards for household loans will tighten as a reflection of “other factors”. On the other hand, banks expect that market factors, primarily competition and cost of funding will continue to work towards the easing of credit standards in Q1 2019.

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



Source: NBS.

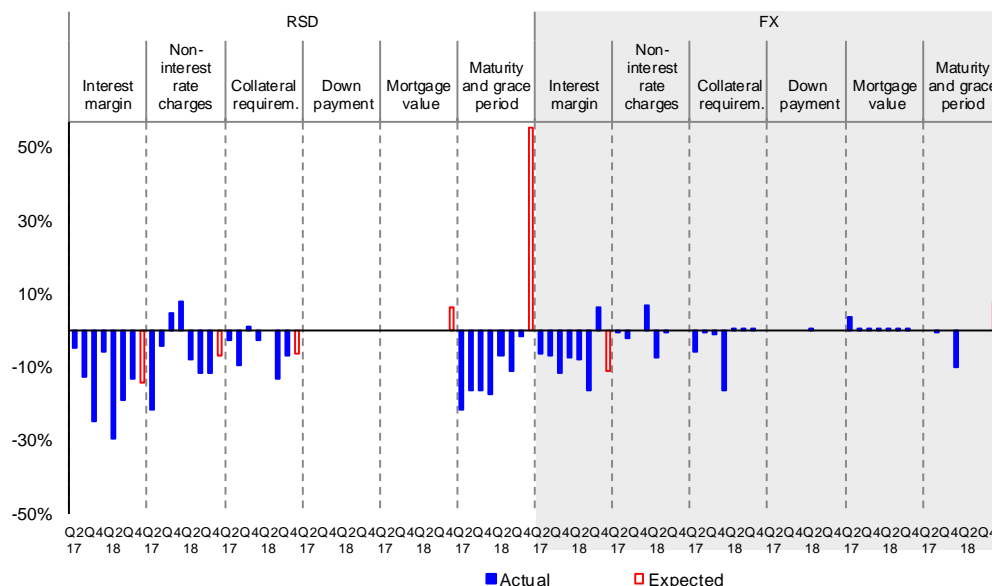
* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.

** The intensity of change is not shown in charts.

2.2. Conditions and terms for approving household loans

Price conditions for dinar household loans were eased in Q4 2018, and so were collateral requirements.

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



Source: NBS.

* Positive value indicates tightening of conditions and negative - easing.

** The intensity of change is not shown in charts.

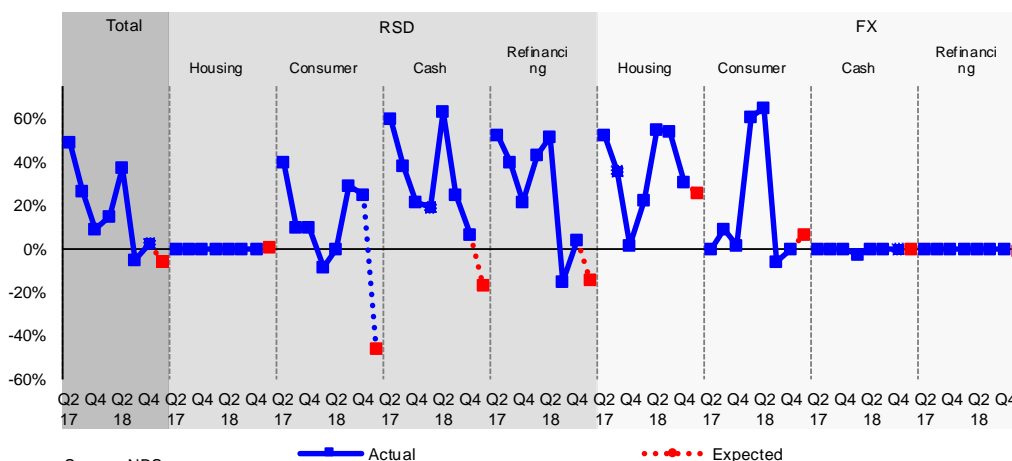
According to banks' estimate, interest margins, fees and commission, as well as collateral requirements will be lowered in Q1 2019, whereas loan maturities are expected to be tightened both for dinar and FX loans. This may be associated with the new regulations from December 2018, when the National Bank of Serbia adopted several regulatory measures aimed at fending off NPLs in the banking system and preventing negative consequences for the financial stability and citizens. These measures are targeting cash, consumer and other household loans (with the exception of housing loans and current account overdrafts) with the repayment term of eight years or longer.

2.3. Household loan demand

When looking at the overall market, survey results suggest that household loan demand increased in Q4 2018, largely as a result of the rise in the demand for dinar consumer loans and FX housing loans.

As in the quarters before, the demand was led by the needs for refinancing and purchase of real estates, with a positive contribution from the property market.

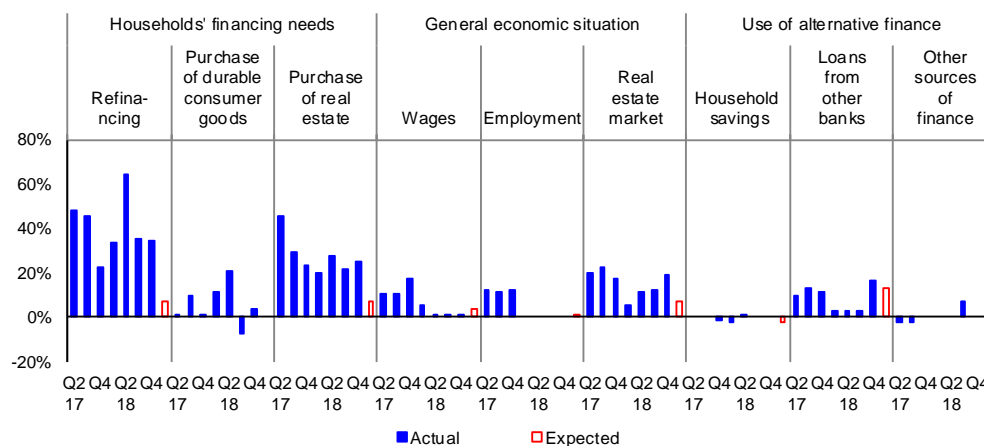
Change in demand for loans or credit lines to households
(net percentage)



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

Banks expect the rise in the demand for household FX housing loans in Q1 2019, while believing that the said tightening of standards will reduce the household demand for dinar consumer loans, cash loans and refinancing loans.

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



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