

NATIONAL BANK OF SERBIA

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

Third Quarter Report 2023

Belgrade, November 2023

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, ¹factors affecting their change, changes in terms and conditions for loan approval, changes in loan demand and factors affecting loan demand.

This Report presents the **overview of results of the survey carried out from 2 to 18 October 2023**. The survey reports bank representatives' views on changes during the third quarter of 2023 and expected changes in the credit market in the fourth quarter of 2023. The survey included 18 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 October survey indicate that in Q3 2023 banks continued tightening their corporate credit standards mildly, in line with the expectations from the previous survey. Standards were largely tightened for FX-indexed loans and mainly for large enterprises if looking at the size. Banks expect a further mild tightening of standards for FX-indexed loans in Q4 and relaxation for dinar loans.

In Q3 2023, banks continued tightening household credit standards in case of both dinar cash loans (and refinancing loans) and FX-indexed housing loans. Banks expect household credit standards to stay unchanged in Q4, with a mild relaxation of standards for FX-indexed housing loans, most probably as a result of NBS decision to temporarily limit the interest rates on this type of loans.

Overall, corporate loan demand went down in Q3 in case of all loan categories, except short-term dinar loans as the demand for these loans increased due to the need for financing working capital. Banks expect corporate loan demand to recover in Q4.

Banks assessed that household loan demand declined in Q3 2023 as the interest in almost all types of loans waned. In Q4, banks expect higher household demand for dinar loans and lower for housing loans.

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

	Supply (credit standards)		Demand	
	Q3 2023	Q4 2023 (expectations)	Q3 2023	Q4 2023 (expectations)
Corporate sector	↑	↑	↓	↑
SMEs	↑	↓	-	↑
Large enterprises	↑	↑	↓	↑
Farmers	↗	↓	↓	↑
Household sector	↑	-	↓	↑
Cash (dinar)	↑	-	↓	↑
Refinancing (dinar)	↑	-	↓	↑
Housing (FX)	↑	↘	↓	↓
Consumer (FX)	↗	-	↘	-

Legend:

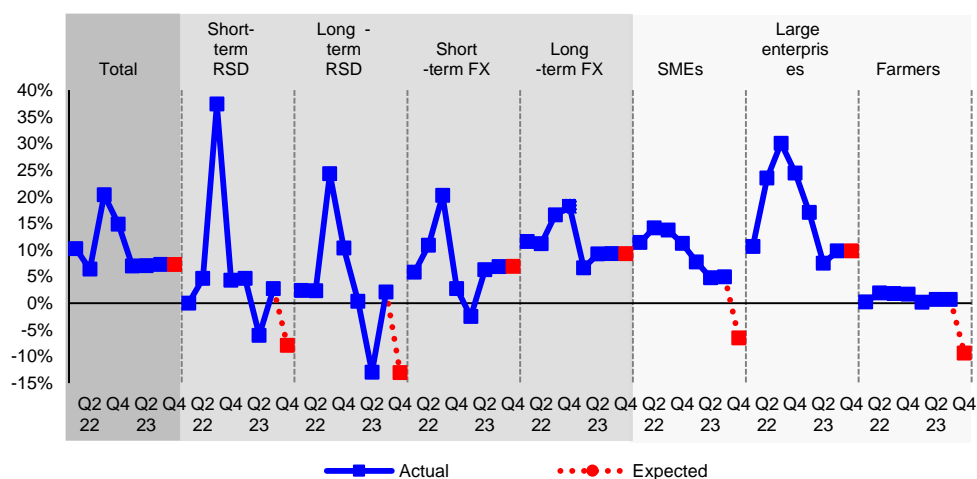
- ↑ Increase in demand (net percentage above 5%)
- ↑ Tightening of credit standards (net percentage above 5%)
- ↗ Increase in demand / tightening of credit standards (net percentage up to 5%)
- Without change
- ↘ Decrease in demand / easing of credit standards (net percentage up to 5%)
- ↓ Decrease in 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 survey shows that banks continued moderately tightening their standards for corporate loans in Q3 2023 (similarly as in Q2), which is in line with the expectations stated in the July survey. The tightening concerned FX-indexed loans more, while in terms of enterprise size, it mostly affected large enterprises. Banks expect the continuation of tightening of credit standards for FX-indexed loans in Q4 and the relaxation of standards for dinar loans.

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



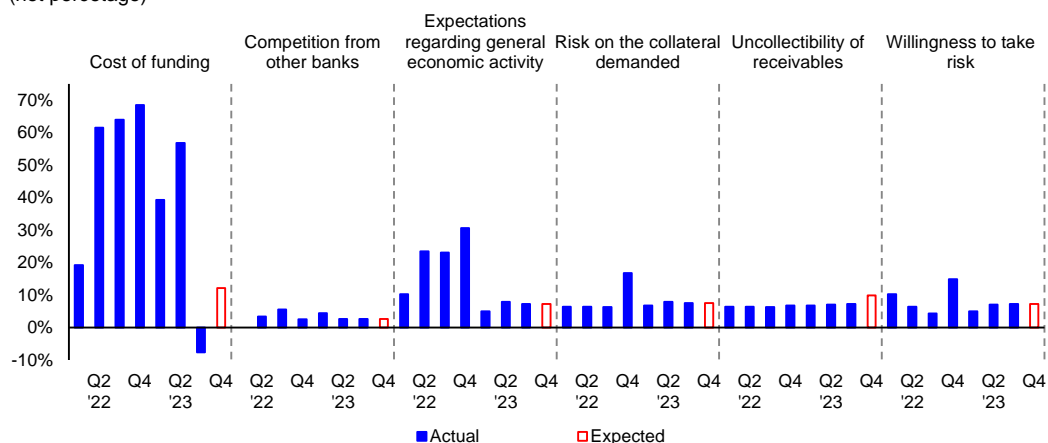
Source: NBS.

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

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

The tightening of corporate credit standards was primarily affected by increased risk perception (regarding overall economic activity and required collateral, as well as potential NPLs), which reflected on reduced risk propensity. On the other hand, the responses of several banks produced the assessment that for the first time since the beginning of the monetary policy tightening cycle the costs of funding were a mitigating factor, which is attributable to the lower degree of monetary tightening in Q3 relative to Q2.

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



Source: NBS.

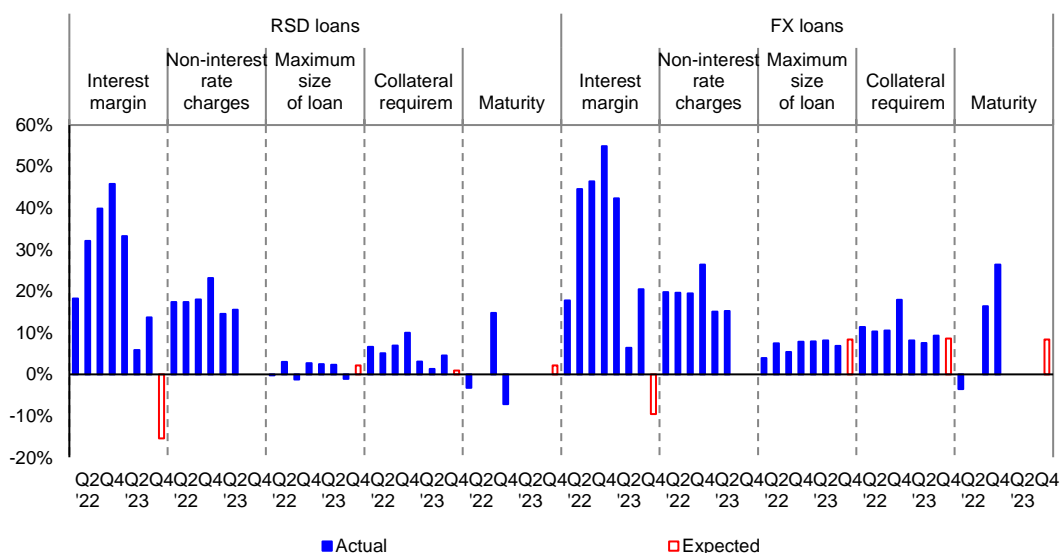
* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.

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

1.2 Conditions and terms for approving loans to enterprises

Parallel with standard tightening, banks assessed that the price conditions for loans to enterprises (both dinar and FX/FX-indexed loans) were mildly tightened in Q3, in line with the monetary policy tightening by the NBS and the ECB. Price conditions were made more restrictive for all enterprises, regardless of their size, and for farmers. In addition, maximum loan amount was reduced and collateral requirements stepped up. Price conditions are nonetheless expected to be eased in Q4 2023, on account of lower interest margin for both dinar and FX-indexed loans, regardless of the enterprise size.

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

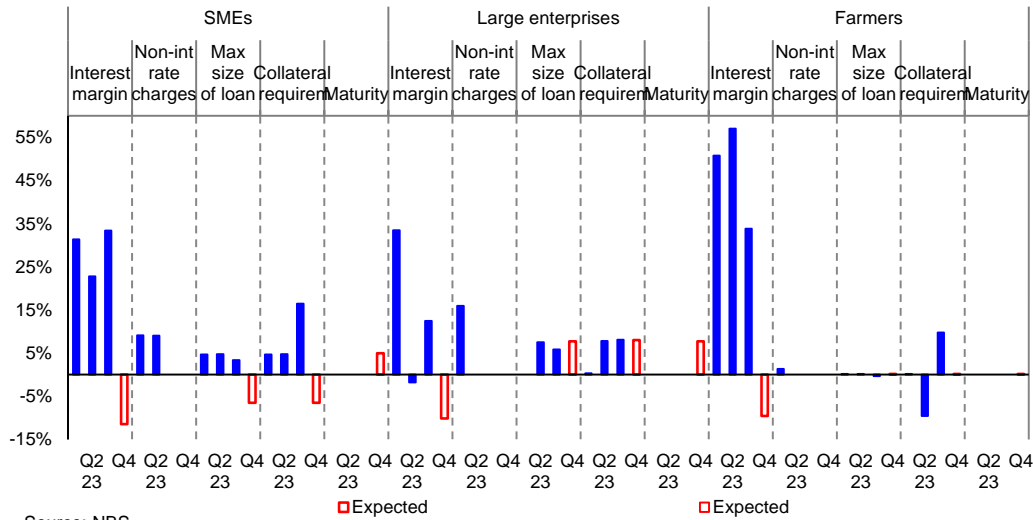


Source: NBS.

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

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

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

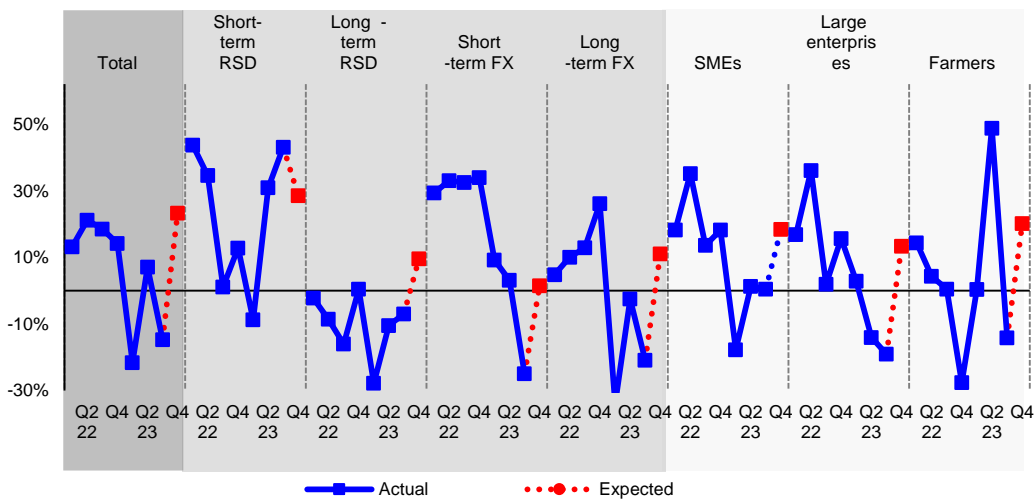


Source: NBS.
* Positive value indicates tightening of credit standards and negative - easing.
** The intensity of change is not shown in charts.

1.3 Demand for loans to enterprises and contributing factors

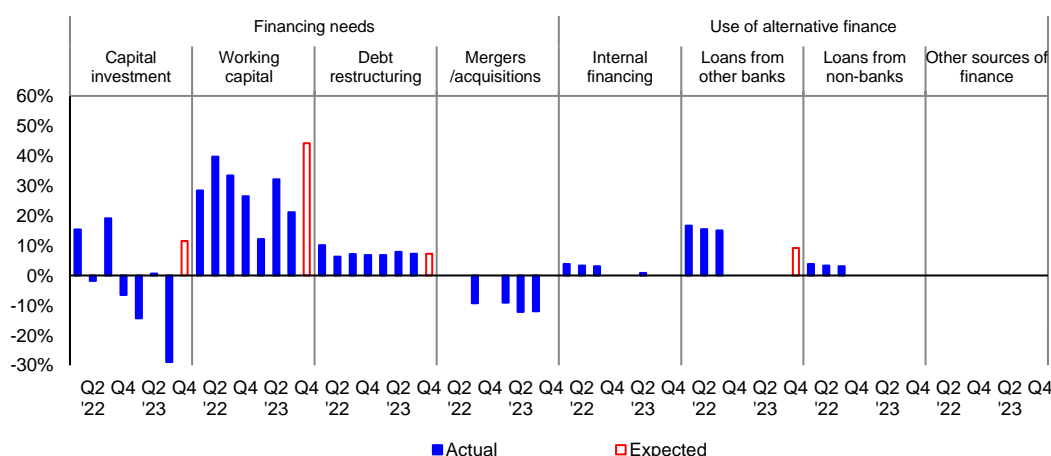
Banks assessed that corporate loan demand subsided in Q3 in case of all loan types, the only exception being short-term dinar loans as the demand for these loans went up.

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.

The decrease in capital investments and enterprise activity in terms of mergers/acquisitions are the factors that drove down corporate loan demand in Q3, while the need for financing working capital pushed the demand for short-term dinar loans up.

Banks expect the recovery of corporate loan demand in Q4, along with the rise in demand for all types of loans driven by the need for financing working capital and restructuring current liabilities as well as financing capital investments.

2. Household loans

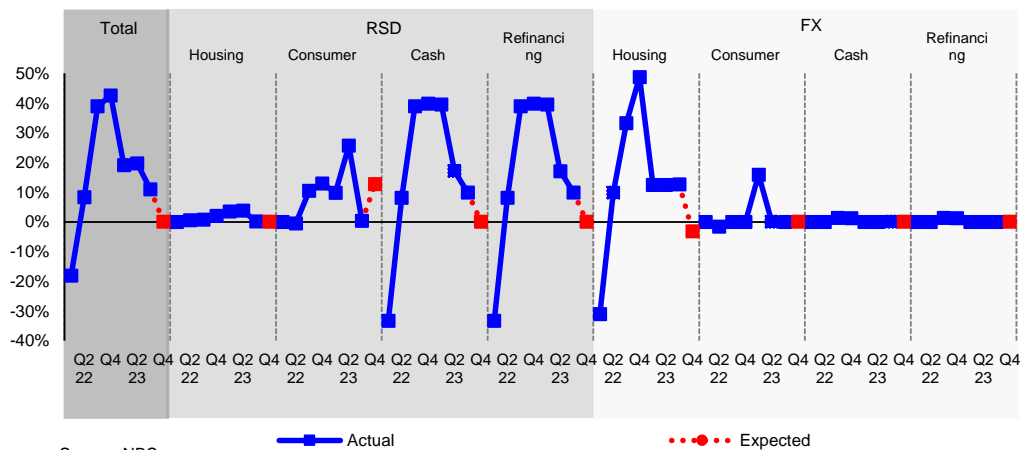
2.1 Change in credit standards and contributing factors

The results of the survey show that household credit standards in Q3 were tightened, though less so than in the previous quarter, in line with the expectations from the previous survey. Banks anticipate that household credit standards will remain broadly unchanged in Q4 relative to Q3 – the exception being housing loans where a mild relaxation is expected (given the NBS's temporary cap on interest rates on housing loans). On the other hand, the tightening is expected for dinar consumer loans.

The tightening in Q3 concerned primarily dinar cash loans (including refinancing loans) and FX-indexed housing loans.

In banks' view, the costs of funding and uncertainty regarding the economic situation worked the most towards the tightening of credit standards, reflecting on dampened risk propensity and on the level of NPLs. In addition, banks assessed that a nudge in that direction also came from the situation in the real estate market (growth in real estate prices with rising interest rates) and lower competition in the sector.

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

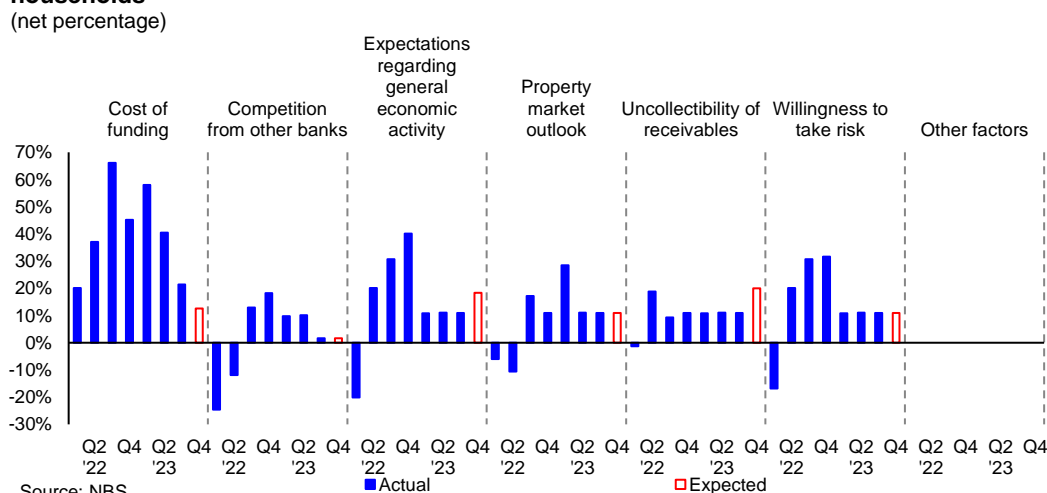


Source: NBS.

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

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

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



Source: NBS.

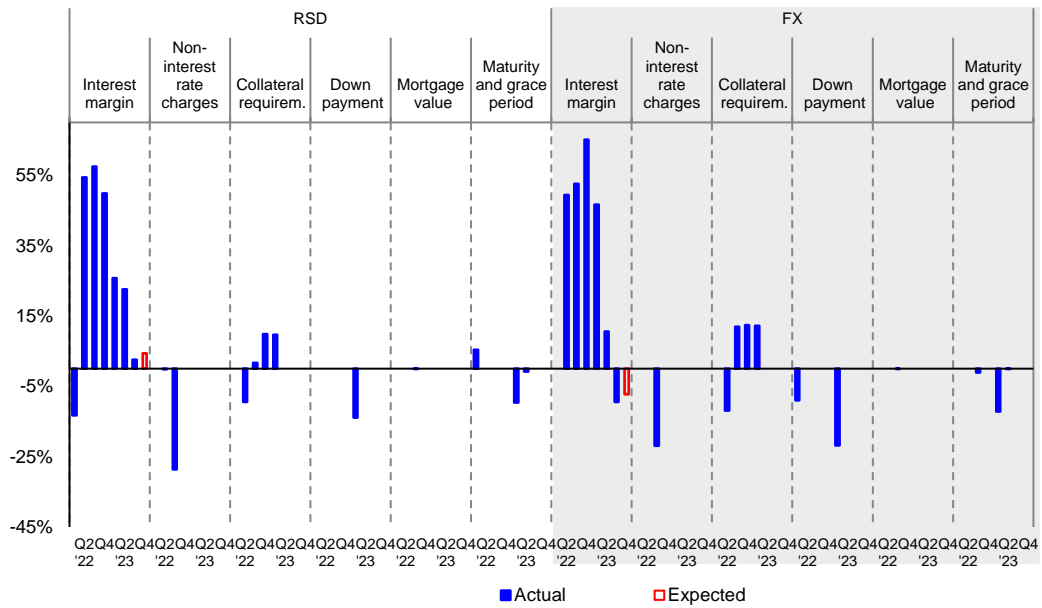
* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.

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

2.2 Conditions and terms for approving household loans

Banks reduced interest margins for FX-indexed loans in Q3 and they expect the same in Q4, which can be associated with NBS decision on temporary cap on interest rates on housing loans, while other conditions for household loan approval remained unchanged from the previous quarter.

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



Source: NBS.

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

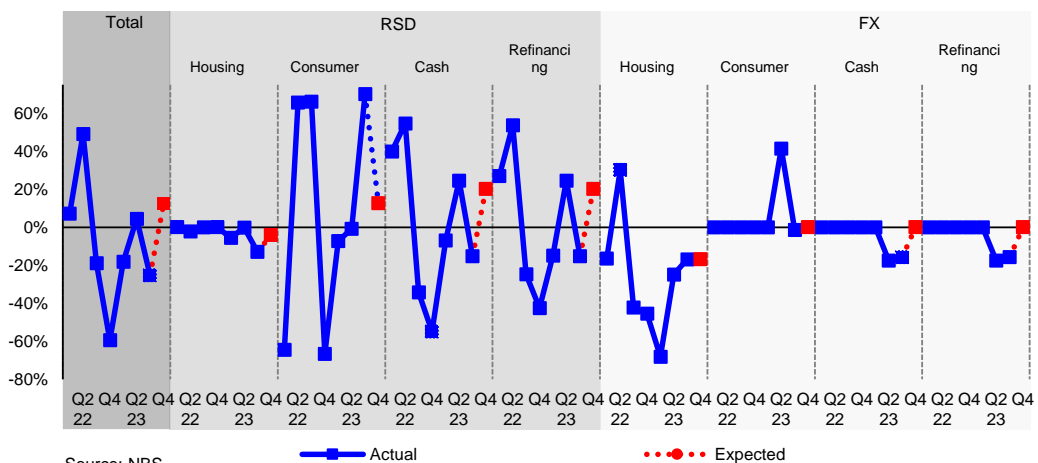
** The intensity of change is not shown in charts.

2.3 Household loan demand and contributing factors

Banks assessed that household loan demand dampened in Q3 in case of all loan categories. The exception are dinar consumer loans as the demand for this loan category went up.

According to banks, the real estate market situation and labour market factors (employment and wages) pushed the loan demand down, while the need for financing current liabilities worked in the opposite direction.

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

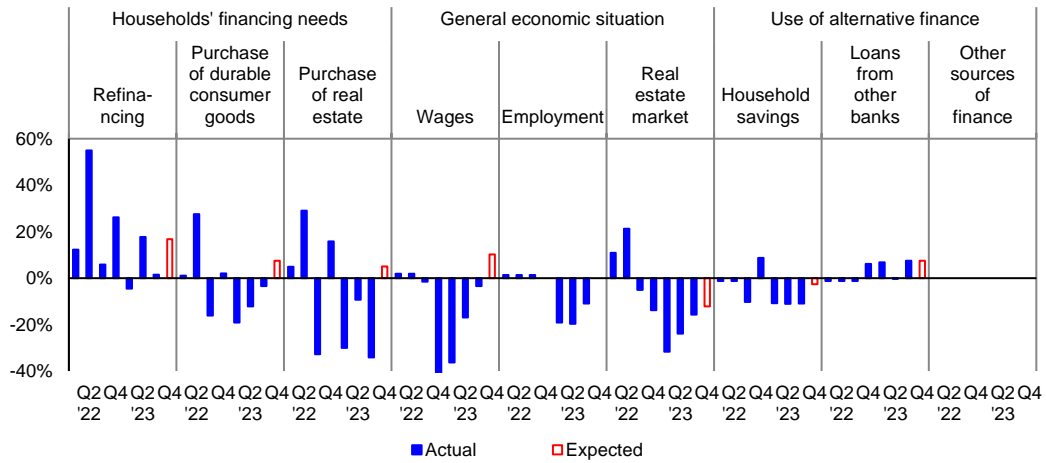


Source: NBS.

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

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

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.