NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE BANK LENDING SURVEY

Second Quarter Report 2022

Belgrade, August 2022

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 both loan supply and private sector loan demand.

The survey consists of ten questions relating to loans to enterprises and households. Respondents are asked about changes in credit standards,[1] factors affecting their change, changes in terms and conditions for loan approval, changes in loan demand and factors affecting loan demand.

This Report **presents the results of the bank lending survey carried out from 4 to 15 July 2022**. The survey reports bank representatives' views on changes during the second quarter of 2022 and expected changes in the credit market in the third quarter of 2022. The survey included 20 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 the 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 July survey indicate that banks proceeded with a mild tightening of corporate credit standards in Q2 2022. The tightening concerned FX-indexed loans more than dinar loans and large enterprises more than SMEs. Banks expect similar trends in Q3 2022.

Banks assessed that, after a year of easing, household credit standards were mildly tightened in Q2, which is expected to continue in the course of Q3. Standards were tightened for dinar cash loans (including refinancing loans) and FX-indexed housing loans.

Corporate loan demand is powered by the financing of working capital and restructuring of liabilities, while that of households continues to be driven by the refinancing of liabilities and the purchase of real estate. According to banks, corporate loan demand is expected to rise further in Q3. After a significant rise in the demand for cash and housing loans in Q2, household loan demand is expected to subside somewhat in Q3.

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

	Supply (credit standards)		**Demand**	
	Q2 2022	Q3 2022 (expectations)	Q2 2022	Q3 2022 (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%)

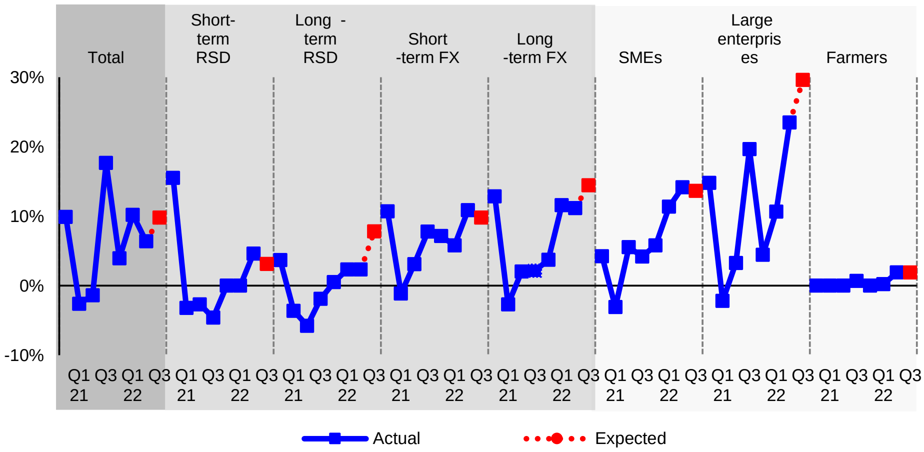
↓ Easing of credit standards (net percentage above 5%)

1. Loans to enterprises

1.1 Credit standards and contributing factors

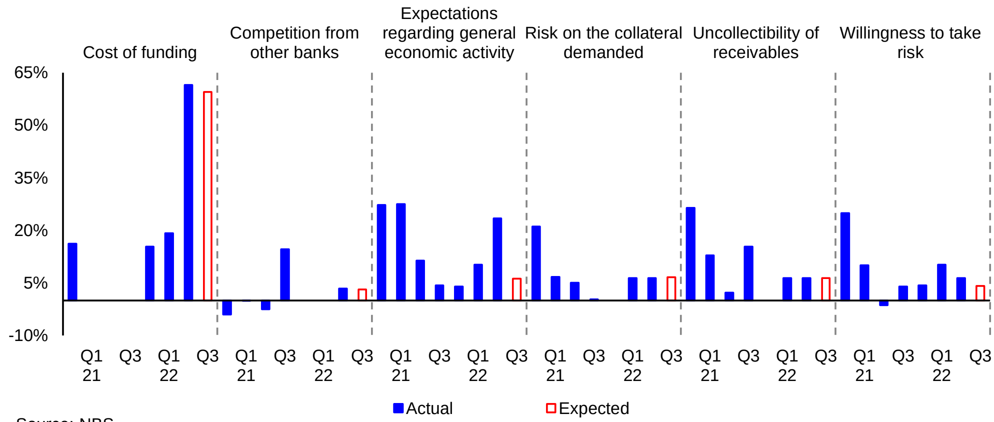
The survey results show that, in accordance with the expectations reported in the April survey, banks slightly tightened their corporate credit standards in Q2. The tightening concerned FX-indexed loans more than dinar loans, while in terms of the size of enterprises, it mostly affected large enterprises.

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 percetage)



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.

The tightening of corporate credit standards reflects primarily the higher costs of the sources of funding, as well as uncertainty surrounding the general economic situation and the consequently reduced risk appetite. Moreover, banks stated that a mild nudge towards standard tightening came also from non-performing receivables and the quality of required collateral.

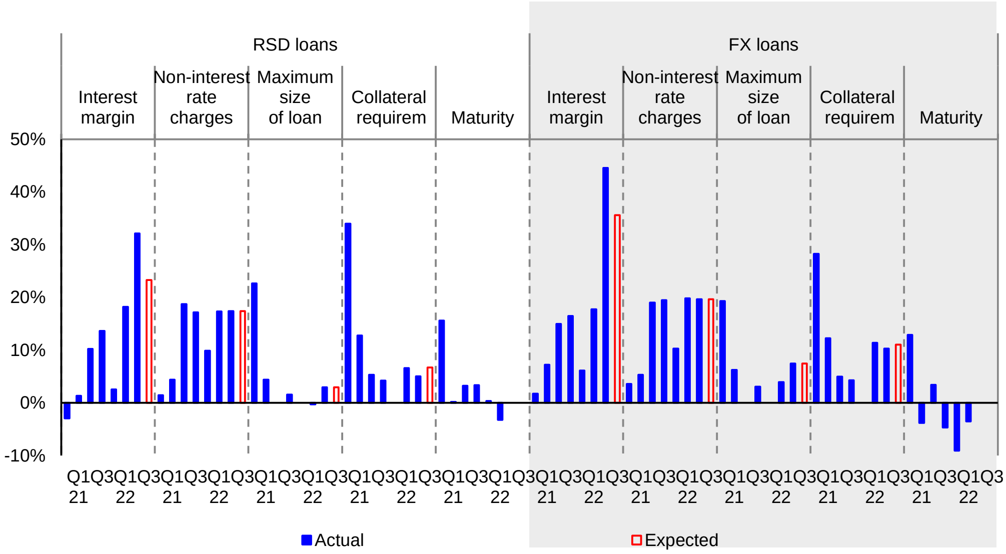
Under the impact of the same factors, banks expect the tightening of standards to continue in Q3 as well.

1.2 Conditions and terms for approving loans to enterprises

In parallel with standard tightening, banks assessed that price conditions for enterprises were also tightened in Q2, and they expect the trend to continue in Q3. Banks increased their interest margins, as well as fees and commissions – for both dinar and FX loans. Collateral requirements were also tightened, while the maximum loan amount was scaled down.

All these conditions were tightened for both large enterprises and SMEs. The exception is maximum loan maturity which was increased for SMEs. In addition, collateral requirements were relaxed for farmers.

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

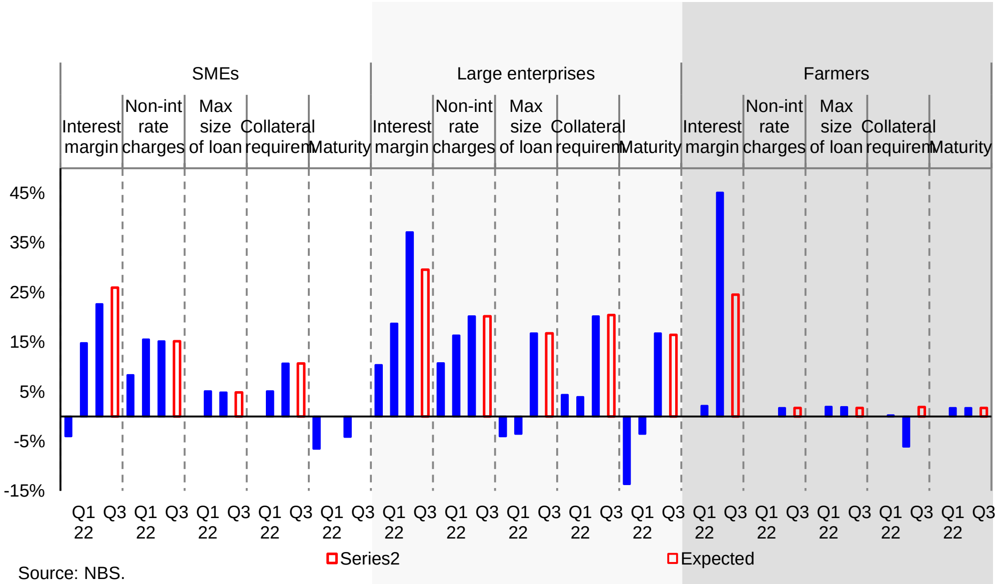


Source: NBS.
* Positive value indicates tightening of conditions and negative - easing.
** The intensity of change is not shown in charts.

1.3 Demand for loans to enterprises and contributing factors

Banks assessed that corporate loan demand went up in Q2, and a further rise is expected in Q3. Banks judge that the demand for all types of loans increased, except for long-term dinar loans. Demand growth was equally distributed across small, medium-sized and large enterprises. Farmers’ demand for loans also stepped up in Q2.

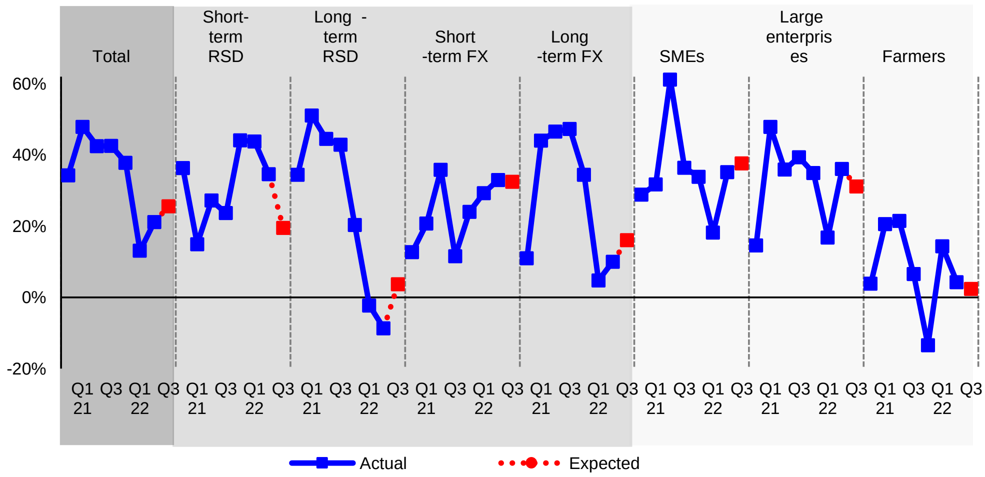
Change in conditions and terms for approving loans or credit lines to enterprises
(net percentage)



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

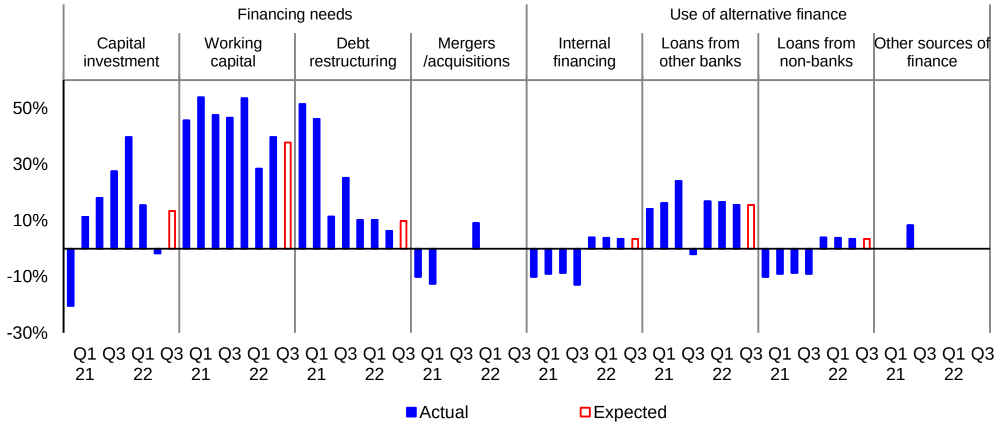
According to banks, the need for financing working capital and restructuring liabilities were the dominant factors driving the rise in corporate loan demand. Also, several banks consider that their offers are more favourable than those of competitors, which drives up the demand for their loans. The same factors, along with the financing of capital investments, will work towards higher corporate loan demand in Q3 as well.

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
(net percentage)



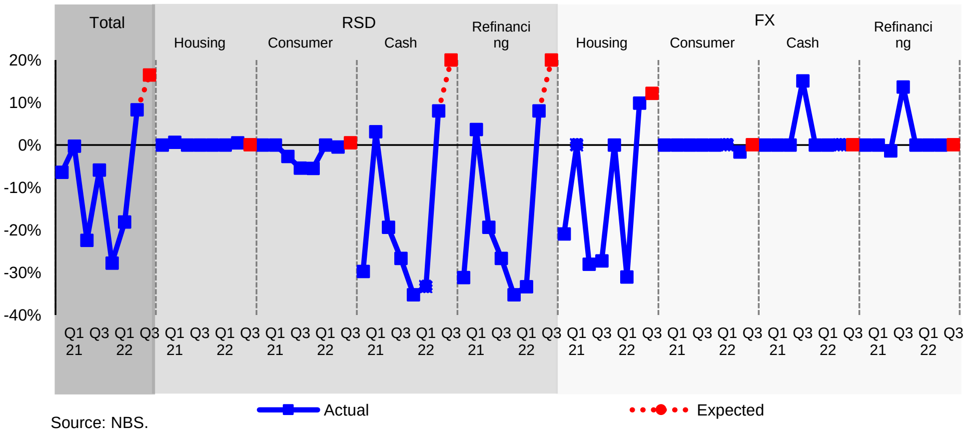
Source: NBS.
* Positive value indicates the contribution of individual factors to an increase in demand, and negative - to a decrease .
** The intensity of change is not shown in charts.

2. Loans to households

2.1 Credit standards and contributing factors

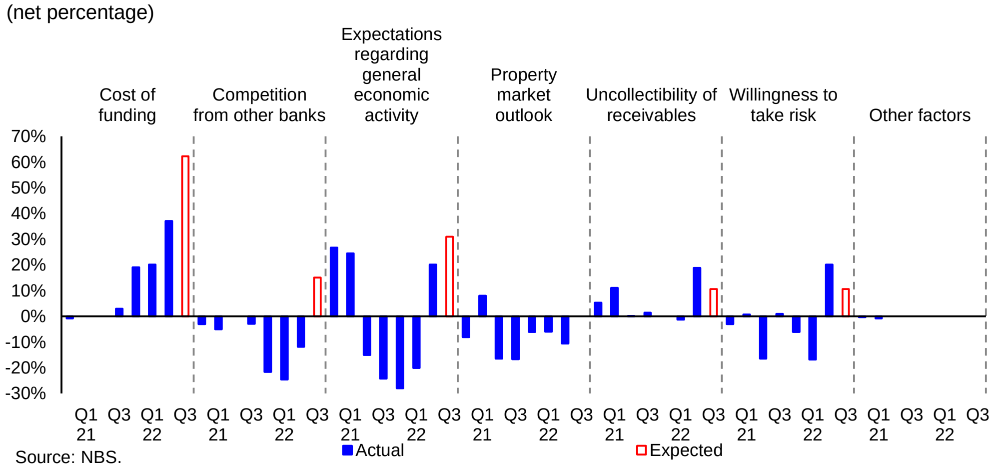
The survey results indicate that household credit standards were tightened in Q2, after a year of easing, in line with the expectations stated in the April survey. Standards were tightened mainly for dinar cash loans (including refinancing loans) and FX-indexed housing loans. Banks expect that moderate tightening of credit standards for households will continue in Q3.

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)



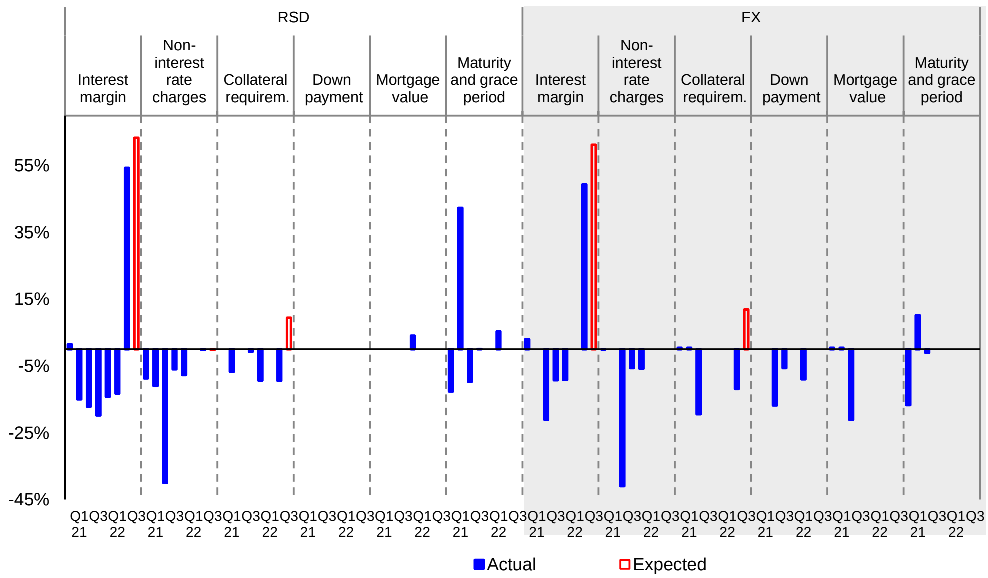
Source: NBS.
* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.
** The intensity of change is not shown in charts.

In banks' view, elevated costs of the sources of funding, along with reduced risk appetite which reflects heightened uncertainty regarding the economic situation, as well as the expected rise in NPLs worked towards credit standard tightening, as in the case of corporates. On the other hand, banks assessed that competition in the household credit market and the situation in the real estate market worked towards credit standard easing.

2.2 Conditions and terms for approving loans to households

The price conditions under which loans were approved to households in Q2 were tightened, in banks' view, as a result of the increase in interest margins for both dinar and FX-indexed loans, which is also expected for Q3. Except for collateral requirements which were relaxed in Q2 for household loans, other conditions remained unchanged relative to the previous quarter.

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



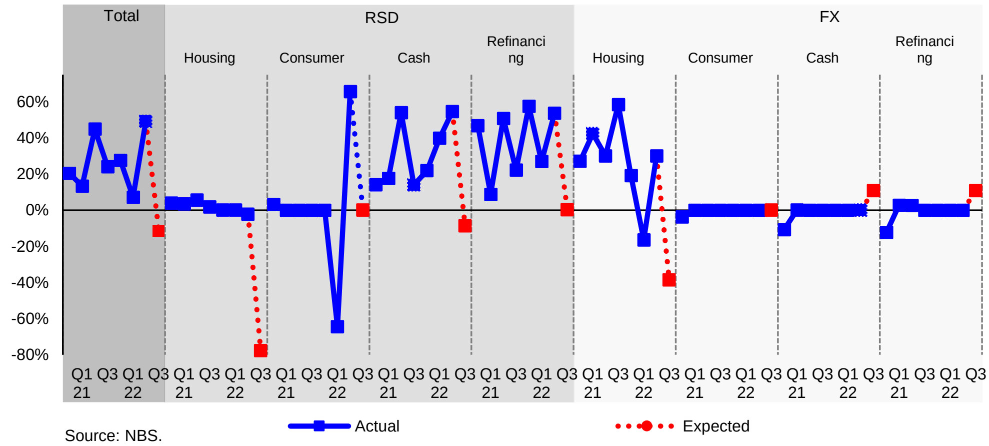
Source: NBS.
* Positive value indicates tightening of conditions and negative - easing.
** The intensity of change is not shown in charts.

2.3 Household loan demand and contributing factors

The survey results indicate that in banks' view overall household demand for loans increased in Q2, to a greater extent than in Q1. Household demand for dinar cash and FX-indexed housing loans increased. The main drivers of household loan demand were debt refinancing and the need for purchasing real estate and durable consumer goods.

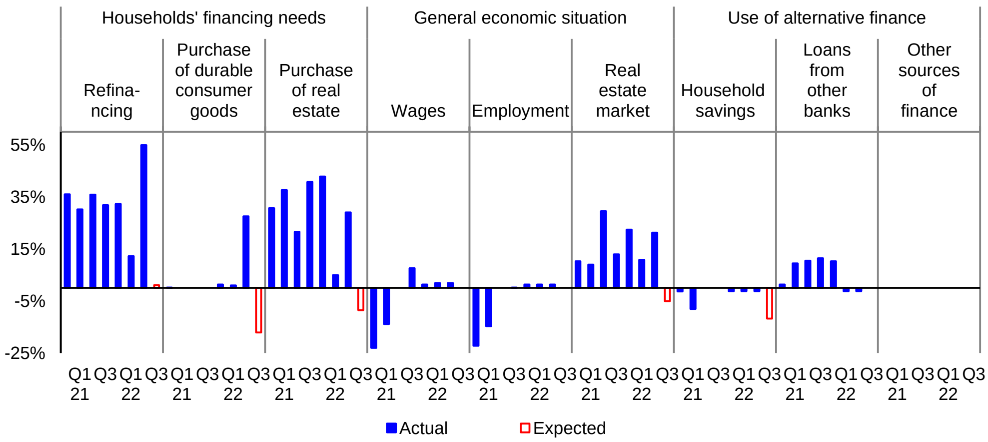
Banks expect that household demand will subside in Q3 relative to Q2, mostly due to anticipated lower demand for housing loans and dinar cash loans. The use of previously accumulated funds in savings accounts for current consumption and investment, according to banks, will work towards lower loan demand.

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.
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