NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE BANK LENDING SURVEY

Second quarter report 2023

Belgrade, August 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 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 3 to 20 July 2023**. The survey reports bank representatives' views on changes during the second quarter of 2023 and expected changes in the credit market in the third 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.

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.).

C O N T E N T S

Overview

The results of the July survey indicate that in Q2 2023, banks proceeded with the mild tightening of corporate credit standards, which is in line with the expectations reported in the previous survey. The tightening concerned FX/FX-indexed loans and was mostly due to the costlier sources of funding. Banks expect mild tightening to continue in Q3.

Banks assessed that overall corporate loan demand edged up during Q2, primarily for short-term loans, reflecting the need to finance working capital. Banks expect a further rise in corporate loan demand in Q3.

In Q2, banks continued tightening their household credit standards as well. The tightening concerned dinar loans somewhat more than FX-indexed. Moderate tightening of household credit standards is expected in Q3 as well.

According to banks, overall household loan demand picked up slightly during Q2 owing to a greater interest in cash loans, while the demand for housing loans contracted. Banks expect that household demand for loans will subside in Q3.

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

	Supply (credit standards)		**Demand**	
	Q2 2023	Q3 2023 (expectations)	Q2 2023	Q3 2023 (expectations)
Corporate sector	↑	↑	↑	↑
SMEs	↗	↗	↗	↑
Large enterprises	↑	↑	↓	↑
Farmers	↗	↗	↑	↓
Household sector	↑	↑	↗	↓
Cash (dinar)	↑	↑	↑	↘
Refinancing (dinar)	↑	↑	↑	↘
Housing (FX)	↑	-	↓	↓
Consumer (FX)	↗	-	↑	-

Legend:

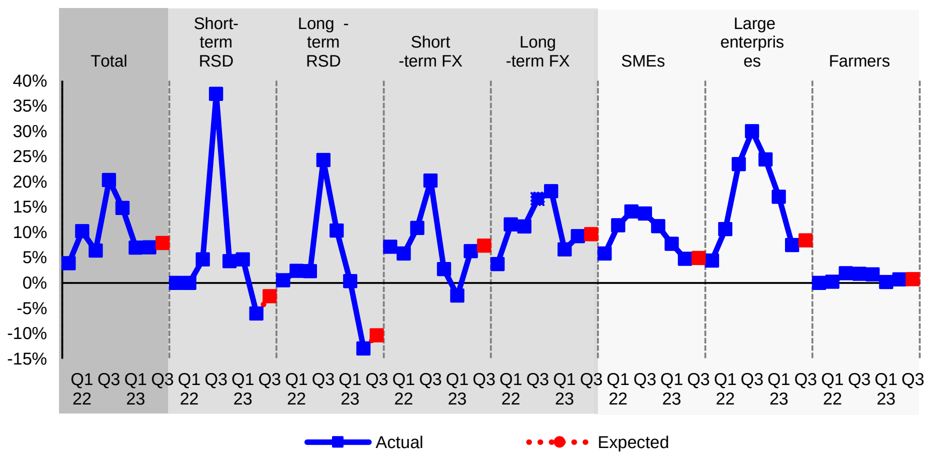
- ↑ (green) Increase in demand (net percentage above 5%)
- ↑ (red) Tightening of credit standrads (net percentage above 5%)
- ↗ Increase in demand / tightening of credit standards (net percentage up to 5%)
- \- Without change
- ↘ Decrease in demand / easing of credit standards (net percentage up to 5%)
- ↓ (red) Decrease in demand (net percentage above 5%)
- ↓ (green) Easing of credit standrads (net percentage above 5%)

1. Loans to enterprises

1.1. Credit standards and contributing factors

The survey results show that banks tightened their overall corporate credit standards in Q2 (to a similar extent as in Q1), consistent with the expectations reported in the April survey. The tightening related entirely to FX-indexed loans, while in terms of the size of enterprises, it mostly affected large enterprises. New NBS regulations aimed at increasing the share of dinar in total corporate loans[1] contributed to the moderate easing of dinar credit standards with some banks. Banks expect credit standards for FX loans to tighten and for dinar loans to ease further in Q3.

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

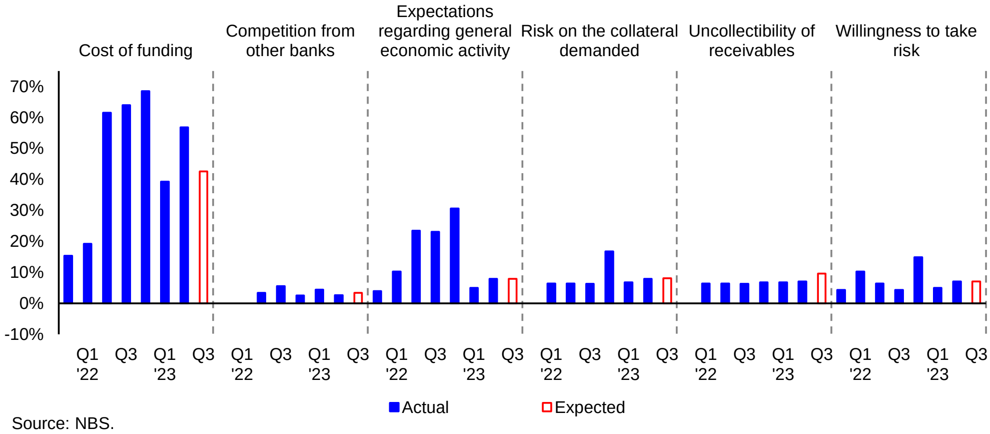


Source: NBS.
* Positive value indicates tightening of credit standards and negative - easing.
** The intensity of change is not shown in charts.

The tightening of corporate credit standards reflects mainly the higher costs of the sources of funding (consistent with the effects of the NBS and ECB monetary policy tightening), as well as uncertainty surrounding the overall economic situation and the consequently dampened risk appetite. In addition, some banks stated that a nudge towards standard tightening also came from non-performing receivables, the quality of required collateral, and subdued competition in the banking sector due to bank mergers. The same factors are likely to underpin the tightening of corporate credit standards in Q3.

[1] https://www.nbs.rs/export/sites/NBS_site/documents/propisi/propisi-kpb/adekvatnost_kapitala_i_2023_e.pdf.

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

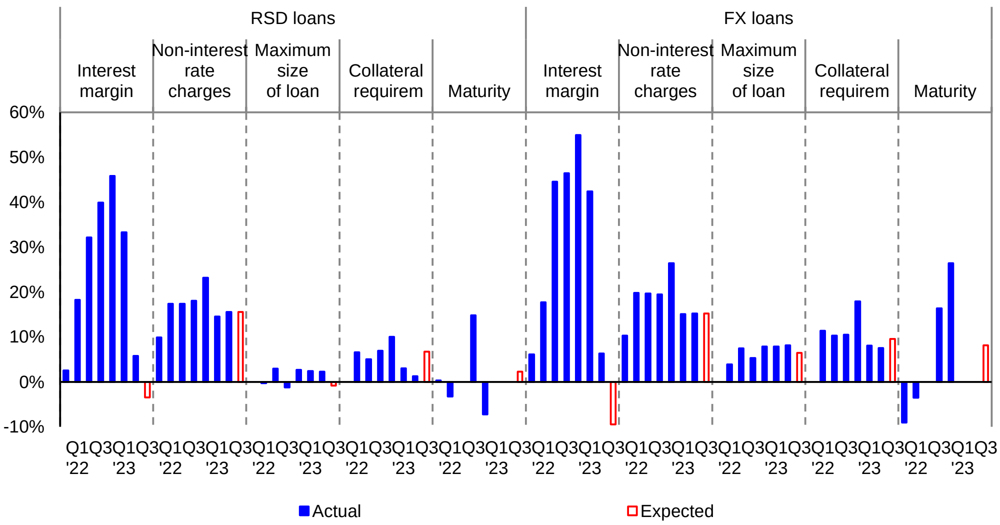


Source: NBS.
* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.
** The intensity of change is not shown in charts.

1.2. Conditions and terms for approving loans to enterprises

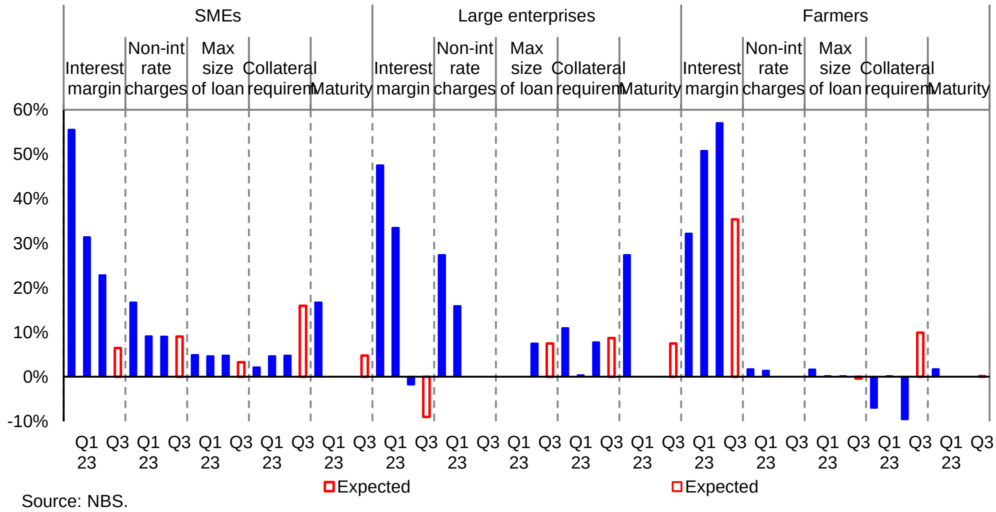
Banks assessed that the tightening of credit standards in Q2 was accompanied by a mild tightening of price conditions (for both dinar and FX/FX-indexed loans), consistent with monetary policy tightening by the NBS and the ECB. Price conditions were made more restrictive for SMEs and agricultural producers, while staying unchanged for large enterprises. The maximum loan amount and collateral requirements were also made slightly more stringent.

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)



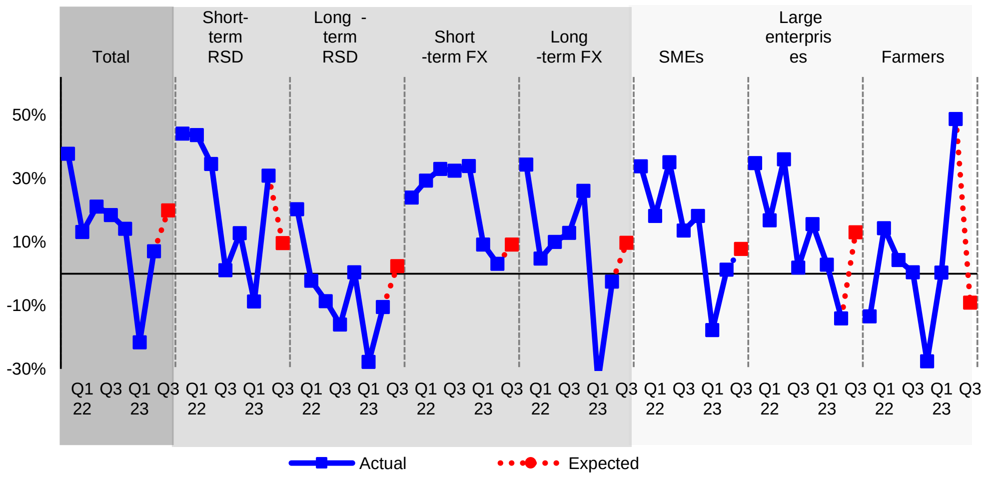
Source: NBS.
* Positive value indicates tightening of credit standards and negative - easing.
** The intensity of change is not shown in charts.

1.3. Demand for loans to enterprises and contributing factors

Banks assessed that overall corporate loan demand edged up during Q2, primarily for short-term loans, while the demand for long-term loans contracted.

Demand growth was driven by agricultural producers, i.e. their need to finance working capital and restructure debt, while large enterprises scaled down their demand for loans.

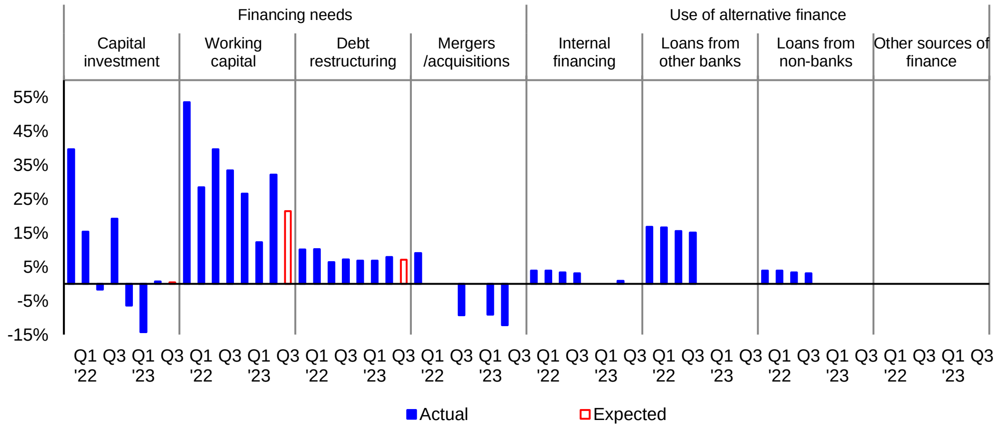
Change in demand for loans or credit lines to enterprises
(net percentage)



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

Banks expect corporate loan demand to recover in Q3 on the back of stronger demand for all types of loans (except agricultural), driven by the need to finance working capital and restructure debt.

Factors affecting the demand for loans or credit lines to enterprises



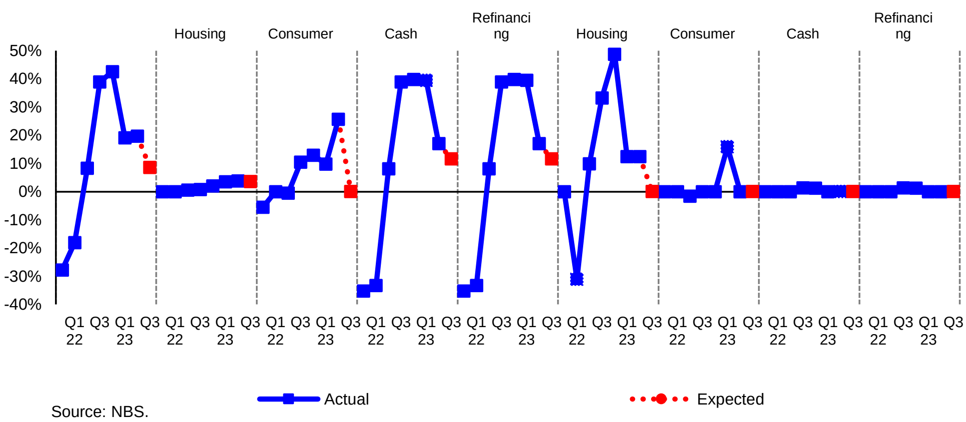
Source: NBS.
* Positive value indicates the contribution of individual factors to an increase in demand, and negative - to a decrease .
** The intensity of change is not shown in charts.

2. Loans to households

2.1. Credit standards and contributing factors

The results of the survey show that banks tightened their household credit standards in Q2 to a similar degree as in Q1, which is consistent with the expectations reported in the April survey. Banks expect further tightening in Q3, though to a lesser extent than in Q2.

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

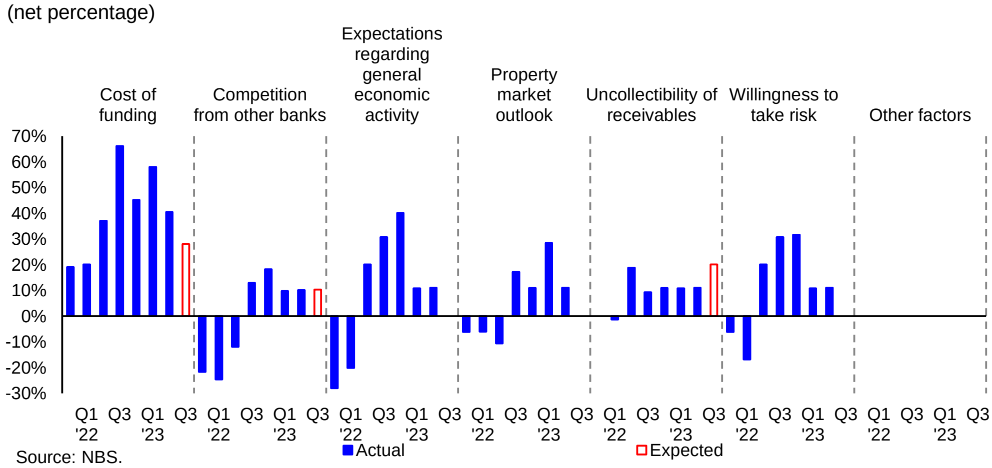


Source: NBS.
* Positive value indicates tightening of credit standards and negative - easing.
** The intensity of change is not shown in charts.

The tightening related primarily to dinar cash (including refinancing loans) and consumer loans, as well as to FX-indexed housing loans.

In banks' view, elevated costs of the sources of funding, uncertainty surrounding the overall economic situation and the consequently dampened risk appetite worked the most towards the tightening of credit standards, the same as with corporates. Some banks stated that the situation in the real estate market (higher real estate prices and lending rates), smaller competition in the sector and the level of non-performing receivables also played a role.

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

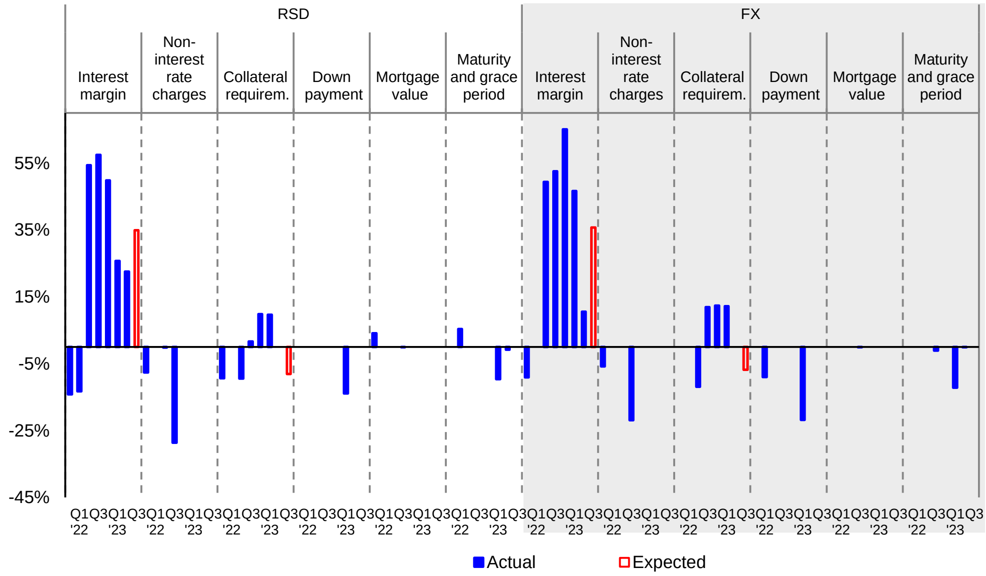


Source: NBS.
* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.
** The intensity of change is not shown in charts.

2.2. Conditions and terms for approving loans to households

Banks raised interest margins in Q2 for both dinar and FX-indexed loans, while other conditions remained unchanged from the previous quarter.

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



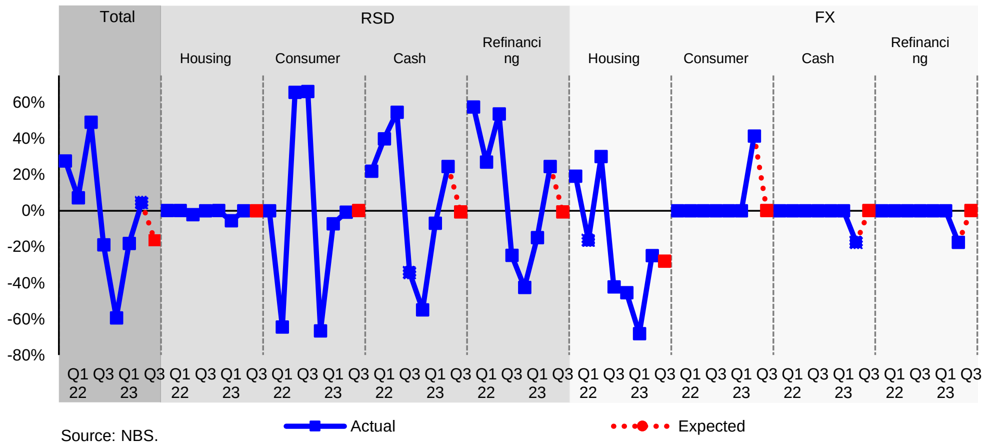
Source: NBS.
* Positive value indicates tightening of conditions and negative - easing.
** The intensity of change is not shown in charts.

2.3. Household loan demand and contributing factors

Banks assess that households, overall, slightly increased the demand for loans during Q2 (in contrast to the previous three quarters when banks considered that household demand decreased).

Household demand increased for dinar cash loans (and refinancing loans), as well as for FX-indexed consumer loans, while subsiding for housing loans.

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

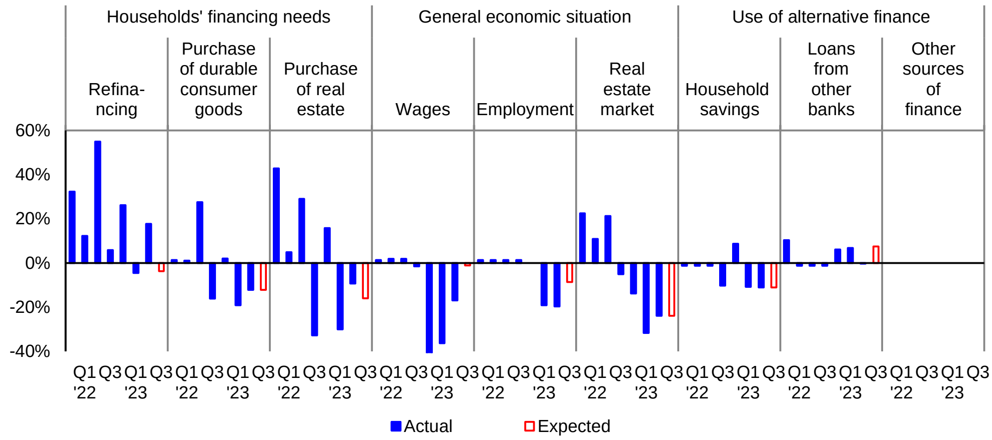


Source: NBS.
* Positive value indicates an increase in demand and negative - a decrease.
** The intensity of change is not shown in charts.

Situation in the real estate market and labour market factors (employment and wages) had a dampening effect on household loan demand, while the need to refinance debt worked in the opposite direction.

Banks maintain that the situation in the real estate market and labour market factors (employment and wages) will continue to work toward a reduction in household loan demand expected in Q3.

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.