NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE BANK LENDING SURVEY

Fourth Quarter Report 2023

Belgrade, February 2024

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

This Report **summarises the results of the bank lending survey carried out from 2 to 18 January 2024.** The survey reports bank representatives' views on changes during the fourth quarter of 2023 and expected changes in the credit market in the first quarter of 2024. 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 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 shares of banks responding "tightened considerably" and "tightened somewhat" and the sum of the shares 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 shares of banks responding that a given factor contributed to tightening of credit standards and the shares of banks responding that the same factor contributed to standards easing. As regards demand for loans, the net percentage is defined as the difference between the sum of the shares of banks responding that demand "increased considerably" and "increased somewhat" and the sum of the shares 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

January survey results indicate that in Q4 2023 banks continued to tighten corporate credit standards, in line with the expectations from the previous survey. Standards tightening largely concerned FX and FX-indexed loans, while in terms of the size of enterprises, it mostly affected large enterprises. Banks expect further mild tightening of corporate credit standards in Q1 2024.

At the same time, Q4 2023 saw no change in household credit standards, also in line with the expectations from October. Banks anticipate that household credit standards will soften in Q1 2024.

Overall, the corporate sector's loan demand subsided in Q4 2023, mainly due to the contraction in demand for FX/FX-indexed loans. On the other hand, the need to finance working capital and reschedule the oustanding liabilities boosted corporate demand for dinar loans. According to banks, corporate loans demand should rebound in Q1 2024.

Banks assess that household loan demand increased in Q4 2023 mainly owing to the rising demand for dinar loans and similar trends are expected to extend into Q1 2024 as well.

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

	Supply (credit standards)		Demand	
	Q1 2023	Q1 2024 (expectations)	Q1 2023	Q1 2024 (expectations)
Corporate sector	↑	↑	↘	↑
DINAR				
Short-term	↑	↑	↑	↑
Long-term	↗	↗	↑	↗
FX/FX-indexed				
Short-term	↑	↑	↓	-
Long-term	↑	↑	↓	↓
Household sector	-	↓	↑	↑
Cash (dinar)	↓	↓	↑	↑
Refinancing (dinar)	↓	↓	↑	↑
Housing (FX)	↑	↓	↓	↓
Consumer (FX)	-	-	-	-

Legend:

↑ Increase in demand (net percentage above 5%)

↑ 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%)

↓ Decrease in demand (net percentage above 5%)

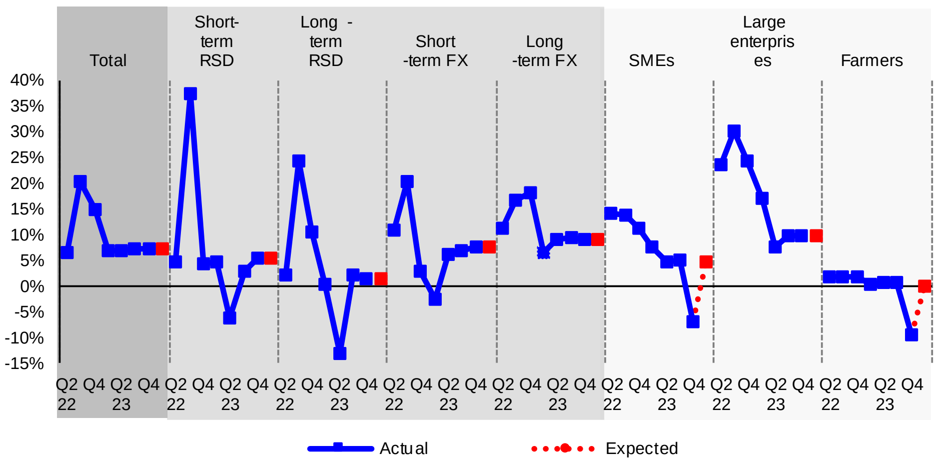
↓ Easing of credit standards (net percentage above 5%)

1. Loans to enterprises

1.1 Change in credit standards and contributing factors

The survey results show that banks continued to moderately tighten corporate credit standards in Q4 2023 (to a similar extent as in Q3), consistent with the expectations from the October survey. The tightening concerned more FX-indexed than dinar loans, while in terms of the size of enterprises, it mostly affected large enterprises. Banks anticipate further tighening of credit standards in Q1 2024.

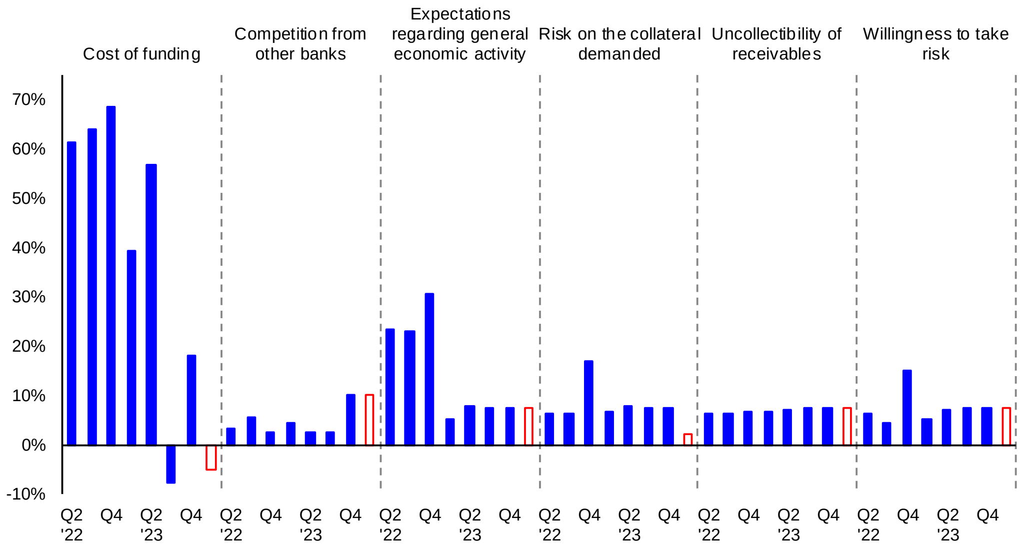
Change in credit standards as applied to the approval of loans or credit lines to enterprises
(net percentage)



Source: NBS.
* The net percentage for responses to questions about credit supply is defined as the difference between the sum of the shares of banks responding that the standards tightened and the sum of the shares of banks responding that they eased.
** A positive value indicates tightening and a negative value indicates easing.

Primary factors behind corporate standards tighetning were higher costs of funding, lower competition in the banking sector due to mergers, and heightened risk perception (regarding general economic activity, required collateral and potential non-peforming receivables), which also reflected on reduced risk propensity.

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



Source: NBS.

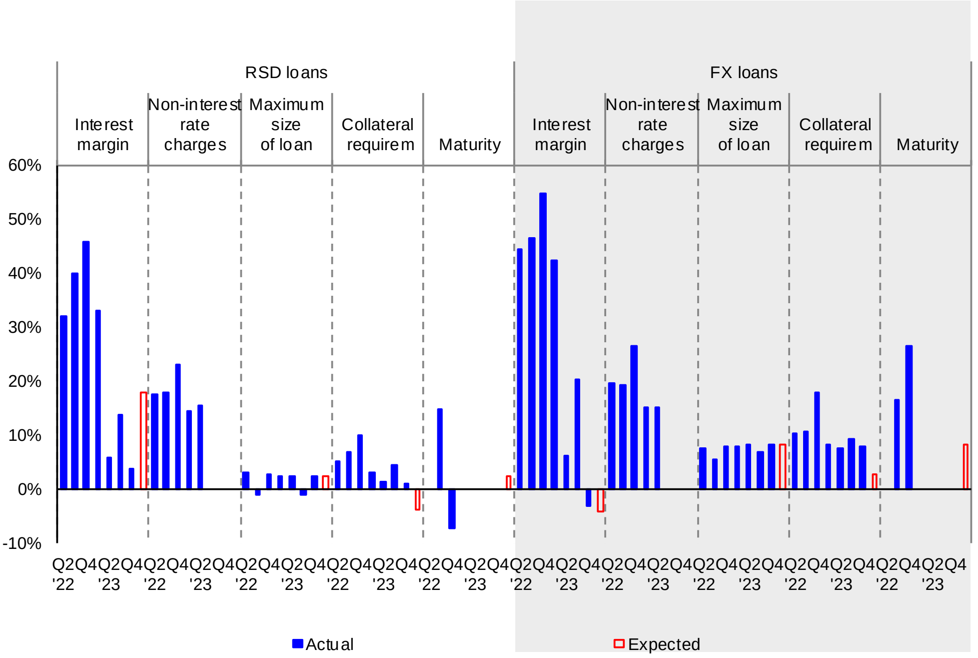
* The net percentage for responses to questions about factors is defined as the difference between the share of banks responding that the given factor contributed to the tightening and the share of banks responding that it contributed to easing of standards.

** A positive value indicates the contribution of the given factor to standards tightening and a negative value to its contribution to standards easing.

1.2 Conditions and terms for approving loans to enterprises

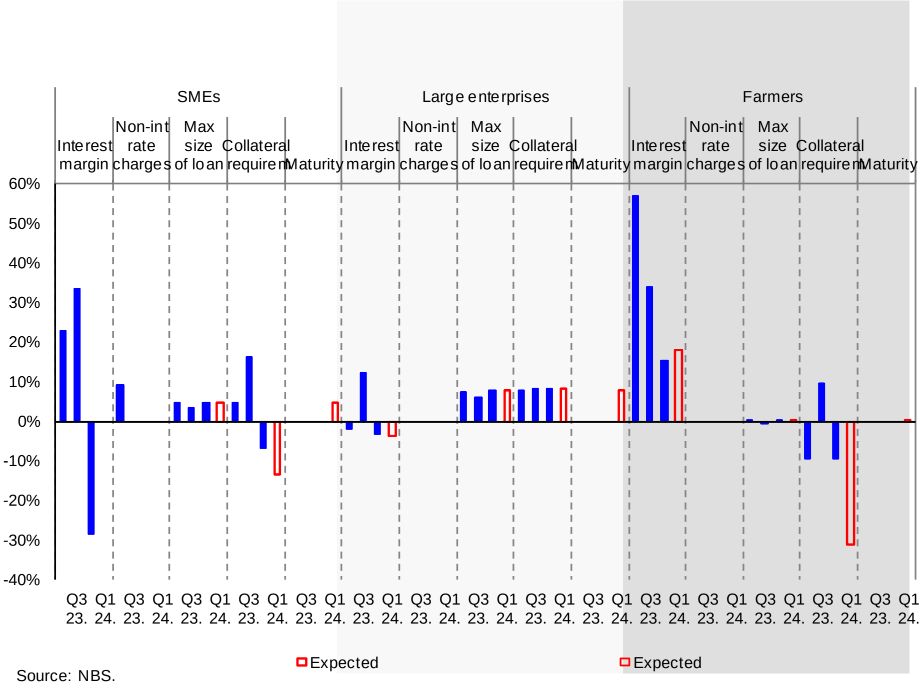
Parallel with the tightening of standards, banks assess that the conditions concerning the maximum loan amount and collateral requirements were also made stricter in Q4. Both conditions were more tightened for FX/FX-indexed loans and, in terms of the enterprise size, mainly in large enterprises. On the other hand, for the first time since 2020, banks deem that interest margins on corporate loans decreased, specifically, in FX/FX-indexed loans, mainly for small and medium-sized enterprises.

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



Source: NBS.
* The net percentage for responses to questions about credit terms and conditions is defined as the difference between the share of banks responding that the given credit condition was tightened and the share of banks responding that it was eased.
** A positive value indicates tightening, while a negative value indicates easing.

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



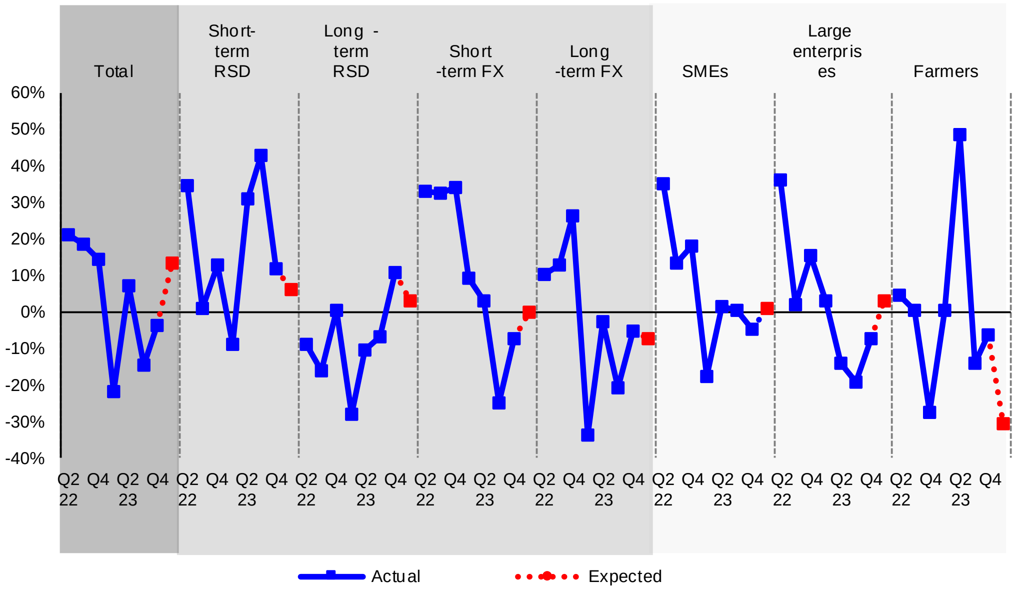
Source: NBS.
* The net percentage for responses to questions about the credit terms and conditions is defined as the difference between the share of banks responding that the given credit condition was tightened and the share of banks responding that it was eased.
** A positive value indicates tightening, while a negative value indicates easing.

1.3 Demand for loans to enterprises and contributing factors

In banks' view, corporate loan demand declined mildly in Q4, due to the contracted demand for FX/FX-indexed loans and lower activity in terms of mergers/aquisitions. Conversely, the demand for dinar loans upped mildly in Q4, mainly reflecting corporate need to finance working capital and reschedule outstanding liabilities.

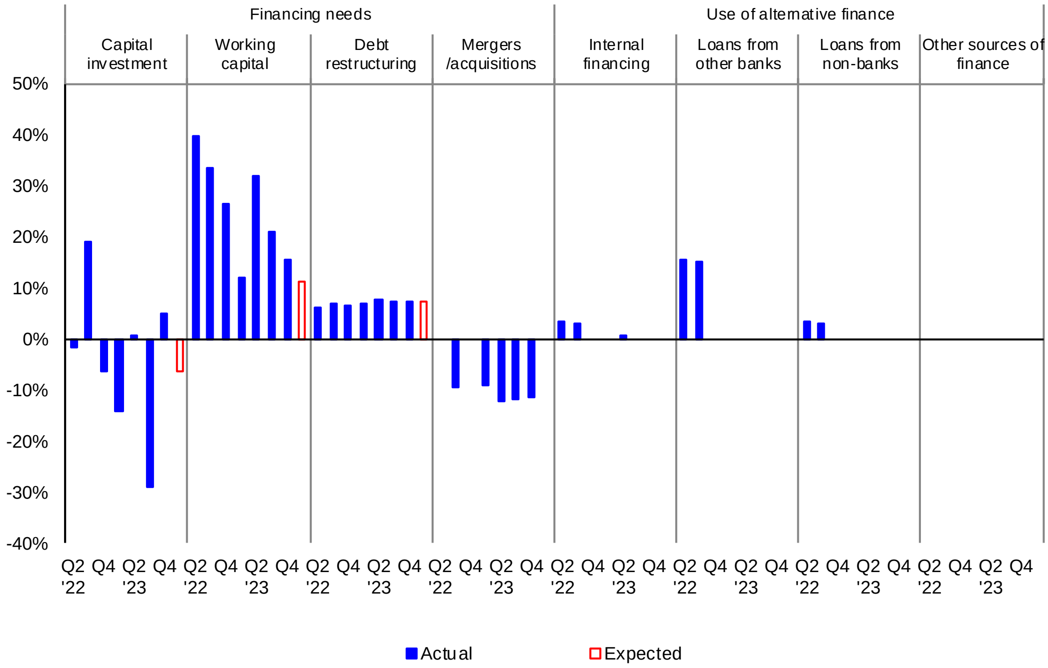
Banks anticipate a rebound in corporate loan demand in Q1, driven by the rising demand for dinar loans, and in terms of factors, by the need to finance working capital.

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



Source: NBS.
* The net percentage is defined as the difference between the sum of shares of banks responding that demand increased and the sum of shares of banks responding that it decreased.
** A positive value indicates an increase in demand, and a negative value a decrease in demand.

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



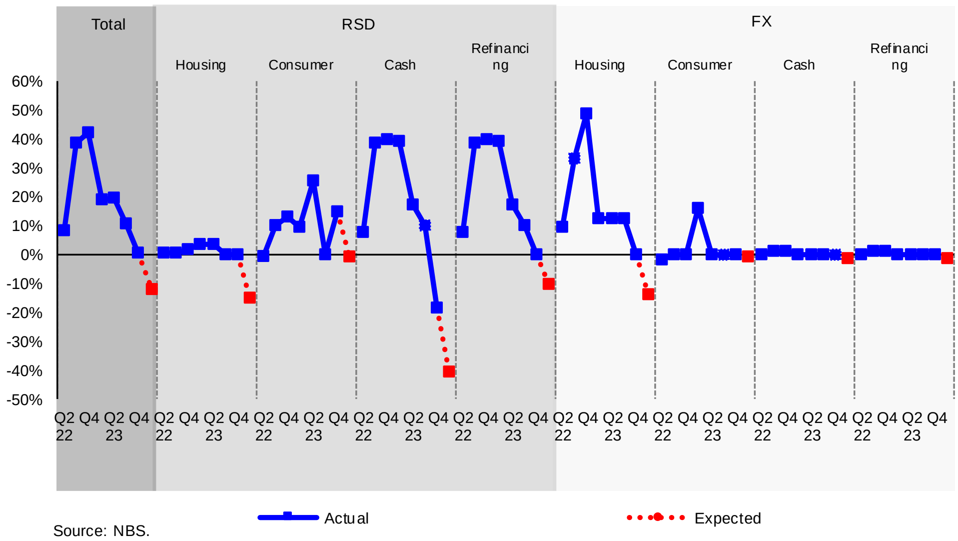
Source: NBS.
* The net percentage for responses to questions about the demand factors is defined as the difference between the share of banks responding that the given factor contributed to the growth in demand and the share of banks responding that it contributed to the decrease in demand.
** A positive value indicates the contribution of the given factor to the increase in demand and a negative value to its contribution to the decrease in demand.

2. Household loans

2.1 Change in credit standards and contributing factors

The survey results indicate that, overall, household credit standards remained unchanged in Q4, consistent with the expectations from the October survey. In terms of individual category – credit standards for dinar cash loans were loosened, those for FX-indexed housing loans remained unchanged, while standards for dinar consumer loans became stricter. Banks expect that household credit standards will be moderated in Q1, mainly for dinar cash loans and FX-indexed housing loans.

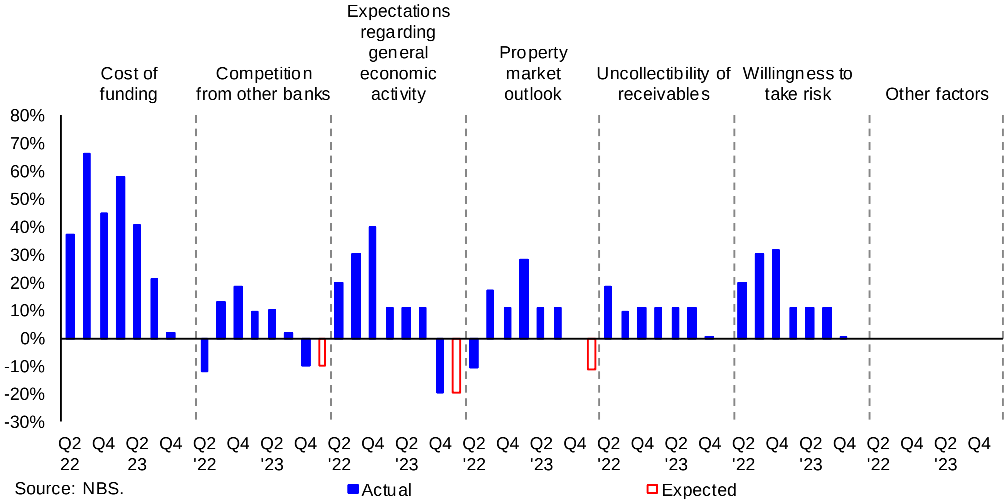
Change in credit standards as applied to the approval of loans or credit lines to households (net percentage)



Source: NBS.
* The net percentage for responses to questions about credit supply is defined as the difference between the sum of the shares of banks responding that credit standards tightened and the sum of shares of banks responding that they eased.
** A positive value indicates tightening and a negative value indicates easing of standards.

In banks' view, working toward standards softening were an improved general economic outlook, as well as interbank competition in the household loan market, while the costs of funding still mildly work toward standards tightening due to the rise in savings interest rates.

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



Source: NBS.

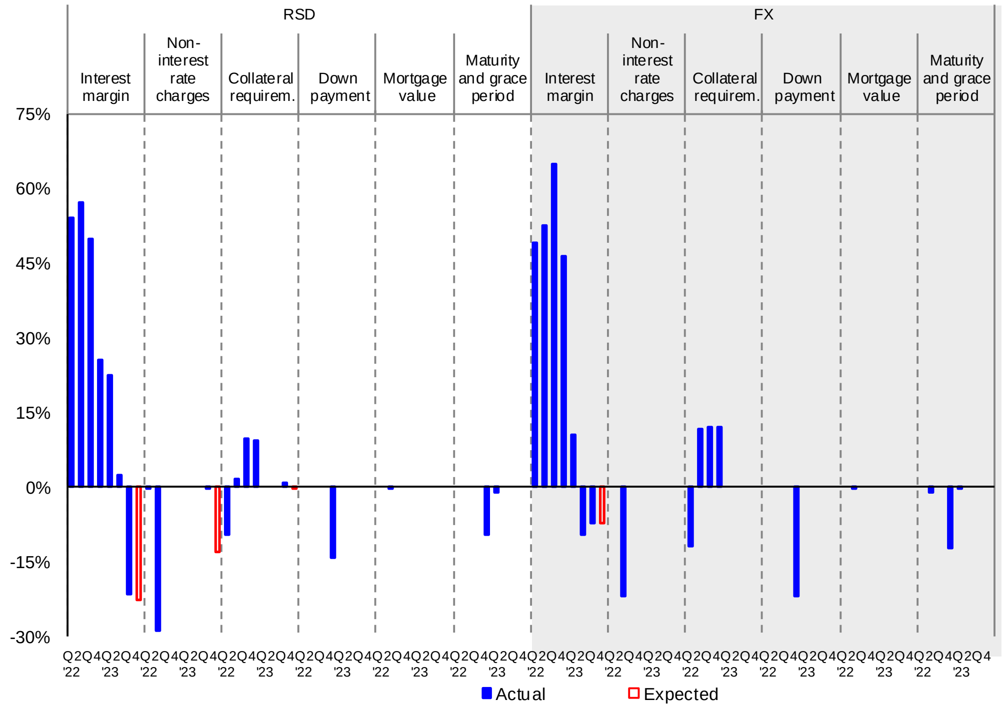
* The net percentage for responses to questions about factors is defined as the difference between the share of banks responding that a given factor contributed to the tightening of credit standards and the share of banks responding that the same factor contributed to standards easing.

** A positive value indicates the contribution of the given factor to standards tightening and a negative value indicates its contribution to standards easing.

2.2 Conditions and terms for approving household loans

The terms of approval of household loans in Q4 remained mostly unchanged from a quarter before. The exception are interest margins, which declined both in dinar and FX-indexed loans. In case of FX-indexed loans, this can be associated with NBS's decision to temporarily cap interest rates on housing loans; in case of dinar loans, with the stabilisation of interest rates in the interbank money market.

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

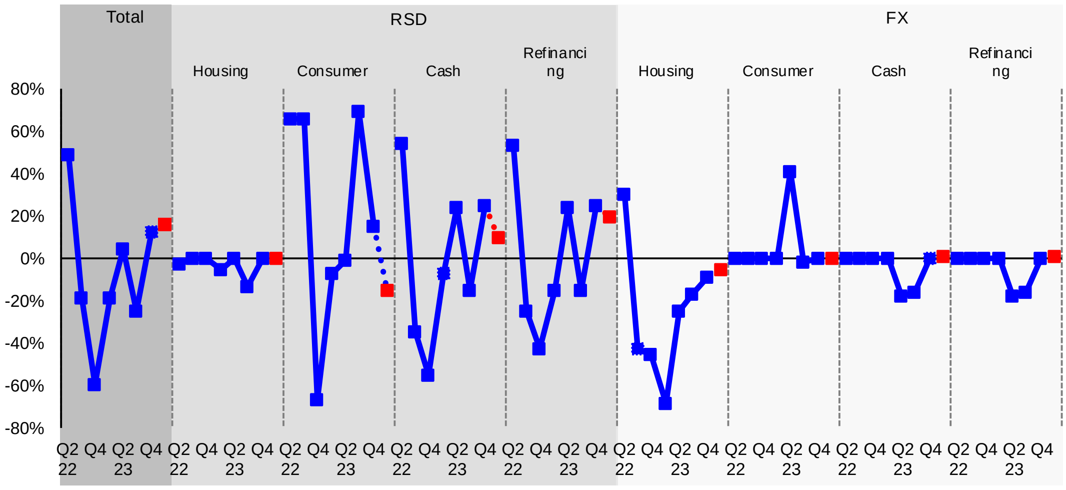


Source: NBS.
* The net percentage for responses to questions about the about credit terms and conditions is defined as the difference between the share of banks responding that the given credit condition was tightened and the share of banks responding that it was eased.
** A positive value indicates tightening, while a negative value indicates easing.

2.3 Household loan demand and contributing factors

In banks' view, household loan demand generally increased in Q4, consistent with the expectations from the previous survey. The increase in demand is fully owed to dinar loans and is driven by the need to refinance and purchase durable consumer goods. On the other hand, the situation in the real estate market (due to the persisting high property prices) led to a contraction in houshold loan demand. Banks expect that the demand for dinar cash loans and refinancing loans will continue up in Q1, also supported by higher disposable houshold income on account of wage increases.

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



Source: NBS.
* The net percentage is defined as the difference between the sum of the shares of banks responding that it increased and the sum of the shares of banks responding that it decreased.
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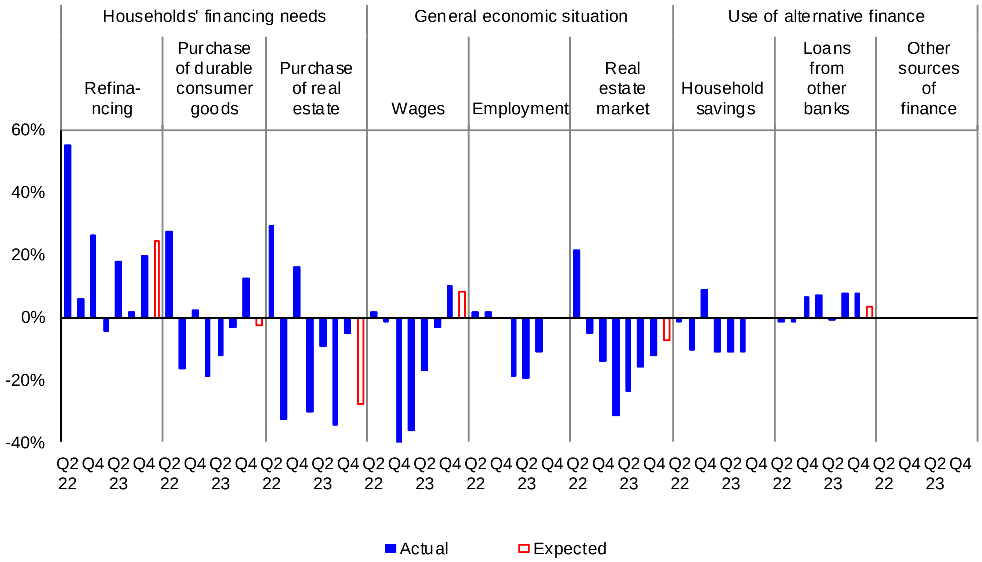
Factors affecting the demand for loans or credit lines to households
(net percentage)



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