NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE BANK LENDING SURVEY

First Quarter Report 2020

Belgrade, May 2020

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 presents the results of the bank lending survey carried out from 1 to 21 April 2020. The survey reports bank representatives' views on changes during the first quarter of 2020 and expected changes in the credit market in the second quarter of 2020. The survey included 24 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.).

C O N T E N T S :

Overview

The April survey results indicate that competition in the banking sector and higher risk propensity contributed to the easing of corporate credit standards in Q1. At the same time, household credit standards were tightened, which reflected mostly on shortening of maximum loan maturity.

Banks estimate that corporate loan demand increased in Q1, primarily for investment loans, while households were mostly interested in housing loans.

The survey results indicate that banks perceive higher risk in operations during Q2 due to the coronavirus pandemic. According to their assessment, this will reflect on credit standards being tightened in both sectors. They expect a further rise in corporate loan demand, while households are expected to reduce their consumption in conditions of heightened uncertainty amid the coronavirus pandemic in Q2 and, thereby, dampen demand for loans.

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

	Supply (credit standrads)		Demand	
	Q1 2020	Q2 2020 (expectations)	Q1 2020	Q2 2020 (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 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 standrads (net percentage above 5%)

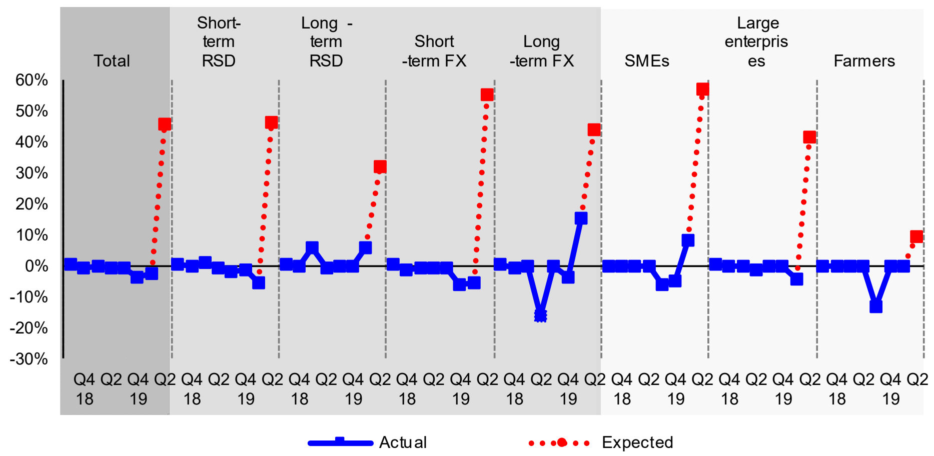
1 Loans to enterprises

1.1 Change in credit standards and contributing factors

The survey results indicate that, overall, banks slightly eased corporate credit standards in Q1, driven by the competition in the sector and higher risk propensity. Standards were eased for large enterprises, while they were tightened for SMEs at end-Q1, due to reduced economic activity in the second half of March.

Banks expect credit standards for corporate loans to be tightened in Q2, in conditions of heightened uncertainty and perceived risk, as well as lower economic activity amid the coronavirus pandemic.

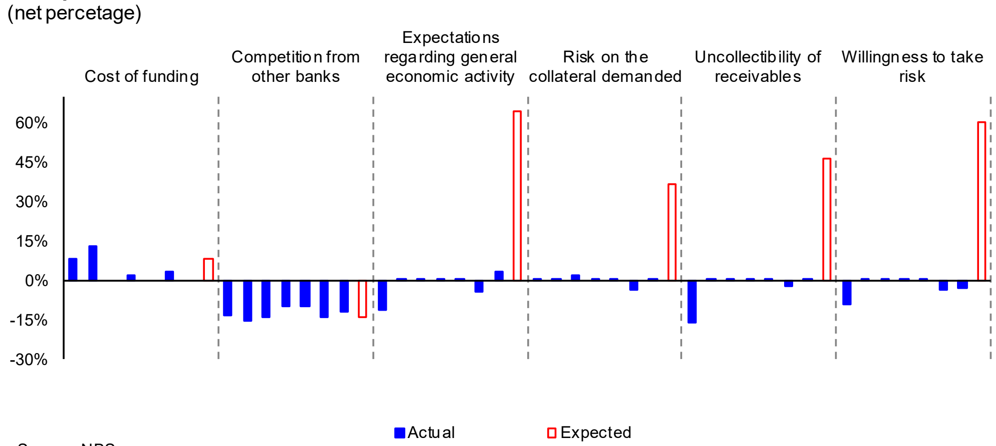
Change in credit standards as applied to the approval of loans or credit lines to enterprises
(net percentage)



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

1.2 Conditions and terms for approving loans to enterprises

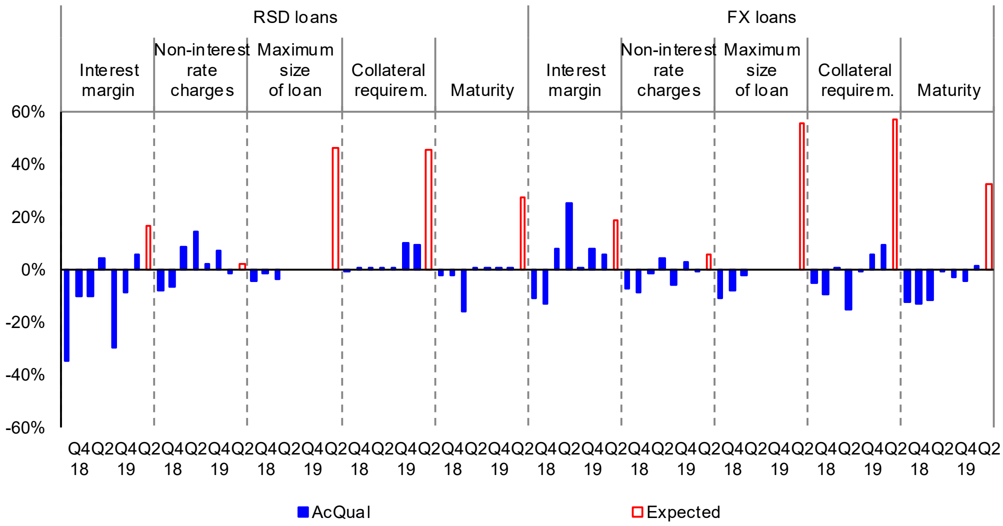
Factors affecting credit standards as applied to the approval of loans or credit lines to enterprises
(net percetage)



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.

Banks' representatives estimate that a mild upward adjustment of interest margins in Q1 was followed by lower associated loan costs. At the same time, according to their assessment, collateral requirements were slightly tightened.

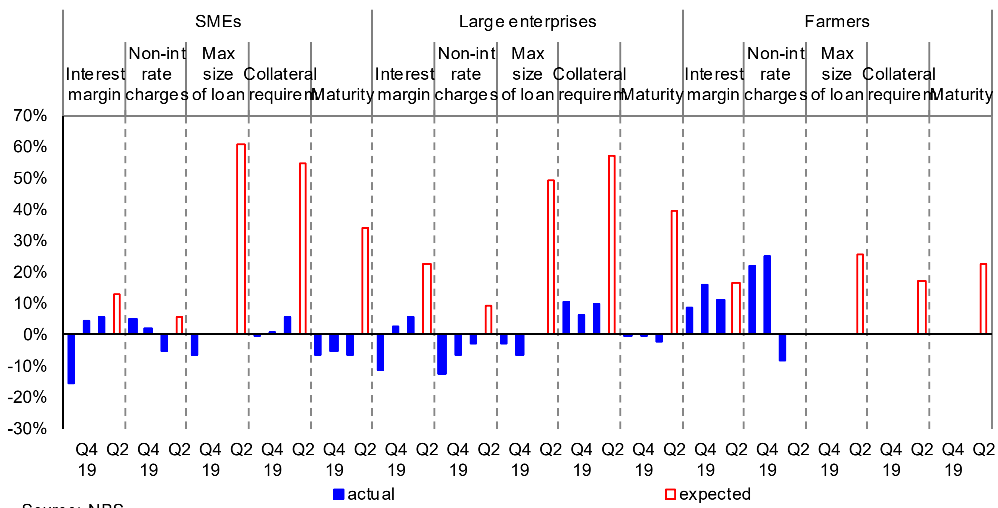
Change in conditions and terms for approving loans or credit lines to enterprises
(net percentage)



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

Bearing in mind the pronounced uncertainty regarding the duration of the pandemic and the consequences for the global economy, banks expect that terms under which loans will be approved to enterprises in Q2 will be tightened, mostly in terms of a decreased maximum loan amount and required collateral to be fulfilled by clients.

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

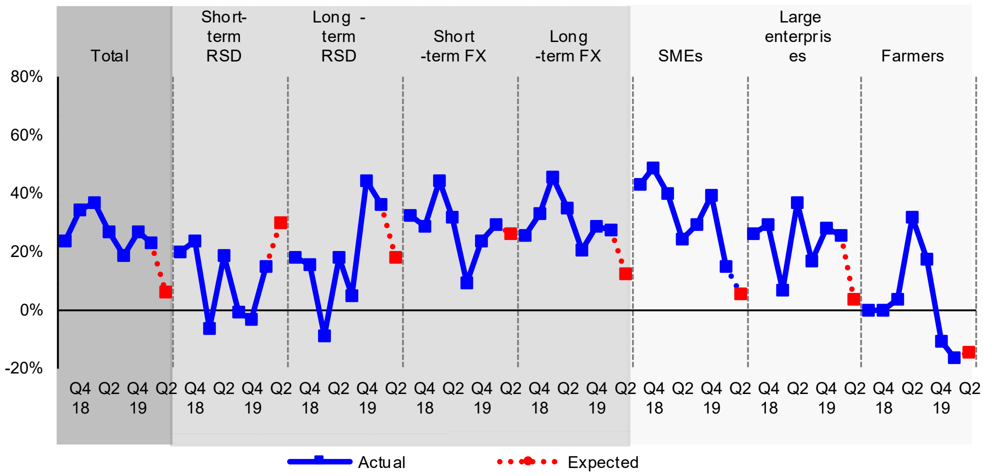


Source: NBS.
* Positive value indicates tightening of credit standards and negative - easing.
** The intensity of change is not shown in charts.

1.3 Demand for loans to enterprises and contributing factors

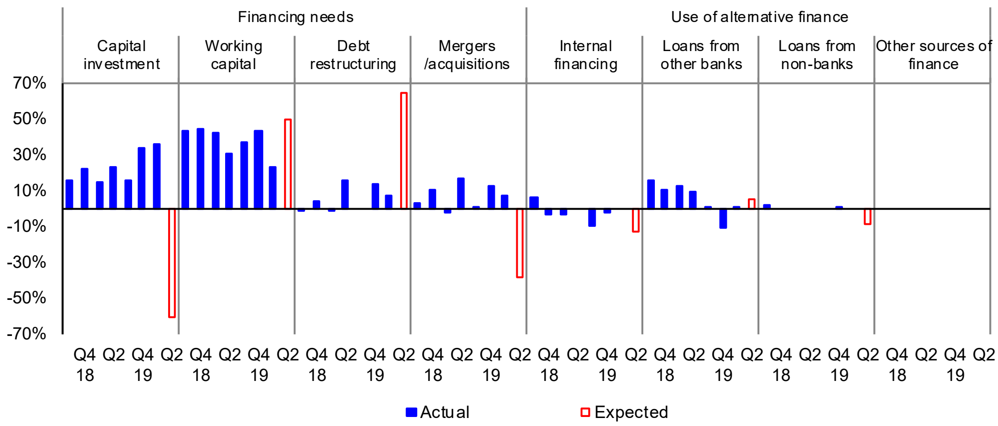
The survey results indicate that corporate loan demand rose in Q1, mostly for investment loans, which is consistent with the ongoing investment cycle, and the fact that loans are an increasingly important source of investment financing.

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.

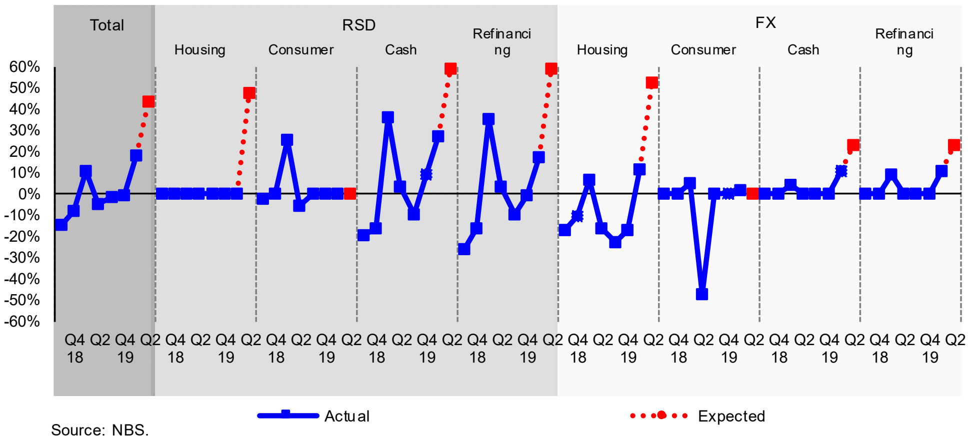
Banks expect a further rise in corporate loan demand in Q2 (6% NP), but to a lesser extent than in Q1, primarily driven by the need for current assets financing and restructuring of existing liabilities.

2 Household loans

2.1 Change in credit standards and contributing factors

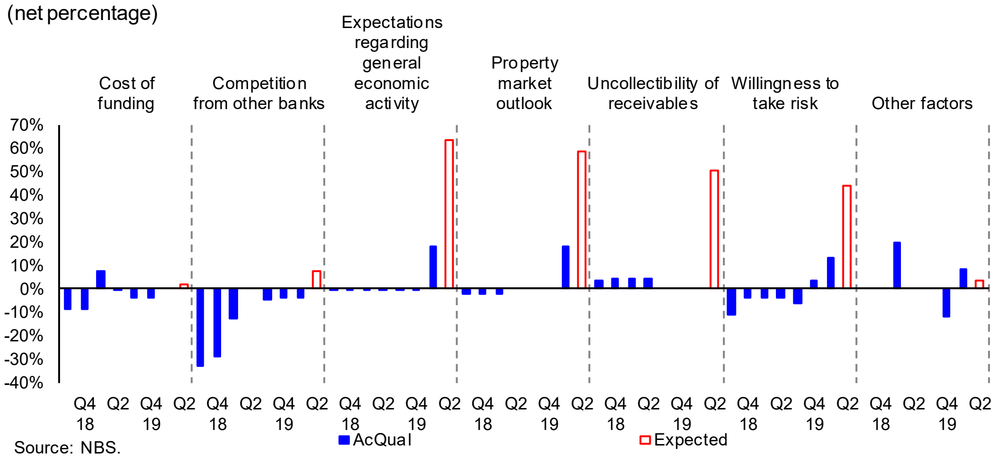
The April survey results indicate that standards for household loans were somewhat tightened in Q1 (18% NP) due to lower risk propensity of banks and further shortening of maximum loan maturity for non-purpose loans. The tightening of standards concerned mainly dinar cash and refinancing loans.

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.

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.

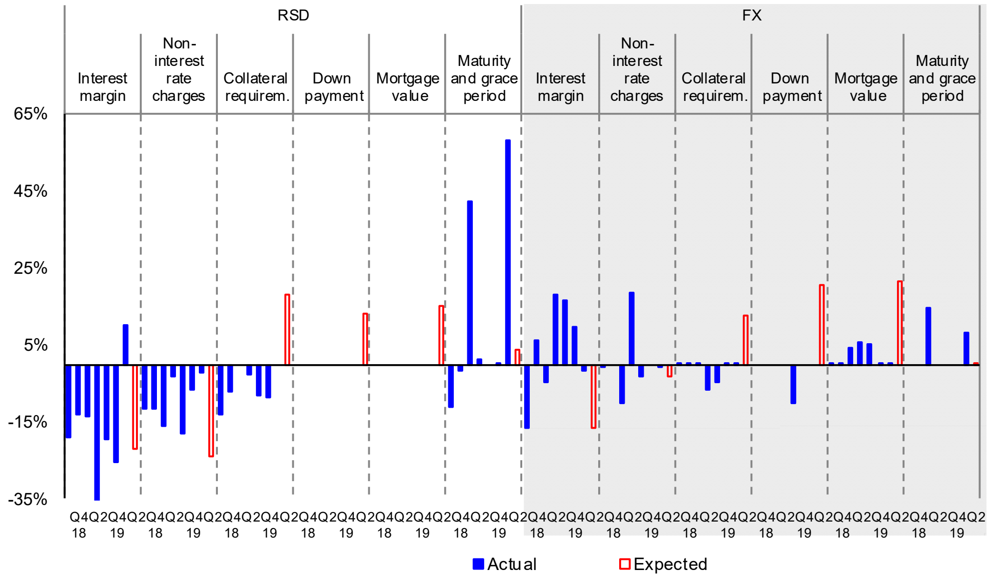
Banks expect that household credit standards will be tightened in Q2 as the consequence of higher perceived risk.

2.2 Conditions and terms for approving household loans

According to the results of the survey, the conditions under which household dinar loans were approved in Q1 were tightened in terms of higher interest margins, while associated costs were eased. FX-indexed loans were approved under almost unchanged terms, except slightly shorter maximum maturity for both types of loans.

Banks expect that interest margins and associated costs of household loans will go down in Q2, most probably due to lower loan demand, while the tightening is expected in non-price conditions for loans.

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

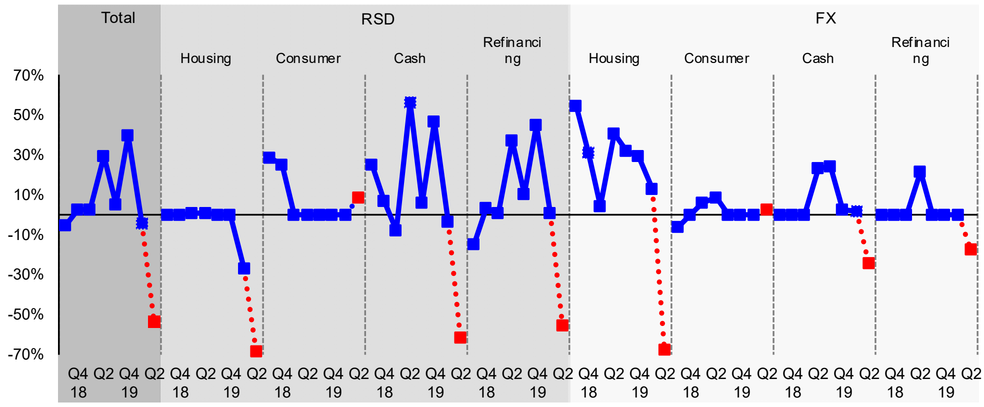


Source: NBS.
* Positive value indicates tightening of conditions and negative - easing.
** The intensity of change is not shown in charts.

2.3 Household loan demand and contributing factors

The survey results indicate that banks estimate that, overall, household loan demand declined in Q1, primarily for cash and refinancing loans. On the other hand, the demand is rising for FX-indexed housing loans, reflecting positive developments in the labour market and a favourable situation in the real estate market. Banks expect household loan demand to further drop in Q2, in conditions of heightened uncertainty amid the coronavirus pandemic.

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



Source: NBS.
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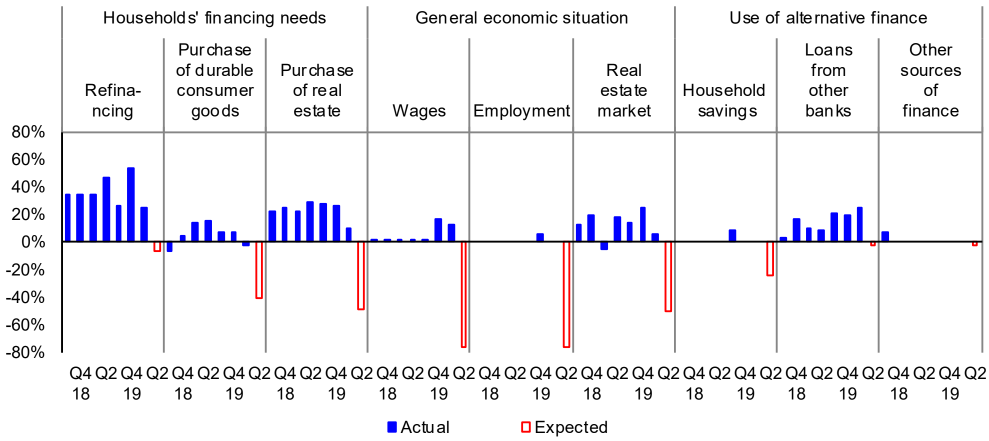
Factors affecting the demand for loans or credit lines to households
(net percentage)



Source: NBS.
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