NATIONAL BANK OF SERBIA

REPORT ON THE RESULTS OF THE BANK LENDING SURVEY

First Quarter Report 2021

Belgrade, May 2021

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 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 2021.** The survey reports bank representatives' views on changes during the first quarter of 2021 and expected changes in the credit market in the second quarter of the year. 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

According to the April survey, banks eased corporate credit standards in Q1, for the first time since the outbreak of the coronavirus pandemic. The standards were eased more for dinar than for FX-indexed loans, and more for SMEs than for large enterprises, driven by NBS monetary policy easing and approval of loans under the Guarantee Scheme. **Having eased in the previous quarter, in Q1 overall household credit standards remained unchanged.**

Banks estimate that corporate and household loan demand increased in Q1. In addition to debt refinancing, the rise in demand was driven by the corporates' need to finance capital investments (for the first time since the outbreak of the pandemic) and households' need to finance real estate purchase.

Banks expect that both corporate and household credit standards will be eased in Q2. At the same time, a further rise in both sectors' loan demand is expected, driven by the same needs as in Q1.

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

	Supply (credit standrads)		**Demand**	
	Q1 2021	Q2 2021 (expectations)	Q1 2021	Q2 2021 (expectations)
Corporate sector	↘	↓	↑	↑
SMEs	↘	↘	↑	↑
Large enterprises	↘	↘	↑	↑
Farmers	-	-	↑	↑
Household sector	-	↓	↑	↑
Cash (dinar)	↗	↓	↑	↑
Refinancing (dinar)	↗	↓	↑	↑
Housing (FX)	-	↓	↑	↑
Consumer (FX)	↗	-	-	-

Legend:

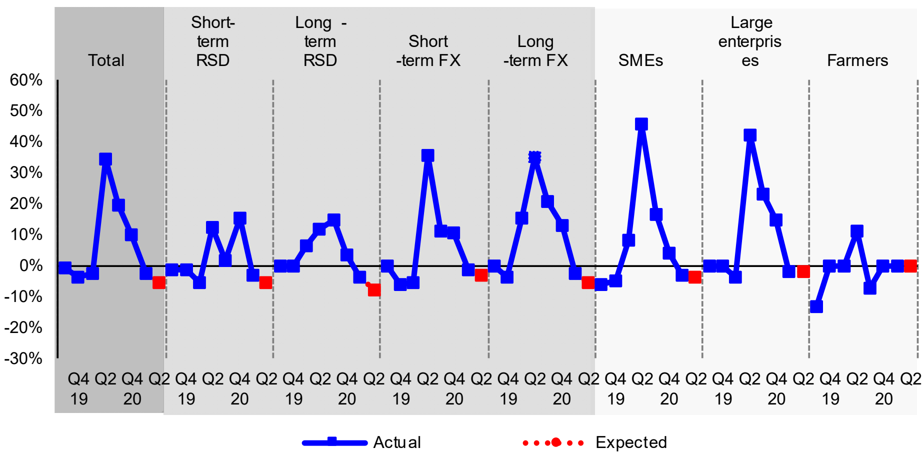
- ↑ Increase in demand (net percentage above 5%)
- ↑ Tightening of credit standards (net percentage above 5%)
- ↗ Increase in demand / tightening of credit standards (net percentage up to 5%)
- \- Without change
- ↘ Decrease in demand / easing of credit standards (net percentage up to 5%)
- ↓ Decrease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

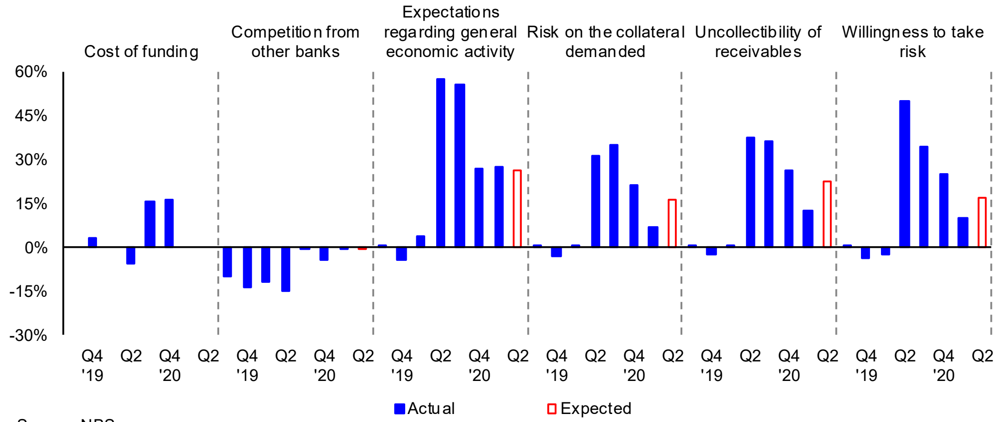
Survey results show that banks eased corporate credit standards in Q1, for the first time since the outbreak of the coronavirus pandemic, despite the still present increased risk perception and lower risk propensity, which were, nevertheless, less pronounced than in the first wave of the pandemic. In terms of currency and enterprise size, standards were eased more for dinar than for FX-indexed loans, and more for SMEs than for large enterprises. Such a trend can probably be attributed to the NBS monetary policy easing and the Guarantee Scheme loans. At the same time, credit standards for farmers were unchanged for the second quarter in a row.

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)



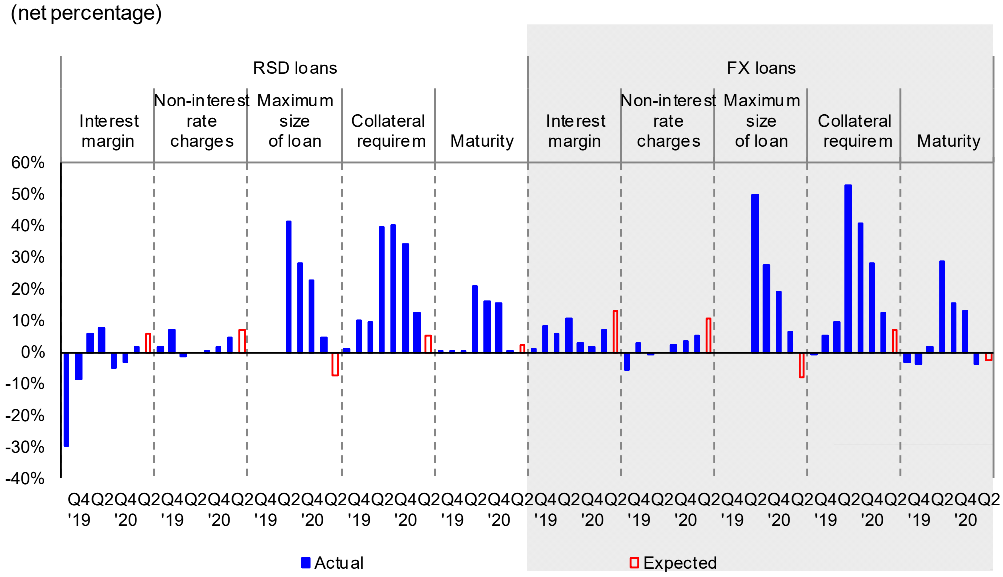
Source: NBS.
* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.
** The intensity of change is not shown in charts.

Banks anticipate further corporate standard easing in Q2, even though they still perceive increased business risk due to the prolonged pandemic. Similar as in Q1, banks assessed that credit standards would be largely eased for dinar loans and for loans to SMEs.

1.2 Conditions and terms for approving loans to enterprises

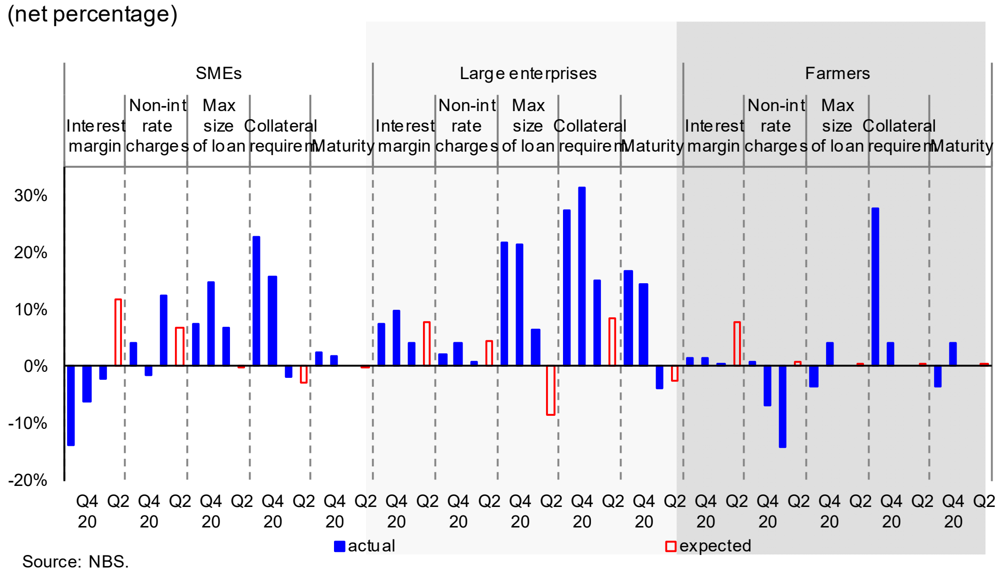
Due to the still present increased risk aversion, banks estimated that primarily the non-price corporate credit conditions were moderately tightened in Q1 – collateral requirements and maximum loan amount. On the other hand, interest margins and collateral requirements were slightly eased for SMEs as a result of favourable financing terms of this market segment under the Guarantee Scheme and NBS monetary policy easing. At the same time, the maximum loan maturity was extended for large enterprises in Q1.

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)



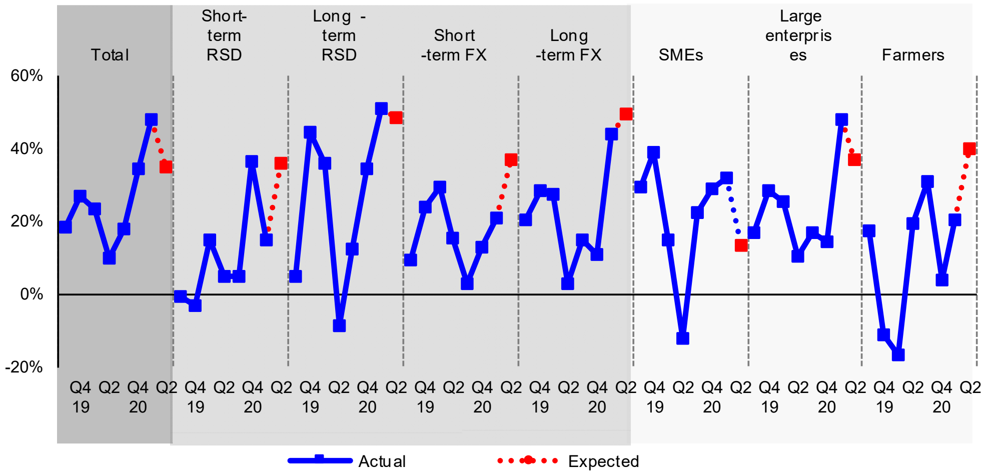
Source: NBS.
* Positive value indicates tightening of credit standards and negative - easing.
** The intensity of change is not shown in charts.

According to bank expectations, in Q2, corporate credit terms will remain moderately tightened, in general. On the other hand, the expectation is that the maximum loan amount will be increased and the maturity of FX-indexed loansextended.

1.3 Demand for loans to enterprises and contributing factors

According to the survey, banks estimate that corporate loan demand went up in Q1– more for long-term than for short-term loans, and almost equally for dinar and FX-indexed loans. In terms of enterprise size, the rise in demand was driven by large enterprises, followed by SMEs and farmers. **For the first time since the outbreak of the pandemic, banks assessed that capital investments contributed to the rise in corporate loan demand.** Furthermore, the need for liquid assets and restructuring of liabilities continued to have a positive impact on corporate loan demand.

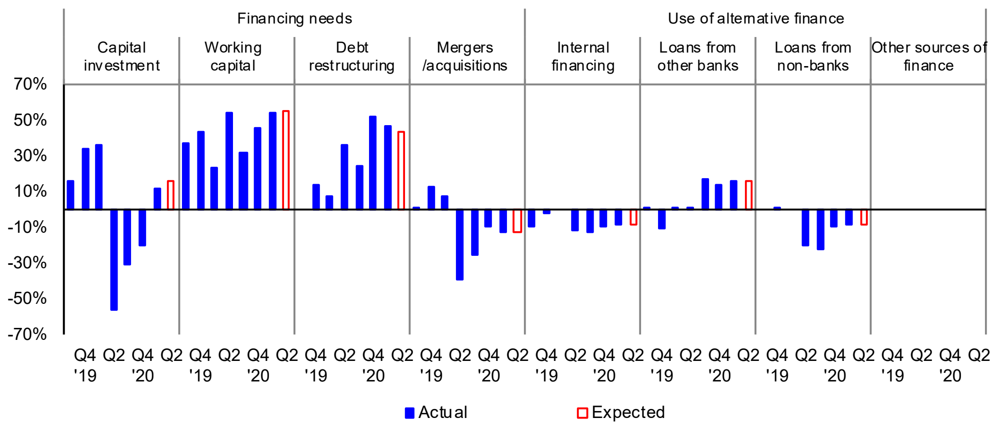
Change in demand for loans or credit lines to enterprises
(net percentage)



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

Banks expect a further rise in corporate loan demand in Q2, driven by the same factors as in Q1, with an even stronger contribution from investment loans.

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



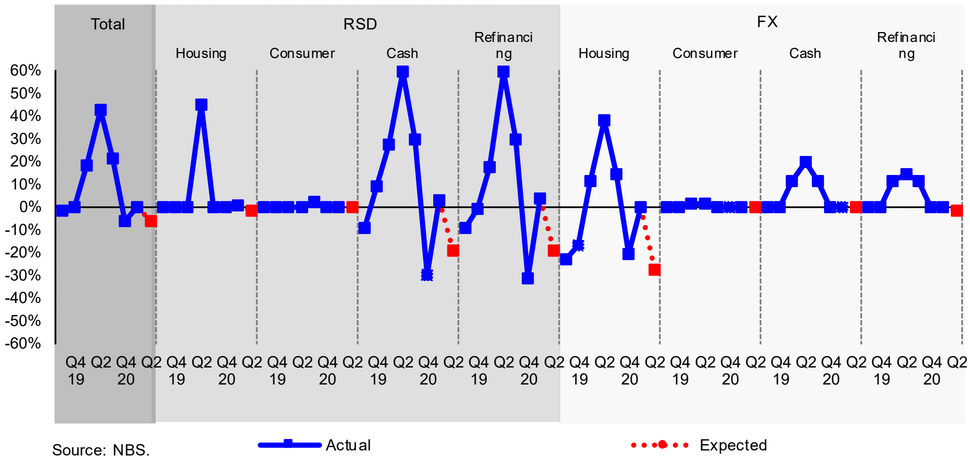
Source: NBS.
* Positive value indicates the contribution of individual factors to an increase in demand, and negative - to a decrease .
** The intensity of change is not shown in charts.

2. Household loans

2.1 Change in credit standards and contributing factors

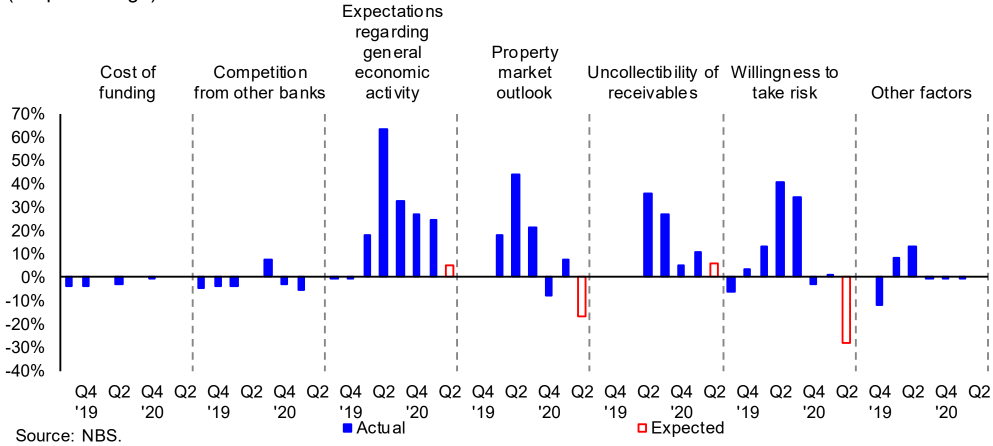
The survey shows that overall household credit standards remained unchanged in Q1, having eased in the previous quarter. Similar as for the corporate sector, banks continue to perceive increased business risk due to the coronavirus pandemic, while attributing standard easing to the competition in this 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)



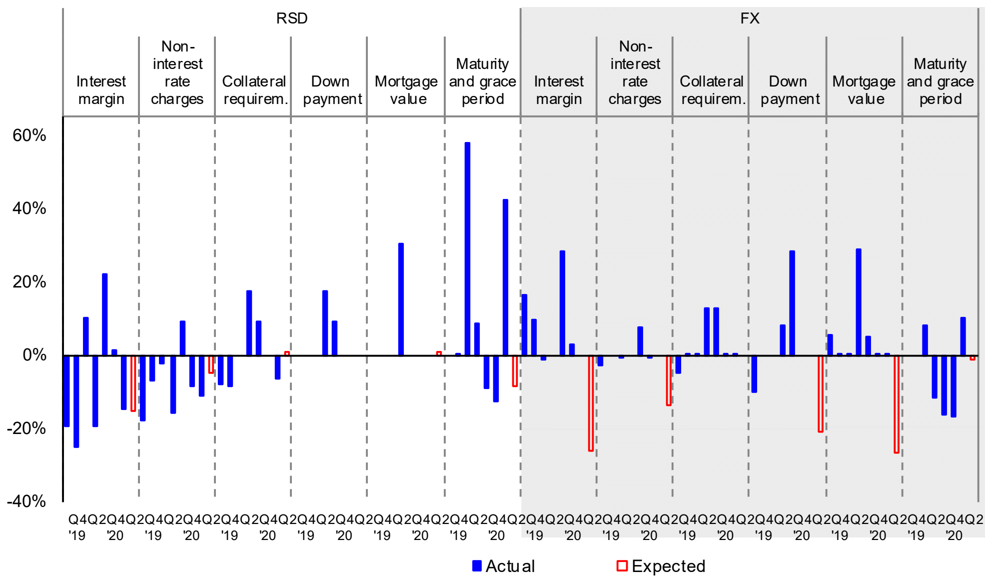
Source: NBS.
* Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.
** The intensity of change is not shown in charts.

Banks expect that household credit standards will be eased in Q2, for the dominant loan categories the most – FX-indexed housing and dinar cash loans (as well as refinancing loans). The survey indicates that the easing will be driven by the positive real estate market outlook and greater risk propensity.

2.2 Conditions and terms for approving household loans

According to banks almost all household credit conditions (such as interest margins, fees and commissions, collateral quality) were eased in Q1, with the exception of maximum loan maturity which was reduced for both dinar and FX-indexed 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.

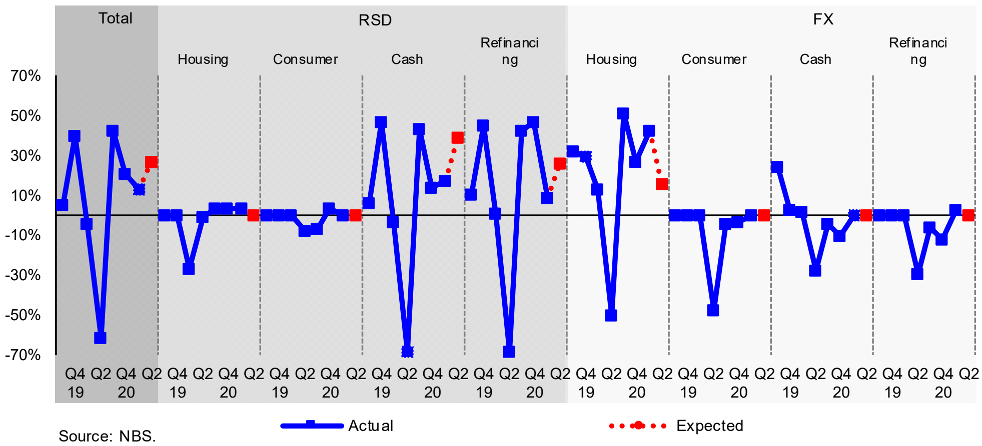
In Q2, banks anticipate that price conditions for loans (interest margins and accompanying loan costs) will be additionally eased for both dinar and FX-indexed loans. The relaxing of mortgage and downpayment terms is also expected for FX-indexed loans.

2.3 Household loan demand and contributing factors

According to the survey, banks estimate that household loan demand went up in Q1, for FX-indexed housing loans the most, followed by dinar cash and refinancing loans. The rise in household loan demand was driven primarily by the need for real estate purchases (coupled with the positive real estate market outlook) and refinancing.

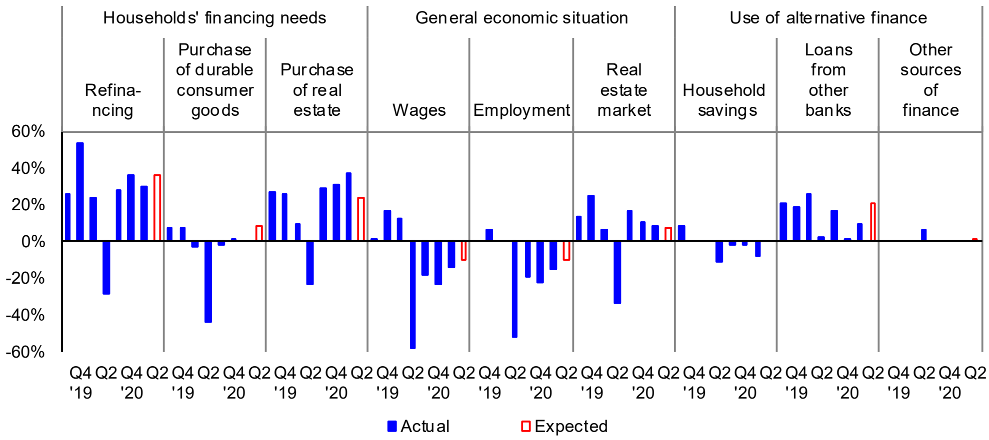
Banks expect household loan demand to continue growing in Q2, supported by the same factors as in Q1.

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.