NATIONAL BANK OF SERBIA
Economic Research and Statistics Department

TRENDS IN LENDING

Third Quarter Report 2020

Belgrade, December 2020

Introductory note

Trends in Lending is an in-depth analysis of the latest trends in lending, which aims to ensure better understanding of the conditions prevailing in the domestic lending market. It looks into lending developments, cost of borrowing by households and corporates and lending market conditions, by examining factors behind loan supply and demand.

Credit aggregates, as a quantified expression of movements in the lending market, are calculated based on banking sector balance sheet statistics as a source of data on the balance of domestic banks' loan receivables. Given the relatively high share of foreign currency-indexed loans in loan portfolios, the growth rates are calculated excluding the effect of changes in the dinar exchange rate against other currencies in the loan portfolio.

The Report also draws on the results of the bank lending survey conducted by the National Bank of Serbia since early 2014. Participation in the survey is voluntary. This survey has greatly improved the understanding of developments in the domestic lending market, allowing insight into bankers' perceptions of actual and expected changes with regard to loan supply and private sector loan demand.

The Report also relies on the results of the survey developed by the European Investment Bank in the context of the Vienna Initiative 2 to monitor deleveraging by cross-border banking groups and the resultant constraints on lending activity. This survey, conducted since October 2012 on a semi-annual basis, monitors subsidiaries of international banking groups in Central, Eastern and South-Eastern Europe, focusing on their strategies, market conditions and expectations. The purpose of the survey is to observe the effects of movement in supply and demand on lending activity, and to gauge the impact of domestic and international factors on supply and demand conditions. Ten Serbian banks participate in this survey, their assets making up around 50% of total assets of the Serbian banking sector.

ABBREVIATIONS

GDP – gross domestic product
bn – billion
y-o-y – year-on-year
NPL – non-performing loan
pp – percentage point
Q – quarter

Other generally accepted abbreviations are not cited.

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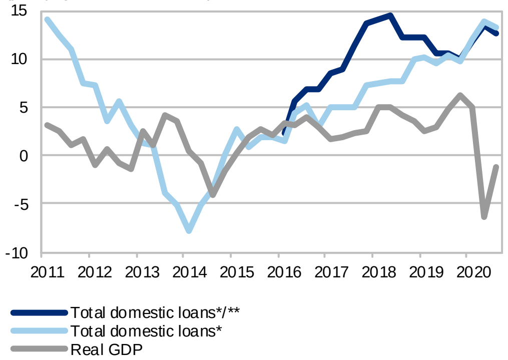
Overview

The stable growth trend in domestic lending activity continued in 2020, even in the conditions of the pandemic-induced crisis, supported by the measures of the NBS and the Government. Serbia's y-o-y loan growth in Q3 was the highest in the region. Excluding the exchange rate effect,[1] **total domestic loans** were 13.3% higher in September than a year ago, as a result of excellent loan disbursement early in the year, easing of the NBS's monetary policy stance, moratorium on loan repayment and approval of loans under the Guarantee Scheme.[2] This growth continues to be supported more by **corporate loans** (6.9 pp contribution), which recorded **y-o-y growth of 13.3% in September,** than by **household loans,** which were **13.8% higher in September than a year ago** (6.4 pp contribution).

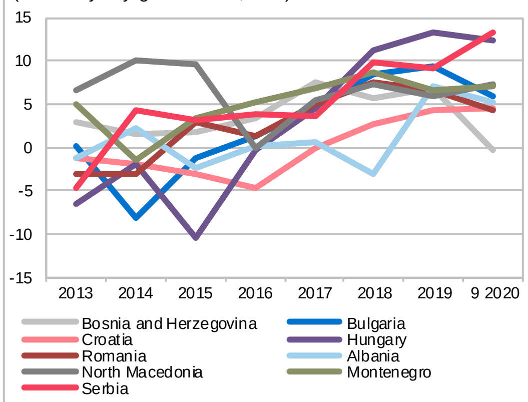
Two-digit y-o-y growth in lending continued in Q3
(y-o-y growth rates, in %)



Sources: NBS and SORS.
* Excluding the exchange rate effect.
** Excluding the effect of NPL write-off and sale since early 2016.

Corporate loans gained RSD 17.6 bn in Q3, excluding the exchange rate effect. This growth referred entirely to lending to companies, while public enterprises decreased their loan liabilities to banks in Q3. Corporates resorted most to liquidity and working capital loans, amid a growing need for liquid assets and the approval of loans under the Guarantee Scheme. In Q3, banks approved EUR 519.8 mn worth of loans under the Guarantee Scheme to micro, small and medium-sized enterprises and entrepreneurs, which pushed up the total amount of loans disbursed since the start of this programme to close to EUR 1.2 bn. The stock of loans to enterprises increased in almost all sectors, but primarily in manufacturing, construction, agriculture and real estate.

Lending growth in Serbia was the highest in the region in Q3
(nominal y-o-y growth rates, in %)



Sources: Websites of central banks and NBS calculation.

Excluding the exchange rate effect, **household loans gained RSD 49.5 bn** in Q3. This growth, guided as usual by cash and housing loans, was partly due to the application of the moratorium on loan repayment, but was also propped up by lending to entrepreneurs under the Guarantee Scheme. Lending to households was also supported by the measures taken by the NBS in Q3. In addition to the decision on a new moratorium on loan repayment in August and September, which referred to both corporates and households, in Q3 the NBS adopted a set of regulations contributing to sustainable household lending on favourable terms. Specifically, banks were enabled to refinance or extend by two years the maturity of cash, consumer and other loans (except housing loans and current account overdrafts). The terms of repayment of existing housing loans may be extended by up to five years, and requirements were also relaxed in some cases with regard to the degree of completion of the building requested at the time of housing loan approval. Access to short-term dinar loans has also been facilitated as banks are now allowed to approve a loan worth up to RSD 90,000 with a term of up to 2 years based only on a signed statement on employment and/or pension.

[1] Calculated at the dinar exchange rate against the euro, Swiss franc and US dollar as at 30 September 2014 (the so-called programme exchange rate used for monitoring the performance under the arrangement with the IMF), taking into account the currency structure of loan receivables.

[2] In accordance with the Decree Establishing a Guarantee Scheme as a Measure of Support to the Economy to Mitigate the Consequences of the COVID-19 Disease Caused by the SARS-CoV-2 Virus (RS Official Gazette, No 57/20).

Thanks to continued monetary policy easing and low interest rates in the international money market, **financing conditions** in the domestic market remained favourable and supportive of lending activity. In Q3, interest rates on both dinar and euro-indexed loans to corporates and households moved close to their previously recorded lowest levels. At the same time, the difference in interest rates on dinar and euro-indexed loans continued to shrink, particularly in the case of the corporate sector, thanks to a sharper fall in interest rates on dinar loans, which has led to higher dinarisation and further strengthening of financial stability.

The share of dinar receivables in total corporate and household receivables, according to outstanding amounts, reached **a new record high of 36.6% in September, up by 2.0 pp from June.** Of this, the dinarisation of corporate receivables increased by 2.8 pp in Q3 to 19.3%, which, in addition to the approval of loans under the Guarantee Scheme, was also due to the purchase of dinar corporate bonds by banks. Higher dinarisation and lower interest rates on dinar loans to corporates were also propped up by the July decision of the NBS to pay to banks approving dinar loans under the Guarantee Scheme at interest rates lower (by at least 50 bp) than the maximum rate[3] a 50 bp higher remuneration rate on the amount of dinar required reserve allocations (which currently equals 10 bp) equivalent to the amount of loans approved on more favourable terms. In the same period, the dinarisation of loans to households climbed by 0.8 pp to 56.6% in September.

The share of NPLs in total loans continued to decline in Q3 and **reached 3.4% in September** – the **new lowest level** since this asset quality indicator is monitored. This share was down by 0.3 pp compared to June and by 19.0 pp compared to July 2015, just before the start of implementation of the NPL Resolution Strategy.

[3] 1M BELIBOR + 2.5 pp.

I. Corporate sector

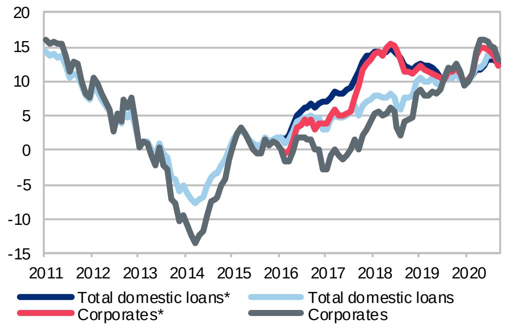
1. Corporate loans

Loans to corporates continued to record **two-digit y-o-y growth rates** in Q3 and, excluding the exchange rate effect, were **13.3% higher in September than a year ago.** This was due to NBS monetary policy easing, loans under the Guarantee Scheme intended for micro, small and medium-sized enterprises and entrepreneurs, and the moratorium on the repayment of loan liabilities. However, relative to June (15.9%), y-o-y corporate loan growth slowed down, which could be attributed to the expiry of the first moratorium in July and the resulting higher maturing liabilities than in Q2, when the first three-month moratorium on loan liabilities was in place. In nominal terms, the stock of corporate loans measured RSD 1,365.7 bn in September and their share in annual GDP[4] measured 25.1%, up by 0.3 pp from June.

Excluding the exchange rate effect, **corporate loans** increased by **RSD 17.6 bn or 1.3% in Q3**, due entirely to lending to companies, while public enterprises cut down on their loan liabilities to banks. Lending to enterprises increased in all sectors except trade, most notably in **manufacturing, construction, agriculture and real estate.** As a result of a growing need for liquid assets and the approval of loans from the Guarantee Scheme, in Q3 credit growth continued to be led by working capital loans, whose share in total corporate loans climbed to 42.6% in September. In the stock of loans to enterprises, investment loans continued to dominate (43.9%). In terms of company size, loans to micro, small and medium-sized enterprises made up 67.7% of total corporate loans in September, posting y-o-y growth of 12.1%. The maturity of corporate loans continued to lengthen in Q3, thanks mainly to an increase in loans with the maturity between two and five years, which made up 37.5% of total loans in September. As a result, the share of long-term loans in total loans to corporates reached 88.0% in September.

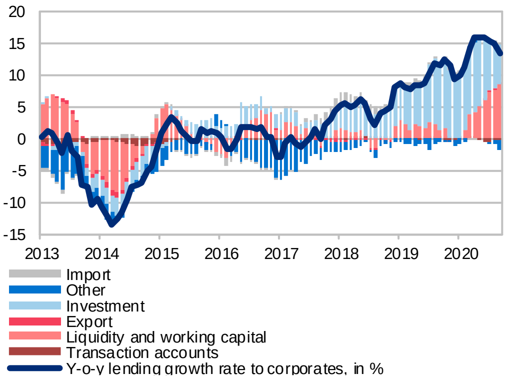
A significant portion of working capital loans were **loans under the Guarantee Scheme**,[5] which targeted

Corporate lending slowed marginally y-o-y in Q3, due to higher maturing liabilities than in Q2
(y-o-y growth rates at the programme exchange rate, in %)



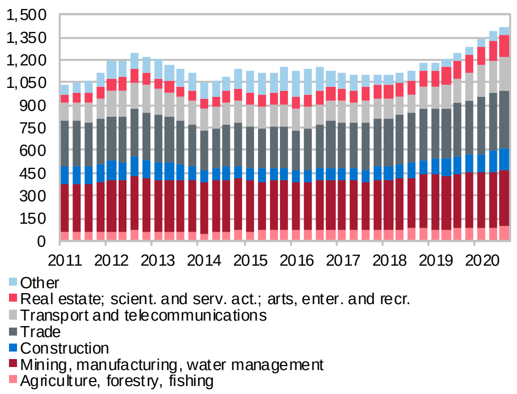
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

Owing to the Guarantee Scheme, working capital loans contributed most to y-o-y growth in corporate lending
(in pp, excluding the exchange rate effect)



Source: NBS.

The largest portion of corporate receivables were loans for manufacturing and trade
(stock, in RSD bn)



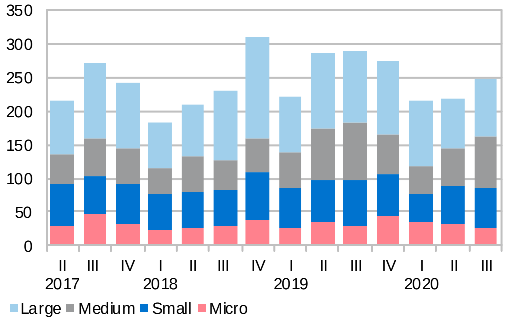
Source: NBS.

[4] GDP in the past four quarters.

[5] For more details on loans under the Guarantee Scheme, see: *Inflation Report – August 2020*, Text box 2, pp. 31–33.

the segment of the corporate sector which is the most vulnerable to this crisis – micro, small and medium-sized enterprises and entrepreneurs, and is at the same time a significant generator of GDP and jobs. In Q3, EUR 519.8 mn worth of loans were approved under the Guarantee Scheme, which pushed up the total amount of loans disbursed since the start of this programme to close to EUR 1.2 bn.[6] More than a half of the approved loans were in dinars (56.2%), contributing to a rise in the degree of dinarisation and, by extension, to increased efficiency of the monetary policy and further strengthening of financial stability. As 83.7% of total loans approved were new loans, we can expect their positive impact on economic activity in the coming period. These loans were disbursed most by small-sized enterprises (43.9%), followed by medium-sized (35.4%) and micro enterprises (20.7%).

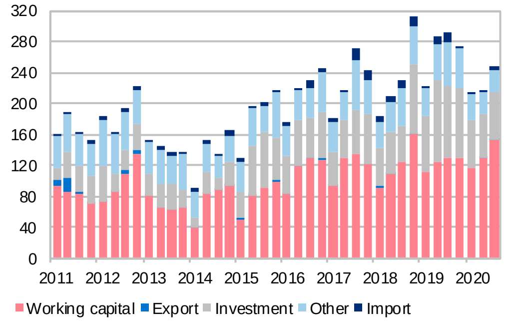
In Q3, almost two thirds of new loans were approved to micro, small and medium-sized enterprises
(in RSD bn)



Source: NBS.

The volume of new corporate loans in Q3 was RSD 248.4 bn, or 13.8% more than in Q2, and 14.7% less than in the same period last year. The bulk of corporate loans approved in Q3 were liquidity and working capital loans (61.5%), with over 70% of these loans approved to the segment of micro, small and medium-sized enterprises. The approval of loans to this segment was also supported by favourable terms of financing under the Guarantee Scheme. They were followed by investment loans, which accounted for almost a quarter of new corporate loans and were also predominantly approved to micro, small and medium-sized enterprises (68.7%).

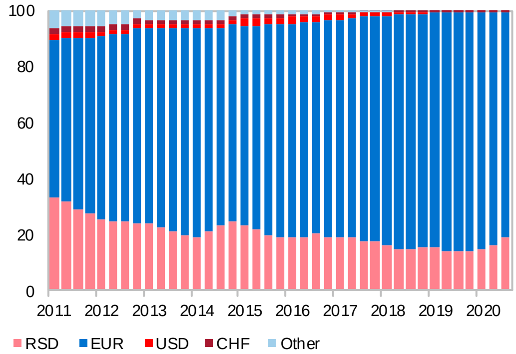
Working capital and investment loans remained the most dominant in Q3
(new loans, in RSD bn)



Source: NBS.

The dinarisation of corporate receivables continued to **rise in Q3** and reached 19.3% in September, which is 2.8 pp higher than in June and 5.3 pp more than at end-2019. The rise in the dinarisation of receivables to a record high level in the past three years was supported by the approval of dinar loans under the Guarantee Scheme and the purchase of dinar corporate bonds by banks. An additional impetus to the rise in dinarisation also came from the July decision of the NBS to pay to banks which approve dinar loans under the Guarantee Scheme at rates lower by at least 50 bp than the maximum rate (one-month BELIBOR + 2.5 pp) a 50 bp higher remuneration rate on the amount of dinar required reserve allocations (which currently equals 10 bp) equivalent to the amount of loans approved at lower rates and not exceeding the amount of calculated dinar required reserves. At the same time, relative to end-2019, the share of euro-indexed and euro receivables fell by 5.2 pp to 80.4% in September, while the share of dollar receivables (0.2%) contracted by 0.1 pp, and that of Swiss franc receivables remained unchanged (0.1%).

The Guarantee Scheme and purchase of dinar corporate bonds contributed to the rise in the dinarisation of corporate receivables in Q3



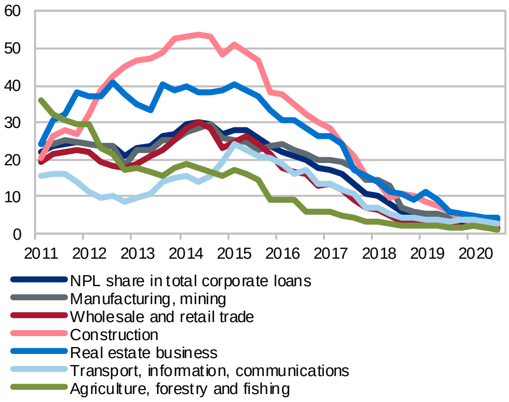
Source: NBS.

[6] Out of a total of EUR 2 bn which banks could approve against government guarantee until end-January 2021.

The share of NPLs[7] in total corporate loans declined further in Q3, partly reflecting the loan repayment moratorium. The NPL ratio of the corporate sector **hit a new minimum of 2.5% in September**, down by 0.3 pp compared to June and by 22.5 pp compared to July 2015, just before the start of implementation of the NPL Resolution Strategy. In the segment of companies, the NPL ratio declined by 0.4 pp to 2.7% in Q3, and touched new lows in almost all sectors. Compared to the start of implementation of the Strategy, the sharpest drop was recorded in construction, real estate and trade.

Falling NPLs reduce the systemic risk, although from the aspect of financial stability it is important to underline that even at the earlier higher level, NPLs did not jeopardise financial sector stability. The NPL coverage remains high – allowances for impairment of total loans stood at 98.0% of NPLs in September, while allowances for impairment of NPLs equalled 62.4% of NPLs. The domestic banking sector is highly capitalised as confirmed by the capital adequacy ratio, which stood at 22.4% at end-September. This is well above the prescribed 8% minimum. After the introduction of Basel III standards[8] into the domestic regulatory framework, this ratio is at a higher level.

The NPL share in almost all sectors declined to new lows in Q3
(gross principle, in %)

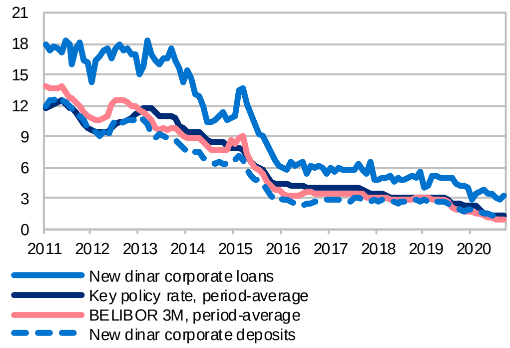


Source: NBS.

2. Cost of corporate borrowing

In Q3, the corporate sector continued to borrow under favourable terms – interest rates continued to move around the lowest values and the difference between dinar interest rates and euro interest rates contracted further. Such trends reflect NBS monetary policy easing, lower rates in the euro area money market and increased interbank competition in the domestic loan market, despite heightened risk aversion globally. The fact that interest rates on dinar loans remained low was also due to the July decision of the NBS to pay a higher remuneration rate to banks approving dinar loans under the Guarantee Scheme at a rate lower than the maximum rate. Owing to a decline in interest rates in the previous period, interest expenses of corporates were reduced significantly, even though borrowing

Interest rates on dinar loans remained favourable in Q3
(weighted average values, per annum, in %)



Source: NBS.
* Excluding revolving loans, current account overdrafts and credit card debt.

[7] Important factors behind a sharp fall in NPLs since 2016 are the successful implementation of the NPL Resolution Strategy and the Decision on the Accounting Write-off of Bank Balance Sheet Assets. In accordance with the Strategy, the NBS adopted the Action Plan (http://www.nbs.rs/internet/english/55/npl/action_plan.pdf), aimed at strengthening banks' capacity to resolve NPLs and contributing to the development of the NPL market, which were fully implemented, some before the deadline.

[8] The Basel III regulatory framework is applied as of 30 June 2017, with the application of the Decision on Capital Adequacy of Banks (RS Official Gazette, Nos 103/2016, 103/2018, 88/2019, 67/2020, 98/2020 and 137/2020), which introduced this standard in the domestic legislation.

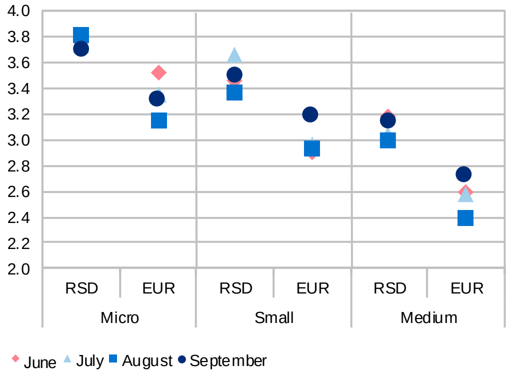
stepped up, which was conducive to the increase in the disposable income of the corporate sector.

The weighted average interest rate on new dinar corporate loans measured 3.3% in September. It was somewhat lower than in June (3.4%), and by 13.1 pp lower than in May 2013 when the NBS began with monetary policy easing. Observed by purpose, a decrease was recorded in Q3 in the price of dinar investment loans (by 0.4 pp to 4.0%) and other unclassified loans (by 0.3 pp to 3.0%), while the interest rate on working capital loans inched up by 0.1 pp to 3.4%. In terms of company size, interest rates on loans to micro and medium-sized enterprises decreased by 0.1 pp each (3.7% and 3.1%, respectively), while the cost of borrowing for small-sized (3.5%) and large enterprises (3.2%) remained unchanged.

The weighted average interest rate on new euro and euro-indexed loans to corporates remained unchanged in September (2.7%) relative to June. As in the case of dinar loans, there was a fall in the rates on investment (by 0.1 pp to 3.1%) and other unclassified loans (by 0.4 pp to 2.2%). On the other hand, interest rates on working capital loans (2.6%) and import loans (2.2%) were higher than in June. In terms of company size, interest rates on loans to micro enterprises were lower (3.3%) and those on loans to small (3.2%) and medium-sized enterprises (2.7%) higher than in June, while the cost of loans to large enterprises (2.2%) remained unchanged.

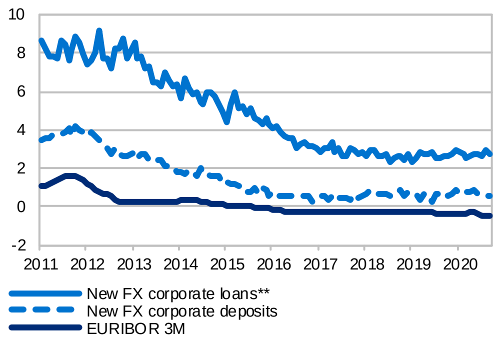
Continued convergence of dinar and euro interest rates is reflected in the fact that dinar interest rates, taken as quarterly average, fell to 3.1% in Q3 (from 3.5% on average in Q2), while the average level of interest rates on euro loans in Q3 (2.7%) was almost unchanged from Q2. In August, interest rates on dinar corporate loans were for the first time lower than the interest rates on euro-denominated corporate loans (2.9% compared with 3.0%). Although convergence is a long process and has been in place for several years already, the movement of these interest rates at similar levels is the result of monetary policy easing and all other measures taken by the NBS.

The price of borrowing of micro, small and medium sized enterprises remained favourable in Q3
(weighted average values, p.a., in %)



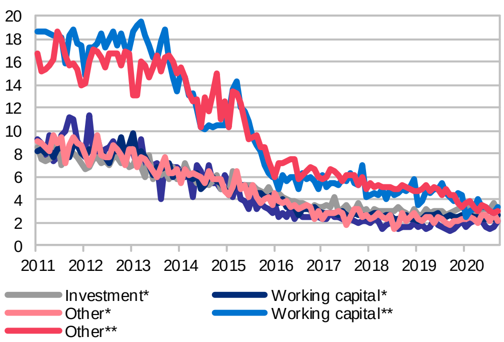
Source: NBS.

Interest rates on FX corporate loans also moved close to the minimum*
(weighted average values, per annum, in %)



Sources: NBS and European Banking Federation.
* Excluding revolving loans, current account overdrafts and credit card debt.
** Euro and euro-indexed.

Interest rates on all types of corporate loans were lower multiple times than six years ago
(weighted average values, per annum, in %)



Source: NBS.
* Euro and euro-indexed.
** Dinar.

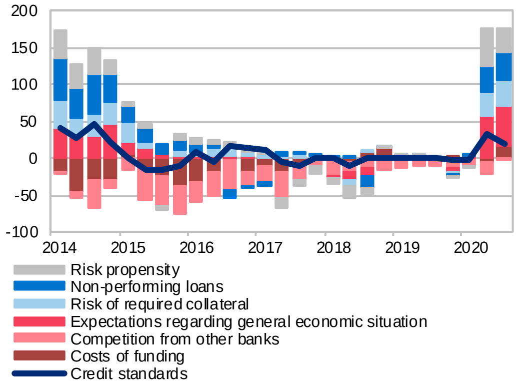
3. Assessment of loan supply and demand – based on the results of bank lending surveys

The results of the NBS Bank Lending Survey in October indicate that banks **tightened their corporate loan standards in Q3,** but less than in Q2. Such movements are consistent with the expectations set out in the July survey. This tightening was mostly due to higher perceived risk due to the coronavirus pandemic, and, to a smaller extent, to higher costs of lending sources. A less pronounced tightening of standards is expected in Q4 as well.

According to survey results, **collateral requirements were tightened, maximum loan amount was reduced and loan maturity shortened,** while fees and commissions for FX-indexed loans also rose marginally. Conversely, interest rate margins for small and medium-sized enterprises decreased.

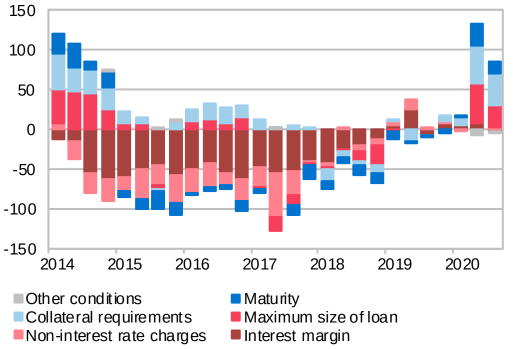
At the same time, consistent with banks' expectations set out in the July survey, **corporate loan demand continued up in Q3**. According to banks, this was led by the need to finance working capital and restructure debt, while financing of capital investments diminished as investments were deferred due to the pandemic. Increased reliance on own sources of funding and loans of non-banking institutions (Development Fund) were cited as factors exerting downward pressure on loan demand. Corporate loan demand is expected to go up further in Q4 as well.

Corporate credit standards were tightened due to higher perceived risks in the pandemic
(in net %)



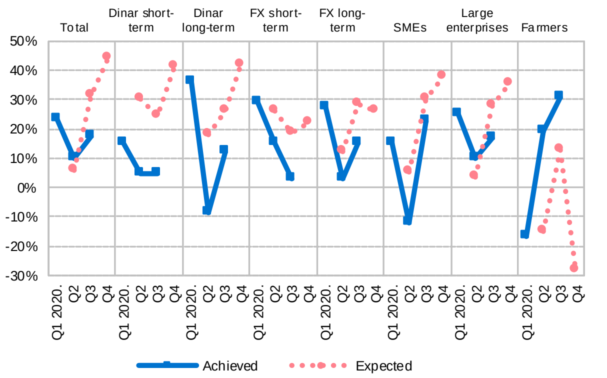
Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

Requirements in terms of collateral, maturity and amount of loans were less favourable in Q3
(in net %)



Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

Loan demand in Q3 increased less than expected in the July Survey, and more significant growth is expected in Q4
(in net percentage)



Source: NBS.
* Positive value indicates an increase in demand, and negative value indicates a decrease.

II. Household sector

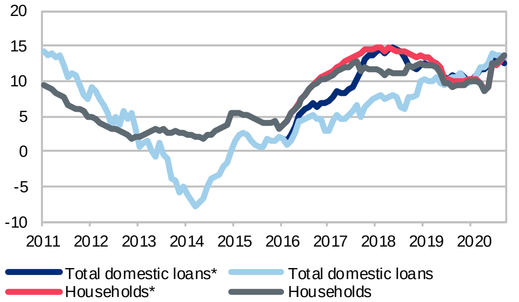
1. Household loans

Y-o-y growth in household loans accelerated further in Q3 and, excluding the exchange rate effect**, equalled 13.8% in September.** In addition to favourable terms of borrowing, household loan growth was also supported by the additional two-month moratorium on loan repayment and lending to entrepreneurs under the Guarantee Scheme. The stock of household loans equalled RSD 1,224.8 bn in September, accounting for around 47% of bank loan receivables from the non-monetary sector. Their share in estimated annual GDP[9] (22.5%) gained 0.9 pp from June.

In Q3, excluding the exchange rate effect, **household loans increased by RSD 49.5 bn or 4.2%.** As before, growth was led by cash and housing loans, which persist as the two dominant categories of household loans, accounting for 44.7% and 35.7%, respectively, in September. Loan growth was also supported by lending to entrepreneurs under the Guarantee Scheme. At the same time, banks' receivables under consumer loans and credit cards also picked up slightly, while current account overdrafts were similar as in June.

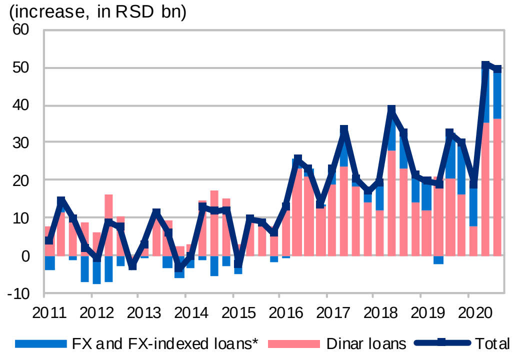
In addition to the new two-month moratorium applied in August and September, in Q3 the NBS took decisions aiming to mitigate the consequences of the crisis and create conditions for additional household consumption. Regulations were therefore adopted to facilitate terms of repayment of cash, consumer or other types of loans (other than housing loans and current account overdrafts) for citizens, and to encourage banks to offer to borrowers refinancing or a change of the final instalment due date by up to two years for the above loan categories. A decision was also taken allowing banks to extend the terms of repayment of existing housing loans by up to five years. At the same time, with a view to ensuring further development of housing loans, the NBS took a decision to reduce the minimum downpayment requirement for first home buyers from 20% to 10%. The minimum degree of completion of the building eligible for financing from a bank housing loan was also lowered. Moreover, in order to relieve the burden of the crisis further, banks were allowed to approve dinar loans (worth up to RSD 90,000) to employed and retired persons with a repayment term of up to

Y-o-y growth in household lending accelerated further in Q3
(y-o-y growth rates at the programme exchange rate, in %)



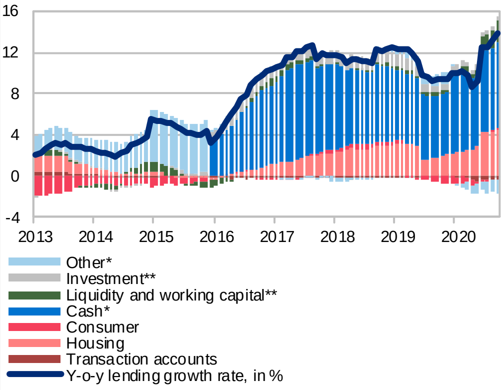
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

A larger part of the Q3 growth concerned dinar loans
(increase, in RSD bn)



Source: NBS.
* Excluding the exchange rate effect.

In Q3, cash and housing loans remained the strongest contributors to y-o-y growth in household loans
(in pp, excluding the exchange rate effect)



Source: NBS.
* Until December 2015, the contribution of cash loans is shown within the contribution of other loans.
** Loans extended to entrepreneurs.

[9] GDP in the past four quarters.

two years based on a signed statement on employment or pension only.

The volume of new household loans in Q3 was RSD 120.1 bn, up by 60.1% from Q2, and down by 8.2% from the same period last year. Cash loans were the most dominant category (55.4%), and were, as usual, almost entirely in dinars (99.4%). Housing loans accounted for 21.5%, and their volume gained more than 50% relative to the amount approved in Q2, which signals continued positive trends in housing loans. Other unclassified loans made up 19.7% of new household loans, of which an important part referred to loans to entrepreneurs under the Guarantee Scheme

The dinarisation of household receivables increased further in Q3 and measured 56.6% in September, which is a new record high. It was 0.8 pp higher than in June, and 1.2 pp higher than at end-2019. By contrast, the share of euro-indexed household loans dipped by 1.2 pp from end-2019 to 43.2% in September, while the share of CHF receivables measured 0.2% in September.

The share of NPLs in total household loans fell to a new low in September (3.6%). It decreased by 0.2 pp[10] relative to June and by 7.6 pp relative to the period directly before the adoption of the NPL Resolution Strategy. In terms of purpose, the NPL ratio decreased for almost all loan categories in Q3.

2. Cost of household borrowing

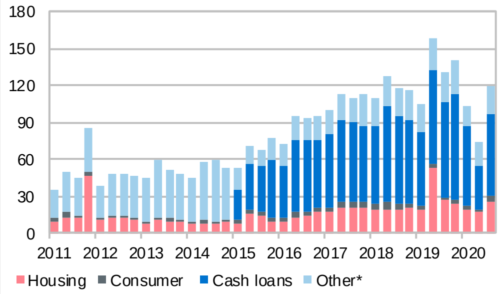
The costs of household borrowing in dinars remained favourable in Q3. Households' costs of repayment of previously approved loans decreased further, reflecting positively on their disposable income.

The weighted average interest rate on dinar household loans was 8.3% in September, which is 0.3 pp above its minimum recorded in June. Relative to May 2013, when the cycle of NBS monetary policy easing began, it decreased by 12.2 pp. The average rate on dinar loans increased in Q3 due primarily to a rise in interest rates on other unclassified loans by 0.3 pp to 5.7%. On the other hand, interest rates on the most dominant cash loans dipped by 0.1 pp to 9.2%, while consumer loans were approved in September at the same rate as in June.

The weighted average interest rate on new euro-indexed loans to households measured 3.3% in September, down by 0.4 pp from June. In August,

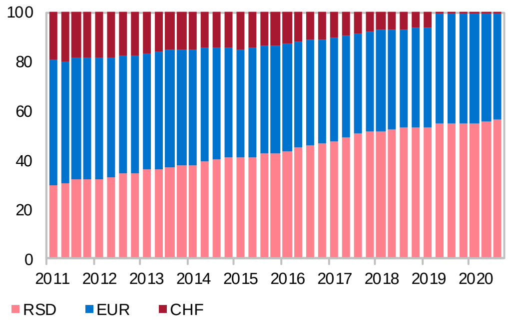
[10] Including entrepreneurs and private households, this share also decreased by 0.2 pp to 3.6% in September.

Cash loans accounted for the bulk of new loans
(new loans, in RSD bn)



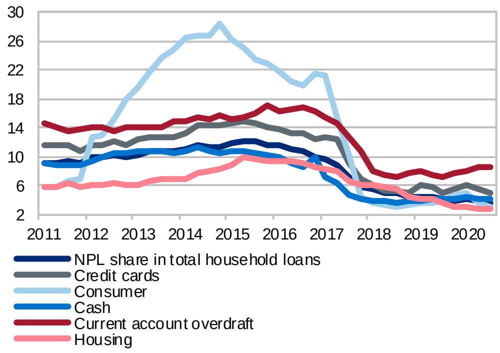
Source. NBS.
* Until December 2014, the 'other loans' category implied cash and

The dinarisation of household receivables reached a new maximum in September
(currency structure, in %)



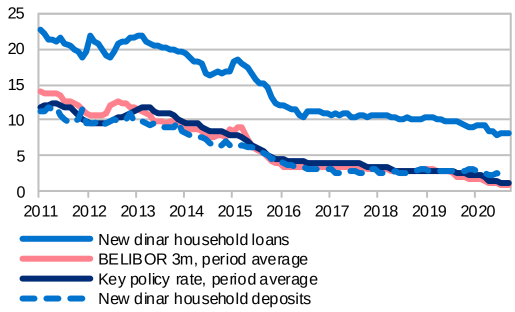
Source: NBS.

At end-Q3, the NPL share in total household loans declined to a new low
(gross principle, in %)



Source: NBS.

The average price of dinar* household loans remained favourable in Q3
(weighted average values, per annum, in %)



Source: NBS.
* Excluding revolving loans, current account overdrafts and credit card debt.

it recorded a new minimum (3.25%). The average rate declined on account of a rise in the share of housing loans in total new euro loans from 66% in June to 78% in September, which are approved at a lower than average interest rate (2.7% in September), and the reduction of interest rates on other unclassified loans (by 0.2 pp to 5.6%). By contrast, rates on consumer loans (4.55%) were somewhat higher, while the cost of cash loans (2.9%) remained unchanged from June.

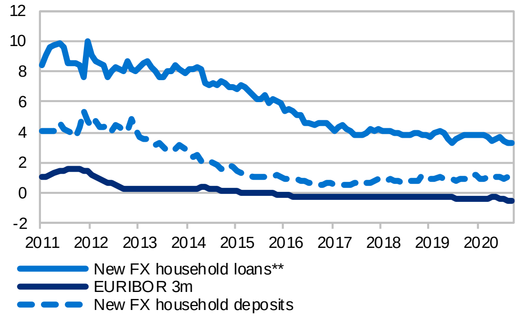
3. Assessment of loan supply and demand – based on the results of bank lending surveys

The results of the October Bank Lending Survey indicate that, consistent with banks' expectations set out in the July survey, household credit standards tightened in Q3, though less than in Q2**.** The tightening of standards referred primarily to cash and refinancing loans, and, to a smaller extent, also to housing loans. Standards were tightened mostly due to higher risk perception and increased risk aversion amid the coronavirus pandemic. Interbank competition worked in the same direction, while the impact of costs of funding was neutral. According to banks' expectations, standards will be eased in Q4 under the impact of interbank competition and lower costs of loan sources.

The tightening of standards reflected primarily on stricter requirements regarding loan security – value of collateral, mortgage and mandatory downpayment and deposit, as well as price condition of loans – higher interest rate margins and fees and commissions. On the other hand, based on the NBS's measures, banks enabled the extension of repayment terms for certain household loan categories.

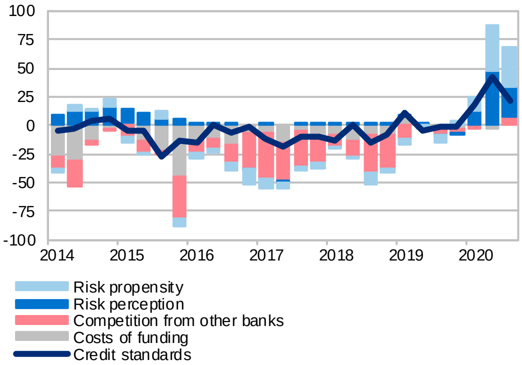
According to banks, **household loan demand increased in Q3.** In line with the expectations set out in the July survey, demand for FX-indexed housing and dinar cash and refinancing loans increased in particular. The rise in demand in Q3 was fuelled by real estate purchases and the refinancing of current liabilities, and the same factors should drive its growth in Q4 as well.

The average price of FX loans touched a new low in August*
(weighted average values, per annum, in %)



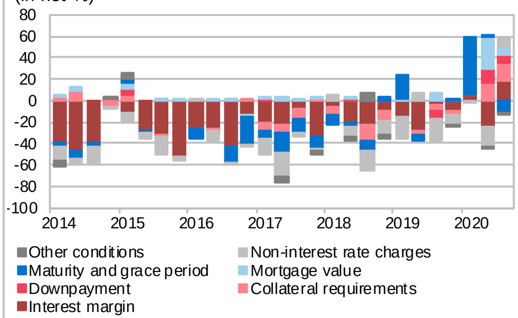
Sources: NBS and European Banking Federation.
* Excluding revolving loans, current account overdrafts and credit card debt.
** Euro and euro-indexed.

Unfavourable risk perception led to the tightening of standards in Q3 as well
(in net %)



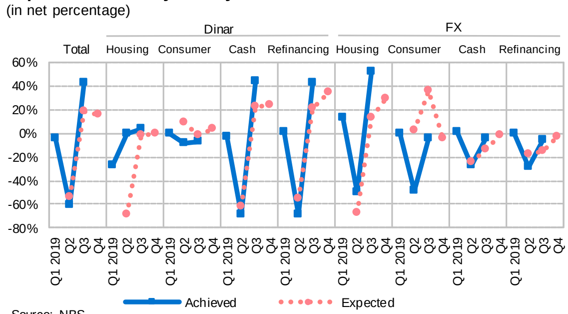
Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

Tighter standards in Q3 reflected primarily on collateral and price conditions of loans
(in net %)



Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

In Q3, the recovery of household loan demand was stronger than expected in the July Survey
(in net percentage)



Source: NBS.
* Positive value indicates an increase in demand, and negative value indicates a decrease.

Methodological notes

- Loans imply bank receivables under the loan principal.
- Receivables imply receivables under loans, interests and charges, paid deposits, securities and shares of companies.
- All types of receivables are disclosed according to the gross principle, i.e. not reduced by allowances for impairment.
- Dinar receivables are receivables extended in dinars without an FX-clause. The FX clause implies a currency clause that defines hedging against changes in the dinar exchange rate.
- When excluding the exchange rate effect, the calculation is based on the original currency composition and the exchange rate of the dinar against the euro, the US dollar and the Swiss franc as at 30 September 2014.
- New business includes all financial arrangements (credits and deposits) the terms of which are agreed for the first time during the reporting month, as well as all existing contracts the terms of which were re-agreed (through annexes), with the active participation of the client.
- The sectoral classification of monetary statistics is used. The corporate sector includes public enterprises, companies and the non-financial sector in bankruptcy, while the household sector includes citizens, entrepreneurs, private households with employed persons and registered farmers. By way of exception:
  - with newly-approved loans, the household sector includes non-profit institutions serving households (in accordance with the ECB methodology);
  - with non-performing loans, the sectors are presented separately, but are aggregated for the sake of comparison with the monetary statistics data.
- The term non-performing loans implies the stock of the total outstanding debt under individual loans (including the amount of arrears):
  - where the payment of principal or interest is past due (within the meaning of the decision on classification of balance sheet assets and off-balance sheet items) over 90 days;
  - where 90 days of interest payments (or more) have been attributed to the loan balance, capitalized, refinanced or delayed;
  - where payments are less than 90 days overdue, but the bank assessed that the borrower's repayment ability has deteriorated and doubts that the payments will be made in full.