NATIONAL BANK OF SERBIA
Economic Research and Statistics Department

TRENDS IN LENDING

Third Quarter Report 2022

Belgrade, November 2022

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 increment and 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.

ABBREVIATIONS

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

Other generally accepted abbreviations are not cited.

Contents

Overview

Double-digit y-o-y growth in lending to the non-monetary sector continued. It equalled 11.7% in September, excluding the exchange rate effect, and **was at the level of the regional average.**[1] Growth slowed relative to June due to last year's high base and the maturing of guarantee scheme loans. **Serbia's lending growth continues to be driven more by corporate than by household lending** (contributions of 7.2 pp and 3.9 pp, respectively).

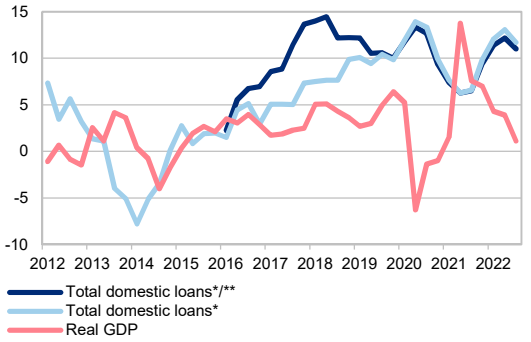
Y-o-y growth in **total domestic banks' receivables from the non-monetary sector** (which, in addition to loan receivables, also include receivables in respect of investment in securities, interest and fees and other receivables) also slowed to 11.5% in September.

Excluding the exchange rate effect, **corporate loans** gained **RSD 31.7 bn** in Q3. The growth was led by investment loans, which accounted for more than a third of the increment, followed by working capital loans and other non-categorised loans. Lending to companies went up and lending to public enterprises down. Banks mainly lent to large companies, mostly in manufacturing, trade and agriculture. Lending to the transport sector also went up, while loans to construction, energy and real estate business declined.

Loans to households gained RSD 21.5 bn in Q3, excluding the exchange rate effect. This is less than the increment recorded in the same period last year when households had access to facilities enabling suspension of loan repayment, extension of the repayment period and loan refinancing with a six-month grace period. Almost three-quarters of the increase recorded in Q3 referred to housing loans, followed by cash loans. Thanks to their steady growth, the share of housing loans in total household loans rose further in Q3 to almost 40% in September.

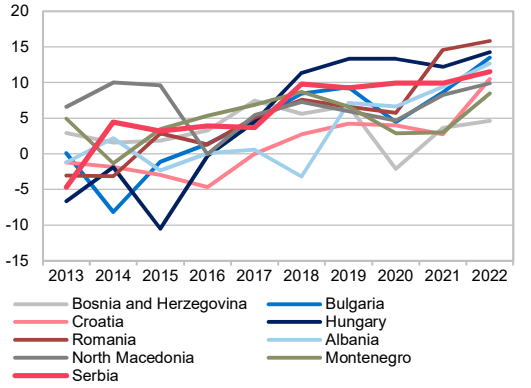
Monetary tightening by the NBS continued to spill over to **higher interest rates on dinar loans to corporates and households.** In Q3, they averaged 4.3% and 10.7%, respectively (compared to 3.8% and 9.1%, respectively, in Q2). At the same time, **interest rates on euro-denominated loans** also went up, reflecting the start of the cycle of policy rate increases by the ECB. In Q3, they averaged

Though it slowed in Q3, y-o-y growth in lending continues to be double-digit
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.

Loan growth in Serbia in Q3 was at the level of the regional average
(nominal y-o-y growth rates, in %)



Sources: Websites of central banks and NBS calculation.

3.5% for corporates and 4.2% for households (compared to 2.6% and 3.6%, respectively, in Q2). **Lending activity continued up despite higher lending rates.**

Dinarisation of total corporate and household receivables in Q3 dipped by 1.4 pp to 35.8% in September. The degree of dinarisation of corporate receivables declined by 2.0 pp to 20.5% in September, reflecting the rise in FX-indexed investment loans and the maturing of dinar loans under the guarantee scheme. The dinarisation of household receivables edged down by 0.6 pp to 53.8%, due to continued growth in housing loans which are almost entirely FX-indexed.

The share of NPLs in total loans declined by 0.1 pp relative to June, to a new record low of below 3.2% in September, which is 1 pp lower than the pre-pandemic level. Hence, bank asset quality has

[1] The comparison includes Albania, Bosnia and Herzegovina, Bulgaria, Hungary, Romania, North Macedonia, Croatia and Montenegro.

been maintained at a high level, even after the government's economic support measures were wound down. Relative to July 2015, i.e. just before the start of implementation of the NPL Resolution Strategy, the share of NPLs in total loans dropped by 19.2 pp. The NPL coverage remains high – allowances for impairment of total loans stood at 93.4% of gross NPLs in September, while allowances for impairment of NPLs equalled 57.2% of gross NPLs.

I. Corporate sector

1. Corporate loans

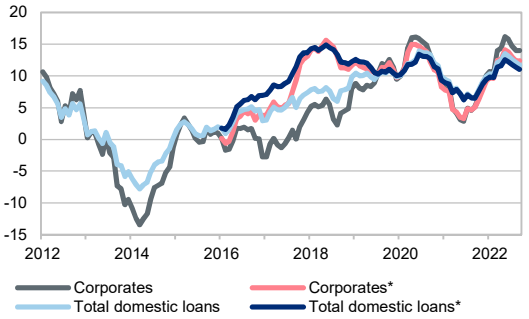
Double-digit y-o-y growth in corporate loans continued in Q3, **slowing moderately** relative to June to **14.0% in September,** due to last year's high base and the maturing of loans under the guarantee scheme. In nominal terms, the stock of corporate loans in September came at RSD 1,635.0 bn and their share in GDP[2] at 23.8%, unchanged from end-2021. This indicates that lending growth was consistent with economic growth.

Excluding the exchange rate effect, **corporate loans gained RSD 31.7 bn or 2.0% in Q3,** entirely under the impact of lending to companies, while lending to public enterprises subsided. **In terms of purpose,** investment loans increased the most (by RSD 11.9 bn), followed by liquidity and working capital loans (RSD 9.3 bn) and other non-categorised loans (RSD 6.8 bn). Transaction account overdrafts also went up (RSD 3.0 bn), as did borrowing under import loans (RSD 0.8 bn). Liquidity and working capital loans, as well as investment loans continue to be the most dominant corporate loan categories, though their shares were somewhat lower in September (47.4% and 39.2%, respectively) than in June. The share of the next most dominant category – other non-categorised loans, rose to 8.8%. **Sector-wise,** loans to companies in manufacturing, trade and agriculture increased the most, followed by lending to transport companies. Lending to companies in construction, electricity supply and the real estate business subsided. **The maturity of corporate loans** was shorter than in June. Long-term loans made up 82.4% of total corporate loans in September relative to 84.1% in June. Loans approved to micro, small and medium-sized enterprises made up three-fifths of total corporate loans in September, and their y-o-y growth slowed to 1.7%.

The **volume of new corporate loans** measured RSD 322.8 bn in Q3, up by 13.7% compared to the same period last year. Liquidity and working capital loans continued to be dominant among new loans (59.2%), and almost a half were used by micro, small and medium-sized enterprises. Investment loans made up 24.7% of new corporate loans in Q3, with 57.3% of

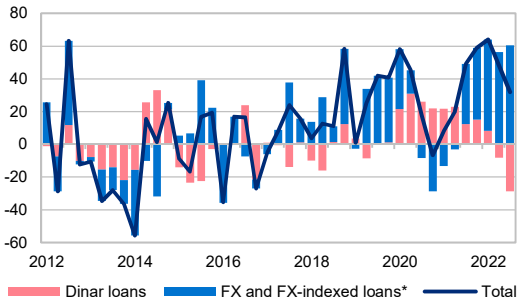
[2] GDP recorded in the last four quarters.

Y-o-y growth in corporate loans slowed in Q3 due to the maturing of guarantee scheme loans
(y-o-y growth rates at the programme exchange rate, in %)



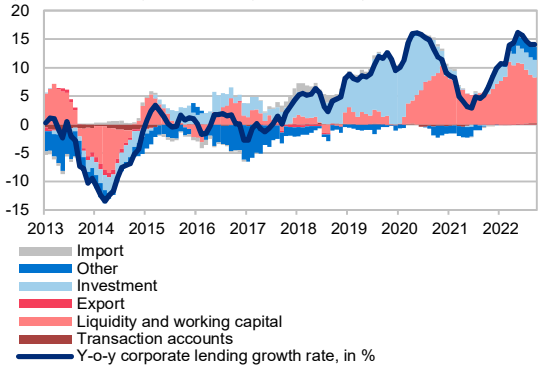
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

Corporate loans growth in Q3 continued to be led by euro-indexed loans
(increment, in RSD bn)



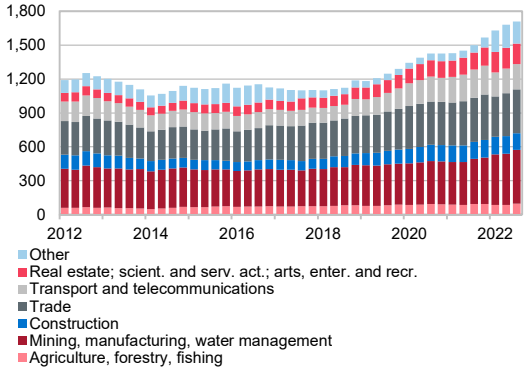
Source: NBS.
* Excluding the exchange rate effect.

Working capital loans still contribute the most to y-o-y growth in corporate loans
(in pp, excluding the exchange rate effect)



Source: NBS.

Loans to manufacturing and trade make up the bulk of corporate receivables
(stock, in RSD bn)



Source: NBS.

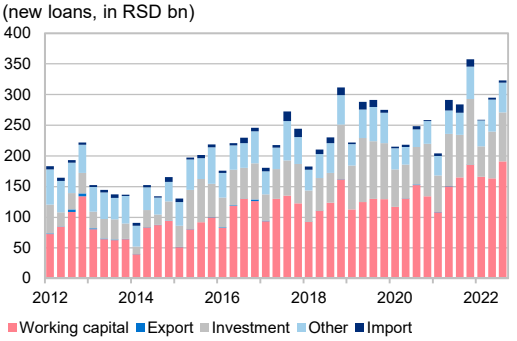
these loans granted to micro, small and medium-sized enterprises.

Due to the maturing of loans under the guarantee scheme, FX-indexed corporate receivables went up and dinar receivables declined; hence, **the degree of dinarisation of corporate receivables** decreased in Q3 by 2.0 pp to **20.5% in September.** The share of euro-indexed and euro receivables increased to the same degree, to 79.2% in September, while the share of dollar receivables (0.3%) stayed unchanged.

The share of NPLs in total corporate loans remained unchanged relative to its June minimum, measuring 2.2% in September.[3] The share of NPLs in total loans extended to companies was also the same as in June (2.4%). This indicates that economic support measures taken during the pandemic were adequate and timely and banks' asset quality was maintained even after they were wound down. Relative to June, this indicator decreased in all sectors except in construction and agriculture, while indicators for manufacturing and the real estate business fell to new all-time lows. **Relative to July 2015,** i.e. just before the start of implementation of the NPL Resolution Strategy, **this share declined by 22.7 pp,** and the sharpest drop was recorded in construction, real estate business and trade.

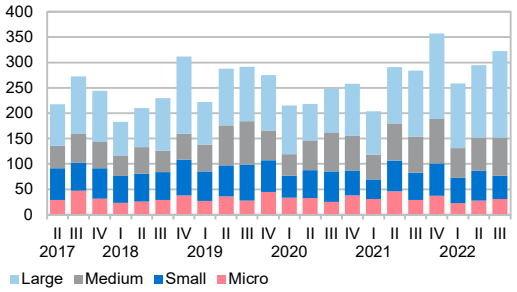
Capital adequacy ratio[4] at end-Q3 measured 19.5%. This is well above the regulatory minimum (8.0%) and signals high capitalisation and resilience of the banking sector to external and domestic risks.

Working capital and investment loans remained dominant in Q3 as well
(new loans, in RSD bn)



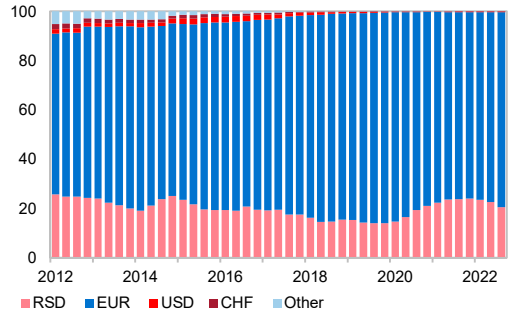
Source: NBS.

Almost a half of new loans in Q3 were loans to micro, small and medium-sized enterprises
(in RSD bn)



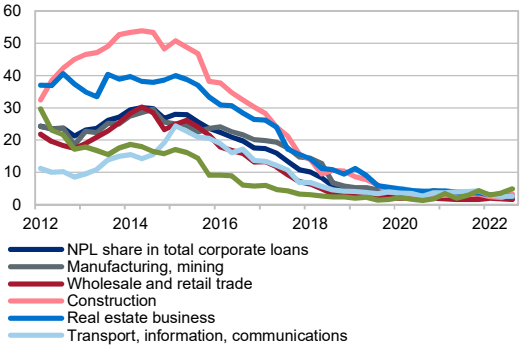
Source: NBS.

Dinarisation declined in Q3, reflecting the maturing of guarantee scheme loans
(currency structure, in %)



Source: NBS.

In some sectors, the share of NPLs fell to new all-time lows in Q3
(gross principle, in %)



Source: NBS.

[3] Important drivers behind the strong fall in NPLs from 2016 onwards were the successful implementation of the NPL Resolution Strategy and implementation of the Decision on Accounting Write-off of Bank Balance Sheet Assets. In line with the Strategy, the NBS adopted the Action Plan (*https://nbs.rs/sr_RS/scripts/showcontent/index.html?id=8661*) aimed at strengthening banks' NPL resolution capacities and contributing to the NPL market development. The envisaged activities were fully implemented, some even ahead of the timeframe.

[4] The Basel III regulatory framework has been applied since 30 June 2017.

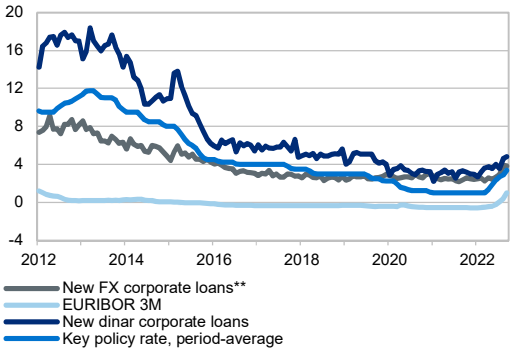
2. Cost of corporate borrowing

Interest rates on dinar and euro-indexed corporate loans increased, reflecting monetary tightening by the NBS and the ECB. Interest rates on loans of all purposes, extended to companies of all sizes, went up.

Since October 2021, the NBS has been gradually tightening monetary conditions by raising the weighted average interest rate at one-week reverse repo auctions and, from April 2022, also by raising the key policy rate. As a result, the **weighted average interest rate on new dinar corporate loans continued up in Q3, rising by 0.5 pp on average to 4.3%.** Loans of all purposes have become costlier, with interest rates on working capital loans going up by 0.8 pp to 5.0% and interest rates on investment and other non-categorised loans – by 0.5 pp each to 6.2% and 2.8%, respectively. The cost of borrowing went up for companies of all sizes, with average interest rates in Q3 ranging between 3.2% for large and 7.2% for micro enterprises.

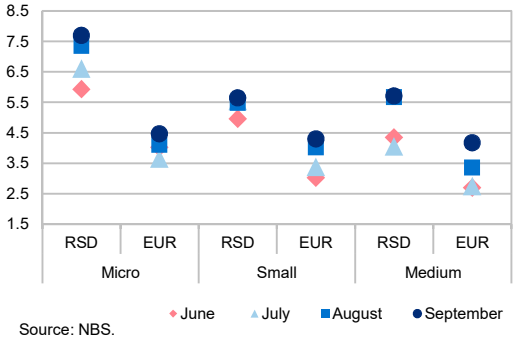
The weighted average interest rate on new euro and euro-indexed corporate loans rose by 0.9 pp on average in Q3 to 3.5%. In terms of purpose, average interest rates on liquidity and working capital loans increased the most (by 1.1 pp to 3.6%), as did the rates on import loans (by 1.3 pp to 3.1%). They were followed by rates on non-categorised euro-indexed loans (by 0.9 pp to 3.1%) and investment loans (by 0.7 pp to 3.6%). In terms of company size, the average price of borrowing ranged from 3.3% for medium-sized to 4.1% for micro enterprises.

Interest rates on corporate loans went up in Q3*
(weighted average values, p.a., in %)



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

The cost of borrowing by micro, small and medium-sized enterprises increased in Q3
(weighted average values, p.a., in %)



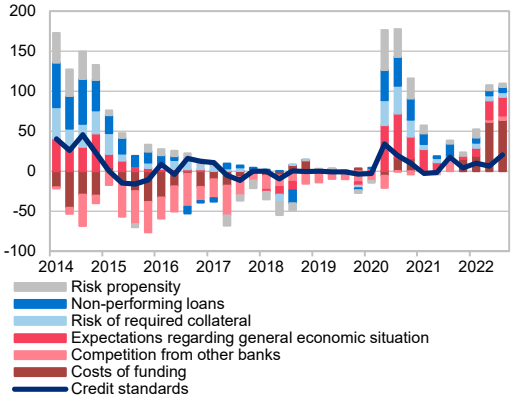
Source: NBS.

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

The results of **the NBS's October Bank Lending Survey** indicate that banks tightened their corporate credit standards further in Q3, as expected. Standards have become more stringent for dinar than for FX-indexed loans. In terms of company size, standards for large enterprises were tightened more. In banks' view, like in the previous quarter, the tightening of standards was mostly due to the higher cost of loan sources and the general economic uncertainty, which led to diminished risk propensity. The riskiness of the required collateral and NPLs also influenced the tightening of standards. Banks deem that the same factors will drive a further tightening of standards in Q4.

According to the survey results, fees, commissions and interest margins went up for all client categories in Q3. Collateral requirements were tightened and

Banks continued to tighten corporate credit standards in Q3
(in net %)

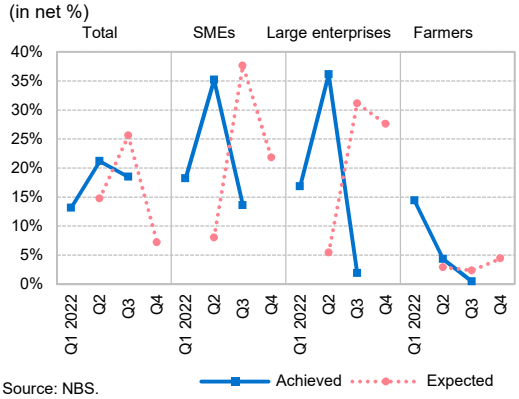


Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

maturity shortened. The maximum loan amount was also reduced for large enterprises.

Corporate loan demand continued up in Q3 and, according to banks, was mainly led by the needs of small and medium-sized enterprises to finance working capital and capital investments. In addition, some banks believe their offer is more favourable than that of their competitors, which drove up demand for their loans. Debt restructuring, companies' reduced reliance on financing from internal sources and by non-banking institutions worked in the same direction, though to a smaller degree. Banks expect the same factors to drive further demand growth in Q4.

In Q3, loan demand grew less than expected in the July survey, and is anticipated to expand further in Q4
(in net %)



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 slowed down from 9.8% in June **to 8.3% in September**, partly influenced by the high base effect on account of measures to facilitate loan repayment to borrowers hit by the pandemic, but also by lower loan demand due to higher interest rates. In nominal terms, the stock of household loans measured RSD 1,446.4 bn in September, accounting for 46.1% of bank loan receivables from the non-monetary sector and 21.1% of GDP.[5]

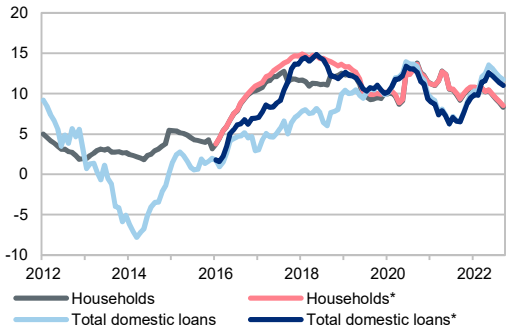
In Q3, household loans, excluding the exchange rate effect, **increased by 1.5%, or by RSD 21.5 bn**, which is a lower increment than the one recorded in the same period last year. At the same time, almost three fourths of the increment was attributable to housing loans (RSD 15.9 bn) and their stable growth trend continued. Next in line were cash loans, which rose by RSD 7.6 bn. These two are the most dominant household loan categories with the share of cash loans (43.8%) somewhat lower than at end-2021, while the share of housing loans went up by 1.0 pp, to 39.9% in September. Receivables from consumer loans also rose (RSD 0.4 bn), while receivables from other non-categorised loans dropped by RSD 0.7 bn. As for loans granted to entrepreneurs, investment loans went up by RSD 0.7 bn, while liquidity and working capital loans declined by RSD 2.4 bn.

Sound housing lending is driven by a further rise in employment and wages, primarily in the private sector, and the persistently high real estate demand despite a somewhat higher cost of borrowing. Housing loans were also supported by the NBS measures adopted in 2020 and extended into this year as well. Banks were enabled to extend the repayment term for housing loans by no longer than five years, while the minimum degree of completion of a residential building whose purchase can be financed from a housing loan was reduced. In addition, down-payment required for first-time home buyers was reduced permanently from 20% to 10% as of 2020.

The amount of new household loans in Q3 (RSD 132.9 bn) was lower by 1.7% than in Q3 last year. Cash loans accounted for close to 60% and housing loans for almost a fourth of new household loans in Q3. The amount of new housing loans (RSD 30.9 bn),

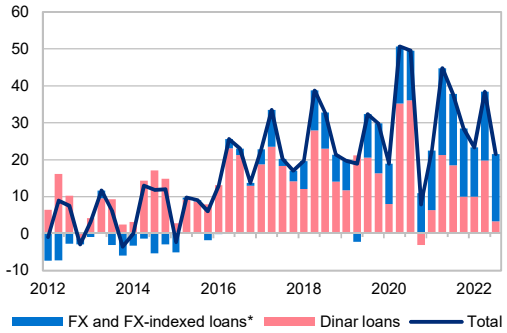
[5]GDP in the past four quarters.

Y-o-y growth in household loans continued slowing down in Q3
(y-o-y growth rates at the programme exchange rate, in %)



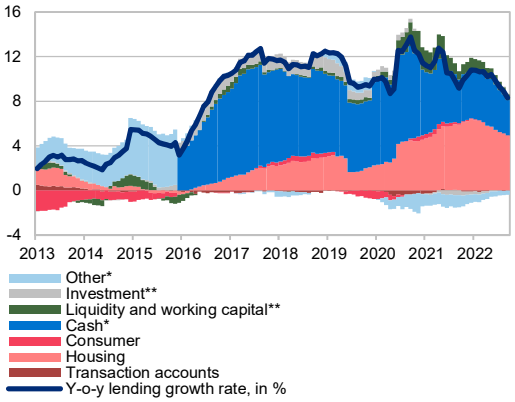
Source: NBS.
* Excluding the effect of NPL write-off and sale since early 2016.

FX-indexed loans recorded sharper growth than dinar loans in Q3
(increment, in RSD bn)



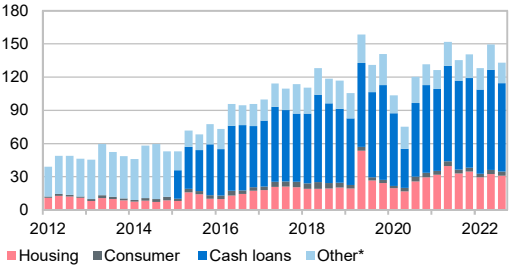
Source: NBS.
* Excluding the exchange rate effect.

Since June 2021 housing loans have contributed the most to the y-o-y rise 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.

Cash and housing loans accounted for the bulk of new loans in Q3
(new loans, in RSD bn)



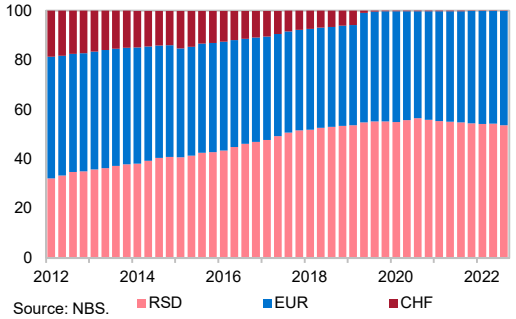
Source. NBS.
* Until December 2014, the 'other loans' category implied cash and other loans together.

almost unchanged from the same period last year, testifies to the stable growth in household demand for housing loans.

In Q3, FX-indexed receivables grew faster than dinar receivables, bringing down the **dinarisation of the stock of household loans**[6] by 0.6 pp, to 53.8% in September. At the same time, the share of euro receivables increased by 0.6 pp to 46.0%, while the share of CHF receivables was the same as in June (0.1%).

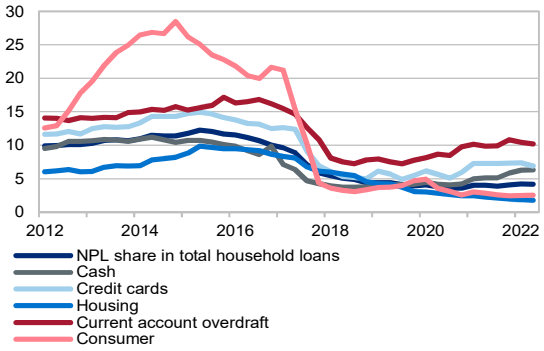
The share of NPLs in total household loans went slightly down from June and measured 4.14% in September.[7] Purpose-wise, the share of NPLs dropped for loans of all purposes in Q3 – by 0.1 pp for housing loans, 0.2 pp for cash loans and 0.7 pp for credit cards. Favourable NPL indicators suggest that NBS and Government measures were timely and helped prevent a more serious adverse impact of the pandemic on citizens' creditworthiness. Compared to the period just before the adoption of the NPL Resolution Strategy, the share is lower by 7.1 pp.

The share of dinar household receivables dropped to around 54% at end-Q3 on account of housing loans
(currency structure, in %)



Source: NBS.

The share of NPLs in total household loans stayed close to lowest levels during Q3
(gross principle, in %)



Source: NBS.

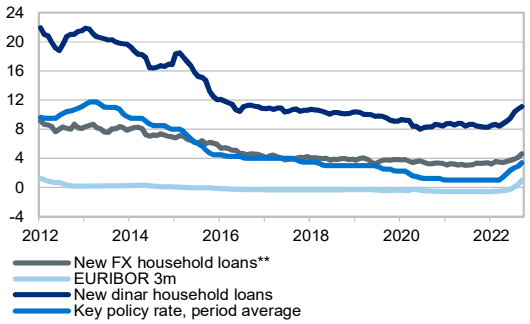
2. Cost of household borrowing

NBS and ECB monetary policy tightening spilled over to the price of loans to households as well, which, like corporates, borrowed at higher interest rates than in Q2.

The weighted average interest rate on new dinar loans to households increased by 1.6 pp on average in Q3, to 10.7%. Interest rates on almost all types of dinar loans went up, with the rate on the most dominant, cash loans rising by 1.6 pp, to 11.2%. Interest rate on other non-categorised loans increased by 2.0 pp to 9.1%, and the rate on housing loans[8] by 2.5 pp to 10.1%. The average interest rate on consumer loans (2.1%) was the only to stay almost unchanged from Q2.

The weighted average interest rate on new euro-indexed loans to households increased by 0.6 pp on average in Q3, to 4.2%. The increase was primarily driven by the rise in the average rate on housing loans (by 0.6 pp, to 3.4%), while the rate on other non-categorised loans increased by 0.5 pp, to 6.8%, and the rates on consumer and cash loans by 0.2 pp each, to 4.5% and 3.5%, respectively.

The average cost of dinar and FX loans rose in Q3 as well*
(weighted average values, p.a., in %)



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

[6] Including non-profit institutions and entrepreneurs.
[7] If entrepreneurs and private households are included, the share equalled 4.1% in September, somewhat lower than in June, and 8.0 pp lower than in July 2015.
[8] Used for apartment refurbishment and are costlier than loans granted for purchase of apartments.

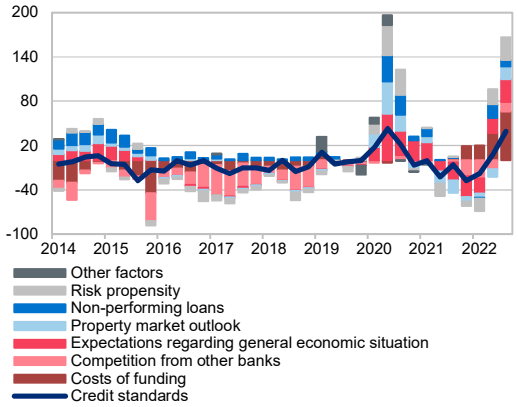
3. Assessment of loan supply and demand – based on the results of the bank lending survey

The NBS's October Bank Lending Survey reveals that in Q3 banks further tightened credit standards for households. The tightening affected mainly dinar cash and refinancing loans, as well as FX-indexed housing loans. Credit standards were tightened primarily under the impact of higher costs of financing, general economic uncertainty and the resulting lower risk propensity. Real estate market situation worked in the same direction, as did banking sector competition and the expected rise in non-performing receivables. Banks anticipate that the same factors will drive further tightening of standards in Q4, which should be almost identical as in Q3.

Banks estimated that interest margins for both dinar and FX-indexed loans went up in Q3 and collateral requirements were tightened. On the other hand, owing to NBS measures regarding payment service fees aimed at reducing costs of banking for citizens, banks lowered their fees and commissions in Q3.

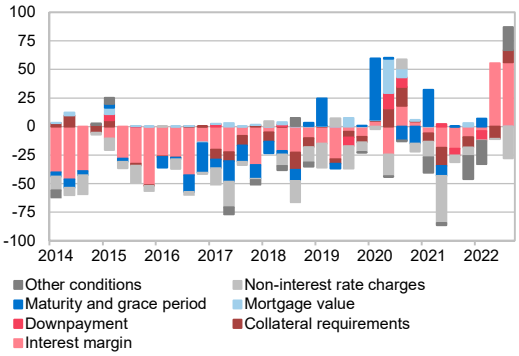
According to banks, household loan demand went down in Q3, primarily the demand for dinar cash and refinancing loans, but also for euro-indexed housing loans despite the recorded trends. Banks believe that the decline in demand was driven mostly by the real estate market situation coupled with a diminished need to buy durable consumer goods, as well as by the use of previously accumulated funds in the savings accounts for current consumption and investments. Banks expect that the same factors, along with a less favourable labour market situation, will drive the demand down in Q4 as well.

In Q3, banks further tightened credit standards for households
(in net %)



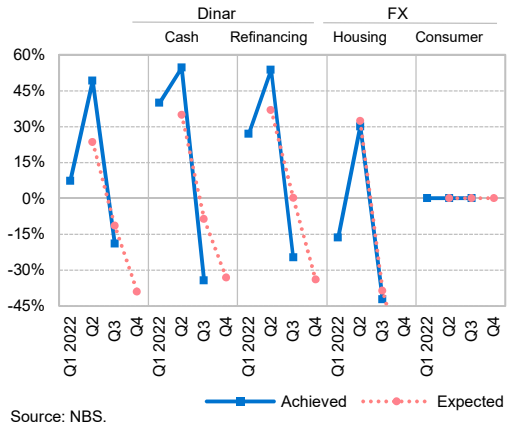
Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

Interest margins were raised, while fees and commissions dropped in Q3
(in net %)



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

Household demand for loans dropped in Q3, and banks expect a further decline in Q4
(in net %)



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 expressed 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 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.