



NATIONAL BANK OF SERBIA

**REPORT ON THE RESULTS
OF THE BANK LENDING SURVEY**

Third Quarter Report 2018

November 2018

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 corporate and household loans. Respondents are asked about changes in credit standards¹, 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 17 October 2018. The survey reports bank representatives' views on changes during the third quarter of 2018 and expected changes in the credit market in the fourth quarter of 2018. The survey included 26 banks, which representatively covers the credit market as these banks account for over 99% of banking sector balance sheet.

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 the 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.

In the analysis of results, the term "FX" relates to loans approved in foreign currency or loans approved in dinars but FX-indexed.

¹ Credit standards are written and unwritten internal guidelines or criteria that reflect the credit policy of the bank (e.g. priorities in terms of loans categories, collateral, sector, region, etc.).

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Overview

The results of the Survey indicate that **corporate credit standards** remained expectedly unchanged in Q3, after an ease in Q2. At the same time, household credit standards were eased in Q3, primarily as a result of competition, greater willingness to take risk and lower cost of funding.

Corporate and household **loan approval terms** were more favourable by almost all criteria in Q3, and the relaxation mostly pertained to lower loan price and longer repayment periods. Additionally, maximum loan amounts were increased in case of corporate loans, while collateral requirements were eased for household loans.

According to bank assessment, Q3 saw an increase in corporate demand for loans driven by the need to finance current assets and capital investment. At the same time, the need for refinancing and purchase of real estate brought about the rise in household demand for dinar cash and FX housing loans.

Banks expect that corporate and household standards will be eased in Q4 particularly as a result of competition. It is additionally expected that the price of loans will decrease for both sectors. The maturity of corporate loans will also probably be extended, while collateral requirements will be relaxed for household loans. A further rise in demand for both corporate and household loans is expected to be driven by the same factors as in Q3.

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

	Supply (credit standards)		Demand	
	Q3 2018	Q4 2018 (expectations)	Q3 2018	Q4 2018 (expectations)
Corporate sector	-	↘	↑	↑
SMEs	-	↓	↑	↑
Large enterprises	-	↘	↑	↑
Farmers	-	-	-	↑
Household sector	↓	↓	↘	↑
Cash (dinar)	↓	↓	↑	↑
Refinancing (dinar)	↓	↓	↓	↑
Housing (FX)	↓	-	↑	↑
Consumer (FX)	-	-	↓	↘

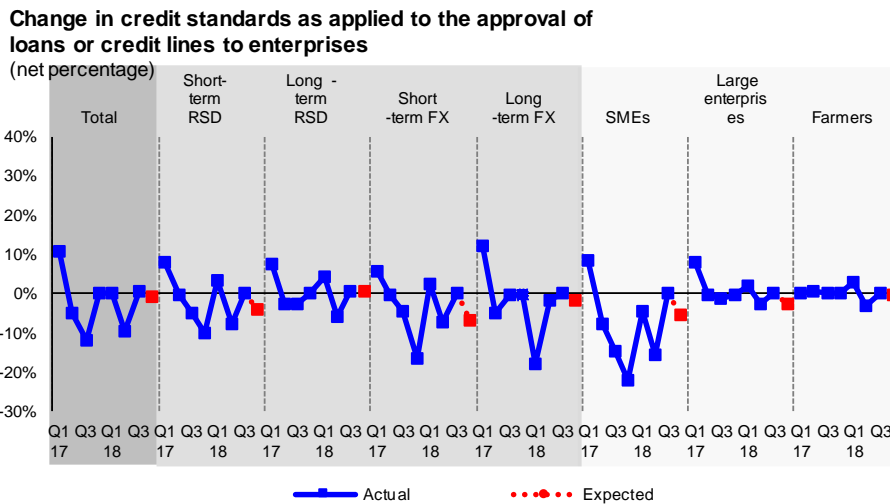
Legend:

- ↑ 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%)

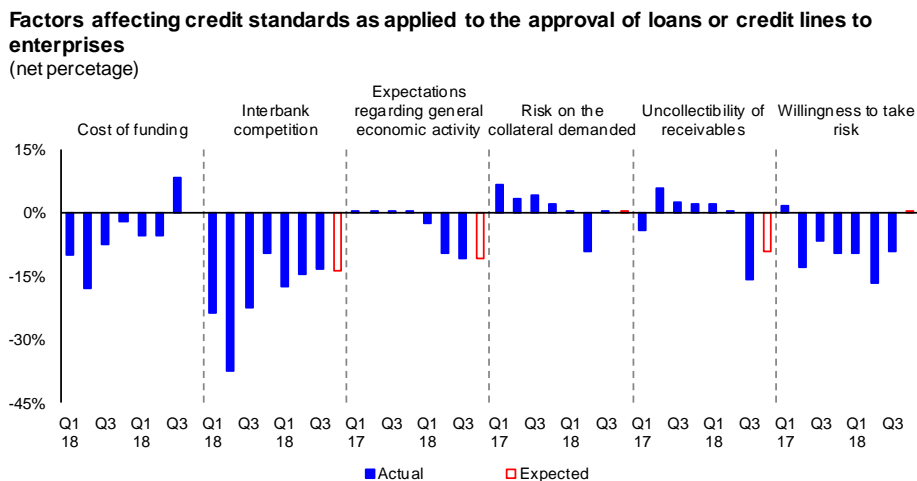
1. Corporate loans

1.1 Credit standards and factors affecting their change

The results of the Survey indicate that corporate credit standards remained almost unchanged in Q3 after an ease in Q2 – in line with expectations for Q3 stated in the last Survey. Nevertheless, banks estimate that the majority of factors affecting credit standards had a relaxation effect – particularly the NPL resolution efforts, interbank competition, willingness to take risk and positive expectations regarding the general economic activity.



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



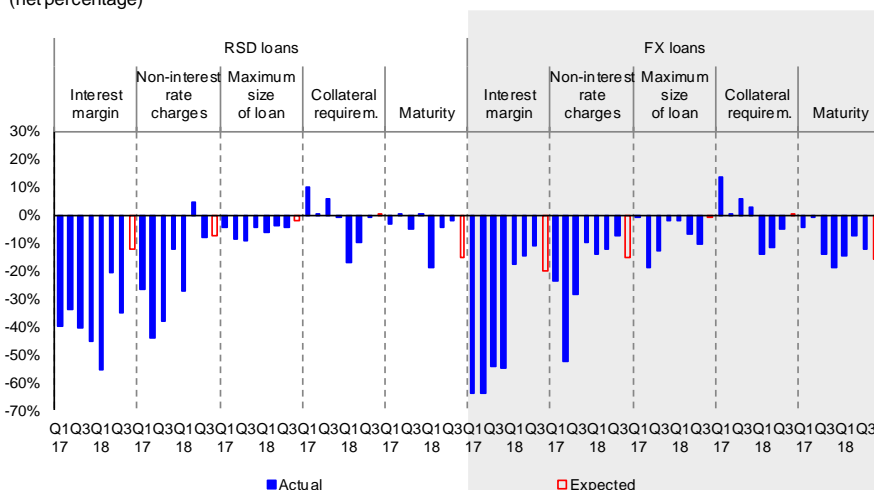
Source: NBS.
 * Positive value indicates the contribution of individual factors to the tightening of credit standards and negative - to the easing.
 ** The intensity of change is not shown in charts.

Banks expect that credit standards will relax somewhat in Q4 – primarily on account of interbank competition, positive expectations regarding the general economic activity and continued efforts to resolve NPLs.

1.2 Terms and conditions for corporate loan approval

The Survey results indicate that the relaxation of conditions for approval of corporate loans continued into Q3. The price of both dinar and FX loans was lower. At the same time, banks extended maturity and raised the maximum loan amount while reducing collateral requirements (for FX loans). Credit conditions were eased for all corporates, but more for large enterprises.

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

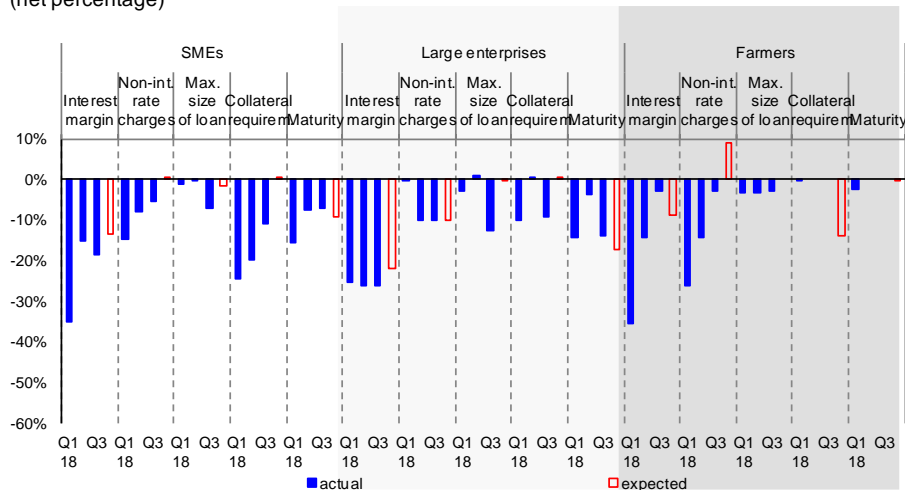


Source: NBS.

* 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.

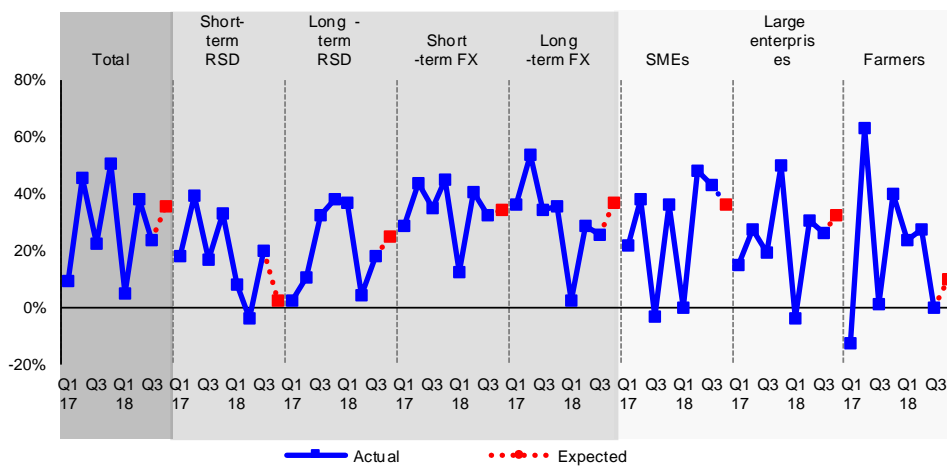
** The intensity of change is not shown in charts.

Banks expect credit conditions easing to continue into Q4, largely on account of further relaxation of price conditions for loans (lower interest margins and commissions), as well as extension of maturity.

1.3 Corporate loan demand

The Survey results show that the banks noticed an increase in demand for corporate loans in Q3. FX loan demand was dominant and was driven by SMEs.

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

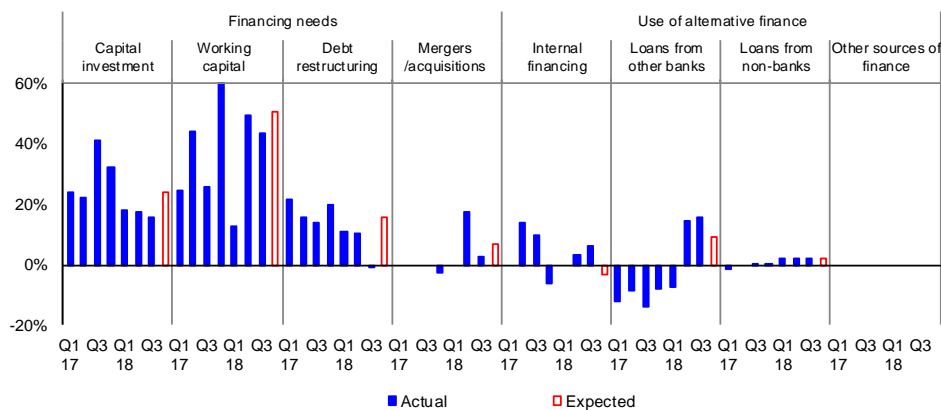


Source: NBS.

* 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 evaluate that the rise in corporate loan demand in Q3 was primarily led by the need to finance current assets and capital investment. Furthermore, a number of banks estimate that the rising demand was a result of the attractiveness of their offer (in comparison with other banks' offers).

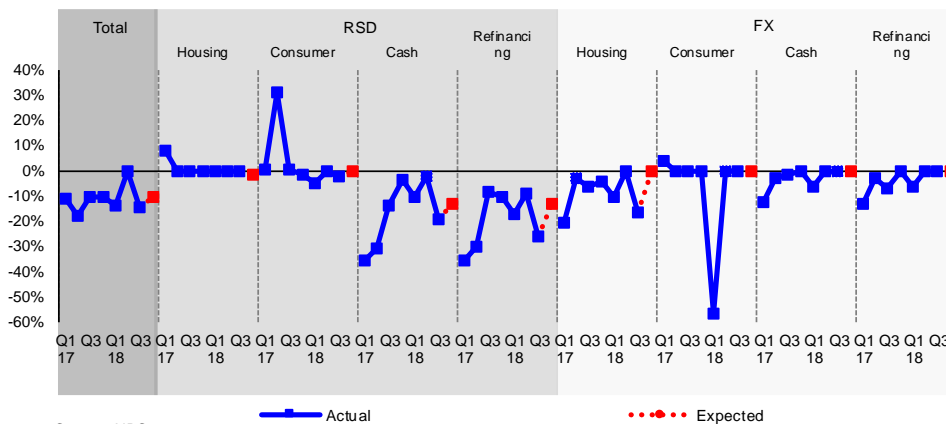
Banks are expecting a more stark rise in demand for corporate loans in Q4, primarily for long-term FX and dinar loans which will be almost evenly distributed among large, small and medium-sized loans. The need for financing current assets and capital investment and for refinancing will continue to have a positive effect on the rise in demand.

2. Household loans

2.1 Credit standards and factors affecting their change

According to Survey results, banks estimate that the trend of relaxation of household credit standards, present in the last three years, continued into Q3. The most dominant loan categories were primarily affected by the easing of credit standards – dinar cash loans and refinancing loans, as well as FX housing loans. In a smaller number of banks, dinar consumer loans were also eased, whereas credit standards for other loan categories – dinar housing loans, FX consumer loans and cash loans (including refinancing loans) were unchanged. The main factors underlying credit standard relaxation in banks' estimate were interbank competition, greater willingness to take risk, and lower cost of funding.

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

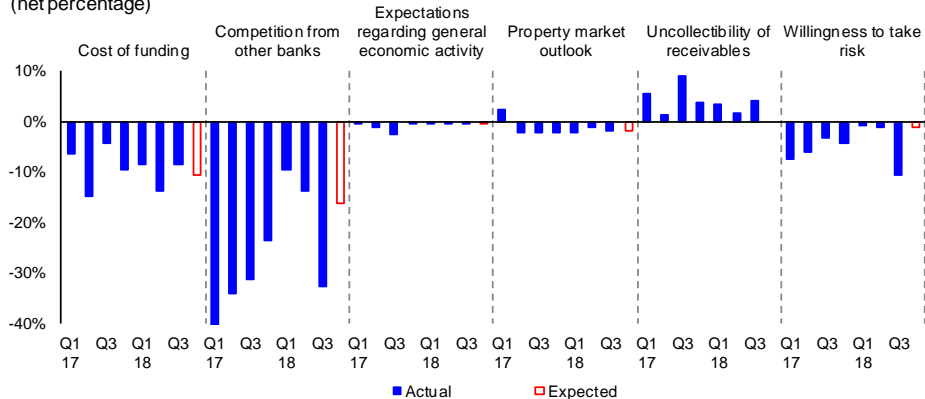


Source: NBS.

* 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.

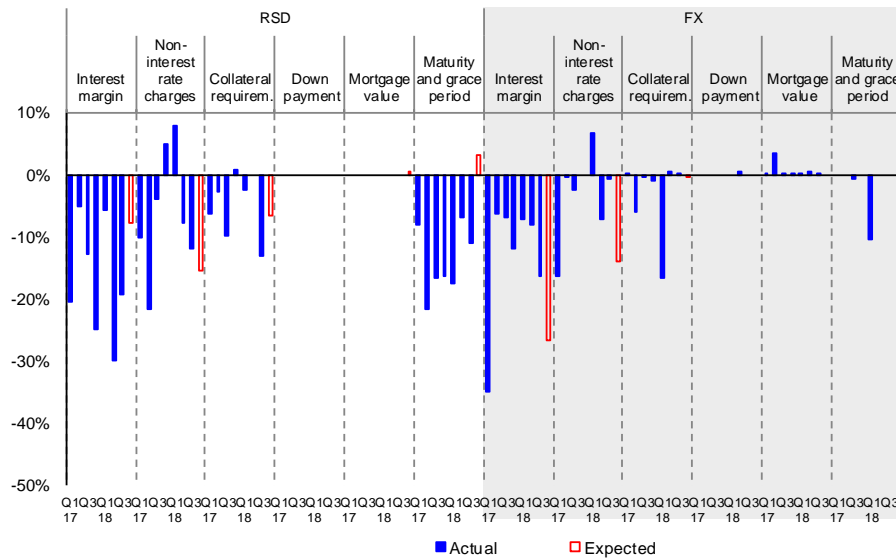
Further easing of credit standards is expected for dinar household loans in Q4 as well, spurred by interbank competition and lower cost of funding first and foremost.

2.2 Terms and conditions for household loan approval

Price conditions of household loan approval, both dinar and FX loans, were eased in Q3. Additionally, banks both reduced collateral requirements and extended repayment periods in case of dinar loans.

Banks expect further relaxation of price conditions for household loans in Q3, with more favourable loan offer on account of reduced collateral requirements. On the other hand, after a longer period of loan maturity extensions, the condition relating to household loan maturity is expected to be tightened in Q4.

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



Source: NBS.

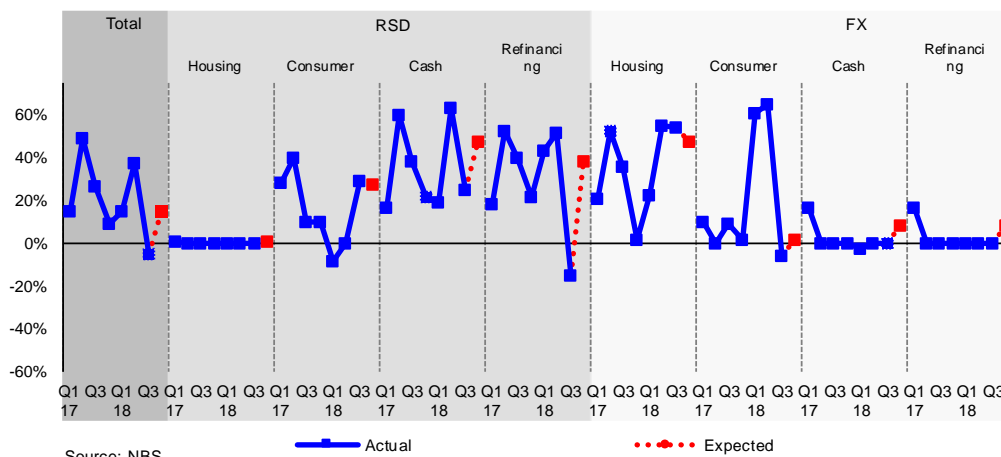
* Positive value indicates tightening of conditions and negative - easing.

** The intensity of change is not shown in charts.

2.3 Household loan demand

Q3 saw a slight fall in the household loan demand, according to the Survey results. However, diverging trends were recorded among individual loan categories – increasing demand for FX housing loans, dinar cash loans and consumer loans; and declining demand for dinar refinancing loans and FX consumer loans.

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

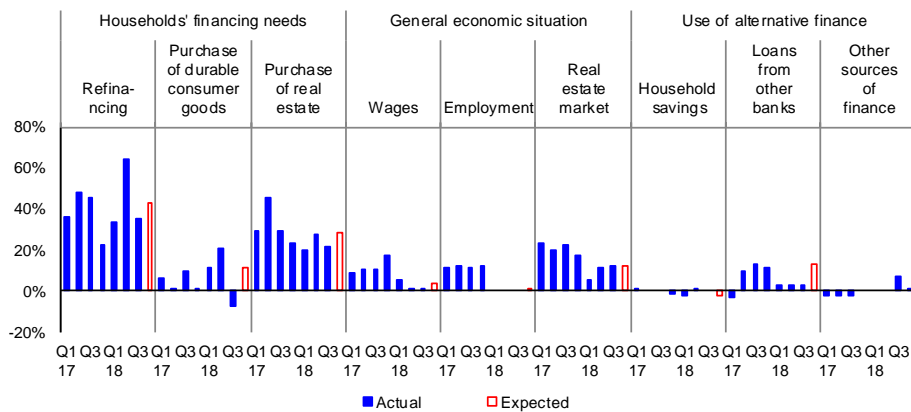


Source: NBS.

* 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.

As in the quarters before, the demand was driven by the need for refinancing and for purchase of real estate on the back of positive situation on the real estate market.

Banks are expecting a rise in the household loan demand in Q4 which will be driven by the need for purchasing durables in addition to the household need for refinancing and purchase of real estates.