



CENTRAL BANK OF
MONTENEGRO

REPORT ON BANK LENDING SURVEY RESULTS FIRST QUARTER 2021

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INTRODUCTION

Since April 2018, the Central Bank of Montenegro started conducting the Bank Lending Survey, which is harmonised with the survey conducted in the Euro area central banks, but it is tailored to the Montenegrin market. Its main objective is to provide the Central Bank with an insight in key determinants of supply of and demand for the loans to enterprises and households.

The survey consists of twelve questions that refer to the approval of loans to enterprises and households. The respondents (banks) answered the questions on the change in their credit standards¹, as well as the impact of factors contributing to this change, change in terms and conditions² of the loan approval, the number of rejected loan applications, change in demand for loans and impact of factors contributing to such a change. The questions were divided into two sets, of which the first six questions referred to the loans and/or their credit lines to enterprises, whereas the remaining six questions referred to the loans to households. With regard to the questions on loans and/or credit lines to enterprises, they are further divided based on the loan maturity (long-term and short-term loans) and the size of the enterprise (micro, small, medium, and large enterprises). With regard to loans to households, the division is made on the basis of the purpose of the loan (housing, consumer and other loans).

This Report sums up the results of the survey that was conducted in the first quarter of 2021. The survey disclosed positions of banks on the changes in their credit policies during the first quarter of 2021 and expected changes in the second quarter of 2021. With a view to providing statistical representation, the responses of individual banks are weighted by their market share³, whereas the response of the bank with higher market share gains higher importance. The survey results are displayed as net percentages. For the responses to questions on the loan supply, i.e. credit standards and credit terms and conditions, the net percentage is defined as a difference between the sum of the percentages of banks responding “tightened considerably” and “tightened moderately”

¹ *Credit standards* imply the criteria for the approval of loans and/or credit lines by banks that define the following: type of loan, recognised sectoral or geographical priorities, collateral acceptability, creditworthiness of the debtors, and the like, including internal guidelines, changes in loan approval policy and its application.

² *Credit terms and conditions* imply mandatory elements from the loan agreement and/or credit line agreement between the bank and the debtor (loan amount, interest rate, commission and fee expenses, collateral required or guarantees to be provided by the debtor, maturity, and the like). They are determined based on the creditworthiness of the debtor and they can be altered together with the credit standards or independently.

³ The weight - share of bank's assets in total assets of the banking sector - is used for aggregating the responses of individual banks.

and the sum of the percentages of banks responding “eased considerably” and “eased moderately”. A positive net percentage indicates net tightening, whereas a negative net percentage indicates net easing of credit standards. The net percentages for the responses to questions related to the factors having an impact on change of credit standards are defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage of banks reporting that it contributed to an easing of credit standards.

In regards to the demand for loans, net percentage is defined as the difference between the sum of the percentages of banks responding “increased considerably” and the sum of the percentages of banks responding “decreased considerably”. Therefore, a positive net percentage indicates net increasing, whereas a negative net percentage indicates net decreasing in demand.

SUMMARY

According to the results of the survey, during the first quarter of 2021, in relation to the previous quarter, the credit standards were tightened when approving loans both to enterprises and households, especially in the category of consumer and other loans. The complex and uncertain economic situation caused by the COVID-19 pandemic continued to negatively affect risk perception.

Banks' expectations show that, in the second quarter of 2021 as well, the standards according to which loans to enterprises will be approved could be tightened, while the standards for loans to households are expected to be eased. Banks expect that, during the second quarter of 2021, the general economic situation caused by the pandemic, higher uncollectibility of receivables as well as lower risk appetite, could lead to tighter standards in approving loans to enterprises and households. In the next quarter, an increase in the risk of required collateral could tighten the standards for loans to enterprises. The banks specify competition and risk reduction in terms of collateral required as possible factors for easing credit standards for loans to households.

Banks assess that credit conditions were eased in terms of lower commissions and fees, as well as increased maturity for loans to the enterprises and households, while the reduction of interest margins further eased credit conditions for loans to households in the first quarter of 2021. On the other hand, an increase in required collateral for both sectors, as well as lower maximum loan amounts approved to the enterprises contributed to tightening of credit conditions. According to the expectations of banks, in the second quarter of the current year, the easing of credit conditions for loans to enterprises and households in terms of commissions, fees and increase in maturities will continue, while lower interest rate margins could contribute to the easing of credit conditions for loans to households. There is a possibility of increasing collateral requirements and reducing the maximum loan amounts for enterprises.

As a result of domestic measures and the support of international financial institutions to relieve the consequences caused by the coronavirus, a positive impact on bank lending can be expected in the coming period as well.

The results of the survey show that during the first quarter of 2021, companies and households increased the demand for loans, with a recorded decrease in demand for housing loans. Conditions caused by the COVID-19 pandemic affected the increased need for loans of both enterprises and households. The growth of demand of the en-

terprises in the first quarter was driven by the increased financial needs of companies for debt restructuring and the working capital. The increased household demand for loans was driven by increased financial needs for the purchase of consumer durables and the immovable properties, as well as a somewhat more favourable situation on the real estate market, while lower earnings and declining employment caused the demand to decline. According to the survey results, the growth of household demand for loans is expected to continue in the second quarter of 2021. Observed by the total approved loans to enterprises, a slight decrease in demand is expected compared to the previous quarter, while the possibility of an increase in demand for short-term loans is expressed.

Table 1 Assessment of credit standards and demand for loans by banks, Q1 2021 and expectations for Q2 2021

	Supply		Demand	
	Credit standards		Q1 2021	Q2 2021 (expectations)
	Q1 2021	Q2 2021 (expectations)		
Loans to enterprises	↑	↑	↑	↔
Long-term loans	↑	↑	↓	↓
Short-term loans	↑	↑	↑	↑
Micro, small and medium enterprises	↔	-	↑	↑
Large enterprises	-	-	↓	↓
Loans to households	↑	↓	↑	↑
Housing loans	↗	↗	↓	↗
Consumer and other loans	↑	↓	↑	↑

Note: The table shows direction of change rather than its intensity.

↑ = credit standards/terms and conditions tightening (net percentage is higher than 5%)

↑ = increase in demand (net percentage is higher than 5%)

↗ = credit standards and credit terms and conditions tightening/increase in demand (net percentage up to 5%)

- = no change

↔ = credit standards and credit terms and conditions easing/decrease in demand (net percentage up to 5%)

↓ = credit standards and credit terms and conditions easing (net percentage higher than 5%)

↓ = decrease in demand (net percentage higher than 5%)

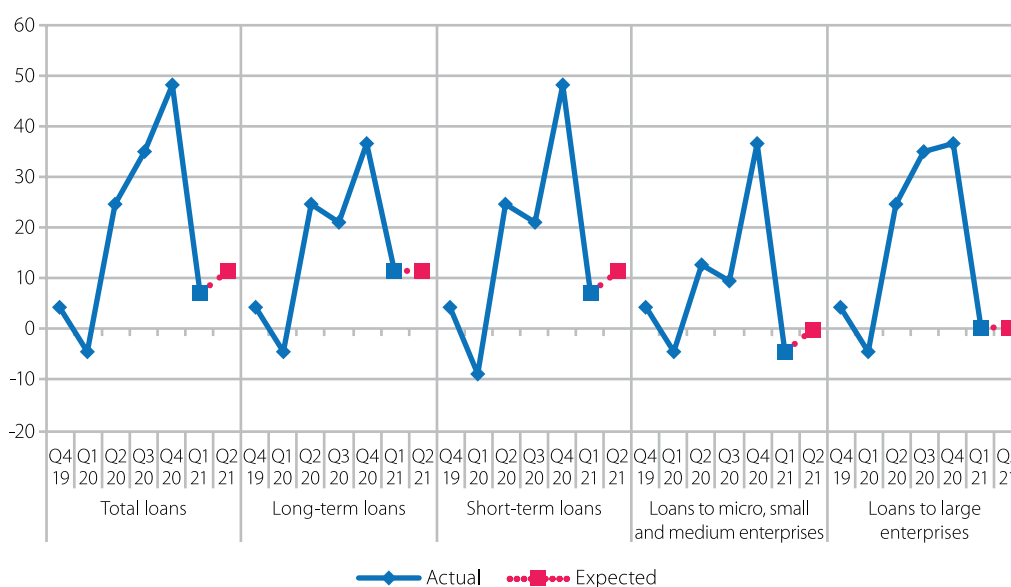
1. LOANS TO ENTERPRISES

1.1. Credit standards and credit terms and conditions for loans to enterprises

According to the survey results, credit standards in approving loans to enterprises, with certain easing for micro, small and medium enterprises, were tightened in the first quarter of 2021 in relation to the previous quarter. It should be stressed that the percentage of the banking sector that showed a tightening of credit standards is significantly lower than the one that recorded a tightening during the fourth quarter of 2020.

According to the expectations of a part of the banking sector for the second quarter of 2021, the tightening of the credit standards according to which loans are approved to enterprises could continue.

Change in credit standards for loans to enterprises **Graph 1**
(net percentage*)



Source: CBCG

Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

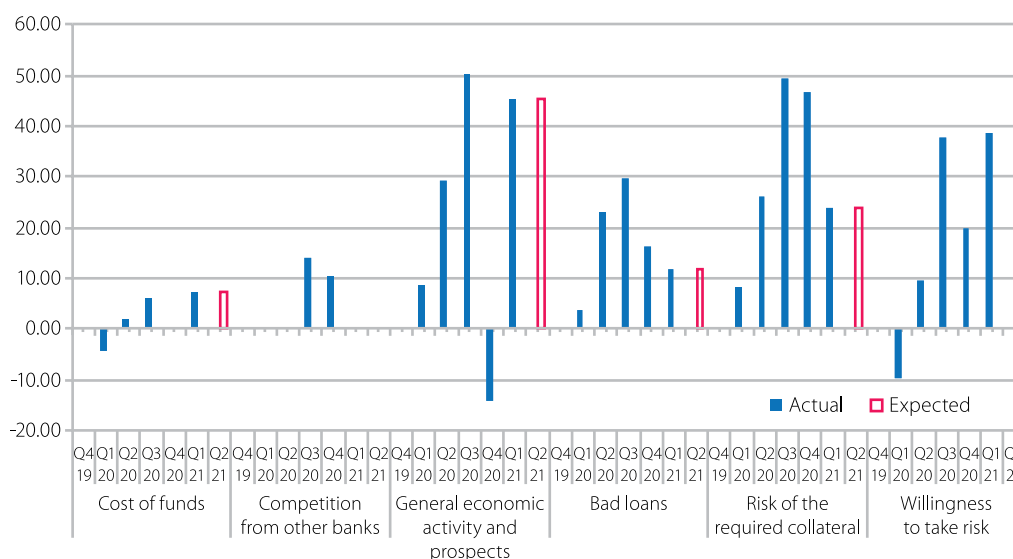
*The graph shows net percentage which indicates the direction of change rather than its intensity.

The negative impact of the coronavirus pandemic on the risk perception continued in the first quarter of 2021 as well. The unfavourable general economic conditions, the increase in the uncollectibility of receivables, as well as reduced risk appetite have contributed to the tightening of credit standards when approving loans to enterprises. A smaller share of the banking sector recorded an increase in the cost of sources of funds

compared to the previous quarter. In the first quarter of 2021, compared to the previous quarter, no impact of competition on the development of standards in approving loans to this sector was recorded.

Given the significant impact of the COVID-19 pandemic in 2021 as well as the related enormous uncertainty, banks expect that in the second quarter of 2021 the development of standards according to which loans will be approved to enterprises will be influenced by the same factors as during the first quarter of the current year.

Graph 2 Impact of factors on the change in credit standards when approving loans (net percentage)



Source: CBCG

Note: A positive value indicates the contribution of a specific factor to the tightening of credit standards, whereas a negative value indicates the contribution of a specific factor to the credit standards easing.

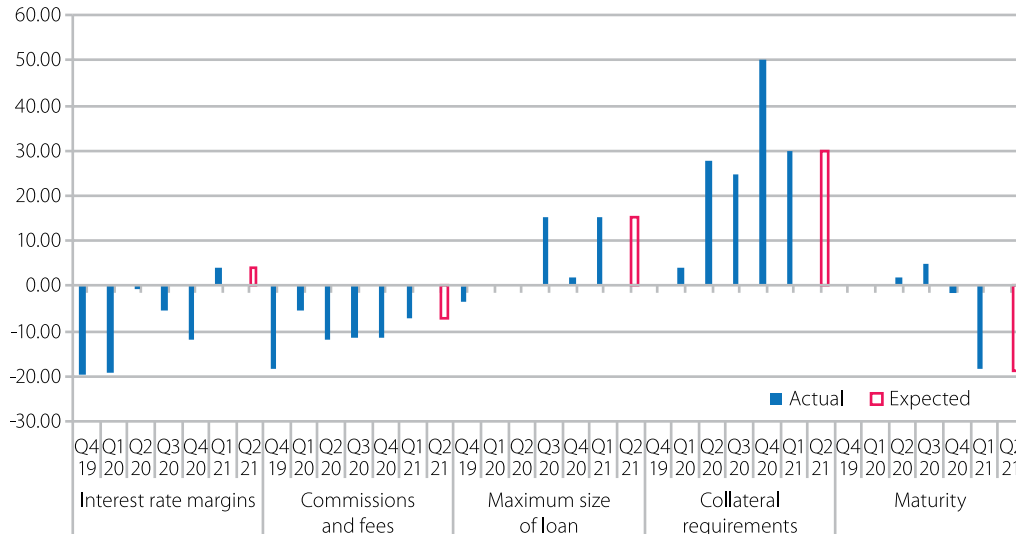
*The graph shows net percentage which indicates the direction of change rather than its intensity.

The survey results show that the decrease in commissions and fees for loans to large companies and the increase in maturities for all categories of loans approved to enterprises continued in the first quarter of 2021 as well, which contributed to the easing of credit conditions. On the other hand, the increase in collateral requirements, lower maximum loan amounts, as well as a slight increase in interest rate margins, tightened the credit conditions in the first quarter of 2021 compared to the previous quarter.

The banks expect to continue easing credit conditions for this sector in terms of reducing commissions and fees, as well as increasing the maturity in the second quarter of 2021 as well. The survey results show there could be a further increase in collateral requirements and a reduction in the maximum loan amounts, which could lead to tightening credit conditions for approving loans to enterprises. Banks expect that in the next

quarter of the current year, the tightening of the credit conditions could be influenced by a slight increase in the interest rate margin.

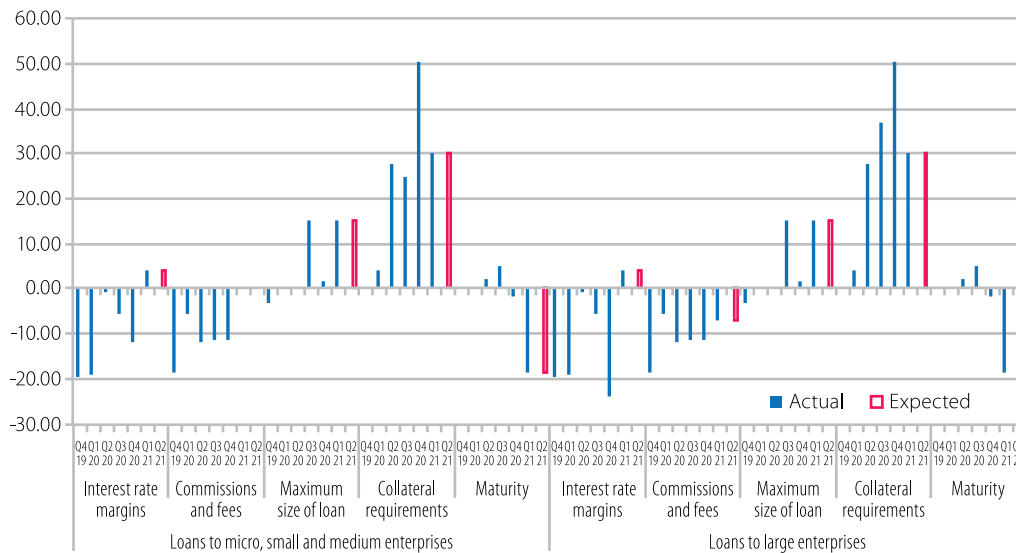
Change in terms and conditions for loans to enterprises (net percentage) Graph 3



Source: CBCG

Note: The graph shows net percentage which indicates the direction of change rather than its intensity.

Change in terms and conditions for loans by the size of enterprise (net percentage) Graph 3a

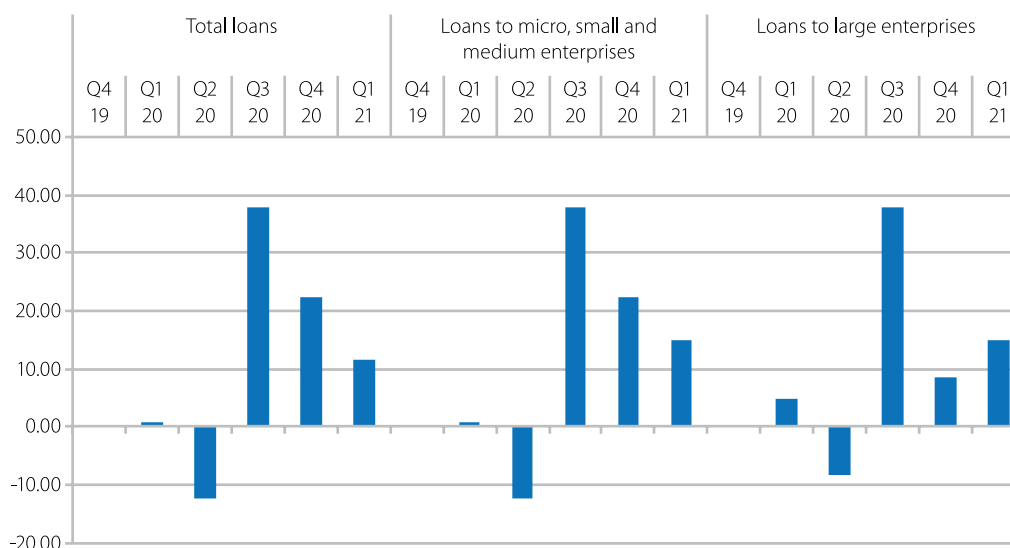


Source: CBCG

Note: The graph shows net percentage which indicates the direction of change rather than its intensity.

The survey results show that the share of rejected loan applications to micro, small, medium and large enterprises recorded an increase in the first quarter of 2021 in relation to the previous quarter.

Graph 4 Share of rejected applications for loans to enterprises



Source: CBCG

Note: A positive value indicates the increase of rejected loan applications, whereas a negative value indicates the decrease of rejected applications for loans to enterprises.

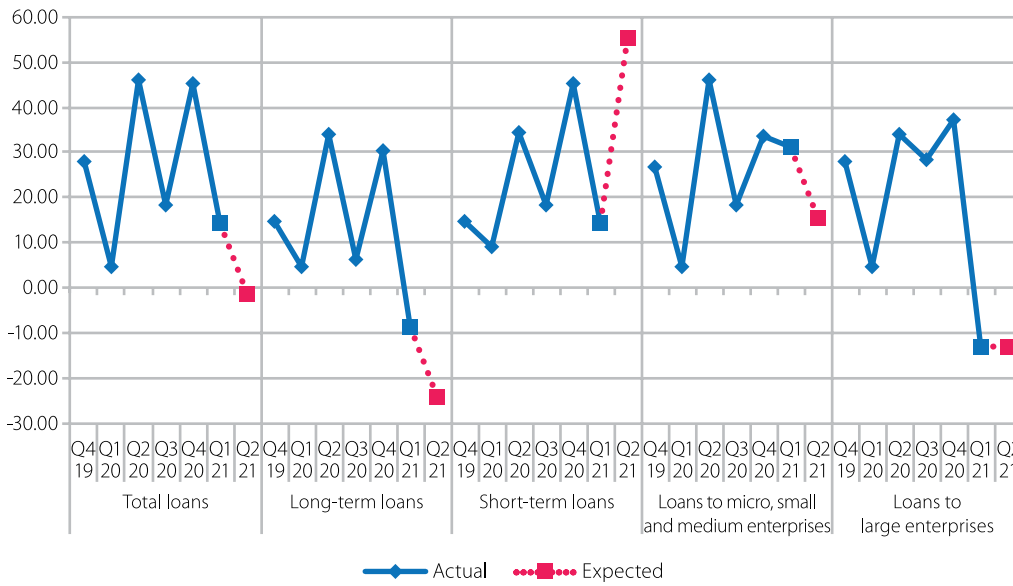
*The graph shows net percentage which indicates the direction of change rather than its intensity.

1.2. Demand for loans to enterprises

The survey results show that in the first quarter of the current year, compared to the previous quarter, the demand for loans to enterprises increased, specially that of micro, small, and medium enterprises. Demand for short-term loans increased, whereas the long-term loans recorded a decrease. The increase in demand was influenced by the need of enterprises for lending in order to be able to preserve its business in the conditions caused by the COVID-19 pandemic. Enterprises expressed the need for loans for debt restructuring and investment in working capital as factors of the increasing demand. Investments in capital investments decreased, which reduced the demand.

In the second quarter of 2021, observed in terms of total approved loans to enterprises, there may be a slight decrease in demand compared to the previous quarter. Banks indicate the possibility of reducing the demand of large enterprises, but also increasing the demand for micro, small and medium enterprises. It is expected that demand will increase for short-term loans and decrease for long-term loans. Banks expect that the demand of enterprises for banking loans will be driven by the same factors as in the previous quarter.

Change in demand for loans to enterprises (net percentage) Graph 5

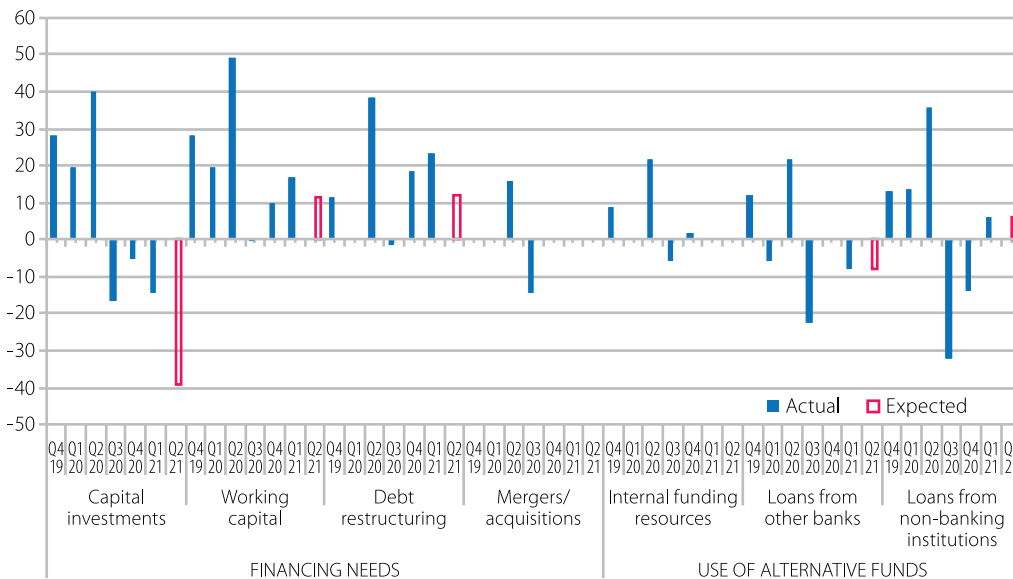


Source: CBCG

Note: A positive value shows an increase in demand, whereas a negative value indicates a decrease in demand.

*The graph shows net percentage which indicates the direction of change rather than its intensity.

Factors contributing to the change in demand for loans to enterprises (net percentage) Graph 6



Source: CBCG

Note: A positive value indicates the contribution of a specific factor to the increase in demand, while a negative value indicates the contribution of a specific factor to the decrease in demand.

*The graph shows net percentage which indicates the direction of change rather than its intensity.

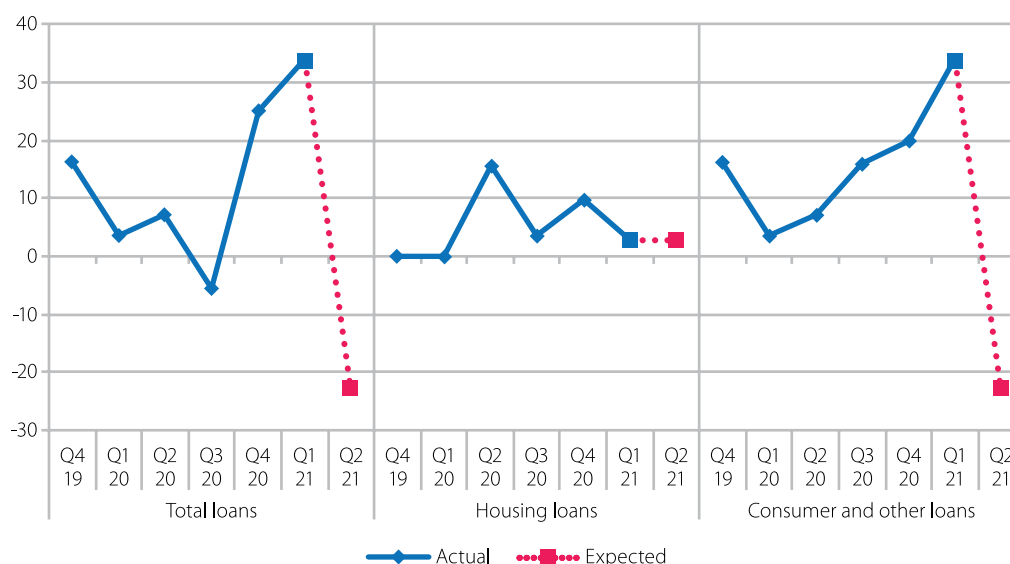
2. LOANS TO HOUSEHOLDS

2.1. Credit standards and credit terms and conditions for loans to households

According to the results of the survey, credit standards for loans to households, especially consumer and other loans, were tightened in the first quarter of 2021 in relation to the previous quarter.

Banks expect that credit standards for loans to households, primarily consumer and other loans, could be significantly eased in the second quarter of 2021.

Graph 7 Change in credit standards for loans to households (net percentage)



Source: CBCG

Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

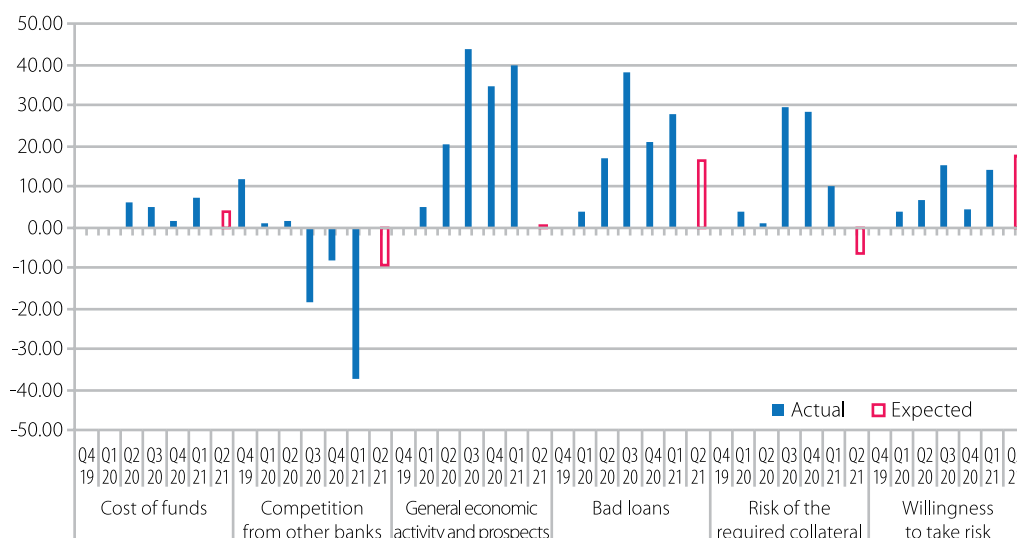
*The graph shows net percentage which indicates the direction of change rather than its intensity.

In the first quarter of 2021, compared to the previous quarter, the deteriorating economic situation, higher uncollectibility of receivables and growing risk in terms of required collateral tightened the credit standards for loans to households. Also, reduced risk appetite, higher costs of sources of funds, as well as the implementation of the Decision on

Macroprudential Measures Related to Retail Banking Loans contributed to tightening of credit standards for consumer and other loans. On the other hand, competition affected the easing of credit standards for loans to households in the first quarter of the current year compared to the previous quarter.

According to the results of the survey, the competition will ease credit standards for loans to households in the second quarter of 2021 as well. Reducing the risk with regard to the required collateral could also ease credit standards for loans to households. The increase in the uncollectibility of receivables and the reduced risk appetite are expected to tighten credit standards for loans to households. According to banks, the economic situation will have a significantly lower impact on the credit standards development for households in the next quarter, compared to the previous quarter of the current year.

Factors contributing to the change in credit standards for loans to households Graph 8
(net percentage)



Source: CBCG

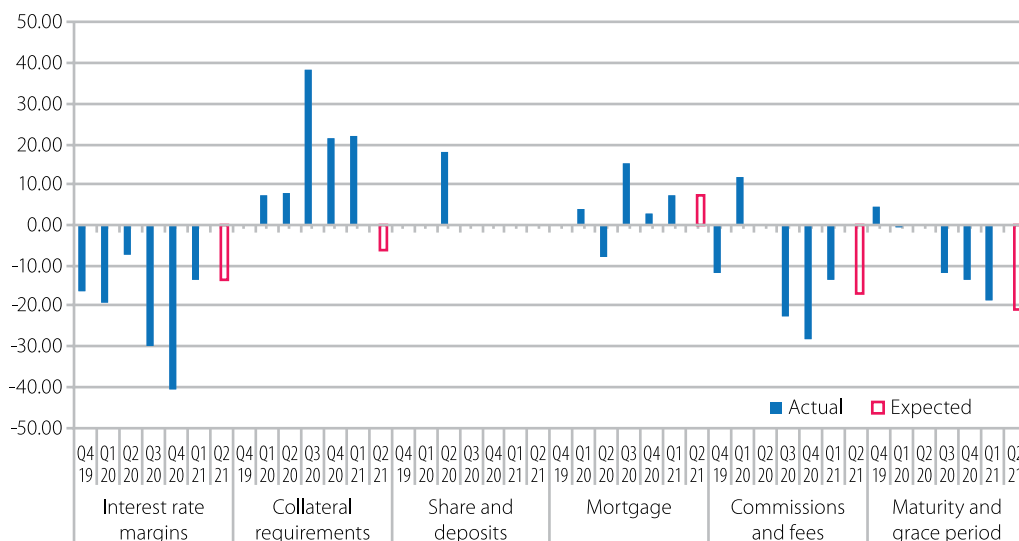
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

*The graph shows net percentage which indicates the direction of change rather than its intensity.

The results of the survey show that the conditions for approving loans to households eased in the first quarter of 2021 compared to the previous quarter of the current year, in terms of lower interest rate margins, lower fees and commissions, as well as increased maturity and grace period. The CBCG measures to mitigate the negative effects of the COVID-19 pandemic on the financial system also eased the credit conditions. Banks estimate that the increased requirements regarding collateral and the value of mortgages when approving loans to households, especially consumer and other loans, tightened the credit conditions. Regarding the share of deposits, no changes were recorded during the first quarter of the current year.

Banks expect that in the second quarter of 2021, credit conditions for loans to households will ease in terms of interest rate margins, commissions and fees. An increase in maturity and grace period as well as a reduction in collateral requirements for consumer and other loans could also ease credit conditions. The CBCG measures to mitigate the negative effects of the COVID-19 pandemic on the financial system will further ease the credit conditions for loans to households. Increased requirements concerning the value of mortgages when approving consumer and other loans could tighten credit conditions in the next quarter. In the second quarter of 2021, compared to the previous quarter, banks do not expect changes in terms of share of deposits.

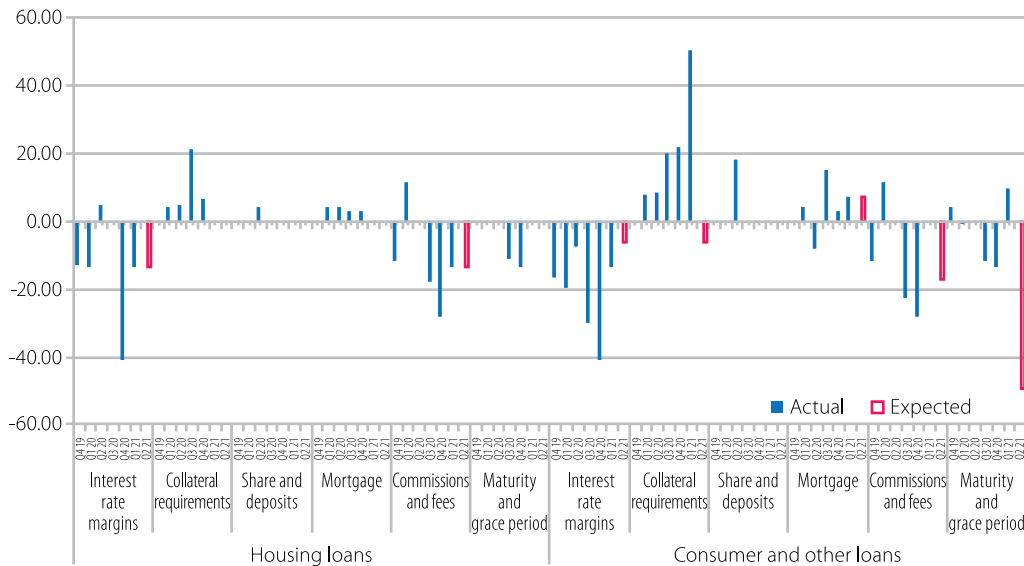
Graph 9 Change in terms and conditions for loans to households (net percentage)



Source: CBCG

Note: The graph shows net percentage which indicates the direction of change rather than its intensity.

Change in terms and conditions for housing loans and consumer and other loans Graph 9a
(net percentage)

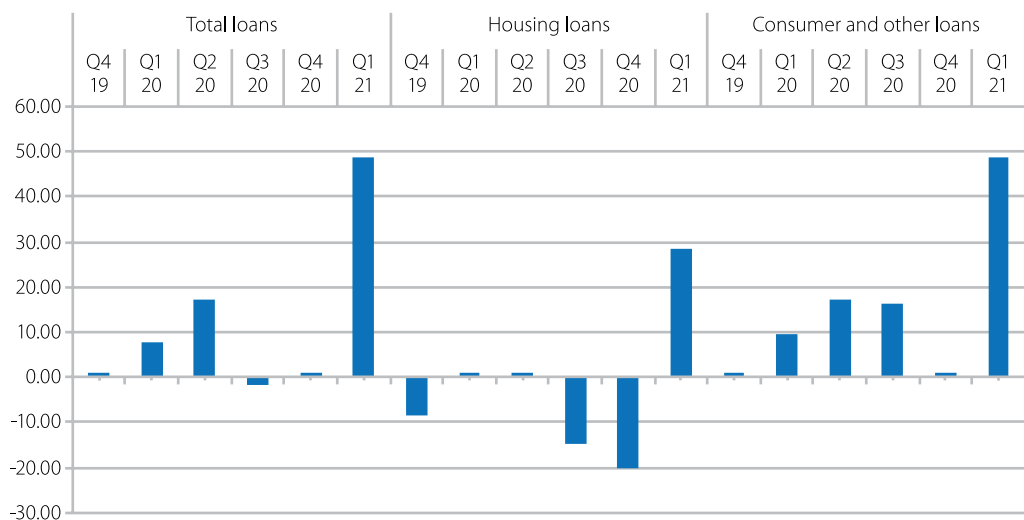


Source: CBCG

Note: The graph shows net percentage which indicates the direction of change rather than its intensity.

The survey results indicate that in the first quarter of 2021 compared to the previous quarter, the banking sector recorded an increase in rejected applications in housing, consumer, and other loans.

Share of rejected applications for loans to households Graph 10



Source: CBCG

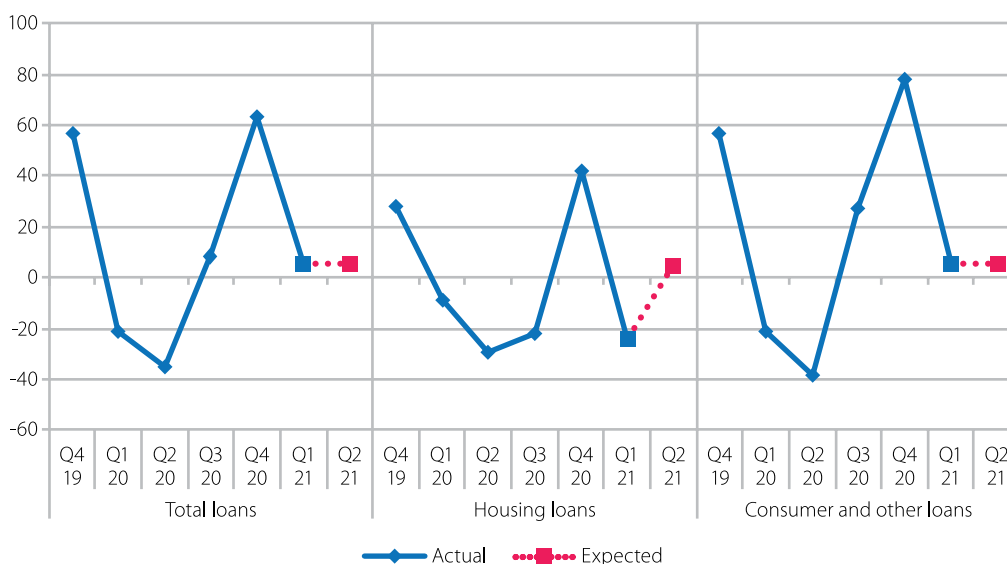
Note: A positive value indicates the increase of rejected loan applications, whereas a negative value indicates the decrease of rejected applications for loans to households.

*The graph shows net percentage which indicates the direction of change rather than its intensity.

2.2. Demand for loans to households

The survey results reveal a slight increase in household demand for consumer and other loans in the first quarter of 2021, compared to the previous quarter, whereby the growth is significantly lower than the one recorded in the fourth quarter of 2020 in relation to the third quarter of 2020. When it comes to housing loans, a decline in demand was recorded during the first quarter of the current year. Banks believe that household demand continued to be affected by the deteriorating economic situation caused by the coronavirus pandemic. The banks specify the increased household financial needs for the purchase of consumer durables and the purchase of real estate, as well as a somewhat more favourable situation on the real estate market as the demand growth factors during the first quarter of the current year. On the other hand, lower earnings and employment reduction, as well as increased retail lending by other banks decreased the demand.

Graph 11 Change in demand for loans to households (net percentage)



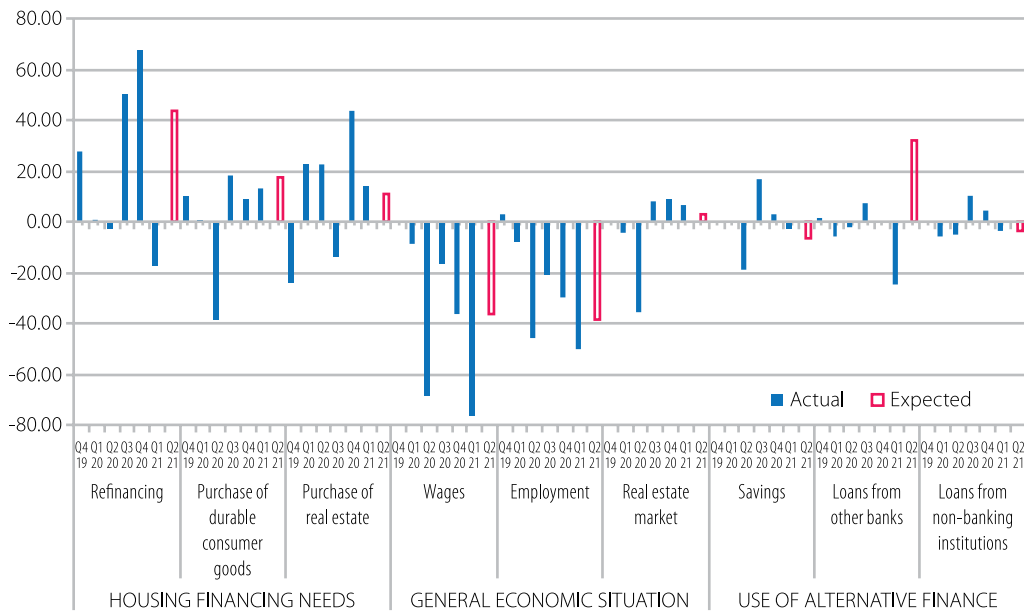
Source: CBCG

Note: A positive value shows an increase in demand, whereas a negative value indicates a decrease in demand.

*The graph shows net percentage which indicates the direction of change rather than its intensity.

According to an assessment of a smaller part of the banking sector, the household demand for loans is expected to grow in the second quarter of 2021. The financial needs of households for refinancing, purchase of consumer durables and purchase of real estate will increase the demand. The CBCG measures to mitigate the negative effects of the COVID-19 pandemic on the financial system will work to the same end. It is expected that the decline in employment and the decline in earnings will decrease the demand in the next quarter, although to a lesser extent compared to the previous quarter.

Factors contributing to the change in demand for loans to households (net percentage) **Graph 12**



Source: CBCG

Note: A positive value indicates the contribution of a specific factor to the increase in demand, while a negative value indicates the contribution of a specific factor to the decrease in demand.

*The graph shows net percentage which indicates the direction of change rather than its intensity.

3. ANNEX - Aggregate results of Bank Lending Survey in the first quarter 2021

1. Credit standards for loans to enterprises

	Past three months	Next three months
A) Total loans and/or credit line	7.06	11.59
Long-term (over 1 year)	11.59	11.59
Short-term (up to 1 year)	7.06	11.59
B) Loans and/or credit lines to micro, small and medium enterprises	-4.51	0.02
C) Loans and/or credit lines to large enterprises	0.30	0.30

2. Factors contributing to the change in credit standards for loans to enterprises

	Past three months			Next three months		
	Total	Loans to micro, small and medium enterprises	Loans to large enterprises	Total	Loans to micro, small and medium enterprises	Loans to large enterprises
A) Costs of sources of funds	7.36	7.36	7.36	7.36	7.36	7.36
B) Competition of other banks	0.00	0.00	0.00	0.00	0.00	0.00
C) Risk perception	54.53	53.05	54.53	51.16	51.16	51.16
- General economic situation and outlooks	45.27	45.27	45.27	45.27	45.27	45.27
- Bad debt	11.79	11.79	11.79	11.79	11.79	11.79
- Risk related to required collateral	23.76	23.76	23.76	23.76	23.76	23.76
D) Risk appetite	38.71	38.71	43.24	43.24	43.24	43.24

3. Credit terms and conditions for loans to enterprises

	Past three months			Next three months		
	Total	Loans to micro, small and medium enterprises	Loans to large enterprises	Total	Loans to micro, small and medium enterprises	Loans to large enterprises
A) Interest rate margin*	3.82	3.82	3.82	3.82	3.82	3.82
B) Commissions and fees*	-7.36	0.00	-7.36	-7.36	0.00	-7.36
C) Maximum amount of loans and/or credit lines**	15.08	15.08	15.08	15.08	15.08	15.08
D) Collateral requirements*	29.83	29.83	29.83	29.83	29.83	29.83
E) Maturity**	-18.65	-18.65	-18.65	-18.65	-18.65	-18.65

4. Share of the rejected loan applications

	Past three months		
	Total	Loans to small, micro and medium enterprises	Loans to large enterprises
Share of rejected applications	11.29	14.66	14.66

5. Demand for loans to enterprises

	Past three months	Next three months
A) Demand for total loans and/or credit lines	14.34	-1.19
Long-term (over 1 year)	-8.53	-24.06
Short-term (up to 1 year)	14.34	55.25
B) Demand of micro, small and medium enterprises	30.99	15.46
C) Demand of large enterprises	-13.06	-12.77

6. Factors contributing to the demand of enterprises for loans

	Past three months	Next three months
A) FINANCIAL NEEDS OF ENTERPRISES	44.80	15.46
- For capital investments	-14.42	-39.23
- For working capital	16.57	11.48
- For debt restructuring	23.09	12.09
- For mergers/acquisitions	0.00	0.00
B) USE OF ALTERNATIVE SOURCES OF FINANCING	6.00	6.00
- Internal sources of financing	0.00	0.00
- Loans from other banks	-7.81	-7.81
- Loans from non-banks	6.00	6.00

7. Credit standards for loans to households

	Past three months	Next three months
Total loans	33.80	-22.65
- Housing loans	2.80	2.80
- Consumer and other loans	33.80	-22.65

8. Factors contributing to the change in credit standards for loans to households

	Past three months			Next three months		
	Total	Housing loans	Consumer and other loans	Total	Housing loans	Consumer and other loans
A) Costs of sources of funds	7.36	0.00	7.36	3.99	-3.37	3.99
B) Competition of other banks	-37.5	-13.81	-37.5	-9.28	-13.81	-9.28
C) Risk perception	68.09	16.68	68.09	28.29	5.11	28.29
- General economic situation and outlooks	39.86	16.68	39.86	0.06	5.11	0.06
- Bad debt	27.89	12.07	27.89	16.32	0.50	16.32
- Risk related to required collateral	10.16	2.80	38.39	-6.77	2.80	-6.77
D) Risk appetite	14.12	0.00	14.12	17.50	3.37	17.50
E) Other factors, if any (should be specified) Implementatrion of the Decision on Macroprudential Measures Related to Retail Banking Loans	3.37	0.00	3.37	0.00	0.00	0.00

9. Terms and conditions for loans to households

	Past three months			Next three months		
	Total	Housing loans	Consumer and other loans	Total	Housing loans	Consumer and other loans
A) Interest rate margin*	-13.81	-13.81	-13.81	-13.81	-13.81	-6.00
B) Collateral requirements*	22.02	0.00	50.25	-6.20	0.00	-6.20
C) Share and deposits*	0.00	0.00	0.00	0.00	0.00	0.00
D) Mortgage value*	7.36	0.00	7.36	7.36	0.00	7.36
E) Commissions and fees*	-13.81	-13.81	0.00	-17.18	-13.81	-17.18
F) Maturity and grace period*	-18.93	0.00	9.29	-21.17	0.00	-49.39
G) Other factors - The CBCG measures aimed at reducing adverse effects of the COVID-19 epidemic on the financial system	-13.81	-13.81	-13.81	-13.81	-13.81	-6.00

10. Share of the rejected loan applications

	Past three months		
	Total	Housing loans	Consumer and other loans
Share of rejected applications	48.49	28.22	48.49

11. Demand for loans to households

	Past three months	Next three months
Total loans	5.47	5.47
- Housing loans	-23.83	4.40
- Consumer and other loans	5.47	5.47

12. Factors contributing to the demand for loans to households

	Past three months	Next three months
A) FINANCIAL NEEDS OF HOUSEHOLDS	-11.11	49.87
- For refinancing	-17.03	43.95
- For purchase of consumer durables (cars, furniture, etc.)	13.24	17.77
- For real estate purchase	14.26	10.89
B) GENERAL ECONOMIC SITUATION	-76.05	-36.25
- Earnings	-76.05	-36.25
- Employment	-50.13	-38.56
- Real estate market situation	6.48	3.11
C) USE OF ALTERNATIVE SOURCES OF FINANCING	-31.51	21.57
- Household savings	-2.83	-6.2
- Loans to households from other banks	-24.15	32.30
- Loans from non-banks	-3.28	-3.28
D) Other factors: Decision on Interim Measures to Mitigate Negative Impact of the COVID-19 Epidemic on the Financial System.	-11.11	49.87