



CENTRAL BANK OF
MONTENEGRO

**REPORT ON BANK LENDING
SURVEY RESULTS
SECOND QUARTER 2020**

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Bulevar Svetog Petra Cetinjskog 6
81000 Podgorica
Telephone: +382 20 665 331
Fax: +382 20 665 336

WEB SITE: <http://www.cbcg.me>

CENTRAL BANK COUNCIL: Radoje Žugić, PhD, Governor
Nikola Fabris, PhD, Vice-Governor
Miodrag Radonjić, Vice-Governor
Zorica Kalezić, PhD, Vice-Governor
Milorad Jovović, PhD
Ruždija Tuzović
Nikola Milović, PhD

DESIGNED BY: Nikola Nikolić
Nikola Marđonović

TRANSLATED BY: Department for Financial Stability,
Research and Statistics

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INTRODUCTION

Since April 2018, the Central Bank of Montenegro (CBCG) started conducting the Bank Lending Survey, which is harmonised with the survey conducted in the Euro area central banks but tailored to the Montenegrin market. Its main objective is to provide the CBCG with an insight into key determinants of supply of and demand for 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, changes 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 credit lines to enterprises, while the remaining six questions referred to 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, and medium enterprises and large firms). The division with loans to households is made based on the loan purpose (housing, consumer and other loans).

This Report sums up the results of the survey that was conducted in the second quarter of 2020. The survey disclosed positions of banks on the changes in their credit policies during the second quarter and expected changes in the third quarter of 2020. 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, one part of the banking sector estimated that, during the second quarter of 2020, in relation to the previous quarter, the credit standards were tightened when approving loans to enterprises and households. The specific and very uncertain economic situation caused by the coronavirus pandemic has affected the perception of risk. Given the survey results, it can be concluded that the macroprudential measures of the CBCG concerning cash loans adopted in Q4 2019, acted towards the tightening of standards in granting loans to households.

A number of banks expect credit standards to be tightened when granting loans to enterprises and households in the next quarter. Easing of standards is expected for loans to enterprises. Banks observe that in the third quarter lower costs of sources of funds for the corporate sector could be influenced by easing of credit standards, while such an effect could have a greater risk appetite in retail sector. According to expectations of certain number of banks for the next quarter, the worsening economic situation caused by the coronavirus pandemic, and impossibility to collect receivables from the previous period could tighten lending standards for both loans to enterprises and households.

Banks assess that interest rate margins for loans to enterprises and households were reduced in the second quarter of 2020. Also, commissions and fees for loans to enterprises were reduced, but the required collateral for approving both types of loans increased. Banks expect that credit conditions for the corporate sector in terms of interest rate margins, commissions and fees will be eased during the next quarter, while the required collateral might increase. Banks expect that in the third quarter of 2020, an increase in the maturity and grace period for loans to households could ease the conditions for this category of loans. On the other hand, there is a possibility of tightening credit conditions in terms of interest rate margins, share and deposits, the value of the mortgage, as well as higher required capital.

A positive impact on bank lending can be expected as a result of domestic measures and the support of international financial institutions to fix the consequences caused by the coronavirus.

Banks estimated that the demand for loans to enterprises increased during the second quarter of 2020, unlike demand for loans to households. Demand for loans to enterprises was driven by the requirement to fund working capital, capital investments, and restructuring of the existing debts. The decline in demand for household loans in the second quarter was driven by the deteriorating economic situation in the country, as

well as a reduction and delay in the purchase of immovable property and consumer durable goods. Banks expect that in the third quarter of 2020, the growth in demand for loans to enterprises will continue due to the worsening liquidity of the corporate sector as a result of the coronavirus pandemic, while the demand for loans to households will decrease, as the worsening economic situation affects the reduction and delay in consumption.

Tabela 1 Assessment of credit standards and demand for loans by banks, Q2 and Q3 2020

	Supply		Demand	
	Credit standards		Q2 2020	Q3 2020 (expectations)
	Q2 2020	Q3 2020 (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 the 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%)

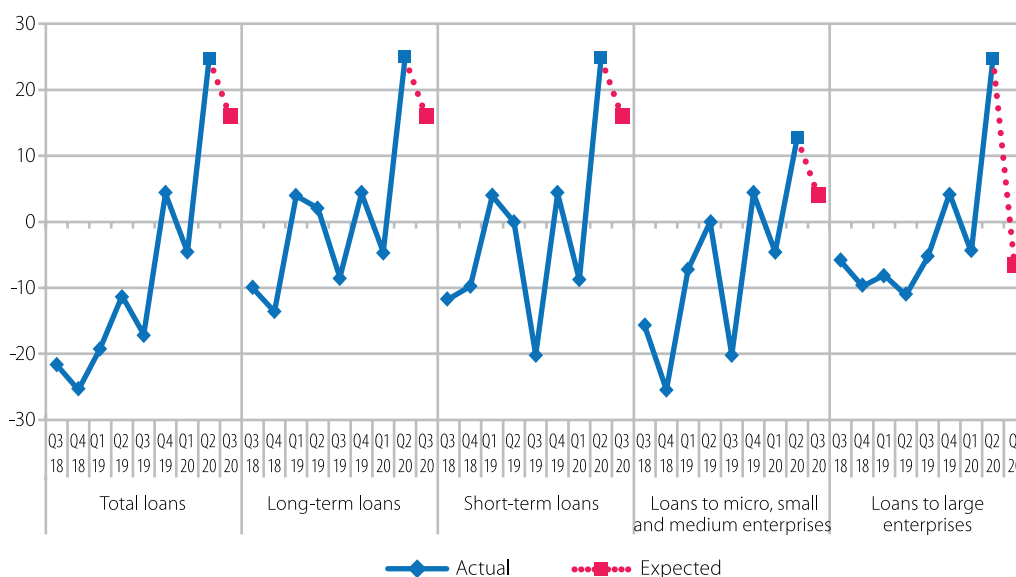
1. LOANS TO ENTERPRISES

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

According to the answers of a number of banks in the conducted survey, credit standards in granting loans to enterprises were tightened in the second quarter of 2020 in relation to the previous quarter.

Banks expect that credit standards may tighten in the third quarter of 2020, but to a lesser extent than in the second quarter. According to the survey results, credit standards for large enterprises are expected to be eased, as well as a slight tightening of credit standards for micro, small and medium enterprises.

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



Source: CBCG

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

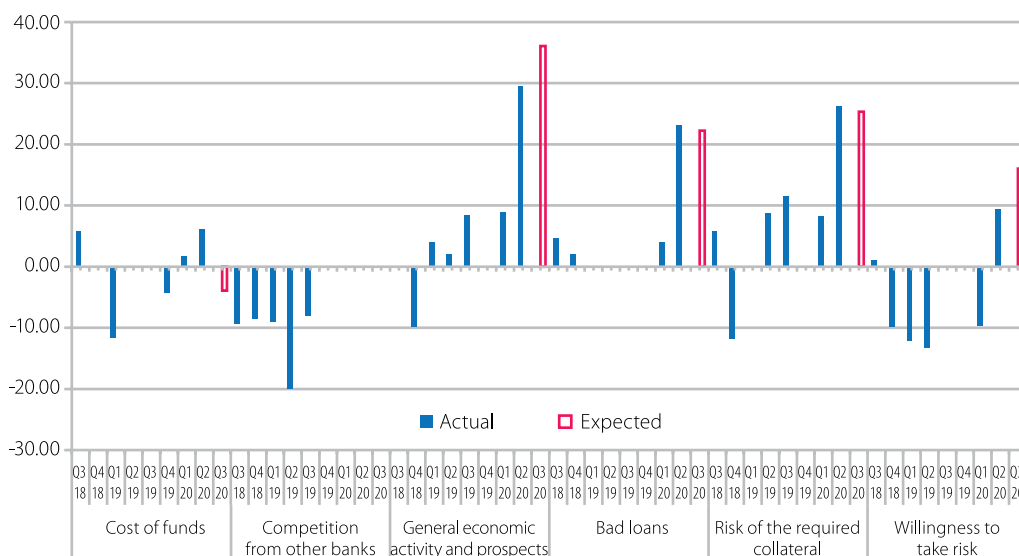
* The graph shows net percentage which indicates the direction of change rather than its intensity.

As expected, the coronavirus pandemic had a negative impact on risk perception. Accordingly, the worsening general economic situation, higher uncollectibility of receivables from the previous period, increased risk of required collateral in lending and re-

duced risk appetite have contributed to the fact that some banks tighten credit standards when granting loans to enterprises. According to banks, competition had no effect on changes in credit standards in the second quarter.

Given the fact that the coronavirus pandemic continues, part of the banking sector expects that the development of credit standards when granting loans to enterprises, in the next quarter, will be influenced by the same factors as in the second quarter. However, banks indicated that lower costs of sources of funds could ease the credit standards.

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



Source: CBCG

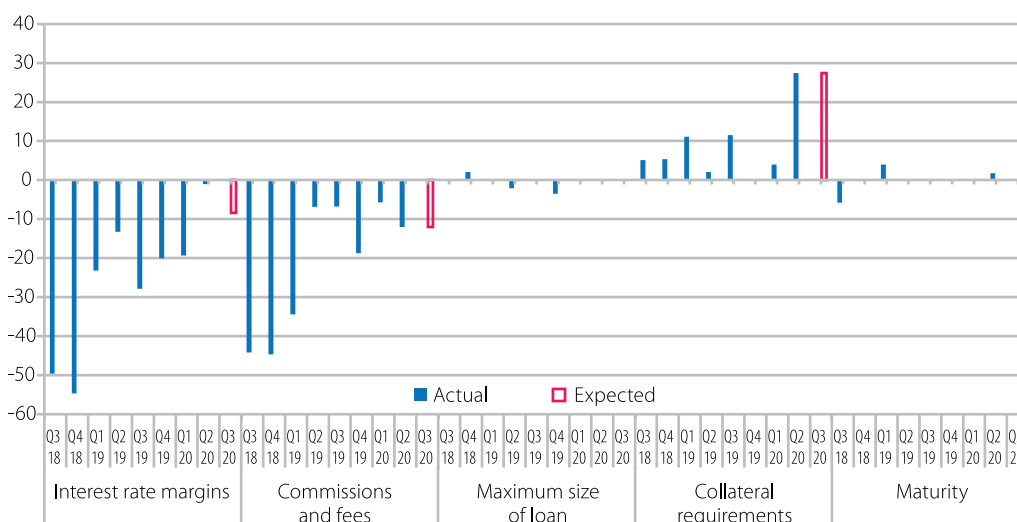
Note: A positive value indicates the contribution of a specific factor to the tightening of credit standards, whereas a negative value indicates the contribution of a specific factor to the credit standards easing.

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

According to the survey, decrease in interest rate margins, commissions and fees for granting loans to enterprises continued in Q2 2020, which pointed out to easing of credit conditions, regardless of their size, and it is in line with the previous quarter expectations. On the other hand, a part of the banking sector saw a higher collateral requirements and reduced maturity, which could tighten credit conditions. Based on the banks' responses, the credit conditions regarding the maximum amounts of granted loans did not change in the second quarter.

According to the banks' expectations, the easing of credit conditions for loans to enterprises concerning the reducing of interest rate margins, commissions and fees will continue during the next quarter, regardless of their size. Some banks expect that there could be an increase in collateral requirements and a decrease in maturity, which could contribute to tightening the conditions for granting loans to enterprises.

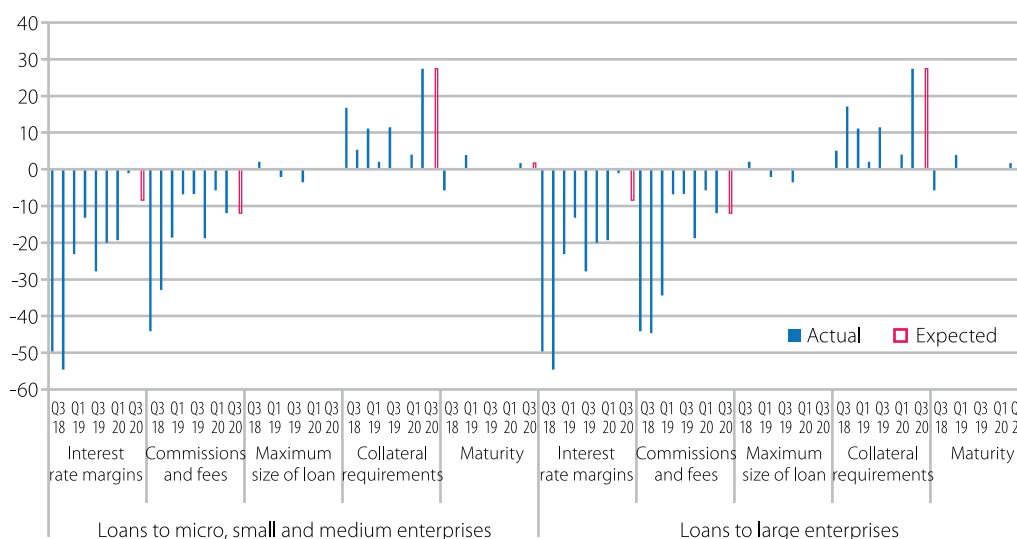
Change in terms and conditions for loans to enterprises (net percentage) Graph 3



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



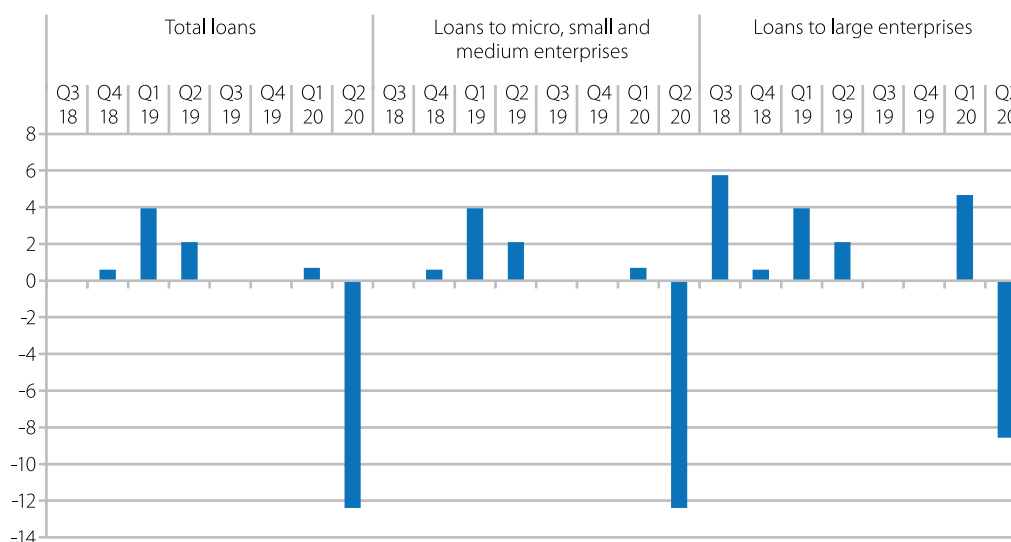
Source: CBCG

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

Based on the results of the survey in the second quarter of 2020, compared to the previous quarter, the number of rejected applications for loans to enterprises decreased. Contributing to this is the willingness of banks to support the recovery of an economy hit hard by the coronavirus pandemic. The Central Bank's measures to mitigate the con-

sequences caused by the corona virus, such as the reduction of reserve requirement for banks resulted in an increase of the liquidity of the banking sector and releasing funds to continue lending.

Graph 4 Share of rejected applications for loans to enterprises



Source: CBCG

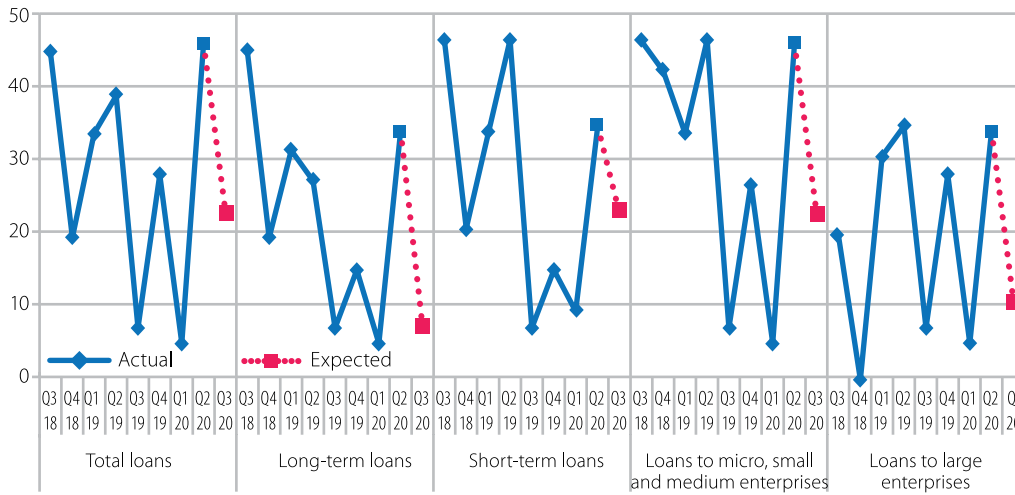
Note: A positive value indicates the increase of rejected wholesale loan applications, whereas a negative value indicates the decrease of rejected loan applications.

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

1.2. Demand for loans to enterprises

In the second quarter of 2020, banks recorded a significant rise in demand for loans to micro, small and medium enterprises, regardless of their size, which was in line with banks' expectations from the previous quarter. Due to the outbreak of the coronavirus pandemic, enterprises have shown an increased demand for borrowing. The survey showed that the contributing factor to the increase in demand was the need for financing of enterprises i.e. the needs for capital investments, working capital, debt restructuring and mergers/acquisitions. Also, there was an increased use of loans granted by non-banking institutions, which resulted in reducing the demand for loans from banks.

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



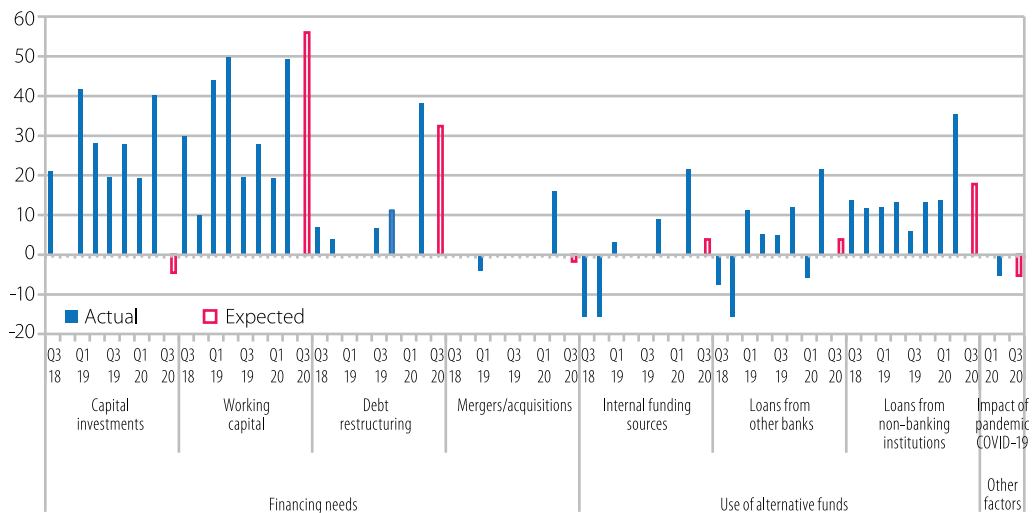
Source: CBCG

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.

The COVID-19 pandemic has significantly affected the economy's liquidity, which will result in an increased indebtedness of this sector and increased demand for loans, regardless of maturity and the company's size. The survey results showed that the growth of demand will be conditioned primarily by the financial needs of companies, especially for working capital and debt restructuring. Financing with loans granted by non-banking institutions could have an impact on reducing corporate sector demand for banking loans.

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 demand decrease.

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

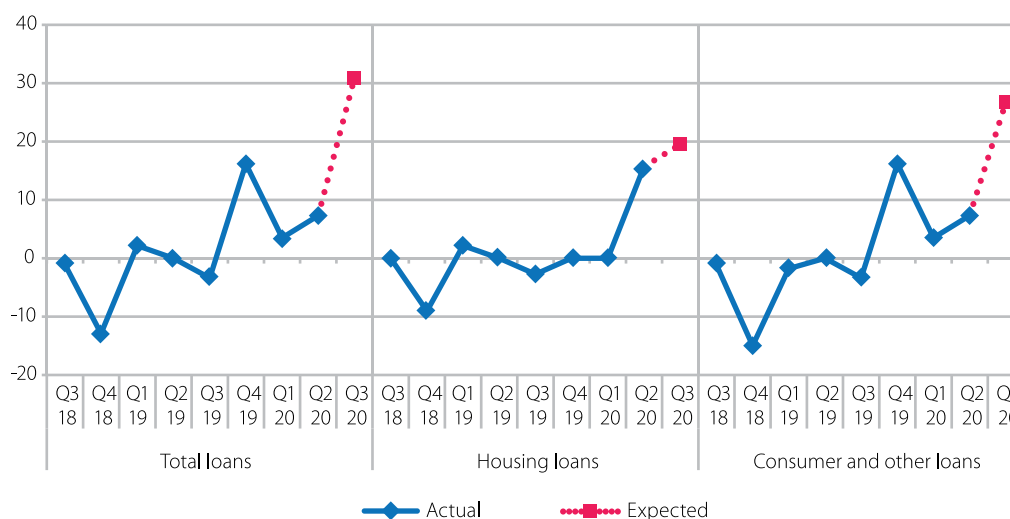
2. LOANS TO HOUSEHOLDS

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

According to banks' assessment in the second quarter of 2020, credit standards for loans to households have tightened compared to the previous quarter. Banks recorded a tightening of standards when approving housing, consumer and other loans.

Banks expect that conditions for loans to households, both housing, consumer and other loans, could be tightened in the next quarter.

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



Source: CBCG

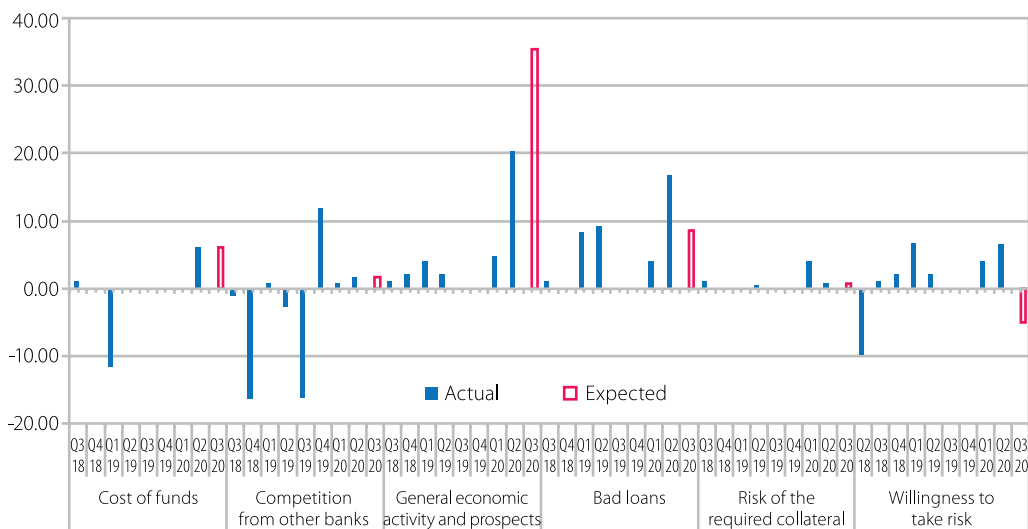
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

According to banks, the tightening of standards in Q2 2020 was mostly a result of the deteriorating economic situation, higher uncollectibility of receivables, higher cost of funds, and lower risk appetite. Also, a smaller part of the banking sector pointed out that the implementation of the Decision on macroprudential measures related to loans granted by banks to individuals could further affect the tightening of standards. Banks believe that the same factors will result in tightening the standards for granting loans to households in the next quarter. Reduced competition, as well as higher risk of required collateral, according to an assessment of a smaller part of the banking sector, could

further tighten standards for loans to households. On the other hand, only a greater risk appetite could work towards easing the standards for granting these loans.

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



Source: CBCG

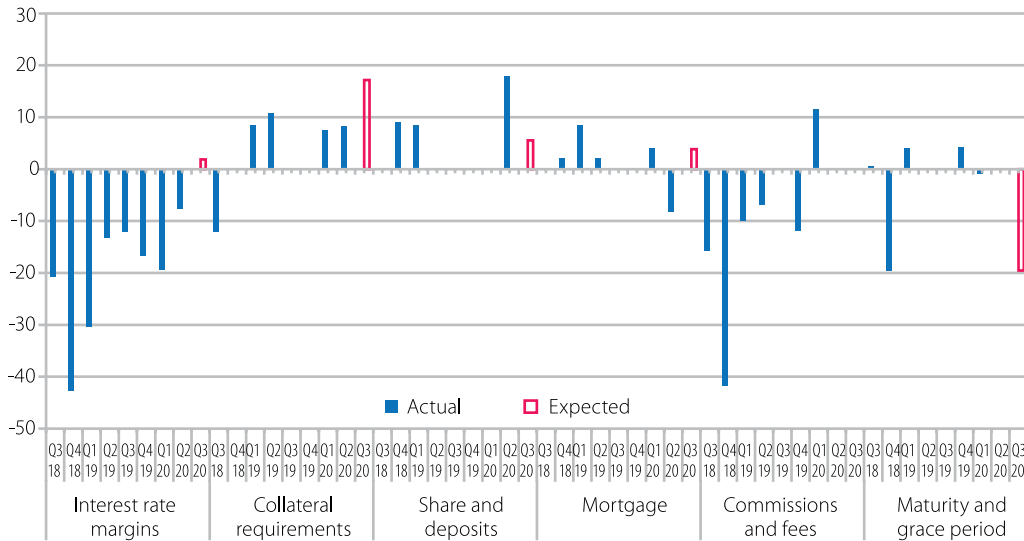
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

Banks find that, in Q2 2020, the terms and conditions for granting loans to households eased in terms of interest rate margins and mortgage values. On the other hand, increased collateral requirements and the share of deposits in granting loans to households have led to stricter conditions. Banks reported that credit terms related to fees and commissions, as well as maturities and grace periods of loans did not change in the second quarter.

In the next quarter, banks expect tightening of credit conditions, in terms of interest rate margins, requirements in terms of collateral values, share and deposits and mortgages. Banks also expect that extending the maturity and grace period of loans to households could ease the standards for this type of loans.

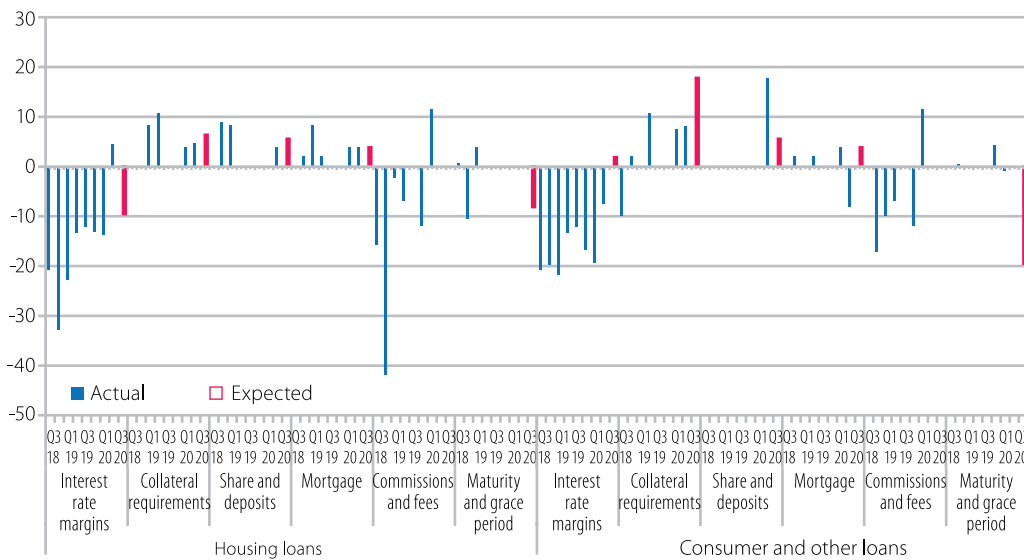
Graph 9 Change in terms and conditions for loans to households (net percentage)



Source: CBCG

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

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

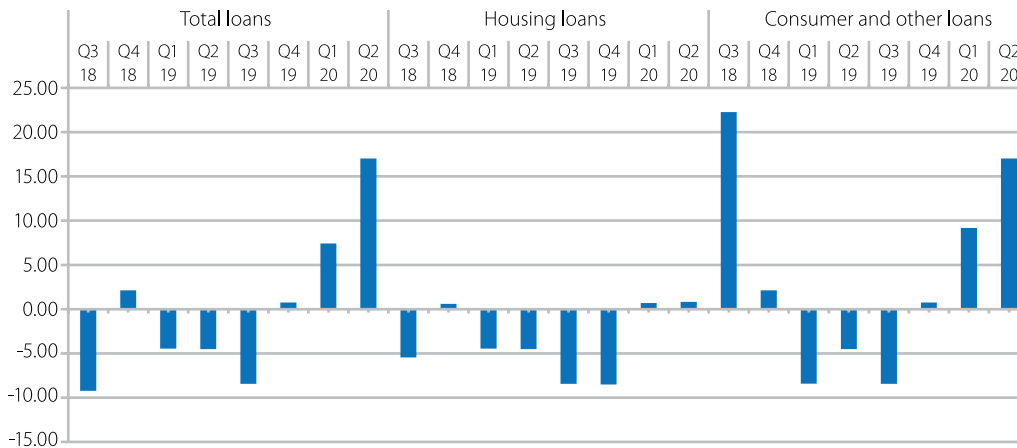


Source: CBCG

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

The survey results indicate that the share of rejected applications for loans to households increased slightly in Q2 2020 compared to the previous quarter, particularly with regard to the consumer and other loans.

Share of rejected applications for loans to households **Graph 10**



Source: CBCG

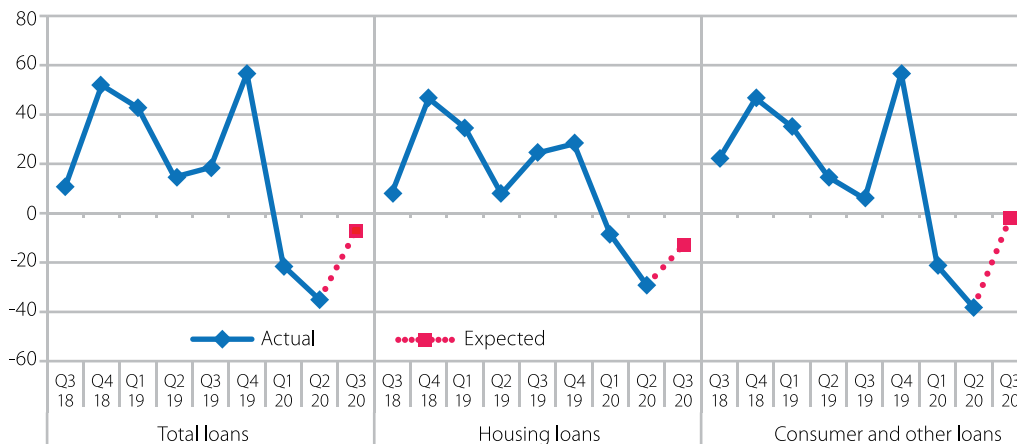
Note: A positive value indicates the increase of rejected loan applications, whereas a negative value indicates the decrease of rejected applications for loans to households.

* 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 decline in the demand for loans to households over the Q2 2020, which is in line with the expectations from the previous survey. The banks believe that the drop in demand in Q2 2020 was driven by the deteriorated economic situation in the country due to the coronavirus outbreak. The banks noted primarily lower earnings, lower employment and a worse situation in the real estate market as a demand decline factor. Also, the decline in demand for loans, according to banks' assessment, was influenced by the reduction and delay of the purchase of real estate and durable consumer goods.

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



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.

3. ANNEX - Aggregate results of Bank Lending Survey in the second quarter 2020

1. Credit standards for loans to enterprises

	Past three months	Next three months
A) Total loans and/or credit line	24.69	15.64
Long-term (over 1 year)	24.69	15.64
Short-term (up to 1 year)	24.69	15.64
B) Loans and/or credit lines to micro, small and medium enterprises	12.70	3.65
C) Loans and/or credit lines to large firms	24.69	-7.18

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

	Past three months			Next three months		
	Total	Loans to small, micro and medium enterprises	Loans to large enterprises	Total	Loans to small, micro and medium enterprises	Loans to large enterprises
A) Costs of sources of funds	6.15	6.15	6.15	-3.94	-3.94	-3.94
B) Competition of other banks	0.00	0.00	0.00	0.00	0.00	0.00
C) Risk perception	29.08	29.08	29.08	35.70	35.70	35.70
- General economic situation and outlooks	29.45	29.45	29.45	36.07	36.07	36.07
- Bad debt	23.06	31.43	31.43	22.23	22.23	22.23
- Risk related to required collateral	26.18	26.18	26.18	25.34	25.34	25.34
D) Risk appetite	9.42	9.42	9.42	16.04	16.04	16.04

3. Credit terms and conditions for loans to enterprises

	Past three months			Next three months		
	Total	Loans to small, micro and medium enterprises	Loans to large enterprises	Total	Loans to small, micro and medium enterprises	Loans to large enterprises
A) Interest rate margin*	-1.05	-1.05	-1.05	-8.39	-8.39	-8.39
B) Commissions and fees *	-11.99	-11.99	-11.99	-11.99	-11.99	-11.99
C) Maximum amount of loans and/or credit lines**	0.00	0.00	0.00	0.00	0.00	0.00
D) Collateral requirements*	27.45	27.45	27.45	27.45	27.45	27.45
E) Maturity**	1.72	1.72	1.72	1.72	1.72	1.72

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	-12.40	-12.40	-8.56

5. Demand for loans to enterprises

	Past three months	Next three months
A) Demand for total loans and/or credit lines	45.91	22.57
Long-term (over 1 year)	33.91	7.08
Short-term (up to 1 year)	34.50	22.57
B) Demand of micro, small and medium enterprises	45.91	22.57
C) Demand of large firms	33.91	10.58

6. Factors contributing to the demand of enterprises for loans

	Past three months	Next three months
A) FINANCIAL NEEDS OF ENTERPRISES	47.93	7.13
- For capital investments	40.12	-4.52
- For working capital	49.22	56.06
- For debt restructuring	38.23	32.40
- For mergers/acquisitions	15.94	-1.72
B) USE OF ALTERNATIVE SOURCES OF FINANCING	35.46	17.81
- Internal sources of financing	21.50	3.85
- Loans from other banks	21.50	3.85
- Loans from non-banks	35.46	17.81
C) OTHER FACTORS - COVID-19 pandemic influence	-5.29	-5.29

7. Credit standards for loans to households

	Past three months	Next three months
Total loans	7.31	30.93
- Housing loans	15.68	19.53
- Consumer and other loans	7.31	26.74

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	6.15	6.15	1.72	6.15	6.15	1.72
B) Competition of other banks	1.72	1.72	1.72	1.72	1.72	1.72
C) Risk perception	61.34	33.15	61.34	52.97	36.77	52.97
- General economic situation and outlooks	20.28	15.50	20.28	35.31	23.90	35.31
- Bad debt	16.90	5.49	16.90	8.53	-2.88	-0.33
- Risk related to required collateral	0.73	0.73	0.73	0.73	0.73	0.73
D) Risk appetite	6.39	6.39	6.39	-5.01	6.39	-5.01
E) Other factors, if exist (should be specified: Decision on measures limiting cash loans maturity)	3.50	0.00	3.50	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*	-7.56	4.43	-7.56	1.88	-9.53	1.88
B) Collateral requirements*	8.17	4.67	8.17	17.80	6.39	17.80
C) Share and deposits*	17.81	3.85	17.81	5.57	5.57	5.57
D) Mortgage value*	-8.15	3.85	-8.15	3.85	3.85	3.85
E) Commissions and fees*	0.00	0.00	0.00	0.00	0.00	0.00
F) Maturity and grace period*	0.00	0.00	0.00	-19.55	-8.15	-19.55
G) Other factors, if exist (should be specified) CBCG measures to reduce adverse effects of the new Coronavirus outbreak	3.50	3.50	3.50	3.50	3.50	3.50

10. Share of the rejected loan applications

	Past three months		
	Total	Housing loans	Consumer and other loans
Share of rejected applications	17.02	0.83	17.02

11. Demand for loans to households

	Past three months	Next three months
Total loans	-35.09	-7.04
- Housing loans	-29.22	-13.16
- Consumer and other loans	-38.21	-1.78

12. Factors contributing to the demand for loans to households

	Past three months	Next three months
A) FINANCIAL NEEDS OF HOUSEHOLDS	-20.22	-20.22
- For refinancing	-2.67	15.72
- For purchase of consumables (cars, furniture, etc.)	-38.17	-38.17
- For immovable property purchase	-23.47	-23.47
B) GENERAL ECONOMIC SITUATION	-47.31	-47.31
- Earnings	-68.41	-70.13
- Employment	-45.59	-47.31
- Real estate market situation	-35.09	-36.81
C) USE OF ALTERNATIVE SOURCES OF FINANCING	-13.96	-13.96
- Household savings	-18.75	-13.96
- Loans to households from other banks	-1.72	-1.72
- Loans from non-banks	-4.79	-4.79
D) Other factors: CBCG macroprudential measures and the Decision on temporary measures to mitigate the negative effects of the new corona virus on the financial system. The ratings given in the previous segments are based on these two factors.	-13.96	-13.96
D) Other factors: CBCG measures to mitigate the effects of the coronavirus pandemic	-3.50	-3.50
D) Other factors: Impact of the COVID-19 pandemic	-5.29	-5.29