



CENTRAL BANK OF
MONTENEGRO

REPORT ON BANK LENDING SURVEY RESULTS SECOND QUARTER 2021

Podgorica, August 2021

PUBLISHED BY: Central Bank of Montenegro
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INTRODUCTION

Since April 2018, the Central Bank of Montenegro (CBCG) has been conducting the Bank Lending Survey, which is harmonised with the survey conducted in the euro area central banks, but tailored to the specific features of the Montenegrin market. The main objective of this survey is to provide the Central Bank with an insight into key determinants of loan supply and demand to enterprises and households.

The survey consists of twelve questions inquiring about the approval of loans to enterprises and households. The respondents (banks) answer the questions on a change in their credit standards¹, as well as the impact of factors contributing to this change, changes in terms and conditions² of loan approval, the number of rejected loan applications, a change in demand for loans and the impact of factors contributing to such a change. The questions are divided into two sets where the first six questions refer to loans and/or credit lines to enterprises, while the remaining six questions refer to loans to households. With regard to the questions on loans and/or credit lines to enterprises, they are further divided based on loan maturity (long-term and short-term loans) and the size of enterprises (micro, small, and medium-sized 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 2021. The survey discloses positions of banks on the changes in their credit policies during the second quarter and expected changes in the third quarter of the current year. With a view to providing statistical representation, the responses of individual banks are weighted according to their market share³, with responses of a bank with larger market share gaining 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

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 condition* simply 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 A weight, being the share of bank's assets in total assets of the banking sector, is used for aggregating the responses of individual banks.

moderately” 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.

When it comes 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

The survey results show the quarter-on-quarter easing of credit standards to enterprises in the second quarter of this year, with significant easing in the case of loans granted to micro, small, and medium-sized enterprises. When it comes to loans to households, credit standards were particularly eased for consumer and other loans, while there was a mild tightening of these standards for housing loans. The COVID-19 pandemic continued to negatively affect the risk perception in the second quarter as well, albeit to a lesser extent compared to the previous period.

Banks expect that there might be a slight tightening of standards in the case of loans to be approved to enterprises in the third quarter, with further easing of credit standards for micro, small, and medium-sized enterprises. Tighter credit standards can be expected for household loans, especially for consumer and other loans, while it is possible that credit standards for housing loans will see some easing. Growing accounts uncollectible and increasing risk of collateral demanded could be the reasons for tightening credit standards for both sectors in the coming quarter. It is expected that increased costs of funding sources and reduced risk tolerance will tighten credit standards for households. More favourable general economic situation in the third quarter of this year could act towards easing standards for both households and enterprises. In the case of the latter, the easing could also be affected by cheaper financing sources, while the competition from other banks contributing to easing the credit standards on loans to households.

Banks assess that credit conditions were eased in the second quarter in terms of lower interest margins, commissions and fees for loans to enterprises and housing loans granted to households, while the standards tightened for consumer and other loans. Extended maturity for consumer and other loans additionally eased household credit conditions. Banks expect that the third quarter will bring further easing of credit conditions to enterprises and households when it comes to interest margin, while lower commissions and fees could contribute to easing credit conditions for households.

It is expected that the local measures and the support from international financial institutions to address the effects of the coronavirus pandemic will continue having a positive impact on bank lending.

The survey results show that enterprises and households increased their demand for loans in the second quarter of this year, with enterprises lowering their demand for long-term loans. Growth of loan demand by enterprises is led by their increased finan-

cial needs for debt restructuring and working capital. The increased household demand for loans was driven by their increased financial needs for refinancing, the purchase of consumer durables and immovable property, while lower earnings, declining employment, and deteriorated real estate market developments caused the demand to decline. The survey results reveal expectations regarding a rise in the demand for loans both by households and enterprises over the third quarter of this year. Their demand will continue to be driven by the same factors as in the previous quarter, coupled with the demand of enterprises for capital investment lending.

Table 1 Banks' assessment of credit standards and demand in Q2 and expectations for Q3 2021

	Supply		Demand	
	Credit standards			
	Q2 2021	Q3 2021 (expectations)	Q2 2021	Q3 2021 (expectations)
Loans to enterprises	↖	↗	↑	↑
Long-term loans	↖	↗	↖	↑
Short-term loans	↖	↗	↑	↑
Loans to micro, small and medium-sized enterprises	↓	↓	↑	↑
Loans to 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%)

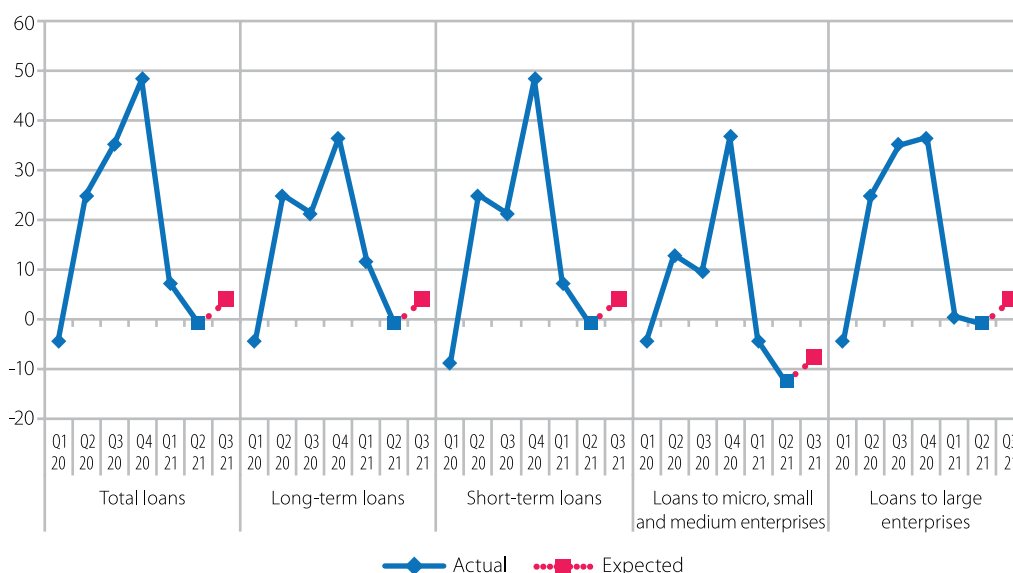
1. LOANS TO ENTERPRISES

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

The Q2 survey results show that credit standards on loans to enterprises were eased compared to the previous quarter. This easing was particularly notable in the case of loans granted to micro, small, and medium-sized enterprises.

The banking sector expectations for the third quarter show that there is a possibility of a slight tightening of credit standards for loans to enterprises, while credit standards for loans to micro, small, and medium-sized enterprises will continue to be eased.

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.

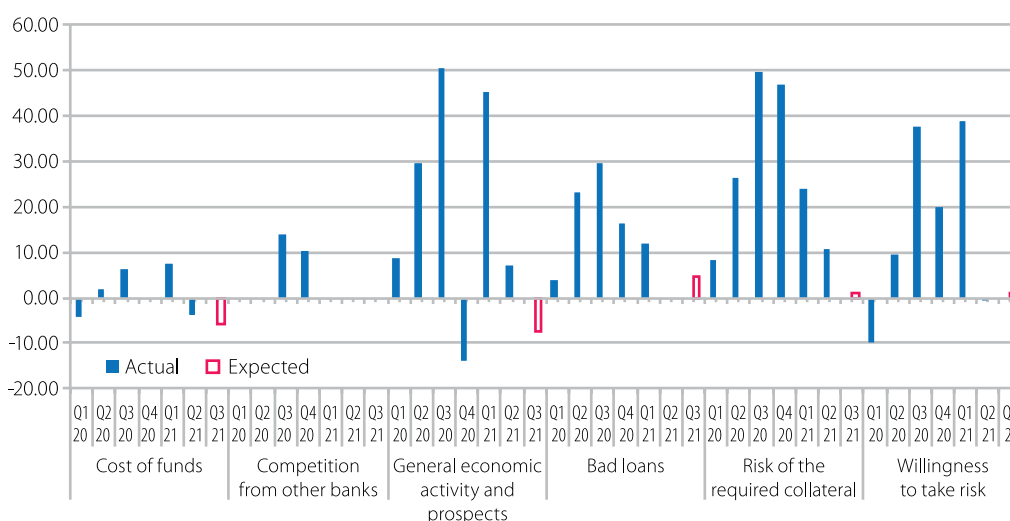
*The graph shows net percentage which indicates the direction of change rather than its intensity.

Reduced costs of funding sources as well as a slightly increased risk tolerance contributed to an easing of credit standards for loans to enterprises. Although the negative impact of the COVID-19 pandemic on risk perception continued in the second quarter, it was still less severe than in the first quarter owing to a more favourable general economic situation. The percentage of the banking sector that indicated deteriorated economic situation is much smaller than in the first quarter. Increased risks associated with demanded collateral continued acting towards the tightening of credit standards for enterprises. The Q2 survey results show that competition and uncollectability

of receivables had no impact on the quarter-on-quarter change of credit standards for enterprises.

Growing accounts uncollectible, a mild increase of risk of collateral demanded, and a slight decline in risk tolerance could contribute to the tightening of credit standards for enterprises in the third quarter. Banks expect that reduced funding costs and improved general economic situation will contribute to the easing of credit standards to this sector in the next quarter.

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



Source: CBCG

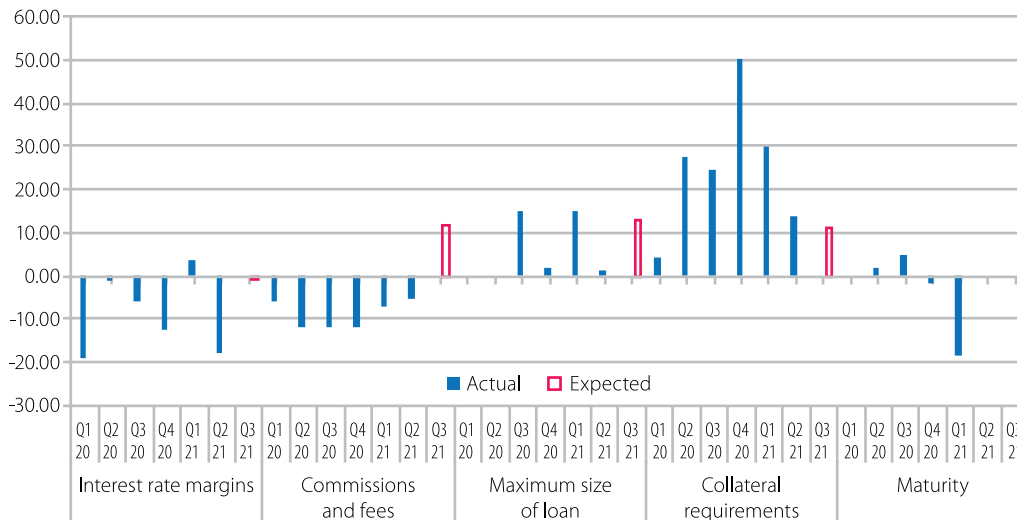
Note: A positive value indicates the contribution of a specific factor to the tightening of credit standards, whereas a negative value indicates the contribution of a specific factor to the credit standards easing.

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

The survey showed that the quarter-on-quarter decline in interest margin, commissions, and fees contributed to the easing of credit conditions for all categories of enterprises in the second quarter. On the other hand, increased collateral demand and lower maximum amount of loans tightened the credit conditions for enterprises, while there were no changes when it comes to loan maturity.

Banks expect the easing of credit conditions for this sector in terms of reducing interest margins to continue in the third quarter as well. Increase in commissions and fees, the lowering of maximum amounts of loans granted, and growing collateral demand could tighten the credit conditions. There are no expectations regarding the impact of maturity to affect credit conditions in the third quarter.

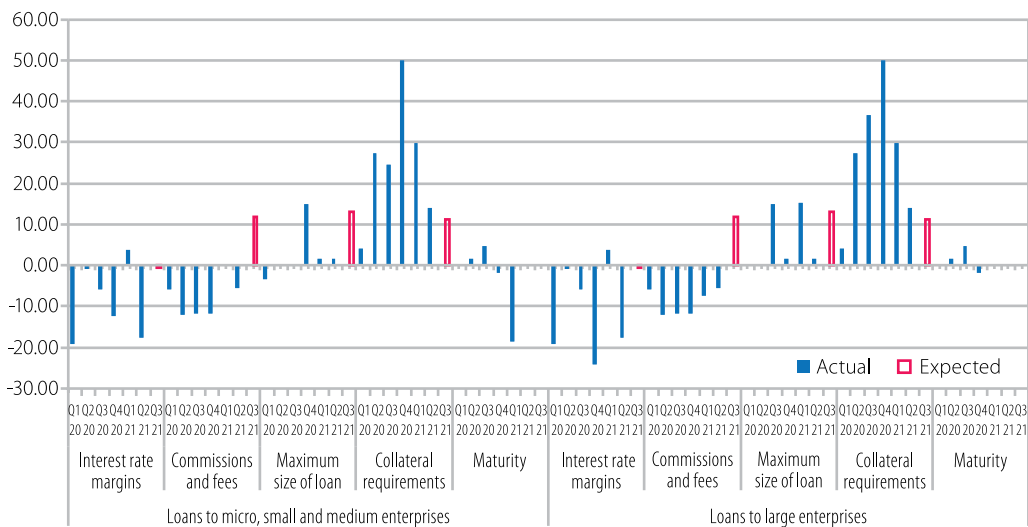
Change in terms and conditions for loans to enterprises (net percentage) Graph 3



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

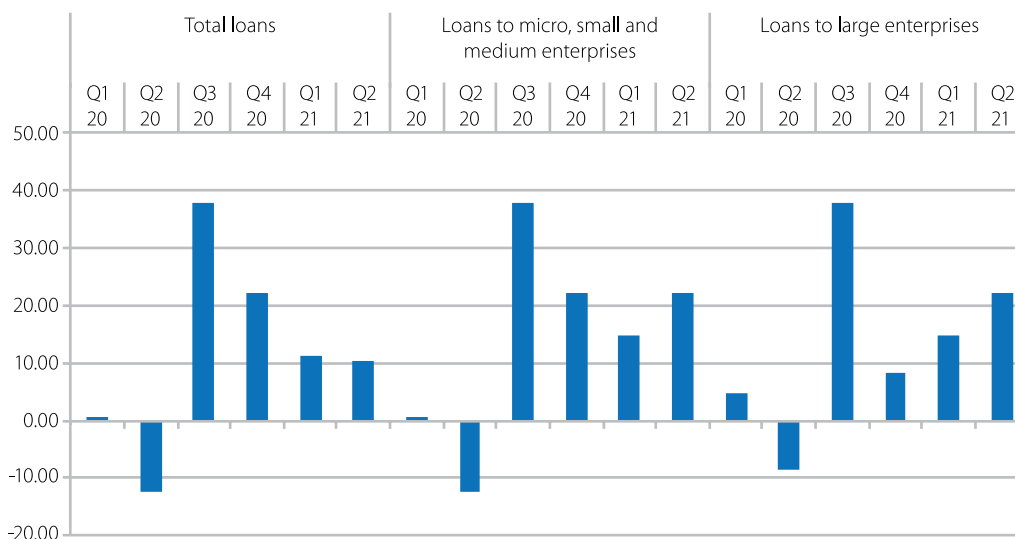


Source: CBCG

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-sized, and large enterprises recorded the quarter-on-quarter increase in the second quarter this year.

Graph 4 Share of rejected applications for loans to enterprises



Source: CBCG

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

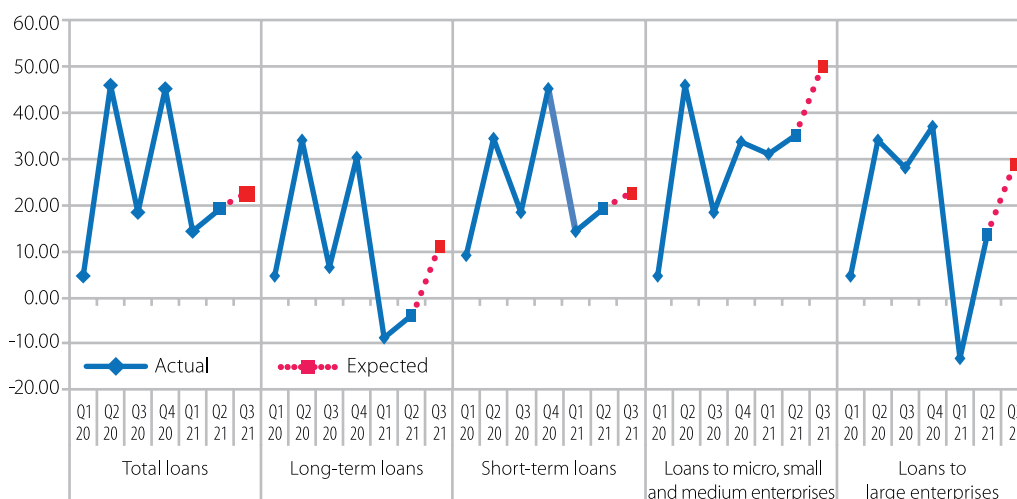
*The graph shows net percentage which indicates the direction of change rather than its intensity.

1.2. Demand for loans to enterprises

The survey results show that the demand for loans by micro, small, and medium-sized enterprises recorded the quarter-on-quarter increase in the second quarter this year. Demand for short-term loans also rose, but there was a slight decline in demand for long-term loans. Enterprises' need for loans for debt restructuring and investments in working capital were indicated as the factors of growing demand. Reduced capital investments and increased lending to enterprises by other banking and non-banking institutions acted in the direction of lowering the loan demand.

Banks expect that the demand by enterprises for both short- and long-term loans will be on the rise in the third quarter. They also expect that their demand for banking loans will be driven by their financial needs, primarily for investments in working capital, debt restructuring, and capital investments. Lending to enterprises by other banking and non-banking institutions could lead to the lowering of demand.

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

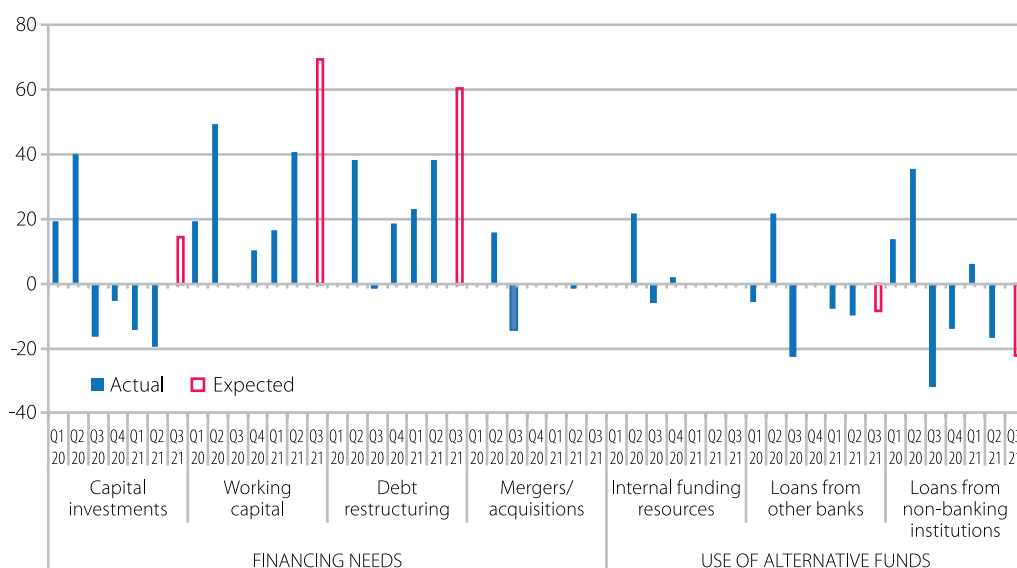


Source: CBCG

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 an increase in demand, while a negative value indicates the contribution of a specific factor to a decrease in demand.

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

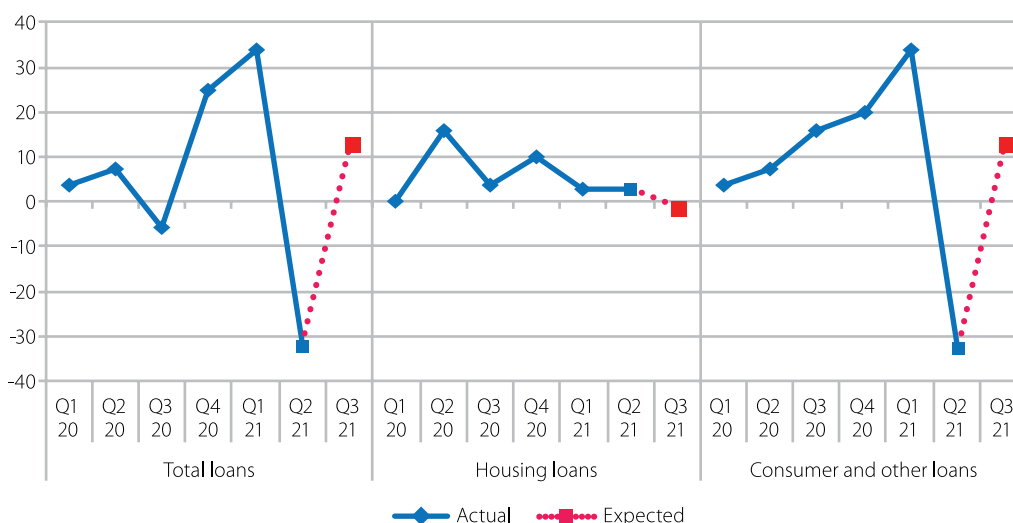
2. LOANS TO HOUSEHOLDS

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

The survey results point to the quarter-on-quarter easing of credit standards for household loans in the second quarter, particularly for consumer and other loans, while there was slight tightening of credit standards for housing loans.

A part of the banking sector expects that the credit standards for loans to households will see some tightening in the third quarter, primarily consumer and other loans, with possible easing of the standards for housing loans.

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



Source: CBCG

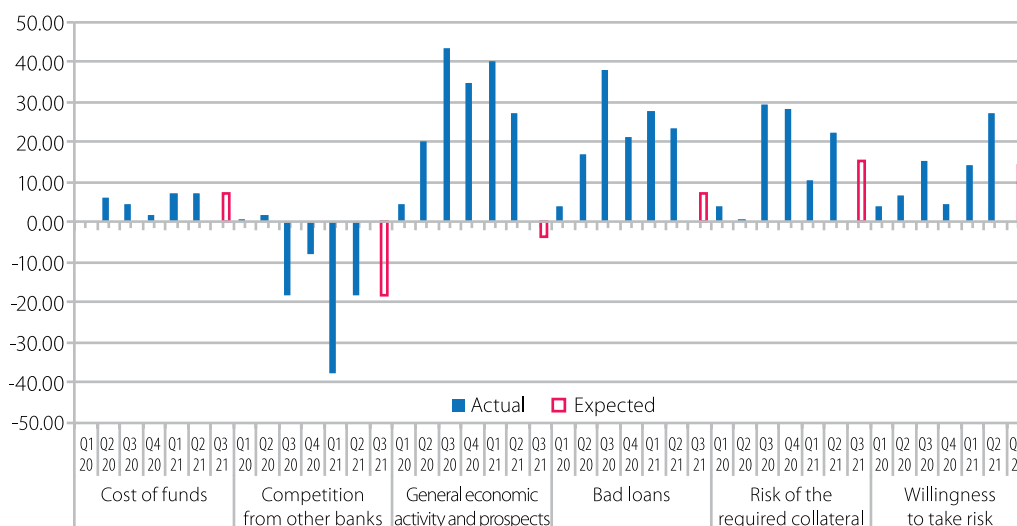
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

Competition affected the quarter-on-quarter easing of credit standards for loans to households in the second quarter. Factors that acted in the direction of tightening the credit standards for households were higher costs of funding sources, general economic situation, growing accounts uncollectible, increasing risks of collateral demanded, and reduced risk tolerance. A smaller part of the banking sector indicated that the implementation of the Decision on Macroprudential Measures Related to Retail Banking Loans contributed to the tightening of credit standards for households.

It is expected that higher costs of funding sources, growing accounts uncollectible, increasing risks of collateral demanded, and reduced risk tolerance could contribute to the tightening of the credit standards for households in the third quarter. The survey results show that competition will continue being the driver of easing the credit standards for households in the next quarter. Banks believe that we may see some improvement of economic situation in the coming period that will positively reflect on risk perception and credit standards when granting loans to households.

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



Source: CBCG

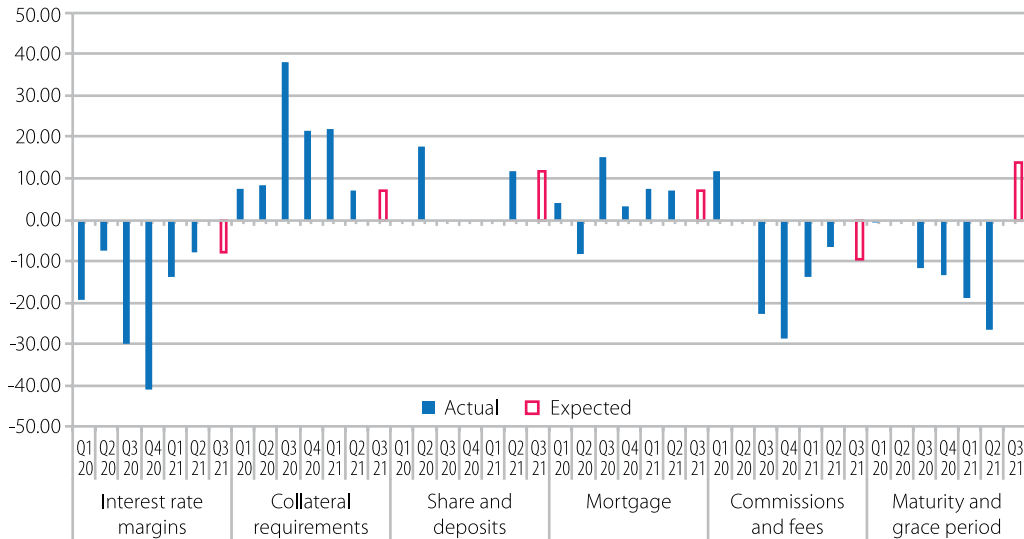
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

The survey results indicate that the quarter-on-quarter decline in interest margin, commissions, and fees contributed to the easing of credit conditions on household housing loans, while they were tightened for consumer and other loans. What contributed to the easing of credit conditions was also the extended maturity of consumer and other loans. Banks believe that stricter requirements regarding collateral, mortgage values, share, and deposit acted towards the tightening of credit conditions for household loans.

They also expect that the credit conditions for households regarding interest margin, commissions, and fees will be eased in the third quarter. Stricter requirements regarding collateral, mortgage values, share, and deposits, as well as shortened maturity of consumer and other loans could contribute to the tightening of credit standards for household loans.

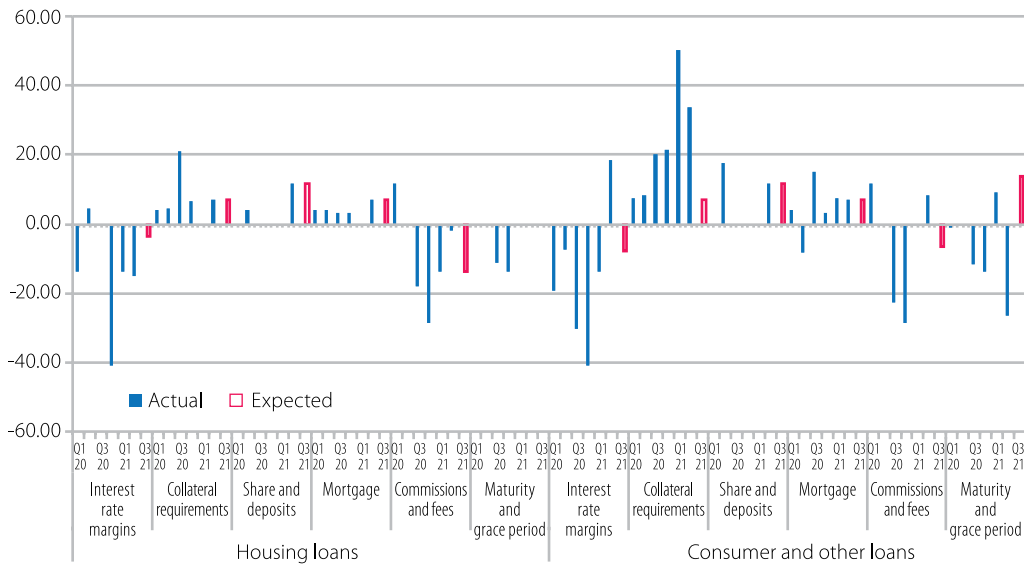
Graph 9 Change in household credit terms and conditions (net percentage)



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)

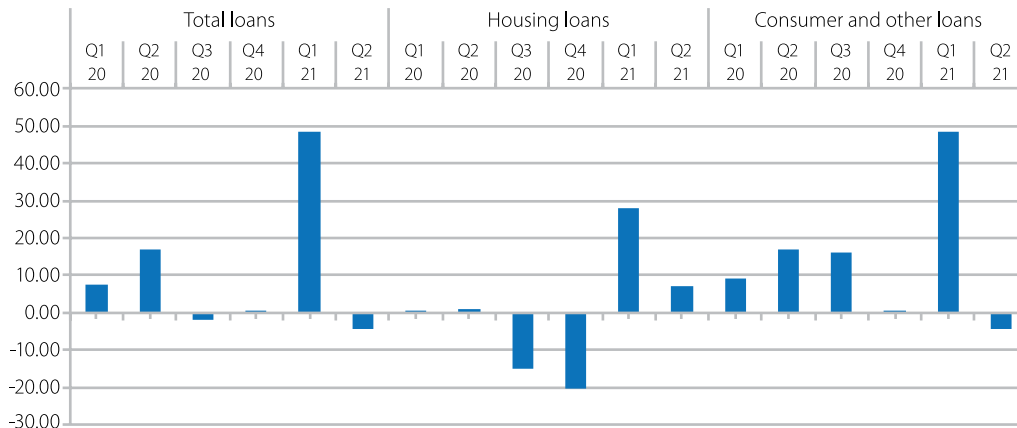


Source: CBCG

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

The survey shows that the banking sector recorded the quarter-on-quarter decline in rejected applications for consumer and other loans, but also an increase in rejected housing loan applications.

Share of rejected household loan applications **Graph 10**



Source: CBCG

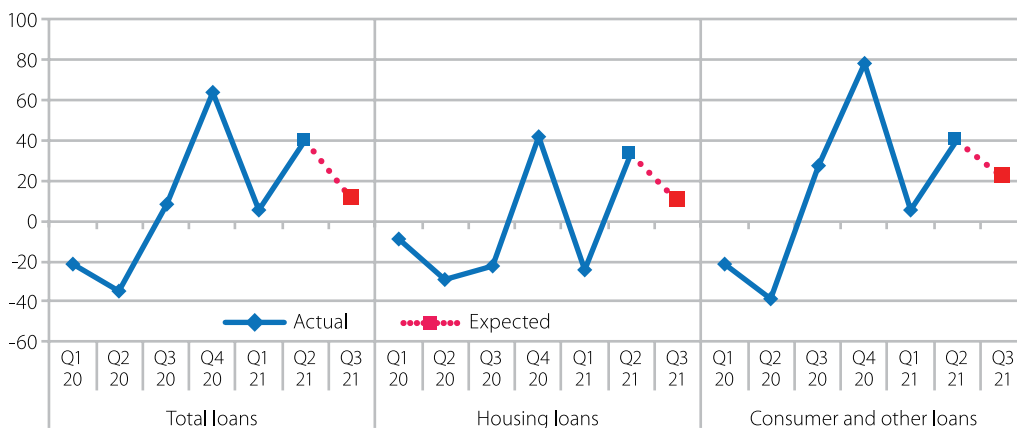
Note: A positive value indicates an increase of rejected loan applications, whereas a negative value indicates a decrease of rejected applications for loans to households.

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

2.2. Demand for household loans

The survey shows that there was the quarter-on-quarter increase in household demand for loans. Banks indicate growing financial needs for refinancing, purchase of consumer durables, and purchase of real estate as the drivers of growing demand for household loans during the second quarter of this year. They also assess that household demand was still under the influence of deteriorated economic situation induced primarily by the coronavirus pandemic so lower earnings, a decline in employment, worsened situation on the real estate market, as well as increased lending to households by other banking and non-banking institutions acted towards diminishing demand.

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



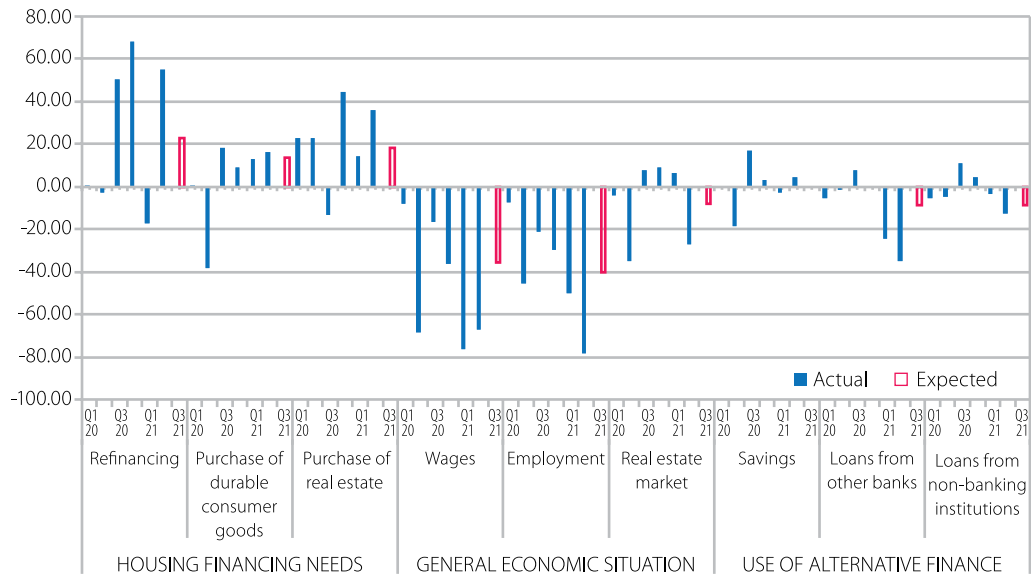
Source: CBCG

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.

Banks expect that household demand for loans will further increase in the third quarter. Financial needs of households for refinancing, purchase of consumer durables and immovable property will act towards increasing the demand. Otherwise, the same factors from the second quarter could act towards decreasing demand in the next quarter.

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



Source: CBCG

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

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

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

1. Credit standards for loans to enterprises

	Past three months	Next three months
A) Total loans and/or credit lines	-1.14	3.70
Long-term (over 1 year)	-1.14	3.70
Short-term (up to 1 year)	-1.14	3.70
B) Loans and/or credit lines to micro, small and medium-sized enterprises	-12.7	-7.85
C) Loans and/or credit lines to large enterprises	-1.14	3.70

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-sized enterprises	Loans to large enterprises	Total	Loans to micro, small and medium-sized enterprises	Loans to large enterprises
A) Costs of sources of funds	-3.95	-3.95	-3.95	-5.69	-5.69	-5.69
B) Competition from other banks	0.00	0.00	0.00	0.00	0.00	0.00
C) Risk perception	18.50	18.50	18.50	0.90	0.90	0.90
- General economic situation and outlook	6.94	6.94	6.94	-7.46	-7.46	-7.46
- Bad debt	0.00	0.00	0.00	4.52	4.52	4.52
- Risk related to collateral demanded	10.77	10.77	10.77	0.90	0.90	0.90
D) Risk tolerance	-0.33	-0.33	-0.33	0.90	0.90	-10.77

3. Credit terms and conditions for loans to enterprises

	Past three months			Next three months		
	Total	Loans to micro, small and medium-sized enterprises	Loans to large enterprises	Total	Loans to micro, small and medium-sized enterprises	Loans to large enterprises
A) Interest rate margin*	-17.66	-17.66	-17.66	-0.56	-0.56	-0.56
B) Commissions and fees*	-5.42	-5.42	-5.42	11.67	11.67	11.67
C) Maximum amount of loans and/or credit lines**	1.47	1.47	1.47	13.14	13.14	13.14
D) Collateral requirements*	13.98	13.98	13.98	11.25	11.25	11.25
E) Maturity**	0.00	0.00	0.00	0.00	0.00	0.00

4. Share of the rejected loan applications

	Past three months		
	Total	Loans to micro, small and medium-sized enterprises	Loans to large enterprises
Share of rejected applications	10.35	22.03	22.03

5. Demand for loans to enterprises

	Past three months	Next three months
A) Demand for total loans and/or credit lines	19.26	22.88
Long-term (over 1 year)	-3.97	11.21
Short-term (up to 1 year)	19.26	22.88
B) Demand by micro, small and medium-sized enterprises	35.11	50.29
C) Demand by large enterprises	13.60	28.78

6. Factors contributing to the demand of enterprises for loans

	Past three months	Next three months
A) FINANCIAL NEEDS OF ENTERPRISES	35.11	49.05
- For capital investments	-19.6	14.38
- For working capital	40.53	69.23
- For debt restructuring	38.31	60.19
- For mergers/acquisitions	-1.47	0.00
B) USE OF ALTERNATIVE FUNDING SOURCES	-23.65	-18.56
- Internal funding sources	0.00	0.00
- Loans from other banks	-9.94	-8.48
- Loans from non-banks	-16.76	-22.18

7. Credit standards for households

	Past three months	Next three months
Total loans	-32.07	12.98
- Housing loans	2.81	-0.81
- Consumer and other loans	-32.07	12.98

8. Factors contributing to the change in credit standards for 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	7.15	7.15	7.15	7.15	7.15	3.95
B) Competition from other banks	-18.13	-13.7	-18.13	-18.13	-13.7	-18.13
C) Risk perception	26.88	10.77	26.88	8.05	8.05	8.05
- General economic situation and outlook	26.88	10.77	26.88	-3.53	0.90	-3.53
- Bad debt	23.25	7.15	23.25	7.24	11.67	7.24
- Risk related to collateral demanded	22.45	22.45	25.65	15.20	15.20	15.20
D) Risk tolerance	26.88	22.45	26.88	13.98	15.20	13.98
E) Other factors, if any (need to be specified): Implementation of the Decision on measures to limit the maturity of cash loans granted by banks to natural persons	3.20	0.00	3.20	0.00	0.00	0.00

9. Credit terms and conditions for households

	Past three months			Next three months		
	Total	Housing loans	Consumer and other loans	Total	Housing loans	Consumer and other loans
A) Interest margin*	-7.93	-15.17	18.57	-7.93	-3.5	-7.93
B) Collateral requirements*	7.15	7.15	33.65	7.15	7.15	7.15
C) Share and deposits*	11.67	11.67	11.67	11.67	11.67	11.67
D) Mortgage value*	7.15	7.15	7.15	7.15	7.15	7.15
E) Commissions and fees*	-6.46	-2.03	8.36	-6.46	-13.7	-6.46
F) Maturity and grace period*	-26.49	0.00	-26.49	13.70	0.00	13.70

10. Share of the rejected loan applications

	Past three months		
	Total	Housing loans	Consumer and other loans
Share of rejected applications	-4.47	7.15	-4.47

11. Demand for households loans

	Past three months	Next three months
Total loans	39.72	10.93
- Housing loans	33.04	10.17
- Consumer and other loans	39.72	21.28

12. Factors contributing to the demand for household loans

	Past three months	Next three months
A) FINANCIAL NEEDS OF HOUSEHOLDS	40.14	22.51
- For refinancing	55.02	25.71
- For purchase of consumer durables (cars, furniture, etc.)	16.43	13.61
- For real estate purchase	35.77	18.13
B) GENERAL ECONOMIC SITUATION	-81.56	-38.96
- Earnings	-66.68	-35.76
- Employment	-78.35	-40.19
- Real estate market situation	-26.88	-8.05
C) USE OF ALTERNATIVE FUNDING SOURCES	-8.48	-11.68
- Household savings	4.43	0.00
- Loans to households from other banks	-34.97	-8.48
- Loans from non-banks	-12.91	-8.48