



CENTRAL BANK OF  
MONTENEGRO

# **REPORT ON BANK LENDING SURVEY RESULTS SECOND QUARTER 2023**

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**PUBLISHED BY:** Central Bank of Montenegro  
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  
Zorica Kalezić, PhD, Vice-Governor  
Milorad Jovović, PhD  
Ruždija Tuzović

**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 has 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 standards<sup>1</sup>, as well as the impact of factors contributing to this change, change in terms and conditions<sup>2</sup> 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 the loans approved to households. With regard to the questions on loans and/or credit lines to the 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). With regard to the household loans, 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 second quarter of 2023. 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 2023. With a view to providing statistical representation, the responses of individual banks are weighted by their market share<sup>3</sup>, 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” and the sum of the percentages of banks responding “eased considerably” and “eased modera-

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<sup>1</sup> *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 implementation.

<sup>2</sup> *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.

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

tely”. 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 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”. Thus, a positive net percentage indicates net increasing, whereas a negative net percentage indicates net decreasing of demand.

## SUMMARY

Based on the results of a survey conducted during the second quarter of 2023, compared to the previous quarter, credit standards for the corporate sector were tightened when approving loans to micro, small and medium enterprises, while credit standards for large enterprises were slightly eased. A tightening of the standards for long-term loans to the corporate sector was recorded, that is, a slight easing of short-term loans. When approving loans to households, the standards were tightened when it comes to consumer and other loans, while a slight easing of standards was recorded for housing loans.

According to banks' expectations, in the third quarter of 2023, there could be a tightening of the standards by which loans to the corporate sector and households will be approved. Higher funding costs, worsening of the general economic situation, reduced willingness to take risks and increased risk of required collateral could contribute to a tightening of credit standards for both sectors. In addition, the reduced competition in the banking sector and the increase in outstanding liabilities could affect the tightening of credit standards for the corporate sector.

Banks estimate that in the second quarter of the current year credit conditions were tightened in the form of higher interest margins, commissions and fees, as well as stricter requirements regarding collateral for loans granted to the corporate sector and households. In addition, the credit conditions for the corporate sector have been tightened due to the reduction of maximum loan amounts, but also the shortening of the maturity and grace period for micro, small and medium enterprises. The extension of the maturity and grace period, as well as lighter requirements regarding share, deposits and the value of the mortgage worked in the direction of easing credit conditions for the households. In the third quarter, banks expect further growth in interest margins, commissions and fees, as well as stricter requirements regarding collateral, which will continue to tighten credit conditions for the corporate sector and households. Shortening the maturity and grace period could further tighten the conditions for the corporate sector, while the increase in requirements based on participation and deposits for consumer and other loans could affect the deterioration of credit conditions for the households. An increase in the maximum amount of loans will work in the direction of easing credit conditions for the corporate sector, while the extension of the maturity and grace period and lighter requirements regarding the value of the mortgage will continue to ease credit conditions for the households.

According to the results of the survey, in the second quarter of 2023, the demand of the corporate sector and households for loans increased. The growth of corporate sec-

tor demand was affected by increased financial needs of companies for investing in working capital and debt restructuring. In the household sector, the banks believe that the growth in demand was mainly driven by the growth in wages and employment, but also by the financial needs for refinancing and purchasing durable consumer goods (cars, furniture, and the like) as well as immovable property. In the next quarter, banks expect further growth in the demand for loans from the corporate sector and households, which will be driven predominantly by the same factors as in the previous quarter. However, a smaller part of the banking sector expects a decrease in the households' demand for housing loans due to reduced financial needs for the purchase of immovable property and a less favourable situation on the real estate market.

**Table 1** Assessment of credit standards and demand for loans by banks, for Q2 and expectations for Q3 2023

	Demand		Supply	
	Credit Standards		Q2 2023	Q3 2023 (expectations)
	Q2 2023	Q3 2023 (expectations)		
<b>Loans to enterprises</b>	↑	↑	↑	↑
Long-term loans	↑	↑	↑	↑
Short-term loans	↖	↑	↑	↑
Micro, small and medium enterprises	↗	↑	↑	↑
Corporate loans	↖	↑	↑	↑
<b>Loans to households</b>	↑	↑	↑	↑
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%)

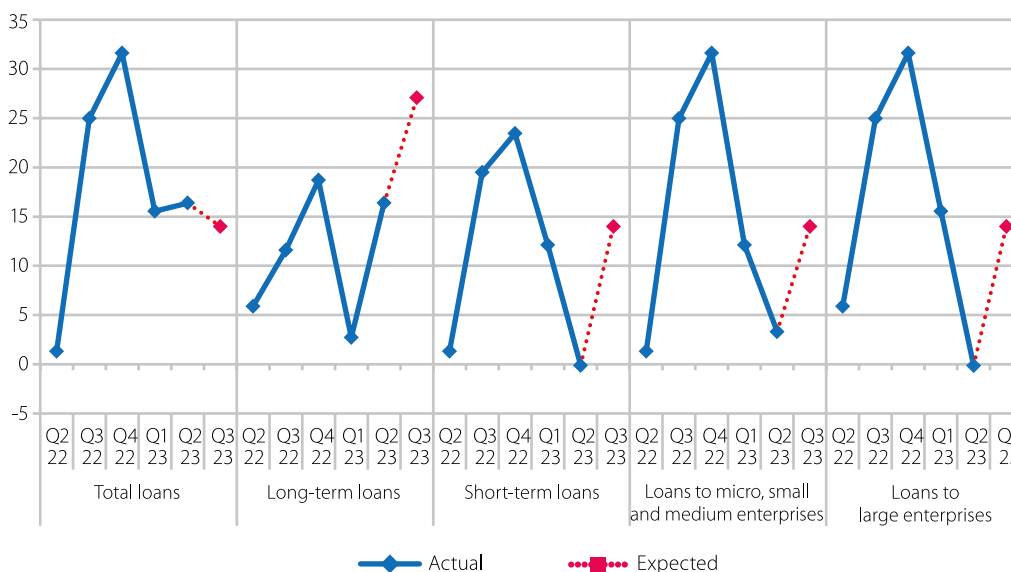
# 1. LOANS TO ENTERPRISES

## 1.1. Credit standards and credit terms and conditions for corporate sector

The results of the survey conducted in the second quarter of 2023, compared to the first quarter, show that the standards for the corporate sector have been tightened, viewed in terms of total loans. Observed by the size of the company, the standards were tightened when lending to micro, small and medium companies, while they were slightly relaxed for large companies. When it comes to the maturity structure of loans, the standards have been tightened when approving long-term loans that is, slightly eased for short-term loans.

According to the expectations of the banking sector, in the third quarter of 2023 there is a possibility of tightening the credit standards to the corporate sector when approving loans to all companies, especially when approving long-term loans. Banks' expectations are that the tightening of credit standards for total loans compared to the previous quarter will be less in net percentages than the tightening in the first quarter compared to the fourth quarter of 2022.

Change in credit standards for loans to the corporate sector (net percentage\*) **Graph 1**



Source: CBCG

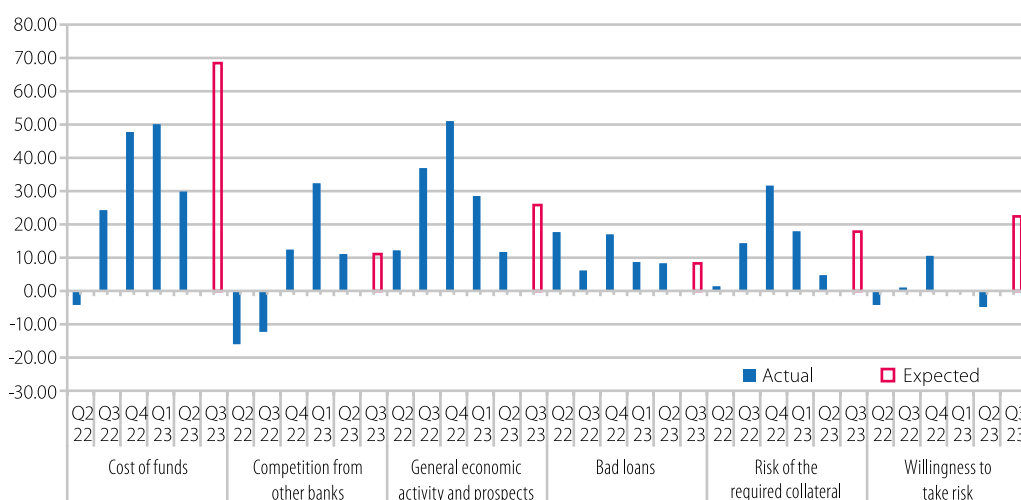
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

During the second quarter of 2023, according to the banks' assessment, higher costs of sources of funds, reduced competition in the banking sector, the general economic situation, growth in outstanding liabilities, an increase in the risk of the required collateral, as well as a decrease in banks' willingness to take risks for loans to micro, small and medium enterprises, contributed to the tightening of standards when lending to the corporate sector. On the contrary, a higher willingness of banks to take risks for loans to large enterprises could have had an effect on easing credit conditions.

According to banks' expectations, in the next quarter, the tightening of credit standards for the corporate sector will have a more pronounced increase in the cost of sources of funds than in the previous period, but also a lower willingness to take risks and reduced competition from other banks. Deterioration of the general economic situation, increased risk of required collateral and higher amount of outstanding liabilities will continue to negatively affect the perception of risk and thus contribute to the tightening of credit standards to the corporate sector.

**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.

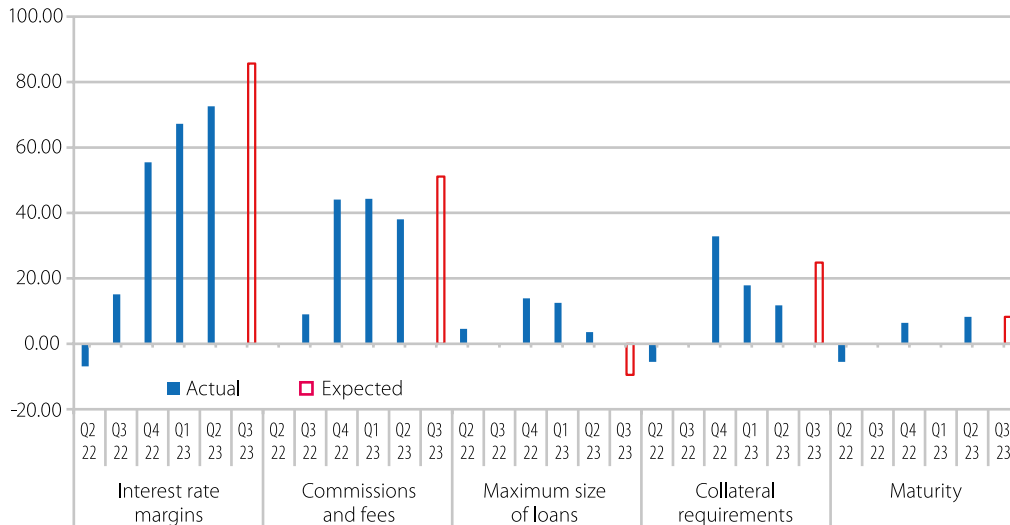
\* The graph shows net percentage which indicates the direction of change rather than its intensity.

According to the conducted survey, in the second quarter of 2023 compared to the previous quarter, an increase in interest margins, an increase in commissions and fees, an increase in collateral requirements, a shortening of the maturity and grace period (except for large companies) and a reduction in the maximum amount of loans affected tightening of credit conditions when approving loans to companies.

Banks expect that the tightening of credit conditions for the corporate sector will continue in the next quarter, driven predominantly by the growth of interest margins, com-

missions and fees. A further increase in requirements regarding collateral and shortening of the maturity to the corporate sector is expected, while the easing of credit conditions could be affected by an increase in the maximum amount of loans.

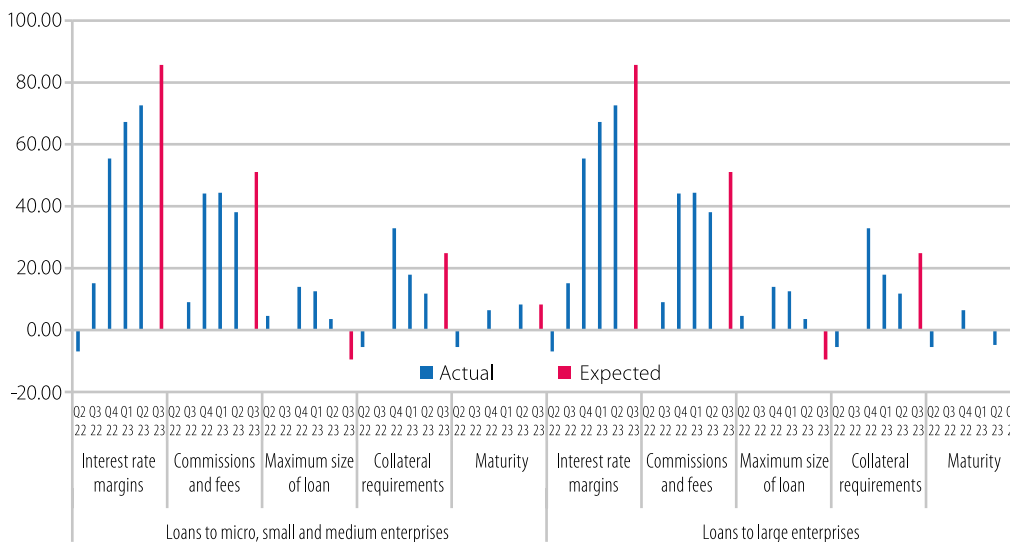
**Change in terms and conditions for loans to companies (net percentage) Graph 3**



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 to companies by the size (net percentage) Graph 3a**

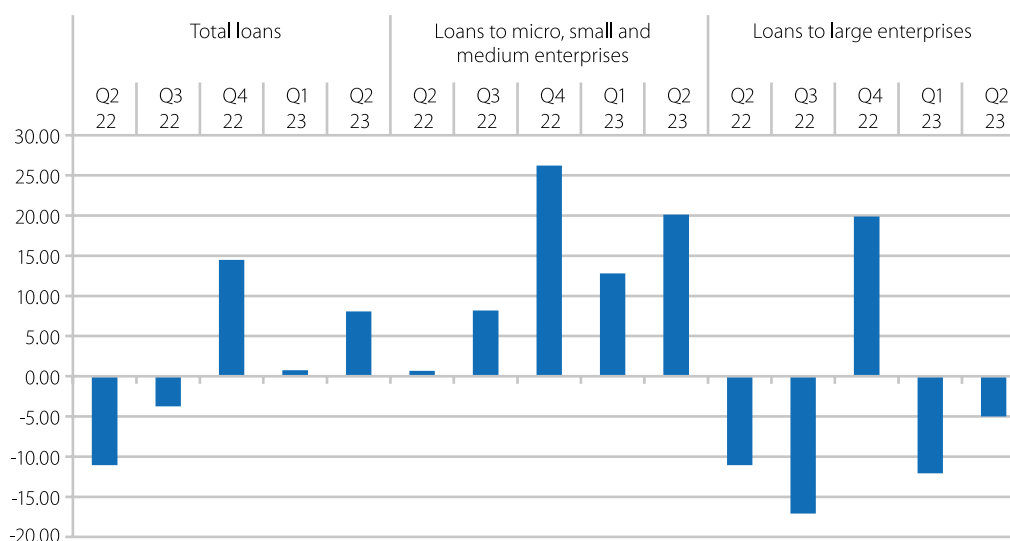


Source: CBCG

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 2023, compared to the previous one, there is an increase in the number of rejected applications for granting loans to micro, small and medium enterprises, while the number of rejected applications for large enterprises decreased.

**Graph 4 Share of rejected applications for loans to companies**



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.

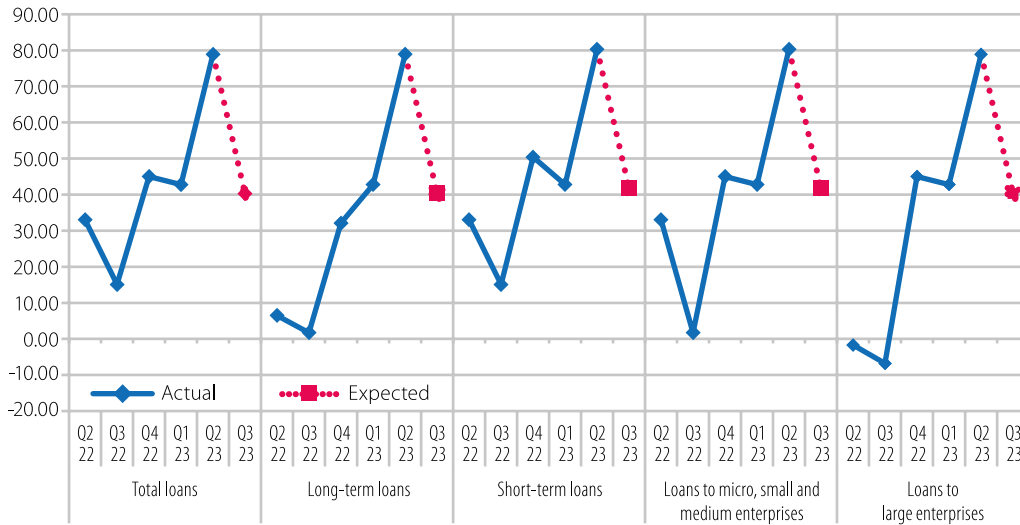
\* The graph shows net percentage which indicates the direction of change rather than its intensity.

## 1.2. Demand for loans to corporate sector

The results of the conducted survey show that in the second quarter of 2023, compared to the previous quarter, the demand of companies for loans increased significantly, both in terms of maturity and company size. As factors of increasing demand, companies have expressed their financial needs for loans for investment in working capital, for capital investments and debt restructuring. Also, the decrease in lending to the corporate sector by non-banking institutions and other banks worked in the direction of increasing demand.

According to banks' expectations, in the third quarter of the current year, the corporate sector demand for loans will continue to grow. Banks expect that the corporate sector demand for loans from banks will be driven by the same factors as in the previous quarter.

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

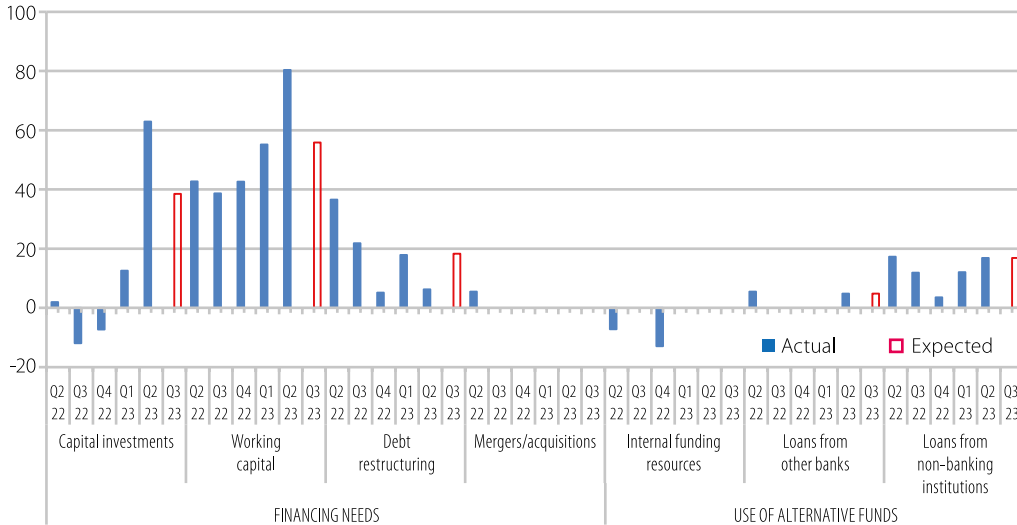


Source: CBCG

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 companies (net percentage) Graph 6**



Source: CBCG

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

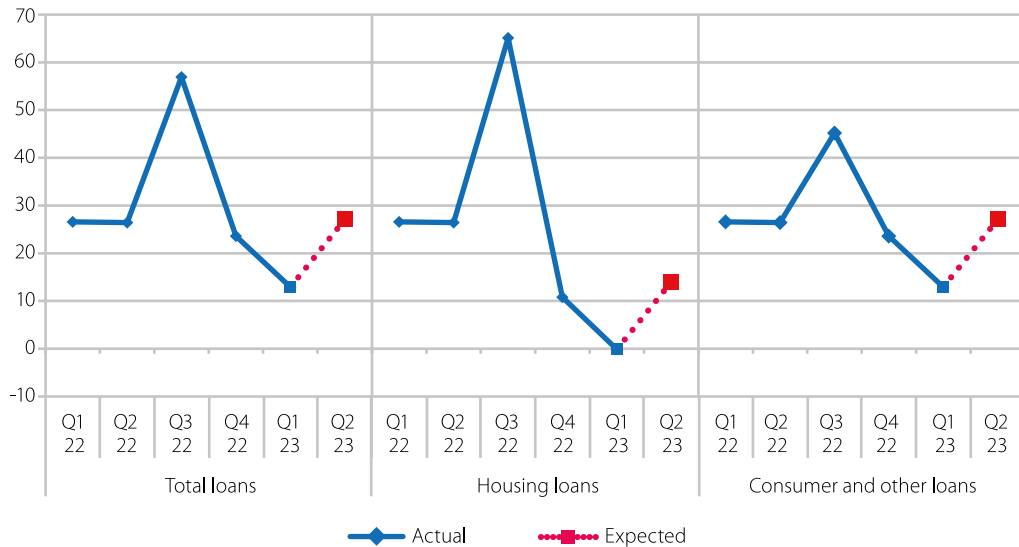
## 2. Loans to households

### 2.1. Credit standards and credit terms and conditions for households

Based on the results of the conducted survey, in the second quarter of 2023 compared to the previous quarter, credit standards for the households were tightened in terms of total loans. A tightening of standards was recorded when approving consumer and other loans, while a slight easing of credit standards was recorded for housing loans.

According to banks' expectations, in the third quarter of the current year there could be a tightening of credit standards for all categories of loans granted to households.

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



Source: CBCG

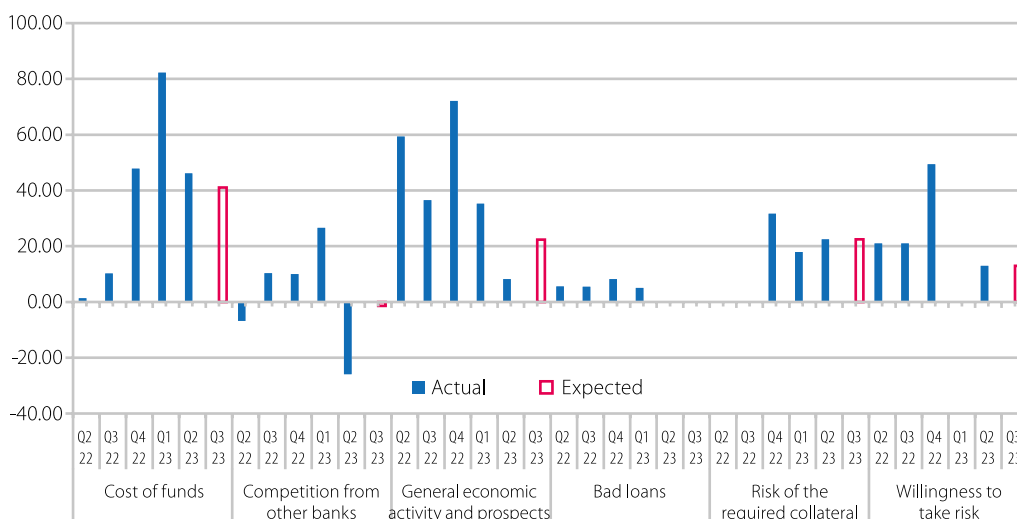
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

In the second quarter of 2023, compared to the previous quarter, higher costs of sources of funds, an increase in the risk of required collateral and the general economic situation influenced the tightening of credit standards for the household sector. A reduced willingness to take risks when approving consumer and other loans also contributed to the tightening of standards. Increased competition from other banks worked in the direction of easing credit standards for households, while outstanding liabilities had no effect.

In the next quarter, banks expect that there could be a further tightening of credit standards for households due to the increase in the cost of sources of funds, the increased risk of the required collateral, the deterioration of the general economic situation, as well as the reduced willingness to take risks. Otherwise, a small part of the banking sector expects that increased competition from other banks could work to ease credit standards for households.

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



Source: CBCG

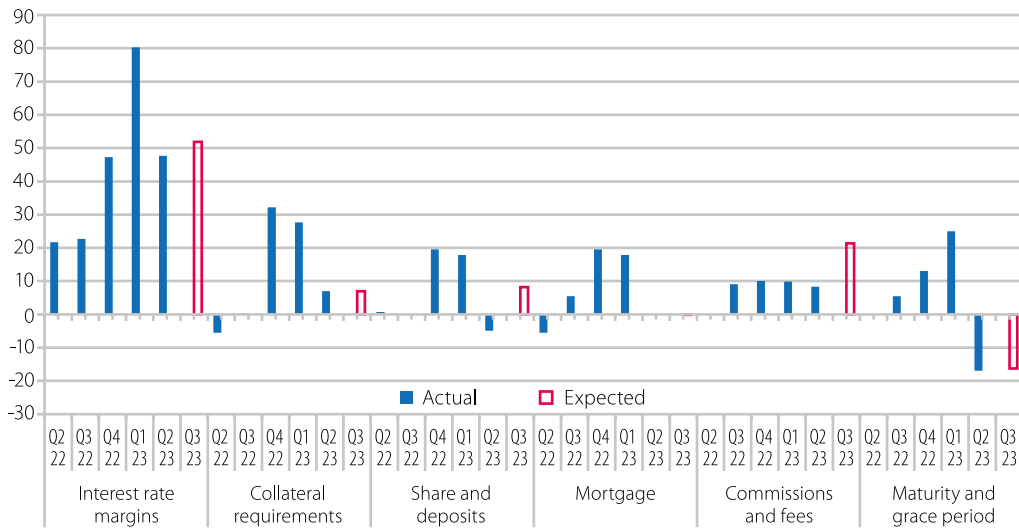
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

Based on the results of the survey, in the second quarter of 2023, compared to the previous quarter, the increase in interest margins, commissions and fees, influenced the tightening of conditions when approving loans to households. Stricter requirements regarding collateral when approving consumer and other loans also contributed to the tightening of conditions. On the contrary, the extension of the maturity and grace period, as well as milder requirements regarding the participation, deposit and value of the mortgage worked in the direction of softening the credit conditions.

Banks expect that in the third quarter of 2023, the tightening of credit conditions for the households will continue due to the effects of the same factors as in the second quarter, with an increase in requirements based on participation and deposits for consumer and other loans. As in the previous quarter, banks expect that the increase in maturity and grace period, relaxed requirements regarding the value of the mortgage, as well as the reduction of requirements based on participation and deposits for housing loans, will affect the easing of credit conditions when lending to households.

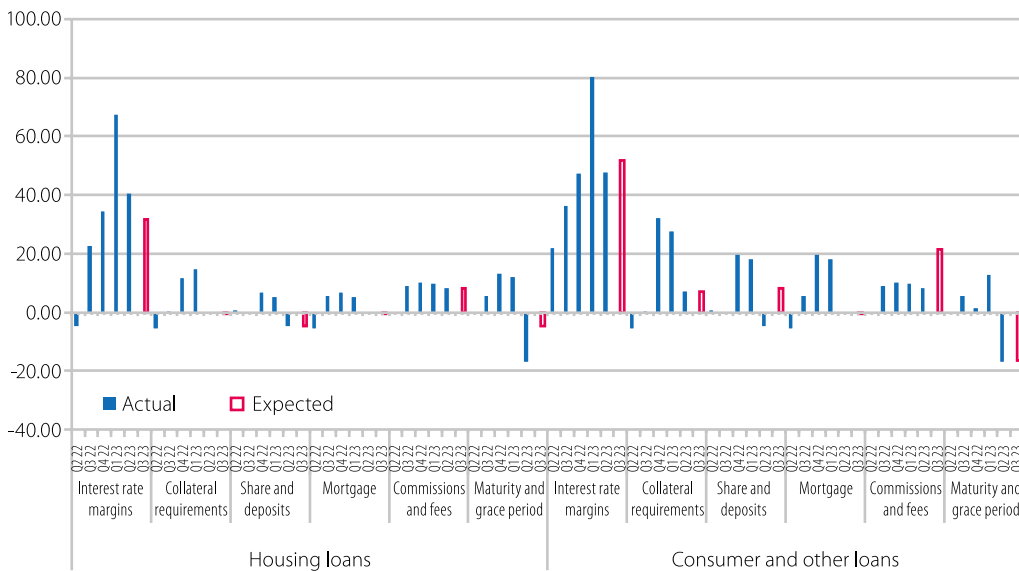
**Graph 9 Change in terms and conditions for loans to households (net percentage)**



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 on housing loans and consumer and other loans (net percentage)**

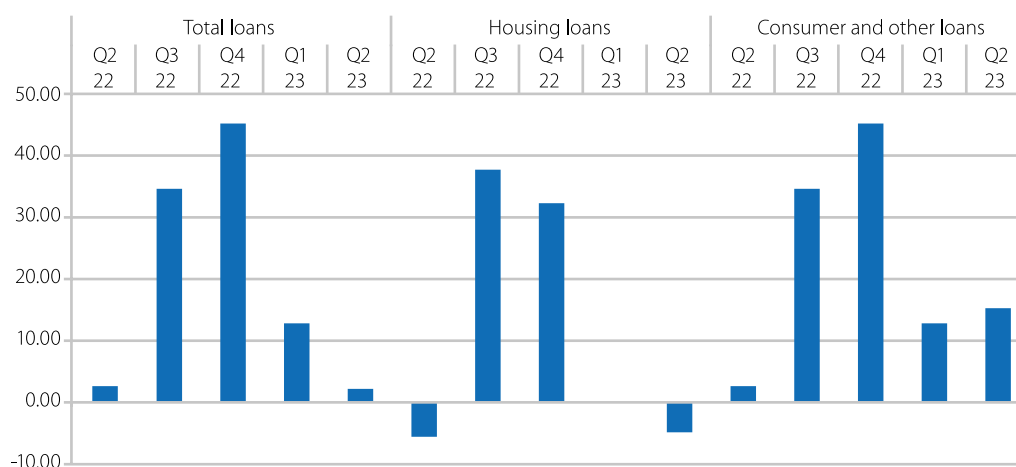


Source: CBCG

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

Based on the results of the survey, in the second quarter of 2023, compared to the previous quarter, the number of rejected applications for the approval of consumer and other loans increased, while the number of rejected applications for the approval of housing loans decreased.

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

According to the results of the survey, in the second quarter of 2023, the demand of households for loans increased compared to the previous quarter. As factors in the growth of demand during the second quarter of the current year, banks report an increase in wages and employment, but also increased financial needs of the households for refinancing, the purchase of durable consumer goods and the purchase of immovable property.

In the third quarter of 2023, banks expect an increase in the households' demand for consumer and other loans, while a smaller part of the banking sector expects a decline in the demand for housing loans. Banks' expectations are that demand growth will be driven by the households' financial needs for purchasing consumer goods and for refinancing. The growth of wages and employment will continue to act in the direction of increasing demand, although to a lesser extent than in the previous period. On the other hand, the decline in financial needs for the purchase of immovable property and the deterioration of the situation on the real estate market could affect the reduction of the households' demand for housing loans.

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

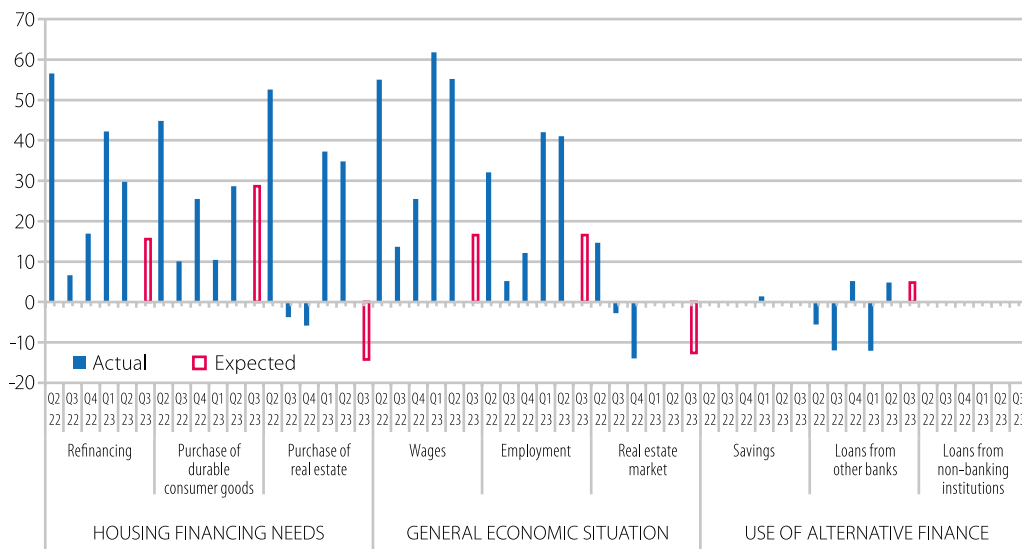


Source: CBCG

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.

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



Source: CBCG

Note: A positive value indicates contribution of a specific factor to the increase in demand, while a negative value indicates 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 second quarter 2023

#### 1. Credit standards for loans to companies

	Past three months	Next three months
A) Total loans and/or credit line	16.37	14.01
Long-term (over 1 year)	16.37	27.07
Short-term (up to 1 year)	-0.13	14.01
B) Loans and/or credit lines to micro, small and medium enterprises	3.31	14.01
C) Loans and/or credit lines to large enterprises	-0.13	14.01

#### 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	29.84	29.84	41.26	68.46	43.97	55.39
B) Competition of other banks	11.03	11.03	23.09	11.03	11.03	23.09
C) Risk perception	13.06	13.06	0.00	27.20	27.20	14.14
- General economic situation and outlooks	11.67	11.67	-1.39	25.81	25.81	12.75
- Bad debt	8.26	8.26	8.26	8.26	8.26	8.26
- Risk related to required collateral	4.71	17.77	4.71	17.77	17.77	4.71
D) Willingness to take risk	-4.83	8.23	-4.83	22.37	22.37	9.31

#### 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*	72.58	72.58	72.58	85.64	85.64	85.64
B) Commissions and fees *	38.05	38.05	38.05	51.11	51.11	51.11
C) Maximum amount of loans and/or credit lines**	3.54	3.54	3.54	-9.52	-9.52	-9.52
D) Collateral requirements*	11.76	11.76	11.76	24.82	24.82	24.82
E) Maturity**	8.23	8.23	-4.83	8.23	8.23	8.23

#### 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	8.06	20.11	-5.01

#### 5. Demand for loans to enterprises

	Past three months	Next three months
A) Demand for total loans and/or credit lines	78.90	40.29
Long-term (over 1 year)	78.90	40.29
Short-term (up to 1 year)	80.31	41.70
B) Demand of micro, small and medium enterprises	80.31	41.70
C) Demand of large enterprises	78.90	40.29

#### 6. Factors contributing to the demand of enterprises for loans

	Past three months	Next three months
A) FINANCIAL NEEDS OF ENTERPRISES	80.31	55.83
- for capital investments	62.95	38.47
- for working capital	80.31	55.83
- for debt restructuring	6.24	18.30
- for mergers/acquisitions	0.00	0.00
B) USE OF ALTERNATIVE SOURCES OF FINANCING	12.06	12.06
- internal sources of financing	0.00	0.00
- loans from other banks	4.83	4.83
- loans from non-banks	16.88	16.88

#### 7. Credit standards for loans to households

	Past three months	Next three months
Total loans	12.93	27.07
- housing loans	-0.13	14.01
- consumer and other loans	12.93	27.07

## 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	46.08	46.08	46.08	41.04	41.04	41.04
B) Competition of other banks	-25.87	-25.87	-25.87	-1.39	-1.39	-1.39
C) Risk perception	12.93	-0.13	12.93	27.07	14.01	27.07
- General economic situation and outlooks	8.23	-4.83	8.23	22.37	9.31	22.37
- Bad debt	0.00	0.00	0.00	0.00	0.00	0.00
- Risk related to required collateral	22.47	9.40	22.47	22.47	9.40	22.47
D) Willingness to take risk	12.93	-0.13	12.93	12.93	-0.13	-11.55

## 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*	47.62	40.57	47.62	51.85	31.73	51.85
B) Collateral requirements*	6.92	-0.13	6.92	6.92	-0.13	6.92
C) Share and deposits*	-4.83	-4.83	-4.83	8.23	-4.83	8.23
D) Mortgage value*	-0.13	-0.13	-0.13	-0.13	-0.13	-0.13
E) Commissions and fees*	8.26	8.26	8.26	21.32	8.26	21.32
F) Maturity and grace period*	-16.88	-16.88	-16.88	-16.25	-4.83	-16.25

## 10. Share of the rejected loan applications

	Past three months		
	Total	Housing loans	Consumer and other loans
Share of rejected applications	2.23	-4.83	15.29

## 11. Demand for loans to households

	Past three months	Next three months
Total loans	66.18	17.21
- housing loans	21.58	-2.90
- consumer and other loans	66.18	41.70

## 12. Factors contributing to the demand for loans to households

	Past three months	Next three months
A) FINANCIAL NEEDS OF HOUSEHOLDS	42.77	4.15
- for refinancing	29.71	15.57
- for purchase of consumables (cars, furniture, etc.)	28.63	28.63
- for immovable property purchase	34.75	-14.21
B) GENERAL ECONOMIC SITUATION	43.14	16.58
- wages and salaries	55.20	16.58
- employment	41.06	16.58
- real estate market situation	-0.18	-12.60
C) USE OF ALTERNATIVE SOURCES OF FINANCING	0.00	0.00
- household savings	0.00	0.00
- loans to households from other banks	4.83	4.83
- loan from non-banks	0.00	0.00