CENTRAL BANK OF MONTENEGRO

REPORT ON BANK LENDING SURVEY RESULTS SECOND QUARTER 2024

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INTRODUCTORY REMARKS

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. Its main objective is to provide the CBCG 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[1], as well as the impact of factors contributing to this change, change in terms and conditions[2] for credit 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 2024. 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 2024. With a view to providing statistical representation, the responses of individual banks are weighted by their market share[3], 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 implementation.

[2] *Credit terms and conditions* imply mandatory elements from the loan agreement and/or credit line agreement between the bank and the borrower (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 borrower and they can be altered together with the credit standards or independently.

[3] The share of bank's assets in total assets of the banking sector is used as the weight 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.

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”. 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 2024, compared to the previous quarter, credit standards for the economy were tightened slightly observed by total and long-term loans, while credit standards for short-term loans remained unchanged. Results also point to a significant easing of credit standards for households, especially for consumer and other credits.

According to banks' expectations for the third quarter of 2024, there could come to the mild tightening of credit standards for long-term loans to enterprises, while those for short-term loans would remain unchanged. Moreover, banks expected the easing of credit standards for households. Less strong competition in the banking sector, higher costs of sources of funds, and banks' reduced willingness to take risks, could contribute to the mild tightening of credit standards for the long-term corporate sector loans. On the other hand, banks' increased willingness to take risks, a more favourable general economic situation, stronger competition in the banking sector, reduced risk of required collateral, lower uncollectability of receivables and lower costs of sources of funds may act towards the easing of credit standards.

Banks estimate that in the second quarter of 2024, credit terms and conditions for enterprises and the households were eased in the form of lower interest margins, whereas household sector registered more significant easing. In addition, decreased commissions and fees, extended maturity and grace period and easier requirements regarding collateral, mortgage value and down payments and deposits acted towards easing credit conditions for the households. The increase in commissions and fees, increased requirements regarding the valuation of collateral and mild shortening of maturity acted towards the tightening of credit conditions. In the third quarter of 2024, banks expect further decline in the interest rate margins thus continuing the easing of credit conditions for the corporate sector and households. Increasing maximum loan amounts could further ease credit conditions for the corporate sector, while extending maturity and grace periods, reducing commissions and fees, and easing requirements regarding mortgage values, down payments and deposits could further ease credit conditions for the household sector. The tightening of collateral requirements for the corporate sector and the shortening of the maturity could act towards tightening the credit conditions for the corporate sector.

According to the results of the survey, in the second quarter of 2024, the demand of the corporate sector and households for loans increased. The growth of corporate sector demand was affected by increased financial needs of companies for capital investments, investing in working capital, debt restructuring and mergers and acquisitions. 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 employment growth, financial needs for purchasing immovable property and improved situation at the real estate market. 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 and a minor impact of salaries to the household demand.

Table 1 **Assessment of credit standards and demand for loans by banks, for Q2 and expectations for Q3 2024**

	Supply		Demand	
	Credit standards			
	Q2 2024	Q3 2024 (expectations)	Q2 2024	Q3 2024 (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%)

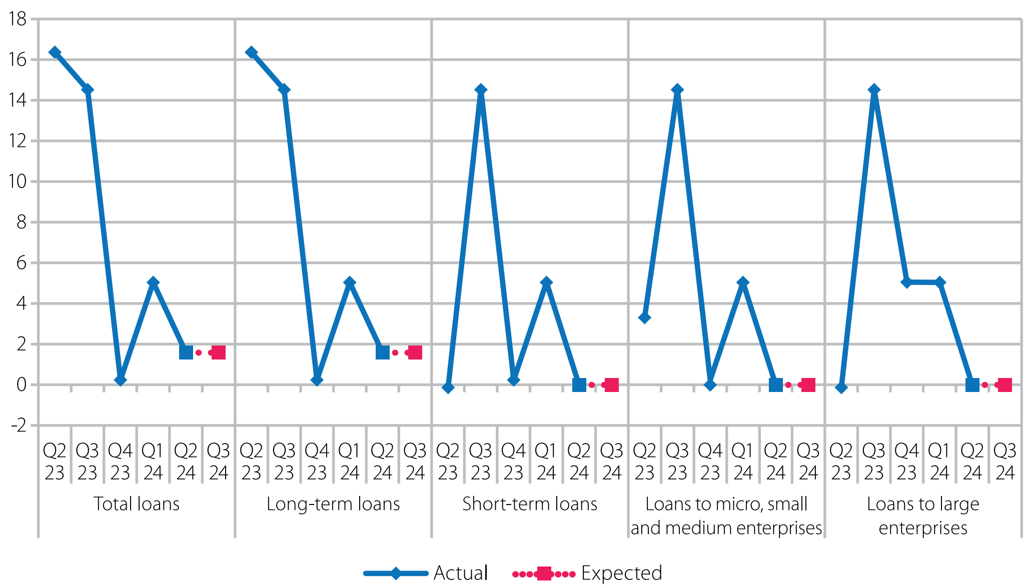
1. LOANS TO ENTERPRISES

1.1. Credit standards and credit terms and conditions for enterprises

In the second quarter of 2024, compared quarter-on-quarter, the conducted survey showed that standards for the economy were slightly tightened observed by total loans. Standards for approving long-term loans were mildly tightened while those for short-term loans remained unchanged.

Banks had similar expectations for the upcoming quarter. Banks expect that, in the case of total and short-term loans, there could be mild tightening of credit standards in the third quarter. Credit standards for short-term loans are expected to remain unchanged.

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



Source: CBCG

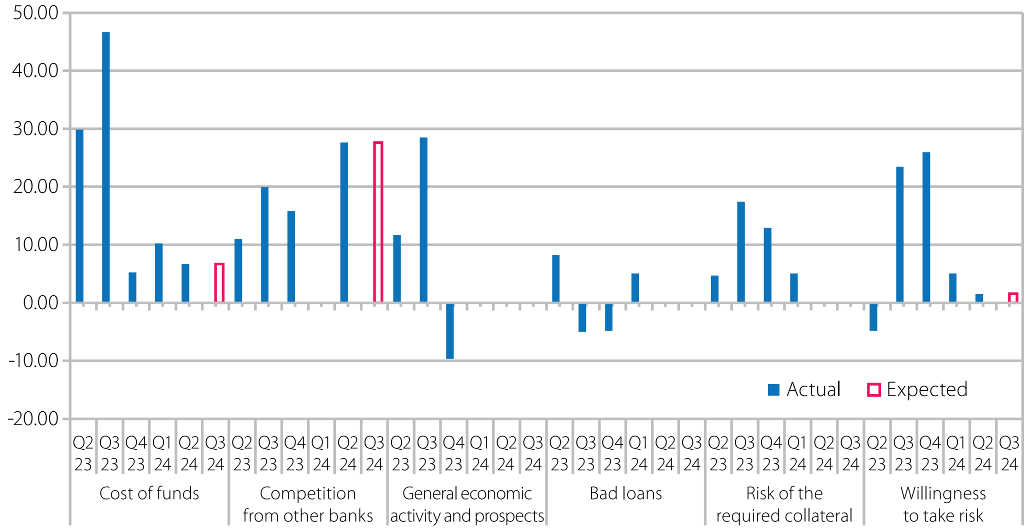
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

As banks estimated, less strong competition in the banking sector, banks' higher costs of sources of funds and reduced willingness to take risks contributed to the tightening of credit standards for the corporate sector in the second quarter of 2024.

Banks expected that the same factors as in the previous quarter will also impact possible mild tightening of credit standards for the corporate sector.

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



Source: CBCG

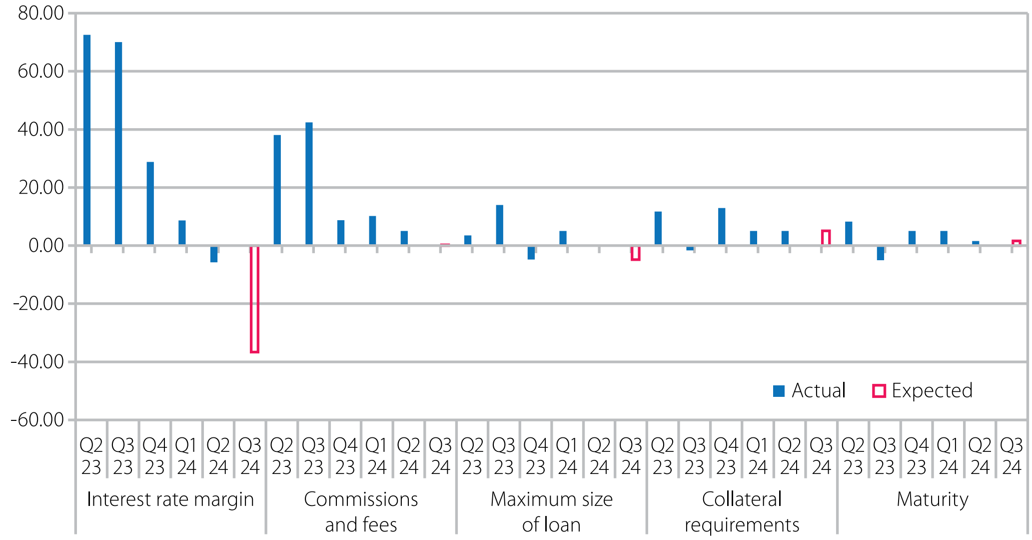
Note: A positive value indicates the contribution of a specific factor to the tightening of credit standards, whereas a negative value indicates the contribution of a specific factor to the credit standards easing.

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

The Q2 2024 survey showed that the quarter-on-quarter decrease in interest margins has resulted in the easing of credit terms and conditions for enterprises. On the other hand, the increase in commissions and fees, increase in collateral requirements and mild shortening of the maturity had the effect of tightening credit terms and conditions for enterprises.

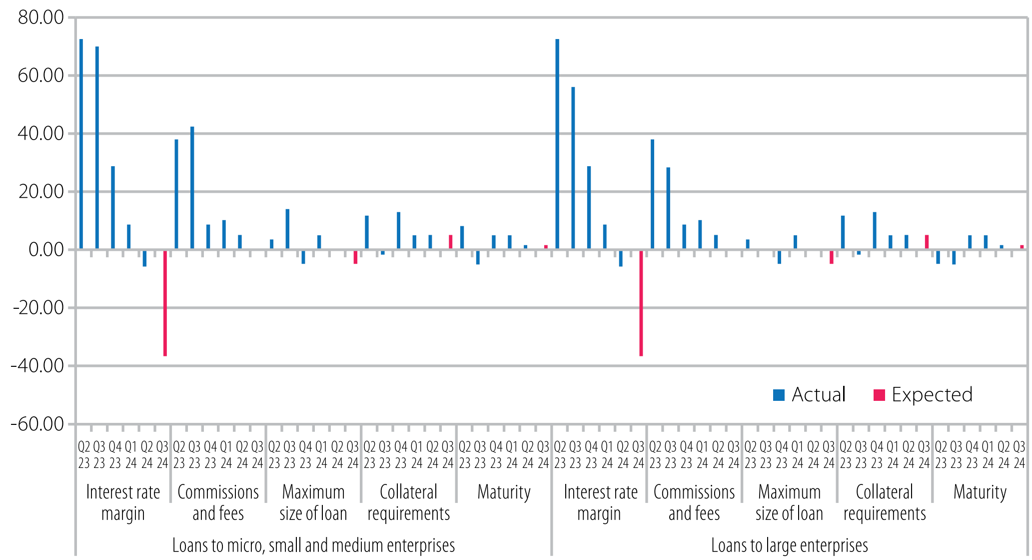
Banks expect that the easing of credit conditions for enterprises will continue in the next quarter, driven predominantly by the decline in interest margins, and increase in maximum amount for loans. On the contrary, minor part of the banking sector expected that increased collateral requirements, decreased maturity and increased provisions and fees would affect the tightening of credit conditions for the economy.

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.

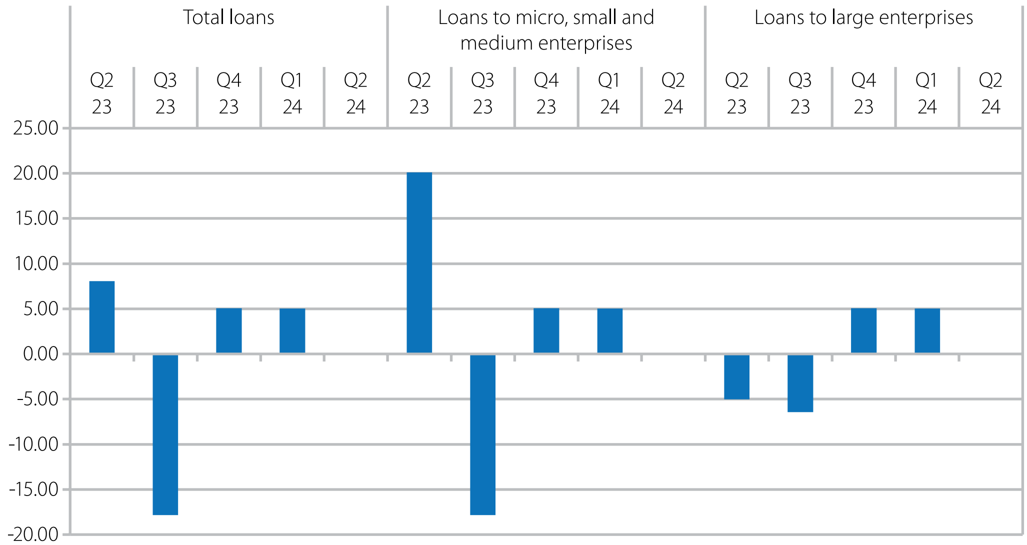
Change in terms and conditions for loans to enterprises by the size (net percentage) Graph 3a



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

The Q2 2024 survey results show the quarter-on-quarter unchanged number in the reporting quarter of the share of rejected loan applications to micro-, small, medium-sized, and large enterprises.

Graph 4 Share of rejected applications for loans to enterprises



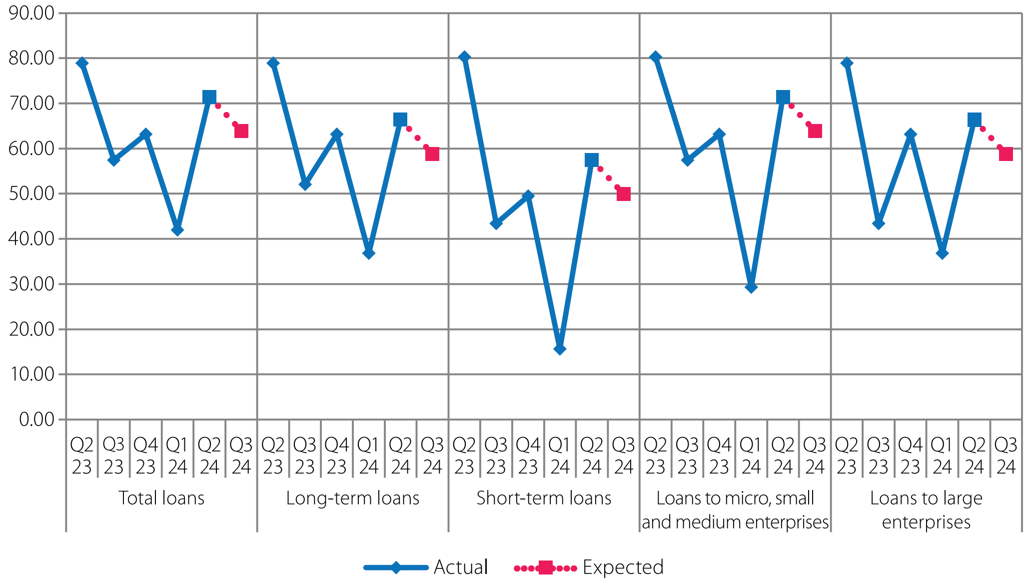
Source: CBCG
Note: A positive value indicates the increase of rejected loan applications, whereas a negative value indicates the decrease of rejected applications for loans to enterprises.
* The graph shows net percentage which indicates the direction of change rather than its intensity.

1.2. Demand for loans to enterprises

In the second quarter of 2024, banks recorded a significant quarter-on-quarter increase in the demand for loans, observed by both maturity and enterprise size. As factors of increasing demand, companies have expressed their financial needs for capital investments, investment in working capital, debt restructuring, and mergers and acquisitions. The decrease in lending to the corporate sector by non-banking institutions and other banks and the use of internal financing sources also acted towards increasing demand.

In the third quarter of 2024, banks expect a growing corporate demand for loans. 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 enterprises (net percentage) **Graph 5**

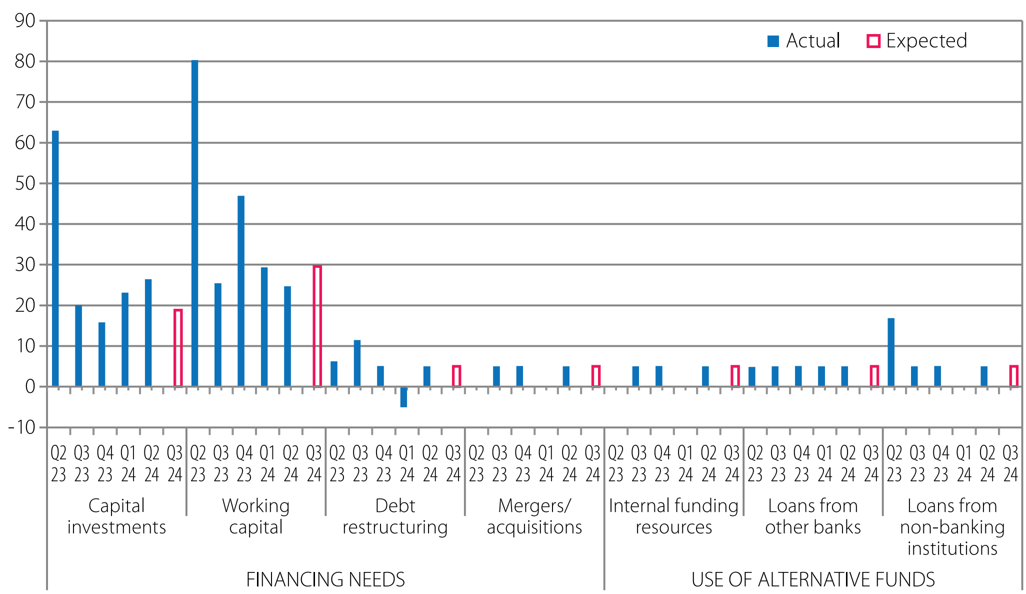


Source: CBCG

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 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.

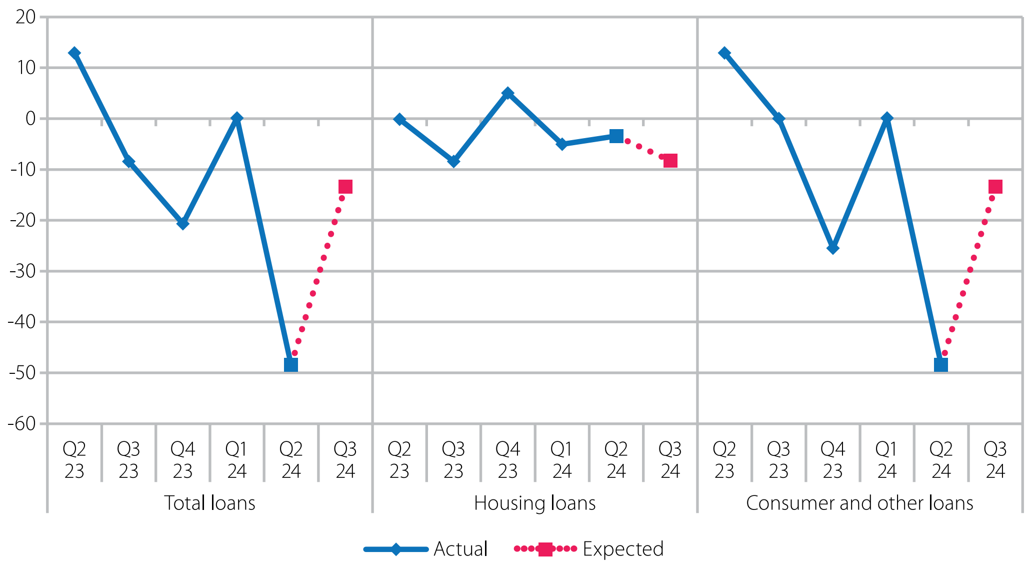
2. LOANS TO HOUSEHOLDS

2.1. Credit standards and credit terms and conditions for households

Based on the results of the conducted survey, in the second quarter of 2024 compared to the previous quarter, credit standards for the households were eased significantly, mainly consumer and other loans.

According to banks' expectations, in the third quarter of the current year there could be a further easing of credit standards for all categories of loans granted to households. It would be to a lesser extent compared to the second quarter, except for housing loans for which more significant easing may be expected comapred to the second quarter.

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



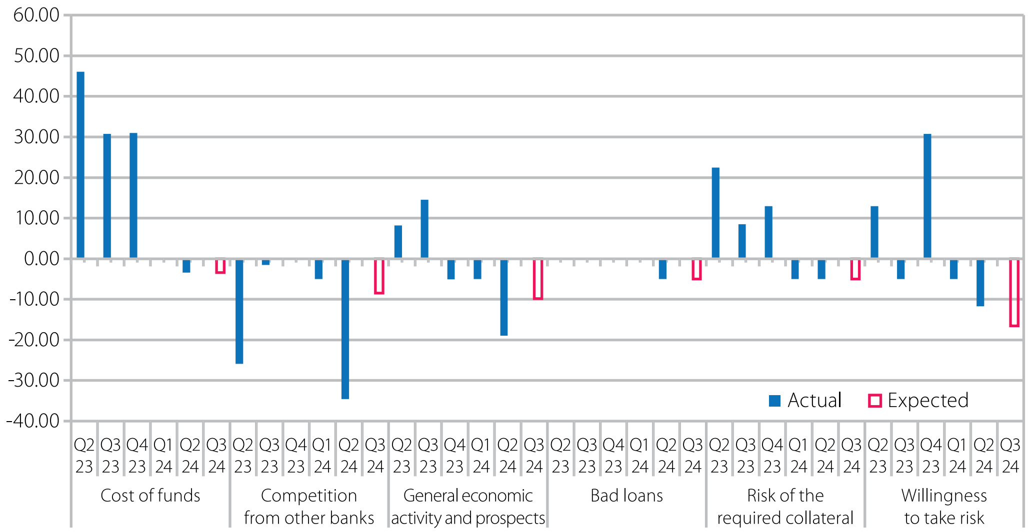
Source: CBCG
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.
* The graph shows net percentage which indicates the direction of change rather than its intensity.

In the second quarter of 2024, increased competition of other banks, improved general economic situation and increased willingness to take risks for loans compared to the quarter, mainly affected the easing of standards for loans to the households sector.

In addition, the reduced risk of required collateral, reduced non-payment of receivables and lower costs of sources of funds acted towards easing credit standards for households.

In the next quarter, banks expect that there could be a further easing of credit standards for households mainly due to the increased willingness to take risks. A more favourable general economic situation, greater competition from other banks, reduced risk of required collateral, less uncollectibility of receivables and lower costs of sources of funds can also act towards easing credit standards for the household sector.

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



Source: CBCG

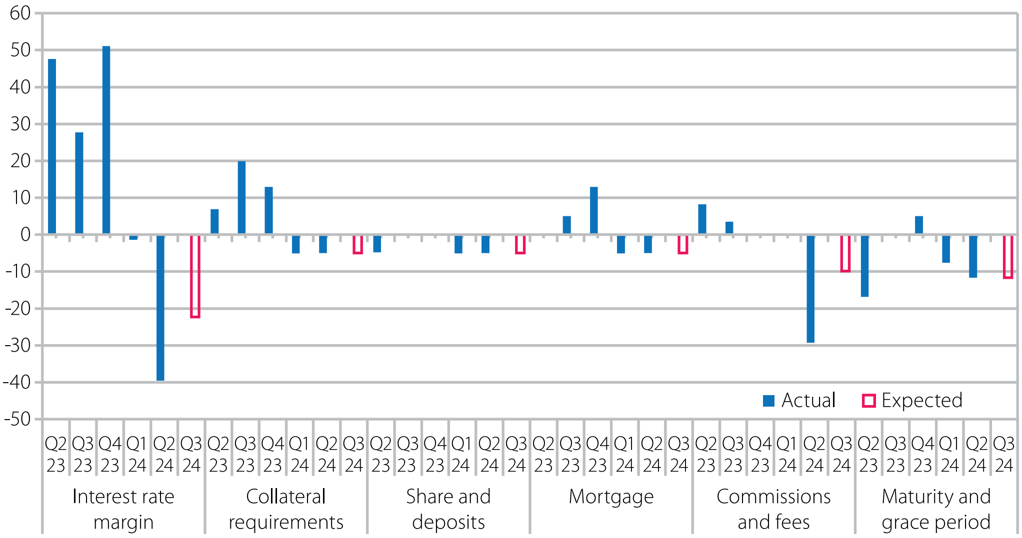
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

The survey showed that the quarter-on-quarter decline in interest margin, commissions, and fees in the previous quarter contributed to the easing of credit conditions for all categories of enterprises in the second quarter of the current year. In addition, extending maturities and grace periods and easer requirements regarding the value of collateral and mortgage, down payments and deposits affected the easing of credit conditions.

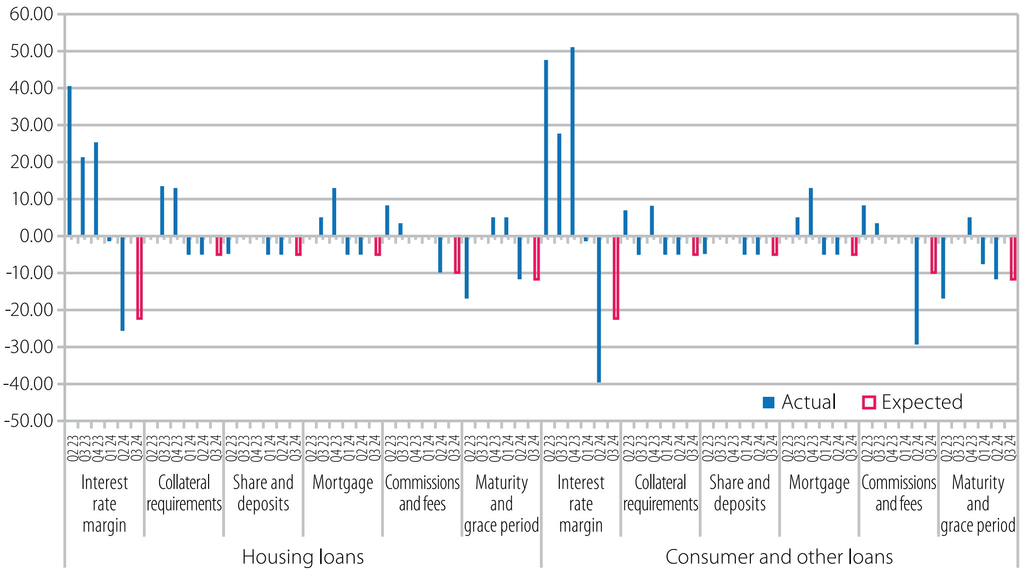
Banks expect that the easing of credit conditions for households will continue in the third quarter of 2024 due to the granting of household loans driven by significant interest margins decrease. As in the second quarter, the extension of the maturity and grace period, the reduction of commissions and fees, and the less strict requirements regarding the value of the mortgage, down payment and deposit will work towards the easing of credit conditions.

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.

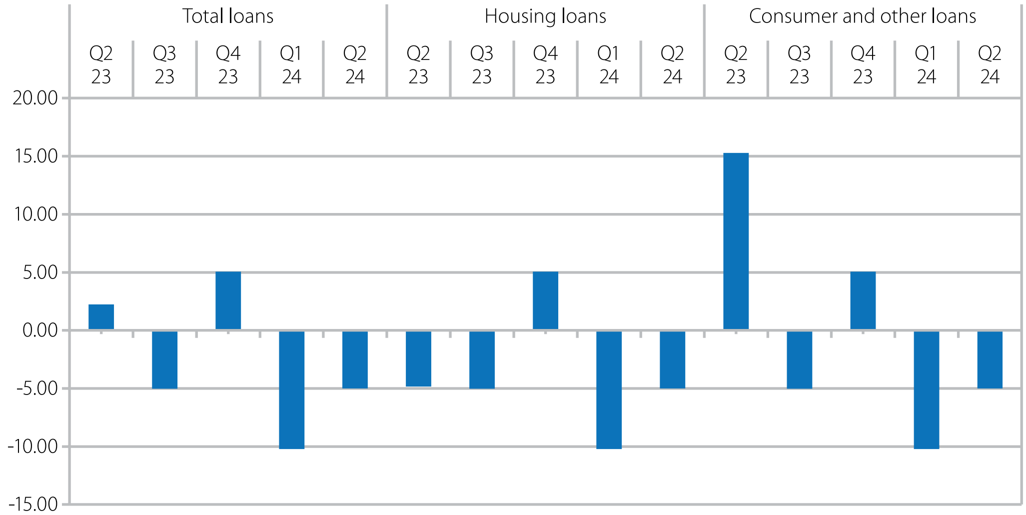
Graph 9a Change in terms and conditions for housing loans and consumer and other loans (net percentage)



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

The survey shows that there was the quarter-on-quarter decrease in the reporting quarter of rejected applications for all types of loans to households.

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



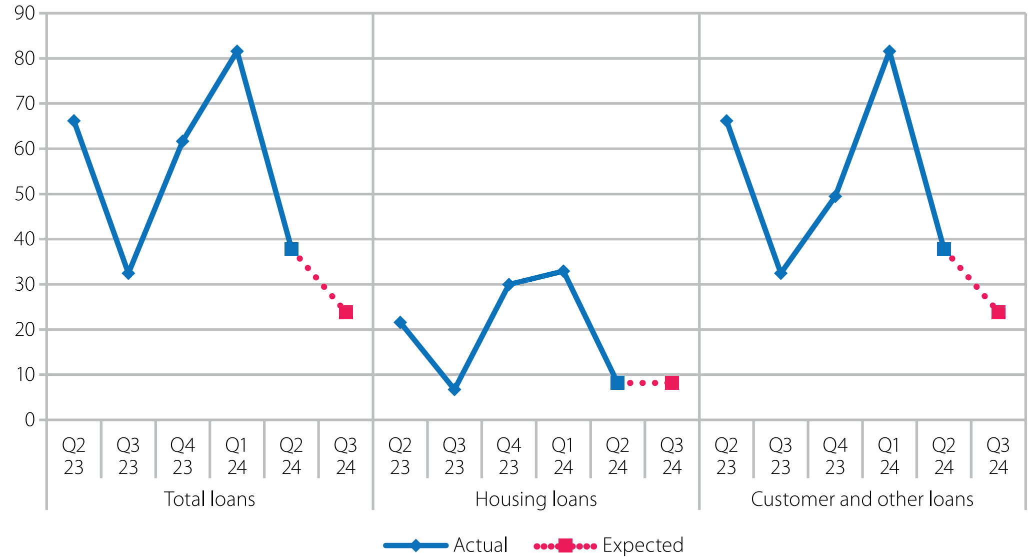
Source: CBCG
Note: A positive value indicates the increase of rejected loan applications, whereas a negative value indicates the decrease of rejected applications for loans to households.
* The graph shows net percentage which indicates the direction of change rather than its intensity.

2.2. Demand for loans to households

The survey shows that there was the quarter-on-quarter increase in household demand for loans. 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 and the purchase of durable consumer goods. In addition, the increase in demand was influenced by increased employment, the increase in the population's financial needs for the purchase of immovable property, the improved situation on the immovable property market, and the reduced use of loans from other banks. Household savings and use of loans by non-banking institutions had no effect on household demand for loans during the second quarter.

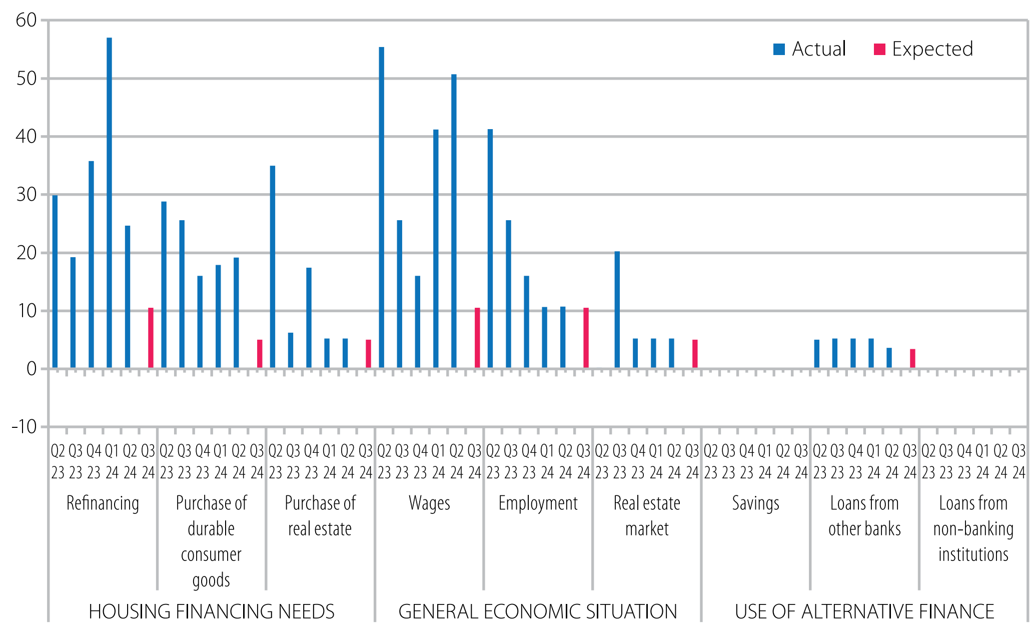
In the third quarter of 2024, banks expect increased demand for loans, especially consumer and other loans. As in the previous quarter, banks expect that increased households' demand for loans for refinancing and increased salaries and employment will affect demand growth more, yet less prominent than in the previous period. Moreover, higher financial needs for purchasing consumer goods and the purchase of immovable property, the improved situation on the real estate market and the reduced use of loans from other banks may affect the growth of 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.

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 2024

1. Credit standards for enterprises

	Past three months	Next three months
A) Total loans and/or credit line	1.59	1.59
Long-term (over 1 year)	1.59	1.59
Short-term (up to 1 year)	0.00	0.00
B) Loans and/or credit lines to micro-, small and medium-sized enterprises	0.00	0.00
C) Loans and/or credit lines to large enterprises	0.00	0.00

2. Factors contributing to the change in credit standards for 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	6.67	6.67	6.67	6.67	6.67	6.67
B) Competition from other banks	27.64	27.64	27.64	27.64	27.64	27.64
C) Risk perception	1.59	1.59	1.59	1.59	1.59	1.59
- General economic situation and outlook	0.00	0.00	0.00	0.00	0.00	0.00
- Bad debt	0.00	0.00	0.00	0.00	0.00	0.00
- Risk related to collateral requirements	0.00	0.00	0.00	0.00	0.00	0.00
D) Risk tolerance	1.59	1.59	1.59	1.59	1.59	1.59

3. Credit terms and conditions for 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*	-5.77	-5.77	-5.77	-36.66	-36.66	-36.66
B) Commissions and fees*	5.08	5.08	5.08	0.24	0.24	0.24
C) Maximum amount of loans and/or credit lines**	0.00	0.00	0.00	-4.84	-4.84	-4.84
D) Collateral requirements*	5.08	5.08	5.08	5.08	5.08	5.08
E) Maturity**	1.59	1.59	1.59	1.59	1.59	1.59

4. Share of the rejected loan applications

	Past three months		
	Total	Loans to micro, small and medium enterprises	Loans to large enterprises
Share of rejected applications	0.00	0.00	0.00

5. Demand for loans to enterprises

	Past three months	Next three months
A) Demand for total loans and/or credit lines	71.47	63.87
Long-term (over 1 year)	66.39	58.78
Short-term (up to 1 year)	57.54	49.94
B) Demand of micro, small and medium-sized enterprises	71.47	63.87
C) Demand of large enterprises	66.39	58.78

6. Factors contributing to the demand of enterprises for loans

	Past three months	Next three months
A) FINANCIAL NEEDS OF ENTERPRISES	37.16	29.56
- For capital investments	26.41	18.81
- For working capital	24.71	29.56
- For debt restructuring	5.01	5.01
- For mergers/acquisitions	5.01	5.01
B) USE OF ALTERNATIVE SOURCES OF FINANCING	5.01	5.01
- Internal sources of financing	5.01	5.01
- Loans from other banks	5.01	5.01
- Loans from non-banks	5.01	5.01

7. Credit standards for households

	Past three months	Next three months
Total loans	-48.48	-13.35
- Housing loans	-3.42	-8.27
- Consumer and other loans	-48.48	-13.35

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	-3.42	-3.42	-3.42	-3.42	-3.42	-3.42
B) Competition from other banks	-34.56	-34.56	-8.51	-8.51	-8.51	-8.51
C) Risk perception	-17.35	-3.42	-17.35	-8.27	-8.27	-8.27
- General economic situation and outlook	-18.94	-5.01	-18.94	-9.86	-9.86	-9.86
- Bad debt	-5.01	-5.01	-5.01	-5.01	-5.01	-5.01
- Risk related to collateral requirements	-5.01	-5.01	-5.01	-5.01	-5.01	-5.01
D) Risk tolerance	-11.69	-11.69	-11.69	-16.53	-16.53	-16.53

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 rate margin*	-39.57	-25.64	-39.57	-22.30	-22.30	-22.30
B) Collateral requirements*	-5.01	-5.01	-5.01	-5.01	-5.01	-5.01
C) Share and deposits*	-5.01	-5.01	-5.01	-5.01	-5.01	-5.01
D) Mortgage value*	-5.01	-5.01	-5.01	-5.01	-5.01	-5.01
E) Commissions and fees*	-29.32	-9.86	-29.32	-9.86	-9.86	-9.86
F) Maturity and grace period*	-11.69	-11.69	-11.69	-11.69	-11.69	-11.69

10. Share of the rejected loan applications

	Past three months		
	Total	Housing loans	Consumer and other loans
Share of rejected applications	-5.01	-5.01	-5.01

11. Demand for loans to households

	Past three months	Next three months
Total loans	37.82	23.89
- Housing loans	8.19	8.19
- Consumer and other loans	37.82	23.89

12. Factors contributing to the demand for loans to households

	Past three months	Next three months
A) FINANCIAL NEEDS OF HOUSEHOLDS	24.47	10.54
- For refinancing	24.47	10.54
- For purchase of consumables (cars, furniture, etc.)	18.94	5.01
- For immovable property purchase	5.01	5.01
B) GENERAL ECONOMIC SITUATION	24.47	10.54
- Wages and salaries	50.52	10.54
- Employment	10.54	10.54
- Immovable property market situation	5.01	5.01
C) USE OF ALTERNATIVE SOURCES OF FINANCING	0.00	0.00
- Household savings	0.00	0.00
- Loans to households from other banks	3.42	3.42
- Loan from non-banks	0.00	0.00