



CENTRAL BANK OF
MONTENEGRO

**REPORT ON BANK LENDING
SURVEY RESULTS
THIRD 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 the loans to enterprises and households.

The survey consists of twelve questions that refer to the approval of loans to enterprises and households. The respondents (banks) answered the questions on the change in their credit standards¹, as well as the impact of factors contributing to this change, 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, whereas the remaining six questions referred to the loans 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, medium, and large enterprises). 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 third quarter 2020. The survey disclosed positions of banks on the changes in their credit policies during the third quarter and expected changes in the fourth 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” and the sum

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.

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

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

SUMMARY

According to the results of the survey, during the third quarter of 2020, in relation to the previous quarter, the credit standards were tightened when approving loans to enterprises, while they were eased when approving loans to households. The very complex and uncertain economic situation caused by the COVID-19 pandemic has affected the perception of risk significantly.

A number of banks expect credit standards to be tightened when granting loans to enterprises in the next quarter. When it comes to the loans to households, banks expect that credit standards will be slightly eased in the fourth quarter as well, but only for consumer and other loans. Part of the banking sector believes that competition could only act as a factor in easing credit standards for loans to households. Banks expect that in the next quarter the poor economic situation caused by the coronavirus epidemic, higher uncollectibility of claims, increased risk of required collateral, lower risk appetite and higher costs of sources of funds could result in tightening the standards for lending to enterprises and households.

Banks assess that credit conditions in terms of interest rate margins, commissions and fees for loans approved both to enterprises and households were eased in the third quarter of this year. The increase in maturity and grace period for loans to households was recorded as a part of easing conditions, while the conditions regarding the value of mortgages in this sector were tightened. The required collateral increased as a part of tightening credit conditions, for both sectors, while a reduction in maximum loan amounts and maturities further tightened credit conditions for the loans to enterprises. Banks expect that credit conditions in terms of interest rate margins, commissions and fees will be eased during the next quarter for loans both to enterprises and households, while there is a possibility that the required collateral for both sectors might increase. Lower maximum amounts and reduced maturity for loans to enterprises could tighten credit conditions for this sector in the next quarter as well. Banks expect that an increase in the maturity and grace period for loans to households could ease credit conditions for this sector in the fourth quarter, while there is still a possibility of tightening credit conditions regarding the value of mortgages.

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

According to banks' expectations, during the third quarter of 2020, enterprises and households increased their demand for loans, with a certain decrease in demand for housing loans. Conditions caused by the COVID-19 pandemic affected the increased need of the corporate sector for loans, especially short-term loans, and need of the retail sector for consumer and other loans. An increase in household demand in the third quarter was driven by increased financial needs for refinancing and purchase of consumer durables. Banks expect that the corporate sector demand, especially of the large enterprises, will continue to grow in the fourth quarter. The growth of the corporate sector demand for banking loans was a result of the corporate sector deteriorating liquidity caused by the coronavirus epidemic. Banks expect that household demand for banking loans will continue to grow in the fourth quarter of this year, especially for consumer and other loans, driven by the same factors as in the previous quarter. Banks also expect that the demand for housing loans could be reduced.

Table 1 Assessment of credit standards and demand for loans by banks, Q3 2020 and expectations for Q4 2020

	Supply		Demand	
	Credit standards		Q3 2020	Q4 2020 (expectations)
	Q3 2020	Q4 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 direction of change rather than its intensity.

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

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

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

- = no change

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

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

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

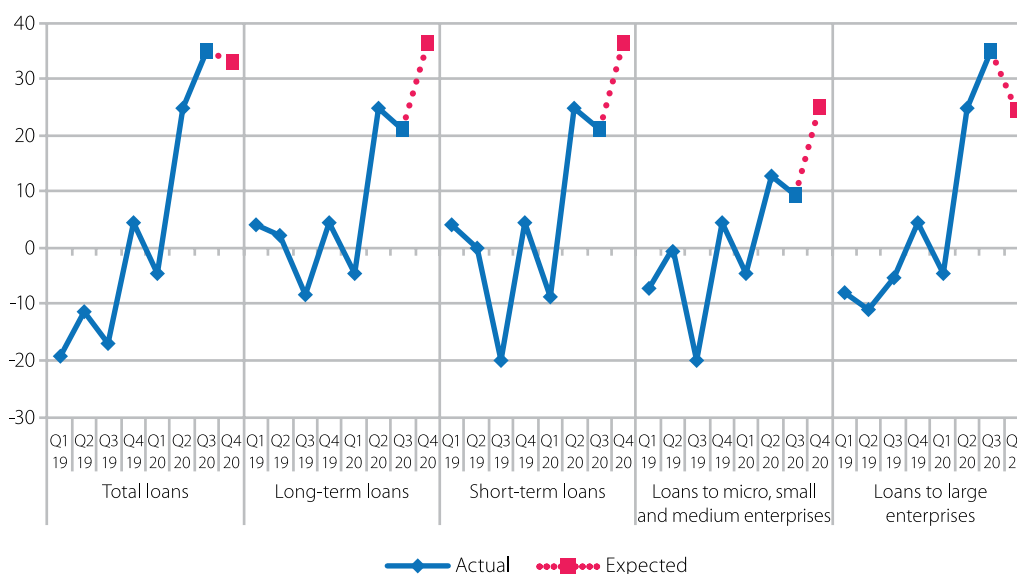
1. LOANS TO ENTERPRISES

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

According to the survey results, credit standards in approving loans to enterprises, especially to large ones, were tightened in the third quarter of 2020 in relation to the previous quarter.

Banks expect that credit standards may tighten for small, medium and large enterprises in the next quarter of 2020.

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



Source: CBCG

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

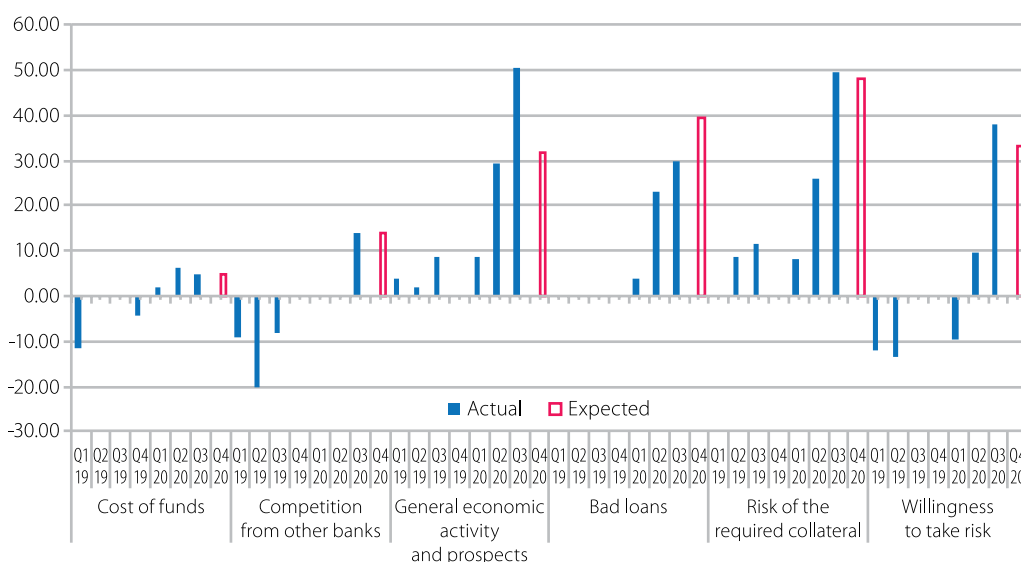
*The graph shows net percentage which indicates the direction of change rather than its intensity.

The negative impact of the epidemic caused by the new coronavirus outbreak on the risk perception continued in the third quarter of 2020. The deterioration of the general economic situation, the increase in the uncollectibility of receivables, as well as the higher risk of the required collateral have contributed to the tightening of credit standards when approving loans to enterprises. In relation to the second quarter, the willingness to take risk in lending to micro, small and medium enterprises declined, while part of

the banking sector was more willing to take risks in approving loans to large enterprises. A number of banks recorded competition and an increase in the cost of sources of funds as deteriorating credit standards.

Given the very large impact of the COVID-19 pandemic, which is still far from over, banks expect that in the next quarter the development of standards for approving loans to enterprises will be influenced by the same factors as during the previous quarter, and the willingness to take risks in lending to all enterprises, regardless of their size, is expected to decrease.

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



Source: CBCG

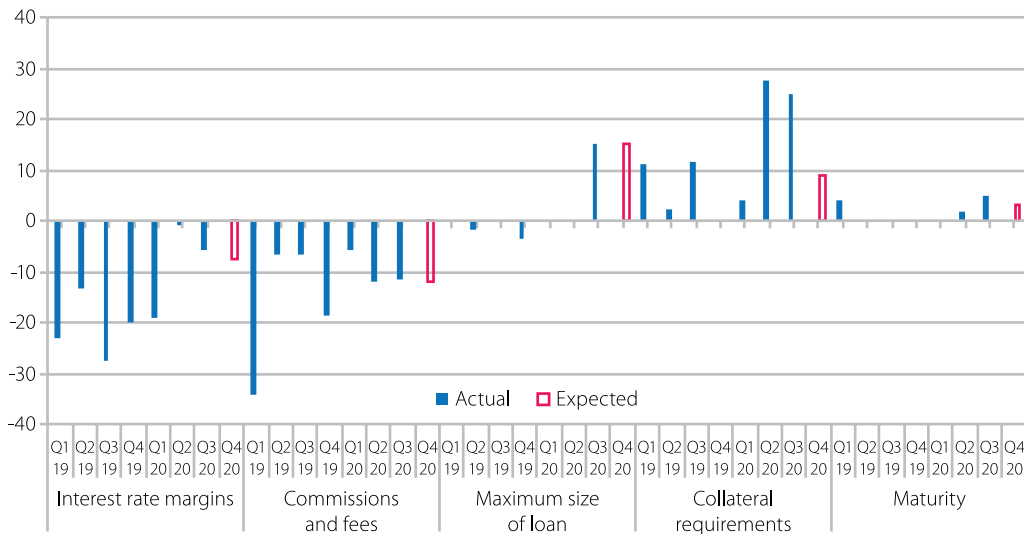
Note: A positive value indicates the contribution of a specific factor to the tightening of credit standards, whereas a negative value indicates the contribution of a specific factor to the credit standards easing.

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

The survey results showed that the decrease in interest rate margins, commissions and fees for approving loans to enterprises continued in the third quarter of 2020 as well, which indicates the easing of credit conditions. On the other hand, higher collateral requirements, lower maximum amount of loans, and reduced maturity, tightened the credit conditions.

The banks expect to continue easing credit conditions for all enterprises in terms of reducing interest rate margins, commissions and fees in the next quarter. It is expected that there could be an increase in collateral requirements, a reduction in the maximum loan amounts and maturities, which could lead to tightening conditions for approving corporate loans.

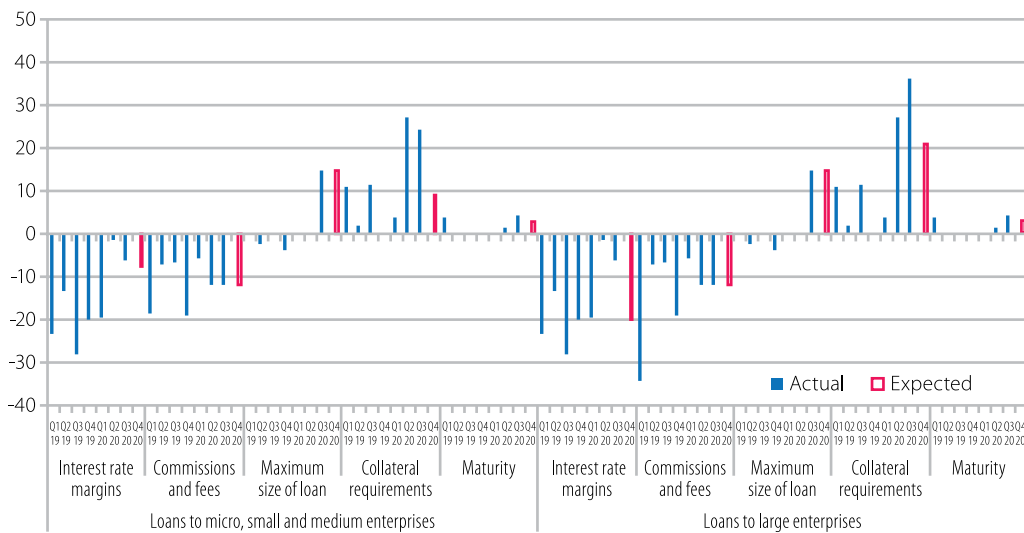
Change in terms and conditions for loans to enterprises (net percentage) Graph 3



Source: CBCG

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

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

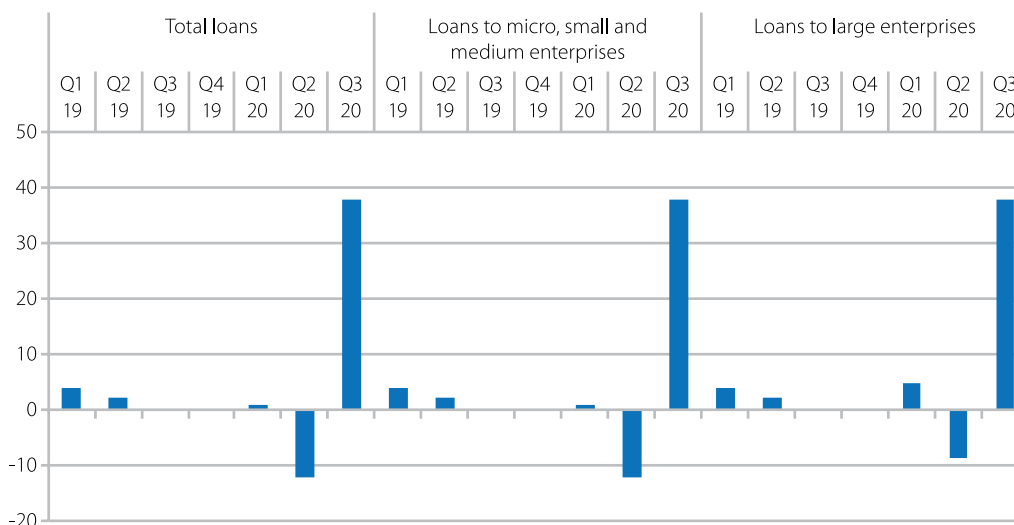


Source: CBCG

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

The survey results show that the share of rejected loan applications to micro, small, medium and large enterprises recorded an increase in the third quarter of 2020 in relation to the previous quarter.

Graph 4 Share of rejected applications for loans to enterprises



Source: CBCG

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

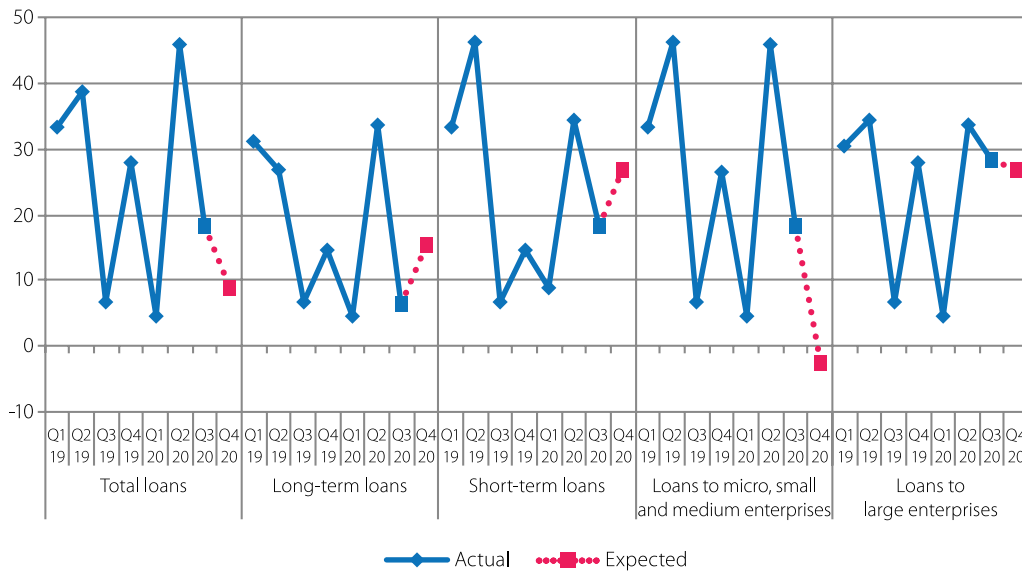
*The graph shows net percentage which indicates the direction of change rather than its intensity.

1.2. Demand for loans to enterprises

The survey results show that in the third quarter of the current year, compared to the previous quarter, the demand for corporate loans increased, especially for short-term loans, which is in line with the expectations of banks from the previous survey. The increase in demand was influenced by the need of enterprises for lending in order to be able to preserve its business in the conditions caused by the coronavirus epidemic.

The COVID-19 pandemic affected the economy's liquidity, which will continue to affect the increase in demand of large companies for lending, both long-term and short-term. According to an assessment of a smaller part of the banking sector, a slight decline in demand for loans by micro, small and medium enterprises can be expected. The increased demand of the corporate sector for banking loans in the fourth quarter is explained by the need of enterprises to restructure debts.

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

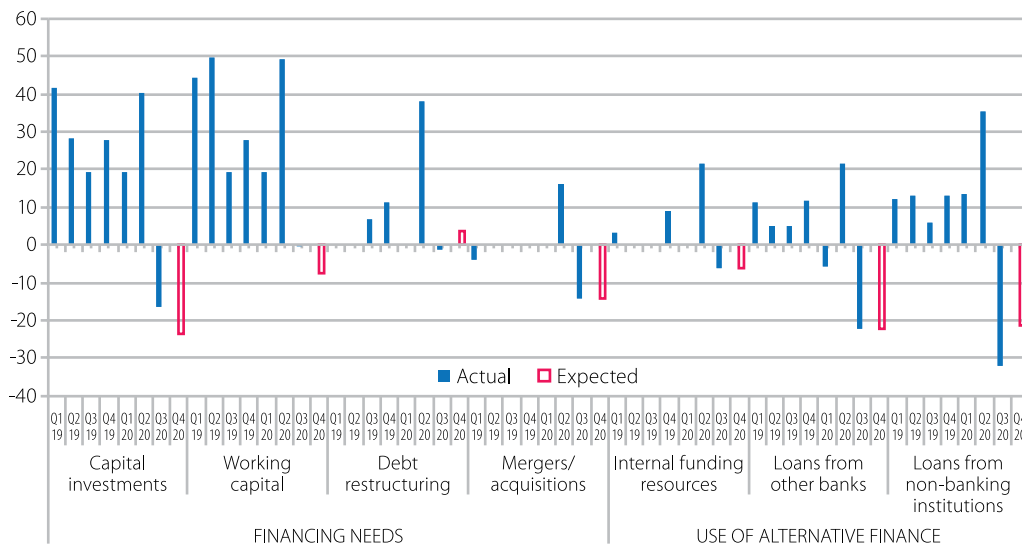


Source: CBCG

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

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

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



Source: CBCG

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

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

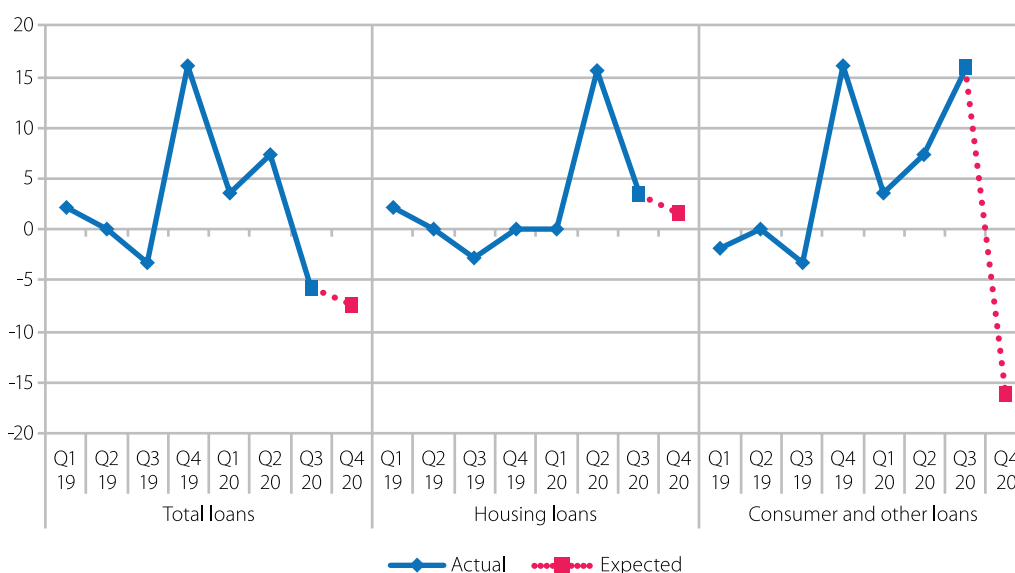
2. LOANS TO HOUSEHOLDS

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

According to the results of the survey, credit standards for loans to households were eased in the third quarter of 2020 in relation to the previous quarter.

Banks expect that conditions for loans to households, primarily consumer and other loans, could be eased in the next quarter as well.

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



Source: CBCG

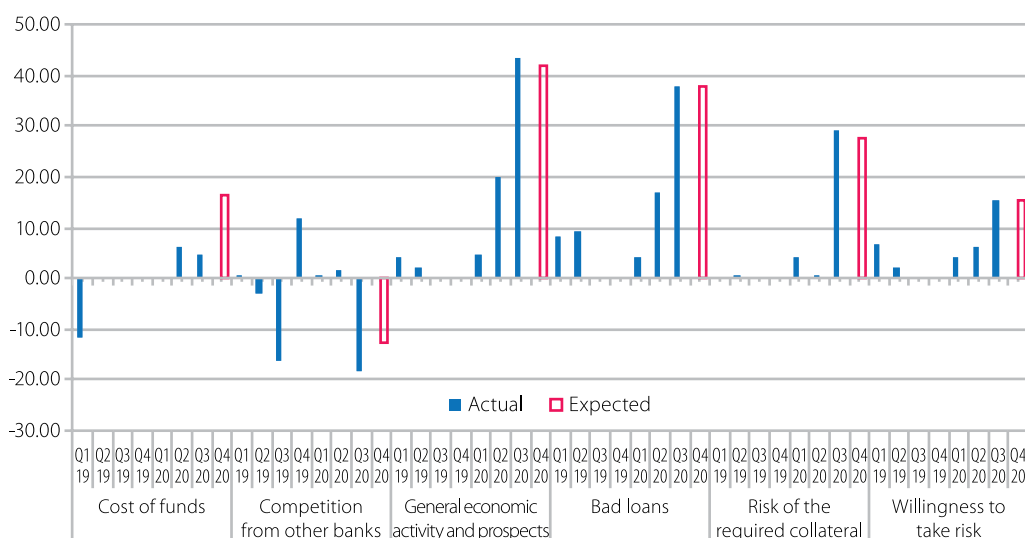
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

According to a part of the banking sector, the easing of credit standards for loans to households in the third quarter this year compared to the previous quarter was influenced by the increased competition. On the other hand, the deteriorating economic situation, higher uncollectibility of receivables, increased risk in terms of required collateral, lower willingness to take risks, as well as higher costs of sources of funds are factors that caused tightening of credit standards.

Banks expect that in the fourth quarter of the current year, competition will ease credit standards for households, especially when it comes to consumer and other loans. Banks expect that the factors that caused tightening of the credit standards for approving loans to households will retain the same impact on the development of credit standards in the next quarter as well.

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



Source: CBCG

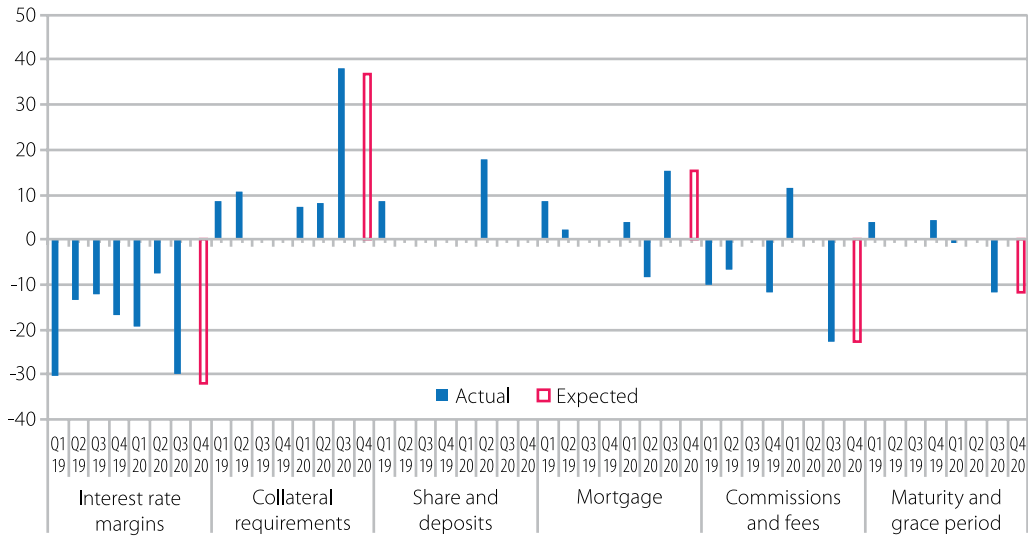
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

The results of the survey show that the conditions for approving loans to households eased in the third quarter compared to the previous quarter of the current year, in terms of lower interest rate margins, lower fees and commissions, as well as increased maturity and grace period. Banks estimate that the increased requirements regarding collateral and the value of mortgages when approving loans to households had effect on tightening conditions, while the share of deposits did not change during the third quarter.

In the next quarter, banks expect that the trend of easing credit terms for loans to households in terms of interest rate margins, commissions, fees, maturities and grace periods will continue. According to banks' expectations, increased requirements concerning collateral and the value of mortgages when approving loans to households could tighten credit terms for this sector in the next quarter, while no changes are expected in terms of share of deposits.

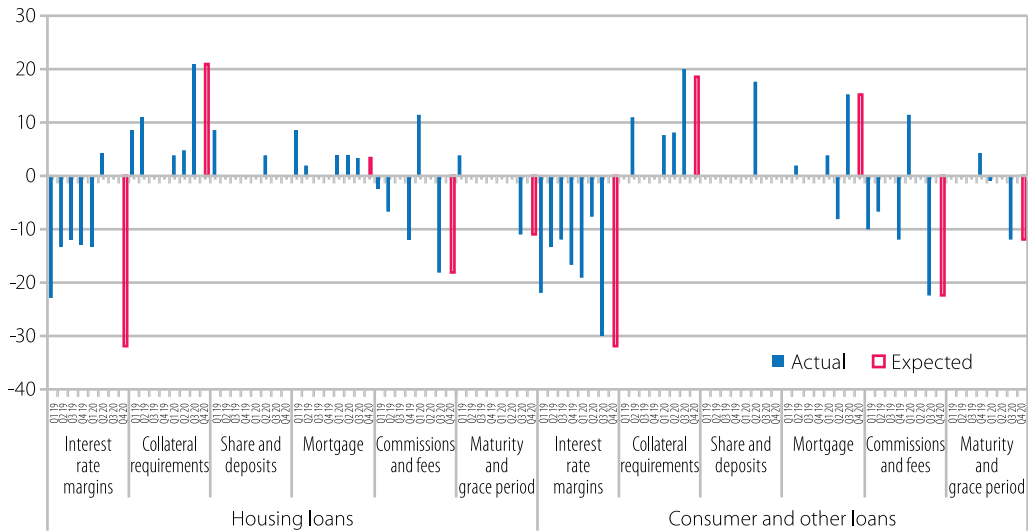
Graph 9 Change in terms and conditions for loans to households (net percentage)



Source: CBCG

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

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

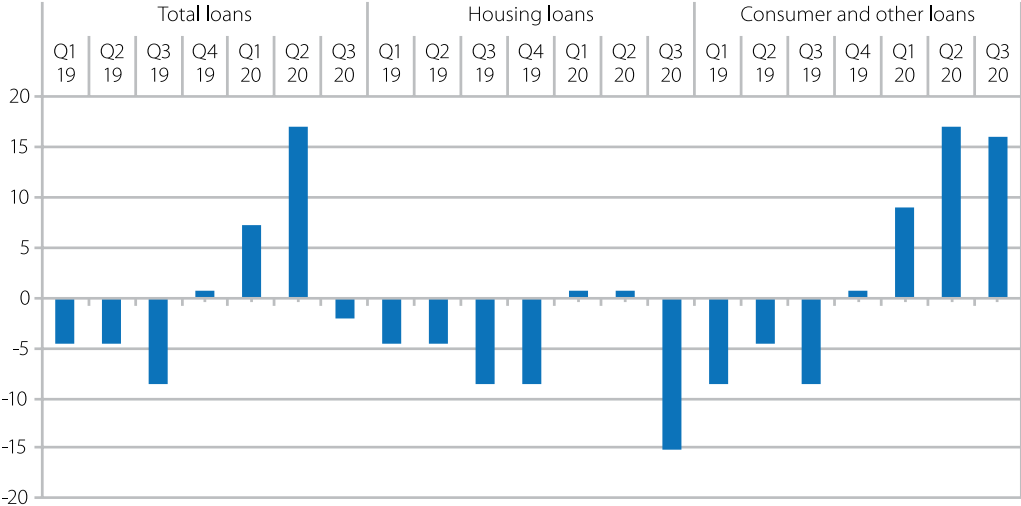


Source: CBCG

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 in total loans decreased in the third quarter of 2020 compared to the previous quarter, whereas a part of the banking sector recorded an increase in rejected applications in consumer and other loans.

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



Source: CBCG

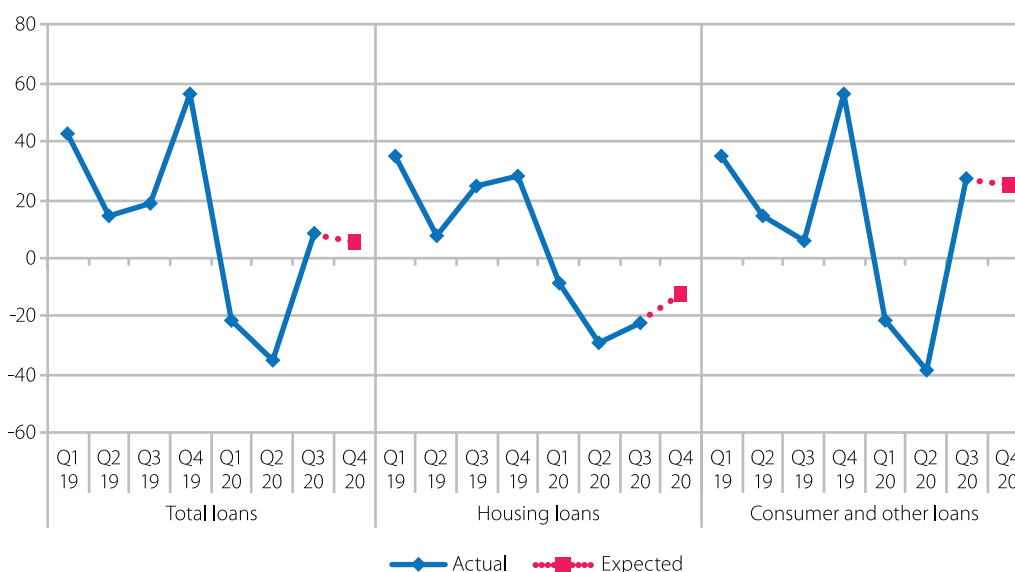
Note: A positive value indicates the increase of rejected loan applications, whereas a negative value indicates the decrease of rejected applications for loans to households.

*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 rise in the demand for loans to households over the third quarter of 2020. Demand growth was particularly recorded in consumer and other loans, while demand for housing loans decreased. Banks believe that demand in the third quarter, as in the previous one, was strongly influenced by the deteriorating economic situation in the country caused by the COVID-19 epidemic. Banks noted the increased financial needs of households for refinancing and the purchase of consumer durables as factors contributing to the growth of demand during the third quarter, as well as the reduction of savings and lending to households by non-banking institutions. On the other hand, reduced real estate purchase, lower earnings and lower employment were observed as a demand decline factors.

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



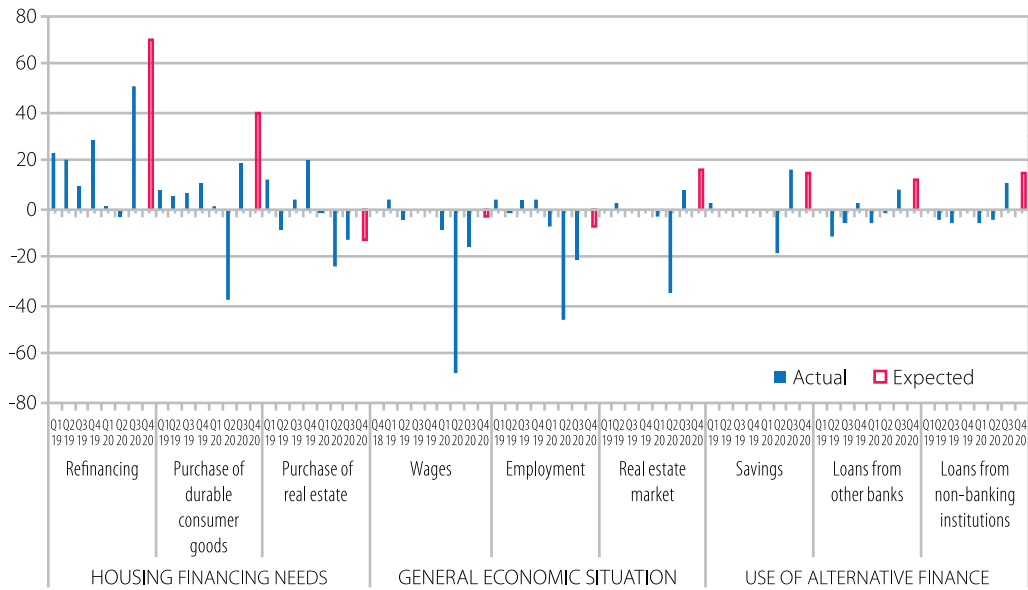
Source: CBCG

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.

Demand will continue to be strongly affected by the coronavirus epidemic in the fourth quarter of this year as well. The financial needs of households for refinancing and purchase of consumer durables will increase demand in the next quarter. The same factors as in the previous quarter could cause a decrease in demand.

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



Source: CBCG

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

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

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

1. Credit standards for loans to enterprises

	Past three months	Next three months
A) Total loans and/or credit lines	34.97	33.15
Long-term (over 1 year)	21.12	36.59
Short-term (up to 1 year)	21.12	36.59
B) Loans and/or credit lines to micro, small and medium enterprises	9.35	24.82
C) Loans and/or credit lines to large enterprises	34.97	24.57

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	4.64	4.64	4.64	4.64	4.64	4.64
B) Competition of other banks	13.85	13.85	13.85	13.85	13.85	13.85
C) Risk perception	52.28	52.28	38.63	55.16	43.14	43.14
- General economic situation and outlooks	50.55	50.55	36.90	31.50	19.48	19.48
- Bad debt	29.64	41.66	29.64	39.61	39.61	39.61
- Risk related to required collateral	49.60	49.60	35.95	47.97	47.97	35.95
D) Risk appetite	37.79	37.79	-10.36	33.15	33.15	21.12
E) Other factors if any (need to be specified) Impact of the COVID-19 pandemic on the affected activities	18.06	18.06	18.06	18.06	18.06	18.06

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*	-5.81	-5.81	-5.81	-7.64	-7.64	-19.66
B) Commissions and fees*	-11.77	-11.77	-11.77	-11.77	-11.77	-11.77
C) Maximum amount of loans and/or credit lines**	15.06	15.06	15.06	15.06	15.06	15.06
D) Collateral requirements*	24.57	24.57	36.59	9.10	9.10	21.12
E) Maturity**	4.68	4.68	4.68	3.06	3.06	3.06

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	37.79	37.79	37.79

5. Demand for loans to enterprises

	Past three months	Next three months
A) Demand for total loans and/or credit lines	18.30	8.99
Long-term (over 1 year)	6.52	15.28
Short-term (up to 1 year)	18.30	27.06
B) Demand of micro, small and medium enterprises	18.30	-2.78
C) Demand of large enterprises	28.28	27.06

6. Factors contributing to the demand of enterprises for loans

	Past three months	Next three months
A) FINANCIAL NEEDS OF ENTERPRISES	-0.39	-0.57
- For capital investments	-16.41	-23.68
- For working capital	-0.39	-7.28
- For debt restructuring	-1.37	3.51
- For mergers/acquisitions	-14.40	-14.40
B) USE OF ALTERNATIVE SOURCES OF FINANCING	-31.91	-18.06
- Internal sources of financing	-6.04	-6.04
- Loans from other banks	-22.40	-22.40
- Loans from non-banks	-31.91	-21.12

7. Credit standards for loans to households

	Past three months	Next three months
Total loans	-5.66	-7.48
- Housing loans	3.49	1.66
- Consumer and other loans	15.85	-16.06

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	4.64	4.64	4.64	16.67	4.64	16.67
B) Competition of other banks	-18.35	-13.85	-18.35	-12.59	0.00	-12.59
C) Risk perception	43.44	34.30	43.44	41.82	34.30	41.82
- General economic situation and outlooks	43.44	34.30	43.44	41.82	34.30	41.82
- Bad debt	38.08	21.55	39.70	38.08	21.55	38.08
- Risk related to required collateral	29.46	15.82	27.84	27.84	15.82	27.84
D) Risk appetite	15.22	7.70	15.22	15.22	7.70	15.22

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*	-30.06	0.00	-30.06	-31.91	-31.91	-31.91
B) Collateral requirements*	38.21	21.12	20.15	36.59	21.12	18.53
C) Share and deposits*	0.00	0.00	0.00	0.00	0.00	0.00
D) Mortgage value*	15.09	3.06	15.09	15.09	3.06	15.09
E) Commissions and fees*	-22.57	-18.06	-22.57	-22.57	-18.06	-22.57
F) Maturity and grace period*	-11.77	-11.77	-11.77	-11.77	-11.77	-11.77
G) Other factors - The CBCG measures aimed at reducing adverse effects of the COVID-19 epidemic on the financial system	3.44	3.44	3.44	3.44	3.44	3.44

10. Share of the rejected loan applications

	Past three months		
	Total	Housing loans	Consumer and other loans
Share of rejected applications	1.92	15.00	16.15

11. Demand for loans to households

	Past three months	Next three months
Total loans	8.19	5.87
- Housing loans	-22.01	-12.30
- Consumer and other loans	27.23	24.91

12. Factors contributing to the demand for loans to households

	Past three months	Next three months
A) FINANCIAL NEEDS OF HOUSEHOLDS	34.86	42.24
- For refinancing	50.07	69.24
- For purchase of consumer durables (cars, furniture, etc.)	18.15	38.93
- For real estate purchase	-13.36	-12.30
B) GENERAL ECONOMIC SITUATION	-20.89	-19.27
- Earnings	-16.25	-2.86
- Employment	-20.89	-7.50
- Real estate market situation	7.93	16.26
C) USE OF ALTERNATIVE SOURCES OF FINANCING	10.66	8.66
- Household savings	16.62	14.62
- Loans to households from other banks	7.60	12.10
- Loans from non-banks	10.66	15.16
D) Other factors: CBCG macroprudential measures and the Decision on temporary measures to mitigate the negative effects of the COVID-19 epidemic on the financial system. The ratings given in the previous segments are based on these two factors.	-3.44	-3.44