



CENTRAL BANK OF  
MONTENEGRO

# **REPORT ON BANK LENDING SURVEY RESULTS FOURTH QUARTER 2019**

Podgorica, March 2020

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  
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 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 retail and wholesale loans.

The survey consists of twelve questions that refer to the granting of retail and wholesale loans. 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 granting, 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 wholesale loans and/or their credit lines, while the remaining six questions referred to the retail loans. With regard to the questions on wholesale loans and/or their credit lines, 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). With regard to retail 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 fourth quarter of 2019. The survey disclosed positions of banks on the changes in their credit policies during the fourth quarter of 2019 and expected changes in the first quarter of 2020. 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”

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<sup>1</sup> *Credit standards* imply the criteria for the granting 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 granting policy and its application.

<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.

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 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

The survey results suggested that, according to the banks' responses, credit standards tightened in the fourth quarter of 2019, especially retail consumer loans. Given the results of this survey, the macroprudential measures adopted by the CBCG in terms of cash loans in the last quarter of 2019 resulted in tightening of the standards for granting retail loans. In the next quarter, the banks expect further tightening of credit standards for retail loans (especially for consumer and other loans), whereas a slight tightening of credit standards is also expected for wholesale loans.

According to banks' expectations for the next quarter<sup>4</sup>, the worsened economic situation as well as the increased required collateral will lead to a slight tightening of credit standards for the corporate sector. The tightening of standards for granting retail loans will be affected by competition in the banking sector, uncollectibility of receivables from the previous period, higher required collateral and the general economic situation. Also, a smaller share of the banking sector pointed out that the implementation of the Decision on Macroprudential Measures related to Retail Banking Loans will further affect the tightening of standards.

According to the assessment of banks, interest rate margins and commissions for wholesale and retail loans decreased in the fourth quarter of 2019. Banks' expectations indicate that further reduction of interest rate margins, commissions and fees on wholesale loans will continue during the next quarter, while higher required collateral and reduction of loan maturities will affect the tightening of wholesale credit conditions. In the conducted survey, banks expect the tightening of all credit conditions for retail loans in the next quarter, except in terms of interest rate margins.

According to the survey, demand for wholesale and retail loans increased during the fourth quarter of 2019. Demand for wholesale loans was driven by the requirement to fund working capital, capital investments and restructuring of the existing debts. However, in the retail sector, the main factors contributing to the rise in demand for loans were requirements to refinance the existing debts and purchase immovable property, and consumer durable goods. According to banks' expectations, demand for wholesale loans will continue in the first quarter of 2020, with more significant growth in demand by larger enterprises, as well as somewhat higher demand for short-term compared to long-term loans. However, according to the survey, banks expect a significant decline in demand for retail loans in the first quarter of 2020, especially for consumer and other

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<sup>4</sup> It should be borne in mind that the survey was conducted before the coronavirus pandemic outbreak.

loans. The decline in demand in the next quarter is explained by the reduced retail financial needs for refinancing and purchase of real estate.

**Table 1** Assessment of credit standards and demand for loans by banks, Q4 2019 and Q1 2020

	Supply		Demand	
	Credit standards		Q4 2019	Q1 2020 (expectations)
	Q4 2019	Q1 2020 (expectations)		
<b>Wholesale loans</b>	↗	↗	↑	↑
Long-term loans	↗	↗	↑	↑
Short-term loans	↗	↗	↑	↑
Micro, small and medium enterprises	↗	↗	↑	↑
Large enterprises	↗	↗	↑	↑
<b>Retail loans</b>	↑	↑	↑	↓
Housing loans	-	↗	↑	↘
Consumer and other loans	↑	↑	↑	↓

Note: The table shows the direction of change rather than its intensity.

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

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

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

- = no change

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

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

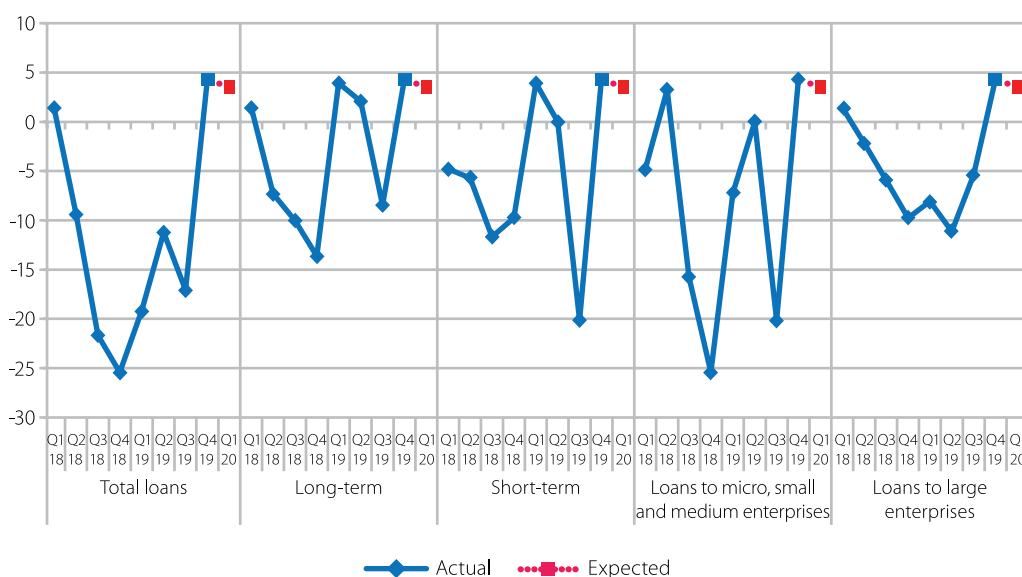
↓ = decrease in demand (net percentage higher than 5%)

# 1. WHOLESALE LOANS

## 1.1. Credit standards and credit terms and conditions for wholesale loans

According to the results of the survey, a slight tightening of credit standards was recorded in granting wholesale loans by a smaller part of the banking sector in the fourth quarter of 2019. Although the expectations of banks in the third quarter of 2019 indicated that banks would continue to ease credit standards, which was characteristic of the first three quarters of 2019, they were slightly tightened during the fourth quarter.

Change in credit standards for wholesale loans (net percentage\*) **Graph 1**



Source: CBCG

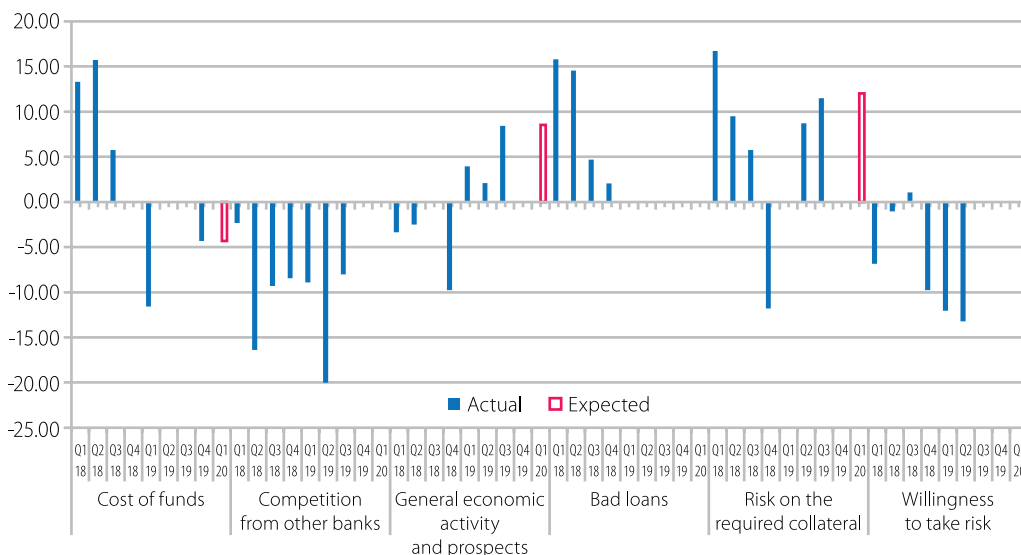
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

Banks expect that the worsening economic situation in the next quarter will lead to a slight tightening of wholesale credit standards, as well as that there could be an increased risk of required collateral in lending to all categories of enterprises, which would have impact on tightening of the standards. On the other hand, the banks believe that lower costs of sources of funds would trigger easing of credit standards. It is expected

that uncollectability of receivables from the previous period, and risk appetite would not affect the credit standards in the next quarter.

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



Source: CBCG

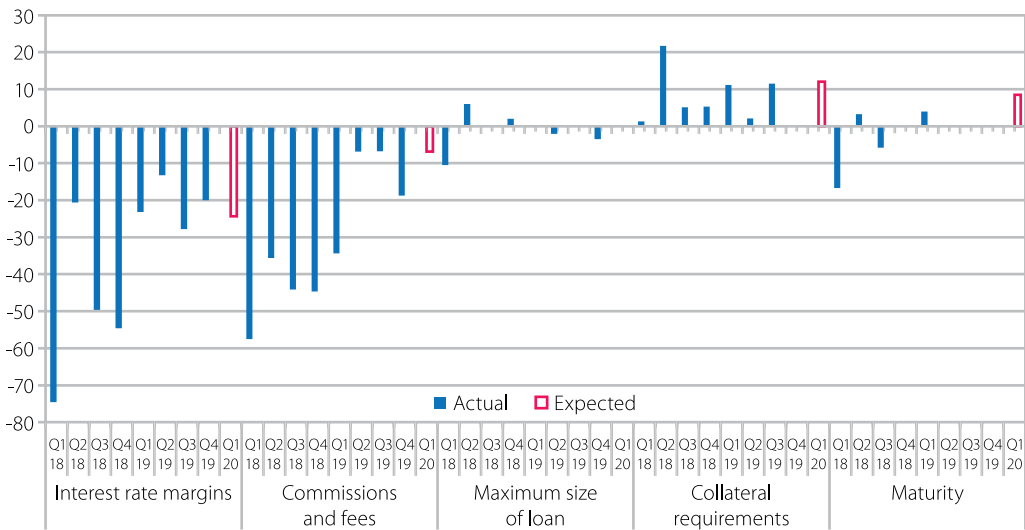
Note: A positive value indicates the contribution of a specific factor to the tightening of credit standards, whereas a negative value indicates the contribution of a specific factor to the credit standards easing.

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

The survey results showed that the easing of interest rate margins, commissions and fees on wholesale loans continued in the fourth quarter of 2019 as well, indicating easing of terms and conditions for granting these loans. The easing of these credit conditions is in line with expectations from the previous quarter. A smaller part of the banking sector recorded a decrease in the maximum loan amount, which indicates a slight tightening of terms and conditions with this sector percentage.

During the next quarter, banks expect further easing of interest rate margins, commissions and fees, which will contribute to easing of terms and conditions for granting wholesale loans. According to the banking sector assessment, the tightening of credit conditions is possible in terms of reduced maturity and higher collateral requirements for micro, small, medium and large enterprises. No changes in the maximum loan amounts are expected.

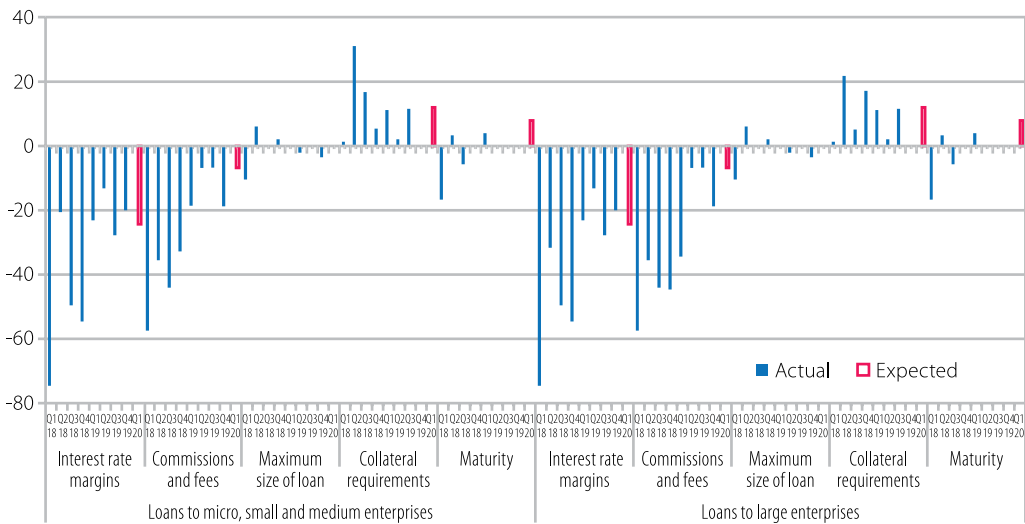
**Change in terms and conditions for wholesale loans (net percentage) Graph 3**



Source: CBCG

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

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

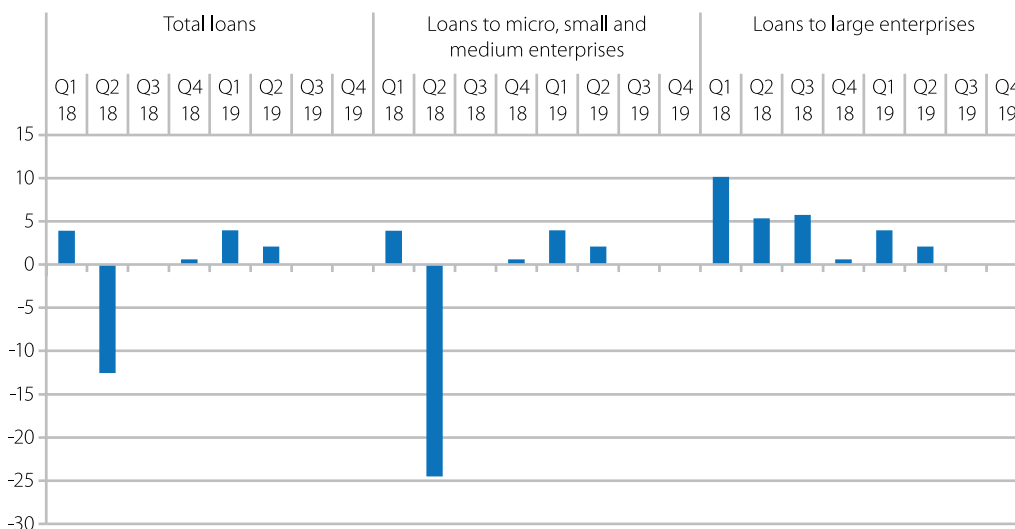


Source: CBCG

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

The survey results show that in the fourth quarter compared to the third quarter of 2019, there were no changes in the share of rejected loan applications to micro, small, medium and large enterprises.

**Graph 4 Share of rejected wholesale loan applications**



Source: CBCG

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

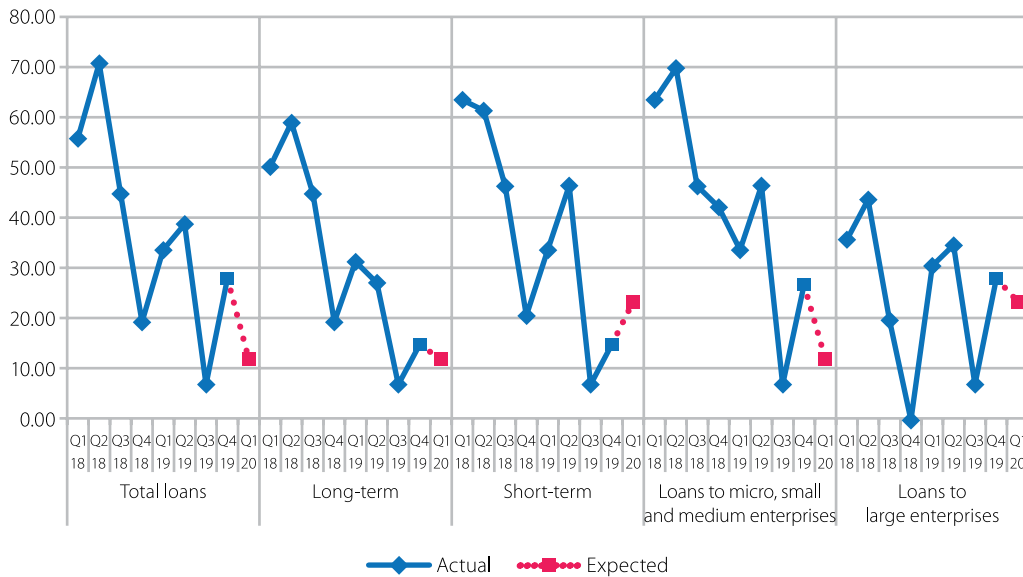
\*The graph shows net percentage which indicates the direction of change rather than its intensity.

## 1.2. Demand for wholesale loans

According to the survey, in the fourth quarter of 2019, banks recorded an increase in demand for loans for all enterprises, regardless of the size of the company and the maturity of the loan, which is in line with the expectations of banks from the previous quarter. The growth in demand was significantly higher than in the third quarter of 2019. The survey showed that the contributing factor to the increase in demand was the financing of enterprises i.e. the requirement to finance capital investments, working capital and debt restructuring of the enterprises. On the other hand, internal sources of financing, loans from other banks and non-banking institutions, as expected, drove the decrease in demand for loans.

Banks expect that the demand for loans will continue to grow, with a substantial growth in demand by large enterprises, as well as slightly higher demand for short-term loans compared to long-term loans. Financing of capital investments and working capital along with the needs for refinancing enterprise debt will be the main bearers of the increase in demand. Financing with loans from non-banking institutions and from internal sources of financing could affect the decrease in demand for wholesale loans from banks.

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

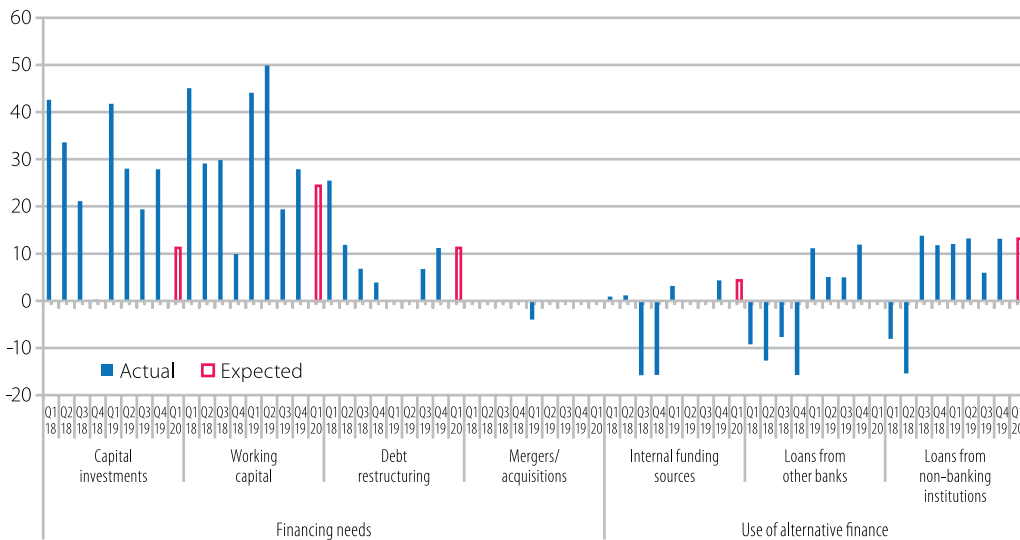


Source: CBCG

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 wholesale loans (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.

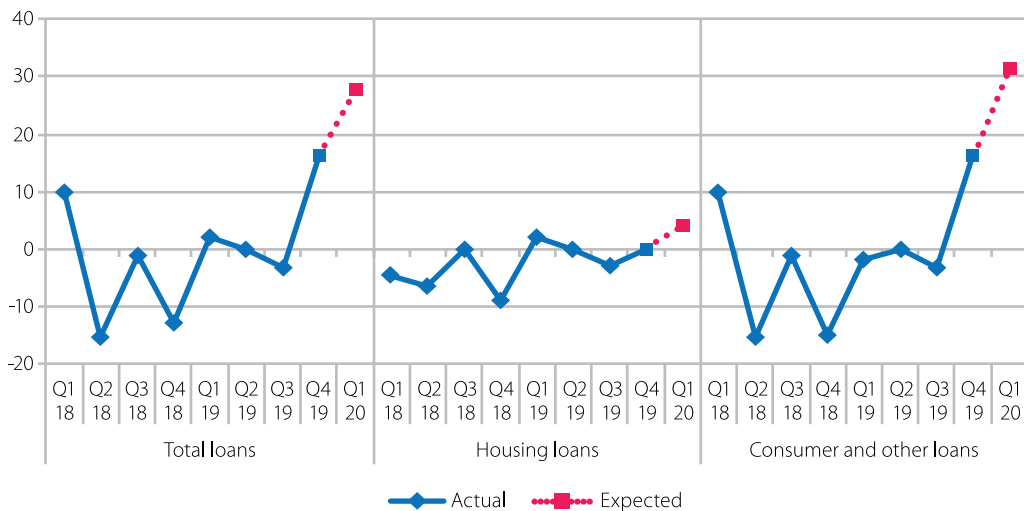
## 2. RETAIL LOANS

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

According to the banks's assessment in the fourth quarter of 2019, credit standards for retail loans were tightened in relation to the previous quarter, which is in line with the expectations of banks in the previous survey. Banks expect that the standards for granting retail loans, especially for consumer and other loans, will be further tightened in the next quarter.

Having in mind the results of this survey, it can be concluded that the macroprudential measures concerning cash loans and adopted by the CBCG in the last quarter of 2019, which came into force in January 2020, resulted in tightening of the standards for granting retail loans.

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



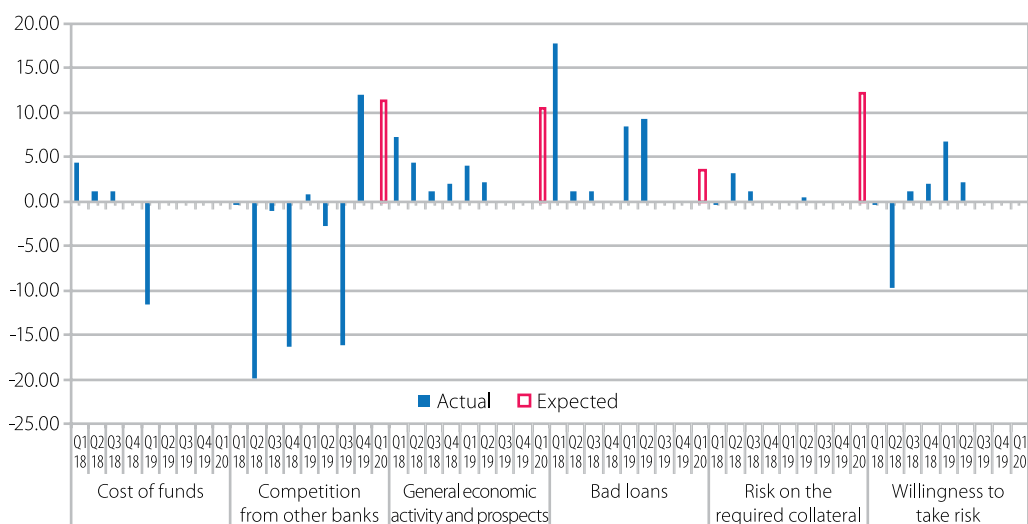
Source: CBCG

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.

According to banks' assessment, the tightening of standards in the fourth quarter was influenced by competition in the banking sector. Banks expect that competition in the banking sector, higher required collateral, uncollectibility of receivables from the previous period and the worsening economic situation could affect the tightening of the standards for granting wholesale loans in the next quarter. Also, a smaller part of the banking sector pointed out that the implementation of the Decision on Macroprudential Measures Related to Retail Banking Loans could further affect the tightening of the standards.

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



Source: CBCG

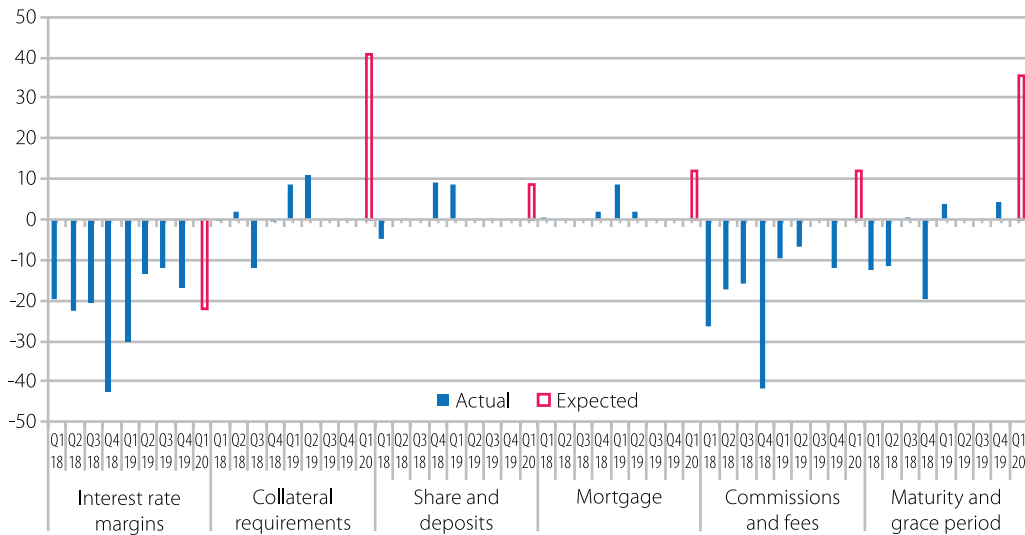
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

Banks find that in the fourth quarter of 2019 credit terms and conditions for granting retail loans eased in reference to interest rate margins, commissions and fees. On the other hand, reducing the loan maturity when granting loans had the opposite effect.

In the next quarter, banks only expect the terms and conditions to continue with easing in terms of interest rate margins, while increased requirements regarding collateral, deposit share, mortgage values, commissions and fees and reduced maturity when granting retail loans will affect the tightening of conditions for this type of loans.

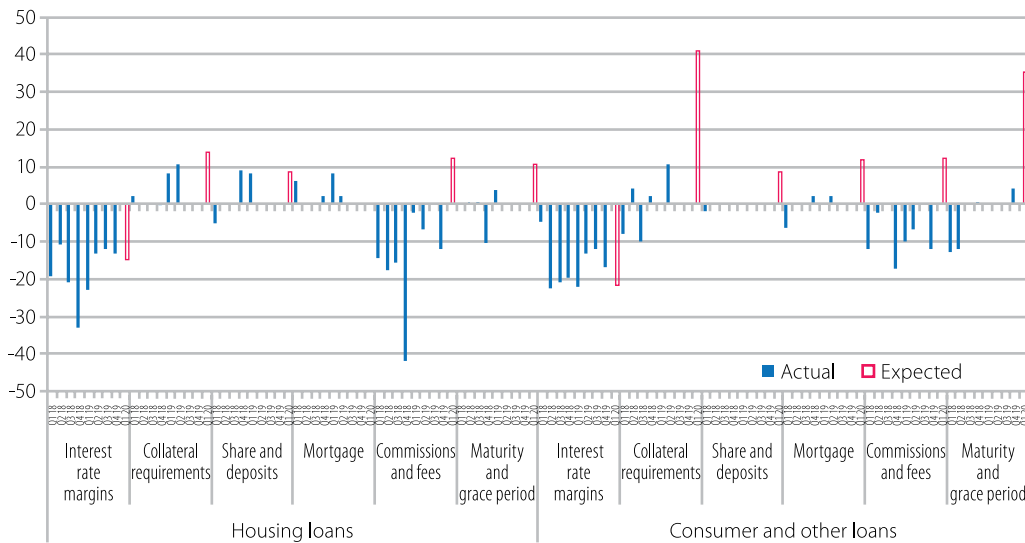
**Graph 9 Change in terms and conditions for retail loans (net percentage)**



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)**

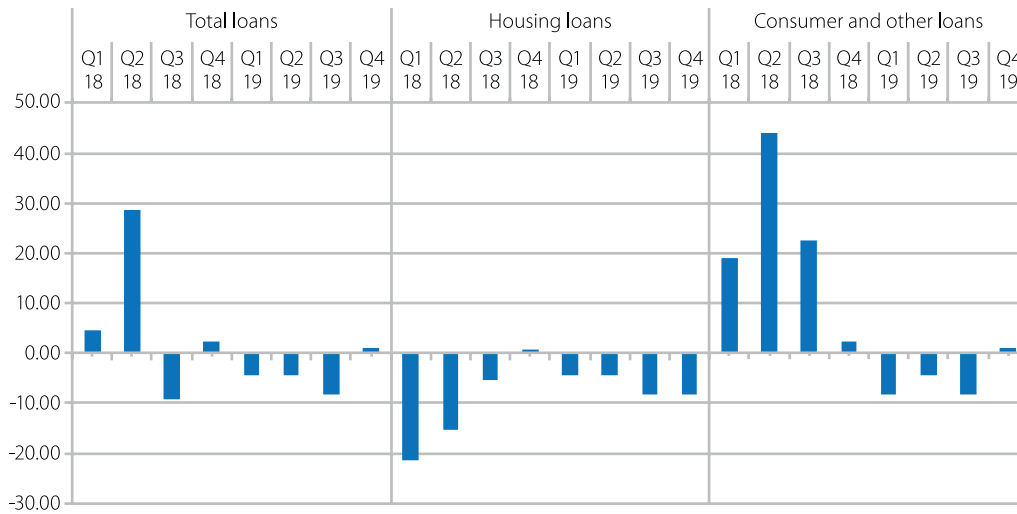


Source: CBCG

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 retail loans increased slightly in the fourth quarter in respect of the third quarter, particularly with regard to the consumer and other loans. The share of rejected applications for housing loans to households was reduced.

Share of rejected retail loans applications **Graph 10**



Source: CBCG

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

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

## 2.2. Demand for retail loans

The survey results reveal a rise in the demand for retail loans over the fourth quarter of 2019. Banks find that the increase in demand in the last quarter was fuelled more by the financial needs of households than by the improved economic situation in the country. To wit, the banks marked refinancing requirements and purchase of immovable property as well as the purchase of consumer durables (cars, furniture, and the like) as factors contributing to the increase in demand for retail loans.

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



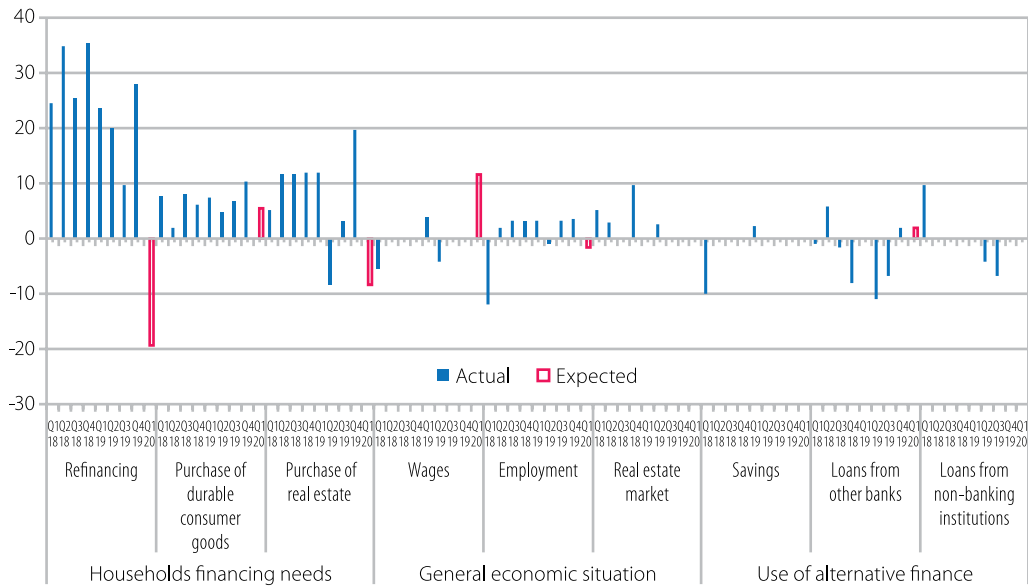
Source: CBCG

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.

Banks expect a significant decline in demand for retail loans in the first quarter of 2020, especially for consumer and other loans. The decline in demand in the next quarter is explained by the reduced retail financial needs for refinancing and purchase of real estate. Also, a smaller part of the banking sector indicates that the new Labour Law could indirectly reduce the demand for retail loans, bearing in mind that it presumes the extension of fixed-term employment contracts, which may negatively affect customer ratings.

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



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 demand decrease.

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

## 3.ANEX - Aggregate results of Bank Lending Survey in the fourth quarter 2019

### 1. Credit standards for wholesale loans

	Past three months	Next three months
A) Total loans and/or credit line	4.32	3.52
Long-term (over 1 year)	4.32	3.52
Short-term (up to 1 year)	4.32	3.52
B) Loans and/or credit lines to micro, small and medium enterprises	4.32	3.52
C) Loans and/or credit lines to large enterprises	4.32	3.52

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

	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	-4.32	-4.32	-4.32	-4.32	-4.32	-4.32
B) Competition of other banks	0.00	0.00	0.00	0.00	0.00	0.00
C) Risk perception	0.00	0.00	0.00	8.52	8.52	8.52
- General economic situation and outlooks	0.00	0.00	0.00	8.52	8.52	8.52
- Bad debt	0.00	0.00	0.00	0.00	0.00	0.00
- Risk related to required collateral	0.00	0.00	0.00	12.04	12.04	12.04
D) Risk appetite	0.00	0.00	0.00	0.00	0.00	0.00

### 3. Credit terms and conditions for wholesale loans

	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*	-20.03	-20.03	-20.03	-24.35	-24.35	-24.35
B) Commissions and fees*	-18.77	-18.77	-18.77	-6.89	-6.89	-6.89
C) Maximum amount of loans and/or credit lines**	-3.52	-3.52	-3.52	0.00	0.00	0.00
D) Collateral requirements*	0.00	0.00	0.00	12.04	12.04	12.04
E) Maturity**	0.00	0.00	0.00	8.52	7.96	7.96

#### 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	0.00	0.00	0.00

#### 5. Demand for wholesale loans

	Past three months	Next three months
A) Demand for total loans and/or credit lines	27.87	11.76
Long-term (over 1 year)	14.73	11.76
Short-term (up to 1 year)	14.73	23.28
B) Demand of micro, small and medium enterprises	26.61	11.76
C) Demand of large enterprises	27.87	23.28

#### 6. Factors contributing to the demand for wholesale loans

	Past three months	Next three months
A) FINANCIAL NEEDS OF ENTERPRISES	27.87	24.35
- For capital investments	27.87	11.21
- For working capital	27.87	24.35
- For debt restructuring	11.21	11.21
- For mergers/acquisitions	0.00	0.00
B) USE OF ALTERNATIVE SOURCES OF FINANCING	13.14	13.14
- Internal sources of financing	4.32	4.32
- Loans from other banks	11.89	0.00
- Loans from non-banks	13.14	13.14
C) OTHER FACTORS (should be specified)		

#### 7. Credit standards for retail loans

	Past three months	Next three months
Total loans	16.20	27.85
- Housing loans	0.00	4.08
- Consumer and other loans	16.20	31.23

## 8. Factors contributing to the change in credit standards for retail loans

	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	0.00	0.00	0.00	0.00	0.00	0.00
B) Competition of other banks	12.86	11.89	11.89	11.89	11.34	-1.80
C) Risk perception	3.05	0.00	0.00	0.00	12.21	5.32
- General economic situation and outlooks	-9.05	0.00	0.00	0.00	10.41	3.52
- Bad debt	0.00	0.00	0.00	0.00	3.52	3.52
- Risk related to required collateral	3.05	0.00	0.00	0.00	12.21	5.32
D) Risk appetite	0.00	0.00	0.00	0.00	0.00	0.00
E) Other factors, if exist (should be specified: Decision on Macroprudential Measures Related to Retail Banking Loans)	0.00	0.00	0.00	3.38	0.00	3.38

## 9. Terms and conditions for retail loans

	Past three months			Next three months		
	Total	Housing loans	Consumer and other loans	Total	Housing loans	Consumer and other loans
A) Interest rate margin*	-16.66	-13.14	-16.66	-21.84	-14.95	-21.84
B) Collateral requirements*	0.00	0.00	0.00	40.84	13.84	40.84
C) Share and deposits*	0.00	0.00	0.00	8.52	8.52	8.52
D) Mortgage value*	0.00	0.00	0.00	11.79	0.00	11.79
E) Commissions and fees*	-11.89	-11.89	-11.89	11.89	11.89	11.89
F) Maturity and grace period*	4.32	0.00	4.32	35.25	10.32	35.25
G) Other factors, if exist (should be specified) interest	0.00	0.00	0.00	0.00	0.00	0.00

## 10. Share of the rejected loan applications

	Past three months		
	Total	Housing loans	Consumer and other loans
Share of rejected applications	0.74	-8.52	0.74

## 11. Demand for retail loans

	Past three months	Next three months
Total loans	56.59	-27.96
- Housing loans	28.10	-4.98
- Consumer and other loans	56.59	-36.48

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

	Past three months	Next three months
A) FINANCIAL NEEDS OF HOUSEHOLDS	27.87	-7.67
- For refinancing	27.87	-19.46
- For purchase of consumables (cars, furniture, etc.)	10.41	5.47
- For immovable property purchase	19.72	-8.36
B) GENERAL ECONOMIC SITUATION	3.38	14.91
- Wages and salaries	0.00	11.52
- Employment	3.38	-1.55
- Real estate market situation	0.00	0.00
C) USE OF ALTERNATIVE SOURCES OF FINANCING	0.00	0.00
- Household savings	0.00	0.00
- Retail loans from other banks	1.80	1.80
- Loans from non-banks	0.00	0.00
D) OTHER FACTORS (should be specified: New Labour Law)	0.00	-4.94