



CENTRAL BANK OF
MONTENEGRO

**REPORT ON BANK LENDING
SURVEY RESULTS
SECOND QUARTER 2018**

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INTRODUCTION

Since April 2018, the Central Bank of Montenegro has started 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 standards¹, as well as the impact of factors contributing to this change, change 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, 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 first two quarters of 2018. 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 2018. 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

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.

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.

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

The survey results pointed out that, according to the banks' responses, credit standards for loans to enterprises and households have eased during the second quarter of 2018. Banks expect easing of standards for loans to micro, small and medium enterprises and households also in the following quarter, while a mild tightening of credit standards for loans to large firms is expected in the same period.

Credit standards easing for loans to enterprises is viewed by banks as a result of the increased market competition, positive expectations of banks with regard to the economic activity and higher willingness to take risks. Banks expect that these factors, in addition to higher willingness to take risks, will ease credit standards for lending to enterprises also in the third quarter 2018. The competition in the banking sector and higher willingness to take risks influenced credit standards easing for loans to households. Banks expect that these factors, together with the improvement of economic situation and lower risk of the required collateral, will influence the easing of credit standards for loans to households.

Credit terms and conditions for enterprises and households were more favourable in the second quarter compared to the previous quarter, in particular those based on lower margins, commissions and fees. Banks expect that the credit conditions will be eased also in the following quarter, except the collateral requirements for the enterprises where they anticipate their tightening.

Banks estimated that the demand for enterprise and households loans increased during the second quarter. Demand for loans that the banks approve to enterprises was driven by the requirement to fund capital investments, working capital and restructuring of the existing debts. However, in the households sector, the main factors contributing to the increase in demand for loans were requirements to refinance the existing debts and purchase immovable property, and consumer durable goods.

Table 1 Assessment of credit standards and demand for loans by banks, Q2 and Q3 2018

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

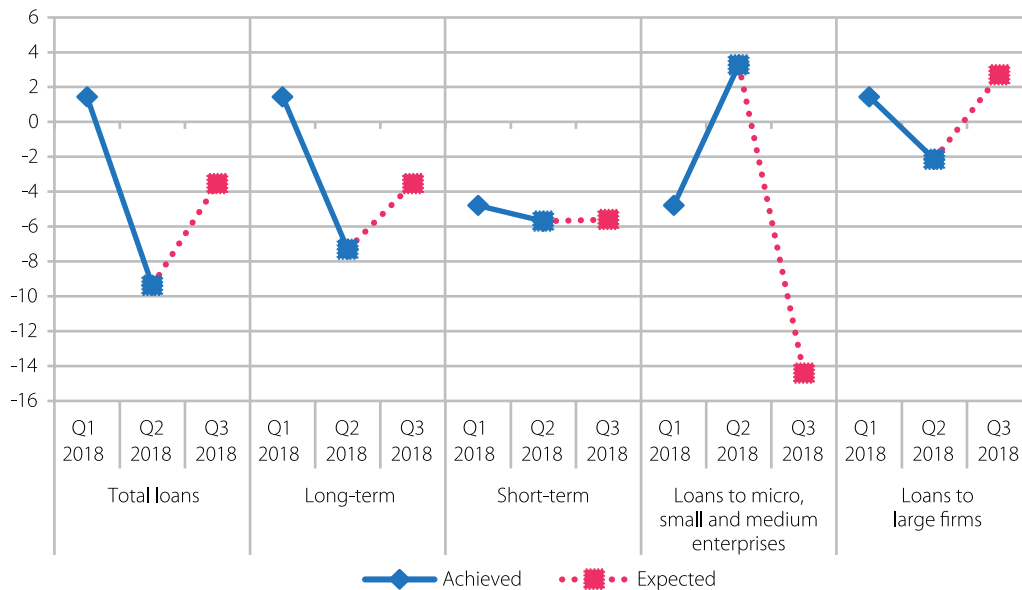
↓ = decrease in demand (net percentage higher than 5%)

1. LOANS TO ENTERPRISES

1.1. Credit standards and credit terms and conditions for enterprises

The survey results indicate that the credit standards for loans to enterprises have eased during the second quarter of 2018. This was in accordance with the expectations of banks as shown in the survey that was conducted in the first quarter. The easing of the credit standards was recorded in the categories of short-term and long-term loans. In addition, credit standards on loans to large firms have eased; however, credit standards on loans to micro, small and medium enterprises slightly tightened but in smaller part of the banking sector.

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



Source: CBCG

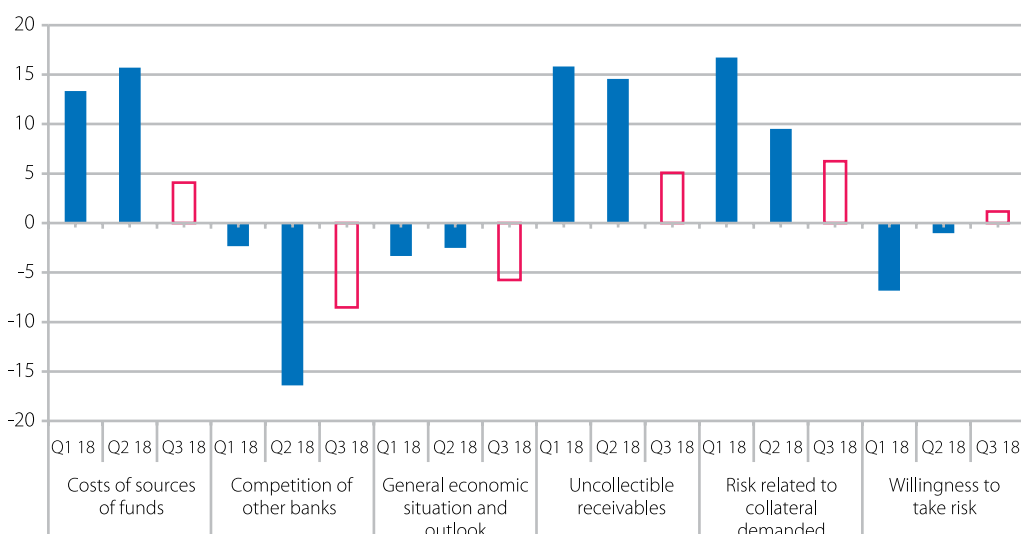
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

Looking ahead to the third quarter of 2018, banks expect further easing of credit standards on loans to micro, small and medium enterprises, while they expect a mild tightening of credit standards for loans to large firms.

Increased competition in the banking sector, improved economic situation and higher willingness to take risks were the main factors contributing to an easing of credit standards for new loans to enterprises. For the third quarter of 2018, banks expect that these factors, except higher willingness to take risks, will continue to contribute to the easing of credit standards for loans to enterprises. As in the previous quarter, banks expect that the intensified competition in the banking market will give the most important positive contribution to the easing of credit standards in the following quarter.

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



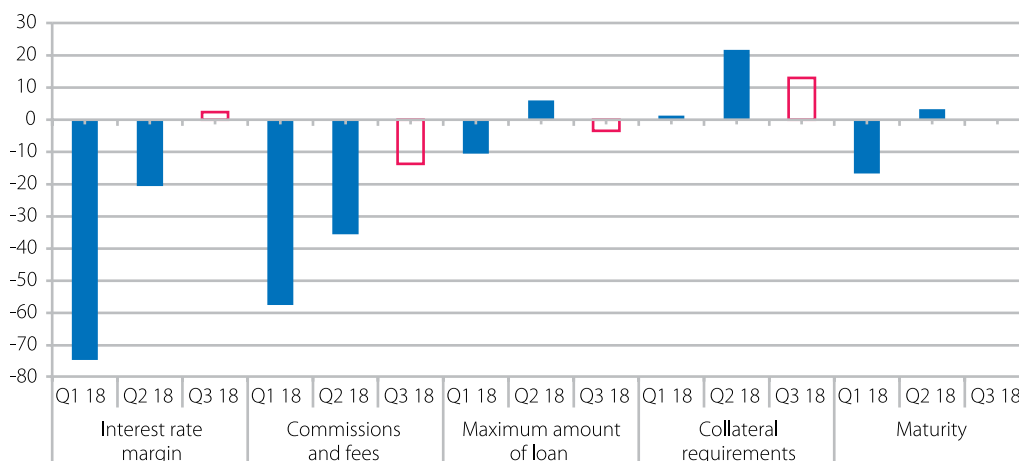
Source: CBCG

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, and commissions and fees on loans to enterprises continued also in the second quarter of 2018. On the other hand, collateral requirements increased in the second quarter, whereas loan amounts and loan maturity declined, which reduces the flexibility of terms and conditions for approving loans to enterprises.

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

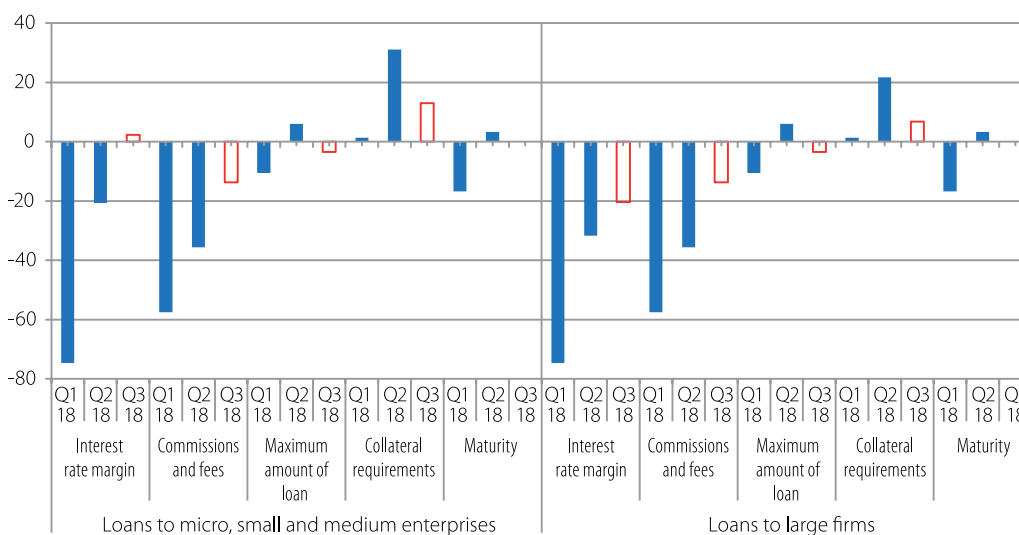


Source: CBCG

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

Credit terms and conditions have eased for all categories of loan beneficiaries, micro, small and medium enterprises as well as large firms. For the third quarter of 2018, banks do not expect any major changes in credit terms and conditions, other than the decline in commissions and fees, the increase in maximum amount of loans, the decline in interest margins on loans to large firms. However, the banks expect tightening of collateral requirements for all types of enterprises, regardless of their size.

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

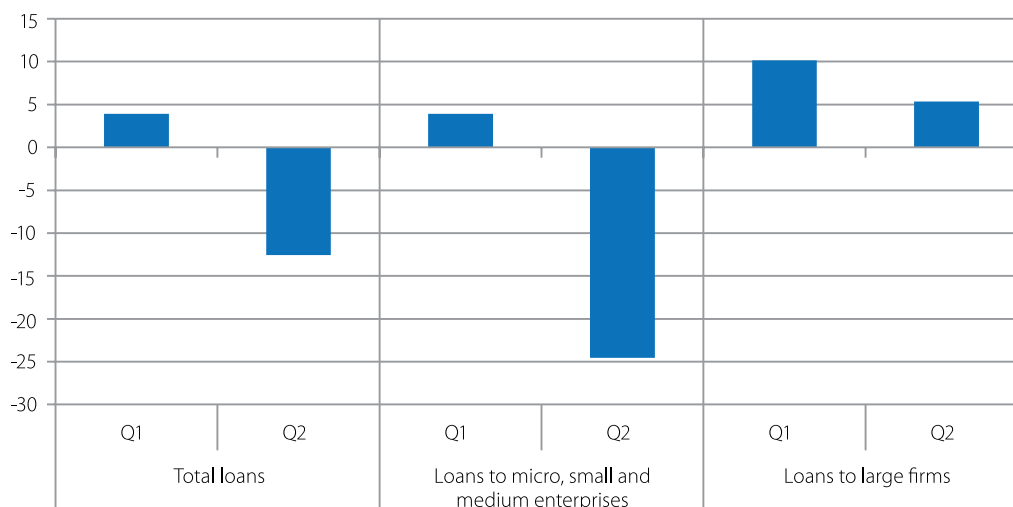


Source: CBCG

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

The survey results indicate that the number of the rejected applications for loans to enterprises declined in the second quarter in respect of the first quarter, particularly with regard to the loans to micro, small and medium enterprises. On the other hand, an increase in the number of rejected applications for loans to large firms was noted in a number of banks.

Graph 4 Number of rejected applications for loans to enterprises



Source: CBCG

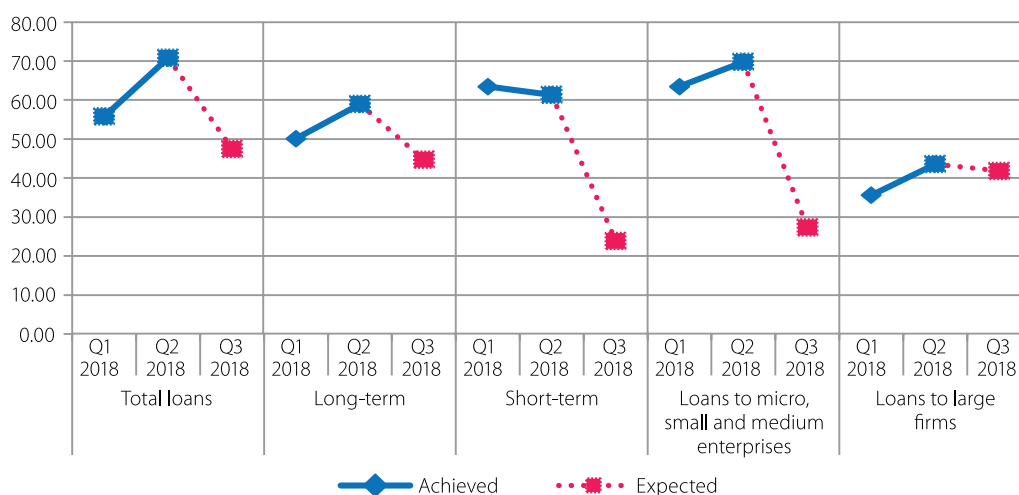
Note: A positive value indicates the increase of rejected loan applications, whereas a negative value indicates the decrease of rejected applications for loans to enterprises.

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

1.2. Demand for loans to enterprises

The banks recorded an increase in demand for all categories of loans in the second quarter, the majority of which was recorded for loans to micro, small and medium enterprises. The survey showed that the contributing factor to the increase in demand was financing of enterprises i.e. the requirement to finance capital investments, working capital and debt restructuring of the enterprises. On the other hand, loans from other banks and loans from non-banks, as expected, contributed to the decrease in demand for loans.

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



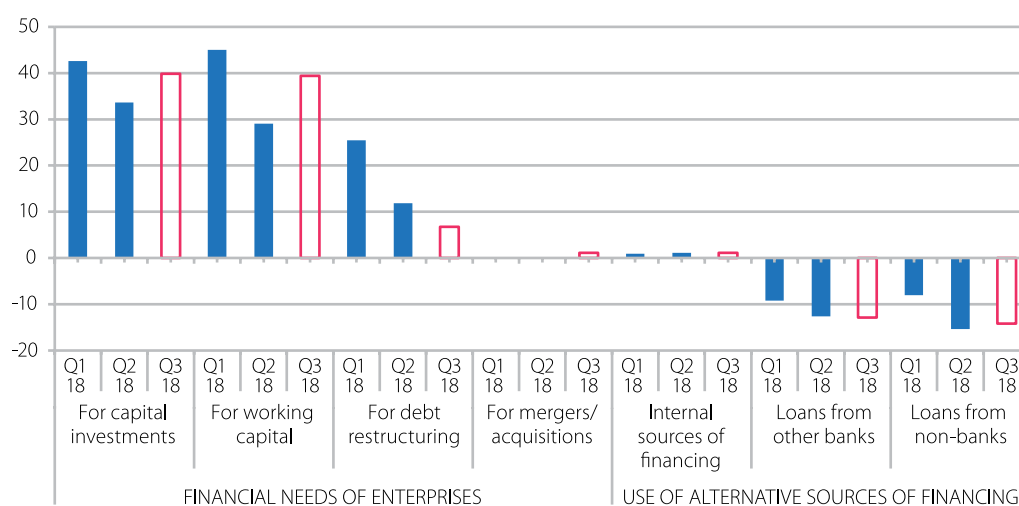
Source: CBCG

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.

Looking ahead to the third quarter of 2018, under the impact of the same factors, banks expect continued increase in demand for all categories of loans, regardless of the size of the enterprise. Therefore, financing of capital investments, working capital and refinancing of the current obligations will be the main bearers of the increase in demand for loans to enterprises.

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.

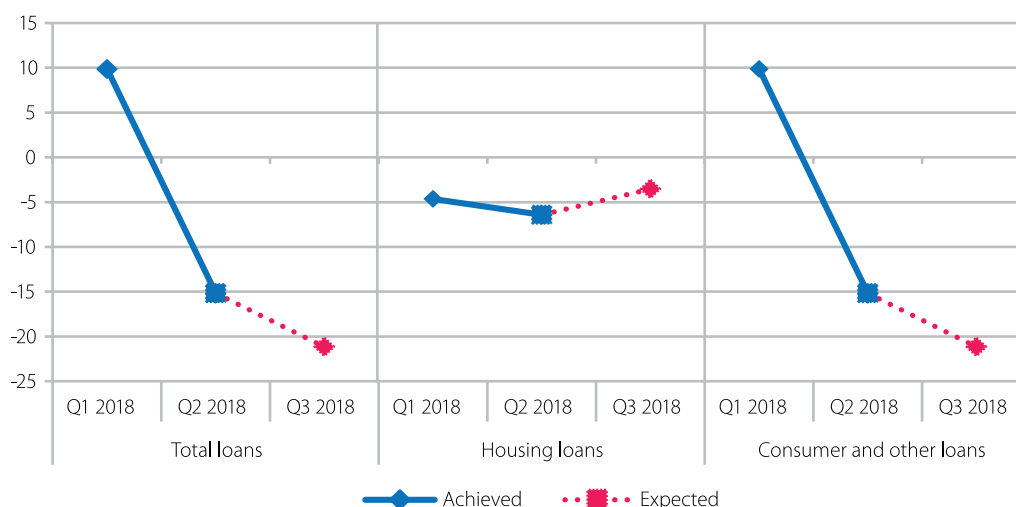
* The graph shows net percentage which indicates the direction of change rather than its intensity.

2. HOUSING LOANS

2.1. Credit standards and credit terms and conditions for households

Banks estimate that the credit standards for loans to households have eased during the second quarter of 2018, which was in accordance with their expectations from the previous quarter. The easing of the credit standards was particularly recorded in the category of consumer loans, while it was less evident in the category of housing loans.

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



Source: CBCG

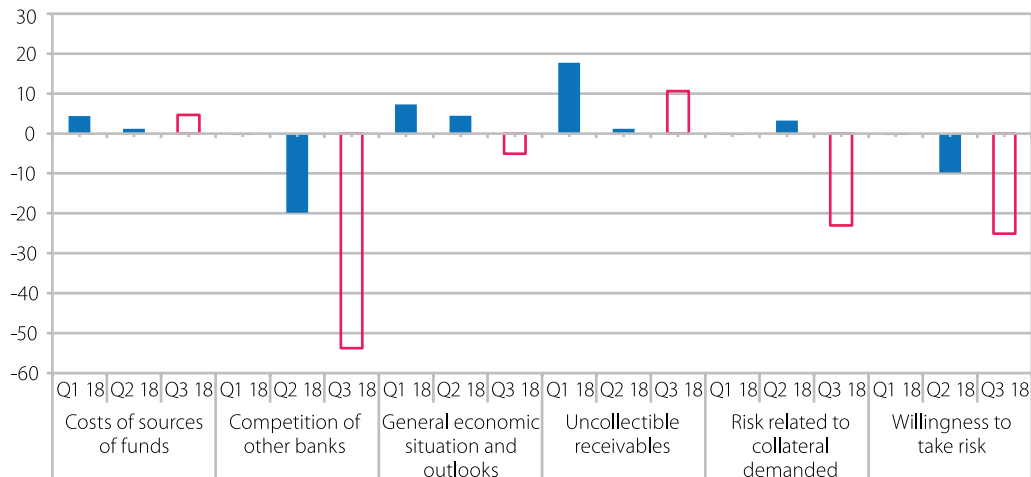
Note: A positive value indicates tightening of credit standards, whereas a negative value indicates easing of credit standards.

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

Looking ahead to the third quarter of 2018, banks expect further easing of credit standards on loans to households, in particular, credit standards for consumer and other loans.

The competition in the banking sector and higher willingness to take risks were the main factors contributing to the easing of credit standards for loans to households. Banks expect that these factors, together with the improvement of economic situation and lower risk of the required collateral, will influence the easing of credit standards for loans to households. On the other hand, costs of sources of funds, as well as uncollectible receivables may tighten the credit standards on loans to households in the following quarter.

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



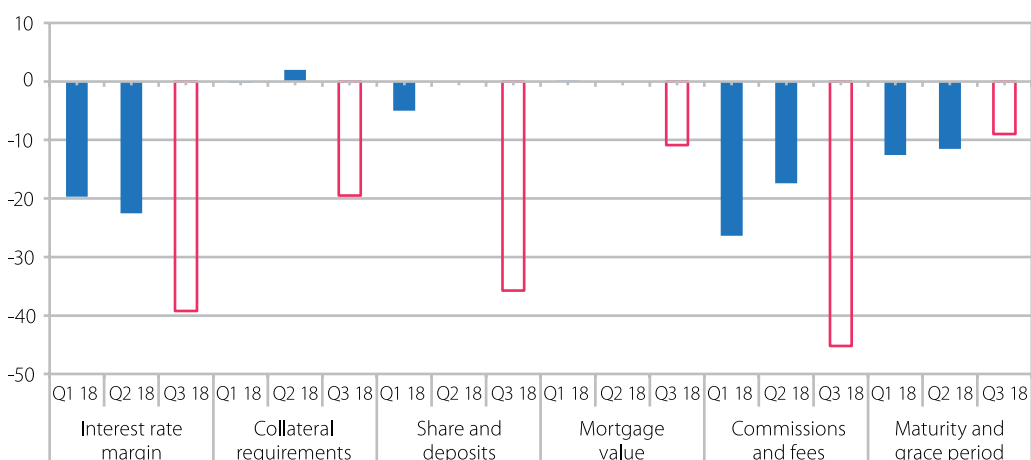
Source: CBCG

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.

Banks estimate that terms and conditions have been eased for the loans to households, in particular interest rate margins, commissions and fees. Additionally, terms and conditions regarding the credit extensions and grace period have also been eased, while tightening of standards was recorded only with the collateral requirement. This was, however, the case in fewer banks. Looking ahead, banks expect more favourable situation for all terms and conditions on loans to households.

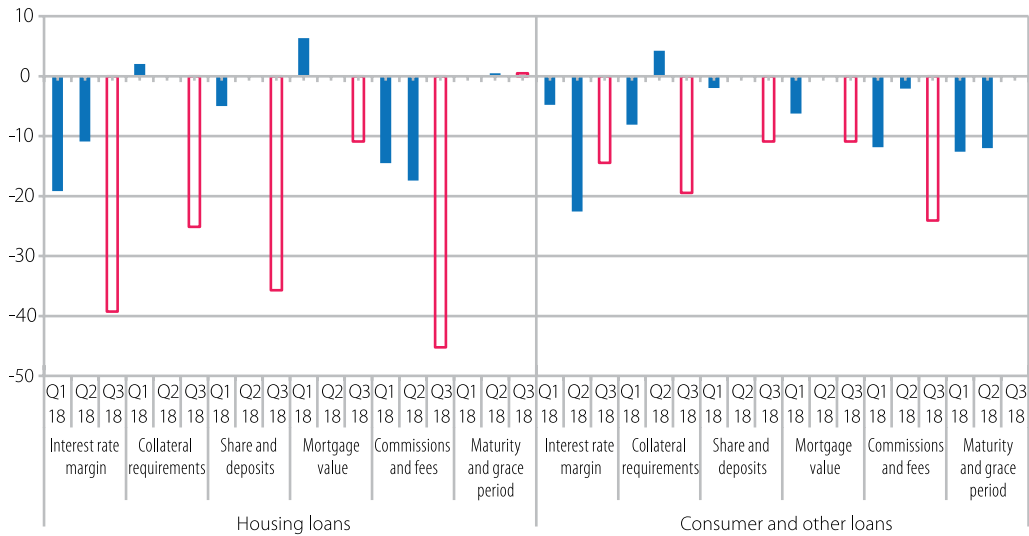
Change in terms and conditions for loans to households (net percentage) **Graph 9**



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)

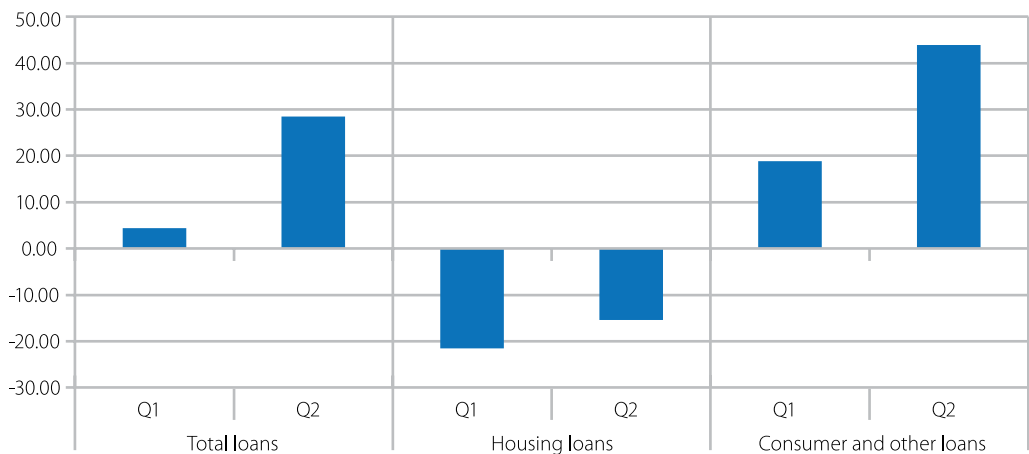


Source: CBCG

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

The survey results indicate that the number of the rejected applications for loans to households increased in the second quarter in respect of the first quarter, particularly with regard to the consumer and other loans, while the share of rejected applications for housing loans declined.

Graph 10 Number of rejected applications for loans to households



Source: CBCG

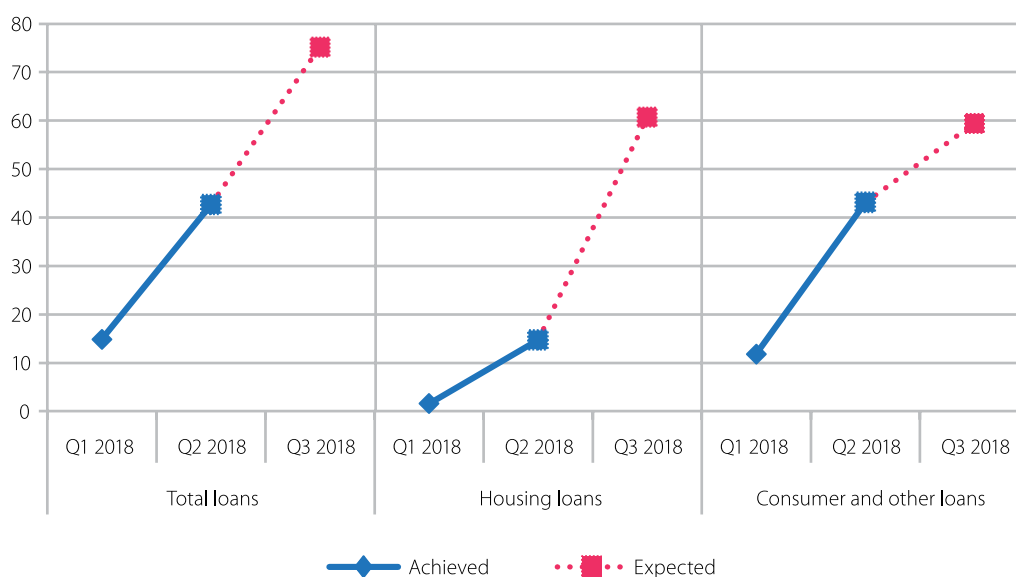
Note: A positive value indicates the increase of rejected loan applications, whereas a negative value indicates the decrease of rejected applications for loans to households.

* 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 show increase in demand for all categories of loans to households, whereas the highest increase was recorded in the categories of consumer and other loans. Banks believe that the increase in demand in the second quarter resulted more from the financial needs of the households rather than the improved economic situation in the country. To wit, contributing factors to the increase in demand for loans to households recorded by banks were refinancing requirements and purchase of immovable property and consumer durables (cars, furniture, and the like).

Factors contributing to the change in demand for loans to households Graph 11
(net percentage)



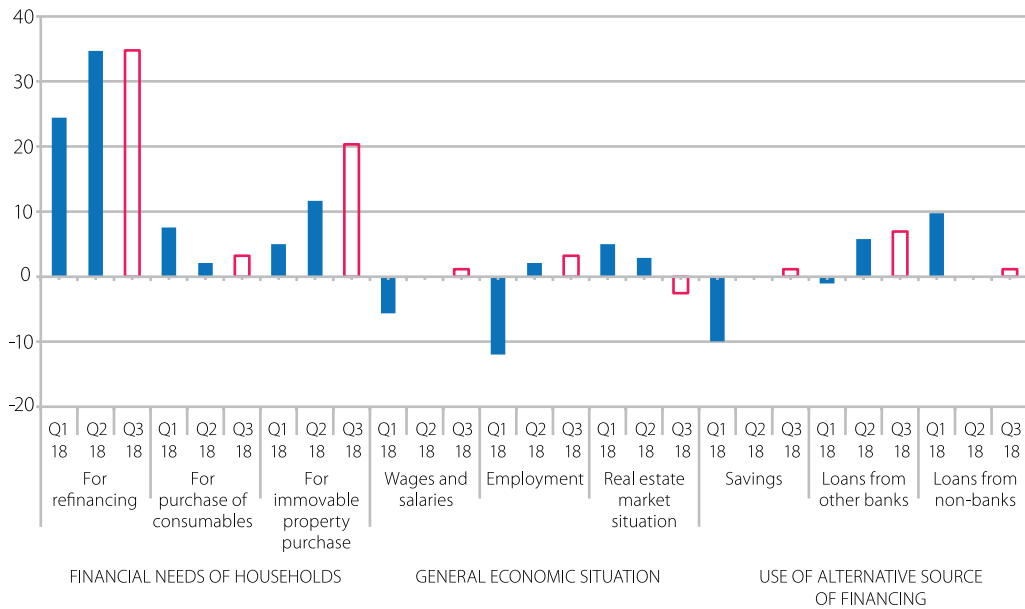
Source: CBCG

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.

Looking ahead to the third quarter of 2018, banks expect further increase in demand for loans to households, both housing and consumer loans. Similarly to the second quarter, the increase in demand will be driven by the financial needs of the households for refinancing, purchase of immovable property and consumable durables, alongside positive macroeconomic outlooks (slight increase in the employment and wages and salaries).

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 2018

1. Credit standards for loans to enterprises

	Past three months	Next three months
A) Total loans and/or credit line	-9.38	-3.53
Long-term (over 1 year)	-7.31	-3.53
Short-term (up to 1 year)	-5.70	-5.60
B) Loans and/or credit lines to micro, small and medium enterprises	3.27	-14.42
C) Loans and/or credit lines to large firms	-2.15	2.71

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	15.71	15.71	15.71	4.08	4.08	4.08
B) Competition of other banks	-16.40	-15.03	-16.40	-8.54	-8.54	-8.54
C) Risk perception	10.65	-0.24	10.65	7.38	7.38	7.38
- General economic situation and outlooks	-2.51	-2.51	-2.51	-5.75	-5.75	-5.75
- Uncollectible receivables	14.56	16.63	14.56	5.08	5.08	5.08
- Risk related to collateral demanded	9.50	9.50	9.50	6.23	6.23	6.23
D) Willingness to take risk	-1.03	10.63	-7.24	1.15	1.15	1.15

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*	-20.63	-20.63	-31.73	2.37	2.37	-20.38
B) Commissions and fees *	-35.58	-35.58	-35.58	-13.73	-13.73	-13.73
C) Maximum amount of loans and/or credit lines**	6.04	6.04	6.04	-3.44	-3.44	-3.44
D) Collateral requirements*	21.71	31.07	21.71	13.00	13.00	6.77
E) Maturity**	3.25	3.25	3.25	0.00	0.00	0.00

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	-12.55	-24.53	5.34

5. Demand for loans to enterprises

	Last three months	Following three months
A) Demand for total loans and/or credit lines	70.76	47.47
Long-term (over 1 year)	58.93	44.73
Short-term (up to 1 year)	61.36	23.90
B) Demand of micro, small and medium enterprises	69.80	27.40
C) Demand of large firms	43.58	41.85

6. Factors contributing to the demand of enterprises for loans

	Past three months	Next three months
A) FINANCIAL NEEDS OF ENTERPRISES	56.33	45.49
- for capital investments	33.61	39.87
- for working capital	29.08	39.37
- for debt restructuring	11.85	6.77
- for mergers/acquisitions	0.00	1.15
B) USE OF ALTERNATIVE SOURCES OF FINANCING	-0.72	-14.93
- internal sources of financing	1.15	1.15
- loans from other banks	-12.64	-12.86
- loans from non-banks	-15.36	-14.21
C) OTHER FACTORS (it should be specified)		
C) OTHER FACTORS (it should be specified) no	0.00	0.00

7. Credit standards for loans to households

	Past three months	Next three months
Total loans	-15.18	-21.18
- housing loans	-6.41	-3.53
- consumer and other loans	-15.18	-21.18

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	1.15	0.00	1.15	4.67	3.53	4.67
B) Competition of other banks	-19.83	-18.80	-20.31	-53.77	-39.56	-54.24
C) Risk perception	-5.06	0.00	-5.06	-1.53	3.53	-1.53
- General economic situation and outlooks	4.42	0.00	4.42	-5.06	0.00	-5.06
- Uncollectible receivables	1.15	0.00	1.15	10.63	0.00	10.63
- Risk related to collateral demanded	3.22	0.92	3.22	-23.03	-8.82	-23.03
D) Willingness to take risk	-9.74	-10.89	-9.74	-25.10	-10.89	-25.10
E) Other factors, if exist (it should be specified)						

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*	-22.55	-10.89	-22.55	-39.25	-39.25	-14.42
B) Collateral requirements*	1.96	0.00	4.26	-19.48	-25.10	-19.48
C) Share and deposits*	0.00	0.00	0.00	-35.72	-35.72	-10.89
D) Mortgage value*	0.00	0.00	0.00	-10.89	-10.89	-10.89
E) Commissions and fees*	-17.42	-17.42	-2.07	-45.20	-45.20	-24.06
F) Maturity and grace period*	-11.51	0.48	-11.98	-9.00	0.48	0.00
G) Other factors, if exist (it should be specified)						

10. Share of the rejected loan applications

	Past three months		
	Total	Housing loans	Consumer and other loans
Share of rejected applications	28.49	-15.36	43.85

11. Demand for loans to households

	T2 2018	
	Past three months	Next three months
Total loans	42.61	75.19
- housing loans	14.70	60.68
- consumer and other loans	43.09	59.43

12. Factors contributing to the demand for loans to households

	Past three months	Next three months
A) FINANCIAL NEEDS OF HOUSEHOLDS	45.60	34.76
- for refinancing	34.71	34.76
- for purchase of consumables (cars, furniture, etc.)	2.07	3.22
- for immovable property purchase	11.66	20.33
B) GENERAL ECONOMIC SITUATION	2.88	1.15
- wages and salaries	0.00	1.15
- employment	2.07	3.22
- real estate market situation	2.88	-2.55
C) USE OF ALTERNATIVE SOURCES OF FINANCING	0.00	1.15
- household savings	0.00	1.15
- loans to households from other banks	5.77	6.92
- loan from non-banks	0.00	1.15
C) OTHER FACTORS (it should be specified)		

