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## THE STRUCTURE OF CONSUMER LOANS, THEIR BENEFICIARIES AND MOTIVATIONS FOR BORROWING FROM BANKS IN THE REPUBLIC OF SRPSKA

### ABSTRACT:

*In the research, we started from the fact that consumer loans are the most common type of credits offered by the commercial banking sector to the public of Bosnia and Herzegovina (B&H). The initial goal of the research was to look at the current structure of loans taken by citizens from banks (loan size, loan maturity, use goal, etc.) and to look at the structure of credit users in terms of their educational, income and age status. We started from the assumption that citizens or households use bank consumer credits predominantly to finance current consumption and compensate for insufficient current income to finance basic living needs. We made such assumptions based on the fact of low general income per capita, low average wages and high unemployment rates in B&H. The research is based on a comprehensive survey that we conducted on a large number of participants, users of bank consumer loans. We concluded: relatively most of the credit beneficiaries are from the category of educated and highly educated citizens and the relatively largest number of beneficiaries are those with low-income status and young people. The loans used are mostly non-purpose cash credits. Longer loan maturities are reserved mainly for middle-aged and older people with higher income status. Long-term loans were mostly used to finance the purchase and construction of apartments and houses. Average loan amounts per user are relatively low, which is to be expected given their income position. The motives, life requirements and expectations of the borrower usually move within a modest radius of providing basic living needs therefore, loans are mostly aimed at financing current consumption. For some users, there is a noticeable preference for higher consumption that goes beyond the actual borrowing potential of these households.*

**Keywords:** bank loans to households, household borrowing, consumer loans, use of loans, motives for household borrowing,

**JEL:** G21, G41, G51

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## 1. INTRODUCTION

An extremely important segment of the total lending activity of banks in B&H in the last two decades is lending to households. This is almost as important a segment of lending as lending to non-financial corporations, and in some segments, it is even more significant (long-term loans). So far, no greater attention has been paid to the segment of consumer credits and loans to households in general, although this segment of total lending is of particular importance not only for banks but also for the country's economy as a whole and the corresponding macroeconomic relations. We were especially interested in the topics of retail lending related to the structures of loans used by citizens, (maturity and quantitative) purposes of these loans, educational, age and income structures of borrowers, motives for borrowing and attitudes of borrowers towards the institution of credit. We examined this by conducting a comprehensive survey. We hope that, based on these obtained results, we have created a rather fair notion of the situation in this area, which can certainly serve as a good starting point for further research in this segment of domestic bank lending activities.

## 2. Research topic and methodological notes

### 2.1. Consumer credits

In general, bank loans differ significantly in terms of maturity and purpose. Consumer credits are intended for general consumption and are usually of shorter maturity. They can be insured or uninsured. Consumer loans allow the users to raise their level of spending at the expense of future income and on the other hand, help them to overcome the temporary lack of funds to finance current expenditures. There is, of course, the financing of unforeseen situations. In economic terms, the importance and role of short-term loans are different from the point of view of users. For a company, a short-term loan serves primarily to bridge the temporary lack of liquid assets, while for a household, this loan is primarily necessary to finance consumption. Poorer citizens use credit primarily to provide food and clothing or to finance health services. Current consumption depends not only on current income but also on past income. In the age of high incomes, the level and structure of consumption are changing. When income falls, maintaining the achieved level and structure of consumption is compensated by using consumer credit (Khandani et al., 2013). The "life cycle theory" was defined a long time ago by Modigliani and Brumberg (1954) and in Friedman's (1957) theory of fixed income. The point of these theories is that incomes at the beginning of the work cycle are generally low, so credit serves to achieve a higher level of consumption than current income allows. As incomes increase during working life, savings (assets) accumulate, which will be spent when expenditures are higher than wages.

Demand for consumer credit depends on socio-factors such as age, educational level, family size, gender and geographical area and economic factors such as net wealth, income and work status (Ottaviani & Vandone, 2011).

On the other hand, we started from the fact that consumption and thus the use of credit can be the result of impulsive, irrational and emotional decisions of consumers, so we started from the assumption that such behaviours are inherent or at least partly present in our observed sample of credit users. Tendencies towards borrowing are related to behavioural factors and then to materialism, risk perception, financial knowledge and emotions (Muñoz-Murillo et al., 2020). Given the low income and significant level of unemployment, we considered that a significant part of citizens is forced to borrow from banks and other financial organizations (microcredit organizations) to finance part of their current consumption or basic living needs. In this sense, we tried to examine the basic attitudes of users and motivation in relation to borrowing.

In the practice of domestic banks, cash credits dominate (by remittance of money to the account of the borrower) and are mostly without a predetermined purpose. If the purpose is clearly defined (purchase of cars or certain consumer goods such as furniture, student loans, housing loans, etc.) the interest rate may be slightly lower. Such credits (except housing loans) are rarely granted in the practice of domestic banks. Loans can be approved on the basis of the current account of citizens (bank's permission for the client to go into the red to a certain amount) or loans on the basis of credit cards by which the bank determines individual credit limits or loan amounts above the balance on his current account at his own need and also, return the funds in the amount he wants and when he wants. These are so-called revolving loans. The credit can be approved on the basis of a pledge of securities (Lombard loan) where the creditworthiness of the client is not important. Current account credit is the most expensive loan because interest on it is calculated at the highest rate and only on the used amount of the allowed limit. The bank may charge a fee for the unused part of the credit. In addition to consumer credits, banks also approve loans for the purchase of investment goods. When it comes to the purchase of land, business space, houses and apartments, it is most often a question of mortgage loans. For all types of real collateral (real assets, financial assets) the market value of pledged assets is usually significantly higher than the value of the loan used, which of course depends on the type of asset and maturity of the loan. It is important to note that the practice of domestic banks regarding loan design and credit approval conditions is not identical.

## 2.2. Dynamics of consumer credit growth

Data on the dynamics of credit growth in B&H indicate a significant and very long period of very pronounced growth dynamics of total loans. In twenty years, the total mass of loans in B&H has increased from 2.7 billion Bosnian convertible marks (1 euro = BAM1.95583) to BAM20.3 billion, which is an increase of 13.3 times. The volume of loans increased almost 19 times in 2008 and, since then, the credit dynamics has calmed down so that the volume of loans in 2020 did not reach twice the volume compared to 2008. Therefore, it increased by only 70% of the volume compared to 2008, which is a direct consequence of the crisis and recession that has hit many countries, including B&H (Data source: CBBH Annual Report for 2010, 2020, [www.cbbih](http://www.cbbih)).

In 2010 and 2020, citizens participated with only 22.1% and 19.0%, respectively, in total short-term bank loans in B&H. In long-term loans in 2010, citizens participated with 52% and companies from the non-financial sector with 41%. In 2020, citizens participated with 56% and the non-financial sector companies with 41% in long-term loans, which indicates the orientation of banks towards granting long-term loans to citizens (purchase of apartments and houses) and reducing investment activity of companies (Data source, CBBH Annual Report for 2010, 2020, [www.cbbih](http://www.cbbih)).

In general, the dynamics of credit growth throughout the period applied almost equally to the private sector of the company (Alihodžić, & Plakalović, 2016, Alihodžić, 2018) and to citizens. At the same time, the pronounced dynamics of lending sometimes led to the entry into a moral hazard and, in the end, to the collapse of several banks in B&H (Plakalović & Alihodžić 2015, Krunić, 2014.). Intensive credit growth has led to the fact that until then, very wide interest margins in recent years began to narrow due to increased competition and the general trend of declining general interest rates in recent years (Plakalović & Alihodžić, 2015). Despite some negative consequences of the accelerated growth of banks' lending activity, a strong link between credit growth and overall economic growth manifested through domestic GDP growth was observed (Bašić & Curić, 2021).

According to the data of the Banking Agency of the Republic of Srpska (available at [www.abrs.ba](http://www.abrs.ba) com), it is evident that consumer credits are dominated by loans approved in cash without a special purpose, i.e. loans intended for general consumption. In 2019, credits for the purchase of cars disappeared, except for overdrafts on accounts that participate with 5%, non-performing cash credits account for 89% of all consumer loans, which is presented in Table 1.

**Table 1:** Consumer loans with banks in the Republic of Srpska

- mil. BAM

S. n.	Purpose	2007	%	2010	%	2019	%
1.	Purchase of consumer goods.	40,5	3	29,7	2	47,9	2
2.	Buying a car	17,9	2	10,3	1	4,5	0
3.	Loans by cards	39,4	3	64,1	5	56,8	2
4.	Account overdraft	64,1	6	98,8	7	104,9	5
6.	Non-purpose cash loans	900,7	78	1 058,7	80	2 068,0	89
8.	Purchase of securities and other general consumption	69,7	8	63,3	5	39,4	2
	In total	1 150,2	100	1 331,0	100	2 324,9	100

*[https://www.abrs.ba/public/data/documents/1611/20201231\\_Izvjestaj\\_o\\_stanju\\_bankarskog\\_sistema\\_RS.pdf](https://www.abrs.ba/public/data/documents/1611/20201231_Izvjestaj_o_stanju_bankarskog_sistema_RS.pdf) (accessed May 3rd 2021)*

In this paper, we started from the basic thesis that the borrowing of citizens from domestic banks in a significant number of cases is reckless and inadequate to their capabilities, which does not maximize the benefits for citizens-loan users. This belief stemmed from the fact that citizen borrowing had extremely rapid growth dynamics after the establishment of the domestic banking sector after the war conflict in B&H in the 1990s. On the one hand, this is easily explained by the fact that banks were privatized before and were taken over by mostly foreign banking groups later, the consumer credit market was still emerging and this dynamics of enormous credit growth is partly explained by this fact. In addition to the fact that citizens were not indebted at all and could consume larger amounts of credit, another important point is that they were still aware of the “profitability” of borrowing whose roots go back to the distant past of socialist banking. Banks and lending were then designed so that borrowing was very profitable for borrowers. In conditions of very high inflation, banks did not use mechanisms to preserve the real value of assets, so it happened, to a greater or lesser extent (depending on inflation rates that varied from moderate to extreme), that borrowers repaid only a small part of their real value. On the other hand, savings owners had enormous losses, which sometimes meant a complete loss of savings in banks. These memories and past experiences have led some citizens to easy borrowing in the unfounded expectation of inflation that will write off part of the debt. Of course, the “new” banks did not allow that, nor did the situation with a very low annual growth rate of the general price level as a direct consequence of the currency board system. In such circumstances, many people also easily entered into credit guarantee arrangements for their relatives and friends, which eventually escalated with the accumulation of obligations of guarantors and co-borrowers who now had to repay loans to those who could no longer serve them. All this is partly explained by the enormously high growth of citizens’ borrowing until the “turning point” in 2008 when credit indebtedness of households decreased significantly and then stagnated for years.

### 2.3. Bank reactions to the crisis caused by the Covid-19 pandemic

The Covid-19 pandemic significantly affected the economy as a whole, including the availability of consumer credits and the growth dynamics of this type of loan. In the first half of 2020, there was a decrease in credit card loans in the United States, as well as an increase in outstanding liabilities on these cards. The pandemic has reduced the credit usage, but with the fatigue of the pandemic in mid-2020, there was an increase in credit. The issuance of credit cards to risky clients was reduced, and interest rates on loans to riskier categories of citizens were increased (Horvath, Kay, Wix, 2021). A study of the effects of the Covid-19 pandemic on the propensity of citizens to borrow and on the propensity of banks to lend to the population in the Czech Republic, Poland, Slovakia and Hungary, showed that the pandemic reduced the propensity of the population to make consumer loans. As the intensity of the pandemic weakened, credit interest increased, with the impact of variables (otherwise related to certain characteristics of the pandemic) varying from country to country (Czech, Puszer., 2021).

The attitude of US banks regarding the impact of the covid-19 pandemic shows that there is the convergence between large banks in the structure of their portfolios in terms of increasing the share of treasury and cash, while in small banks convergence is reflected in increasing lending to domestic C&I borrowers. Different impacts on banks or their portfolios are interpreted by different pre-pandemic structures of their portfolios (Hawley, Wang, 2021).

In response to the crisis, the governments of many countries have launched significant financial injections to counter the crisis, raising the legitimate question of whether these measures will be supported by adequate macroeconomic policy measures and thus preserve emerging markets and develop economies in a very fragile global economic environment (Rovčanin, Medanović, 2020)

The main problem for banks and their operations, as a result of the pandemic, is a significant increase in risk for banks and pressure on bank liquidity. There are, of course, increased risks caused by the accelerated digitalization of banking operations and new risks caused by the work of employees from home (Maksimović, Beke- Trivunac, 2021).

Regulators in B&H (two banking agencies in B&H) responded to the crisis caused by Covid- 19 with special and temporary measures granting benefits to bank clients directly or indirectly affected by negative effects as well as special rules for credit risk management (Topić-Pavković, 2020). The Central Bank of B&H raised the negative interest rate on excess reserves from -0.3 to -0.5% to stimulate banks to approve as many loans as possible with a negative interest rate on excess liquid assets of banks above the required reserves.

Since January 2020, the Central Bank of B&H has increased the otherwise negative interest rate on the excess required reserves to  $-0.75\%$ . This measure is an incentive for banks to use more actively the significant financial resources held in reserve accounts with the Central Bank for the support of the country's economic system (Bulletin of the Central Bank of B&H, No. 2, 2021). From this fact, it is clear that the Covid crisis did not negatively affect the liquidity of banks, but the problem of excess liquidity of domestic banks remained, which is why the Central Bank is trying to stimulate them to increase their lending activity. Namely, the liquidity of domestic banks in B&H in the second quarter of 2021 was even higher than in September 2019, before the pandemic (Bulletin of the Central Bank of B&H, No. 2, 2021).

It is the result of a marked increase in deposits of non-financial sectors against a slight increase in the volume of bank credits. Interest rates were slightly reduced on both deposits and loans. The total growth of bank credits at the quarterly level in B&H (I and II quarter 2021) was  $1.6\%$  and at the annual level  $2\%$ , which is lower than the pre-pandemic growth. At the same time,  $1.13$  percentage points accounted for the growth of loans to households. The largest reduction in loans to citizens occurred during 2020. Already in the second quarter of 2021, there is a recovery in retail lending, dominated by non-purpose consumer credits with a constant contribution of housing loans (which kept demand in the residential real estate market stable and high stable prices), which implies a change in risk perception by banks and borrower. Quarterly growth of consumer credits in the second quarter of 2021 amounted to  $2.5\%$ . In October 2021, compared to the same month in 2020, total loans increased by  $2.9\%$ , to which credits to households contribute the most (Economic Review of the Central Bank of B&H October 2021). It is obvious that banks still see citizens as a key target group for loan placement, while the corporate sector is not increasing the dynamics of using bank credits due to the stagnation of their activities.

### **3. Literature review**

From the beginning of the 1990s until the financial crisis started in 2007, household debt grew very quickly in many countries. This phenomenon applies not only to real estate and mortgages but also to consumer credits. In addition to the United States and the United Kingdom, this process was very present in many other countries of continental Europe where household debt has doubled or tripled relative to GDP, which has been particularly pronounced since the early 2000s (Patarin & Cosma, 2012). In the last three decades (due to the liberalization of borrowing and many other reasons), the growth of consumer loans in China has been exceptional, which is why Yin (2018), in his article, discusses the possibility of accepting personal insolvency regulation. Modern credit distribution channels (digital credit, for example), in turn, contribute to the growth of indebtedness in many emerging economies.



In some cases studied, digital loan users are more likely to sell assets to repay a loan. They have a higher number of credits and lower income than the users of conventional loans (Wamalwa et al., 2019).

Financialization, on the one hand, has made access to “democratized” financial services and, on the other hand, has been leading to increasing indebtedness. Credit is the “fuel” that raises housing prices, and it is the leading force in financialization. It is closely related to households’ desire for secure shelter and long-term savings vehicles (Montgomery, 2020). Excessive consumer indebtedness can lead to collapse and is considered one of the key causes of the 2007-2009 financial crises. Thus, e.g. the growing indebtedness of Canadian households (due to excessive consumption and low-interest rates in recent years), has forced Canadian regulators to address this issue (Lacoursière, 2020). However, reasonable credit, and therefore sustainable credit spending, has not yet emerged. Excessive borrowing by the beginning of the crisis in 2008 led to a crisis in household debt and thus to worsening economic conditions and put pressure on government finances, causing further income shocks in the form of austerity measures such as reduced welfare and higher taxes (Hiilamo, 2021).

Young adults are a particularly vulnerable group for several reasons. Borrowing by young adults, according to research by Houle (2014), is continuously increasing through three cohorts (the 1970s, 1980s, and 2000s). Youth debt has shifted over time to non-collateralized (unsecured) and student loans, with the latter replacing mortgage debt as the primary form of wealth-building debt among young adults. Over time, young members of the lower social classes (poorer ones) disproportionately assumed more unsecured debts compared to their better counterparts. The growth of the debt burden was most pronounced among university-educated young adults. In recent years, more research has focused on young people’s borrowing (Carlsson et al., 2020, Autio et al., 2009, Robson et al., 2017; Larsson et al., 2016, Coco, 2012). Hauff et al. (2019) present and discuss the problem of borrowing from young credit users, youth lenders and the regulatory aspect. Household over-indebtedness is attracting the attention of regulators in many European countries who are trying to define preventive and curative measures against over-indebtedness (Ferretti, et al., 2016).

Starting from the consumer’s point of view, Kamleitner and Kirchler (2007) give an overview of the literature on the use of consumer credits based on the process model: before taking a loan, when taking a loan and the process after taking a loan, emphasizing the most common shortcomings in previous research.

According to Tokunaga (1993) research, income variables are less effective in explaining household exposure to consumer credit, although it is still claimed that there is a positive link between the use of consumer credit and income (Fabbri & Padula, 2004).



In contrast, some authors believe that there is a negative relationship between current income and credit use, while credit use and permanent income are strongly related (Magri, 2007). Research on the relationships between levels of borrowing in lower-income households has been presented in the studies of Jacobs & Smith, (2010), and Engelbrecht (2009).

According to Lea et al. (1995), household behaviour towards debt has different dimensions in two forms of debt. One is just taking a loan and borrowing and the other is the relationship to the debt taken over. Some researchers do not consider this difference important because e.g. households face the situation that they cannot repay the debt which coincides with unintentional behaviour (Kamleitner and Kirchler, 2007).

The paper of Magri (2007) analyses the participation of households in the credit market in Italy. He focuses on the reasons for the low participation of households in loans and the large differences in the number of loans. The reasons are partly found in the “rationalization” of lending, i.e. the supply of credits by banks by region and the costs of enforcing the collection of loans. They indicate the importance of the age of the household head in terms of demand for credits, levels of education and the factor of permanent income that is important for the supply side of loans. Income uncertainty is negatively correlated with the probability of loan demand.

For example, the crisis in the United States influenced a large increase in consumer financing. According to the Dow (2018) analysis, however, a smaller part of borrowings is directed to cover current living costs, as this is the most expensive form of credit, while a significantly larger volume of loans is directed to investment needs and financing the purchase of durable consumer goods. The attitude towards credit according changed after the financial crisis and recession in a conservative direction.

When studying household finances, behavioural factors such as a person’s relationship to credit products or their financial knowledge are matters (Gathergood, 2012). Financial literacy can influence credit decisions (Disney & Gathergood, 2013). It is a common assumption that unsophisticated loan seekers will use credit to a greater extent, and yet, on the other hand, sophisticated ones will be able to make better use of credit. Borrowers from lower-income classes are usually less financially literate (French & McKillop, 2016). Otherwise, this topic deserves great attention in terms of emerging economies such as B&H. It has been noticed that the level of financial literacy of citizens and managers in B&H is very low, which certainly has very significant and noticeable effects during borrowing and repayment of loans taken from, banks (Plakalović 2012, 2015, Plakalović et al., 2019).

There is also some evidence that the recent major recession has affected financial behaviour by making individuals more focused on financial planning (O'Neill & Xiao, 2012) and by making millennials more conservative in their investment decisions (Kilroy, 2015). According to analyses by Pataren and Cosma (2007, 2012), a more favourable attitude of consumers towards credit makes the use of consumer loans more likely, even taking into account the simultaneous influence of other factors that may influence household financial decisions and expectations regarding future income and earnings. Motivations to use credit are related to attitude. Furthermore, positive differences in attitudes between users and non-users of consumer loans were found.

A recent study in the case of Brazil (where interest rates on consumer loans are very high) shows that individuals who inadvertently consider their credit limits part of their current income (or are typically worried about money) are prone to impulsive buying and, consequently, risky behaviour borrowing. This weakens their resilience to emergencies, which potentially threatens their financial situation (Diba et al., 2020).

Bertrand and others (2005) investigate and show how important psychological factors are in making credit decisions as well as the importance of the consumer's attitude towards credit. The role of attitude in making financial decisions in terms of consumer credit selection is unclear due to inconsistencies between consumer attitudes and behaviour. Determining the relevance and impact of attitudes toward financial decision-making, it is observed that peer pressure from friends, relatives, and society increases the likelihood of using credit (Kaynak & Harcar, 2001). Rahman et al., (2020) pay attention to the behaviour of credit users and demographic factors.

Abassi et al., (2018) point out the psychological factors that influence the use of credit in the case of Pakistan. Otherwise, the wide literature testifies to the importance of psychological factors. The authors of the mentioned study examine the role of attitudes in household decision-making. Attitudes are characterized by three dimensions that include cognitive, emotional, and behavioural components. Their findings reveal that attitudes greatly influence credit indebtedness decisions and motivate consumer behaviour in terms of well-being.

When it comes to the motivations of credit users, a very important dimension of consumer behaviour should not be neglected, and that is the influence of the unconscious dimension of their behaviour, "conscious consciousness" (Bargh, 2002).

## 4. Research data

We conducted the survey and data collection in the field during March and April 2021. A total of 308 respondents from bank clients in the Republic of Srpska were surveyed based on a random sample. Of these, 238 were loan beneficiaries.

Of the total number of respondents, about 60% of respondents are highly educated people and about 40% of respondents are those with secondary education. In this way, we obtained results for a sample of respondents, which included mostly above-average educated people. At the same time, 83% of the respondents are employed, and 17% of the respondents are officially unemployed (which does not mean that they are not engaged in any business, in the grey economy zone, for example).

Of the total number of respondents, 12% have no regular income. According to the level of current income, one-third of the respondents (34%) belong to the category with the lowest income (up to EUR325). The next group with lower incomes (from EUR375 to EUR650) is the second third of respondents (30%). In the group with higher incomes, there are 20% of respondents (EUR650 to EUR1100), and 7% of them are those with high incomes having in mind the average income levels in the country. According to official data in 2021 in B&H the average net salary was EUR484. Of the total respondents, 9% have no income. It is probably about dependents, but the possibility that they earn something based on occasional or unreported jobs is not excluded.

## 5. Results and discussion

### 5.1. Types and characteristics of used credits

The survey results showed that, observed by the purpose of used loans, 77% of respondents use non-purpose loans, i.e. loans for general consumption. According to gender, 133 or 56% of males use credit and 105 or 44% of females use credit. Of the total respondents, 23% do not use bank loans. In terms of the educational structure of loan beneficiaries, 56% are highly educated and 41% have completed high school. Practically, almost 70% of loan users have below-average income. Only 9% of respondents are loan users whose incomes are significantly higher than the average.

Regression analysis of the relationship between the number of loan users and the number of loans used shows a strong declining relationship between the number of loan users with the number of individual loans.

**Figure 1:** Linear regression analysis between receipt amount and number of customers for loans BAM 2000-5000 /Source: Authors' calculation

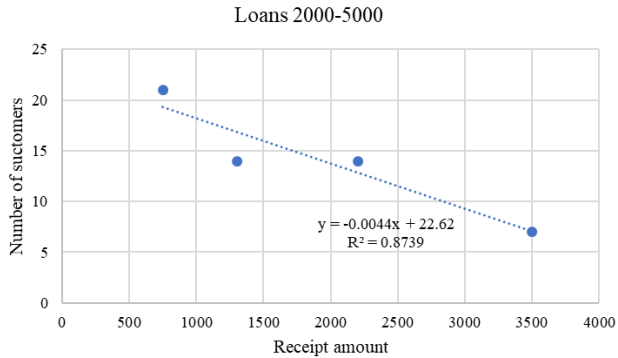


Figure 1 shows linear regression analysis between receipt amount and number of customers for BAM2000-5000 loans. Regression analysis shows the following: if it increases receipt amount for BAM1000, then 4.4 customers less will use such loan.

**Table 2:** Output Table for Regression analysis

Regression Statistics	
Multiple R	0.934825
R Square	0.873899
Adjusted R Square	0.810848
Standard Error	2.485753
Observations	4

**Source:** Authors' calculation

On the basis coefficient of determination (R square) from Table 2 can be concluded that 87.39% relations between receipt amount and number of customers for loans BAM2000-5000 has been explained with a linear regression model. ANOVA analysis is shown In Table 3.

**Table 3:** ANOVA analysis

ANOVA								
	df	SS	MS	F	Significance F			
Regression	1	85.6421	85.6421	13.8603	0.0652			
Residual	2	12.3579	6.1790					
Total	3	98						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	22.6198	2.6278	8.6078	0.0132	11.3132	33.9265	11.3132	33.9265
Receipt amount	-0.0044	0.0012	-3.7229	0.0652	-0.0096	0.0007	-0.0096	0.0007

**Source:** Authors' calculation

Regression analysis also tells us that lower-income clients are dominant among loan users. Due to their low borrowing capacity, they can only qualify for small or even symbolic loan amounts. This is a favourable situation for banks because they achieve a higher degree of loan portfolio "granulation", which reduces the overall risk of the loan portfolio.

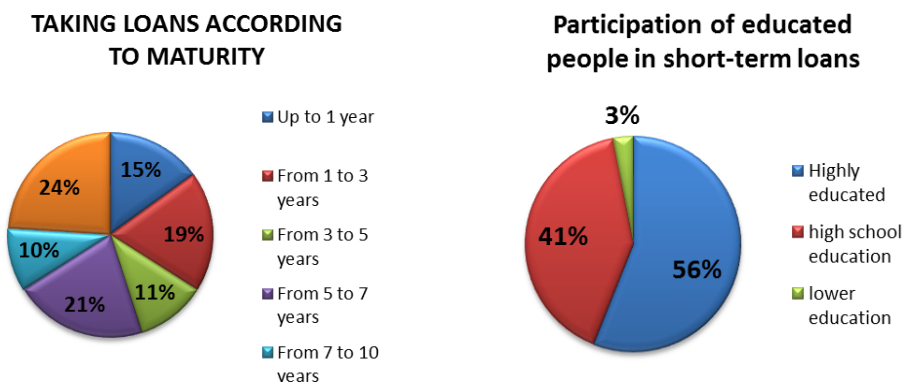
Respondents use loans mainly from one bank, 85% of them, and others use loans from two banks. This can be explained by the customer's relationship and the bank's offer of loans to its clients, which is sometimes more favourable than the offer of credits to applicants who are not clients of that bank.

Of the total number of respondents, about 90% use only one loan, and about 10% of them use two or more loans, and the latter are the categories of credit users who have the lowest incomes.

According to the loan size, most loan users are in the credits categories ranging from EUR1000 to EUR2500 (50% of them). This is understandable because these are the dominant categories of low-income loan users. Of all respondents, 12% use credits ranging from EUR2500 to EUR3500, and 38% of respondents use loans over that amount. Out of them, 24% of loan users use large credits, over EUR7500. About half of users in a group of extensive credits belong to the group earning from EUR375 to EUR650. The larger loans otherwise dominate the older categories of respondents.

When observing the use of loans according to maturity, it is noticed that short-term loans, up to one year, are used by 15% of the total number of users. 47% of users use loans of up to five years of maturity. Most users (20%) take loans from 1 to 3 years and from 5 to 7 years (also taken by 20% of users). Loans with maturities over ten years are used by 23.5% of loan users.

**Graph 2:** Maturity of loans, participation of educated people in short-term loans



*Source: Authors' calculation*

Short-term loans of up to one year are mostly used by highly educated bank clients (80%). Interestingly, these beneficiaries are mostly from the category of those with low incomes (60%), i.e. with incomes of less than EUR375 (Graph 1.). Twenty per cent are in the category of incomes from EUR650 to EUR1100. Of these credit users, 80% are young people aged 18 to 27. It is obvious that highly educated young people, who have relatively low incomes, use short-term loans to meet their basic living needs.

The characteristics of credit users with maturities of 1 to 3 years are similar. The truth is a slightly higher share in these loans of categories that have higher income levels.

With the length of the loan term, the share of credit beneficiary categories belonging to the middle and higher-income classes increases and the share of the relatively older population grows. In the total credits used by people older than 60, the highest is in the category of loans with a maturity of 5 to 7 years. Almost 30% of loans in this maturity category are used by old people. Long-term credits with a maturity of over ten years are used by 23.5% of users. Of these loan users, 62.5% are highly educated clients, and 43% of credit users are individuals with secondary education.

When it comes to credit with the longest maturities, those are usually housing loans used by low-income users (up to EUR375), i.e. 25% of users. Among the users of long-term credits, those with lower incomes, from EUR375 to EUR650, dominate. There is even 50% of them, and only 25% is the share of those with incomes from EUR650 to EUR1100. Most respondents who use credits with long maturities are between the ages of 35 and 45 (37.5%), and just as many (37.5%) are between 45 and 60. This is understandable because there are credit users who not so long ago entered into arrangements for buying an apartment or building a house, and there are older categories of the population who will soon leave these loan arrangements, completing the repayment of the credits taken.

Loan users who have low or relatively lower incomes (75% in total) dominate in terms of the age structure of middle-aged and elderly people. Therefore, credit users mostly solve their basic life problems by borrowing under unfavourable conditions. This is especially evident in the category of citizens with lower incomes. Credit is used very little as a “leverage” or instrument to bridge the current lack of liquidity.

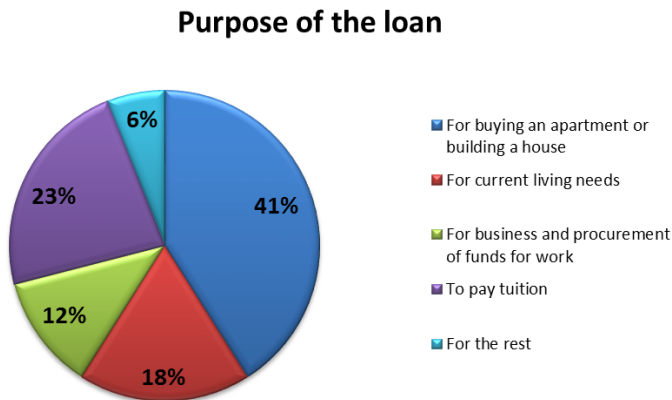
For these reasons, it is not difficult to interpret the fact that only 47% of credit applicants (in terms of the loan term) got a loan in accordance with their personal request, and 53% of them got loans under conditions set by the lending bank. A certain form of “compulsion” to take credit does not leave clients much room to agree with the bank on the conditions for obtaining a loan.

## 5.2. Purposes of the credit

According to the purpose of the loan, the majority of users use these funds to buy an apartment or build a house (Graf 2.). There are 41% of them. Half of them have secondary education and the other half higher education. About 35.7% of them have the lowest incomes, medium incomes 29%, and 35.7% high incomes, which is a fairly even distribution according to the income status of the borrower.

The next significant group of beneficiaries is the one who uses the credit for current living needs of 18%. 12% of users use loans for business and procurement of funds for work. 9% of users who are mostly in the higher and high incomes category use credit for buying furniture. The other 23.5% use the loan to pay tuition fees (young people with high school), to finance exceptional events, to provide “normal life and consumption” (3% of beneficiaries who are all over 60 years old and have the lowest income), 9% of them use the credit for “other needs”. Borrowers for the aforementioned purposes are all in the category of middle incomes in the range of EUR375 to EUR650.

**Graph 3:** The purpose of the loans used



*Source:* Data from the authors' survey

## 5.3. Determinants of borrowing decision making

To get a specific idea of the motivations and goals for borrowing of citizens in the survey, we asked several questions related to perceptions of the needs they want to meet and whose fulfilment is necessary for borrowing.

We concluded that almost all respondents are in the category of people or households with very modest expectations in terms of living standards and modest aspirations in terms of possession of material goods. They mostly try to provide or satisfy the basic needs of life.



Only 12% of respondents believe that vacation abroad is part of ordinary living needs. Interestingly, this 12% make up an equal (one quarter each) number of respondents from all four income categories. At the same time, mostly younger people prefer a vacation abroad.

We came to the conclusions regarding the key reasons or motives for taking loans and borrowing from citizens through banks through survey questions that explain the reasons for borrowing. When asked if the use of credit was a necessity, almost 60% of respondents answered that they were "forced" to borrow, while the rest of the respondents stated that they were not "forced" to use credit.

Of these "forced" loan users, 55% are highly educated. It is difficult to say whether the largest number of people in that group are due to a relatively low standard of living or higher consumer "appetites". Looking at income status, 70% of them belong to the group with the lowest incomes and relatively low incomes, up to EUR650. 30% of respondents are the rest of those "compelled" ones, i.e. those with incomes from EUR650 to EUR1100. In that way, "compulsion" is not decisively determined by income status. Obviously, it is a matter of preferences for higher consumption, and the presence of consumer affinities can be sought here because those from higher-income classes also feel "forced" to use loans. Almost 30% of those who "have to" take a loan are young and relatively young people up to 35 years of age, a quarter is from the age group of 35 to 45 years and most are those aged 45 to 60 (40%).

Thus, it can definitely be said that a significant number of users have an individual affinity for increased consumption since they borrow to increase the level of their consumption, despite relatively higher incomes.

Attitudes towards credit are also quite different. Some respondents (20%) see a bank loan as an "ideal" solution. According to income status, the majority is in the group with low and lower incomes, almost 60%, and the rest is in the category of middle incomes. Most of them are younger people (70%) who see credit as an "ideal" solution.

The answers to the question about the possibilities of living without a loan show how much credit means to clients. Only 32% of users stated that they can live without credit. Interestingly, 77% of them are low-income, which means that those with lower incomes can fit in with their income to provide for basic living needs. For them, credit is not a necessity.

## 6. CONCLUSION

The results of the survey of bank clients and credit users showed that about half of the respondents use credit in small amounts per individual loan, mostly loans with short maturities (up to one year and up to five years - over 60% of users). About 80% of the highly educated people (which is significantly above the participation of the highly educated in the survey) and 60% of those in the lowest-income category use up-to-one-year loans.

Regression analysis showed us that with the growth of the amount of an individual loan, the number of credit users decreases, and it is obvious that most credit users have a lower income status. This corresponds to the findings of international research presented in this paper.

About 80% of the total users of short-term loans are young people aged 18 to 27. Credits with longer maturities are mostly used by the middle generations and older people, including people who belong to the middle and upper-income classes. Research in many European countries has detected the problem of growing and excessive indebtedness of young people, so the situation in the domestic market does not deviate much from the general problem of over-indebtedness of young people. Research at the international level has shown that the debt burden is greatest within the highly educated youth population, which, as we have seen in this study, is the case in our country as well.

In the case of credits with the longest maturity (mainly housing loans), the beneficiaries are, more precisely 75% of them, those with the lowest and relatively low incomes, as well as beneficiaries in middle and old age. It is certain that for loan applicants, who have low incomes, credit conditions cannot be particularly favourable given their weaker credit capacity in terms of low repayment potential and loan security, i.e. higher risk for banks. Loans are mostly used to solve basic and current living needs and not as a “leverage” that has its full economic meaning. A quarter of the respondents use credits to finance tuition fees, exceptional events, ensure “normal life and consumption”, etc. Borrowers for the aforementioned purposes are mostly in the category of middle income.

It is quite expected that the motive for satisfying basic living needs is in the first place for close to half of the respondents, of which over half are those with the lowest incomes. The group of the youngest stands out in particular, of which 60% chose this option. We concluded that “compulsion” is not decisively determined by income status. In addition, many other findings from the survey suggest that a significant number of people have an affinity for consumption that exceeds their material capabilities and that goes beyond the sphere of basic needs. The results of the mentioned international research in this paper are similar, but the proportions, dimensions of the phenomenon and their characteristics are not identical.

The latest crisis caused by the Covid-19 pandemic did not have significant long-term consequences for banks or lending to citizens. True, during 2020, there was a stagnation in the dynamics of retail lending, so debt growth trends would continue during 2021 when credits to citizens were even higher than in the pre-pandemic 2019. The crisis caused by the pandemic did not significantly affect the banks' liquidity, given the pre-pandemic high level of liquidity of banks, nor did it significantly increase the exposure of banks to risks.

Therefore, the task for future research remains to investigate the attitudes of motivation, consumer affinities and preferences of credit users. An interesting issue that certainly deserves attention is the state and level of financial literacy of loan users, especially in terms of how the level of their financial literacy affects the attitude towards credit in general and the use of credit.

This research, including some future ones, can be very helpful for bankers in defining their credit policies and defining target groups of consumers or credit users. The survey we conducted shows roughly the general tendencies and preferences of loan users concerning their educational and income structure. The research was conducted on a sample of loan beneficiaries who are mainly clients of banks in the Republic of Srpska, so it cannot be said that it is completely relevant to the level of Bosnia and Herzegovina. We can, of course, assume that the characteristics of indebtedness of consumers and borrowers are very similar in both entities, but the possibility that there are certain differences cannot be ignored. The following limitation of this research is that the concept of over-indebtedness, motives and consequences of indebtedness of citizens has not been researched from the aspect of banks and the point of view of regulators. It remains the task of some future research.

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## STRUKTURA POTROŠAČKIH KREDITA, NJIHOVI KORISNICI I MOTIVACIJE ZA ZADUŽIVANJE KOD BANAKA U REPUBLICI SRPSKOJ

### SAŽETAK

*U istraživanju polazimo od činjenice da su potrošački krediti najzastupljeniji vid kredita koje sektor komercijalnih banaka nudi javnosti Bosne i Hercegovine. Polazni cilj istraživanja je bio da se sagleda aktuelna struktura kredita koje građani uzimaju od banaka (veličina kredita, dospelost kredita, upotreba...) i da se sagleda struktura korisnika kredita sa aspekta njihovog obrazovnog, dohodnog i starosnog statusa. Pošli smo od pretpostavke da građani, odnosno domaćinstva koriste bankarske potrošačke zajmove dominantno u cilju finansiranja tekuće potrošnje i kompenzacije nedovoljnih tekućih primanja kojima bi finansirali osnovne životne potrebe. Takve pretpostavke smo izveli polazeći od činjenice niskog opšteg nivoa dohotka po stanovniku, niskih prosječnih zarada i visoke stope nezaposlenosti u BiH. Istraživanje je zasnovano na sveobuhvatnoj anketi koju smo proveli na velikom broju učesnika, korisnika bankarskih potrošačkih kredita. Zaključili smo: relativno najviše korisnika kredita je iz kategorije obrazovanih i visoko obrazovanih građana, relativno najveći broj korisnika su oni sa niskim dohodnim statusom i mladi ljudi. Korišćeni krediti su mahom nenamjenski gotovinski krediti. Duža dospelost kredita je rezervisana mahom za ljude srednje generacije i starije sa višim dohodnim statusom. Krediti sa dužim rokom su uglavnom korišćeni za finansiranje kupovine i izgradnje stanova i kuća. Prosječni iznosi kredita po korisniku su relativno niski što je i očekivano s obzirom na njihovu dohodnu poziciju. Motivi, životni zahtjevi i očekivanja korisnika kredita se najčešće kreću u skromnom radijusu obezbjeđenja osnovnih životnih potreba pa su zato krediti mahom usmjereni za finansiranje tekuće potrošnje. Kod jednog dijela korisnika primjetna je preferencija ka većoj potrošnji koja izlazi izvan stvarnih potencijala zaduživanja tih domaćinstava.*

**Ključne riječi:** bankarski krediti domaćinstvima, zaduživanje domaćinstava, potrošački krediti, upotreba kredita, motivi zaduživanja domaćinstava,

**JEL:** G21, G41, G51