2. MACROECONOMIC AND SECTORIAL DEVELOPMENTS

The fragile recovery of global economic activity is expected to be restrained by the escalation of the trade tensions and the impact of coronavirus pandemic "SARS-COV-2". The latter has caused already the disruption of production chain, globally, and it is assessed to affect the global economy, through the fall in consumption, investments, trade and tourism.

2.1 INTERNATIONAL ECONOMIC AND FINANCIAL DEVELOPMENTS

Global economic activity expanded at a slower pace during the period[6]. The reduced trade tensions between US and China, after reaching a prior deal, the continuation of accommodative monetary and fiscal policies in advanced economies and in a part of emerging economies, as well as diminished fears of a hard Brexit process, affected the stabilisation of the economic and trade activity. The overall developments in financial markets were positive and stable, benefiting from the supportive financial conditions. As a result equity market advanced, financial flows to emerging market economies strengthened and debt interest rates were downward. Global inflationary pressures increased somewhat during the end of the year, driven mostly by oil and food prices. Nevertheless, short-term inflationary pressures remain contained both in developing and advanced countries, reflecting the moderate economic growth rates.

International financial institutions[7] such as IMF, expect a modest pickup of global economic activity in the next two years[8]. The favourable conditions in financial markets and the continuation of accommodative policies in advanced countries and in a part of developing countries are expected to remain supporting factors of growth. On the other hand, the escalation of geopolitical tensions and migratory movements among countries, the re-emergence of concerns on trade policies, and recently coronavirus SARS-COV- 2 pandemic, are considered as the main risks to global economic outlook.

Developments in both foreign exchange market and commodities market reflected the global economic and political developments and the relevant expectations. In the foreign exchange markets, euro appreciated against the major currencies such as US dollar and the Swiss franc, but it depreciated against the British pound amid news of an increased likelihood of a smooth Brexit. In oil markets, after a downward period until October 2019, prices showed an upward trend, standing at around 70 USD per barrel at the beginning of January 2020. This performance was affected by the geopolitical

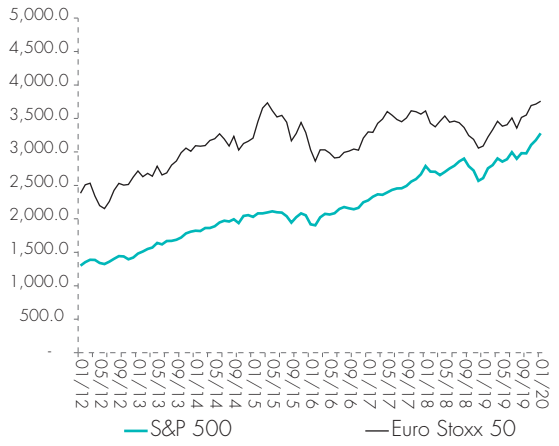
[6] *Escalation of geopolitical and trade tensions, and the domestic economic and social problems in some developing countries, restricted its expansion.*

[7] *These expectations do not include the latest reactions related to coronavirus pandemic (SARS-COV-2). According to these reactions, the negative impact of pandemic on global economy, and particularly on the most-affected countries, will be considerable, although temporal.*

[8] *IMF forecasts global economy will grow by 3.3% during 2020, and by 3.4% during 2021. (World Economic Outlook, January 2020).*

tensions in Middle East and the temporary mitigation of trade dispute between the US and China.

Chart 5 Main indices in shares market



Source: European Central Bank.

Chart 6 Euro exchange rates against other currencies

Source: European Central Bank.

Economy in Euro area continued to grow during the period, albeit at a moderate pace in 2019 Q4. Economic activity was mainly underpinned by domestic demand and the increase of investments, while net exports provided a negative contribution in reflecting the weakness of global trade activity and the fall in the external demand. In labour market, conditions continued to improve. At regional level, unemployment, fell to 7.4% in December 2019, the lowest recorded level in the last decade. Inflationary pressures remain contained, although they showed a slight increasing trend at the end of the year, mainly affected by the performance of oil prices. Against this backdrop, the European Central Bank (ECB) affirms its commitment to maintain the accommodative monetary stance, to support the regional economic growth and convergence of inflation close to 2%.

Euro area economic activity is expected to expand at a slow pace. The heightened external demand, the favourable financial conditions in international markets and the continuation of accommodative monetary and fiscal policies are expected to positively support the economic expansion of this region. Uncertainties related to the solution of trade disputes among larger economies, rising vulnerabilities in emerging markets, unexpected geopolitical tensions, and recently Coronavirus SARS-Cov-2 pandemic, are risk factors to economic outlook in the euro area.

In the European banking sector, lending to private sector continued to recover at a steady rate. In annual terms, lending to enterprises moderated at the end of the year, while lending to households continued to gradually consolidate, supported by the favourable financing conditions and the positive developments in the real estate market.

Table 1 Selected macroeconomic indicators for the U.S. and euro area

	GDP change (annual %)				Inflation annual (%)		Unemployment (annual %)		Government debt (% of GDP)	
	2019 Q3	2019 Q4	2019f	2020f	June 2019	Dec. 2019	June 2019	Dec.2019	2019 Q2	2019 Q3
U. S.	2.1	2.3	2.3	2.0	1.6	2.3	3.7	3.3	103.2	105.4
Euro area	1.2	0.9	1.2	1.3	1.3	1.3	7.5	7.4	86.4	86.1
Germany	0.6	0.5	0.5	1.1	1.5	1.5	3.1	3.2	61.1	61.2
France	1.4	0.8	1.3	1.3	1.4	1.6	8.5	8.4	99.6	100.5
Italy	0.5	0.0	0.2	0.5	0.8	0.5	9.8	9.8	138.0	137.3
Greece	2.3	:	:	:	0.2	1.1	17.1	:	179.6	178.2

Source: European Central Bank, Eurostat, International Monetary Fund (f- IMF estimates, January 2020),
BEA –Bureau of Economic Analysis). (U.S. Bureau of Labour Statistics). " : "- ": no available data.

Economic activity in the Western Balkans continued to recover. In 2019 Q3, annual real GDP growth averaged, 4.1% for the region, up from 2.9% in the previous quarter, mainly driven by the domestic demand and a rebound in investments in some of the countries. Economic expansion has led to the further improvement in the labour market conditions. Unemployment rate was down in most of the Western Balkan countries, although remaining considerably higher than in Western European countries. The strengthening of the domestic demand drove to an improvement of tax income, while public debt to GDP ratio decreased in some regional countries. Trade deficit also narrowed in most of the countries, but external imbalances still remain a key economic challenge to the region. Given the low inflationary pressures, the central banks monetary policy remained accommodative and in some cases there have been further cut in key policy rate[9].

Table 2 Key macroeconomic and financial indicators for the Western Balkan countries

	GDP (real, annual %)			Unemployment (in %)		Credit growth (annual %)		NPLs ratio (in %)	
	2019 Q2	2019 Q3	2020f	2019 Q2	2019 Q3	2019 Q3	2019 Q4*	2019 Q3	2019 Q4*
B&H	2.6	2.6	:	:	:	5.2	6.4	7.7	:
North Macedonia	3.4	3.6	3.2	17.5	17.1	6.3	6.4	4.8	:
Montenegro	3.2	4.7	3.0	14.7	15.6	1.6	3.5	4.7	4.6
Kosovo	4.1	4.4	:	25.3	24.5	10.4	10.2	2.1	2.0
Serbia	2.9	4.8	3.8	10.3	9.5	4.9	4.8	4.7	4.6
Albaniaa	2.5	3.8	3.7	12.0	11.8	3.0	4.8	10.6	8.4
Turkey	-1.6	0.9	3.1	13.2	14.2	-1.6	10.4	5.0	5.2

Source: European Commission, respective central banks.
f- Forecast for January, 2020; ':' no available information; "": data refer to November 2019 "a": data refer to 2019 Q4.*

Bank credit growth accelerated in 2019 Q4 compared to the previous quarter. In some countries, such as Albania and Serbia, lending growth to enterprises exceeded that to households. Non-performing loans ratio continued to trend downward, leading to further improvement of banks' balance sheet and expanding their lending capacity.

[9] *National Bank of Serbia and National Bank of the Republic of North Macedonia.*

2.2 MACROECONOMIC ENVIRONMENT IN ALBANIA

The interaction between monetary and fiscal stimulus with the positive performance of domestic financial environment, established the premises for a simulating macroeconomic and financial environment in Albania.

Gross Domestic Product registered a negative annual growth of 0.15% in 2019 Q4[10]. Nevertheless, prior estimations of INSTAT show an annual growth close to 2.2%. Overall, economic activity, during the period, was underpinned by the expansion of consumption and exports, while private investments were downward. Analysis by sectors of economy evidences that the positive and the increasing contribution of branches of "industry", "trade and transport" and "real estate", did not succeed to offset the negative contribution of the activity of "construction", "art, entertainment and leisure" and "agriculture". The narrowing of current account deficit in the balance of payments determined the positive contribution of the external sector of economy. In labour market, positive developments are confirmed by the fall of the unemployment rate at the lowest historical level of 11.2%[11]. Nevertheless, the expected developments in the short run about the employment in the main sectors of economy are on the downside, where the situation after the earthquake of November 2019 appears to have affected the overall perception of the agents. The ample financing of re-construction programme appeared to considerably improve this perception. But the coronavirus pandemic outbreak in Albania, depending on the diffusion intensity, the undertaken measures and its prolongation, is rather likely to provide a negative impact on the economy of Albania and on the labour market.

The narrowing of current deficit during the last quarter was mainly driven by the expansion of the surplus in services account and in secondary income.

The monetary policy maintained the accommodative stance, given the low level of inflation, which stood at 1.1% in December 2019[12]. Till the end of the year, the estimation was that the monetary conditions were adequate to sustain a stable economic growth and for the convergence of inflation to target in the medium term. But the impact of pandemic on economy drove to additional actions for a further easing of the monetary conditions. These actions guided by the objectives of the Bank of Albania, help to address the acute difficulties of the economic agents to deal with the economic challenges that they may face in the longer-term period.

As at end 2019, the budget deficit amounted to ALL 31.5 billion[13], with an annual growth of ALL 5.3 billion. During the year, budget revenues increased by 2.3%, but at a lower level than budget expenditures up by 3.3%. Budget deficit was entirely financed by internal funds. In relative terms, budget deficit accounts for around 2% of GDP, somewhat higher than in the previous year. The increase of budget deficit reflects the need for higher public expenditures to rapidly counter the damages caused by the earthquake of November 2019. During this year, fiscal policy challenges appear higher, given the need to financially face the acute challenges to maintain public health due to the

[10] *Annual real growth of economic activity in Albania during 2019 Q3 was 4.2%, from 3.05% in the previous year (2018 Q4).*

[11] *Unemployment rate was 12.3% in 2018 Q4 and 11.5% in 2019 Q2.*

[12] *Average inflation in 2019 Q4 was 1.3%, from 1.4% in 2019 Q2 and 1.8% in the previous year (2018 Q4).*

[13] *In the previous year (December 2018) budget deficit amounted at around ALL 26.2 billion.*

pandemic situation and to support a rather rapid recovery of economy at the end of the pandemic.

The overall balance of payments resulted with a narrowing of foreign exchange assets by about EUR 73 million[14]. Current account deficit narrowed by around 7%, in annual terms, at EUR 346 million. This development reflects the considerable expansion of surplus in services account and in the secondary income, notwithstanding the deepening of trade deficit in goods[15]. Remittances amounted around EUR 182 million, comparable to the previous period, but considerably upward from the previous year, around 8%. In relative terms, it is estimated that current account deficit accounts for around 8% of GDP, with an annual upward trend[16]. In the financial account, inflows amounted around EUR 77 million, driven by the upward trend of inflows in the form of direct investments[17]. In capital account, net positive flows were EUR 26 million, or down by 37% in annual terms. Foreign reserve assets cover 6.5 months of average imports in goods and services.

2.3 DEVELOPMENTS IN SPECIFIC SECTORS OF ECONOMY

2.3.1 FINANCIAL POSITION OF HOUSEHOLDS AND ENTERPRISES[18]

The expansion of financial position by sector is attributable to the growth of deposits in foreign currency to households and of credit in lek to enterprises.

During the period, households expanded their creditor position, while enterprises expanded their debtor position.

In more concrete terms, both households and enterprises recorded a simultaneous growth of deposits base and outstanding loans, with a contribution from all currencies. For households, banks report an expansion of deposits (mainly in foreign currency) and credit stock, by around ALL 38.2 billion and ALL 7.0 billion, respectively. For enterprises, the growth by around ALL 9.7 billion of loans (mainly in ALL) was accompanied with an ALL 6.9 billion growth of deposits.
As a result, at the end of 2019, creditor position of households was up at around ALL 807 billion, and debtor position of enterprises expanded by around ALL 162 billion.

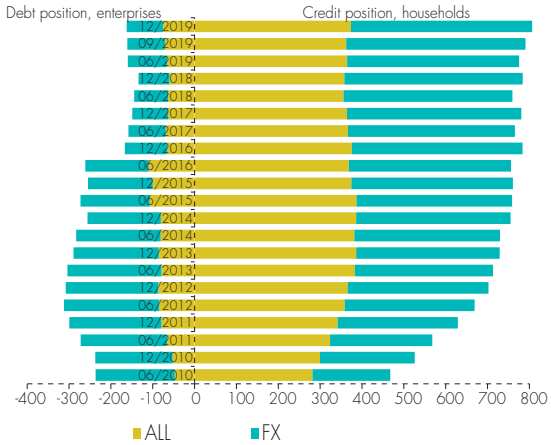
[14] *Developments as per 2019 Q4 period.*
[15] *Trade deficit in goods deepened by around 1.4% in annual terms following the fall in expenditures for imports by around 1.3% (mainly for fuels and the group " plastic and their items") and the fall in income from exports by around 10% (mainly in basic metals).*
[16] *Current account deficit accounted for around 7% of GDP in 2018 Q4.*
[17] *Foreign Direct Investments flows in the form of capital expansion are estimated at EUR 288 million, mainly concentrated in the sectors of energetic, fuels and financial intermediation".*
[18] *The analysis refers to the main developments in the financial position of households and enterprises. For more information about banking sector developments see the respective chapter.*

2.3.2 HOUSEHOLDS

Albanian households' savings remain essentially oriented towards investments in the banking sector and less towards other investment forms provided by the alternative markets.

Resident households increased their savings, during the period, by around ALL 33 billion. Deposits growth provided the main contribution in this regard, despite the narrowing of investments in Government short-term securities of, and in investments funds of. In annual terms, households' savings oriented mainly towards investment in deposits in all currencies, as well.

Chart 7 Financial sectorial position (in ALL billion)



Source: Bank of Albania.

Table 3 Resident households' assets in the financial system

	2016, December		2017, June		2017, December		2018, June		2018, December		2019, June		2019, December	
	ALL bln	Share %	ALL bln	Share %	ALL bln	Share %	ALL bln	Share %	ALL bln	Share %	ALL bln	Share %	ALL bln	Share %
ALL deposits	454.3	40.3	465.1	42.1	467.2	41.0	456.7	41.1	462.8	41.2	475.4	41.6	490.8	41.7
FX deposits	476.4	42.3	432.8	39.2	469.5	41.2	447.1	40.3	464.6	41.3	469.6	41.1	492.4	41.9
T-bills	65.2	5.8	67.3	6.1	63.6	5.6	65.1	5.9	59.4	5.3	56.8	5.0	52.7	4.5
Bonds	64.5	5.7	67.9	6.1	72.1	6.3	77.4	7.0	77.1	6.9	77.6	6.8	78.4	6.7
Investment funds	65.4	5.8	70.8	6.4	65.1	5.7	62.5	5.6	58.5	5.2	61.4	5.4	59.5	5.1
Supplem. private pension funds	1.2	0.1	1.3	0.1	1.6	0.1	1.8	0.2	2.2	0.2	2.3	0.2	2.6	0.2
Households' portfolio	1,127.00	100	1,105.20	100	1,139.10	100	1,110.60	100	1,124.60	100	1,143.10	100	1,176.44	100

Source: Bank of Albania, AFSA.
Note: Values market with "" belong to 2019 Q3 according to the last reports.*

*BOX 1 SURVEY RESULTS ON HOUSEHOLDS' FINANCIAL AND BORROWING SITUATION**

This survey refers to the developments in 2019 H2 and expectations for 2020 H1. Around 89% of the selected sample of households participated in the survey. Around 53% of them live in urban areas and 47% in rural areas. The Institute of Statistics is engaged in the selection of the sample, the on-site administration of the survey and its quality control.

The total number of employed individuals in the surveyed sample decreased compared to the previous six months and to the previous year. In both periods this decrease was driven by the decline in all three categories of employment (public sector, private sector and self-employed).

The overall level of households' monthly income and living expenses has declined over the period. However, the decline in the living expenses has been somewhat sharper than that in the income, resulting in a slight improvement of households' financial balance (income-expenses.)

Around 24% of interviewed households state that they have at least one debt to repay, obtained through various sources. This share remained unchanged from 2019 H1 and slightly downward (by 1.8 percentage points) compared with the previous year, remaining below the historical average. The income index for the borrowers increased during the period, while the living expenses index registered a decline, resulting in an improvement of their financial balance (income - expenses).

The total outstanding debt reported increased in semi-annual and annual terms. Around 73% of the outstanding debt was obtained by formal sources (68% by banks and 5% by non-bank financial institutions) and around 27% by informal sources ("natural persons", "unpaid goods", etc.). This distribution shifted by 3 percentage points in favour of formal borrowing in both semi-annual and annual terms. By currency, 71% of outstanding debt was reported in ALL, whereas 14% in foreign currency (mainly in euro).

Regarding the debt purpose around 36% of the total outstanding debt amount was used to purchase/renovate a property, 36% to start/develop a business and only 7% for consumption. The share of the outstanding debt for purchasing/renovating a property has increased in semi-annual and annual terms, while the share of debt for starting/developing a business has increased in semi-annual terms but decreased in annual terms.

Most of the borrowing households reported that their monthly debt repayment has not changed during the half-year under review. Around 68% of borrowing households declared that their solvency has not changed, while the rest declared an improvement compared to both 2019 H1 and 2018 H2. For 2020 H1, most of households (around 75%) do not expect their solvency to change, while the net balance of the rest of responses shows weaker expectations.

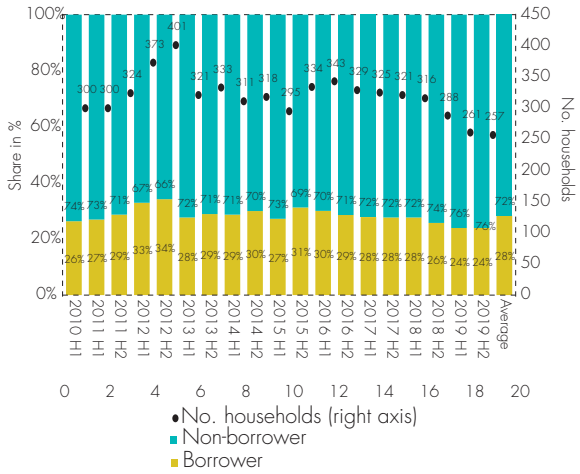
The probability to borrow during 2020 H1 is estimated as upwards compared with the previous period and the previous year, signalling a recovery of the demand for loans by households.

* *For more information about this survey see: https://www.bankofalbania.org/Financial Stability/Analysis and studies/Surveys/Survey on the financial situation and borrowing of households in Albaniai.html*

Households' debt burden remains at relatively adequate levels and shows a downward trend. The survey of households' financial and borrowing situation shows that around 24% of surveyed Albanian households have at least one debt to repay. This share has remained unchanged compared with the previous survey and has resulted in a slight decline compared with the previous year, but it remains 4 percentage points below the historical average (since 2010).

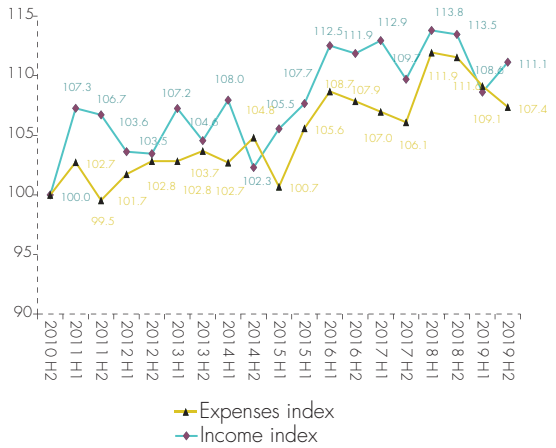
Households' debt burden remains at contained levels and the recovery of the demand for loans is a positive development.

Chart 8 Borrowing households
(in % to total responding households)



Source: Bank of Albania.

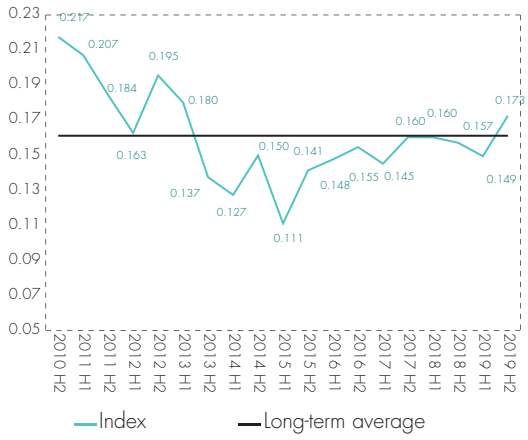
Chart 9 Borrowing households income and living expenses indices (2010=100)



Source: Bank of Albania.

Households' credit demand has shown recovery signals. Around 40% of responded households declared that they plan to borrow in the next six months. This share has increased compared to the results in the last two surveys. As a result, "the new borrowing planning/rollover index" has increased standing above its long-term average. In the group of households planning to take a new loan, around 63% of them are "new borrowers", meaning they do not have any debt to repay at the moment of interview.

Chart 10 New borrowing planning/rollover index



Source: Bank of Albania.

Chart 11 Households planning to borrow in the next six months

Source: Bank of Albania.

This share has increased in semi-annual and annual terms (by 4 percentage points respectively), supporting the positive expectations on new borrowing.

2.3.3 ENTERPRISES

Debt of enterprises is estimated at affordable levels, in terms of equity and income.
The more optimistic expectations for new borrowing in the short run represent a positive development.

The enterprises' debt burden is estimated at affordable levels and downward throughout the year, more pronounced for small and medium-sized enterprises. The total value of debt resulted approximately at half of the enterprise's equity, for 78% of borrowing enterprises, and equal to or higher than the value of equity for 22% of them. The debt/equity ratio resulted higher for large enterprises, with 23% of them declaring that this ratio is equal or exceeds the value of equity, implying a higher debt burden. By sector, debt burden is more pronounced in enterprises operating in services and in trade sectors.

Table 4 Share of enterprises whose debt value is equal or higher than equity, by sector

	Industry	Services	Construction	Trade
2018 H1	22.4%	19.8%	15.2%	20.2%
2018 H2	20.7%	14.9%	15.0%	29.6%
2019 H1	26.8%	18.5%	18.3%	28.8%
2019 H2	20.4%	28.0%	13.4%	26.5%

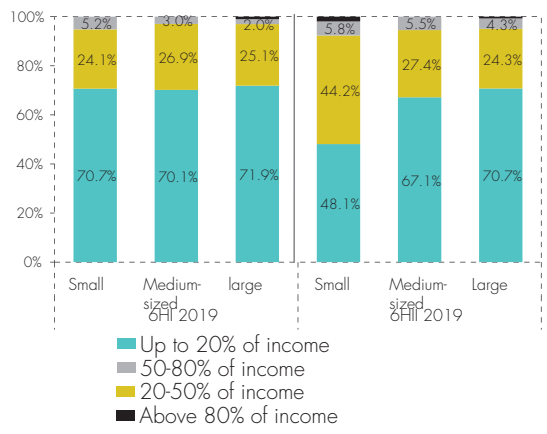
Source: Bank of Albania.

Most of borrowing enterprises (67%) declare that the loan repayment amounts to 20% of the enterprise's revenue and this share has decreased by 4.2 percentage points compared to the previous period. Debt payment seems to be more burdensome on small enterprises, with enterprises that report that it exceeds 20% of revenues accounting for 52% of the total of the group[19]; while for medium-sized and large enterprises, this share accounts for 33% and 29%, respectively. Asked if the debt repayment has changed during the period, most enterprises (94% of small enterprises, 92% of medium-sized enterprises and 93% of large ones) state that this repayment has not changed, while the rest resulted in net positive balances for small and large enterprises, showing an increase of this expenditure during the period, while it appears negative for medium-sized enterprises.

Enterprises' credit demand in the next six months, judging by their responses related to bank borrowing planning, has given upward signals. Around 48%

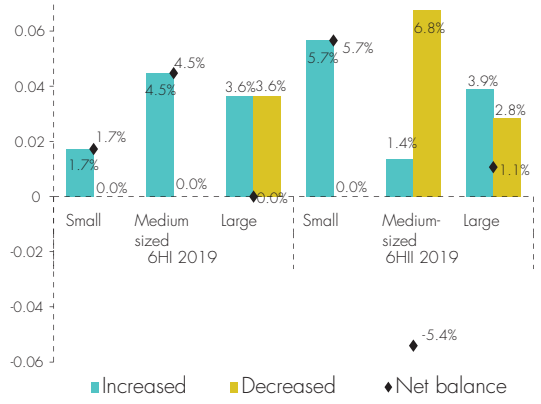
[19] *Calculated as the sum of weight for responses: "20-50% of total income","50-80% of total income" and "higher than 80% of total income".*

Chart 12 Enterprises by size and debt instalment/income ratio



Source: Bank of Albania.

Chart 13 Enterprises that declare a change in the debt instalment during the period

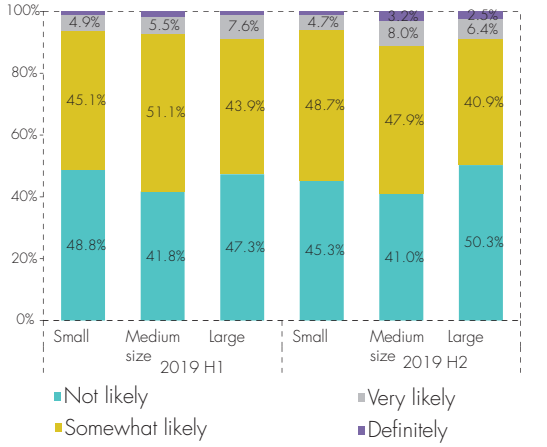


Source: Bank of Albania.

of responding enterprises declare that there is no possibility to demand a loan during the next period. Compared with the previous survey, this share has declined for small and medium-sized enterprises, but it increased for large enterprises. On the other hand, the share of small enterprises that affirm there is some possibility to take a loan in 2020 H1 has been increased, while the share of medium sized enterprises that declare there is a lot of possibility that such a thing happens is upwards. Also, all groups of enterprises, particularly medium-sized and large enterprises have recorded an increase in the alternative "it is certain", by appearing more optimistic in planning to borrow. This performance may signal an increase of credit demand in the short run.

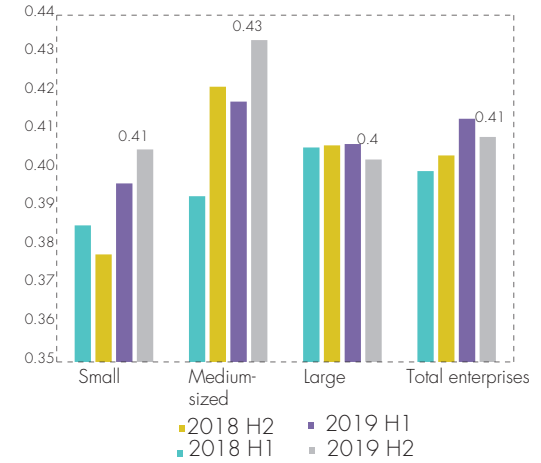
*BOX 2 SURVEY RESULTS ON THE FINANCIAL AND BORROWING SITUATION OF ENTERPRISES**

Chart 14 Enterprises planning to borrow in the next six months



Source: Bank of albania.

Chart 15 Bank borrowing planning index in the next six months



Source: Bank of albania.

This survey refers to developments in 2019 H2 and expectations for 2020 H1. This survey was conducted on a sample of around 1360 enterprises of various sizes, geographically located in various regions of the country and operating in the main sectors of the economy. 1111 enterprises or 82% of total enterprises participated in the survey by fully or partially responding to the questions of the survey.

During the period, surveyed enterprises report that competition and finding a market remain the main challenges of their activity. The significance of these factors is assessed as somewhat downward by small and medium-sized enterprises. Financing costs and availability of qualified staff have increased across all three groups of enterprises.

Sales and financial result during the period are assessed as upwards for medium-sized and large enterprises, and downwards for small enterprises, but improving compared with both previous surveys. All three enterprises' groups seem to have increased the efforts for expanding their activities, more pronounced for medium-sized and large enterprises. Expectations across all groups of enterprises remain positive related to the sales, financial result and the expansion of the activity, but they appear less optimistic compared with the previous period.

Over the period, more than half of total responding enterprises declare that they have financed their activity through sales. Reliance on this source alone has fallen for all three groups of enterprises, while the propensity to combine several sources of funding continues to have a considerable and expanded share during the period for all the three groups of enterprises.

Around 37% of total surveyed enterprises (overall 410 enterprises) declare that they are currently indebted. This share declined by 1.6 percentage points compared with 2019 H1 and by 5.2 percentage points compared with the previous year.

91% of borrowing enterprises responded that they used formal sources of borrowing (from banks and non-bank financial institutions), downwards by 4 percentage points compared with 2019 H1. Among them, around 86% of borrowing enterprises declare that they have turned only to the banking sector to borrow. Around 4% of enterprises affirm borrowing from only informal sources. 5% of enterprises have used a combination of both formal and informal sources.

Borrowing by enterprises is mainly used to conduct long-term investments (around 45% of total responding enterprises) and to face current expenses (30% of responding enterprises). During the period, borrowing in lek by 57% of small enterprises, 56% of medium-sized enterprises and 36% of large enterprises, while the rest is in foreign currency and/or in combined currency. Borrowing in foreign currency (mainly in euro) was used more by large enterprises (54%, exceeding the domestic currency, and less by small and medium-sized enterprises (35% and 38%, respectively).

Most enterprises consider the current level of borrowing to fund the activity as adequate. This share is lower for small enterprises and slightly lower for large enterprises, while it is upward for medium-sized enterprises.

Bank borrowing continues to be assessed between "normal" and "difficult". Compared with 2019 H1, the level of borrowing difficulty is assessed as

mitigated for large enterprises and increasing for small enterprises. The importance of relationships with banks is assessed between "important" and "necessary", but somewhat downwards across all groups of enterprises, more pronounced for small enterprises.

* *For more information for this survey see: https://www.bankofalbania.org/Financial stability/Analyses and studies/Surveys/Survey on Enterprises' Financial situation and borrowing in Albania.html*

The results of the analysis on the number of applications for loan and the rejection rate on them from the banking sector support the positive expectations on the new borrowing. Against a high demand, mainly from "households", banking sector's supply appears less supporting towards them. This is reflected on the high number of rejections, compared with the number of rejections to "small and medium-sized enterprises" and to "other enterprises". Nevertheless, the analysis by structure identifies a different approach of domestic banks from foreign banks. More detailed information on the applications for loans and the respective rejections is presented following.

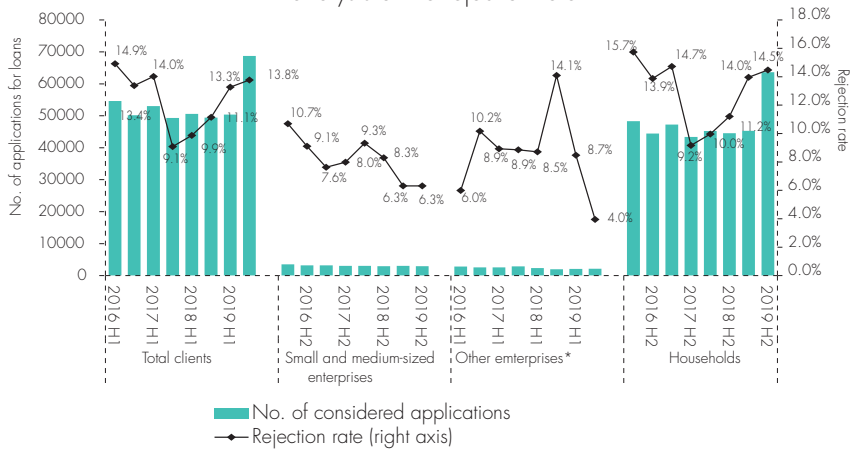
BOX 3 NUMBER OF LOAN APPLICATIONS AND ANALYSIS OF THE REJECTION RATE, 2019 H2

During the period, banks report that they screened overall 68,751 loan applications, with around 7% from "enterprises" (2,959 applications from "small and medium-size enterprises (SMEs)" and 2,149 applications from "other enterprises"), and 93% from "households" (63,643 applications). This structure has been shifted in favour of "households" compared with the two previous periods.*

*Total number of applications resulted around 36% higher compared to the previous period, driven completely by the segment of "households" (half-yearly increase by 41%), while the segment of "enterprises" in total has not changed (the share of "SMEs" fell by around 3%, while "other enterprises" increased by 4%). In annual terms, total number of screened applications increased by 39%, mainly driven from the segment of "households" (up 43%, and less from the segment of "enterprises" (total increase around 5%**.*

From the total applications screened during the period, around 14% of them were rejected by banks and this rate has continued the upward trend observed since 2017 H2, but at a slower pace. The increase of the rejection rate during the period seems to remain oriented towards the "households" segment, whereas for "small and medium-sized enterprises" and "other enterprises", this rate has dropped significantly.

Chart 16 Performance of the considered applications' number and the analysis of the rejection rate

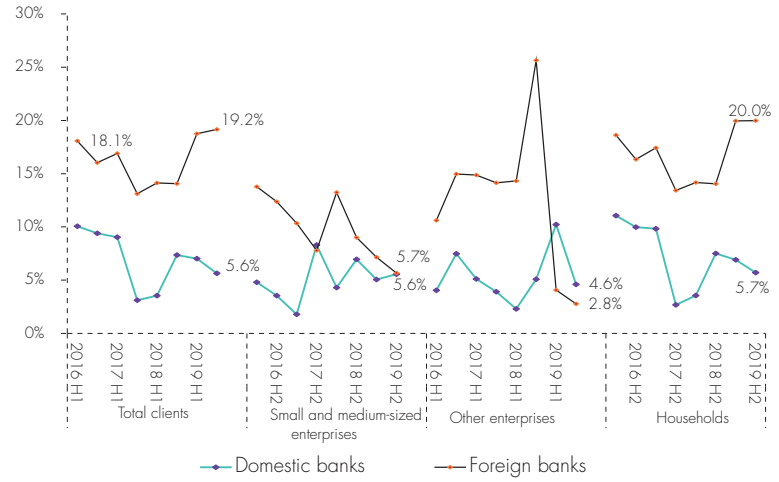


Source: Bank of Albania.

The analysis of the rejection rate by capital origin shows that, during the last years, this rate has been continuously lower for domestic banks compared with foreign banks. For the period under review, it appears that lending trend of both domestic and foreign banks continued to perform on different directions. Thus, the total number of rejected applications for loans by foreign-owned banks continued to increase at 19.2% (from 18.7% registered in the previous period), whereas for domestic banks the rate declined at 5.6% (from 7% registered in the previous period).

By customer segment, foreign-owned banks remained more rejecting to applications for loans to "households", and more accepting to applications from "SMEs" and "other enterprises". On the other hand, the rejection rate of domestic banks declined for "households" segment and "other enterprises", and increased somewhat for small and medium-sized enterprises.

Chart 17 The rejection rate for loans



Source: Bank of Albania.

Overall, the above analysis reveals that the number of applications screened by banks during 2019 H2 points to an upward credit demand from the segment of "households" while their preference to credit "large enterprises" continued to increase.

* *This group mainly consists in large enterprises and any type of other enterprises that is not classified as "small and medium-sized enterprises".*

** *Annual growth by 1% from "small and medium-sized enterprises" and annual growth by around 10% from "other enterprises, respectively.*