



BANK LENDING SURVEY

2023 Q2

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July 2023

MONETARY POLICY DEPARTMENT

General Notes

The Bank Lending Survey (BLS) questionnaire aims to collect the commercial banks' opinions related to developments in the past three months on credit supply and demand, and their expectations for the next three months. The BLS provides a summary of commercial banks' perceptions of changes in credit supply conditions, - illustrated by credit standards, terms and conditions and approved loans -, and on changes in loan demand, from both enterprises and households. This analysis is based on responds from ten surveyed banks, which own the majority of loan stock for the private sector.

BLS questionnaire in principle follows the ECB's framework, but it is modified allowing for some changes reflecting the features of domestic credit market. The time series of BLS indicators are tested for seasonality, following the relevant statistical methods. The time series displaying seasonality are adjusted for this effect and have replaced the existing series accordingly. For more detailed information on the BLS questionnaire, a glossary of terms, a short description on the importance of this survey, some methodological aspects and the time series for analysis purpose, please follow the link:

https://www.bankofalbania.org/Monetary_Policy/Surveys_11282/Bank_Lending_Survey/

OVERVIEW OF RESULTS¹

Lending policies framework to enterprises remained unchanged in the second quarter of the year, in line with banks' expectations of the previous quarter. Despite the unchanged credit standards, the continuous prudence of banks in lending was reflected in the tightening of terms and conditions for new loans coupled with higher rejection rates for loans to enterprises. The tighter supply conditions applied to loans for enterprises were backed by the perceived risk on the economic outlook and its possible implications on the financial balances of enterprises.

Unlike enterprises, lending conditions to households were more favourable in the quarter under review. Higher pressure from competition in the banking system coupled with the current developments in housing market and its prospects continued to guide banks' decision-making towards lending to households.

Enterprises displayed an increased, though fragmented, loan demand in 2023 Q2. Banks reported an increased loan demand only from large enterprises and for loans to meet liquidity needs. Meanwhile, the loan demand of enterprises to finance planned investments has been contained mainly on the back of both interest rates performance and internal financing deployment.

On the other hand, the stimulating lending policy for households, launched a quarter ago, seems to have pushed up the loan demand for both house purchase and consumption funding. Banks reported to have mitigated one of the hindering factors to the expansion of credit to households, - the interest rate -, by reducing their margins, mainly on foreign currency-denominated loans.

In the third quarter of 2023, the prospect on credit supply conditions is expected to remain unchanged for loans to enterprises and to ease further on loans to households. On the other side, loan demand from enterprises is expected to be higher for both meeting liquidity needs and for financing investments, while being sluggish across small and medium-sized enterprises. Households' loan demand is expected to continue to be high, for both house purchase loans and consumption financing.

¹ Refer to the glossary at the end of the material for the terminology used in this analysis.

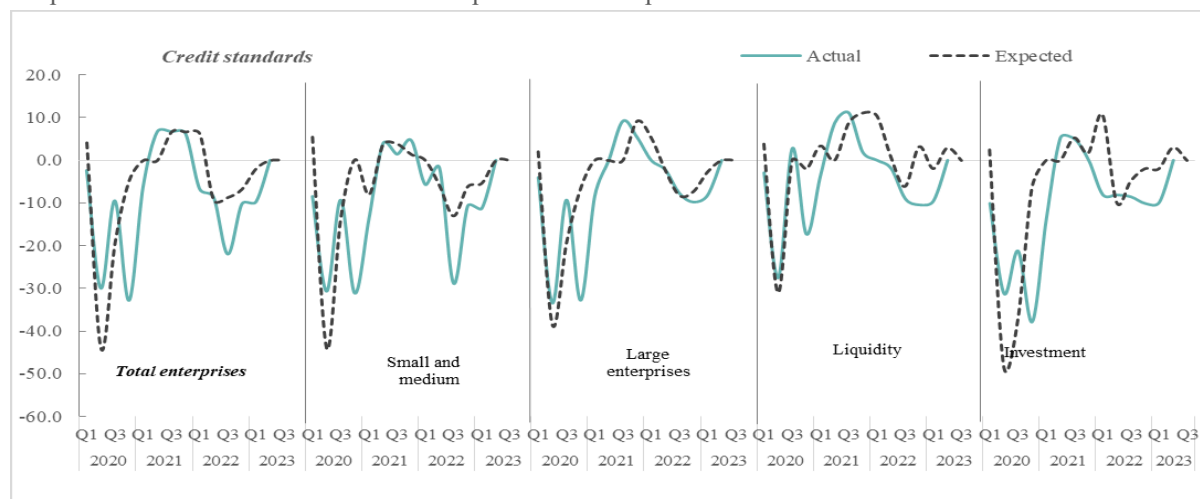
CREDIT SUPPLY CONDITIONS AND DEMAND FOR LOANS

1. LOANS TO ENTERPRISES

1.1. Credit standards

Credit standards for loans to enterprises remained unchanged in the second quarter of 2023. Unchanged credit standards were reported across both segments, SMEs and large enterprises, as well as on loans for meeting liquidity needs and for financing investments.

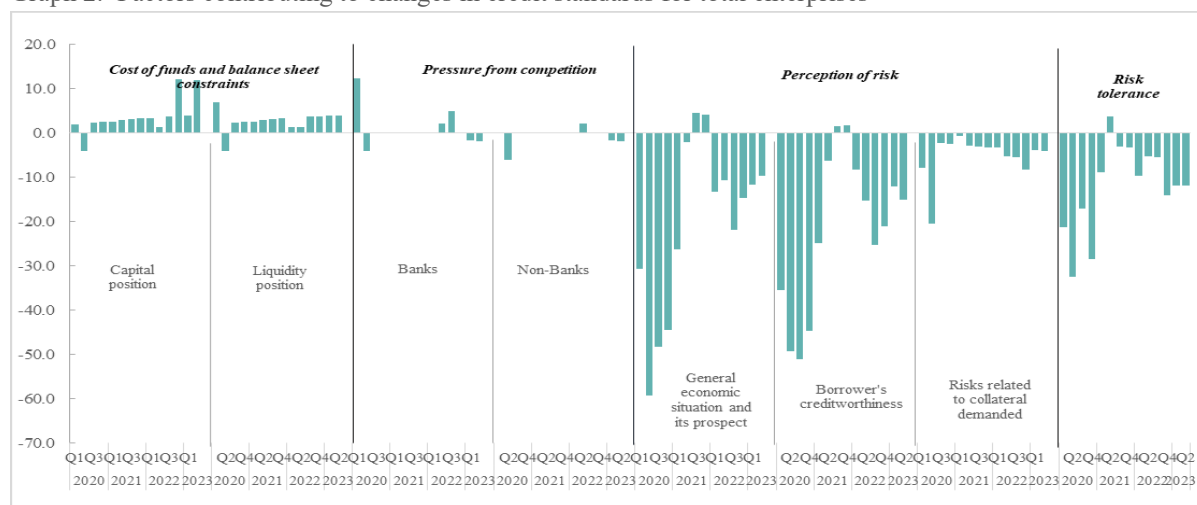
Graph 1. Credit standards for loans to enterprises and anticipation for the next three months¹



¹: Calculated as net percentages. Positive values indicate eased credit standards, whereas negative ones indicate tightened credit standards.
Source: Bank of Albania.

On the easing side of credit standards to enterprises were reported the costs of funds and lower balance sheets constraints. On the tightened side of credit standards were reported the banks' risk perception. In more concrete terms, the perceived risk from borrowers' credit-worthiness, from current economic situation and its prospect, and from the risk on the demanded collateral, were the drivers behind tightened credit standards. Also, banks' lower tolerance toward risk was another factor triggering tightened credit standards for loans to enterprises.

Graph 2. Factors contributing to changes in credit standards for total enterprises²



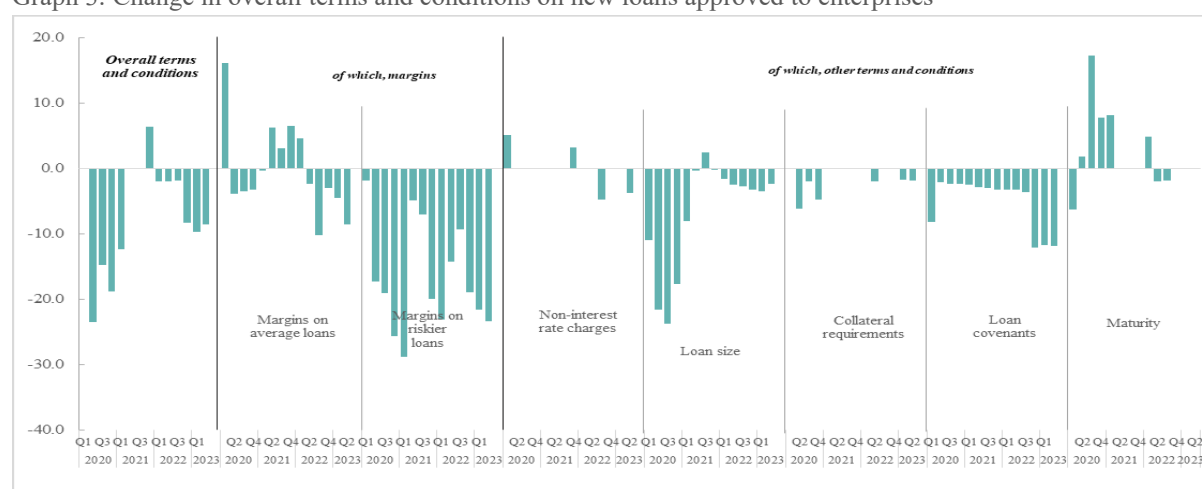
²: Calculated as net percentages. Positive values indicate that the factor contributed to the easing of credit standards, whereas negative ones to the tightening of credit standards.
Source: Bank of Albania.

In the third quarter of 2023, banks expect the credit standards to remain unchanged, both in terms of enterprise size and in terms of loans' purpose of use (Chart 1).

1.2. Terms and conditions

Overall terms and conditions on new loans to enterprises tightened in 2023 Q2. The tightening of overall terms and conditions on loans was achieved due to both price and non-price components. Thus, banks reported higher margins, mainly on riskier loans, carried out higher loan covenants; increased charges; reduced the loan size to enterprises; and imposed higher collateral requirements in relation to disbursed loan.

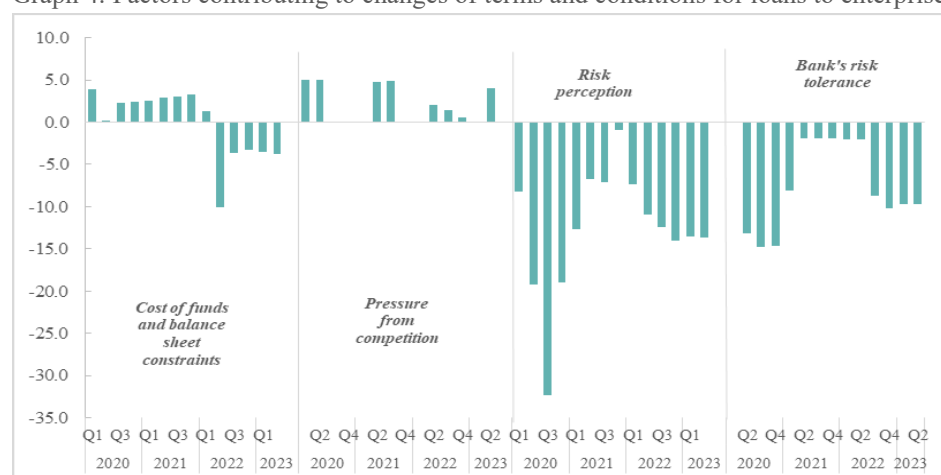
Graph 3. Change in overall terms and conditions on new loans approved to enterprises³



³: Calculated as net percentages. Positive values indicate eased terms and conditions, whereas negative ones tightened terms and conditions. Source: Bank of Albania.

Following the banks' opinion, the higher risk perception and the lower tolerance toward risk backed the tightening of terms and conditions on loans to enterprises in 2023 Q2. Meanwhile, pressure from competition was reported as the factor contributing on the easing side of terms and conditions on loans to enterprises.

Graph 4. Factors contributing to changes of terms and conditions for loans to enterprises⁴

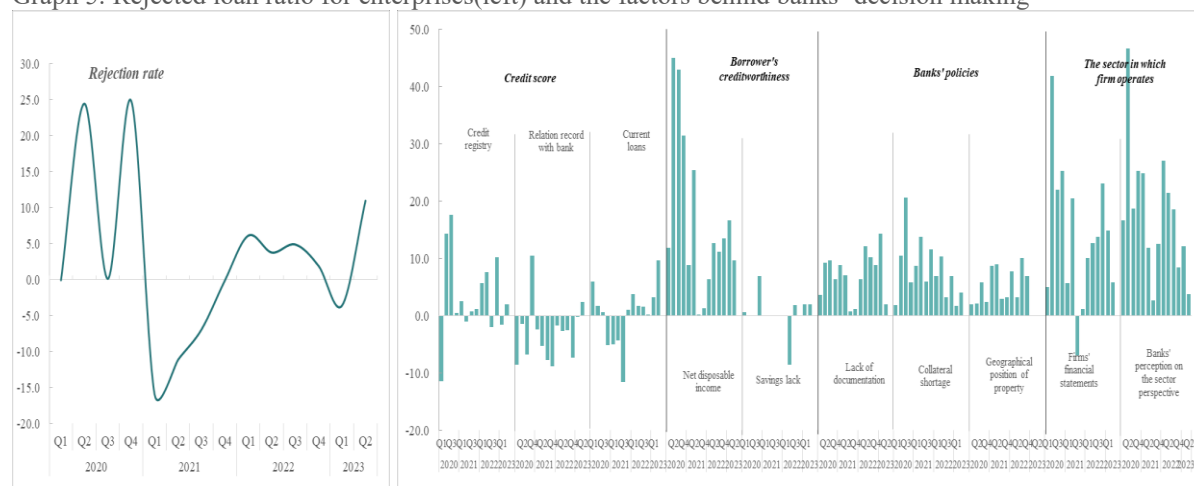


⁴: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions. Source: Bank of Albania.

1.3. Loan approval rates

Banks reported lower loan approval rate for enterprises in the second quarter of 2023. Almost all factors affecting the rejection rate for enterprises' loans led to higher rejection rates. Net disposable income, banks perception on the risk related to the sectoral perspective and enterprises' financial situation, as well as the current loan status, led to higher rejected loan ratio.

Graph 5. Rejected loan ratio for enterprises(left) and the factors behind banks' decision making⁵



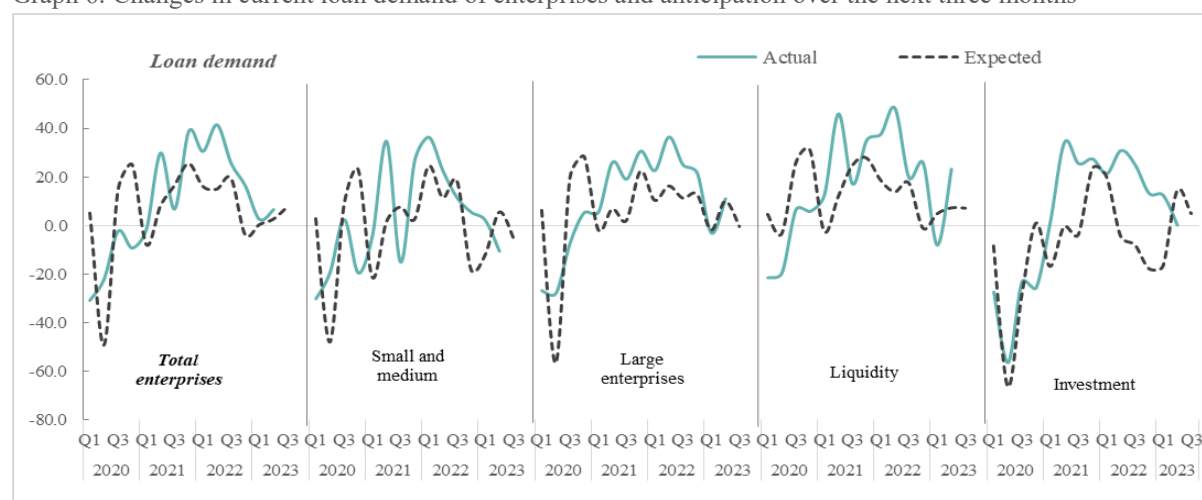
⁵: Positive values show an increase in rejection rates to the total loan application (left-hand chart). Also, positive values indicate that the factor has contributed to an increase of rejection rate (right-hand chart), while the negative ones to their reduction.

Source: Bank of Albania.

1.4. Demand for loans

Banks reported a higher loan demand from enterprises was reported upward in the second quarter as well. Loan demand was reported higher from large enterprises and for meeting liquidity needs. Meanwhile, banks reported a lower loan demand from small and medium-sized enterprises.

Graph 6. Changes in current loan demand of enterprises and anticipation over the next three months⁶



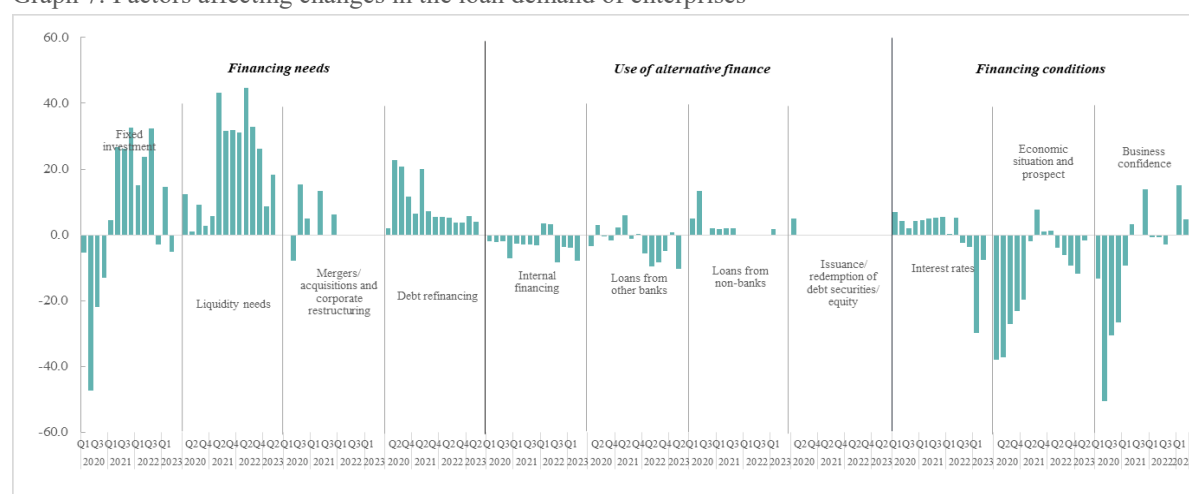
⁶: Calculated as net percentages. Positive values indicate an increase in loan demand, whereas negative ones a decrease in loan demand.

Source: Bank of Albania.

On banks' view, higher loan demand was driven by higher financing needs for inventories and working capital, as well as for the refinancing of existing debts. Likewise, the improved business confidence was reported as a factor contributing to the expanded loan demand. On the other hand, internal financing

deployment, the overall level of interest rates, the domestic economic situation and its prospect as well as the lower needs for financing investments, were reported as factors driving downwards the loan demand from enterprises in the second quarter of 2023.

Graph 7. Factors affecting changes in the loan demand of enterprises⁷



⁷: Calculated as net percentages. Positive values indicate that the factor has contributed to an increase of loan demand, while the negative ones to a decrease of loan demand.

Source: Bank of Albania.

In 2023 Q3, banks anticipate higher loan demand from enterprises both for financing investments and for meeting the liquidity needs. In terms of enterprise size, the loan demand is expected to be lower across the segment of small and medium-sized enterprises (Chart 6).

2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standard for loans to households were eased in 2023 Q2. The easing of credit standards was observed in both categories of the purpose of the loan, in house purchase loans and consumer loans as well.

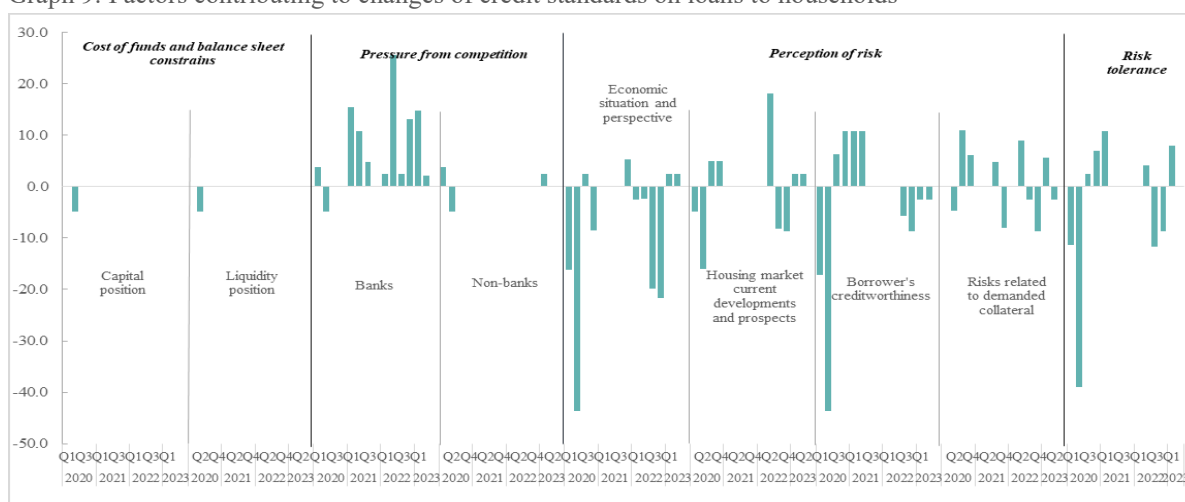
Graph 8. Change in credit standards for loans to households and anticipation for the next three month⁸



⁸: Calculated as net percentages. Positive values indicate eased credit standards, whereas negative ones indicate tightened credit standards. Source: Bank of Albania.

The main factors leading to eased credit standards on loans to households were the increased pressure from competition in the banking system, and perception from banks related to the current and expected developments in the housing market. The perceived risk related to the borrowers' credit-worthiness was reported as the main factor contributing on the tightening side of credit standards.

Graph 9. Factors contributing to changes of credit standards on loans to households⁹



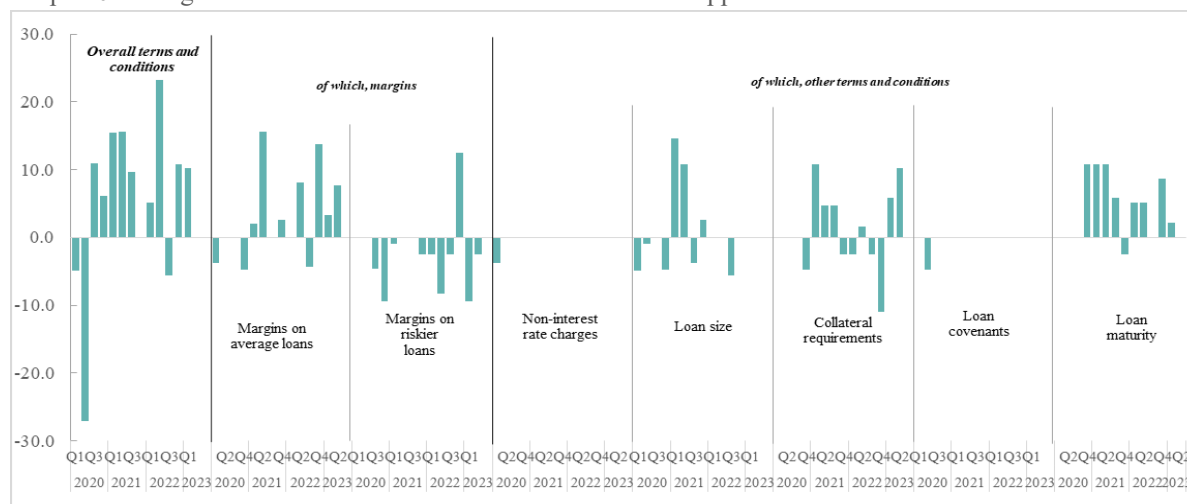
⁹: Calculated as net percentages. Positive values indicate that the factor contributed to the easing of credit standards, whereas negative ones to the tightening of credit standards. Source: Bank of Albania.

Banks expect to ease credit standards for loans to households in the third quarter of 2023, on both house purchase loans and consumer loans (Chart 8).

2.2. Terms and conditions

Overall terms and conditions on loans to households remained almost unchanged in the second quarter of the year. The banks reported lower margins on average loans, whereas on riskier loans they were reported as higher. Also, banks set lower collateral requirements, thus impacting on the easing side of credit terms and conditions to households. Other non-price components shaping terms and conditions were reported unchanged.

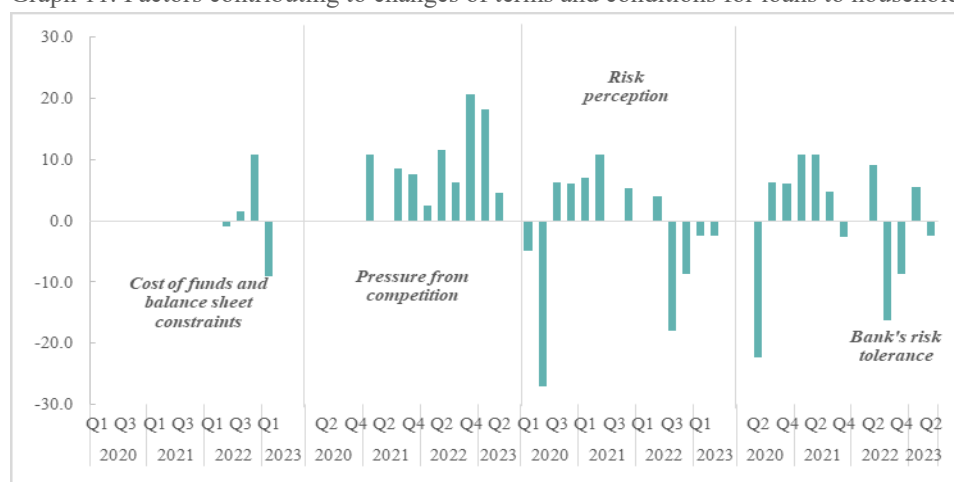
Graph 10. Change in overall terms and conditions on new loans approved to households¹⁰



¹⁰: Calculated as net percentages. Positive values indicate eased terms and conditions, whereas negative ones tightened terms and conditions. Source: Bank of Albania.

The higher competition in the banking system, as well as the individual policies of some banks to reduce margins, as a result of the increase in reference rates on loans in foreign currency, were reported as factors behind eased credit terms and conditions. Banks displayed a lower risk tolerance in the second quarter.

Graph 11. Factors contributing to changes of terms and conditions for loans to households¹¹

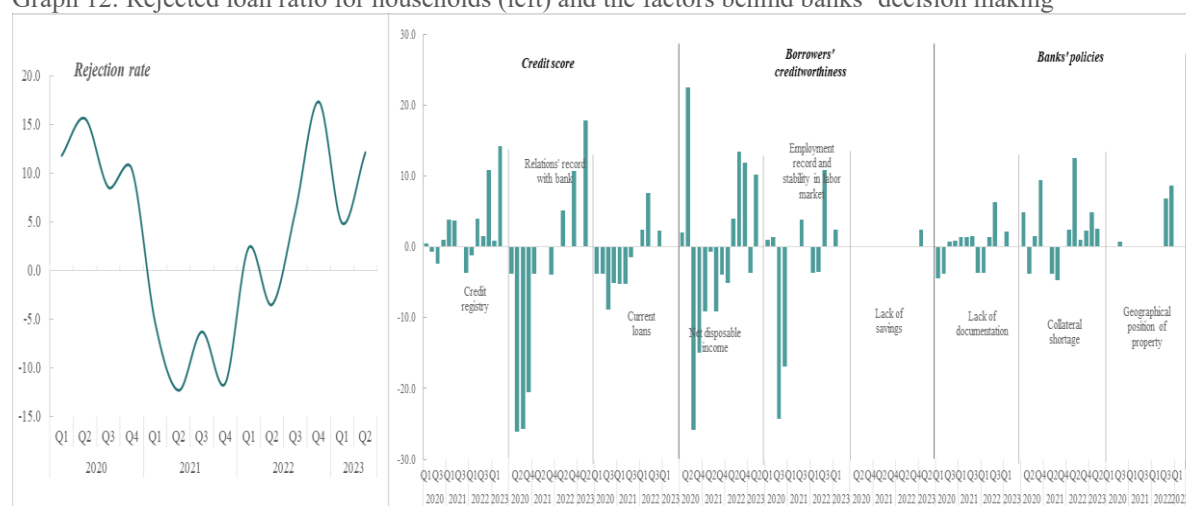


¹¹: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions. Source: Bank of Albania.

2.3. Loan approval rates

Banks reported lower loan approval rates for households in the second quarter of 2023. The higher ratio of rejected loans in this quarter was mainly driven by factors that reflect the credit score of households, such as history of relations with the bank and the history from the credit registry. Also, another factor that led to the increase in the loan rejection rates in this quarter were the net disposable income. Other factors remained unchanged.

Graph 12. Rejected loan ratio for households (left) and the factors behind banks' decision making¹²

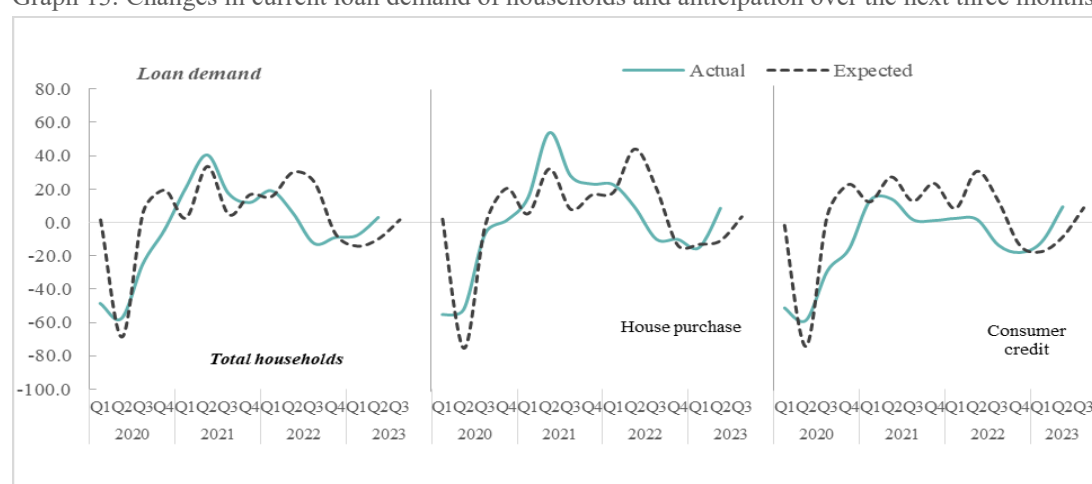


¹²: Positive values show an increase in rejection rates to the total loan application (left-hand chart). Also, positive values indicate that the factor has contributed to an increase of rejection rate (right-hand chart), while the negative ones to their reduction.
Source: Bank of Albania.

2.4. Demand for loans

Loan demand from households was perceived higher in 2023 Q2, for both house purchase loans and consumer loans.

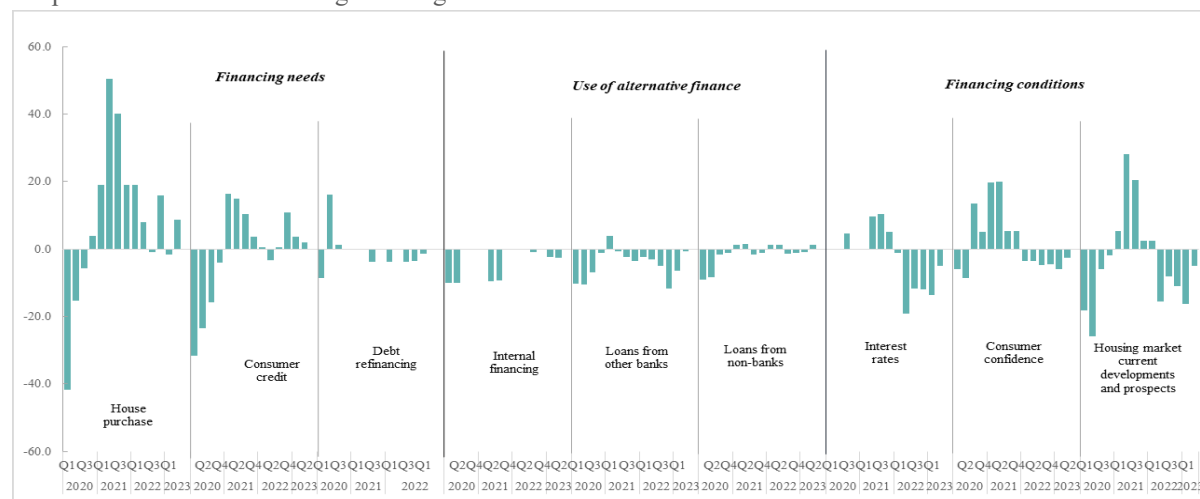
Graph 13. Changes in current loan demand of households and anticipation over the next three months¹³



¹³: Calculated as net percentages. Positive values indicate an increase in loan demand, whereas negative ones a decrease in loan demand.
Source: Bank of Albania.

On banks' view, higher demand from households in this quarter was mainly attributed to the increased needs for loans to finance both the house purchase and consumption. Meanwhile, the current and expected developments in the housing market, the overall level of interest rates, consumer confidence, and the internal financing deployment, were reported as factors with negative impact on loan demand.

Graph 14. Factors contributing to changes in the loan demand of households¹⁴



¹⁴: Calculated as net percentages. Positive values indicate that the factor has contributed to an increase of loan demand, while the negative ones to a decrease of loan demand.

Source: Bank of Albania.

Banks expect the loan demand in 2023 Q3, to increase, both in regard of financing consumption and house purchase loans (Chart 13).