



BANK LENDING SURVEY

2021 Q3

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October 2021

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 on the changes in credit supply conditions - illustrated by credit standards, terms and conditions and approved loans -, and in loan demand by 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 practice implemented by ECB, but it is modified allowing for some changes that reflect the specifications and features of Albanian credit market. Also, alternatively to worldwide practices, 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 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 RESULTS

On commercial banks' view credit supply conditions improved in 2021 Q3. The indicators illustrating credit supply conditions - standards, terms and conditions, as well as loan rejection rates - improved, for both economic agents: enterprises and households. At the same time, loan demand from both enterprises and households was perceived higher.

According to banks' opinion, credit standards on loans to enterprises continued to ease in the third quarter of 2021, as well. Loan approval criteria based on banks' internal guidelines, were more relaxed for all purposes of loans' use: for investment purposes and for meeting the liquidity needs. The improved macroeconomic framework in Albania supported the decision making of banks in rejecting a lower number of loan applications from enterprises in this quarter. Likewise, enterprises, mainly large ones, had a higher loan demand, to finance their planned investments and to meet their liquidity needs.

Banks reported the adoption of a similar eased lending policy on loans to households, as well, in the third quarter of 2021. Thus, credit standards, terms and conditions were eased mainly on loans for house purchases. At the same time, banks reported a reduction in the rejection rate for household loans. Higher household's loan demand was noted in this quarter, more pronounced for house purchases. Augmented households' loan demand, similarly to enterprises, alongside the increased financing needs, owed to improvement of macroeconomic, financial and confidence indicators.

On banks' view, credit supply conditions and loan demand in Q4 is expected to follow the same stance as in 2021 Q3. Hence, banks expect to continue the easing stance of credit standards on loans to both enterprises and households. Alongside with this lending policy, loan demand from both enterprises and households, is estimated to be higher. Augmented loan demand from both economic agents is expected to be broadly based in terms of loans' purpose of use.

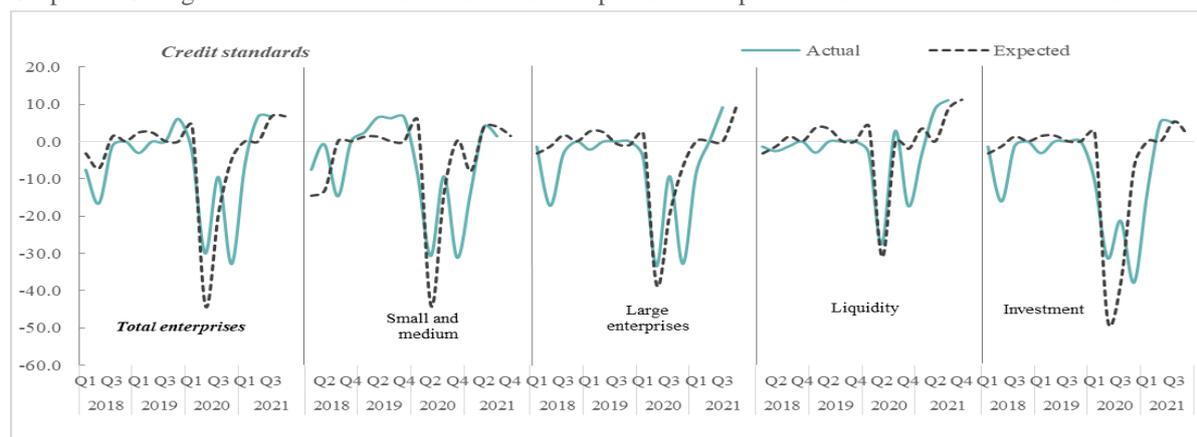
CREDIT SUPPLY CONDITIONS AND DEMAND FOR LOANS

1. LOANS TO ENTERPRISES

1.1. Credit standards

Credit standards for loans to enterprises eased in 2021 Q3. Eased credit standards were reported across firms' size: SMEs, and large enterprises. Also, credit standards eased for both loan's purpose of use, investment size loans and loans for meeting liquidity needs.

Graph 1. Change in credit standards for loans to enterprises and expectations for the next three months¹

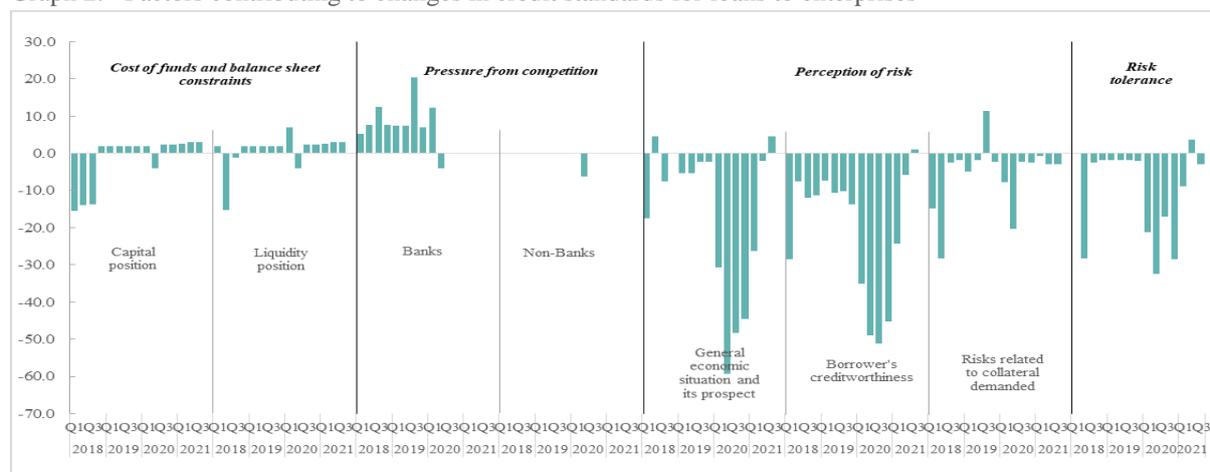


¹: Calculated as net percentages. Positive values indicate eased credit standards, whereas negative ones indicate tightened credit standards.

Source: Bank of Albania.

Eased credit standards to enterprises was related to lower risk perceived by banks regarding the current economic situation and its prospect, as well as to the enterprises' creditworthiness. Also, economic recovery in our trading partners had an easing effect on credit standards. Lower risk tolerance and the risk related to demanded collateral had a slight net tightening impact on credit standards. However, the negative balances of these indicators were below their historical averages.

Graph 2. Factors contributing to changes in credit standards for loans to 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.

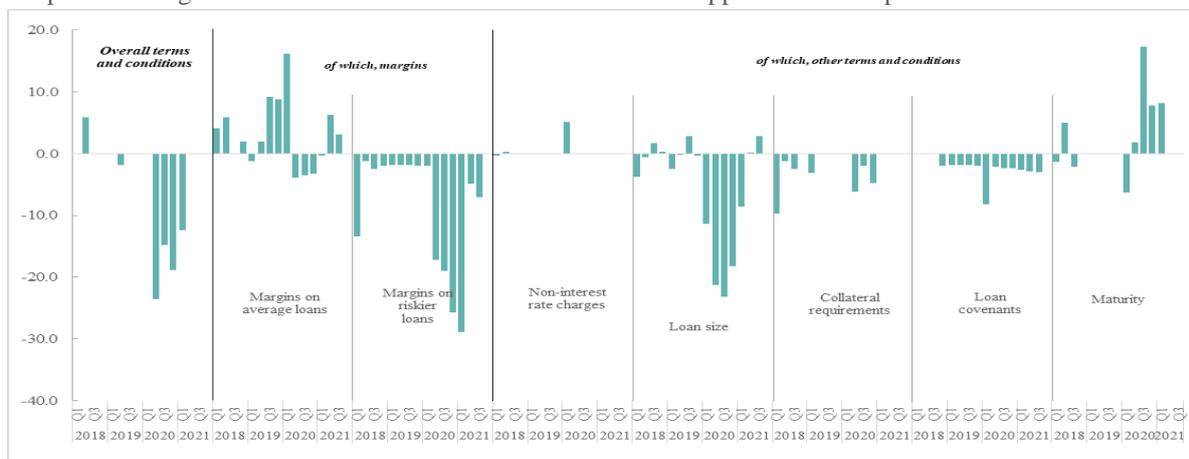
Source: Bank of Albania.

Credit standards on loans to enterprises are expected to ease in the fourth quarter of 2021 (*Graph 1*). Banks expect to keep eased credit standards on loans for investment purposes and for liquidity needs. The same approach is expected to be followed across the firms' size: for SMEs and for large enterprises.

1.2. Terms and conditions

Overall terms and conditions on new loans to enterprises remained unchanged in 2021 Q3. Margins on average loans narrowed in net terms, whereas margins on riskier loans widened moderately. On the non-price terms and conditions side, the increase in the loan size to enterprises offset the negative effect from loan covenants. The other non-price factors were reported unchanged from the previous quarter.

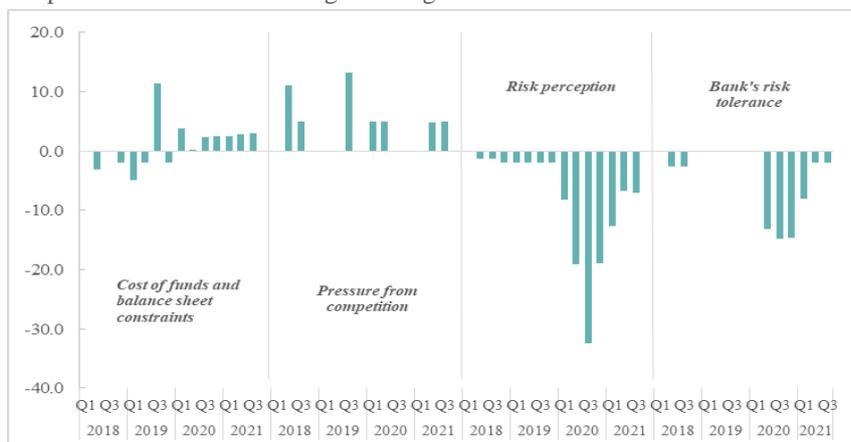
Graph 3. Change in overall terms and conditions on new loans approved to enterprises³



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 competition in the banking system and the lower costs of funds and balance sheet constraints, had an easing impact on terms and conditions for loans to enterprises. Contrary, the risk perception and banks' risk tolerance had a net tightening effect on overall terms and conditions for loans to enterprises.

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

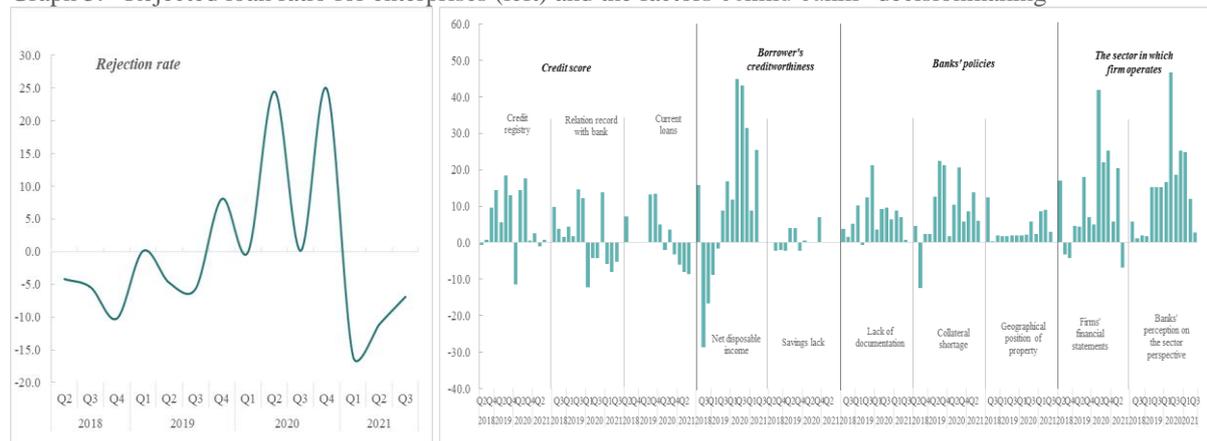


⁴: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions. Source: Bank of Albania.

1.3. Loan approval rates

Banks reported higher loan approval rate for enterprises in the third quarter of 2021. Banks stated a net decrease in the share of rejected applications to the total loan applications by firms in 2021 Q3. The credit score – such as relation record with banks and the current loan status –, and firms’ financial statements were the main drivers to the net fall of rejection rates. Collateral shortage, banks perception for the sectorial perspective and geographical position of the property had an increasing effect to the rejected loans.

Graph 5. Rejected loan ratio for enterprises (left) and the factors behind banks’ decisionmaking⁵

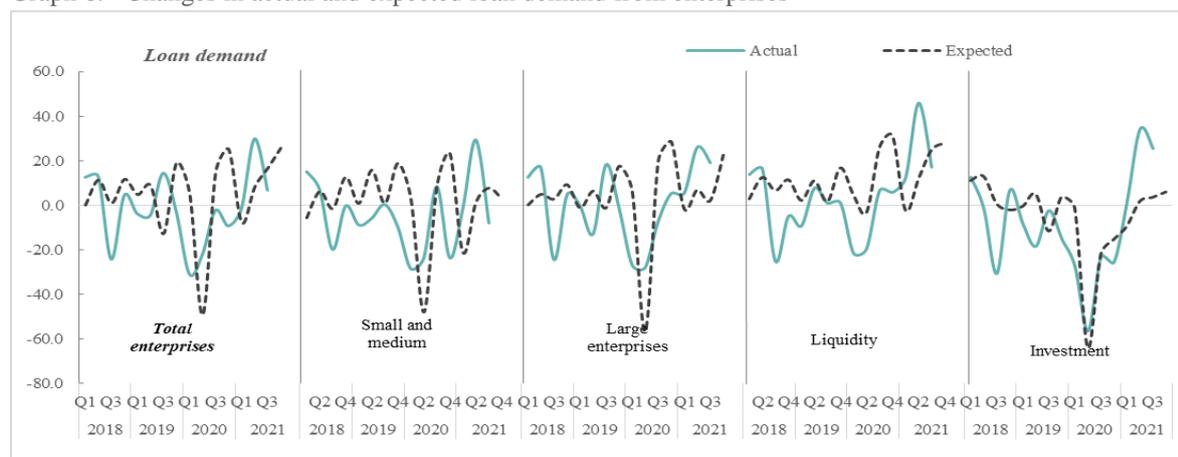


⁵: Positive values show an increase in rejection rates (left). Also, positive values show that the factor has a positive impact on the rejection rate change (right-hand chart), while the negative values indicate the vice versa.
Source: Bank of Albania.

1.4. Demand for loans

Banks reported a higher loan demand from enterprises in the third quarter of 2021. Loan demand was higher from large enterprises, while it displayed a net decrease from SMEs. In terms of loans’ purpose of use, the demand was perceived higher for investment purposes as well as for liquidity needs.

Graph 6. Changes in actual and expected loan demand from enterprises⁶

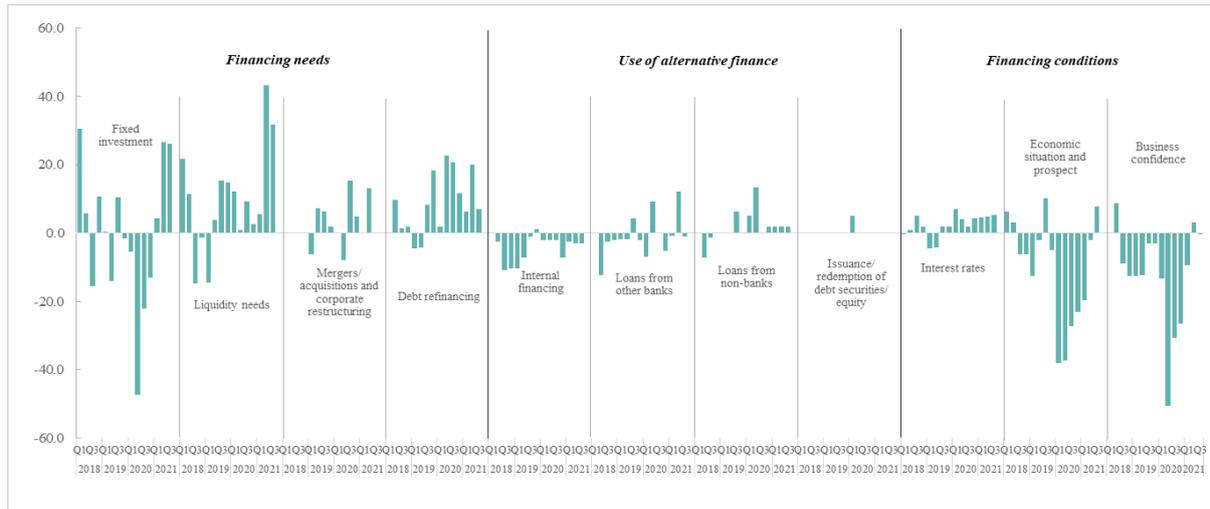


⁶: Calculated as net percentages. Positive values indicate an increase in loan demand, whereas negative ones a decrease in loan demand.
Source: Bank of Albania.

On banks’ view, higher needs to finance firms’ liquidity requirements and fixed investment, as well as their existing debt refinancing contributed to increased loan demand from enterprises. At the same time, improved financing conditions - driven by the macroeconomic situation and its outlook, the

overall level of interest rates and the business confidence -, had a positive impact on the loan demand during the third quarter of 2021. Internal financing deployment and loans from other banks were the only factors having a negative impact on loan demand in net terms.

Graph 7. Factors contributing to the changes in loan demand from 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.

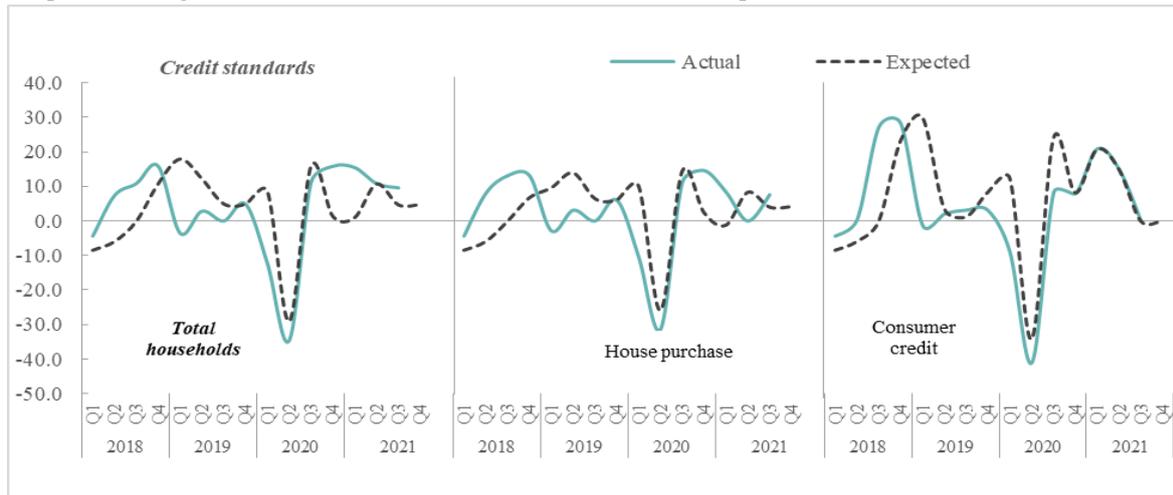
In 2021 Q4, banks anticipate higher loan demand from enterprises, both from SMEs and large enterprises ([Chart 6](#)). Loan demand for investment and liquidity needs is expected to increase in the fourth quarter of 2021.

2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households kept easing in the third quarter of 2021. Apparently, the easing of credit standards was recorded on loans for house purchases, whereas in line with expectations, the credit standards on consumer loans were remained unchanged.

Graph 8. Change in credit standards for loans to households and expectations for the next three months ⁸

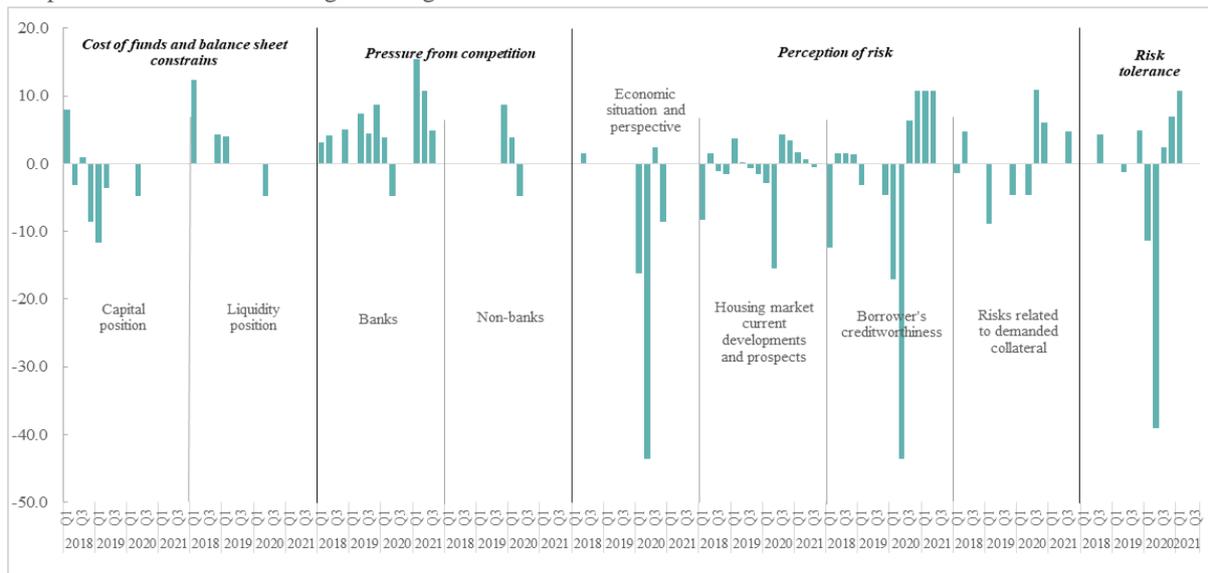


⁸: Calculated as net percentages. Positive values indicate eased credit standards, whereas negative ones indicate tightened credit standards.

Source: Bank of Albania.

Credit standards on households' loans were eased due to higher competition in the banking system, and lower risk perception from banks related to demanded collateral.

Graph 9. Factors contributing to changes in credit standards for loans to households ⁹



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.

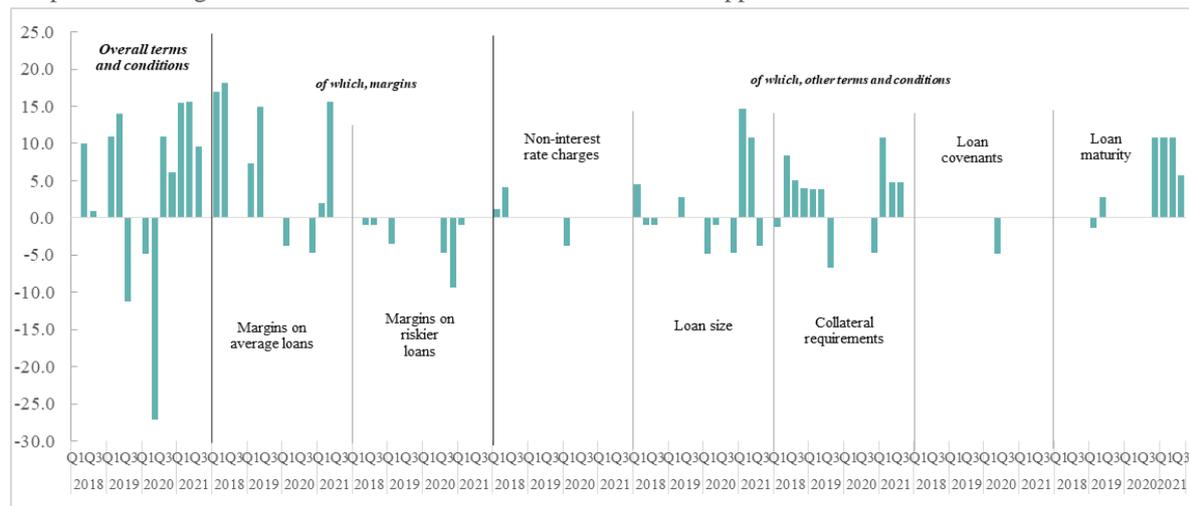
Source: Bank of Albania.

Banks expect to continue the easing of credit standards to households in the last quarter of 2021, mainly on house purchase loans (*Graph 8*).

2.2. Terms and conditions

Overall terms and conditions on loans to households continued to ease in 2021 Q3. The easing of credit terms and conditions for loans to households was attained due to non-price factors, as margins on both average loans and riskier loans were kept unchanged. Easing impact on the non-price terms and conditions was achieved due to lower collateral requirements, and higher loan maturity.

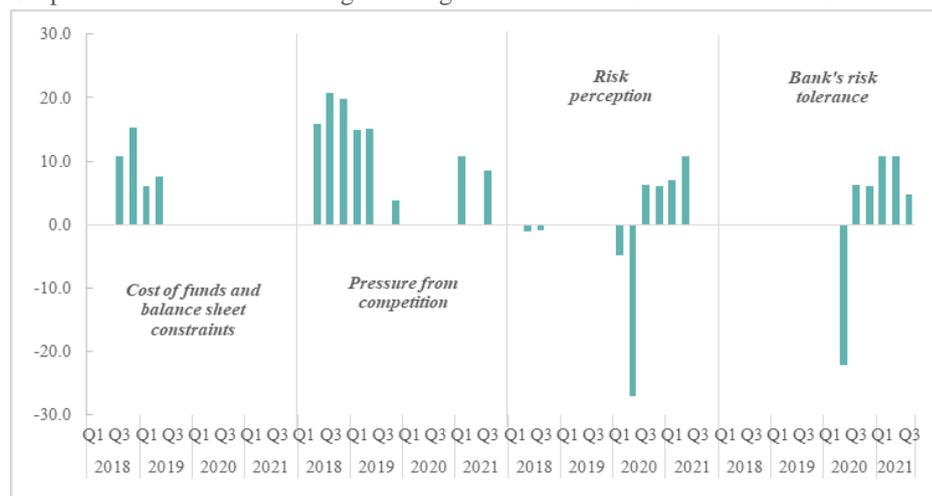
Graph 10. Change in overall terms and conditions on new loans approved to households¹⁰



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

The factors behind the eased credit terms and conditions were higher competition from banking system, and increased banks' risk tolerance.

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



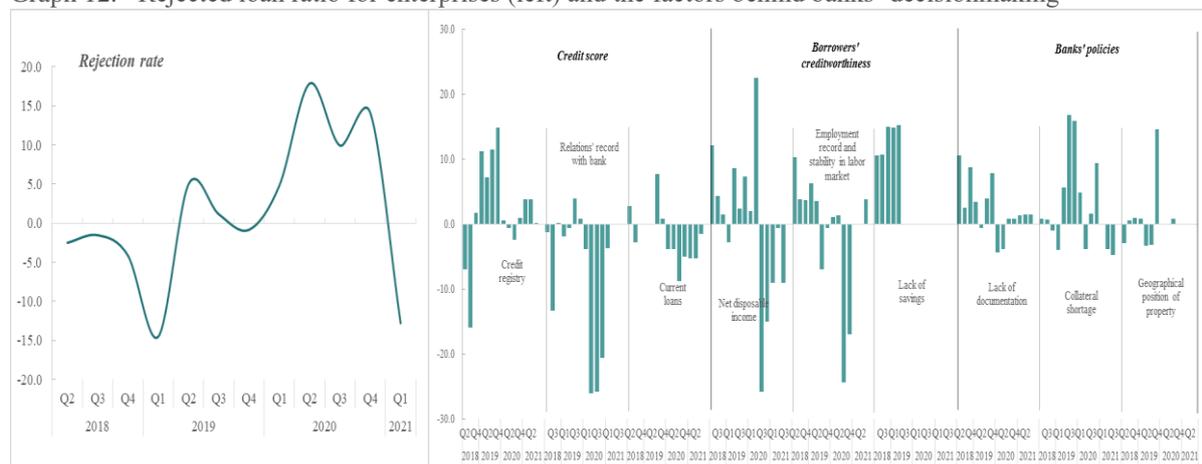
¹¹: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions.

Source: Bank of Albania.

2.3. Loan approval rates

Banks reported higher loan approval rates for households. Loan rejection rate for households was lower in 2021 Q3. Net disposable income, banks' policies related to collateral demanded, and households' credit score supported the fall in the rejection rates. On the other side, employment records and the stability in the labour market and somewhat a lack in the documentations required for loan approvals, had a positive impact on net terms in the rejection rates.

Graph 12. Rejected loan ratio for enterprises (left) and the factors behind banks' decisionmaking¹²



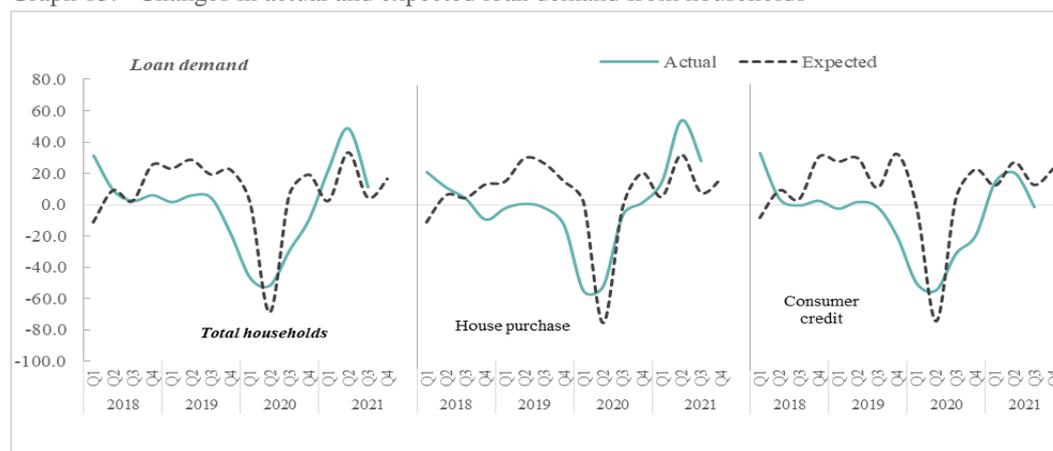
¹²: Positive values show an increase in rejection rates (left). Also, positive values show that the factor has a positive impact on the rejection rate change (right-hand chart), while the negative values indicate the vice versa.

Source: Bank of Albania.

2.4. Demand for loans

Loan demand from households was perceived higher in 2021 Q3, mainly driven by house purchase loans. In the fourth quarter of 2021, households' loan demand is expected to remain higher, for both house purchase and consumer credit.

Graph 13. Changes in actual and expected loan demand from households¹³



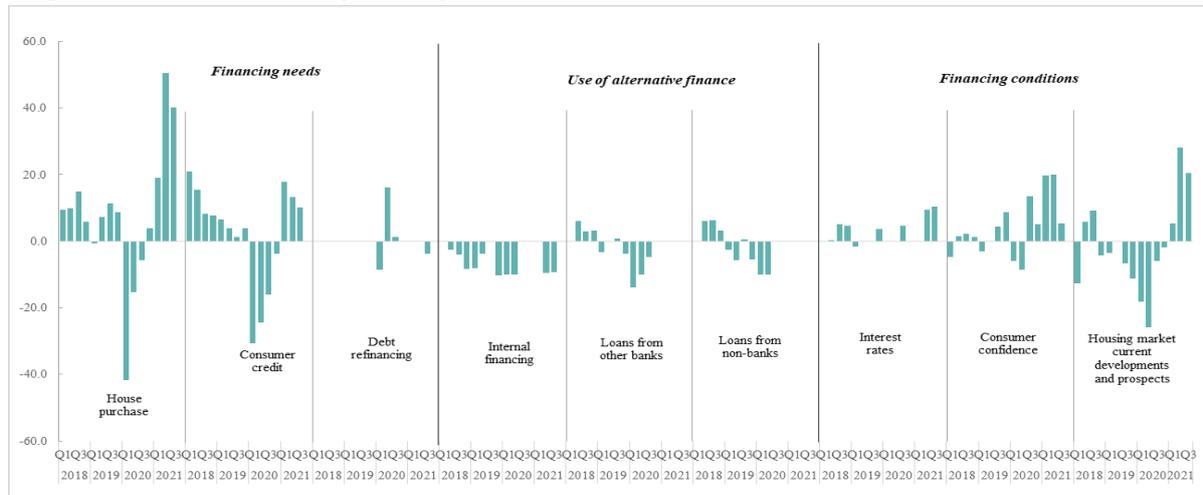
¹³: Calculated as net percentages. Positive values indicate an increase in loan demand, whereas negative ones a decrease in loan demand.

Source: Bank of Albania.

On banks' view, higher financing needs for house purchase and consumption, current and expected developments in the housing market, improvement in consumer confidence, and the level of interest rates, had a positive impact on loan demand from households. On the other side, higher use of internal

financing resources and the lower financing needs for debt refinancing, had a negative impact on net terms on the credit demand from households.

Graph 14. Factors contributing to changes in the loan demand from 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.