



BANK LENDING SURVEY

2019 Q4

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January 2020

MONETARY POLICY DEPARTMENT

INTRODUCTION¹

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, presented through credit standards, terms and conditions, and on the changes for loan demand by enterprises and households. This analysis is based on the aggregated results of replies from ten banks that own the largest share of credit to the private sector.

¹ The Bank Lending Survey questionnaire was revised in 2018 Q2, aiming at further approximating it with the latest international practices, especially with the ECB practice. Hence, the related analysis is adopted with the new questionnaire. It is enriched with additional questions and specifications related to the factors affecting the credit standards, terms and conditions and demand. From 2018 Q4, the time series are tested for the presence of seasonality, following the relevant statistical methods. The time series showing seasonality, according to statistical test specifications, are adjusted for this effect and have replaced the existing series that have not been adjusted for seasonality in conducting the lending survey. 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 are published at the link:

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

OVERVIEW OF RESULTS

Commercial banks reported that credit standards for loans to enterprises eased in 2019 Q4, as a result of the ease of credit standards for small and medium-sized enterprises. On the other hand, demand for loans was perceived somewhat lower than in the previous quarter, for both sizes of enterprises, and particularly pronounced for loans for investment financing. Credit standards were also somewhat eased for households, mainly for loans intended for house purchase. Household loan demand in the last quarter of the year was lower in both categories.

Based on banks' estimates credit standards to enterprises and households will ease further in 2020 Q1. Loan demand is expected to be higher in both segments by size of enterprise, but differentiated by purpose of use. According to banks, enterprises' loan demand is expected to be higher for liquidity needs, but lower for investments purposes. For households, higher loan demand in the first quarter is expected to derive from higher demand for house purchase financing, while consumer loans are expected to continue to decline.

CREDIT STANDARDS, TERMS AND CONDITIONS, AND DEMAND

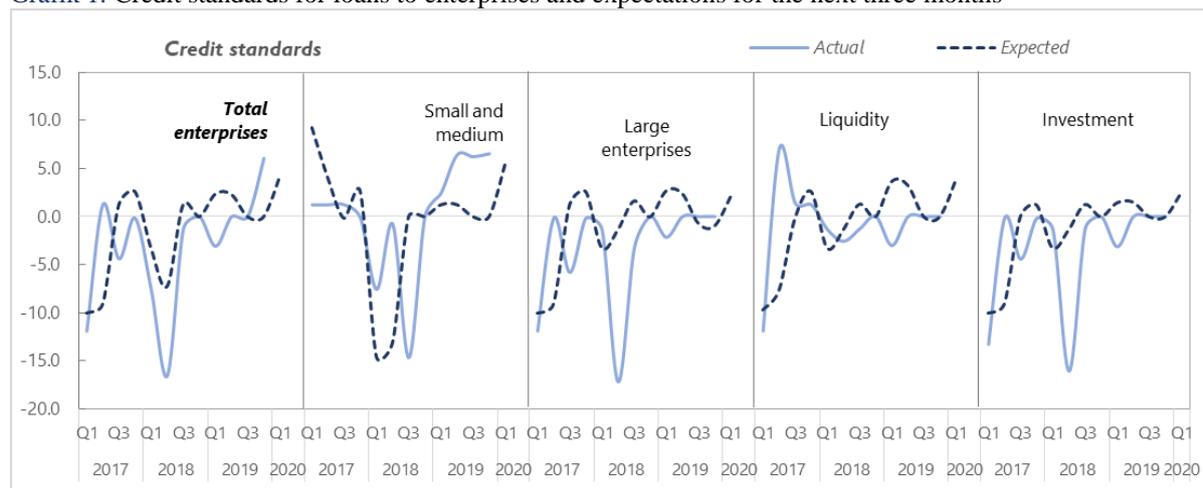
1. LOANS TO ENTERPRISES

1.1. Credit standards

Credit standards for loans to enterprises eased somehow in 2019 Q4, mainly due to reported ease for small and medium-sized enterprises. Banks reported to have applied unchanged credit standards from the previous quarter in loans to large enterprises and in loans for both investment purposes and in loans to meet the liquidity needs of enterprises.

In 2020 Q1, banks expect to ease somehow the credit standards for loans to enterprises, in terms of both enterprise size and purpose of use.

Grafik 1. Credit standards for loans to enterprises and expectations for the next three months¹



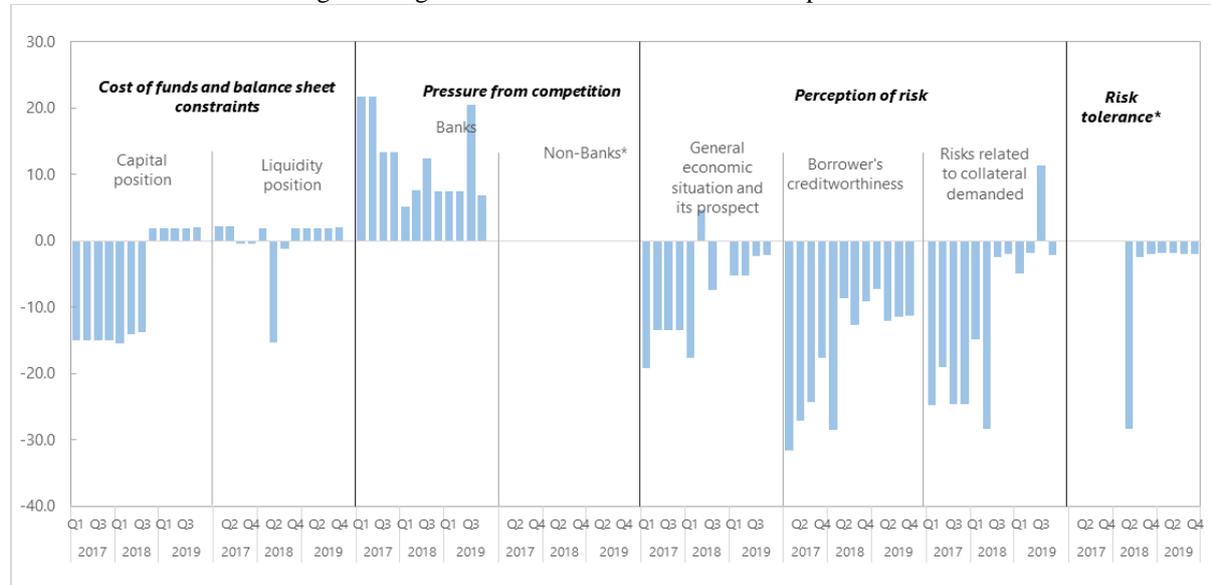
¹: Calculated as net percentage. Positive values indicate easing of credit standards, whereas negative values indicate tightening of credit standards.

Source: Bank of Albania.

According to banks' opinion, the factors contributing to the easing of credit standards for enterprises were the increase in banking sector competition and lower cost of funds and balance sheets constraints

driven both by capital and liquidity position of banks. On the other hand, bank's perception for an increased risk related to the borrower's creditworthiness and to the collateral demanded, as well as to the economic situation and prospects for it, contributed to the tightening of credit standards. Lower risk tolerance was another factor backing the tightening of credit standards to enterprises.

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

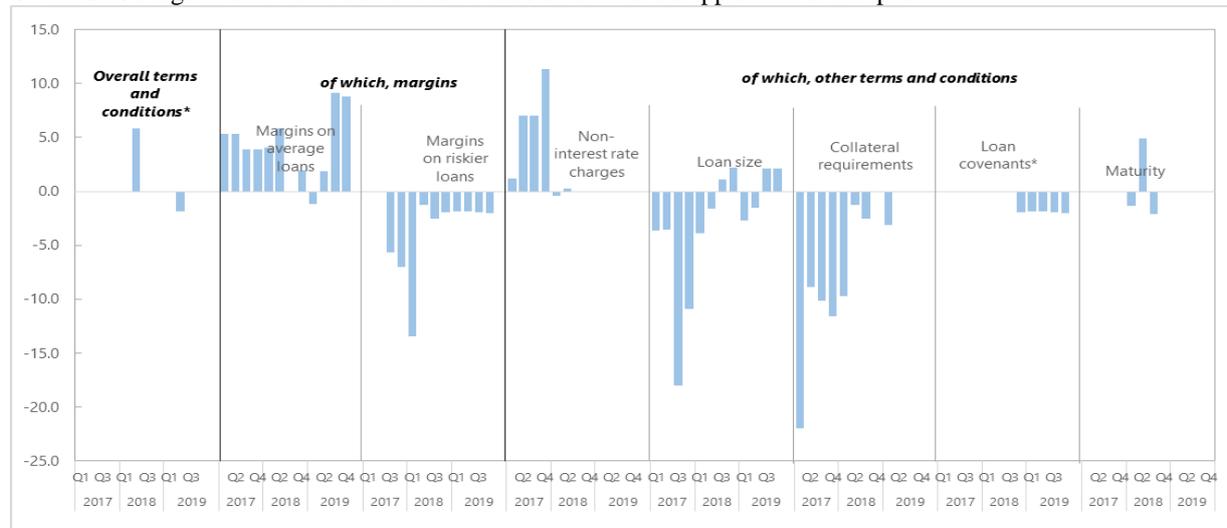


²: Calculated as net percentage. Positive values indicate the factor contributed to the easing of lending standards, whereas negative values indicate their tightening. *: New indicator added in the questionnaire revised in June 2018. Source: Bank of Albania.

1.2. Terms and conditions

Overall terms and conditions on new loans to enterprises were reported as unchanged from the previous quarter. Margins on average loans continue to be reported as lower, contrary to higher ones on riskier loans. The other terms and conditions were balanced to the previous quarter, where the increase in the loan size to enterprises offset the higher covenants.

Grafik 3. Change in overall terms and conditions on new loans approved to enterprise³



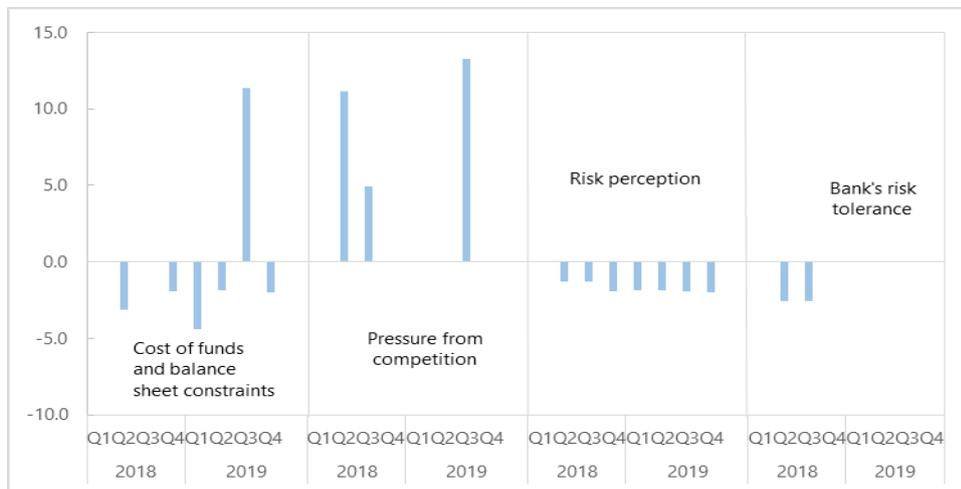
³: Calculated as net percentage. The positive values indicate eased credit standards, whereas the negative values indicate tightened credit standards.

*: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

According to banks², the overall terms and conditions on lending to enterprises were adversely affected by somewhat higher costs of funds and balance sheet constraints, as well as by the perception of somewhat increased risk.

Grafik 4. Factors affecting terms and conditions for loans to total enterprises⁴



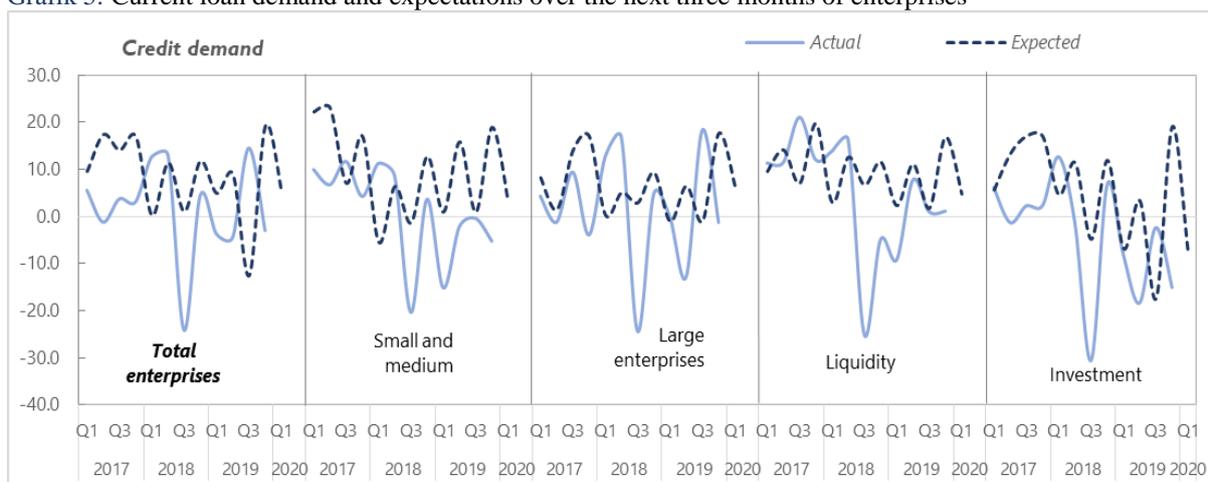
⁴: The positive values indicate that the factor contributed to easing the lending terms and conditions, whereas negative values indicate their tightening. *: This chart is based on a new question added to the questionnaire revised in June 2018.

Source: Bank of Albania.

1.3. Demand for loans

Loan demand from enterprises was reported somewhat lower in the last quarter of the year. Lower loan demand was more pronounced in loans for investment financing. A slightly lower demand compared to the previous quarter was perceived in both segments of enterprises according to their size, small and medium-sized enterprises, as well as large enterprises. Somewhat higher demand was reported only for loans to meet liquidity needs.

Grafik 5. Current loan demand and expectations over the next three months of enterprises⁵



⁵: Calculated as net percentage. Positive values show increase of loan demand, while negative values show decrease of loan demand.

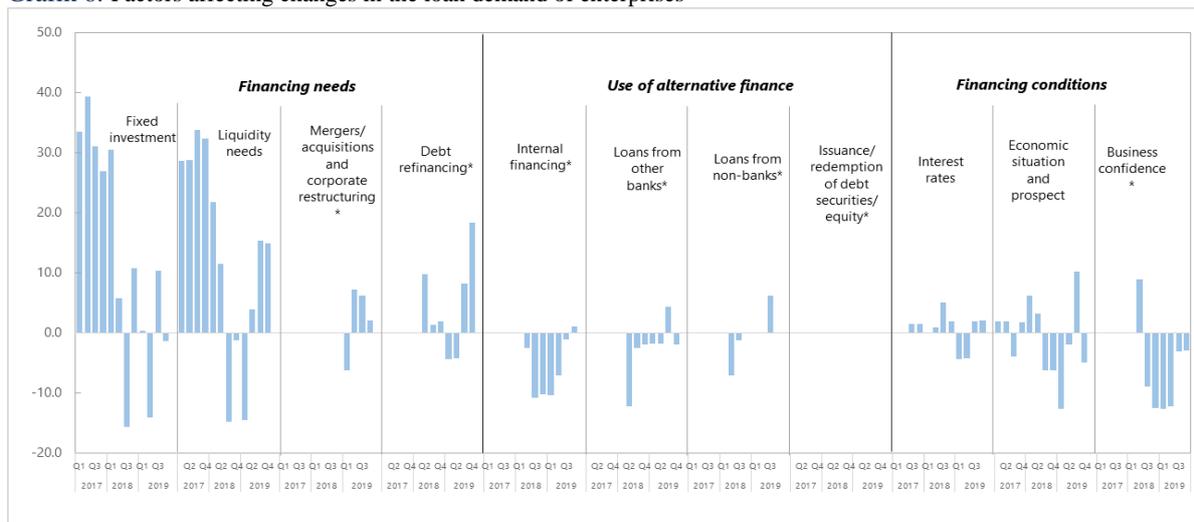
Source: Bank of Albania.

²The balances of these two factors are very close to zero and are reported as such by only one bank of the system.

According to banks ‘opinion, in 2020 Q1, enterprises’ loan demand is expected to be higher, extended to both categories by size of enterprise, but limited only in loans provided to meet liquidity needs. According to banks, loan demand for investment purposes is expected to be low in 2020 Q1, as well.

According to banks, the lower demand for loans in 2019 Q4, from enterprises was influenced by firms’ perception of the economic situation and its outlook, as well as by the business confidence. Also, the increase in the use of alternative sources, such as loans from other banks, as well as the lower needs for investment purposes were assessed with a negative impact on loan demand in the fourth quarter. The higher loan demand was driven by higher need for: refinancing of existing debt and restructuring companies; as well financing of inventories and working capital. Also, the overall level of interest rates was perceived as a complementary factor towards the expansion of loan demand.

Grafik 6. Factors affecting changes in the loan demand of enterprises⁶



⁶: Calculated as net percentage. Positive values show the factor has affected the increase in loan demand, while the negative values show the factor has affected its fall. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

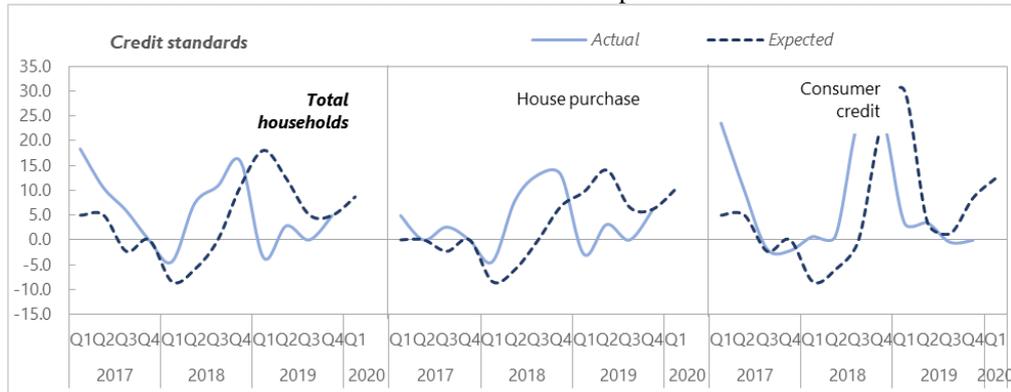
2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households eased somewhat in 2019 Q4, mainly due to credit eased standards on loans for house purchase. Banks reported to have maintained almost unchanged credit standards for consumer loans.

In 2020 Q1, banks plan to ease credit standards for loans to households, in both categories.

Grafik 7. Credit standards for loans to households and expectations for the next three months⁷

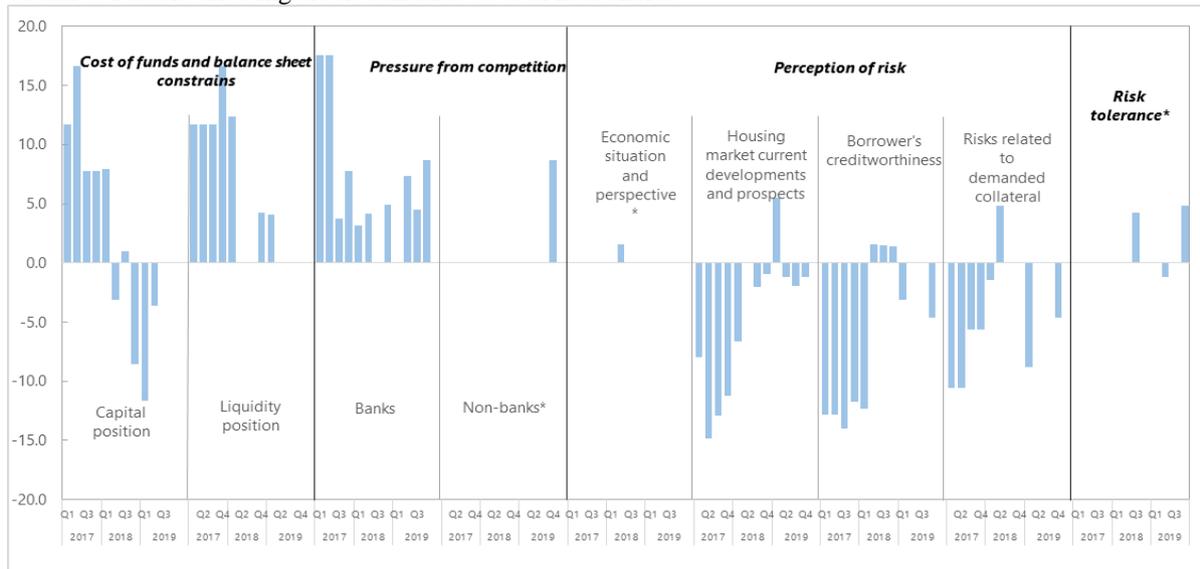


⁷: Calculated as net percentage. Positive values indicate easing of credit standards, whereas negative values indicate tightening of credit standards.

Source: Bank of Albania.

Increased pressure from competition as well as the higher risk tolerance of banks, were reported to be the factors affecting the ease in credit standards to households in the fourth quarter. On the other hand, risk perception related to households' creditworthiness and the collateral demanded, affected the tightening of credit standards to households in the fourth quarter of the year.

Grafik 8. Factors affecting credit standards to total households⁸



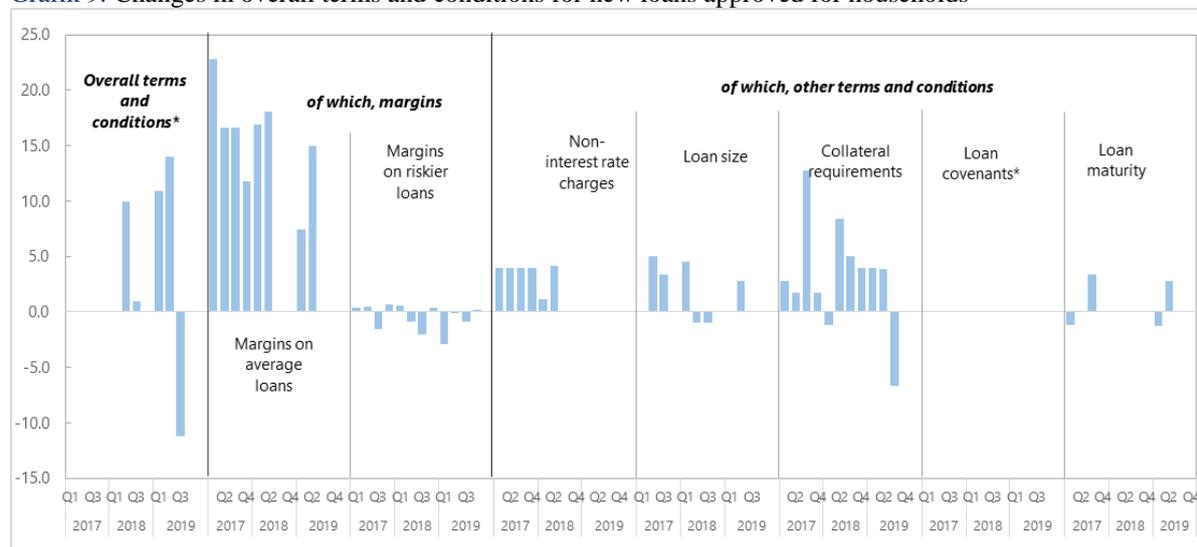
⁸: Calculated as net percentage. Positive values indicate the factor contributed to the easing of lending standards, whereas negative values indicate their tightening. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

2.2. Terms and conditions

Overall terms and conditions on new loans to households were reported as unchanged in the fourth quarter of the year. All the elements that constitute the overall terms and conditions on new loans to households, both margins and other terms and conditions, were reported unchanged from the previous quarter.

Grafik 9. Changes in overall terms and conditions for new loans approved for households⁹



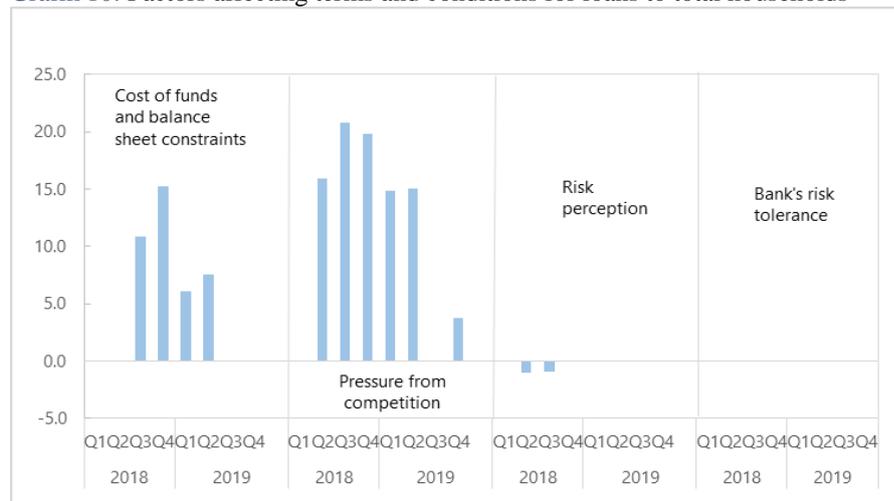
⁹: Calculated as net percentage. The positive values indicate eased credit standards, whereas the negative values indicate tightened credit standards.

*: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

Factors affecting terms and conditions applied on loans to households remained unchanged from the previous quarter, except from the increased pressure from the competition in the banking system, which is estimated to have affected on the easing side of the overall terms and conditions.

Grafik 10. Factors affecting terms and conditions for loans to total households¹⁰



¹⁰: The positive values indicate that the factor contributed to easing the lending terms and conditions, whereas negative values indicate their tightening. *: This chart is based on a new question added to the questionnaire revised in June 2018.

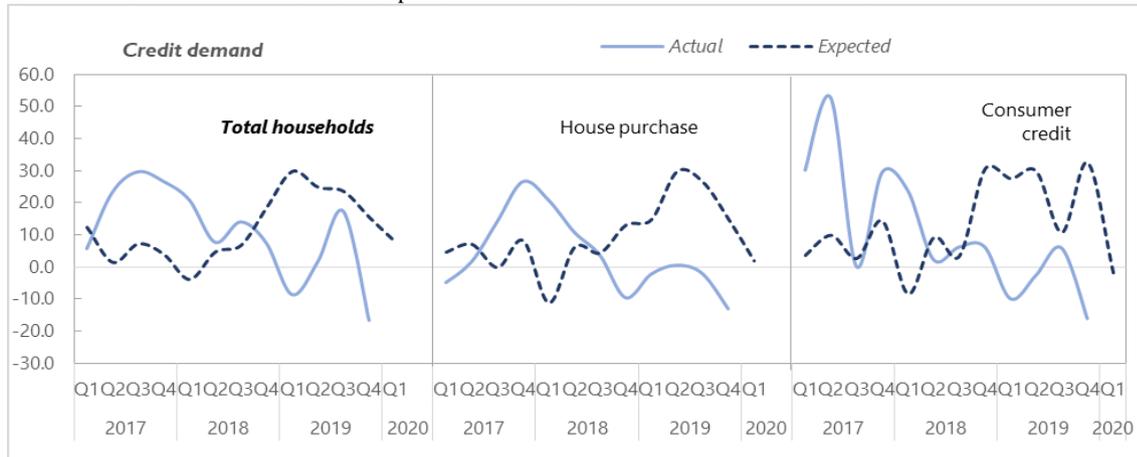
Source: Bank of Albania.

2.3. Demand for loans

Loan demand from households was perceived as lower in the last quarter of the year, for both consumer loans and for house purchase financing.

According to banks, in 2020 Q1, households' loan demand is expected to be somewhat higher, concentrated only on the house purchase category. Demand for consumer loans in the first quarter of the year is expected to be lower.

Grafik 11. Current loan demand and expectations over the next three months of households¹¹

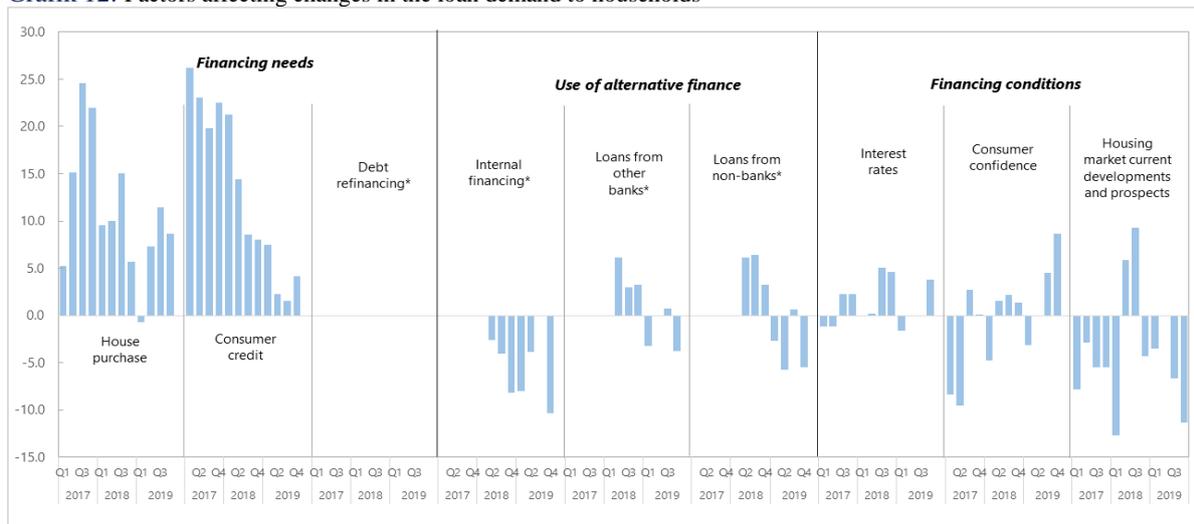


¹¹: Calculated as net percentage. Positive values show increase of loan demand, while negative values show decrease of loan demand.

Source: Bank of Albania.

The decline in loan demand in the last quarter of the year, according to banks, was driven by the higher use of domestic financing sources, the increase of loans by banks and other non-bank financial institutions, by the current and housing market developments and its prospect, as well as by the earthquake of November 26th³ of. The higher financing needs for house purchase and consumption, as well as the overall level of interest rates, were the factors with a positive impact on the households loan demand in the fourth quarter of the year.

Grafik 12. Factors affecting changes in the loan demand to households¹²



¹²: Calculated as net percentage. Positive values show the factor has affected the increase in loan demand, while the negative values show the factor has affected its fall. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

³ The earthquake that hit Albania on November 26, 2019 is specified as a factor that contributed to the decline in loan demand, classified in "other factors", a series that it is not shown in the chart but it is available in the series published for BLS (Bank Lending Survey).