BANK LENDING SURVEY

2023 Q1

April 2023

2023

General Notes

The Bank Lending Survey (BLS) questionnaire aims to collect commercial banks' opinions related to developments in the past three months of 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 by both enterprises and households. This analysis is based on responses from ten surveyed banks, which own the majority of loan stock for the private sector.

The BLS questionnaire, in principle, follows the practice implemented by the European Central Bank, but it is modified allowing for some changes which reflect the specifications and features of the Albanian credit market for the private sector. The series of indicators are tested for seasonality and, where this effect emerges, the series are adjusted 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 purposes, please follow the link:

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

OVERVIEW OF RESULTS[1]

In the first quarter of year, the lending policies of banks were prudent in relation to enterprises, in line with their expectations stated a quarter earlier. Commercial banks tightened credit standards along with the terms and conditions on new loans to enterprises. Banks still continue to display their concern - though at a lower extent - related to the borrower's creditworthiness and the economic situation and its prospect, thus basing their decision making on a narrower risk tolerance band.

Banks reported an easing of credit standards on loans to households, after two consecutive quarters of tightening. Pressure from competition in the banking system has encouraged banks to appear more proactive in the market, by implementing eased policies for generating loan demand from households. Banks applied lower margins on average loans, to partially set off the rapid increase in reference rates applied on loans to households.

Enterprises displayed a higher loan demand mainly driven by loans for investment purposes. The curbing of rapid surge in commodity prices across both international and domestic markets in the previous quarters, appears to have partially set off the demand from enterprises for working capital financing. Loan demand of households - despite banks reported eased lending policies - was sluggish for house purchase loans and consumer credit. On banks' view, this sluggishness continues mainly on the back of the elevated interest rates and the perceived uncertainties related to the future developments in the housing market.

In the second quarter of 2023, the prospect on credit supply conditions is expected, overall, to remain unchanged across economic agents, while it is expected to be easier in specific segments, such as house purchase loans. On the other side, loan demand is expected to be higher across all sizes of enterprises, for both meeting liquidity needs and investment financing. For households, lower loan demand in the second quarter is expected to derive from meeting the needs for consumption and house purchase financing.

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[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 continued to tighten in the first quarter of 2023. Tightened credit standards were reported for both segments, SMEs and large enterprises, as well as for loans used to meet liquidity needs and loans for financing investments.
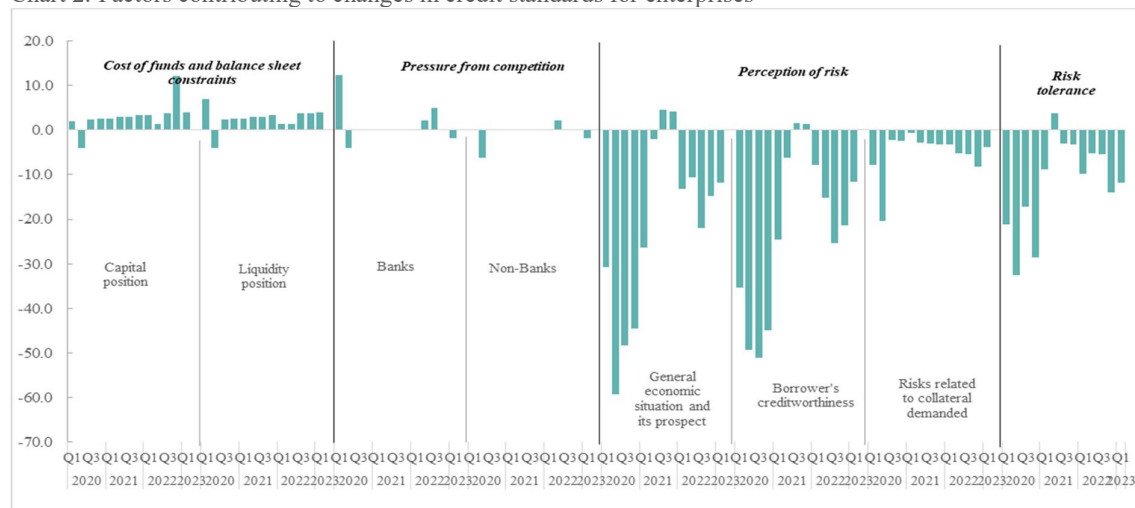
Chart 1. Change in credit standards for loans to enterprises and anticipation for the next three months[1]
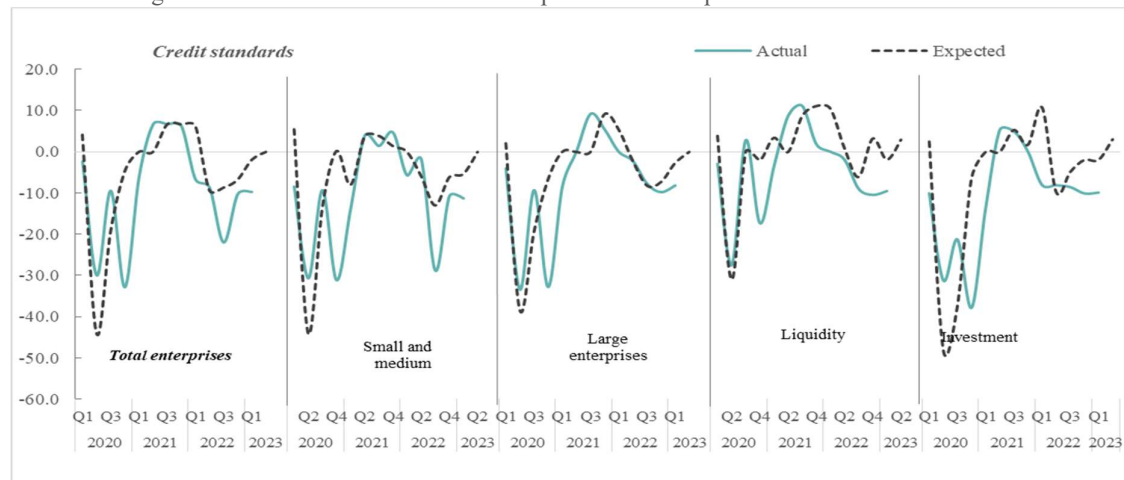
[1]: Calculated as net percentages. Positive values indicate eased credit standards, whereas negative ones indicate tightened credit standards.
Source: Bank of Albania.

The factors that led to tightened credit standards to enterprises in this quarter were mostly related to banks' perception on risk. In more concrete terms, the perceived risk from borrowers' credit-worthiness, from current economic situation and its prospect, and from the demanded collateral, were the main drivers behind tightened credit standards. Also, banks' lower tolerance toward risk was another factor triggering tightened credit standards to enterprises.

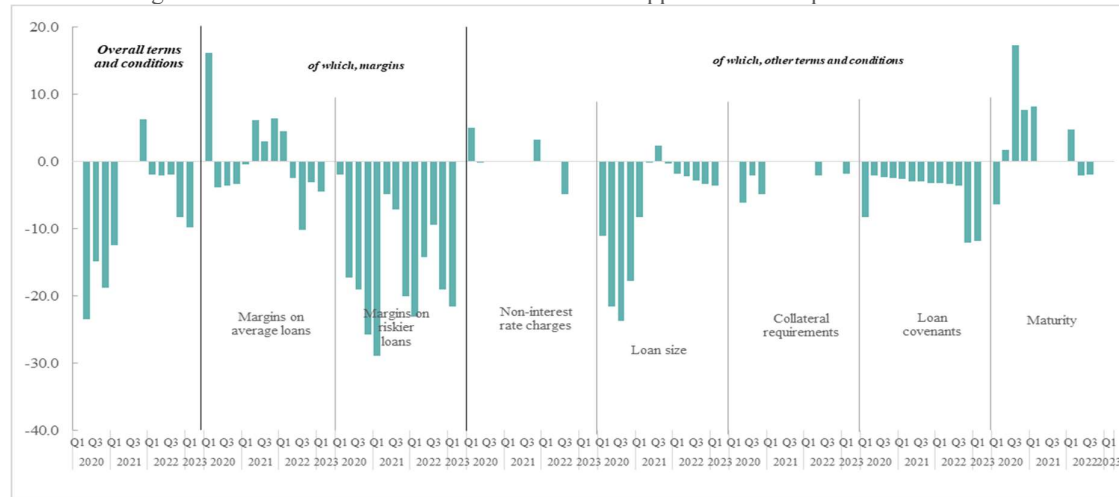Chart 2. Factors contributing to changes in credit standards for enterprises[2]

[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 2023 Q2, banks anticipate almost unchanged credit standards across all categories of enterprise size. In terms of loans' purpose of use, credit standards are expected to ease both on loans for meeting the liquidity needs and on loans for investment financing (*Chart 1*).

1.2. Terms and conditions

Overall terms and conditions on new loans to enterprises tightened further in 2023 Q1. 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; and reduced the loan size to enterprises. The other components shaping the terms and conditions on loans were reported almost unchanged.

Chart 3. Change in overall terms and conditions on new loans approved to enterprises[3]

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

In the first quarter, the tightening of terms and conditions on loans to enterprises was impacted by: banks' augmented risk perception; their lower tolerance toward risk; and the cost of funds and balance sheets constraints.

Chart 4. Factors contributing to changes of terms and conditions for loans to enterprise[4]
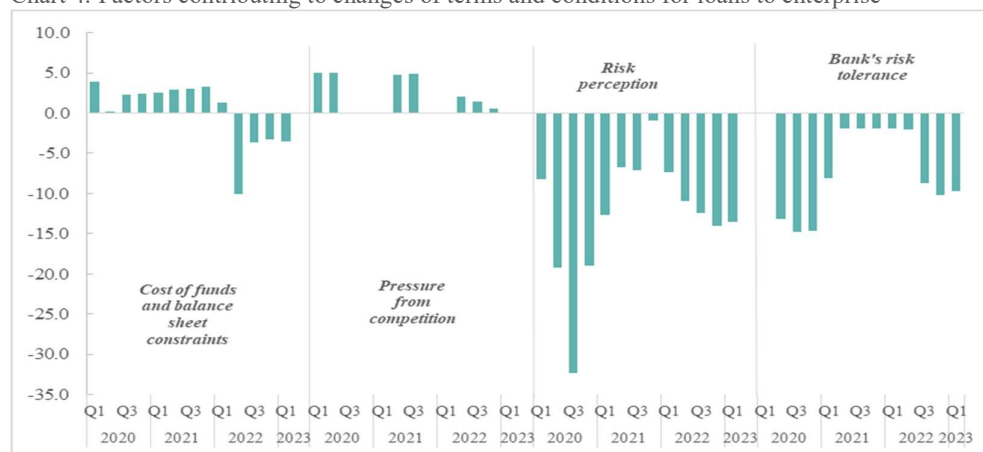
[4]: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions.
Source: Bank of Albania.

1.3. Loan approval rates

Banks reported higher loan approval rate for enterprises in the first quarter of 2023. The credit score of the enterprise mainly backed the higher approval rate (lower loan rejection rate) of loans. On the other hand, the factors with a contrary impact, were the following: banks' perception of the increased risk related to sectoral perspective; enterprises' financial situation; borrowers' credit-worthiness; as well as factors related to banks' lending policy framework.

Chart 5. Rejected loan ratio for enterprises (left) and the factors behind banks' decision making[5]
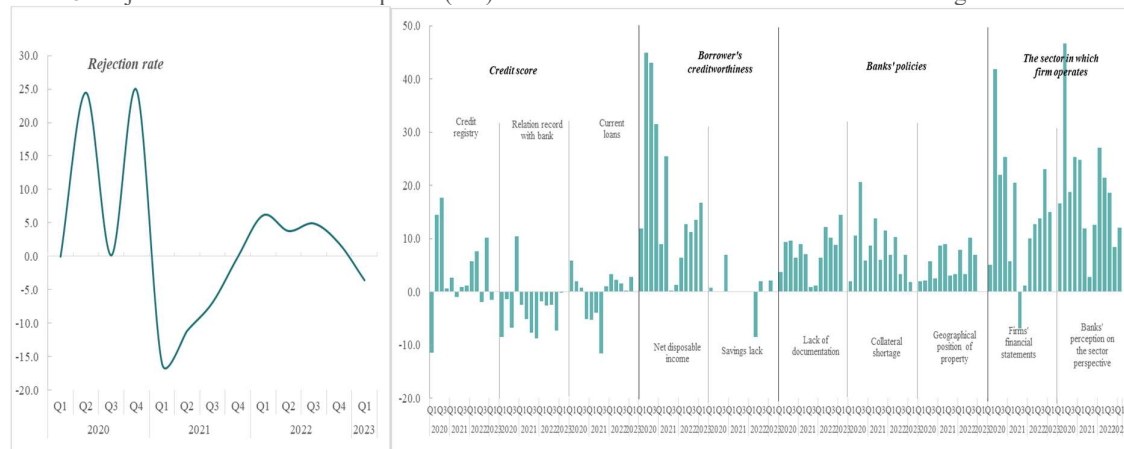
[5]: Positive values show an increase in rejected applications to the total loan applications (left-hand chart). Also, positive values indicate that the factor has contributed to an increase of rejection rate (right-hand chart), while the negative ones to their reduction.
Source: Bank of Albania.

1.4. Demand for loans

Loan demand from enterprises remained high in the first quarter of 2023, as well. Loan demand was reported as high only for investment purposes, while in terms of meeting the liquidity needs, loan demand was perceived as low. In terms of business size, small and medium-sized enterprises manifested a high loan demand, while large enterprises showed a low demand for loans.

Chart 6. Changes in current loan demand of enterprises and anticipation over the next three months[6]
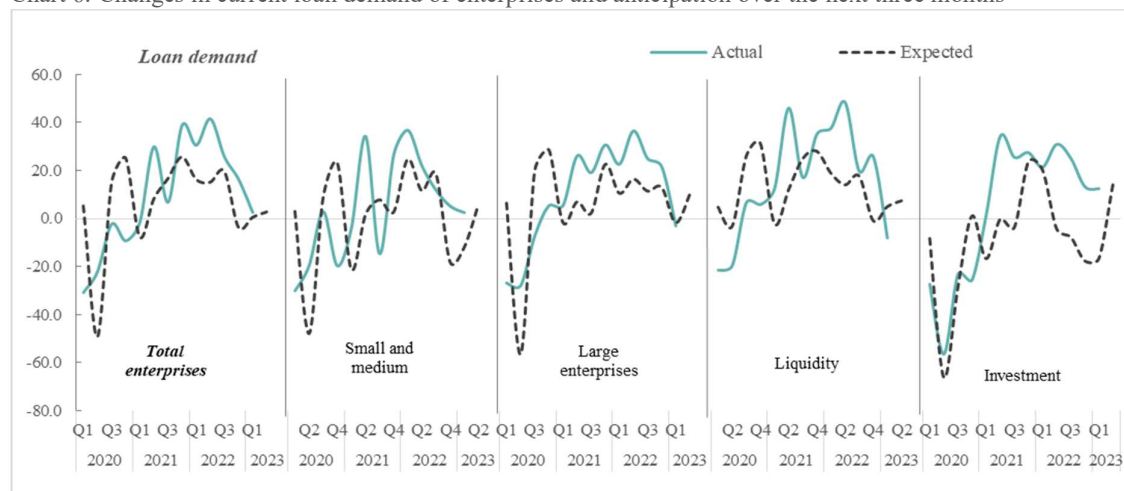
[6]: Calculated as net percentages. Positive values indicate an increase in loan demand, whereas negative ones a decrease in loan demand.
Source: Bank of Albania.

On banks' view, higher loan demand in the first quarter of 2023 was driven by higher financing needs for investments, as well as for inventories and working capital. Likewise, the improved business confidence was reported as a factor contributing to elevated loan demand from enterprises. On the other hand, the overall level of interest rates, the domestic economic situation and its prospect, and internal financing deployment, were reported as factors driving downwards the loan demand from enterprises in the first quarter of 2023.

Chart 7. Factors affecting changes in the loan demand of enterprises[7]
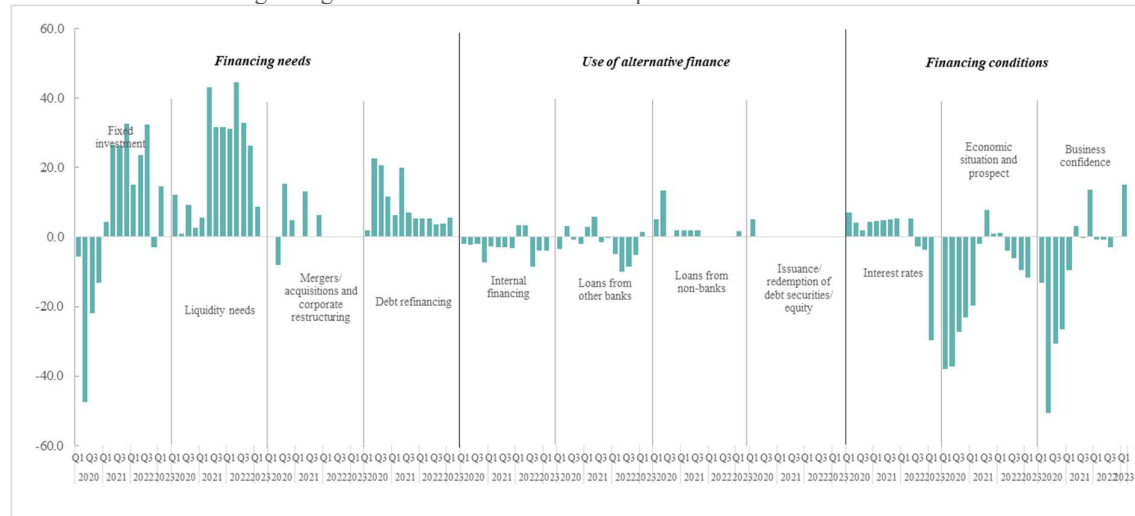
[7]: Calculated as net percentages. Positive values indicate that the factor has contributed to an increase of loan demand, while the negative ones to a decrease of loan demand.
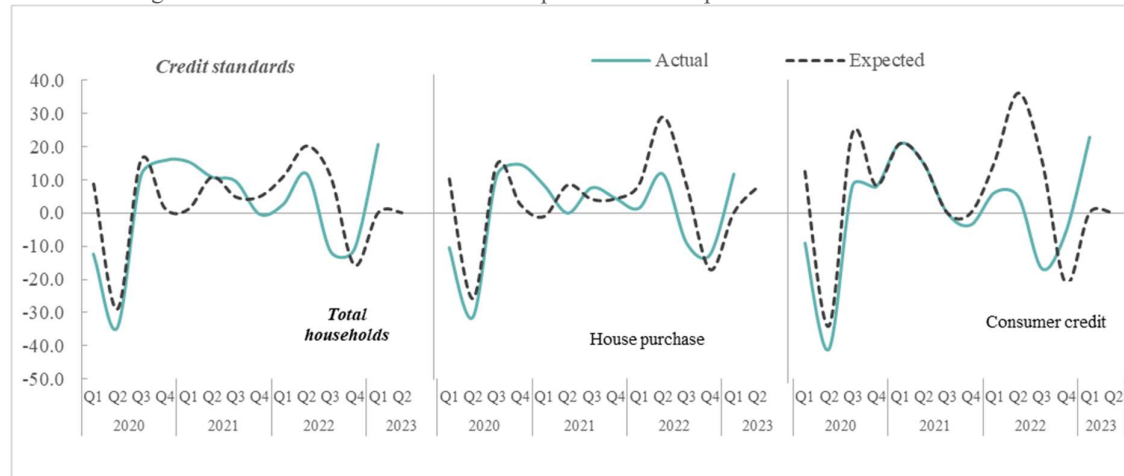Source: Bank of Albania.

In 2023 Q2, banks anticipate a higher loan demand from enterprises, in terms of both enterprise size and purpose of loan use (*Chart 6*).

2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households were eased in the first quarter of 2023. Eased credit standards were reported in both categories of loan's purpose of use: house purchase loans and consumer credit.

Chart 8. Change in credit standards for loans to enterprises and anticipation 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.

The main factors leading to eased credit standards for households were the increased pressure from competition in the banking system, higher tolerance of banks towards risk, as well as the lower risk perception from banks related to demanded collateral.

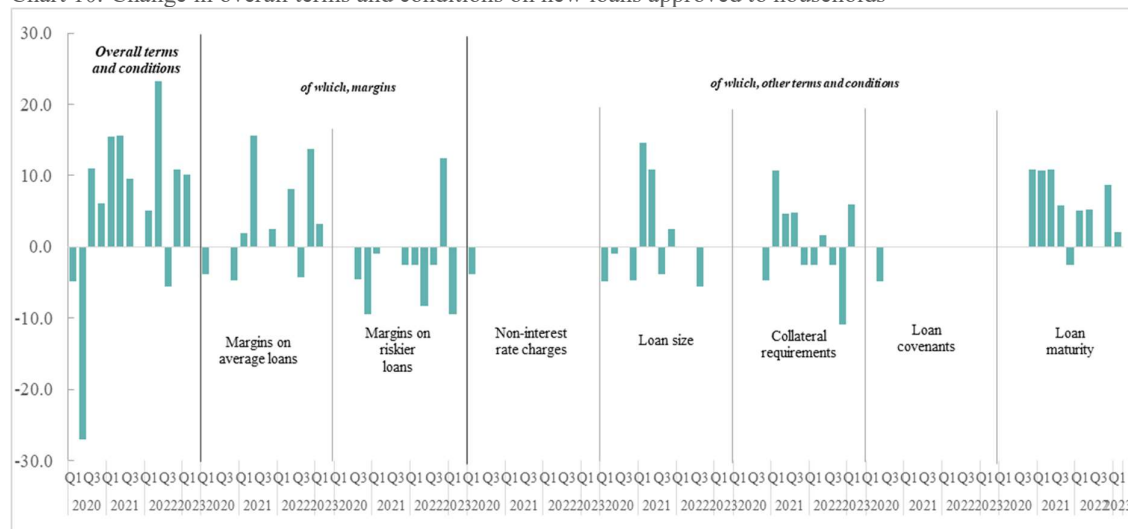Chart 9. Factors contributing to changes of credit standards on loans to households[9]
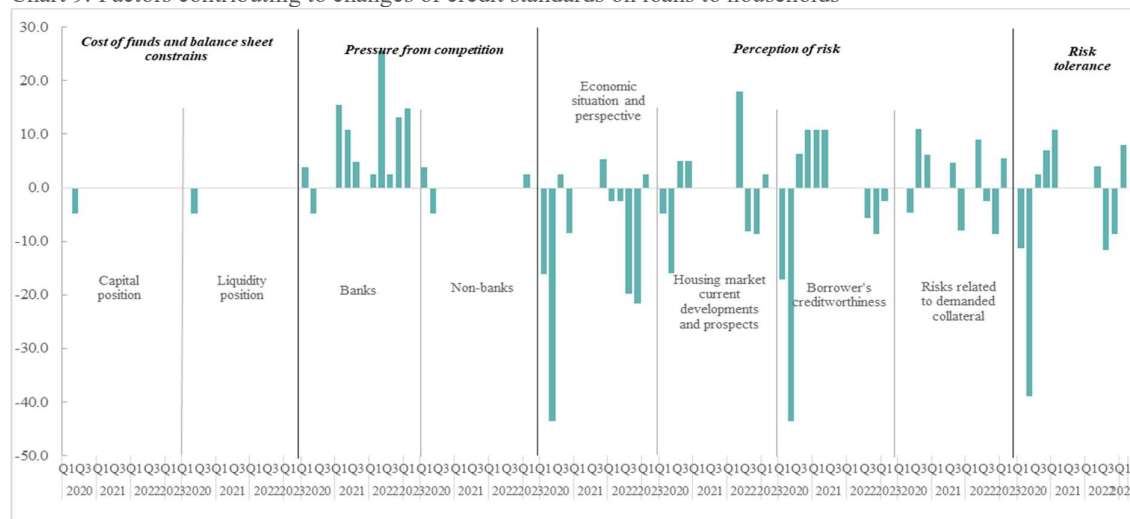
[9]: Calculated as net percentages. Positive values indicate that the factor contributed to the easing of credit standards, whereas negative ones to the tightening of credit standards.
Source: Bank of Albania.

Banks expect to ease credit standards for loans to households in the third quarter of 2022, on house purchase loans, while maintain them unchanged on consumer credit *(Chart 8).*

2.2. Terms and conditions

Overall terms and conditions on loans to households were eased in the first quarter of 2023. The easing of credit terms and conditions was achieved due to: lower margins on average loans; lower collateral requirements; and higher loan maturity. Higher margins on riskier loans were reported as a factor with a tightening impact on credit terms and conditions to households.

Chart 10. Change in overall terms and conditions on new loans approved to households[10]

[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 along with the higher tolerance of banks towards risk, were reported as factors behind eased credit terms and conditions on loans to households. On the other side, banks' risk perception coupled with higher cost of funds and balance sheets constraints, backed the tightened credit standards to households.

Chart 11. Factors contributing to changes of terms and conditions for loans to households[11]
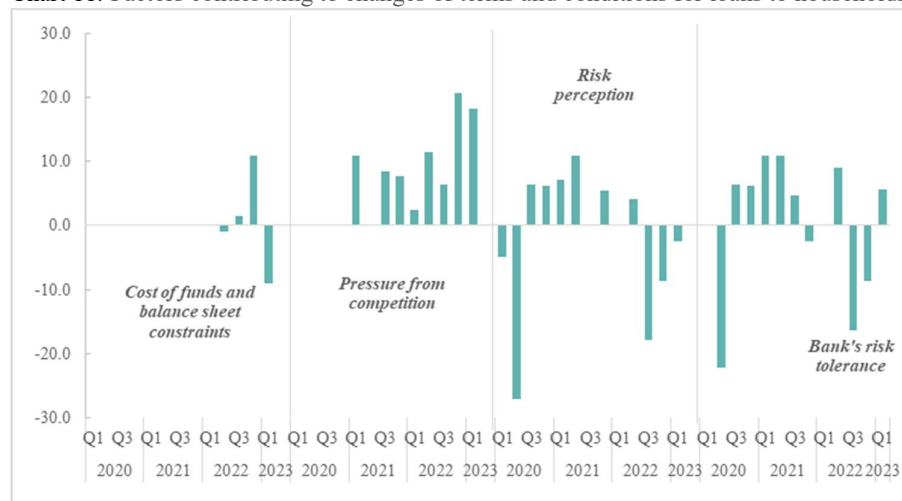
[11]: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions.
Source: Bank of Albania.

2.3. Loan approval rates

Banks reported reduced loan approval rates for households in the first quarter of 2023. Banks' policies related to documentations required for loans approval, employment records, and stability in the labour market were the main factors behind the higher number in rejections on loans to households.

Chart 12. Rejected loan ratio for households (left) and the factors behind banks' decision making[12]
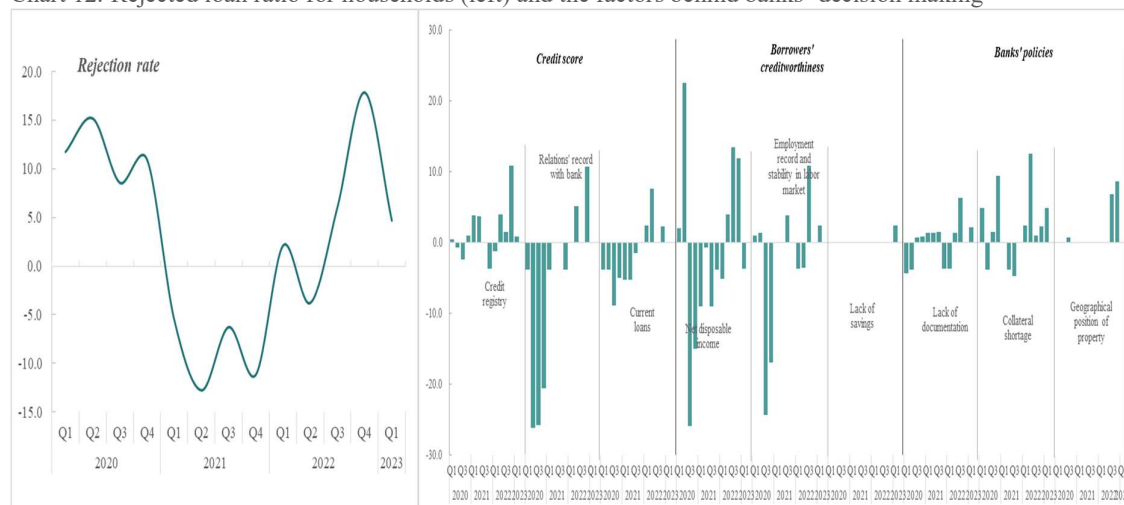
[12]: Positive values show an increase in rejection rates to the total loan application (left-hand chart). Also, positive values indicate that the factor has contributed to an increase of rejection rate (right-hand chart), while the negative ones to their reduction.
Source: Bank of Albania.

2.4. Demand for loans

Loan demand from households was perceived as lower in the first quarter, for both house purchase loans and consumer credit.

Chart 13. Changes in current loan demand of households and anticipation over the next three months[13]
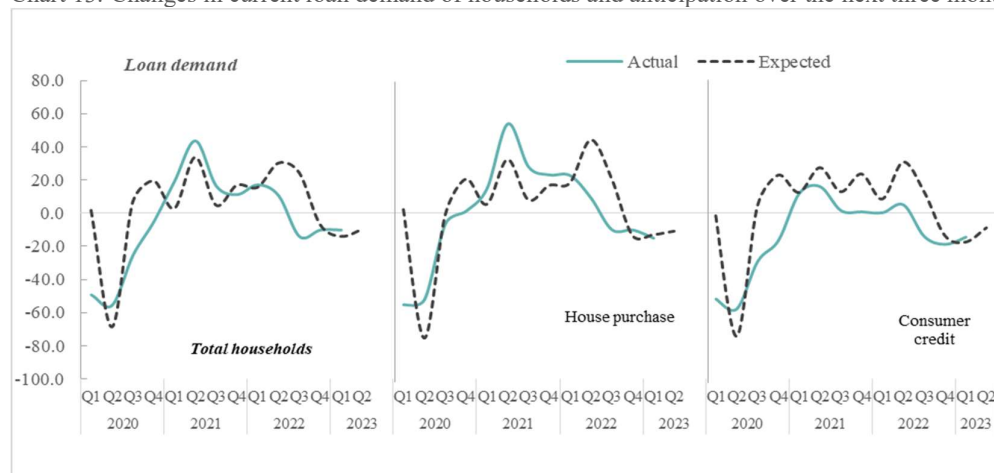
[13]: Calculated as net percentages. Positive values indicate an increase in loan demand, whereas negative ones a decrease in loan demand.
Source: Bank of Albania.

On banks' view, current developments and prospects in the housing market; the overall level of interest rates; consumer confidence; and loans from other banks; were the main drivers behind low loan demand from households in 2023 Q1.

Chart 14. Factors contributing to changes in the loan demand of households[14]
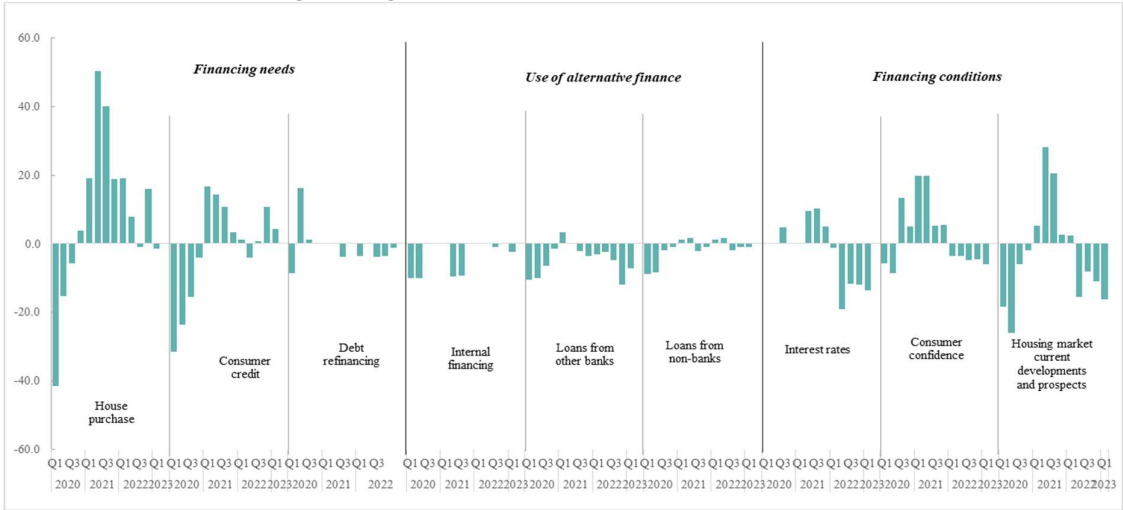
[14]: Calculated as net percentages. Positive values indicate that the factor has contributed to an increase of loan demand, while the negative ones to a decrease of loan demand.
Source: Bank of Albania

In the second quarter of 2023, banks anticipate the households' loan demand to remain low, for both house purchase loans and consumption financing *(Chart 13)*.