BANK LENDING SURVEY

2022 Q1

April 2022

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 on the changes for loan demand by both enterprises and households. This analysis is based on respondents 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_0000/Bank_Lending_Survey/
OVERVIEW OF RESULTS

Banks reported a net tightening of credit standards for firms, solely on loans to small and medium-sized enterprises. Uncertainties’ intensification due to higher prices in international and domestic markets, drove banks to be more conservative, especially for loans to small and medium enterprises. On the other side, credit standards on loans for large enterprises and on new loans granted to finance inventories and working capital remained unchanged. At the same time, the terms and conditions on loans to enterprises were tightened - mainly to small and medium-sized enterprises - , in this quarter. Banks were more prudent in approving new loans for firms in this quarter. On the other side, firms displayed higher demand for loans, for the fourth consecutive quarter, to finance their planned investments, inventories and working capital.

Credit standards on loans to households eased in 2022 Q1. Simultaneously, banks eased terms and conditions on new loans to households. Higher competition in the banking system, was the main driver of eased lending standards, terms and conditions for households, during this quarter. Higher pressure from competition dictated also higher loan approval rates for households. Banks perceived higher loan demand from households, mainly for house purchases.

On banks’ view, the prospect on credit supply and demand in 2022 Q1 is expected to continue in 2022 Q2, as well. Hence, banks are expected to follow prudent lending policies for firms, while following eased lending policies for households. Loan demand from both enterprises and households, is expected to remain high. Increased loan demand from both economic agents is expected to be broad-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 tightened, for small and medium-sized enterprises only, during the first quarter of 2022. Credit standards for loans to large enterprises remained unchanged. Also, standards on loans for meeting the liquidity needs and for financing investments remained unchanged, while credit standards tightened on loans for investments.

Chart 1. Change in credit standards for loans to enterprises and anticipation for the next three months

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

In 2022 Q1, net tightening of credit standards was attributable to risk perception on: the economic situation in Albania and its prospect; the borrower’s creditworthiness; and collateral requirements. Additionally, banks’ lower risk tolerance, backed tightened credit standards to enterprises. Lower cost of funds and balance sheets constraints, remained as a factor contributing positively to credit standards.

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

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 2022 Q2, banks expect a similar view on credit standards as in 2022 Q1 (Chart 1). Hence, credit standards are expected to remain tightened on loans to small and medium-sized enterprises, while being unchanged on loans to large enterprises. Banks expect the tightening of credit standards to be more pronounced on loans for investment purposes, while remaining unchanged on loans for meeting the liquidity needs of firms.

1.2. Terms and conditions

Overall terms and conditions on new loans to enterprises tightened in 2022 Q1. The tightening of overall terms and conditions on loans, manifested in both price and non-price components. Banks applied higher margins on riskier loans, reduced loan size to enterprises; and reported higher loan covenants. Lower margins on average loans and extended loan maturity were factors having easing effect on credit terms and conditions.

Chart 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.

Chart 4. Factors contributing to changes of terms and conditions for loans to enterprise⁴

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 first quarter of 2022. Almost all factors shaping banks decision making, pointed out towards higher rejections in this quarter. More concretely, banks perception on the risk related to the sectoral perspective, financial situation of enterprises; factors related to the lending polices framework of banks and the enterprises’ creditworthiness; as well as credit score from credit registry and the current loan status, led to increased rejection rates. The credit score regarding the relation recorded with banks, was the only factor contributing to lower rejection rates.

Chart 5. Rejected loan ratios for enterprises (left) and the factors behind banks’ decision making

5: Positive values show increase of share of rejected loan applications relative to the total volume of applications (left) Also, positive values show that the factor has affected the increase of share of rejected loan applications (right-hand chart), while negative values show their reduction. Source: Bank of Albania.

1.4. Demand for loans

Loan demand from enterprises was high in the first quarter of 2022. High loan demand was perceived high in terms of both loans’ purpose of use and business size. Net balances of loan demand recorded positive high values in this quarter as well, in both loans to small and medium-sized enterprises and to large enterprises. Additionally, demand for loans to finance investment as well as the one to meet the liquidity needs was high in 2022 Q1.

Chart 6. Changes in current loan demand of enterprises and anticipation over the next three months

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, the higher financing needs for: inventories and working capital; fixed investments; and companies restructuring; contributed to the higher loan demand from firms in the first quarter of 2022. Use of alternative financing resources, was the only factor driving downwards the loan demand from enterprises.

Chart 7. Factors affecting changes in the loan demand of enterprises

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 2022 Q2, banks anticipate a continuing high loan demand from firms, both from SMEs and large enterprises (Chart 6). The high loan demand is expected to be high only for liquidity purposes, while loan demand for investment purposes is expected to remain unchanged from the previous quarter.
2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households were eased in 2022 Q1. Eased credit standards were reported in both categories of loan’s purpose of use, though more pronounced in consumer loans.

Chart 8. Change in credit standards for loans to households and anticipation for the next three months

Credit standards on households’ loans were eased due to pressure from competition in the banking system, and perception from banks related to the current and expected developments in housing market. The risk perception from banks related to the domestic economic situation and its outlook was reported as the only one factor contributing on the tightening side of credit standards.

Chart 9. Factors contributing to changes of credit standards on loans to households

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

Source: Bank of Albania.
Banks expect to continue the easing of credit standards to households in the second quarter of 2022, on both house purchase loans and consumer loans (Chart 8).

2.2. Terms and conditions

Overall terms and conditions on loans to households were eased in the first quarter of 2022. Eased credit terms and conditions was attained due to the extended maximum loan maturity to households. Higher margins on riskier loans and increased collateral requirements - on loans for house purchases - contributed on the tightening side of terms and conditions on loans to households.

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

Higher pressure from competition in the banking system drove to the easing of credit terms and conditions in the first quarter of 2022. The other factors affecting the credit terms and conditions on loans to households remained unchanged.

Chart 11. Factors contributing to changes of terms and conditions for loans to households

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

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 the increase in the loan approval rates for households in the first quarter of 2022 as well. Banks’ perception on the improved indicators related to the borrower’s creditworthiness - net disposable income, employment records and the stability in the labour market; banks’ policies related to documentations required for loans approval; as well as status from credit registry-, supported the lower number in rejections on loans to households. Households’ credit score and lack of collateral contributed on the opposite direction.

Chart 12. Rejected loan ratio for households (left) and the factors behind banks’ decision making

2.4. Demand for loans

Loan demand from households was perceived high in 2022 Q1, mainly driven by house purchase loans. In the second quarter of 2022, households’ loan demand is expected to continue to be high, for both house purchase loans and consumption financing.

Chart 13. Changes in current loan demand of households and anticipation over the next three months
On banks’ view, higher financing needs for consumption and house purchase, improvement in consumer confidence, current and expected developments in the housing market, were the main drivers behind high loan demand from households in 2022 Q1. In addition, banks reported that the marketing campaign undertaken by them on loans for house purchases, have bolstered the loan demand from households in 2022 Q1.

Chart 14. Factors contributing to changes in the loan demand of households

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.