



BANK LENDING SURVEY

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2022 Q2

July 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 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 ECB's framework, but it is modified allowing for some changes reflecting the features of domestic credit market. 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

Commercial banks tightened credit standards for loans to enterprises across all categories in the second quarter. Banks appeared more prudent in lending to enterprises during this quarter, mainly due to perceived risk on the macroeconomic situation in general and on firms' creditworthiness in particular. Banks also displayed lower risk tolerance towards investment financing, as a result of increased uncertainties and higher price fluctuations of commodities in international markets. At the same time, the terms and conditions on loans to enterprises were tightened in the quarter under review. In addition to increased perceived risk on the economic situation and its prospect, the higher costs of funds, due to less accommodative monetary policy stance, motivated banks to tighten the credit terms and conditions on loans to enterprises in this quarter. Prudent banks' lending policies on enterprises' loans were reflected in higher rejection rates during this quarter. On the other side, the loan demand of enterprises across all categories was higher, to finance either planned investments, or inventories and working capital.

Unlike enterprises, loan approval criteria for households were eased in the second quarter. Banks eased the standards, as well as the credit terms and conditions, for new loans granted to households. Increased competition in the banking system, along with banks' perception on current developments and the perspective for the housing market, encouraged banks to ease lending policies to households during this quarter. On the other hand, the demand for loans continued to be high, both for mortgage loans and consumer loans.

In the third quarter, the prospect on credit supply and demand is expected to remain almost unchanged from the second quarter. Hence, banks expect to continue the prudential stance towards lending to enterprises, while maintaining eased approval criteria on lending to households. On the other hand, loan demand from both enterprises and households, is expected to be high. Augmented loan demand from economic agents is expected to be broad based, in terms of loans' purpose of use.

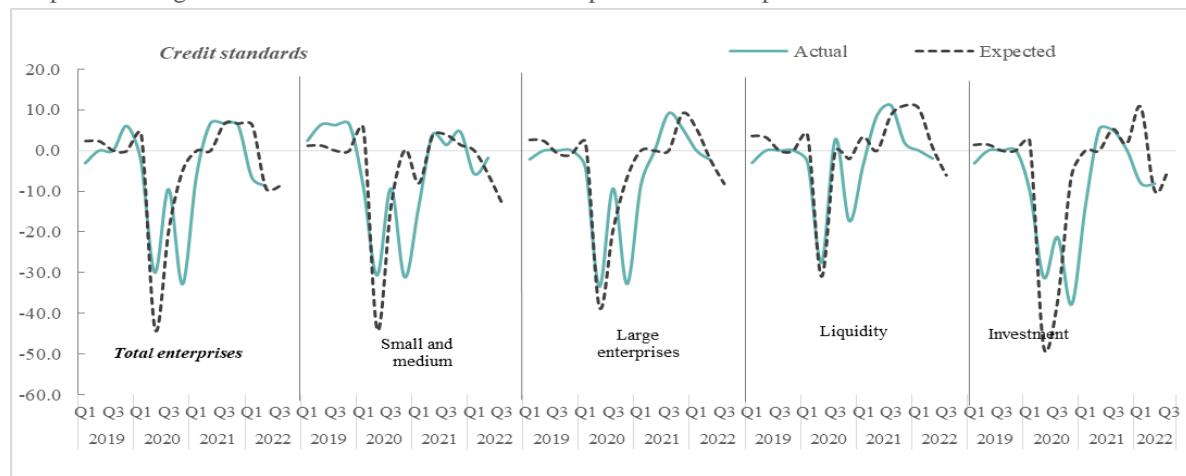
CREDIT SUPPLY CONDITIONS AND DEMAND FOR LOANS

1. LOANS TO ENTERPRISES

1.1. Credit standards

Credit standards for loans to enterprises tightened during the second quarter of 2022, mainly due to tightened standards on investment loans. In terms of enterprise size, credit standards tightened across all categories, both for small and medium-sized enterprises, as well as for large ones.

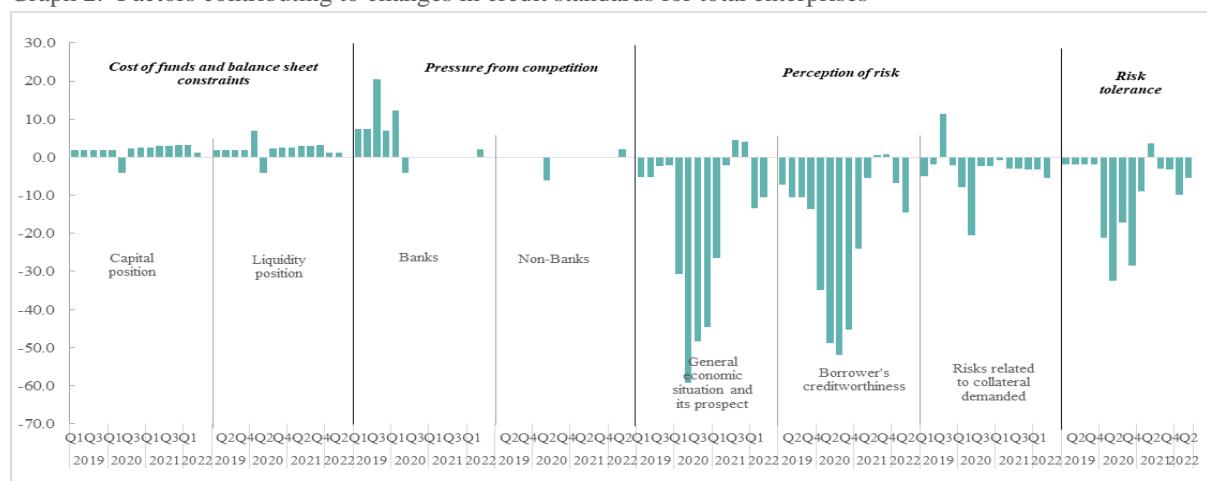
Graph 1. Change in credit standards for loans to enterprises and anticipation for the next three months¹



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

The factors that led to tightened credit standards to enterprises in this quarter were mostly related to banks' perception on risk. The perceived risk from economic situation and its prospect, from borrowers' creditworthiness, as well as from demanded collateral, were the main drivers behind tightened credit standards. At the same time, banks' lower tolerance toward risk was another factor behind tightened credit standards for loans to enterprises.

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



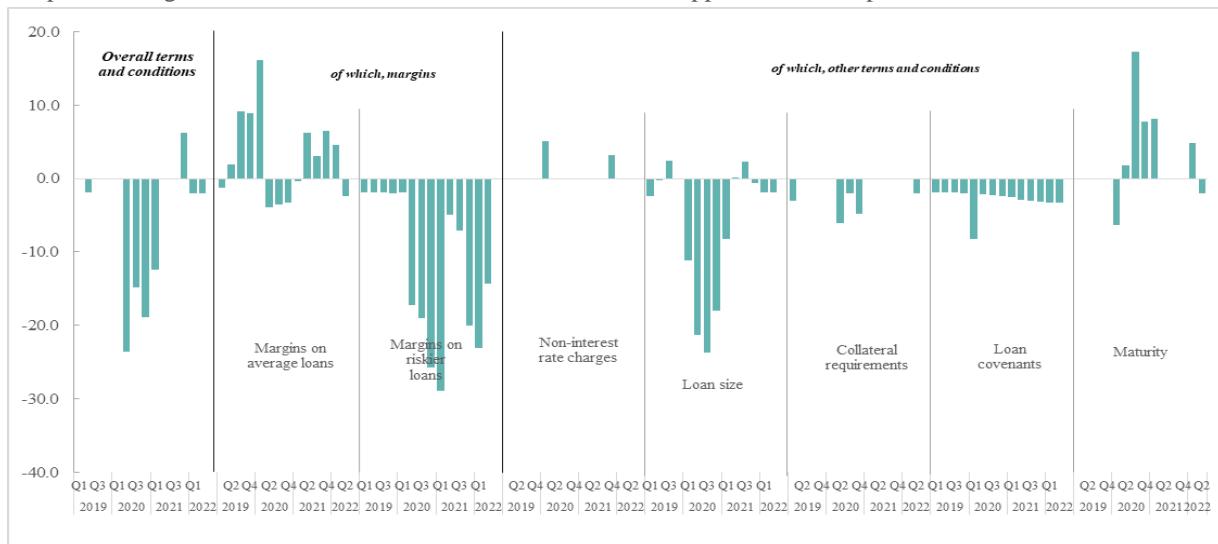
²: Calculated as net percentages. Positive values indicate that the factor contributed to the easing of credit standards, whereas negative ones to the tightening of credit standards.
Source: Bank of Albania.

In 2022 Q3, banks expect the credit standards to remain tightened, similar to 2022 Q2 (*Chart 1*). Thus, credit standard are expected to remain tightened across all categories of enterprise size. In terms of loans' purpose of use, credit standards are expected to remain tightened, both for loans in financing investments, and for loans in meeting the liquidity needs.

1.2. Terms and conditions

Overall terms and conditions on new loans to enterprises remained tightened in 2022 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 on riskier loans, reduced the loan size to enterprises; imposed higher collateral requirements; reduced the maximum loan maturity; and carried out higher loan covenants.

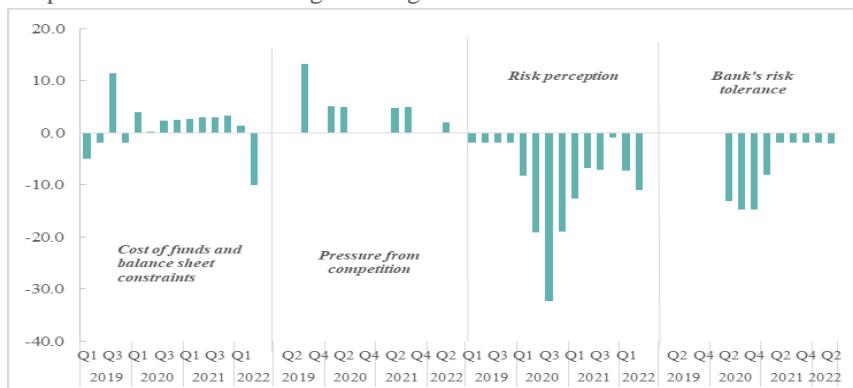
Graph 3. Change in overall terms and conditions on new loans approved to enterprises³



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 tightening of credit terms and conditions on loans to enterprises was driven by increased costs of funds, banks' perception on increased risk, as well as by banks' lower tolerance towards risk.

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

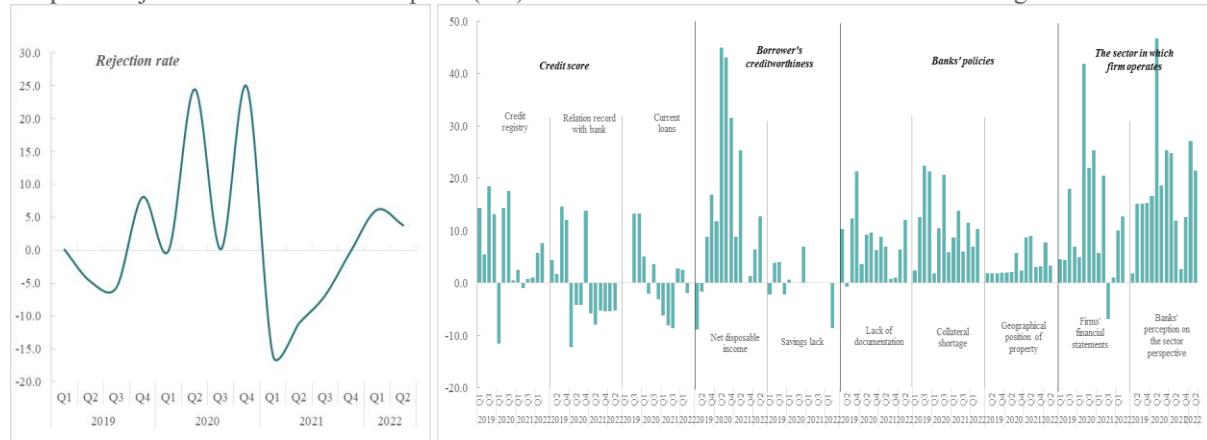


⁴: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions.
Source: Bank of Albania.

1.3. Loan approval rates

Banks reported lower loan approval rate for enterprises in the second quarter of 2022. Most of the factors affecting the rejection rate for enterprises' loans led to higher rejection rates. Hence, banks perception on the risk related to the sectoral perspective, enterprises' financial situation; factors related to banks' lending polices framework, creditworthiness; as well as relation record with banks led to higher rejected loans ratio. Factors leading to lower loan rejections were related to firms' relation record with the bank, disposable savings of firms, as well as to current loans' status.

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



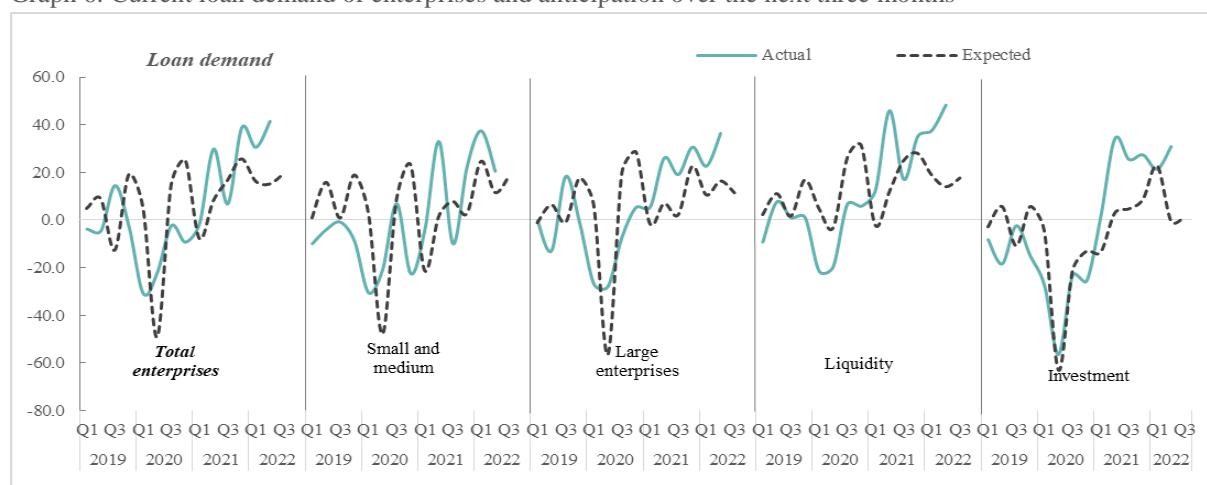
⁵: Positive values show increase of share of rejected loan applications relative to the total volume of applications (left) Also, positive values show that the facto has affected the increase of share of rejected loan applications (right-hand chart), while negative values show their reduction.

Source: Bank of Albania.

1.4. Demand for loans

Loan demand from enterprises remained high in the second quarter of 2022, as well. Net balances of loan demand recorded high positive values in this quarter, for both loans to small and medium-sized enterprises and to large enterprises. Net balance of loan demand in meeting liquidity needs recorded historical high level. Also, the demand for loans to finance investments was reported higher in this quarter.

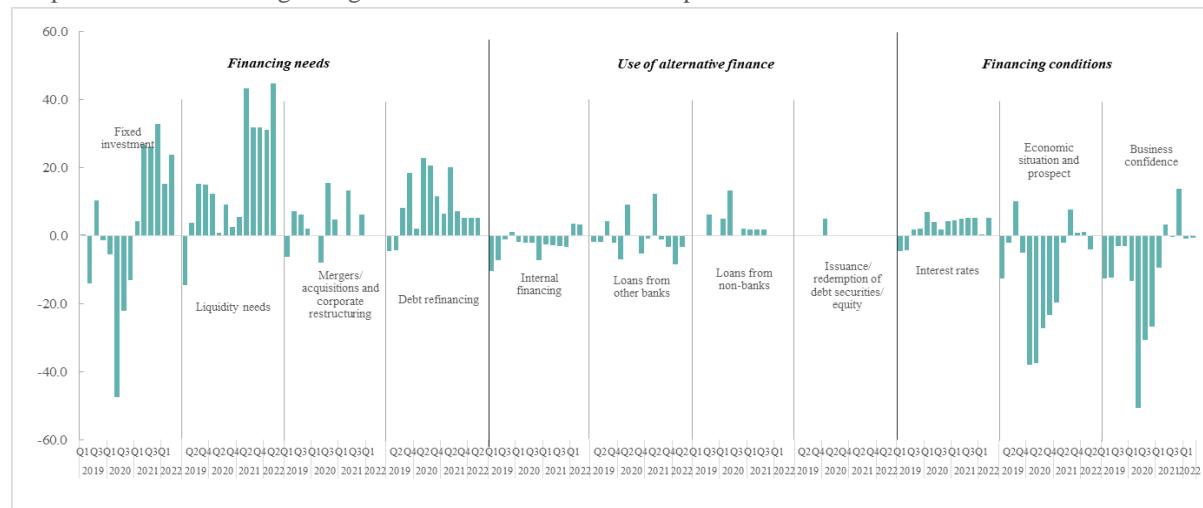
Graph 6. Current loan demand of enterprises and anticipation over the next three months⁶



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 in the second quarter of 2022 was driven by higher financing needs: for inventories and working capital; for investments financing; as well as for the refinancing of existing debts. Likewise, overall level of interest rates was reported as a factor fuelling the loan demand. On the other hand, loans from other banks, as well as the domestic economic situation and its prospect were reported as factors with a downward impact on loan demand.

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.

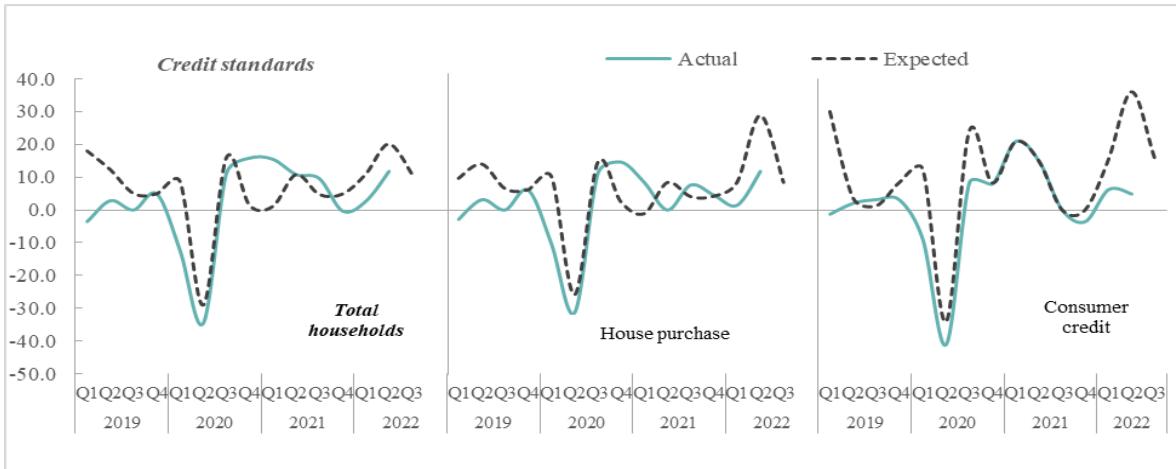
In 2022 Q3, banks anticipate higher loan demand from enterprises, across all categories: small and medium-sized enterprises, and large enterprises ([Chart 6](#)). The loan demand is expected to be higher for liquidity purposes, and to remain unchanged for investment purposes.

2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households remained eased in 2022 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.

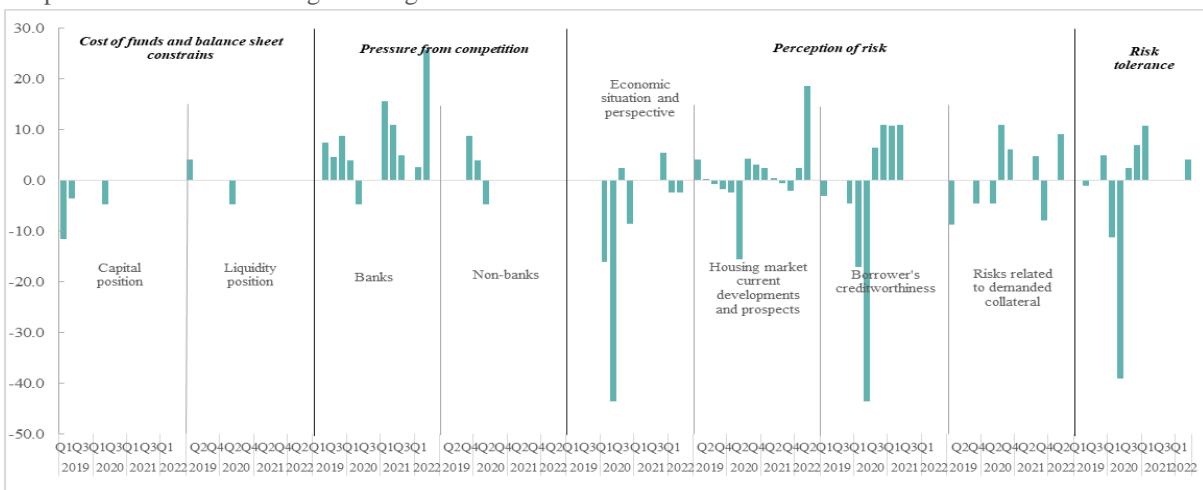
Graph 8. Change in credit standards for loans to households and anticipation for the next quarter⁸



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

The main factor leading to eased credit standards was increased competition in the banking system. Also, the perception of the banks regarding the current and expected developments in the housing market, risks related to demanded collateral, as well as the tolerance of the banks towards the risk contributed on the easing side of credit standards in this quarter¹. The perceived risk related to the domestic economic situation and its outlook was reported as the only one factor contributing on the tightening side of credit standards.

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

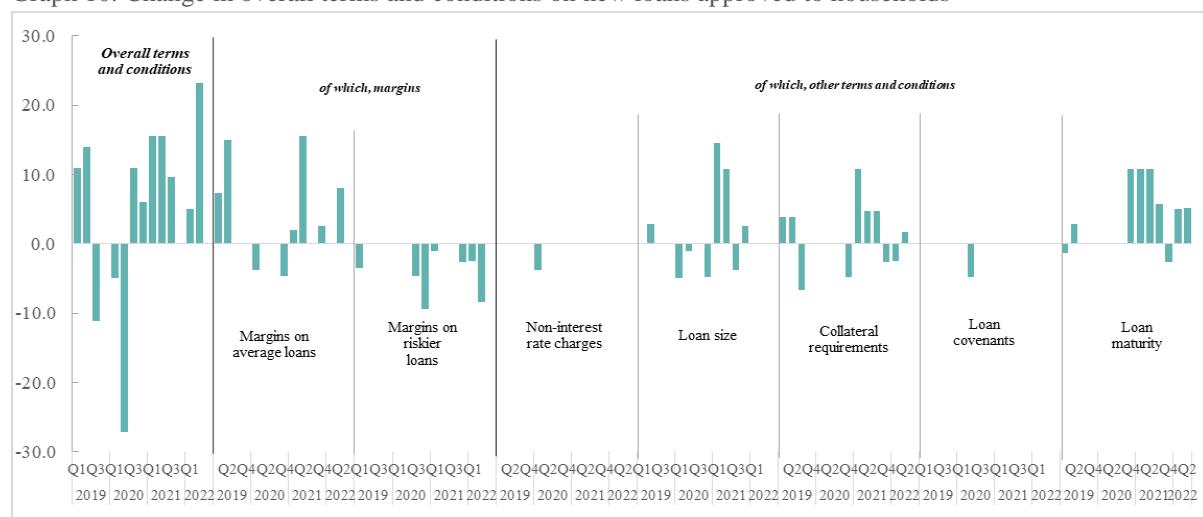
¹ These balances were mainly caused by the perception of one single bank of the system.

Banks expect to further ease of credit standards for loans to households in the third quarter of 2022, on both house purchase loans and consumer loans ([Chart8](#)).

2.2. Terms and conditions

Overall terms and conditions on loans to households continued to ease in 2022 Q2. The easing of credit terms and conditions was achieved due to: lower margins on average loans; higher loan maturity; and lower collateral requirements - in house purchase loans -. Higher margins on riskier loans were reported as the only factor with a tightening impact on credit terms and conditions to households.

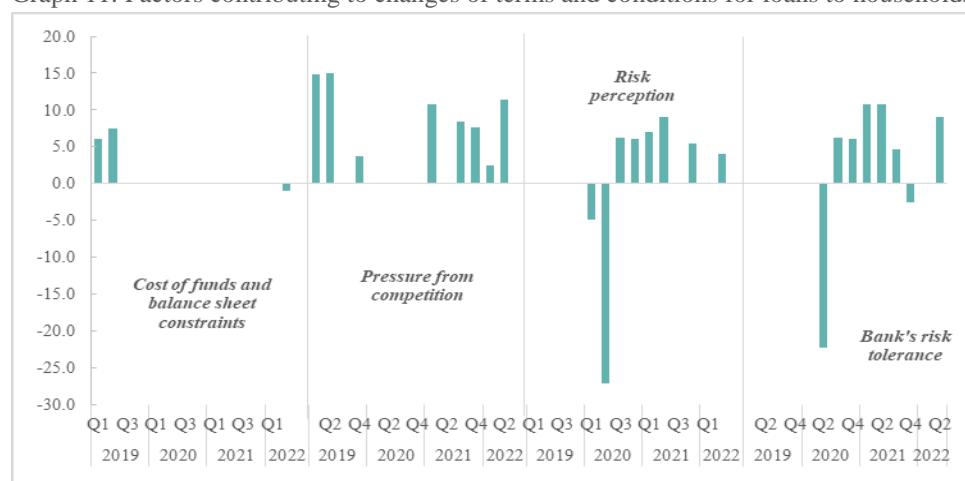
Graph 10. Change in overall terms and conditions on new loans approved to households¹⁰



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 pressure from competition in the banking system, the higher tolerance of banks towards risk, as well as lower risk perception were reported as factors behind eased credit terms and conditions during this quarter.

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

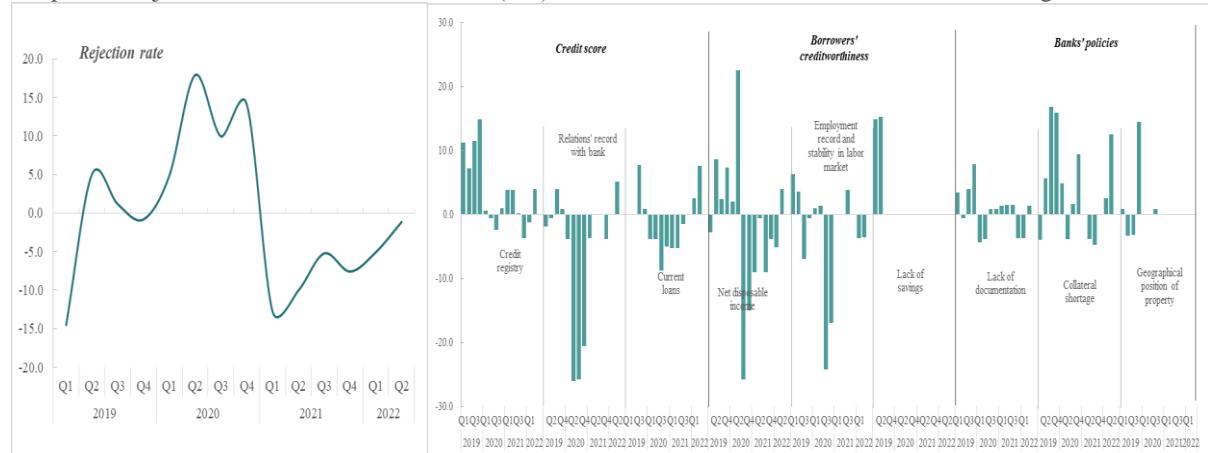


¹¹: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions.
Source: Bank of Albania.

2.3. Loan approval rates

Banks reported unchanged loan approval rate for households from a quarter ago. All factors related to the credit score of households (current loan status, history of relations with the bank, credit registry), lack of collateral, as well as available income contributed to higher rejection rates. In contrast to them, the employment record and stability of households in the labour market contributed on the downward side of rejected loans.

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



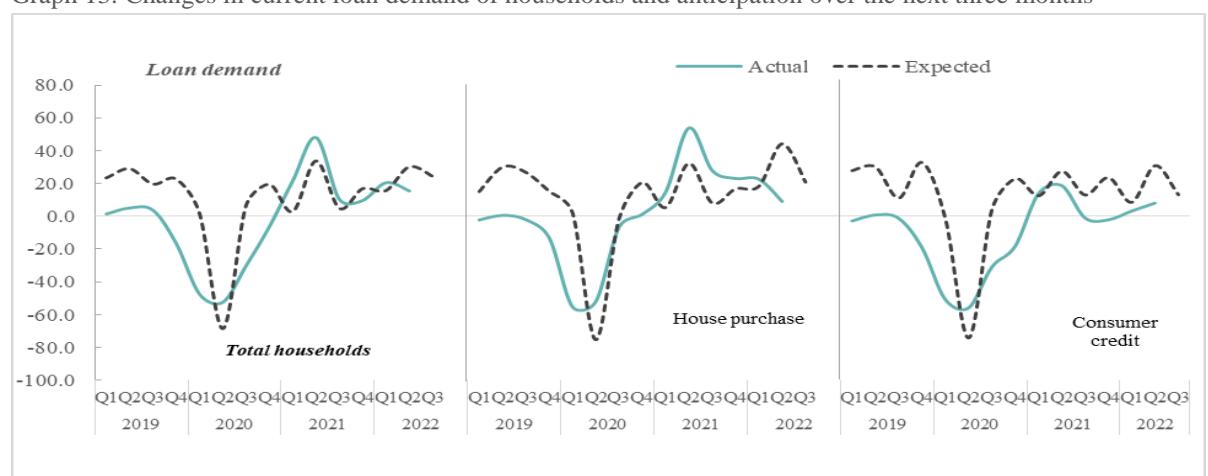
¹²: Positive values show increase of share of rejected loan applications relative to the total volume of applications (left) Also, positive values show that the facto has affected the increase of share of rejected loan applications (right-hand chart), while negative values show their reduction.

Source: Bank of Albania.

2.4. Demand for loans

Loan demand from households was perceived high in 2022 Q2 as well, driven by house purchase loans and consumer loans. In the third quarter of 2022, banks expect higher loan demand, for both house purchase loans and consumption loans.

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

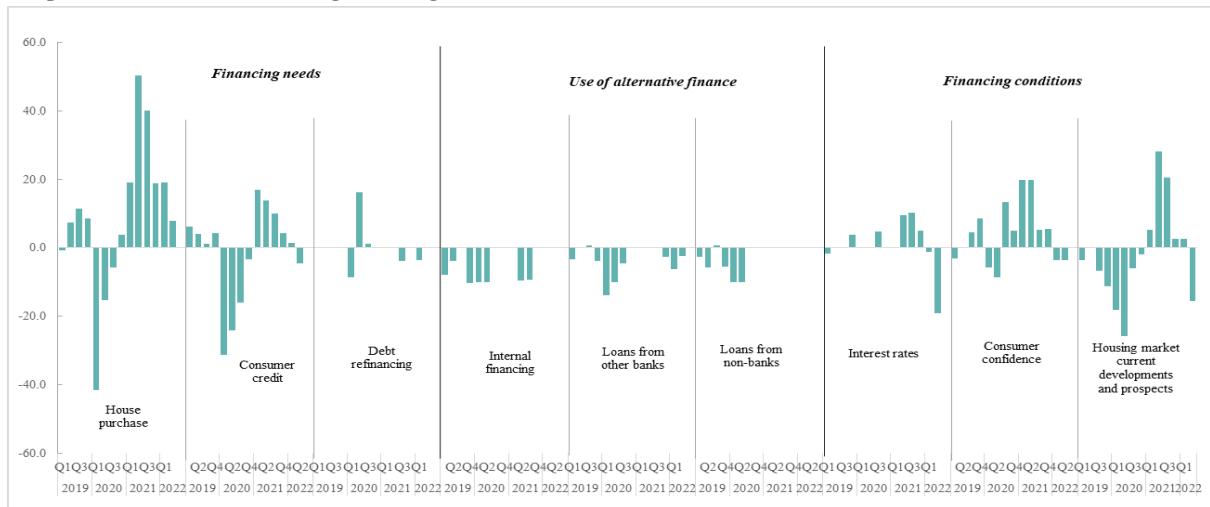


¹³: Calculated as net percentages. Positive values indicate an increase in loan demand, whereas negative ones a decrease in loan demand.

On banks' view, higher loan demand from households was mainly attributed to the increased needs for loans to finance the house purchase. Also, the campaigns undertaken by the banks for consumer loans

had a positive impact on loan demand during this quarter. The overall level of interest rates, as well as the current and expected developments in the housing market, 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.