



BANK LENDING SURVEY

2022 Q3

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October 2022

MONETARY POLICY DEPARTMENT

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 nine surveyed banks, which own the majority of loan stock for the private sector.

The BLS questionnaire, in principle, follows the practice implemented by the ECB, but it is modified allowing for some changes which reflect the specifications and features of the Albanian credit market. 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

In the third quarter, the lending policies of banks were more prudent in relation to credit demand across all economic agents. Commercial banks tightened their lending standards on new loans to enterprises and households, both in terms of loans' purpose of use by enterprises and households, as well as the size of enterprises. Banks tightened their lending standards and the terms and conditions for both enterprises and households. Prudent lending policies were also reflected in a lower degree of approved loans to all economic agents in the third quarter. Banks' more conservative approach toward lending was driven by the perception of a weaker domestic demand and higher uncertainty in the economy. As a result, banks became more vigilant regarding their assessment of borrowers' solvency.

Loan demand was high across all sizes of enterprises, to finance either investments, or inventories and working capital. An increase of costs, due to higher inflationary pressures, was among the main factors that drove loan demand upwards. On the other hand, higher energy costs pushed enterprises to seek new financing in order to invest in renewable sources. The loan demand of households was lower, for the first time after six quarters of growth. Commercial banks assessed that the declining demand for loans from households was influenced, among others factors, by rising interest rates, following the monetary policies adopted by the Bank of Albania and the European Central Bank.

In the last quarter, banks expect to maintain their prudential approach towards lending. In the face of tightened supply conditions, loan demand is also expected to be lower in the last quarter of the year.

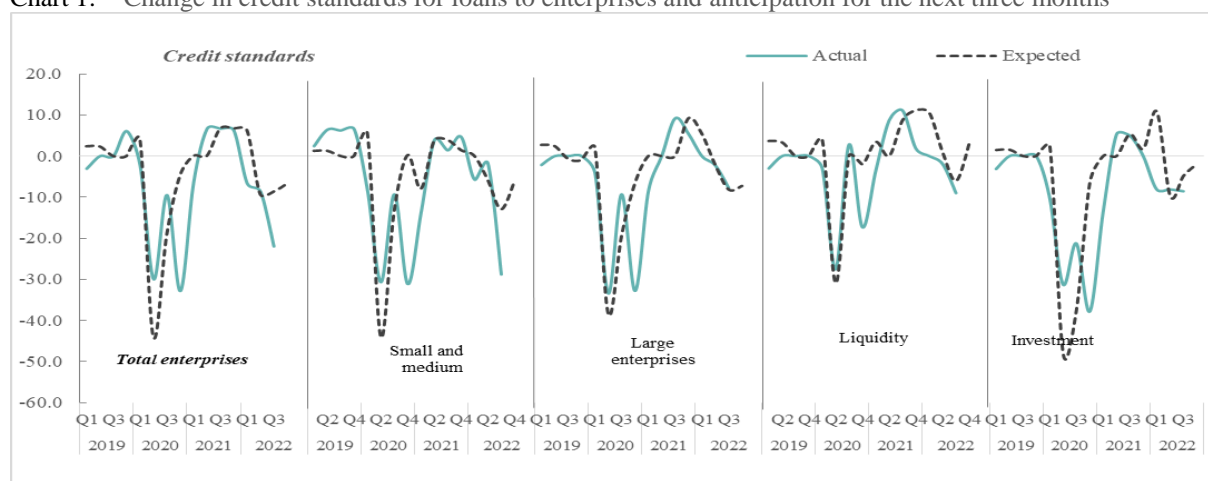
CREDIT SUPPLY CONDITIONS AND DEMAND FOR LOANS

1. LOANS TO ENTERPRISES

1.1. Credit standards

Credit standards for loans to enterprises continued to tighten in 2022 Q3. Banks indicated tightened credit standards for SMEs, and large enterprises. Credit standards tightened for both loans used to meet liquidity needs and loans for financing investments.

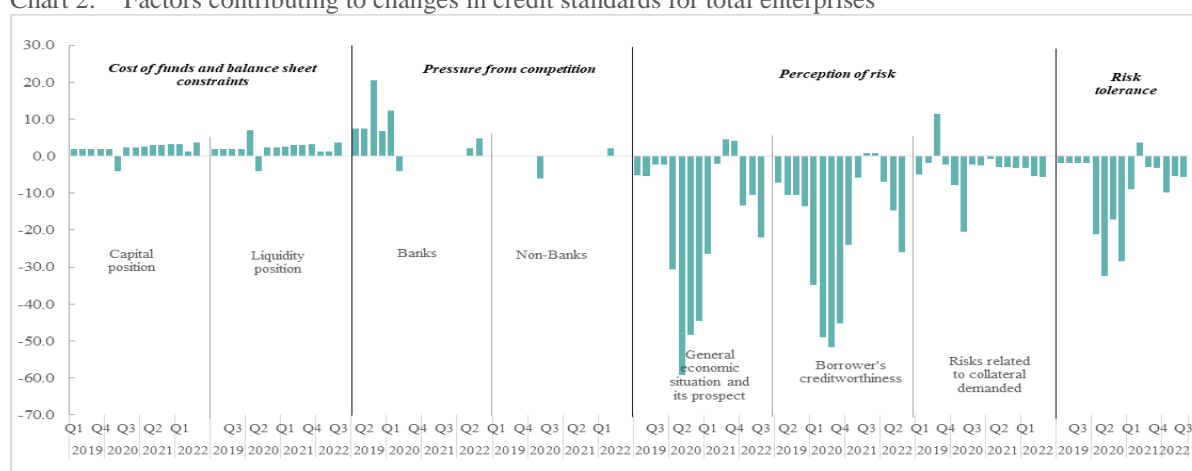
Chart 1. Change in credit standards for loans to enterprises and anticipation for the next three months¹



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

Tightened credit standards to enterprises was attributable to higher risk perceived by banks regarding the current economic situation and its prospect, borrowers' credit-worthiness and the demanded collateral. At the same time, lower risk tolerance was another factor behind tightened credit standards on loans to enterprises. Increased pressure from competition in the banking system contributed to the easing of credit standards.

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



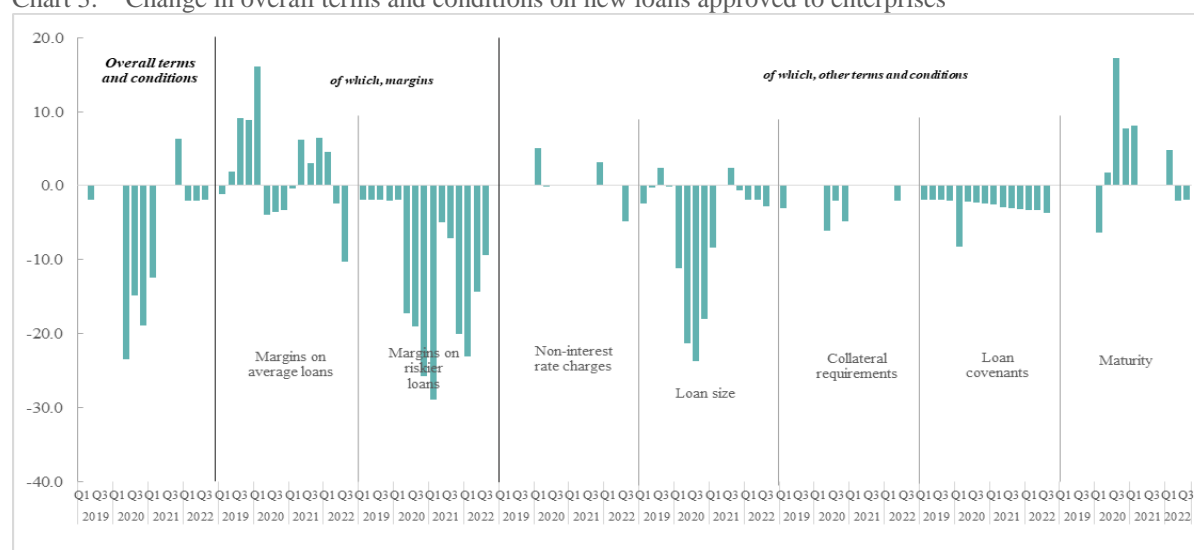
²: Calculated as net percentages. Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions. Source: Bank of Albania.

In 2022 Q4, credit standards on loans to enterprises are not expected to change from 2022 Q3 ([Chart 1](#)). Thus, credit standards are expected to remain tightened across all categories of enterprise size. In terms of purpose of use, banks expect to maintain tightened credit standards on loans for investment purposes and ease them on loans for meeting liquidity needs.

1.2. Terms and conditions

Overall terms and conditions on new loans to enterprises tightened in 2022 Q3. Both price and non-price elements contributed to the tightening. Therefore, banks reported higher margins on both average loans and riskier loans; they reduced the size of loans granted to enterprises; increased non-interest commissions; reduced the maximum loan maturity; as well as carried out higher loan covenants.

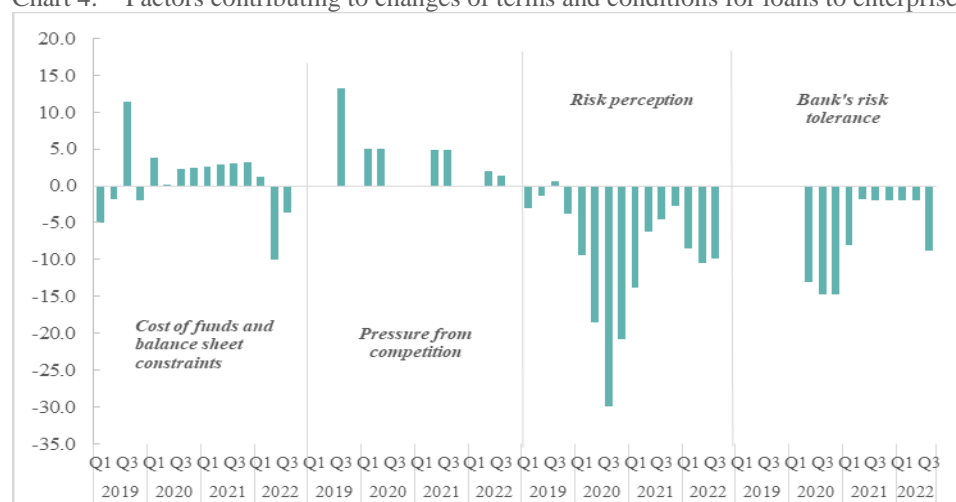
Chart 3. Change in overall terms and conditions on new loans approved to enterprises³



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

In the third quarter, the tightening of terms and conditions for loans to enterprises was impacted by: banks' increased risk perception; their lower tolerance toward risk; and the higher cost of funds.

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



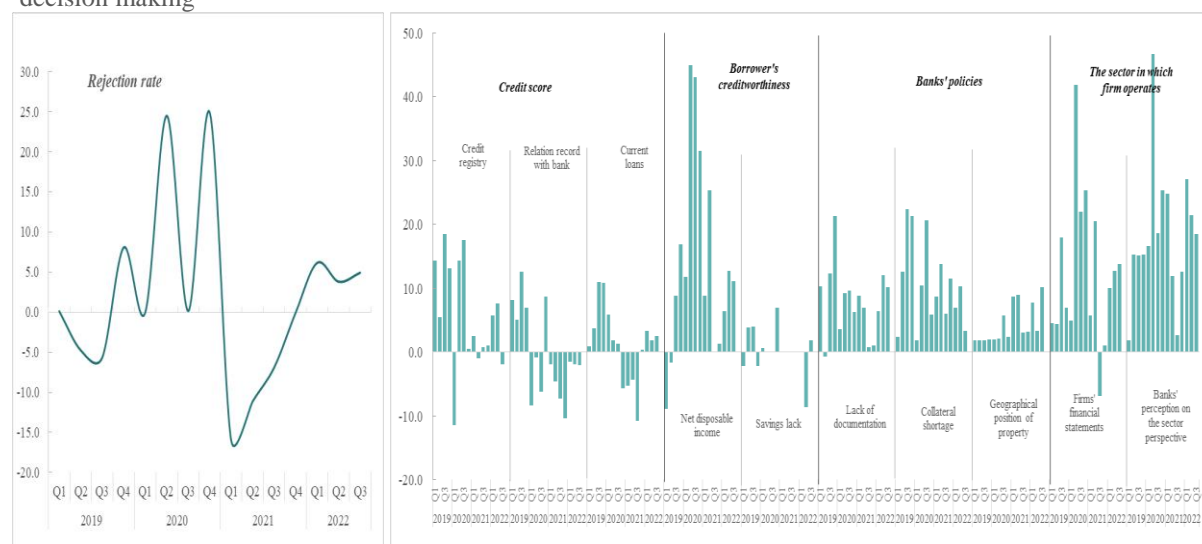
⁴: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions.

Source: Bank of Albania.

1.3. Loan approval rates

The loan approval rate for enterprises was lower in the third quarter. The factors behind the higher rejection rates (lower loan approval rate) of loans, were the following: banks' perception of the risk related to sectoral perspective; enterprises' financial situation; borrowers' credit-worthiness; as well as factors related to banks' lending policy framework. The credit score derived from the relations record with the bank and credit registry record had a diminishing impact on rejection rates for enterprises.

Chart 5. Rejected loan ratio to the total loan application for enterprises (left) and the factors behind banks' decision making⁵



⁵: 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.

1.4. Demand for loans

Banks reported a continued increase in demand for loans from enterprises, in the third quarter as well. Loan demand was reported as high, across loans' purpose of use and enterprise size.

Chart 6. Changes in current loan demand of enterprises and anticipation over the next three months⁶

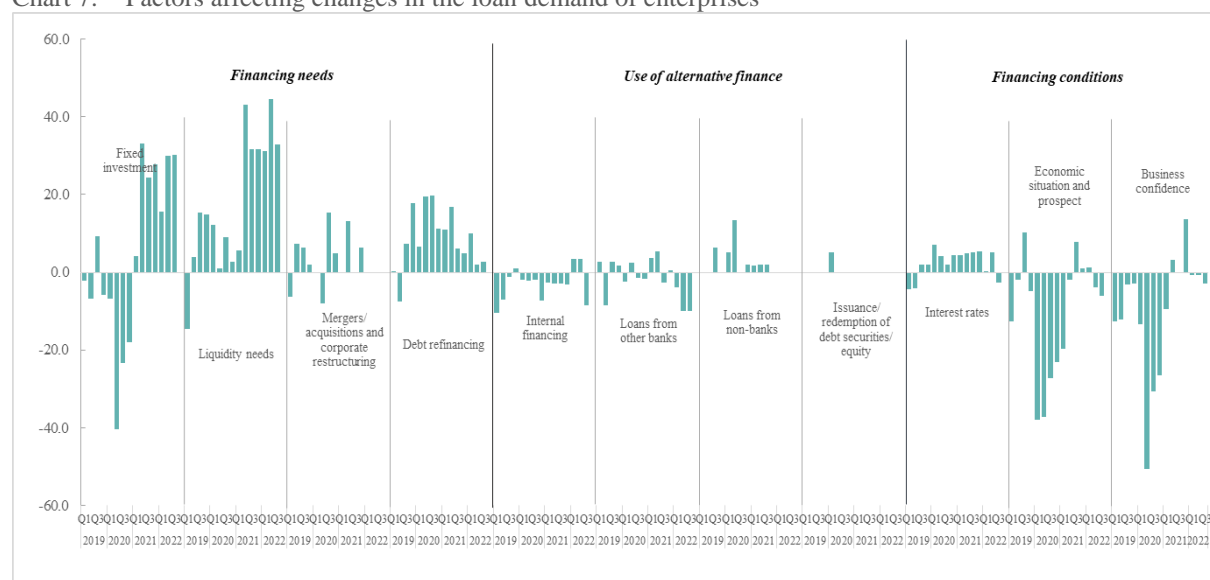


⁶: Calculated as net percentages. Positive values indicate an increase in loan demand, whereas negative ones a decrease in loan demand.

Source: Bank of Albania.

From the perspective of banks, a higher necessity to finance inventories and working capital, investments, as well as debt refinancing contributed to elevated loan demand from enterprises. On the other hand, loans from other banks, internal financing deployment, the domestic economic situation and its prospect, the overall level of interest rates, as well as business confidence were reported as factors with a negative impact on loan demand in the third quarter.

Chart 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.

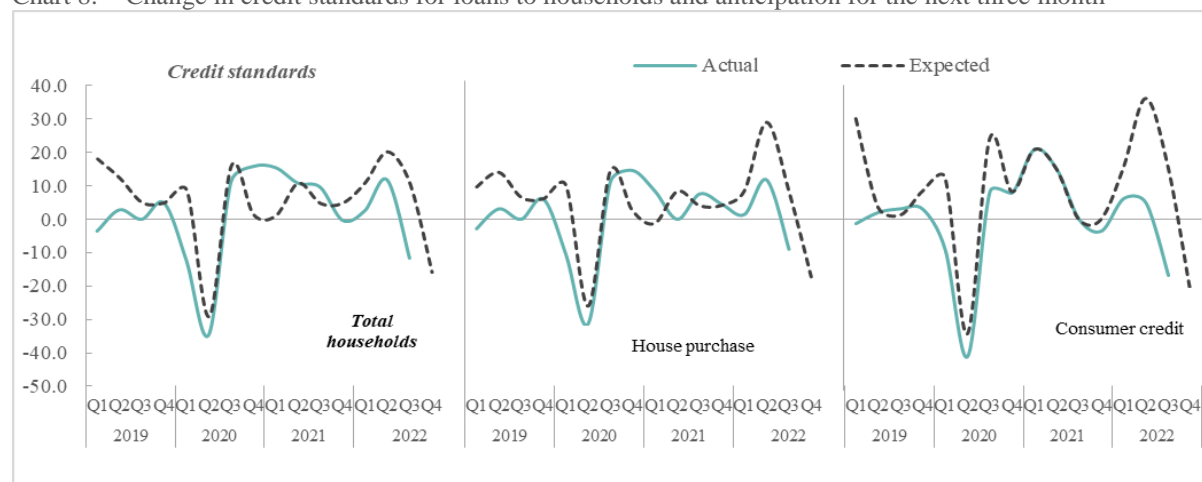
In 2022 Q4, banks anticipate a lower loan demand from enterprises, mainly due to the expected fall of loans for investment purposes ([Chart 6](#)). In terms of enterprise size, banks expect a continued increase in loans for large enterprises, and a decrease in loans for small and medium-sized enterprises.

2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households were tightened in the third quarter of 2022. Credit standards on loans tightened for both purposes of use: house purchase loans and consumer loans.

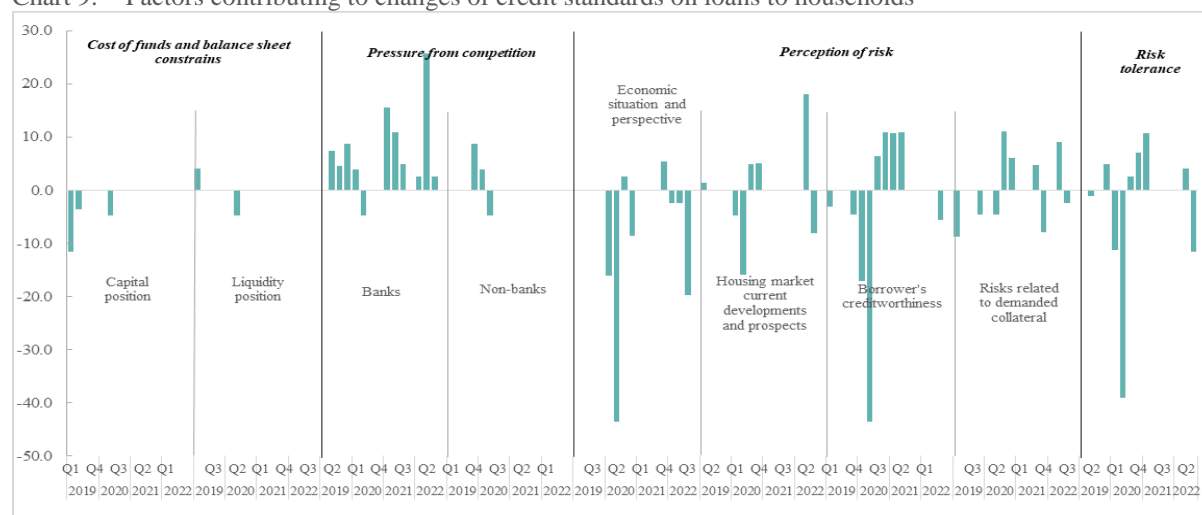
Chart 8. Change in credit standards for loans to households and anticipation for the next three month⁸



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 tightened due to banks' risk perception related to the macroeconomic situation in Albania and its prospect; current developments in the housing market; borrowers' solvency; as well as demanded collateral. Credit standards also tightened due to the lower tolerance of banks towards risk.

Chart 9. Factors contributing to changes of credit standards on loans to households⁹



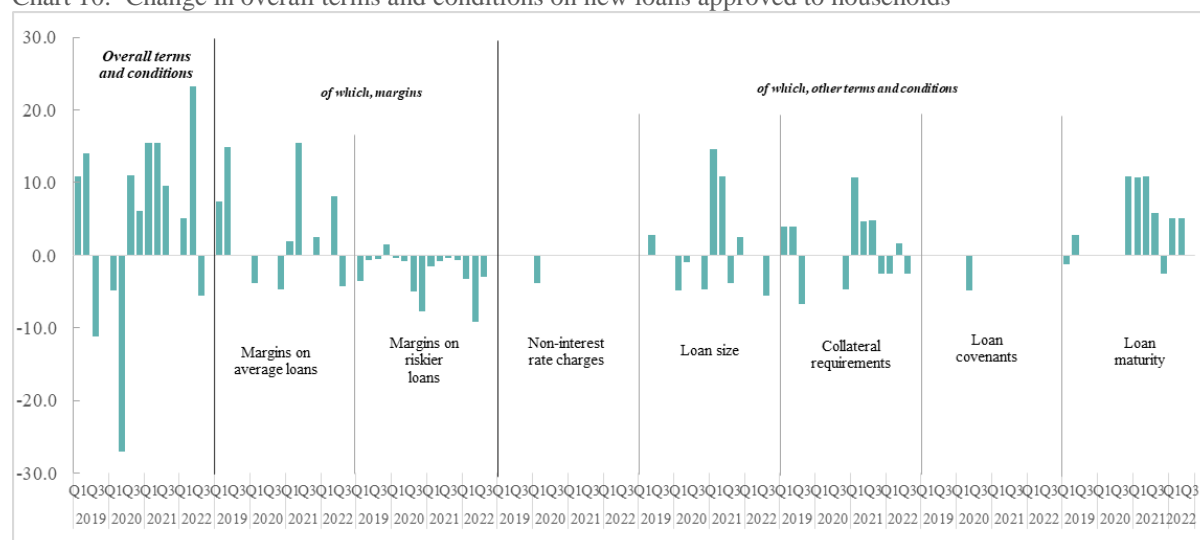
⁹: Calculated as net percentages. Positive values indicate that the factor contributed to the easing of credit standards, whereas negative ones to the tightening of credit standards. Source: Bank of Albania.

Banks expect to tighten the credit standards to households in the last quarter of 2022, on both house purchase loans and consumption loans ([Chart 8](#)).

2.2. Terms and conditions

Overall terms and conditions on loans to households tightened in the third quarter. The tightening of the terms and conditions on loans was attained through higher loan margins, on both average and riskier loans; a decrease in loan size; as well as higher collateral requirements, only on mortgage loans.

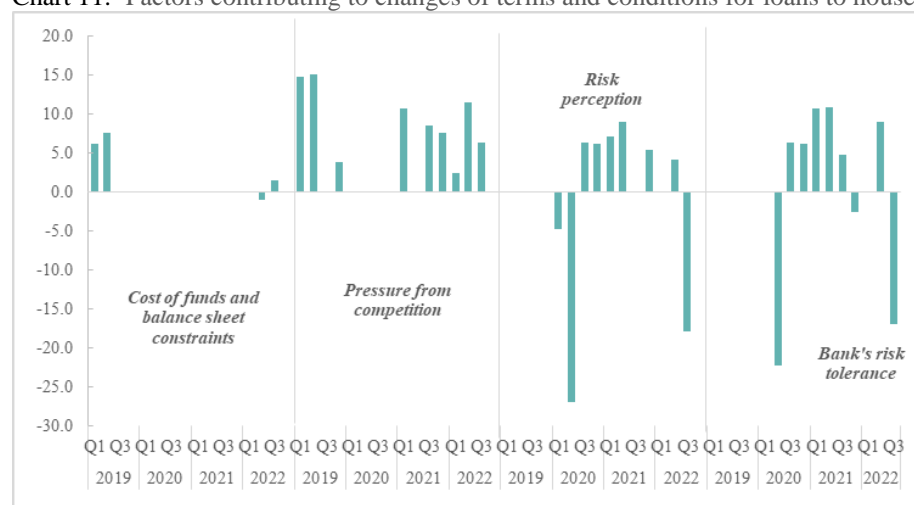
Chart 10. Change in overall terms and conditions on new loans approved to households¹⁰



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

Tightened terms and conditions were attained due to banks' risk perception and their lower risk tolerance. Competition in the banking system was reported to have an easing impact on households' credit terms and conditions.

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

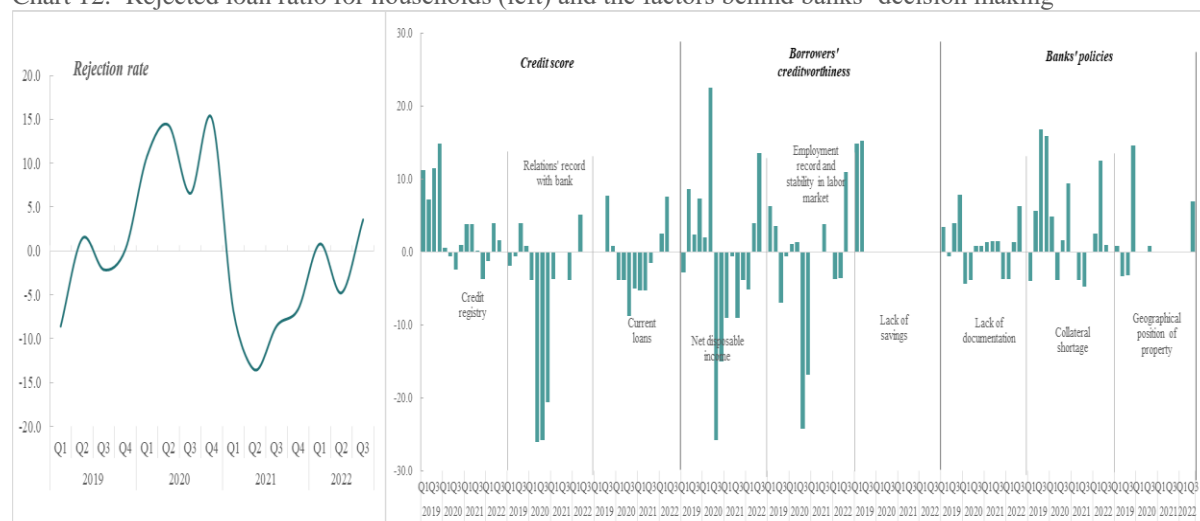


¹¹: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions. Source: Bank of Albania.

2.3. Loan approval rates

In Q3, banks reported lower loan approval rates for households. Factors related to borrowers' solvency, such as net available income and employment record; and the administrative framework of banks' lending policies, such as the geographical position of property and the lack of required documentation handed by households, contributed to a higher loan rejection rate.

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



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 third quarter, for both house purchase and consumption loans. In the last quarter of 2022, households' loan demand is expected to remain low, for both house purchase and consumer credit.

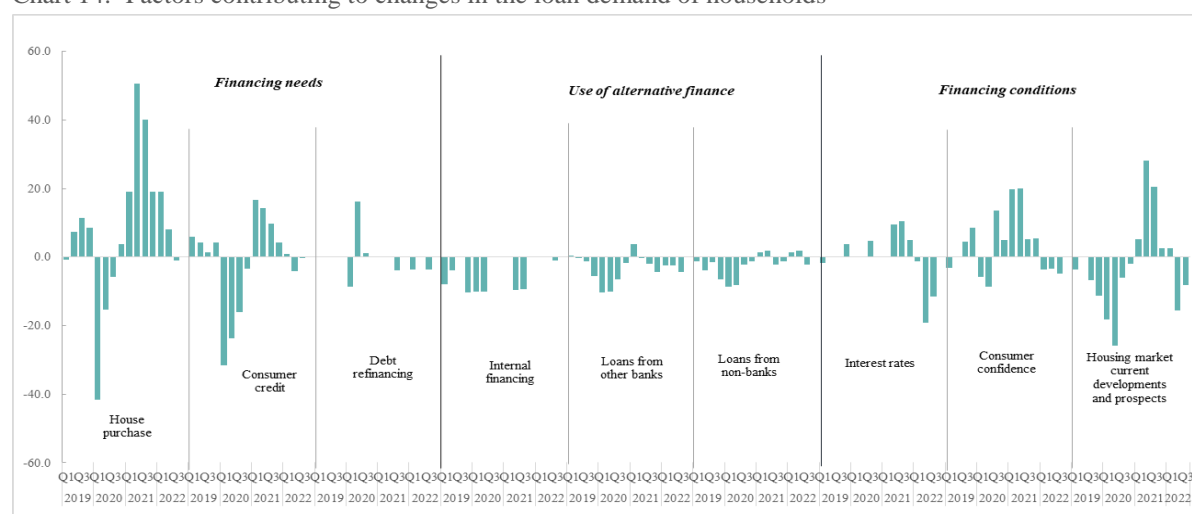
Chart 13. Changes in current loan demand of households and anticipation over the next three months¹³



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

From the perspective of banks, the overall level of interest rates, current and expected developments in the housing market, and consumer confidence were the main factors contributing to a lower loan demand from households.

Chart 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.