



BANK LENDING SURVEY

2022 Q4

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January 2023

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 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/](https://www.bankofalbania.org/Monetary_Policy/Surveys_11282/Bank_Lending_Survey/)*

## OVERVIEW OF RESULTS<sup>1</sup>

*In the last quarter of 2022, banks continued to remain prudent in lending to economic agents. Commercial banks tightened their lending standards, terms and conditions for new loans to enterprises, both in terms of the size of enterprises, as well as the loans' purpose of use. In the same line, also the loan approval rate (to the total loan applications) fell during the last quarter. Banks continue to perceive risks and uncertainty related to macroeconomic and financial situation and its perspective, which may threaten the balance sheets of enterprises. For this reason, banks have based their lending policies on a narrower band of tolerance toward risk. On the other side, banks' higher cost of funds, on the back of monetary policy normalisation in Albania and abroad, is posting an increased tightening factor on terms and conditions for loans to enterprises.*

*Banks have embarked on a prudent stance towards lending to households, as reflected in the tightened credit standards and in the lower degree of loan approval rate. On the other hand, the eased terms and conditions on loans - mainly fuelled by the increased competition in the system - drove to the finalisation of increased credit portfolio of individual banks for the segment of households.*

*Loan demand was reported as high across all sizes of enterprises, mainly to finance either investments, or inventories and working capital. Banks reported a lower loan demand from households for both house purchase and consumption financing. On commercial banks' view, the declining demand for loans from households reflected the rising interest rates, along with the macroeconomic environment-related uncertainties.*

*In the first quarter of 2023, the prospect on credit supply conditions is expected to remain unchanged across almost all economic agents. On the other side, loan demand is expected to be lower, mainly for investment financing and from both small and medium-sized enterprises. While banks expect higher loans for liquidity purposes. For households, lower loan demand in the first quarter is expected to derive from the needs for house purchase and consumption financing.*

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<sup>1</sup> Refer to the glossary at the end of the material for the terminology used in this analysis.

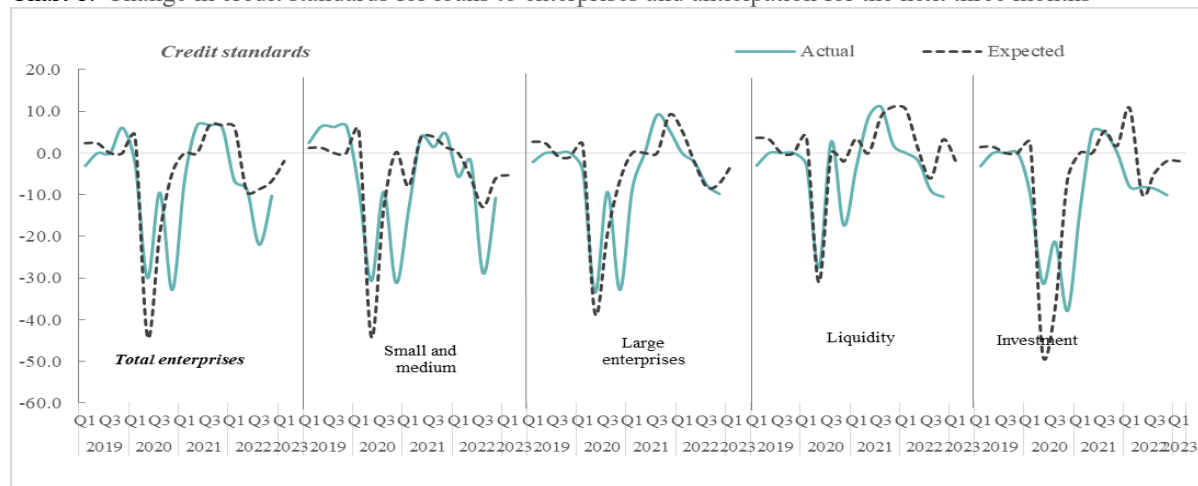
# Credit supply conditions and demand for loans

## 1. LOANS TO ENTERPRISES

### 1.1. Credit standards

**Credit standards for loans to enterprises continued to tighten** in the last quarter of 2022. Tightened credit standards were reported for both segments: SMEs and large enterprises. Credit standards tightened for both loans used for financing investments and to meet liquidity needs.

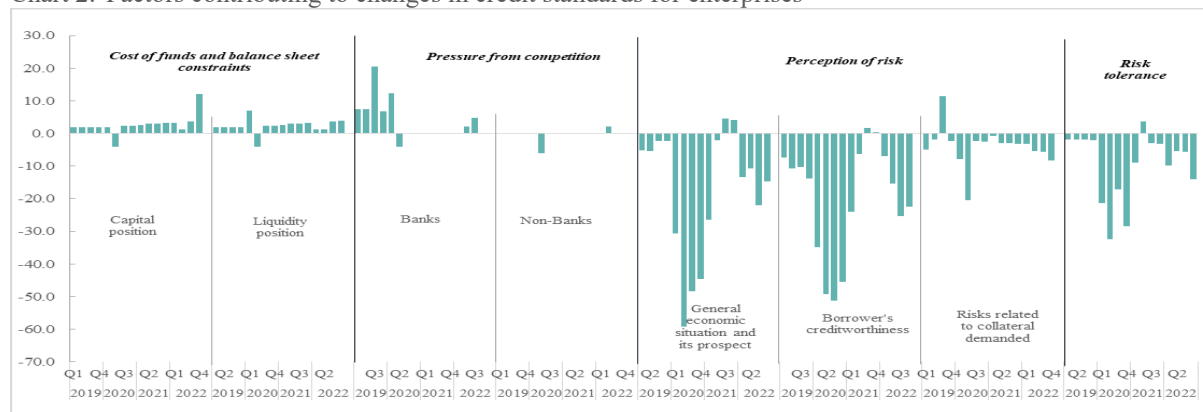
Chart 1. Change in credit standards for loans to enterprises and anticipation for the next three months<sup>1</sup>



<sup>1</sup>: 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' creditworthiness, from economic situation and its prospect, as well as from demanded collateral, were the main drivers behind tightened credit standards on loans to enterprises. Additionally, banks' lower tolerance toward risk was another factor backing the tightened credit standards. On the easing side of credit standards were reported the cost of funds and the banks' capital position constraints<sup>2</sup>.

Chart 2. Factors contributing to changes in credit standards for enterprises<sup>2</sup>



<sup>2</sup>: 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.

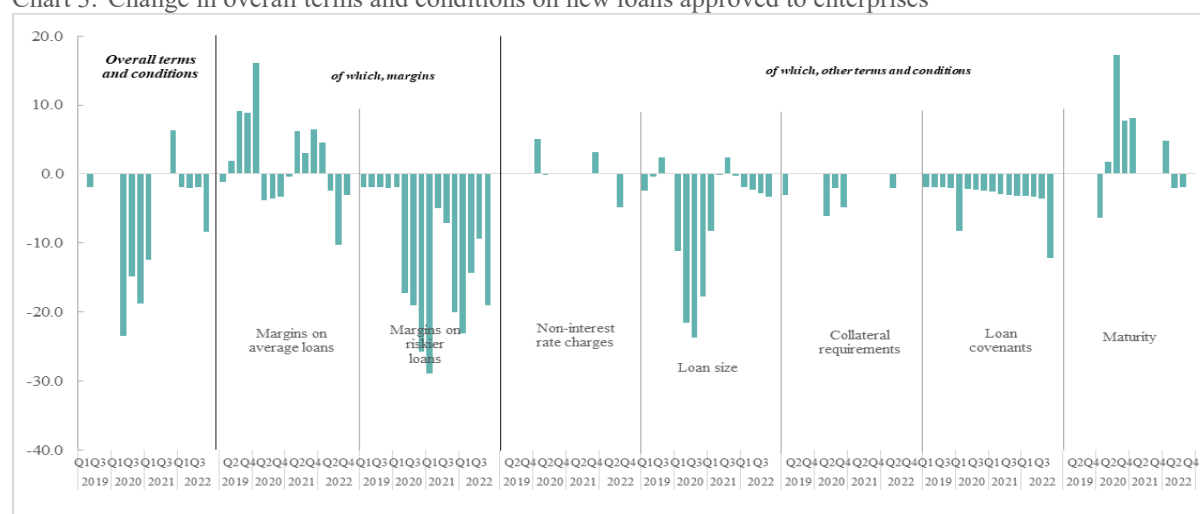
<sup>2</sup> Only one bank of the system reported this element as a factor contributing to the easing of credit standards, in reflection of this bank's structural change.

In 2023 Q1, banks anticipate almost unchanged credit standards for both segments of loans' purpose of use. In terms of business size, banks expect to maintain tightened credit standards on loans to small and medium-sized enterprise, while remaining almost unchanged on loans to large enterprises ([Chart 1](#)).

## 1.2. Terms and conditions

**Overall terms and conditions on new loans to enterprises continued to tighten** in 2022 Q4. Both price and non-price elements contributed to the tightening. Therefore, banks reported higher margins mainly on riskier loans; they reduced the size of loans granted to enterprises; as well as carried out higher loan covenants. Banks reported the other components of credit terms and conditions as unchanged.

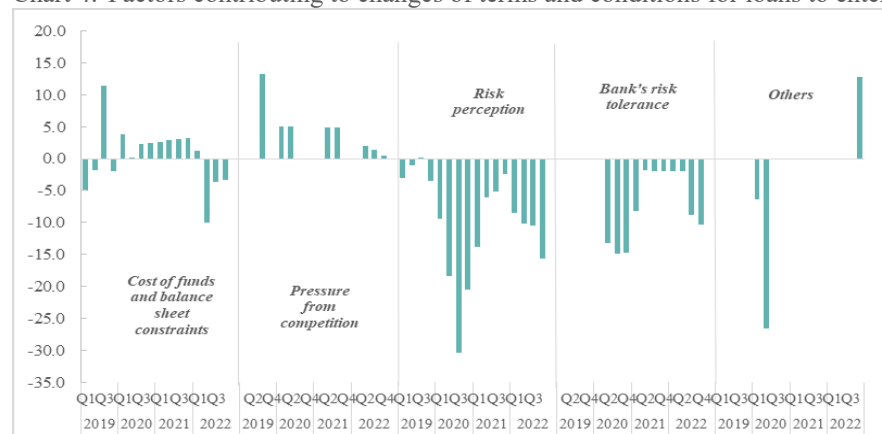
Chart 3. Change in overall terms and conditions on new loans approved to enterprises<sup>3</sup>



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

In the fourth quarter, the tightening of terms and conditions for loans to enterprises was impacted by: banks' increased risk perception and their lower tolerance toward risk. On the other side, following the banks' opinion, the rapid rise of interest rates applied on instruments serving to index loans granted to enterprises (12-month T-bills, Euribor, and Libor), had an easing impact on terms and conditions for loans to enterprises, in order to "compensate" for the effect of the increased benchmarks on loans.

Chart 4. Factors contributing to changes of terms and conditions for loans to enterprise<sup>4</sup>

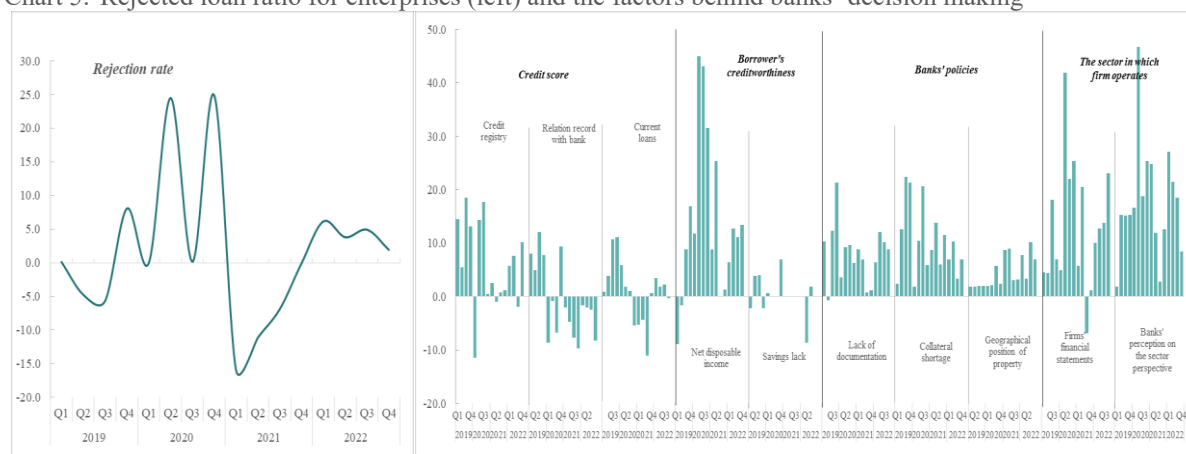


<sup>4</sup>: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions.  
Source: Bank of Albania.

### 1.3. Loan approval rates

**Banks reported lower loan approval rate for enterprises** in the fourth quarter of 2022. The factors behind the lower approval rates (higher rejection rate) of loans, in this quarter, were the following: banks' perception of increased risk related to enterprises' financial situation; sectoral perspective; borrowers' credit-worthiness; as well as factors related to banks' lending policy framework. The credit score derived from the relations record with the bank was reported as the only factor with a diminishing impact on rejection rates for enterprises.

Chart 5. Rejected loan ratio for enterprises (left) and the factors behind banks' decision making<sup>5</sup>

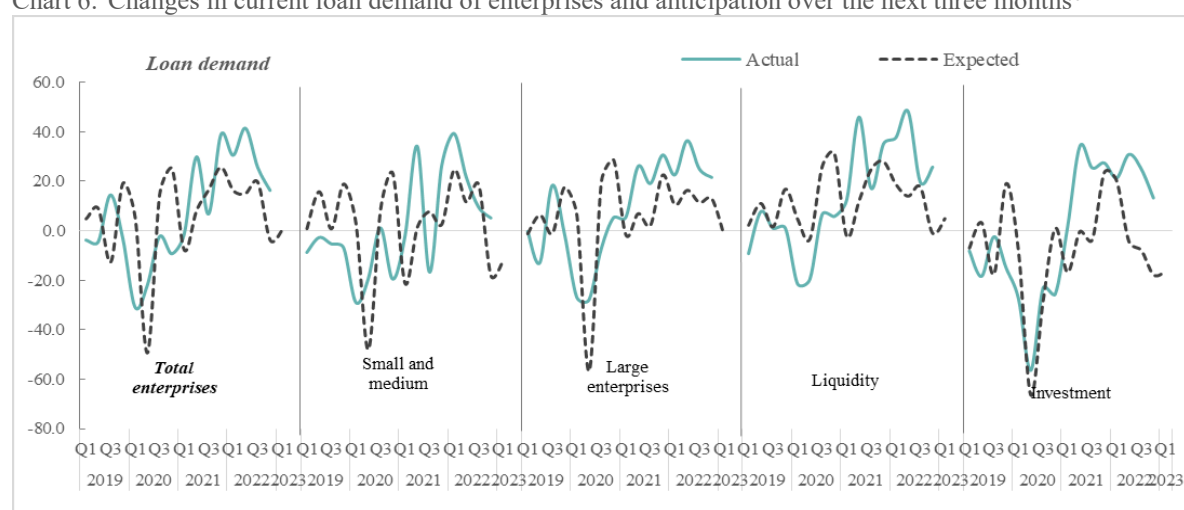


<sup>5</sup>: Positive values show an increase in rejected applications to the total loan applications (left-hand chart). Also, positive values indicate that the factor has contributed to an increase of rejection rate (right-hand chart), while the negative ones to their reduction.  
Source: Bank of Albania.

### 1.4. Demand for loans

**Banks reported a continued increase in demand for loans from enterprises**, in the fourth quarter as well. The high loan demand was more pronounced for large enterprises and across loans' purpose of use.

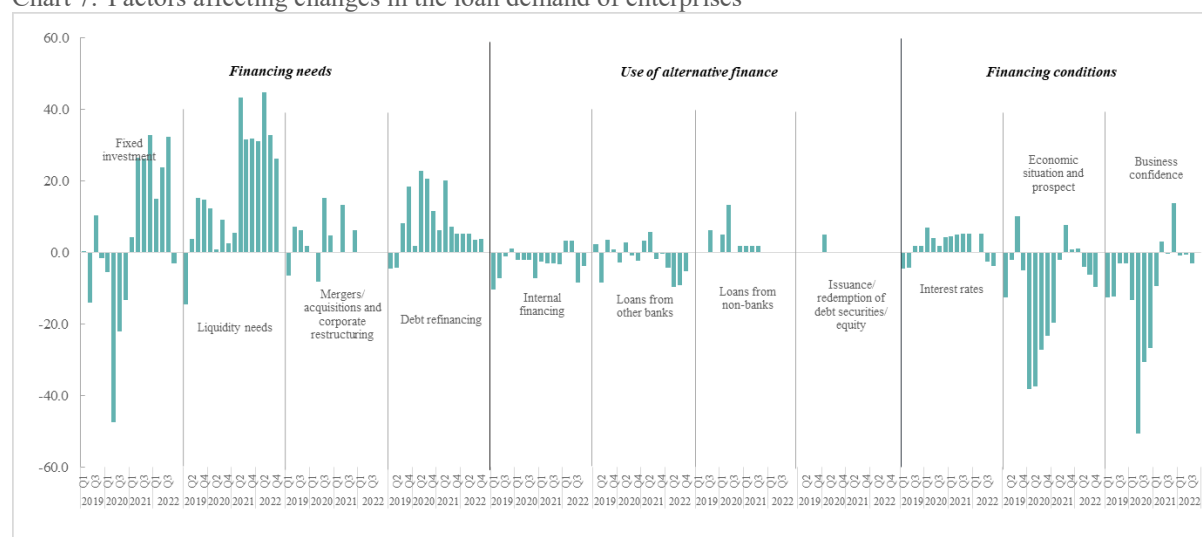
Chart 6. Changes in current loan demand of enterprises and anticipation over the next three months<sup>6</sup>



<sup>6</sup>: 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, mainly 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 for enterprises in the last quarter.

Chart 7. Factors affecting changes in the loan demand of enterprises<sup>7</sup>



<sup>7</sup>: 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.

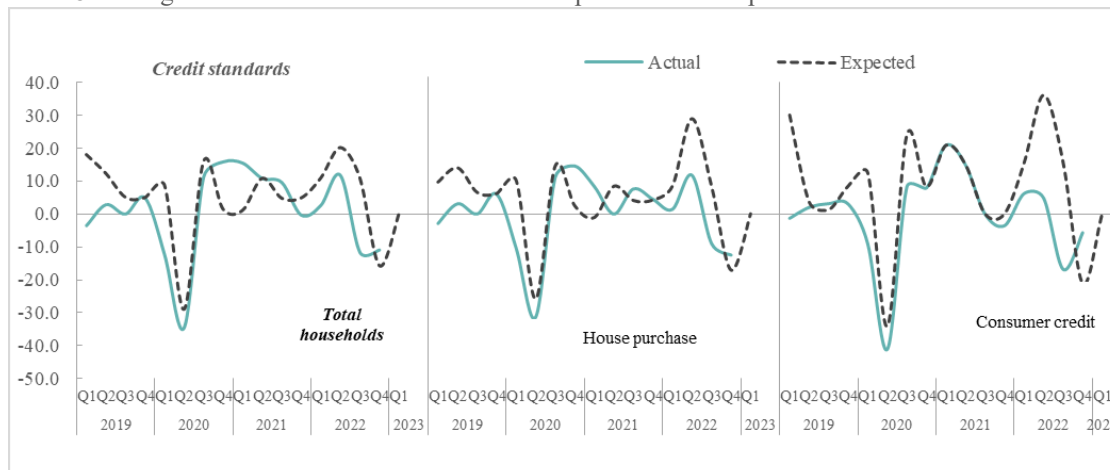
In 2023 Q1, banks anticipate a lower loan demand from enterprises, mainly due to the expected contraction of loans for investment purposes ([Chart 6](#)). In 2023 Q1, the loan demand is expected to be high for liquidity purposes as well. In terms of enterprise size, banks expect a decrease in loan demand from small and medium-sized enterprises, and to remain unchanged from large enterprises.

## 2. LOANS TO HOUSEHOLDS

### 2.1. Credit standards

**Credit standards for loans to households remained tightened** in 2022 Q4. The tightening of credit standards was observed in both categories of the purpose of the loan, in house purchase loans and consumer loans as well.

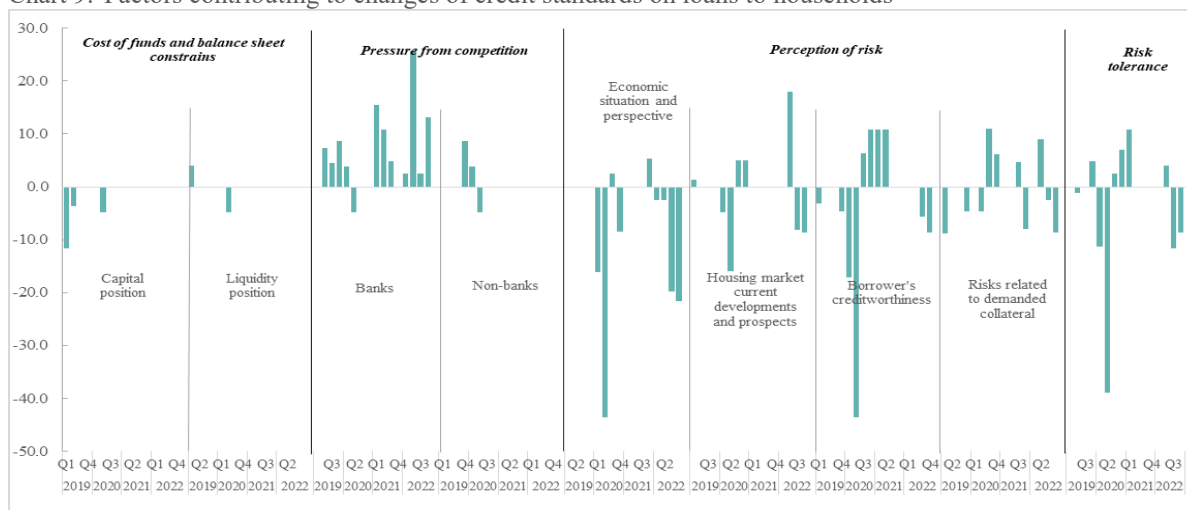
Chart 8. Change in credit standards for loans to enterprises and anticipation for the next three months<sup>8</sup>



<sup>8</sup>: 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. On the other hand, the increased competition in the banking system was reported as the factor with positive contribution in credit standards in the fourth quarter.

Chart 9. Factors contributing to changes of credit standards on loans to households<sup>9</sup>



<sup>9</sup>: 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.

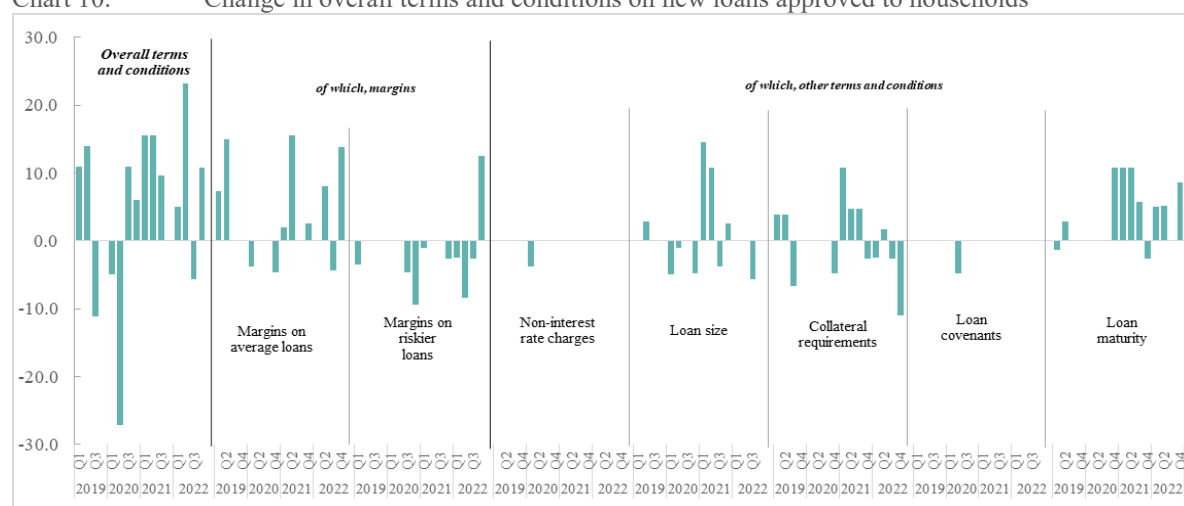
Banks expect to maintain credit standards to households unchanged in the first quarter of 2023, on both house purchase loans and consumer credit ([Chart 8](#)).



## 2.2. Terms and conditions

**Overall terms and conditions on loans to households were eased** in the fourth quarter of 2022. The easing of the terms and conditions on loans was attained through lower loan margins, on both average and riskier loans<sup>3</sup>. Also, higher maximum loan maturity had contributed on the easing side of terms and conditions on loans to households. On the other side, higher collateral requirements - in house purchase loans - were reported as the only factor with a tightening impact on credit terms and conditions to households.

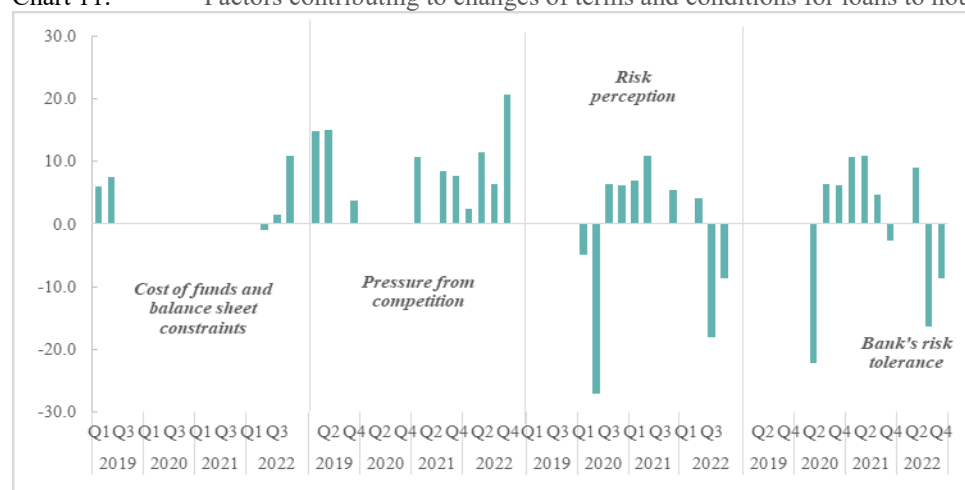
Chart 10. Change in overall terms and conditions on new loans approved to households<sup>10</sup>



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

Higher competition in the banking system, as well as cost of funds and balance sheets constraints<sup>4</sup> were reported as factors driving to the easing of credit terms and conditions on loans to households. On the other hand, banks' risk perception and their lower tolerance toward risk backed the tightening of terms and conditions on loans to households.

Chart 11. Factors contributing to changes of terms and conditions for loans to households<sup>11</sup>



<sup>11</sup>: 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.

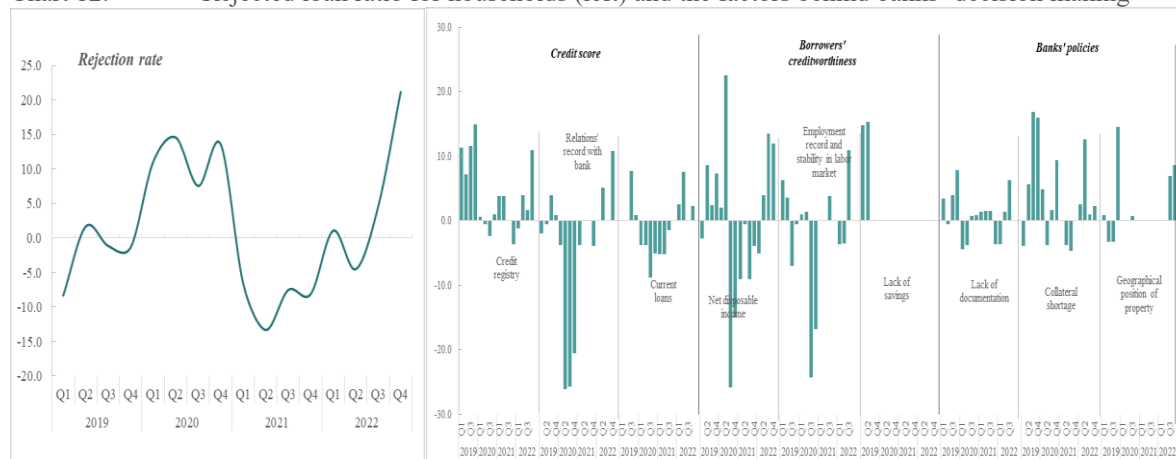
<sup>3</sup> Eased overall terms and conditions on loans were attributable to the easing as reported by only one bank of the system, due to the seasonal offers supplied by this bank.

<sup>4</sup> Only one bank of the system reported lower cost of funds and balance sheets constraints.

### 2.3. Loan approval rates

**Banks reported reduced loan approval rate for households in the fourth quarter.** Banks' perception on disposable income, factors related to the credit score of households and factors reflecting banks' policies related to lending contributed to higher rejection rates.

Chart 12. Rejected loan ratio for households (left) and the factors behind banks' decision making<sup>12</sup>



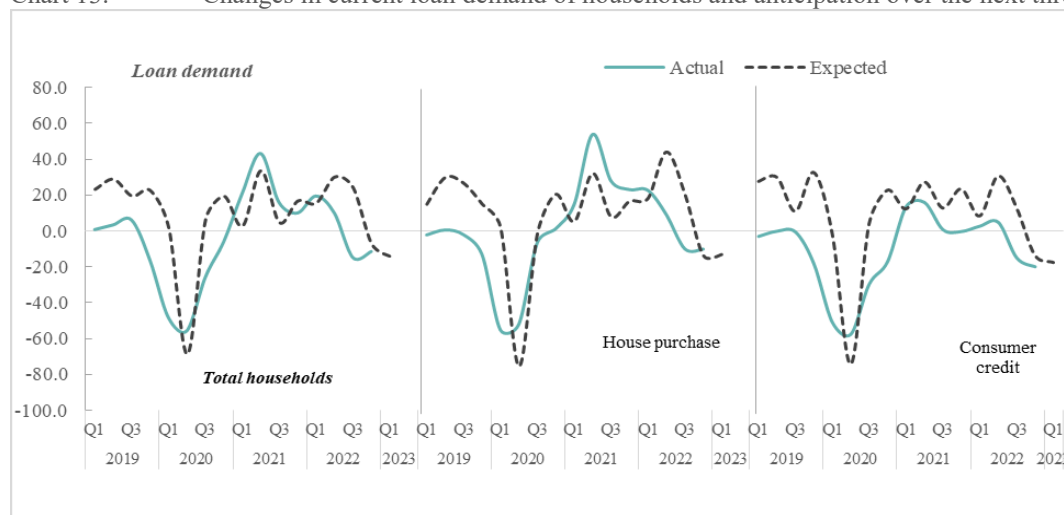
<sup>12</sup>: Positive values show an increase in rejection rates to the total loan application (left-hand chart). Also, positive values indicate that the factor has contributed to an increase of rejection rate (right-hand chart), while the negative ones to their reduction.

Source: Bank of Albania.

### 2.4. Demand for loans

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

Chart 13. Changes in current loan demand of households and anticipation over the next three months<sup>13</sup>

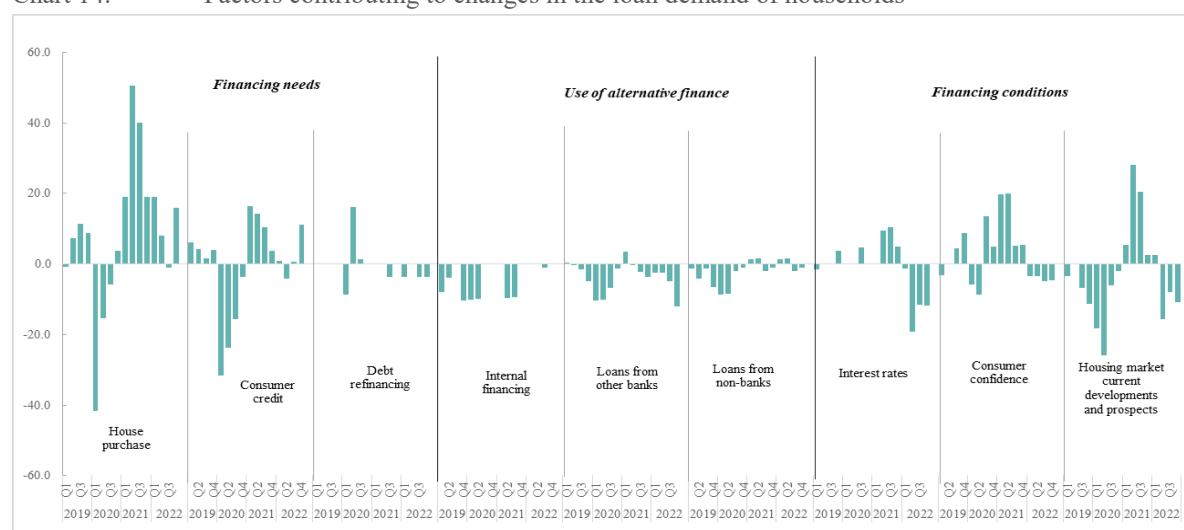


<sup>13</sup>: Calculated as net percentages. Positive values indicate an increase in loan demand, whereas negative ones a decrease in loan demand.

Source: Bank of Albania.

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

Chart 14. Factors contributing to changes in the loan demand of households<sup>14</sup>



<sup>14</sup>: 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 Q1, banks anticipate a continuing low loan demand, for both house purchase loans and consumption financing. ([Chart 13](#)).