



BANK LENDING SURVEY

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2020 Q3

October 2020

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, presented through credit standards, terms and conditions, and on the changes for loan demand by enterprises and households. This analysis is based on the aggregated results of replies from ten banks that own the largest share of credit to the private sector.

Bank Lending Survey questionnaire in principle follows the practice implemented by ECB, but it is modified according the features of Albanian credit market. Also, alternatively to other international practices, the time series of the BLS indicators are tested for seasonality, following the relevant statistical methods. The time series showing seasonality, according to statistical test specifications, are adjusted for this effect and have replaced the existing series accordingly. For a 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

According to the banks' opinions, credit standards applied on loans to enterprises were tightened in the third quarter, particularly credit standards on loans to finance investments, on both categories of enterprise size. Also, the terms and conditions applied on loans to enterprises were tightened, reflecting mainly the Covid-19 pandemic and the uncertainties related to that. On contrary, credit standards, terms and conditions applied on loans to households eased almost on all main indicators. The loan demand was lower for investment purposes especially for large enterprises. On the other side, loan demand for liquidity purposes and from medium-sized enterprises was reported higher in this quarter. Households continued to be reluctant toward loans, in the third quarter of 2020 as well.

Aggregated expectations for the last quarter of 2020 show a slight tightening of credit standards applied to enterprises, against an easing to the category of households. The demand for loans is expected to recover in the fourth quarter of year, in all categories of enterprises and households, and for all purposes of use.

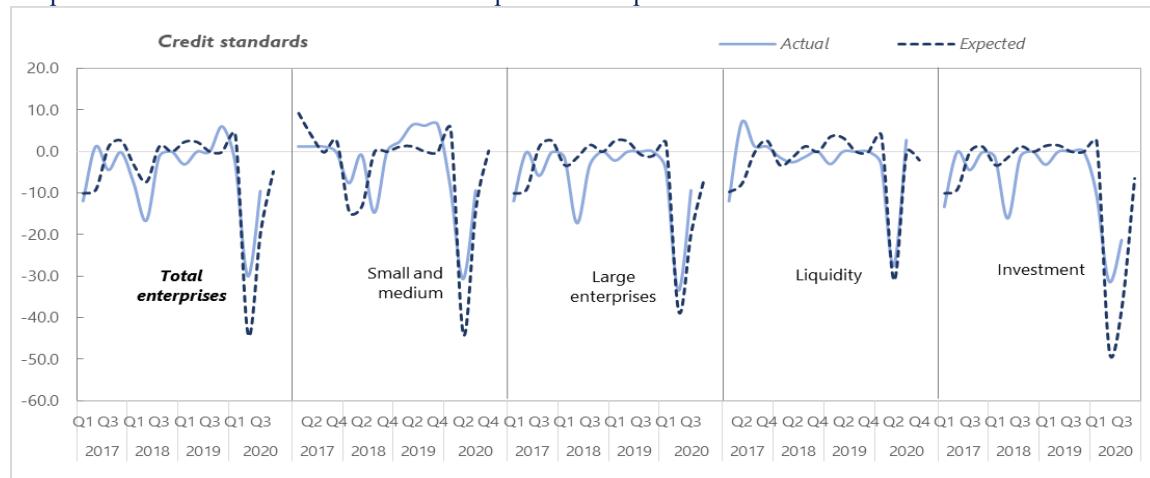
CREDIT STANDARDS, TERMS AND CONDITIONS, AND DEMAND

1. LOANS TO ENTERPRISES

1.1. Credit standards

Credit standards for loans to enterprises remain tightened in 2020 Q3 as well. Tightened credit standards were reported to both segments: small and medium-sized enterprises; and large enterprises, driven by loans for investment purposes. On contrary, credit standards applied on loans granted to meet the liquidity needs were somewhat eased in 2020 Q3.

Graph 1. Credit standards for loans to enterprises and expectations for the next three months¹



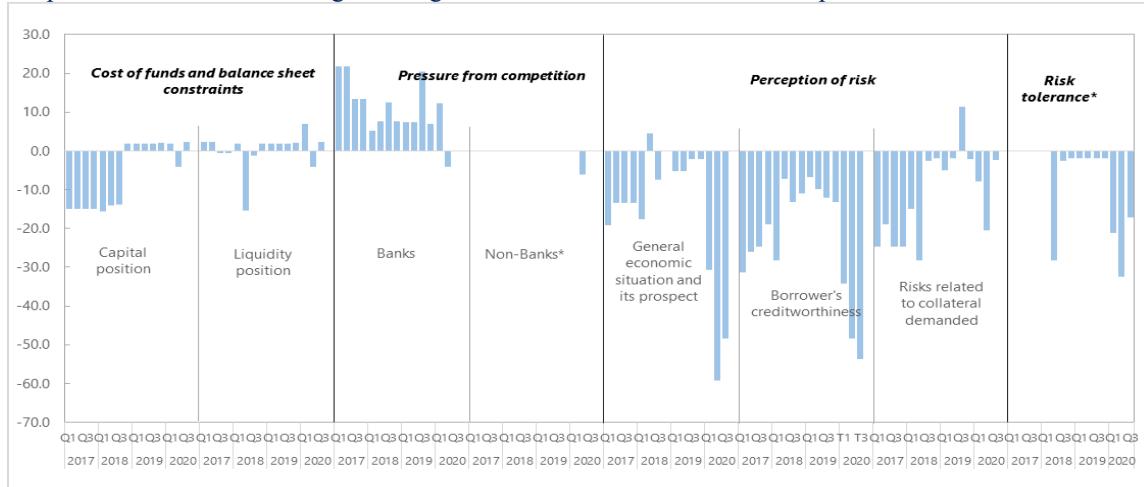
¹: Calculated as net percentage. Positive values indicate easing of credit standards, whereas negative values indicate tightening of credit standards.

Source: Bank of Albania.

In 2020 Q4, banks expect to continue tightening the credit standards on enterprises loans, more pronounced on large enterprises and on loans for investment purposes. On the other hand, banks stated to maintain almost unchanged the credit standards applied on loans to small and medium-sized enterprises and on loans for liquidity needs.

The tightening of credit standards to enterprises was particularly affected by the perception of banks for an increased risk related to the economic situation and its prospect, as well as to the borrower's creditworthiness. Also, lower risk tolerance of banks was another factor backing the tightening of credit standards to enterprises. Banks have reported pandemic and the uncertainties related with it, as factors behind the tightening of credit standards in this quarter, too. On the easing side of credit standards were reported the lower cost of funds and balance sheets constraints.

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



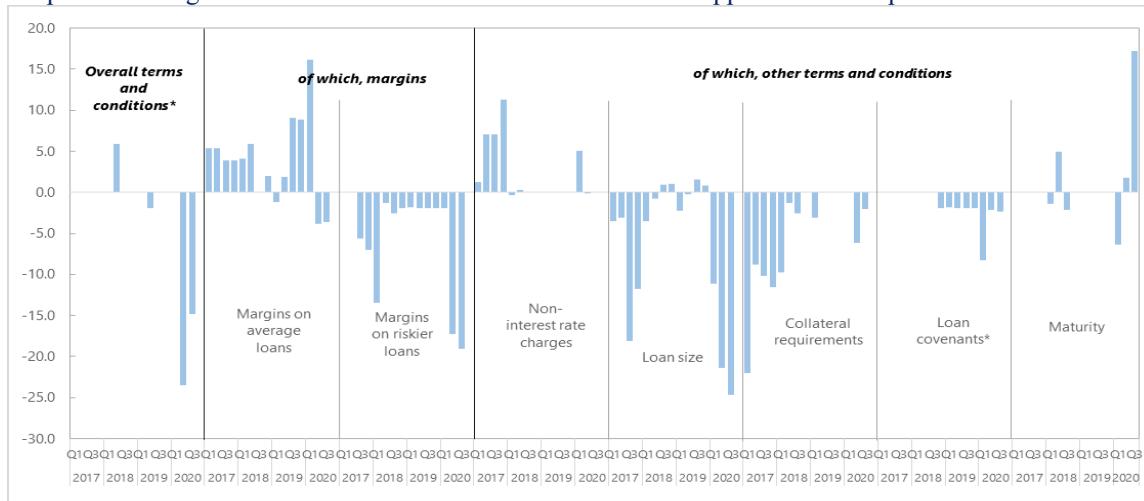
²: Calculated as net percentage. Positive values indicate the factor contributed to the easing of lending standards, whereas negative values indicate their tightening.

Source: Bank of Albania.

1.2. Terms and conditions

Overall terms and conditions on new loans to enterprises tightened in 2020 Q3, as well. Price related terms and conditions were tightened due to higher margins applied on both riskier and average loans. The tightening of non-price terms and conditions was achieved due to: the reduction of the loan size; increased collateral requirements; and higher loan covenants. On contrary, the extension of maximum loan maturity to enterprises was reported as the only factor contributing on the easing side of non-price terms and conditions in the third quarter.

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

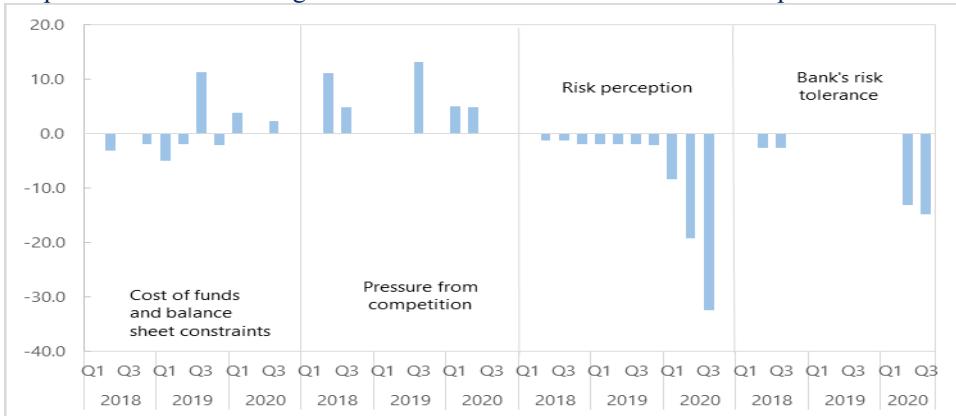


³: Calculated as net percentage. The positive values indicate eased credit standards, whereas the negative values indicate tightened credit standards.

Source: Bank of Albania.

According to banks' opinion, terms and conditions were negatively affected by increased risk perception, and lower tolerance toward risk of banks. On the other hand, lower costs and balance sheets constraints contributed to the easing of terms and conditions for loans to enterprises.

Graph 4. Factors affecting terms and conditions for loans to total enterprises⁴



⁴: The positive values indicate that the factor contributed to easing the lending terms and conditions, whereas negative values indicate their tightening.

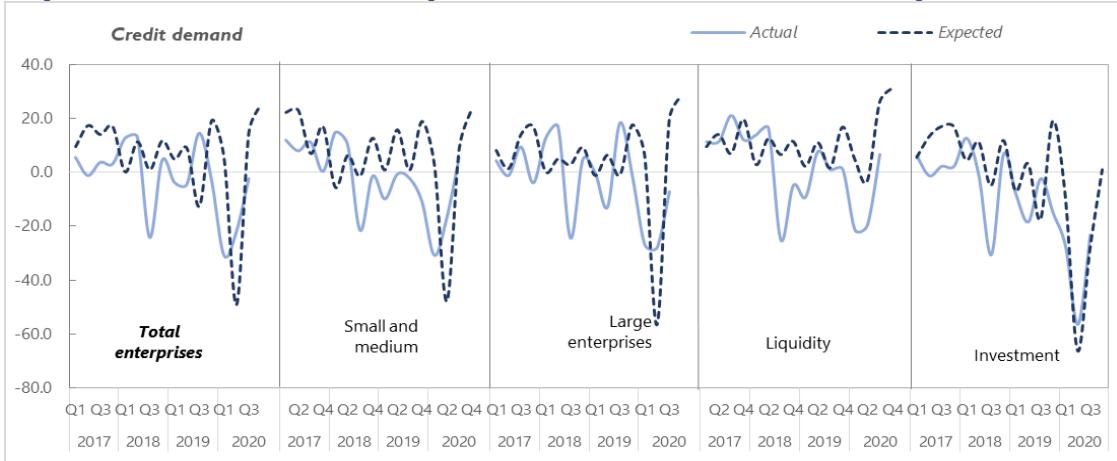
Source: Bank of Albania.

1.3. Demand for loans

Loan demand from enterprises was reported somewhat lower in 2020 Q3. The lower loan demand was noted only by large enterprises and on loans for investment financing. On the other hand, the loan demand increased for small and medium-sized enterprises and for liquidity purposes.

For 2020 Q4, banks' expectations converge to an expansion of the loan demand from both categories, small and medium-sized enterprises and large enterprises. In terms of the purpose of use, the expected increase of loan demand is more pronounced in loans for liquidity purposes, while loan demand for investment purposes is expected to remain unchanged from the previous quarter.

Graph 5. Current loan demand and expectations over the next three months of enterprises⁵



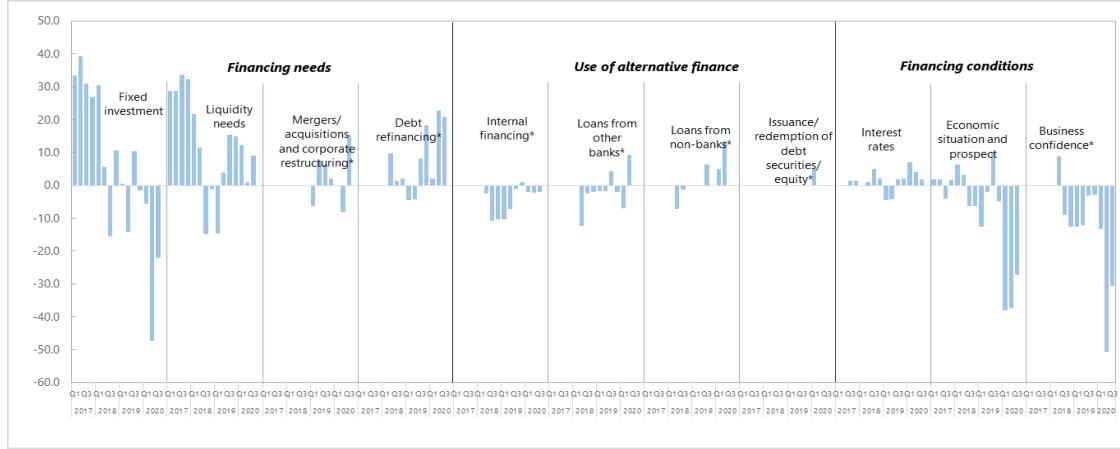
⁵: Calculated as net percentage. Positive values show increase of loan demand, while negative values show decrease of loan demand.

Source: Bank of Albania.

According to banks: the lack of demand in investment financing; the worsened financing conditions from the fall in business confidence; the current economic situation and its outlook; drove the enterprises loan demand fall. The higher financing needs for: debt refinancing/restructuring; mergers/acquisitions and corporate restructuring; and increased liquidity needs; were reported to have

affected the expansion of loan demand. Beyond the traditional factors that affect the expansion of loan demand, the sovereign guarantees scheme, supplied by the Albanian Government to mitigate the negative effects arisen by Covid-19, and the campaigns initiated by banks, appear to have affected the loan demand to enterprises during this quarter.

Graph 6. Factors affecting changes in the loan demand of enterprises⁶



⁶: Calculated as net percentage. Positive values show the factor has affected the increase in loan demand, while the negative values show the factor has affected its fall.

Source: Bank of Albania.

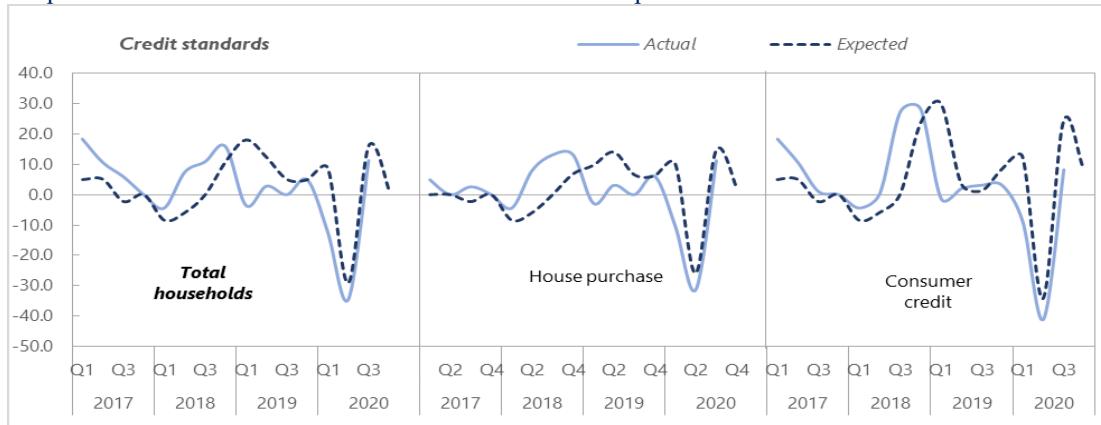
2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households were eased in 2020 Q3. The easing of credit standards was reported for both purposes, house purchases and consumer loans.

Banks expect to further ease the credit standards to households in 2020 Q4, mainly for consumer loans.

Graph 7. Credit standards for loans to households and expectations for the next three months⁷

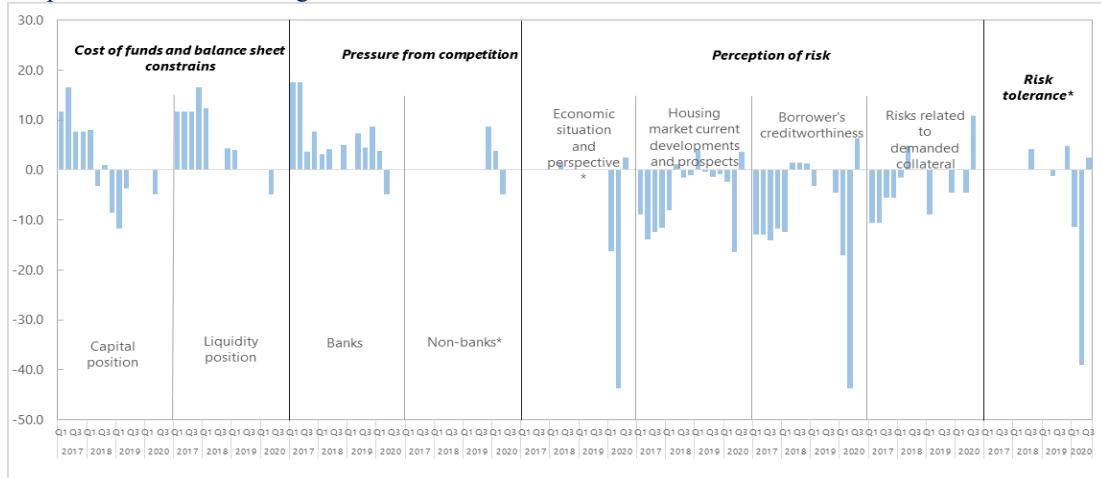


⁷: Calculated as net percentage. Positive values indicate easing of credit standards, whereas negative values indicate tightening of credit standards.

Source: Bank of Albania.

Credit standards on household's loans were eased mainly due to lower risk perception related to demanded collateral; borrower's creditworthiness; and current and expected developments in housing market. Also, banks displayed lower risk tolerance on loans to households in this quarter. The other factors were reported as unchanged from a quarter earlier.

Graph 8. Factors affecting credit standards to total households⁸



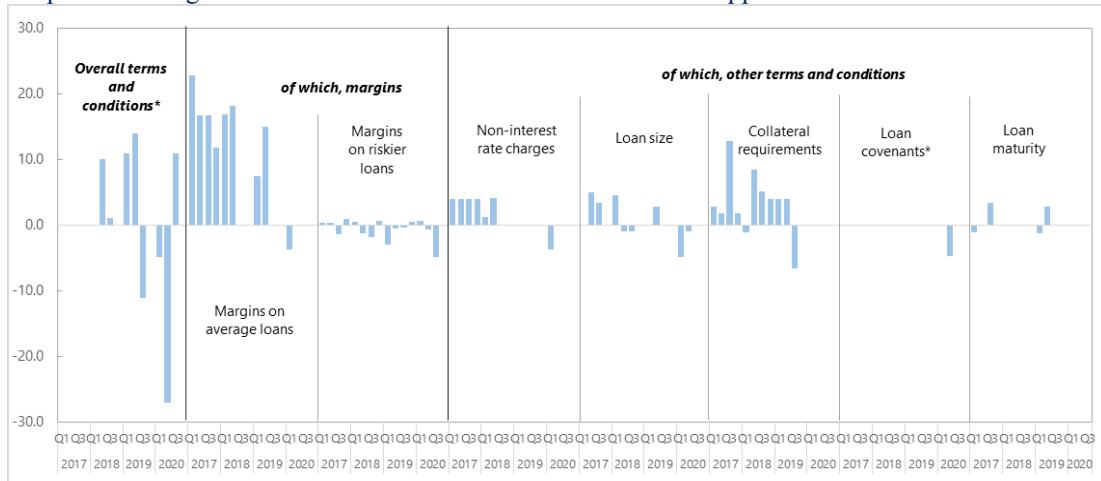
⁸: Calculated as net percentage. Positive values indicate the factor contributed to the easing of lending standards, whereas negative values indicate their tightening.

Source: Bank of Albania.

2.2. Terms and conditions

Overall terms and conditions on loans to households were eased in the third quarter of 2020. Easing of credit standards was based on the results derived by the classification¹ of the banks' clients according the risk they present. Meanwhile, the higher margins on riskier loans affected the tightening of credit terms and conditions on loans to households.

Graph 9. Changes in overall terms and conditions for new loans approved for households⁹



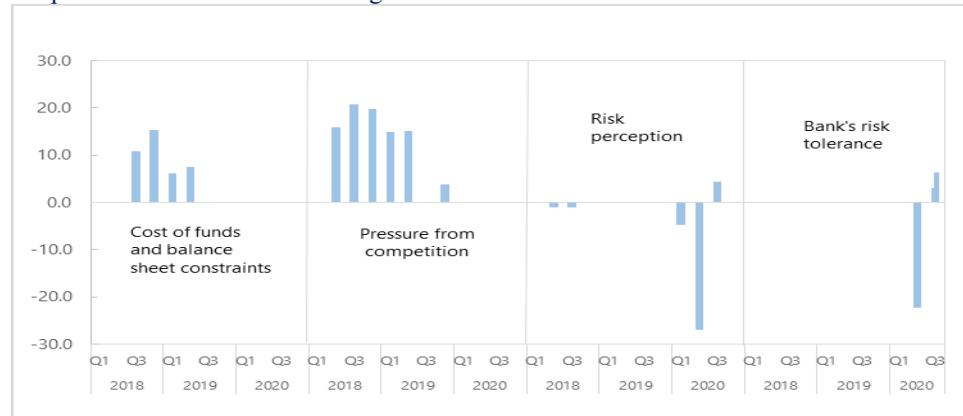
⁹: Calculated as net percentage. The positive values indicate eased credit standards, whereas the negative values indicate tightened credit standards.

Source: Bank of Albania.

The easing of credit terms and conditions for loans to households was driven by lower risk perception by banks and somewhat higher tolerance toward risk by banks. Banks mentioned as a factor with negative impact on credit terms and conditions, the households categories on a risk from a possible second lockdown, to contain Covid-19 spread.

¹ This factor was mentioned by one bank of the system and is not part of the standard factors that affect the credit terms and conditions. As such, it is part of "other factors, but it is not part of the chart. For details see the released time series https://www.bankofalbania.org/Monetary_Policy/Surveys_11282/Bank_Lending_Survey/

Graph 10. Factors affecting terms and conditions for loans to total households¹⁰



¹⁰, The positive values indicate that the factor contributed to easing the lending terms and conditions, whereas negative values indicate their tightening.

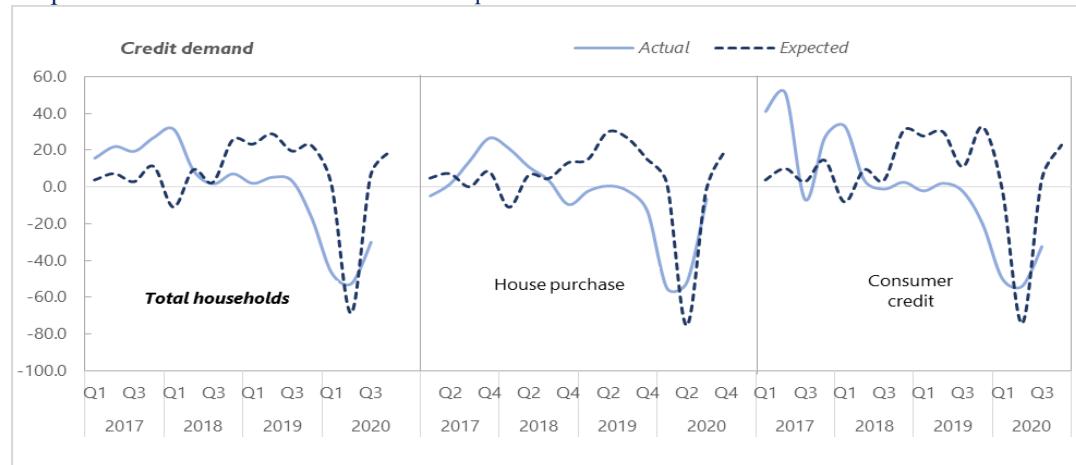
Source: Bank of Albania.

2.3. Demand for loans

Loan demand from households was perceived lower in 2020 Q3 as well, for both consumer loans and for house purchase financing.

In the last quarter of 2020, households' loan demand is expected to recover, in both categories, for consumption and house purchase financing.

Graph 11. Current loan demand and expectations over the next three months of households¹¹

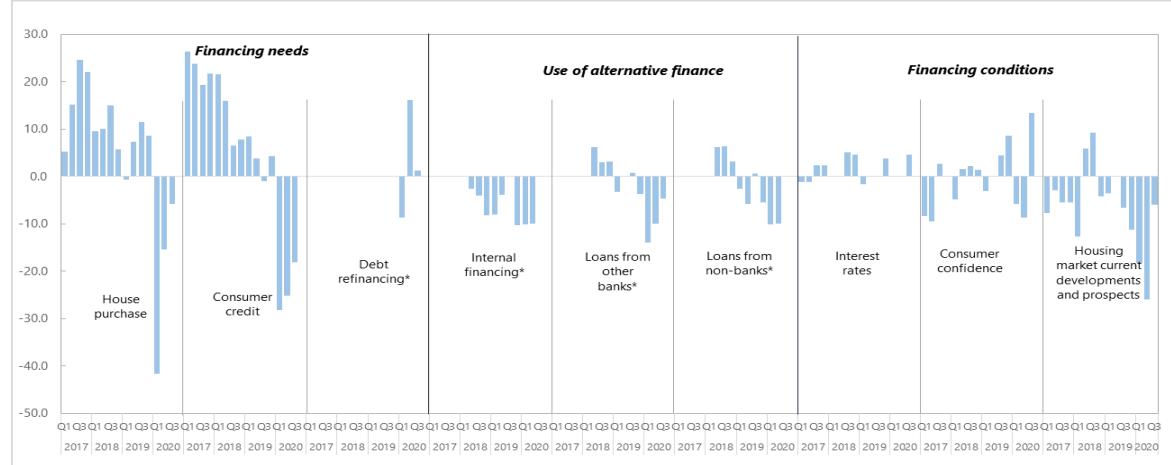


¹¹; Calculated as net percentage. Positive values show increase of loan demand, while negative values show decrease of loan demand.

Source: Bank of Albania.

According to banks, lower financing needs for consumption and house purchase, current and expected developments in housing market, and the increase of loans from other banks drove to the fall of loan demand in the third quarter of 2020. Also, banks reported that income fall and financial uncertainty about the future, due to the prolonged pandemic situation, were also among the main factors driving the fall of loan demand. Banks reported that the improved consumer's confidence; the overall level of interest rates, and the campaigns initiated by banks to generate an increased loan demand to households have contributed positively on loan demand.

Graph 12. Factors affecting changes in the loan demand to households¹²



¹²: Calculated as net percentage. Positive values show the factor has affected the increase in loan demand, while the negative values show the factor has affected its fall.

Source: Bank of Albania.