BANK LENDING SURVEY

2021 Q4

January 2022

MONETARY POLICY DEPARTMENT
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 responds 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_11282/Bank_Lending_Survey/
OVERVIEW OF RESULTS

Credit supply conditions continued improving in 2021 Q4. The indicators revealing credit supply conditions - standards, terms and conditions, as well as loan rejection rates - improved, particularly on enterprises’ loans. Loan demand was perceived higher, by both enterprises and households. The improvement perceived on credit demand and supply, appears to be an outcome of common factors, such as domestic economic activity and consumption recovery, as well as improved confidence indicators.

Credit standards on loans to enterprises eased for the third consecutive quarter. Loan approval criteria eased among all sizes of enterprises. The easing of both standards and terms and conditions on new loans to enterprises was backed by banks’ positive assessment on economic outlook. Banks kept the share of approved applications for loans to firms broadly unchanged from the previous quarter. Enterprises, mainly larger ones, augmented sizeably the loan demand for the third consecutive quarter, to finance their planned investments and to meet their liquidity needs.

Banks eased credit standards on loans for house purchases. Credit terms and conditions on households’ loans remained broadly unchanged in Q4. Meanwhile, the rejection rate on household loans decreased, as reported by banks. Households displayed higher loan demand in this quarter, limited only to house purchases.

On banks view, the prospect on credit supply and demand for 2022 Q1 will be similar to 2021 Q4. Hence, banks expect to continue easing the credit standards on loans to both enterprises and households in 2022 Q1. Alongside eased credit standards, loan demand from both enterprises and households, is expected to be higher. Augmented loan demand from both economic agents is expected to be broadly based, across 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 continued easing in 2021 Q4. Banks indicated eased credit standards across firms’ size: SMEs, and large enterprises. Credit standards eased for loans used to meet liquidity needs, whereas standards on loans for financing investments remained unchanged.

Chart 1. Credit standards for loans to enterprises and expectations 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.

Eased credit standards to enterprises was attributable to lower risk perceived by banks regarding the current economic situation and its prospect, as well as the borrowers’ creditworthiness. Lower costs of funds and balance sheet constraints had an easing impact on credit standards. Lower risk tolerance and the risk related to demanded collateral had a tightening impact on 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 credit standards, whereas negative ones to the tightening of credit standards. Source: Bank of Albania.
Credit standards on loans to enterprises are expected to further ease in the first quarter of 2022 (Chart 1). Banks expect to maintain eased credit standards on loans for investment purposes and for liquidity needs. Similarly, credit standards are expected to further ease for large enterprises and remain unchanged for SMEs.

### 1.2. Terms and conditions

**Overall terms and conditions on new loans to enterprises eased** in 2021 Q4, for the first time since the pre-pandemic period. Lower margins on average loans, as well reduced non-interest charges were the main factors behind the eased overall terms and conditions on firms’ loans. On the other side, higher margins on riskier loans and loan covenants had a tightening impact on credit terms and conditions.

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

<table>
<thead>
<tr>
<th>Overall terms and conditions</th>
<th>Margins on average loans</th>
<th>Margins on riskier loans</th>
<th>Non-interest rate charges</th>
<th>Loan size</th>
<th>Collateral requirements</th>
<th>Loan covenants</th>
<th>Maturity</th>
</tr>
</thead>
</table>

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 lower costs of funds and balance sheet constraints, had an easing impact on overall terms and conditions for loans to enterprises. Contrary, the risk perception and their lower tolerance toward risk had a net tightening effect. Nevertheless, the negative balance of these two factors was almost insignificant.

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

<table>
<thead>
<tr>
<th>Cost of funds and balance sheet constraints</th>
<th>Pressure from competition</th>
<th>Risk perception</th>
<th>Bank’s risk tolerance</th>
</tr>
</thead>
</table>

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 remained broadly unchanged in the last quarter. 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. On the other hand, banks’ risk perception on the sectoral perspective and other factors related to the banks’ lending policy framework were reported to have an increasing impact on rejected loans.

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

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 robust increase in demand for loans from enterprises, in the fourth quarter of 2021. Loan demand was reported high, across loans’ purpose of use and enterprise size. The net percentage on loan demand in this quarter picked up significantly, driven mainly by loan demand from large enterprises and loans for investment purposes, which have recorded historically high positive values.

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, higher needs to finance inventories and working capital, investments, corporate restructuring, as well as debt refinancing contributed to elevated loan demand from enterprises in the last quarter. At the same time, improved financing conditions - driven by the business confidence indicators and the overall level of interest rates - affected the increase of loan demand from enterprises in this quarter. Internal financing deployment and loans from other banks were the only factors having a negative impact on loan demand.

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 Q1, banks anticipate an increased loan demand from enterprises, for both categories: small and medium-sized enterprises, and large enterprises (Chart 6). Loan demand is expected to be high both for financing investments and for meeting the liquidity needs.
2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households remained broadly unchanged in the last quarter of 2021. Credit standards on loans for house purchases eased, while they tightened on consumer loans.

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

Credit standards on households’ loans were eased due to the perception of improved macroeconomic situation and its outlook. Risk perception related to demanded collateral and housing market current developments and its prospect had a net tightening impact on credit standards for household’s loans.

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

Banks expect to ease the credit standards to households in the first quarter of 2022, on both house purchase and on consumption loans (Chart 8).
2.2. Terms and conditions

Overall terms and conditions on loans to households remained almost unchanged and in 2021 Q4. Lower margins on average loans counterbalanced higher margins applied on riskier loans. On the other side, the increase of loan size had an easing impact on overall credit terms and conditions, whereas higher collateral requirements, and shortening of loan maturity recorded a tightening effect.

Chart 10. Change in overall terms and conditions on new loans approved to households\(^{10}\)

![Chart 10](chart10.png)

\(^{10}\): Calculated as net percentages. Positive values indicate eased terms and conditions, whereas negative ones tightened terms and conditions. Source: Bank of Albania.

Pressure from competition, and lower risk perception were the main factors backing the easing of credit terms and conditions. On the other hand, lower tolerance towards risk was reported to have a tightening impact on credit terms and conditions.

Chart 11. Factors contributing to changes of terms and conditions for loans to households\(^{11}\)

![Chart 11](chart11.png)

\(^{11}\): 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 Q4, banks reported higher loan approval rates for households. Loan rejection rate to the total loan applications from households was downwards, in the last quarter of the year. Net disposable income, banks’ policies related to the required documentation, the track record on the relationship with the bank, and the status on the loan registry supported the fall in the rejection rate of loans to households in this quarter.

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

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 higher in the last quarter, driven by house purchase loans. In the first quarter of 2022, households’ loan demand is expected to remain high, for both house purchase and consumer credit.

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

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.
On banks’ view, higher financing needs for house purchase and consumption, current and expected developments in the housing market, improvement in consumer confidence, and the level of interest rates, had a positive impact on loan demand from households.

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.