

Bank of Albania
Monetary Policy Department



Bank Lending Survey Results for 2015 Q4

January 2016¹

Bank Lending Survey results evidence eased credit standards applied to enterprises, and a continued easing trend of credit standards to households in 2015 Q4. The positive developments in lending to enterprises were mainly recorded for *small and medium-sized enterprises*. Banks continued to ease the credit standards to consumers for *house purchase*, and *consumer credit*.

The main **factors** contributing to the easing of bank credit standards for both enterprises and households were: *competition* in the banking system, *Bank of Albania's decisions* and *developments in the real estate market*.

Banks implemented an eased lending policy through the **terms and conditions** on credit price for both enterprises and households. In more concrete terms, banks reported a narrowing of the *average margin* and lowering of *commissions* in the fourth quarter.

According to banks' reporting, enterprises and households credit **demand** increased in 2015 Q4. The enterprises credit demand was mainly driven by the demand of *small and medium-sized enterprises*. Households demand increased higher for *house purchase loans* and showed a slower expansion for *the consumer credit*.

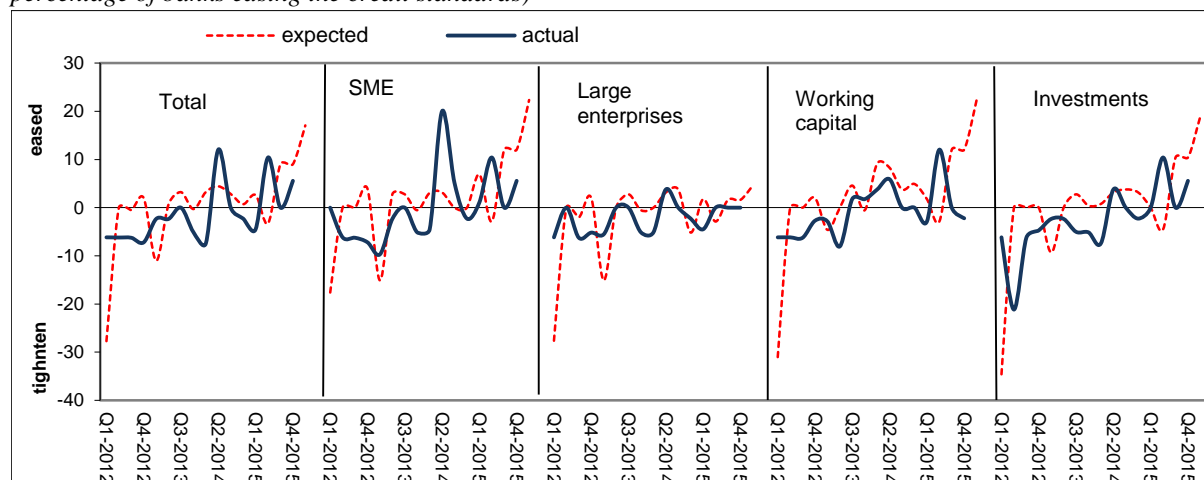
Banks **expect** credit standards applied to both consumers and enterprises to continue easing during 2016 Q1. Businesses expect higher easing trend for the credit to *small and medium-sized enterprises* and somewhat lower for credit to *larger enterprises*. Similarly, banks expect credit demand of *small and medium -sized enterprises* to grow in the first quarter of 2016. Related to households, banks state that credit standards will continue to ease for *house purchase* and *consumer credits*. Households' credit demand is expected to record a slower increase.

Lending to enterprises

¹The survey conducted in December 2015 covers bank lending in 2015 Q4 and banks' lending expectations in 2016 Q1.

Credit standards. Credit standards for enterprises eased in the fourth quarter, after remaining unchanged in the previous quarter. Credit standards eased for credit to *small and medium-sized enterprises*, but remained unchanged for credit to *larger enterprises*. The easing trend is expected to continue in 2016 Q1, mainly on the credit to *small and medium-sized enterprises* and somewhat lower on the credit to *larger enterprises*. Net percentage of banks expecting eased credit standards resulted +22.4% and +4.6%, respectively. By purpose of use, banks eased the credit standards only for *investment* purposes. Meanwhile, credit standards for enterprises for *working capital* remained broadly unchanged from the previous quarter (net balance -2.2%).

Chart 1 Changes in standards applied to credit for enterprises, total, by size of enterprise and purpose of use (*net balance¹, net percentage of banks easing the credit standards*)

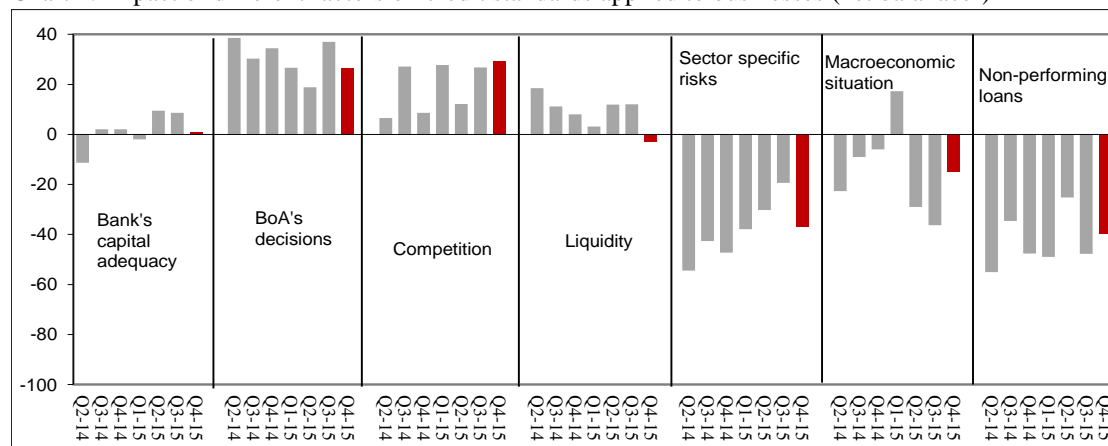


Source: Bank of Albania.

Note 1. The positive balance indicates the easing of credit standards, whereas the negative balance indicates their tightening.

The main **factors** contributing to the easing of credit standards in the fourth quarter were *competition* in the banking system and the *decisions of the Bank of Albania*. Meanwhile, *specific-related sector problems*, the *macroeconomic situation* and the *level of non-performing loans* continued to affect the tightening of credit standards applied by banks. The negative contribution provided by the two last factors (*macroeconomic situation* and the *non-performing loans*) fell compared to the previous quarter. The negative contribution provided by the *specific-related sector problems* increased (see Chart 2).

Chart 2: Impact of different factors on credit standards applied to businesses (net balance²)

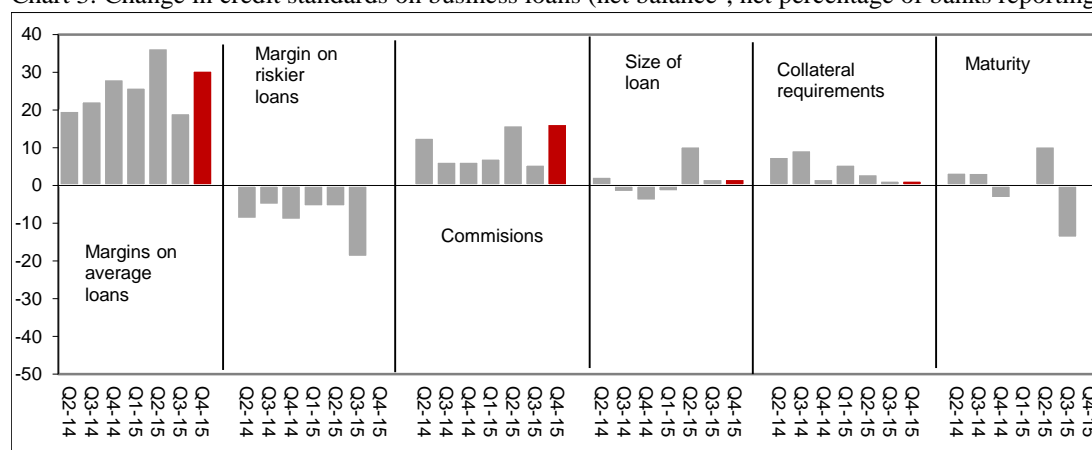


Source: Bank of Albania.

Note 2. The positive balance indicates that the factor contributed to easing the credit standards. The negative balance indicates that the factor contributed to tightening the credit standards.

Banks implemented an eased lending policy in 2015 Q4 through the narrowed *average margin*, and the lowered *commissions* applied on the granted credit. The other terms and conditions used by banks to provide credit in this quarter have remained almost unchanged from the previous quarter.

Chart 3: Change in credit standards on business loans (net balance³, net percentage of banks reporting easier credit standards)

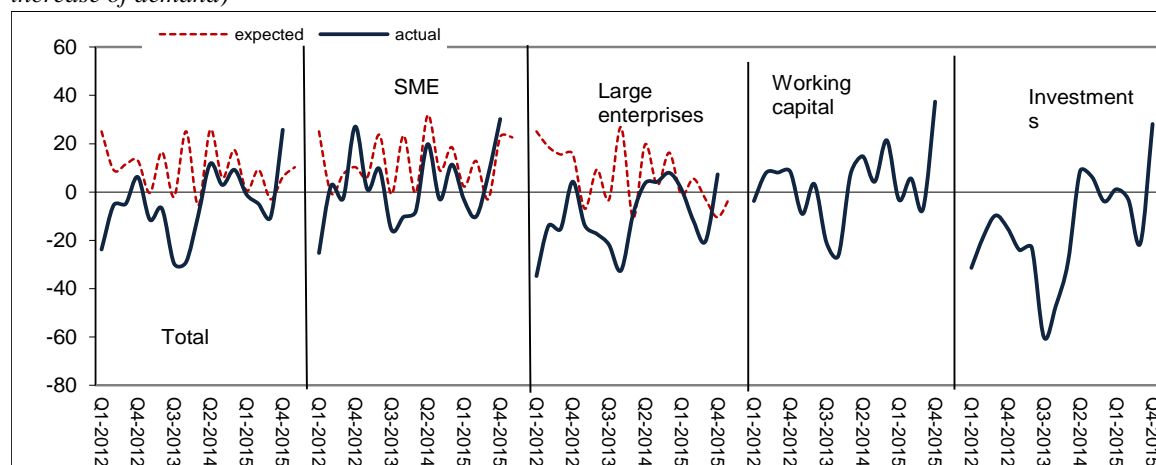


Source: Bank of Albania.

Note 3. The positive balance indicates the easing of credit standards, whereas the negative balance indicates their tightening.

Demand for credit. The credit demand increased in 2015 Q4, mainly owing to *small and medium-sized enterprises*, and less from *larger enterprises*. Net percentage of banks reporting increase of enterprises credit demand was 25.8% in 2015 Q4, the highest value since 2008. Banks expect the demand to continue to increase in 2016 Q1, mainly from *small and medium-sized enterprises*. Meanwhile banks do not expect any change in the demand from *larger enterprises*. Bank experts reported that enterprises' demand increased for both short and long-term maturities (see Chart 4).

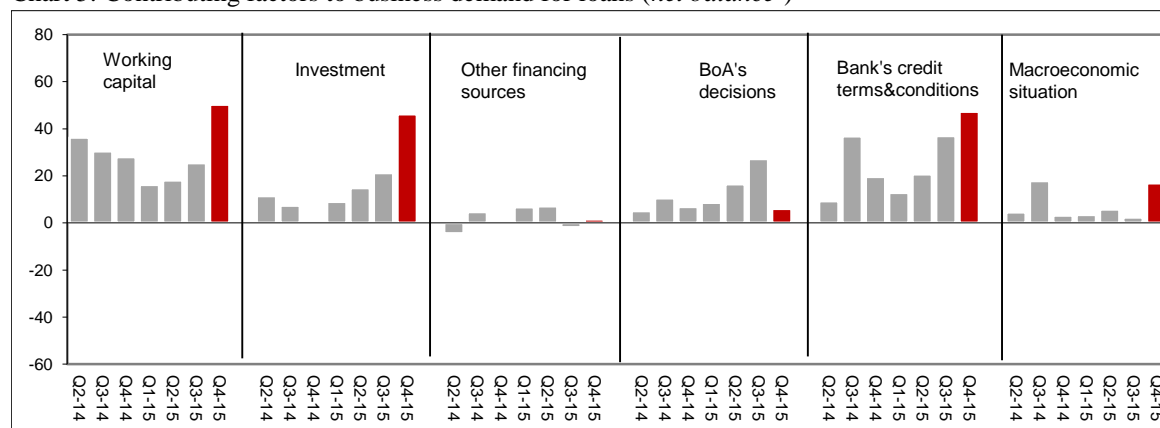
Chart 4: Businesses credit demand by size of enterprise and purpose of use (net balance, net percentage of banks reporting increase of demand)



Source: Bank of Albania.

Factors affecting the demand. Banks report that enterprises' credit demand was driven by the need to finance both the *working capital* and the *investments*. Also, aggregated results show that *credit standards* applied by banks provided positive impact on the growth of enterprises' credit. The *macroeconomic situation* in Albania and the *decisions of the Bank of Albania* have affected the enterprises' credit demand at the same direction, but at a lower extent.

Chart 5: Contributing factors to business demand for loans (*net balance*⁴)



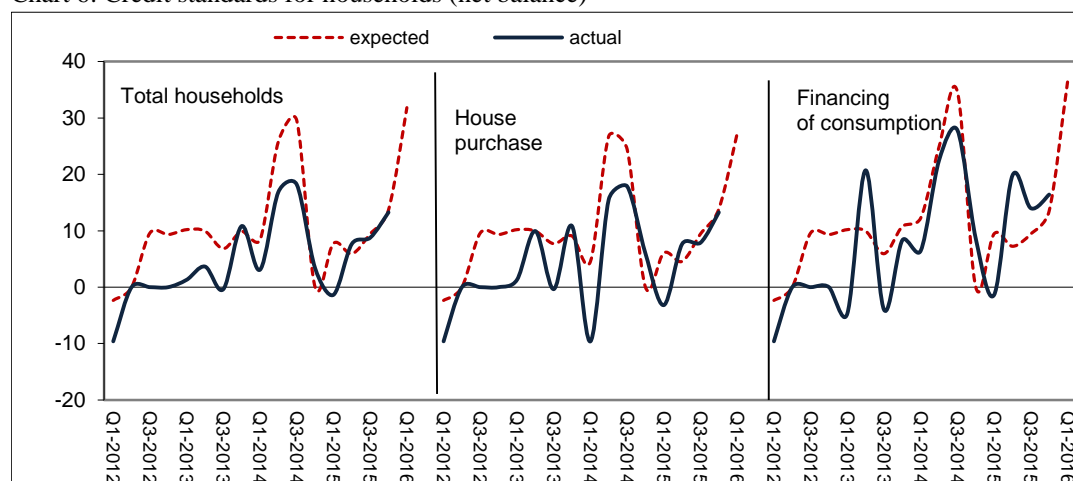
Source: Bank of Albania.

Note 4. The positive balance indicates that the factor has contributed to the growth of demand. The negative balance indicates that the factor has contributed to the fall of demand.

Lending to households

Credit standards. Banks continued to ease the credit standards on loans to households in 2015 Q4. The net percentage of banks reporting eased credit standards was up, from 8.8% in the previous quarter, to 13.3% in the quarter under review. Banks reported that standards eased on *credit for house purchase* (the balance is assessed at 13.3%, from 7.9% in the previous quarter); also on *consumer credit* (the balance is assessed at 16.4%, from 14.0% in the previous quarter). Banks stated that credit standards applied to households for house purchase and consumption purposes will continue to remain on the easing direction in 2016 Q1.

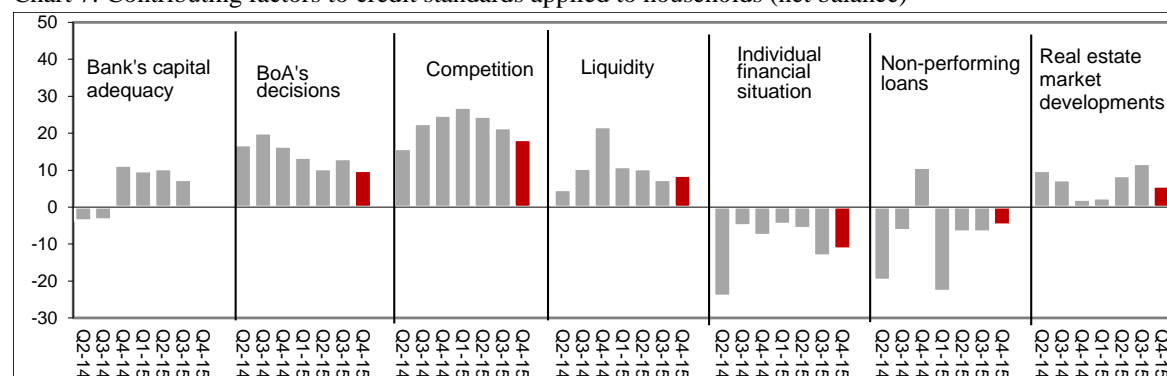
Chart 6: Credit standards for households (net balance)



Source: Bank Lending Survey, Bank of Albania.

Factors affecting the demand. The further easing of credit standards on loans to households mainly reflected the continuous pressures of *competition in the banking sector*. *Bank of Albania's decisions* and *developments in real estate market* also contributed to the easing of credit standards, but to a lower extent compared to the previous quarter. The balance assessed for the *liquidity situation of the bank* suggests a slight increase of this factor's contribution to the easing of standards. According to the aggregate responses of banks, *capital adequacy* provided neutral impact on the easing of standards, whereas *the financial situation of households* and *the situation of non-performing loans* continue to affect the tightening of credit standards applied to household's loans.

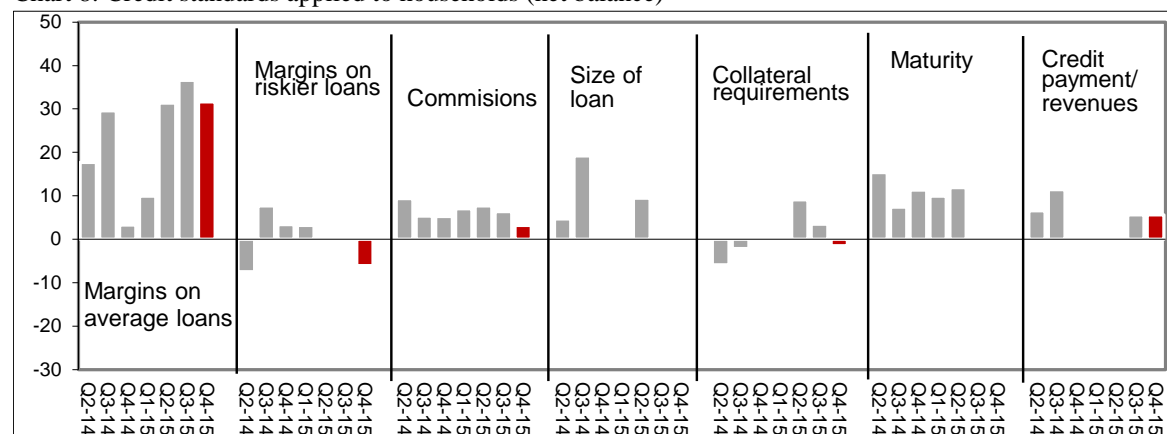
Chart 7: Contributing factors to credit standards applied to households (net balance)



Source: Bank Lending Survey, Bank of Albania.

Conditions on the approval of credit. The easing policy of credit standards on loans to households was mainly implemented through the narrowing of *average margin for loans*, in 2015 Q4. Banks reported that the *instalment-to-income ratio* continued to affect the easing of credit standards, at the same extent with the previous quarter. Also, the decrease in *commissions* is assessed to have slightly helped in easing the credit standards. On the contrary, the other conditions, such as *the margin for risk-rated loans* and the strengthening of the *requirements for collateral as a ratio to loan size* affected the tightening of credit standards in the fourth quarter. Banks reported that, alike in the previous quarter, the terms and conditions related with the *loan size and maximum maturity* remained unchanged.

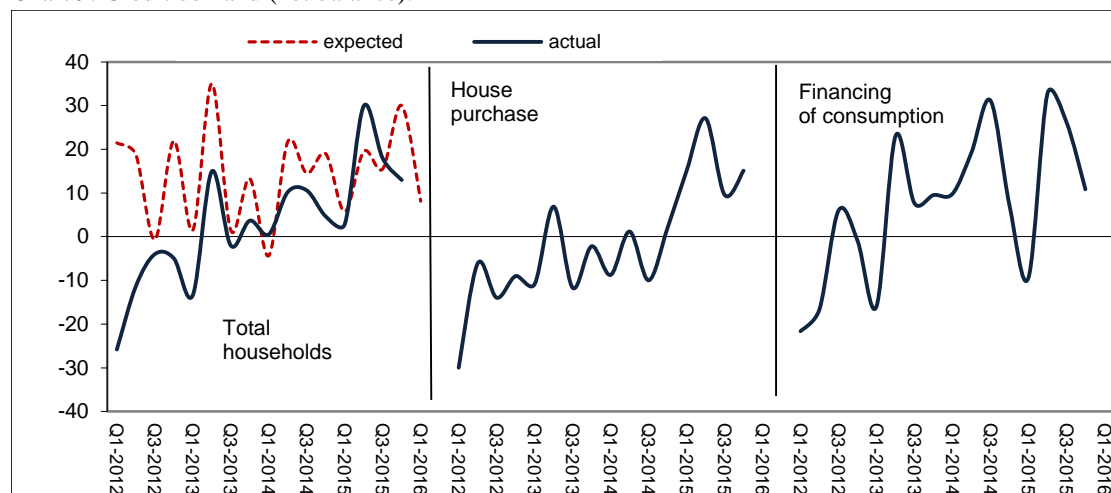
Chart 8: Credit standards applied to households (net balance)



Source: Bank Lending Survey, Bank of Albania.

Demand for credit. Banks reported that the households' credit demand was up in 2015 Q4. The balance stood at 13.0%, from 17.9% in the previous quarter, signalling a slower increase of the demand. This trend is expected to continue in 2016 Q1, as shown by the decrease in the net responses of banks that state an increase of the demand, at 8.1%, from 30.0% in the previous quarter. By purpose of use, banks reported a higher increased demand for *house purchase loans* (the balance was 15.1%, from 9.6% in the previous quarter). Bank experts assessed the increase in the demand for funding consumption was slower. The respective balance was 10.8%, from 26.2% in the previous quarter.

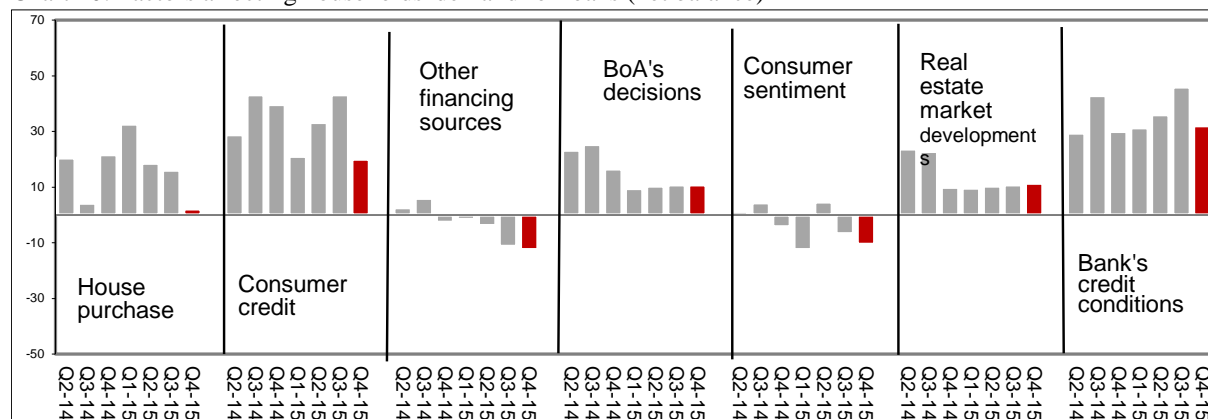
Chart 9: Credit demand (net balance).



Source: Bank Lending Survey, Bank of Albania.

Factors affecting the credit demand. In 2015 Q4, the main factors affecting households' credit demand were *the credit standards applied by banks* and *the households' need for consumption funding*. Banks reported that their impact was lower than in the previous quarter. *Developments in real estate market* and the *Bank of Albania's monetary policy decisions* continued to provide a positive, albeit lower, contribution from the above-stated factor to the demand growth for credit, at a comparable degree to the previous quarter. Also, the factor related to the *need of households for house purchase financing* was assessed to have positively contributed to the increase of the demand for credit. The net percentage of banks increased reporting that the use of *alternative funding sources* and the worsened *consumers' confidence* continued to negatively affect the credit demand growth.

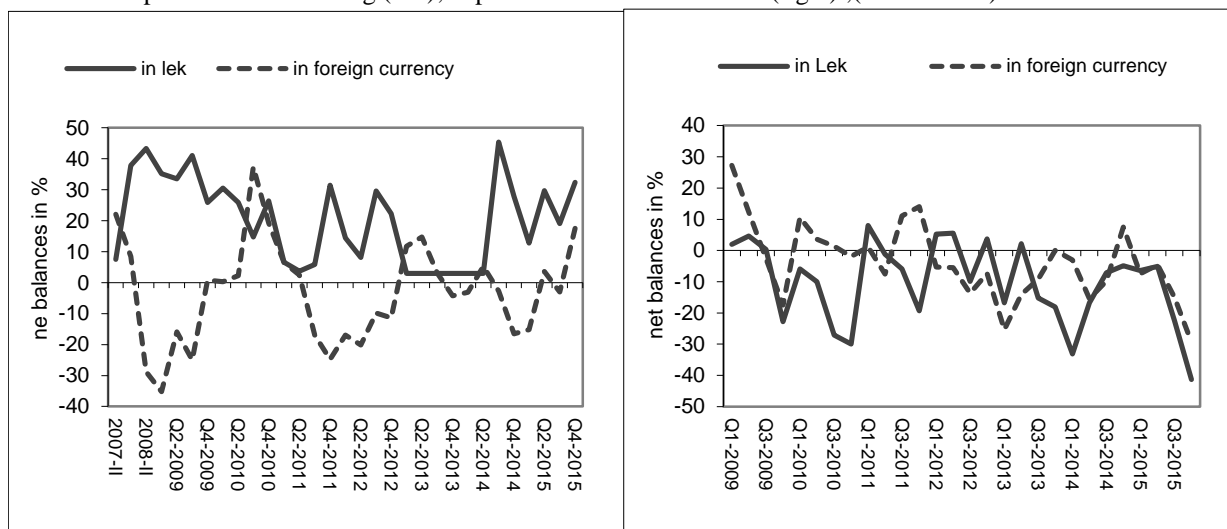
Chart 10: Factors affecting households' demand for loans (net balance)



Source: Bank Lending Survey, Bank of Albania.

Expectations for lending activity by currency. Banks expect increase of lending in domestic and foreign currency, in 2016 Q1. The respective balances, 32.4% for lending in lek and 17.5% for lending in foreign currency, suggest increasing trends relative to the credit dynamic provided in domestic currency. Banks' expectations for interest rates on loans, both in lek and foreign currency, are considerably shifted downward for the first quarter of 2016.

Chart 11: Expectations for lending (left); expectations for interest rates (right) ;(net balance) *



Source: Bank Lending Survey, Bank of Albania.

* The positive balance shows the increase in lending or the increase in the interest rate. The negative balance shows the decrease in lending or the decrease in the interest rate.

Annex 1. Lending to households

In aggregating the results, each opinion is weighted based on the response. For example, banks providing the response that the standards “tightened considerably” have been assigned the double of the weight compared to the response “tightened slightly”. The results are analysed by calculating the net balance as the difference between the weighted responses of banks reporting easing of/increase in standards/demand and those reporting tightening of/decrease in procedures/demand. The net balances are scaled in order to acquire values within the interval of +/- 100.

HOUSEHOLDS	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
Change in bank credit standards						
- Previous quarter	18.2%	3.4%	-1.4%	7.7%	8.8%	13.3%
- Next quarter	0.0%	7.8%	5.9%	9.4%	13.7%	31.8%
Factors affecting the credit standards						
- Bank's capital adequacy	-3.4%	11.3%	9.8%	10.3%	7.4%	0.0%
- Bank of Albania's decisions	20.1%	16.5%	13.5%	10.3%	13.0%	9.9%
- Competition in the banking system	22.6%	24.8%	27.0%	24.5%	21.4%	18.2%
- Current or expected liquidity level	10.4%	21.7%	10.9%	10.3%	7.4%	8.5%
- Households' financial situation	-4.9%	-7.7%	-4.7%	-5.7%	-13.1%	-11.3%
- Non-performing loans	-6.3%	10.7%	-22.7%	-6.7%	-6.7%	-4.8%
- Developments in the real estate market	7.3%	2.0%	2.4%	8.5%	11.7%	5.6%
Change in bank credit standards						
- Average margin	29.6%	3.3%	9.9%	31.3%	36.6%	31.6%
- Margin for risk-rated loans	7.7%	3.4%	3.2%	0.0%	0.0%	-6.1%
- Commissions	5.3%	5.2%	7.0%	7.7%	6.4%	3.2%
- Loan amount	19.1%	0.0%	0.0%	9.4%	0.0%	0.0%
- Collateral requirement as a ratio of loan amount	-2.1%	0.0%	0.0%	9.1%	3.5%	-1.5%
- Maximum loan term to maturity	7.4%	11.3%	9.9%	11.9%	0.0%	0.0%
- Instalment-to-income ratio	11.4%	0.0%	0.0%	0.0%	5.6%	5.6%
Change in household demand for loans						
- Mortgage loans	-10.0%	2.1%	15.1%	27.1%	9.6%	15.1
- Consumer loans	31.2%	7.2%	-9.4%	32.7%	26.2%	10.8
Factors affecting change in demand for loans						
- Households' needs to finance house purchase	4.2%	21.6%	32.7%	18.6%	16.1%	2.2%
- Households' needs to finance consumption	43.2%	39.7%	21.1%	33.3%	43.3%	20.1%
- Use of alternative financial resources	5.9%	-2.7%	-1.6%	-3.9%	-11.3%	-12.5%
- Bank of Albania's monetary policy decisions	25.3%	16.5%	9.5%	10.3%	10.8%	10.8%
- Consumer confidence	4.4%	-4.3%	-12.4%	4.6%	-6.8%	-10.5%
- Developments in the real estate market	22.8%	10.0%	9.6%	10.3%	10.8%	11.4%
- Credit standards applied by your bank	43.0%	30.0%	31.3%	36.1%	46.0%	32.1%

Source: Bank Lending Survey, Bank of Albania.

Annex 2. Lending to businesses

In aggregating the results, each opinion is weighted based on the response. For example, banks providing the response that the standards “tightened considerably” have been assigned the double of the weight compared to the response “tightened slightly”. The results are analysed by calculating the net balance as the difference between the weighted responses of banks reporting easing of/increase in standards/demand and those reporting tightening of/decrease in standards/demand. The net balances are scaled in order to acquire values within the interval of +/- 100.

BUSINESSES	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
Change in bank credit standards						
- Current quarter	5.1%	-2.3%	-4.5%	10.4%	0.0%	5.6%
- Next quarter	0.7%	2.6%	-3.3%	9.0%	9.0%	17.1%
Factors affecting the credit standards						
- Bank's capital adequacy	2.1%	2.1%	-2.0%	9.4%	8.7%	1.1%
- Bank of Albania's decisions	30.4%	34.4%	26.7%	29.6%	36.9%	26.5%
- Competition in the banking system	27.1%	8.7%	27.8%	22.9%	26.7%	29.2%
- Current or expected liquidity level	11.2%	8.0%	3.2%	11.9%	12.0%	-2.9%
- Specific business sector-related concerns	-42.6%	-47.2%	-37.9%	-30.2%	-19.3%	-37.1%
- Current or expected macroeconomic situation	-9.1%	-6.0%	17.3%	-29.0%	-36.3%	-15.1%
- Non-performing loans	-34.6%	-47.6%	-48.9%	-25.3%	-47.8%	-40.0%
Change in bank credit standards						
- Average margin	22.3%	28.2%	26.0%	36.4%	19.2%	30.5%
- Margin for risk-rated loans	-5.1%	-9.2%	-5.6%	-5.6%	-19.0%	0.0%
- Commissions	6.3%	6.3%	7.2%	16.0%	5.6%	16.3%
- Loan amount	-1.8%	-4.0%	-1.6%	10.4%	1.8%	1.8%
- Collateral requirement as a ratio of loan amount	9.4%	1.8%	5.6%	3.1%	1.3%	1.3%
- Maximum loan term to maturity	3.4%	-3.4%	0.0%	10.4%	-13.9%	0.0%
Change in business demand for loans						
- SMEs, previous quarter	-3.1%	11.4%	-3.2%	-10.2%	6.9%	30.2%
- SMEs, next quarter	18.6%	6.9%	12.9%	-3.0%	22.8%	22.6%
- Large enterprises, previous quarter	4.3%	7.9%	1.2%	-12.0%	-20.3%	7.3%
- Large enterprises, next quarter	16.3%	1.8%	5.5%	-3.0%	-10.5%	-2.1%
Factors affecting change in demand for loans						
- Need to finance inventories	30.5%	28.0%	16.1%	18.1%	25.4%	50.3%
- Need to finance fixed investments	7.3%	-0.6%	9.0%	14.9%	21.3%	46.2%
- Use of alternative financial resources	-4.4%	4.6%	0.1%	7.1%	-1.9%	1.5%
- Bank of Albania's monetary policy decisions	5.0%	10.5%	6.8%	16.5%	27.2%	6.1%
- Credit standards applied by your bank	36.9%	19.6%	12.8%	20.7%	37.0%	47.2%
- Current or expected macroeconomic situation	17.8%	3.1%	3.5%	5.8%	2.3%	16.8%

Source: Bank Lending Survey, Bank of Albania.