Bank of Albania
Monetary Policy Department

Bank Lending Survey Results for 2016 Q1

April 2016[1]

Results summarised under *Bank Lending Survey* show eased lending standards to enterprises during 2016 Q1 as well. Also, the easing trend of lending standards to households continued for some consecutive quarters. Lending standards applied to both *small and medium-sized enterprises* and *large enterprises* recorded positive developments. Banks continued to ease the credit standards to households 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, *capital adequacy* and *Bank of Albania's decisions.* Meanwhile, the *liquidity level* of banks is also one of the most important factors for the credit to households.

Eased bank credit standards to enterprises and households were mainly implemented through the narrowed average margin on credit and the reduction of commissions.

Banks' expert's reported an increased **demand** by enterprises. The increase was mainly driven by the demand from *small and medium-sized enterprises.* The demand of large enterprises was down. Banks reported a fall in the demand by households, against the positive expectations for both *house purchase* and *consumer credit*. This fall was affected by the downward consumer confidence and the situation in real estate market.

Banks **expect** credit standards to tighten for large enterprises and to ease further for small and medium-sized enterprises, during 2016 Q2. Banks reported that credit standards applied to households for house purchase and consumption purposes will continue to remain on the easing side. Credit demand from both small and medium sized-enterprises and from households is expected to increase in 2016 Q2.

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[1]The survey conducted in March 2016 covers bank lending developments in 2016 Q1 and banks' expectations for lending in 2016 Q2.

Lending to enterprises

Credit standards

Credit standards applied to enterprises continued the easing trend showed in the previous quarter. Business credit standards were eased for *small and medium-sized enterprises and for large enterprises*. The easing trend is expected to persist in 2016 Q2 *on the credit to small and medium-sized enterprises*. Credit standards to *large enterprises* are expected to tighten. By purpose of credit use for enterprises, banks eased the credit standards for *investments* and *working capital.*

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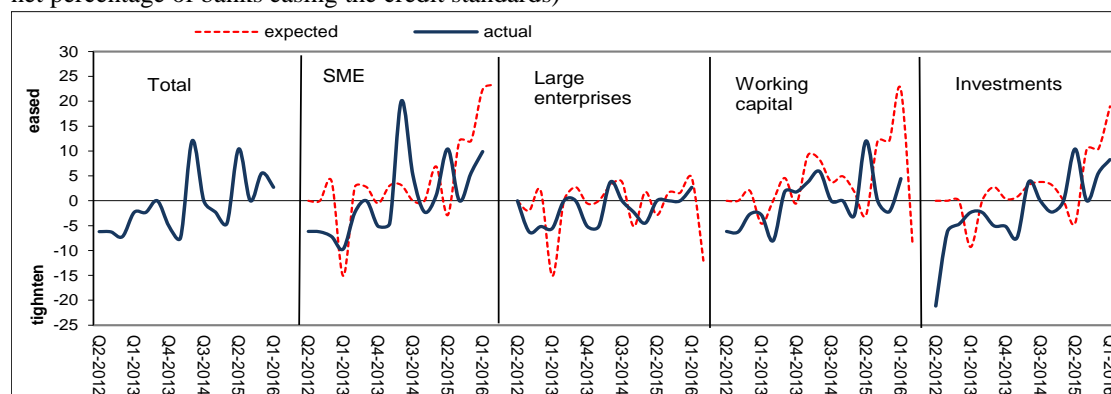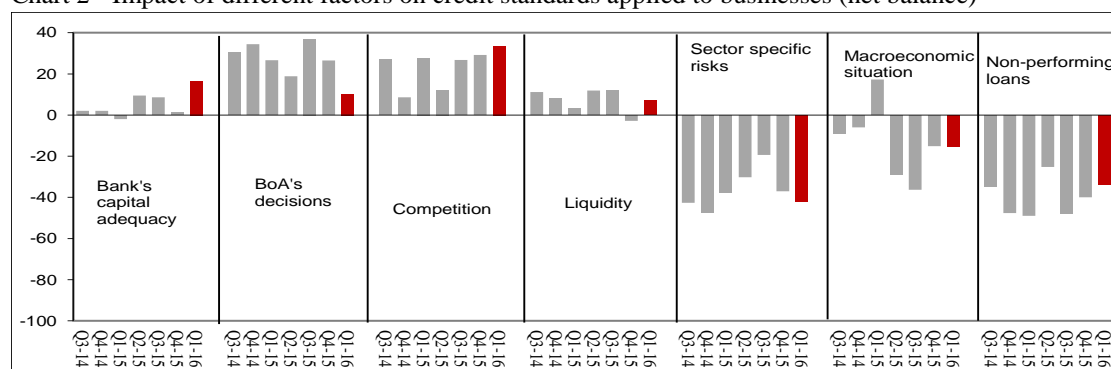

Source: Bank of Albania.
Note: The positive balance indicates the easing of credit standards, whereas the negative balance indicates their tightening.

The main **factors** contributing to the easing of credit standards in the first quarter were *competition* in the banking system, *capital adequacy*, *Bank of Albania's decisions* and *liquidity* situation. On the other hand, *specific-related sector problems* where business carries out its activity, *non-performing loans situation* and *the macroeconomic situation* continue to affect the tightening of banks' standards. The negative contribution of *non-preforming loans* reduced compared to the previous quarter. *Specific-related sector problems increased the negative contribution,* meanwhile *the macroeconomic situation* is perceived to have provided the same impact as in the previous month (See Chart 2).

Chart 2 - Impact of different factors on credit standards applied to businesses (net balance)

Source: Bank of Albania.

Note: 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 2016 Q1 through the narrowed average margin, the lowered commissions applied on the credit, and the increase in the size of the credit. Banks reported tight standards on *collateral requirement* and *maturity, while the margin for risk-rated loan* did not provide any effect.

Chart 3 - Change in credit standards on business loans (net balance, net percentage of banks reporting eased credit standards)
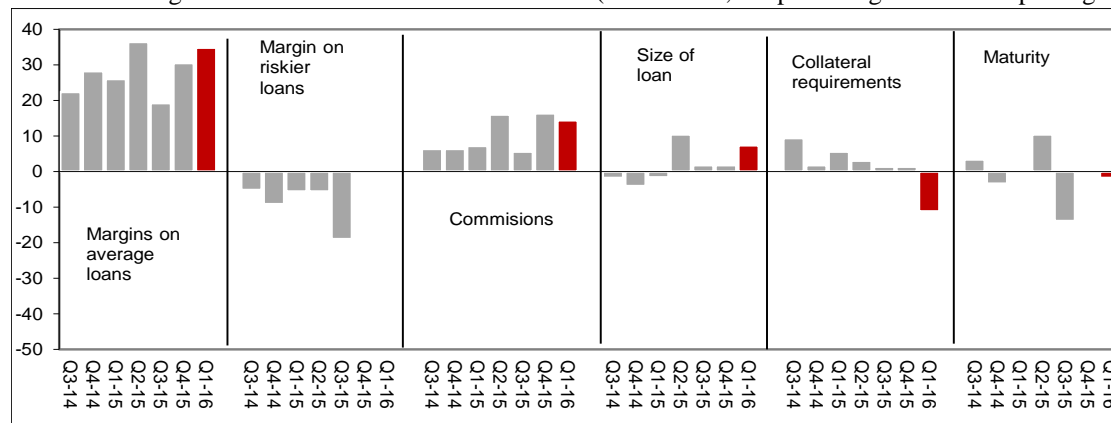
Source: Bank of Albania.

Demand for credit. Demand for credit increased in 2016 Q1, attributable to the credit demand from *small and medium-sized enterprises.* Credit demand from large enterprises was down. The increased demand in the first quarter, in compliance with the perception of bank experts, was mainly on credit for investments and at a lower level on credit for the working capital (see Chart 4). Banks expect *small and medium-sized enterprises* to increase the demand for credit in 2016 Q2, while *larger enterprises demand is expected to fall.*

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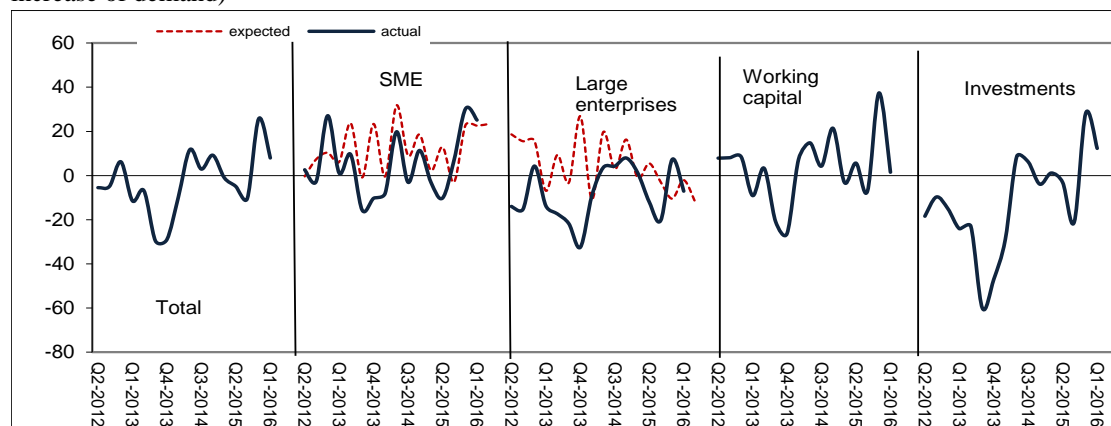
Source: Bank of Albania.

Factors affecting credit demand. Banks reported that enterprises' credit demand was driven by the need to finance both the working capital and the investments. *Bank of Albania's decisions* and the *macroeconomic situation* in Albania have provided a positive impact on the increase of enterprises' demand for credit.

Chart 5 - Contributing factors to business demand for loans (net balance)
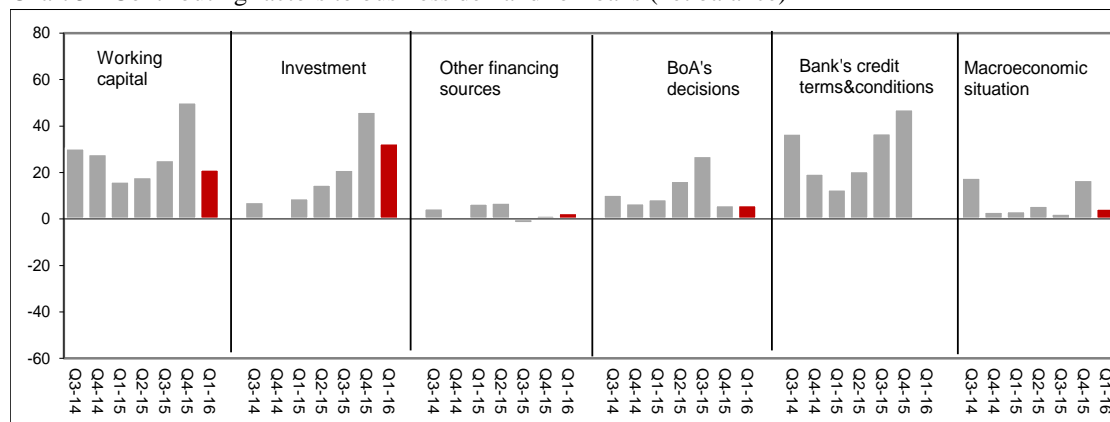
Source: Bank of Albania.
Note: The positive balance indicates that the factor has contributed to the growth of demand. The negative balance indicates that the factor has contributed to the fall of demand.

Lending to households

Credit standards. Banks continued to ease the credit standards on loans to households in 2016 Q1. Banks reported that standards eased on both *house purchase* and *consumer credit* (the net balance of both was 7.7%). Banks stated that credit standards applied to households for house purchase and consumption purposes will continue to remain on the easing side in 2016 Q2.

Chart 6 - Credit standards for households (net balance)
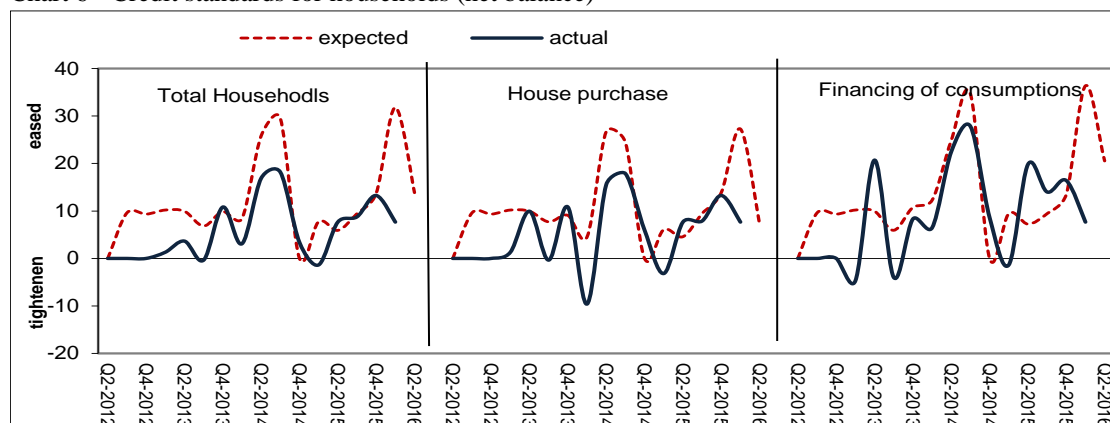
Source: Bank Lending Survey, Bank of Albania.

Factors affecting the credit standards. The further easing of credit standards on loans to households mainly reflected the continuous pressures of competition in the banking sector. The net positive balance assessed for the liquidity situation and capital adequacy of the bank suggests a further increase of these factors' contribution to the easing of standards. Bank of Albania's decisions also contributed to the easing of credit standards, but to a lower extent compared to the previous quarter. According to the aggregated responses of banks, the situation in the real estate market notably contributed to the tightening credit standards to households. *Financial situation of households* and the *non-performing loans situation* contributed to the same direction.

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Chart 7 - Contributing factors to credit standards applied to households (net balance)
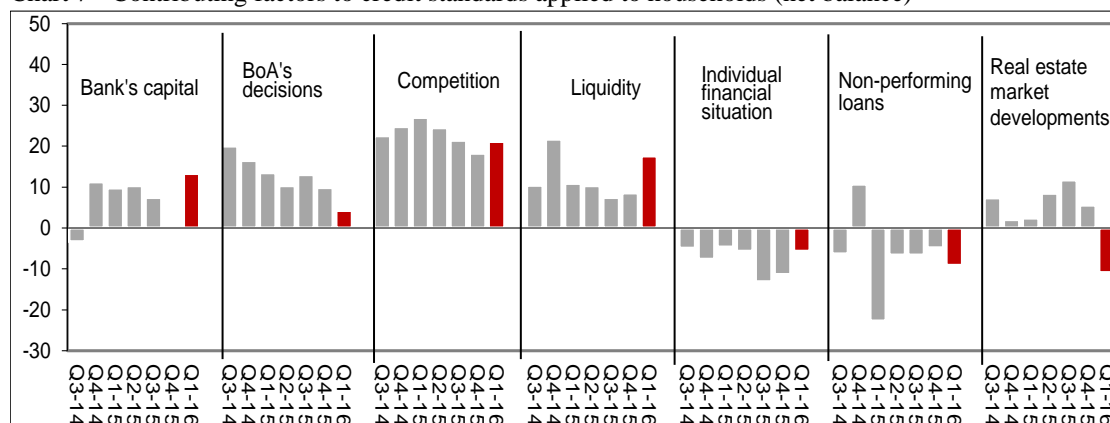
Source: Bank Lending Survey, Bank of Albania.

Conditions on the approval of credit. The easing policy of credit standards on credit to households was mainly implemented through the narrowing of average margin for loans, in 2016 Q1. Banks reported that the decrease of *commissions and credit size* affected the easing of standards. Conversely, the other terms and conditions, such as strengthening of *collateral requirement as a ratio to credit size, the expansion on risk-rated loans margin* and *the increase in* instalment to income ratio contributed to the tightening of standards, during the quarter under review.

Chart 8 - Credit standards applied to households (net balance)
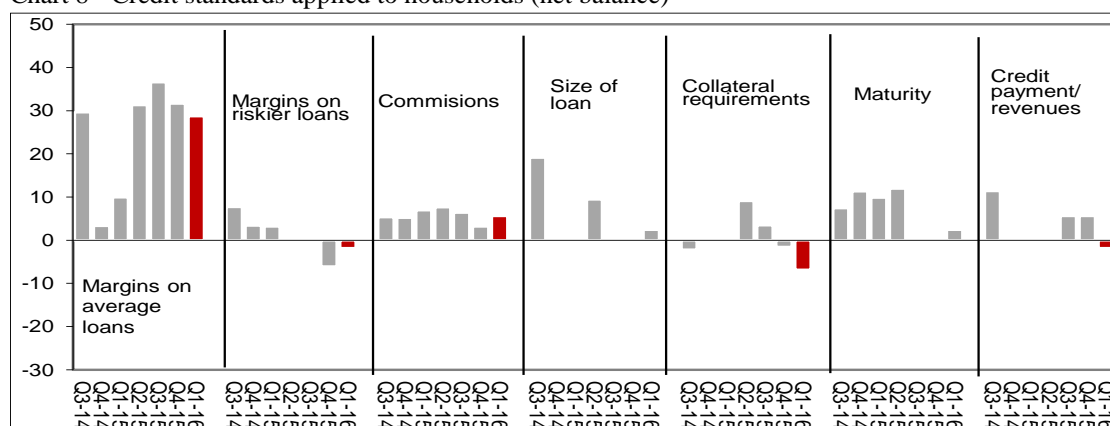
Source: Bank Lending Survey, Bank of Albania.

Demand for credit. Banks reported that the households' credit demand was down in 2016 Q1. The net percentage of banks reporting the growth of demand for credit was -11.7% in 2016 Q1, from +13.0% in the previous quarter. This result was more pessimistic than banks' expectations in the previous survey. Credit demand fell on both house purchase and consumer credit. Credit experts expect households' demand for credit to recover in 2016 Q2.

Chart 9 - Credit demand (net balance)
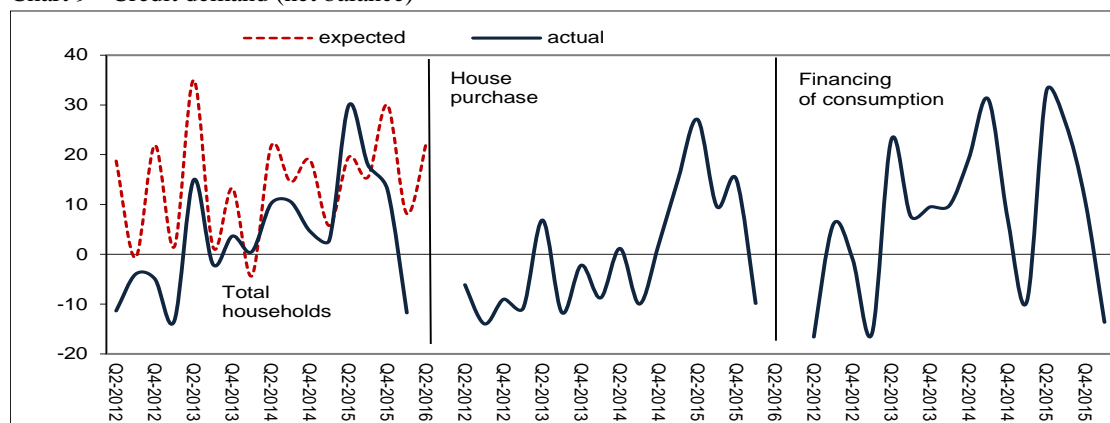
Source: Bank Lending Survey, Bank of Albania.

Factors affecting the credit demand. The fall in households' demand was mainly attributable to the developments in *real estate market,* in 2016 Q1. Thus, net balance of this sector, which provided a continuous positive contribution to the increase of credit demand, was -13.7%, in the quarter under review. Banks reported that *consumer confidence* provided negative impact on the credit demand. *Crediting standards applied from banks, the decisions of the Bank of Albania* and the need to *finance house purchase* affected positively the growth of credit demand in the quarter under review. Unlike in the previous quarters, the use of *alternative funding sources* showed an unimportant contribution to the credit demand from households.

Chart 10 - Factors affecting households' demand for loans (net balance)
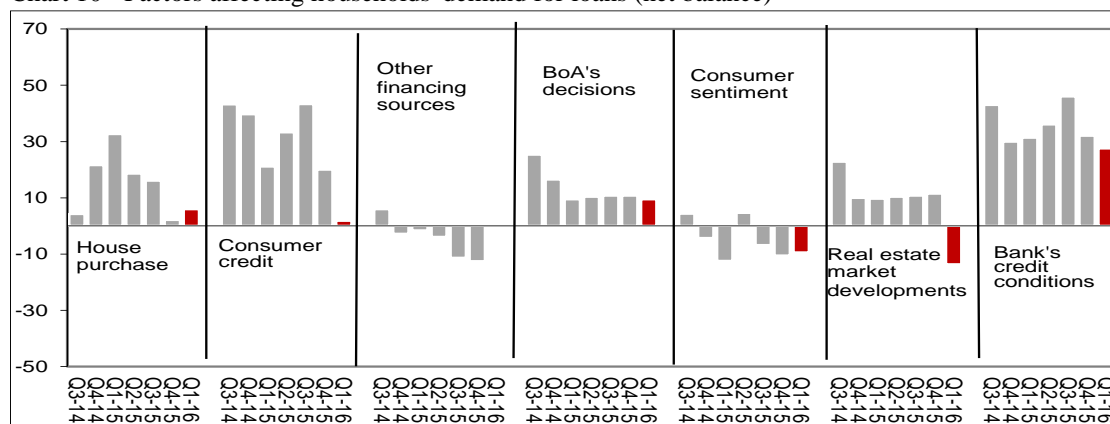
Source: Bank Lending Survey, Bank of Albania.

Expectations for lending activity by currency. Banks expect increase of crediting both in domestic and foreign currency, in 2016 Q1. The respective balances, similar to the previous quarter's survey, suggest increasing trends relative to the credit dynamic provided in domestic currency. Banks' expectations for interest rates on credit, both in lek and foreign currency, are considerably shifted downward for the 2016 Q2, as well.

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Chart 11 - Expectations for lending (left); expectations for interest rates (right); (net balance) *
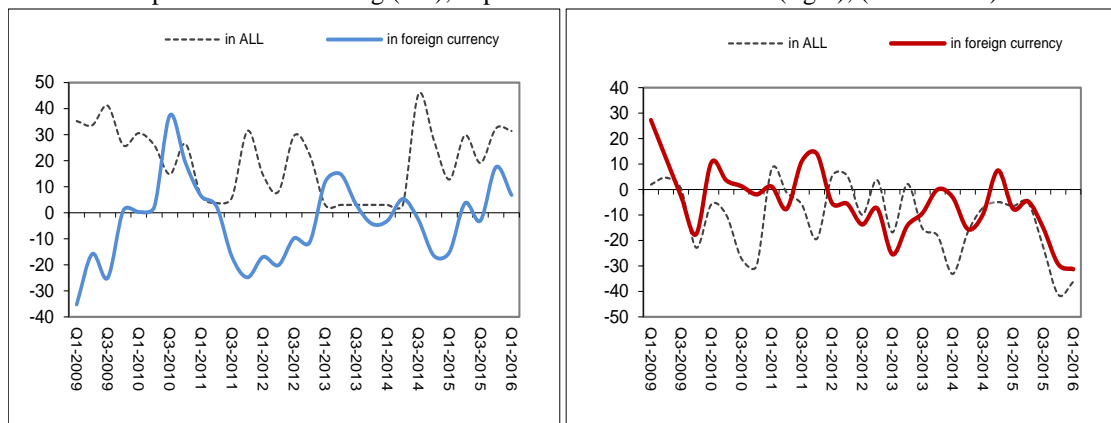
Source: Bank Lending Survey, Bank of Albania.

* 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 enterprises

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 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1
Change in bank credit standards						
- Current quarter	-2.3%	-4.5%	10.4%	0.0%	5.6%	2.7%
- Next quarter	2.6%	-3.3%	9.0%	9.0%	17.1%	-1.0%
Factors affecting the credit standards						
- Bank's capital adequacy	2.1%	-2.0%	9.4%	8.7%	1.1%	16.6%
- Bank of Albania's decisions	34.4%	26.7%	29.6%	36.9%	26.5%	10.2%
- Competition in the banking system	8.7%	27.8%	22.9%	26.7%	29.2%	33.5%
- Current or expected liquidity level	8.0%	3.2%	11.9%	12.0%	-2.9%	7.0%
- Specific business sector-related concerns	-47.2%	-37.9%	-30.2%	-19.3%	-37.1%	-41.9%
- Current or expected macroeconomic situation	-6.0%	17.3%	-29.0%	-36.3%	-15.1%	-15.1%
- Non-performing loans	-47.6%	-48.9%	-25.3%	-47.8%	-40.0%	-33.6%
Change in bank credit standards						
- Average margin	28.2%	26.0%	36.4%	19.2%	30.5%	34.8%
- Margin for risk-rated loans	-9.2%	-5.6%	-5.6%	-19.0%	0.0%	0.0%
- Commissions	6.3%	7.2%	16.0%	5.6%	16.3%	14.4%
- Loan amount	-4.0%	-1.6%	10.4%	1.8%	1.8%	7.3%
- Collateral requirement as a ratio of loan amount	1.8%	5.6%	3.1%	1.3%	1.3%	-11.2%
- Maximum loan term to maturity	-3.4%	0.0%	10.4%	-13.9%	0.0%	-1.8%
Change in business demand for loans						
- SMEs, previous quarter	11.4%	-3.2%	-10.2%	6.9%	30.2%	25.1%
- SMEs, next quarter	6.9%	12.9%	-3.0%	22.8%	22.6%	23.3%
- Large enterprises, previous quarter	7.9%	1.2%	-12.0%	-20.3%	7.3%	-7.1%
- Large enterprises, next quarter	1.8%	5.5%	-3.0%	-10.5%	-2.1%	-12.0%
Factors affecting change in demand for loans						
- Need to finance inventories	28.0%	16.1%	18.1%	25.4%	50.3%	21.4%
- Need to finance fixed investments	-0.6%	9.0%	14.9%	21.3%	46.2%	32.7%
- Use of alternative financial resources	4.6%	0.1%	7.1%	-1.9%	1.5%	2.6%
- Bank of Albania's monetary policy decisions	10.5%	6.8%	16.5%	27.2%	6.1%	6.1%
- Lending standards applied by your bank	19.6%	12.8%	20.7%	37.0%	47.2%	44.5%
- Current or expected macroeconomic situation	3.1%	3.5%	5.8%	2.3%	16.8%	4.6%

Source: Bank Lending Survey, Bank of Albania.

Annex 2. Lending to households

IIn 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 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1
Change in bank credit standards						
- Previous quarter	3.4%	-1.4%	7.7%	8.8%	13.3%	7.7%
- Next quarter	7.8%	5.9%	9.4%	13.7%	31.8%	13.9%
Factors affecting the credit standards						
- Bank's capital adequacy	11.3%	9.8%	10.3%	7.4%	0.0%	13.4%
- Bank of Albania's decisions	16.5%	13.5%	10.3%	13.0%	9.9%	4.3%
- Competition in the banking system	24.8%	27.0%	24.5%	21.4%	18.2%	21.2%
- Current or expected liquidity level	21.7%	10.9%	10.3%	7.4%	8.5%	17.6%
- Households' financial situation	-7.7%	-4.7%	-5.7%	-13.1%	-11.3%	-5.7%
- Non-performing loans	10.7%	-22.7%	-6.7%	-6.7%	-4.8%	-9.1%
- Developments in the real estate market	2.0%	2.4%	8.5%	11.7%	5.6%	-10.9%
Change in bank credit standards						
- Average margin	3.3%	9.9%	31.3%	36.6%	31.6%	28.7%
- Margin for risk-rated loans	3.4%	3.2%	0.0%	0.0%	-6.1%	-1.82%
- Commissions	5.2%	7.0%	7.7%	6.4%	3.2%	5.6%
- Loan amount	0.0%	0.0%	9.4%	0.0%	0.0%	2.4%
- Collateral requirement as a ratio of loan amount	0.0%	0.0%	9.1%	3.5%	-1.5%	-6.8%
- Maximum loan term to maturity	11.3%	9.9%	11.9%	0.0%	0.0%	2.4%
- Instalment-to-income ratio	0.0%	0.0%	0.0%	5.6%	5.6%	-1.8%
Change in household demand for loans						
- Mortgage loans	2.1%	15.1%	27.1%	9.6%	15.1	-9.8%
- Consumer loans	7.2%	-9.4%	32.7%	26.2%	10.8	-13.6%
Factors affecting change in demand for loans						
- Households' needs to finance house purchase	21.6%	32.7%	18.6%	16.1%	2.2%	6.0%
- Households' needs to finance consumption	39.7%	21.1%	33.3%	43.3%	20.1%	1.9%
- Use of alternative financial resources	-2.7%	-1.6%	-3.9%	-11.3%	-12.5%	0.3%
- Bank of Albania's monetary policy decisions	16.5%	9.5%	10.3%	10.8%	10.8%	9.5%
- Consumer confidence	-4.3%	-12.4%	4.6%	-6.8%	-10.5%	-9.4%
- Developments in the real estate market	10.0%	9.6%	10.3%	10.8%	11.4%	-13.7%
- Lending standards applied by your bank	30.0%	31.3%	36.1%	46.0%	32.1%	27.6%

Source: Bank Lending Survey, Bank of Albania.