

Bank of Albania  
Monetary Policy Department



Bank Lending Survey Results for 2016 Q2

July 2016<sup>1</sup>

Bank Lending Survey results evidence tight credit standards applied to enterprises, and a continued easing trend of credit standards to households in 2016 Q2. Business credit standards were tight for small and medium-sized enterprises and for large enterprises. Meanwhile, standards for loans to households for consumer credit eased and have not changed in the segment of house-purchase loans.

Main **factors** contributing to the tightening of credit standards to enterprises are the *sector's specific problems* and the *macroeconomic situation*. Factors contributing to easing of credit standards for households are *competition*, *capital adequacy* and *liquidity situation*. *Non-performing loans* remained a factor with a negative impact on credit conditions, for both enterprises and households.

The tightening policy of banks regarding credit standards to enterprises was implemented mainly through increased *collateral requirements* and reduction of the term to *maturity*. The easing policy of banks regarding credit standards to households was implemented mainly by narrowing the *average margin*.

Enterprises' **demand** for loans remained almost unchanged during 2016 Q2. According to banking experts, *small and medium enterprises* increased the demand for loans, whereas *large enterprises* decreased the demand. Household demand for loans increased, for both consumer and house purchase credit.

Banks **expect** credit standards applied to both enterprises and households to continue easing during 2016 Q3. Credit standards for enterprises are expected to ease for small and medium-sized enterprises. Credit standards for households will remain on the easing side, for *house purchase* and *consumption* purposes. Credit demand for both enterprises and households is expected to increase in 2016 Q3.

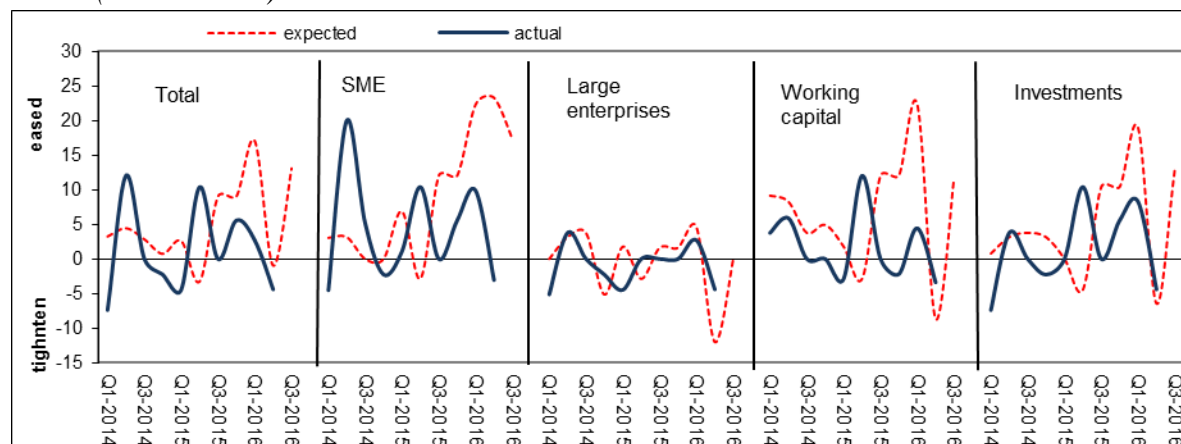
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<sup>1</sup>The survey conducted in July 2016 covers bank lending developments in 2016 Q2 and banks' expectations for lending in 2016 Q3.

## Lending to enterprises

**Credit standards.** The standards applied to both small and medium-sized and large enterprises tightened during 2016 Q2. By purpose of use, banks eased the credit standards for *investments* and *working capital*. In the *small and medium-sized enterprises* segment, standards are expected to ease in 2016 Q3, while credit standards for *large enterprises* are expected to remain tight.

Chart 1: Changes in standards applied to credit for enterprises in total, by size of enterprises and purpose of use (*net balance*<sup>1</sup>)

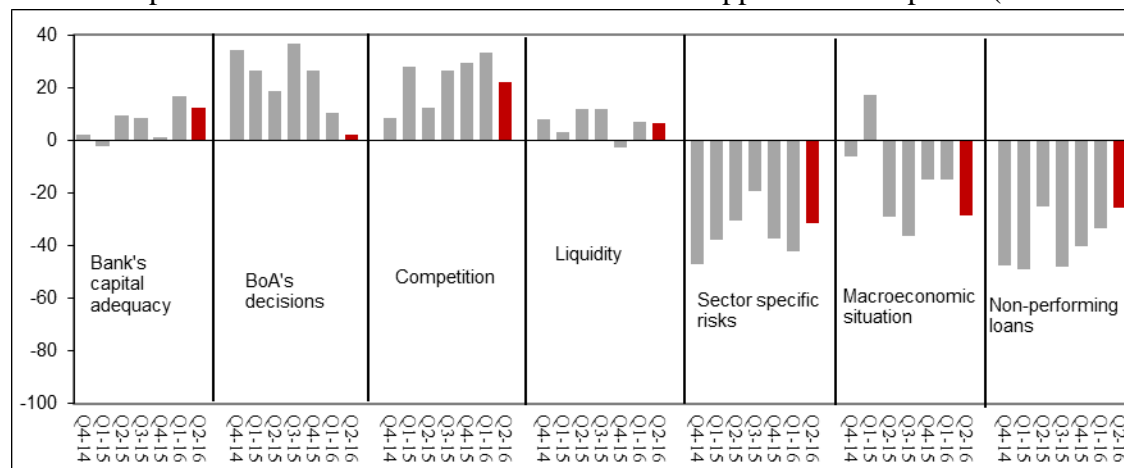


Source: Bank of Albania.

*Note 1. The net balance is the percentage of banks that have changed their standards; positive balance indicates an easing of standards, negative balance indicates a tightening of standards.*

The **factors** contributing most to the tightening of standards in 2016 Q2 are *sector-specific problems*, *macroeconomic situation* and *non-performing loans*. Moreover, factors such as *competition*, *capital adequacy* and *liquidity situation* contributed to the easing of the standards (Chart 2).

Chart 2 Impact of different factors on credit standards applied to enterprises (*net balance*<sup>2</sup>)

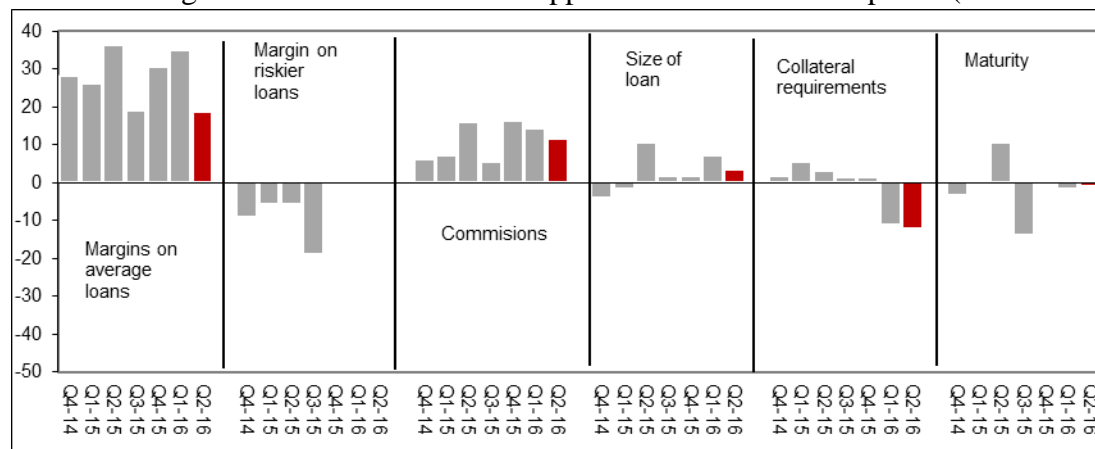


Source: Bank of Albania.

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

**Conditions on the approval of credit.** Terms and conditions applied banks, and contributing to the tightening side in 2016 Q2 were: *increased collateral requirements* and *reduction of maturity*. On the other hand, *the average margin, commissions* and *credit size* contributed to the easing side.

Chart 3 Change of the conditions for the approval of credit to enterprises (net balance<sup>3</sup>)

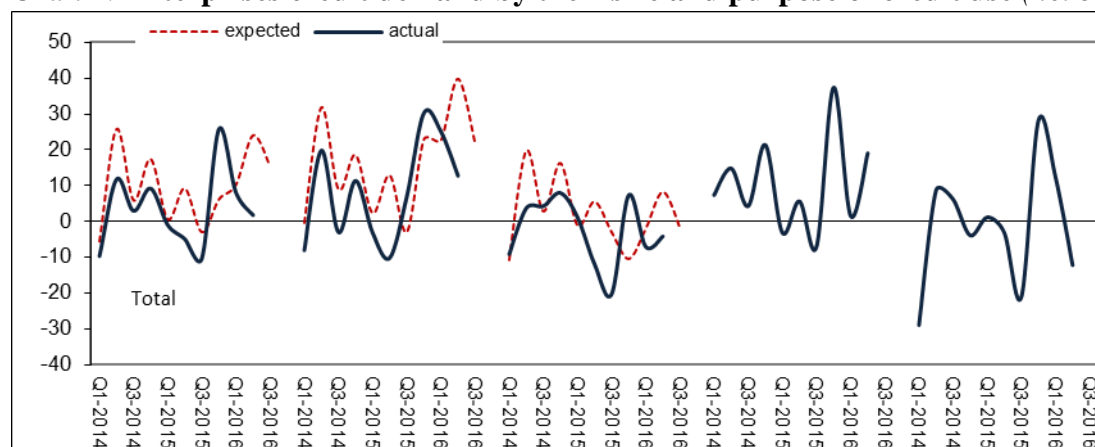


Source: Bank of Albania.

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

**Demand for credit.** Business demand for loans remained almost unchanged in 2016 Q2. Banks report an increased demand for *small and medium-sized enterprises*, while demand from *large enterprises* decreased. In 2016 Q2, by purpose of use, enterprises demand increased for *working capital* and decreased for *investments*. (Chart 4) In 2016 Q3, banks expect demand to grow, generated by small and medium-sized enterprises.

Chart 4: **Enterprises credit demand by their size and purpose of credit use (net balance<sup>4</sup>)**

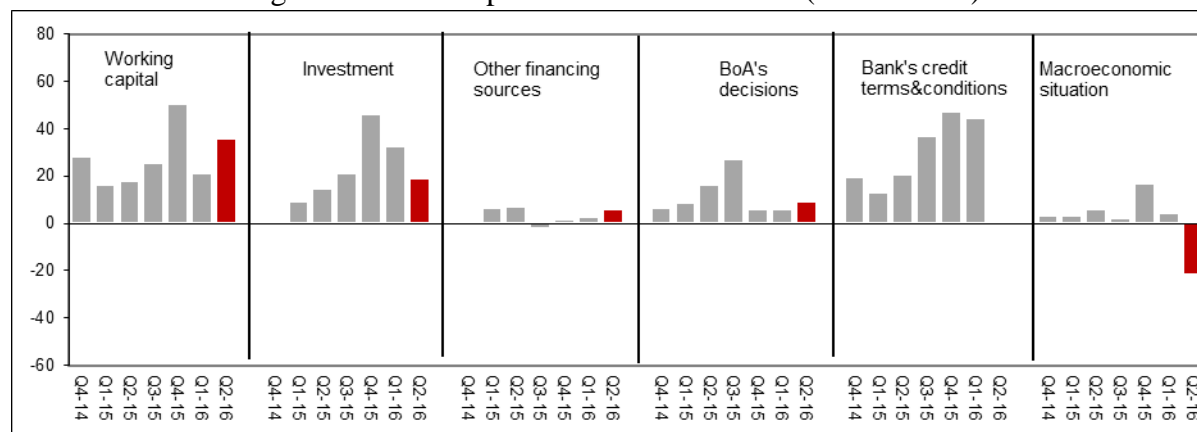


Source: Bank of Albania.

Note 4. The positive balance indicates an increase in credit demand, whereas negative balance indicates a decrease.

**Factors affecting the credit demand.** Banks assess that enterprises' credit demand was driven by the need to finance both *working capital* and *investments*. Bank of Albania's decisions and the lack of *alternative funding* contributed positively to this demand. On the other hand, *the macroeconomic situation* in Albania during this quarter had an adverse effect on enterprises demand for credit.

Chart 5: Contributing factors to enterprises demand for credit (net balance<sup>5</sup>)



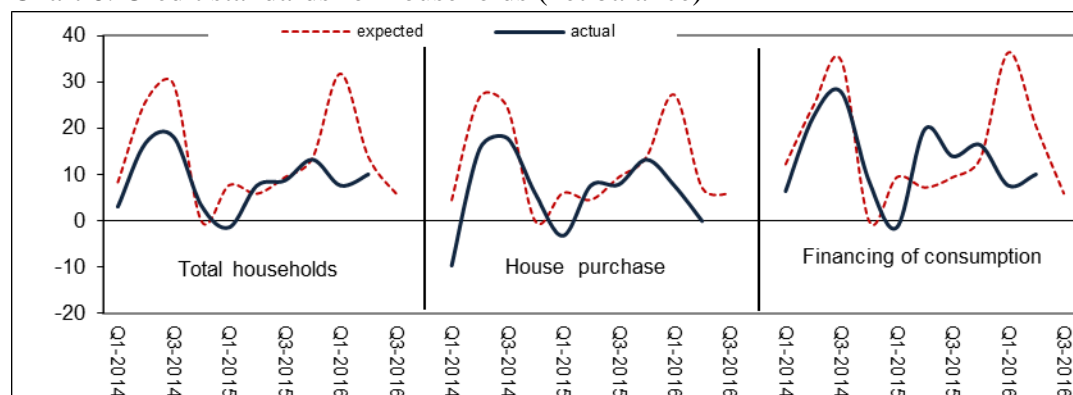
Source: Bank of Albania.

Note 5. 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.** In 2016 Q2, banks continued to ease the credit standards for households. Standards for consumer credit were eased and remained unchanged for house purchase. Banks estimate that credit standards applied to households for house purchase as well as for financing consumption will continue to remain on the easing side.

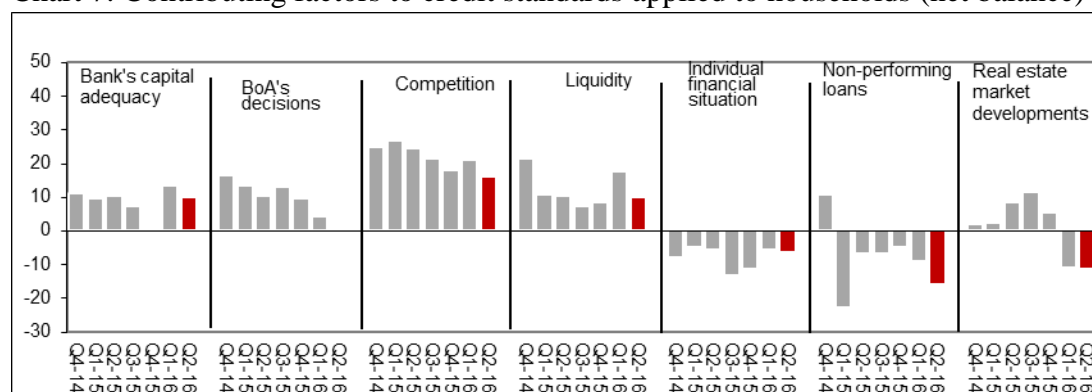
Chart 6: Credit standards for households (net balance)



Source: Bank Lending Survey, Bank of Albania.

**Factors affecting credit standards.** The further easing of credit standards for households continued to be driven mainly by the increased competition in the banking sector. *Bank liquidity situation* and *capital adequacy* contributed positively to the further easing of standards, although to a lesser extent compared with the previous quarter. *Non-performing loans* continued to contribute to the tightening of credit standards. For the second consecutive quarter the situation in the *real estate market* notably contributed to the tightening credit standards to households. The households' financial situation contributed to the same direction.

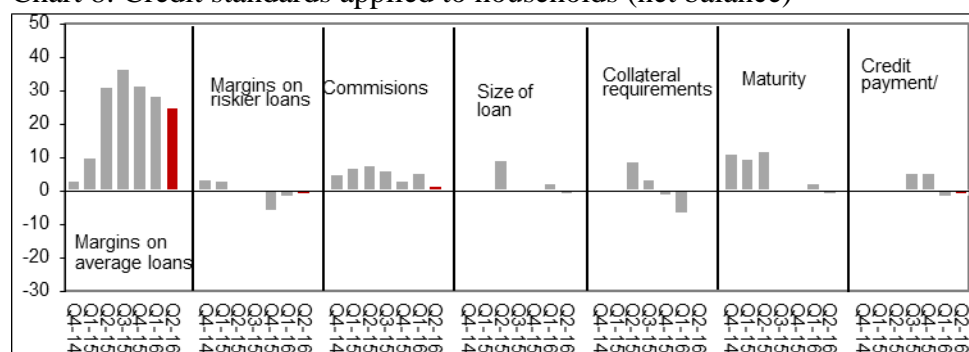
Chart 7: Contributing factors to credit standards applied to households (net balance)



Source: Bank Lending Survey, Bank of Albania.

**Conditions on the approval of credit.** Even in 2016 Q2, banks easing policy to credit to households was implemented through the narrowing of the *average margin*. Banks' aggregated responses confirm that the reduction of *commissions* played a positive role in easing the standards. On the other hand, conditions like the *credit size*, expansion of *margins* for *risk-bearing loans* and increase of *instalment to income ratio* contributed to the tightening of side.

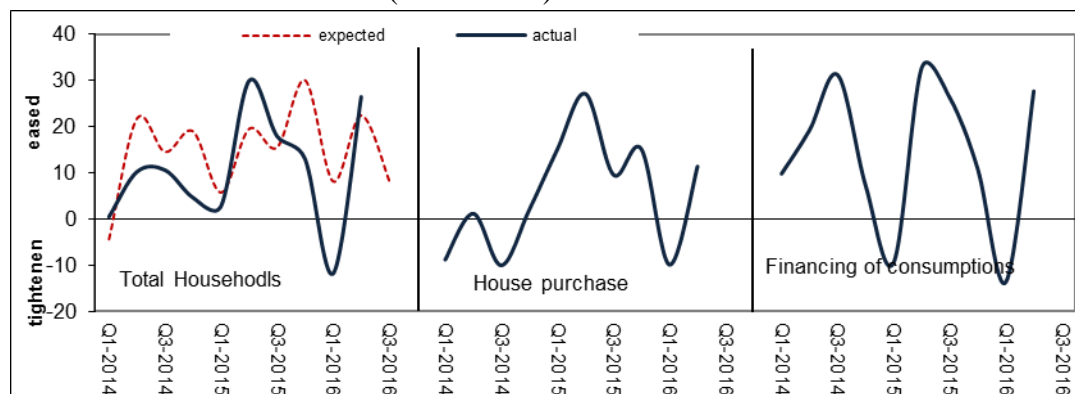
Chart 8: Credit standards applied to households (net balance)



Source: Bank Lending Survey, Bank of Albania.

**Demand for credit.** Banks report increased household's credit demand in 2016 Q2. This result confirmed banks' expectations in the previous survey. Demand expanded for both *house purchase* and *consumer credit*. This performance is expected to persist in 2016 Q3.

Chart 9: Total credit demand (net balance)



Source: Bank Lending Survey, Bank of Albania.

**Factors affecting the demand.** During 2016 Q2, household's credit demand was driven by the households' need to *finance consumption* and *house purchase*, the *easing of credit conditions* and the *Bank of Albania's decisions*. Banks also report that, unlike in the previous quarter, other factors such as *the lack of alternative financing sources*, *developments in the real estate market* and *consumer confidence* played a positive role in the performance of credit demand.

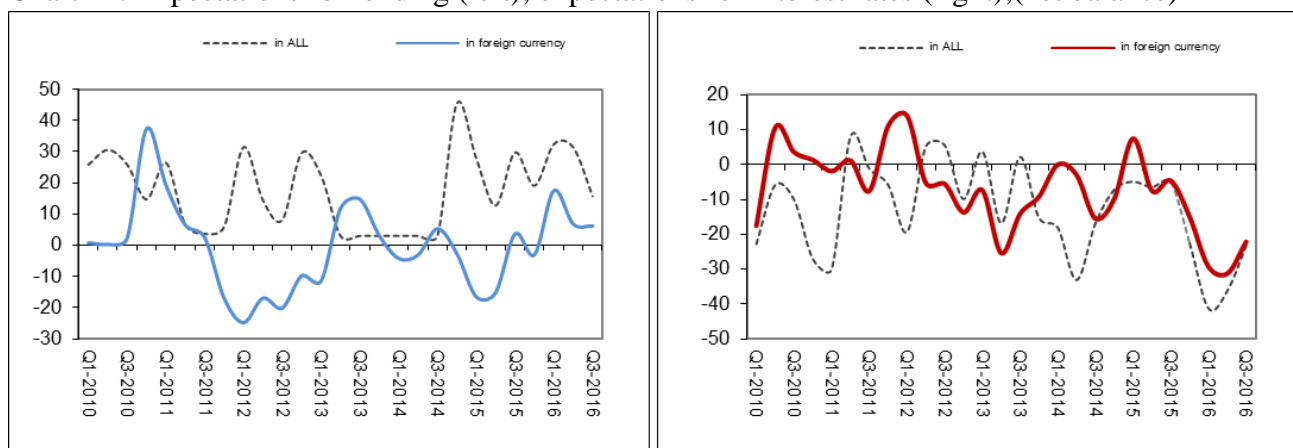
Chart 10: Factors affecting households' demand for credit (net balance)



Source: Bank Lending Survey, Bank of Albania.

**Expectations for lending by currency.** According to expert's assessments, lending in both the domestic and foreign currency is expected to increase in 2016 Q3. For the same-stated period, the expansion of lending in the domestic currency is expected to be higher than the one in foreign currency. Meanwhile, banks' expectations for credit interest rates, both in domestic and foreign currency, remain on the down side.

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”.

| ENTERPRISES   | 2015<br>Q1 | 2015<br>Q2 | 2015<br>Q3 | 2015<br>Q4 | 2016<br>Q1 | 2016<br>Q2 |
|---|------------|------------|------------|------------|------------|------------|
| <b>Change in bank credit standards</b>              |            |            |            |            |            |            |
| - Current quarter                                   | -4.5%      | 10.4%      | 0.0%       | 5.6%       | 2.7%       | -4.4%      |
| - Next quarter                                      | -3.3%      | 9.0%       | 9.0%       | 17.1%      | -1.0%      | 13.1%      |
| <b>Factors affecting the credit standards</b>       |            |            |            |            |            |            |
| - Bank's capital adequacy                           | -2.0%      | 9.4%       | 8.7%       | 1.1%       | 16.6%      | 12.5%      |
| - Bank of Albania's decisions                       | 26.7%      | 29.6%      | 36.9%      | 26.5%      | 10.2%      | 2.4%       |
| - Competition in the banking system                 | 27.8%      | 22.9%      | 26.7%      | 29.2%      | 33.5%      | 22.2%      |
| - Current or expected liquidity level               | 3.2%       | 11.9%      | 12.0%      | -2.9%      | 7.0%       | 6.4%       |
| - Specific business sector-related concerns         | -37.9%     | -30.2%     | -19.3%     | -37.1%     | -41.9%     | -31.3%     |
| - Current or expected macroeconomic situation       | 17.3%      | -29.0%     | -36.3%     | -15.1%     | -15.1%     | -28.3%     |
| - Non-performing loans                              | -48.9%     | -25.3%     | -47.8%     | -40.0%     | -33.6%     | -25.5%     |
| <b>Change in bank credit standards</b>              |            |            |            |            |            |            |
| - Average margin                                    | 26.0%      | 36.4%      | 19.2%      | 30.5%      | 34.8%      | 18.6%      |
| - Margin for risk-rated loans                       | -5.6%      | -5.6%      | -19.0%     | 0.0%       | 0.0%       | 0.0%       |
| - Commissions                                       | 7.2%       | 16.0%      | 5.6%       | 16.3%      | 14.4%      | 11.7%      |
| - Loan size   | -1.6%      | 10.4%      | 1.8%       | 1.8%       | 7.3%       | 3.6%       |
| - Collateral requirement as a ratio of loan amount  | 5.6%       | 3.1%       | 1.3%       | 1.3%       | -11.2%     | -12.2%     |
| - Maximum loan term to maturity                     | 0.0%       | 10.4%      | -13.9%     | 0.0%       | -1.8%      | -1.0%      |
| <b>Change in business demand for loans</b>          |            |            |            |            |            |            |
| - SMEs, previous quarter                            | -3.2%      | -10.2%     | 6.9%       | 30.2%      | 25.1%      | 12.7%      |
| - SMEs, next quarter                                | 12.9%      | -3.0%      | 22.8%      | 22.6%      | 23.3%      | 21.9%      |
| - Large enterprises, previous quarter               | 1.2%       | -12.0%     | -20.3%     | 7.3%       | -7.1%      | -4.2%      |
| - Large enterprises, next quarter                   | 5.5%       | -3.0%      | -10.5%     | -2.1%      | -12.0%     | -1.8%      |
| <b>Factors affecting change in demand for loans</b> |            |            |            |            |            |            |
| - Need to finance inventories                       | 16.1%      | 18.1%      | 25.4%      | 50.3%      | 21.4%      | 35.8%      |
| - Need to finance fixed investments                 | 9.0%       | 14.9%      | 21.3%      | 46.2%      | 32.7%      | 19.2%      |
| - Use of alternative financial resources            | 0.1%       | 7.1%       | -1.9%      | 1.5%       | 2.6%       | 6.0%       |
| - Bank of Albania's monetary policy decisions       | 6.8%       | 16.5%      | 27.2%      | 6.1%       | 6.1%       | 9.1%       |
| - Lending standards applied by your bank            | 12.8%      | 20.7%      | 37.0%      | 47.2%      | 44.5%      | 32.4%      |
| - Current or expected macroeconomic situation       | 3.5%       | 5.8%       | 2.3%       | 16.8%      | 4.6%       | -21.9%     |

Source: Bank Lending Survey, Bank of Albania.



## Annex 2. 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  | 2015<br>Q1 | 2015<br>Q2 | 2015<br>Q3 | 2015<br>Q4 | 2016<br>Q1 | 2016<br>Q2 |
|---|------------|------------|------------|------------|------------|------------|
| <b>Change in bank credit standards</b>              |            |            |            |            |            |            |
| - Previous quarter                                  | -1.4%      | 7.7%       | 8.8%       | 13.3%      | 7.7%       | 10.1%      |
| - Next quarter                                      | 5.9%       | 9.4%       | 13.7%      | 31.8%      | 13.9%      | 6.0%       |
| <b>Factors affecting the credit standards</b>       |            |            |            |            |            |            |
| - Bank's capital adequacy                           | 9.8%       | 10.3%      | 7.4%       | 0.0%       | 13.4%      | 10.1%      |
| - Bank of Albania's decisions                       | 13.5%      | 10.3%      | 13.0%      | 9.9%       | 4.3%       | 0.0%       |
| - Competition in the banking system                 | 27.0%      | 24.5%      | 21.4%      | 18.2%      | 21.2%      | 16.1%      |
| - Current or expected liquidity level               | 10.9%      | 10.3%      | 7.4%       | 8.5%       | 17.6%      | 10.1%      |
| - Households' financial situation                   | -4.7%      | -5.7%      | -13.1%     | -11.3%     | -5.7%      | -6.3%      |
| - Non-performing loans                              | -22.7%     | -6.7%      | -6.7%      | -4.8%      | -9.1%      | -15.7%     |
| - Developments in the real estate market            | 2.4%       | 8.5%       | 11.7%      | 5.6%       | -10.9%     | -11.3%     |
| <b>Change in bank credit standards</b>              |            |            |            |            |            |            |
| - Average margin                                    | 9.9%       | 31.3%      | 36.6%      | 31.6%      | 28.7%      | 24.9       |
| - Margin for risk-rated loans                       | 3.2%       | 0.0%       | 0.0%       | -6.1%      | -1.8%      | -1.2%      |
| - Commissions                                       | 7.0%       | 7.7%       | 6.4%       | 3.2%       | 5.6%       | 1.6%       |
| - Loan size   | 0.0%       | 9.4%       | 0.0%       | 0.0%       | 2.4%       | -1.2%      |
| - Collateral requirement as a ratio of loan amount  | 0.0%       | 9.1%       | 3.5%       | -1.5%      | -6.8%      | -0.2%      |
| - Maximum loan term to maturity                     | 9.9%       | 11.9%      | 0.0%       | 0.0%       | 2.4%       | -1.2%      |
| - Instalment-to-income ratio                        | 0.0%       | 0.0%       | 5.6%       | 5.6%       | -1.8%      | -1.2%      |
| <b>Change in household demand for loans</b>         |            |            |            |            |            |            |
| - Mortgage loans                                    | 15.1%      | 27.1%      | 9.6%       | 15.1%      | -9.8%      | 11.4%      |
| - Consumer loans                                    | -9.4%      | 32.7%      | 26.2%      | 10.8%      | -13.6%     | 27.6%      |
| <b>Factors affecting change in demand for loans</b> |            |            |            |            |            |            |
| - Households' needs to finance house purchase       | 32.7%      | 18.6%      | 16.1%      | 2.2%       | 6.0%       | 17.5%      |
| - Households' needs to finance consumption          | 21.1%      | 33.3%      | 43.3%      | 20.1%      | 1.9%       | 27.6%      |
| - Use of alternative financial resources            | -1.6%      | -3.9%      | -11.3%     | -12.5%     | 0.3%       | 8.6%       |
| - Bank of Albania's monetary policy decisions       | 9.5%       | 10.3%      | 10.8%      | 10.8%      | 9.5%       | 16.4%      |
| - Consumer confidence                               | -12.4%     | 4.6%       | -6.8%      | -10.5%     | -9.4%      | 1.2%       |
| - Developments in the real estate market            | 9.6%       | 10.3%      | 10.8%      | 11.4%      | -13.7%     | 9.3%       |
| - Lending standards applied by your bank            | 31.3%      | 36.1%      | 46.0%      | 32.1%      | 27.6%      | 30.5%      |

Source: Bank Lending Survey, Bank of Albania.