Bank of Albania
Monetary Policy Department

Bank Lending Survey Results for 2016 Q3

October 2016[1]

Bank lending survey results show tightening of credit standards on loans to enterprises and eased credit standards on loans to households in 2016 Q3. The credit standards were slightly tightened on loans to *larger enterprises,* and remained unchanged to *small and medium-sized enterprises.* Banks continued to ease the credit standards on loans to households for *consumer credit,* while *credit standards for house purchase* remained largely unchanged from the previous quarter.

The main **factors** contributing to the tightening of bank credit standards to enterprises continued to be: *non-performing loans, specific sector-related problems,* and banks' perception about the *economic situation.* Meanwhile, *competition in the banking system,* the *liquidity* situation of banks and *Bank of Albania's decisions* contributed to the easing of credit standards on loans to households.

Banks tightened credit standards on loans to enterprises through the increase of collateral requirements and eased credit standards to households mainly through the narrowed *average margin* on loans, reduction of *commissions*, and increase of the required *instalment-to-income* ratio.

Banks' experts reported an increased **credit** demand, by both enterprises and households in 2016 Q3, mainly driven by the demand from *large enterprises.* The demand from *small and medium-sized enterprises* went down. Banks reported an increased credit demand by households, for both, *house purchase and consumer credit.*

Banks **expect** credit standards applied on loans to enterprises to remain largely unchanged and to ease on loans to households, during 2016 Q4. Credit demand, from both enterprises and households, is expected to increase in 2016 Q4.

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[1] The survey conducted in September 2016 covers the developments in bank lending during 2016 Q3 and banks' expectations for lending in 2016 Q4.

Lending to enterprises

Credit standards. Credit standards applied on loans to enterprises were tightened in the third quarter. Credit standards were tightened for *large enterprises,* but remained unchanged for *small and medium-sized enterprises*. The tightening trend is expected to persist in 2016 Q4 on loans to *large enterprises*. Credit standards to *small and medium-sized enterprises* are expected to ease. By purpose of credit use for enterprises, banks tightened the credit standards, for both *investments* and *working capital*.

Chart 1 Changes in standards applied to credit for enterprises, by size of enterprises and purpose of credit use *(net balance[1])*
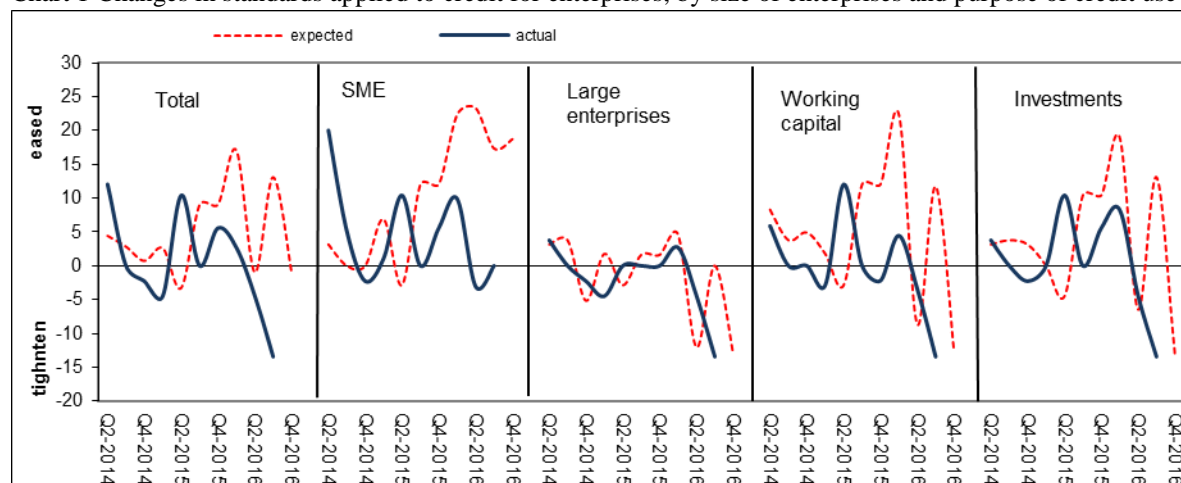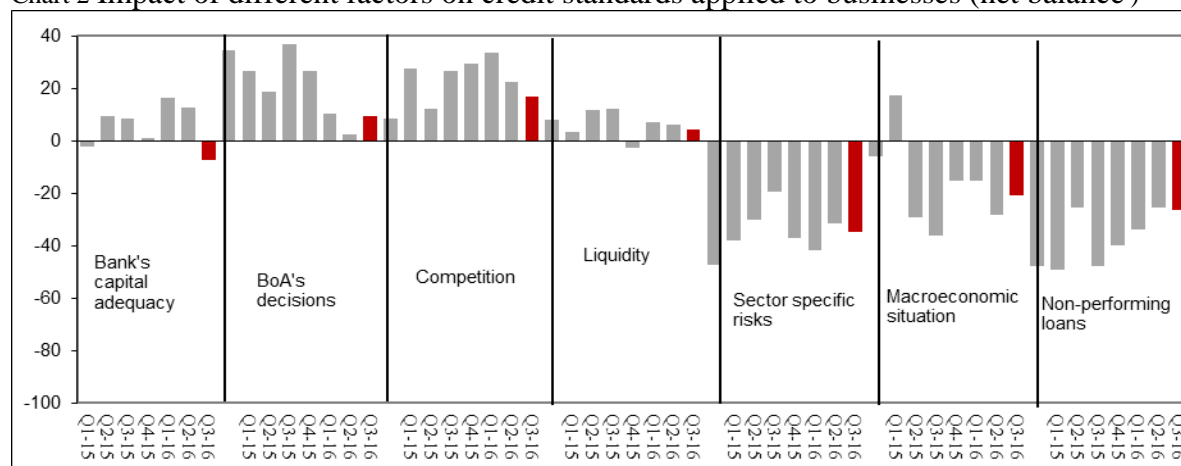

Source: Bank of Albania.
Note 1. The net balance is the percentage of banks that have changed their standards; positive balance indicates an easing of standards, while negative balance indicates a tightening of standards.

The main **factors** contributing to the tightening of credit standards in the third quarter, as previously, were *specific sector-related problems, non-performing loans* and *the perception about the macro-economic situation.* On the other hand, *competition* in the banking market, *the Bank of Albania's decisions* and the good situation of *liquidity* in the system continued to affect the easing of credit standards *(See Chart* 2.)

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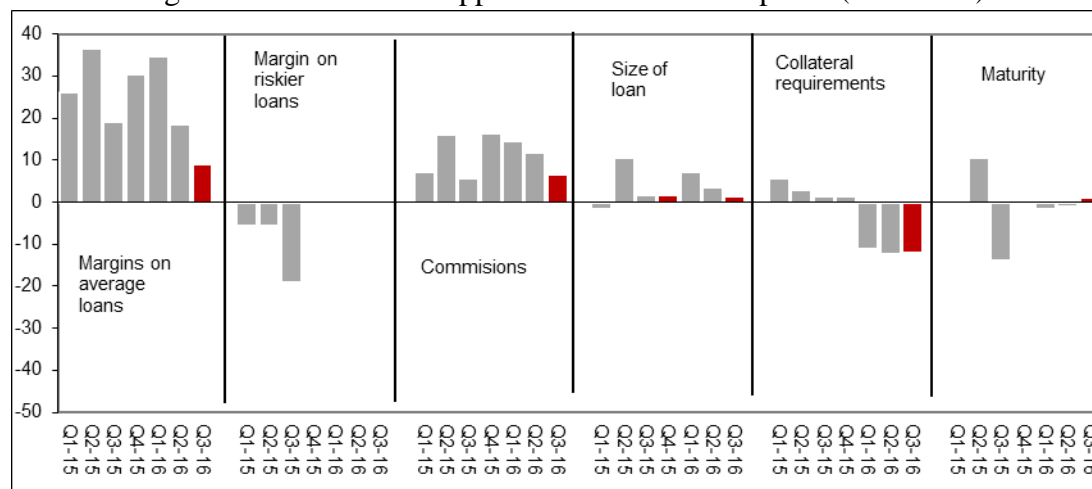

Source: Bank of Albania.
Note 2. The positive balance indicates that the factor contributed to easing the lending standards. The negative balance indicates that the factor contributed to tightening the lending standards.

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Banks implemented a tightened lending policy in 2016 Q3 through the increased collateral requirements. Meanwhile, the reduction in *average margin* and in the *commissions applied to* granted loans continued to contribute to the opposite side, thus affecting the easing of credit standards. Also, *credit size* and *its maturity* provided an eased contribution, but at a lower degree.

Chart 3 Change in credit standards applied on loans to enterprises (net balance[3])
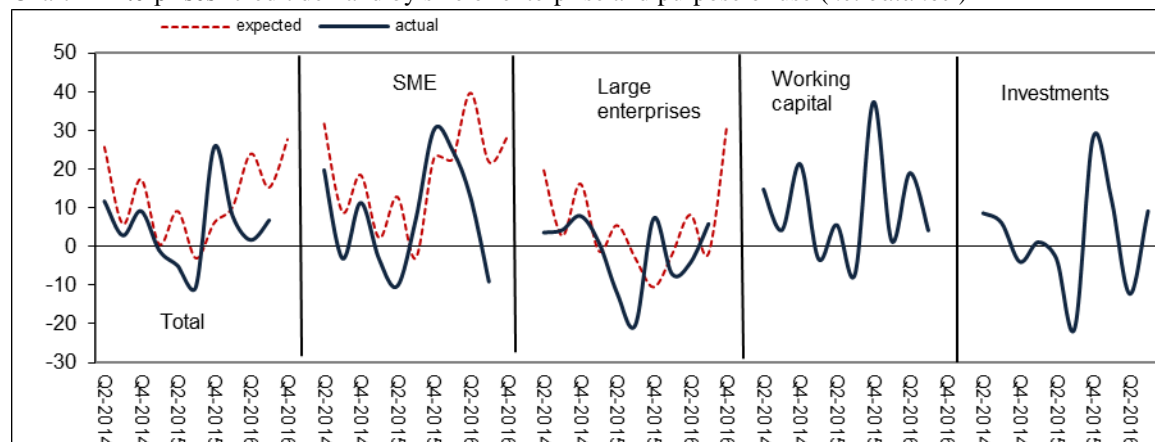

Source: Bank of Albania.
Note 3. The positive balance indicates the easing of credit standards, whereas the negative balance indicates their tightening.

Demand for credit by enterprises increased slightly in 2016 Q3, mainly attributable to the credit demand from *large enterprises.* Credit demand from *small and medium-sized enterprises* was down. Banks expect both *large enterprises,* and *small and medium-sized enterprises* to increase the demand for credit in 2016 Q4. The increased demand of enterprises in the third quarter, in compliance with the perception of bank experts, was mainly on credit for *working capital and for investment* purposes (See Chart 4).

Chart 4 Enterprises' credit demand by size of enterprise and purpose of use (*net balance[4]*)

Source: Bank of Albania.
Note 4. The positive balance indicates an increase in credit demand, while negative balance indicates a decrease.

Factors affecting the demand. Banks reported that enterprises' credit demand was driven by the need to finance both *investments* and *working capital*. *The improved credit standards* and the *decisions of the Bank of Albania* have provided a positive impact on the increase of enterprises' demand for credit. The lack of *alternative financing sources contributed to the same direction, but at a lower degree.*

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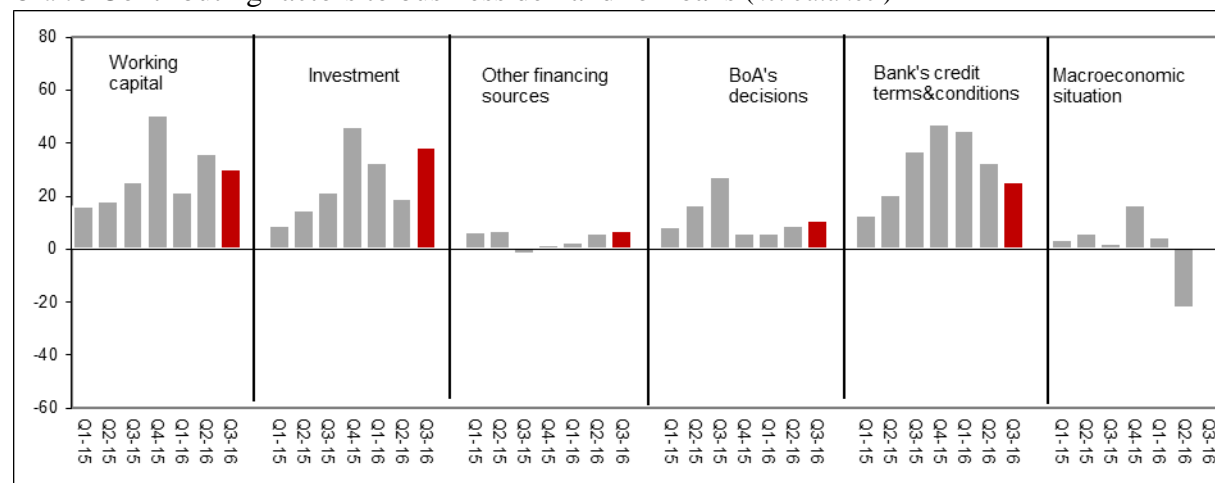
Source: Bank of Albania.
Note 5. Note: The positive balance indicates that the factor has contributed to the growth of demand. The negative balance indicates that the factor has contributed to the fall of demand.

Lending to households

Credit standards. Banks continued to ease the credit standards on loans to households in 2016 Q3. According to the aggregated bank responses, standards eased on *consumer credit,* but remained largely unchanged on *loans for house purchase.* Banks stated that credit standards applied to households for house purchase and consumption purposes will continue to remain on the easing side in 2016 Q4.
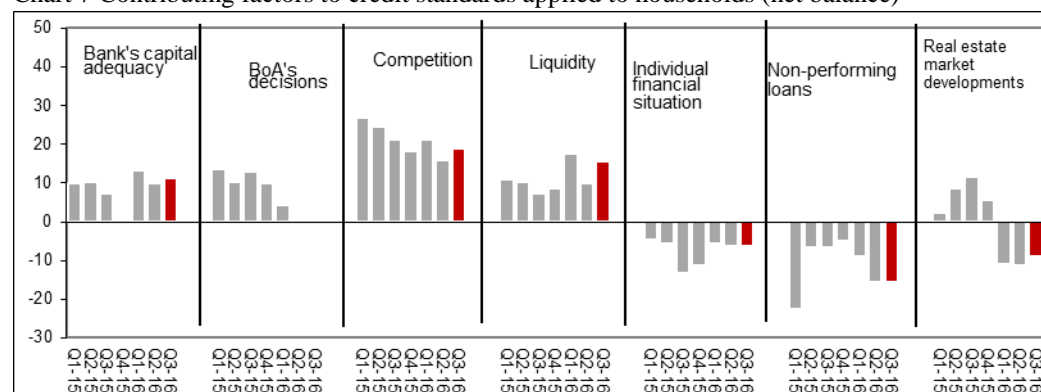
Chart 6 Credit standards for households (net balance)
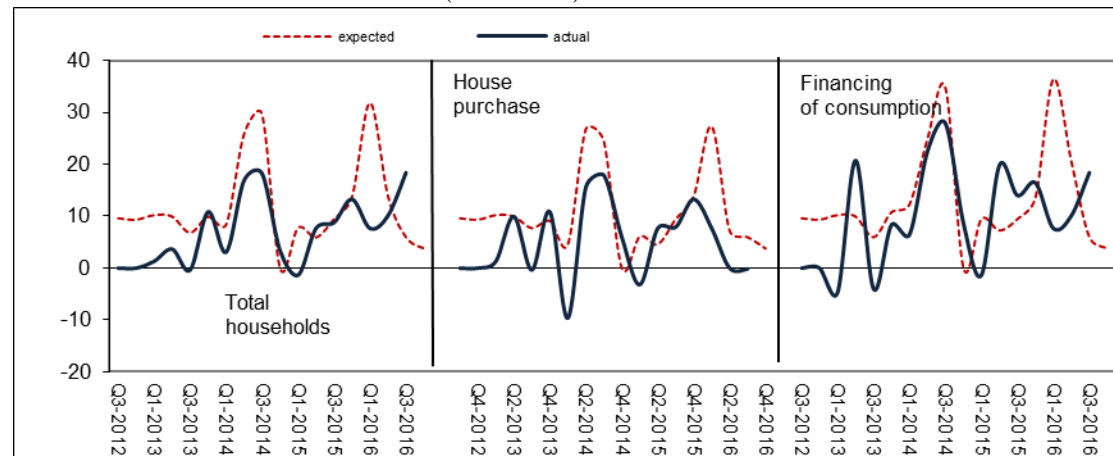
Source: Bank Lending Survey, Bank of Albania.

Factors affecting credit standards. The further easing of credit standards on loans to households mainly reflected the continuous pressures of *competition in the banking sector.* The net positive balance assessed for the *liquidity situation of banks* and *capital adequacy* of the bank suggests a further increase of these factors' contribution to the easing of standards. *The non-performing loans,* the situation in the *real estate market,* and the *financial situation of* households contributed to the tightening of lending standards on loans to households.

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 the average margin* for loans, in 2016 Q3. Also, the other terms and conditions, such as the narrowing *on risk-rated loans margin,* the decrease of *commissions* and of *collateral requirements,* the increase *in instalment-to-income ratio, in the size and maximum maturity of credit* contributed to the easing of standards, during the quarter under review.

Chart 8 Credit standards applied to households (net balance)
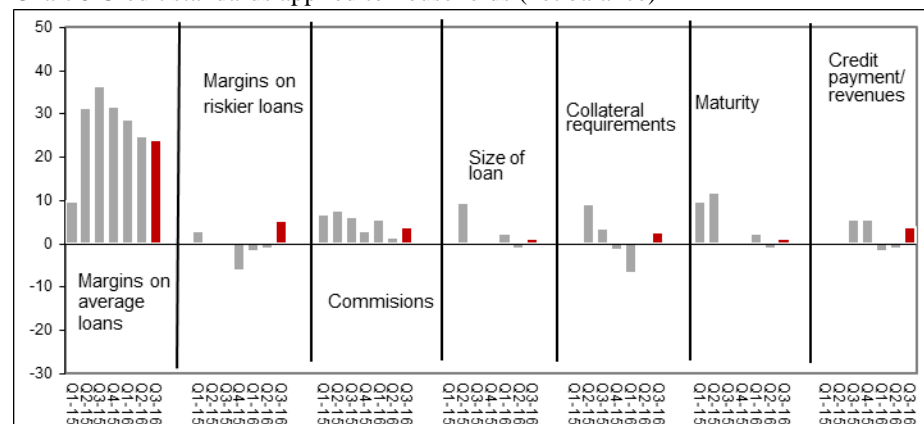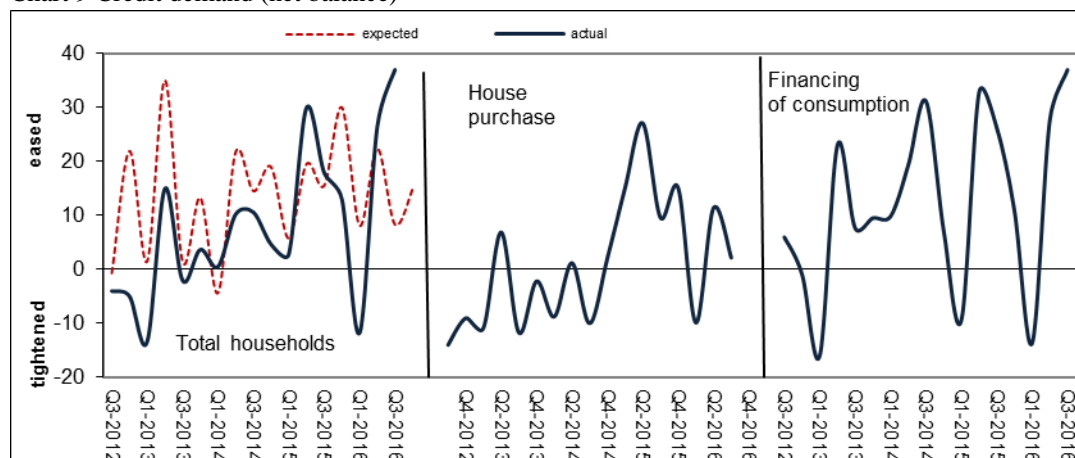

Source: Bank Lending Survey, Bank of Albania.

Demand for credit. Banks reported that the households' credit demand was up in 2016 Q3. This result was in line with the banks' expectations in the previous survey. Credit demand increased for both *house purchase* and *consumer credit.* Credit experts expect households' demand for credit to increase in 2016 Q4.

Chart 9 Credit demand (net balance)

Source: Bank Lending Survey, Bank of Albania.

Factors affecting the credit demand. Households' demand was up owing to the improved *credit standards and the* increase in the demand to *finance consumption* and *the house purchase,* in 2016 Q3. Banks reported that the lack in *alternative financing sources* and the *Bank of Albania's decisions* provided positive contribution to the performance of households' credit demand. Meanwhile, banks' experts reported that *consumer confidence* and developments *in real estate market* provided negative contribution to the credit demand, during the third quarter.

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

Source: Bank Lending Survey, Bank of Albania.

Expectations for lending by currency. Banks expect an increase of lending both in domestic and foreign currency, in 2016 Q4. The expansion of the Lek lending is expected to be higher than in foreign currency, thus affirming the last years' trend. Banks' expectations for interest rates on credit, both in lek and foreign currency, continue to be downward for the 2016 Q4, as well.

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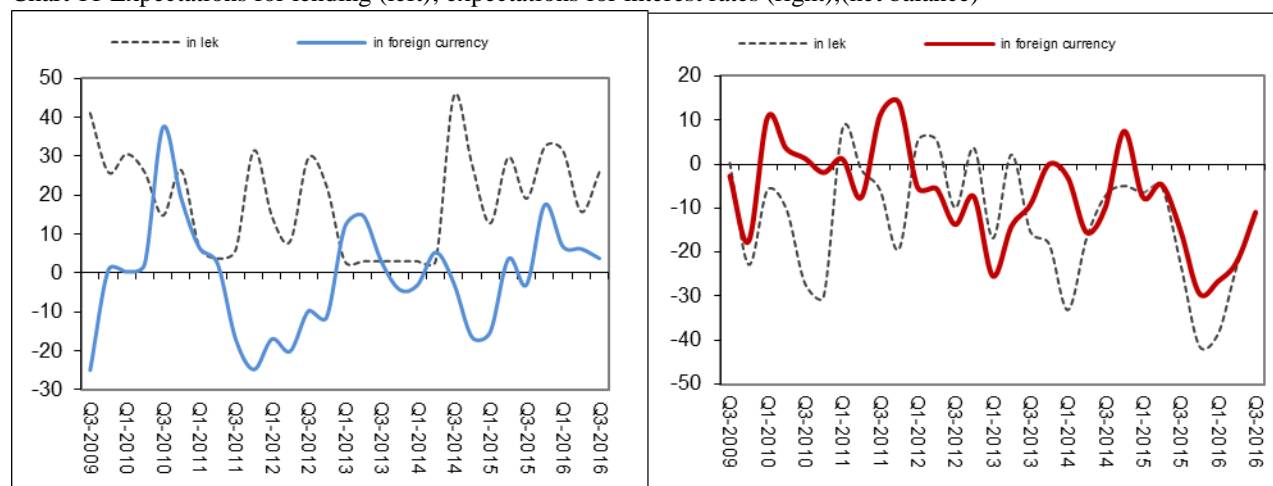
Source: Bank Lending Survey, Bank of Albania.

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	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Change in bank credit standards						
- Previous quarter	7.70%	8.80%	13.30%	7.70%	10.09%	18.38%
- Next quarter	9.40%	13.70%	31.80%	13.90%	5.95%	3.76%
Factors affecting the credit standards						
- Bank's capital adequacy	10.30%	7.40%	0.00%	13.40%	10.09%	11.30%
- Bank of Albania's decisions	10.30%	13.00%	9.90%	4.30%	0.00%	0.00%
- Competition in the banking system	24.50%	21.40%	18.20%	21.20%	16.05%	18.88%
- Current or expected liquidity level	10.30%	7.40%	8.50%	17.60%	10.09%	15.55%
- Households' financial situation	-5.70%	-13.10%	-11.30%	-5.70%	-6.33%	-6.33%
- Non-performing loans	-6.70%	-6.70%	-4.80%	-9.10%	-15.72%	-15.72%
- Developments in the real estate market	8.50%	11.70%	5.60%	-10.90%	-11.30%	-8.89%
Change in bank credit standards						
- Average margin	31.30%	36.60%	31.60%	28.70%	24.93%	24.02%
- Margin for risk-rated loans	0.00%	0.00%	-6.10%	-1.82%	-1.21%	5.46%
- Commissions	7.70%	6.40%	3.20%	5.60%	1.62%	4.03%
- Loan amount	9.40%	0.00%	0.00%	2.40%	-1.21%	1.21%
- Collateral requirement as a ratio of loan amount	9.10%	3.50%	-1.50%	-6.80%	-0.22%	2.82%
- Maximum loan term to maturity	11.90%	0.00%	0.00%	2.40%	-1.21%	1.21%
- Instalment-to-income ratio	0.00%	5.60%	5.60%	-1.80%	-1.21%	4.03%
Change in household demand for loans						
- Mortgage loans	27.10%	9.60%	15.1	-9.80%	11.40%	2.17%
- Consumer loans	32.70%	26.20%	10.8	-13.60%	27.60%	36.96%
Factors affecting change in demand for loans						
- Households' needs to finance house purchase	18.60%	16.10%	2.20%	6.00%	17.53%	23.35%
- Households' needs to finance consumption	33.30%	43.30%	20.10%	1.90%	27.63%	27.38%
- Use of alternative financial resources	-3.90%	-11.30%	-12.50%	0.30%	8.59%	5.38%
- Bank of Albania's monetary policy decisions	10.30%	10.80%	10.80%	9.50%	16.36%	4.95%
- Consumer confidence	4.60%	-6.80%	-10.50%	-9.40%	1.25%	-13.83%
- Developments in the real estate market	10.30%	10.80%	11.40%	-13.70%	9.31%	-7.25%
- Lending standards applied by your bank	36.10%	46.00%	32.10%	27.60%	30.45%	27.18%

Source: Bank Lending Survey, Bank of Albania.

Annex 2. 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 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Change in bank credit standards						
- Current quarter	10.40%	0.00%	5.60%	2.70%	-4.40%	-13.45%
- Next quarter	9.00%	9.00%	17.10%	-1.00%	13.10%	-1.00%
Factors affecting the credit standards						
- Bank's capital adequacy	9.40%	8.70%	1.10%	16.60%	12.55%	-7.11%
- Bank of Albania's decisions	29.60%	36.90%	26.50%	10.20%	2.38%	9.60%
- Competition in the banking system	22.90%	26.70%	29.20%	33.50%	22.24%	16.87%
- Current or expected liquidity level	11.90%	12.00%	-2.90%	7.00%	6.37%	4.34%
- Specific business sector-related concerns	-30.20%	-19.30%	-37.10%	-41.90%	-31.33%	-34.75%
- Current or expected macroeconomic situation	-29.00%	-36.30%	-15.10%	-15.10%	-28.27%	-20.63%
- Non-performing loans	-25.30%	-47.80%	-40.00%	-33.60%	-25.46%	-26.32%
Change in bank credit standards						
- Average margin	36.40%	19.20%	30.50%	34.80%	18.58%	9.05%
- Margin for risk-rated loans	-5.60%	-19.00%	0.00%	0.00%	0.00%	0.00%
- Commissions	16.00%	5.60%	16.30%	14.40%	11.72%	6.63%
- Loan amount	10.40%	1.80%	1.80%	7.30%	3.57%	1.26%
- Collateral requirement as a ratio of loan amount	3.10%	1.30%	1.30%	-11.20%	-12.22%	-12.07%
- Maximum loan term to maturity	10.40%	-13.90%	0.00%	-1.80%	-1.02%	1.02%
Change in enterprises' demand for credit						
- SMEs, previous quarter	-10.20%	6.90%	30.20%	25.10%	12.74%	-9.05%
- SMEs, next quarter	-3.00%	22.80%	22.60%	23.30%	21.94%	28.39%
- Large enterprises, previous quarter	-12.00%	-20.30%	7.30%	-7.10%	-4.19%	5.90%
- Large enterprises, next quarter	-3.00%	-10.50%	-2.10%	-12.00%	-1.76%	31.38%
Factors affecting change in demand for credit						
- Need to finance inventories	18.10%	25.40%	50.30%	21.40%	35.85%	30.32%
- Need to finance fixed investments	14.90%	21.30%	46.20%	32.70%	19.18%	38.29%
- Use of alternative financial resources	7.10%	-1.90%	1.50%	2.60%	6.05%	7.07%
- Bank of Albania's monetary policy decisions	16.50%	27.20%	6.10%	6.10%	9.06%	10.59%
- Lending standards applied by your bank	20.70%	37.00%	47.20%	44.50%	32.40%	25.33%
- Current or expected macroeconomic situation	5.80%	2.30%	16.80%	4.60%	-21.87%	1.35%

Source: Bank Lending Survey, Bank of Albania.