Bank of Albania
Monetary Policy Department

Bank Lending Survey Results for 2016 Q4

January 2017[1]

Overview

Bank lending survey results show tightening of credit standards on loans to enterprises and eased credit standards on loans to households in 2016 Q4. The credit standards were tightened on loans to *large 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 almost unchanged from the previous quarter.

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

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

Banks' experts reported an increased **credit** demand, in 2016 Q4, mostly notable in the demand from households, mainly for consumer credit, and at a lower degree for house purchase. The demand from enterprises remained almost unchanged, at a slightly upward trend mainly, from *small and medium-sized enterprises.*

Banks **expect** credit standards applied on loans to large enterprises to tighten in 2017 Q1. Credit standards are expected to ease for small and medium-sized enterprises and for households throughout the period. Credit demand, from both enterprises and households, is expected to increase in 2017 Q1.

---

[1]The survey conducted in December 2016 covers the developments in bank lending during 2016 Q4 and banks' expectations for lending in 2017 Q1.

Lending to enterprises

Credit standards. Credit standards applied on loans to enterprises were tightened in the fourth quarter, mainly for *large enterprises*, in line with the previous quarter's expectations. Credit standards remained almost unchanged for *small and medium-sized enterprises.* The tightening trend is expected to persist in 2017 Q1 on loans to *large enterprises*. Credit standards to *small and medium-sized enterprises* are expected to ease. By purpose of use, banks tightened the credit standards for *investments* and *working capital.* They are expected to maintain the same trend in the forthcoming quarter.

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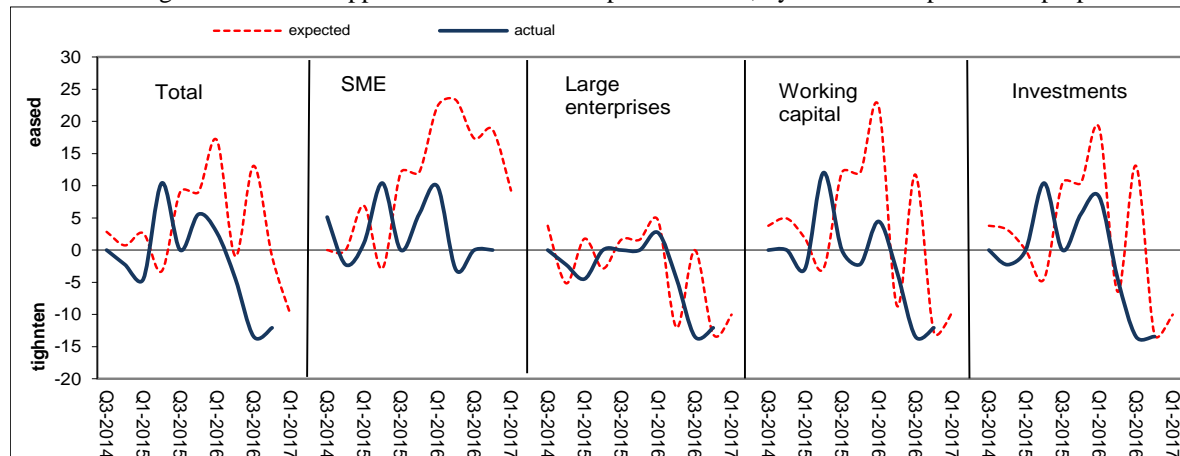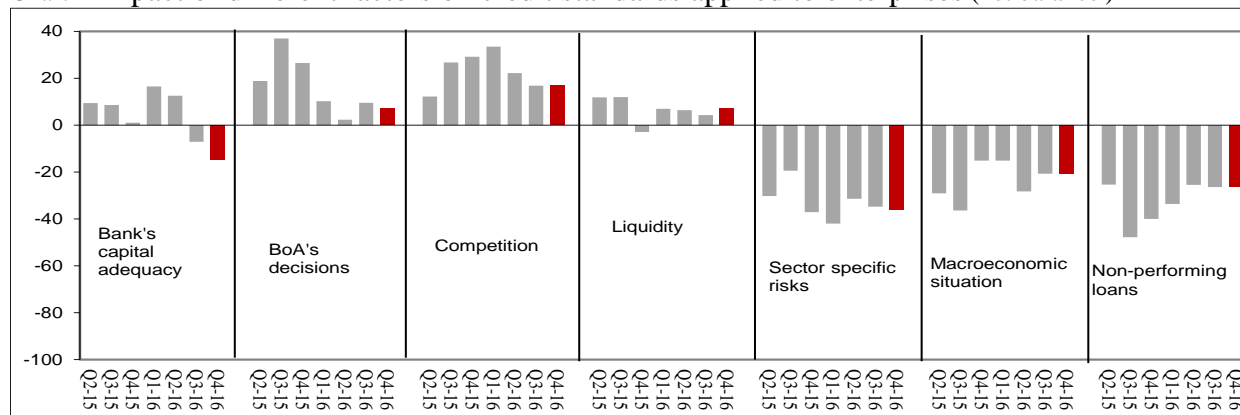

Source: Bank of Albania.
Note 1. The net balance is the percentage of banks that have changed their standards; positive balance indicates an easing of standards, while negative balance indicates a tightening of standards.

The main factors contributing to the tightening of credit standards in the fourth quarter, as previously, were *sector-related specific problems, non-performing loans,* the perception *about macro-economic situation* and *capital adequacy.* 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 enterprises (net balance[2])
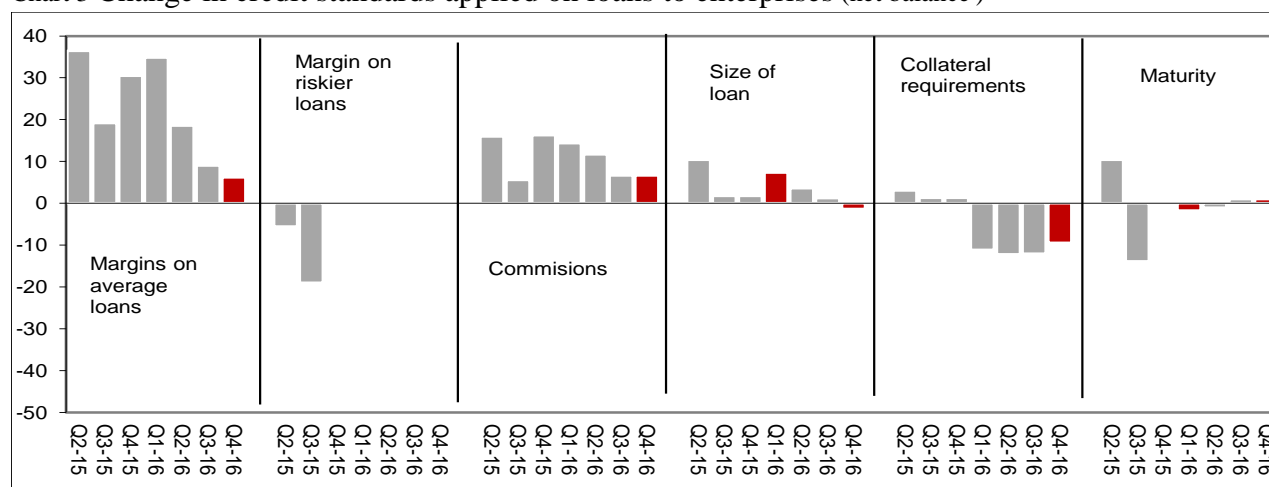

Source: Bank of Albania.
Note 2. The positive balance indicates that the factor contributed to easing the lending standards. The negative balance indicates that the factor contributed to tightening the lending standards.

Banks implemented tightening lending policies in 2016 Q4 mainly through the increased *collateral requirements,* and at a lower degree, through the reduced *credit size* standards. Meanwhile, the reduction in the *average margin* and in the *commissions* applied to disbursed loans were the main factors which contributed on the opposite side.

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 is reported almost unchanged in 2016 Q4, showing a small increase, affected by the credit demand from *small and medium-sized enterprises.* The credit demand *from large enterprises* remained unchanged. The increased demand of enterprises in the fourth quarter, in compliance with the perception of banks' experts, was recorded for *working capital* (See Chart 4). Banks expect both, *large enterprises,* and *small and medium-sized enterprises* to increase the demand for credit in 2017 Q1.

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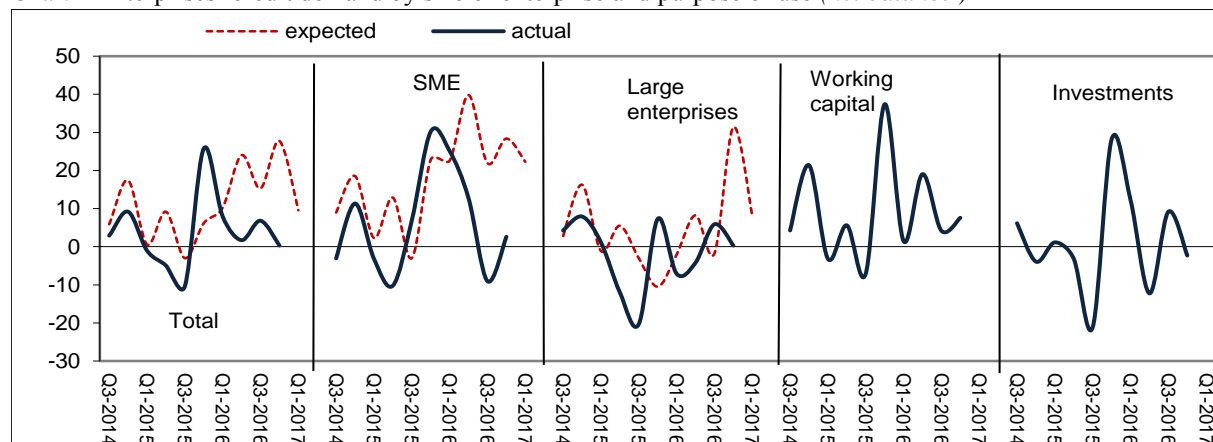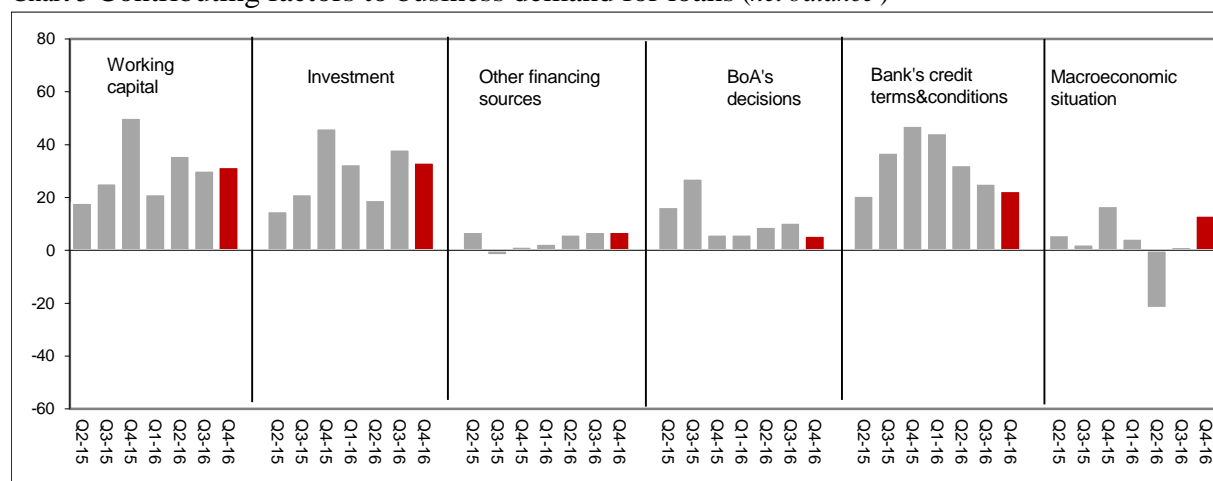

Source: Bank of Albania.

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*, *the macro-economic situation*, *the*

decisions of the Bank of Albania and the lack of *alternative financing sources* contributed positively to the increased credit demand from enterprises.

Chart 5 Contributing factors to business demand for loans (*net balance[5]*)
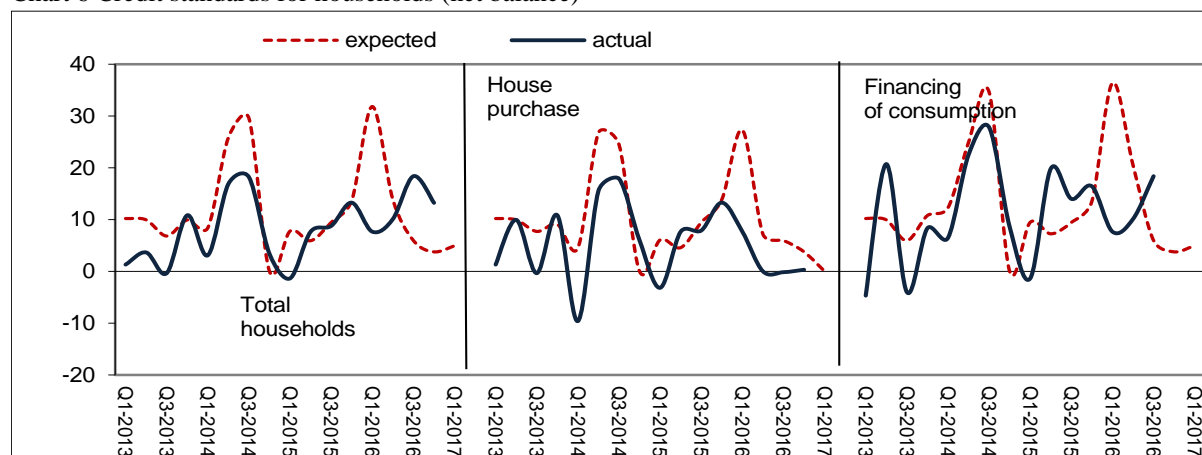

Source: Bank of Albania.
Note 5. The positive balance indicates that the factor has contributed to the growth of demand. The negative balance indicates that the factor has contributed to the fall of demand.

Lending to households

Credit standards. Banks continued to ease the credit standards on loans to households in 2016 Q4. According to the aggregated bank responses, standards eased on *consumer credit,* but remained almost unchanged on *loans for house purchase.* Banks stated that credit standards applied to households will ease in 2017 Q1, but at a lower degree.

Chart 6 Credit standards for households (net balance)

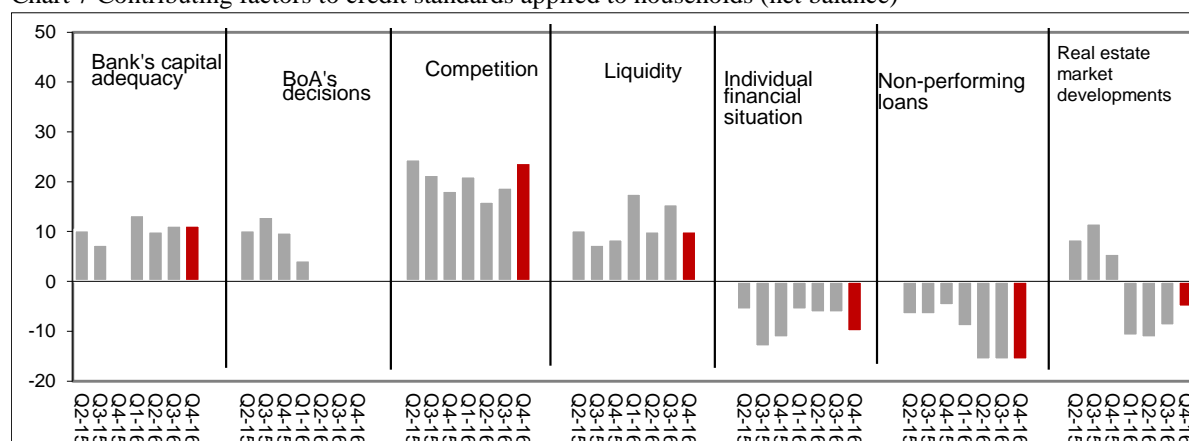Source: Bank Lending Survey, Bank of Albania.

Factors affecting credit standards. The further easing of credit standards on loans to households mainly reflected the increase of *competition in the banking sector.* Also, the good *liquidity* situation and *capital adequacy* contributed to the easing of credit standards. On the other side, the net negative balances of *non-performing loans,*

4

the *financial situation of* households and *the situation in real estate market* 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 loan approvals. The easing policy of credit standards on loans to households was mainly implemented through the narrowing of the *average margin* for loans, in 2016 Q4. Also, the other terms and conditions, such as the decrease of *commissions* and of *collateral requirements,* the increase *in debt-to-income ratio,* in the *size* and *maximum maturity of credit*, contributed to the easing of standards, albeit at e lower degree.

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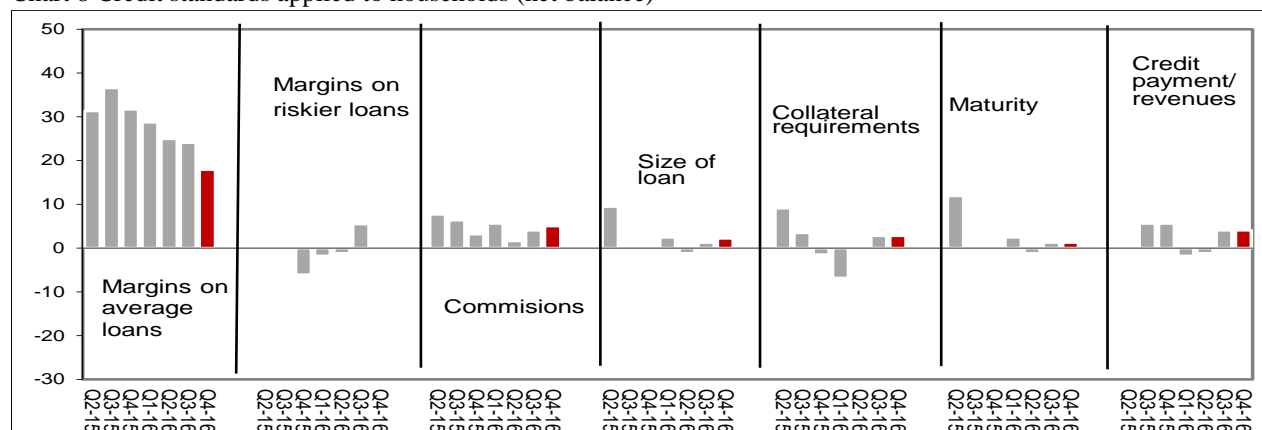
Source: Bank Lending Survey, Bank of Albania.

Demand for credit. Banks reported that the households' credit demand increased in 2016 Q4, in line with the banks' expectations in the previous quarter. The increase in the credit demand was more evident for *consumer credit;* while at a lower extend on the *loans for house purchase.* Credit experts expect households' demand for credit to continue to increase in the next quarter.

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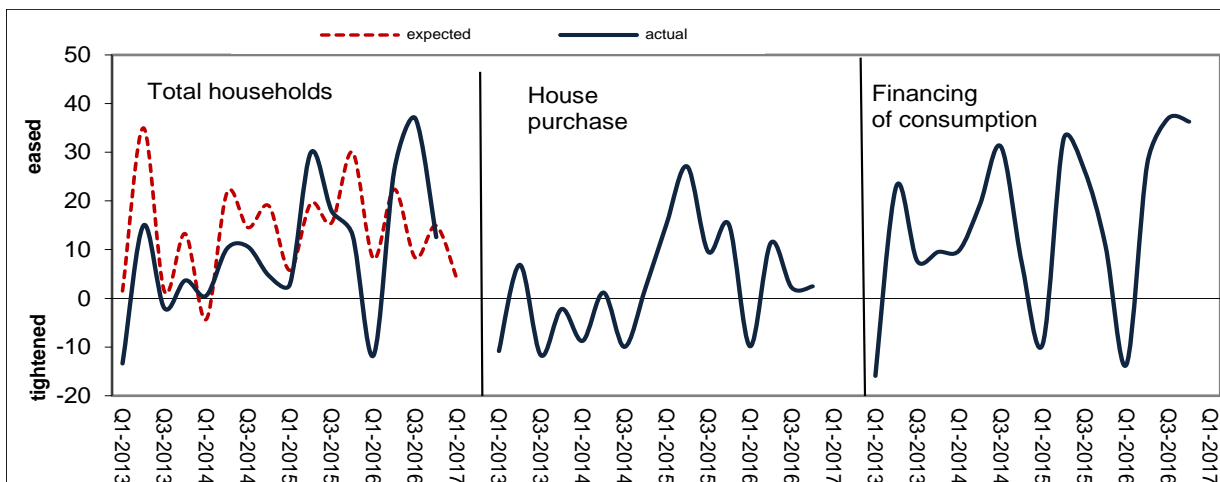
Source: Bank Lending Survey, Bank of Albania.

Factors affecting the demand. During 2016 Q4, the household's increased credit demand was driven by the households' need to *finance consumption* and *house purchase,* the easing of *credit standards*, and the positive developments in the *real estate market.* Meanwhile, banks' experts reported that the presence of *the alternative financing sources* and *consumer confidence* provided a negative contribution to the performance of households' credit demand.

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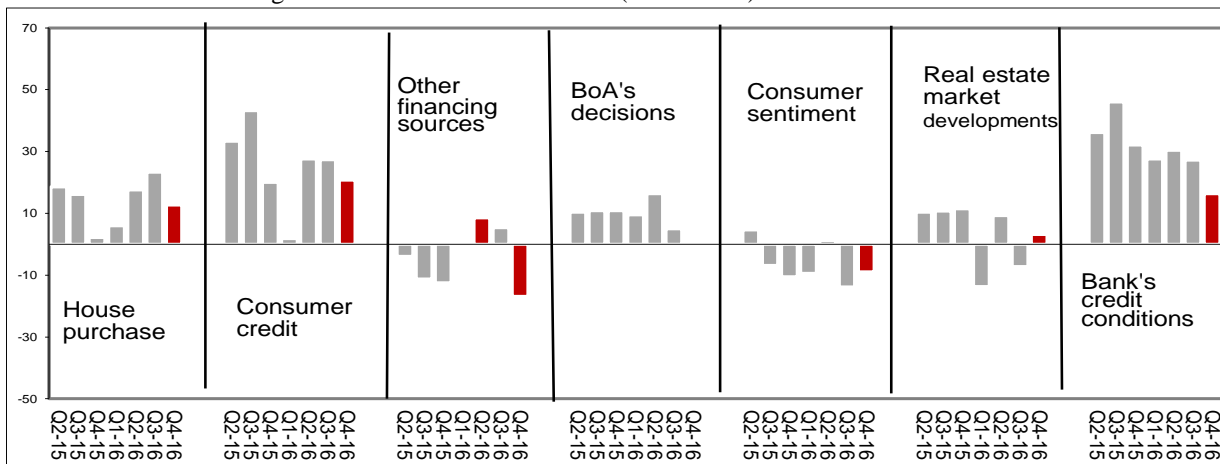

Source: Bank Lending Survey, Bank of Albania.

Expectations for lending by currency. Banks expect an increase of lending in domestic currency in 2017 Q1, while lending in foreign currency will remain almost unchanged. Fewer banks are expected to expand the lending activity in lek, compared with the previous quarter. Meanwhile, banks expect an increase in credit interest rates in domestic currency, after several quarters of reduction expectations. Further reduction of interest rates in foreign currency is expected, nonetheless by a fewer number of banks.

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

6
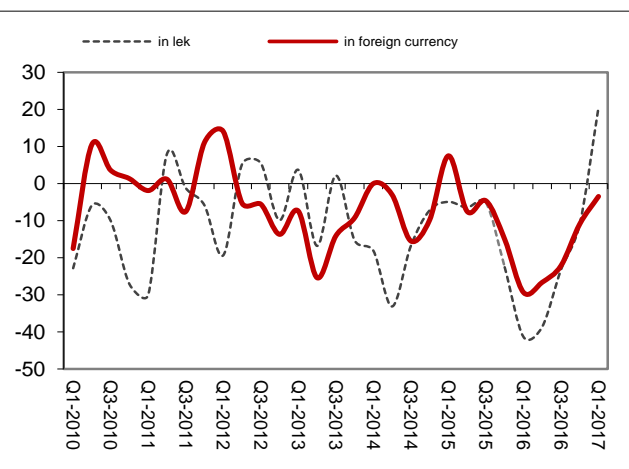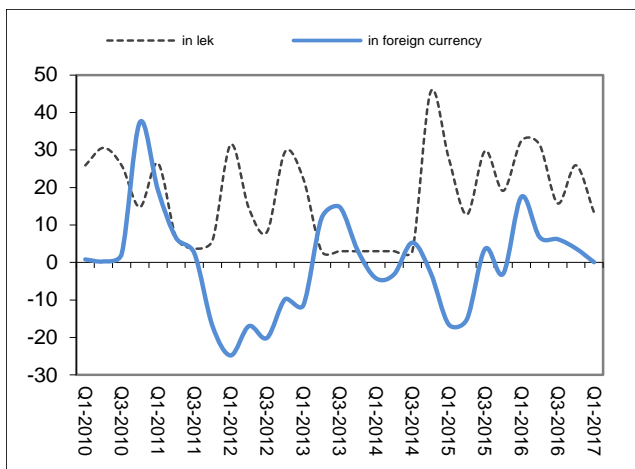
Source: Bank Lending Survey, Bank of Albania.

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 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4
Changes in bank lending standards						
-Current quarter	8.8%	13.3%	7.7%	10.1%	18.4%	13.2%
-Next quarter	13.7%	31.8%	13.9%	6.0%	3.8%	4.9%
Factors affecting credit standards						
-Bank's capital adequacy	7.4%	0.0%	13.4%	10.1%	11.3%	11.3%
-Bank of Albania's decisions	13.0%	9.9%	4.3%	0.0%	0.0%	0.0%
-Competition in the banking system	21.4%	18.2%	21.2%	16.1%	18.9%	23.8%
-Current or expected liquidity level	7.4%	8.5%	17.6%	10.1%	15.6%	10.1%
-Households' financial situation	-13.1%	-11.3%	-5.7%	-6.3%	-6.3%	-10.1%
-Non-performing loans	-6.7%	-4.8%	-9.1%	-15.7%	-15.7%	-15.7%
-Developments in the real estate market	11.7%	5.6%	-10.9%	-11.3%	-8.9%	-5.1%
Changes in loan approval standards						
-Average margin	36.6%	31.6%	28.7%	24.9%	24.0%	17.9%
-Margin for risk-rated loans	0.0%	-6.1%	-1.8%	-1.2%	5.5%	0.0%
-Commissions	6.4%	3.2%	5.6%	1.6%	4.0%	5.0%
-Loan amount	0.0%	0.0%	2.4%	-1.2%	1.2%	2.2%
-Collateral requirement as a ratio of loan amount	3.5%	-1.5%	-6.8%	-0.2%	2.8%	2.8%
-Maximum loan term to maturity	0.0%	0.0%	2.4%	-1.2%	1.2%	1.2%
-Instalment-to-income ratio	5.6%	5.6%	-1.8%	-1.2%	4.0%	4.0%
Changes in household credit demand						
-Mortgage loan	9.6%	15.1%	-9.8%	11.4%	2.2%	2.5%
-Consumer loans	26.2%	10.8%	-13.6%	27.6%	37.0%	36.3%
Factors affecting change in demand for loans						
-Households' needs to finance house purchase	16.1%	2.2%	6.0%	17.5%	23.3%	12.7%
-Households' needs to finance consumption	43.3%	20.1%	1.9%	27.6%	27.4%	20.7%
-Use of alternative financial resources	-11.3%	-12.5%	0.3%	8.6%	5.4%	-16.8%
-Bank of Albania's monetary policy decisions	10.8%	10.8%	9.5%	16.4%	4.9%	0.0%
-Consumer confidence	-6.8%	-10.5%	-9.4%	1.2%	-13.8%	-8.9%
-Developments in the real estate market	10.8%	11.4%	-13.7%	9.3%	-7.2%	3.2%
-Lending standards applied by your bank	46.0%	32.1%	27.6%	30.5%	27.2%	16.4%

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 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4
Changes in bank lending standards						
-Current quarter	0.0%	5.6%	2.7%	-4.4%	-13.4%	-12.1%
-Next quarter	9.0%	17.1%	-1.0%	13.1%	-1.0%	-10.0%
Factors affecting credit standards						
-Bank's capital adequacy	8.7%	1.1%	16.6%	12.5%	-7.1%	-14.7%
-Bank of Albania's decisions	36.9%	26.5%	10.2%	2.4%	9.6%	7.0%
-Competition in the banking system	26.7%	29.2%	33.5%	22.2%	16.9%	16.9%
-Current or expected liquidity level	12.0%	-2.9%	7.0%	6.4%	4.3%	7.0%
-Specific business sector-related concerns	-19.3%	-37.1%	-41.9%	-31.3%	-34.7%	-36.1%
-Current or expected macro-economic situation	-36.3%	-15.1%	-15.1%	-28.3%	-20.6%	-20.6%
Non-performing loans	-47.8%	-40.0%	-33.6%	-25.5%	-26.3%	-26.3%
Changes loan approval standards						
-Average margin	19.2%	30.5%	34.8%	18.6%	9.0%	6.2%
-Margin for risk-rated loans	-19.0%	0.0%	0.0%	0.0%	0.0%	0.0%
-Commissions	5.6%	16.3%	14.4%	11.7%	6.6%	6.6%
-Loan amount	1.8%	1.8%	7.3%	3.6%	1.3%	-1.4%
-Collateral requirement as a ratio of loan amount	1.3%	1.3%	-11.2%	-12.2%	-12.1%	-9.4%
-Maximum loan term to maturity	-13.9%	0.0%	-1.8%	-1.0%	1.0%	1.0%
Changes in business credit demand						
-SMEs, previous quarter	6.9%	30.2%	25.1%	12.7%	-9.0%	2.6%
-SMEs, next quarter	22.8%	22.6%	23.3%	21.9%	28.4%	22.3%
-large enterprises, previous quarter	-20.3%	7.3%	-7.1%	-4.2%	5.9%	0.3%
-Large enterprises, next quarter	-10.5%	-2.1%	-12.0%	-1.8%	31.4%	8.2%
Factors affecting change in demand for loans						
-Need to finance inventories	25.4%	50.3%	21.4%	35.8%	30.3%	31.7%
-Need to finance fixed investments	21.3%	46.2%	32.7%	19.2%	38.3%	33.3%
-Use of alternative financial resources	-1.9%	1.5%	2.6%	6.0%	7.1%	7.1%
-Bank of Albania's monetary policy decisions	27.2%	6.1%	6.1%	9.1%	10.6%	5.6%
-Lending standards applied by your bank	37.0%	47.2%	44.5%	32.4%	25.3%	22.6%
-Current or expected macro-economic situation	2.3%	16.8%	4.6%	-21.9%	1.4%	13.2%

Source: Bank Lending Survey, Bank of Albania.