

Bank of Albania  
Monetary Policy Department



Bank Lending Survey Results for 2017 Q1

April 2017<sup>1</sup>

Bank lending survey results show credit standards tightened on loans to enterprises and eased on loans to households in 2017 Q1, in line with the expectations of the previous quarter. The credit standards tightened on loans to *large enterprises*, and showed an easing trend for loans to *small and medium-sized enterprises*. Banks continued to ease the credit standards on loans to households for *consumer credit* and *house purchase*, but the standards eased more significantly in the first segment.

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 and capital adequacy*. Meanwhile, *competition in the banking system*, and the banks' *liquidity* situation contributed to the easing of credit standards on loans to households.

Banks tightened credit standards on loans to enterprises mainly through *increasing of collateral requirements* and somewhat less through *restricting the loan size*. The credit standards for households were eased through the narrowing of the *average margin* on loans, *increase of the required instalment-to-income ratio*, *reduction of commissions*, and increase of *loan size*.

Banks' experts reported credit **demand** increased in 2017 Q1, from both enterprises and households. Households demand increased for consumer credit, but shrank for house purchase. The demand from enterprises expanded with a slightly upward trend mainly from *small and medium-sized enterprises*.

Banks **expect** credit standards to tighten for loans to enterprises and ease for households in 2017 Q2. Credit standards are expected to tighten for *large enterprises* and ease for households in the consumer credit segment. Credit demand from both enterprises and households is expected to increase.

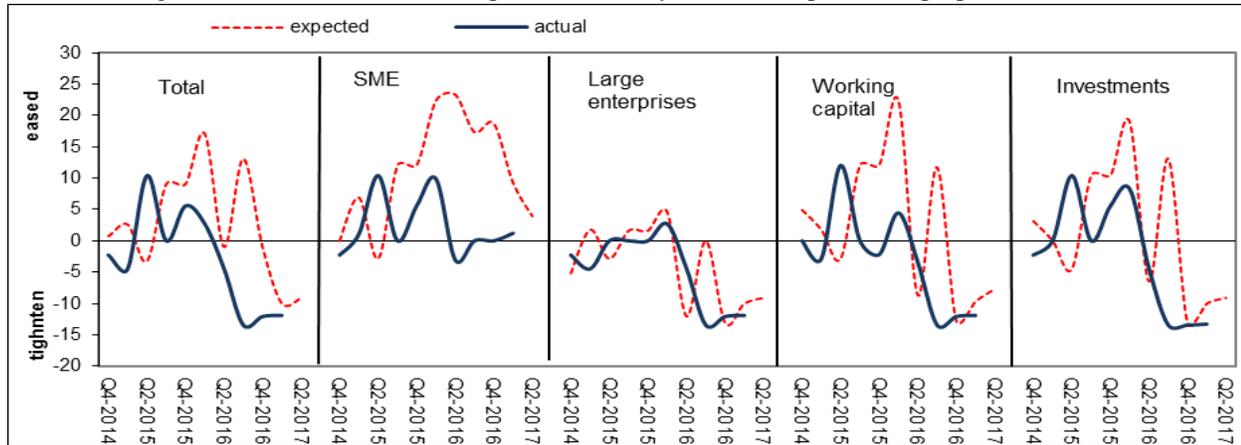
---

<sup>1</sup>The survey conducted in March 2017 covers developments in bank lending during 2017 Q1 and banks' expectations for lending in 2017 Q2.

## Lending to enterprises

**Credit standards.** Credit standards applied on loans to enterprises were tightened in 2017 Q1, mainly for *large enterprises*, in line with expectations in the previous quarter. Credit standards eased for *small and medium-sized enterprises*. The tightening trend is expected to persist in 2017 Q2 for loans to *large enterprises*, whilst credit standards for loans to *small and medium-sized enterprises* are expected to ease. By purpose of use, banks tightened the credit standards for *investments and working capital*, and the trend is expected to continue in the next quarter.

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

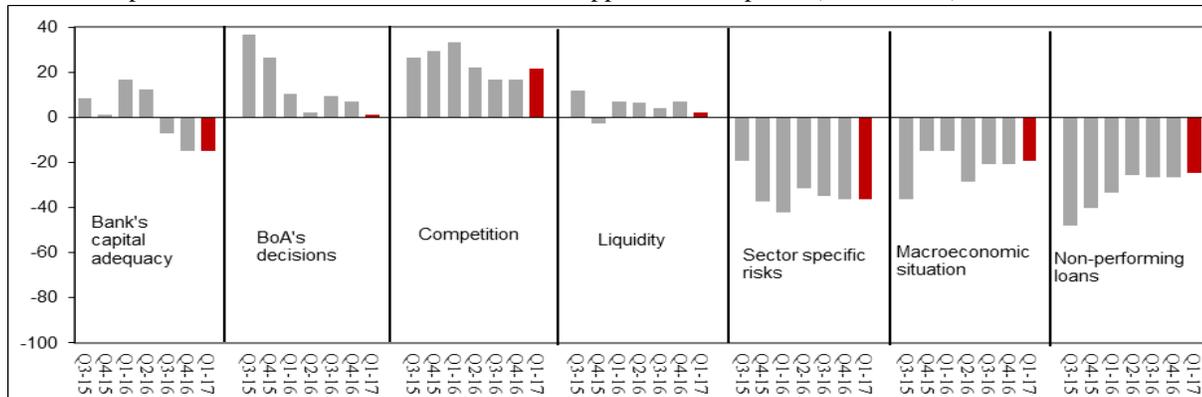


Source: Bank of Albania.

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

The main **factors** contributing to the tightening of credit standards in the first quarter, as previously, were *sector-related specific problems, non-performing loans, banks' 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* are the factors that continue to contribute to the easing of credit standards (Chart 2).

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

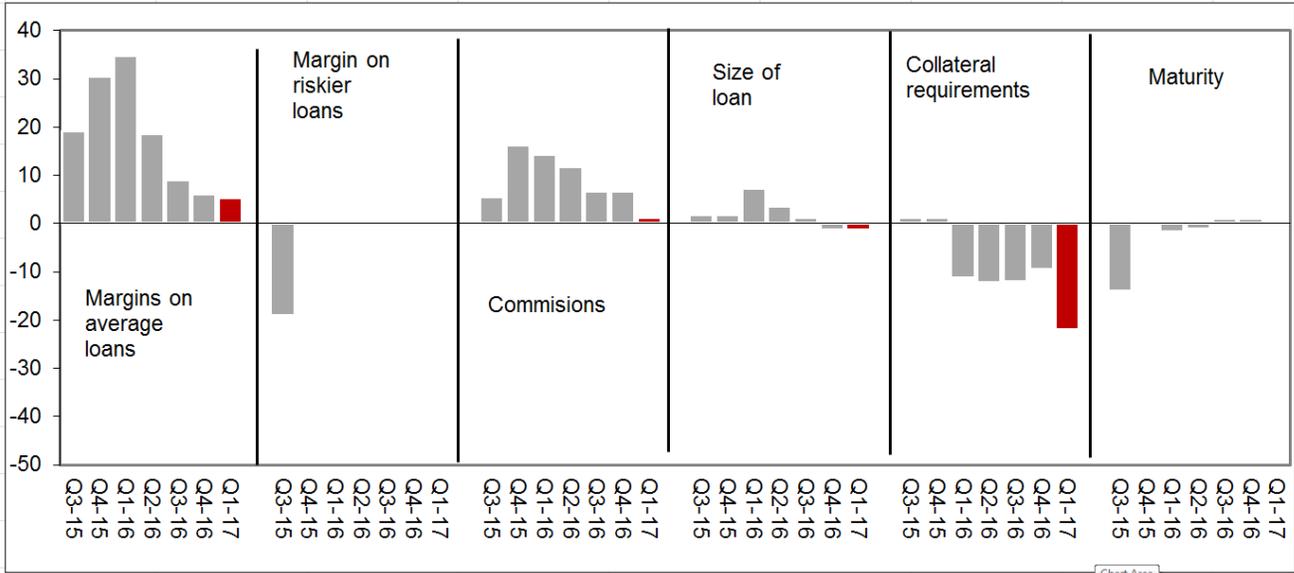


Source: Bank of Albania.

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

Credit standards for enterprises were tightened in 2017 Q1 mainly through increased *collateral requirements*, and, at a lesser extent, through decreasing the *credit size*. Meanwhile, the reduction in the *average margin* and in the *commissions* applied to disburse loans were the main factors that contributed to the opposite side.

Chart 3: Change in loan approval standards for enterprises (net balance<sup>3</sup>)

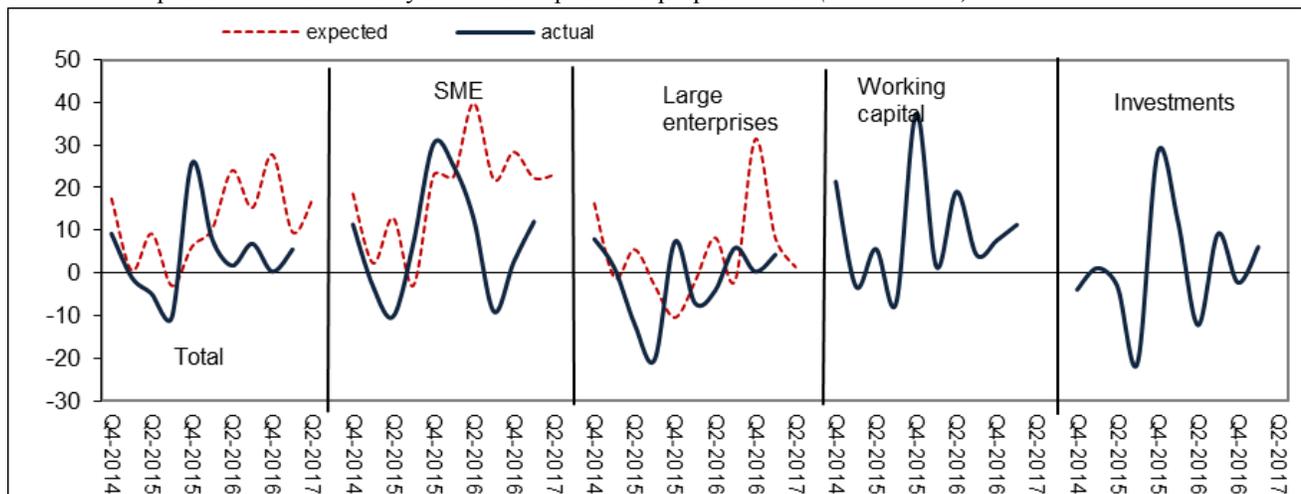


Source: Bank of Albania.

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

**Demand for credit** showed an increase in 2017 Q1, driven mostly by the credit demand from *small and medium-sized enterprises* and less from *large enterprises*, which showed only a slight increase. In accordance with the perception of banks' experts, the enterprises increased their demand, in the first quarter, mainly for *working capital* and, to a lesser extent, for *investments* (Chart 4). Banks expect *small and medium-sized enterprises* to increase the demand for credit in 2017 Q2.

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

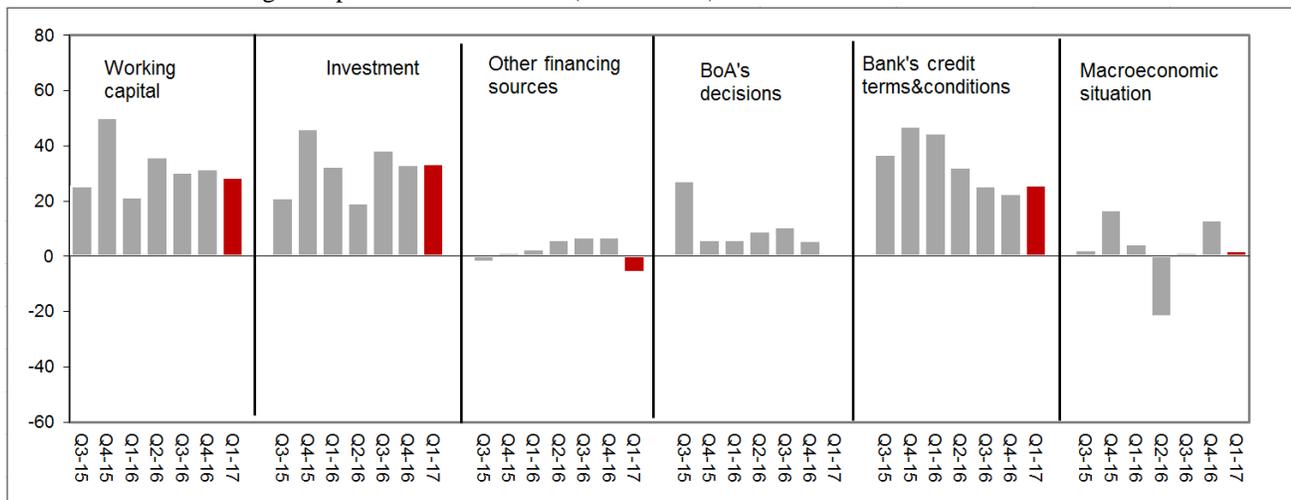


Source: Bank of Albania.

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

**Factors affecting demand.** Banks reported that enterprises' credit demand increased, driven by the need to finance both *investments* and *working capital*. The improved *credit standards* contributed to the growth of credit demand. The macroeconomic situation in Albania contributed to the same direction, although at a lower degree. The *alternative financing sources* contributed to the decrease of bank credit demand from enterprises.

Chart 5: Factors affecting enterprises' credit demand (net balance<sup>5</sup>)



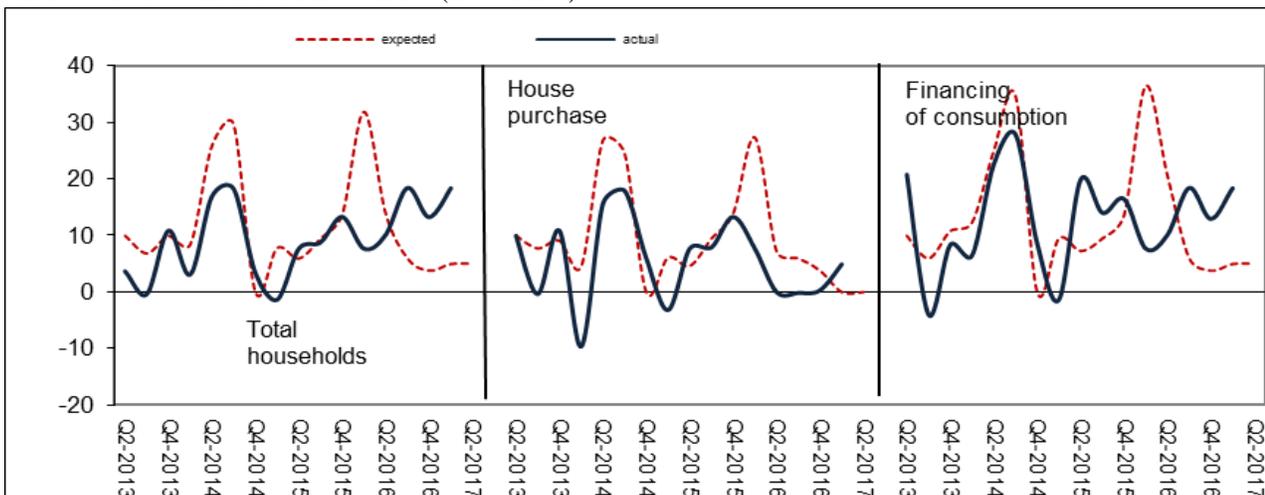
Source: Bank of Albania.

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 2017 Q1. According to the survey results, standards eased on both *consumer credit* and *credit for house purchase*, albeit the latter to a lesser extent. For 2017 Q2, banks expect credit standards will not change for house purchase and ease for consumer credit.

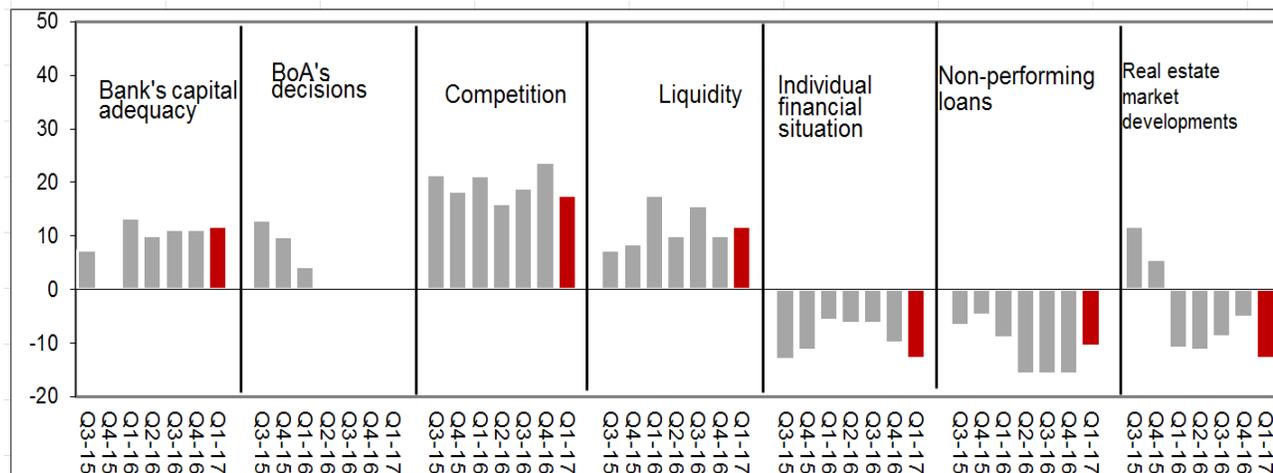
Chart 6: Credit standards for households (net balance)



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 hand, the situation in the *real estate market* and *non-performing loans* contributed to the tightening of lending standards to households.

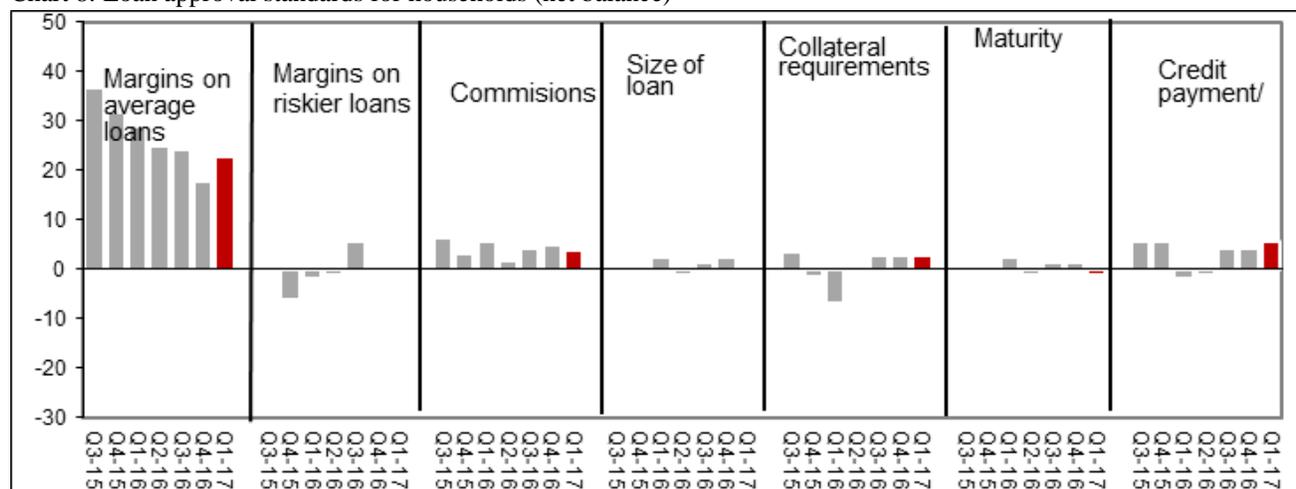
Chart 7: Factors affecting credit standards for households (net balance)



Source: Bank Lending Survey, Bank of Albania.

**Loan approval standards.** The narrowing of the *average margin* for loans remained an instrument of the banks' easing policy on loans to households during 2017 Q1. Also, the increase in *instalment-to-income ratio* and the *decrease of commissions* and of *collateral requirements* contributed to the easing side, albeit at a lower degree. Meanwhile, *the maximum term to maturity* showed a slightly negative effect in this quarter.

Chart 8: Loan approval standards for households (net balance)

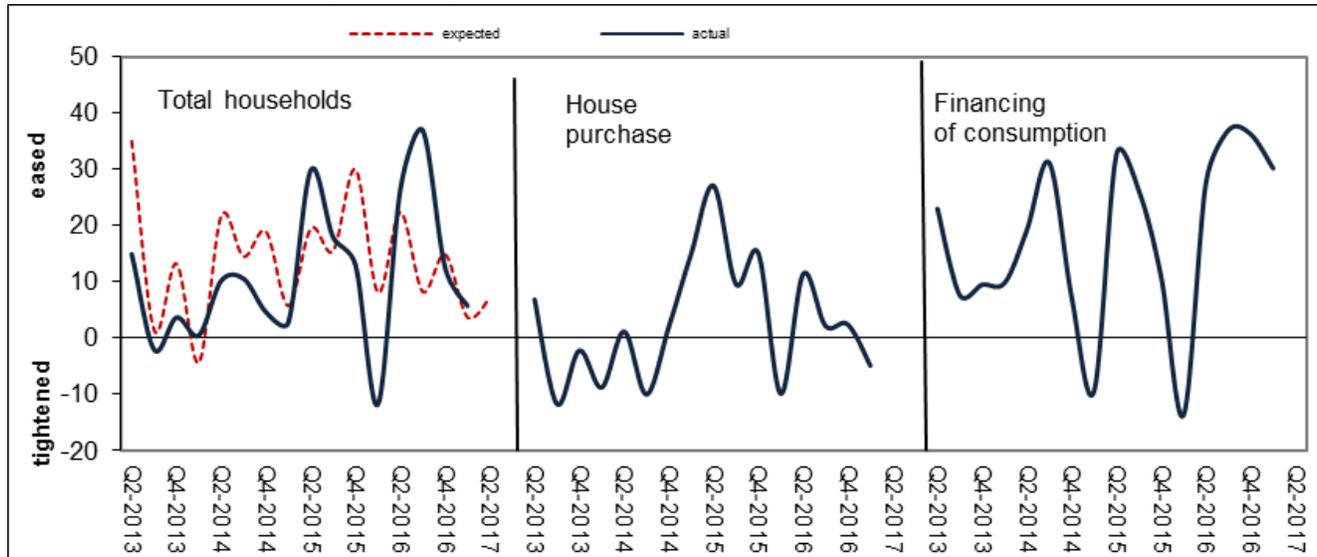


Source: Bank Lending Survey, Bank of Albania.

**Demand for credit.** Banks reported that the households' demand for credit increased in 2017 Q1, in line with the banks' expectations in the previous quarter. The increase in credit demand reflected the expansion of demand for

consumer credit, while demand for loans for house purchase was downward. Banks' experts expect households' total demand for credit to continue to increase in the next quarter.

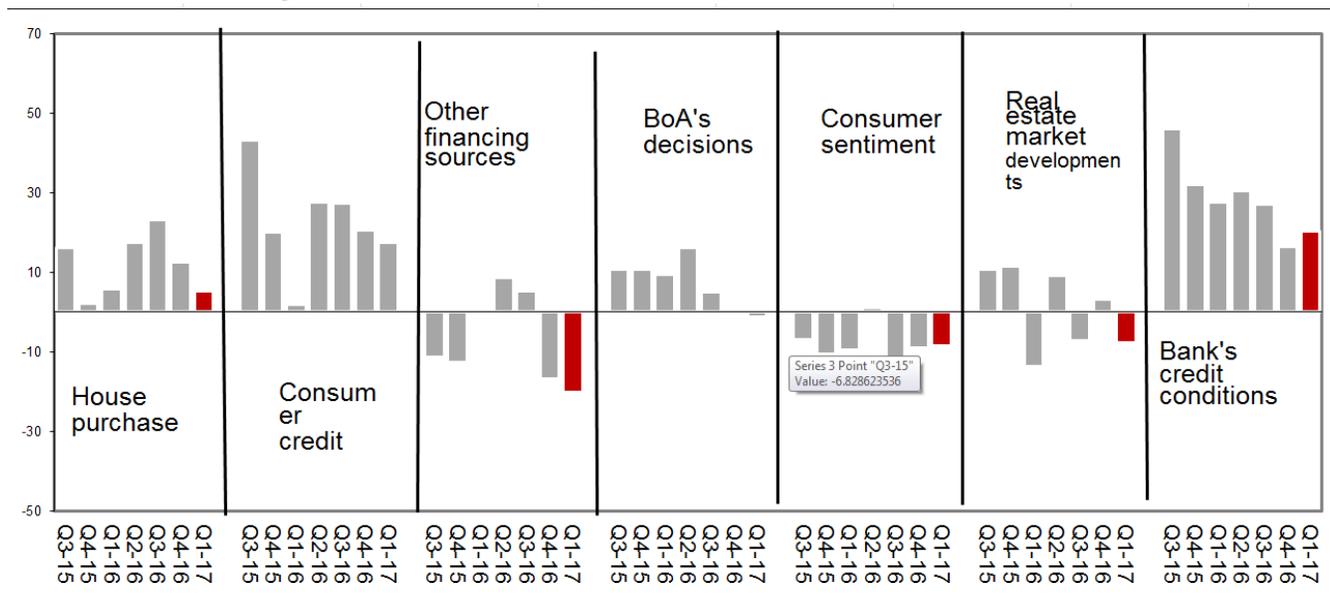
Chart 9: Total Credit demand (net balance)



Source: Bank Lending Survey, Bank of Albania.

**Factors affecting demand.** During 2017 Q1, the households' credit demand grew driven mainly by the *improved credit standards* and the increased need to *finance consumption*. Meanwhile, banks' experts reported that the presence of alternative *financing sources*, *consumer confidence* and *developments in the real estate market* provided negative contribution to households' credit demand.

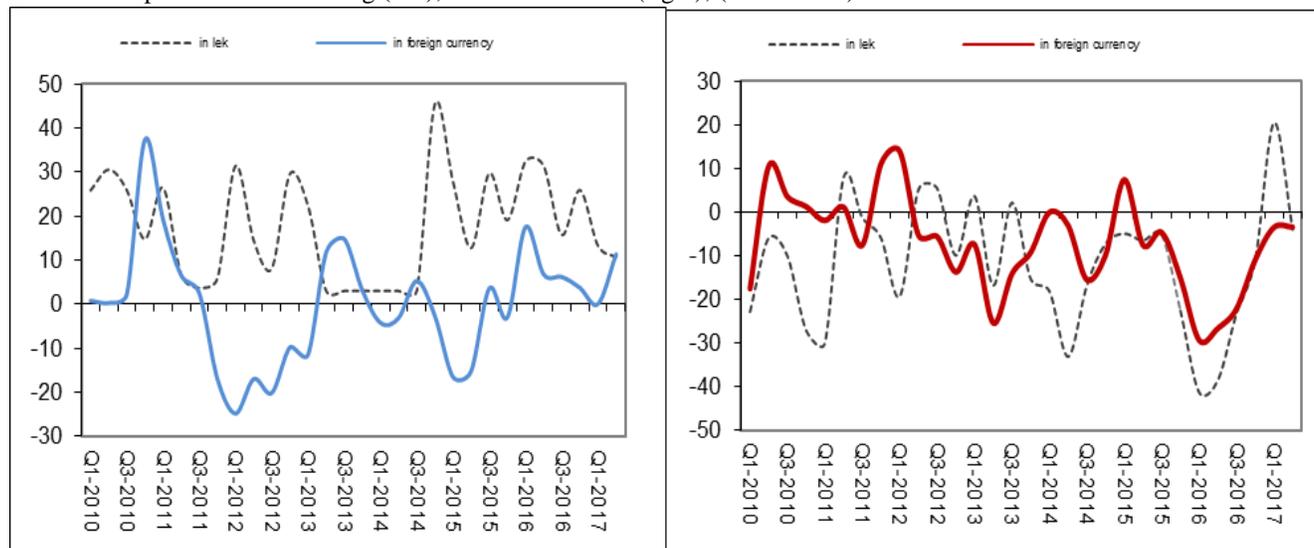
Chart 10: Factors affecting household's credit demand (net balance)



Source: Bank Lending Survey, Bank of Albania.

**Expectations for lending by currency.** Banks expect an increase of credit in both the domestic and foreign currency in 2017 Q2. The number of banks that expect expansion of credit denominated in domestic and foreign currency is unchanged from the previous year. For the upcoming quarter, banks do not expect change of interest rates, both in the domestic and foreign currency, except for one bank which does expect a decrease.

Chart 11: Expectations for lending (left); and interest rates (right); (net balance)<sup>6</sup>



Source: Bank Lending Survey, Bank of Albania.

Note 6: 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

The results of the survey 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. In aggregating the results, each opinion is weighted based on the response and the weight of the size of the bank. For example, banks providing the response that the standards “tightened considerably” have been assigned the double weight of the response “tightened slightly”. Size weights are constructed based on the share of each bank in the loan market and are reviewed once a year. The net balances are scaled in order to acquire values within the interval of +/- 100.

Enterprises	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1
<b>Changes in bank lending standards</b>						
-Current quarter	5.6%	2.7%	-4.4%	-13.4%	-12.1%	-11.9%
-Next quarter	17.1%	-1.0%	13.1%	-1.0%	-10.0%	-9.1%
<b>Factors affecting credit standards</b>						
-Bank’s capital adequacy	1.1%	16.6%	12.5%	-7.1%	-14.7%	-15.0%
-Bank of Albania’s decisions	26.5%	10.2%	2.4%	9.6%	7.0%	1.4%
-Competition in the banking system	29.2%	33.5%	22.2%	16.9%	16.9%	21.7%
-Current or expected liquidity level	-2.9%	7.0%	6.4%	4.3%	7.0%	2.2%
-Specific business sector-related concerns	-37.1%	-41.9%	-31.3%	-34.7%	-36.1%	-36.2%
-Current or expected macro-economic situation	-15.1%	-15.1%	-28.3%	-20.6%	-20.6%	-19.2%
Non-performing loans	-40.0%	-33.6%	-25.5%	-26.3%	-26.3%	-24.8%
<b>Changes in loan approval standards</b>						
-Average margin	30.5%	34.8%	18.6%	9.0%	6.2%	5.3%
-Margin for risk-rated loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
-Commissions	16.3%	14.4%	11.7%	6.6%	6.6%	1.2%
-Loan amount	1.8%	7.3%	3.6%	1.3%	-1.4%	-1.4%
-Collateral requirement as a ratio of loan amount	1.3%	-11.2%	-12.2%	-12.1%	-9.4%	-22.0%
-Maximum loan term to maturity	0.0%	-1.8%	-1.0%	1.0%	1.0%	0.0%
<b>Changes in business credit demand</b>						
-SMEs, previous quarter	30.2%	25.1%	12.7%	-9.0%	2.6%	12.0%
-SMEs, next quarter	22.6%	23.3%	21.9%	28.4%	22.3%	3.9%
-large enterprises, previous quarter	7.3%	-7.1%	-4.2%	5.9%	0.3%	4.3%
-Large enterprises, next quarter	-2.1%	-12.0%	-1.8%	31.4%	8.2%	-9.1%
<b>Factors affecting change in demand for loans</b>						
-Need to finance inventories	50.3%	21.4%	35.8%	30.3%	31.7%	28.6%
-Need to finance fixed investments	46.2%	32.7%	19.2%	38.3%	33.3%	33.5%
-Use of alternative financial resources	1.5%	2.6%	6.0%	7.1%	7.1%	-5.7%
-Bank of Albania’s monetary policy decisions	6.1%	6.1%	9.1%	10.6%	5.6%	0.0%
-Lending standards applied by your bank	47.2%	44.5%	32.4%	25.3%	22.6%	25.7%
-Current or expected macro-economic situation	16.8%	4.6%	-21.9%	1.4%	13.2%	1.8%

Source: Bank Lending Survey, Bank of Albania.

## Annex 2. Lending to households

The results of the survey 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. In aggregating the results, each opinion is weighted based on the response and the weight of the size of the bank. 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”. Size weights are constructed based on the share of each bank in the loan market and are reviewed once a year. The net balances are scaled in order to acquire values within the interval of +/- 100.

Households	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1
<b>Changes in bank lending standards</b>						
-Current quarter	13.3%	7.7%	10.1%	18.4%	13.2%	18.3%
-Next quarter	31.8%	13.9%	6.0%	3.8%	4.9%	5.0%
<b>Factors affecting credit standards</b>						
-Bank’s capital adequacy	0.0%	13.4%	10.1%	11.3%	11.3%	11.7%
-Bank of Albania’s decisions	9.9%	4.3%	0.0%	0.0%	0.0%	0.0%
-Competition in the banking system	18.2%	21.2%	16.1%	18.9%	23.8%	17.6%
-Current or expected liquidity level	8.5%	17.6%	10.1%	15.6%	10.1%	11.7%
-Households’ financial situation	-11.3%	-5.7%	-6.3%	-6.3%	-10.1%	-12.9%
-Non-performing loans	-4.8%	-9.1%	-15.7%	-15.7%	-15.7%	-10.6%
-Developments in the real estate market	5.6%	-10.9%	-11.3%	-8.9%	-5.1%	-12.9%
<b>Changes in loan approval standards</b>						
-Average margin	31.6%	28.7%	24.9%	24.0%	17.9%	22.8%
-Margin for risk-rated loans	-6.1%	-1.8%	-1.2%	5.5%	0.0%	0.0%
-Commissions	3.2%	5.6%	1.6%	4.0%	5.0%	3.9%
-Loan amount	0.0%	2.4%	-1.2%	1.2%	2.2%	0.0%
-Collateral requirement as a ratio of loan amount	-1.5%	-6.8%	-0.2%	2.8%	2.8%	2.8%
-Maximum loan term to maturity	0.0%	2.4%	-1.2%	1.2%	1.2%	-1.1%
-Instalment-to-income ratio	5.6%	-1.8%	-1.2%	4.0%	4.0%	5.5%
<b>Changes in household credit demand</b>						
-Mortgage loan	15.1%	-9.8%	11.4%	2.2%	2.5%	-4.9%
-Consumer loans	10.8%	-13.6%	27.6%	37.0%	36.3%	30.2%
<b>Factors affecting change in demand for loans</b>						
-Households’ needs to finance house purchase	2.2%	6.0%	17.5%	23.3%	12.7%	5.3%
-Households’ needs to finance consumption	20.1%	1.9%	27.6%	27.4%	20.7%	17.4%
-Use of alternative financial resources	-12.5%	0.3%	8.6%	5.4%	-16.8%	-20.2%
-Bank of Albania’s monetary policy decisions	10.8%	9.5%	16.4%	4.9%	0.0%	-1.1%
-Consumer confidence	-10.5%	-9.4%	1.2%	-13.8%	-8.9%	-8.4%
-Developments in the real estate market	11.4%	-13.7%	9.3%	-7.2%	3.2%	-7.8%
-Lending standards applied by your bank	32.1%	27.6%	30.5%	27.2%	16.4%	20.3%

Source: Bank Lending Survey, Bank of Albania.