

Bank of Albania.
Monetary Policy Department



Bank Lending Survey Results for 2017 Q2

July 2017¹

Bank lending survey results in 2017 Q2 show credit **standards** on loans to enterprises remained almost unchanged from the previous quarter and eased on loans to households. By enterprise size, credit standards on loans to *small and medium-sized enterprises* eased somewhat, while those on loans to *large enterprises* remained unchanged. Credit standards on loans to households eased on *consumer credit*, while those on loans for *house purchase* remained unchanged.

Main **factors** contributing to the easing of bank credit standards on loans to enterprises are: *competition in the banking market, liquidity situation of banks* and the *decisions of the Bank of Albania*. The above-stated indicators, in addition to *capital adequacy of banks*, were perceived as factors that drove to the easing of credit standards on loans to households. Non-performing loans, the macro-economic situation and sector-related specific problems contributing to the tightening of bank credit standards.

The eased policy of banks on loans to enterprises was mainly implemented through the reduction of *commissions* and *average margin*. Meanwhile credit standards on loans to enterprises were tightened through the increase of collateral requirement. Banks reported that credit standards on loans to households were eased mainly through the narrowing of *average margin on loans, increase of the required debt-to-income ratio and increase of credit size*.

Banks' experts reported an unchanged credit **demand** from enterprises, while households increased the credit demand in 2017 Q2. The increase in credit demand from households was due to the higher demand for consumer credit, while credit demand for house purchase remained unchanged.

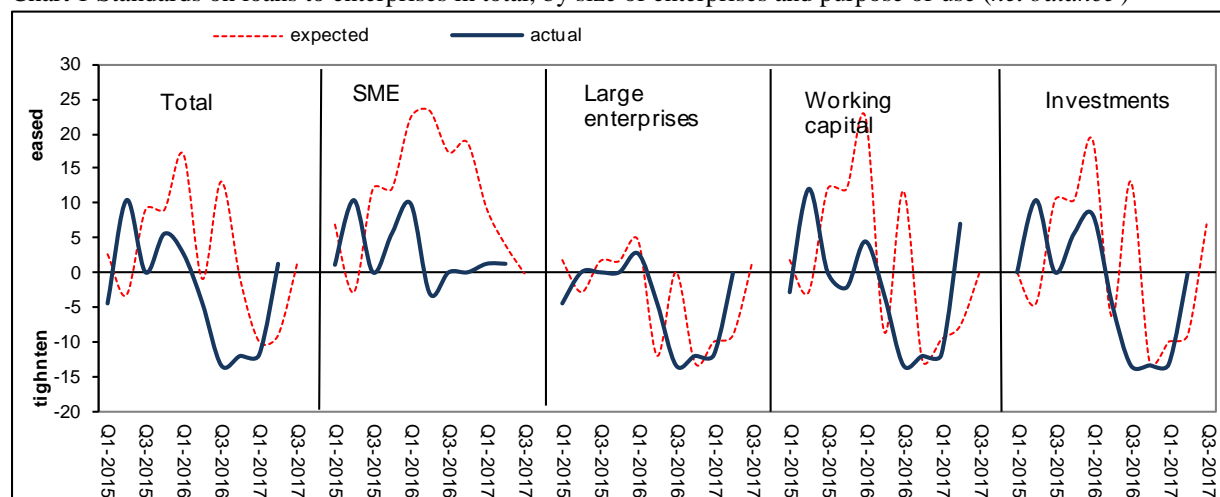
Banks **expect** credit standards applied on loans to households to tighten, and to remain unchanged on loans to enterprises, in 2017 Q3. The tightening of credit standards on loans to households is expected on consumer credit and mortgage loans. Credit demand, from both enterprises and households, is expected to increase.

Lending to enterprises

¹The survey conducted at the end of June 2017 covers the developments in bank lending during 2017 Q2 and banks' expectations for lending in 2017 Q3.

Credit standards applied on loans to enterprises remained almost unchanged in 2017 Q2. Credit standards on loans to *small and medium-sized enterprises* were eased somewhat, in line with the previous quarter's expectations. Credit standards applied on loans to *large enterprises*, unlike the expectations, remained unchanged. Banks expect credit standards applied on loans to *small and medium-sized enterprises* to remain unchanged in 2017 Q3, as well as for *large enterprises*. By purpose of use, banks tightened the credit standards for *working capital*; for *investments* credit standards remained unchanged. Credit standards applied on loans to both categories are expected to not change in 2017 Q3.

Chart 1 Standards on loans to enterprises in total, by size of enterprises and purpose of use (*net balance*¹)

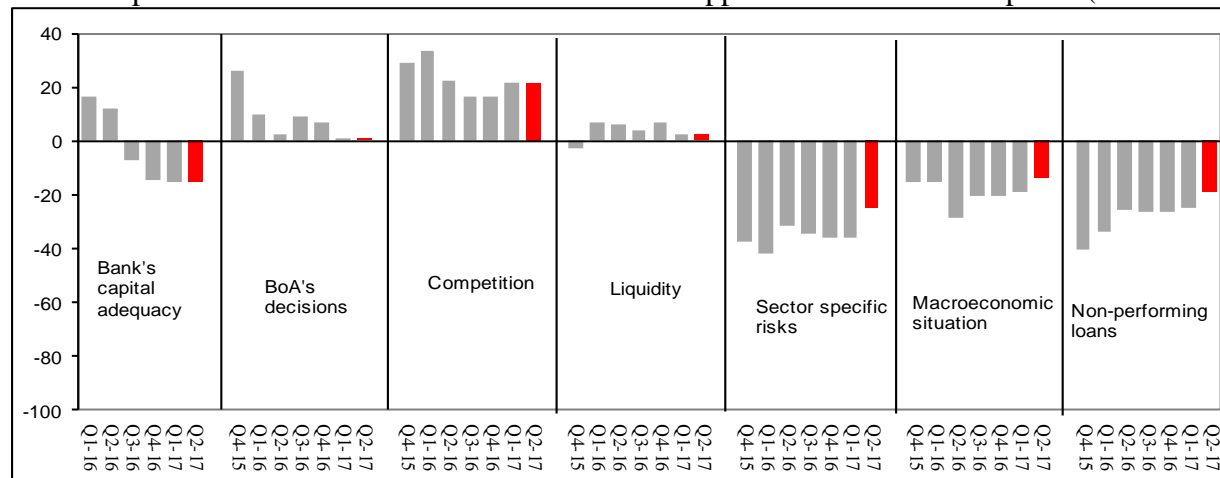


Source: Bank of Albania.

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

The main **factors** contributing to the easing of credit standards to enterprises in the second quarter are: *competition in the banking market*, *Bank of Albania's decisions*, and level of *liquidity* in the system. Meanwhile, the other factors, *sector-related specific problems*, *non-performing loans*, *perception about macro-economic situation*, and *capital adequacy* continue to contribute to the tightening of credit standards (see Chart 2).

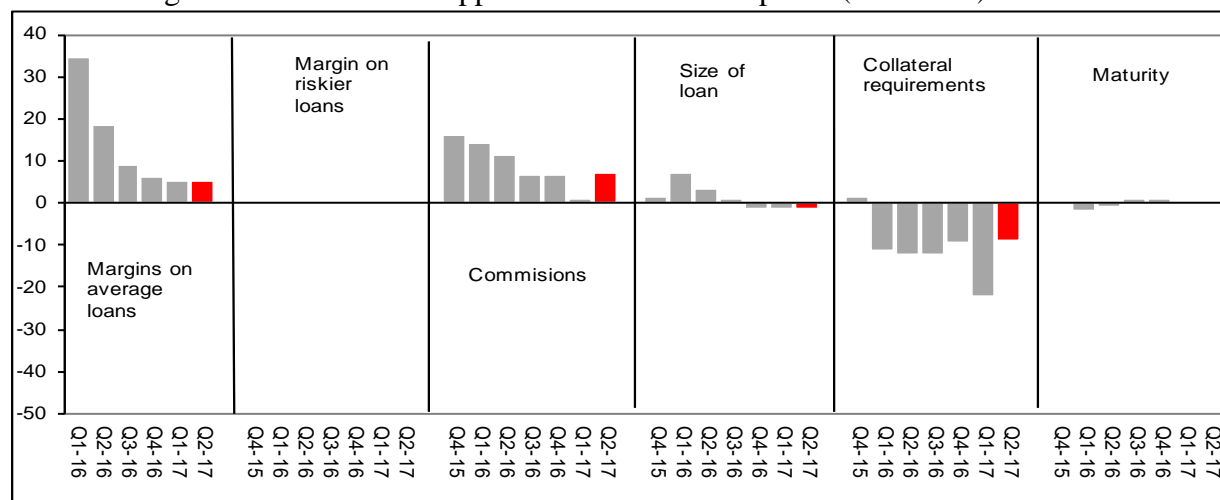
Chart 2 Impact of different factors on credit standards applied on loans to enterprises (*net balance*²)



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.

The easing of credit standards to enterprises was mainly implemented through the reduction in *commissions* and in the *average margin*. Meanwhile, increase in *collateral requirements* contributed to the tightening of credit standards.

Chart 3 Change in credit standards applied on loans to enterprises (net balance³)

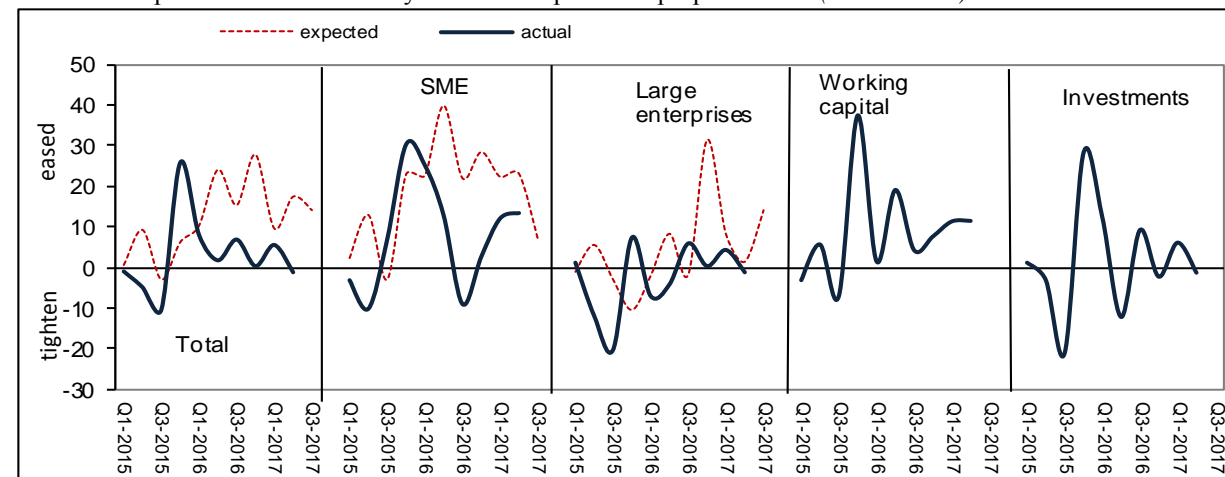


Source: Bank of Albania.

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

Demand for credit remained almost unchanged in 2017 Q2, mainly affected by the credit demand from *large enterprises*, while *small and medium-sized enterprises* showed increase of credit demand. In 2017 Q2, enterprises showed higher credit demand for *working capital*, while *credit demand for investments* remained unchanged (see Chart 4). Banks expect both *small and medium-sized enterprises* and *large enterprises* to increase the demand for credit in 2017 Q3.

Chart 4 Enterprises' credit demand by size of enterprise and purpose of use (net balance⁴)

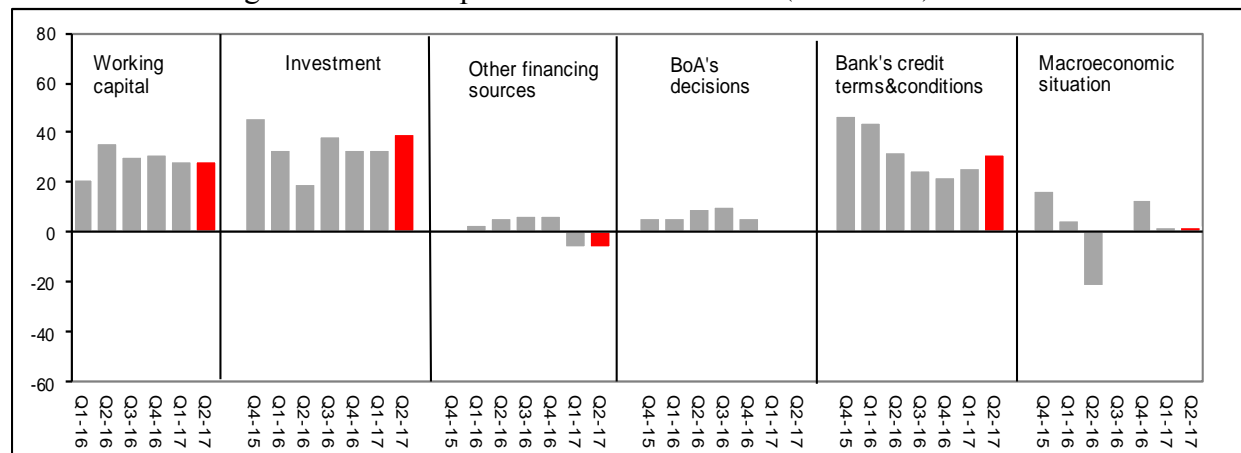


Source: Bank of Albania.

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 was driven by the need to finance both the *working capital* and *investments*, as well as by the more favourable financing conditions. Banks perceived the low demand for credit as a result of *using alternative financial sources* outside the banking system.

Chart 5 Contributing factors to enterprises' demand for loans (*net balance*)



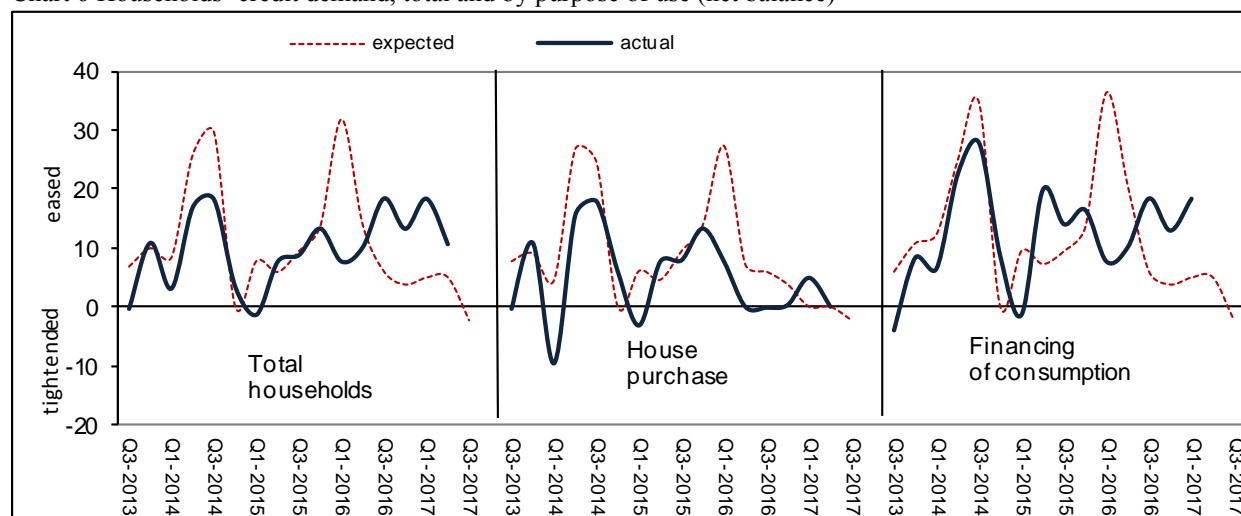
Source: Bank of Albania.

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. Credit standards applied on loans to households eased in 2017 Q2. According to the questionnaire's results, standards eased on *consumer credit*, but remained almost unchanged on *loans for house purchase*, in line with the expectations in the previous quarter. Banks expect a slight tightening of credit standards applied on loans for house purchase and on consumer credit in 2017 Q3.

Chart 6 Households' credit demand, total and by purpose of use (net balance)

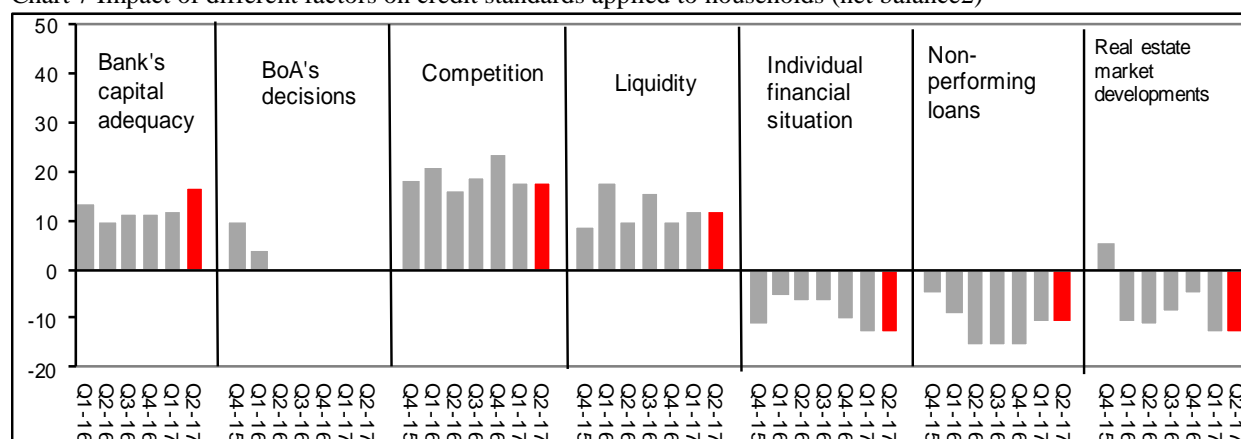


Source: Bank Lending Survey, Bank of Albania.

Factors affecting credit standards. The credit standards on loans to households eased further mainly driven by the increase of *competition in the banking sector*, level of *liquidity* and *capital adequacy* of banks. On the other

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

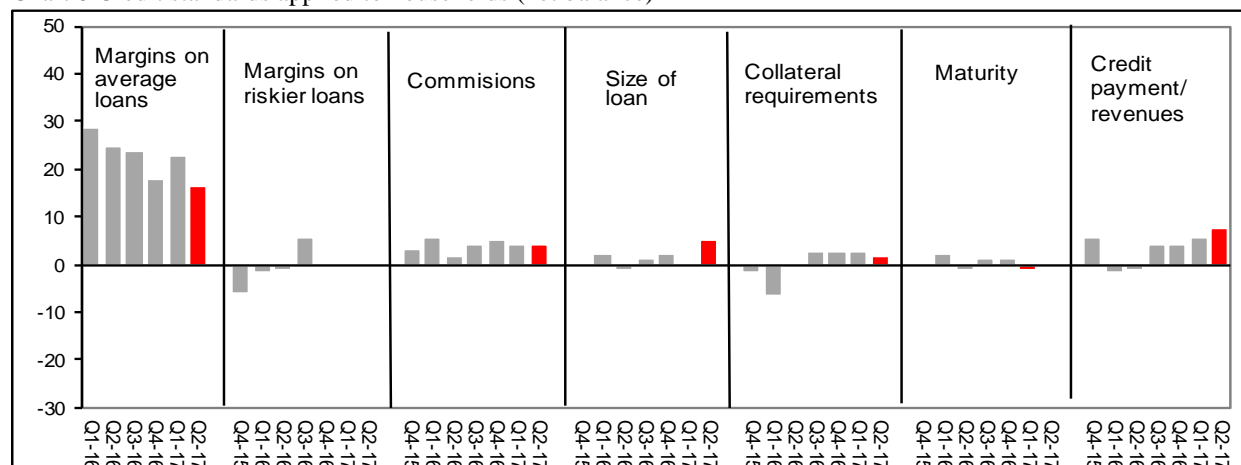
Chart 7 Impact of different factors on credit standards applied to households (net balance2)



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 during 2017 Q2 as well. Also, the other terms and conditions, such as the *increase in debt-to-income ratio*, the *increase in the size of credit*, the decrease of *commissions* and of *collateral requirements*, contributed to the easing of standards, albeit at a lesser extent.

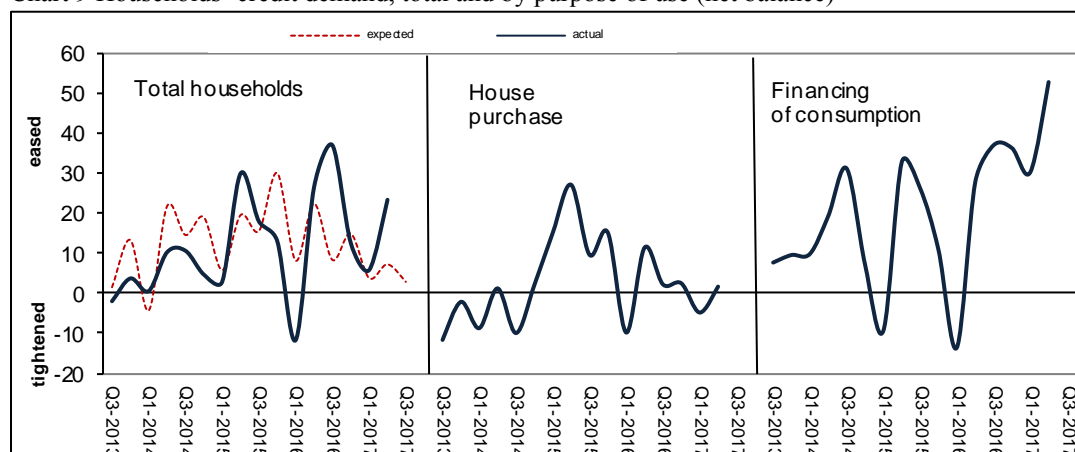
Chart 8 Credit standards applied to households (net balance)



Source: Bank Lending Survey, Bank of Albania.

Demand for credit. Banks reported that the households' credit demand increased in 2017 Q2, in line with the banks' expectations in the previous quarter. The expansion in the credit demand from households is mainly driven by the demand for *consumer credit*, while the demand for *mortgage loan* appears almost unchanged. Credit experts expect households' demand for credit to continue to increase in the next quarter.

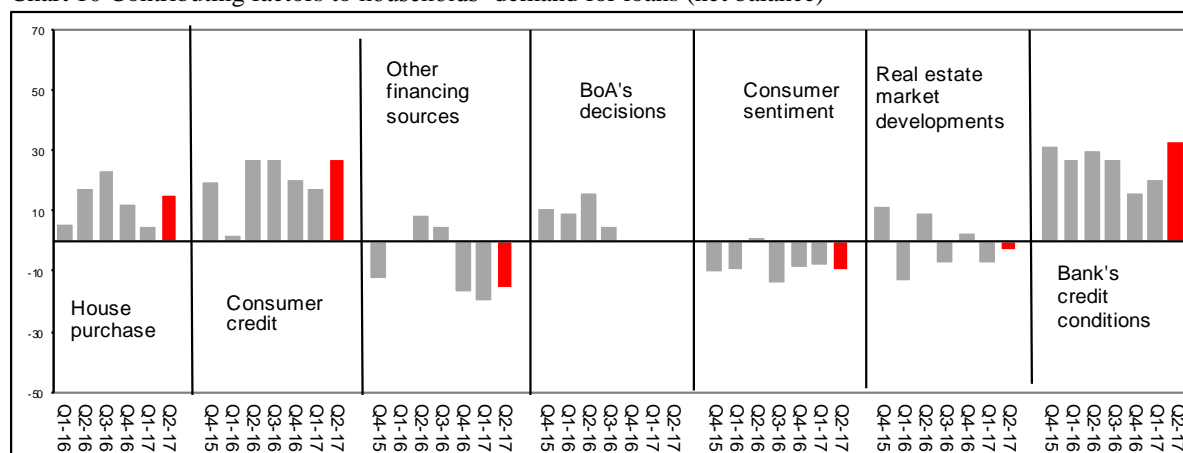
Chart 9 Households' credit demand, total and by purpose of use (net balance)



Source: Bank Lending Survey, Bank of Albania.

Factors affecting demand. The increase in households' demand was mainly driven by the improved *lending standards* and the increase in the need to *finance consumption* and the *house purchase*, in 2017 Q2. 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.

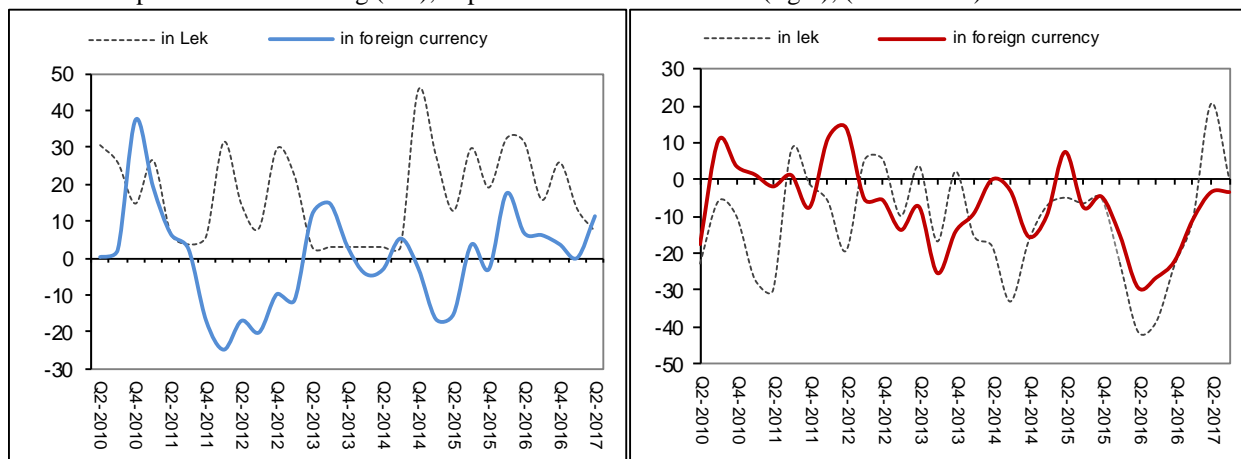
Chart 10 Contributing factors to households' demand for loans (net balance)



Source: Bank Lending Survey, Bank of Albania.

Expectations for lending by currency. Banks expect an increase of lending in both the domestic currency and foreign currency in 2017 Q3. Almost all banks do not expect changes in interest rates in lek and in foreign currency, in the next quarter.

Chart 11 Expectations for lending (left); expectations for interest rates (right); (net balance)⁶



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 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. In aggregating the results, each bank's response is weighted based on the response and on 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". The weight of size is built based on the share that each bank has in the credit market and are reviewed once a year. The net balances are scaled in order to acquire values within the interval of +/- 100".

Enterprises	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Changes in bank lending standards						
-Current quarter	2.7%	-4.4%	-13.4%	-12.1%	-11.9%	1.2%
-Next quarter	-1.0%	13.1%	-1.0%	-10.0%	-9.1%	1.2%
Factors affecting credit standards						
-Bank's capital adequacy	16.6%	12.5%	-7.1%	-14.7%	-15.0%	-15.0%
-Bank of Albania's decisions	10.2%	2.4%	9.6%	7.0%	1.4%	1.4%
-Competition in the banking system	33.5%	22.2%	16.9%	16.9%	21.7%	21.7%
-Current or expected liquidity level	7.0%	6.4%	4.3%	7.0%	2.2%	2.2%
-Specific business sector-related concerns	-41.9%	-31.3%	-34.7%	-36.1%	-36.2%	-24.6%
-Current or expected macro-economic situation	-15.1%	-28.3%	-20.6%	-20.6%	-19.2%	-13.4%
Non-performing loans	-33.6%	-25.5%	-26.3%	-26.3%	-24.8%	-19.0%
Changes loan approval standards						
-Average margin	34.8%	18.6%	9.0%	6.2%	5.3%	5.3%
-Margin for risk-rated loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
-Commissions	14.4%	11.7%	6.6%	6.6%	1.2%	7.0%
-Loan amount	7.3%	3.6%	1.3%	-1.4%	-1.4%	-1.4%
-Collateral requirement as a ratio of loan amount	-11.2%	-12.2%	-12.1%	-9.4%	-22.0%	-8.8%
-Maximum loan term to maturity	-1.8%	-1.0%	1.0%	1.0%	0.0%	0.0%
Changes in business credit demand						
-SMEs, previous quarter	25.1%	12.7%	-9.0%	2.6%	12.0%	13.4%
-SMEs, next quarter	23.3%	21.9%	28.4%	22.3%	3.9%	7.0%
-large enterprises, previous quarter	-7.1%	-4.2%	5.9%	0.3%	4.3%	-1.2%
-Large enterprises, next quarter	-12.0%	-1.8%	31.4%	8.2%	-9.1%	14.1%
Factors affecting change in demand for loans						
-Need to finance inventories	21.4%	35.8%	30.3%	31.7%	28.6%	28.7%
-Need to finance fixed investments	32.7%	19.2%	38.3%	33.3%	33.5%	39.3%
-Use of alternative financial resources	2.6%	6.0%	7.1%	7.1%	-5.7%	-5.7%
-Bank of Albania's monetary policy decisions	6.1%	9.1%	10.6%	5.6%	0.0%	0.0%
-Lending standards applied by your bank	44.5%	32.4%	25.3%	22.6%	25.7%	31.5%
-Current or expected macro-economic situation	4.6%	-21.9%	1.4%	13.2%	1.8%	1.8%

Source: Bank Lending Survey, Bank of Albania.

Annex 2. Lending to households

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. In aggregating the results, each bank's response is weighted based on the response and on 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". The weight of size is built based on the share that each bank has in the credit market and are reviewed once a year. The net balances are scaled in order to acquire values within the interval of +/- 100".

Households	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Changes in bank lending standards						
-Current quarter	7.7%	10.1%	18.4%	13.2%	18.3%	10.6%
-Next quarter	13.9%	6.0%	3.8%	4.9%	5.0%	-2.3%
Factors affecting credit standards						
-Bank's capital adequacy	13.4%	10.1%	11.3%	11.3%	11.7%	16.6%
-Bank of Albania's decisions	4.3%	0.0%	0.0%	0.0%	0.0%	0.0%
-Competition in the banking system	21.2%	16.1%	18.9%	23.8%	17.6%	17.6%
-Current or expected liquidity level	17.6%	10.1%	15.6%	10.1%	11.7%	11.7%
-Households' financial situation	-5.7%	-6.3%	-6.3%	-10.1%	-12.9%	-12.9%
-Non-performing loans	-9.1%	-15.7%	-15.7%	-15.7%	-10.6%	-10.6%
-Developments in the real estate market	-10.9%	-11.3%	-8.9%	-5.1%	-12.9%	-12.9%
Changes in loan approval standards						
-Average margin	28.7%	24.9%	24.0%	17.9%	22.8%	16.6%
-Margin for risk-rated loans	-1.8%	-1.2%	5.5%	0.0%	0.0%	0.0%
-Commissions	5.6%	1.6%	4.0%	5.0%	3.9%	3.9%
-Loan amount	2.4%	-1.2%	1.2%	2.2%	0.0%	5.0%
-Collateral requirement as a ratio of loan amount	-6.8%	-0.2%	2.8%	2.8%	2.8%	1.7%
-Maximum loan term to maturity	2.4%	-1.2%	1.2%	1.2%	-1.1%	0.0%
-Instalment-to-income ratio	-1.8%	-1.2%	4.0%	4.0%	5.5%	7.7%
Changes in household credit demand						
-Mortgage loan	-9.8%	11.4%	2.2%	2.5%	-4.9%	1.6%
-Consumer loans	-13.6%	27.6%	37.0%	36.3%	30.2%	52.7%
Factors affecting change in demand for loans						
-Households' needs to finance house purchase	6.0%	17.5%	23.3%	12.7%	5.3%	15.1%
-Households' needs to finance consumption	1.9%	27.6%	27.4%	20.7%	17.4%	27.3%
-Use of alternative financial resources	0.3%	8.6%	5.4%	-16.8%	-20.2%	-15.4%
-Bank of Albania's monetary policy decisions	9.5%	16.4%	4.9%	0.0%	-1.1%	-1.1%
-Consumer confidence	-9.4%	1.2%	-13.8%	-8.9%	-8.4%	-9.5%
-Developments in the real estate market	-13.7%	9.3%	-7.2%	3.2%	-7.8%	-2.9%
-Lending standards applied by your bank	27.6%	30.5%	27.2%	16.4%	20.3%	32.9%

Source: Bank Lending Survey, Bank of Albania.