

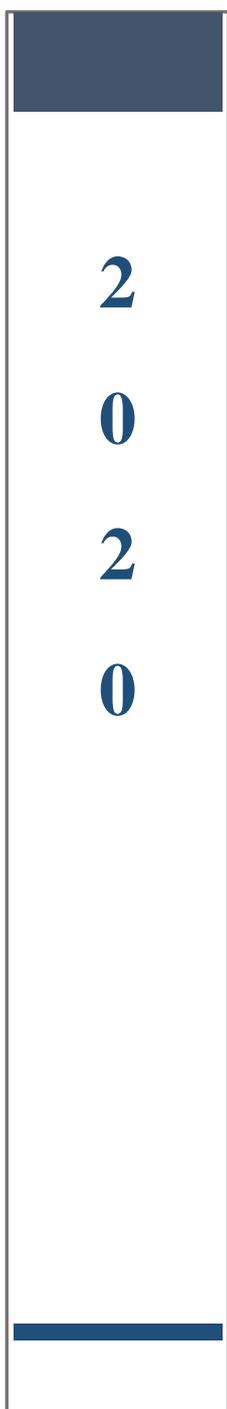


BANK LENDING SURVEY

2020 Q1

APRIL 2020

MONETARY POLICY DEPARTMENT



INTRODUCTION¹

The Bank Lending Survey (BLS) questionnaire aims to collect the commercial banks' opinions related to developments in the past three months on credit supply and demand, and their expectations for the next three months. The BLS provides a summary of commercial banks' perceptions on the changes in credit supply conditions, presented through credit standards, terms and conditions, and on the changes for loan demand by enterprises and households. This analysis is based on the aggregated results of replies from ten banks that own the largest share of credit to the private sector.

¹The Bank Lending Survey questionnaire was revised in 2018 Q2, aiming at further approximating it with the latest international practices, especially with the ECB practice. Hence, the related analysis is adopted with the new questionnaire. It is enriched with additional questions and specifications related to the factors affecting the credit standards, terms and conditions and demand. From 2018 Q4, the time series are tested for the presence of seasonality, following the relevant statistical methods. The time series showing seasonality, according to statistical test specifications, are adjusted for this effect and have replaced the existing series that have not been adjusted for seasonality in conducting the lending survey. The BLS questionnaire, a glossary of terms, a short description on the importance of this survey, some methodological aspects and the time series for analysis purpose are published at the link:

https://www.bankofalbania.org/Monetary_Policy/Surveys_11282/Bank_Lending_Survey/.

OVERVIEW OF RESULTS²

Commercial banks reported tightened credit standards in 2020 Q1. Credit standards were tightened for loans to enterprises for investment and liquidity purposes also for loans to households for house purchase and consumption financing. Banks noted an overall fall of credit demand in 2020 Q1. The fall in credit demand to enterprises was perceived in all segments of enterprises, by size, and by purpose of credit. Also, the pronounced fall of credit demand to households was evident in both categories, for house purchase and consumption financing.

The expectations for the second quarter of 2020 are almost the same with the first one. Hence, banks expect a further tightening of credit standards, to both households and enterprises. The tightening of credit standards for loans to enterprises and households is expected to appear in all categories and subdivisions of each relevant segment. Also, credit demand is expected to be lower in 2020 Q2, to both enterprises (small medium-sized and large enterprises), mainly for investment purposes, also to households for house purchase and consumption financing.

CREDIT STANDARDS, TERMS AND CONDITIONS, AND DEMAND

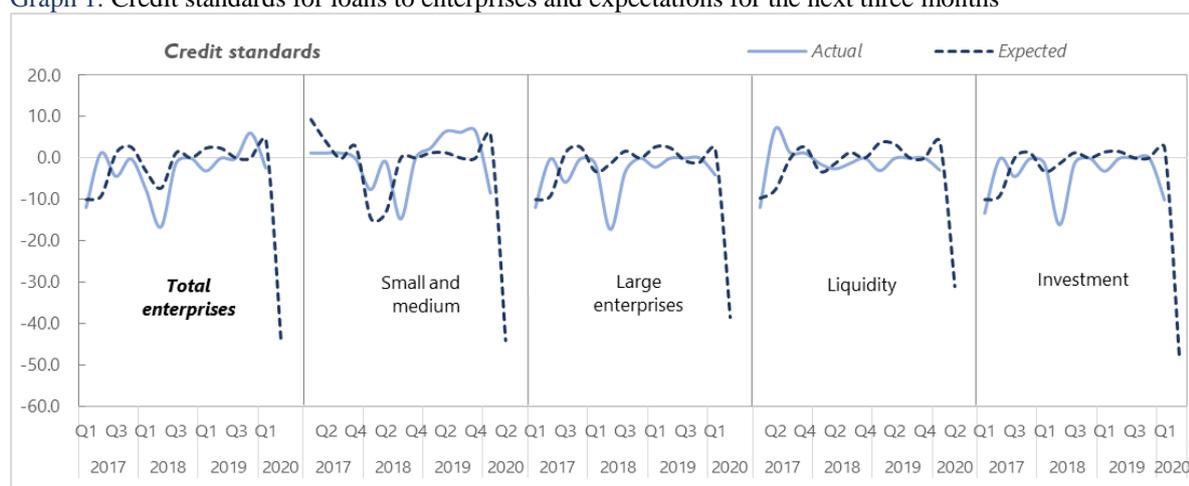
1. LOANS TO ENTERPRISES

1.1. Credit standards

Credit standards for loans to enterprises tightened in 2020 Q1. The tightening of credit standards was more pronounced for loans to small and medium-sized enterprises, and for loans granted for investment financing purposes.

In 2020 Q2, banks expect to further tighten the credit standards for loans to enterprises, in terms of both enterprise size and purpose of use.

Graph 1. Credit standards for loans to enterprises and expectations for the next three months¹



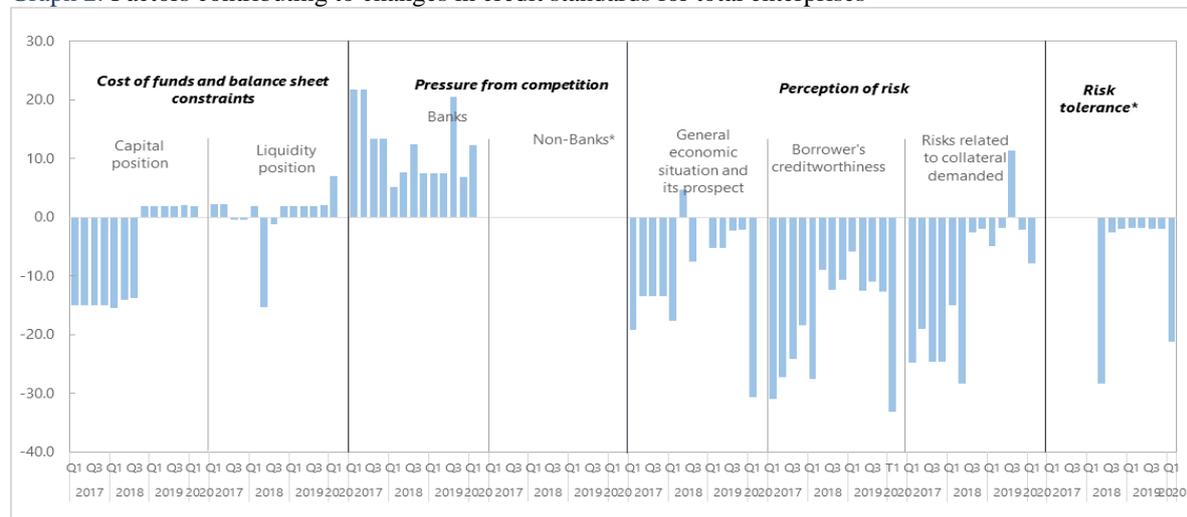
¹: Calculated as net percentage. Positive values indicate easing of credit standards, whereas negative values indicate tightening of credit standards.

Source: Bank of Albania.

²Opinions of commercial banks on lending activity in this quarter, according to modalities determined in the Bank lending Survey, are gathered after 5 April 2020. As a result, they include the opinions of experts, who participated in the Survey, related to the consequences of Covid-19 on the overall economic activity, and particularly on lending activity.

According to banks' opinion, the tightening of credit standards to enterprises was a derivative of the perception for an increased risk related to: borrower's creditworthiness; the economic situation and its prospect, and the collateral demanded. Lower risk tolerance of banks was another factor backing the tightening of credit standards in this quarter. On the other hand, the increase in banking sector competition and lower cost of funds balance sheet constraints deriving from banks' capital or liquidity position contributed to the easing of credit standards.

Graph 2. Factors contributing to changes in credit standards for total enterprises ²



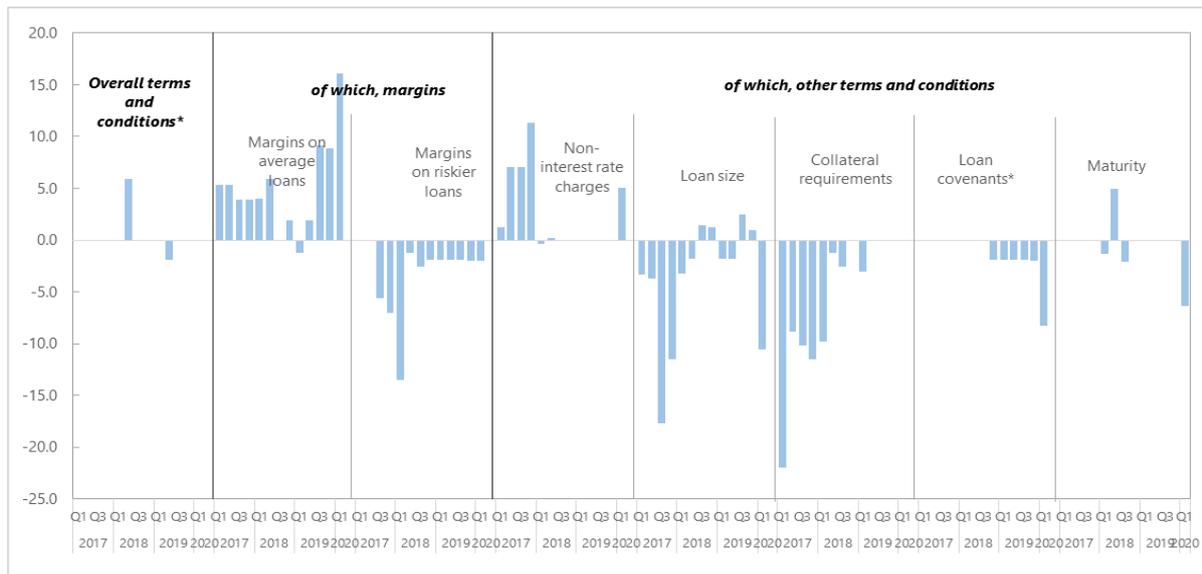
²: Calculated as net percentage. Positive values indicate the factor contributed to the easing of lending standards, whereas negative values indicate their tightening. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

1.2. Terms and conditions

Overall terms and conditions on new loans to enterprises were reported as unchanged from the previous quarter. Nonetheless, other non-price conditions related to: the reduction of the loan size; higher loan covenants; and reduction in the maximum maturity for the loan to enterprises; were reported as more tightened. On the other hand, the lower non-interest charges applied on loans provided in 2020 Q1, contributed in the easing of the other non-price conditions to enterprises. Margins on average loans continue to be reported as lower, contrary to higher ones on riskier loans.

Graph 3. Change in overall terms and conditions on new loans approved to enterprises ³

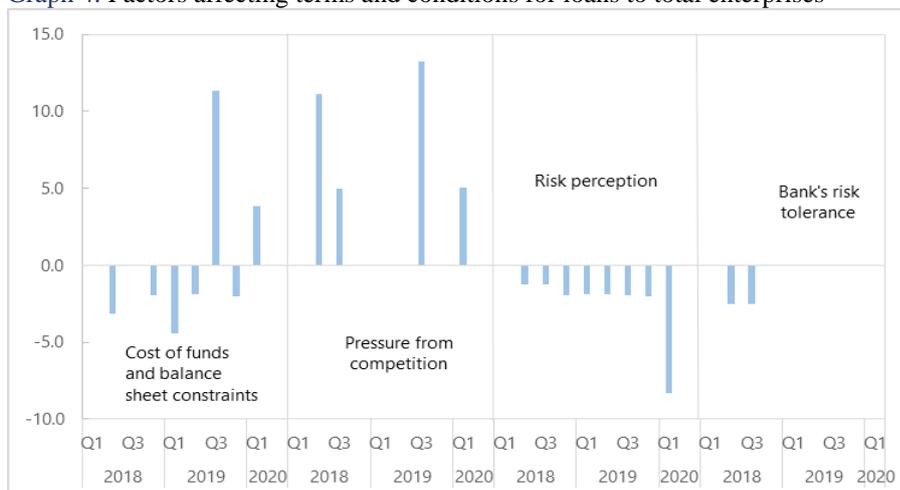


³: Calculated as net percentage. The positive values indicate eased credit standards, whereas the negative values indicate tightened credit standards. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

According to banks' opinion, terms and conditions were negatively affected by increased risk perception, driven by the unprecedented situation caused by Covid-19 pandemic. On the other hand, lower cost of funds and lower balance sheets constraints were reported to contribute to the easing of terms and conditions for loans to enterprises.

Graph 4. Factors affecting terms and conditions for loans to total enterprises⁴



⁴: The positive values indicate that the factor contributed to easing the lending terms and conditions, whereas negative values indicate their tightening. *: This chart is based on a new question added to the questionnaire revised in June 2018.

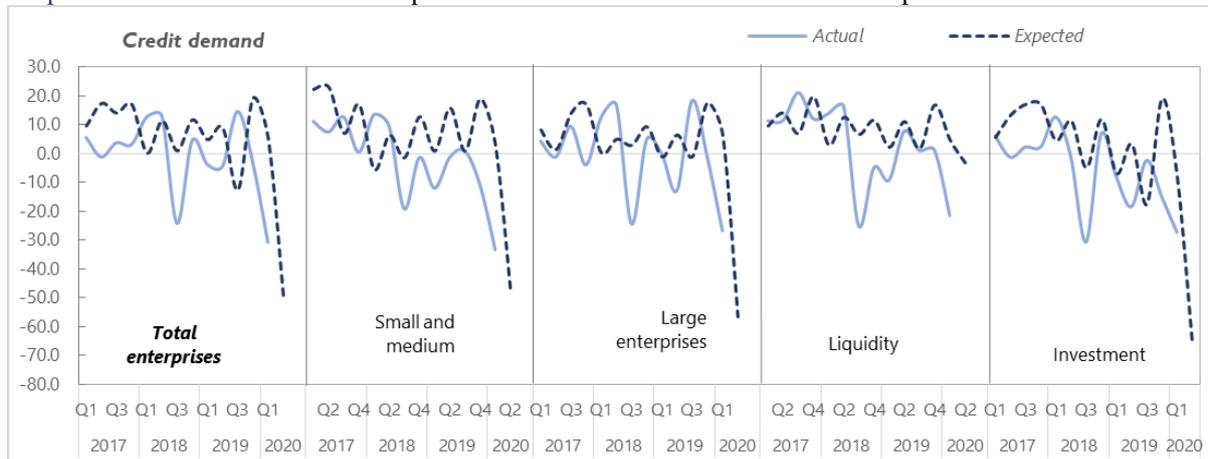
Source: Bank of Albania.

1.3. Demand for loans

Loan demand from enterprises was reported lower in 2020 Q1. The fall in the loan demand was noted in all categories of enterprises by size. The loan demand was assessed as weak both for investment purpose and the one used in meeting the liquidity needs.

For 2020 Q2, banks' expectations converge to a further fall of the loan demand from enterprises, extended to both categories by size of enterprise, more pronounced in loans provided for investment purposes.

Graph 5. Current loan demand and expectations over the next three months of enterprises⁵

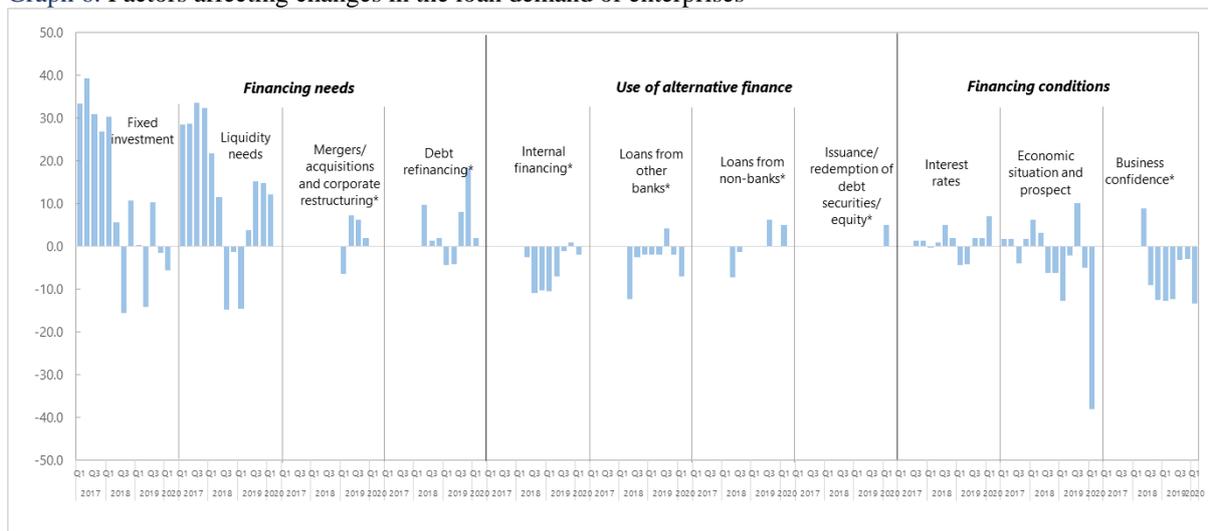


⁵: Calculated as net percentage. Positive values show increase of loan demand, while negative values show decrease of loan demand.

Source: Bank of Albania.

According to banks, the lower demand for loans, in 2020 Q1, from enterprises was influenced by firms' perception of the economic situation and its outlook, as well as by the business confidence. Also, the increase in the use of alternative finance, such as loans from other banks, or the use of the internal financing, as well as the lower financing needs for investment purposes were assessed to have a negative impact on loan demand in the first quarter of 2020. The higher needs to finance inventories and the working capital, the overall level of interest rates, and the lack of alternative financing sources in the form of loans from non-bank financial institutions, or the issuance/ redemption of securities, were reported to have affected positively the expansion of loan demand.

Graph 6. Factors affecting changes in the loan demand of enterprises⁶



⁶: Calculated as net percentage. Positive values show the factor has affected the increase in loan demand, while the negative values show the factor has affected its fall. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

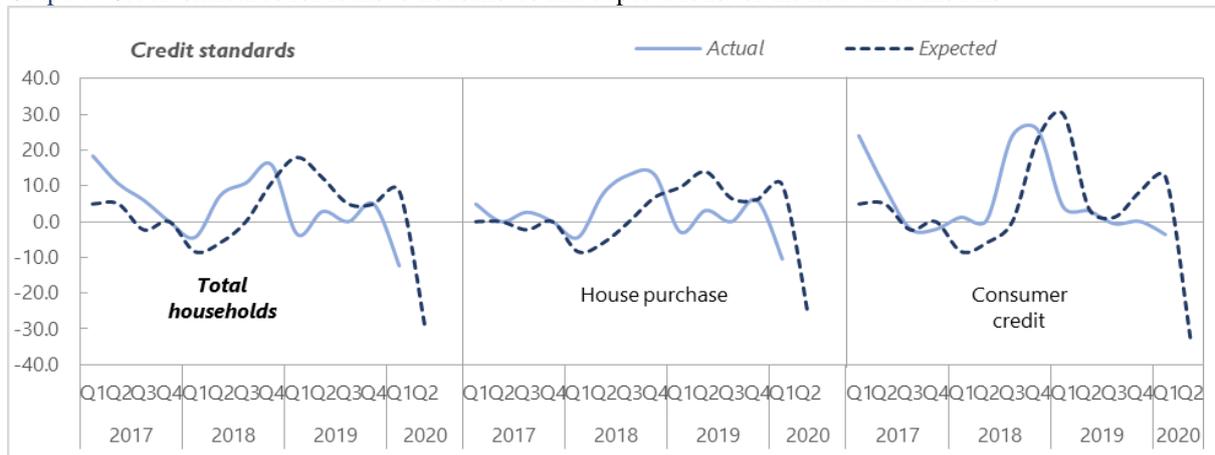
2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households were tightened in 2020 Q1. The tightening of standards was reported for both house purchase and consumer loans.

The tightening of credit standards to households is expected to be more pronounced in 2020 Q2, for both consumer and house purchase loans.

Graph 7. Credit standards for loans to households and expectations for the next three months⁷

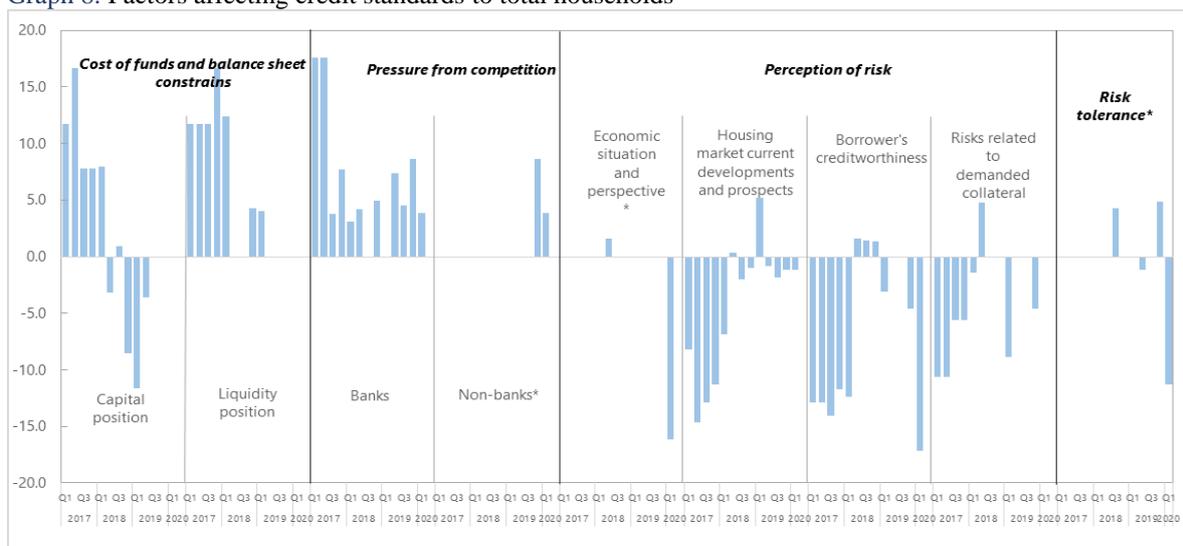


⁷: Calculated as net percentage. Positive values indicate easing of credit standards, whereas negative values indicate tightening of credit standards.

Source: Bank of Albania.

Credit standards for loans to households were tightened as a result of higher risk perception by banks related to the domestic macroeconomic situation and its outlook, and the borrower's creditworthiness. Also, lower risk tolerance of banks affected the tightening of credit standards to households. In contrary, the increased pressure from competition affected the easing of credit standards to households in the first quarter of 2020.

Graph 8. Factors affecting credit standards to total households⁸



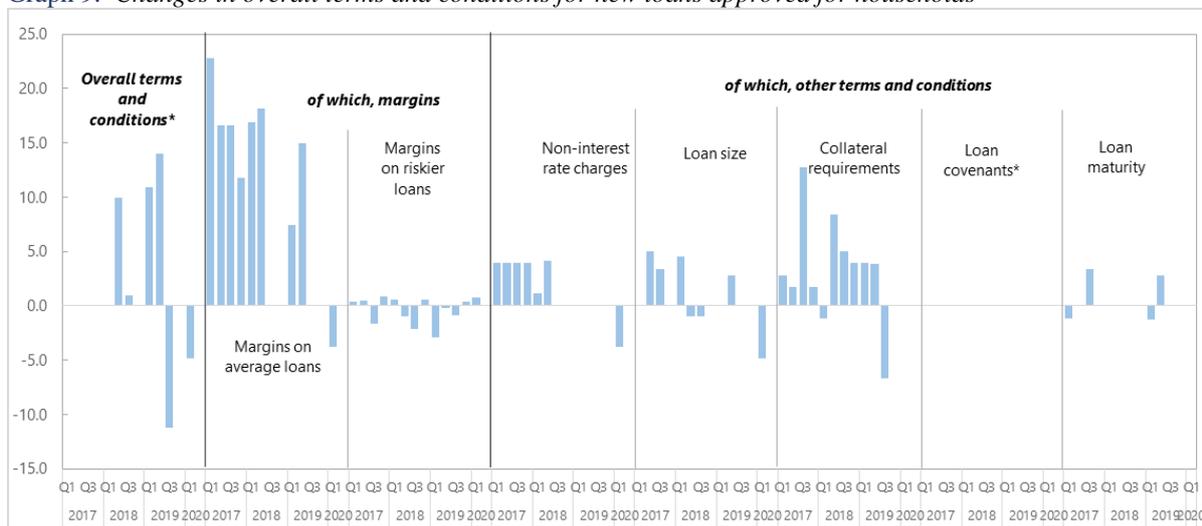
⁸: Calculated as net percentage. Positive values indicate easing of credit standards, whereas negative values indicate tightening of credit standards. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

2.2. Terms and conditions

Overall terms and conditions on loans to households were tightened in the first quarter of 2020, due to the application of higher margins on average loans, reduction of loan size and increase of non-interest charges.

Graph 9. Changes in overall terms and conditions for new loans approved for households⁹

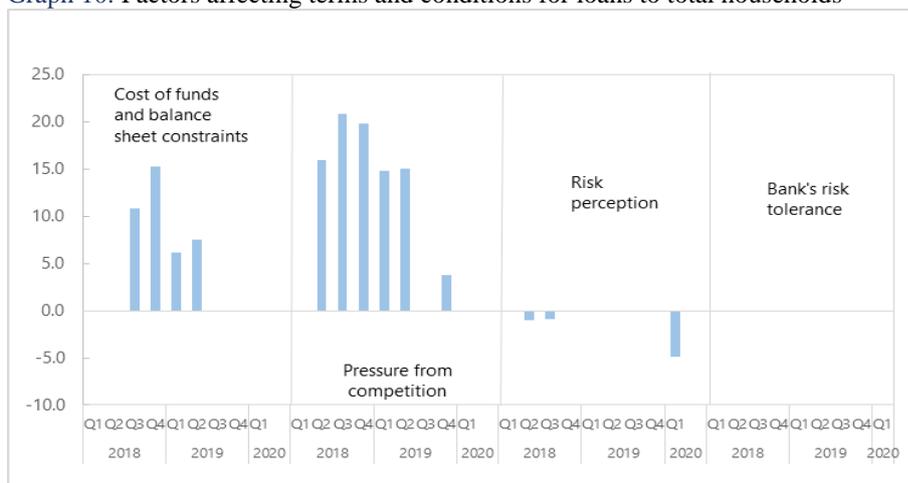


⁹: Calculated as net percentage. The positive values indicate eased credit standards, whereas the negative values indicate tightened credit standards. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

The tightening of credit terms and conditions for loans to households was driven by the perception on an increased risk by banks. The other factors affecting terms and conditions applied on loans to households were reported as unchanged.

Graph 10. Factors affecting terms and conditions for loans to total households¹⁰



¹⁰: The positive values indicate that the factor contributed to easing the lending terms and conditions, whereas negative values indicate their tightening. *: This chart is based on a new question added to the questionnaire revised in June 2018.

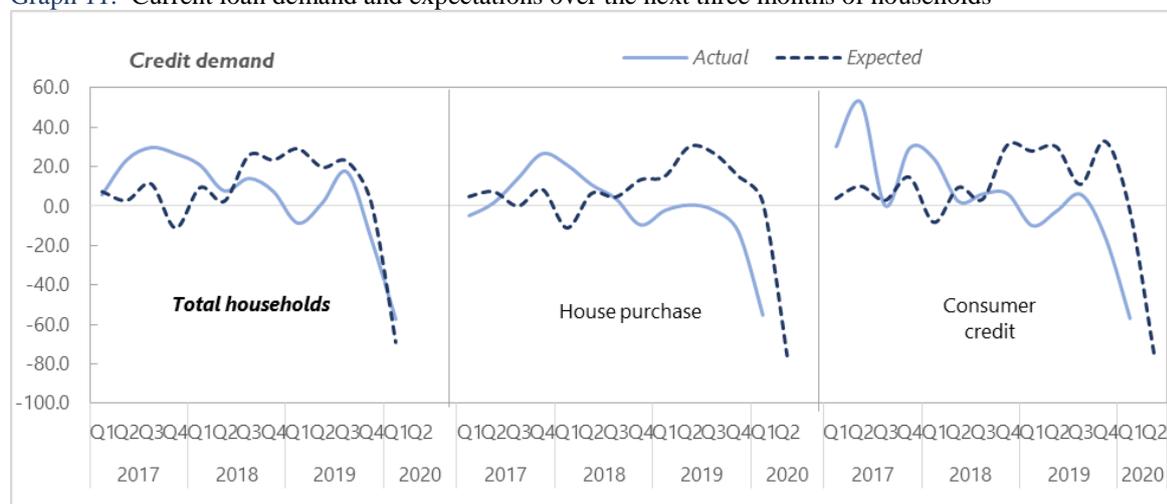
Source: Bank of Albania.

2.3. Demand for loans

Loan demand from households was perceived with a pronounced fall in 2020 Q1, for both consumer loans and for house purchase financing.

In the second quarter of 2020, households' loan demand is expected decline further in both categories.

Graph 11. Current loan demand and expectations over the next three months of households¹¹

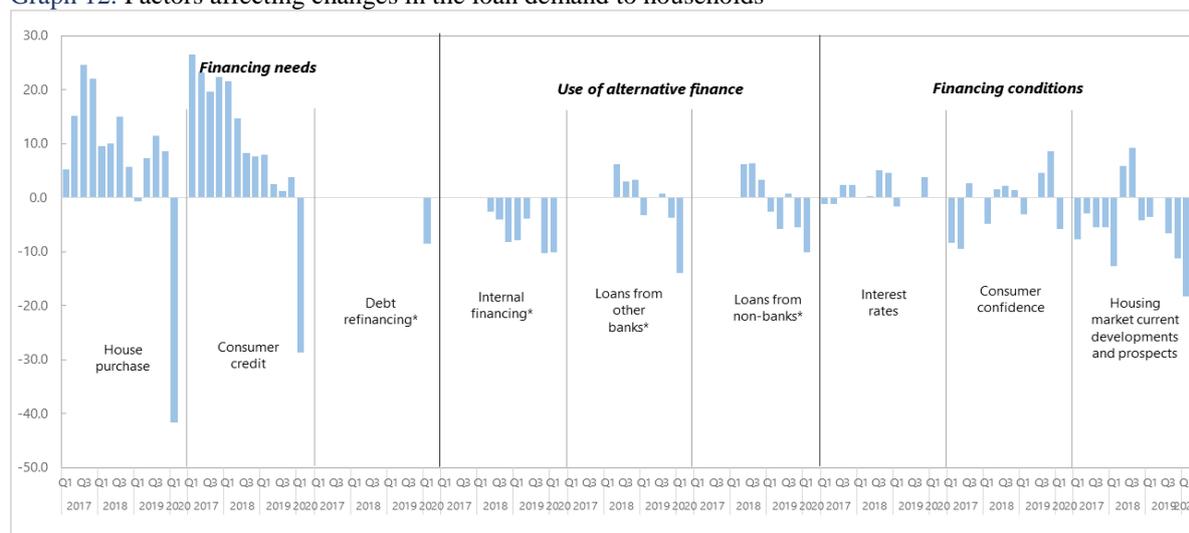


¹¹: Calculated as net percentage. Positive values show increase of loan demand, while negative values show decrease of loan demand.

Source: Bank of Albania.

According to banks, almost all factors that affect households' loan demand were on the negative side in the first quarter of year. Hence, lower financing needs for house purchase and consumption and debt re-financing, higher use of internal financing resources, increase of loans from banks and other non-banks financial institutions, current and expected developments in housing market, and the fall of consumer confidence drove to the pronounced reduction of loan demand in the first quarter of 2020.

Graph 12. Factors affecting changes in the loan demand to households¹²



¹²: Calculated as net percentage. Positive values show the factor has affected the increase in loan demand, while the negative values show the factor has affected its fall. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.