

B a n k o f A l b a n i a

# TRENDS IN LENDING

2015 Q3

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The views expressed herein are solely of the authors and do not necessarily reflect those of the Bank of Albania.



# C O N T E N T S

SUMMARY	5
1. LENDING TO BUSINESSES	6
2. LENDING TO HOUSEHOLDS	4
3. CREDIT PRICE AND OTHER STANDARDS	11
4. TRENDS IN LENDING IN THE COUNTRIES OF THE REGION	13

This analysis presents a detailed overview of the most recent lending developments in Albania. To this end, the analysis studies the monetary data on the credit portfolio by economic agents, as well as lending standards. In addition, this analysis will present a summary of trends in lending in Central East and South East Europe (CESEE).

The main statistics taken into account in this analysis are:

- Data on the lending activity for the resident sector of economy.
- Qualitative data from the bank lending survey.
- Credit price in both domestic currency and in euro
- Monetary data for the loan volume for the regional countries. In more concrete terms the countries included in the analysis are: Bulgaria (BU), Croatia (CR), Romania (RO), Serbia (SR), Poland (PL), Hungary (HU), the Czech Republic (CZ), and Former Yugoslav Republic of Macedonia (MK).

The analysis covers data published as at 23 October 2015, which include information for monetary and financial data for August 2015 and data from the bank lending survey 2015 Q3.

## SUMMARY

Banking credit portfolio performed weakly in July and August 2014, affected by the reduction of credit to businesses. By currency, the good performance of lek loans did not offset the considerable contraction of foreign currency loans. The still tightened lending standards and the weak financing demand from businesses drove to this performance. The demand for loans remained conditioned by the high uncertainty, low confidence and the continuous negative output gap.

Lending to businesses fell during the summer months. Beyond the seasonal effect, this fall was affected by a declining demand for financing, and the tightened lending standards. Also, in addition to long-term factors that have affected the weak demand for loans, injection of liquidity in economy from Government may have led to the reduction of needs for business financing. Also, banks' supply for credit remains selective and dominated by a few banks.

Lending to households improved steadily the growth pace. Households' demand in this quarter continues to be oriented mainly for consumer loan, driven by attractive offers from banks for this product. Meanwhile, banks report an easing of lending standards and increased demand for the mortgage loan as well. Nevertheless, the annual growth of this portfolio remains close to the average rates.

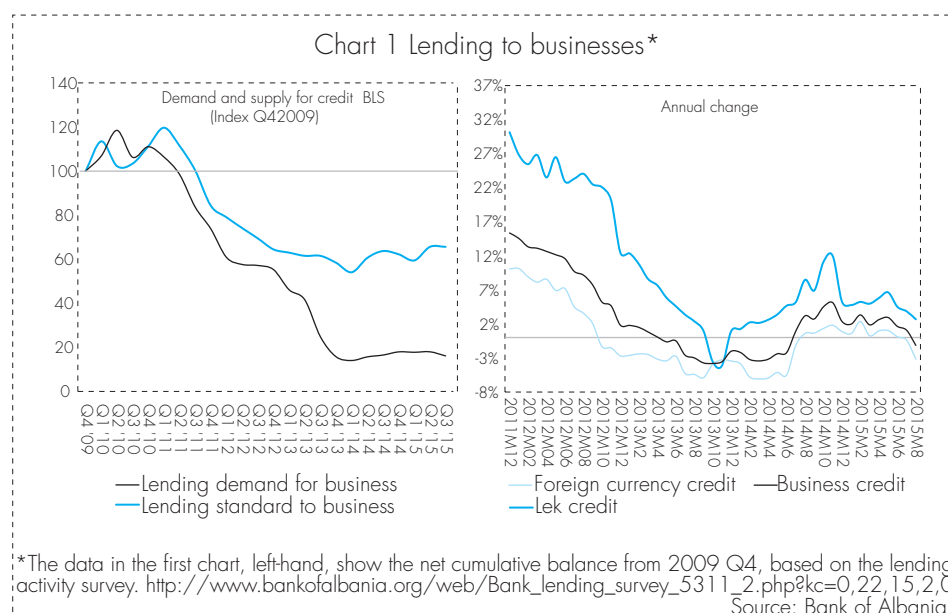
Interest rates on credit continued to drop in July and August. This fall mainly appeared in the domestic currency, for both households and businesses. Interest rates on credit in euro increased slightly in August, reflecting the effect of a bank of the system. The spread between the lek and euro loans narrowed further. The interest rates on lek deposits also fell, while they slightly increase for euro denominated deposits, mainly in August.

Credit analysis for Central, Eastern and South-eastern Europe (CESEE) shows a slight improvement of lending rates to private sector. This increase continues to originate from Central European countries, while Balkan countries still record negative rates, in particular in the credit portfolio to businesses. Credit to households appears more uniform and up in the major part of the regional countries, by partially offsetting the contraction in the credit portfolio to businesses.

## 1. LENDING TO BUSINESSES<sup>1</sup>

Credit to businesses contracted after May, affected by the low demand for banking loans and the tightened lending standards. The performance of economy under potential, the increased uncertainty for the future along with the increase of liquidity injected by the Government in economy, drove to a weak loan demand from businesses. The contraction of portfolio in July and August reflected the shrinkage of portfolio for liquidities, while investment portfolio shows a moderate increase. Lending standards continued to be tightened, mainly expressed in the lowering of portfolio maturity and increase of risk margin to specific segments.

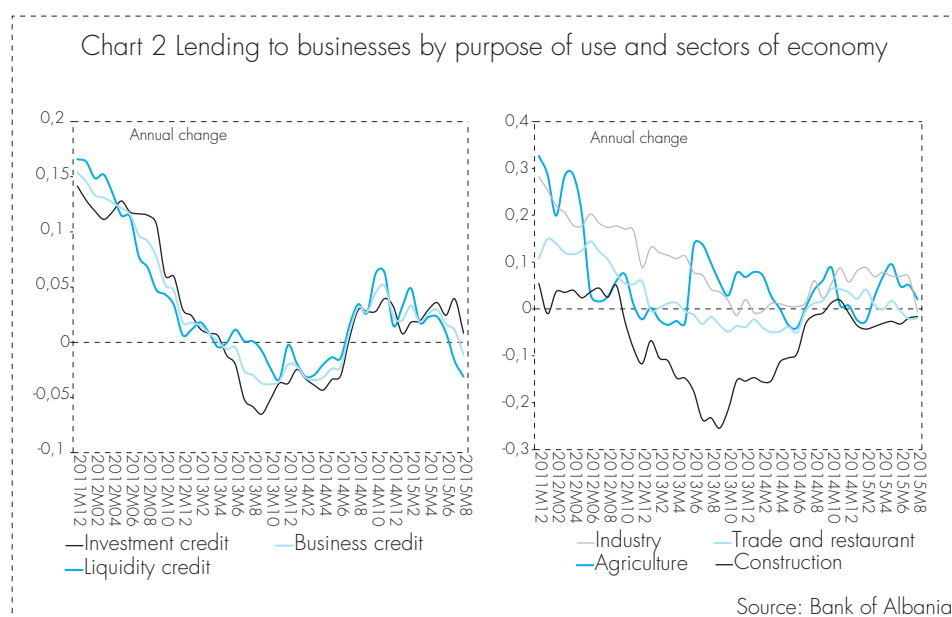
Outstanding loan to businesses, after a temporary improvement in 2015 Q2, contracted in the third quarter. The annual reduction rate of portfolio was -1.1%, from the average of 2.4% in 2015 H1. The reduction in portfolio reflected the weak demand for credit and the still tightened lending standards. The presence of free capacities, the increased uncertainty and liquidity injected by the Government, in the two last years, have driven to a low level positioning of loan demand from businesses<sup>2</sup>. The tightened lending standards, in particular on the credit for investments, continue to discourage the demand.



<sup>1</sup> Lending to businesses exclude the effect of written off loans from balance sheet.

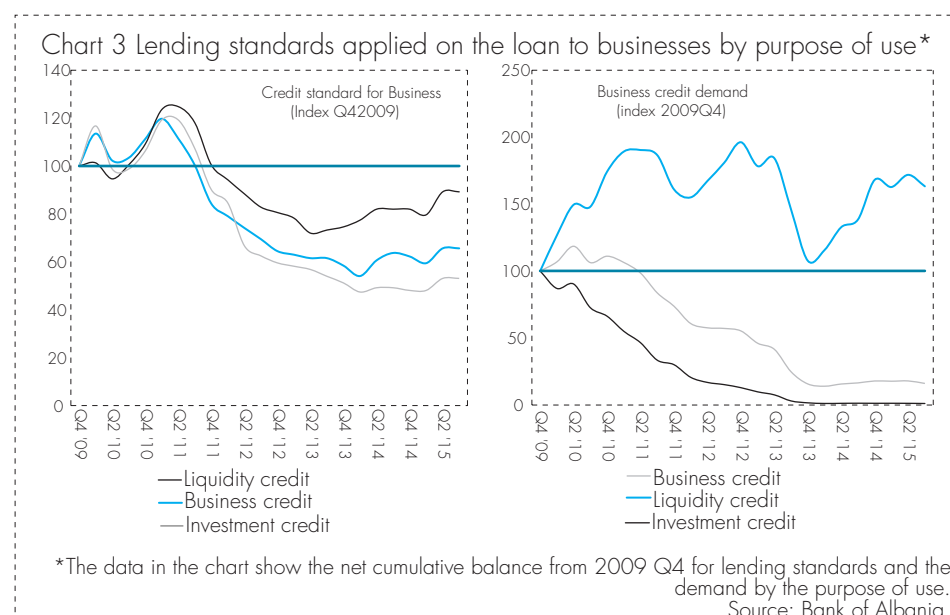
<sup>2</sup> According to monetary data, during 2015 business deposits averaged ALL 25 billion higher than the average for 2009-2013. This performance is thought to have reflected the payment of government arrears to businesses.

The deterioration of credit to businesses reflected the slowdown in the growth pace of credit in lek to businesses and the contraction of credit in foreign currency. Thus, lending in lek to businesses recorded a slowdown of the annual growth rate by 2.6 percentage points, from the first half of year, at 2.7% in August. Credit in foreign currency to businesses shrank by 3.2%, from the previous year. These developments show that credit portfolio to businesses continued to shift to lek, sustained by the continuous contraction of the spread of interest rates on lek and euro loans. Businesses are becoming more aware about the exchange rate risk. The ratio of lek credit to total credit to business posted 35.8% in August (34.8% in December 2014).



The credit portfolio broken down by sector contracted considerably affected by the slowdown of banking credit to industry, in particular to energy sector<sup>3</sup>. Excluding the reduction in this sub-sector, lending performance in industry was positive, 2.3%. In addition to this sector, the portfolio to agriculture increased 2% from the previous year. The annual change in this portfolio fluctuated, although, overall it remained in positive territory over the year. Other sectors of economy continued to show contraction of lending. Thus, credit to trade contracted 2% y-o-y, higher from the contraction in the second quarter of -0.3%. Credit portfolio to construction showed lower contraction rate, 1.6%, from the annual contraction of 3.4% in the first part of year. At the end of August, lending by sectors shows that credit to trade has the highest share, 38%, then industry 30% and construction 13%. Agriculture continues to have a share of lower than 2% in credit to businesses, from some time now.

<sup>3</sup> Credit to "Production, distribution of electricity, gas and water" fell by around ALL 5 billion during 2015. This fall reflected the improved businesses' activity in this sector, attributable to the structural changes implemented by the Government in energy sector.



In 2015 Q3, banks maintained unchanged the lending standards applied to businesses. In a longer-term point of view, they remain tightened, particularly for investments purposes. A tightened supply followed by a particular weak demand for investments is reflected in a weak performance of credit portfolio for investments. This portfolio evidenced an annual growth of 0.8% in August. The weak demand for investments is determined also by the spare capacities in production and the performance of economy under potential. Banks expect to ease lending standards applied to businesses, in particular to small and medium-sized enterprises, in 2015 Q4. Also, they expect increase in the financing demand of businesses.

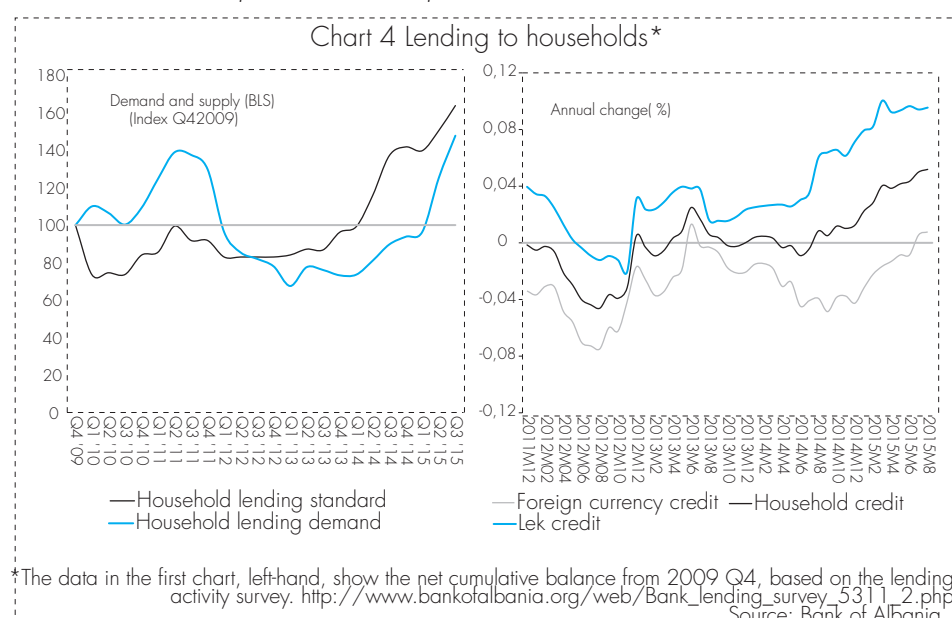
The tightened supply standards continue to be affected by the high level of non-performing loans, the current and expected macroeconomic situation and the problems in specific sectors of economy. The ample liquidity of banks, competition and the monetary policy were the main factors contributing to the easing of lending standards.

Banks identify as the main factors for the weak demand of businesses the current and expected macroeconomic situation, the lack of the demand for investments and of the alternative sources of financing.



## 2. LENDING TO HOUSEHOLDS<sup>4</sup>

Lending to households continued to increase in 2015 Q3, supported by the good performance of consumer loan. The loan for house purchase maintained the growth rates similar to the previous quarter. The positive dynamic of loan to households was supported by the favourable lending standards and the demand for financing, in particular for consumption. According to the last analysis, lending standards eased in the third quarter and are expected to continue this trend in the fourth quarter. In parallel, the demand was and will continue to trend up in the fourth quarter.



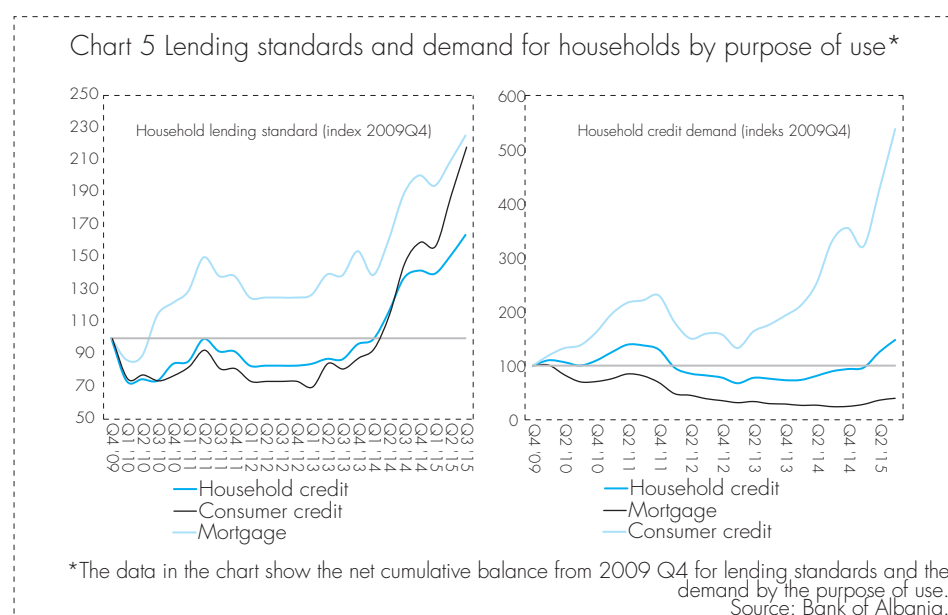
Loan to households increased at a higher rate than in June, by 5.2%. This performance reflected the improved growth rates in consumer credit, which in July and August grew by ALL 1.3 billion and improved the growth pace at 11.6%, or 3.6 percentage points higher from June. Consumer credit is trending up for almost one year, affected by consumer credit for both short and long-term goods. This credit was mainly granted in lek, thus helping the good performance of lek loan to households. In the last months of August, lek loan to households was 9.5% higher than a year earlier, remaining at the average rates in the first half of year. Lending in foreign currency to households improved slightly. The annual growth rate of this portfolio shifted to positive territory, against the negative values recorded in the first half of year.

The positive performance of lending to households was attributable to the eased lending standards from banks, and the boosting of the demand for

<sup>4</sup> Lending to households exclude the effect of written off loans from balance sheet.

financing from households. Credit portfolio for house purchase maintained the increasing moderate levels, 2.1%. The demand for this product remains weak and affected by the weak demand, but improving one, and the conditions in housing market.

According to the lending survey results, the easing of lending standards to households was driven by the well performance of banks' liquidity, the competition in the banking system and the easing of monetary conditions in Albania. While, the performance of non-performing loans, financial situation of households and the macro situation or housing market continue to determine the conservative policies of banks to households<sup>5</sup>. Banks expect lending standards to ease further in the fourth quarter of 2015.



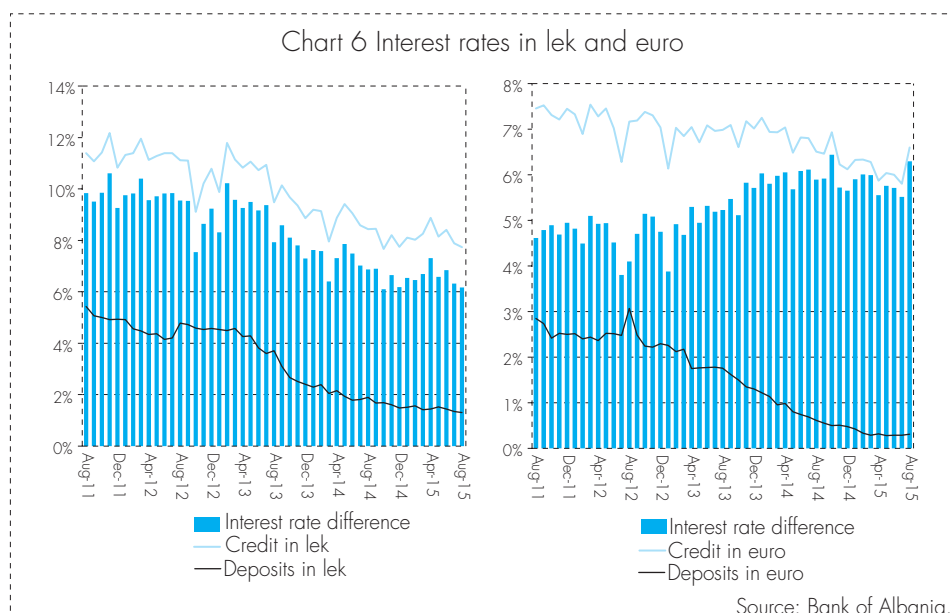
Long-term analysis of lending activity survey shows households' demand for credit has been improving. In particular, demand for consumer credit, is assessed to have had the most considerable growth. While, housing demand remain weak, albeit the slow improvement in the index. The main factors that sustain the demand continue to be lending standards and Bank of Albania's monetary policy, households' needs to finance consumption and house purchase. Consumer confidence and other alternative opportunities for lending contributed to the negative direction. Banks expect a further increase of households' demand in the fourth quarter of 2015.

<sup>5</sup> Referred to the bank lending survey results [https://www.bankofalbania.org/web/Bank\\_lending\\_survey\\_5311\\_2.php?kc=0,22,15,2,0](https://www.bankofalbania.org/web/Bank_lending_survey_5311_2.php?kc=0,22,15,2,0)

### 3. CREDIT PRICE AND OTHER STANDARDS

*In July and August, interest rates in banking system fell further on credit in lek. This behaviour is noted almost in all segments of credit in lek, to households and businesses. Interest rates on credit in euro increased slightly, from the previous quarter, by mainly reflecting the behaviour of one bank of the system in August. The spread between interest rates on credit and deposits slightly narrowed for lek and expanded for euro.*

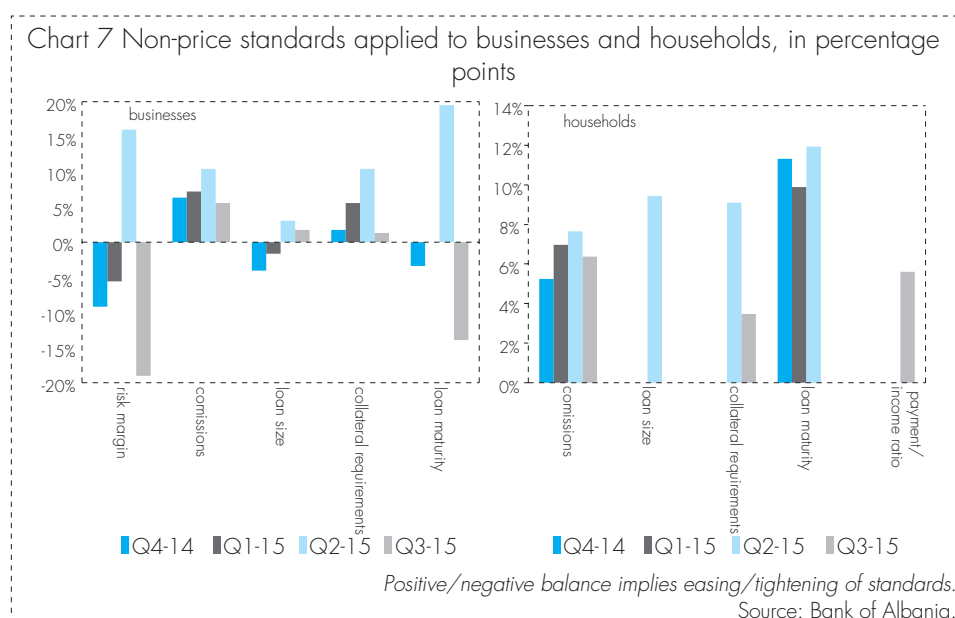
Interest rates on credit and deposits in lek, notwithstanding the temporal fluctuations, pursued the falling trajectory in long terms. This behaviour reflects the accommodative monetary policy implemented by the Bank of Albania, the orientation of lending activity to domestic currency, and the increase of banks' competition in the market. Interest rates on credit in lek averaged 7.8% in July and August. This rate was 0.5 percentage points lower, from the first half of year. This behaviour is noted in almost all segments of credit in lek, but it was more pronounced in the short and medium-term rates. The fall in lek credit cost was dominated by the reduction of interest rates on overdrafts to households and on credit to businesses for investments and equipment purchase. Interest rates on lek deposits also fell, although lower compared with the interest rates on credit. Intermediation margin in lek was low, posting 6.17 percentage points in August, from 6.9 percentage points in the second quarter.



Interest rates on credit in euro increased from the previous quarter, averaging 6.2% in August and July. This performance was not uniform throughout the period. Interest rates in July continued to pursue the falling trajectory, while in

August increased, mainly affected by the movements of one bank of the system. Excluding the effect of the latter, interest rates on credit in euro slightly fell, from the previous quarter. The more contained reduction of interest rates on credit in euro, compared with the credit in lek, drove to the further narrowing of their spread, thus affecting the better transmission of the monetary policy.

Interest rates on lek deposits fell further, by recording low historical rates, at 1.31%<sup>6</sup> in August. The average interest rates on deposits in lek was 1.32% in July and August, or 0.16 percentage point lower from the first half of year. Overall, interest rates on euro deposits overall the rates of the previous quarter. The interest rate on euro deposits averaged 0.29%. This rate was around 0.16 percentage point lower in August, compared with the end of the previous year. The good situation of liquidity in the system and the lending in foreign currency to economy, continue to impact the fall of interest rates on deposits in foreign currency.



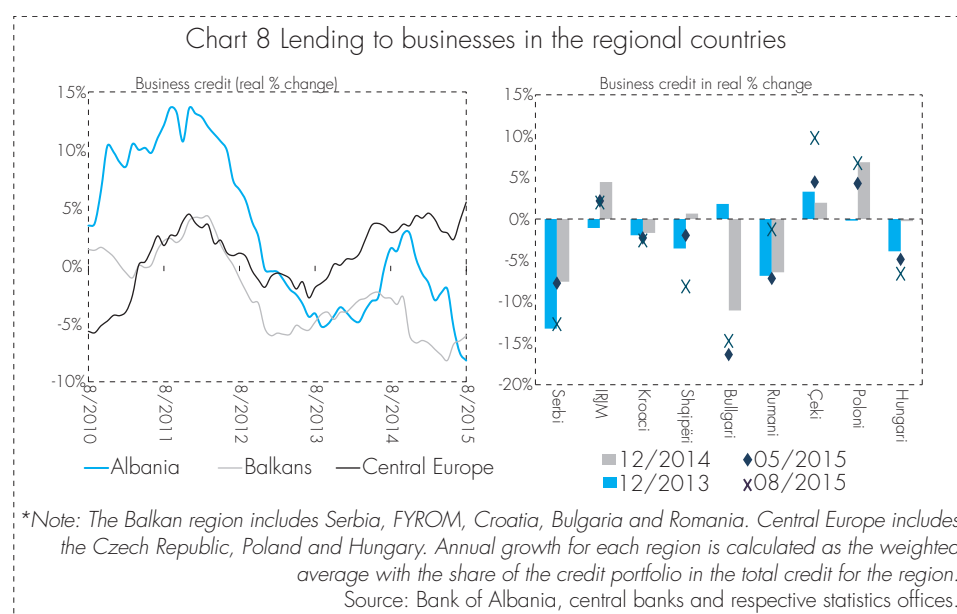
In addition to the fall of interest rates on loans, banks reports easing of lending standards to households, from the previous quarter, and the maintaining at almost same levels of standards to businesses. The increase in risk margin and the decrease of loan maturity to businesses acted on the narrowing side, while the decrease of commission and requirements for collateral, and the increase of loan amount acted on the easing side. Lending standards to households are affected by the fall in commissions, the required instalment/income ratio and collateral requirements, which acted on the easing side.

<sup>6</sup> Interest rates weighted average on time deposits for all maturities.

## 4. TRENDS IN LENDING IN THE COUNTRIES OF THE REGION<sup>7</sup>

*In Central East and South East Europe (CESEE), lending to the private sector remained weak and segmented in July and August. The same falling trend of this portfolio was noted in Balkan countries, albeit the slight decrease in the contraction rates<sup>8</sup>. Central European countries continue to record low, but steady rates, which are sustained by the expansion of both loans to households and to businesses. In the same line with the other Balkan countries, the lending rates to private sector remained in negative territory in Albania.*

Credit stock to private sector in CSEE region recorded an annual average growth around 2% in July and August. This rate was slightly higher from the first half of year, driven by the improved interest rates in Czech Republic and Poland in the Central Europe. While, the performance of credit in the other countries of the region continued to be weak. Credit portfolio to private sector shrank in the major part of these countries. The surveys<sup>9</sup> conducted in these countries, show that although the reports for improvement of lending standards in the first half of year, the present foreign banks continued to implement tightening policies at different degree across the regional countries.

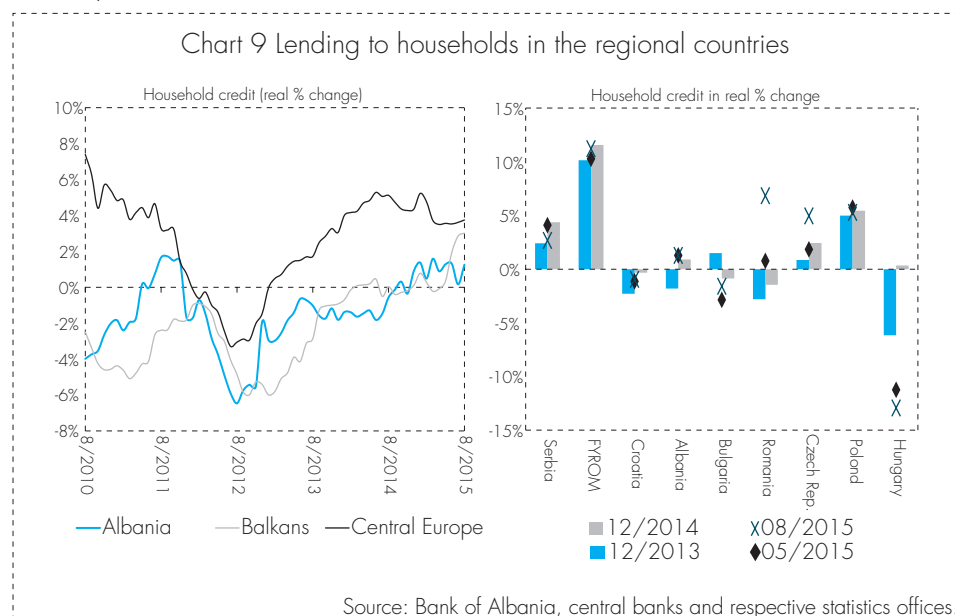


<sup>7</sup> Lending in the countries of our region is analysed in real terms, that is excluding the effects from the exchange rate and inflation.

<sup>8</sup> Lending in the CSEE countries and Albania is analysed in real terms, which is excluding the effects from the exchange rate and inflation.

<sup>9</sup> For more information, see: [http://www.eib.org/attachments/efs/economics\\_cesee\\_bls\\_2015\\_h1\\_en.pdf](http://www.eib.org/attachments/efs/economics_cesee_bls_2015_h1_en.pdf)

Aggregate performance of credit according to economic agents, in August, showed a low increase and was geographically concentrated in the credit to businesses. The average rate of annual growth in real terms was around 0.6%, in July and August. This growth was affected by the positive developments in the credit to businesses in the Central European countries, which was stable and improving throughout 2015. In particular, Czech and Poland had the more rapid growth of this portfolio, which may reflect the successful implementation of financing schemes to small and medium-sized enterprises. Except of Hungary, which notwithstanding the implementation of financing schemes to these market segments, continues to record contraction of loans to private sector, and at a lower degree of businesses portfolio. Also, the major part of Balkan countries recorded falling rates on loans to businesses. Businesses in these countries seem to postpone their investment plans, in the light of the current situation of uncertainties about the economic developments in the future.



Loans to households show steady and uniform growth in the region. Expectations for improvement of the demand and supply in the second half of year<sup>10</sup> seem to have been materialised mainly in the segment of loan to households. Credit portfolio in July and August recorded an average rate of 3.3%, showing a further improvement from the previous quarter. Notwithstanding Central Europe continues to drive the growth rates for this segment, the major part of Balkan countries also recorded positive and increasing rates of credit to households. FYROM continues to dominate the growth rates of this portfolio. Lending to households in Albania continues to maintain the positive growth rates showed during the first half of year.

<sup>10</sup> For more information, see: [http://www.eib.org/attachments/efs/economics\\_cesee\\_bls\\_2015\\_h1\\_en.pdf](http://www.eib.org/attachments/efs/economics_cesee_bls_2015_h1_en.pdf)