

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

TRENDS IN LENDING

2015 Q4

ERJONA SULJOTI AND OLTA MANJANI
MONETARY POLICY DEPARTMENT, BANK OF ALBANIA

JANUARY 2016

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. LOANS TO ENTERPRISES	7
2. LOANS TO HOUSEHOLDS	10
3. CREDIT PRICE AND OTHER STANDARDS	12
4. TRENDS IN LENDING IN THE COUNTRIES OF THE REGION	15

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 includes an overview of most recent lending developments in Central, Eastern and South Eastern European (CESEE) countries.

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
- Statistics on 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 Macedonia (FYROM).

The analysis covers data published as at 22 January 2016, including information for monetary and financial data for November 2015 and data from the bank lending survey 2015 Q4.

SUMMARY

Credit to the private sector recorded moderate growth in the period October-November 2015. The sluggish credit to the economy highlights both demand and supply-side problems. The stock of credit recorded the highest growth of the year, against the rest of the quarters, reflecting the seasonal effect of this period, concentrated in October. Albeit at a slower pace, credit in lek continued to drive the growth of credit to the private sector. By contrast, credit in foreign currency remains in negative territory, although its annual reduction slowed down.

The portfolio of loans to enterprises shows a slight improvement in monthly terms, but its annual growth rate remains close to zero, hence determining the weakness of credit to the private sector. Developments in this segment confirm the deteriorated situation of loans to enterprises over the recent years. Enterprises demand for financing remains sluggish, reflecting the incomplete utilisation of production capacities and the overall macroeconomic situation. On the supply side, while credit standards eased from the previous quarter, they remained tight for certain segments.

Loans to households showed steady growth, albeit at slower pace during October-November. In recent years, the positive trend of this portfolio has driven the expansion of credit to the private sector. The upward demand for financing, eased credit standards for several consecutive quarters, and competitive offers for this segment have contributed positively to loans for households. The performance of this portfolio reflects mainly the demand for consumer loans, whereas mortgage loans showed more moderate growth. The latter showed higher growth rates in October-November, also thanks to attractive promotions during this period.

Interest rates on credit were further reduced during October-November, reflecting the eased monetary policy and higher competition in the banking market. The interest rates fell most notably in the euro credit segment, mainly concentrated in loans to enterprises, and less in loans to households. The intermediation margin was further reduced for both the domestic currency and the euro. Interest rates on euro deposits show more significant drop compared to those on lek deposits, recording historic low rates in both segments.

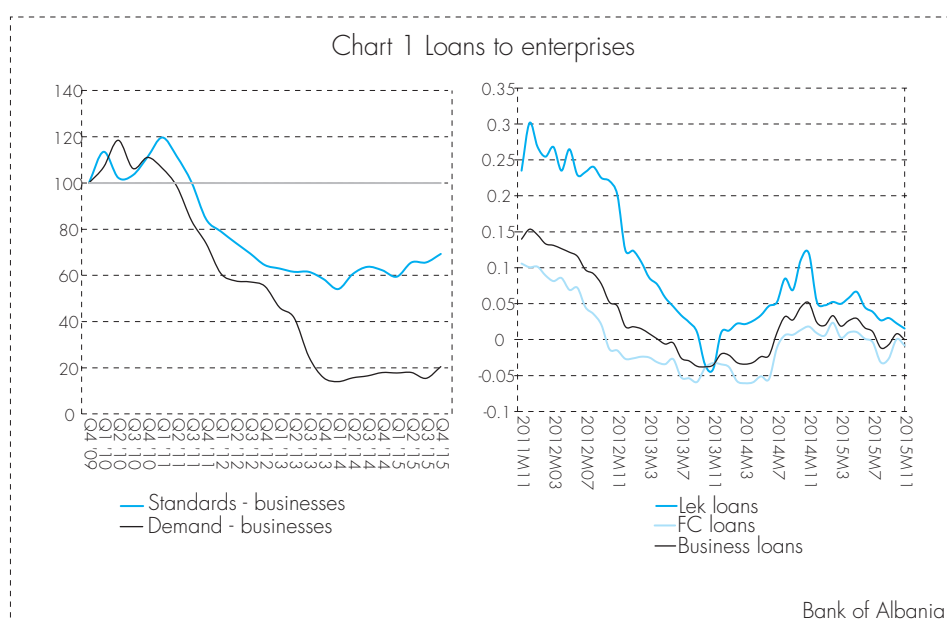
Credit to the private sector across the CESEE countries appears improved during October-November. In this region, credit expansion was driven by its performance in Central European countries, such as Poland and the Czech Republic, which have a significant share in the credit to the private sector across the CESEE. While credit shows signs of recovery across the Balkan region,

it remains sluggish and unstable. Expansion of credit to the private sector in the CESEE region is driven mainly by the positive and steady performance of loans to households across most of the economies in the region. Loans to enterprises appears sluggish and still in negative territory across most of the countries.

1. LOANS TO ENTERPRISES¹

Loans to enterprises showed the highest monthly growth for 2015; yet, the annual growth of the credit portfolio remains weak for October - November, driven by the contraction of credit for liquidity. In the meantime, loans for investment purposes showed moderate positive pace, driven also by the recovery of private investments in the economy. Credit demand appears to have increased slightly. However, credit standards for enterprises remain tighter than five years earlier, and credit demand is significantly lower.

Loans to enterprises retained moderate annual growth rates in the last quarter, averaging 0.4%. Positive seasonal developments in October were followed by a weakening of credit performance in November. Uncertainties for the future and the liquidity injected by the government in the last two years have apparently positioned the enterprises' credit demand, especially that for liquidity, at lower levels. Irrespective of the positive signals about easing credit standards from one quarter to another, they remain tighter than in 2010.

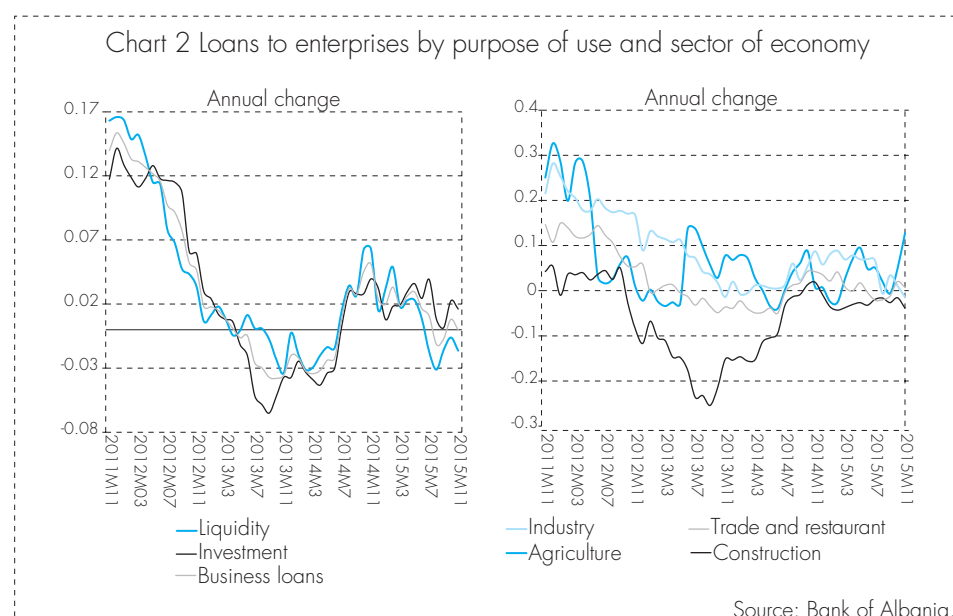


The return of annual growth rates in loans to enterprises close to zero confirmed that its mid-year improvement was temporary. The weak dynamics of loans to enterprises were determined by the contraction of foreign currency loans to enterprises and the slowdown of growth in lek loans. Thus, foreign currency loans to enterprises contracted 0.8% and lek loans rose 1.5%

¹ Data on loans to enterprises exclude the effect of written off loans from balance sheet.

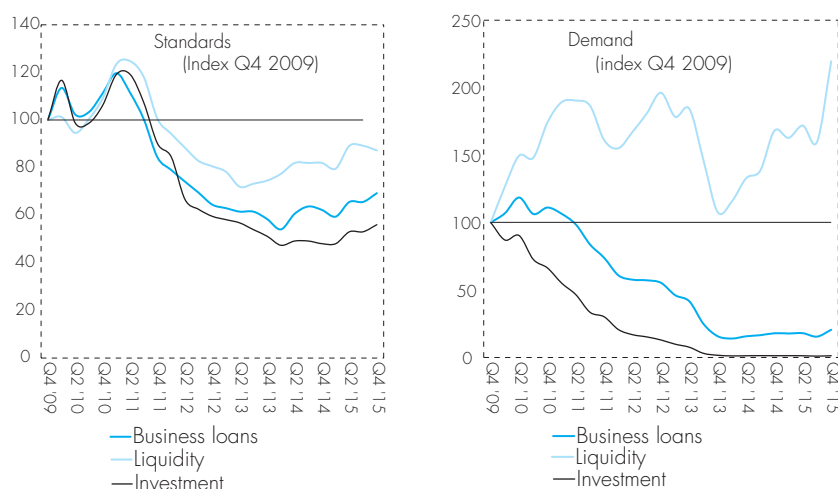
in November, reflecting mostly the lack of seasonal growth in November. The dynamics is reflected in the slight contraction of the ratio of lek loans to total loans to enterprises to 35.2%, against 35.7% in September.

Credit by the sector of economy confirms the contracting trend noted since mid-2015 for firms operating in the industry sector. Credit to this sector continued to be driven by the dynamics of loans to the energy branch. Excluding this effect, credit to the industry sector stands positive, but at lower rates than in the first half of the year. This performance reflects also the slowdown of economic activity in the industry sector. Unlike in the third quarter, the growth rate of credit for trade and construction purposes slowed down. Agriculture was the only sector experiencing notable growth of credit. The annual growth rate of this portfolio averaged 8.8% in the period October-November 2015. The high rates reflect the small share of this sector in total loans to enterprises. At the end of November, credit to agriculture accounted for 1.9% of loans to enterprises, at similar levels to December 2014.



In 2015 Q4, banks eased the credit standards for enterprises, mainly for small and medium-sized enterprises. A tightened supply, and a weak demand for investments, are reflected in a weak performance of the portfolio of credit for investments. This portfolio recorded 1.6% annual growth in August. The weak demand for investments is determined also by the unutilised production capacities. In the meantime, credit for liquidity contracted. In October - November, this credit contracted 1.1% on average, which is less than the contraction in the third quarter (2.1% on average). These developments were determined by enterprises using less the credit lines, against the backdrop of ample liquidity, due to the payment of Government arrears in the last two years.

Chart 3. Demand and standards for loans to enterprises, by purpose of use



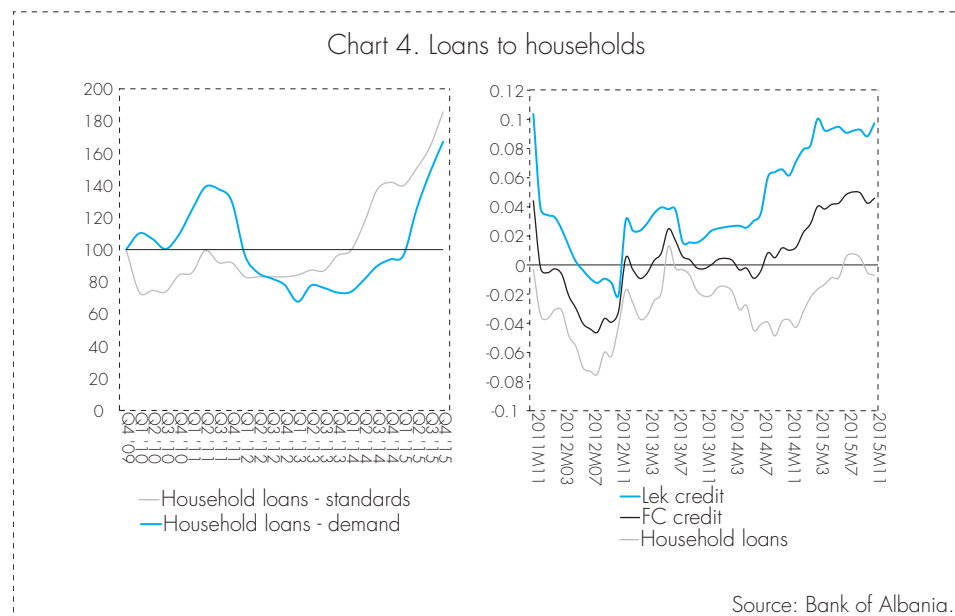
Source: Bank of Albania.

For 2015 Q4, banks' demand improved for both liquidity and investments, supported by the actual and expected macroeconomic situation and the trend for easing credit standards. In 2016 Q1, banks expect credit standards on loans to enterprises to ease, in particular to small and medium-sized enterprises. Also, they expect the enterprises demand for financing to increase.

The tight supply standards continue to be determined 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, competitions and the monetary policy were the main factors contributing to the easing of lending standards.

2. LOANS TO HOUSEHOLDS²

Loans to households continued to increase at steady rates in 2015 Q4, supported by the good performance of consumer loans. However, growth rates in this portfolio were slower than in the third quarter. Loans for house purchase improved the annual growth rates, supported by the bank offers for house purchase. According to the most recent analysis, credit standards eased in 2015 Q4, and the trend is expected to continue. In parallel, the demand has been upward and will persist so in the beginning of 2016 as well.



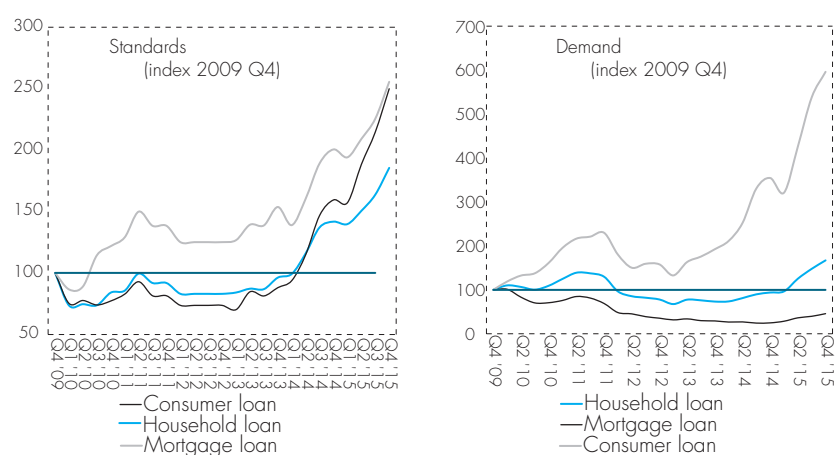
Loans to households rose by 4.6% in October - November, increasing less than in the third quarter. This performance reflected the slowdown of growth rates in consumer loans, which expanded 9% on average, against 10.8% in the third quarter. Consumer loans have been trending up for more than one year, driven by consumer loans for both durable and non-durable goods. This category of loans was mainly granted in lek, thus contributing to the good performance of lek loans to households. Also, lek loans in the fourth quarter were supported by lek loans for house purchase. Bank offers in these two months consisted in low and similar rates on both lek and euro loans, contributing to the shift of this portfolio towards the domestic currency. At the end of November, lek loans to households stood 9.8% higher than a year earlier, remaining close to average rates recorded in the third quarter. Foreign currency loans to households returned to portfolio contraction by 0.7%.

² Loans to households exclude the effect of written off loans from balance sheet.

The positive performance of loans to households was attributable to both the eased credit standards by banks, and the boost in households demand for financing. The growth rates of the portfolio of loans for house purchase improved slightly, 3.1% against 2.1% on average in the third quarter. Notwithstanding the rise in credit demand for house purchase in recent years, this demand remains sluggish.

According to the lending survey results, the standards of loans to households eased driven by the good performance of banks' liquidity, competition in the banking system and the easing of monetary conditions in Albania. In the meantime, the households financial situation remains the main underlying factor for banks conservative policies towards households³. Banks expect lending standards to ease further in 2015 Q4.

Chart 5 Standards and demand for loans households, by purpose of use *



*Data

show the net cumulative balance from 2009 Q4 for credit standards and demand by purpose of use.

Source: Bank of Albania.

³ Referred to Bank Lending Survey http://www.bankofalbania.org/web/Vrojtimi_i_aktivitetit_kreditues_5311_1.php

3. CREDIT PRICE AND OTHER STANDARDS

The intermediation margin fell in October - November, in the domestic currency. It dropped more significantly in euro. This performance reflected the faster drop of interest rates on loans, against the already low and close to zero rates on deposits. The reduction of interest rates on loans reflects the higher competition in the banking market, in the presence of attractive promotions in this period, especially in the domestic currency.

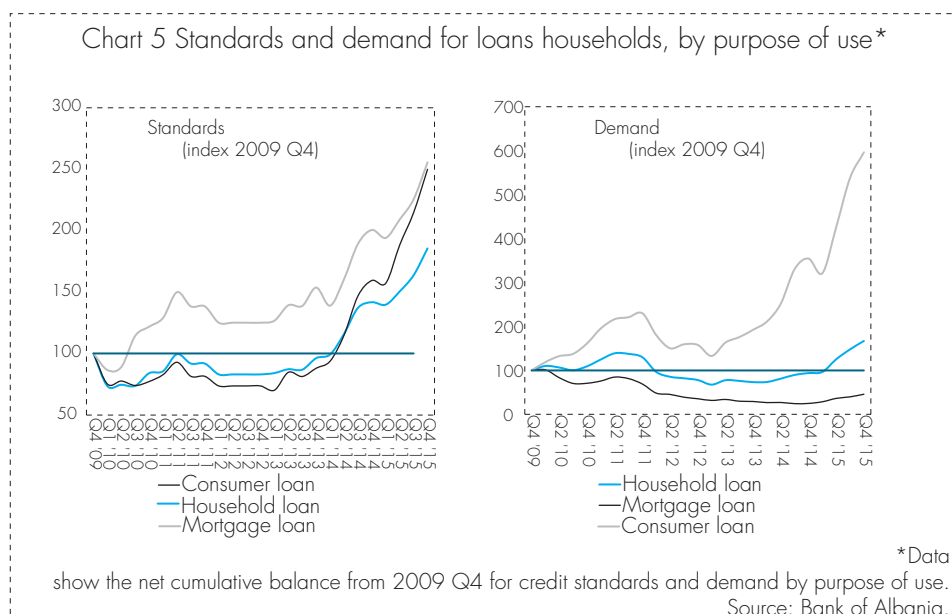
Interest rates on loans have been trending downward, for a number of years, due to the stimulating monetary policy implemented in Albania and beyond, as well as to the heightened competition in the banking market. The monetary policy was transmitted more moderately in the credit market. In the deposits market, the transmission was faster and more complete. Hence, interest rates on deposits reached low historical levels. In the meantime, the slower reduction of interest rates on loans created space for further drop in these rates in the period ahead.

In October - November, interest rates on lek loans averaged 7.7%, down by around 0.3 percentage points from their average in the third quarter. This trend was noted across all loan maturity segments, most notably in medium-term and long-term rates⁴. The reduction of costs in lek loans is dominated by the reduction of rates on loans to enterprises for equipment purchasing and working capital, whereas the interest rates on loans to households resulted slightly up in some of the categories. Interest rates on deposits appear to have fallen slightly less than interest rates on loans against September. Thus, the intermediation margin in the domestic currency narrowed even further to 5.84 percentage points in November, from 6.62 at the end of the third quarter.

Interest rates on euro loans resulted in significant drop in the period October - November. During this period, the rate averaged 4.66%, or 1.45 percentage points lower than in the third quarter. In addition to the downtrend in the long term, this performance reflects also the effect of a bank in the system, which, in the previous quarter, recorded an unusual increase in euro interest rate - concentrated in August.- to later return to its long-term behaviour. However, excluding this effect, the drop remains considerable. The reduction of euro interest rates is evidenced in short-term and long-term loans. Euro loan interest rates according to economic agents confirm higher reduction of rates on loans to enterprises, and to a lesser extent, loans to households.

⁴ This segment was affected also by some loans on preferential terms, with lower-than-market rates.

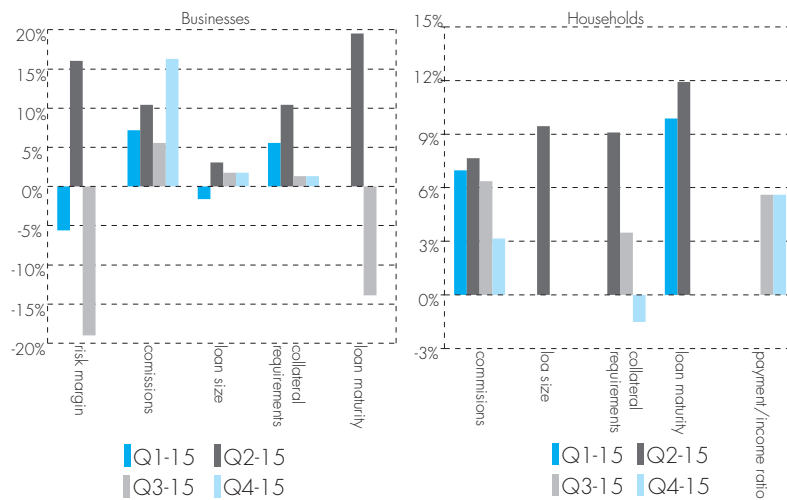
In the enterprises segment, the rates on loans for equipment purchase saw a more significant reduction. Interest rates on euro deposits recorded also low historical levels, recording 0.26% on average, in the period October - November. The good situation of liquidity in the system and the low level of foreign currency lending to the economy remain the factors contributing to the fall of interest rates on foreign currency.



However, their drop to close to zero levels reduces the space for further reduction.

In addition to the fall in average interest rates on loans, non-price credit conditions remain on the easing side. Banks report eased credit conditions from a quarter earlier for enterprises and eased credit standards for households. The easing of conditions for enterprises was more significant in the segment of small and medium-sized enterprises. In addition to the average margin, the reduction of commissions and increase of credit size have contributed on the easing side. A further easing of standards for households has been present both for house purchase and consumer loans. Credit conditions for households were also affected by the narrowing of the average margin, easing of the income/instalment ratio and reduction of commissions, whereas collateral requirements were on the tightening side, compared to the previous year.

Chart 7. Non-price standards applied to businesses and households, in percentage points

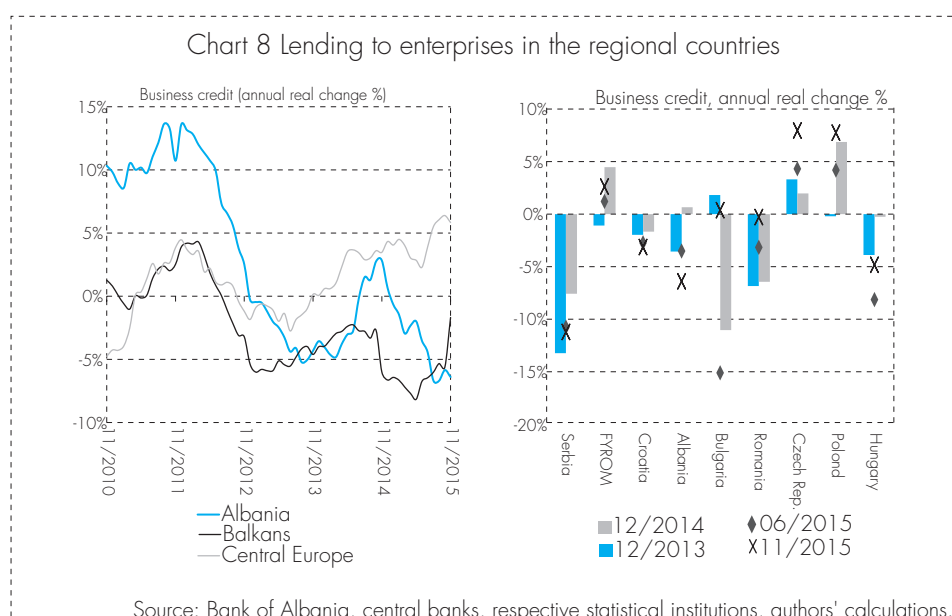


Source: Bank of Albania

4. TRENDS IN LENDING IN THE COUNTRIES OF THE REGION

Credit to the private sector in CESEE countries appears as improved⁵ during October - November 2015. However, it continues to be segmented in regional terms, and in most countries, lending to the economy remains sluggish. Credit to the private sector continues to record higher growth rate in the Central European region, driven by the growth of loans to both enterprises and households. In the last two months, signs of credit recovery were noted in the Balkans region, slowing down the annual rate of decline. Regardless of a slight improvement, credit to the private sector in some countries remains in negative territory.

In some CESEE countries, lending appears as improved from the previous quarters. Credit outstanding for the private sector averaged⁶ around 3.5% in annual terms in October - November. This growth reflected, among others, the growth in demand in the last six months, as confirmed also by the lending survey data in the countries of the region.⁷ On the supply side, improvements were noted in the form of the reduction of the non-performing loans ratio. Access to funds for financing is reported to have improved, albeit at a slower pace, slightly eased due to the good situation in deposits.



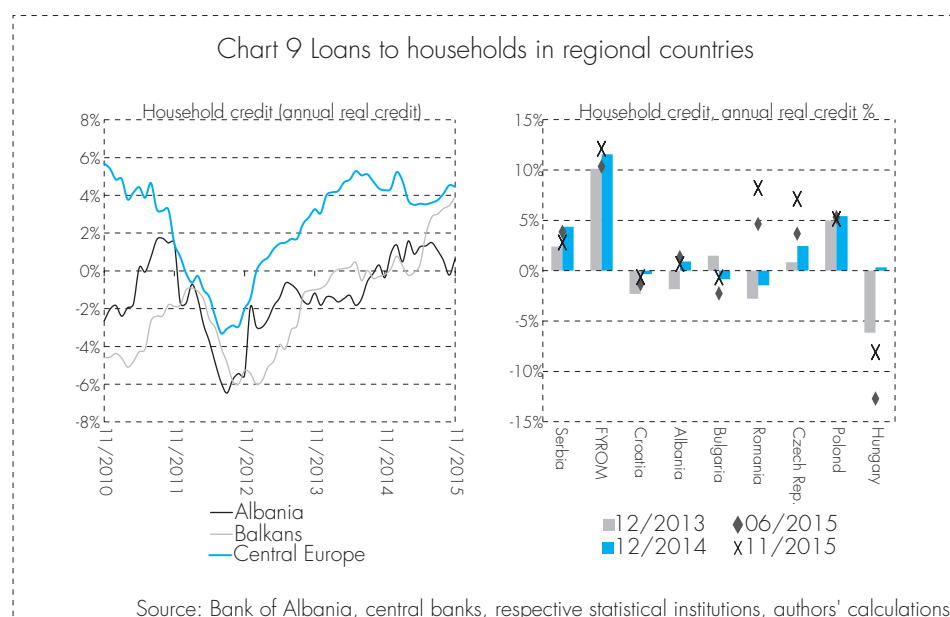
5 Lending in the CESEE countries and Albania is analysed in real terms, which is excluding the effects from the exchange rate and inflation.

6 The calculation of the average performance of loans in the countries of the region takes into account the weighting of the total to the share of loans by each country.

7 For more details see: http://www.eib.org/attachments/efs/economics_cesee_bls_2015_h2_en.pdf

The high level of non-performing loans, coupled with the regulatory framework and capital requirements remain the main restrictive elements on the liabilities side. In the meantime, foreign banking groups have continued to reduce their exposure in this region, though unevenly and selectively within smaller regional divisions.

The portfolio of loans to enterprises in the wider CESEE region expanded by around 2.6% on average in October - November, improving by 1.6 percentage points against the previous quarter. Loans to enterprises remain segmented in geographical terms, mainly concentrated in Central Europe. Lending in this region is supported by the steady expansion of loans to enterprises in Poland and the Czech Republic, which account for the largest share in credit outstanding for the CESEE region. In the last two months, rates on loans to enterprises in the Balkan region have improved, while in most of these countries such loans still have negative annual rates. An exception to the region is Macedonia, which records low but steady growth rates. Credit conditions on the supply side, as reported in the lending survey for foreign banking groups in the region, have not changed significantly. They eased to a low extent for small and medium-sized enterprises, and remained unchanged for larger businesses. In the meantime, borrowing demand is reported as upward, both for investment and liquidity purposes.



Loans to households leads the expansion of lending in the CESEE. The expansion of lending to households appears more uniform in terms of geography and stable in terms of time. The portfolio of loans to households in this region recorded 4.2% annual growth on average, in October - November, improving further from the previous quarter. Loans to households recorded growth in most countries of the region, led by the Central European region, wherein Hungary has slowed down the downward rates significantly. In most Balkan countries, credit outstanding for households is expanding at steady rates.

The positive performance of loans to households reflects demand growth, supported, in turn, by the enhanced consumer confidence. At the same time, reports for further easing of credit conditions on the supply side, especially for the consumer credit, have contributed to the further expansion of loans to households.