

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

TRENDS IN LENDING

2016 Q1

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APRIL 2016

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

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This analysis presents a detailed overview of the most recent trends in lending in Albania. To this end, the analysis studies the monetary data on the credit portfolio, as well as lending standards. In addition, the analysis includes an overview of most recent trends in lending 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. 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 18 April 2016, including information for monetary and financial data for February 2016 and data from the bank lending survey for the first quarter of 2016.

SUMMARY

Credit to the private sector recorded 2.4% annual growth in the first two months of 2016. The improvement of the growth rates in loans to enterprises has offset the slowdown in loans to households. By currency, lending in lek has continued to grow at a steady rate, whereas lending in foreign currencies has confirmed the positive rates signalled at the end of last year.

Growth rate in loans to enterprises improved slightly in the first two months of 2016. However, the annual growth rates of this portfolio remain moderated at 1.6%, hence determining the weakness of credit to the private sector. The demand for financing remains sluggish, reflecting the risk aversion of enterprises and the presence of unused production capacities. On the supply side, while credit standards have eased from the end of 2015, they have remained tight for certain segments.

Loans to households have grown slower than at the end of 2015. However, this portfolio has given the main contribution to the expansion of credit to the private sector. The 4.2% annual expansion of this portfolio reflects mainly the demand for consumer loans, while mortgage loans are largely unchanged from the end of the previous year. Although they continued to ease conditions for households, banks estimate that households' demand has slowed down in the first quarter of the year.

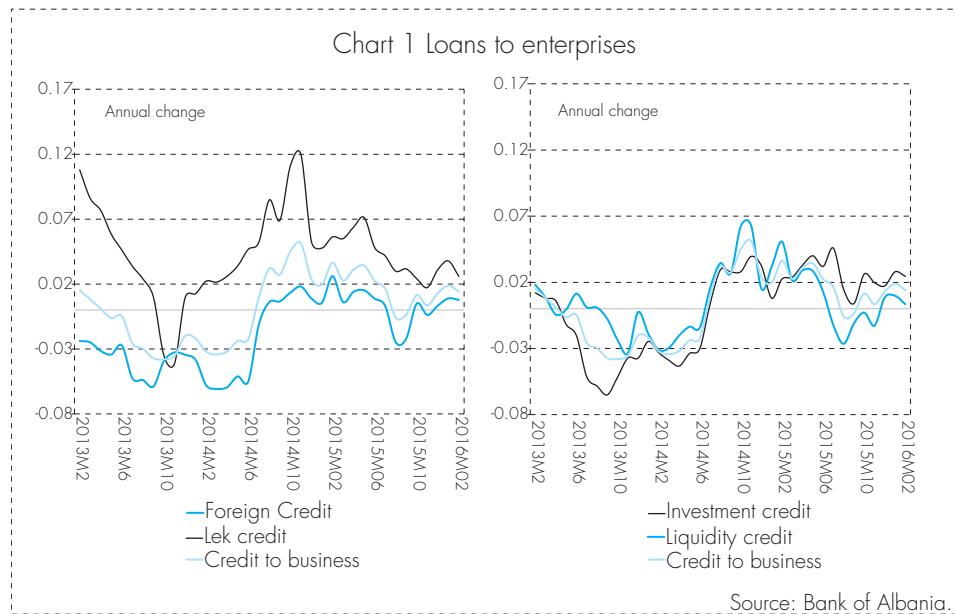
Interest rates on credit, in lek, in January-February were slightly higher than in the last quarter of 2015. They have been volatile and are still affected by particular loans and banks, and the volume of new loans remains low. In a longer term comparison, they keep following a downward trend, although not as fast as that of interest rates on deposits. By client, the interest rate reduction is more visible for households.

Credit to the private sector across the CESEE countries appears improved during the first two months of 2016. This improvement is positively affected by the growth of lending in the Balkan countries, while for the Central European countries the lending portfolio has been growing steadily. The growth of credit to the private sector is supported by the positive and stable trend of loans to households in most of the economies of the region.

1. LOANS TO ENTERPRISES¹

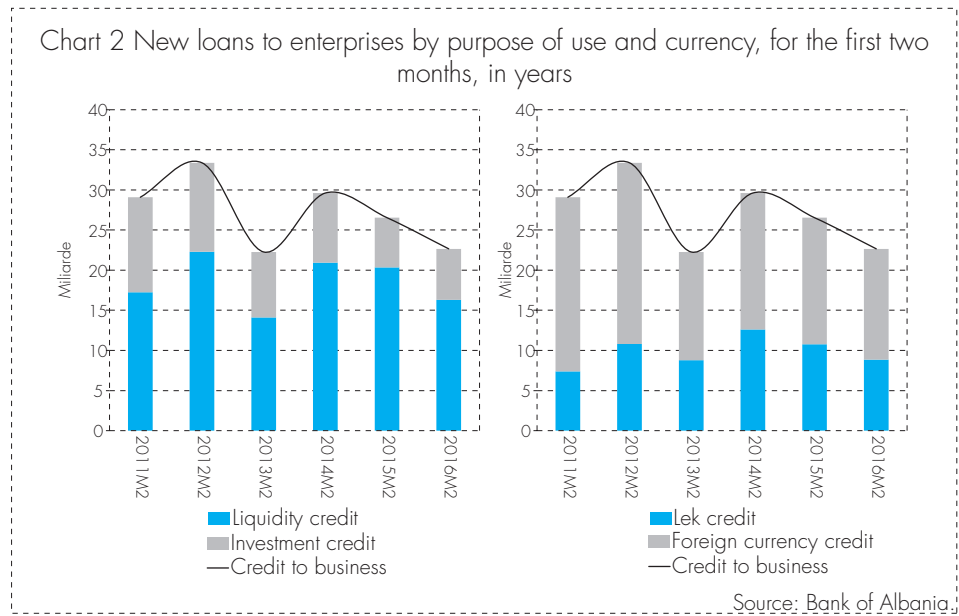
Loans to enterprises showed low growth rates in the first two month of 2016, thus determining the sluggish trend of the portfolio of credit to the private sector. The growth rate averaged 1.6%, a slight improvement from the end of 2015. Annual growth of loans to enterprises is supported by the loans for investments, which are also accompanied with an improvement on loans in foreign currency to enterprises. In the meantime, loans in lek to enterprises have improved slightly. Although the lending standards for enterprises have been easing up, they are still tight and lending demand is still low. In the next quarter, the banks expect to continue easing the conditions for SMEs, though the demand is expected to be low.

Annual growth of loans to enterprises averaged 1.6% in the first two months of 2016. The portfolio of loans to enterprises shrank by ALL 1 billion compared with the end of December, reflecting the shrinking of the loans to enterprises for liquidity purposes. The shrinking of liquidity loans, since they are short-term loans, reflects the seasonal weakness of the year start. Compared with a year ago, liquidity loans averaged 0.7% higher. Meanwhile, lending in lek, being more related with loans to enterprises for liquidity , showed volatility. The annual rate of lek loans to enterprises grew in January only to fall in February, showing an average rate of 3.2% for these two months compared with 2.4% in the fourth quarter of 2015.

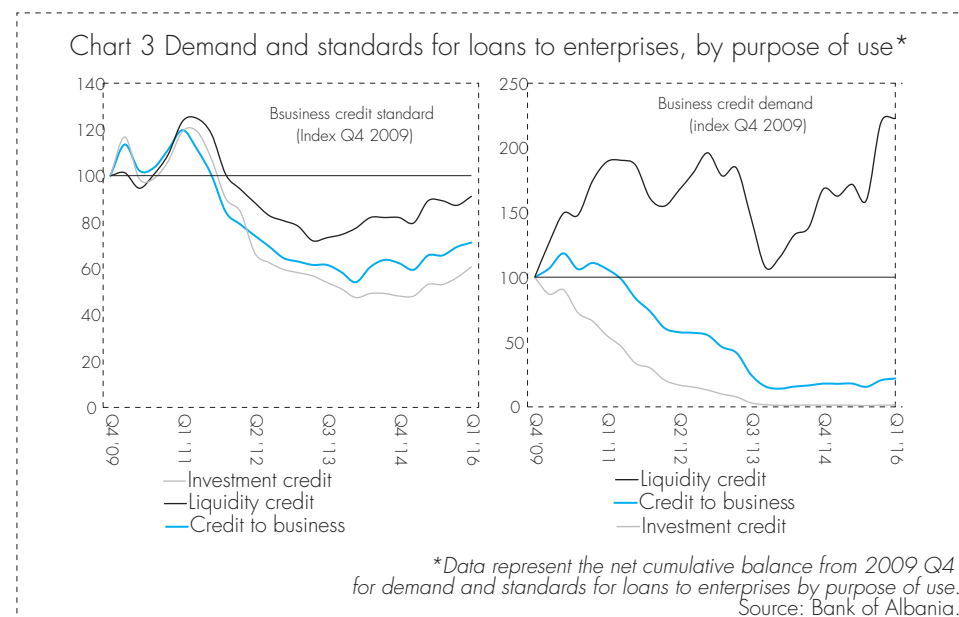


¹ The data on loans to enterprises exclude the effect of written off loans from the balance sheet. In the first two months of 2016, written off loans to enterprises amounted to around ALL 1.3 billion.

The growth of the portfolio of loans to enterprises in January-February was driven by the growth of investment financing. The average growth of this portfolio stood at 2.6%, similar to the average of 2015. The positive trend of this segment of credit since the second half of 2015 is also accompanied with a growth of foreign currency loans to enterprises. During the first two months of the year, loans in foreign currency grew by 0.8%, a slight improvement from the growth rate of the fourth quarter of 2015.



In parallel with these developments, new credit does not signal a continuous revival of loans to enterprises (or a turning point in the portfolio's trend). For the first two months of 2016, they are 14.6% lower than in the same period a year earlier, confirming a sluggish demand for financing from enterprises, especially the larger enterprises that dominate the portfolio. In comparison with the previous year, the reduction of new lending reflected the shrinking of lending for liquidity. Although banks confirmed the easing of lending standards



for enterprises, in accordance with their expectations demand from enterprises remains volatile and weak. This trend is conditioned from the lack of full utilisation of production capacities and the enterprises' reluctance to undertake risk. At the same time, alternative sources of financing outside the banking sector have continued to constitute an important factor in the low demand for financing in the banks.

For the next quarter, banks expect to ease the conditions for financing only for the small and medium-sized enterprises. This is the segment they expect to expand, because of both the small loan size they are exposed to and the balancing of the lending portfolio. Most of these enterprises are involved in the agricultural sector, which is one of the sectors of the economy that lately has shown a growth in the demand for banks' financing. Banks acknowledge that they feel nearer to the small and medium-sized enterprises, offering them products that fit the needs of this group. Thus, they expect demand from the SME sector to improve in the next quarter. Meanwhile, the banks' good liquidity situation, the interbank competition and the monetary policy have been the main underlying factors for the easing of lending standards.

Lending standards for the larger enterprises are expected to tighten up in the second quarter of the year. The main factors that contribute to the tightening of lending standards remain the unfavorable macro-economic situation and the high risk of lending, related to the level of non-performing loans, as well as sector-specific problems. In the second quarter of 2016, banks expect demand for loans by the larger enterprises to fall. Equally, demand for loans for liquidity and investment purposes is also expected to fall.

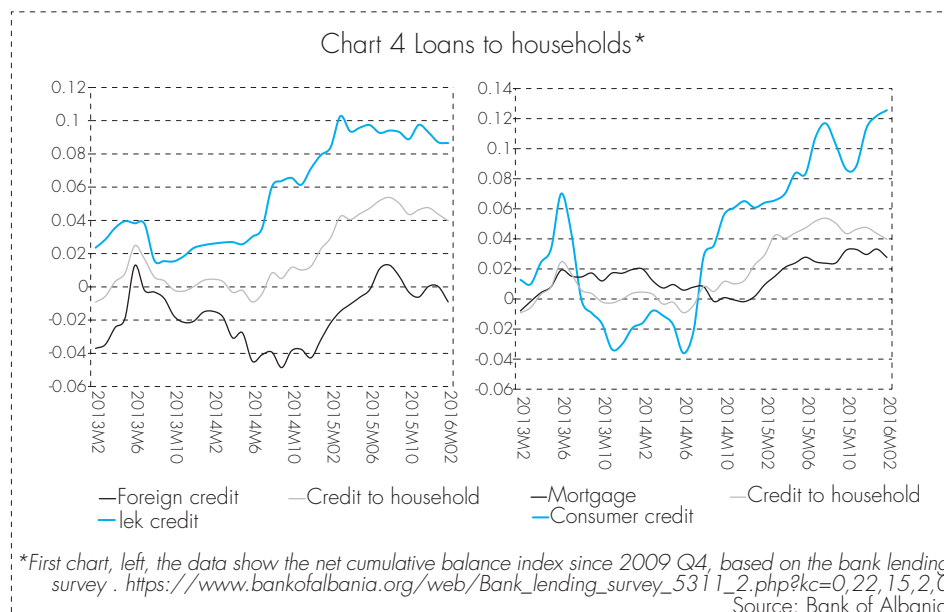
2. LOANS TO HOUSEHOLDS²

The positive developments in the credit to the private sector are supported steadily by the good performance of the portfolio of loans to households. In the first quarter of 2016, this portfolio showed 4.2% annual growth, slowing down from the end of 2015. Consumer loans, despite the small relevance, were the main contributor to the growth of loans to households. Meanwhile, mortgage loans remained unchanged from the end of 2015. The good performance of the portfolio of loans to households is driven also by the easing for several years of lending standards in this segment, which has continued in the first quarter of 2016. However, banks state that the demand from this segment has been trending downwards, although they expect it to grow in the next quarter.

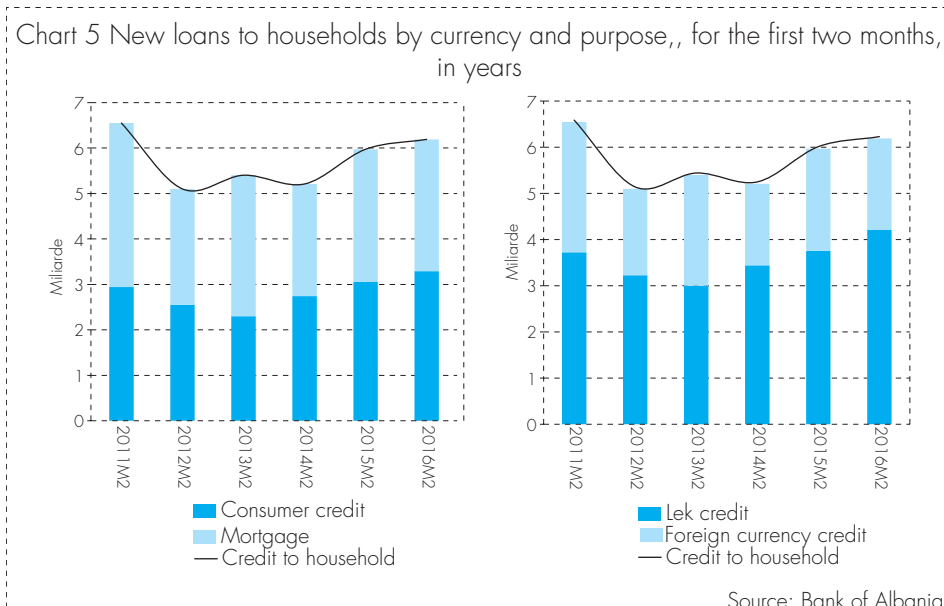
The growth rate of loans to households in the first two months of the year slowed down, averagely to 4.2%, from 4.6% in 2015 Q4. This slowdown, mostly, represents the statistical effect of this portfolio increase at the beginning of 2015, while lending this segment increased at an even pace over 2015 H2. In the two first months of 2016, this trend is mainly based on consumer loans, which recorded an annual average growth of 12.4%, from 9.6% in 2015 Q4. Despite the accelerated increase of this portfolio, its low share of 26% has not counterbalanced the shrinking of credit portfolio for activity purposes³. Meanwhile, the annual growth of credit portfolio for house purchase stood at 3.1%, similar to the annual growth in 2015 Q4.

² Loans to households exclude the effect of written off loans from balance sheet. The written off loans for households for the first two months of 2016 were around ALL 0.2 billion .

³ This item during 2015 was affected by banks' reports' clarifications for this category, which has reclassified part of it as loans to enterprises.

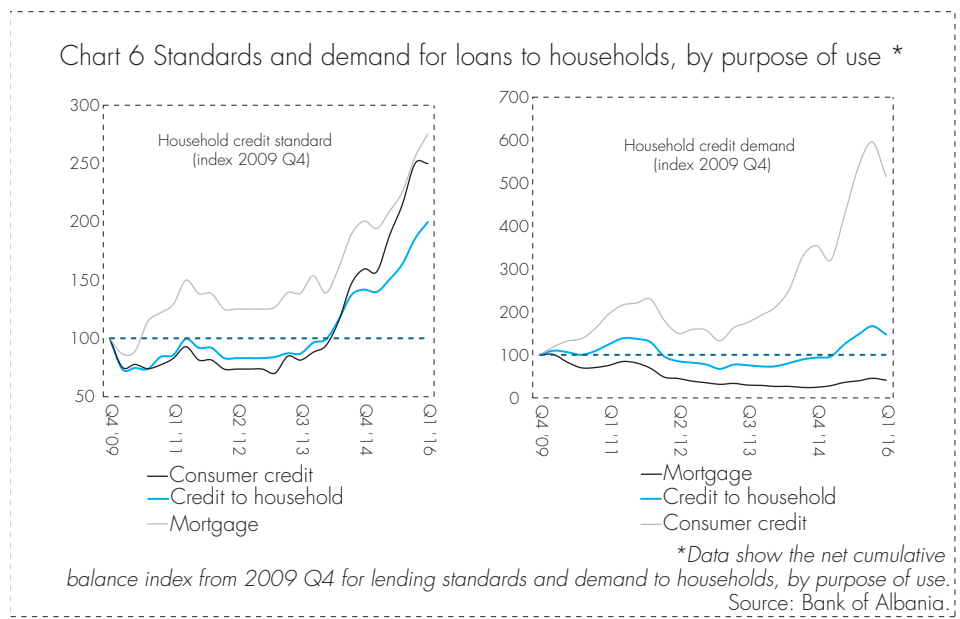


Lending to households by currency shows that lending in lek supported the positive trend of this portfolio. Loans in lek to households averagely rose 8.7%, providing a complete contribution to the annual growth of the portfolio, and counterbalanced the slight reduction in foreign-currency denominated loans. Since 2015, many banks' policies have been oriented toward this segment of the lending by presenting products, for both consumer and mortgage loans in lek, with preferential conditions and undifferentiated from loans in euro. The marketing of these products and the greater approach of households with the banks as wage-receivers has helped in the expansion of lending in lek. In addition to these factors, households have become more aware of the exchange rate risk arising from lending in foreign currency. In February 2016, credit in lek to total credit to households was 53.3%, or 2.2 percentage points higher from the previous year. Developments in the lending disbursed to households show that this lending in the first two months of 2016 is 3.6% higher than a year before. This growth reflects the growth of consumer loans, which has compensated for the reduction in new mortgage loans.



The eased lending standards applied from commercial banks from two years has sustained the positive trend of loans to. According to the lending survey results, the good performance of banks' liquidity, competition in the banking system and the easing of monetary conditions in Albania, drove to the easing of lending standards to households. Meanwhile, households' financial situation and non-performing loans are the main reasons for banks' conservative policies to households⁴.

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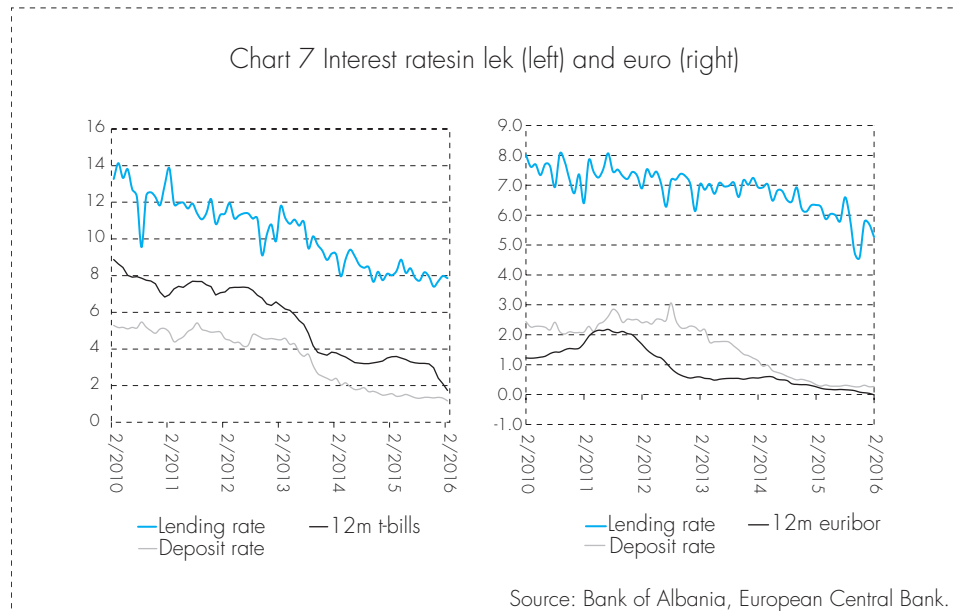
Despite the easing of lending standards, banks assess that credit demand of households fell has fallen in the first quarter of year, as a consequence of the deteriorated consumer confidence and the developments in the real estate market. Banks expect a further easing of lending standards and an increase of the demand in the households' segment.

⁴ Referred to the Bank lending survey, https://www.bankofalbania.org/web/Bank_lending_survey_5311_2.php?kc=0,22,15,2,0

3. CREDIT PRICE AND OTHER STANDARDS

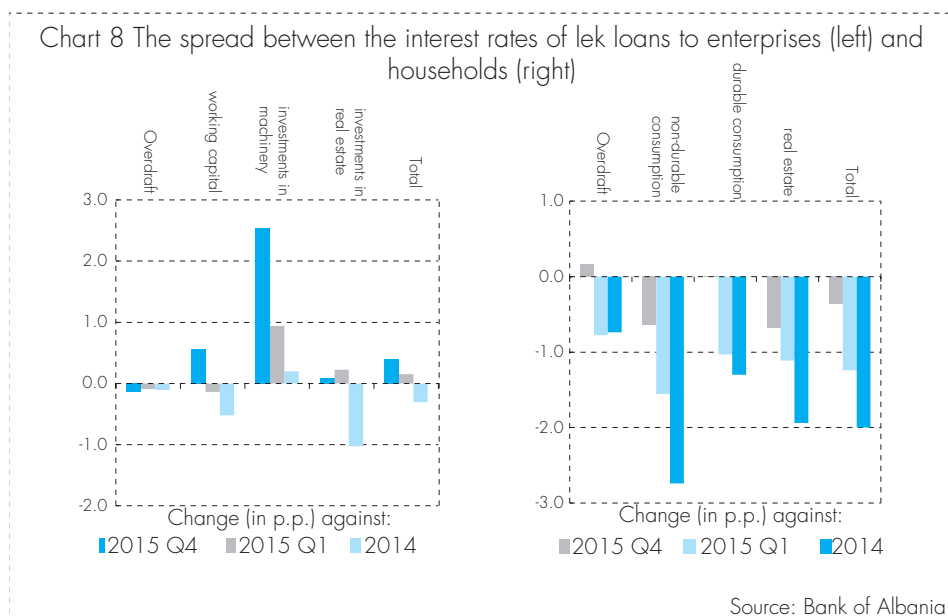
Interest rates on loans were slightly higher in January-February 2016, from 2015 Q4.. They have shown volatility and continue to be affected from particular loans, while the volumes of new lending remain low. In longer-term perspective, they remain in a downward trend, although not as accelerated as deposits' interest rates. According to the client, the reduction of interest rates is more visible in the households. Intermediation margins increased in the first two months, but remain close to the last years' averages. Non-price standards have been mostly on the easing side to both, households and enterprises.

Interest rates on lek loans increased in January and February, averaging 7.91%, from the 7.68% in 2015 Q4. This increase was mainly attributable to the high rates on some loans to enterprises granted in the first two months of 2016. Interest rates on lek loans, despite their short-term volatility, overall, pursued a downward trajectory, in accordance with the accommodative monetary policy implemented by the Bank of Albania. Thus, the average price of lek-denominated loan, in the first two months of 2016, was around 0.23 percentage points lower than a year earlier, and 0.66 percentage points lower than two years ago.



The accommodative monetary policy was transmitted more quickly and completely on the deposits' interest rates, affected also by the ample liquidity in economy. In the first two months of year, the average interest rate fell further, at 1.25%. Intermediation margin increased at 6.7%, compared to 2015 Q4,, although remaining at similar levels to those observed in the last three years.

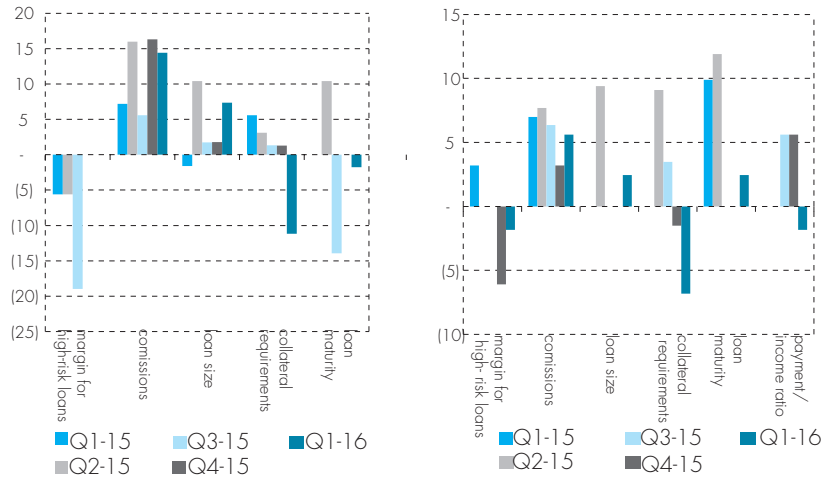
Interest rates on lek loans to households and enterprises were different. Interest rates on loans to enterprises increased in the first quarter, mostly attributable to higher rates on investment loans. Excluding some loans with atypical rates granted in this period, interest rates on loans to enterprises remained comparable to those applied in 2015 Q4. On the other hand, households benefited from the continuous reduction in the credit price for all its types. Interest rates on lek-denominated loans to households have come close to the interest rates of loans to enterprises, which historically have been lower. In the first two months of the year, the interest rates on overdraft slightly increased compared to 2015 Q4.



The interest rates on euro loans performed similarly to those in lek in the beginning of the year. The average interest rate fell to households, driven by the reduction of interest rates on mortgage loans and long-term consumption financing. Meanwhile, the average interest rate increased to enterprises compared to the end of 2015, by reflecting particularly low levels of the interest rates in 2015 Q4. Excluding this effect, the interest rates on euro loans to enterprises have also been decreasing. The price of euro loan, to both households and enterprises, has fallen, compared to a year ago. On the other hand, deposits' interest dropped to historical low levels, averaging 0.27% in January and February. Thus, intermediation margin in euro results higher compared to 2015 Q4, at 5.22 percentage points, and around 0.75 percentage points lower from the previous year.

In the first quarter of year, banks reported an overall easing of lending standards to both, enterprises and households. Among the non-interest standards applied to loans to enterprises, the reduction of commissions and the increase of loan size, have affected the easing of standards for enterprises. Meanwhile, the collateral requirements and loan maturity affected the tightening the lending standards to enterprises.

Chart 9 Non-interest credit standards to enterprises (left) and households (right), in percentage point*



*Note: positive/negative balances imply easing/tightening of standards.
Source: Bank of Albania.

The banks policy for easing the loaning standards has been going on for several quarters. Along with the reduction of interest rates, the banks report reduction of commissions, increased of loan size, extension of maturity to households. Meanwhile, the increase of margin on risk-rated loans, the increase of collateral requirements and the reduction of instalment/income ratio affected the tightening of lending standards to households.

4. TRENDS IN LENDING IN THE COUNTRIES OF THE REGION

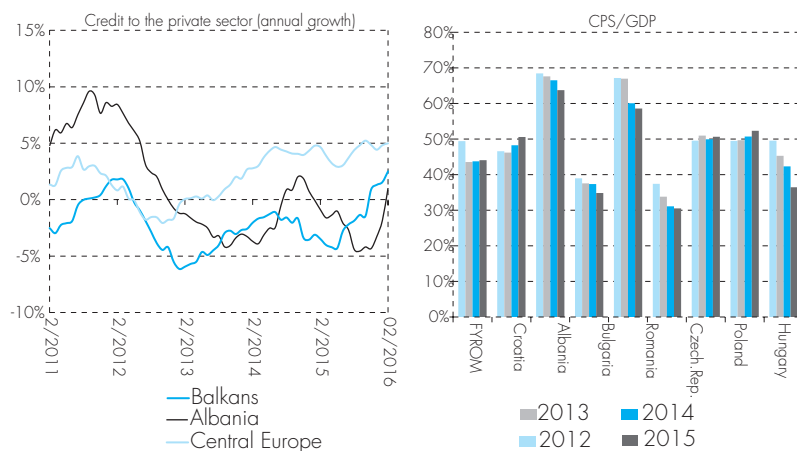
Credit to the private sector⁵ in CESEE countries improved since 2015 Q4. This behaviour is more visible in the Balkan region, where annual rates of credit to the private sector moved to positive territory. Meanwhile, the credit in the Central European region continued to show a stable growth, recording higher rates than the average of other countries. The expansion of credit to the private sector continues to be driven mainly by loans to households.

Credit to the private sector, in the first two months of the year, improved compared to the previous quarter. This growth continues to be relatively segmented in geographical terms. The Central Europe region continues to lead averagely 5%, in annual terms. The annual growth rates of lending in Balkan, averaging 2%, show a tendency to approach to the rates of Central European countries in the last months. In the lending survey in CESEE countries⁶, banks reported for five successive times an increase in loan demand from economic agents. Last survey in November also confirmed the banks' expectations for a further increase of both, the demand and supply, for the next six months. These expectations appear to be materialized in the first months of 2016. In this period, credit to private sector continued to increase at steady pace in the Central European region, except of Hungary. After a turning point in November, credit to private sector in Balkans entered into positive territory, thus recording growth rates in the first two month of 2016. The growth in this region is mainly concentrated in Romania and Macedonia. Meanwhile, the reduction of financial leverage ratio to GDP was deepened in some Balkan countries. In Central Europe, Hungary has the highest reduction of this ratio, while Poland and the Czech Republic are identified as countries with tendencies to increase the financial leverage.

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

⁶ For more details see:
http://www.eib.org/attachments/efs/economics_cesee_bls_2015_h2_en.pdf

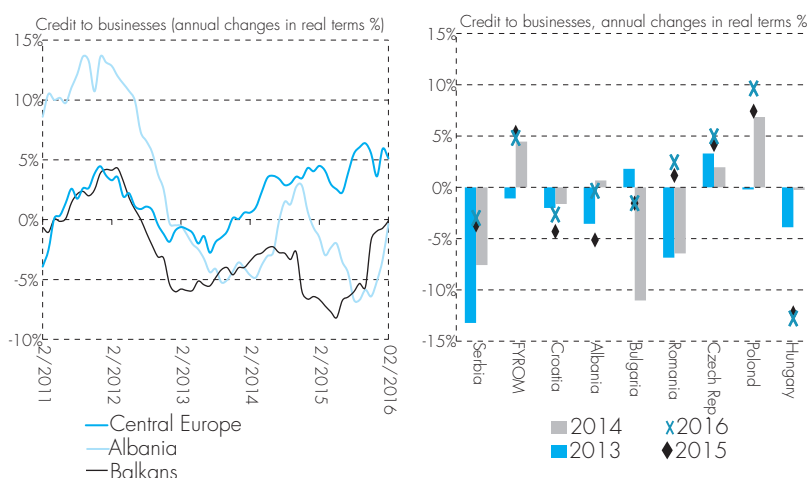
Chart 10 Credit to private sector in the regional countries: annual trend and ratio to GDP



Source: Bank of Albania, IFM and authors' calculation.

The lending trend according to the economic agents shows improved rates of credit growth to enterprises, in the first two months of the year, averaging 3%. The expansion of this portfolio is based mainly by the Central Europe's countries, like Poland and the Czech Republic. In case of Hungary, the credit portfolio to both, enterprises and to households continues to shrink. The enlargement of the credit portfolio to enterprises is also conditioned from its sluggish trend in the Balkan region, where most of these countries continue to remain in negative territory. However, in the last lending survey in November in the CESEE countries, all the factors that affect the demand are reported as positive. The needs for working capital, investments and debt restructuring are perceived to have a positive effect in the next six months, affecting the moderation of the contraction rates of credit portfolio to enterprises in the last two months of the previous year and in the first two months of 2016.

Chart 11 Loans to enterprises in the countries of the region



Source: Bank of Albania, central banks, statistical institutions of the respective countries and authors' calculations.

Credit portfolio to households continued to record higher increasing rates, leading the growth of the credit to the private sector in the CESEE region. Credit to households expanded around 4% in annual average terms, in the first two months of 2016. At the same time, it maintained the geographical homogeneity in the CESEE regional countries. Differently from previous periods where the Central Europe's countries recorded higher growth rates in this portfolio, credit to households increased sharply in the Balkan countries as well. The factors that affect the demand, for both, mortgage and consumer loans, provided a positive contribution, according to the last survey in the regional countries. Such factors as consumer confidence or the real estate market are perceived to have a positive trend in the next six months, materialising this effect in the portfolio's growth rate of the last months.

Chart 12 Loans to households in the countries of the region.

