

Bank of Albania

TRENDS IN LENDING

ERJONA SULLJOTI, SOFIKA NOTE AND OLTA MANJANI
MONETARY POLICY DEPARTMENT, BANK OF ALBANIA

OCTOBER 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

<i>SUMMARY</i>	5
<i>1. LOANS TO ENTERPRISES</i>	6
<i>2. LOANS TO HOUSEHOLDS</i>	8
<i>3. CREDIT PRICE AND OTHER LENDING STANDARDS</i>	10
<i>4. LENDING TRENDS IN THE COUNTRIES OF THE REGION</i>	14

This analysis aims to present an overview of the most recent trends in lending in Albania. To fulfil this goal it analyses 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 the economy;
- Qualitative data from the bank lending survey;
- Statistics on credit price, for both the Albanian lek and the euro;
- Monetary data for the credit volume for the countries of the region. 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 12 October 2016, including information for monetary and financial data for August 2016, and data from the bank lending survey for the third quarter of 2016.

SUMMARY

The annual growth of loans to the private sector was 3% in July-August, close to the average of the second quarter. However, the portfolio reduction compared with June shows that credit recovery remains fragile. In parallel, the performance of credit to households shows a steady improvement. Overall, the growth rate of credit to the private sector remains close to forecasts, driven by the rapid growth of lending in lek. Lending in foreign currency, taking in consideration the appreciation of lek against the main currencies, shows a positive, but subdued, trend.

Loans to enterprises marked an average growth rate of 2.4%, in July-August, similar to the rate marked in the second quarter. It was driven by lending for liquidity, whereas lending for investments slowed down significantly. The performance of credit to enterprises was determined by a segmented demand for financing by enterprises and tight financing standards by the banks. The banks tightened the lending standards in the third quarter, by strengthening collateral requirements.

Loans to households marked higher annual growth in July-August than in the second quarter, marking 4.6% in August. The good performance of credit to households has reflected a rapid expansion of consumer loans and a steady growth of mortgage loans. The positive developments in both portfolios are supported by further easing lending standards and higher demand for credit. The expansion of credit to households is entirely supported by loans in the domestic currency, thus offsetting the decline of outstanding foreign currency loans.

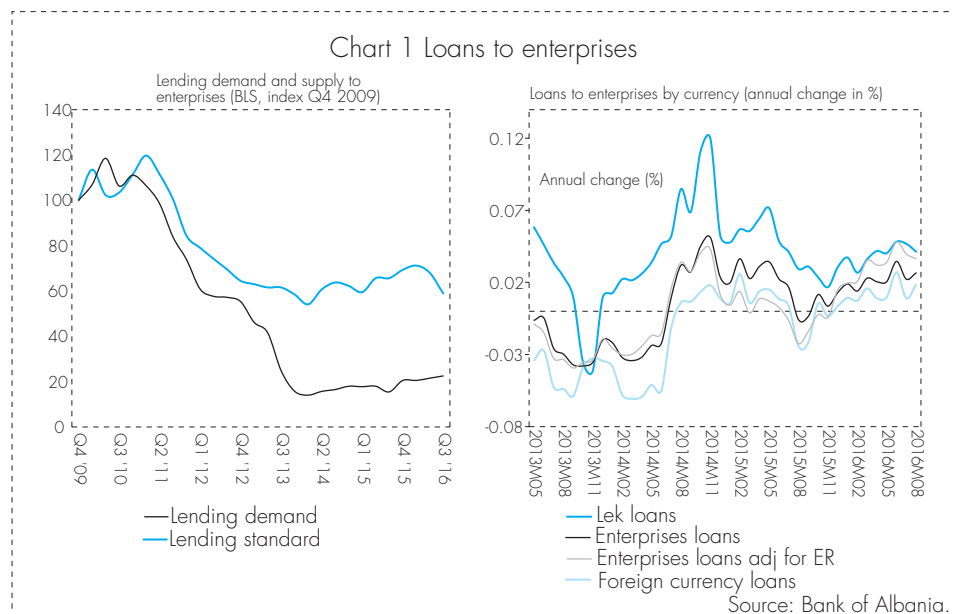
Interest rates on new loans in July and August remained low. Interest rates decreased for lek loans to enterprises and slightly decreased for households. Meanwhile, interest rates on euro loans were stable for enterprises and decreased for households. Besides lower interest rates, banks have offered better non-price conditions, excluding collateral requirements for enterprises, which have tightened.

In the countries of the region, during July and August, credit to the private sector grew at more subdued rates compared with the second quarter. In annual average terms, the credit stock increased by 4% in the entire region. Bank lending surveys in the CESEE countries show that the growth of lending is driven by the higher credit demand from the economic agents, both enterprises and households. On the other hand, the annual growth of credit is affected by tight lending standards. The Central European countries continue to mark steady growth rates, thus carrying the main share of credit expansion in the CESEE region. Credit developments in the Balkan countries show a slowing down of the lending rates.

1. LOANS TO ENTERPRISES¹

Loans to enterprises grew at similar annual rates with those in the second quarter, showing a slow recovery of this segment. In particular, the monthly contraction of this portfolio shows that the recovery remains fragile, conditioned by a segmented demand as well as by a rigid supply by banks for increasing lending. Lending standards tightened in the third quarter, confirming a prudent approach by banks toward lending to enterprises. The banks reflected the increased risk of credit to enterprises mostly by tightening the collateral requirements, whereas interest rates maintained generally a downward trend. In parallel, banks note a higher demand by enterprises than in the previous quarter.

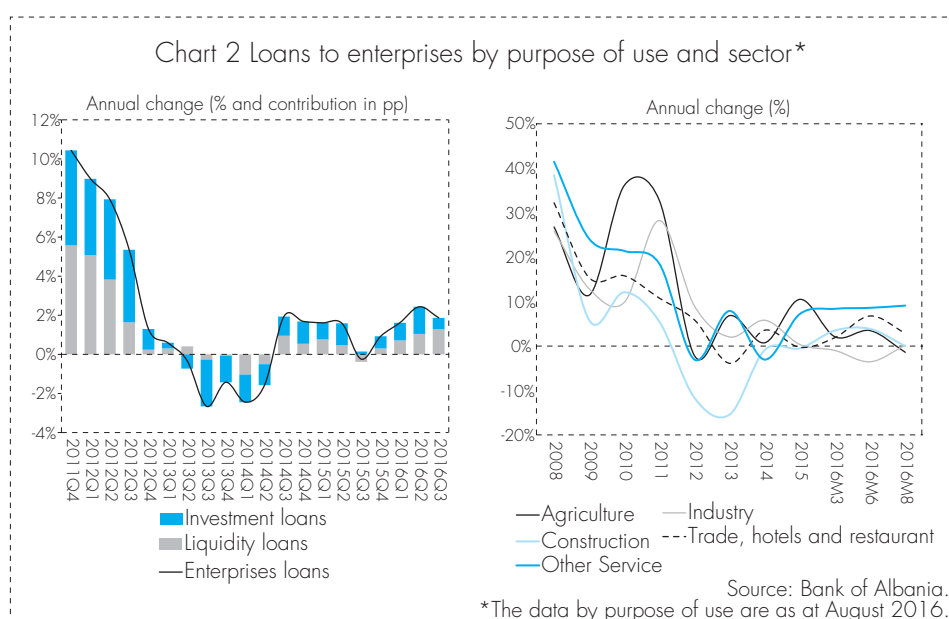
Although loans to enterprises marked the same average annual growth as in the second quarter, this segment showed a sluggish performance. The annual growth of this portfolio by 2.7% in August has slowed down compared with 3.5% registered in June². Moreover, monthly developments show that loans to enterprises in these two months shrunk by ALL 4.2 billion, reversing the positive trend observed in the second quarter. This contraction was concentrated on credit in foreign currency, for both liquidity and investment purposes. The slowdown during these two summer months is estimated to have been affected not only by a return of the weak seasonal behaviour of credit in these months, but also by banks' tightened standards for lending.



¹ The data of credit to enterprises exclude the effect of loans re-classified in the off balance sheet items.
² The appreciating trend of the lek exchange rate against major currencies has played an important role in these annual trends. Taking into account this effect, the annual growth of the portfolio of loans to enterprises would be 3.6%, slowing down from 4.8% registered in June.

Moreover, new credit disbursed in July and August also decreased. New credit, excluding overdraft, is 1% lower than in the same period in the previous year. This indicator for the first two quarters of the year was significantly more positive, at 5.5% and 4.4%, respectively.

The slowdown of loans to enterprises was observed in the decreased growth of credit to enterprises in both lek and in foreign currency, which registered 4.1% and 1.8% against 4.8% and 2.7%, respectively, at the end of the second quarter. By purpose of use, the slowdown is driven by the decrease of the growth of credit for investments at 1.6%, or 2.3 percentage points lower than in June. Despite the monthly contraction of the portfolio of credit for liquidity, its annual growth rate accelerated at 3.7%, or 0.7 percentage points higher than in June.

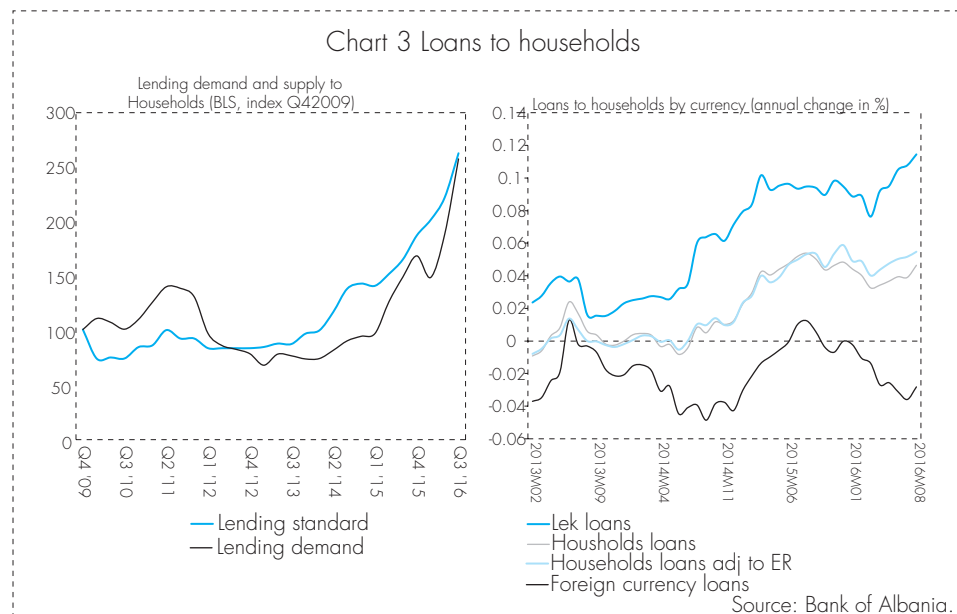


In the third quarter, loans to enterprises improved in the sectors of "Industry" and "Other services". The annual growth of these portfolios in August improved 0.2% and 9.1%, respectively. In July-August, the outstanding loans for the industry sector was ALL 0.8 billion higher than in June, thus reversing the shrinking trend that characterized this portfolio in the first half of 2016. Lending to construction enterprises and those operating in trade, hotels and restaurants, did not keep up the high rates registered in the second quarter. The annual growth rate for each sector slowed down at 0% and 2.9%, respectively, from 3.8% and 6.7% registered in June. The economic activity recovery in the construction sector remains unstable and the expansion of lending in this sector is followed with added prudence by banks. Monthly developments in these two summer months show a decrease of lending for both construction and trade, hotels and restaurants, by ALL 0.8 and ALL 4 billion, respectively. The latter is particularly affected by the contraction of lending to the trade sector.

2. LOANS TO HOUSEHOLDS³

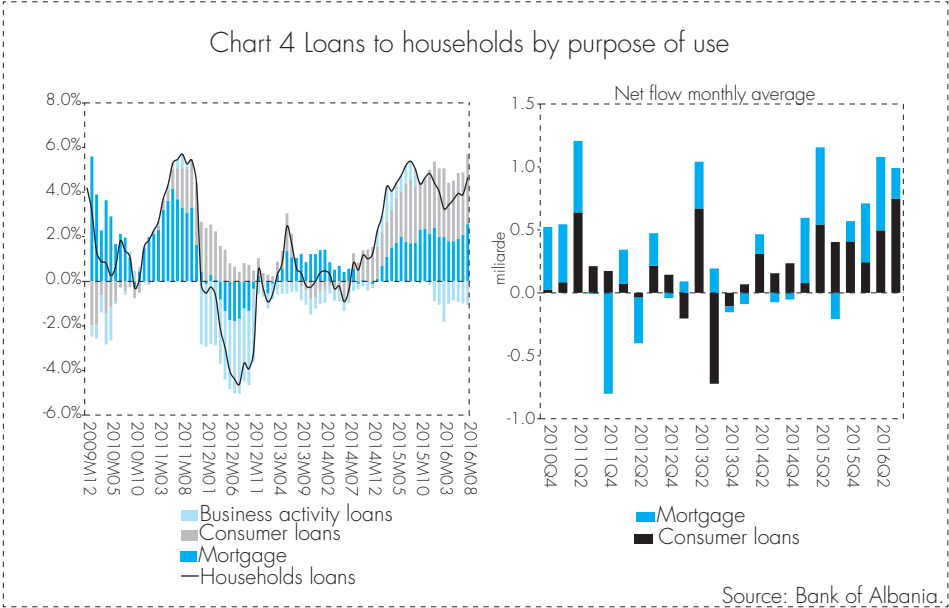
In the third quarter, loans to households grew at higher rates than in the first half of the year, reflecting the growth of demand and the further easing of standards. This portfolio expanded driven mostly by consumer loans, which accelerated growth rates at 12.3%. Meanwhile, mortgage loans marked slower improvements of the annual growth rates, registering 3.7% in August. The bank lending survey in the third quarter shows that banks have continued to ease lending standards, which are also accompanied by the growth of credit demand by households.

Loans to households grew by around ALL 1.9 billion during July and August, supported by the positive performance of credit in lek. The growth of ALL 2 billion of credit in the domestic currency offset the small contraction of loans to households in foreign currency. In annual terms, loans credit to households improved the growth rates again at 4.6% in August. The portfolio of credit in lek registered the highest annual rate in more than a year, at 11.4%. Meanwhile, foreign currency loans to households shrunk by 2.8% compared with the previous year. In any case, the annual trend of the portfolio of credit in foreign currency was significantly affected by the appreciation of lek against foreign currencies. Adjusted for this effect, the annual contraction of the portfolio of foreign currency loans to households would be around 1%. The adjusted growth of credit to households for the appreciation of lek against the main currencies is 5.5% in August, amongst the highest rates since August 2009.



³ The data for credit to households exclude the effect of loans re-classified in the voices outside the balance sheets.

Banks loans have mostly supported the needs of households for financing consumption. The annual growth of consumer loans peaked at 12.3% in August. Positive developments in this portfolio are related with the further easing of standards in this portfolio⁴ as well as increased demand by households for bank financing. The positive trend of consumption coupled with the improvement of consumer confidence, and familiarization/perception by households with the historically low rates of bank loans seems to have promoted this demand. In parallel, this segment of credit has benefited also by banks' policies oriented toward growth of lending in this segment. These policies have brought the easing of the collateral requirements, increase of the loan size as well as the increase of the ratio of instalments against income.



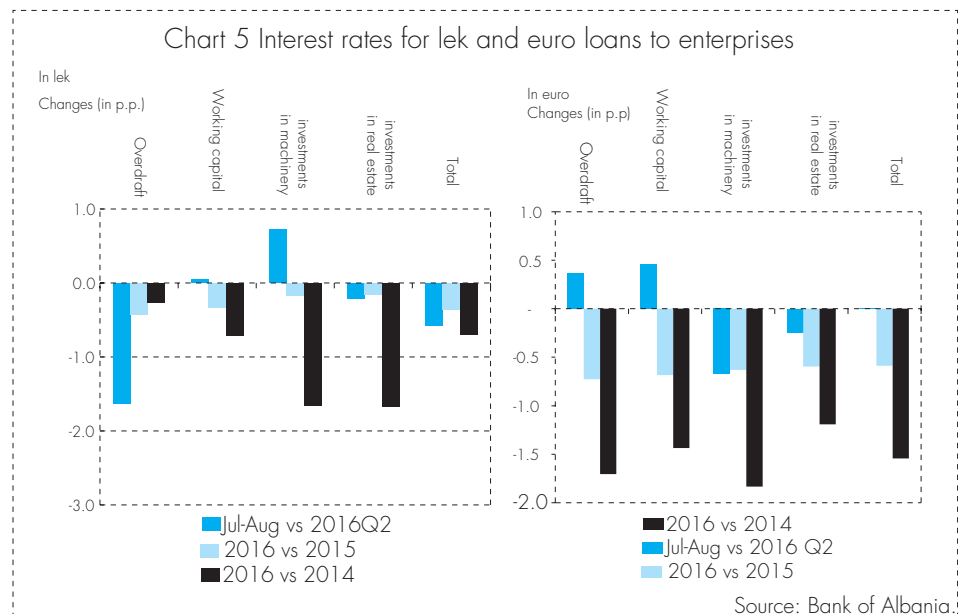
Mortgage loan standards were eased, followed by demand growth. The annual growth rate of mortgage loans stood at 3.7% in August and is supported by the growth of lek credit in this segment. This portfolio is shifting toward credit in lek. In August, credit in lek for mortgage loans constituted around 41% of the mortgage loans, or 2 percentage points higher than in the end of 2015. This shift was supported by the significant decrease of the interest rates of mortgages loans in lek, very close to the interest rates of the mortgage loans in euro.

⁴ Evident by the frequent promotions for this segment

3. CREDIT PRICE AND OTHER LENDING STANDARDS

Credit interest rates in July and August remained at low levels. Interest rates on lek loans decreased for enterprises and slightly decreased for households. Meanwhile, interest rates on euro loans were stable for enterprises and decreased for households. Besides lower interest rates, banks have offered better non-price conditions for loans, with the exclusion of collateral requirements for enterprises, which have tightened.

Interest rates of lek credit in July and August were 7.29% and 6.83%⁵ respectively, remaining at low levels. By maturity, interest rates for short-term credit have decreased, whereas those with longer maturity have increased slightly. In average terms, the interest rate in these two months is 0.34 percentage point lower than in the second quarter⁶ and 0.84 percentage point lower than in the previous year. In parallel, interest rates of new credit in euro were 5.44% and 4.72%, respectively, in July and August, remaining on average at similar levels to the average of the second quarter. This performance of the interest rates on new credit is determined by higher interests in the short-term segment and lower interests in the long-term one.

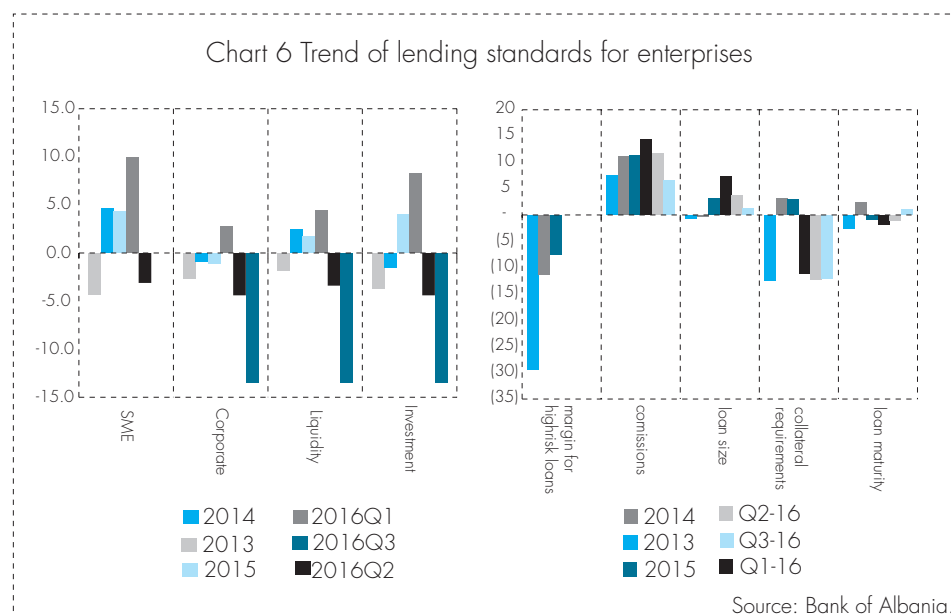


⁵ The average rate of credit in lek in August resulted at 7.97%, but it was significantly affected by a particular short-term loan. The following analysis for interest rates in lek is referred to the average interest rate excluding this loan.

⁶ The comparison is done by excluding from the calculation a loan given in April to a public company, with non-typical interest rate.

The average interest rate for new lek loans to enterprises in July and August is lower than in the second quarter, by around 0.12 percentage point⁷. By purpose of use, interest rates decreased for overdraft loans and continued to further decrease for loans for real estate investments. Meanwhile, they remained virtually unchanged for credit for working capital and rose for credit for purchasing equipment. On a longer time horizon, interest rates for lek loans to enterprises are lower for all segments. Thus, the average interest rate for January-August 2016 is around 0.67 percentage point lower than in 2015 and 2.00 percentage points lower than in 2014.

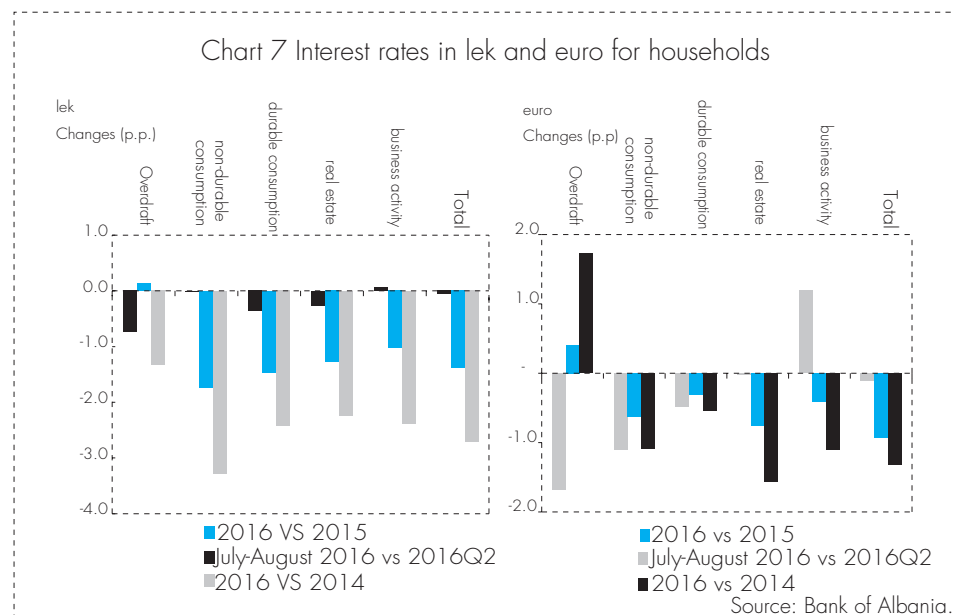
The average interest rate for the euro loans to enterprises in July and August remained almost unchanged from the second quarter. However, its stability reflects different performances of the interest rates by purpose of use. Thus, interest rates of credit for investments resulted lower, whereas that for financing liquidity needs of enterprises increased against the previous quarter. During 2016, the average rate of euro loans to enterprises is lower than the previous year, by 0.59 percentage point against 2015 and by 1.54 percentage points against 2014. It decreased across all types of euro loans to enterprises.



In the third quarter of the year, banks tightened lending standards for big enterprises and maintained those for small and medium enterprises unchanged. By purpose of use, standards were tightened for all types of lending. The standards were tightened through the increase in collateral requirements. This standard has tightened for the third quarter in a row, reflecting also the difficulties the banks have had in treating/executing the collaterals of lost loans. Other non-price elements, like loan maturity or its size result on the easing side of the lending standards, but on a lower level. The margin for high risk credit, which in the three previous years has served as an important element used by banks to tighten lending standards, did not change during this quarter either, similar to the first two quarters of the year.

⁷ According published data, the average interest rate of credit has resulted higher in August, but this growth was dictated by an overdraft loan with a big weight given by one of the banks of the system in August. The following analysis excludes this loan from the calculation.

The average interest rate for lek loans to households in July and August remained almost unchanged; it resulted 0.05 percentage point lower than in the second quarter. By purpose of use, the lowest rates were registered for overdraft, consumption of durable goods and real estate loans. The interest rate on loans to households for business activity has slightly grown, whereas that on loans for consumption of non-durable goods has remained at the previous levels. On average, for the period January-August 2016, the interest rate on lek loans to households is 1.69 percentage points lower than in 2015 and 3.03 percentage points lower than in 2014. The decrease of interest rates in the last two years is stronger for consumer loans than mortgages, and lower for overdraft loans and those for business activity.

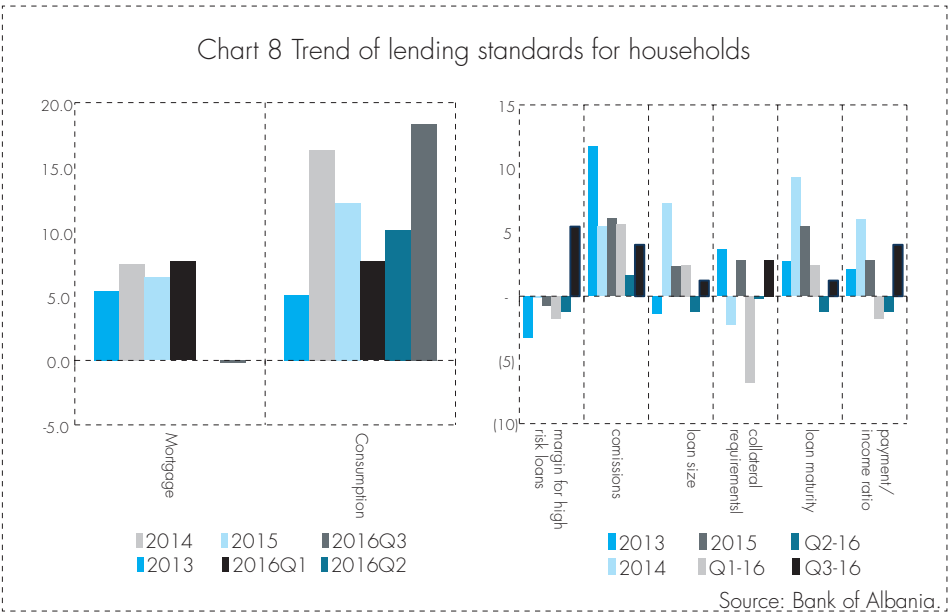


Households have also benefited from lower interest rates for credit in euro. In July and August, the average interest rate for these loans resulted 0.11 percentage point lower than in the second quarter of the year. The interest rates decreased significantly for overdraft and consumer loans. The interest rates for mortgage loans, which constitute around 60% of new credit in euro for households, remained at similar levels to the second quarter. The interest rates for activity exercising loans increased, but their share in new credit has been insignificant in these two months (1.4%). Similarly to credit in lek, interest rates in euro loans during 2016 are lower than in the two previous years, but at a smaller level. The average interest rate for the first eight months of this year resulted 0.93 percentage point lower than in 2015 and 1.33 percentage points lower than in 2014.

The interest rates spread of credit in lek against that in foreign currency in the household segment continues to narrow, particularly after March – after the last two cuts of the policy rate. For July-August, this spread resulted at 2.5 percentage points, close to the second quarter figure. In average term for 2016, it is 1.4 percentage points lower than in 2015 and 2.8 percentage points lower than in 2014. The narrowing of the spread between lek and euro interest rates has encouraged households borrowing towards the domestic

currency. This spread is at minimal levels (lower than 0.5 percentage point) for mortgage loans, which also have a higher exchange rate risk due to their long-term maturity.

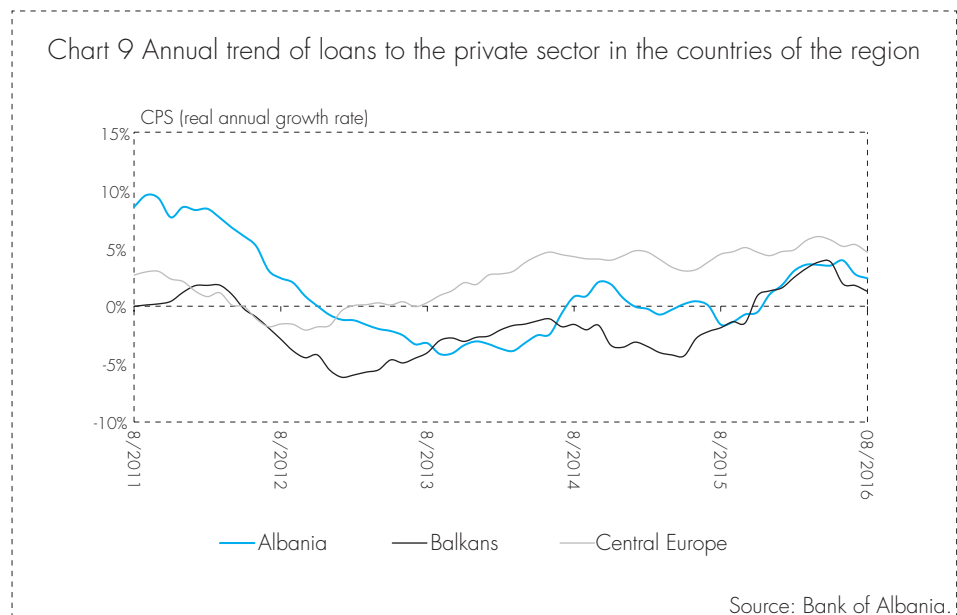
Banks continue to show a more positive attitude toward lending to households. In the third quarter, they have further eased lending standards for consumer loans; meanwhile, they have kept those for mortgage loans unchanged, for the second consecutive quarter. Banks' competition materialized in a continuous easing of all lending standards, both price and non-price. In this quarter, they reduced also the applied margin for high risk credit against that typical for credit to households, which, in the previous periods, has been used to tighten lending to households.



4. LENDING TRENDS IN THE COUNTRIES OF THE REGION

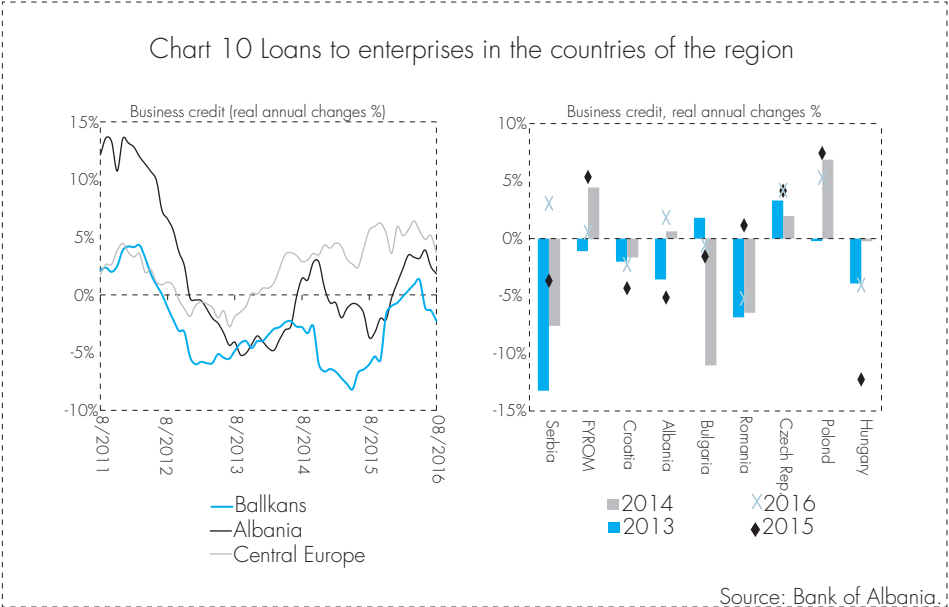
The countries of the region marked a more subdued growth of credit to the private sector compared with the second quarter of the year. In annual average terms, the credit stock grew by 4% in the entire region. Lending surveys by banks in the CESEE countries show that credit growth in this region is driven by the credit demand of economic agents, both enterprises and households. On the other hand, the annual growth rate of the credit is affected by tight lending standards. The Central European countries continued to mark steady growth rates, accounting for the main share of credit expansion in the CESEE region. Developments in the Balkan countries marked a slowdown of lending rates.

Credit to the private sector in the countries of the region in July and August grew with more subdued rates compared with the second quarter of the year. Its stock grew by 4% in annual average terms for the entire region, resulting more subdued compared with the 4.9% rate marked in the second quarter of the year. Bank lending surveys in the CESEE countries show that credit growth in this region is driven by the growth of demand by both enterprises and households. In the last surveys, banks expressed that the same trend is expected to persist in the second half of 2016. On the other hand, lending rates are affected by tight lending standards on the supply side, thus creating a gap between credit demand and supply in these countries.



In regional terms, trends in lending remain relatively segmented. The Central European region continues to mark steady growth rates, accounting for the major share of credit expansion in this region. Credit developments in the Balkan countries mark a slowdown of lending rates, but this trend results to be localized, affected by specific developments in Romania⁸. Growth in Serbia, Macedonia and Albania continued with subdued, but stable rates. Meanwhile, trends in lending in the other countries remains in negative territory.

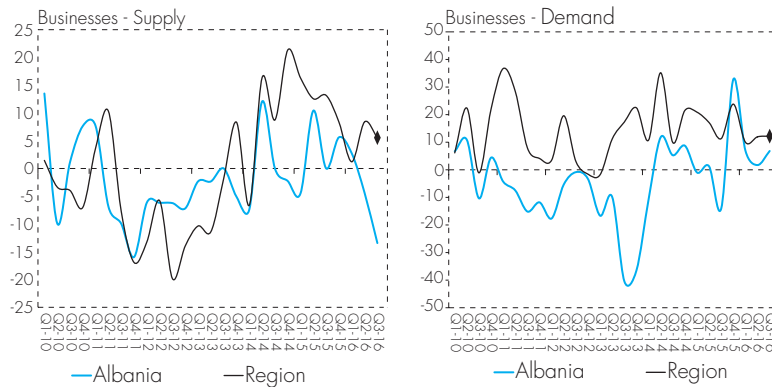
The portfolio of credit to enterprises in the Central European region continues to grow steadily, but more slowly in the last three months. On the other side, the Balkan region, after an improvement of credit to enterprises in March-May, returned to negative territory in June remaining in such territory for July-August as well. This trend is affected by the performance in some countries such as Romania, Croatia and Bulgaria, which registered an annual contraction in the portfolio of credit to enterprises. As far as credit to enterprises is concerned, Albania ranks well, marking a steady growth rate in the last months.



Lending standards to enterprises in the CESEE region, according to the bank lending survey in these countries, resulted as eased in the first two quarters of the year. Improved lending standards have also affected the trend of demand in the region, which grew in this period as well. In line with the estimates for eased standards in this segment in the next quarter, banks expect a growth of demand for credit by enterprises.

⁸ The end of the statistical effect of the low comparative base since June

Chart 11 Trends in lending standards and demand by enterprises in Albania and in the countries of the region

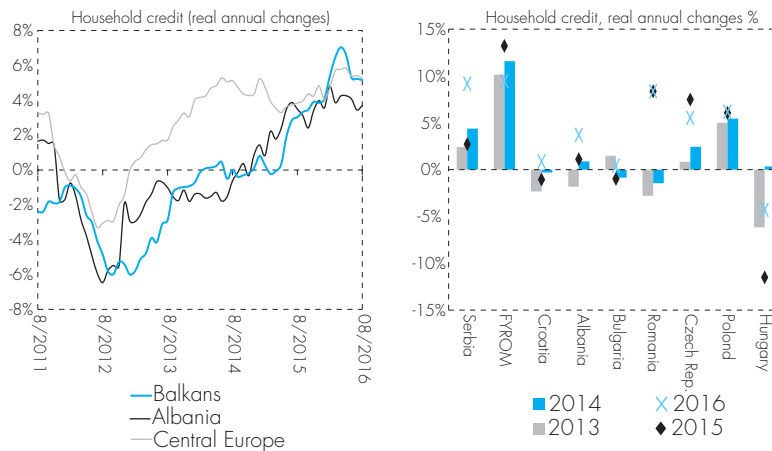


Source: Bank of Albania.

Note: Supply standards and credit demand in the countries of the region are calculated as weighted averages of these indicators for Serbia, FYROM, Romania, Poland, the Czech Republic and Hungary. The 2016 Q3 values for the region are forecasts.

The credit expansion in the countries of the region continues to be supported mainly by the good performance in the households segment, which is characterized by a more uniform performance in regional terms. Despite the slowing down of growth rates in the last months, the Central European region and the Balkan region marked annual rates by 5.3% and 5.2%, respectively, in July-August. Loans to households remain in negative territory in Hungary, despite the deceleration of declining rates in the last months.

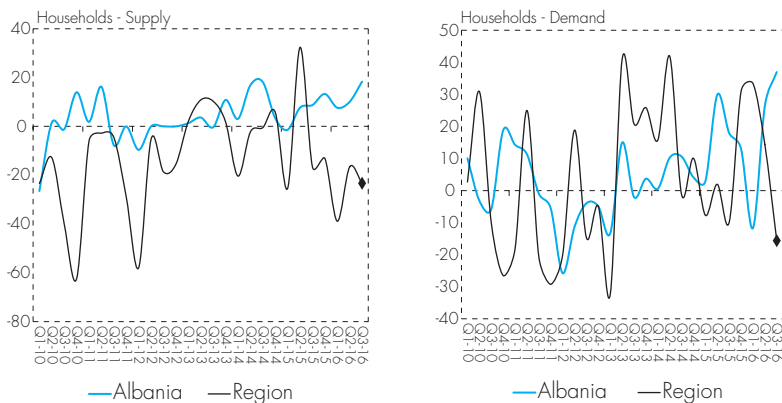
Chart 12 Loans to households in the countries of the region



Source: Bank of Albania.

Lending standards to households in the countries of the region were tight in the first half of the year, whereas demand for credit is estimated to increase. Expectations in the lending standards in this region have remained on the tightening side for the third quarter as well, whereas expectations of demand for credit in this period are estimated to decline too. The decline of demand seems to have materialized in actual values in July and August, which confirmed the slowing down of credit growth rates, for both Central European and Balkan countries.

Chart 13 Trends of lending standards and demand by households in Albania and in the countries of the region



Source: Bank of Albania.