TRENDS IN LENDING

Erjona Suljoti, Medvin Shehu, Anjeza Gazidede dhe Sofika Note
Monetary Policy Department, Bank of Albania

JANUARY 2022

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

Introduction .................................................. 4
Summary ..................................................... 5
1. Loans to enterprises .................................... 6
2. Loans to households ...................................... 10
3. Trends in lending in the countries of the region .... 13
INTRODUCTION

“Trends in Lending” presents a detailed overview of the most recent credit developments in Albania. To this end, it studies the monetary data and credit conditions based on the Bank Lending Survey. In addition, Trends in Lending includes an overview of the most recent credit developments in various Central, Eastern and South Eastern European (CESEE) countries.

Trends in Lending takes into account the following key statistics: a) data on bank lending activity in the resident sector of the economy; b) qualitative data from the Bank Lending Survey; c) statistics on credit interest rates in both lek and euro; d) monetary data for credit volumes in the countries of the region. The countries covered in the analysis are: Bulgaria (BU), Croatia (CR), Romania (RO), Serbia (SR), Poland (PL), Hungary (HU), the Czech Republic (CZ), and North Macedonia (NMK).

Data on lending are obtained from banks’ balance sheets and refer to funding by domestic banks to the resident private sector - enterprises and households. The analysis of the loan portfolio is based on the adjusted lending data on the impact of the exchange rate and on loans written-off banks’ balance sheet, a process which banks have undertaken based on the Decision No 50, dated 30.3.2015 “On amendments to the Regulation ‘On Credit Risk Management’”.

The analysis covers data available as of 22 January 2022, which include monetary and financial data as of December 2021, and data from the Bank Lending Survey 2021 Q4. Data on credit in regional countries are as at November 2021.
SUMMARY

Developments in lending to the private sector in 2021 Q4 show that:

• Lending to enterprises has improved its growth rate, reflecting the increase of both demand and supply of credit. The data show that large and medium-sized enterprises are the main beneficiaries of banks' financing. Meanwhile the sectoral distribution of the portfolio identifies trade, tourism and construction as the most credited sectors.

• Loans to households continued to grow in the fourth quarter. This growth was dominated by long-term loans, which is directly affected by households' high demand for mortgages. This demand was also accompanied by the favourable conditions of banks, which have supported financing with long-term maturity through both low interest rates and accommodative non-price conditions.

• Banks have eased the lending terms and conditions for both enterprises as well as households in Q4. This performance reflects the improvement of the macro situation, the reduction of risk premia, and a more positive approach towards lending.

• The interest rates on new loans in lek remained stable in the fourth quarter. Credit interests fluctuated at low levels, supported by the positive environment, accommodative monetary policy, and generally favourable conditions for investments and consumption. The monetary and financial environment was characterised by contained risk premia.

• Credit to the private sector in the regional countries has slowed down in real terms, after the recovery observed in the third quarter of the year. This slowdown is attributed mainly to the increase of inflation across almost all countries in the last quarter of the year. If this effect was excluded, credit would show a stable growth in most of the countries. Balkan countries continue to have a good credit performance compared to Central European countries, both regarding enterprises as well as households.
1. LOANS TO ENTERPRISES

Loans to enterprises showed an improvement of growth pace, driven by the expansion of lending to large and medium-sized enterprises. By sectoral distribution, trade, tourism and construction were the sectors which benefited the most from banking sector’s financing. These developments are a response to both the higher demand for financing as well as a more positive approach of banks toward these segments.

Loans to enterprises increased annually by 9.1% in the fourth quarter, following the positive trajectory of credit expansion in the second half of the year. This was supported by the increase of loans to large and medium-sized enterprises, which recorded an annual growth of 11%, or up by 2 p.p. than the levels of the 9 months. The improvements in the growth pace of these segments have compensated for the credit contraction in the micro segment (by 14% y-o-y), and the slower growth rates of small enterprise financing (at 7.6%). The recovery of credit demand from enterprises and the more positive approach by banks on increasing financing for consolidated enterprises are thought to have supported this performance.

Loan portfolio of enterprises continues to be dominated by lending to large enterprise. During 2021, its share to the total remained almost unchanged from the previous year, at 52%. In parallel, there is an increase in the share of medium-sized enterprises to 26.7%, or up by 1.5 pp from the previous year. Meanwhile, the share of loans for micro and small enterprises has fallen to 21.3% of the total, or down by 2 p.p. from the previous year. Over the 5-year period, it is observed that banks’ support to private businesses has been continuously upwards for large and medium-sized enterprises, which are more consolidated, more formalised and have a stable growth of financing demand and easer supply conditions.
The sectoral distribution of the credit portfolio at the end of 2021, shows that banks have increased their financing to enterprises in the trade, tourism and construction sectors, and have contracted the exposure to other services sector. Therefore, credit to enterprises in the sectors of trade, tourism and construction increased on average by 10%, 33% and 13%, respectively, during this year, reflecting the quick recovery of the economic activity of these sectors and the more positive approach adopted by banks. At the end of the year, credit to these sectors accounts for 37.8%, 7.8% and 15.8%, respectively, of the total loans to enterprises. Meanwhile, credit to enterprises in the industry sector has shown a modest increase of 7%. The share of this sector has not changed, standing at 25% in the last two years. However, an increase in banks’ financing to enterprises of the energy sector, is observed in the second half of the year. The share of this segment recorded an increase of loans to enterprises to 8.4%, compared to 7.2% in the end of the first six months.

Interest rates on loans to enterprises in lek have remained at low levels in the last quarter. Beyond the volatility that characterizes them, credit interests have reflected the positive approach of banks towards financing the private sector. The unchanged monetary conditions and a calm financial environment have favoured banks in this regard. The same performance was also observed regarding interest rates on loans in euro, which recorded marginal changes and values close to the ones in the previous quarters.

In the fourth quarter, the interest rates on loans to enterprises remained close to the levels of third quarter. The average interest rate for this segment recorded 5.7%, from 5.6% in the previous quarter and towards the annual average. Beyond monthly fluctuations, the interest rates adopted by the banks evidence contained risk premia and a positive approach of banks towards the economy. Analysis by segments shows a slight increase of interests on the segment of loans up to ALL 35 million. The average interest rate for this category recorded 5.9%, from the 5.7% average in the previous two quarters. The value of this quarter mainly reflects the increase of interest rates for this segment in October,
and it is heavily related to the share and interest registered by a specific bank. Meanwhile, the interest rate on loans over ALL 35 million, have not changed during this quarter, standing at 5.5%.

The analysis by interest rate fixation period shows a slight increase of the short-term interest rate (variable or fixed for the first year of credit) in this quarter. This rate has been increasing since the second quarter of this year. However, the interest rate on this category (5.7%) remains very close to the average of the first half of this year (5.6%) and the previous year (5.7%).

The interest rate on the category that approximates the medium- or long-term period (interest rate fixated for one year) did not change during this quarter, resulting at 5.6%, from 5.7% in the first half of the year. The performance of interest rates in both these categories confirms contained inflationary expectations from financial agents and a minimum risk perceived by them during this period.

The interest rate on loans for enterprises in euro registered a slight increase in this quarter, standing at 4.6%, from 4.4% in the previous quarter. Nevertheless, the average interest rate of loans in euro during this year has been decisively below last-year’s levels. By loan size, interest rates recorded a marginal increase for small loans (up to EUR 250 thousands) and for large loans (over EUR 1 million), meanwhile they did not change for loans with average size. In this quarter, the analysis by interest rate fixation period identifies a minimal increase of interest on both loans with fixed rate up to one year as well as loans with over one year fixed rate.

Non-price terms and conditions were eased for enterprises, confirming the more positive approach adopted by banks regarding their financing.
Lending terms and conditions for enterprises continued to improve in 2021 Q4 as well, in the same vein with the recovery of economic activity and confidence indicators. More relaxed lending policies towards enterprises were expressed in the easing of lending standards, terms and conditions. For the first time after three years, banks relaxed the lending terms and conditions for enterprises, easing both their price components - by reducing the margins of normal loans - as well as non-price ones - by reducing the commissions on disbursed loans. For the second consecutive quarter, the easing of the conditions of loan supply was more apparent in loans granted to large enterprises, accommodating at the same time a higher demand for credit, particularly from this segment. The double-sided improvement of lending indicators - demand and supply for credit - is underpinned by a better macroeconomic and financial landscape in Albania, which, at the same time, was conducive to the more optimistic assessments of indicators related to credit risk.

For more detailed information, please refer to the Bank Lending Survey section at: https://www.bankofalbania.org/Monetary_Policy/Surveys_11282/Bank_Lending_Survey

Source: Bank of Albania and staff estimates.
Loans to households continued to grow in the fourth quarter of the year. As previously, this growth was dominated by long-term loans, which is directly affected by households’ high demand for mortgages. This demand was also accompanied by favourable conditions of banks, which have supported financing with long-term maturity through both low interest rates and accommodative non-price conditions.

Loans to households expanded with high growth rates of 11.4% on average in the last quarter, against 10.5% average of the previous years, up to September. This growth reflected the further improvement of long-term maturity loans of over 1 year, which also offset the contraction of short-term loans. The higher growth rate of medium- and long-term loans - 14% against the 11% average in the first nine months of the year - reflects the demand for financing house purchases and long-term consumer goods.

The continuous expansion of the credit portfolio of households in the long-term segment was also reflected in its share growth of 84% at the end of 2021. Its growth has reflected the stable increase of mortgage loans, the low interest rate environment, as well as the favourable non-price conditions.

The interest rate has not changed for loans to households in lek in this quarter, whereas it has slightly increased for those in euro. However, the loan rates are below the average of the previous year for both currencies. Households benefited lower interest rates on consumer loans, while the interest rates on mortgage loans have recorded a minimal rise for both currencies.
The average interest rate on mortgage loans to households in lek slightly increased in the last quarter, recording 3.6%, from 3.2% in the previous quarter. By excluding the first quarter, this rate fluctuates below the 4.0% level during this year. The increase of interests for this category, in this quarter, has mainly reflected their increase on fixed interest rates up to 1 year, while the category of fixed interest rates up to 5 or 10 years recorded values almost similar with the previous quarter. The interest rates of consumer credit slightly fell in this quarter, confirming the supportive environment to households’ demand during this period. The interest rate for this category was 7.9% in this quarter, down by 0.4 p.p. from the previous quarter and the first half of the year.

The average interest rates of loans to households in euro slightly increased in the last quarter of the year, standing at 3.9%, from 3.6% and 3.4%, respectively, in the previous two quarters. The slightly increasing performance in this quarter reflected mostly the higher loans for house purchases. Nevertheless, across this year, interest rates of loans in euro have notably fluctuated below the 2020 level (4.1%). In the similar vein to loans in lek, interest rates of loans to households in euro in this quarter slightly increased for mortgages, but decreased for consumer credit. Within the category of mortgage loans, interests increased for both the loans with fixed interest rate up to one year and the one with fixed interest rate for over one year. The difference between mortgage loans in lek and in euro in this month remained minimal.
Lending terms and conditions for new loans to households were eased further.

Banks preferred to relax the supply conditions also on households, mainly for mortgage loans. Lending standards in this segment were eased. Also, banks approved a higher number of loans’ demand during the third quarter of the year. Meanwhile, the overall terms and conditions of lending to households did not change, following the continuous easing over the five previous quarters. Of the non-price elements, banks preferred to ease the overall conditions through increasing the loan size, which was offset by the higher demand for collateral and lower loan maturity.

For more detailed information, please refer to the Bank Lending Survey section at https://www.bankofalbania.org/Monetary_Policy/Surveys_11282/Bank_Lending_Survey 

Source: Bank of Albania and staff estimates
3. TRENDS IN LENDING IN THE COUNTRIES OF THE REGION

In October and November, credit to the private sector in the countries of the region has slowed down in real terms, following the recovery observed in the third quarter. This slowdown is attributed mainly to the increase of inflation across almost all countries in the last quarter of the year. Balkan countries continue to have a better credit performance compared to Central European countries, regarding both enterprises and households.

Credit to the private sector in the countries of CESEE region increased by an average annual rate of 0.5% in October and November, compared to 1.5% in 2021 Q3. The slowdown in real terms mainly reflects the effects of higher inflation in all countries during the last months of the previous year. Without this factor, credit growth would have been stable or even gradually improving in the third quarter in most of the countries.

In the Balkan countries, credit grew by an annual rate of 3.2% in these two months, whereas in the countries of the Central Europe the growth was insignificant. Albania has shown a good performance among the Balkan countries, outpaced only by Romania in the enterprise segment. The Bank Lending Survey (BLS) on the countries of the region, conducted by the European

---

1 In this analysis are included 9 countries of the Central East and South East Europe: Albania, North Macedonia, Croatia, Serbia, Bulgaria, Romania, the Czech Republic, Poland and Hungary. The credit to the private sector stock is adjusted for the impact of inflation and exchange rate.

2 Adjusting the stock of credit for exchange rate fluctuations and deflating it with consumer price index is necessary to have an accurate comparison of credit performance between countries. The increase of inflation is among the factors that has affected the overall slowdown of credit in October and November compared to the third quarter of the year.
Investment Bank identified an increase of loan demand and the easing of lending conditions in the second and third quarter of 2021. These trends are expected to continue until the end of the first quarter of 2022.

Loans to enterprises in the region continue to show different performances between countries of the Balkan and those of the Central Europe. In the latter group, loans to enterprises continue to contract, reflecting the shrinkage in the portfolio of Poland and Czech Republic. Its contraction was 2.9% during October and November, from 2.6% on average in the third quarter of the year. However, the decline in the credit portfolio in the second half is more contained compared to the first half of the year, where the portfolio contracted with an average annual rate of 4.8%. In contrast with the above-mentioned countries, Hungary shows a positive momentum as regards the performance of loans to enterprises. In the Balkans, loans to enterprises continue to increase, but at a slower pace than in the third quarter of the year. The annual growth registered 3.8% on average, in October and November, from 5.1% in the previous quarter. Romania and Albania are listed among the countries with the best performance, while credit to enterprises in the other countries has contracted or has decelerated its growth rates.

According to the Bank Lending Survey in the CESEE region, demand for loans to enterprises increased, reflecting higher demand for investment financing, alongside the further demand increase for working capital. The increase of demand from large, medium-sized and small enterprises was driven by the economic recovery. Enterprises’ demand is expected to continue upwards, with a higher contribution from demand for investment financing.

Loans to households has slowed down in real terms, in October and November, in all the countries under review. It recorded an average annual growth of 1.6% during these two months, from 2.8% in the third quarter of the year. The expansion of loans to households continues to be led by the countries in the
Balkans. The credit demand from households is assessed as upwards for both mortgage loans and consumer credit, driven by the improvement in consumer confidence. This trend is expected to continue also in the first quarter of this year.