Bank of Albania

TRENDS IN LENDING

2017 Q4

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

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INTRODUCTION

This analysis presents a detailed overview of the most recent credit developments in Albania. To this end, the analysis studies the monetary data on the credit portfolio, as well as lending standards. In addition, this analysis includes an overview of most recent credit developments in Central, Eastern and South Eastern European (CESEE) countries.

The main statistics taken into account in this analysis are:

- Data on the bank lending activity for the resident sector of the economy;
- Qualitative data from the bank lending survey;
- Statistics on credit price in both lek and euro;
- Monetary data for the credit volume in 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 24 January 2018, including information for monetary and financial data for December 2017[1], and data from the bank lending survey 2017 Q4. Data on credit in regional countries are of November 2017.

[1] Monetary data for December are preliminary.

SUMMARY

The growth of credit to the private sector remained moderate, reflecting the steady growth of loans to households, and the fluctuations and sluggish performance of loans to enterprises. Loans to enterprises continued to be conditioned by a tight bank supply and low demand by enterprises. In addition, the sale of a bank's credit portfolio to a non-bank financial institution had a negative effect on the developments in the fourth quarter. In terms of currency, credit continues to be broadly supported by the growth of the credit portfolio in lek.

Loans to households showed high growth rates in 2017 Q4, supported by both further easing of lending conditions and the upward demand of households for loans. Both consumer and house purchase loans showed positive developments during the period under review. In parallel, the rapid growth of lending in lek supported the further shift of this portfolio towards the domestic currency.

Interest rates for lek loans to households slightly fell in 2017 Q4, returning to the lower levels noted in the previous year. Meanwhile, the interest rates on euro loans remained stable, close to the average in the previous quarters. Most conditions on loans to households remained on the easing side, but less than in the previous quarter.

Loans to enterprises showed low growth rates in 2017 Q4, driven by both the relatively tight lending conditions and the low demand for financing. In 2017 Q4, this portfolio shrank, reflecting the sluggish lending activity and the loans write-offs, which was concentrated in this segment. The growth of loans to enterprises in 2017 was mainly supported by loans for investment. Meanwhile, by currency, this growth was supported by the good performance of loans in lek.

Interest rates on lek loans to enterprises were stable in 2017 Q4, while those on euro loans were lower than in 2017 H1 and in 2016. Overall, non-price lending conditions to enterprises remain on the tightening side.

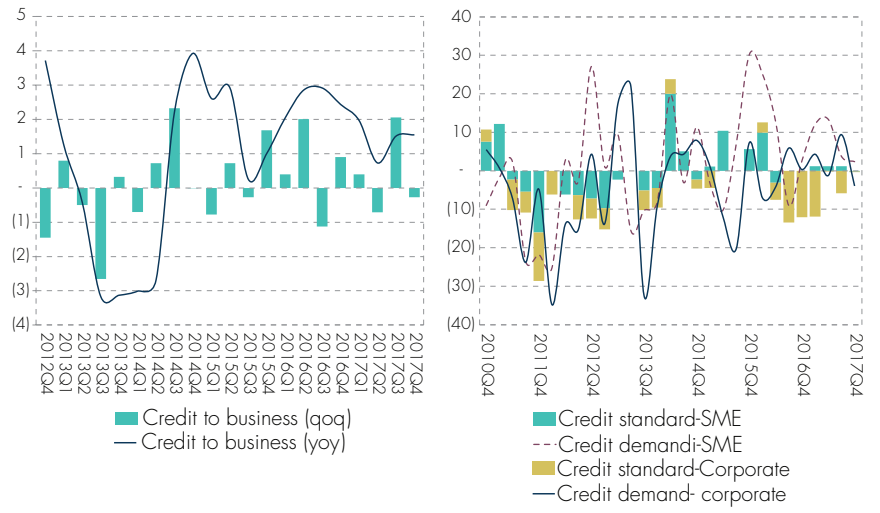
Lending activity in CESEE countries was volatile throughout the year. After accelerating the expansion in the two previous quarters, credit to the private sector in the fourth quarter slowed down. Central European countries continue to lead credit expansion in this region, albeit credit growth resulted more contained in October and November. A similar trend is also noted in Balkan countries. The expansion of credit to the private sector in Albania resulted at moderate levels.

1. LOANS TO ENTERPRISES[2]

The portfolio of loans to enterprises showed low growth rates in 2017 Q4, affected by both the quarterly contraction and the statistical effect of the comparative base. Banks continued to keep credit standards unchanged, while demand slightly improved. In 2017 Q4, the interest rates on lek loans remained steady, while the interest rates on euro loans went up. Overall, the non-price standards for loans to enterprises remain on the tightening side. Credit standards to enterprises are expected to tighten in 2018 Q1, while demand is expected to remain unchanged.

Fluctuations in the growth pace of credit to the private sector, throughout the year, are caused by interest rates on loans to enterprises, which remain low. This performance is driven by both the slow recovery of credit demand[3] and the still tight standards. Loans to enterprises contracted in the fourth quarter, falling considerably compared to ALL 8 billion growth in the third quarter. This net flow is considerably lower than the seasonal growth this portfolio shows in the last quarters of the year. Although credit extended in 2017 Q4 was higher than in the previous year (4.6%), the high level of write-offs in this portfolio[4] drove the contraction of outstanding credit to enterprises. The ratio of performing loans for this group shows that this quarter's growth is close to its seasonality.

Chart 1 Loans to enterprises (annual, quarterly changes* in % and net balance)



Source: Bank of Albania

[2] The impact of loans reclassified as off-balance sheet items is exempted from the data of loans to enterprises.

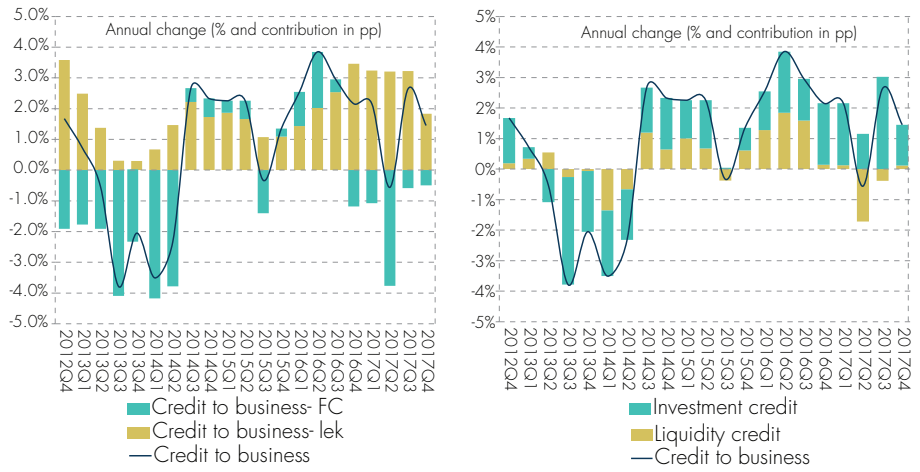
[3] Loan demand by enterprises appears weak, as they grew their own funds, as shown by the performance of the deposits of enterprises in the last two years.

[4] Outstanding credit in December 2017 was considerably affected by the sale of a loan portfolio of bank in the system to a non-bank financial institution. These loans were mainly loans to enterprises in foreign currency.

In 2017 Q4, the growth of loans to enterprises averaged 1.6%, in annual terms. In terms of GDP, loans to enterprises accounted for 24.3%, slightly down from the end of 2016. The appreciation of lek against major currencies has continuously affected the performance of loans to enterprises. Adjusted for this effect, the growth of loans to enterprises portfolio would have been higher than the nominal one in 2017.

By currency, lending in lek slowed down in 2017 Q4. The annual growth of this portfolio reduced on average by 6.4%, compared to 9.1% in 2017 Q3. In addition to the low flows in the recent months, this performance was also determined by the effect of the high growth base of this portfolio a year earlier. Foreign currency loans to enterprises showed a different performance, contracting by 1.6%, y-o-y, lower than in 2017 Q3. Nevertheless, taking into account the lek's appreciation against the two main currencies, the growth pace of this portfolio has been improving over the quarters during 2017. Notwithstanding the slowdown, the growth pace of lek loans to enterprises remains high, helping the further shift of this portfolio toward the domestic currency. At the end of 2017, loans in lek accounted for 38.3% of loans to enterprises, around 1.3 percentage points higher from the previous year.

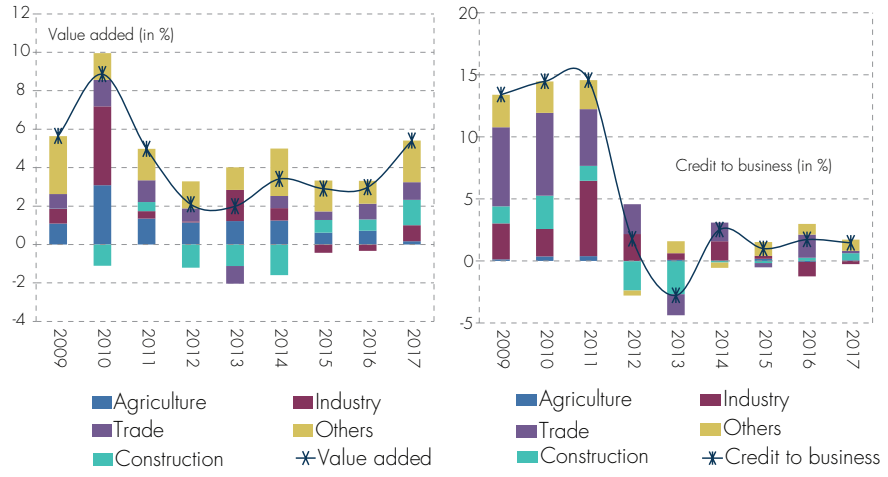
Chart 2 Loans to enterprises by currency and purpose



Source: Bank of Albania. The data exclude the exchange rate effect.

Loans to enterprises for investments grew by 3.7% in 2017 Q4, at a slower pace than in 2017 Q3. Loans for liquidity continue to shrink, in annual terms, by 1.1%, albeit at a slower pace than in Q3. Notwithstanding these short-term developments, loans to enterprises, over 2017, were characterised by an improvement of the growth pace for investments and contraction for liquidity loans. These developments affected a slight shift of this portfolio's structure towards loans for investments (55.7%, from 55.1% in the previous year). Lending conditions of these portfolios, overall, remained unchanged in 2017 Q4, whereas demand is assessed slightly higher in both segments.

Chart 3 Value added and loans to enterprises by sector of the economy



Source: INSTAT and Bank of Albania.

In 2017 Q4, lending by sector shows banks increasing financing to trade-hotels-and-restaurants sector, and reduced financing for the services sector. Outstanding credit remained, overall, unchanged for the other sectors. Notwithstanding these short-term developments, in 2017 Q4, construction and trade improved their growth pace by 3.9% and 1.9%, respectively. In parallel, the portfolio of loans to the industry sector continues to shrink. Agriculture-and-services sector recorded positive, but lower growth rates from the previous quarter. Overall, these developments are in line with the contribution of each sector to the value added in the economy. The above-mentioned developments are reflected in a slight shift of lending by sectors of the economy compared to the end of 2016, as shown in the table below.

Table 1 Structure of loans to enterprises by major sectors

In % of loans to enterprises	2007-2010*	2011-2015*	2016	2017 Q3	2017 Q4
Agriculture	1.3%	1.8%	1.5%	1.5%	1.5%
Industry	24.7%	28.5%	26.3%	26.0%	25.7%
Construction	20.8%	14.7%	14.4%	15.0%	14.8%
Trade, hotels and restaurants	38.3%	38.0%	43.2%	42.2%	42.8%
Other services	14.8%	17.0%	14.6%	15.4%	15.3%

Source: Bank of Albania. Period average.

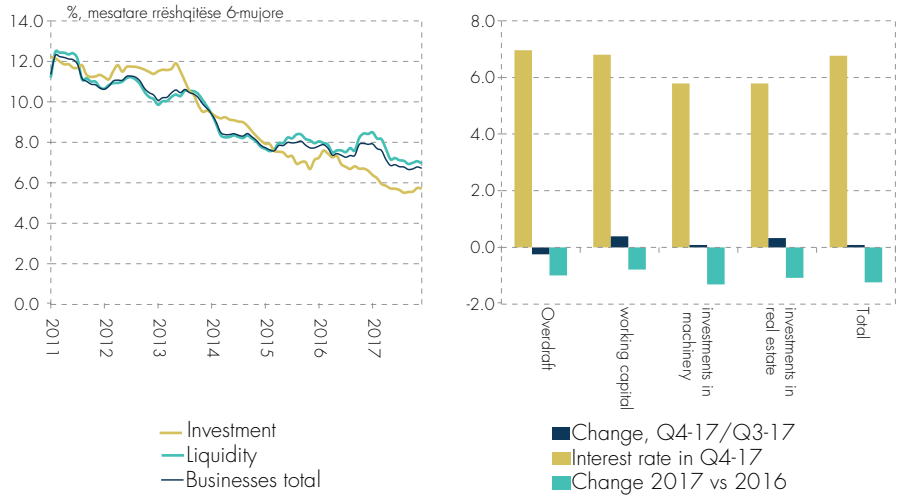
INTEREST RATES AND OTHER LENDING CONDITIONS

Enterprises continued to take loans at low interest rates in 2017 Q4. The interest rates on new loans to enterprises were 6.8% on average in 2017 Q4, from 6.7% in Q3 and Q1, 5 and 7.2% in 2017 Q1. In average terms, in 2017, the interest rate was around 1 percentage point lower than in 2016, for both loans for investments and loans for liquidity.

[5] The calculation of the average rates for 2017 Q2 excludes an overdraft loan with particularly low interest rates, granted in April.

In 2017 Q4, the interest rate on loans for liquidity remained close to the values noted in the two previous quarters. Thus, it has fluctuated around the average level of 7.0% in Q4, Q3 and Q2, from 7.5% in 2017 Q1. The interest rate on loans for investments fluctuated around 5.8%, very close to the average rate 5.7%, recorded in the first three quarters of the year.

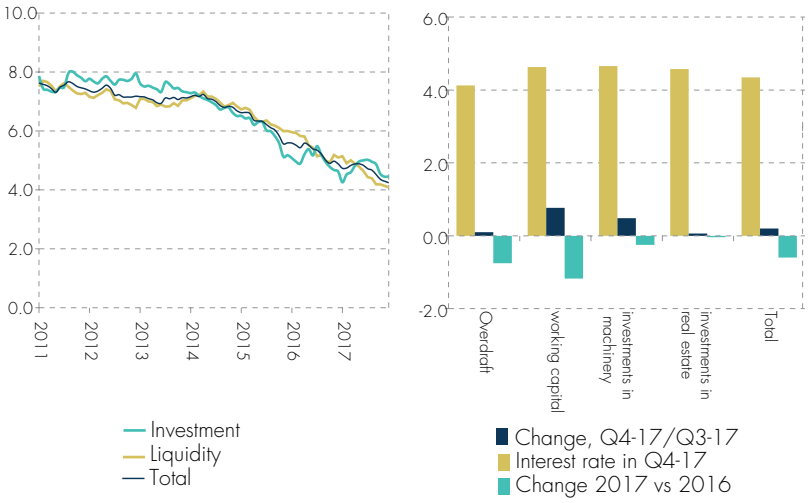
Chart 4 Interest rates on lek loans to private enterprises



Source: Bank of Albania.

The average interest rate on euro loans to enterprises recorded 4.3% in 2017 Q4, from 4.1% in the previous quarter. Notwithstanding the slight increase in this quarter, it remains below the 4.9% average in 2016 H2 and 2017 H1. Rates on loans for both liquidity and investments went up in this quarter. During 2017, interest rates on euro loans to enterprises averaged 0.6 percentage point lower than in 2016. Interest rates on loans for liquidity recorded the most noticeable reduction, by 0.9 percentage point.

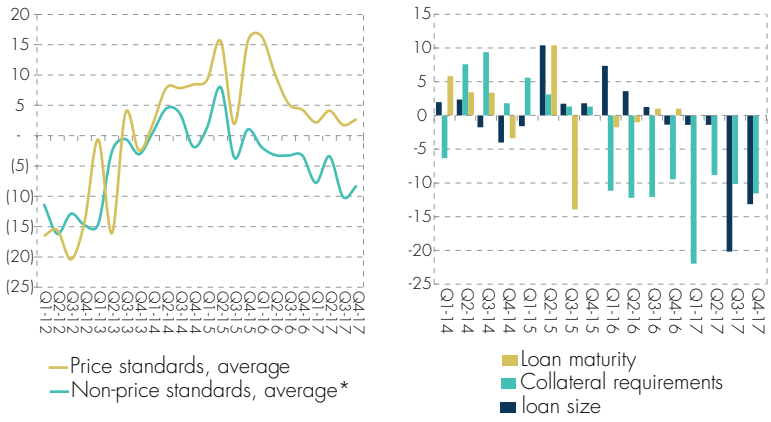
Chart 5 Interest rates on euro loans to private enterprises



Source: Bank of Albania.

Banks have been prudent regarding loans to enterprises, in particular to large enterprises, in recent years. While interest rates and commissions applied on enterprises have been decreasing, the tightening of lending conditions occured through non-price conditions. Such behaviour continued throughout the year. In 2017 Q4, lending conditions to enterprises were kept largely unchanged, across all segments. Among them, non-price conditions continued to be on the tightening side. Collateral requirements and the maximum size of loans provided the main impact, while the maximum maturity of loans remained unchanged, for the third consecutive quarter.

Chart 6 Lending standards for enterprises



Source: Bank of Albania, Bank Lending Survey, January 2018.
*Note: positive/negative balance implies easing/tightening of standards. Price and non-price standards are calculated as simple average of individual components' balance sheets.

2. LOANS TO HOUSEHOLDS[6]

Loans to households continued to show high growth rates in 2017 Q4, supported by both the easier lending conditions and the upward demand of households for loans. Positive developments, during this period, are noted in both its main segments. In this quarter, the interest rates on lek loans to households slightly fell, while interest rates on euro loans remained unchanged. Most lending conditions to households are on the easing side. Banks expect to tighten the lending standards for households in 2018 Q1.

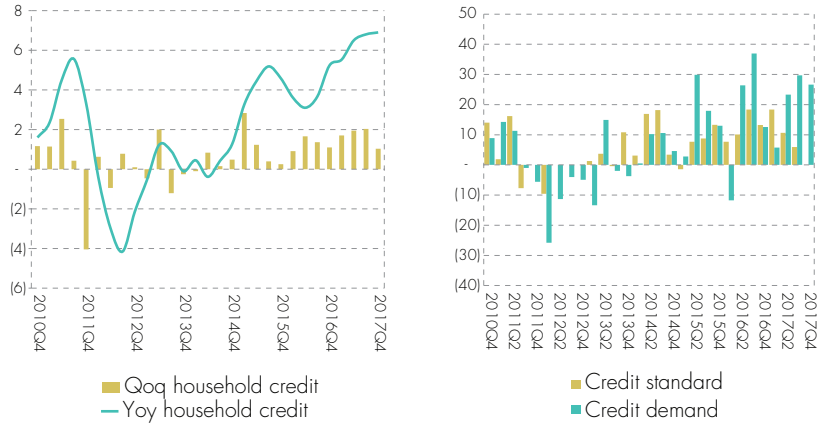
The portfolio of loans to households continued to maintain a high growth pace, thus supporting the growth of credit to private sector. In 2017 Q4, this portfolio grew by ALL 2 billion. Although this growth is lower than in the previous quarter, loans to households, in annual terms, maintained a growth rate of 6.9% on average, similar to the third quarter.

[6] The data of loans to households exclude the impact of loans reclassified as off-balance sheet items.

Positive developments in the portfolio of loans to households are supported by consumer loans in 2017 Q4. The growth rates of this portfolio accelerated to 12.9%, higher than in 2017 Q3[7]. This double-digit growth reflects both the dominance of the domestic currency in this portfolio and the low share of this portfolio[8]. Typical of 2017 is the steady growth of this portfolio, contributing to the increase of this portfolio's share by 1.7 percentage points over the year. Also, the dominance of lek loans (84%) in this portfolio takes into account a lower role of lek's appreciation against the main foreign currencies. The good performance of consumer loans in the last two years is supported by the easing of financing conditions by banks and the increased demand of households for it. The relatively eased requirements for this loan and its small size, have supported both the households' demand and the bank's willingness to ease the conditions for this segment. As a ratio to GDP, consumer loans share 3.7%, slightly improved from the previous year.

In 2017 Q4, loans for house purchase recorded low growth, by ALL 0.3 billion. Meanwhile, the annual growth rate of this portfolio, at 4.6%, improved compared to the previous quarter. This positive performance is supported by the easing of credit standards for many years and the improved demand for these loans. Credit products for house purchase entail a segment where banks face high competition and continue to promote favourable conditions, at low rates and eased non-price conditions. The demand for this type of loan was volatile, but over 2017, it was notably positive, driven by the overall low interest rates and the developments in the housing market. House purchase loans share around 64% of loans to households, and as a ratio to GDP they accounted for around 8% at the end of 2017.

Chart 7 Loans to households
(annual, quarterly changes in % and net balance)



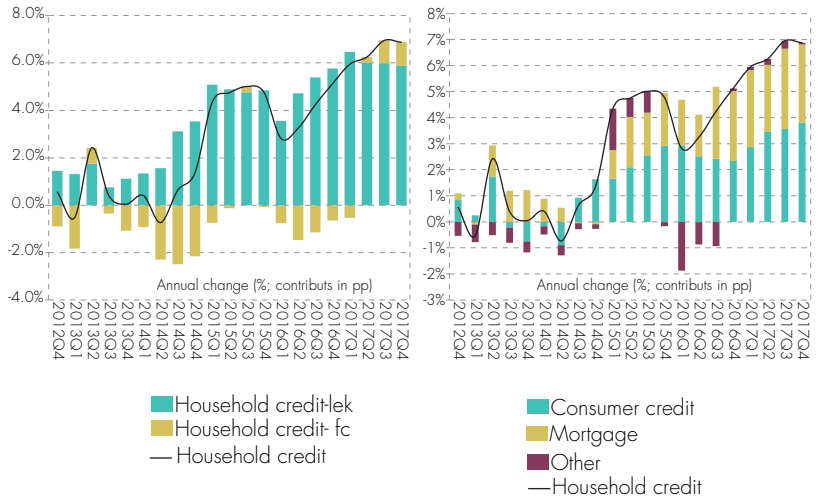
Source: Bank of Albania.

By currency, the positive developments of the portfolio of loans to households are driven by loans in lek. These loans grew, on average, by 10.2% in

[7] Consumer loans contributed by around 86% in the annual expansion of loans to households.
[8] Consumer loans share 31% of loans to households, or only 10% of total credit.

2017 Q4, against the 11.1% average in the previous quarters of the year. The slowdown of lek loans' growth pace was followed by the improvement of foreign currency loans' growth pace, which, since 2017 Q2, has been in positive territory. In 2017 Q4, foreign currency loans recorded annual growth of 2.4%. Meanwhile, the share of loans in lek against the total loans to households recorded a further growth, at 59.2%, or 2 percentage points higher than at the end of 2016

Chart 8 Loans to households by currency and purpose



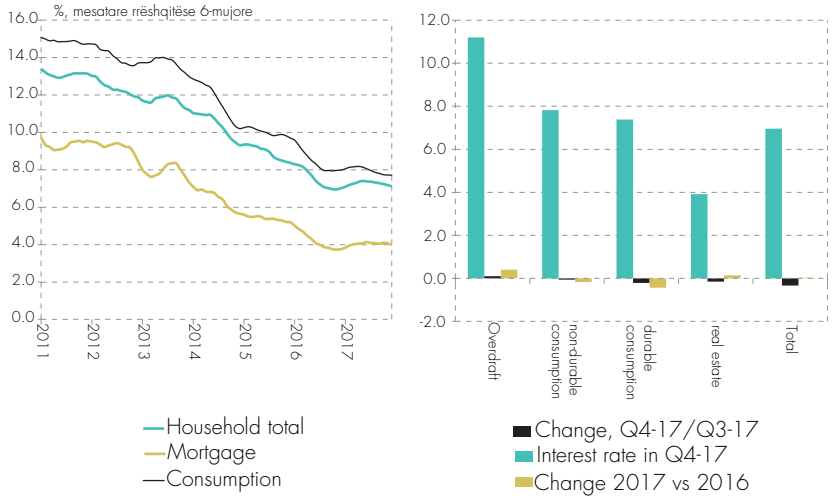
Source: Bank of Albania

INTEREST RATES AND OTHER LENDING CONDITIONS

Interest rates on loans in lek to households slightly fell in 2017 Q4, down again to their lowest levels, recorded in 2016 H2. Thus, the average interest rate was 7.0%, from 7.3% in Q3 and Q2, and 7.5% in 2017 Q1. In average annual terms, the interest rate on loans to households, in the last two years, has been stable with small fluctuations, averaging around 7.3%, after a gradual decrease in the previous years.

The slight reduction of rates in this quarter was mainly affected by the interest on loans for house purchase and consumption, which were 3.9% and 7.7%, respectively. Meanwhile, the interest rate on overdraft loans remained stable, at 11.2%

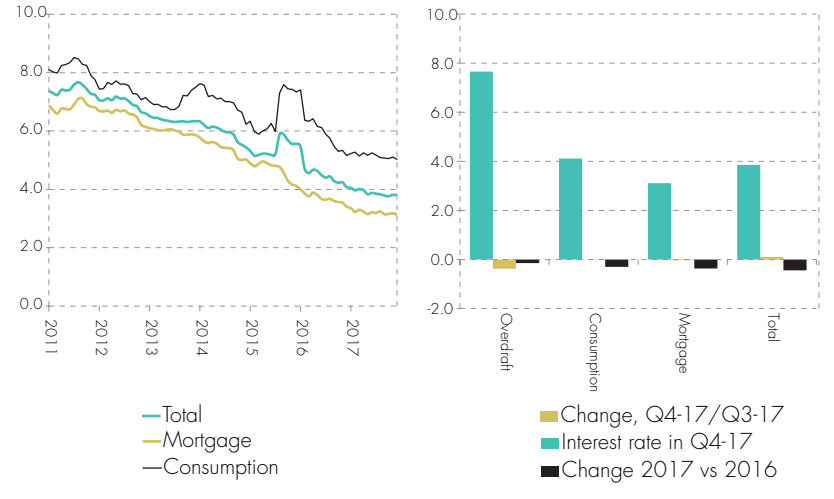
Chart 9 Interest rates on loans in lek to households



Source: Bank of Albania

The average interest rate on euro loans to households was stable throughout 2017. It was 3.9% in 2017 Q4, rather close to the average recorded in its three first quarters. The interest rates on consumer and mortgage loans did not change from the previous quarter, standing at 4.1% and 3.1%, respectively. Only the interest rates on overdraft loans fell; nevertheless they comprise a small share of the euro loans to households. In 2017, the average interest rate on euro loans to households fell by almost 0.4 percentage point for mortgage loans, and 0.3 percentage point for consumer loans. Meanwhile the interest for overdraft loans remained unchanged.

Chart 10 Interest rates on loans in euro to households

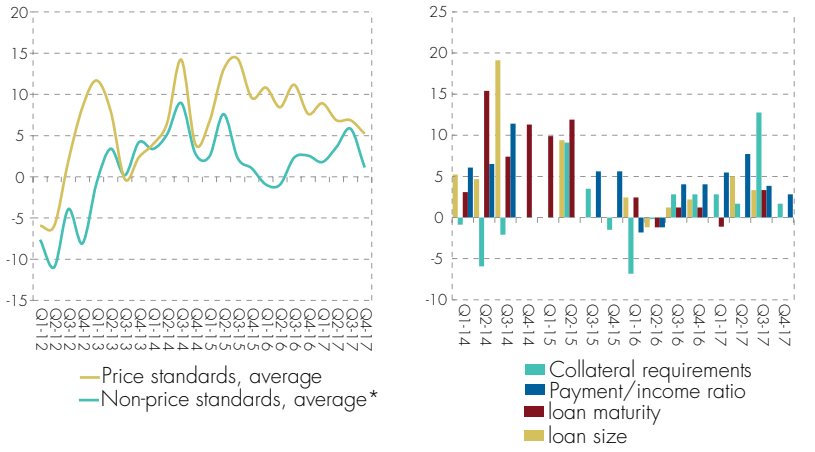


Source: Bank of Albania

In the last four years, banks have shown a positive approach versus lending to households. This approach was materialised in the continuous easing of both price and non-price lending conditions to households. In 2017 Q4, banks

eased marginally the non-price conditions applied on loans to households. They kept the maximum size and maturity of loans unchanged, meanwhile the two other non-price conditions, collateral requirements and debt-to-income ratio, slightly improved.

Chart 11 Lending standards for households



Source: Bank of Albania.
*Note: positive/negative balance implies easing/tightening of standards. Price and non-price standards are calculated as a simple average of individual components' balance sheets.

3. TRENDS IN LENDING IN THE COUNTRIES OF THE REGION

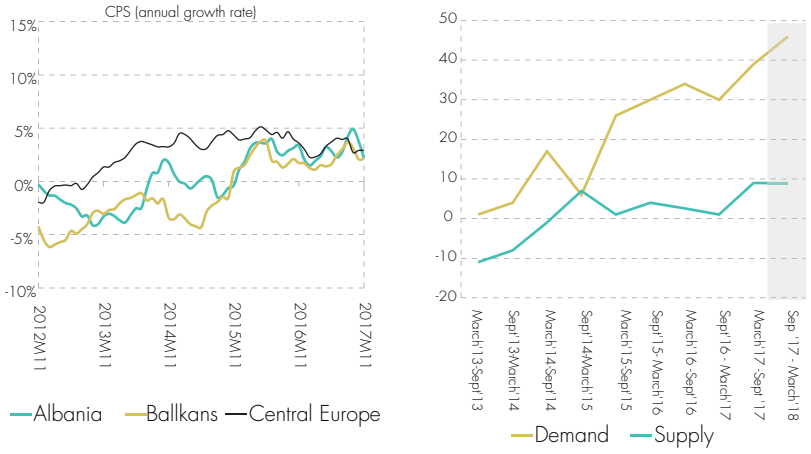
Lending in the CESEE region slowed down in 2017 Q4, after accelerating in the two previous quarters. This performance is similar across all countries and mainly reflects the performance of loans to enterprises; meanwhile loans to households were more stable

Credit to the private sector[9] in the CESEE region recorded an average annual growth around 2.7% in October and November, compared to 3.5% in the previous quarter. Lending survey 10 reports of countries in the region, for the period April - September 2017, show growing credit demand from the private sector for some consecutive quarters. Also, lending conditions on the supply side are reported to be eased, the first significant easing after a two-year period. All these factors affected the positive shock on credit to the private sector during this period. Notwithstanding these developments, the gap between demand and supply is still present. The expectations for the increase of the demand and slight improvement of lending conditions for the period October 2017-March 2018 do not seem to have been completely materialised in its first part.

[9] Credit analysis for private sector in regional countries is based on a credit stock adjusted for the effect of the exchange rate and inflation.

[10] For more about the CESEE Bank Lending Survey Results, 2017 H2 see: http://vienna-initiative.com/wp-content/uploads/2017/12/CESEE-Bank-Lending-Survey-H2-2017_reduced-size.pdf

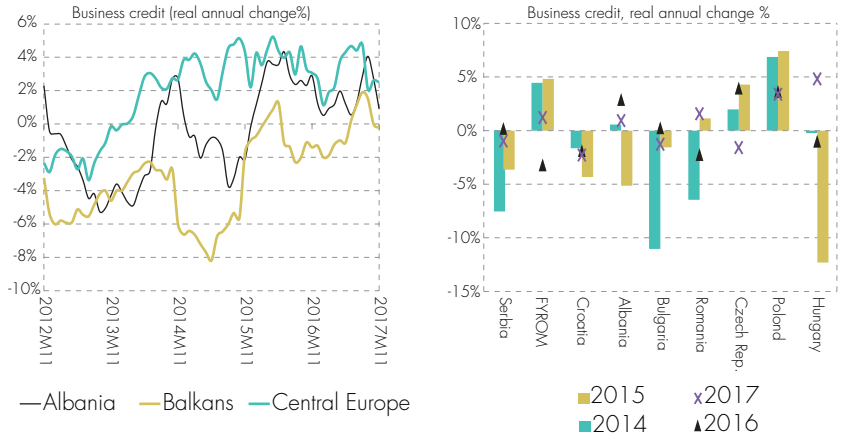
Chart 12 Loans to the private sector in the countries of the region



Source: Bank of Albania; the Banks of the regional countries; EIB- CESEE Bank Lending Survey.

The slowdown of credit in the region was mainly determined by the performance of credit in the Czech Republic, while Poland and Hungary continued to record stable growth rates. Balkan countries also recorded more contained growth rates, in particular Bulgaria and Romania. In line with the regional developments, lending activity in Albania also recorded moderate growth. The slowdown of credit to the private sector in regional countries was affected by the developments in the portfolio of loans to enterprises.

Chart 13 Loans to enterprises in the countries of the region

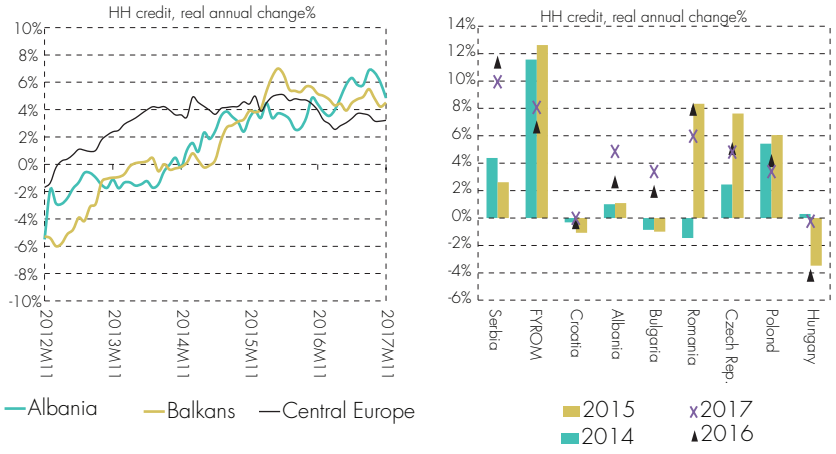


Source: Bank of Albania; the Banks of the regional countries; EIB- CESEE Bank Lending Survey.

Loans to enterprises in the CESEE region were volatile, thus partially paving the path of developments in the credit to the private sector. This portfolio recorded 1.8% growth in October and November. Credit demand from enterprises was generated by the credit need for liquidity and for investment

purposes. The slowdown of credit growth rates for enterprises in the CESEE region has been concentrated, mainly affected by the developments in the Czech Republic. On the other hand, almost all Balkan countries recorded more contained growth in loans to enterprises. In Croatia, Serbia and Bulgaria, the portfolio of loans to enterprises contracted in annual terms.

Chart 14 Loans to households in the regional countries



Source: Bank of Albania; the Banks of the regional countries; EIB- CESEE Bank Lending Survey.

Credit to households in the CESEE region is characterised by a more stable performance. This portfolio recorded 3.4% growth in October and November. Households' demand for loans went up, supported by the more favourable lending conditions for this segment. The positive developments in the housing market and consumer confidence are the main factors that supported the growth of this portfolio. In geographic terms, credit performance of households is more uniform. The Balkan region drives the growth of this portfolio in annual terms, followed by the Central European region. Loans to households in Albania also recorded fast growth, but it appears somewhat slower during this period.