BANK OF ALBANIA

TRENDS IN LENDING

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C O N T E N T S

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 credit terms and conditions based on the Bank Lending Survey (BLS). In addition, Trends in Lending includes an overview of the 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 volumes in the countries of the region. The countries covered by this analysis are: Bulgaria (BU), Croatia (CR), Romania (RO), Serbia (SR), Poland (PL), Hungary (HU), the Czech Republic (CZ), and North Macedonia.

Lending data are obtained from banks' balance sheets and refer to funding by domestic banks to the resident private sector - enterprises and households. The loan portfolio analysis is based on data adjusted for the exchange rate effect. Also, these data take into account written-off loans pursuant to Bank of Albania's Supervisory Council Decision No 50, dated 30.03.2015 "On amendments to the Regulation 'On Credit Risk Management'".

The analysis covers data published as at 24 April 2019, which include information for monetary and financial data as at March 2019[1] and data from the BLS 2019 Q1. Data on lending in regional countries are as at February 2019.

[1] *Monetary data for March 2019 are preliminary.*

OVERVIEW OF THE RESULTS

Loans to the private sector confirmed the positive signals shown since the end of 2018. The growth of the portfolio of both loans to enterprises and lending in lek supported the expansion of the credit portfolio. The further reduction of credit risk and the entrance of new actors in the banking market, coupled with a consolidated credit demand from the private sector, are expected to bolster the steady recovery of lending activity in Albania.

Loans to enterprises improved the growth pace in 2019 Q1, reflecting a higher growth rate of loans to larger firms. The higher financing of enterprises operating in the sectors of industry and trade supported the expansion of the credit portfolio in this quarter. The growth of these portfolios offset the contraction of loans to agriculture and "other services", while credit growth to the construction sector slowed down. From a longer-term perspective, the performance of loans to enterprises remains sluggish, conditioned by both the lack of a stable demand for loans and the conservative approach of banks regarding loans.

Loans to households recorded a slowdown of the growth pace compared to the end of 2018. The lower growth pace of consumer loans had the main impact on this slowdown; meanwhile, the expansion of credit for house purchase was stable. In contrast to expectations, banks noted a lower demand for loans to households in 2019 Q1. Meanwhile, credit standards were slightly on the tightening side. Lending in Tirana dominates the portfolio of loans for house purchase, while consumer loans show a more balanced geographical distribution.

Interest rates on new loans to enterprises in lek are slightly higher than the previous quarter, but close to the average of the previous year. Meanwhile, the financing costs for lek loans to households continued to trend downward in 2019 Q1, standing slightly below the average of 2018. The more positive approach of banks toward households is affirmed by the further easing of non-price conditions offered to them. By contrast, banks tightened the non-price conditions offered to enterprises, in this quarter.

Lending in CESEE countries still appears sluggish. In the first two months of 2019, the portfolio of credit to the private sector improved its growth rates, though they remain moderate. In terms of geographical breakdown, Central Europe remains the region with the highest growth of bank loans to the private sector. By segment, loans to households appear more consolidated, and the growth rates for loans to enterprises were unchanged from the previous quarter.

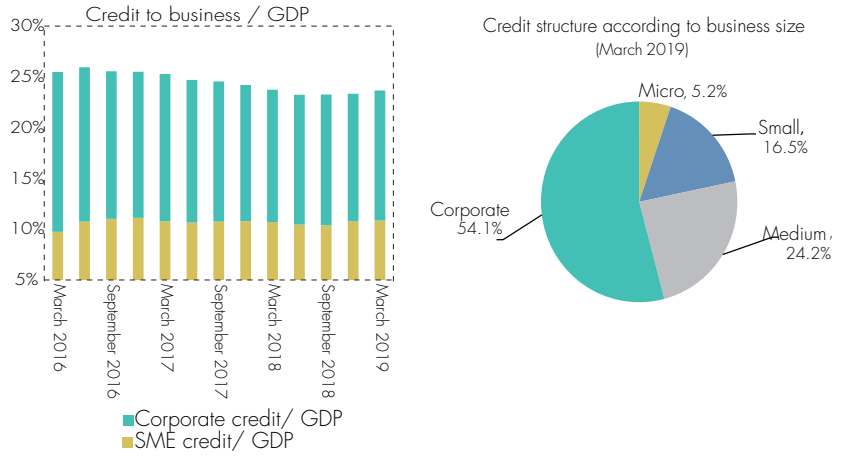
1. LOANS TO ENTERPRISES

Loans to enterprises improved the growth pace in 2019 Q1, driven by the improvement in the growth pace of loans to large firms. Breakdown by sector shows that banks provided financial support to enterprises in industry, and less to enterprises in trade and construction. Financing costs in lek for loans to enterprises remained unchanged in average terms, reflecting the offset of the slight increase of interest rates on loans for investments by the decrease of interest rates on loans for liquidity.

In 2019 Q1, loans to enterprises grew by ALL 6 billion, following the improvement shown since December 2018. This performance supported the annual growth pace of portfolio of loans to enterprises at 6.3% at the end of March 2019. At the end of 2019 Q1, loans to enterprises stood at 23.7% of the GDP, or 0.4 p.p. higher compared to the end of 2018.

From a longer-term perspective, the loans to GDP ratio increased slightly for small and medium-sized enterprises (SMEs), and decreased somewhat for corporates. In the recent years, through the supporting policies for SMEs financing, banks have expanded the share of portfolio of loans to this segment. In March 2019, this portfolio accounted for 46% of total loans to enterprises, almost 0.4 p.p. higher than a year earlier. Notwithstanding the shrinking of the share of corporate loans to total, the large firms remain the main client of the banking sector.

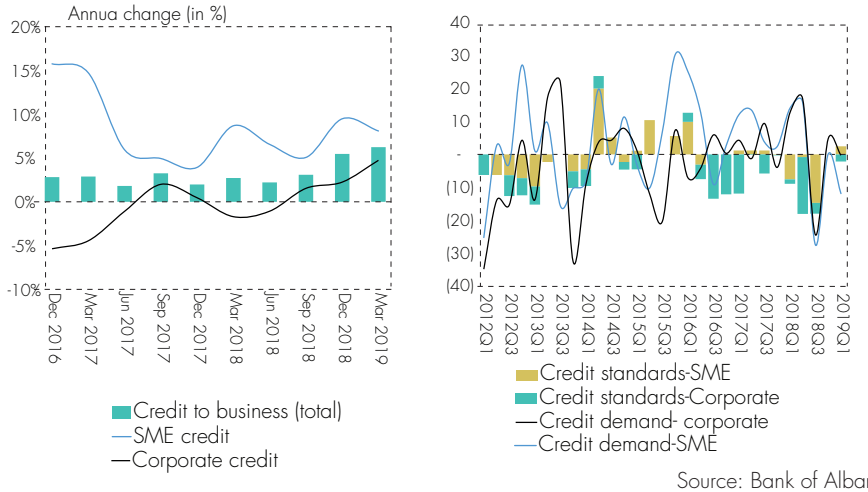
Chart 1 Structure of loans to enterprises by size



Source: Bank of Albania.

The growth pace of loans to enterprises improved, mostly driven by loans to large firms, up by around ALL 4.2 billion in 2019 Q1. In annual terms, loans to corporates improved the growth pace at 4.7%, from 2.2% in December. Loans to SMEs slowed down, providing a lower contribution to the expansion of the loan portfolio during this quarter. According to banks' opinion, loans to SMEs were supported by somehow eased lending standards, while SME credit demand continues to be weak.

Chart 2 Loans to enterprises by size
(annual changes and net balance)



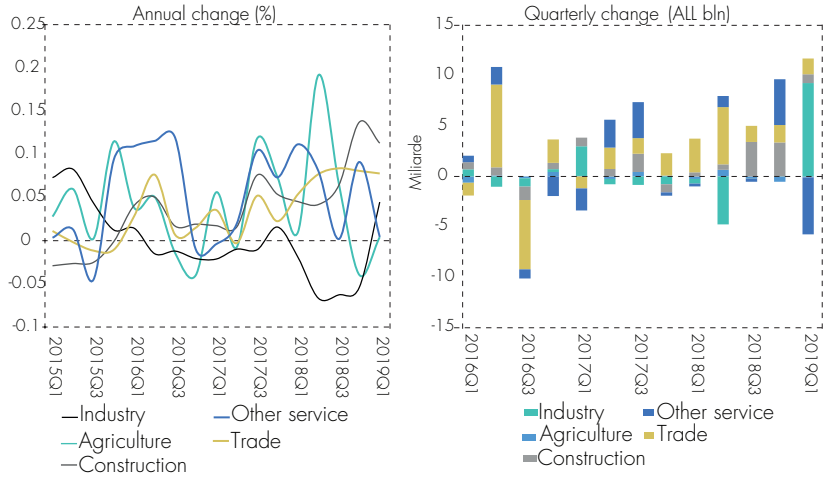
Source: Bank of Albania

Higher growth of loans to enterprises in 2019 Q1 is supported by enlarged financing in the industry sector. Growth in this sector offset contraction of loans to agriculture and others services[2]. Meanwhile, loans to the construction sector has slowdown its growth by ALL 0.8 billion, while the increase of loans to the trade sector remained almost the same as to the previous quarter, at ALL 1.7 billion. As a result, loans to industry showed a significant improvement of the annual growth of 9.3%, reversing the contracting trend of the portfolio that had been present for more than one year; the annual growth rate of the loans-to-trade portfolio remained at similar levels to the end of the year, around 8%. On the other hand, the loans outstanding to agriculture and other services remained unchanged from the previous year. The share of loans to the trade sector, accounted for 44% of the portfolio of loans to enterprises and continues to dominate the loans to enterprises. Loans to industry increased their share at 25%, while the shares of loans to construction and agriculture remained unchanged, at 15% and 1.4% of the total, respectively. Developments in financing by the economic sector are broadly in line with their contribution to the total output.

Beyond short-term improvements, the increase of loans to enterprises remains volatile and at moderate levels. According to banks' opinion, loan supply to enterprises is tightened, affected by both credit risk and bank's risk aversion. Meanwhile, the non-performing loans ratio to total loans to enterprises decreased at 14.6% in 2019 Q1, or 2.6 p.p. lower compared to the previous year. Also, the demand for loans was downward for both sub-segments: corporates and SMEs. The main factors affecting this performance were: use of own funds, lack of need for liquidity, and decrease of confidence. The volatility in the growth pace of loans to enterprises is related to the lack of a persistent increase of loan demand from enterprises and easing of credit standards.

[2] *During 2019 Q1, one of the banks of the system has corrected the reporting of loans by sectors of economy. A part of the considerable growth of loans to industry sector reflects this improvement.*

Chart 3 Loans to enterprises by sector



Source: Bank of Albania. *Trade represents trade, hotels and restaurants sector.

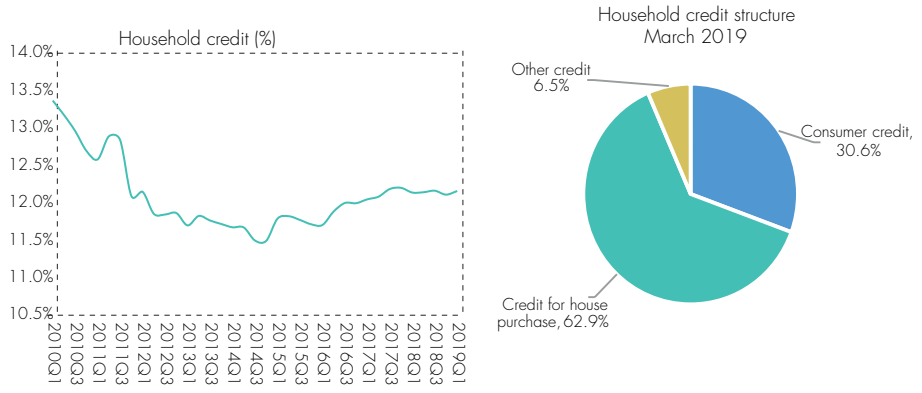
2. LOANS TO HOUSEHOLDS

During 2019 Q1, loans to households grew at a slower pace than at the end of 2018. This slowdown reflected mostly the sluggish performance of consumer loans and the stable growth of loans for house purchase. Data by geographical breakdown confirm that the increase of loans for house purchase is mainly supported by mortgage loans in Tirana. The reduction of financing costs for house purchase loans contributed significantly to this performance. In the framework of a more favourable approach toward households, banks were mindful to maintain also non-price conditions on the easing side.

Loans to households grew at a slower pace during 2019 Q1. The annual rate of this portfolio reduced by 0.3 p.p., at 4.8%, at the end of March. The ratio of loans to households against GDP remained similar to the previous quarter, at 12.16%. Data for the last three years show that this ratio, has remained broadly unchanged. The structure of this portfolio, as previously, is dominated by loans for house purchase, which account for around 63% of total loans to households. Nevertheless, in the last three years, its share in the credit portfolio has been shrinking. This fall is offset by the expansion in the shares of consumer loans and loans for other purposes. In particular, "other loans" to households, including to self-employed, increased compared to the previous year.

The slowdown in the growth of consumer loans appears to reflect both a decreasing demand from households and slightly more tightened conditions. Consumer loans contracted in 2019 Q1, by slowing down the annual growth rate at 4.8%, or 5 p.p. lower than the average of the previous year. The contraction in consumer loans is offset by the increase by ALL 1.3 billion of loans for house purchase, which grew at a more stable pace over a one-year period. The annual expansion rate of this portfolio stood at 6.5% in March, same as the average rate of 2018.

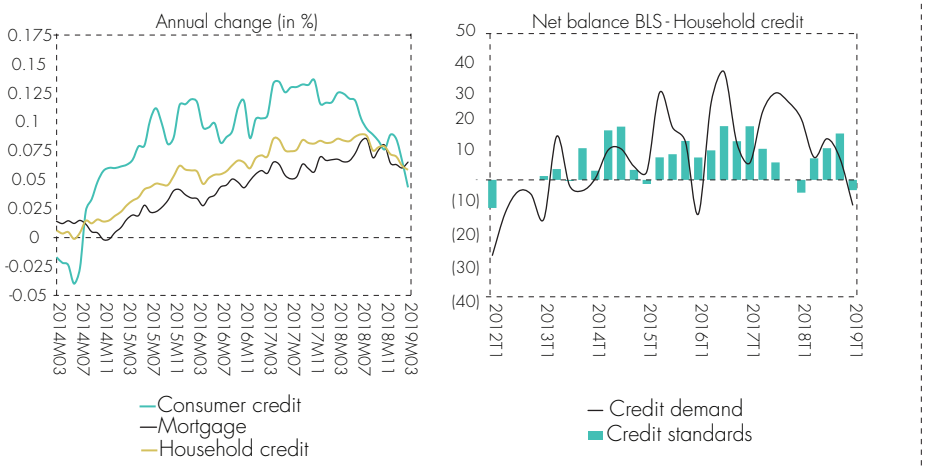
Chart 4 Loans to households as a ratio to GDP and its structure



Source: Bank of Albania.

The geographical breakdown of loans to households shows that such lending was concentrated in Tirana. Data show that, during 2019 Q1, total loans to households was concentrated in Tirana (60.2% of total), broadly affected by the increase in the dominance of loans for house purchase. Thus, loans for house purchase in Tirana account for 67.2% of the total portfolio. This share has increased by around 2.4 p.p. in the last two years. Also, the geographical breakdown of consumer loans shows that recently banks have started to be more active in other cities. Compared to three years ago, the share of consumer loans in coastal cities to the total increased by around 1.5 p.p. related also to the improvement of economic activity in these cities.

Chart 5 Loans to households by use (in % and p.p.)



Source: Bank of Albania.

3. INTEREST RATES AND OTHER CREDIT TERMS AND CONDITIONS

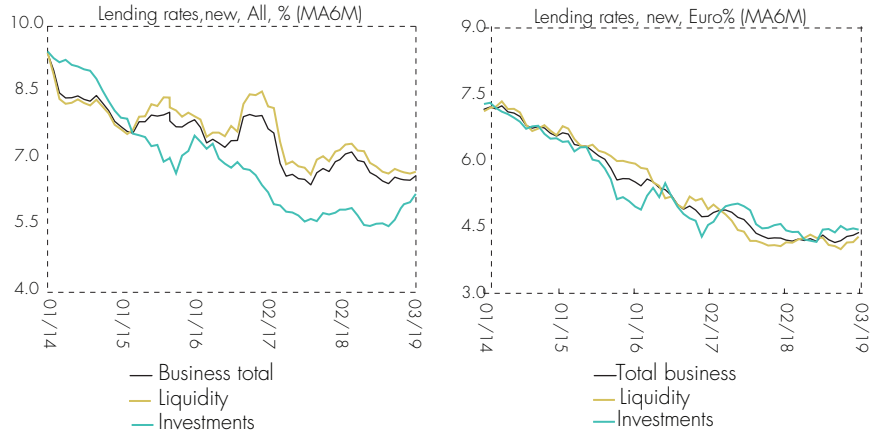
Interest rates on new loans to enterprises in lek *are slightly higher than a quarter earlier, but close to the average of the previous year. Interest rates on new loans in euro showed a more pronounced increase from the average of both 2018 Q4 and 2018. Meanwhile,* ***the financing costs for lek loans to households*** *continued to trend downward in 2019 Q1, standing slightly below the average of 2018. The opposite is noted for financing costs in euro loans to households. They increased, thus, further narrowing the spread of interest rates between the two currencies. The more positive approach of banks toward households is confirmed also by the further easing of non-price conditions offered to them. By contrast, banks tightened the non-price conditions offered to enterprises, in this quarter.*

Loans to enterprises

In 2019 Q1, the average interest rate on loans to private enterprises increased slightly at 6.8%, from 6.5% in 2018 Q4. Beyond the volatility characterising these rates, interest rates on loans to enterprises remain broadly unchanged from the values of 2018. The interest rates increased slightly on both loans for working capital and those for investment, compared with the previous quarter. Interest rates for this category were up on loans for business start-up, purchasing equipment and real estate purposes. Interest rates on loans for investment have continued to trend slightly up since the previous year. This performance is also shown by the analysis of interest rates on loans by maturity, with interest rates for longer-than-one-year maturities increasing slightly, over the second half of year. The performance of overdrafts were a positive factor in refraining the cost of loans to enterprises; albeit volatile, this category remained unchanged from the previous quarter, and trended slightly downward from the average of the year. The interest rate on loans for investments was 6.6% in 2019 Q1, from 5.8% in 2018 Q4, and 5.7% during 2018. Interest rates on loans for liquidity stood at 6.7% in the first quarter, equal to the previous quarter, but slightly lower than their average of 2018 (7.0%). The analysis of interest rates by size of banks confirms that the group of smaller banks apply, on average, lower premiums than the group of larger banks on loans to enterprises for both liquidity and investment purposes.

Interest rates on euro loans to enterprises increased in the first quarter, reflecting mainly the performance of interest rates on loans for liquidity. On average, they registered 4.7% in this quarter from 4.1% in the previous quarter, and 4.2% during 2018. By purpose of use, changes were present in loans for liquidity purposes, which increased for both overdrafts and working capital compared to the previous quarter. Interest rates on euro loans for investments trended up compared to the previous year.

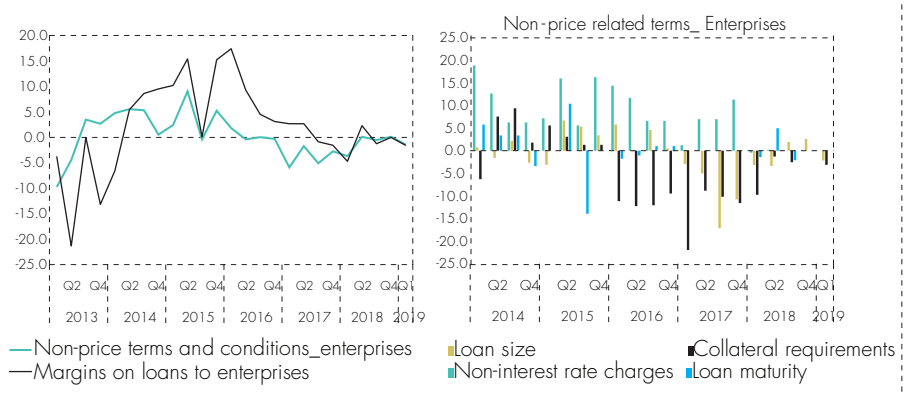
Chart 6 Interest rates in lek (left) on loans to private enterprises, in euro (right)



Source: Bank of Albania.

In 2019 Q1, terms and conditions for loans to enterprises were somewhat more tightened, according to commercial banks' perceptions[3]. The slight tightening of terms and conditions was noted in higher margins applied on both riskier and average loans. In the same line, other non-price terms/ factors contributed somewhat to the slight tightening of conditions applied on new loans to enterprises. In this quarter, the slight tightening of terms and conditions through the non-price channel was determined by higher collateral requirements and the reduction of the size of loans to enterprises.

Chart 7 Terms and conditions for loans to enterprises, according to two main categories (left) and detailed for non-price category (right)*



Source: Bank of Albania.

*: Values represent net balances between positive and negative responses, according to the BLS questionnaire in Albania, revised in 2018 Q2, by including new factors as part of non-price terms and conditions. Price related to terms and conditions include the applied margin on average loans and on riskier loans. Non-price terms and conditions include non-interest rate charges, loan size, loan maturity, collateral requirements and loan covenant.

Notwithstanding the slight tightening of credit terms and conditions in 2019 Q1, they remain eased for a medium-term period. The continuous reduction of margins applied on average loans, provided a higher impact on the easing

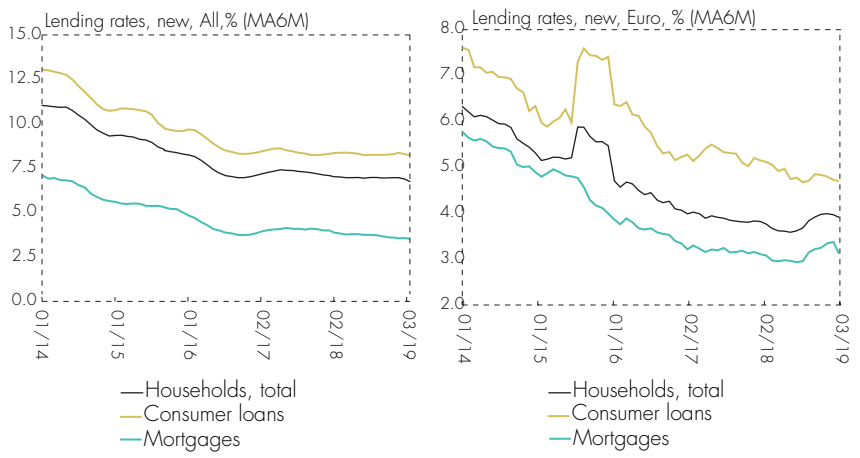
[3] *For details see https://www.bankofalbania.org/Monetary_Policy/Surveys_11282/Bank_Lending_Survey/*

of terms and conditions. Also, the lower margins applied on riskier loans provided a lower impact.

Loans to households

In 2019 Q1, the interest rates on loans to households continued to decrease slightly. The average interest rate on loans to households was 6.6% in 2019 Q1, from 6.9% in 2018 Q4. The interest rates applied on loans to households appear lower than in 2018 H2 and in 2018. By purpose of use, in 2019 Q1, interest rates on consumer loans continued to decrease marginally, while interest rates on mortgage loans fell sharply. The analysis of interest rates by size of banks confirms that the group of small banks apply, on average, lower premiums than the group of larger banks on both categories of loans to households. Nevertheless, interest rates applied on loans to both categories show similar performance and directions over the months.

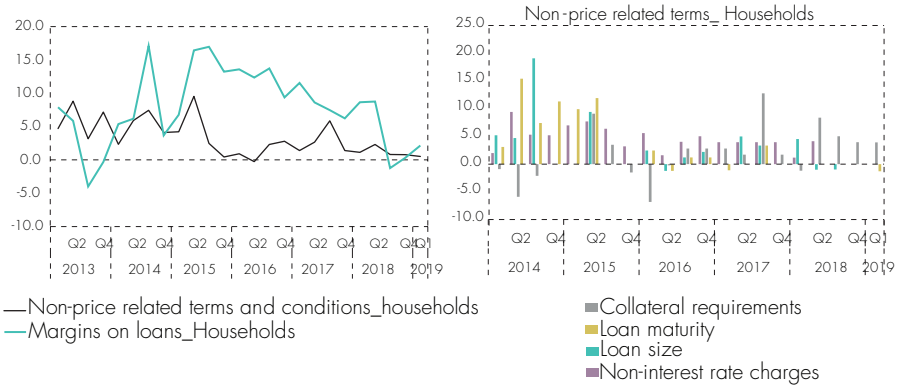
Chart 8 Interest rates on loans to households in lek (left) and in euro (right)



Source: Bank of Albania.

In 2019 Q1, the average interest rate on euro loans to households decreased at 3.7%, from 4.2% in 2018 Q4. Interest rates on euro loans trended upwards, mainly during 2018 H2, but resumed downward trends in these three months. By purpose of use, in this quarter, interest rates decreased on overdrafts in particular and consumer loans in general. Interest rates applied on mortgage loans reversed to the downward trend in this quarter, after the upward trend in the last two quarters of 2018. The level of interest rates for this category, nevertheless, is above the average level of 2018, thus reflecting an upward trend of interest rates applied by banks on house purchase loans in euro. Similar to the interest rates on loans in lek, the group of larger banks shows lower average interest rates than the group of other banks. However, it is confirmed that the interest rates applied by both groups have shown similar performance and direction over the quarters.

Chart 9 Terms and conditions for loans to households, according to two main categories (left) and detailed for non-price category (right)*



Source: Bank of Albania.

*: Values represent net balances between positive and negative responses, according to the BLS questionnaire in Albania, revised in 2018 Q2, by including new factors as part of non-price terms and conditions. Price related terms and conditions include the applied margin on average loans and on riskier loans. Non-price terms and conditions include non-interest rate charges, loan size, loan maturity, collateral requirements and loan covenant.

Commercial banks reported somewhat improved terms and conditions applied on new loans to households, in 2019 Q1. The slight improvement of terms and conditions applied on loans for this category was mainly provided by the reduction of margins applied on average loans. The group of non-price determinant factors also contributed to the easing of terms and conditions applied on loans, affected by the lower collateral requirements from banks.

In a longer-term perspective, terms and conditions for loans to households are eased, mainly due to the strategies of banks to reduce continuously the margins that directly affect the loan price.

4. TRENDS IN LENDING IN THE COUNTRIES OF THE REGION

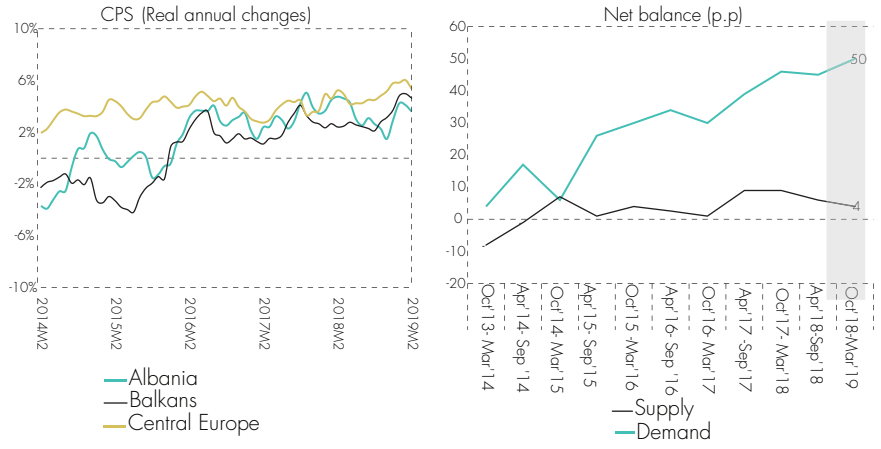
Credit developments in CESEE countries appear still sluggish. In the first two months of 2019, the portfolio of credit to the private sector has improved, yet recording moderate growth rates. The Central Europe remains the region with the highest growth of credit to the private sector. By destination, credit channelled in the household segment appears more consolidated. Growth rates for loans to enterprises remained unchanged from the previous quarter.

The performance of **credit to the private sector** in the first two months of 2019 has confirmed the improved growth rates of this portfolio in the previous quarter. The outstanding credit to the private sector recorded an annual growth of 5.5% on average during this period, compared to 5.2% in 2018 Q4. Referring to the expectations of the banking sector for the period October 2018-March 2019[4], credit growth in the region, during the first two months of the year, seems to have been materialised amid an environment of increased

[4] *For further details on the Bank Lending Survey in CESEE region, see: https://www.eib.org/en/infocentre/publications/all/cesee-bls-2018-h2.htm*

demand for loans, against the backdrop of a more tightened supply by banks. By geographical breakdown, credit growth is confirmed less segmented compared to previous periods. Central Europe continues to drive the growth of credit to the private sector across the CESEE region, reflecting the faster expansion of credit to enterprises.

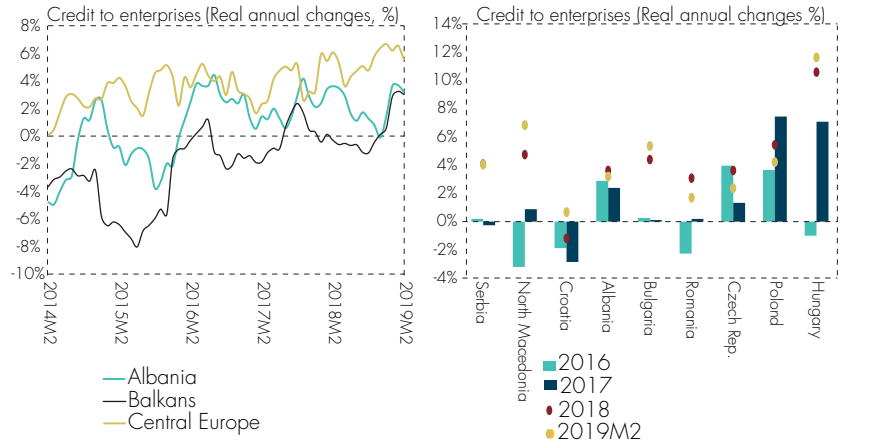
Chart 10 Credit to the private sector in regional countries



Source: Bank of Albania; banks of regional countries; EIB - BLS for CESEE countries.

Loans to enterprises maintained the annual growth rates of the previous quarter. Nevertheless, the performance of this portfolio, in the short term, remains relatively volatile. Outstanding loans to enterprises expanded by 5.2% in January and February, compared to the annual rate of 4.9% in the previous quarter, nonetheless slowing down at the end of the period. Credit growth to this segment is supported by the high demand, but at the same time is conditioned by the still tight credit standards.

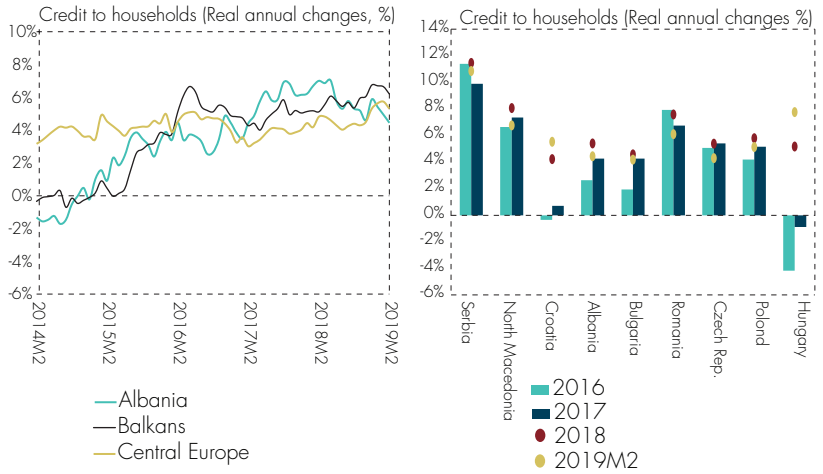
Chart 11 Loans to enterprises in the countries of the CESEE region



Source: Bank of Albania.

The bank lending survey in CESEE countries shows that the regulatory environment across these countries remains the most dominant factor, at local level, given the tight lending terms and conditions. In the last survey, increased demand for loans from enterprises (current and expected one) is reported for both liquidity and investments purposes. These developments are supported by the positive economic cycle and the improved macroeconomic and financial environment in this region. The annual growth rates of loans to enterprises in Albania appears close to the rates across the Balkan countries.

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



Source: Bank of Albania .

Loans to households continue to show a steady upward trajectory, albeit at moderate levels. This portfolio expanded by 5.7%, on average, in annual terms, in January and February, compared to 5.4% in the previous quarter. The performance of loans to households reflects the latter's high demand for financing from the banking sector, supported by relatively more eased terms and conditions for this segment.

The bank lending survey across regional countries shows that the demand for consumer loans and mortgage loans, coupled with the continuing improvement of consumer confidence, provided a positive contribution to the growth of the households' demand for loans. Overall, the portfolio of loans to households in Albania performed akin to the CESSE regional countries.