TRENDS IN LENDING

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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 at 24 July 2020, which include information for monetary and financial data as at June 2020, and data from the Bank Lending Survey 2020 Q2. Data on credit in regional countries are as at May 2020.

Current financial data in Albania indicate a contained impact of the pandemic on the lending activity. The measures taken by the government and the Bank of Albania to cope with the consequences of the pandemic have had a positive impact, thus mitigating the negative effects on lending activity.
OVERVIEW OF RESULTS

Lending activity developments in 2020 Q2 show that:

• **Loans to enterprises** registered higher growth rates than in 2020 Q1. The expansion of credit during this period is supported by the monetary stimulus and the packages of measures for mitigating the negative effects, among which the sovereign loan guarantee scheme. However, in 2020 Q2, credit conditions in this segment are reported tightened and credit demand in decline, reflecting the negative developments due to the Covid-19 pandemic.

• **Loans to households** showed growth rates in slowdown in 2020 Q2. This performance has affected both segments, consumer loans and mortgage loans. Loans to households continue to be supported by the stable performance of loans in the domestic currency.

• **Interest rates for loans** in lek to enterprises registered a decline in 2020 Q2. This performance is supported by both the easing of monetary policy and by the sovereign loan guarantee scheme. The interest of loans to households also declined. Meanwhile, interest rates for loans in euro continue to be relatively stable, for both enterprises and households. Non-price terms and conditions for households tightened in this quarter.

• **Lending activity in the countries of the region** registered a moderate decline, similar to that of 2020 Q1. In order to contain the negative effects on the economy from the Covid-19 pandemic, all countries of the region have undertaken various measures in the form of financial and fiscal packages. These measures seem to have supported the expansion of credit to the private sector during this period.

• **For the next six months**, the expectations of banks in the region for lending to the economy, both in terms of supply and demand, result on a tightening side.
1. LOANS TO ENTERPRISES

Loans to enterprises registered slightly higher growth rates than in 2020 Q1. This performance is supported by loans in domestic currency, reflecting the measures taken in the framework of the Covid-19 pandemic. In terms of enterprises’ size, loans to small and medium-sized enterprises gave the higher contribution to growth.

Loans to enterprises registered an average annual growth by around 7.3% in the 2020 Q2, despite banks reporting tightened lending standards and demand was perceived in decline. The tightening of lending standards and the decline of demand during this period reflects the negative effects of the global Covid-19 pandemic. In order to ease these consequences on lending activity and on the economy, the government and the Bank of Albania approved a package of measures. Monetary stimulus, transmitted mainly in the form of reducing the policy rate and offering full allotment liquidity to banks, has had a positive impact in supporting the banking system during the pandemic situation. Furthermore, in the Bank Lending Survey for 2020 Q2, banks reported that one of the factors that have positively affected the stimulation of credit demand is also the sovereign loan guarantee scheme. The decline of credit demand - offered at normal market conditions - seems to have been compensated by the demand generated by the guarantee scheme offered at favourable conditions, in order to help businesses face their funding needs under the current pandemics circumstances.

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1 Adjusted for written-off balance sheet loans and the impact of the exchange rate.
2 For more details on the measures undertaken, see Box 3, Monetary Policy Report 2020/II.
3 For more details about this Survey, see the following address: https://www.bankofalbania.org/rc/doc/Analiza_VAK_T2_2020_17340.pdf
The stock of loans to enterprises registered an increase of around 12 billion in absolute terms, mainly concentrated in June. Performance by size indicates a more rapid expansion in the segment of small and medium-sized enterprises. At the end of June, loans in this segment had a share of 44.5% of total loans to enterprises. The growth of this portfolio is largely supported by the high quantity of new loans granted in 2020 Q2. As a ratio to GDP, this portfolio is assessed at around 10.9% at the end of 2020 Q2, registering an increase by around 1.5 percentage points compared to the same period in the previous year. The portfolio of loans to corporations registered a slowdown of growth rates in two quarters. Loans in this segment are also assessed at around 10.9% as a ratio to GDP at the end of June. Compared to the same period last year, this ratio is assessed upwards by around 0.3 percentage points.

Loans to enterprises constitute around 66.3% of total loans granted to private economic agents. The structure of loans to enterprises by currency is dominated by foreign currency loans. At the end of June, the portfolio of foreign currency loans to enterprises constituted around 39% of the total credit to the private sector, or around 59% of the portfolio of loans to enterprises itself. The high credit demand in foreign currency of this segment reflects, inter alia, the nature of enterprises operating in foreign currency, such as those that operate in the importing-exporting sectors. In the recent years, the shift of borrowing towards domestic currency, has affected the gradual reduction of its share in the total portfolio. In the space of a year, this share has declined by almost 2 percentage points, from around 61% in foreign currency loans to enterprises at the end of June 2019.
The geographical distribution of loans to enterprises continues to be very concentrated. More than 80% of the stock of loans to enterprises is granted in Tirana County, followed by the counties of Durrës and Vlora, with around 8% and 2%, respectively. The high concentration of credit in the Tirana County reflects on one hand the high flow of economic and financial activity in this county, and on the other the relatively high demographic concentration in this area.

Interest rates on lek loans to enterprises have declined in 2020 Q2, reflecting the impact of stimulus and supporting policies undertaken by the authorities to address the economic challenges in this period. For euro loans, interest rates have not changed.

The average interest rate on new loans granted to enterprises registered a significant decline during 2020 Q2. It resulted at 5.1%, from 5.5% in the previous quarter and 6.0% on average in 2019. The main factors behind this performance are the easing monetary policy and the sovereign loan guarantee scheme, which have significantly contributed in easing funding to enterprises in these challenging months for the smooth running of their activities. Moreover, the volume disbursed in this quarter has also shown an increase. By loan size, interest rates have declined for small loans (up to ALL 35 million) and the average ones (ALL 35-140 million). They were recorded 4.6% and 4.4%, respectively, from 5.7% and 5.4% in the previous quarter. An exemption to this performance are large loans (over ALL 140 million), the average rate of which has increased in this quarter, registering 6.0%, from 5.4% in 2020 Q1. This level is near the average of 2019.

The historical performance of interest rates by loan size shows that interest rates have been systematically lower for loans of ALL 35-140 million, most \( [ \) and granted to medium sized and large consolidated enterprises, thus with lower credit risk.
Meanwhile, small loans, as well as large loans, have been disbursed at higher interest rates. They reflect a higher risk for small loans, related to the activities of small enterprises (a segment with lower access to banking funding), and for large loans, which constitute a high exposure of banks towards a single enterprise.

The average interest rate on loans to enterprises in euro remained unchanged in 2020 Q2, at 5.3%. Compared to 2019 they are slightly higher, by 0.2 percentage points. By loan size, interest rates registered a slight decrease for loans up to EUR 1 million. Meanwhile, interest rates for loans larger than EUR 1 million registered a significant increase, accompanied also with a decrease of the volume of loans disbursed. Similar to lek loans, interest rates for euro loans are lower for the segment of medium-sized loans (EUR 250 thousand to EUR 1 million) and higher for those over EUR 1 million.
The interest rate differential of lek loans with euro loans to enterprises decreased in this quarter, affected by the decline of interest rates on lek loans. It stands at -0.2 percentage points in 2020 Q2, from 0.2 percentage points and 0.8 percentage points, respectively, in 2020 Q1 and 2019. The different impact during this quarter highlights the effect of the central bank and government measures in supporting enterprises during this crisis.

The unprecedented situation caused by the global pandemic has increased uncertainties for the future, guiding banks to base their decisions within a narrower level of tolerance for perceived risk. The increased prudence of commercial banks has appeared, inter alia, also in defining more tightened terms and conditions compared to the previous quarter for loans granted to enterprises. The tightening of lending standards was achieved by approving lower loan sizes than those requested by enterprises, higher requirements for collateral related to the loan obtained, as well as increased limitations in the loan agreement subscribed by the two parties. The deepening of negative balances, for overall terms and conditions, as well as for the elements that form them, indicate an increase of the number of banks that apply such terms and conditions compared to the previous quarter.

On the other hand, although banks have been more discreet by defining higher margins particularly for loans with risk, overall margins in 2020 Q2 appear to have been reduced. The lower margins applied for loans to enterprises appear to have been driven mainly by the sovereign guarantee fund delivered in 2020 Q2, in order to cover the liquidity needs of enterprises. The Albanian government guaranteed an amount of ALL 11 billion, to be granted to enterprises to cover the costs for employees’ wages, against a rate no higher than 2.85%. Interests on loans classified under the sovereign guarantee scheme are settled by the Albanian government. According to the data published by the MoFE, a total of ALL 6.3 billion was used from the sovereign guarantee fund.

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4 The sovereign guarantee scheme 1 was approved by the government on 6 April 2020 and the application deadline was 20 June.
2. LOANS TO HOUSEHOLDS

Loans to households showed a slowdown in 2020 Q2. This performance has affected both segments, consumer loans and mortgage loans. The expansion of loans to households continues to be supported by the stable performance of domestic currency loans.

In 2020 Q2, loans to households recorded an average annual growth of 6.1%, around 1.4 percentage points lower compared to the previous quarter. As a ratio to GDP, the stock of loans to households is assessed at around 13.2% at the end of June. By purpose of use, the structure of loans indicates that this portfolio is dominated by loans granted in the segment of mortgages. This portfolio constitutes over 64% of the stock of loans to households and around 22% of the total stock of credit to the private sector. Consequently, consumer credit has a lower share in the stock of loans to households. This portfolio is assessed at around 3.9% of GDP at the end of June, increasing by 0.2 percentage points compared to the same period of last year.

The demand of households for funding with loans from the banking system is reported to have declined significantly during 2020 Q2. On the supply side, banks have also reported tightened lending standards for this category during this period, where all the defining factors are reported on the tightening side. This performance mainly reflects the Covid-19 developments, whose impact has materialized in March and has continued to do so in 2020 Q2 as well.

The geographical distribution of loans to households shows a different picture in terms of loan segments by purpose of use. The portfolio for mortgage shows a high concentration in Tirana County, with a share of over 70% of total loans granted for this purpose. The counties of Durrës and Vlora constitute around 8.1% and 4.3%, respectively, of mortgage loans granted. The funding of this segment of the market is related to the demographic concentration and the high prices of houses in this county, which drives credit demand for housing.
Meanwhile, the portfolio of consumer loans shows a more homogeneous distribution in geographical terms. Around 44% of consumer loans are granted in Tirana County, 8.9% in that of Durrës, 5.6% in Fier and 5.5% in Vlora.

Interest rates on loans to households decreased in 2020 Q2, even isolating their high volatility in particular months. Interest rates on euro loans have remained stable. Non-price terms and conditions are on the tightening side.

Average interest rate on lek loans to households registered a decline in 2020 Q2. It stands at 5.9%, from 6.8% in the previous quarter and 6.5% in 2019. Interest rates on loans to households have shown increased volatility in the segments of consumer and mortgage loans in particular months during this year. In the absence of these episodes, interest rates on loans to households in this quarter have shown less volatility, while being lower than in the previous quarter and the previous year.
Interest rates on consumer loans were particularly lower in April (5.4%), also affecting the low average registered in 2020 Q2, at 7.2%. In May and June, consumer loans were granted at an average rate of 8.1%, remaining near the average of 2020 Q1 (8.3%) and that of 2019 (8.1%).

The average interest rate of mortgage loans was 4.6%, remaining near its average in 2020 Q1. Interest rates on mortgage loans have been volatile during 2020; they increased in March and April at 4.9% on average, and in May and June returned at the level of the first two months of the year, as well as near the average of 2019 (4.2%).

The average rate of euro loans to households appears stable in 2020 Q2, at 4.1%, from 5.5% in the previous quarter and in 2019. By purpose of use, the interest rate on mortgage loans remained unchanged, at 4.0%. Meanwhile, that on consumer loans stands at 4.4%, or 0.5 percentage points lower than in 2020 Q1 and in 2019. The interest rate differential of lek loans and euro loans to households, at 1.8 percentage points in this quarter, narrowed down compared to the previous quarter and to 2019, reflecting the lower interest rates on lek loans.

The careful lending policy of banks was reflected in tighter lending terms and conditions for new loans to households as well. The overall negative balance that represents terms and conditions for loans to households deepened further in 2020 Q2, mainly due to tighter conditions set by banks in loan agreements. Also, banks slightly reduced the size of loans to households, compared to the previous quarter.
3. TRENDS IN LENDING IN THE CESEE REGION

Lending activity in the CESEE countries in April and May maintained similar growth rates to 2020 Q1.

Credit to the private sector in the region has continued to expand at a moderate pace. In April and May, this portfolio registered an annual growth of 2.8% on average, compared to the 2.6% rate in 2020 Q1. Governments and central banks of the countries of the region, starting from March, have taken several measures in the form of various financial packages to minimize the economic consequence of the global Covid-19 pandemic\(^5\). These measures aimed, inter alia, to mitigate the negative consequences in the lending activity and the chain effects on the economic and financial developments. The approvals of moratoriums on restructuring banking loans to postpone loan payments of enterprises and households for a period of at least a quarter or more, as well as the decrease of the policy rate by central banks have been among the similar measures taken throughout the CESEE region. They have been followed by various financial and fiscal packages in support of households and enterprises to face their economic, financial and operational challenges. Credit to the private sector growth rates have remained on a positive trajectory in April and May as well, indicating the positive impact of these measures on lending activity. This performance is also observed in a narrower geographical distribution. Credit to the private sector has recorded faster and improved growth rates in the Balkan countries, where the expansion of credit to the private sector in Albania also remains close to the average of this region. Central Europe countries, which constitute the main share of the portfolio in the region, have also recorded an improvement of growth rates, but at a more moderate pace. Meanwhile, according to the Bank Lending

\(^5\) For a summary of these measures in the region, see the Box in “Trend ins Lending 2020 Q1 at: https://www.bankofalbania.org/Monetary_Policy/Analyses/Trends_in_lendings/
Survey in the countries of the region, credit supply is somewhat eased, while credit demand has increased at a slower pace. In the next six months banks expect a tightening of supply conditions and a lower growth of demand.

The portfolio of loans to enterprises in the CESEE region recorded an average annual growth rate of 1.9% in April and May, compared to 1.2% in 2020 Q1. Lending to this segment has been a priority among the measures taken in the framework of mitigating the impact of the Covid-19 pandemic. These packages seem to have improved lending rates in this segment by 0.7 percentage points on average compared to 2020 Q1. In geographical terms, these improvements appear to be evenly distributed in the Balkan and Central European countries, reflecting the measures taken in all these countries. Loans to enterprises have recorded faster growth rates in Albania result compared to those of the other countries in the region. Among other things, long-term developments of this portfolio also reflect the catch-up effect of the convergence process.
The stock of loans to households recorded an annual growth rate of 3.4% on average in April-May, similar to the growth rates in 2020 Q1. This portfolio continues to record faster growth rates compared to credit to enterprises, despite the slowdown shown since the beginning of the year. This slowdown is evident in both the Balkan region and the Central European one. In the EIB Bank Lending Survey including countries in the CESEE region, banks expected a contraction of demand for the period April 2020 - September 2020, particularly more pronounced in the households segment. Lower demand, combined with tightened supply-side conditions, seem to have contributed to the further slowdown of the growth rates of this portfolio.

![Chart 14 Loans to households in the CESEE region](image)

Source: Bank of Albania; Banks of countries in the CESEE region; EIB Bank Lending Survey in CESEE, authors' own calculations.