BANK OF ALBANIA

TRENDS IN LENDING

Olta Manjani, Medvin Shehu, Anjeza Gazidede and Erjona Suljoti
Monetary Policy Department, Bank of Albania

APRIL 2020

C O N T E N T S

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 analysis covers the following countries: 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 lending data adjusted for the impact of the exchange rate and loans written-off banks' balance sheets, a process which banks have undertaken based on the Decision No 50, dated 30.03.2015 "On amendments to the Regulation 'On Credit Risk Management".

The analysis covers data available as at 24 April 2020, which includes information on monetary and financial data as at March 2020[1] and data from the BLS 2020 Q1[2]. Data on credit in regional countries are as at February 2020.

The current data on the lending activity in Albania indicates a still low impact of the pandemic on the analysed financial indicators. Due to the unprecedented situation created by the spread of the Covid-19 pandemic, both in Albania and around the world, this report also includes an informative box, presenting the measures taken by the governments of CESEE countries in addressing the consequences of this pandemic might on the intermediation activity of the banking sector.

[1] *Data for March 2020 are preliminary.*

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

OVERVIEW OF RESULTS

Lending activity developments in 2020 Q1 show that:

- *Credit to the private sector has slowed down its growth rate, affected by the contraction of the loan portfolio in foreign currency in March. Favourable monetary conditions continue to support the adequate rates of lending in lek.*

- *The growth rates of loans to enterprises are lower than in 2019 Q4. The slowdown reflected the decline of the loan to enterprises portfolio. Meanwhile, banks claim a deterioration of both demand and supply of loans to enterprises, affected by the situation arising in the aftermath of the measures for the management of the Covid-19 pandemic.*

- *Short-term developments indicate a sluggish increase of the loan to households' portfolio in 2020 Q1. This performance is affected by the tightening of lending standards and the significant decline of demand due to the impacts of Covid-19 pandemic.*

- *In 2020 Q1, banks kept interest rates low, despite tightening the other non-price terms and conditions for loans to enterprises.*

- *Lending policies to households in 2020 consisted in keeping loan prices unchanged, but tightening the other lending terms and conditions.*

- *The lending activity in the CESEE region has been in a slowdown trajectory since the previous year. This performance is affected by the slowdown of the growth rates of credit to the private sector in Central Europe countries, while lending in Balkan countries resulted relatively steady.*

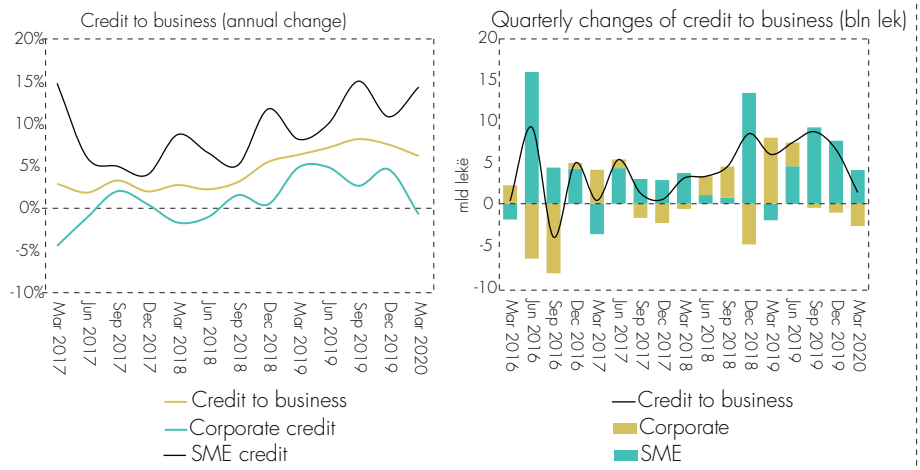
- *The expansion of lending in the region continues to be driven by the households' segment, despite the slowdown of the growth rates of this portfolio in January-February 2020.*

1. LOANS TO ENTERPRISES

Loans to enterprises recorded a slowdown of growth rates, affected by the contraction of loans to large enterprises. Meanwhile, banks indicate a deterioration of both credit demand and supply, in the aftermath of the measures taken to manage the Covid-19 pandemic.

Loans to enterprises increased by ALL 1.3 billion in 2020 Q1. This increase reflects a volatile dynamics: after contracting significantly in January, loans to enterprises increased in February, only to decrease again in March. Short-term dynamics indicate an average annual growth of 6.8%, or around 1.2 p.p. lower than the increase in 2019 Q4. In relation to GDP, loans to enterprises registered an increase by 25.1%[3]. By size of enterprise, the modest growth in 2020 Q1 has reflected the expansion by ALL 4 billion of loans to SMEs, which has compensated the contraction of loans to large enterprises. The decrease of the loan portfolio to large enterprises is due to the decline of new disbursed loans for this segment (by around 15%), as well as enterprises' use of own funds as working capital during March, affected by the situation created by the Covid-19 pandemic.

Chart 1 Loans to enterprises by size



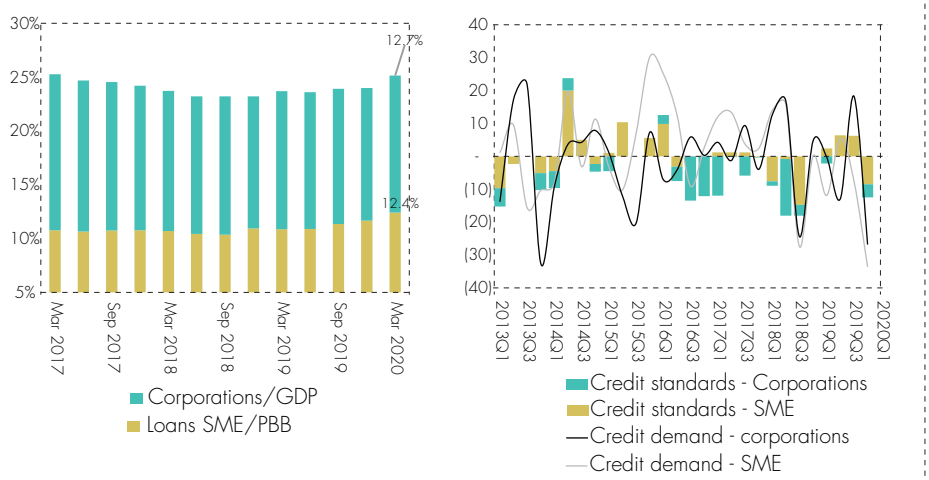
Source: Bank of Albania and staff estimates.

Over the course of one year, loans to enterprises have mainly reflected the growth of SMEs funding, which was also the focus of banks' strategy. In 2020 Q1, the growth of loans to SMEs reflects this portfolio's expansion in February, ahead of the lending activity slowdown in March, affected by the situation of the Covid-19 pandemic. Lending survey data indicate that the economic situation following Covid-19 developments at the beginning

[3] *This ratio is around 1 p.p. higher than 2019 year-end. The growth of this ratio was significantly affected by the fluctuations of the exchange rate and downward revision of GDP, due to the situation created by the Covid-19 pandemic. Compared to the end of 2019, lek depreciated by 7.4% against the euro and the US dollar.*

of March has affected the sharp decline of demand for loans, both from large enterprises and from small and medium-sized enterprises. At the same time, banks have tightened standards for both enterprises' categories, more pertinent for SMEs, as the most affected segment by the lockdown measures taken by the government. The reduction of enterprises' deposits in March indicates that enterprises have used their reserve funds to fulfil their liquidity needs, loaning out even less credit.

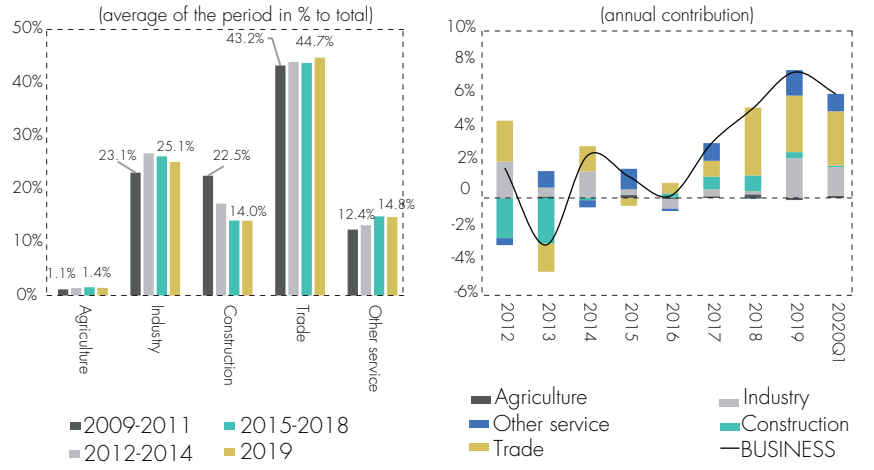
Chart 2 Structure of loans to enterprises by size; the supply and demand for credit



Source: Bank of Albania.

The distribution of the loan portfolio by sectors of the economy indicates that the short-term growth of loans to enterprises has been sustained by the growth of enterprises' financing in the trade sector. Particularly in March, this development is in line with the increased demand for food, as well as with the fact that the trade sector was one of the few sectors allowed to exercise their activity during the Covid-19 pandemic. Meanwhile, loans for construction, industry and agriculture also showed moderate growth. The services sector was the only sector that registered a decline of credit surplus during this quarter. Over the course of a year, loans for trade contributed at a steady rate of 3.4 p.p. to the growth of the loans to enterprises portfolio, followed by the industry sector with a contribution of 1.7 p.p. and the services sector with 1 p.p. The contribution of the industry sector to credit growth has continuously contracted throughout the year, significantly affected by the need for funding in the energy sector as well. At the end of March, the portfolio of loans for agriculture and the construction sectors barely contributed to the annual growth of loans to enterprises.

Chart 3 Structure of loans to enterprises by sectors of the economy

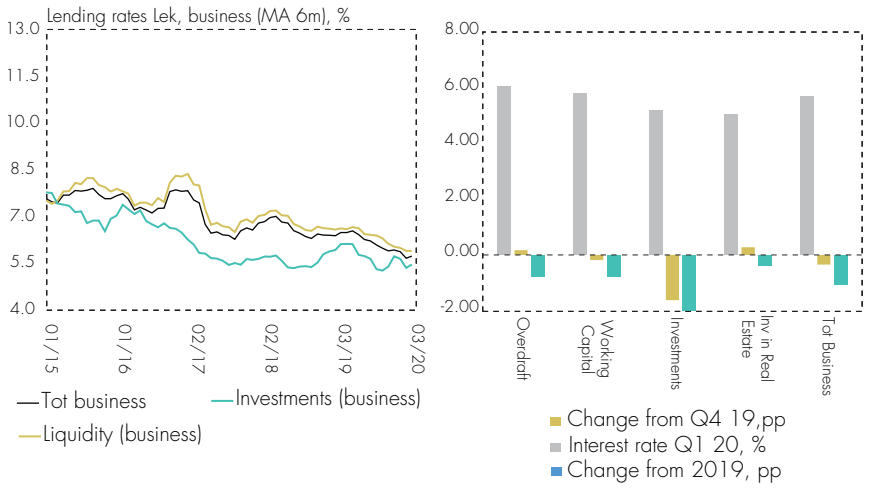


Source: Bank of Albania.

Interest rates on new lek loans to enterprises decreased slightly for both loans for investments and for liquidity.

In 2020 Q1, interest rates on lek loans to private enterprises registered a decline. The average interest rates were recorded at 5.7%, recording a decrease compared to the previous quarter, as well as to the previous year. The analysis by purpose of use indicates that the decline was registered in both categories. The interest rates for liquidity purposes (overdraft and working capital) declined less in this quarter, but they still remain on a downward trajectory continuing for more than a year. Their interest rates were recorded at 6.0% on average in 2020 Q1, from 6.1% and 6.5%, respectively, in 2019 Q4 and the previous year.

Chart 4 Interest rates on lek loans to private enterprises

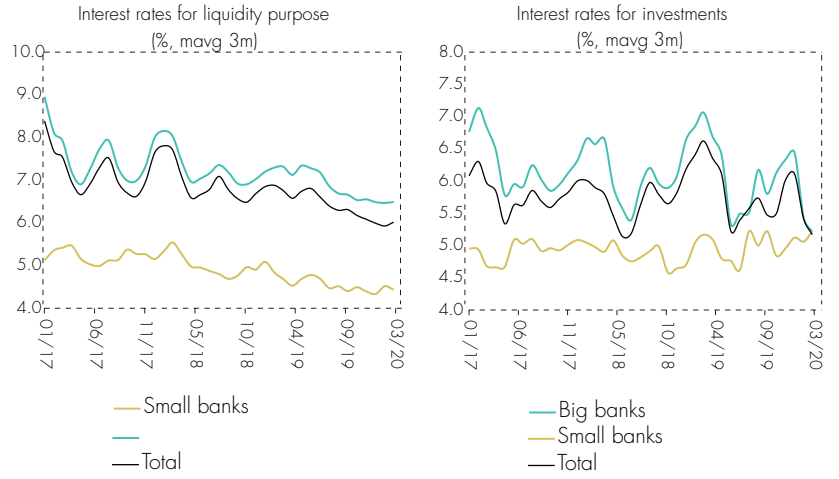


Source: Bank of Albania.

In this quarter, the small banks of the system appear to have curbed the slight upward trend of the interest rates on liquidity loans, also observed in large

banks in February and March. However, interest rates of the latter are highly volatile. The analysis of a longer time period indicates their downward trend for more than a year as well.

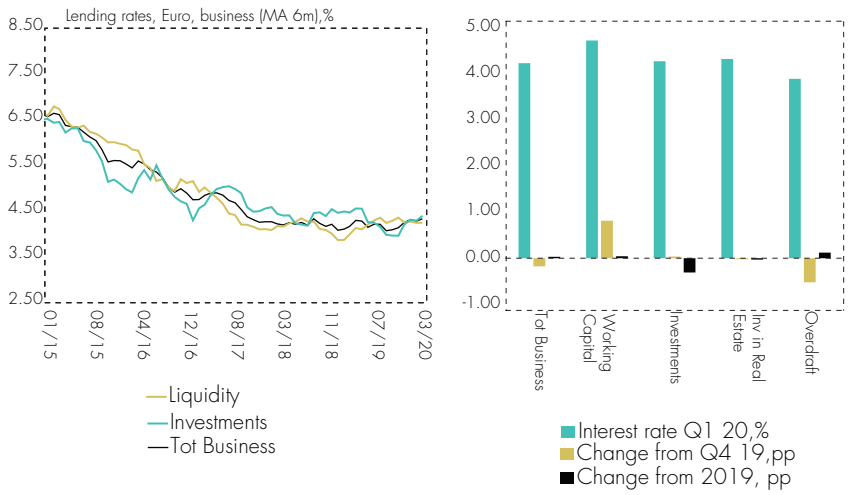
Chart 5 Interest rate on lek loans to enterprises by purpose and size of banks



Source: Bank of Albania.

Interest rates on loans for investments are the main contributors to the reduction of the interest rates on loans to enterprises in this quarter. The interest rate of 5.2% was significantly lower than the average of 2019 Q4 and of the entire previous year. This development was particularly affected by the interest rates recorded in February on investment loans for the purchase of equipment[4]. However, in the following two months as well, interest rates on this category decreased. Overall, interest rates on loans for investments are highly volatile, reflecting the risk, preferential rates and the loan size, typical of this category.

Chart 6 Interest rates on euro loans to private enterprises



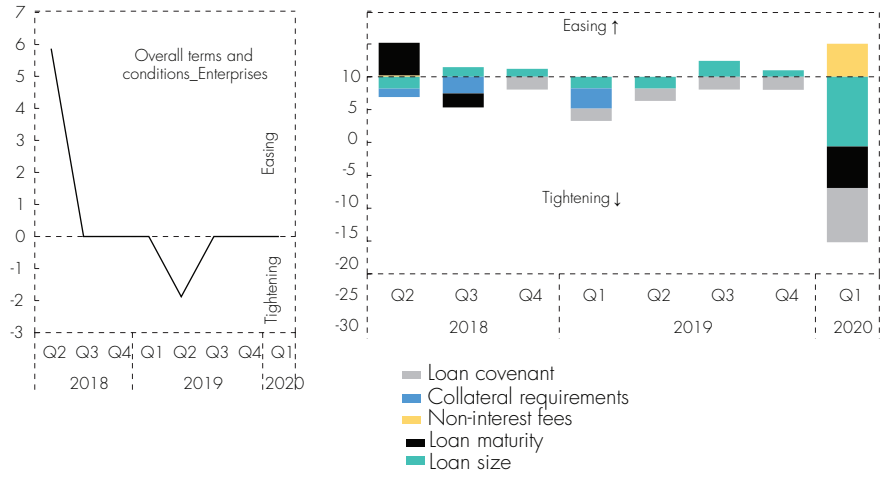
Source: Bank of Albania.

[4] *The average interest rate of this category was significantly affected by a loan with preferential condition of one bank of the system.*

The interest rates on euro loans to enterprises registered a slight decline compared to the previous quarter, remaining however close to the values of 2019. They were recorded at 4.2% on average in this quarter, down from 4.4% registered in the previous quarter, while remaining at the average of 2019. The decline of interest rates from the previous quarter has been the same in both categories. There is a decrease in interest rates on overdrafts within the liquidity category, which has subsequently driven the decrease of the interest rates in this segment. Despite small fluctuations through the quarters, the interest rate on loans in euro to enterprises has been relatively steady for more than two years, not deviating much from the average value of 4.2%.

In 2020 Q1, banks have tightened non-price terms and conditions. Although the overall balance that reflects lending terms and conditions (which include price-terms as well) did not change, non-price terms have deteriorated compared to the previous quarter. Specifically, banks have preferred to reduce the size of the loan, have added new terms on loan agreements, and have also reduced the maximum maturity of new loans granted to enterprises, compared to the previous quarter. In contrast to other quarters, banks have reported lower commissions, being the only easing element in lending terms and conditions.

Chart 7 Non-price terms and conditions for new loans to enterprises



Source: Bank of Albania and staff estimates.

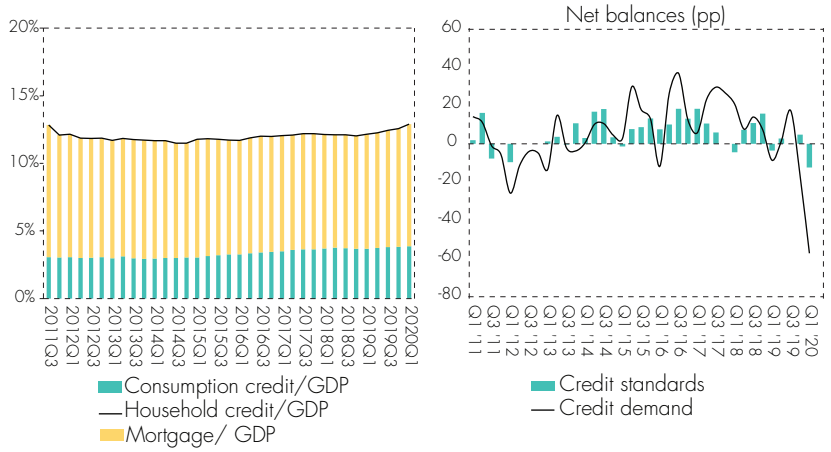
The deterioration of non-price terms suggest that the tightening of lending terms and conditions for enterprises in 2020 Q1 was confirmed for many banks of the system. The high uncertainty created in the country by the Covid-19 pandemic was the driver of the more careful approach of banks toward lending to enterprises in 2020 Q1.

2. LOANS TO HOUSEHOLDS[5]

Loans to households have continued to register steady growth rates.

At the end of March, loans to households were recorded at around 12.9% of GDP. In annual terms, this portfolio maintained similar growth rates to the previous quarter, at 7.7% on average. Banks reported a tightening of lending standards for this segment in 2020 Q1, affected by their perception of added risk related to the exceptional situation created by the Covid-19 pandemic, as well as to the solvency of borrowers, particularly in March. Credit demand by households also recorded a sharp decline in 2020 Q1. These developments have also reflected the lower growth of loans to households in absolute terms compared to the end of the year. The contraction of this portfolio in March is compensated by its expansion in the first two months of the year.

Chart 8 Loans to households to GDP; standards and credit demand for households



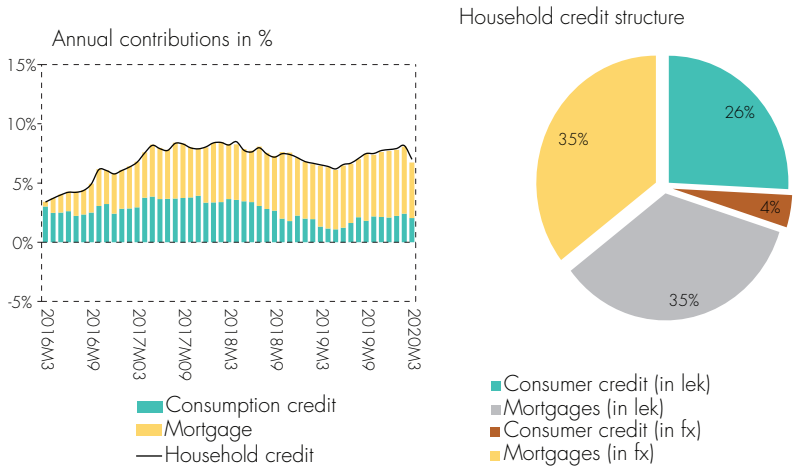
Source: Bank of Albania

The structure of loans to households is dominated by mortgages, which constitute around 70% of the total portfolio, or around 9% in terms of GDP. Mortgages contributed around 5.5 percentage points on average to the annual growth of the loan portfolio to households in 2020 Q1. In the last 5 years, the good performance of credit in this segment is supported by the continuously eased standards of lending for house purchase. However, the tightening of lending standards as well as the significant decline of demand for house purchase reported by banks in 2020 Q1 have negatively affected the short-term performance of this portfolio. At the end of March, lending for this segment remained almost at the same level with the stock at the end of the previous year. The performance of mortgage loans by currency was balanced, with an equal share for each segment - lek and foreign currencies respectively. Consumer loans constitute 30% of loans granted to households, or around 3.9% of GDP. Consumer loans contributed by around 2.2 percentage points to the annual growth of loans to households in 2020 Q1. Similar to the performance of mortgage loans, consumer loans as well are affected by the

[5] *The data for loans to households are adjusted for written off loans and exchange rate fluctuations.*

extraordinary situation of Covid-19, accompanied by a reduction in demand and tightening of lending standards by banks due to increased perceived risks. Compared to the end of the year, the stock of consumer loans recorded an insignificant growth, reflecting mostly the contraction recorded in March, compensated by its growth in the first two months of the year. In terms of currency, consumer loans are granted almost completely in lek. Consumer loans in foreign currency constitute only 4% of the loans to households portfolio.

Chart 9 Lending to households

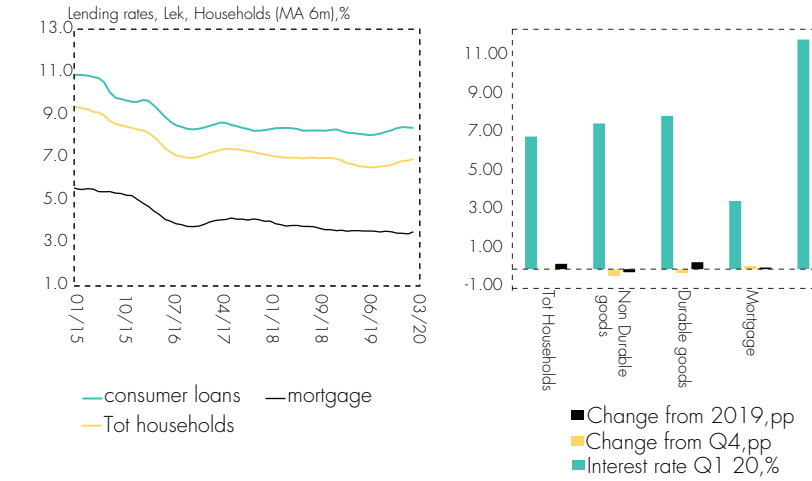


Source: Bank of Albania.

Interest rates on loans to households appear steady in 2020 Q1.

The average interest rate on lek loans to households was recorded at 6.9% in 2020 Q1, the same as in the previous quarter. In contrast to the previous quarter, the dynamic of interests within the category shows an increase of interest rates on mortgage loans and a decrease in consumer loans. The average interest rate of mortgage loans was recorded at 3.6%, with an increase of 0.1 percentage point from the average of the interest rate in the previous quarter and in 2019.

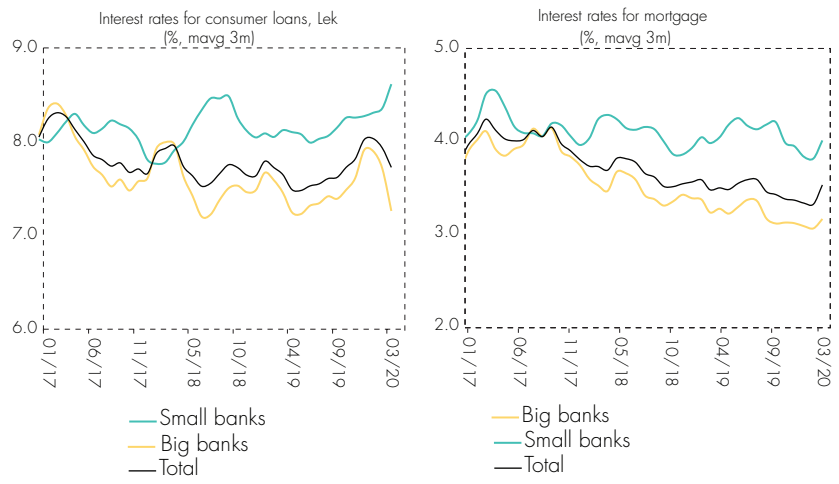
Chart 10 Interest rates on lek loans to households



Source: Bank of Albania.

The average interest rate on consumer loans was recorded at 7.7%, with a 0.3 percentage point reduction from the previous quarter, while being same as the average of the previous year. This quarter, households paid higher interests only on overdrafts, which were balanced by the decrease of interests on loans for the purchase of goods. Interest rates on consumer loans have been relatively stable in the last two years. The decline in interest on consumer loans has generally been driven by large banks. The analysis of the performance of interest rates of loans to households by banks' size shows that in this quarter, small banks have recorded a significant increase in interest rates in both segments.

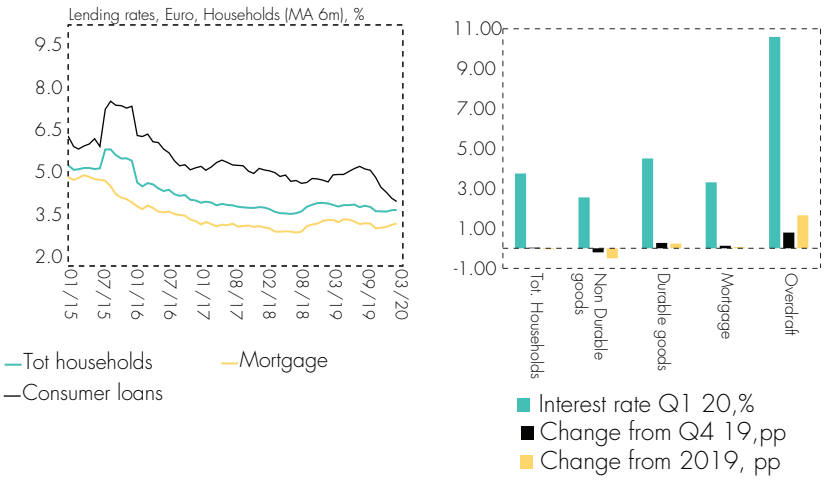
Chart 11 Interest rate on lek loans to households by purpose and size of banks



Source: Bank of Albania.

The average rate of euro loans to households appears steady in 2020 Q1. It was recorded at 3.7%, the same as the average of the previous quarter and close to those of the previous two years. The analysis by segments shows that the increase of interests for mortgage loans is balanced by the decrease of those for consumption. Meanwhile, their monthly dynamic indicates a significant growth of interest rates in March in both categories.

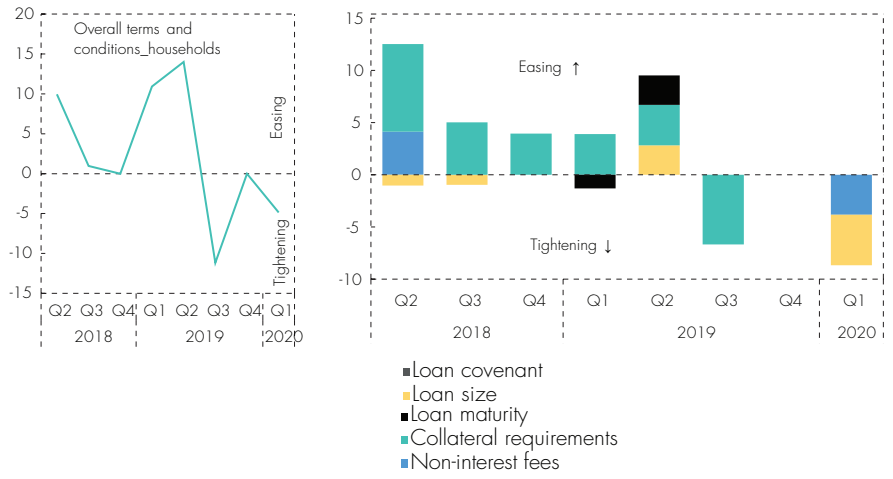
Chart 12 Interest rates on euro loans to households



Source: Bank of Albania.

Lending policies to households in 2020 Q1 consisted in almost similar loan prices as the previous year, but in more tightened lending terms and conditions. As a consequence, the indicator that approximates overall lending terms and conditions resulted on the tightening side for new loans granted to households. They were tightened through higher commissions applied on loans, as well as through the reduction of the loan size. The other non-price terms and conditions remained unchanged since the previous quarter.

Chart 13 Non-price terms and conditions for new loans to households



Source: Bank of Albania and staff estimates.

3. TRENDS IN LENDING IN THE CESEE REGION[6]

Credit to the private sector in the CESEE countries has registered a slowdown in the first two months of the year.

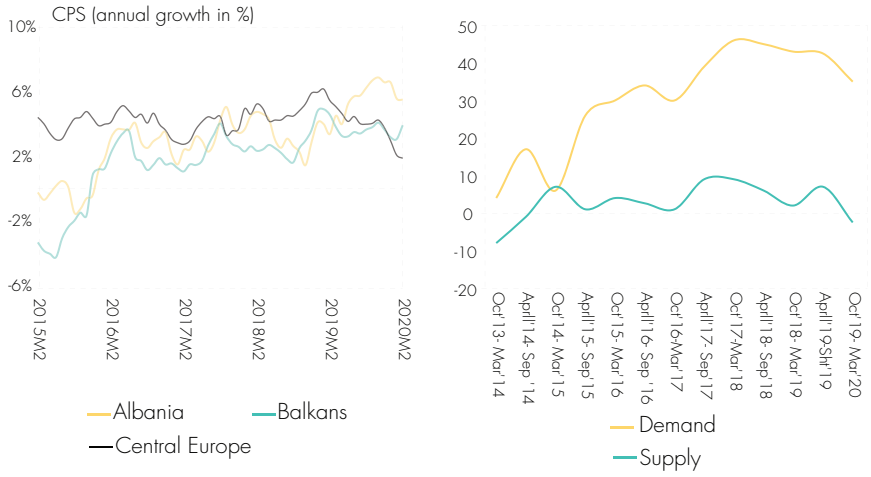
Lending activity in the region has entered a phase of slowdown since the first quarter of last year. In January and February, credit to the private sector registered an average annual growth of 2.3%, compared with the rate of 3.6% in the previous quarter and of 5.3% in 2019 Q1. This slowdown in lending rates has been largely influenced by the Central Europe region[7]. The lending survey of European Investment Bank (EIB) in the CESEE region[8] shows an expansion of the gap between credit supply and demand in the last 3-4 years, where the steady increase in demand has not been adequately supported by the supply from banks.

[6] *This analysis includes 9 countries of the Central East and South East Europe: Albania, North Macedonia, Croatia, Serbia, Bulgaria, Romania, the Czech Republic, Poland and Hungary. The stock of credit to the private sector is adjusted for the impact of inflation and exchange rate.*

[7] *The slowdown in the CESEE region is more apparent in Czech Republic, Poland and Hungary, where according to lending activity surveys, lending standards are reported as tightened, and credit demand in decline.*

[8] *For more information on survey's results, countries and banks included see: https://www.eib.org/attachments/efs/economics_cesee_bls_2019_h2_en.pdf*

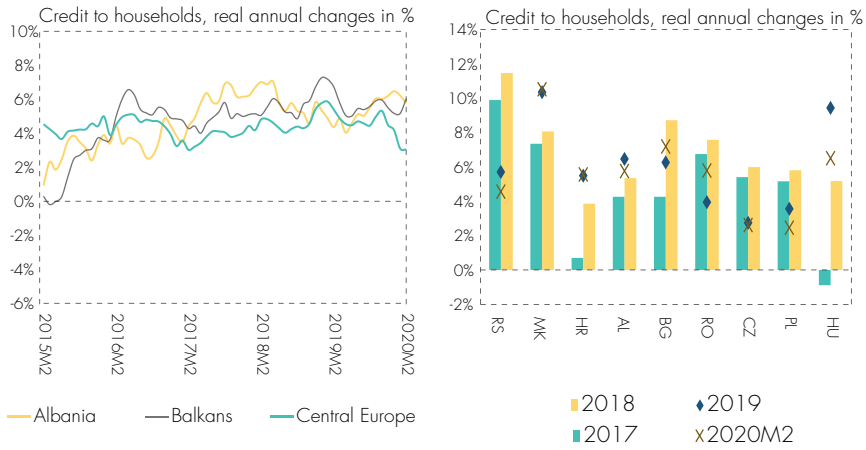
Chart 14 Credit to the private sector in the CESEE region



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

The slowdown in lending rates is more noticeable in Central Europe countries. Due to the higher share of these countries, they drive the developments in credit to the private sector in the CESEE region. In the Balkan region, credit to the private sector has maintained relatively stable growth rates.

Chart 15 Loans to households in the CESEE region

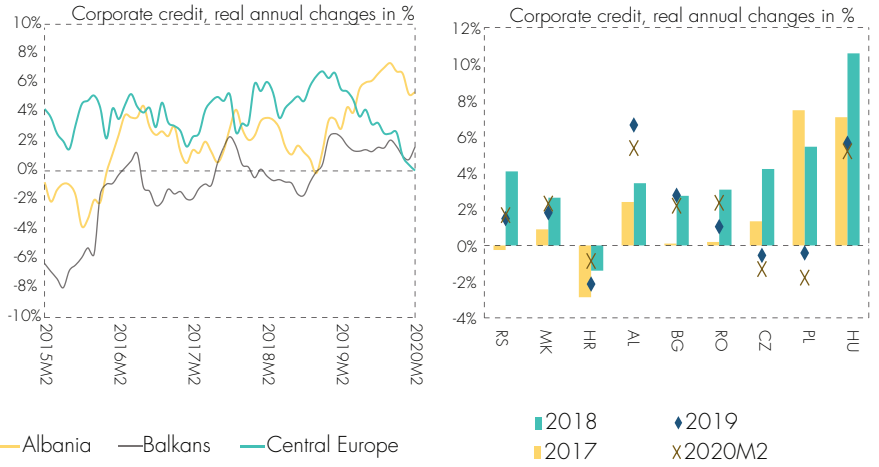


Source: Bank of Albania; Banks of regional countries; authors' calculations.

Loans to households continue to lead the growth of credit to the private sector in CESEE, despite the slowdown of this portfolio in January-February. Over this period, loans for this segment registered an average annual growth of 3.6% compared to the rate of 4.8% in the previous quarter. The performance of this portfolio is continuously supported by the improved lending conditions and their stable demand for banking funding. However, in the last banking lending survey in the CESEE region, tight lending conditions were reported in the households' segment, reflecting as a key factor in this development the local regulatory framework. Still, the positive inertia of the developments in this segment is not

significantly affected by short-term volatility. Similar to the countries of the region, loans to households in Albania also exhibit a stable performance.

Chart 16 Loans to enterprises in the CESEE region



Source: Bank of Albania; Banks of regional countries; authors' calculations.

The annual development of **loans to enterprises** remains more segmented in geographical terms, compared with the more uniform performance of loans to households. This portfolio registered a slowdown of annual rates in the CESEE region, at 0.5% in January-February, compared to the rate of 1.9% in the previous quarter. Banks participating in the banking lending survey forecasted a tightening of lending standards in the end of 2019 Q4 and 2020 Q1, particularly in the segment of small and medium-sized enterprises. They also forecasted a lower demand for loan funding from large enterprises. In geographical terms, curbed rates of loans to enterprises are dominated by Central Europe countries. In Balkan countries, the growth of this portfolio remains low. The performance of loans to enterprises in Albania, registered lending rates above the average of the countries of the region.

BOX 1 MEASURES TAKEN FROM THE COUNTRIES OF THE REGION IN THE CONTEXT OF COVID-19

The rapid global spread of Covid-19 and the declaration of pandemic situation in March, found unprepared many countries affected by it. However, most of them reacted fairly rapidly. In this line, CESEE countries as well undertook immediately measure packages to cope with the economic and financial consequences. The consequences of this pandemic on the economy and financial markets are widely discussed in Box 2 of the Monetary Policy Report for 2020 Q2. In this Box we will focus on some of the measures taken by the countries of the region aimed at minimizing the problems of lending activity and its consequences in the chain of economic and financial developments. An immediate and common response throughout the CESEE region and beyond has been the adoption of measures to reduce key interest rates, as well as the approval of moratoriums on the restructuring of bank loans, broadly approving the postponement of loan payments of enterprises and households for at least a quarter or more. Also, in the focus of these measures has been the support of enterprises with liquidity channels, to cope with the difficulties of their financial and operational activity. The following is a summary of the concrete measures taken by some of the countries in the region.

(1) Measures taken in the Balkan countries

North Macedonia has undertaken plans to directly support the liquidity of micro and small and medium-sized enterprises through the Development Bank of North Macedonia (state-owned bank). Depending on the number of employees, these enterprises will receive interest-free loans, for a six-month period and two year maturity. Micro enterprises (up to 10 employees) may receive loans in the amount of EUR 3000-5000; small enterprises (10-15 employees) in the amount of EUR 10.000-15.000; and medium-sized enterprises (50-250 employees) in the amount of EUR 15.000-30.000.

Serbia has adopted a decree establishing a guarantee scheme on the Support of the Economy and Minimizing the Impact of the Covid-19 Pandemic. Amongst other things, it includes also support with banking loans guarantee by the government to enterprises for working capital. These loans will have 36 month maturity and the maximum loan amount will be less than 25% of the income of the beneficiary and/ or less than EUR 3 million. These loans are available to all SMEs, as well as to all households that have a new or existing loan in the banking system, for which the government will provide guarantees in accordance with this decree. The government has also launched an economic social allowance programme in cooperation with the Development Fund of Serbia to provide liquidity support to enterprises in order to cover their liabilities to trading partners, employees and the government. These funds may be used by self-employed, cooperatives, micro, small and medium-sized enterprises that operate in the sectors of services, trade and agriculture. The funds are disbursed in the form of a loan with 1% interest rate and 36 months maturity, offering a one-year grace period, during which the interest is calculated and paid with principal.

In addition the measures taken by the EU, Croatia's measures at the national level include the subscription of moratoriums between EBRD in Croatia and commercial banks on granting liquidity loans to enterprises. These loans are granted with favourable interest rates (for the part disbursed by EBRD the interest rates start from 0%) in order to distribute the monthly salaries of employees, pay suppliers, cover operational expenditures and reschedule other obligations. Also, a new financial instrument "Credit Covid-19" has been created for working capital for small and medium-sized enterprises, and loans given to small and micro enterprises by the Agency for SMEs, Innovation and Investments have been increased as well. Meanwhile, the central bank has decreased the obligatory reserve rate from 12% to 9%

The government of Bulgaria has drafted a plan in support of households and enterprises, offering the Development Bank of Bulgaria a fund of EUR 358.5 million to be used as a guarantee portfolio by commercial banks for loans disbursed to households and enterprises. Commercial banks may offer consumer loans with zero interest rate up to EUR 770 to unemployed without pay individuals due to the situation created, or to self-insured individuals. The fund of EUR 256 million will be used by banks to support enterprises with loans, mainly those that operate in the sectors of retail trade, transport, hotels and restaurants, pre-school education, recreation, sports etc.

Romania has also undertaken measures to address liquidity issues faced by small and medium-sized enterprises, by increasing the ceiling amount of guaranteed loans for these enterprises. The interest rate of this instrument is 100% subsidized and the guarantee covers 90% of the loan amount up to LEI 1 million (around EUR 206.580) and 50% of loans above LEI 1 million.

(2) Measures taken in the Central Europe region

*The **Czech Republic** has adopted the programmes Covid 1 and Covid 2, which allow the possibility of funding with loans without interest self-employed individuals and enterprises by a local bank that manages the social allowance programmes of the government and the European Union for small and medium-sized enterprises. At the same time, a guarantee package (up to 80%) has been approved for loans taken by enterprises in commercial banks. A number of other longer-term packages have been approved in the form of cash grants for activities in support of enterprises that invest in innovation and in finding practical solutions for managing the situation created by Covid-19, by covering the costs in the amount of 50-90%.*

***Poland** has drafted a plan of measures that guarantees a rapid and non-formal processing of credit demand, without applying commissions on the changes in the contracts, as well as the semi-automatic rollover of newly matured loans for a period of 6 months. At the same time, the helping packages provide short-term bank loans to enterprises for liquidity purposes, increasing the limit of non-physical payments to the bank (contactless) and increasing the number of credit card payment points in order to limit the use of cash.*

***Hungary** has drafted a new lending programme for SMEs, by increasing the available amount and the subsidies rate of the interest. Meanwhile, the program of bond purchase of enterprises has remained into force, but the maturity period and the amount of investment in each business group has expanded. The central bank aims to sterilise all liquidity injected with these two programmes through a preferential deposit instrument offered with 4% interest rate.*

REFERENCES OF THE BOX:

https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
https://www.spcr.cz/en/news/13437-measures-taken-by-the-government-of-the-czech-republic

https://home.kpmg/xx/en/home/insights/2020/04/czech-republic-government-and-institution-measures-in-response-to-covid.html

https://www.dentons.com/en/insights/alerts/2020/march/24/covid-19-impact-on-performance-of-lending-transactions-in-poland

https://accace.com/adopted-legislative-measures-to-decrease-the-impact-of-covid-19-on-the-economy-of-hungary-news-flash/

https://www.karanovicpartners.com/neës/north-macedonia-introduces-measures-to-combat-covid-19-outbreak/

https://home.kpmg/xx/en/home/insights/2020/04/croatia-government-and-institution-measures-in-response-to-covid.html

https://www.confida.rs/covid-19-financing-liquidity-and-fiscal-measures/

https://home.kpmg/xx/en/home/insights/2020/04/romania-government-and-institution-measures-in-response-to-covid.html