Bank of Albania

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 the Republic of North Macedonia (RNM).

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 22 October 2021, which include information for monetary and financial data as at September 2021, and data from the Bank Lending Survey for 2021 Q3. Data on credit in regional countries are of August 2021.

SUMMARY

Credit to the private sector improved its growth rates in the third quarter, by reflecting:

- ***The improvement in loans to enterprises,*** *which is noted in all categories, regarding both the size of enterprise and the sector of the economy. In line with the economic developments, large enterprises continue to be the main beneficiaries of banks' financing. Meanwhile, enterprises of the construction sector and trade, hotels and restaurants showed a notable improvement.*

- ***The higher growth pace of loans to households,*** *supported by both loans for consumption and housing. The reinvigoration of consumption has engendered a higher demand for financing by households.*

- ***The easing of lending conditions by banks,*** *for both enterprises as well as households in 2021 Q3. This performance reflects the improved macro situation, the reduction of risk premia, as well as a more positive approach towards lending.*

- ***The stability of interest rates*** *for new loans in lek during the quarter, where certain segments recorded a marginal fall, for both enterprises as well as households. Overall, credit interests continued to fluctuate at low levels, confirming generally favourable conditions for investments and consumption.*

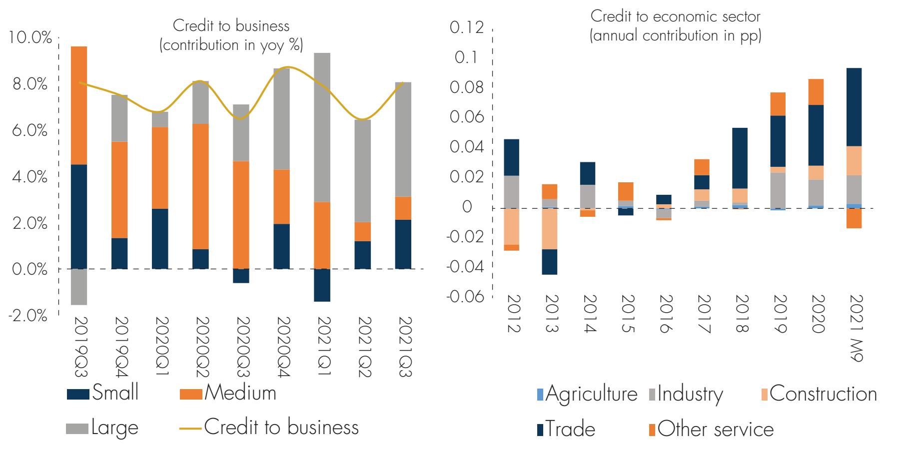
- ***The performance of credit to the private sector in the regional countries*** *improved compared to the first half of the year. Credit to households recorded higher growth rates for most countries. The same pictures appears as regards loans to enterprises in the Balkan countries, while it has contracted to a somewhat lesser degree in the Central Europe countries.*

1. LOANS TO ENTERPRISES

Loans to enterprises showed an improvement of growth pace, observed in all categories. However, in the third quarter, growth was driven by lending to large enterprises and to the sectors of trade, hotels and restaurants, as well as construction.

The rapid improvement of the economic activity in Albania and the more positive approach adopted by banks towards lending, have supported a better growth rate of credit to enterprises of 8%, in the third quarter. This growth was underpinned by higher growth rates of credit to both large and small enterprises, recording 6.3% and 8.9%, respectively. The expansion of loans to small and medium-term enterprises was mainly in lek, changing somewhat the trend observed during the last quarters. The contrary was true as regards lending to large enterprises, which has recorded an increase of loans in foreign currency during this quarter. At the end of the quarter, lending to large enterprises accounted for 52% of the outstanding loans to enterprises, slightly higher than at the end of 2019.

Chart 1. Loans to enterprises by size and sector of the economy



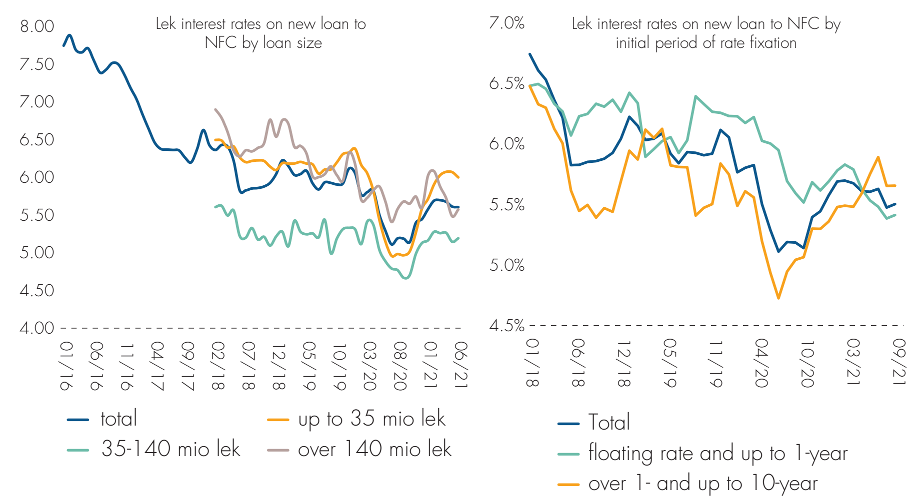
Source: Bank of Albania

The improvement of growth rates for loans to enterprises is apparent in all the economic sectors, but it has been particularly affected by financing the enterprises belonging to the sectors of construction and trade, hotels, and restaurants. Loans to this sectors recorded a solid improvement in growth rates, at 13.2% and 11.8%, respectively. Credit to the construction and trade sectors was used to cover liquidity needs for the most part. Meanwhile, credit to the sector of hotels and restaurants was primarily driven by the need to finance investments. These developments are in line with the recovery of the economic activity in Albania, the strengthening of confidence, as well as the positive expectations for the future. At the end of September, the share of loans to these sectors to the total increased slightly, reaching 61% of the portfolio of credit to enterprises. Lending to the agriculture and industry sectors had a moderate growth. The share of loans to the agriculture sector remained unchanged from the end of 2020, at 1.6%. Meanwhile, the share of loans to the industry sector to the total loans to enterprises slightly fell to 25%.

Interest rates on loans to enterprises in lek have not changed in 2021 Q3, reflecting a positive approach of banks toward financing to the private sector. The unchanged monetary conditions and a calm financial environment have favoured banks in this regard. The same performance was also observed regarding interest rates on loans in euro, which recorded similar values with the previous quarters.

In the third quarter of 2021, the interest rates on loans to enterprises remained close to the levels of the second quarter. The average interest rate for this segment recorded 5.6%, from 5.4% and 5.8%, respectively, in the previous two quarters. Beyond monthly fluctuations, the interest rates adopted by the banks evidence contained risk premia, supporting the positive momentum in the economy. Analysis by segments shows a reduction of interests on the segment of loans up to ALL 35 million. The average interest rate for these loans recorded 5.6% in the third quarter, from 5.8% and 6.2% in the previous two quarters. This segment represents mainly small and medium-sized enterprises and approximates the overall positive approach of banks on lending. Meanwhile, the average interest rate on loans over ALL 35 million, increased during this quarter, recording 5.5%, from 5.2% in the previous quarter. This increase reflects in particular the high amounts for loans in September ranging from ALL 35 - 140 million, and the level of interests on loans over ALL 140 million in July. Nonetheless, the interest rates in this segment are characterised by high volatility.

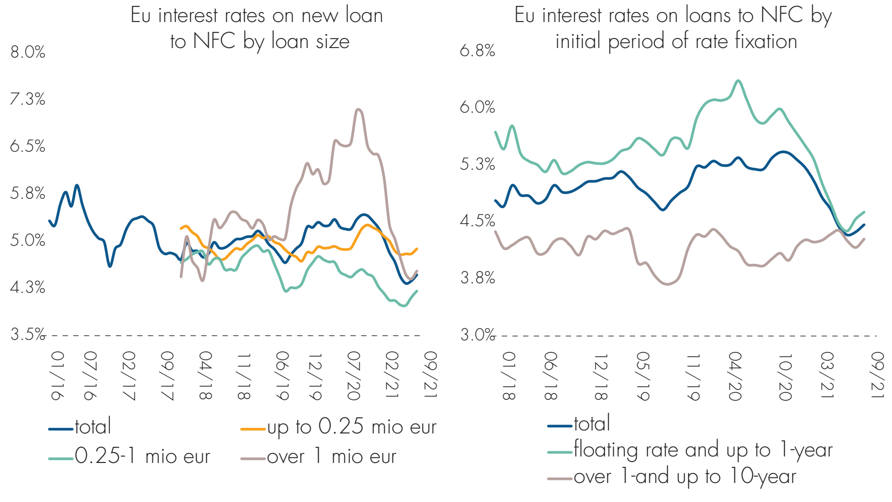
Chart 2. Interest rates on lek loans to private enterprises



Source: Bank of Albania

The analysis by interest rate fixation period[1] shows a slight increase of the short-term interest rate in this quarter compared to the second quarter. However this interest rate (5.5%) remains equal to the average of the first half of this year and lower than the one from the previous year (5.7%)[2]. The interest rate on the category that approximates the medium- or long-term period recorded a decline during this quarter, resulting at 5.5%, from 5.8% in the first half of the year. The performance of interest rates in both these categories shows downward risk premia and contained inflationary expectations from the banks' side.

Chart 3. Interest rates on euro loans to enterprises



Source: Bank of Albania

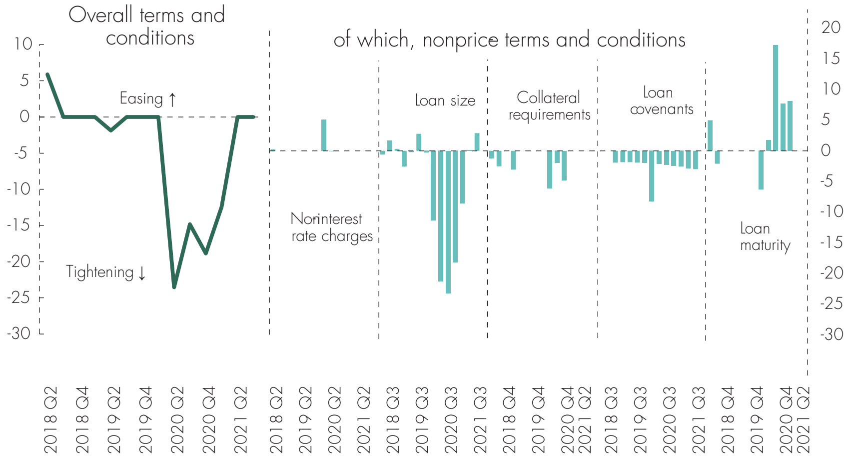
The interest rate on loans for enterprises in euro appeared stable in 2021 Q3. It stood at 4.4%, slightly lower than in the second quarter (4.5%) and equal to the first half of the year. By loan size, interest rates recorded a minimal decline for small loans and for loans larger than EUR 1 million, meanwhile they did not change for loans with average size. The analysis by interest rate fixation period shows that interest on loans with fixed rate up to one year increased slightly during this year (4.7% in this quarter, from 4.4% in the beginning of the year). The opposite is true for loans with over one year fixed rate.

Non-price terms and conditions were somewhat easing for enterprises, reflecting the more positive approach adopted by banks regarding their financing.

[1] *Fixed-term implies the period in which the loan's interest rate is fixed and doesn't change. A loan may be granted: a) with variable interest rate, b) with some period fixed and others variable or c) fixed throughout until its maturity. For the purposes of this analysis, the interest rate for loans granted with variable rates and those with fixed rate up to a year is called short-term rate, that for loans granted with over a year and up to 5 fixed rate is called medium-term rate, that for loans granted with fixed rate over 5 years is called long-term rate. Thus, the concept short-term/long-term is related with the period in which the interest rate is fixed, and not with the maturity of the loan.*

[2] *April-December time period which coincides with the policy rate at 0.50%.*

Chart 4. Non-price terms and conditions for new loans to enterprises



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

Source: Bank of Albania and staff estimates.

The improvement of the macroeconomic situation and the perception on the economic perspective have rendered banks more tolerant in the process of approving loan applications from enterprises. The higher tolerance adopted by the banks in approving new loans, alongside more easing standards, manifested in the higher number of approvals in relation to the total requests for loans by enterprises. The third factor that illustrates the conditions of credit supply - lending terms and conditions - was reported as unchanged from the previous quarter. Banks accommodated the higher demand for loans, particularly from large enterprises, without changing the essence of non-price conditions. The increase in the volume of loans to enterprises was offset by increasing conditionality in loan agreements signed between banks and enterprises. Other non-price elements such as commissions, collateral requirements, and credit maturity remained unchanged from the previous quarter.

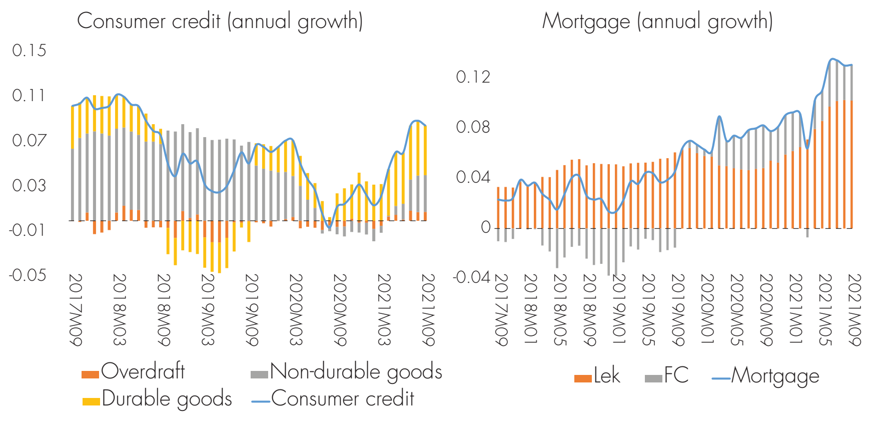
2. LOANS TO HOUSEHOLDS

Banks have increased financing to households, in both its main categories. The improvement of the overall macroeconomic situation, the strengthening of confidence and the positive expectations for the future have supported both the demand and supply of loans to households.

In addition to the increase of loans to enterprises, banks have also increased financing to households, which have benefited by the favourable lending conditions and the positive approach of banks towards credit. Loans to households maintained high growth rates of 10.7% during the third quarter, continuing on the positive trajectory that started since the beginning of the year. The acceleration of the growth rate is observed for all component sub-categories of this portfolio and has driven its share growth of 35% to private sector's loans.

Consumer credit accelerated the growth rate to 8.2% during the third quarter, standing 2.3 p.p. higher than in the previous quarter. The expansion of consumer credit reflected the increase of overdraft and purchases of unstable goods and the increase of loans to purchase stable goods. In September 2021, consumer credit accounted for around 29.1% of the portfolio of loans to households, declining by 2 p.p. compared with the same period.

Chart 5. Lending to household by purpose of use



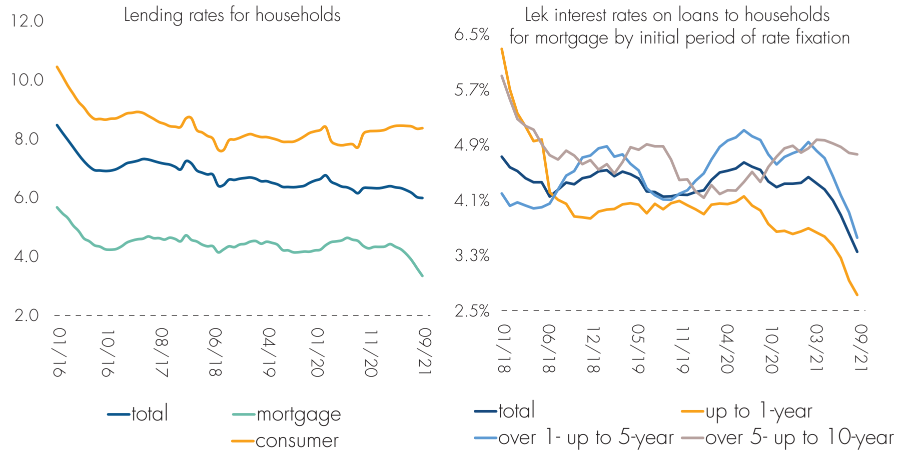
Source: Bank of Albania

The portfolio of mortgage loans grew by around 13% during the third quarter, continuing on the positive trajectory noticeable for over one year. This performance has contributed to the increase of the share of this portfolio in loans to households to 65%, from 62% in the previous year. The increase of housing loans reflects, on the one hand, the higher households' demand and, on the other hand, the favourable lending conditions - both price and non-price ones - adopted by banks on this category of credit. The continuous narrowing of the interest rate differential between lek and euro, coupled with the supportive policies of banks to lend to households in the currency of their income, has helped the higher contribution of loans in lek to the total of housing loans. Loans in lek dominated the expansion of the portfolio in the last five years.

Households benefited from lower interest rates on mortgage loans in lek, while the interest rates on consumer loans have appeared stable for both currencies.

The average interest rate on mortgage loans to households in lek registered a further reduction in the third quarter of the year, recording 3.2%, from 3.5% in the previous quarter. Starting from April, this rate fluctuated below 4.0%, and in August it fell to 2.8%. It is important to note, that, in this quarter, the fall of interest rates for this category was present in both loans with fixed interest rates up to 1 year and those with fixed interest rates up to 5 or 10 years. The latter show that the perception of credit risk is low. Also, the low and stable interest rates of consumer credit are demonstrative of a calm and supportive financial environment to households' demand. The interest rate for this category was 8.3% in this quarter, standing close to the level of the previous quarter and the average of 2020[3].

Chart 6. Interest rates on lek loans to households



Source: Bank of Albania

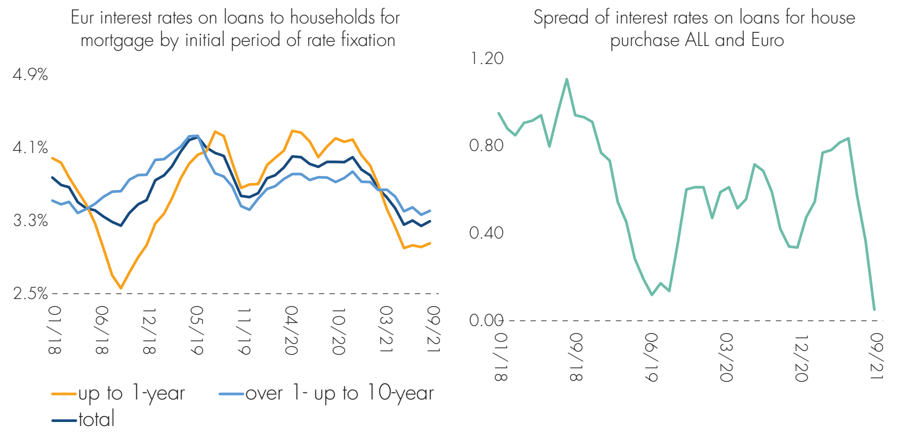
The average interest rates of loans to households in euro increased slightly in the third quarter of the year (3.6%, from 3.4% in 2021 H1), standing nonetheless below the 2020 level (4.1%). In this quarter, interest rates increased slightly for both mortgage loans,[4] as well as financing consumption. Within the

[3] *April is excluded in the calculation of the average for this year, when the interest rate on consumer credit was considerably low, affected by the loans of a bank in the system.*

[4] *Mortgage loans significantly dominate loans to households in euro, as a result the analysis was concentrated only on this segment.*

category of mortgage loans, the fixed interest rate up to one year increased. Meanwhile, the fixed interest rate for over one year remained unchanged from the last quarter (3.4%). The difference between the mortgage loans in lek and in euro continues to remain minimal during this quarter.

Chart 7. Interest rates on loans to households in euro

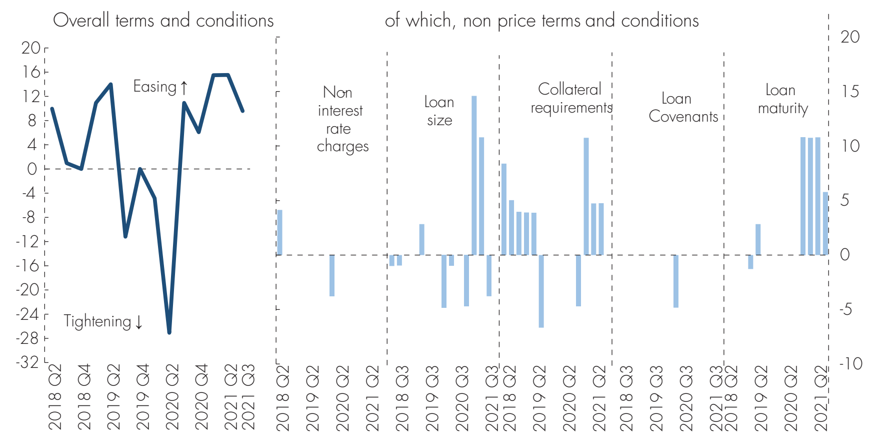


Source: Bank of Albania

Lending terms and conditions for new loans to households were eased further.

The easing of the lending terms and conditions for loans to households coupled with more accommodative policies on loan approvals continued also in the third quarter. Driven by the current economic situation, expectations on customers' solvency, as well as higher competition in the banking system, banks preferred to further ease non-price conditions on loan approvals, in particular in the segment of mortgage loans. In addition to approving a higher number of loan applications by households, banks offered them more favourable lending conditions, assigning lower collateral requirements related to the granted loan, as well as extending the maximum maturity of loans.

Chart 8. Non-price terms and conditions for new loans to households



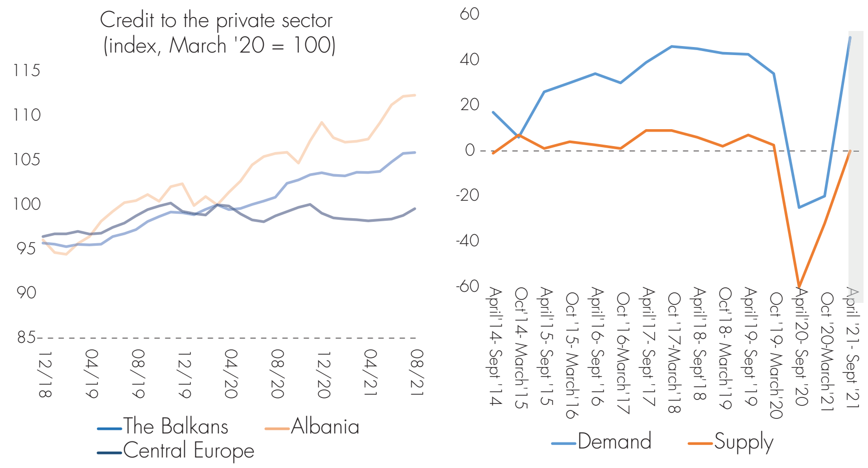
For more detailed information please refer to the Bank Lending Survey section at: https://www.bankofalbania.org/Monetary_Policy/Surveys_11282/Bank_Lending_Survey/
Source: Bank of Albania and staff estimates.

3. TRENDS IN LENDING IN THE COUNTRIES OF THE REGION[5]

Credit to the private sector in the region has shown an improvement in July and August compared to the first half of the year. Credit to households recorded high growth rates for most countries. On the other hand, credit to enterprises in the Balkans increased, while it continued to contract, albeit at a slower pace, in Central Europe.

Developments in credit to the private sector in the CESEE region in July and August were positive, after a sluggish first six months. In these two months, its annual growth recorded an average of 1.6%, after the minimal growth of 0.2% in the first half of the year. The improvement reflects the acceleration in the increase of credit in the Balkans and the recovering trend of credit in the Central Europe. In addition to the support granted by the monetary and supervisory authorities, private sector financing was also aided by the policies of international groups present in the region. The latter aims to preserve or expand the current position that they have in these markets[6].

Chart 9. Credit to the private sector in the CESEE region



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

Loans to enterprises in the region continue to show different performances in the Balkans and the Central Europe. In the group of the latter, loans to enterprises continue to contract, reflecting the shrinkage in the portfolio of Poland and

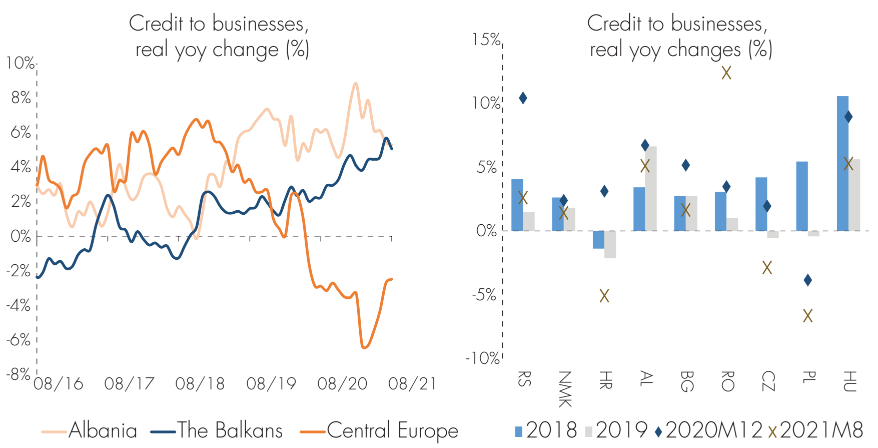
[5] *In this analysis are included 9 countries of the Central East and South East Europe: Albania, North Macedonia, Croatia, Serbia, Bulgaria, Romania, the Czech Republic, Poland and Hungary. The credit to the private sector stock is adjusted for the impact of inflation and exchange rate.*

[6] *As reported in the BLS of CESEE countries. Further details are referred in the following address https://www.eib.org/en/publications/cesee-bls-2021-h1*

Czech Republic[7]. However, its contraction has declined significantly during July and August, recording 2.6%, from the 5.4% average in the second quarter of the year. In contrast with the above-mentioned countries, Hungary shows a positive momentum as regards the performance of loans to enterprises. In the Balkans, loans to enterprises continue to increase with ever higher growth rates. The annual growth registered 5.0%, on average, in July and August, or 1.0 p.p. higher than in 2021 Q2. Romania and Albania are listed among the countries with the best performance.

According to the Bank Lending Survey in the CESEE region, demand for loans to enterprises reflected both the demand increase for investment financing and the continuous demand increase for circulatory capital. Both medium-sized and large enterprises are assessed to have shown an increase in demand.

Chart 10. Loans to enterprises in the CESEE region

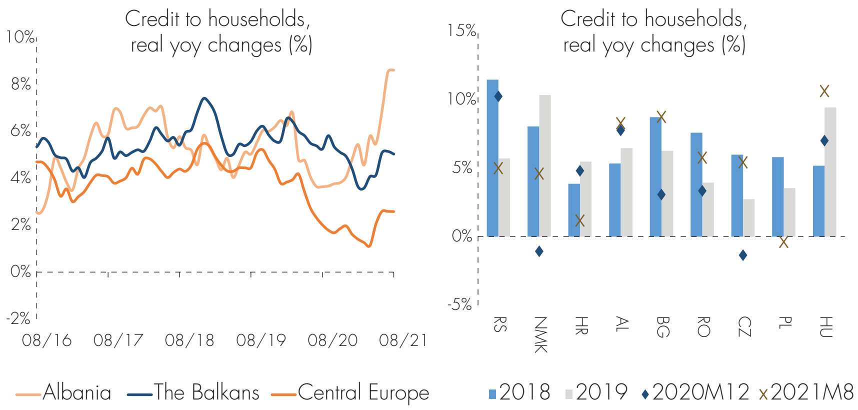


Source: Bank of Albania; Banks of regional countries; EIB Bank Lending Survey in CESEE, authors' calculations.

Loans to households has improved in July and August in all the countries under review. It recorded an average annual growth of 3.0% during these two months, from 2.3% in the 2021 Q2. The expansion of loans to households is led by the countries in the Balkans, but, during the past months, it has improved for the Central Europe, as well. The credit demand from households is assessed as upwards for both mortgage loans and consumer credit, driven by the improvement in consumer confidence.

[7] *The contraction in the portfolio of loans to households for some of these countries is related, among others, to the measures undertaken by the government in the framework of the pandemic, as supportive packages were designed in the form of direct payments to enterprises, reducing their demand for loans.*

Chart 11. Loans to households in the CESEE region



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