

BANK OF ALBANIA

TRENDS IN LENDING

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

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INTRODUCTION

“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 22 January 2021, which include information for monetary and financial data as at December 2020, and data from the Bank Lending Survey 2020 Q4. Data on credit in regional countries are as at November 2020.

OVERVIEW OF RESULTS

Lending activity developments in 2020 Q4 show that:

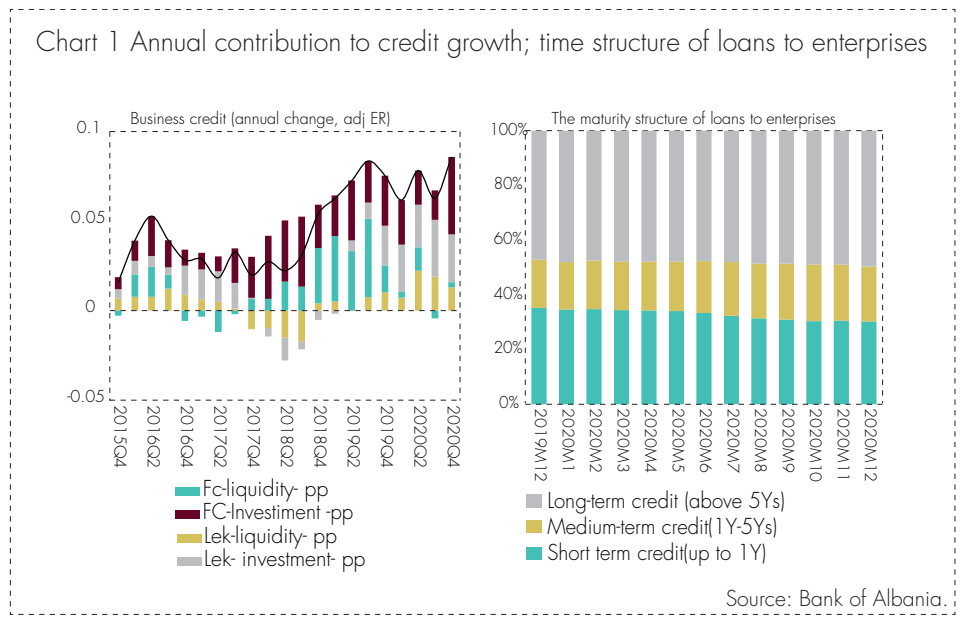
- **Credit to the private sector** improved its growth rate in the fourth quarter, supported by a better performance of loans to enterprises. Alongside with the return of the end-of-year seasonality, it has also reflected the effect of a specific loan granted in December. Favourable monetary conditions continue to support the steady expansion of loans in lek to the private sector.
- **Loans to enterprises** improved the growth rates in the last quarter of year, mainly supported by the increase in the segment of investments. By sector, lending to trade, industry and services recorded the best performance during this quarter.
- **Loans to households** have improved the growth pace. This performance is observed in segments, consumer loans and mortgage loans. Loans to households continue to be supported by the growth of the loan portfolio in the domestic currency.
- **Interest rates** for new loans in lek remain favourable and bolster credit growth, in reflection of the accommodative monetary policy. Interest rates on loans to enterprises increased in the fourth quarter of the year, after the low rates recorded in the two previous quarters, but remaining below the level in the previous two years. Households have continued to benefit financing at low interest rates from banks. Meanwhile, interest rates for loans in euro increased for enterprises and remained stable for households. Other non-price conditions were tightened for enterprises and eased for households in 2020 Q4.
- **Credit to the private sector in the CESEE** region has continued to show decelerating growth rates during 2020H2. This performance is affected by the contraction of loans in the segment of enterprises, while households' portfolio has been expanding, but at a slowing pace. In geographical terms, the reduction of credit to the private sector is more significant in the Central Europe countries, whereas Balkan countries have continued to record increasing rates.

1. LOANS TO ENTERPRISES¹

Loans to enterprises improved the growth rates in the last quarter of the year, mainly supported by the increase in the segment of investments. Both the measures taken by the authorities and the more active role of banks for intermediation have affected this performance.

Loans to enterprises increased in annual terms by 7.2 % in 2020 Q4, or around 0.4 percentage points higher than the average rate in 2020 Q3. The positive performance of loans reflects the concentration of its growth in December². Lending to the segment for investments has provided the highest contribution, by around 6 percentage points, to the annual growth of loans to enterprises. Loans for investments retain the main share in the loan portfolio to enterprises. At the end of the period, it accounted for around 58% of the stock of loans to enterprises and around 38.5% of the total loans to private sector. Loans for investments are mainly oriented in foreign currency, accounting for around 64.7% of its stock.

Loans for liquidity provided an annual contribution of around 1.3 percentage points, on average, to the growth of loan portfolio to enterprises in 2020Q4. At the end of period, this portfolio accounts for around 42% of loans to enterprises and 28% of credit to private sector, in total.

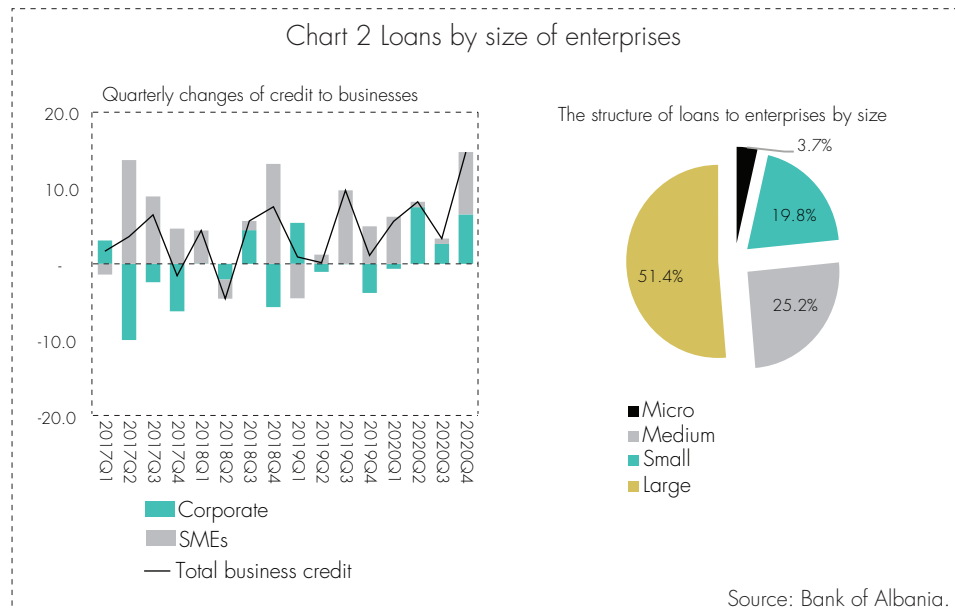


Long-term loans - with maturity over 5 years - which mainly consists of loans for investment purposes, dominate the time structure of loans to enterprises. Meanwhile, the maturity structure has shifted towards long-term loans. As at end of 2020Q4, long-term loans accounted for around 50% of total loans to

¹ Data for loans to enterprises are adjusted for written off loans and exchange rate volatility.
² The growth of lending in December was particularly affected by a specific business loan, disbursed in foreign currency.

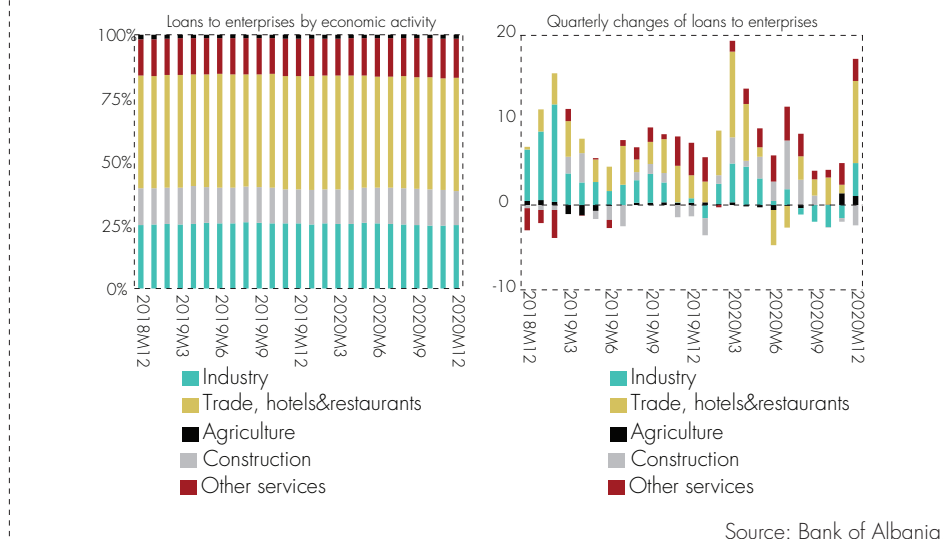
enterprises, up to around 1.1 percentage points from 2020Q3. The shares of medium-term and short-term loans to enterprises were around 20% and 30%, respectively, at the end of the period.

The performance of loans by size of enterprises shows a rapid growth of credit for corporations, concentrated in the fourth quarter. Absolute changes in the credit stock to enterprises show a high growth of this portfolio in 2020 Q4, by around ALL 6.5 billion, mainly related to the granting of a specific loan to a large enterprise in December. On the other hand, loans to small and medium-sized enterprises slowed down. This portfolio grew by around ALL 8.3 billion in 2020 Q4. At the end of period, outstanding loans shows a balanced structure of loans to enterprises by size, where loans to corporates accounted for around 51.4% of this outstanding stock. Their share increased by 1.5 percentage points in 2020 Q4. Loans to medium-sized enterprises accounted for around 25.2% of outstanding loans for enterprises, while for small and micro enterprises around 23.5%.



The lending dynamics by sectors of economy remain relatively stable in time. Trade, hotels and restaurants as well as industry continue to be the largest borrowing sectors. Their shares to the total stock of loans to private sector stood at 44.7% and 25.1%, respectively, at the end of year. Agriculture, in reflection of problems characterising this sector, remains the least funded by the banking sector. At the end of year, the share of this sector to loan portfolio for private sector was lower than 2%.

Chart 3 Credit by sectors of the economy



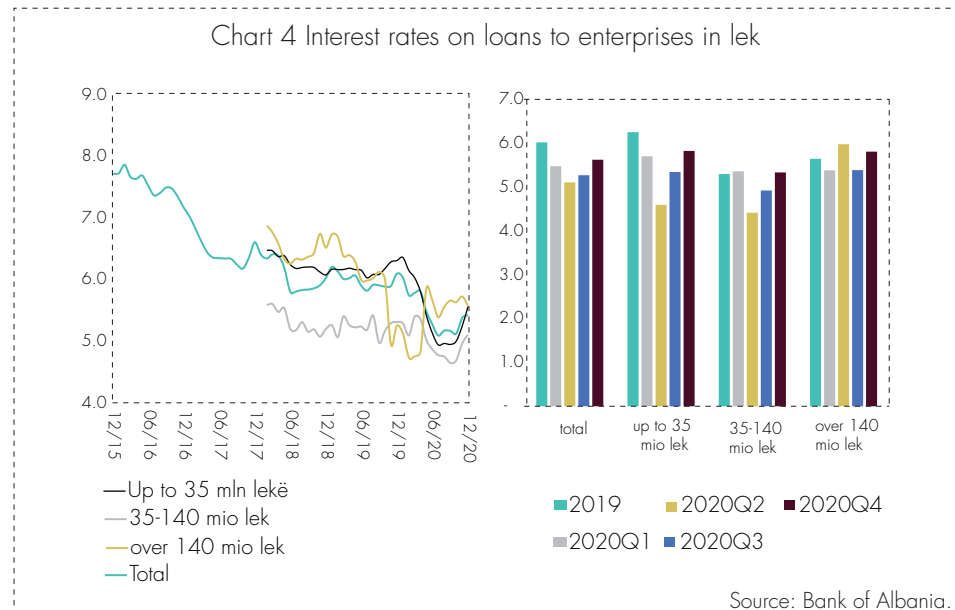
Source: Bank of Albania.

Developments in absolute terms of credit stock show a growth in the loan portfolio of trade, hotels and restaurants by ALL 9.7 billion in the fourth quarter. This sector was mostly affected by the pandemic, recording a contraction of the portfolio in the second quarter and a low growth in the third quarter, which coincides with the tourism season as well. Nevertheless, the recovery of this portfolio in the last quarter has affected the increase in the share of this sector by around 0.7 percentage point from the previous quarter. Also, the banking system has financed the industry sector by around ALL 3.9 billion, other services sector by around ALL 2.6 billion, and agriculture sector by around ALL 1.1 billion, in the same period. The construction sector was the only one recording a contraction of the credit portfolio in the fourth quarter, by around ALL 2.4 billion, driving the fall in its share by around 1.3 percentage points during this period.

Interest rates on 3 loans to enterprises in lek have increased in 2020Q4, upon the end of the sovereign guarantee lending schemes. Nevertheless, they continue to reflect the further ease of monetary policy and be more favourable to bolstering lending. Interest rates on loans in euro also increased in this quarter.

Average interest rate for new loans to enterprises in lek further increased in 2020 Q4. It averaged at 5.6%, from 5.3% and 5.1%, respectively in 2020Q3 and 2020Q2. The interest rates increased on all sizes of loans and across the majority of banks.

³ The analysis on interest rates is based on the data of interest rates on new loans.



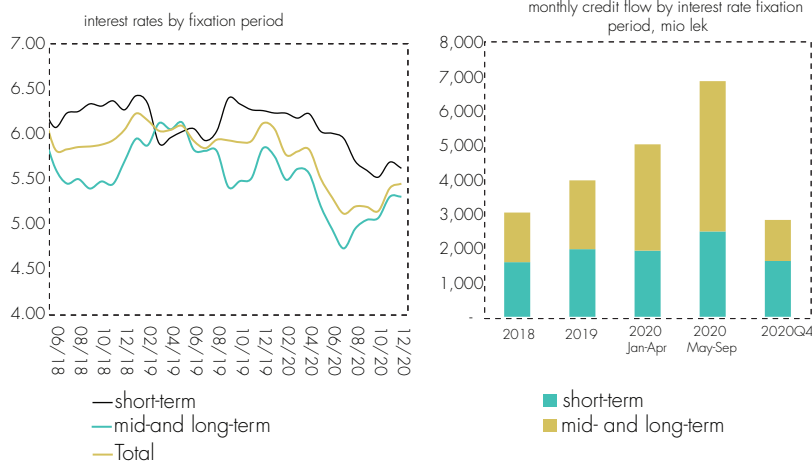
The increase in interest rates, being observed gradually since August, has mainly reflected the end of sovereign guarantee schemes. They served as an instrument for transferring a part of credit risk, from banks to the Government, thus decreasing the risk premia in interest rates. The interest rates increased upon the end of these schemes, by reflecting more clearly the credit risk that banks face. Nevertheless, these interest rates, although higher, continue to boost lending in the context of this difficult year; their level is lower than around 6.0% in 2018 and 2019, reflecting also the more accommodative monetary policy implemented this year.

The impact of monetary policy in supporting lower interest rates on loans is clearly reflected in the analysis by interest rate fixation period⁴. The short-term interest rate, whereas monetary policy signals pass through more directly in view that credit risk does not change, reflects a less volatile dynamic in time. Although this rate increased in 2020Q4, at 5.9%, from 5.4% and 5.8% in 2020Q3 and Q2, respectively, it still remains lower than its stable average of 6.2% since the middle of 2018 up to 2020Q1⁵.

⁴ 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.

⁵ This period coincides with the change of key interest rate at the end of May 2018 up to the latest change in March 2020.

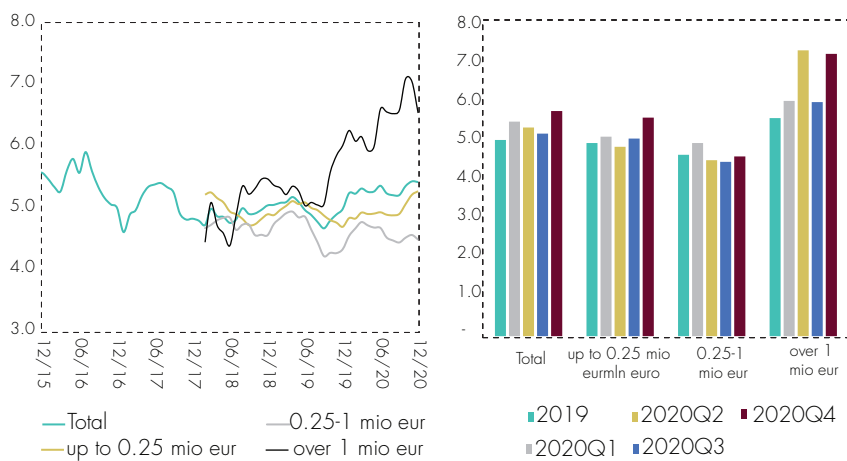
Chart 5 Interest rates by fixation period



Source: Bank of Albania.

The fixed interest rates for a medium- or long-term period have also trended upwards in the fourth quarter. In addition to the expectations on future monetary policy stance, they factor a multitude of risks related to the increased uncertainties from the pandemic. Nevertheless, their level remains lower than in 2020Q1, and in previous years.

Chart 6 Interest rates on loans to enterprises in euro



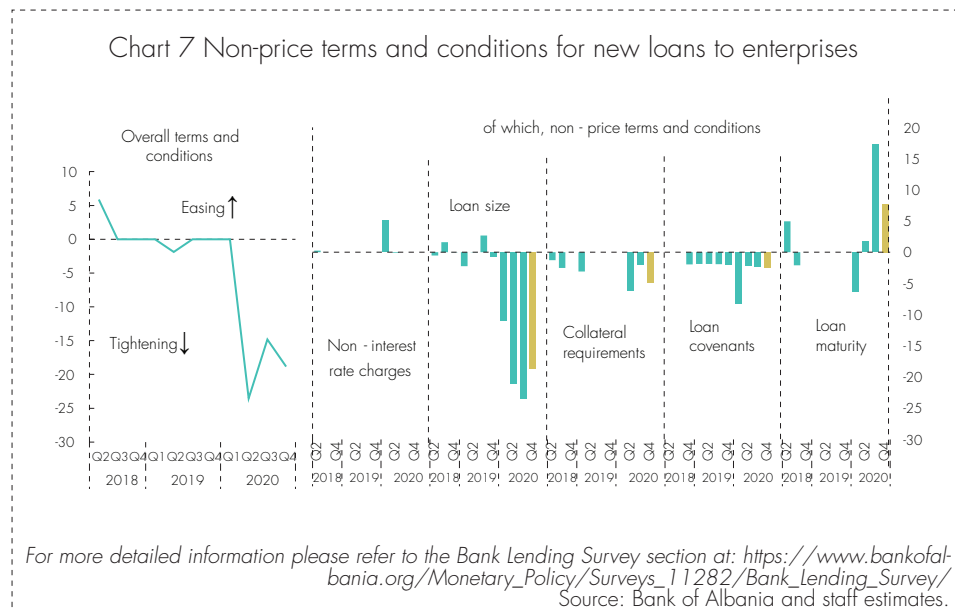
Source: Bank of Albania.

Interest rates on loans to enterprises in euro increased in 2020 Q4, driven by a specific loan granted in December, recording 5.7%, from 5.1% and 5.3%, respectively in 2020Q3 and 2020H1. By loan size, interest rates increased for small loans, up to EUR 0.25 million, and for loans larger than EUR 1 million. Meanwhile they were stable for loans with average size, EUR 0.25-1 million.

Non-price terms and conditions tightened reflecting the higher risk perceived by banks.

Banks' overall terms and conditions for new loans to enterprises continued to tighten in the fourth quarter of 2020. The pandemic duration and uncertainties in the wake of this situation have increased banks' perceptions for growing risks related to the macroeconomic framework in Albania. In turn, this has compelled a more prudential behaviour of banks in assessing credit risk to enterprises.

Commercial banks, alongside with the application of higher margins on loans, have tightened the other non-price terms and conditions, in particular for large enterprises. In more concrete terms, they have: reduced the loan size to enterprises; increased collateral requirements related to the loan taken; and increased restrictions in loan agreements with enterprises. The extension of maturity for loans to enterprises was the only element affecting positively the lending terms and conditions. In 2020Q4, commissions have played a neutral role on lending terms and conditions, similar to the two previous quarters.



2. LOANS TO HOUSEHOLDS⁶

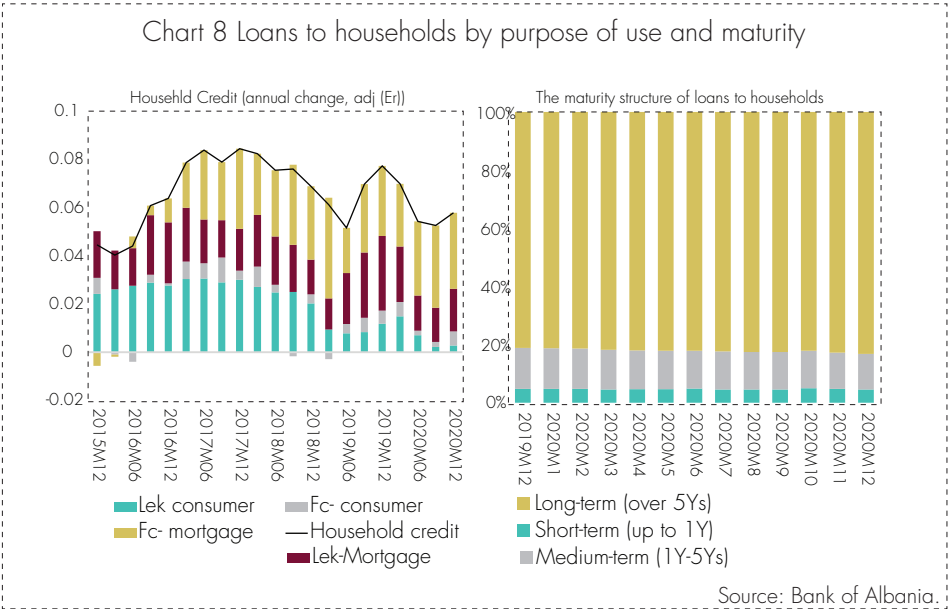
Loans to households have recorded an improving growth pace, in both segments: mortgage loans and consumer loans. The growth of loan portfolio in domestic currency has continued to be the main supporter to loans for households.

The portfolio of loans to households recorded an annual growth of around 6%, on average, in 2020 Q4, around 0.7 percentage points higher compared to 2020 Q3. The expansion of loans to households was supported by the further

⁶ The data for loans to households are adjusted for written off loans and exchange rate fluctuations.

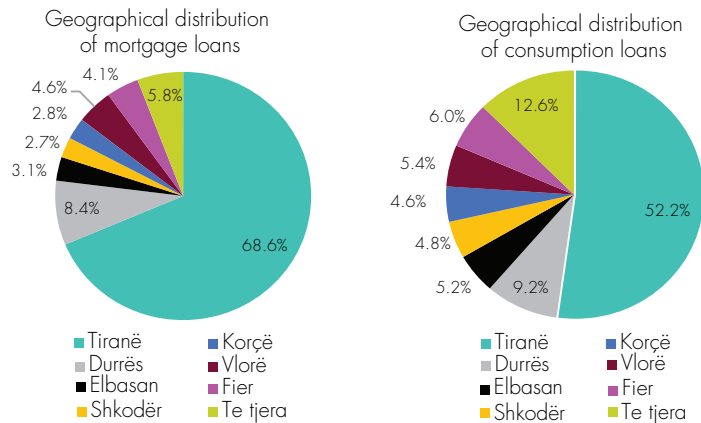
easing of credit standards during this period, notwithstanding the reported downward demand compared to the previous quarter. Mortgage loans have continued to provide the highest contribution to this growth, by around 5.1 percentage points. In 2020 Q4, total outstanding loans to households increased by around ALL 4.4 billion, of which around ALL 3 billion were consumer loans. The later retains the main share in the portfolio of loans to households, mainly in foreign currency. At the end of 2020 Q4, mortgage loans accounted for around 70.5% of the stock of loans to households.

Consumer loans recorded a slowdown of the growth pace in 2020 Q4. They contributed by around 0.8 percentage points, on average, to the expansion of total loans to households. At the end of 2020 Q4, consumer loans accounted for around 29.5% of loans to households. Consumer loans mainly lean towards domestic currency, which comprises more than 86% of this portfolio.



Time structure of loans to households is quite concentrated. Long-terms loans, with maturity term higher than five years, dominate this structure. At the same time, it reflects the concentration of credit portfolio to households in mortgage loans, which comprise loans for house purchase disbursed in long terms. Time structure of loans to households results relatively stable. At the end of 2020 Q4, mortgage loans accounted for around 83.1% of the stock of loans to households. The share of long-term loans increased by around 0.6 percentage points from the previous quarter, by compensating the fall in the share of medium-term loans, which accounts for around 12.3% of loans to households at the end of 2020. Short-term loans account for less than 5% of total loans to households and mainly comprise overdraft loans.

Chart 9 Geographical distribution of loans to households by purpose of use



Source: Bank of Albania.

Geographical distribution of loans to households reflects the high concentration of mortgage loans, where loans for house purchases account for 90% of mortgage loans. Around 69% of the outstanding amount of mortgage loans is disbursed in Tirana County. The higher concentration of population and higher prices of the housing market in this county affect this behaviour. In terms of portfolio size, the geographical distribution of loans remains disproportional. The counties of Durrës and Vlora, although listed after Tirana for their size, share only 8.4% and 4.6% of mortgage loans portfolio in Albania.

Consumer loans display a relatively more uniform distribution compared to mortgage loans. Around 52% of loans granted for consumption are concentrated in Tirana County. The share of consumer loans in Tirana County to total consumer loans in Albania increased by around 3.9 percentage points. Around 9.2% of consumer loans are granted in Durrës County, 6% in Fier, 5.4% in Vlora and 5.2% in Elbasan.

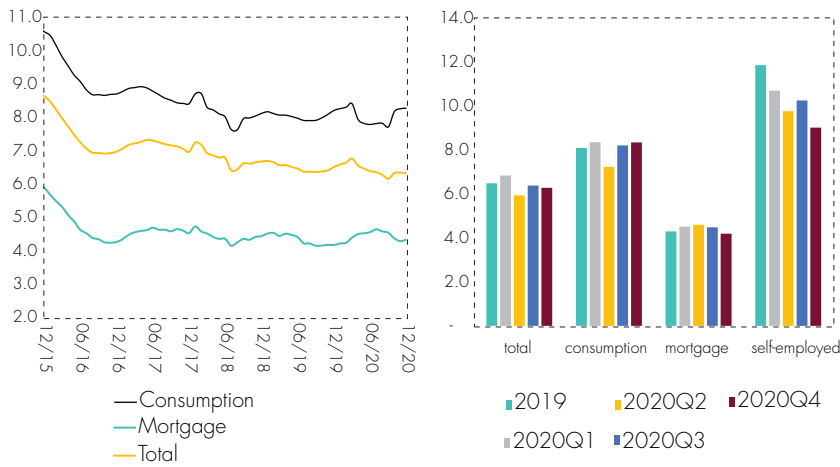
Interest rates on loans to households remain stable, at low levels, for consumption financing and mortgage loans both in lek and euro.

The average interest rate on loans to households in lek stood at 6.3% in 2020 Q4, from 6.4% in 2020 Q3. Interest rate on loans to households fluctuated around a stable average of 6.3% since after the first quarter of year⁷, from 6.8% recorded in 2020 Q1. The interest rate on consumer loans, notwithstanding its higher volatility, appeared stable in 2020 Q4 as well. It averaged at 8.3%, equal to the average in the previous year.⁸

⁷ April is an exemption, as the interest rate was particularly low driven by the low rates on consumer loans granted from a bank of the system.

⁸ Excluding April.

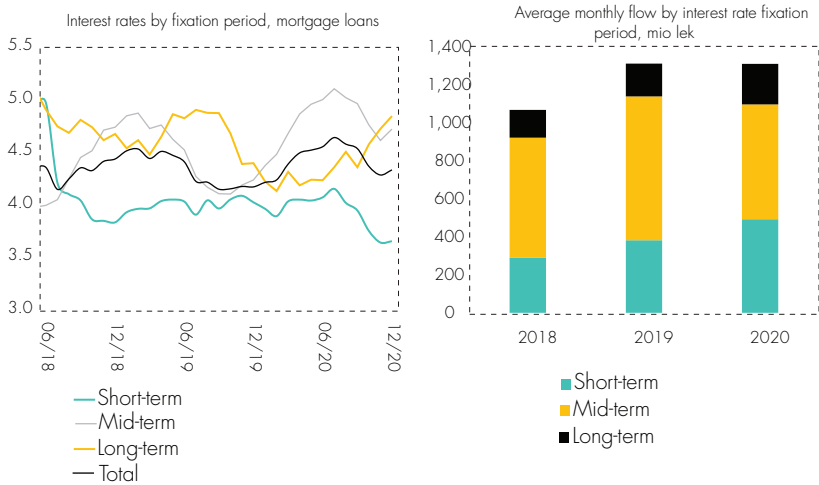
Chart 10 Interest rates loans to households in lek



Source: Bank of Albania.

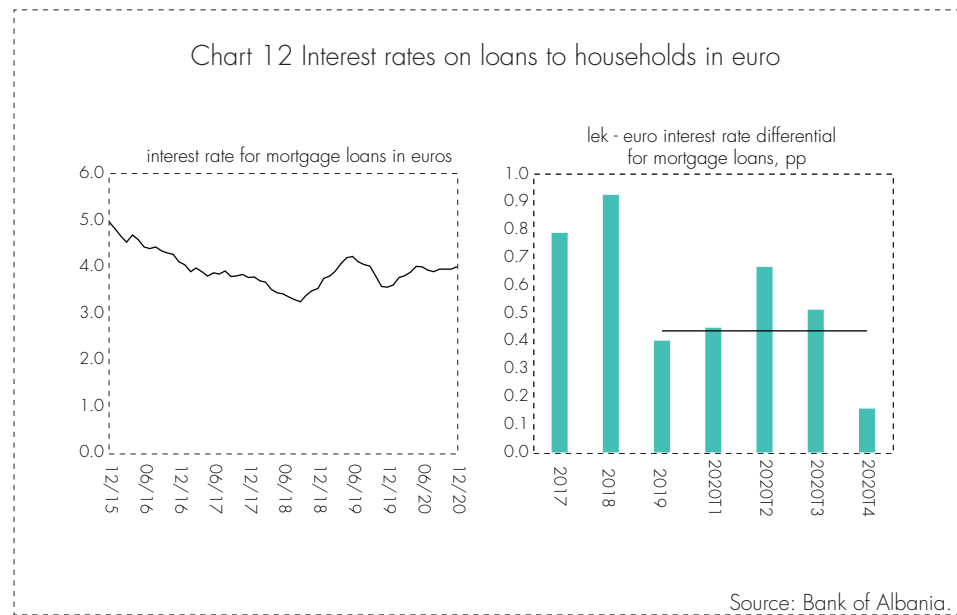
The interest rate on mortgage loans was 4.2% in 2020 Q4, compared to the average of 4.5% in the three previous quarters. In this quarter, the volume of mortgage loans of either variable or fixed interest rate has increased only for the first year, accompanied by a considerable decrease of the interest rate for this segment. Nevertheless, mortgage loans with fixed interest rate for the first 1-5 years are dominant. The interest rate on these loans and the fixed interest rates for over 5 years are, overall, higher and more volatile, reflecting the uncertainty that materialises in their fixation. Beyond the short-term dynamics, the interest rate on loans for financing house purchases for households was stable in the last three years, fluctuating around the average of 4.4%.

Chart 11 Interest rates by fixation period, mortgage loans



Source: Bank of Albania.

The average interest rate on mortgage loans⁹ to households in euro continued to be stable in this quarter, at 4.0% as in the two previous quarters. Starting from 2020 Q2, this rate is slightly higher from its average of 3.7% since 2017. The spread between lek and euro interest rates for mortgage loans narrowed in the last three months of 2020, at 0.2 percentage points. In 2019 and 2020, this spread stands at 0.44 percentage points, on average, at low historical levels, by supporting lending growth in lek against euro to this segment.

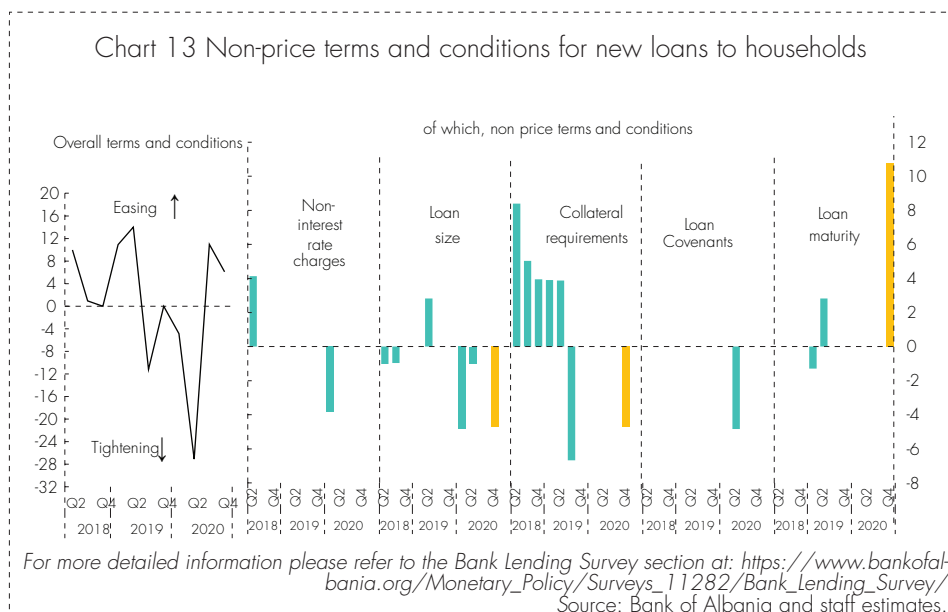


Lending terms and conditions for new loans to households were eased in 2020 Q4.

Banks' perception of credit risk to households is assessed to be lower in this quarter. This factor combined with higher tolerance for perceived risk on loans to households, has pushed banks to ease non-price terms and conditions, through extending the maturity of consumer loans¹⁰. On the other side, higher collateral requirements and the approval of a lower loan size than that required by households have affected the tightening of lending terms and conditions to households.

⁹ Mortgage loans are dominant in loans to households in euro, for that reason the analysis focuses only on this segment.

¹⁰ Only one bank of the system determined the positive balances of these indicators, out of 10 banks participating in the survey.



3. TRENDS IN LENDING IN THE COUNTRIES OF THE REGION¹¹

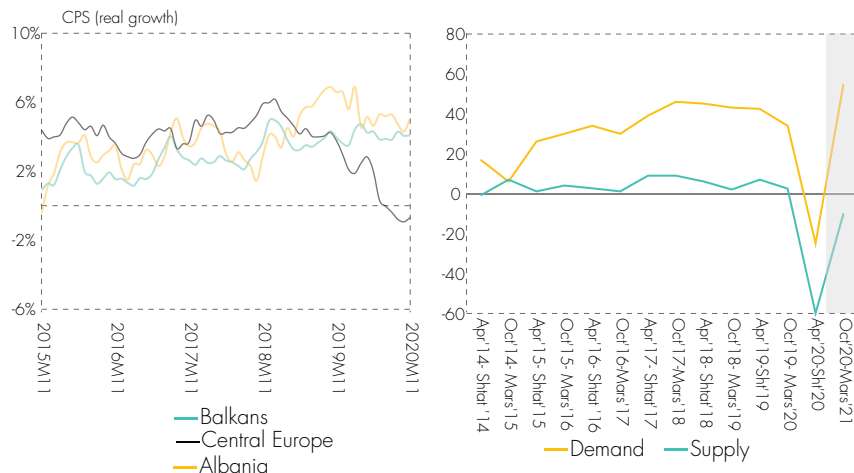
Credit to the private sector in the countries of the CESEE region has followed a slowing trajectory in the second half of 2020, recording a contraction in the enterprises' segment and a slowdown in the households' segment.

The portfolio of credit to the private sector has continued to slow down, by recording an average annual rate of 0.2 % in October and November, compared to 0.5% in 2020 Q3. In the period April 20 - September 20, the demand for loans, due to the pandemic shock, contracted for the first time over the past five years. According to the Bank Lending Survey in the countries of the region¹², banks have reported tightened lending terms and conditions. Banks in the region expect an increase in credit demand in the next six months (October 2020 - March 2021); while lending terms and conditions will remain tight, nonetheless fewer banks will implement tightened policies.

¹¹ In this analysis are included 9 countries of the Central, Eastern and South-eastern 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.

¹² The results of the Bank Lending Survey of EIB are detailed at https://www.eib.org/attachments/efs/economics_cesee_bls_2020_h2_en.pdf

Chart 14 Credit to the private sector in the CESEE region

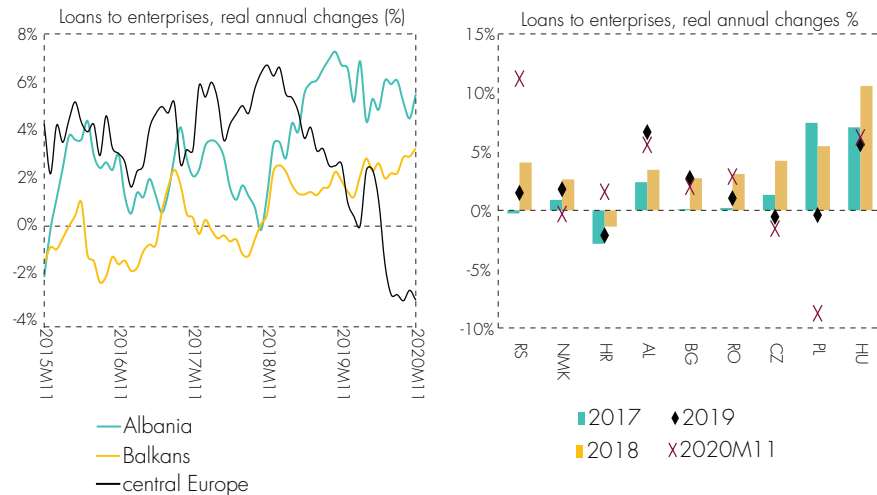


Source: Bank of Albania; Banks of regional countries; EIB Bank Lending Survey in CESEE, authors' calculations.

Performance in geographical terms indicate a contraction of credit to the private sector in the smaller region of Central Europe, mainly concentrated in Poland, which has the highest share in this region. This contraction was more pronounced in the credit segment to enterprises. Meanwhile credit to the private sector in Balkan countries has recorded improving growth rates, driven by the relatively stable performance in the credit segment to households and the increasing growth rates of credit to enterprises.

In October and November, the portfolio of loans to enterprises, in the CESEE region, recorded a contraction by 1.6% in annual terms, on average, similar to the rate recorded in 2020 Q3. The performance of this portfolio shows the reduction of loans in the region of Central Europe. Meanwhile, this portfolio has recorded improved growth rates in the Balkan region. The supporting measures taken by the Government in the framework of mitigating the effects of the Covid-19 pandemic, have positively affected the expansion of loans to enterprises.

Chart 15 Loans to enterprises in the CESEE region



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

The decrease in the demand for loans as reported by banks in CESEE Bank Lending Survey was concentrated in the segment for investments, while credit demand for liquidity has provided a positive contribution.

The growth rate of loans to households remains in positive territory, notwithstanding the slowdown pace in October and November. This portfolio recorded an annual average growth of 1.4%, or around 0.6 percentage points lower compared to the third quarter. The consumer confidence indicator and loan demand in regional countries are reported on a downward trend in the six-month period, April 2020 - September 2020. In narrower geographical terms, Central Europe remains the most affected region. Loans to households, in Balkan countries, recorded a slight slowdown, whilst remaining relatively more stable than loans to enterprises.

