

BANK OF ALBANIA

TRENDS IN LENDING

Erjona Suljoti, Sofika Note, Anjeza Gazidede and Medvin Shehu
Monetary Policy Department, Bank of Albania

OCTOBER 2023

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

C O N T E N T S

INTRODUCTION	5
OVERVIEW OF RESULTS	6
1. LOANS TO ENTERPRISES	7
2. LOANS TO HOUSEHOLDS	12
3. TRENDS IN LENDING IN THE COUNTRIES OF THE REGION	15

INTRODUCTION

"Trends in Lending" presents a detailed overview of the most recent credit developments in Albania and in the region. To this end, it studies the monetary data, interest rates and credit conditions outlined in the Bank Lending Survey. In more concrete terms, Trends in Lending takes into account the following key statistics: a) statistics of real flows¹ for the lending activity of banks in the private sector; b) qualitative data from the Bank Lending Survey; c) statistics on loan interest rates, both in lek and euro; d) monetary data and interest rates for lending activity of the countries of the region.

The regional 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).

The analysis covers data available as at 24 October 2023, which include information for monetary and financial data as at September 2023, and data from the Bank Lending Survey 2023 Q3. Data on credit in regional countries are as at August 2023.

¹ Data on lending are obtained from banks' balance sheets and refer to funding to the resident private sector enterprises and households. Starting from 2022, the analysis of the loan portfolio is based on the new set of data prepared by the Financial Statistics Department, in line with the ECB methodology on "real" credit flows, which excludes both exchange rate fluctuations and written-off loans from balance sheets.

OVERVIEW OF RESULTS

Credit to the private sector slowed during 2023, similar to the trends observed in the region and in partner economies. However, its rate of growth continues to be among the highest in the region. Developments in lending during the last quarter show the following:

- **Slowdown of lending to the private sector** is mostly attributed to a slowdown in credit for liquidity from enterprises. The continued growth of domestic demand and the strong growth of foreign demand, mainly for tourism, has improved the liquidity of enterprises, which have preferred to repay a part of this loan during the third quarter of the year.
- Financing for enterprises and households has been carried out in lek, influenced, among other things, by the lower interest rates of loans in lek and by the appreciation of the exchange rate. These factors have driven enterprises and households to shift part of their loan portfolios from foreign currency to lek. This performance is also reflected in a **more balanced currency structure of loans**.
- Credit analysis by the size of enterprises shows that credit has contracted for large enterprises, slowed down for medium-sized enterprises, and improved for small businesses. According to the sectors of the economy, there is a contraction of credit in the industry sector, an increase in the services sector and a slowdown in other sectors. It is noted that bank financing is oriented towards the sectors that have provided the greatest contribution to economic growth: trade, construction and tourism.
- Analysis of loans to households by purpose of use shows that a slowdown in mortgage loan growth rates has been offset by faster growth in consumer credit. These developments were supported both by an increasing demand from households for the financing of consumption and investments in house purchase, as well as by favourable loan supply conditions.
- **The terms and conditions** of the loan supply have remained favourable for the growth of lending, even in the presence of normalization of the monetary policy. Interest rates for new loans in lek in the last two quarters have followed a downward trend, both to enterprises and to households. Loan interests in lek have mainly reflected a strong downward trend for 12-month T-bills yields and a reduction of risk premiums. At the same time, and for the first time since the beginning of monetary policy normalization, under the increased pressure of competition between banks, banks did not change the standards or the terms and conditions of loans to enterprises. Simultaneously, they continued to ease the conditions for loans to households, both for consumption and for house purchases.
- **Loans to the private sector in countries of the region continue to slowdown**, as a result of the weak performance of loans to enterprises. The slowdown of loans to households have been curbed and have shown signs of recovery. Interest rates stabilized at high levels in countries that are near the maximum levels expected for the policy rate and have continued to rise in other countries that have not yet completed their growth cycle.

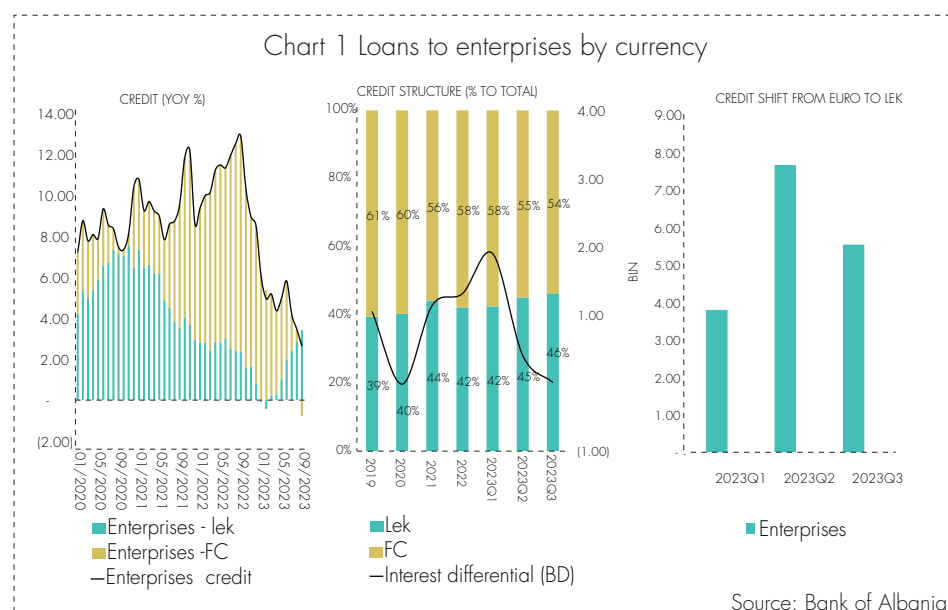
1. LOANS TO ENTERPRISES

The financing of enterprises by banks slowed down in response to improvement in the liquidity situation of enterprises. Financing of enterprises was mainly denominated in lek, the growth of which has offset the slowdown of financing in foreign currency and has contributed to a more balanced foreign currency structure of loans to enterprises. By size of enterprises, there is a decrease in lending to large businesses, a slowdown in lending to medium-sized enterprises, and an improvement of lending to small enterprises. By sectors of the economy, there is a contraction of credit in the industry sector, improvement in the services sector and a slowdown in other sectors.

Loans to enterprises followed a downward trend since the beginning of 2023, accelerating in the third quarter. The annual growth this quarter was 3%, around half of what was recorded in the first half of the year. The main reason behind this performance is the improvement of the liquidity of enterprises reflecting the ongoing growth of domestic demand and the sharp growth of foreign demand, mainly for tourism. Data show that enterprises have repaid a good portion of their loan portfolio for working capital. The loan for this purpose decreased by 1.7% in September.

Another trend which took place in 2023, was the shift of the portfolio of loans to enterprises from loans in foreign currency, mainly in euro- to loans in lek. This shift was driven by a decreasing spread between interest rates in lek and those in euro, but also by appreciation of the exchange rate. As at the end of September, lending in foreign currency was 1.3% lower than a year earlier.

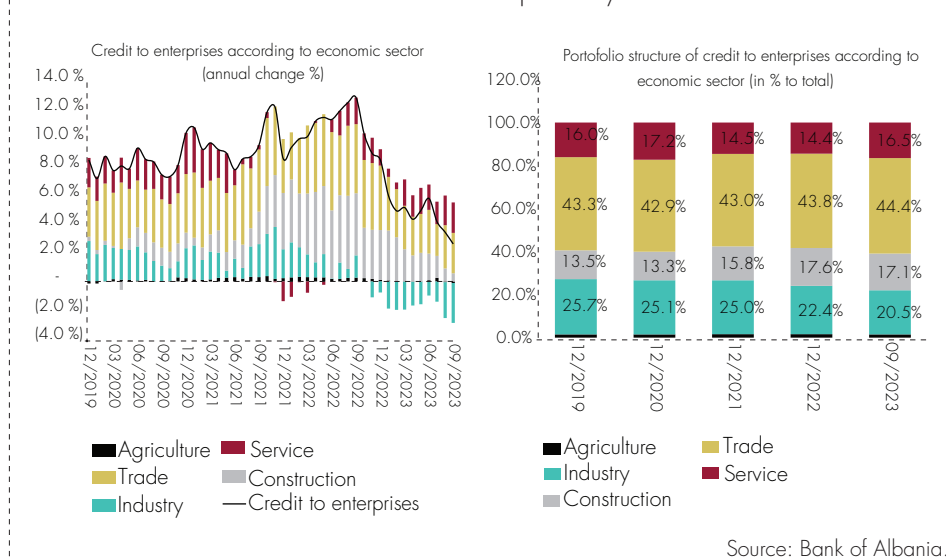
On the other hand, the improvement of loan growth rates in lek goes beyond the positive impact on its performance from the shift of portfolios. Loans in lek increased by ALL 16 billion during the first nine months of the year, where the effect of converting loans from euro to lek was emphasized in May and onwards. By the end of September, loans in lek to enterprises recorded an annual expansion of 7.6%, significantly higher than the average growth of 1% in the first half of the year. The above developments led to an increase of the share of loans in lek to a total of 46%, at historically high levels.



By the size of enterprises, loans to large business contracted, loans to medium-sized enterprises slowed down, while loans to small business improved. Thus, in September, loans to large enterprises was 1.4% lower than a year ago, loans to medium-sized enterprises slowed down to 8%. Meanwhile, the portfolio of small enterprises grew by 3% in the third quarter, after contracting during the two previous quarters. These developments have reflected, on the one hand, an improvement of the financial condition of large enterprises and, as a result, a lower need for financing from banks, while the banks have kept the lending conditions for this group unchanged. On the other hand, positive developments in the economy, in business confidence together with the stabilization of prices and uncertainty in the country have helped to cover the demand from small enterprises for financing. Meanwhile, even though the supply for this segment remains tight, even in the third quarter, the increased risk tolerance of banks has helped accommodate the demand from this group. The growth of loans to SMEs reached 6.7% compared to the average of 7.4% in the first two quarters of the year. These developments were reflected in a shift of the credit structure of enterprises towards small and medium-sized enterprises, the loan share of which reached 51.5% of the total.

By sectors of the Economy, the slowdown in credit growth can be observed in all sectors of the economy, with the exception of the services sector (chart 2, left). The financing of this sector has been upward during the first nine months of 2023, remaining on average about 10.6% higher compared to the same period of the previous year. The upward trend of the sector as well as its positive perspective have led to the increase of both loan supply and loan demand. On the other hand, the slowdown in credit growth rates was more evident in the construction sector – where financing in the third quarter grew by only 5% from 15% in the first six months – and more contained in the trade sector and agriculture. Loans for the industry sector have shrunk since the beginning of the year, reflecting the weak demand for financing, mainly from the energy sector. In the third quarter, lending to this sector fell by 10% compared to 7% in the first six months.

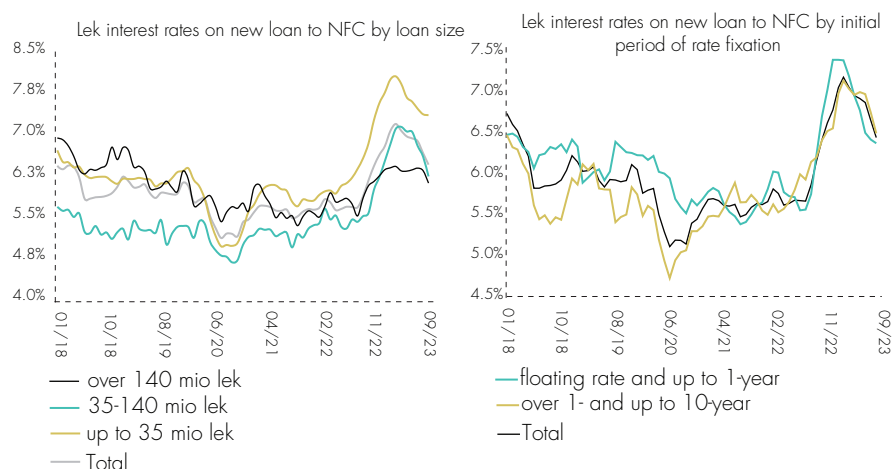
Chart 2 Loans to enterprises by sector



Interest rates were rising during the first months of the year but interest rates of loans in lek to enterprises decreased in recent months. Currently, they are slightly higher compared to their level before the start of the tightening of monetary policy. Meanwhile, loan interests in euro continue to register a minimal but gradual increase month after month. They are reflecting the increases in the policy rate of the Euro by the ECB throughout this period. Compared to the first six months of the year, the decrease in interest on loans in lek has been stronger for large loans, meanwhile the increase in interest has been equally distributed to both categories for loans in Euro.

The average interest rate on new loans to enterprises in lek in the third quarter was 6.4% from 6.9% in the first half of the year. Interest rates declined for loans of over ALL 35 million, gradually down during the year. The average interest for these loans was 6.1%, from 6.2% and 7.0% in the previous two quarters. The category of loans with amounts up to ALL 35 million, which is mainly used by small enterprises, decreased slightly to 7.4% from 7.6% recorded in the first half of the year. Meanwhile, the cost of financing for short-term liquidity slightly decreased, where the interest for overdraft and working capital in the third quarter was 6.3% from 6.5% in the first half of the year. Analysis of the initial period of rate fixation confirms the reduction of interest both on loans with a fixed initial rate of up to one year and on those with an initial fixed interest rate over one year. Interest rates in both of these categories recorded a decrease of 0.5 pp this quarter (6.3% and 6.4% from 6.8% and 7.0%).

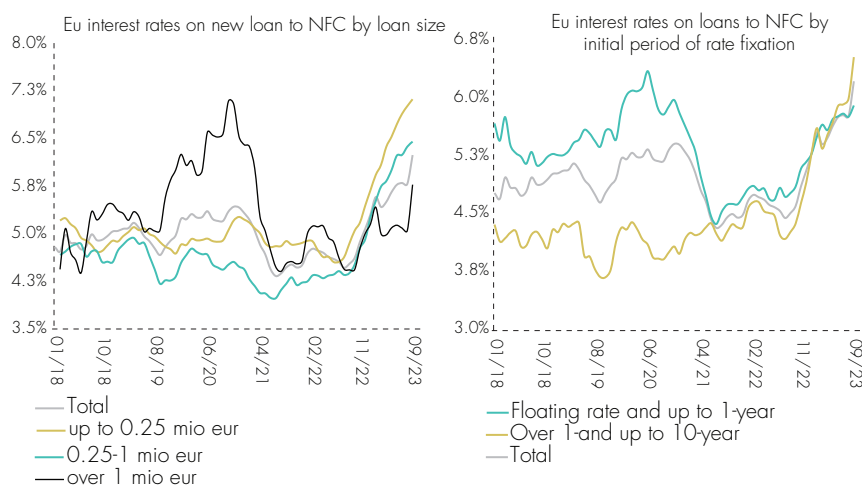
Chart 3 Interest rates on loans in lek by size of the loan (left) and the initial interest rate (right) to private enterprises



Source: Bank of Albania

The interest rate for loans to enterprises in Euro was 6.4% in the third quarter of the year from 5.8% in the first half of the year and 5.4% in the previous year. By size of loan, analysis shows that loan interests for loans up to EUR 250,000 and those above this amount have increased at approximately the same rate. The increase in the policy rate for the euro by the ECB during this period is being slowly but steadily reflected in the interest rate of loans to enterprises in euro. Analysis of the initial fixation of interest shows that during these months, the category with initial rate fixed over one year has recorded a higher interest increase than that with initial interest fixed up to one year. Meanwhile, the interests for overdraft and working capital regularly increased every quarter, resulting in 6.1% in the last three months, from 5.1% in the first quarter of the year.

Chart 4 Interest rates for loans in EUR by size of the loan (left) and the initial interest rate (right) to private enterprises

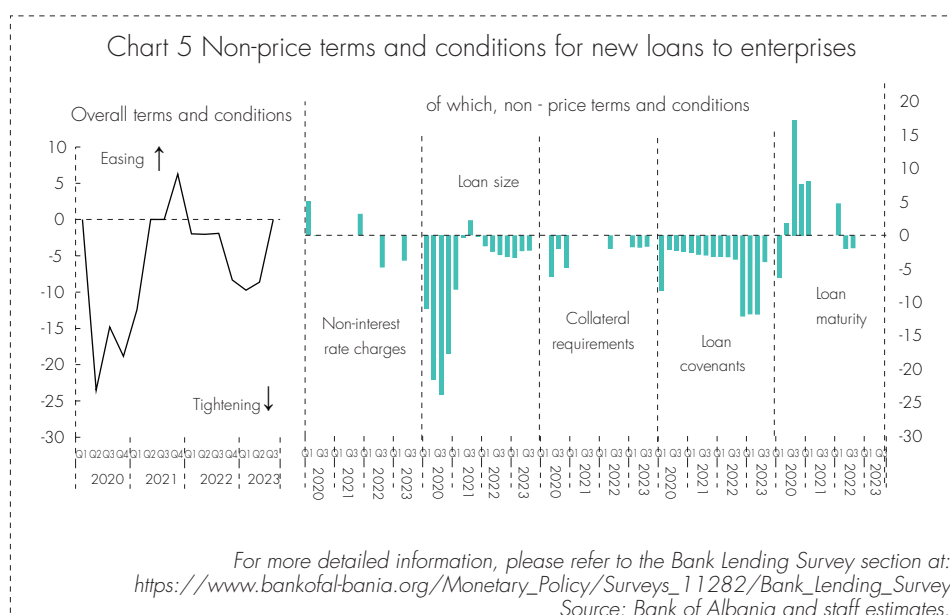


Source: Bank of Albania

Under increased pressure from competition in the banking system, banks did not change the standards or the terms and conditions of loans to enterprises, for the first time, since the beginning of the normalization of monetary policy.

Throughout 2023, banks generally remained cautious in regard to assessing the risk of loans to enterprises, drafting their lending policies within a narrow risk tolerance framework. However, in the third quarter of the year, banks perceived a more favourable macroeconomic situation and an optimistic outlook for the main macroeconomic indicators.

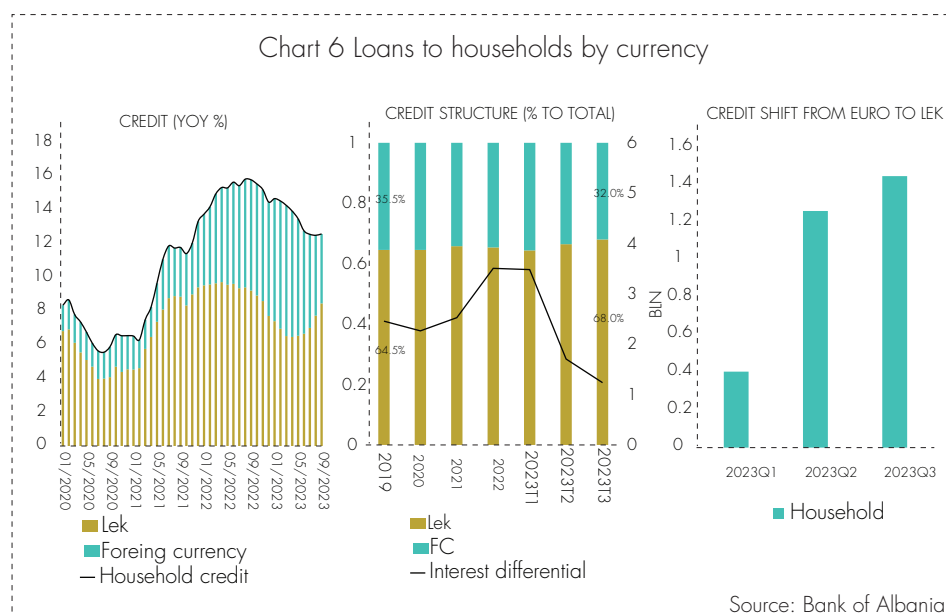
Under increased pressure from competition in the banking system, banks did not change the standards or the terms and conditions of loans to enterprises, for the first time, since the beginning of the normalization of monetary policy by the central banks inside and outside the country. The main element through which banks have tightened the terms and conditions of lending throughout this year, the conditions in credit agreements, remained present even in the third quarter. However, the net balance of this indicator was lower than in previous quarters. In addition to increasing conditions, banks approved smaller loans to enterprises. On the other hand, banks did not change the other non-price elements of credit to enterprises.



2. LOANS TO HOUSEHOLDS

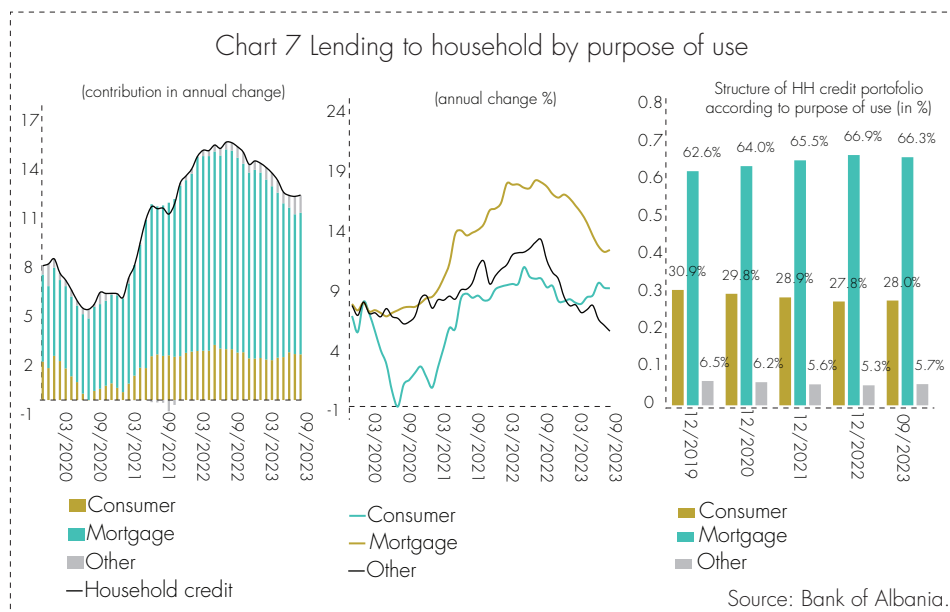
Bank Lending to households continued to be high during the third quarter of the year as well. This performance moderated the slowdown of the growth of house purchase loans and the improvement of consumer credit. Similar to the trends observed in loans to enterprise, the financing of households has mostly been in lek, the growth of which has offset the slowdown of financing in foreign currency.

Bank lending to households continued at high rates during the third quarter, increasing by 12.5% yet, 1.4 pp lower compared to the first half of the year. The slowdown of credit in foreign currency has affected this performance. Similar to the trends observed among enterprises, loans to households in foreign currency have slowed down to 13.9% in the third quarter, from an average of 21% in the first half of the year. Households have also chosen to repay a part of their foreign currency loans earlier than in due time - mainly in euros - and have replaced them with loans in lek. The main factors that have supported this shift have been the appreciation of the domestic currency, the lower interest rates of the mortgage loan in lek compared to that in Euro, as well as the regulatory facilities for switching the currency with no penalty. At the same time, loans in lek to households improved their growth rates, reaching 12.6% in the third quarter from 8% in the previous year.



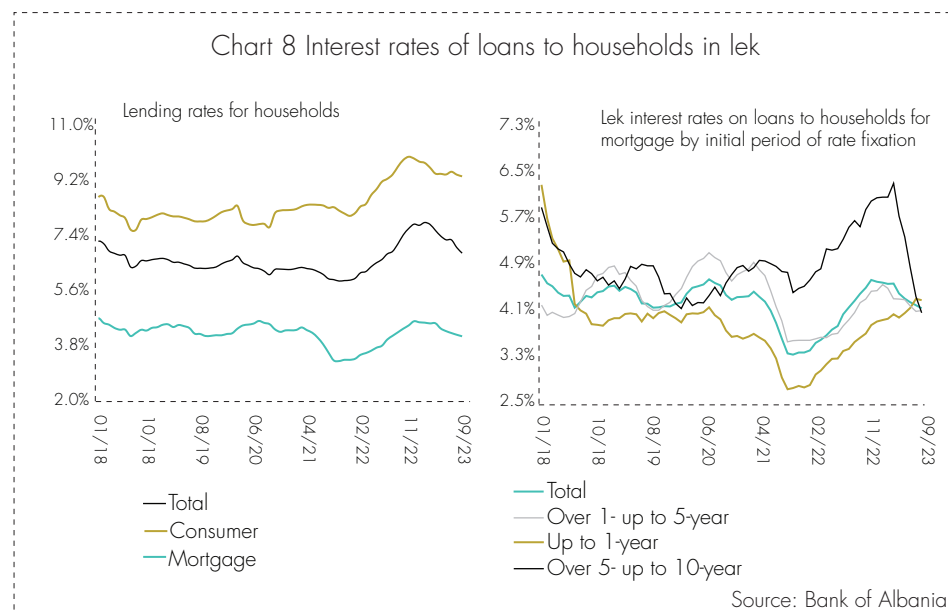
By purpose of use, mortgage loans slowed down, while consumer loans accelerated. The mortgage loan growth by 13.5% in the third quarter was about 3 pp less than in the first half of the year. Despite the high competition between banks and the continuous easing of conditions in this segment, households' demand slowed down reflecting an increase in the cost of loans for house purchase and the tightening of family budgets as a result of a high

cost of living. During the summer, a factor influencing the performance of mortgage loans was a temporary deadlock in the generation of necessary documentation from the On-line mortgage service. On the other hand, consumer credit grew at a higher pace than in the first half of the year. The average annual growth of 10% in the third quarter was about 2 pp higher than the average of the previous period.

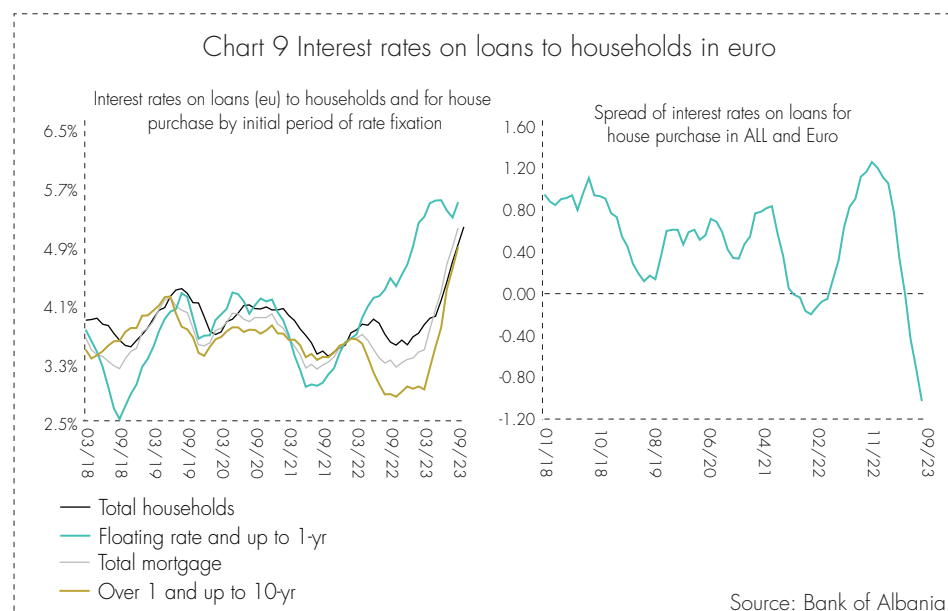


Interest rates on loans in lek to households continued to decrease during the third quarter. This decrease has mainly reflected the downward performance of 12-month T-bills yields, which is used in indexing the majority of loans of this category. Interest rates of loans to households decreased mainly for mortgage loans, while for consumer loans the decrease was minimal. Meanwhile, the interest on mortgage loans in euro increased, causing the interest spread with the loan in lek to be negative.

The average interest rate of loans in lek to households was 6.7% in the third quarter from 7.0% and 7.6% in the previous two quarters. Households benefited from the drop in interest for mortgage loans, while the decrease in consumer loans has been minimal (9.3% from 9.4% in the first half of the year). Loan interest for house purchase was 4.0% from 4.3% which was the average in the first six months of the year. Analysis of the period of initial fixation of the interest rate shows that a reduction of interest has been formed in the category of loans with initial fixation over one year (3.7% from 4.6%), while that with initial interest fixed up to one year has slightly increased (4.3% from 4.1%).

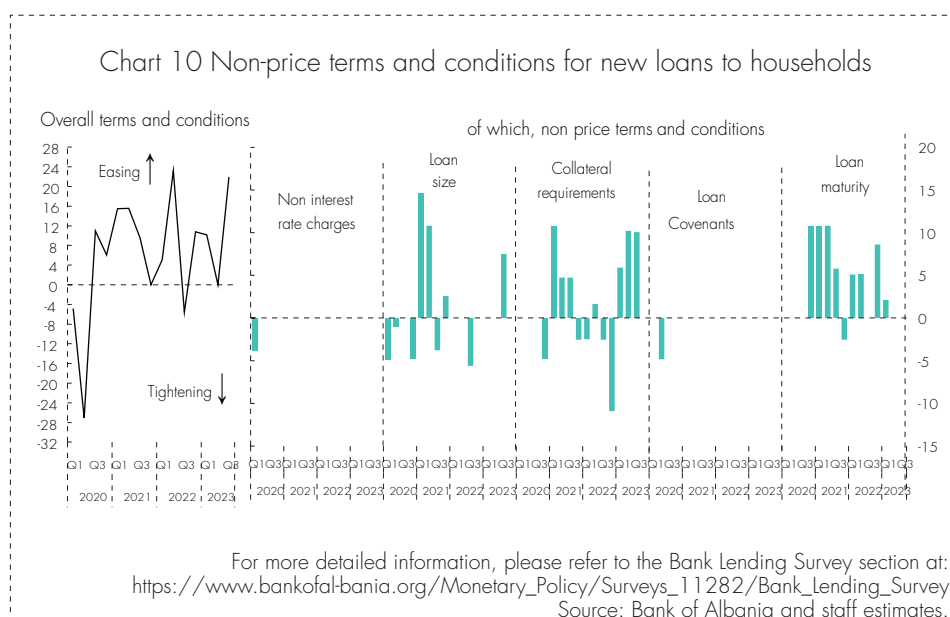


The average interest of the new loan in euro to households slightly increased, reaching 5.5% in the third quarter, from 5.3% and 4.1%, in the two previous quarters. **Loan interest in this category is dominated by the upward trend of the mortgage loan interest rate (5.3% from 4.3%), reflecting the increase in reference rates.** Unlike the interest of mortgage loans in lek, analysis of the initial fixation of interest shows that for loans in Euro, the increase in interest rate was high in the category with the initial rate fixed over one year. In average terms, the spread between the interest rate of mortgage loans in lek and that in Euro has been negative.



Lending terms and conditions for new loans to households were eased further as a result of increased competition among banks.

Lending policies to households throughout 2023, unlike enterprises, have been more easing. In the third quarter of the year, banks further eased the terms and conditions of loans to households, driven by a competitive environment in which banks operate. In regard to the new loans to households in the third quarter, banks continued to reduce the margins above the reference rates, similar to the first half of the year. The easing of lending policies towards households, in addition to the price component, were also expressed in other more favourable non-price conditions, such as: lower requirements for collateral in mortgage loans, as well as in the approval of higher sizes of loans to households. Other non-price components, such as commissions, conditions from the loan agreement, as well as loan maturity remained unchanged in the third quarter.



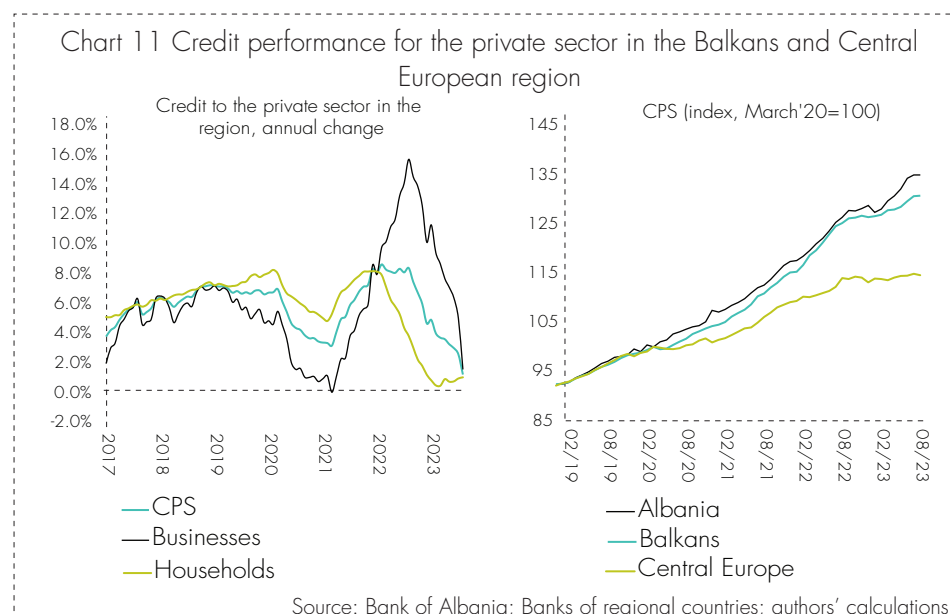
3. TRENDS IN LENDING IN THE COUNTRIES OF THE REGION²

Credit to the private sector in the countries of the Balkans and Central Europe has continued to slow down further in the third quarter of the year, with the weaker performance of business credit as the main factor. The countries of the Balkans do better when compared with the countries of Central Europe and Albania ranks among the countries in which credit growth rates are still high. In most countries, interest rates on loans have stabilized at high levels or continue to increase, following increases in the policy rate.

In general, credit to the private sector in the countries of Central Europe and the Balkans continued to slow down further in the third quarter of the year. Unlike last year, where the slowdown was mainly dedicated to credit to households,

² This analysis includes 11 countries of Central East and South East Europe: Albania, North Macedonia, Croatia, Kosovo, Montenegro, Serbia, Bulgaria, Romania, Czech Republic, Poland and Hungary. Credit to the private sector stock is adjusted for the impact of the exchange rate. Considering the high inflation volatility over the past year, the stock of credit was not deflated with inflation in this analysis, since it might distort the message on credit performance in the short term.

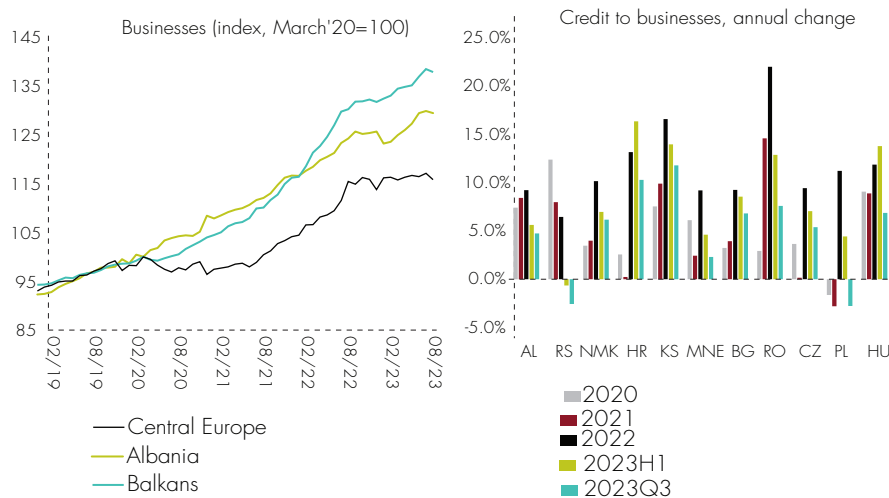
in 2023 credit to enterprises was the main factor behind increasingly weak financing of the private sector. Within this general panorama, the countries included in this analysis show different developments at the regional and individual level. At the regional level, the countries of the Balkans continue to have a better performance compared to those of Central Europe, also due to the fact that in the CE inflation was higher and the rates increased faster and to a greater extent. At an individual level, Albania ranks among the countries in which rates of credit growth for the private sector are still high, alongside Montenegro, Bulgaria, Kosovo and North Macedonia.



During 2023, in addition to an increase in policy interest rates present since 2022 for many of the countries under review, other risk factors materialized with a negative impact on the performance of loan demand and supply. On the supply side, the inhibitory effect that the increase in the interest rate has had on economic growth has raised concern for deterioration of the quality of the portfolio in the future and has increased banks' caution in regard to lending. This has been translated into tightening of other lending conditions, in addition to an increase in the interest rate. On the other hand, the demand for loans has been negatively affected by continued high inflation rates, by the slowdown of economic activity and uncertainties for the future.

A widespread phenomenon in some of the countries of the region is better performance of loans in foreign currency, mainly in euro, compared to the performance of loans in the domestic currency. Hungary, the Czech Republic and Romania stand out in this regard. This phenomenon is dictated by a faster and earlier increase in policy interest rates for domestic currencies compared to the increase in the policy rate by the ECB.

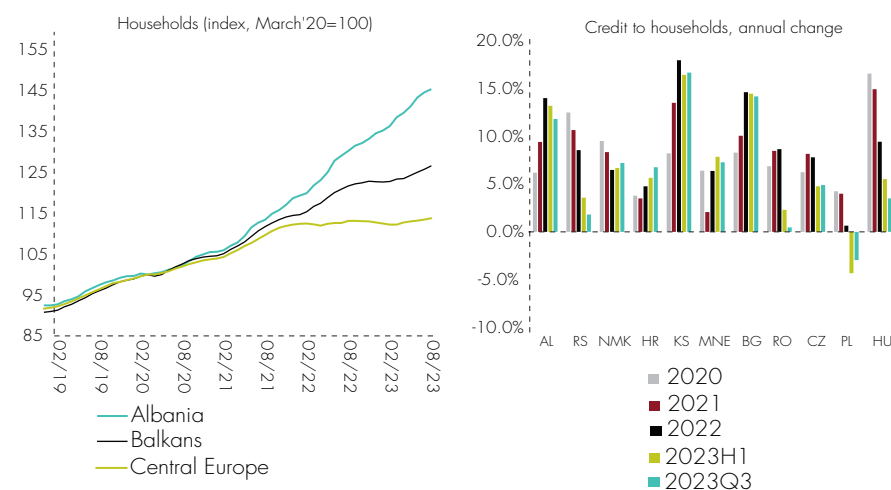
Chart 12 Credit to enterprises in the region of the Balkans and Central European



Source: The Bank of Albania; central banks of regional countries; staffs' calculations.

Credit to enterprises slowed down in almost all countries of the region. Enterprises' demand for loans for investments weakened, in the face of a weaker performance of the economy and an increase in interest rates. On the other hand, the curbing of the increase in the prices of commodities and the slowdown of inflation in general have dictated the reduction of enterprises' demand for working capital. In August, the annual growth of loans to enterprises decreased to around 6.0% on average for the Balkan countries, from 7.7% at the end of the first half of the year and from 13.0% at the end of last year. Despite the slowdown, loans to enterprises continued to grow relatively at a good pace in Kosovo, Croatia and Romania. In regard to the performance of loans to enterprises, Albania stands close to the average of the Balkan countries. The slowdown in loans to enterprises appeared strongest in Central European countries, where the annual change in loans to enterprises reached zero, from 9.0% at the end of the previous year. Among these countries, Hungary prevails, where despite a strong increase in interest rates, government guarantee schemes have curbed the strong slowdown of loans to enterprises.

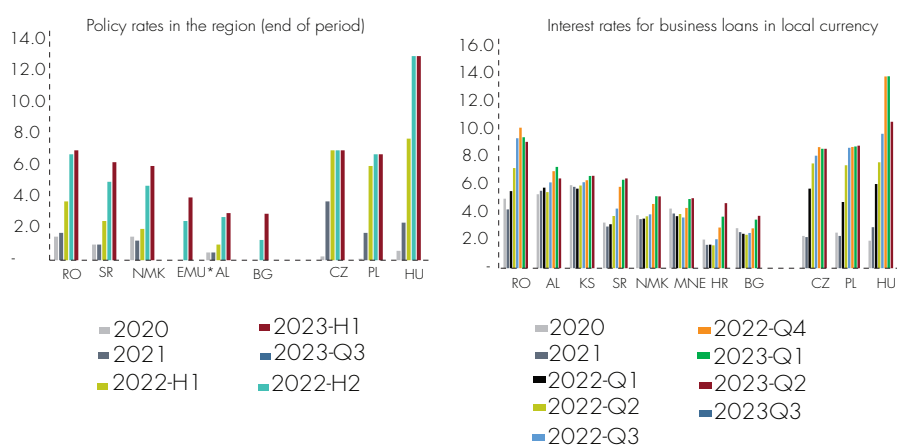
Chart 13 Credit to households in the Balkans and Central European region



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

Credit to households showed slight signs of recovery at the regional level after the first quarter of the year, when its annual growth marked minimal levels. The divergence between countries in terms of credit performance for individuals is greater. It continues to grow at high rates in most of the Balkan countries, including Albania, while it has marked a further slowdown in Serbia and Romania. Growth of loans to households has stabilized in the Czech Republic, while it remains negative in Poland and is slowing down in Hungary, despite the easing schemes offered by the government in Hungary. The segment of mortgage loans was the most affected segment of loans to households. Demand in this segment has been discouraged as a result of high interest rates and increased uncertainty about household's finances in the long term. In regard to consumer credit, the needs for short-term financing driven by the increase in the cost of living have kept the demand at moderate levels.

Chart 14 Policy rates and interest rates of new loans to enterprises in the region, in %.

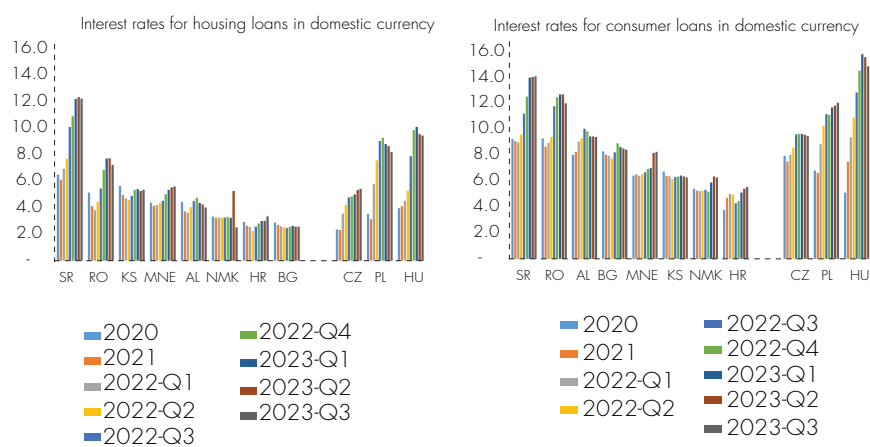


*Policy rate for Croatia and proxy for Kosovo and Montenegro.

Source: The Bank of Albania; central banks of regional countries; staffs' calculations.

Interest rates on loans to enterprises and households continued to increase in most countries, whilst a good part of banks have moved towards tightening of monetary policy alongside further increases in policy rates. In Central European countries, policy rates have not changed from their high levels at the beginning of the year or have decreased (Poland). In these countries, loan interest rates have shown signs of curbing of growth and even declining. The case of Romania and Serbia is similar in the Balkan region. Albania is a peculiar case, where interest rates have decreased in almost all segments during the last two quarters, in the conditions of an unchanged policy rate. A comparative look at the region's data shows that Albania has been among the countries with the highest interest rates of loans to enterprises and mortgage loans, expressed in higher spreads against the policy rate and yields of government securities. The reduction of interest for loans in Albania during the last quarters was realized through the narrowing of these spreads, which in itself could be a convergence towards more comparable levels with the countries of the region.

Chart 1.5 Interest rates for loans to households in the Balkans and Central Europe region, in %.



Source: The Bank of Albania; central banks of regional countries; staffs' calculations.