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BANK LENDING SURVEY

2019 Q2

MONETARY POLICY DEPARTMENT

Introduction[1]

The Bank Lending Survey (BLS) questionnaire aims to collect the commercial banks' opinions related to developments in the past three months on credit supply and demand, and their expectations for the next three months. The BLS provides a summary of commercial banks' perceptions on the changes in credit supply conditions, presented through credit standards, terms and conditions, and on the changes for loan demand by enterprises and households. This analysis is based on the aggregated results of replies from ten banks that own the largest share of credit to the private sector.

[1] The Bank Lending Survey questionnaire was revised in 2018 Q2, aiming at further approximating it with the latest international practices, especially with the ECB practice. Hence, the related analysis is adopted with the new questionnaire. The new analysis is enriched with additional questions and specifications related to the factors affecting the credit standards, terms and conditions and demand. From 2018 Q4, the time series are tested for the presence of seasonality, following the relevant statistical methods. The time series showing seasonality, according to statistical test specifications, are adjusted for this effect and have replaced the existing series that have not been adjusted for seasonality in conducting the lending survey. The BLS questionnaire, a glossary of terms, a short description on the importance of this survey, some methodological aspects and the time series for analysis purpose are published at the link:
https://www.bankofalbania.org/Monetary_Policy/Surveys_11282/Bank_Lending_Survey/.

OVERVIEW OF RESULTS

Commercial banks assessed unchanged credit standards for loans to enterprises during 2019 Q2. According banks' perceptions, loan demand from enterprises was lower in Q2, both from large enterprises and the small and medium-sized ones, driven by loans for investment purpose. Demand on loans for liquidity purposes was perceived higher in Q2. Credit standards for loans to households eased slightly, for both consumer and house purchase loans. Demand for consumer loans was perceived as lower, while for house purchase loans it was reported somewhat higher.

In 2019 Q3, credit standards are expected to remain unchanged for enterprises, and to ease somewhat for households. Credit demand from enterprises, in 2019 Q3, is expected to be lower, driven by the decline in the loan demand for investment purposes. Credit demand from households is expected to augment in 2019 Q3, driven by the higher demand for consumer and house purchase loans.

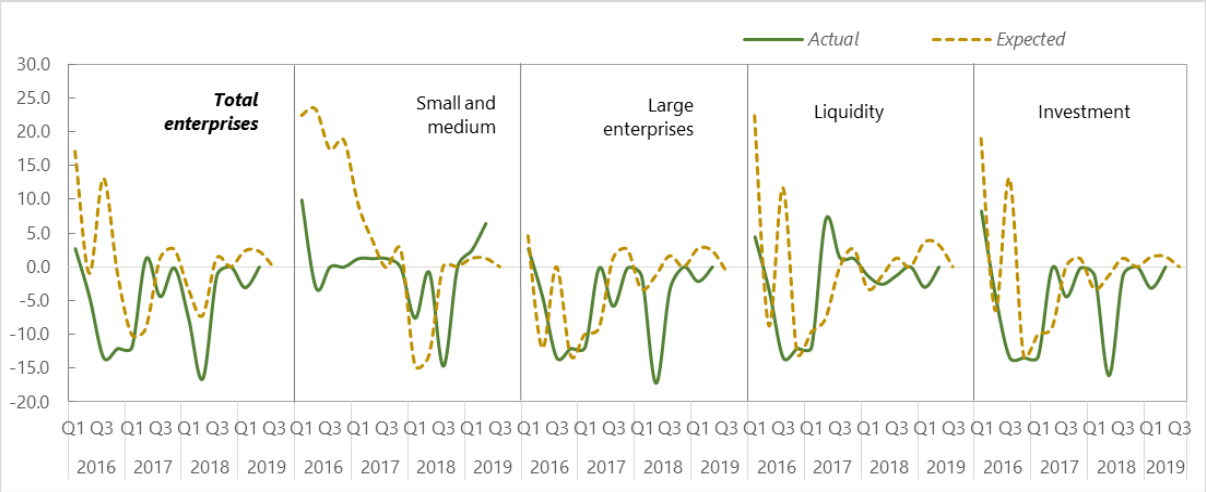
CREDIT STANDARDS, TERMS AND CONDITIONS, AND DEMAND

1. LOANS TO ENTERPRISES

1.1. Credit standards

Based on commercial bank's opinions, **credit standards for enterprises remained largely unchanged** in 2019 Q2. Unchanged credit standards with the previous quarter were reported for both investment and liquidity loans. For loans to small and medium-sized enterprises, standards eased somewhat[2], whereas they remained unchanged for loans to large enterprises. In 2019 Q3, banks expect no changes in credit standards for loans to enterprises, in terms of both loan size and purpose of use.

Graph 1. Credit standards for loans to enterprises and expectations for the next three months[1]

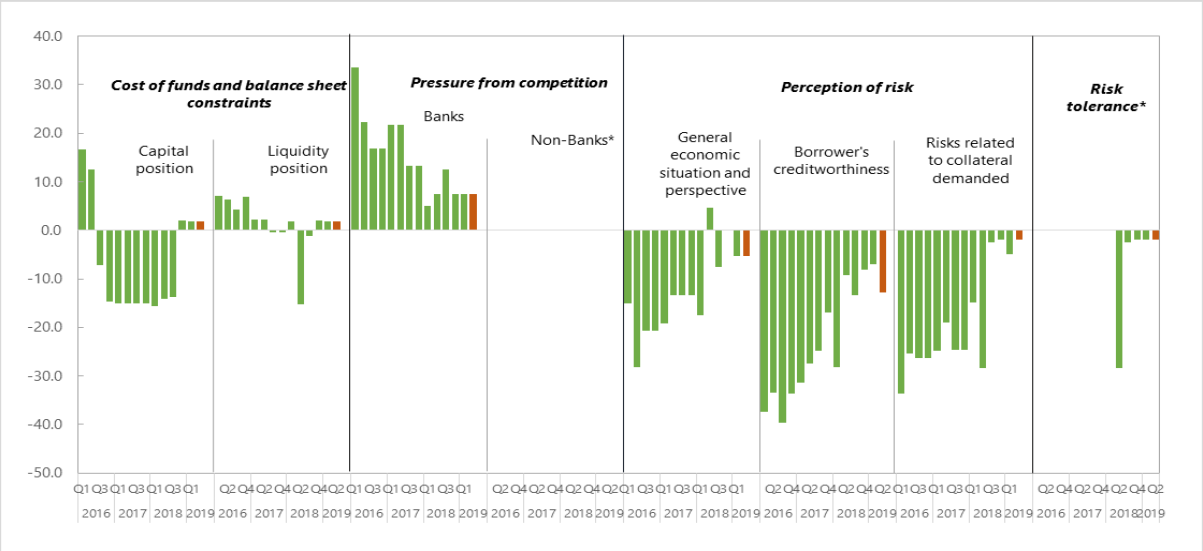


[1]: Calculated as net percentage. Positive values indicate easing of credit standards, whereas negative values indicate tightening of credit standards.
Source: Bank of Albania.

[2] Slightly more easing credit standards for the category of small and medium-sized enterprises were reported only by one bank of the system.

The factors contributing to the easing of credit standards for enterprises were: the increase in banking sector competition; and lower cost of funds and balance sheet constraints driven both by capital and liquidity position of banks. Factors reported as contributors to the tightening of credit standards were those related to risk perception by banks, such as: borrower's creditworthiness, economic situation and outlook, as well as risks related to collateral demanded. Lower risk tolerance was another factor backing the tightening of credit standards to the enterprises.

Graph 2. Factors contributing to changes in credit standards for total enterprises[2]



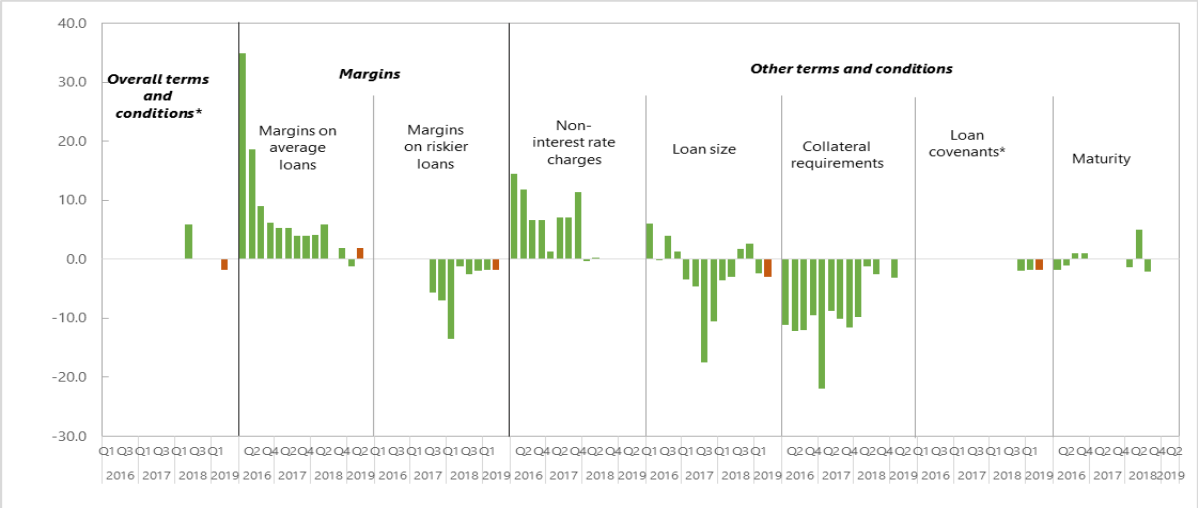
[2]: Calculated as net percentage. Positive values indicate the factor contributed to the easing of lending standards, whereas negative values indicate their tightening.
*: New indicator added in the questionnaire revised in June 2018.
Source: Bank of Albania.

1.2. Terms and conditions

Overall terms and conditions on new loans to enterprises slightly tightened[3] from the previous quarter. The slight tightening of terms and conditions to enterprises was triggered by higher margins on riskier loans, as well as by slight tightening of non-price terms and conditions. The latter were expressed by the reduction of loan size, as well as by the increase in the loan covenants. Lower margins on average loans were reported as the only factor contributing to the easing of the terms and conditions on loans to enterprises.

[3] Slightly tighten terms and conditions were reported only by one bank of the system, while the rest reported unchanged terms and conditions on loans from the previous quarter.

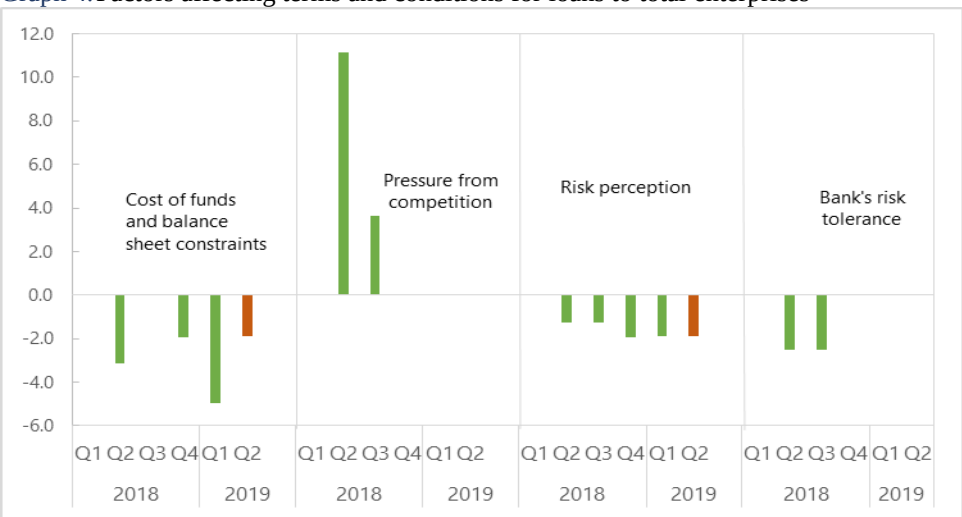
Graph 3. Change in overall terms and conditions on new loans approved to enterprises[3]



[3]: Calculated as net percentage. Positive values indicate eased credit standards, whereas negative values indicate tightened credit standards.
*: New indicator added in the questionnaire in June 2018.
Source: Bank of Albania.

The factors behind the slight tightening of terms and conditions for loans to enterprises were the higher costs of funds and balance sheet constrains and higher risk perception from banks.

Graph 4. Factors affecting terms and conditions for loans to total enterprises[4]

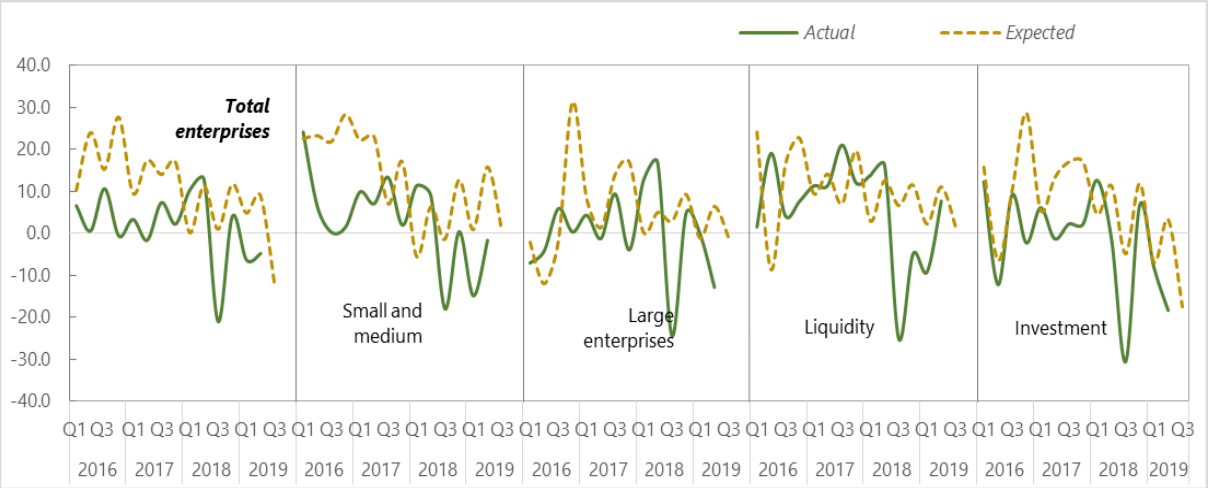


[4]: The positive values indicate that the factor contributed to easing the lending terms and conditions, whereas negative values indicate their tightening.
*: This chart is based on a new question added to the questionnaire revised in June 2018.
Source: Bank of Albania.

1.3. Loan demand

The demand for loans from enterprise according to banks' perception was lower, in 2019 Q2 as well. Lower demand than the previous quarter was reported in loans for investment purposes, while in those for liquidity purposes the demand was higher. From the perspective of enterprise's size, the decline in loan demand was more pronounced in large enterprises segment.

Graph 5. Current loan demand and expectations over the next three months of enterprises[5]

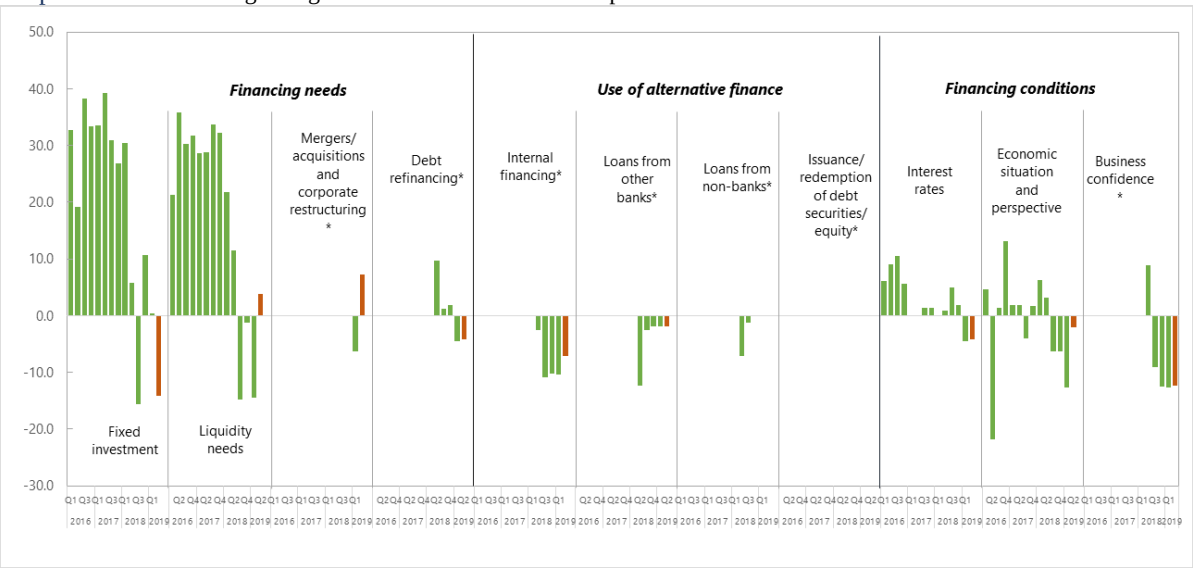


[5]: Calculated as net percentage. Positive values show increase of loan demand, while negative values show decrease of loan demand.
Source: Bank of Albania.

In 2019 Q3, banks expect lower loan demand from enterprises, based on expectations for lower investment loan demand. The loan demand for liquidity purposes is expected to remain unchanged. On the perspective of enterprise size, the loan demand will remain almost unchanged in 2019 Q3, from small and medium-sized enterprises, as well as from large enterprises.

Banks perceived that the lower loan demand in 2019 Q2 was attributed to: lower financing needs for fixed investment and debt refinancing; higher use of internal financing by enterprises; as well as the perception of non-favourable financing conditions, driven mainly by drop in business confidence and by the perceived economic situation and its perspective. Factors contributing to the loan demand increase were the higher financing needs for liquidity purposes as well for mergers and corporate restructuring.

Graph 6. Factors affecting changes in the loan demand of enterprises[6]



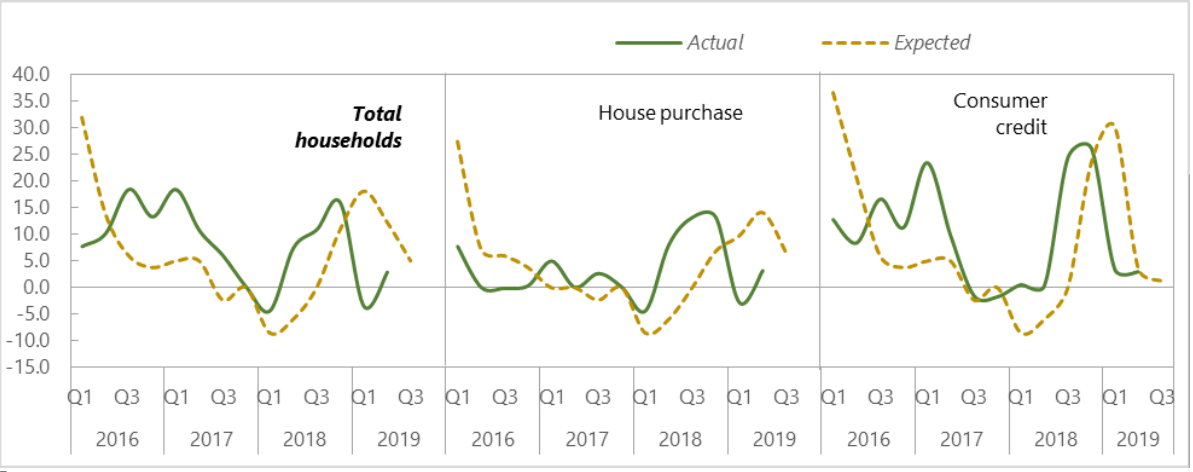
[6]: Calculated as net percentage. Positive values show the factor has affected the increase in loan demand, while the negative values show the factor has affected its fall. *: New indicator added in the questionnaire revised in June 2018.
Source: Bank of Albania.

2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households were reported somewhat eased in 2019 Q2. The ease of credit standards was observed both in house purchase and consumer loans. Eased credit standards are expected in 2019 Q3 as well, focused mainly on house purchase loans.

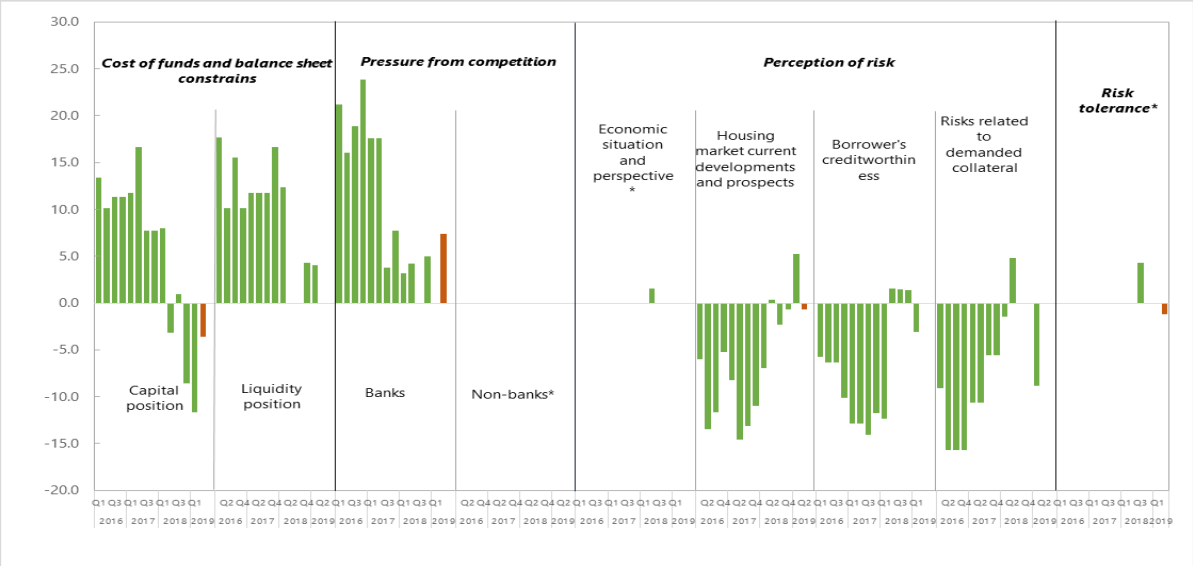
Graph 7. Credit standards for loans to households and expectations for the next three months[7]



[7]: Calculated as net percentage. Positive values indicate easing of credit standards, whereas negative values indicate their tightening.
Source: Bank of Albania.

Eased credit standards for households were a consequence of increased pressure from competition in the banking sector. On the other hand, the credit standards to households were tightened due to higher cost of funds and balance sheet constraints deriving from banks' capital position.

Graph 8. Factors affecting credit standards to total households[8]

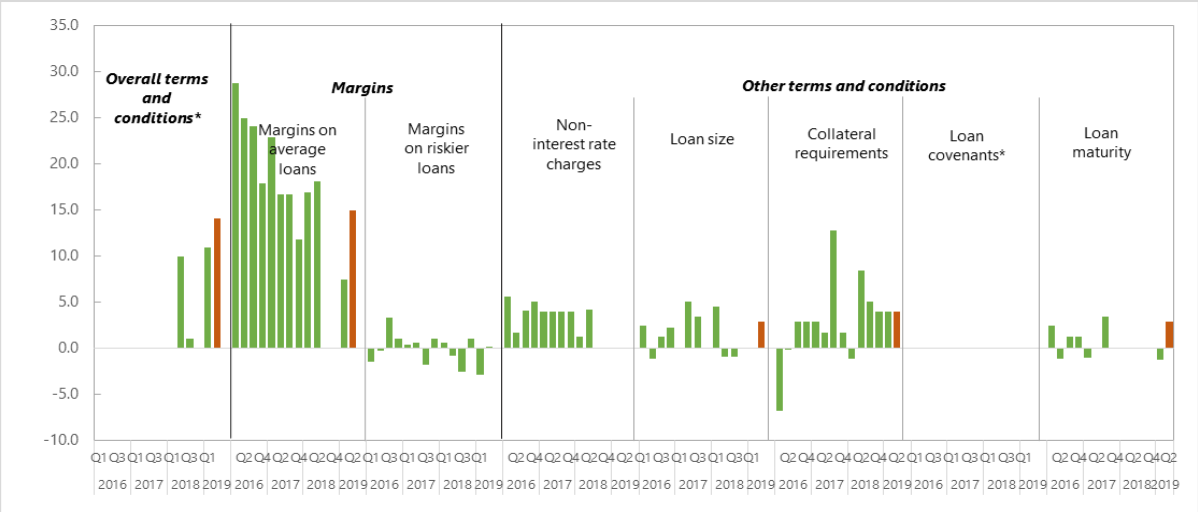


[8]: Calculated as net percentage. Positive values indicate the factor contributed to the easing of credit standards, whereas negative values indicate the factor contributed to their tightening.
*: New indicator added in the questionnaire revised in June 2018.
Source: Bank of Albania.

2.2. Terms and conditions

Overall terms and conditions for loans to households were eased in 2019 Q2, mainly due lower margins on average loans. Also, other non-price terms and conditions were eased due to: lower collateral requirements; higher loan size; as well as the extension of its maturity.

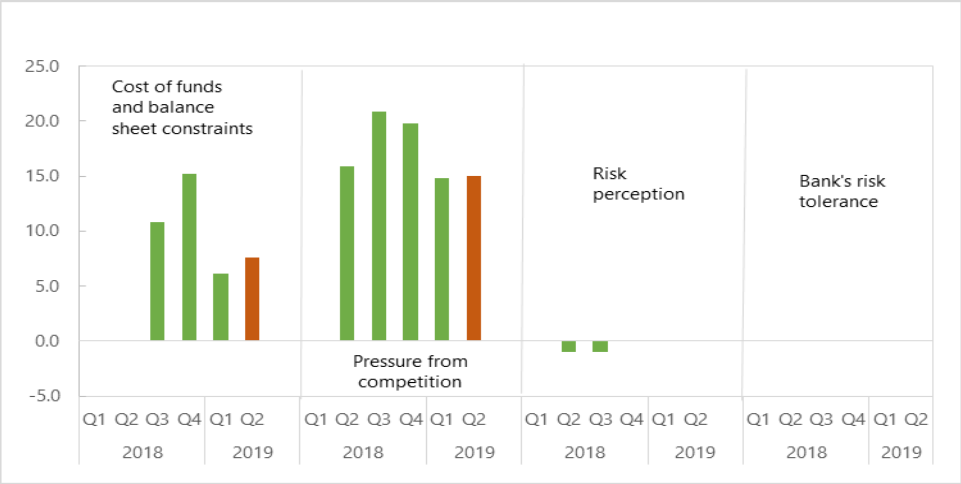
Graph 9. Changes in overall terms and conditions for new loans approved for households[9]



[9]: Calculated as net percentage. Positive values indicate eased credit standards, whereas negative values indicate their tightening.
*: New indicator added in the questionnaire revised in June 2018.
Source: Bank of Albania.

The easing of terms and conditions for loans to households in 2019 Q2 continued to be driven by increased pressure from competition in the banking sector, as well as by the decreased cost of funds and balance sheet constrains.

Graph 10. Factors affecting terms and conditions for loans to total households[10]

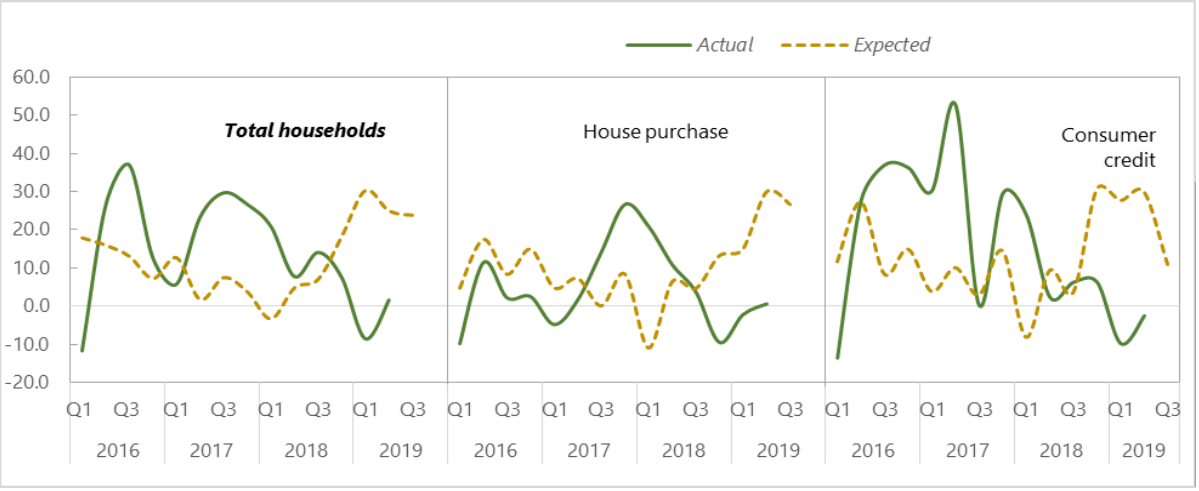


[10]: The positive values indicate that the factor contributed to easing the credit terms and conditions. The negative values indicate that the factor contributed to tightening the credit terms and conditions. *: This chart is based on a new question added to the questionnaire revised in June 2018.
Source: Bank of Albania.

2.3. Loan demand

Loan demand from households was perceived somewhat higher in 2019 Q2. House purchase loan demand was reported slightly higher, whereas consumer loan demand was reported somewhat lower[4]. Based on banks' opinions, households' loan demand is expected to be higher in 2019 Q3, driven by higher needs in financing both the consumption and the house purchase.

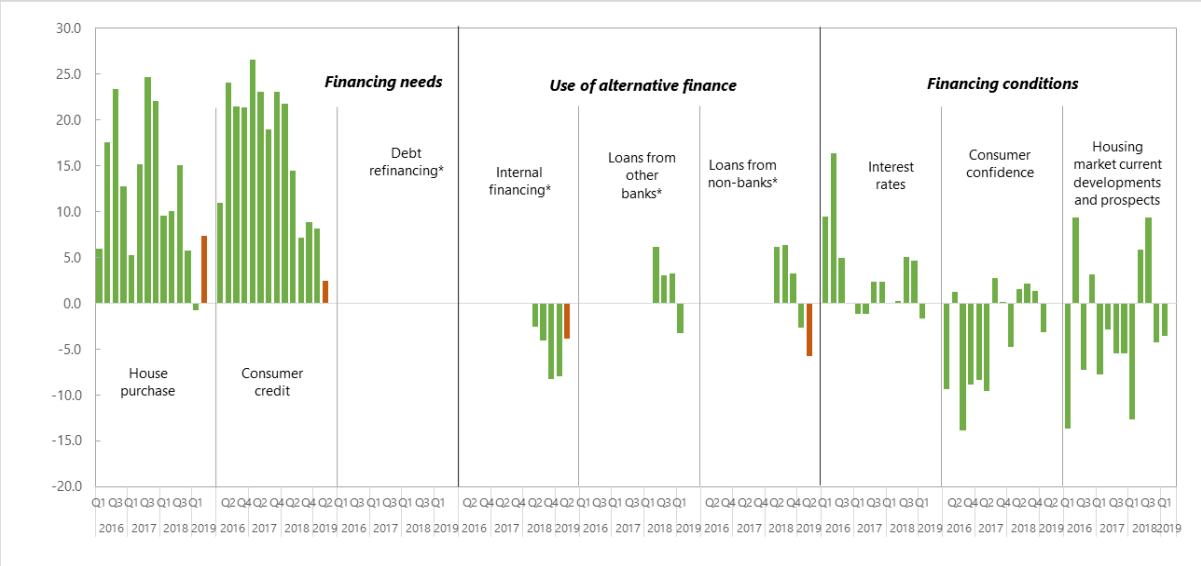
Graph 11. Current loan demand and expectations over the next three months of households[11]



[11]: Calculated as net percentage. Positive values show increase of loan demand, while negative values show decrease of loan demand.
Source: Bank of Albania.

The higher demand for loans from households, according to the banks, was driven by higher financing needs for house purchase and for consumption. Meanwhile, the higher use of internal financing, as well as the increase in loans from non-bank financial institutions, were reported as factors diminishing the financing needs of households from the banking sector.

Graph 12. Factors affecting changes in the loan demand to households[12]



[12]: Calculated as net percentage. Positive values show the factor has affected the increase in loan demand, while the negative values show the factor has affected its fall.
*: New indicator added in the questionnaire revised in June 2018.
Source: Bank of Albania.

[4] One bank of the system, that has a high share in the consumer loan segment, declared a somewhat lower consumer loan, which made the aggregate result negative, despite the fact that several other banks declared a slight increase of consumer loan.