



BANK LENDING SURVEY

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Q4

MONETARY POLICY DEPARTMENT

Introduction¹

The BLS questionnaire aims to collect the commercial banks' opinions related to the developments in the past three months on credit supply and demand, and their expectations for the next three months. The Bank Lending Survey provides a summary of commercial banks' perceptions on the changes in conditions of credit supply, shown through credit standards, terms and conditions, and on the changes in demand for loans to both enterprises and households. This analysis is based on the aggregated results of replies from ten banks, which have the highest share in the stock 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 THE RESULTS

According to commercial banks' perceptions, credit standards remained unchanged for loans to enterprises in 2018 Q4, in terms of both the enterprise's size and purpose of loan use. Banks reported a higher demand for loans to enterprises, mainly for investments in the large enterprises segment. Credit standards eased for loans to households, on both consumer and house purchase loans. Demand for loans to households was reported higher, mainly in the consumer loans segment.

In 2019 Q1, banks expect to apply somewhat easier standards for loans to enterprises, while demand for loans is expected to be higher. Credit standards are expected to further ease on loans to households in 2019 Q1, in line with the banks' expectations for higher demand for loans from households.

CREDIT STANDARDS, TERMS AND CONDITIONS, AND DEMAND

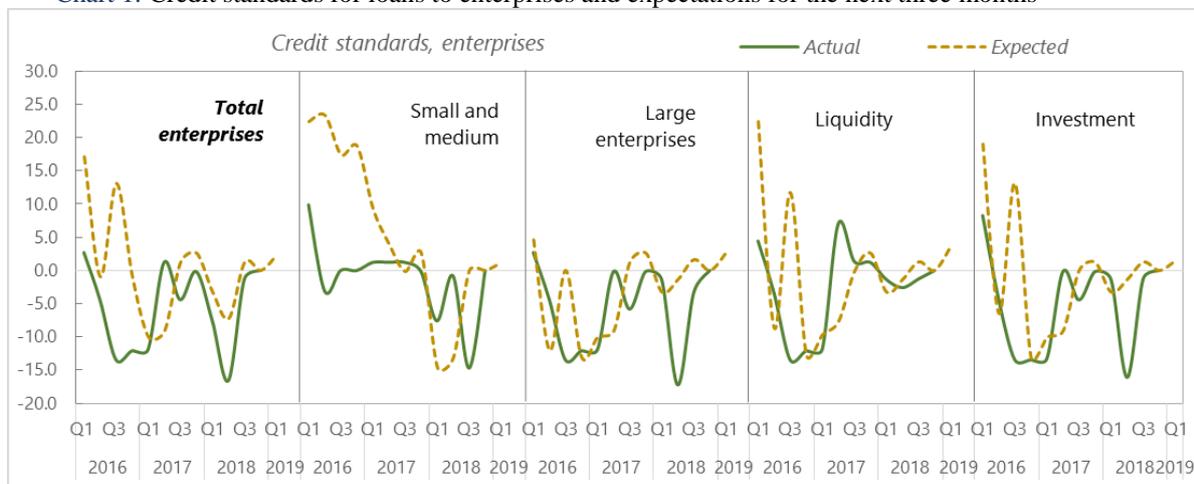
1. LOANS TO ENTERPRISES

1.1. Credit standards

In 2018 Q4, credit standards for loans to enterprises remained unchanged from the previous quarter. They were reported unchanged for all segments of this category, for small and large enterprises, and on loans for investment and liquidity purposes.

Banks expect to somewhat ease the credit standards for loans to enterprises in 2019 Q1, mainly on loans for liquidity purposes in the segment of large enterprises.

Chart 1. Credit standards for loans to enterprises and expectations for the next three months¹

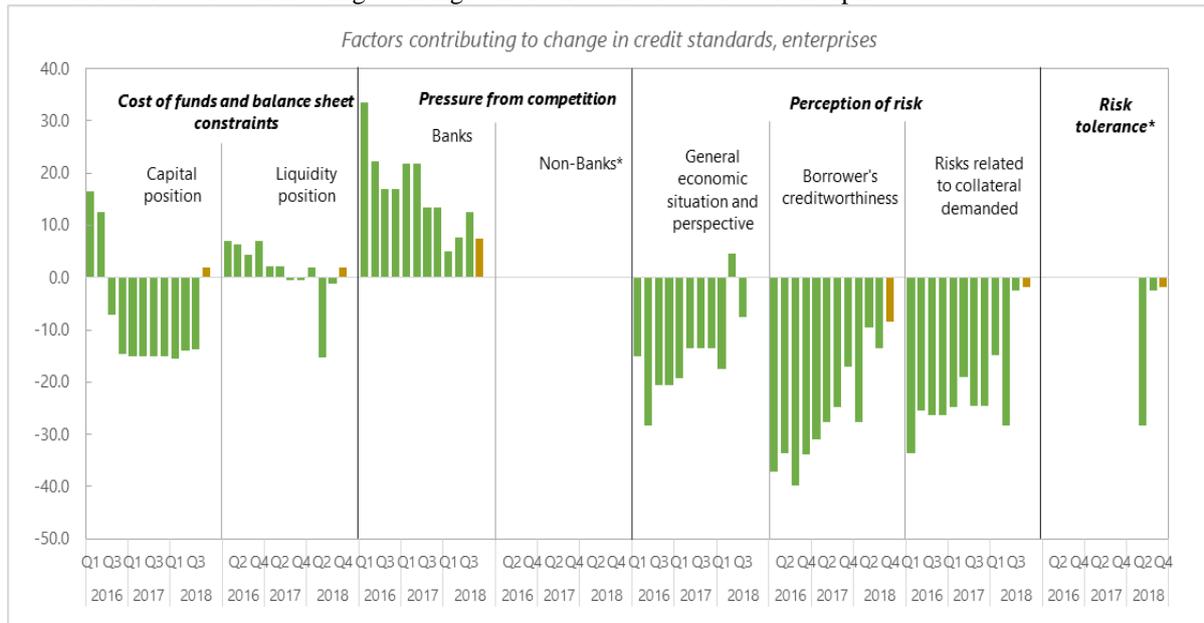


¹ Calculated as net percentage. Positive values indicate easing of credit standards, whereas negative values indicate tightening of credit standards.

Source: Bank of Albania.

In 2018 Q4, pressure from competition in the banking system, costs of funds and balance sheet constraints (related to both costs and constraints from capital and liquidity positions) were factors contributing to the easing of standards for loans to enterprises. Banks perception on risk, such as: the borrower's creditworthiness; risks related to collateral demanded and banks' risk tolerance were factors contributing to the tightening of standards for loans to enterprises.

Chart 2. Factors contributing to changes in credit standards for total enterprises²



² Calculated as net percentage. The positive values indicate the factor contributed to the easing of credit standards. The negative values indicate that the factor contributed to the tightening of credit standards.

*: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

1.2. Terms and conditions

Overall terms and conditions for new loans approved over 2018 Q4 remained unchanged, from the previous quarter. The lower margins applied on average loans and the increase of loan size reflected eased terms and conditions applied on loans to enterprises. On the other hand, higher margins on riskier loans and other non-price terms and conditions, related to loan covenants, contributed to the tightening of the overall terms and conditions for loans to enterprises.

Chart 3. Change in overall terms and conditions on new loans approved to enterprises³

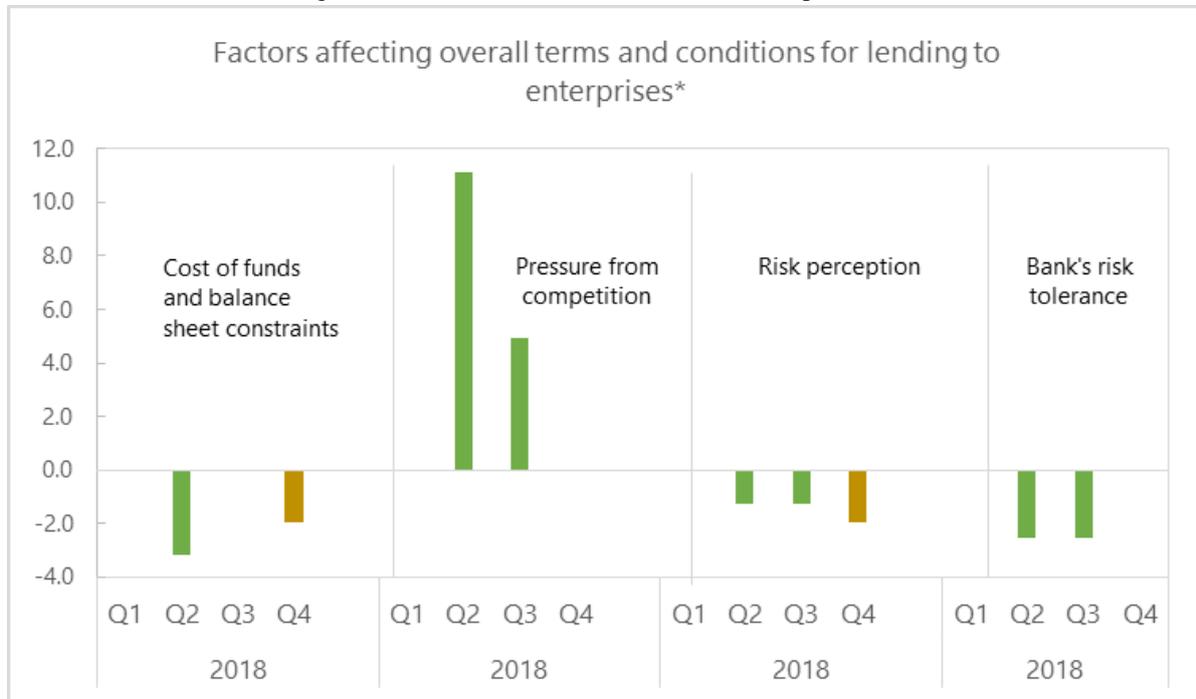


³ Calculated as net percentage. The positive values indicate eased credit standards, whereas the negative values indicate tightened credit standards.

Source: Bank of Albania. *: New indicator added in the questionnaire revised in June 2018.

Costs of funds and balance sheet constraints, as well as risk perception, had a negative impact on credit terms and conditions applied on loans to enterprises in 2018 Q4.²

Chart 4. Factors affecting terms and conditions for loans to total enterprises⁴



⁴ 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.

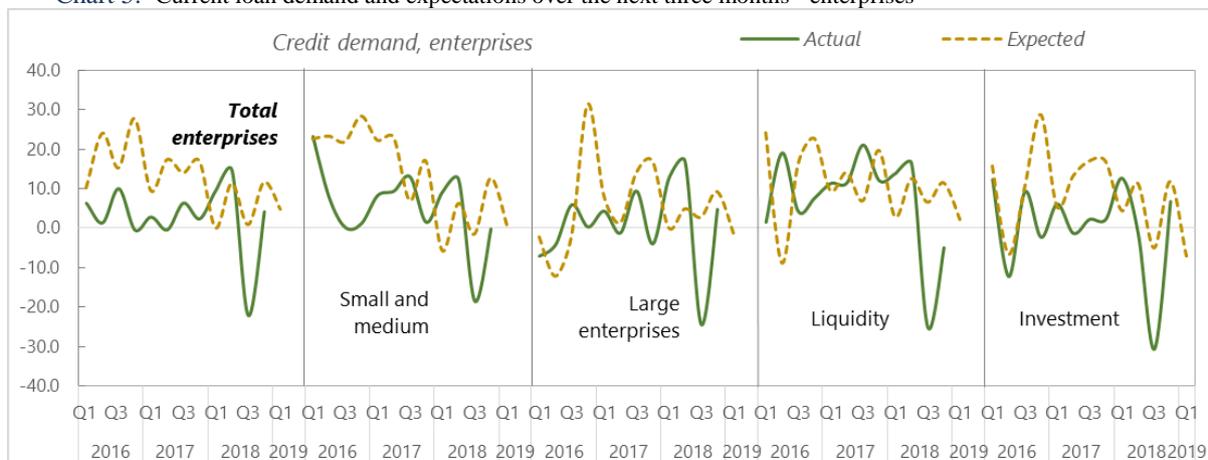
* This chart is based on a new question added to the questionnaire revised in June 2018.

Source: Bank of Albania.

1.3. Demand for loans

Demand for loans from enterprises was reported higher in 2018 Q4. The demand was reported higher for large enterprises and for loans for investment purposes. Conversely, the demand for loans for liquidity purposes was reported lower.

Chart 5. Current loan demand and expectations over the next three months - enterprises⁵



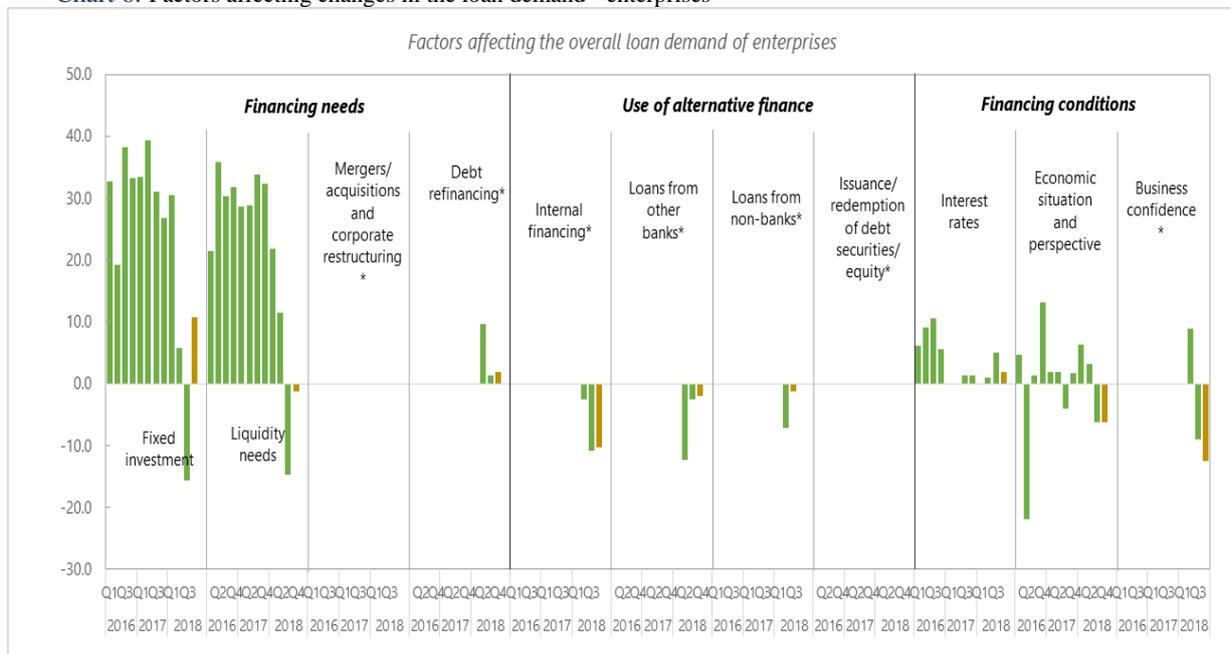
² They were reported as such only by one bank of the system.

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 Q1, banks expect loan demand from enterprises to pick up. The higher demand is expected for loans for liquidity to small and medium-sized enterprises. On the other hand, banks expect the loan demand from large enterprises to tail off.

According to banks' perceptions, in 2018 Q4 the higher need to finance fixed investments, and the overall level of interest rates were among the factors contributing to demand growth. According to banks' perceptions, the fall in business confidence; use of internal financing; the macro-economic situation; and its outlook contributed to demand slowdown.

Chart 6. Factors affecting changes in the loan demand - enterprises⁶



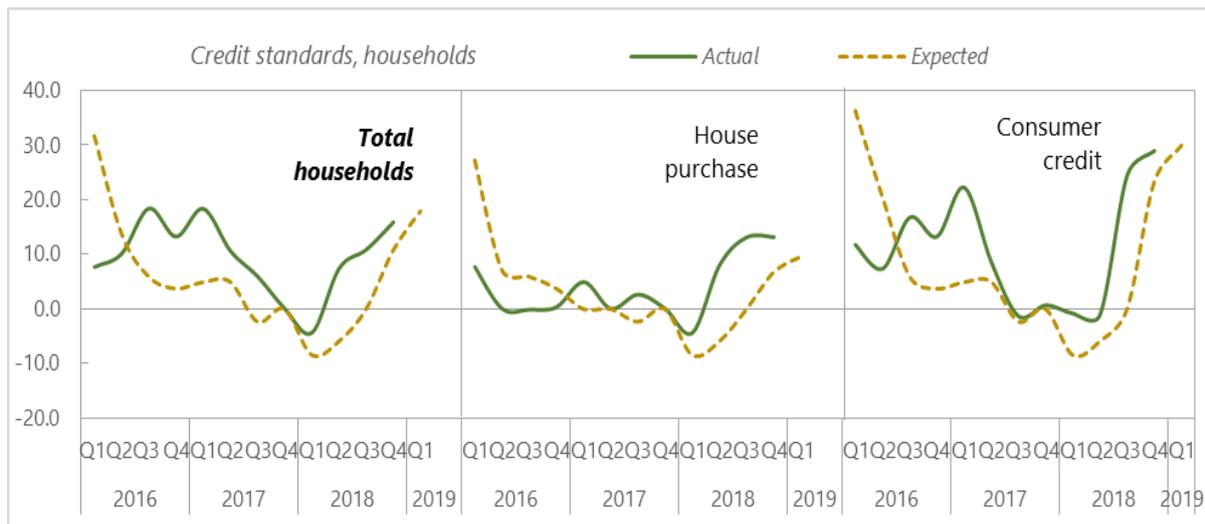
⁶ Calculated as net percentage. Positive values show the factor has affected the increase in loan demand, while the negative values show the factor has affected its fall. *: New indicator added in the questionnaire revised in June 2018.
Source: Bank of Albania.

2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households continued to be reported as eased in 2018 Q4. The standards eased for both house purchase and consumer loans. Banks expect credit standards to households to ease further for both categories in 2019 Q1.

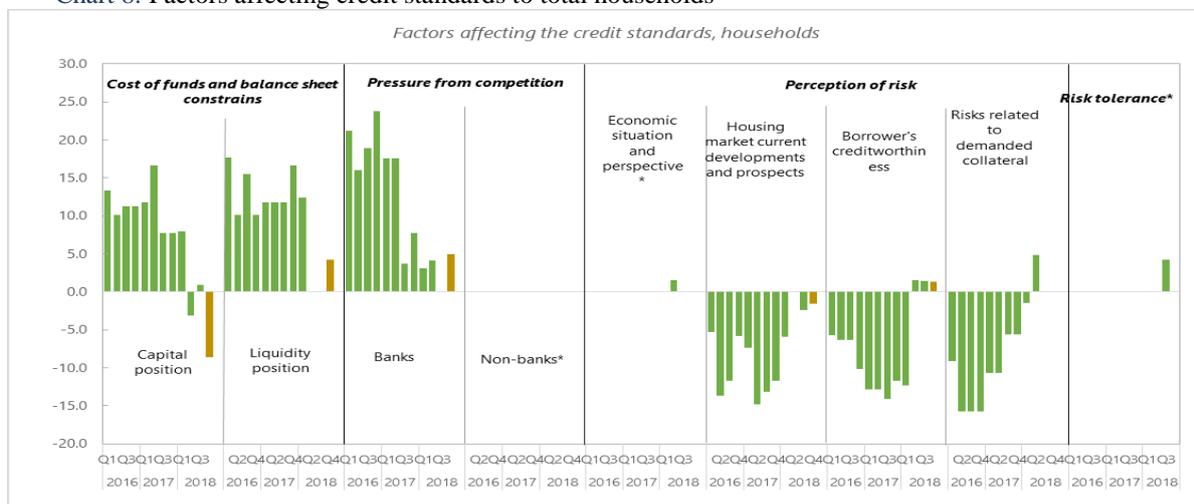
Chart 7. Credit standards and expectations over the next three months - households⁷



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

The increased pressure by the banking system competition and the lower costs and constraints from the liquidity position of banks contributed to the easing of credit standards for households in 2018 Q4. Costs and constraints from the capital position of banks³, as well as the current developments and housing market outlook contributed to the tightening of credit standards.

Chart 8. Factors affecting credit standards to total households⁸



⁸ Calculated as net percentage. The positive values indicate that the factor contributed to easing the credit standards. The negative values indicate that the factor contributed to tightening the credit standards. *: New indicator added in the questionnaire revised in June 2018.
Source: Bank of Albania.

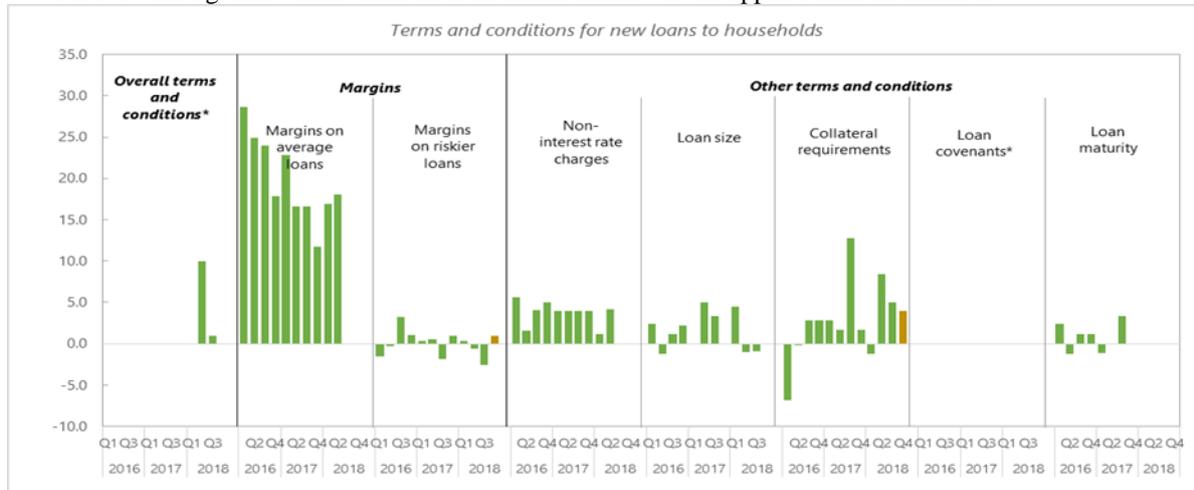
2.2. Terms and conditions

The overall terms and conditions for new loans approved for household remained almost unchanged in 2018 Q4, as margins on average loans were kept unchanged, and other non-price

³ Only one bank reported this factor as such.

conditions were maintained at similar levels. Meanwhile, the ratio of collateral requirement to the disbursed loan was reported lower, hence easing the terms and conditions on loans to households.

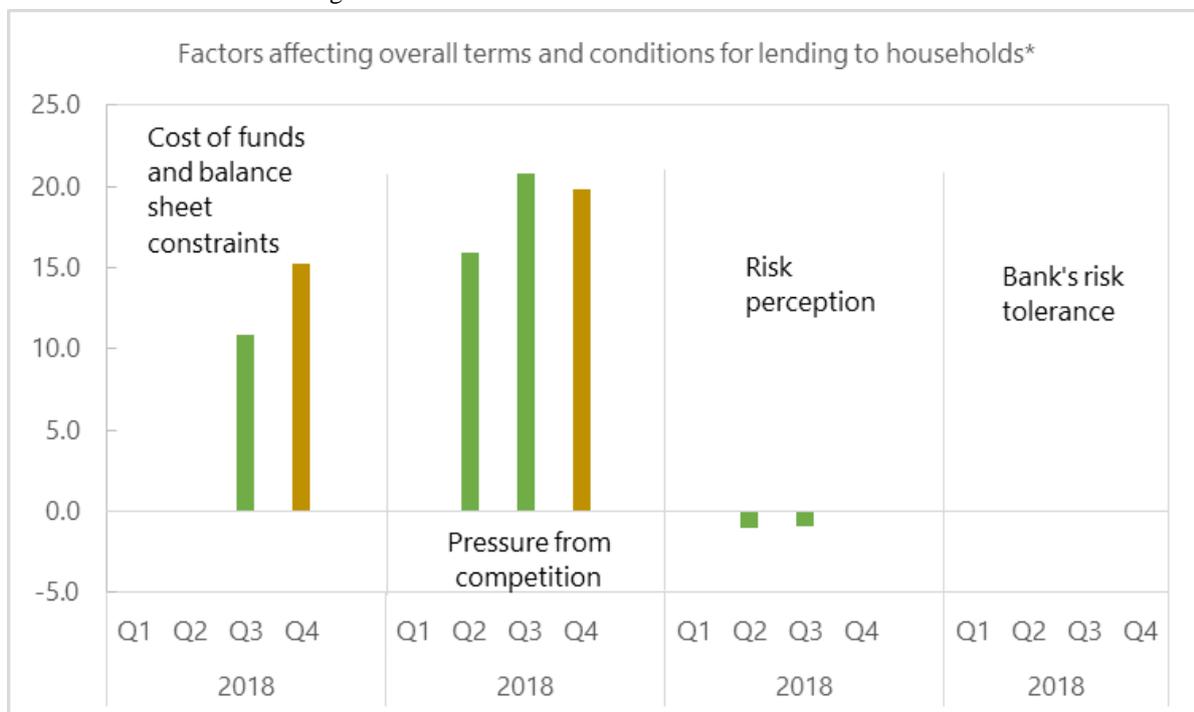
Chart 9. Change in overall terms and conditions for new loans approved for households⁹



⁹ Calculated as net percentage. The positive values indicate eased credit standards, whereas the negative values indicate tightened credit standards. *: New indicator added in the questionnaire revised in June 2018. Source: Bank of Albania.

Pressure from competition and cost of funds continue to be reported as factors behind the easing of terms and conditions for loans to households.

Chart 10. Factors affecting terms and conditions for loans to total households¹⁰



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.

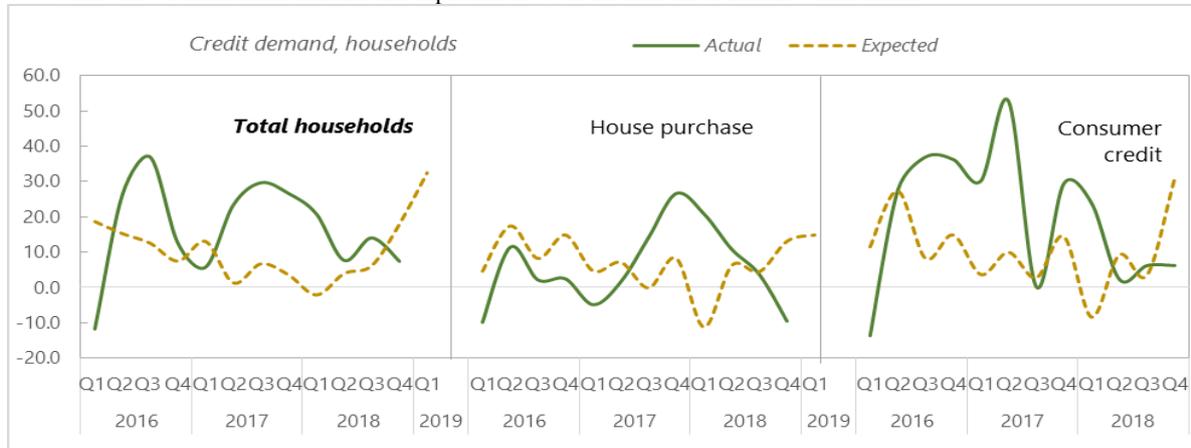
* This chart is based on a new question added to the questionnaire revised in June 2018.

Source: Bank of Albania.

2.3. Demand for loans

Demand for loans from households was higher in 2018 Q4, driven by the increased demand for consumer loans. On the other hand, banks reported a lower demand for house purchase loans. In 2019 Q1, banks expect loan demand from households will increase, for both categories.

Chart 11. Current loan demand and expectations over the next three months - households¹¹

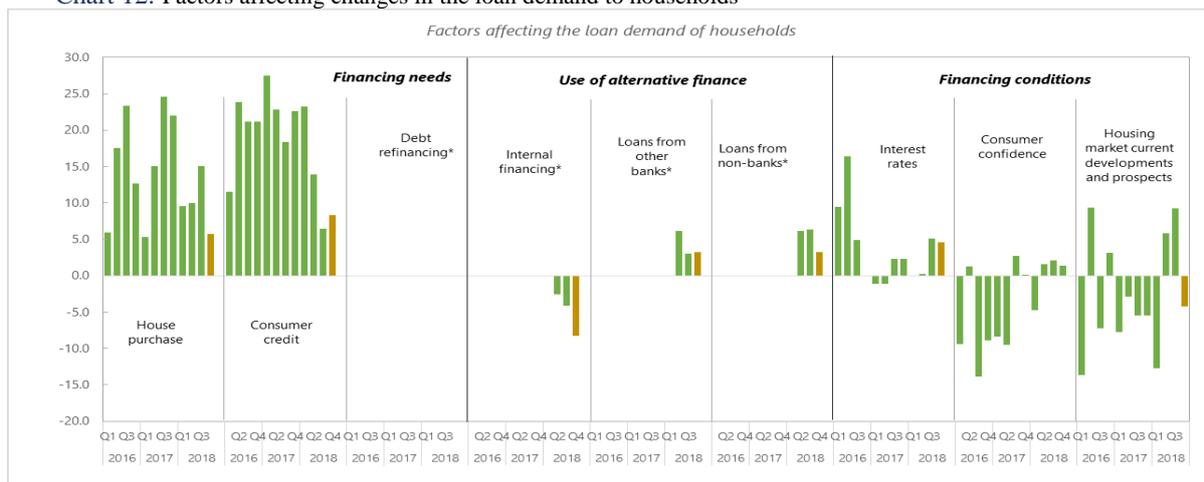


¹¹ Calculated as net percentage. Positive values show increase of loan demand, while negative values show decrease of loan demand.

Source: Bank of Albania.

According to banks' perceptions, the higher need to finance consumption and house purchase; the general level of interest rate; and loans from banks and non-bank financial institutions were the main factors driving the household's credit demand increase. On the other hand, the use of internal financing, and the current and expected developments in housing market were reported as the factors contributing to the fall in the loan demand from households.

Chart 12. Factors affecting changes in the loan demand to households¹²



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 decrease. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.