



Bank of Albania
Monetary Policy Department

BANK LENDING SURVEY

2025 Q1

GENERAL NOTES

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 of changes in credit supply conditions, - illustrated by credit standards, terms and conditions and approved loans -, and on changes in loan demand by both enterprises and households. This analysis is based on the aggregate responds from all banks in the banking systems.

The BLS questionnaire, in principle follows the practice implemented by the European Central Bank, but it is modified allowing for some changes, which reflect the specifications and features of Albanian credit market. The time series of BLS indicators are tested for seasonality, following the relevant statistical methods. The time series displaying seasonality are adjusted for this effect and have replaced the existing series accordingly. For more detailed information on 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, please follow the link:

https://www.bankofalbania.org/Monetary_Policy/Surveys_11282/Bank_Lending_Survey/

The terminology used in this analysis is detailed in the glossary at the end of the material.

1 OVERVIEW OF RESULTS

The lending policies of the banking sector for enterprises remained largely unchanged in the first quarter of 2025. Overall, credit standards, terms and conditions were assessed as similar to the previous quarter on loans granted to large enterprises, both for investment financing and for meeting short-term liquidity needs. Lower costs of funds and balance sheet constraints were reported as factors backing banks' decisions to reduce the margins on loans to enterprises. Meanwhile, in the small and medium-sized enterprises segment, banks adopted more eased lending standards, driven by the increased competition within the banking system. Although banks remained prudent in assessing credit risk and continued to display lower tolerance toward it, the net negative balances of these indicators were lower compared to the previous quarter.

Banks reported a higher enterprises' demand for loans, in line with expectations of the previous quarter. Loan demand was high across all size of enterprises, both for investments financing and for meeting short-term liquidity needs. Banks deem that the overall interest rates and the improvement in the business confidence indicator further bolstered loan demand in the first quarter of the year. The only factor curbing the loan demand from enterprises, though at a lower net balance than in the previous quarters, remains the use of internal financing resources.

Banks reported that the lending framework to households, much like for enterprises, experienced little to no change during the first quarter of the year. Bank kept the credit standards, terms and conditions on loans to households unchanged throughout the year. The environment in which banks operate remains competitive and was perceived as a factor contributing to the easing of lending policies, especially in the consumer loan segment. Banks also reported that margins on consumer loans decreased during the first quarter. Household's loan demand was high, both for financing consumption and for house purchase loans. The rise in financing needs, together with ongoing and anticipated housing market trends and prevailing interest rates, were reported as key factors boosting loan demand of households in the first quarter.

In 2025 Q2, banks are expected to implement more accommodative lending policies on loans to small and medium-sized enterprise segment, both for investment financing and for meeting short-term liquidity needs. Lending policies are also expected to ease for house purchase loans. Loan demand is expected to remain high, both from enterprises and households, regardless of the purpose of use.

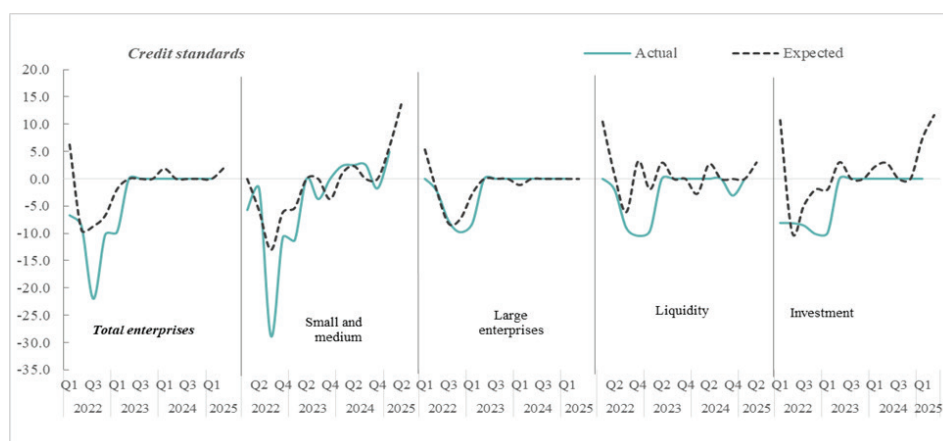
CREDIT SUPPLY CONDITIONS AND DEMAND FOR LOANS

1. LOANS TO ENTERPRISES

1.1. CREDIT STANDARDS

Credit standards for loans to enterprises remained unchanged in 2025 Q1. Unchanged credit standards were reported on loans for large enterprises as well as for loans used to meet liquidity need and loans for financing investments. Eased credit standards were reported on loans to small and medium-sized enterprises.

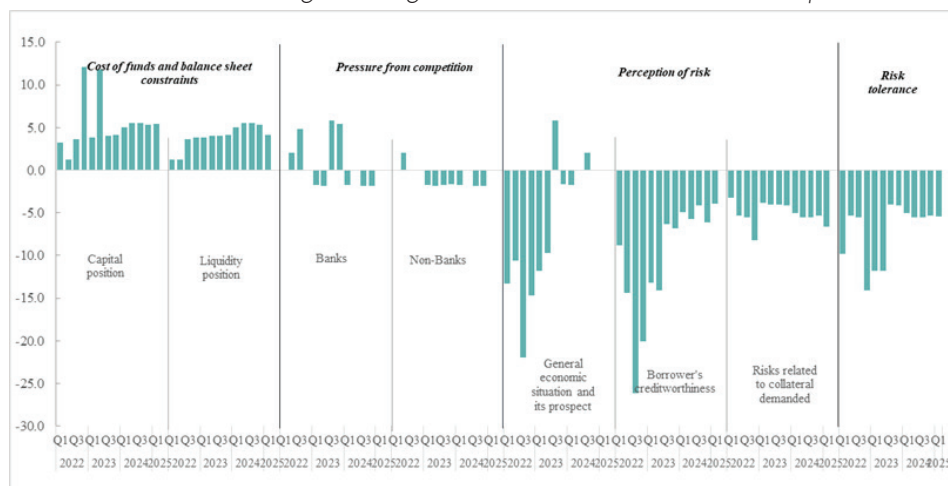
Chart 1 Credit standards for loans to enterprises and anticipation for the next three months¹



On the easing side of credit standards were reported lower cost of funds and balance sheet constraints. The factors that led to tightened credit standards were related to banks' perceived risk from borrowers' creditworthiness and from the risk on the demanded collateral. Also, banks' lower tolerance toward risk was another factor triggering tightened credit standards for loans to enterprises. Other factors had a neutral impact.

¹ Calculated as net percentages. Positive values indicate eased credit standards, whereas negative ones indicate tightened credit standards. Source: Bank of Albania.

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

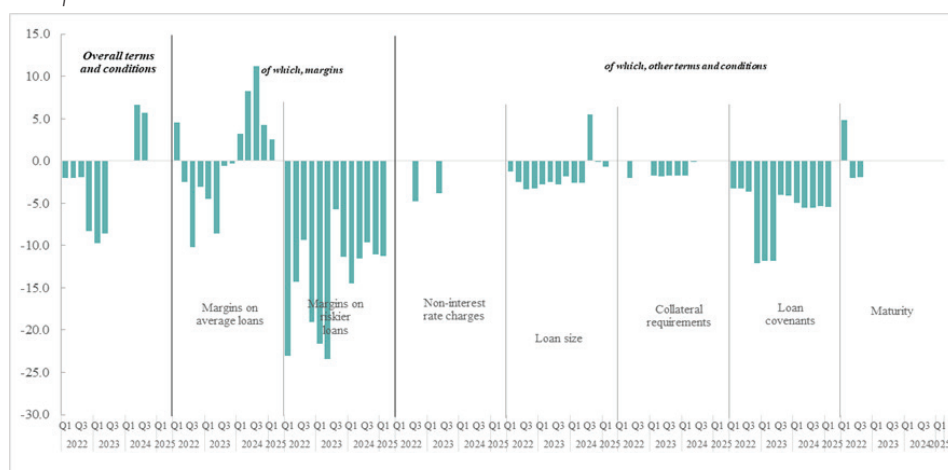


In the second quarter of 2025, banks expect credit standards to ease on loans to small and medium-sized enterprises, as well as on loans for both investment financing and meeting liquidity needs. On the other hand, banks anticipate unchanged credit standards for loans to large enterprises (Chart 1).

1.2. TERMS AND CONDITIONS

Overall terms and conditions on new loans to enterprises remained unchanged in 2025 Q1. Following the banks' opinion, lower margins on average loans, were the factors behind the eased terms and conditions on loans to firms. On the other hand, banks reported higher margins on riskier loans and carried out higher loan covenants. Other non-price components remained unchanged from the previous quarter.

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

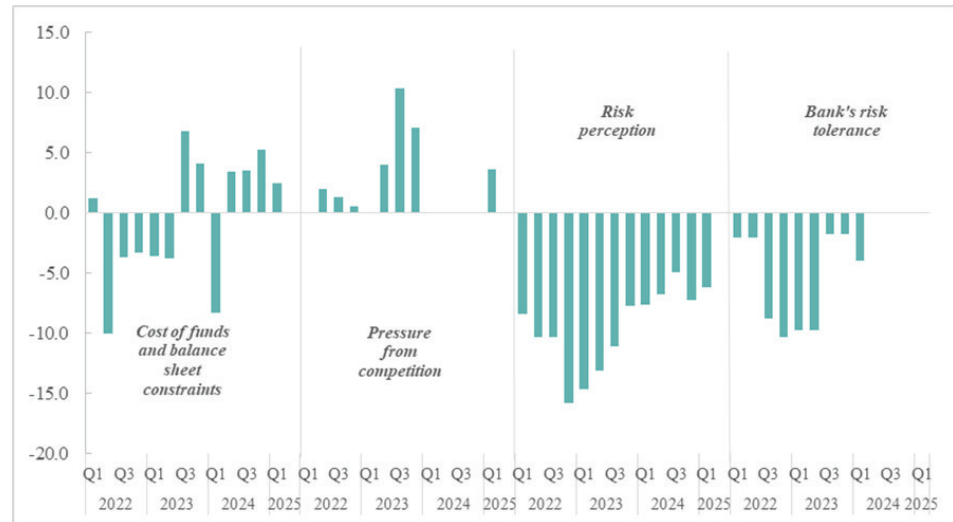


² Calculated as net percentages. Positive values indicate that the factor contributed to the easing of credit standards, whereas negative ones to the tightening of credit standards. Source: Bank of Albania.

³ Calculated as net percentages. Positive values indicate eased terms and conditions, whereas negative ones tightened terms and conditions. Source: Bank of Albania.

In banks' view, lower costs and balance sheet constraints backed the easing side of terms and conditions on loans to enterprises, as well as pressure from competition in the banking system. Meanwhile, banks' perception on risk was reported as the factor contributing on the tightening side of terms and conditions on loans to enterprises.

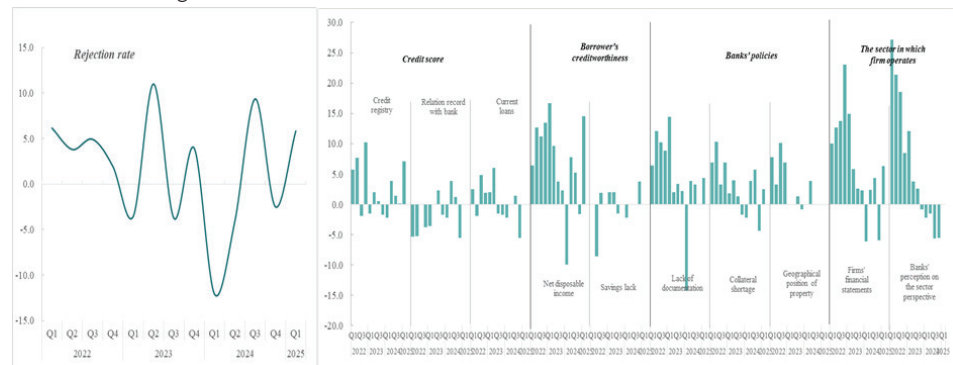
Chart 4 Factors contributing to changes of terms and conditions for loans to total enterprises⁴



1.3. LOAN APPROVAL RATE

Banks reported lower loan approval rate for enterprises in the first quarter. The factors behind the higher rejection rate on loans to enterprises in this quarter, were the following: credit score from credit registry, disposable income and firms' financial statements. Other factors displayed minimum changes.

Chart 5 Rejected loan ratio for enterprises (left) and the factors behind banks' decision making⁵



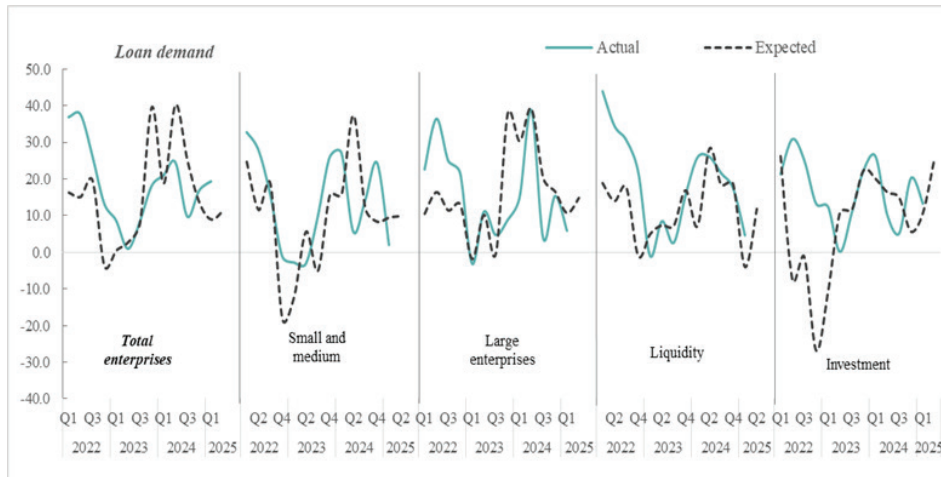
⁴ Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions. Source: Bank of Albania.

⁵ Positive values show an increase in rejection rates to the total loan application (left chart). Also, positive values indicate that the factor has contributed to an increase of rejection rate (right chart), while the negative ones to their reduction. Source: Bank of Albania.

1.4. DEMAND FOR LOANS

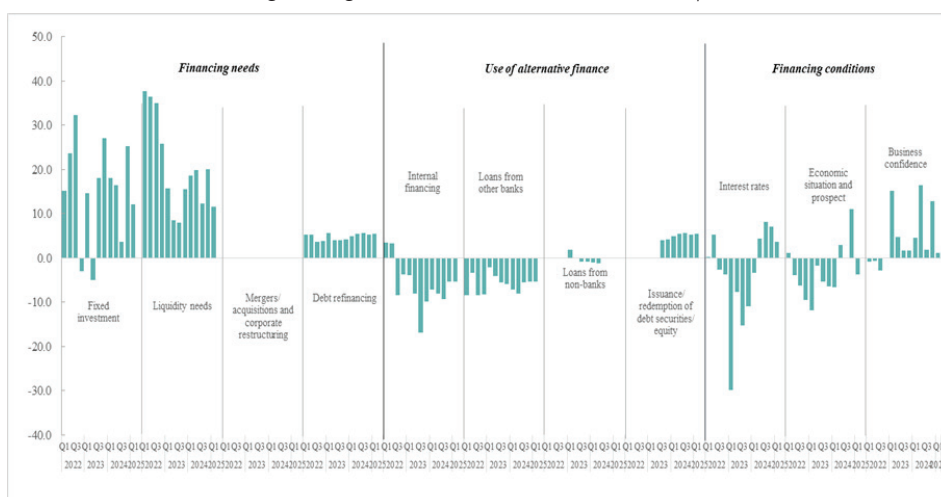
Loan demand from enterprises was reported upward in 2025 Q1. Higher loan demand was reported both in terms of enterprise' size and loans' purpose of use.

Chart 6 Current loan demand of enterprises and expectations over the next three months⁶



On banks' view, the higher financing needs for investments, inventories and working capital contributed to the higher loan demand from firms in the first quarter of 2025. Likewise, the overall level of interest rates and the business confidence indicator contributed to the expansion of loan demand. On the other hand, internal financing deployment, was reported as the factor driving downwards the loan demand from enterprises in the first quarter of the year.

Chart 7 Factors affecting changes in the loan demand of enterprises⁷



⁶ Calculated as net percentages. Positive values indicate an increase in loan demand, whereas negative ones a decrease in loan demand. Source: Bank of Albania.

⁷ Calculated as net percentages. Positive values indicate that the factor has contributed to an increase of loan demand, while the negative ones to a decrease of loan demand. Source: Bank of Albania.

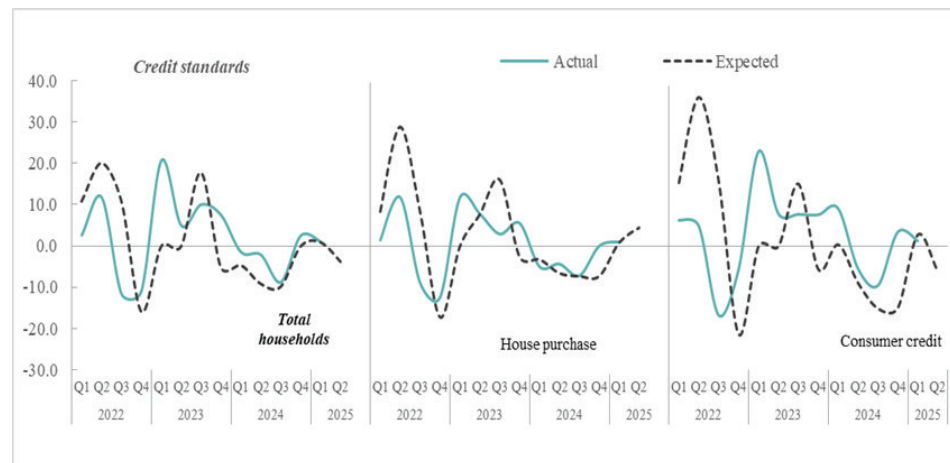
In 2025 Q2, banks anticipate higher loan demand both in terms of enterprise' size and in terms of loans' purpose of use (Chart 6).

2. LOANS TO HOUSEHOLDS

2.1. CREDIT STANDARDS

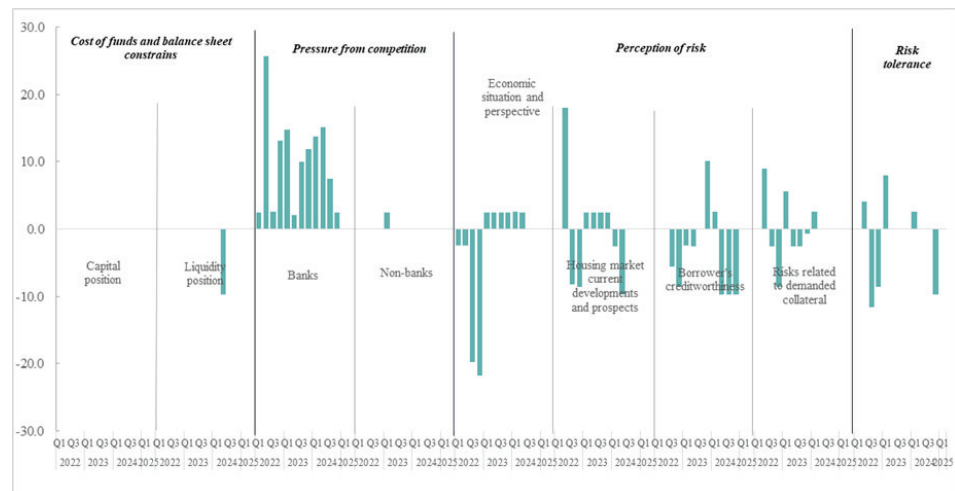
Credit standards for loans to households remained unchanged in 2025 Q1. Unchanged credit standards were reported in both categories of the purpose of loans: in house purchase loans and consumer loans.

Chart 8 Change in credit standards for loans to households and anticipation for the next three months⁸



All the factors affecting credit standards on loans to households remained basically unchanged during the first quarter.

Chart 9 Factors contributing to changes of credit standards on loans to households⁹



⁸ Calculated as net percentages. Positive values indicate eased credit standards, whereas negative ones indicate tightened credit standards. Source: Bank of Albania.

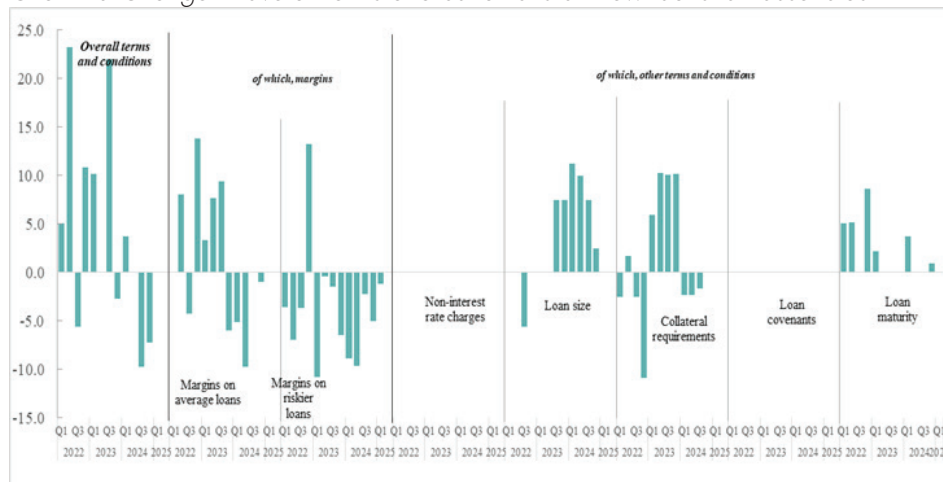
⁹ Calculated as net percentages. Positive values indicate that the factor contributed to the easing of credit standards, whereas negative ones to the tightening of credit standards. Source: Bank of Albania.

Banks anticipate to ease credit standards for loans to households in the second quarter of 2025 on house purchase loans, while tighten them on consumer loans (Chart 8).

2.2. TERMS AND CONDITIONS

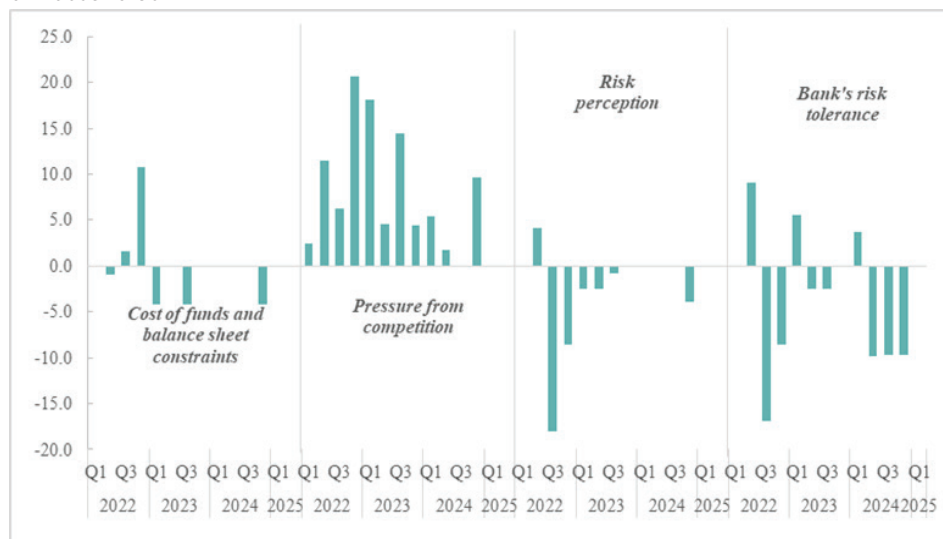
Overall terms and conditions on loans to households remained unchanged in the first quarter of 2025. Banks reported all price and non-price conditions on loans granted to households remained unchanged during this quarter.

Chart 10 Change in overall terms and conditions on new loans to households¹⁰



In addition, banks reported unchanged factors that impact the credit terms and conditions on loans to households in the first quarter.

Chart 11 Factors contributing to changes of terms and conditions for loans to the total of households¹¹



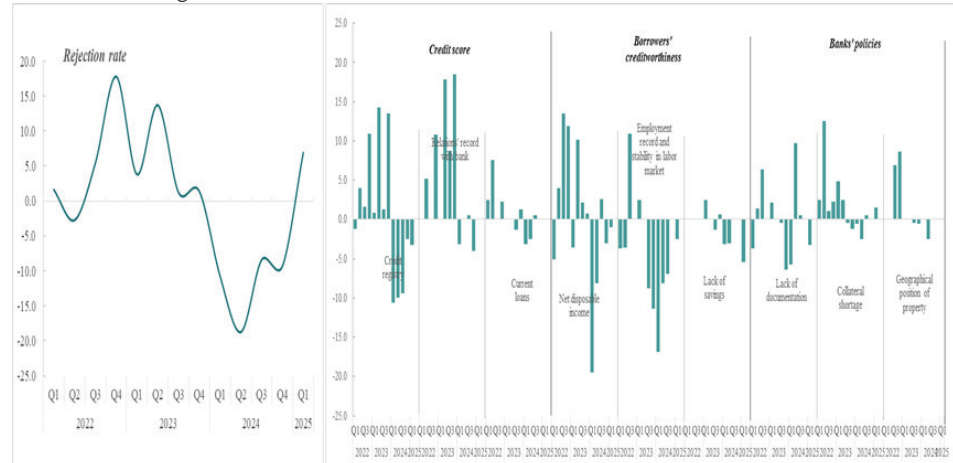
¹⁰ Calculated as net percentages. Positive values indicate eased terms and conditions, whereas negative ones tightened terms and conditions. Source: Bank of Albania.

¹¹ Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions. Source: Bank of Albania.

2.3. LOAN APPROVAL RATE

Banks reported reduced loan approval rate for households in the first quarter of 2025. The increase in the rejection rate was caused by banks' lending policies regarding the demanded collateral. Other factors showed minimal changes, contributing slightly to the decrease in the rejection rate.

Chart 12 Rejected loan ratio for households (left) and the factors behind banks' decision making¹²



2.4. DEMAND FOR LOANS

Loan demand from households was perceived higher in 2025 Q1, for both house purchase loans and consumer credit.

Chart 13 Changes in current loan demand of households and expectations over the next three months¹³

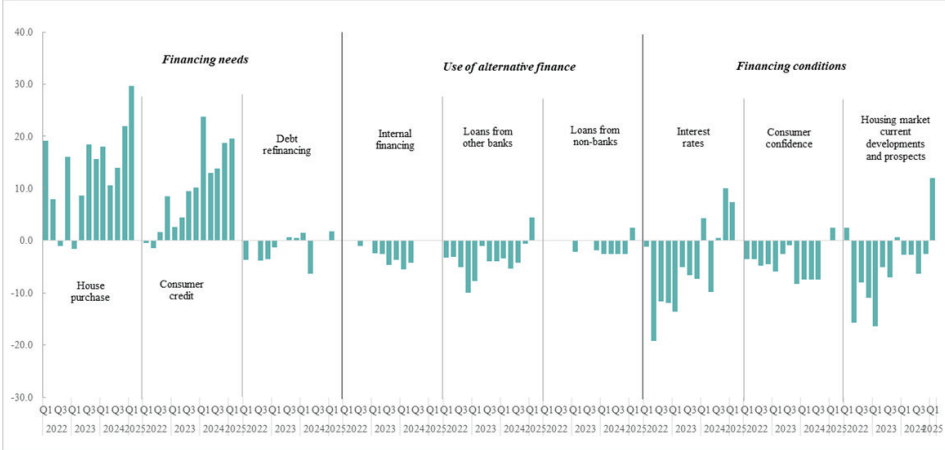


¹² Positive values show an increase in rejection rates to the total loan application (left-hand chart). Also, positive values indicate that the factor has contributed to an increase of rejection rate (right chart), while the negative ones to their reduction. Source: Bank of Albania.

¹³ Calculated as net percentages. Positive values indicate an increase in loan demand, whereas negative ones a decrease in loan demand. Source: Bank of Albania.

On banks' view, higher financing needs for house purchase and consumption were the main drivers behind the higher loan demand during this quarter. Also, the overall level of interest rates, along with current and expected developments in the housing market, led to higher loan demand in the first quarter. Other factors had a minimum impact.

Chart 14 Factors contributing to changes in the loan demand of households¹⁴



In the second quarter of 2025, banks expect loan demand to remain high for both consumption financing and house purchase. (Chart 13).

¹⁴ Calculated as net percentages. Positive values indicate that the factor has contributed to an increase of loan demand, while the negative ones to a decrease of loan demand. Source: Bank of Albania.

DICTIONARY OF THE BANK LENDING SURVEY

The dictionary of the Bank Lending Survey is compiled in order to assist the designated banking experts when filling out the survey. It consists of the basic terminology used in the Bank Lending activity of the Bank of Albania, as revised in May 2018. This revision aims to further approximate the Survey with the international practices particularly those of the European Central Bank. Consequently, in cases when an explicit explanation has not been laid out in the Albanian legislation, the terminology of the BLS has been adopted with that of the ECB.

Consumer confidence. This indicator is based on individuals' perception on the current situation and their expectations on main economic and financial indicators. Consumer confidence is a combination of past, present and future assessments on the financial standing of individuals, based on their outlook regarding the political and economic situation. These assessments guide their decision-making for investing on residential properties and long-term consumer goods. In theory, the improvement of consumer confidence is accompanied by an increase in the demand for loans.

Enterprises. According to the provisions laid down in the Law No. 8957, dated 17.10.2002, as amended, "On small and medium-sized enterprises", the term business or enterprises refers to all entities that are involved in an economic activity (i.e., production, sale of goods and services), despite their legal form. In this context, businesses represent small and medium-sized enterprises. This category also includes self-employed people, family businesses who are involved in craftsmanship and other activities, as well as companies and associations regularly engaged in economic activities. State enterprises and non-residential businesses are excluded from the Survey.

Marketing campaigns. This indicator is one of the factors that affects both credit demand and supply. Marketing campaigns should be considered a factor with an impact on credit supply only in cases when there are changes to the loans' terms and conditions. In other cases (when the loans' terms and conditions do not undergo changes through marketing campaigns) this indicator is grouped under the factors with an impact on credit demand. In such cases, the interviewed should put the marketing campaign undertaken by them under the category of "Other factors", respectively when answering Questions 6 and 12, which identify the factors with an impact on credit demand from households and enterprises.

Households/consumers. In compliance with the Law No. 9902, dated 17.04.2008, as amended, "On consumer protection", consumer means any person who purchases and uses goods and services in order to meet individual needs, unrelated to commercial activity or to exercising his/her profession. This law categorizes non-profit organisations as consumers as well.

Non-bank Institutions. Generally, non-bank institutions are non-monetary financial corporations. They include insurance companies and pension funds, financial aids and other financial intermediaries

Capital. Pursuant to Law No. 9662, dated 18.12.2006 "On banks in the Republic of Albania", and Decision No. 69 of the Supervisory Council of the Bank of Albania, dated 18.12.2014, on the approval of the Regulation "On the regulatory capital of the Bank of Albania," this term refers to the regulatory capital¹⁵ required for covering credit risk, market risk and operational risk.

Credit demand¹⁶. Credit demand refers to the gross demand for loans by households and enterprises, including requests to extend the maturity of existing loans. This term reflects households' and enterprises' needs for financing using bank loans, whether or not this need will translate in an actual loan. When filling out the Survey, each bank should assess the developments in loan demand (for both households and enterprises), compared to the previous quarter and independent from price performance.

Collateral. According to the provisions laid down in the Law No. 9662, dated 18.12.2006 "On banks in the Republic of Albania", and Regulation No. 62, dated 14.09.2011 of the Bank of Albania, this concept means the tools utilised by banks that ensure that the borrower's obligation is carried out accordingly. Real estate, securities and compensating balance may be used as collateral, where the latter consists of the minimal amount that the borrower is obligated to hold in its own bank account.

Non-interest commissions. These are various payments that could be part of the loan price, such as commissions on circulating credit, taxes on credit administration (i.e., the costs of preparing documentation) and payments on credit investigation, guarantee and insurance.

Cost of funds and balance sheet restrictions. The level of bank capital and the cost related to providing the capital required by regulators, may hinder growth in the lending activity. For a specific capital level, supply of credit may be affected by both the liquidity position of banks, as well as its ability to raise capital in the market. A bank may forgo or be less willing in granting a loan, when it perceives that it will be unable to expand the capital required for this purpose. Furthermore, risk related to non-performing loans may be reflected not only on bank's risk perception, but also on the increase in the cost of funds and balance sheet restrictions.

Loans. This term shall mean as it is referred to in Law No. 9662, dated 18.12. 2006 "On banks in the Republic of Albania". For the purpose of this Survey, credit includes all loans or credit lines of enterprises; loans granted to households for house purchases; consumer loans; as well as other types

¹⁵ *The capital calculated for banking supervisory purposes, including various categories of capital and reserves, as well as other elements, which are stipulated by the Bank of Albania by sub-legal acts.*

¹⁶ *For the purpose of this Survey, the term used for credit is equivalent to the term used for loan.*

of loans granted to households. It must be emphasized that this term refers to loans granted to Albanian residents, excluding interbank and non-resident loans.

Consumer credit and other loans. Consumer credit includes any type of loan disbursed by banks to households with the purpose of purchasing goods and services for their own consumption, in accordance with the definitions laid out in Decision No 48, dated 01.07.2015 of BoA for the approval of Regulation "On consumer credit and mortgages" and Law No. 9902, dated 17.04.2008, "On consumer protection", as amended. Examples that illustrate this credit category are loans granted for purchasing cars, house furniture and other consumer goods, vacation travels etc. Overdraft and credit card loans are usually included under this category as well. Loans of this category may have a collateral or may not.

Loans for house purchases. This term refers to the loans granted to households by banks for purchasing, constructing or reconstructing a residential real estate pursuant to Decision No. 48, dated 01.07.2015 of BoA for the approval of Regulation "On consumer credit and mortgages". This type of real estate includes houses, buildings, apartments or the land on which the house will be constructed.

Credit terms and conditions. The credit terms and conditions refer to the terms and maturity of the approved loan, as determined in the credit contract, on which the bank and borrower have reached an agreement. They generally consist of the margin over the reference interest rate, the size of loan, the conditions over bank's approach and other conditions in the form of fees, commission, non-interest costs, collateral or guarantees, loan restrictions and maturity of approved loan. The credit terms and conditions depend on the borrower's report, and they might change in a parallel or independent way, depending on credit standards. For example, the higher financing costs or the deterioration of economic perspective may bring about a restriction of the credit standards, as well as a tightening of conditions on those loans that the bank and its clients are willing to approve. Alternatively, banks may adjust only the contract terms/conditions laid out in the credit contract (such as: the increase of margins against the reference rates) requested to compensate for additional costs/risk and to keep credit standards unchanged.

Loan covenants. The covenants of a credit contract consist of an agreement or legal specification, according to which the borrower (typically an enterprise) pledges to undertake or stops undertaking additional measures, in order to meet the entirety of conditions when granting a loan. As such, covenants in the credit agreement are part of the credit terms and conditions.

Enterprise size. The size of enterprise is laid down in Law No. 8957 "On small and medium-sized enterprises", dated 17.10.2002, as amended. The provisions laid down in this law stipulate two criteria when determining the enterprise size: the number of employees and annual revenue. The category of large enterprises include those enterprises with over 250 employees and over

ALL 250 million annual revenue. The rest of enterprises are categorised in the group of small and medium enterprises.

Margin above the market reference rate. This indicator specifies the difference between the loan's interest rate as applied by the bank and the reference rate (which could be the yield on T-bills, Repo, Euribor, Libor, etc). The margin is determined on the basis of loan's characteristics. It reflects the differences between the loan's interest rate applied by the bank, which depends on the cost of the bank's financing, and the borrower's risk, as well as bank's perception on the political and economic situation domestically. Simply put, the margin reflects changes in the bank's interest rate independently from changes in market rates.

Maturity Loan maturity refers to initial maturity - the lifespan of a loan as agreed upon between the two parties i.e., the borrower and the bank.

Risk perception and risk tolerance. Risk perception refers to the bank's judgements about the current and expected developments on the key economic indicators, the present situation of the enterprise or industry and its perspective, the borrower's solvency, and the required collateral (demand factors). Contrarily, risk tolerance refers to bank's tolerance regarding its lending policy, which could vary depending on changes in the strategy adopted by the bank (supply factors). Banks' perception on current risk and their tolerance towards risk may change in the same direction or in opposite directions.

Collateral coverage ratio. The ratio of the sum lent against the market value of the collateral placed for this loan. This indicator refers mainly to loans used to finance real estate.

Refinancing/restructuring and debt renegotiation. This concept is included in the survey as a factor which affects credit demand. It refers to the term on credit refinancing, restructuring and renegotiation, as laid down in the Regulation of the Bank of Albania No. 62, dated 14.09.2011 "On credit risk management from banks and branches of foreign banks", which consists of the alleviations that the bank provides to borrowers experiencing financial difficulties. These includes facilitations to the contract's conditions related to the maturity, principal payment and interest rate; the use of collateral to partially settle the loan; or the substitution of the primary borrower with a secondary borrower. This factor will impact credit demand only when changes to the contract do occur, followed by the extension of initial maturity or increase of the loaned sum.

Credit restructuring does not include cases when the method of borrower's financing switches from a bank loan to instruments of credit securities in the capital market. Meanwhile, credit restructuring in the form of loans obtained from another institution is to be classified as a factor under "loans from non-banks".

Credit standards. Credit standards are the internal guidelines or the loan approval criteria adopted by the bank. They have been set out prior to the negotiation of the terms and conditions of the loan, as well as prior to the current decision on the approval or refusal of the loan. The standards determine the type of loans which the bank considers desirable or undesirable, the sectoral and geographical priorities, and the collateral to be considered acceptable and unacceptable etc. Credit standards lay out the characteristics of the borrower (e.g.: balance sheet conditions, income state, age, employment status) necessary to grant a loan. Credit standards may vary depending on changes to the cost of funds; bank's balance sheet; competitiveness; bank's risk perception; risk tolerance and regulatory amendments.

Loan application status. In theory, loan applications consist of the formal loan request, as well as any other non-formal request for credit which has not reached the official credit loan application status. If the information on non-formal loan requests cannot be secured, then the bank should respond based on the size of formal loan requests. Loan applications are reported as changed not only from new clients, but also from existing clients. However, applications from existing clients should be included only when the size of an existing loan increases or a new loan is granted.

Loan rejection refers to cases when loan applications have been refused. This indicator is calculated as the ratio of the turned-down loans to the total loans applications for that quarter. Loan rejections do not include cases when the borrower withdraws the loan application due to unfavourable bank's conditions.

Current and expected developments in the housing market. This term is one of the factors that affects both credit demand and supply. It includes banks' or households' perception on the expected developments in housing prices. In Question 8, 3b this factor refers to the risk related to the requested collateral. In Question 12, 3.c it refers to expected developments in the housing market, including an increase (decrease) of demand for house loans, due to an expected increase (decrease) of the purchasing costs of a house and/or perceived return from a real estate investment.