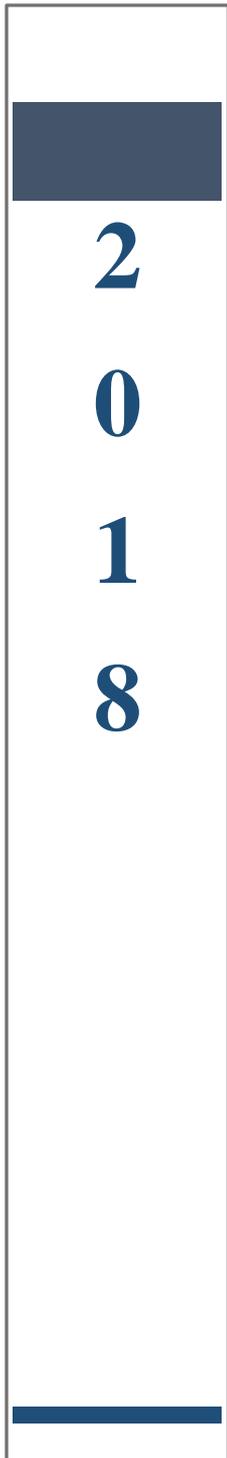




BANK LENDING SURVEY

2018 Q2

MONETARY POLICY DEPARTMENT



Introduction¹

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 11 banks, which have the highest share of the stock of credit to the private sector. The BLS questionnaire aims to collect the banks' opinions related to the developments in the past three months on credit supply and demand, and their expectations for the next three months.

¹ Bank lending survey questionnaire was revised in 2018 Q2, aiming at its further approximation with the latest international practices, especially with the ECB one. Hence, the related analysis is adopted with the new questionnaire. The new analysis is enriched in terms of additional questions and specifications related with the factors affecting the standards, lending terms and conditions and the credit demand. The BLS questionnaire, a glossary of terms, a short description on the importance of this survey and some methodological aspects are published at https://www.bankofalbania.org/Monetary_Policy/Surveys_11282/Bank_Lending_Survey/.

1. OVERVIEW OF THE RESULTS

According to commercial banks' perceptions, credit standards tightened for loans to enterprises in 2018 Q2, reflecting a tighter lending policy to large enterprises. By contrast, credit standards eased for loans to households, attributable to the eased standards on loans for house purchase. Loan demand was reported higher in 2018 Q2, for both enterprises and households.

Banks expect credit standards to remain unchanged for both enterprises and households in 2018 Q3. For enterprises, credit demand is expected to remain at the same levels, and slightly up for households, from the second quarter. Interest rates are expected to decrease on lek loans, and increase on foreign currency loans, in 2018 Q3.

2. CREDIT STANDARDS; TERMS AND CONDITIONS; AND DEMAND FOR LOANS

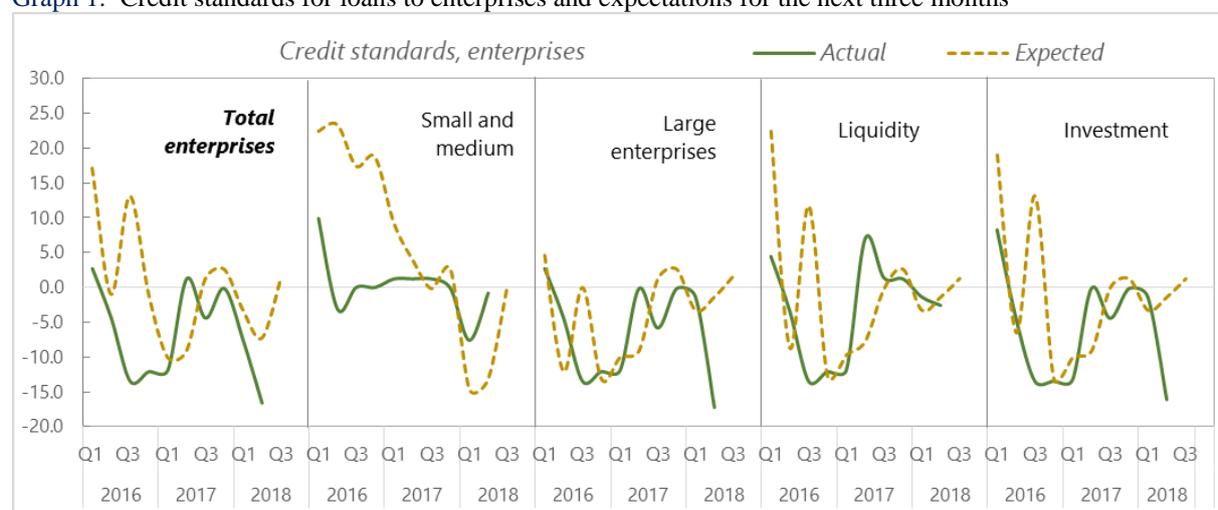
2.1. LOANS TO ENTERPRISES

2.1.1. Credit standards for loans to enterprises

Credit standards for loans to enterprises were tightened compared with 2018 Q1, mainly driven by those for loans to large enterprises. They were more tightened on loans for investment and remained almost unchanged on loans for liquidity.

Looking ahead to the third quarter of 2018, banks expect credit standards for loans to enterprises to remain almost unchanged from the second quarter, in terms of both size and purpose of use.

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

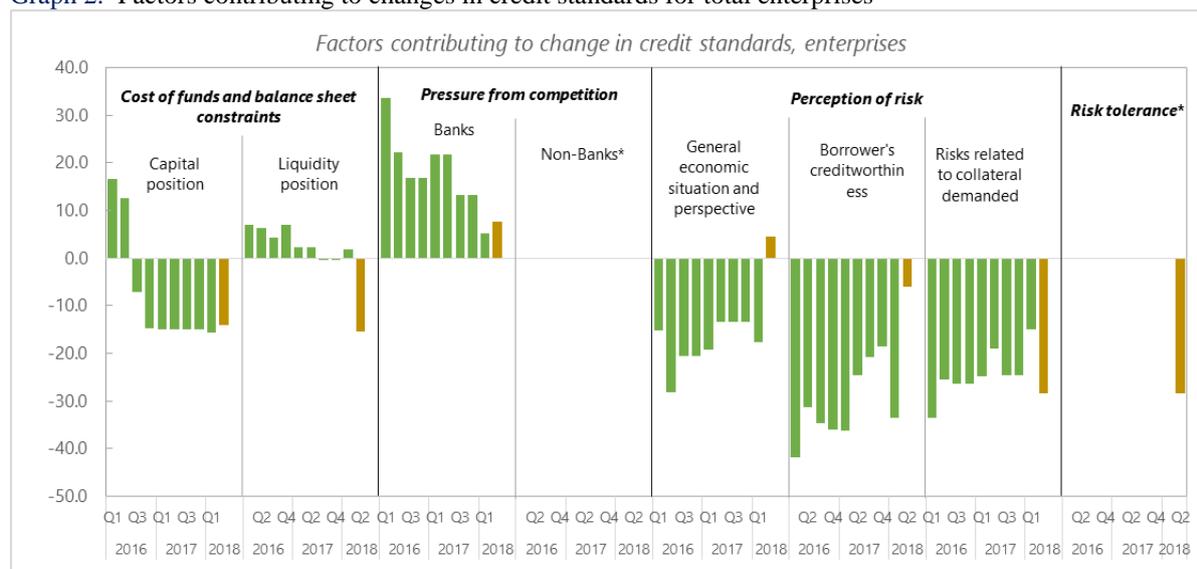


¹. Calculated as net percentage. Positive values indicate an easing of credit standards, whereas negative values indicate a tightening of credit standards.

Source: Bank of Albania.

In 2018 Q2, the factors contributing to the tightening of credit standards for loans to enterprises were related to the risk on the collateral demanded; banks' risk tolerance; cost of funds and balance sheet constraints (related to both capital and liquidity position), and the borrower's creditworthiness. Pressure from the competition in the banking system and the perception on the current economic situation and the outlook contributed to the easing of credit standards.

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

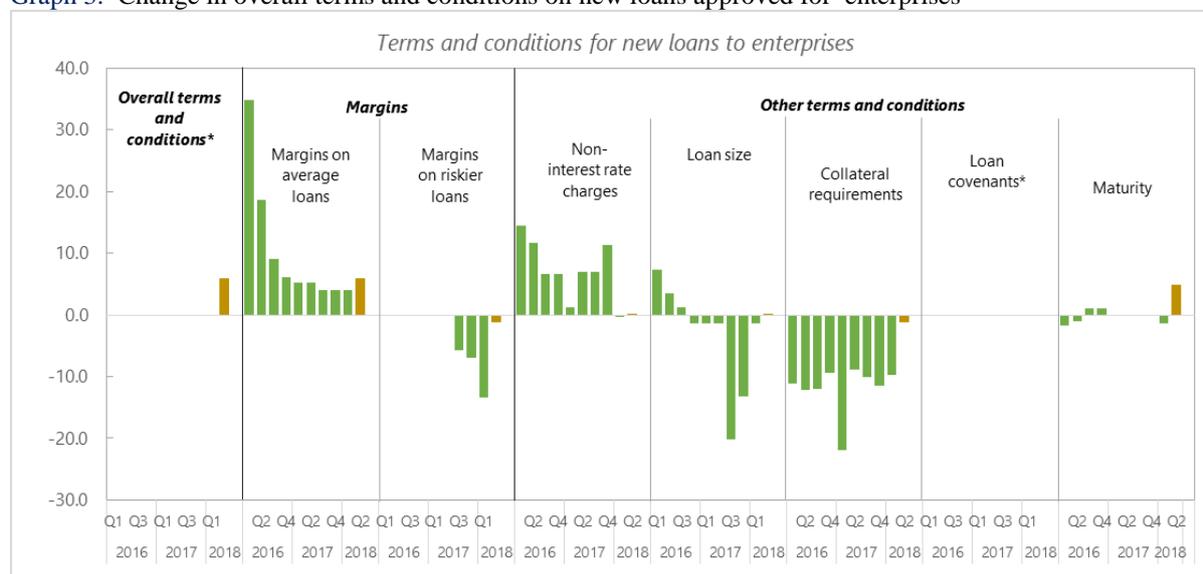


². Calculated as net percentage. The positive values indicate that the factor contributed to an easing of the credit standards. The negative values indicate that the factor contributed to a tightening of the credit standards. *: New indicator added in the questionnaire revised in June 2018. Source: Bank of Albania.

2.1.2. Terms and conditions for loans to enterprises

Overall terms and conditions for new loans approved over 2018 Q2 were reported to have eased somewhat from the previous quarter, driven mainly by a narrowing of margins on average loans and the extension of the maximum credit maturity.

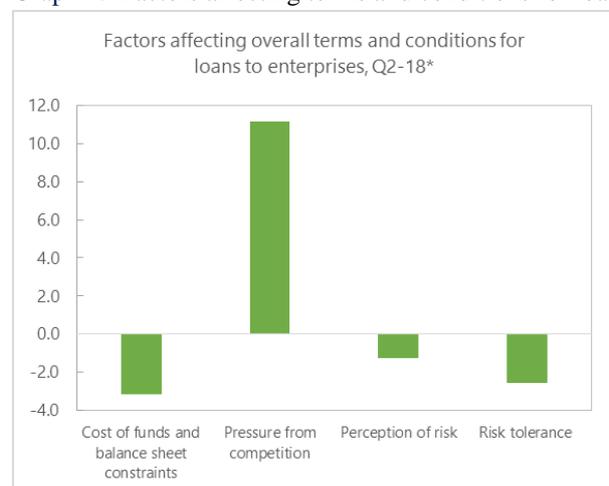
Graph 3. Change in overall terms and conditions on new loans approved for enterprises³



³. Calculated as net percentage. The positive values indicate that the factor contributed to the easing of credit standards, whereas the negative rates indicate that the factor contributed to the tightening of credit standards. Source: Bank of Albania. *: New indicator added in the questionnaire revised in June 2018.

Banks reported that competitive pressure was the factor having an easing impact on terms and conditions for loans, while cost of funds and balance sheet constraints, banks' risk tolerance and risk perception provided an opposite impact².

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



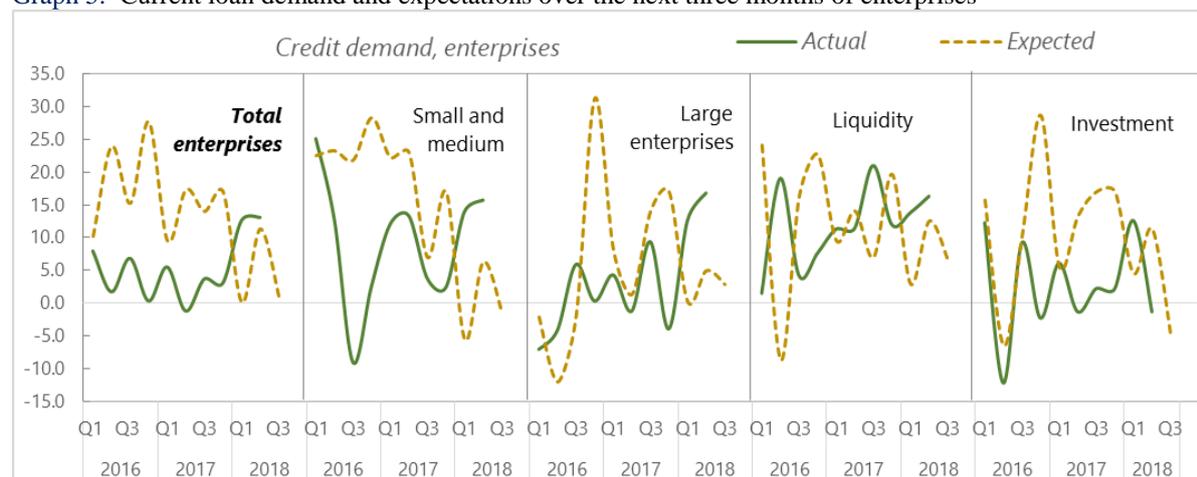
⁴ The positive values indicate that the factor contributed to an easing of the credit terms and conditions. The negative values indicate that the factor contributed to a tightening of the credit terms and conditions. *: This chart is based on a new question added in the questionnaire revised in June 2018.

Source: Bank of Albania.

2.1.3. Loan demand of enterprises

Loan demand was reported higher for both small and medium-sized enterprises and large enterprises. By purpose of use, the demand was reported higher for credit for liquidity, and slightly lower for investment, than in the past three months.

Graph 5. Current loan demand and expectations over the next three months of enterprises⁵



⁵ Calculated as net percentage. Positive values show increase of the demand for loans, while negative values show a decline of loan demand.

Source: Bank of Albania.

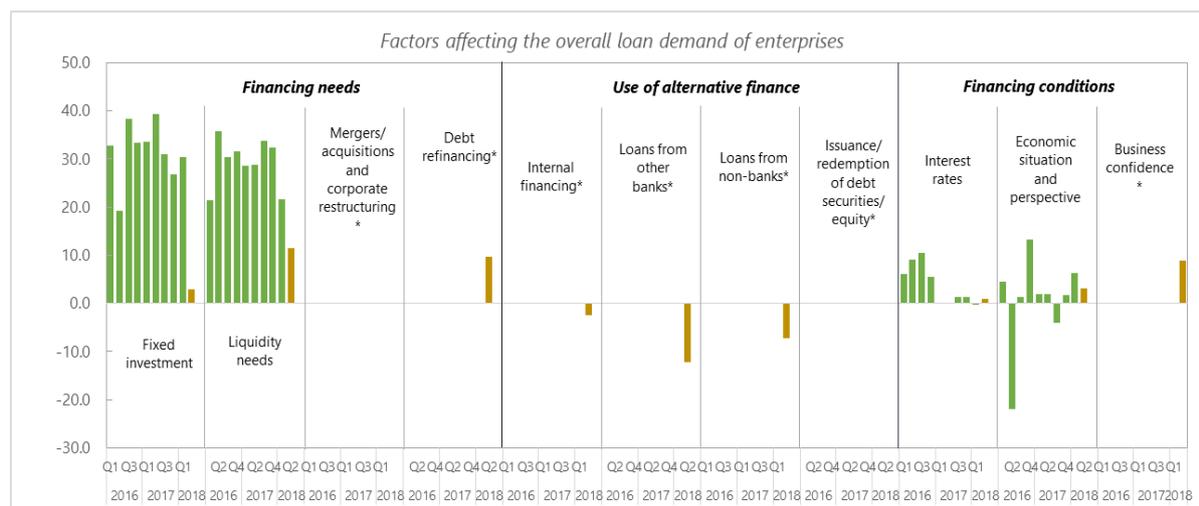
Looking ahead to the third quarter of 2018, banks expect loan demand to remain almost similar with the past three months, from both small and medium-sized enterprises and large enterprises. The

² The questions related to the factors affecting the changes in credit terms and conditions were added to BLS for the first time in June 2018.

increase in loan demand is expected to concentrate on loan for liquidity; meanwhile, demand for investment purposes is expected to be lower.

The factors contributing to loan demand growth in the second quarter, according to banks' perceptions, were: the higher liquidity needs; debt re-financing; fixed investments financing; business confidence; and the macro-economic situation and its outlook. The factors related to the use of alternative sources, such as: loans from other banks; loans from non-bank financial institutions and internal financing were assessed to have contributed to the negative side of the loan demand.

Graph 6. Factors affecting changes in the loan demand to enterprises⁶.



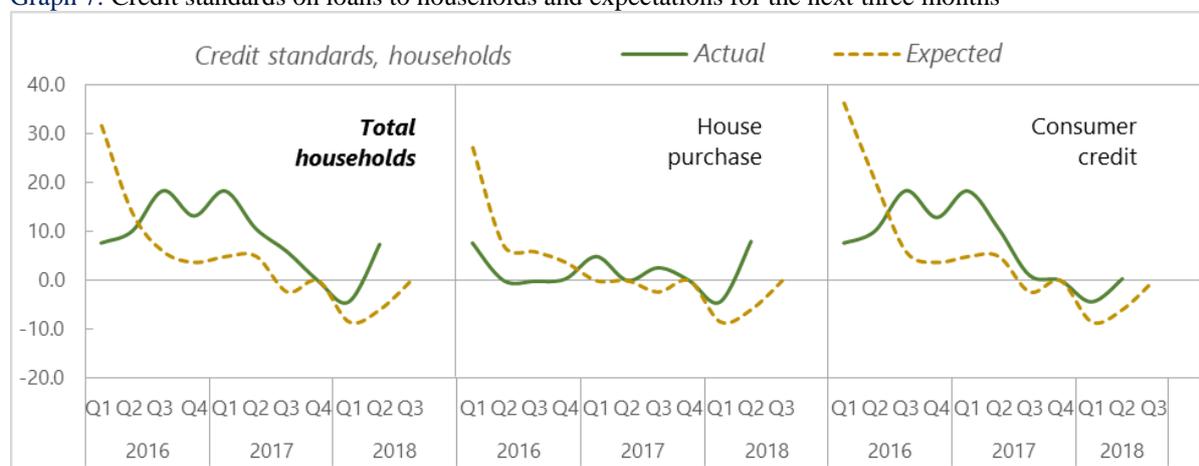
⁶ Calculated as net percentage. Positive values show the factor has affected the increase in loan demand, while the negative values show the factor has affected its fall. *: New indicators added in the questionnaire revised in June 2018. Source: Bank of Albania.

2.2. LOANS TO HOUSEHOLDS

2.2.1. Credit standards for loans to households

Credit standards for loans to households eased in 2018 Q2. The standards eased on loans for house purchase, while standards for consumer loans remained unchanged from the past three months. Banks reported they do not expect credit standards to households to change in any of the segments of this category in 2018 Q3.

Graph 7. Credit standards on loans to households and expectations for the next three months⁷

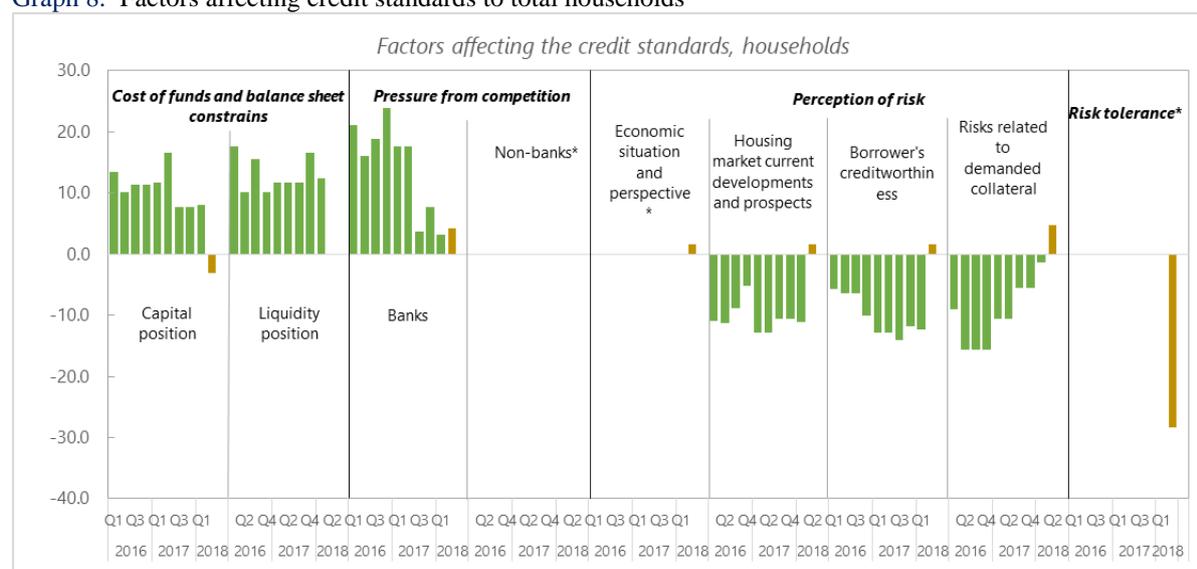


⁷. Calculated as net percentage. Positive values indicate an easing of standards, whereas negative values indicate a tightening of standards.

Source: Bank of Albania.

Factors dictating eased credit standards to households in 2018 Q2 were: the lower risk perception related to collateral demanded; competitive pressure in the banking system; and, at a lower extent, the other factors that proxy the risk perception (such as: the general economic situation and outlook; current and expected developments in housing market; and borrower's creditworthiness). The cost of funds and balance sheet constraints (related with the costs from capital position) contributed to the tightening of credit standards to households.

Graph 8. Factors affecting credit standards to total households⁸



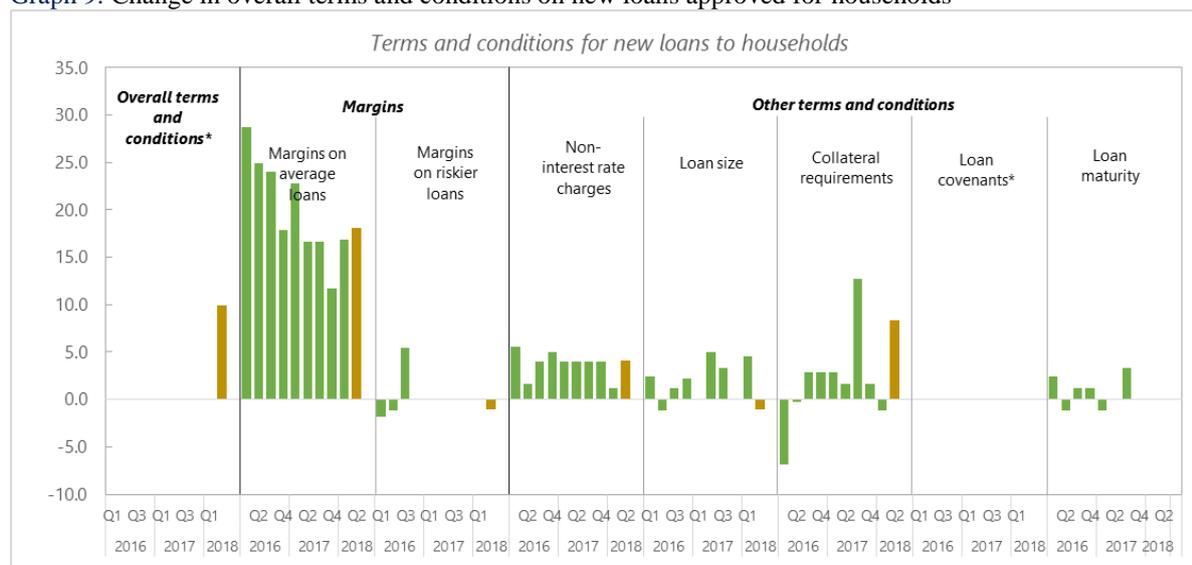
⁸. Calculated as net percentage. The positive values indicate that the factor contributed to an easing of the credit standards. The negative values indicate that the factor contributed to a tightening of the credit standards. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

2.2.2. Terms and conditions for loans to households

In the same line with the eased standards, in 2018 Q2, **banks eased the overall terms and conditions on new loans approved for households**. The general terms and conditions on loans to households improved driven by the narrowing margins on average loans, lower collateral requirements, and the decrease of commissions.

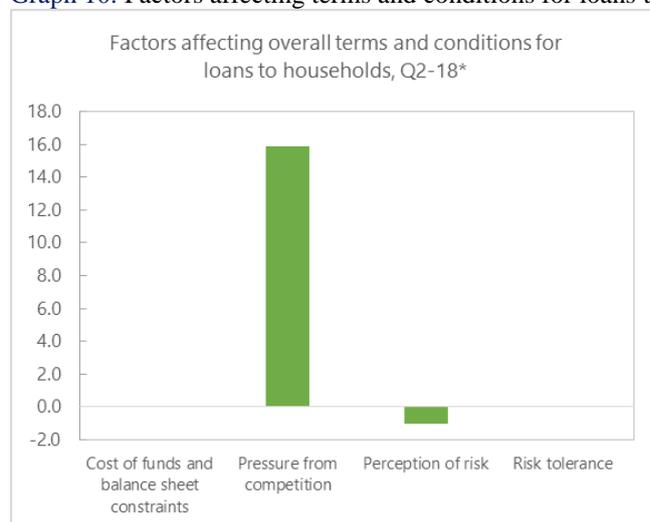
Graph 9. Change in overall terms and conditions on new loans approved for households⁹



⁹. Calculated as net percentage. The positive values indicate that the factor contributed to the easing of credit standards, whereas the negative values indicate that the factor contributed to the tightening of credit standards. Source: Bank of Albania. *: New indicator added in the questionnaire revised in June 2018.

Competitive pressures was the predominant factor contributing to the improvement of terms and conditions of loans to households. Other factors, such as: cost of funds and balance sheet constraints, risk perception and bank’s risk tolerance were reported to have a broadly neutral impact from the previous quarter.

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



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

2.2.3. Loan demand of households

Loan demand of households was higher in 2018 Q2, driven by loan demand for house purchase. In 2018 Q3, banks expect the demand to be slightly higher than in 2018 Q2, for both house purchase and consumer loans.

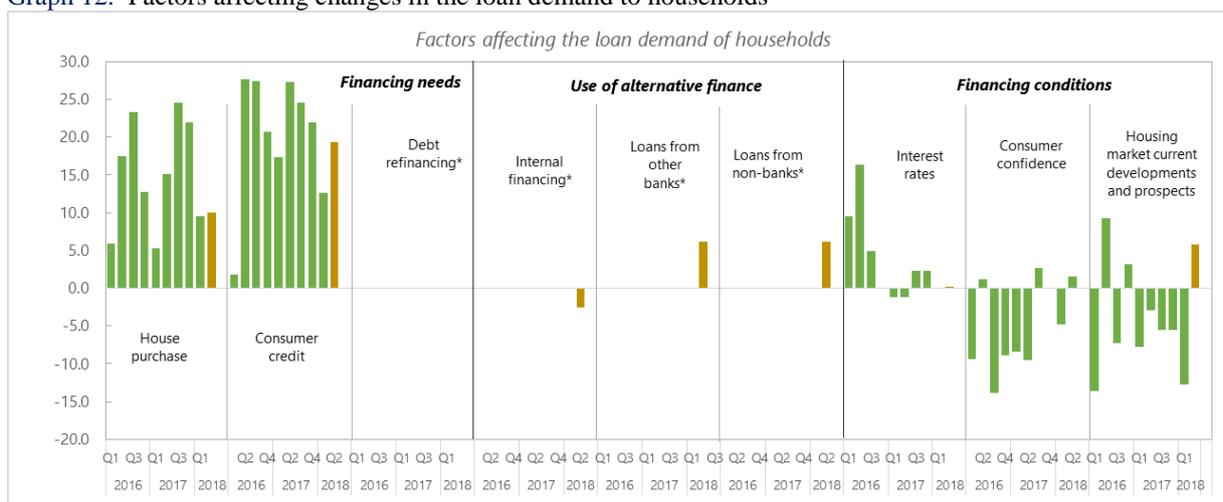
Graph 11. Current loan demand and expectations over the next three months of households¹¹.



¹¹. Calculated as net percentage. Positive values show increase of the demand for loans, while negative values show a decline of loan demand. Source: Bank of Albania.

Banks reported the factors driving the demand growth were: the higher need to finance consumption and house purchase; loans from banks and loans from non-bank financial institutions; and the current developments and prospects in the housing market. Banks reported the use of internal financing as the only factor contributing to the fall in loan demand from households.

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



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