



BANK LENDING SURVEY

2020 Q2

JULY 2020

MONETARY POLICY DEPARTMENT

General Notes¹

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.

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. It 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.

¹: 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 reported tightened credit standards in 2020 Q2. In reflection of the situation and the heightened uncertainty caused by pandemic, banks tightened further the standards applied on loans to both enterprises and households, in all composing sub categories. In the same line with standards, banks also tightened the terms and conditions applied on new loans to enterprises and households. Credit demand was perceived downwards from enterprises, as well as households.

Banks expect further tightening of credit standards to enterprises, particularly on loans for investments. In contrary, banks expect credits standards to ease for loans to households in the third quarter. In 2020 Q3, banks expect a higher demand for loans to both enterprises and households. The demand for loans to enterprises is expected to be driven by loans for financing of inventories and the working capital, while demand for loans to households is expected to be driven by consumer loans.

CREDIT STANDARDS, TERMS AND CONDITIONS, AND DEMAND

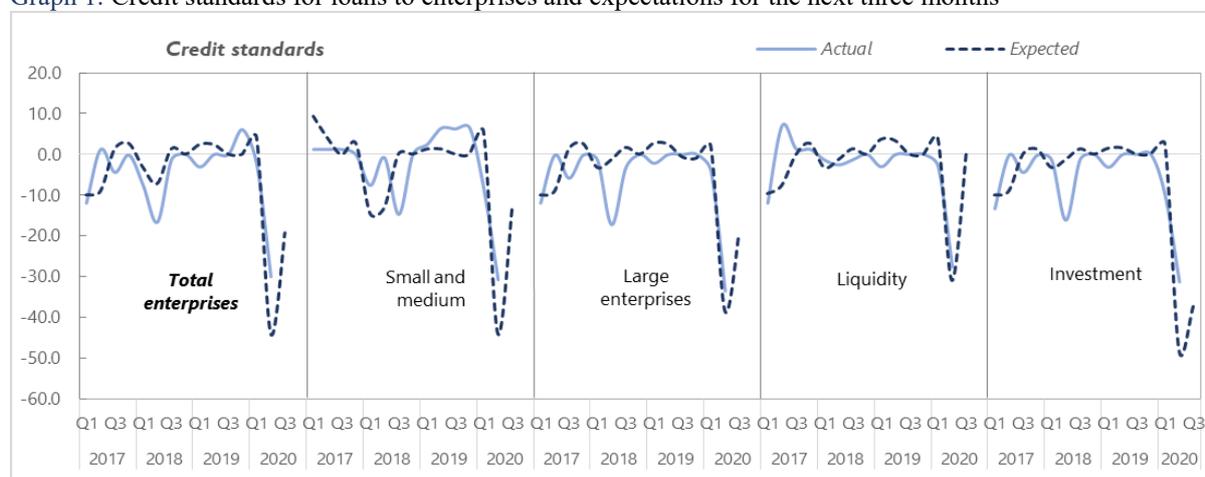
1. LOANS TO ENTERPRISES

1.1. Credit standards

Credit standards for loans to enterprises tightened in 2020 Q2 as well. Tightened credit standards were reported to both segments: small and medium-sized enterprises; and large enterprises. Also, credit standards tightened further for loans granted to meet the liquidity needs or for investments financing.

In 2020 Q3, banks expect to further tighten the credit standards for loans to enterprises, in both sizes of enterprise and for investment purpose. Credit standards are expected to remain unchanged only for loans granted for the financing of inventories and working capital.

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



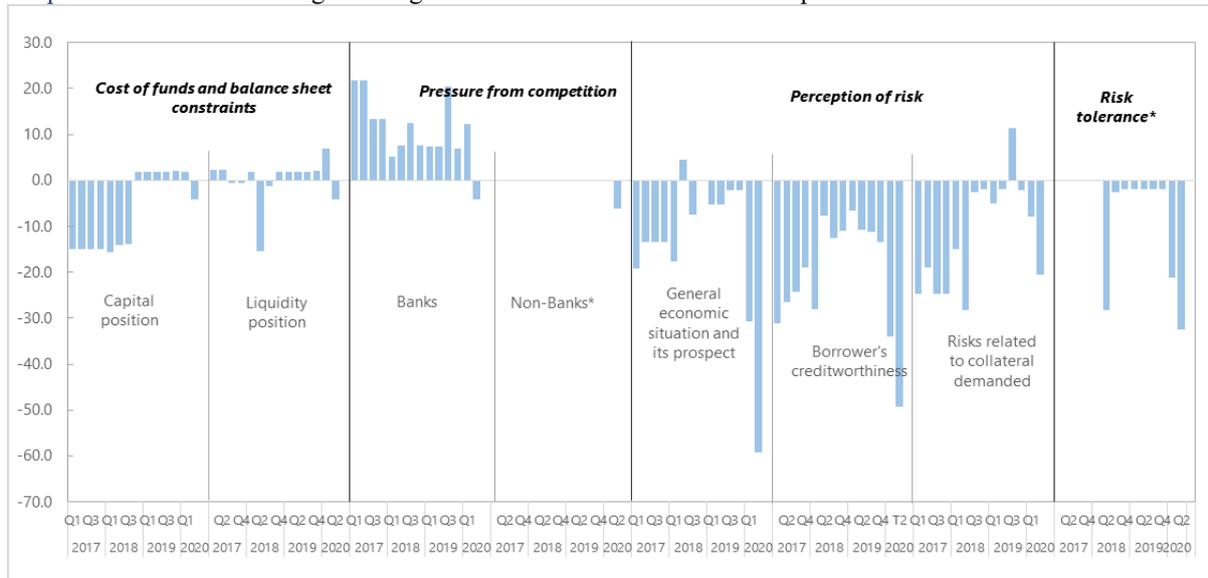
¹: Calculated as net percentage. Positive values indicate easing of credit standards, whereas negative values indicate tightening of credit standards.

Source: Bank of Albania.

All the factors determining the credit standards to enterprises were assessed on the tightening side. The tightening of credit standards was particularly affected by the perception of banks for an increased risk related to: the economic situation and its prospect; borrower's creditworthiness;; and the collateral demanded. Lower risk tolerance of banks was another important factor backing the tightening of credit standards. A high number of banks have selected the above-stated factors, as a determinant in tightening credit standards, hence driving to a further deepening of the negative net balances that represent each

of them. Banks have stated pandemic and the uncertainties related with it, as the driving factors behind the tightening of credit standards in 2020 Q2.

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



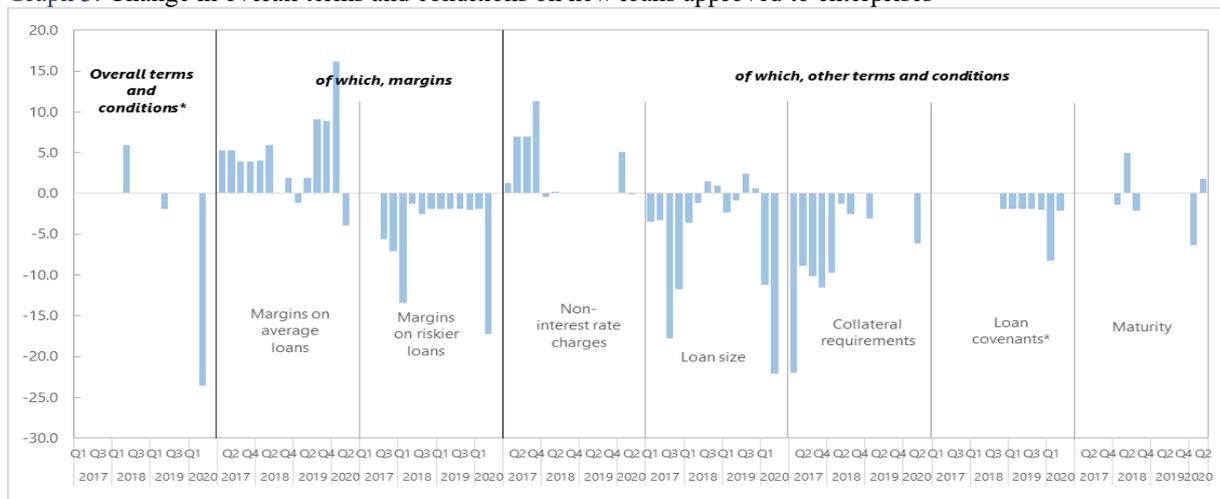
²: Calculated as net percentage. Positive values indicate the factor contributed to the easing of lending standards, whereas negative values indicate their tightening. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

1.2. Terms and conditions

Overall terms and conditions on new loans to enterprises were reported tightened in 2020 Q2. Almost all elements constituting the credit terms and conditions were reported more tightened from the previous quarter. Price conditions were tightened due to higher margins applied on both riskier and average loans. The tightening of non-price conditions was related to: the reduction of the loan size; increased collateral requirement to the received loan, and higher loan covenants. Contrary, the extension of maximum loan maturity to enterprises was reported as the only factor which contributed on the easing side of credit terms and conditions in the second quarter.

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

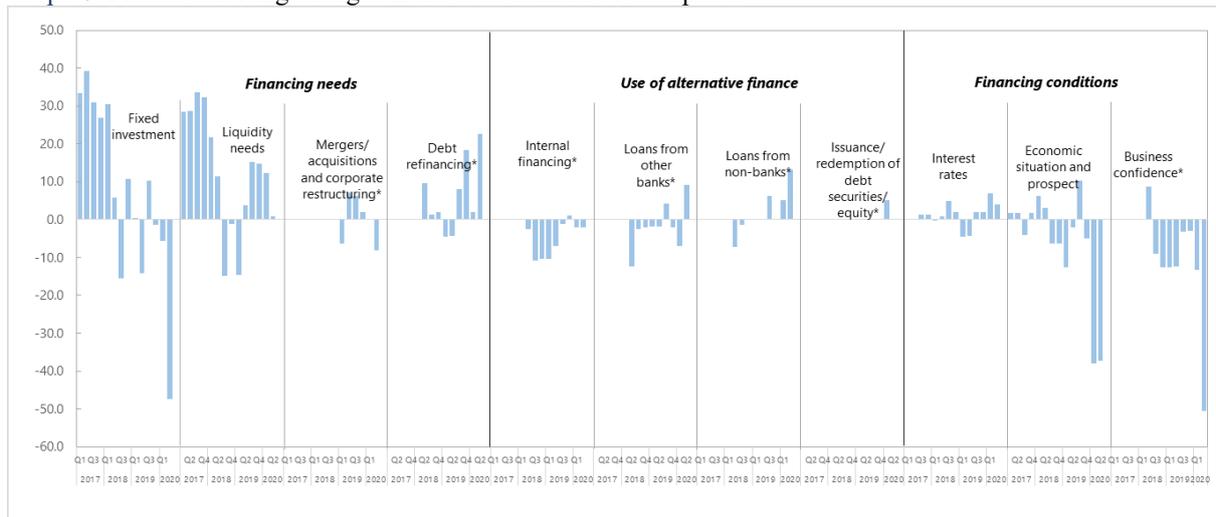


³: Calculated as net percentage. The positive values indicate eased credit standards, whereas the negative values indicate tightened credit standards. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

According to banks, the lower demand for loans, in 2020 Q2, from enterprises was influenced by the worsened business confidence; the pronounced fall investment financing needs; firms' perception of the economic situation and its outlook; as well as by the lower financing needs for firms' acquisitions or restructuring. The higher financing needs for debt refinancing, the lack of alternative financing sources in the form of loans from banks and non-bank financial institutions, and the favourable interest rate, were reported to have affected positively the expansion of loan demand. Banks deem, that the sovereign guarantees scheme, supplied by the Albanian Government to support the sectors affected negatively by Covid-19, also affected the expansion of loan demand.

Graph 6. Factors affecting changes in the loan demand of 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.

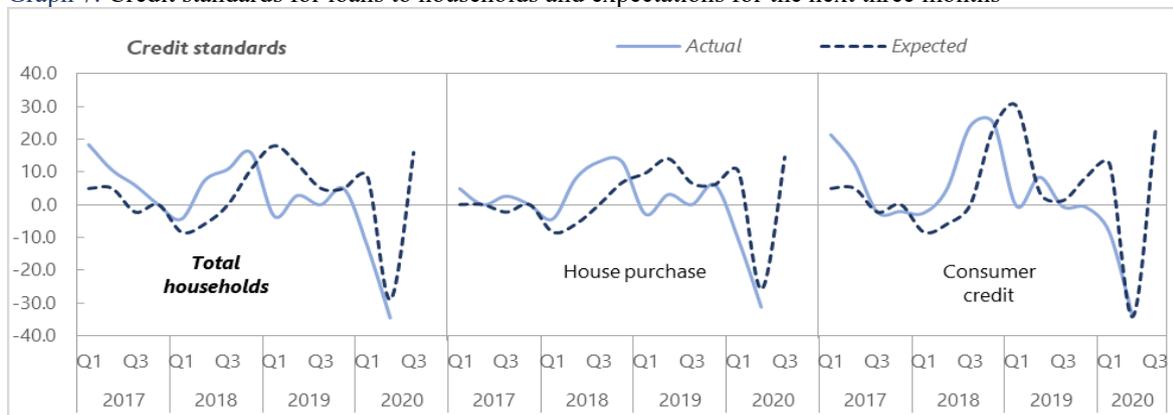
Source: Bank of Albania.

2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households tightened in 2020 Q2 as well. The tightening of credit standards was reported for both house purchase and consumption financing loans. Banks expect to ease credit standards in 2020 Q3, for both consumer and house purchase loans.

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

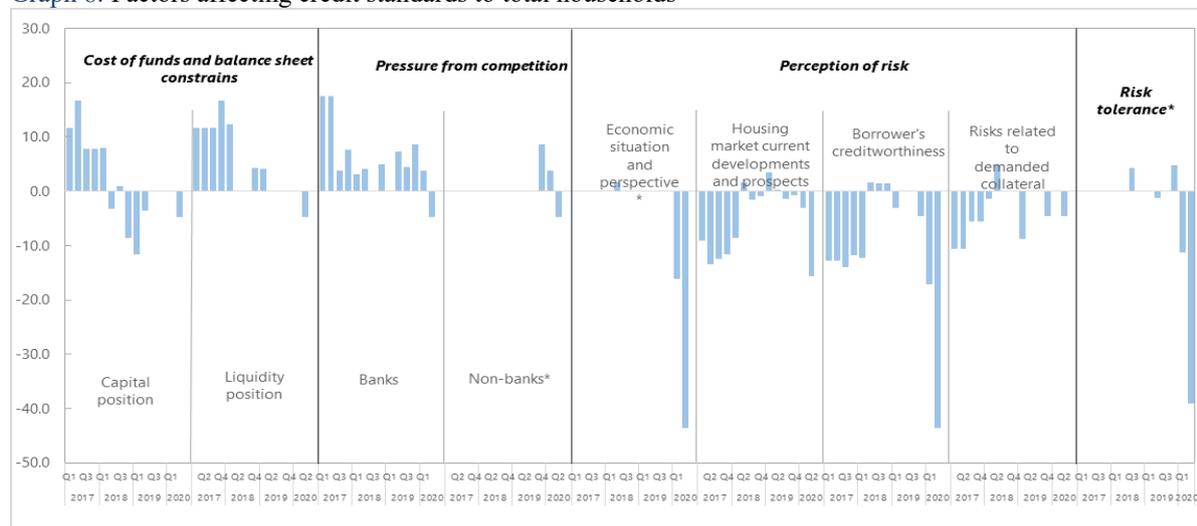


⁷: Calculated as net percentage. Positive values indicate easing of credit standards, whereas negative values indicate tightening of credit standards.

Source: Bank of Albania.

All factors affecting credit standards for loans to households were reported as tightened in 2020 Q2. The most pronounced negative balances arose mainly from higher risk perception by banks related to the domestic macroeconomic situation and its outlook; borrower's creditworthiness; current and expected developments in housing market; and lower collateral and risk tolerance of banks.

Graph 8. Factors affecting credit standards to total households⁸



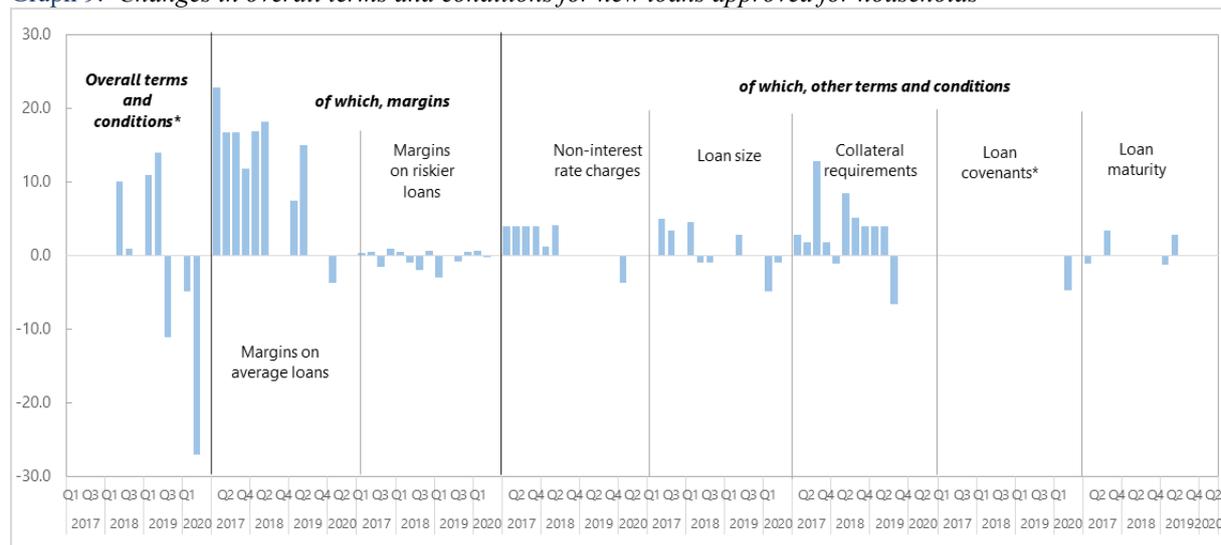
⁸: Calculated as net percentage. Positive values indicate easing of credit standards, whereas negative values indicate tightening of credit standards. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

2.2. Terms and conditions

Overall terms and conditions on loans to households were tightened in the second quarter of 2020, due to higher loan covenants, reduction of loan size and slight increase of margins on riskier loans.

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

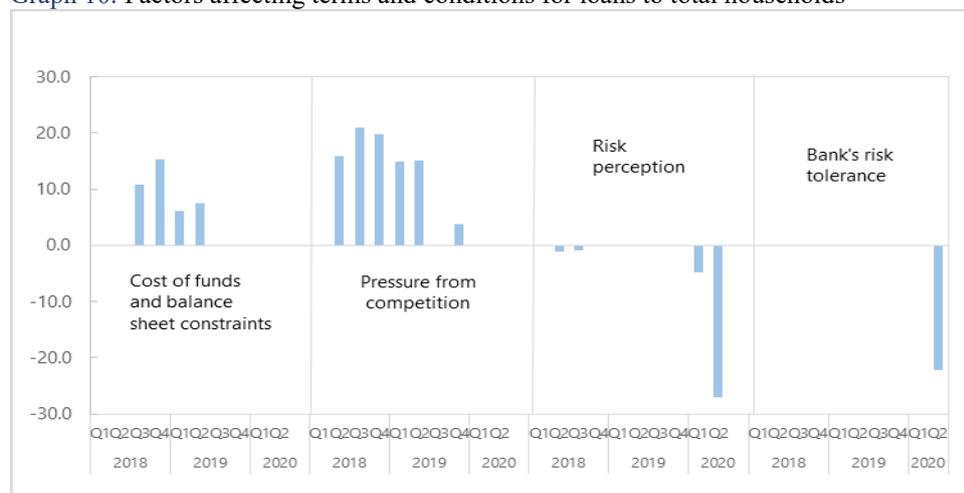


⁹: Calculated as net percentage. The positive values indicate eased credit standards, whereas the negative values indicate tightened credit standards. *: New indicator added in the questionnaire revised in June 2018.

Source: Bank of Albania.

The tightening of credit terms and conditions for loans to households was driven by the perception on an increased risk by banks and a lower tolerance toward risk by banks.

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



¹⁰: 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.

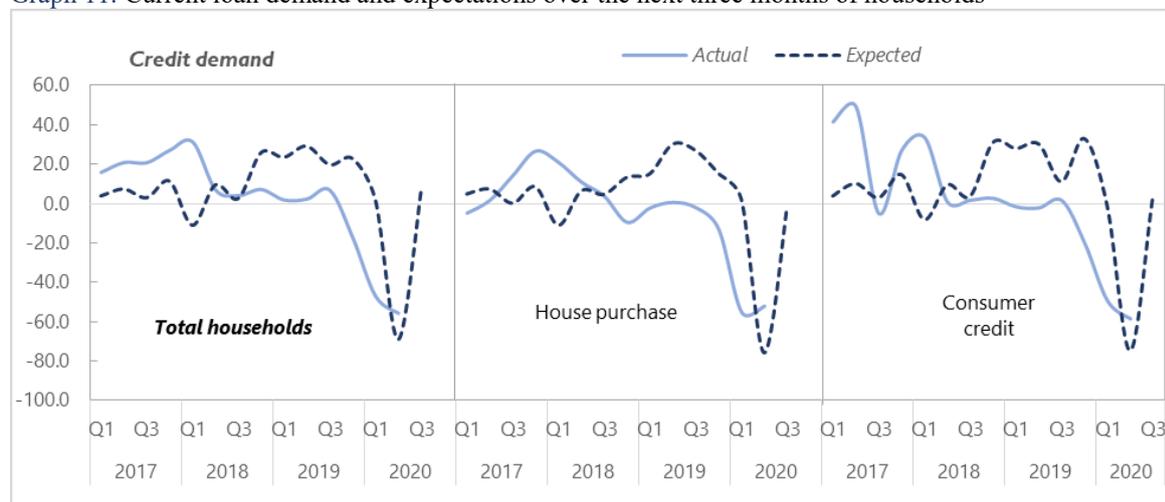
Source: Bank of Albania.

2.3. Demand for loans

Loan demand from households was perceived with a pronounced fall in 2020 Q2 as well, for both consumer loans and for house purchase financing.

In the third quarter of 2020, households' loan demand is expected to somewhat increase, mainly concentrated in consumer loans.

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



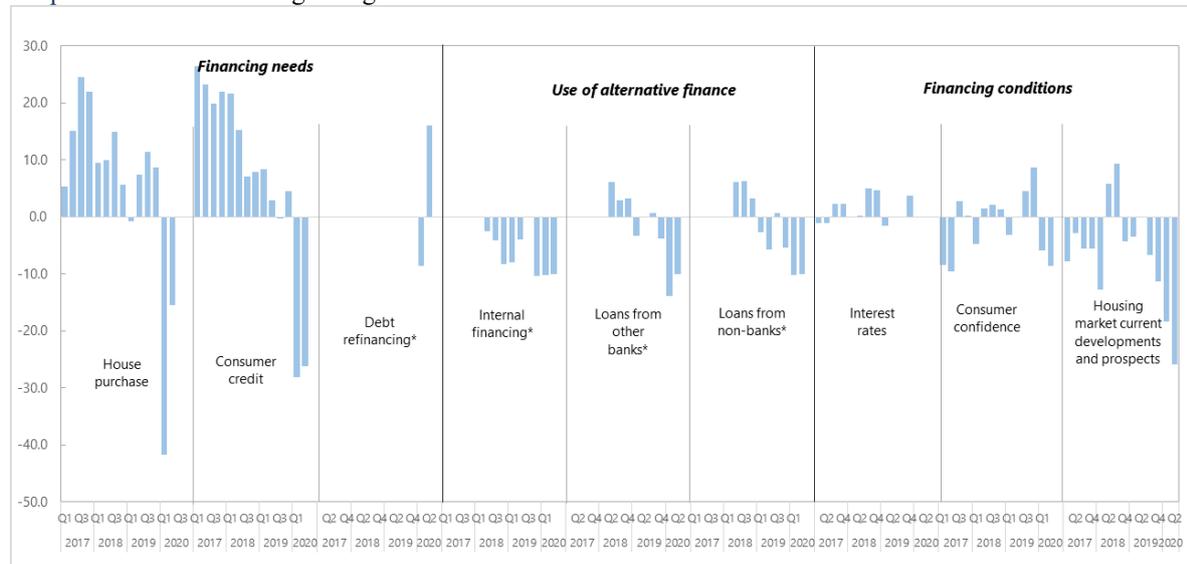
¹¹: Calculated as net percentage. Positive values show increase of loan demand, while negative values show decrease of loan demand.

Source: Bank of Albania.

According to banks, almost all factors that affect households' loan demand were on the negative side in the second quarter of 2020. Hence, lower financing needs for house purchase and consumption, higher use of internal financing resources, increase of loans from banks and other non-banks financial institutions, current and expected developments in housing market, and the fall of consumer confidence drove to the pronounced reduction of loan demand in the second quarter of 2020. Also, banks, reported

that income fall and financial uncertainty about the future, due to the prolonged pandemic situation, were also among the main factors driving the fall of loan demand. Banks reported debt re-financing/restructuring as the only factor affecting the increase in the households' demand for loans.

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

Source: Bank of Albania.