

Bank of Albania
Monetary Policy Department



Bank Lending Survey Results for 2018 Q1

April 2018¹

Bank lending survey results in 2018 Q1 show credit **standards** were tightened for loans to both enterprises and households². By enterprise size, credit standards tightened notably on loans to *small and medium-sized enterprises*; for *large enterprises*, credit standards were reported as largely unchanged. For *households*, credit standards were reported as tightened both for *consumer* and *house purchase loans*.

For credit to enterprises, *sector-specific problems*, *capital adequacy*, *perceived economic situation*, and *non-performing loans* are the main factors contributing to the tightening of standards. Meanwhile, *competition in the banking sector* is reported to have contributed to the easing of standards on loans to enterprises. For credit to households, *financial situation of households*, and *developments in the real estate market* are the main factors contributing to the tightening of standards. The *capital adequacy*, *liquidity level* and *competition in the banking sector* contributed to the easing of credit standards for this segment.

According to bank reporting, the standards of credit to enterprises were tightened, in 2018 Q1, through the *increase of collateral requirements* and the *expansion of the margins on riskier loans*. On the other hand, the narrowing of the *average margin* contributed to the easing of conditions for the approval of credit to enterprises. For households, credit standards were eased mainly through the narrowing of the *average margin on loans*, *increase of the required debt-to-income ratio* and *increase of credit size*. Only the increase in the *collateral requirement* was reported as a factor contributing to the tightening of conditions for credit to households.

Enterprises' credit demand, in 2018 Q1, was reported as upward both in the segment of *small and medium-sized enterprises* and in the segment of *larger enterprises*. Also, households' credit demand was reported as upward in both segments: *consumer* and *house purchase loans*.

Banks expect credit standards to tighten for both enterprises and households in 2018 Q2. On the other hand, credit demand is expected to be higher by both enterprises and households.

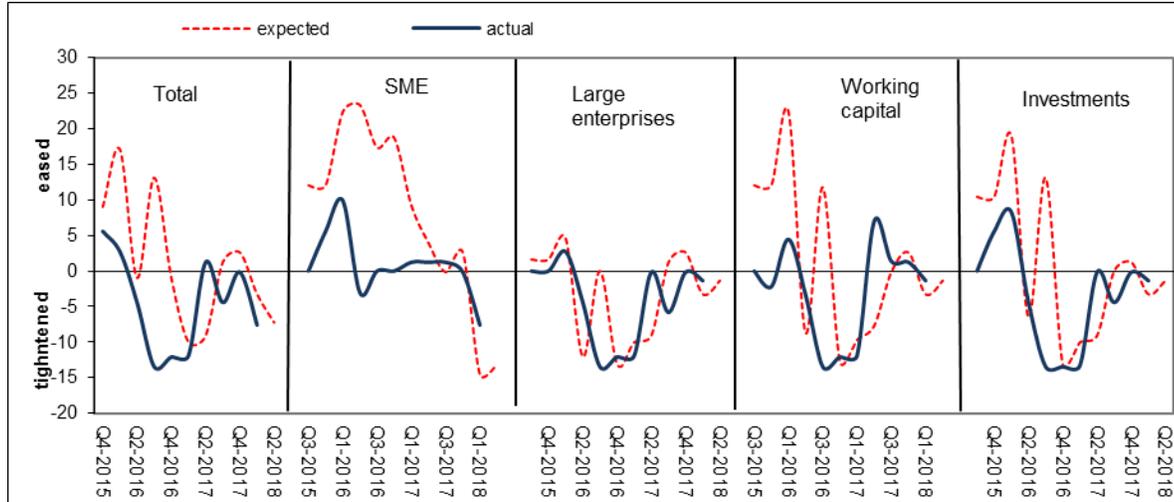
¹The survey conducted at the beginning of April 2018 covers the developments in bank lending during 2018 Q1 and banks' expectations for lending in 2018 Q2.

² Credit standards were reported as tightened by only one bank, whereas the other banks of the survey reported unchanged standards for credit to households.

Lending to enterprises

Credit standards on loans to enterprises in 2018 Q1 tightened for small and medium-sized enterprises, and were reported as largely unchanged for large enterprises. In 2018 Q2, banks expect credit standards to tighten for loans to *small and medium-sized enterprises*, and to remain largely unchanged for *large enterprises*, compared to the first quarter. By purpose of use, standards of loans to enterprises for both *working capital* and *investments* remained unchanged from the previous quarter. The situation of credit standards for these loans is expected to remain largely unchanged in 2018 Q2.

Chart 1 Standards on loans to enterprises in total, by size of enterprises and purpose of use (*net balance*¹)

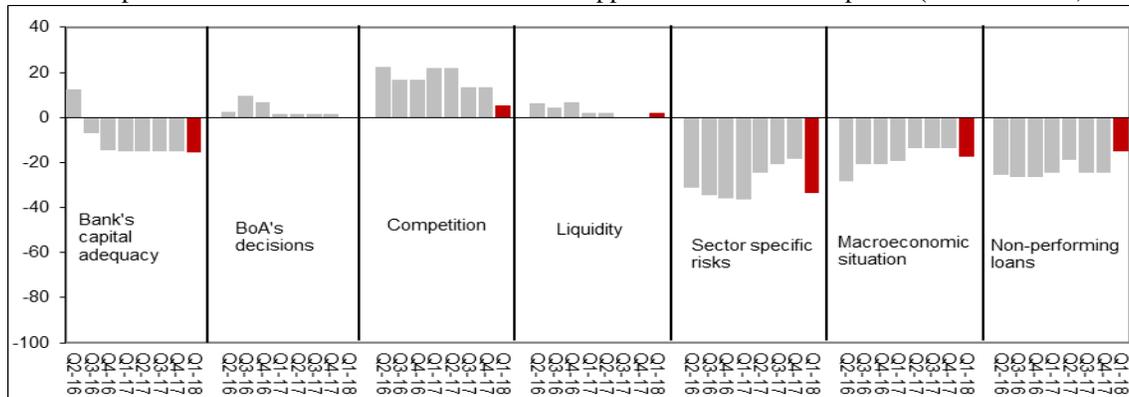


Source: Bank of Albania.

Note1. The net balance is the percentage of banks that have changed their standards; positive balance indicates an easing of standards, whereas negative balance indicates a tightening of standards.

In 2018 Q1, the **factors contributing to the tightening of standards on loans to enterprises** were *sector-specific problems*, *banks perception about the macro-economic situation*, *non-performing loans*, and *capital adequacy* (Chart 2). *Competition in the banking market* resulted as the only factor providing positive contribution to the easing of standards on loans to enterprises in this quarter.

Chart 2 Impact of different factors on credit standards applied on loans to enterprises (*net balance*²)

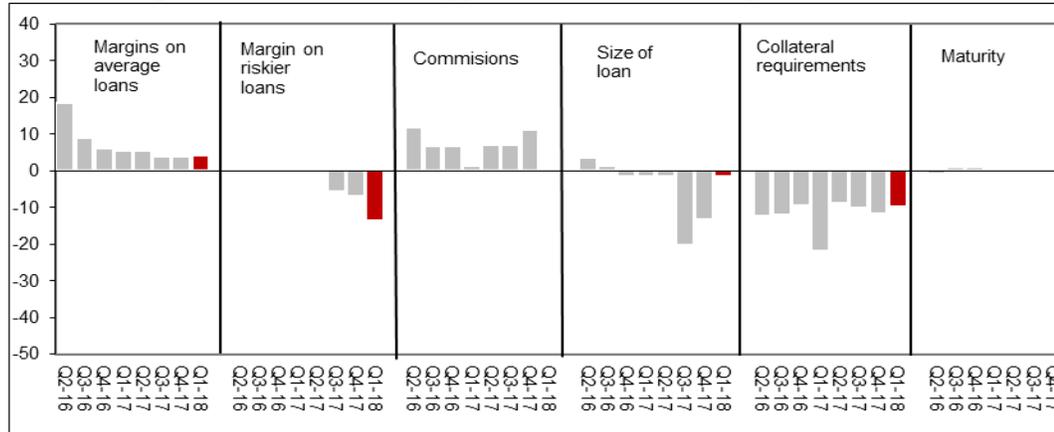


Source: Bank of Albania.

Note2. The positive balance indicates that the factor contributed to easing the lending standards. The negative balance indicates that the factor contributed to tightening the lending standards

Conditions for loan approval. In 2018 Q1, credit standards were tightened mainly through the expansion of the *margins on riskier loans* and increase in *collateral requirements*. Moreover, standards on loans to enterprises were eased through the decrease of the *average margin*.

Chart 3 Change in credit standards applied on loans to enterprises (net balance³)

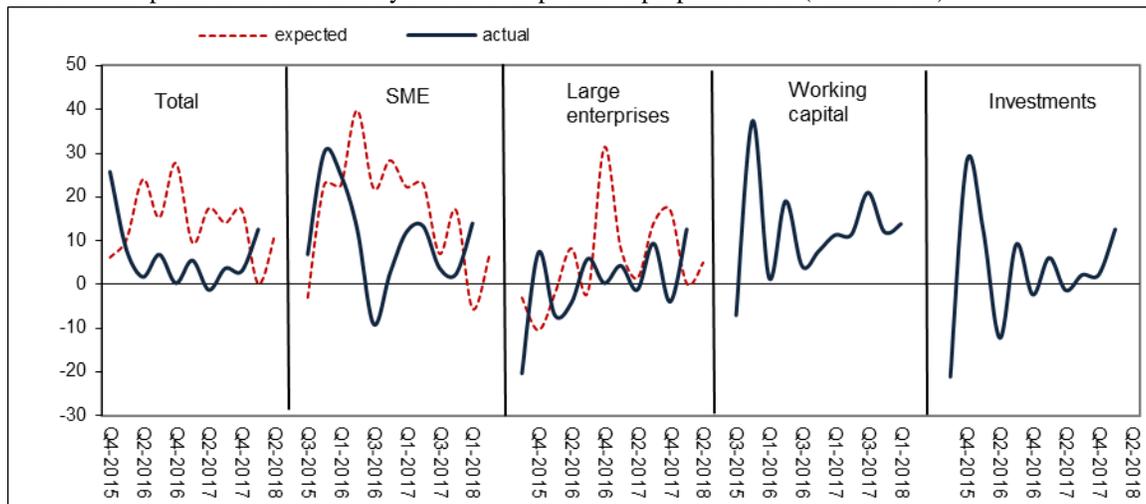


Source: Bank of Albania.

Note3. The positive balance indicates the easing of credit standards, whereas the negative balance indicates their tightening.

Banks reported enterprises credit demand was higher than in the previous quarter, driven by both segments, *small and medium-sized enterprises* and *large enterprises*. By purpose of use, in 2018 Q1, enterprises showed higher credit demand both for *working capital*, and for *investment* purposes (Chart 4). In 2018 Q2, banks expect credit demand to increase for both small and medium-sized enterprises and large enterprises.

Chart 4 Enterprises credit demand by size of enterprise and purpose of use (net balance⁴)

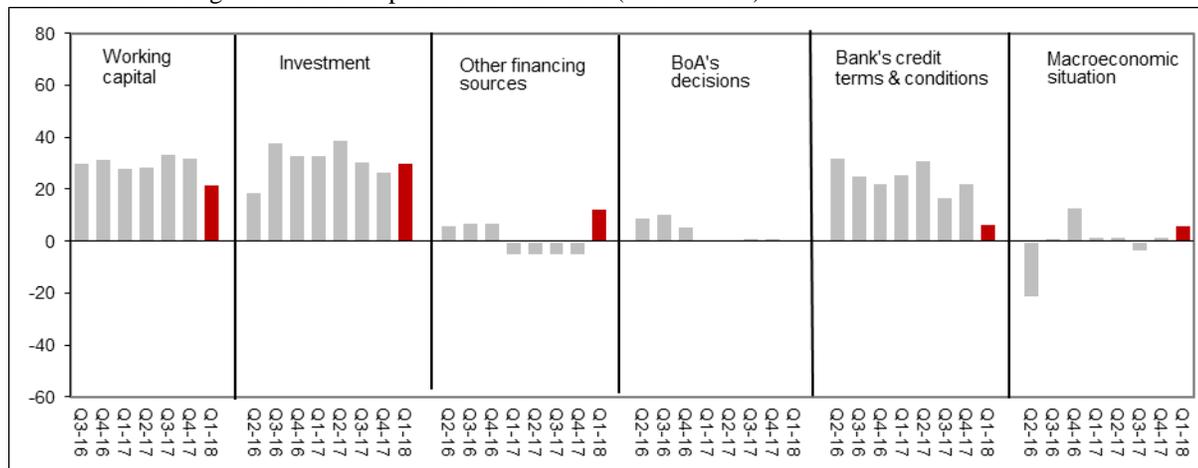


Source: Bank of Albania.

Note4. The positive balance indicates an increase in credit demand, while negative balance indicates a decrease.

Contributing factors to credit demand. Banks report that enterprises' credit demand was driven by almost all the factors, related to both the need to finance *investments* or *working capital*, and the use to a lesser extent of *alternative sources of financing*,³ *improved credit conditions* and the *perceived macroeconomic situation*.

Chart 5 Contributing factors to enterprises credit demand (net balance^e)



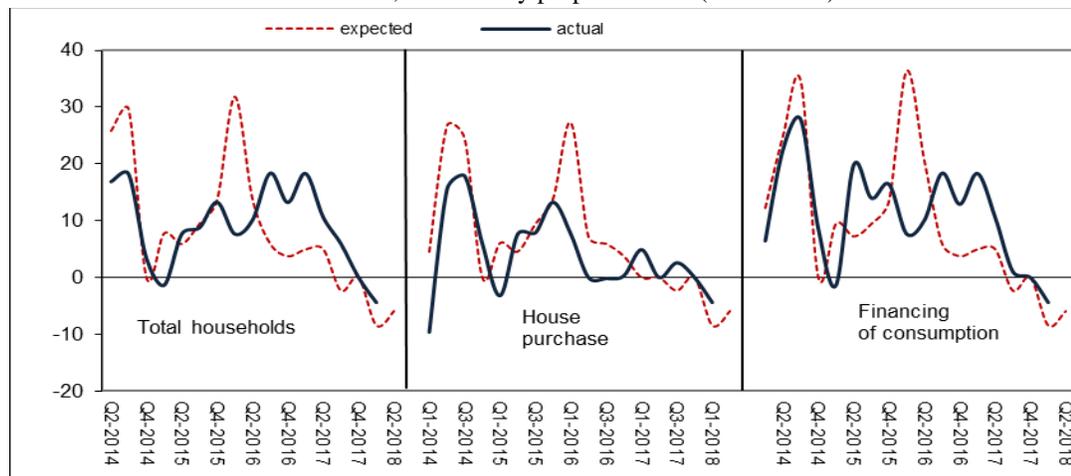
Source: Bank of Albania.

Note5. The positive balance indicates that the factor has contributed to the growth of demand. The negative balance indicates that the factor has contributed to the fall of demand.

Lending to households

Credit standards. In 2018 Q1, the standards of loans to households were reported as tightened for both *house purchase*, and *consumer*⁴ loans. Credit standards are expected to remain tightened in the second quarter, both for *house purchase* and *consumer* loans.

Chart 6 Households' credit standard, total and by purpose of use (net balance)



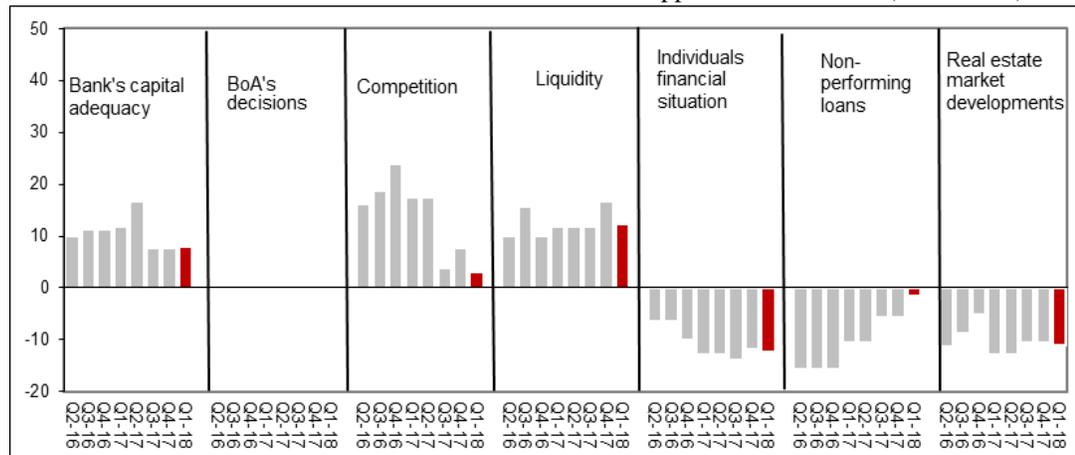
Source: Bank Lending Survey, Bank of Albania.

³ Alternative financial sources consist in: (i) customers own funds; (ii) borrowing from non-bank institutions; and (iii) borrowing from another bank

⁴ Credit standards were reported as tightened by only one bank, whereas the other banks of the survey reported unchanged standards for credit to households.

Factors contributing to the tightening of loans standards to households were the *financial situation* of households, situation in the *real estate market* and *non-performing loans*. On the other hand, the level of *liquidity*, *capital adequacy*, and *competition* in the banking sector contributed to the easing of credit standards in this quarter.

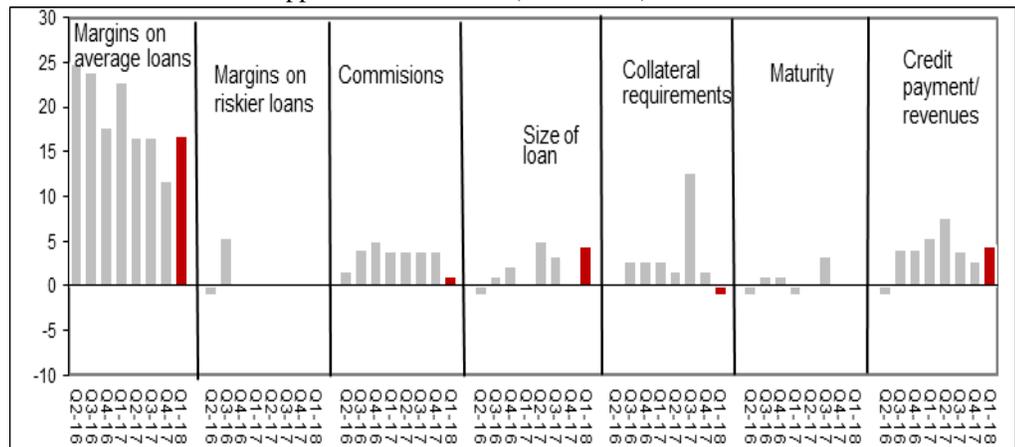
Chart 7 Contribution of different factors on credit standards applied to households (net balance)



Source: Bank Lending Survey, Bank of Albania.

Conditions on loan approval for households were eased through the narrowing of *the average margin* and, to a lesser extent, by the increase in the *debt-to-income ratio* and in the *credit size*. Only the increase in *collateral requirements* contributed to the tightening of conditions for loans to households.

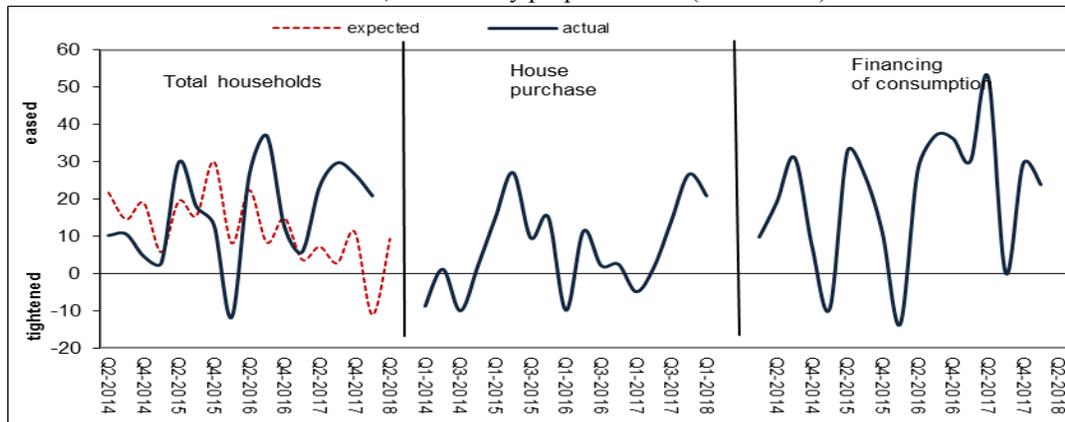
Chart 8 Credit standards applied to households (net balance)



Source: Bank Lending Survey, Bank of Albania.

Households' **credit demand** in 2018 Q1 is reported as higher, driven by both demand for *house purchase* and *consumer* loans. Credit demand is expected to be upward also in the next quarter.

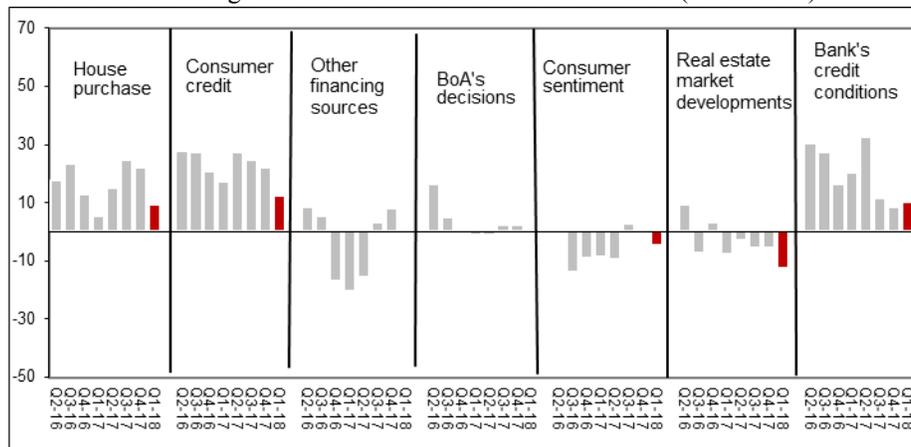
Chart 9 Households' credit demand, total and by purpose of use (net balance)



Source: Bank Lending Survey, Bank of Albania.

Contributing factors to credit demand. The increase in households' demand in 2018 Q1 was mainly driven by the increase in the need to *finance consumption* and *the house purchase*, as well as *the credit conditions*. Banks experts reported that developments in *real estate market* and the *worsening of consumer confidence* contributed negatively to the households' demand for credit.

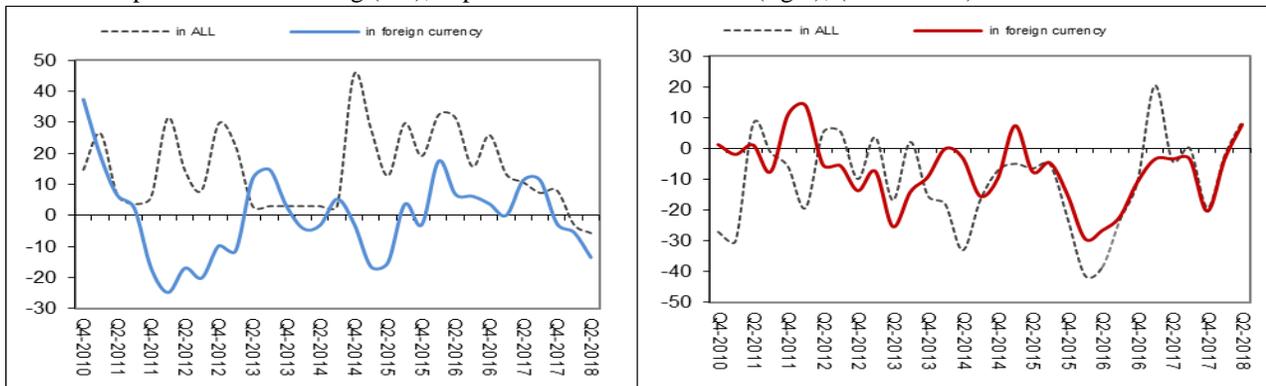
Chart 10 Contributing factors to households' demand for loans (net balance)



Source: Bank Lending Survey, Bank of Albania.

Expectations for trends in lending by currency. In 2018 Q2, banks expect lending activity to slow down in both the domestic currency and foreign currency loans. In the same quarter, banks expect interest rates in lek and in foreign currency loans to be higher.

Chart 11 Expectations for lending (left); expectations for interest rates (right); (net balance)⁶



Source: Bank Lending Survey, Bank of Albania.

Note6. The positive balance shows the increase in lending or the increase in the interest rate. The negative balance shows the decrease in lending or the decrease in the interest rate.

Annex 1. Lending to enterprises

The results are analysed by calculating the net balance as the difference between the weighted responses of banks reporting easing of/increase in standards/demand and those reporting tightening of/decrease in standards/demand. In aggregating the results, each bank's response is weighted based on the response and on the size of the bank. For example, banks providing the response that the standards "tightened considerably" have been assigned the double of the weight compared to the response "tightened slightly". The weight of size is built based on the share that each bank has in the credit market and are reviewed once a year. The net balances are scaled in order to acquire values within the interval of +/- 100".

| Enterprises | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 2018 Q1 |
|---|---------|---------|---------|---------|---------|---------|---------|
| Changes in bank lending standards | | | | | | | |
| -Current quarter | -13.4% | -12.1% | -11.9% | 1.2% | -4.4% | -0.2% | -7.6% |
| -Next quarter | -1.0% | -10.0% | -9.1% | 1.2% | 2.6% | -3.3% | -7.2% |
| Factors affecting credit standards | | | | | | | |
| -Bank's capital adequacy | -7.1% | -14.7% | -15.0% | -15.0% | -15.0% | -15.0% | -15.5% |
| -Bank of Albania's decisions | 9.6% | 7.0% | 1.4% | 1.4% | 1.4% | 1.4% | 0.0% |
| -Competition in the banking system | 16.9% | 16.9% | 21.7% | 21.7% | 13.3% | 13.3% | 5.1% |
| -Current or expected liquidity level | 4.3% | 7.0% | 2.2% | 2.2% | -0.5% | -0.5% | 1.9% |
| -Specific business sector-related concerns | -34.7% | -36.1% | -36.2% | -24.6% | -20.9% | -18.6% | -33.5% |
| -Current or expected macro-economic situation | -20.6% | -20.6% | -19.2% | -13.4% | -13.4% | -13.4% | -17.6% |
| Non-performing loans | -26.3% | -26.3% | -24.8% | -19.0% | -24.6% | -24.6% | -14.9% |
| Changes loan approval standards | | | | | | | |
| -Average margin | 9.0% | 6.2% | 5.3% | 5.3% | 3.9% | 3.9% | 4.0% |
| -Margin for risk-rated loans | 0.0% | 0.0% | 0.0% | 0.0% | -5.7% | -7.0% | -13.5% |
| -Commissions | 6.6% | 6.6% | 1.2% | 7.0% | 7.0% | 11.3% | -0.4% |
| -Loan amount | 1.3% | -1.4% | -1.4% | -1.4% | -20.2% | -13.1% | -1.4% |
| -Collateral requirement as a ratio of loan amount | -12.1% | -9.4% | -22.0% | -8.8% | -10.2% | -11.5% | -9.8% |
| -Maximum loan term to maturity | 1.0% | 1.0% | 0.0% | 0.0% | 0.0% | 0.0% | -1.4% |
| Changes in business credit demand | | | | | | | |
| -SMEs, previous quarter | -9.0% | 2.6% | 12.0% | 13.4% | 3.8% | 2.4% | 14.0% |
| -SMEs, next quarter | 28.4% | 22.3% | 3.9% | 7.0% | 17.0% | -5.5% | 6.4% |
| -large enterprises, previous quarter | 5.9% | 0.3% | 4.3% | -1.2% | 9.4% | -3.9% | 12.6% |
| -Large enterprises, next quarter | 31.4% | 8.2% | -9.1% | 14.1% | 17.0% | 0.2% | 5.0% |
| Factors affecting change in demand for loans | | | | | | | |
| -Need to finance inventories | 30.3% | 31.7% | 28.6% | 0.0% | 33.7% | 32.3% | 21.7% |
| -Need to finance fixed investments | 38.3% | 33.3% | 33.5% | 39.3% | 31.0% | 26.8% | 30.4% |
| -Use of alternative financial resources | 7.1% | 7.1% | -5.7% | -5.7% | -5.3% | -5.3% | 12.8% |
| -Bank of Albania's monetary policy decisions | 10.6% | 5.6% | 0.0% | 0.0% | 1.4% | 1.4% | -0.2% |
| -Lending standards applied by your bank | 25.3% | 22.6% | 25.7% | 31.5% | 17.0% | 22.7% | 6.7% |
| -Current or expected macro-economic situation | 1.4% | 13.2% | 1.8% | 1.8% | -4.0% | 1.7% | 6.2% |

Source: Bank Lending Survey, Bank of Albania.

Annex 2. Lending to households

The results are analysed by calculating the net balance as the difference between the weighted responses of banks reporting easing of/increase in standards/demand and those reporting tightening of/decrease in standards/demand. In aggregating the results, each bank's response is weighted based on the response and on the size of the bank. For example, banks providing the response that the standards "tightened considerably" have been assigned the double of the weight compared to the response "tightened slightly". The weight of size is built based on the share that each bank has in the credit market and are reviewed once a year. The net balances are scaled in order to acquire values within the interval of +/- 100".

| Households | 2016 Q3 | 2016 Q4 | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 2018 Q1 |
|---|---------|---------|---------|---------|---------|---------|---------|
| Changes in bank lending standards | | | | | | | |
| -Current quarter | 18.4% | 13.2% | 18.3% | 10.6% | 5.9% | 0.0% | -4.4% |
| -Next quarter | 3.8% | 4.9% | 5.0% | -2.3% | 0.0% | -8.4% | -5.9% |
| Factors affecting credit standards | | | | | | | |
| -Bank's capital adequacy | 11.3% | 11.3% | 11.7% | 16.6% | 7.8% | 7.8% | 8.0% |
| -Bank of Albania's decisions | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| -Competition in the banking system | 18.9% | 23.8% | 17.6% | 17.6% | 3.7% | 7.7% | 3.1% |
| -Current or expected liquidity level | 15.6% | 10.1% | 11.7% | 11.7% | 11.7% | 16.6% | 12.4% |
| -Households' financial situation | -6.3% | -10.1% | -12.9% | -12.9% | -14.0% | -11.7% | -12.4% |
| -Non-performing loans | -15.7% | -15.7% | -10.6% | -10.6% | -5.6% | -5.6% | -1.4% |
| -Developments in the real estate market | -8.9% | -5.1% | -12.9% | -12.9% | -10.6% | -10.6% | -11.2% |
| Changes in loan approval standards | | | | | | | |
| -Average margin | 24.0% | 17.9% | 22.8% | 16.6% | 16.6% | 11.7% | 16.9% |
| -Margin for risk-rated loans | 5.5% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| -Commissions | 4.0% | 5.0% | 3.9% | 3.9% | 3.9% | 3.9% | 1.2% |
| -Loan amount | 1.2% | 2.2% | 0.0% | 5.0% | 3.3% | 0.0% | 4.5% |
| -Collateral requirement as a ratio of loan amount | 2.8% | 2.8% | 2.8% | 1.7% | 12.8% | 1.7% | -1.2% |
| -Maximum loan term to maturity | 1.2% | 1.2% | -1.1% | 0.0% | 3.3% | 0.0% | 0.0% |
| -Instalment-to-income ratio | 4.0% | 4.0% | 5.5% | 7.7% | 3.9% | 2.8% | 4.5% |
| Changes in household credit demand | | | | | | | |
| -Mortgage loan | 2.2% | 2.5% | -4.9% | 0.0% | 14.2% | 26.6% | 20.9% |
| -Consumer loans | 37.0% | 36.3% | 30.2% | 52.7% | 0.2% | 29.5% | 23.9% |
| Factors affecting change in demand for loans | | | | | | | |
| -Households' needs to finance house purchase | 23.3% | 12.7% | 5.3% | 15.1% | 24.6% | 22.0% | 9.6% |
| -Households' needs to finance consumption | 27.4% | 20.7% | 17.4% | 27.3% | 24.6% | 22.0% | 12.7% |
| -Use of alternative financial resources | 5.4% | -16.8% | -20.2% | -15.4% | 3.4% | 8.3% | 0.4% |
| -Bank of Albania's monetary policy decisions | 4.9% | 0.0% | -1.1% | -1.1% | 2.3% | 2.3% | 0.0% |
| -Consumer confidence | -13.8% | -8.9% | -8.4% | -9.5% | 2.7% | 0.1% | -4.8% |
| -Developments in the real estate market | -7.2% | 3.2% | -7.8% | -2.9% | -5.5% | -5.5% | -12.7% |
| -Lending standards applied by your bank | 27.2% | 16.4% | 20.3% | 32.9% | 11.8% | 8.4% | 10.3% |

Source: Bank Lending Survey, Bank of Albania.