



BANK LENDING SURVEY

2024 Q1

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April 2024

MONETARY POLICY DEPARTMENT

General Notes

The Bank Lending Survey (BLS) questionnaire aims to collect commercial banks' opinions related to developments in the past three months of 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 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 reflecting the features of domestic credit market. The series of indicators are tested for seasonality and, where this effect emerges, the series are adjusted accordingly. For more detailed information on 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 purposes, please follow the link:

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

For the terminology used in this analysis please find the glossary at the end of this material.

OVERVIEW OF RESULTS

The framework of lending policies to enterprises in 2024 Q1 remained unchanged for commercial banks, reflecting unchanged standards, terms and conditions, for the fourth consecutive quarter. Banks remained prudent regarding their risk assessment on the macroeconomic situation of Albania, and its potential implications on the enterprises' balance sheets. However, they were not reluctant to fund a higher enterprises' loan demand compared to the previous quarter, driven by the perceived solvency from enterprises.

In line with the expectations of the previous quarter, enterprises' loan demand was higher. The net balance of loan demand from enterprises has remained positive since 2021 Q2. The demand increase for loans to enterprises in this quarter, similar to the previous quarter, was manifested in terms of both the size of enterprises and the loans' purpose of use. The high demand from enterprises to funding investments and the working capital was not discouraged either by the availability of high liquidity, nor by the perception and expectation on the macroeconomic situation in the country. *Interest rates continue to be reported as a factor that restrains the loans demand from enterprises, however the net balance of this indicator marked the lowest value of the entire year.*

Banks applied differentiated lending policies to household in 2024 Q1, almost in line with their expectations a quarter ago. In loans for financing consumption, the banks' lending policies were facilitating, expressed in eased credit standards and conditions compared to the previous quarter. Meanwhile, terms and conditions tightened for loans for house purchase, driven mainly by current and expected developments in the housing market, as well as by the interest rate environment. Given the higher interest rates, banks tightened the price elements, by applying higher margins¹, especially for loans to households for the purpose of house purchasing. However, the environment that determines the terms and conditions of lending remains competitive and banks have shown a higher tolerance towards risk-taking.

Households demand for loans continued to be high even in the first quarter of the year, in line with banks' expectations for this period. The increased demand for loans, for the fourth consecutive quarter, was manifested both in loans for house purchasing and those for financing consumption.

In 2024 Q2, banks expect to implement more accommodating credit policies to support the activity of small and medium-sized enterprises, both in expanding investments and covering short-term liquidity needs. Meanwhile, for large business, banks expect to follow a lending approach similar to that from the current quarter. In regard of lending to households, banks expect to be somewhat more conservative in the second quarter, tightening lending standards, both in loans for house purchase and in those for financing consumption. On the other hand, loan demand from enterprises is expected to be higher for each size segment and purpose of use. Loan demand by households are also expected to be rising, for both meeting consumption needs and financing house purchases.

¹ Margins on reference rates according to the loan use purpose

CREDIT SUPPLY CONDITIONS AND DEMAND FOR LOANS

1. LOANS TO ENTERPRISES

1.1. Credit standards

Credit standards for loans to enterprises remained unchanged in 2024 Q1. Unchanged credit standards were applied on loans for financing investments as well as on loans for meeting liquidity needs. Credit standards eased slightly only on loans to small and medium-sized enterprises, and they remained unchanged for loans to large enterprises.

Chart 1 Credit standards for loans to enterprises and expectation for the next quarter¹



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

The costs of funds and lower balance sheets constraints had an easing impact on terms and conditions for loans to enterprises. The perceived risk from borrowers' creditworthiness as well as from demanded collateral had a tightening impact on credit standards. Banks displayed lower tolerance towards risk.

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



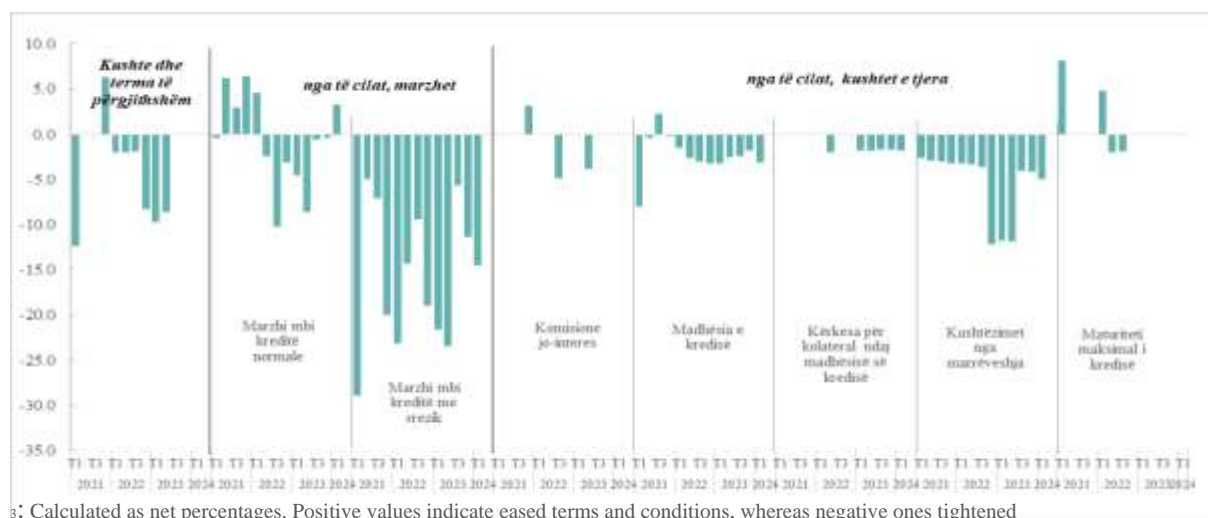
²: Calculated as net percentages. Positive values indicate that the factor contributed to the easing of credit standards, whereas negative ones to the tightening of credit standards. Source: The Bank of Albania.

In the first quarter 2024, the lending standards are expected to ease somewhat for small and medium-sized enterprises, as well as on loans granted for funding investment and covering liquidity needs. Meanwhile they are expected to remain unchanged for large enterprises (*Chart 1*).

1.2. Terms and conditions

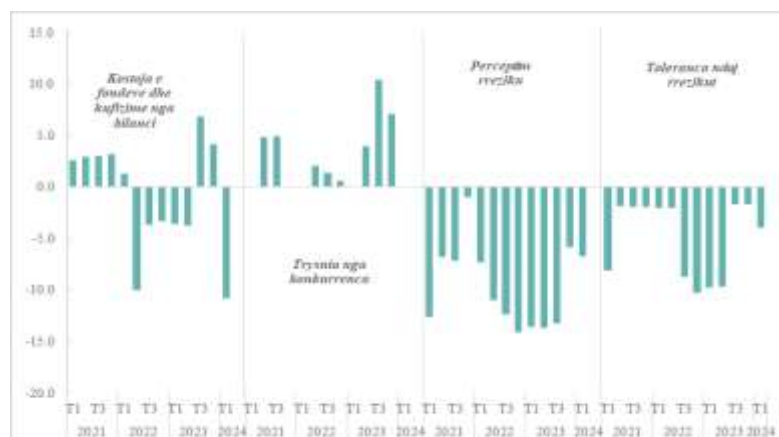
Overall terms and conditions on new loans to enterprises remained mainly unchanged in the first quarter. However, banks reported higher margins, mainly on riskier loans as well as increased the number of terms and conditions in the loan agreements signed with enterprises. Margins on normal loans were reported to be down for all business size categories. The other non-price components were reported with minimal changes.

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



Factors affecting credit terms and conditions, such as costs and balance sheet constraints, banks' risk perception, as well as banks' risk tolerance, were reported in the tightening direction. Meanwhile, pressure from competition was reported as the factor contributing on the neutral side of terms and conditions on loans to enterprises.

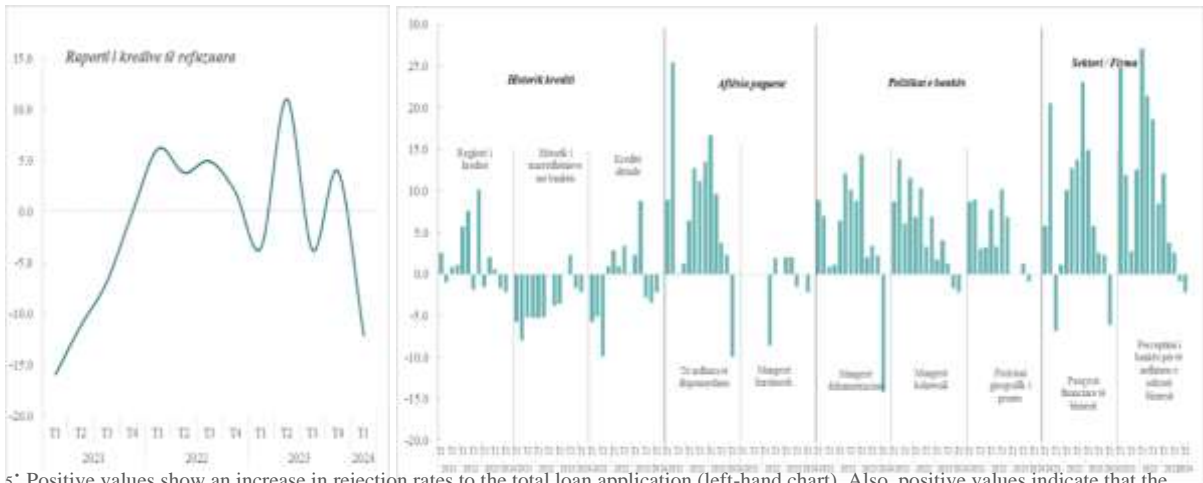
Chart 4 Factors contributing to changes of terms and conditions for loans to enterprises⁴



1.3. Loan approval rate

Banks reported higher loan approval rate for enterprises in the first quarter. The lower rate of business loan rejections in this quarter was supported by almost all the factors that determine it. Thus, the indicators related to the borrower's solvency, the banks' policy framework, the banks' perception on the sector where enterprises operate, as well as the credit history, influenced the downward trend in the rate of rejection of loans to enterprises.

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

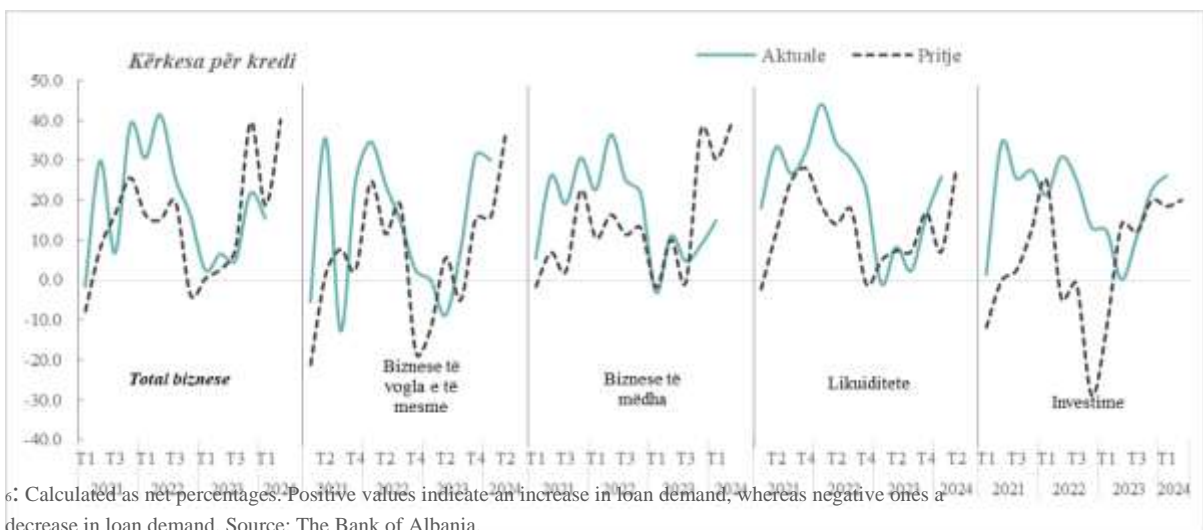


⁵: Positive values show an increase in rejection rates to the total loan application (left-hand chart). Also, positive values indicate that the factor has contributed to an increase of rejection rate (right-hand chart), while the negative ones to their reduction. Source: Bank of Albania.

1.4. Demand for loans

Loan demand from enterprises was reported upward in 2024 Q1. The high loan demand was reported in both terms of enterprise size as well as in terms of the purpose of use.

Chart 6 Changes in current loan demand of enterprises and expectation over the next three months⁶

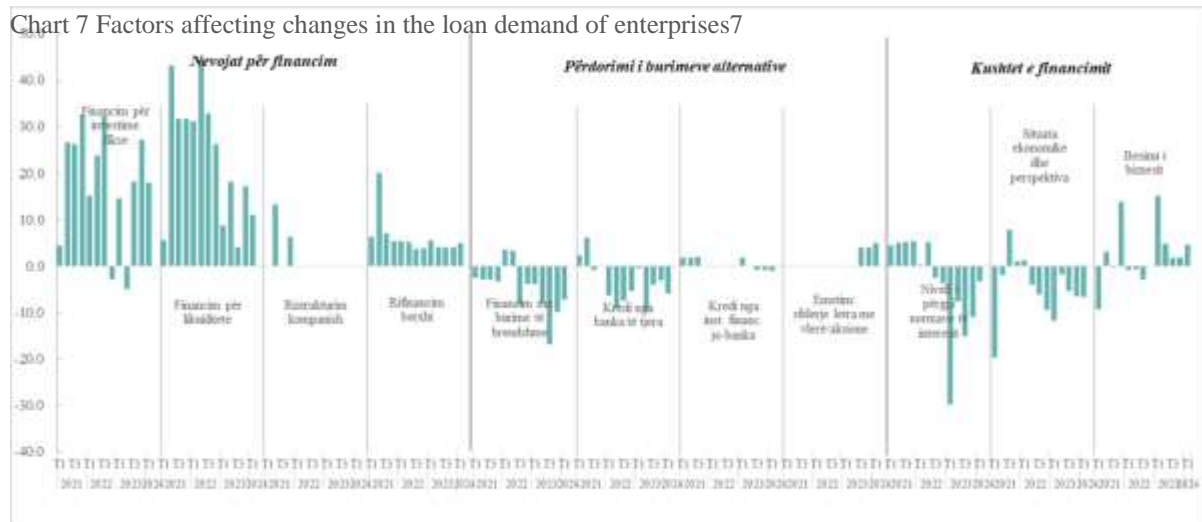


⁶: Calculated as net percentages. Positive values indicate an increase in loan demand, whereas negative ones a decrease in loan demand. Source: The Bank of Albania.

The higher financing needs for investments, inventories and working capital, as well as for the refinancing of existing debts; contributed to the higher loan demand. Likewise, the improved business confidence was reported as a factor contributing to the expanded loan demand. On the other hand,

domestic economic situation and its prospect were reported as factors driving downwards the loan demand from enterprises in the first quarter.

Chart 7 Factors affecting changes in the loan demand of enterprises⁷



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: The Bank of Albania.

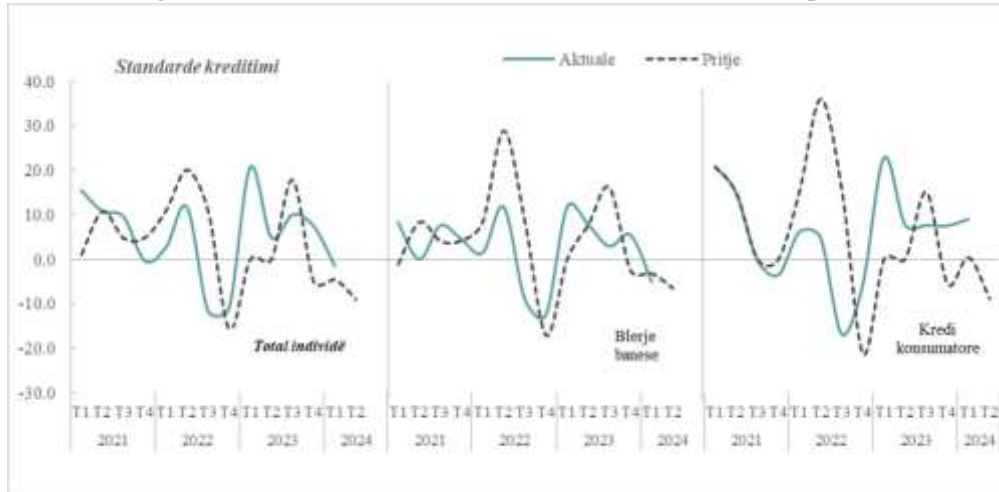
In the second quarter of the year, banks anticipate higher loan demand from enterprises both for financing investments and for meeting liquidity needs. In terms of enterprise size, loan demand is expected to be high for both small-and-medium-sized enterprises as well as large enterprises (*Chart 6*).

2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households were somehow tightened in 2024 Q1. The tightening of credit standards was applied only to loans for house purchase, influenced by a single bank of the system. On the other hand, credit standards were eased for consumer loans.

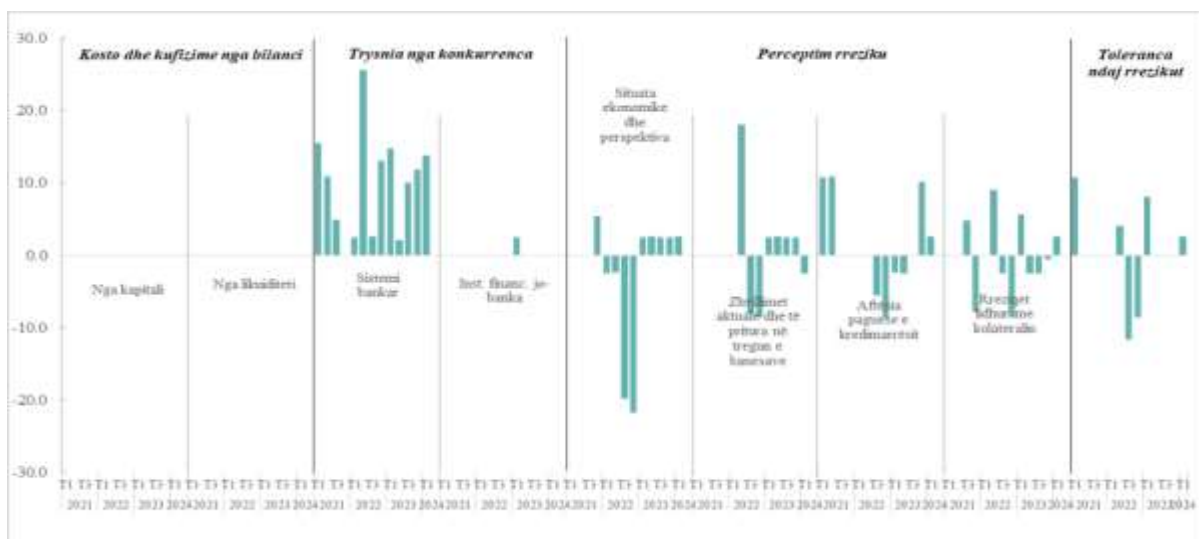
Chart 8 Change in credit standards for loans to households and anticipation for the next three months⁸



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

The tightening of standards was based on the banks' perception of current and expected developments in the housing market and the interest rate environment. On the other hand, the increased pressure from competition in the banking system and the banks' perception for lower risk related to borrowers' solvency continue to be supporting factors for the easing of credit standards on loans to households.

Chart 9 Factors contributing to changes of credit standards on loans to households⁸



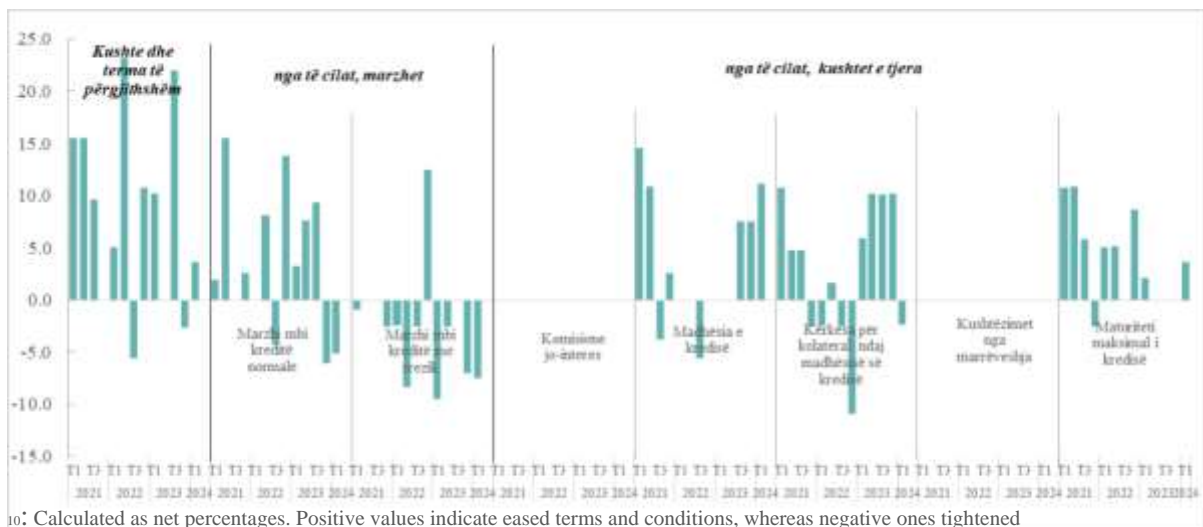
⁹: Calculated as net percentages. Positive values indicate that the factor contributed to the easing of credit standards, whereas negative ones to the tightening of credit standards. Source: The Bank of Albania.

Credit standards for loans to households are expected to tighten in 2024 Q2, on loans for house purchase as well as on consumer credit.

2.2. Terms and conditions

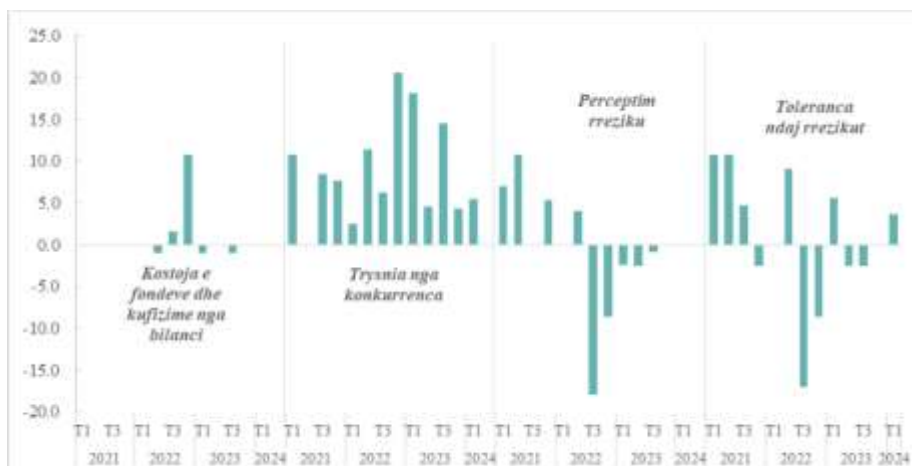
Overall terms and conditions on loans to households were eased somehow only for consumer loans in the first quarter. The easing of credit terms and conditions was achieved due to the increase in the size of the loan and the extension of the loan maturity only in loans for the purpose of funding consumption. On the contrary, higher margins set by banks and higher collateral requirements on loan for house purchase had a tightening effect on credit terms and conditions for loans to households.

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



The increase in competition in the banking system and the higher tolerance of banks against risk were reported as factors that influenced the easing of credit terms and conditions for loans to households.

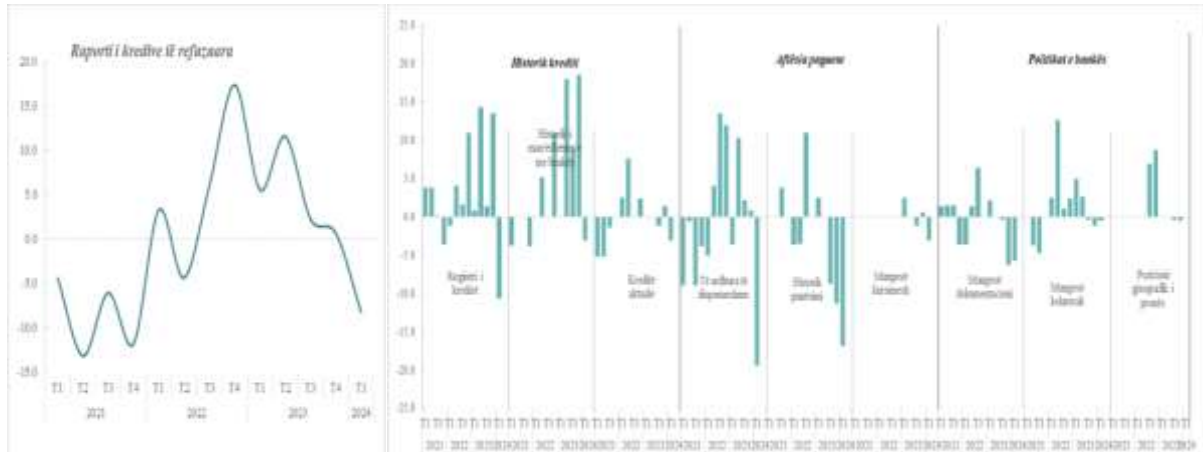
Chart 11 Factors contributing to changes of terms and conditions for loans to households¹⁰



2.3. Loan approval rate

In 2024 Q1, banks reported an increase of the loan approval rate for households. The lower ratio of rejected loans in this quarter was mainly fuelled by all the indicators related to the borrower's solvency, the banks' policy framework, as well as track record from credit registry.

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

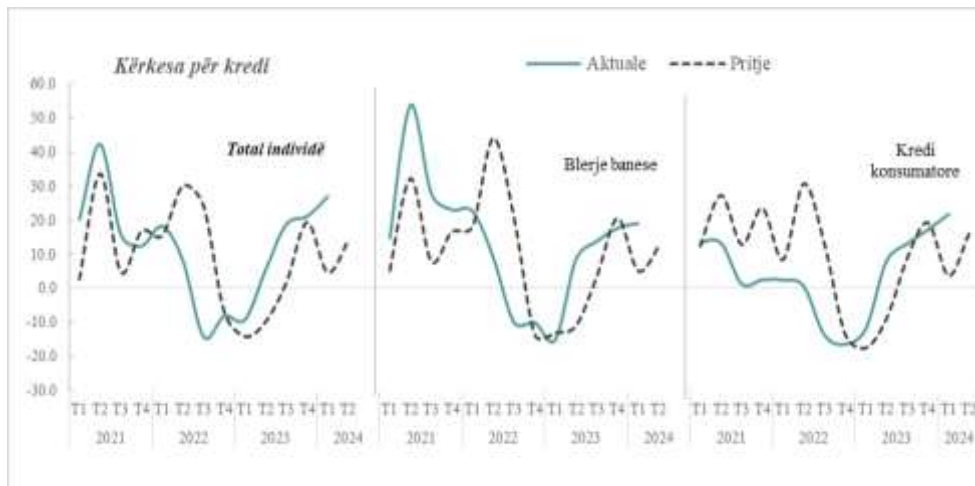


¹²: Positive values show an increase in rejection rates to the total loan application (left-hand chart). Also, positive values indicate that the factor has contributed to an increase of rejection rate (right-hand chart), while the negative ones to their reduction. Source: The Bank of Albania.

2.4. Demand for loans

Loan demand from households was perceived higher in 2024 Q1, for both house purchase loans and consumer loans.

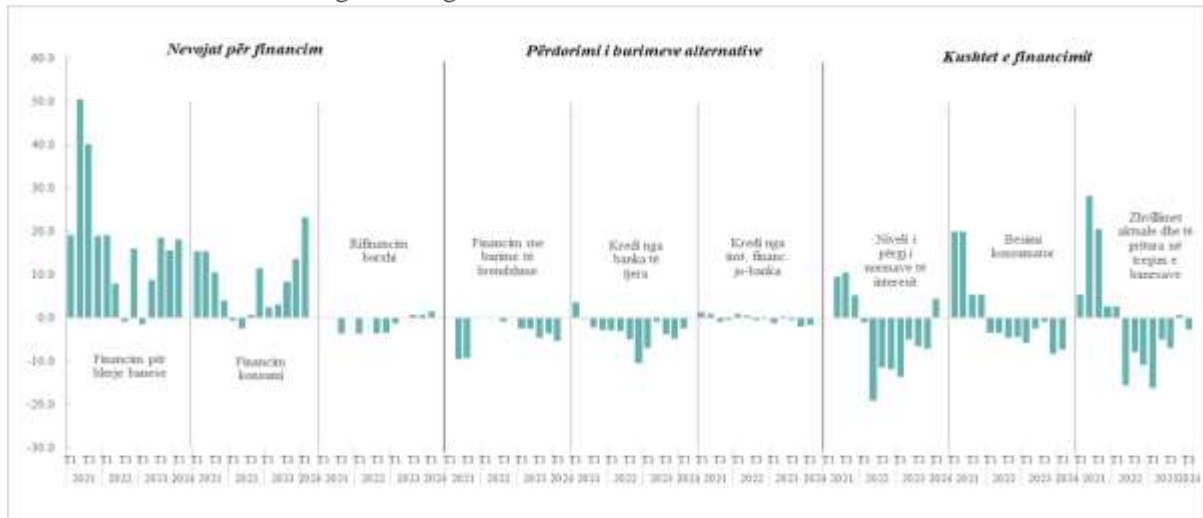
Chart 13 Changes in current loan demand of households and expectations over the next three months¹³



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

On banks' view, the higher loan demand from households in this quarter was mainly attributed to the increased needs for loans to finance both house purchase and consumption. Likewise, the general level of interest rates in consumer loans was reported as a driving factor for the loan demand from households. On the contrary, the use of alternative financing sources, consumer confidence and current and expected developments in the housing market were reported as factors with negative impact on the loan demand.

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



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: The Bank of Albania.

In 2024 Q2, banks expect the loan demand to continue to be high, both in regard of financing consumption and house purchase loans ([Chart 13](#)).

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 association 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 is 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 Regulation No. 69 of the Bank of Albania, dated 18.12.2014, for the approval of Regulation "On the regulatory capital of the Bank of Albania," this terms refers to the regulatory capital²

required for covering credit risk, market risk and operational risk.

2 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.

Credit demands. 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 credit 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 the 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 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 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.

³ For the purpose of this Survey, the term used for credit is equivalent to the term used for loan.

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-sized 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 nonbanks”.

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 individuals’ 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.