

Bank of Albania
Monetary Policy Department



Bank Lending Survey Results for 2017 Q4

January 2018¹

Bank lending survey results in 2017 Q4 show credit standards, overall, remained unchanged, on loans to both enterprises and households. By enterprise size, credit standards on loans to *small and medium-sized enterprises* and those to *large enterprises* did not show significant changes compared with the previous quarter. Credit standards on *consumer and house purchase loans* to households remained unchanged.

Competition in the banking market is the main factor contributing to the easing of bank credit standards on loans to enterprises. *Non-performing loans, the perceived macro-economic situation and sector-related specific problems* were the main factors contributing to the tightening of bank credit standards. *Capital adequacy, liquidity level and competition in the banking system* contributed to the easing of standards on loans to households. *Financial situation of households, developments in the real estate market and non-performing loans* contributed to the tightening of bank credit standards to households.

The reduction of *commissions* and the *average margin* were implemented to ease credit standards on loans to enterprises, while they were tightened mainly through the *reduction of credit size, increase of collateral requirements* and of the *margin on riskier loans*. Banks reported that credit standards on loans to households were eased mainly through *the narrowing of the average margin on loans, increase of the required debt-to-income ratio* and the *decrease of commissions*.

Credit demand, in 2017 Q4, was increased for *small and medium-sized enterprises* and decreased for *large enterprises*. Credit demand of households was reported as upward for both *consumer and mortgage loans*.

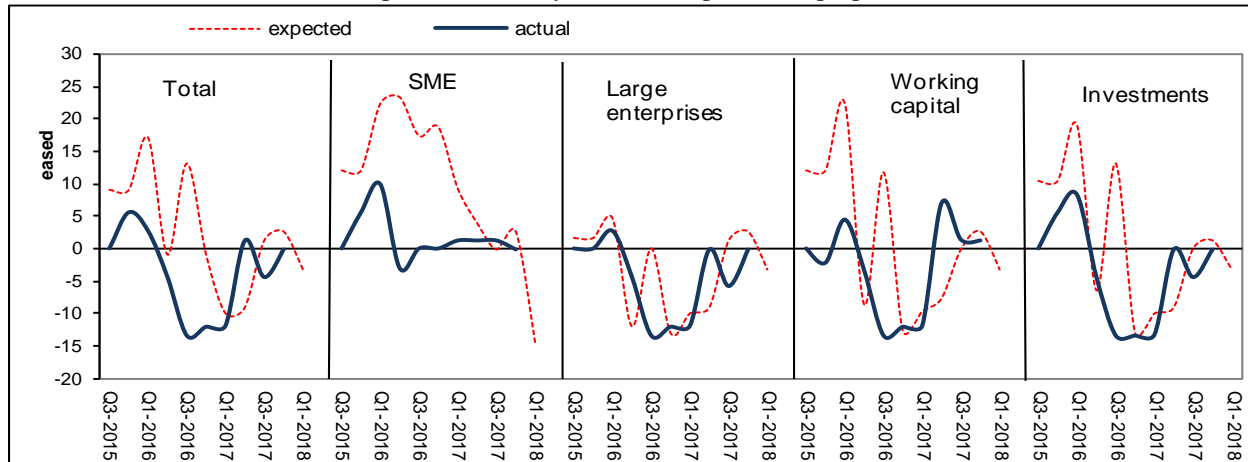
Banks expect credit standards to tighten for loans to both enterprises and households in 2018 Q1. Credit demand is expected to remain unchanged for enterprises, and slightly decrease for households.

¹The survey conducted at the end of December 2017 covers the developments in bank lending during 2017 Q4 and banks' expectations for lending in 2018 Q1.

Lending to enterprises

Credit standards on loans to enterprises in 2017 Q4 remained unchanged from 2017 Q3. Credit standards remained unchanged for both small and medium-sized and large enterprises. Banks expect credit standards on loans to *small and medium-sized enterprises* as well as for *large enterprises* to tighten in 2018 Q1. By purpose of use, credit standards for *working capital* and *investments* remained at similar levels to the previous quarter. Credit standards on loans to both categories are expected to tighten in 2018 Q1.

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

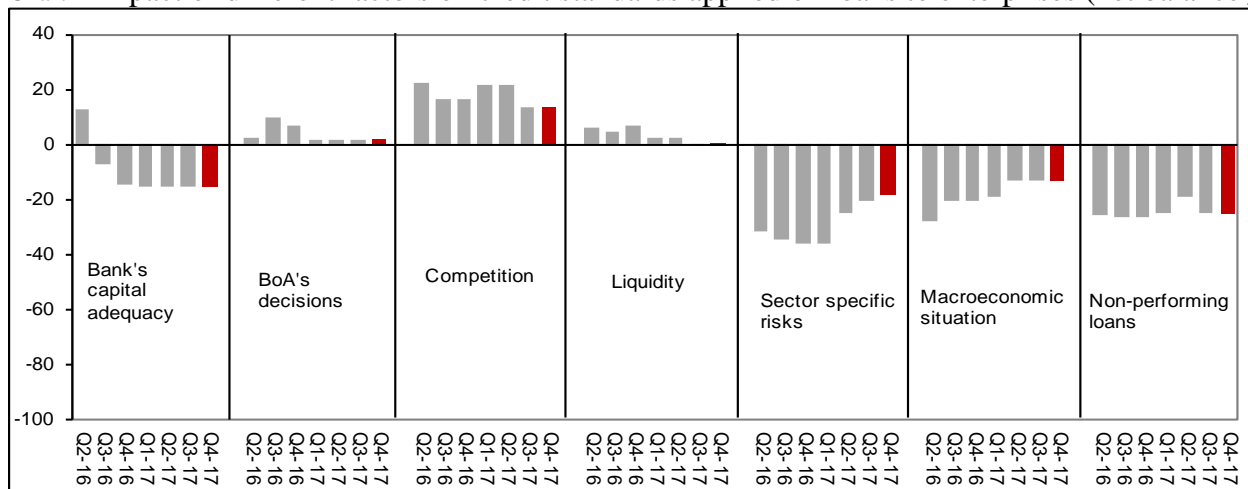


Source: Bank of Albania.

Note 1. 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.

The factors contributing to the tightening of credit standards to enterprises in 2017 Q4 were *sector-related specific problems, non-performing loans, perception of banks about macro-economic situation, and the capital adequacy*² (see Chart 2). *Competition in the banking market* provided contributed positively to the easing of credit standards on loans to enterprises in 2017 Q4.

Chart 2 Impact of different factors on credit standards applied on loans to enterprises (*net balance*³)

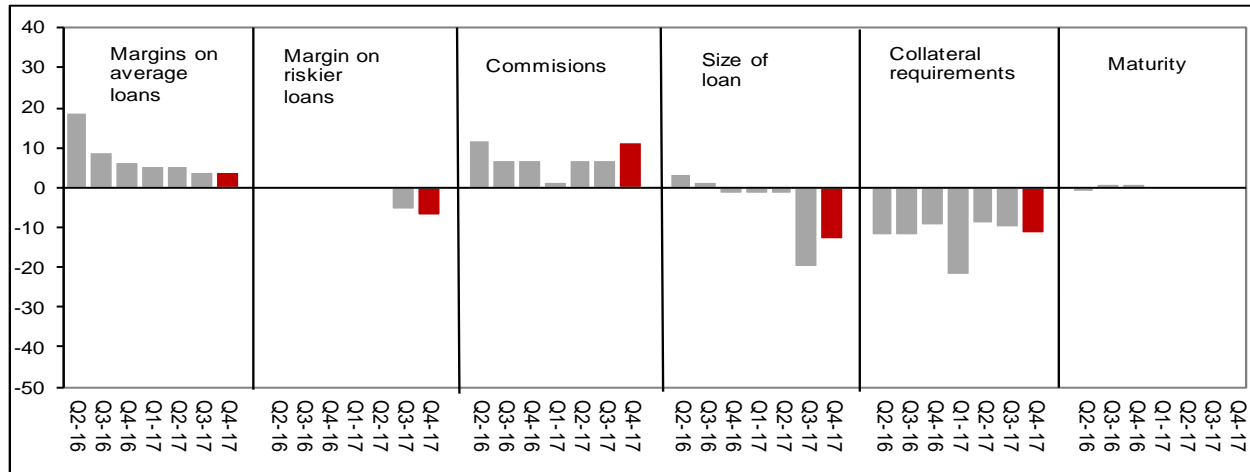


² Only one participant bank in the survey reported this factor to have provided a tightening effect.

Source: Bank of Albania. Note 2. 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

The credit standards were tightened through the increase in *collateral requirement*, reduction of *credit size*, and the *higher margins on riskier loans*. On the other hand, the credit standards on loans to enterprises, in 2017 Q4, were eased through the reduction in *commissions* and in the *average margin*.

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

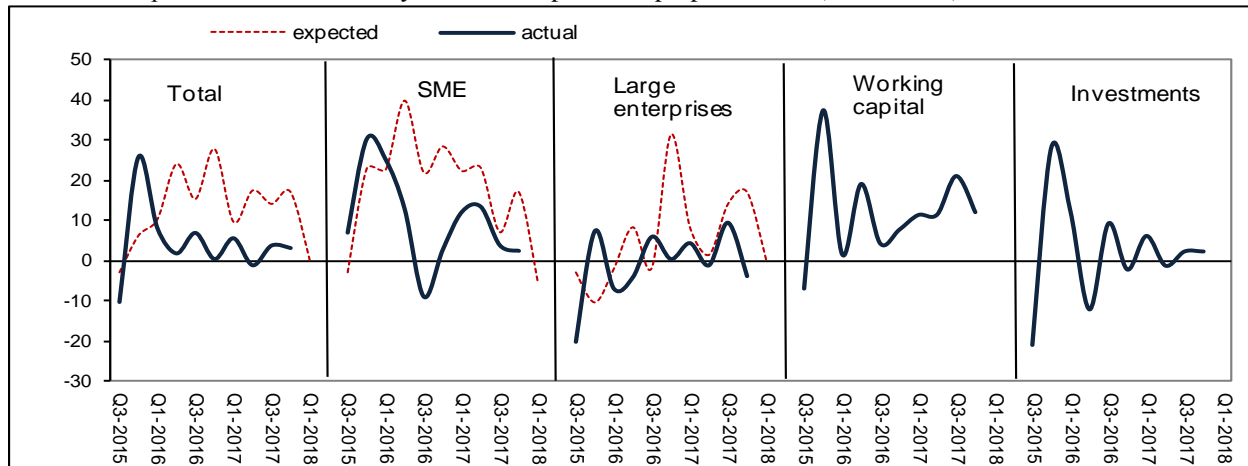


Source: Bank of Albania.

Note 3. The positive balance indicates the easing of credit standards, whereas the negative balance indicates their tightening.

Demand for credit was slightly up in 2017 Q4, supported by *small and medium-sized enterprises*, while it was down for *large enterprises*. By purpose of use, enterprises showed higher credit demand for *working capital*, and for *investments* in 2017 Q4 (see Chart 4). Banks expect the demand for credit to remain unchanged in 2018 Q1.

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

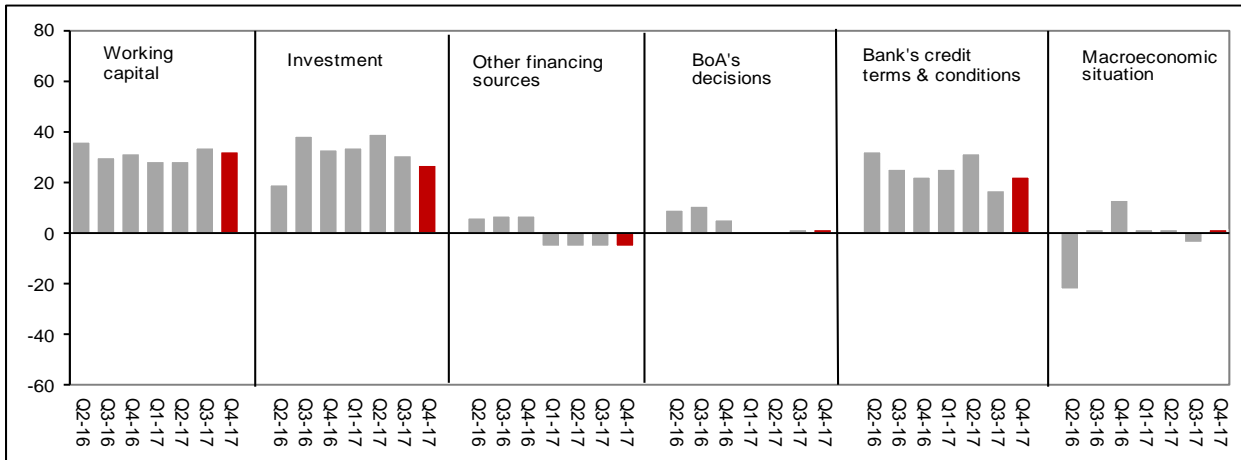


Source: Bank of Albania.

Note 4. The positive balance indicates an increase in credit demand, while negative balance indicates a decrease.

Contributing factors to credit demand. Banks reported that enterprises' credit demand was driven by the need to finance both *working capital* and *investments*, as well as by the credit conditions. The other factors remained unchanged from the previous quarter, thus not affecting the credit demand.

Chart 5 Contributing factors to enterprises' demand for loans (*net balance*)



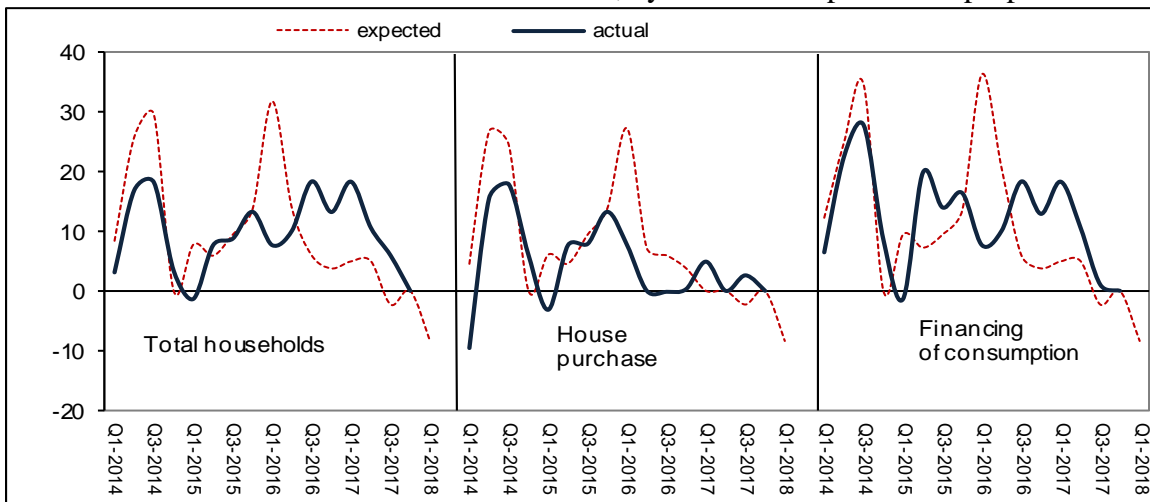
Source: Bank of Albania.

Note 5. Note: 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 on loans to households remained unchanged in 2017 Q4, according to the survey's results. Standards remained unchanged on *house purchase* and on *consumer loans*. Banks expect credit standards on loans to households to tighten for both segments in 2018 Q1.

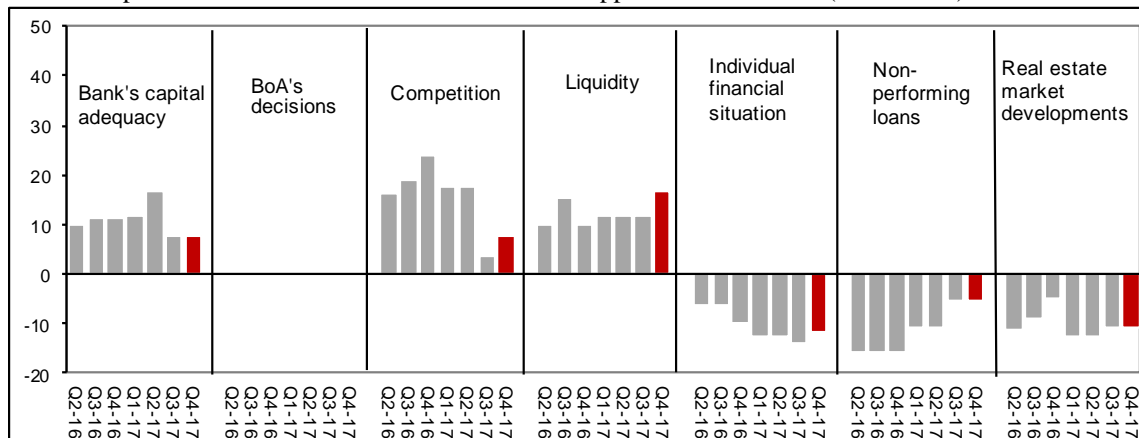
Chart 6 Standards on loans to households in total, by size of enterprises and purpose of use (*net balance*)



Source: Bank Lending Survey, Bank of Albania.

Factors contributing to the easing of credit standards to households were the level of *liquidity*, *capital adequacy* of banks and the increase of *competition in the banking sector*. The *financial situation* of households, the situation in *real estate market* and *non-performing loans* contributed to the tightening of lending standards in 2017 Q4.

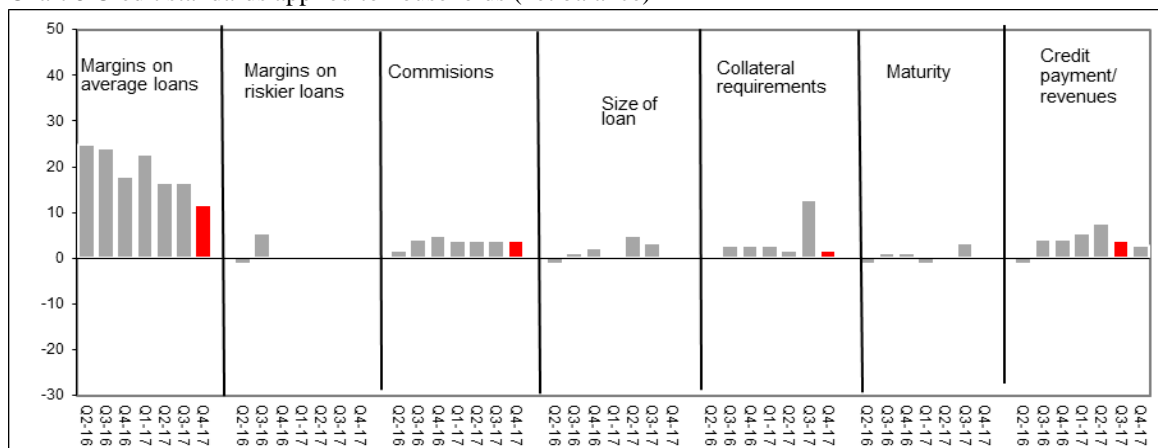
Chart 7 Impact of different factors on credit standards applied to households (net balance)



Source: Bank Lending Survey, Bank of Albania.

Conditions on loan approvals. The easing policy of credit standards on loans to households was mainly implemented through the narrowing of the *average margin* and the *decrease of commissions*. Also, other conditions, such as the *increase in debt-to-income ratio* and the decrease of *collateral requirements*, contributed to the easing of standards, albeit at a lesser extent.

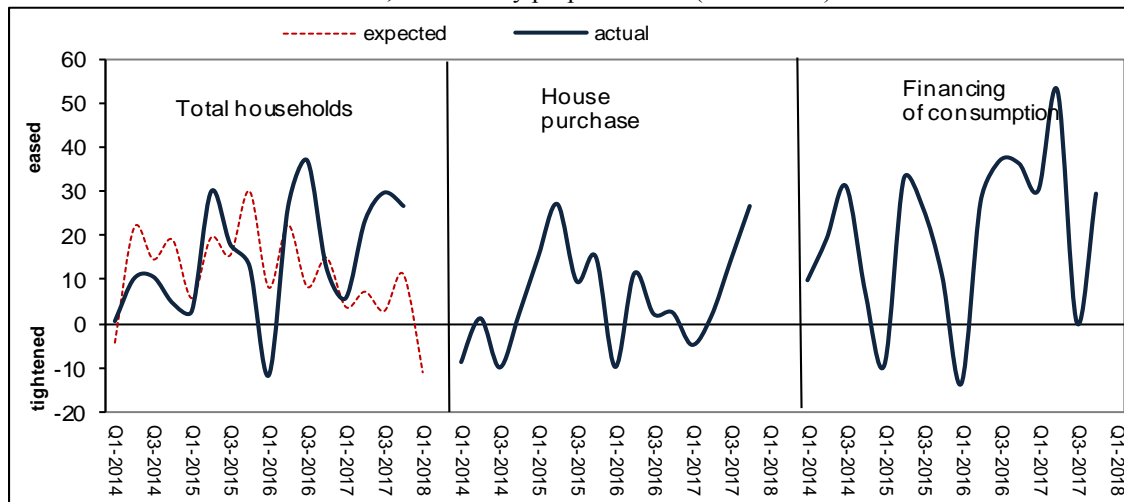
Chart 8 Credit standards applied to households (net balance)



Source: Bank Lending Survey, Bank of Albania.

Demand for credit. Banks reported that the households' credit demand increased in 2017 Q4, in line with the banks' expectations in the previous quarter. The expansion in the credit demand from households is mainly driven by the demand for *mortgage* and *consumer loans*. Credit experts expect total households' demand for credit to be down in the next quarter.

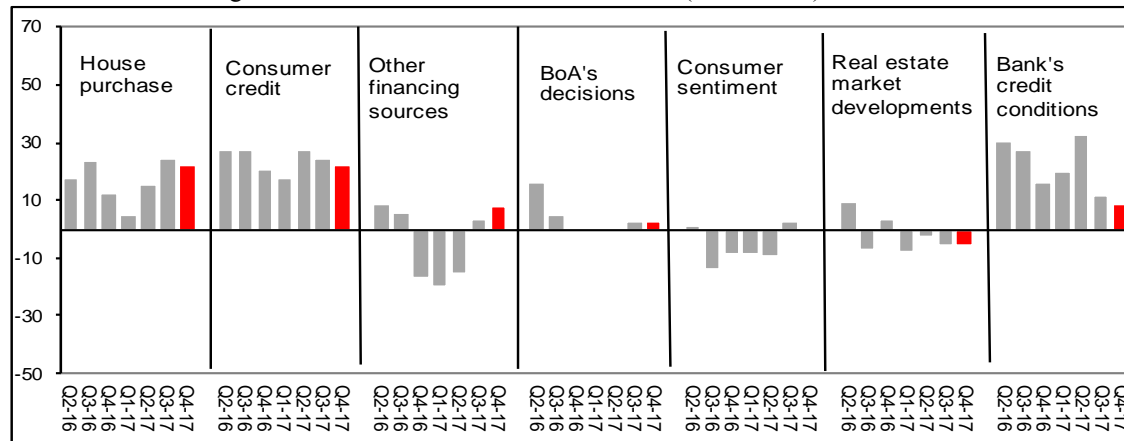
Chart 9 Households' credit demand, total and by purpose of use (net balance)



Source: Bank Lending Survey, Bank of Albania.

Contributing factors to credit demand. The increase in households' demand was mainly driven by the increase in the need to *finance consumption* and the *house purchase*, the *credit conditions*, as well as the *reduction of alternative sources*, in 2017 Q4³. Banks' experts reported that developments in the *real estate market* affected negatively the households' demand for credit.

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

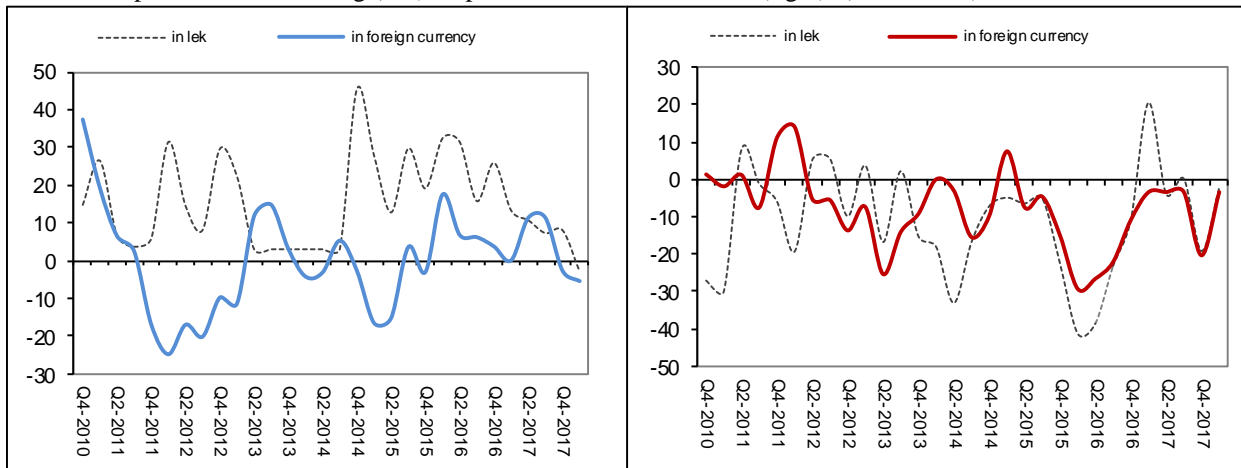


Source: Bank Lending Survey, Bank of Albania.

Expectations for lending activity by currency. Banks expect a slowdown of lending in both the domestic currency and foreign currency in 2018 Q1. Banks expect interest rates in lek and in foreign currency to remain, overall, unchanged in the next quarter.

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

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



Source: Bank Lending Survey, Bank of Albania.

Note 6. 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
Changes in bank lending standards						
-Current quarter	-13.4%	-12.1%	-11.9%	1.2%	-4.4%	-0.2%
-Next quarter	-1.0%	-10.0%	-9.1%	1.2%	2.6%	-3.3%
Factors affecting credit standards						
-Bank's capital adequacy	-7.1%	-14.7%	-15.0%	-15.0%	-15.0%	-15.0%
-Bank of Albania's decisions	9.6%	7.0%	1.4%	1.4%	1.4%	1.4%
-Competition in the banking system	16.9%	16.9%	21.7%	21.7%	13.3%	13.3%
-Current or expected liquidity level	4.3%	7.0%	2.2%	2.2%	-0.5%	-0.5%
-Specific business sector-related concerns	-34.7%	-36.1%	-36.2%	-24.6%	-20.9%	-18.6%
-Current or expected macro-economic situation	-20.6%	-20.6%	-19.2%	-13.4%	-13.4%	-13.4%
-Non-performing loans	-26.3%	-26.3%	-24.8%	-19.0%	-24.6%	-24.6%
Changes loan approval standards						
-Average margin	9.0%	6.2%	5.3%	5.3%	3.9%	3.9%
-Margin for risk-rated loans	0.0%	0.0%	0.0%	0.0%	-5.7%	-7.0%
-Commissions	6.6%	6.6%	1.2%	7.0%	7.0%	11.3%
-Loan amount	1.3%	-1.4%	-1.4%	-1.4%	-20.2%	-13.1%
-Collateral requirement as a ratio of loan amount	-12.1%	-9.4%	-22.0%	-8.8%	-10.2%	-11.5%
-Maximum loan term to maturity	1.0%	1.0%	0.0%	0.0%	0.0%	0.0%
Changes in business credit demand						
-SMEs, previous quarter	-9.0%	2.6%	12.0%	13.4%	3.8%	2.4%
-SMEs, next quarter	28.4%	22.3%	3.9%	7.0%	17.0%	-14.6%
-large enterprises, previous quarter	5.9%	0.3%	4.3%	-1.2%	9.4%	-3.9%
-Large enterprises, next quarter	31.4%	8.2%	-9.1%	14.1%	17.0%	-3.3%
Factors affecting change in demand for loans						
-Need to finance inventories	30.3%	31.7%	28.6%	0.0%	33.7%	32.3%
-Need to finance fixed investments	38.3%	33.3%	33.5%	39.3%	31.0%	26.8%
-Use of alternative financial resources	7.1%	7.1%	-5.7%	-5.7%	-5.3%	-5.3%
-Bank of Albania's monetary policy decisions	10.6%	5.6%	0.0%	0.0%	1.4%	1.4%
-Lending standards applied by your bank	25.3%	22.6%	25.7%	31.5%	17.0%	22.7%
-Current or expected macro-economic situation	1.4%	13.2%	1.8%	1.8%	-4.0%	1.7%

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

Source: Bank Lending Survey, Bank of Albania.