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BANK LENDING SURVEY

2024 Q4

January 2025

MONETARY POLICY DEPARTMENT

General Notes

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, - illustrated by credit standards, terms and conditions and approved loans -, and on the changes for loan demand from both enterprises and households. This analysis is based on the aggregate responds from all banks in the banking systems.

BLS questionnaire in principle follows the ECB's framework, but it is modified allowing for some changes that reflect the specifications and features of Albanian credit market. The time series of BLS indicators are tested for seasonality, following the relevant statistical methods. The time series displaying seasonality are adjusted for this effect and have replaced the existing series accordingly. For more detailed information on 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, please follow the link:

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

The terminology used in this analysis is detailed in the glossary at the end of the material.

OVERVIEW OF RESULTS

In 2024 Q4, lending policies of banks for enterprises remained unchanged, as reflected in virtually flat credit standards, terms and conditions with the previous quarter. Lower costs of funds and balance sheet constraints were reported as factors backing banks' decisions in reducing the margins on loans to enterprises. In the same vein, the more favourable external environment regarding interest rates has positively supported banks' decisions in lending to enterprises. Alongside, banks' positive perception on specific sectors in which businesses operate has urged banks to finance a higher number of loan demands in the last quarter of the year. However, banks continue to appear prudent in assessing credit risk and in turn displaying lower risk tolerance.

Banks reported a higher enterprises' demand for loans, in line with expectations of the previous quarter. Loan demand was reported as high across all sizes of enterprises, both for investments financing and for meeting short-term liquidity needs. On commercial banks' view, macroeconomic situation, and its outlook, the overall interest rates coupled with the further improved enterprises' confidence indicator fuelled the elevated loan demand in the last quarter of year. The only factor curbing the loan demand from enterprises, though at lower net balance than in the previous quarters, remains the use of internal financing sources.

Banks eased slightly credit terms and conditions on consumer loans, while only one bank tightened terms and conditions on loans granted to households in 2024 Q4. The competitive environment in which banks operate remains the key element backing the easing of banks' lending policies in this segment. Additionally, banks' assessments of borrowers' creditworthiness enabled them to approve a higher number of loan demands as a ratio to total loan applications in the fourth quarter of 2024. Banks reported a high loan demand from households in the fourth quarter, both for consumer financing and for house purchases.

In 2025 Q1, banks expect to slightly ease lending policy framework for the segment of small and medium-sized enterprises, as well as on loans granted for investment financing. In the first quarter 2025, banks expect to adopt a more improved approach towards lending to households in the first quarter of 2025, for both housing purchase loans and consumer loans. On the other hand, loan demand from both enterprises and households, is expected to remain high, in terms of almost all loans' purpose of use. Banks anticipate a higher loan demand across all segments of enterprises' size mainly for financing investments. In addition, an increasing households' loan demand is expected, for both meeting consumption needs and financing house purchases.

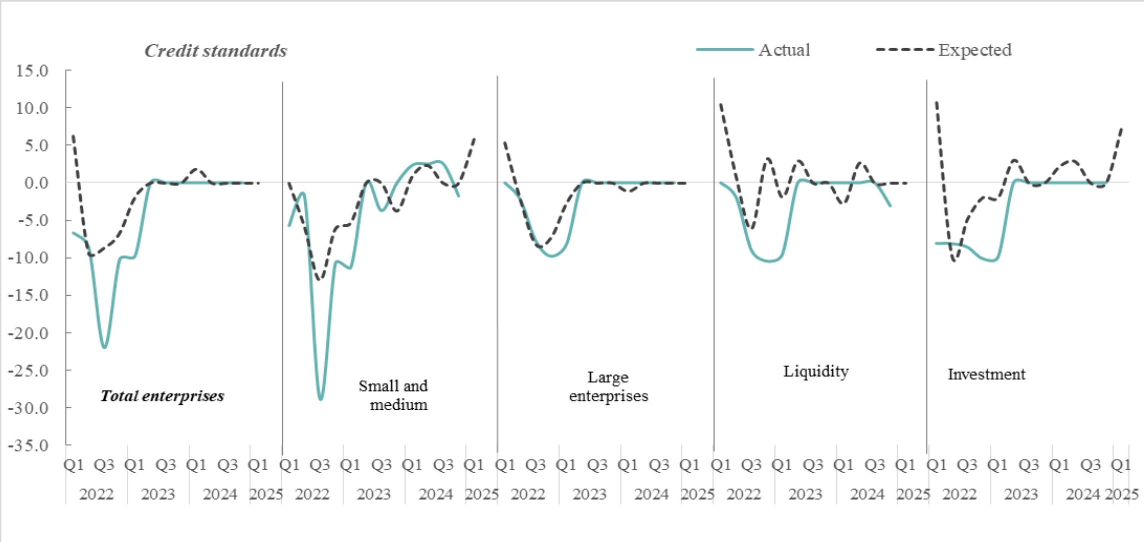
CREDIT SUPPLY CONDITIONS AND DEMAND FOR LOANS

1. LOANS TO ENTERPRISES

1.1. Credit standards

Credit standards for loans to enterprises remained unchanged in 2024 Q4. Unchanged credit standards were reported for both segments: SMEs and large enterprises. In addition, relatively unchanged credit standards were reported both on investment loans, as well as for those for meeting the liquidity needs.

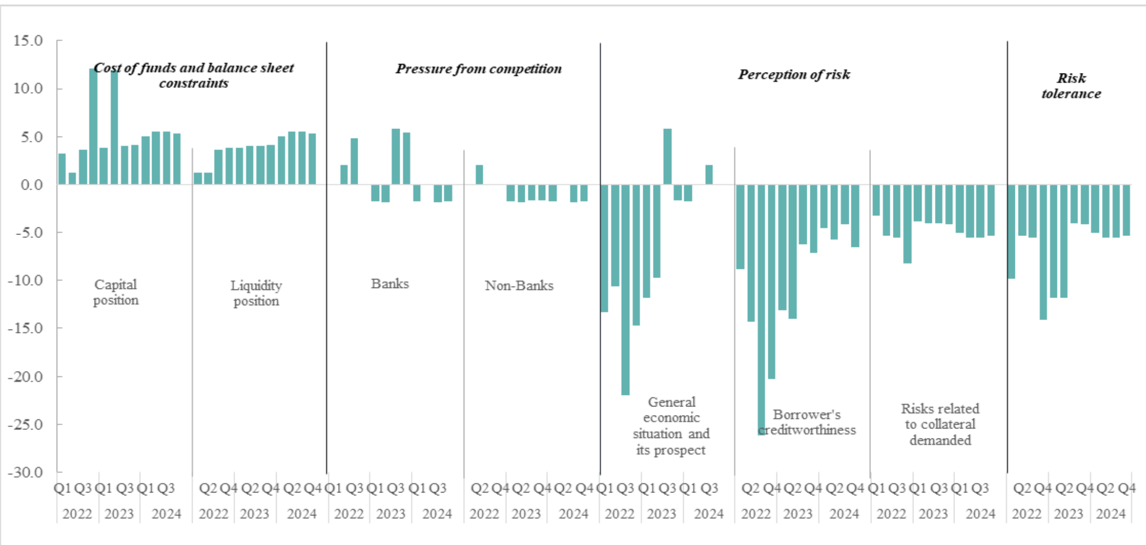
Chart 1 Credit standards for loans to enterprises and expectations for the next three months[1]



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

On the easing side of credit standards were reported lower cost of funds and balance sheet constraints. The factors that led to tightened credit standards were related to banks' perceived risk from borrowers' creditworthiness and from collateral requirements. Additionally, banks' lower tolerance towards risk was another factor backing the tightened credit standards. Other factors showed minimal changes.

Chart 2 Factors contributing to changes in credit standards for total enterprises[2]



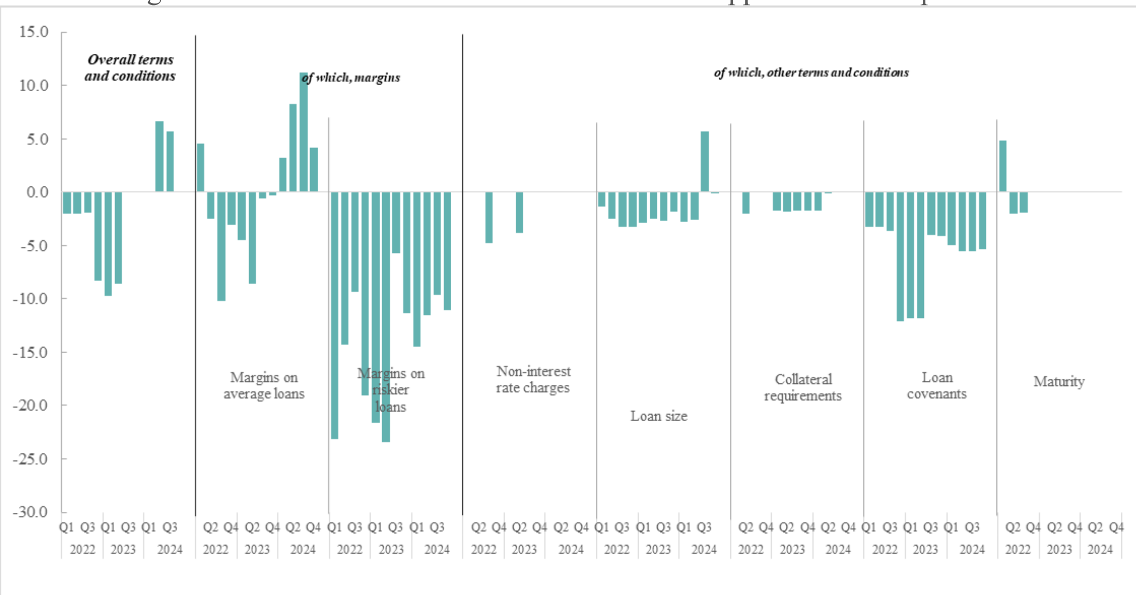
[2]: Calculated as net percentages. Positive values indicate that the factor contributed to the easing of credit standards, whereas negative ones to the tightening of credit standards.
Source: Bank of Albania.

In the first quarter of 2025, banks expect the credit standards to remain unchanged, both on loans to large enterprises and to meet liquidity needs. On the other side, banks anticipate eased credit standards on loans to small and medium size-enterprises and for financing investments (*Chart 1*).

1.2. Terms and conditions

Overall terms and conditions on new loans to enterprises remained unchanged in 2024 Q4. Lower margins on average loans, were the main factors behind the eased overall terms and conditions on firms' loans. On the other hand, banks reported higher margins on riskier loans and carried out higher loan covenants. Other non-price components remained unchanged from the previous quarter.

Chart 3 Change in overall terms and conditions on new loans approved to enterprises[3]



3: Calculated as net percentages. Positive values indicate eased terms and conditions, whereas negative ones tightened terms and conditions. Source: Bank of Albania.

Following the banks' opinion, lower costs of funds and balance sheet constraints, the decreased key interest rates, particularity in foreign currency, as well as foreign exchange rate performance, contributed to the easing side of terms and conditions on loans to enterprises. Risk perception by banks was reported to have impacted on the tightening side. Other factors had a neutral impact on credit terms and conditions.

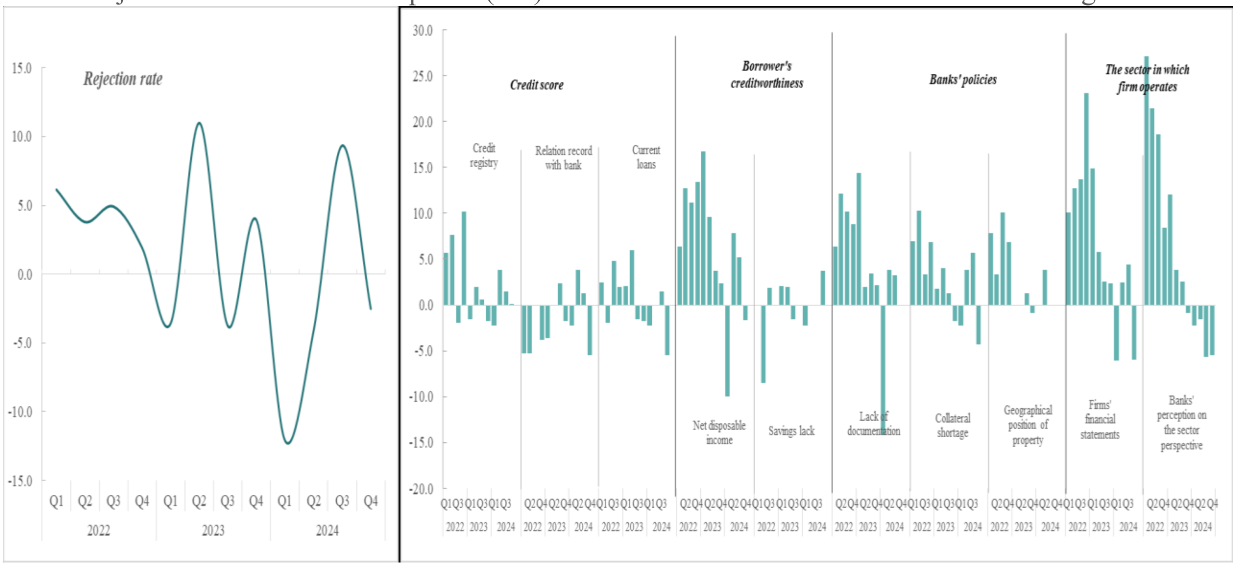
Chart 4 Factors contributing to changes of terms and conditions for loans to enterprises[4]

4: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions. Source: Bank of Albania.

1.3. Loan approval rate

Banks reported higher loan approval rate for enterprises in the fourth quarter of 2024. The factors behind the lower rejection rate on loans to enterprises, in this quarter, were the following: banks' policies on collateral required; firms' financial statements; banks' perception on lower risk related to the sectoral perspective; as well as factors related to borrowers' credit-worthiness. Other factors displayed minimal changes.

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

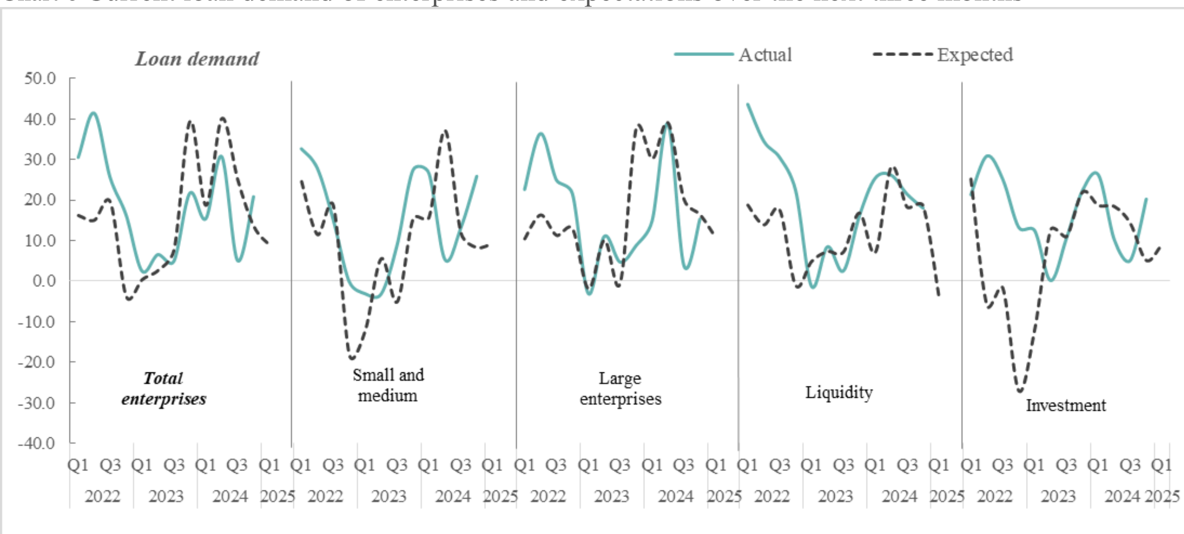


5: Positive values show an increase in rejection rates to the total loan application (left-hand chart). Also, positive values indicate that the factor has contributed to an increase of rejection rate (right-hand chart), while the negative ones to their reduction.
Source: Bank of Albania.

1.4. Demand for loans

Loan demand from enterprises was reported upward in 2024 Q4 as well. Higher loan demand was reported both in terms of enterprise' size and loans' purpose of use.

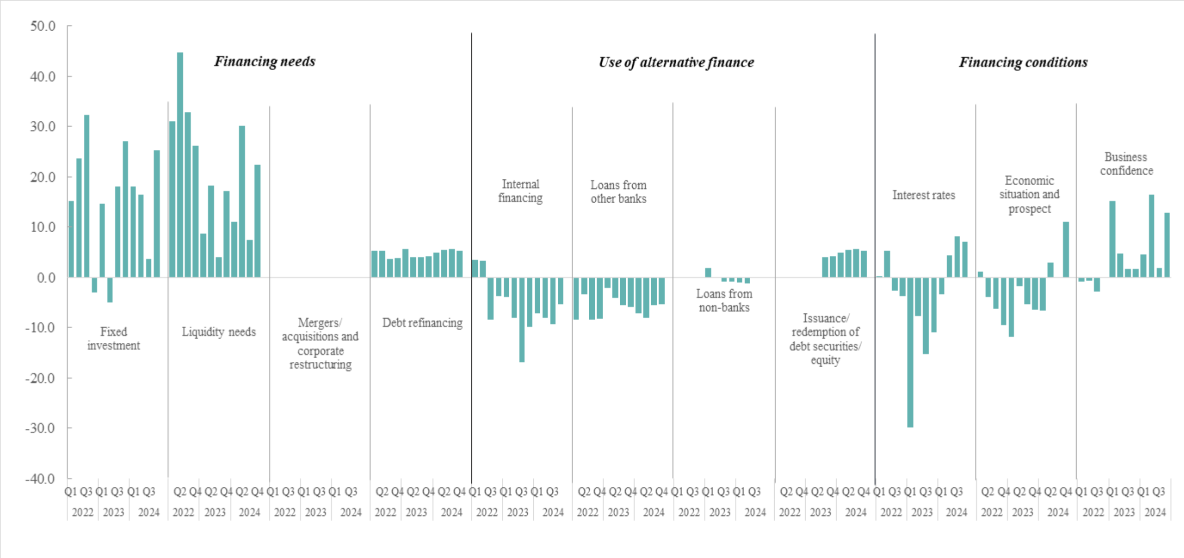
Chart 6 Current loan demand of enterprises and expectations over the next three months[6]



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

From the perspective of banks, a higher necessity to finance both working capital inventories and investments contributed to elevated loan demand from enterprises. Likewise, the domestic macroeconomic situation and its prospect, the overall level of interest rates, as well as business confidence were reported as factors underpinning the expanded loan demand. One the other side, internal financing deployment and loans from other banks, were reported as factors driving downwards the loan demand from enterprises in the last quarter of 2024.

Chart 7 Factors affecting changes in the loan demand of enterprises[7]



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: Bank of Albania.

In 2025 Q1, banks anticipate a higher loan demand from enterprises across all segments, small and medium sized enterprises and from large enterprises. Loan demand is expected to be high for financing investments as well. The loan demand is expected to be slightly lower for meeting liquidity needs (*Chart 6*).

2. LOANS TO HOUSEHOLDS

2.1. Credit standards

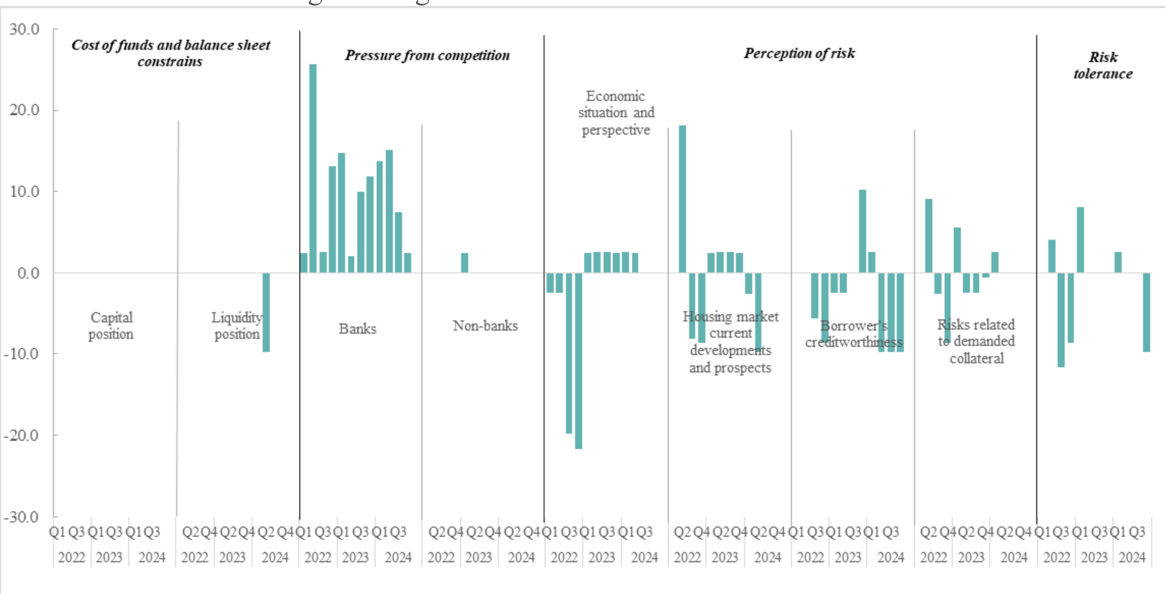
Credit standards for loans to households were slightly eased in 2024 Q4, driven by the eased credit standards on consumer loans. Banks reported unchanged credit standards on loans for house purchase.

Chart 8 Change in credit standards for loans to households and anticipation for the next three months[8]

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

The increased pressure from competition in the banking system contributed to eased credit standards on loans to households. On the other side, banks reported the perceived risk related to the borrowers' credit-worthiness and the lower risk tolerance as factors contributing on the tightening side of credit standards.

Chart 9 Factors contributing to changes of credit standards on loans to households[9]



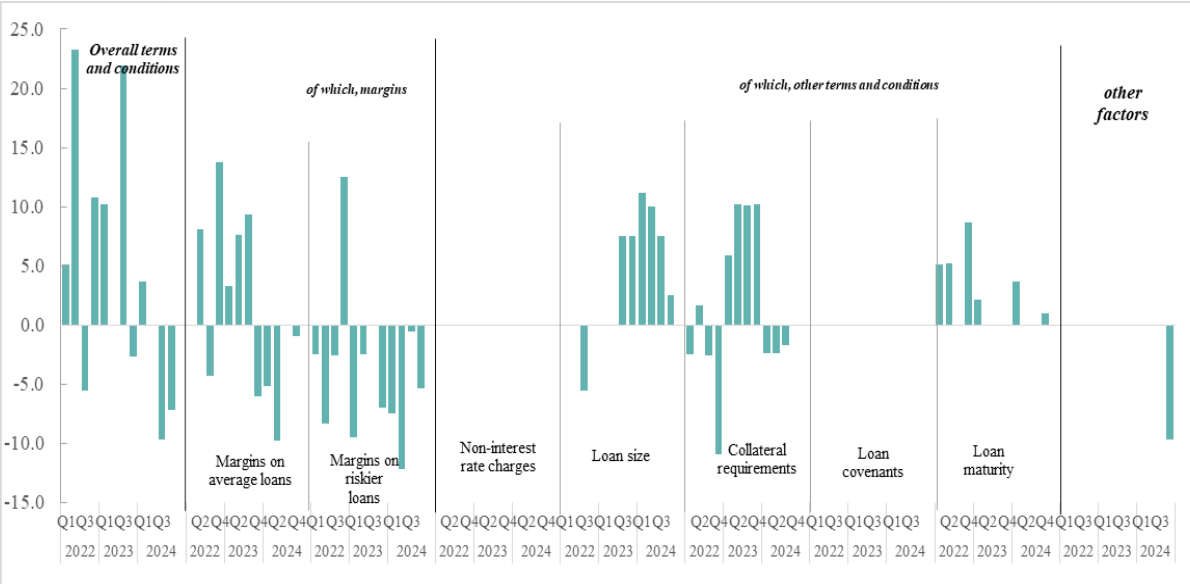
[9]: Calculated as net percentages. Positive values indicate that the factor contributed to the easing of credit standards, whereas negative ones to the tightening of credit standards.
Source: Bank of Albania.

Banks expect credit standards to households remain eased in the first quarter of 2025, on both house purchase loans and consumer loans *(Chart 8).*

2.2. Terms and conditions

Overall terms and conditions on new loans to households tightened in 2024 Q4, as dictated only by one bank of the system. The latter reported the augmented number of requirements in loan approval and the higher monitoring on certain loans as the key components driving to the tightening of credit terms and conditions. In additions, banks applied higher margins on risker loans.

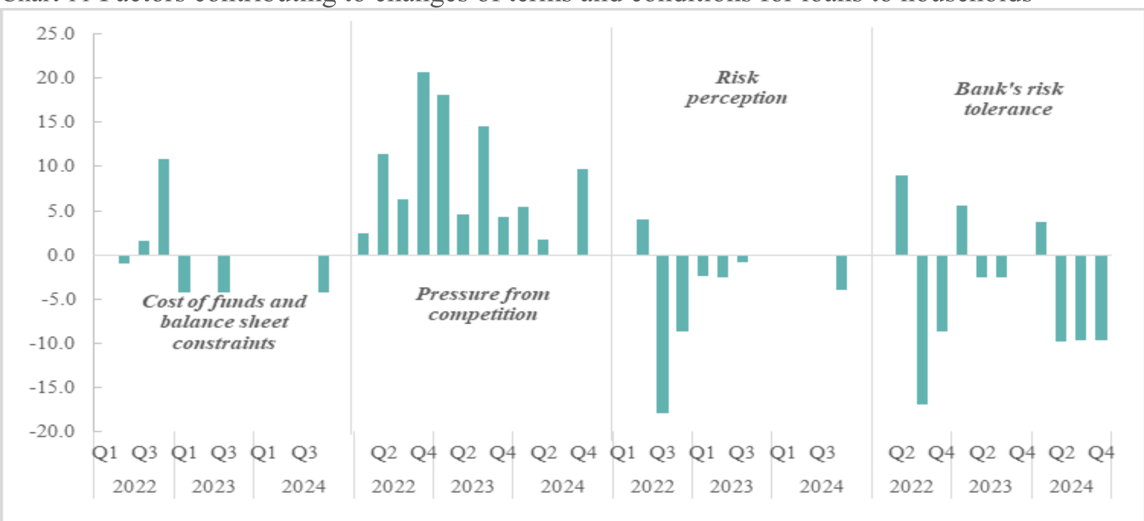
Chart 10 Change in overall terms and conditions on new loans approved to households[10]



10: Calculated as net percentages. Positive values indicate eased terms and conditions, whereas negative ones tightened terms and conditions. Source: Bank of Albania.

Lower tolerance towards risk, higher costs and balance sheets constraints and risk perceptions backed the tightening of terms and conditions on loans to households. On the other hand, higher competition in the banking system, impacted on the easing side of credit terms and conditions to households.

Chart 11 Factors contributing to changes of terms and conditions for loans to households[11]

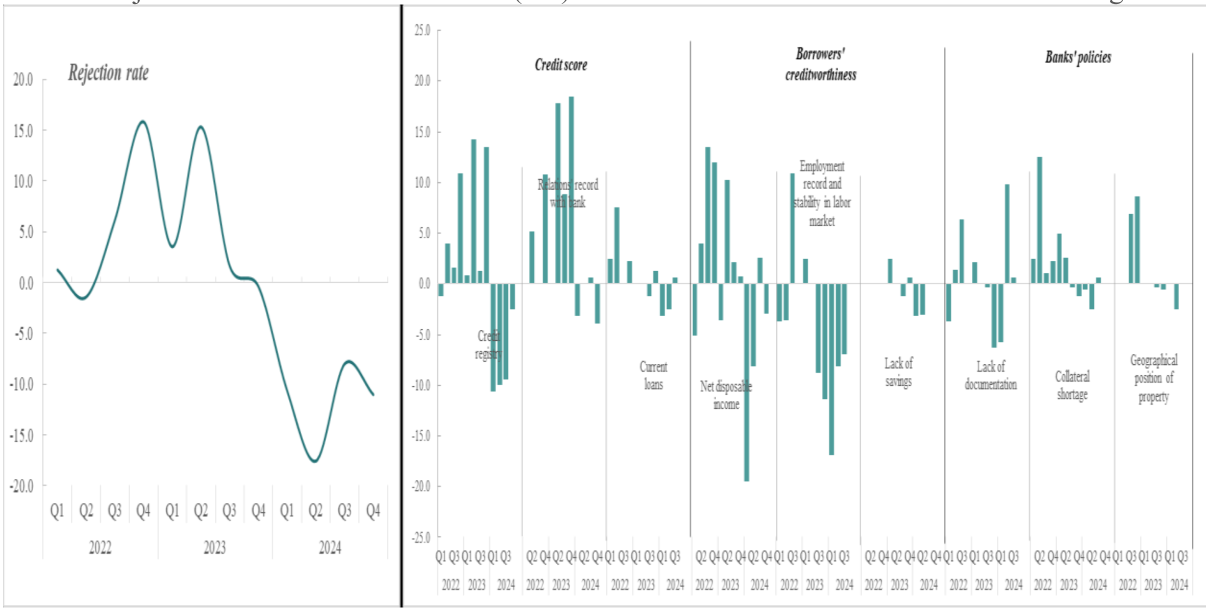


11: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions. Source: Bank of Albania.

2.3. Loan approval rate

In 2024 Q4, banks reported an increasing loan approval rate for households. The lower rejection loan ratio in this quarter was fuelled by factors that reflect the credit score and disposable income from households. Other factors had a neutral impact.

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

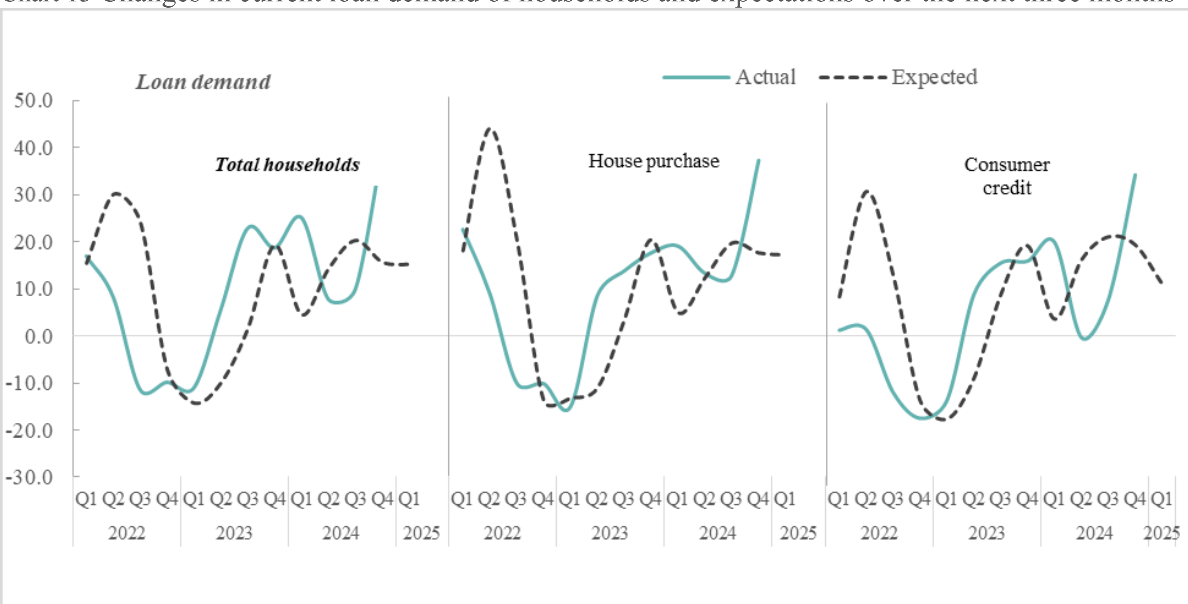


12: Positive values show an increase in rejection rates to the total loan application (left-hand chart). Also, positive values indicate that the factor has contributed to an increase of rejection rate (right-hand chart), while the negative ones to their reduction.
Source: Bank of Albania.

2.4. Demand for loans

Loan demand from households was perceived higher in 2024 Q4, for both house purchase loans and consumer loans.

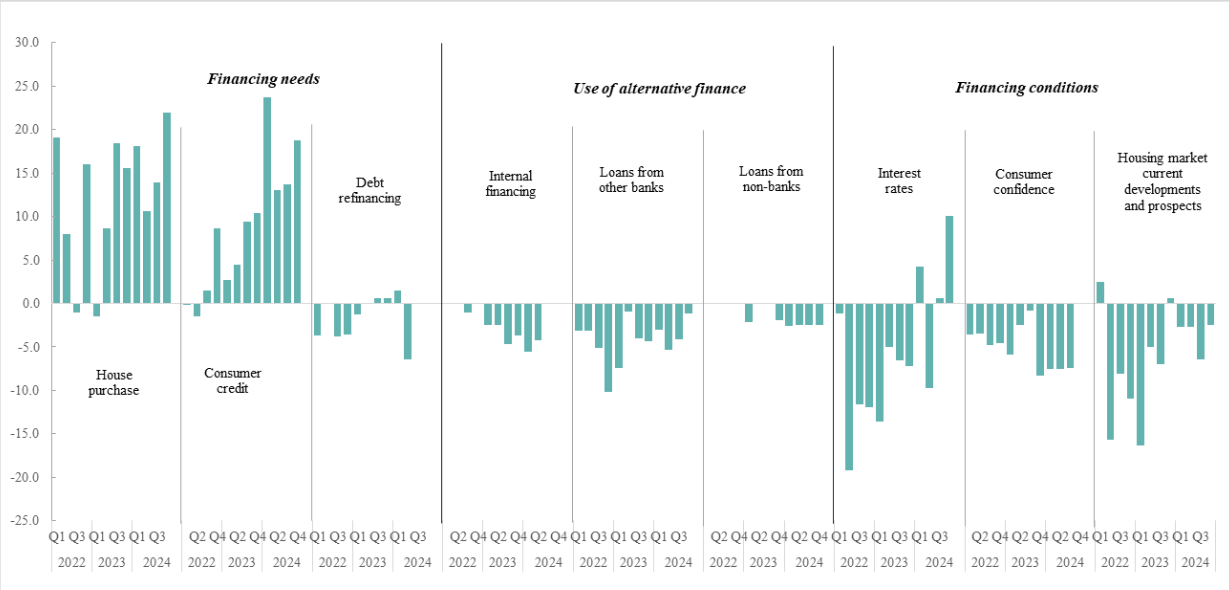
Chart 13 Changes in current loan demand of households and expectations over the next three months[13]



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

On banks' view, higher demand from households in this quarter was mainly attributed to the increased needs for loans to finance both the house purchase and consumption. Also, the overall level of interest rates drove to higher loan demand in the fourth quarter. Other factors had a minimal impact.

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



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: Bank of Albania.

Banks expect the loan demand in 2025 Q1, to increase, 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 Decision No. 69 of the Supervisory Council of the Bunk of Albania, dated.18.12.2014, on the approval of the Regulation "On the regulatory capital of the Bank of Albania," this terms refers to the regulatory capital[1] required for covering credit risk, market risk and operational risk.

[1] 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 demand[2]. 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 loan 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 may not.

[2] For the purpose of this Survey, the term used for credit is equivalent to the term used for loan

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

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 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 banks 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 amount.

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 non-banks”.

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.