



BANK LENDING SURVEY

2023 Q4

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January 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/

OVERVIEW OF RESULTS

Commercial banks did not change their lending policies to enterprises in 2023 Q4, as the standards, terms and conditions remained the same for the third consecutive quarter¹. Banks have remained prudent regarding their risk assessment on the macroeconomic situation of Albania, and its potential implications on the businesses' balance sheets. However, the competitive environment where banks operate, remains a compelling factor for supporting the businesses' demand for loans.

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 higher demand for loans by enterprises in this quarter was broadly based, in both terms of enterprise size and the purpose of use. Enterprises' loan demand for financing their activity has not subsided despite the high interest rates and the high level of liquidity available in enterprises. The net balance of enterprises' demand for investment financing was elevated during this quarter as well, following an expansive cycle of production capacities in Albania, which was driven by business confidence among others.

Banks continued to adopt facilitative lending policies to households for the fourth quarter in a row. They eased their lending standards on both house and consumer loans, given an environment of high competitiveness, and a perception of a lower solvency risk from borrowers. However, with the high interest rates, banks constricted the price element by adopting higher margins² on loans granted to households, in the last quarter of the year.

Households continued to exhibit a high demand for loan in the last quarter as well, in line with banks' expectations for this period. The heightened demand for loans, for the third successive quarter, was manifested in mortgages as well as consumer loans.

In 2024 Q1, banks expect to be more accommodative in their lending policies in order to support investment expansion, as well as small and medium-sized enterprises. Meanwhile, in regards to lending to enterprises to finance inventories and working capital, as well as lending to large enterprises, banks expect to be more conservative in 2024 Q1. Lending standards to households, not least mortgages, are also expected to contract. 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 Refer to the glossary at the end of the material for the terminology used in this analysis.

² Margins which are above the reference index credit rate by purpose of use.

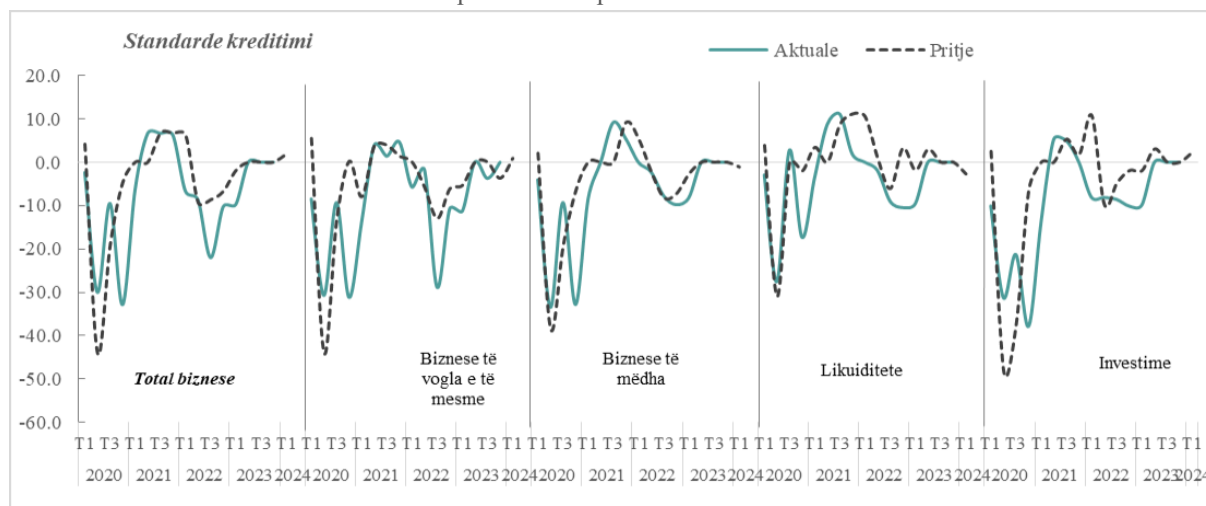
CREDIT SUPPLY CONDITIONS AND DEMAND FOR LOANS

1. LOANS TO ENTERPRISES

1.1. Credit standards

Credit standards for loans to enterprises remained unchanged in the last quarter of 2023. Unchanged credit standards were adopted on all loans regardless of their size (large, medium and small); loans for financing investments; as well as on loans for meeting liquidity needs.

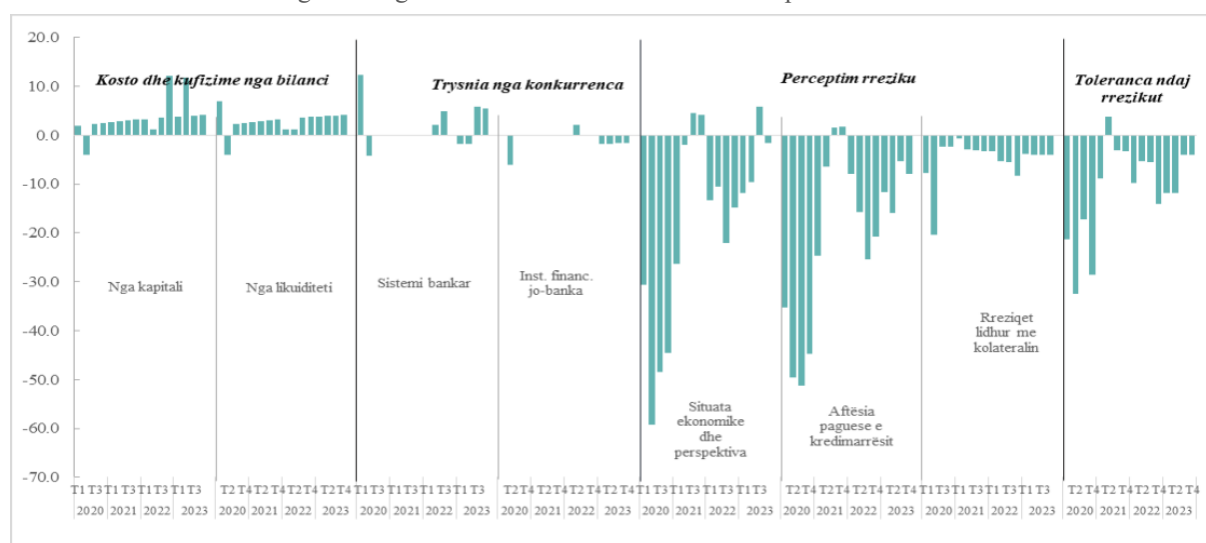
Chart 1 Credit standards for loans to enterprises and expectations for the next three months¹



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

The easing side of credit standards to enterprises was affected by the higher competitiveness of the banking system and the lower costs and constraints of the balance sheet. The tightened side of credit standards were affected by factors related to risk perception on borrowers' solvency and the collateral required. Also, banks had a lower tolerance toward risk.

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



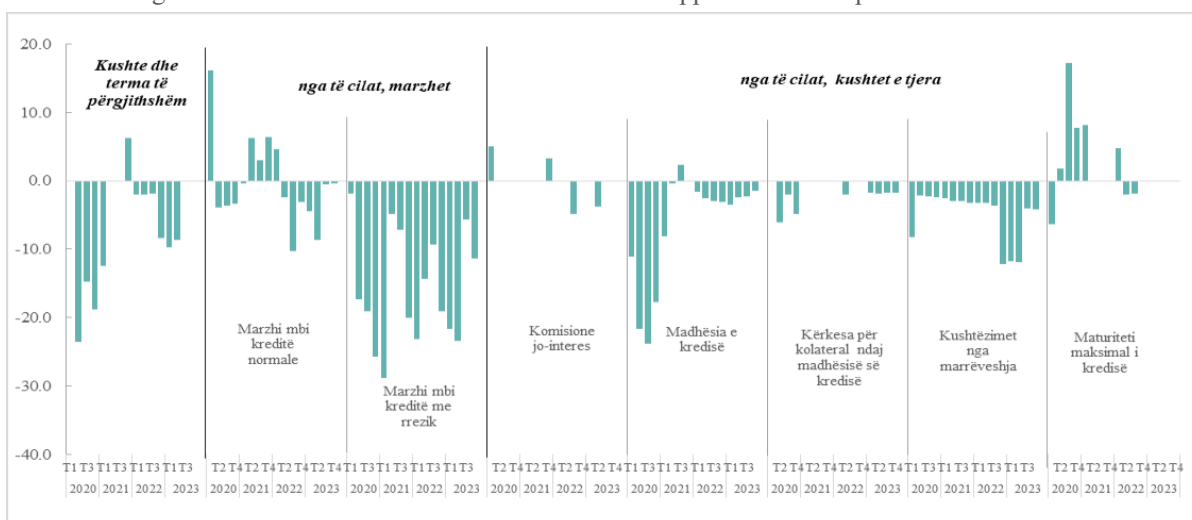
²: Calculated as net percentages. Positive values indicate that the factor contributed to the easing of credit standards, whereas negative ones to the tightening of credit standards. Source: Bank of Albania.

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 investment financing. Whereas, they are expected to tighten for loans to large enterprises, as well as loans used for covering liquidity needs (*Chart 1*).

1.2. Terms and conditions

Overall terms and conditions on new loans to enterprises remained unchanged in the fourth quarter. Therefore, banks reported higher margins mainly on riskier loans; they also increased the conditions imposed by loan agreements with enterprises. Other non-price components were reported unchanged.

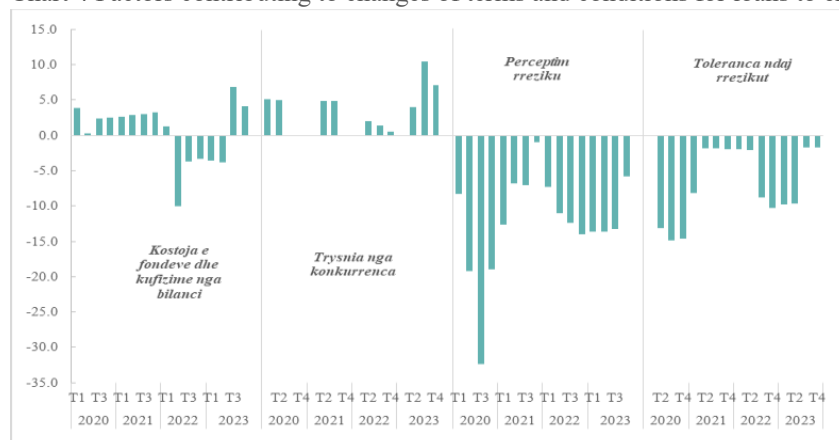
Chart 3 Change in overall terms and conditions on new loans approved to enterprises³



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

The rising pressure resulting from the higher competition in the banking system, coupled with the lower balance sheet costs and constraints, contributed to the easing the terms and conditions on loans to enterprises. Meanwhile, banks' risk perception and their lower tolerance toward risk contributed to the tightening side of the terms and conditions on loans to enterprises.

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

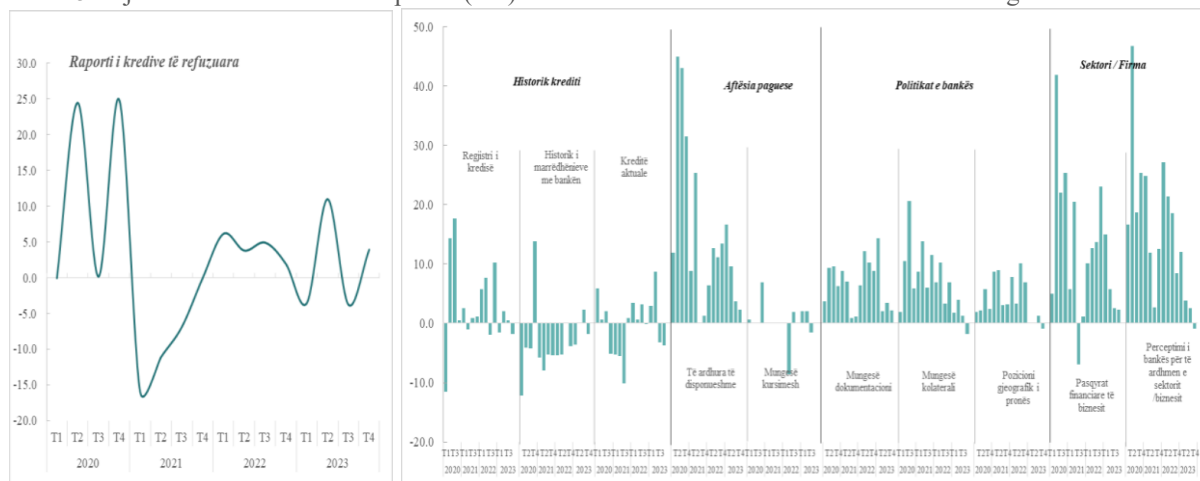


⁴: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions. Source: Bank of Albania.

1.3. Loan approval rates

Banks reported lower loan approval rate for enterprises in the fourth quarter. The slight increase of the loan rejection rate was underpinned by the net disposable income and banks' perception on the risk related to the financial situation of enterprises. Indicators related to the credit history, such as the status of current loans, the bank relationship history, and the track record of credit registry, contributed to the decline of the loan rejection rate of enterprises.

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

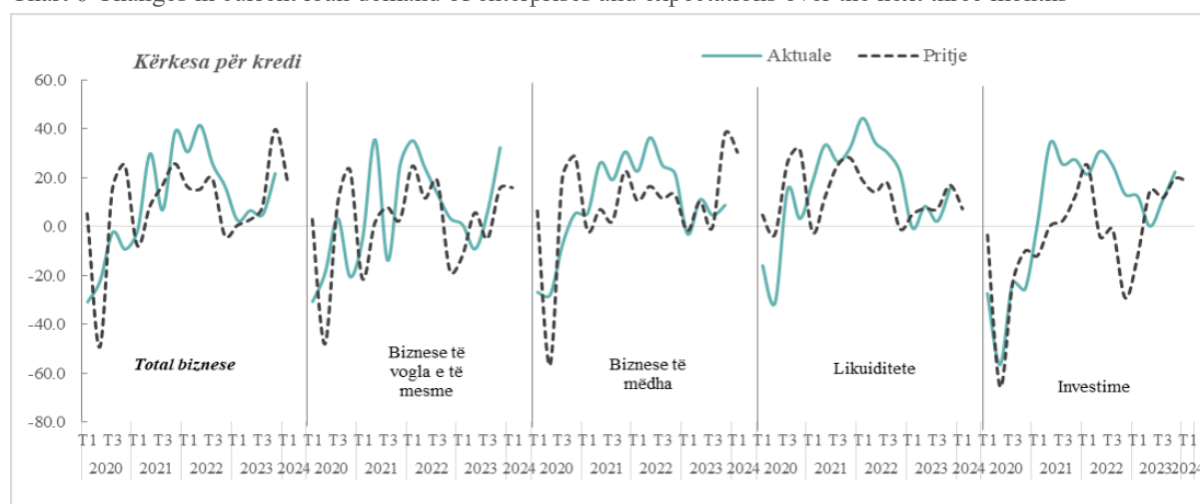


⁵: Positive values show an increase in rejection rates to the total loan application (left-hand chart). Also, positive values indicate that the factor has contributed to an increase of rejection rate (right-hand chart), while the negative ones to their reduction.
Source: Bank of Albania.

1.4. Demand for loans

Loan demand from enterprises was reported upward in 2023 Q4. The high loan demand was reported in both terms of enterprise size as well as in terms of the purpose of use.

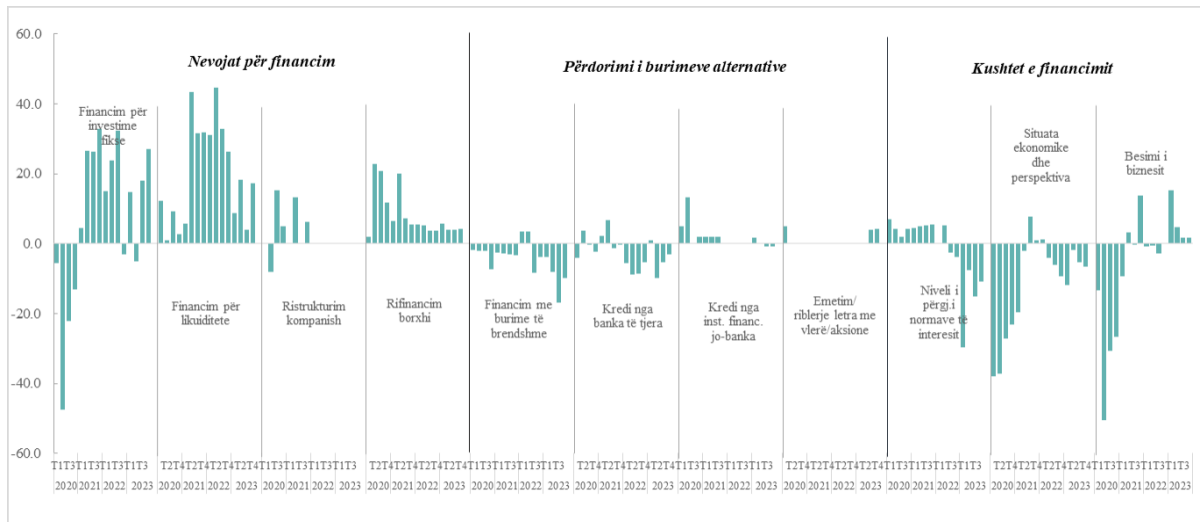
Chart 6 Changes in current loan demand of enterprises and expectations over the next three months⁶



⁶: Calculated as net percentages. Positive values indicate an increase in loan demand, whereas negative ones a decrease in loan demand.
Source: 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 high level of business confidence was reported as a factor contributing to the expanded loan demand. On the other hand, internal financing deployment, the overall level of interest rates, and the domestic economic situation and its prospect were reported as factors driving downwards the loan demand from enterprises, in the last 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: Bank of Albania.

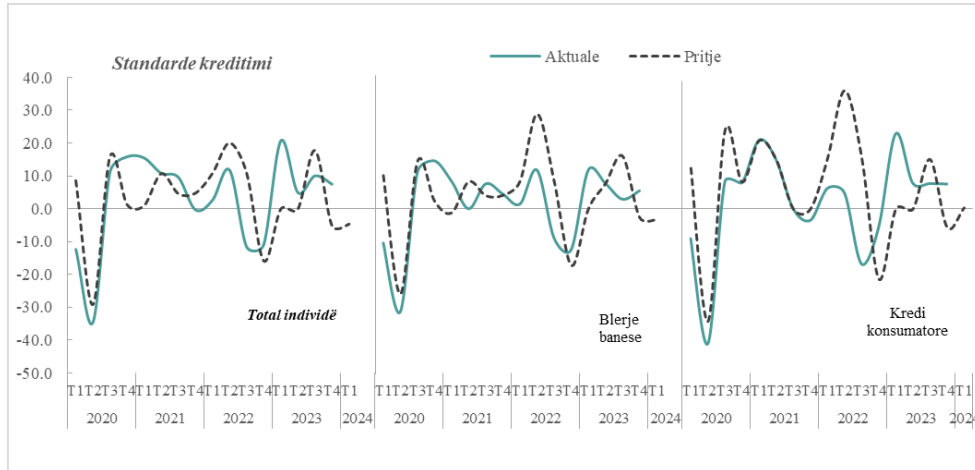
In 2024 Q1, banks anticipate higher loan demand from enterprises both for financing investments and for meeting liquidity needs. In terms of enterprise size, loan demand is also expected to be high for both SMEs and large enterprises ([Chart 6](#)).

2. LOANS TO HOUSEHOLDS

2.1. Credit standards

Credit standards for loans to households continued to ease in 2023 Q4. The easing of standards was noticed in both categories of loans by purpose of use: i.e., loans used for house purchases and consumer loans.

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

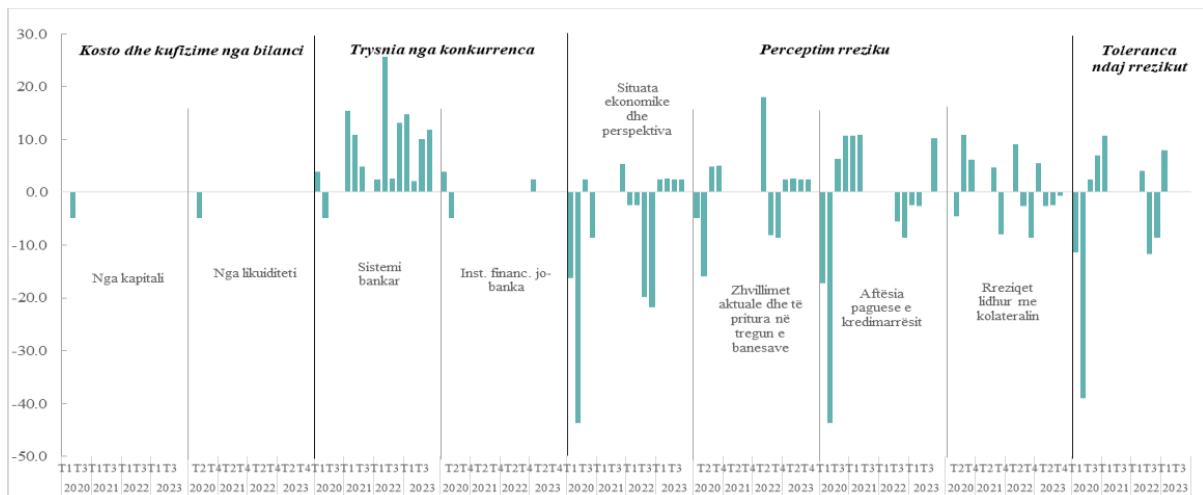


⁸: Calculated as net percentages. Positive values indicate eased credit standards, whereas negative ones indicate tightened credit standards.

Source: Bank of Albania.

The main factors behind eased credit standards on loans to households were the increased pressure springing from competition in the banking system, and the banks' perception of a lower level of risk regarding borrowers' solvency.

Chart 9 Factors contributing to changes of credit standards on loans to households⁹



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.

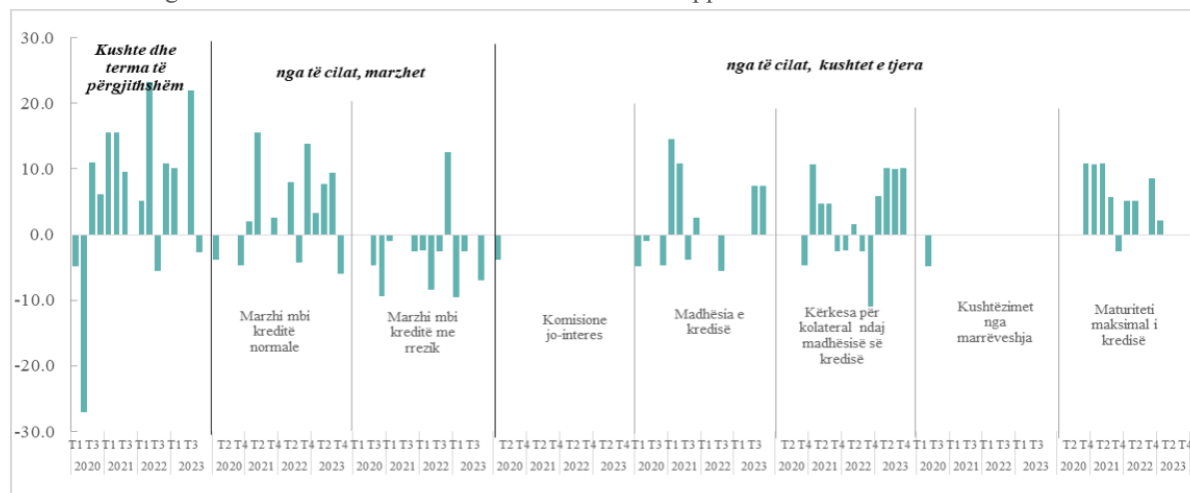
Source: Bank of Albania.

In the first quarter of 2024, households' lending standards are expected to become more restricted, especially in regards to mortgages ([Chart 8](#)).

2.2. Terms and conditions

Overall terms and conditions on loans to households contracted in the last quarter of 2023. The contraction of the terms and conditions on loans was driven by higher loan margins, on both average and riskier loans. On the contrary, non-price components had an easing effect on the lending terms and conditions, due to fewer collateral requirements and the increase in the size of loans to households.

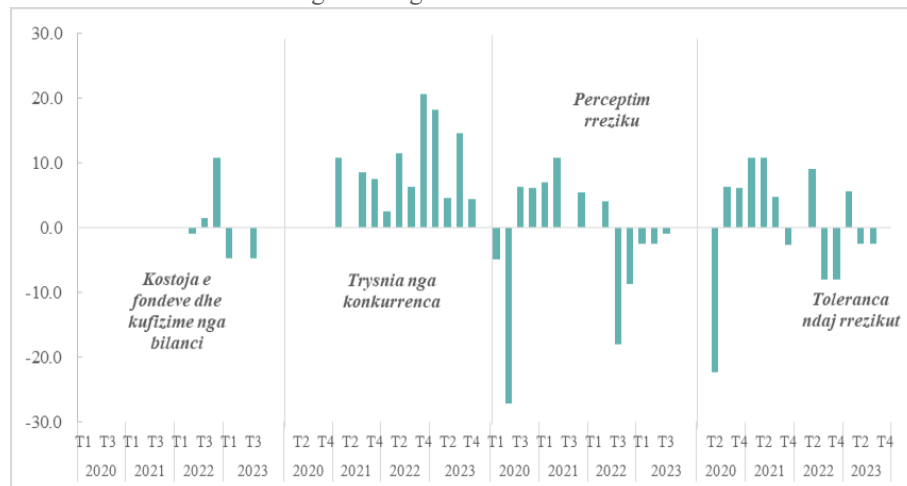
Chart 10 Change in overall terms and conditions on new loans approved to households¹⁰



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

The factors affecting the lending terms and conditions to households were almost the same, with minor alterations.

Chart 11 Factors contributing to changes of the terms and conditions of loans to households¹¹



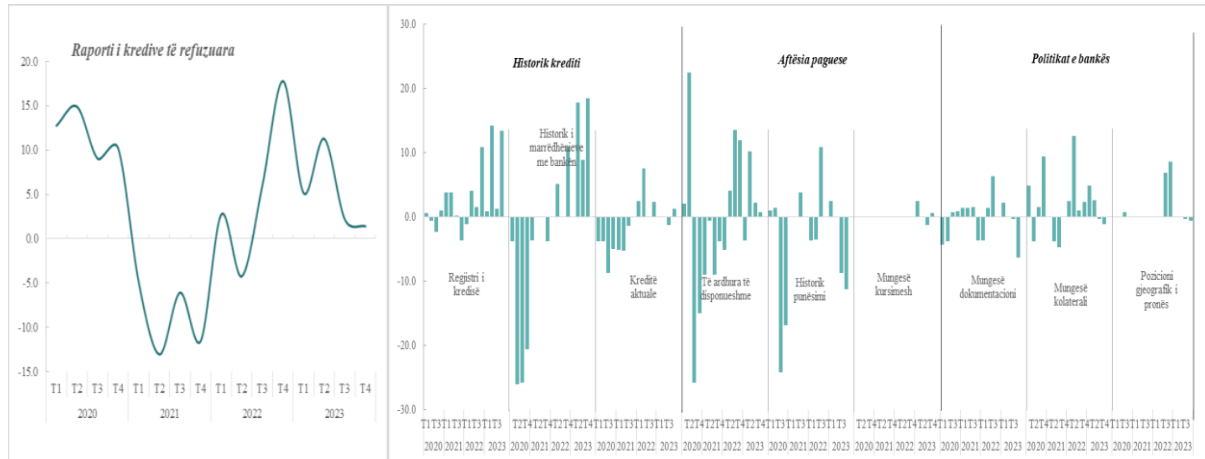
¹¹: Positive values indicate that the factor contributed to the easing of terms and conditions, whereas negative ones to the tightening of terms and conditions. Source: Bank of Albania.

2.3. Loan approval rate

In 2023 Q4, banks reported a declining loan approval rate for households. The higher rejected loan ratio in this quarter was mainly driven by factors that reflect the credit score of households, such as history of relations with the bank and the track record of the credit registry.

The employment record and the filling out of the required documents for credit approval were among the factors with a declining effect on the credit rejection rate in this quarter. Other factors remained unchanged.

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: Bank of Albania.

2.4. Demand for loans

Loan demand from households was perceived as higher in the last quarter, for both house purchase and consumer loans.

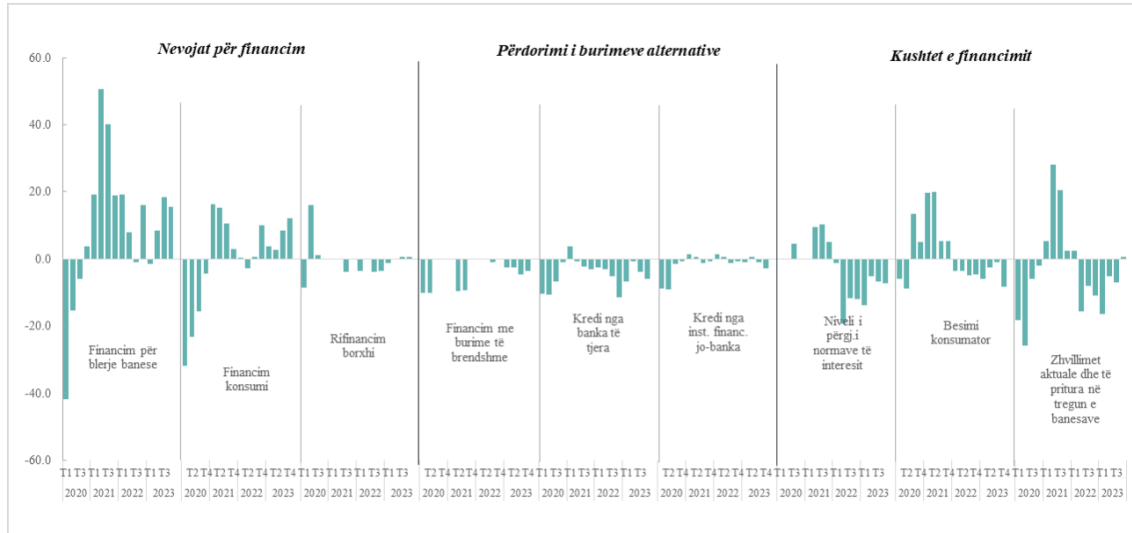
Chart 13 Changes in current loan demand of households and expectations over the next three months¹³



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

The increase in the demand to purchase houses and finance consumption was the main factor fueling the higher loan demand from households in this quarter. On the contrary, consumer confidence; the overall level of interest rates; and the employment of alternative financing sources contributed to the decrease in the demand for loans.

Chart 14 Factors contributing to changes in the loan demand of households¹⁴



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.

In 2024 Q1, banks expect the loan demand to continue to increase, both in regard to financing consumption and house purchase loans ([Chart 13](#)).

Dictionary of 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 associations regularly involved 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 interpreted as factors with an impact on credit supply only in cases when loans terms and conditions change. In other cases (when loans terms and conditions do not undergo changes through marketing campaigns) this indicator is grouped with 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", Questions 6 and 12, respectively, 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 exercising his/her profession. This law categorizes non-profit organizations as consumers as well.

Non-bank institutions. In general, 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 capital³ required to cover credit risk, market risk and operational risk.

³The capital calculated for banking supervisory purposes, including various categories of capital and reserves, as well as other elements, which are laid down in the sub-legal acts of the Bank of Albania.

Credit demand⁴. 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 through bank loans, whether or not this need will translate in an actual loan. When filling out the Survey each bank should assess credit demand developments (for both households and enterprises), and compare them 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 14.9.2011 of the Bank of Albania, this concept means the tools utilized 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 minimum 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 accorded 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 down in the Decision No. 48, dated 01.07.2015 of the Supervisory Council of the Bank of Albania for the approval of Regulation “On consumer credit and mortgages” and Law No. 9902, dated 17.4.2008, “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 the Supervisory Council of the Bank of Albania, 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.

⁴ For the purpose of this Survey, the term 'credit' is equivalent to the term '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 parallel or independently of credit standards. For example, the higher financing costs or the deterioration of economic perspective may bring about a constriction of credit standards, as well as a tightening of conditions on those loans that the bank is willing to approve and its clients are willing to approve too. Alternatively, banks may adjust only the contract terms/conditions laid down 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 stop 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 in annual revenue. The rest of enterprises are categorized 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 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. The concept of 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 current situation and perspective of the enterprise or industry where it operates, 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 between the sum lent and the market value of the collateral provided 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 that 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 4.09.2011 “On credit risk management from banks and branches of foreign banks”, which consists of the facilitations 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 which are accompanied by the extension of initial maturity or an increase in the loaned sum, do occur.

Credit restructuring does not include cases when the method of borrower's financing changes 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 “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 acceptable or unacceptable collateral, 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 occurring in the cost of funds; bank’s balance sheet; competitiveness; bank’s risk perception; risk tolerance and the 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 to have been 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 the quarter. Loan rejections do not include cases when the borrower withdraws the loan application due to unfavorable 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 the housing prices. In Question 8, 3b this factor refers to the risk related to the requested collateral. While 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.