**Bank Credit to the Private Sector: VECM Approach for Albania**

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**Abstract**

This study evaluates the determinants of bank credit to the private sector in Albania from

2000 to 2017 using a Vector Error Correction Model which includes both demand and supply-side factors. We perform Augmented Dickey Fuller Test, Phillips-Perron test and Johansen cointegration test to ensure the stationarity and long-run relation between explanatory variables. The results show that credit to the private sector is positively related to economic growth. A higher lending rate will decrease the bank credit to the private sector. Further, the decrease of non-performing loans and domestic government debt will increase the funds available for the private sector. The negative sign of error correction term and the diagnostic tests for autocorrelation, normality and ARCH effects ensure that our model is properly defined.

**Keywords**: Bank credit , Vector error eorrection, Albania.

**JEL Class**: C32, C53, E44, G21.