



MONETARY POLICY DEPARTMENT

BANK LENDING SURVEY

ITS ROLE FOR THE CENTRAL BANK AND METHODOLOGICAL ASPECTS

The Bank Lending Survey (BLS) is an opinion survey aimed at collecting qualitative data on the lending activity. It provides a closer insight on the credit market developments by complementing the quantitative data information (according to monthly reporting by banks) with the qualitative one. BLS serves as a useful tool for in-depth analysis of financial markets, developments in credit demand and supply, and bank lending policies or strategies in Albania. For the first time, such a survey was introduced in the USA, in the 1960s, and in Europe in 2003. In Albania, the BLS has been compiled since 2007. The analysis on these results has been published on Bank of Albania's website, since 2007 H2.



Why is it important for the central bank to have a survey on bank lending activity?

First, developments in the credit market have a significant effect on economic activity and business cycles. Theoretically, a rise in the amount of credit provided in a country underpins economic growth, and vice versa. This survey enriches the analysis on the domestic lending performance with qualitative information provided by banks, such as credit standards, price and non-price conditions, banks' perception of risk, and their willingness to credit the economy. The information revealed from this survey helps to better understand the banks' lending approach. In this context, it complements with qualitative data, the projections of monetary and financial variables and of other real economy indicators (such as consumption, investment, production, etc.). The set of such indicators corroborates, among other things, the monetary policy decision-making.

Second, it enriches the information kit of the monetary policy transmission mechanism. Both in theory and in practice, monetary policy decisions are transmitted to the economy through various channels. According to the basic concept of the monetary policy transmission mechanism, the central bank affects the intertemporal allocation of resources through changes in interest rates (the main instrument of the monetary policy). However, the central bank only controls the short-term segment of interest rates. The transmission of these changes to the long-term segment is affected, among other things, by commercial banks through the rates they apply on loans to the private sector. The scope of the transmission from the policy rate change to the long-term interest rate depends on the banking system's approach to provide loans to enterprises and households, the supply-demand conditions, as well as the banking system structure.

Third, 'expectations' is one of the pillars on which this survey is conceived and compiled. The information from this section helps the central bank to have a complete set of information regarding expectations in credit market, adding value to the forecasting process of monetary and macroeconomic indicators (economic growth, investment, consumption, etc.).

Survey structure

Overall, this survey has the features of ECB's Bank Lending Survey. However, where necessary, it has been modified, reflecting the features of the Albanian banking sector (such as the 'expectation' segment regarding the loan composition by currency, applied interest rates, etc.).

The BLS consists of five sections: loans to enterprises, loans to households, lending expectations, application status of loans, and special section on ad hoc questions. The first two sections have almost the same structure and offer information on the credit supply and demand, as well as on the factors affecting them. On the supply side, revealed information corresponds to the standards applied on loans to enterprises and households, as well as to the factors behind the credit standards change from the previous quarter. At the same time, the survey provides information on the terms and conditions through which credit standards have been changed, complemented by the factors driving this change of the terms and conditions. On the demand side, information from banks' perceptions deals with the private sector credit demand change from the previous quarter, as well as the factors driving this change.



The third part of the survey, expectations, presents the banks' perceptions regarding the expected change in credit standards (credit supply) and credit demand (both by enterprises and households) in the next three months. In this section, unlike the ECB's survey, additional information is obtained on banks' expectations regarding the loan supply and demand, as well as interest rates change in terms of domestic and foreign currency.

The fourth section illustrates the situation of rejected loan applications by commercial banks (excluding loan applications from which households/enterprises have withdrawn themselves). Results on the change of rejected applications are accompanied with the factors that have driven the increase/decrease of the rejected loans as a ratio to total loan applications.

The last section of the survey, the ad hoc questions section, consists of questions on specific current topics of interest in lending activity, that are not comprised by the standard questions of the survey. Information processed by questions of this section, serves to understand in greater details the specific circumstances in the credit market, not fully addressed by the information available on regular basis.

General Modalities

Bank Lending Survey collects the opinions of commercial banks senior loan officers¹, in charge of closely monitoring of credit developments. The questions of Sections 1, 2 and 4 refer to the actual quarter when the questionnaire is distributed, whereas questions in section 3 refer to the next quarter. It should be noted that the data coverage of survey does not need to obey the same statistical requirements as other "standard" statistics, as it is based on the opinions and views of credit experts regarding the loan supply and demand developments.

The questionnaire is distributed to the banks within the 20th day of the last month of each quarter. Banks send the replies no later than two weeks after receiving it. The results of this survey are published on the Bank of Albania's website, within the 20th day of the month following each quarter (both the analysis and the time series).

Currently, the sample group of banks participating in the survey comprises 11 banks, having the largest share of credit to the private sector. To be selected, the banks should own at least 3% share of the private sector credit outstanding. To calculate the market share of banks, for each segment and each type of loan, a necessary input in aggregating the results for relevant questions, the last quarter figures are taken into account.

The methodology used in aggregating the results refers to the indicator of net percentage². For credit standards, this indicator is measured by the difference between the sum of banks reporting that credit standards have "eased considerably" and "eased somewhat", and the sum of banks reporting that they have "tightened considerably", and "tightened somewhat", adjusted in every case by the share of each bank in that credit segment. A negative net percentage indicates tightening of standards, and vice versa. In mathematical terms, the calculation of the net percentage in the case of lending standards is as follows:

¹ Depending on the organizational structure of banks, the loan officers may be part of the credit/ risk department, etc. and are responsible for in-depth monitoring of credit developments.

² In calculating "net percentage", responses are weighted according to their notation: where "considerably" corresponds to 1, and somewhat to 0.5. In each response, the market share of the respondent bank is also taken into account.



Perc.net (standards)

$$= \sum Perc.eased \text{ (considerably + somewhat)} \\ - \sum Perc.tightened \text{ (considerably + somewhat)}$$

In the case of credit demand, the indicator is aggregated to a single one by the difference of the sum responding "increased considerably" and "increased somewhat", with the sum of respondents reporting "decreased considerably" and "decreased somewhat", adjusted for the share of each bank in the relevant segment of credit. The mathematical form of this indicator is:

Perc.net (demand)

$$= \sum Perc.increased \text{ (considerably + somewhat)} \\ - \sum Perc.decreased \text{ (considerably + somewhat)}$$

The positive result is interpreted as an increase in demand for loans and vice versa.

It should be noted that by aggregating banks' responses, qualitative indicators are obtained, not quantitative ones. As such, interpreting the results will not follow the classic data requirements, the latter being the quantitative data generated by the statistical office, which collect quantitative information at a regular frequency for a given range of indicators. Qualitative indicators obtained from the BLS serve to understand in greater details the developments in the credit market, complementing thus the reported information from banks' balance sheets with perceptions and expectations from senior loan officers.

