

Bank of Albania
Monetary Policy Department



BANK LENDING SURVEY
July 2009¹

The results of the July 2009 bank lending survey show that in the second quarter of 2009, the net percentage of banks reporting a tightening of lending standards – albeit still at a high level – was lower compared with the high level in the first quarter². The net tightening of lending standards was lower for enterprises than for households owing to the considerably tightened lending conditions in the first quarter 2009. This lesser tightening of lending standards is in line with the banks' expectations in the previous survey. The net tightening of lending standards in the second quarter of 2009 stands at almost the same level for both enterprises and households (net balances -23.4 and -21.6 per cent, respectively).

The main driving factors behind banks' tightening lending policy remain the expectations of macroeconomic activity, the sector-related specific problems and the household's financial situation.

As regards the net demand for loans (the net percentage of banks reporting a higher demand), albeit still negative, increased in the second quarter, while the corporate demand was positive for the first time.

Banks expect the tightening of lending standards to weaken further in the third quarter of 2009 for both enterprises and households. Banks expect demand for loans from households and small and medium-sized enterprises (SME) to maintain an upward trend in the third quarter of 2009.

¹ The results reported in the July 2009 bank lending survey relate to changes in the lending activity during the second quarter of 2009 and banks' expectations of possible changes in lending activity in the third quarter of 2009.

² The net percentage refers to the difference between the weighted responses of banks responding that the lending standards have tightened and the weighted responses of banks responding that the lending standards have eased. Net negative percentages indicate that banks have tightened their lending standards, while net positive percentages indicate that banks have eased their lending standards.

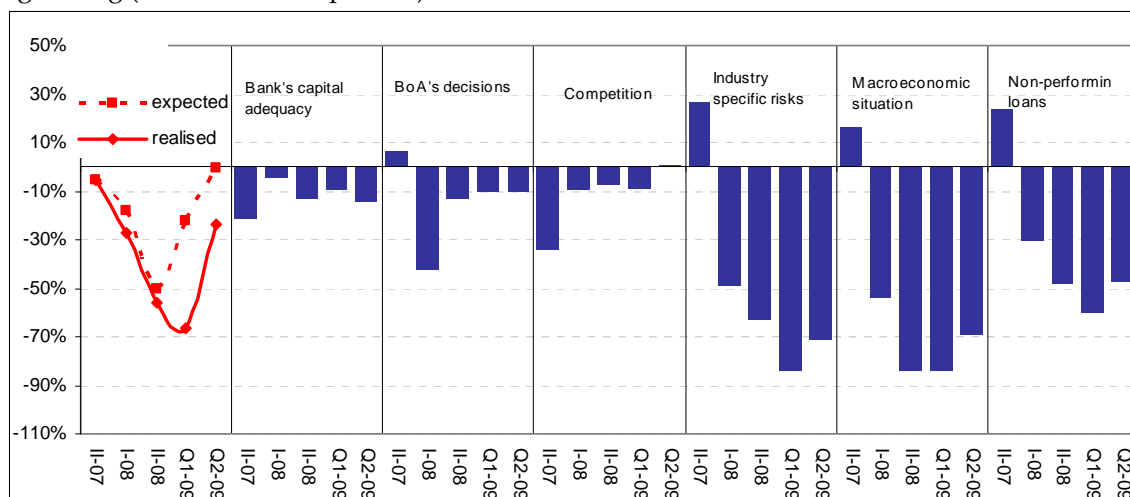
Business Loans

The net percentage of banks reporting a net tightening of lending standards for business loans declined in the second quarter of 2009 compared with the previous quarter. The net balance, which still remains negative, increased to -23.4 percent compared to -66.3 percent the previous survey, almost the same as expected in the first quarter 2009 (see Chart 1).

The negative net balance reflects mainly all the banks that have chosen the alternative “the lending standards have tightened slightly”, since none of them reported the alternative “the lending standards have tightened considerably”. The net tightening of lending standards was almost the same for SMEs and corporate (net balance -18.2%). As in the previous quarter, the lending standards remain more tightened for investment purposes than for working capital purposes.

The most important driving forces behind the tightening of lending standards in the second quarter of 2009 remain the business-specific problems, the macroeconomic situation at home and the performance of non-performing loans. However, these factors affected the lending standards at a lesser degree compared to the second half of 2008 and the first quarter of 2009 (see Chart 1).

Chart 1 Changes in lending standards on business loans and factors contributing to their tightening (net balance¹), in percent)



Source: Bank of Albania

Note 1: The positive value refers to the easing of lending standards or that the factor has contributed to the easing of lending standards. The negative balance refers to the tightening of lending standards or that the factor has contributed to the tightening of lending standards.

During the second quarter of 2009, banks' tightening policy was implemented especially by widening the average margin on riskier loans and by tightening the

collateral requirements in proportion to the loan amount. As regards the terms and conditions related to the provision of loans to enterprises, over the second quarter of 2009, banks reported lower widening of average margin on loans, lower loan amount and shorter maximum maturity of loans compared to the previous quarter.

Table 1. Summary of banks' responses on lending standards, Q2 2009

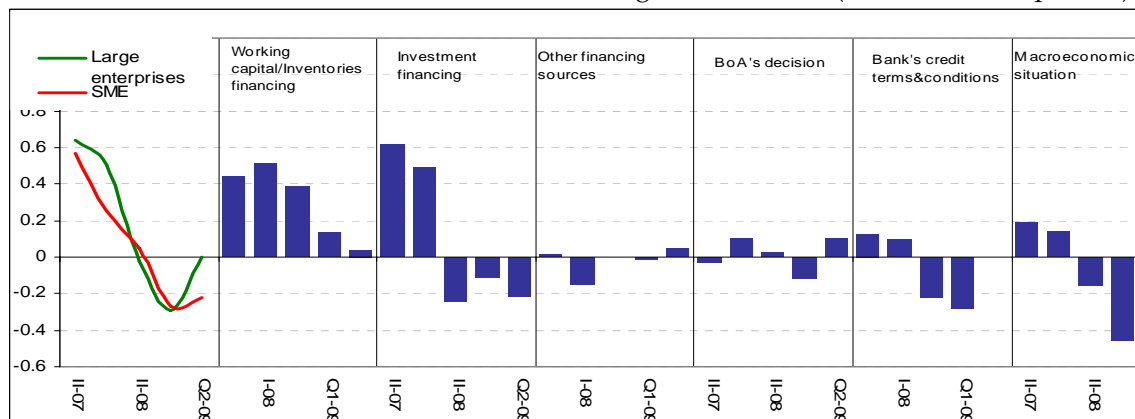
	Total	SME	Large Corporate	Working capital	Investment
Tightened considerably	-	-	-	-	-
Tightened somewhat	4 banks	3 banks	3 banks	4 banks	5 banks
Mainly unchanged	6 banks	7 banks	7 banks	6 banks	5 banks
Eased somewhat	-	-	-	-	-
Eased considerably	-	-	-	-	-
Total	10	10	10	10	10
Net Balance^{*)}	-23.4%	-18.2%	-18.2%	-23.4%	-30.2%

Source: Bank of Albania

^{*)} See note 1.

Loan demand. In the second quarter of 2009, net demand for business loans increased slightly compared to the previous quarter, even though SMEs' demand remains negative. In terms of purpose of use, net demand for investment loans increased considerably over the second quarter of 2009. Moreover, demand for working capital was positive. According to banks' experts, the increasing net demand for loans was mainly driven by the business need for working capital, the lower alternative financing resources and the Bank of Albania decisions. In the meantime, banks' assessed the need to finance investment-related loans as an insignificant factor.

Chart 2 Business loan demand and factors contributing to net demand (net balance²⁾, in percent



Source: Bank of Albania

Note 2: The positive balance shows an increase of demand or that the factor has contributed to the increase of demand. The negative balance shows a fall of demand or that the factor has contributed to the fall of demand for loans.

Table 2. Summary of banks' responses on the performance of business demand for loans, Q2 2009

	SME	Corporate	Working capital	Investment
Considerably higher	-	1 bank	1 bank	-
Slightly higher	2 banks	3 banks	3 banks	2 banks
Almost the same	6 banks	3 banks	4 banks	5 banks
Slightly lower	1 bank	3 banks	2 banks	2 banks
Considerably lower	1 bank	-	-	1 banks
Total	10	10	10	9
Net balance^{*)}	-21.8%	0.4%	4.9%	-22.8%

Source: Bank of Albania

^{*)} See note 2.

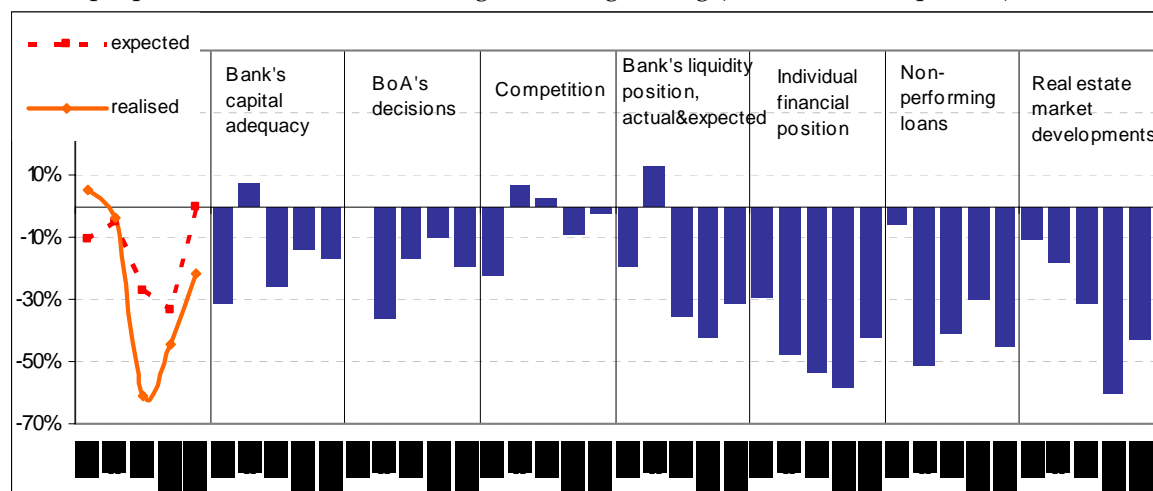
Expectations. Expectations regarding the lending standards applied on enterprises for the third quarter of 2009 point to a further easing compared with the actual net tightening. Expectations regarding the net demand for business loans point to its positive shift for the next quarter. The net balance is positive for both SMEs and large enterprises.

Individual Loans

Lending standards for individual loans remained tightened in the second quarter of 2009; however, they eased slightly compared with the higher net tightening in the first quarter. There is a higher net percentage of banks reporting easing lending standards, the net balance increased at -21.6 percent from -44.3 percent in the previous survey. In the current quarter, lending standards applied on consumer loans have been more tightened than those applied on housing loans.

The main factor defining the net tightening of lending standards for the second quarter of 2009 relates to non-performing loans, whose net balance is -45.2 percent compared to -29.8 percent in the previous quarter. In addition to non-performing loans, as in the previous quarter, households' financial situation and real estate market developments also contributed to the net tightening of lending standards.

Chart 3. Changes in lending standards applied on individual loans for housing and consumption-related purposes and factors contributing to their tightening (net balance¹⁾, in percent)



Source: Bank of Albania

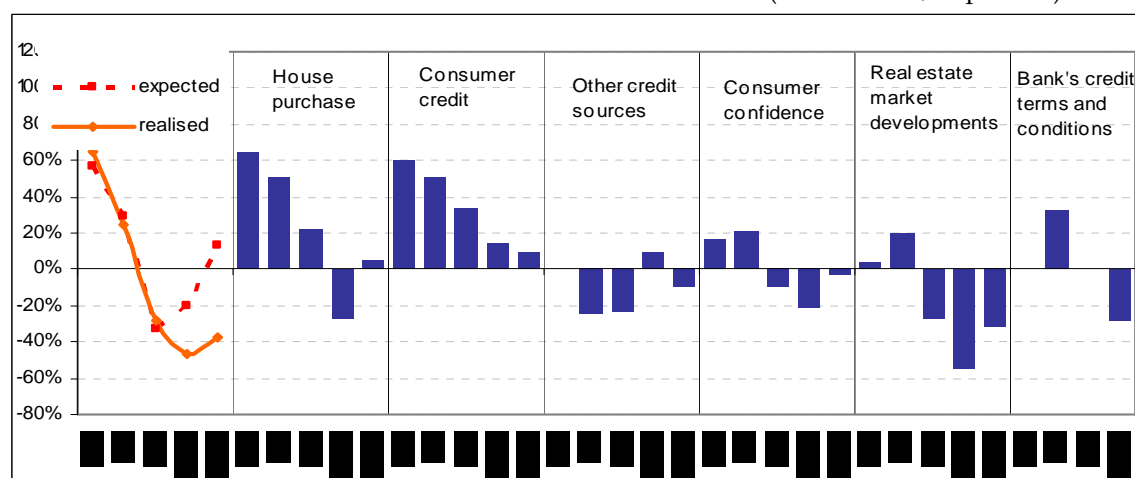
^{*)} See note 1.

As regards to terms and conditions on individual loans, banks' tightening policy in the second quarter of 2009 was implemented via the widening of the average margin on riskier loans and the tightening collateral requirements in proportion to the loan amount (net balances -39.7 and -41.8 percent, respectively).

Loan demand. Banks' experts report a slight upward shift in individual demand for loans compared with the decline in the previous quarter. The net demand for consumer loans is lower than the one for housing loans.

Individuals' need to finance the purchase of their houses and consumption represent the factors to have provided a slight positive contribution to the higher demand for loans. On the other hand, real estate market developments are the factor to have provided the highest contribution to the fall of consumer demand. Along the same line but at lower intensity, other factors to have contributed are: the use of alternative financing resources (lower savings or borrowing from other institutions), consumer confidence and the terms and conditions applied by banks.

Chart 4. Individual demand for loans and contribution of factors (net balance*), in percent



Source: Bank of Albania

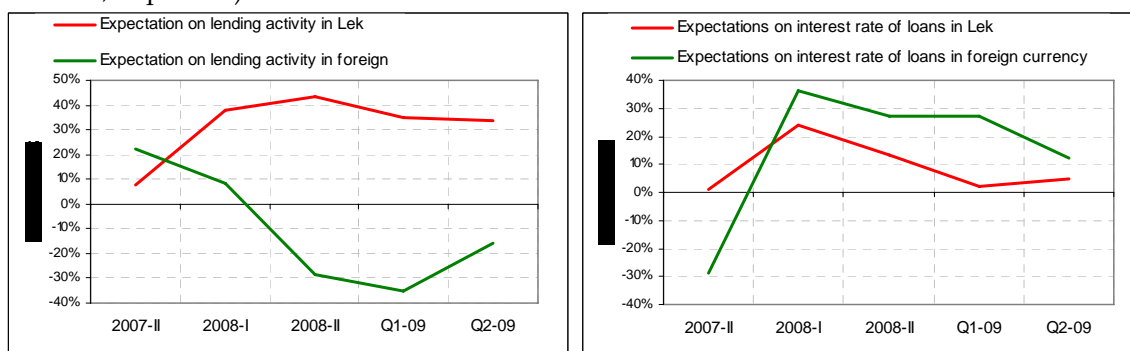
*) See note 2.

Expectations. For the third quarter of 2009, reporting banks do not expect further tightening in the lending standards applied on individual loans. Net loan demand is expected to be positive in the third quarter of the current year.

Lending activity by currency

For the third quarter of 2009, reporting banks expect the overall lending activity in ALL to increase and the lending activity in foreign currency to decrease. This trend has been shown since the second half of 2008 (see Chart 5). Banks expect higher interest rates on ALL loans to be extended in the third quarter of 2009. The net percentage of banks expecting higher interest rates on foreign currency and ALL loans is +12.3 and +4.7 percent, respectively.

Chart 5 Banks' expectations of lending activity by currency for the quarter ahead (net balance*), in percent

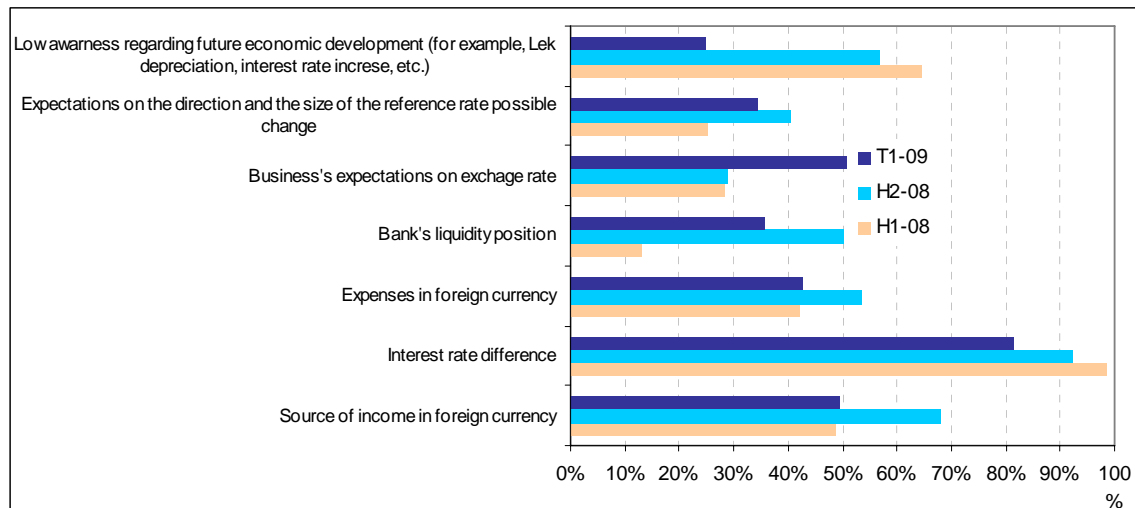


Source: Bank of Albania

*) A positive net balance shows an increase in lending activity or higher interest rate and a negative net balance shows a decrease in lending activity or lower interest rate.

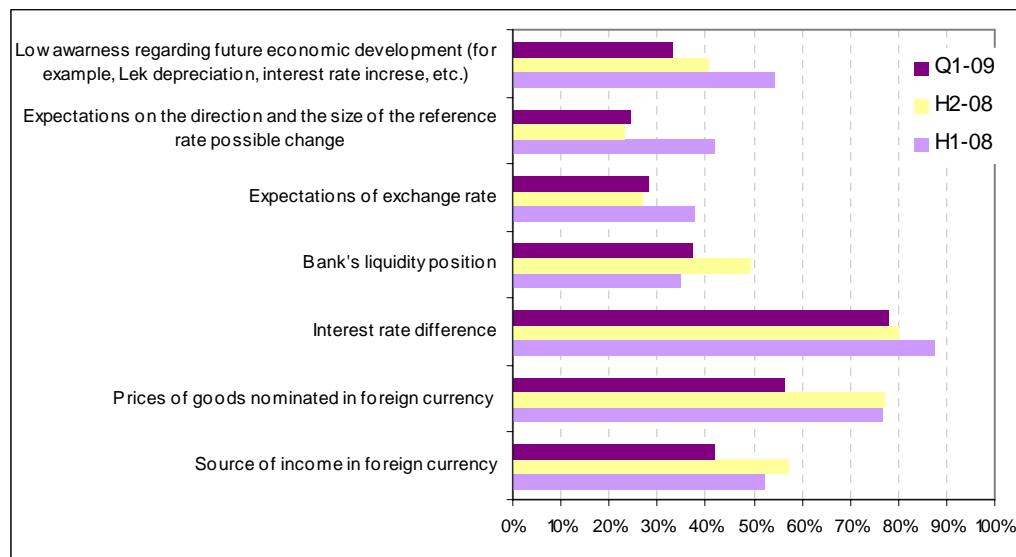
Banks' experts have also assessed the factors that boost business and consumer demand for foreign currency loans. The spread in interest rates and the source of foreign currency-denominated income is the main driving force for business demand for foreign currency loans. Meanwhile, the main driving forces for individual demand for foreign currency loans are the spread in interest rates and the prices of purchased goods expressed in foreign currency.

Chart 6 Factors affecting business demand for foreign currency-denominated loans



Source: Bank of Albania

Chart 7 Factors affecting individual demand for foreign currency-denominated loans



Source: Bank of Albania

Annex 1

Business Loans

In aggregating the results, each opinion is weighted based on the response. For example, banks providing the response that standards have “have tightened considerably” have acquired the double of the weight compared to the response “have tightened slightly”. The results are analyzed by calculating the net balance as the difference of the weighted balances of banks, which have reported easing/tightening of standards/demand. The net balances are scaled for the purposes of acquiring values within the interval +/- 100.

	NET BALANCES			
	2008-I	2008-II	2009-Q1	2009-Q2
How have bank's standards for loan approval changed?				
- Previous quarter	-26.2	-53.5	-60.3	-22.5
- Next quarter	-17.7	-50.0	-22.4	-0.9
Factors affecting the bank's standards for loan approval:				
- Bank's capital adequacy	-4.7	-13.4	-9.3	-14.5
- BoA's decisions	-42.8	-12.9	-10.1	-10.3
- Competition in the banking system	-9.9	-7.4	-9.3	1.0
- Current or expected liquidity level	-	-31.1	-37.4	-31.4
- Business sector-related specific problems	-48.7	-62.8	-84.3	-71.3
- Current or expected macroeconomic situation	-53.7	-84.3	-83.8	-69.2
- Non-performing loans	-30.9	-48.3	-60.4	-47.8
How have the terms and conditions for loan approval changed?				
- Average margin	30.0	59.9	-54.0	-21.5
- Margin for risky loans	-19.0	-12.3	-45.7	-46.0
- Commissions	6.0	-17.0	-10.1	-6.2
- Loan amount	9.0	-40.2	-32.7	6.4
- Requirement for the collateral/in proportion to the loan amount	-2.0	-42.8	-27.2	-41.8
- Maximum loan maturity	2.0		-56.9	-3.7
How has business demand for loans changed?				
- SME, previous semester	25.0	4.8	-26.7	-21.8
- SME, next semester	29.0	-23.8	-19.0	13.5
- Corporate, previous semester	50.0	-2.0	-29.1	0.4
- Corporate, next semester	21.0	-23.8	-28.7	12.0
Factors affecting the change of demand for loans:				
- Inventory financing	51.0	38.9	13.6	3.9
- Fixed investment financing	42.0	-11.6	-10.9	-21.5
- Use of alternative financing resources	-15.0	-1.5	-2.0	4.7
- BoA's monetary policy decisions	10.0	-17.9	-12.0	10.3
- Lending terms applied by the bank	10.0	-22.4	-28.2	0.4
- Current or expected macroeconomic situation	14.0	-16.1	-45.8	-8.9
Reasons for foreign currency lending:				
- Income source in foreign currency	48.7	68.0	49.4	50.7
- Interest rate spread	98.6	92.1	81.5	87.6

- Expenses in foreign currency	42.1	53.5	42.8	44.4
- Bank's liquidity situation	13.1	50.1	35.7	48.8
- Exchange rate expectations	28.3	28.9	51.0	28.8
- Reference interest rate expectations	25.4	40.3	34.5	25.4
- Low awareness regarding economic developments	64.5	56.9	24.8	31.4

Annex 2

Individual loans

In aggregating the results, each opinion is weighted based on the response. For example, banks providing the response that standards have "have tightened considerably" have acquired the double of the weight compared to the response "have tightened slightly". The results are analyzed by calculating the net balance as the difference of the weighted balances of banks, which have reported easing/tightening of standards/ demand. The net balances are scaled for the purposes of acquiring values within the interval +/- 100.

	2008-I	2008-II	2009-Q1	2009-Q2
How have bank's standards for loan approval changed?				
- Previous quarter	-26.2	-62.3	-43.6	21.6
- Next quarter	-5.5	-27.3	-33.5	0.0
Factors affecting the bank's standards for loan approval:				
- Bank's capital adequacy	7.1	-26.2	-14.2	-17.1
- BoA's decisions	-35.9	-17.0	-9.9	-19.5
- Competition in the banking system	-6.3	2.2	-9.3	-2.2
- Current or expected liquidity level	12.4	-35.7	-42.1	-31.3
- Individual's financial situation	-47.7	-53.3	-58.3	-42.6
- Non-performing loans	-51.6	-40.9	-29.8	-45.2
- Developments in the real estate market	-18.0	-31.7	-60.2	-43.2
How have the terms and conditions for loan approval changed?				
- Average margin	6.0	-37.7	-57.9	-27.3
- Margin for risky loans	-21.0	-57.4	-46.1	-39.7
- Commissions	-2.0	-10.4	-11.7	-7.7
- Loan amount	-6.0	-37.5	-32.4	-11.4
- Requirement for the collateral/in proportion to the loan amount	-1.0	-30.1	-44.7	-41.8
- Maximum loan maturity	-3.0	-20.3	-20.9	-0.0
How has individual demand for loans changed?				
- Housing loans	25.3	-29.3	-53.1	-35.9
- Consumer loans	22.8	-26.9	-40.4	-39.0
Factors affecting the change of demand for loans:				
- Individual's need to finance the purchase of the house	50.9	22.4	-27.1	5.2
- Individual's need to finance consumption	50.7	33.3	14.2	9.6
- Use of alternative financing resources	-24.6	-23.3	10.2	-9.7
- BoA's monetary policy decisions	-5.6	5.5	-8.6	2.7
- Consumer confidence	21.1	-10.3	-21.3	-3.5
- Developments in the real estate market	19.6	-27.3	-54.5	-32.0
- Lending terms applied by the bank	32.3	0.5	-28.3	-5.8

Reasons for foreign currency lending:				
- Income source in foreign currency	52.1	57.1	42.0	52.8
- Prices of purchased goods are in foreign currency	76.7	77.4	58.6	73.0
- Interest rate spread	87.5	79.9	82.2	75.5
- Bank's foreign currency-denominated liquidity situation	34.8	49.5	39.5	39.6
- Exchange rate expectations	37.7	27.0	28.0	44.3
- Reference interest rate expectations	41.7	23.3	24.4	28.0
- Low awareness regarding economic developments	54.4	40.7	37.7	26.8