

Bank of Albania  
Monetary Policy Department



**Bank Lending Survey Results  
November 2009<sup>1</sup>**

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Bank lending survey results show that the lending standards remained tight in the third quarter of 2009, although at a lower level than in the previous quarter. The majority of surveyed banks report that they kept their lending standards unchanged -both for business and household loans- from the second quarter of 2009. This performance attests to the turning point in the lending standards' tightening trend of the second quarter of the present year. The tightening of lending standards was higher for businesses than for households. In terms of business size, small and medium-sized enterprises were subject to tighter lending standards than large enterprises. While in terms of purpose of use, investment-related loans were subject to tighter lending standards than working capital-related loans.

All the considered factors kept the lending standards tight in the third quarter of 2009, both for business and household loans. In general, the impact of factors on lowering the financial system's willingness to extend credit was lower than in the second quarter of 2009, excluding the factors related to non-performing loans -both for business and households-, and the households' financial situation.

Based on banks' responses, business demand for loans fell again in the third quarter of 2009 after a slight improvement in the second quarter the present year. By contrast, household demand for loans improved slightly in the third quarter of 2009 vis-à-vis the very low and negative level of the previous quarter.

Expectations for the last quarter of 2009 show that banks will continue to apply similar lending standards as in the third quarter of 2009, both for business and household loans.

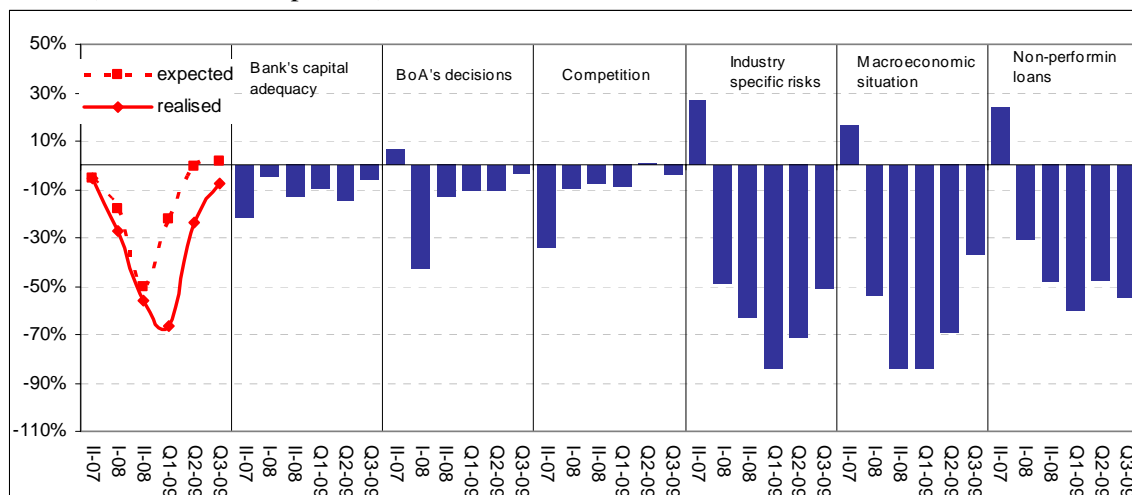
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<sup>1</sup> The survey conducted in October 2009 covers the developments in lending activity during the third quarter of 2009 and banks' expectations of possible changes in the lending activity during the last quarter of 2009.

## Business Loans

The net tightening of lending standards was lower in the third quarter of 2009: the net balance increased to -7.6 percent compared with -23.4 percent in the second quarter of 2009. The majority of banks' experts state that they kept the lending standards unchanged from the previous quarter. All the factors have led to less tight lending standards, excluding the one related to non-performing loans, whose contribution has increased (Chart 1). The most important driving forces behind the tightening of lending standards remain the business-specific problems (net balance: -51 percent), macroeconomic situation in the country (net balance: -37 percent) and the performance of non-performing loans (net balance: -55 percent).

Chart 1 Changes in lending standards applied on business loans and the impact of different factors (net balance<sup>1)</sup>, in percent)



Source: Bank of Albania

Note 1. The positive balance 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.

Banks have applied tighter lending policy mainly through the application of higher commissions, the reduction of the loan amount and that of the maximum loan maturity. The average loan margin and the collateral requirement, albeit still tight, have slightly loosened in the third quarter of 2009.

The less tight lending standards in the third quarter of 2009 were reflected in loans to small and medium-sized enterprises (SMEs) and corporate loans. In contrast to previous surveys, the lending standards applied on SME loans were slightly tighter than those applied on corporate loans. In terms of purpose of use, the lending standards applied on loans for working capital purposes loosened for the first time this quarter (balance: +3 percent). The net percentage of banks reporting looser lending standards for investment-related purposes remains negative (-11 percent), although at lower levels compared with -30 percent in the second quarter of 2009.

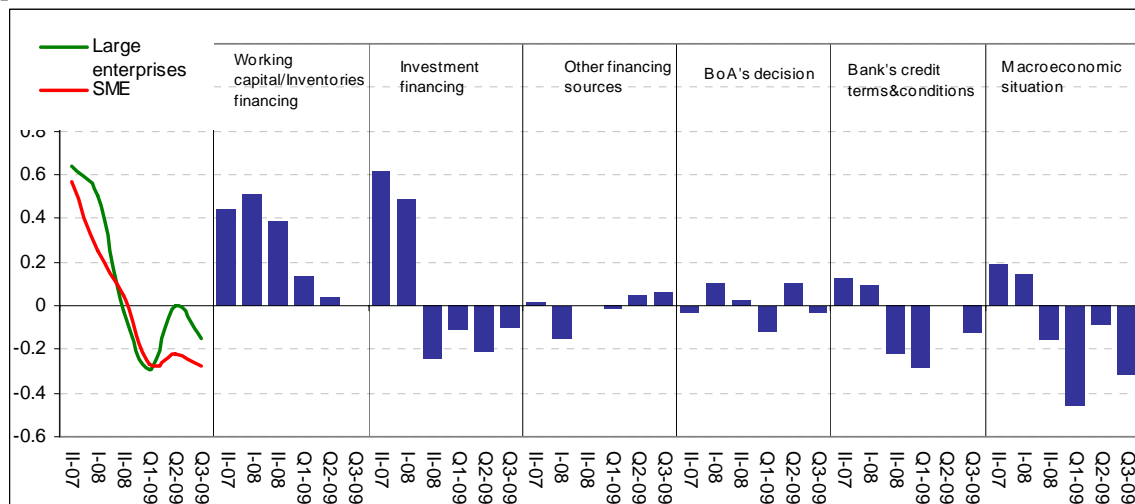
Table 1 Summary of banks' responses on the performance of lending standards, Q3 2009

	Total	SME	Corporate	Working Capital	Investment
Tightened considerably	-	-	-	-	-
Tightened slightly	1 bank	1 bank	1 bank	-	2 banks
Mainly unchanged	8 banks	9 banks	7 banks	9 banks	7 banks
Eased slightly	1 bank	-	2 banks	1 bank	1 bank
Eased considerably	-	-	-	-	-
<b>Total</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Net balance<sup>*)</sup></b>	<b>-8%</b>	<b>-12%</b>	<b>-5%</b>	<b>3%</b>	<b>-11%</b>

Source: Bank of Albania

\*) See Note 1.

**Loan Demand.** After experiencing some slight growth in the second quarter of 2009, the net demand for business (SME and corporate) loans fell in the third quarter of the current year. The fall owes mainly to the lower business demand for investment-related loans, whose net balance dropped to -33 percent versus -23 percent in the previous quarter. According to banks, other factors that have led to the fall of demand relate to the tight lending standards applied by banks and the current and expected macroeconomic situation. In the meantime, the factors that have contributed to the growth of business demand for loans are the lower use of alternative financing resources, such as the use of domestic funds or borrowing from other non-bank institutions.

Chart 2 Business demand for loans and the contribution of selected factors (net balance<sup>2)</sup>, in percent)

Source: Bank of Albania

Note 2. The positive balance indicates the growth of demand or that the factor has contributed to the growth of demand for loans. The negative balance indicates the 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, Q3 2009

	SME	Corporate	Working Capital	Investment
Considerably higher	-	-	-	-
Slightly higher	2 banks	3 banks	2 banks	2 banks
Almost the same	3 banks	2 banks	5 banks	2 banks
Slightly lower	3 banks	4 banks	2 banks	4 banks
Considerably lower	2 banks	1 bank	1 bank	2 banks

Total	10	10	10	9
Net balance <sup>*)</sup>	-28%	-27%	-19%	-33%

Source: Bank of Albania

<sup>\*)</sup> See Note 2.

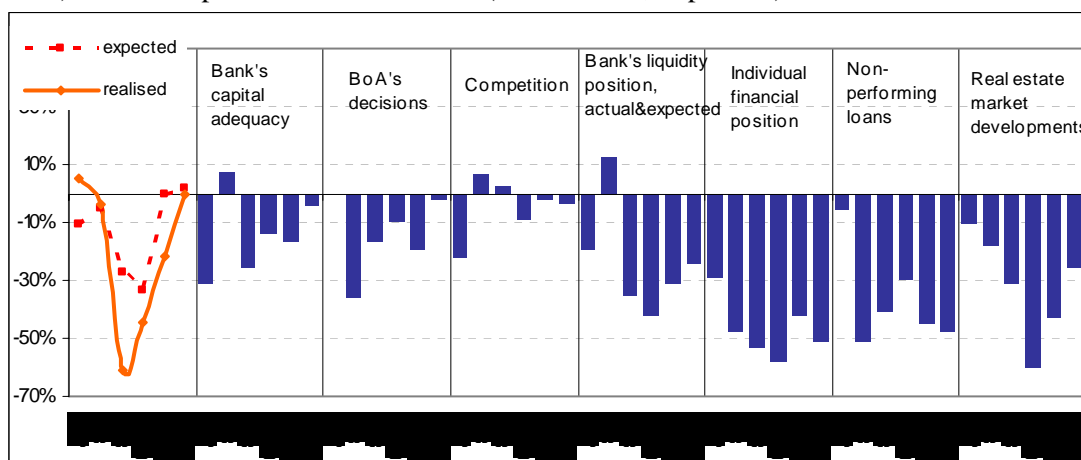
**Expectations.** Banks expect the lending standards to slightly loosen in the last quarter of 2009 (net balance: +1.4 percent). The looser lending standards will be evident only for SME loans and for working capital-purposes loans. Banks' experts expect the demand for loans to be negative in the last quarter of 2009.

### Household Loans

The lending standards applied on household loans did not undergo any changes in the third quarter of 2009 relative to the previous one. Therefore, the net balance recorded the neutral value of zero. This represents an increase by 21.6 percentage points compared with the previous quarter's balance. Banks report that the lending standards applied in the third quarter of 2009 remained almost similar to the ones applied in the second quarter for housing loans and consumer loans.

The factors to have provided the main contribution to the tightening of lending standards during the third quarter of 2009 remain similar to those of the second quarter. More concretely, the household's financial situation is ranked the most significant factor in this regard. Its net balance for the third quarter is -51.2 percent versus -42.6 percent in the previous quarter. Other factors relate to non-performing loans and the developments in the real estate market.

Chart 3 Changes in the lending standards applied on household loans (housing and consumer loans) and the impact of different factors (net balance<sup>\*)</sup>, in percent)



Source: Bank of Albania

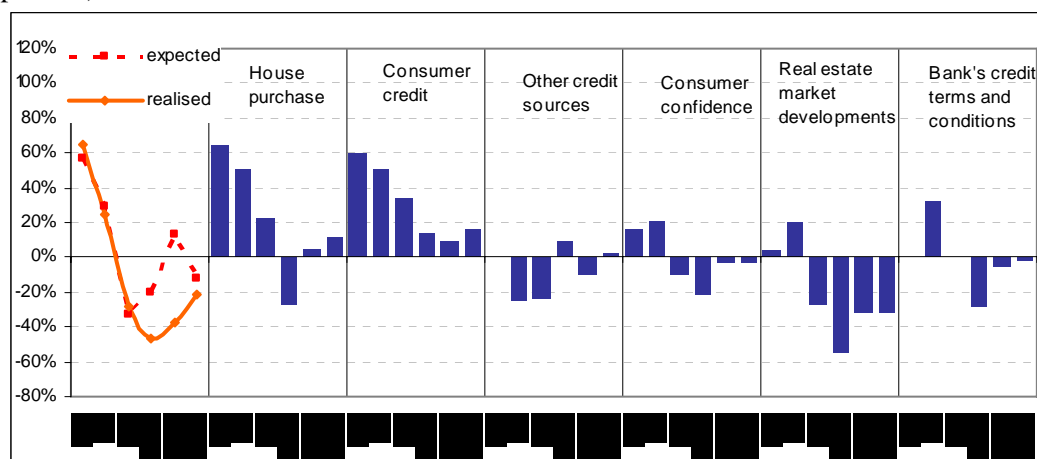
<sup>\*)</sup> See Note 1.

Banks' tight lending policy during the third quarter of 2009 was applied through the maintenance of almost similar lending standards for household loans. The average margin, the margin for higher-risk loans and the collateral requirement as a ratio to the amount of loan, albeit still tight, are almost similar to the second quarter's standards.

Other factors, namely the capital adequacy, competition in the banking system and liquidity, led to further tightening although at lower intensity.

**Loan Demand.** Household demand for loans has been less negative during the current quarter. Households' needs to finance consumption and the house purchase are the main factors to have provided a positive contribution to the growth of household demand for loans. On the other hand, the developments in the real estate market continue to represent the main driving force behind the fall of household demand for loans. Other factors, namely the use of alternative financing resources (lower savings or borrowing from other institutions), consumer confidence and the lending standards applied by banks, have provided additional contribution to the fall of household demand for loans, although at lower intensity.

Chart 4 Household demand for loans and the contribution of selected factors (net balance<sup>\*)</sup>, in percent)



Source: Bank of Albania

<sup>\*)</sup> See Note 2.

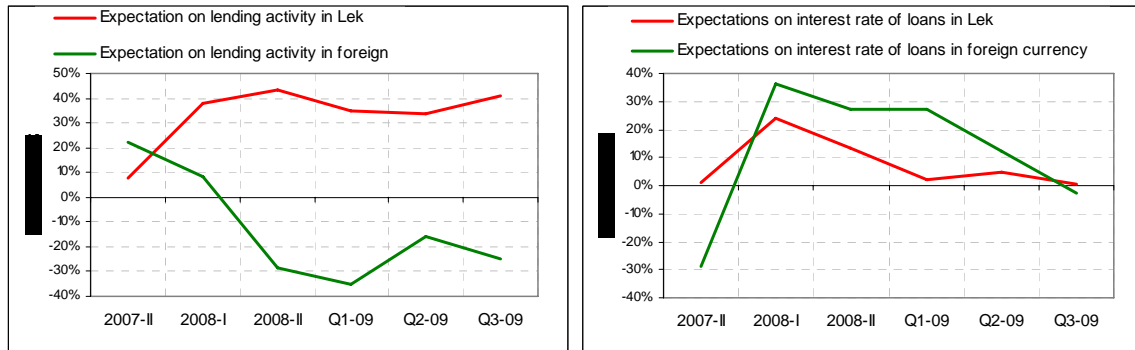
**Expectations.** Banks do not expect further tightening of lending standards applied on household loans in the last quarter of 2009. As regards the loan demand, banks' experts expect it to remain at similar levels in the last quarter of 2009 as in the previous quarter.

### Lending Activity by Currency

The net percentage of banks expecting higher lending growth rates in ALL in the last quarter of 2009 has increased. Its net balance is 41.1 percent compared with 33.6 percent in the previous quarter. At the same time, there is a higher percentage of banks expecting a decline in the lending activity in foreign currency in the last quarter of 2009; the net balance dropped to -25.0 percent from -15.9 percent in the third quarter (Chart 5). As regards the expectations of the interest rates on the loans to be extended in the last quarter of 2009, banks expect similar interest rates as in the current quarter. About 80 percent of banks do not expect changes in the interest rates on ALL and foreign currency loans. They consider the liquidity situation and cost, the competitiveness in the credit market

and the financial crisis implications as the main driving forces for maintaining similar interest rates.

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



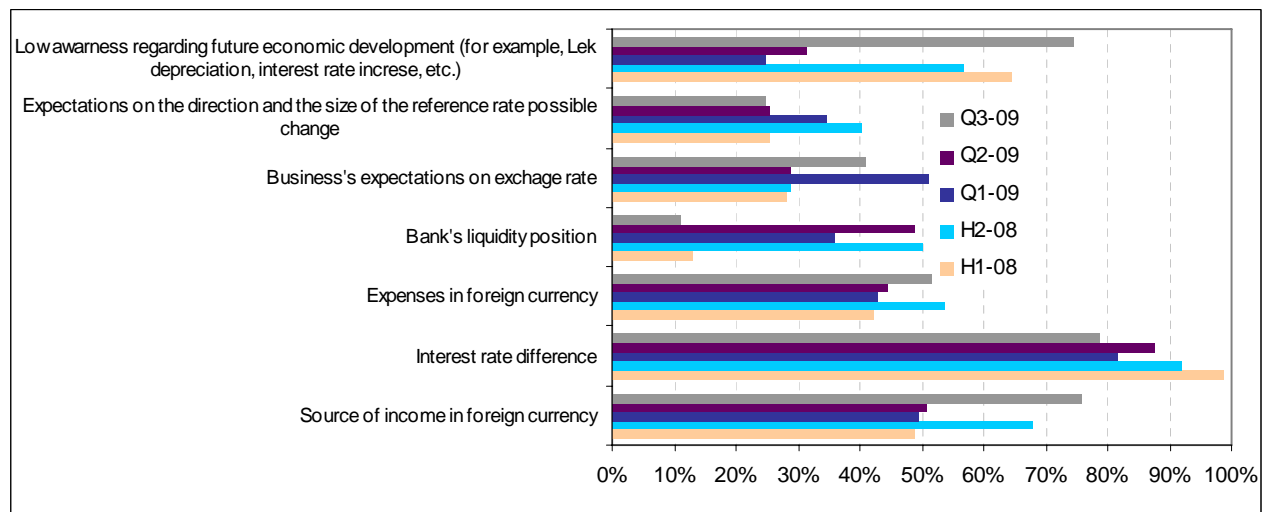
Source: Bank of Albania

<sup>\*)</sup> The positive balance indicates higher lending activity or higher interest rates. The negative balance indicates lower lending activity or lower interest rates.

As in the previous two quarters the interest rate spread remains the main driving force of household demand for foreign currency loans. In addition, there has been higher contribution of the following factors in the third quarter of 2009: source of income in foreign currency, exchange rate expectations and the low awareness of the future economic developments.

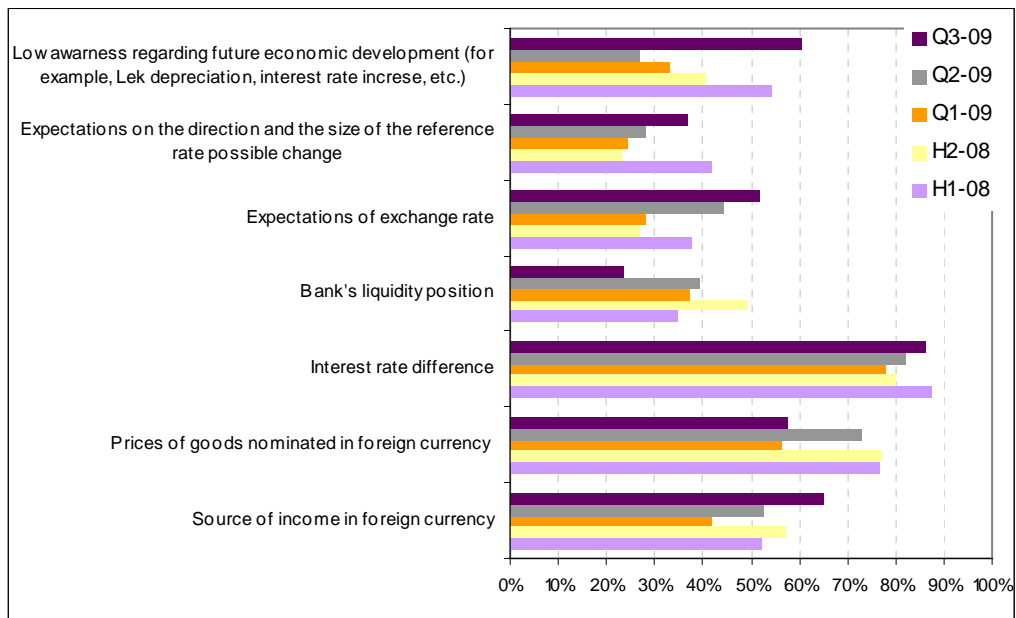
The interest rate spread and the source of income in foreign currency remain the main driving forces behind the business demand for foreign currency loans in the third quarter of 2009. The low awareness of the future economic developments (the depreciation of the ALL, higher interest rates) has almost doubled its significance as a driving factor behind the growth of demand for foreign currency lending.

Chart 7 Factors affecting the business demand for foreign currency lending



Source: Bank of Albania

Chart 8 Factors affecting the household demand for foreign currency lending



Source: Bank of Albania

## Annex 1

### Business Loans

*In aggregating the results, each opinion is weighed based on the response. For example, banks providing the response that standards “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/increase of standards/demand and those that have reported tightening/decrease of standards/demand. The net balances are scaled for the purposes of acquiring values within the interval +/- 100.*

	NET BALANCE			
	2008-II	2009-Q1	2009-Q2	2009-Q3
<b>How have bank's standards for loan approval changed?</b>				
- In the previous quarter	-55.9	-66.3	-23.4	-7.6
- In the next quarter	-50.0	-22.4	-0.9	1.4
<b>Factors affecting the bank's standards for loan approval:</b>				
- Bank's capital adequacy	-13.4	-9.3	-14.5	-6.3
- BoA's decisions	-12.9	-10.1	-10.3	-3.2
- Competition in the banking system	-7.4	-9.3	1.0	-3.8
- Current or expected liquidity level	-31.1	-37.4	-31.4	-9.3
- Business sector-related specific problems	-62.8	-84.3	-71.3	-50.9
- Current or expected macroeconomic situation	-84.3	-83.8	-69.2	-36.7
- Non-performing loans	-48.3	-60.4	-47.8	-54.7
<b>How have the terms and conditions for loan approval changed?</b>				
- Average margin	-59.9	-54.0	-21.5	-10.1
- Margin for higher-risk loans	-75.5	-45.7	-46.0	-45.9
- Commissions	-12.3	-10.1	-6.2	-10.7
- Loan amount	-17.0	-32.7	6.4	-27.5
- Collateral requirement/in proportion to the loan amount	-40.2	-27.2	-41.8	-28.9
- Maximum loan maturity	-42.8	-56.9	-3.7	-10.7
<b>How has business demand for loans changed?</b>				
- SME, previous half of the year	4.8	-26.7	-21.8	-28.0
- SME, next half of the year	-23.8	-29.1	0.4	-27.3
- Corporate, previous half of the year	-2.0	-24.7	4.9	-19.2
- Corporate, next half of the year	-23.8	-51.8	-22.8	-32.5
<b>Factors affecting the change of demand for loans:</b>				
- Inventory financing	38.9	13.6	3.9	-0.2
- Fixed investment financing	-11.6	-10.9	-21.5	-10.5
- Use of alternative financing resources	-1.5	-2.0	4.7	6.1
- BoA's monetary policy decisions	-17.9	-12.0	10.3	-3.2
- Lending terms applied by the bank	-22.4	-28.2	0.4	-12.6
- Current or expected macroeconomic situation	-16.1	-45.8	-8.9	-31.5
<b>Reasons for foreign currency lending:</b>				
- Source of income in foreign currency	68.0	49.4	50.7	76.0
- Interest rate spread	92.1	81.5	87.6	78.7
- Expenses in foreign currency	53.5	42.8	44.4	65.2
- Bank's liquidity situation	50.1	35.7	48.8	11.0
- Exchange rate expectations	28.9	51.0	28.8	41.0
- Reference interest rate expectations	40.3	34.5	25.4	24.7
- Low awareness regarding economic developments	56.9	24.8	31.4	74.7



## Annex 2

### Households Loans

*In aggregating the results, each opinion is weighed based on the response. For example, banks providing the response that standards “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/increase of standards/demand and those that have reported tightening/decrease of procedures/demand. The net balances are scaled for the purposes of acquiring values within the interval +/- 100.*

	NET BALANCE			
	2008-II	2009-Q1	2009-Q2	2009-Q3
<b>How have bank's standards for loan approval changed?</b>				
- In the previous quarter	-62.3	-43.6	21.6	0.0
- In the next quarter	-27.3	-33.5	0.0	1.8
<b>Factors affecting the bank's standards for loan approval:</b>				
- Bank's capital adequacy	-26.2	-14.2	-17.1	-4.4
- BoA's decisions	-17.0	-9.9	-19.5	-2.7
- Competition in the banking system	2.2	-9.3	-2.2	-4.0
- Current or expected liquidity level	-35.7	-42.1	-31.3	-24.2
- Household's financial situation	-53.3	-58.3	-42.6	-51.2
- Non-performing loans	-40.9	-29.8	-45.2	-47.9
- Developments in the real estate market	-31.7	-60.2	-43.2	-26.0
<b>How have the terms and conditions for loan approval changed?</b>				
- Average margin	-37.7	-57.9	-27.3	2.5
- Margin for higher-risk loans	-57.4	-46.1	-39.7	-3.8
- Commissions	-10.4	-11.7	-7.7	-2.2
- Loan amount	-37.5	-32.4	-11.4	-0.0
- Collateral requirement/in proportion to the loan amount	-30.1	-44.7	-41.8	-1.7
- Maximum loan maturity	-20.3	-20.9	-0.0	-0.0
<b>How has household demand for loans changed?</b>				
-Housing loan	-29.3	-53.1	-35.9	-26.5
-Consumer loan	-26.9	-40.4	-39.0	-16.9
<b>Factors affecting the change of demand for loans:</b>				
- Household's need to finance the house purchase	22.4	-27.1	5.2	12.3
- Household's need to finance consumption	33.3	14.2	9.6	17.0
- Use of alternative financing resources	-23.3	10.2	-9.7	2.4
- BoA's monetary policy decisions	5.5	-8.6	2.7	-4.1
- Consumer confidence	-10.3	-21.3	-3.5	-3.5
- Developments in the real estate market	-27.3	-54.5	-32.0	-32.0
- Lending terms applied by the bank	0.5	-28.3	-5.8	-1.6
<b>Reasons for foreign currency lending:</b>				
- Source of income in foreign currency	57.1	42.0	52.8	65.2
- Prices of purchased goods are in foreign currency	77.4	58.6	73.0	57.8
- Interest rate spread	79.9	82.2	75.5	79.5
- Bank's foreign currency-denominated liquidity situation	49.5	39.5	39.6	23.7
- Exchange rate expectations	27.0	28.0	44.3	51.9
- Reference interest rate expectations	23.3	24.4	28.0	37.1
- Low awareness regarding economic developments	40.7	37.7	26.8	60.5