

Bank of Albania
Monetary Policy Department



BANK LENDING SURVEY
February 2010¹

Bank lending survey results reflect the recent performance of the lending activity and provide some valuable expectations on its future developments. The aggregated survey results reveal a further tightening of the credit standards during the fourth quarter of 2009. The majority of banks (7 out of 10) kept the credit standards unchanged during this quarter, while the rest of the banks have mainly tightened them. During the fourth quarter of 2009, the net tightening of credit standards applied to businesses was lower compared to the previous one. On the other hand, credit standards on loans to households were tightened at a higher extent. Credit standards to small and medium enterprises continue to be more tightened than credit standards to large enterprises. The net balances are respectively -7.9 and -6.6 per cent. As regard to usage purposes, credit standards applied to business loans for investment financing were more tightened than those for working capital financing.

All considered factors contributed to the overall tightening of credit standards during the fourth quarter of 2009, both for businesses and households' loans, although at a lower extent than in the previous quarter. Banks have tightened the credit standards mainly through terms related to the borrowing cost. Thus, banks increased the average margin on standard loans, the margin on riskier loans as well as the loans' fees.

According to bank experts' opinions, the businesses and household loan demand has been decreasing, but at a lower pace than in the third quarter of 2009.

Expectations for the first quarter of 2010 are optimistic in terms of credit standards easing for both businesses and households, as well as for the expected loan demand.

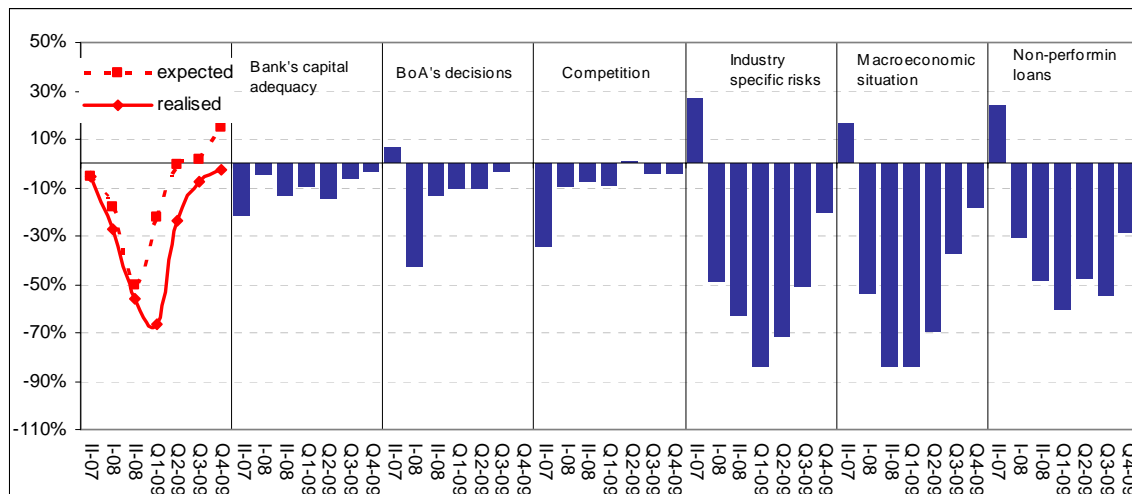
¹ The results reported in the February 2010 survey relate to changes in the lending activity during the fourth quarter of 2009 and banks expectations of possible changes in lending activity during the first quarter of 2010.

Loans to enterprises

During the fourth quarter of 2009 the tightening level of credit standards for businesses continued to decline, following the decreasing trend started in the second quarter 2009. Thus, the net percentage of banks reporting a lower rate of credit standards tightening increased compared to the previous quarter: the net balance of credit standards for businesses increased to -2.3 percent from -7.6 percent in the third quarter of 2009.

The lower degree of the credit standards tightening during the fourth quarter of 2009 was reflected in the standards applied to small and medium enterprises: the net balance rose to -7.9 percent from -12.2 percent in the third quarter of the same year. While, the net tightening of credit standards for loans to large enterprises during the fourth quarter was about 2 percentage points higher than in the third quarter. As regard to usage purposes, credit standards applied to business loans for fixed investment financing were more tightened than those for working capital financing. After a significant easing in the previous quarter, credit standards applied to loans for working capital financing, tightened further in the fourth quarter of 2009. It's net balance dropped to -3.3 percent from +3.1 percent in the previous quarter. The degree of credit standards tightening applied to loans for fixed investments financing rose by 0.4 percentage points in the fourth quarter of 2009 compared to the previous one.

Chart 1 Changes in lending standards applied on business loans and the impact of different factors (net balances¹⁾, in percentage).



Source: Bank of Albania

Note 1. The positive balance refers to the easing of credit standards or that the factors have contributed to the easing of credit standards. The negative balance refers to the tightening of standards or that the factor has contributed to the tightening of credit standards.

All the factors considered in the fourth quarter of 2009 survey have contributed to lower the tightening degree of credit standards for loans to enterprises. The most important factors behind the net tightening of credit standards in the fourth quarter continued to be: industry specific risks (net balance -20.1 percent), non-performing loans (net balance -28.0 percent) and the macroeconomic situation (net balance -18.0 percent).

In the fourth quarter of 2009, the tightening policy was implemented through terms and conditions related to the cost of borrowing: banks widened the average margin on standard loans, the margin on riskier loans as well as increased the fees. On the other hand, terms and conditions not related borrowing cost contributed to an easing of the lending policy; banks increased the average loan size and the maximum loan maturity.

Table 1 Summary of the information provided by banks on credit standards performance, during the fourth quarter of 2009.

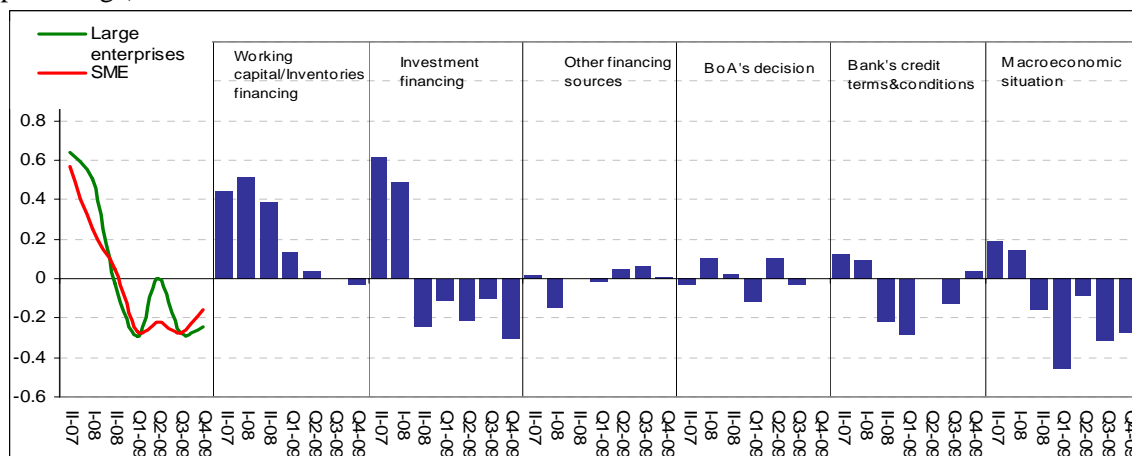
	ENTERPRISES					HOUSEHOLDS
	Total	SME ²	Corporate	Working capital	Investment	
Tightened considerably	-	-	-	-	-	-
Tightened slightly	1 bank	2 banks	3 banks	2 banks	4 banks	1 bank
Mainly unchanged	5 banks	8 banks	6 banks	7 banks	5 banks	7 banks
Eased slightly	1 bank	-	1 bank	1 bank	1 bank	-
Eased considerably	-	-	-	-	-	-
Total	8	10	10	10	10	8
Net balance^{*)}	-2.3%	-7.9%	-6.6%	-3.3%	-11.1%	-4%

Source: Bank of Albania

*) See Note 1.

Loan demand. According to bank's lending survey for the fourth quarter of 2009, participating banks report a declining of net demand for loans, nevertheless at a lower rate compared to the one in the previous quarter. Net demand for loans from small and medium enterprises was assessed less negatively than the net demand for loans from large enterprises. Net balances increased respectively by 12.2 percentage points for SME (-15.8 percent from -28.0 percent) and by 3.9 percentage points for large enterprises (-24.4 percent from -27.3 percent).

Chart 2 Business demand for loans and the contribution of selected factors (net balances²⁾, in percentage)



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 the demand for loans.

² SME – Small and Medium-sized Enterprises

The main factors contributing to the declining net loan's demand are the weakness in fixed investment financing needs and the current and expected macroeconomic situation. The net balances of these factors are -30.4 and -27.7 percent, respectively. Whereas, factors related to the use of alternative sources of financing and bank's credit standard applied to the approval of loans, provided a slight positive contribution to the demand for loans, but failing to counterbalance the factors impacting its drop.

Table 2 Summary of banks' responses on loan's demand performance during the fourth quarter of 2009.

	ENTERPRISES				HOUSEHOLDS	
	SME	Large enterprises	Working capital	Investments	House purchasing	Consumer loans
Considerably higher	1 bank	-	1 bank	1 bank	-	-
Slightly higher	1 bank	2 banks	1 bank	-	1 bank	2 banks
Almost the same	6 banks	6 banks	7 banks	3 bank	4 banks	5 banks
Slightly lower	1 bank	1 bank	1 bank	5 bank	3 banks	2 banks
Considerably lower	1 bank	1 bank	-	1 bank	2 banks	1 bank
Total	10	10	10	9	10	10
Net balance ^{*)}	-15.8%	-23.4%	-12.0%	-32.5%	-27%	-11%

Source: Bank of Albania

^{*)} See note 2

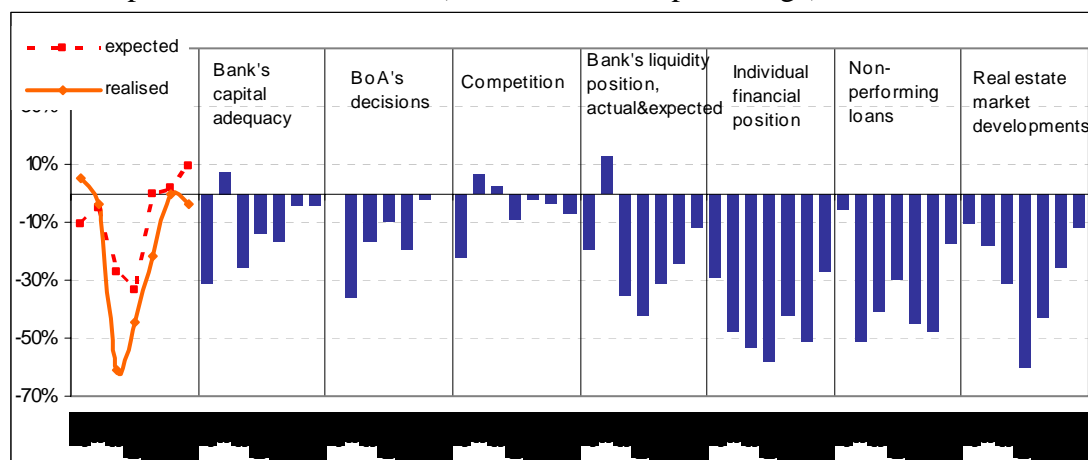
Expectations. Looking forward, for the first quarter of 2010 banks experts expect an easing of credit standards. Expectation's net balance marked + 15.2 percent. The easing of credit standards is expected for loans to small and medium enterprises and for loans to large ones (net balances point to 20.0 percent and 12.2 percent, respectively). The same trend is expected to be followed for loans for working capital financing and loans for fixed investment financing. Along with credit standards easing, banks' experts expect net loan demand to recover in the first quarter of 2010. This is noted for both, SME and large enterprises.

Loans to households

The net tightening of credit standards for loans to households was somewhat higher during the fourth quarter 2009 compared to the previous quarter (net balance dropped to -4.0 percent from 0.0 percent in the previous quarter). The tightening of credit standards was higher for consumer credit than for house purchase; net balance for consumer credit marked -8.7 percent, compared the to net balance for house purchase which marked -1.7 percent.

The further tightening of credit standards for consumer credit during the fourth quarter of 2009 was mainly driven by household's financial situation. Banks have ranked the situation of non-performing loans and the main developments the real estate market as factors still contributing to the tightening of credit standards, though at a lower pace than in the previous quarter (chart 3). The other factors considered, gave an almost insignificant contribution on credit standards applied to loans granted to households during the last quarter of 2009.

Chart 3 Changes in credit standards to household's loan (housing and consumer loans) and the impact of different factors (net balances^{*)}, in percentage)



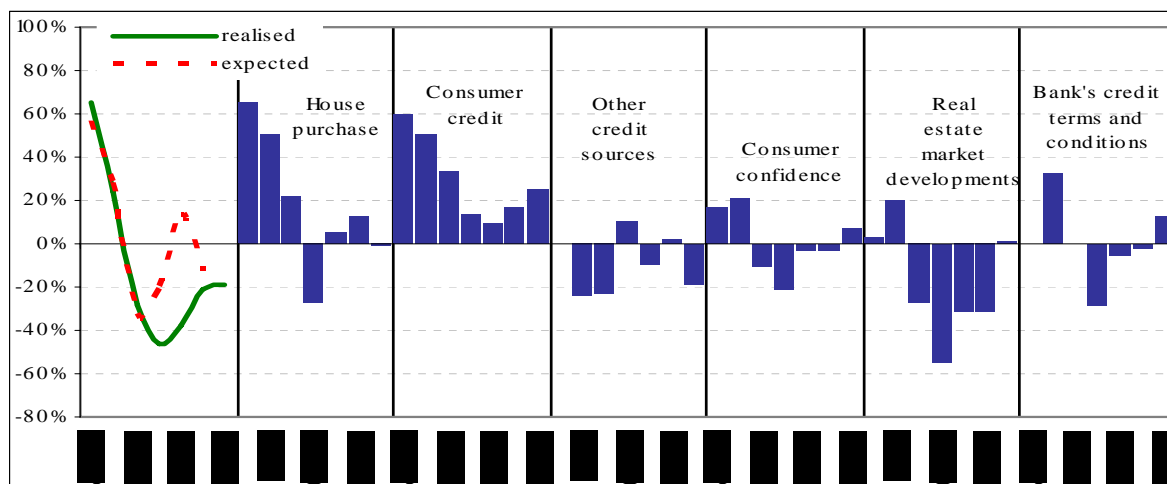
Source: Bank of Albania

^{*)} See note 1.

Banks tightened credit standards during the fourth quarter of 2009, through the increase in margin on riskier loans, whose balance reached -7.8 percent compared to -3.8 percent in the previous quarter. In contrast, banks eased somewhat credit standards by applying lower margins on loans in general and by reducing somewhat the collateral requirements according to loan's size: both net balances point to 6.7 percent. Compared to the previous quarter, banks didn't change non-interest charges and terms on the maximum maturity of the loans.

Loan demand. According to banks experts opinions, households loan demand continued to decline during the fourth quarter of 2009, albeit much less so than in the previous quarter (net balance of banks reporting demand increase is -18.7 percent compared to -21.2 percent in the previous quarter). Household's demand for house purchase was assessed weaker than the one for consumer credit. Actually, households' need to finance their consumption is ranked as the main factor promoting households demand for loans. Its net balance rose to 25.0 percent, compared to 17.0 percent in the previous quarter. On the other hand, the main factor contributing to the decrease of household's demand for loans concerns alternative financing sources, as for example the use of savings. Its net balance marked -19.0 percent (chart 4).

Chart 4. The household's demand for loans and the contribution of the selected factors (net balances^{*)}, in percentage)



Source: Bank of Albania

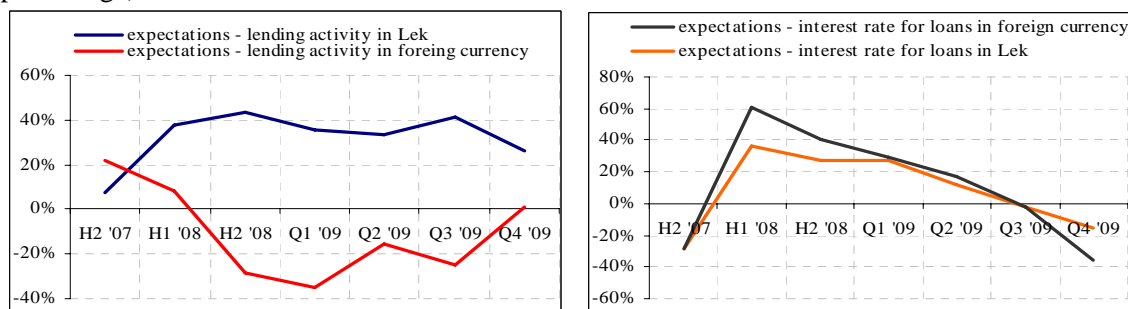
*) See note 2.

Expectations. For the first quarter of 2010, banks expect credit standards to households to ease somewhat compared to those applied over the fourth quarter of 2009. Credit standards' easing is expected to be higher for house purchase loans than for consumer credit (net balances +13.7 percent and +4.4 percent, respectively). Looking forward, banks' experts expect households' loan demand to continue to increase during first quarter of 2010 (balance +14.8 percent).

Lending activity by currency

The net percentage of banks expecting higher lending rates in ALL for the first quarter 2010 dropped by 15.2 percentage points compared to the previous quarter. The net balance dropped to 25.9 percent from 45.1 percent in the previous quarter. While lending activity in foreign currency is expected to increase slightly in the first quarter of 2010. The net balance rose to 0.8 percent from -25.0 percent in the previous quarter (Chart 5). As regard to interest rates applied on loans denominated in ALL and foreign currency which will be granted in the first quarter 2010, banks' experts state that they will be lower compared to the current quarter.

Chart 5 Banks' expectations of lending activity by currency a quarter ahead (net balances^{*)}, in percentage)



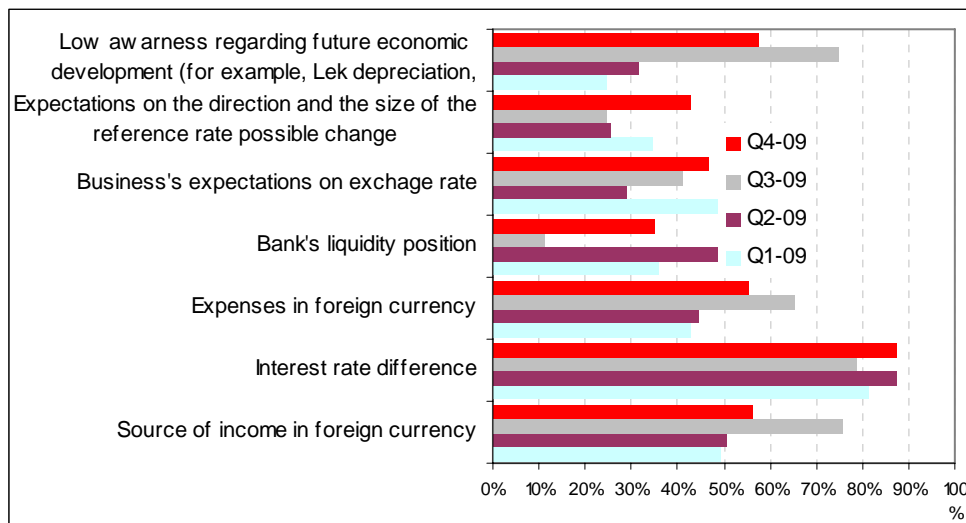
Source: Bank of Albania

*) The positive balance indicates higher lending activity or higher interest rates. The negative balance indicates lower lending activity or lower interest rates.

As regards to enterprises, over the fourth quarter of 2009, the main factor driving the demand for loans in foreign currency concerns the interest rate spread and the source of income in foreign currency.

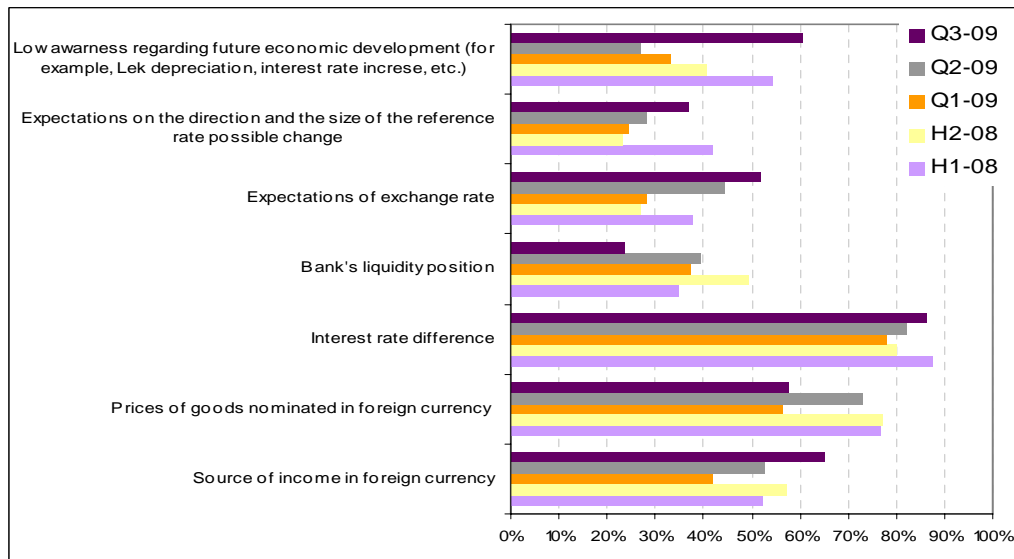
The main underlying promoting factors of household's loan demand in foreign currency continued to be the prices of goods nominated in foreign currency, source of income in foreign currency and the differences in the interest rates. On the other hand, the low awareness regarding the future economic developments, although continues to have an important impact on the loan demand, contributed to a lesser extent during the fourth quarter of 2009.

Chart 6. Factors promoting the demand for loans in foreign currency from enterprises.



Source: Bank of Albania

Chart 7. Factors promoting the demand for loans in foreign currency from households.



Source: Bank of Albania

Annex 1. Loans to enterprises

In the aggregating process of results, each opinion is weighted based on the respective 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 analysed 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 BALANCES			
	2009-Q1	2009-Q2	2009-Q3	2009-Q4
How have bank's standards for loan approval changed?				
- In the previous quarter	-66.3	-23.4	-7.6	-2.3
- In the next quarter	-22.4	-0.9	1.4	15.2
Factors affecting bank's credit standards for loan approval:				
-Capital adequacy of the bank	-9.3	-14.5	6.3	-3.3
-Bank of Albania decisions	-10.1	-10.3	-3.2	0.0
-Competition in banking system	-9.3	1.0	-3.8	-4.4
-Current or expected liquidity level	-37.4	-31.4	-9.3	-7.8
-Industry specific risks	-84.3	-71.3	-50.9	-20.1
-Current or expected macroeconomic situation	-83.8	-69.2	-36.7	-18.0
-Non performing loans	-60.4	-47.8	-54.7	-28.4
How have changed the conditions for loan approval?				
-Average margin	-54.0	-21.5	-10.1	-6.1
-Margin on riskier loans	-45.7	-46.0	-45.9	-23.3
-Commissions	-10.1	-6.2	-10.7	-5.6
-Loan size	-32.7	6.4	-27.5	1.0
-Collateral requirement/ in proportion to the loan amount	-27.2	-41.8	-28.9	0.0
-Maximum loan maturity	-56.9	-3.7	-10.7	4.5
How has the businesses demand for loans changed?				
-SME, previous half of the year	-26.7	-21.8	-28.0	-15.8
-SME, next half of the year	-29.1	0.4	-27.3	-23.4
-Corporate, previous half of the year	-24.7	4.9	-19.2	-12.0
-Corporate, next half of the year	-51.8	-22.8	-32.5	-32.5
Factor affecting loan demand changes:				
-The need for inventory financing	13.6	3.9	-0.2	-3.4
-The need for fixed investment financing	-10.9	-21.5	-10.5	-30.4
-Use of alternative financing sources	-2.0	4.7	6.1	1.0
-Bank of Albania monetary policy decisions	-12.0	10.3	-3.2	0.0
-Lending terms applied by your bank	-28.2	0.4	-12.6	4.2
-Current or expected macroeconomic situation	-45.8	-8.9	-31.5	-27.7
Factors promoting foreign currency lending:				
-Source of income in foreign currency	49.4	50.7	76.0	56.3
-Interest rate spread	81.5	87.6	78.7	87.6
-Expenses in foreign currency	42.8	44.4	65.2	55.5
-Bank's liquidity situation	35.7	48.8	11.0	35.3
-Exchange rate expectations	51.0	28.8	41.0	46.7
-Reference interest rate expectations	34.5	25.4	24.7	42.9
-Low awareness regarding economic developments	24.8	31.4	74.7	57.7

Annex 2. Loans to households

In the aggregating process of results, each opinion is weighted based on the respective 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 analysed 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 BALANCES			
	Q1 '09	Q2 '09	Q3 '09	Q4 '09
How have bank's standards for loan approval changed?				
- In the previous quarter	-43.6	21.6	0.0	-4.0
- In the next quarter	-33.5	0.0	1.8	9.0
Factors affecting bank's credit standards for loan approval:				
-Bank capital adequacy	-14.2	-17.1	-4.4	-4.4
-Bank of Albania decisions	-9.9	-19.5	-2.7	0.0
-Competition in banking system	-9.3	-2.2	-4.0	-7.2
-Current or expected liquidity level	-42.1	-31.3	-24.2	-12.1
-Households' financial situation	-58.3	-42.6	-51.2	-27.2
-Non-performing loans	-29.8	-45.2	-47.9	-17.7
-Real estate market developments	-60.2	-43.2	-26.0	-12.1
How have changed the conditions for loan approval?				
-Average margin	-57.9	-27.3	2.5	6.7
-Margin on riskier loans	-46.1	-39.7	-3.8	-7.8
-Commissions	-11.7	-7.7	-2.2	0.0
-Loan size	-32.4	-11.4	0.0	0.0
-Collateral requirement/ in proportion to the loan amount	-44.7	-41.8	-1.7	-6.6
-Maximum loan maturity	-20.9	0.0	0.0	0.0
How has household demand for loans changed?				
-Housing loan	-53.1	-35.9	-26.5	-26.9
-Consumer loan	-40.4	-39.0	-16.9	-10.6
Factor affecting loan demand changes:				
-Households need to finance the house purchase	-27.1	5.2	12.3	-1.3
-Households demand to finance consumption	14.2	9.6	17.0	25.0
-Use of alternative financing sources	10.2	-9.7	2.4	-19.0
-Bank of Albania monetary policy decisions	-8.6	2.7	-4.1	0.0
-Consumer confidence	-21.3	-3.5	-3.5	7.8
-Real estate market developments	-54.5	-32.0	-32.0	1.5
-Credit conditions applied by your bank	-28.3	-5.8	-1.6	12.7
Factors promoting foreign currency lending:				
-Source of income in foreign currency	42.0	52.8	65.2	60.9
-Prices of purchased goods denominated in foreign currency	58.6	73.0	57.8	72.4
-Interest rate spread	82.2	75.5	79.5	68.2
-Bank's foreign currency-denominated liquidity situation	39.5	39.6	23.7	14.3
-Exchange rate expectations	28.0	44.3	51.9	54.1
-Reference interest rate expectations	24.4	28.0	37.1	42.3
-Low-rate awareness regarding economic development	37.7	26.8	60.5	49.4