

Bank of Albania  
Monetary Policy Department



Bank Lending Survey Results  
April 2010<sup>1</sup>

Bank lending survey results show that the lending standards, in general, are eased slightly on loans granted to businesses and are tightened further for households in the first quarter of 2010. The performance of standards applied on businesses is in line with banks' expectations stated in the previous quarter regarding the first quarter of 2010, whereas changes in standards of households are on the reverse side relative to the expectations of the previous quarters.

Standards applied on loans granted to businesses are eased in general only for large enterprises. In the meantime, they remain on the tightening side for the small and medium-sized enterprises. According to the purpose of loan use, the easing loan standards for investments were higher than for the working capital loan. The *specific problems of the sector* the business operates, the *macroeconomic situation* and the *non-performing loans situation* provide the main factors impacting the changing direction of standards on the loan granted to businesses. These factors are ranked from banks at a higher degree compared to other factors as well as on their estimated rate during the previous quarter. The *financial situation of households*, the *situation of non-performing loans* and the *liquidity of the bank itself* have affected the tightening of loans standards to households. "*Decisions of the Bank of Albania*" is the sole factor contributing on the easing of lending standards, both for business and households' loans.

According to the opinions of banks' experts, businesses and households' demand has recorded a slight increase in the first quarter of 2010. Banks' expectations signal that the current easing of new loans approval standards shall be temporary and is expected to stop in the second quarter of 2010; however the future demand is expected to grow, for both businesses and households.

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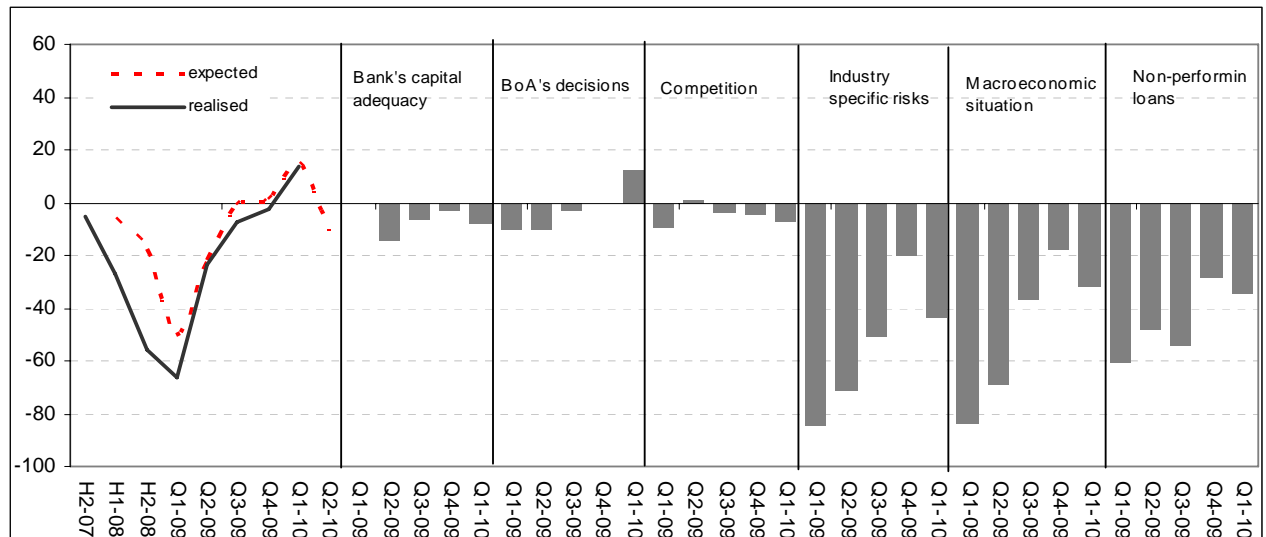
<sup>1</sup> The survey conducted in April 2010 covers the developments in lending activity occurred during the first quarter of 2010, and banks' expectations of possible changes in the lending activity during the second quarter of 2010.

## Business loans

According to the survey data for the first quarter of 2010, it comes out that banks have eased slightly the standards applied on the loan granted to business. This development is noted for the first time since the second half of 2007. Net balance<sup>2</sup>, which summarises all the weighted responses of banks regarding the standards applied from them, recorded the positive value 13.5 percent. This balance was -2.3 percent in the fourth quarter of 2009. Chart 1 reveals that the easing of standards took place almost at the same rate with expectations of banks' experts in the fourth quarter of 2009. Net balance of expectations for loan standards in the first quarter of 2010 pointed to about 15.2 percent

The easing of lending standards is applied only on large corporations. The net percentage of banks reporting an easing of the related criteria, points to +16.7 percent, relative to -6.6 percent in the previous quarter. Lending standards are tightened on the small and medium sized enterprises, but at a lower rate than in the previous quarter. Net balance for lending standards applied on small-and medium-sized enterprises resulted -3.2 percent during the first quarter of 2010. This implies a growth of 4.6 percentage points relative to the previous quarter. According to the purpose of loan use, banks have eased more the standards on investments loans, than the standards for financing purposes of working capital. Respective balances grew by 27.9 and 4.6 percentage points.

Chart 1 Changes in lending standards applied on business and the impact of different factors (*net balance*<sup>1</sup>, net percentage of banks which have loosened the standards)



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 reveals a tightening of lending standards or that the factor has contributed to the tightening of lending standards.

<sup>2</sup> Banks answers regarding the lending activity are aggregated through the indicator "net balance". The net balance is calculated as a difference of banks weighted answers, reporting lessening/increase of the standards/demand and those reporting tightening/decrease of standards/demand. The weight is calculated based on the loan portfolio ratio of each bank to total credit, for different segments of the market, in terms of the question type. (loan granted to businesses/households, denominated in ALL/in foreign currency).

In the first quarter of 2010, the main factor contributing to the tightening of the standards was *the specific problems of the sector* the business operates in. The respective balance dropped by 24 percentage points, pointing to -44.2 percent. *Macroeconomic situation* and the situation of *non-performing loans* continue to be the factors which affect the tightening of standards. The factors related to the *competition rate* in the banking system and the *capital adequacy* of banks provided an insignificant contribution in establishing the change direction of standards. *The decisions of the Bank of Albania* is highlighted as the sole factor providing an easing contribution *on lending standards*. The latter's balance recorded the positive value of 12.2 percent (Chart 1).

The easing policy of banks, during the first quarter of 2010, is mainly pursued through the application of lower commissions on the approved loan. On the other side, the other conditions related to the loan cost have supported the implementation of a tightened policy. Banks increased the margin for loans in general and for those of high risk in particular during the first quarter of 2010. The tightening of standards is implemented also through the increase of the demand for collateral.

Table 1 Summary of banks' responses on the performance lending standards, first quarter 2010

	Businesses					Households
	Total	SME <sup>3</sup>	Corporations	Working capital	Investments	
Tightened considerably	-	-	-	-	-	1 bank
Tightened slightly	1 bank	1 bank	-	1 bank	-	3 banks
Mainly unchanged	7 banks	9 banks	8 banks	8 banks	8 bank	6 banks
Eased slightly	2 banks	-	2 banks	1 bank	2 banks	-
Eased considerably	-	-	-	-	-	-
<b>Total</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Net balance<sup>*)</sup></b>	<b>13.5%</b>	<b>-3.2%</b>	<b>16.7%</b>	<b>1.3%</b>	<b>16.7%</b>	<b>-26%</b>

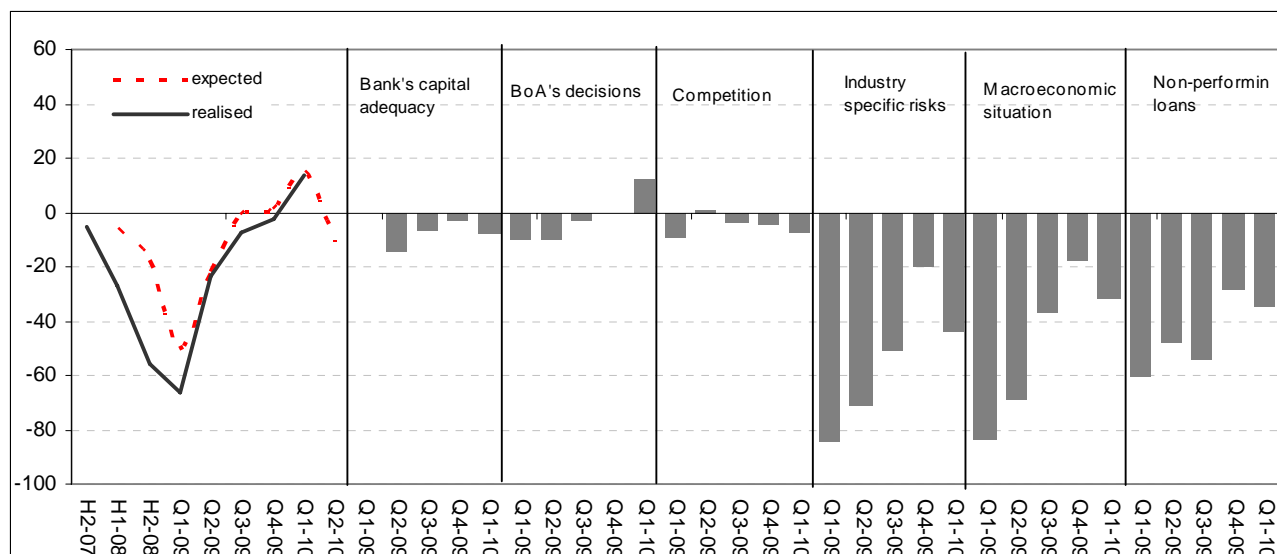
Source: Bank of Albania.

\*) See note 1.

**Loan demand.** Net demand of businesses to acquire a loan increased slightly in the first quarter of 2010, based on the opinions of banks' experts. Net percentage of banks which perceive a higher loan demand during the first quarter of 2010 is raised by 7.0 percentage points for the small-and medium-sized enterprises and by 23.3 percentage points for the big corporations.

Chart 2 Business demand for loans and the contribution of selected factors (*net balance<sup>2</sup>, net percentage of banks which have declared an upsurge of the demand*)

<sup>3</sup> SME – Small-and medium-sized enterprises



Source: Bank of Albania

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

The main factor which has set out the improvement of business' demand for loan in the first quarter of this year is the need to finance the working capital. Its net balance grew by 50.3 percentage points recording the rate +46.9 percent. Lending standards applied from banks as well and the perception on the macroeconomic situation have provided a positive contribution on the increased loan demand.

Table 2 Summary of banks' response on the performance of business demand for loan, first quarter 2010

	Business				Households	
	SME	Corporations	Working capital	Investments	House purchase	Consumer loan
Considerably higher	-	-	1	-	1	1
Slightly high	5	3	4	1	1	4
Almost equal	3	3	5	6	5	2
Slightly lower	2	2	-	3	3	3
Considerably lower	-	1	-	-	-	-
<b>Total</b>	<b>10</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Net balance<sup>*)</sup></b>	<b>-8.8%</b>	<b>-1.1%</b>	<b>27.6%</b>	<b>-13.0%</b>	<b>1.2%</b>	<b>18.9%</b>

Source: Bank of Albania

<sup>\*)</sup> See note 2

**Expectations.** The trend towards the easing of standards, recorded in the first quarter of 2010, is not expected to proceed in the forthcoming quarter. The expectations of banks' experts for the second quarter of 2010 state a tightening of loan standards. Net balance of expectations for the loan standards granted to business pointes to -10.6 percent. The tightening of loans standards granted to businesses is expected for both small and medium sized enterprises and for large enterprises, whose respective net balances of expectations point to -8.2 percent and -20.4 percent.. The same trend is expected also for

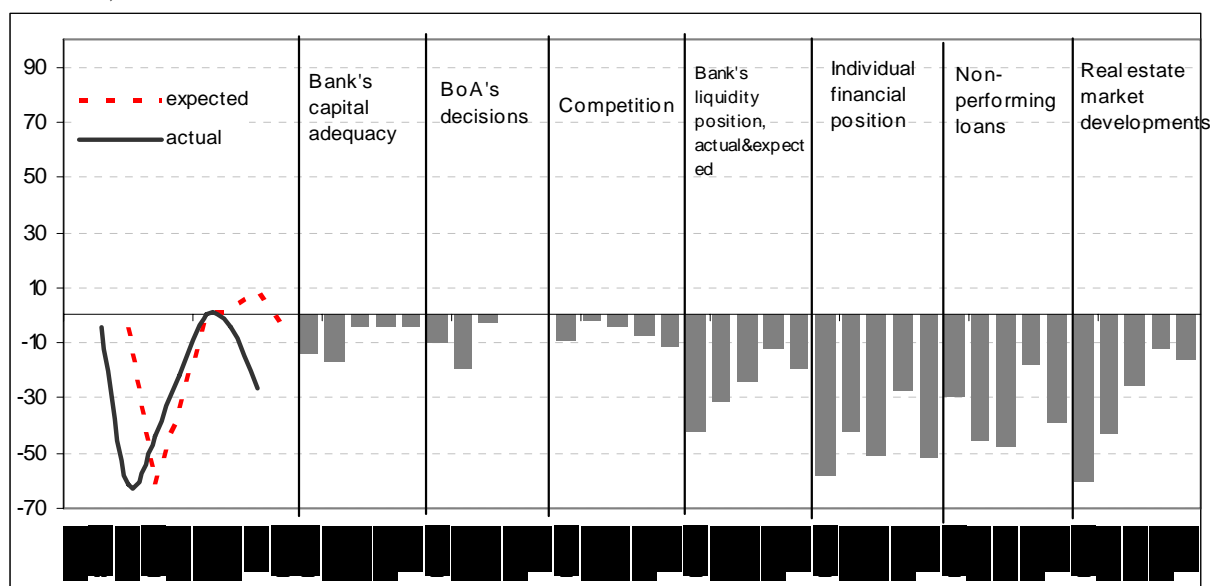
the loan granted for working capital and investments loans purposes. Notwithstanding the expected turn towards the increasing tight of loan standards, banks' experts assume a higher loan demand in the second quarter of year. This is expected from both small and medium sized enterprises and from large enterprises.

### Loans to households

Standards on loans granted to households in the first quarter of 2010 were tightened more than in the previous quarter. Net percentage of banks reporting a tightening of standards points to 26.5 percent, relative to 4 percent in the previous quarter. Standards continue to be tightened at a higher pace on the consumer loan than on the housing loan. Net balance for consumer loan recorded -24.8 percent, and the net balance for housing loan -13.4 percent.

In general, all the considered factors have contributed to the intensified strengthening of lending standards during the first quarter of 2010. *Financial situation of households* is the main factor which determined the direction of current changes on loan standards. *Non-performing loans and the developments in the real estate market* are ranked also from banks as factors providing contribution on the tightening of lending standards. All the above-mentioned factors have raised their contribution on the tightening of lending standards in the current quarter relative to the contribution provided in the previous quarter (chart 3). The other factors have provided a considerably lower contribution on the change of loan standards granted to households during the first quarter of this year.

Chart 3: Changes on loan standards applied on households loans for housing and consumption, and the impact of different factors (*net balance*\*, net percentage of banks which have eased the standards)



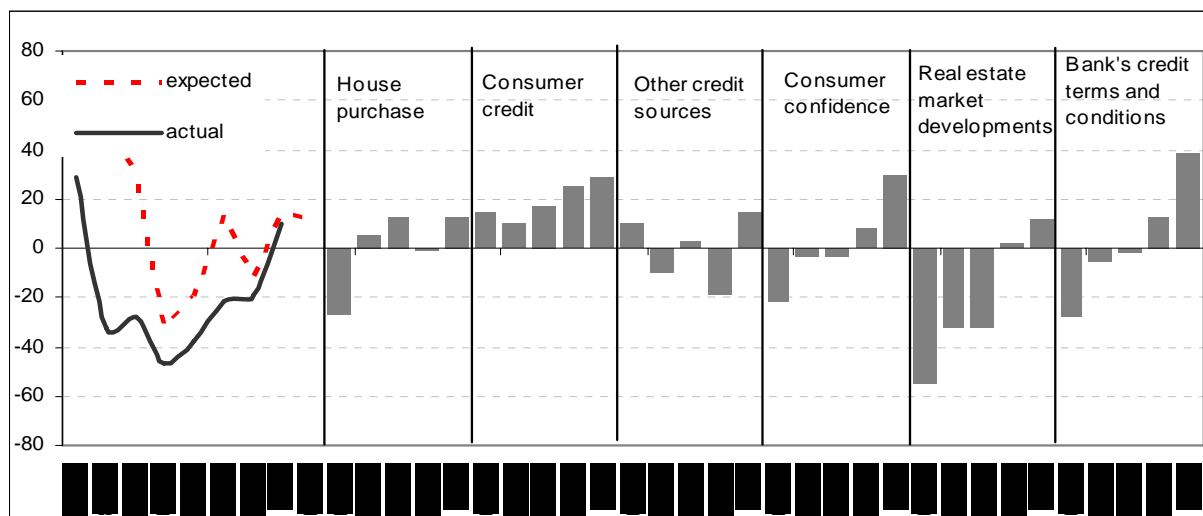
Source: Bank of Albania

\*) See note 1

Banks have strengthened lending standards during the first quarter of 2010 through the growth of the demand for collateral and the increase of margins applied on both loans in general and on loans with higher risk. The respective balances fell by 17.3, 6.9 and 10.7 percentage points. The observance of a slightly eased policy is accomplished through the increase of maximum maturity terms of loans. The net balance of this condition records the positive value of 7.7 percent. Banks kept the loan commissions unchanged since the previous quarter.

**Demand for loan.** Households demand for loan is perceived to have been increased in the first quarter of 2010. Net percentage of banks stating a higher demand pointed to +10.0 percent. In the previous quarter, this indicator recorded the value -18.7 percent. The demand on consumer loan, based on banks experts' opinion revealed higher than the house purchasing demand. The higher demand, according to banks' opinions, is encouraged also from the improvement of consumer confidence and on the perception of more eased lending conditions applied from banks (chart 4).

Chart 4 Households' demand for loan and the contribution of selected factors (*net balance\**, *net percentage of banks stating an increase of the demand*)



Source: Bank of Albania

\*) See note 2

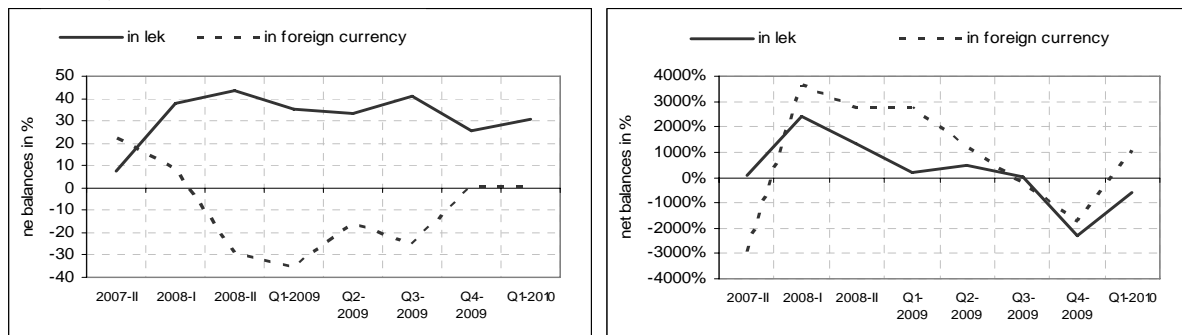
**Expectations.** For the first quarter of 2010, banks expect to tighten lending standards, but at a lower rate relative to standards applied in the first quarter of year. This development is expected to maintain the same rate applied on both consumer loan and on housing purchase loan. Banks experts expect households' demand for loan during the second quarter of year be higher. Net balance of expectations for the demand pointed to + 11.3 percent.

### Lending activity by currency

Net percentage of banks expecting a growth of lending activity pace denominated in ALL for the second quarter of 2010 is raised at 30.6 percent relative to 25.9 percent in the

previous quarter. Banks do not expect considerable changes of lending pace denominated in foreign currency in the forthcoming quarter (chart 5). Regarding the interests' rate applied on loans to be granted in the second quarter of 2010, 9 out of 10 banks for ALL-denominated loan and 8 out of 10 banks for fore exchange-denominated loan, do not expect to change it. Net percentage of repos, weighted by the respective shares of banks' size points to -5.9 percent in terms of ALL-denominated loan interests, and +10.6 percent for the foreign currency-denominated loan interests.

Chart 5 Banks' expectations of lending activity (left-hand) and the loan rates by currency (right-hand) after a quarter (*net balance\**, *net percentage of banks expecting an increase of the indicator*)

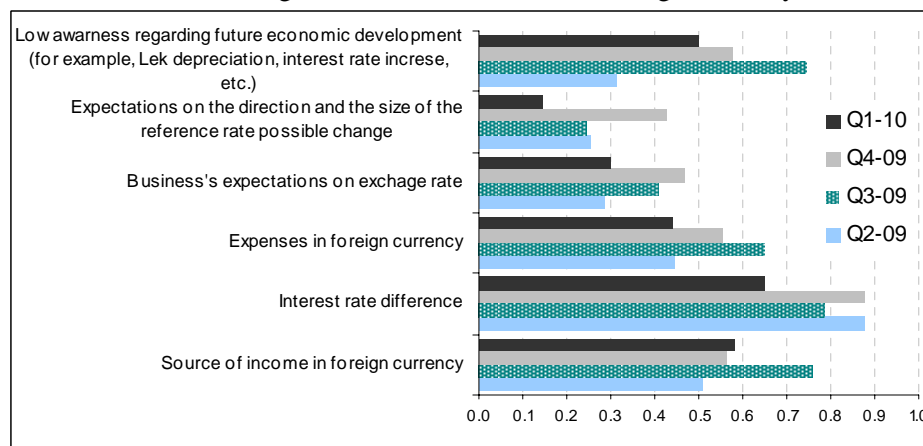


Source: Bank of Albania

\*) Positive balance reveals an increase of lending activity or raise of interest rate, meanwhile the negative balance shows a fall of lending activity or cut of interest rate

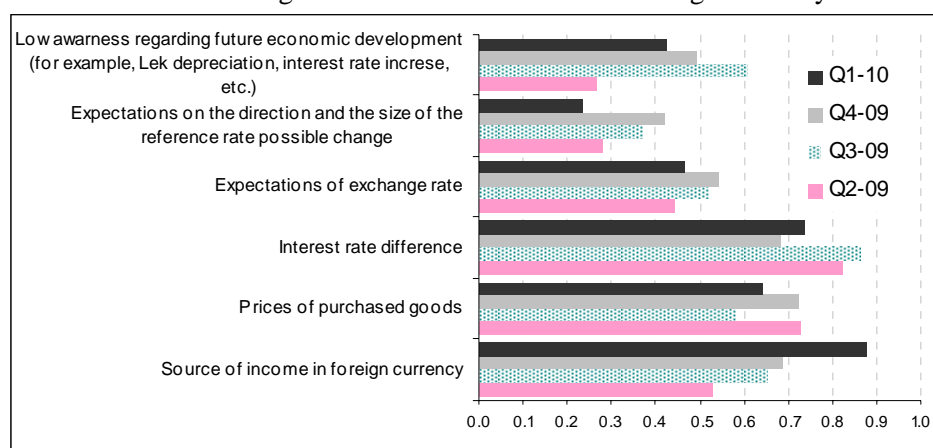
The main factors affecting the foreign currency-denominated loan for businesses continue to be the *spread of interest's rates* and the *foreign exchange income sources*. Businesses have estimated at a lower level the impact of all factors on business' demand, relative to the forth quarter of 2009 (chart 6). Main factors determining the households demand for loans are foreign exchange denominated revenues, prices of goods expressed in foreign currency and the spread of interest rates. In the meantime, the low awareness regarding the economic development in the future is estimated at a lower rate during the first quarter 2010 relative to the third and forth quarter of 2009.

Chart 6 Factors affecting the business' demand for foreign currency-denominated loan



Source: Bank of Albania

Chart 7 Factors affecting the households' demand for foreign currency- denominated loan



Source: Bank of Albania



### **Annex 1. Business Loans**

*In aggregating the results, each opinion is weighted based on the relevant response. For example, banks providing the response that standards “are tightened considerably” have acquired the double of the share relative to the response “are tightened slightly”. Results are analysed by calculating the net balance as a difference of the banks’ weighted balances, which have reported easing/increase of standards/demand and those that have reported tightening/decrease of standards/demand. Net balances are scaled for the purpose of acquiring values within the interval of +/- 100.*

	<b>NET BALANCE</b>			
	Q2 2009	Q3 2009	Q4 2009	Q1 2010
<b>How have bank’s standards for loan approval changed?</b>				
- In the previous quarter	-23.4	-7.6	-2.3	13.5
- In the next quarter	-0.9	1.4	15.2	-10.6
<b>Factors affecting the bank’s standards for loan approval:</b>				
-Bank’s capital adequacy	-14.5	-6.3	-3.3	-7.8
-BoA’s decisions	-10.3	-3.2	0.0	12.2
-Competition in the banking system	1.0	-3.8	-4.4	-7.6
-Current or expected liquidity level	-31.4	-9.3	-7.8	-4.6
-Business sector-related specific problems	-71.3	-50.9	-20.1	-44.2
-Current or expected macroeconomic situation	-69.2	-36.7	-18.0	-32.0
-Non-performing loans	-47.8	-54.7	-28.4	-34.8
<b>How have the terms and conditions for loan approval changed?</b>				
-Average margin	-21.5	-10.1	-6.1	-10.1
-Margin for higher-risk loans	-46.0	-45.9	-23.3	-27.7
-Commissions	-6.2	-10.7	-5.6	-3.6
-Loan amount	6.4	-27.5	1.0	1.0
-Collateral requirement/in proportion to the loan amount	-41.8	-28.9	0.0	-7.7
-Maximum loan maturity	-3.7	-10.7	4.5	0.0
<b>How has business demand for loan changed?</b>				
-SME previous quarter	-21.8	-28.0	-15.8	-8.8
-SME next quarter	0.4	-27.3	-23.4	-1.1
-Corporate previous quarter	4.9	-19.2	-12.0	27.6
-Corporate next quarter	-22.8	-32.5	-32.5	-13.0
<b>Factors affecting the change of demand for loans:</b>				
-Inventory financing	3.9	-0.2	-3.4	46.9
-Fixed investment financing	-21.5	-10.5	-30.4	-1.4
-Use of alternative financing resources	4.7	6.1	1.0	12.4
-BoA’s monetary policy decisions	10.3	-3.2	0.0	0.0
-Lending terms applied by the bank	0.4	-12.6	4.2	1.5
-Current or expected macroeconomic situation	-8.9	-31.5	-27.7	0.0
<b>Reasons for foreign currency lending:</b>				
-Source of income in foreign currency	50.7	76.0	56.3	58.3
-Interest rate spread	87.6	78.7	87.6	65.2
-Expenses in foreign currency	44.4	65.2	55.5	44.2
--Exchange rate expectations	28.8	41.0	46.7	30.1
-Reference interest rate expectations	25.4	24.7	42.9	14.7
-Low awareness regarding economic developments	31.4	74.7	57.7	49.9

## Annex 2. Households' loans

*In aggregating the results, each opinion is weighted based on the response. For example, banks providing the response that standards “are tightened considerably” have acquired the double of 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 procedures/demand. Net balances are scaled for the purposes of acquiring the values within +/- 100.*

	NET BALANCE			
	Q2 2009	Q3 2009	Q4 2009	Q1 2010
<b>How have bank's standards for loan approval changed?</b>				
- In the previous quarter	21.6	0.0	-4.0	-26.5
- In the next quarter	0.0	1.8	9.0	-13.4
<b>Factors affecting the bank's standards for loan approval:</b>				
-Bank's capital adequacy	-17.1	-4.4	-4.4	-4.4
-BoA's decisions	-19.5	-2.7	0.0	0.0
-Competition in the banking system	-2.2	-4.0	-7.2	-11.8
-Current and expected liquidity level	-31.3	-24.2	-12.1	-19.3
-Household's financial situation	-42.6	-51.2	-27.2	-51.8
-Non-performing loans	-45.2	-47.9	-17.7	-39.0
-Developments in the real estate market	-43.2	-26.0	-12.1	-16.5
<b>How have the terms and conditions for loan approval changed?</b>				
-Average margin	-27.3	2.5	6.7	-4.0
-Margin for higher-risk loans	-39.7	-3.8	-7.8	-14.7
-Commissions	-7.7	-2.2	0.0	0.0
-Loan amount	-11.4	0.0	0.0	-2.7
-Collateral requirement/as a ratio the loan amount	-41.8	-1.7	-6.6	-10.7
-Maximum loan maturity	0.0	0.0	0.0	7.7
<b>How has household demand changed</b>				
-Housing loan	-35.9	-26.5	-26.9	1.2
-Consumer loan	-39.0	-16.9	-10.6	18.9
<b>Factors affecting the change of demand fro loans:</b>				
-Household's needs to finance the house purchase	5.2	12.3	-1.3	12.7
-Household's need to finance consumption	9.6	17.0	25.0	29.2
-Use of alternative financing resources	-9.7	2.4	-19.0	14.8
-BoA's monetary decisions	2.7	-4.1	0.0	11.3
-Consumer confidence	-3.5	-3.5	7.8	29.9
-Developments in the real estate market	-32.0	-32.0	1.5	11.7
-Lending terms applied by your bank	-5.8	-1.6	12.7	38.6
<b>Reasons for foreign currency lending:</b>				
-Source of income in foreign currency	52.8	65.2	60.9	87.6
-Prices of purchased goods are in foreign currency	73.0	57.8	72.4	64.3
-Interest rates spread	75.5	79.5	68.2	73.6
-Exchange rate expectations	44.3	51.9	54.1	46.4
-Reference interest rate expectations	28.0	37.1	42.3	23.3
-Low awareness regarding economic developments	26.8	60.5	49.4	42.5