Bank of Albania
Monetary Policy Department

Bank Lending Survey Results
August 2010[1]

According to the results of Bank Lending Survey for the second quarter of 2010, the standards for loans to enterprises were slightly tightened. The tightening of standards is applied only for loans granted to small- and medium-sized enterprises. In the meantime, for the second consecutive quarter, the banks have eased the standards for lending to large enterprises. By purpose of loan use, the credit standards have been tighter for investment loans than for working capital. Banks' experts speak for a moderate easing of credit standards for loans to households in the current quarter compared with the tightened standards in the past two quarters.

Industry specific risks, the macroeconomic situation, the performance of non-performing loans and the financial position of households remain the main factors contributing to tightening overall credit standards. Based on the opinion of banks' experts, in Q2 2010, the demand of small and medium-sized enterprises and of households for consumer credit has increased, while corporate demand and household demand for house purchase has decreased.

Banks' tightening policy on loans to enterprises during Q2 2010 was conducted mainly by *increasing the margins* on high-risk loans and the *collateral requirement*. The increase of business loan *maturity* has helped ease the lending policy. The easing policy for household credit is carried out mainly by cutting commissions and increasing the maximum loan maturity.

For Q3 2010, banks expect easing of credit standards for both, enterprises and households. Banks' experts expect a slightly higher easing of lending terms to enterprises for working capital rather than for investment, and to households for house purchase rather than for consumption financing.

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[1] The survey conducted in July 2010 covers the developments that occurred in lending activity during Q2 2010 and the banks' expectations regarding any probable changes in the lending activity for Q3 2010.

Loans to enterprises

Based on the survey data for Q2 2010, banks have slightly tightened the credit standards applied to business loans in general, in line with Q1 forecasts. Net balance[2] was -9.9%. The tightening was a result of non-changed standards by most of banks during this period, while the rest of the banks have changed them mainly in the tightening direction. The tightening of standards is applied only for small- and medium-sized enterprises. The net percentage of banks that have tightened the standards for loans to those enterprises is 10.9%. Meanwhile, banks have continued to slightly ease the credit standards for corporate lending, albeit at a lower extent than in Q1 2010. Net balance of standards for corporate loans was +16.7% and +4.5% for Q1 and Q2 2010, respectively. Experts have reported tightening credit standards for investment loans and working capital ones.

Chart 1: Changes in business credit standards and the impact of different factors (*net balance[1], net percentage of banks easing the standards).*
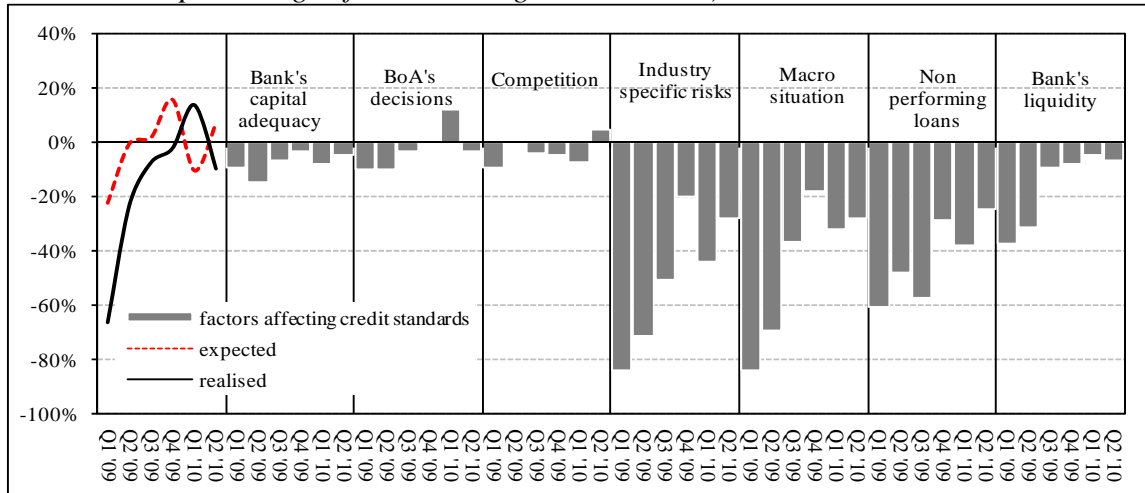
Source: Bank of Albania
Note 1 The positive balance indicates easing credit standards or that the factor has contributed to easing credit standards, whereas the negative balance indicates tightening credit standards or that the factor has contributed to tightening credit standards.

In Q2 2010, *the performance of non-performing loans, the industry specific risks* and the *macroeconomic situation* were the main factors contributing to tightening credit standards. The contribution of all the factors has slightly decreased as compared to Q1 2010. The only factor making a slight but positive impact on easing the standards is the *competition rate* in the banking system. Its net balance recorded +4.5% for the first time since Q2 2009 (Chart 1).

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[2] Banks' responses regarding the lending activity are aggregated through the "net balance" indicator. The net balance is calculated as a difference between the weighted responses of banks reporting an easing/increase of the standards/demand and of those that have reported tightening/decrease of standards/demand. The weight is calculated based on the loan portfolio ratio of each bank to total credit, for different market segments, according to type of question (business/household loans, ALL/foreign currency loans).

The banks' tightening policy during Q2 2010 has been implemented by *raising the margins* on high-risk loans and *the collateral requirement*. Increasing the approved amount and extending the maximum maturity term of a loan have helped implement a looser lending policy.

Table 1 Summary of banks' responses on the performance of credit standards, Q2 2010

|	Enterprises					Households
	Total	**SME[3]**	**Corporate**	**Working capital**	**Investments**	
Tightened considerably	-	-	-	-	-	
Tightened somewhat	2 banks	2 banks	-	1 bank	3 banks	1 bank
Basically unchanged	5 banks	7 banks	7 banks	7 banks	6 banks	8 bank
Eased somewhat	2 banks	1 bank	1 bank	2 banks	1 bank	1 bank
Eased considerably	-	-	-	-	-	
Total	**9**	**10**	**8**	**10**	**10**	**10**
Net balance[*)]	**-9.9%**	**-10.9%**	**4.5%**	**-6.6%**	**-15.4%**	**+1.5%**

Source: Bank of Albania
*) See footnote 1.

Demand for loans

In Q2 2010, the demand for loans to small and medium-sized enterprises increased, whereas the demand to large enterprises slightly decreased as compared to the previous quarter. The need *to finance the working capital* continued to be the main factor determining the demand for loans in this quarter. It was also driven by the need for financing investments, whose net balance was +22.6, from -1.4% in the previous quarter.

Chart 2 Enterprises' demand for loans and the contribution of selected factors *(net balance[2], net percentage of banks reporting an increase of the demand)*
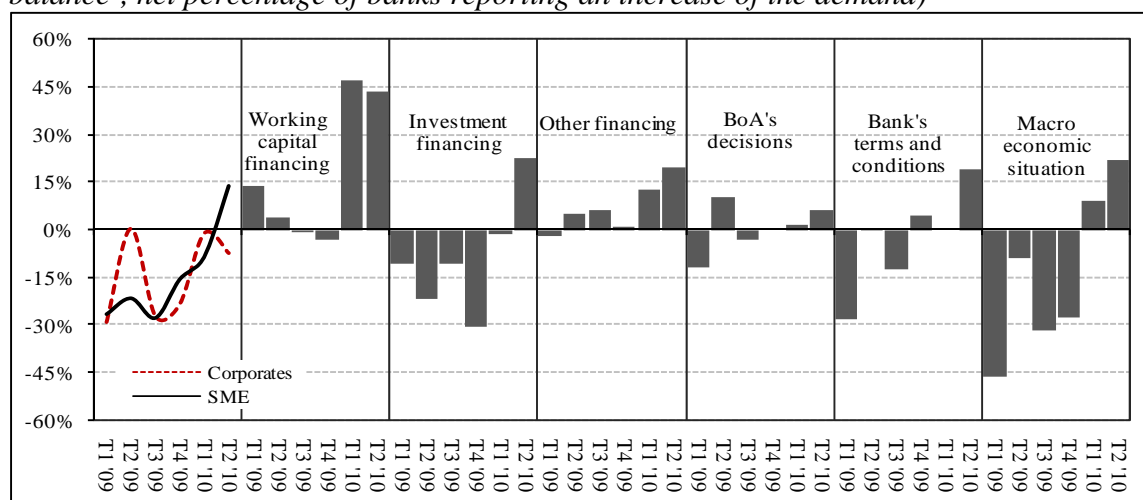
Source: Bank of Albania

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[3] SME – Small- and medium-sized enterprises

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

Table 2 Summary of banks' responses on the performance of the demand for loans, Q2 2010 .

	Enterprises				Households	
	SME	Corporate	Working capital	Investments	House purchase	Consumer credit
Considerably higher	-	-	2	-	-	-
Slightly higher	3	2	2	2	2	4
Almost equal	5	4	5	5	2	3
Slightly lower	2	3	1	3	5	3
Considerably lower	-	-	-	-	1	-
Total	**10**	**9**	**10**	**10**	**10**	**10**
Net balance[*]	**13.5%**	**-7.4%**	**18.0%**	**3.8%**	**-17.8%**	**11.4%**

Source: Bank of Albania
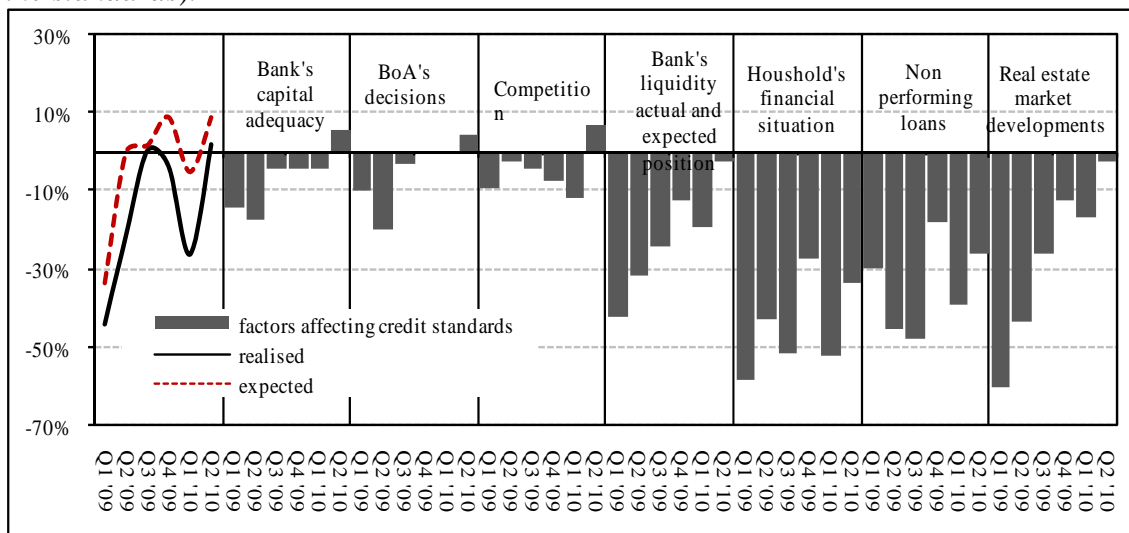[*] See footnote 2.

Expectations

For Q3 2010, the banks' experts expect easing of credit standards. The net balance of expectations is +6.7%. Easing standards for loans to enterprises is expected for both, loans to small- and medium-sized enterprises and loans to large ones. The banks' experts expect looser standards for working capital loans than for financing investments. Besides easing standards, the banks' experts expect improved credit demand over Q3 2010. This is pointed especially to large enterprises.

<u>Loans to households</u>

In the Q2 2010 survey, the banks' experts stated that they have not tightened further the standards for loans to households as compared to the previous quarter. The net percentage of banks reporting an easing of standards increased by 1.5%, versus -26.5% in the previous quarter. Credit standards were slightly eased for both, consumer credit and housing loans. Net balance of standards for consumer credit was +2.8% and for housing loans was +3.2%.

In general, all the considered factors decreased their contribution to tightening credit standards during Q2 2010. The banking system's *competition* and the improved *liquidity position* helped ease the standards for loans to households. *Households' financial position and the non-performing loans* continued to be *the main contributory factors to* tightening credit standards (Chart 3).

Chart 3 Changes in household credit standards for house purchase loans and consumer credit, and the impact of different factors *(net balance*, net percentage of banks easing the standards).*
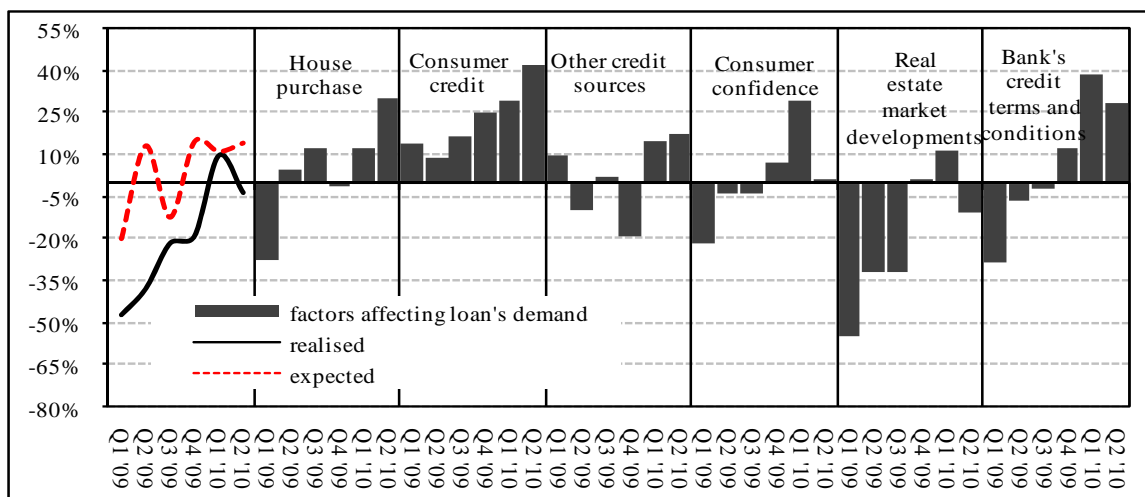

Source: Bank of Albania
) See footnote 1.

The banks eased slightly the credit standards during Q2 2010, mainly by cutting *commissions* and increasing the *maximum maturity term* of loans. The increased *collateral* requirement in relation to the amount of credit continued to significantly contribute to the implementation of a more conservative lending policy. The respective balance dropped to -14.3% from -10.7% in the previous quarter. The *margin on* high-risk loans contributed to tightening standards, albeit at a lower pace than in the first quarter of the year.

Demand for loans
In contrast to expectations of banks' experts for Q2 2010, the demand for household loans was low. The net balance pointed to -3.2%. Its negative value was influenced mainly by the reduced demand for housing loans. The net balance of the demand for housing loans dropped to -17.8%, from 1.2% in the previous quarter. On the other hand, the demand for consumer credit remained positive, albeit at a lower level than in the previous quarter. According to banks' experts' opinions, the decreased demand was driven mainly by *consumer confidence deterioration*, *real estate market* developments and the perception for tightening lending terms applied by banks.

Chart 4 Household demand for loans and the contribution of selected factors *(net balance*, net percentage of banks reporting an increase of the demand).*
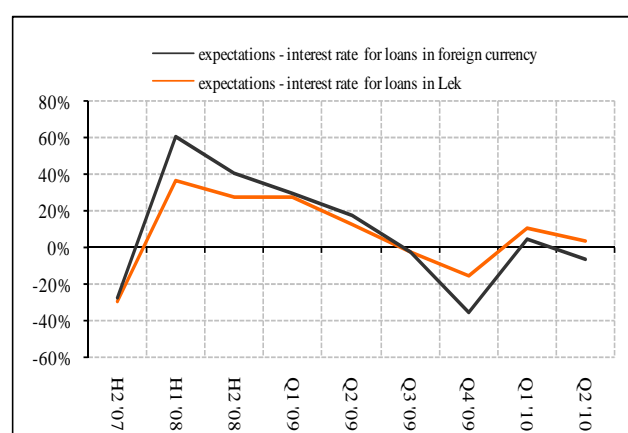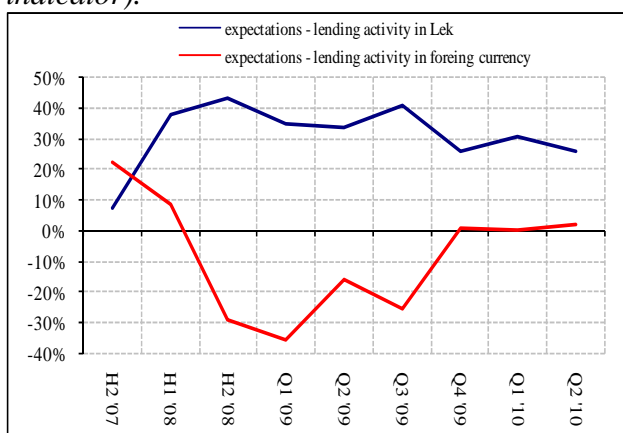
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Source: Bank of Albania
) See footnote 2.

Expectations

For Q3 2010, banks expect to further ease the standards for loans to households. This easing is expected to be higher than in Q2 2010 and higher for house purchase loans than for consumer credit. Moreover, the household demand for loans is also expected to be higher.

Lending activity by currency

Banks expect more rapid increase of lending activity in ALL than in foreign currency. For Q2 2010, the net percentage of banks expecting increase in ALL-denominated loans picked up to 25.9%, while in foreign-currency ones it is 2.3% (Chart 5). Banks expect interest rate cut on loans that will be granted in Q3 2010, for both the foreign-currency loans and the ALL ones.

Chart 5 Banks' expectations regarding lending activity (left) and credit rates by currency (right), after a quarter *(net balance[*], net percentage of banks expecting an increase of this indicator).*
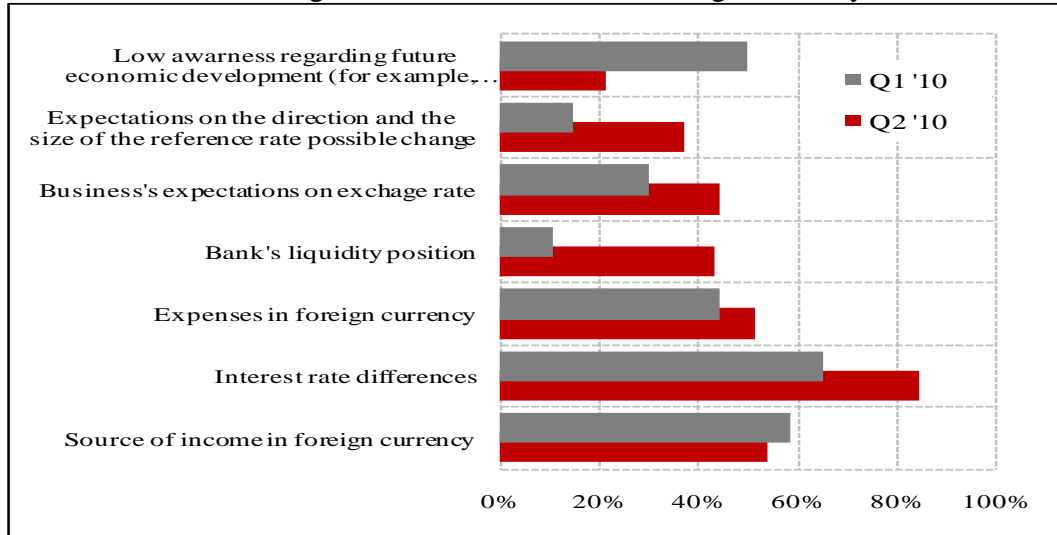

Source: Bank of Albania

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Interest rate spread and foreign exchange income sources continue to be the main factors affecting the business demand for foreign-currency loans (Chart 6).

Chart 6 Factors affecting the business demand for foreign-currency loans.

Source: Bank of Albania

Foreign-currency revenues, the purchased commodity prices expressed in foreign currency and the interest rate spread are the main factors determining the household demand for foreign-currency loans (Chart 7).

Chart 7 Factors determining the household demand for foreign-currency loans
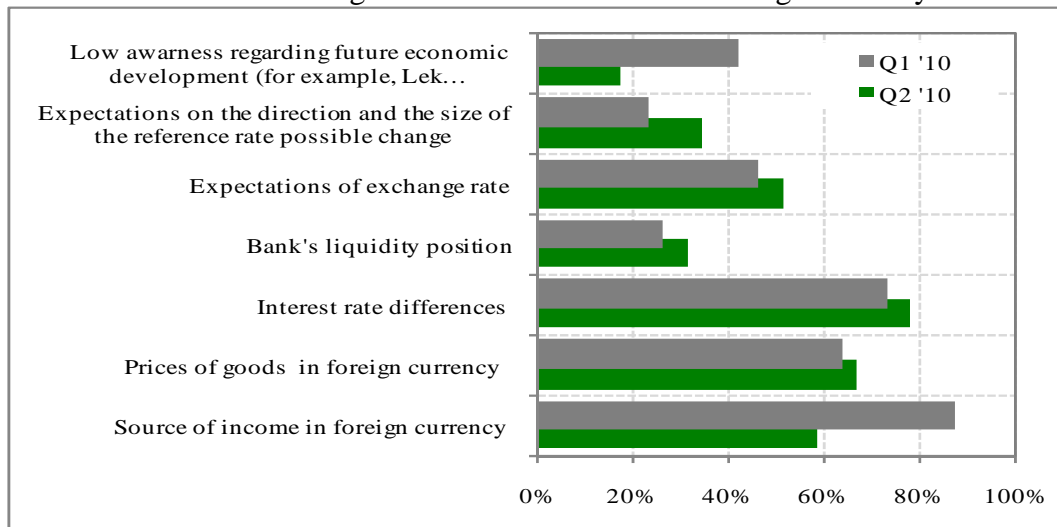
Source: Bank of Albania

Annex 1 Loans to enterprises
To calculate aggregate results, each opinion is weighted on the basis of the relevant response. For example, banks responding that standards "are tightened considerably" are assigned twice the share of those who report that they "are tightened somewhat". The results are analyzed by calculating the net balance – the difference between the weighted balance of banks reporting easing/increase of standards/demand and those reporting tightening/decrease of standards/demand. The net balances are scalded to lie between +/- 100.

	NET BALANCE			
	Q3 2009	Q4 2009	Q1 2010	Q2 2010
How have bank's standards for loan approval changed?				
- Past quarter				
- Next quarter	-7.6	-2.3	13.5	-9.9
	1.4	15.2	-10.6	6.7
Factors affecting the banks' standards for loan approval:				
- Bank's capital adequacy				
- Bank of Albania's decisions	-6.3	-3.3	-7.8	-4.6
- Competition in the banking system	-3.2	0.0	12.2	-3.1
- Current or expected liquidity position	-3.8	-4.4	-7.6	4.5
- Industry or firm-specific outlook	-9.3	-7.8	-4.6	-6.6
- Current or expected macroeconomic situation	-50.9	-20.1	-44.2	-27.9
- Non-performing loans	-36.7	-18.0	-32.0	-27.9
	-54.7	-28.4	-34.8	-24.5
How have the terms and conditions for loan approval changed?				
- Average margin	-10.1	-6.1	-10.1	-5.6
- Margin on high-risk loans	-45.9	-23.3	-27.7	-31
- Commissions	-10.7	-5.6	-3.6	-5.9
- Amount of credit	-27.5	1.0	1.0	10.1
- Collateral requirement to credit amount	-28.9	0.0	-7.7	-20.8
- Maximum loan maturity	-10.7	4.5	0.0	13.2
How has business demand for loans changed?				
- SME previous quarter	-28.0	-15.8	-8.8	13.5
- SME next quarter	-27.3	-23.4	-1.1	-7.4
- Corporate previous quarter	-19.2	-12.0	27.6	18
- Corporate next quarter	-32.5	-32.5	-13.0	3.8
Factors affecting the change of the demand for loans:				
- Inventory financing				
- Fixed investment financing	-0.2	-3.4	46.9	43.1
- Use of alternative financing resources	-10.5	-30.4	-1.4	22.6
- Bank of Albania's monetary policy decisions	6.1	1.0	12.4	19.5
- Lending terms applied by the bank	-3.2	0.0	0.0	6.1
- Current or expected macroeconomic situation	-12.6	4.2	1.5	18.7
	-31.5	-27.7	0.0	21.6
Reasons for foreign-currency lending:	76.0	56.3		
- Source of income in foreign currency	78.7	87.6	58.3	-54
- Interest rate spread	65.2	55.5	65.2	84.4
- Foreign-currency expenses	41.0	46.7	44.2	51.4

- Exchange rate expectations	24.7	42.9	30.1	42.9
- Reference interest rate expectations	74.7	57.7	14.7	44.4
- Low awareness of economic developments			49.9	37.3

Annex 2 Loans to households

To calculate aggregate results, each opinion is weighted on the basis of the relevant response. For example, banks responding that standards "are tightened considerably" have assigned twice the share of those who report that they "are tightened somewhat". The results are analyzed by calculating the net balance – the difference between the weighted balance of banks reporting easing/increase of standards/demand and those reporting tightening/decrease of standards/demand. The net balances are scalded to lie between +/- 100.

	NET BALANCE			
	Q3 2009	Q4 2009	Q1 2010	Q2 2010
How have bank's standards for loan approval changed?				
- Past quarter				
- Next quarter	0.0	-4.0	-26.5	1.5
	1.8	9.0	-13.4	9.0
Factors affecting the banks' standards for loan approval:				
- Bank's capital adequacy	-4.4	-4.4	-4.4	5.5
- Bank of Albania's decisions	-2.7	0.0	0.0	4.5
- Competition in the banking system	-4.0	-7.2	-11.8	7.2
- Current and expected liquidity position	-24.2	-12.1	-19.3	-2.0
- Households' financial position	-51.2	-27.2	-51.8	-33.3
- Non-performing loans	-47.9	-17.7	-39.0	-25.8
- Developments in the real estate market	-26.0	-12.1	-16.5	-2.1
How have the terms and conditions for loan approval changed?				
- Average margin	2.5	6.7	-4.0	-5.3
- Margin on high-risk loans	-3.8	-7.8	-14.7	-8.4
- Commissions	-2.2	0.0	0.0	13.8
- Amount of credit	0.0	0.0	-2.7	2.2
- Collateral requirement to credit amount	-1.7	-6.6	-10.7	-14.3
- Maximum loan maturity	0.0	0.0	7.7	12.1
How has household credit demand changed?				
- House purchase loan	-26.5	-26.9	1.2	-17.8
- Consumer credit	-16.9	-10.6	18.9	11.4
Factors affecting the change of the demand for loans:				
- Households' need for house purchase	12.3	-1.3	12.7	30.3
- Households' need for consumption	17.0	25.0	29.2	42.3
- Use of alternative financing resources	2.4	-19.0	14.8	17.3
- Bank of Albania's monetary decisions	-4.1	0.0	11.3	8.6
- Consumer confidence	-3.5	7.8	29.9	1.5
- Developments in the real estate market	-32.0	1.5	11.7	-10.3
- Lending terms applied by your bank	-1.6	12.7	38.6	28.7
Reasons for foreign currency lending:	65.2	60.9		

- Source of income in foreign currency	57.8	72.4	87.6	59.0
- Prices of purchased goods are in foreign currency	79.5	68.2	64.3	67.0
- Interest rates spread	51.9	54.1	73.6	78.2
- Exchange rate expectations	37.1	42.3	46.4	32.0
- Reference interest rate expectations	60.5	49.4	23.3	51.8
- Low awareness of economic developments			42.5	34.5