

# **BANK OF ALBANIA**

## **Monetary Policy Department**



### **Bank Lending Survey**

**October 2010<sup>1</sup>**

The October '10 bank lending survey results show that credit standards applied to enterprises eased somewhat over the third quarter of 2010, while tightened slightly those applied to households compared to the previous quarter. The net percentage of banks reporting that they eased credit standards to enterprises was 1.1% and to households - 1.2%. The developments in credit standards applied to enterprises were anticipated by the banks credit experts in the previous quarter survey. The credit standards easing during the third quarter was applied only for loans to SMEs and to households for house purchasing loans. In terms of credit purpose, credit standards eased more for working capital financing loans than for investment-related ones. *Competition* in the banking system represented the main factor driving the easing of credit standards during the third quarter of 2010.

According to credit experts opinions, enterprises and households net demand for loans was lower in the third quarter of 2010 compared to the previous one. The main factor behind enterprises loan demand slowdown was *the macroeconomic situation*, while concerning households, *bank lending conditions* are considered as the key factor.

Bank's tightening policy for loans to businesses during the third quarter of 2010 was mainly implemented by widening the average margin on riskier loans and by increasing the collateral requirements according to loan's size. A credit easing policy was mainly implemented by extending the maximum maturity of loans compared to the previous quarter. Meanwhile, as regards to households, bank's tightening policy was implemented via widening the margin on riskier loans. at the same time as an easing policy was implemented by narrowing margins on loans in general.

For the fourth quarter of 2010, banks expect an easing of credit standards for loans to enterprises and a net tightening of them for loans to households. These assessments on credit standards were expressed by bank's experts in the same time as they expect an increased net demand for loans by both enterprises and households for the last quarter of 2010. In addition, banks expect higher growth rates for the lending activity in foreign currency over the fourth quarter of 2010.

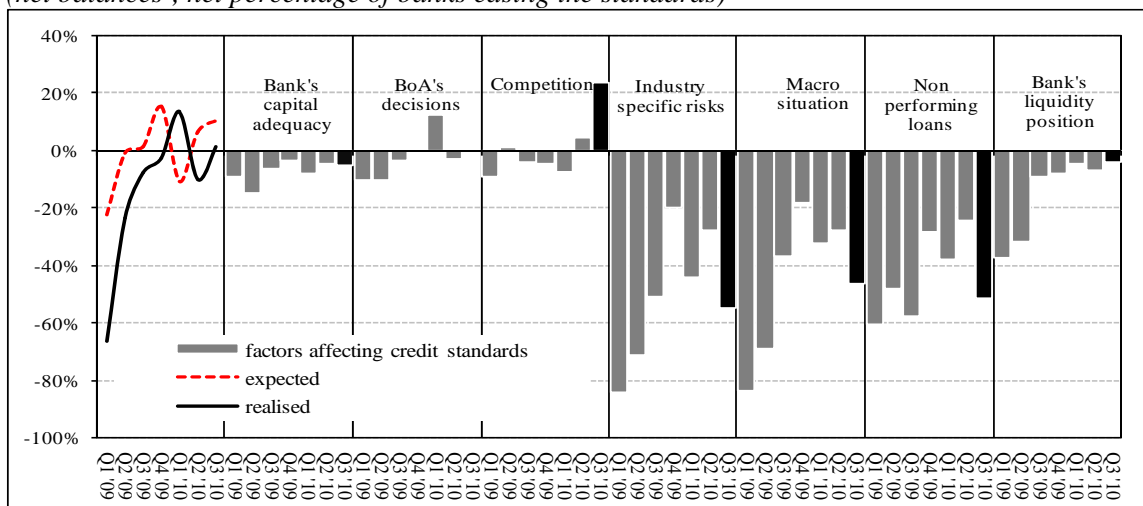
---

<sup>1</sup> The survey conducted in October 2010 covers the main developments in lending activity during the third quarter of 2010 and bank's expectations for possible changes in lending activity in the fourth quarter of 2010.

## Loans to enterprises

**Credit standards.** Credit standards to enterprises eased slightly during the third quarter of 2010, hence recovering the improvement trend that had ceased in the previous quarter. This shift to more easing standards was anticipated by bank experts in the last quarter's survey. The net percentage of banks reporting an easing of credit standards for loans to enterprises is +1.1%, up by 11 p.p. from the second quarter of 2010. The net easing of credit standards concerned only for loans to SMEs, the net balance<sup>2</sup> increased by 16 p.p.. On the other hand, the net balance for loans to enterprises dropped by 4.5 p.p., following the declining trend for the second quarter in a row. With regard the purpose of use, the net balance increased slightly for working capital financing and investment-related loans.

Chart 1 Changes in credit standards for loans to enterprises and contribution of different factors (*net balances<sup>3</sup>, net percentage of banks easing the standards*)



Source: Bank of Albania

The most important factor driving the credit standards easing over the third quarter of 2010 was the *competition* in the banking sector. On the other hand, factors like the *non-performing loans* developments, *industry specific risks* and *macroeconomic situation* continued to contribute to the net tightening of credit standards during this quarter. These factors contributed at a higher degree to the net tightening of credit standards compared to the second quarter of 2010 (see Chart 1).

During the third quarter of 2010, banks tightening policy for loans to enterprises was implemented mainly by widening the *average margin on riskier loans* and by tightening

<sup>2</sup> Banks' responses regarding lending activity are aggregated through the "net balance" indicator. The net balance is calculated as the difference between the weighted responses of banks reporting easing/increase of standards/demand and those reporting tightening/decrease of standards/demand. The weights are calculated based on the share of each bank's loan portfolio to total loans, for different market segments, by type of question (business/household loans in ALL/foreign currency).

<sup>3</sup> The positive net balance refers to credit standards easing or that the factor has contributed to an easing of credit standards; while the negative net balance refers to credit standards tightening or that the factor has contributed to the tightening of the credit standards.

*collateral requirements* according to loan's size. The credit standards easing policy was mainly implemented by extending the maximum maturity of loans compared to the previous quarter.

Table 1 Summary of banks' responses on credit standard's changes over the third quarter of 2010.

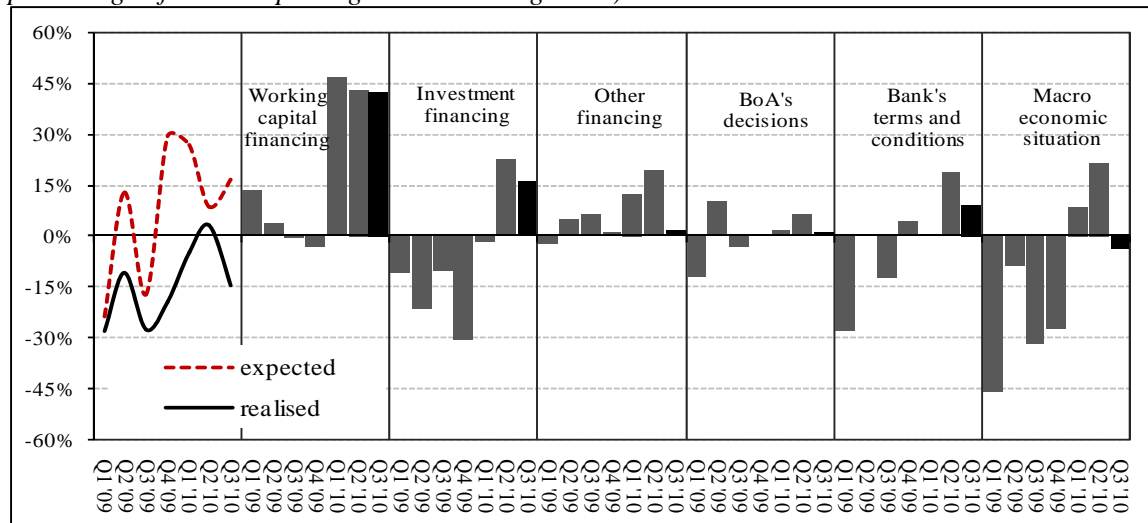
	Enterprises					Households
	Total	SMEs <sup>4</sup>	Corporate	Working capital	Investment	
Tightened considerably	-	-	-	-	-	
Tightened slightly	1 bank	-	-	-	1 bank	2 banks
Mostly unchanged	6 banks	8 banks	9 banks	7 banks	7 banks	6 banks
Eased slightly	2 banks	1 bank	-	2 banks	1 bank	1 bank
Eased considerably	-	-	-	-	-	
<b>Total</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>
<b>Net balance<sup>*)</sup></b>	<b>1.1%</b>	<b>5.1%</b>	<b>0.0%</b>	<b>6.2%</b>	<b>0.0%</b>	<b>-1.2%</b>

Source: Bank of Albania

\*) See Note 1.

**Loan demand.** Enterprises total demand for loans fell over the third quarter of 2010 compared to the previous quarter. Its net balance dropped by 17.7 p.p. Loans demand drop was more pronounced for SMEs than corporates. According to bank's experts' opinions, *macroeconomic situation* was the sole factor driving loan's demand curbing. By contrast, other factors contributed to the growth of loans demand. Among them, *working capital financing* needs represent the main factor to promote the net demand for loans.

Chart 2: Enterprises loan demand and contribution of selected factors (*net balances<sup>5</sup>, net percentage of banks reporting loan demand growth*).



Source: Bank of Albania

<sup>4</sup> SMEs – Small and medium-sized enterprises.

<sup>5</sup> The positive balance indicates growth of demand or that the factor has contributed to the growth of demand for loans; the negative balance indicates fall of demand or that the factor has contributed to the fall of demand for loans.

**Expectations.** For the fourth quarter of 2010, bank experts expect that the light easing trend of credit standards will go on further. The net percentage of banks expecting an easing of credit standards is +10.5%. Credit standards' easing to enterprises is expected both for SMEs and for corporate loans. In addition, they expect to ease credit standards at the same degree for working capital financing loans and for investment financing. In line with the expectations on credit standards, bank's experts also expect higher demand for loans over the last quarter of 2010.

Table 2: Summary of banks' responses on changes in the net demand for loans to enterprises, third quarter of 2010.

	Business				Households	
	SME	Corporate	Working capital	Investment	Housing loan	Consumer loan
Considerably higher	-	-	1	-	-	-
Slightly higher	3	3	3	2	1	3
Almost similar	4	3	4	4	4	4
Slightly lower	2	3	1	3	4	2
Considerably lower	-	-	-	-	-	-
Total	9	9	9	9	9	9
Net balance*)	-10.9%	-18.5%	-1.0%	-19.6%	-15.6%	3.9%

Source: Bank of Albania

\*) See Note 2.

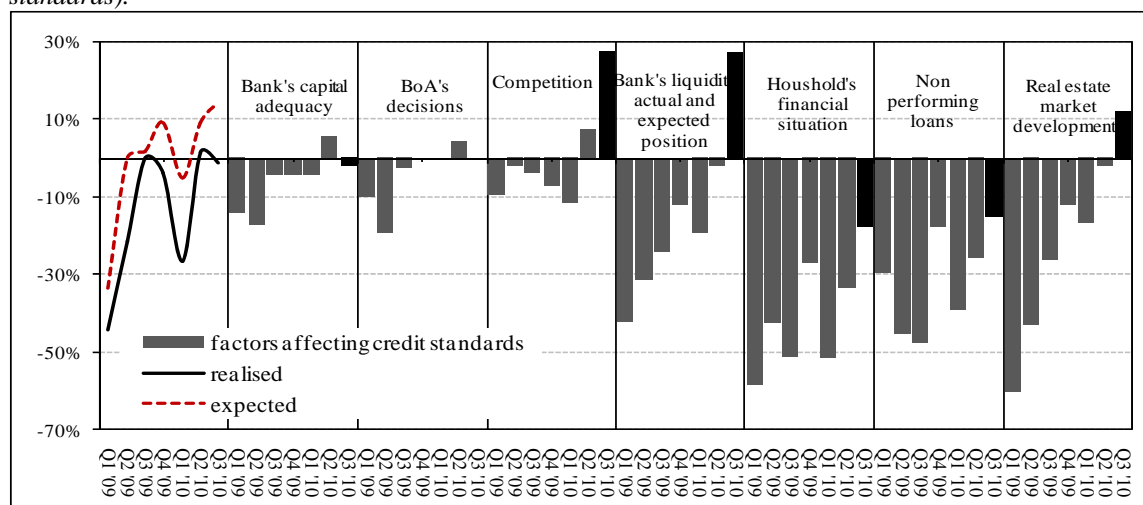
### **Loans to household**

Credit standards to households, after a moderate easing over the second quarter of 2010, marked a tightening turning point in the third quarter of 2010. The net percentage of banks reporting tightening of credit standards is +1.2%, up by 2.7 p.p. from the previous quarter. Credit standards applied to loans for house purchase eased further following their easing trend started during the second quarter of 2010. By contrast, credit standards applied to consumer loans tightened during the third quarter of 2010.

Bank expert's assessed that *competition* in the banking system, *banks actual and expected liquidity position* and *the real estate market developments* contributed to easing the credit standards. On the other hand, *non-performing loans*, *households' financial position* and slightly at a lesser extent *banks capital adequacy* contributed to the net tightening of credit standards over the third quarter of 2010(see Chart 3).

Regarding the terms and conditions on loans to households, banks tightening policy for loans to households was implemented through widening the *average margin on riskier loans*, applying higher *commissions* and tightening *collateral requirements* in proportion to loans size. In the meantime, narrowing the *average margins* on loans, extending the *maximum maturity* and the *size* of loans contributed to implement a more easing lending policy.

Chart 3: Changes in the credit standards applied to the approval of loans to households for house purchase and consumer credit, and contribution of different factors (*net balances\**, *net percentage of banks easing standards*).

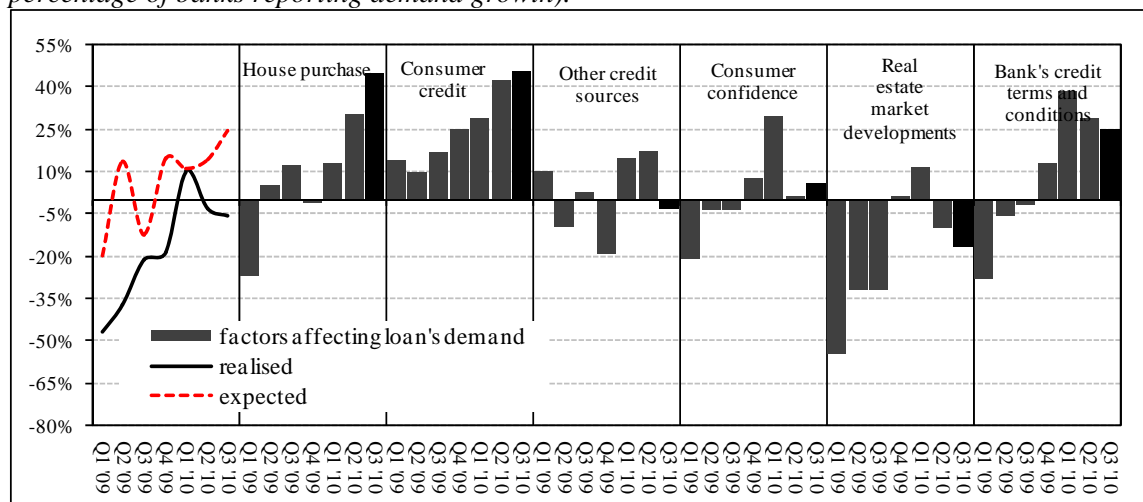


Source: Bank of Albania

\*) See Note 1.

**Loan demand.** According to banks experts' opinions, households' net demand for loans fell slightly during the third quarter of 2010 compared to the previous one. Regarding the purpose of use, net demand for house purchase improved during the third quarter of 2010, despite the negative net percentage of banks reporting its growth (-16%). In the second quarter its net percentage was -18%. On the other hand, the net percentage of banks reporting that demand for consumer loans increased and its balance stands at 3.9%. In the second quarter of 2010, it pointed to 11.4%. According to bank experts, net demand declining has been mainly triggered by the *credit standards* applied by banks. Household's needs to finance *consumption* and *house purchase* represent the key factors which contributed positively in the higher demand for loans.

Chart 4 Household's demand for loans and contribution of selected factors (*net balances\**, *net percentage of banks reporting demand growth*).



Source: Bank of Albania

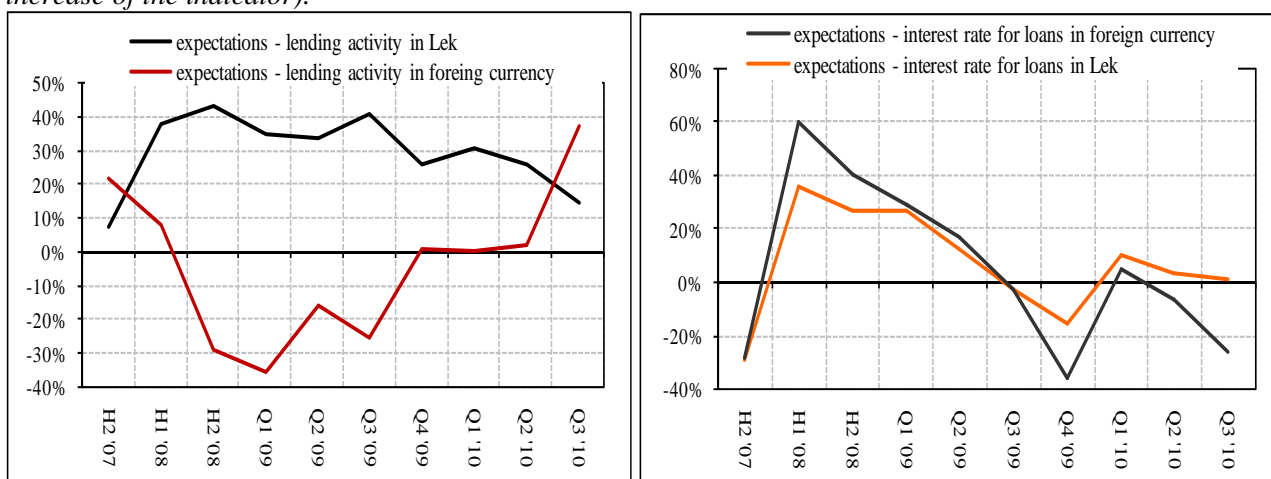
\*) See Note 2.

**Expectations.** For the fourth quarter 2010 banks expect to apply easier credit standards to households. In addition, net loan demand is expected to be higher in the fourth quarter of the current year.

### Lending activity per currency

Over the fourth quarter of 2010, banks expect higher growth rates for lending activity in foreign currency. The net percentage of banks reporting that they expect higher growth rates lending activity in foreign currency has increased to 37.4% versus 2.3% in the previous quarter. The net percentage of banks reporting that they expect lending activity in ALL to grow one quarter ahead has decreased over the third quarter of 2010 (see Chart 5). Bank experts also expect lower interest rates on loans denominated in ALL and foreign currency granted during the last quarter of 2010.

Chart 5 Banks' expectations on lending activity per currency (left-hand) and interest rates, by currency (right-hand) one quarter ahead (*net balances\**, *net percentage of banks expecting an increase of the indicator*).

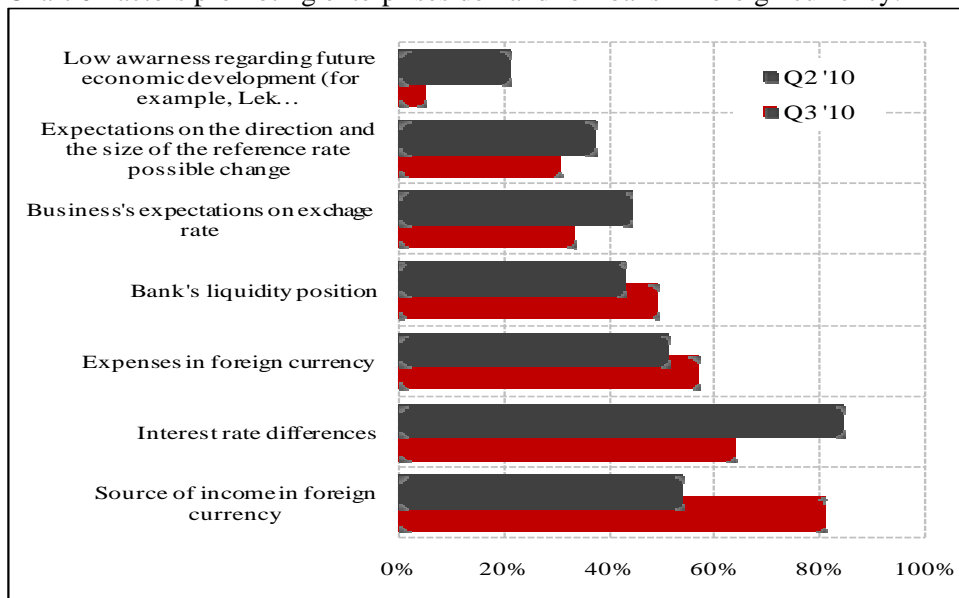


Source: Bank of Albania

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

With regard to enterprises, over the third quarter of 2010, the main factors driving the demand for loans in foreign currency concern *interest rate spreads* and *the source of income in foreign currency* (see Chart 6). The second factor affecting lending activity in foreign currency was assessed at a higher degree in the third quarter of 2010.

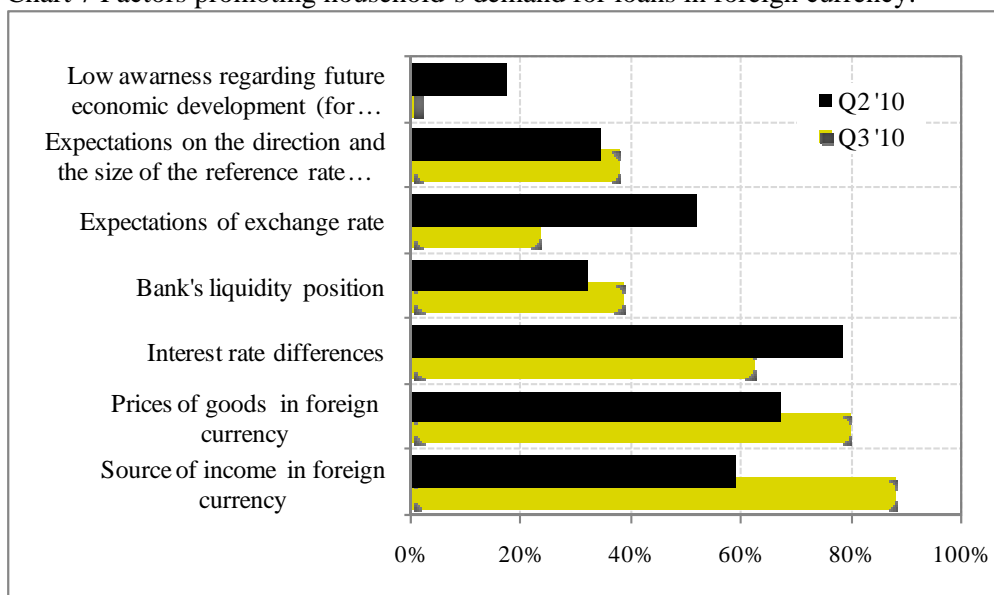
Chart 6 Factors promoting enterprises demand for loans in foreign currency.



Source: Bank of Albania

The main underlying promoting factors of household's loan demand in foreign currency concerned *the source of income in foreign currency*, *the price of commodities expressed in foreign currency* and *the interest rate spreads* (see Chart 7). Likewise enterprises, the source of income in foreign currency represented the key driving factor behind household's demand for loans foreign currency during the third quarter of 2010.

Chart 7 Factors promoting household's demand for loans in foreign currency.



Source: Bank of Albania

## Annex 1

### Loans to enterprises

In the aggregation process of results each opinion is weighted based on its answer. For example, banks providing the answer that standards are “considerably tightened” have acquired the double of the weight compared to the answers “insufficiently tightened”. The results are analyzed through the calculation of the net balance as the difference of the weighted balances of banks, which have reported an easing of standards/increase demand. The net balances are escalated for the purposes of acquiring values within the target +/- 100.

	NET BALANCE			
	Q4 2009	Q1 2010	Q2 2010	Q3 2010
<b>How have bank's standards for loan approval changed?</b>				
- In the current quarter	-2.3	13.5	-9.9	1.1
- Next quarter	15.2	-10.6	6.7	10.5
<b>Which factors affected credit standards?</b>				
- Bank's capital adequacy	-3.3	-7.8	-4.6	-5.1
- Bank of Albania's decisions	0.0	12.2	-3.1	0.0
- Competition in the banking system	-4.4	-7.6	4.5	23.8
- Current or expected liquidity level	-7.8	-4.6	-6.6	-4.1
- Business sector-related concerns	-20.1	-44.2	-27.9	-55.1
- Current or expected macroeconomic situation	-18.0	-32.0	-27.9	-46.6
- Non-performing loans	-28.4	-34.8	-24.5	-51.4
<b>How have the terms &amp; conditions for loan approval changed?</b>				
- Average margin	-6.1	-10.1	-5.6	-2.6
- Margin on high-risk loans	-23.3	-27.7	-31	-22.5
- Commissions	-5.6	-3.6	-5.9	-6.5
- Amount of loan	1.0	1.0	10.1	1.1
- Collateral requirement/in proportion to the amount of loan	0.0	-7.7	-20.8	-18.7
- Maximum loan maturity	4.5	0.0	13.2	-7.4
<b>How has business demand for loans changed?</b>				
- SMEs, previous quarter	-15.8	-8.8	13.5	-10.9
- SMEs, next quarter	-23.4	-1.1	-7.4	-18.5
- Corporate, previous quarter	-12.0	27.6	18	-1.0
- Corporate, next quarter	-32.5	-13.0	3.8	-19.6
<b>Factors affecting the change of demand for loans:</b>				
- Need to finance inventories	-3.4	46.9	43.1	42.3
- Need to finance fixed investments	-30.4	-1.4	22.6	16.1
- Use of alternative financial resources	1.0	12.4	19.5	1.4
- Bank of Albania's monetary policy decisions	0.0	0.0	6.1	0.0
- Lending terms & conditions applied by your bank	4.2	1.5	18.7	9.0
- Current or expected macroeconomic situation	-27.7	0.0	21.6	-3.8
<b>Reasons for foreign currency lending:</b>				
- Source of income in foreign currency	56.3	58.3	-54.0	81.1
- Interest rate spread	87.6	65.2	84.4	63.9
- Expenditure in foreign currency	55.5	44.2	51.4	57.3
- Banks liquidity position	35.3	10.9	42.9	49.1
- Exchange rate expectations	46.7	30.1	44.4	33.6
- Reference interest rate expectations	42.9	14.7	37.3	31.0
- Low awareness regarding economic developments	57.7	49.9	21.5	5.1



## Annex 2

### Loans to households

*In the aggregation process of results, each opinion is weighted based on its answer. For example, banks providing the answer that standards are “considerably tightened” have acquired the double of the weight compared to the answers “insufficiently tightened”. The results are analyzed through the calculation of the net balance as the difference of the weighted balances of banks, which have reported an easing of standards/increase of demand. The net balances are escalated for the purposes of acquiring values within the target +/- 100.*

	NET BALANCE			
	Q4 2009	Q1 2010	Q2 2010	Q3 2010
<b>How have bank's standards for loan approval changed?</b>				
- In the past quarter	-4.0	-26.5	1.5	-1.2
- Next quarter	9.0	-13.4	9.0	14.1
<b>What are the factors to have affected the standards for loan approval?</b>				
- Bank's capital adequacy	-4.4	-4.4	5.5	-1.9
- Bank of Albania's decisions	0.0	0.0	4.5	0.0
- Competition in the banking system	-7.2	-11.8	7.2	27.5
- Current or expected liquidity level	-12.1	-19.3	-2.0	27.1
- Household's financial situation	-27.2	-51.8	-33.3	-17.8
- Non-performing loans	-17.7	-39.0	-25.8	-15.0
- Performance of the real estate market	-12.1	-16.5	-2.1	11.9
<b>How have the terms &amp; conditions for loan approval changed?</b>				
- Average margin	6.7	-4.0	-5.3	11.7
- Margin on high-risk loans	-7.8	-14.7	-8.4	-6.6
- Commissions	0.0	0.0	13.8	-1.6
- Amount of loan	0.0	-2.7	2.2	0.0
- Collateral requirement/in proportion to the amount of loan	-6.6	-10.7	-14.3	-4.5
- Maximum loan maturity	0.0	7.7	12.1	3.2
<b>How has household demand for loans changed?</b>				
- Housing loans	-26.9	1.2	-17.8	-15.6
- Consumer loans	-10.6	18.9	11.4	3.9
<b>Factors affecting the change of demand for loans:</b>				
- Household's need to finance the house purchase	-1.3	12.7	30.3	45.1
- Household's need to finance consumption	25.0	29.2	42.3	45.7
- Use of alternative financial resources	-19.0	14.8	17.3	-2.9
- Bank of Albania's monetary policy decisions	0.0	11.3	8.6	4.8
- Consumer confidence	7.8	29.9	1.5	6.2
- Performance of the real estate market	1.5	11.7	-10.3	-16.8
- Lending terms & conditions applied by your bank	12.7	38.6	28.7	25.0
<b>Reasons for foreign currency lending:</b>				
- Source of income in foreign currency	60.9	87.6	59.0	87.9
- Prices of acquired goods expressed in foreign currency	72.4	64.3	67.0	80.0
- Interest rate spread	68.2	73.6	78.2	62.3
- Banks liquidity position	14.3	26.5	32.0	38.9
- Exchange rate expectations	54.1	46.4	51.8	23.6
- Reference interest rate expectations	42.3	23.3	34.5	37.8
- Low awareness regarding economic developments	49.4	42.5	17.5	1.9