

Bank of Albania
Monetary Policy Department



Bank Lending Survey
February 2011¹

The credit standards applied to businesses and households eased over the fourth quarter of 2010. The easing of standards, as regards to the credit provided to enterprises, confirms the turning point started since the third quarter of 2010, while the standards' easing to households follows these latter tightening in the previous quarter. Developments of credit standards applied to businesses and households, over the fourth quarter 2010, are in line with banks' expectations reported in the previous survey.

The easing of standards during the fourth quarter of 2010 mainly owes to the positive contribution of specific factors for the bank as the *liquidity position and capital adequacy*. "Competition" also provided positive contribution on the easing of credit standards granted over the fourth quarter of 2010.

The easing policy of banks for the loan granted to business is mainly implemented through the *increase* of the approved loan's *size*. The easing of credit standards for households is mainly applied through the tightening of the *average margin, increase of maximum maturity of the loan and the growth of credit size*.

According to banks experts' opinions, credit demand was higher during the fourth quarter of 2010. The net percentage of banks reporting for a higher businesses' demand was higher, but still remaining at negative levels. While, loans demand from households was reported higher and positive.

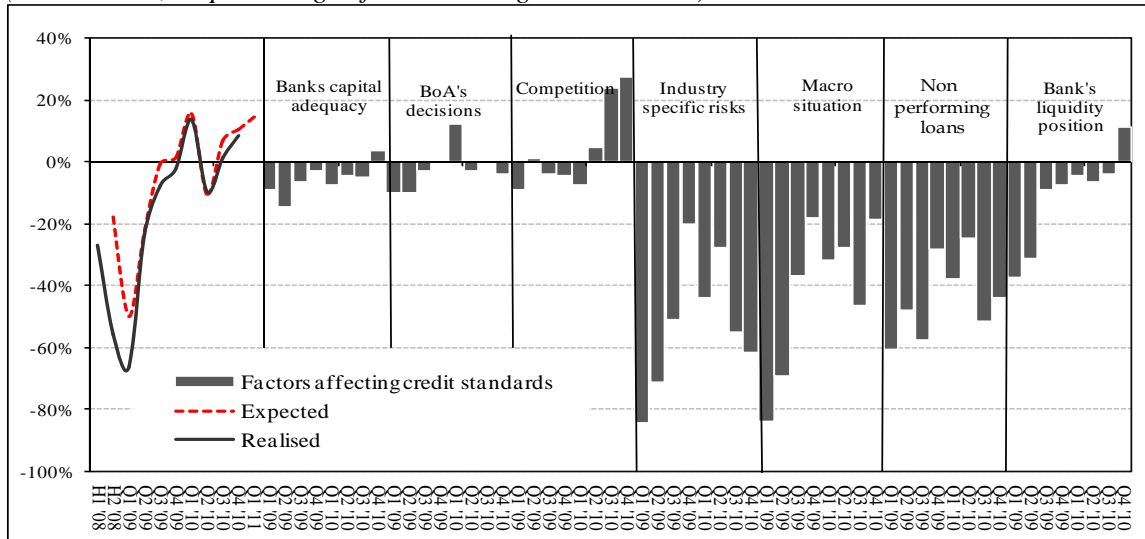
For the first quarter of 2011 banks expect the persistence of the standards easing applied to loans for businesses. By contrast, they do not expect any further easing with regard to loans applied for households. Notwithstanding the expectations for future changes of credit standards, banks expect an increase of the demand from both businesses and households.

¹ The survey was conducted in December 2010 covers the developments in lending activity during the fourth quarter 2010, and banks' expectations for possible changes in lending activity over the first quarter of 2011.

Loans to businesses

Credit standards to businesses eased during the fourth quarter of 2010. This result confirms a turning point towards lending standards easing recorded in the third quarter of 2010. This development is in line with banks experts' expectations reported over the previous quarter survey. Net percentage of banks reporting an easing of standards for loans granted to businesses, during the fourth quarter of 2010, pointed to +8.5% relative to +1.1% in the previous quarter. The easing of lending standards is applied to SMEs and large enterprises as well. However, banks have eased at a higher degree the credit standards granted to SMEs relative to those granted to large corporations. Net balance² for credit standards for SMEs pointed to +8.5% and for large enterprises to +3.4%. With regard to the loans maturity, credit standards eased almost at the same degree for those to investments and for those granted for working capital financing. The net balances recorded positive values, at 8.5% and 9.6%, respectively.

Chart 1: Changes in credit standards for loans to businesses and contribution of different factors (net balance¹, net percentage of banks easing the standards)



Source: Bank of Albania

Note 1. The positive balance shows an easing of standards or that the factor has impacted the easing of lending standards; whereas the negative balance shows a tightening of standards or the factor has impacted the tightening of lending standards.

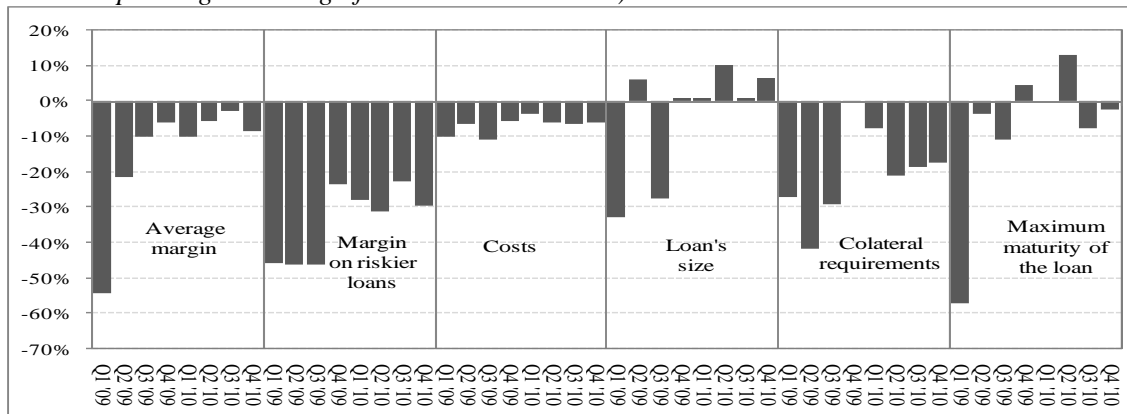
The credit standards' easing over the fourth quarter of 2010 mainly owes to the positive contribution of factors related especially to banks industry. In more concrete terms, the factors impacting the easing of standards, during the fourth quarter of year 2010 are *banks' liquidity situation, banks capital adequacy and competition* in the banking system. "Competition" is the factor that provided the highest contribution for the easing of credit

² 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).

standards. Its contribution increased for the third succeeding quarter. *Non-performing loans developments, industry specific risks and macroeconomic situation* continued to impact the tightening of credit standards over this quarter. However, excluding *industry specific risks*, the other factors impacted at a lower degree credit standards tightening compared to the previous quarter (see Chart 1).

During the fourth quarter 2010, banks easing policy was implemented mainly through the *increase of the approved loan's size*. The *maturity of approved loan and collateral requirements* supported the implementation of banks tightening policy, although at a lower intensity than in the previous quarter. *Average margin* and the one applied to *riskier loans* are assessed at a higher rate as conditions which have helped banks to implement a tightening policy. Banks terms and conditions concerning *commissions* on loans are assessed almost at the same degree, throughout the year 2010, on the tightening direction.

Chart 2: Terms and conditions applied for loans to enterprises (*net balances², net percentage of banks responding an easing of terms and conditions*).



Note 2. The positive balance shows an easing of conditions, whereas the negative balance a tightening of conditions.

Table 1: Summary of banks' responses on credit standards' changes over the fourth quarter of 2010.

	Businesses					Households
	Total	SME ³	Corporations	Working capital	Investments	
Tightened considerably	-	-	-	-	-	
Tightened slightly	-	-	-	-	-	1 bank
Mostly unchanged	7 banks	8 banks	9 banks	7 banks	8 banks	5 banks
Eased slightly	3 banks	2 banks	1 bank	3 banks	2 banks	2 banks
Eased considerably	-	-	-	-	-	
Total	10	10	10	10	10	8
Net balance^{*)}	8.5%	8.5%	3.4%	9.6 %	8.5%	16.3%

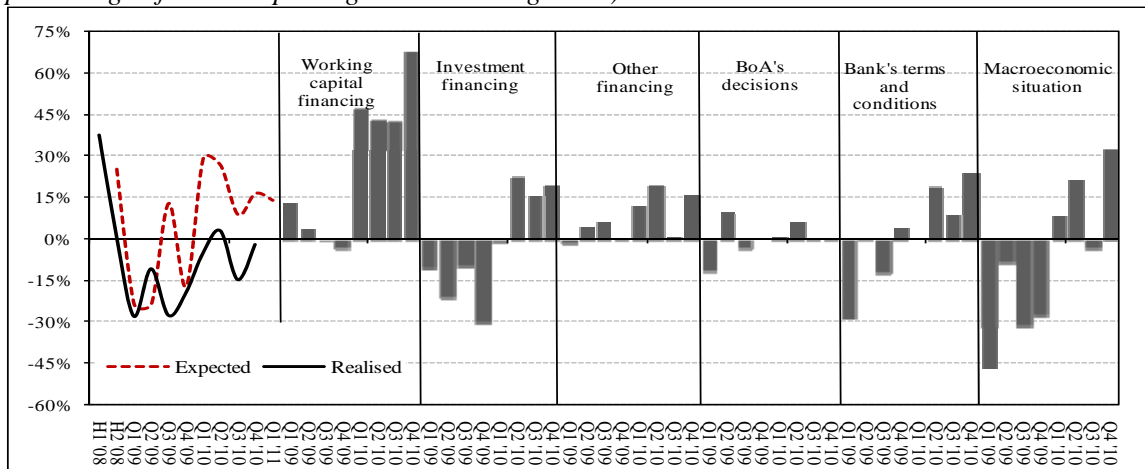
Source: Bank of Albania

*)See note 1.

³ SME – Small and medium-sized enterprises.

Loan demand. Businesses demand for loans improved over the fourth quarter 2010, but it still remains at negative levels. The net percentage of banks reporting higher loans demand during the fourth quarter of 2010, points to -1.9%. However, this development is positive compared to the previous quarter, over which net percentage of banks reporting for demand growth was -14.7%. Developments in loans demand are different, according to businesses' size; large enterprises demand was positive, net balance +6.2%, whereas the small and medium sized enterprises demand was negative, net balance -10%. The main factor driving loans demand over the fourth quarter of 2010 was represented by *inventories and working capital* financing needs. The contribution of this factor increased considerably relative to the three first quarters of 2010. *The macroeconomic situation, investments financing needs* and *loans terms and conditions* implemented from banks are other factors, which intensified their positive contribution to demand growth.

Chart 3: Businesses loan demand and contribution of selected factors (*net balance³, net percentage of banks reporting loan demand growth*).



Source: Bank of Albania

Note 3: The positive balance indicates a growth of the demand or that the factor has contributed to the growth of the demand, while the negative balance indicates fall of demand or that the factor has contributed to the downturn of the demand for loans.

Expectations. For the first quarter of 2011, the banks experts' expectations are slightly optimistic, as regards to the persistence of credit standards easing and businesses loan demand. Credit standard easing is expected mostly for SME than for large enterprises and more for the inventories and working capital financing. While, higher demand is expected more from large enterprises rather than SMEs.

Table 2: Summary of banks' responses for performance of the credit demand, forth quarter 2010.

	Businesses				Households	
	SME	Corporation	Working capital	Investments	House loan purchase	Consumer loan
Considerably higher	-	2	1	1	1	1
Slightly higher	4	2	5	1	3	3
Almost similar	3	2	2	5	1	3
Slightly lower	3	3	2	3	4	3
Considerably lower	-	-	-	-	1	-

Total	10	10	10	10	10	10
Net balance ^{*)}	- 10.0%	6.2%	19.8 %	-9.7%	17.5%	20.1 %

Source: Bank of Albania

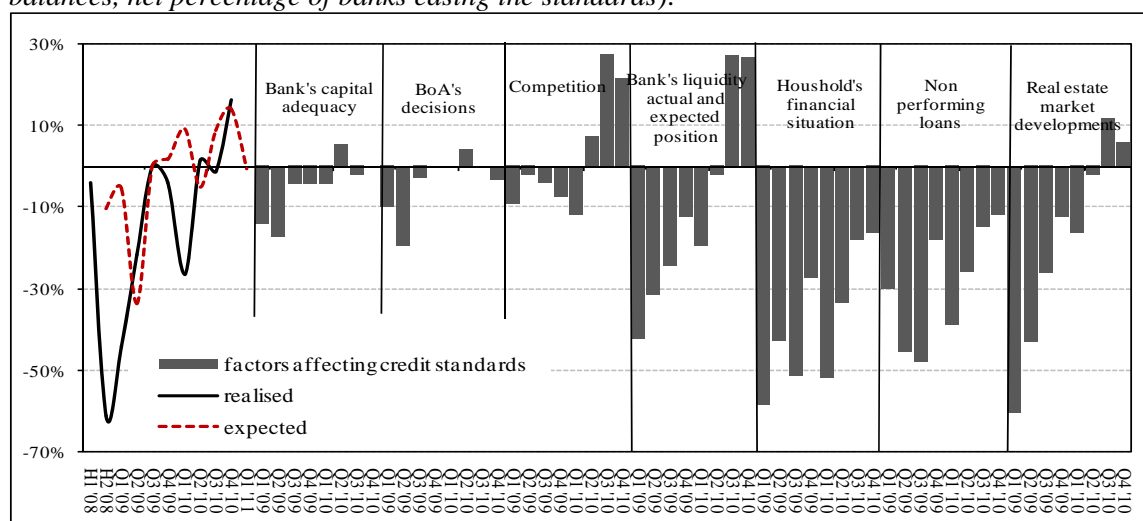
*) See note 2.

Loans to households

Credit standards to households, after a moderate tightening over the previous quarter, eased over the fourth quarter of year 2010, after recording. Credit standards' easing in the fourth quarter was in line with the banks experts' expectations as reported in the previous survey. The net percentage of banks reporting easing of credit standards is 13.3%, up by 17.5 p.p. from the previous quarter. The survey results suggest that credit standards applied for loans to households for house purchase financing continue to be eased, however at a lower degree compared to the previous quarter. Whereas, credit standards applied to consumer loans eased considerably, after the net tightening over the third quarter of year 2010; the net balance pointed to 13.6% from -4.7% the previous quarter.

Banks experts assessed that *liquidity situation*, *competition in banking system* and *real estate market developments* contributed to easing the credit standards for households. The positive contribution of factors related to *liquidity* and *real estate market developments* was lower compared to the previous quarter. On the other hand, there was a lower negative contribution of factors related to *non-performing loans* and *households' financial situation* on credit standard easing.

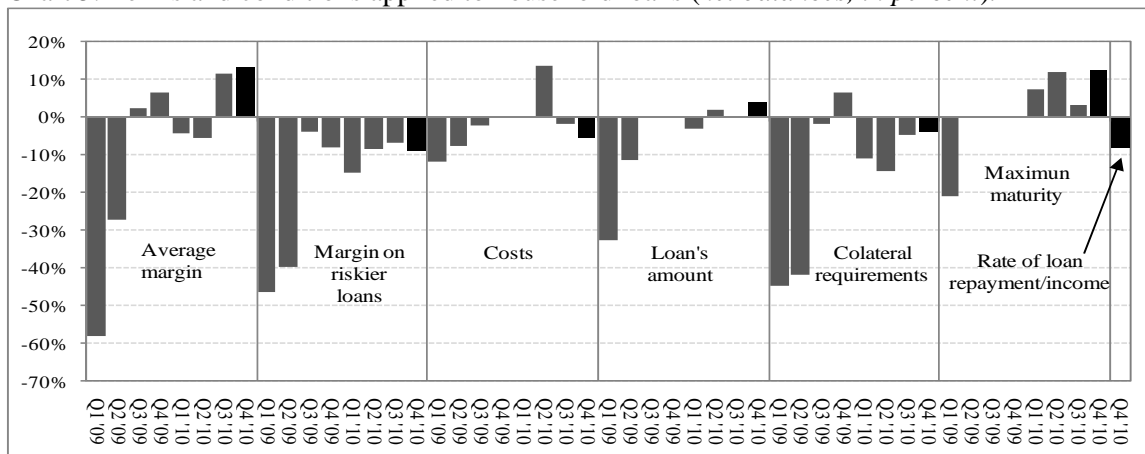
Chart 4: Changes in credit standards to households and the contribution of selected factors (*net balances, net percentage of banks easing the standards*).



Source: Bank of Albania

Credit standards easing policy was implemented mainly through narrowing the *average margin*, *higher maximum loans maturity* and *higher loan's size*. On the other hand, wider margins on riskier loans, tightened collateral requirements and lower rate between monthly payment and income contributed to the net tightening of credit standards.

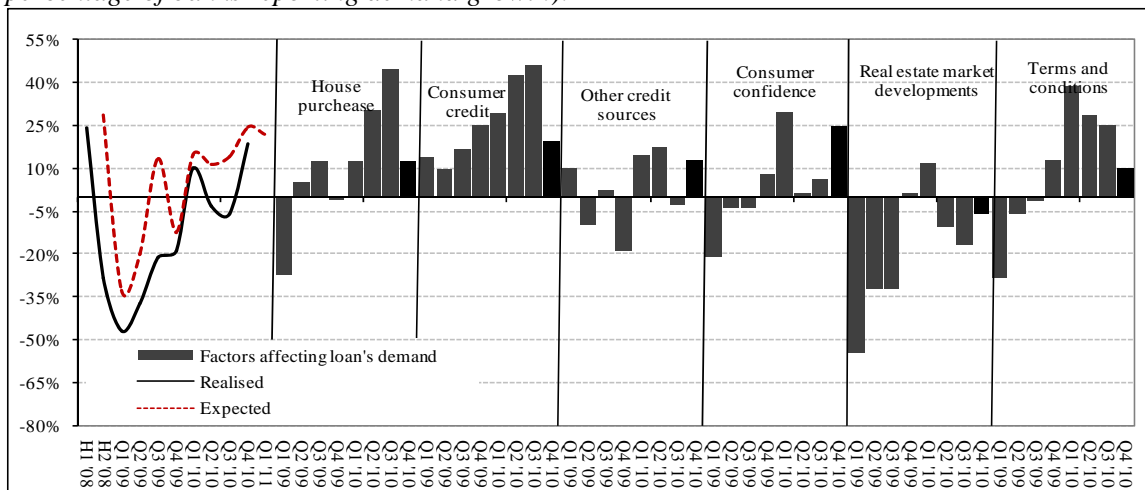
Chart 5. Terms and conditions applied to household loans (*net balances, in percent*).



Source: Bank of Albania

Loan demand. In line with the expectations expressed in the previous quarter survey, household's loan demand increased over the last quarter of 2010. Since the beginning of 2010, banks' experts continuously reported a higher fluctuation of loans demand for house purchase from quarter to quarter compared to that for consumer credit (assessed positively throughout the year 2010). During the forth quarter, loans demand for both categories improved considerably. Respectively, net balances for household's loan demand for house purchase and consumer credit pointed to 17.5% and 20.1%, respectively. Almost all the considered factors have impacted positively the household's loan demand. Consumption and house purchase financing needs were assessed as the main factors behind higher household's loan demand (even at a lower rate compared to the previous quarter).

Chart 6. Households' loans demand and contribution of selected factors (*net balances, net percentage of banks reporting demand growth*).



Source: Bank of Albania

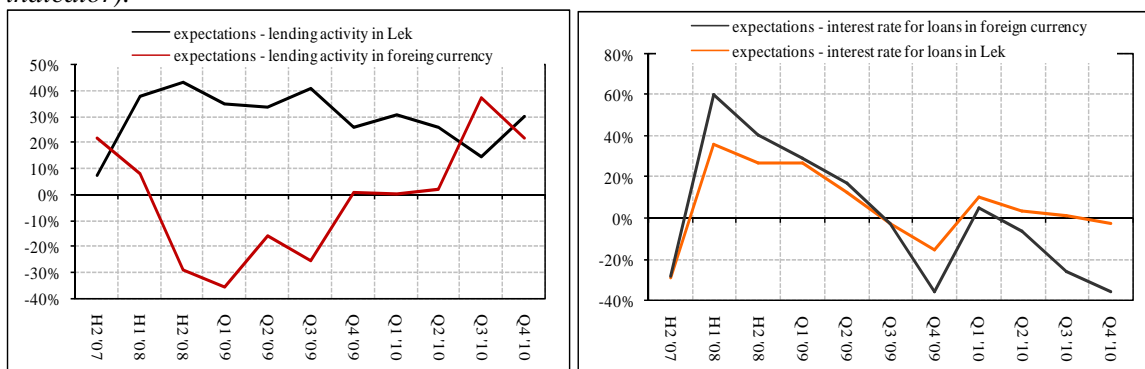
Expectations

For the first quarter of 2011, banks experts expect credit standards for loans to households to be more tightened compared to the current quarter. Credit standards net tightening will higher for house purchase loans than for consumer credit. By contrast, household's loan demand expectations, for the first quarter of 2011 are more optimistic.

Lending activity by currency

Over the first quarter of year 2011, banks expect a somewhat more rapid growth for the lending activity in ALL than in foreign currency. The net percentage of banks reporting that they expect higher growth rates lending activity in ALL has increased in the fourth quarter 2010 to +30% from +14.7% in the previous quarter. With regard to foreign currency denominated lending activity, the net percentage of banks expecting a growth in the first quarter of 2001 fell by 15.6 p.p at +21.8% from the previous quarter. Banks' experts signal a cut of interest rates applied to loans to be granted over the first quarter of 2011, mainly for the loans in ALL. Some of factors impacting these results are the changes at reference rates and the implementation of an easing monetary policy of the Bank of Albania.

Chart 7. Banks' expectations on lending activity (left-hand) and interest rates by currency (right-hand), after one quarter (*net balances*^{*}, *net percentage of banks expecting an increase of the indicator*).

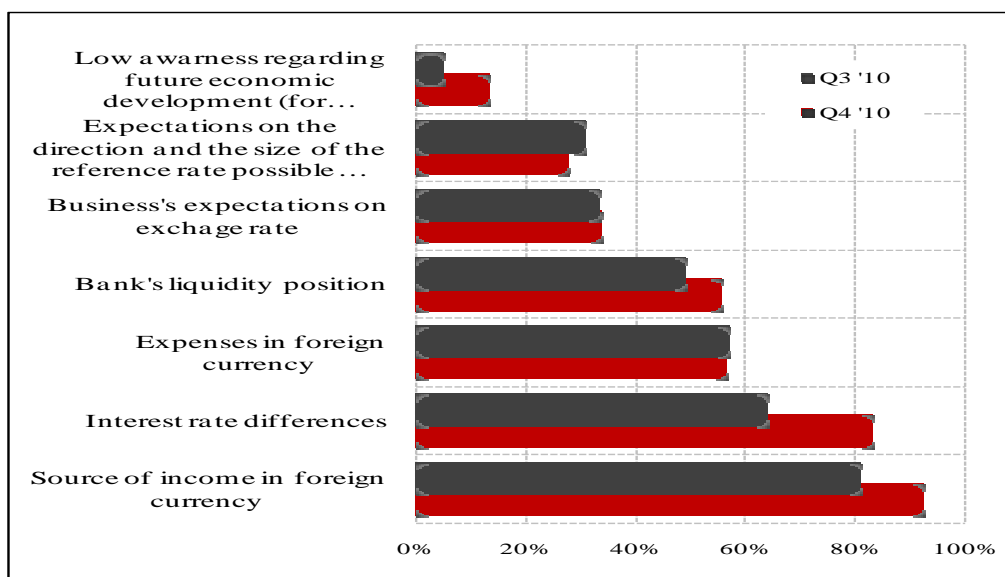


Source: Bank of Albania

^{*}) The positive balance indicates an increase of lending activity or increase of interest rate, while negative balance indicates fall of lending activity or cut of interest rate.

The main encouraging factors of businesses' loan demand in foreign currency concerned the *interest rate spreads* and the *source of income* denominated in *foreign currency* (see Chart 8). The impact of "the source of income in foreign currency" was assessed at a higher degree in the fourth quarter of 2010, for the third consecutive quarter. Exchange rate expectations represent another factor which contributed at a higher degree in businesses loan demand in foreign currency.

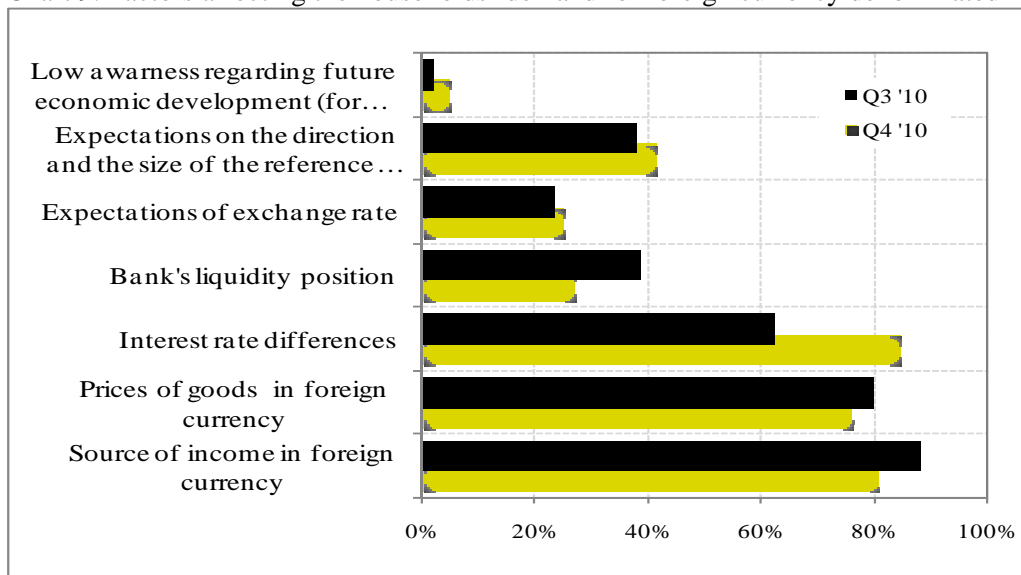
Chart 8. Factors impacting businesses' demand for loans in foreign currency.



Source: Bank of Albania

Interest rate spread represents the main factor affecting the households' loan demand in foreign currency over the fourth quarter of 2010. Factors related to the *source of income in foreign currency* and *commodities prices expressed in foreign currency* continued to provide an important contribution to the loan demand in foreign currency, although at a lower rate than in the previous quarter (see Chart 9).

Chart 9. Factors affecting the households' demand for foreign currency denominated loans.



Source: Bank of Albania

Annex 1. Loans to businesses

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

	NET BALANCE			
	Q1 2010	Q2 2010	Q3 2010	Q4 2010
How have bank's standards for loan approval changed?				
- In the current quarter	13.5	-9.9	1.1	8.5
- Next quarter	-10.6	6.7	10.5	14.5
Factors affecting the bank's standards for loan approval:				
-Bank's capital adequacy	-7.8	-4.6	-5.1	3.6
-Bank of Albania's decisions	12.2	-3.1	0.0	4.0
-Competition in the banking system	-7.6	4.5	23.8	27.2
-Current or expected liquidity level	-4.6	-6.6	-4.1	11.3
-Business sector-related specific problems	-44.2	-27.9	-55.1	-61.7
-Current or expected macroeconomic situation	-32.0	-27.9	-46.6	-18.7
-Non-performing loans	-34.8	-24.5	-51.4	-44.1
How have the terms and conditions for loan approval changed?				
-Average margin	-10.1	-5.6	-2.6	-8.3
-Margin on high risk loans	-27.7	-31	-22.5	-29.4
-Margin on high risk loans	-3.6	-5.9	-6.5	-6.0
-Commissions	1.0	10.1	1.1	6.7
- Amount of loan	-7.7	-20.8	-18.7	-17.3
-Collateral requirement/in proportion to the amount of loan	0.0	13.2	-7.4	-2.3
-Maximum loan maturity				
How has business demand for loan changed?				
-SMEs previous quarter	-8.8	13.5	-10.9	-10.0
-SMEs next quarter	23.8	9.5	20.8	9.5
-Corporation, previous quarter	-1.1	-7.4	-18.5	6.2
-Corporation, next quarter	29.3	7.9	12.1	18.4
Factors affecting the change of demand for loans:				
-Need to finance inventories	46.9	43.1	42.3	67.6
-Need to finance fixed investments	-1.4	22.6	16.1	19.4
-Use of alternative financing resources	12.4	19.5	1.4	16.7
-Bank of Albania's monetary policy decisions	0.0	6.1	1.1	1.1
-Lending terms & conditions applied from your bank	1.5	18.7	9.0	24.2
-Current or expected macroeconomic situation	0.0	21.6	-3.8	32.5
Reasons for foreign currency lending:				
-Source of income in foreign currency	58.3	-54	81.1	92.3
-Interest rate spread	65.2	84.4	63.9	83.1
-Expenditure in foreign currency	44.2	51.4	57.3	56.6
--Exchange rate expectations	30.1	42.9	49.1	55.9
-Reference interest rate expectations	14.7	44.4	33.6	34.1
-Low awareness regarding economic developments	49.9	37.3	31.0	27.6

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 those standards “are considerably tightened” have acquired the double of the weight compared to the answer “are slightly tightened”. The results are analysed through the calculation of the net balance as the difference of the weighted balances of banks, which have reported an easing/increase of standards/demand and those that have reported tightening/decrease of procedures/demand. The net balances are escalated for the purposes of acquiring the values within the target +/- 100.

	NET BALANCE			
	Q1 2010	Q2 2010	Q3 2010	Q4 2010
How have bank's standards for loan approval changed?				
- In the past quarter	-26.5	1.5	-1.2	16.3
- In the next quarter	-13.4	9.0	14.1	-0.8
Factors affecting the bank's standards for loan approval:				
-Bank's capital adequacy	-4.4	5.5	-1.9	0.0
-Bank of Albania's decisions	0.0	4.5	0.0	3.2
-Competition in the banking system	-11.8	7.2	27.5	21.5
-Current and expected liquidity level	-19.3	-2.0	27.1	26.9
-Household's financial situation	-51.8	-33.3	-17.8	-16.5
-Non-performing loans	-39.0	-25.8	-15.0	-11.8
-Performance of the real estate market	-16.5	-2.1	11.9	
How have the terms & conditions for loan approval changed?				
-Average margin	-4.0	-5.3	11.7	13.3
-Margin on high-risk loans	-14.7	-8.4	-6.6	-8.7
-Commissions	0.0	13.8	-1.6	-5.7
-Loan amount	-2.7	2.2	0.0	3.9
-Collateral requirement/as a ratio the loan amount	-10.7	-14.3	-4.5	-4.0
-Maximum loan maturity	7.7	12.1	3.2	12.5
How has household demand for loans changed?				
-Housing loan	1.2	-17.8	-15.6	17.5
-Consumer loan	18.9	11.4	3.9	20.1
Factors affecting the change of demand for loans:				
-Household's needs to finance the house purchase	12.7	30.3	45.1	12.5
-Household's need to finance consumption	29.2	42.3	45.7	19.9
-Use of alternative financing resources	14.8	17.3	-2.9	12.8
-Bank of Albania's monetary decisions	11.3	8.6	4.8	-4.8
-Consumer confidence	29.9	1.5	6.2	24.5
-Performance of the real estate market	11.7	-10.3	-16.8	-6.2
-Lending terms & conditions applied by your bank	38.6	28.7	25.0	10.0
Reasons for foreign currency lending:				
-Source of income in foreign currency	87.6	59.0	87.9	80.6
-Prices of acquired goods expressed in foreign currency	64.3	67.0	80.0	76.1
-Interest rate spread	73.6	78.2	62.3	84.6
-Exchange rate expectations	46.4	32.0	38.9	27.2
-Reference interest rate expectations	23.3	51.8	23.6	24.9
-Low awareness regarding economic developments	42.5	34.5	37.8	41.3