

BANK OF ALBANIA

Monetary Operations Department



Bank Lending Survey April 2011¹

Bank lending survey for the first quarter of 2011 showed that credit standards on loans to enterprises and households continued to be eased. The easing of credit standards is implemented only on loans to small and medium-sized enterprise, as credit standards on loans to corporations remained unchanged compared with the fourth quarter of 2010. Credit standards applied to loans to households continue to be eased, albeit lower than in the previous quarter. Credit standards for consumption financing and house purchase have been easing since the fourth the quarter of 2010.

The factors providing the main contribution to the easing of credit standards on loans for enterprises, over the first quarter of 2011, are *competition* at the banking system and *liquidity position of the bank*. Banks' experts think that the situation of *non-performing loans*, *the financial situation of households* and the *developments in real estate market* contributed to the tightening of credit standards on loans to households.

The easing policy implemented by banks on loans to enterprises is mainly carried out through *the increase of the approved credit size*. The contained easing of credit standards on loans to households is mainly applied through the *cut of credit maximum maturity*, the *reduction of instalment ratio to income* and the *climbing of the demand for collateral*.

Enterprises' demand remained almost unchanged over the first quarter of 2011 compared with the previous quarter. In line with the previous survey's expectations, banks' experts report an upsurge demand of households for loans.

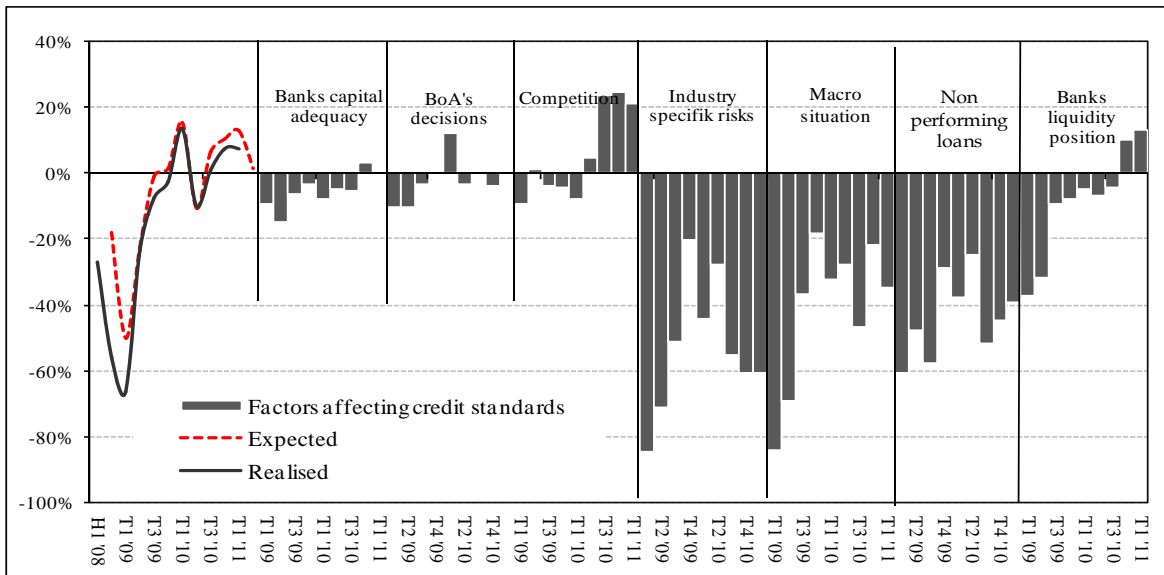
Banks' experts do not expect any further easing of credit standards on loans to enterprises in the second quarter of 2011. Credit standards on loans to households shall almost maintain the same easing level in the next quarter. Expectations related to the demand from both enterprises and households, over the second quarter of 2011, are positive.

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

Credit to enterprises

Bank lending survey results for the first quarter 2011, showed that the easing of credit standards on loans to enterprises remained unchanged compared with the previous quarter. The net balance² of banks reporting an easing of standards reached +7.6% equal to the previous quarter. The easing of credit standards was applied only to loans to small and medium-sized enterprises, as credit standards on loans to corporations remained unchanged compared with the fourth quarter of 2010 (net balance is 0). Net balance of banks reporting an easing of credit standards on loans to small and medium-sized enterprises is +12.2% or about 4.6 p.p higher than in the preceding quarter. Regarding the purpose of loan, credit standards are almost eased at the same degree applied to both, the loan for the financing of working capital and the loan for investment purposes.

Chart 1: Changes in credit standards applied to loans to enterprises and the contribution of different factors (*net balance¹, net percentage of banks contributing to easing standards*)



Source: Bank of Albania

Note 1. The positive balance shows an easing of credit standards or that the factor contributed to the easing of credit standards; whereas the negative balance shows a tightening of standards or that the factor contributed to the tightening of credit standards.

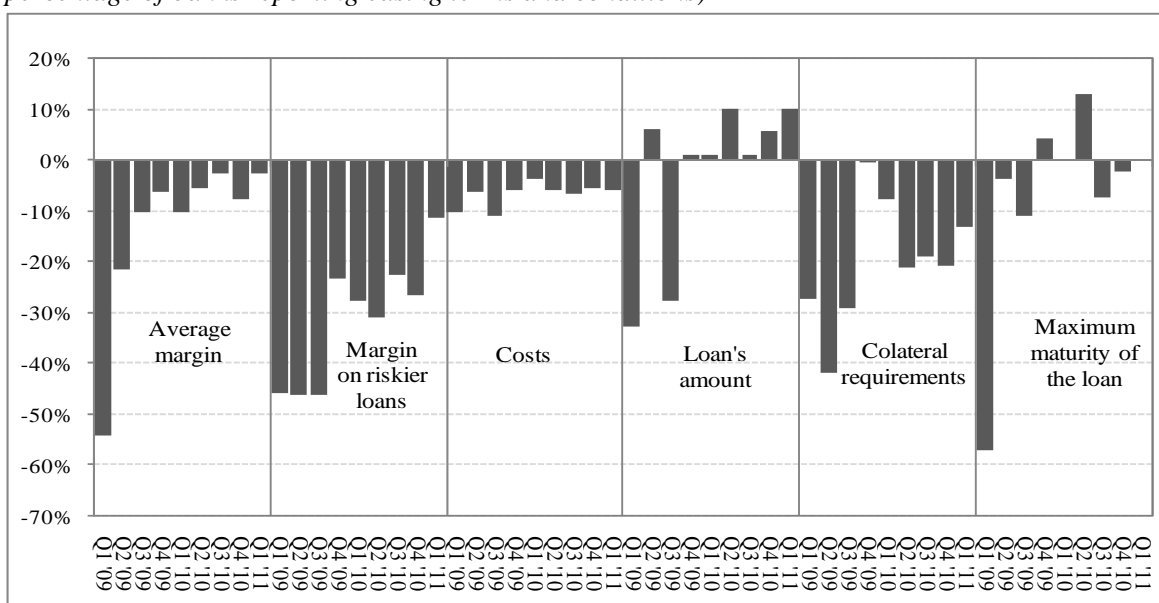
Competition in the banking system provided the main contribution to the easing of credit standards over the first quarter 2011. Banks' *liquidity* position provided the same contribution. On the counterpart side, *the performance of non-performing loans, the specific problems of the sector where the enterprise conducts its activity within and the*

² Banks responses for the lending activity are aggregated through the "net balance". Net balance is defined as the difference of banks weighed responses, reporting an easing/increase of standards/demand with those reporting tightening/decrease of standards/demand. Shares are defined based on the ratio of credit portfolio of each bank to total credit, with regard to different segments of market, accordingly to the type of the question (loan granted to enterprises/households, in ALL/foreign currency).

macroeconomic situation at home continued to contribute to the tightening of credit standards on loans to enterprises (see Chart 1).

The easing policy of banks is mainly realised through the *rise of the approved loan size*, over the first quarter of 2011. Net percentage of banks reporting to have increased the size of approved loan points to +10.1% compared with +6% in the previous quarter. The other terms and conditions applied by banks have supported the implementation of a tightening credit policy, although at a lower level than in the preceding quarter (see Chart 2).

Chart 2: Changes in terms and conditions for approving loans to enterprises (*net balance², net percentage of banks reporting easing terms and conditions*)



Source: Bank of Albania

Note 2. Positive balance shows easing credit standards, whereas negative balance shows tightening credit standards.

Table 1: Summary of banks' responses on the performance of loan approval standards, first quarter 2011

	Enterprises					Households
	Total	SME ³	Corporations	Working capital	Investments	
Tightened considerably	-	-	-	-	-	
Tightened somewhat	1 bank	-	-	-	-	1 banks
Totally unchanged	6 banks	9 banks	10 banks	8 banks	9 banks	7 banks
Eased somewhat	1 bank	1 bank	-	2 banks	1 bank	1 bank
Eased considerably	-	-	-	-	-	
Total	8	10	10	10	10	9
Net balance^{*)}	7.6%	12.2%	0.0%	13.2%	12.2%	1.9%

Source: Bank of Albania

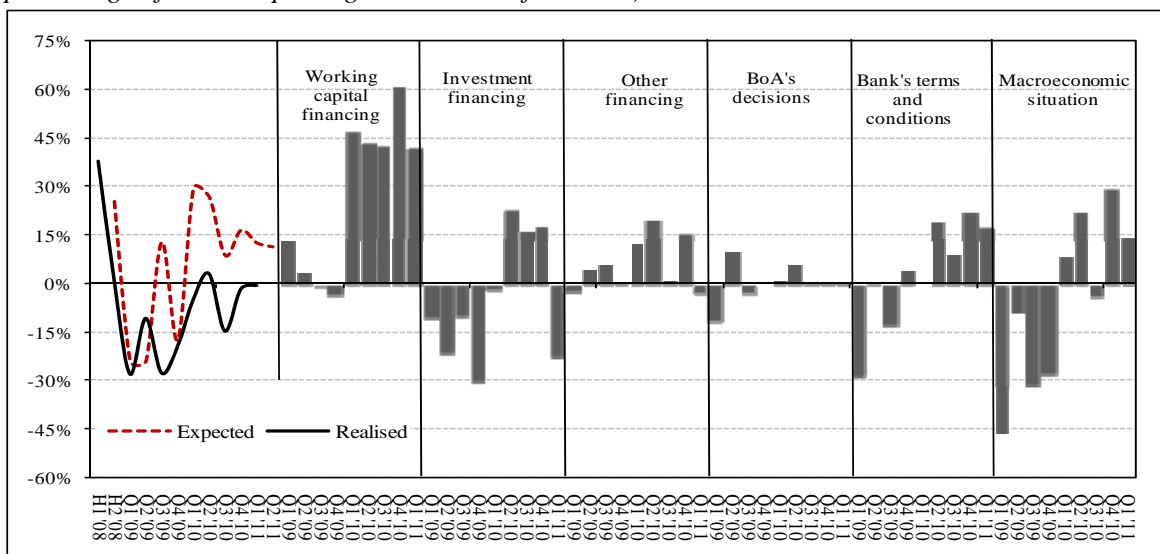
*) See note 1.

³ SME – Small and medium-sized enterprises

Loan demand. Over the first quarter of 2011, the enterprises' demand has remained almost unchanged from the previous quarter. Net percentage of banks, perceiving an upward demand, points to -0.6%. The detailed demand by enterprises' size has manifested different behaviour: loan demand from corporations still remains positive, but downward compared with the preceding quarter (its net balance points to +0.7% from 5.5% in the previous quarter), whereas loan demand from small and medium-sized enterprises is assessed as low (-1.8% from -9.0% in the previous quarter).

The increase in demand, over the first quarter of 2011, is mainly driven by the *financing needs for inventories and working capital*. However, the contribution provided from this factor declined in the current quarter, after its considerable pick-up over the fourth quarter of 2010. For the first time in three quarters, investment financing factor provided a negative contribution to the demand upsurge. *Credit terms and conditions* applied from banks and the *macroeconomic situation* provided a positive contribution, but at a lower degree to the demand upsurge.

Chart 3: Enterprises' demand for loans and the contribution of selected factors (*net balance³, net percentage of banks reporting an increase of demand*)



Source: Bank of Albania.

Note 3: Positive balance shows an upsurge of the demand or the factor has contributed to the demand increase, negative balance shows a fall of the demand or the factor has contributed to the loan demand fall.

Expectations. Banks' expectations for a further easing of credit standards over the second quarter of 2011 are lower compared with the preceding quarter. Net percentage of banks expecting to ease the credit standards applied to loans is 1.4%; 13.1 p.p lower than in the last quarter of year 2010. Expectations with regard to enterprises' demand over the second

quarter of year 2011 remains positive, albeit at the same level compared with the expectations of previous quarter.

Table 2: Summary of banks' responses regarding the performance of loan demand, first quarter 2011

	Enterprises				Households	
	SME	Corporations	Working capital	Investments	House purchase	Consumer credit
Considerably higher	-	1	2	-	1	-
Slightly higher	2	2	2	-	3	5
Almost equal	7	6	5	7	4	4
Slightly lower	1	1	1	3	1	1
Considerably higher	-	-	-	-	1	
Total	10	10	10	10	10	10
Net balance^{*)}	-1.8%	0.7%	8.6%	--17.0%	7.3%	21.2 %

Source: Bank of Albania

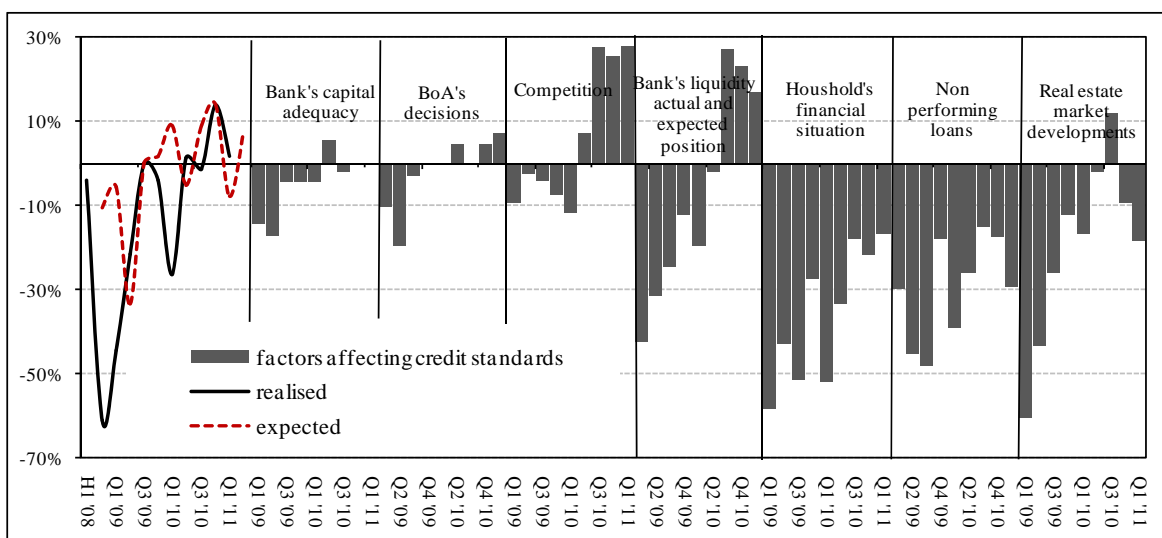
^{*)} See note 2

Credit to households

Credit standards applied to loans to households continue to ease, notwithstanding at a lower level compared with the previous quarter. This slowdown of easing standards is somewhat in line with the expectations expressed in the previous quarter. Net percentage of banks reporting easing standards, over the first quarter of 2011, was 1.9%, about 12.1 p.p. lower than in the previous quarter. By loan type, credit standards for the purpose of consumer financing pursued the easing trend started since the fourth quarter of 2010. The slowdown of credit standards easing is noted on the loan granted to households for house purchase. The respective net balance pointed to 5.9%, about 0.9 p.p lower than in the previous quarter.

Banks' experts have assessed that the position of *non-performing loans* and the developments in the *real estate market* contributed to the tightening of credit standards on loans to households, higher than in the previous quarter. *Households' financial position* continues to provide a negative contribution to credit standards, however at a lower degree compared with the previous quarter. The positive and higher contribution of factors related to *competition in the banking system, liquidity position and the decisions of the Bank of Albania* considerably balanced the tightening effect of the above mentioned factors. *Capital adequacy*, for the second consecutive quarter, did not affect either the tightening or easing of credit standards on loans to households. The respective net balance, as in the previous quarter, is 0.0%.

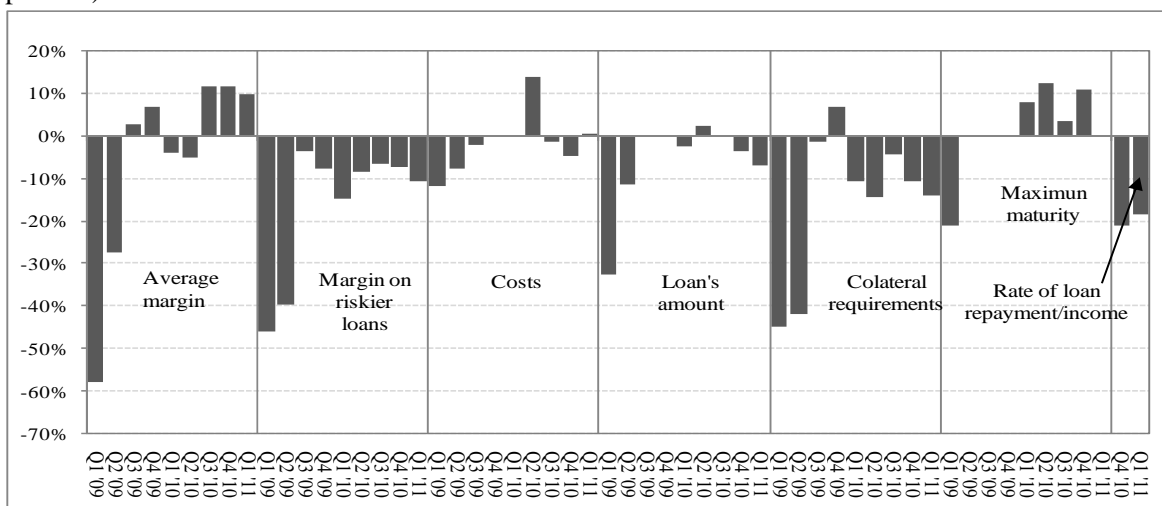
Chart 4: Changes in credit standards applied to the consumer credit and lending for house purchase (net balance, net percentage of banks contributing to easing credit standards)



Source: Bank of Albania

The reduction of *credit maximum maturity*, the cut of *instalment ratio to income*, the reduction of *loan size* and the increase of *demand for collateral* were employed for the implementation of a *tightening credit standards policy* on loans to households. The *narrowing of average margin* and the *cut of commissions* contributed to the easing of credit standards.

Chart 5. Terms and conditions applied to the approval of credit to households (net balance, in percent)



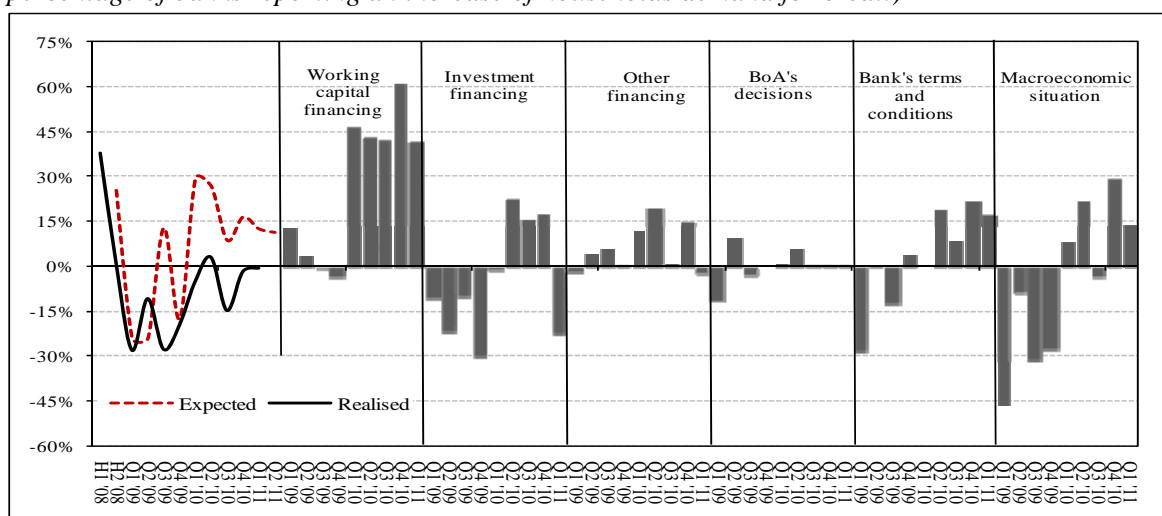
Source: Bank of Albania

Loan demand

Banks' experts report a climbing demand of households for credit over the first quarter of 2011, in line with the expectations stated in the previous survey round. Loan demand for

consumer financing and house purchase improved considerably over this quarter. The respective net balances pointed to 21.2 and 7.3%, increasing by about 4.0 and 6.7 p.p. compared with the previous quarter. Almost all the considered factors provided a positive contribution to the loan demand upsurge from households. *The need for house financing* and for *consumer financing* continue to drive the demand for credit. *Credit terms and conditions applied by banks* affected positively the demand for loan during the first quarter 2011. *Consumers confidence*, albeit providing positive contribution to the demand, was deemed lower in the first quarter of 2011 compared with the previous quarter.

Chart 6. Households' demand for credit and the contribution of selected factors, (*net balance, net percentage of banks reporting an increase of households demand for credit*)



Source: Bank of Albania

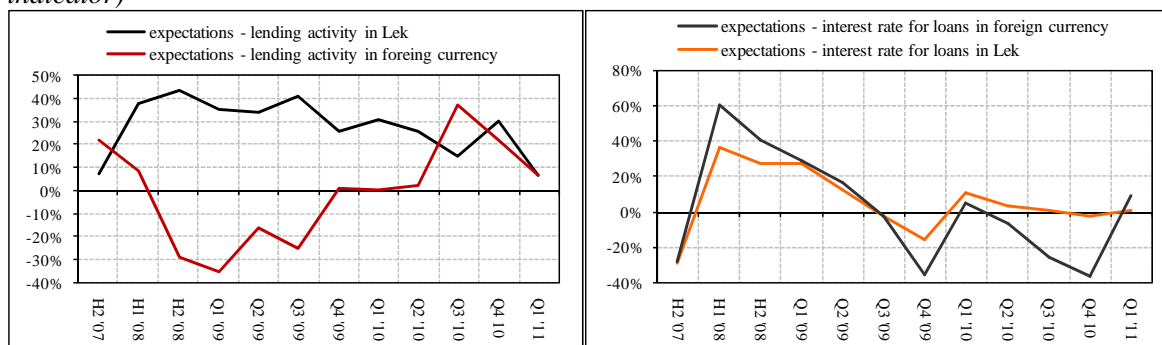
Expectations

Banks' experts expect credit standards on loans to household shall maintain almost the same easing level. Accordingly to the purpose of use, experts expect a further easing of credit standards for house purchase. With regard to consumer credit, banks' experts expect a contained easing credit standards. Also, expectations of banks' experts regarding credit demand of households are positive for the second quarter of 2011.

Lending activity by currency

Banks' experts expect a contained lending activity in ALL and foreign currency over the second quarter of 2011. Respective balances, although positive, marked a drop by about 23.3 and 15.3 p.p, respectively compared with the previous quarter. Banks' experts signal a rise of interest rates applied to loans to be granted in the second quarter of 2011, mainly to ALL loans. Changes in reference rates and the monetary policy implemented by the Bank of Albania are some of factors driving this result.

Chart 7. Banks' expectations for the lending activity (left-hand), and for credit rates by currency (right-hand), after one quarter (*net balance* *, *net percentage of banks expecting increase of the indicator*)

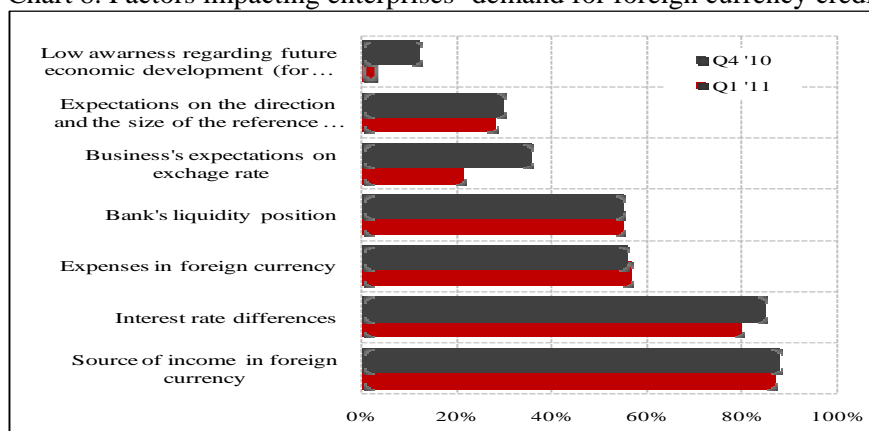


Source: Bank of Albania

*) *Positive balance shows increase of lending activity or a rise of interest rate, whereas negative balance shows a drop of lending activity or cut of interest rate.*

Interest rate differences and source of income in foreign currency continue to be the main simulating factors of enterprises' demand for loans (see Chart 8). "Source of income in foreign currency" contribution is assessed almost the same compared with the fourth quarter of 2010.

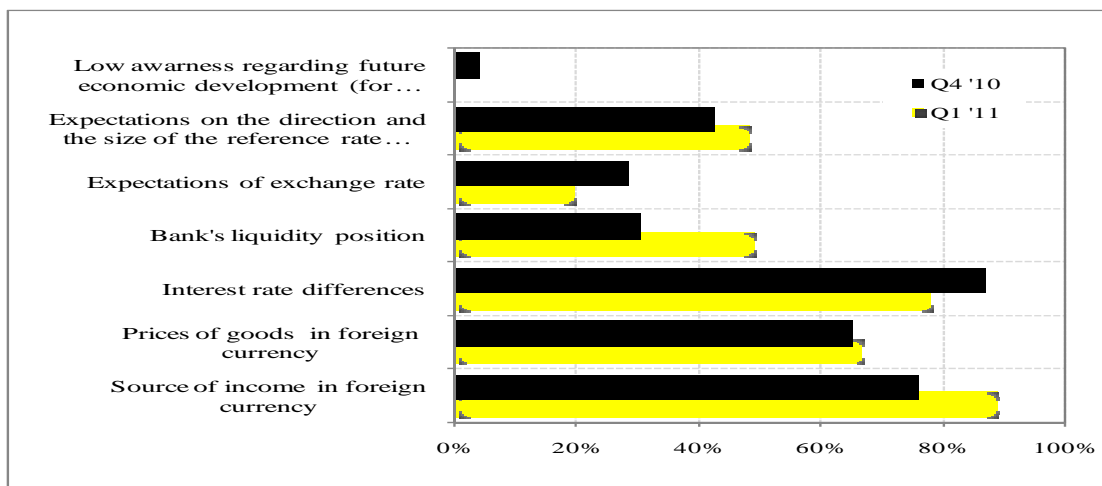
Chart 8. Factors impacting enterprises' demand for foreign currency credit



Source: Bank of Albania

Source of income in foreign currency is the main factor determining the households' demand for foreign currency credit in the first quarter 2011. Factors related to *interest rates difference with purchased commodities prices stated in foreign currency* continued to provide a significant contribution to the demand for foreign currency credit (Chart 9).

Chart 9. Factors contributing households' demand for foreign currency credit



Source: Bank of Albania

Annex 1. Loan to enterprises

In the aggregation process of results, each opinion is weighted based on the relevant answer. For example, banks providing the answer that standards “are tightened considerably” have acquired the double of the weight relative to the answer “are tightened slightly”. 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.

Enterprises	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11
How have bank's standards for loan approval changed?					
-Current quarter	13.5	-9.9	1.1	7.6	7.6
- Next quarter	-10.6	6.7	10.5	13.0	1.4
Factors affecting the bank's standards for loan approval:					
Bank's capital adequacy	-7.8	-4.6	-5.1	3.2	0.0
-Bank of Albania's decisions	12.2	-3.1	0.0	-3.6	0.0
-Competition in the banking system	-7.6	4.5	23.8	24.4	21.3
-Current or expected liquidity level	-4.6	-6.6	-4.1	10.1	13.2
-Business sector-related specific problems	-44.2	-27.9	-55.1	-60.5	-60.4
-Current or expected macroeconomic situation	-32.0	-27.9	-46.4	-22.0	-34.6
-Non-performing loans	-37.7	-25.4	-51.4	-44.7	-39.0
How have the terms and conditions for loan approval changed?					
Average margin	-10.1	-5.6	-2.6	-7.5	-2.3
-Margin on high risk loans	-27.7	-31.0	-22.5	-26.4	-11.1
-Commissions	-3.6	-5.9	-6.5	-5.4	-5.9
- Amount of loan	1.0	10.1	1.1	6	10.1
-Collateral requirement/in proportion to the amount of loan	-7.7	-20.8	-18.7	-20.7	-13.0
-Maximum loan maturity	0.0	13.2	-7.4	-2.1	0.0
How has business demand for loan changed?					
-SMEs previous quarter	-8.8	13.5	-10.9	-10.9	-1.8
-SMEs next quarter	23.8	9.5	20.8	8.5	13.1
-Corporation, previous quarter	-1.1	-7.4	-18.5	5.5	0.7
-Corporation, next quarter	29.3	7.9	12.1	16.5	9.5
F Factors affecting the change of demand for loans:					
Need to finance inventories	46.9	43.1	42.3	60.7	42.1
-Need to finance fixed investments	-1.4	22.6	16.1	17.4	-22.3
-Use of alternative financing resources	12.4	19.5	1.4	15.0	-2.5
-Bank of Albania's monetary policy decisions	1.5	6.1	1.1	1.0	1.0
-Lending terms & conditions applied from your bank	0.0	18.7	9.0	21.7	17.2
-Current or expected macroeconomic situation	8.8	21.6	-3.8	29.1	14.6
Reasons for foreign currency lending:					
-Source of income in foreign currency	58.3	54.0	81.1	88.0	87.0
-Interest rate spread	65.2	84.4	63.9	84.8	79.8
-Expenditure in foreign currency	44.2	51.4	57.3	56.0	56.7
--Exchange rate expectations	30.1	44.4	33.6	35.7	21.4
-Reference interest rate expectations	14.7	37.3	31.0	29.9	28.2
-Low awareness regarding economic developments	49.9	21.5	5.1	12.2	3.1

Annex 2. Loan 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 tightened considerably” have acquired the double of the weight compared to the answer “are tightened slightly”. 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.

Household	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11
How have bank's standards for loan approval changed?					
In the past quarter	-26.5	1.5	-1.2	14.0	1.9
- In the next quarter	-5.0	9.0	14.1	-7.9	7.3
Factors affecting the bank's standards for loan approval:					
Bank's capital adequacy	-4.4	5.5	-1.9	0.0	0
-Bank of Albania's decisions	0.0	4.5	0.0	4.5	7.2
-Competition in the banking system	-11.8	7.2	27.5	25.6	27.7
-Current and expected liquidity level	-19.3	-2.0	27.1	23	16.7
-Household's financial situation	-51.8	-33.3	-17.8	-21.3	-16.7
-Non-performing loans	-39.0	-25.8	-15.0	-17.3	-29.3
-Performance of the real estate market	-16.5	-2.1	11.9	-9.4	-18.3
How have the terms & conditions for loan approval changed?					
-Average margin	-4.0	-5.3	11.7	11.4	9.8
-Margin on high-risk loans	-14.7	-8.4	-6.6	-7.5	10.8
-Commissions	0.0	13.8	-1.6	-4.8	0.3
-loan amount	-2.7	2.2	0.0	-3.9	-7.2
Collateral requirement/as a ratio the loan amount	-10.7	-14.3	-4.5	-10.6	-14.0
-Maximum loan maturity	7.7	12.1	3.2	10.7	0.0
-Instalment/income ratio				-21.1	-18.4
How has household demand for loans changed?					
-Housing loan	1.2	-17.8	-15.6	0.6	7.3
-Consumer loan	18.9	11.4	3.9	17.2	21.2
Factors affecting the change of demand for loans:					
- Household's needs to finance the house purchase	12.7	30.3	45.1	17.9	38.5
- Household's need to finance consumption	29.2	42.3	45.7	24.2	46.9
- Use of alternative financing resources	14.8	17.3	-2.9	-3.4	6.8
- Bank of Albania's monetary decisions	11.3	8.6	4.8	3.1	7.2
- Consumer confidence	29.9	1.5	6.2	21.0	11.4
- Performance of the real estate market	11.7	-10.3	-16.8	-19.7	-10.7
- Lending terms & conditions applied by your bank	38.6	28.7	25.0	15.8	33.0
Reasons for foreign currency lending:					
-Source of income in foreign currency	87.6	59.0	87.9	76.2	88.8
-Prices of acquired goods expressed in foreign currency	64.3	67.0	80.0	65.2	66.8
-Interest rate spread	73.6	78.2	62.3	86.9	77.8
-Exchange rate expectations	46.4	51.8	23.6	28.5	19.5
-Reference interest rate expectations	23.3	35.4	37.8	42.5	48.5
-Low awareness regarding economic developments	42.5	17.5	1.9	4.1	0.0

