BANK OF ALBANIA
Monetary Policy Department

Bank Lending Survey Results
July 2011[1]

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Overview of the Results

Bank lending survey results for the second quarter of year 2011 showed that credit standards continued to ease on loans to households and to tighten somewhat on loans to enterprises. The tightening of credit standards by loan size was applied on both categories, small and medium-sized enterprises and large enterprises. In line with the purpose of loan use, standards are tightened at almost the same degree on both, loan for working capital financing and investments loan. Credit standards applied on loans to households continue to ease, notwithstanding at a lower degree compared with the previous quarter. By the purpose of use, credit standards to finance consumption and house purchase continued the easing started since the fourth quarter of year 2010.

The _non-performing loans situation_ and _specific sector related problems_ provided the main contribution to tightening credit standards on loans to enterprises, over the second quarter 2011. The banks' experts assess that competition _in the banking system_, _liquidity position_ and _the decisions of the Bank of Albania_ affected the loosing of credit standards applied on loans to households.

In the second quarter of year 2011, banks' experts assess the enterprises' demand for loans was lower, compared with the previous quarter. Whereas, households' demand for loans, is assessed as climbing up, notwithstanding, at a lower degree than in the first quarter of year 2010.

The banks' experts, regarding the third quarter of year 2011, expect a tightening of credit standards on loans to enterprises and an easing of credit standards on loans to households.

Regarding the third quarter of 2011, expectations for the loan demand to enterprises are positive and higher, compared with the current balance of the demand for loan. Also, expectations for the loan demand to households remain positive for the third quarter of year 2011.

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[1] The survey conducted in July 2011, covers the developments in lending activity during the second quarter of year 2011, and banks' expectations on possible changes in lending activity over the third quarter of year 2011.

Loan to enterprises

Credit standards applied on loans to enterprises tightened in the second quarter of year 2011, compared to the previous quarter of the same year. The net percentage[2] of banks reporting a tightening of credit standards stood at -6.9%, about 14.5 pp lower than in the previous quarter.

Chart 1. Changes in credit standards applied to the approval of loans to enterprises as a total, by enterprises size and by the purpose of credit use (*net balance[1]*).
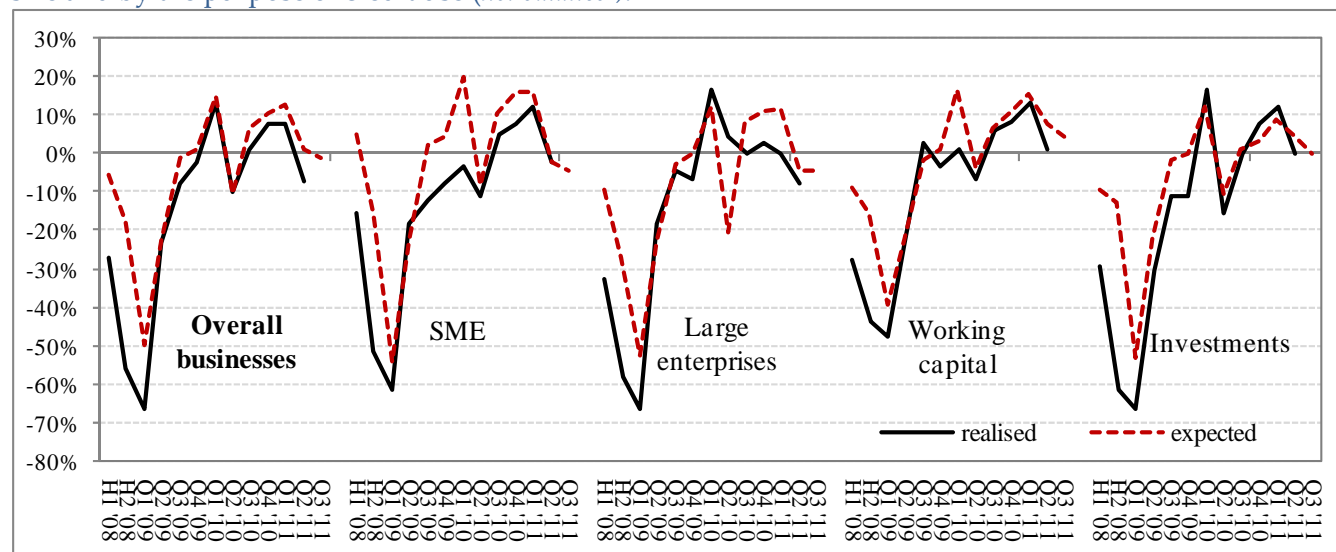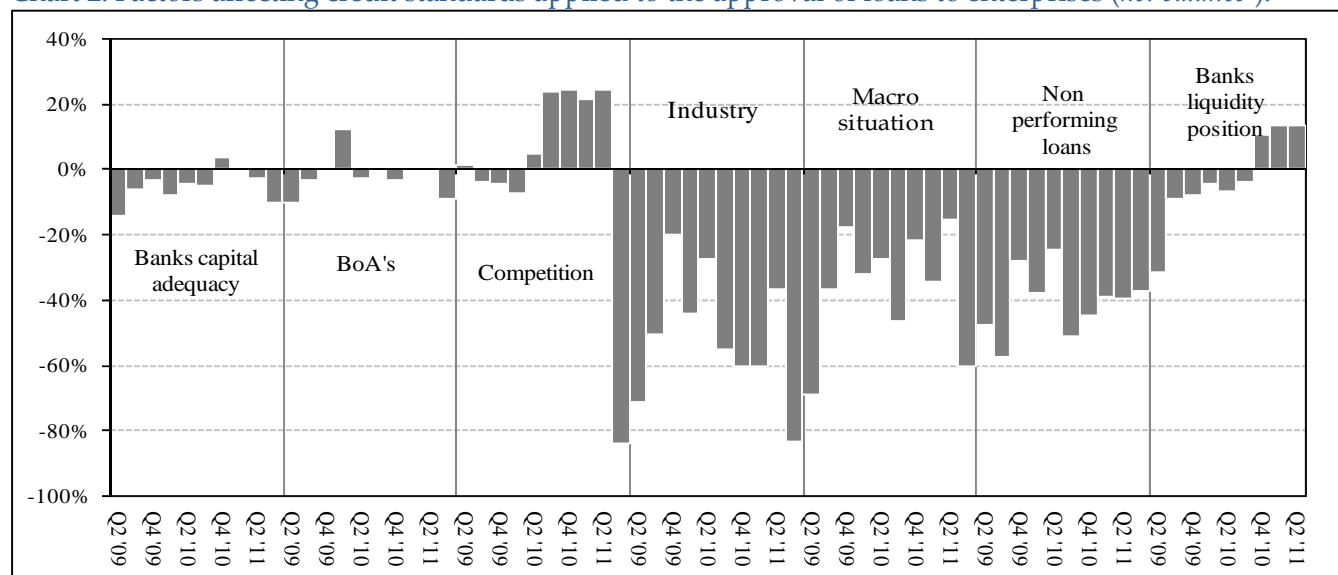

Source: Bank of Albania.
Note 1. Positive percentage indicates easing standards, whereas a negative balance indicates tightening standards.

The tightening of credit standards was applied on loans to both categories, small and medium-sized enterprises as well as large enterprises. The net percentage of banks reporting a tightening of credit standards on loans to small and medium-sized enterprises stood at -2.3%, about 14.5 pp lower than in the previous quarter. Regarding large enterprises, the net balance stood at -7.9%, about 7.9 pp lower than in the previous quarter. Related to the purposes of loan use, credit standards were tightened at almost the same degree on loans for the working capital and those for investment purposes.

The tightening of credit standards to enterprises over the second quarter of 2011 was driven by the situation of *non-performing loans* in the banking system and the *specific problems of the sector* where the firm conducts its activity. The overall macroeconomic situation in the country provided the same contribution, notwithstanding at a lower degree, compared with the previous quarter. On the other side, *liquidity position* and *banking system competition* continued to contribute to the easing of credit standards on loans to enterprises, over this quarter (see Chart 2).

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[2] Banks responses to questions related to lending activity are analysed by focusing on the "net balance". The net balance is defined as the difference between the share of banks reporting that credit standards/demand have been eased/increased and the share of banks reporting that they have been tightened/decreased. Weights are defined based on loan portfolio ratio of each bank to total credit, for different segments of market, by type of question (loans to enterprises/households, in ALL/foreign currency).

Chart 2. Factors affecting credit standards applied to the approval of loans to enterprises (*net balance[2]*).
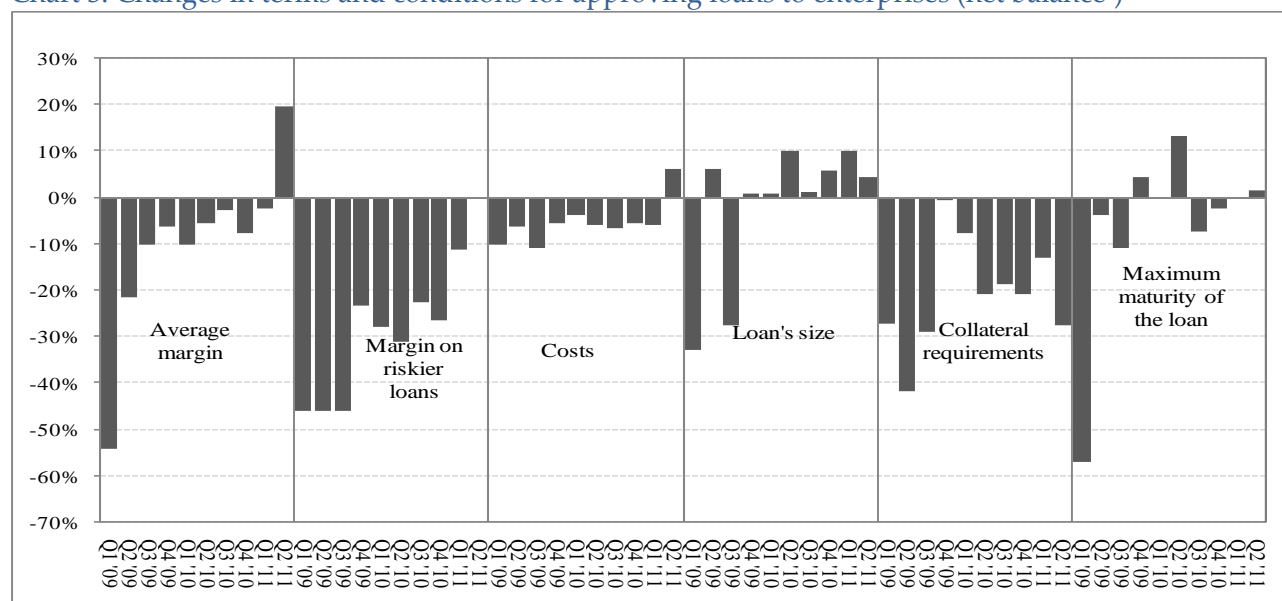

Source: Bank of Albania.

Note 2.Positive percentage indicates that the factor has affected the easing of credit standards; the negative percentage indicates that the factor has affected the tightening of lending standards.

The policy of tightened standards, implemented by banks in the second quarter of year 2011, is mainly conducted through the increase *of the demand for collateral as a ratio to loan' size*. The net percentage of banks reporting an increase in the demand for collateral stood at -27.5%, compared with -13.0% in the previous quarter. Other terms and conditions applied by banks have assisted the implementation of an eased lending policy, particularly the narrowing of the *average margin*.

Chart 3. Changes in terms and conditions for approving loans to enterprises (net balance[3])
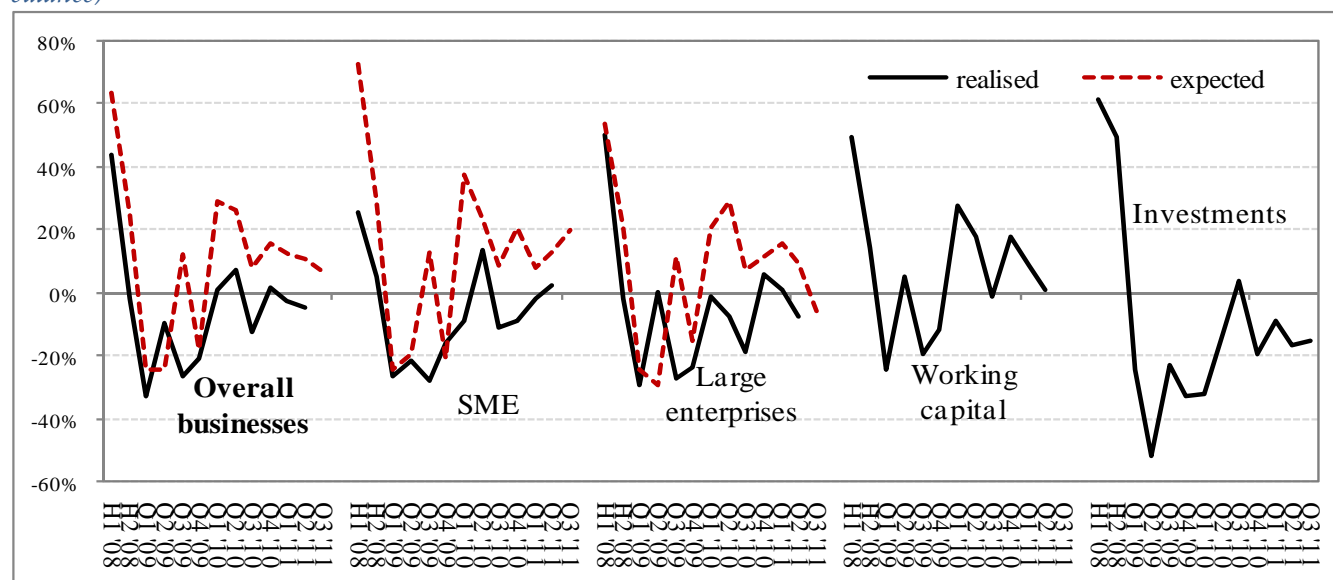

Source: Bank of Albania.

Note 3. Positive balance indicates easing terms and conditions; whereas negative balance indicates tightening terms and conditions.

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Demand for loan. The banks' experts, in the second quarter of year 2011, assess that enterprises' demand for loans was lower than in the previous quarter. The net percentage of banks reporting to have perceived a lower loan demand stood at -5.0%, falling by about 7.9 pp, compared to the previous quarter. The demand detailed by size of enterprises has manifested different behaviour: large enterprises' demand for loans has been declining compared with the previous quarter (its net balance stood at -7.2%, compared with 0.7% in the previous quarter), while the loan demand of small and medium-sized enterprises continued to increase (its net balance stood at 2.3%, from -1.8% in the previous quarter).

Chart 4. Loan demand for enterprises, breakdown by enterprise size and the purpose of loan use (*net balance)*
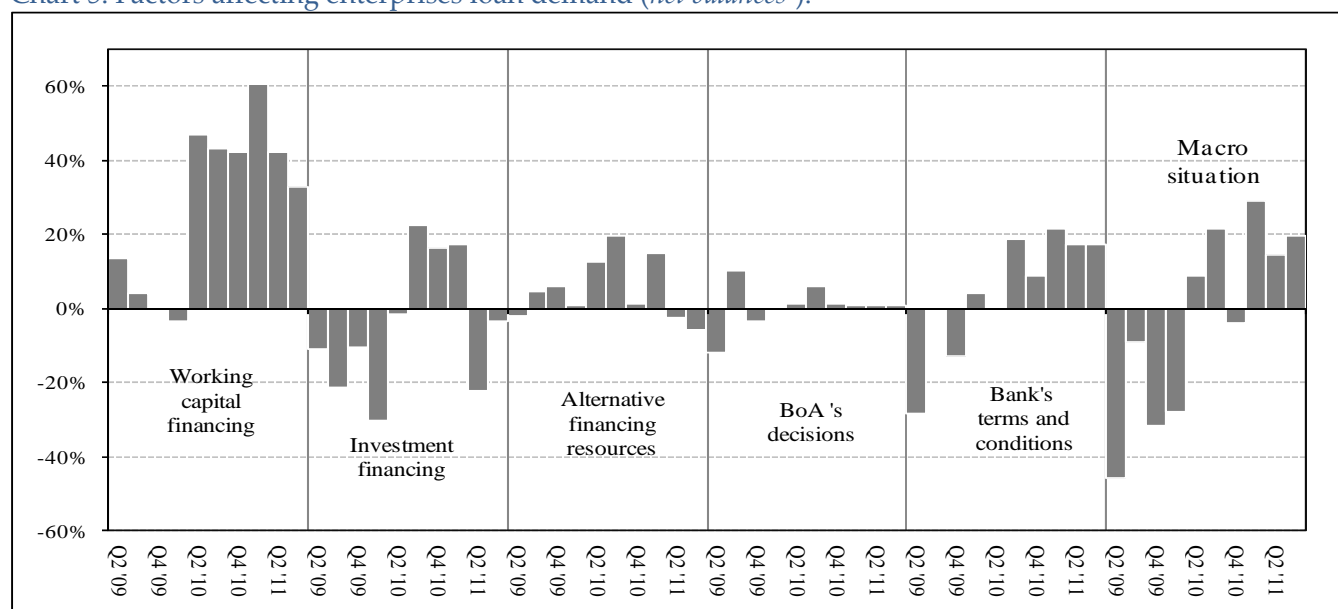

Source: Bank of Albania.

With regard to the categorisation by the purpose of loan use, the loan demand to finance fixed investments continues to be assessed as declining, for the fourth regular quarter. The net balance stood at -15.5 pp in the second quarter of year 2011. The demand of enterprises for loan to finance the working capital has remained almost unchanged, compared to the previous quarter. The net percentage, even though positive, stood at 0.6%, dropping by about 7.9 pp, compared with the previous quarter.

The use of alternative sources of financing and *the financing of fixed investments* are the two factors providing a negative contribution to the loan demand during the second quarter of 2011. The increase for the loan demand in the second quarter 2011 appeared to be mainly driven by the need to finance *inventories* and *the working capital*. Although, this later contribution continued to decline in the current quarter, after the considerable increase marked over the fourth quarter of 2010. *Lending terms and conditions* applied by banks, and the *overall macroeconomic situation* provided positive contribution to the loan demand of enterprises.

Chart 5. Factors affecting enterprises loan demand (*net balances[4]*).

Expectations. Regarding the third quarter of 2011, the banks' experts expect a tightening of credit standards on loans to enterprises. The net percentage of banks expecting a tightening of credit standards on loans to enterprises recorded negative value for the first time after four positive quarters. The respective net balance stood at -1.2%. Expectations regarding the enterprises' loan demand over the third quarter remain positive and higher, compared to the current value of the respective net balance. Enterprises expect a pick-up in the loan demand from small and medium-sized enterprises and a decline in the demand from large enterprises.

Loan to households

The credit standards applied on loans to households eased further over the second quarter of year 2011. The net percentage of banks reporting an easing of credit standards over the second quarter stood at 16.2%, about 14.4 pp higher compared with the previous quarter. The easing of credit standards in the second quarter of year 2011 is in line with the expectations stated by credit experts in the previous survey round.

Chart 6. Changes in credit standards applied to the approval of loans to households as total, for house purchase and consumption (net balances).
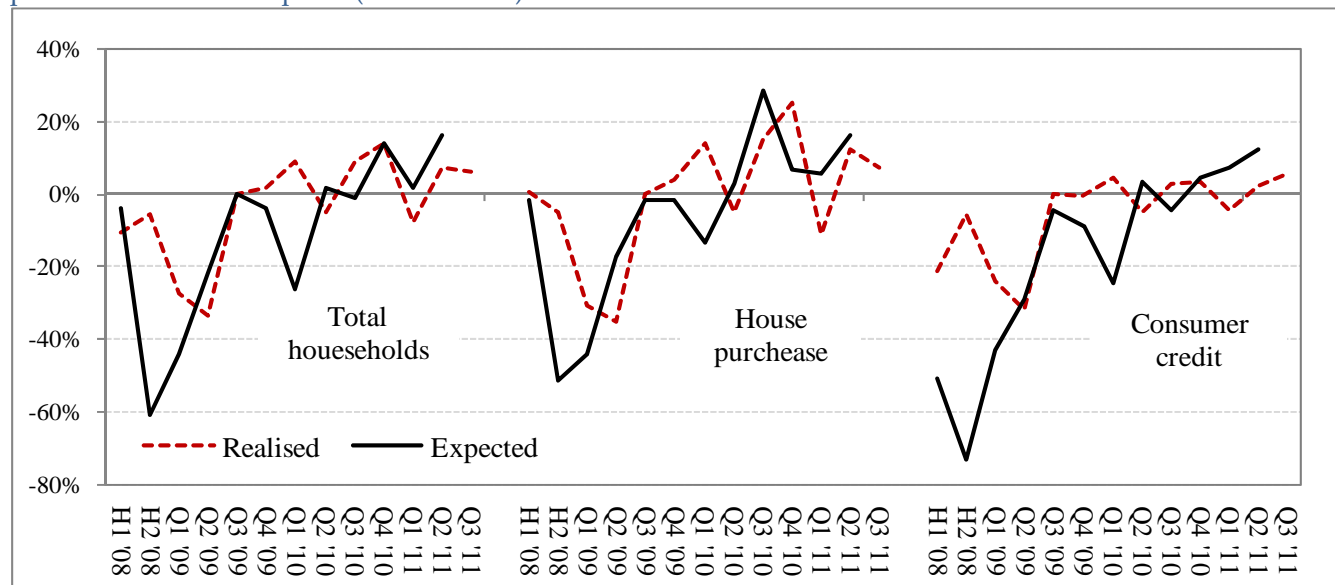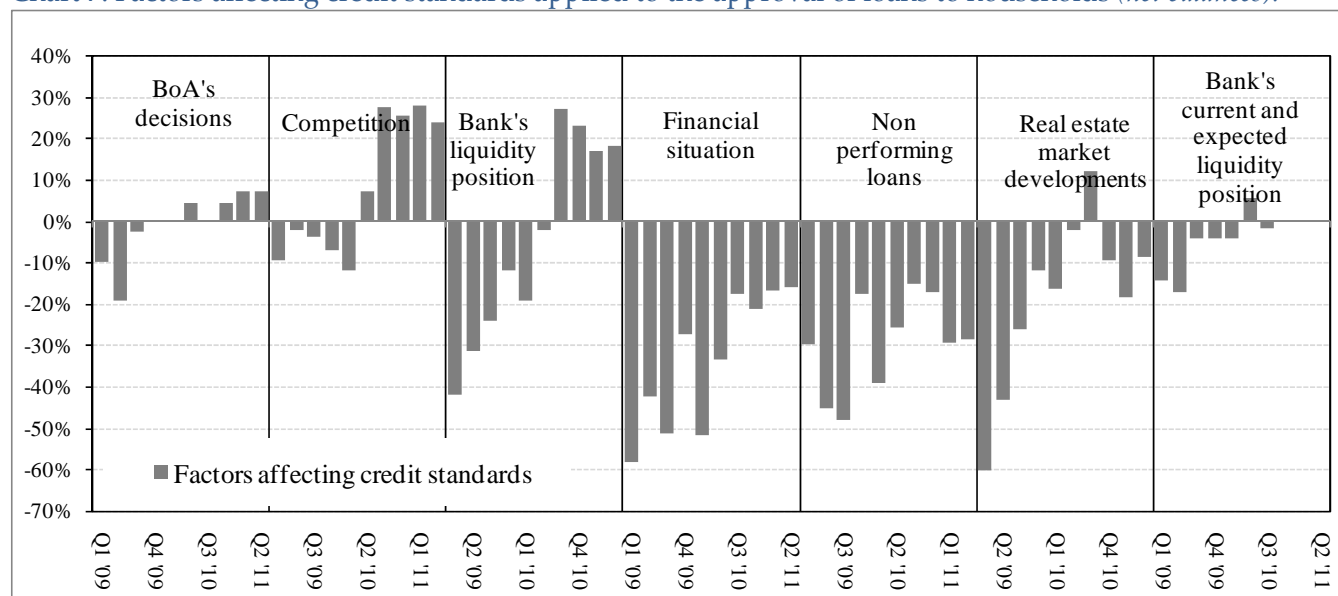

Source: Bank of Albania.

By loan type, credit standards eased on both consumer loan and for house purchase. The credit standards applied on consumer loan pursued the easing trend started since the fourth quarter of year 2010. In the second quarter of year 2011, net balance pointed to 12.2%, about 5.0 pp higher compared with the previous quarter. Net percentage of banks reporting eased credit standards applied on loans to households for house purchase is 16.2%, about 10.4 pp higher than in the previous quarter.

The banks' experts assess that *competition in banking system*, *liquidity position* and *the decisions* of the Bank of Albania, contributed to the easing of credit standards on loans to households. The *financial position of households* and t*he situation of non-performing loans* continue to provide negative contribution to credit standards. The d*evelopments in the real estate marke*t contributed to the tightening of credit standards applied on loans to households, but at a lower degree compared with the previous quarter. Net balance stood at -8.8% from -18.3% in the quarter ahead. *Capital adequacy,* for the third quarter, does not result as an affecting factor for either the easing or tightening of credit standards on loans to households. The respective net balance is 0.0% as in the previous quarter.

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Chart 7. Factors affecting credit standards applied to the approval of loans to households *(net balances).*

Source: Bank of Albania.

The easing policy of credit standards is mainly implemented through the reduction of *bank commissions*. Relevant balance stood at 20.7% from 0.3% in the quarter ahead. T*he narrowing of average margin* affected the easing of credit standards to households. *Instalment/income ratio, margin on riskier loans* and *the collateral requirement* were employed for the implementing of a tightening policy of credit standards applied on loans to households, notwithstanding at a notably lower degree compared with the previous quarter.

Chart 8. Terms and conditions applied for the approval of loans to households (*net balances*).
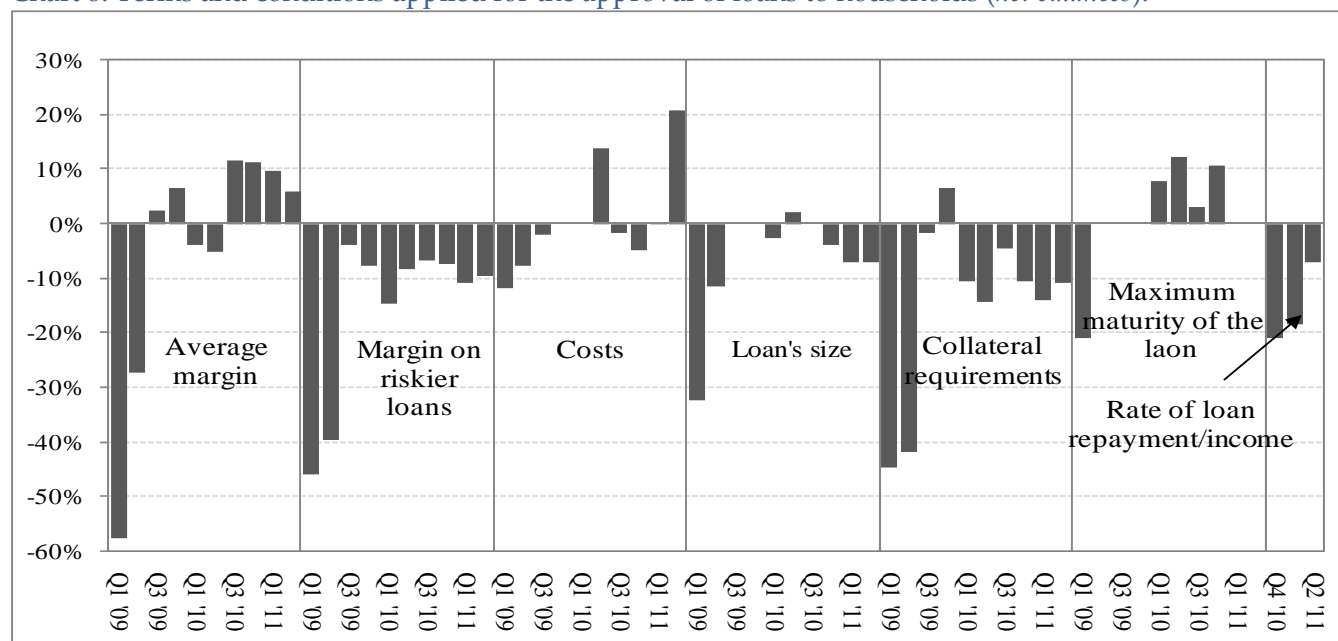
Source: Bank of Albania.

Loan demand. In line with the expectations reported in the previous survey, the households' demand for loan is assessed as increasing during the second quarter of 2011, although lower than in the first quarter of year 2011. Net balance stood at 11.3% from 14.3% in the quarter ahead.

Chart 9. The demand of households for credit, total, house purchase and consumption financing (*net balance)*
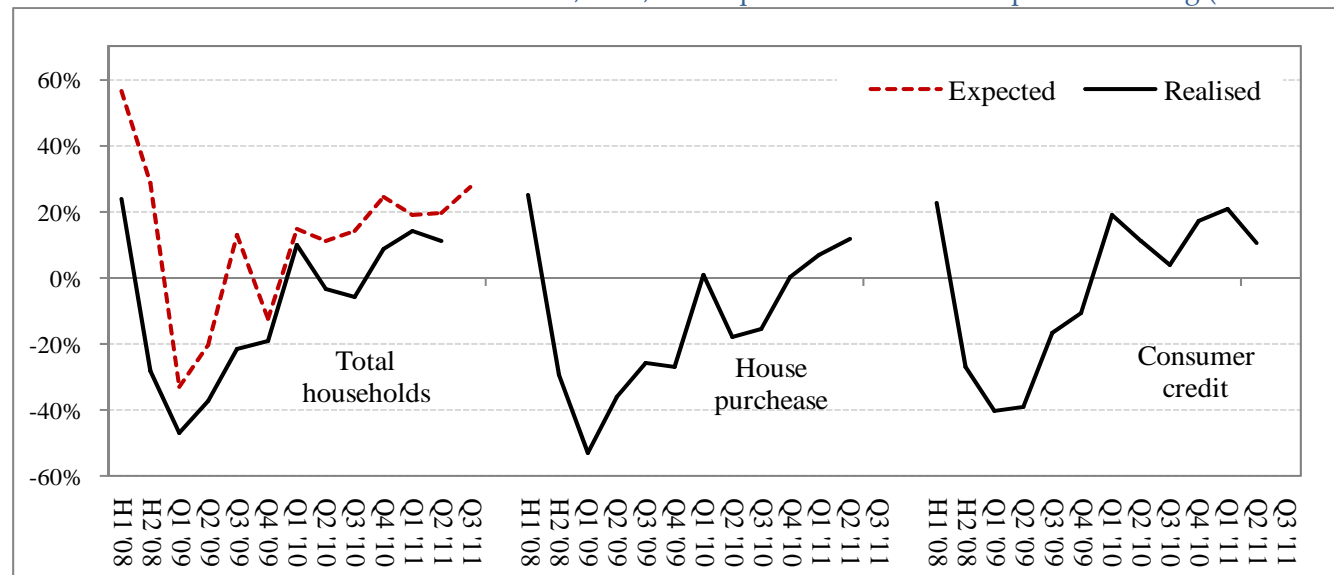
Source: Bank of Albania.

Since the fourth quarter of year 2010, banks' experts report for a further increase of loan demand for the financing of house purchase. Currently, net balance is 11.8%, about 4.5 pp higher compared with the previous quarter. The demand for consumer loan, since the third quarter of year 2010, is assessed as positive by credit experts. The respective net balance, for the current quarter is 10.7%, about 10.4 pp lower than in the previous quarter.

Chart 10. Factors affecting demand for loans to households (net balances).
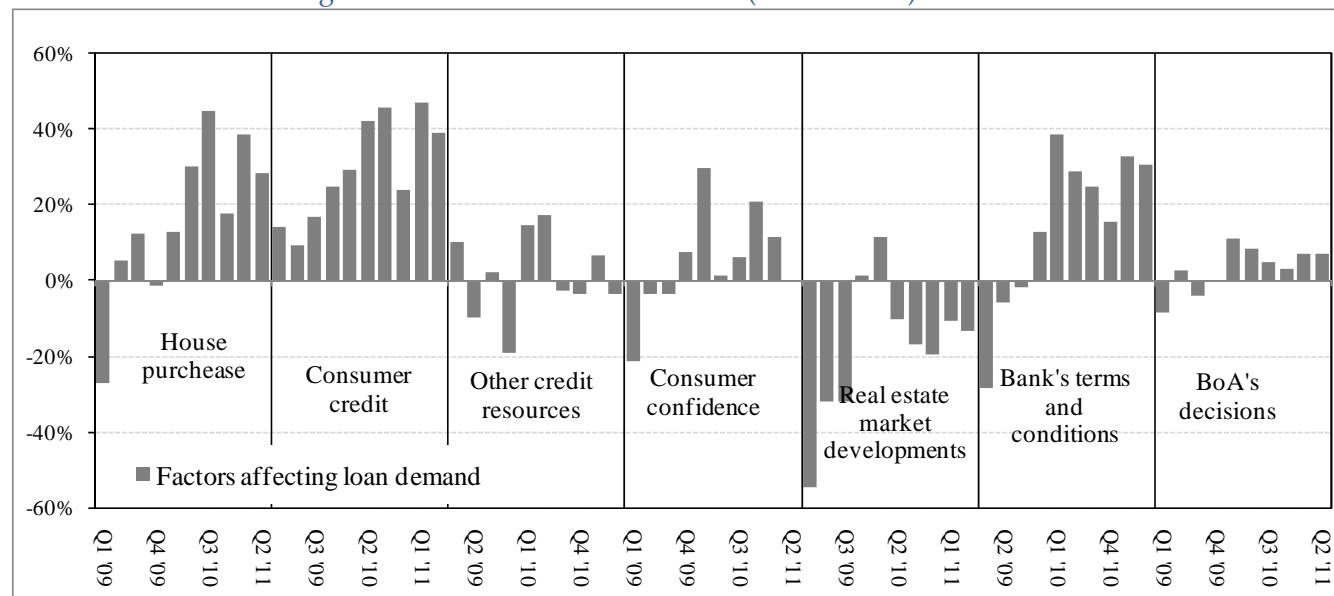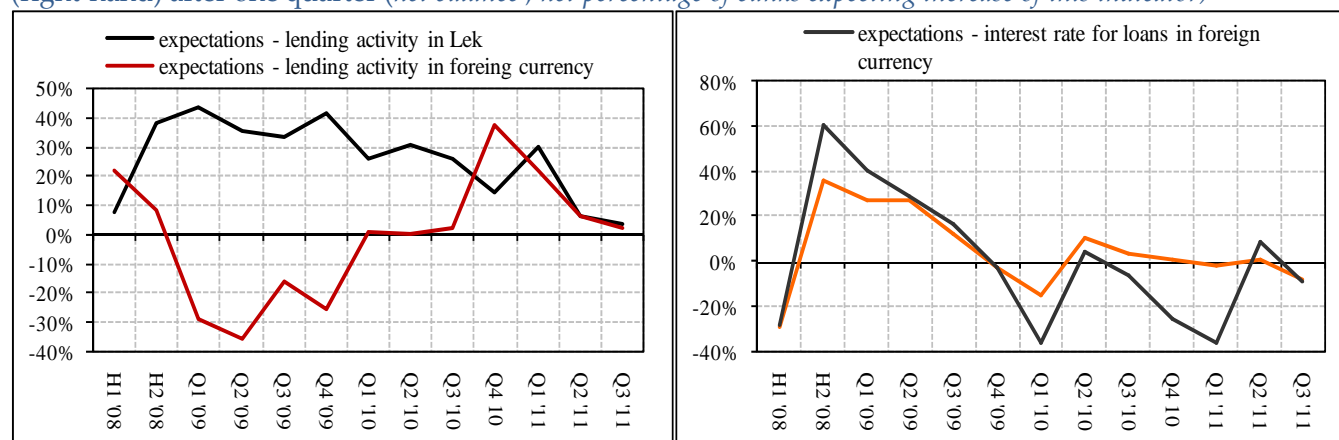

Source: Bank of Albania.

The need to finance consumption, house purchase and credit terms & conditions applied by banks continue to drive household's loan demand. These factors provided positive contribution to the demand, notwithstanding at a somewhat lower degree compared with the previous quarter. *The developments in the real estate market* and *the use of alternative sources of financing* provided a negative contribution to the households' demand for credit over the second quarter of year 2011.

Expectations. Banks' experts assess that credit standards applied on loans to households shall continue to be eased over the third quarter of year 2011. The easing of credit standards is expected to be lower somewhat, compared with their current easing level, applied on loans for consumer and house purchase. Also, experts' expectations regarding the loan demand of households remain positive for the third quarter of year 2011.

Lending activity by currency

Banks' experts, for the third quarter 2011, expect a stoppage of lending activity both in ALL and in foreign currency. Although the respective balances appear at positive level, they recorded a downturn by about 2.9 and 4.0 pp, respectively, compared with the previous quarter. Banks' experts signal for a cut of interest rates applied on loans to be granted over the third quarter of year 2011, mainly on loans denominated in foreign currency.

Chart 11. Banks' expectations for the lending activity (left-hand) and interest rates on loan, by currency (right-hand) after one quarter (*net balance*, net percentage of banks expecting increase of this indicator)*

Source: Bank of Albania.
*) Positive balance indicates increase of lending activity or of interest rate, whereas negative balance indicates decline of lending activity or of interest rate.

The *source of income in foreign currency, the interest rates spread, the exchange rate expectations and the expectations regarding the direction and the amount of reference interest rates change* (see Chart 12) shall continue to encourage the enterprises' demand for loan. All these factors increased their affect on the loan demand over the second quarter of year 2011.

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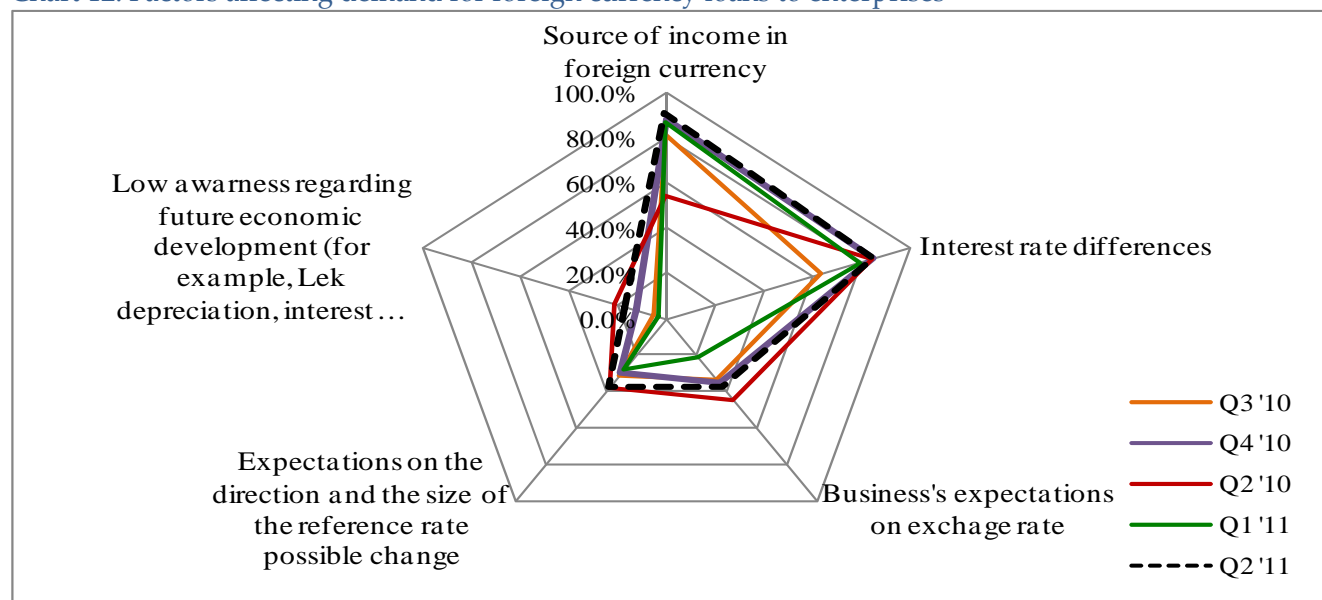
Source: Bank of Albania.

In the second quarter of 2011 the main factor which has determined household's demand for foreign currency loan is the *source of income in foreign currency*. Factors related to i*nterest rates spread* and the *exchange rate expectations* continued to provide important contribution to the demand for foreign currency loan (see Chart 13).

Chart 13. Factors affecting the demand for foreign currency loans to households

Source: Bank of Albania.

Enterprises	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11
How have bank's credit standards as applied to the approval of loans changed?						
- Current quarter	13.5	-9.9	1.1	7.6	7.6	-6.9
- Next quarter	-10.6	6.7	10.5	13.0	1.4	
Factors affecting the bank's credit standards as applied to the approval of loans:						
-Bank's capital adequacy	-7.8	-4.6	-5.1	3.2	0.0	-3.1
-Bank of Albania's decisions	12.2	-3.1	0.0	-3.6	0.0	0.0
-Competition in the banking system	-7.6	4.5	23.8	24.4	21.3	24.4
-Current or expected liquidity level	-4.6	-6.6	-4.1	10.1	13.2	13.2
-Enterprises sector-related specific problems	-44.2	-27.9	-55.1	-60.5	-60.4	-36.8
-Current or expected macroeconomic situation	-32.0	-27.9	-46.4	-22.0	-34.6	-15.5
-Non-performing loans	-37.7	-25.4	-51.4	-44.7	-39.0	-39.9
How have the terms and conditions for loan approval changed?						
-Average margin	-10.1	-5.6	-2.6	-7.5	-2.3	19.8
-Margin on riskier loans	-27.7	-31.0	-22.5	-26.4	-11.1	0.0
-Commissions	-3.6	-5.9	-6.5	-5.4	-5.9	6.1
-Size of the loan	1.0	10.1	1.1	6	10.1	4.5
-Collateral requirement to size of loan ratio	-7.7	-20.8	-18.7	-20.7	-13.0	-27.5
-Maximum loan maturity	0.0	13.2	-7.4	-2.1	0.0	1.5
How has the demand for loans to enterprises changed?						
-SMEs previous quarter	-8.8	13.5	-10.9	-10.9	-1.8	2.3
-SMEs next quarter	23.8	9.5	20.8	8.5	13.1	20.0
-Corporations, previous quarter	-1.1	-7.4	-18.5	5.5	0.7	-7.2
-Corporations, next quarter	29.3	7.9	12.1	16.5	9.5	-5.5
Factors affecting the change of the demand for loan:						
-Need to finance inventories	46.9	43.1	42.3	60.7	42.1	-3.3
-Need to finance fixed investments	-1.4	22.6	16.1	17.4	-22.3	-5.6
-Use of alternative finance resources	12.4	19.5	1.4	15.0	-2.5	1.0
-Bank of Albania' monetary policy decisions	1.5	6.1	1.1	1.0	1.0	17.3
-Credit terms and conditions applied by your bank	0.0	18.7	9.0	21.7	17.2	193.5
-Current or expected macroeconomic situation	8.8	21.6	-3.8	29.1	14.6	0.0
Reasons for foreign currency lending:						
-Source of income in foreign currency	58.3	54.0	81.1	88.0	87.0	90.9
-Interest rates spread	65.2	84.4	63.9	84.8	79.8	85.3
-Expenditure in foreign currency	44.2	51.4	57.3	56.0	56.7	78.9
- Exchange rate expectations	30.1	44.4	33.6	35.7	21.4	37.6
-Reference interest rate expectations	14.7	37.3	31.0	29.9	28.2	37.4
- Low awareness regarding economic developments	49.9	21.5	5.1	12.2	3.1	16.0

Annex 2. Loans to households

In the aggregation process of results, each opinion is weighted based on its answer. For example, banks responding that credit standards "tightened considerably" have acquired the double of the weight compared with those that have answered "tightened somewhat". 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 with those that have reported tightening/decrease of standards/demand. The net balances are escalated for the purposes of acquiring the values within the target +/- 100.

Households	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Q1 '11	Q2 '11
How have bank's credit standards for the approval of loans changed?						
-Previous quarter	-26.5	1.5	-1.2	14.0	1.9	16.2
- Next quarter	-5.0	9.0	14.1	-7.9	7.3	6.2
Factors affecting the bank's standards for loan approval:						
-Bank's capital adequacy	-4.4	5.5	-1.9	0.0	0.0	0.0
-Decisions of the Bank of Albania	0.0	4.5	0.0	4.5	7.2	7.2
-Competition in banking system	-11.8	7.2	27.5	25.6	27.7	23.9
-Current or expected liquidity level	-19.3	-2.0	27.1	23	16.7	18.1
-Households' financial situation	-51.8	-33.3	-17.8	-21.3	-16.7	-15.9
-Non-performing loans	-39.0	-25.8	-15.0	-17.3	-29.3	-28.4
-Developments in real-estate market	-16.5	-2.1	11.9	-9.4	-18.3	-8.8
How have the terms & conditions for loan approval changed?						
-Average margin	-4.0	-5.3	11.7	11.4	9.8	5.9
-Margin on riskier loans	-14.7	-8.4	-6.6	-7.5	10.8	-9.5
-Commissions	0.0	13.8	-1.6	-4.8	0.3	20.7
-Size of loan	-2.7	2.2	0.0	-3.9	-7.2	-7.2
-Collateral requirement to size of loan ratio	-10.7	-14.3	-4.5	-10.6	-14.0	-10.8
-Loan maximum maturity	7.7	12.1	3.2	10.7	0.0	0.0
-Instalment/income ratio				-21.1	-18.4	-7.2
How has households' demand for loan changed?						
-Housing loan	1.2	-17.8	-15.6	0.6	7.3	11.8
-Consumer loan	18.9	11.4	3.9	17.2	21.2	10.7
Factors affecting the change of demand for loans:						
-Households' need to finance house purchase	12.7	30.3	45.1	17.9	38.5	28.3
-Households' need to finance consumption	29.2	42.3	45.7	24.2	46.9	39.2
-Use of alternative financing resources	14.8	17.3	-2.9	-3.4	6.8	-3.8
-Bank of Albania's monetary decisions	11.3	8.6	4.8	3.1	7.2	7.2
-Consumer confidence	29.9	1.5	6.2	21.0	11.4	0
-Developments in real-estate market	11.7	-10.3	-16.8	-19.7	-10.7	-13.4
-Lending terms & conditions applied by your bank	38.6	28.7	25.0	15.8	33.0	30.7
Reasons for foreign currency lending:						
-Source of income in foreign currency	87.6	59.0	87.9	76.2	88.8	81
-Interest rate spread	73.6	78.2	62.3	86.9	77.8	72.5
-Liquidity	26.5	32.0	38.9	30.5	49.0	48.5
-Exchange rate expectations	46.4	51.8	23.6	28.5	19.5	48.5
-reference interest rate expectations	23.3	35.4	37.8	42.5	48.5	39.1
-Low awareness regarding economic developments	42.5	17.5	1.9	4.1	0.0	17.3