

BANK OF ALBANIA

Monetary Policy Department



Bank Lending Survey January 2012¹

According to the fourth quarter 2011 Bank Lending Survey, credit standards applied on loans to *enterprises* tightened further, and remained unchanged on loans to *households*, compared with the previous quarter. Banks tightened at a higher degree the lending standards applied on loans to *small and medium-sized enterprises* and on loans for the financing of *working capital*. The change of credit standards was lower on loans approved to *corporations* and on loans approved for *investment* purposes.

The *situation of non-performing loans*, *specific sector-related problems* and the *overall macroeconomic situation* were the **factors** providing the main contribution to the tightening of credit standards. The *financial situation* of households, *non-performing loans* and *developments in real estate market* were the key factors behind the tightening of credit standards applied on loans to households.

Enterprises' **demand** for loan increased somewhat in the fourth quarter of 2011, albeit its net balance remains considerably negative. Net balance of households' demand continued to decline, since the previous quarter, recording the negative value of -5.6 in the fourth quarter of 2011.

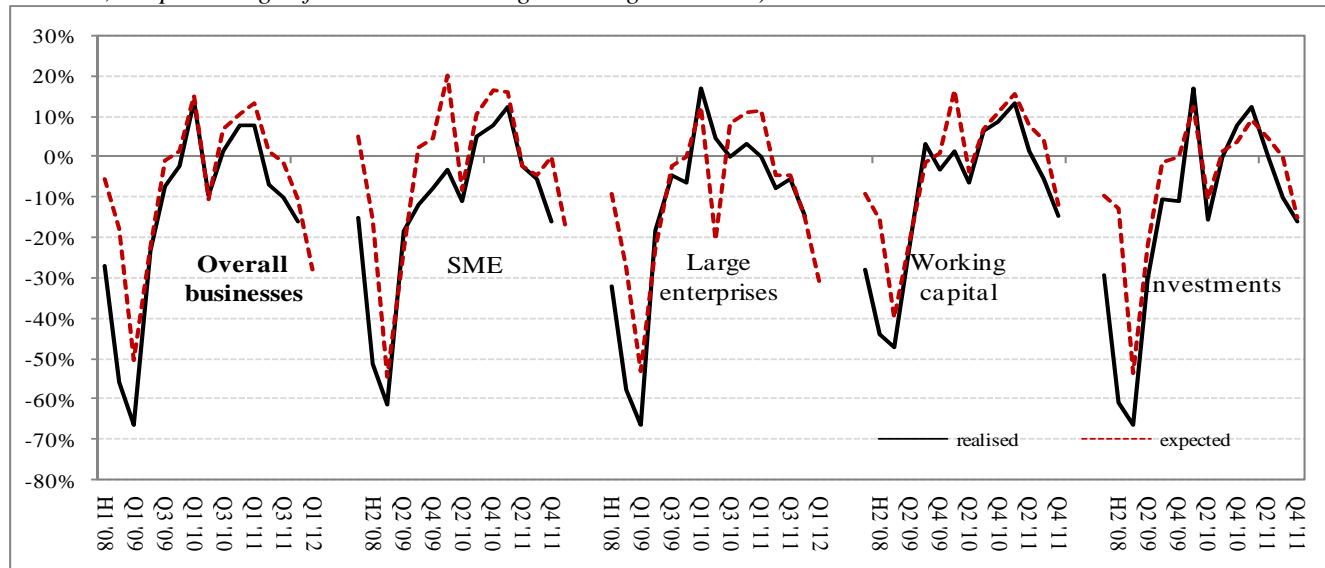
Looking ahead to the first quarter of 2012, banks **expect** a further tightening of credit standards, notwithstanding the type of loan granted for working capital or for investment purposes. The tightening is expected to affect mostly the loan approved to small and medium-sized enterprises than to large enterprises. Expectations regarding enterprises' demand remain positive. Overall, banks do not expect any change of credit standards applied on loans to households in the first quarter of 2012, compared with the level of fourth quarter of 2011 and with their expectations stated in the previous quarter. Expectations regarding households' demand for loans in the first quarter of year 2012 are optimistic.

¹ The results reported in December 2011 relate to changes in bank lending activity during the fourth quarter of year 2011 and to the banks' expectations of changes in the first quarter of 2012.

Loans to enterprises

Credit standards applied on loans to enterprises continued to tighten over the fourth quarter of 2011, started in the second quarter of this year. Net balance² of banks' responses reporting a tightening of credit standards stood at 16.0%, about 6 percentage points higher than in the previous quarter. The current change of credit standards is in line with banks' expectations stated in the previous survey round, albeit at a higher degree.

Chart 1: Changes in credit standards applied to the approval of loans, by enterprises size and loan purpose (*net balance*¹, net percentage of banks contributing to easing standards)



Source: Bank of Albania

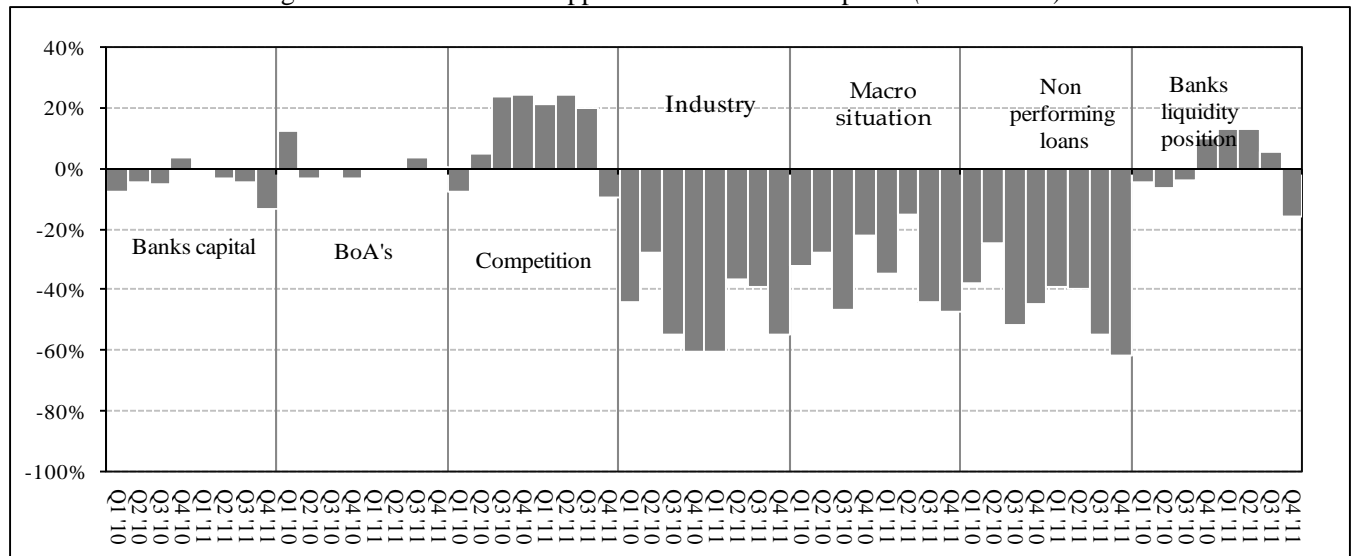
Note 1. Positive balance indicates easing standards; negative balance indicates tightening standards.

The tightening of credit standards was applied both in the case of loans to *small and medium-sized enterprises*, and in that of loans to *large enterprises*. Net percentage of banks reporting an easing of credit standards on loans to small and medium sized enterprises is -16.0%, about 10.6 percentage points lower, compared with the previous quarter. Accordingly, net balance of credit standards applied on loans to large enterprises worsened by 7.2 percentage points in the fourth quarter of year 2011. By the purpose of loan use, credit standards were tightened both in case of loan *to finance the working capital*, and in that of loan for *investment purposes*. Net balances fell by 14.9% and 16%, respectively.

The *situation of non-performing loans*, the *macroeconomic situation* at home and *enterprise sector-related problems*, are the factors providing the main contribution to the tightening of credit standards applied on loans to enterprises, during the fourth quarter of 2011. *Capital adequacy*, *liquidity situation* and *competition in the banking system* provided the same contribution. On the other hand, the *decisions of the Bank of Albania*, during this quarter, continued to affect the easing standards applied on loans to enterprises, although at a lower degree than in the previous quarter (see Chart 2).

² Banks' responses for the lending activity are aggregated by "net balance" indicator. Net balance is defined as the difference between the weighted responses of banks reporting an easing/increase of credit standards/demand and banks reporting a tightening/decrease of credit standards/demand. The shares are defined based on each bank' credit portfolio to total credit ratio, for different segments of market, accordingly to the type of question (credit to enterprises/households, in ALL/in foreign currency).

Chart 2: Factors affecting credit standards to the approval of loans to enterprises (*net balance*)

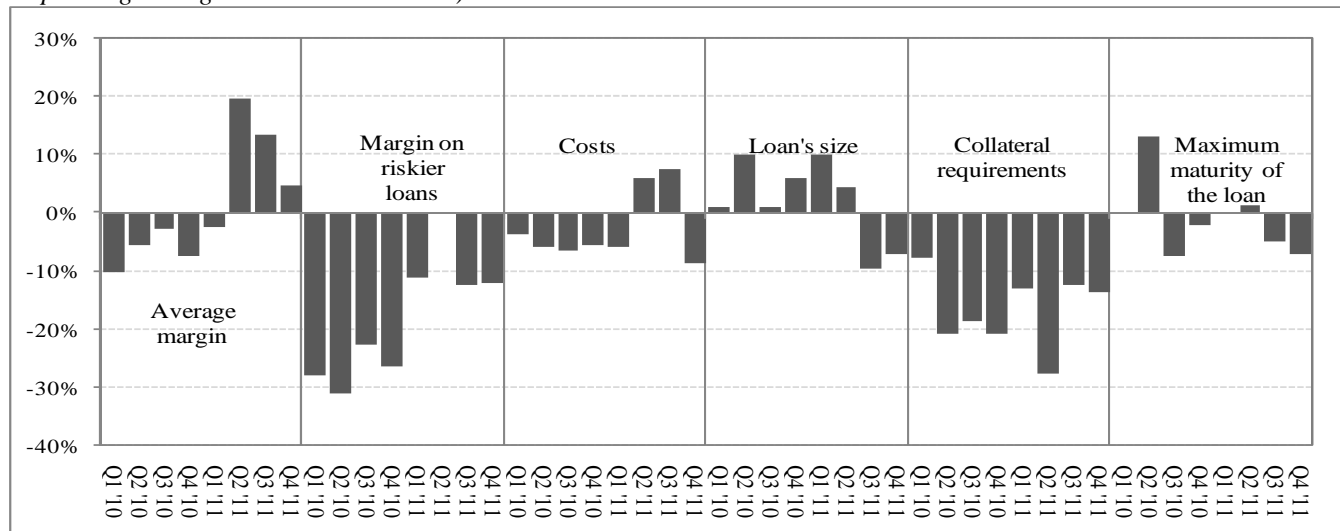


Source: Bank of Albania

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

Banks increased the *collateral demand* as a ratio to loan' size and rose the *credit risk margin* to carry out the tightening policy during the fourth quarter of 2011. Net percentage of banks responding to have increased the credit risk margin stays almost at the same level of the previous quarter, about -12%. Collateral demand continues to be one of the main conditions that banks employ to implement the tightening of lending policy, in the years. Its balance worsened by about 1.2 percentage points in the fourth quarter of 2011, compared with the previous quarter. The *rose of commissions* affected the implementation of tightening credit policy. Respective net balance pointed to -8.7%, worsening by 16.3 percentage points, compared with the previous quarter. *Size of loan* and its *maximum maturity* provided the same affect. The reduction of *average margin* is the sole condition, which backed up the implementation of an easing credit policy from banks in the fourth quarter of 2011.

Chart 3: Changes in terms and condition for approving loans to enterprises (*net balance², net percentage of banks responding easing terms and conditions*)

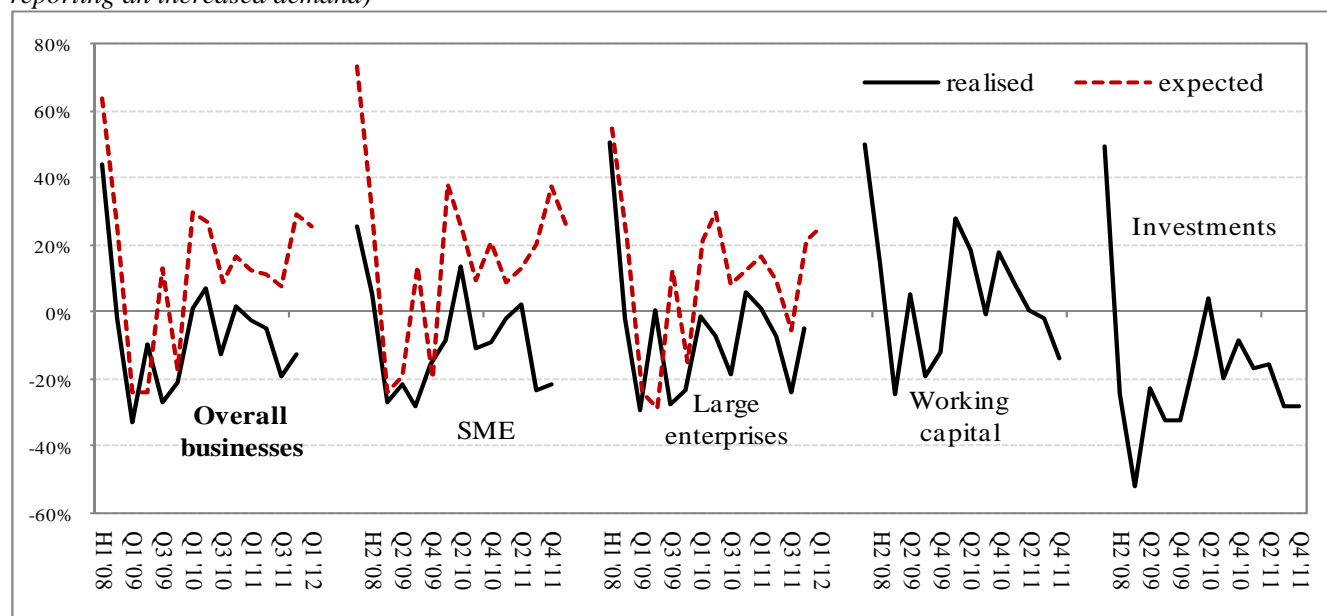


Source: Bank of Albania

Note 2. Positive balance indicates easing standards; negative balance indicates tightening standards.

Loan demand. Banks' experts improved somewhat their assessment about enterprises' demand for loan in the fourth quarter, compared with the previous one, albeit the demand remains at negative levels. Net percentage of banks perceiving an increase of the demand for loan was -12.6%, from -19.4% in the previous quarter. This development is not in line with the optimistic expectations of banks regarding the loan demand in the fourth quarter of 2011, stated in the previous survey round (see Chart 4). *Large enterprises'* demand raised considerably, its respective balance increased by 19 percentage points. *Small and medium sized enterprises* increased slightly the net balance of loan demand, by 1.8 percentage points.

Chart 4: Enterprises' demand for loan by enterprises' size and loan's purpose (net balance, net percentage of banks reporting an increased demand)

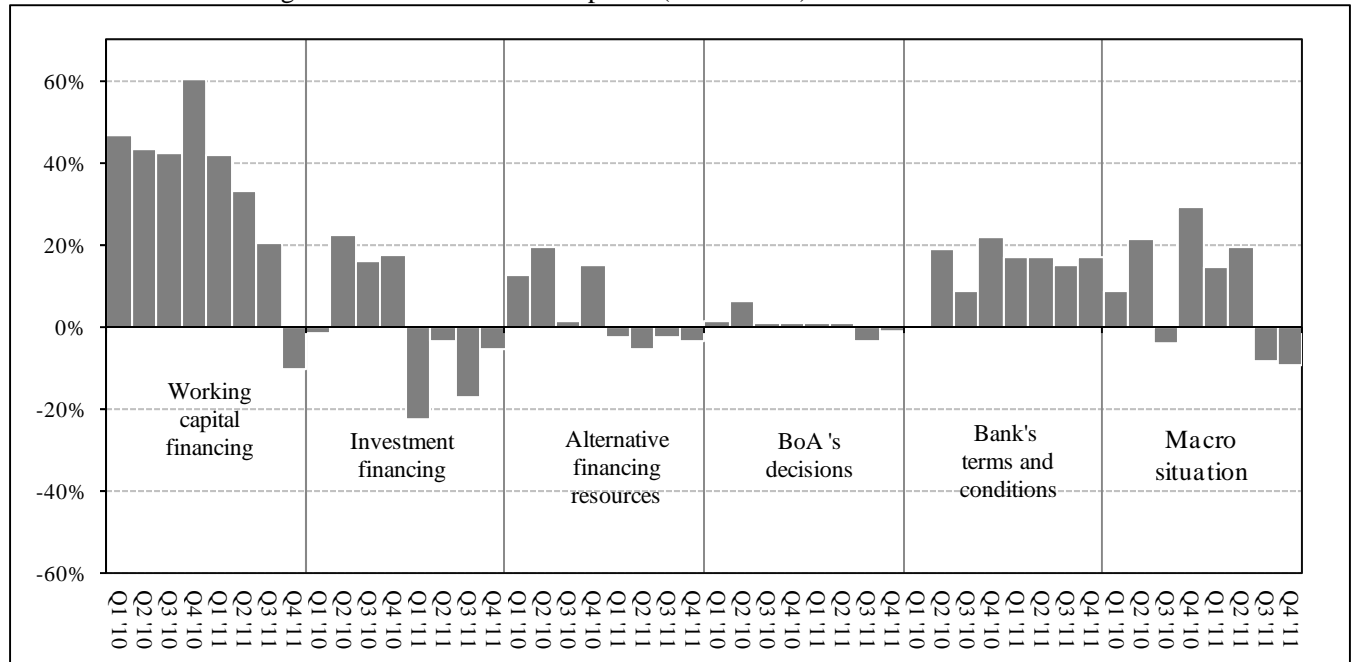


Source: Bank of Albania

With regard to categorisation by the purpose of loan use, the loan demand to finance *fixed investments* improved, although its balance remains negative. The demand of enterprises for loan to finance the *working capital* is assessed as declining, compared with the previous quarter.

According to banks' reports, the need to *finance the working capital* and *the current and expected macroeconomic situation* are the two main factors affecting negatively the loan demand during the fourth quarter of 2011. The net balances stay at -10.4% and -9.5%, respectively. The *need to finance fixed investments* and the *alternative borrowing sources* provided the same contribution.

Chart 5: Factors affecting demand for loans to enterprises (*net balance*)



Source: Bank of Albania

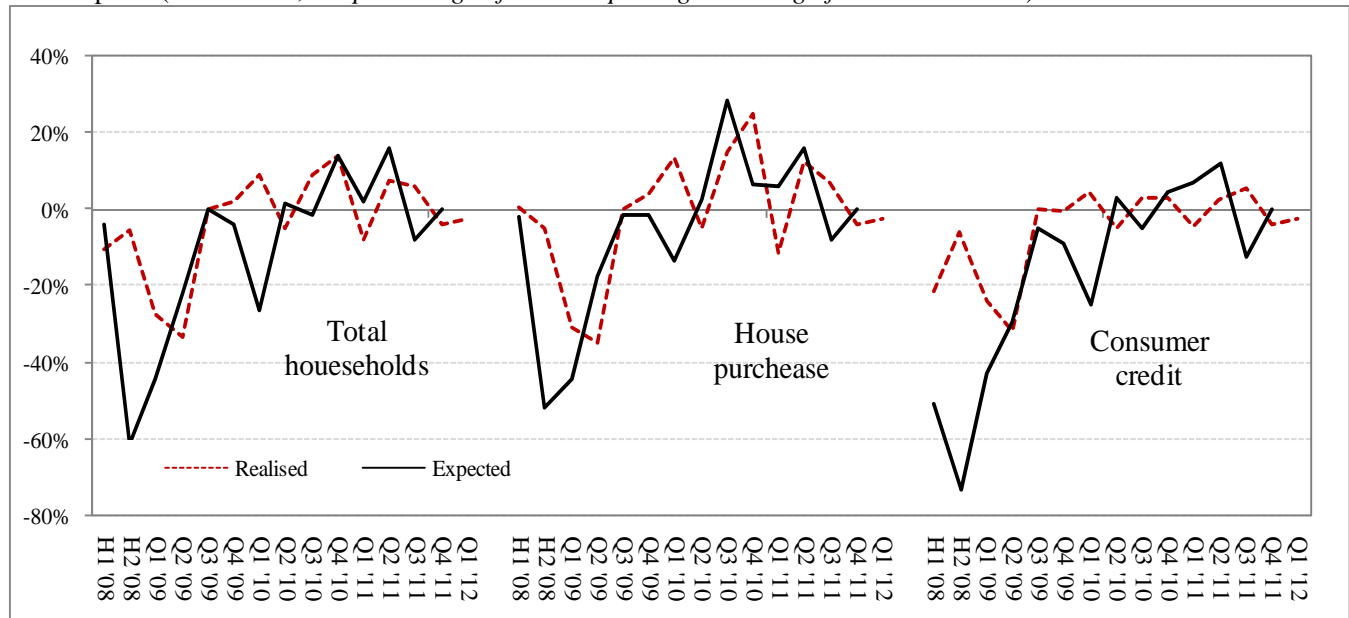
Note 4. Positive balance indicates an increase of the demand or the factor affected the increase of the demand, whereas negative balance indicates a fall of the demand or the factor affected the decline of the loan demand.

Expectations. Looking forward, banks' experts expect a further tightening of credit standards applied on loans to enterprises, in the first quarter of 2012. The net balance of expectations pointed to -27.7%. Credit standards are expected to tighten, both in the case of loans to *large enterprises*, and in that of loans to *small and medium-sized enterprises*. By the purpose of credit use, credit standards are expected to tighten on loans for *investment* purposes and on loans to finance *the working capital* and *inventories*. The expectations regarding the enterprises' demand for loan, for the first quarter of 2012, remain positive and higher, compared with the fourth quarter of 2011.

Loans to households

Credit standards applied on loans to households remained unchanged in the fourth quarter of 2011, compared with the previous quarter. Net percentage of banks reporting eased credit standards in this quarter stood at 0%. This is assessed as an improvement, compared with tightened credit standards of the third quarter of 2011. Credit standards remained unchanged, both in case of loans for *house purchase*, and in that for *consumer loan*. Relative to the tightening applied in the third quarter of 2011, the respective balance rose by 7.7 and 12.3 percentage points, providing a more considerable improvement on the easing of credits standards applied on loans for financing and consumption purposes.

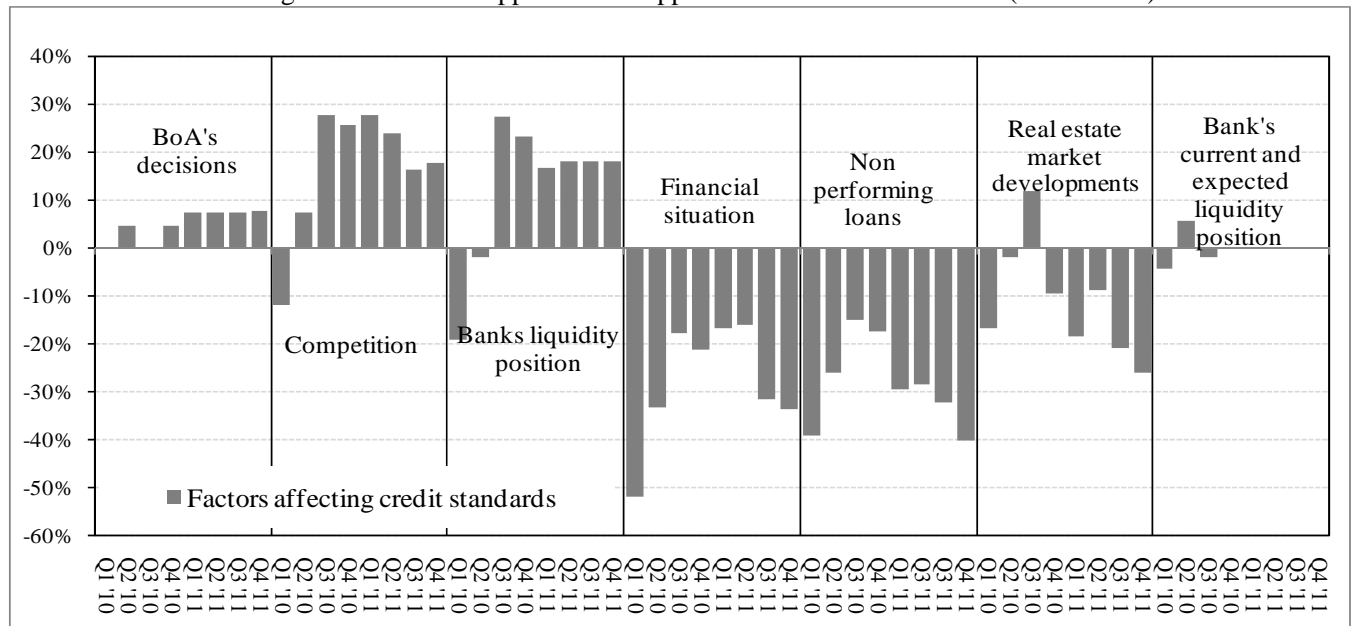
Chart 6: Changes in credit standards applied to the approval of loans to households, as total, for house purchase and consumption (*net balance, net percentage of banks reporting an easing of credit standards*)



Source: Bank of Albania

The financial situation of households, the non-performing loans and developments in real-estate market provided the main contribution to the tightening of credit standards applied on loans to households. Banks assess these factors at a higher degree in the fourth quarter of 2011, compared with the previous quarter. On the other hand, *competition level and liquidity* situation affected the easing of credit standards applied on loans to households.

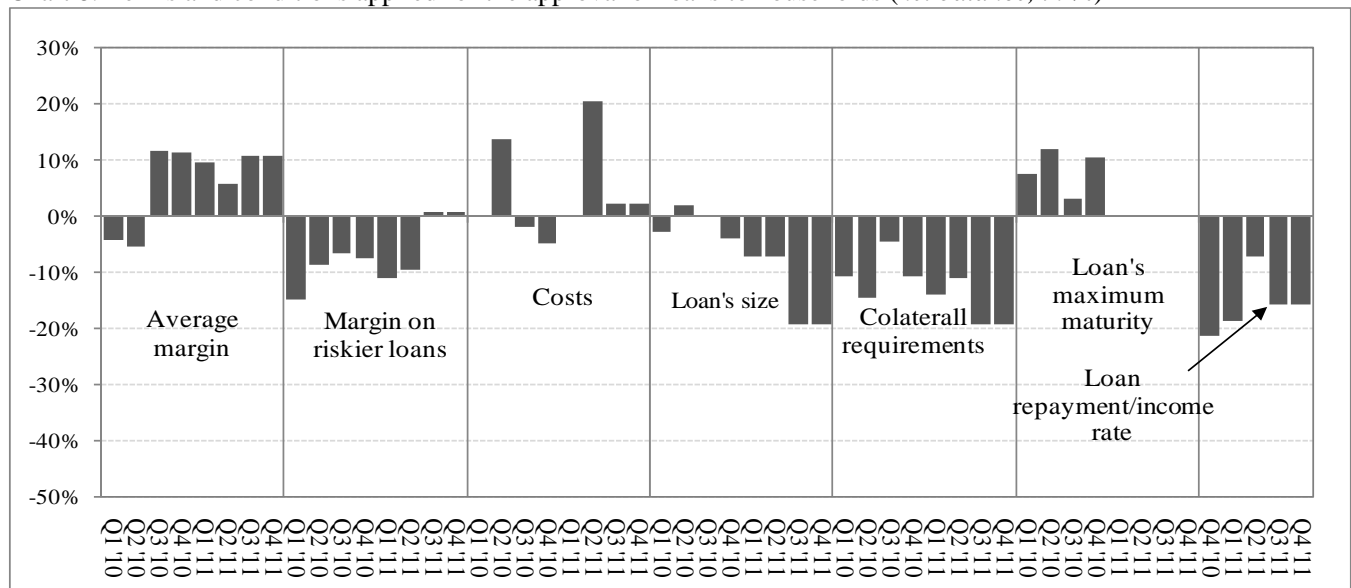
Chart 7: Factors affecting credit standards applied to the approval of loans to households (*net balance*)



Source: Bank of Albania

Banks cut the *average margin* on loans to implement a more eased policy. The *size* of loan and *collateral demand* continued to support the implementation of a tightened lending policy during the fourth quarter of 2011, as well.

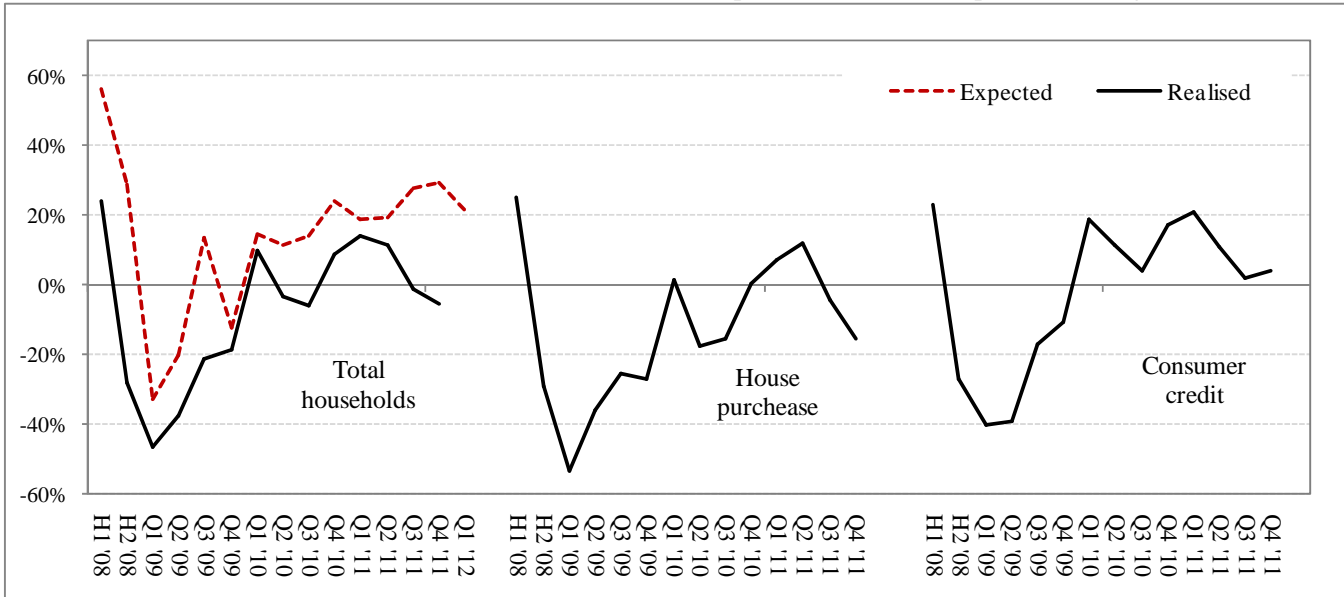
Chart 8: Terms and conditions applied for the approval of loans to households (*net balance, in %*)



Source: Bank of Albania

Loan demand. The banks' experts assess that the demand of households for loan, continued to decline in the fourth quarter of 2011. The net percentage of banks reporting a fall of households' demand in the fourth quarter of 2011 stays at 5.6 %. This result is considerably more pessimistic, compared with banks' expectations stated in the previous survey round (see chart 9). Loan demand for house purchase has been falling, whereas the demand for consumer loan increased.

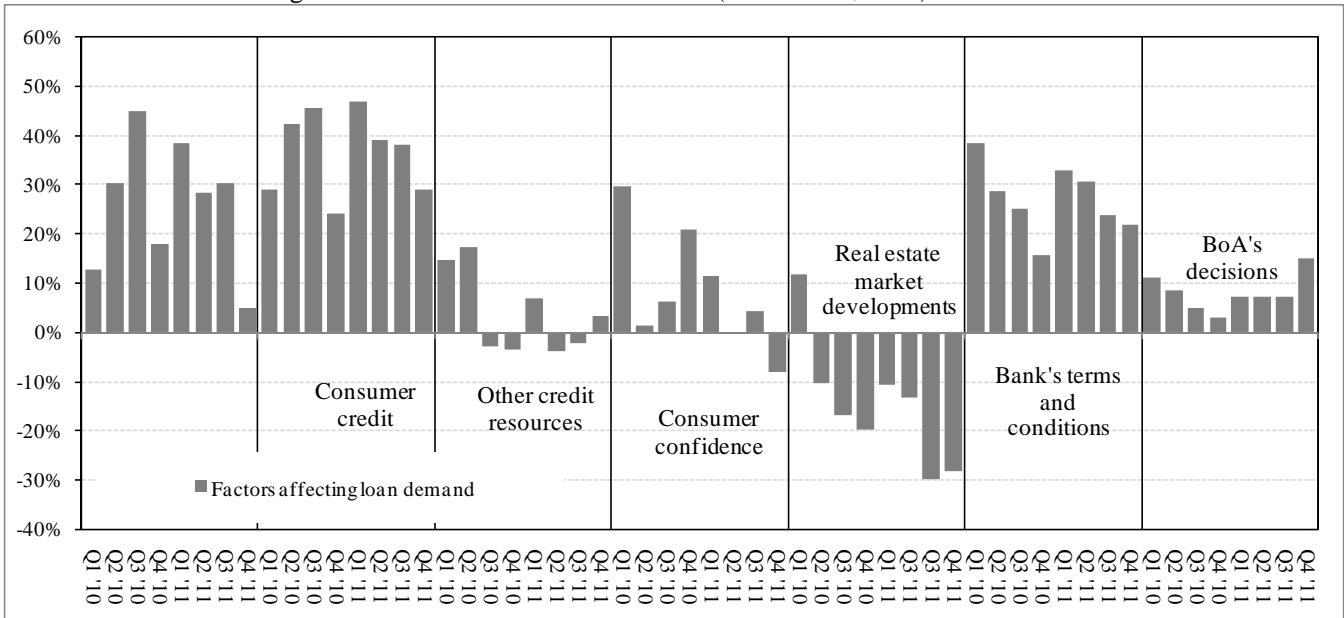
Chart 9: The demand of households for credit, as total, for house purchase and consumption financing (*net balance*)



Source: Bank of Albania

Consumption financing remains the main factor to encourage consumers' demand for loan, over the fourth quarter of 2011. The factor related to *the financing of house purchase* reduced considerably the contribution to the increase of households' demand for loan. Also, developments in *real estate market* provided a negative contribution to the increase of consumers' demand for loan. On the other hand, *lending terms and conditions* and *the Bank of Albania's decisions*, remain the main factors affecting positively the increase of households' demand for loan.

Chart 10: Factors affecting the demand for loans to households (*net balance, in %*)



Source: Bank of Albania

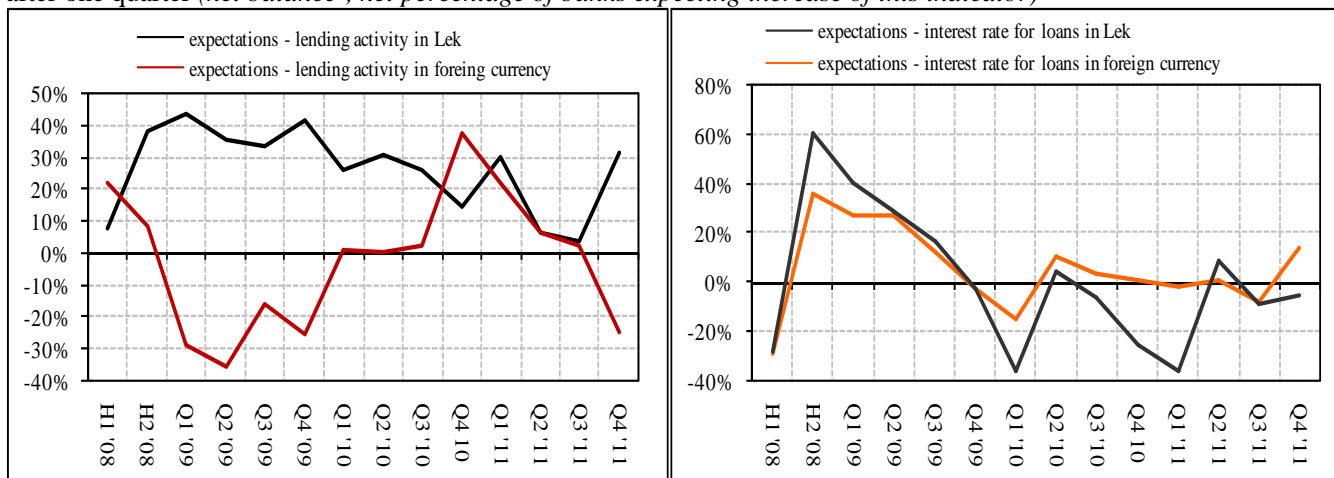
Expectations. Overall, banks' experts do **not expect** considerable changes in credit standards applied on loans to households, in the first quarter of 2012. Net balance of expectations for credit standards applied on loans to

households, as a total and by loan type, rose slightly and regularly by 1.7 percentage points. On the other hand, banks' expectations regarding households' demand for loan in the first quarter of 2012 remain optimistic.

Lending activity by currency

Banks' experts, for the first quarter of year 2011, expect an increase of loans approved in ALL and a fall of loans approved in foreign currency. Expectations for the interest rates applied on loans to be granted during the fourth quarter of year 2011, reveal a declining trend, both in the case of loans denominated in ALL, and in that of loan denominated in foreign currency.

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

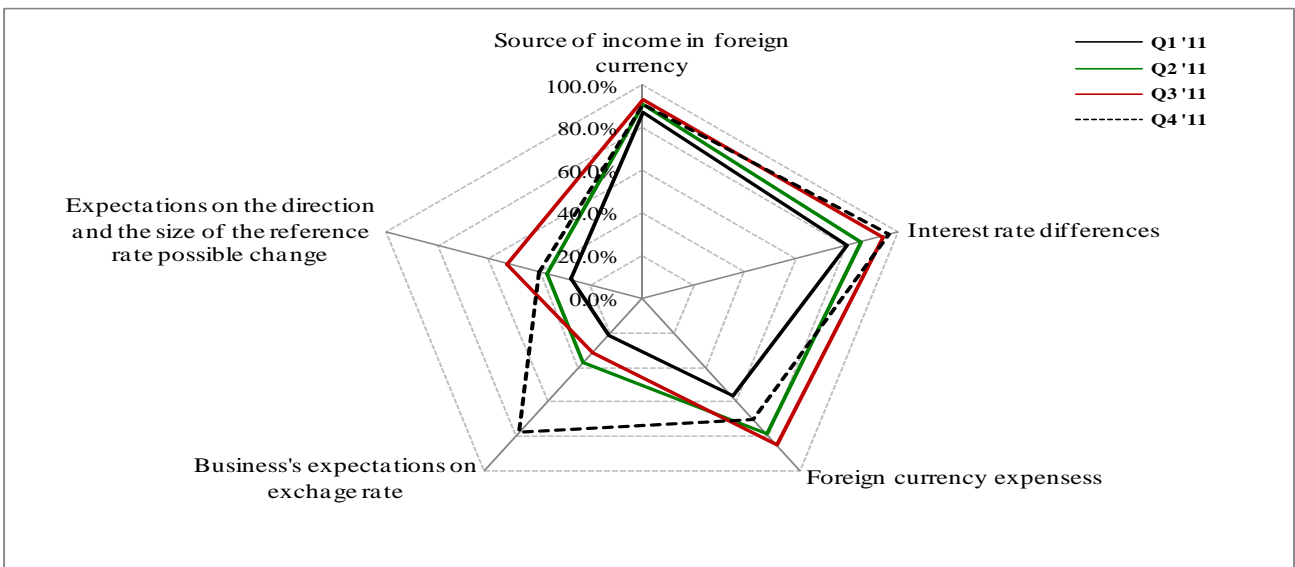


Source: Bank of Albania

*) Positive balance indicates increase of lending activity or of interest rate; negative balance indicates decline of lending activity or of interest rate.

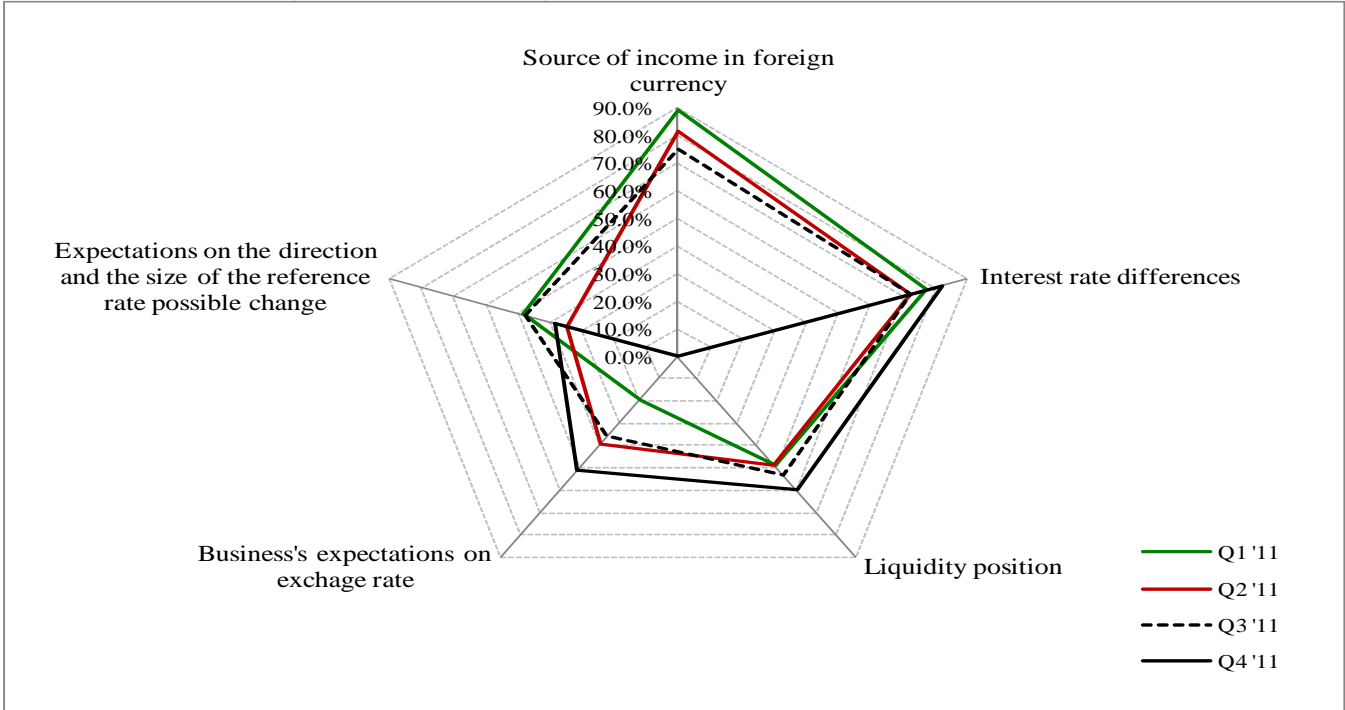
The *interest rate spread* and the *income source in foreign currency* remain the main factors to encourage the enterprises' demand for loans denominated in foreign currency, over the fourth quarter of 2011 (see Chart 12). With regard to households, the source of income in foreign currency remains the main factor to encourage the demand for loan denominated in foreign currency (see Chart 13).

Chart 12: Factors affecting the demand for foreign currency loans to enterprises



Source: Bank of Albania

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



Source: Bank of Albania

.Annex 1.Loans to enterprises

In the aggregation process of results, each opinion is weighted based on the relevant answer. For example, banks responding that credit standards “tightened considerably” have acquired the double of the weight relative to the answer “tightened somewhat”. 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/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 | Q3 '10 | Q4 '10 | Q1 '11 | Q2 '11 | Q3 '11 | Q4 '11 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|---------------|
| How have bank’s credit standards as applied to the approval of loans changed? | | | | | | |
| - Current quarter | 1.1 | 7.6 | 7.6 | -6.9 | -10.0 | -16.0 |
| - Next quarter | 10.5 | 13.0 | 1.4 | -1.2 | -10.5 | -27.7 |
| Factors affecting the bank’s standards as applied to the approval of loans: | | | | | | |
| -Bank’s capital adequacy | -5.1 | 3.2 | 0.0 | -3.1 | -4.4 | -13.5 |
| -Bank of Albania’s decisions | 0.0 | -3.6 | 0.0 | 0.0 | 3.2 | 0.2 |
| -Competition in the banking system | 23.8 | 24.4 | 21.3 | 24.4 | 20.0 | -9.8 |
| -Current or expected liquidity level | -4.1 | 10.1 | 13.2 | 13.2 | 5.5 | -16.0 |
| -Enterprises sector-related problems | -55.1 | -60.5 | -60.4 | -36.8 | -39.3 | -55.0 |
| -Current or expected macroeconomic situation | -46.4 | -22.0 | -34.6 | -15.5 | -44.4 | -47.2 |
| -Non-performing loans | -51.4 | -44.7 | -39.0 | -39.9 | -54.5 | -62.0 |
| How have the terms and conditions for loan approval changed? | | | | | | |
| -Average margin | -2.6 | -7.5 | -2.3 | 19.8 | 13.6 | 4.8 |
| -Margin on higher riskier loan | -22.5 | -26.4 | -11.1 | 0.0 | -12.2 | -12.1 |
| -Commissions | -6.5 | -5.4 | -5.9 | 6.1 | 7.6 | -8.7 |
| -Size of loan | 1.1 | 6 | 10.1 | 4.5 | -9.6 | -6.9 |
| -Collateral requirement to size of loan ratio | -18.7 | -20.7 | -13.0 | -27.5 | -12.4 | -137.7 |
| -Maximum loan maturity | -7.4 | -2.1 | 0.0 | 1.5 | -5.0 | -7.1 |
| How has the demand for loan to enterprises changed? | | | | | | |
| -SMEs previous quarter | -10.9 | -10.9 | -1.8 | 2.3 | -23.5 | -21.8 |
| -SMEs next quarter | 20.8 | 8.5 | 13.1 | 20.0 | 37.4 | 25.1 |
| -Corporations, previous quarter | -18.5 | 5.5 | 0.7 | -7.2 | -23.8 | -4.8 |
| -Corporations, next quarter t | 12.1 | 16.5 | 9.5 | -5.5 | 21.0 | 25.1 |
| Factors affecting the change of the demand for loan: | | | | | | |
| -Need to finance inventories | 42.3 | 60.7 | 42.1 | 33.0 | 20.5 | 10.4 |
| -Need to finance fix investments | 16.1 | 17.4 | -22.3 | -3.3 | -17.2 | -5.6 |
| -Use of alternative finance resources | 1.4 | 15.0 | -2.5 | -5.6 | -2.6 | -3.3 |
| -Bank of Albania’s monetary policy decisions | 1.1 | 1.0 | 1.0 | 1.0 | -3.5 | -1.1 |
| -Credit terms & conditions applied by your bank | 9.0 | 21.7 | 17.2 | 17.3 | 14.9 | 17.3 |
| -Current or expected macroeconomic situation | -3.8 | 29.1 | 14.6 | 19.5 | -8.2 | -9.5 |
| Reasons for foreign currency lending: | | | | | | |
| -Source of income in foreign currency | 81.1 | 88.0 | 87.0 | 90.9 | 93.4 | 91.0 |
| -Interest rate spread | 63.9 | 84.8 | 79.8 | 85.3 | 93.7 | 96.4 |
| -Expenditure in foreign currency | 57.3 | 56.0 | 56.7 | 78.9 | 84.9 | 70.0 |
| -Exchange rate expectations | 33.6 | 35.7 | 21.4 | 37.6 | 31.5 | 39.9 |
| -Reference interest rate expectations | 31.0 | 29.9 | 28.2 | 37.4 | 52.8 | 49.4 |
| -Low awareness regarding economic developments | 5.1 | 12.2 | 3.1 | 16.0 | 0.0 | 7.6 |

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 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.

| How have bank’s credit standards as applied to the approval of loans changed? | | | | | | |
|--|-------|-------|-------|-------|-------|-------|
| - Current quarter | -1.2 | 14.0 | 1.9 | 16.2 | -7.7 | 0.0 |
| - Next quarter | 14.1 | -7.9 | 7.3 | 6.2 | -4.0 | -2.4 |
| Factors affecting the bank’s standards as applied to the approval of loans: | | | | | | |
| -Bank’s capital adequacy | -1.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| -Bank of Albania’s decisions | 0.0 | 4.5 | 7.2 | 7.2 | 7.2 | 7.8 |
| -Competition in the banking system | 27.5 | 25.6 | 27.7 | 23.9 | 16.2 | 17.7 |
| -Current or expected liquidity level | 27.1 | 23 | 16.7 | 18.1 | 18.1 | 17.9 |
| -Households’ financial situation | -17.8 | -21.3 | -16.7 | -15.9 | -31.6 | -33.4 |
| -Non-performing loans | -15.0 | -17.3 | -29.3 | -28.4 | -32.1 | -40.0 |
| -Developments in real-estate market | 11.9 | -9.4 | -18.3 | -8.8 | -20.9 | -26.0 |
| How have the terms and conditions for loan approval changed? | | | | | | |
| -Average margin | 11.7 | 11.4 | 9.8 | 5.9 | 18.9 | 10.9 |
| -Margin on higher riskier loan | -6.6 | -7.5 | 10.8 | -9.5 | 0.9 | 1.0 |
| -Commissions | -1.6 | -4.8 | 0.3 | 20.7 | 17.7 | 2.5 |
| -Size of loan | 0.0 | -3.9 | -7.2 | -7.2 | -17.6 | -19.2 |
| -Collateral requirement to size of loan ratio | -4.5 | -10.6 | -14.0 | -10.8 | -5.3 | -19.2 |
| -Maximum loan maturity | 3.2 | 10.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| -Instalment/income ratio | | -21.1 | -18.4 | -7.2 | -19.0 | -15.7 |
| How has the demand for loan to households changed? | | | | | | |
| -Housing loan | -15.6 | 0.6 | 7.3 | 11.8 | -4.1 | -15.2 |
| -Consumer loan | 3.9 | 17.2 | 21.2 | 10.7 | 2.1 | 4.0 |
| Factors affecting the change of the demand for loan: | | | | | | |
| -Households’ need to finance the house purchase | 45.1 | 17.9 | 38.5 | 28.3 | 30.3 | 5.0 |
| -Households’ need to finance consumption | 45.7 | 24.2 | 46.9 | 39.2 | 38.1 | 29.1 |
| -Use of alternative finance resources | -2.9 | -3.4 | 6.8 | -3.8 | -2.1 | 3.3 |
| -Bank of Albania’s monetary policy decisions | 4.8 | 3.1 | 7.2 | 7.2 | 7.2 | 15.2 |
| -Consumer confidence | 6.2 | 21.0 | 11.4 | 0.0 | 4.4 | -8.0 |
| -Developments in real-estate market | -16.8 | -19.7 | -10.7 | -13.4 | -29.9 | -28.4 |
| - Credit terms & conditions applied by your bank | 25.0 | 15.8 | 33.0 | 30.7 | 23.7 | 21.8 |
| Reasons for foreign currency lending: | | | | | | |
| -Source of income in foreign currency | 87.9 | 76.2 | 88.8 | 81.0 | 74.8 | 82.4 |
| -Interest rate spread | 62.3 | 86.9 | 77.8 | 72.5 | 72.5 | 59.8 |
| -Liquidity | 38.9 | 30.5 | 49.0 | 48.5 | 53.1 | 51.2 |
| -Exchange rate expectations | 23.6 | 28.5 | 19.5 | 39.1 | 35.3 | 38.5 |
| -Reference interest rate expectations | 37.8 | 42.5 | 48.5 | 34.7 | 47.4 | 16.6 |
| - Low awareness regarding economic developments | 1.9 | 4.1 | 0.0 | 17.4 | 26.7 | 0.0 |