

BANK OF ALBANIA

Monetary Policy Department



Bank Lending Survey Results for 2012 Q1 April 2012¹

According to the bank lending survey results for 2012 Q1, lending standards were tightened less on business loans. They, however, continued to tighten further on household loans compared to 2011 Q4. In terms of business size, the lending standards were tightened on loans to large enterprises, while those on small and medium-sized enterprises did not change from a quarter earlier. In terms of purpose of use, banks tightened the lending standards equally on large-enterprise loans for *working capital* and *investment* purposes, and on household loans for *house purchase* or *consumption* purposes.

Specific business sector-related concerns, non-performing loans situation and the overall macroeconomic situation were the **factors** providing the main contribution to the tightening of lending standards on businesses. Concerning household loans, *non-performing loans, households' financial situation* and developments in the *real estate market* were the key contributors to the tightening of lending standards. The *liquidity* situation contributed to the easing of lending standards applied to households.

Banks' tight lending policy on business loans was applied through higher *commissions* and *collateral requirements*. Concerning households, banks' tight lending policy was applied through higher *debt-to-income ratio* and lower *loan amount*.

Credit demand, from both businesses and households, is reported to have fallen considerably in 2012 Q1. The fall in credit demand was most evident in business loans for investments and household loans for house purchase.

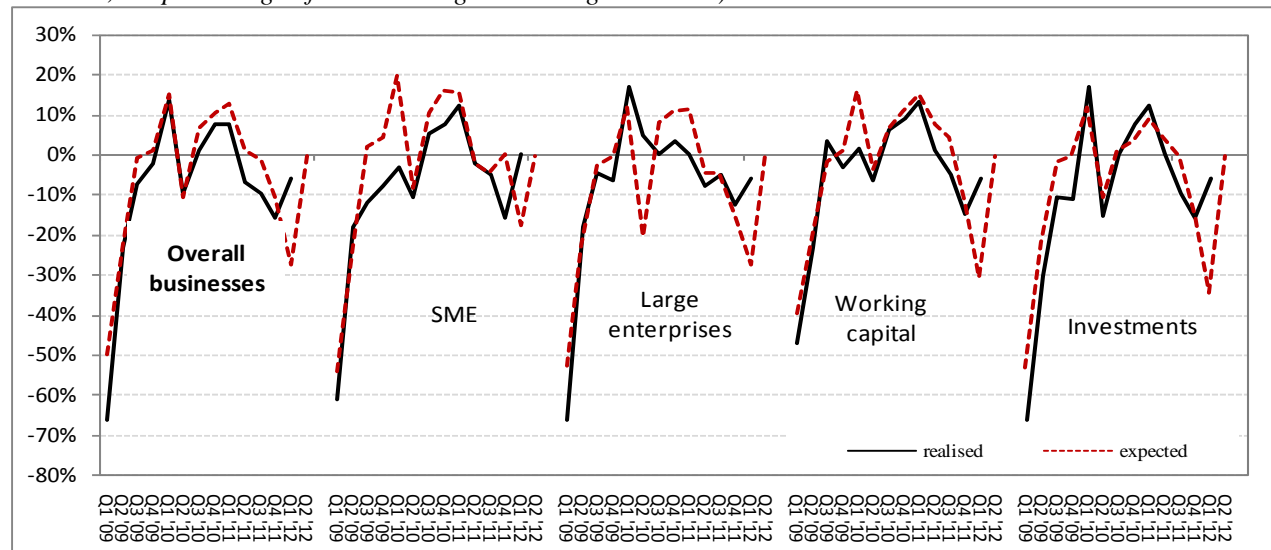
Banks' **expectations** for lending standards in 2012 Q2 are more optimistic than their assessments of the standards applied in 2012 Q1. They expect the lending standards applied to business and household loans to remain unchanged, without differentiating between loans by type or purpose of use. They also expect demand for loans to grow in 2012 Q2, both from businesses and households.

¹ The survey conducted in March 2012 covers the developments in lending activity during the first quarter of 2012 and banks' expectations for lending in the second quarter of 2012.

Business Loans

Lending standards applied to business loans in 2012 Q1 tightened less than in the previous quarter. The net balance² of banks' responses reporting the tightening of lending standards stood at 6.2%, improving by 9.8 percentage points from the previous quarter. The current change in the lending standards is in line with banks' expectations stated in the previous survey, albeit to a lower degree.

Chart 1 Changes in lending standards applied to total business loans, by size of enterprise and purpose of use (*net balance¹, net percentage of banks easing the lending standards*)



Source: Bank of Albania.

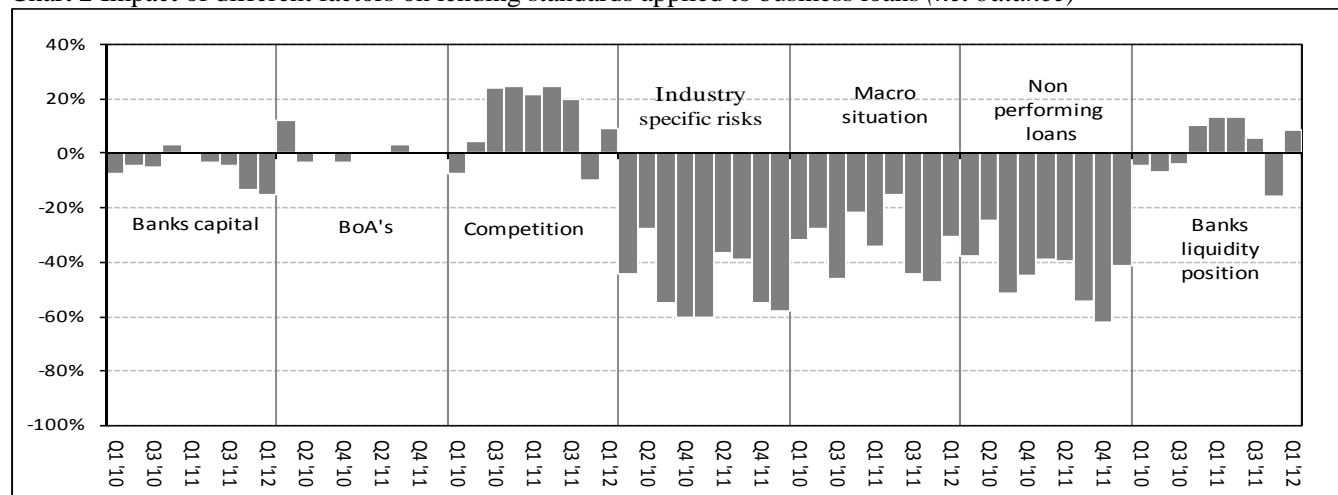
Note 1. The positive balance indicates easing lending standards, while the negative balance indicates tightening lending standards.

Lending standards applied to *small and medium-sized enterprises* remained unchanged from the previous quarter, and were tightened, to a lower degree, on loans to *large enterprises*. The net balance of banks reporting the tightening of lending standards applied to *large enterprises* is 6.2%; about 6.4 percentage points lower than in the previous quarter. Along the same line, the net balance of lending standards applied to *small and medium-sized enterprises* improved by 16 percentage points to 0% in 2012 Q1. By purpose of loan use, the lending standards tightened less than in the previous quarter, both for *working capital* and *investment* purposes. Their net balances rose by 8.7 and 9.8 percentage points, respectively.

Specific business sector-related concerns, non-performing loans situation in the banking system and the *macroeconomic situation* in Albania were the **factors** providing the main contribution to the tightening of lending standards applied to businesses loans in 2012 Q1. *Capital adequacy* also contributed to the tightening of the lending standards, albeit to a lower degree. On the other hand, unlike the previous quarter, *liquidity situation* and *competition in the banking system* contributed to the easing of the lending standards applied to business loans (see Chart 2).

²Banks' responses for lending activity are aggregated through "the net balance" indicator. 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 in total loans, for different market segments, by type of question (business/household loans in ALL/foreign currency).

Chart 2 Impact of different factors on lending standards applied to business loans (*net balance*)

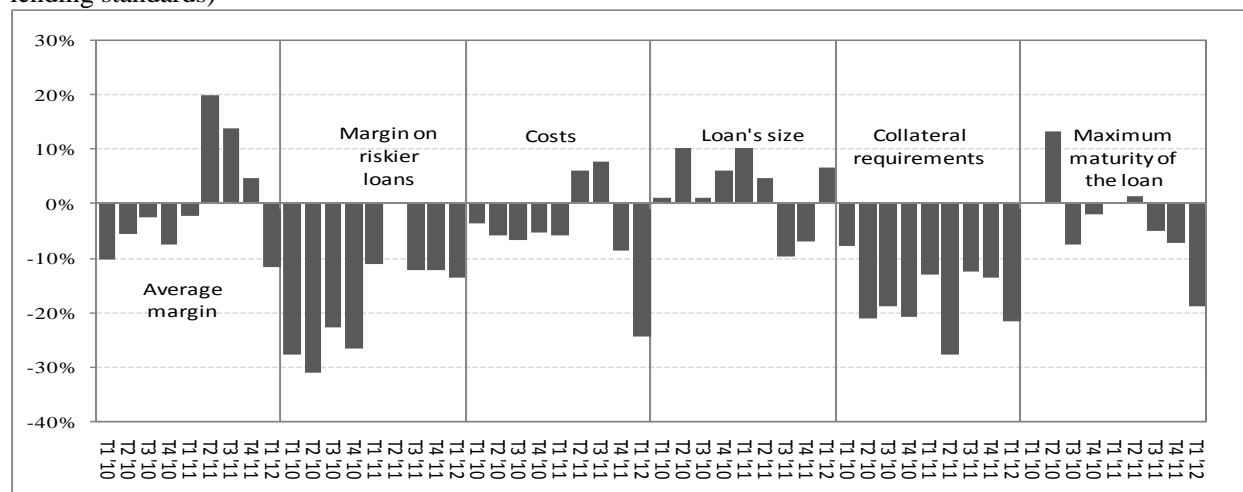


Source: Bank of Albania

Note 2. The positive balance indicates that the factor contributed to the easing of lending standards, while the negative balance indicates that it contributed to their tightening.

Banks' tight lending policy in 2012 Q1 was mainly carried out through the higher *collateral requirements* and *commissions*. Unlike the last three quarters, banks employed the widening of the *average margin* on loans as a tightening standard. Other standards, such as *margin on risk-rated loans* and *maturity*, contributed to the tightening of banks' lending policy. Higher *loan amount* was the sole standard contributing somehow to the easing of the lending standards.

Chart 3 Change in lending standards applied to business loans (net balance², net percentage of banks reporting easing lending standards)



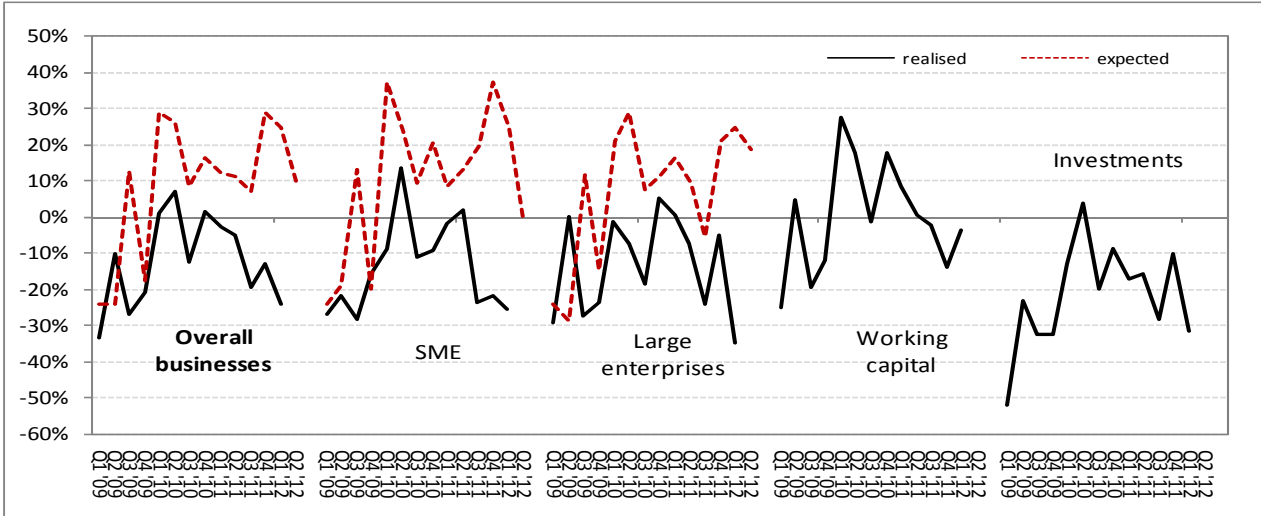
Source: Bank of Albania.

Note 2. The positive balance indicates easing lending standards, while the negative balance indicates tightening lending standards.

Demand for loans. Banks' experts report that business demand for loans deteriorated considerably in 2012 Q1 compared to the previous quarter. The net percentage of banks perceiving the fall of demand for loans stood at 23.8% from 12.6% in 2011 Q4. This performance does not match with the optimistic banks' expectations for demand for loans stated in the previous quarter's survey (see Chart 4). Demand from *large enterprises* worsened the most. Its net balance fell by 30 percentage points. The net balance

of demand for loans from *small and medium-sized enterprises* recorded less deterioration by 3.5 percentage points.

Chart 4 Business demand for loans by business size and purpose of loan use (*net balance, net percentage of banks reporting the growth of demand*)

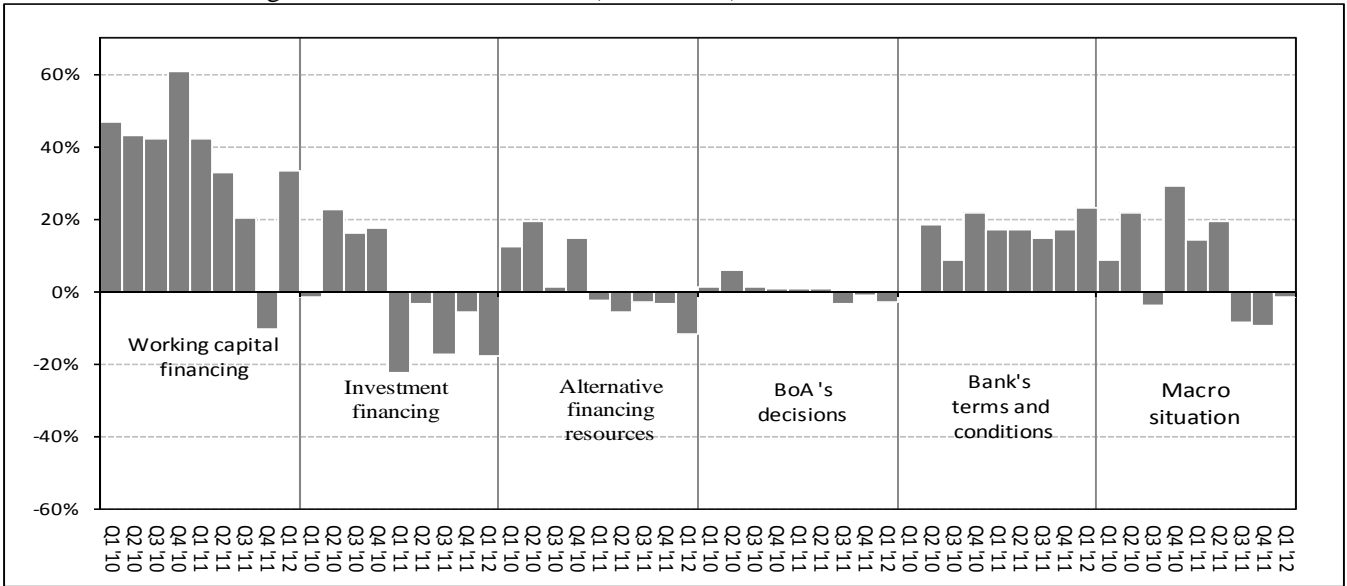


Source: Bank of Albania

Broken down by purpose of use, demand for loans for fixed *investments* worsened considerably. Demand for loans for *working capital* stands slightly higher than in the previous quarter, despite the negative net percentage of banks reporting its increase.

The need to finance fixed investments and use of alternative financial resources are the two main factors to have contributed adversely to demand for loans in 2012 Q1. Their net balances stood at -17.9% and -11.8%, respectively. The need to *finance working capital* was the key factor contributing positively to the growth of demand in the quarter under review.

Chart 5 Factors affecting business demand for loans (*net balance*)



Source: Bank of Albania

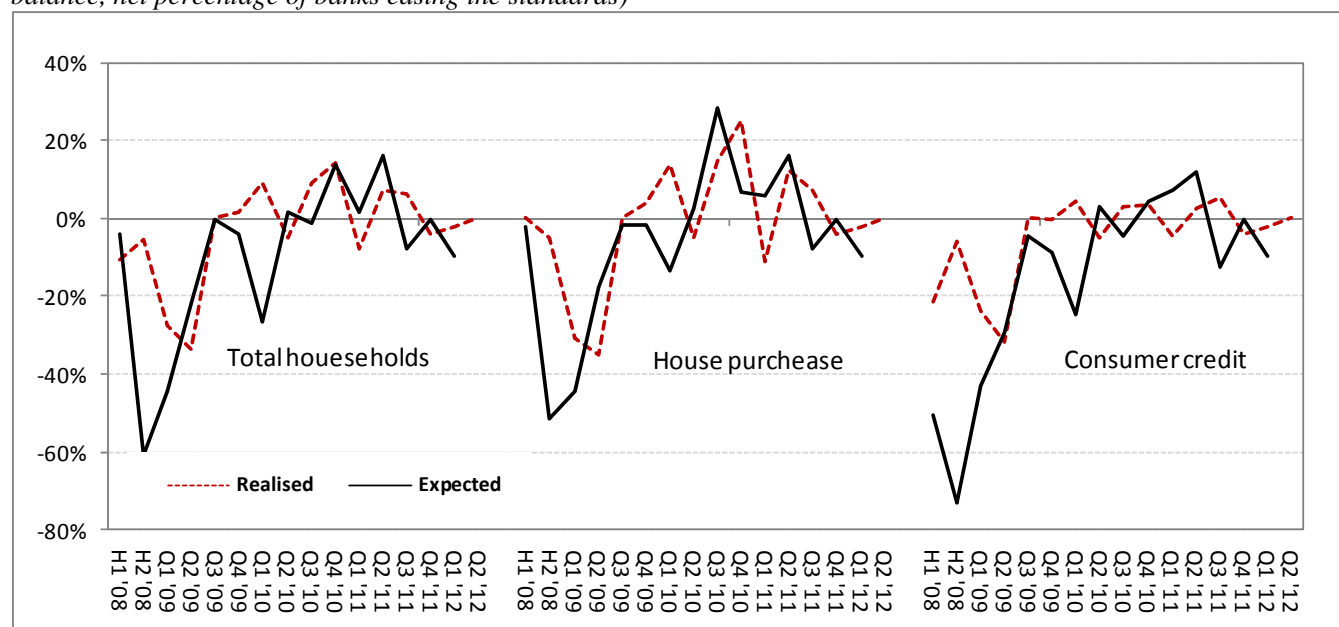
Note 4. The positive balance indicates the growth of demand or that the factor has contributed to the growth of demand. The negative balance indicates the fall of demand or that the factor has contributed to the fall of demand for loans.

Expectations. Banks' experts do not expect the lending standards applied to businesses to tighten further in 2012 Q2. The net balance of expectations stood at 0%. By business size or purpose of use, the lending standards are expected to remain unchanged. The expectations for business demand for loans in 2012 Q2 are positive but slightly lower than expectations for 2012 Q1. Demand from large enterprises is expected to grow, while that from small and medium-sized enterprises is expected to fall.

Household loans

Lending standards applied to household loans tightened in 2012 Q1 compared to the previous quarter. The net percentage of banks reporting the tightening of lending standards in the quarter under review stood at 9.6%, hence worsening from 2011 Q4, when the lending standards remained unchanged. By purpose of use, the lending standards were tightened both for *house purchase* and *consumption*. Their respective balances fell by 9.6 percentage points.

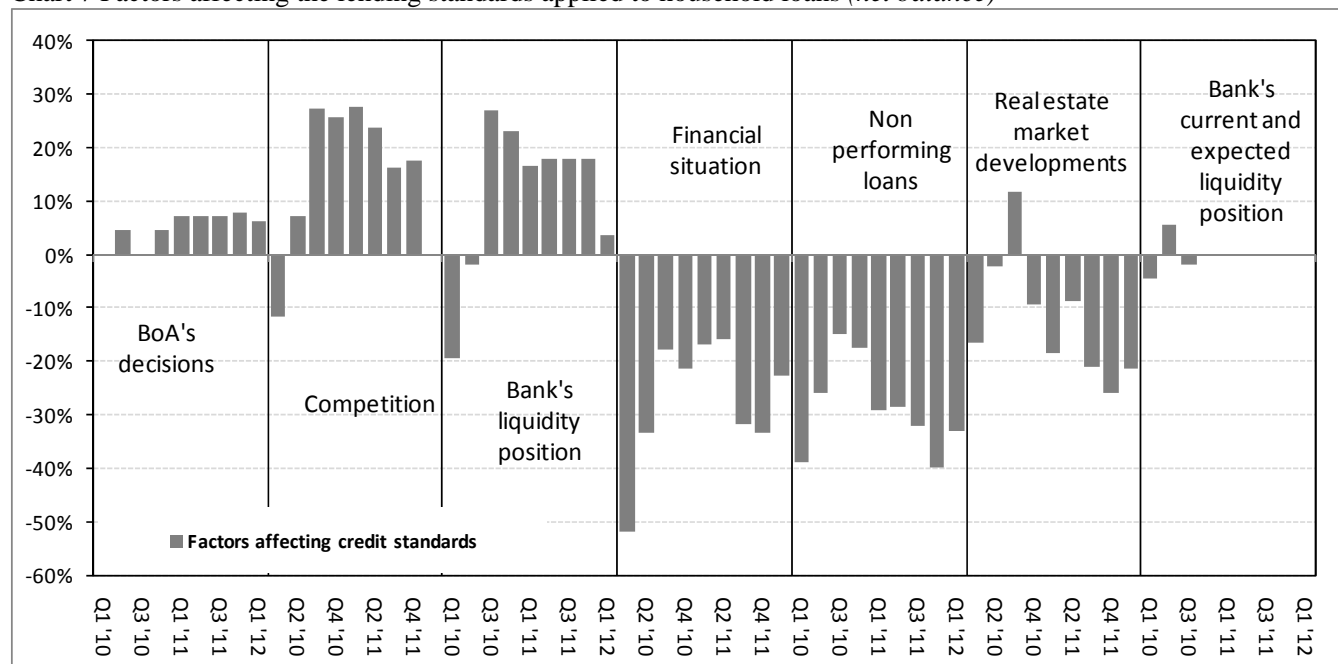
Chart 6 Changes in lending standards applied to total households, for house purchase and consumption purposes (*net balance, net percentage of banks easing the standards*)



Source: Bank of Albania.

Non-performing loans situation, households' financial situation and developments in the *real estate market* were the main contributors to the tightening of lending standards applied to household loans. Despite being assessed to a lower degree by banks compared to the previous quarter, these factors continue to provide the major adverse contribution to the tightening of the lending standards. On the other hand, *Bank of Albania's monetary policy decisions* and *liquidity* situation contributed to the easing of the lending standards applied to household loans.

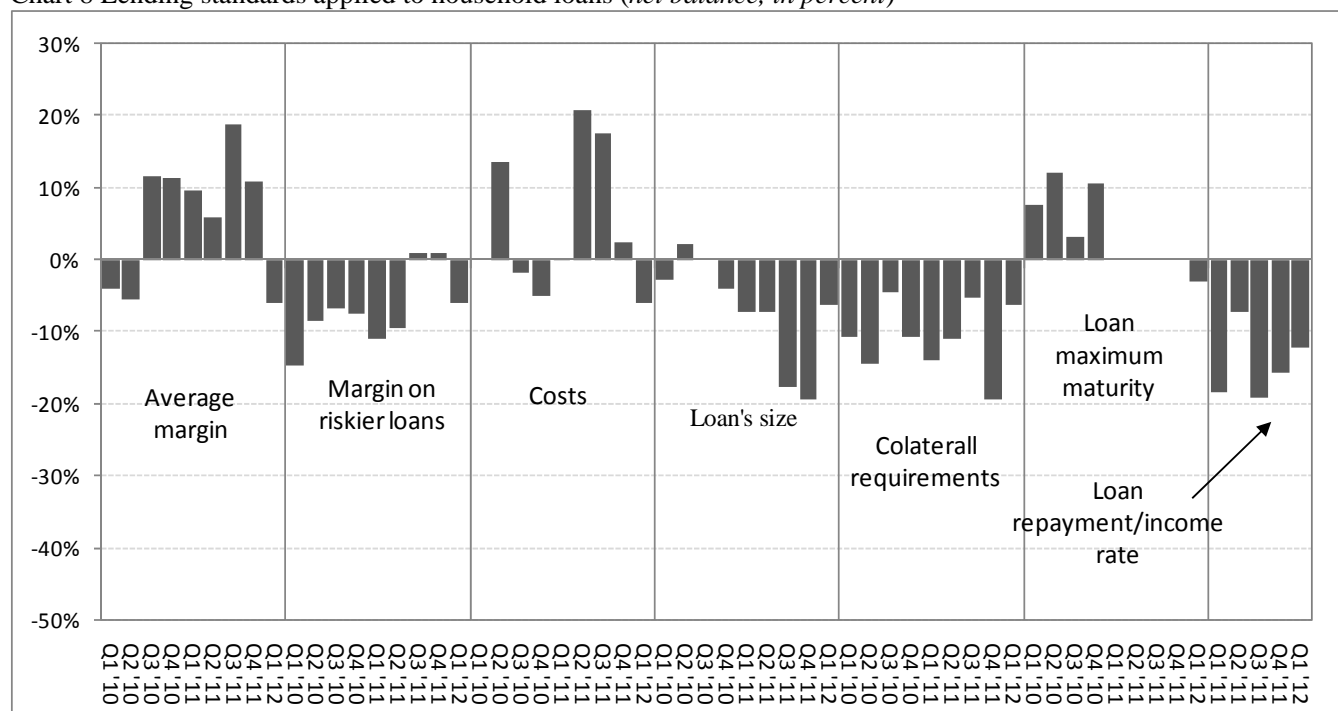
Chart 7 Factors affecting the lending standards applied to household loans (*net balance*)



Source: Bank of Albania

Banks' tight lending policy was mainly applied through the higher *debt-to-income ratio*, lower *loan amount* and higher *collateral requirement*. Higher *commissions* and *margins*, both on average and risk-rated loans, affected in the same direction, albeit to a lower degree.

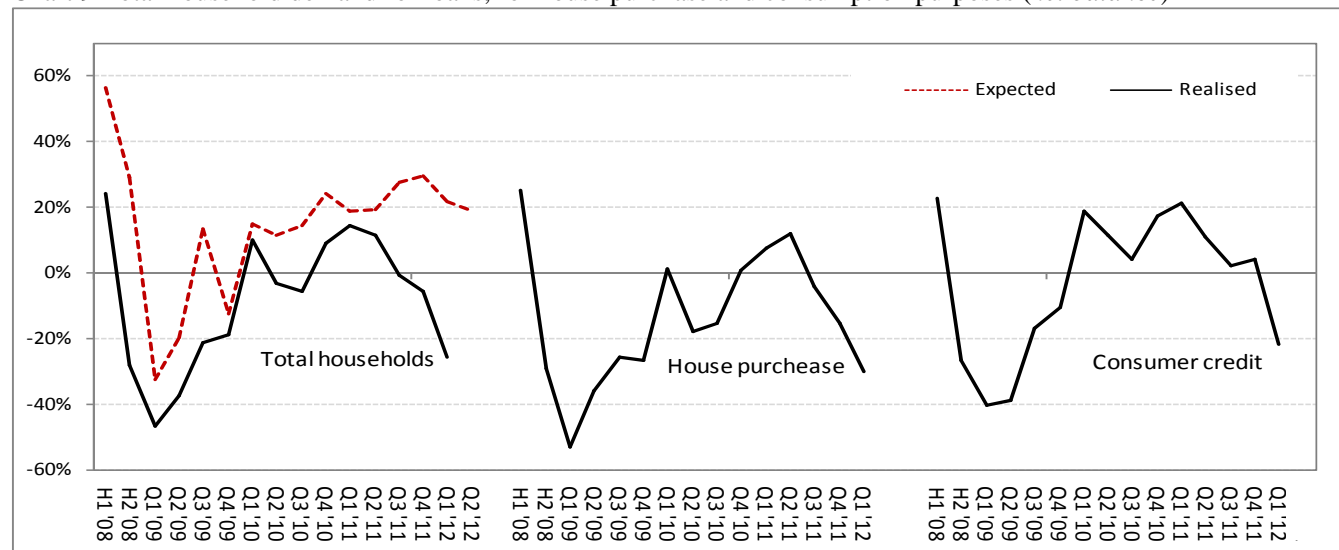
Chart 8 Lending standards applied to household loans (*net balance, in percent*)



Source: Bank of Albania

Demand for loans. According to banks' opinion, household demand for loans maintained its downward trend in 2012 Q1. The net percentage of banks reporting falling household demand during the quarter under review is 25.8%. This figure is far more pessimistic than banks' expectations in the previous survey (see Chart 9). The fall of demand was observed in both loans for house purchase and consumption purposes.

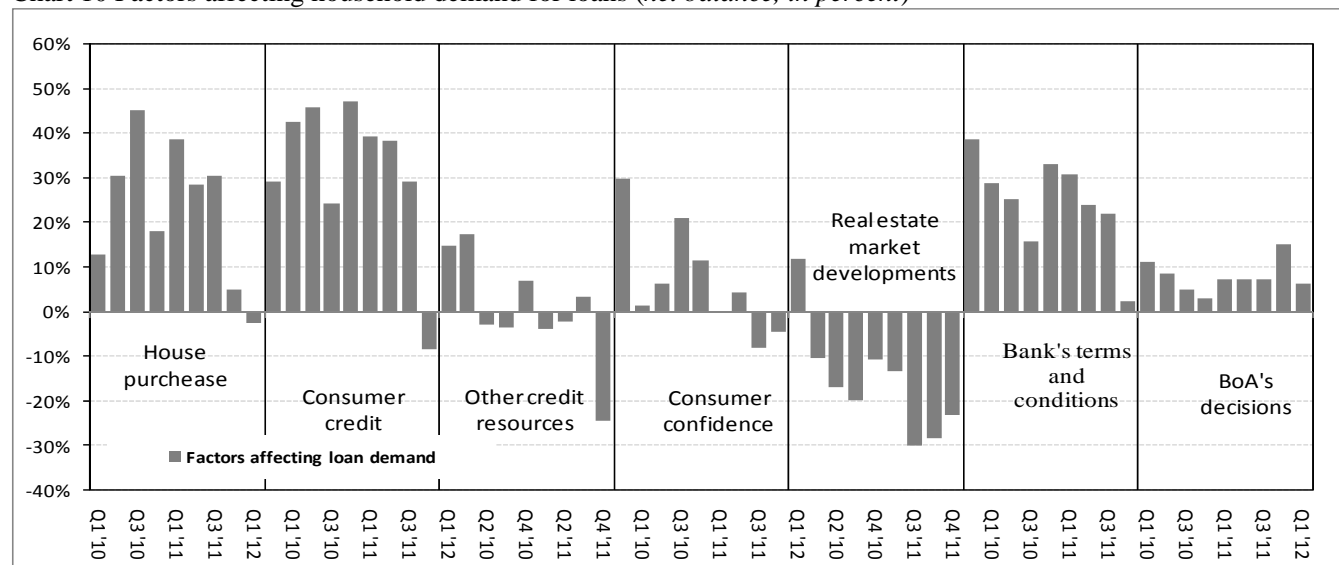
Chart 9 Total household demand for loans, for house purchase and consumption purposes (*net balance*)



Source: Bank of Albania

The use of *alternative financial resources* and *developments in the real estate market* were the factors providing the major contribution to the fall of consumer demand for loans in 2012 Q1. Unlike the previous quarter, the factors related to households' need to *finance consumption* and *house purchase* also contributed to the contraction of demand. The lower *consumer confidence index* provided a negative contribution to the fall of consumer demand for loans.

Chart 10 Factors affecting household demand for loans (*net balance, in percent*)



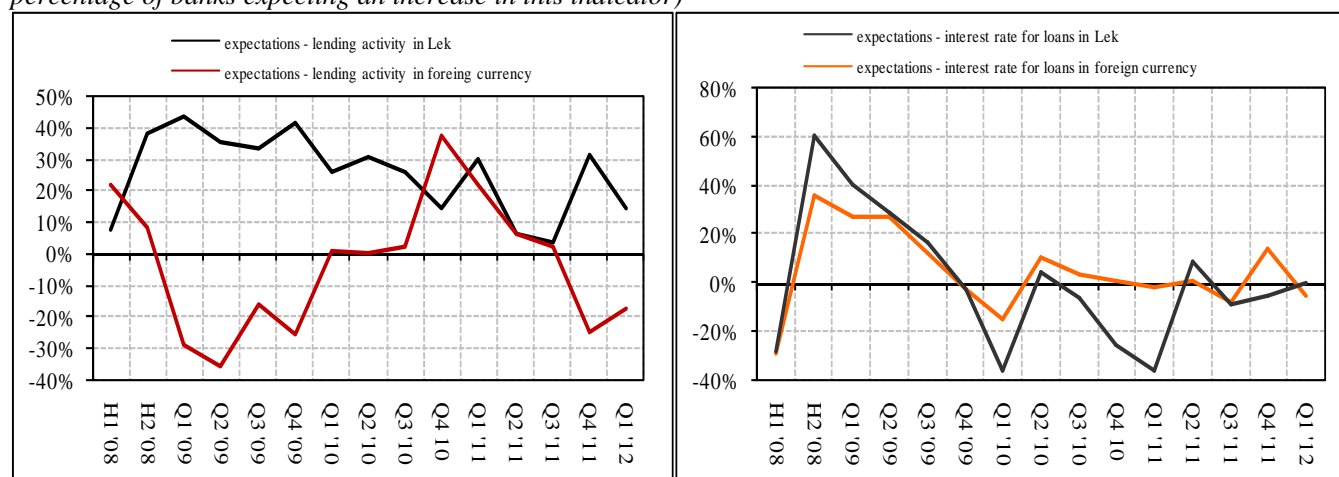
Source: Bank of Albania.

Expectations. Banks do not **expect** substantial changes in the lending standards applied to household loans in 2012 Q2. The net balance of expectations for the lending standards applied to household loans, in total and broken down by type, points to a slight and uniform increase by 2.4 percentage points. On the other hand, expectations for household demand for loans in 2012 Q2 are optimistic, albeit below the previous quarter's level.

Lending activity by currency

Banks' experts expect loans denominated in ALL to slow down and those in foreign currency to decrease in 2012 Q2. For the same quarter, expectations for the interest rates on loans point to their downward trend for loans denominated in foreign currency. Banks' experts expect ALL loans to increase slightly compared to the previous quarter.

Chart 11 Banks' expectations for lending (left) and interest rates, by currency (right) after one quarter (*net balance**, *net percentage of banks expecting an increase in this indicator*)



Source: Bank of Albania

The positive balance indicates the increase in lending activity or the increase in the interest rate. The negative balance indicates the decrease in lending activity or the decrease in the interest rate.

Annex 1 Business loans

In aggregating the results, each opinion is weighted based on the response. For example, banks responding that standards “tightened considerably” have been assigned the double of the weight compared to those responding “tightened slightly”. The results are analyzed by calculating the net balance as the difference between the weighted responses of banks reporting easing/increase of standards/demand and those reporting tightening/decrease of standards/demand. The net balances are scaled for the purposes of acquiring values within the interval of +/- 100.

BUSINESSES	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1
Change in banks' lending standards:						
-Current quarter	7.6	7.6	-6.9	-10.0	-16.0	-6.2
-Next quarter	13.0	1.4	-1.2	-10.5	-27.7	0.0
Factors affecting the lending standards:						
-Bank's capital adequacy	3.2	0.0	-3.1	-4.4	-13.5	-15.4
-Bank of Albania's decisions	-3.6	0.0	0.0	3.2	0.2	0.0
-Competition in the banking system	24.4	21.3	24.4	20.0	-9.8	9.4
-Current or expected liquidity level	10.1	13.2	13.2	5.5	-16.0	8.3
-Business sector-related concerns	-60.5	-60.4	-36.8	-39.3	-55.0	17.8
-Current or expected macroeconomic situation	-22.0	-34.6	-15.5	-44.4	-47.2	-30.9
-Non-performing loans	-44.7	-39.0	-39.9	-54.5	-62.0	-14.9
Change in lending terms & conditions:						
-Average margin	-7.5	-2.3	19.8	13.6	4.8	-11.5
-Margin on risk-rated loans	-26.4	-11.1	0.0	-12.2	-12.1	-13.7
-Commissions	-5.4	-5.9	6.1	7.6	-8.7	-24.4
-Loan amount	6	10.1	4.5	-9.6	-6.9	6.6
-Ratio of collateral requirement over the loan amount	-20.7	-13.0	-27.5	-12.4	-137.7	-21.6
-Maximum loan maturity	-2.1	0.0	1.5	-5.0	-7.1	-18.7
Change in business demand for loans:						
-SMEs, previous quarter	-10.9	-1.8	2.3	-23.5	-21.8	-25.2
-SMEs, next quarter	8.5	13.1	20.0	37.4	25.1	9.1
-Corporate, previous quarter	5.5	0.7	-7.2	-23.8	-4.8	-34.8
-Corporate, next quarter	16.5	9.5	-5.5	21.0	25.1	18.6
Factors triggering the change in business demand for loans:						
-Need to finance inventories	60.7	42.1	33.0	20.5	-10.4	33.4
-Need to finance fixed investments	17.4	-22.3	-3.3	-17.2	-5.6	-17.9
-Use of alternative financial resources	15.0	-2.5	-5.6	-2.6	-3.3	-11.8
-Bank of Albania's monetary policy decisions	1.0	1.0	1.0	-3.5	-1.1	-3.0
-Lending terms & conditions applied by your bank	21.7	17.2	17.3	14.9	17.3	23.3
-Current or expected macroeconomic situation	29.1	14.6	19.5	-8.2	-9.5	-1.3

Annex 2 Household loans

In aggregating the results, each opinion is weighted based on the response. For example, banks providing the response that standards “tightened considerably” have been assigned the double of the weight compared to those responding “tightened slightly”. The results are analyzed by calculating the net balance as the difference between the weighted responses of banks reporting easing/increase of standards/demand and those reporting tightening/decrease of standards/demand. The net balances are scaled for the purposes of acquiring values within the interval of +/- 100.

HOUSEHOLDS	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1
Change in banks' lending standards:						
-Past quarter	14.0	1.9	16.2	-7.7	0.0	-9.6
-Next quarter	-7.9	7.3	6.2	-4.0	-2.4	0.0
Factors affecting the lending standards:						
-Bank's capital adequacy	0.0	0.0	0.0	0.0	0.0	0.0
-Bank of Albania's decisions	4.5	7.2	7.2	7.2	7.8	6.1
-Competition in the banking system	25.6	27.7	23.9	16.2	17.7	-0.2
-Current or expected liquidity level	23	16.7	18.1	18.1	17.9	3.7
-Households' financial situation	-21.3	-16.7	-15.9	-31.6	-33.4	-22.8
-Non-performing loans	-17.3	-29.3	-28.4	-32.1	-40.0	-33.0
-Developments in the real estate market	-9.4	-18.3	-8.8	-20.9	-26.0	-21.4
Change in lending terms & conditions:						
-Average margin	11.4	9.8	5.9	18.9	10.9	-5.9
-Margin on risk-rated loans	-7.5	10.8	-9.5	0.9	1.0	-5.9
-Commissions	-4.8	0.3	20.7	17.7	2.5	-5.9
-Loan amount	-3.9	-7.2	-7.2	-17.6	-19.2	-6.1
-Ratio of collateral requirement over the loan amount	-10.6	-14.0	-10.8	-5.3	-19.2	-6.1
-Maximum loan maturity	10.7	0.0	0.0	0.0	0.0	0.0
-Debt-to-income ratio	-21.1	-18.4	-7.2	-19.0	-15.7	-12.2
Change in household demand for loans:						
-Housing loans	0.6	7.3	11.8	-4.1	-15.2	-30.0
-Consumer loans	17.2	21.2	10.7	2.1	4.0	-21.6
Factors triggering the change in household demand for loans:						
-Households' needs to finance the house purchase	17.9	38.5	28.3	30.3	5.0	-2.4
-Households' needs to finance consumption	24.2	46.9	39.2	38.1	29.1	-8.3
-Use of alternative financial resources	-3.4	6.8	-3.8	-2.1	3.3	-24.5
-Bank of Albania's monetary policy decisions	3.1	7.2	7.2	7.2	15.2	13.1
-Consumer confidence	21.0	11.4	0.0	4.4	-8.0	2.6
-Developments in the real estate market	-19.7	-10.7	-13.4	-29.9	-28.4	-22.9
-Lending terms & conditions applied by your bank	15.8	33.0	30.7	23.7	21.8	2.4