

BANK OF ALBANIA
Monetary Policy Department



Bank Lending Survey Results for the Second Quarter of 2012
July 2012¹

Bank lending survey results show that the lending standards applied to businesses tightened slightly in the second quarter of 2012, while those applied to households remained unchanged. The latter remained unchanged both for mortgage and consumer loans. Business lending standards were mainly tightened on loans to small and medium-sized enterprises and, by purpose of use, mainly on loans for investment. Banks kept the standards on lending to large enterprises and for working capital almost unchanged.

Specific business sector-related concerns, non-performing loans situation and the overall macroeconomic setting were the main **factors** contributing to the tightening of business lending standards. Concerning households, the factors contributing to the tightening of the lending standards were *non-performing loans, households' financial situation* and developments in *the housing market*. The *liquidity* situation and *Bank of Albania's decisions* contributed to easing the lending standards on both businesses and households, while *competition* contributed to easing only the lending standards applied to households.

Banks' tight lending policy continued to be mainly applied through *collateral* requirements, both for businesses and households. During the second quarter of 2012, the *wider margin* increased its tightening impact.

Net demand for credit continued to fall in the second quarter of 2012, albeit to a lower degree, both for businesses and households. Demand from small and medium-sized enterprises and demand for investment loans and consumer loans recorded a net negative balance.

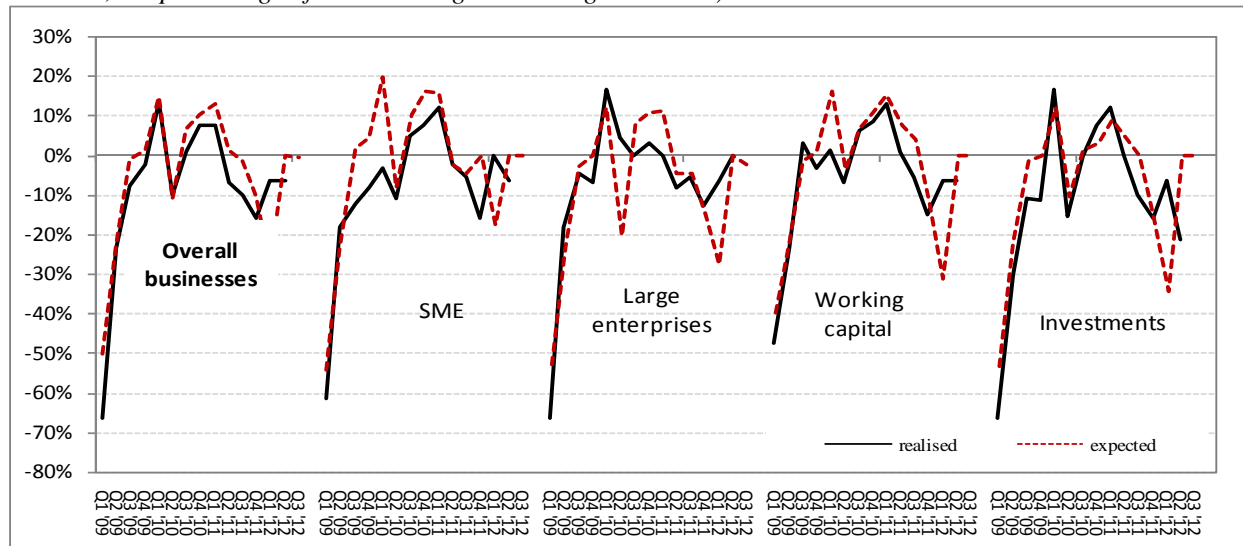
Banks' **expectations** for the lending standards in the third quarter of 2012 are more optimistic than their assessments of the lending standards applied in the second quarter of the present year. Banks do not expect further tightening of the lending standards applied to businesses in the third quarter, while they expect easing of the lending standards applied to households.

¹ The survey conducted in June 2012 covers the developments in bank lending during the second quarter of 2012 and banks' expectations for lending in the third quarter of 2012.

Business Loans

Business lending standards tightened slightly in the second quarter of 2012. The net balance² of banks' responses reporting the tightening of standards stood at 6.2%, similar to the previous quarter.

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



Source: Bank of Albania.

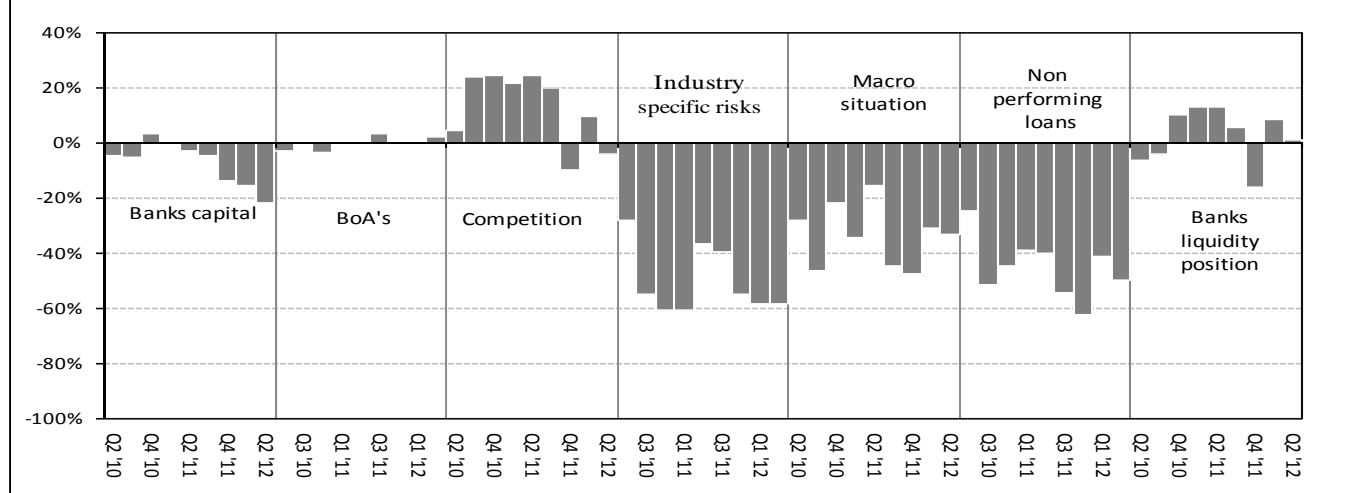
Note 1. The positive balance indicates the easing of lending standards, while the negative balance indicates the tightening of lending standards.

Banks report that the lending standards applied to *small and medium-sized enterprises* were slightly tightened, while those applied to *large enterprises* were not tightened. The net percentage of banks reporting the tightening of lending standards applied to *small and medium-sized enterprises* is 6.2%, about 6.2 percentage points higher than in the previous quarter. On the other hand, the net percentage of banks reporting the tightening of lending standards applied to *large enterprises* stood at 0%, improving by 6.2 percentage points from the first quarter of 2012. By purpose of use, the lending standards tightened more for *investment loans* than for *working capital loans*. The net percentage of banks reporting the tightening of standards applied to investment loans rose by 15 percentage points in the second quarter of 2012.

Specific business sector-related concerns, non-performing loans situation in the banking system and the macroeconomic setting in Albania were the main **factors** contributing to the tightening of business lending standards during the second quarter of 2012. Along the same line, albeit to a lower degree, *capital adequacy and competition in the banking system* contributed to the tightening of lending standards applied to businesses. On the other hand, *Bank of Albania's decisions and liquidity situation* during this quarter contributed to slightly easing the lending standards applied to businesses (see Chart 2).

² Banks' 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 businesses (net balance²)

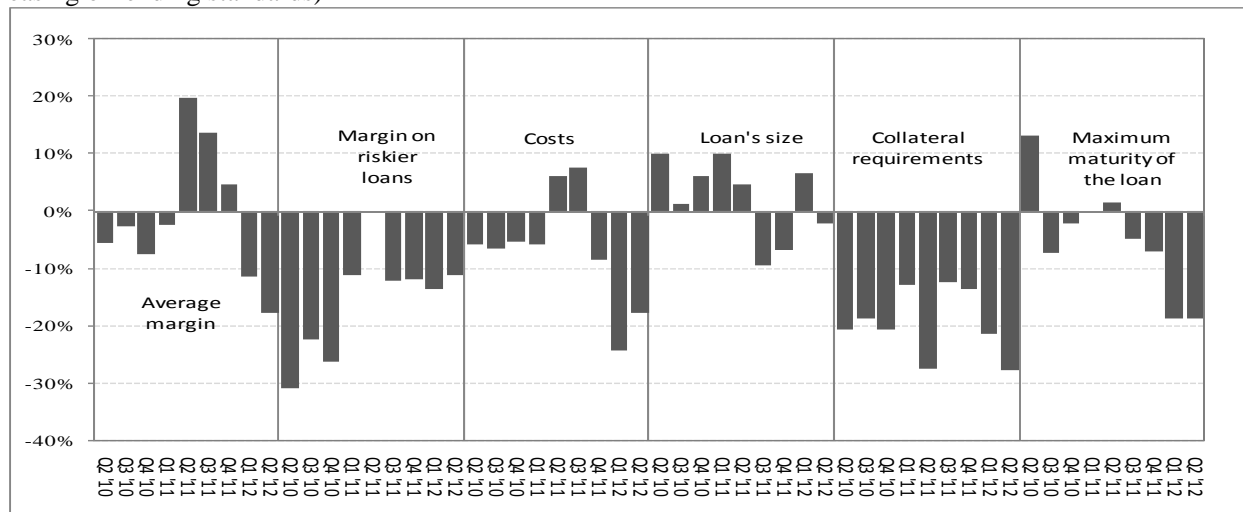


Source: Bank of Albania.

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

The developments in the **conditions and criteria** of loans reported by banks have generally pushed them to apply a tight lending policy during the second quarter of 2012, which was mainly applied through higher *collateral requirements*. In addition, the lending standards were tightened through the higher *commissions*, wider *margins* and lower *maximum maturity of loans* granted during the quarter under review.

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



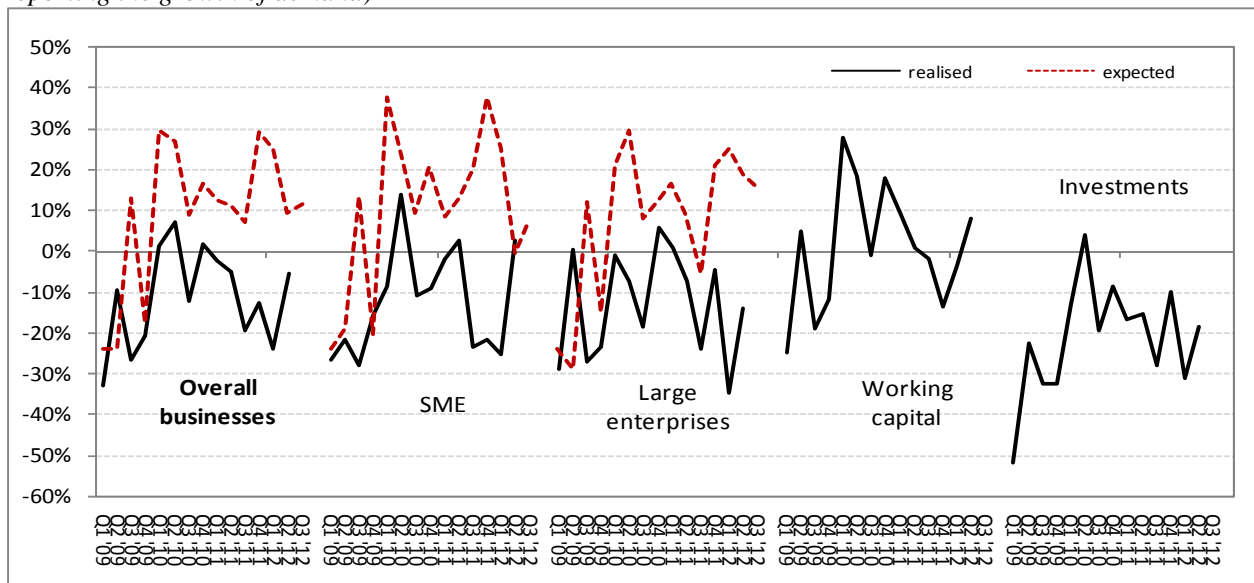
Source: Bank of Albania.

Note 3. The positive balance indicates the easing of lending standards, while the negative balance indicates the tightening of lending standards.

Demand for loans. Bank experts report that business demand for loans during the second quarter of 2012 was less negative than in the previous quarter. The net percentage of banks reporting the growth of demand for loans from *small and medium-sized enterprises* was 2.6% from -25.2% in the previous

quarter. This performance matches with their expectations for the improvement of demand as stated in the previous quarter's survey (see Chart 4). The net balance of demand for loans from *large enterprises*, albeit still negative (-14.0%), improved considerably by about 20 percentage points from the previous quarter. By purpose of use, demand for *working capital* loans improved the most. Its net balance stood at 7.9% in the second quarter of 2012 compared to -3.7% in the first quarter of the present year. The net balance of demand for *investment* loans, albeit improving by 13 percentage points from the first quarter of 2012, remains negative.

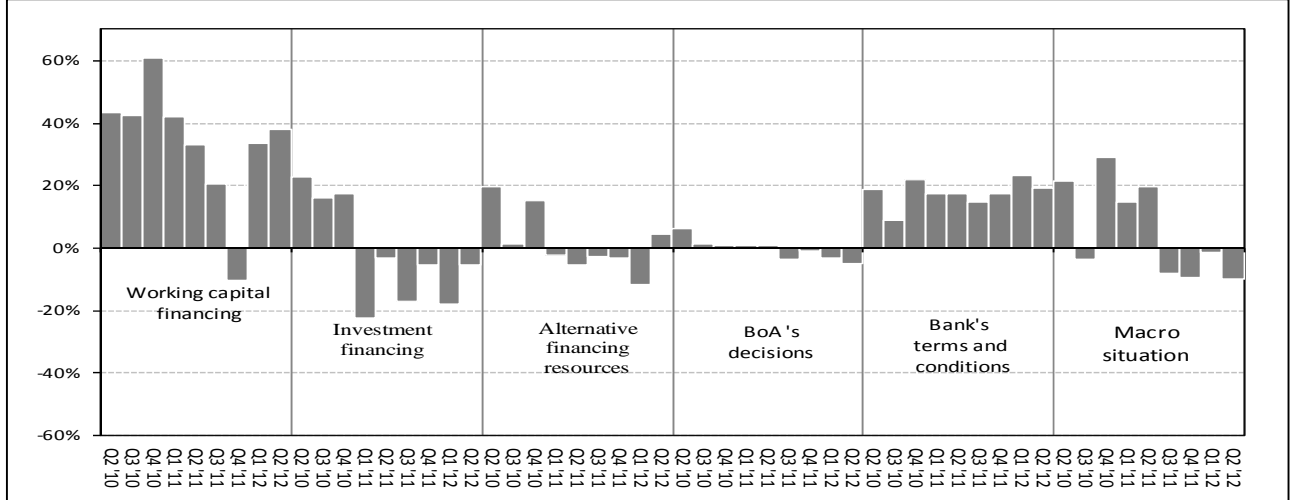
Chart 4 Business demand for loans by size of enterprise and purpose of loan use (*net balance, net percentage of banks reporting the growth of demand*)



Source: Bank of Albania.

The need for working capital and the use of alternative financial resources contributed positively to the demand for loans in the second quarter of 2012. Their net balances stood at about 37.8% and 4.2%, respectively. By contrast, *the current macroeconomic situation and the need to finance fixed investment* contributed adversely to the growth of demand in the quarter under review. The latter factor has been contributing adversely since the first quarter of 2011.

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



Source: Bank of Albania.

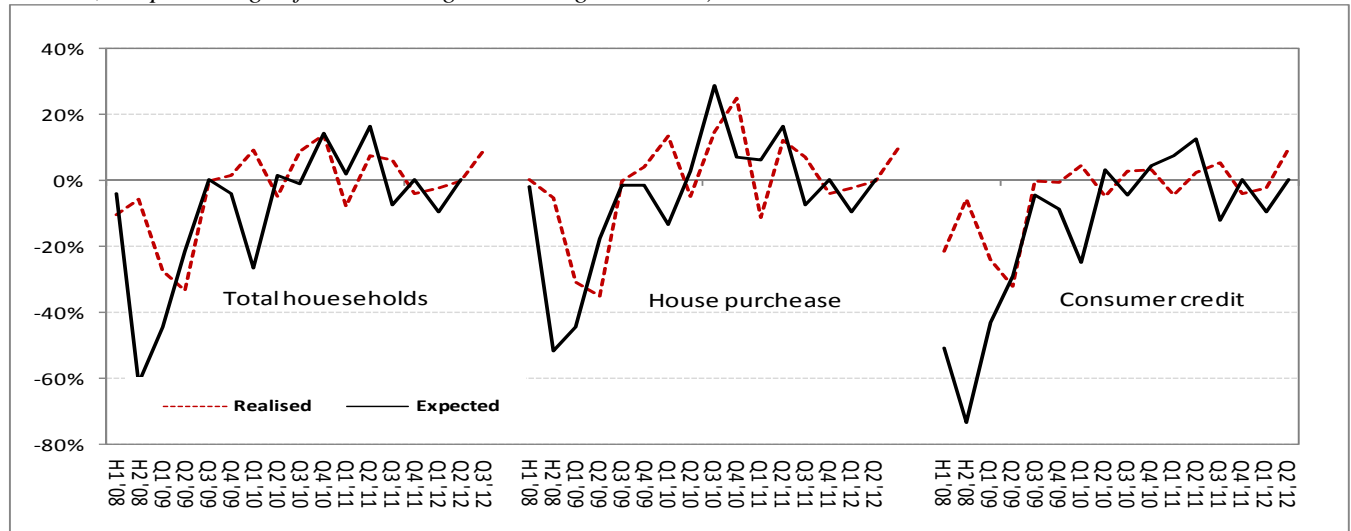
Note 4. The positive balance indicates the growth of demand or that the factor has contributed to the growth of demand. The negative balance indicates the fall of demand or that the factor has contributed to the fall of demand for loans.

Expectations. Bank experts expect the lending standards applied to businesses to remain unchanged in the third quarter of 2012. The net balance of expectations stands at -0.5%. The lending standards are expected to remain unchanged both for loans broken down by purpose of use and loans to small and medium-sized enterprises. The lending standards applied to large enterprises are expected to tighten slightly. Expectations for business demand for loans in the third quarter of 2012 are generally positive and higher than those for the second quarter of 2012.

Household loans

The lending standards applied to households remained unchanged in the second quarter of 2012. The net percentage of banks reporting the tightening of lending standards during the quarter under review was 0%, hence improving from the previous quarter when the net percentage of banks tightening the lending standards was reported at 9.6%. The lending standards remained unchanged both for *mortgage* and *consumer loans*.

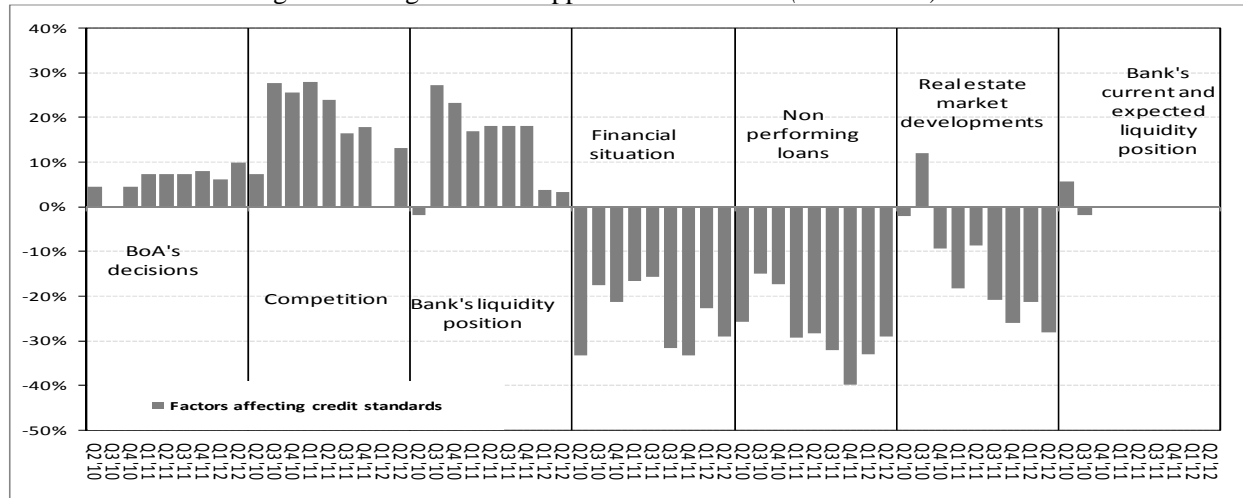
Chart 6 Changes in lending standards applied to total households, for house purchase and consumption purposes (*net balance, net percentage of banks easing the lending standards*)



Source: Bank of Albania.

Non-performing loans, households' financial situation and developments in the *housing market* remain the contributing factors to the tightening of the lending standards applied to households. On the other hand, *Bank of Albania's monetary policy decisions, competition* and *liquidity* situation contributed to easing the lending standards.

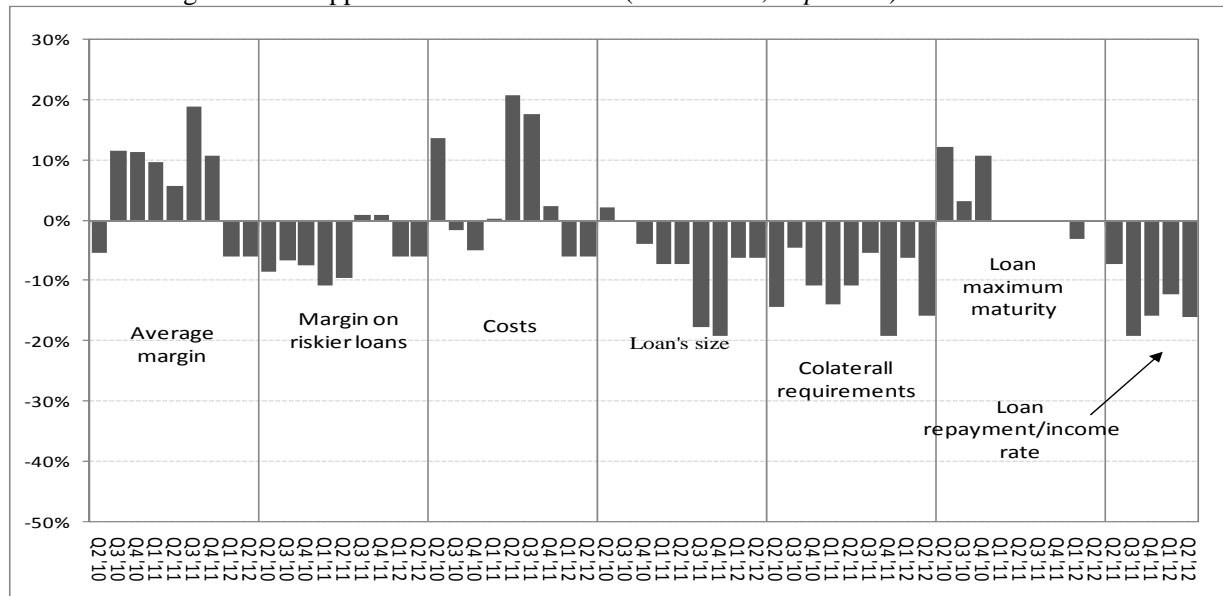
Chart 7 Factors affecting the lending standards applied to households (*net balance*)



Source: Bank of Albania.

Developments in the **conditions and criteria** of household loans generally reflected a prudent lending policy. The higher *collateral* requirements, the lower loan *amount*, the higher *commissions*, the wider *average margin* and the wider margin for risk-rated loans contributed to the tightening of the lending standards.

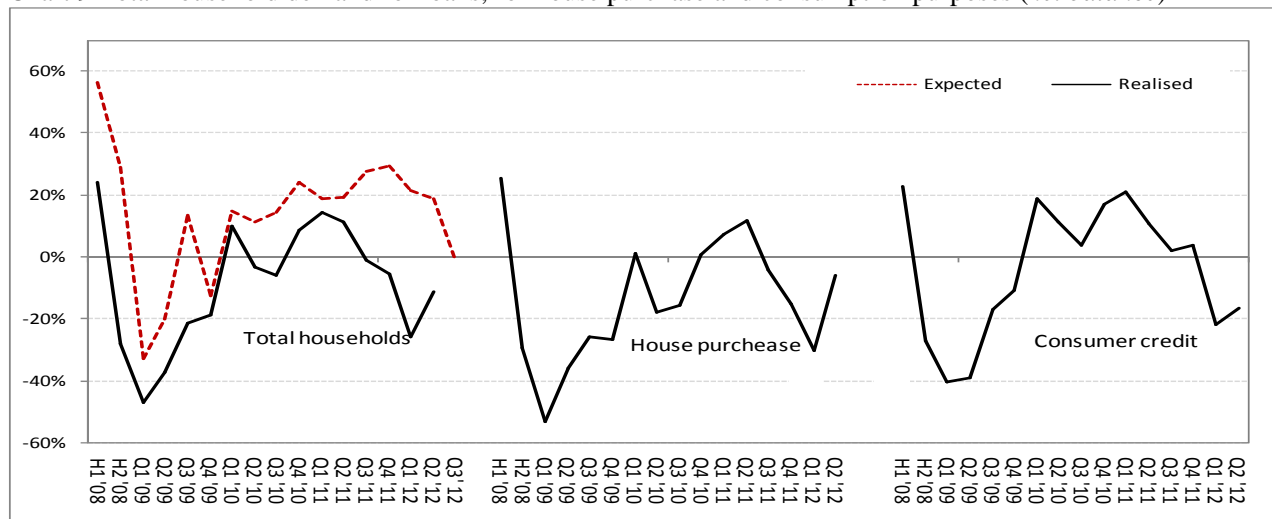
Chart 8 Lending standards applied to household loans (*net balance, in percent*)



Source: Bank of Albania.

Demand for loans. Household demand for loans continued to slow down in the second quarter of 2012, albeit to a lower degree than in the previous quarter. The net percentage of banks reporting the growth of household demand was -1.3% in the quarter under review, compared to -25.8% in the first quarter of 2012. Household demand for mortgage loans decelerated less than that for consumer loans.

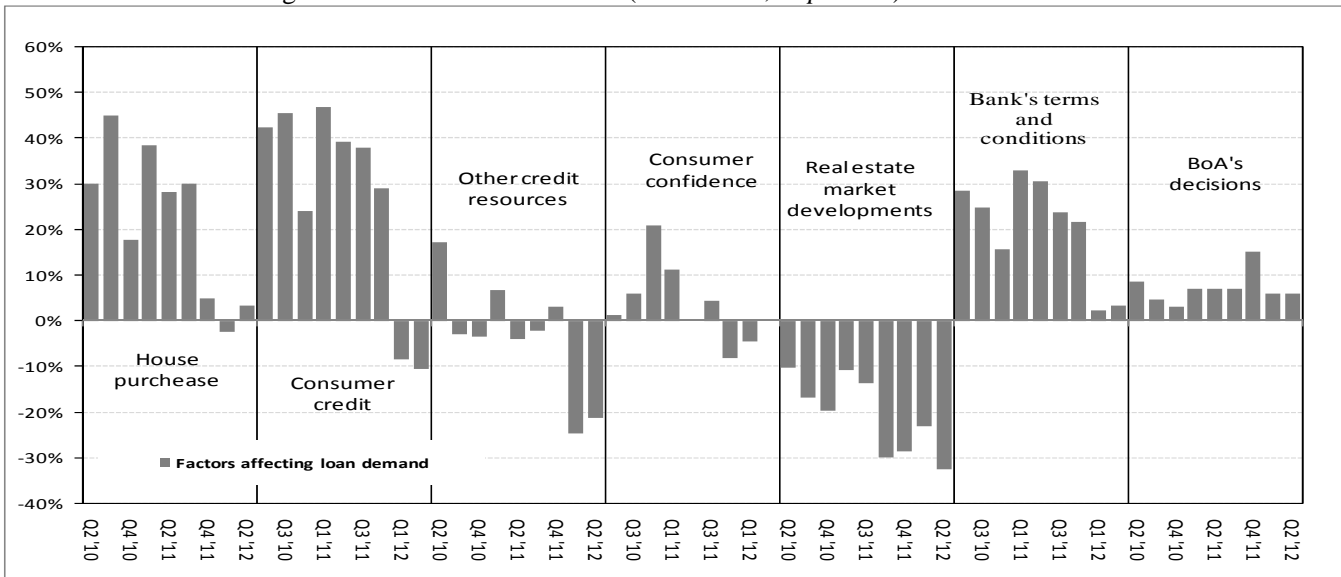
Chart 9 Total household demand for loans, for house purchase and consumption purposes (*net balance*)



Source: Bank of Albania.

According to banks' opinions, *the lending standards, Bank of Albania's decisions* and the need to *finance house purchase* contributed to improving household demand for loans. The use of *alternative financial resources* and *developments in the housing market* provided an adverse contribution to the growth of household demand for loans in the second quarter of 2012.

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



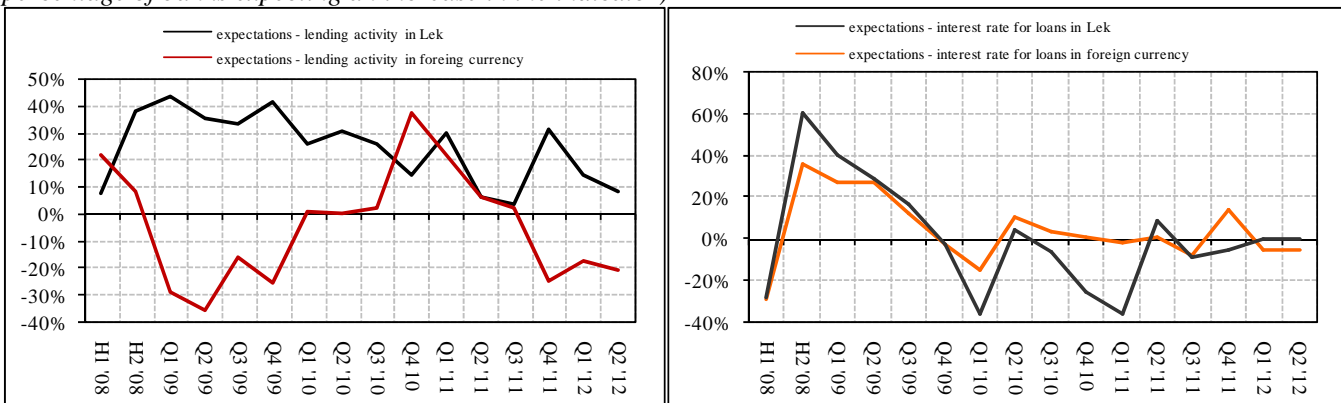
Source: Bank of Albania.

Expectations. Banks' expectations signal the possible easing of lending standards applied to households in the third quarter of 2012. They are expected to ease both for mortgage and consumer loans. Banks expect household demand to fall in the third quarter of 2012.

Lending by currency

Bank experts expect the growth of lek-denominated loans to decelerate in the third quarter of 2012. Loans denominated in foreign currency are expected to decrease. Expectations for the interest rates on loans in the third quarter of 2012 show the downtrend of foreign currency-denominated loans. Bank experts expect lek-denominated loans to increase slightly compared to the second quarter of 2012.

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 the indicator*)



Source: Bank of Albania.

* The positive balance shows the increase in lending or the increase in the interest rate. The negative balance shows the decrease in lending 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 providing the response that standards “tightened considerably” have been assigned the double of the weight compared to the response “tightened slightly”. The results are analysed 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 in order to acquire values within the interval of +/- 100.

BUSINESSES	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2
Change in banks' lending standards						
- Current quarter	7.6	-6.9	-10.0	-16.0	-6.2	-6.2
- Next quarter	1.4	-1.2	-10.5	-27.7	0.0	0.0
Factors affecting the lending standards						
- Bank's capital adequacy	0.0	-3.1	-4.4	-13.5	-15.4	-21.6
- Bank of Albania's decisions	0.0	0.0	3.2	0.2	0.0	2.1
- Competition in the banking system	21.3	24.4	20.0	-9.8	9.4	-4.0
- Current or expected liquidity level	13.2	13.2	5.5	-16.0	8.3	1.0
- Business sector-related concerns	-60.4	-36.8	-39.3	-55.0	17.8	-58.3
- Current or expected macroeconomic situation	-34.6	-15.5	-44.4	-47.2	-30.9	-33.1
- Non-performing loans	-39.0	-39.9	-54.5	-62.0	-14.9	-49.6
Change in lending terms and conditions						
- Average margin	-2.3	19.8	13.6	4.8	-11.5	-17.8
- Margin for risk-rated loans	-11.1	0.0	-12.2	-12.1	-13.7	-11.1
- Commissions	-5.9	6.1	7.6	-8.7	-24.4	-17.8
- Loan amount	10.1	4.5	-9.6	-6.9	6.6	-2.1
- Collateral requirement as a ratio of loan amount	-13.0	-27.5	-12.4	-137.7	-21.6	-27.7
- Maximum loan maturity	0.0	1.5	-5.0	-7.1	-18.7	-18.7
Change in business demand for loans:						
- SMEs, previous quarter	-1.8	2.3	-23.5	-21.8	-25.2	2.6
- SMEs, next quarter	13.1	20.0	37.4	25.1	9.1	11.4
- Large enterprises, previous quarter	0.7	-7.2	-23.8	-4.8	-34.8	-14.0
- Large enterprises, next quarter	9.5	-5.5	21.0	25.1	18.6	15.5
Factors triggering the change in business demand for loans						
- Need to finance inventories	42.1	33.0	20.5	-10.4	33.4	37.8
- Need to finance fixed investment	-22.3	-3.3	-17.2	-5.6	-17.9	-5.4
- Use of alternative financial resources	-2.5	-5.6	-2.6	-3.3	-11.8	4.2
- Bank of Albania's monetary policy decisions	1.0	1.0	-3.5	-1.1	-3.0	-5
- Lending terms & conditions applied by your bank	17.2	17.3	14.9	17.3	23.3	19
- Current or expected macroeconomic situation	14.6	19.5	-8.2	-9.5	-1.3	-1.4

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 the response “tightened slightly”. The results are analysed 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 in order to acquire values within the interval of +/- 100.

HOUSEHOLDS	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2
Change in banks' lending standards						
- Current quarter	1.9	16.2	-7.7	0.0	-9.6	0.0
- Next quarter	7.3	6.2	-4.0	-2.4	0.0	9.6
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	7.2	7.2	7.2	7.8	6.1	9.8
- Competition in the banking system	27.7	23.9	16.2	17.7	-0.2	13.1
- Current or expected liquidity level	16.7	18.1	18.1	17.9	3.7	3.3
- Households' financial situation	-16.7	-15.9	-31.6	-33.4	-22.8	-29.1
- Non-performing loans	-29.3	-28.4	-32.1	-40.0	-33.0	-29.1
- Developments in the housing market	-18.3	-8.8	-20.9	-26.0	-21.4	-28.2
Change in lending terms & conditions						
- Average margin	9.8	5.9	18.9	10.9	-5.9	-5.9
- Margin for risk-rated loans	10.8	-9.5	0.9	1.0	-5.9	-5.9
- Commissions	0.3	20.7	17.7	2.5	-5.9	-5.9
- Loan amount	-7.2	-7.2	-17.6	-19.2	-6.1	-6.1
- Collateral requirement as a ratio of loan amount	-14.0	-10.8	-5.3	-19.2	-6.1	-15.7
- Maximum loan maturity	0.0	0.0	0.0	0.0	0.0	0.0
- Debt-to-income ratio	-18.4	-7.2	-19.0	-15.7	-12.2	-15.9
Change in household demand for loans						
- Mortgage loans	7.3	11.8	-4.1	-15.2	-30.0	-6.1
- Consumer loans	21.2	10.7	2.1	4.0	-21.6	-16.6
Factors triggering the change in household demand for loans						
- Households' needs to finance the house purchase	38.5	28.3	30.3	5.0	-2.4	3.5
- Households' needs to finance consumption	46.9	39.2	38.1	29.1	-8.3	-10.5
- Use of alternative financial resources	6.8	-3.8	-2.1	3.3	-24.5	-21.2
- Bank of Albania's monetary policy decisions	7.2	7.2	7.2	15.2	13.1	6.1
- Consumer confidence	11.4	0.0	4.4	-8.0	2.6	0.0
- Developments in the housing market	-10.7	-13.4	-29.9	-28.4	-22.9	-32.5
- Lending terms & conditions applied by your bank	33.0	30.7	23.7	21.8	2.4	3.5