

BANK OF ALBANIA
Monetary Policy Department



Bank Lending Survey Results for the Third Quarter of 2012
October 2012¹

In 2012 Q3, lending standards for business credit remained unchanged compared to 2012 Q1 and Q2. Banks applied the same standards on credit to business by size (SME and large corporations) and purpose (financing of working capital and investments). Lending standards for consumer credit remained unchanged for the second consecutive quarter, both for house purchase and consumption.

Specific business sector-related concerns, non-performing loans and the overall macroeconomic setting were the main **factors** explaining the tightening of business lending standards. During the last two quarters, *capital adequacy* has been considered as another contributing factor to standard tightening. As regards households loans, *individuals' financial situation, non-performing loans and real estate market* contributed to standards tightening, while liquidity and competition contributed to their easing.

The changes in **terms and criteria** applied for the approval of new loans approved during 2012 Q3 reflected tighter credit standards for business credit. They remained *quasi* unchanged on loans granted to households. To implement the tightening of terms for business credits, banks used key instruments such as: enlarged *average margin*, higher *commissions*, reduced *credit size*, larger *collateral size* as a ratio to *loan size* and the shorter *maturity*.

Net demand for credit, according to banks experts' perception, decreased for both businesses and households, during 2012 Q3, although at lower rates from the previous quarter.

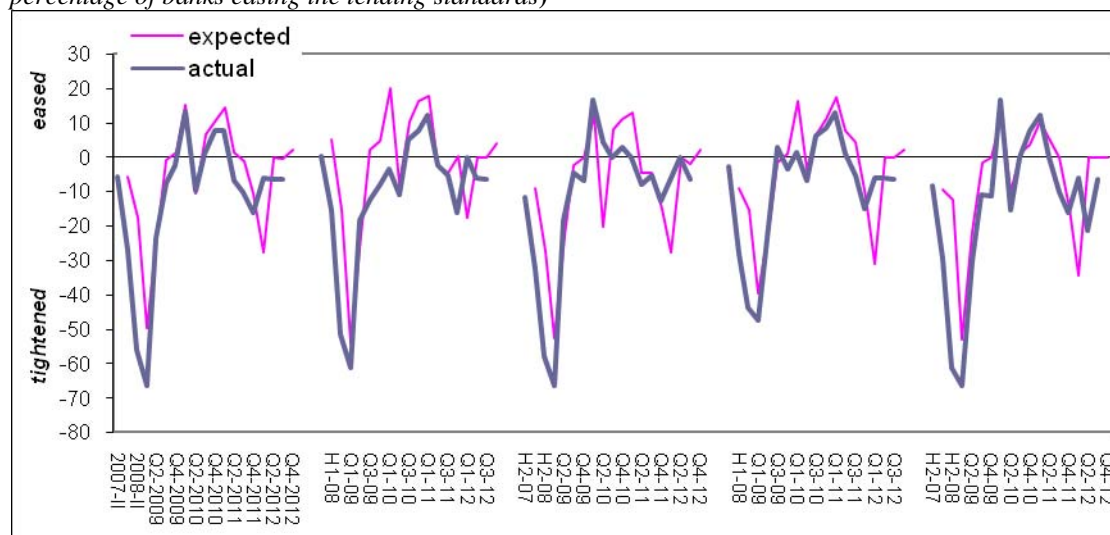
Banks' **expectations** for the fourth quarter of 2012 are more optimistic; lending standards are expected to ease and demand is expected to increase, for both businesses and households. Expectations improved compared to both expectations a quarter earlier and the assessment on the current situation in 2012 Q3.

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

Business Loans

Lending survey results for 2012 Q3 show that lending standards for businesses loans in total remained relatively stable, compared to 2012 Q1 and Q2. Net balance² of banks' responses reporting the tightening of standards stood at 6.25% (6.16% and 6.2% in 2012 Q1 and Q2, respectively). In the previous survey, participant banks expected lower net tightening of standards.

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



Source: Bank of Albania

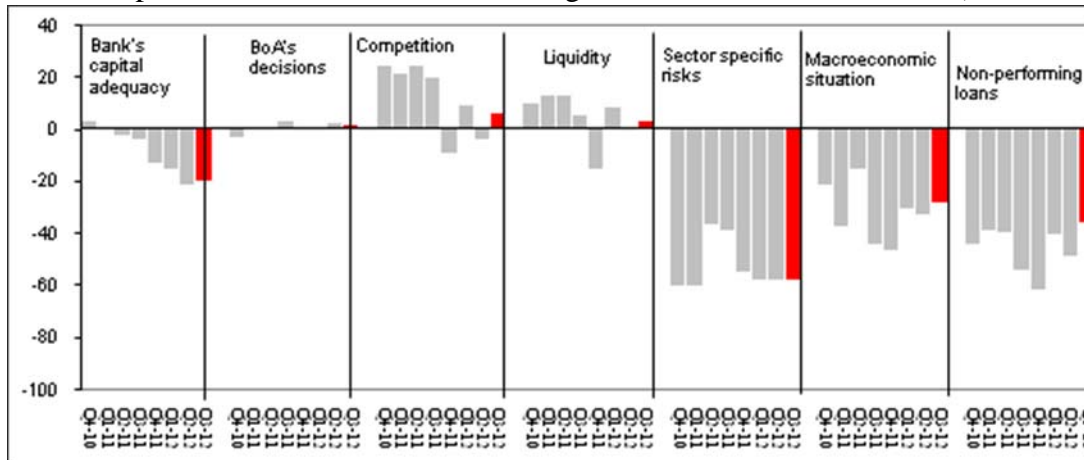
Note1. The positive balance indicates the easing of lending standards, while the negative balance indicates the tightening of lending standards.

During 2012 Q3, lending standards tightened equally to businesses, both by size and purpose of use. Net tightening of standards applied to loans for investments diminished considerably in 2012 Q2; the net percentage of banks reporting the tightening of lending standards was 6.2% in 2012 Q3, from 21.2% in 2012 Q2. By purpose of use, the net tightening of lending standards fell slightly for loans for liquidity and loans to corporations, compared to a month earlier.

Specific business sector-related concerns, non-performing loans situation in the banking system, macroeconomic setting and capital adequacy in Albania were the main **factors** explaining the tightening of business lending standards during 2012 Q3. On the other hand, *competition in the banking system, liquidity situation and Bank of Albania's decisions* provided a lower contribution to the easing of lending standards for business loans.

² Banks' responses for lending 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 to 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 for business loans (net balance)

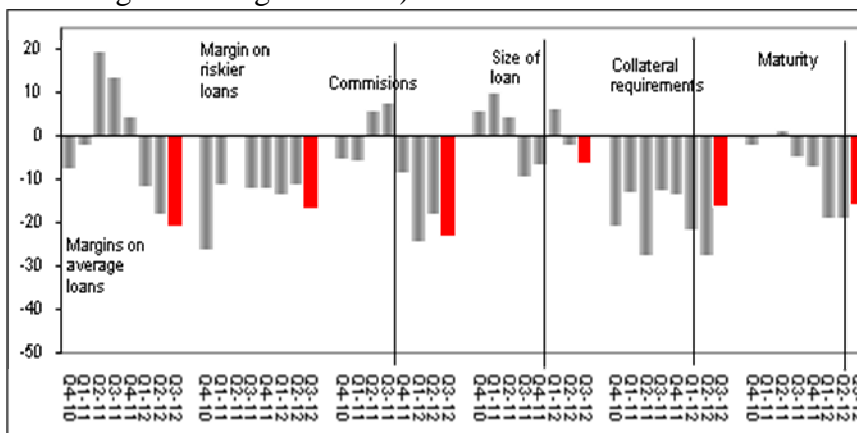


Source: Bank of Albania.

Note2. 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 tightening policy applied by banks during 2012 Q3 is mainly implemented through higher *commissions* and *wider average margin*. For standards tightening, banks employed also the *widening of risk full credit margin*, increased *collateral demand* and *decreased loans maturity*. The *decrease of loan size* had a lower impact.

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



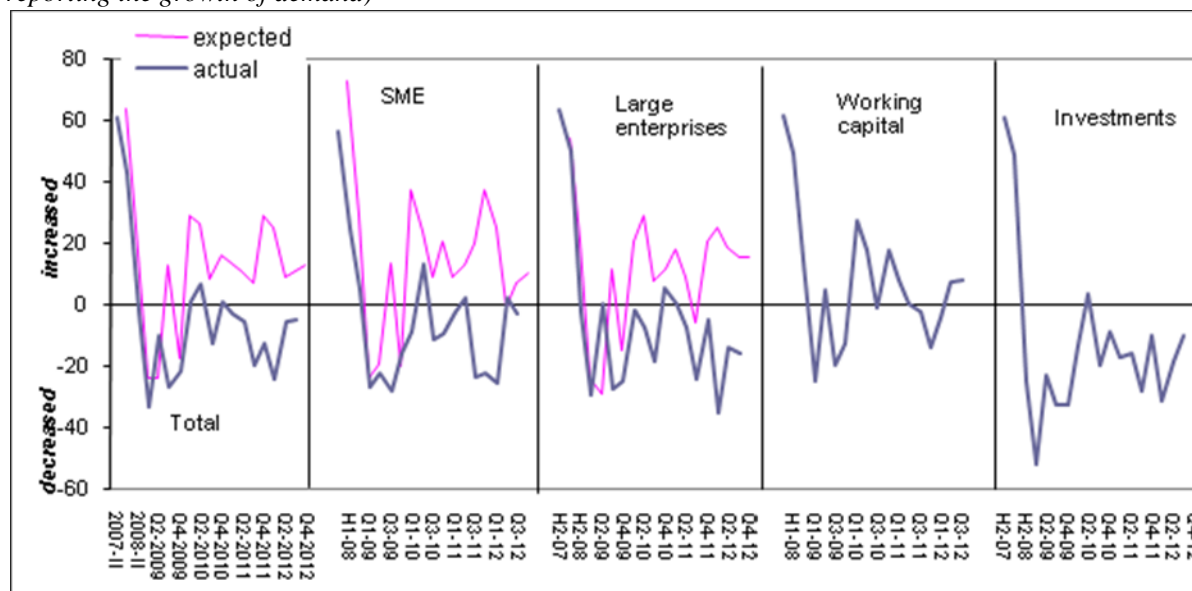
Source: Bank of Albania.

Note3. The positive balance indicates the easing of lending standards, while the negative balance indicates the tightening of lending standards.

Demand for loans. Banks continued to assess business demand for loan negatively in 2012 Q3, although at lower rates compared to the previous survey. The net percentage of banks reporting lower demand for loans is 4.9%, from 5.5% in the previous quarter. According to banks experts' opinion, the demand for loans decreased at higher rates for corporations compared to *small and medium-sized enterprises*. Also, by purpose of use, demand for working capital loans is assessed upward, while for

investments downward. According to 2012 Q2 survey results, banks' expectations for the increase of loan demand were positive.

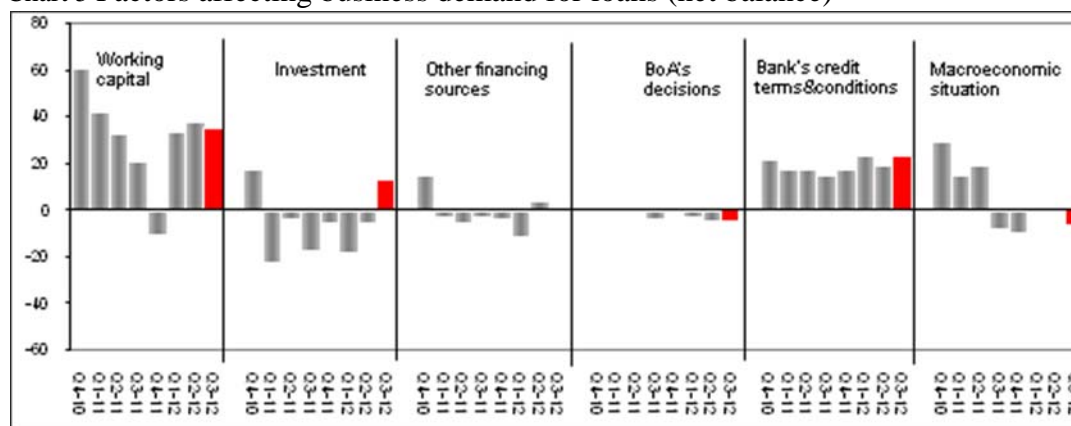
Chart 4 Business demand for loans by size of enterprise and purpose of loan use (net balance, net percentage of banks reporting the growth of demand)



Source: Bank of Albania.

The need for working capital financing and lending conditions applied from banks contributed positively to the demand for loans in the third quarter of 2012. Their net balances stood at about 34.8 % and 4.2%, respectively. The main factor providing negative contribution to demand growth, in 2012 Q3, is the current macroeconomic situation.

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



Source: Bank of Albania.

Note4. 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 in total to ease in the fourth quarter of 2012. The net percentage of banks expecting eased lending standards pointed at 2%. Standards are expected to improve only for the loan approved for the financing of working capital, for

small and medium-sized enterprises and corporates. Banks do not expect any change of standards applied to the loan for investment purposes. Banks expect the demand for business loans in the fourth quarter of 2012 to be mainly positive and higher than that in the previous survey.

Household Loans

The lending **standards** applied to households remained unchanged in 2012 Q3, compared to 2012 Q1 and Q2. The net percentage of banks reporting tightened lending standards during the quarter under review was 0%. The lending standards remained unchanged both for mortgage and consumer loans.

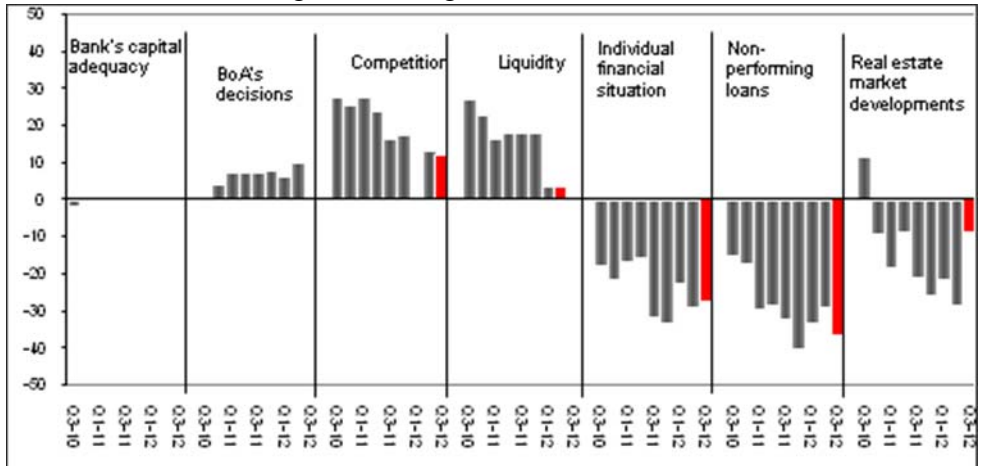
Chart 6 Changes in lending standards for household loans, for house purchase and consumption (*net balance, net percentage of banks easing the lending standards*)



Source: Bank of Albania.

Non-performing loans, households' financial situation and developments in the *real estate market* remain the contributing factors to the tightening of lending standards for household loans, during the third quarter of 2012. The two last factors lowered their contribution to the tightening of lending standards compared to the second quarter of 2012. On the other hand, *competition* contributed to the easing of lending standards for household loans.

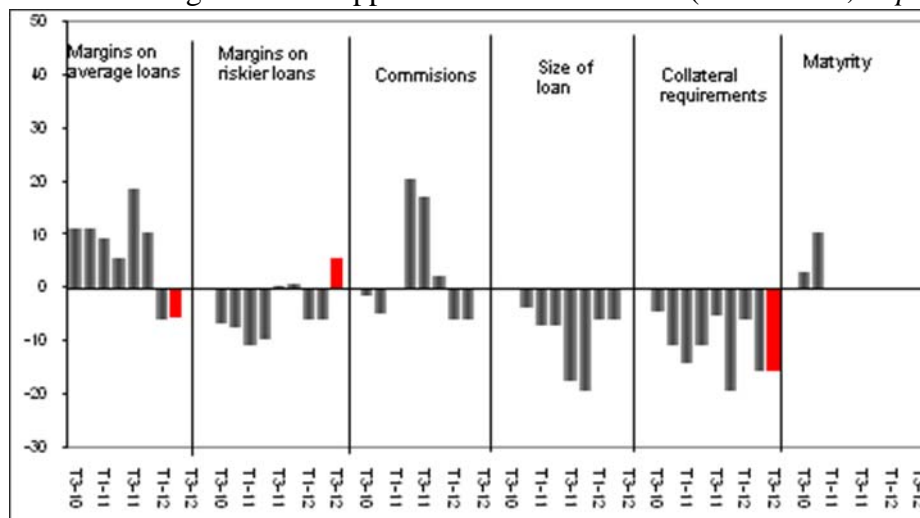
Chart 7 Factors affecting the lending standards for household loans (*net balance*)



Source: Bank of Albania.

Developments in **terms and conditions** applied to loans for households, overall, are in line with the policy implemented by banks to maintain unchanged the loan standards for households. The narrowed *margin for riskier loan* has acted on the easing side. On the other hand, the expanded *average margin* and the increased demand for collateral as a ratio to loan amount acted on the tightening side. The other terms and conditions remained unchanged.

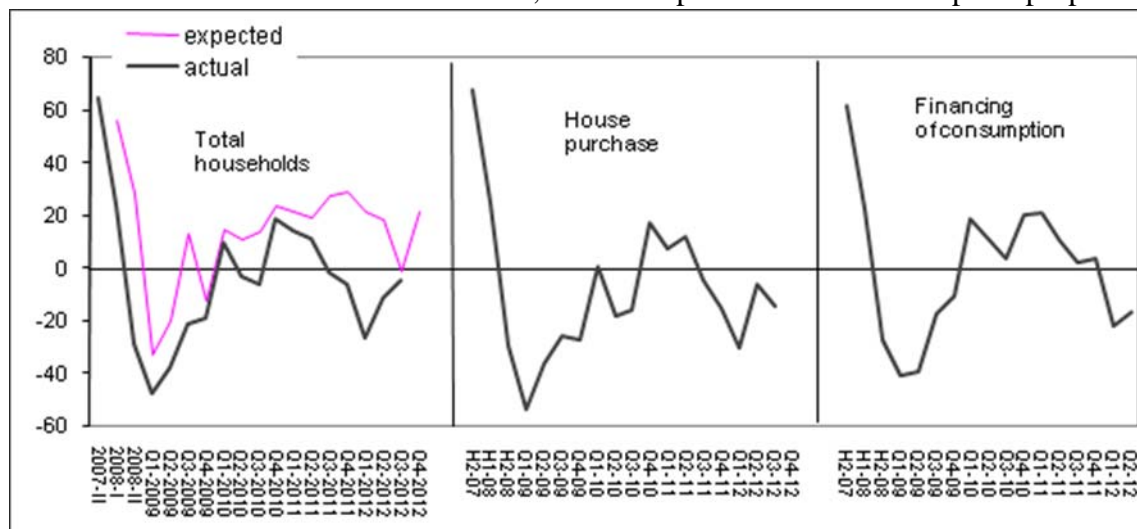
Chart 8 Lending standards applied to household loans (*net balance, in percent*)



Source: Bank of Albania

Demand for loans. Net household demand for loans continued to be negative in 2012 Q3, but less so compared to the previous quarter. The net percentage of banks reporting lower household demand is 4.0% in the quarter under review, from 11.3% in the previous quarter. The fall in the total demand is triggered by the downward demand for *house purchase* (the respective balance deteriorated by 7.9 percentage points). The demand for *consumption* financing grew in the third quarter of 2012.

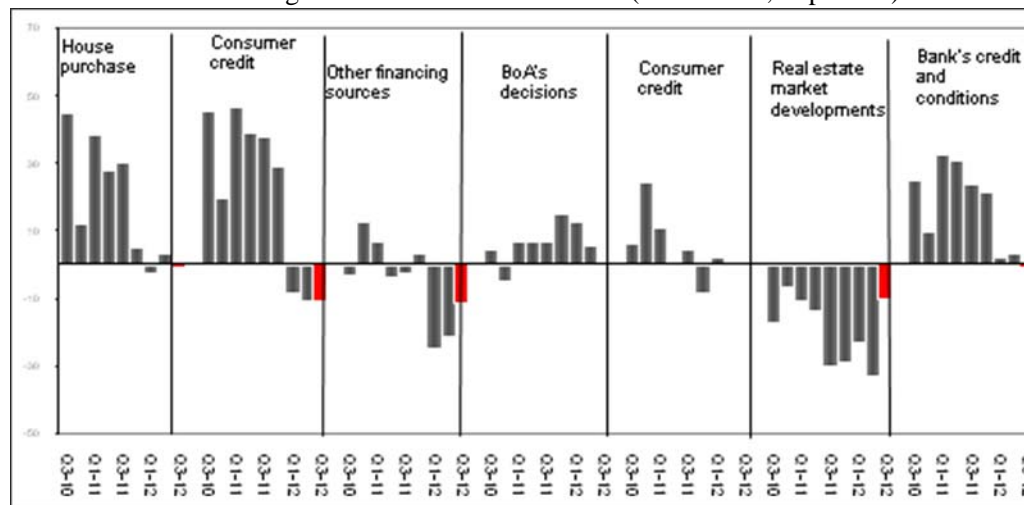
Chart 9 Total household demand for loans, for house purchase and consumption purposes (*net balance*)



Source: Bank of Albania

According to banks' opinions, the **factors** explaining the decrease of loan demand include the use of *alternative financing sources*, *developments in real estate market* and the need of households for *consumption financing*.

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



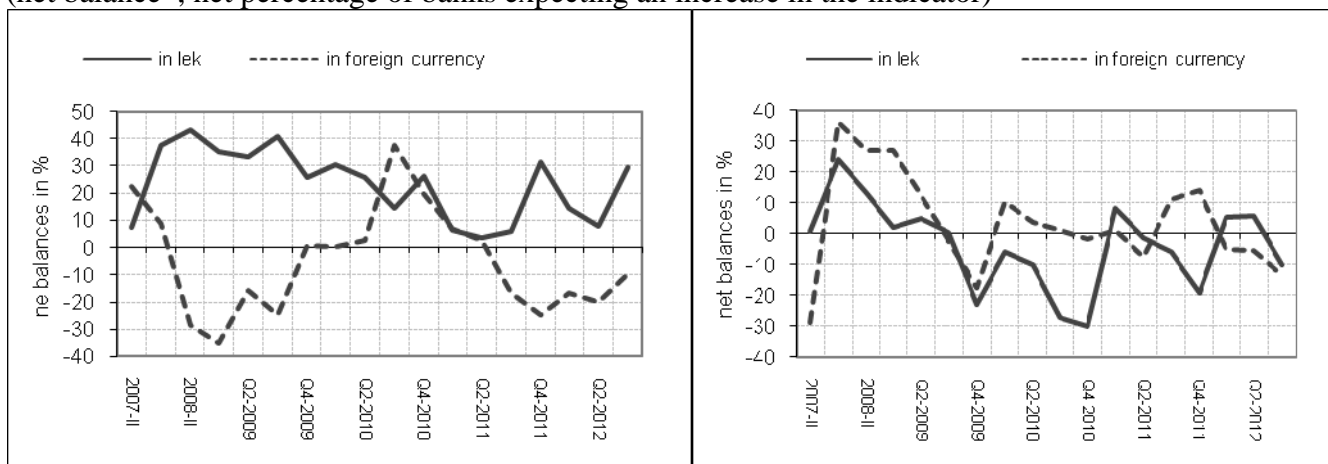
Source: Bank of Albania.

Expectations. Banks' expectations signal the possible easing of lending standards for household loans in the fourth quarter of 2012. They are expected to ease both for mortgage and consumer loans. Banks expect household demand to increase during 2012 Q4.

Lending by currency

Banks experts expect lending in lek to grow and lending in foreign currency to fall during the fourth quarter of 2012. These trends continue since the third quarter of 2011. Interest rates on both lek and foreign currency-denominated loans are expected to decrease.

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 responding 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 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
Change in banks' lending standards:						
- Current quarter	-6.9	-10.0	-16.0	-6.16	-6.2	-6.25
- Next quarter	-1.2	-10.5	-27.7	0.0	0.0	2
Factors affecting the lending standards:						
- Bank's capital adequacy	-3.1	-4.4	-13.5	-15.4	-21.6	-20.5
- Bank of Albania's decisions	0.0	3.2	0.2	0.0	2.1	2.0
- Competition in the banking system	24.4	20.0	-9.8	9.4	-4.0	6.1
- Current or expected liquidity level	13.2	5.5	-16.0	8.3	1.0	3.6
- Business sector-related concern	-36.8	-39.3	-55.0	17.8	-58.3	-58.4
- Current or expected macroeconomic situation	-15.5	-44.4	-47.2	-30.9	-33.1	-28.5
- Non-performing loans	-39.9	-54.5	-62.0	-14.9	-49.6	-36.2
Change in banks' lending standards:						
- Average margin	19.8	13.6	4.8	-11.5	-17.8	-21.2
- Margin for risk-rated loans	0.0	-12.2	-12.1	-13.7	-11.1	-16.8
- Commissions	6.1	7.6	-8.7	-24.4	-17.8	-23.2
- Loan amount	4.5	-9.6	-6.9	6.6	-2.1	-6.2
- Collateral requirement as a ratio of loan amount	-27.5	-12.4	-137.7	-21.6	-27.7	-16.6
- Maximum loan maturity	1.5	-5.0	-7.1	-18.7	-18.7	-15.8
Change in business demand for loans:						
- SMEs, previous quarter	2.3	-23.5	-21.8	-25.2	2.6	-2.7
- SMEs, next quarter	20.0	37.4	25.1	-0.4	7.4	10.3
- Large enterprises, previous quarter	-7.2	-23.8	-4.8	-34.8	-14.0	-15.3
- Large enterprises, next quarter	-5.5	21.0	25.1	18.6	15.5	
Factors triggering the change in household demand for loans:						
- Need to finance inventories	33.0	20.5	-10.4	33.4	37.8	34.7
- Need to finance fixed investment	-3.3	-17.2	-5.6	-17.9	-5.4	13.0
- Use of alternative financial resources	-5.6	-2.6	-3.3	-11.8	4.2	1.0
- Bank of Albania's monetary policy decisions	1.0	-3.5	-1.1	-3.0	-5	-4.7
- Lending terms & conditions applied by your bank	17.3	14.9	17.3	23.3	19	23.2
- Current or expected macroeconomic situation	19.5	-8.2	-9.5	-1.3	-1.4	-7.0

Annex 2 Household 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 the response “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 in order to acquire values within the interval of +/- 100.

Households	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
Change in banks' lending standards:						
- Previous quarter	16.2	-7.7	0.0	-9.6	0.0	0.0
- Next quarter	6.2	-4.0	-2.4	0.0	9.6	9.3
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	7.8	6.1	9.8	0.0
- Competition in the banking system	23.9	16.2	17.7	-0.2	13.1	12.1
- Current or expected liquidity level	18.1	18.1	17.9	3.7	3.3	0.0
- Households' financial situation	-15.9	-31.6	-33.4	-22.8	-29.1	-27.8
- Non-performing loans	-28.4	-32.1	-40.0	-33.0	-29.1	-37.0
- Developments in the housing market	-8.8	-20.9	-26.0	-21.4	-28.2	-9.2
Change in banks' lending standards:						
- Average margin	5.9	18.9	10.9	-5.9	-5.9	0.0
- Margin for risk-rated loans	-9.5	0.9	1.0	-5.9	-5.9	5.8
- Commissions	20.7	17.7	2.5	-5.9	-5.9	0.0
- Loan amount	-7.2	-17.6	-19.2	-6.1	-6.1	0.0
- Collateral requirement as a ratio of loan amount	-10.8	-5.3	-19.2	-6.1	-15.7	-15.7
- Maximum loan maturity	0.0	0.0	0.0	0.0	0.0	0.0
- Debt-to-income ratio	-7.2	-19.0	-15.7	-12.2	-15.9	0.0
Change in household demand for loans:						
- Mortgage loans	11.8	-4.1	-15.2	-30.0	-6.1	-14.0
- Consumer loans	10.7	2.1	4.0	-21.6	-16.6	6.0
Factors triggering the change in household demand for loans:						
- Households' needs to finance the house purchase	28.3	30.3	5.0	-2.4	3.5	-1.0
- Households' needs to finance consumption	39.2	38.1	29.1	-8.3	-10.5	-10.8
- Use of alternative financial resources	-3.8	-2.1	3.3	-24.5	-21.2	-11.5
- Bank of Albania's monetary policy decisions	7.2	7.2	15.2	13.1	6.1	0.0
- Consumer confidence	0.0	4.4	-8.0	2.6	0.0	0.0
- Developments in the housing market	-13.4	-29.9	-28.4	-22.9	-32.5	-10.2
- Lending terms & conditions applied by your bank	30.7	23.7	21.8	2.4	3.5	-0.6