

BANK OF ALBANIA  
Monetary Policy Department



Bank Lending Survey Results for the fourth quarter 2012  
January 2013<sup>1</sup>

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According to the bank lending survey results, lending **standards** applied to business loans continued to tighten. They however remained unchanged on loans granted to households during 2012 Q4. Lending standards tightened on loans granted to *small and medium sized-enterprises* and to *large corporations* as well. By lending purposes, standards applied on loans granted for *financing of working capital and investments* were tightened. Lending standards applied on loan granted for *house purchase and consumption financing* remained unchanged since 2012 Q1.

*Specific business sector-related concerns, non-performing loans situation and the overall macroeconomic setting* at home were the main **factors** contributing to the tightening of business lending standards, during 2012 Q4. The *non-performing loans situation, individuals' financial situation and developments in real estate market* contributed to standards tightening applied to loan granted to households.

The **terms** banks implemented the tightening standards policy for loans granted to businesses are the increase of *collateral demand* as a ratio to loan amount, enlargement of *average and risky loans margin*. Tightening policy for households is implemented through the decrease of *granted loan amount* and increase of *collateral demand*.

Credit **demand** from businesses has been increased considerably in 2012 Q4, particularly being affected by the credit demand of *small and medium-sized enterprises*. Net demand for credit from households continued to be negative during this quarter, mainly affected by the fall in the demand for *house purchase* loan.

Lending standards applied to businesses are **expected** to tighten further, in terms of purpose of use and businesses size in 2013 Q1. Lending standards applied to households are expected to ease as for house purchase and consumption financing. Businesses demand for loan is expected to decrease somewhat, whereas households demand to slightly increase during 2013 Q1.

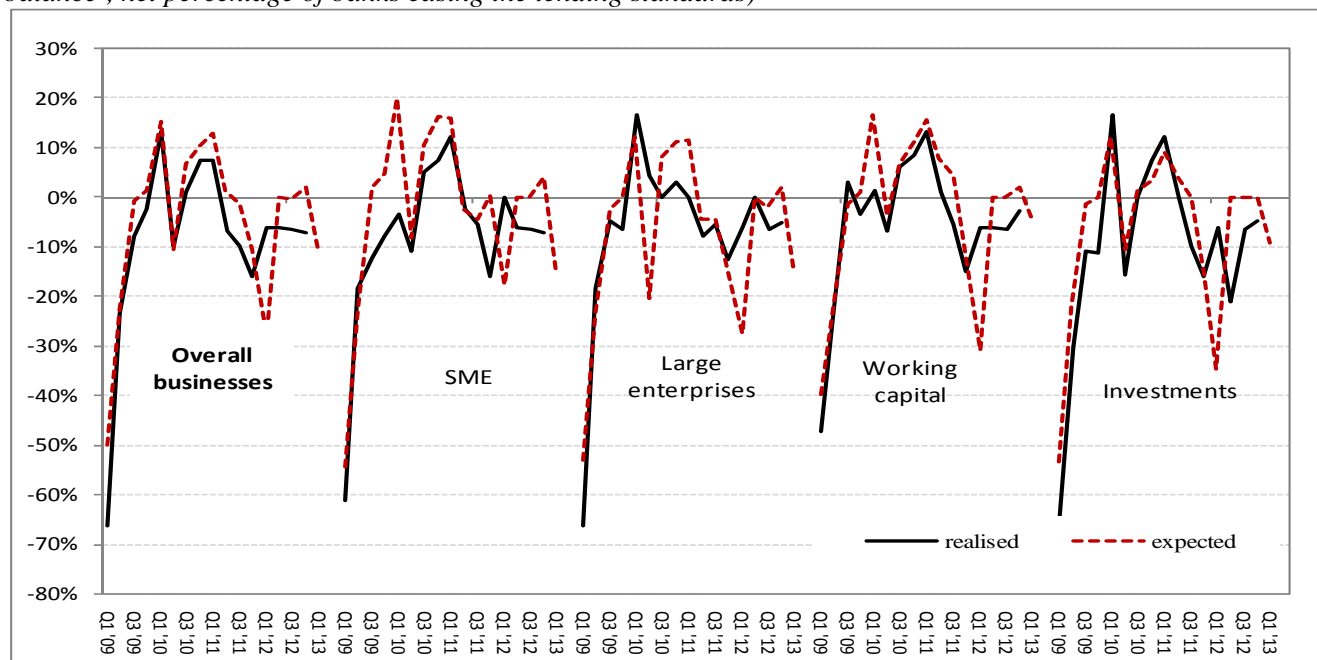
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<sup>1</sup> The survey conducted in December 2012 covers the development in bank lending during the fourth quarter of 2012 and banks' expectations for lending in the first quarter 2013.

## Business Loans

Lending standards applied to businesses continued to tighten during 2012 Q4. Net balance<sup>2</sup> of banks' responses reporting the tightening of standards stood at -7.2%, upward by about 0.9 percentage point, compared to previous quarter. Lending standards applied to businesses in Q4 2012 differs from the more optimistic expectations stated from banks for this period in the previous survey.

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



Source: Bank of Albania.

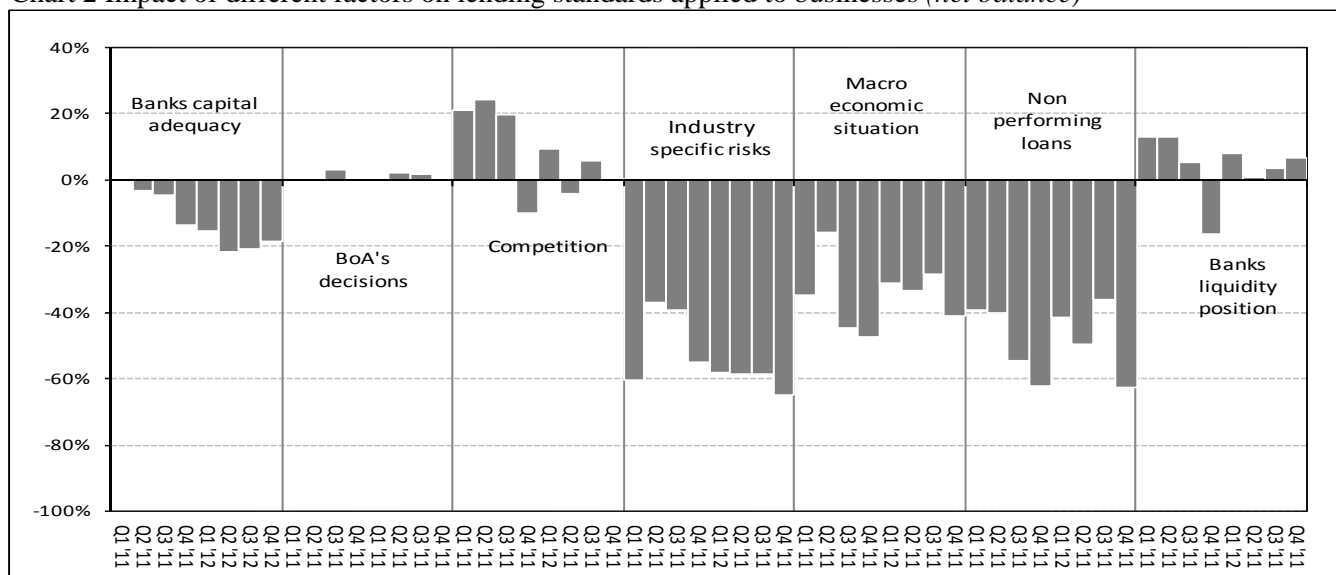
Note 1. The positive balance indicates easing of lending standards, while the negative balance indicates tightening of lending standards.

Lending standards by size of enterprises tightened on loans granted to *small and medium-sized enterprises* as well as to *large corporations*. Respective balances stood at -7.2% and -5.2%. By the purpose of use, according to credit experts, standards tightened for loans granted for *working capital* and *investments financing* purposes (respective balances were -2.7% and -4.7%).

*Specific business sector-related problems, non-performing loans situation* in the banking system and the *macroeconomic setting* in Albania provided the main contribution to the tightening of businesses lending standards during 2012 Q4. *Capital adequacy* provided the same contribution, albeit at a lower degree. On the other hand, *liquidity situation and competition in the banking system* affected the easing of lending standards applied to businesses.

<sup>2</sup> 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 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/households in ALL/foreign currency).

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

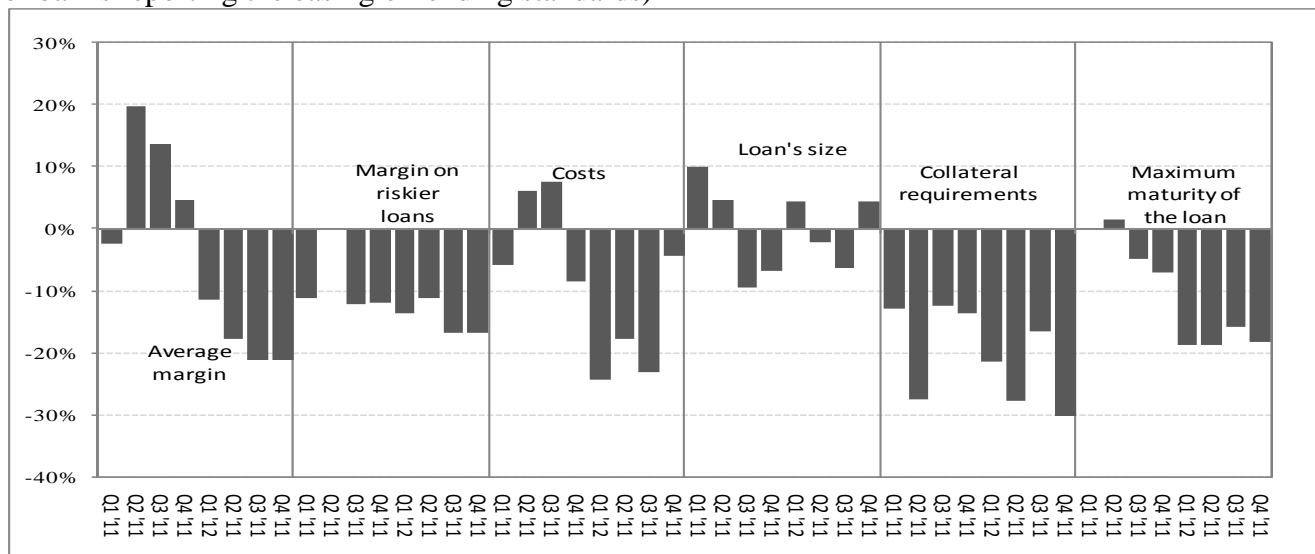


Source: Bank of Albania.

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

The tightening policy applied by banks during 2012 Q4 is mainly implemented through the increase of collateral demand as a ratio to loan amount, widening of average and risky loans margin. The increase of loan amount was the only one term easing slightly the lending standards.

Chart 3 Change in lending terms and conditions applied to business loans (net balance<sup>2</sup>, net percentage of banks reporting the easing of lending standards)

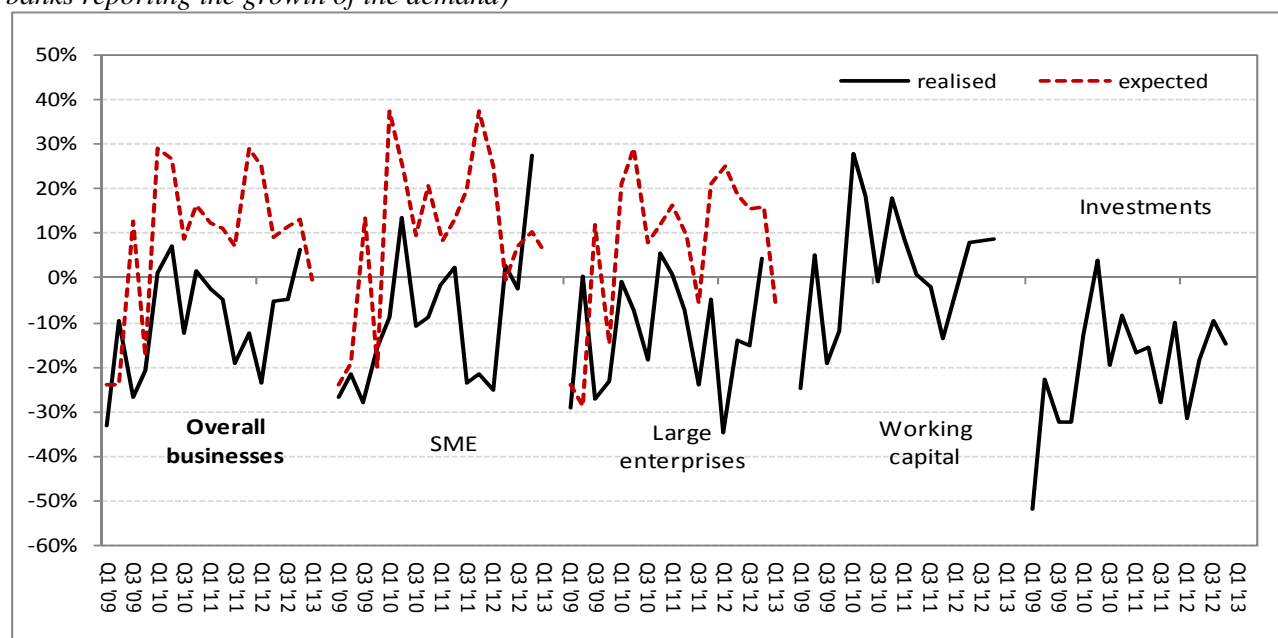


Source: Bank of Albania

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

**Demand for loans.** Banks improved considerably the assessment on business demand for loan in 2012 Q4, compared to 2012 Q3. The net percentage of banks reporting increase of demand for loans was 6.3%, from -4.9% a quarter earlier. This development was in the same line, albeit at a lower degree with the expectations of banks' experts for the loan demand, reported in the previous quarter survey (Chart 4). Loan demand from *small and medium-sized enterprises* increased considerably. Its net balance stood at 27.1%, improving by about 29.8 percentage points, compared to the previous quarter. Also, loan demand from large corporations was assessed positively, at 4.3%, increasing by about 19.6 percentage points from the previous quarter.

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 the demand*)

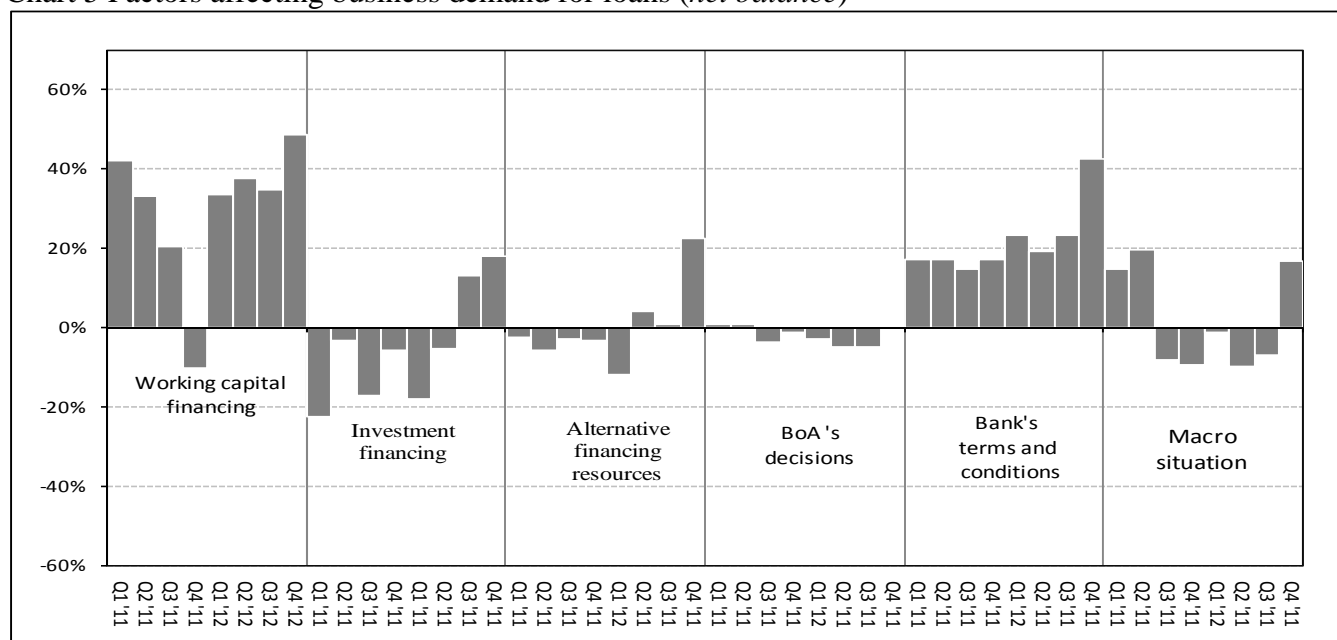


Source: Bank of Albania.

By purpose of use, demand for *fixed investments* financing continued to be negative and downward during 2012 Q4. The demand for *working capital* financing was upward.

Overall, all considered factors provided a positive contribution on total demand for loan in 2012 Q4. *The need for working capital financing and lending conditions* provided the main contribution. Respective balances stood at 48.5% and 42.6%, considerably upward compared to the previous quarter. The need for *fixed investments financing and use of alternative financing sources* provided the same contribution. The last impact considerably increased in 2012 Q4.

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



Source: Bank of Albania

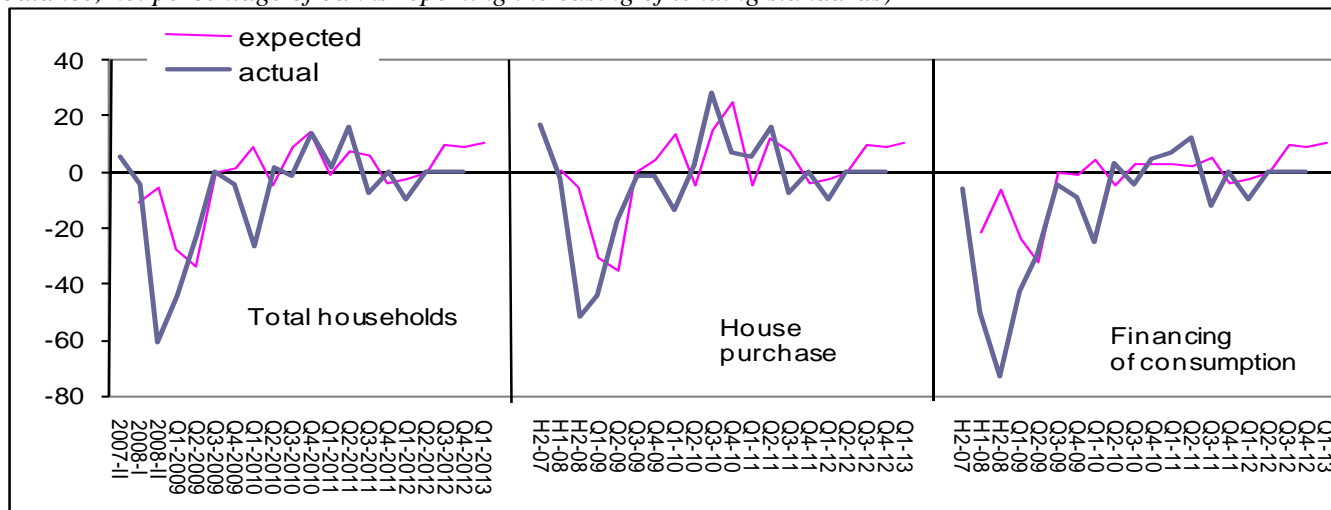
Note 4. The positive balance indicates the growth of demand or that the factor has contributed to the growth of demand. The negative balance indicates the fall of demand or that the factor has contributed to the fall of demand for loans.

**Expectations.** Banks' experts expect the lending standards applied to businesses to tighten in 2013 Q1. The net balance of expectations pointed to -11.0%. Lending standards are expected to tighten on loans granted by business size (SMEs and large corporations) and by purpose of loan use (working capital or fixed investments). Credit experts, in total, expect a fall in loan demand during 2013 Q1. Loan demand, based on business size, is expected to be low from *large corporations*. By purpose of loan use demand is expected to be low for *fixed investments* financing.

## Household loans

The lending standards applied to households remained unchanged in 2012 Q4. The net percentage of banks reporting the easing/tightening of lending standards was 0%. Lending standards applied to households, for *house purchase* and *consumption*, have remained unchanged since 2012 Q1.

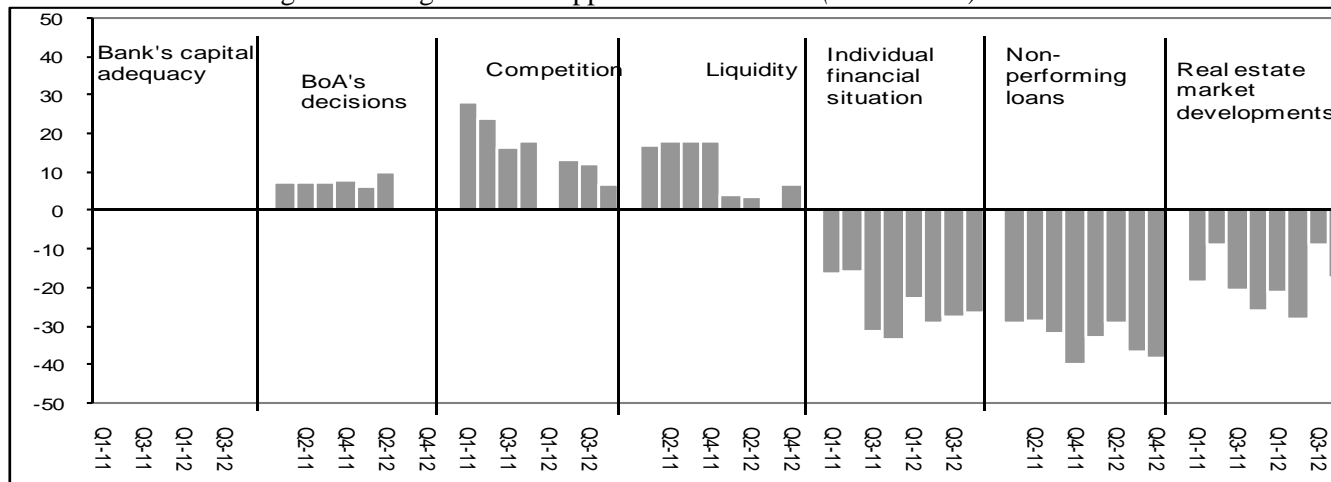
Chart 6 Changes in lending standards applied to total households, for house purchase and consumption (*net balance, net percentage of banks reporting the easing of lending standards*)



Source: Bank of Albania.

*Non-performing loans, households' financial situation* and developments in *real estate market* are the contributing factors to the tightening of lending standards. On the other hand, *competition* and *liquidity* affected banks to implement more eased lending policies.

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

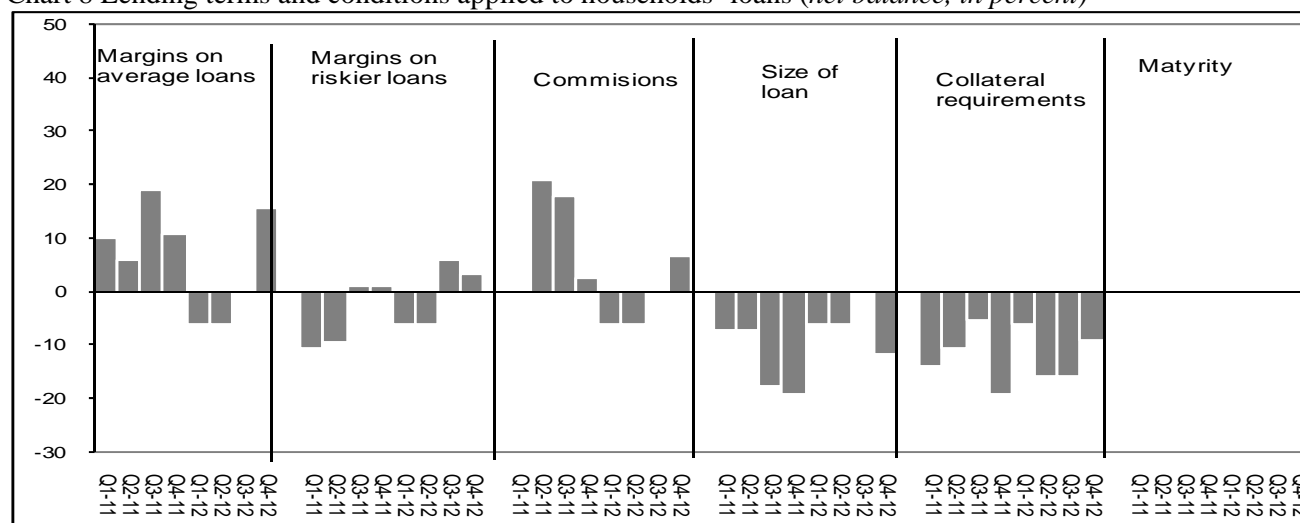


Source: Bank of Albania.

Banks applied more non-monetary terms and conditions to implement a more tightening policy of standards during 2012 Q4. In more concrete terms, banks decreased the *amount* of granted loan and

increased the collateral *demand*. On policy easing, banks report a narrowing of *average and risky loans margin* and a decrease of *commissions*.

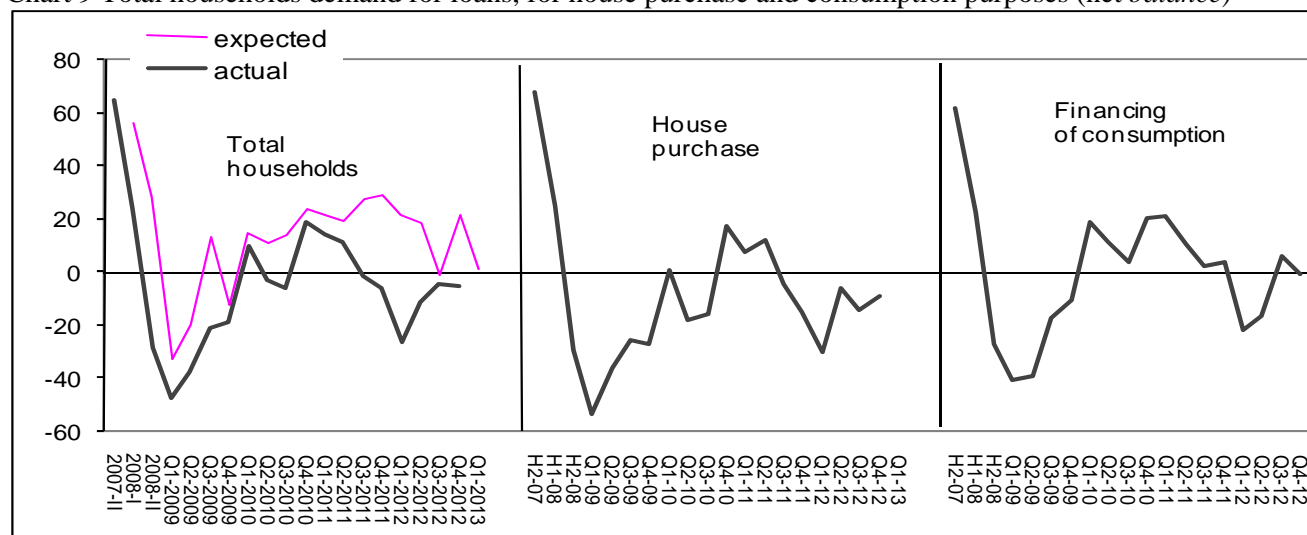
Chart 8 Lending terms and conditions applied to households' loans (*net balance, in percent*)



Source: Bank of Albania

**Demand for loan.** Net household demand for loans continued to be negative in 2012 Q4, recording negative figures in the last five quarters. Net percentage of banks reporting the fall in the demand is 5% in 2012 Q4, almost equal to the rate of previous quarter (4%). The drop in the demand for *house purchase* affected the downward total demand (the respective balance pointed to -6.9 percentage points). The demand for *consumption* financing remained almost unchanged in 2012 Q4.

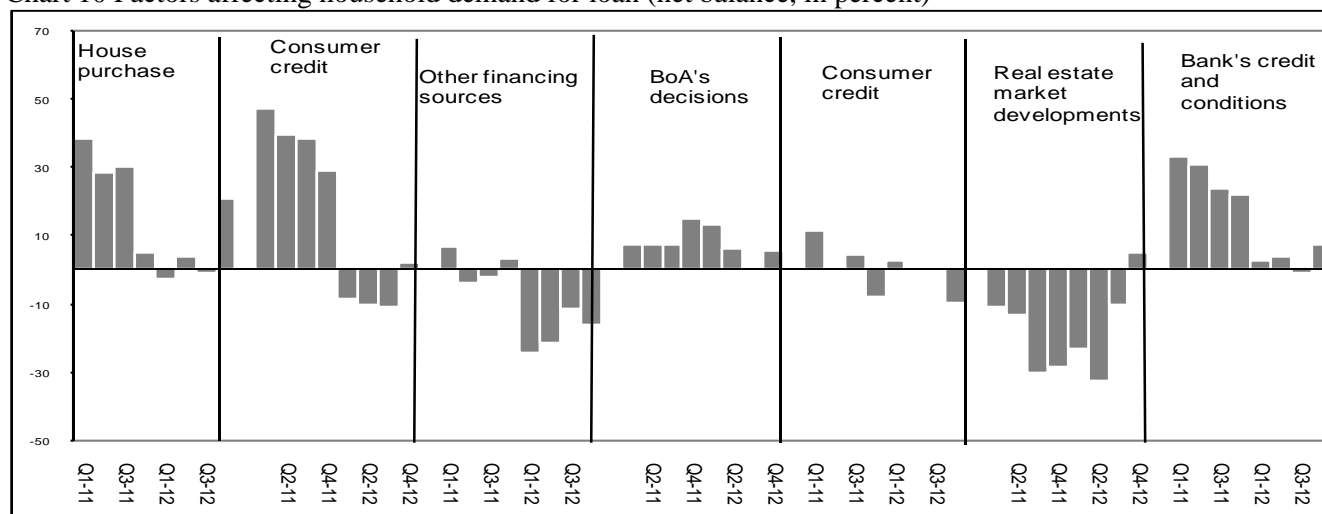
Chart 9 Total households demand for loans, for house purchase and consumption purposes (*net balance*)



Source: Bank of Albania.

According to banks' opinions, the main factor affecting the fall in loan demand from households is the use of *alternative sources*. Also, the deteriorated *consumer confidence* affected the fall in the demand for loan in 2012 Q4. The need for *house financing* affected the increase in loan demand during 2012 Q4.

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



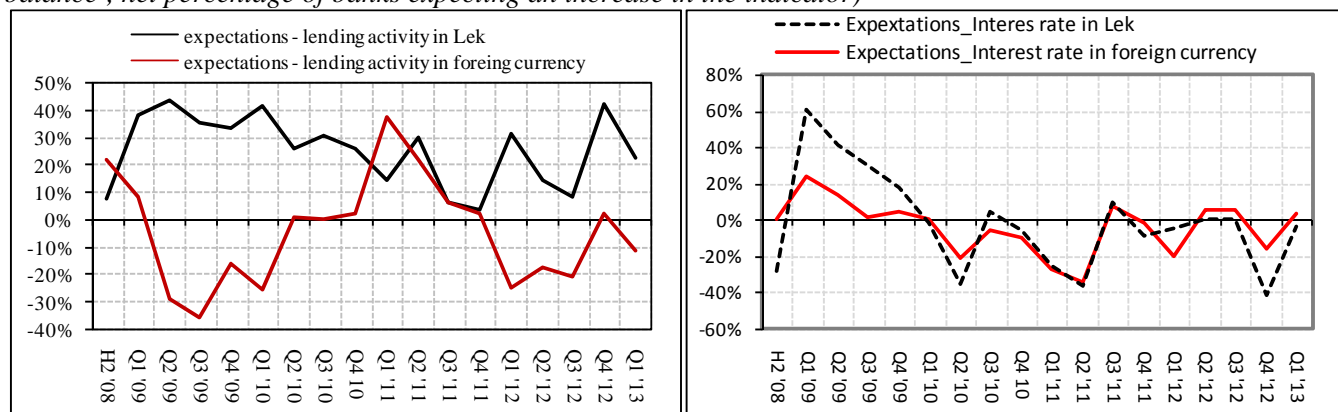
Source: Bank of Albania

**Expectations.** Banks appear more optimistic for the first quarter of 2013. They expect easing of lending standards applied to households, for house purchase loans as well as for consumer loan. Their expectations related to households' demand for 2013 Q1 are more optimistic than its assessment for 2012 Q4, but downward compared to expectations stated in the previous survey.

### Lending by currency

Banks expect an upward lending activity in lek and downward in foreign currency, started since 2012 Q3. They expect an increase in interest rates applied to loans granted in lek, and a fall in interest rates applied to loans granted in foreign currency in 2013 Q1.

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 interest rate. The negative balance shows the decrease in lending or the decrease in the interest rate.



## Annex I. 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 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	2012 Q1	2012 Q2	2012 Q3	2012 Q4
Change in banks' lending standards				
- Current quarter	-6.2%	-6.2%	-6.3%	-2.5%
- Next quarter	0.0%	-0.5%	2.0%	-11.0%
Factors affecting the lending standards:				
-Bank's capital adequacy	-15.4%	-21.6%	-20.5%	-18.5%
-Bank of Albania's decisions	0.0%	2.1%	2.0%	0.0%
-Competition in the banking system	9.4%	-4.0%	6.1%	0.3%
-Current or expected liquidity level	8.3%	1.0%	3.6%	6.6%
-Business sector-related concern	-58.3%	-58.3%	-58.4%	-64.8%
-Current or expected macroeconomic situation	-30.9%	-33.1%	-28.5%	-40.8%
-Non-performing loans	-41.2%	-49.6%	-36.2%	-62.8%
Change in banks' lending standards:				
-Average margin	-11.5%	-17.8%	-21.2%	-21.3%
-Margin of risky loans	-13.7%	-11.1%	-16.8%	-16.8%
-Commissions	-24.4%	-17.8%	-23.2%	-4.3%
-Loan amount	6.6%	-2.1%	-6.3%	4.3%
-Collateral requirement as a ratio to loan amount	-21.6%	-27.7%	-16.6%	-30.3%
-Maximum loan maturity	-18.7%	-18.7%	-15.8%	-18.3%
Change in business demand for loans:				
-SMEs, previous quarter	-25.2%	2.6%	-2.7%	27.1%
-SMEs, next quarter	-0.4%	7.4%	10.4%	6.2%
-Large enterprises, previous quarter	-34.8%	-14.0%	-15.3%	4.3%
-Large enterprises, next quarter	18.6%	15.5%	15.8%	-6.9%
Factors triggering the change in household demand for loans				
-Need to finance inventories	33.4%	37.8%	34.8%	48.5%
-Need to finance fixed investment	-17.9%	-5.4%	13.1%	18.1%
-Use of alternative financial resources	-11.8%	4.2%	1.0%	22.3%
-Bank of Albania's monetary policy decisions	-3.0%	-5.0%	-4.7%	0.0%
-Lending terms & conditions applied by your bank	23.3%	19.1%	23.3%	42.6%
-Current or expected macroeconomic situation	-1.3%	-9.8%	-7.1%	16.7%

## Annex2. Household Loans

*In aggregating the results, each opinion is weighted based on the response. For example, banks providing the response 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	2012 Q1	2012 Q2	2012 Q3	2012 Q4
Change in banks' lending standards:				
Previous quarter	-9.6%	0.0%	0.0%	0.0%
- Next quarter	0.0%	9.6%	9.4%	10.2%
Factors affecting the lending standards:				
-Bank's capital adequacy	0.0%	0.0%	0.0%	0.0%
-Bank of Albania's decisions	6.1%	9.8%	0.0%	0.0%
-Competition in the banking system	-0.2%	13.1%	12.1%	6.7%
-Current or expected liquidity level	3.7%	3.3%	0.0%	6.7%
-Households' financial	-22.8%	-29.1%	-27.9%	-26.5%
-Non-performing loans	-33.0%	-29.1%	-37.0%	-38.2%
-Developments in real estate market	-21.4%	-28.2%	-9.2%	-17.5%
Change in banks' lending standards				
-Average margin	-5.9%	-5.9%	0.0%	15.5%
-Margin for risky loans	-5.9%	-5.9%	5.8%	3.2%
-Commissions	-5.9%	-5.9%	0.0%	6.6%
-Loan amount	-6.1%	-6.1%	0.0%	-11.6%
-Collateral requirement as a ratio to loan amount	-6.1%	-15.7%	-15.7%	-9.1%
-Maximum loan maturity	-3.0%	0.0%	0.0%	0.0%
-Debt-to-income ratio	-12.2%	-15.9%	0.0%	0.0%
Change in household demand for loans				
-Mortgage loans	-30.0%	-6.1%	-14.0%	-9.0%
-Consumer loans	-21.6%	-16.6%	6.0%	-0.9%
Factors triggering the change in household demand for loans:				
-Households' need to finance house purchase	-2.4%	3.5%	-2.4%	-1.0%
-Households need to finance consumption	-8.3%	-10.5%	-8.3%	-10.7%
-Use of alternative financial resources	-24.5%	-21.2%	-24.5%	-11.6%
-Bank of Albania's monetary decisions	6.1%	6.1%	6.1%	0.0%
-Consumer's confidence	-4.4%	0.0%	-4.4%	0.0%
-Developments in real estate market	-22.9%	-32.5%	-22.9%	-10.2%
-lending terms & conditions applied by your bank	2.4%	3.5%	2.4%	-0.6%