

BANK OF ALBANIA
Monetary Policy Department



Lending Activity Survey for 2013 Q1

April 2013¹

Lending activity survey shows that credit **standards** applied to loans to households eased slightly, while they continued to tighten on loans to businesses, in 2013 Q1. Credit standards tightened on loans to *small and medium-sized enterprises* and to *large enterprises*. Banks report a tightening of credit standards applied loans granted for *working capital and investments financing*. By purpose of loan use, lending standards eased on loans for *house purchase* and tightened on *consumer credit*.

Specific business sector-related problems, non-performing loans situation in the banking system and the *overall macroeconomic setting* in Albania were the **factors** providing the main contribution to the tightening of lending standards applied to businesses. On the other hand, like in the previous quarters, the *liquidity situation and competition in the banking system* contributed to the easing of lending standards applied to businesses loans. *Current or expected liquidity level of banks, competition in the banking system and the Bank of Albania's decisions* are the factors contributing to the easing of lending standards applied to households. *The non-performing loans, developments in real-estate market and individuals' financial situation* continued to contribute to the standards tightening applied to loans to households.

Loan **demand** is assessed downward, both for businesses and households. With regard to businesses, the decline in the demand is reported for small and medium-sized enterprises and for the loan for investment purposes. In terms of households, the demand continued to be downward for the house purchase and consumer loans.

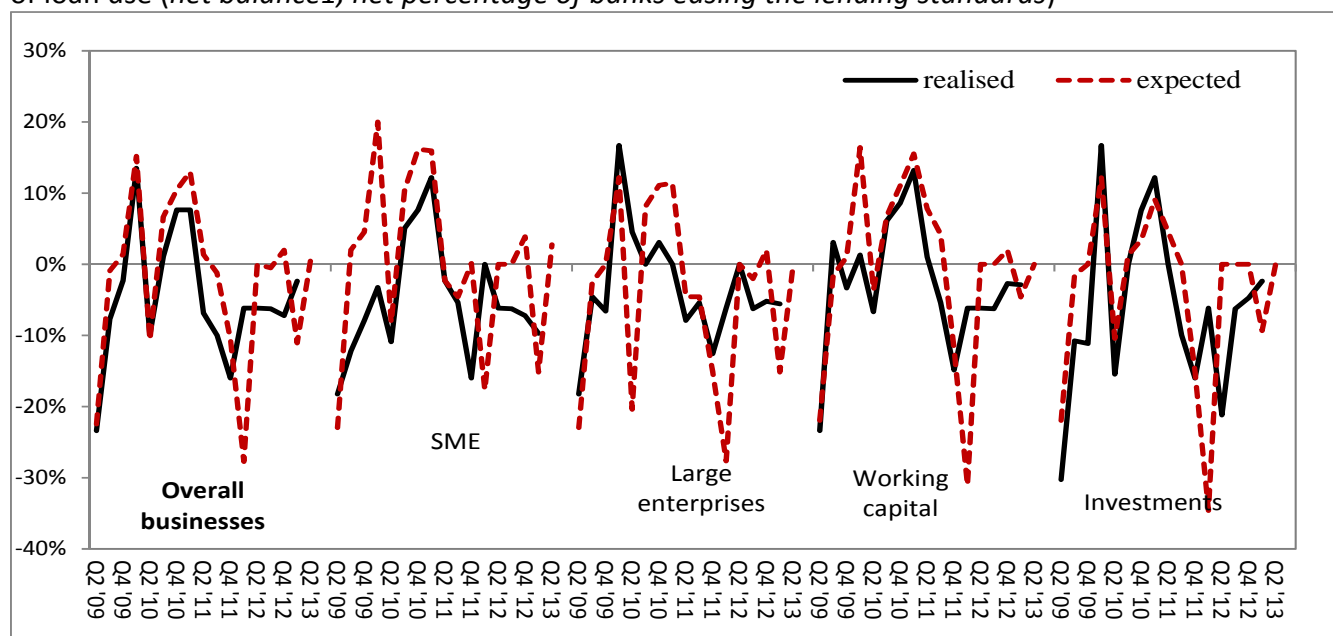
Current and expected macroeconomic setting in Albania and the *use of alternative financing sources* are the **factors** contributing negatively to businesses' demand for loans during 2013 Q1. The *consumers' perception of uncertainty* and the *use of alternative sources* continued to have negative impact on the loan demand level from households.

¹ The survey conducted in March 2013 covers bank lending developments in 2013 Q1 and banks' expectations for the lending activity in 2013 Q2.

Business loans

Credit standards. Lending standards applied to businesses continued to tighten during 2013 Q1, albeit at a slower pace. Net balance² of banks responses reporting tightened standards stood at 2.3% or about 4.9 percentage points lower, compared to the previous quarter. According to banks' opinions, lending standards were tightened at a lower degree compared to the expectations stated in the previous quarter. Lending standards by size of enterprises tightened on loans granted to *small and medium-sized enterprises* as well as to *large enterprises*. Respective balances stood at -9.7% and -5.5% (Chart 1). By purpose of use, standards tightened on loans for *working capital* and *investments financing purposes* (respective balances were -2.9% and -2.3%).

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



Source: Bank of Albania.

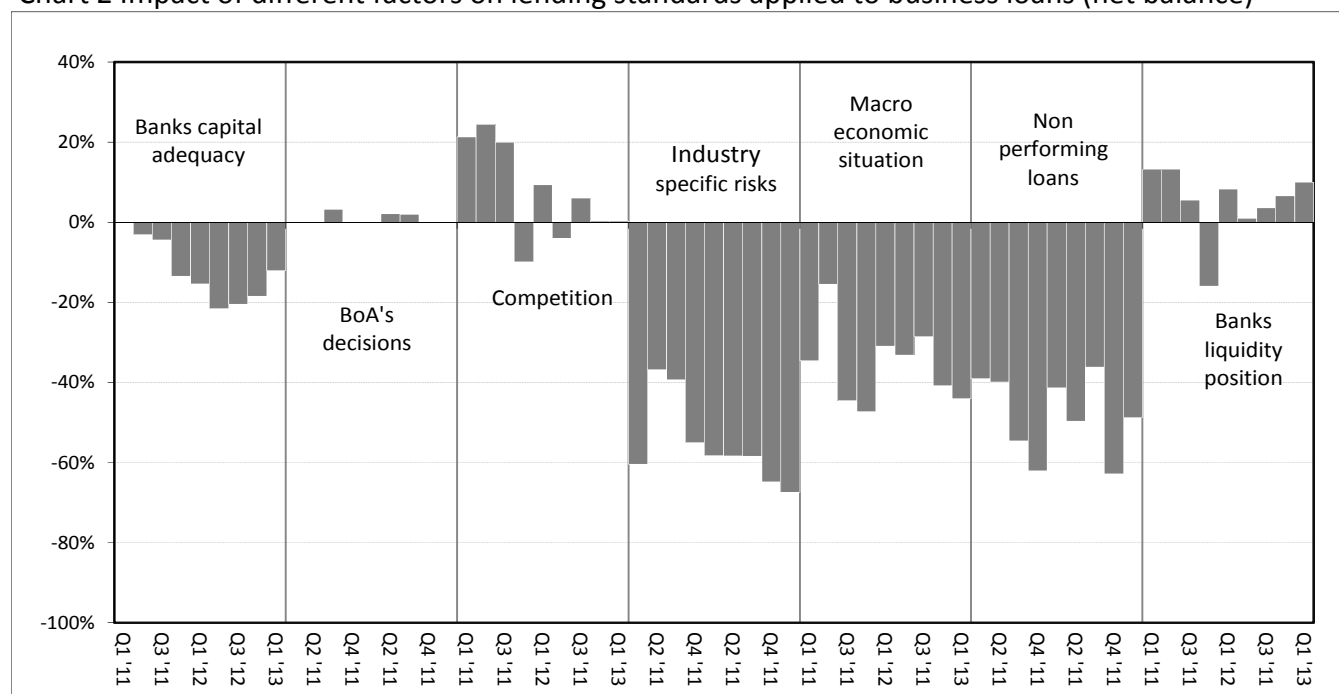
Note 1: The positive balance indicates easing of lending standards, while the negative balance indicates tightening of lending standards.

Credit standards are expected to ease somewhat in 2013 Q2. Net balance of expectations stands at 0.7% (net easing).

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 with the responses of banks 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).

Specific business sector-related problems, the non-performing loans situation in the banking system and the macroeconomic setting in Albania provided the main contribution to the tightening of lending standards to businesses during 2013 Q1. Capital adequacy provided the same contribution, albeit at a lower degree. On the other hand, like in the previous quarters, liquidity situation and competition in the banking system contributed to the easing of lending standards applied to loans to businesses.

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

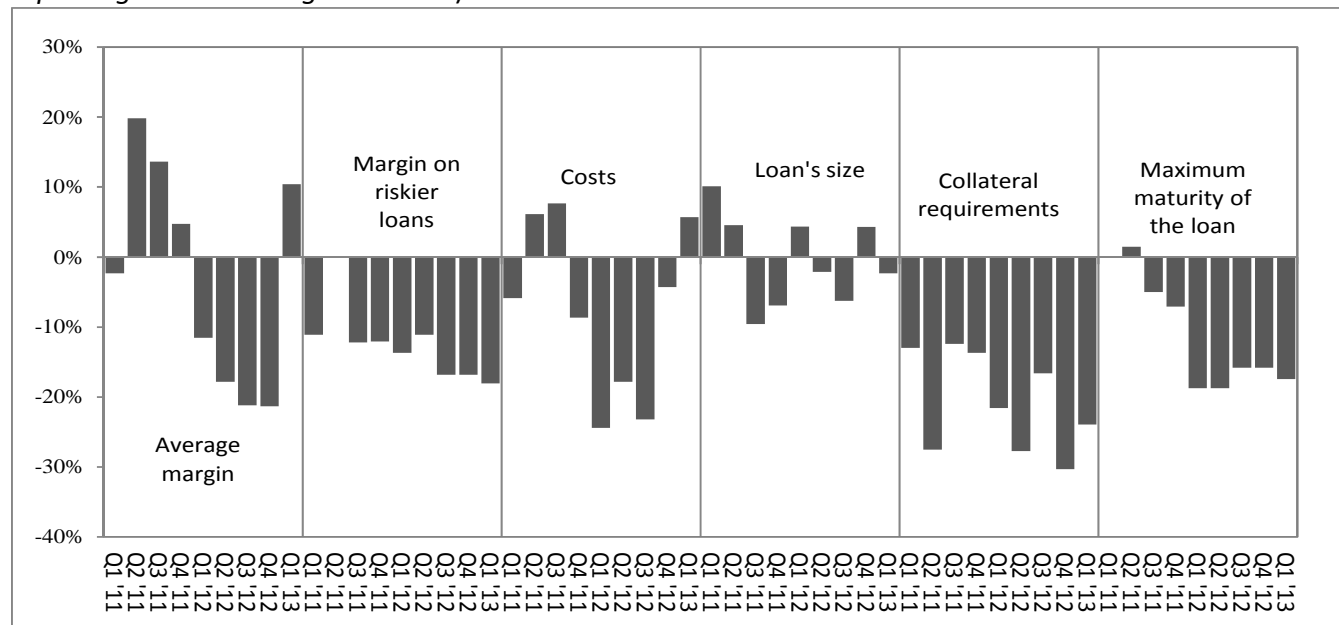


Source: Bank of Albania.

Note 2: The positive balances 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 2013 Q1 is mainly implemented through the increase of collateral requirement as a ratio to loan amount, the widening of margins on riskier loans and decrease of maximum loan maturity. Whereas the narrowing of average margin and decrease of commissions applied in this quarter have somewhat eased the applied lending standards.

Chart 3 Terms and conditions applied to business loans (*net balance², net percentage of banks reporting eased lending standards*)



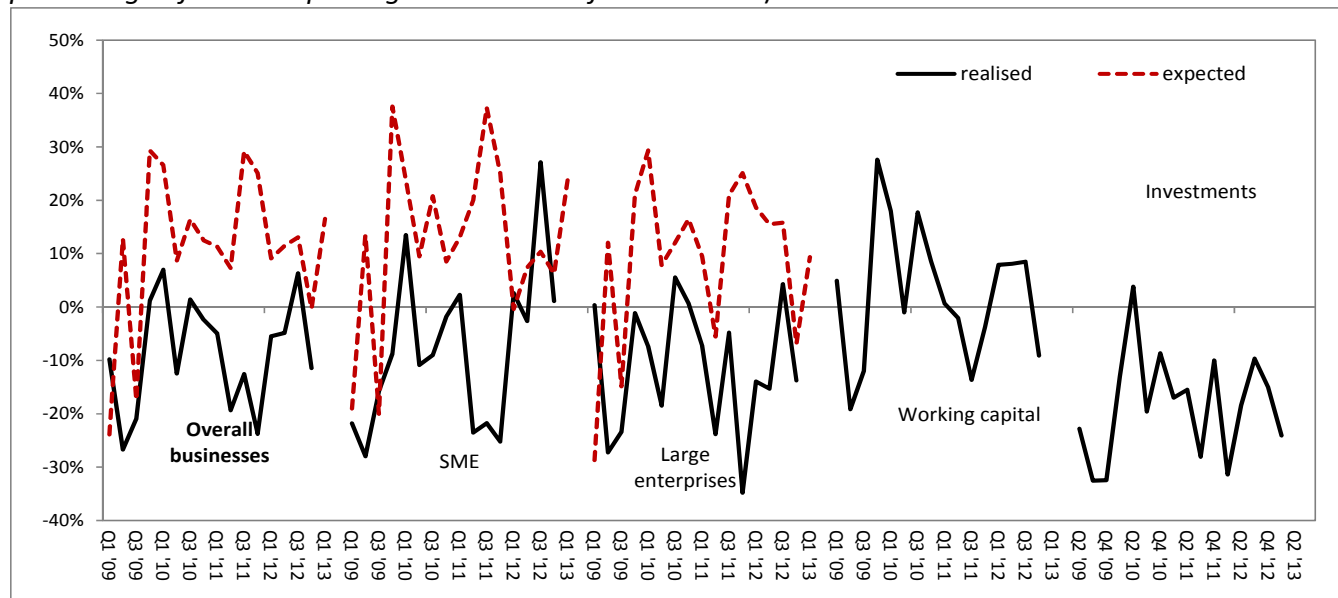
Source: Bank of Albania

Note 2: The positive balance indicates eased lending standards, while the negative balance indicates tightened lending standards.

Demand for loans. Banks' experts worsened considerably the assessment on business' demand for loans in 2013 Q1, compared to end-year 2012. The net percentage of banks reporting a decline in the demand for loans was 11.5%, from -6.3% in the previous quarter. Banks expected a decline in the demand since the last quarter, but at a lower degree than the recorded one (Chart 4). The decline in the demand is reported for small and medium-sized enterprises and for the loan for investment purposes. The latter records a downward trend started since 2010 Q3. Also, the loan demand for working capital financing was assessed downward, albeit at a lower intensity compared to the demand decline for investments loan.

On the other hand, banks' experts expect an increase in the loan demand during 2013 Q2. By business size, the loan demand is expected to be higher for *small and medium-sized enterprises*.

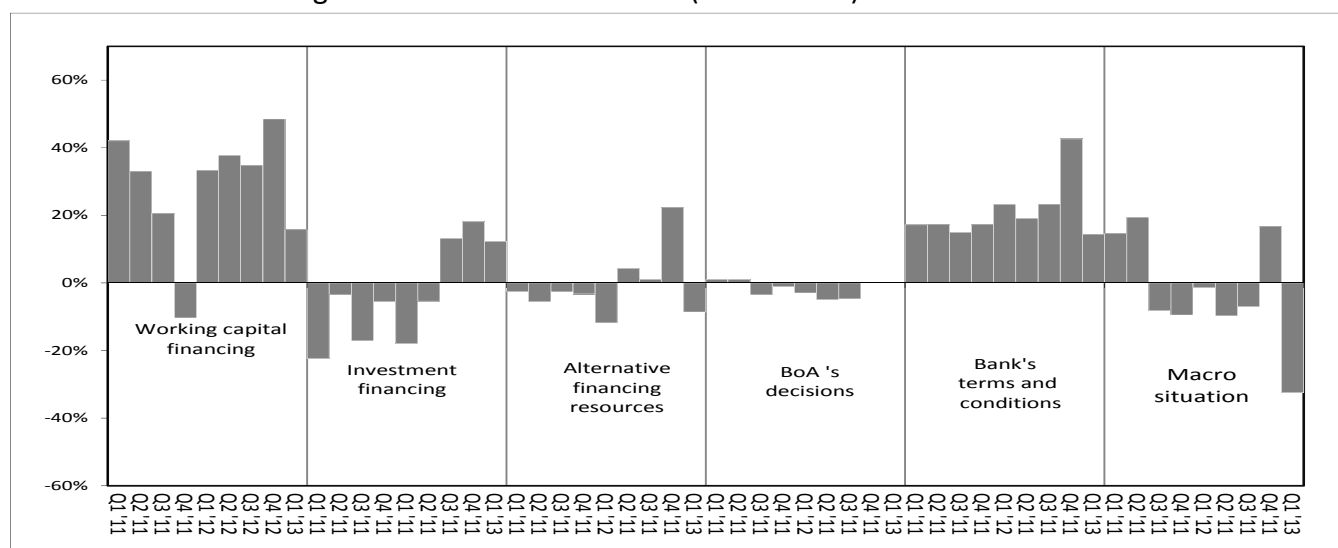
Chart 4 Business demand for loans by size of enterprise and purpose of loan use (*net balance, net percentage of banks reporting the increase of the demand*)



Source: Bank of Albania.

Current and expected macroeconomic setting in Albania and the use of alternative financing sources are the factors that contributed negatively to the demand for loans during 2013 Q1. Although the need for working capital and investments financing continues to provide a positive contribution to the loan demand, they have considerably lowered their positive impact, compared to the end-year 2012.

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



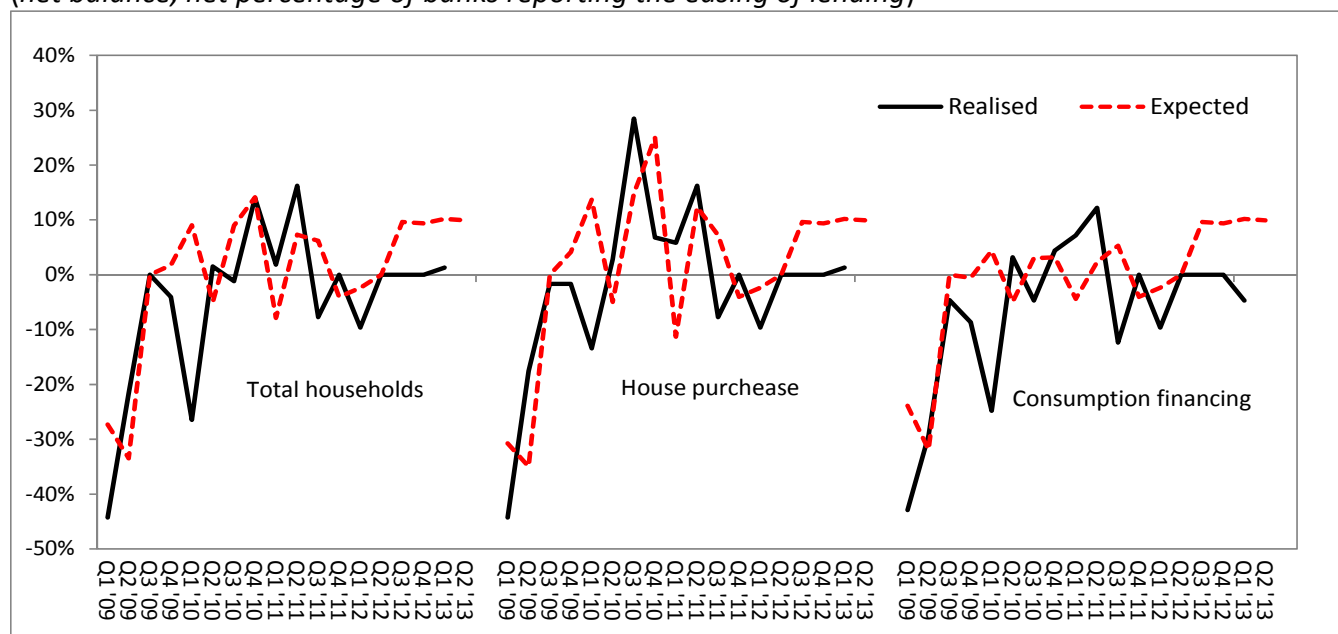
Source: Bank of Albania.

Note 4: The positive balance indicates the increase in the demand or that the factor has contributed to the increase of the demand. The negative balance indicates the decline in the demand or that the factor has contributed to the decline in the demand for loans.

Household loans

Credit standards. The lending standards to households eased slightly during 2013 Q1, after they have remained unchanged for a period of three quarters. Net percentage of banks reporting eased lending standards to households was about 1.3%. By purpose of loan use, standards applied to loan for house purchase were eased. Respective balance stood at 1.3%. On the other hand, standards applied to consumer credit were tightened in 2013 Q1, after remaining unchanged for three consecutive quarters. Respective balance stood at -4.7%. In total, the lending standards applied to households for house purchase and consumption are expected to ease in 2013 Q2.

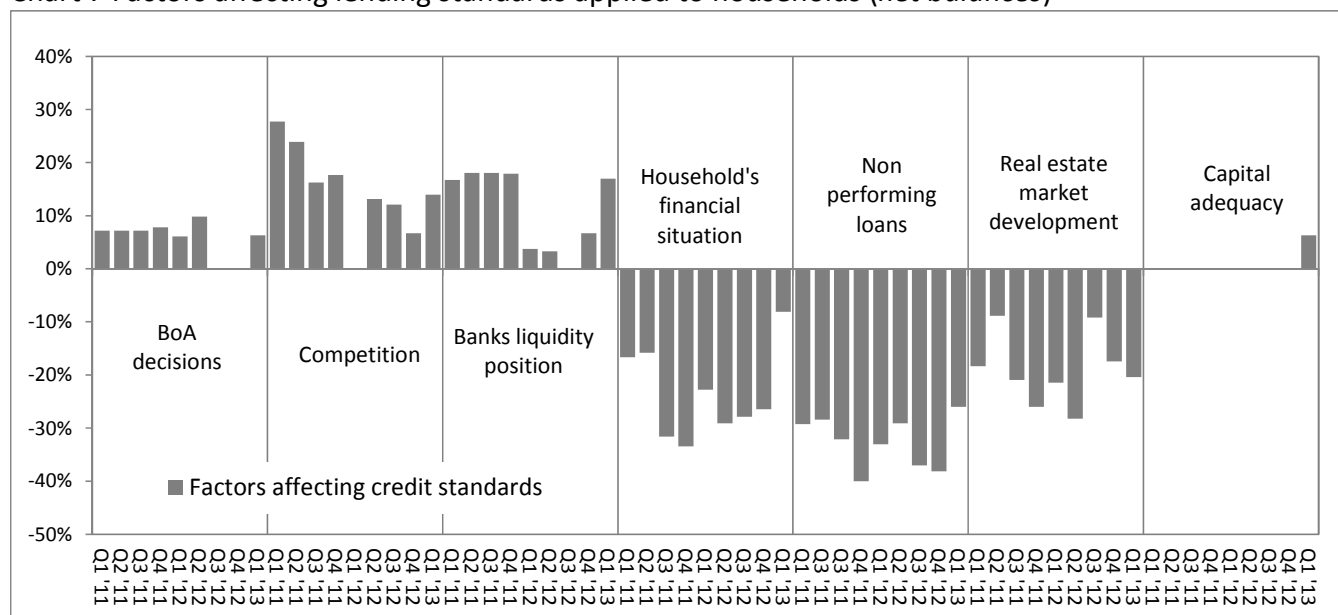
Chart 6 Changes in lending standards applied to total households, for house purchase and consumption (net balance, net percentage of banks reporting the easing of lending)



Source: Bank of Albania.

Current or expected liquidity level of the bank, competition in the banking system and Bank of Albania's decisions are the factors contributing to the easing of lending standards. *Bank capital adequacy provided the same contribution.* For about two years, this factor is assessed to not have contributed to the change in lending standards applied to households. *Non-performing loans, developments in the real estate market and households' financial situation* continued to contribute to the tightening of lending standards.

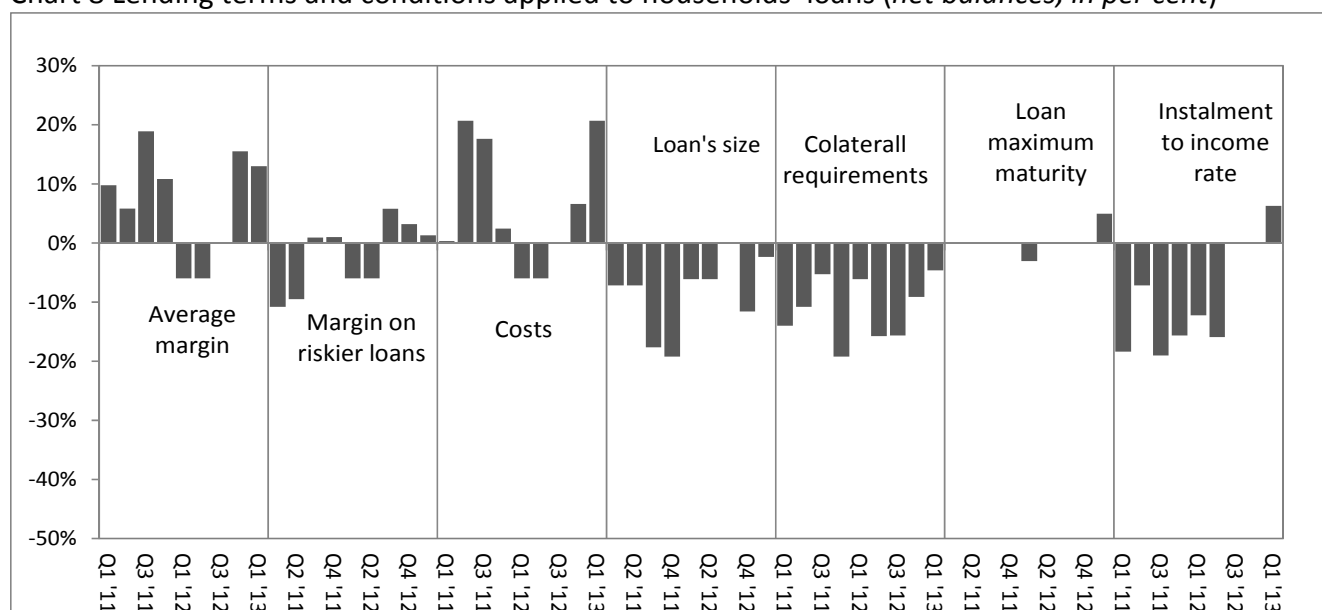
Chart 7 Factors affecting lending standards applied to households (*net balances*)



Source: Bank of Albania.

Banks applied an eased lending standards policy to households through the decrease of *commissions* and cut of *average margin for loans*. Also, the increase of instalment to income ratio was used as an instrument for the easing of lending standards in 2013 Q1. *Loan amount* and *collateral requirement* continued to contribute to the tightening of lending standards, albeit at a lower degree compared to the previous quarter.

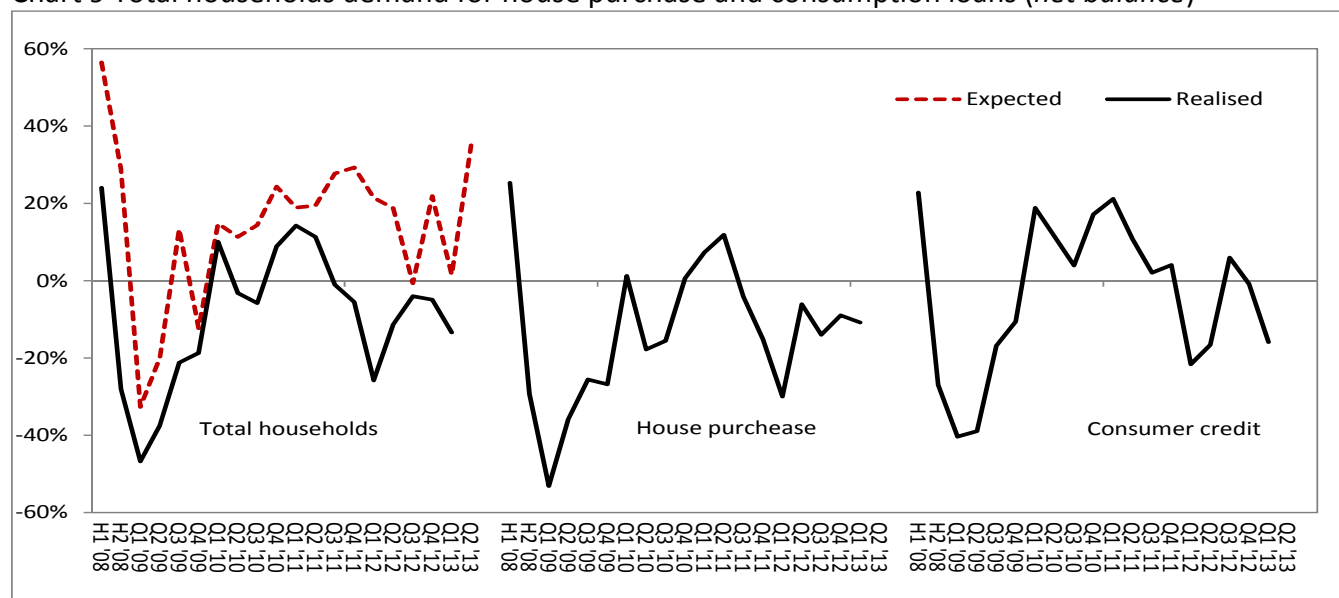
Chart 8 Lending terms and conditions applied to households' loans (*net balances, in per cent*)



Source: Bank of Albania.

Demand for loan. Households' demand for loan continued to be downward in 2013 Q1. Net percentage of banks reporting a negative households' demand for loan was 13.4%. In terms of households, the demand continued to be downward, for the house purchase and consumption loans. Respective balances recorded negative values in the quarter under review. On the other hand, banks' experts expect an increase in the loan demand from households in 2013 Q2. The historical position of banks' experts regarding household's demand for loan shows that they are more optimistic compared to the effective realised demand (Chart 9).

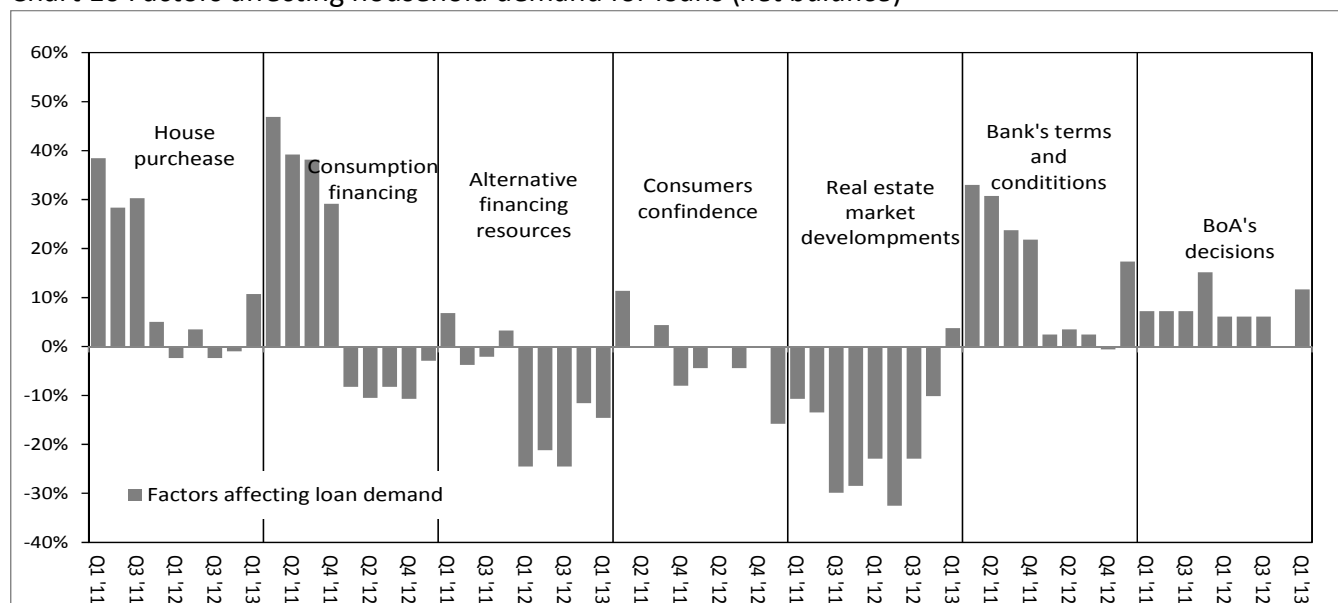
Chart 9 Total households demand for house purchase and consumption loans (*net balance*)



Source: Bank of Albania.

The consumers' perception of uncertainty and the use of alternative sources continued to have a negative impact on the loan demand level from households. The *need for consumption loan* provided the same contribution, albeit at a lower degree. The *need for house purchase loan* and *the Bank of Albania's decisions* contributed to the increase in the households' demand for loan.

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

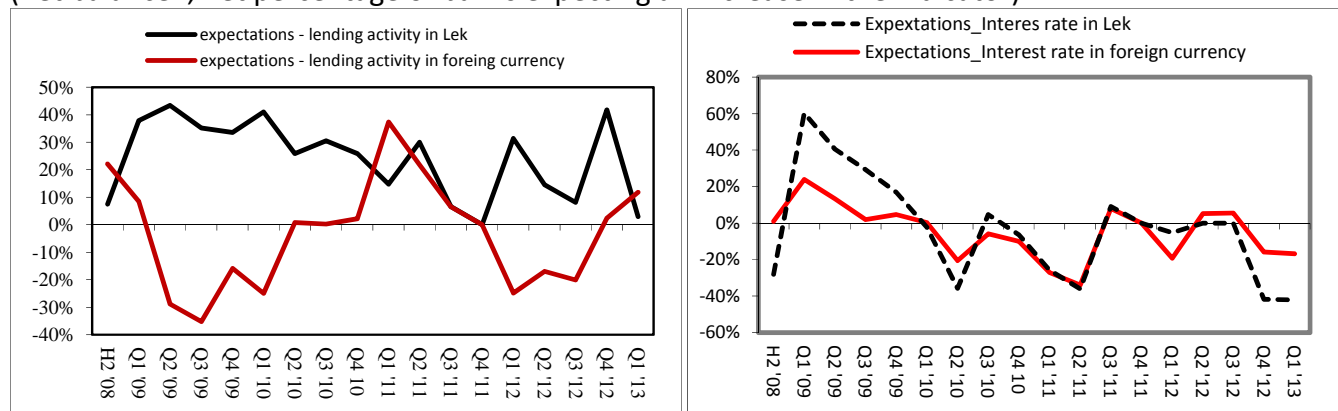


Source: Bank of Albania.

Lending by currency

Banks expect an increase of lending activity, more pronounced in foreign currency than in lek. Interest rates applied to loans in foreign currency and lek are expected to decrease in 2013 Q2.

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 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 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	2013 Q1
Change in banks' lending standards					
-Current quarter	-6.2%	-6.2%	-6.3%	-7.2%	-2.3%
-Next quarter	0.0%	-0.5%	2.0%	-11.0%	0.7%
Factors affecting the lending standards					
-Banks' capital adequacy	-15.4%	-21.6%	-20.5%	-18.5%	-12.1%
-Bank of Albania's decisions	0.0%	2.1%	2.0%	0.0%	0.0%
-Competition in the banking system	9.4%	-4.0%	6.1%	0.3%	0.3%
-Current or expected liquidity level	8.3%	1.0%	3.6%	6.6%	10.0%
-Business sector-related problem	-58.3%	-58.3%	-58.4%	-64.8%	-67.5%
-Current or expected macroeconomic situation	-30.9%	-33.1%	-28.5%	-40.8%	-44.1%
-Non-performing loans	-41.2%	-49.6%	-36.2%	-62.8%	-48.7%
Changes in banks' lending standards					
-Average margin	-11.5%	-17.8%	-21.2%	-21.3%	10.4%
-Margin of risky loans	-13.7%	-11.1%	-16.8%	-16.8%	-18.0%
-Commissions	-24.4%	-17.8%	-23.2%	-4.3%	5.7%
-Loan amount	6.6%	-2.1%	-6.3%	4.3%	-2.3%
-Collateral requirement as a ratio to loan amount	-21.6%	-27.7%	-16.6%	-30.3%	-24.0%
-Maximum loan maturity	-18.7%	-18.7%	-15.8%	-18.3%	-17.4%
Changes in businesses demand for loans					
-SMEs, previous quarter	-25.2%	2.6%	-2.7%	27.1%	1.1%
-SMEs, next quarter	-0.4%	7.4%	10.4%	6.2%	23.7%
-Large enterprises, previous quarter	-34.8%	-14.0%	-15.3%	4.3%	4.3%
-Large enterprises, next quarter	18.6%	15.5%	15.8%	-6.9%	9.3%
Factors affecting the change in the demand for loan:					
-Need to finance inventories	33.4%	37.8%	34.8%	48.5%	15.7%
-Need to finance fixed investment	-17.9%	-5.4%	13.1%	18.1%	12.3%
Use of alternative financial resources	-11.8%	4.2%	1.0%	22.3%	-8.6%
Bank of Albania's monetary policy decisions	-3.0%	-5.0%	-4.7%	0.0%	0.0%
Lending terms & conditions applied by your bank	23.3%	19.1%	23.3%	42.6%	14.4%
Current or expected macroeconomic situation	-1.3%	-9.8%	-7.1%	16.7%	-32.4%

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 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	2013 Q1
Changes in banks' lending standards					
Current quarter	-9.6%	0.0%	0.0%	0.0%	1.3%
Next quarter	0.0%	9.6%	9.4%	10.2%	9.9%
Factors affecting the lending standards					
Banks' capital adequacy	0.0%	0.0%	0.0%	0.0%	6.3%
Bank of Albania's decisions	6.1%	9.8%	0.0%	0.0%	6.3%
Competition in the banking system	-0.2%	13.1%	12.1%	6.7%	14.0%
Current or expected liquidity level	3.7%	3.3%	0.0%	6.7%	17.0%
Households' financial situation	-22.8%	-29.1%	-27.9%	-26.5%	-8.1%
Non-performing loans	-33.0%	-29.1%	-37.0%	-38.2%	-26.0%
Developments in real estate market	-21.4%	-28.2%	-9.2%	-17.5%	-20.4%
Changes in banks' lending standards					
Average margin	-5.9%	-5.9%	0.0%	15.5%	13.0%
Margin of risky loans	-5.9%	-5.9%	5.8%	3.2%	1.3%
Commissions	-5.9%	-5.9%	0.0%	6.6%	20.7%
Loan amount	-6.1%	-6.1%	0.0%	-11.6%	-2.3%
Collateral requirement as a ratio to loan amount	-6.1%	-15.7%	-15.7%	-9.1%	-4.6%
Maximum loan maturity	-3.0%	0.0%	0.0%	0.0%	5.0%
Instalment/income ratio	-12.2%	-15.9%	0.0%	0.0%	6.3%
Change in household demand for loans					
House purchase loan	-30.0%	-6.1%	-14.0%	-9.0%	-10.8%
Consumer loan	-21.6%	-16.6%	6.0%	-0.9%	-15.9%
Factors affecting the change in the demand for loan:					
Households' need to finance house purchase	-2.4%	3.5%	-2.4%	-1.0%	10.7%
Households' need to finance consumption	-8.3%	-10.5%	-8.3%	-10.7%	-2.9%
Use of alternative financial resources	-24.5%	-21.2%	-24.5%	-11.6%	-14.6%
Bank of Albania's monetary policy decisions	6.1%	6.1%	6.1%	0.0%	11.7%
Consumer's confidence	-4.4%	0.0%	-4.4%	0.0%	-15.8%
Developments in real estate market	-22.9%	-32.5%	-22.9%	-10.2%	3.7%
Lending terms & conditions applied by your bank	2.4%	3.5%	2.4%	-0.6%	17.3%