

BANK OF ALBANIA
Monetary Policy Department



Bank Lending Survey Results for 2013 Q2
July 2013¹

Bank lending survey results show that the lending **standards** applied to households eased during 2013 Q2, whereas those applied to businesses continued to tighten. By purpose of use, the lending standards applied to households eased on both *house purchase* and *consumer loans*. Business lending standards tightened on *small and medium-sized enterprises* but remained unchanged on *large enterprises*. Banks reported tightening of lending standards on *working capital* and *investment loans*.

Specific business-sector related concerns, non-performing loans in the banking system and the *overall macroeconomic situation* in Albania were the main **factors** contributing to the tightening of business lending standards. On the other hand, *Bank of Albania's decisions* and *liquidity situation* contributed to easing the lending standards applied to businesses. Concerning households, *competition in the banking system, bank's current or expected liquidity level, capital adequacy* and *Bank of Albania's decisions* contributed to easing the lending standards. *Non-performing loans, households' financial situation* and *developments in the real estate market* continued to drive the tightening of lending standards applied to households.

Demand for loans was lower for businesses and higher for households. In businesses, demand fell in *large enterprises* and *investment loans*. Concerning households, demand was, for the first time since 2011 Q2, higher on both house purchase and consumption loans.

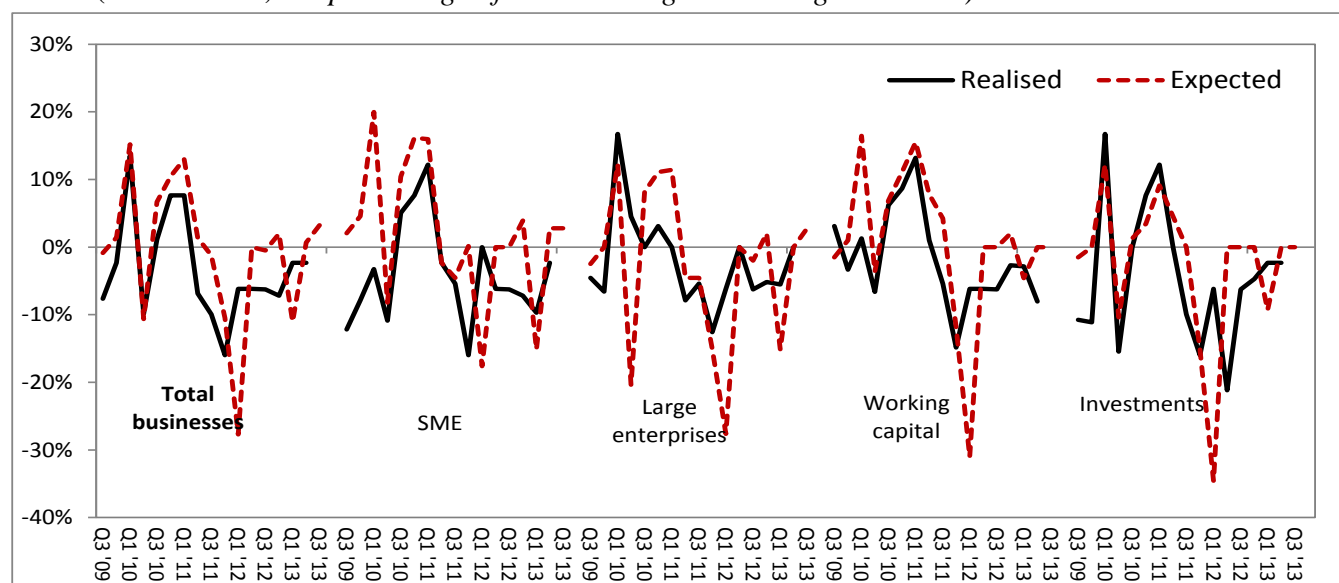
The current and expected macroeconomic situation in Albania and *the use of alternative financial resources* were the main **factors** contributing negatively to demand for business loans during 2013 Q2. *The need to finance house purchase and consumption, developments in the real estate market* and *bank lending standards* had a positive impact on households' demand for loans.

¹ The survey conducted in June 2013 covers bank lending developments in 2013 Q2 and banks' expectations for lending in 2013 Q3.

Lending to businesses

Lending standards. The lending standards applied to businesses continued to tighten in 2013 Q2. The net balance² of banks' responses reporting the tightening of standards stood at 2.3%, similar to the previous quarter. Banks' tightening of lending standards in 2013 Q2 was higher than expected in the previous survey. By size of enterprise, the lending standards tightened on *small and medium-sized enterprises*, but remained unchanged on *large enterprises*. Their balances stood at -2.3% and 0%, respectively (see Chart 1). By purpose of use, the lending standards tightened on both *working capital* and *investment loans* (their balances stood at -8% and -2.3%, respectively, net tightening).

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

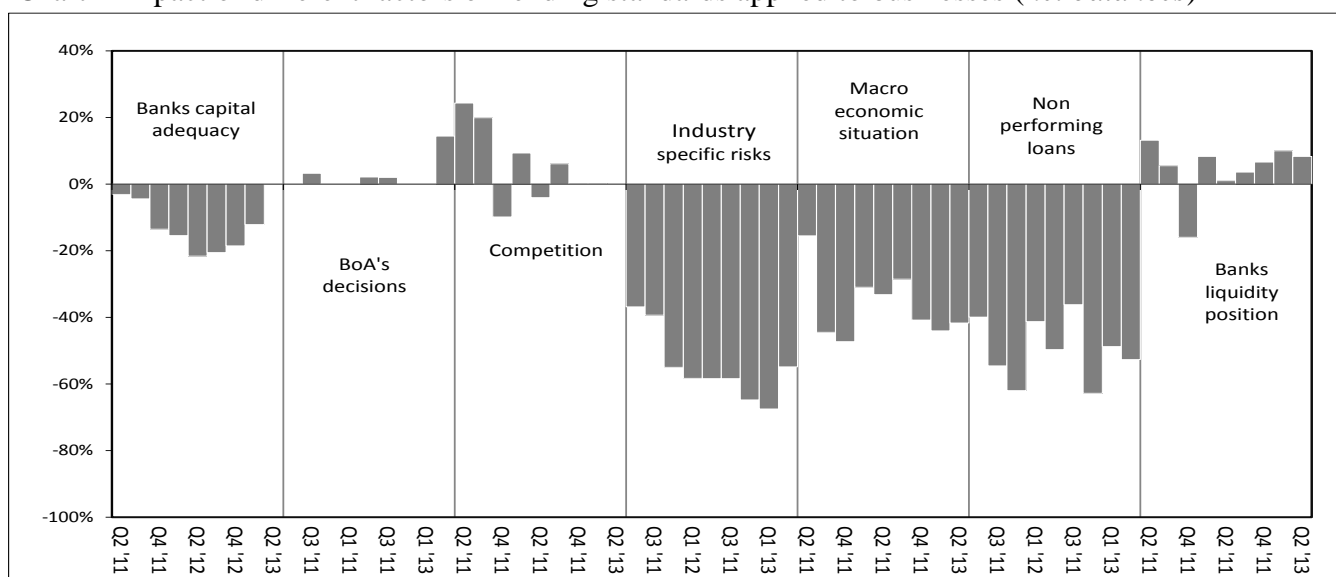


The lending standards applied to businesses are expected to ease in 2013 Q3. The net balance of expectations stood at 3.2% (net easing).

The main factors contributing to the tightening of lending standards applied to businesses during 2013 Q2 were: *specific sector-related concerns, non-performing loans situation in the banking system and macroeconomic situation in Albania*. On the other hand, *Bank of Albania's decisions and liquidity situation* contributed to easing the lending standards applied to businesses.

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 of/increase in standards/demand and those reporting tightening of/decrease in 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 (lending to businesses/households in lek/foreign currency).

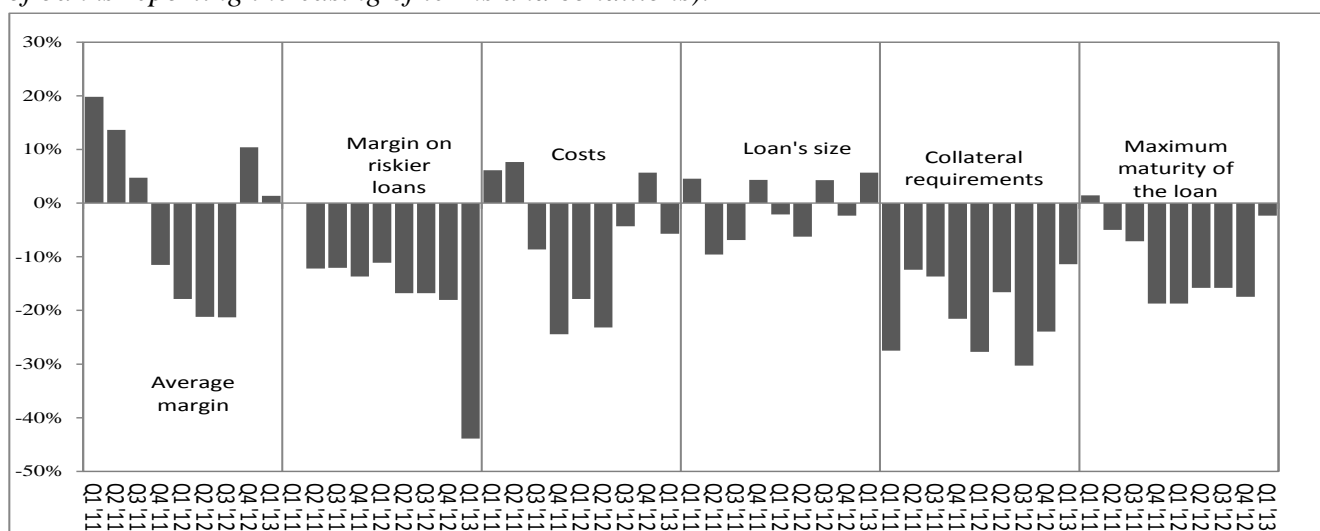
Chart 2 Impact of different factors on lending standards applied to businesses (*net balances*)



Source: Bank of Albania.

Banks' tight lending policy in 2013 Q2 was mainly applied through wider *margins on risky loans*, *higher collateral requirement*, *higher commissions* and *lower maximum term to maturity*. On the other hand, the narrower *average margin* and higher *loan amount* contributed to slightly easing the lending standards.

Chart 3 Change in lending terms and conditions applied to business loans (*net balances, net percentage of banks reporting the easing of terms and conditions*).



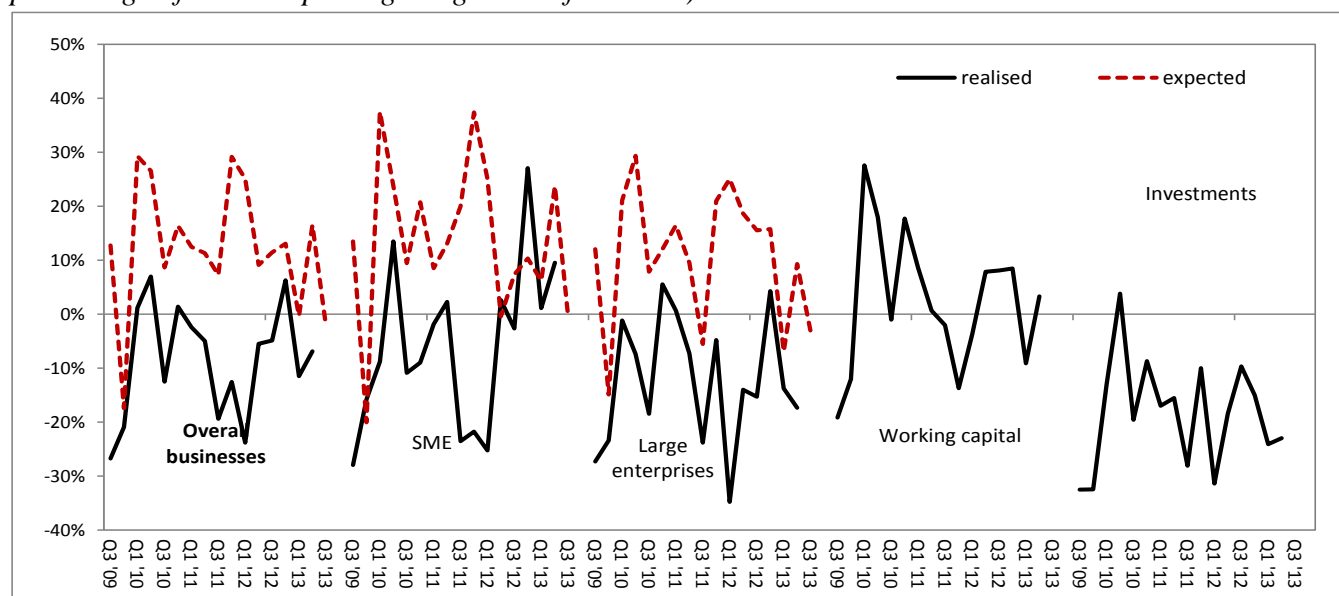
Source: Bank of Albania.

Demand for loans. Bank experts continued to report negative demand for loans in 2013 Q2, albeit at a lower degree than in Q1. The net percentage of banks reporting the growth of demand for loans was -

6.9%, from -11.5% in Q1. The lower demand in Q2 did not match banks' expectations for it in Q1 (see Chart 4). There was a bigger fall of demand for borrowing by *large enterprises* and for *investment loans*. Unlike the previous quarter, banks reported higher demand for borrowing by *small and medium-sized enterprises* and for *working capital loans*.

Bank experts expect a slight fall of demand for loans in 2013 Q3. By size of enterprise, *small and medium-sized enterprises*, and *large enterprises*, are expected to show lower demand for loans.

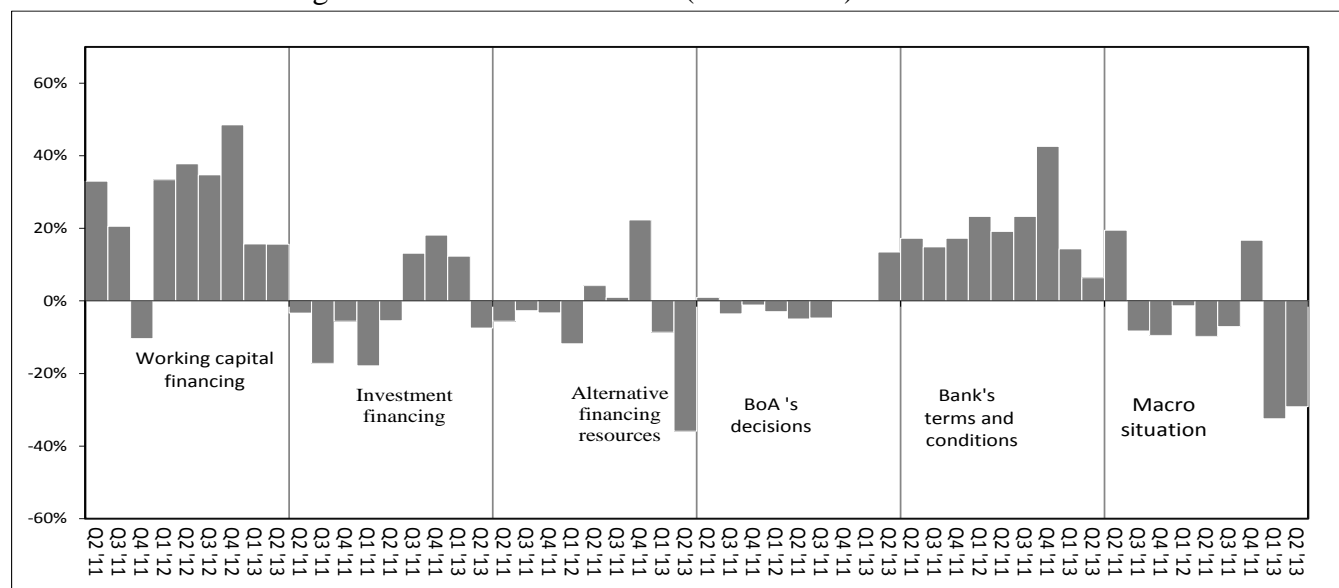
Chart 4 Business demand for loans by size of enterprise and purpose of loan use (*net balance, net percentage of banks reporting the growth of demand*)



Source: Bank of Albania.

The current and expected macroeconomic situation in Albania, the use of alternative financial resources and the need to finance investments contributed adversely to demand for loans in 2013 Q2. On the other hand, businesses' needs for *working capital*, Bank of Albania's decisions and lending standards made a positive impact on demand for loans compared to 2013 Q1.

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

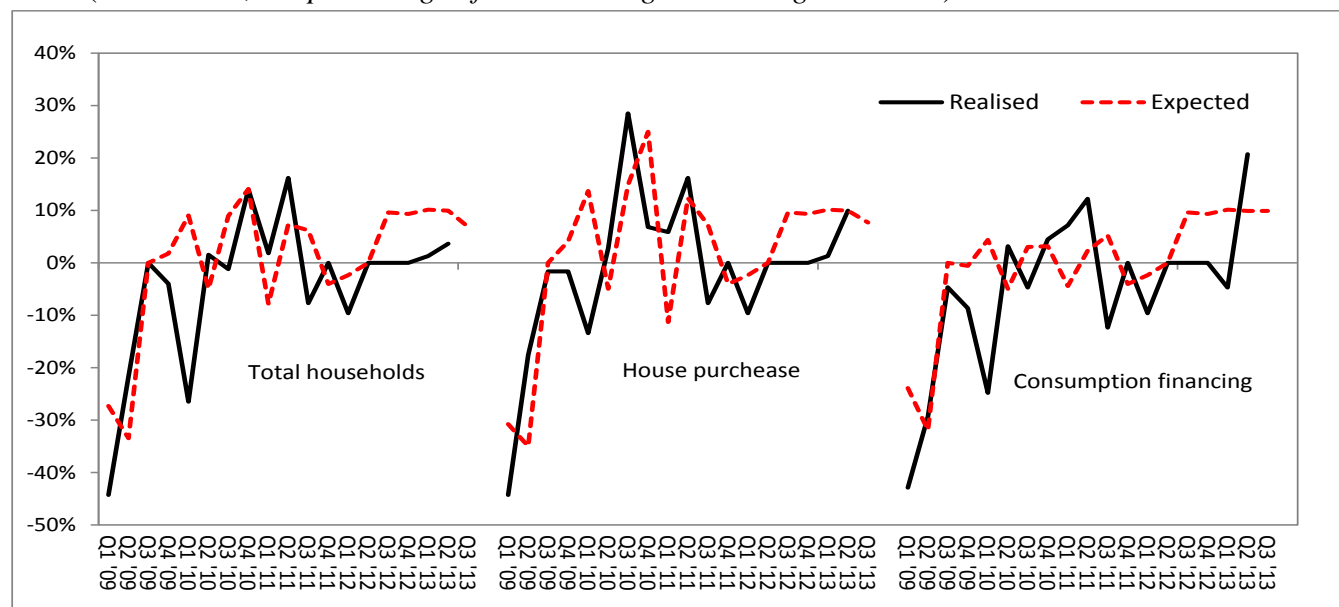


Source: Bank of Albania.

Lending to households

Lending standards. The lending standards applied to households eased further in 2013 Q2. The net percentage of banks reporting the easing of lending standards applied to households was about 3.7%, along the same line - albeit at a lower degree - as banks' expectations for Q2 as stated in the previous survey. By purpose of use, the lending standards eased on *consumer* and *house purchase loans*. The lending standards on consumer loans eased considerably - their balance stood at 20.7%. The lending standards on house purchase also eased in 2013 Q2, following their tightening in Q1 - their balance stood at 9.9%. The lending standards are expected to ease in 2013 Q3, both on house purchase and consumer loans.

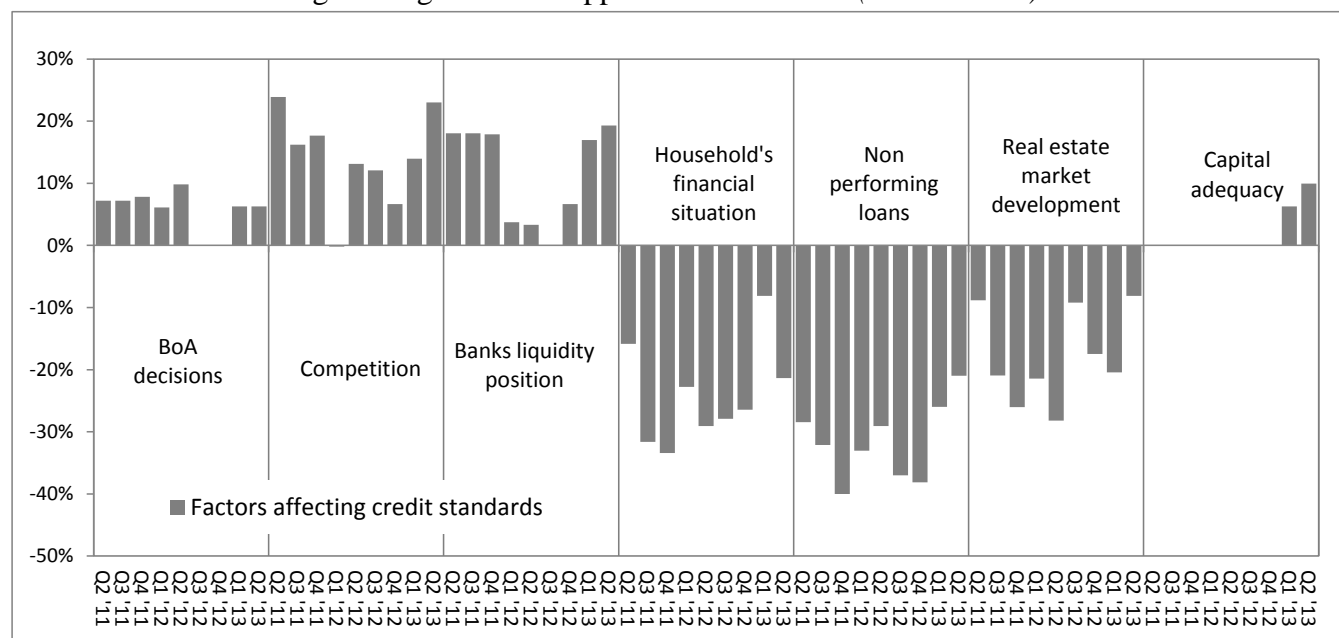
Chart 6 Changes in lending standards applied to total households, on house purchase and consumer loans (*net balance, net percentage of banks easing the lending standards*)



Source: Bank of Albania.

Bank's current or expected liquidity level, competition in the banking system, Bank of Albania's decisions, and bank's capital adequacy, contributed to easing the lending standards applied to households. Conversely, non-performing loans, developments in the real estate market and households' financial situation continued to contribute to tightening the lending standards.

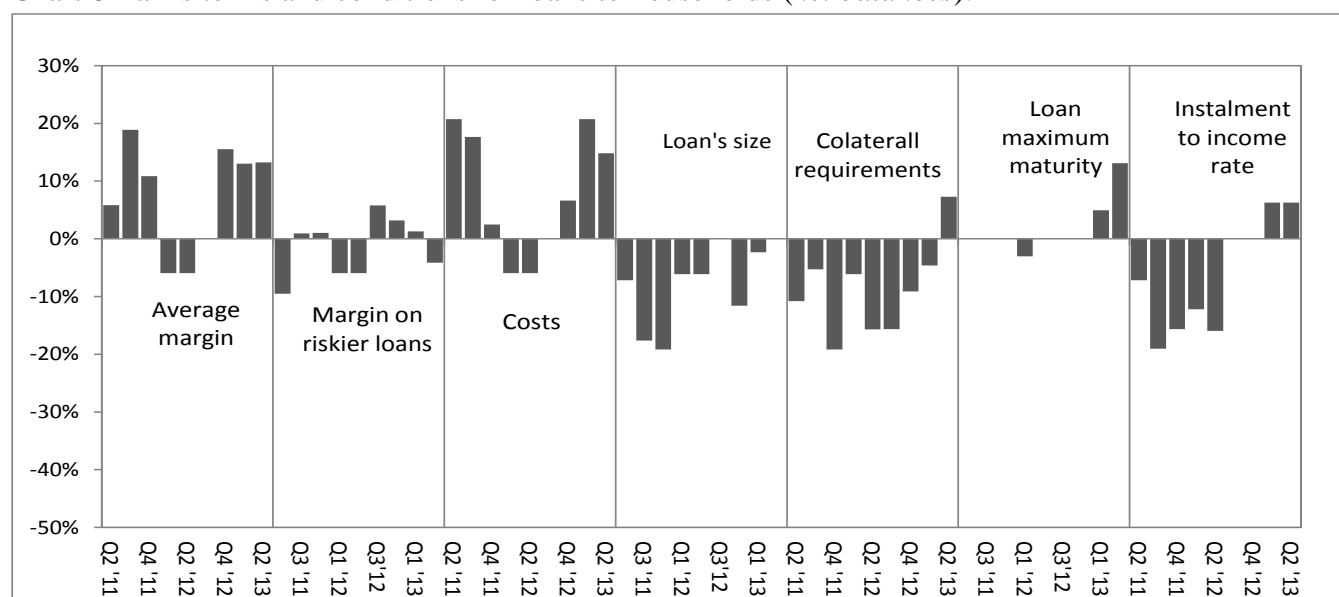
Chart 7 Factors affecting lending standards applied to households (*net balances*).



Source: Bank of Albania.

Banks' easing lending policy on households was mainly applied through lower *commissions* and *average margins* for loans. Banks also extended the *maximum loan term to maturity* and slightly lowered the *collateral requirement* to ease the lending standards in 2013 Q2. The *margin for risk-rated loans* was the sole factor contributing to tightening the lending standards in 2013 Q2.

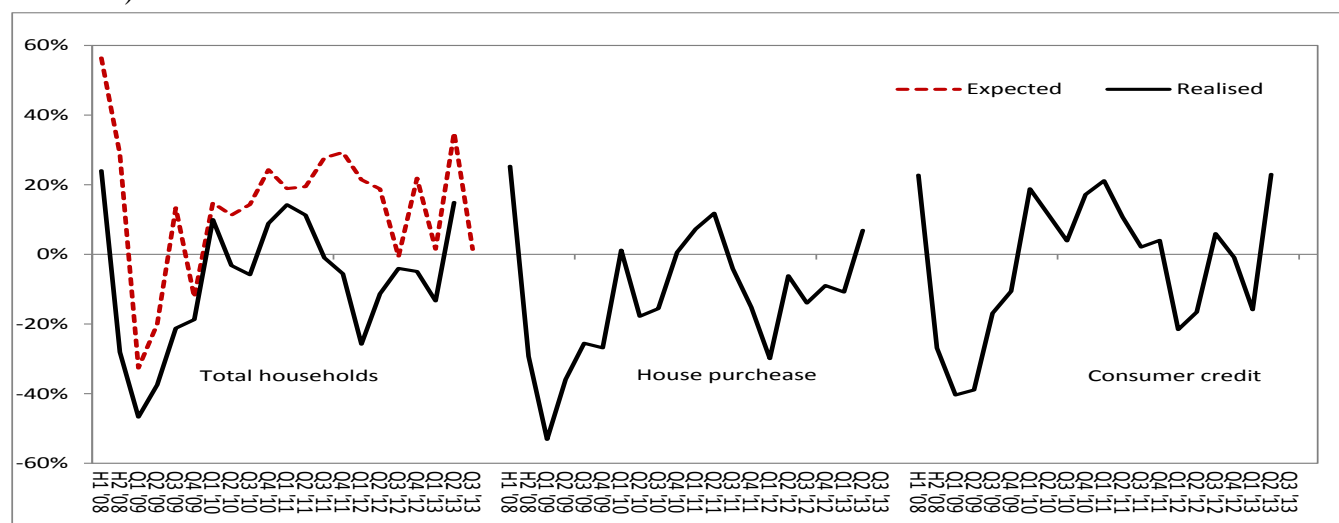
Chart 8 Banks terms and conditions for loans to households (*net balances*).



Source: Bank of Albania.

Demand for loans. Household demand for loans grew in 2013 Q2 in line with banks' expectations in the previous survey. After a long period of a negative assessment of household demand for loans, its balance stood at 14.9% in the quarter under review. Household demand for loans was high for house purchase and consumption purposes. Their respective balances recorded positive figures in 2013 Q2. On the other hand, bank experts expect modest growth of household demand for loans in 2013 Q3.

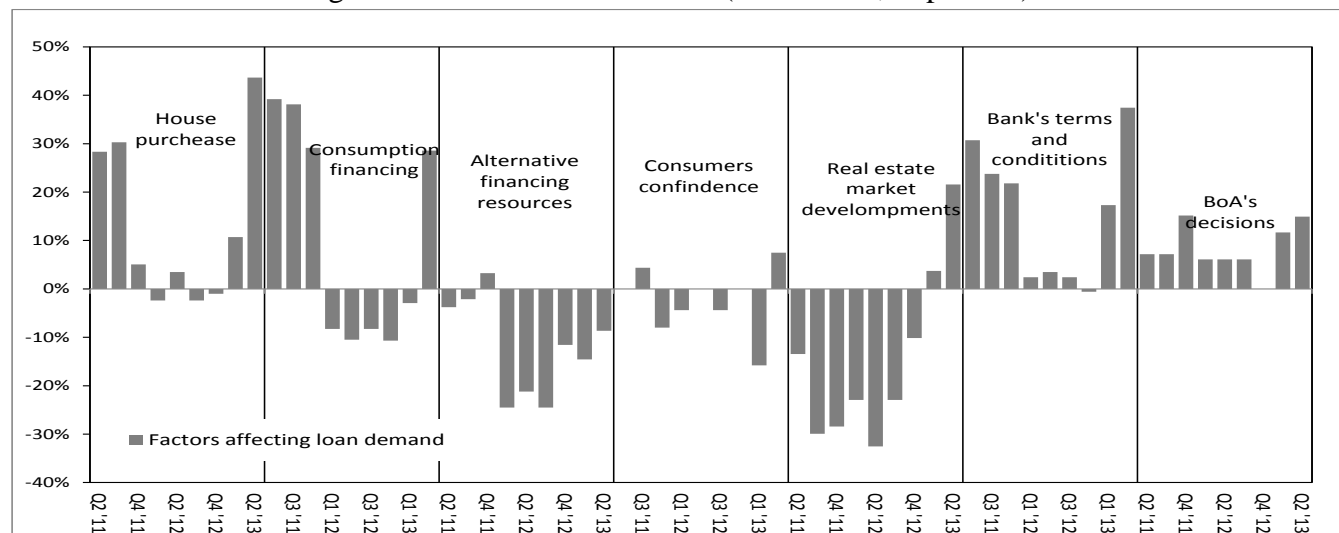
Chart 9 Total household demand for loans, for house purchase and consumption purposes (*net balances*).



Source: Bank of Albania.

The need to finance the house purchase and consumption, and bank lending standards, drove the growth of household demand for loans the most in 2013 Q2. The use of alternative financial resources continued to provide negative contribution to household demand for loans.

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

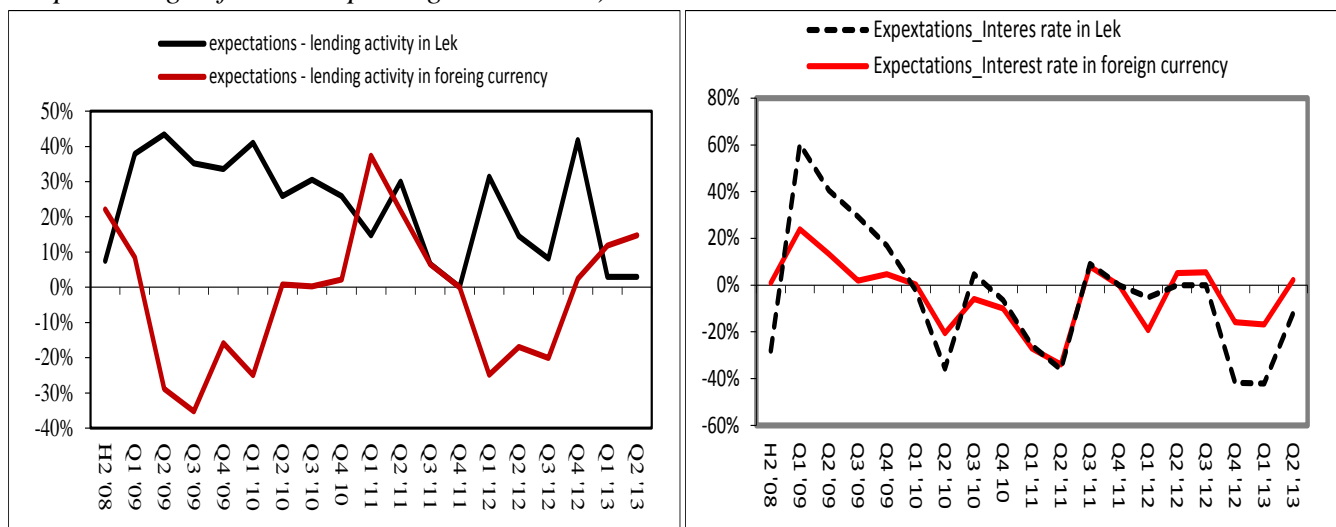


Source: Bank of Albania.

Lending by currency

Bank experts expect lending to grow in 2013 Q3. They also expect lending in foreign currency to grow higher than that in the Albanian lek. Interest rates on lek-denominated loans are expected to increase, whereas those on foreign currency are expected to decrease in 2013 Q3.

Chart 11 Banks' expectations for lending (left) and interest rates (right), after one quarter (*net balance**, *net percentage of banks expecting its increase*)



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 Lending to businesses

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 of/increase in standards/demand and those reporting tightening of/decrease in standards/demand. The net balances are scaled in order to acquire values within the interval of +/- 100.

BUSINESSES	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2
Change in bank lending standards					
- Current quarter	-6.2%	-6.3%	-7.2%	-2.3%	-2.3%
- Next quarter	-0.5%	2.0%	-11.0%	0.7%	3.2%
Factors affecting the lending standards					
- Bank's capital adequacy	-21.6%	-20.5%	-18.5%	-12.1%	0.0%
- Bank of Albania's decisions	2.1%	2.0%	0.0%	0.0%	14.4%
- Competition in the banking system	-4.0%	6.1%	0.3%	0.3%	0.0%
- Current or expected liquidity level	1.0%	3.6%	6.6%	10.0%	8.3%
- Specific business-sector related concerns	-58.3%	-58.4%	-64.8%	-67.5%	-54.9%
- Current or expected macroeconomic situation	-33.1%	-28.5%	-40.8%	-44.1%	-41.7%
- Non-performing loans	-49.6%	-36.2%	-62.8%	-48.7%	-52.6%
Change in bank lending standards					
- Average margin	-17.8%	-21.2%	-21.3%	10.4%	1.3%
- Margin for risk-rated loans	-11.1%	-16.8%	-16.8%	-18.0%	-43.9%
- Commissions	-17.8%	-23.2%	-4.3%	5.7%	-5.7%
- Loan amount	-2.1%	-6.3%	4.3%	-2.3%	5.7%
- Collateral requirement as a ratio of loan amount	-27.7%	-16.6%	-30.3%	-24.0%	-11.4%
- Maximum loan term to maturity	-18.7%	-15.8%	-18.3%	-17.4%	-2.3%
Change in business demand for loans					
- SMEs, previous quarter	2.6%	-2.7%	27.1%	1.1%	9.5%
- SMEs, next quarter	7.4%	10.4%	6.2%	23.7%	-0.9%
- Large enterprises, previous quarter	-14.0%	-15.3%	4.3%	4.3%	4.3%
- Large enterprises, next quarter	15.5%	15.8%	-6.9%	9.3%	-3.2%
Factors affecting change in demand for loans					
- Need to finance inventories	37.8%	34.8%	48.5%	15.7%	15.6%
- Need to finance fixed investments	-5.4%	13.1%	18.1%	12.3%	-7.4%
- Use of alternative financial resources	4.2%	1.0%	22.3%	-8.6%	-35.9%
- Bank of Albania's monetary policy decisions	-5.0%	-4.7%	0.0%	0.0%	13.5%
- Lending terms and conditions applied by your bank	19.1%	23.3%	42.6%	14.4%	6.4%
- Current or expected macroeconomic situation	-9.8%	-7.1%	16.7%	-32.4%	-29.1%

Annex 2 Lending to households

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 of/increase in standards/demand and those reporting tightening of/decrease in procedures/demand. The net balances are scaled in order to acquire values within the interval of +/- 100.

HOUSEHOLDS	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2
Change in bank lending standards					
- Previous quarter	0.0%	0.0%	0.0%	1.3%	3.7%
- Next quarter	9.6%	9.4%	10.2%	9.9%	6.8%
Factors affecting the lending standards					
- Bank's capital adequacy	0.0%	0.0%	0.0%	6.3%	9.9%
- Bank of Albania's decisions	9.8%	0.0%	0.0%	6.3%	6.3%
- Competition in the banking system	13.1%	12.1%	6.7%	14.0%	23.0%
- Current or expected liquidity level	3.3%	0.0%	6.7%	17.0%	19.3%
- Households' financial situation	-29.1%	-27.9%	-26.5%	-8.1%	-21.4%
- Non-performing loans	-29.1%	-37.0%	-38.2%	-26.0%	-21.0%
- Developments in the real estate market	-28.2%	-9.2%	-17.5%	-20.4%	-8.1%
Change in bank lending standards					
- Average margin	-5.9%	0.0%	15.5%	13.0%	13.2%
- Margin for risk-rated loans	-5.9%	5.8%	3.2%	1.3%	-4.1%
- Commissions	-5.9%	0.0%	6.6%	20.7%	14.8%
- Loan amount	-6.1%	0.0%	-11.6%	-2.3%	0.0%
- Collateral requirement as a ratio of loan amount	-15.7%	-15.7%	-9.1%	-4.6%	7.3%
- Maximum loan term to maturity	0.0%	0.0%	0.0%	5.0%	13.1%
- Debt-to-income ratio	-15.9%	0.0%	0.0%	6.3%	6.3%
Change in household demand for loans					
- Mortgage loans	-6.1%	-14.0%	-9.0%	-10.8%	6.9%
- Consumer loans	-16.6%	6.0%	-0.9%	-15.9%	23.0%
Factors affecting change in demand for loans					
- Households' needs to finance the house purchase	3.5%	-2.4%	-1.0%	10.7%	43.7%
- Households' needs to finance consumption	-10.5%	-8.3%	-10.7%	-2.9%	28.6%
- Use of alternative financial resources	-21.2%	-24.5%	-11.6%	-14.6%	-8.7%
- Bank of Albania's monetary policy decisions	6.1%	6.1%	0.0%	11.7%	14.9%
- Consumer confidence	0.0%	-4.4%	0.0%	-15.8%	7.5%
- Developments in the real estate market	-32.5%	-22.9%	-10.2%	3.7%	21.6%
- Lending terms and conditions applied by your bank	3.5%	2.4%	-0.6%	17.3%	37.4%