

Bank of Albania
Monetary Policy Department



Bank Lending Survey Results for 2013 Q3
October 2013¹

Bank lending survey results show that the lending **standards** applied to businesses remained unchanged, whereas those applied to households tightened slightly, during 2013 Q3. By purpose of use, lending standards applied to households tightened on both *house purchase* and *consumer loans*. Lending standards applied to businesses remained unchanged for both *small-medium sized enterprises* and *large enterprises*. Banks reported tightening of lending standards on *working capital* and easing of lending standards on *investment loans*.

Factors contributing most to tightening lending standards applied to households were as follows: *financial situation of households, non-performing loans and developments in the real estate market*. On the other hand, *the actual or expected bank liquidity levels, competition in the banking system, capital adequacy* and Bank of Albania's decisions have contributed to easing of lending standards. *Sector-specific related problems, situation of non-performing loans in the banking system and the macroeconomic situation in Albania* continued to contribute to the tightening side of lending standards for businesses. *The decisions of the Bank of Albania, current or expected banks liquidity level, competition in the banking system and capital adequacy*, are factors affecting on the easing side of lending standards for businesses.

Credit demand was downward for both businesses and households. For businesses, the demand was downward both for *large enterprises* and *small and medium-sized enterprises*. For households, demand was downward for *house-purchase loans*, and upward for *consumer loans*.

Banks assess that the main **factors** contributing negatively to business demand for loans during 2013 Q3 are: *the current and expected macroeconomic situation in Albania, lack of the demand for fixed investments financing and the use of alternative financial resources*. On the other hand, *consumer's confidence and alternative financial resources* affected negatively the loan demand by households.

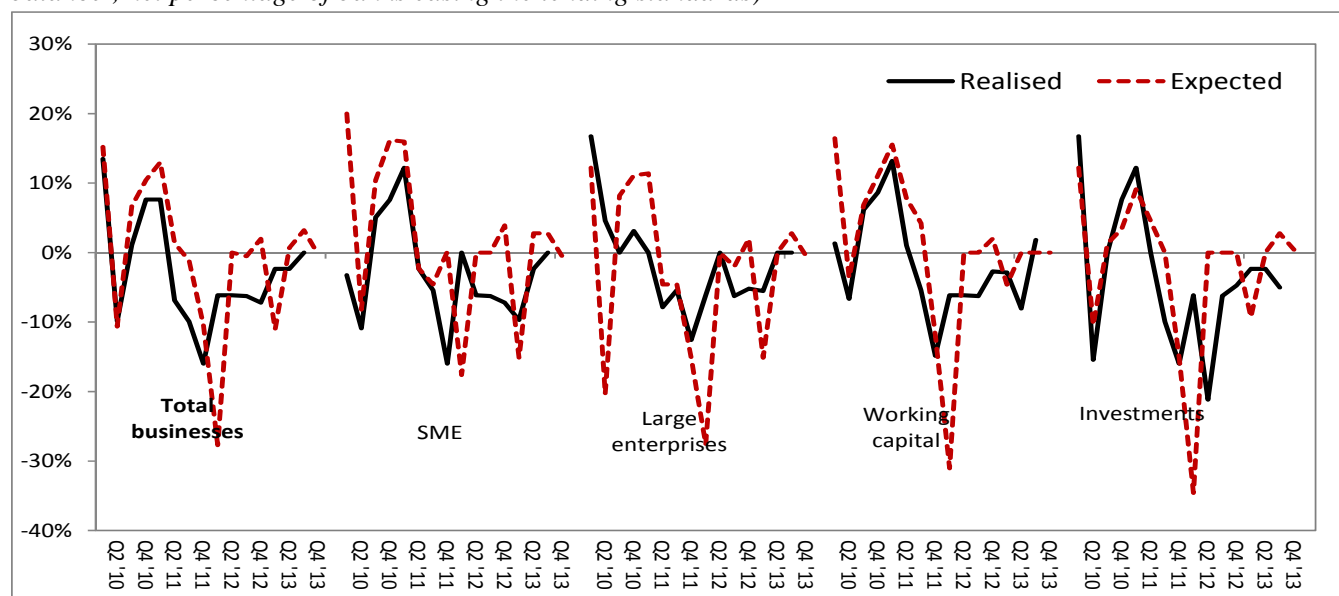
¹ The survey conducted in September 2013 covers the developments in bank lending during 2013 Q3 and banks' expectations for lending in 2013 Q4.

Lending to businesses

Lending standards. The lending standards applied to businesses remained unchanged during 2013 Q3. The net balance² of banks' responses reporting change of standards stood at 0%, upward compared to the previous quarter (-2.3%). By size of enterprises, the lending standards applied on both *small and medium-sized enterprises* and on *large enterprises* remained unchanged (see Chart 1). By purpose of use, the lending standards tightened on *investment* loans and eased on *working capital* loans. Their balances were -5.0% and 1.8%, respectively.

The lending standards applied to businesses are expected to tighten slightly in 2013 Q4. The net balance of expectations stood at -0.3% (tightening).

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)



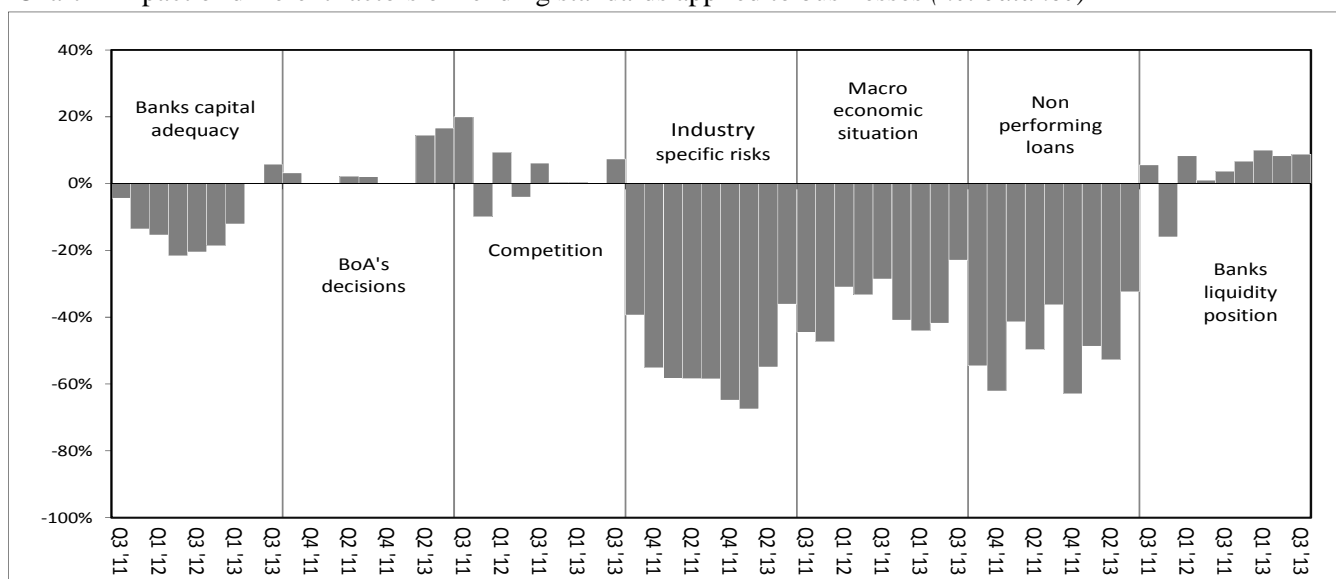
Source: Bank of Albania.

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

The main factors contributing to the tightening of lending standards applied to businesses during 2013 Q3 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*, *liquidity situation* and *competition in the banking system* 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 balance*)

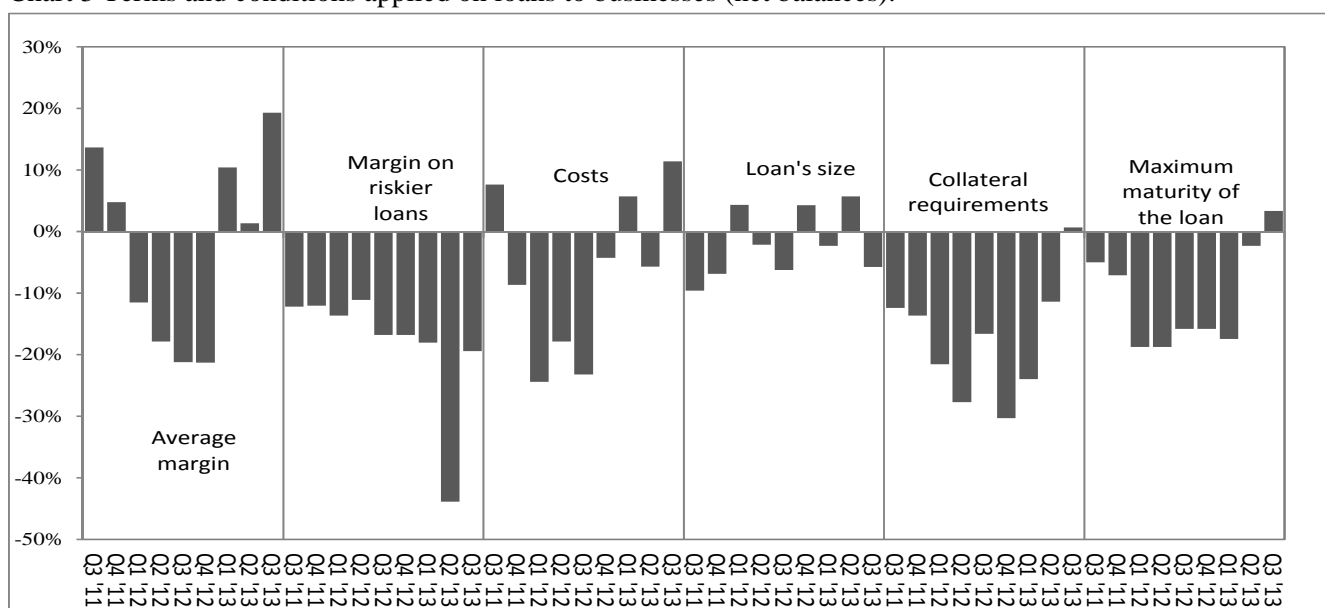


Source: Bank of Albania.

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

Banks' tight lending policy in 2013 Q3 was mainly applied through wider *margins* on *risky-rated loans* and lower *loan amount*. On the other hand, the narrowing of *average margin*, lower *collateral requirement* as a ratio to loan amount, lower *commissions* and *higher maximum term to maturity* in this quarter contributed to slightly easing the lending standards.

Chart 3 Terms and conditions applied on loans to businesses (net balances).

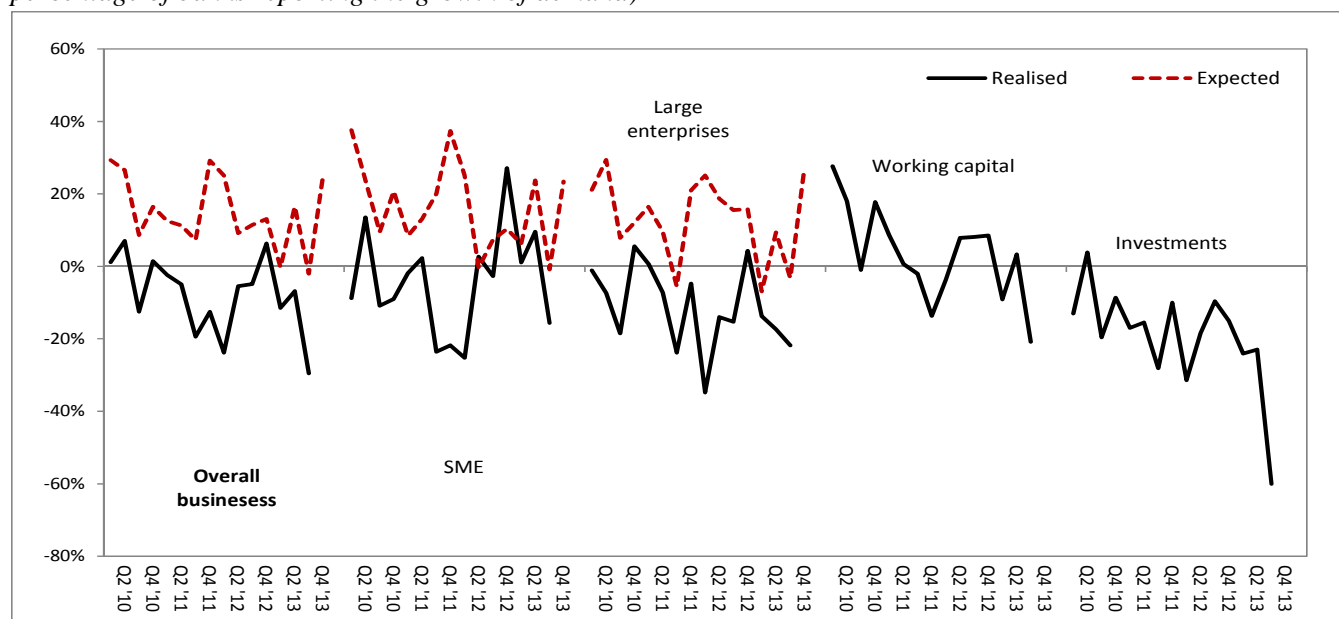


Source: Bank of Albania.

Demand for loans. Banks' experts continued to report negative demand for loans in 2013 Q3 by businesses. The loan demand was lower compared to 2013 Q2. The net percentage of banks reporting the fall of demand for loans was 29.6%, from 6.9% in 2013 Q2. The fall of the demand during the current quarter is in line with banks' expectations for it reported in 2013 Q2, albeit at a higher degree (see Chart 4). The fall of the demand was more evident for *large enterprises* and for *investment* loans. Unlike the previous quarter, banks reported lower demand for borrowing by *small and medium-sized enterprises* and for working capital loans.

Banks' experts expect an increase of demand for loans in 2013 Q4, by both small and medium-sized enterprises, and larger enterprises.

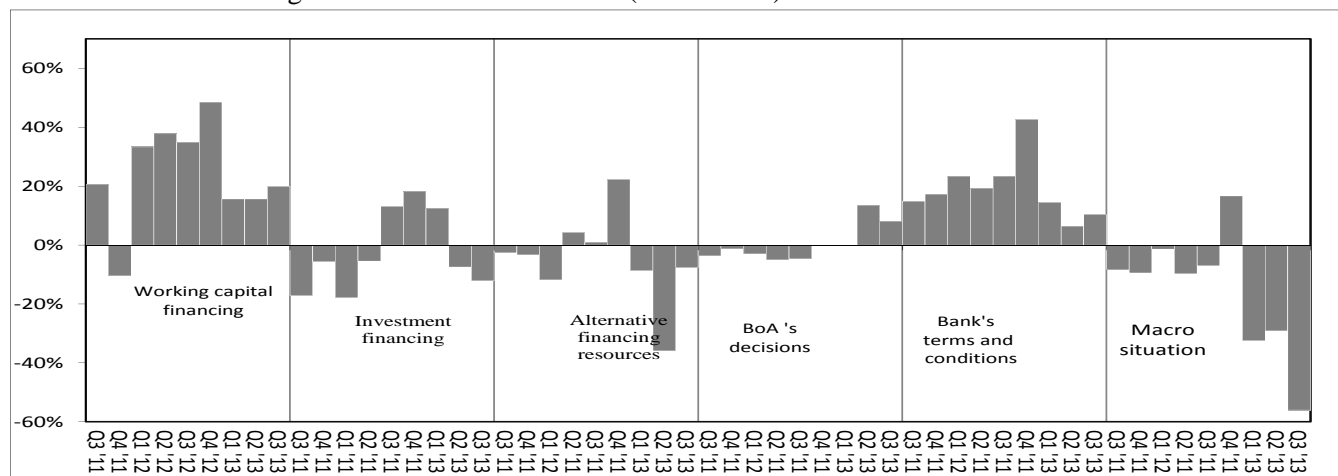
Chart 4 Business demand for loans by size of enterprise and purpose of loan use (*net balance, net percentage of banks reporting the growth of demand*)



Source: Bank of Albania.

The current and expected macroeconomic situation in Albania, the use of alternative financial resources and the lack of the demand to finance investments contributed negatively to the demand for loans in 2013 Q3. On the other hand, businesses' needs for working capital, the decisions of the Bank of Albania and lending terms and conditions provided a positive impact on demand for loans during the period under review.

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



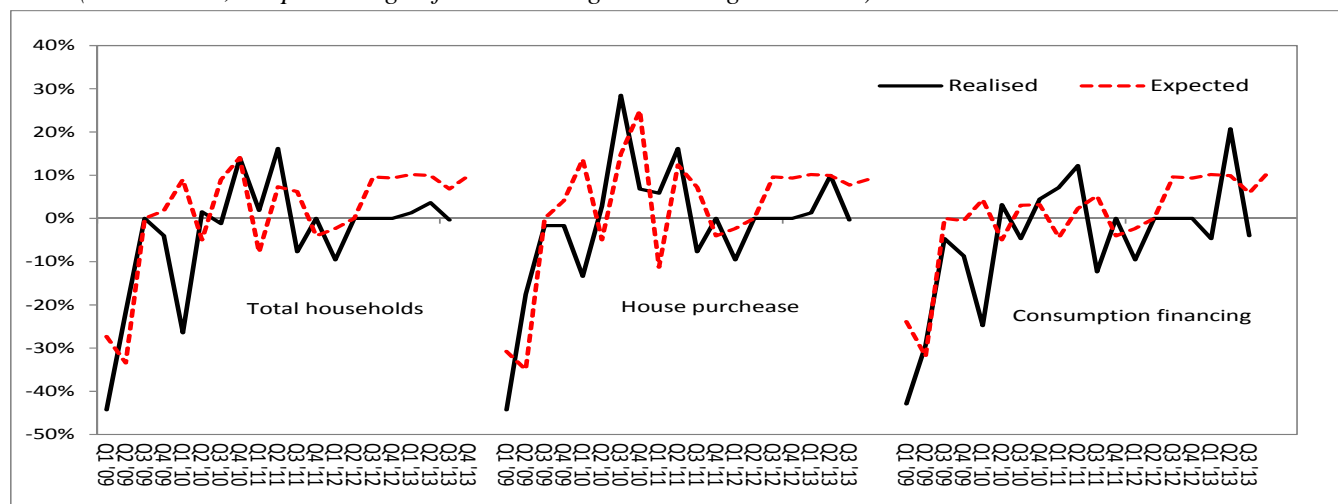
Source: Bank of Albania.

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

Lending to households

Lending standards. The lending standards applied to households tightened slightly during 2013 Q3. The net percentage of banks reporting the tightening of lending standards applied to households was about 0.4%. The tightening of lending standards applied to households is not in the same line with the banks' expectations reported for it in the previous quarter. By purpose of use, the lending standards tightened on *consumer* and *house purchase* loans. The lending standards applied to *consumer loans* tightened higher compared to standards applied to loans for *house purchase*. Their balances were -4.0% and -0.4%, respectively, downward compared to the previous quarter.

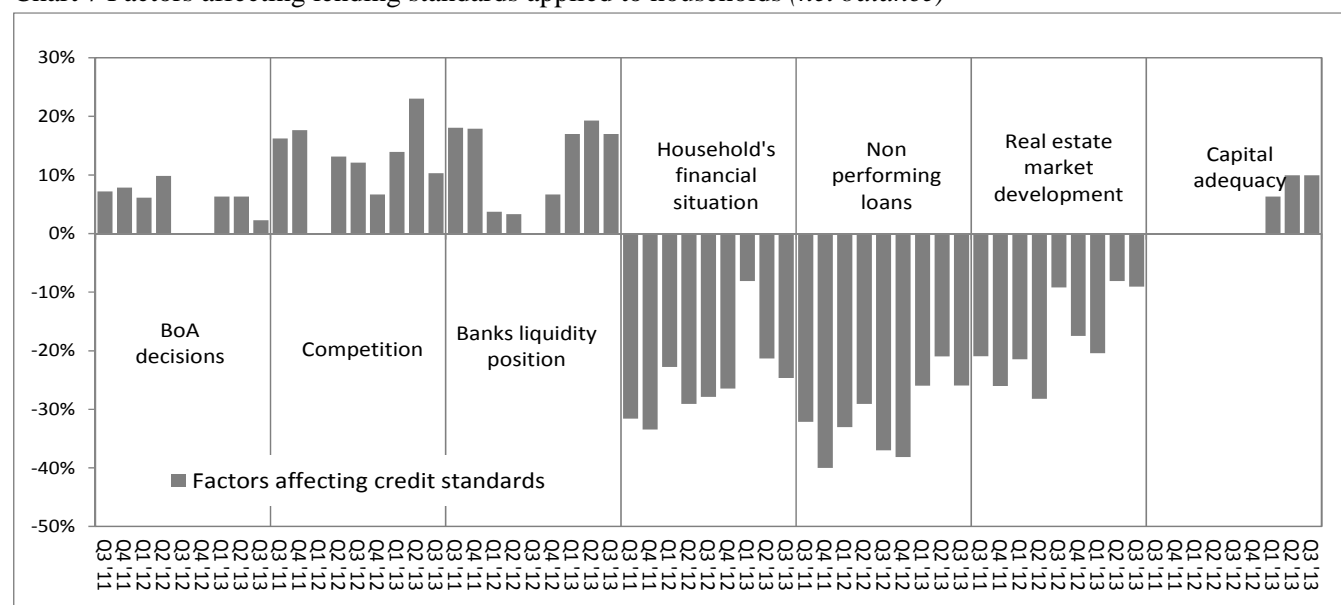
Chart 6 Changes in lending standards applied to total households, on house purchase and consumer loans (*net balance, net percentage of banks easing the lending standards*)



Source: Bank of Albania.

Factors affecting the tightening of lending standards applied to households were: *non-performing loans, households' financial situation and developments in the real market*. On the other hand, *bank's current and expected liquidity level, competition in the banking system, Bank of Albania's decisions and bank's capital adequacy*, contributed to easing the lending standards.

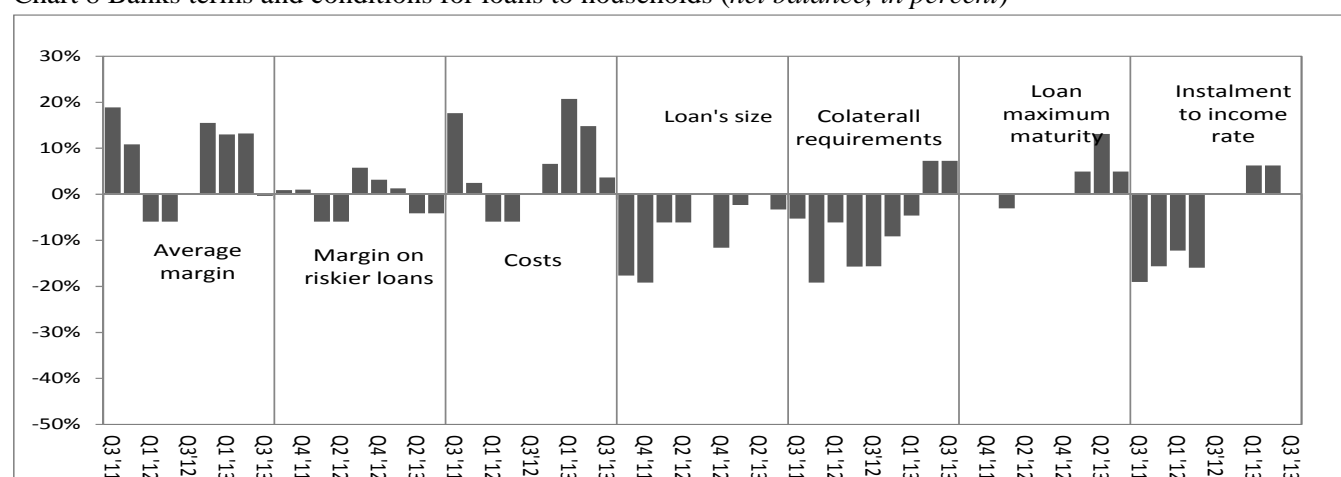
Chart 7 Factors affecting lending standards applied to households (*net balance*)



Source: Bank of Albania.

Banks' tightening policy on households was mainly applied through the higher *margin for risk-rated loans* and the lower *loan amount*. Banks, for the purpose to ease the standards, also extended the *maximum loan term to maturity*, eased the *collateral requirements* and lowered the *commissions*.

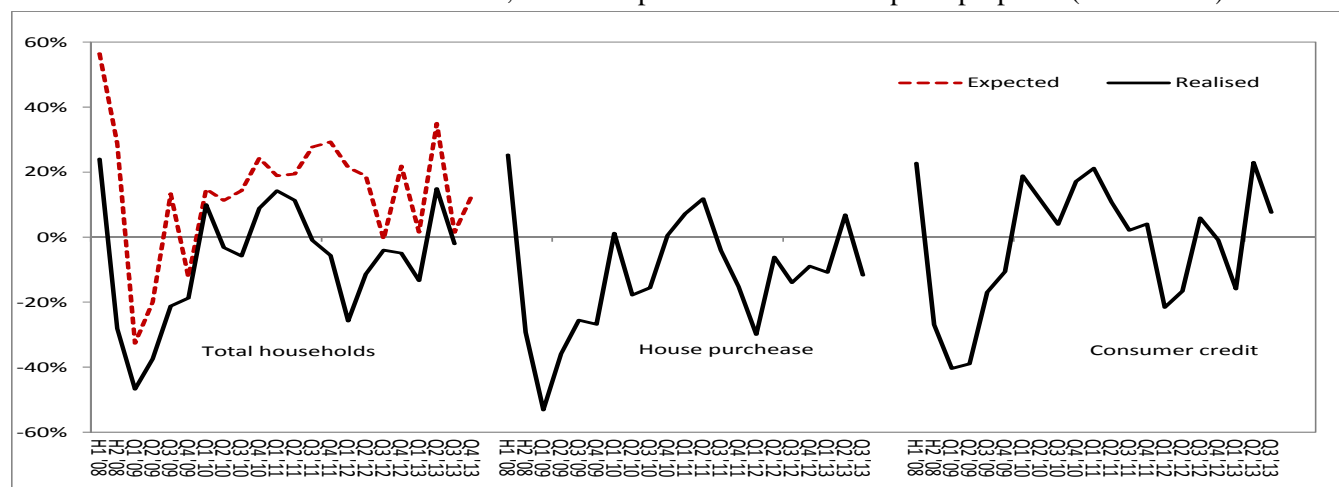
Chart 8 Banks terms and conditions for loans to households (*net balance, in percent*)



Source: Bank of Albania.

Demand for loans. Households' demand for loans was assessed downward in 2013 Q3. Respective balance stood at -2%. The assessment on the demand is not in line with the expectations reported in the previous quarter for a growth of loan in the current quarter. The loan demand for house purchase was downward. The respective balance stood at -11.7%. Meanwhile, loan demand for consumption purposes increased, albeit lower compared to 2013 Q2. Respective balance pointed at 7.6%. Credit' experts expect a growth of households demand for loans in 2013 Q4.

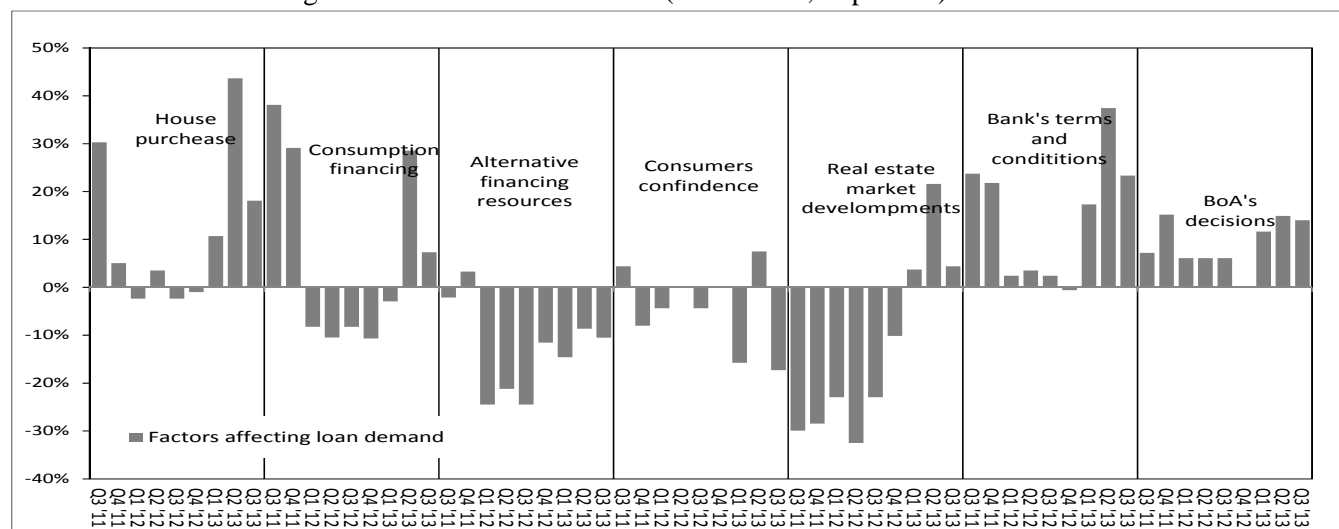
Chart 9 Total household demand for loans, for house purchase and consumption purposes (*net balance*)



Source: Bank of Albania.

The factors providing the major contribution to the falling demand of households for loans were: *downward consumers' confidence* and *the use of alternative financial resources*. The need to *finance the house purchase and consumption*, the *bank's applied terms and conditions* and *lending standards* continue to affect positively the households' demand for loans.

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

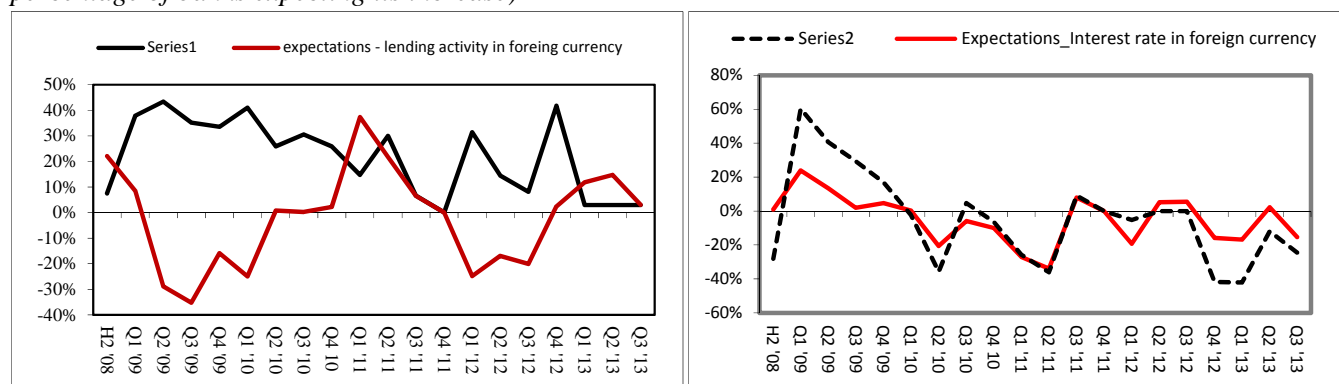


Source: Bank of Albania.

Lending by currency

Banks' experts expect lending in foreign currency to slowdown in 2013, Q4, whereas lending activity in Albanian lek is expected to maintain the same level. Interest rates on both lek and foreign currency denominated loans are expected to decrease in 2013 Q4.

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 the 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	2013 Q3
Change in bank lending standards						
- Current quarter	-6.2%	-6.3%	-7.2%	-2.3%	-2.3%	0.0%
- Next quarter	-0.5%	2.0%	-11.0%	0.7%	3.2%	-0.3%
Factors affecting the lending standards						
- Bank's capital adequacy	-21.6%	-20.5%	-18.5%	-12.1%	0.0%	5.7%
- Bank of Albania's decisions	2.1%	2.0%	0.0%	0.0%	14.4%	16.6%
- Competition in the banking system	-4.0%	6.1%	0.3%	0.3%	0.0%	7.4%
- Current or expected liquidity level	1.0%	3.6%	6.6%	10.0%	8.3%	8.7%
- Specific business-sector related concerns	-58.3%	-58.4%	-64.8%	-67.5%	-54.9%	-36.1%
- Current or expected macroeconomic situation	-33.1%	-28.5%	-40.8%	-44.1%	-41.7%	-22.9%
- Non-performing loans	-49.6%	-36.2%	-62.8%	-48.7%	-52.6%	-32.3%
Change in bank lending standards						
- Average margin	-17.8%	-21.2%	-21.3%	10.4%	1.3%	19.3%
- Margin for risk-rated loans	-11.1%	-16.8%	-16.8%	-18.0%	-43.9%	-19.4%
- Commissions	-17.8%	-23.2%	-4.3%	5.7%	-5.7%	11.4%
- Loan amount	-2.1%	-6.3%	4.3%	-2.3%	5.7%	-5.7%
- Collateral requirement as a ratio of loan amount	-27.7%	-16.6%	-30.3%	-24.0%	-11.4%	0.7%
- Maximum loan term to maturity	-18.7%	-15.8%	-18.3%	-17.4%	-2.3%	3.3%
Change in business demand for loans						
- SMEs, previous quarter	2.6%	-2.7%	27.1%	1.1%	9.5%	-15.6%
- SMEs, next quarter	7.4%	10.4%	6.2%	23.7%	-0.9%	23.4%
- Large enterprises, previous quarter	-14.0%	-15.3%	4.3%	-13.8%	-17.3%	-21.8%
- Large enterprises, next quarter	15.5%	15.8%	-6.9%	9.3%	-3.2%	26.9%
Factors affecting change in demand for loans						
- Need to finance inventories	37.8%	34.8%	48.5%	15.7%	15.6%	19.9%
- Need to finance fixed investments	-5.4%	13.1%	18.1%	12.3%	-7.4%	-12.2%
- Use of alternative financial resources	4.2%	1.0%	22.3%	-8.6%	-35.9%	-7.6%
- Bank of Albania's monetary policy decisions	-5.0%	-4.7%	0.0%	0.0%	13.5%	8.0%
- Lending terms and conditions applied by your bank	19.1%	23.3%	42.6%	14.4%	6.4%	10.3%
- Current or expected macroeconomic situation	-9.8%	-7.1%	16.7%	-32.4%	-29.1%	-56.0%

Annex 2 Lending to households

In aggregating the results, each opinion is weighted based on the response. For example, banks providing the response that the 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	2013 Q3
Change in bank lending standards						
- Previous quarter	0.0%	0.0%	0.0%	1.3%	3.7%	-0.4%
- Next quarter	9.6%	9.4%	10.2%	9.9%	6.8%	9.9%
Factors affecting the lending standards						
- Bank's capital adequacy	0.0%	0.0%	0.0%	6.3%	9.9%	9.9%
- Bank of Albania's decisions	9.8%	0.0%	0.0%	6.3%	6.3%	2.3%
- Competition in the banking system	13.1%	12.1%	6.7%	14.0%	23.0%	10.3%
- Current or expected liquidity level	3.3%	0.0%	6.7%	17.0%	19.3%	17.0%
- Households' financial situation	-29.1%	-27.9%	-26.5%	-8.1%	-21.4%	-24.6%
- Non-performing loans	-29.1%	-37.0%	-38.2%	-26.0%	-21.0%	-25.9%
- Developments in the real estate market	-28.2%	-9.2%	-17.5%	-20.4%	-8.1%	-9.1%
Change in bank lending standards						
- Average margin	-5.9%	0.0%	15.5%	13.0%	13.2%	-0.4%
- Margin for risk-rated loans	-5.9%	5.8%	3.2%	1.3%	-4.1%	-4.1%
- Commissions	-5.9%	0.0%	6.6%	20.7%	14.8%	3.7%
- Loan amount	-6.1%	0.0%	-11.6%	-2.3%	0.0%	-3.3%
- Collateral requirement as a ratio of loan amount	-15.7%	-15.7%	-9.1%	-4.6%	7.3%	7.3%
- Maximum loan term to maturity	0.0%	0.0%	0.0%	5.0%	13.1%	5.0%
- Debt-to-income ratio	-15.9%	0.0%	0.0%	6.3%	6.3%	0.0%
Change in household demand for loans						
- Mortgage loans	-6.1%	-14.0%	-9.0%	-10.8%	6.9%	-11.7%
- Consumer loans	-16.6%	6.0%	-0.9%	-15.9%	23.0%	7.6%
Factors affecting change in demand for loans						
- Households' needs to finance the house purchase	3.5%	-2.4%	-1.0%	10.7%	43.7%	18.1%
- Households' needs to finance consumption	-10.5%	-8.3%	-10.7%	-2.9%	28.6%	7.3%
- Use of alternative financial resources	-21.2%	-24.5%	-11.6%	-14.6%	-8.7%	-10.5%
- Bank of Albania's monetary policy decisions	6.1%	6.1%	0.0%	11.7%	14.9%	14.0%
- Consumer confidence	0.0%	-4.4%	0.0%	-15.8%	7.5%	-17.3%
- Developments in the real estate market	-32.5%	-22.9%	-10.2%	3.7%	21.6%	4.4%
- Lending terms and conditions applied by your bank	3.5%	2.4%	-0.6%	17.3%	37.4%	23.3%