

Bank of Albania  
**Monetary Policy Department**



**Bank Lending Survey Results for 2013 Q4  
January 2014<sup>1</sup>**

Bank lending survey results for 2013 Q4 show that **lending standards** applied to businesses tightened, while demand for loans remained weak. The net percentage of banks reporting tightening of lending standards on businesses was 6.4%, after hitting 0% in 2013 Q3. On the other hand, the lending standards applied to households eased during Q4. The net percentage of banks reporting easing of lending standards was 10.8%, markedly higher than the past two years' average.

*Specific sector-related concerns, non-performing loans situation in the banking system and the overall macroeconomic situation in Albania* were the main **factors** contributing to the tightening of lending standards applied to businesses. Their negative contribution deepened further in 2013 Q4. On a positive note, *competition* was the main factor contributing to easing the lending standards on households.

Banks continued to report further fall in **credit demand**, most notably from businesses. The net percentage of responses reporting increase in household demand for loans rose modestly to 3.7%, from -2% a quarter earlier.

The fall in business demand continued to be adversely driven by the *current and expected macroeconomic situation, alternative financial resources, investment financing needs* and, for the first time in 2013 Q4, *working capital financing*. Household needs to finance *house purchase and consumption* improved the positive contribution to household demand for loans. Conversely, consumer confidence continued to make negative contribution to consumer demand.

For 2014 Q1, banks **expect** lending standards to ease on businesses and households, in light of the weak demand for loans.

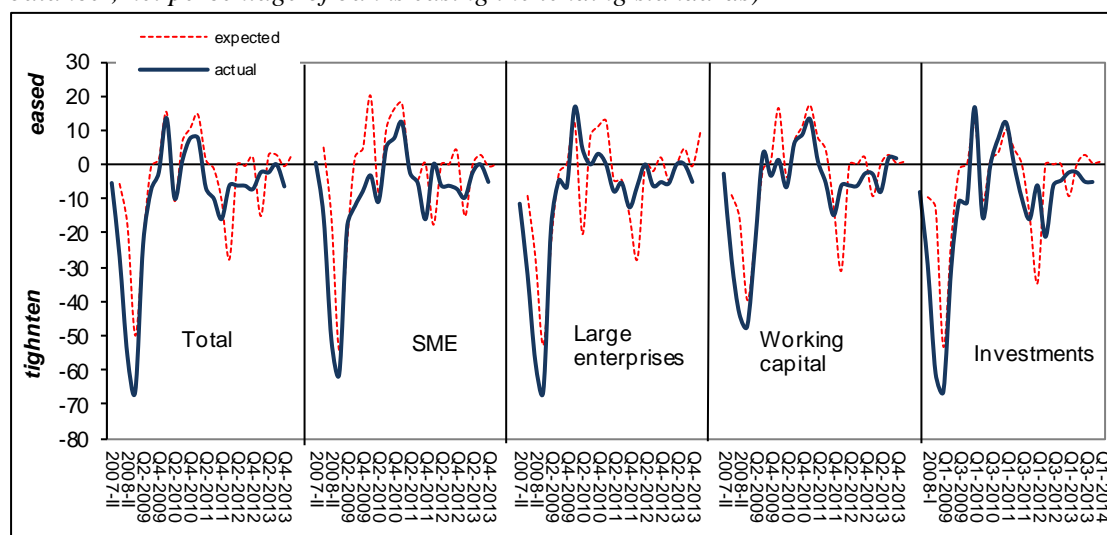
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<sup>1</sup> The survey conducted in December 2013 covers bank lending developments in 2013 Q4 and banks' expectations for lending in 2014 Q1.

## Lending to businesses

**Lending standards.** Banks reported tightening of lending standards applied to businesses during 2013 Q4. The net balance<sup>2</sup> of banks' responses reporting change in standards hit -6.4%, hence worsening from 0% in Q3. By size of enterprise, the lending standards on *small and medium-sized enterprises*, and *large enterprises* changed to the same extent (see Chart 1). By purpose of use, the lending standards were tightened only on *investment loans*, while easing slightly on *working capital loans* (their balances stood at -5.1% and 1.8%, respectively). Banks appeared more optimistic for 2014 Q1, expecting easier lending standards on businesses, most notably on large enterprises.

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)



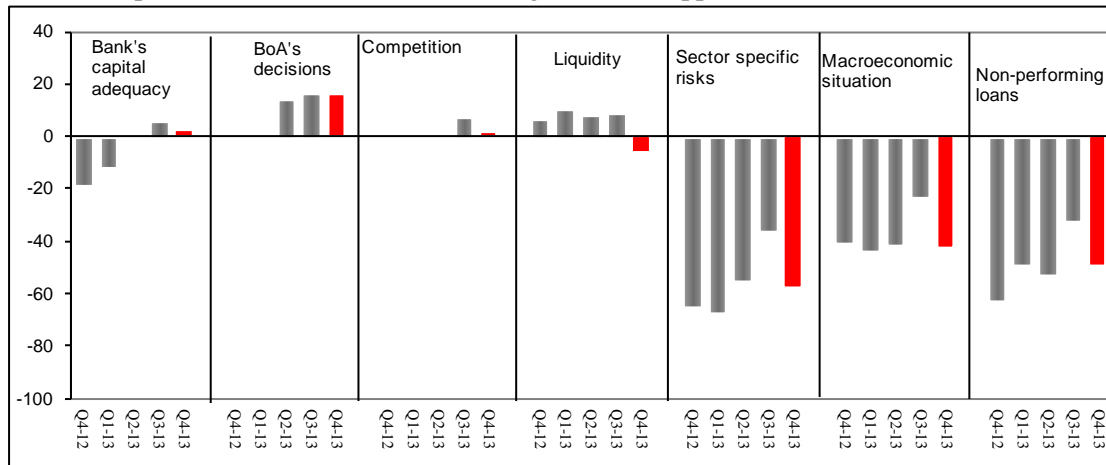
Source: Bank of Albania.

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

Specific sector-related concerns, non-performing loans situation in the banking system and the overall macroeconomic situation in Albania were major factors contributing to the tightening of lending standards applied to businesses. On the other hand, Bank of Albania's decisions contributed to easing the lending standards on 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 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*<sup>2</sup>)

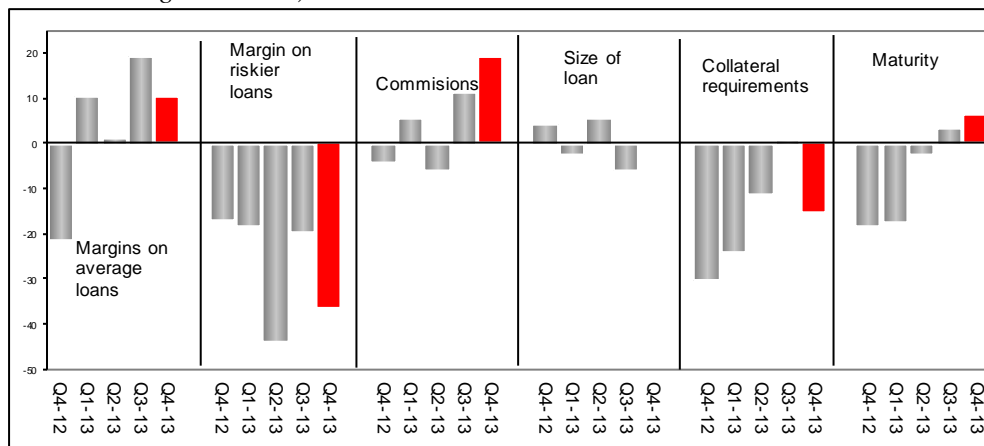


Source: Bank of Albania.

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 policy during 2013 Q4 was mainly applied through wider *margin on riskier loans* and higher *collateral requirements*. On the other hand, the narrower average margin, lower commissions and longer maximum term to maturity contributed to slightly easing the lending standards.

Chart 3 Change in lending terms and conditions on businesses (*net balance*<sup>2</sup>, *net percentage of banks reporting easier lending standards*)

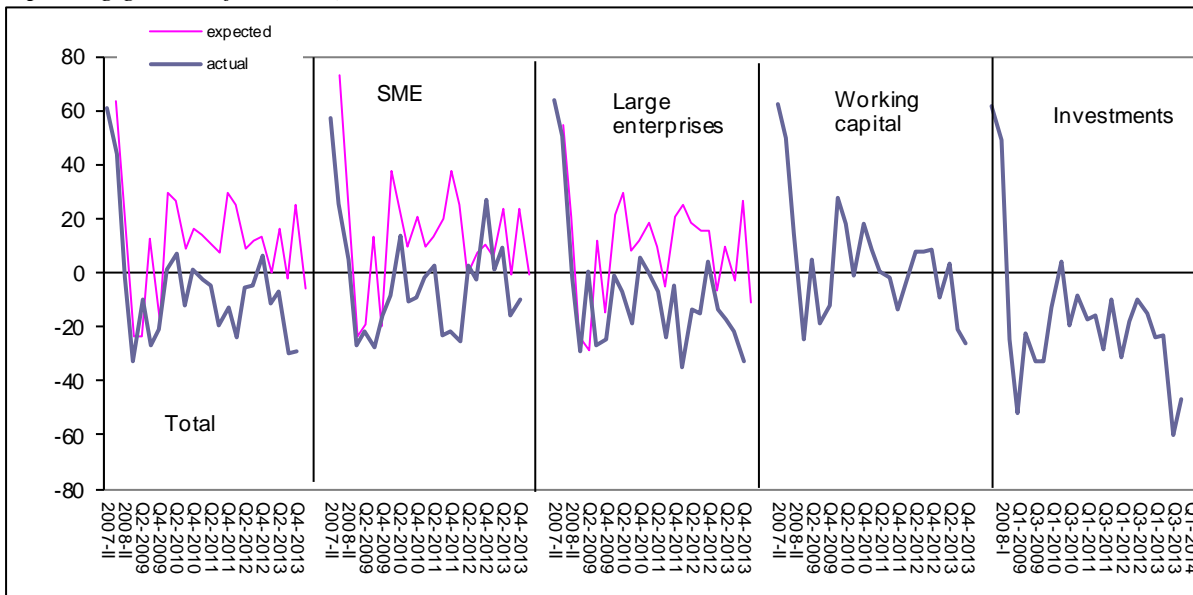


Source: Bank of Albania.

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

**Demand for loans.** Bank experts continued to report negative demand for loans from businesses in 2013 Q4. The net percentage of banks perceiving lower demand for loans was almost similar to the previous quarter, at about 29%. The fall of demand was sharper for large enterprises than small and medium-sized ones, and most notable for *investment* rather than *working capital* loans. For 2014 Q1, banks do not expect marked recovery of business demand for loans.

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

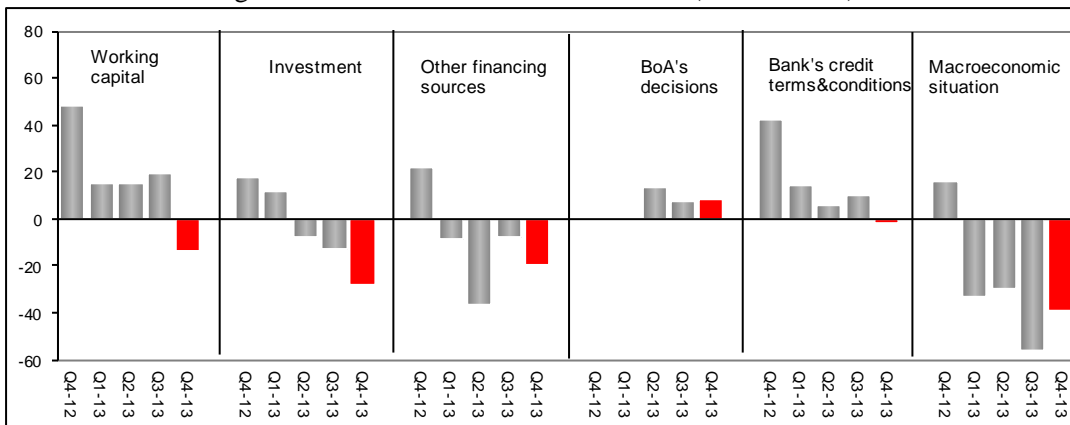


Source:

Bank of Albania.

Current and expected macroeconomic situation in Albania, use of alternative resources, and investment and working capital financing were major factors contributing adversely to demand for loans in 2013 Q4. Bank of Albania's decisions made positive, albeit minor, contribution to demand over the same quarter.

Chart 5 Contributing factors to business demand for loans (*net balance<sup>4</sup>*)



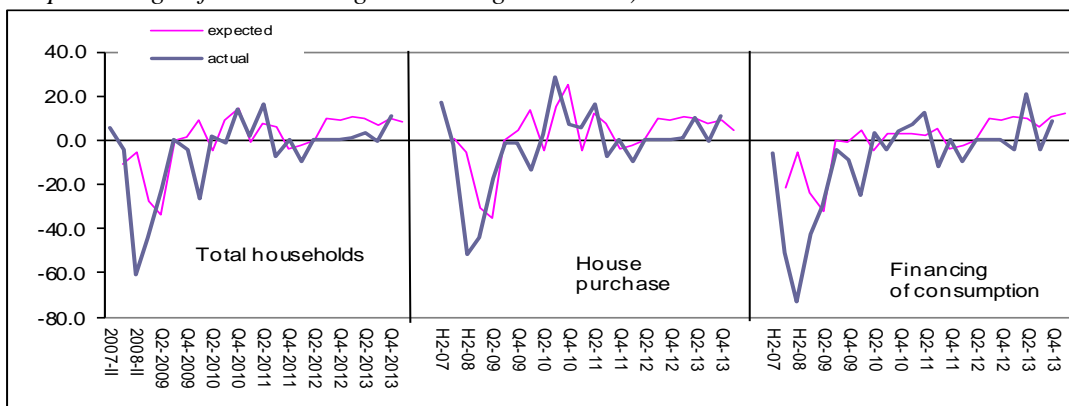
Source: Bank of Albania.

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.

## Lending to households

**Lending standards.** The lending standards applied to households eased in 2013 Q4. The net percentage of banks reporting the easing of lending standards on households was 10.8%, hence improving markedly from Q3 and the past two years' average. Banks expect the lending standards on households to remain eased in 2014 Q1. By purpose of use, the standards were eased on *consumer* and *mortgage* loans. Their respective balances were +8.3% and +10.8% for 2013 Q4, while expected to remain at +12.3% and +4.5% in 2014 Q1.

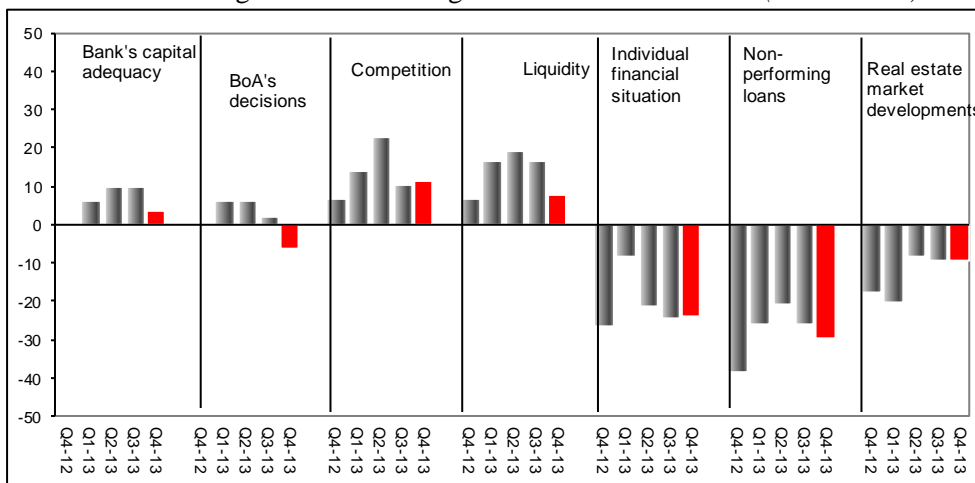
Chart 6 Changes in lending standards applied to total households, on mortgage and consumer loans (*net balance, net percentage of banks easing the lending standards*)



Source: Bank of Albania.

Competition in the banking system and banks' liquidity were contributing factors to the eased lending standards on households. Conversely, *non-performing loans situation, households' financial situation* and *real estate market developments* continued to contribute to keeping the lending standards tight. The latter factor, however, has lowered its negative contribution markedly in the past three quarters.

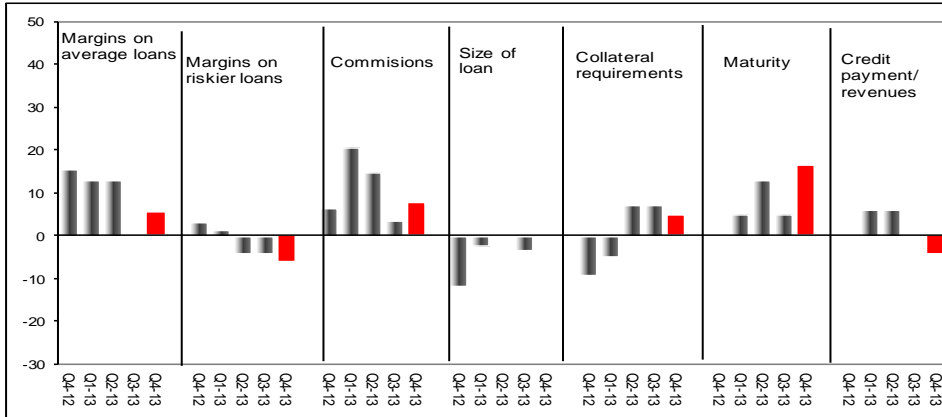
Chart 7 Contributing factors to lending standards on households (*net balance*)



Source: Bank of Albania.

Banks' easier lending policy was mainly applied through the narrower *average margin*, lower *commissions*, relaxed *collateral requirements* and longer *maximum term to maturity*. On the other hand, banks lowered *instalment-to-income ratio* and widened *the margin on riskier loans*.

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

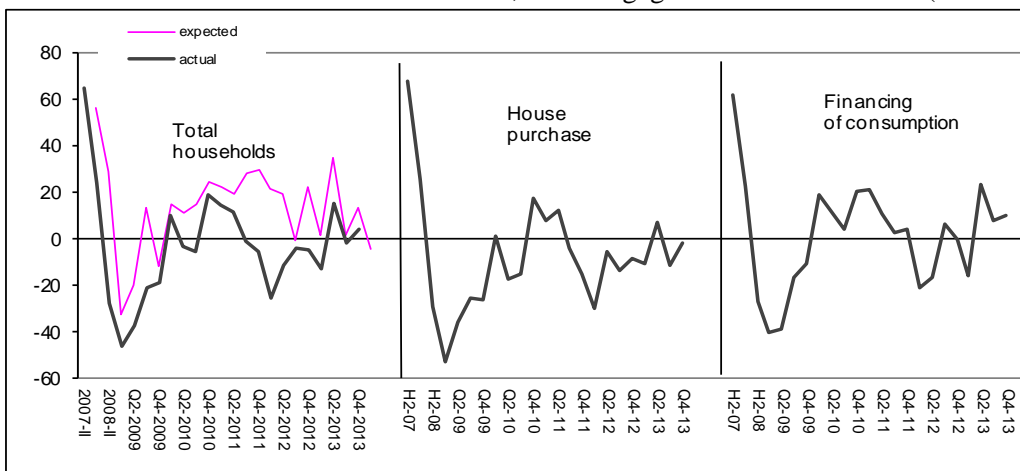


Source: Bank of Albania.

**Demand for loans.** Banks reported marginal growth of household demand for loans. The net percentage of banks reporting growth of household demand was +3.7%; however, their expectations for its growth in 2014 Q1 point to a negative balance of -4.3%.

By purpose of use, banks reported higher demand for *consumer loans* for the third quarter in a row, but lower demand for *mortgage loans*. The latter's balance, however, stood at -2.2%, hence improving from -11.7% in 2013 Q3.

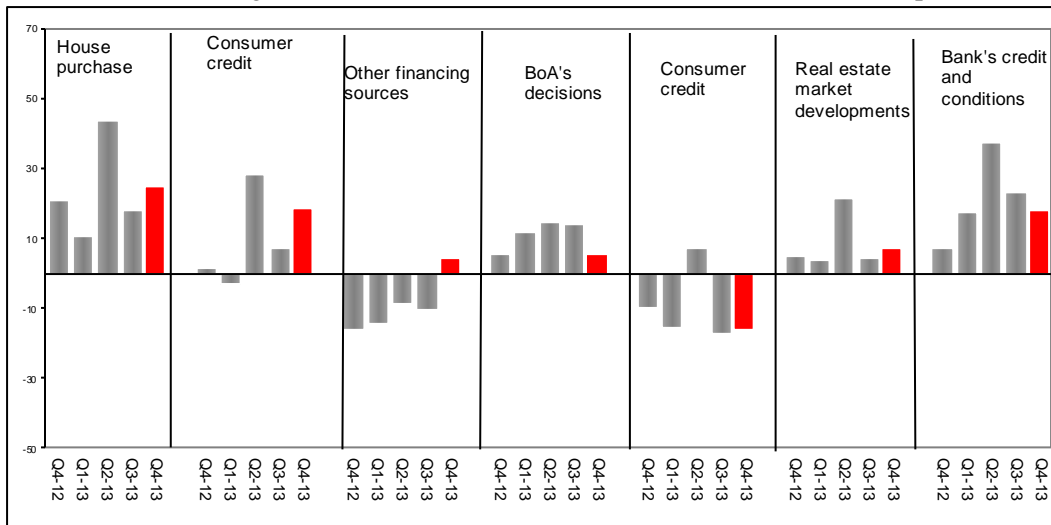
Chart 9 Total households demand for loans, for mortgage and consumer loans (*net balance*)



Source: Bank of Albania.

The need to finance *house purchase* and *consumption*, *bank lending standards* and the positive developments in the *real estate market* were contributing factors to the improved household demand for loans. *Consumer confidence* continued to make negative contribution to household demand for loans.

Chart 10 Contributing factors to household demand for loans (net balance, in per cent)

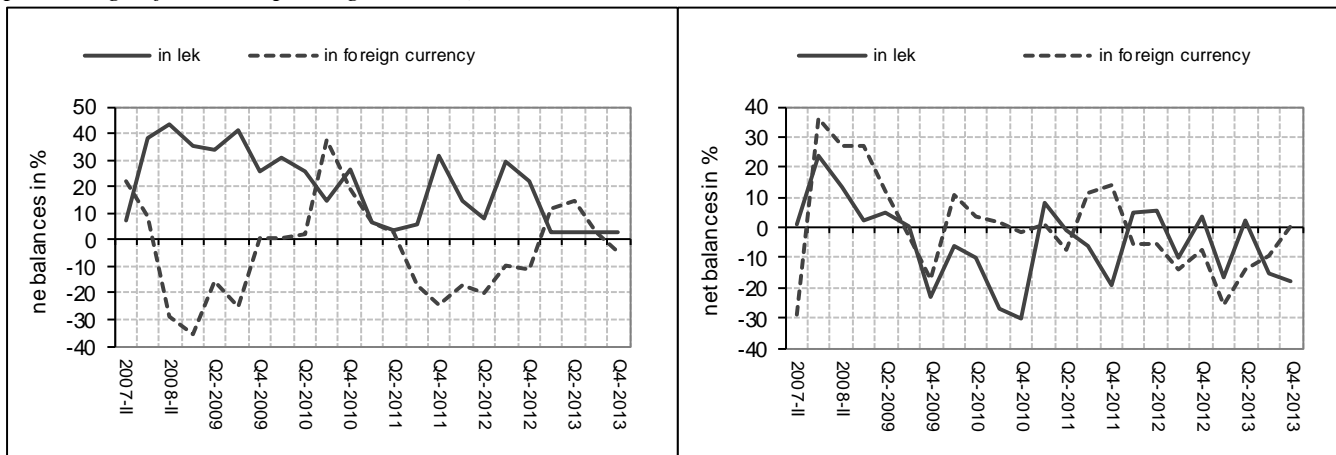


Source: Bank of Albania.

### Lending by currency

For 2014 Q1, banks expect lending in lek to increase slightly and that in foreign currency to decrease. Interest rates on lek loans are expected to decrease, while remaining unchanged on foreign currency loans.

Chart 11 Banks' expectations for lending (left) and interest rates (right), after one quarter (*net balance*\*, *net percentage of banks expecting 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 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4
<b>Change in bank lending standards</b>						
- Current quarter	-6.3%	-7.2%	-2.3%	-2.3%	0.0%	-6.4%
- Next quarter	2.0%	-11.0%	0.7%	3.2%	-0.3%	3.3%
<b>Factors affecting the lending standards</b>						
- Bank's capital adequacy	-20.5%	-18.5%	-12.1%	0.0%	5.7%	2.1%
- Bank of Albania's decisions	2.0%	0.0%	0.0%	14.4%	16.6%	16.1%
- Competition in the banking system	6.1%	0.3%	0.3%	0.0%	7.4%	1.8%
- Current or expected liquidity level	3.6%	6.6%	10.0%	8.3%	8.7%	-5.9%
- Specific business sector-related concerns	-58.4%	-64.8%	-67.5%	-54.9%	-36.1%	-57.5%
- Current or expected macroeconomic situation	-28.5%	-40.8%	-44.1%	-41.7%	-22.9%	-42.6%
- Non-performing loans	-36.2%	-62.8%	-48.7%	-52.6%	-32.3%	-49.3%
<b>Change in bank lending standards</b>						
- Average margin	-21.2%	-21.3%	10.4%	1.3%	19.3%	10.2%
- Margin for risk-rated loans	-16.8%	-16.8%	-18.0%	-43.9%	-19.4%	-36.5%
- Commissions	-23.2%	-4.3%	5.7%	-5.7%	11.4%	18.9%
- Loan amount	-6.3%	4.3%	-2.3%	5.7%	-5.7%	-0.3%
- Collateral requirement as a ratio of loan amount	-16.6%	-30.3%	-24.0%	-11.4%	0.7%	-15.2%
- Maximum loan term to maturity	-15.8%	-18.3%	-17.4%	-2.3%	3.3%	6.3%
<b>Change in business demand for loans</b>						
- SMEs, previous quarter	-2.7%	27.1%	1.1%	9.5%	-15.6%	-10.3%
- SMEs, next quarter	10.4%	6.2%	23.7%	-0.9%	23.4%	-0.4%
- Large enterprises, previous quarter	-15.3%	4.3%	-13.8%	-17.3%	-21.8%	-32.5%
- Large enterprises, next quarter	15.8%	-6.9%	9.3%	-3.2%	26.9%	-10.8%
<b>Factors affecting change in demand for loans</b>						
- Need to finance inventories	34.8%	48.5%	15.7%	15.6%	19.9%	-13.8%
- Need to finance fixed investments	13.1%	18.1%	12.3%	-7.4%	-12.2%	-28%
- Use of alternative financial resources	1.0%	22.3%	-8.6%	-35.9%	-7.6%	-19.9%
- Bank of Albania's monetary policy decisions	-4.7%	0.0%	0.0%	13.5%	8.0%	8.6%
- Lending standards applied by your bank	23.3%	42.6%	14.4%	6.4%	10.3%	-1.7%
- Current or expected macroeconomic situation	-7.1%	16.7%	-32.4%	-29.1%	-56.0%	-39%



## 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.

<b>HOUSEHOLDS</b>	<b>2012 Q3</b>	<b>2012 Q4</b>	<b>2013 Q1</b>	<b>2013 Q2</b>	<b>2013 Q3</b>	<b>2013 Q4</b>
<b>Change in bank lending standards</b>						
- Previous quarter	0.0%	0.0%	1.3%	3.7%	-0.4%	10.8%
- Next quarter	9.4%	10.2%	9.9%	6.8%	9.9%	8.4%
<b>Factors affecting the lending standards</b>						
- Bank's capital adequacy	0.0%	0.0%	6.3%	9.9%	9.9%	3.4%
- Bank of Albania's decisions	0.0%	0.0%	6.3%	6.3%	2.3%	-6.5%
- Competition in the banking system	12.1%	6.7%	14.0%	23.0%	10.3%	11.1%
- Current or expected liquidity level	0.0%	6.7%	17.0%	19.3%	17.0%	7.7%
- Households' financial situation	-27.9%	-26.5%	-8.1%	-21.4%	-24.6%	-24.1%
- Non-performing loans	-37.0%	-38.2%	-26.0%	-21.0%	-25.9%	-29.6%
- Developments in the real estate market	-9.2%	-17.5%	-20.4%	-8.1%	-9.1%	-9.7%
<b>Change in bank lending standards</b>						
- Average margin	0.0%	15.5%	13.0%	13.2%	-0.4%	5.6%
- Margin for risk-rated loans	5.8%	3.2%	1.3%	-4.1%	-4.1%	-6.2%
- Commissions	0.0%	6.6%	20.7%	14.8%	3.7%	7.7%
- Loan amount	0.0%	-11.6%	-2.3%	0.0%	-3.3%	0%
- Collateral requirement as a ratio of loan amount	-15.7%	-9.1%	-4.6%	7.3%	7.3%	4.6%
- Maximum loan term to maturity	0.0%	0.0%	5.0%	13.1%	5.0%	16.4%
- Instalment-to-income ratio	0.0%	0.0%	6.3%	6.3%	0.0%	-4.3%
<b>Change in household demand for loans</b>						
- Mortgage loans	-14.0%	-9.0%	-10.8%	6.9%	-11.7%	-2.2%
- Consumer loans	6.0%	-0.9%	-15.9%	23.0%	7.6%	9.5%
<b>Factors affecting change in demand for loans</b>						
- Households' needs to finance house purchase	-2.4%	-1.0%	10.7%	43.7%	18.1%	24.9%
- Households' needs to finance consumption	-8.3%	-10.7%	-2.9%	28.6%	7.3%	18.7%
- Use of alternative financial resources	-24.5%	-11.6%	-14.6%	-8.7%	-10.5%	4.2%
- Bank of Albania's monetary policy decisions	6.1%	0.0%	11.7%	14.9%	14.0%	5.2%
- Consumer confidence	-4.4%	0.0%	-15.8%	7.5%	-17.3%	-16.1%
- Developments in the real estate market	-22.9%	-10.2%	3.7%	21.6%	4.4%	7.2%
- Lending standards applied by your bank	2.4%	-0.6%	17.3%	37.4%	23.3%	17.9%