

Bank of Albania
Monetary Policy Department



Bank Lending Survey Results for 2014 Q1
April 2014¹

The latest bank lending survey shows that the trends seen in 2013 Q4 - tightening of credit standards applied to businesses and easing of credit standards applied to households - continued in 2014 Q1. The net percentage of banks reporting a tightening of credit standards applied to businesses was -7.4%, from -5.1% in 2013 Q4. On the other hand, credit standards applied to households eased slightly during 2014 Q1. The net percentage of banks reporting an easing of credit standards was 3.1%, significantly lower than a quarter earlier (+10.8%).

Specific sector-related concerns, non-performing loans situation in the banking system and the macroeconomic situation remain the main factors contributing to tightening of credit standards applied to businesses. Their negative contribution fell somewhat during 2014 Q1. Competition and liquidity position were the main factors contributing to easing of credit standards applied to households.

Banks continued to report a lower **credit demand** by businesses. The credit demand by households increased moderately. According to bank's opinion, the current and expected macroeconomic situation and investors' lower need for financing are the main factors that have contributed to decline in credit demand by businesses. Households' need to finance consumption and a house purchase, and the banks' credit standards have pushed up on credit demand by households.

For 2014 Q2, banks **expect** credit standards to ease, particularly those applied to households for a house purchase and consumption financing. Credit standards applied to businesses, mainly to finance working capital and, to a lesser extent, to finance investments, are expected to ease.

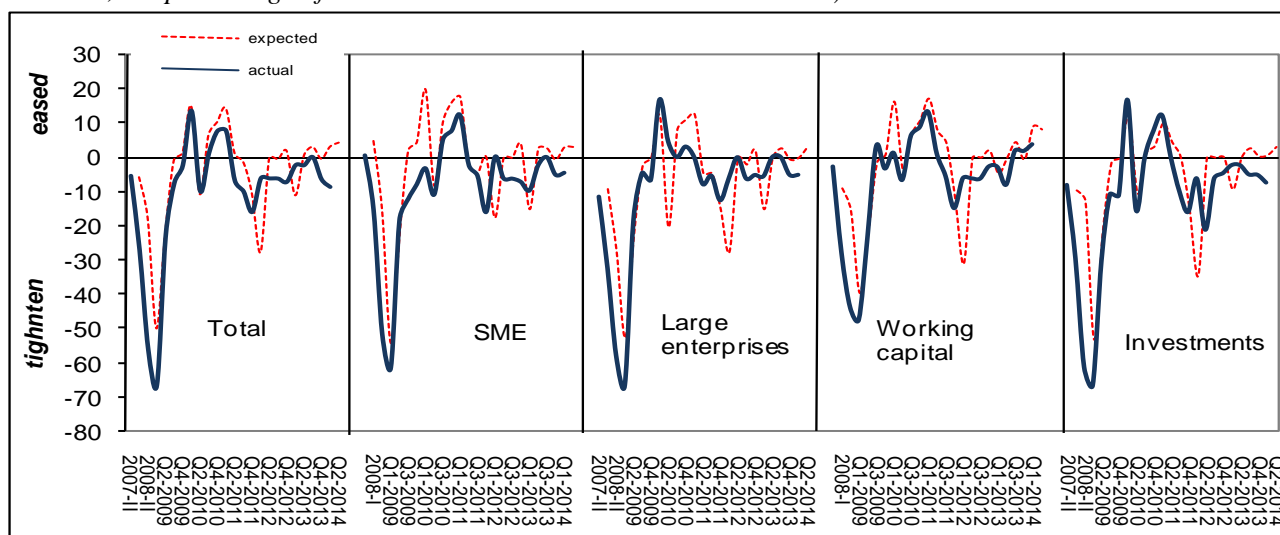
Lending to businesses

Credit standards. After remaining unchanged in 2013 Q3, the credit standards applied to businesses tightened over the next two quarters. The net balance² of responses of banks reporting that they have

¹The survey conducted in March 2014 covers bank lending developments in 2014 Q1 and banks' expectations for lending in 2014 Q2.

changed the standards, was -7.4%. This shows deterioration compared to -5.1% in 2013 Q4. By size of enterprise, the credit standards remain similarly tight (Chart 1). By purpose of use, the standards tightened only for investment loans and eased for working capital ones (respective balances were -7.4% and 3.8%). For 2014 Q2, banks are slightly more optimistic and expect easing of credit standards applied to businesses, mainly for working capital loans.

Chart 1: Changes in credit standards for total business loans, by size of enterprise and purpose of use (*net balance*¹, *net percentage of banks that have eased the credit standards*)



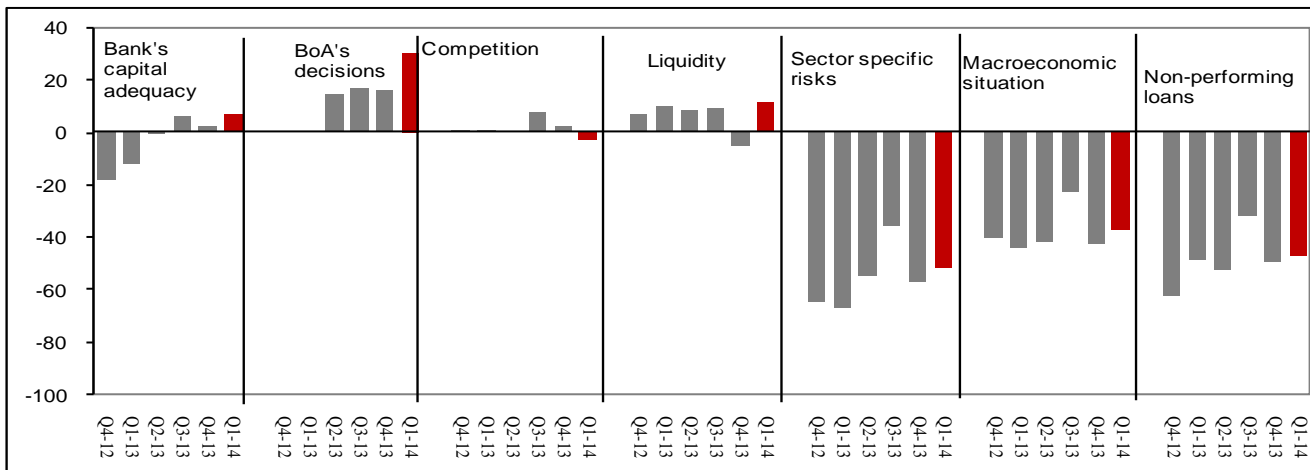
Source: Bank of Albania.

Note 1: A positive balance indicates that the credit standards have eased, while a negative balance indicates that the credit standards have tightened.

Specific sector-related concerns, non-performing loans situation in the banking system, macroeconomic situation in the country and, to a lesser extent, competition in the banking system were the main factors contributing to tightening of credit standards applied to businesses in 2014 Q1. Bank of Albania's monetary policy decisions and banks' liquidity position contributed to easing of the credit standards applied to businesses.

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

²Banks' responses about lending 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 Albanian lek/foreign currency).

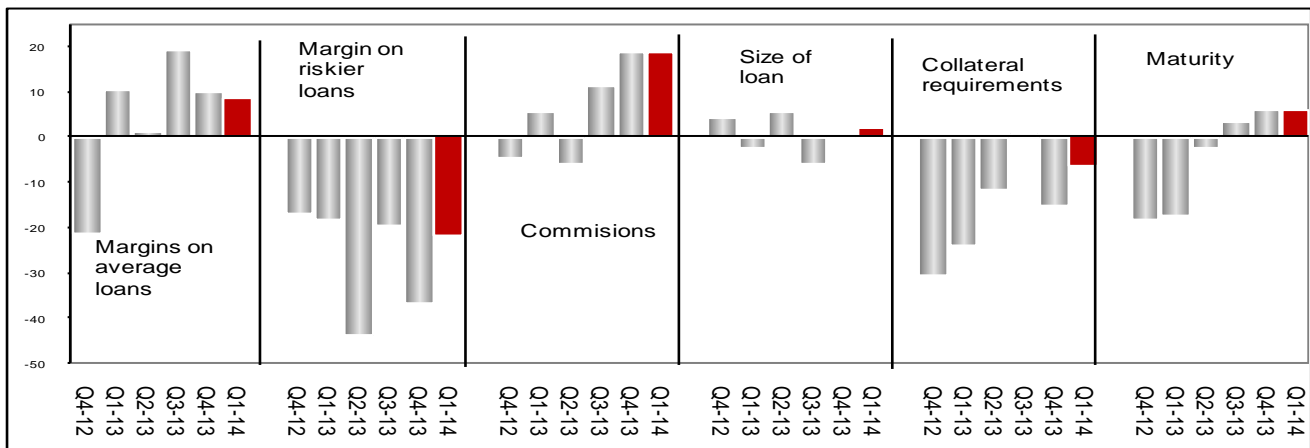


Source: Bank of Albania.

Note 2: A positive balance indicates easing of credit standards. A negative balance indicates tightening of credit standards.

Banks' tight policy during 2013 Q4 was mainly applied by widening the margin on riskier loans and increasing the collateral requirements. On the other hand, the narrower margin on average loans, lower commissions and longer maximum maturity of loans during this quarter contributed to slightly easing the credit standards.

Chart 3: Changes in credit standards applied to the approval of loans to businesses (*net balance², net percentage of banks reporting easier credit standards*)

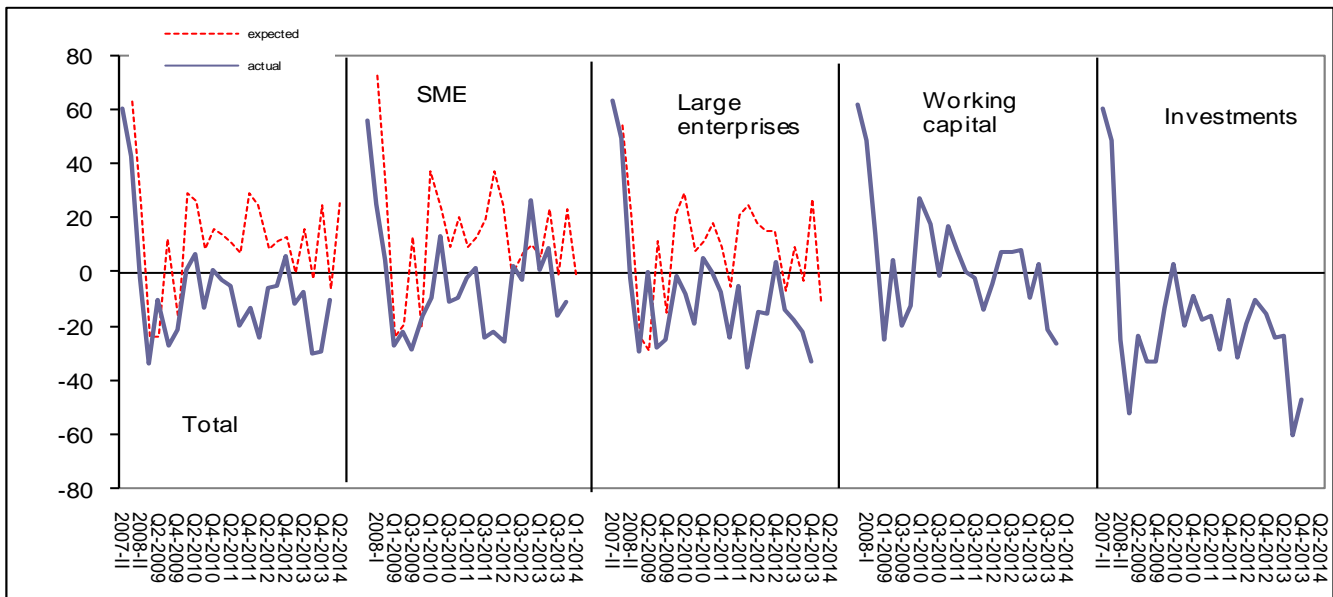


Source: Bank of Albania

Note 2: A positive balance indicates easing of credit standards, while a negative balance indicates tightening of credit standards.

Credit demand. Bank experts' assessment of credit demand by businesses remained negative, regardless of a better net balance of responses than in 2013 Q4. The net percentage of banks perceiving a lower credit demand was 9.7%, from 29% in the previous quarter. The demand fell for both large, and small and medium-sized enterprises. By purpose of use, the demand improved for working capital loans, while it fell for investment loans. Banks expect the credit demand by businesses to recover in 2014 Q2.

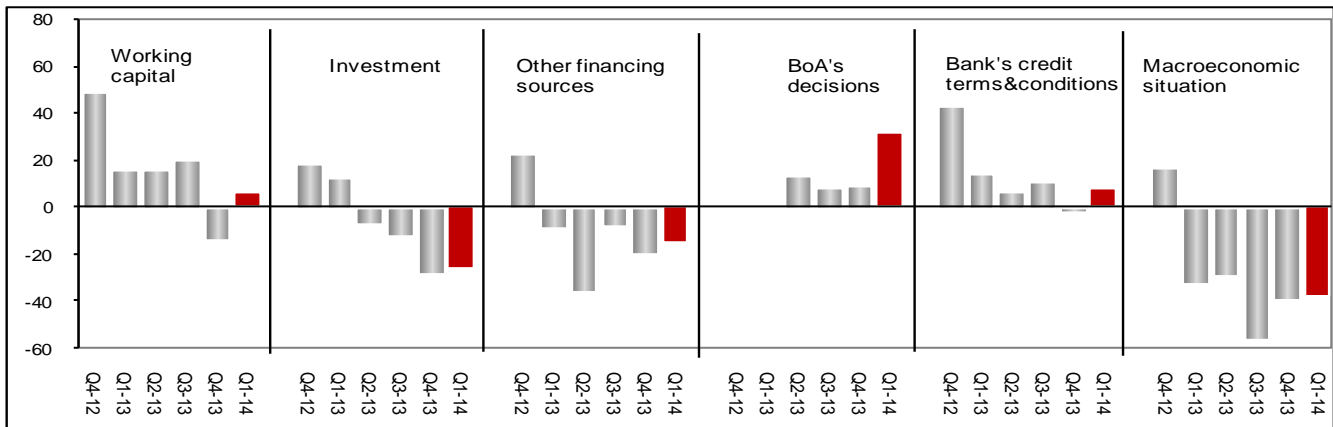
Chart 4: Business demand for credit, by size of enterprise and purpose of use (net balance, net percentage of banks reporting a higher demand)



Source: Bank of Albania.

Current and expected macroeconomic situation in Albania, use of alternative financial resources, and lower needs to finance new investments were the main factors contributing to falling demand for credit. Bank of Albania's monetary policy decisions made a significantly positive contribution to the demand for credit during the quarter.

Chart 5: Factors contributing to business demand for credit (net balance⁴)



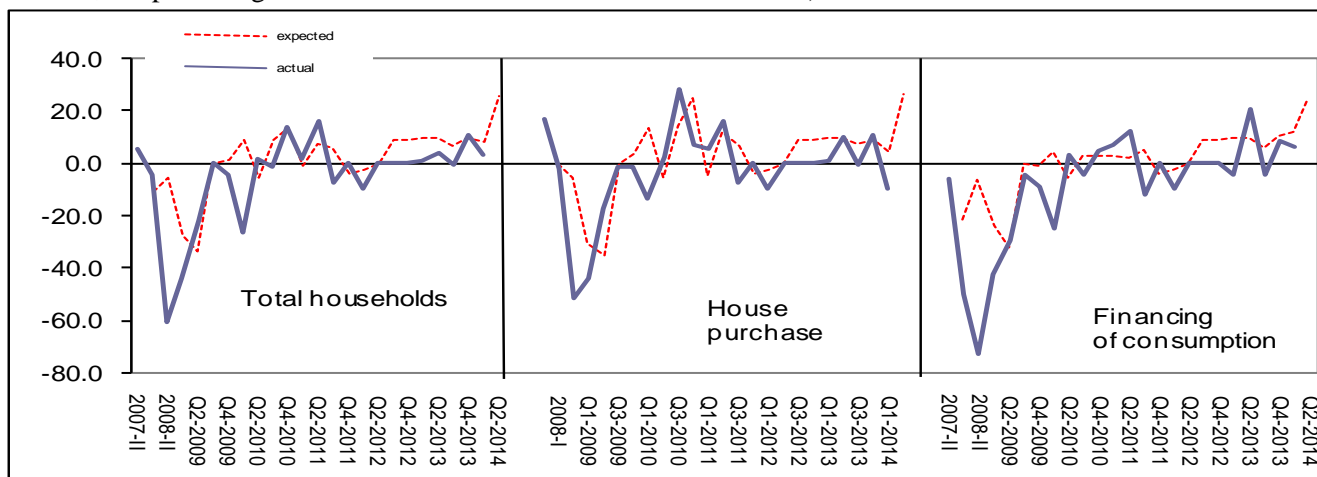
Source: Bank of Albania.

Note 4: A positive balance indicates an increase in demand or that the factor has contributed to increasing demand, while a negative balance indicates a fall in demand or that the factor has contributed to falling demand for credit.

Lending to households

Credit standards. Banks reported that the credit standards applied to households eased in 2014 Q1, though to a lesser extent than in the previous quarter. The net percentage of banks reporting an easing of credit standards applied to households was +3.1%, about 7.7 percentage points less than at end-2013. By purpose of use, the credit standards for consumer loan eased, while the credit standards for housing loans tightened during the quarter under review. Respective balances were +6.5% and -9.6%, from +8.3% and +10.8. For 2014 Q2, banks expect a further easing of credit standards for house purchase and consumer loans.

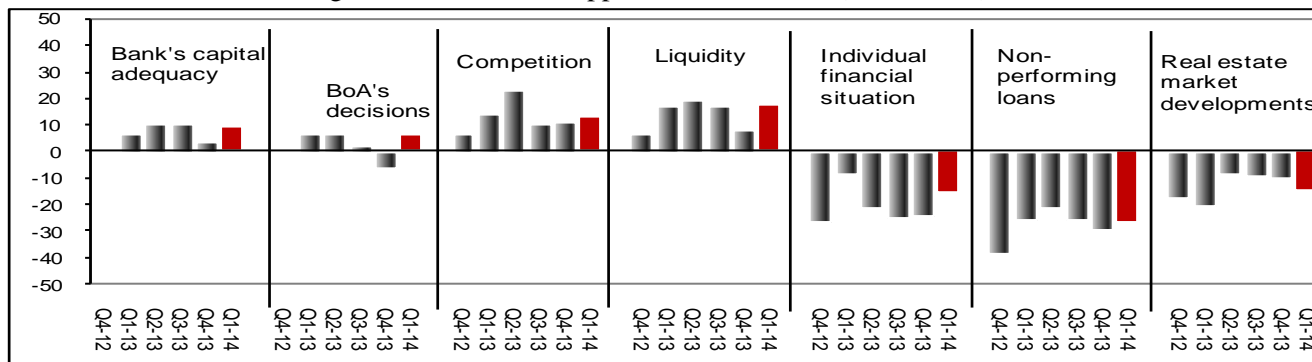
Chart 6: Changes in credit standards applied to total households for house purchase and consumer loans (net balance, net percentage of banks that have eased the credit standards)



Source: Bank of Albania.

Liquidity position and capital adequacy, and competition in the banking system were the factors contributing to easing of credit standards to households. On the other hand, the non-performing loans situation, households' financial situation, and the real estate market developments continued to contribute to tightening of credit standards applied to households.

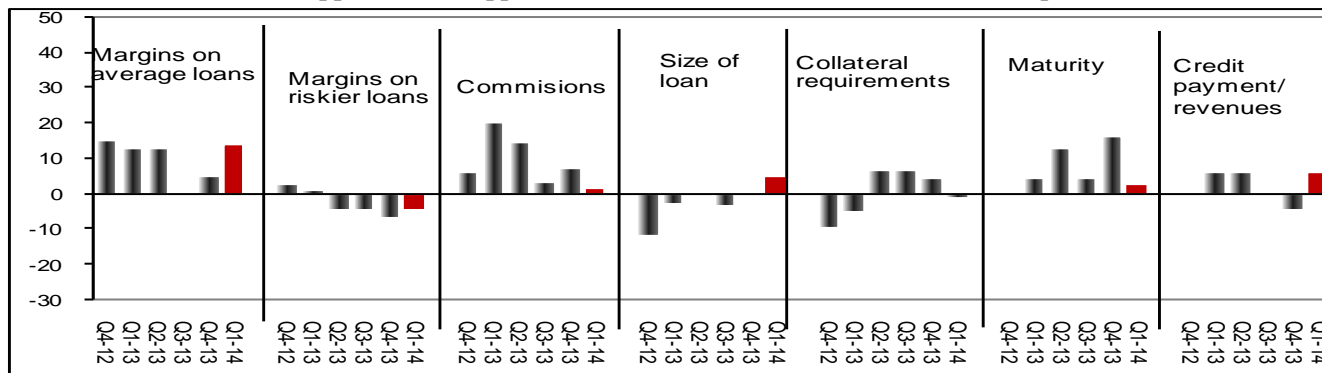
Chart 7: Factors contributing to credit standards applied to households (net balance)



Source: Bank of Albania.

Banks' easier policy on household loans was applied by narrowing the margin on average loans, increasing the loan amount and the instalment-to-income ratio. On the other hand, banks have widened the margin on riskier loans and have increased their collateral requirements.

Chart 8: Credit standards applied to the approval of loans to households (net balance, in per cent)

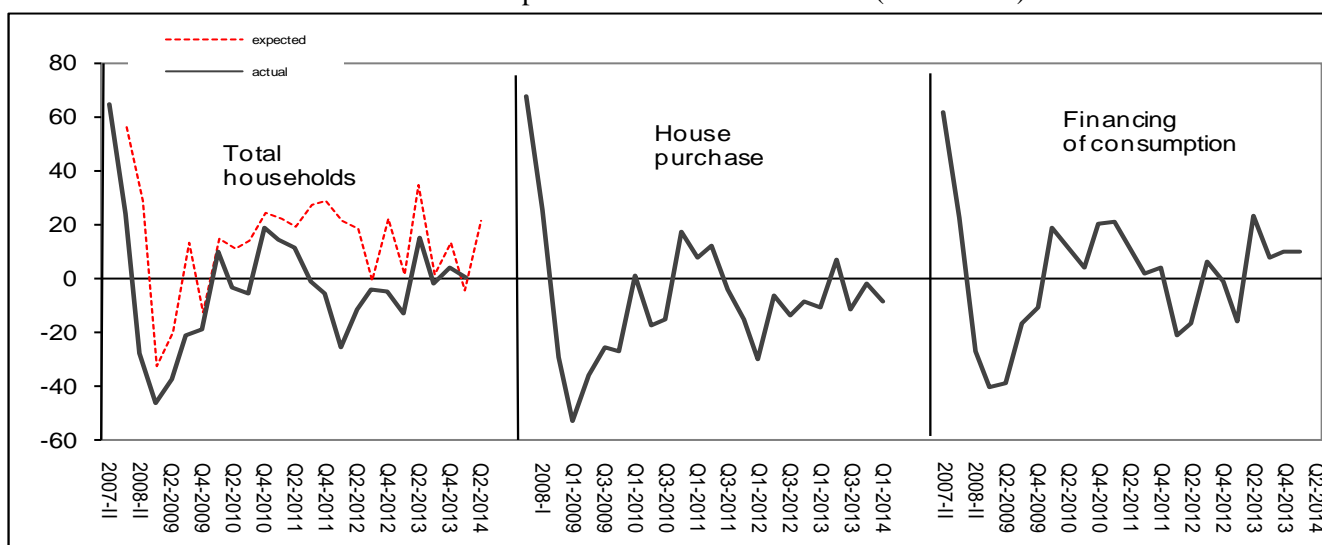


Source: Bank of Albania.

Credit demand. Banks reported a marginally increased credit demand by households in 2014 Q1. The net percentage of banks perceiving increase in household demand was +0.5 %, slowing down compared to +3.7% in the previous quarter. Banks expect a higher demand in 2014 Q2.

By purpose of use, banks reported a higher demand for consumer loans for the fourth quarter in a row, but a lower demand for house purchase loans. The latter's balance stood at -8.7%, hence deteriorating compared to -2.2% in the previous quarter.

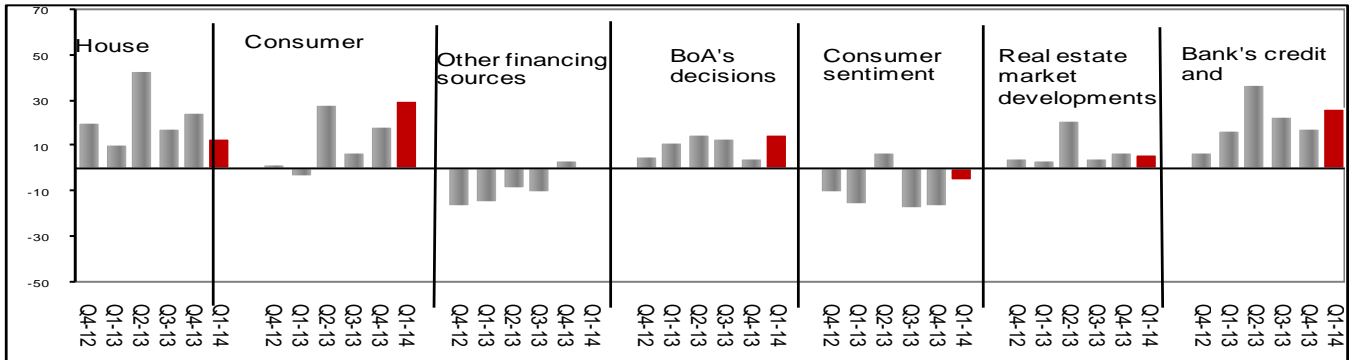
Chart 9: Total household demand for house purchase and consumer loans (net balance)



Source: Bank of Albania.

The need to finance house purchase and consumption, bank credit standards and Bank of Albania's monetary policy decisions contributed positively to the demand for loans. Also, the positive developments in the real estate market made a low-but-positive contribution to the demand, while the consumer confidence made a low-but-negative contribution to household demand for loans.

Chart 10: Factors contributing to household demand for loans (net balance, in per cent)

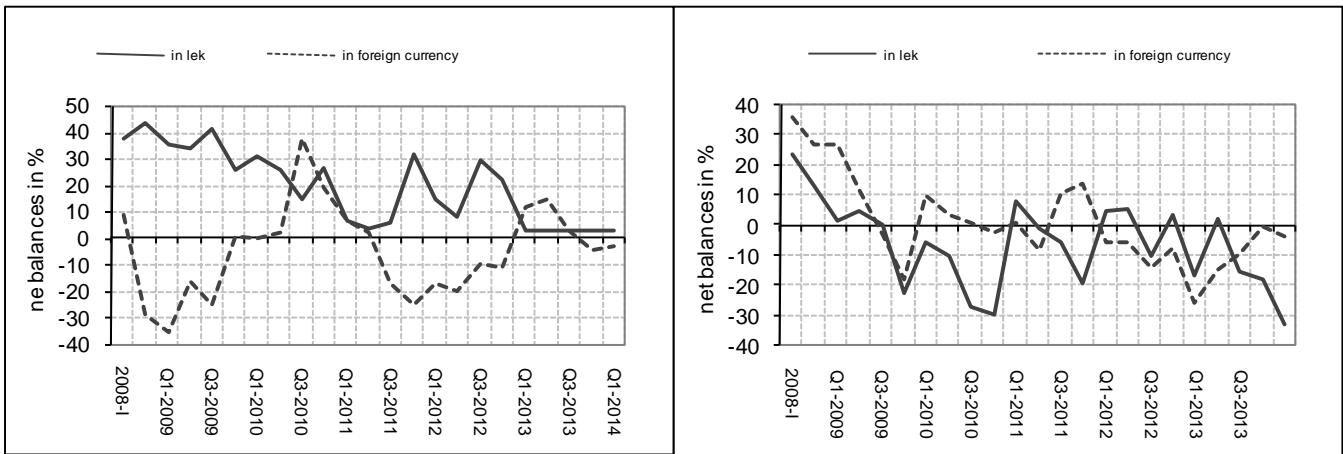


Source: Bank of Albania.

Lending by currency

For 2014 Q2, banks expect lending in lek to increase slightly and lending in foreign currency to decrease slightly. Interest rates on lek loans are expected to fall more than those 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.

* A positive balance indicates an increase in lending or increase in the interest rate, while a negative balance indicates a decrease in lending or in the interest rate.

ANNEX 1. LENDING TO BUSINESSES

To calculate aggregate results, each opinion is weighted based on the response. For example, banks which respond that standards “have tightened considerably” are assigned twice the weight of those which respond that standards “have 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 to lie between +/- 100.

BUSINESSES	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14
Change in bank credit standards					
- Current quarter	-2.3%	-2.3%	0.0%	-5.1%	-7.4%
- Next quarter	0.7%	3.2%	-0.3%	3.1%	4.4%
Factors contributing to credit standards					
- Bank's capital adequacy	-12.1%	0.0%	5.7%	2.1%	6.3%
- Bank of Albania's monetary policy decisions	0.0%	14.4%	16.6%	16.1%	30.4%
- Competition in the banking system	0.3%	0.0%	7.4%	1.8%	-3.4%
- Current or expected liquidity level	10.0%	8.3%	8.7%	-5.9%	11.2%
- Specific business sector-related concerns	-67.5%	-54.9%	-36.1%	-57.5%	-51.8%
- Current or expected macroeconomic situation	-44.1%	-41.7%	-22.9%	-42.6%	-37.4%
- Non-performing loans	-48.7%	-52.6%	-32.3%	-49.3%	-47.7%
Change in bank credit standards					
- Average margin	10.4%	1.3%	19.3%	10.2%	8.6%
- Margin on riskier loans	-18.0%	-43.9%	-19.4%	-36.5%	-21.8%
- Commissions	5.7%	-5.7%	11.4%	18.9%	18.9%
- Loan amount	-2.3%	5.7%	-5.7%	-0.3%	2.0%
- Collateral requirement as a ratio of loan amount	-24.0%	-11.4%	0.7%	-15.2%	-6.3%
- Maximum loan term to maturity	-17.4%	-2.3%	3.3%	6.3%	5.8%
Change in business demand for loans					
- SMEs, previous quarter	1.1%	9.5%	-15.6%	-10.3%	-8.1%
- SMEs, next quarter	23.7%	-0.9%	23.4%	-0.4%	31.8%
- Large enterprises, previous quarter	-13.8%	-17.3%	-21.8%	-32.5%	-9.2%
- Large enterprises, next quarter	9.3%	-3.2%	26.9%	-10.8%	19.8%
Factors contributing to change in demand for loans					
- Need to finance inventories	15.7%	15.6%	19.9%	24.9%	5.9%
- Need to finance fixed investments	12.3%	-7.4%	-12.2%	18.7%	-25.9%
- Use of alternative financial resources	-8.6%	-35.9%	-7.6%	4.2%	-15.1%
- Bank of Albania's monetary policy decisions	0.0%	13.5%	8.0%	5.2%	31.1%
- Credit standards applied by your bank	14.4%	6.4%	10.3%	-16.1%	8.0%
- Current or expected macroeconomic situation	-32.4%	-29.1%	-56.0%	7.2%	-38.3%

ANNEX 2 LENDING TO HOUSEHOLDS

To aggregate the results, each opinion is weighted based on the response. For example, banks which respond that standards “have tightened considerably” are assigned twice the weight of those which respond that standards “have 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 to lie between +/- 100.

HOUSEHOLDS	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14
Change in bank credit standards					
- Previous quarter	1.3%	3.7%	-0.4%	10.8%	3.1%
- Next quarter	9.9%	6.8%	9.9%	8.4%	25.8%
Factors contributing to credit standards					
- Bank's capital adequacy	6.3%	9.9%	9.9%	3.4%	9.5%
- Bank of Albania's monetary policy decisions	6.3%	6.3%	2.3%	-6.5%	6.1%
- Competition in the banking system	14.0%	23.0%	10.3%	11.1%	12.6%
- Current or expected liquidity level	17.0%	19.3%	17.0%	7.7%	17.2%
- Households' financial situation	-8.1%	-21.4%	-24.6%	-24.1%	-15.4%
- Non-performing loans	-26.0%	-21.0%	-25.9%	-29.6%	-27.0%
- Developments in the real estate market	-20.4%	-8.1%	-9.1%	-9.7%	-14.5%
Change in bank credit standards					
- Average margin	13.0%	13.2%	-0.4%	5.6%	14.2%
- Margin on riskier loans	1.3%	-4.1%	-4.1%	-6.2%	-4.3%
- Commissions	20.7%	14.8%	3.7%	7.7%	2.0%
- Loan amount	-2.3%	0.0%	-3.3%	0.0%	5.2%
- Collateral requirement as a ratio of loan amount	-4.6%	7.3%	7.3%	4.6%	-0.9%
- Maximum loan term to maturity	5.0%	13.1%	5.0%	16.4%	3.1%
- Instalment-to-income ratio	6.3%	6.3%	0.0%	-4.3%	6.1%
Change in household demand for loans					
- Housing loans	-10.8%	6.9%	-11.7%	-2.2%	-8.7%
- Consumer loans	-15.9%	23.0%	7.6%	9.5%	9.8%
Factors contributing to change in demand for loans					
- Households' needs to finance house purchase	10.7%	43.7%	18.1%	24.9%	13.4%
- Households' needs to finance consumption	-2.9%	28.6%	7.3%	18.7%	29.4%
- Use of alternative financial resources	-14.6%	-8.7%	-10.5%	4.2%	0.9%
- Bank of Albania's monetary policy decisions	11.7%	14.9%	14.0%	5.2%	14.7%
- Consumer confidence	-15.8%	7.5%	-17.3%	-16.1%	-5.1%
- Developments in the real estate market	3.7%	21.6%	4.4%	7.2%	6.4%
- Credit standards applied by your bank	17.3%	37.4%	23.3%	17.9%	26.2%