

Bank of Albania
Monetary Policy Department



Bank Lending Survey Results for 2014 Q3

October 2014¹

According to the Bank Lending Survey 2014 Q3, **lending standards** remained unchanged for *businesses*, and eased for *households*. After a slight easing in 2014 Q2, lending standards applied to businesses remained unchanged for both *working capital* and *investments* loans. For the fourth consecutive quarter, banks continued to ease the lending standards applied to *households*, for both *house purchase* and *consumption* loans.

Bank of Albania's implemented policies, *liquidity* level and banking system *competitiveness* were the main **factors** that led to the easing of the applied lending standards. *Households* and *businesses'* financial condition, *non-performing loans* and *real estate market* developments contributed to the tightening of lending standards.

The **terms** laid down by banks at the moment of approving a new loan improved, mainly in terms of decreased *average margin*, applied to both businesses and households. For businesses, banks increased the *collateral* requirements in the third quarter to implement a more conservative policy. Overall, terms applied to households improved in Q3.

Business and household **demand** for loan was upward. Notwithstanding the percentage of banks reporting an increased demand from businesses, this demand was downward compared to the previous quarter. Related to households, a more optimistic situation was reported.

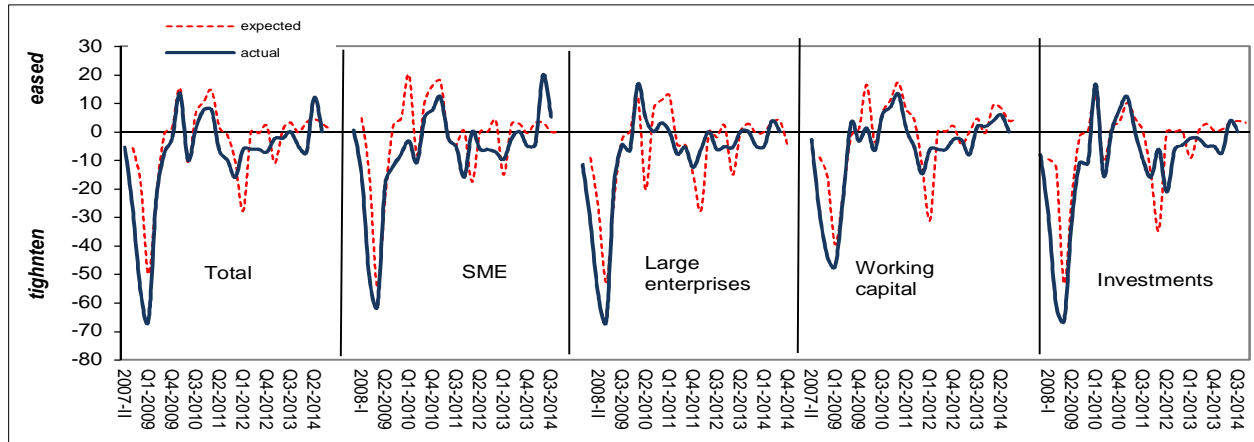
Banks' **expectations** are less optimistic than the assessment about the current situation. Lending standards are not expected to ease in 2014 Q4, although banks expect demand from businesses and households to increase in the fourth quarter.

¹ The survey conducted in September 2014 covers the developments in bank lending during 2014 Q3 and banks' expectations for lending in 2014 Q4.

Lending to businesses

Lending standards: Overall, banks did not change the lending standards applied to businesses in 2014 Q3. Net percentage of banks reporting eased lending standards was 0% for the loan granted to *large corporations*, and for the loan by *purpose* of use (working capital or investment). Net balance of standards recorded a slight positive change only for the category of *small and medium-sized enterprises*. This balance stood at +5% (net), down by 14.9 percentage points, from the second quarter. In 2014 Q4, banks are expected to not change the lending standards applied to businesses.

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

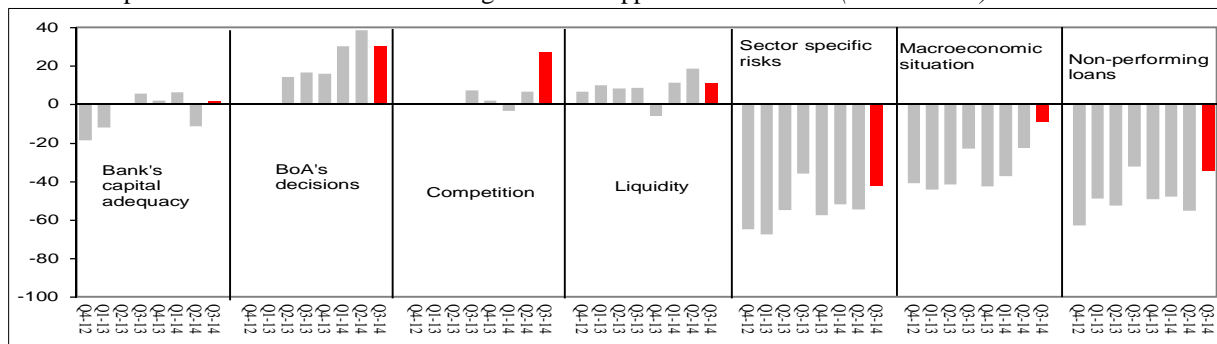


Source: Bank of Albania.

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

The main factors that led to the eased standards during the third quarter of 2014 were *competitiveness* in the banking system and the *eased monetary policy implemented by the Bank of Albania*. Liquidity and capital adequacy of banks provided their impact on the same direction. On the other hand, *non-performing loans, specific sector-related problems* and the *overall macroeconomic situation* continued to contribute to the tightening of lending standards for businesses, during the quarter under review (See Chart 2).

Chart 2 Impact of different factors on lending standards applied to businesses (*net balance²*)

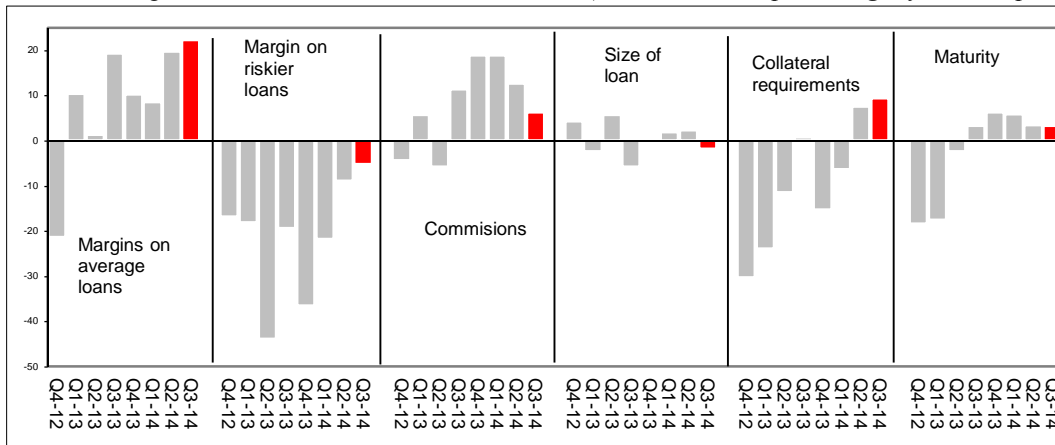


Source: Bank of Albania.

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.

Terms and conditions used by banks to implement the changed lending standards performed at different directions in 2014 Q3. The *decreased average margin, lowered commissions and demand for collateral as a ratio to loan amount* provided for the implementation of an eased lending policy. By contrast, the increased margin for risk-rated loans and the decreased loan amount contributed to the implementation of a tightening lending policy for the third successive quarter of the year.

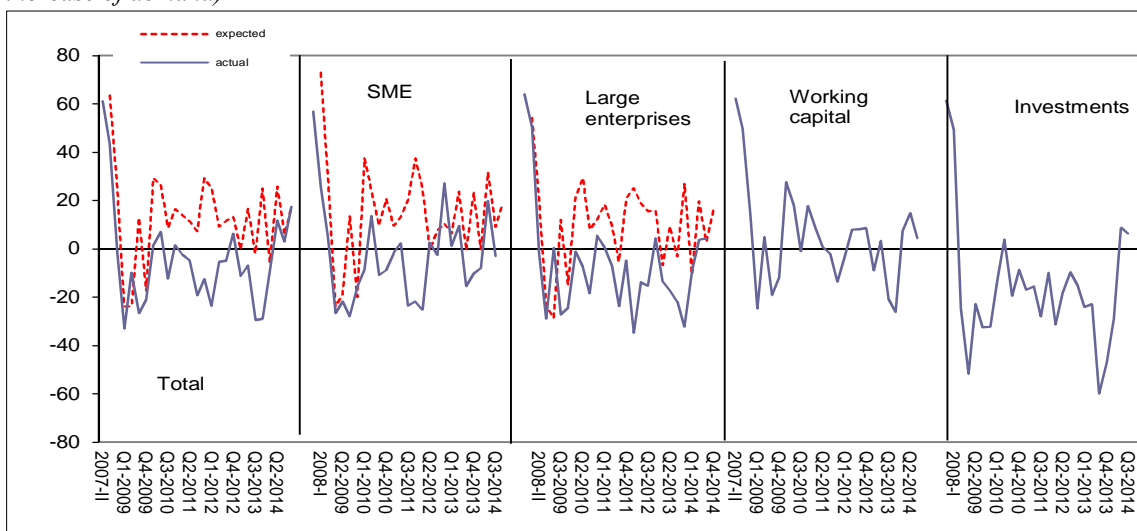
Chart 3 Change in terms and conditions on businesses (net balance, net percentage of banks reporting easier terms)



Source: Bank of Albania.

Demand for credit. In 2014 Q3, banks reported an increased credit demand, but the net balance of responses was lower compared to the previous quarter. The net percentage of banks reporting the increase of credit demand was 2.9%, from 11.7% in the previous quarter. The lowered credit demand by the small and medium-sized enterprises contributed to the slowdown of the demand by businesses. By purpose of use, net balance remains positive, but downward for both investment and working capital purposes.

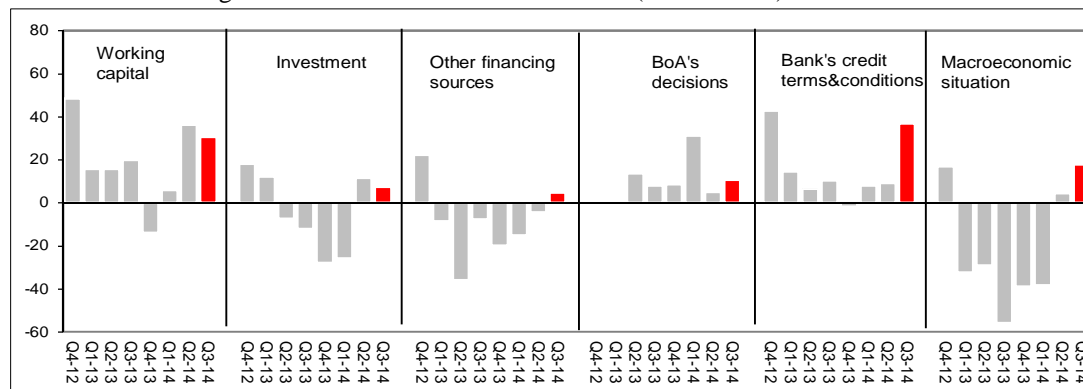
Chart 4 Businesses credit demand by size of enterprise and purpose of use (net balance, net percentage of banks reporting increase of demand)



Source: Bank of Albania.

The lending terms applied by banks, and the need to fund inventories and working capital were the main factors driving credit demand up in 2014 Q3. The macroeconomic situation in Albania contributed positively in boosting the demand for loan, for the second successive quarter. The eased policy implemented by the Bank of Albania, the need to fund investments, and the alternative resources also provided positive contribution, albeit to a lower extent to the increase of the demand.

Chart 5 Contributing factors to business demand for loans (net balance⁴)



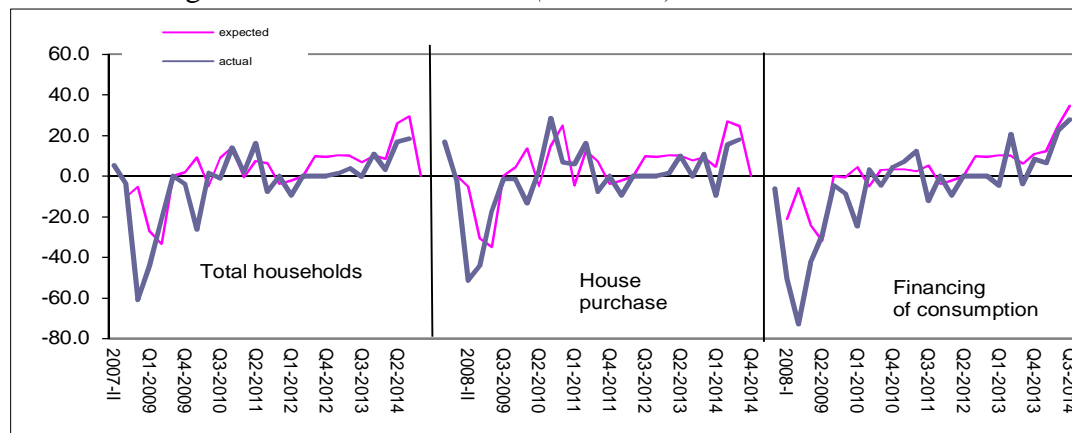
Source: Bank of Albania.

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

Lending to households

Lending standards. In the third quarter of 2014, lending survey results confirmed the easing of lending standards applied to households, for both its categories. The net percentage of banks that reported easing lending standards was +18.2%, from about 16.9 % in 2014 Q2. The easing of lending standards to households was in line with banks' stated expectations in the second quarter of 2014. By purpose of use, the lending standards eased for consumer and house purchase loans. The respective balances stood at 17.9% and 27.8%, from 15.5% and 22.5% in the previous quarter. Banks' experts expect an easing of lending standards to households in 2014 Q4, but at a lower extent, for both house purchase and consumer loans.

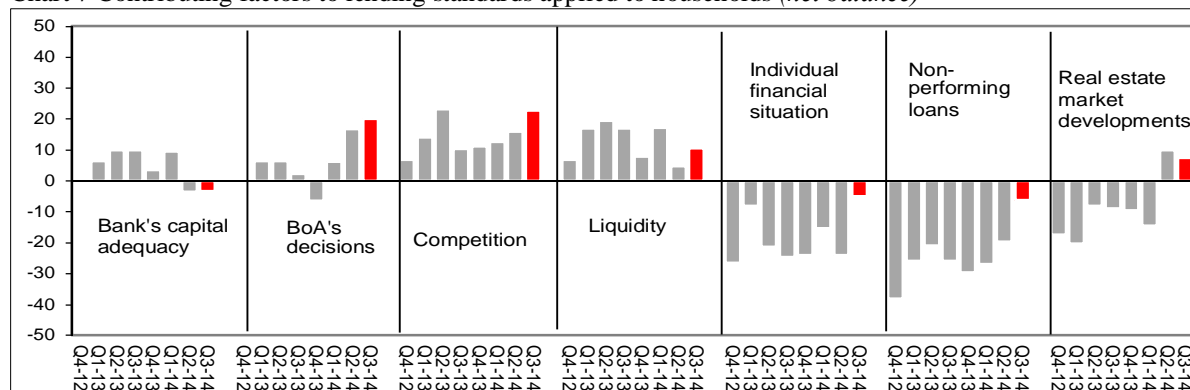
Chart 6 Lending standards for households (net balance)



Source: Bank of Albania.

The main factors contributing to the easing of lending standards for households during the third quarter of 2014 were: *level of competition in the banking system and Bank of Albania's decisions*. *Liquidity situation and developments in real estate market* provided a positive contribution to the easing of lending standards, but at a lower extent. Conversely, factors contributing on the tightening side of lending standards for households continued to be present during this quarter as well: *financial situation of households, level of non-performing loans and bank's capital adequacy*. These factors provided a lower contribution from a quarter earlier.

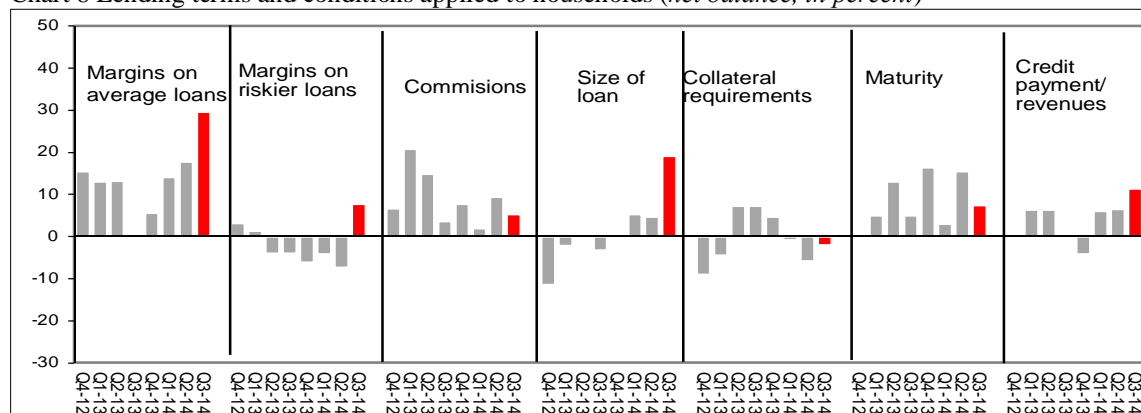
Chart 7 Contributing factors to lending standards applied to households (*net balance*)



Source: Bank of Albania.

Related to the **terms and conditions** to grant a loan, the accommodative policy of lending standards for households was mainly implemented by narrowing the *average credit margin*, increasing the *loan amount* and lowering the *instalment to income ratio*. The extended *maximum maturity of loan*, the *lowering of commissions* and the *narrowing of the margin for risk-rated loan* contributed positively to the easing of standards for households during the third quarter of year, but to a lower extent. On the other side, the increase of *collateral requirements* continued to contribute to a tightened lending policy.

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



Source: Bank of Albania.

Demand for credit. Banks continued to estimate households' credit demand as upward during the third quarter of 2014. Net balance of banks reporting an increase of the demand stood at 10.5%. By purpose of use, banks reported an upward demand for *consumer loan*. On the other side, unlike in the previous quarter, the

demand for *house purchase financing* was downward. Respective balance was -10%, from +1.2% in the previous quarter.

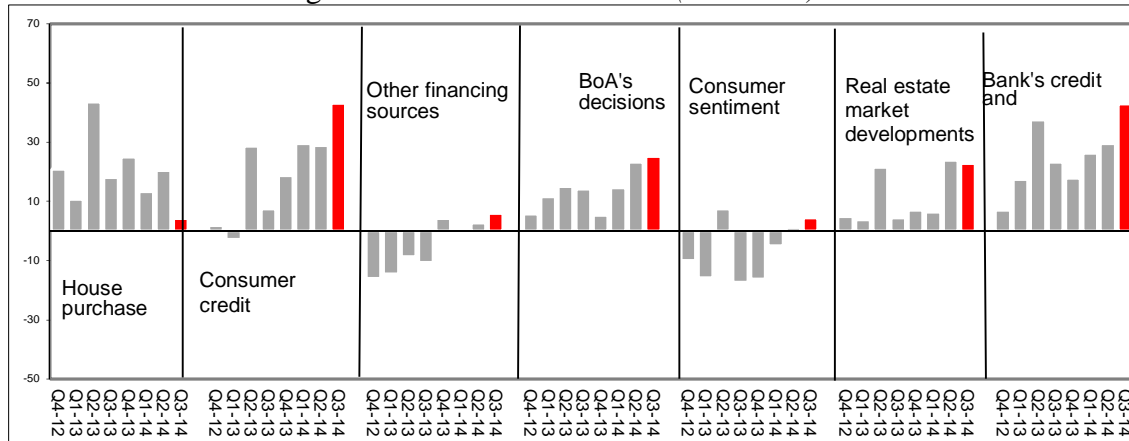
Chart 9 Total households loan demand (*net balance*)



Source: Bank of Albania.

Main factors that enhanced the households' demand for credit continued to be the lending standards applied by banks, households' need for funding *consumption*, developments in the real estate market and the decisions of the Bank of Albania.

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

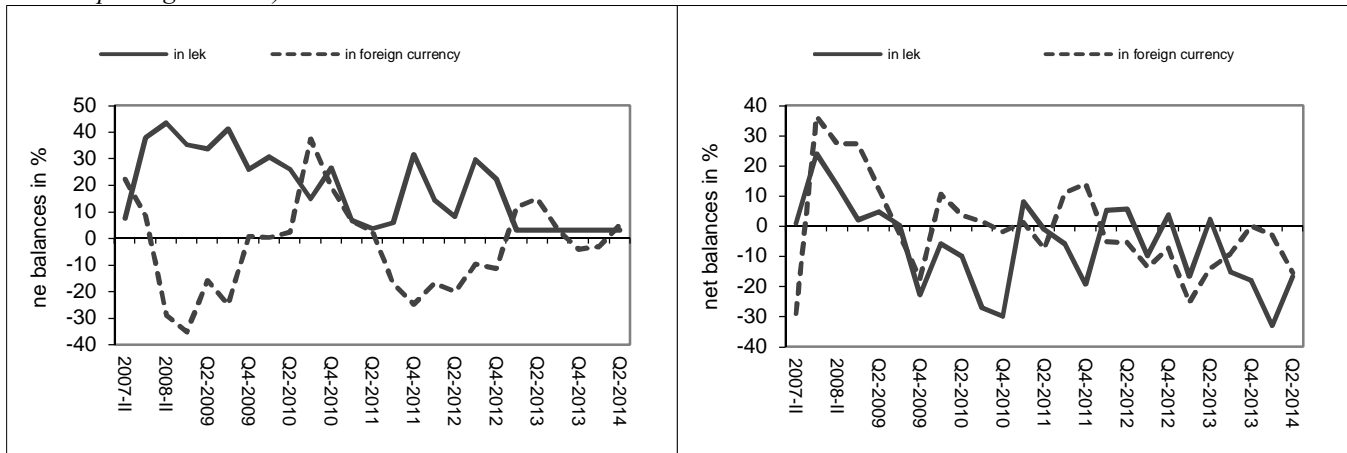


Source: Bank of Albania.

Lending by currency

For the fourth quarter of 2014, lek lending is expected to increase considerably, while foreign-currency lending to decrease slightly. Banks' experts expect interest rates to continue to be down for both domestic and foreign currency loan in the fourth quarter.

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.

Approved loans ratio to requested loans in total was up compared to the previous quarter. By type of client, the ratio of approved loans to businesses is higher compared to households. Also, this ratio is higher for lek loans than for foreign-currency loans.

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 were “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	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3
Change in bank lending standards						
- Current quarter	-2.3%	0.0%	-5.1%	-7.4%	12.1%	0.0%
- Next quarter	3.2%	-0.3%	3.1%	4.4%	2.8%	0.7%
Factors affecting the lending standards						
- Bank's capital adequacy	0.0%	5.7%	2.1%	6.3%	-11.4%	2.1%
- Bank of Albania's decisions	14.4%	16.6%	16.1%	30.4%	38.5%	30.4%
- Competition in the banking system	0.0%	7.4%	1.8%	-3.4%	6.5%	27.1%
- Current or expected liquidity level	8.3%	8.7%	-5.9%	11.2%	18.5%	11.2%
- Specific business sector-related concerns	-54.9%	-36.1%	-57.5%	-51.8%	-54.4%	-42.6%
- Current or expected macroeconomic situation	-41.7%	-22.9%	-42.6%	-37.4%	-22.6%	-9.1%
- Non-performing loans	-52.6%	-32.3%	-49.3%	-47.7%	-55.1%	-34.6%
Change in bank lending standards						
- Average margin	1.3%	19.3%	10.2%	8.6%	19.8%	22.3%
- Margin for risk-rated loans	-43.9%	-19.4%	-36.5%	-21.8%	-8.9%	-5.1%
- Commissions	-5.7%	11.4%	18.9%	18.9%	12.7%	6.3%
- Loan amount	5.7%	-5.7%	-0.3%	2.0%	2.0%	-1.8%
- Collateral requirement as a ratio of loan amount	-11.4%	0.7%	-15.2%	-6.3%	7.6%	9.4%
- Maximum loan term to maturity	-2.3%	3.3%	6.3%	5.8%	3.4%	3.4%
Change in business demand for loans						
- SMEs, previous quarter	9.5%	-15.6%	-10.3%	-8.1%	19.8%	-3.1%
- SMEs, next quarter	-0.9%	23.4%	-0.4%	31.8%	9.0%	18.6%
- Large enterprises, previous quarter	-17.3%	-21.8%	-32.5%	-9.2%	3.7%	4.3%
- Large enterprises, next quarter	-3.2%	26.9%	-10.8%	19.8%	2.8%	4.3%
Factors affecting change in demand for loans						
- Need to finance inventories	15.6%	19.9%	24.9%	5.9%	36.3%	30.5%
- Need to finance fixed investments	-7.4%	-12.2%	18.7%	-25.9%	11.4%	7.3%
- Use of alternative financial resources	-35.9%	-7.6%	4.2%	-15.1%	-4.4%	4.6%
- Bank of Albania's monetary policy decisions	13.5%	8.0%	5.2%	31.1%	5.0%	10.5%
- Lending standards applied by your bank	6.4%	10.3%	-16.1%	8.0%	9.2%	36.9%
- Current or expected macroeconomic situation	-29.1%	-56.0%	7.2%	-38.3%	4.6%	17.8%

Annex 2 Lending to households

In aggregating the results, each opinion is weighted based on the response. For example, for banks providing the response that standards were “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	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3
Change in bank lending standards						
- Previous quarter	3.7%	-0.4%	10.8%	3.1%	16.9%	18.2%
- Next quarter	6.8%	9.9%	8.4%	25.8%	29.6%	0.0%
Factors affecting the lending standards						
- Bank's capital adequacy	9.9%	9.9%	3.4%	9.5%	-3.6%	-3.4%
- Bank of Albania's decisions	6.3%	2.3%	-6.5%	6.1%	16.8%	20.1%
- Competition in the banking system	23.0%	10.3%	11.1%	12.6%	15.8%	22.6%
- Current or expected liquidity level	19.3%	17.0%	7.7%	17.2%	4.7%	10.4%
- Households' financial situation	-21.4%	-24.6%	-24.1%	-15.4%	-24.0%	-4.9%
- Non-performing loans	-21.0%	-25.9%	-29.6%	-27.0%	-19.7%	-6.3%
- Developments in the real estate market	-8.1%	-9.1%	-9.7%	-14.5%	9.8%	7.3%
Change in bank lending standards						
- Average margin	13.2%	-0.4%	5.6%	14.2%	17.7%	29.6%
- Margin for risk-rated loans	-4.1%	-4.1%	-6.2%	-4.3%	-7.5%	7.7%
- Commissions	14.8%	3.7%	7.7%	2.0%	9.4%	5.3%
- Loan amount	0.0%	-3.3%	0.0%	5.2%	4.7%	19.1%
- Collateral requirement as a ratio of loan amount	7.3%	7.3%	4.6%	-0.9%	-5.9%	-2.1%
- Maximum loan term to maturity	13.1%	5.0%	16.4%	3.1%	15.4%	7.4%
- Instalment-to-income ratio	6.3%	0.0%	-4.3%	6.1%	6.5%	11.4%
Change in household demand for loans						
- Mortgage loans	6.9%	-11.7%	-2.2%	-8.7%	1.2%	-10%
- Consumer loans	23.0%	7.6%	9.5%	9.8%	19.3%	31.2%
Factors affecting change in demand for loans						
- Households' needs to finance house purchase	43.7%	18.1%	24.9%	13.4%	20.5%	4.2%
- Households' needs to finance consumption	28.6%	7.3%	18.7%	29.4%	28.8%	43.2%
- Use of alternative financial resources	-8.7%	-10.5%	4.2%	0.9%	2.6%	5.9%
- Bank of Albania's monetary policy decisions	14.9%	14.0%	5.2%	14.7%	23.3%	25.3%
- Consumer confidence	7.5%	-17.3%	-16.1%	-5.1%	1.3%	4.4%
- Developments in the real estate market	21.6%	4.4%	7.2%	6.4%	23.7%	22.8%
- Lending standards applied by your bank	37.4%	23.3%	17.9%	26.2%	29.4%	43.0%