

Bank of Albania
Monetary Policy Department



Bank Lending Survey Results for 2014 Q4

January 2015¹

Bank lending survey results in 2014 Q4 showed slight changes skewed to the tightening of **lending standards** applied to *businesses*, and slower easing of **lending standards** applied to *households*. After easing in the first half of the year, bank lending standards applied to businesses were slightly tightened in 2014 Q4, mainly due to tighter standards applied to lending for investment financing. Concerning households, banks reported considerably lower easing of standards, relative to the first half of the year, both for home purchase and consumer loans.

The performance of bank lending standards was positively affected by **factors** relating to the bank liquidity situation, competition in the banking system and Bank of Albania's policies. Some of the main factors contributing to the tightening of lending standards included households and businesses' financial situation, non-performing loans and specific problems facing the business sector environment.

The **main terms and conditions** that banks used to apply the tightening policy on businesses were widening *the margin on risky loans*, and reducing *the size of loan*. Banks applied the easing standards on households by extending *the maturity* and increasing *the size of loan*.

Banks stated that business and household's **demand** for loans increased in 2014 Q4. Concerning households, the net percentage of banks stating increased demand was lower than in the previous quarter.

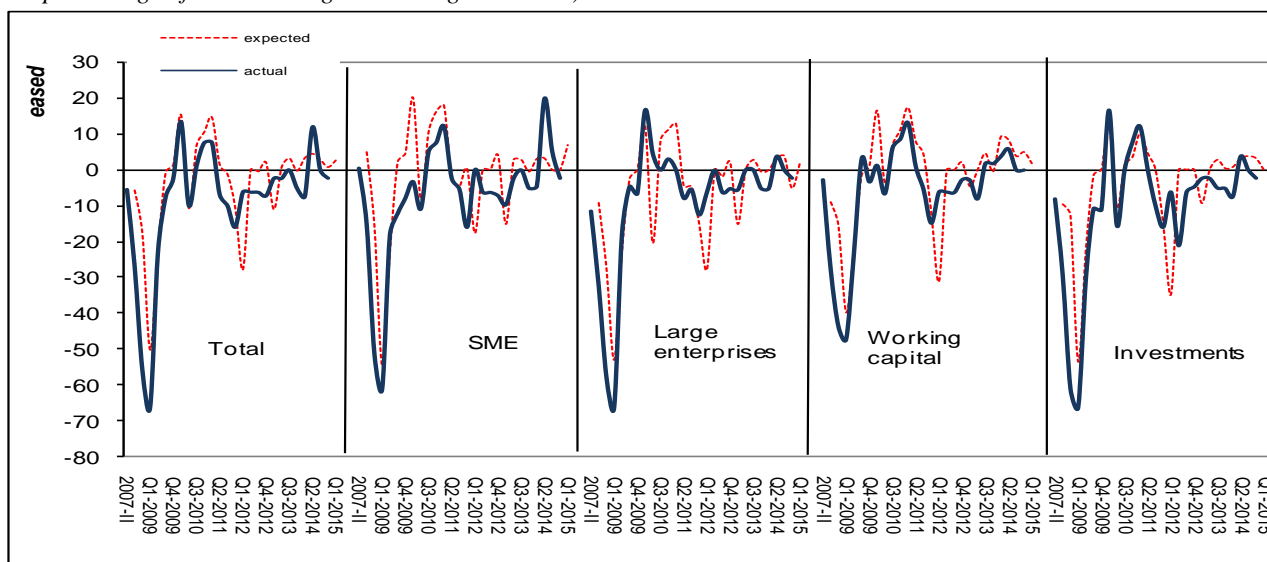
Banks' **expectations** for 2015 Q1 are similar to their assessment of the situation in 2014 Q4. The lending standards applied to businesses and households are expected to improve slightly, while demand is expected to remain weak.

¹ The survey conducted in December 2014 covers bank lending developments in 2014 Q4 and banks' expectations for lending in 2015 Q1.

Lending to businesses

Lending standards: Banks applied almost unchanged lending standards to businesses in the fourth quarter of 2014. Following the rate of 0% in the third quarter, net percentage of responses on standards rated -2.3% in the fourth quarter, representing a small change in the tightening direction. Also, lending standards applied to *large businesses* and *small and medium-sized enterprises* were tightened. The tightening in the fourth quarter was a turning point from the easing in the two previous quarters. The tightening of standards was applied only to the loan granted for *investment* purposes, and not to the loan granted for *working capital* purposes. The latter's net balance continued to stand at 0%. Banks *expect* to slightly ease lending standards in the first quarter of 2015, mainly for the small and medium-sized enterprises.

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*)

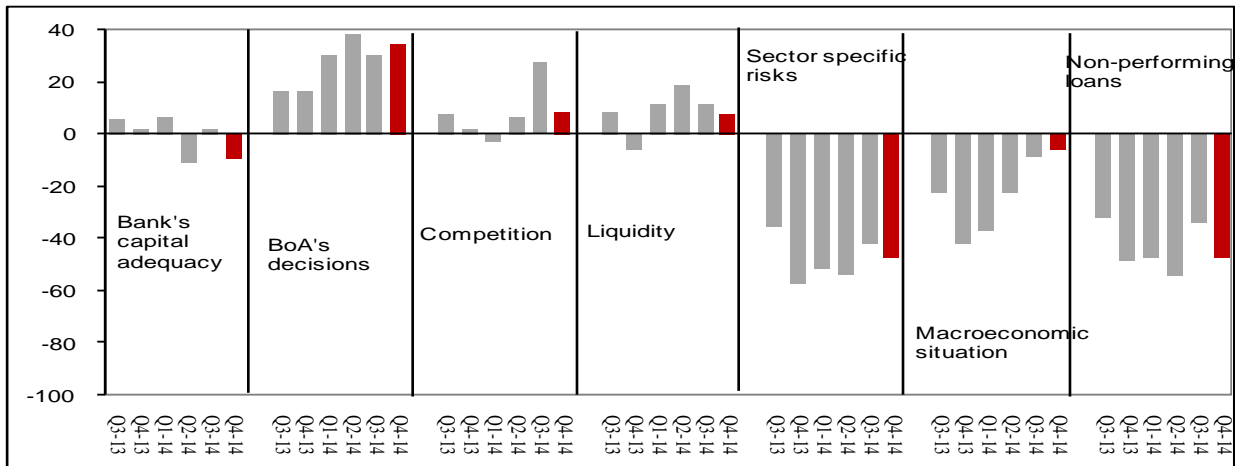


Source: Bank of Albania.

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

The performance of non-performing loans, specific sector-related problems and the macroeconomic situation in Albania continued to impact the tightening policy applied by banks. Their impact on the tightening direction increased slightly in the fourth quarter, from the third quarter. The decisions of the Bank of Albania provided the main contribution to the eased lending standards applied in the quarter under review. Also, competitiveness and liquidity situation of the banks contributed to the easing of lending standards (See Chart 2).

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

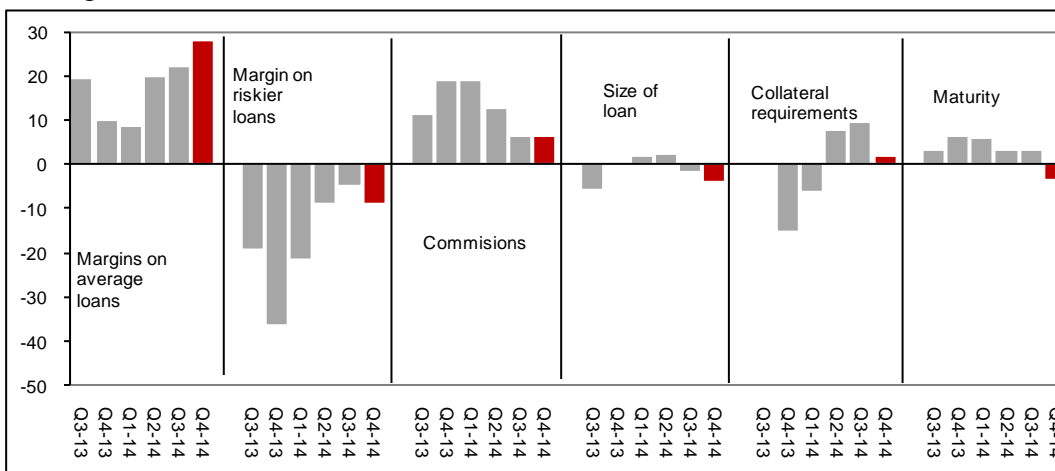


Source: Bank of Albania.

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 policy, overall, performed at the same changing direction as in the previous quarter. The *narrowed average margin*, the *lowered commissions* and *demand for collateral as a ratio to loan size* continued to effect the implementation of an eased lending policy. By contrast, the *increased margin for risk-rated loans*, the *decreased maximum maturity* and the *decreased loan size* contributed to the implementation of a tightened lending policy in the fourth quarter.

Chart 3 Change in lending standards on businesses (net balance³ net percentage of banks reporting easier lending standards)

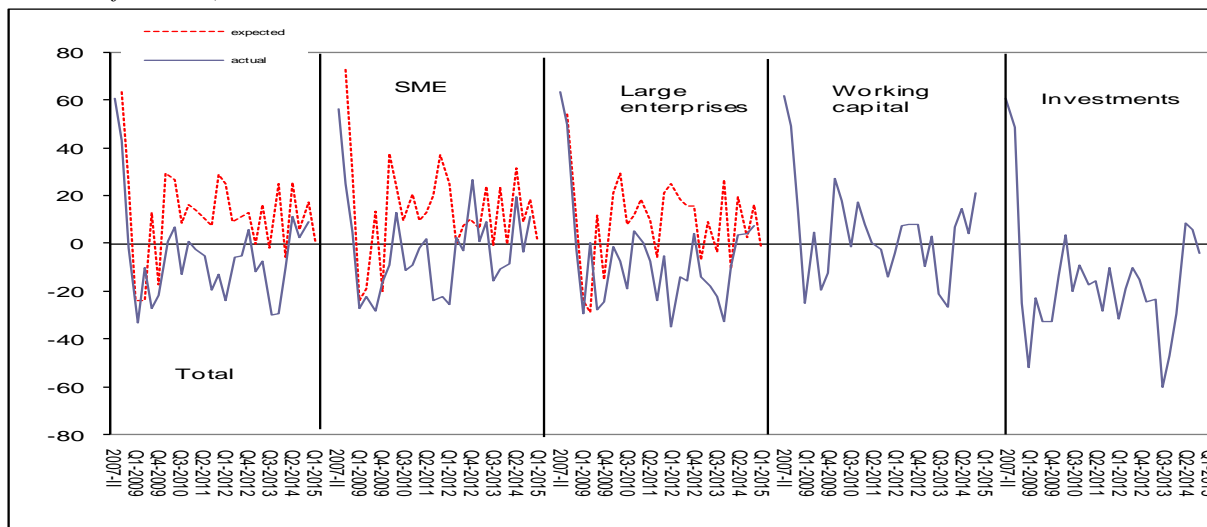


Source: Bank of Albania.

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

Demand for credit. Businesses' demand for credit increased for the third successive quarter, particularly for small and medium-sized enterprises. Demand of *large enterprises* was upward, but at a lower degree. By purpose of use, only the demand for the *working capital financing* increased. Its net balance stood at 21.4%. No demand for investments financing was recorded; the net percentage of responses was negative, at 3.9%.

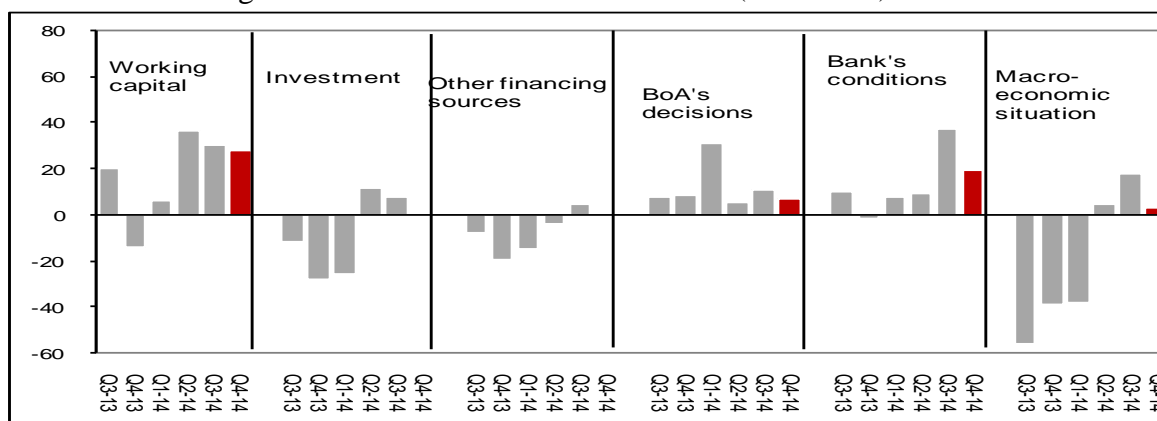
Chart 4 Businesses credit demand by size of enterprise and purpose of use (*net balance, net percentage of banks reporting increase of demand*)



Source: Bank of Albania.

In addition to the need for *working capital* financing, the *terms applied to the loans* and the *decisions of the Bank of Albania* were the main **factors** that encouraged the credit demand. Also, other factors related to *investments financing* and the *alternative financing resources* provided positive contribution to the demand increase, although at a lower extent.

Chart 5 Contributing factors to business demand for loans (*net balance*⁴)



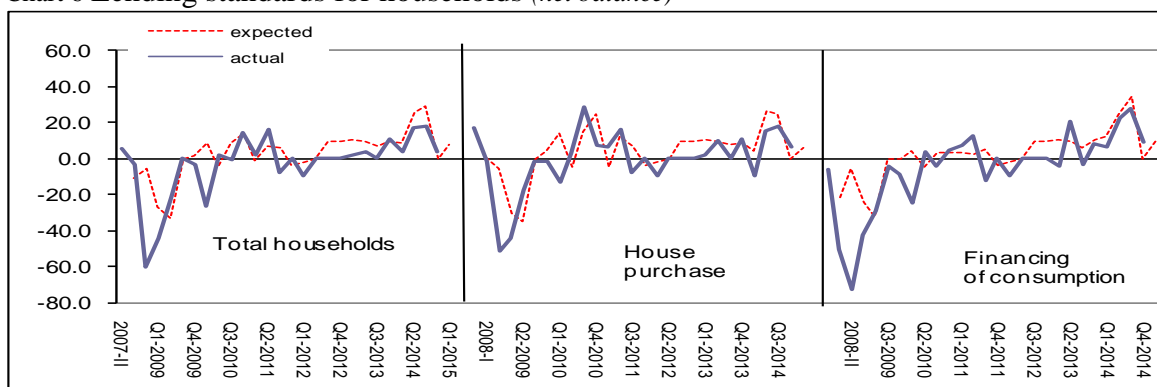
Source: Bank of Albania.

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 fourth quarter of 2014, banks reported eased lending standards applied to households, although at a lower degree compared to the previous quarter. The net percentage of banks that reported easing of lending standards was +3.4%, from about +18.2% in the third quarter. By purpose of use, the lending standards eased for *consumer* and *home-purchase loans*. The respective balances stood at 8.6% and 6%, from 27.8% and 17.9% in the previous quarter. Banks' experts expect an easing of lending standards applied to households in 2015 Q1, for both *home-purchase* and *consumer loans*.

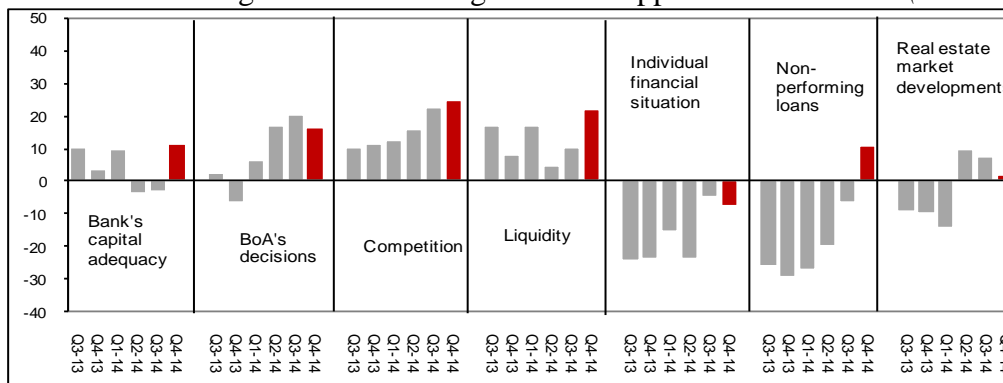
Chart 6 Lending standards for households (*net balance*)



Source: Bank of Albania.

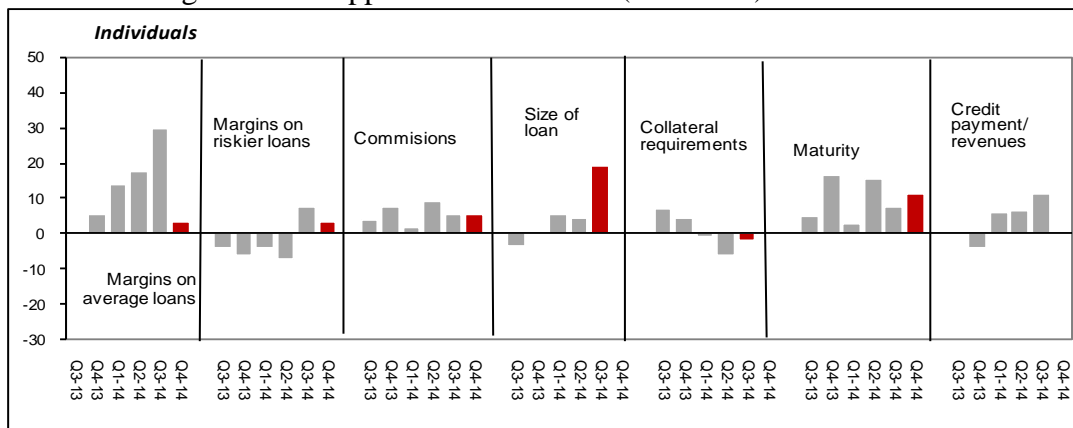
The factors contributing to the easing of lending standards applied to households during the fourth quarter of 2014 were: *competitiveness in the banking system, liquidity situation, Bank of Albania's decisions and bank's capital adequacy*. Banks' experts assessed that the developments in *non-performing loans*, unlike in the previous surveys, provided positive contribution to the easing of standards. Also, *developments in the real estate market* provided a positive contribution to the easing of lending standards, but at a lower extent from the previous quarter. On the other hand, *households' financial situation* contributed to the tightening of lending standards applied to households.

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



Related to the lending terms and conditions, lending standards for households were eased mainly by extending the *maximum maturity* and *increasing the size* of the loan. The narrowing of the *average credit margin* and the *narrowing of the margin for risk-rated loans* contributed positively to the easing of lending standards for households, during the fourth quarter, but to a considerable lower extent compared to the previous quarter.

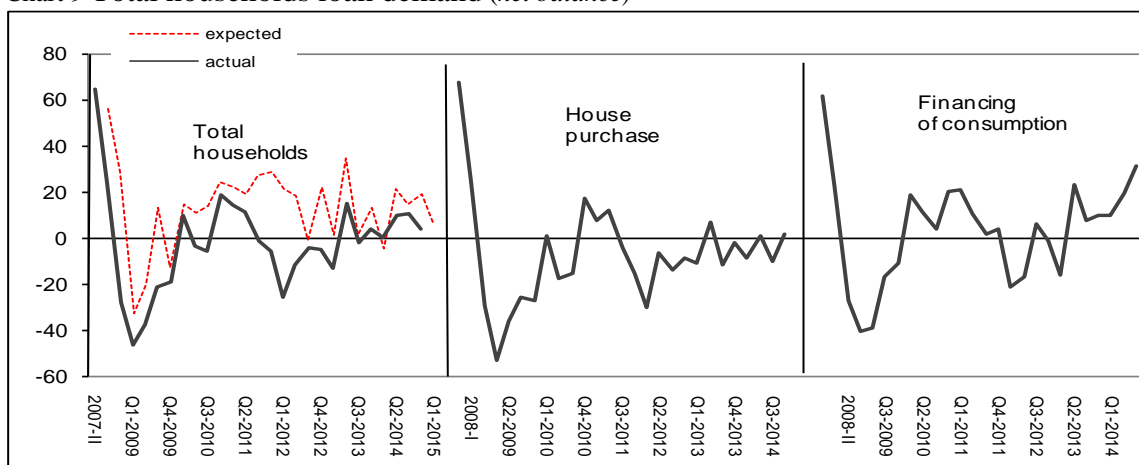
Chart 8 Lending standards applied to households (*net balance*)



Source: Bank of Albania.

Demand for credit. Banks continued to estimate households' credit demand as upward during the fourth quarter of 2014. Net balance of banks reporting an increase of the demand stood at 4%. By purpose of use, banks reported a slightly increased demand for the house-purchase loans. Banks' experts assessed the demand for funding consumption as positive, but slowing down. The respective balance was +7.2%, from +31.2% in the previous quarter.

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

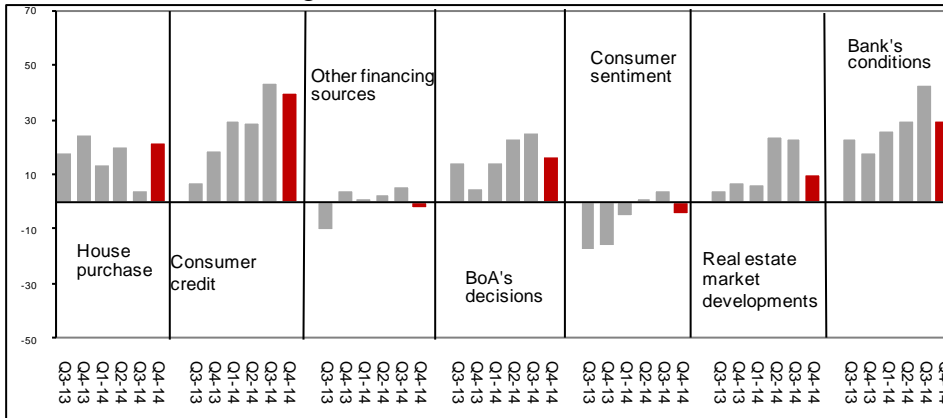


Source: Bank of Albania.

Main **factors** affecting households' demand for credit continued to be the *lending conditions* applied by banks, and the households' need for *consumption* and *house purchase* financing. *Developments in real estate market*, the

eased *lending standards applied by banks* and the *Bank of Albania's decisions* provided positive contribution to demand, but to a lower extent compared to the previous quarter.

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

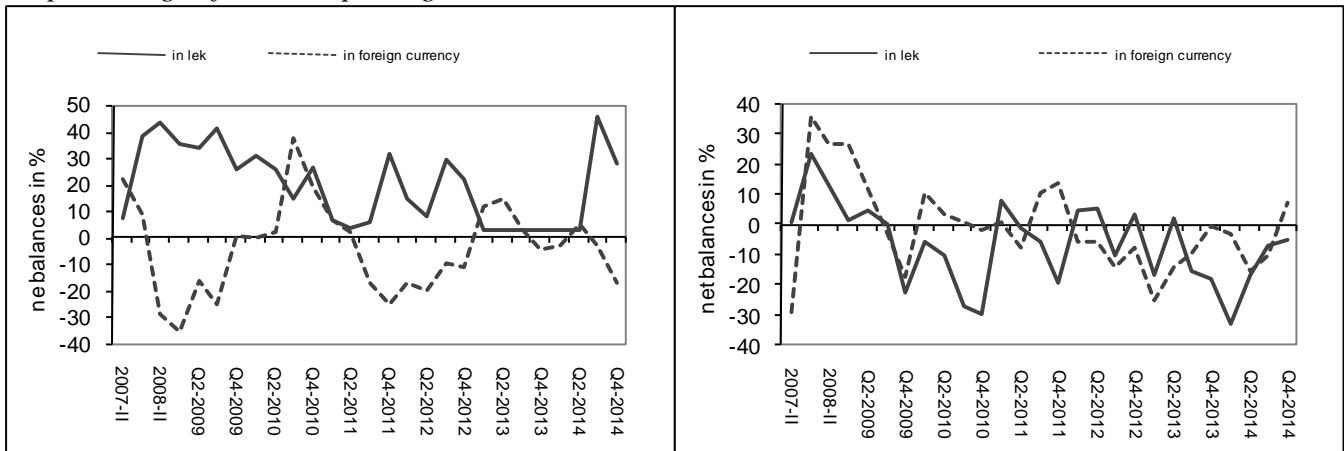


Source: Bank of Albania.

Lending by currency

Banks' experts expect increase of loan and decrease of interest rates for the lek-denominated loans in the first quarter of 2015. On the other hand, they expect further decrease in euro-denominated loans and increase of euro interest rates.

Chart 11 Banks' expectations for lending (left) and interest rates (right), one quarter ahead (*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	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Change in bank lending standards						
- Current quarter	0.0%	-5.1%	-7.4%	12.1%	0.0%	-2.3%
- Next quarter	-0.3%	3.1%	4.4%	2.8%	0.7%	2.6%
Factors affecting the lending standards						
- Bank's capital adequacy	5.7%	2.1%	6.3%	-11.4%	2.1%	2.1%
- Bank of Albania's decisions	16.6%	16.1%	30.4%	38.5%	30.4%	34.4%
- Competition in the banking system	7.4%	1.8%	-3.4%	6.5%	27.1%	8.7%
- Current or expected liquidity level	8.7%	-5.9%	11.2%	18.5%	11.2%	8.0%
- Specific business sector-related concerns	-36.1%	-57.5%	-51.8%	-54.4%	-42.6%	-47.2%
- Current or expected macroeconomic situation	-22.9%	-42.6%	-37.4%	-22.6%	-9.1%	-6.0%
- Non-performing loans	-32.3%	-49.3%	-47.7%	-55.1%	-34.6%	-47.6%
Change in bank lending standards						
- Average margin	19.3%	10.2%	8.6%	19.8%	22.3%	28.2%
- Margin for risk-rated loans	-19.4%	-36.5%	-21.8%	-8.9%	-5.1%	-9.2%
- Commissions	11.4%	18.9%	18.9%	12.7%	6.3%	6.3%
- Loan amount	-5.7%	-0.3%	2.0%	2.0%	-1.8%	-4.0%
- Collateral requirement as a ratio of loan amount	0.7%	-15.2%	-6.3%	7.6%	9.4%	1.8%
- Maximum loan term to maturity	3.3%	6.3%	5.8%	3.4%	3.4%	-3.4%
Change in business demand for loans						
- SMEs, previous quarter	-15.6%	-10.3%	-8.1%	19.8%	-3.1%	11.4%
- SMEs, next quarter	23.4%	-0.4%	31.8%	9.0%	18.6%	2.3%
- Large enterprises, previous quarter	-21.8%	-32.5%	-9.2%	3.7%	4.3%	7.9%
- Large enterprises, next quarter	26.9%	-10.8%	19.8%	2.8%	16.3%	-1.1%
Factors affecting change in demand for loans						
- Need to finance inventories	19.9%	24.9%	5.9%	36.3%	30.5%	28.0%
- Need to finance fixed investments	-12.2%	18.7%	-25.9%	11.4%	7.3%	-0.6%
- Use of alternative financial resources	-7.6%	4.2%	-15.1%	-4.4%	4.6%	0.1%
- Bank of Albania's monetary policy decisions	8.0%	5.2%	31.1%	5.0%	10.5%	6.8%
- Lending standards applied by your bank	10.3%	-16.1%	8.0%	9.2%	36.9%	19.6%
- Current or expected macroeconomic situation	-56.0%	7.2%	-38.3%	4.6%	17.8%	3.1%

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	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Change in bank lending standards						
- Previous quarter	-0.4%	10.8%	3.1%	16.9%	18.2%	3.4%
- Next quarter	9.9%	8.4%	25.8%	29.6%	0.0%	7.8%
Factors affecting the lending standards						
- Bank's capital adequacy	9.9%	3.4%	9.5%	-3.6%	-3.4%	11.3%
- Bank of Albania's decisions	2.3%	-6.5%	6.1%	16.8%	20.1%	16.5%
- Competition in the banking system	10.3%	11.1%	12.6%	15.8%	22.6%	24.8%
- Current or expected liquidity level	17.0%	7.7%	17.2%	4.7%	10.4%	21.7%
- Households' financial situation	-24.6%	-24.1%	-15.4%	-24.0%	-4.9%	-7.7%
- Non-performing loans	-25.9%	-29.6%	-27.0%	-19.7%	-6.3%	10.7%
- Developments in the real estate market	-9.1%	-9.7%	-14.5%	9.8%	7.3%	2.0%
Change in bank lending standards						
- Average margin	-0.4%	5.6%	14.2%	17.7%	29.6%	3.3%
- Margin for risk-rated loans	-4.1%	-6.2%	-4.3%	-7.5%	7.7%	3.4%
- Commissions	3.7%	7.7%	2.0%	9.4%	5.3%	5.2%
- Loan amount	-3.3%	0.0%	5.2%	4.7%	19.1%	0.0%
- Collateral requirement as a ratio of loan amount	7.3%	4.6%	-0.9%	-5.9%	-2.1%	0.0%
- Maximum loan term to maturity	5.0%	16.4%	3.1%	15.4%	7.4%	11.3%
- Instalment-to-income ratio	0.0%	-4.3%	6.1%	6.5%	11.4%	0.0%
Change in household demand for loans						
- Mortgage loans	-11.7%	-2.2%	-8.7%	1.2%	-10%	2.1%
- Consumer loans	7.6%	9.5%	9.8%	19.3%	31.2%	7.2%
Factors affecting change in demand for loans						
- Households' needs to finance house purchase	18.1%	24.9%	13.4%	20.5%	4.2%	21.6%
- Households' needs to finance consumption	7.3%	18.7%	29.4%	28.8%	43.2%	39.7%
- Use of alternative financial resources	-10.5%	4.2%	0.9%	2.6%	5.9%	-2.7%
- Bank of Albania's monetary policy decisions	14.0%	5.2%	14.7%	23.3%	25.3%	16.5%
- Consumer confidence	-17.3%	-16.1%	-5.1%	1.3%	4.4%	-4.3%
- Developments in the real estate market	4.4%	7.2%	6.4%	23.7%	22.8%	10.0%
- Lending standards applied by your bank	23.3%	17.9%	26.2%	29.4%	43.0%	30.0%