

Bank of Albania
Monetary Policy Department



Bank Lending Survey Results for 2015 Q1

April 2015¹

Bank lending survey results in 2015 Q1 showed tightening of **lending standards** applied by banks to *businesses* and *households*. Lending standards applied to businesses were tightened for the second successive quarter, mainly due to the tightening of lending standards applied to large enterprises. Concerning households, banks reported a slight tightening of standards for both, home purchase and consumer loan.

The performance of bank lending standards was negatively affected by **factors** relating to the financial situation of households and businesses, non-performing loans and specific problems facing the business sector environment. Competition in the banking system and Bank of Albania's policies affected the easing of lending standards.

The main terms and conditions that banks used to apply the tightening policy on businesses were *widening the margin on risky-rated loans*, and reducing the *size of loan*.

Demand for loan, during the first quarter of 2015, was assessed down for businesses and at lower increase compared to the previous quarter for households. Related to business, mainly small and medium-sized enterprises lowered the demand for loan. The slowdown of the loan demand from households reflects the slowdown of the demand for consumer loan.

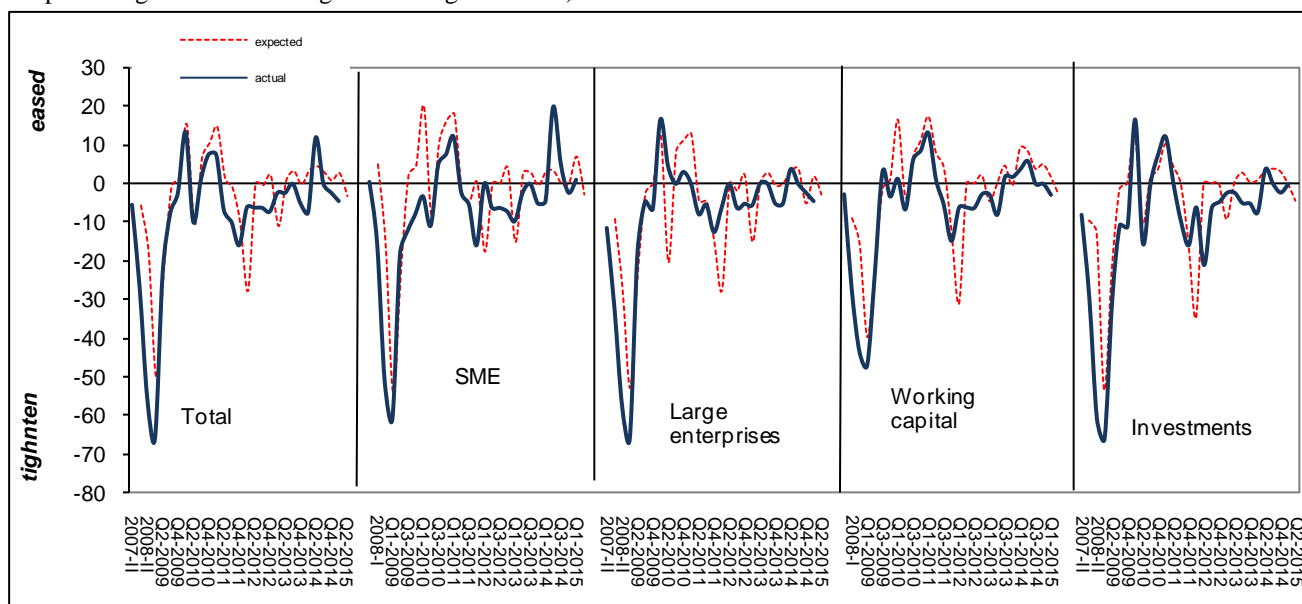
Banks **expect** a slight improvement of lending standards applied to households, for 2015 Q2, but a tightening of lending standards applied to businesses. On the other hand, businesses and households are expected to increase the loan demand.

¹ The survey conducted in March 2015 covers bank lending developments in 2015 Q1 and banks' expectations for lending in 2015 Q2.

Lending to businesses

Lending standards: In 2015 Q1, banks continued to tight the lending standards applied to businesses. Net percentage of responses on standards rated - 4.5%. In 2015 Q1, the performance of lending standards was mainly affected by the tightening of lending standards applied to large enterprises. On the other hand, lending standards applied to small and medium-sized enterprises slightly eased during the quarter under review. By purpose of use, the tightening of standards was applied to the loan granted for working capital purposes. Lending standards applied to the loan granted for investment purposes remained unchanged in 2015 Q1. Banks *expect* further tightening of lending standards in 2015 Q2.

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)

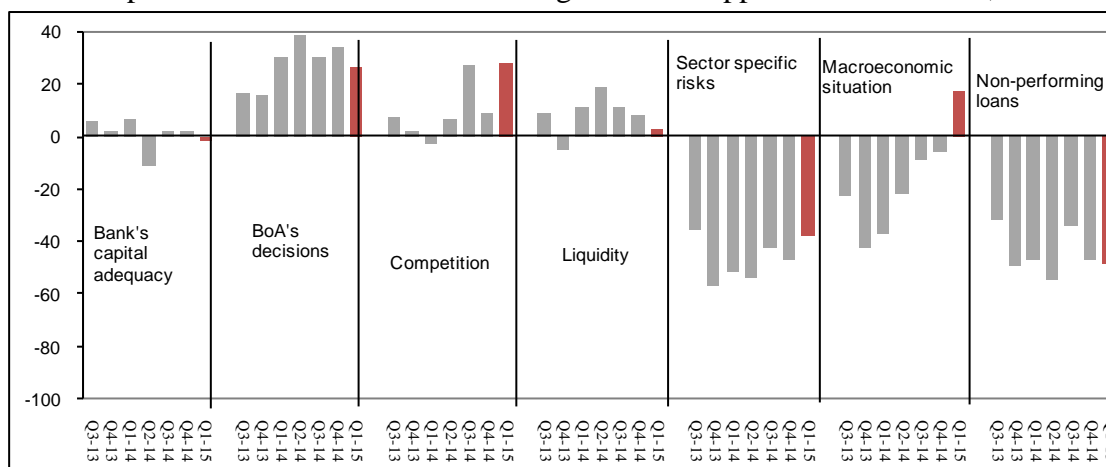


Source: Bank of Albania.

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

The performance of non-performing loans and specific-related sector problems where the business conducts its activity impacted the tightening policy applied by banks. The decisions of the Bank of Albania, competitiveness, macroeconomic situation in Albania and liquidity situation provided the main contribution to the easing of lending standards in 2015 Q1 (see Chart 2).

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

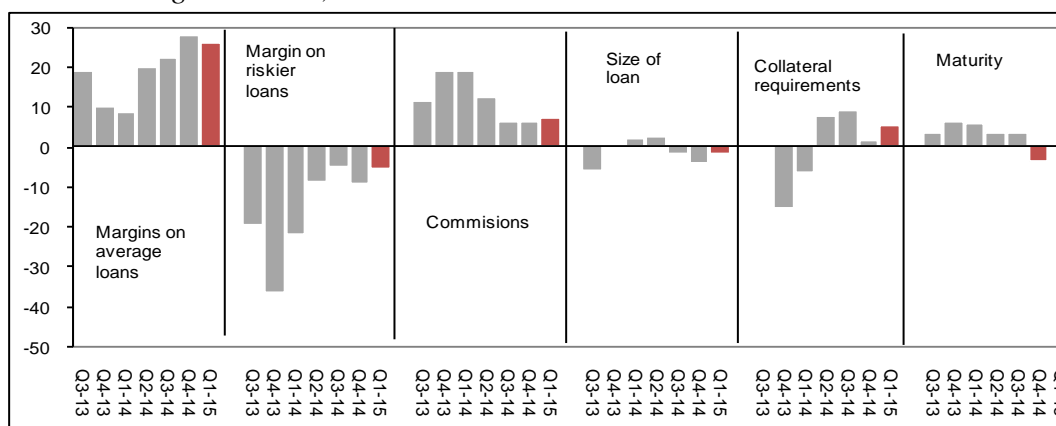


Source: Bank of Albania.

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. In 2015 Q1, the tightened lending policy was mainly implemented by increasing the *margin for the risk-rated loans*. On the other hand, *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.

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



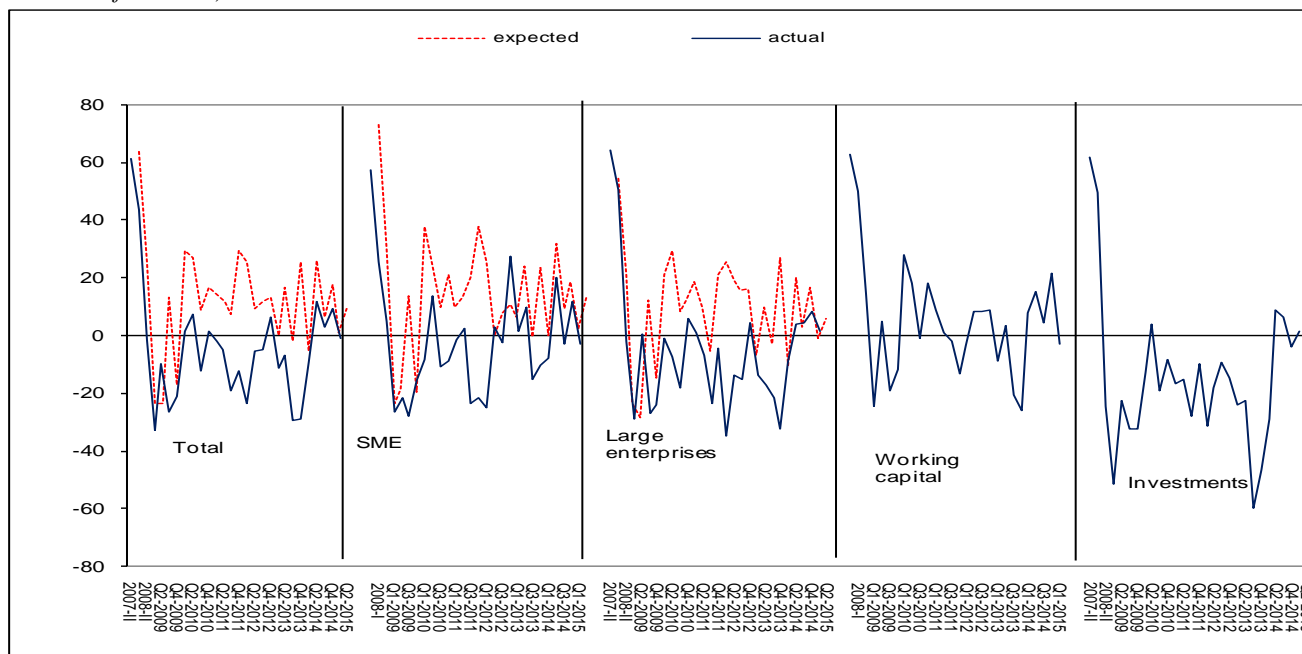
Source: Bank of Albania.

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 fell, after three successive quarters of increase, mainly due to the fall of the demand for small and medium-sized enterprises. On the other hand, the demand of *large enterprises* is reported as upward, but at a lower degree compared to the previous quarter. By purpose of

use, the demand for working capital financing decreased. Its net balance stood at -3.2% from 21.4% in the previous quarter. The demand for investments financing continued to be weak, albeit the net percentage of responses was positive, at 1.2%.

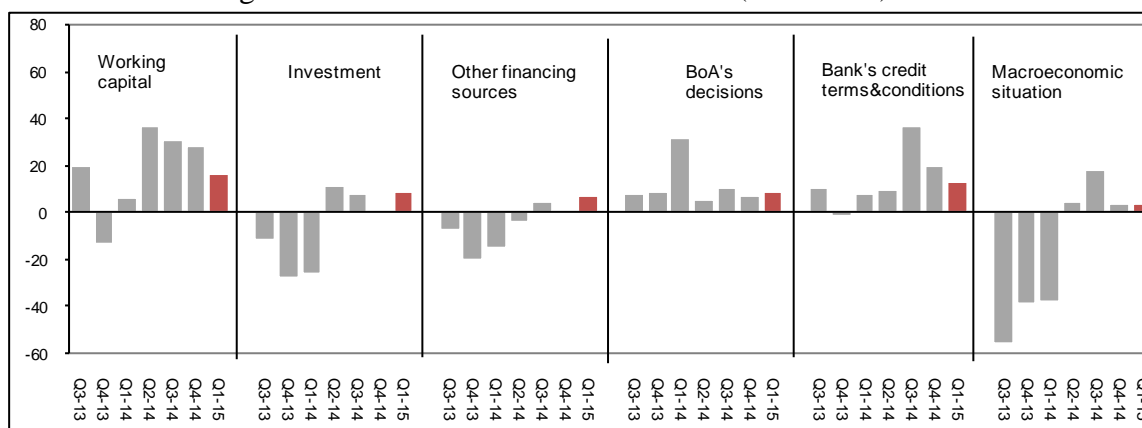
Chart 4 Businesses' credit demand by size of enterprise and purpose of use (*net balance, net percentage of banks reporting increase of demand*)



Source: Bank of Albania.

The need for *working capital* financing and *investments*, the terms applied to the loans and the decisions of the Bank of Albania were the main factors that provided positive impact to the credit demand. However, the lower impact of these factors, compared to the previous quarter, resulted in a lower demand in the first quarter of 2015.

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



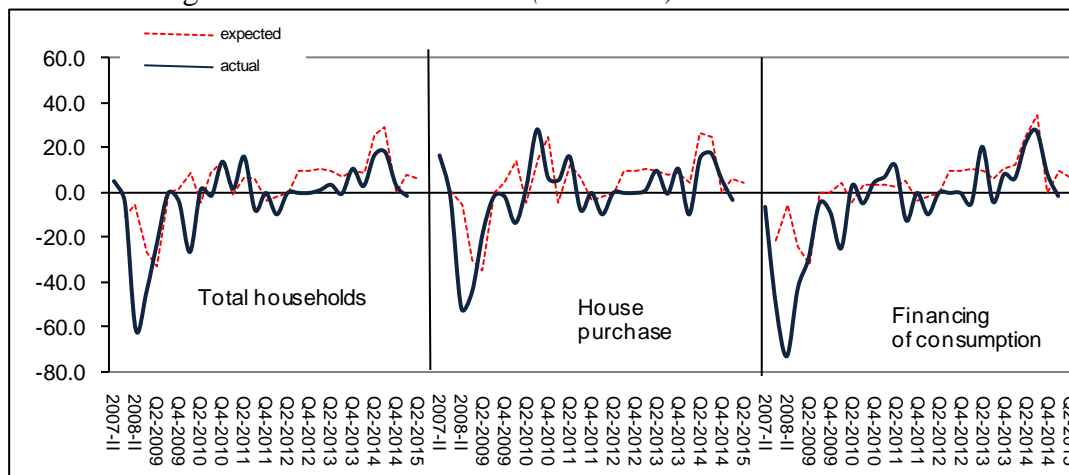
Source: Bank of Albania.

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 first quarter of 2015, banks reported a slight tightening of lending standards applied to households. The net percentage of banks reporting tightened lending standards was 1.4%. By purpose of use, the lending standards tightened for consumer and home-purchase loans. Their balances stood at -3.2% and -1.4%, respectively. Banks' experts expect an easing of lending standards applied to households in 2015 Q2 2015, for both *home purchase* and *consumer loans*.

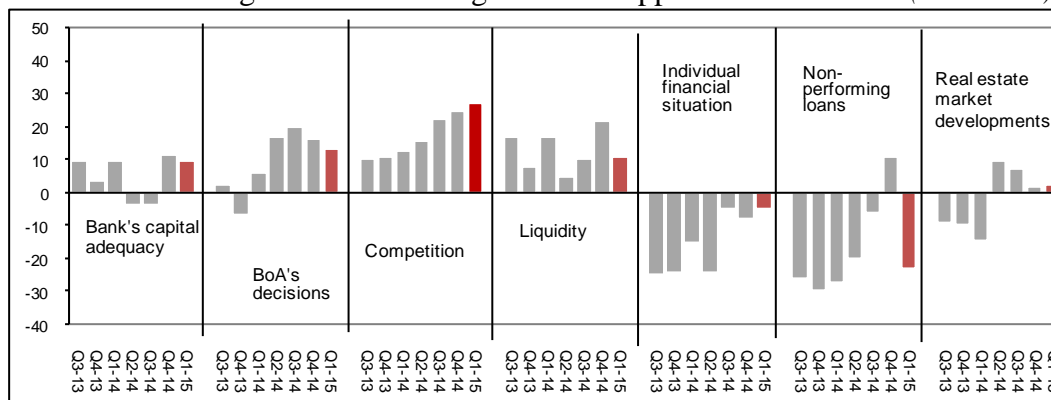
Chart 6 Lending standards for households (*net balance*)



Source: Bank of Albania.

The **factors** contributing to the easing of lending standards applied to households during the first quarter of 2015 were *the performance of non-performing loans* and *the financial situation of households*. *Competitiveness in the banking system*, *Bank of Albania's decisions*, *liquidity situation*, and *bank's capital adequacy* contributed to the easing of lending standards applied to households. Also, *developments in the real estate market* provided a positive contribution to the easing of lending standards, but at a lower extent compared to the other factors.

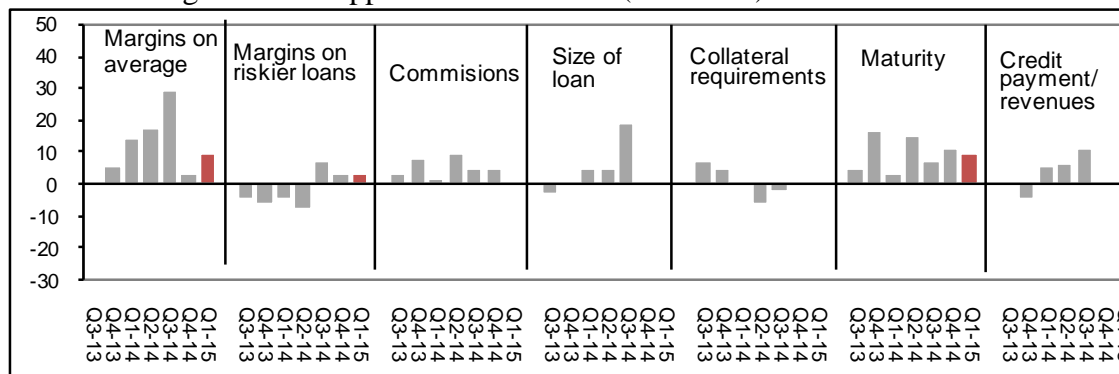
Chart 7 Contributing factors to lending standards applied to households (*net balance*)



Source: Bank of Albania.

The applied lending **terms and conditions** eased in 2015 Q1. The policy of eased lending standards applied to households was mainly implemented by extending the *maximum maturity of loan* and the narrowing of *average credit margin*.

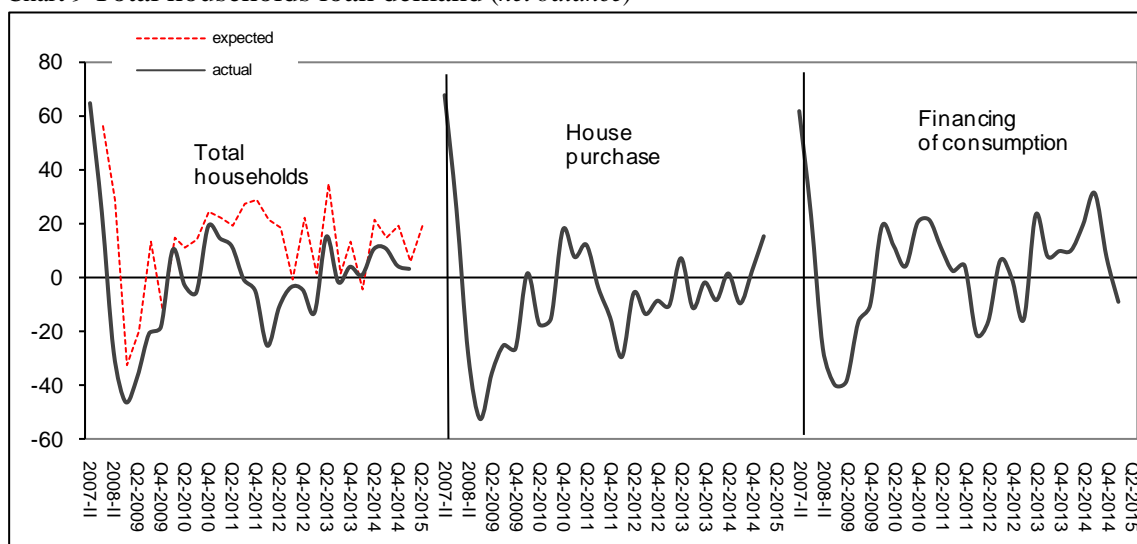
Chart 8 Lending standards applied to households (*net balance*)



Source: Bank of Albania.

Demand for credit. Banks estimated the households' credit demand as positive, but slowing down compared to 2014 Q4. Net balance of responses reported by banks stood at 2.9%. By purpose of use, banks reported an increased demand for the *house-purchase loans*. Banks' experts assessed the demand for *funding consumption* as downward. Respective balance was -9.4 %, from 7.2% in the previous quarter.

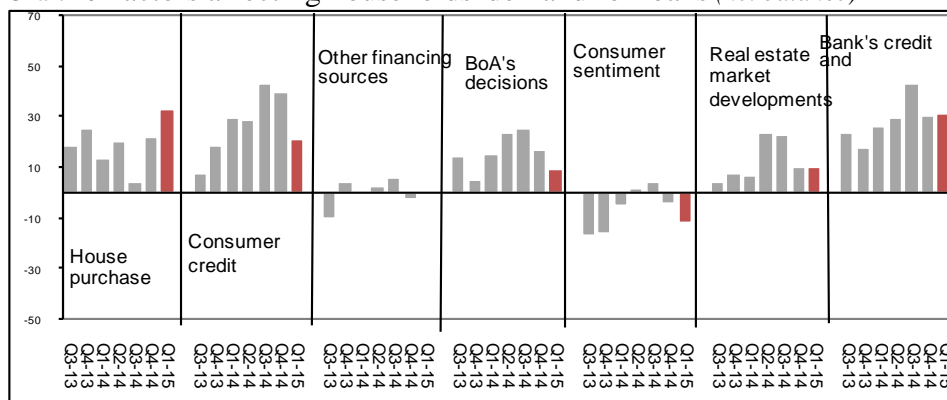
Chart 9 Total households loan demand (*net balance*)



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* and the *Bank of Albania's decisions* provided positive contribution to demand, but to a lower extent compared to the previous quarter. Banks deem that the fall in *consumer confidence* provided the main contribution to the slowdown of the demand in 2015 Q1.

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

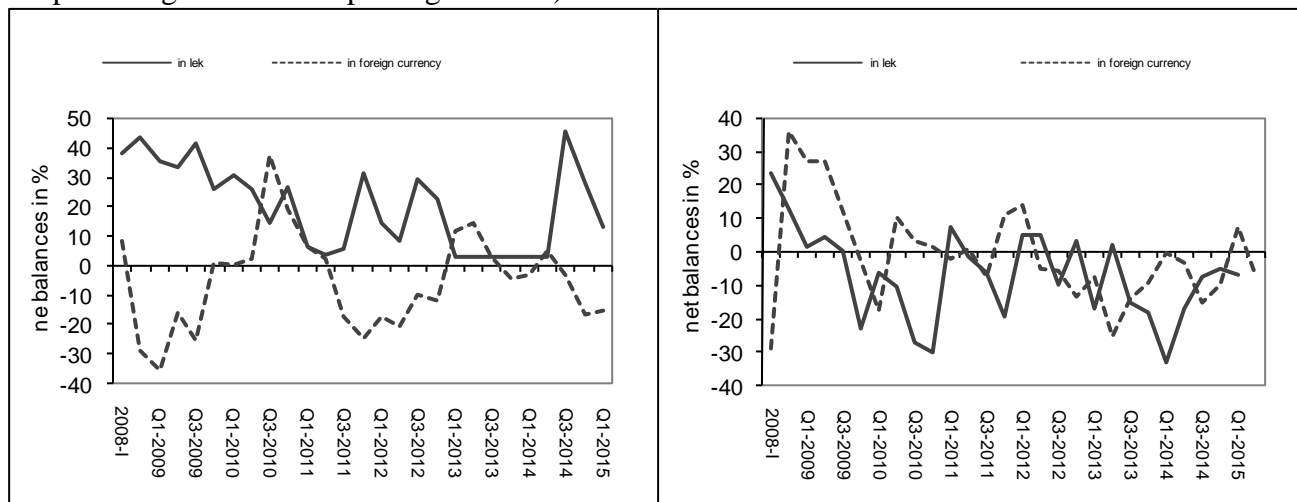


Source: Bank of Albania.

Expectations for lending activity by currency

Banks' experts expect a slowdown of the lek-denominated loans and further decrease of Euro-dominated loan in the second quarter of 2015. Interest rates are expected to fall for both currencies.

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 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1
Change in bank lending standards						
- Current quarter	-5.1%	-7.4%	12.1%	0.0%	-2.3%	-4.5%
- Next quarter	3.1%	4.4%	2.8%	0.7%	2.6%	-3.3%
Factors affecting the lending standards						
- Bank's capital adequacy	2.1%	6.3%	-11.4%	2.1%	2.1%	-2.0%
- Bank of Albania's decisions	16.1%	30.4%	38.5%	30.4%	34.4%	26.7%
- Competition in the banking system	1.8%	-3.4%	6.5%	27.1%	8.7%	27.8%
- Current or expected liquidity level	-5.9%	11.2%	18.5%	11.2%	8.0%	3.2%
- Specific business sector-related concerns	-57.5%	-51.8%	-54.4%	-42.6%	-47.2%	-37.9%
- Current or expected macroeconomic situation	-42.6%	-37.4%	-22.6%	-9.1%	-6.0%	17.3%
- Non-performing loans	-49.3%	-47.7%	-55.1%	-34.6%	-47.6%	-48.9%
Change in bank lending standards						
- Average margin	10.2%	8.6%	19.8%	22.3%	28.2%	26%
- Margin for risk-rated loans	-36.5%	-21.8%	-8.9%	-5.1%	-9.2%	-5.6%
- Commissions	18.9%	18.9%	12.7%	6.3%	6.3%	7.2%
- Loan amount	-0.3%	2.0%	2.0%	-1.8%	-4.0%	-1.6%
- Collateral requirement as a ratio of loan amount	-15.2%	-6.3%	7.6%	9.4%	1.8%	5.6%
- Maximum loan term to maturity	6.3%	5.8%	3.4%	3.4%	-3.4%	0.0%
Change in business demand for loans						
- SMEs, previous quarter	-10.3%	-8.1%	19.8%	-3.1%	11.4%	-3.2%
- SMEs, next quarter	-0.4%	31.8%	9.0%	18.6%	2.3%	12.9%
- Large enterprises, previous quarter	-32.5%	-9.2%	3.7%	4.3%	7.9%	1.2%
- Large enterprises, next quarter	-10.8%	19.8%	2.8%	16.3%	-1.1%	5.5%
Factors affecting change in demand for loans						
- Need to finance inventories	24.9%	5.9%	36.3%	30.5%	28.0%	16.1%
- Need to finance fixed investments	18.7%	-25.9%	11.4%	7.3%	-0.6%	9%
- Use of alternative financial resources	4.2%	-15.1%	-4.4%	4.6%	0.1%	6.7%
- Bank of Albania's monetary policy decisions	5.2%	31.1%	5.0%	10.5%	6.8%	8.6%
- Lending standards applied by your bank	-16.1%	8.0%	9.2%	36.9%	19.6%	12.8%
- Current or expected macroeconomic situation	7.2%	-38.3%	4.6%	17.8%	3.1%	3.5%

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 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1
Change in bank lending standards						
- Previous quarter	10.8%	3.1%	16.9%	18.2%	3.4%	-1.4%
- Next quarter	8.4%	25.8%	29.6%	0.0%	7.8%	5.9%
Factors affecting the lending standards						
- Bank's capital adequacy	3.4%	9.5%	-3.6%	-3.4%	11.3%	9.8%
- Bank of Albania's decisions	-6.5%	6.1%	16.8%	20.1%	16.5%	13.5%
- Competition in the banking system	11.1%	12.6%	15.8%	22.6%	24.8%	27.0%
- Current or expected liquidity level	7.7%	17.2%	4.7%	10.4%	21.7%	10.9%
- Households' financial situation	-24.1%	-15.4%	-24.0%	-4.9%	-7.7%	-4.7%
- Non-performing loans	-29.6%	-27.0%	-19.7%	-6.3%	10.7%	-22.7%
- Developments in the real estate market	-9.7%	-14.5%	9.8%	7.3%	2.0%	2.4%
Change in bank lending standards						
- Average margin	5.6%	14.2%	17.7%	29.6%	3.3%	9.9%
- Margin for risk-rated loans	-6.2%	-4.3%	-7.5%	7.7%	3.4%	3.2%
- Commissions	7.7%	2.0%	9.4%	5.3%	5.2%	7.0%
- Loan amount	0.0%	5.2%	4.7%	19.1%	0.0%	0.0%
- Collateral requirement as a ratio of loan amount	4.6%	-0.9%	-5.9%	-2.1%	0.0%	0.0%
- Maximum loan term to maturity	16.4%	3.1%	15.4%	7.4%	11.3%	9.9%
- Instalment-to-income ratio	-4.3%	6.1%	6.5%	11.4%	0.0%	0.0%
Change in household demand for loans						
- Mortgage loans	-2.2%	-8.7%	1.2%	-10%	2.1%	15.1%
- Consumer loans	9.5%	9.8%	19.3%	31.2%	7.2%	-9.4%
Factors affecting change in demand for loans						
- Households' needs to finance house purchase	24.9%	13.4%	20.5%	4.2%	21.6%	32.7%
- Households' needs to finance consumption	18.7%	29.4%	28.8%	43.2%	39.7%	21.1%
- Use of alternative financial resources	4.2%	0.9%	2.6%	5.9%	-2.7%	-1.6%
- Bank of Albania's monetary policy decisions	5.2%	14.7%	23.3%	25.3%	16.5%	9.5%
- Consumer confidence	-16.1%	-5.1%	1.3%	4.4%	-4.3%	-12.4%
- Developments in the real estate market	7.2%	6.4%	23.7%	22.8%	10.0%	9.6%
- Lending standards applied by your bank	17.9%	26.2%	29.4%	43.0%	30.0%	31.3%