

Bank of Albania  
**Monetary Policy Department**



**Bank Lending Survey Results for 2015 Q3**  
**October 2015<sup>1</sup>**

Credit standards for businesses remained unchanged while those for households maintained the easing trend during Q3, based on the results of the lending survey. For businesses, standards remained unchanged for financing both working capital and investments. Household's standards for consumer credit as well as for house purchase were eased.

The influence of different factors in lending standards was similar to the previous quarter. The main factors contributing to the easing are the decisions of the Bank of Albania and the level of competition. The NPL situation, the macroeconomic situation and the financial position of households continued to contribute to the tightening of lending standards.

The main bank lending condition contributing to an easing of credit policy for businesses as well as for households was the narrowing of the average loan margin and increase of the average maturity. The other lending standards applied by banks for household loans in Q3 were on the easing side. For businesses, expansion of margin for the risk-rated loans and the lowering of maturity contributed on the tightening standards.

Businesses demand for loans continued the downward trend, whereas households demand was lower in Q3. The latter has seen positive developments over the past two years.

Banks continue to be more optimistic for loans to households, for Q4. Thus, they expect the easing standards to continue, for house purchase loans and for consumer loans, and increased demand. For businesses, banks expect a standard easing but at less than the expectations for household loans. Banks expect demand from small and medium-sized enterprises to increase, but demand from large enterprises to fall.

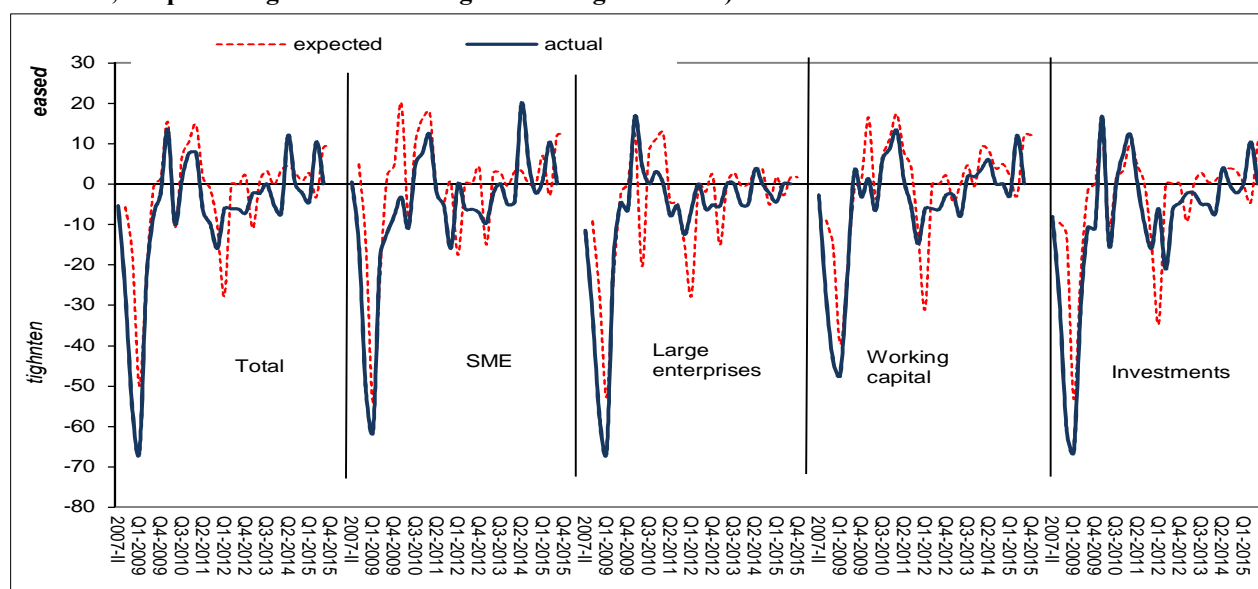
---

<sup>1</sup> The survey conducted in September 2015 covers the developments in bank lending during 2015 Q3 and banks' expectations for lending in 2015 Q4.

## Lending to businesses

**Lending standards:** The survey results show that banks kept the lending standards unchanged for lending to businesses in Q3. After the positive changes in Q2 (net percentage of bank's responses for easing was + 10.4%), net balance of responses was 0% for the quarter under review. Lending standards applied to small, medium-sized and big enterprises remained flat. Similarly to the expectations of the previous quarter, banks expect slight easing of lending standards for small and medium-sized enterprises, but they do not expect major changes of the standards for large enterprises for the next quarter. On the other hand, by purpose of use, banks expect a higher easing for working capital and less easing for investment loans.

**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)**

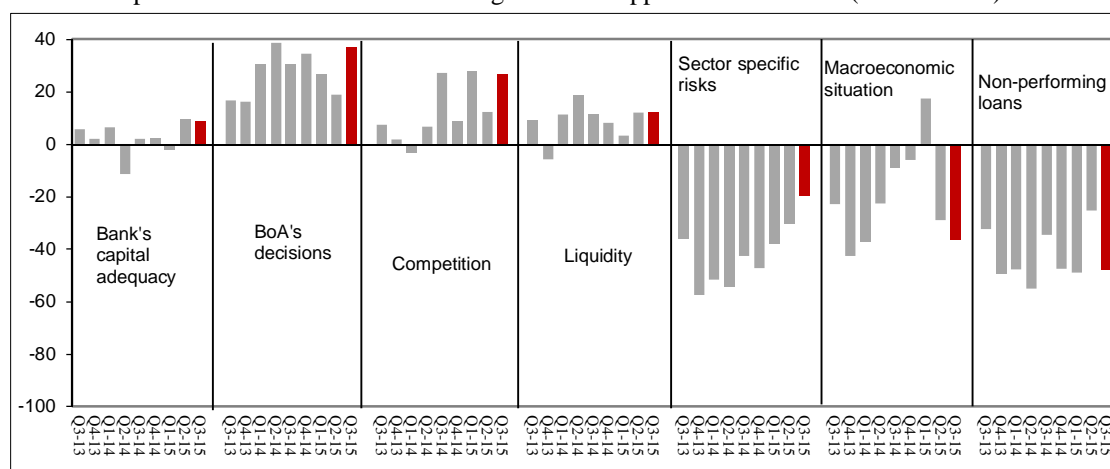


Source: Bank of Albania

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

The impact direction of different factors on the performance of standards for business loans for Q3 is unchanged from the previous quarter. Thus, the bank's capital adequacy, liquidity situation, competition in the banking market and the decisions of the Bank of Albania continue to contribute to the easing of standards. The easing impact of the last two factors has increased significantly in the Q3. By contrast, the specific problems of the sector where the business operates, the macroeconomic situation and the situation of non performing loans, continue to contribute to the tightening side (Chart 2).

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

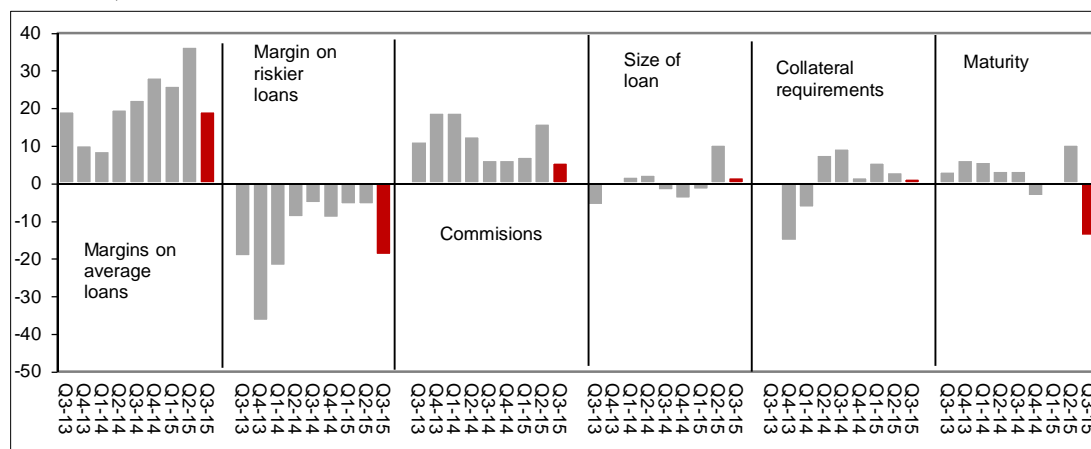


Source: Bank of Albania

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.

Although lending standards remained unchanged in Q3, banks reported a narrowing of the average loan margin and increased commissions. On the other hand, the widening of the loan risk-rated margin and the reduction of maturity contributed significantly to the implementation of a tightening loan policy in Q3.

Chart 3: Change in terms and conditions on businesses' loan (net balance2, net percentage of banks reporting easier lending standards)



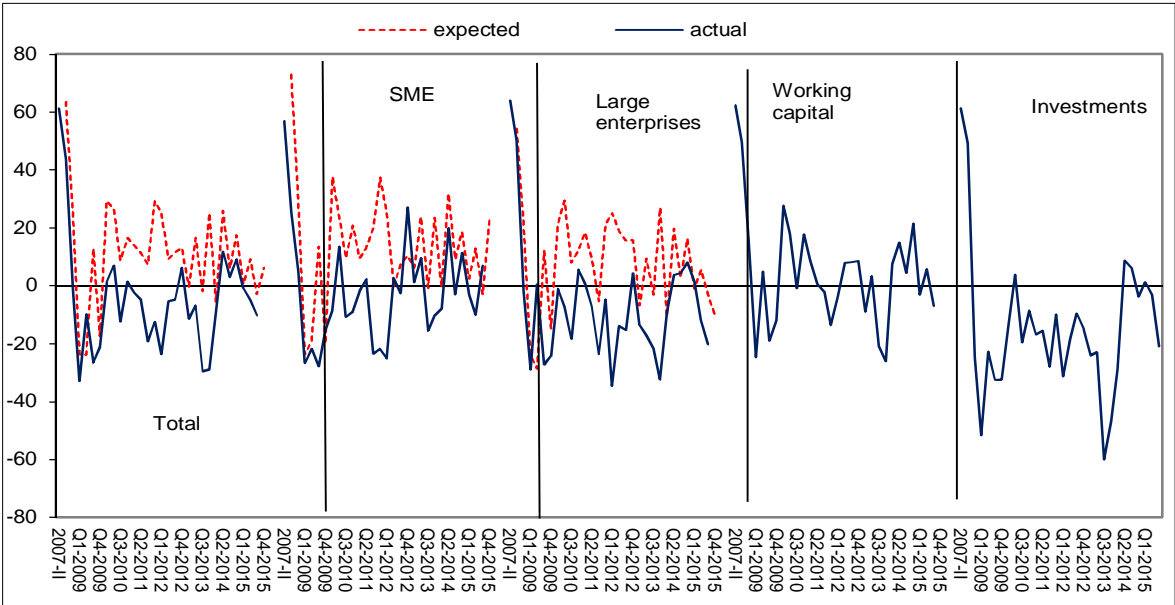
Source: Bank of Albania

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

**Demand for credit.** Banks have estimated the demand for businesses' loans as falling, for the third consecutive quarter. The net balance of the estimated demand is -10.4%. The decline in the assessment for total demand was driven by the decline in the demand of large enterprises. Meanwhile, the demand of small and medium-sized

enterprises is assessed as increased during Q3. By purpose of use, business demand for investment funding has dropped significantly more than the demand for working capital loans.

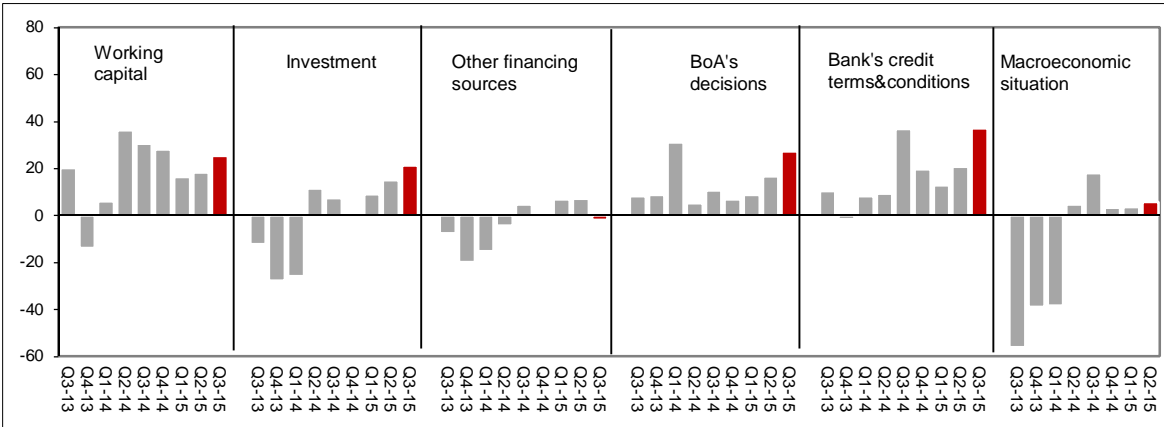
Chart 4: **Businesses credit demand by size of enterprise and purpose of use (net balance, net percentage of banks reporting increase of demand)**



Source: Bank of Albania

Despite a fall in the total business demand for loans, banks have assessed that the need to finance working capital and investment, the lack of alternative funding, the lending conditions and the decisions of the Bank of Albania are all factors that increase businesses demand for loans.

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



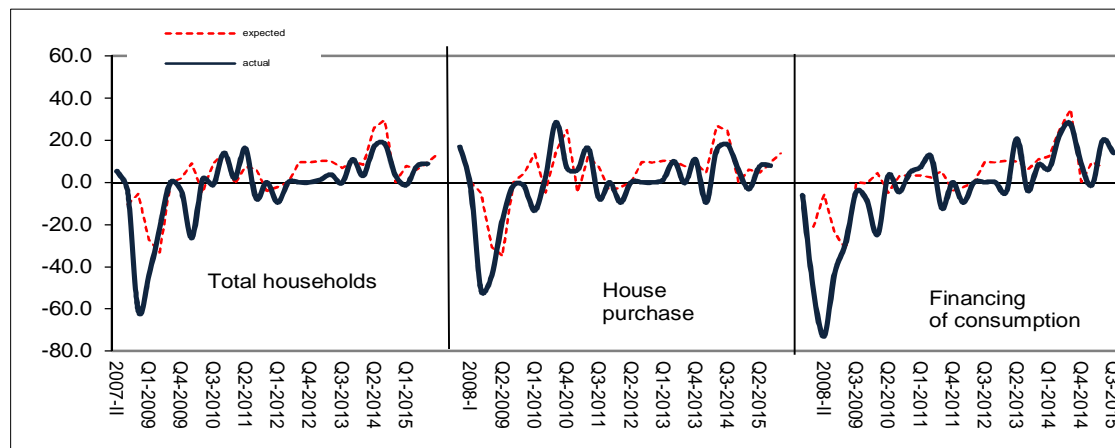
Source: Bank of Albania.

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.** The easing of credit standards for households continued during the 2015 Q3. The net percentage of banks that reported an easing of standards is assessed as 8.8%, from 7.7% in the previous quarter. Banks reported easing standards applied to loans for house purchasing as well as for consumption purposes. The estimated balances were 7.9% and 14.0%, respectively. For Q4, banks expect the easing tendency of the lending standards for enterprises, for house purchase as well as for consumption loans to continue.

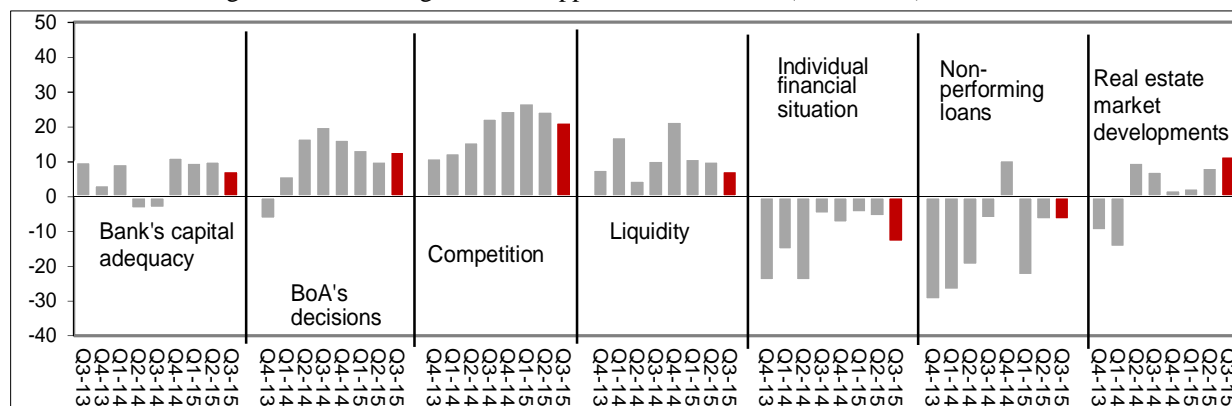
Chart 6: Lending standards for households (net balance)



Source: Bank Lending Survey, Bank of Albania.

The main factors contributing to the easing of lending standards for households during 2015 Q3 were: the competition level in the banking sector, the decisions of the Bank of Albania and the developments in the real estate market. Factors such as the the liquidity situation and the banksø capital adequacy continue to support the easing of households loan standards, but at a lower rate compared with the previously quarter. Non-performing loans (NPL) situation and the financial situation of enterprises remain factors contributing to the tightening of lending standards.

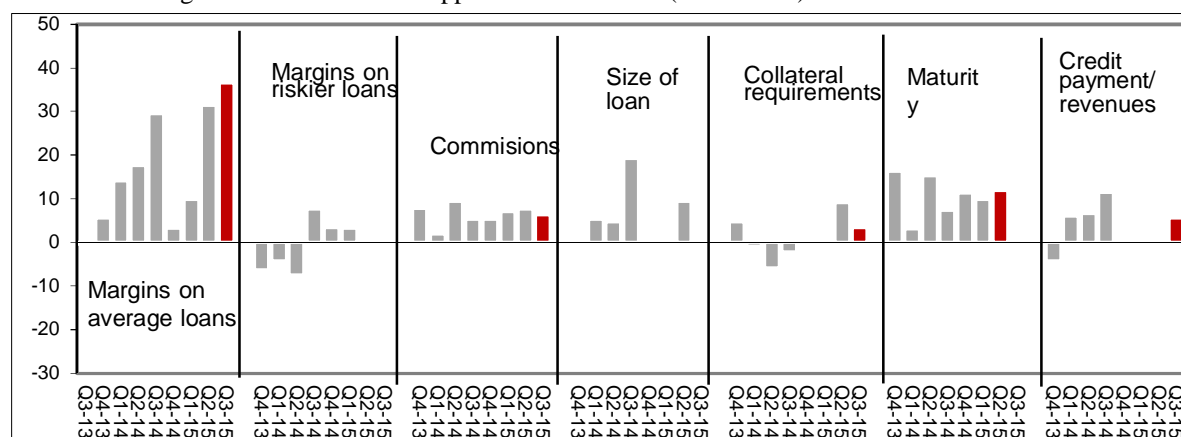
Chart 7: Contributing factors to lending standards applied to households (net balance)



Source: Bank Lending Survey, Bank of Albania.

Terms of households lending are assessed as eased in 2015 Q3. Besides narrowing the average margin, banks also reported increased instalments ratio / income as another condition that has helped in the implementation of easing policy. In contrast to the previous quarter, the decrease of implemented commissions and the decrease demand for collateral in relation to the loan size are assessed to have had a lower impact in easing. Meanwhile, banks report the conditions related with the loan size loan maturity and the loan risk margin as unchanged.

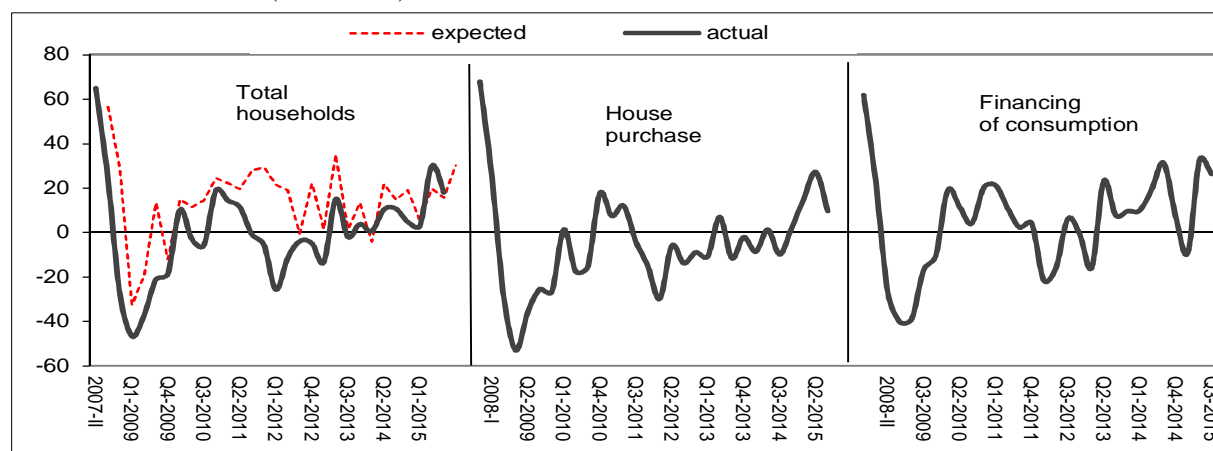
Chart 8: Lending terms and conditions applied to households (net balance)



Source: Bank Lending Survey, Bank of Albania.

Demand for household loans is reported to have increased in 2015 Q3. However, compared with the previous quarter, banks report a lower net balance, around 17.9% from 29.9%. Lending also showed the above-mentioned trend, broken down by the purpose of funding. Thus, the net balance of the loan to households for consumption purposes resulted 26.2% from 32.7%, and for house purchase 9.6% from 27.1% in the previous quarter.

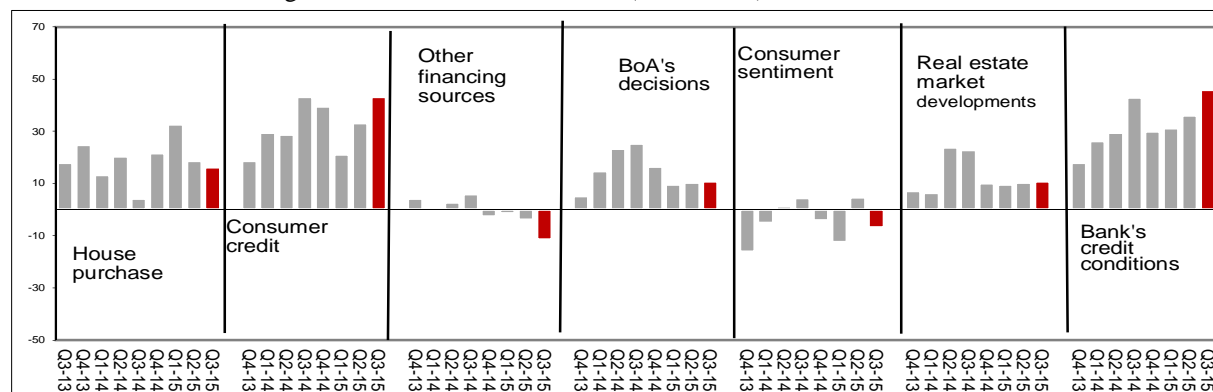
Chart 9: Credit demand (net balance).



Source: Bank Lending Survey, Bank of Albania.

Factors that contributed most to the positive dynamics of demand for household loans during 2015 Q3, were: lending standards and the need for consumption financing. Meanwhile, the need for purchasing real estate, Bank of Albania's decisions and developments in the real estate market affected the demand for loans positively, but to a lower extent. In the quarter under review, apart from alternative financing sources, consumer confidence was another factor with negative impact on the households demand for loans.

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



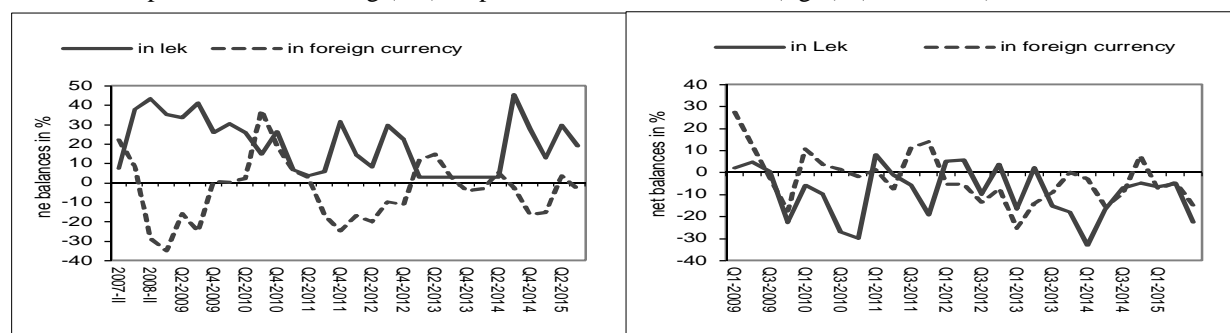
Source: Bank Lending Survey, Bank of Albania.

### Expectations for lending activity by currency

Banks expect an increase of lending activity in the local currency in 2015 Q4. The net balance of this indicator was positive 19.1%, but lower than the 29.7% in the previous quarter. Meanwhile, related to the foreign currency loans, banks stated they expect it to decline.

Statistical survey data on banks' expectations regarding interest rates on loans reflect a declining rate, for both lek and foreign currency loans in Q4. The decline of net balances, compared to the previous period, is more pronounced for expectations of interest rates on lek loans.

Chart 11: Expectations for lending (left); expectations for interest rates (right); (net balance). \*



Source: Bank Lending Survey, 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 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	2014 Q2	2014 Q3	2014 Q4	2015 Q1	15 Q2	15 Q3
<b>Change in bank lending standards</b>						
- Previous quarter	16.9%	18.2%	3.4%	-1.4%	7.7%	8.8%
- Next quarter	29.6%	0.0%	7.8%	5.9%	9.4%	13.7%
<b>Factors affecting the lending standards</b>						
- Bank's capital adequacy	-3.6%	-3.4%	11.3%	9.8%	10.3%	7.4%
- Bank of Albania's decisions	16.8%	20.1%	16.5%	13.5%	10.3%	13.0%
- Competition in the banking system	15.8%	22.6%	24.8%	27.0%	24.5%	21.4%
- Current or expected liquidity level	4.7%	10.4%	21.7%	10.9%	10.3%	7.4%
- Households' financial situation	-24.0%	-4.9%	-7.7%	-4.7%	-5.7%	-13.1%
- Non-performing loans	-19.7%	-6.3%	10.7%	-22.7%	-6.7%	-6.7%
- Developments in the real estate market	9.8%	7.3%	2.0%	2.4%	8.5%	11.7%
<b>Change in bank lending standards</b>						
- Average margin	17.7%	29.6%	3.3%	9.9%	31.3%	36.6%
- Margin for risk-rated loans	-7.5%	7.7%	3.4%	3.2%	0.0%	0.0%
- Commissions	9.4%	5.3%	5.2%	7.0%	7.7%	6.4%
- Loan amount	4.7%	19.1%	0.0%	0.0%	9.4%	0.0%
- Collateral requirement as a ratio of loan amount	-5.9%	-2.1%	0.0%	0.0%	9.1%	3.5%
- Maximum loan term to maturity	15.4%	7.4%	11.3%	9.9%	11.9%	0.0%
- Instalment-to-income ratio	6.5%	11.4%	0.0%	0.0%	0.0%	5.6%
<b>Change in household demand for loans</b>						
- Mortgage loans	1.2%	-10.0%	2.1%	15.1%	27.1%	9.6%
- Consumer loans	19.3%	31.2%	7.2%	-9.4%	32.7%	26.2%
<b>Factors affecting change in demand for loans</b>						
- Households' needs to finance house purchase	20.5%	4.2%	21.6%	32.7%	18.6%	16.1%
- Households' needs to finance consumption	28.8%	43.2%	39.7%	21.1%	33.3%	43.3%
- Use of alternative financial resources	2.6%	5.9%	-2.7%	-1.6%	-3.9%	-11.3%
- Bank of Albania's monetary policy decisions	23.3%	25.3%	16.5%	9.5%	10.3%	10.8%
- Consumer confidence	1.3%	4.4%	-4.3%	-12.4%	4.6%	-6.8%
- Developments in the real estate market	23.7%	22.8%	10.0%	9.6%	10.3%	10.8%
- Lending standards applied by your bank	29.4%	43.0%	30.0%	31.3%	36.1%	46.0%

Source: Bank Lending Survey, Bank of Albania.

## Annex 2. 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	2014 Q2	2014 Q3	2014 Q4	2015 Q1	15 Q2	15 Q3
<b>Change in bank lending standards</b>						
- Current quarter	12.1%	5.1%	-2.3%	-4.5%	10.4%	0.0%
- Next quarter	2.8%	0.7%	2.6%	-3.3%	9.0%	9.0%
<b>Factors affecting the lending standards</b>						
- Bank's capital adequacy	-11.4%	2.1%	2.1%	-2.0%	9.4%	8.7%
- Bank of Albania's decisions	38.5%	30.4%	34.4%	26.7%	29.6%	36.9%
- Competition in the banking system	6.5%	27.1%	8.7%	27.8%	22.9%	26.7%
- Current or expected liquidity level	18.5%	11.2%	8.0%	3.2%	11.9%	12.0%
- Specific business sector-related concerns	-54.4%	-42.6%	-47.2%	-37.9%	-30.2%	-19.3%
- Current or expected macroeconomic situation	-22.6%	-9.1%	-6.0%	17.3%	-29.0%	-36.3%
- Non-performing loans	-55.1%	-34.6%	-47.6%	-48.9%	-25.3%	-47.8%
<b>Change in bank lending standards</b>						
- Average margin	19.8%	22.3%	28.2%	26.0%	36.4%	19.2%
- Margin for risk-rated loans	-8.9%	-5.1%	-9.2%	-5.6%	-5.6%	-19.0%
- Commissions	12.7%	6.3%	6.3%	7.2%	16.0%	5.6%
- Loan amount	2.4%	-1.8%	-4.0%	-1.6%	10.4%	1.8%
- Collateral requirement as a ratio of loan amount	7.6%	9.4%	1.8%	5.6%	3.1%	1.3%
- Maximum loan term to maturity	3.4%	3.4%	-3.4%	0.0%	10.4%	-13.9%
<b>Change in business demand for loans</b>						
- SMEs, previous quarter	19.8%	-3.1%	11.4%	-3.2%	-10.2%	6.9%
- SMEs, next quarter	9.0%	18.6%	6.9%	12.9%	-3.0%	22.8%
- Large enterprises, previous quarter	3.7%	4.3%	7.9%	1.2%	-12.0%	-20.3%
- Large enterprises, next quarter	2.8%	16.3%	1.8%	5.5%	-3.0%	-10.5%
<b>Factors affecting change in demand for loans</b>						
- Need to finance inventories	36.3%	30.5%	28.0%	16.1%	18.1%	25.4%
- Need to finance fixed investments	11.4%	7.3%	-0.6%	9.0%	14.9%	21.3%
- Use of alternative financial resources	-15.1%	-4.4%	4.6%	0.1%	7.1%	-1.9%
- Bank of Albania's monetary policy decisions	31.1%	5.0%	10.5%	6.8%	16.5%	27.2%
- Lending standards applied by your bank	9.2%	36.9%	19.6%	12.8%	20.7%	37.0%
- Current or expected macroeconomic situation	4.6%	17.8%	3.1%	3.5%	5.8%	2.3%

Source: Bank Lending Survey, Bank of Albania.