

Bank of Albania
Monetary Policy Department



**BANK LENDING SURVEY
-February 2009¹-**

The survey's results of credit activity for the second half of 2008 reveal a tightening of credit standards. The net tightening of credit standards was higher compared with the expected net tightening in the previous survey round, according to the opinions provided by the banks' experts. Based on the current survey's results, the borrowing appeared more difficult for households than for businesses (net balances² -61% and -56%, respectively). As regards the loans to household, the net tightening was higher for consumer credit than for house purchase. The credit conditions were tightened almost at the same amount regarding both the large corporations and the small & medium sized enterprises, characterised by a more visible tightening of the loan for long-term investments purposes.

The macroeconomic situation and the financial state of households continued to be the main factors contributing to the tightening of credit standards in the second half of 2008. Banks expect the net tightening of credit standard will continue during the first half of 2009, higher for businesses than for households.

Banks reported that net demand for loans both to enterprises and to households had declined in the second half of 2008. Net households' demand – the difference of weighted answers that show an increase of the demand with the weighted answers that reveal a decrease of the demand - is negative, droved mainly by the real estate market developments. Net demand of small businesses has declined compared to the first half of year, but still positive, meanwhile the net demand of corporations is negative, being influenced by the decrease of the need for the financing of investments.

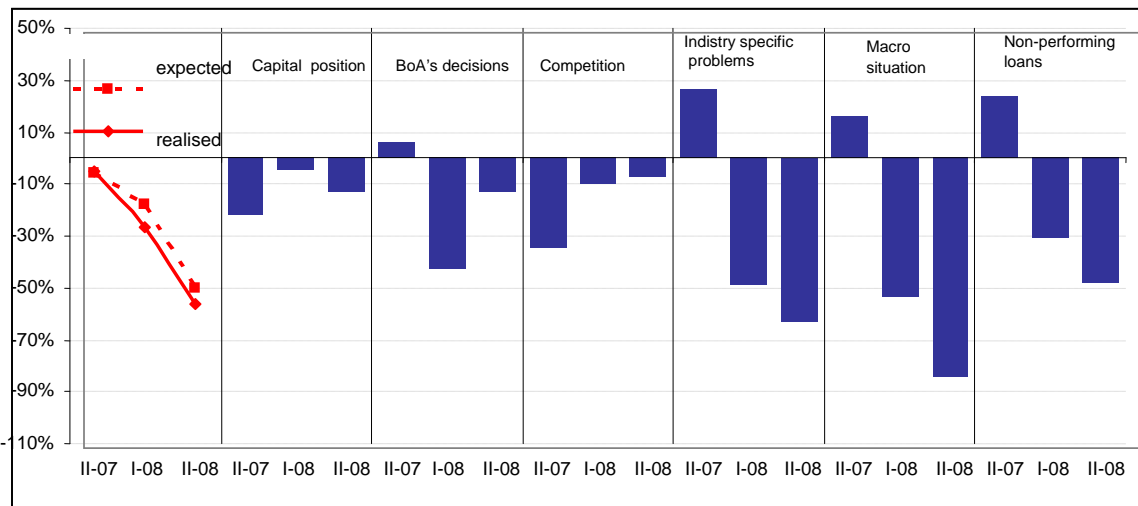
¹ The survey was carried out during the period December'08 – January'09. The results relate to changes during the second half of 2008 and the expectations of changes in the first half of 2009. 10 banks participated in the current survey, which own 96 per cent of credit market as total.

² The results are aggregated as net balances – the difference between the weighted sum of the percentages of banks responding "eased/increased" and the sum of the percentages of banks responding "tightened/decrease". The weights, during the currents survey, are calculated based on the credit portfolio value in the last month of 2008, considering only those market segments dealt with in the survey (the loans granted to businesses/households, in Lek/in foreign currency).

Loans to enterprises

Credit standards. In the second half of 2008 banks have tightened the credit standards for granting loans to enterprises; net balance points to -56 per cent compared to -27 per cent in the first half of year. The current and expected economic developments as well as the specific problems of the sectors where businesses carry out their activity are the factors with the highest contribution on the strengthening of standards. At the same time, the estimation of banks regarding the situation of non-performing loans has contributed with a higher intensity on the strengthening of standards, compared to the two previous surveys. During the second half of 2008, the bank's capital position, the decisions from the Bank of Albania and the competition in the banking system have contributed to the strengthening of standards, notwithstanding with a lower intensity compared to the other factors (see chart 1).

Chart 1: Changes in credit standards applied to the approval of loans to enterprises factors contributing them (in net balances ¹⁾).



Source: Bank of Albania

Note1. The positive value refers to credit standards easing or that the factor has impacted the easing of the lending standards; while the negative balance refers to credit standards tightening or that the factor has effected the tightening of lending standards.

As regards the terms and conditions for granting loans to enterprises, banks state that they have strengthen the standards applied for loans, mainly through widening their margins on riskier loans (the balance amounts to -76% from -20% in the previous survey). In addition, banks have increased also the average loan margin (the balance points to -60%, in contrast to the positive balance 30% of the first half of 2008). Along with it, the other conditions have contributed to the net strengthening of the standards for the loans approval.

Banks have strengthened almost at the same level the standards applied for loans granted to large corporations, as well as the standards applied for the loan granted to small & medium-sized enterprises, the balances point to -51% and -58%, respectively. As regard loan maturity, the net tightening continued to be more pronounced for long-term loans than for short-term loans (balances -61% and -44%, respectively).

Table 1: Summary of the information provided by banks on credit standards, second half 2008

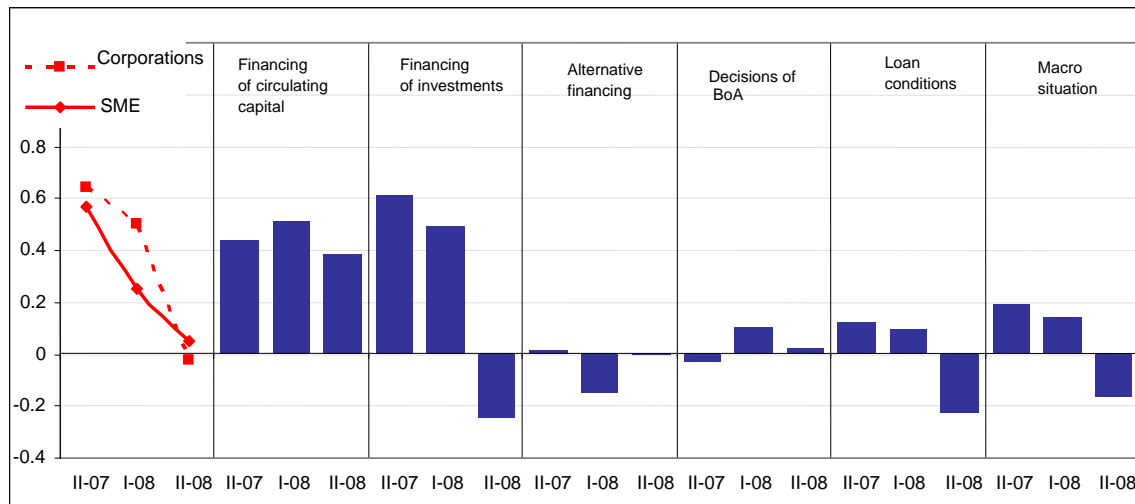
	Total	SME	Corporations	Short-term loans	Long-term loans
Tightened considerably	2 banks	2 banks	3 banks	1 banks	3 banks
Tightened somewhat	5 banks	4 banks	3 banks	6 banks	4 banks
Mainly unchanged	3 banks	4 banks	4 banks	3 banks	3 banks
Eased somewhat	-	-	-	-	-
Eased considerably	-	-	-	-	-
Total	10	10	10	10	10
Net balance^{*)}	-56%	-51%	-58%	-44%	-61%

Source: Bank of Albania

*) See note 1

Loan demand. Banks have reported a decrease of the net demand for loans by enterprises in the second half of 2008. The decline in demand is more evident for the large corporations than for small & medium sized enterprises. The net demand by large enterprises is negative, mainly impacted by the reduction of the need for the financing of fixed investments, whose balance turned negative for the first time in the second half of 2008, respectively -25% (chart 2).

Chart 2: Demand of enterprises for loan and the contribution of the selected factors (net balance²⁾, in percentage)



Source: Bank of Albania

Note 2: The positive balance shows an increase of the demand or that the factor has contributed to the increase, while the negative balance reveals a fall of the demand or that the factor has contributed to the decrease of the credit demand.

The need to finance the inventories and the short-term capital is the main factor that has determined the businesses' demand for loans, the balance amounts to +39%. The decisions taken by the Bank of Albania have also had a low but positive influence on the borrowing demand, the balance points to +3%. The lending conditions applied by banks and the macroeconomic situation are the factors that have impacted the decrease of the demand.

Table 2: Changes in demand for loans, second half, 2008

	SME	Corporate	Short-term loans	Long-term loans
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Increased considerably	-	-	1 bank	-
Increased somewhat	4 banks	3 banks	5 banks	2 banks
Remained unchanged	4 banks	5 banks	3 banks	4 banks
Decreased somewhat	2 banks	2 banks	1 bank	3 banks
Decreased considerably	-	-	-	1 bank
Total	10	10	10	9

Source: Bank of Albania

Expectations. Banks reported that the credit tightening of standards will continue during the first half of 2009. As regarding the loan maturity, expectations for the first half of 2009 point to a higher net tightening of short-term loans compared with the long-term loans. Meanwhile, regarding the size of business, the tightening will be at the same intensity as with the one in the second half of 2008. In contrast to the previous surveys, banks expect that the businesses' demand will fall in the first half of 2009, regarding both the small & medium sized enterprises and the large corporations.

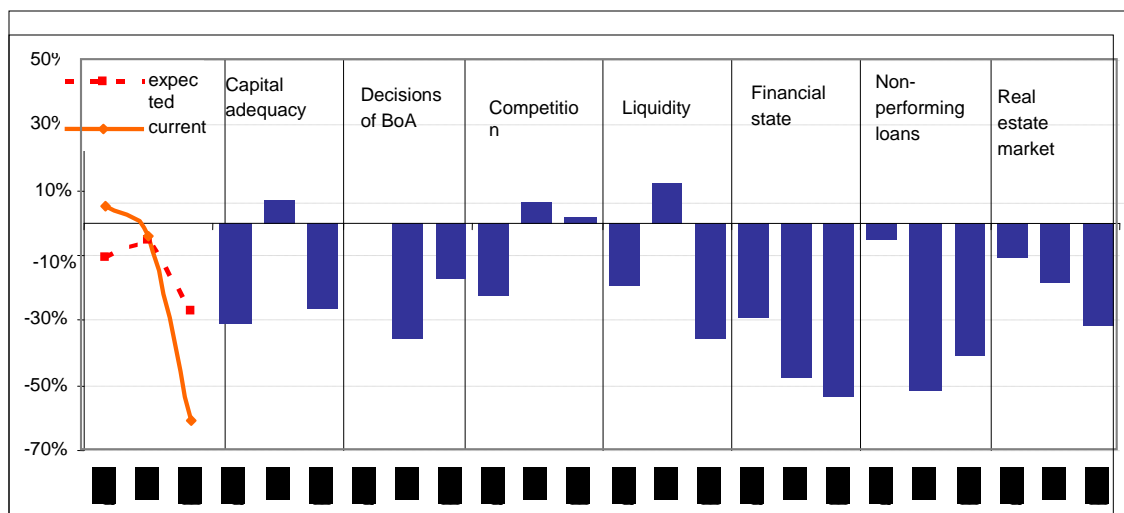
Loans to households

Loan standards. During the second half of 2008 banks have tightened the loan standards for households, at a higher level than their expectations in the first half of the year. From the aggregated banks answers, the credit standard balance is -61% showing a higher tightening compared to the net balance of -4% in the first half of the year and the expected balance of -5.5% in the previous survey. The standards on consumer loans have been more tightened than those for housing purchase (the balances amount to -73% and -52%, respectively). Half of banks (5 banks) have stated that lending standards are tightened considerably for the consumer loan, compared to 2 banks that have stated to have tightened significantly the house purchase. The consumer loan follows the tightening trend since the two previous surveys, while housing loan has incurred the highest tightening in the current survey.

The main factors that contributed on the tightening of the loan standards for households in the second half of 2008 were the individual financial situation, the bank liquidity level and the situation of the non-performing loans. Meanwhile, the competition in the banking system has given a small contribution on the easing of the standards of the loan approval.

During the second semester of 2008, the tightening policy was mainly implemented through the widening of the margin for riskier loans and through the decrease of size of loan in general. At the same time, compared to the first half of previous year, the margin for average loan is also widened, thus influencing the implementation of a more tightened lending policy.

Chart 3: Changes in credit standards applied to the approval of loans to enterprises factors contributing them, in net balance^{*)}.

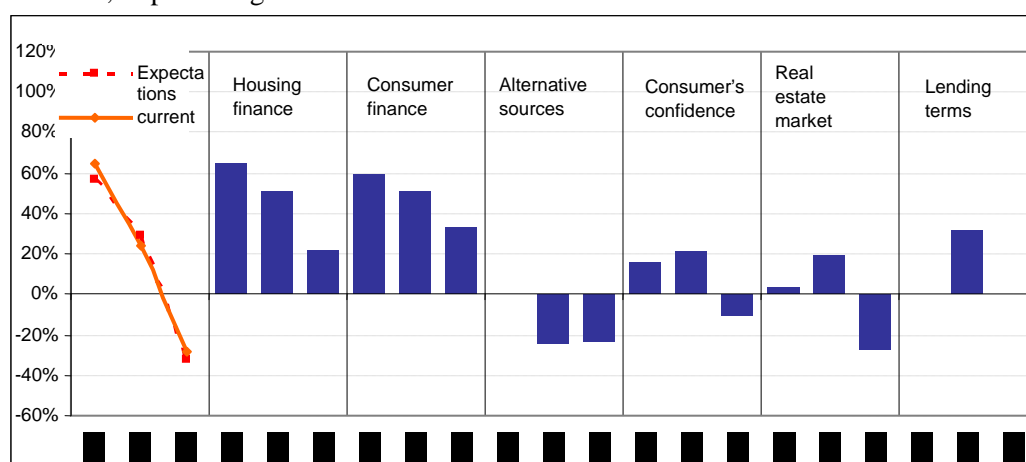


Source: Bank of Albania

*) See note 1

Loan demand. Banks reported a decline of the households' demand for loans during the second half of 2008, in contrast from the first half of the year where the demand was positive. This was due to the decrease of the housing and consumer demand, their balances amount to -29% and -27 %, respectively. The main factors that have influenced the decrease of the demand, according to the banks experts' opinions, are the developments in the real estate market and the alternative financing sources. The factors paying a positive contribution on the demand increase are the households' need to finance the housing purchase and their need to finance their short term consume.

Chart 3. The households' demand for loans and the contribution of the selected factors (net balance *), in percentage



Source: Bank of Albania

*) See note 2

Expectations. The expectations of banks' experts for the first half of year reveal a tightening of standards regarding loans approval for households even in the first half of 2009, notwithstanding with a lower intensity compared to the previous period. For the first part of 2009 banks expect that households' demand continue the decreasing trend.

Lending activity by currency

In accordance with the currency the loan is approved, banks' experts have foreseen a higher rhythm of credit in LEK, compared to credit in foreign currency. The growth rhythms of foreign currency lending are expected to be lower during the first half of 2009. Regarding the credit interest rate, banks have foreseen a more highlighted growth for the credit interest rate in foreign currency, whose balance amounts to +27.3% compared to + 13.3% resulting for the interest rate of Lek credit. The expectations for a higher interest rate in general are leaded by the bank assessment for the rise in the cost of funds and the augmented perception about the risk.

Regarding the factors that are evaluated by banks as more important for the purposes to promote the businesses' demand for foreign currency lending, the difference of interest rates and the source of income denominated in foreign currency have extended the main contribution, as resulted in the previous survey. During the second half of 2008, it is augmented the contribution of liquidity state as well in foreign currency of the banks themselves and their expectations for the direction and size of interest rates change, on the businesses' demand for foreign currency loan.

The main factor that has encouraged the demand for foreign currency loan from households, based on the banks' opinions, is the difference in the interest rates, notwithstanding the impact of this factor is reduced compared to the previous survey (the balance has decreased to 79.9% from 87.5% resulting in their previous survey). Banks have assessed the income source of households in foreign currency and the liquidity state of foreign currency of the bank itself, as factors which have increased their contribution on the households' demand for foreign currency loans, compared with the previous survey. Meanwhile, the expectations regarding the exchange rate, the expectations for the direction and size of reference interest rates and the acknowledgment of the economic developments (for example, LEK depreciation) are the factors that has reduced somewhat the impact on households' demand for foreign currency credit.

Lending activity per currency

According to the currency the loan is approved, banks' experts have foreseen a higher growth rate for loans denominated in LEK, compared to loans denominated in foreign currency. The growth rate of lending foreign currency is expected to be lower during the first half of 2009. With regard to loan's interest rates, banks have foreseen an accentuated growth for the loans' interest rate denominated in foreign currency, whose balance amounts to +27.3% compared to + 13.3% resulting for the interest rate applied to loans denominated in Lek. The expectations for a higher interest rate in general are guided by the banks assessment for rising costs of funds and the augmented perception of risk.

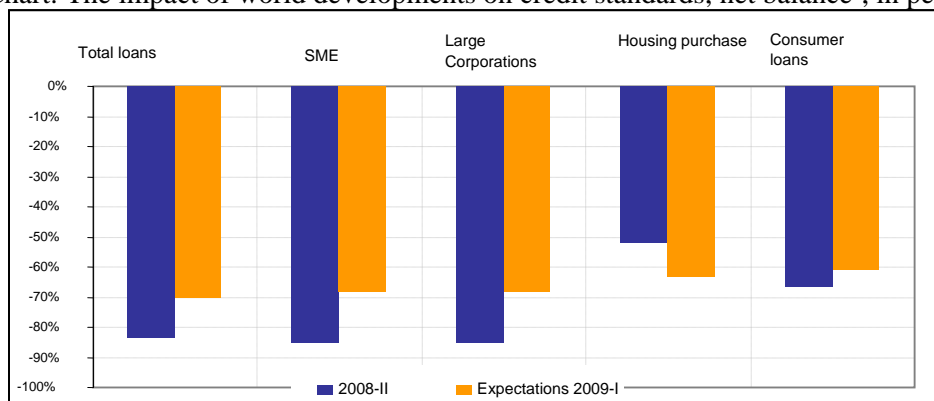
Due to the factors assessed by banks' experts as more important to promote the businesses' demand for loans denominated in foreign currency, the differences in interest rates and the source of income denominated in foreign currency have extended the main contribution, as in the previous survey. During the second half of 2008, there is a higher contribution of banks' liquidity state in foreign currency and their expectations on the direction and the size of interest rates change, on businesses' demand for loans in foreign currency.

The main factor that has prompted the households' demand for loans in foreign currency, based on the banks' opinions, is the difference in the interest rates, even though this factor has a lower impact compared to the previous survey (the balance has decreased to 79.9% from 87.5% in previous survey). Banks also have assessed the household's income source in foreign currency and the banks' liquidity situation in foreign currency, as the factors which have increased their contribution on the households' demand for foreign currency loans, compared to the previous survey. Meanwhile, expectations on the exchange rate, expectations for the direction and size of change in the reference interest rates and the acknowledgment for economic developments (for example, LEK depreciation) are the factors that have reduced somewhat the impact on households' demand for loans in foreign currency.

Special Section

In the current survey on banks' lending activity, conducted at the end of 2008, the questionnaire was extended with a special section regarding the possible impact that the developments in the world markets might bring about on the standards applied for loans approval and the expectations on possible influences in the future. The summarised results of the special section show that the occurrences in the financial global markets during the second half of 2008, according to the opinion of bank's credit expert's, have influenced the tightening of credit standards. These developments impacted more on the enterprises than households. Over the next six months, banks expect further tightening of banks standards for loan approval.

Chart: The impact of world developments on credit standards, net balance *, in percentage.



Source: Bank of Albania

*) See note 2

During the second half of 2008, banks commented that the situation in financial market has had a low impact on their possibilities to finance loans through the borrowing in the interbank market: according to the answers distribution, only one bank reported to have been affected considerably, 4 banks somewhat, 1 bank slightly, and 2 banks have not been affected at all. However, the abroad situation has influenced somewhat the decrease in the willingness to grant loans and the reduction of expectations for the first semester of 2009. According to the distribution by sector, the trade sector shall be affected more, after that the industry. Meanwhile, the construction sector, according to the banks' opinion shall be less affected.

Annex 1

Loans to businesses

In the aggregation process of results, each opinion is weighted based on its answer. For example, banks providing the answer that standards are “considerably tightened” have acquired the double of the weight compared to the answers “insufficiently tightened”. The results are analysed through the calculation of the net balance as the difference of the weighted balances of banks, which have reported an easing/increase of standards/demand. The net balances are escalated for the purposes of acquiring values within the target +/- 100.

	NET BALANCE		
	2007-II	2008-I	2008-II
How have changed the banks standards for loan approval?			
- Previous 6-month period	-5.4	-26.2	-53.5
- Next half 6-month period	-5.7	-17.7	-50.0
Factors that have affected the banks' standards for loan approval:			
-Capital adequacy of the bank	-21.9	-4.7	-13.4
-Decisions of BoA	6.5	-42.8	-12.9
-Competition in the banking system	-34.5	-9.9	-7.4
-Current or expected liquidity level	-	-	-31.1
-Specific problems of the sector the business operates in	26.5	-48.7	-62.8
-Current or expected macroeconomic situation	16.3	-53.7	-84.3
-Non-performing loans	24.1	-30.9	-48.3
How have changed the conditions for loan approval?			
-Average margin	-	30.0	-59.9
-Margin for risky loans	-	-19.0	-75.5
-Commissions	-	6.0	-12.3
-Loan size	-	9.0	-17.0
-Requirement for the collateral/as a ratio with loan size	-	-2.0	-40.2
-Maximum maturity of the loan	-	2.0	-42.8
How has changed the businesses demand for loans?			
-SME previous 6-month period of year	56.9	25.0	4.8
-SME next 6-month period of year	72.9	29.0	-23.8
-Corporations previous 6-month period of year	64.0	50.0	-2.0
-Corporations next 6-month period of year	54.2	21.0	-23.8
The factors that have impacted the change in loans demand:			
-The need for inventories financing	44.3	51.0	38.9
-The need for fixed investments financing	39.6	42.0	-11.6
-The use of alternative financing sources	16.2	-15.0	-1.5
-Monetary policy decisions of BoA	-2.9	10.0	-17.9

-Lending terms applied by your bank	12.3	10.0	-22.4
-Current situation or macroeconomic expectations	18.9	14.0	-16.1
Reasons for foreign currency lending:			
-Income source in foreign currency	-	49.0	68.0
-Difference at interest rates	-	99.0	92.0
-Expenses denominated in foreign currency	-	42.0	54.0
-Liquidity state of the bank	-	13.0	50.0
-Expectations regarding the exchange rate	-	28.0	29.0
-Expectations for the reference interest rates	-	25.0	40.0
-Low acknowledgment related to the economic developments	-	65.0	57.0

Annex 2

Loans to households

In terms of the aggregation process of results, each opinion is weighted based on its answer. For example: the double of the weight it is granted to the banks providing the answer that standards are “considerably tightened” compared to the answers “insufficiently tightened”. The results are analysed by calculating the net balance as the difference of the banks’ weighted balances, which have reported easing/increase of standards/demand and those reporting tightening/decrease of procedures/demand. Net balances are escalated in order to acquire values within the target +/- 100.

	NET BALANCE		
	2007-II	2008-I	2008-II
How have changed the banks’ standards for loan approval?			
- Last 6-month period	-5.3	--26.2	--62.3
- Next 6-month period	-10.5	--5.5	--27.3
Factors that have impacted the standards for loan approval:			
-Capital adequacy of the bank	-31.2	7.1	-26.2
-Decisions of BoA	-0.1	-35.9	-17.0
-Competition of the banking system	-22.7	-6.3	2.2
-Current or expected level of liquidity	-19.3	12.4	-35.7
-Financial state of households	-29.1	-47.7	-53.3
-Non-performing loans	-5.7	-51.6	-40.9
-Developments occurring in the real – estate market	-10.7	-18.0	-31.7
How have changed the conditions for loan approval?			
-Average margin	-	6.0	-37.7
- Margin for risky loans	-	-21.0	-57.4
-Commissions	-	-2.0	-10.4
-Loan size	-	-6.0	-37.5
-Demand for collateral/as a ratio to loan size	-	-1.0	-30.1
-Maximum maturity of the loan	-	-3.0	-20.3
How has changed the households’ demand for loans?			
- Housing loan	67.7	25.3	-29.3
- Consumer loan	61.8	22.8	-26.9
Factors that have affected the change of demand for loans:			
-Individuals’ need for the financing of housing purchase	64.8	50.9	22.4
-Individuals need for the consumer financing	59.8	50.7	33.3
-The use of alternative sources of financing	-	-24.6	-23.3
-The monetary policy decisions of BoA	7.1	-5.6	5.5
-Confidence of consumers	16.3	21.1	-10.3
-Developments occurring in the real estate market	3.6	19.6	-27.3

-Conditions applied from your bank	-	32.3	0.5
Reasons for foreign currency lending:			
-Source of income denominated in foreign currency	-	52.1	57.1
-Purchased goods' prices stated in foreign currency	-	76.7	77.4
-Difference at interest rates	-	87.5	79.9
-Liquidity state denominated in foreign currency of your bank	-	34.8	49.5
-Expectations for the exchange rate	-	37.7	27.0
-Expectations of the reference interest rates	-	41.7	23.3
-Low acknowledgment about the economic developments	-	54.4	40.7