

**Bank of Albania
Monetary Policy Department**



**BANK LENDING SURVEY
APRIL 2009¹**

The results of the bank lending survey indicate that the credit standards for loans to enterprises and households remained broadly tightening during the first quarter of 2009. The most important driving forces behind this net tightening continued to be the same as in the previous surveys: the actual and expected economic activity, the sector or firm-specific problems and households financial situation. In contrast to the previous survey, the net tightening of credit standards was higher for enterprises than for households. Thus, the net balance² (the net percentage of banks reporting a net easing of credit standards) of credit standards change is -66% for enterprises and -44% for households. As regards the terms and conditions for granting loans to enterprises, they continue to be more tightened for large enterprises than small and medium enterprises and for loans granted for long term investments than for working capital. Credit standards for loans to households tightened further in the first quarter of 2009, with the net tightening for consumer credit reaching a similar level to that of lending for house purchase.

According to banks opinions, the net demand for loans both by enterprises and households declined during the first quarter of 2009. In contrast to the preceding surveys, the net demand (percentage of banks reporting a higher demand) for loans by small and medium enterprises became negative for the first time.

Banks expectations for the second quarter of 2009 point to a lesser tightening of the credit standards compared to the actual net tightening both for enterprises (expectations net balance - 22% compared to actual net balance -66%) and for

¹ The results reported in the April 2009 bank lending survey relate to changes in the lending activity during the first quarter of 2009 and banks expectations of changes in lending activity during the second quarter 2009. From the beginning of 2009, this survey will have a quarterly frequency (the bank lending survey was carried out twice a year beginning from 2002).

² Bank's individual responses are aggregated and expressed as net balances of weighted responses. Net balance is the difference between the share of banks reporting an easing of standards/higher demand and those reporting tightening of standards/lower demand.

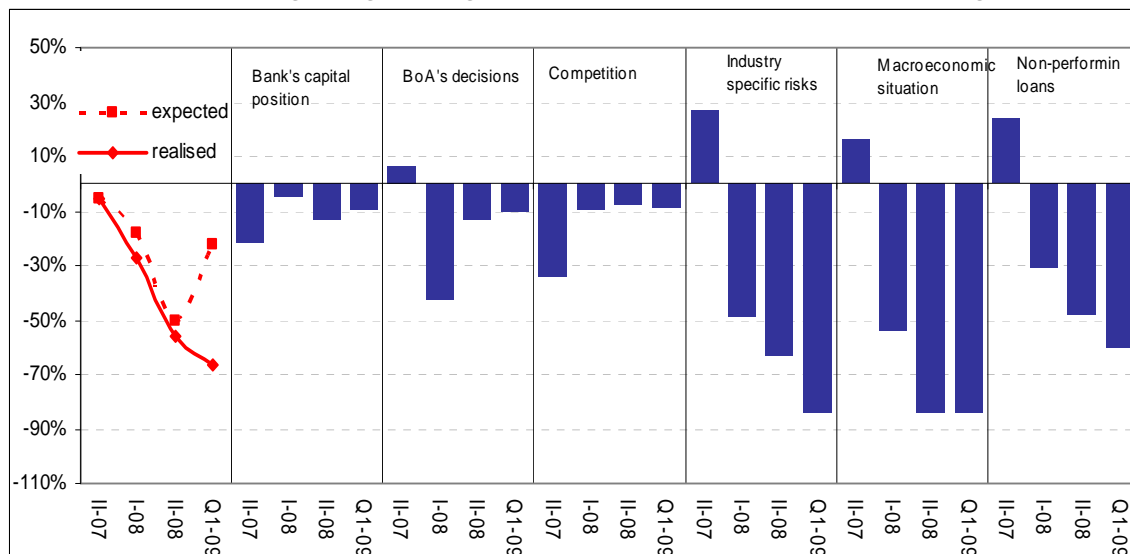
households (expectations net balance – 33% compared to actual net balance – 44%).

Loans to enterprises

In the first quarter of 2009 bank lending survey, bank's experts reported a higher net tightening of credit standards for loans granted to enterprises compared to the previous survey. The net percentage of banks reporting an easing of terms fell to -66% compared to -56% in the previous survey. The standards for granting loans to large enterprises for investment financing were more tightened than those for loans granted to small and medium enterprises for working capital financing.

The most important factors behind the net tightening of credit standards relate to the actual and expected economic activity and the industry or firm specific problems. The non performing loans represent another factor which gained further importance in the net tightening of credit standards during the first quarter of this year.

Chart 1: Changes in credit standards applied to the approval of loans to businesses and the factors contributing to tightening standards (net balances ¹⁾, in percentage).



Source: Bank of Albania.

Note 1: 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.

During the first quarter of 2009, banks tightening policy was implemented by widening the margin on average loans and extending the maximum maturity of loans.

At the same time, banks supported the tightening policy by reducing the size of loans and increasing the collateral requirements according to the loan's size.

Table 1: Summary of the information provided by banks on the standards performance of the loan approval, first quarter 2009.

	Total	SME	Large enterprises	Working capital	Investments
Tightened considerably	3 banks	2 banks	3 banks	2 banks	3 banks
Tightened somewhat	5 banks	6 banks	5 banks	5 banks	5 banks
Mainly unchanged	2 banks	2 banks	2 banks	3 banks	2 banks
Eased somewhat	-	-	-	-	-
Eased considerably	-	-	-	-	-
Total	10	10	10	10	10
Net balance^{*)}	-66%	-61%	-66%	-47%	-66%

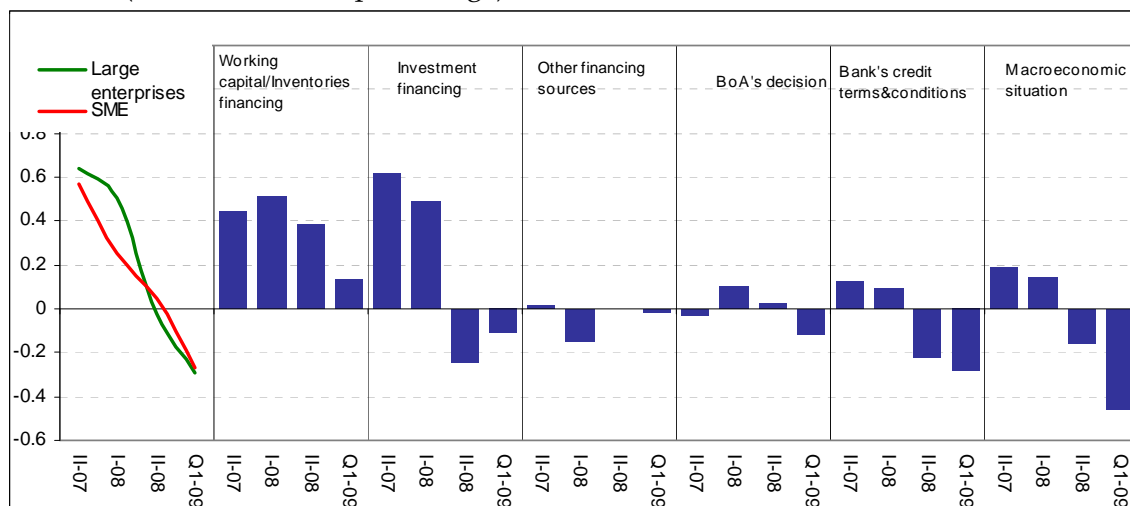
Source: Bank of Albania.

*) See note 1.

Loan demand: Net demand for loans by enterprises declined and remained negative in the first quarter of this year – the net percentage of banks reporting a higher demand for loans by enterprises stands at -33%. In terms of businesses size, declining demand for loans was somewhat lower for large enterprises than for small and medium enterprises.

Furthermore, the demand for fixed investments financing was lower than the one for circulating capital financing. According to banks opinions, the enterprises negative net demand was driven by the bank's credit standards applied to the approval of loans and the actual and expected economic activity. On the other hand, needs to finance the working capital contributed positively to the net demand for loans by enterprises.

Chart 2: Changes in demand for loans to enterprises and factors contributing to demand, (net balances²⁾, 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.

Table 2: Summary of the banks' answers on the demand performance of businesses for loans, first quarter, 2009

	SME	Large enterprises	Working capital	Investments
increased considerably	-	-	-	-
increased somewhat	1 bank	1 bank	2 banks	-
remained basically unchanged	3 banks	2 banks	3 banks	1 bank
decreased somewhat	5 banks	5 banks	4 banks	7 banks
decreased considerably	1 bank	2 banks	1 bank	2 banks
Total	10	10	10	10
Net balance^{*)}	-27%	-29%	-25%	-52%

Source: Bank of Albania.

^{*)} See note 2.

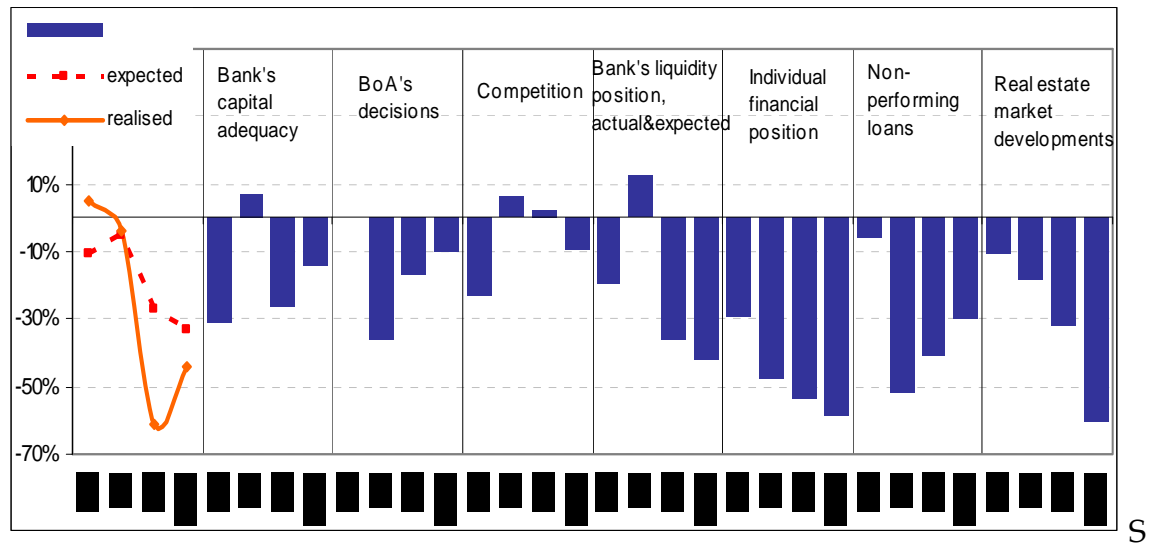
Expectations: For the second quarter of 2009 banks expect the net tightening of credit standards to remain lower than the actual net tightening. For the first time in the current survey, bank's expectations about the net tightening in the coming quarter differ from their opinions about tightening: there is a higher percentage of banks expecting an easing in the credit standards, the net balance standing at -22% compared to -50% the previous quarter, about 44 percentage points higher than the balance for the actual situation.

Loans to households

Bank's aggregated opinions indicate a lower credit standards tightening for loans to households over the first quarter 2009 compared to the previous survey (net balance in the first quarter was -44% compared to -61% in the previous survey). The standards applied for consumer credit and for house purchase were tightened at the same degree, net balance about -44%.

Compared to the previous survey, there are no significant changes in credit standards for loans to households for house purchase, meanwhile the net percentage of banks reporting an easing of credit standards for consumer credit increased by 30 percentage points. Banks expectations regarding real estate market developments, household's financial position and bank's actual and expected liquidity position were the main factors driving the net tightening of credit standards over the first quarter 2009.

Chart 3: Changes in credit standards applied to the approval of loans to households and factors that have influenced them, in net balances^{*)}.



Source: Bank of Albania

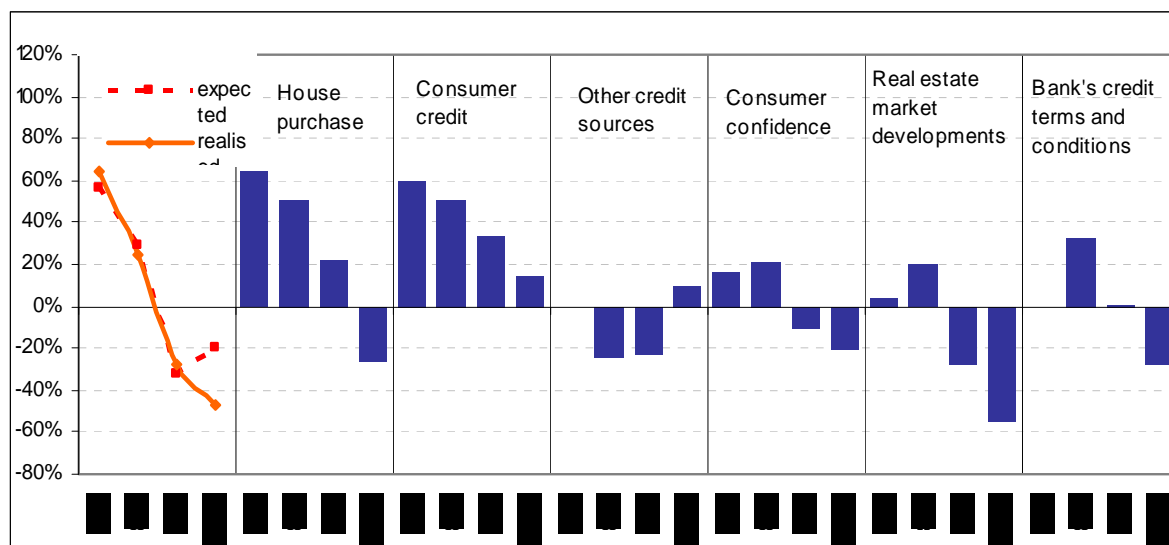
*) See Note 1.

Bank's tightening policy over the first quarter of 2009 was implemented by widening average loans margins and increasing collateral requirements (net balances respectively -58% and -45%). In the same direction but at a lower degree contributed the widening of margins on riskier loans (the net balance over the first quarter fell to -46% from -57% the second semester of 2008)

Loan demand: According to banker's opinions, the net demand for loans to households was negative over the first quarter 2009. The negative demand was more pronounced for house purchase than for the consumer credit.

The main factors contributing to the decrease of demand for loans over the first quarter of 2009 concerned house financing needs (for the first time the balance registered a negative value of -27%), real estate market developments and bank's credit terms and conditions. In contrast, alternative financing sources affected positively the net demand for loans over the first quarter.

Chart 4: The household's demand for loans and the contribution of the selected factors, (net balance*), in percentage).



Source: Bank of Albania.

*) See Note 1.

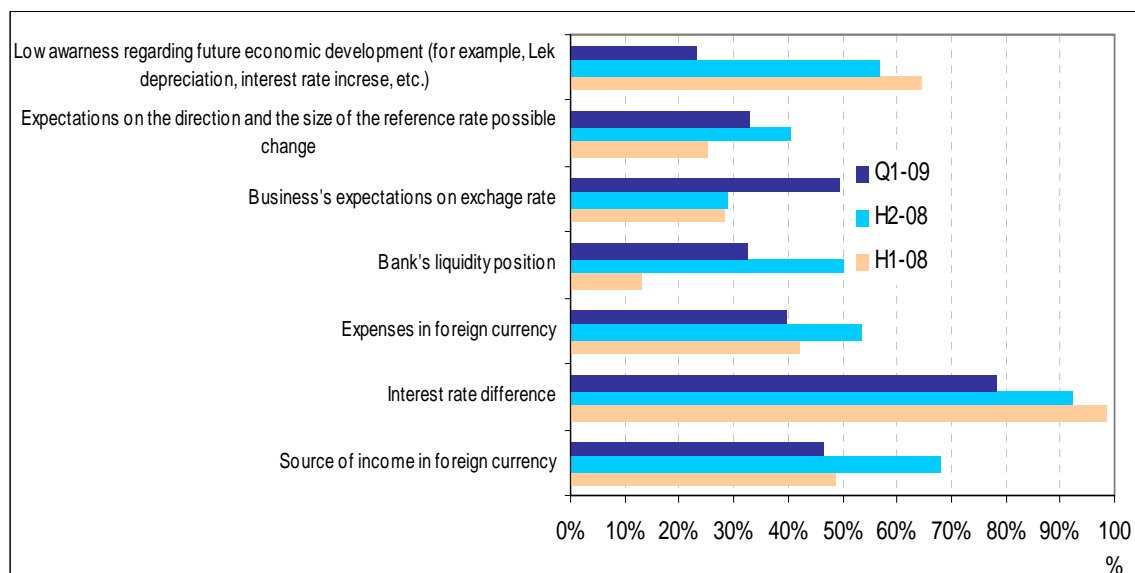
For the second quarter 2009, reporting banks expect credit standards for loans to households to tighten to a lesser extent than the actual net tightening (expectation's net balance is about 10 percentage points higher the actual net balance).

Lending activity per currency

Bank's expectations on the lending activity for the second quarter of 2009 differ according to the currency of the loan. Reporting bank's experts expect loans in Lek to increase during the next quarter and those in foreign currency to decline.

Apart from giving their expectations on future credit developments, banks have evaluated the importance of different factors as supporters of businesses and households demand for loans in foreign currency. With regard to businesses, reporting banks judged that the sources of income in foreign currency and the differences in interest rates were the main contributors and explain why businesses demand loans in foreign currency. Anyway, there is a lower impact of these factors in the demand for foreign currency loans over the first quarter. In contrast to the previous survey rounds, in the current one business's exchange rate expectations gained higher importance. With respect to households demand, bank's experts reported the differences in interest rates and the expenses nominated in foreign currency were the underlying promoting factors.

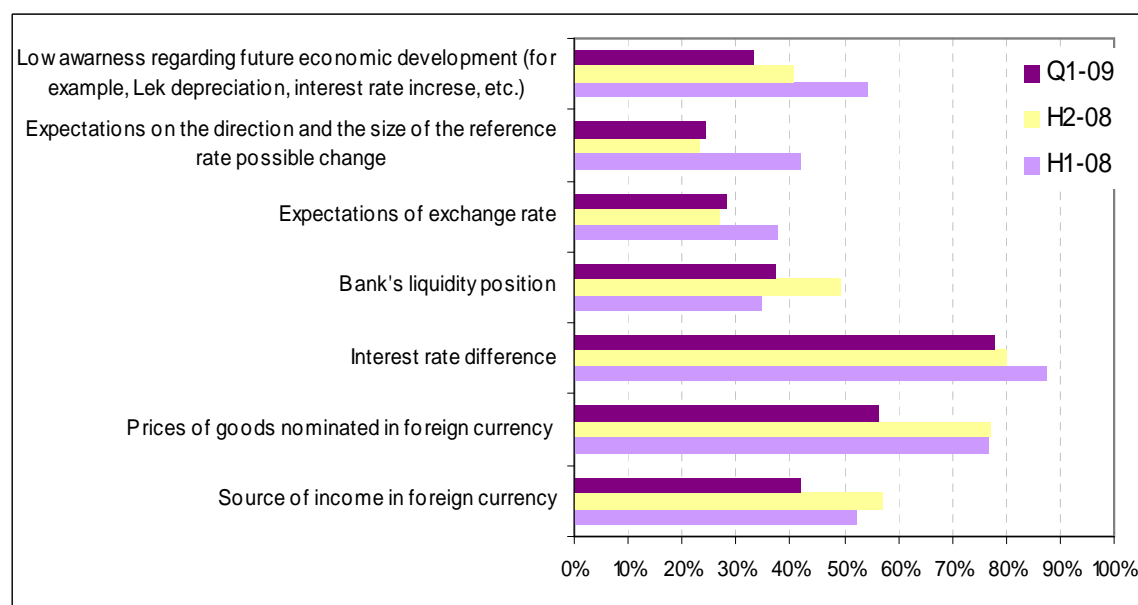
Chart 4: Factors that have affected the demand for loans in foreign currency from businesses.



Source: Bank of Albania.

Banks expect in general higher interest rates for loans that will be granted in the second quarter 2009. With regard to loans per currency, banks expect a higher growth pace for the interest rates applied to loans granted in foreign currency – the net percentage of banks expecting higher interest rates for loans denominated in foreign currency is +23% compared to the net percentage of +2% of those expecting higher interest rates for loans denominated in Lek.

Chart 5: Factors that have affected the demand for loans in foreign currency from households.



Source: Bank of Albania.

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 analyzed through the calculation of the net balance as the difference of the weighted balances of banks, which have reported an easing of standards/increase demand. The net balances are escalated for the purposes of acquiring values within the target +/- 100.

	NET BALANCES			
	2007-II	2008-I	2008-II	2009-Q1
How have changed the banks standards for loan approval?				
- Previous 3-month period	-5.4	-26.2	-53.5	-60.3
- Next half 3-month period	-5.7	-17.7	-50.0	-21.0
Factors that have affected the banks’ standards for loan approval:				
-Capital adequacy of the bank	-21.9	-4.7	-13.4	-9.3
-Decisions of BoA	6.5	-42.8	-12.9	-10.1
-Competition in the banking system	-34.5	-9.9	-7.4	-9.3
-Current or expected liquidity level	-	-	-31.1	-37.4
-Specific problems of the sector the business operates in	26.5	-48.7	-62.8	-84.3
-Current or expected macroeconomic situation	16.3	-53.7	-84.3	-83.8
-Non-performing loans	24.1	-30.9	-48.3	-60.4
How have changed the conditions for loan approval?				
-Average loan margin	-	30.0	-59.9	-54.0
-Margin for risky loans	-	-19.0	-75.5	-45.7
-Commissions	-	6.0	-12.3	-10.1
-Loan size	-	9.0	-17.0	-32.7
-Requirement for the collateral/as a ratio with loan size	-	-2.0	-40.2	-27.2
-Maximum maturity of the loan	-	2.0	-42.8	-56.9
How has changed the businesses demand for loans?				
-SME previous 6-month period of year	56.9	25.0	4.8	-26.7
-SME next 6-month period of year	72.9	29.0	-23.8	-19.0
-Corporations previous 6-month period of year	64.0	50.0	-2.0	-29.1
-Corporations next 6-month period of year	54.2	21.0	-23.8	-28.7
The factors that have impacted the change in loans demand:				
-The need for inventories financing	4.3	51.0	38.9	13.6
-The need for fixed investments financing	39.6	42.0	-11.6	-10.9
-The use of alternative financing sources	16.2	-15.0	-1.5	-2.0
-Monetary policy decisions of BoA	-2.9	10.0	-17.9	-12.0
-Lending terms applied by your bank	12.3	10.0	-22.4	-28.2
-Current situation or macroeconomic expectations	18.9	14.0	-16.1	-45.8
Reasons for foreign currency lending:		49.0		
-Income source in foreign currency	-	99.0	68.0	49.4
-Difference at interest rates	-	42.0	92.0	81.5
-Expenses denominated in foreign currency	-	13.0	54.0	42.8

-Liquidity state of the bank	-	28.0	50.0	35.7
-Expectations regarding the exchange rate	-	25.0	29.0	51.0
-Expectations for the reference interest rates	-	65.0	40.0	34.5
-Low acknowledgment related to the economic developments	-		57.0	24.8

Annex 2

Loans to households

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 analyzed through the calculation of the net balance as the difference of the weighted balances of banks, which have reported an easing of standards/increase of demand. The net balances are escalated for the purposes of acquiring values within the target +/- 100.

	2007-II	2008-I	2008-II	2009-T1
How have changed the banks standards for loan approval?				
- Previous 3-month period	-5.3	-26.2	-62.3	-43.6
- Next half 3-month period	-10.5	-5.5	-27.3	-33.5
Factors that have impacted the standards for loan approval:				
-Capital adequacy of the bank	-31.2	7.1	-26.2	-14.2
-Decisions of BoA	-0.1	-35.9	-17.0	-9.9
-Competition of the banking system	-22.7	-6.3	2.2	-9.3
-Current or expected level of liquidity	-19.3	12.4	-35.7	-42.1
-Financial state of households	-29.1	-47.7	-53.3	-58.3
-Non-performing loans	-5.7	-51.6	-40.9	-29.8
-Developments occurring in the real – estate market	-10.7	-18.0	-31.7	-60.2
How have changed the conditions for loan approval?				
-Average loan margin	-	6.0	-37.7	-57.9
- Margin for risky loans	-	-21.0	-57.4	-46.1
-Commissions	-	-2.0	-10.4	-11.7
-Loan size	-	-6.0	-37.5	-32.4
-Demand for collateral/as a ratio to loan size	-	-1.0	-30.1	-44.7
-Maximum maturity of the loan	-	-3.0	-20.3	-20.9
How has changed the households’ demand for loans?				
- Housing loan	67.7	25.3	-29.3	-53.1
- Consumer loan	61.8	22.8	-26.9	-40.4
Factors that have affected the change of demand for loans:				
-Individuals’ need for the financing of housing purchase	64.8	50.9	22.4	-27.1
-Individuals need for the consumer financing	59.8	50.7	33.3	14.2
-The use of alternative sources of financing	-	-24.6	-23.3	10.2
-The monetary policy decisions of BoA	7.1	-5.6	5.5	-8.6
-Confidence of consumers	16.3	21.1	-10.3	-21.3
-Developments occurring in the real estate market	3.6	19.6	-27.3	-54.5
-Conditions applied from your bank	-	32.3	0.5	-28.3
Reasons for foreign currency lending:				
-Source of income denominated in foreign currency	-	52.1	57.1	42.0

-Purchased goods' prices stated in foreign currency	-	76.7	77.4	58.6
-Difference at interest rates	-	87.5	79.9	82.2
-Liquidity state denominated in foreign currency of your bank	-	34.8	49.5	39.5
-Expectations for the exchange rate	-	37.7	27.0	28.0
-Expectations of the reference interest rates	-	41.7	23.3	24.4
-Low acknowledgment about the economic developments	-	54.4	40.7	37.7