

The purpose of survey:

The presented paper is an executive summary of survey analysis on second-tier bank lending that assumes specific significance in the context of Albanian economy. The purpose of survey is gathering specialised opinions of credit specialists related to current performance and ongoing tendencies of credit activity. Taking a service position to the Bank of Albania, a similar survey analysis will help the compilation of an as more realistic monetary program as possible.

We believe that only in this way it will be enabled a more well-grounded forecast of the core macroeconomic indicators like inflation and unemployment rates, closely related to credit rate and its concentration based on economic activities.

Methodology:

The Research Department within the Bank of Albania's structure realized the survey interim December 11-20, 2000. This was a questionnaire-based survey filled up with interviews from credit specialists of second-tier banks. It must be stressed that throughout the interview, it was requested the private opinion of credit specialists and not the official attitude of the bank. Selecting this group of specialists to be interviewed was up to the fact that these specialists are considered as banks' most competent and the most prepared staff in dealing with troubles of lending activity. Being the most qualified opinions they help a high rate of information utility.

There were surveyed banks second-tier banks in Tirana, and their subsidiaries in Durres Elbasan and Fier. The broader scope than Tirana of the survey was to also study the credit activity in further geography taking into account that the above districts contain a large number of bank subsidiaries or agencies as well as a high level of economic activity. During the phase of

performing on site survey, the Bank of Albania's specialists generally found understanding and exchanged thoughts and opinions on credit activity and specific problems of it.

The attracted opinion was from 19 specialists as it was endeavoured to contact with more than one credit specialist per bank. This practice purposed the collection of an as more expansive and real information as possible. We believe that this number is sufficient compared to the number of the current banks. This first experience will be followed by other ongoing surveys of six-month frequency.

Such surveys will generally maintain the same questionnaire so that the ensured comparison, evidence the changes as well as discover the timely trends on various matters. Ongoing, it won't be denied the addition of questions or rubrics for interesting aspects of lending activity.

Structure of the questionnaire:

An explanatory letter that accompanied the questionnaire¹ explained the purpose of undertaking survey. The questionnaire was conceived in five sections or rubrics. We share the opinion that division of the complex subject matter of credit activity into rubrics serves to better meet the main scope that of preparing the questionnaire and its performing analysis. It is worth stressing that the questionnaire is addressed in questions that require qualitative answers and opinions.

This form of addressing the questionnaire helps the interviewees reflect on their answers and at the same time it results a fruitful way of attracting opinions, especially, when they are professional assessments, moreover.

¹ you will find the full text of the questionnaire in the annex attached to this material.

Additionally to this, in the framework of organising an as more real interview as possible, the introduction of modalities is very appropriate for interviewees, that could easily ignore real existing possibilities, when they are not listed. A similar way of addressing the questionnaire evades confusion in replies as well as omissions that might happen while filling up the questionnaire. Although interviewees are requested for their private opinions, in some answers they might be considerably influenced by their respective bank strategy.

Analyzing results by rubrics and questions:

First rubric: has an introductory character. It attracts information on the position of the interviewee in the credit department and his work experience in this activity.

In this way a preliminary introduction is obtained as it is underlined the idea that the collected information enjoys a satisfactory confidence.

As to the position in the credit department, in 11 cases the interviewees occupy managing positions as that of the director, vice director or manager of the bank branch or subsidiary, in cases when the credit department is not established yet.

For the last group, it was deemed rational to collect the opinion as at the deficiency of a credit department, the manager of a bank branch or subsidiary is the most competent and directly responsible person for the credit activity of the bank branch or subsidiary.

While in 7 cases, the interviewed were credit analysts, in a single case, the answer for the position of the interviewee was blank. The received answers for the question on the work experience of the credit specialists interviewed vary from 2 to 16 years while the average experience results 6.5 years.

Considering the brief history of the Albanian banking system, the average experience indicates a satisfactory experience of credit area interviewees.

The second rubric including 5 questions seeks to attract quantitative and qualitative information about current credit rates.

The third question requires information on average credit rates during 2000, making distinction between credit rates in domestic and foreign currency. Only 12 interviewees responded this question. Let us list the received answers for the question on credit rates in domestic currency as well as deviations from the average credit rates for the banking system².

Table 1. Annual average rates by bank statements.

Bank	Average rate	Deviations from average rates of the systems
B 1	15	-8.8
B 2	16	-7.8
B 3	16	-7.8
B 4	16	-7.8
B 5	17	-6.8
B 6	17	-6.8
B 7	17	-6.8
B 8	18	-5.8
B 9	24	0.2
B 10	24	0.2
B 11	24	0.2
B 12	25	1.2
B 13	25.5	1.7

² Based on the monthly data on credit rates for September, October and November 2000, it was accounted the monthly average rate that resulted 23.8 percent.

The next question seeks to collect information on the factors determining the credit rates, by further qualifying the most important factor. All specialists were of the opinion that most of the presented factors

have direct or indirect effects in deciding interest rates. During the interviews, it was noticed that the specialists tried to distinguish through the presented factors, the most significant ones.

Table 2. Distribution of cases by interest rate determinants.

Factor	No. of cases
Deposit rates	13
The intended profit	5
Operating cost	13
Bank of Albania's signals	7
The level of risk	15
Other bank rates	12
T-bill rates	8

As evidenced the level of risk is the most frequently acquainted determinant of interest rates. This factor is followed by deposit rates and operating cost, appearing with the same velocity. Credit rates offered by bank market also play a relatively significant role, as well. T-bill rates and the Bank of

Albania's signals on lending rates remain the most rarely acquainted factors. To a full analysis effect, it has been requested to be identified the most important factor to determine the credit rate. Results are given in table 3.

Table 3. The most important factors identified from banks.

The most important factor	No. of cases	Structure in %
Risk level	8	42.1
Deposit rates	2	10.5
Intended profit	2	10.5
Operating cost	4	21.1
Other bank rates	2	10.5
T-bill rates	1	5.3
Total	19	100.0

From answerable cases, it results that that the risk level is the most acquainted factor. Nearly 42 percent of specialists have specified it as the most important factor in fixing credit rates. This conclusion is also propped by the previous question results. The risk is considered a key factor in fixing the credit rate.

To complete the framework of this rubric, there are formulated two questions logically related to one-another. While the first question, we seek the specialists' opinion on the bank applicable credit rate against the market rate, in the other question; we are interested to learn the reasons for that choice. The following table presents interview results for question no.6.

Table 4. Distribution of assessments on interest rate level.

Interest rate	No. of cases	Structure in %
The highest	1	5.2
Market representative	12	63.2
The lowest	3	15.8
Blank	3	15.8
Total	19	100.0

In most cases, the interviewees consider their bank's applicable credit rate as market representative. The reason for this choice is the intention to keep the competition by eligible limits.

In banks where the level of credit rates is considered higher than the market, the reason concerns a higher risk taken over by the bank. Fixing a lower interest rate is justified with the will to extend the clientele and consolidate relationships with it.

Third rubric aims data collecting on credit type as by term of maturity, type of currency, economic activities, business size and bank preferences during the lending process. To receive as more qualitative data as possible, there are requested the reasons for listed preferences. The first question of this rubric requires information on the bank's applicable credit terms. One from the 19 interviewees did not answer the question. Table 5 publishes the results of the presented cases in credit accordance by maturity term:

Table 5. Distribution of accorded loans by maturity term.

Credit type	No. of banks
Short-term	15
Mid-term	13
Long-term	4

Herewith, we must underline that, this question is aimed at evidencing all credit types applicable by banks, despite of the share, they occupy in their credit portfolio. From the above table results, it can be arrived in the conclusion that the short and mid-term loans comprise the bulk of the banks' credit portfolio, as the long-term credit is rarely launched.

It is good to underline that some banks almost do not extend long-term credits in any case.

The next question seeks to discover banks' preference to accord credits by maturity term³. It results that in 13 cases, banks result to prefer short-term credit, in 8 cases, mid-term credits and only in 2 cases, they are favourable to long-term credits.

Table 6 six, including data collected through questions 8 and 9 intends to enable the comparison between what's really happening and the banks' preferences for lending;

Table 6. Comparing bank preferences to the current credit extension.

Credit type	No. of banks and subsidiaries		Comparison in %
	By accordance	By preference	
Short-term	15	13	86.6
Mid-term	13	8	61.5
Long-term	4	2	50

Column (2) and (3) results are indicative of the same (descending) tendency either by accorded credits for any type or those banks' preferred.

The accounted indicator for the last column indicates the rate of discrepancy between the bank preferences and what's really happening. As noted, the highest disparity (the smallest value of the ratio) is frequently met in long-term credits.

From the interviews, it was collected additional information on the reasons contributing to the discrepancy.

Bank's lowest preference to accord long-term credits is relative to the high risk accompanying them according to the banks' viewpoint. Banks have been according such credit type more than they would like because of the growing demand.

³ It must be stressed that before selecting a single credit type we made the assumption that this was the most preferred credit type.

Additionally to the identification of bank preferences for credit type, there are requested reasons for the selected preference. In most cases, banks' preference for the short-and mid-term credits are frequently justified with:

- established possibility for a operating and systematic observance of accorded loans and a better monitoring of risk;
- banks' liquidity needs, to ensure fast circulation;
- the possibility to test clients, through being in continuous contact with them;
- nature of resources (deposits);
- te high market demand;
- Banks' intention to stimulate the market segment (business) to use these credits.

The first reason is the most frequently met as the others follow a descending rank of acquaintance.

In three cases, banks accorded credits are of the three types without showing preferences to any of them.

Questions 10-12 concern the type of applicable currency by banks to accord credits as well as the reasons for their preferences.

The purpose of this question group is to identify the type of currency as well as to reveal bank preferences or tendencies by foreign currency in credit activity.

From provided answers, all banks accord credits either in domestic (ALL) or foreign currency.

During the interview, credit specialists expressed in favour of foreign currencies. A similar advantage of foreign currencies is connected with two reasons:

- heir relative stability compared to domestic currency evidenced by all the interviewees;
- e, capital structure of all banks evidenced in foreign currency.

Almost all banks accord credits in US\$ meantime their second foreign currency varies with the bank's origin.

Most banks prefer to accord credits in no more than two foreign currencies.

Answerable cases to questions 10, 11 comprise 17 interviewees or 89 percent of the inquired cases.

The reasons for US\$ preference, as stated by most of the interviewed and further explained during the interviews consisted in:

- customer preferences (5 cases);
- the stability of currency, providing a higher safety either by banks or clients (4 cases);
- the capital and deposit structure in foreign currency where the largest share is occupied by those extended in American currency, comprising an important factor in credit orientation to US\$ (4 cases).

The reasons for other foreign currency preferences vary with the frequency of acquaintance, which in most cases is DEM or GDR as presented in table 7:

Table7. Preference reasons for the type of currency.

Reasons	No. of cases
1. Bank's capital structure	7
2. The stability of currency	5
3. Deposit structure	4
4. Customer preferences	5
5. Intrest rates	1

Survey results indicate the first second and the fourth reasons to have the highest frequency in answers, while bank's capital structure, stability of currency, customer preferences are factors to delineate the credit structure in foreign currency. Deposit structure is rarely acquainted as reason, though, theoretically, this is the main factor for the credit profile in foreign currency. The fifth reason has to do with Euro currency, offering low interest rates.

In one case included in the first reason, it was confirmed that credit issuing in core currency of bank's equity somewhat evades bank's open positions in foreign currency and consequently reduces the possibility for abuses mainly with the changing exchange rate.

Questions 13 and 14 focus in lending process by economic activity. From oral interviews with credit specialists, it was noted that specialist opinions for both questions were influenced by the banks' strategy where to underline are the most interesting activities to lending. Economic activities are listed according to the provided classifications by INSTAT.

These activities include industry, construction, trade, services, transport, and agriculture. Question 13 searches escalation by descending order according to the weight, they occupy in the banks' credit portfolio. (Number 1 corresponds to the highest weight activity and number 6 to the activity posing the smallest weight) The valuation is average weighted⁴.

Formulating the question through escalation allows us to evaluate the credit rate of these activities. The evaluation is average weighted.

Let's provide the case of accounting this average rate for services, as this activity is the most frequently met in the majority of values in the escalation, concretely by values 1,2,3,4,5⁵.

From the application of the average-weighted formula, the ensured values for each activity are down-listed, as below:

The smallest average value corresponds to the most credited activity and vice-versa.

As much closer to number 1, the average value that corresponds to this economic activity, as more preferred this economic activity will be.

Table 8 results are down-listed according to the above logic.

From related conclusions, we can confirm that trade and industry almost remain by the same credit levels (high), while industry and services remain at average levels. Transport is a low credited activity.

Classified last, (agriculture) is also correlative to the previous table where bank hesitancy to credit this activity is large.

Reverse from agriculture, construction is presented as important activity in the credit portfolio of some banks; meantime some others do not credit it.

Table 8. Listing economic activities by lending.

Activity	Average level of activity
Trade	1.68
Industry	2.00
Construction	2.80
Services	3.06
Transport	4.38
Agriculture	5.70

⁴ the average value of any activity is derived as an average-weighted value throughout the escalation with the frequency of meeting the economic activity at every scale.

⁵ The average value for services = $\{(1*1) + (2*2) + (4*3) + (5*1)\} / (1+2+3+1) = 3.06$

Comparing these results to current credit structure on the whole banking system to October 2000, it was noticed that trade ranked first either from survey results or from the Bank of Albania's available data.

This rank is held for all economic activities, excluding construction and industry that change places. From processing answers to that question, in the down-listed activities, we encounter non-credit cases as presented in table 9.

Table 9. Banks' non-credited activities.

Activity	No. of cases
Construction	7
Agriculture	7
Transport	3
Services	1

Question 14 consists in giving the reasons mainly for the first listed activity. The most concentrated activities are trade industry

and construction except for one case of services.

Table 10. Distribution of economic activities according to preference reasons for lending.

No	Reason	Cases	Activities
1	Minimum level of risk	8	Trade4;industry 2; Construction2
2	Growing activity	7	Trade 4; Industry 3
3	Higher feasibility for monitoring credit	4	Trade 2; Industry1; Construction1
4	High and backed by arguments demand	3	Trade 3
5	High liquidity potentiality	3	Trade 3
6	High rate of return	2	construction 2
7	Feasibility for mixed bank services	1	Industry 1
8	Triggering of domestic output	1	Industry 1
9	Area with high investment potentialities	1	Services 1
10	Preferred activities by bank strategies	All	Trade by all banks

From above-listed reasons by specialists, especially, the first four are logic as expected. They are correlative with the banks' most preferred activities.

business size. The share each business type occupies in the banks' credit portfolio is estimated by using average weighted-rates. Results line up as in table 11. The lowest average rates refer to the bank's most credited businesses and reverse. In the four answerable cases, it was evidenced that banks do not accord credits to the largest business.

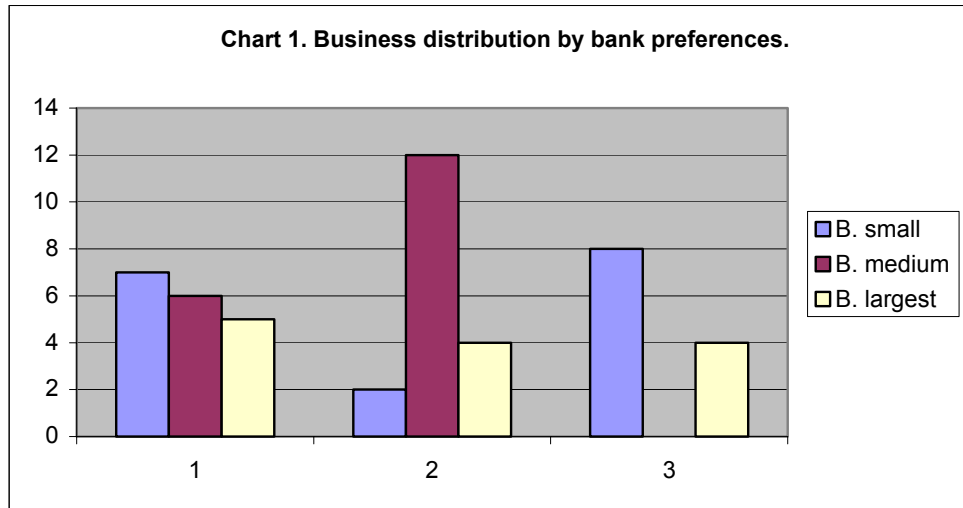
Questions 15 and 16 have to do with credit concentration by business size and listed reasons for these choices. Even question 15 follows the logic of credit escalation by

Table 11. Business classification by credit size.

Business size	Average level
Medium business	1.64
The largest business	1.92
Small business	2.05

Judging from these results as well as based on the expressed opinions through interviews, medium-size businesses occupy an important position in banks' credit intentions. The largest and the small

businesses, almost found to occupy the same positions, follow it. The following chart provides a clearer idea on the banks' credit preferences distributed by business size, through a descending bias.



The chart allows us to make comparisons either between businesses (within each level) or within businesses throughout the escalation.

A number of banks express high preference for the small business whereas a number of as much as the same banks classify this business type to their lowest preference.

From comparisons between businesses (within each level), it results that:

The comparison between businesses justifies the average values as well as performed classification in previous table.

- Small business, most frequently met in the first level (high preference), is tracked by the medium-size business, which means that small business is the most preferred. Also met in this group is the largest business, but banks' absolute preference to credit it is lower than for the other two business.
- mid-size business, noted for a prevailing preference ranks second (average preference), meantime small business occupies a place six times less, than the mid-size business and two times less, than the largest business;
- Mid-size business of third level (low preference) puts up no appearance while the small business is twice as more frequently met than the largest business.

- Despite that in the above analysis, small business is more frequently met than others of the first preference scale, yet it does not reach the minimum average, as it is mostly acquainted in the lowest preference level.
- Banks' tendency to credit mid-size and the largest businesses mostly derives from their positioning of this business type mainly in the first preference rank and less in the second while it is totally missing in the third.
- The largest business almost follows a flat distribution where the highest value reach the first preference rank. Its average position in the preference is totally justified by that.

The above analysis throws light on a certain segmentation of credit market:

We assess that the attention must be attracted on the fact that in four cases, banks do don't prefer to launch credits to

the largest business as in the other four cases banks' preference to do so is low.

The reasons sought by question 16 are listed below according to the acquainted frequency in answers.

Table 12. Reasons for business preference by size.

Reasons	Cases
1. Business types preferred by bank strategies (intended the addition of business number, competition and employment rate).	6 cases
2. Low risk	4 cases
3. High demand	4 cases
4. Offered potential by a growing business (relative to the high proceeds)	4 cases
5. Portfolio diversification	1 case
6. Complex needs for bank services	1 case
7. Consolidated business (low risk)	1 case

As observed from the above listing, credit Policy is largely influenced by bank's strategy as well as by the need to maximally avoid the risk accompanying it.

Of interest herewith is the match of above-listed reasons with bank's preferences according to business type and size. (questions no.15)⁶

Table 13. Merging question 16 with 15.

Reason	Small business	Mid-size business	The largest business
1. Bank's strategy	6	6	
2. Low risk	1		4
3. Demand		2	2
4. A growing business	1	2	1
5. Diversification of portfolio	1	1	
6. Bank services			1
7. Consolidated business		1	

This is a currently met deficiency by banks according no credits. Adhering to the above table results, it is noticed that the first reason correlates only with the small and mid-size businesses. The second reason corresponds to the second choice referring to the largest business, partly considered by interviewees as the business

posing less risk in lending activity. Question 17 is a quantitative demand that seeks to confront credit fact to envisaged rates by banks business plans for 2000.

⁶ The table of combinations may contain inconsistencies either in figures or cases or with the total series of reasons, as the structure of the questionnaire allowed the interviewees of the opportunity to provide reasons for both preferences (the first and the second preference, namely).

5 cases or 26 percent of banks accorded no credits in the past year.

newly established branches in Tirana and districts.

This bank group is composed by banks prohibited on the activity as well as by the

Credit fact during this year is as in table 14:

Table 14. Credit fact.

Credit fact	No. of cases	Structure
0%	5	26.3
0-50%	1	5.2
50-100%	3	15.8
100%	4	21.1
100-150%	6	31.6
Total	19	100.0

As noted from the above table, banks cropping a credit effect over 100 percent comprise the bulk whereas banks on no credit record for 2000 rank second.

Albanian Banking system" for 1999. To achieve the parity of results it is made a re-classification of the data in previous table.

Table 15 compares this indicator with the one derived from the study on "The

Banks included in the 100-150 percent category almost state to have accomplished the annual forecast over 100 percent.

Table 15. Credit performance.

Credit fact	Year 1999 (in %)	Year 2000 (in %)
0%	33	26
0-50%	17	5
50-100%	17	16
100-150%	33	53

From the performed comparison, it is observed that banks' weight on no credit account during 2000 had a descending trend.

Compared to the share these banks occupied in 1999 survey, the observed growth is about 60 percent.

We believe that this can be attributed to the commencement of credit operations by banks or new bank subsidiaries.

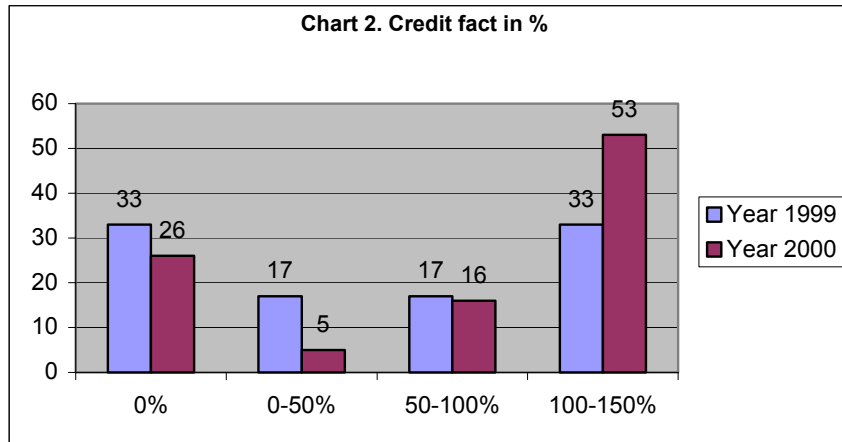
This has made banks' average credit fact for the whole system displaces from 60 percent in 1999 to 80 percent in 2000⁷.

Banks noted on a significant reduction of specific weight indicate a credit result to 50 percent of the forecast.

Downward it is presented the graph of the comparative table :

It is worth underlining the fact that banks of 100-150 percent fact comprise more than half of analysed banks in the survey computed in December 2000.

⁷ Averages were accounted by applying average-weighted rates of median groups with respective weights for each year.



Down-listed reasons relate to credit deviations from the envisaged levels.

Reasons relative to credit accomplishments and excess lie with:

- market expansion;
- high demand;
- the serious engagement of credit analysts by banks;
- The rising flexibility of lending procedures.

It would be good to accentuate the fact that the noticeable deficiency in the electric power-supply hampered banks' operations, which in normal situation would amount at higher facts and excess.

Reasons correlative to the 50 percent fact lie with:

Banks that are under way of consolidation;
Business submitted projects that are not serious.

The principal reason for 50-100 percent fact correlates to the power crisis. This is a frequently met phenomenon by outside

Tirana banks as the notable electric power deficiencies were primary felt in the other districts. During the interviews, it emerged that network deficiencies almost paralysed the productive activity of most businesses.

Consequently, the latter were, frequently; set in difficulty to regularly repay the received credits.

It must be underlined the fact that a considerable part of interviewees have not provided reasons for deviations.

Question 19 requires the opinion of credit specialists on the level of credit risk in Albania. These specialists were requested to select one from the six provided alternatives. That is a delicate question by nature. That's why in some cases the answers, must have been influenced by bank procedures followed in lending operations. So according to some specialists, the strict procedures help the banks select the customers and reduce the risk, consequently. Thus, in some cases, the answers tend lower risks than real ones. Table 16 presents survey results selected by risk category.

Table 16. Assessment of credit risk.

Risk level	No. of cases	Structure in %
Very high	2	11.1
High	10	55.6
Medium	5	27.7
Low	1	5.6
Very low	0	0.0
Does not exist	0	0.0
Total	18*	100.0

* One case is unanswered.

It is distressing that most of interviewees have expressed of a very high-risk exposure in Albania. This is a prevailing opinion of about 60 percent of the specialists. The expressed opinion concerning the low risk alternative pertains to only one case. This makes the distribution of cases reflect a vigorous asymmetry.

So as concluded from the performed survey, the risk level oscillates from average to high rates. According to the most experienced specialists, although at high rates comparatively to 91-94, the credit risk in Albania had a decreasing trend.

Preference reasons of question 19 are classified below by risk categories.

The very high level of risk relates to legal framework deficiency and the unstable political and economic situation domestically. 11 percent of the interviewees express this level of risk.

The high level of risk is also parented to the down-listed:

- the unstable economic and political situation domestically;
- legal framework deficiencies and/or the non-execution of sanctions on collateral;
- the existence of unfair competition of traffic and corruption;
- the data on non-performing loans of bank market.

28 percent of cases expressed favourably to average risk existence.

Average risk is favoured by:

- the familiarity with bank customers (repeated customers);
- the advantageous business market;
- the extension of exchanging data within the interbank environment

Meanwhile at the disadvantage of this risk level remain the lack of debt history on the side of businesses currently developing economic activity in Albania and the lack of bank education by customers.

Of only one case, the low level of risk is justified with strict procedure in selecting the customer.

In four cases there were given no reasons for the performed selection.

The political and economic instability as a frequently met reason in most cases remains the core factor, conditioning the high levels of risk.

Fourth rubric is correlative with the attraction of specialised opinions from credit specialists on problems presented by businesses during the lending process.

Question 21 has to do with a list of business problems (deficiencies) during the process of credit analysis, considered as most fundamental from specialists. Table 17 lists problems identified by specialists according to their relative importance. The average level is accounted by the above used methodology. The lowest level corresponds to the highest weight problem and the reverse.

Table 17. The list of bank identified problems during their credit process to businesses.

Problem	Escalating averages
Lack of tradition	2.2
Submitting unreal balances	2.5
Insufficient arguments	3.4
Business plan deficiencies	3.5
Total unawareness of requirements	3.9
Unawareness of legislation	4.1
Others	5.7

The above list indicates that the biggest problems in business environment consist in the lack of tradition and in the tendency to present unreal balances.

The lack of tradition and business honesty to affect high levels of risk as observed in questions 19, 20, leads to banks' hesitancy to accord credits. As derived from the survey analysis on the Albanian banking system, the lack of tradition in bank-customer relationship still remains amongst the most important problem.

Insufficient arguments on business side as well as business plan deficiencies remain at escalating averages.

As resulted from the interviewees, Bank of Albania and second-tier banks have performed a commendable job toward the information of Albanian business environment with credit requirements.

Amongst other problems required on specification have resulted the following:

- non-execution of legislation
- Lack of executive and managing skills by directors.

For more, these problems are also considered important in listing. Question 22 requests for opinion on the proposed idea that "Banks do not cover businesses needs for credit adequately". From the survey analysis, it results that credit specialists' do not lack the willingness to be credit supportive for businesses. In 80 percent of cases, they express vigorously against this circulating opinion of business environment that the latter are the banks' preferred to credit.

While 16 percent of the interviewees remain silent on the issue 5 percent express favourably to the idea.

Question 23 and 24 purpose acquiring from close the credit specialist opinion on the informal credit market existence.

The first question of this heading requires the specialists' opinion on any information they have got on the informal credit market existence.

The received answers indicate that 67 percent of the interviewees express favourably to received information on the informal credit market existence, while 16.6 percent negate or remain silent on the question. The ones, affirming information on the informal market existence express that applicable credit rates by this market are higher than banks' and that this market presents parallel competition to formal market.

They focus their reasoning for such market existence on the lack of bureaucratic procedures (applied by current banks) and the wide range of provided foreign exchange.

Lacking the legal framework and the capacity to maintain the confidentiality, clients are found in front of a higher risk. The last rubric is intended to collect opinions on the nearest prospect of credit activity. This rubric that is comprised of four questions amongst which the first question demands the specialists' opinion in conjunction with two economic activities they consider as most profitable for the nearest future.

Table 18. Credit preferences classified by future economic activities.

Activity	Cases	Structure in %
Industry	13	36.1
Construction	11	30.6
Trade	6	16.7
Services	2	5.5
Transport	1	2.8
Agriculture	3	8.3
Total	36*	100.0

* One case is unanswered.

Industry and construction are considered as the most profitable activities ongoing while transport is considered unprofitable despite the large needs for it. Agriculture also remains by low preference levels to be bank credited, although it is the most spacious activity in GDP.

Comparing specialist preferences to the current credit structure itemised by economic activity, it is possible for trade to be not accounted amongst the most profitable activities ongoing.

Specialists share the opinion that this activity will leave its place to industry and construction lately. The prevailing opinion is that trade, considered as one of the most credited activities until presently, can not ensure the continuous and stable flowing of income in the framework of domestic economy. The economic growth is viewed as closely linked with similar area investments as industry and construction.

Question 26 requires information from specialists, on how banks will change their credit to economy. It is optimistic that in 15 or 83.3 percent of the cases, the interviewed express that this level will be higher, while in 4 or 16.7 percent of the cases the interviewees do not answer it.

To questions 27, 28 related to the change of interest rates, 11 of the interviewees or 65 percent, in most cases express banks' incapacity to predict the movement of interest rates, considered as market influenced.

In four cases the interviewed (or 23.5 percent) expressed that interest rates would reduce, whereas 2 of them or 12 percent believed that credit rates would remain unchanged.

Reasons contribute to the reduction of credit rates consist in:

- the rising competition amongst second-tier banks;
- the diminishing risk as a result of establishing political and economic stability domestically;

- Bank of Albania's monetary policy related to the reduction of deposit rates;
- the extension of business formality;
- Inflation decline.

The expressed opinion in both cases is that the lending rate will remain unchanged, and this reasoning is mainly based on the stability of the basic currency (the principal currency comprising bank equity or deposits), implying currency stability even in the nearest future.

Conclusions:

This first survey analysis leads to the following conclusions:

Risk is considered a key factor in:

- deciding the credit rate
 - credit issuing by maturity term
 - credit issuing by business size
 - credit issuing by type of currency
 - credit issuing by economic activity
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- Lending risk is considered as of average-high rates and this is mainly related to the unstable political economic situation of the country.
 - The weight of other important factors (besides risk) to decide the credit rate is also enlightened in the questionnaire, as well. It can be adequately defined by a specific study undertaken by banks' decision-making authorities.
 - Lending rate is generally, market representative although it reveals a tendency to reach at lower levels.
 - Short- or long-term credits are the most preferred as they enable operating and constant track and convey smaller risks.
 - Banks are most reserved against long-term credits due to the high risk related to the deficiency of overall stability.
 - All banks extend credits either in domestic or foreign currency.
 - Bank's preference (and specialists') for foreign currencies is connected with:

- their relative stability against domestic currency (mainly US\$ and further for DEM and GDR);
 - banks capital and deposit structure in foreign currency;
 - Customer preferences.
 - The most credited businesses are trade industry and construction, relatively, while transport and agriculture are last-listed.
 - **Furthermore, agriculture is not credited activity in a considerable number of cases. A similar conclusion throws light on two problems that demand resolving:**
 - first, perhaps, bank industry is not near farmers;
 - Second the structural shape of this activity might be more appropriate.
 - Preference reasons for trade, industry and construction, relatively, as most preferred activities to bank credit lie with:
 - The minimal risk they disclose:
 - And the typical growth rate characterising them.
 - Lending policy based on the business size is largely influenced by bank's strategy as well as by the need to maximally avoid lending risks.
 - Compared to the small and the largest - size business, mid-size business discloses the highest credit requirements and also hold the largest weight in banks' credit portfolios.
 - Due to the low risk it discloses, the largest business is partly preferred to be credited by some banks while some others do not accord credits at all to this type of business.
 - The banks' weight that accords no credits, reduced compared to 1999.
 - The average credit extended considerably compared to 1999.
 - The noticeable deficiencies of electric power became a serious impediment in achieving higher credit levels.
 - The lack of tradition in bank-customer relationships and the business tendency to present unreal balances carry high risk that leads to banks' hesitancy to accord credits.
 - Specialists expressed vigorously against the circulating opinion among businesses that the latter are not adequately supported with bank credits from the banking sector.
 - The informal credit market is estimated as attendant and makes up a strong competitor to bank credit.
 - Industry and construction are considered as the most profitable activities ongoing, as transport, in spite of the high claims for it, is considered as unprofitable activity.
 - Agriculture remains at low preference levels to banks' prospect credit, though it is the economic activity that comprises the highest contribution in GDP.
 - Trade, in the nearest future, will probably be considered one of the most profitable activities. The idea that this activity will leave its place to industry tracked by construction is prevailing.
- By the banking sector, it will be aimed the reduction of credit rates as of the growing competition in this environment.

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