

SURVEY ON CREDITING AND DEPOSITING ACTIVITY FOR JANUARY-FEBRUARY 2006*

SUMMARY

Analyzing the opinions of specialists of commercial banks on indicators of crediting and depositing activity over the first semester of 2006, it follows that:

DEPOSITING ACTIVITY

- Commercial banks specialists view the performance of depositing activity over the first part of 2006 as superior to that of six months ago.
- In the majority of commercial banks, the plan on deposits was fulfilled at 50-100 per cent, for both deposits in Lek and in foreign currency. According to these commercial banks specialists, depositing in Lek was more successful.
- The objective for deposits in Lek and in foreign currency was aided greatly by the high level of confidence towards the banks, and the high service quality. In particular, banking specialists agree that:
 - There is an apparent enhancement of competition in the banking sector;
 - The current levels of interest rates in Lek, despite being continually decreasing over the last few years, are viewed as normal;
 - The upward trend of foreign interest rates has aided the depositing activity in foreign currency.
- Specialists expect a rising depositing activity for the second part of 2006. Expectations are more optimistic towards foreign currency deposits.
- There is no clear expectation tendency for interest rates in Lek. Nevertheless, the expectations confidence index for interest rates in Lek marks a rise¹. Most specialists foresee an increase of foreign currency interest rates, while also expect them to remain in the current levels.
- A considerable number of specialists agree that:
 - The monetary policy of the Bank of Albania and the interest rates determined at REPO auctions affect the deposit rates in Lek.
 - The Bank of Albania is effective in its interventions in the money market.
 - The differential on Lek–foreign currency interest rates affects the preference for deposits in Lek or in foreign currency.

CREDITING ACTIVITY

- The average level of the plan realization for crediting is around 71 per cent, marking a fall as compared to the second half of 2005. It is apparent that the realization level of the plan in Lek (79 per cent) is higher than the completion level for the plan in foreign currency (64 per cent). This difference is believed to have resulted from the faster

acceleration of crediting in Lek and the high competition in the foreign currency credit market.

- The size of the informal market has been further reduced as compared to six months ago.
- Credit risk is considered unchanged and is expected to remain at the same level for the coming six-month period.
- Banks have increased crediting to households and to small business. This fact is apparent in the new products that banks are introducing, in response to demand for both these groups.
- According to the interviewed subjects, for the future is expected:
 - A rise in crediting activity, in particular of credit to business;
 - A marked rise of credit in Lek as compared to credit in foreign currency;
 - Stable interest rates of credit in Lek and an increase in foreign currency interest rate;
 - Maintenance of crediting preference for the trade sector.

INFLATION EXPECTATIONS

- The majority of specialists expect a stable rate of inflation, even a decrease in it, for the second half of the year. These expectations are based on the belief that the Bank of Albania will take the appropriate measures to ensure price stability.
- Expectations for an increase in inflation are based primarily on the increase of government spending in the second half of the year, as a result of the rise of oil and energy prices, and on the rapid increase of credit.

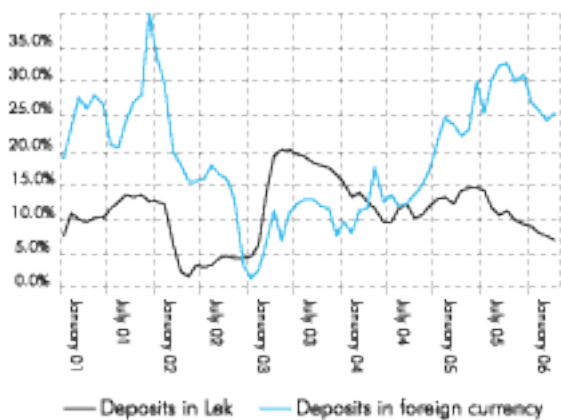
ANALYSIS OF THE SURVEY DATA FOR THE FIRST SIX-MONTH PERIOD OF 2006

A survey was conducted during June on the crediting and depositing activity of commercial banks for the first half of 2006. The objective of this survey was to withdraw the opinions of banking specialists on the latest developments in crediting and depositing activity. The survey in June 2006 included the opinions of around 95 specialists on both crediting and depositing. The participation rate is around 34 per cent higher than in the previous survey. This increase is attributed to the entrance of Raiffeisen Bank in the crediting market, as well as to the expansion of the banking system throughout the country. This increased number of collected opinions has provided better conditions for deriving conclusions. All interviewed subjects have an average banking experience of 4.5 years.

I. DEPOSITING ACTIVITY²

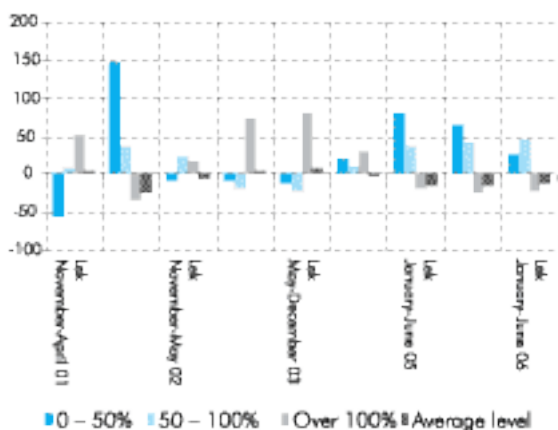
Around 70 per cent of commercial bank representatives (specialists) regard the depositing activity of the first half of 2006 as superior to that

Chart 1 The annual growth rate of deposits in Lek and foreign currency (January 2001 - April 2006)



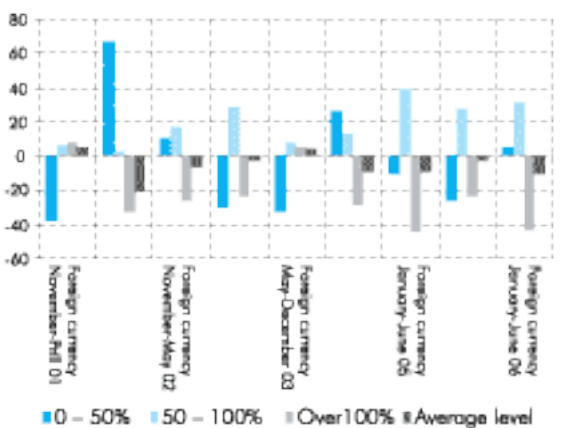
Source: Bank of Albania

Chart 2 Indices on the performance of objectives' realization for deposits in Lek



Source: Bank of Albania

Chart 3 Indices on the performance of objectives' realization for deposits in foreign currency



Source: Bank of Albania

of the preceding six-month period. The other part of the specialists is of the opinion that depositing activity has not changed from the previous six-month period.

The performance of the realization plan of deposits for this six-month period does not mark a change from that of the previous six-month period. Around 64 per cent of depositing specialists express that, during the surveyed period, the plan on depositing was realized at 50-100 per cent for both deposits in Lek and foreign currency. A positive note is struck by the fact that the majority of the remaining specialists express that the realization of the plan exceeds 100 per cent, while only a small percentage of them state a 50 per cent realization of the plan. Considering the opinions of the interviewed subjects, depositing in Lek is presented to have been more successful than depositing in foreign currency for the first half of 2006.

The data on depositing activity during the first half of 2006, however, favours foreign currency depositing. Annual growth rates for both types of deposits have fallen during this period. Nevertheless, the annual growth rate of foreign currency deposits remains higher than that for Lek.

The high level of confidence towards banks and the high quality of service towards clients from these institutions continue to be listed as the main factors that have attracted depositors to commercial banks. The high level of competition, as well as competing interest rates, are furthermore two other factors that have impacted the depositing activity. Currently, a new bank has joined the banking system, while other commercial banks have increased the number of branches in Albania, thereby increasing competition in the banking market. The high level of workers' remittances and the upward trend of foreign currency interest rates are considered as contributing factors to the positive performance of foreign currency deposits.

Around 62 per cent of specialists express that the current level of interest rates for Lek deposits is normal. Around 32 per cent of them consider the current level of the interest rate in Lek as being low (25 per cent in the previous survey). A small number

of interviewed subjects view the interest rate in Lek as being high.

Lek interest rates have recorded a downward trend over the first six-month period. The opposite occurred to the interest rates in foreign currency (usd and euro). The increase of foreign currency interest rates reflected the increase of the interest rates by the Federal Reserve and the European Central Bank over this period.

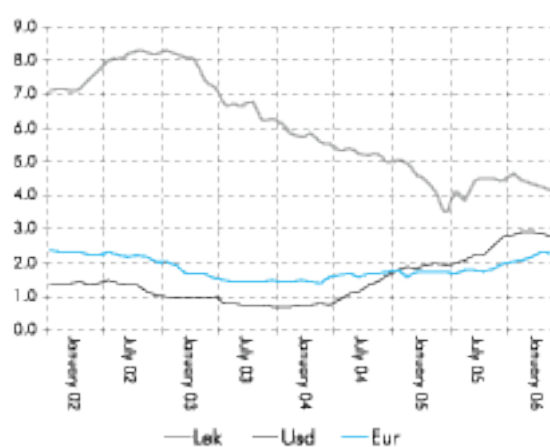
The confidence of specialists on the performance of depositing activity for the second half of 2006 is high, but more moderate than in the previous survey. However, there are more positive expectations as far as foreign currency depositing is concerned. Around 72 per cent of specialists expect a rise in foreign currency depositing, while the remaining do not expect a change. Around 60 per cent of specialists believe that the level of depositing in Lek will rise, while the remaining group expects progress akin to the current performance. Specialists see the performance of interest rates as an important determinant to the depositing activity.

Specialists' opinions on the future of Lek interest rates continue to be concentrated almost equally among three main alternatives: increase, decrease, and no change. Nevertheless, the confidence index for Lek interest rates demonstrates a further increase in this survey, suggesting that there is an expectation for increasing Lek interest rates.

Foreign currency interest rates are expected to preserve their current levels (around 39 per cent of surveyed), and to increase (around 41 per cent). The confidence index on foreign currency interest rate expectations continues to be positive, demonstrating that expectations for an increase in foreign currency interest rates are higher.

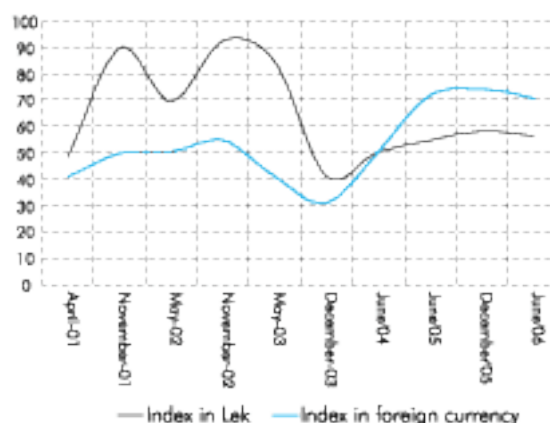
Specialists consider the policy of the central bank through REPO interest rates and the Treasury bills yield as the main factor affecting the future trends of deposit interest rate. The pursue of a competitive policy after surveying the interest rates in the interbank market continues to be considered another crucial factor.

Chart 4 Performance of weighted average interest rate in Lek and foreign currency deposits



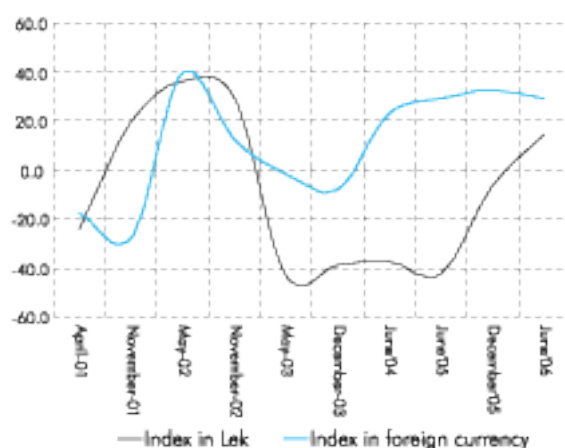
Source: Bank of Albania

Chart 5 Expectations confidence index on depositing in Lek and in foreign currency



Source: Bank of Albania

Chart 6 Expectations confidence index on interest rates in Lek and in foreign currency



Source: Bank of Albania

On average, over 70 per cent of interviewed specialists agree that:

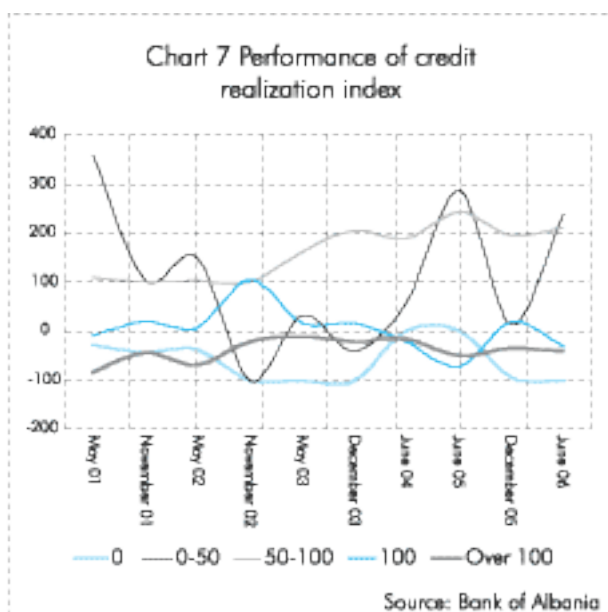
- The monetary policy of the Bank of Albania and the interest rates determined at REPO auctions influence the deposit rates in Lek.
- The differential of Lek-foreign currency interest rates influences the preference for deposits in Lek or in foreign currency;
- The Bank of Albania is effective in its interventions in the banking market.

II CREDITING ACTIVITY

According to the opinion of specialists, the average level of plan realization for crediting is about 71 per cent, or 10 percentage points lower over the first half of the year than in the preceding six-month period. It is observed that the level of plan realization for credit in Lek (79 per cent), by the currency of extended credit, is visibly higher than the level for crediting in foreign currency (64 per cent). This difference is believed to be the result of the faster growth of crediting in Lek, as well as of the high competition in the foreign currency crediting market. As evidenced by the official data, crediting in Lek is demonstrating higher growth rates than that in foreign currency. In accordance, the competition index³ demonstrates that the market for crediting in Lek is more dominated than the foreign currency credit market. The high competition in the

foreign currency credit market makes the completion of crediting plans harder for banks. Alongside market competition, low demand of economy for money has contributed to the non-completion of bank plans. Such a fact demonstrates that banking expectations on the demand of economy for credit were overvalued.

Compared to the previous year, an overturn of bank crediting preferences is apparent. Whereas big businesses used to dominate the client list of credit banks, from the crediting performance for the first six-month period of 2006 it is apparent that households and small businesses are the most credited groups. These market segments, previously left aside, appear to have become the core of bank strategies for preserving and increasing their share in the crediting market.



According to bankers, the reasons that have positively influenced the advancement of crediting are the strengthening of bank-client relationships, and the stable and favourable macroeconomic environment. However, it must be noted that the average completion level of the plan for crediting is considerably influenced by banking plans, which may be more optimistic than the reality.

Credit risk is assessed to have decreased over the first half of 2006. The percentage of opinions for no change in credit risk remains almost equal to that of the previous survey, while a considerable increase is noticed in the

case of a fall in risk. The strengthening of credit risk control procedures by banks, the strengthening of bank-client relationships, the enhancement of the formalization of the Albanian economy, the increasing awareness of bank clients, alongside an increase of banking professionalism are the main reasons for the maintenance or low levels of credit risk.

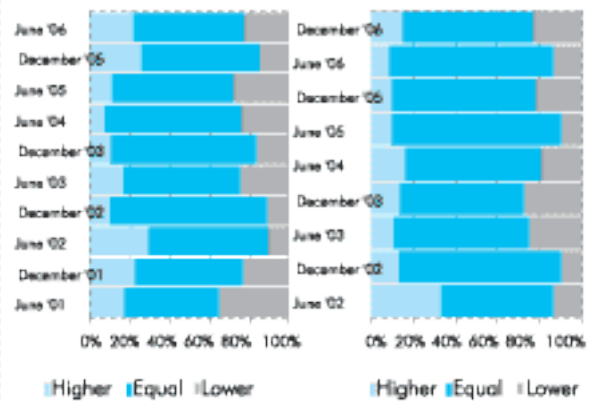
For the second half of 2006, banks' specialists (61 per cent) foresee equal levels of credit risk. Nevertheless, the negative value of the index for future credit risk demonstrates that the number of those who believe in a fall of credit risk is higher than those who expect the opposite. Compared to the 2005 survey, risk index for the future marks an increase. Opinions on the reduction of risk rest primarily on a closer acknowledge of clients, the possibility of credit information bureau establishment, as well as on the attempts for improving the performance of state institutions, such as the Real Estates Registration Office, Execution's Office, etc.

Banks have underlined "insufficient arguments for applying for credit" as the main deficiency of businesses when applying for credit. This factor was also assessed as being the prime deficiency. Compared to the previous survey, the lack of administrative abilities on the part of credit applying businesses is assessed as a factor of rising importance. This survey furthermore recognizes problems resulting from the absence of a Real Estates Registration Office or issues related to the legalization and registration of property.

The size of the informal market presents a marked decrease compared to six months ago. The further fall of the associated index demonstrates that the number of those who believe that the size of this market is on the rise continues to decrease. The enlargement and deepening of banking products has created opportunities for businesses to turn to the official credit market for financial support of their activities. Likewise, the efforts against informal activities, in general, appear to have influenced on shrinking the informal crediting market.

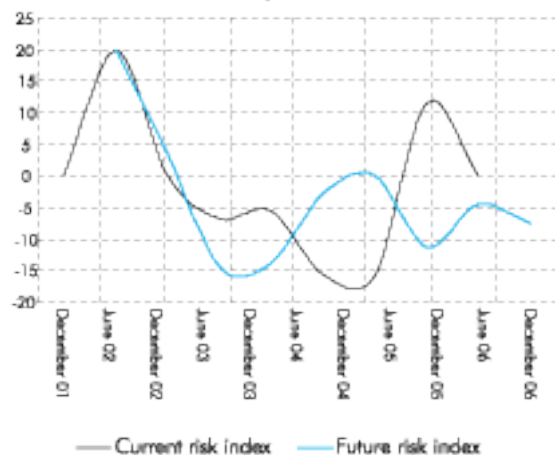
The sectoral distribution of credit does not present any important changes in this survey. The trade sector, even though reflecting a fall in preference compared to six months ago, continues to remain the most favourite sector for crediting. Banks prefer to be engaged in this sector because it is one of the most profitable sectors of economy. Compared to the second half of 2005, there is an apparent increase in the preference of banks to credit

Chart 8 The share of opinions regarding the current risk (on the left) and the expected risk in the future (on the right), in percentage



Source: Bank of Albania

Chart 9 Index performance on current and expected risk

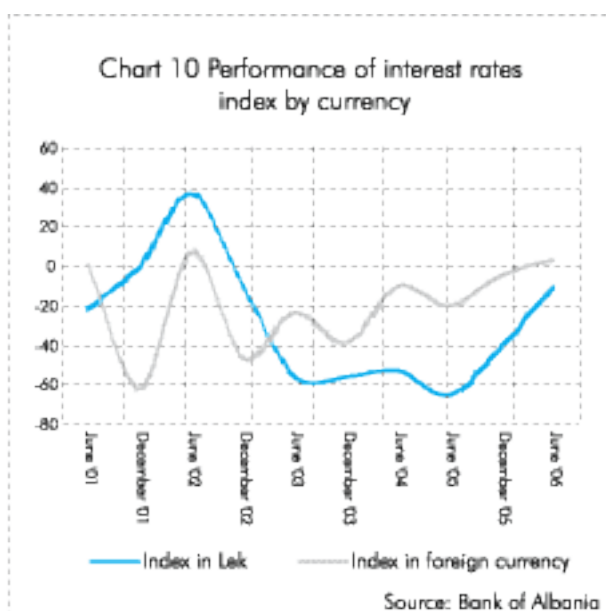


Source: Bank of Albania

the construction sector. Crediting preferences for the industry and service sectors remain at almost equal levels as six months ago. The agriculture and transportation sectors continue to remain detached from the preferences of banks in the short-term.

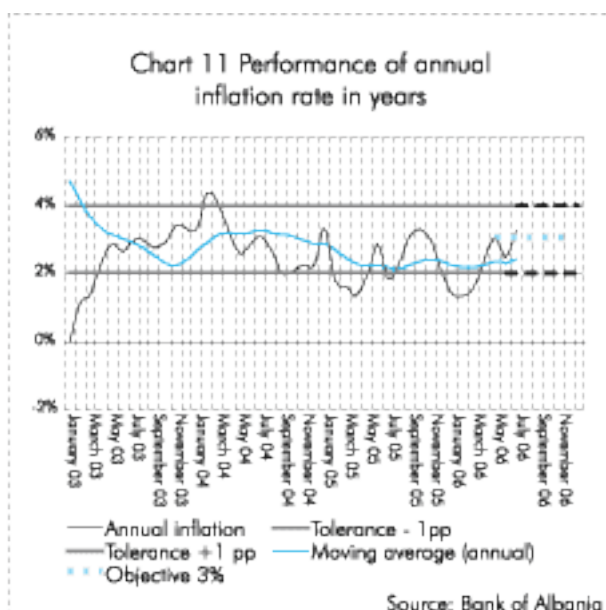
All specialists are optimistic for the future of crediting activity in general, where priority will be given to the rise of business crediting. Banks are expected to enlarge their crediting activity in both, Lek and foreign currency. The rise of foreign currency crediting, like six months ago, does not appear very stable.

The majority of the interviewed subjects believe that credit interest rates for Lek will remain unchanged in the future. Compared to the preceding survey, we are faced with a marked fall in the number of opinions foreseeing the decrease of interest rates for credit in lek. Opinions for the increase of credit interest rate in Lek have, in turn, strengthened.



For the first half of 2006, foreign currency interest rates for credit to households have reflected a fall, while interest rates for credit to businesses (for both corporations and businesses) have generally marked an increase. The performance of foreign currency interest rates is believed to have been based primarily on the performance of interest rates in international markets, in particular on the increase of the core interest rate for the two major currencies, the Euro and the US dollar.

The positive value of the foreign currency index reflects the expectations for an increase of foreign currency interest rates. But, in contrast to six months ago, the number of specialists who expect an increase in foreign currency interest rates has increased substantially. This performance is influenced by the latest developments in the international markets.



III EXPECTATIONS ON INFLATION

In the previous survey, a substantial part of specialists expected an inflation rate of around 3 per cent. The average inflation rate for the first half of the year was 2 per cent. Meanwhile, for the coming six-month period about 54 per cent of specialists expect inflation to remain around the same level as in the first half of the year. About 33 per cent of them expect an increase in the inflation rate. Expectations for a stable or falling inflation rate stem from the confidence that the Bank of Albania will take the necessary steps to maintain price stability. The

expectations for an increase in inflation are primarily based on the increase of government spending in the second half of the year, on the rising oil and energy prices, and the fast credit growth.

ANNEX

DEPOSITING ACTIVITY

The following tables display the data on the information provided by the survey on the depositing activity of commercial banks over semesters from 2002 to 2006.

Question: To what extent are the objectives of your bank/branch for receiving deposits in lek accomplished (compared to their projections in the semi-annual plan)? (in percentage)

	December '02	June '03	December '03	June '04	June '05	December '05	June '06
0 – 50%	7.3	7.3	7	9.4	14.3	13	10
50 – 100%	54.5	36.4	35.1	48.4	59.5	63	64.4
Over 100%	38.2	56.4	57.9	42.2	26.2	24	25.6
Average level	90.4	99.6	100.5	91.4	81.0	80.7	82.8

Question: To what extent are the objectives of your bank/branch for receiving deposits in foreign currency accomplished (compared to their projections in the semi-annual plan)? (in percentage)

	December '02	June '03	December '03	June '04	June '05	December '05	June '06
0 – 50%	17.6	11.3	10.7	20.3	14.5	12	16.9
50 – 100%	54.9	60.4	50.5	53.1	65.1	60	61.8
Over 100%	27.5	28.3	39.3	26.6	20.5	28	21.3
Average level	80.0	83.5	89.7	78.1	78.0	83.2	77.2

Question: What is your projection regarding the performance of deposits in lek for the following semester? (in percentage)

	December '02	June '03	December '03	June '04	June '05	December '05	June '06
Increasing	92.7	84.5	57.1	57.14	64.6	64	58.9
Decreasing	0	0	16.1	6.5	9.8	6	2.1
Unchanged	5.5	15.5	25	36.5	22.0	28	35.8

Question. What is your projection regarding the performance of deposits in foreign currency for the following semester? (in percentage)

	December '02	June '03	December '03	June '04	June '05	December '05	June '06
Increasing	60.8	51.0	46.2	55.6	75.6	77	71.7
Decreasing	5.9	10.2	15.4	4.8	3.7	3	1.1
Unchanged	25.5	38.8	30.8	39.7	18.3	15	21.7

Confidence index on the performance of deposits in lek and in foreign currency for the following semester

	December '02	June '03	December '03	June '04	June '05	December '05	June '06
Index in lek	92.7	84.5	41	50.8	54.9	58.2	56.8
Index in foreign currency	54.9	40.8	30.8	50.8	71.9	74.2	70.6

Question. What is your projection regarding the performance of interest rate for deposits in lek for the following semester? (in percentage)

	December '02	June '03	December '03	June '04	June '05	December '05	June '06
Increasing	36.4	5.7	18.5	10.94	7.23	24	35.2
Decreasing	7.3	49.1	57.4	48.44	49.40	30	20.9
Unchanged	50.9	45.3	20.4	40.63	32.53	44	40.7

Question. What is your projection regarding the performance of interest rate for deposits in foreign currency for the following semester? (in percentage)

	December '02	June '03	December '03	June '04	June '05	December '05	June '06
Increasing	21.0	12.8	13.7	40.3	42.2	41	40.7
Decreasing	9.0	14.9	21.6	17.7	13.3	8	11.6
Unchanged	69.9	72.3	56.9	41.9	38.6	45	39.5

Confidence index on the performance of interests in lek and in foreign currency for the following semester.

	December '02	June '03	December '03	June '04	June '05	December '05	June '06
Index in lek	29.1	-43.4	-38.9	-37.5	-42.2	-6.3	14.3
Index in foreign currency	12.0	-2.1	-7.9	22.6	28.9	32.8	29.1

CREDITING ACTIVITY

The following tables display the data on the information provided by the survey on the crediting activity of commercial banks over semesters from 2002 to 2006.

Question. Considering the following groups, identify the groups your bank has mostly extended credit to over the present semester. (in percentage)

	December '02	June '03	December '03	June '04	June '05	December '05	June '06
Medium-size business	1.3	1.3	1.3	1.3	1.8	1.8	1.9
Large-size business	1.6	1.3	1.5	1.5	1.9	1.8	2.2
Small-size business	2	1.9	2.0	1.9	1.9	1.9	1.9
Households					1.7	1.6	1.5

Question. How do you assess the level of credit in lek extended by your bank (foundation) over the present semester, compared to the level of credit projected in the business plan of your bank for this period? (in percentage)

	December '02	June '03	December '03	June '04	June '05	December '05	June '06
0	0	0	0	2.7	4.3	1.5	
0-50	0	6.9	3	8.1	20	5.8	17.6
50-100	32.1	41.4	48.5	45.9	54.3	47.1	49.5
100	42.9	24.1	24.2	16.2	5.71	25	14.3
Over 100	25	27.6	24.2	27	15.7	20.6	18.7
Average (in percentage)	98.2	91.4	91.7	86.5	71.1	87.5	79.1

Question. How do you assess the current credit risk in Albania compared to the previous semester? (in percentage)

	December '02	June '03	December '03	June '04	June '05	December '05	June '06
Higher	10.7	17.2	11.1	7.9	11.6	26.1	22.2
Equal	78.6	58.6	72.2	68.4	60.9	59.4	55.6
Lower	10.7	24.1	16.7	23.7	27.5	14.5	22.2
Index	0	-6.9	-5.6	-15.8	-15.9	11.6	0

Question. What is your projection regarding the credit risk over the following semester, compared to the current risk? (in percentage)

	June '03	December '03	June '04	June '05	December '05	June '06	December '06
Higher	10.7	13.8	16.2	10	10	9	15.2
Equal	64.3	58.6	64.9	80	68.6	77.6	61.9
Lower	25	27.6	18.9	10	21.4	13.4	22.8
Index	-14.3	-13.8	-2.7	0	-11.4	-4.5	-7.6

Question. Among the following problems, identify the factors which restrict the credit process of businesses over the present semester, ranking them by precedence (most important (1), less important (7)). (average level of importance)

	December '02	June '03	December '03	June '04	June '05	December '05	June '06
Inadequate arguments	3.3	2.9	2.7	3.6	3.02	2.9	2.6
Presentation of unreal balance sheets	2.9	4.1	3.2	3.3	2.8	3.2	3.1
Lack of culture in bank-client relationships	3.3	2.6	3.6	2.8	3.5	3.5	3.8
Business plan deficiencies	3.5	3.5	3.7	3.8	3.5	3.5	3.4
Inadequate information on the legislation related to business activity	5.1	4.9	4.9	4.6	4.6	4.6	4.5
Deficiencies in business administration	4.0	3.7	3.8	3.7	4.4	4.4	3.9
Other*	5.2	5.4	5.3	5.5	5.4	5	5.9

Question. What is the size of the informal credit market in the present semester compared to the previous semester? (in percentage)

	December '02	June '03	December '03	June '04	June '05	December '05	June '06
Bigger	44.4	81.5	55.9	64.7	70.3	63.1	62.8
Equal	40.7	14.8	32.3	29.4	21.9	21.5	24.4
Smaller	14.8	3.7	11.7	5.9	7.8	15.4	12.8
Index	29.6	77.8	44.1	58.8	62.5	47.7	50

Question. Among the following economic sectors, identify the most profitable sectors to engage in crediting over the following semester, ranking them by precedence (most favourite (1), least favourite (6)). (average level of importance)

	June '03	December '03	June '04	June '05	December '05	June '06
Trade	1.7	2.1	1.7	1.7	1.7	2.0
Industry	2.6	2.4	2.7	2.8	3.2	3.0
Construction	2.9	2.9	2.8	3.1	2.7	2.6
Services	3.2	3.1	2.8	2.9	3.1	3.0
Agriculture	5.9	5.4	5.6	5.1	5.2	5.4
Transportation	4.6	4.4	4.3	4.7	4.7	4.8

Question. What is your projection regarding the growth of credit activity in lek for the following semester? (in percentage)

	June '03	December '03	June '04	June '05	December '05	June '06
Higher	57.7	51.4	62.5	83.3	79.1	85.7
Equal	34.6	34.3	30	15.3	17.9	14.3
Lower	7.7	14.3	7.5	1.4	2.9	
Index	50	37.1	55	81.9	76.1	85.7

Question. What is your projection regarding the growth of credit activity in foreign currency for the following semester? (in percentage)

	June '03	December '03	June '04	June '05	December '05	June '06
Higher	77.8	79.4	71.1	53.1	45.9	48.8
Equal	22.2	17.6	26.3	29.7	47.5	41.8
Lower	0	2.9	2.6	17.2	6.6	9.3
Index	77.8	76.5	68.4	35.9	39.4	39.5

Question. What is your projection regarding the interest rate of credit in lek for the following semester? (in percentage)

	June '03	December '03	June '04	June '05	December '05	June '06
Higher	17.9		2.8	10	2.8	7.1
Equal	53.6	44.4	38.9	27.5	29.2	45.7
Lower	28.6	55.6	58.3	62.5	68.1	47.1
Index	-10.7	-55.6	-55.6	-52.5	-65.3	-40

Question. What is your projection regarding the interest rate of credit in foreign currency for the following semester? (in percentage)

	June '03	December '03	June '04	June '05	December '05	June '06
Higher	3.6	3.8	2.78	15.4	6.3	17.9
Equal	46.4	69.2	55.6	58.9	67.2	59.7
Lower	50	26.9	41.7	25.6	26.6	22.4
Index	-46.4	-23.1	-38.9	-10.3	-20.3	-4.5

Question. What was the performance of interest rates for the following groups over the present semester like? (in percentage)

	December 2005			June 2006	
	Lek	Usd	Euro	Lek	Usd+Euro
Real estates					
Increasing	22.0	28.6	18.4	14.0	16.7
Decreasing	33.9	11.9	14.3	68.0	44.4
Equal	44.1	54.8	63.3	18.0	33.3
Index	-11.9	16.7	4.1	-54.0	-27.7
Consumer					
	Lek	USD	EURO	Lek	USD
Increasing	25.5	26.3	19.1	9.1	11.7
Decreasing	23.6	7.9	9.5	45.4	23.5
Equal	50.9	63.2	71.4	40.9	64.7
Index	1.8	18.4	9.5	-54.0	-27.7
SME					
	Lek	USD	EURO	Lek	USD
Increasing	19.6	27.3	17.4	4.8	31.6
Decreasing	33.3	18.2	21.7	57.1	26.3
Equal	47.1	50.0	60.9	33.3	36.8
Index	-13.7	9.1	-4.3	-52.4	5.3
Corporations					
	Lek	USD	EURO	Lek	USD
Increasing	15.6	27.5	19.5	5.3	27.8
Decreasing	37.8	22.5	26.8	42.1	27.8
Equal	46.7	50.0	53.6	47.4	38.9
Index	-22.2	5.0	-7.3	-36.8	0.0

Note: The indices are created as the difference of the positive alternative and the negative alternative.

ENDNOTES

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¹ This index is constructed by making the difference between the increasing alternative and the decreasing one.

² The response rate to the questions was around 97 per cent.

³ Measured according to N competition indicator, for 5 most active banks in the credit market.