

4. FINANCIAL POSITION AND RISK EXPOSURE OF HOUSEHOLDS AND ENTERPRISES

(22) In the second half of the year, households were more inclined toward saving. The expansion of the deposit base, mainly in foreign currency, gave the main contribution to the expansion of the credit position of households during the period¹⁴. Business' liquidity improved as well, **given the narrowed debt position of businesses**, during the period, thanks to the increase of deposits in lek¹⁵. In *annual terms*, unlike the half-yearly trend, households show a slight expansion of the creditor position attributable to the creditor position in domestic currency¹⁶. Meanwhile, the debtor position of enterprises narrowed as a result of the decrease of foreign currency loans.¹⁷ The lost loans write off from bank balance sheets was accompanied by a high level of repayment and restructuring in the banking sector, hence, significantly improving credit quality in general and unhedged foreign currency loans in particular.

4.1 FINANCIAL POSITION OF HOUSEHOLDS AND ENTERPRISES

(23) During the period, the credit position of households increased to ALL 78.1 billion, with the main contribution from the expansion of the foreign currency position¹⁸. Although the growth rate of the loans was higher than that of deposits, the broader base of the latter affects the direction of the net position movement. Credit to households remained oriented to the domestic currency, contributing to the narrowing of the credit position in lek¹⁹. On the other hand, enterprises narrowed their debtor position against the banking sector, standing at ALL

¹⁴ Creditor position narrowed by around 2.0% during the period, affected mainly by the increase of deposits by 2.2%. Deposits in foreign currency and lek grew by 3.9% and 0.4% respectively. At the same time, credit granted to households increased by 2.8%. Within this portfolio, ALL credit increased by 4.4%, despite the 0.8% increase in foreign currency credit;

¹⁵ The debtor position narrowed during the period by 5.8%, due to the narrowing of the position in lek (8.5%), mainly attributable to the increase of credit in this currency (13.3%). Credit fell slightly by 0.6% affected by the decrease of foreign currency credit by 1.8% compared to the 1.2% increase of credit in lek.

¹⁶ In annual terms, creditor position of households narrowed by only 0.3%, attributable to the narrowing of the position in domestic currency by 3.1% and the expansion of the position in foreign currency by 2.2%.

¹⁷ The narrowing of debtor position, in annual terms, was around 11% and was affected by the narrowing of position in foreign currency by 15.4%. The fall of foreign currency loans and deposits - 8.3% and 0.9%, respectively - was accompanied by credit growth and deposits in domestic currency: 3.3% and 10.5%, respectively.

¹⁸ The foreign currency lending position expanded by about 4.5%, as a result of foreign currency deposits growth by 3.9%.

¹⁹ The credit position in lek narrowed by about 1.0% as a result of lek credit growth by 4.4%.



Chart 4.1 Financial position of households and enterprises, in ALL billion



Source: Bank of Albania.

149 billion. All currencies had positive impact²⁰, with the main contribution by the increase of enterprises' deposits.

(24) The developments of the period related to **resident households** show that their savings increased, mainly in the form of foreign currency deposits and bond investments, while investment in treasury bills narrowed, decreasing their share in the total portfolio of households' investments. Meanwhile, in annual terms, the savings of resident households increased mainly in the form of lek deposits and investment in investment funds.

Table 4.1 Households' assets in the financial system, ALL billion

	2010		2013		2016, Dec		2017, June		2017, Dec	
	ALL bln	Share %	ALL bln	Share %	ALL bln	Share %	ALL bln	Share %	ALL bln	Share %
Deposits, ALL	357.6	49.8	449.5	43.7	454.3	40.3	465.1	42.1	467.2	40.7
Deposits, FX	304	42.3	418.4	40.7	476.4	42.3	432.8	39.2	469.5	40.9
T-bills	56.7	7.9	70.6	6.7	65.2	5.8	67.3	6.1	63.6	5.5
Bonds	0.37	0.05	39.8	3.9	64.5	5.7	67.9	6.1	72.1	6.3
investment funds*	-	-	50.3	4.9	65.4	5.8	70.8	6.4	73.5	6.4
Supplementary private pension funds*	0.12		0.43	0.04	1.2	0.1	1.3	0.1	1.6	0.1
Portofoli i individëve	718.8	100	1,029	100	1,127	100	1,105	100	1,147	100

Source: Bank of Albania and FSA.

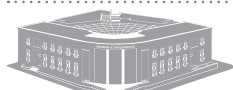
4.1.1 LOANS TO HOUSEHOLDS AND CREDIT RISK

(25) During the period, the increase of loans to households by about 2.7%²¹ is entirely attributable to the domestic currency, whereas loans in foreign currency remained at the same levels. Hence, the share of credit in lek to households was up at 59.3%, around 1.1 percentage points higher than in June 2017. Unhedged loans to households in foreign currency fell both in annual and half-yearly terms, reducing the exposure against the unfavourable movements of the exchange rate. The share of unhedged credit in foreign currency against the total outstanding credit in foreign currency to households dropped at 51.9%, compared to 53.1% and 53.9% in June 2017 and December 2016²². Around 77% of household unhedged credit consists in "Mortgage loans", which fell by 2.3 percentage points, over a one year period. According to the maturity term,

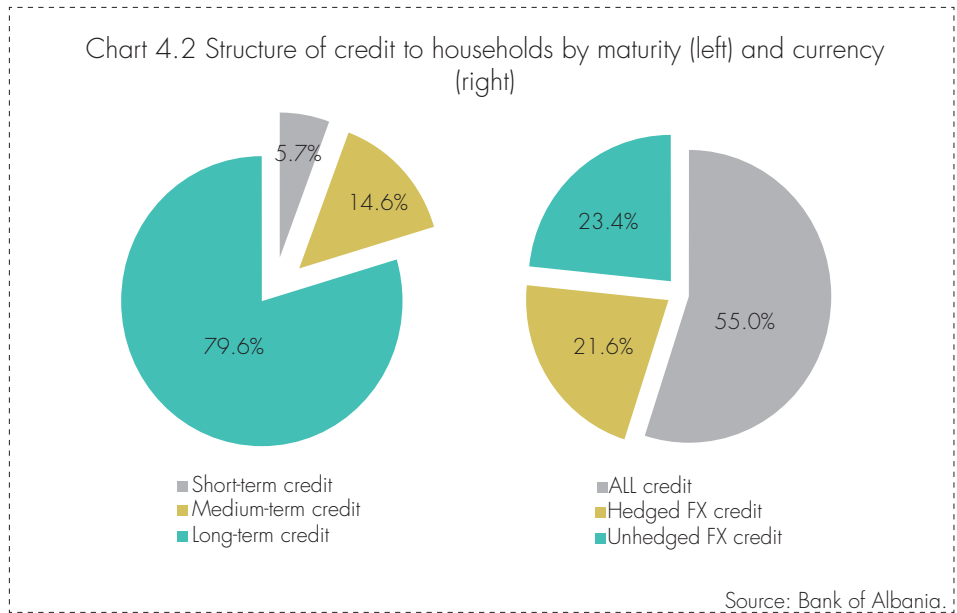
²⁰ The narrowing of the debt position was 8.5% and 3.7% respectively for the domestic and foreign currencies.

²¹ In annual terms, credit growth to households was 5.5%.

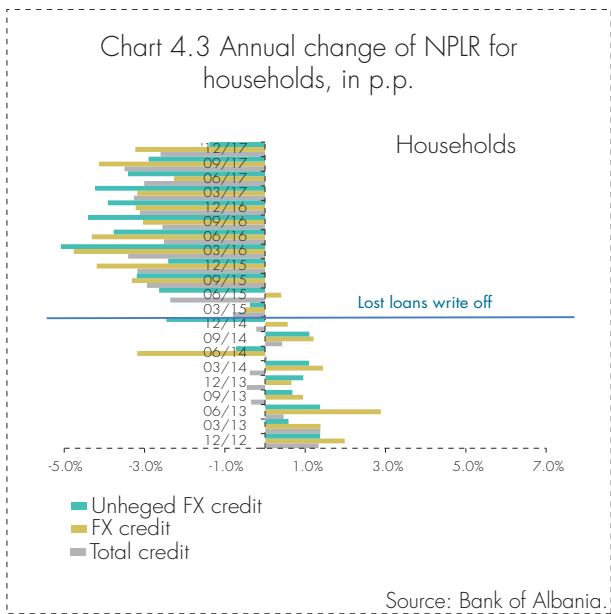
²² The developments in the share of unhedged credit in foreign currency against total outstanding credit to households are in the same direction. This ratio fell both in annual and semi-annual terms. It stood at 23.4% in December 2017, compared with 23.7% and 25.7%, in June and December 2016, respectively.



the total credit to households shows no significant structural changes during the period²³. Mid-term and long-term loans represent a minimal increase of 0.1 percentage point, respectively over the first half of the year; while short-term loans fell by 3 percentage points over the same period.



(26) The quality of the portfolio of loans to households continued to improve, attributable to the loan repayment and lost loans write off from banks' balance sheets. The ratio of non-performing loans to households fell at 7.6%, around 2.6 percentage points lower than in the previous year. Non-performing foreign currency loans improved in the total portfolio and in the unhedged portfolio against non-performing currency loans, the improvement was observed in the total portfolio and in the hedged against unfavourable exchange rate fluctuations. The ratio of non-performing loans in foreign currency fell at 8.7%, down by 3.2 and 2.4 percentage points, respectively, in annual and half-yearly terms. The non-performing loans ratio of foreign currency credit unhedged against the fluctuations in the exchange rate further dropped at 9.8%²⁴. In lek, the ratio of non-performing loans dropped to 6.9%, nearly 1.1 percentage points and 1.7 percentage points down compared to June 2017 and December 2016 respectively.



²³ The above developments are also confirmed in terms of annual developments.

²⁴ This ratio was 10.6% and 11.2% at the end of June 2017 and December 2016, respectively.



(27) Resident households have obtained loans at an accelerated rate of 2.8% and 5.5% respectively in half-yearly and annual terms. Within this portfolio, similar to the previous period, the main contribution comes from the increase of credit for "non-durable goods" and "real estate". The latter does not change its share significantly (63.2%) and continues to be the main item within the total loans to households.

BOX 4.1 SURVEY RESULTS ON HOUSEHOLDS' FINANCIAL AND BORROWING SITUATION

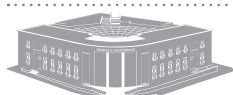
The survey of households' financial and borrowing situation is conducted half yearly. The survey is based on a randomly selected sample of 1,209 households, in around 56% urban areas and 44% rural areas.

In 2017 H2, the **number of employed persons** increased in annual terms, mainly supported by the employment in the public sector. The **level of household income** dropped during the six-month period, whilst expenditures continued to increase, resulting in a narrowing of the financial balance (income-expenditure). Around 28% of households say they have a loan to repay. This share is similar to that of the previous period, but slightly lower from the previous year.

In 37% of cases, surveyed households responded they had borrowed from formal sources (banks and non-bank financial institutions) in the form of credit products, and in 63% of cases from informal sources, mainly in cash. Unlike the borrowing frequency structure above, the distribution of its outstanding appears different. About 82% of it is provided by formal sources and 18% by informal sources; this structure is in favour of formal borrowing compared to the previous six months and the previous year. Consumption (42% of cases), purchasing/renovating a property (26% of cases) and business development (12% of cases) remained the top three **purposes of borrowing**. During the survey period, the shares of borrowing for consumption and real estate purchasing have been downward. By purpose of use, around 46% of outstanding credit was for 'Purchasing/renovating a property', 31% for 'business development' and only 6% for "consumption" purposes. **By currency**, 92% of outstanding credit is in lek, and only 8% in euro.

The borrowing households say credit instalment during the period has fallen, reflecting the reduction of the weighted credit interest rate to households. The major part of borrowing households stated that their repayment capacity has not changed during the period, while the rest mainly state a worsening. Most households (about 72%) do not expect change in repayment in the first half of 2018, while the rest (i.e. those who expect "deterioration" and those who expect improvement) are almost equal in number.

The possibility to receive a loan during 2018 H1, has resulted almost at the level of the long-term average but slightly trending up, which may signal a recovery of credit demand by households.

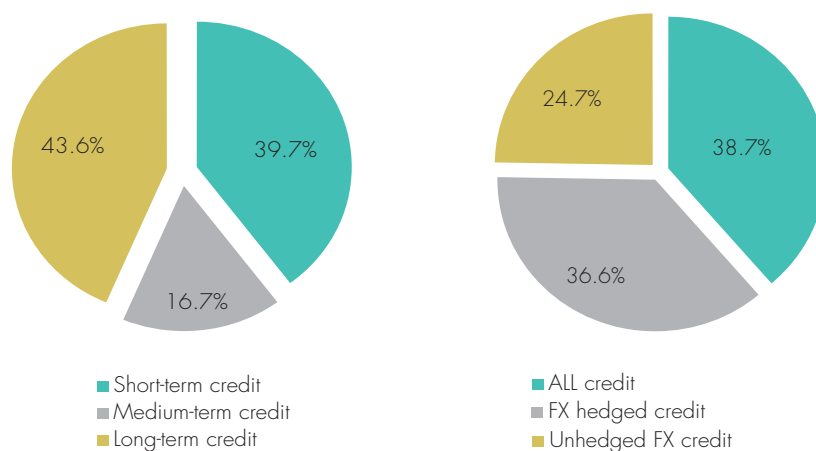


4.1.2 LOANS TO ENTERPRISES AND CREDIT RISK

(28) Loans to enterprises account for 65% of total outstanding credit from the banking sector and it fell slightly annually. In this portfolio, loans to resident enterprises had the main share, at 86%. The latter, despite the narrowing in annual terms, by 2.4%, increased slightly compared to the previous year by 0.5%. During the period under review, outstanding credit for “overdraft” and “equipment purchase” purposes expanded most²⁵. Meanwhile, annual developments show a fall in the credit stock also for “working capital”. Outstanding loans to non-resident enterprises shrank both in semi-annual and annual terms²⁶.

(29) In the total structure of loans to enterprises, credit in lek further increased. The share of foreign currency loans in the total loans to enterprises dropped at 61.3% or 1.4 percentage points lower from the previous year. The share of unhedged credit from unfavourable exchange rate fluctuations to total loans to enterprises also dropped to 24.7%²⁷. In the structure of unhedged loans to enterprises, the shares of credit for “trade”, “real estate development” and for “business development” fell at 46.4%, 10.5% and 14.2%, respectively.

Chart 4.4 Structure of credit to enterprises by maturity (left) and currency (right)



Source: Bank of Albania.

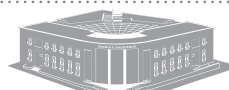
(30) In the stock of loans to enterprises, loans to large and medium-sized enterprises has increased. The share of loans for these enterprises was up, 60.2% and 23.8% of total loans to enterprises, respectively²⁸. During the

²⁵ More concretely, loans for “overdraft” and “equipment purchase” increased half-yearly by ALL 4.1 billion.

²⁶ For more details, refer to the developments in the outstanding loans in section 8.3.1 of the report.

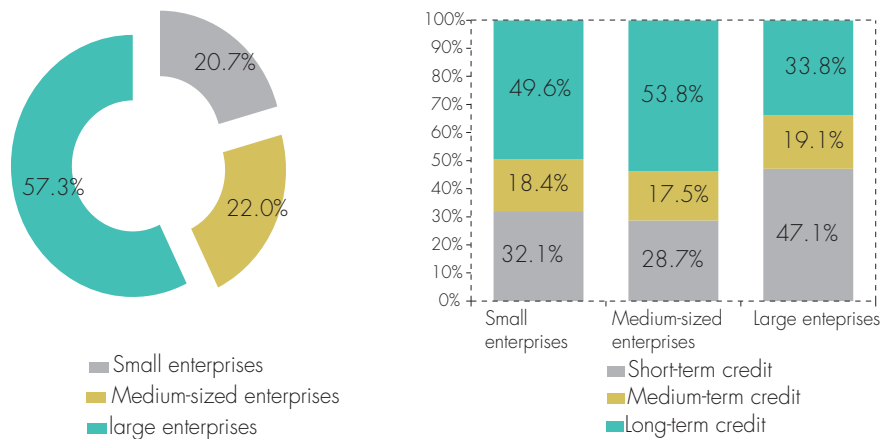
²⁷ Its share in June 2017 and December 2016 is 26.4% and 27.0%, respectively, of total loans to enterprises.

²⁸ These values are: 57.3%; 22.0% and 20.7% in December 2016; whereas in June 2017, they were: 56.9%, 22.5% and 20.7%.



period, the long-term credit continued to increase for the small enterprises, whereas the large enterprises continue to be oriented toward medium-term credit, recording small changes in the fall of long-term credit. **By currency,** the small enterprises decreased the share of credit in the Albanian currency in favour of the one in foreign currency; whereas medium-sized and large enterprises expanded the credit in the Albanian currency.

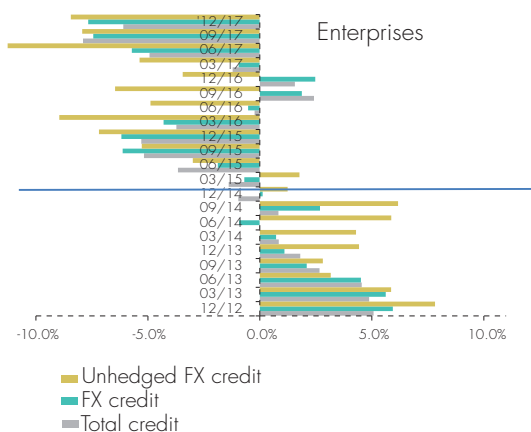
Chart 4.5 Structure of credit to enterprises by size



Source: Bank of Albania.

(31) The quality of the portfolio of loans to enterprises, almost in all its components, improved considerably in annual and half-yearly terms.

Chart 4.6 Annual change of NPLR for enterprises, in p.p



Source: Bank of Albania.

In December 2017, the ratio of non-performing loans to enterprises stood at 16.9%, from 19.5% in June 2017, and 23.0% in the previous year. The ratio of non-performing loans in foreign currency pursued a similar trend, falling at 16.6% at the end of the period, or 7.7 percentage points lower than the level of the previous year. The quality of the unhedged foreign currency credit portfolio also improved significantly, mainly annually, driven by the repayment and restructuring of loans and the lost loans write off from the balance sheets. At the end of the period, the ratio of non-performing loans for this category dropped at 13.8%, from 15.1% at the end of June, and 22.2% in the previous year. Also, the non-performing loans of lek credit dropped to 19.6% in December 2017, around 1.7 and 2.7 percentage points lower from June 2017 and December 2016.



BOX 4.2 SURVEY RESULTS OF ENTERPRISES FINANCIAL AND BORROWING SITUATION

The survey of enterprises financial and borrowing situation has been conducted half-yearly, for eight years. Since 2016 H1, this survey has been conducted on about 1200 large, medium-sized and small enterprises, across the country, which carry out their activity in the main sectors of the economy. In this survey, enterprises are asked on the performance of their business, financing needs, and debt, relationship with banks, etc.

During 2017 H2, enterprises estimate that **competition** and finding a market are the main challenges interfering their activity, especially for small enterprises. Issues related to **access to finance** and **financing costs** are estimated as declining for all sizes of enterprises.

The level of **sales** was assessed as upward, for medium-sized and larger enterprises and downward for small enterprises in 2017 H2. Medium-sized and larger enterprises assessed the financial result, and the expansion of activity as upward, during the period. Overall, the positive expectations of enterprises about the sales, the **financial result** and the **expansion of the activity** provide optimistic signals regarding their performance in the short and medium term.

During the period, almost half of the respondent enterprises **financed their activity through sales**. **Borrowing as a separate or combined source** was used by 26.5% of larger enterprises, 23.5% of medium-sized enterprises and 15.7% of small enterprises.

About 42.3% of total enterprises (443 in total) claim to **have a loan to repay**, upward compared to the previous survey results. The result applies to all three groups of enterprises, but stands somewhat more pronounced for medium-sized enterprises. Around 91.3% of total borrowing enterprises state that they have turned to **banks** for borrowing. This share accounts for 93.3% of total **formal sources** (banks and non-bank financial institutions), ticking up during the period.

The main purpose of borrowing is for **long-term investments and to afford current expenditures**. Compared to the previous period, the share of enterprises that have borrowed to carry out long-term investments was up for the small and larger enterprises, and slightly down for medium-sized enterprises. Around 78.7% of small enterprises, 83.8% of medium-sized enterprises and 80.6% of larger enterprises consider their **level of borrowing for financing their activity as adequate**. Compared to 2017 H1, this share has increased for all sizes of enterprises.

Borrowing only in the **domestic currency** accounts for 47.1% of the total of borrowing small enterprises, 48.9% of medium-sized enterprises and 29.3% of large enterprises. Loans in the **euro** account for the major share of large enterprises, at 56.3%.

For small enterprises, this type of borrowing is 44.2%, while for the medium-sized it is 42.6%. Borrowing in **US dollars** is low, not exceeding 2.9% of the total (small enterprises). Only 4.9% of small enterprises and 12.4% of medium-sized and 10.6% of larger enterprises report **new borrowing** during the period.

The **overall value of the loan** is about half the value of the enterprise's capital for 79.8% of borrowing enterprises. By size, **debt share** is higher for small enterprises, of which around 21.1% stated that the value of the loan is equal or higher than the value of capital. The majority of borrowing enterprises (81.9%) state that the loan



to income ratio amounts up to 20% of revenues, up from the previous period. The burden of the loan payment appears to be heavier on small enterprises. The number of small enterprises reporting that the instalment of the loan exceeds 20% of revenues accounts for around 27.4% of the total group.

BOX 4.2.1 ASSESSMENT OF PERSISTENCE IN CREDIT PLANNING

This box seeks to assess the persistence of credit planning by enterprises. Based on the survey data of the financial situation and borrowing, related to enterprises that have declared their intention to take a loan in the period ahead, their declaration is subject of verification to see whether they have succeeded in receiving the loan.

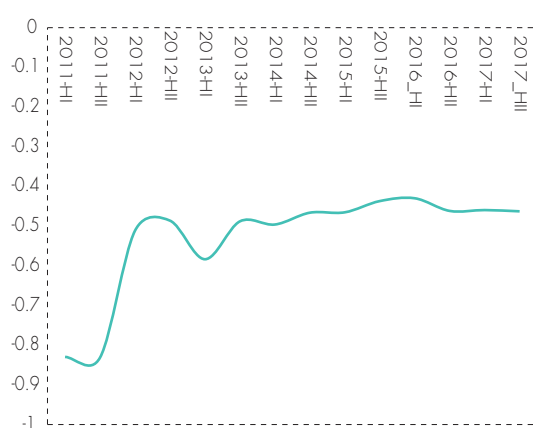
The data belong to 2010 H2 - 2017 H2, considering 14 periods. For each successive pair of periods, those enterprises that are active in replying in both samples are selected based on their unique business registration number (NUIS). For each of them, the submitted reports are surveyed for each enterprise in period t on the plan to receive a bank credit in the next six months, and it is compared to the report in the period $t+1$, if the enterprise has eventually received a loan.

The following table shows a matrix of possible alternatives of two questions on the planning of borrowing in period t and its realisation in the period $t+1$. The possible values of assessment range from “-1” if the firm plans to borrow and does not realise it, to “1” if it does not plan to borrow, but takes a loan.

Table 4.2 Matrix of enterprises’ borrowing planning

Expect. \ Actual	Has received a loan in actual 6M	Has not received a loan in actual 6M
Plans to borrow in the next 6M	0.5	-1
Does not plan to borrow in the next 6M	1	-0.5

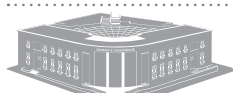
Chart 4.7 Persistence of enterprises’ credit planning index



Source: Bank of Albania.

For each period, the average assessment of the coefficients is constructed according to the table, by attaining the **Persistence in Credit Planning Index** for the period 2011-2017.

The results show that the average indicator for each period is at negative levels. In the first survey period, during 2011, the indicator is at around -0.8 (close score -1), implying that enterprises that had planned to take a loan, have not taken it. Based on the Bank Lending Survey data, at the beginning of 2011, banks tightened lending standards, tending to keep them tight till the end of the year. Related to the second period, after 2012, overall, the indicator improved, albeit remaining negative. Since 2014 H2, its value has fluctuated around -0.4 and -0.5 implying that, overall, enterprises did not plan and have not taken any loan. This development reflects the presence of a sluggish credit demand, and the correct assessment for a significant number of enterprises, that the current debt level is sufficient to conduct the activity.



The Theil Index is constructed to assess the distribution of enterprises' answers, within the period. This Index is used to measure the distribution degree of answers between the possible alternatives of borrowing, and provides information on the concentration of the enterprises answers in one of the provided alternatives.

Theil index is calculated according to the following formula:

$$T_T = T_{a=1} = \frac{1}{N} \sum_{i=1}^N \left(\frac{x_i}{\bar{x}} \cdot \ln \frac{x_i}{\bar{x}} \right)$$

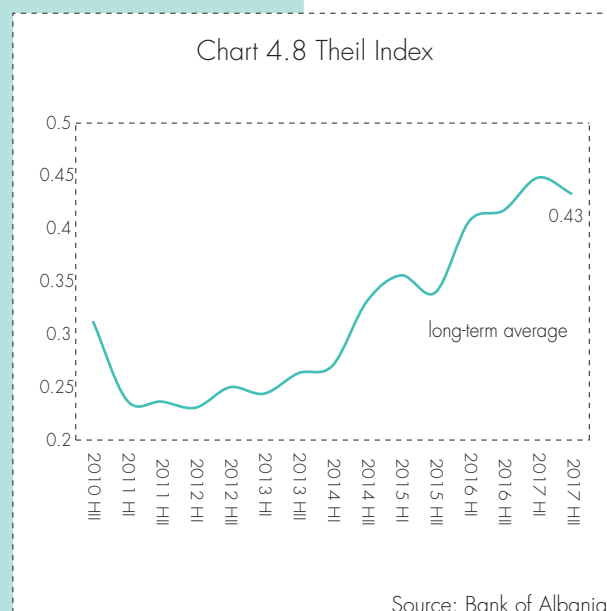
Where **N** is the number of alternatives to the question and x_i is the part of answers to one alternative.

Theil Index takes values from 0 to 1. The lowest value 0 implies an equal distribution of answers according to all alternatives of the question, showing a high insecurity. The highest value 1 is obtained if all enterprises have chosen only one alternative, thus stating the lowest possible uncertainty.

As shown in the above chart the average of this index stands at 0.32, reflecting heterogeneity in response to the presence of enterprises uncertainty in assessing the possibility to borrow. In general, the index fluctuated close to its historical average level of several periods, concentrating in the period between 2014 H1 and 2015 H2. Moreover, enterprises express a lower uncertainty compared to previous periods, as of 2016 H1 onwards, showing an improvement of this indicator. In the last evaluation period, i.e. 2017 H2, the value of this indicator is 0.43, thus showing a higher concentration of responses in one of the alternatives. These results are in line with the persistence indicator of the borrowing plan, above, which improved in the same period.

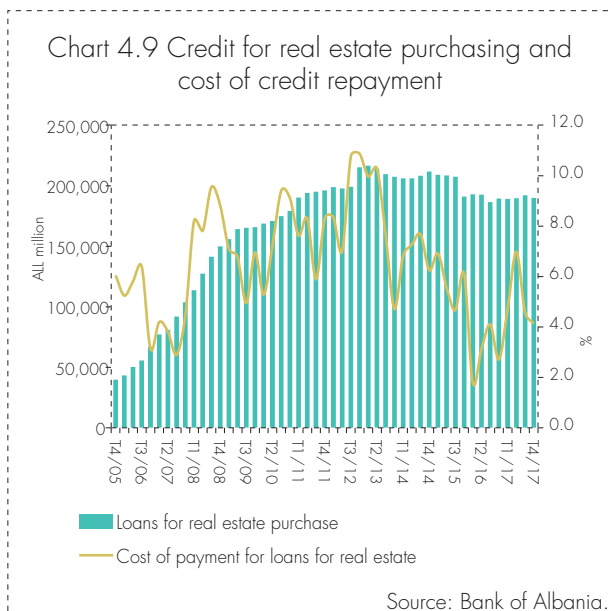
Bank borrowing is assessed between "normal" and "difficult", while the **importance of relationship with banks** is assessed between "important" and "indispensable", for all the three groups of enterprises. More than half of the respondent enterprises (53.6%) have reported that **they do not have any possibility** to request a banking loan in the next half of year. This share is increasing for the three groups of enterprises. There is a decrease in the share of enterprises in the entire three groups reporting that there is a slight possibility to borrow in the next period.

* During the survey the firms (enterprises) are asked: What is the probability your enterprise receives a bank credit in the next six months (chose one alternative)?
 1. None.
 2. Little possibility
 3. Strong possibility
 4. Certainly.

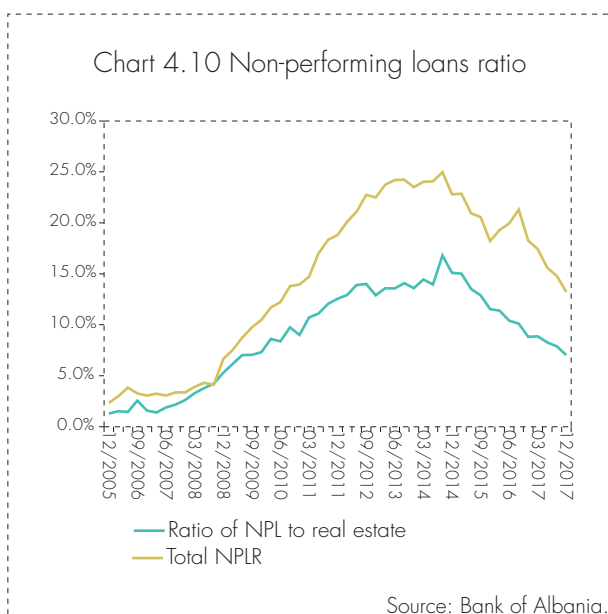


4.2 REAL ESTATE MARKET

(32) The banking sector is exposed either directly or indirectly to developments in the real estate market²⁹, related to supply and demand, the volume of sales and performance of prices in the market. According to INSTAT data for the end



of 2017, in the real estate market, area and number of construction permits for residential buildings increased significantly. Also, data reported by the banking sector for the period show an almost unchanged level of the outstanding loan for real estate, followed by a slight increase of interest rates on this type of loan and significant improvement of its quality. The non-performing loans ratio for this type of loan dropped at 7%, from 8.3% in June 2017, and 8.8% a year earlier. Outstanding loans for construction increased by 2% compared to June 2017, but fell by 1% compared to one year earlier. This loan accounted for 14% of the enterprises outstanding loans, remaining significantly below the 20% average level recorded over 2007-2011.



(33) At the end of the period, banks reported an uptick in real estate collateralized credits, at 50.5%, from 50%, in the previous period with 63% of credit to households and 46% of credit to enterprises collateralised by real estate. This report has declined for households and increased for enterprises. Bank of Albania's bank lending survey for 2017 Q4 shows that households' demand for real estate credit was slightly up, while standards on credit approval were reported as eased to households and somewhat tight to enterprises³⁰.

(34) The weighted interest rate on the real estate credit³¹ was 4.4%, slightly down during the period, but remaining in line with the downward trends in the recent years³². Along the same lines, the relative repayment cost³³ of loans for real estate

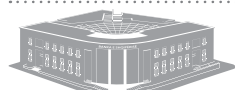
²⁹ In this case, the exposure is represented by the loan granted for or collateralised by real estate; loans to enterprises operating in construction sector; and the real estate portfolio held by banks as a result of owing the collateral following the execution of the liability.

³⁰ According to the Bank Lending Survey 2017 Q4, banks report that households' credit demand was slightly up for house purchase (the balance was slightly positive, at 26.6%).

³¹ To calculate this rate, the interest rate is weighted for credit for real estate purchase to households, and for enterprises for real estate investment.

³² Average interest rate for real estate during 2008-2013 was 8.7%.

³³ The relative repayment cost of credit for real estate purchase is measured as the spread between the interest rate on real estate loans and the average house price rise rate for the four previous quarters. The increase in this spread implies higher relative costs.



purchase continued to lower, reflecting more favourable conditions for real estate purchase from the borrower's perspective.

BOX 4.3 REAL ESTATE MARKET AND HOUSE PRICE INDEX, 2017 H2 SURVEY

The situation in the real estate market is assessed through the field survey of a sample of 230 real estate agents and construction firms, representing around 75-80% of the sample of these enterprises by size of activity. The Bank of Albania compiles the questionnaire and realises the data entry and processing, while the Institute of Statistics performs the field interviews, the main processes of sampling and the physical check of the filled in questionnaires.

The net balance of responses– 1.6% for the question “How do you assess the market situation compared with the previous period” shows a higher number of agents providing negative response (worse) than the positive response (better). This balance value, albeit negative, shows a **significant improvement in agents’ evaluation for the market situation compared to the previous period**, when the balance recorded -11.6%.

As expected, the same indicator, assessed only for the entities reporting sales during the period, shows a considerably more positive assessment; the net balance of responses on the overall situation by the entities reporting sales is around +34%.

Fischer House Price Index, on a national level, was 0.6 % higher than the level of the base period, year 2013, and declined by 0.6% compared to the previous six months. The sales volume reported in Tirana were much higher compared with the previous periods, while the Price Index for Tirana fell 1.4% compared to the base period and increased 0.7% compared to the previous period. In the coastal areas, the agents reported 30% lower average prices than those of the base period, but around 7% lower than in the previous half of the year. For the other areas* agents reported an average increase of sales prices by 5% compared to the previous period and about 20% higher compared to the base period.

Agents **report lower stock of houses recorded in their books**; the net balance between those reporting increase and those reporting decrease recorded in their books stands at -9,6% from a slightly positive value of the previous period. Related to commercial properties, the net balance is negative -17.9% from -3.8% in the previous period. The number of unsold properties, both for residential and commercial buildings was down; the net balance was positive, showing less unsold properties, for the third consecutive period, since the start of the survey, though at more moderate values compared with previous period.

The average time of sale for real estate, at the national level, is 12.2 months, or around 2.3 months shorter compared to the previous period. In Tirana, the respondents reported the average sales time was 8.2 months, shorter compared to 9.5 months reported in the previous six-months. For the coastal area, the average sales time increased, from 11.7 months to 19.3 months; the same was reported for the other areas- the respondents reported a considerable increase in the sale time from the previous period, from 9.7 months to 14 months.

According to agents, around 80%, of properties for both residential and commercial buildings sold by them are purchased with loans. This figure is slightly up compared with 72% in the previous period. The loan-to-value ratio accounts for



around 61% of the house value, lower from 64% in the previous period.

Agents are optimistic about the market performance in the territory they operate in the short-term future and considerably more positive for the long-term period (up to two years). The expected new listings for sale during the forthcoming period are assessed as downward. Agents expect increase of real estate prices. The net balance was positive (9.2%), agents are optimistic. This balance has a similar value to that reported over the past period (11.4%).

* "Other areas" include all the areas, except for Tirana and the coastal area.

