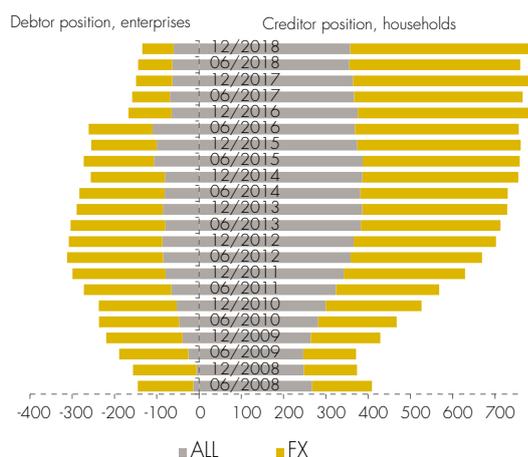


5. FINANCIAL POSITION OF HOUSEHOLDS AND ENTERPRISES

Chart 21. Financial positions of households and enterprises, in ALL billion



Source: Bank of Albania

(29) During the period, households' creditor position expanded, whereas enterprises' debtor position¹⁸ narrowed. Regarding the household sector, the growth of deposits by 3% was faster than the credit growth by 1.8% and the main contribution to deposit growth was given by the foreign currency.¹⁹ As a result of this performance, the sector's credit position expanded by 3.2%. For the enterprises sector, deposits grew by 4.7% while credit shrank by 0.8%.²⁰ The contribution of foreign currency was significant as well. As a result, the enterprises' debtor position narrowed by 7.1%.

(30) According to the latest data of 2018, the savings of resident households increased by 1.2% or by ALL 13 billion over the period, but remain ALL 16 billion lower compared to the end of 2017. Deposits

in lek and foreign currency account for over 80% of households' total savings, while investments in bonds, treasury bills and in investment funds account for 6.9%, 5.3% and 5.1% respectively, of total financial assets of households. During the period, households increased their investments in deposits (mainly in the form of foreign currency deposits), while investment in treasury bills and investments funds fell slightly in nominal terms (by 8% and 10%, respectively) and in share against the investment structure.

Table 3 Households' assets in the financial system, ALL billion

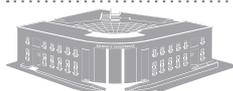
	2016, Dec.		2017, Jun.		2017, Dec.		2018, Jun.		2018, Dec.	
	ALL bln	Share %								
ALL deposits	454.3	40.3	465.1	42.1	467.2	41	456.7	41.1	462.8	41.2
FX deposits	476.4	42.3	432.8	39.2	469.5	41.2	447.1	40.3	464.6	41.4
T-Bills	65.2	5.8	67.3	6.1	63.6	5.6	65.1	5.9	59.4	5.3
Bonds	64.5	5.7	67.9	6.1	72.1	6.3	77.4	7	77.1	6.9
Investments funds	65.4	5.8	70.8	6.4	65.1	5.7	62.5	5.6	57.3	5.1
Supplem. private pension funds	1.2	0.1	1.3	0.1	1.6	0.1	1.8	0.2	2.1	0.2
Households' portfolio	1,127.00	100	1,105.20	100	1,139.10	100	1,110.60	100	1,123.30	100

Source: Bank of Albania, Albanian Financial Supervisory Authority.

¹⁸ This analysis is based only on data on deposits and loans to businesses and households in the banking sector.

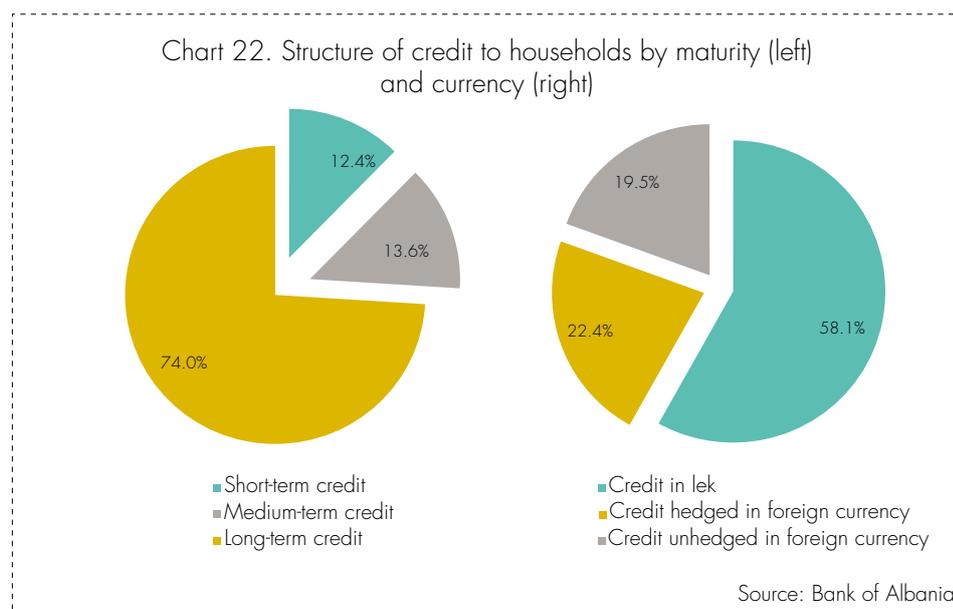
¹⁹ Also, annual developments are in the same direction, but this time due to faster credit growth by 3.9% against deposits growth by 1.0%. Domestic currency gave the main contribution to credit growth.

²⁰ Even in this case, annual developments remained in the same direction, where deposits growth by 5.4%, was accompanied by the decrease of credit by about 2.0%



5.1. LENDING TO HOUSEHOLDS²¹ AND CREDIT RISK

(31) **Credit to households grew by 1.8% during the period.**²² The growth was due to growth of lek loans to households, which also led to an increase in the share of credit in lek in the overall credit structure.²³ Within credit in foreign currency, the share of unhedged foreign currency credit to total outstanding credit in foreign currency to households fell to 46.5%, from about 52% in the first half of the previous year.



(32) **The portfolio quality of loans to households improved throughout 2018, mainly owing to the credit in lek.** During the period, the ratio of non-performing loans fell by 1.2 percentage points to 6.4%.²⁴ For portfolio in lek, the ratio of non-performing loans fell by 1 percentage point to 5.5%, whilst the ratio of non-performing loans in foreign currency was 8.8%, with no significant changes during the year. In the foreign currency portfolio, the quality of the unhedged loan portfolio against exchange rate risk improved considerably.²⁵ The increase in loan collection continues to give the main contribution to the decline of non-performing loans to households.

²¹ The analysis of the structure of credit by term and currency refers only to resident households.

²² Only for resident households, the increase was 1.7%. In annual terms, credit growth for households was about 3.8% and for resident households was 3.5%.

²³ The share of credit in lek reached 65.5%, 1.2 and 6.2 percentage points higher than in June 2018 and December 2017, respectively.

²⁴ Improvement in the ratio of non-performing loans to households continues since June 2015.

²⁵ The ratio of non-performing loans to unhedged foreign currency loans decreased to 8.7%, from 10.7% in June 2018 and 9.8% in December 2017.



BOX 5.1: SURVEY RESULTS ON HOUSEHOLDS' FINANCIAL AND BORROWING SITUATION

The survey of households' financial and borrowing situation is conducted half-yearly. It is based on a randomly selected sample of 1210 households, of which 54% live in urban areas and 46% in rural areas.

During the period, the total number of those employed, among the surveyed sample, increased compared with the previous six months and the previous year. In annual terms, this increase was due to the increase of the number of those employed in the private sector and the increase in the number of self-employed, while the number of those employed in the public sector decreased during the year.

The overall level of income and expenditure of households has increased. Revenue growth was somewhat higher compared to spending, improving slightly the financial balance (income-expense) of households.

About 26% of households' state they have a loan to pay. This percentage is 2 percentage points lower than in the previous six months and a year earlier, remaining below the historical average. In these households, income and expenditure decreased during the period.

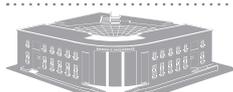
Total reported outstanding credit was down compared to both the previous survey, and the previous year. Around 70% is provided by formal sources and 30% by informal sources. This structure reflects the significant decrease of "formal loans", compared with both a half-year and a year earlier. The change may be mainly statistical, emphasised by the revision of the sample of interviewed households.²⁶

By currency, around 86% of loans is denominated in lek and 14% in euro. By purpose of use, around 27% of outstanding credit is reported for the purchase / renovation of a property, 44% for a business development and only 9% for consumption. During the surveyed period, the share of loans for the purchase/ renovation of a property decreased, while the share for 'business development' and 'consumption' it increased.

Borrowing households report that the loan instalment over the referring period, fell, reflecting the downward trend of the weighted interest rate on household loans. Around 59% of borrowing households state that their "repayment" capacity has not changed, while the rest declare improvement compared to the previous six months and the previous year. For 2019 H1, most borrowing households (around 80%) do not expect their repayment capacity to change, while the net balance of the rest of the respondents indicates a slight deterioration.

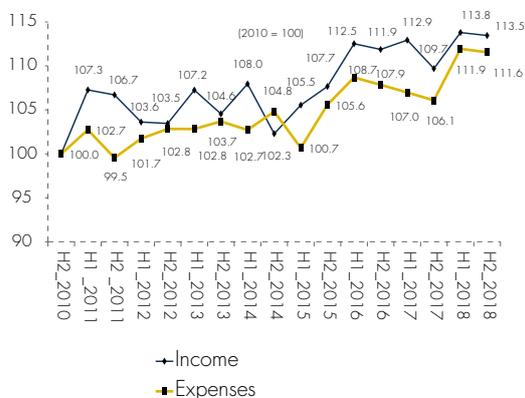
The possibility to borrow during 2019 H1 **is estimated as downward compared with the previous six months and the previous year**, which testifies for a still-unustainable demand from households for borrowing.

²⁶ As part of the regular revision of the interviewed sample, about 20% of sample households were changed by INSTAT for this survey.



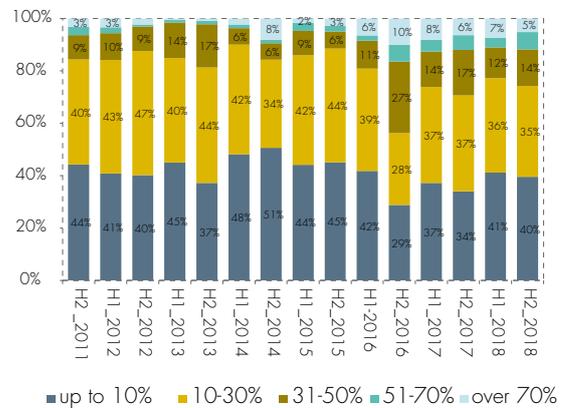
(33) The households' debt burden remains at relatively adequate levels, and has trended downward. Based on the survey of the households' financial and borrowing situation for the period, around 26% of Albanian households have at least one debt to pay, as at the end of 2018 H2. This value has decreased compared with the previous two periods, and is 3 percentage points below the historical average (since 2010). The analysis of the households' level of income and expenditures reveals that income and expenditures decreased during the period, almost at the same level.

Chart 23. Income and expenses of borrowing households



Source: Bank of Albania

Chart 24. Borrowing according to the "Loan instalment / Total monthly income" ratio



Source: Bank of Albania

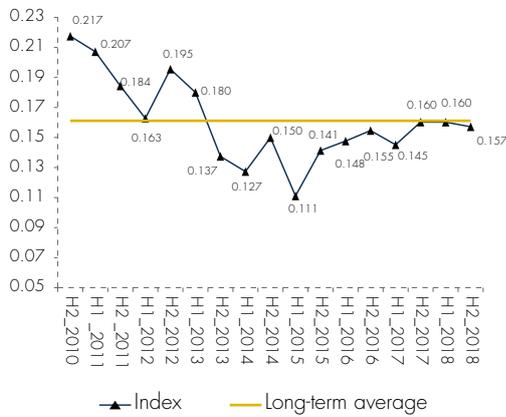
(34) During the period, borrowing shifted in favour of the higher ratios of "loan instalments / monthly household income". The ratio of repayment to total income results "up to 10%" for 40% of borrowing households, "10-30%" for 35% of households and "over 30%" of income for 26% of households (down by 6 percentage points compared to the first half of the year).

(35) Households' credit demand remains moderate. According to the survey, around 63% of the respondents state that they "do not expect to take a new loan in the next six months", and this has increased compared with the previous six months. The index for the possibility of a new loan was 0.157²⁷, slightly down compared to the value in the previous survey and the previous year, remaining below the historical average. Among households planning to take a new loan, the share of new borrowers (with no debt burden) increased slightly, to 59%.

²⁷ The index is calculated as weighted average of % of responses for each alternative with relevant coefficient. On the definition of the coefficients, the interval 0-1 is separated in sub-intervals with equal length of 0.33. The criteria for each alternative are: 0 ('not likely'), 0.33 ('somewhat likely'), 0.66 ('very likely') and 1 ('definitely'). The index gets a value from 0 to 1, the closer the 0, the smaller the possibility of borrowing, the closer to 1, the higher the possibility to get a new loan in the next six months.

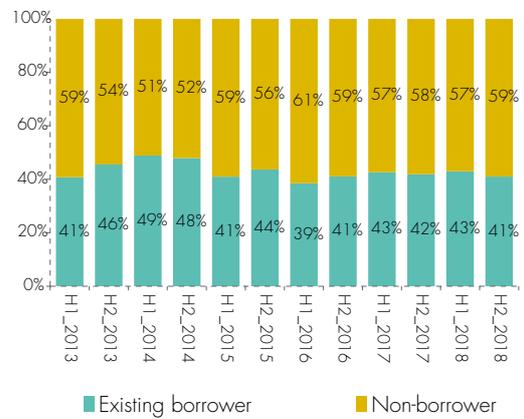


Chart 25. Index of taking/retaking a loan in the next six months (Sample total)



Source: Bank of Albania

Chart 26. Households that plan to take a loan in the next six months

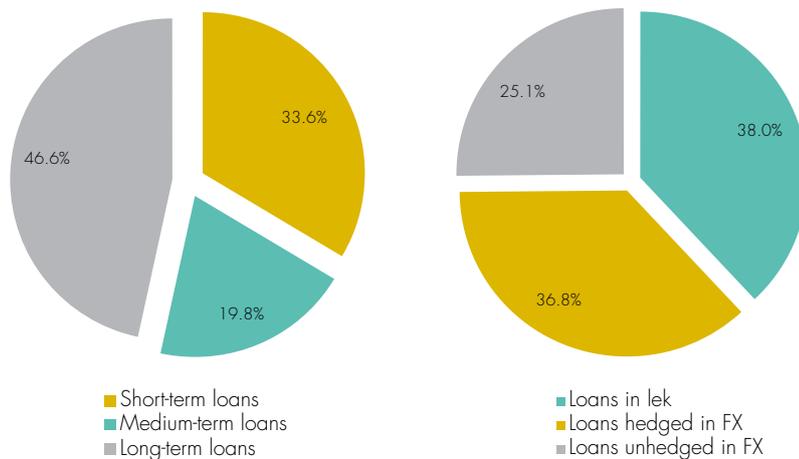


Source: Bank of Albania

5.2. LOANS TO ENTERPRISES²⁸ AND CREDIT RISK

(36) During the second half of the year, outstanding loans to enterprises narrowed, mostly driven by credit to resident enterprises. The share of foreign currency loans continues to fluctuate around 62%, unchanged during the period, whilst the share of unhedged credit from unfavourable exchange rate fluctuations to total loans to enterprises increased to 25%.²⁹ In the structure of loans to enterprises according to the maturity term, short and medium-term loans increased slightly,

Chart 27. Structure of loans to enterprises by maturity (left) and currency (right)



Source: Bank of Albania

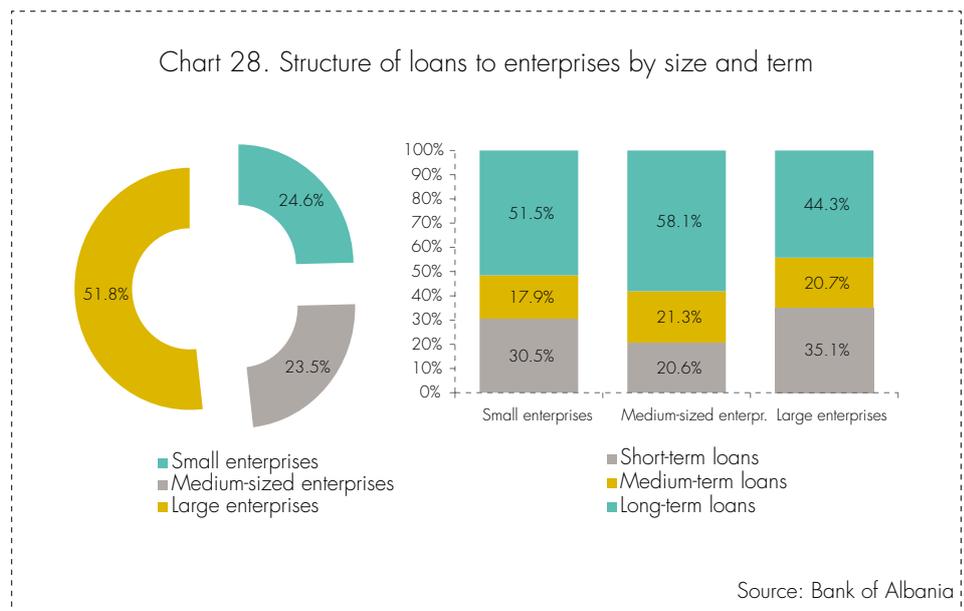
²⁸ Analysis of the structure of credit by term and currency, refers only to resident enterprises.

²⁹ Its share in June 2018 and December 2017, accounted for 23.8% and 24.7% of total credit to enterprises, respectively.



but long-term loans decreased.³⁰ The outstanding loan to resident enterprises³¹ during the period shrank by ALL 3.1 billion (or by 1%), down to ALL 318 billion. The contraction of outstanding loans for “real estate” and “working capital” was the main contributor to this performance. By currency, the main contributor to the narrowing of outstanding loans for resident enterprises during the period was the credit contraction in lek by about ALL 1.8 billion (or 1.4%), followed by credit in US dollars, contracted by ALL 1.3 billion (or 6%).

(37) During 2018, the share of credit to small and medium-sized enterprises increased. Share of credit for these two categories were up by 24.6% and 23.5% of total loans to enterprises, while the share of credit to large enterprises fell to 51.8%³². During the period, the share of medium-term loans increased for all enterprises, and this phenomenon was more pronounced for medium-sized enterprises.³³ The credit in lek increased for the medium-sized and large enterprises, whilst the share of credit in foreign currency increased for the small enterprises.³⁴



(38) The portfolio quality for loans to enterprises improved in all its components, over the period and in annual terms. As at December 2018, the non-performing loans ratio (NPLR) fell to 14.3% from 17.1% and 16.9%, in June 2018 and December 2017, respectively.

³⁰ Short-term and medium-term loans grew to 31.6% and 19.8% during the period, respectively 2.2 pp and 1.2 p.p higher than the previous six months; while long-term loans fell by 3.4 pp, down to 46.6%.

³¹ It accounts for about 62% of the loan to resident entities.

³² These values were respectively: 55.5% (large enterprises); 22.8% (medium-sized enterprises) and 21.7% (small enterprises) in December 2017, while in June 2018 they were: 52.7%, 22.9% and 24.4% respectively.

³³ In annual terms, for all three categories of enterprises the long-term loans increased and the short-term loans decreased.

³⁴ In annual terms, for all three categories of enterprises, the share of foreign currency loans increased, against domestic currency loans, notably for large enterprises.



BOX 5.2: 4.1 SURVEY RESULTS ON THE FINANCIAL AND BORROWING SITUATION OF ENTERPRISES

The half-yearly survey of financial and borrowing situation of enterprises has been carried out since 2010. Starting from 2016 H1, this survey was launched with a sample of about 1200 enterprises of all sizes across the country, operating in the main sectors of the economy.

During the first half of the year, enterprises report that issues related to **access to finance** and **financing costs** are assessed upward for medium-sized enterprises, but reduced for small and large enterprises.

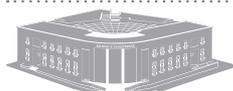
Competition and **finding a market** continue to be considered as the main challenges for enterprises activity. During the period, the importance of competition is assessed somewhat upward for medium-sized enterprises, but downward for small and large enterprises, while issues related to finding a market are assessed as reduced.

Performance of sales is assessed upward during 2018 H2, for medium-sized and large enterprises, and downward for small enterprises, but it has improved compared to the previous period. In line with the sales performance, small enterprises continue to assess the **financial result** as downward, while medium-sized and large enterprises assessed it as increased during the period. The positive performance of the sales level and the financial result was also reflected in the **expansion of the activity** of both medium-sized and large enterprises, while small-enterprises did not report expansion of their activity during the period. Expectations for enterprises of all sizes are positive regarding sales, financial result and expansion of the activity, but they appear less optimistic compared to 2018 H1, in particular small enterprises.

Over the period, **more than half of total respondent enterprises have financed their activity through sales**. Borrowing as a separate or combined source was used by 19.4% of large enterprises, 17.8% of medium-sized enterprises and 14% of small enterprises. About 42.2% of the total enterprises (464 enterprises in total) state they have a **loan to repay**. This share has been slightly downward compared to 2018 H1 for large and medium-sized enterprises, and upward by 2.8 percentage points for small enterprises. About 85.4% of the total borrowing enterprises claim to have applied to banks for loans. This share fell by 3 p.p. in half-yearly terms and by 6 p.p. in annual terms. In the total of formal sources, the share of borrowing enterprises reaches at 90.5% (banks and non-bank financial institutions), unchanged from the previous period.

About 75% of small, 78.9% of medium-sized and 79.7% of the large enterprises consider their **borrowing level to be adequate** for financing the activity. Compared to 2018 H1, this share is higher for all sizes of enterprises.

By currency, over the period, 46% of small enterprises, 49.3% of medium-sized enterprises and 35.7% of large enterprises declare that their borrowing is **only in domestic currency**, while the rest in foreign currency (euro and/or US dollar). Borrowing in the **European currency** has a greater share for large enterprises (53% of them), outperforming domestic currency, and less for medium-sized enterprises (41.3%). The shares of enterprises borrowing in both lek and euro, for small enterprises, resulted almost equal.

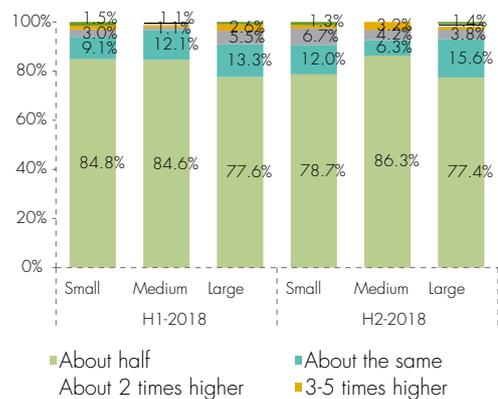


New borrowing during the period is declared by 10.7% of small enterprises, 6.5% of medium-sized enterprises and 8.9% of large enterprises. The share of new borrower increased for small enterprises, both in half-yearly and annual terms. Meanwhile, the share was downward for medium-sized and large enterprises.

The bank borrowing process is rated between “normal” and “difficult” by the banks, while the **importance of the relationship with banks** is rated between “important” and “necessary”, and upward during the period, for all groups of enterprises (small, medium-sized and large enterprises).

(39) Enterprises debt burden was slightly down over the period, and is estimated as affordable by enterprises. According to the survey on the financial and borrowing situation of enterprises, around 42.2% of surveyed enterprises state they have a loan to repay. This ratio is slightly down by 1.3 percentage points compared to the previous period. The share of borrowing enterprises is higher in the trade sector (56.1%) and construction (45.3%), but these shares have declined compared to the previous period. The total value of the loan results roughly half of the enterprise’s capital value for 79.5% of borrowing enterprises. The debt burden is higher for large enterprises. Around 22.6% of them state that the value of the loan is equal to or greater than the capital value. The analysis of the responses, by sector, shows that the trade sector has the highest share of enterprises that have a loan burden larger than their capital value, followed by the industry sector.

Chart 29 Distribution of enterprises and loan /capital ratio



Source: Bank of Albania

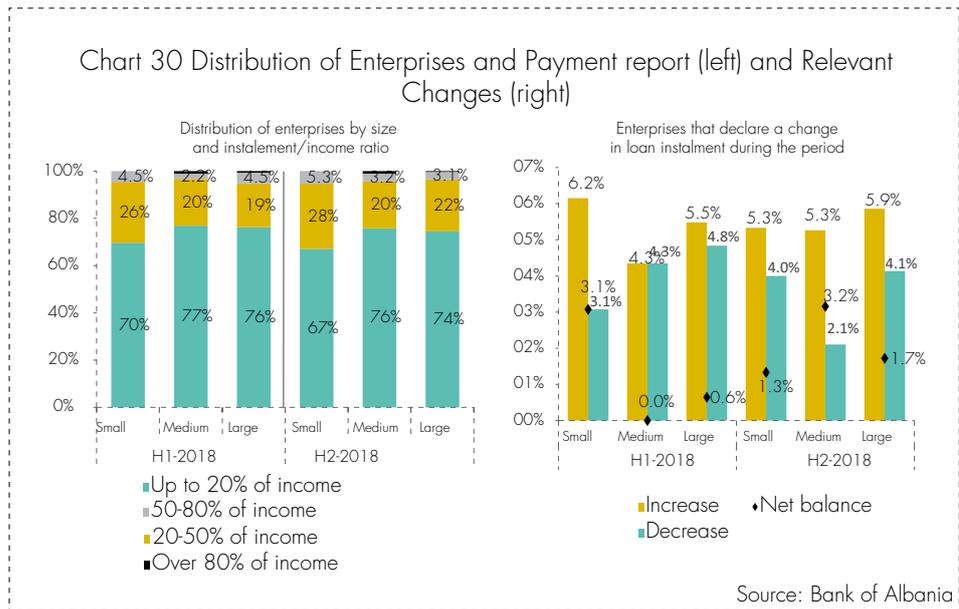
Table 4 Share of enterprises with higher loan value than equity: by sectors

	Industry	Services	Construction	Trade
H2 2016	11.0%	7.0%	8.0%	9.0%
H1 2017	7.9%	15.7%	5.8%	13.1%
H2 2017	10.2%	11.9%	7.3%	8.3%
H1 2018	10.3%	6.3%	4.3%	6.7%
H2 2018	7.7%	5.0%	6.3%	10.2%

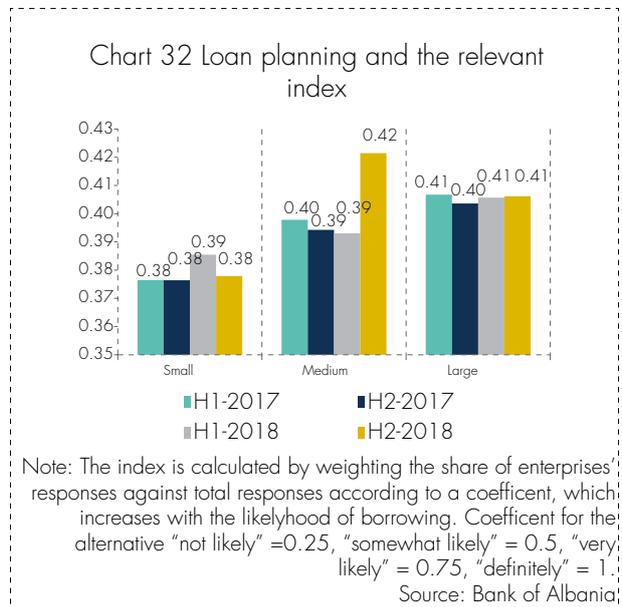
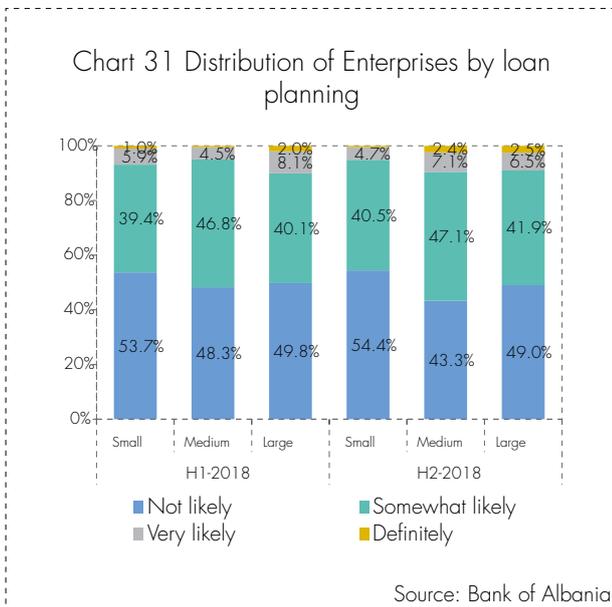
(40) Most of the borrowing enterprises (73.5%) state that the loan payment amounts goes up to 20% of the enterprise’s revenue and this share has decreased by 1.8 percentage points compared to 2018 H1. The burden of loan payments is heavier for small enterprises. Among them, the number of enterprises reporting that this payment exceeds 20% of revenues accounts for



about 33% of the total of the group³⁵. For medium-sized enterprises, this share is 24%, while for the large ones 25.5%.



(41) The enterprises credit demand remains moderated. Around 49% of enterprises stated that there is no chance of borrowing a new loan in the next six months. This share resulted in decline for medium-sized and large enterprises, and slightly up for small enterprises.



(42) The index of planning to borrow in the next six months, compared to the previous period has fallen for small enterprises; and has remained unchanged for large enterprises. On the other hand, this index increased notably for medium-sized enterprises, by showing that, compared to small and large enterprises, medium-sized enterprises are more inclined to borrow during 2019 H1.

³⁵ Calculated as the sum of the responses' weight: "20-50% of income", "50-80% of income" and "over 80% of income".

