5. FINANCIAL POSITION OF HOUSEHOLDS AND ENTERPRISES

(20) During the period, the credit position of households and the debtor position of enterprises decreased. For households, the credit position decreased by 0.7% in the circumstances of faster credit growth (4.8%) than deposits (0.3%), due to domestic currency contribution. For enterprises, the debtor position declined by 3.1%, this time because of the faster growth of deposits compared to the loans; all currencies provided positive contribution to this performance.

(21) During the period, the value of financial assets of resident households in the form of savings / investments in deposits, securities, or fund quotes marked a decline. The main contribution to this performance was from savings in the form of foreign currency deposits, deposits in lek and investments in investment funds. On the other hand, resident households expanded the portfolio of investments in long-term debt securities (bonds). In annual terms, household savings grew mainly in the form of foreign currency deposits and bond investments.

Table 5.1 Assets of resident households in the financial system

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2013</th>
<th>December 2016</th>
<th>June 2017</th>
<th>December 2017</th>
<th>June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ALL bln</td>
<td>Share %</td>
<td>ALL bln</td>
<td>Share %</td>
<td>ALL bln</td>
<td>Share %</td>
</tr>
<tr>
<td>Deposits in ALL</td>
<td>357.6</td>
<td>49.8</td>
<td>449.5</td>
<td>43.7</td>
<td>454.3</td>
<td>40.3</td>
</tr>
<tr>
<td>Deposits in FX</td>
<td>304</td>
<td>42.3</td>
<td>418.4</td>
<td>40.7</td>
<td>476.4</td>
<td>42.3</td>
</tr>
<tr>
<td>T-Bills</td>
<td>56.7</td>
<td>7.9</td>
<td>70.6</td>
<td>6.7</td>
<td>65.2</td>
<td>5.8</td>
</tr>
<tr>
<td>Bonds</td>
<td>0.37</td>
<td>0.05</td>
<td>39.8</td>
<td>3.9</td>
<td>64.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Investment funds*</td>
<td>-</td>
<td>-</td>
<td>50.3</td>
<td>4.9</td>
<td>65.4</td>
<td>5.8</td>
</tr>
<tr>
<td>Voluntary private pension funds*</td>
<td>0.12</td>
<td>0.12</td>
<td>0.04</td>
<td>0.12</td>
<td>0.04</td>
<td>0.12</td>
</tr>
<tr>
<td>Households portfolio*</td>
<td>718.8</td>
<td>100</td>
<td>1,029</td>
<td>100</td>
<td>1,127.00</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Bank of Albania and AFSA
*: Data refer to the latest published period, March 2018.

The appreciation of Lek exchange rate against major currencies, which has decreased the reported value of this item also contributed to this performance.
5.1 LOANS TO HOUSEHOLDS AND CREDIT RISK

(22) During the period, loans to households increased by 2.4%. By currency, the only positive contribution given to credit growth was by the domestic currency, thus increasing its share in the overall structure of credit. Regarding foreign currency loan, the share of the unhedged foreign currency loan to the total outstanding foreign currency loan to households was 51.9%, with little change over the period.

(23) The credit quality improvement for households slowed down during the period, but in annual terms the ratio of non-performing loans dropped by 2 percentage point at 7.5%. This improvement has been more apparent for foreign currency loans, and for its unhedged part from the exchange rate risk, there are no significant changes. The ratio of foreign currency non-performing loans to households dropped to 8.9%, declining in annual terms by 2.2 pp. In lek, this ratio decreased by 0.5 pp to 6.5%. In the decline of non-performing loans to households, the contribution of loan repayment increased.

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20 Only for resident household, credit grew by 1.8%. In annual terms, credit growth for households was 3.5%.

21 The annual improvement in the report of non-performing loans to households has been stable since June 2015.
 BOX 4.1. SURVEY RESULTS OF THE FINANCIAL SITUATION AND BORROWING OF HOUSEHOLDS

The survey of the financial situation and borrowing of households is carried out every six months, on a randomly-selected sample of 1,209 households, of which 56% live in urban areas and 44% in rural areas.

During 2018 H1, the number of employed persons in the surveyed sample has decreased in annual terms, mainly due to the decline in employment in the public sector, while the number of those employed in the private sector and the self-employed have increased.

The overall level of income and expenditure of households has increased during the period, but expenditure growth has been more pronounced, resulting in a narrowing of the financial balance (income-expenses).

About 28% of households’ state to have a loan to pay and this percentage remained the same as in the previous six months and a year earlier, but below the historical average.

The total reported loan surplus has increased compared to the previous survey, but it has declined compared to the previous year. Around 83% is provided by formal sources and 17% by informal sources. This structure has continued to shift in favour of formal borrowing compared to the previous period and the previous year.

Broken down by currency, 84% of the outstanding loan is denominated in lek and 16% in euro. By purpose of use, about 35% of the outstanding loans are reported for the purchase / renovation of a property, 41% for the start-up of a business and only 5% for consumption. During the period under review, the outstanding loan for the start-up of a business has increased, while for the other two items has decreased.

Borrowing households estimate a fall in the loan instalment over the referring period, reflecting the downward trend of the weighted interest rate on household loans.

About 60% of borrowing households state that their "repayment" capacity has not changed, while the rest declare deterioration compared to the previous six months and the previous year.

For 2018 H2, most borrowing households (about 74%) 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 2018 H2 is estimated to be almost the same as in the previous six months, but declining compared to the previous year, which indicates a moderate demand of households for loans.

(24) The household debt burden remains at relatively adequate levels. Based on the above survey for the period, around 28% of Albanian households have at least one debt to pay. This value has been the same as in the previous two periods, and is only 1 percentage point below the historical average (since 2010). By their level of income, a higher concentration can
be found in the households with higher income. The performance of income and expenditure for borrowing households shows that both their income and expenditure indexes have increased, but in the last period expenditures have increased somewhat faster.

(25) During the period, borrowing has shifted in favour of the lower ratios of "loan instalments / monthly household income". The ratio of repayment to total income results "up to 10%" for 41% of borrowing households, "10-30%" for 36% of households and "over 30% of income" for 29% of households (down by 7 percentage points compared to 2017 H2). Compared with the previous survey, there is a shift of this distribution in favour of lower ratios of "loan instalments / monthly income".
Although households’ debt burden remains adequate, their credit demand is moderate. According to the survey, around 62% of the respondent’s state that they “do not expect to take a new loan in the next six months”, and this has remained the same as in the previous six months. The index for the possibility of a new loan was 0.16, almost the same with the long-term average, remaining unchanged compared from the previous six months but lower than in the previous year.

Analysing only the group of households planning to borrow a new loan, shows that about 57% of them are “new borrowers”, that is they have no unpaid loan at the time of the interview, and 43% are existing borrowers already. Compared to the last six months, there was a fall by 1 percentage point in the share of “new borrowers” compared to the existing ones.

### 5.2 LOANS TO ENTERPRISES AND CREDIT RISK

During the period, loans to enterprises shrank mainly driven by the foreign loans and resident businesses. By currencies, the share of foreign credit declined to 61.9%, while the share of the loan unhedged from adverse exchange rate fluctuations (to total loans to enterprises) also declined to 23.8%. In the structure of loans to enterprises, by maturity, there have

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22 The index is calculated as the weighted average of the % of responses for each alternative with the respective coefficients. For the determination of coefficients, the interval 0-1 is divided into 4 sub-intervals equal to 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.

23 In June and December 2017 it was respectively 26.4% and 24.7% of total business loans.
been no significant changes. For resident enterprises\textsuperscript{24}, the outstanding loans narrowed during the period by ALL 8.5 billion (or 2.6%), to ALL 321 billion. By currency, the main contributor to the narrowing of outstanding loans for resident businesses during the period was the credit contraction in euro by about ALL 8.3 billion (or 4.7%).

\textit{(28)} In the stock of loans to enterprises, concentration on small and medium-sized enterprises has increased over a one-year period. Credit share for these businesses increased, respectively 21.8% and 23.2% of total loans to businesses, while the share of credit to larger enterprises decreased to 55\%\textsuperscript{25}. During the period, small and medium-sized enterprises continued to increase their share of short-term loans, while the larger enterprises were oriented towards long-term loans. By currency, it is noticed that small and medium-sized enterprises have reduced the share of borrowing in the domestic currency in favour of the foreign currency; while the larger enterprises has expanded borrowing in lek.

\textit{(29)} The portfolio quality for loans to enterprises has remained largely changed over the period, while in annual terms it has improved in all its components. As at June 2018, for enterprises, the non-performing loans ratio (NPLR) was 17.1%, from 19.5% a year earlier\textsuperscript{26}.

\textsuperscript{24} It accounts for about 63\% of loans to resident entities.
\textsuperscript{25} These values were respectively: 55.5\% (B. Large), 22.8\% (B. Medium) and 21.7\% (B. small) in December 2017, while in June 2017 they were respectively: 56.9\%; 22.5\%; and 20.7\%.
\textsuperscript{26} By contrast, there is a slight deterioration of this indicator compared with December 2017, with a value of 16.9\%.
BOX 4.2. SURVEY RESULTS ON THE FINANCIAL SITUATION AND BORROWING OF ENTERPRISES

Survey of financial situation and borrowing of enterprises has been carried out for eight years now, with a six-month frequency. Starting from 2016 H1, this survey was launched with a sample of about 1200 enterprises of all sizes located across the country and carry out their activity in the main sectors of the economy. In 2018 H1, the sample of enterprises was reviewed to ensure the preservation of its characteristics, in addition to the level and quality of responses but without changing the total number of enterprises.

During the first half of the year, enterprises report that the issues related to access to finance and financing costs have marked a slight increase in the assessment for all sizes of enterprises.

Competition and finding a market are considered as the main challenges for enterprises activity, while the issues related to access to finance and financing costs increased slightly.

Sales continue to trend upward during 2018 H1 for large enterprises but downward for small and medium-sized enterprises. In line with sales performance, large enterprises have assessed as upward the positive financial result during the period. The positive performance of the sales level and the financial result was also reflected in the expansion of the activity of these enterprises, where both small and medium-sized enterprises have stated an increase in their investments. Expectations for enterprises of all sizes are positive regarding to sales, financial performance and expansion of the activity, continuing to deliver optimistic signals for their performance in the short and medium term.

Over the period, more than half of the total enterprises that have responded have financed their activity through sales. The borrowing as a separate or combined source was used by 21.1% of large enterprises, 20.5% of medium-sized enterprises and 11.1% of small enterprises. About 42.5% of the total
enterprises (473 enterprises in total) state they have a loan to pay. This share has remained largely unchanged compared to the survey results for 2017 H2 for small and medium-sized enterprises; meanwhile, there has been a slight decline for large enterprises. About 88.2% of the total borrowing enterprises claim to have asked banks to lend them a loan. This share reaches 90.5% for the total of formal sources (banks and non-bank financial institutions).

About 74.2% of small enterprises, 77.2% medium-sized and 79.5% of the large enterprises consider their borrowing level to be adequate for financing the activity. Compared to 2017 H2, this share is lower for all sizes of enterprises.

Borrowing is carried out only in domestic currency for 44.4% of the total of small borrowing enterprises, 51.2% of medium-sized enterprises and 40.3% of large enterprises. Borrowing in the European currency has a greater share for large enterprises, precisely for 44.9% of them, outperforming domestic currency. This borrowing accounts for 41.3% for small enterprises, while for medium-sized enterprises it accounts for 36%. Borrowing in US dollar has a small share that does not exceed 7.9% of the total (small enterprises). New borrowing during the six-month period is declared by 7.6% of small enterprises, 8.7% of medium-sized enterprises and 11.2% of large enterprises.

The borrowing process is estimated between "normal" and "difficult" by the banks, while the importance of the relationship with banks is rated between "important" and "necessary" level for all three sized enterprises.

(30) Enterprises debt burden shows no significant changes over the period, and is estimated at affordable levels. More concretely, according to the above survey, about 42.5% of surveyed enterprises state they have a loan to pay. This value is almost the same as the one in the previous period. The share of borrowing enterprises is higher in the trade sector (57.8%) and construction (48.5%). The total value of the loan results roughly half of the enterprise’s capital value for 80% of borrowing enterprises. Size shows that the debt burden is higher for large enterprises, where about 22.4% of them state that the value of the loan is equal to or greater than the capital value. Analysing the results of the responses by sectors, it turns out that the industry sector has the highest share of enterprises that have a loan burden larger than the enterprise’s capital value.
Table 5.2 Share of enterprises with higher loan value than equity: by sectors

<table>
<thead>
<tr>
<th></th>
<th>Industry</th>
<th>Services</th>
<th>Construction</th>
<th>Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 H1</td>
<td>18%</td>
<td>11%</td>
<td>13%</td>
<td>20%</td>
</tr>
<tr>
<td>2016 H2</td>
<td>11%</td>
<td>7%</td>
<td>8%</td>
<td>9%</td>
</tr>
<tr>
<td>2017 H1</td>
<td>7.9%</td>
<td>15.7%</td>
<td>5.8%</td>
<td>13.3%</td>
</tr>
<tr>
<td>2017 H2</td>
<td>10.2%</td>
<td>11.9%</td>
<td>7.3%</td>
<td>8.3%</td>
</tr>
<tr>
<td>2018 H1</td>
<td>10.3%</td>
<td>6.3%</td>
<td>4.3%</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

(31) Most of the borrowing enterprises (75.3%) state that the loan payment amounts go up to 20% of the enterprise’s revenue and this share has decreased compared to the previous six months. The burden of loan payments seem to be heavier for small enterprises, where the number of enterprises which report that this payment exceeds 20% of revenues, accounts for about 30.3% of the total of the group\(^{27}\). For medium-sized enterprises this share is 23.1%, while for the large ones 23.7%.

(32) The enterprises credit demand remains moderated. According to the survey, more than half of the total enterprises (50.3%) stated that there is no chance of borrowing a new loan in the next six months. This share resulted in decline for all three groups of enterprises. Meanwhile, for all sizes the share of enterprises that state that there are few chances to obtain a loan in the following period has increased.

\(^{27}\) Calculated as the sum of the responses’ weight: “20-50% of income”, “50-80% of income” and “over 80% of income”.
(33) **Loan borrow planning index** for the next six months has marked the lowest value by 0.39 (small enterprises) and the higher 0.41 (large enterprises), showing somewhat bigger chances of borrowing during 2018 H2 for these enterprises.