



# **FINANCIAL AND BORROWING SITUATION OF ENTERPRISES IN ALBANIA**

**2022 H1**

**FINANCIAL STABILITY DEPARTMENT**

**July 2022**

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This survey covers developments in the financial and borrowing situation of enterprises for 2022 H1 as well as expectations for 2022 H2.

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## Summary of key findings of the Survey

The survey used a sample of a total of 1,365 small, medium-sized and large enterprises, which conduct their activity in the main sectors of the economy, geographically distributed across the country. From these, around 82% responded completely or partially to the questionnaire. Survey estimates were made based on the number of enterprises which responded and their respective classification.

### • FINANCIAL SITUATION

During 2022 H1, (hereinafter "the period"), surveyed enterprises reported "competition" and "finding a market", as their main challenges. The importance of "competition" has increased compared with the previous period for all small and medium-sized enterprises, similarly to "finding a market". Factors which have shown an increase in assessment for all sized enterprises during this period, are "**cost of funding**" and "**availability of qualified staff**".

The performance of sales and financial returns continued to improve compared to the second half of 2021, for medium-sized and large enterprises. **Over 90% of each size group reported profits during the period.** Expectations for the next six months for general sales continue to appear optimistic for all sizes of enterprises, while for financial returns, medium-sized and large enterprises are still optimistic, but less so, compared to the previous period. **Signals continue to be positive regarding the expansion of activity or the increase of investments** for medium-sized and large enterprises. All sizes of enterprises are optimistic in their expectations for the period of the next six months.

During the period, about 59% of the enterprises that responded to the questionnaire stated that they had financed their activity through sales, which represented a decrease for small and medium-sized enterprises. Meanwhile, the trend of combining different sources of financing continued to account for a considerable share during the period, expanding for small and medium-sized enterprises. Financing achieved through the combination of sales with accumulated reserves represented the largest share in this regard.

### • BORROWING

**Around 40% of the total responding enterprises declare that they are currently indebted.** This share has registered a decrease of 2.9 percentage points compared to the previous six-months, and 0.8 percentage points compared to the previous year. In terms of enterprise size, the share of borrowing enterprises registered a decrease for medium-sized and large enterprises compared to 3.9 percentage points and 3.7 percentage points respectively. There was a slight increase for small enterprises.

**In total, formal sources of borrowing (from banks and non-banking financial institutions) are used by 92% of enterprises which responded, only 0.6 percentage points more than in the previous six-month.** Among these, around 88% of borrowing enterprises declare that they have turned only to the banking sector to borrow, which represents an increase of 0.8 percentage points compared to 2021 H2. The combination of formal and informal sources was used by 2.2% of enterprises.

**Enterprises borrowed primarily to make long-term investments and to meet short-term expenses.** Compared to the previous six months, the share of enterprises that borrowed to make investments increased for all sizes of enterprises, while the share of small and large enterprises that borrowed in order to cover short-term expenses remained almost unchanged. About 82% of small enterprises, 81% of medium-sized enterprises and 82% of large enterprises consider their level of borrowing for financing their activities as *adequate*. Compared to the previous period, this share has continued to fall for medium-sized and large enterprises.

**Euroisation of the activity of all sizes of enterprises continues to remain low, but remains, however, for large enterprises.** On the other hand, enterprises' borrowing appears relatively balanced. Borrowing is denominated in the *domestic currency* for 64% of small borrowing enterprises, 51% of medium-sized enterprises and 45% of large enterprises; while the rest is in *foreign currency* and/or combined. Borrowing in *foreign currency*, mainly in euros, was reported more by medium-sized and large enterprises (42% for both of them) and less by small enterprises (30% of them). Compared to the previous six months, the share of foreign currency borrowing enterprises increased for all sizes of enterprises. This factor is also influenced by the currency in which these enterprises carry out their activities, but still requires a careful evaluation on an ongoing basis to gauge exposure to the exchange rate, given that the share of enterprises that borrow in foreign currency exceeds the share of enterprises that perform their activity in foreign currency.

**The total value of debt reported to be *approximately half the value of an enterprise's equity* for around 78% of total borrowing enterprises and *almost at the same level of the value of equity* for around 11% of them, whilst the rest, 11% of them, stated that the value of debt exceeded that of equity.** Analysed by size, the debt/equity ratio is higher for medium-sized and large enterprises, with 25% and 23% of them stating that this ratio equals or exceeds the value of equity, implying a higher debt burden for these enterprises. This ratio decreased during this period for the above mentioned sizes of enterprises. At the sectoral level, debt burden decreased for some of the analysed sectors.

- RELATIONS WITH BANKS

Difficulty in borrowing from banks was assessed as either "normal" or "difficult" by small and large enterprises. Relationships with banks continued to be assessed as "important" or "necessary". The primary element which was reported to make obtaining a bank loan difficult was high *loan costs*, particularly in the case of small enterprises. There was a slight decline, however, in the number of small and large enterprises which claimed to face this particular difficulty in the six-month period.

Regarding plans to request a loan in the future, about 47% of enterprises reported that there was "no likelihood" they would request a bank loan in the next period. This represented a decrease for all sizes of enterprises compared with previous periods. Furthermore, an increase was observed in the share of enterprises that claimed they were "somewhat likely" to take a loan in 2022 H2, as well as in the share of small and large enterprises that declared it was "very likely" for this to happen in the next period. There was a decrease in the number of medium-sized enterprises who reported that they would "definitely" request a loan, and a slight decrease in the number of large enterprises who reported they would do so, although these represented the smallest share of overall responses.

## Financial and borrowing situation of enterprises in Albania

**Sample characteristics<sup>2</sup>.** In 2022 H2, (hereinafter, “the period”) a survey was conducted on a sample of 1365 enterprises distributed across the 12 counties of Albania. Most enterprises (80%) were located in the four major counties, namely: Tirana (around 53%), Durrës (around 15%), Fier (around 7%) and Shkodra (around 5%).

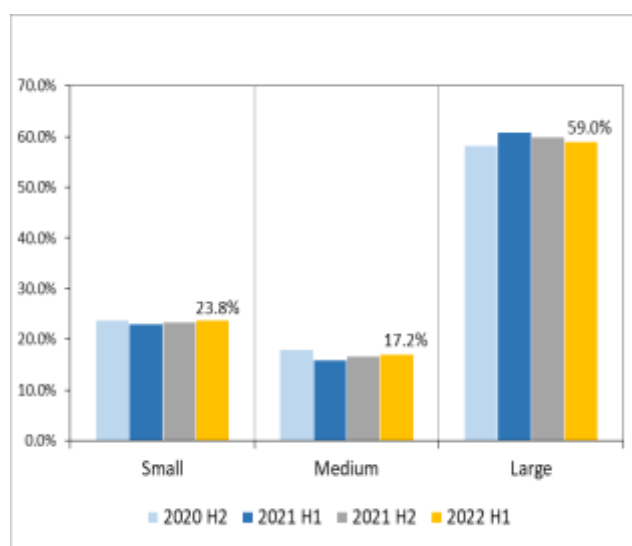
From the total sample, 82% of the enterprises (1124) responded to the survey questionnaire and analysis of the results is based on these responses. The following analysis is largely based on a breakdown of enterprises by size.

### 1. Objectives and scope of action

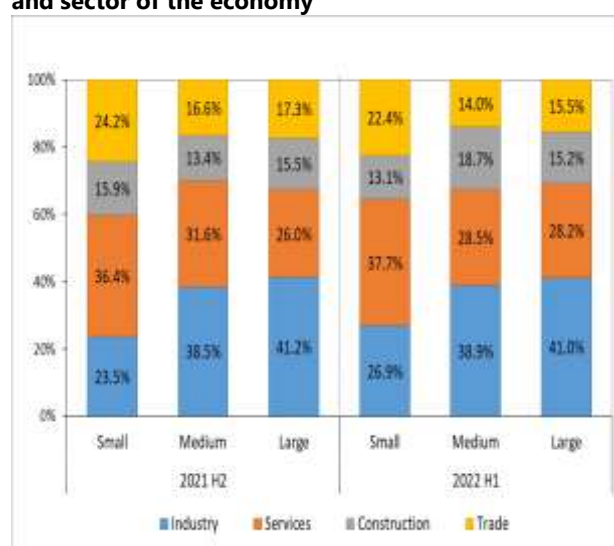
#### 1.1 Distribution of enterprises by sector and size

By sector, around 37% of enterprises belong to the *industry* sector, around 31% belong to the *services* sector, and around 15% belong to the *construction* sector and around 17% to the *trade* sector. By size, around 24% of enterprises are classified as *small enterprises* (5-19 employees), around 17% as *medium-sized enterprises* (20-49 employees) and 59% as *large enterprises* (over 50 employees). In the group of *small enterprises*, those operating in the services sector (around 38%) account for the main share, followed by the industry sector (around 27%). On the other hand, in the group of medium-sized and large enterprises, the industry sector (with around 39% and 41%, respectively) and the services sector (28% and 26%, respectively) have the higher share.

**Chart 1.1 Distribution of enterprises by size**



**Chart 1.2 Distribution of enterprises by size and sector of the economy**



Source: Bank of Albania.

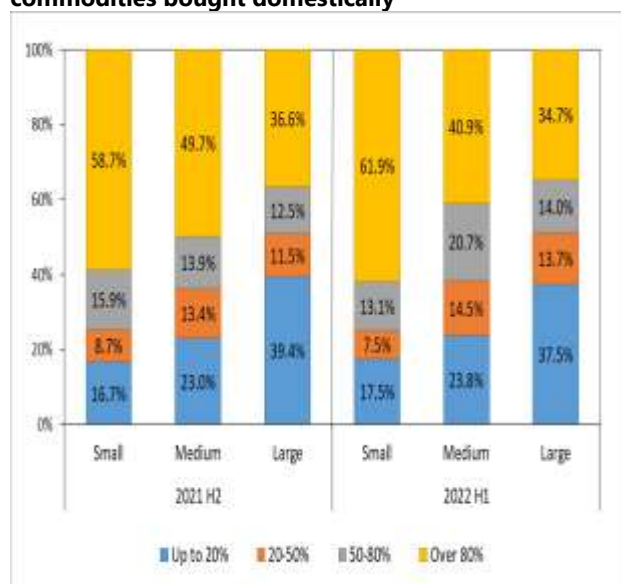
<sup>2</sup> The survey on the financial and borrowing situation of enterprises has been conducted biannually since 2010. This survey was launched with a sample of the top 700 enterprises with the highest annual net sales (large enterprises). In 2016, the sample expanded to include around 1200 large, medium-sized, and small enterprises across the country.

## 1.2 Obtaining raw materials and selling products

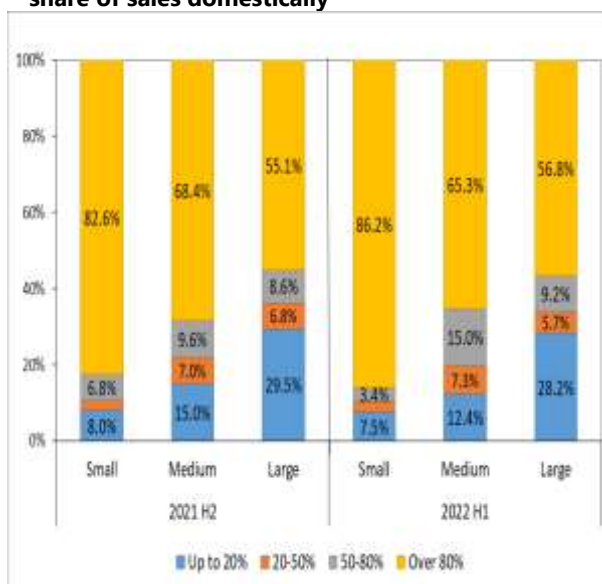
**The main share of enterprises (around 62% of small enterprises, 41% of medium-sized enterprises and 35% of large ones) obtain over 80% of their commodities domestically.** Compared with the previous period, this indicator increased by 3.2 percentage points (p.p.) for small enterprises, while it has decreased by 8.8 p.p. for medium-sized enterprises and by 1.9 p.p. for large enterprises. On the other hand, around 39% of large enterprises obtain up to 20% of their commodities domestically with a six-month increase of 2.5 p.p.

Products continue to be primarily sold *domestically*, with around 86% of small enterprises, 65% of medium-sized enterprises and 57% of large enterprises declaring to have sold most of their products in the domestic market (over 80% of products volume). Compared to the previous six-months, there has been a slight increase in the share of small and large enterprises primarily selling their products domestically (by 3.6 pp and 1.7 pp, respectively), while the share of medium-sized enterprises making such declarations declined by 3.2 p.p.

**Chart 1.3 Distribution of enterprises share of commodities bought domestically**



**Chart 1.4 Distribution of enterprises by share of sales domestically**



Source: Bank of Albania.

**The analysis of responses by sector shows that the construction sector has a greater reliance on commodities provided domestically with around 69% of the enterprises in this sector obtaining over 80% of their commodities domestically.** However, this share decreased by 6.8 p.p. compared to the previous six-months, and 3.1 p.p. compared to the previous year. On the other hand, the industry sector shows the lowest reliance with 49% of the enterprises in this sector obtaining *only 20% of their raw materials* domestically. The share of these enterprises remains unchanged in semi-annual terms, whilst they have decreased by 3.4 pp annually.

**Table 1.1 Distribution of enterprises by sector and percentage of commodities purchased domestically**

		Up to 20%	20-50%	50-80%	Over 80%
<b>Industry</b>	<b>2020 H2</b>	51.0%	13.1%	13.1%	22.9%
	<b>2021 H1</b>	52.6%	14.1%	9.1%	24.2%
	<b>2021 H2</b>	49.1%	16.1%	12.7%	22.1%
	<b>2022 H1</b>	49.2%	14.1%	14.3%	22.4%
<b>Services</b>	<b>2020 H2</b>	20.1%	6.7%	10.2%	63.0%
	<b>2021 H1</b>	18.4%	6.4%	14.3%	60.8%
	<b>2021 H2</b>	18.5%	4.2%	11.2%	66.1%
	<b>2022 H1</b>	17.8%	7.9%	13.5%	60.8%
<b>Construction</b>	<b>2020 H2</b>	3.0%	1.2%	16.8%	79.0%
	<b>2021 H1</b>	4.4%	3.1%	20.1%	72.3%
	<b>2021 H2</b>	1.2%	5.3%	17.5%	76.0%
	<b>2022 H1</b>	2.3%	5.2%	23.3%	69.2%
<b>Trade</b>	<b>2020 H2</b>	31.4%	20.3%	16.4%	31.9%
	<b>2021 H1</b>	29.7%	24.7%	16.4%	29.2%
	<b>2021 H2</b>	41.2%	17.1%	15.6%	26.1%
	<b>2022 H1</b>	36.8%	23.2%	11.6%	28.4%

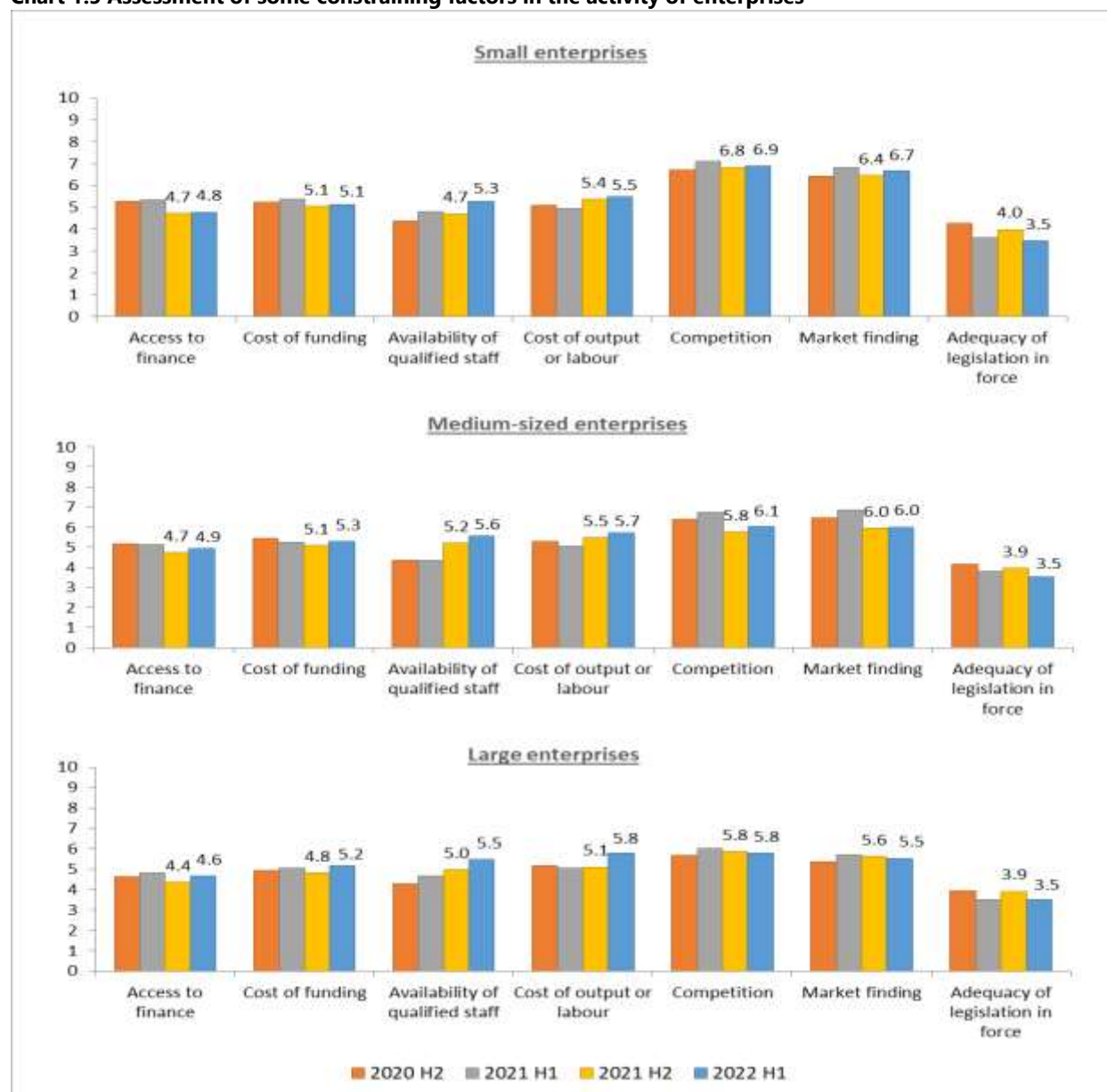
Source: Bank of Albania.

### 1.3 Constraining factors in the activity of enterprises

During the period, the factors which were reported to have the highest impact on business continued to be "competitiveness", and "finding a market". The importance of "competition" increased compared with the previous period for all small and medium-sized enterprises, as did "finding a market". Factors which showed an increase during this period were "cost of funding" and "availability of qualified staff", for all sizes of enterprises.

<sup>3</sup> Enterprises assessed the importance of certain issues on a scale rating from 1 to 10, where 1 is the lowest and 10 is the highest level of difficulty. To aggregate responses for each of the assessed issues, a weighted average was calculated by weighing the answers with the rating scales (1-10) for all responding enterprises.

**Chart 1.5 Assessment of some constraining factors in the activity of enterprises**



Source: Bank of Albania.

## 2. Financial performance of enterprises and the presence of debt

### 2.1 The currency of operational activity

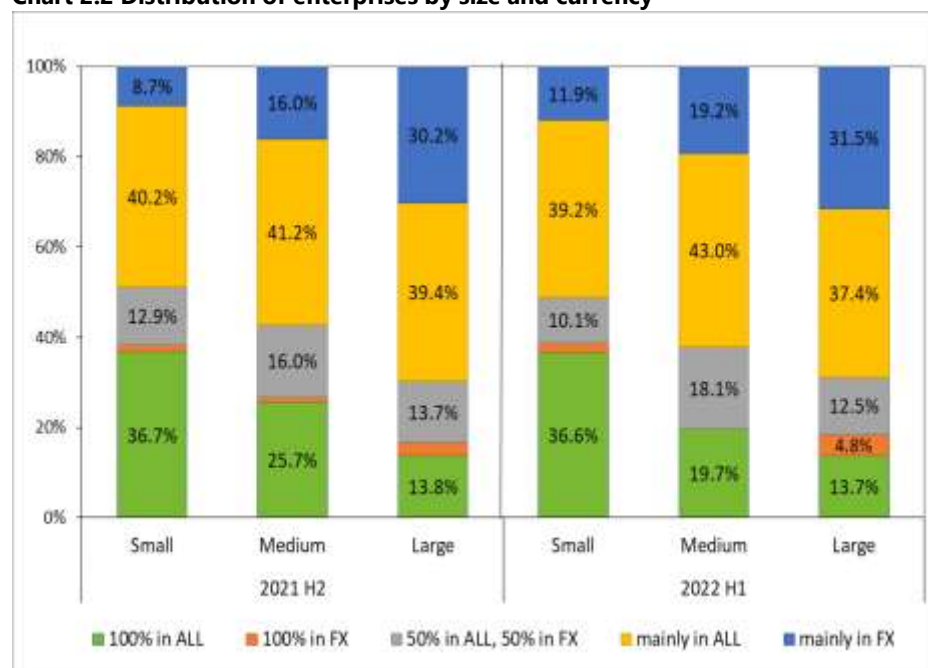
**Euroisation of the activity of all sizes of enterprises is low, but is more significant in large enterprises.**

Thus, around 14% of small enterprises and 19% of medium-sized enterprises state that they carry out their activity *completely* or *mainly* in foreign currency. This was also reported by around 36% of large enterprises, up was by 3.3 percentage points compared to the previous period.

<sup>4</sup> Over 50% of the activity in foreign currency.



**Chart 2.2 Distribution of enterprises by size and currency**

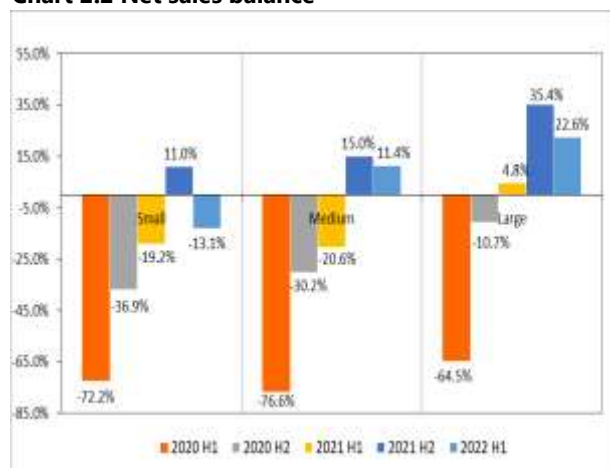


Source: Bank of Albania.

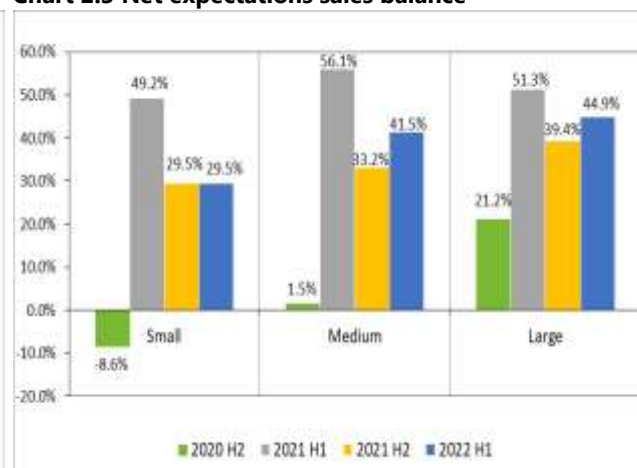
## 2.2 Sales performance, financial returns and expansion of activity

**During the period, sales increased for medium-sized and large enterprises.** These enterprises continued to report an increase in sales levels with a positive net balance of 11.4% and 22.6%, respectively, though this was lower compared to the previous six months. The situation also worsened for small enterprises which returned to a negative net balance of 13.1%. Regarding expectations for the further development of sales levels, all enterprises (regardless of size) were quite optimistic for 2022 H2. More specifically, medium-sized and large enterprises show positive and improved net balances (of 41.5% and 44.9%), while for small enterprises this balance remained unchanged at 29.5%.

**Chart 2.2 Net sales balance**



**Chart 2.3 Net expectations sales balance**



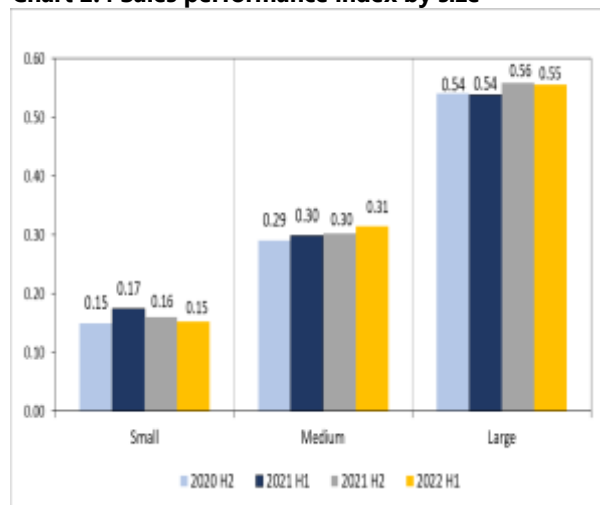
Source: Bank of Albania.

Net balances of responses are calculated as the difference between the weights of positive responses (sales growth/sales expectations growth) and negative responses (sales decline/sales expectations decline) to the total of answers provided.

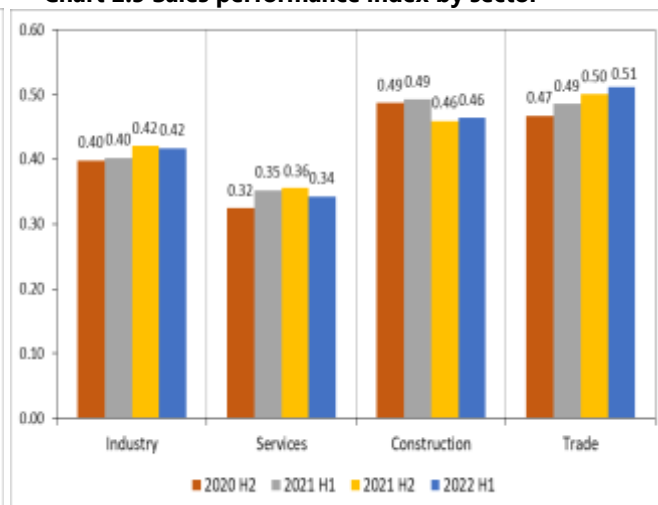
*The aggregate performance of total sales is analysed through an index that weighs the responses of enterprises at different intervals and aggregates them by size of enterprises and sectors.*

The performance of the sales index changed slightly over the period compared to 2021 H2. By size, the performance of index values showed a slight decrease in total values of sales, for small and large enterprises, but an increase for medium-sized enterprises. Meanwhile, compared to the previous year, this index increased for medium-sized and large enterprises, but it decreased for small enterprises. At the sectoral level, there was an increase for the trade sector and slight increase for the construction sector.

**Chart 2.4 Sales performance index by size**



**Chart 2.5 Sales performance index by sector**

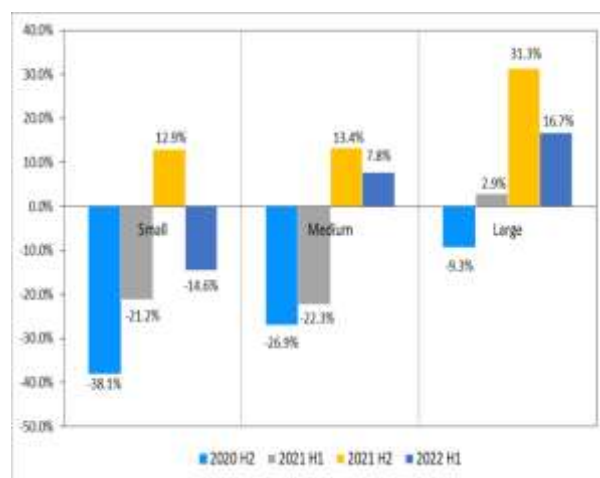


Source: Bank of Albania.

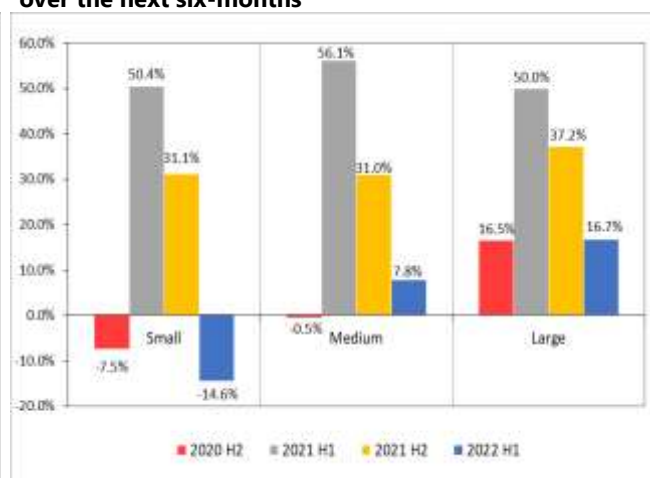
Medium-sized and large enterprises reported an increase in financial returns. Thus, medium-sized and large enterprises continued to report an increase in financial returns for this six-month period as well, with a positive net balance, 7.8% and 16.7%, respectively, but narrowed compared to the previous quarter. Small enterprises have returned to negative territory again, declaring a decrease in financial returns for the period, reflected in a negative balance of 14.6%. Expectations for financial returns in the next six months are still optimistic for medium-sized and large enterprises, but narrowed compared to the previous quarter.

<sup>5</sup> Weighting coefficients according to total sales intervals are: "Up to ALL 10 million" = 0; "ALL 10-49 million" = 0.25; "ALL 50-99 million" = 0.5; "ALL 100-500 million" = 0.75; "Over ALL 500 million" = 1. An increase/decrease in the value of this index means an increase/decrease in the total level of sales for enterprises.

**Chart 2.6 Net balance of financial return**



**Chart 2.7 Net balance of the expected financial returns over the next six-months**

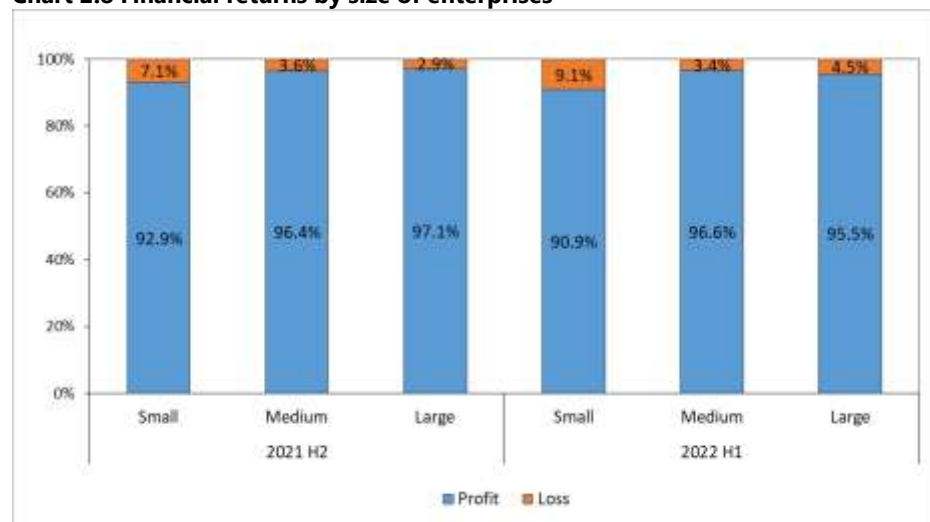


Source: Bank of Albania.

Net balances of responses are calculated as the difference between the weights of positive responses (growth in financial returns /expectations for growth) and negative responses (decline in financial returns/decline of expectations) to the total of answers provided.

**For enterprises which responded, when asked about financial returns<sup>6</sup> in 2022 H1, more than 90% of each group by size reported a profit during the period.** This percentage was higher for medium-sized enterprises (around 97%) and lower for small enterprises (around 91%). Compared to the previous period, the number of profit-reporting enterprises decreased among small and large enterprises.

**Chart 2.8 Financial returns by size of enterprises**

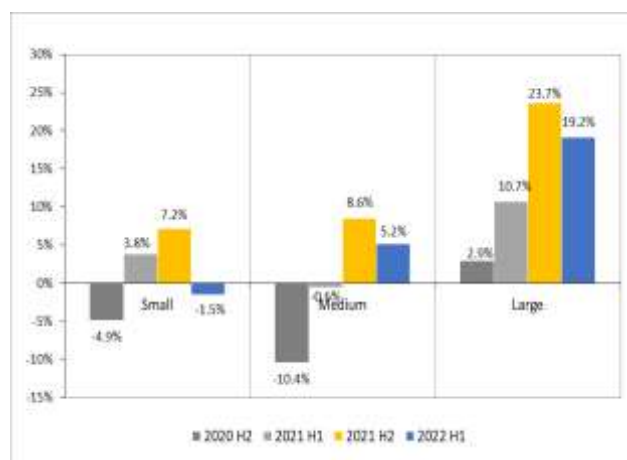


Source: Bank of Albania.

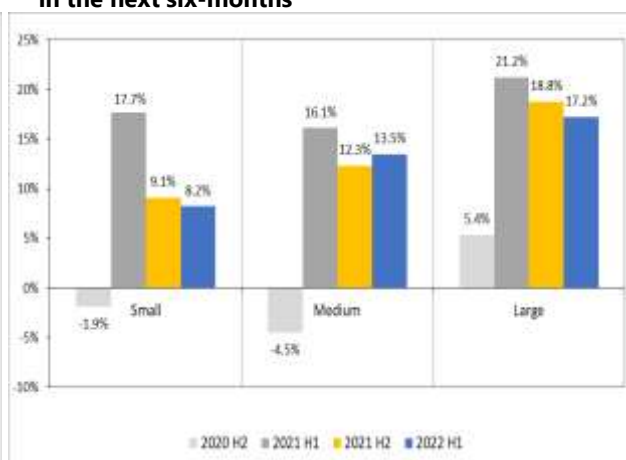
<sup>6</sup> Some 1048 entities or around 77% of the sample responded.

**The assessment of enterprises for investment growth and activity expansion presented an optimistic picture.** Medium-sized and large enterprises registered positive net balances of [5.2%] and [19.2%], respectively. Meanwhile, small enterprises narrowed with a negative balance by 1.5%. However for the next six months, the net balances of the responses were positive for all sizes of enterprises, implying expectations for investment or further expansion of activity. These expectations remained optimistic, but declined for small and large enterprises compared to the previous six-months.

**Chart 2.9 Net balance of activity expansion**



**Chart 2.10 Net balance of activity expansion in the next six-months**

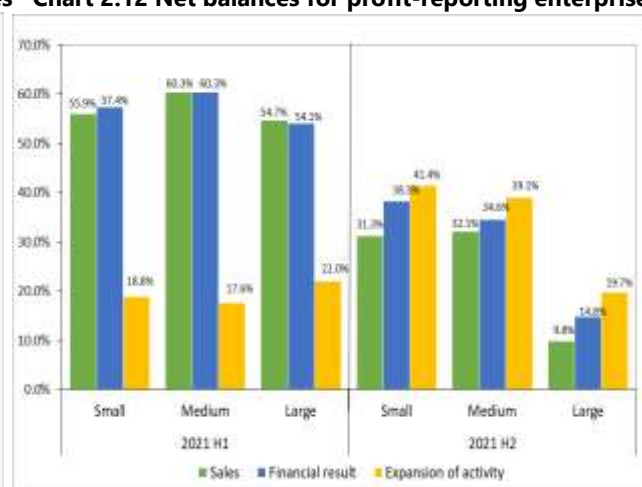
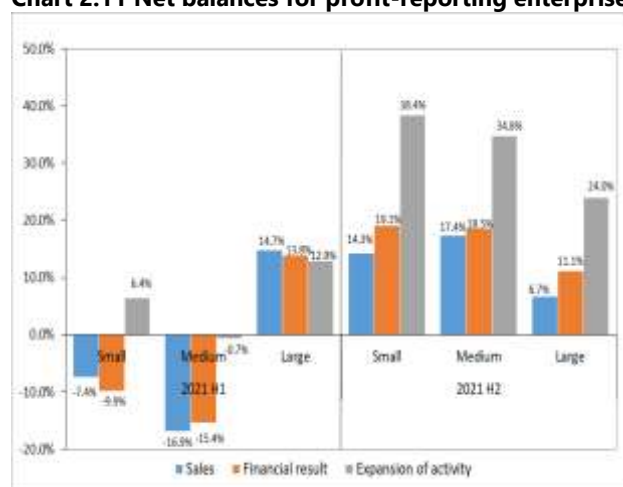


Source: Bank of Albania.

Net balances of responses are calculated as the difference between the weights of positive responses (expansion of activity/expectations for expansion or investments) and negative responses (contraction of activity/expectations for contraction) to the total of answers provided.

**For profit-reporting enterprises, medium-sized and large enterprises presented positive balances for sales and financial returns during this period, while the expansion of activity presented positive balances for all sizes of enterprises.** For the next period, enterprises reporting a profit continue to appear positive, even more optimistic about their expectations regarding the level of sales and financial returns compared to the previous period.

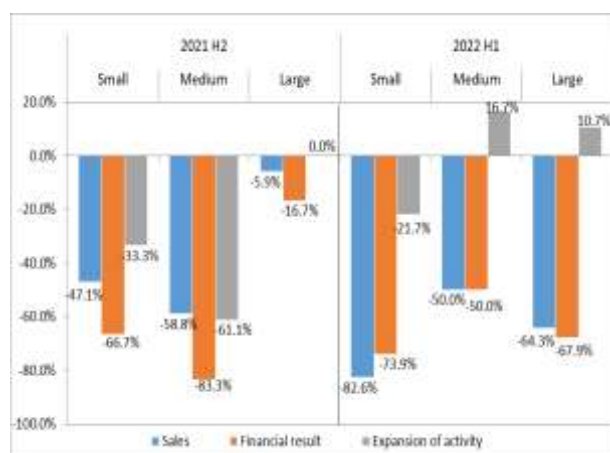
**Chart 2.11 Net balances for profit-reporting enterprises**      **Chart 2.12 Net balances for profit-reporting enterprises**



Source: Bank of Albania.

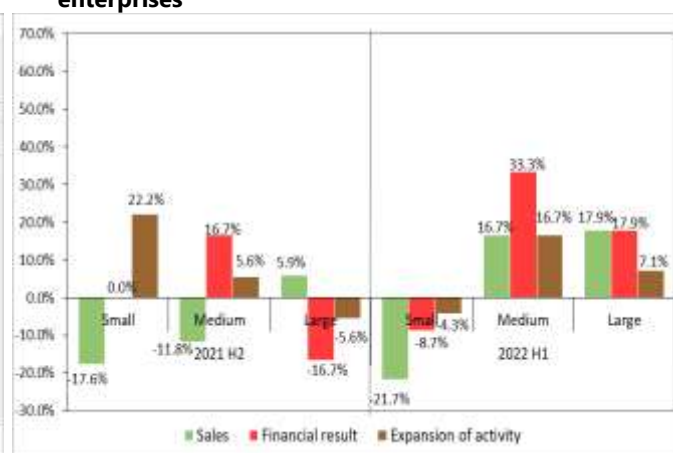
**For loss reporting enterprises** the three groups reported negative balances for the total level of sales and financial returns during the period. In regard to the expansion of activity or increase in investments, balances remained negative only for small enterprises. Regarding levels of sales and financial returns, there was an expansion of negative balances for small and large enterprises, compared to the previous period. The expectations of small enterprises reporting loss, appear more pessimistic compared to the second half of 2021.

**Chart 2.13 Net balances for loss-reporting enterprises**



Source: Bank of Albania.

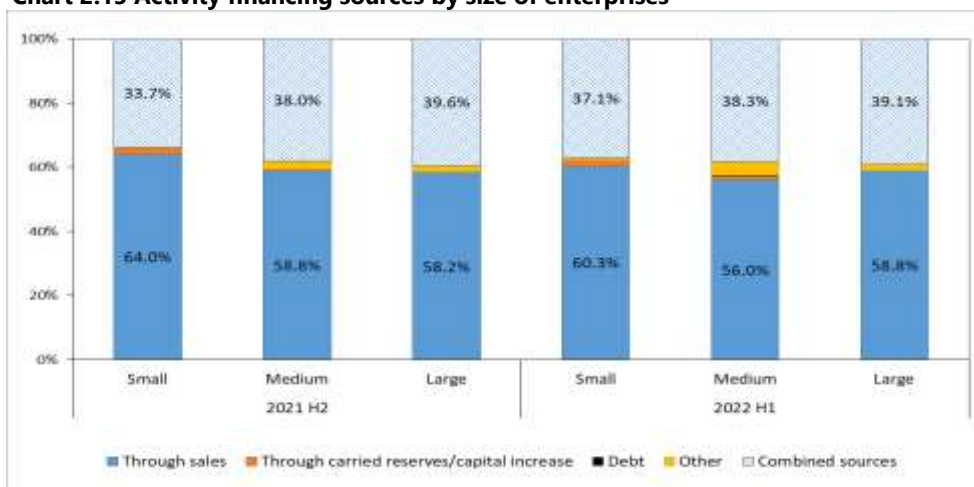
**Chart 2.14 Expected net balances of loss-reporting enterprises**



## 2.3 Financing activity

During the period, around 59% of enterprises continued to finance their activity only through sales (60% of small enterprises, 56% of medium-sized enterprises and 59% of large ones), **recording a decline for small and medium-sized enterprises.** Meanwhile, the trend of combining different sources of financing continued to account for a considerable share during the period, expanding for small and medium-sized enterprises. Financing achieved through the combination of sales with accumulated reserves represented the largest share in this regard, followed by the combination of sales with borrowing.

**Chart 2.15 Activity financing sources by size of enterprises**



Source: Bank of Albania.

### 3. Characteristics of enterprise borrowing

**Around 40% of the<sup>7</sup> enterprises which responded (444 enterprises) stated that they were indebted.**

This share registered a decrease by 2.9 percentage points (p.p.) compared to the previous six-months, and 0.8 p.p. compared to the previous year. In terms of enterprise size, there was a decrease in the number of borrowing enterprises among medium-sized and large enterprises by 3.9 p.p and 3.7 pp, respectively. In the case of small enterprises there was an increase by 0.3, pp. By sector, the highest share of borrowing enterprises was the trade sector (around 47%), followed by the construction sector (44%).

**Table 3.1 Enterprises by size and borrowing**

Borrowing enterprises by size	No. of enterprises		Share to total of the group	
	2021 H2	2022 H1	2021 H2	2022 H1
Small	76	78	28.8%	29.1%
Medium	77	72	41.2%	37.3%
Large	323	294	48.1%	44.3%
Total enterprises	476	444	42.4%	39.5%

Source: Bank of Albania.

**The following analysis was performed relying only on the responses of enterprises which borrowed.**

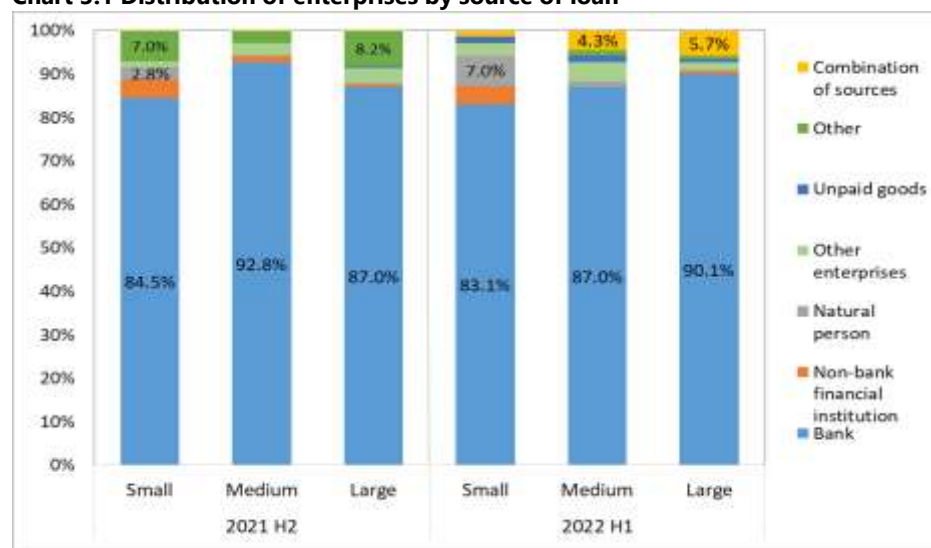
#### 3.1 The source of debt

**Around 88% of enterprises borrowed primarily from the banking sector, while over 5% used a combination of sources.** The share of enterprises borrowing from banks increased by 0.8 p.p. compared to 2021 H2. By size, around 83% of small enterprises, 87% of medium-size ones and 90% of large enterprises turned only to banks as a source of borrowing. This share decreased among small enterprises and medium-sized ones compared with the previous six-month. In addition to banks, some enterprises also turned to non-bank financial institutions or combined formal and informal sources (like borrowing from natural persons, other companies, unpaid goods).

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<sup>7</sup> Considering the full sample of 1365 enterprises, only 1124 of them or around 82% responded.

**Chart 3.1 Distribution of enterprises by source of loan**



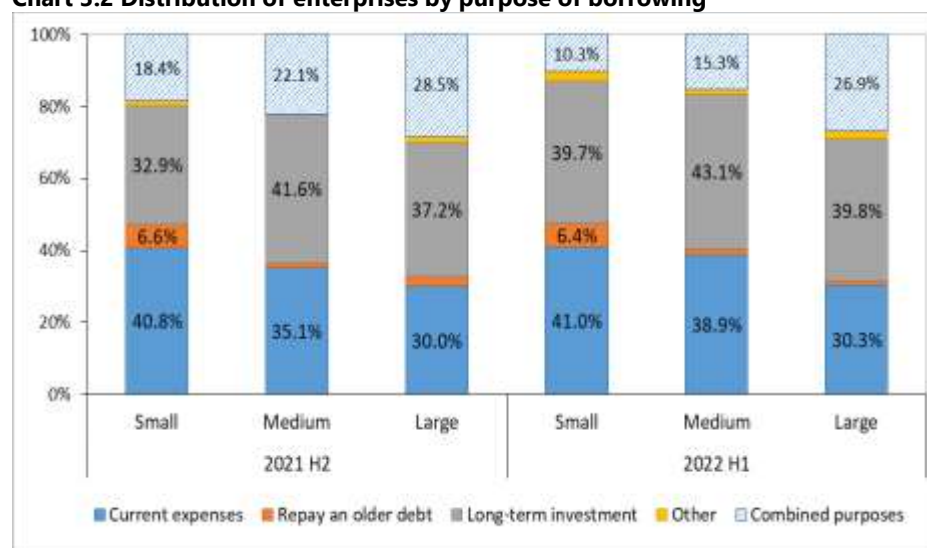
Source: Bank of Albania.

In total, *formal borrowing sources* (from banks and non-bank financial institutions) were used by 92% of enterprises which reported borrowing (around 89% of small enterprises, 88% of medium-sized ones and 94% of large ones), only 0.6 p.p. more than in the previous six-months. A combination of formal and informal sources were used by 2.2% of enterprises.

### 3.2 Purpose of borrowing

**Borrowing was mainly carried out for making long-term investments and for meeting short-term expenses.** Compared with the previous period, the share of enterprises that borrowed to make an investment increased for all enterprise sizes, whereas borrowing to cover short-term expenditures remained unchanged for small and large enterprises. A decrease in borrowing for combined purposes was observed, where the two purposes were the main purposes for all sizes of enterprises.

**Chart 3.2 Distribution of enterprises by purpose of borrowing**



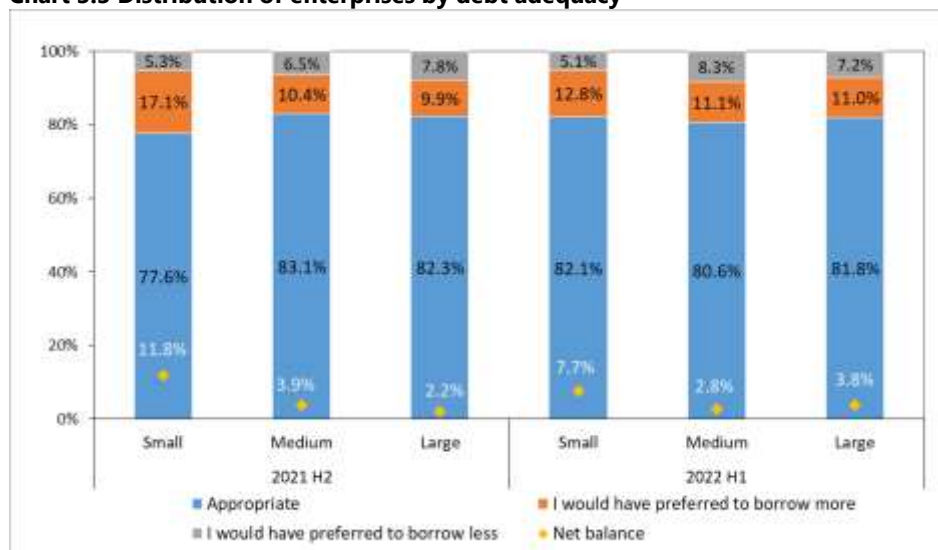
Source: Bank of Albania.



### 3.3 Debt adequacy

**During the period, more than 81% of enterprises considered the level of borrowing to finance their activity as adequate.** This indicator represented around 82% of small enterprises, 81% of medium-sized enterprises and 82% of large ones. Compared to the previous period, this share continued to fall among medium-sized and large enterprises. There were some reports of positive net balances among all enterprise sizes. This balance indicates that the share of small enterprises that would prefer more debt is higher than the share of those that would prefer less debt for financing activity. This is particularly the case for small enterprises. However, in these enterprises, the demand for debt appears to have narrowed in the period, when comparing this balance to the previous survey.

**Chart 3.3 Distribution of enterprises by debt adequacy**



Source: Bank of Albania.

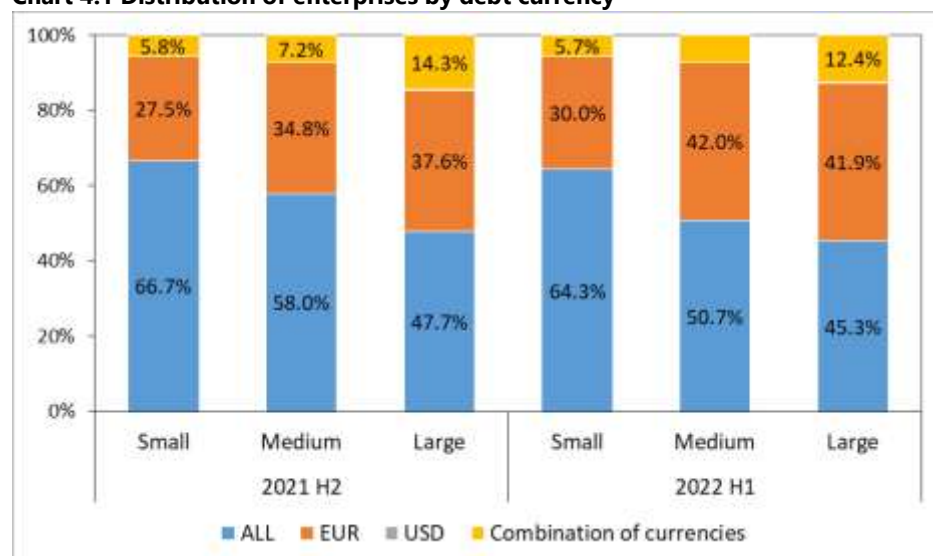
## 4. Debt structure

### 4.1 Currency

**By currency, borrowing appears relatively balanced.** Over the period, 64% of small enterprises, 51% of medium-sized enterprises and 45% of large enterprises, declared that their borrowing is only in domestic currency, while the rest is in foreign currency (euro and/or US dollar) and/or combined (lek and foreign currency). During the period, borrowing in foreign currency (mainly in euro) was used more by medium-sized and large enterprises (42% for each of them) and less by small enterprises (30%). This element was also affected by the currency with which these enterprises carried out their activity. However, compared with the previous six-months, the share of enterprises with foreign currency debt was higher among all three groups of enterprises (by 2.5 p.p. for small enterprises, 7.2 p.p. for medium-sized enterprises and 4.3 p.p. for large ones).



**Chart 4.1 Distribution of enterprises by debt currency**



Source: Bank of Albania.

## 4.2 Debt and maturity

**The share of enterprises that have borrowed in the past 1-5 years is around 59% for small enterprises, 54% for medium-sized enterprises and 51% of large ones.** Compared with the previous six months, this share registered an increase for all sizes of enterprises (by 6.3 p.p. for small enterprises, 10 p.p. for medium-sized enterprises and 0.7 p.p. for large enterprises).

**New borrowing, which means borrowing in the last six-months, was declared by around 10% of small enterprises, 8% of medium-sized enterprises and 5% of large ones.** In semi-annual and annual terms, the share of new borrowers was lower among medium-sized and large enterprises. The main purpose for new borrowing was to *cover short-term expenditures* (for 63% of the total enterprises which responded) and to *make long-term investments* (27% of total enterprises). Compared with the previous six-months, the share of enterprises that have newly borrowed to face short-term expenditures, increased, similar to the share of medium-sized and large enterprises that borrowed to make an investment. The average maturity of borrowing was 67 months for small enterprises, 70.1 months for medium-sized enterprises and 67.6 months for large ones.

## 4.3 Interest rate and repayment

**The main type of interest rate for the largest existing debt<sup>8</sup>** remained a fixed interest rate up to maturity (for 79% of small enterprises, 75% of medium-sized enterprises and 80% of large ones) **and a yearly variable rate** (for 15% of small and medium-sized enterprises and 11% of large ones). The share of enterprises reporting fixed interest rate borrowing increased compared to the previous period for medium-sized and large enterprises. The frequency of repayment was primarily monthly for 81% of small enterprises, 74% of medium-sized enterprises and 77% of large enterprises.

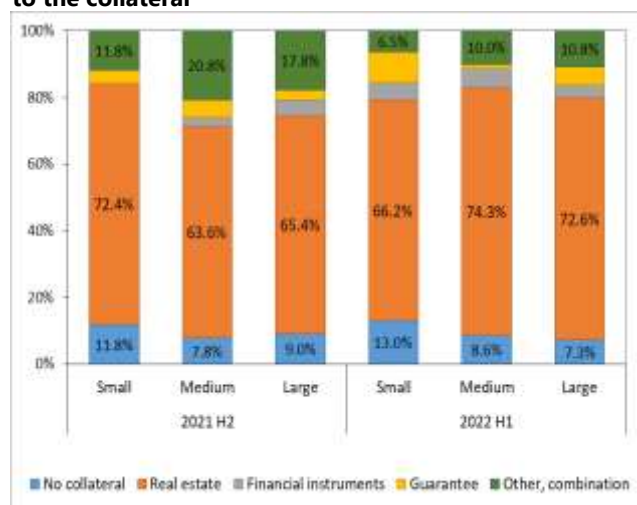
<sup>8</sup> For enterprises that have more than one debt

## 4.4 Collateral and coverage ratio

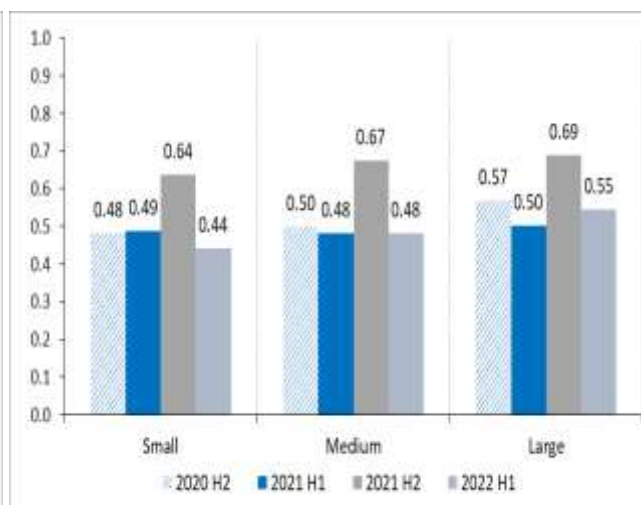
Around 66% of small enterprises, 74% of medium-sized enterprises and 73% of large enterprises, declared that debt was collateralized **only through real estate**, while the remaining enterprises used **other forms of collateralization**<sup>9</sup>. Meanwhile, around 13% of small enterprises, 9% of medium-sized enterprises and 7% of large enterprises, admitted that their debt was uncollateralized. Compared with the previous six-months, the share of enterprises with uncollateralized debt continued to decrease for large enterprises, while collateralization with real estate increased for medium-sized and large enterprises. For small enterprises, collateralization with financial instruments and guarantees also increased.

Collateral coverage was also assessed aggregately through a weighted response index<sup>10</sup>. For 2022 H1, this index showed 0.44 for small enterprises, 0.48 for medium-sized enterprises, and 0.55 for large ones. The coverage ratio was lower for all enterprise sizes, compared to the previous period.

**Chart 4.2 Distribution of enterprises according to the collateral**



**Chart 4.3 Collateral coverage index**



Source: Bank of Albania.

## 5. Debt burden

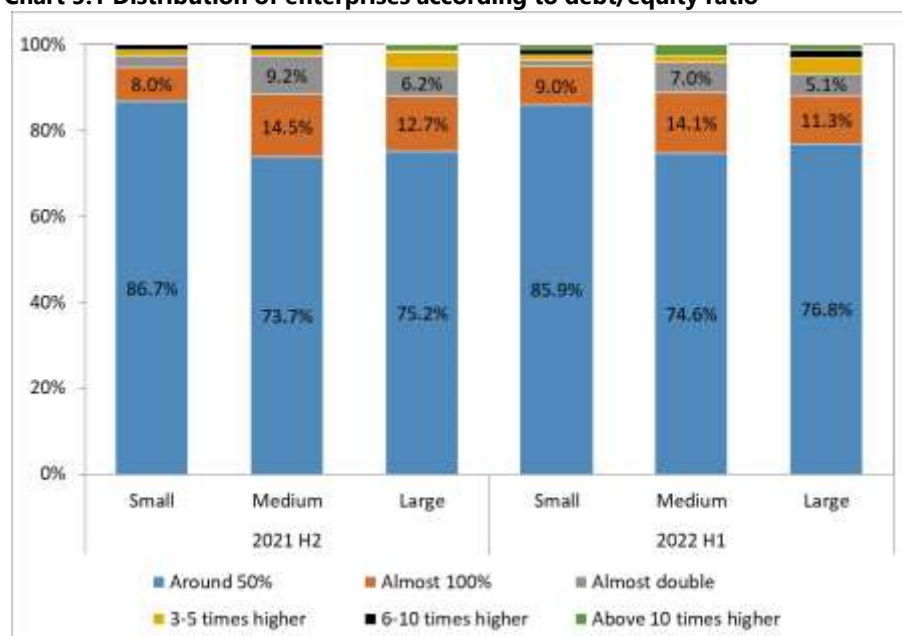
### 5.1 Debt value to equity

During the period, the total value of debt was **approximately equal to half of enterprises' equity for 78% of enterprises** and **almost equal to the value of equity for 11% of them**, while the remaining 11% stated that the value of debt exceeded that of equity. The debt/equity ratio was higher for medium-sized and large enterprises, with 25% and 23% of them declaring that this ratio was equal or exceeded the value of equity, implying a higher debt burden on these enterprises. For this period, this ratio decreased for all sizes of enterprises.

<sup>9</sup>Financial instruments, guarantee, other warranties, along with the combination of some forms of collateralization, including combination with real estate.

<sup>10</sup> This index takes values from 0 to 1 and the increase in its value indicates an increase in the weight of collateral coverage. Based on each of the alternatives, the weighting coefficients of this index are: "Up to 50% of the collateralized debt" = 0.25; "50-100% of the collateralized debt" = 0.5; "100-120% of the collateralized debt" = 0.75; "Over 120% of the collateralized debt" = 1.

**Chart 5.1 Distribution of enterprises according to debt/equity ratio**



Source: Bank of Albania.

**By sector, debt burden has decreased for all the sectors under review.** The debt burden appears lower for enterprises operating in the industry and service sectors, whilst it appears higher for enterprises operating in the construction and trade sectors.

**Table 5.1 Share of enterprises with an equal/higher value of debt to equity, by sectors**

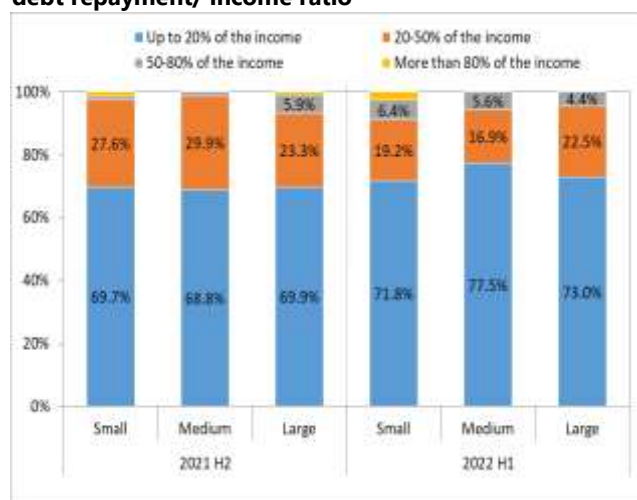
Share of enterprises with an equal/higher value of debt to equity, by sectors				
	Industry	Services	Construction	Trade
2020 H2	19.7%	25.0%	17.6%	21.9%
2021 H1	22.3%	26.5%	29.9%	27.0%
2021 H2	22.7%	24.7%	24.4%	22.1%
2022 H1	20.7%	21.2%	25.3%	22.5%

Source: Bank of Albania.

## 5.2 Debt repayment

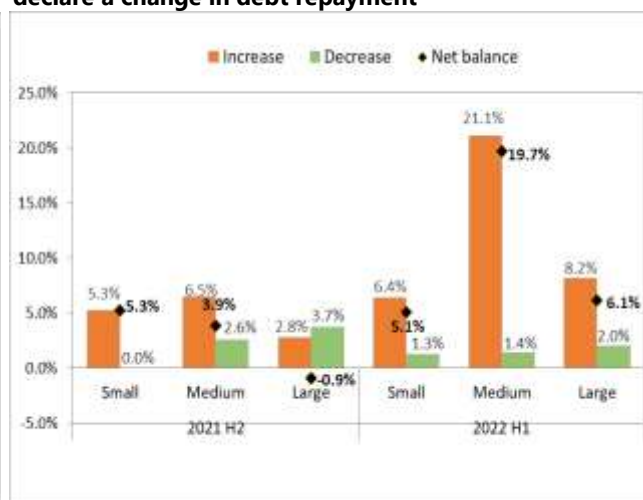
**Most of the enterprises which borrowed (74%) declared that debt repayment amounted to up to 20% of their income.** The share of these enterprises decreased by 3.8 p.p. compared with the previous survey. The burden of debt repayment appears to be heavier on small enterprises, with 28% reporting that this payment exceeded 20% of their income. Questioned whether the *debt service* changed over the period, the majority of enterprises (around 93% of small enterprises, 77% of medium-sized enterprises and 90% of large enterprises), claimed that this expenditure remained unchanged. The responses of the rest indicated net positive balances for all sizes of enterprises, showing an increase of this expenditure as a ratio to income. This balance has increased in semi-annual and annual terms for medium-sized and large enterprises.

**Chart 5.2 Distribution of enterprises according to debt repayment/ income ratio**



Source: Bank of Albania.

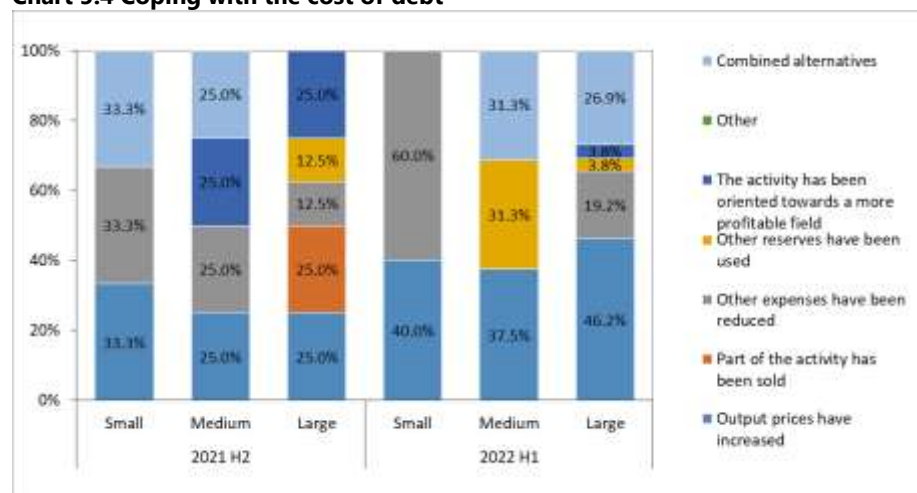
**Chart 5.3 Distribution of enterprises that declare a change in debt repayment**



### 5.3 Coping with debt costs

To compensate for an increase in debt service costs, enterprises relied primarily on an increase in the prices of products (42.6%), on a decrease in other expenses (17%) or they used various reserves (12.8%).

**Chart 5.4 Coping with the cost of debt**



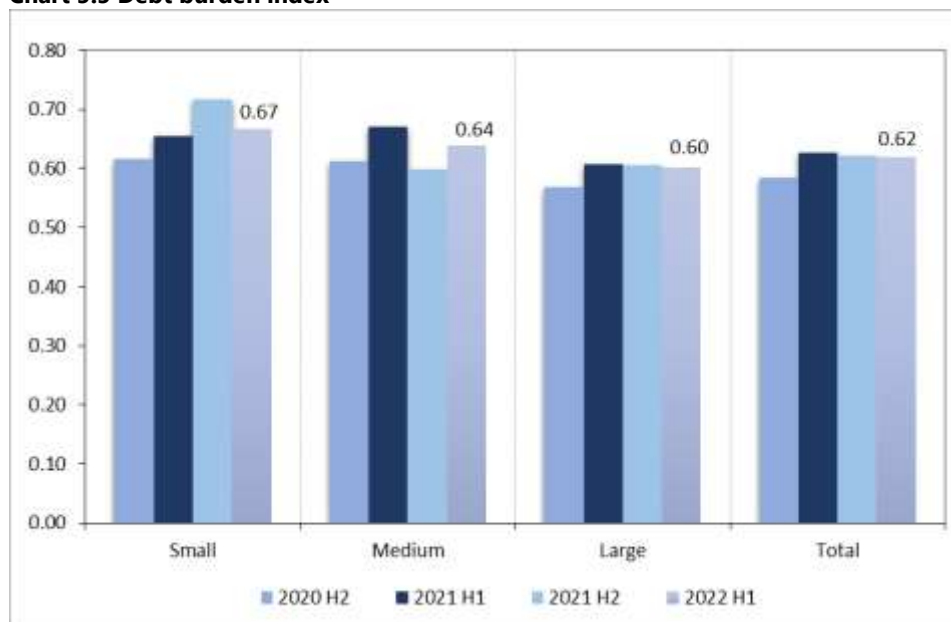
Source: Bank of Albania.

### 5.4 Debt burden

The debt burden of enterprises remained almost unchanged throughout the period, where the index<sup>11</sup> value continued to remain at 0.63 for enterprises overall. By size, the index showed a higher debt burden for small enterprises, albeit not as pronounced, compared to 2021 H2. The value of this index increased for medium-sized enterprises during the period under review.

<sup>11</sup> The index is calculated by weighing the share of enterprises' responses to the total responses by the coefficients that take values of: 1 for "high burden", 0.5 for "average burden" and 0 for the "low burden" alternative.

**Chart 5.5 Debt burden index**

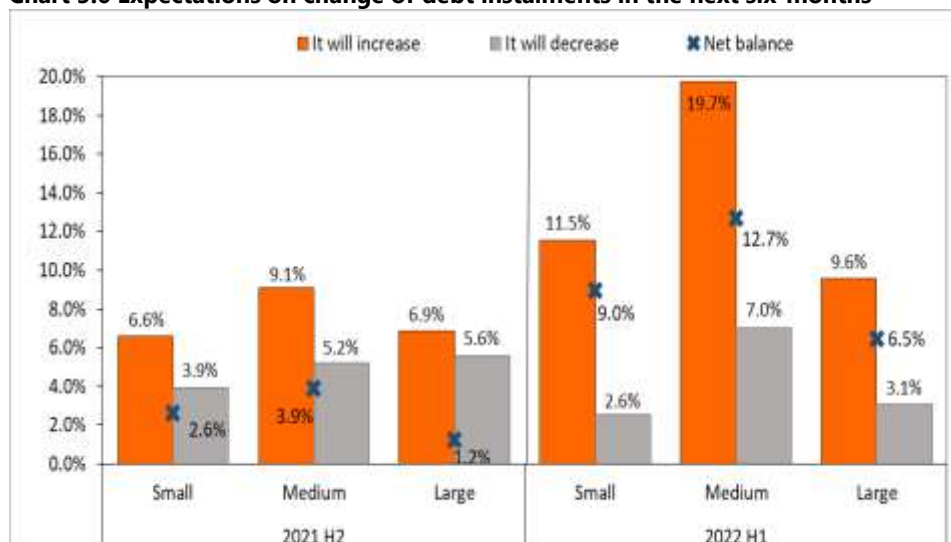


Source: Bank of Albania.

### 5.5 Expectations for debt repayment in the next six-months

**Most of the enterprises which borrowed (around 85%), despite their size, do not expect a change in their debt instalments in 2022 H2.** This share decreased by 2.7 p.p. compared to the previous period.

**Chart 5.6 Expectations on change of debt instalments in the next six-months**



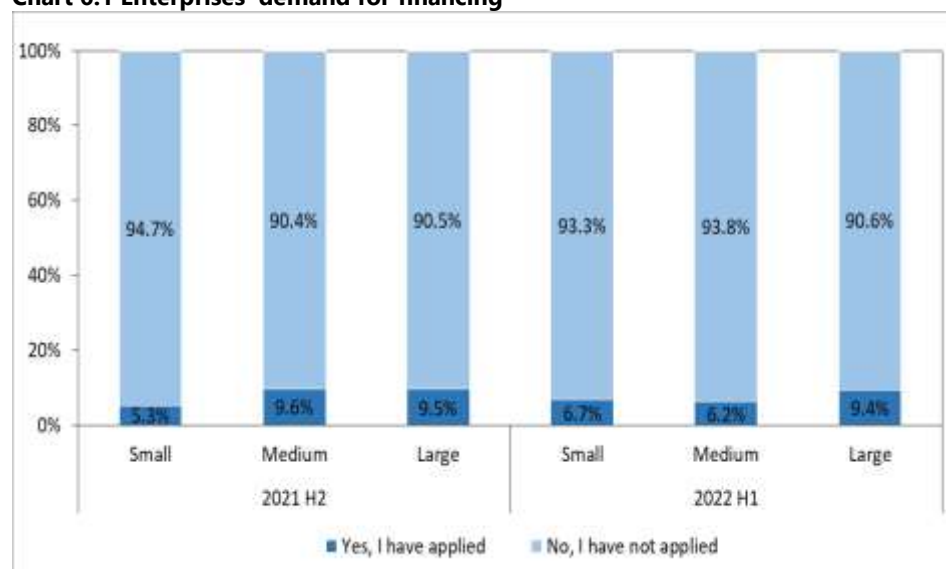
Source: Bank of Albania.

## 6. Relations with banks and expectations for the future<sup>12</sup>

### 6.1 Access to financing

**Enterprises' demand for loans declined slightly during the period, where 8% of them declared that they applied for financing during the last six months.** This share contracted by around 0.4 p.p. for enterprises as a whole compared with the previous survey. Analysing this indicator by size of enterprises, large enterprises account for the highest share for this period (around 9%). Compared with the previous six-months, an expansion of loan demand was observed only for small enterprises (by 1.4 p.p.), whereas medium-sized enterprises presented a contraction of this demand (by 3.4 pp).

**Chart 6.1 Enterprises' demand for financing**

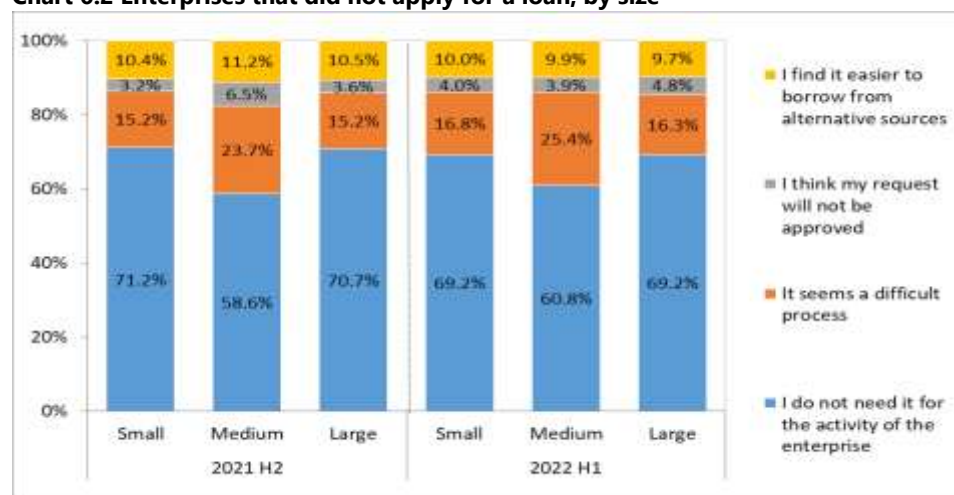


Source: Bank of Albania.

Enterprises that have not applied for a loan, in most cases, state that it is not necessary for their activity (69% of small enterprises, 61% of medium sized enterprises and 69% of large ones). The rest of the enterprises decided to not apply, because the process seemed difficult or because they assessed that it was easier to borrow from alternative sources. Both these reasons increased among all sizes of enterprises in the analysed period. However, the share of both above mentioned reasons decreased for all sizes of enterprises.

<sup>12</sup> The questions in this section are addressed to the entire sample of enterprises, including non-borrowing as well.

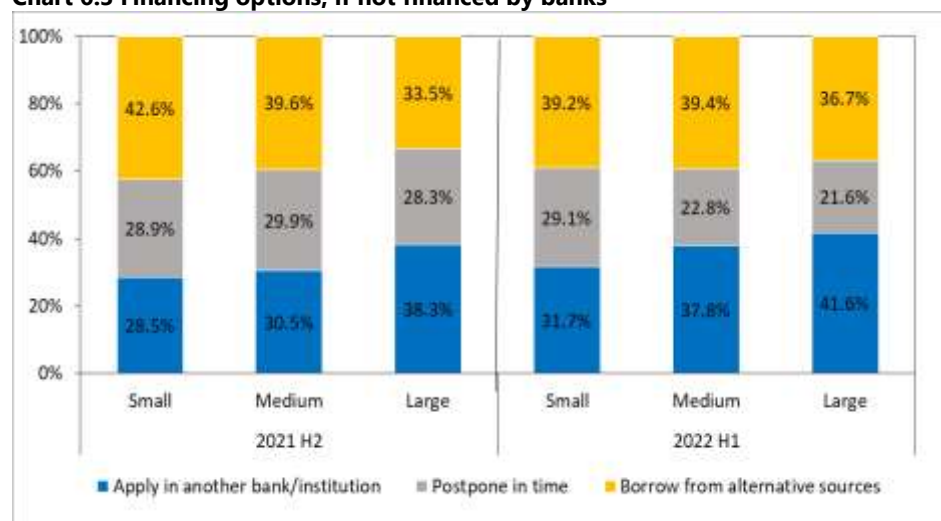
**Chart 6.2 Enterprises that did not apply for a loan, by size**



Source: Bank of Albania.

Asked how they would behave *if they were not financed by banks*, more than 39% of small enterprises declared that they would borrow from *alternative sources*, representing a decline of 3.4 p.p. Meanwhile, this share also decreased for medium-sized (39%) and large enterprises (37%). A significant share of enterprises stated that they *would apply again to another bank or other institution*. This share increased significantly for all types of enterprises. This alternative accounts for the main share in the case of large enterprises (42%). The share of medium-sized and large enterprises that declared they will postpone their activity expansion plan, decreased, due to lack of financing.

**Chart 6.3 Financing options, if not financed by banks**

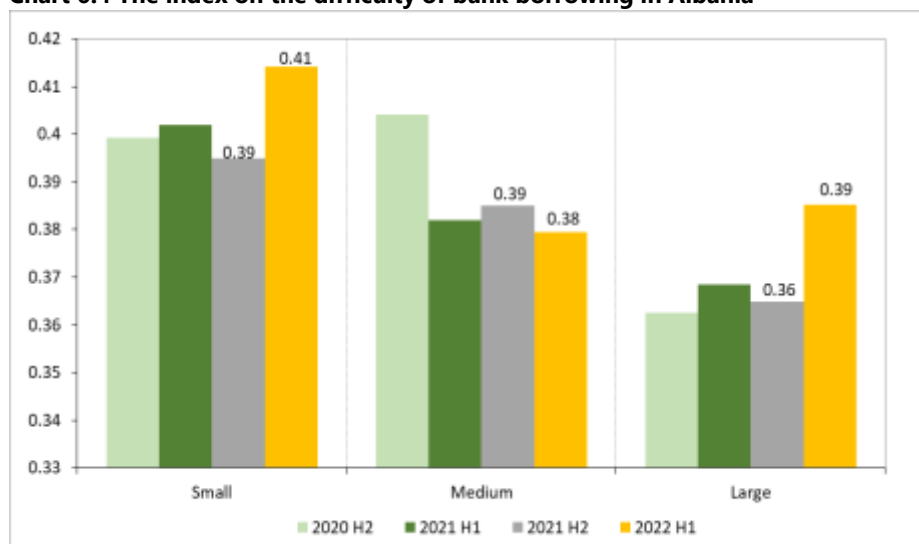


Source: Bank of Albania.

## 6.2 Borrowing process and relationship with banks

The index on the difficulty of the bank borrowing process was at 0.39 for enterprises as a whole during the period, slightly up compared with the previous period. This index remained between "normal" and "difficult", for all three groups of enterprises. Compared with 2021 H2, the level of difficulty increased for small and large enterprises.

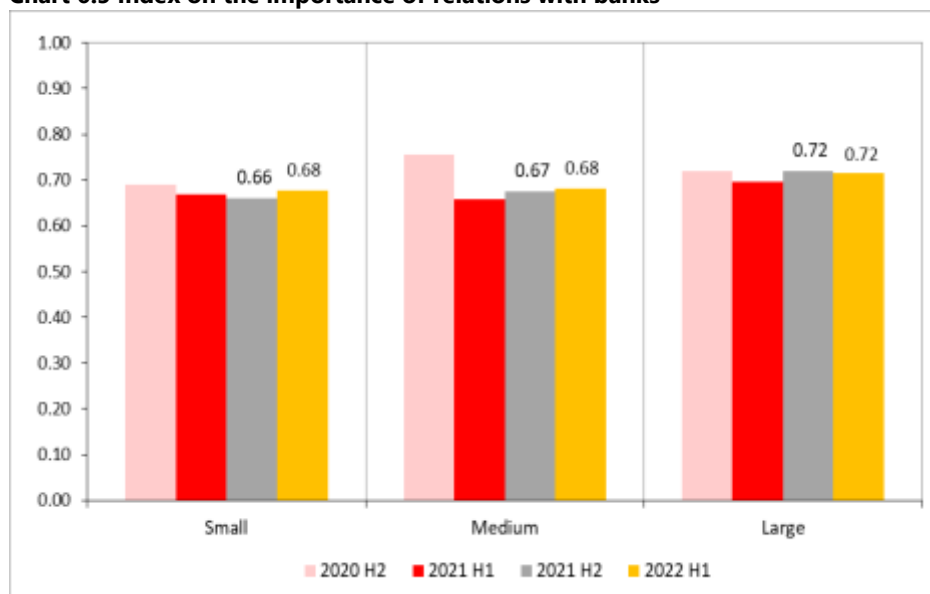
**Chart 6.4 The index on the difficulty of bank borrowing in Albania<sup>13</sup>**



Source: Bank of Albania.

*Relationship with banks*, measured by the relevant index, continues to be assessed between "important" and "necessary", at 0.7. This index increased during this period for small and medium-sized enterprises.

**Chart 6.5 Index on the importance of relations with banks<sup>14</sup>**



Source: Bank of Albania.

<sup>13</sup> This index is calculated by weighting the response of enterprises against total responses with a coefficient, which increases with the increase of the difficulty of this process. The coefficient for the alternative "very easy" = 0, "normal" = 0.25, "difficult" = 0.5, "very difficult" = 0.75, "almost impossible" = 1.

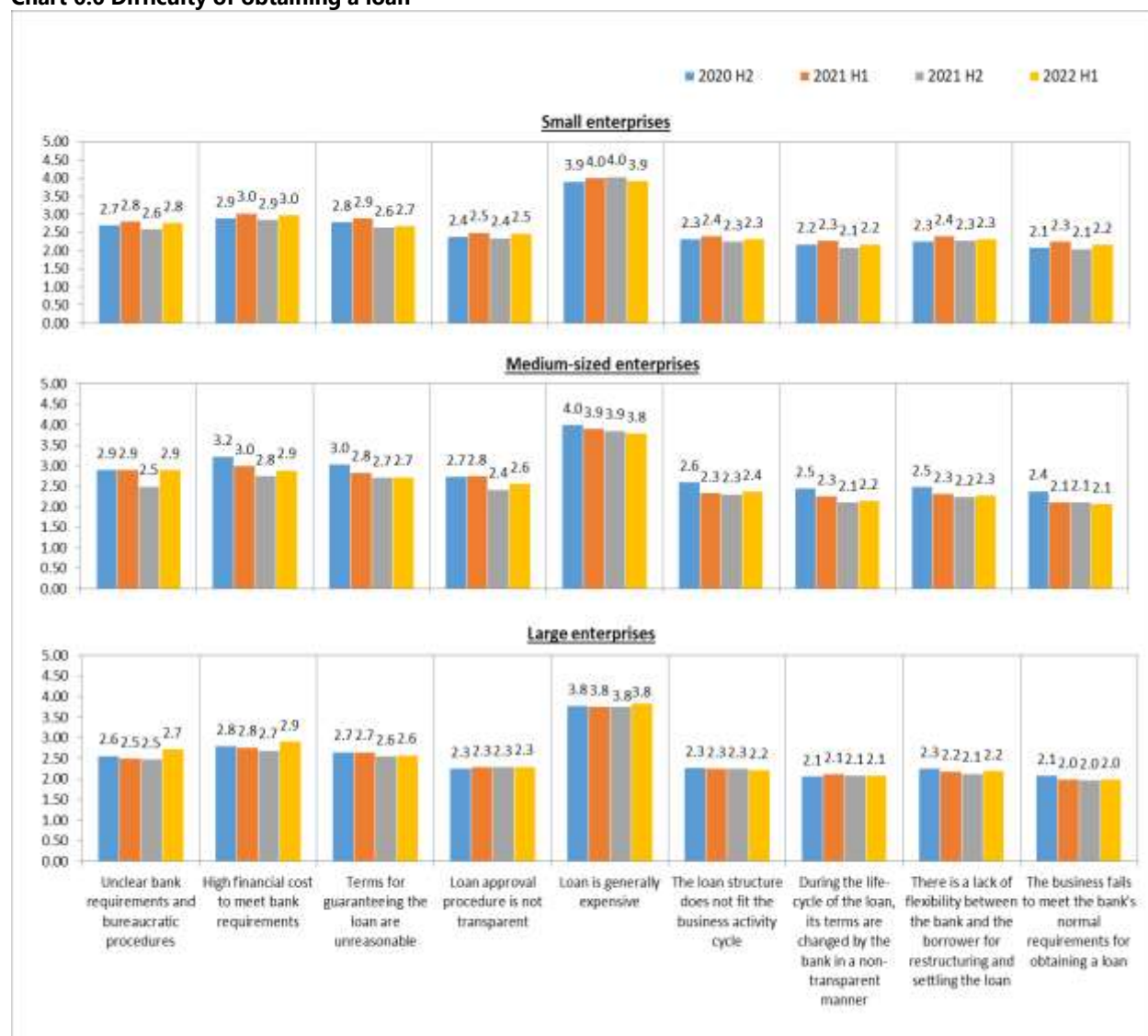
<sup>14</sup> The index is calculated by weighing the share of enterprises' responses to the total responses by the coefficients that take values of: 1 = "Necessary", 0.5 = "Important" and 0 = "Not quite important".



### 6.3 Difficulty of obtaining a loan<sup>15</sup>

**Loan cost continues to be the main factor which is reported to make it more difficult to obtain a bank loan, especially for small enterprises.** However, for the number of small and medium-sized enterprises which reported this as a primary factor declined slightly in this six-month period. Following loan cost, *the cost of meeting bank requirements* was a significant difficulty for all three groups of enterprises, followed by *loan guaranteeing terms* and unclear bank requirements or bureaucratic procedures. The significant of these factors increased for all sizes of enterprises during the period.

**Chart 6.6 Difficulty of obtaining a loan**



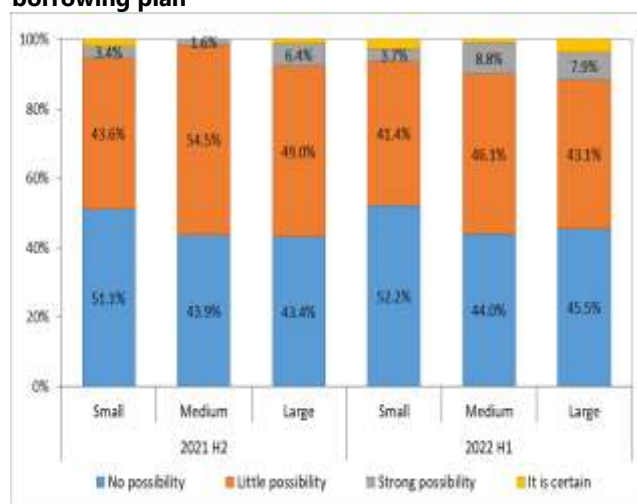
Source: Bank of Albania.

<sup>15</sup> In order to assess the difficulty of obtaining a bank loan, enterprises were asked to give their opinion on a number of qualitative elements, relying on a 5-degree rating system, where the lowest degree of difficulty is 1 and the highest is 5. In order to obtain an average rating for each qualitative element, scales from 1 to 5 were weighted with the weights of responses given by the enterprises.

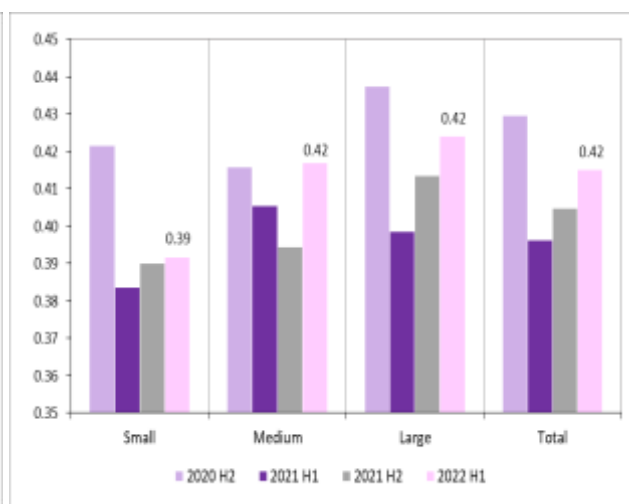
## 6.4 Borrowing plan

**Regarding plans for borrowing in the next six-months, based on the responses of enterprises, the assessment is that loan demand may remain on the positive side.** Around 47% of responding enterprises reported “no possibility” of bank borrowing in the next period. This share recorded a decrease among all sizes of enterprises compared with the previous periods. Furthermore, an increase was observed in the share of enterprises that claimed there was “little possibility” of taking a loan in 2022 H2, as well as the share of small enterprises that declared there was a “high possibility” for this to happen in the next period. There was a decrease in the alternative “definitely” for medium-sized enterprises, as well as for large enterprises. The value of the *borrowing plan index* for the next six-months<sup>16</sup> was 0.42 for enterprises as a whole. This index increased for all sizes of enterprises, in particular for medium-sized and large enterprises.

**Chart 6.7 Distribution of enterprises by borrowing plan**



**Chart 6.8 Borrowing plan index**



Source: Bank of Albania.

<sup>16</sup> To assess the responses of the enterprises, an index on borrowing plans was constructed, calculated by weighing the enterprises' responses to the total of responses by a coefficient, which increases as the probability to borrow increases. The coefficient for the alternative: “no possibility” = 0.25; “little possibility” = 0.5; “probable” = 0.75; “certain” = 1.