



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

**2022 H2**

**FINANCIAL STABILITY DEPARTMENT**

**January 2023<sup>1</sup>**

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<sup>1</sup> This survey covers developments on the financial and borrowing situation of enterprises for 2022 H2 as well as expectations for 2023 H1.

## CONTENTS

Summary of key findings of the Survey.....	2
Financial and borrowing situation of enterprises in Albania .....	4
1. Objectives and scope of action .....	4
2. Financial performance of enterprises and the presence of debt .....	7
3. Characteristics of enterprise borrowing .....	10
4. Debt structure .....	12
5. Debt burden .....	14
6. Relations with banks and expectations for the future .....	17

## Summary of key findings of the Survey

*The survey used a sample of a total of 1352 small, medium-sized and large enterprises, which conduct their activity in the main sectors of the economy, geographically distributed across the country. The results of the survey show that for most enterprises, the sales and financial result performance continued to improve compared to the previous six months, although the issues and problems continue related to finding the market, as a result of the increase in production and labour costs, as well as with finding of qualified staff. Enterprises' expectation for the performance of investments and activity continue to remain optimistic. The share of borrowing enterprises has slightly decreased during the year. The debt burden, in the form of debt ratio to capital and in the form of its servicing to the income of the enterprise, is estimated at affordable levels for most of enterprises. Enterprises expect their credit demand to remain stable in the first half of 2023.*

### • FINANCIAL SITUATION

During 2022 H2, (hereinafter "the period"), surveyed small enterprises reported "**competition**" and "**finding a market**", as their main challenges. Whereas medium-sized and large enterprises reported "**cost of funding**" and "**availability of qualified staff**". The importance of the element of competitiveness appears in decline compared with the previous period, similarly to finding a market. Elements that appear as increasing problem for all sizes of enterprises during this period, continue to remain "**cost of funding**" and "**availability of qualified staff**".

**The sales and the financial result performance has continued to improve compared to 2022 H1**, for all sizes of enterprises. **Over 93% of each size group reported profit during the period.** Expectations for the next six months for the level of general sales and the financial result appear positive for enterprises of all sizes and more optimistic compared to the previous period. **Signals continue to be positive regarding the expansion of activity or the increase of investments for all sizes of enterprises.** All sizes of enterprises are optimistic in their expectations for the period of the next six months, but small enterprises expect a decrease compared to the previous periods under review.

During the period, about 57% of enterprises continued to finance their activity only through sales, increasing 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 medium-sized and large enterprises. Financing realized through the *combination of sales with carried reserves* has the main share in this aspect, followed by combination of sales with debt.

### • BORROWING

**Around 39% of the total responding enterprises declare that they are currently indebted.** This share decreased by 0.5 pp compared to the last six months and by 3.3 pp compared to the previous year. In terms of the size of enterprises, the share of borrowing enterprises decreased for small and medium-sized enterprises, respectively by 3.8 pp for small enterprises and 0.7 pp for medium-sized ones. In regard to large enterprises, there is a slight increase by 0.9 pp.

**In total, formal sources of borrowing (banks and non-bank financial institutions) were used by 93% of borrowing enterprises which responded, 1.5 pp more compared to the previous six months.** Among those, around 92% of borrowing enterprises declare that they have turned only to the banking sector to borrow, which represent an increase by 3.6 p.p. compared to 2022 H1. **The combination of formal resources and informal sources was used by 2.9% of enterprises.**

**Enterprises borrowed primarily to make long-term investments and to cover 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 increased only for small enterprises. Around 80% of small enterprises, around 84% of medium-sized enterprises and 82% of large enterprises consider their level of borrowing for financing their activity as *adequate*. Compared to the previous period, this share decreased for small enterprises.

**Euroisation of the activity of all sizes of enterprises is presented as low, however, it has a larger share for large enterprises.**

On the other hand, enterprises' borrowing appears relatively balanced. Borrowing is denominated in the domestic currency for 65% of small borrowing enterprises, 54% of medium-sized enterprises and 48% 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 (41% and 40%, respectively) and less by small enterprises (around 32% of them). However, compared to the previous six months, the share of enterprises borrowing in foreign currency has increased by 1.7 pp for small enterprises, but has decreased for medium-sized and large enterprises (by 1.2 pp and 1.8 pp, respectively). This factor is also influenced by the currency in which these enterprises carry out their activity, 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 75% of total borrowing enterprises and almost at the same level of the value of equity for around 11% of them, whilst the rest, 14% 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% of them stating that this ratio equals or exceeds the value of equity, implying a higher debt burden for these enterprises. This ratio increased during this period for large enterprises. At the sectoral level, debt burden increased for all of the analysed sectors.

• RELATIONS WITH BANKS

***Difficulty in borrowing from banks was assessed as either "normal" or "difficult", but this level of difficulty has decreased for small and large enterprises.*** Relations with banks continued to be assessed as "important" or "necessary".

The primary element which was reported to make obtaining a bank loan difficult remains *the high loan costs*, particularly in the case of small enterprises. The assessment for this element for this six-month period has increased for small and medium-sized enterprises.

Regarding planning for a loan in the future, around 40% of responding enterprises reported *"no possibility"* of bank borrowing in the next period. This share has continued to fall for all sizes of enterprises compared to the previous period. On the other hand, an increase continues to be observed in the share of enterprises that claim they are *"somewhat likely"* to take a loan in 2023 H1, as well as in the share of enterprises that declare it is *"very likely"* for this to happen in the next period. Meanwhile, the weight of companies that have chosen the alternative *"it is certain"* has decreased, although this alternative maintains the smallest share.

## Financial and borrowing situation of enterprises in Albania

**Sample characteristics<sup>2</sup>.** In 2022 H2, (hereinafter, “the period”) the survey was conducted on a sample of 1352 enterprises distributed in the 12 counties of Albania. Most enterprises (80%) are located in the four major counties, namely: Tirana (around 55%), Durrës (around 15%), Fier (around 6%) and Shkodra (around 4%).

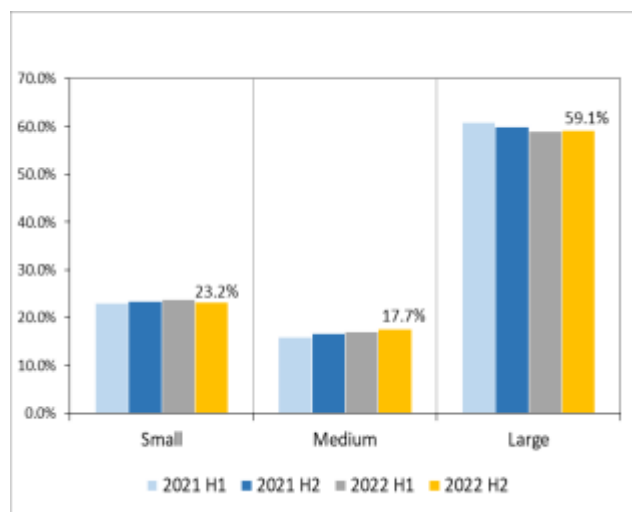
From the total sample, 86% of the enterprises (1160) responded fully or partially to the survey questionnaire and the analysis of the results is based on these responses. The following analysis is largely based on a breakdown of enterprises by size.

### 1. Objectives and scope of action

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

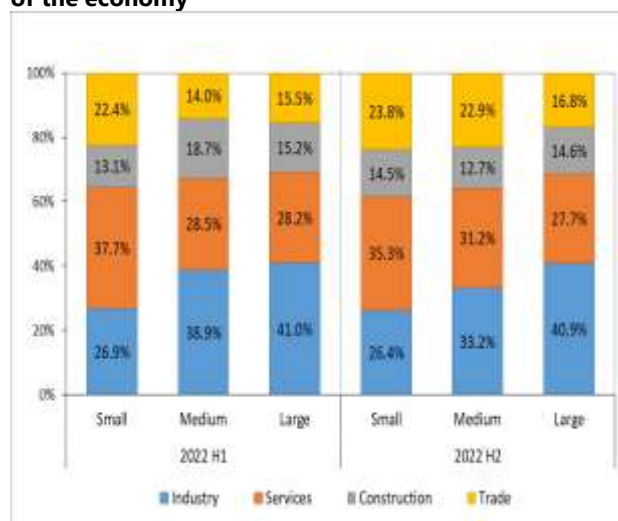
By sector, for 2022 H2, around 36% of enterprises belong to the *industry* sector, around 30% belong to the *services* sector, around 14% belong to the *construction* sector and around 20% to the *trade* sector. By size, around 23% of enterprises are classified as *small enterprises* (5-19 employees), around 18% as *medium-sized enterprises* (20-49 employees) and 59% as *large enterprises* (over 50 employees). In the group of small enterprises, the main share is occupied by enterprises operating in the service sector (about 35%), followed by the industry sector (about 27%). On the other hand, in the group of medium and large enterprises, the highest share is accounted by enterprises of the industry sector (33% and 41%, respectively) and those of the service sector (with a share of 31% and 28%, respectively).

**Chart 1.1 Distribution of enterprises by size**



Source Bank of Albania

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



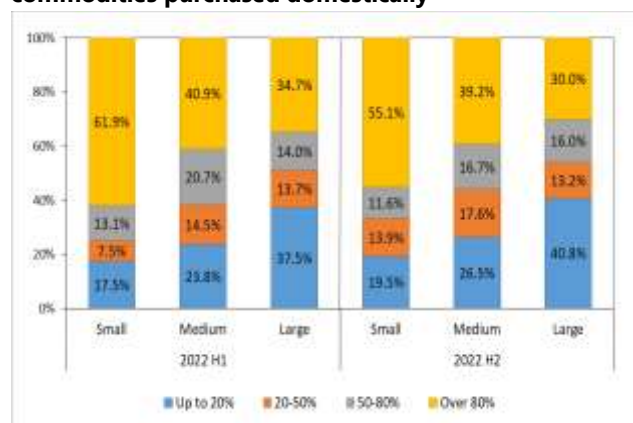
<sup>2</sup> The survey on the financial and borrowing situation of enterprises has been conducted biannually since 2010 H2. This survey was launched with a sample of top 700 enterprises with the highest annual net sales (large enterprises). In 2016, the sample expanded to include around 1200 large, medium-sized, and small enterprises across the country.

## 1.2 Obtaining commodities and selling products

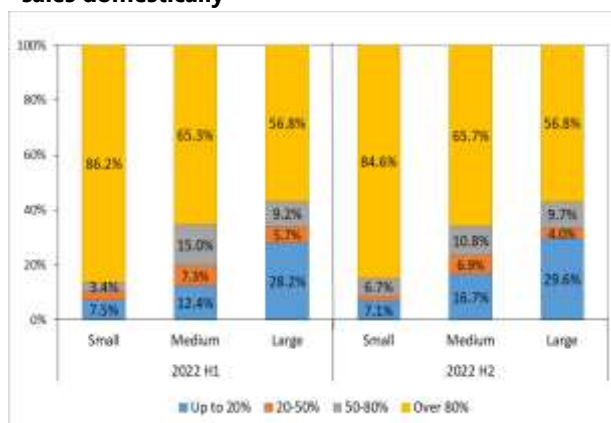
**The majority of small and medium-sized enterprises (about 55% of small and 39% of medium-sized enterprises) provide more than 80% of commodities domestically.** However, this indicator decreased by 6.9 pp for small enterprises and by 1.7 pp for medium-sized enterprises compared to the previous period. On the other hand, about 41% of large enterprises provide *only up to 20% of commodities within the country*, increasing by 3.4 pp semi-annually.

Products continue to be primarily sold domestically, where about 85% of small enterprises, 66% 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 decrease by 1.5 pp in the share of small enterprises primarily selling their products domestically, while the share of medium-sized enterprises making such declarations increased by 0.4 p.p.

**Chart 1.3 Distribution of enterprises share of commodities purchased 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 62% 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 by 13.6 p.p. compared to the previous year. On the other hand, the industry sector shows the lowest reliance with 52% of the enterprises in this sector obtaining only 20% of their raw materials domestically. The share of these enterprises increased by 2.9 pp in both semi-annual and annual terms.

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

		up to 20%	20-50 %	50-80 %	above 80%
Industry	2021 H1	52.6%	14.1%	9.1%	24.2%
	2021 H2	49.1%	16.1%	12.7%	22.1%
	2022 H1	49.2%	14.1%	14.3%	22.4%
	2022 H2	52.0%	14.0%	13.3%	20.7%
Services	2021 H1	18.4%	6.4%	14.3%	60.8%
	2021 H2	18.5%	4.2%	11.2%	66.1%
	2022 H1	17.8%	7.9%	13.5%	60.8%
	2022 H2	21.8%	8.6%	12.9%	56.7%
Construction	2021 H1	4.4%	3.1%	20.1%	72.3%
	2021 H2	1.2%	5.3%	17.5%	76.0%

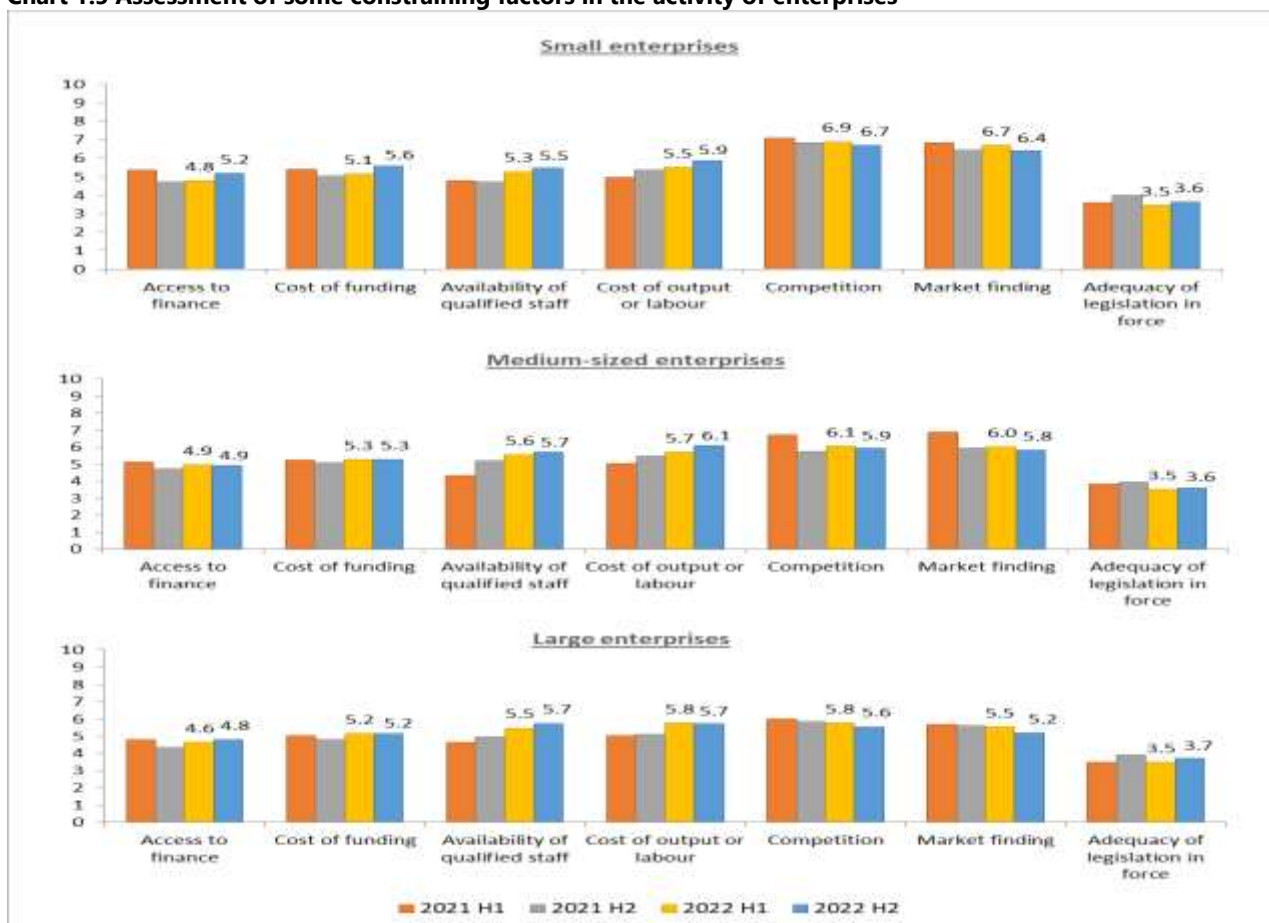
Trade	2022 H1	2.3%	5.2%	23.3%	69.2%
	2022 H2	4.8%	9.7%	23.0%	62.4%
	2021 H1	29.7%	24.7%	16.4%	29.2%
	2021 H2	41.2%	17.1%	15.6%	26.1%
	2022 H1	36.8%	23.2%	11.6%	28.4%
	2022 H2	37.6%	26.1%	15.9%	20.4%

Source: Bank of Albania.

### 1.3 Constraining factors in the activity of enterprises<sup>3</sup>

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

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



Source: Bank of Albania

<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 enterprise.



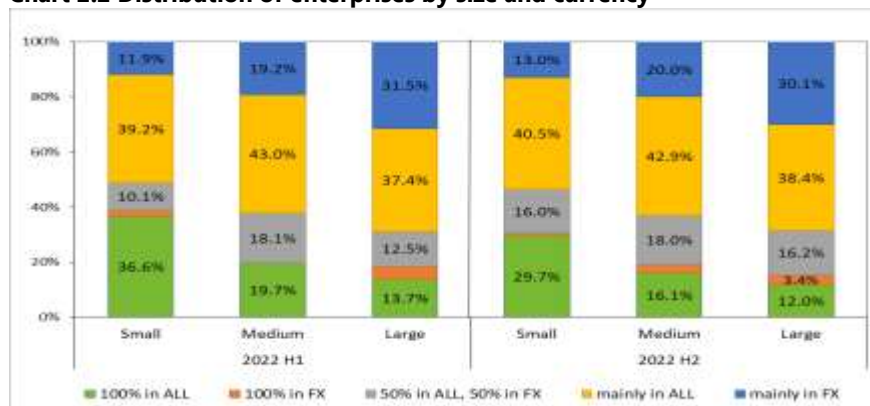
## 2. Financial performance of enterprises and the presence of debt

### 2.1 The operating currency of the 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 23% of medium-sized enterprises state that they carry out their activity *completely or mainly*<sup>4</sup> in foreign currency. This was also reported by around 33% of large enterprises, down by 2.9 percentage points compared to the previous period.

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

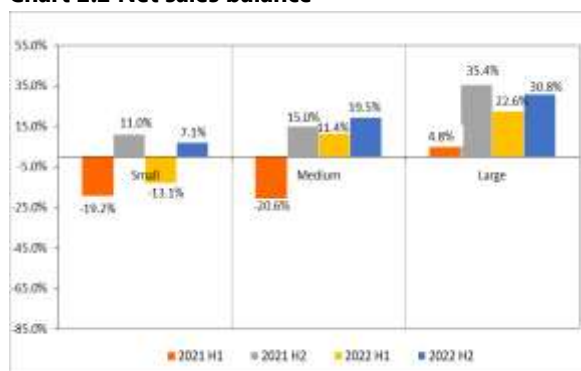


Source Bank of Albania

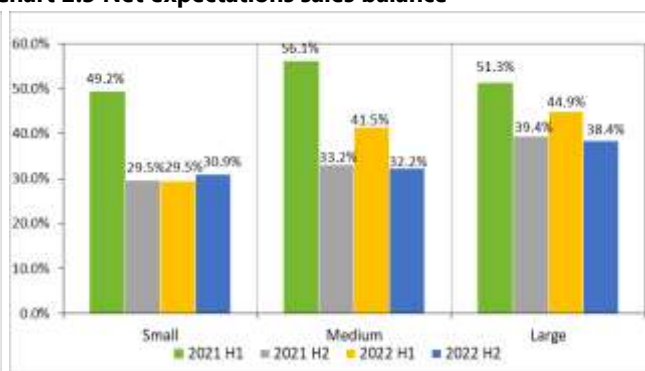
### 2.2 Sales performance, financial result and expansion of activity

**During the period, sales increased for all sizes of enterprises.** Medium-sized and large enterprises continue to report an increase in sales levels with a positive net balance of 19.5% and 30.8%, respectively, higher compared to the previous six months. The situation is presented as improved for small enterprises, which returned to a positive net balance of 7.1%. Regarding expectations for the further development of sales levels, all enterprises (regardless of size) were quite optimistic for 2023 H1. More specifically, medium-sized and large enterprises show positive but lower net balances (of 32.2% and 38.4%), while for small enterprises this balance has slightly increased reaching 30.9%.

**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.

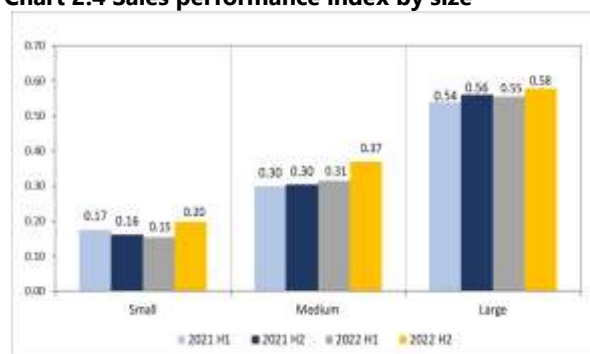
<sup>4</sup> Over 50% of the activity in foreign currency.



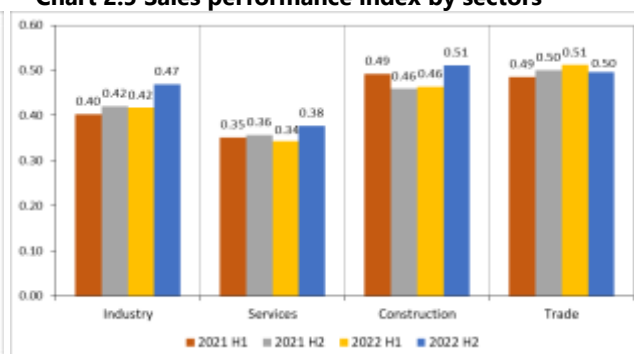
The aggregate performance of total sales is analysed through an index<sup>5</sup> that weighs the responses of enterprises at different intervals and aggregates them by size of enterprises and sectors.

**The performance of the sales index increased over the period compared to 2022 H1.** For all sizes of enterprises, the performance of index values showed an increase in total values of sales. At the sectoral level, there was an increase for the industry, services and construction sector.

**Chart 2.4 Sales performance index by size**



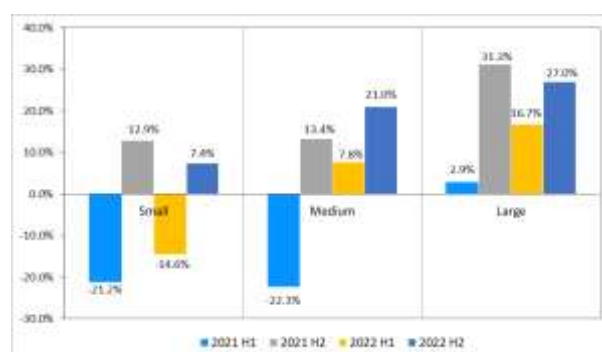
**Chart 2.5 Sales performance index by sectors**



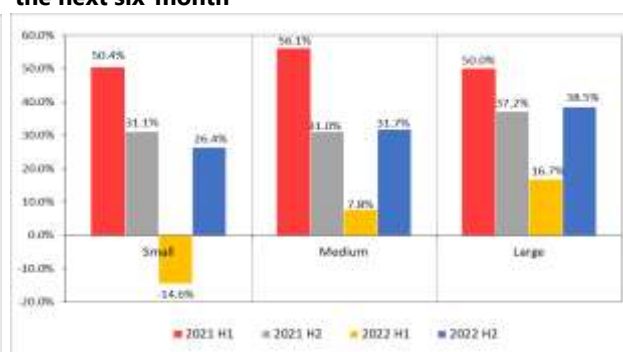
Source Bank of Albania.

**All sizes of enterprises report an increase in financial result.** Thus, medium-sized and large enterprises continue to show an increase in the financial result, with a positive net balance (of 21% and 27%, respectively) and expanded compared to the previous period. Small businesses are back in a positive territory again, declaring an increase in the financial result for the period, reflected in a positive balance of 7.4%. *Expectations for the financial result in the next six months* are positive for enterprises of all sizes and more optimistic compared to the previous period.

**Chart 2.6 Net balance of financial result**



**Chart 2.7 Net balance of financial result expected in the next six-month**



Source Bank of Albania.

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

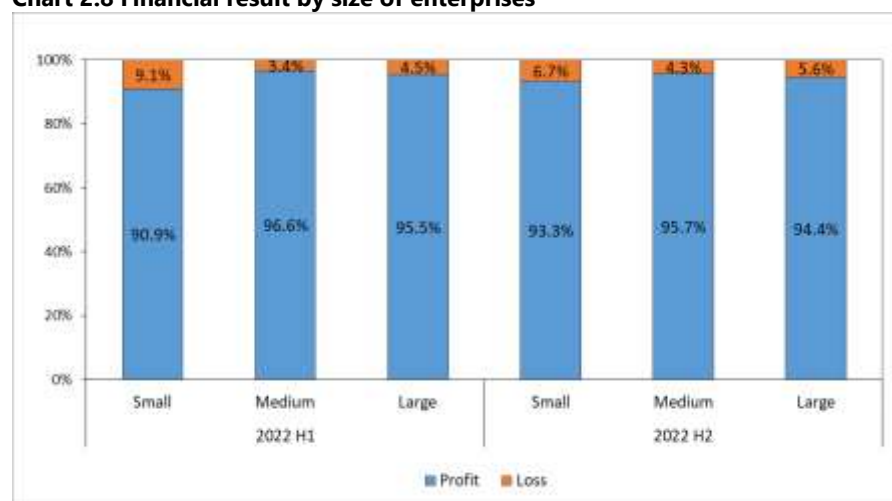
**For enterprises which responded, when asked about financial result<sup>6</sup> in 2022 H2, more than 93% of each size group reported a profit during the period.** This percentage was higher for medium-sized

<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.

<sup>6</sup> 1042 entities or around 76% of the sample responded.

enterprises (around 96%) and lower for small enterprises (around 93%). Compared to the previous period, the number of profit-reporting enterprises increased for small enterprises.

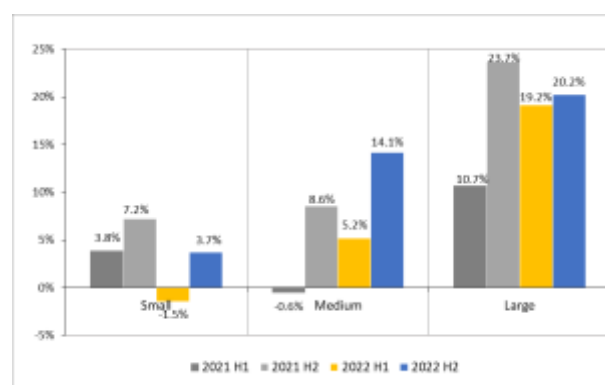
**Chart 2.8 Financial result by size of enterprises**



Source Bank of Albania.

**The assessment of enterprises for investment growth and activity expansion presented an optimistic picture for all sizes of enterprises.** Medium-sized and large enterprises continue to register positive net balances of 14.1% and 20.2%, respectively. Meanwhile, small enterprises expanded their activity, with a positive balance of 3.7%. 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 remain optimistic, but declined for small enterprises compared to the previous six-months.

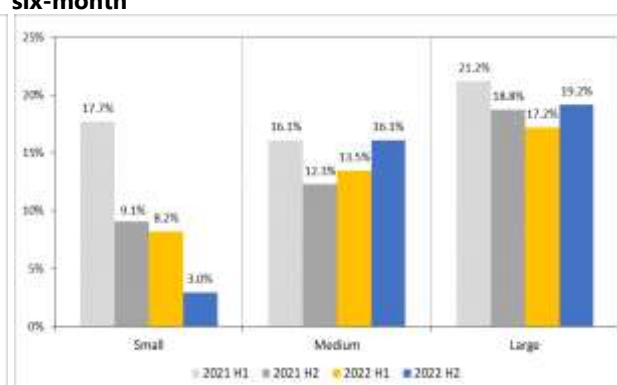
**Chart 2.9 Net balance of activity expansion**



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

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

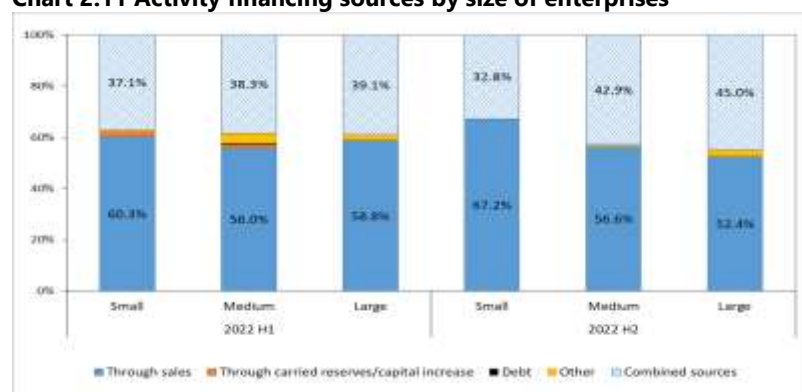


## 2.3 Activity financing

During the period, around 57% of enterprises continued to finance their activity only through sales (about 67% of small enterprises, 57% of medium-sized enterprises and 53% of large enterprises), recording an increase for small enterprises and medium-sized ones. Meanwhile, the trend of combining different sources of financing continues to account for a considerable share during the period, expanding for medium-sized

and large 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 2.11 Activity financing sources by size of enterprises**



Source Bank of Albania.

### 3. Characteristics of enterprise borrowing

**Around 39% of the enterprises which responded<sup>7</sup> (453 enterprises in total) stated that they were in debt.** This share registered a decrease by 0.5 percentage points (p.p.) compared to the previous six-months, and by 3.3 p.p. compared to the previous year. In terms of enterprise size, there was a decrease in the number of borrowing enterprises among small and medium-sized enterprises by 3.8 p.p and 0.7 pp, respectively. In regard to large enterprises, there is a slight increase by 0.9 pp. By sector, the borrowing enterprises of the trade, construction and industry sectors account for about 44% of the total of each sector, while for the services sector this share is about 28%.

**Table 3.1 Distribution of enterprises by size and borrowing**

Borrowing enterprises by size	No. of enterprises		Share to total of the group	
	2022 H1	2022 H2	2022 H1	2022 H2
Small	78	68	29.1%	25.3%
Medium	72	75	37.3%	36.6%
Large	294	310	44.3%	45.3%
<b>Total enterprises</b>	<b>444</b>	<b>453</b>	<b>39.5%</b>	<b>39%</b>

Source: Bank of Albania.

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

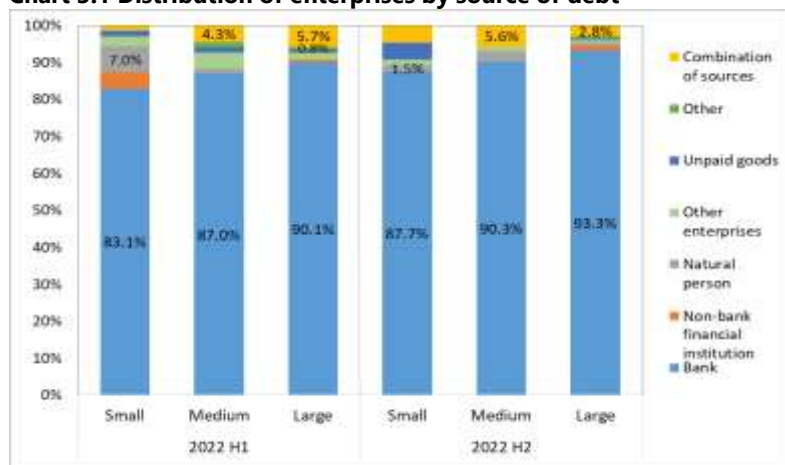
#### 3.1 The source of debt

Around 92% of enterprises borrowed primarily from the banking sector, while almost 4% used a combination of sources. The share of enterprises borrowing from banks increased by 3.6 p.p. compared to 2022 H1. By size, around 88% of small enterprises, 90% of medium-size ones and 93% of large enterprises turned only to banks as a source of borrowing. This share increased for all sizes of enterprises compared

<sup>7</sup> Considering the full sample of 1352 enterprises, only 1160 of them or around 86% responded.

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).

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



Source: Bank of Albania.

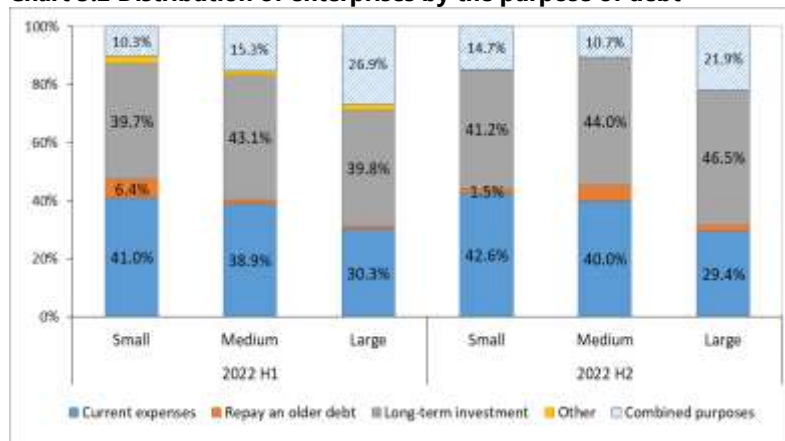
In total, formal sources of borrowing (from banks and non-bank financial institutions) were used by 93% of borrowing enterprises that responded to the questionnaire (about 88% of small enterprises, 92% of medium-sized enterprises and 95% of large ones), 1.5 pp more compared to the previous six months. The combination of formal resources with informal resources was used by 2.9% of enterprises.

### 3.2 Borrowing purpose

#### **Enterprises borrowed primarily to make long-term investments and to cover short-term expenses.**

Compared to the previous six-month period, the share of enterprises that have borrowed to make a long-term investment has increased for all sizes of enterprises, while the share of enterprises that have borrowed in order to cover short-term expenses has increased only for small enterprises. Borrowing with combined purpose of use, with the main share is accounted by the two above-mentioned purposes, decreased for medium-sized and large enterprises.

**Chart 3.2 Distribution of enterprises by the purpose of debt**

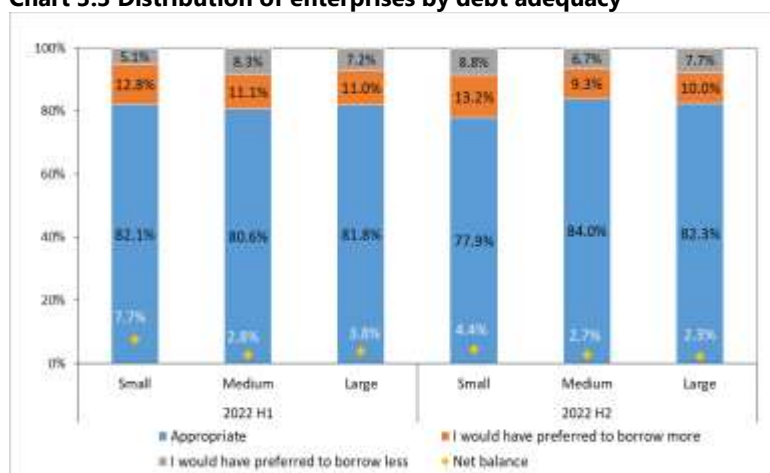


Source: Bank of Albania.

### 3.3 Debt adequacy

**During the period, more than 82% of enterprises considered the level of borrowing to finance their activity as adequate.** This indicator is around 80% of small enterprises, 84% of medium-sized enterprises and 82% of large ones. Compared to the previous period, this share fell for small enterprises. The remaining of responses resulted in positive net balances among all enterprise sizes. This balance indicates that the share of 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**



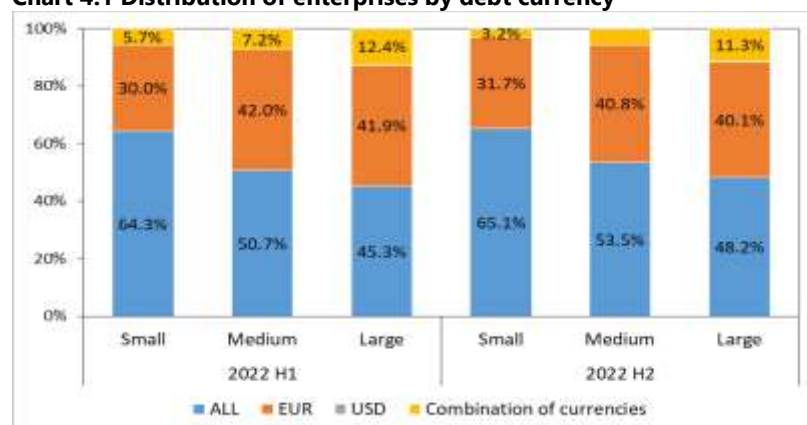
Source: Bank of Albania.

## 4. Debt structure

### 4.1 Currency

**By currency, borrowing appears relatively balanced.** Over the period, 65% of small enterprises, 54% of medium-sized enterprises and 48% of large enterprises, declare that their debt is only in domestic currency, while the rest 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) is more used by medium-sized and large enterprises (41% and 40%, respectively) and less by small enterprises (around 32%). This element is also affected by the currency with which these enterprises carry out their activity. However, compared to the previous six months, the share of enterprises indebted in foreign currency has increased by 1.7 pp for small enterprises, but has decreased for medium-sized and large enterprises (by 1.2 pp and 1.8 pp, respectively).

**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 51% of small enterprises, 57% of medium-sized enterprises and 48% of large ones.** Compared with the previous six-month, this share registered a decline for small and large enterprises (by 7.5 p.p. and 2.6 p.p., respectively), whilst it increased for medium-sized enterprises by 3.2 pp.

**New borrowing, which means borrowing in the last six-months, is declared by around 18% of small enterprises, 5% of medium-sized enterprises and 7% of large ones.** In semi and annual terms, the share of new borrowers increased for small enterprises. *The main purpose for new borrowing was to cover short-term expenditures (51% of the total enterprises which responded) and to make long-term investments (28% of total enterprises).* Compared to the last six months, there is an increase in the share of small and medium-sized enterprises that have newly borrowed to cover short-term expenses, while the share of new borrowers has also increased in order to make an investment in the case of small and large enterprises. The average maturity of debt resulted 64.4 months for small enterprises, 64.7 months for medium-sized enterprises and 65.8 months for large ones.

## 4.3 Interest rate and repayment

**The main type of interest rate for the largest existing debt<sup>8</sup> remains fixed interest rate up to maturity** (for 71% of small enterprises, 57% of medium-sized enterprises and 70% of large ones) **and a yearly variable rate** (for 19% of small enterprises, 25% for medium-sized enterprises and 21% of large ones). The share of enterprises reporting fixed interest rate borrowing decreased compared to the previous period. The frequency of repayment remains primarily monthly for 85% of small enterprises, 77% of medium-sized enterprises and 71% of large enterprises.

## 4.4 Collateral and coverage ratio

**About 60% of small enterprises, 68% of medium-sized enterprises and 72% of large ones, declare that the debt received is collateralized only with real estate, while the rest of the enterprises used other forms of collateralization<sup>9</sup>.** Meanwhile, around 16% of small enterprises, 12% of medium-sized

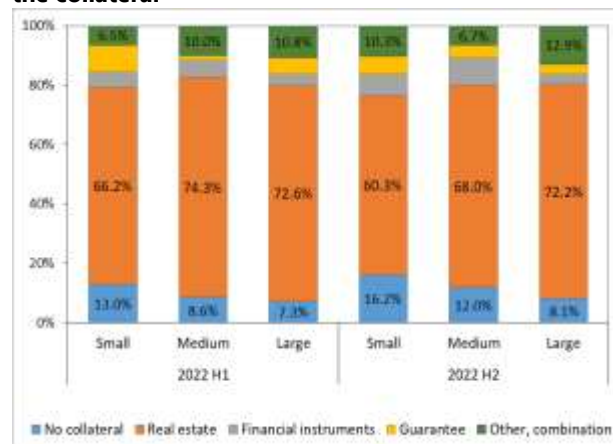
<sup>8</sup> For enterprises that have more than one debt

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

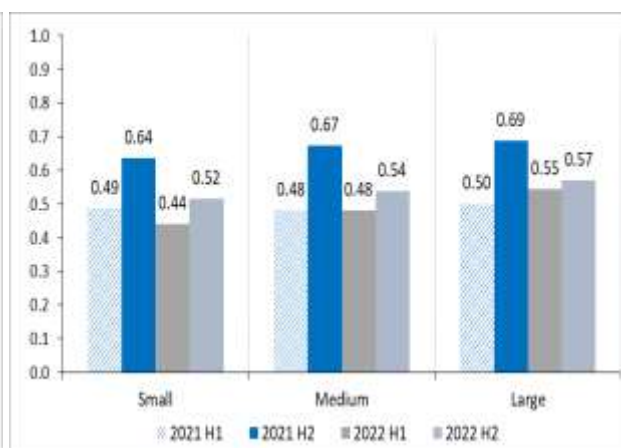
enterprises and 8% of large enterprises, admit that the debt is uncollateralized. Compared to the last six months, the share of enterprises with uncollateralized debt increased, while collateralization with financial instruments for small and medium-sized enterprises and with guarantees for medium-sized companies also increased.

*Collateral coverage* is also assessed aggregately through a weighted response index<sup>10</sup>. For 2022 H2, this index scored 0.52 for small enterprises, 0.54 for medium-sized enterprises and 0.57 for large enterprises. Compared to the previous period, the coverage ratio increased for all sizes of enterprises.

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



**Chart 4.3 Collateral coverage index**



Source: Bank of Albania.

## 5. Debt burden

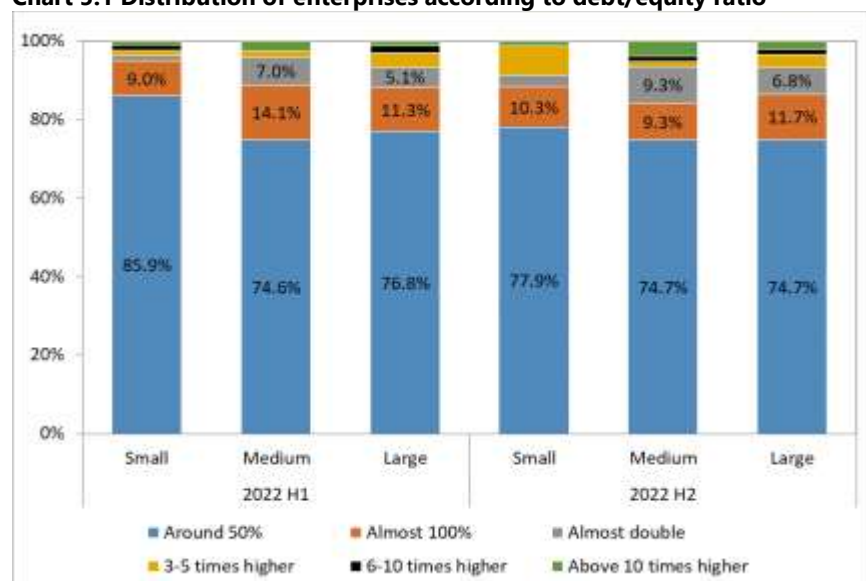
### 5.1 Debt value to equity

**During the period, the total value of debt was approximately equal to half of enterprises' equity for 75% of enterprises and almost equal to the value of equity for 11% of them, while the remaining 14% stated that the value of debt exceeded that of equity.** The debt/equity ratio was higher for medium-sized and large enterprises, with 25% of them declaring that this ratio was equal or exceeded the value of equity, implying a higher debt burden on these enterprises. This ratio increased during this period for large enterprises.

<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 increased for all sectors under review.** The debt burden appears lower for enterprises operating in the industry and trade sectors, whilst it appears higher for enterprises operating in the services and construction sectors.

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

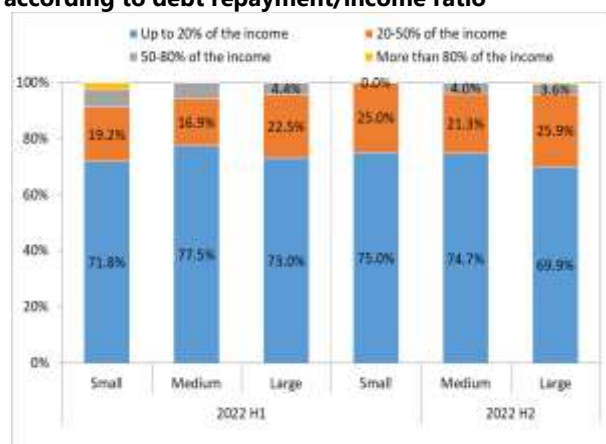
Share of enterprises with an equal/higher value of debt to equity, by sectors				
	Industry	Services	Construction	Trade
2021 H1	22.3%	26.5%	29.9%	27.0%
2021 H2	22.7%	24.7%	24.4%	22.1%
2022 H1	20.7%	21.2%	25.3%	22.5%
2022 H2	21.9%	28.9%	26.4%	25.3%

Source: Bank of Albania.

## 5.2 Debt repayment

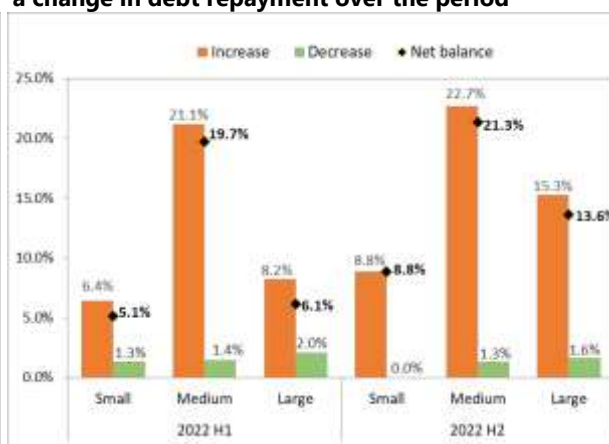
**Most of the enterprises which borrowed (71%) declared that debt repayment amounted to up to 20% of their income.** The share of these enterprises decreased by 2.1 p.p. compared with the previous survey. The burden of debt repayment appears to be heavier on large enterprises, with 30% reporting that this payment exceeds 20% of their income. Questioned whether the *debt service has changed* over the period, the majority of enterprises (around 91% of small enterprises, 76% of medium-sized enterprises and 83% of large enterprises) claim that this expenditure has 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 all sizes of enterprises.

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



Source: Bank of Albania.

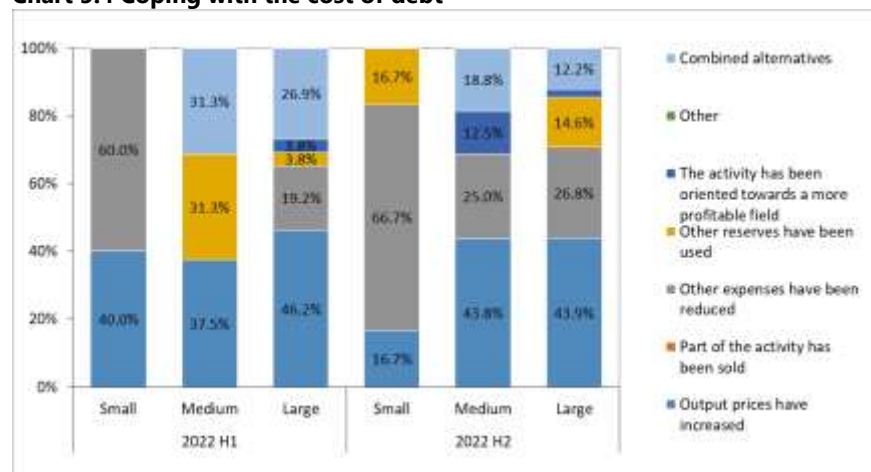
**Chart 5.3 Distribution of enterprises that declare a change in debt repayment over the period**



### 5.3 Coping with debt cost

To compensate for an increase in debt service costs, enterprises continue to rely primarily on an increase in the prices of products (41%), on a decrease in other expenses (30%) or by using various reserves (11%).

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



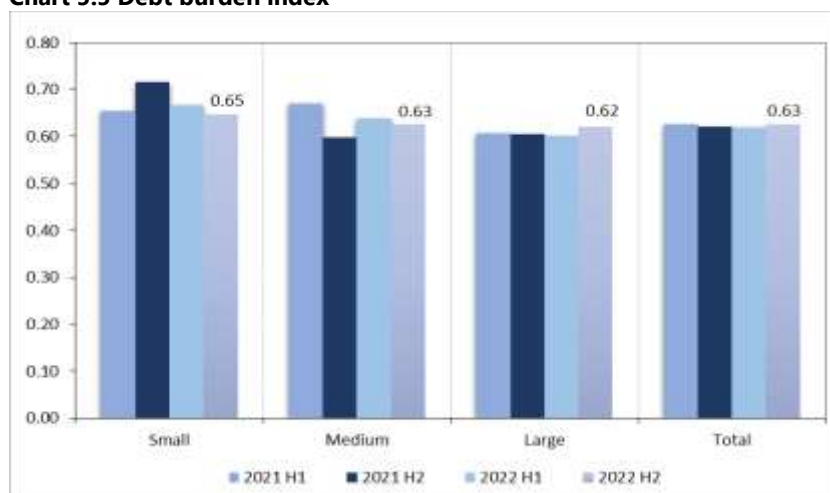
Source: Bank of Albania.

### 5.4 Debt burden

The debt burden of enterprises remained slightly increased throughout the period,<sup>11</sup> where the index value continued to remain at 0.63 for the total enterprises. By size, the index continues to show a higher debt burden for small enterprises, albeit down compared to 2022 H1. The value of this index increased for large 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**

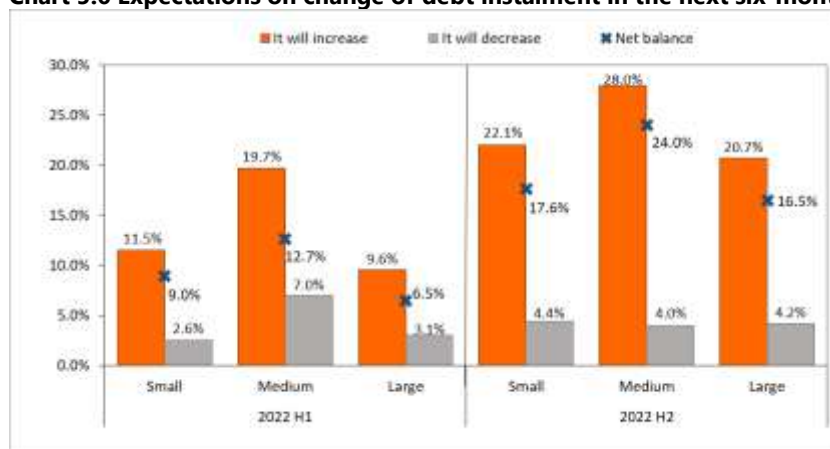


Source: Bank of Albania.

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

**Most of the borrowing enterprises (around 74%), despite their size, do not expect a change in their debt instalments in 2023 H1.** This share decreased by 11.2 p.p. compared to the previous period. Regarding the enterprises that expect a change in instalment, it turns out that enterprises of all sizes continue to expect an increase for the upcoming period. This positive net balance appears significantly higher regardless of the size of the enterprises.

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



Source: Bank of Albania.

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

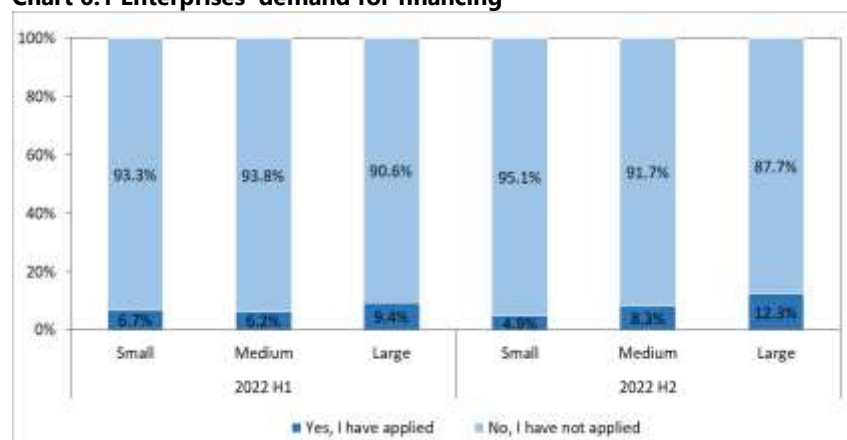
### 6.1 Access to financing

**Enterprises' demand for loans decreased during the period, where 10% of them declared that they applied for financing during the last six months.** This share expanded by around 1.7 p.p. for all enterprises compared with the previous survey. Analysing this indicator by the size of enterprises, large

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

enterprises account for the highest share for this period (around 12%). Compared with the previous six-months, an expansion of loan demand was observed only for medium-sized and large enterprises (by 2.1 pp and 2.9, respectively), whereas small enterprises presented a contraction of this demand (by 1.9 pp).

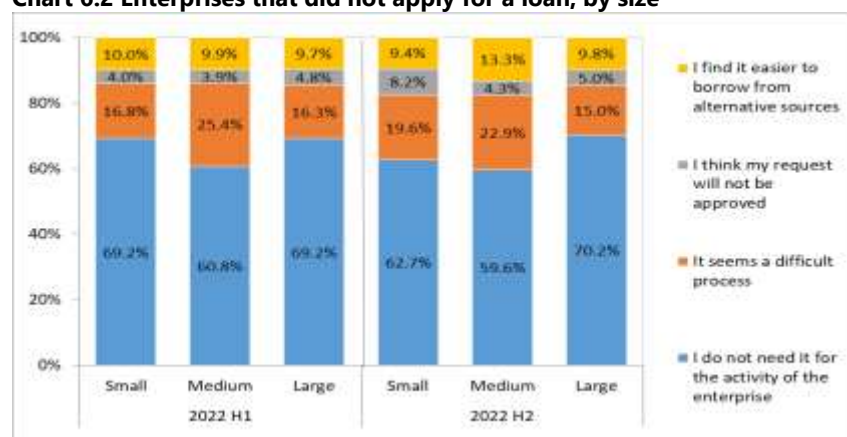
**Chart 6.1 Enterprises' demand for financing**



Source: Bank of Albania.

Enterprises that have not applied for a loan, in most cases, state that it is not necessary for their activity (63% of small enterprises, 60% of medium-sized enterprises and 70% of large ones). The rest of the enterprises have decided to not apply, because the process seems difficult, the share of which has decreased for medium-sized and large enterprises, or because they assess that it is easier to borrow from alternative sources. The share of the latter decreased for all sizes of enterprises.

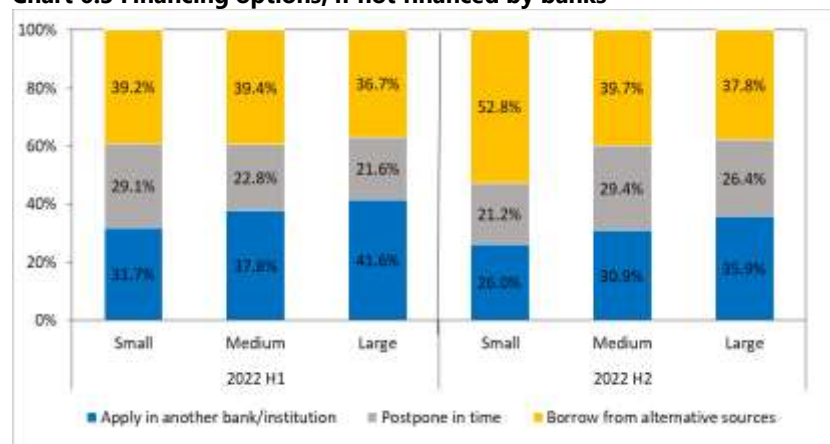
**Chart 6.2 Enterprises that did not apply for a loan, by size**



Source: Bank of Albania.

Asked how they would behave if they were not financed by banks, more than 53% of small enterprises declare that they would borrow from alternative sources, representing an increase of 13.6 pp. Meanwhile, this share slightly increased for medium-sized (40%) and large enterprises as well (38%). Also, a significant part of the enterprises claim that they will turn to another bank or institution again, but this share has moved downward for all sizes of enterprises. In the case of large enterprises, this alternative account for the main share (around 36%). On the other hand, there is a decrease on the share of small enterprises which claim a postponement of their plans due to the lack of financing.

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

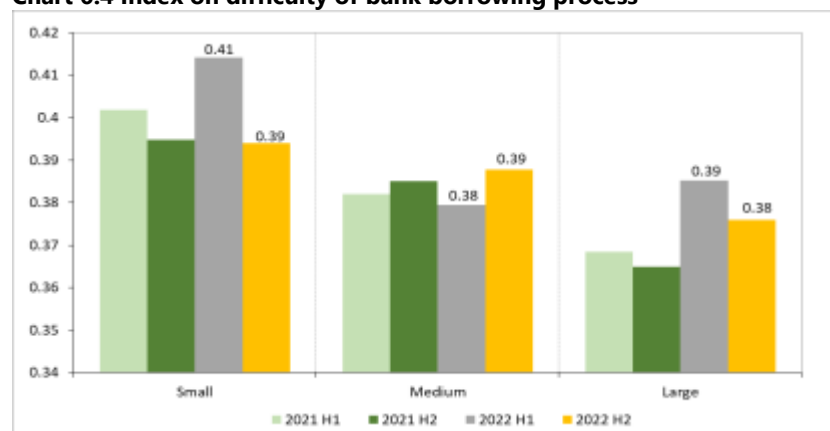


Source: Bank of Albania.

## 6.2 Borrowing process and relations with banks

**The index on the difficulty of bank borrowing process was at 0.38 for the total of enterprises during the period, slightly down compared with the previous period.** This index remains between the level of "normal" and "difficult", for all three groups of enterprises. Compared to 2022 H1, the level of difficulty has decreased for small and large enterprises.

**Chart 6.4 Index on difficulty of bank borrowing process<sup>13</sup>**

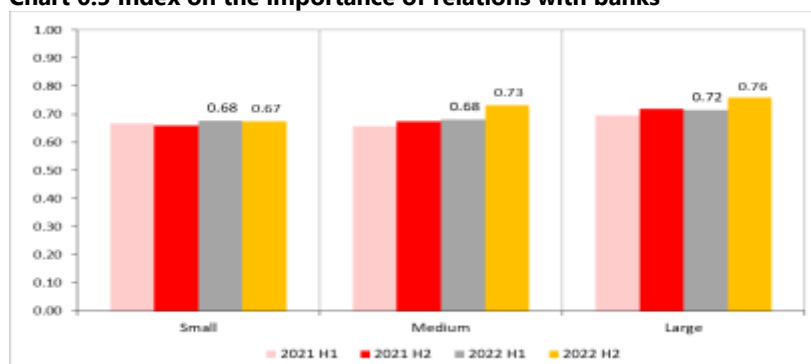


Source: Bank of Albania.

*Relationship with banks*, measured by the relevant index, continues to be assessed between "important" and "necessary", at 0.73. This index increased during this period for medium-sized and large enterprises.

<sup>13</sup> This index is calculated by weighting the response of enterprises against total responses according to 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.

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

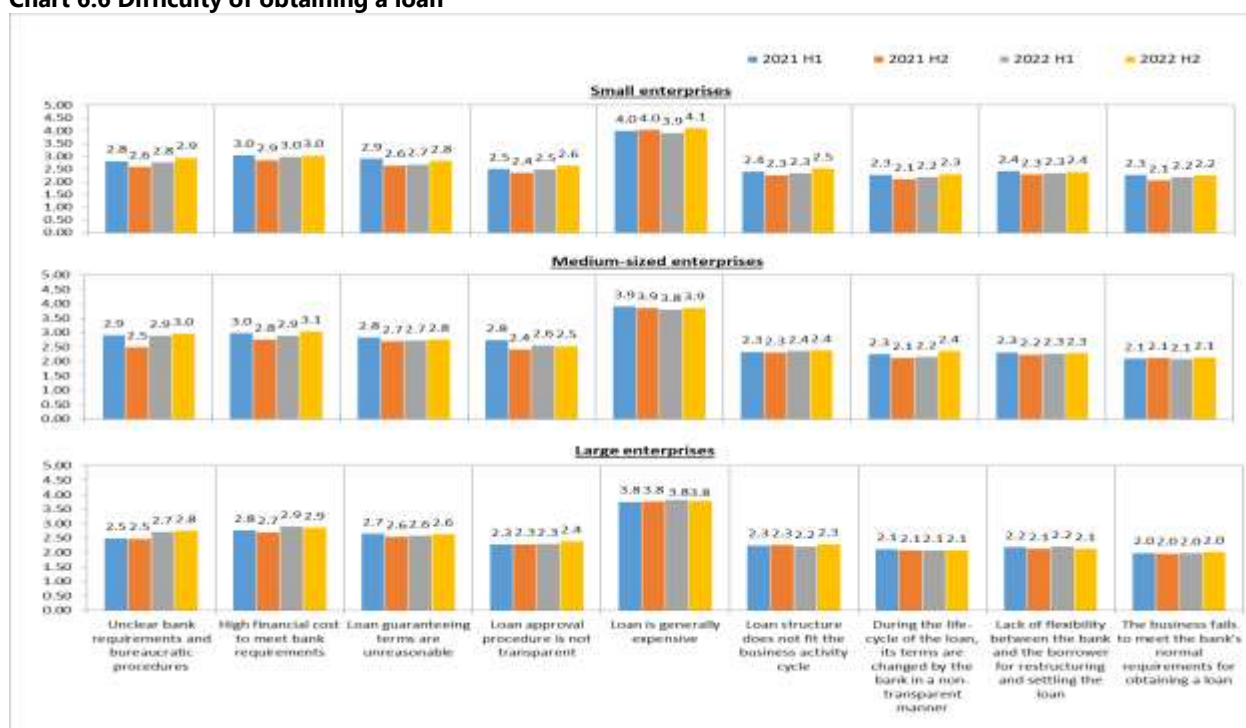


Source: Bank of Albania.

### 6.3 The difficulty of obtaining a loan<sup>15</sup>

**Loan cost continues to be the main factor reported to make it more difficult to obtain a bank loan, especially for small enterprises.** The assessment for this element for this six-month period has increased for small and medium-sized enterprises. Following loan cost, *the cost of meeting bank requirements* was a significant difficulty especially for small and medium-sized enterprises, followed by *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.

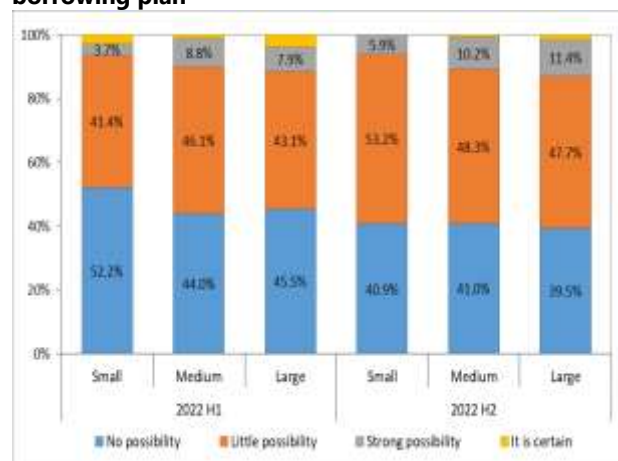
<sup>14</sup> The index is calculated by weighing the share of enterprises' responses to the total responses by the coefficients that take values of: 1 = "Necessary", 0.5 = "Important" and 0 = "Not quite important".

<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 are weighted with the weights of responses given by the enterprises.

## 6.4 Borrowing plan

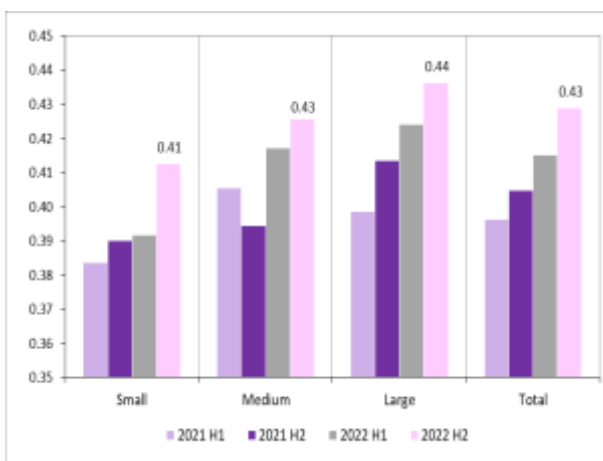
Regarding plans for borrowing in the next six-months, based on the responses of enterprises, the assessment is that loan demand may remain on the positive side. Around 40% of responding enterprises reported "no possibility" of bank borrowing in the next period. This share continued to decrease among all sizes of enterprises compared with the previous period. On the other hand, an increase was observed in the share of enterprises of all sizes that claim there is "little possibility" of taking a loan in 2023 H1, as well as the share of enterprises that declare there is a "high possibility" for this to happen in the next period. Meanwhile, the weight of companies that have chosen the alternative "it is certain" has decreased, although this alternative accounts for the smallest share. The value of the borrowing plan index<sup>16</sup> for the next six-months is 0.43 for the total number of responsive enterprises. This index increased for all sizes of enterprises, in particular for small enterprises.

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



Source: Bank of Albania.

**Chart 6.8 Borrowing plan index**



<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; "high possibility" = 0.75; "certain" = 1.