# FINANCIAL SITUATION AND BORROWING OF HOUSEHOLDS IN ALBANIA

## 2018 H1

**BANK OF ALBANIA**
**FINANCIAL STABILITY DEPARTMENT**

## CONTENT

## Summary of key findings of the Survey of Households' Financial and Borrowing Situation

The survey on households' financial and borrowing situation was launched in 2010, with six months frequency. The latest survey was conducted during May-June 2018, focusing on the developments in 2018 H1, while the expectations refer to 2018 H2. The survey was conducted on a random sample of about 1200 households, with a broad geographical distribution within the country.

- FINANCIAL SITUATION

The total number of employed individuals in the entire sample of households registered a decline compared with a year earlier, mainly due to the decrease of employment in the *public sector*, while the number of employed in the *private* and *self-employed sectors* registered an increase. The overall level of household's monthly income and living expenses increased during the period under review, but the increase in the living expenses was more pronounced, resulting in a narrowing of households' financial balance (income - expenses).

- BORROWING

About 28% of the households declare that they have a debt to repay by the moment of the interview, regardless of its source, type, value etc. This share has remained the same in both half-yearly and annual terms, but below the historical average of the survey (29%). The *total outstanding* debt reported for the entire sample has increased compared to the previous survey, but decreased compared with a year earlier. Around 83% of the outstanding debt has originated from formal sources and 17% from informal sources, and this structure has continued to shift toward formal borrowing, compared to 2017 H2 and 2017 H1. Regarding the debt currency structure, about 84% of the outstanding debt was in ALL and 16% in Euro. Regarding the debt purpose, about 35% of the outstanding amount is used to purchase/reconstruct a property (decreased by 10 pp compared to 2017 H2), 41% to start a business (increased by 8 pp compared to 2017 H2) and only 5% for consumption.

- DEBT BURDEN

Most of borrowing households (about 79%) declared that their *debt repayment amount* has not changed during the half-year under review. The *net balance* of the rest of responses shows a declining trend in the debt repayment amount. Around 60% of borrowing households declared that their solvency has not changed, while the net balance for the rest of the responses showed a deteriorated solvency compared to 2017 H2 and 2017 H1. For 2018 H2, around 74% of the households do not expect a change in their solvency, while the net balance for the rest of responses show a slight deterioration.

The borrowing/rollover possibility index for the coming six months has not changed from the previous period, but appears down compared with a year earlier, indicating a weak credit demand of the households. Around 26% of total households and around 29% of borrowing households declare that they *do not own any type of financial wealth*, and these shares have increased by 7 pp and 4 pp, respectively, compared with the previous survey.

In the group of households that declared to possess some form of financial wealth (excluding the cases were they 'do not have any financial wealth'), it results that 'bank deposits and/or banking accounts' remain the main type of financial investment, both in the case of the entire sample (74% of reported cases) and in the case of borrowing households (88% of reported cases). Compared with a half-year earlier, these shares registered a decline of 7 pp and 8 pp, respectively. Overall, the share of wealth kept within the system (deposits/bank accounts, other investments) has registered a decline, for both borrowing households and total households.

- HOUSEHOLDS' WEALTH

Around 93% of households (borrowers and non-borrowers) own 1-2 real estates, mainly residential houses, and this share has decreased by 1 pp compared to the previous survey; 4% declare they own more than 2 real estates (residential and land/shop etc.); and 1% declared that they do not own any property.

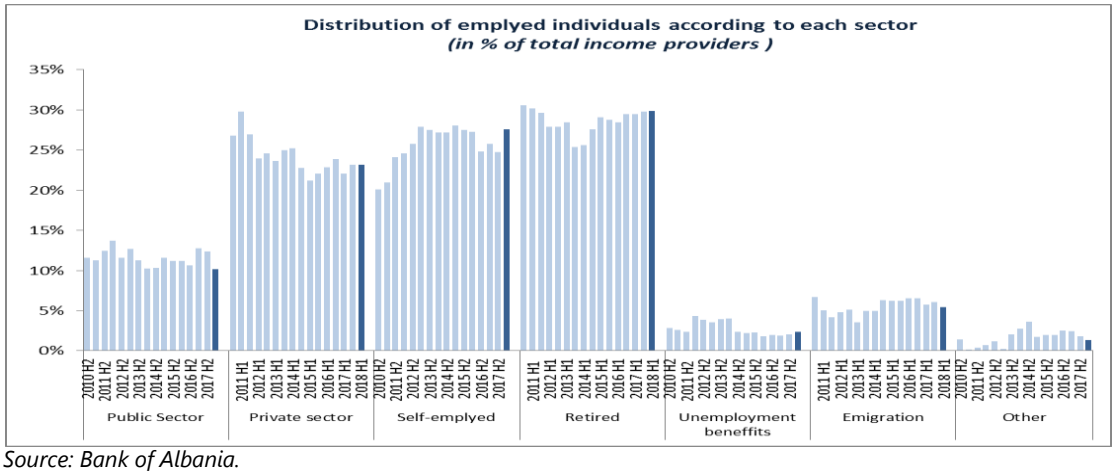
## 1- Demographic and financial characteristic of interviewed households

***Sample characteristics.*** The survey is conducted on a randomly selected sample of 1210 households, where around 56% of them are located in urban areas and 44% in rural areas. About 94% of the sample (1142 households) took part in the interview process, responding to all or part of the delivered questionnaire. The share of respondents decreased by 2 pp compared to the previous survey.

*The following analysis refers to the respondents only and all the calculations are computed referring to the total number of respondents for each question.*

**1.1-Employment and other sources of income.** The total number of households' members that provide income from employment/self-employment in the public, private sector and/or other sources[1], has declined, both comparing to 2017 H2 (by 0.5%) and 2017 H1(by 2.1%) terms (Chart 1.1).

**Chart 1.1**




*Source: Bank of Albania.*
*Note: The item "Other" includes mainly the cases of individuals that receive invalidity assistance and those that do occasional jobs.*

[1] In the questionnaire, in addition to employment in the public and private sectors, the following income sources are also listed: "retirement", "unemployment benefits", "emigration" and "other". In "other" should be included any other type of income source that has not been listed in the questionnaire.

Focusing the analysis *only on the group of the employed members of households*[2] (Table 1.1), their total number has slightly increased by 0.6% compared to 2017 H2. Meanwhile, compared to 2017 H1, the number of employed individuals decreased by 1.5% due to a decline of 'employment in the public sector' (by 22%), while the number of employed in the 'private' and 'self-employed sectors' increased by 3% and 5%, respectively.

The number of households that have declared **additional stable sources of income**[3] (like rents, banking interests etc.) has declined at 10% of responders or 112 households. Within this group of households, around 61% of them receive 'interest payments form bank deposits' and 31% receive some rent payment from 'renting a property'. The rest of households declare a combination of both and/or other sources of income.

**Table 1.1 Distribution of employed individuals according to each sector** (in % of total employed individuals)

| | Public Sector | Private Sector | Self-employed sector | *Semi-annual chg.* | *Annual chg.* |
|---|---|---|---|---|---|
| H1_2014 | 16% | 40% | 43% | *-5.4%* | *-8.3%* |
| H2_2014 | 17% | 38% | 45% | *-5.6%* | *-10.7%* |
| H1_2015 | 19% | 35% | 46% | *6.8%* | *0.8%* |
| H2_2015 | 18% | 36% | 45% | *2.4%* | *9.3%* |
| H1_2016 | 18% | 37% | 44% | *7.0%* | *9.5%* |
| H2_2016 | 18% | 40% | 42% | *-2.6%* | *4.2%* |
| H1_2017 | 21% | 36% | 43% | *4.4%* | *1.7%* |
| H2_2017 | 21% | 38% | 41% | *-2.2%* | *2.1%* |
| H1_2018 | 17% | 38% | 45% | *0.6%* | *-1.5%* |

*Source: Bank of Albania*

**1.2-Households' income and living expenses.** During 2018 H1, the distribution of the number of households by income level does not show significant changes compared to the previous six months (2017 H2). Thus, around 52% of the households (unchanged compared to 2017 H2) continued to remain at the monthly income level of 'ALL 17-50,000', while around 27% of them (1 pp less than 2017 H2) declare a level of 'ALL 50-100,000' (Chart 1.2).

**Chart 1.2**

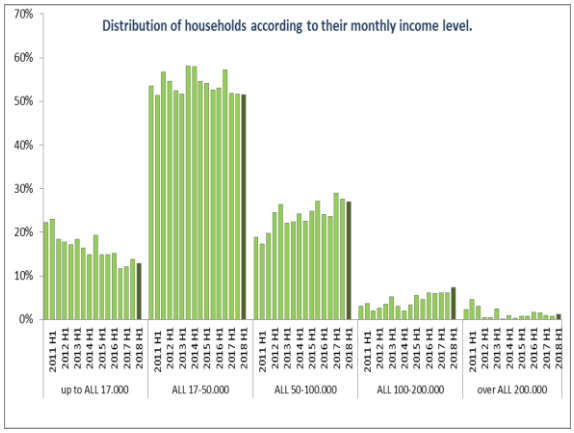
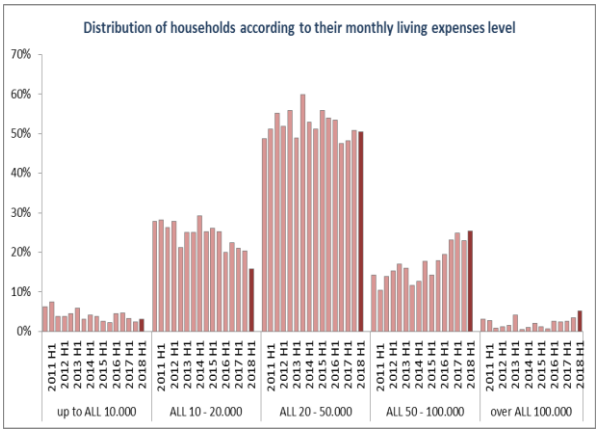



**Chart 1.3**




*Source: Bank of Albania.*

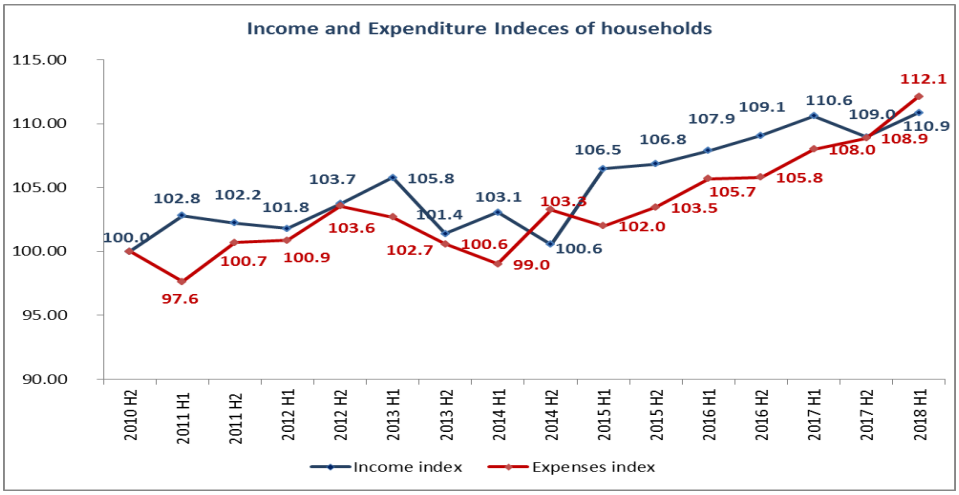
2 Here are included only the households' members employed in the public sector, private (agricultural and non-agricultural) sector and self-employed individuals (agricultural and non-agricultural).

3 In this question, the listed choices of additional income sources are: 1. rented property; 2 interests from savings (deposits, T-bills etc.); 3 interests from money lent to thirds; 4 other (define).

Referring to the distribution of the number of households by their living expenses, about 50% of the respondents continue to declare a monthly level of expenses of 'ALL 20-50,000', and this share has not changed compared to 2017 H2, but has increased by 2 pp compared to 2017 H1. On the other hand, the share of households that declare the highest level of expenses (over ALL 50,000 per month) has continued to increase compared to the previous six months and the previous year, while the opposite trend is observed in the case of the two lower levels of expenses. Overall, the distribution of the households according to their living expenses seems somewhat shifted towards a higher level of expenses (Chart 1.3).

The households' ***income index***[4] and ***expenditure index***[5] increased during the surveyed period, but the increase of the expenditure index was more pronounced, resulting in a deterioration of the balance *between households' income and living expenses*.

**Chart 1.4**




*Source: Bank of Albania.*

The *euroization level* of the Albanian households' income continues to remain low. Only 14% (unchanged during the last three surveys) of the respondents (161 from 1140 households interviewed) declared that they receive income in foreign currency (mainly in euro), which account for various share of their total monthly income[6].

## 2- Households' debt

The number of households reporting to have *one or more debts* to repay by the time of the survey, despite the type, source, or value of this debt, resulted in 334 households or *around 28% of total respondents*. This share has remained the same compared to 2017 H2 and to 2017 H1, but is 1pp below the historical average of this survey (29%).

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4 The income index is built as a weighted average of the frequencies of responses (in %), weighted by the coefficients for each interval defined as follows: "up to ALL 17,000" with 0.2; "ALL 17-50,000" with 0.4; "ALL 50-100,000" with 0.6; "ALL 100-200,000" with 0.8; and "over ALL 200,000" with 1. The values received are then turned into an index using the starting year of the survey as the base year 2010 = 100. An increase (decrease) in the value of the index implies an increase (decrease) in the level of the households' monthly income.

5 The expenses index is built as a weighted average of the frequencies of responses (in %), weighted by the coefficients for each interval defined as follows: "up to ALL 10,000" with 0.2; "ALL 10-20,000" with 0.4; "ALL 20-50,000" with 0.6; "ALL 50-100,000" with 0.8; and "over ALL 100,000" with 1. The values received are then turned into an index using the starting year of the survey as the base year 2010 = 100. An increase (decrease) in the value of the index implies an increase (decrease) in the level of monthly living expenses.

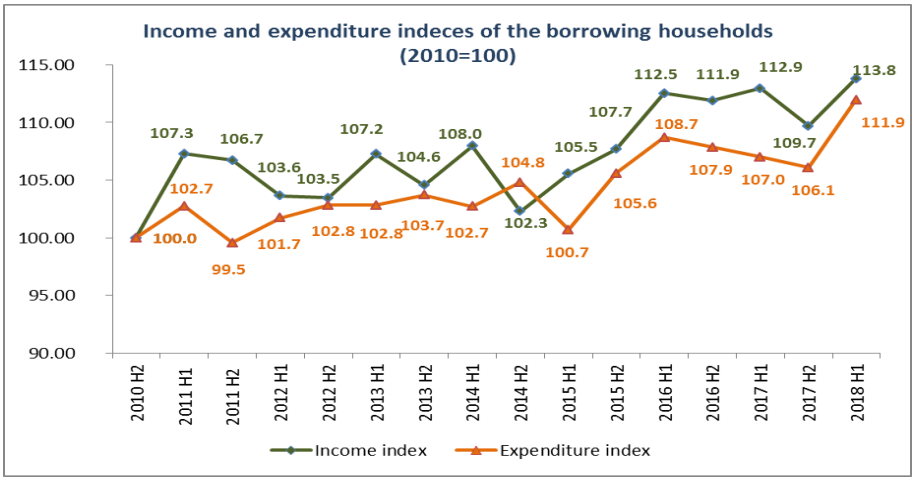
6 Choices listed in the questionnaire related to the level of income in foreign currency are: (1) "I don't have any"; (2) "up to 10%"; (3) "10-50%"; and (4) "over 50%".

*The following analysis refers only to the group of borrowing households.*[7]

**2.1-The level of income and expenses of the borrowing households.** During the surveyed period, the distribution of the number of the borrowing households by monthly income level seems to have shifted somewhat towards higher levels, particularly 'ALL 50-100,000 per month' (increasing by 4 pp compared to a half-year earlier). According to the living expenses level, about 48% of borrowers fall in the level of 'ALL 20.000 – 50.000' per month, and this share has declined by 6 pp compared to a half-year earlier. In this survey, the distribution of the borrowing households referring to their living expenses level has shifted somewhat toward higher levels.

The above distribution of borrowers according to their monthly level of income/expenses resulted in the increase in the values of both *income* and *expenses indices,* (Chart 2.1) but the increase in the income index was more pronounced, resulting in an improvement of the financial balance (income/expenses) of the borrowing households, compared to 2017 H2.

**Chart 2.1**

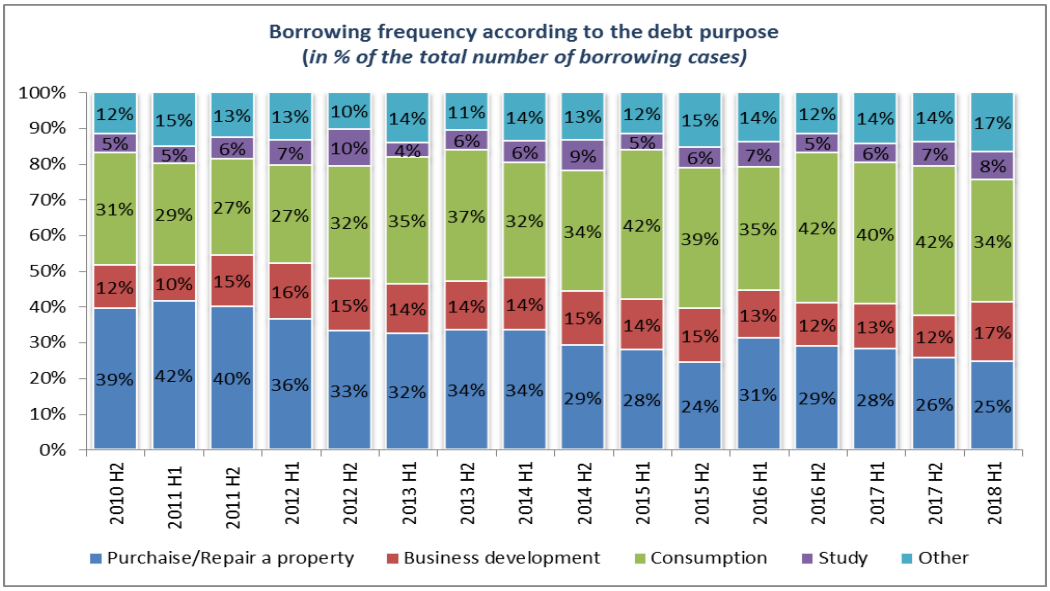



*Source: Bank of Albania.*

**2.2-Purpose of debt.** The main purposes of households' debt remained: *"consumption"* in 34% of borrowing cases; *"to purchase/repair a property"* in 25% of cases; and for *"business development"* in 17% of cases. The frequencies of debt "for consumption" and "to purchase/repair a property" have declined compared to 2017 H2 (by -7 pp and -1pp, respectively) and compared to 2017 H1 (by -5 pp and -4 pp, respectively). Meanwhile, borrowing frequencies for *"business development"* and *"other purposes"* have increased compared to the abovementioned periods.

7 Methodological note: since a household may have more than one loan to repay in the period under review, with different characteristics (source, purpose, etc.), in order not to miss important information, the calculations in this section are computed on the total of the declared borrowing case, except when it is specified "... on the total of borrowers". With "borrowing cases" we mean the total of loans taken by the same household and with the same characteristic, e.g.: a household that declares 2 loans from banks constitute "1 borrowing case from banks" and a household that has a loan from a bank and another from a natural person constitutes "1 borrowing case from banks" and "1 borrowing case from natural persons".

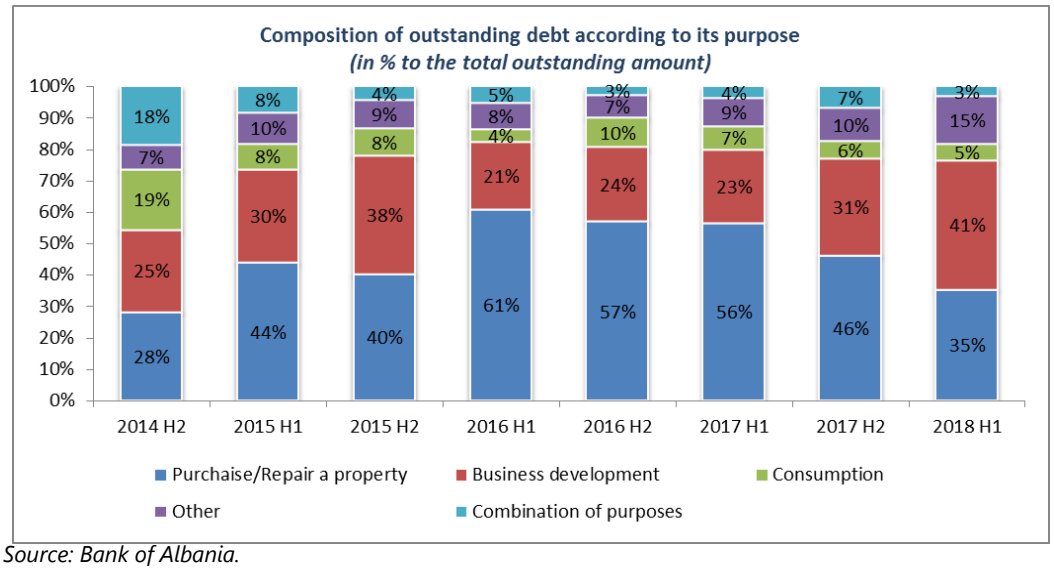
**Chart 2.2**




*Source: Bank of Albania.*

**2.3-Outstanding debt.** Regarding the composition of the outstanding debt by the source and purpose of use, it results that around 83% of the outstanding debt originates from *'formal sources'* (banks and non-banks financial institutions) and around 17% from *'informal sources'* (natural persons and unpaid goods in stores). This structure has shifted toward the 'formal sources', compared to both 2017 H2 and 2017 H1. On the other hand, about 35% of the outstanding debt is used to purchase/repair a property, 41% to start/develop a business and only 5% for consumption (Chart 2.3).

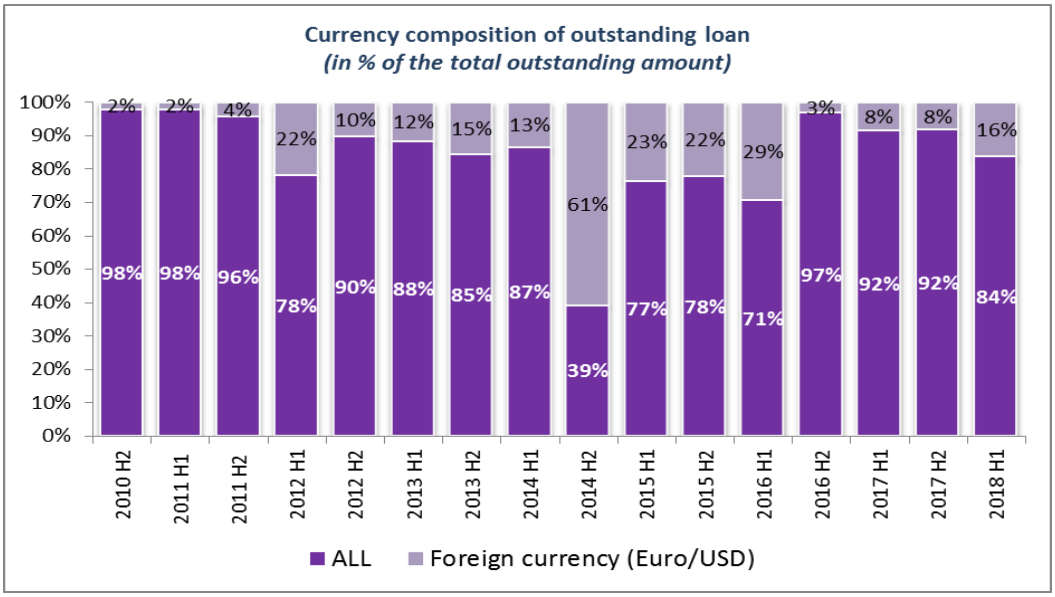
**Chart 2.3**




*Source: Bank of Albania.*
*Note: The item "other" includes mainly loans to face medical expenses.*

The currency composition of the outstanding amount is about 84% in ALL and 16% in *foreign currency.* This distribution has shifted in favour of the outstanding in foreign currency (mostly in euro), compared to 2017 H2 and 2017 H1. However, the historical currency composition of the households' outstanding loans shows that it is significantly dominated by the domestic currency (Chart 2.4).

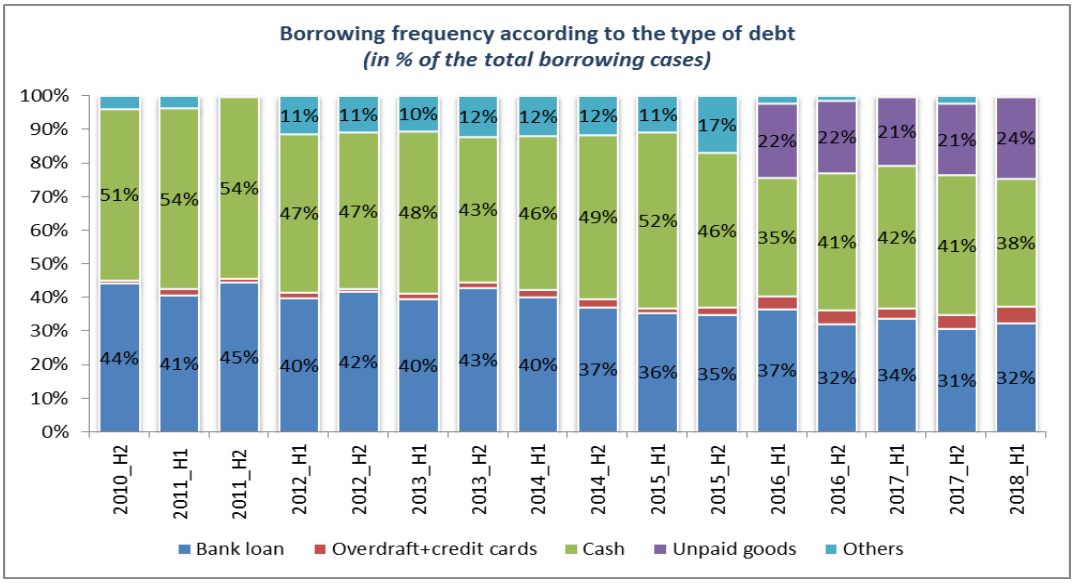
**Chart 2.4**




*Source: Bank of Albania.*

**2.4-Type of debt.** Around 37% of the households' borrowing cases are in various forms of *'loans from financial institutions'*, (where 32% of cases are "bank loans" and 5% are "credit cards" and "overdrafts"). This share increased by 1 pp compared to 2017 H2. In about 38% of cases, the borrowing is in *'cash'* and this share has decreased by 4 pp compared to 2017 H2 and compared to 2017 H1.

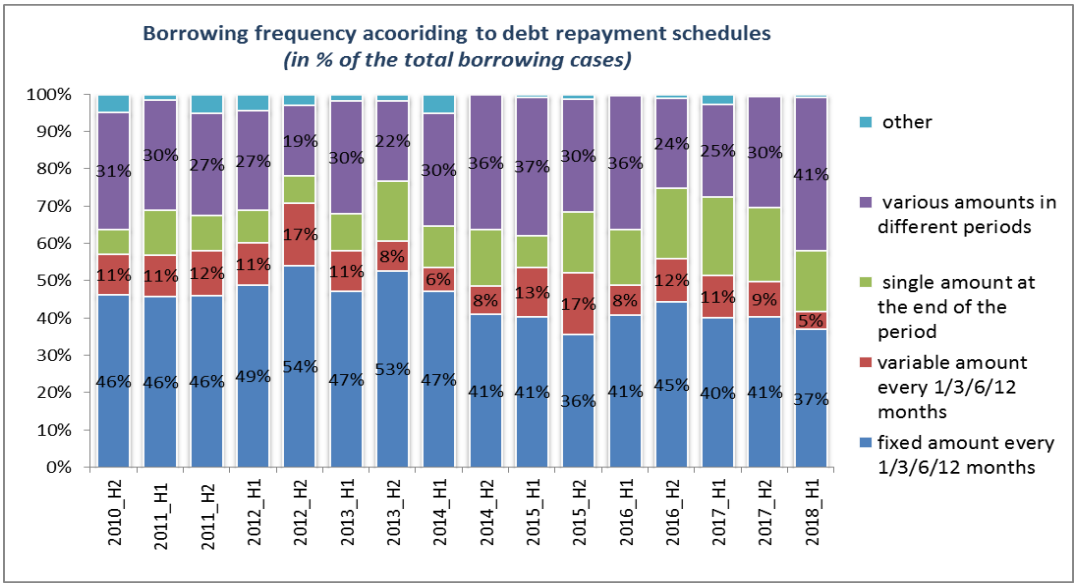
**Chart 2.5**




*Source: Bank of Albania.*

**2.5-Debt repayment schedule.** The two main forms of debt repayments continue to be through *'fixed payments every 1/3/6/12 months'* (37% of borrowing cases) and *'variable payments in different periods'* (41% of borrowing cases).

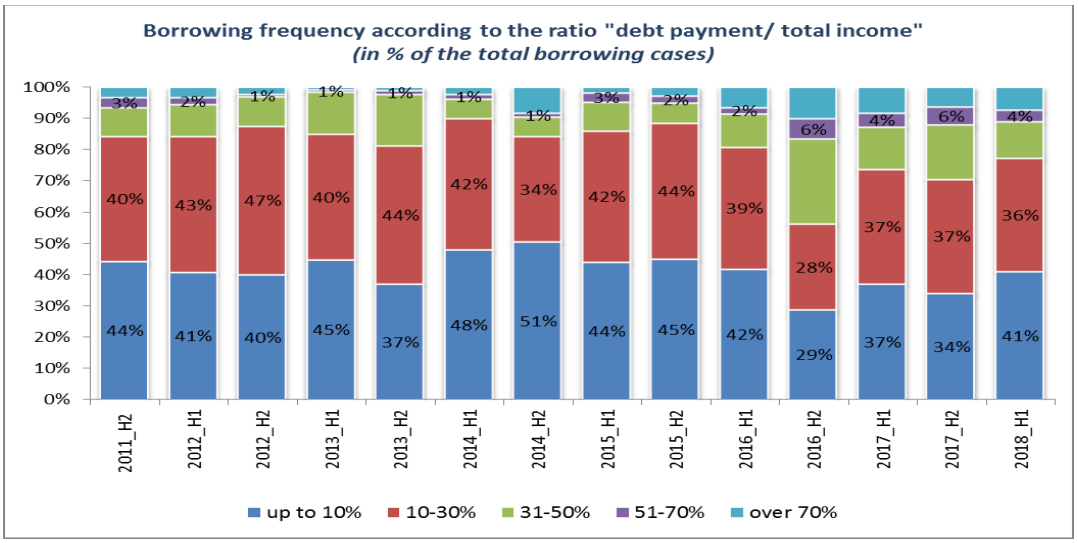
**Chart 2.6**




*Source: Bank of Albania.*

Regarding the ratio of *debt payments to total income,* in about 41% of the borrowing cases, this ratio is *'up to 10%'* (increased by 7 pp compared to 2017 H2 and by 4 pp compared with 2017 H1), in 36% of the cases the ratio is *'10%'* (decreased by 1 pp compared with 2017 H2) and in 29% of cases it results to be *'over 30% of income'* (decreased by 7 pp compared to 2017 H2). Compared to the previous survey, there is a shift in this distribution towards somewhat lower ratios.

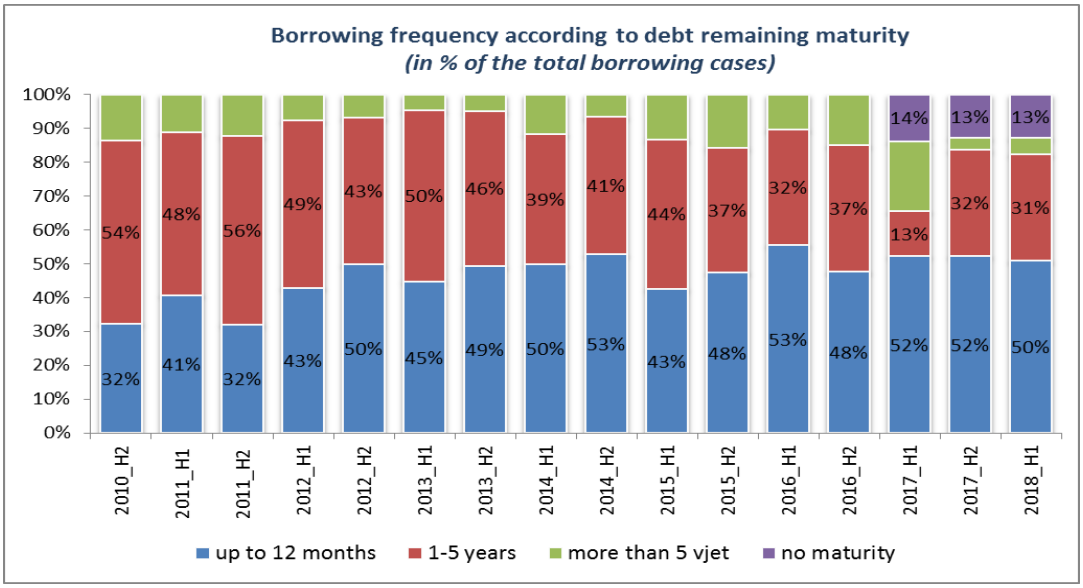
**Chart 2.7**




*Source: Bank of Albania.*

**2.6-Remaining maturity.** In 50% of borrowing cases, it results that the debt matures *'within a year'* and this share has decreased by 2 pp compared to 2017 H2; in 31% of cases, the remaining maturity of the debt lasts *'1-5 years'*, and in 5% *'over 5 years'*. The frequency of borrowing according to debt maturity shows a tendency to shift toward longer maturities and this result is in line with the increase of borrowing from formal sources (such as bank loans) and the decrease of borrowing from informal sources.

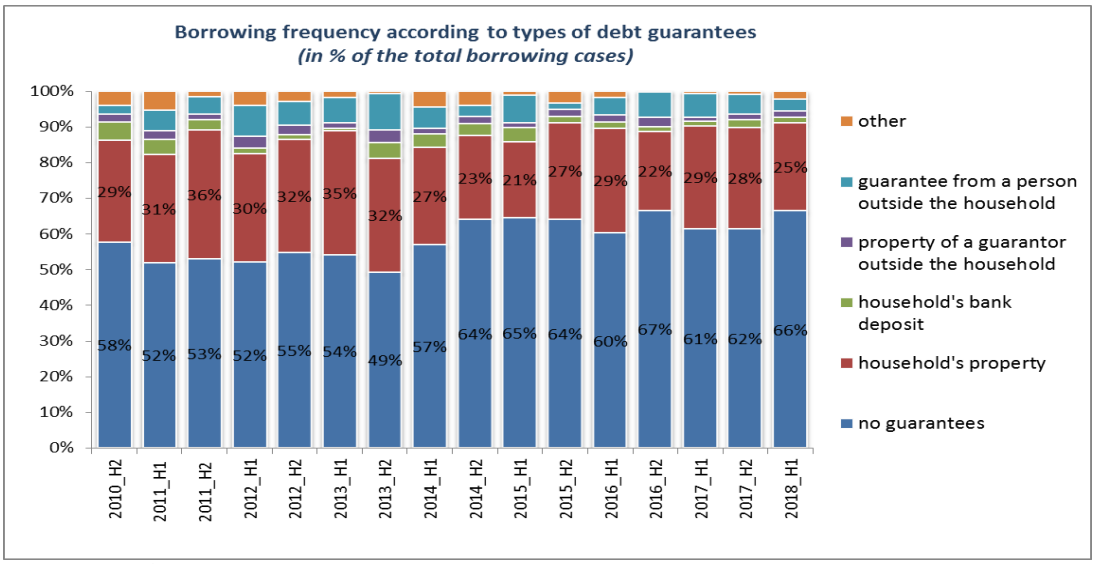
**Chart 2.8**




*Source: Bank of Albania.*

**2.7-Type of debt guarantees.** In 66% of borrowing cases it results that the debt has "no guarantees" and this share has increased by 5 pp compared to 2017 H2 and 2017 H1. On the other hand, the share of the borrowing cases guaranteed 'with a household property' has declined at 25% of borrowing cases (4 pp lower than 2017 H2). The decline of the borrowing cases where the debt is 'guaranteed with a property', which is typical is case of banks mortgages, is in line with the result of a decline in the borrowing cases for the purpose of 'purchasing a property'.

**Chart 2.9**




*Source: Bank of Albania.*
*Note: The item "other" includes the borrowing cases guaranteed by other forms of guarantees, such as monthly salaries, goods (like cars), etc.*

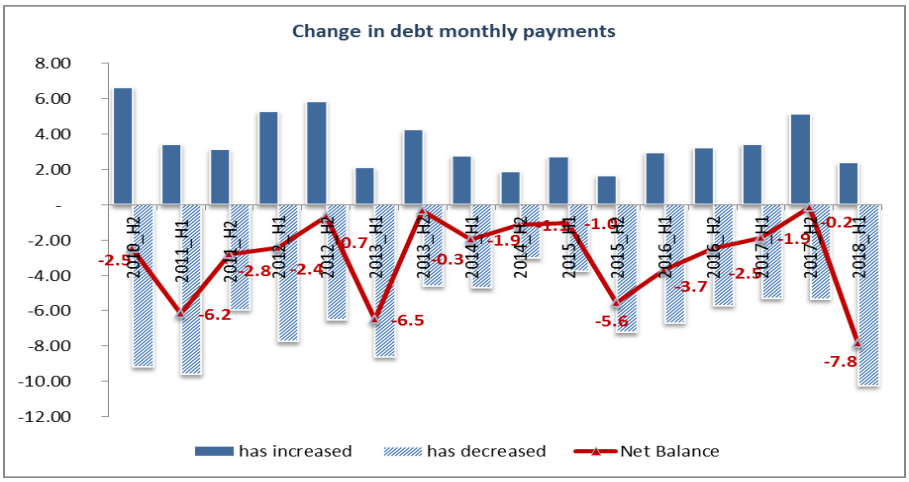
## 3- Households' debt burden

In this section borrowers are asked to give information on the *largest debt* only (in case they have more than one existing debt), *or the one* they think is the most burdensome for their household. Consequently, the

frequencies of responses for each question are calculated referring to the total number of respondent borrowers.

**3.1- Change in debt monthly payments.** About 79% of the respondent borrowers declared that the monthly payment of their debt *'has not changed'* during 2018 H1. The *net balance* of the rest of the responses (21 borrowing households) resulted at -7.8 pp, which indicates a *decreasing tendency of the households' monthly debt payments* during the surveyed period. This is in line with the result of a decrease in the ratio of the household's debt payments to their total monthly income.

**Chart 3.1**




*Source: Bank of Albania*

**3.2-Households'solvency during 2018 H1 and their expectations for the next half-year.** About 60% of the borrowing households declared that their solvency '*has not changed*' during 2018 H1 and this share has remained the same comparing to 2017 H2. The rest of the respondents declare on aggregate that their solvency 'has deteriorated' during 2018 H1, compared to both 2017 H2 and 2017 H1 (resulting in a *net balance* of -29.4 pp) (Chart 3.2).

**Chart 3.2**

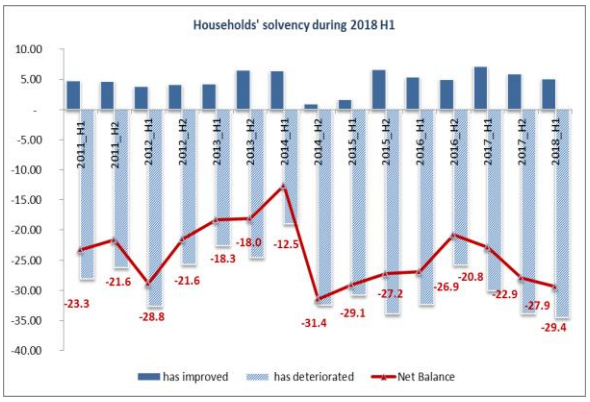
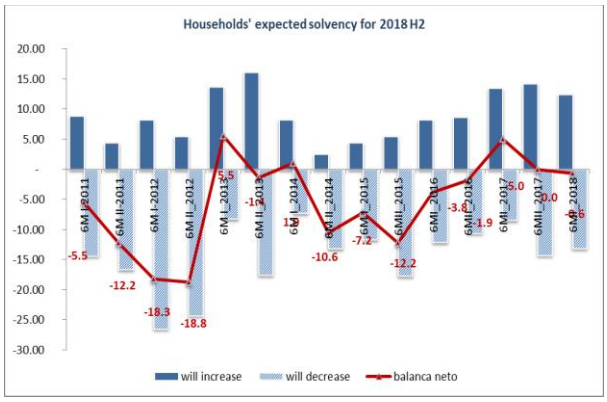



**Chart 3.3**




*Source: Bank of Albania.*

Referring to the group of borrowing households that reported 'deteriorated solvency' (in total 108 households), in 46% of the cases they listed as the main reason a *'decrease in their income'*, in 38% of cases *'increased living costs'*, and in 16% of cases *'a combination of both reasons'*. On the other hand, about 40% of this group would choose *'to reduce their living expenses'* in order to cope with the difficulties in repaying their debt, 31% would consider to *'look for a part-time job'* and 8% would consider to *'sell/rent a property'*.

Referring to the borrowing households' expectations, about 74% of them *'do not expect a change of their solvency'* in 2018 H2, while the net balance of the rest of the responses resulted at -0.6 pp indicating a *'slight deterioration'* in the second half of the year (Chart 3.3). Most of households that expect a deteriorating solvency (in total 41 households, or 13% of respondents) give as the main reason the downward expectations regarding their household's income.

**3.3-Expectations on taking a new debt in the next six months[8].** Around 62% of the respondents have declared that 'there is no possibility' that they would ask for a new loan or rollover the existing one, in the next half-year (2018 H2), and this share has remained the same as in the previous survey. On the other hand, around 38% of the respondents (or 430 households) declare that they would consider the possibility to take a new loan or rollover the existing one, with various degrees of certainty[9], and this share has remained almost unchanged compared to the previous survey. The value of *the new borrowing/rollover possibility index* [10] resulted at 0.16, almost the same as its long-term average value (Chart 3.4) and compared to 2017 H2, but has shifted down compared to 2017 H1. Such development of the index continues to indicate a weak credit demand of households.

**Chart 3.4**

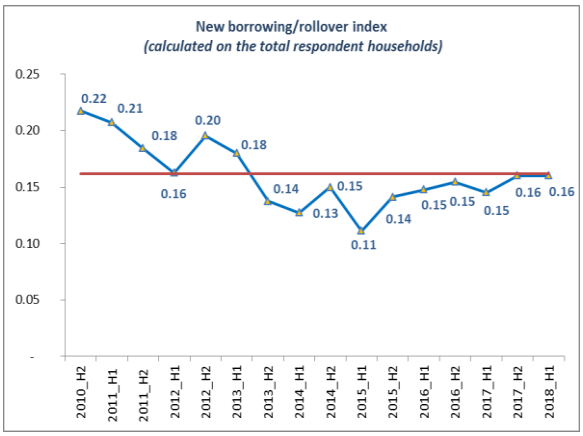
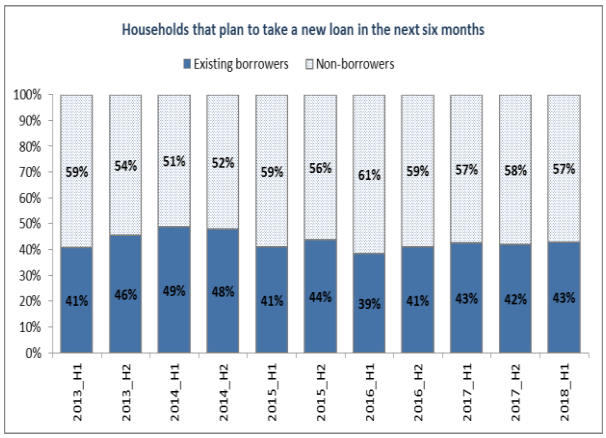



**Chart 3.5**




*Source: Bank of Albania.*

Focusing the analysis on the group of households that plan to take a new loan (430 households), it results that about 57% of them are *'potential borrowers'*, meaning that they don't have a debt to repay by the time of the survey (Chart 3.5) and 43% of them are *'existing borrowers'*. Compared to 2017 H2, there is a decline of 1 pp in the share of potential borrowers versus the existing ones. This result confirms the expectations of a weak credit demand of households in the next six months.

8 The question was addressed to the entire sample, from which 1140 households (or around 94% of total sample) responded to it.

9 The given choices are: "a slight possibility", "a strong possibility" and "it is certain".

10 The index is calculated as weighted average of % of responses for each alternative with relevant coefficient. On the definition of the coefficients, the interval 0-1 is separated in 4 sub-intervals with equal length of 0.33. Coefficients for each alternative are: 0 ("no possibility"), 0.33 ("little possibility"), 0.66 ("very possible") and 1 ("it is certain"). The index obtained takes values from 0 to 1, where the more is near to 0 is the value of the index, the smaller is the possibility to take a new loan and, and the more near to 1, the higher is the possibility to take a loan in the next half-year.

## 4- Households' wealth

This section contains only two questions regarding the households' properties and their financial wealth, and is addressed to the entire sample. The results for 2018 H1 are presented below.

**4.1-Household real estate**[11]**.** 1140 households responded to this question, declaring the possession of a total of 1666 real estates of different types where: 95% of them (1079 households) declare to own *"1-2 real estates"*, mainly residential properties (house/apartment) or a combination of a residential property and another property such as land, shop, building, etc., 3% of respondents (or 37 households) declare that they own *'more than 2 real estates'*; and 2% of respondents (24 households) declared that they *'do not own any real estate'* (Chart 4.1).

**Chart 4.1**

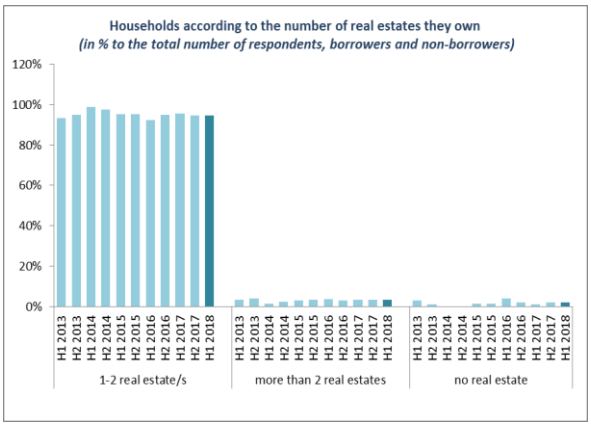
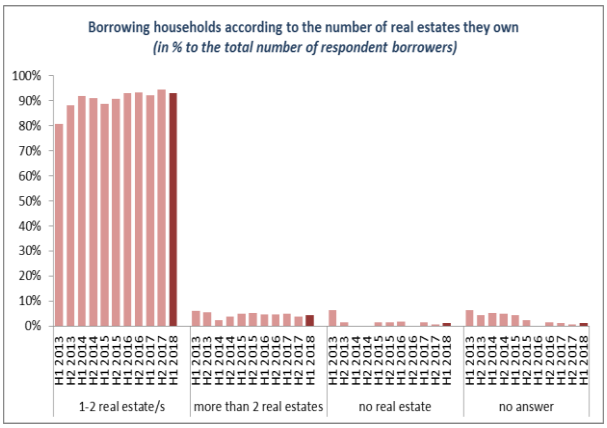



**Chart 4.2**




*Source: Source: Bank of Albania.*

Focusing the analysis only on the group of *the borrowing households*, the respondents (316 households) declare to own 491 real estates in total, where 64% of these properties are residential properties, 30% are lands and the rest are shops, buildings and other types of properties. Looking at the distribution of borrowing households according to the number of real estates they own, it results that: around 93% of them (298 households) own *'1-2 real estates'* by the time of the survey, and this share has declined by 1 pp compared to the previous survey. In most cases, these properties are residential houses or a combination of a residential house and a land. Only 4% of the borrowing households (14 households) declare that they own *'more than 2 real estates"* and 1% declare that they *'do not own any real estate'*. These shares have not changed compared to the previous survey (Chart 4.2).

**4.2-Households' financial wealth**[12] According to the households' responses, it results that 26% of the entire surveyed sample (borrowers and non-borrowers) and 29% of the borrowing households declare that they *'do not own any type of financial wealth'*, and both these two shares have increased respectively, by 7 pp and 4 pp, compared to the previous survey. Shrinking the analysis only on the group of the households that declared to possess some form of financial wealth (excluding the cases were they 'do not have any financial wealth'), it results that 'bank deposits and/or current accounts' remain the household' main type of financial investment, both in the case of the entire sample (74% of reported cases) and in the case of borrowers (88% of reported cases). These shares decreased respectively by 7 pp and 8 pp, comparing with the previous survey (Chart 4.3 and Chart 4.4).

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11 In the survey of 2018 H1, 1140 households answered the question on their real estate ownership, or 99% of those who took part in the survey process (in total 1142 households).

12 1140 households, from 1142 households that took part in the survey, answered the question regarding the financial wealth of the households.

**Chart 4.3**

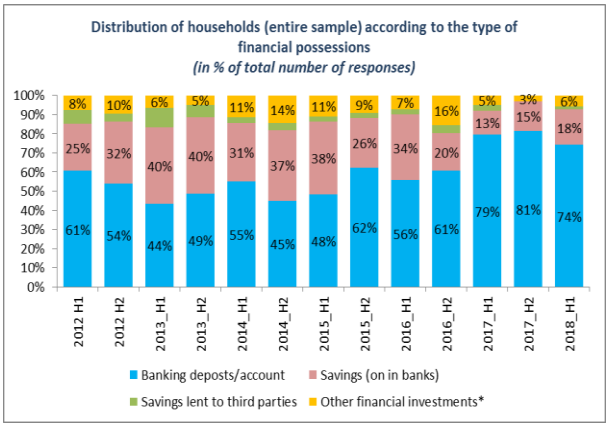
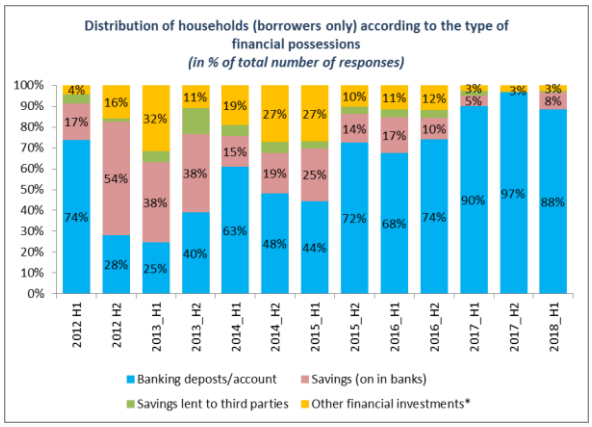



**Chart 4.4**




*Note: "Other financial investments" includes: T-Bills, life insurance, private pension funds, company shares and other type of financial investments.*
*Source: Bank of Albania.*

The frequency of other forms of financial wealth[13] has increased by 2 pp compared to the previous survey in case of the whole sample of households and have remained unchanged in the case of the borrowing households.

[13] In the item "Other investments" are included the cases of investments in: T-bills, life insurance, private pension fund and shares.