FINANCIAL AND BORROWING SITUATION OF HOUSEHOLDS IN ALBANIA

2020 H2

BANK OF ALBANIA
FINANCIAL STABILITY DEPARTMENT

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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. This last survey was launched in November 2020 covering developments on the financial and borrowing situation of households during H2 2020, as well as expectations for H1 2021. The survey was conducted on a random sample of about 1210 households, with a broad geographical distribution within the country.

- FINANCIAL SITUATION

The total number of employed individuals in the surveyed sample slightly decreased compared to the previous six months and the previous year, and this came mainly from the private sector. The overall level of household's income and living expenses increased during the period under review, and compared to the previous year, but the increase was somewhat higher on the expense side.

- BORROWING

Around 24% of interviewed households (or 252 households) state that they have a debt to repay by the moment of the interview, regardless of its type, source or amount. This share has increased by 1 percentage points compared to the previous six months and compared to the previous year, remaining below the historical average of the survey of about 28% of households. The total outstanding debt reported for the entire sample decreased in semi-annual and annual terms. Around 72% of the outstanding debt has originated from formal sources ('banks' and 'non-bank financial institutions') and 28% from informal ones ('natural persons' and 'debt in the form of unpaid goods'). This structure has shifted in favour of borrowing from formal sources, compared to both H1 2020 and H2 2019, due to a smaller decrease of the outstanding debt from formal sources compared to a more pronounced decrease from informal sources. Regarding the debt purpose, around 33% of the total outstanding debt amount was used to purchase/renovate a property, marking a significant decrease in semi-annual and annual terms. On the other hand, 39% of outstanding amount was used for 'business development' and 6% for 'consumption', and both of these shares have increased.

- DEBT BURDEN

Around 78% of borrowing households that responded to the survey declared that their *debt repayment amount* has not changed during the previous six months. The *net balance* of the rest of responses shows an increase in the loan instalment during the period. About 58% of borrowing households have declared that their solvency 'has not changed', whilst the net balance of the rest of responses indicate worsening of their solvency compared both to the previous half-year and the previous year. This may be due to the deterioration of the economic indicators in the country caused by the Covid-19 pandemic. In the upcoming period (2021 H1), around 72% of households do not expect changes in their solvency, while the net balance of the rest of responses shows pessimistic expectations. The new loan/rollover index increased compared to the previous six-months and the previous year. This performance may signal a revival of the credit demand from the households sector during 2021 H1.

- HOUSEHOLDS' WEALTH

Around 92% of total interviewed households own 1-2 real estate properties, mainly a residential property; 2% state they own more than 2 properties (houses and land/ shop etc.); and 5% declared that they do not own any property. In the group of households that state to possess some form of financial assets, *deposits and/or bank accounts* continue to remain the main type of financial investment, both in the case of total households (65% of the cases) and in the case of borrowing households (72% of the cases). *Compared with the previous six months, these shares have increased by 3 pp as regards the total sample and have decreased by 5 pp as regards borrowing households.*

1 –Demographic and financial characteristics of interviewed households

Sample characteristics. This survey was conducted on a randomly selected sample of 1210 households, and about 88% of them (1063 households) participated in the interview process, responding to all or part of the delivered questionnaire. The share of responders to the total sample remained unchanged compared to the previous survey. Around 51% of them are located in urban areas and 49% in rural areas.

The following analysis refers to the responded households only and the calculations are computed on based on the total number of responded households

1.1 Employment and other sources of income. Total number of households' members that provide income through employment/self-employment in the public sector, private sector and/or other sources [1], has decreased by 2.6% comparing to the previous six-months, and by 2.1% comparing to the previous year. The decrease has been higher in the case of public sector employees and those receiving retirement pensions and remittances.

Chart 1.1 Distribution of household income providers by income source.
(In % to total income providers)
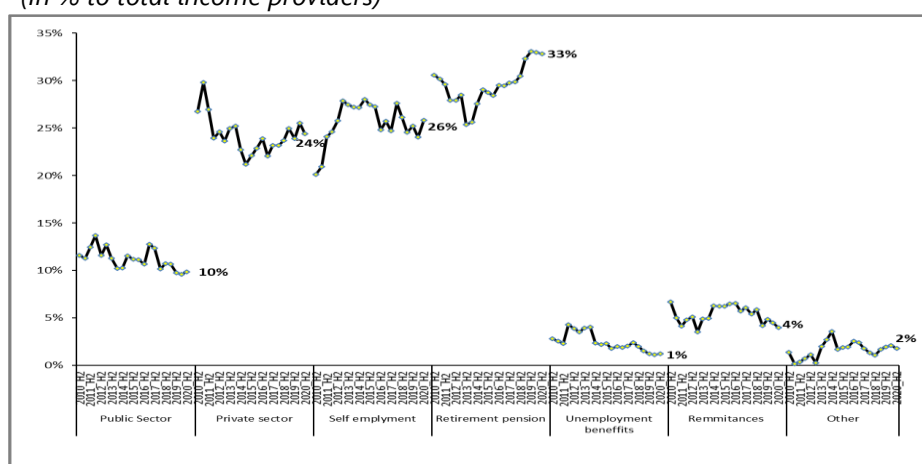
Source: Bank of Albania
Note: The item "Other" includes mainly the cases of individuals benefiting some form of invalidity assistance, individuals receiving financial help from relatives and those that do occasional jobs.

Focusing the analysis on the group of the <u>employed household members</u>[2] only (Table 1.1), it results that their total number has decreased by 1.1% in semi-annual terms, but has slightly increased by 0.6% in annual terms in all three categories of employment, especially in the private sector.

Table1.1 Distribution of employees by sector.

		Public	Private	Self-employed	Total employees	*Half-year chg.*	*Annual chg.*
V10	6MI_2015	270 (19%)	495 (35%)	654 (46%)	**1419**	*6.8%*	*0.8%*
V11	6MII_2015	268 (18%)	528 (36%)	657 (45%)	**1453**	*2.4%*	*9.3%*
V12	6MI_2016	283 (18%)	580 (37%)	691 (44%)	**1554**	*7.0%*	*9.5%*
V13	6MII_2016	272 (18%)	609 (40%)	633 (42%)	**1514**	*-2.6%*	*4.2%*
V14	6MI_2017	333 (21%)	575 (36%)	672 (43%)	**1580**	*4.4%*	*1.7%*

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[1]In the questionnaire, in addition to employment in the public and private sectors, the following income sources are also listed as follows: "retirement", "social assistance for unemployment", "emigration" and item "other". In "other" includes any other type of income source that has not been listed in the questionnaire.

[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).

V15	6MII_2017	317 (21%)	595 (38%)	634 (41%)	1546	*-2.2%*	*2.1%*
V16	6MI_2018	259 (17%)	592(38%)	705 (45%)	1556	*0.6%*	*-1.5%*
V17	6MII_2018	280 (18%)	618(39%)	682 (43%)	1580	*1.5%*	*2.2%*
V18	6MI_2019	266 (18%)	623 (41%)	613 (41%)	1502	*-4.9%*	*-3.5%*
V19	6MII_2019	235 (17%)	574 (41%)	606 (43%)	1415	*-5.8%*	*-10.4%*
V20	6MI_2020	233 (16%)	621 (43%)	585 (41%)	1439	*1.7%*	*-4.2%*
V21	6MII_2020	234 (16%)	578 (41%)	611 (43%)	1423	*-1.1%*	*0.6%*

Source: Financial Stability Department
Note: Numbers in parenthesis are the share of each item against total employees.

The number of households that have declared **additional sources of income**[3] (like rents, deposits interests etc.), was 9% (or 99 households in total), decreasing by 1 pp during the period. Within this group of households, about 42% of them declare *interest from savings (deposits, T-bills, etc.),* 25% declare income from *renting a property*, and 29% declare other sources, mainly financial assistance from their children or other family members.

1.2 Households' income and living expenses. During 2020 H2, the distribution of the number of households by income level shifted toward the average level of income ('ALL 17-50,000'), resulting in 56% of households falling under this category (upward by 1 pp compared to the previous six-months). On the other hand, around 9% of the households declare low monthly income level 'up to ALL 17,000', 28% declare a monthly income of 'ALL 50-100,000 ', and 6% declare a monthly income of 'ALL 100-200,000' (Chart 1.2).

Chart 1.2 Distribution of households by their monthly <u>income</u> level.
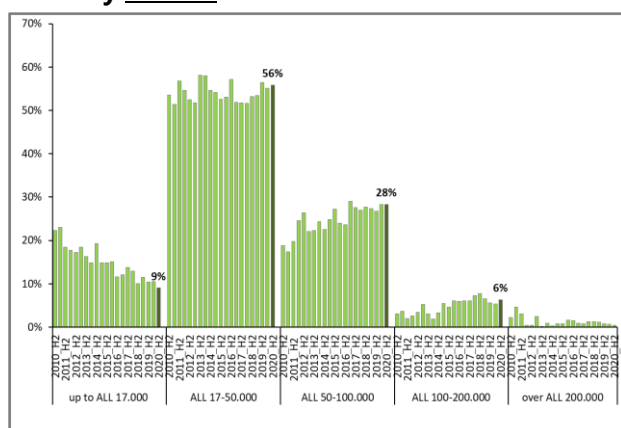
Chart 1.3 Distribution of households by their monthly <u>living expenses</u> level.

Source: Bank of Albania
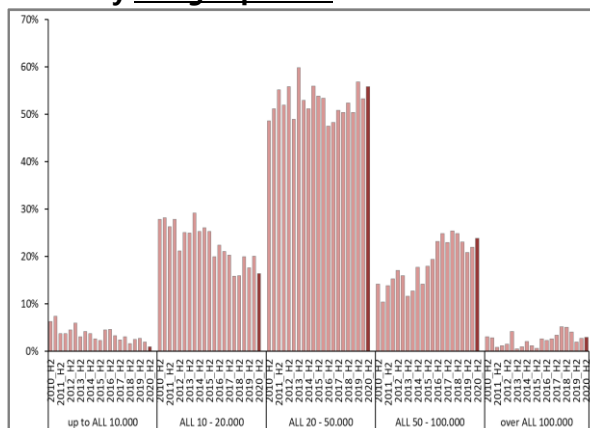
The distribution of households according to their living expenses has shifted toward a higher levels of monthly expenditure during the period. Thus, 56% of them declare monthly expenses at the level of 'ALL 20-50,000'; while 24% declare expenses at the level '50-100,000'. Both of these shares increased compared with the previous six-months, by 3 pp and 2 pp, respectively (Chart 1.3). The households' **income index**[4] and **living expense index**[5] increased during the surveyed period, but the increase of the living expense index was higher,

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[3] In this question, the alternatives listed as stable sources of income are: (1) rent; (2) interests from savings (deposits, T-bills etc.); (3) interests from money lent to thirds; 4. Other (define).

[4] 'The income index' is built as a weighted amount of frequencies in % of responses with the coefficients defined for each interval 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 each year are returned to the index based on year 2010 = 100. The increase of the value of the index implies an increase in the level of monthly income.

[5] 'The expenditure index' is built as a weighted amount of frequencies in % of responses with the coefficients defined for each interval 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"

causing a deterioration of the households' financial balance. This performance may be a reflection of the pandemic situation in the country, where the considerable increase in the number of COVID-19 cases during 2020 H2, might have caused, among others, an increase in the health care expenses of households.

Chart 1.4 Households' income and living expenditure indices (2010=100)

Source: Bank of Albania

The *euroisation level* in terms of income continues to remain low, where only 14% of the responded households (145 from 1063 interviewed households) declared to have some income in foreign currency (mainly in euro), that make various percentage of their total monthly income[6]. This share slightly decreased by around 1 pp compared to the previous half-year and the previous year.

2- Households' debt

The number of households reporting one or more debt to repay by the moment of the interview, regardless of the debt's type, source or amount, resulted in *252 households or around 24% of the total responded households* (Chart 2.1). This share has increased by 1 pp compared to the previous six-months, but remained unchanged from the level resulted in the previous year and below the historical average of this survey of about 28%.

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

2.1-Borrower's income and living expenses level. During the surveyed period, the distribution structure of the borrowing households by monthly income has fluctuated, meanwhile as regards monthly expenses, the structure has shifted towards higher levels. Specifically, the distribution of borrowing households by monthly income resulted more concentrated in the level of 'ALL 17–50,000' (55% of borrowers), increasing by 4 pp compared to the previous six-months and in the level of 'ALL 50-100,000' (28% of borrowers), decreasing by 44 pp during the period. On the other hand, the distribution of borrowers by monthly living expenses resulted

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with 0.8; and "over ALL 100,000" with 1. The values received each year are returned to the index based on year 2010 = 100. The increase of the value of the index implies an increase in the level of necessary monthly expenses.

[6] The alternatives related to the level of income in foreign currency are: (1) "none", (2) "up to 10%", (3) '10-50%' and (4) 'over 50%'.

[7] Methodological note: since a household may have more than one loan to pay in the period under review, with different characteristics (source, purpose, etc.), in order not to lose the information, in this section the calculations are made on the total of the declared borrowing cases, except when it is specified "… on the total of borrowers" (in this survey =252 households). 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'.

more concentrated in the level of 'ALL 20-50,000' (58% of borrowers) and in the level of 'ALL 50-100,000' (23.4% of borrowers), both increasing by 1 pp and 5 pp, respectively, compared to the previous six-months.

The above distribution of borrowers by their monthly of income/living expenses level resulted in a slight increase in *the income index* and a high increase in *the expenses index* over the period (Chart 2.1), resulting in a deterioration of the financial balance (income-expenses) of these households.

Chart 2.1 Borrower's income and living expenses indices
(2010 = 100)
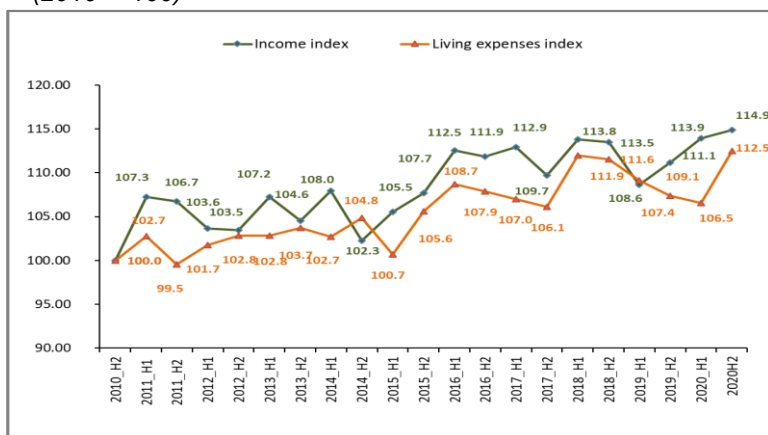
Source: Bank of Albania

2.2-Debt purpose. The main purpose of households' borrowing remained: *"consumption"* in 37% of borrowing cases; *"to purchase/renovate a property"* in 25% of cases; and to *"start/ develop a business"* in 8% of cases. In contrast with the trend noticed during the last two years, the share of borrowing cases with the purpose to *"purchase/renovate a property"* and to *"start/ develop a business"* have decreased compared with the previous six-months and compared to the previous year; whilst the share of cases for *"consumption"* have increased. This downward trend of households' demand for long-term investments, such as purchase of a property or business development, may be due to the difficult economic situation in Albania as a result of the pandemic and a higher level of uncertainty for the future.

Chart 2.2 Frequency of borrowing by debt purpose
*(in % of total number of borrowing cases)*
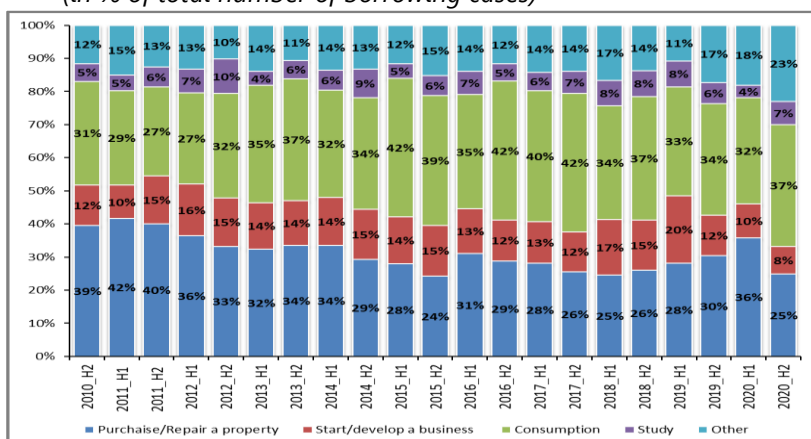
Source: Bank of Albania

2.3-Outstanding debt. The analysis of the outstanding debt *by its source* and *purpose of use,* shows that around 72% of it has originated from *formal sources* (60% banks and 13% non-bank financial institutions), and

around 28% from *informal sources* ("*natural persons*" and "*unpaid goods*"). Compared to the previous six-months, this structure has shifted in favour of borrowing from formal sources (by 10 pp) due to a smaller decrease of outstanding debt originated from formal sources compared to the higher increase of debt originated from informal sources (Chart 2.3).

Chart 2.3 Composition of the outstanding debt by source *(in % of the total outstanding debt reported)*
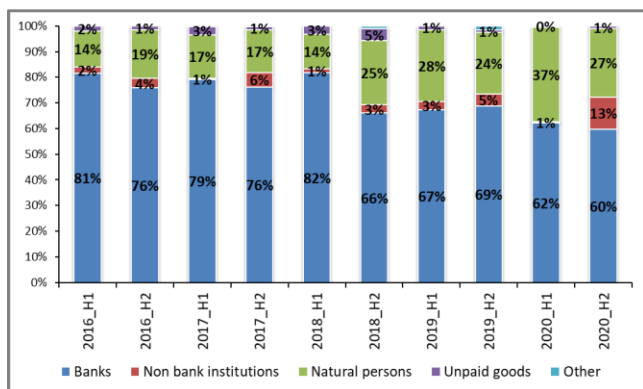
Source: Bank of Albania

Chart 2.4 Composition of outstanding debt by purpose *(in % of the total outstanding debt reported))*
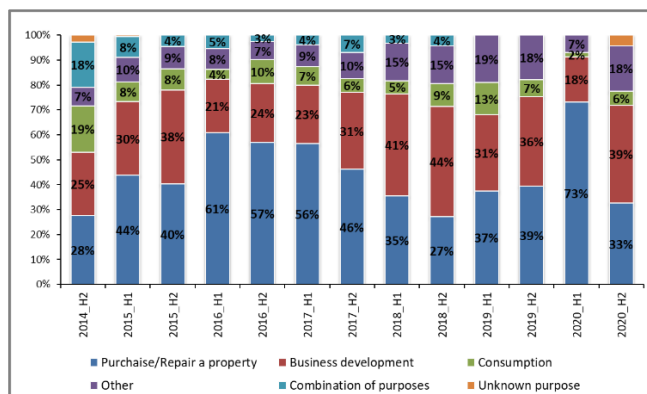
Note. The item "other" includes mainly loans to face medical expenses

The analysis of the outstanding debt by its *purpose* (Chart 2.4), shows that 33% of it is used to "*purchase/renovate a property*", marking a significant decrease by 41 pp compared to the previous six-months and by 7 pp compared to the previous year; a results that was also noticed in the distribution of borrowing cases for this purpose. On the other hand, about 39% of the outstanding debt is used to "*start/develop a business*" and 6% for "*consumption*", and these two shares have increased in semi-annual terms. "*Borrowing for other purposes*" has increased significantly during the surveyed period, both in terms of the debt amount and as a share compared to other debt purposes (reaching at 18% of the outstanding debt reported). In most cases, 'the other purposes' include loan taken to cover medical expenses.

2.4-Type of debt. Around 35% of households' borrowing cases are in the form of "*loans from financial institutions*", where 29% of cases are "*bank loans*" (down by 4 pp compared to 2020 H1) and 6% are "*credit card and overdraft*" (up by 2 pp compared to 2020 H1). In about 46% of cases, the debt is in "*cash*", and this share has increasing by 1 pp compared to the previous six-months and by 3 pp compared to the previous year. Debt in the form of "*unpaid goods*" continues to make a significant share (around 18% of borrowing cases). This share is unchanged compared to the previous survey, but downward by 3 pp compared to the previous year.

Chart 2.5 – Frequency of borrowing by type of debt
(in % of total borrowing cases)
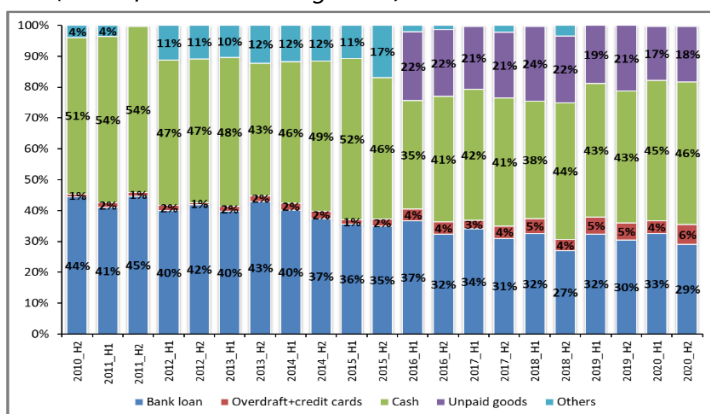
Source: Bank of Albania

2.5-Debt repayment schedule. The two main forms of debt repayment continue to be through *'fixed payments every 1/3/6/12 months'* (36% of borrowing cases) and *'variable payments in different periods'* (33% of borrowing cases). During 2020, the share of borrowing through fixed payments every month – typical of long-term bank loans – has decreased, while the share of borrowing through various amounts in different periods has increased, which is mostly a feature of informal loans or short-term bank loans (such as overdraft, credit cards) etc.

Chart 2.6 - Frequency of borrowing by debt <u>repayment schedule</u>
(in % of total borrowing cases)
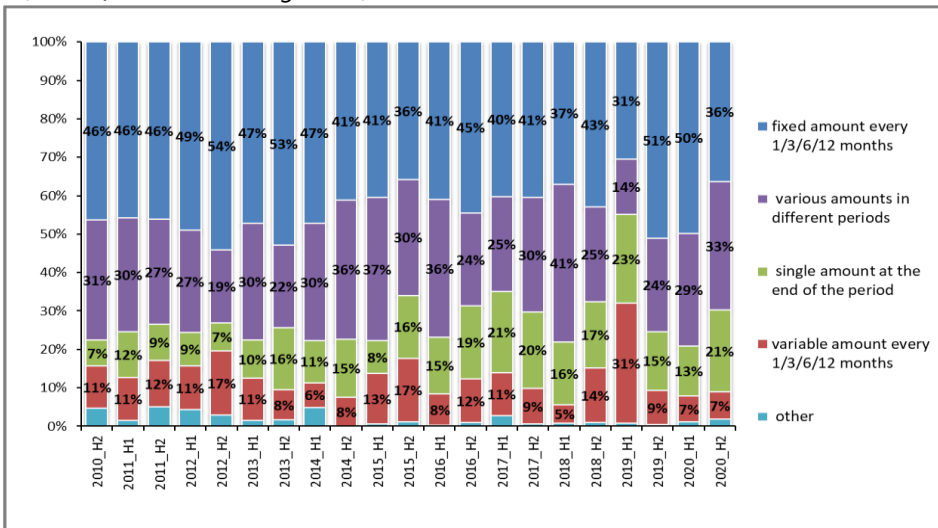
Source: Bank of Albania

Regarding the borrowing household's debt burden, in 69% of cases it is reported that the debt repayment accounts for less than 30% of monthly income (*'up to 10% of income'* for 29% of borrowing cases, *'10-30% of income'* for 40% of borrowing cases). On the other hand, in 31% of cases this payment exceeds 30% of income (*'31-50% of income'* for 15% of borrowing cases and '*51 -70*' for 11% of cases and '*over 70%*' for 5% of cases).

Chart 2.7 - Frequency of borrowing by <u>debt repayment-to-monthly income ratio</u>
*(In % of total borrowing cases)*
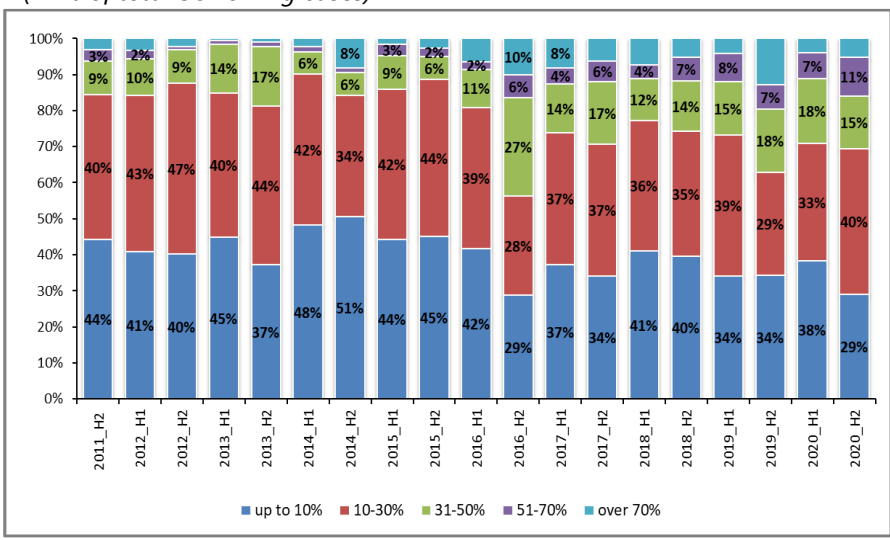
Source: Bank of Albania

2.6-Remaining maturity. In 66% of the borrowing cases, it results that the debt matures *'within a year'* and this share has decreased by 1 pp compared to the previous six months; in 30% of cases, the remaining maturity

of the debt is between '*1 to 5 years*' (unchanged compared to 2020 H1), and in 4% of cases the remaining maturity is reported to be '*over 5 years*' (increased by 1 pp compared to 2020 H1).

Chart 2.8- Frequency of borrowing by debt <u>remaining maturity</u>
(In % of total borrowing cases)
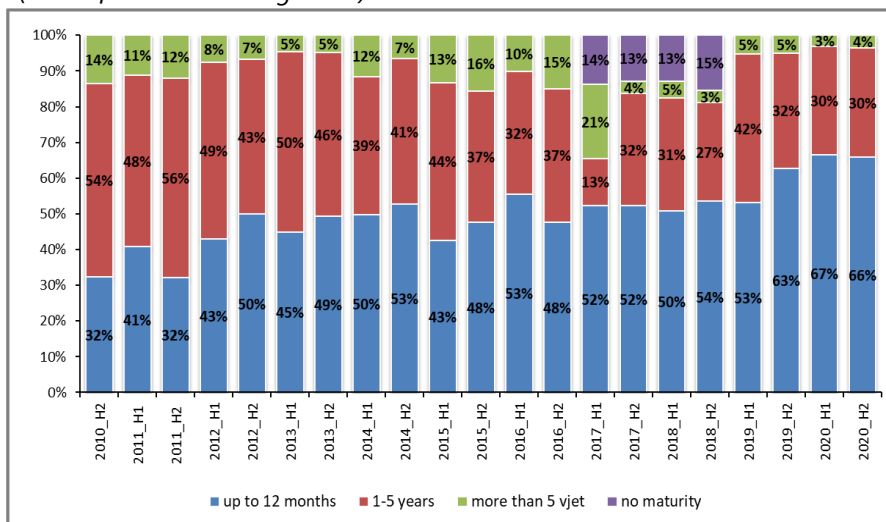
Source: Bank of Albania

2.7-Debt guarantee. In 77% of borrowing cases, it results that the debt '*is not guaranteed*' and this share has increased by 7 pp compared to the previous six-months and to the previous year, respectively. On the other hand, the share of the borrowing cases guaranteed through a '*property owned by the household*' had declined in semi-annual terms (by 2 pp) and in annual terms (by 5 pp). Keeping in mind that unguaranteed borrowing is usually a feature of informal borrowing and short-term formal borrowing for consumption purposes (consumer loans, overdraft etc.), while borrowing guaranteed with a property generally consists of mortgage loans, the performance of their shares during the period goes in line with the results of the survey up to this point.

Chart 2.9 Frequency of borrowing by <u>types of debt guarantees</u>
(in % of total borrowing cases))
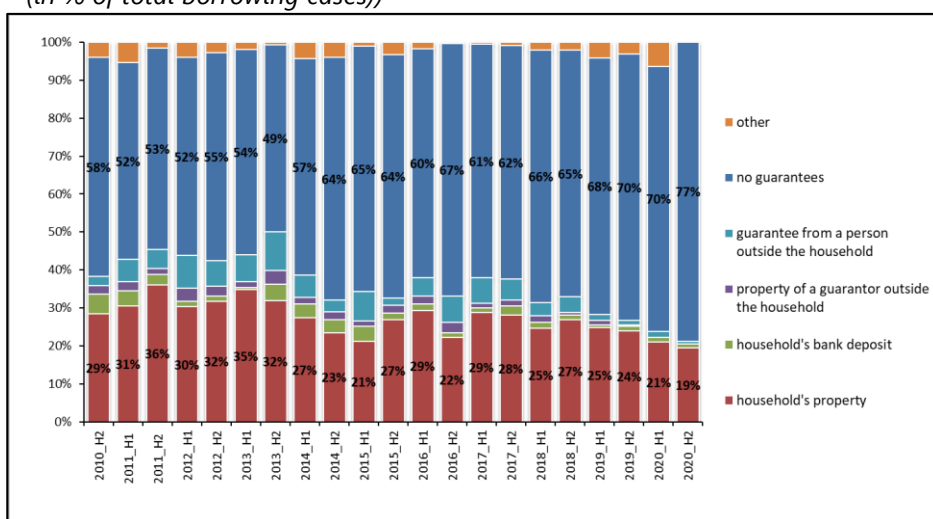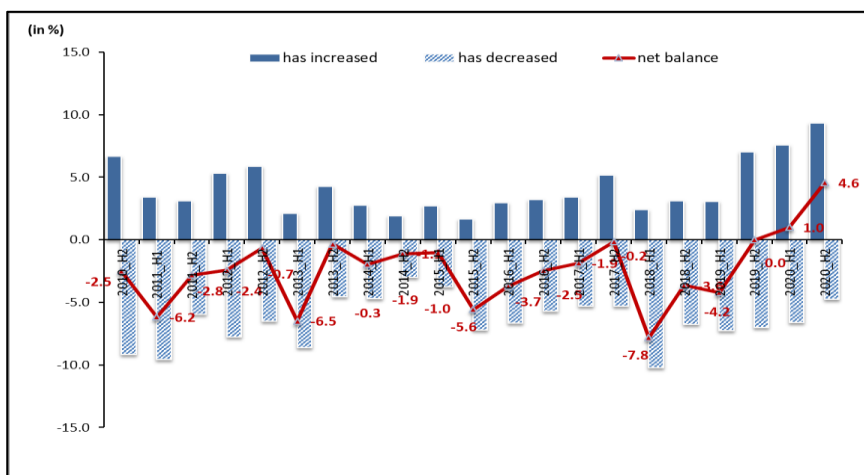

Source: Bank of Albania
Note: The item "other" includes the borrowing cases guaranteed by other forms of guarantees, such as monthly salaries, goods (like cars), etc.

3- Households' debt burden

In this section borrowing households are asked to provide information on their *largest existing debt* only, the one which is the most burdensome for their household. Consequently, the shares of responses are calculated referring to the total number of the borrowing households responding to each question.

3.1-Change in debt monthly payments. Around 78% of total borrowers declare that their debt monthly payment has not changed during 2020 H2. The *net balance* of the remaining responses (22% of borrowers) resulted +4.6 pp, which indicates an increase in the *debt payment during the period*, as well as compared to the previous year, continuing the increasing trend noticed during this year.

Chart 3.1 Change in debt monthly payments in the <u>past six months</u>

Source: Bank of Albania

3.2-Households' solvency during 2020 H1 and expectations for 2021 H1. About 58% of total borrowers declared that their solvency '*has not changed*' during 2020 H2, and this share has increased by 3 pp compared to the previous six months. The rest of the responding borrowers report on aggregate 'a *deterioration of their solvency'*, (*37% reported 'deterioration' and 5% reported 'improvement'*) during the same period. The household's perception of their solvency is somewhat better compared to the previous six-months, but significantly pessimistic compared to the previous year (Chart 3.2), reflecting the deterioration of the economic situation in the country due to the pandemic. This is also echoed in the households' pessimistic expectations regarding their future solvency. Thus, 72% of borrowers *do not expect a change in their solvency* in 2021 H1 (up by 6 pp compared with the result in the previous survey), while the net balance of the rest of responses resulted in – 10.33 pp, indicating *worsening expectations* for the coming six months (Chart 3.3).
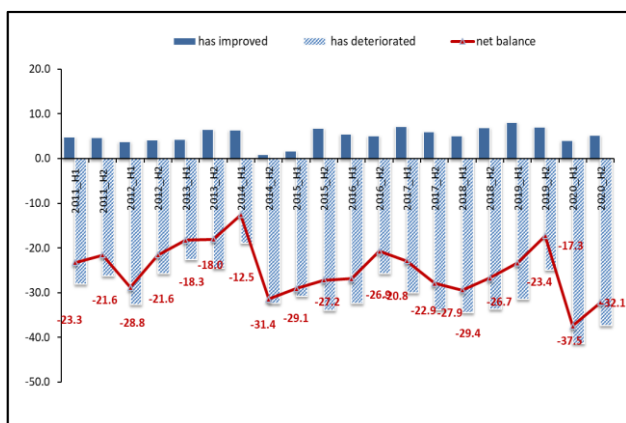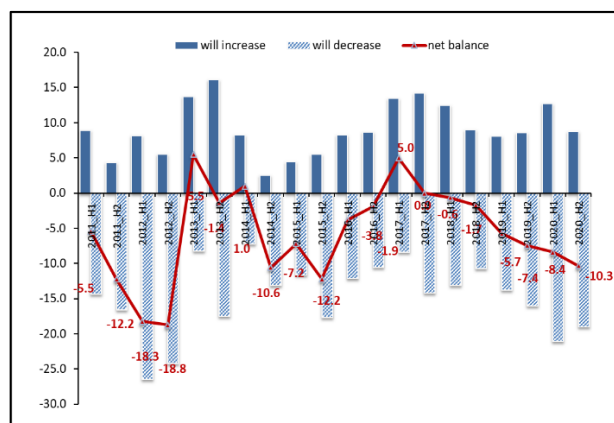
Chart 3.2 Household's solvency during 2020 H2

Chart 3.3 Household's expected solvency in 2021 H1

Source: Bank of Albania

3.3-Household's borrowing plans for the upcoming six months[8]. Around 57% of total surveyed households report that they *'do not expect to take a new loan/roll over the existing one, in the next half-year,* whilst around 43% of them (or 461 households) might consider this option (with various degrees of certainty[9]), and this share has increased by 1 pp compared to the previous six months and by 3 pp compared to the previous year.

As a result, the *new borrowing planning/rollover index*[10] resulted as 0.195, marking an increase compared with the results in the last two surveys and reaching above its long-term average (Chart 3.4). Such movement of the index might signal a potential revival of household's credit demand during 2021 H1.

Focusing the analysis only on the group of households that *plan to take a new loan* (461 households'), it results that about 63% of them are *'new borrowers'*, meaning that they don't have any existing debt by the time of the survey (Chart 3.5). This share decreased by 12pp in semi-annual terms and remained unchanged compared to the previous year.
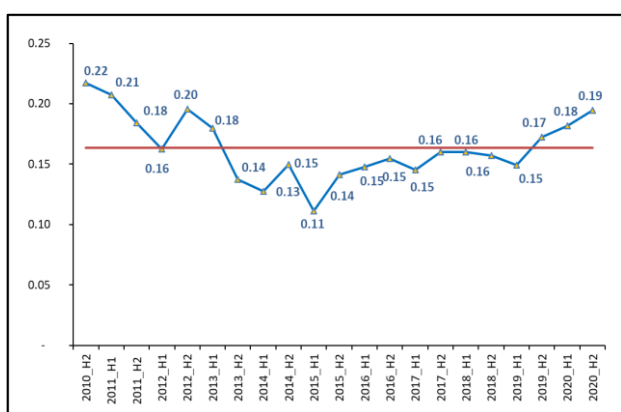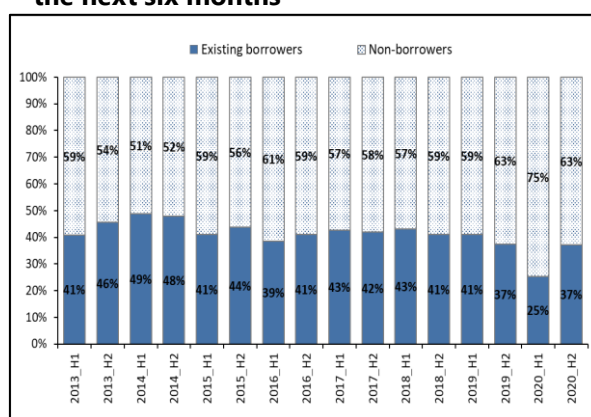
Chart 3.4 New borrowing planning/rollover index

Chart 3.5 Households that plan to borrow in the next six months

Source: Bank of Albania

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 of 2020 H1 are presented below:

4.1-Households' real estate properties. 1056 households responded to the questions of this section, of which 95% reported to possess at least one real estate property. The responded households declared to possess a total of 1521 *real estate properties of different types* where: 92% of them (976 households) own "*1-2 properties*", mainly *'residential properties'* or a combination of residential property and another property such as land, shop, building etc. This share has remained unchanged compared to the previous six months and has decreased by 1 pp compared to the previous year (Chart 4.1). On the other hand, 2% of the total households reported that they *'own more than 2 real estate properties'* (house and land/shop etc.), while 5% reported that they *'do not own any type of property'*.

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[8] The question is addressed to the entire sample of 1210 households and 1056 households' responded, or around 87% of total sample.

[9] The given alternatives are: "little possibility", "many possibilities" and "it is certain".

[10] The index is calculated as weighted average of % of responses for each alternative with relevant coefficients. 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 ("many possibilities") and 1 ("it is certain"). The index takes values from 0 to 1, where the nearest to 0 the index value results, the smaller is the chance to get a new loan, and the closest to 1, the higher the probability of getting new loan in the next half-year.

Focusing the analysis on the **borrowers group** only (252 households), they reported to possess in total 359 real estate's properties, where 64% of them are residential properties (houses), 29% are lands and the rest are shops, buildings and other types of properties.

Chart 4.1 Distribution of households (total sample) by the number of real estates they own *(in % of total responding households)*
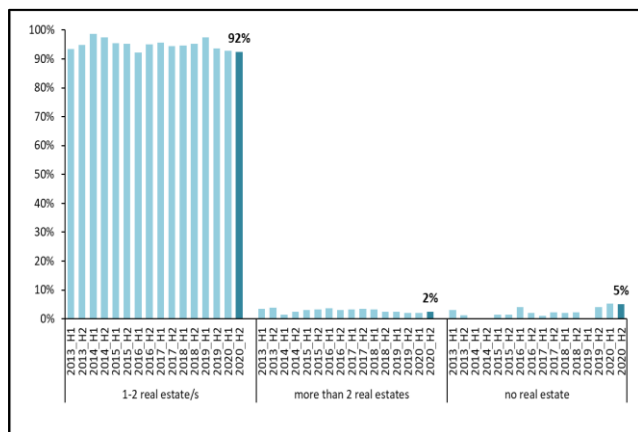
Chart 4.2 Distribution of borrowers by the number of the real estate they own *(in % of total responding households)*

Source: Bank of Albania
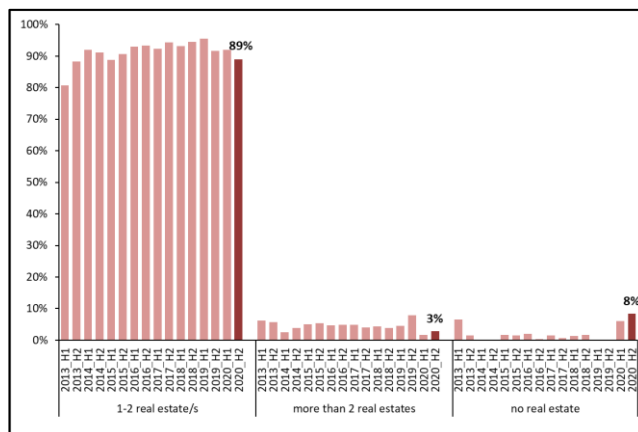
The distribution of the borrowers by the number of properties they own, shows that: 89% of them (224 households) own *'1-2 real estate property'* at the time of the interview, and this share has decreased by 3 pp compared to the previous six months and previous year, respectively. In most cases, these are residential properties or a combination of a residential property and land. Only 3% of borrowers (7 households) declare that they own *'more than 2 properties'* and this share has increased by 1 pp compared to the previous half-year survey, but has decreased by 5 pp compared to the previous year (Chart 4.2).

4.2-Households' financial assets[11]. For the period under review, 43% of the total surveyed households (borrowers and non-borrowers) and 60% of borrowing households reported that they *"do not own any type of financial assets"* and these two shares have increased by 2 pp and 1 pp, respectively, compared with the previous survey.

Focusing the analysis only on the group of households that possess some form of financial assets (excluding the cases where they "*do not possess any financial assets*", it results that "*deposits and/or bank accounts*" remain the main type of financial asset, both for the total sample (62% of cases) and the borrowing households (72 of cases). Compared to the previous six-months, these shares have increased by 3 pp in case of total households and have decreased by 5 pp in the case of borrowing households.

Chart 4.3 Financial assets owned by all households *(total sample, in % of total responses)*

Chart 4.4 Financial assets owned by the borrowing households only *((in % of borrowers responses)*

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[11] 1060 households that took part in the survey, answered the question regarding the financial wealth of the households.
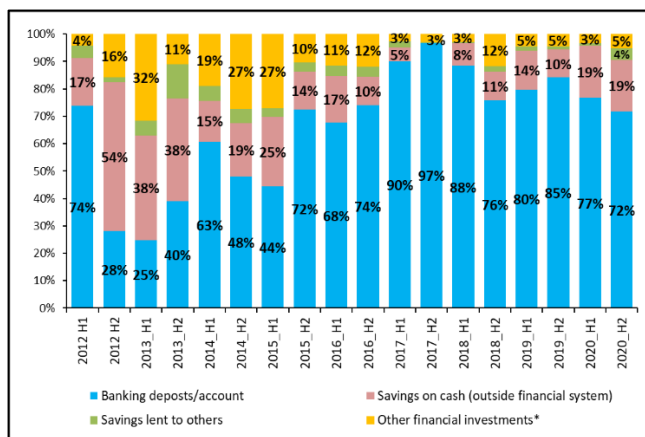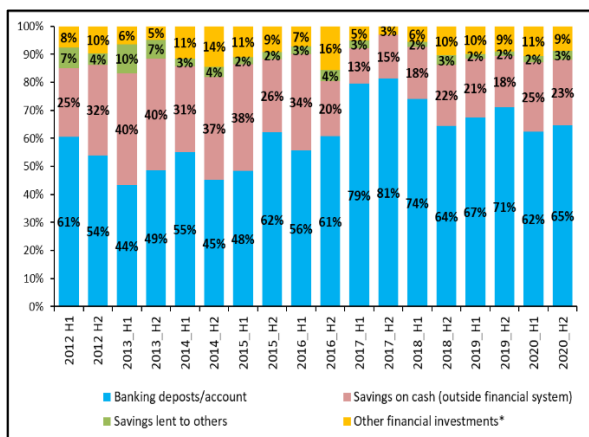
The use of other types of financial investments, gathered in "other investments"[12], has somehow decreased in the case of the total households, compared to the previous six-months, but increased in the case of the borrowing households. On the other hand, there is an increase in the share of households that report to keep their savings in the form of cash (outside the financial system/banks) in the group of borrowing households.

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[12] "Other investments" summarizes investments in: T-bills, life insurance, pension funds and securities.