



FINANCIAL AND BORROWING SITUATION OF HOUSEHOLDS IN ALBANIA

2022 H1

**BANK OF ALBANIA
FINANCIAL STABILITY DEPARTMENT**

July 2022

CONTENT

1 -Demographic and financial characteristics of interviewed households	4
2- Households' borrowing	6
3- Households' debt burden	11
4- Households' wealth.....	13

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

The survey of households' financial and borrowing situation has been conducted biannually since 2010. This survey was conducted in May 2022 and covers developments in the financial situation and borrowing of households for 2021 H1, as well as expectations for 2022 H2. The survey was conducted on a sample of around 1210 randomly selected households, geographically spread across the country.

▪ FINANCIAL SITUATION

The total number of employed individuals in the surveyed sample registered a decline compared to the previous six months and the previous year. In annual terms, this decline was driven by the private sector and the government, whereas the number of self-employed increased. The overall level of households' income was lower during the period, whereas the overall level of households' expenses was higher in semi-annual and annual terms.

▪ BORROWING

Around 22% of interviewed households (or 240 households) state that they had a debt to repay at the time of the interview, regardless of its type, source or amount. This share has decreased by 1 percentage point compared to the previous six months, and by 2 percentage points compared to the previous year, continuing to remain below the historical average of this survey of about 27%. *The total outstanding debt reported for the entire sample has increased compared to the previous survey, but it is below the level reported in the previous year.* Around 66% of outstanding debt has originated from formal sources ('banks' and 'non-bank financial institutions') and 21% from informal sources ('natural persons' and 'debt in the form of unpaid goods'). In semi-annual terms, this structure has shifted in favour of borrowing from informal sources, but, in annual terms, it has shifted toward debt from formal sources, due to the higher value of debt granted by banks. Regarding the purpose of debt, around 41% of the total amount of outstanding debt was used to purchase/renovate a property, 12% was used for business development, 9% for consumption, and 39% for other purposes (mainly loans taken to cover university and medical expenses). The share of debt used to purchase/renovate a property has increased significantly in both semi-annual and annual terms.

▪ DEBT BURDEN

Around 76% of borrowing households that responded to the survey, declared that their debt repayment amount has not changed during the six months covered by the survey. The net balance of the remaining responses shows a slightly downward trend in loan instalments during the period. About 51% of borrowing households declared that their solvency 'had not changed' during the period under review, whereas the net balance of the rest of responses shows an improvement in their solvency during the period. For 2022 H2, around 61% of households do not expect a change in their solvency, while the net balance of the rest of responses shows optimistic expectations. *The new loan/rollover index for the next six months has remained almost unchanged compared to the previous six months, which may signal a moderation in households' demand for financing in 2022 H2.*

▪ HOUSEHOLDS' WEALTH

Around 93% of total households interviewed own 1-2 real estates, mainly residential houses; 2% state they own more than 2 real estates (houses and land/shop etc.); and 5% declared that they do not own any property. In the group of households that claimed 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 (56% of the cases) and in the case of borrowing households (51% of the cases). Compared to the previous six months, these shares have decreased by 4 percentage points in relation to the total sample, and by 14 percentage points in relation to borrowing households.

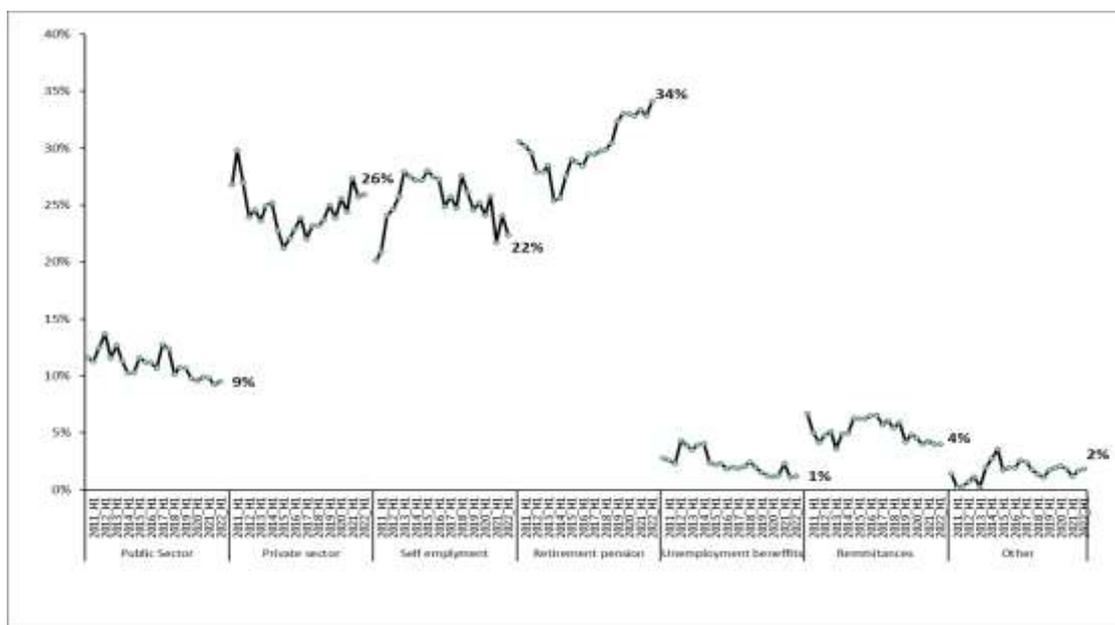
1 -Demographic and financial characteristics of households interviewed

Sample characteristics. The survey was conducted on a randomly selected sample of 1210 households, where around 90% of them (1083 households) participated in the interviewing process, responding to all or part of the administered questionnaire. The share of responders to the total sample remained unchanged compared to the previous survey and the previous year. Around 50% of total responding households were located in urban areas and 50% were in rural areas.

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

1.1 Employment and other sources of income. The total number of households' members that provide income from employment/self-employment in the public sector, private sector and/or other sources¹ has decreased by 1.3% compared to the previous six months, and has slightly increased by 0.6% compared to the previous year, being more pronounced in the case of self-employed and immigrants.

Chart 1.1 Distribution of household income providers by income source
(In % to total income providers)



Source: Bank of Albania.

Notes: The item "Other" includes mainly the cases of individuals that receive invalidity assistance, individuals receiving financial help from relatives and those that do occasional jobs.

Focusing the analysis on the group of employed household members only² (Table 1.1), it can be seen that their total number has also declined by 3.5% in semi-annual terms and by 1.4% in annual terms. In annual terms, the decline was driven by the private sector (by 4.6%) and the government (by 2.9%), whereas the number of self-employed increased by 3.5%.

Table 1.1 Distribution of employed individuals by sector

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

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

		Public	Private	Self-employed	Total employees	Semi-annual chg.	Annual chg.
S15:	H2_2017	317(21%)	595(38%)	634(41%)	1546	-2.2%	2.1%
S16:	H1_2018	259(17%)	592(38%)	705(45%)	1556	0.6%	-1.5%
S17:	H2_2018	280(18%)	618(39%)	682(43%)	1580	1.5%	2.2%
S18:	H1_2019	266(18%)	623(41%)	613(41%)	1502	-4.9%	-3.5%
S19:	H2_2019	235(17%)	574(41%)	606(43%)	1415	-5.8%	-10.4%
S20:	H1_2020	233(16%)	621(43%)	585(41%)	1439	1.7%	-4.2%
S21:	H2_2020	234(16%)	578(41%)	611(43%)	1423	-1.1%	0.6%
S22:	H1_2021	241(17%)	670(46%)	532(37%)	1443	1.4%	0.3%
S23:	H2_2021	231(16%)	642(44%)	602(41%)	1475	2.2%	3.7%
S24:	H1_2022	234(16%)	639(45%)	550(39%)	1423	-3.5%	-1.4%

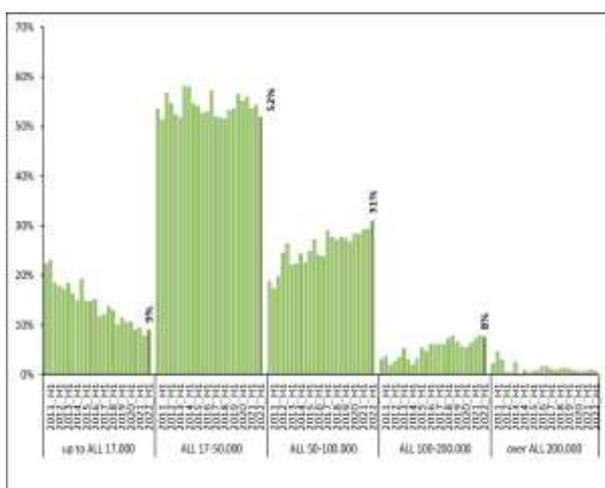
Source: Financial Stability Department.

Notes: Numbers in parenthesis are the share of each item against total employees.

The number of households that have declared **additional stable sources of income**³ (like rents, banking interests etc.) was 12% (or 128 households in total), slightly increasing by 0.4 percentage points during the period, and by 2 percentage points, compared with the previous year. Within this group of households, around 50% of them declare *interest from savings (deposits, Treasury bills etc.)* as an additional source of income, and 20% declare income from *renting a property*. Both of these items recorded a decline of 11 percentage points and 4 percentage points, respectively, compared to the previous six months. The item "other" recorded an increase, where households stated that they received financial assistance from family members or relatives mainly living in immigration.

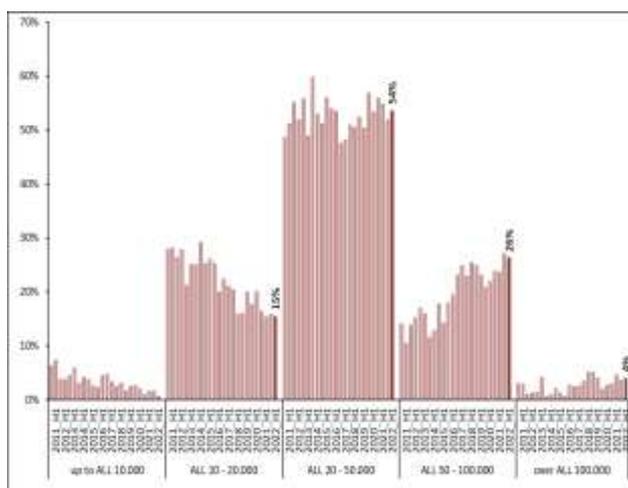
1.2-Households' income and living expenses. During the six months under review, the distribution of the number of households by *income level*, was concentrated in the 'ALL 50-100,000' band, in both semi-annual and annual terms, representing 31% of households. On the other hand, most households (around 52%) continue to declare monthly income in the 'ALL 17-50,000' band, and this share has decreased by 23 percentage points. in semi-annual and annual terms (Chart 1.2).

Chart 1.2 Distribution of households by their monthly income level



Source: Bank of Albania.

Chart 1.3 Distribution of households by their monthly living expenses level



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).

The distribution of households according to their *living expenses*, has shifted towards higher levels of monthly expenses during the period, mainly towards the 'ALL 20-50,000' and 'ALL 50-100,000' band of expenses, reflecting an overall upsurge in prices during the surveyed period (Chart 1.3).

During the first half of the year, the income index⁴ decreased for the first time after four periods of recording an increase, while the **expenditure index⁵** continued with the upward trend which began two years ago, resulting in a deterioration of the households' balance sheet. This performance reflects the economic bottlenecks in certain sectors that were affected by the war in Ukraine, as well as the increase in households' living expenses due to the overall upsurge in prices in Albania.

Chart 1.4 Income and Expenditure Indices of households (2010=100)



Source: Bank of Albania.

The euroisation of income of Albanian households continues to remain low. Only 17% of the respondents (187 from 1083 interviewed households) declared to have some income in foreign currency (mainly in euro), in various percentages of their total monthly income⁶. This share has remained almost unchanged compared with the previous six months, and has increased by 3 percentage points, compared to the previous year.

2- Households' borrowing

The number of households reporting *one or more debt to repay* at the time of the interview, regardless of the debt type, source or amount, was 240 or around 22% of total respondents. This share decreased compared with the previous six months and the previous year, by 1 percentage point and 2 percentage points, remaining below the historical average of this survey of about 27%. The following analysis refers to the group of borrowing households only⁷.

⁴The 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.

⁵The 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" 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 Alternatives related with 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 repay 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

2.1 The level of income and living expenses of borrowing households. During the surveyed six months, the distribution of borrowing households by income and living expense levels has primarily shifted towards higher levels compared to the previous period. This has resulted in an increase by almost the same amount of both the *income index* and *living expenses*, during the period, *but remaining below the values of the previous year*.

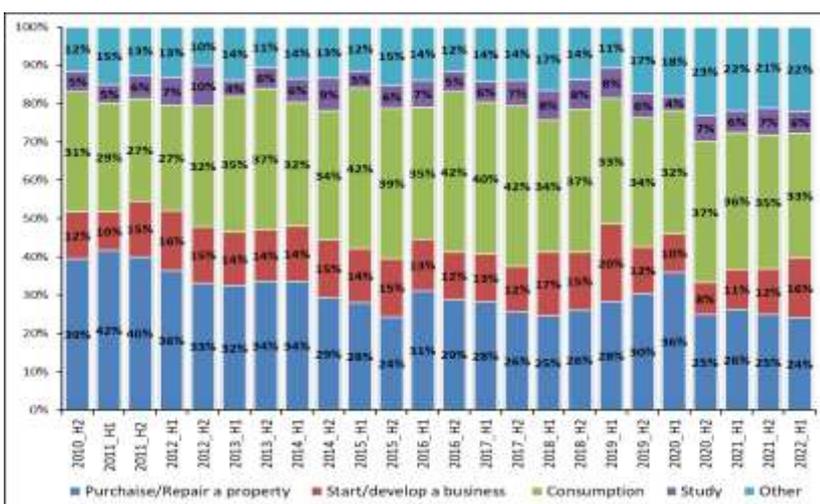
Chart 2.1 Borrowing households' income and living expenses indices
(2010 = 100)



Source: Bank of Albania.

2.2 Debt purpose. The main borrowing purposes continued to be for “consumption” in 33% of borrowing cases; for “purchase/repairs of a property” in 24% of cases; and for “business development” in 16% of cases. The share of borrowing for “consumption” and “purchase/repairs of a property” decreased compared to the previous six months (by 2 percentage points and 1 percentage point, respectively) and compared to the previous year (by 3 percentage points and 2 percentage points, respectively). On the other hand, borrowing cases for “business development” continued to increase by 4 percentage points and 5 percentage points, respectively, in semi-annual and annual terms, following the easing of measures undertaken in response to the pandemic.

Chart 2.2 Frequency of borrowing by debt purpose
(in % of total number of borrowing cases)

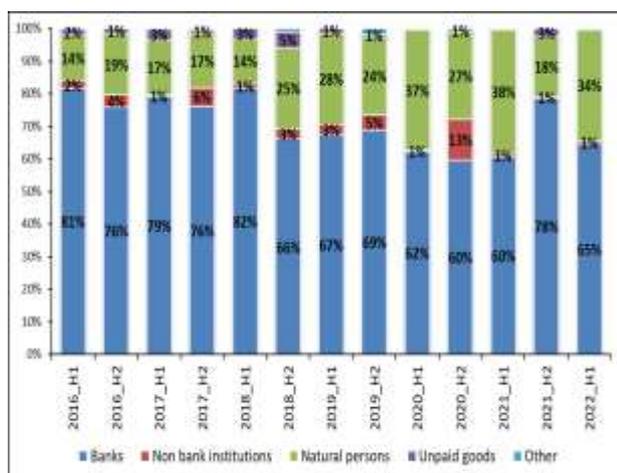


Source: Bank of Albania.

characteristic, e.g.: a household that declares 2 loans from banks constitutes “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.”

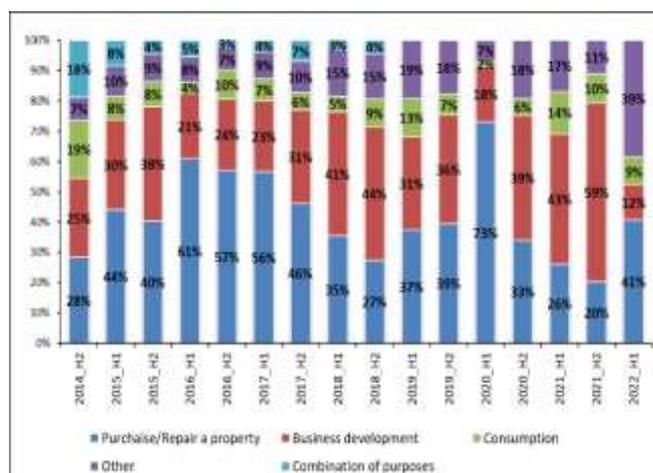
2.3 Outstanding debt. Analysis of outstanding debt by *source* and *purpose of use*, reveals a borrowing structure which continues to be opposite to the distribution of borrowing cases (borrowing frequency). The six months analysed show that around 66% of outstanding debt has originated from formal sources (65% banks, and 1% non-bank financial institutions) and around 34% from informal sources, where almost the entire amount was in the form of borrowing from “natural persons.” In semi-annual terms, this structure has shifted in favour of borrowing from informal sources (by 14 percentage points), but, in annual terms, it has shifted toward debt from formal sources (by 4 percentage points), due to the higher value of debt granted by banks (Chart 2.3).

Chart 2.3 Composition of outstanding debt by SOURCE (in % of the total outstanding debt reported)



Source: Bank of Albania

Chart 2.4 Composition of outstanding debt by PURPOSE of loan (in % of the total outstanding debt reported)



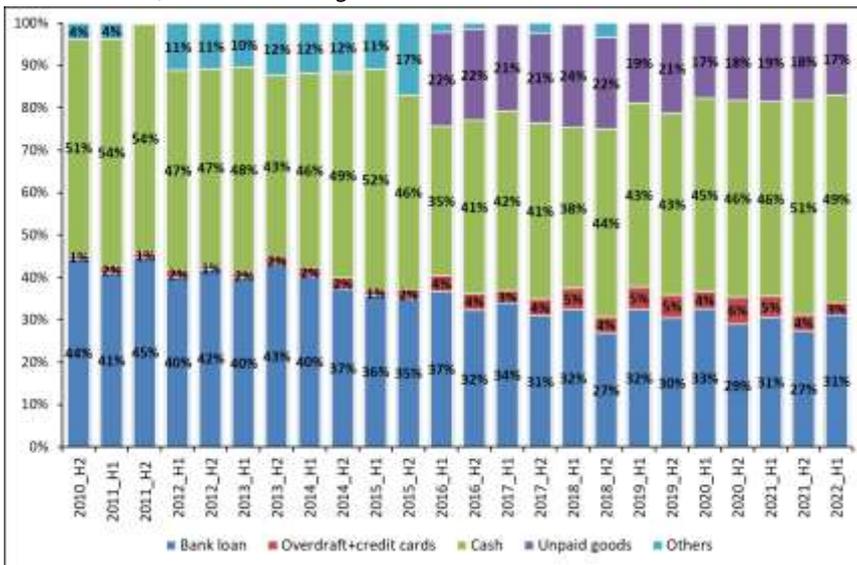
Source: Bank of Albania.

Notes: The item “other” includes mainly loans to face medical expenses.

Analysis of outstanding debt by its purpose of use (Chart 2.4), shows that around 41% of outstanding debt is used for “*purchasing/renovating a property*”, 12% for “*business development*”, and 9% for “*consumption*”. The share of borrowing for purchasing or renovating a property increased significantly in both semi-annual and annual terms (by 20 percentage points and 15 percentage points, respectively), whereas the share of the other two items decreased during the period. On the other hand, the share of borrowing for “*other purposes*”, increased considerably, accounting for 39% of the total. This group was dominated by loans taken for “*study*” purposes and to cover “*medical expenses*”.

2.4 Type of debt. Around 34% of households’ borrowing cases are in the form of “*loans from financial institutions*”, where 31% are “*bank loans*” (up by 4 percentage points compared to 2021 H2) and 3% are “*credit card and overdraft*” (down by 1 percentage points compared to 2021 H1). In about 49% of cases, the debt is in “*cash*” and in 17% of cases, it is in “*unpaid goods*”, and both these shares decreased during the period, compared to the previous six months.

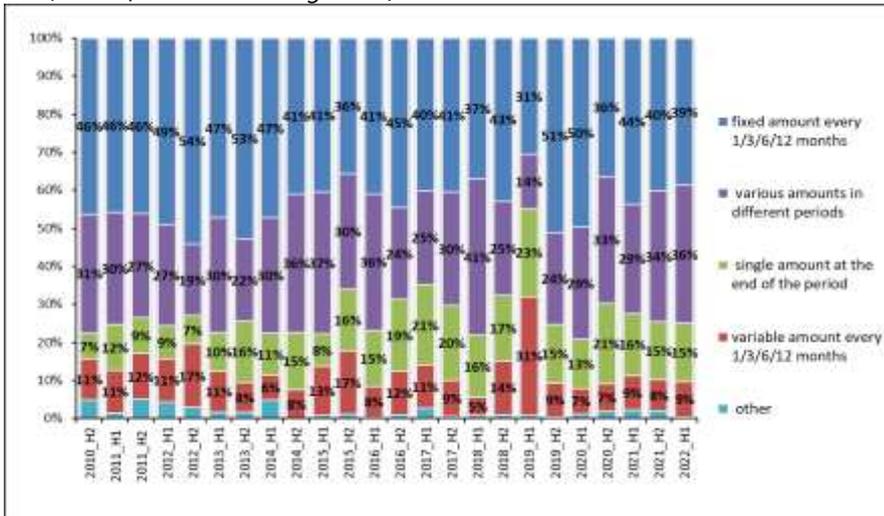
Chart 2.5-Frequency of borrowing by TYPE of debt
(in % of total borrowing cases)



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' (39% of borrowing cases), 'variable payments in different periods' (36% of borrowing cases), and 'one single payment at the end of the period' (15% of borrowing cases). During 2022 H2, the share of debt cases with fixed (or variable) monthly payments - typical of long-term bank loans (such as mortgages or loans to enterprises) - decreased in both semi-annual and annual terms, by 1 percentage points and 5 percentage points, respectively. On the other hand, the share of debt cases with variable payments in various periods, mostly a feature of informal loans or short-term bank loans (such as overdraft, credit cards), increased by 2 percentage points and 8 percentage points, respectively, in semi-annual and annual terms.

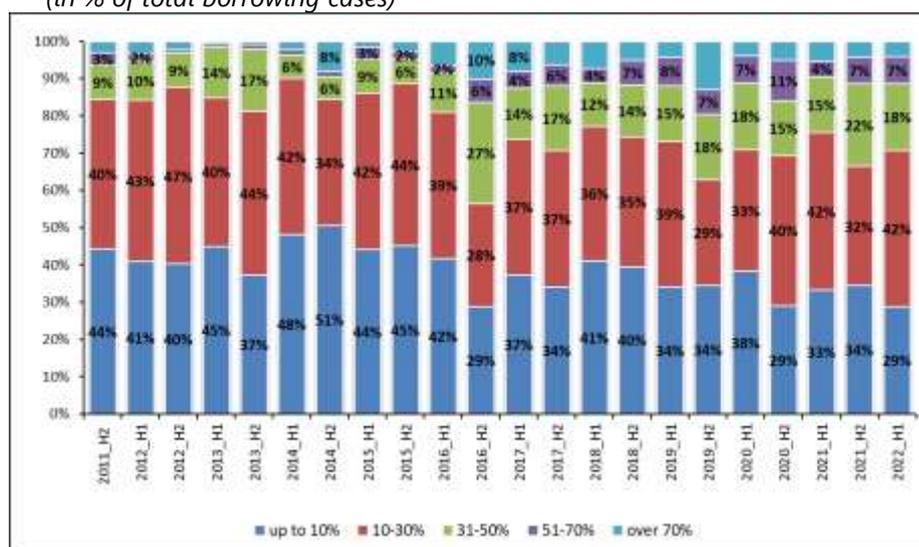
Chart 2.6-Frequency of borrowing by debt REPAYMENT SCHEDULE
(in % of total borrowing cases)



Source: Bank of Albania.

Regarding borrowing household's debt burden measured as a ratio of monthly debt payments to total monthly income, in 71% of cases it was reported that 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 42% of borrowing cases. On the other hand, in 29% of households this payment exceeds 30% of income ('31-50% of income' for 18% of households, '51-70' for 7% of households and 'over 70%' for 4% of households).

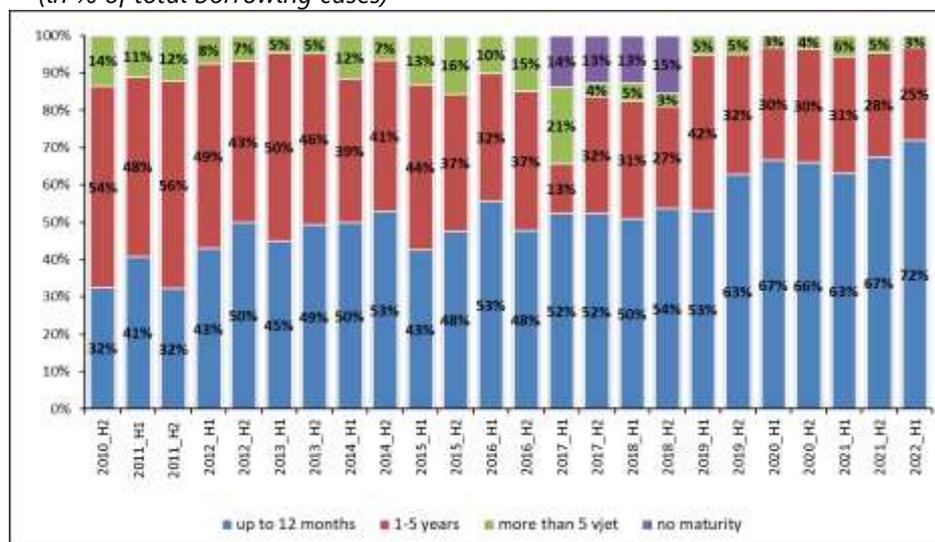
Chart 2.7-Frequency of borrowing by debt repayment-to-monthly income ratio
(in % of total borrowing cases)



Source: Bank of Albania.

2.6 Remaining maturity. In 72% of borrowing cases results show that the debt matures *'within a year'* and this share increased by 5 percentage points compared to the previous six months and by 9 percentage points compared to the previous year; in 25% of the cases, the remaining maturity of the debt is *'1-5 years'* (down by 3 percentage points and 7 percentage points compared to 2021 H2 and 2021 H1, respectively) and in 3% of the cases the remaining maturity is reported to be *'over 5 years'* (down by 1 percentage point and 2 percentage points, respectively, compared to 2021 H2).

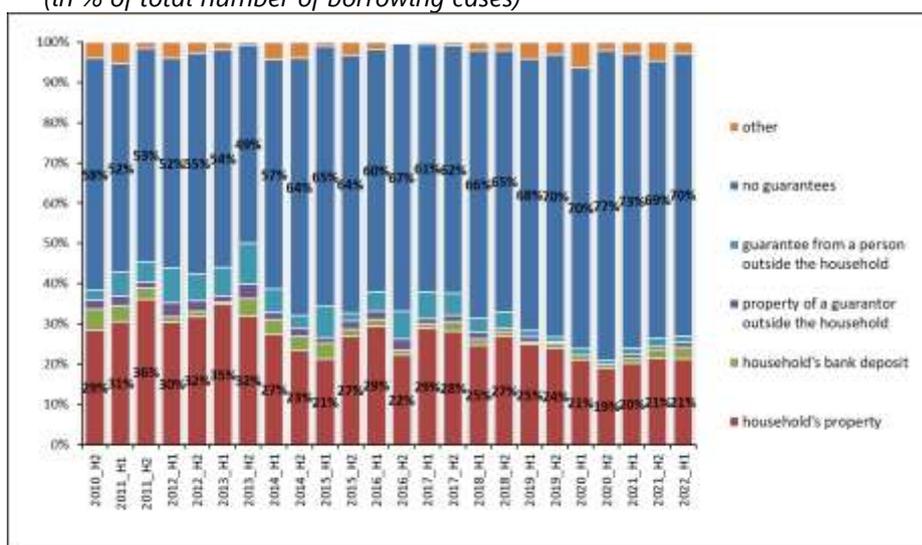
Chart 2.8 Frequency of borrowing by debt remaining maturity
(in % of total borrowing cases)



Source: Bank of Albania.

2.7-Type of debt guarantees. In 70% of borrowing cases, results show that the debt has *'no guarantees'* and this share increased by 1 percentage point compared with the previous six months, but dropped by 4 percentage points compared with the same period in the previous year. In contrast, the share of the borrowing cases guaranteed with a *'property owned by the household'* remained unchanged in semi-annual terms, and increased by 1 percentage point in annual terms.

Chart 2.9 Frequency of borrowing by TYPES OF DEBT GUARANTEES
(in % of total number of borrowing cases)



Source: Bank of Albania.

Notes: 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 of questions, borrowing households were asked to provide information on the *largest existing debt* which is most burdensome for their household. The shares of responses have been calculated in relation to the total number of borrowing households which responded to each question.

3.1 Change in debt monthly payments. Around 76% of borrowing households declared that their monthly debt payment did not change during 2022 H1, and this share increased by 2 percentage points compared to the previous six months. The *net balance* of the rest of the responses (24% of borrowing households) showed a decrease of 3.3 percentage points, compared to the previous six months, although above the values registered in the previous year.

Chart 3.1 Change in monthly debt payments in the past six months



Source: Bank of Albania.

3.2 Households' solvency during 2022 H1 and expectations for 2022 H2. About 51% of the borrowing households declared that their solvency *"has not changed"* during 2022 H1, and this share remained almost unchanged compared to the previous six months, but decreased by 6 percentage points compared to the previous year. The rest of the responding borrowers reported, on the whole, a *deterioration of their solvency'* (43% reported 'deterioration' and 7% reported 'improvement') (Chart 3.2), but it has improved compared with the results of the previous survey. This is reflected in the improvement of households' expectations regarding their solvency in the second half of the year. Thus, around 61% of borrowing households *do not expect a change in their solvency in 2022 H2*, while the net balance of the rest of responses showed a decrease of 19.3 percentage points, indicating more optimistic expectations compared with the results of the previous six-months and the previous year (Chart 3.3).

Chart 3.2 Household's solvency during 2022 H1

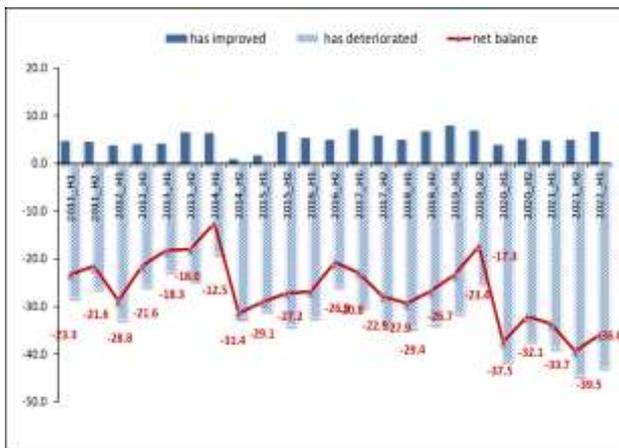
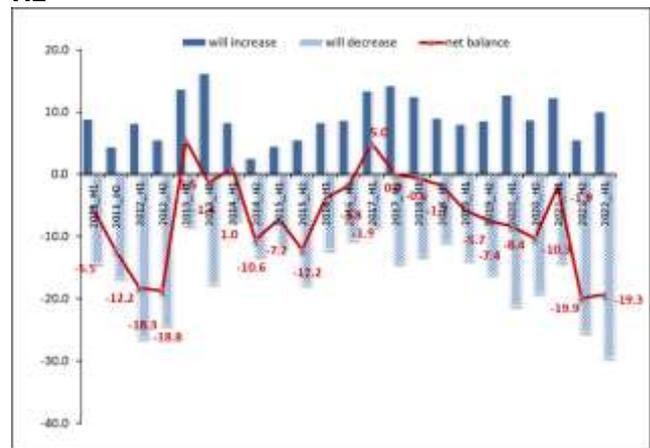


Chart 3.3 Household's expected solvency in 2022 H2



Source: Bank of Albania.

3.3 Household's borrowing plans for the upcoming six months⁸. Around 53% declared they do "not expect to take a new loan in the upcoming six months" whilst around 47% (or 504 households), might consider this option⁹ with various degrees of certainty. This share increased by 2 percentage points compared to the previous six months and by 6.2 percentage points compared to the previous year. Focusing analysis only on the group of households that *plan to take a new loan (486 households)*, results show that about 59% of them are *"new borrowers"*, meaning that they don't have any existing debt by the time of the survey. This share remained unchanged compared to the previous six months, and it decreased by 4 percentage points compared to the previous year.

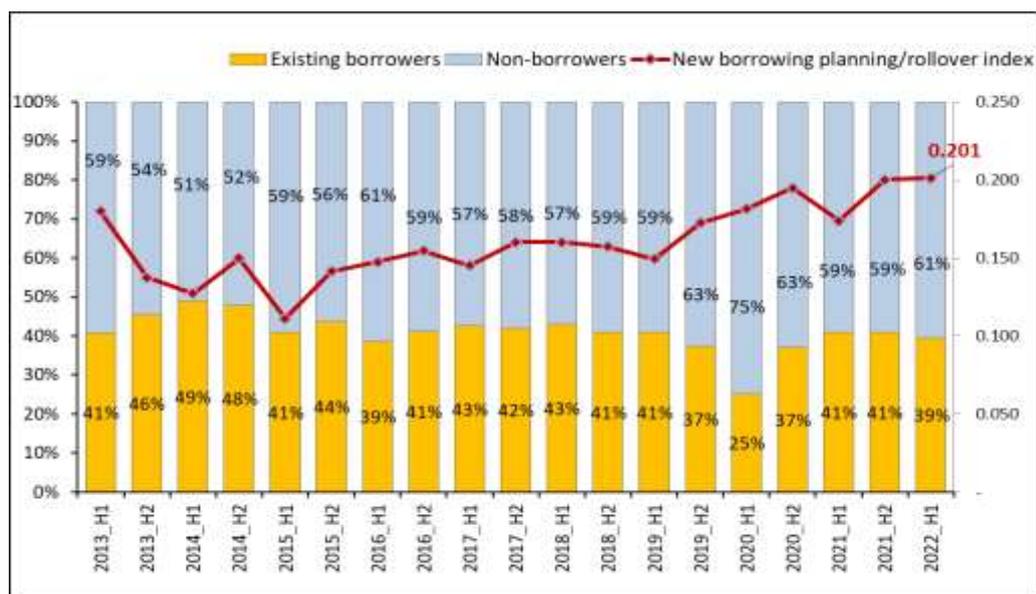
As a result, *the new borrowing planning/rollover index¹⁰* is 0.201, remaining almost at the same level compared to the previous period, which could signal a moderation of households' demand for loans in 2022 H2. Nevertheless, future developments of households' demand for loans are expected to be impacted by global events, and the speed of normalization of monetary policy in Albania.

⁸ The question was addressed to the entire sample of 1210 households, and 1083 households' responded, or around 90% of the total sample.

⁹ The given alternatives are "little possibility", "a lot of possibilities" and "certain."

¹⁰ The index is calculated as a 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.

Chart 3.4 New borrowing planning/rollover index in the next six months



Source: Bank of Albania.

4- Households' wealth

This section contained only two questions on real estate and financial wealth of interviewed households, and was addressed to the entire household sample. The results for 2022 H1 are presented below.

4.1 Household real estate properties. A total of 1083 households responded to the questions in this section, of which 95% reported to possess at least one real estate property. The respondent households declared ownership of a total of 1542 real estates of different types. 93% of them (1006 households) own '1-2 real estates', mainly residential properties or a combination of residential property/ies and another property such as land, shop, building etc. This share remained unchanged compared to the previous six months and decreased by 1 percentage point 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 estates', (house and land/shop etc.), while 5% reported that they 'do not own any real estate'.

Focusing analysis on the group of **borrowing households** only (total 240 households), a total of 352 households declared ownership, of which 69% were "residential properties", 28% were "lands" and the rest were "shops", "buildings" and other types of properties.

The distribution of the borrowers by the number of properties they own, shows that: 92% of them (221 households) owned '1-2 real estates' at the time of the interview, and this share increased by 1 percentage point compared to the previous six months. In most cases, these properties are residential houses or a combination of a residential property and land. Only 2% of borrowers (5 households) declared that they own 'more than 2 properties', and this share decreased by 1 percentage point compared to the previous half-year survey, while 6% of borrowers declare that they 'do not own any property' (Chart 4.2).

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

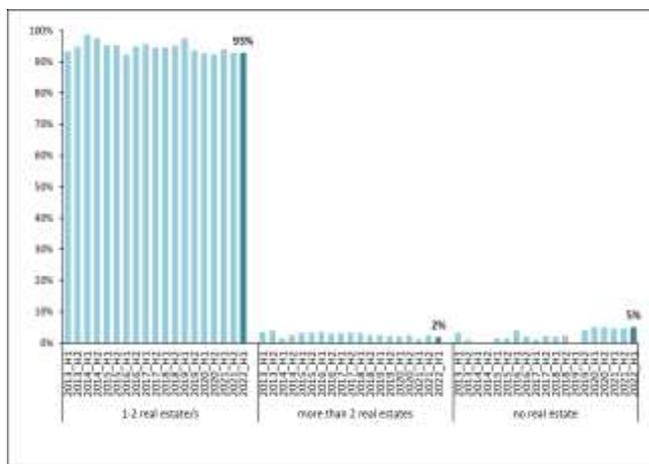
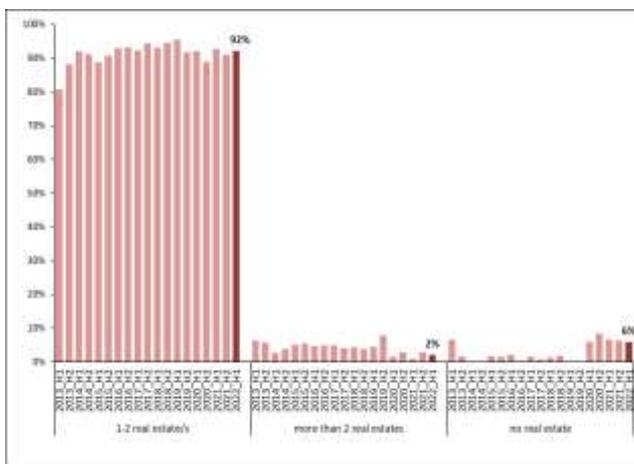


Chart 4.2 Distribution of borrowers by the number of real estates they own (in % of total responding household)



Source: Bank of Albania.

4.2-Households' financial wealth¹¹. For the period under review, 52% of the total households surveyed (borrowers and non-borrowers) and 73% of borrowing households declare that they 'do not own any type of financial wealth' and both shares have increased by 6 percentage points, respectively, compared with the previous six months and the previous year.

Focusing analysis only on the group of households that have declared financial wealth of various forms (excluding the cases where the household 'does not possess any financial wealth'), results show that 'deposits and/or bank accounts' continue to remain the main type of financial investment, both for the total sample (56% of cases) and the borrowing households (51% of cases). Compared to the previous six-months, these shares have decreased by 4 percentage points in the case of total households, and by 14 percentage points in the case of borrowing households.

Chart 4.3 Distribution of households (total sample) by the number of real estates they own (in % of total STATEMENT cases)

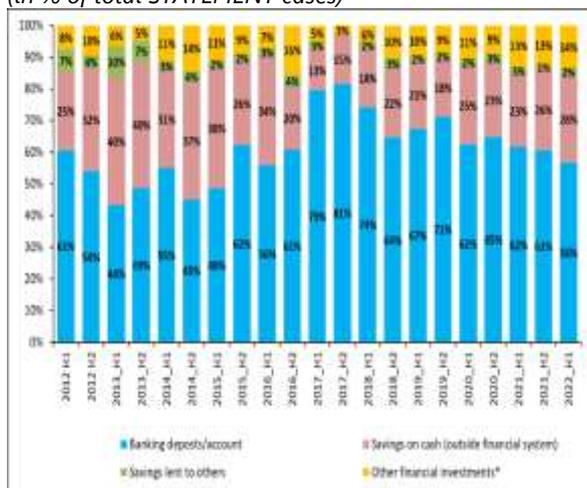


Chart 4.4 Distribution of borrowers (total sample) by the number of real estates they own (in % of total responding households)



Source: Bank of Albania.

1088 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, defined as '*other investments*'¹², increased slightly (by 1 percentage point) compared to the previous six months in the case of total households, and decreased (by 3 percentage points) in the case of borrowing households. On the other hand, saving in *cash* (outside of banks) increased during the period for both total households and borrowing households.

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