



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

**2018 H2**

**BANK OF ALBANIA  
FINANCIAL STABILITY DEPARTMENT**

**March 2018**

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## Summary of key findings of the Survey

The survey on the financial and borrowing situation of enterprises has been conducted half-yearly since 2010. The latest survey was conducted in November-December 2018 and focused on developments during 2018 H2, and expectations for 2019 H1. The survey was conducted with a sample of 1308 enterprises (small, medium-sized, and large enterprises) across the country, operating in major sectors of the economy. In total, 1102 enterprises or 84.3% of the total surveyed enterprises responded to the questions, completely or partially. Survey analysis was based on the number and type of the respondent enterprises.

### • FINANCIAL SITUATION

During 2018 H2, *competition and finding a market* are regarded as important constraining factors for all three groups of enterprises. Compared with 2018 H1, the importance of market competition is assessed somewhat upward for medium-sized enterprises, but downward for the two other groups. Issues related to access to finance and financing costs are also assessed as upward by medium-sized enterprises, but downward by small and large enterprises.

*Sales performance* is assessed as *upward* during 2018 H2, for medium-sized and large enterprises, and *downward* for small enterprises, showing an improvement compared to the previous periods. In line with the performance of sales, small enterprises continue to report a *downward trend of the financial result*, while medium-sized and large enterprises deem an *increase* of the financial result during the period. The positive performance of sales and financial result is also reflected in the *expansion of the activity* of medium-sized and large enterprises, whilst small enterprises did not report an expansion of the activity during the period. Expectations for enterprises of all sizes appear *positive* in terms of sales, financial result and expansion of the activity, but enterprises are less optimistic compared to the previous six months, especially the small ones.

During the period, more than half of the total responding enterprises financed their activity through sales (63.1% of small enterprises, 53.5% of medium-sized enterprises and 59.8% of large enterprises) Borrowing, as a separate or combined source, was used by 19.4% of large enterprises, 17.8% medium-sized enterprises, and 14% small enterprises. Compared to the previous six months, the use of borrowing as a source of financing resulted as downward for large and medium-sized enterprises, but upward for small enterprises.

### • BORROWING

About 42.2% of total enterprises (464 enterprises in total) state they are indebted. This percentage decreased slightly - by 0.3 percentage point - compared to 2018 H1. In terms of size, the share of small borrowing enterprises increased by 2.8 p.p., whilst this share decreased by 0.8 p.p. for the medium-sized and large enterprises compared to 2018 H1. . About 85.4% of the total borrowing enterprises claim to have borrowed from banks, albeit less compared with the previous six months. The share of borrowing enterprises accounts for 90.5% of total formal sources (banks and non-bank financial institutions), unchanged compared with the previous period.

Enterprises borrowed primary for *current expenditures* (33% of expenditures) and *long-term investments* (39% of the enterprises). In comparison with the previous six months, the share of enterprises borrowing for long-term investments fell for all the groups. About 75% of small enterprises, 78.9% of medium-sized enterprises and 79.7% of large enterprises consider *their level of borrowing for financing their activity* as adequate. Compared to 2018 H1, this share is higher for all sizes of enterprises.

Borrowing is denominated in the domestic currency for 46% of small borrowing enterprises, 49% of medium-sized enterprises and 36% of large enterprises, while the rest is in foreign currency (euro and/or US dollar) and/or combined (domestic and foreign currency). The borrowing in euro is the most preferred by large enterprises (53%) exceeding domestic currency and less preferred by medium-sized enterprises (41.3%). Regarding small enterprises, the share of those that have borrowed in lek and euro is almost the same.

The overall value of the loan is about half the value of the enterprise's capital for 79.5% of borrowing enterprises. By size, debt share is higher for large enterprises, with about 22.6% of them stating that the value of the loan is equal or higher than the value of capital. Most of the borrowing enterprises (73.5%) state that loan repayment amounts up to 20% of the enterprise's revenue, and this share decreased by 1.8 p.p. compared to the previous six months.

- **RELATIONSHIP WITH BANKS**

*Bank borrowing* is assessed as "normal" and "difficult", while the *importance of the relationship with banks* is assessed as "important" and "necessary", upward during the period for all the three groups of enterprises. *The high cost of loans* continues to be considered as the main constraining factor in obtaining a bank loan, with small and medium-sized enterprises reporting more difficulties. Regarding short-term new borrowing,, about 49% of responded enterprises reported *no likelihood* of bank borrowing in the next six months. Compared to the last survey, this share was downward for medium-sized and large enterprises and slightly upward for the small enterprises. In the case of medium-sized enterprises, there is an increase in the share of those reporting it is *less likely* and it is *very likely* to borrow during the upcoming period, signalling a rise of demand for loans.

## Financial and borrowing situation of enterprises in Albania

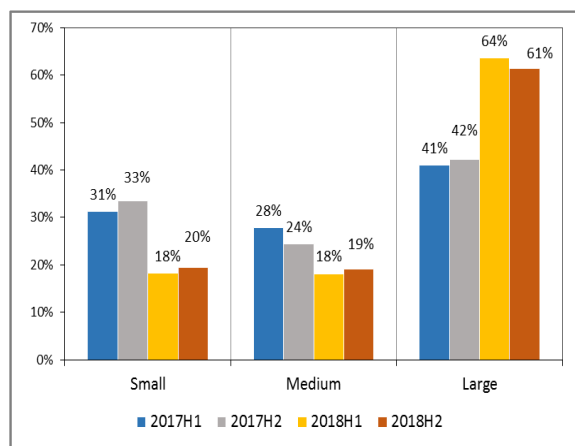
**Sample characteristics.** The survey on the financial and borrowing situation of enterprises has been conducted half-yearly since 2010 H2. Initially, this survey was launched with a sample of top 700 enterprises with the highest *turnover* (large enterprises). In 2016, the sample expanded to include around 1200 large, medium-sized, and small enterprises across the country. In 2018 H2, the survey was conducted with a revised sample to include a total of 1308 enterprises in 31 districts of the country. Most enterprises (78.6%) are located in the five major districts, namely: Tirana (53%), Durrës (13.2%), Fier (4.4%), Shkodra (4.4%) and Elbasan (3.6%). Referring to the year stated in questionnaire for the start of the business, 9.4% of enterprises started to operate before 2000, 16.2% during 2000-2010 and 7.2% during 2011-2018. The remaining percentage of enterprises (about 67%) did not provide a response. In the total sample, 84.3% of enterprises (1102 in total) responded to the survey questionnaire and the analysis of the results is based on these responses.

*The following analysis is largely based on enterprise breakdown by size.*

### 1- Activity's main characteristics

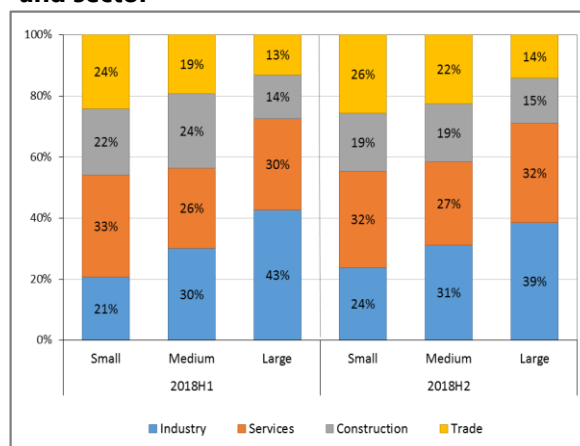
**1.1- Enterprises by sector and size.** By sector, for 2018 H2, about 34% of enterprises belong to the *industry* sector, 31% to the *services* sector, 16% to the *construction* sector and 19% to the *trade* sector. By size, about 19.5% of enterprises are classified as *small enterprises* with 5-19 employees, 19 % as *medium-sized enterprises* with 20-49 employees and 61.5% as *large enterprises* with more than 50 employees. In the group of *small enterprises*, those operating in the services sector (32%) account for the main share, followed by the trade sector (26%). In the group of medium-sized enterprises, the industry (31%) and services (27%) sector have the highest share, and in the group of large enterprises, those operating in the industry sector account for the largest share (39%).

**Chart 1.1 Distribution of enterprises by size**



Source: Bank of Albania

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

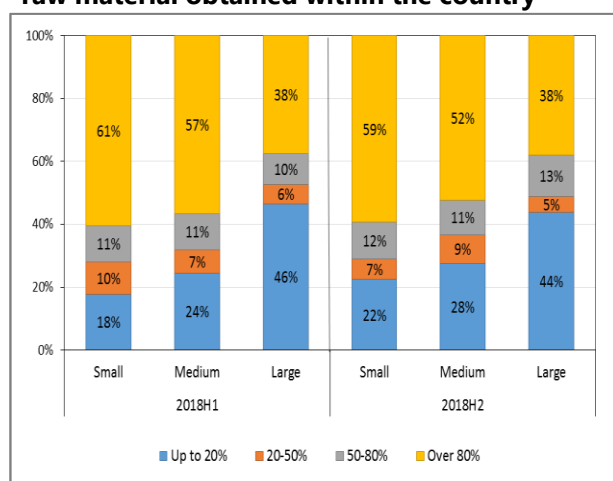


**1.2 - Obtaining raw materials and selling products.** The majority of small and medium-sized enterprises (about 59% and 52 % respectively) obtain over 80% of raw materials domestically. Compared to the previous period (2018 H1), this indicator decreased by 1.2 pp for small enterprises and by 4.3 pp for

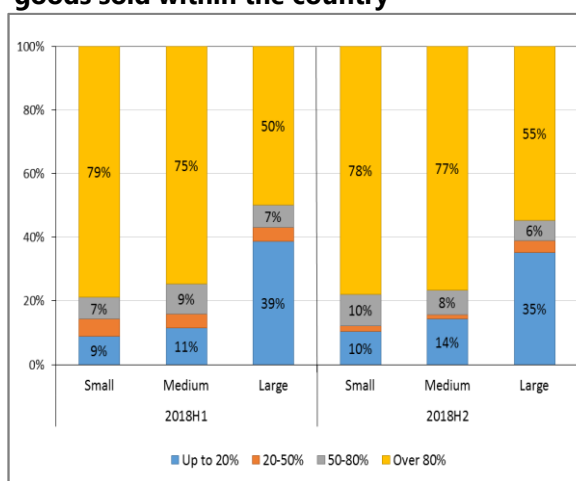
medium-sized enterprises. By contrast, the vast majority of large enterprises (about 44%) obtain only up to 20% of domestic raw materials.

Products of the respondent enterprises' are sold mainly within the country, with 78% of small enterprises, 77% of medium-sized enterprises and 55% of large enterprises claiming to have sold most of their products domestically (over 80% of products). Compared with the previous six months, there has been a slight decrease (by 1 percentage point) in the share of small enterprises selling their products mainly domestically, while the share of medium-sized and large enterprises increased, respectively with 2 p.p. and 5 p.p.).

**Chart 1.3 Distribution of enterprises as % of raw material obtained within the country**



**Chart 1.4 Distribution of enterprises as % of goods sold within the country**



Source: Bank of Albania

The analysis of responses by sector shows that the construction sector has a greater reliance on the raw materials provided in the country - about 74.6% of the enterprises in this sector obtain over 80% of raw materials domestically. The share of these enterprises increased by 3.7 p.p. compared to the previous six months, and 5.2 p.p. compared with the previous year (2017 H2). On the other hand, the industry sector shows lower reliance with 56% of the enterprises in this sector obtaining only 20% of raw materials domestically. The share of these enterprises decreased by 4 p.p. compared to 2018 H1.

**Table 1.1. Enterprises by sector and percentage of obtaining raw materials domestically**

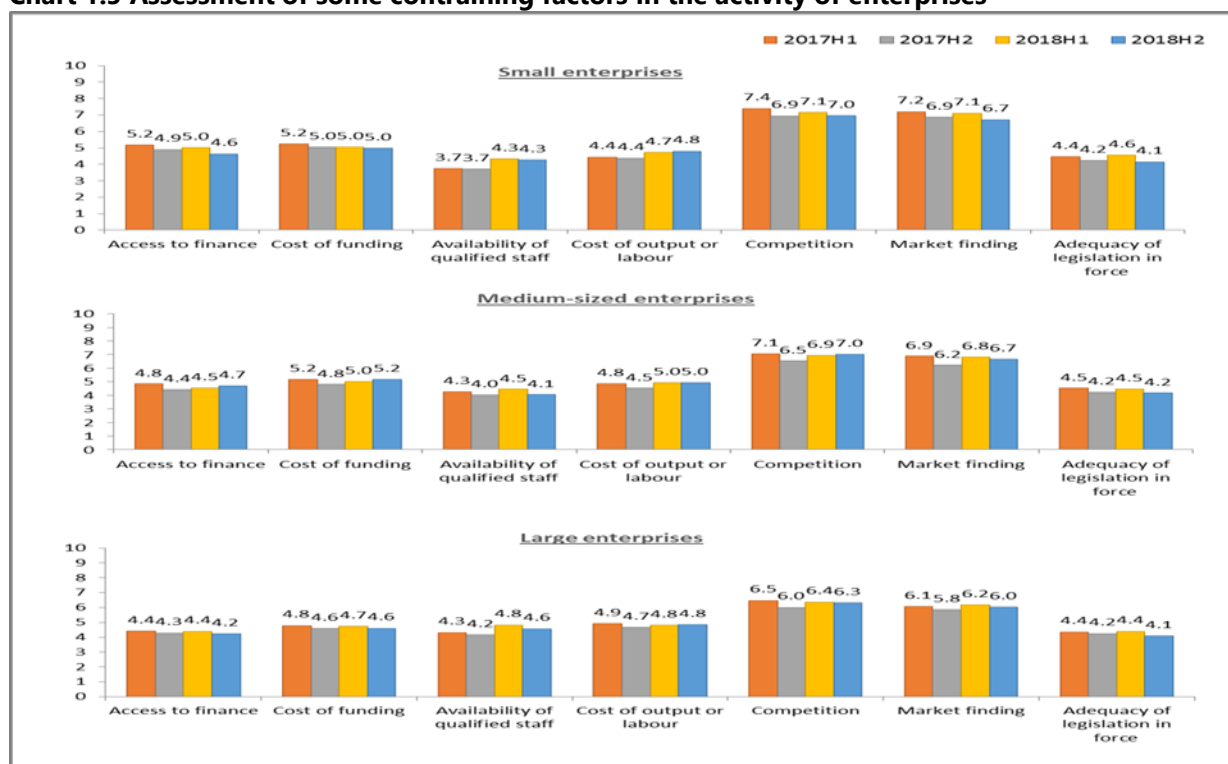
		up to 20%	20-50%	50-80%	above 80%
Industry	2016 H2	54.2%	7.8%	11.1%	26.9%
	2017 H1	45.7%	12.4%	10.5%	31.4%
	2017 H2	47.9%	8.1%	13.8%	30.2%
	2018 H1	60.2%	8.1%	8.6%	23.0%
	2018 H2	56.0%	4.8%	12.3%	26.9%
Services	2016 H2	21.3%	6.2%	9.3%	63.2%
	2017 H1	14.1%	3.8%	14.1%	67.9%
	2017 H2	22.9%	5.6%	8.0%	63.5%
	2018 H1	24.2%	5.2%	7.0%	63.6%
	2018 H2	27.3%	4.9%	8.4%	59.3%

<b>Construction</b>	<b>2016 H2</b>	5.8%	1.6%	16.2%	76.4%
	<b>2017 H1</b>	5.8%	1.4%	13.9%	78.8%
	<b>2017 H2</b>	8.7%	6.6%	15.3%	69.4%
	<b>2018 H1</b>	6.1%	5.6%	17.3%	70.9%
	<b>2018 H2</b>	2.8%	3.3%	19.3%	74.6%
<b>Trade</b>	<b>2016 H2</b>	43.4%	7.6%	13.1%	35.9%
	<b>2017 H1</b>	45.0%	10.4%	13.9%	30.7%
	<b>2017 H2</b>	42.9%	13.6%	16.2%	27.2%
	<b>2018 H1</b>	42.8%	10.6%	12.8%	33.9%
	<b>2018 H2</b>	46.7%	13.2%	13.7%	26.4%

Source: Bank of Albania

**1.3- Constraining factors in the activity of enterprises<sup>1</sup>.** Competition continues to be considered by all groups of enterprises as the main constraining factor to their activity during the period. The importance of this factor is assessed as somewhat upward for medium-sized enterprises but downward for small and large enterprises, compared with the previous period.

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



Source: Bank of Albania

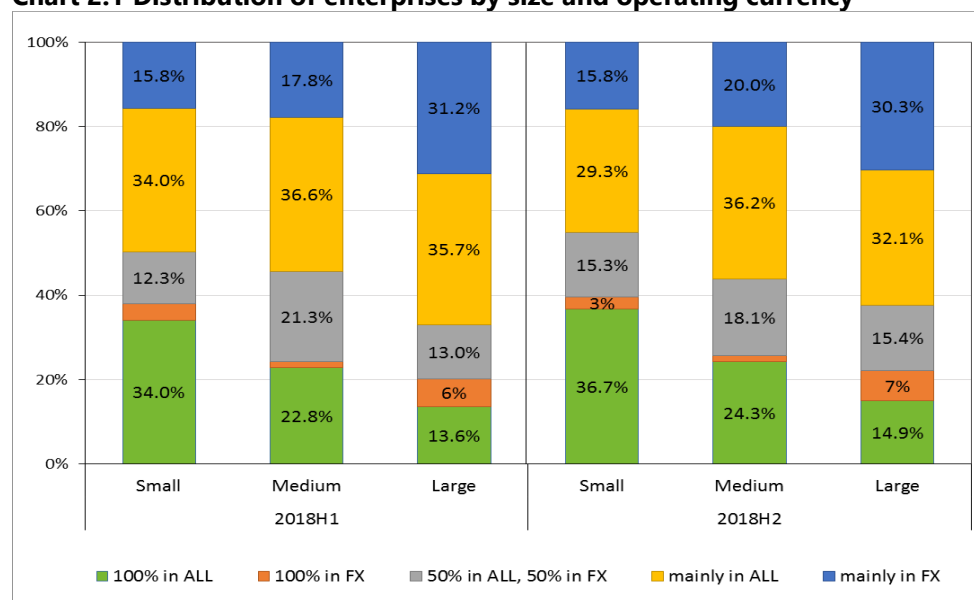
<sup>1</sup> Enterprises have given their opinion on the importance of certain issues for which they are asked to provide a scale rating from 1 to 10, where 1 is the lowest and 10 is the highest level of difficulty. To aggregate responses to each of the assessed issues, a weighted average is calculated by weighing the answers with the rating scales (1-10) for all respondent enterprises.

*Finding a market* is also considered as another important constraining factor for all three groups; the assessment for this factor for this period is downward. Issues related to *access to financing* and *funding costs* are assessed as upward by medium-sized enterprises, but downward by small and large enterprises.

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

**2.1 The operating currency of the activity.** Euroization of the activity of small and medium-sized enterprises continues to be low, with 66% of small and 60% of medium-sized enterprises stating that they carry out their activity *completely or partially*<sup>2</sup> in the local currency. The use of foreign currency is more pronounced among large enterprises, with 37% stating that they carry out their activity *partially or completely* in a foreign currency; this share has remained unchanged from 2018 H1.

**Chart 2.1 Distribution of enterprises by size and operating currency**



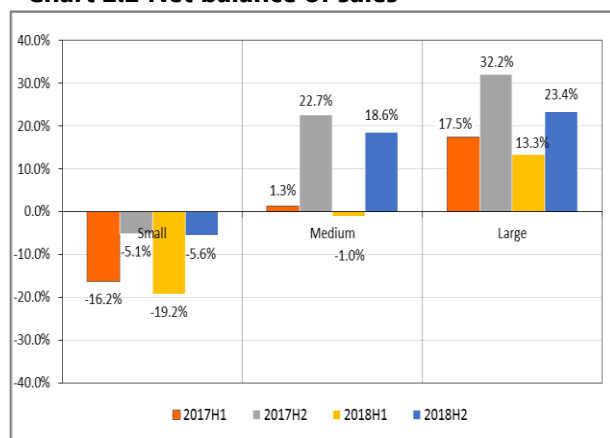
Source: Bank of Albania

**2.2 Sales performance, financial result and expansion of activity.** During 2018 H2, small enterprises continued to mark a *decline in sales* with a negative net balance of 5.6%, but improving compared to previous period. The situation was positive for medium-sized enterprises and large enterprises, which recorded positive net balance of sales, 18.6% and 23.4%, respectively, upward compared with the previous period, albeit lower compared with the previous year. Expectations on total sales over the next six months are optimistic for the three groups of enterprises, expecting a rise of sales. However, the enterprises were less optimistic compared to the previous six months, especially small ones.

<sup>2</sup> More than 50% of the activity in ALL.

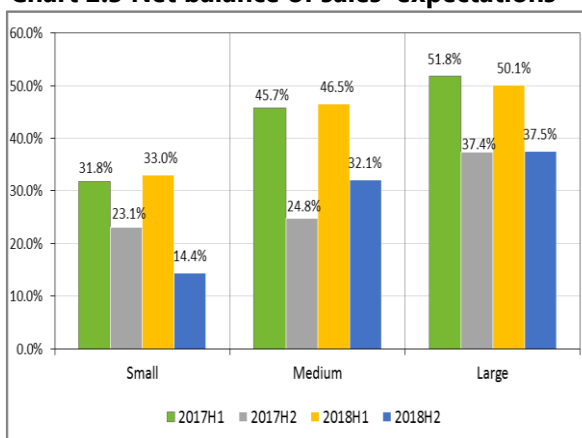


**Chart 2.2 Net balance of sales**



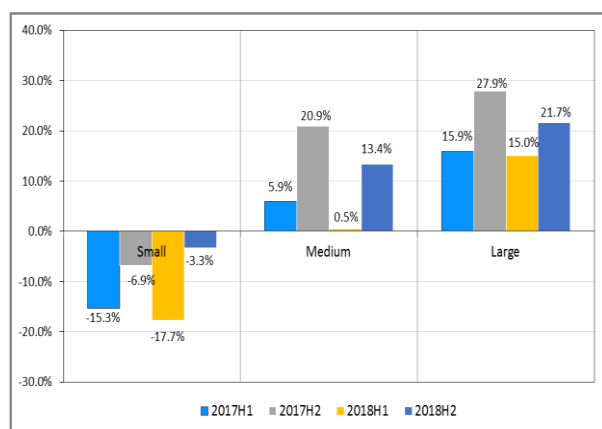
Source: Bank of Albania

**Chart 2.3 Net balance of sales' expectations**



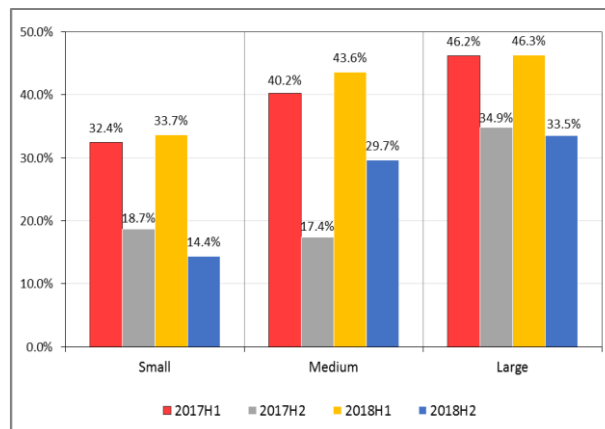
The outcome for *change in financial result* followed the same pattern for 2018 H2, in line with the performance of the overall sales balance. Small enterprises continue to estimate *a decline in the financial result* of 2018 H2, with a negative net balance of 3.3% and a decrease of this balance compared to the previous periods. On the other hand, medium-sized and large enterprises affirm a positive balance of their financial result, respectively 13.4% and 21.7%, improving compared to the previous period, but remaining below previous year's level. *Expectations for the next six months* are positive for all enterprises, in favour of a higher financial result, but less optimistic than 2018 H1. This result is in line with the expectations on sales performance for 2019 H1.

**Chart 2.4 Net balance of financial result of the last 6 months**



Source: Bank of Albania

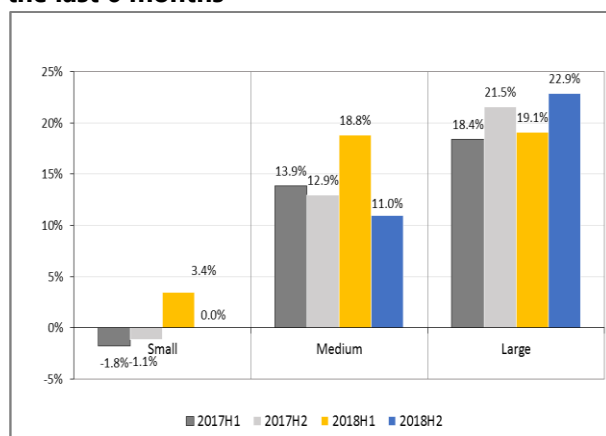
**Chart 2.5 Net balance of the expected financial result over the next 6 months**



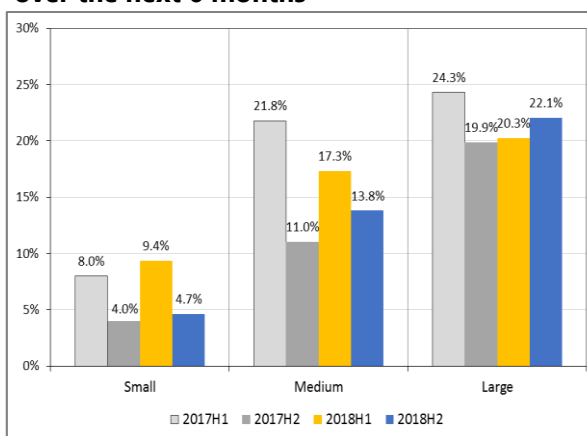
Regarding *the expansion of the activity* or an increase in investments for 2018 H2, with the exception of small enterprises, the two other groups of enterprises recorded a positive net balance (11.0% for medium-sized and 22.9% for large enterprises), supporting the performance of financial result during the period. For *the next six months*, all enterprises expect their activity to expand, with a positive net balance. Regarding large enterprises, expectations for an expansion of activity have been optimistic and upward in the last three surveys, while for medium-sized and small enterprises, expectations are more pessimistic compared to the previous period.

Overall, positive expectations for enterprises of all sizes regarding sales, financial result and expansion of their activity continue to provide optimistic signals for a better performance in the short and medium term, albeit at a more moderate pace.

**Chart 2.6 Net balance of activity expansion in the last 6 months**



**Chart 2.7 Net balance of activity expansion over the next 6 months**

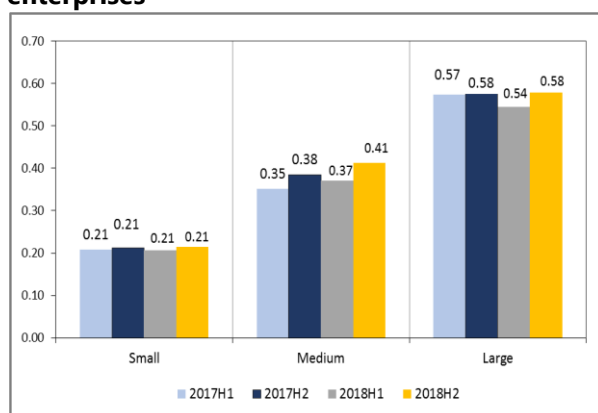


Source: Bank of Albania

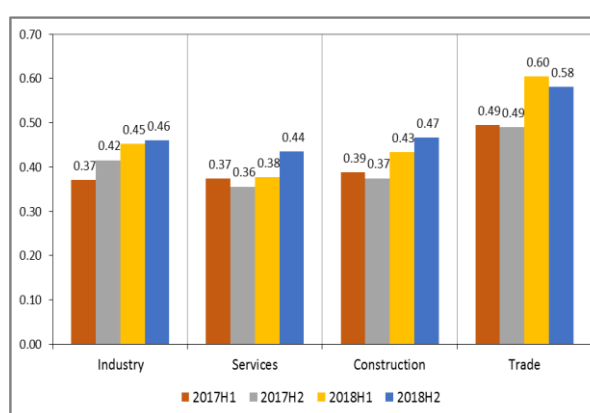
**2.3 Sales level and financial result.** The aggregate performance of total sales is analysed through an index<sup>3</sup> that weighs the responses of enterprises at different intervals and is constructed by grouping them according to the size of enterprises and sectors.

By size, the index shows a slight increase in sales for enterprises of all sizes, but more pronounced for medium-sized and large enterprises. The index results by sector show that the trade sector realised highest sales values, while the service sector continued to recorded the lowest values. However, the sales index marks an increase for the industry, services and construction sector, but a decrease for the trade sector compared to the previous six months.

**Chart 2.8 Sales performance index by size of enterprises**



**Chart 2.9 Sales performance index by sector**

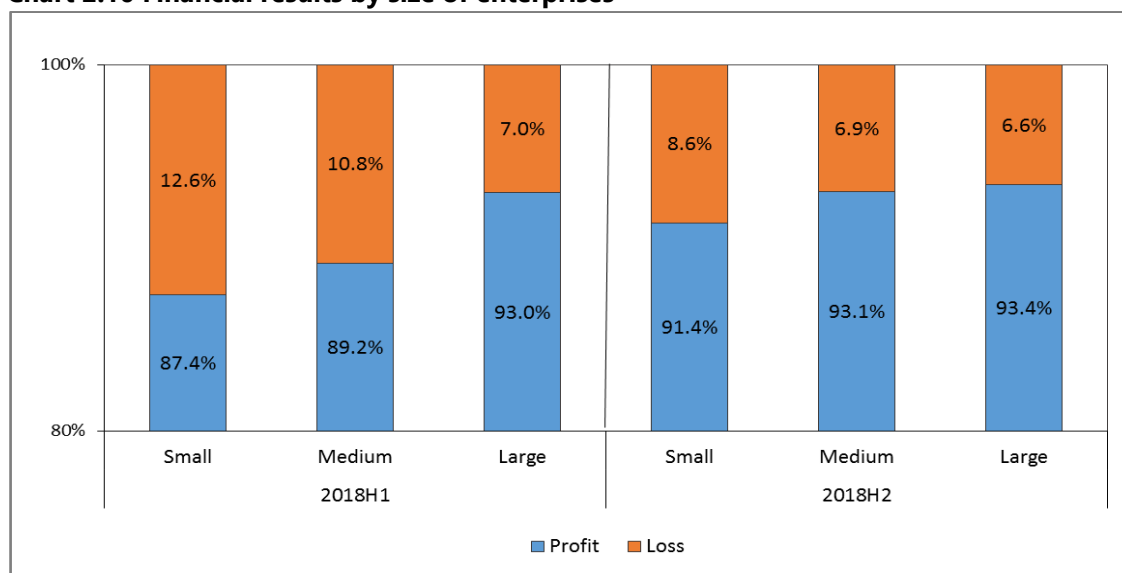


Source: Bank of Albania

<sup>3</sup> Weighting coefficients according to sales intervals are: "Up to ALL 10 million" = 0; "ALL 10-49 million" = 0.25; "ALL 50-99 million" = 0.5; "ALL 100-500 million" = 0.75; "Over ALL 500 million" = 1. An increase in the value of this index means an increase in the level of sales for enterprises.

With regard to the *financial result* in 2018 H2, only 725 enterprises (or about 55.4% of the total sample) provided a response. Over 90% of responding enterprises, for each group, reported *profits* during the period. This percentage was higher for large enterprises (93.4%) and lower for small enterprises (91.4%), but upward for all three groups of enterprises, compared to the previous period.

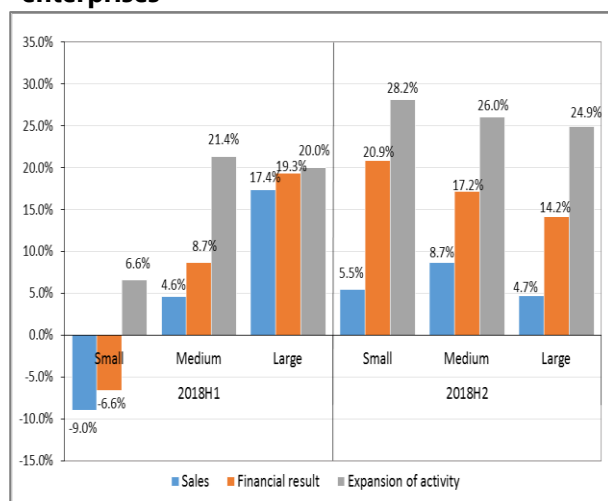
**Chart 2.10 Financial results by size of enterprises**



Source: Bank of Albania

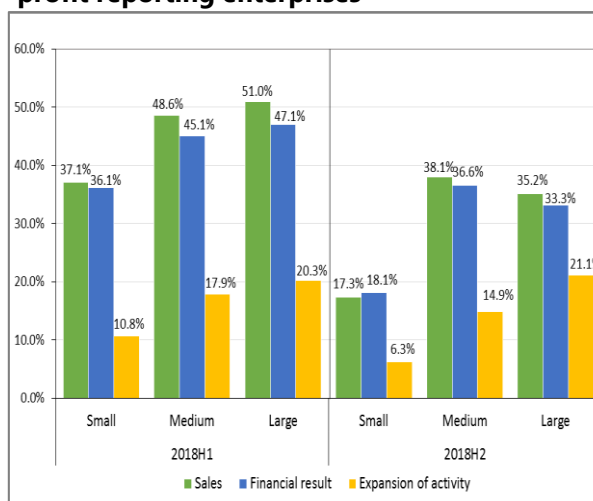
For profit reporting enterprises all three groups show an increase in total sales and financial result and affirm an expansion of the activity or increase in investments. Compared with the previous period, positive balances improved regarding sales and financial result for the three groups of enterprises, but somewhat downward regarding the expansion of activity for small and medium-sized enterprises. Meanwhile, expectations for the next six months continue to be positive and more optimistic albeit downward compared to the previous period for all groups of enterprises.

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



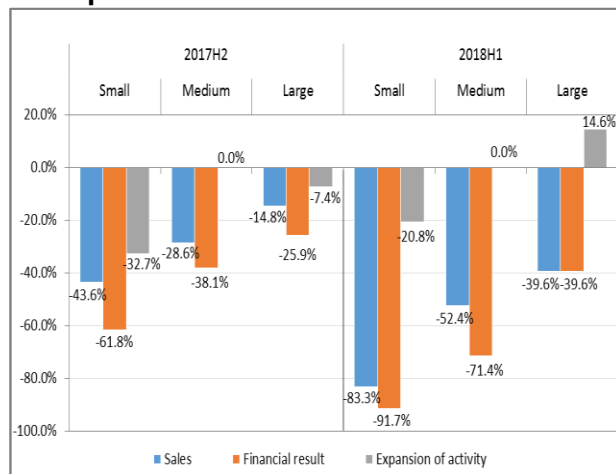
Source: Bank of Albania

**Chart 2.12 Net balances of expectations for profit reporting enterprises**



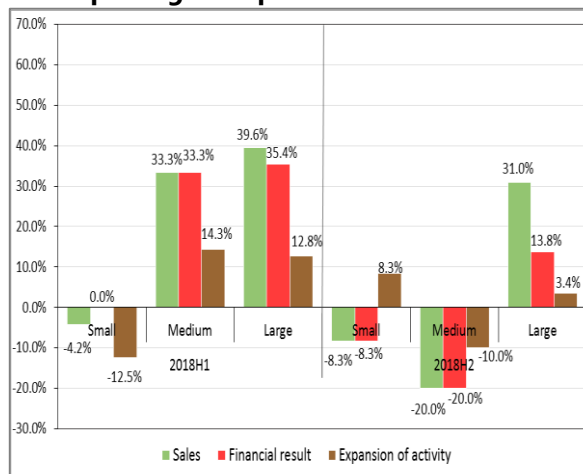
*For loss reporting enterprises* the three groups report negative balances for the total level of sales and financial result during the period. Regarding the expansion of activity or increase in investments, the net balance was positive for small enterprises, neutral for large enterprises and negative for medium-sized enterprises. The expectations for those enterprises reporting a loss appear pessimistic for 2019 H1, especially for medium-sized and large enterprises.

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



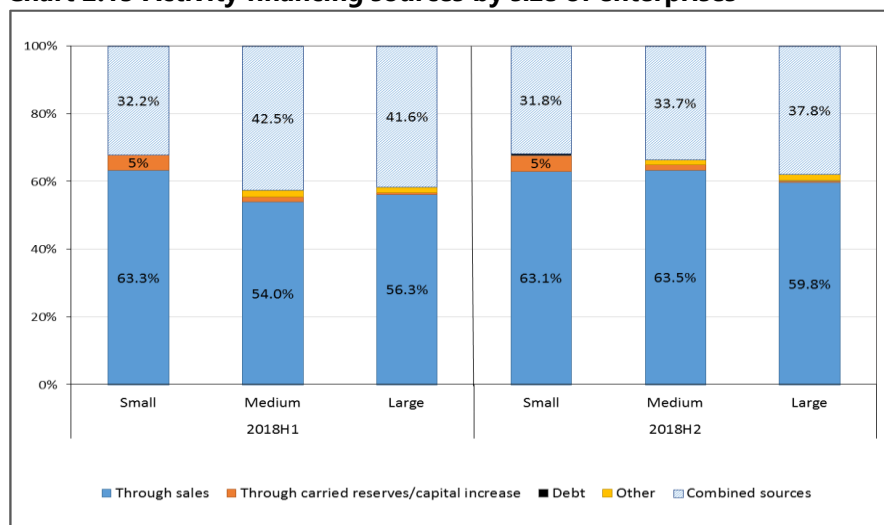
Source: Bank of Albania

**Chart 2.14 Net balances of expectations for loss reporting enterprises**



**2.4 Financing the activity.** During 2018 H2, more than half of the total respondent enterprises financed their activity *through sales* (63.1% of small enterprises, 53.5% of medium-sized enterprises and 59.8% of large enterprises). Compared to 2018 H1, reliance only on this source increased for medium-sized and large enterprises, and remained almost unchanged for small enterprises. Meanwhile, the inclination of combining different sources of financing continues to account for a considerable share of enterprises, even though downward for all groups of enterprises. The most commonly used combinations remain sales and debt, as well as sales and financing with internal resources (accumulated reserves, capital increase).

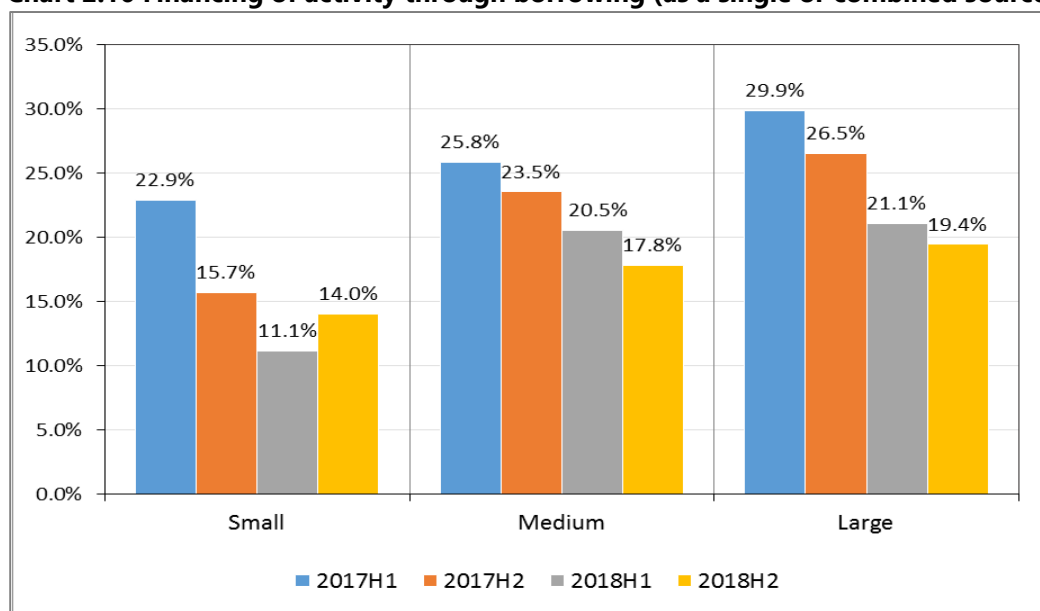
**Chart 2.15 Activity financing sources by size of enterprises**



Source: Bank of Albania

*Borrowing as a source of financing* (separately or combined) was used by 19.4% of large enterprises, 17.8% medium-sized enterprises and 14% small enterprises. The use of borrowing as a financing source declined for large a medium-sized enterprises and increased for small enterprises compared to the previous period.

**Chart 2.16 Financing of activity through borrowing (as a single or combined source)**



Source: Bank of Albania

### 3-Characteristics of enterprise borrowing

About 42.2% of the total respondent enterprises<sup>4</sup> (465 enterprises in total) claim to have a debt to repay and this share has slightly decreased (by 0.3 pp) compared to the 2018 H1 survey results. In terms of size, the share of small borrowing enterprises shows an increase by 2.8 pp compared to the first half of the year, whilst this share decreased by 0.8 pp for the medium-sized and large enterprises, respectively. By sector, the highest share of borrowing enterprises is in the trade sector (56.1%), followed by the construction sector (45.3%). The share of borrowing enterprises in both these sectors was downward compared to the previous period.

**Table 3.1 Enterprises by size and borrowing**

Borrowing enterprises by size	No. of enterprises		Share in group's total	
	2018 H1	2018 H2	2018 H1	2018 H2
Small	67	77	33.0%	35.8%
Medium-sized	93	95	46.0%	45.2%
Large	312	293	44.1%	43.3%

Source: Bank of Albania

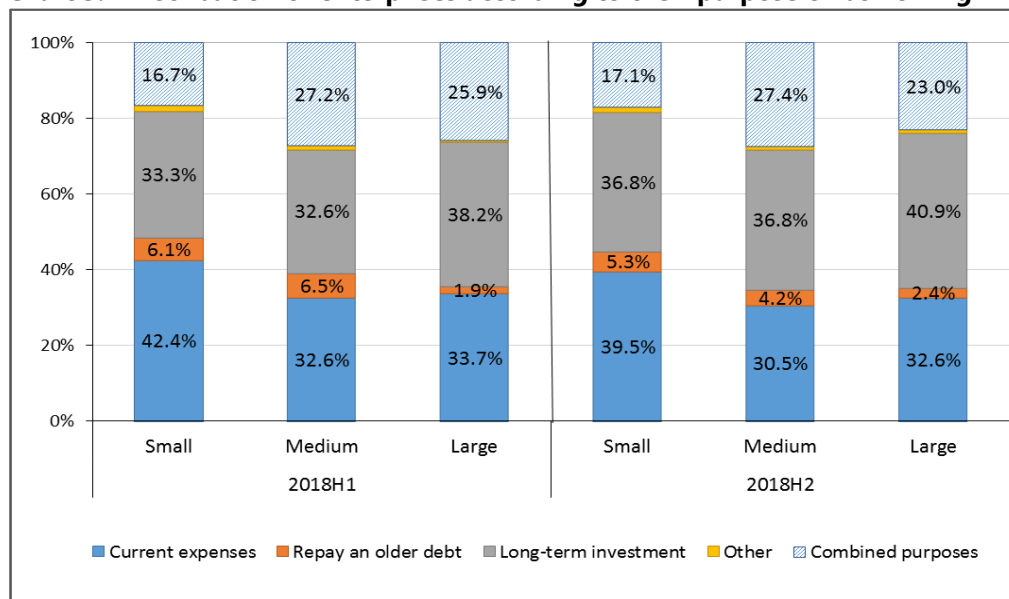
<sup>4</sup>Taking into consideration the whole sample of 1308 enterprises, 35.6% of them claim to be borrowers, 48.7% state that they do not have any debt to repay and 15.7% have not responded.

The following analysis is conducted relying solely on responses of the borrowing enterprises.

**3.1 Source of borrowing** Enterprises claim that, in terms of borrowing, they mainly relied on the banking sector (85.4% of the total). This share dropped compared to the previous six months and the previous year, by 3 pp and 6 pp, respectively. By size, 79.1% of small enterprises, 91.2% of medium-sized enterprises and 85.1% of large enterprises have borrowed only from banks. In half-yearly terms, the share of borrowing enterprises from banks seem to have increased only for the medium-sized enterprises, remained unchanged for small enterprises and declined for large enterprises. In annual terms, these shares were downward for the three groups of enterprises. Beside banks, a number of enterprises have relied on non-bank financial institutions (4.7% for small enterprises and 1% for large enterprises), informal sources or on a combination of several sources. In this regard, informal borrowing as a separate or combined source was used by 16.3% of small enterprises, 7.0% of medium-sized enterprises and 13.4% of large enterprises.

**3.2 Purpose of borrowing.** Enterprises use borrowing mainly to finance *long-term investments* (39% of respondent enterprises) and to *cover current expenditures* (33% of respondent enterprises). The share of enterprises that have borrowed for *long-term investments' financing* increased for all sizes of enterprises compared to the previous six months. Otherwise, the share of enterprises that have borrowed in order to *cover short-term expenditures*, declined for all types of enterprises. A considerable number of enterprises claim to have borrowed for *more than one purpose*, combining several sources. Meanwhile, it is noted that borrowing to repay an older debt - which implies renegotiation or restructuring of an existing debt - continued to increase compared to the previous period for large enterprises, but trended downward for medium-sized and small enterprises.

**Chart 3.1 Distribution of enterprises according to their purpose of borrowing**

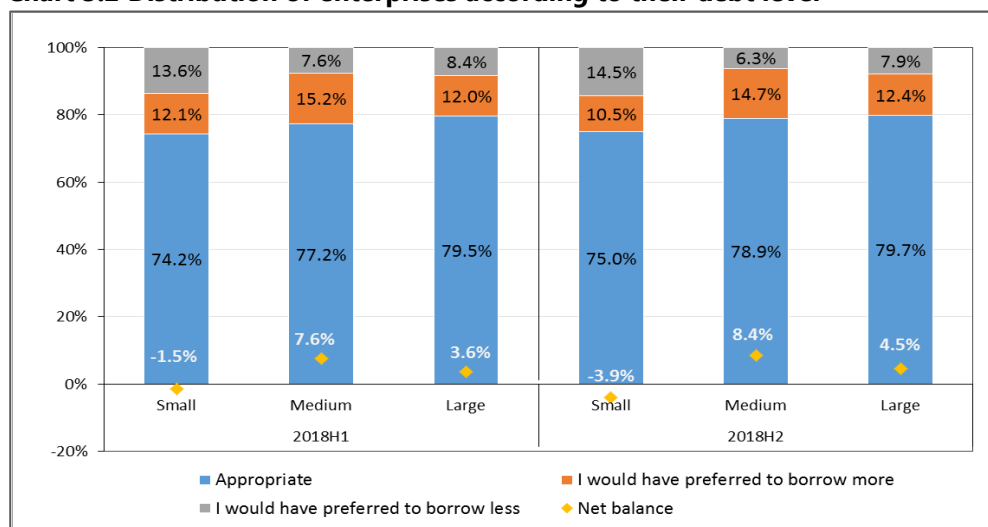


Source: Bank of Albania

**3.3 Indebtedness level.** About 75% of small enterprises, 79% of medium-sized enterprises and 79.7% of large enterprises consider their borrowing level *as adequate* and upward compared to 2018 H1. The remaining, resulted in a positive net balance for medium-sized and large enterprises, and negative for small ones. The latest meaning that the share of enterprises that would prefer to borrow more is lower

than the share of those who would prefer to borrow less, signalling a drop in credit demand from these enterprises. The contrary stands true for the net balance of the medium-sized and large enterprises, signalling an increase in credit demand.

**Chart 3.2 Distribution of enterprises according to their debt level**

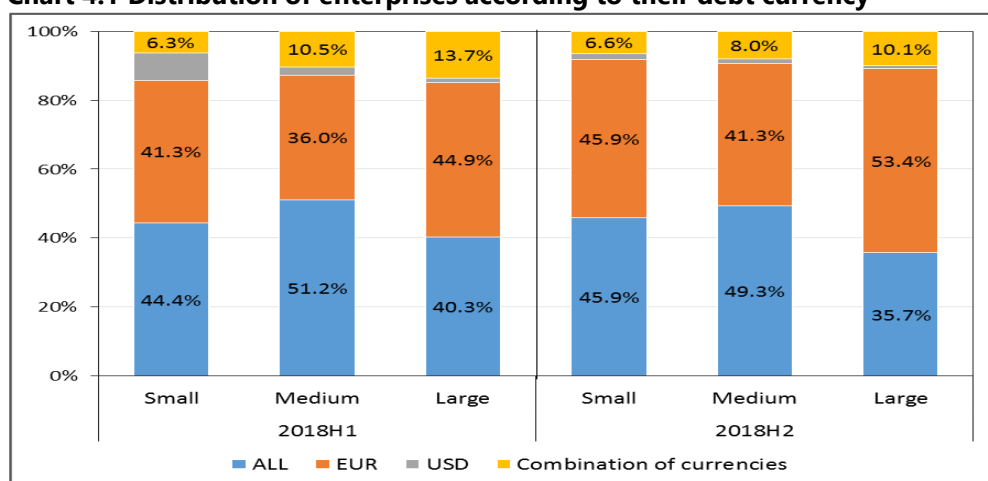


Source: Bank of Albania

## 4-Debt structure

**4.1 Currency.** During the period, 46% of small enterprises, 49.3% of medium-sized enterprises and 35.7% of large enterprises, report that they have borrowed only in domestic currency, whilst the rest in foreign currency (euro and/or US dollars) and/or combined currency (domestic and foreign). Borrowing in euro is mainly used by large enterprises (53% of them), outpacing the domestic currency, and less by medium-sized enterprises (41.3%). In the case of small enterprises, the share of those borrowing in lek and euro is almost the same. Whilst, borrowing in US dollars remains insignificant, mostly used by small enterprises (1.6%).

**Chart 4.1 Distribution of enterprises according to their debt currency**



Source: Bank of Albania

**4.2 Debt and maturity.** *Most enterprises have borrowed in the past 1-5 years:* 49.3% of small enterprises, 48.4% of medium-sized enterprises and 49.6% of large enterprises. All three shares decreased compared to the previous six months (respectively by: 2.2 pp, 2.7 pp and 0.4 pp), but increased on annual terms for medium-sized and large enterprises (6.8 pp and 6.4 pp, respectively). *New borrowing*, which implies borrowing in the last six months, is reported by only 10.7% of small enterprises, 6.5% of medium-sized enterprises and 8.9% of large enterprises. The share of new borrowers continued to increase for small enterprises, both in half-year and annual terms, but continued to decrease for the other two groups of enterprises. The main *purpose of use* for new borrowing remains 'covering current expenditures' for 33 % of the total enterprises, and 'long-term investments' (39% of the total enterprises) Compared to the previous period, the share of new borrowing for covering current expenditures decreased, whilst the share for long-term investments increased. This trend is noticed in all three groups of enterprises, but it is more pronounced in medium-sized and large enterprises. The average residual maturity of borrowing is 60.9 months for small enterprises, 60.7 months for medium-sized enterprises and 63.3 months for large ones.

**4.3 Interest rate and repayment method.** The type of interest rate on most existing loans<sup>5</sup>, is the *fixed rate until the end of the period* for 70.7% of small enterprises, 75.5% of medium-sized enterprises and 65.2% of large enterprises. On the other hand, the share of enterprises that declare floating interest rate each year was 22.7% for small enterprises, 14.9% for medium-sized enterprises and 24.1% for large enterprises. Over the period, the share of enterprises reporting fixed rate loans decreased compared to the previous period, and this is offset by the increase in the share of enterprises reporting floating interest loans every year. This trend has characterized the borrowing of small and large enterprises. The repayment frequency is mainly monthly, for 81.1% of small enterprises, 87.2% of medium-sized enterprises and 81% of large enterprises.

**4.4 Collateral type and coverage ratio.** For 79.5% of small enterprises, 77.7% of medium-sized enterprises and 76.8% of large ones, debt is collateralized *only through real estate*, while the remainder of the enterprises have used other forms of collateralization<sup>6</sup>. If we consider also the combination with other forms of collateralization, real estate is used by 84.9% of small enterprises, 87.2% of medium-sized enterprises and 87.0% of large ones. Meanwhile, 9.6% of small enterprises and 8.5% of medium-sized enterprises and 7.4% of large enterprises state that they have not used any form of collateralization. Compared to the previous six months, the share of enterprises with uncollateralized loans increased for medium-sized enterprises and remained almost unchanged for the two other groups of enterprises.

*Aggregate collateral coverage* is estimated through the weighted index of responses<sup>7</sup>. For 2018 H2, this index scored 0.66 for small enterprises, 0.63 for medium-sized enterprises and 0.64 for large enterprises, showing a decrease of this coverage ratio for all three groups of enterprises, both in half-yearly and annually terms.

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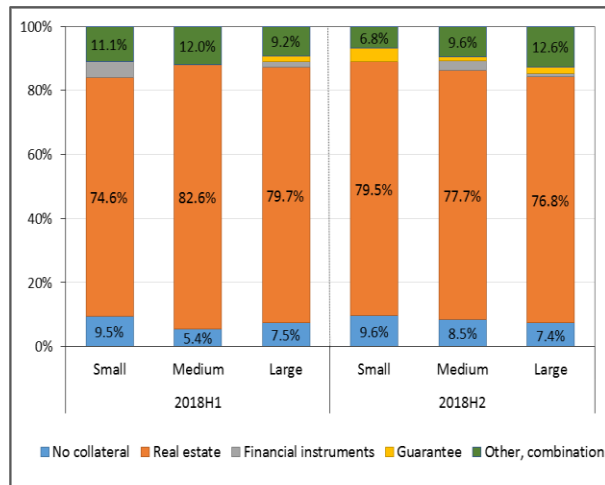
<sup>5</sup> For those enterprises that have more than one debt.

<sup>6</sup> Financial instruments, guarantee, other warranties, along with the combination of some forms of collateralization, including the combination with real estate.

<sup>7</sup> This index takes values from 0 to 1 and its increase indicates an increase in collateral coverage. Based on each of the alternatives, the weighting coefficients of this index are: "Up to 50% of the collateralized debt" = 0.25; "50-100% of the collateralized debt" = 0.5; "100-120% of the collateralized debt" = 0.75; "Over 120% of the collateralized debt" = 1.

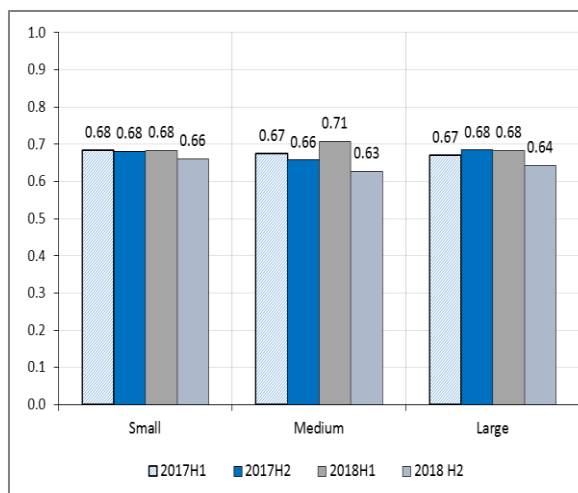


**Chart 4.2 Distribution of enterprises according to debt collateralisation**



Source: Bank of Albania

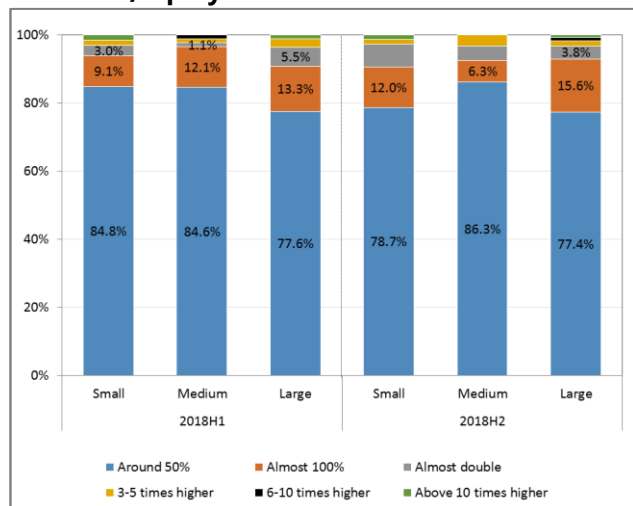
**Chart 4.3 Collateral coverage index**



## 5- The debt burden

**5.1 Debt value to equity.** The total value of debt is about half the value of the *enterprise's equity* for 79.5% of the borrowing enterprises. By size, debt burden is higher for large enterprises, of which around 22.6% stated that the *value of debt is equal or higher than the value of equity*. The analysis of the results of the responses by sector shows that the trade sector has the highest share of enterprises, whose debt burden is higher than equity, followed by the industry sector.

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



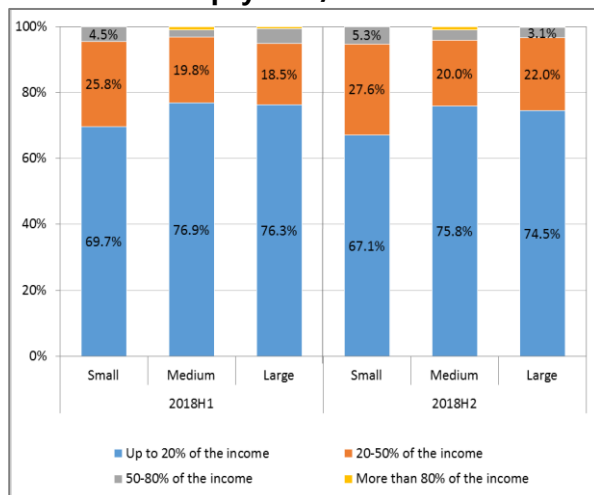
Source: Bank of Albania

**Table 5.1 The share of enterprises with a higher value of debt than equity, by sectors**

	Industry	Services	Construction	Trade
2016 H2	11%	7%	8%	9%
2017 H1	7.9%	15.7%	5.8%	13%
2017 H2	10.2%	11.9%	7.3%	8.3%
2018 H1	10.3%	6.3%	4.3%	6.7%
2018 H2	7.7%	5.0%	6.3%	10.2%

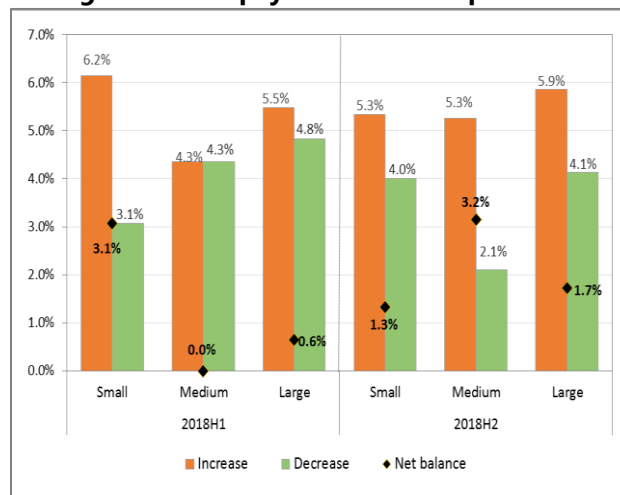
**5.2 Debt repayment.** Most borrowing enterprises (73.5%) state that debt repayment amounts up to 20% of enterprises' total revenues, down by 1.8 pp compared to the previous six-months.

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



Source: Bank of Albania

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

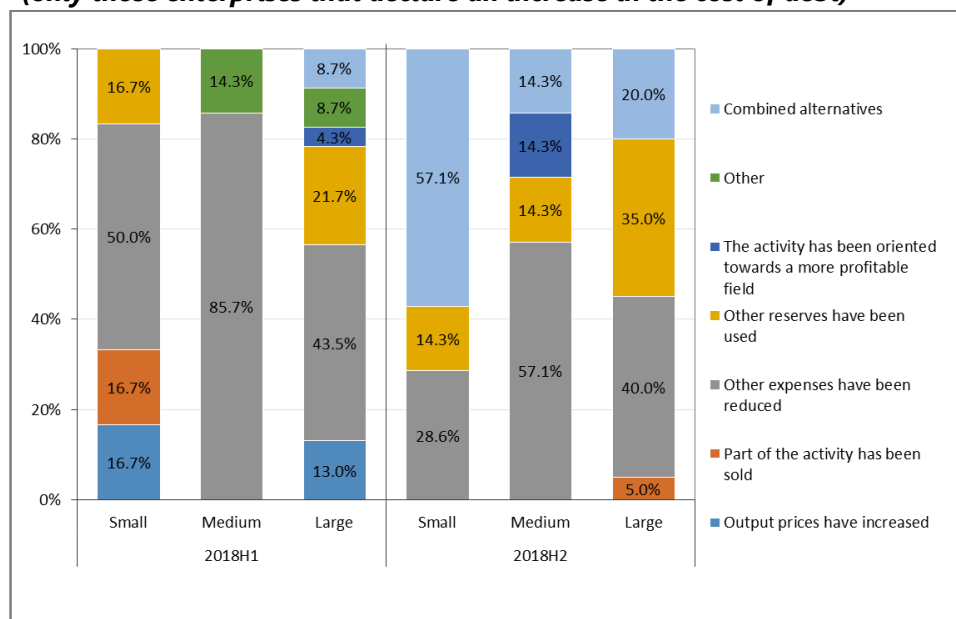


The burden of debt repayment appears to be heavier on small enterprises. The number of small enterprises reporting that this amount exceeds 20% of total revenues accounts for around 33% of the total group<sup>8</sup>. This share is 24% for medium-sized enterprises and 25.5% for large ones (Chart 5.2). All three of these shares have been increasing compared to the previous survey. Asked whether the cost of *debt service has changed* over the past six months, about 90.7% of small enterprises, 92.6% of medium-sized enterprises and 90% of large enterprises claim that this expenditure has remained *unchanged*. Responses of the rest of the enterprises have resulted in a positive net balance for all three groups of enterprises, showing an increase in this expenditure (Chart 5.3). Compared to 2018 H1, this balance has decreased for small enterprises and has grown for medium-sized and large enterprises.

**5.3 Coping with the cost of debt.** In the case of an increased cost for debt service, over 41.2% of the enterprises relied on *lowering other expenditures*, 26.5% state *they used various reserves*, and 26% state they *simultaneously combined various forms*. The analysis of coping with the cost of debt by enterprise size shows that medium-sized and large enterprises lowered expenditures as the main form (57% of small enterprises and 40% of large enterprises), while most of small enterprises (57%) combined the lowering of expenditures with the reduction of prices and the use of various reserves.

<sup>8</sup> Calculated as the sum of weights for responses: "20-50% of total income", "50-80% of total income" and "over 80% of total income".

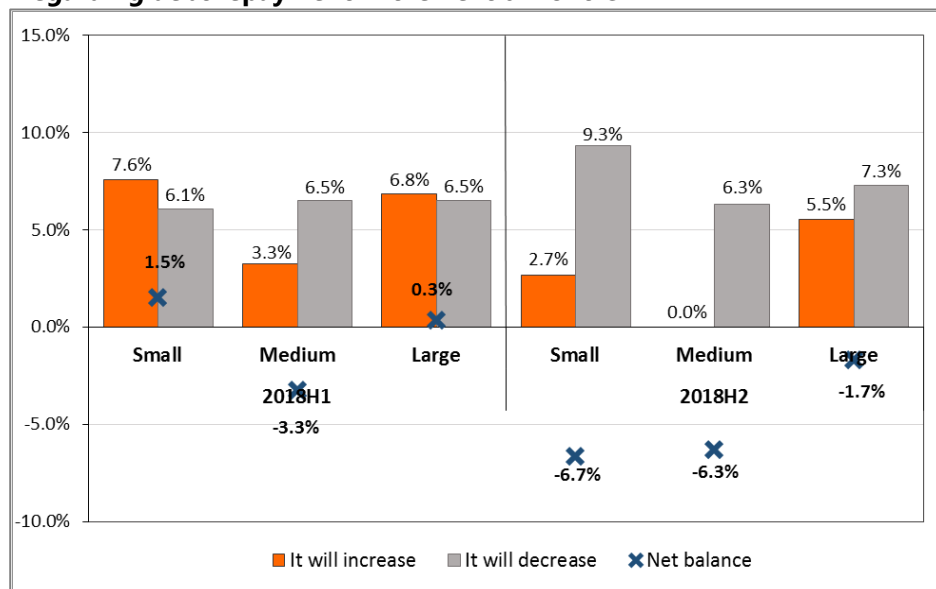
**Chart 5.4 Coping with cost of debt**  
**(only those enterprises that declare an increase in the cost of debt)**



Source: Bank of Albania

**5.4 Expectations for the repayment of loan instalments in the next six months.** Most of the borrowing enterprises, despite their size (over 87%), do not expect a change in the loan instalment over the next six months (2019 H1), and this share increased by 2 pp compared to the previous survey. Regarding the share of enterprises that expect a change of the instalment, all the groups of enterprises expect it to decline during the first half of 2019, but small and medium-sized enterprises are more optimistic in this aspect.

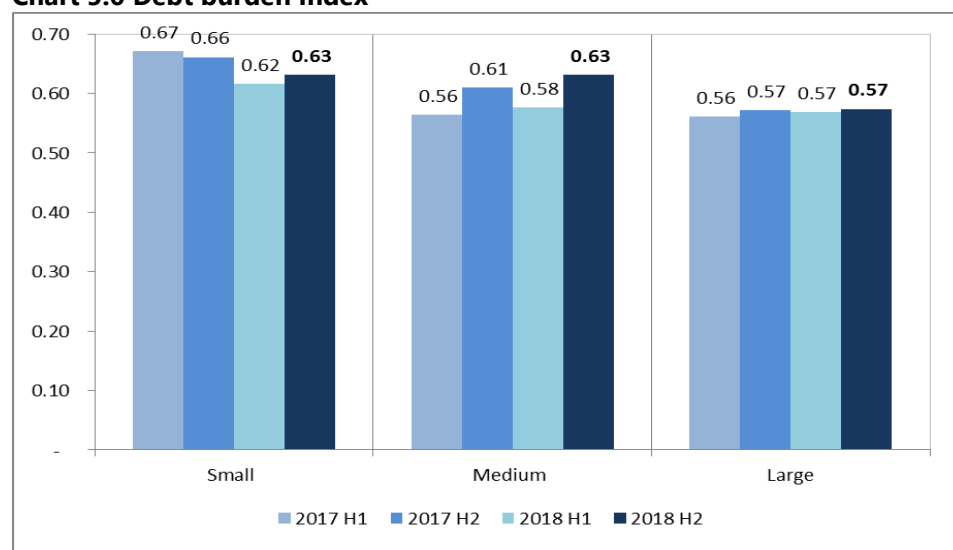
**Chart 5.5 Distribution of enterprises (and responses net balance) according to their expectations regarding debt repayment in the next 6 months**



Source: Bank of Albania

**5.5 The debt burden** of the borrowing enterprises was higher than during the last six-months; the index's value for total enterprises increased from 0.58 (2018 H1) to 0.60 (2018 H2), due to higher debt burden for small and medium-sized enterprises. Compared to last six months, the debt burden index increased for such enterprises, but remained unchanged for large ones. .

**Chart 5.6 Debt burden Index**



Source: Bank of Albania

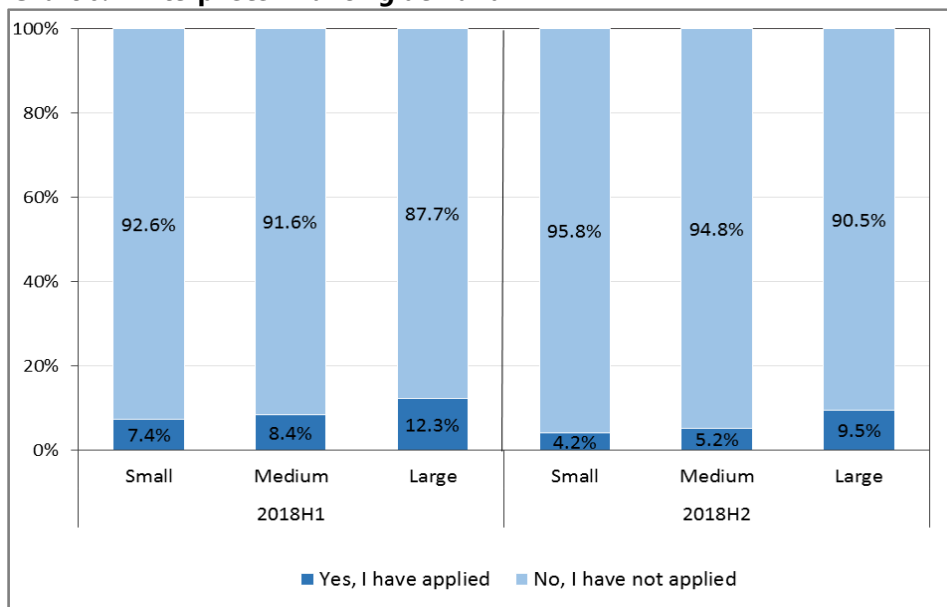
Note: The index is calculated by weighting the share of enterprises' responses to the total of responses by the coefficients that take values of: 1 for "high burden", 0.5 for "average burden" and 0 for the "low burden" alternative

## 6-Relationship with banks and future expectations

The questions in this section are addressed to the entire sample of enterprises, including non-borrowing enterprises.

**6.1 Access to finance.** Enterprises' demand for loans remains low, since only 7.7% of them claim to have applied for some form of financing during the last six-months, and this share decreased by 3 pp compared to the previous survey. Analysing this indicator by size of enterprises, large enterprises (9.5%) continued to have the highest share for loan applications. Compared to the previous half-year, loan demand declined for all group of enterprises. (Chart 6.1).

**Chart 6.1 Enterprises financing demand**

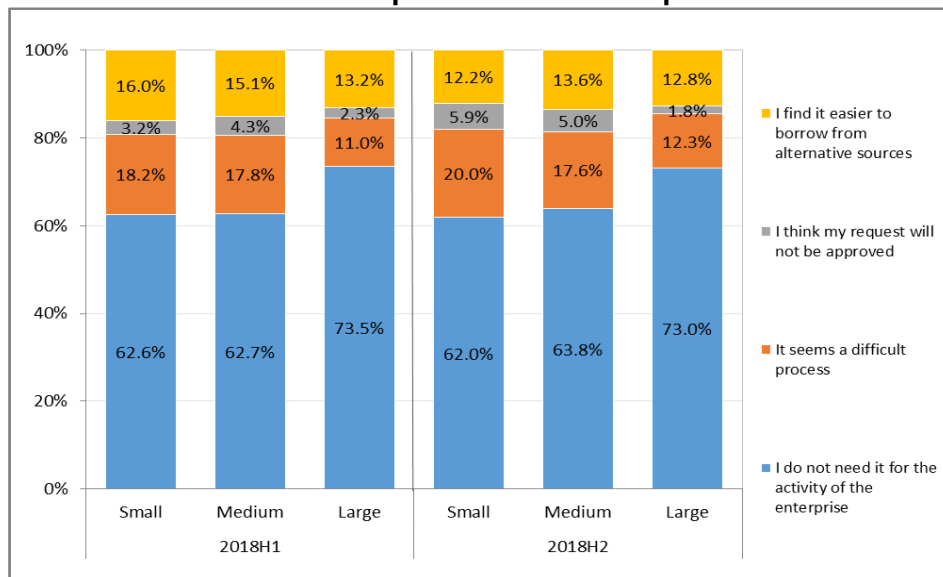


Source: Bank of Albania

Enterprises that *have not applied for a loan*, in most cases, claim that they *do not need it for the activity they perform* and this share is higher for large enterprises. The rest of the enterprises have decided not to apply because the *process seems difficult* and this mainly the case for small and medium-sized enterprises.

For the period, the share of enterprises that claim that they do not need a loan for their activity remained almost the same as in the previous period for all three groups of enterprises. On the other hand, the share of small and large enterprises that consider borrowing to be a difficult process, increased in both half-yearly and annual terms.

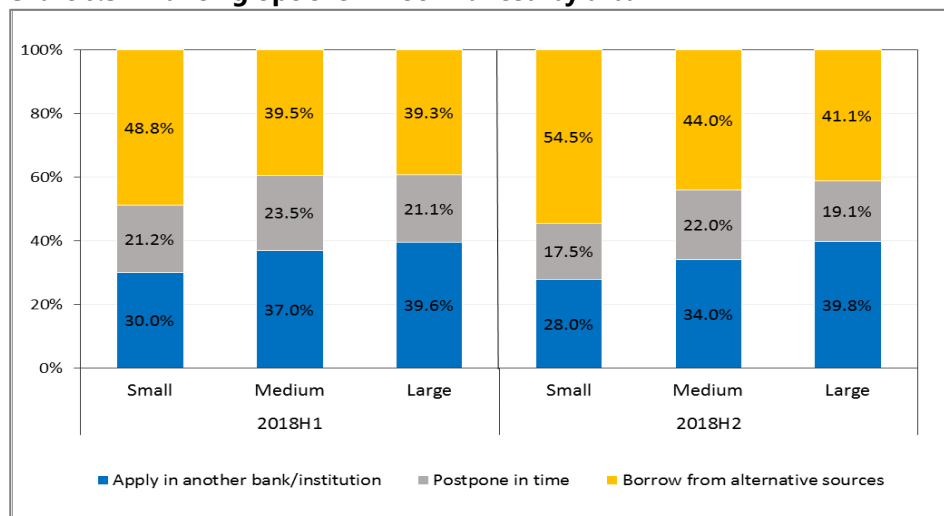
**Chart 6.2 Distribution of enterprises that did not request a loan**



Source: Bank of Albania

If not to be funded by banks, small (54.5%) medium-sized (44%) and large enterprises (41.1%) state that they would *borrow from alternative sources* and these shares increased compared to the previous six months. Meanwhile, about 39.8% of large enterprises, 34% of medium-sized enterprises and 28% of small enterprises stated that they would re-apply at a bank or other financial institutions. Compared to the previous period, this share remained almost unchanged for large enterprises, and decreased for the medium-sized and small enterprises (3 pp and 2 pp, respectively). Over the period, it appears that the percentage of enterprises claiming to *postpone their plans* for expansion has decreased compared to the previous survey for the three groups of enterprises.

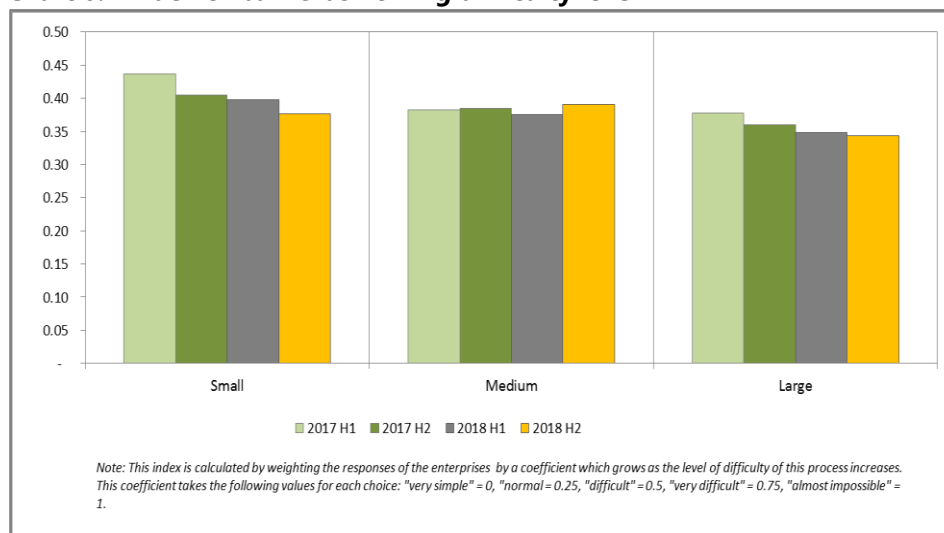
**Chart 6.3 Financing options if not financed by a bank**



Source: Bank of Albania

**6.2 The borrowing process and relationship with banks.** The index on the difficulty of the borrowing process from banks for 2018 H2 remains between "normal" and "difficult" for all three groups of enterprises. Compared to 2018 H1, the index results with a slight downward trend for small and large enterprises, but somewhat upward for medium-sized enterprises.

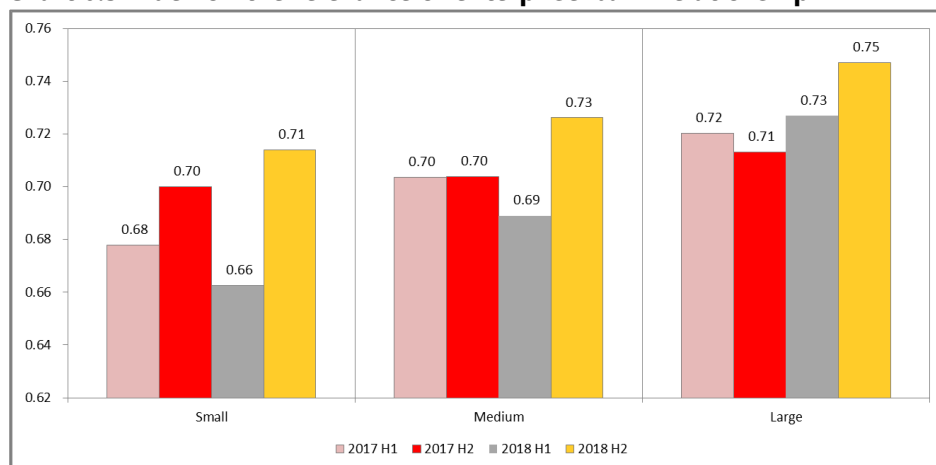
**Chart 6.4 Index of banks borrowing difficulty level**



Source: Bank of Albania

The index<sup>9</sup> of the importance of the relationship with the banks continued to be assessed between "important" and "necessary". The performance of this index during the period indicates a significant increase in the importance of the relationship with banks for the performance of the activity of the three groups of enterprises.

**Chart 6.5 Index on the relevance of enterprise-bank relationship**



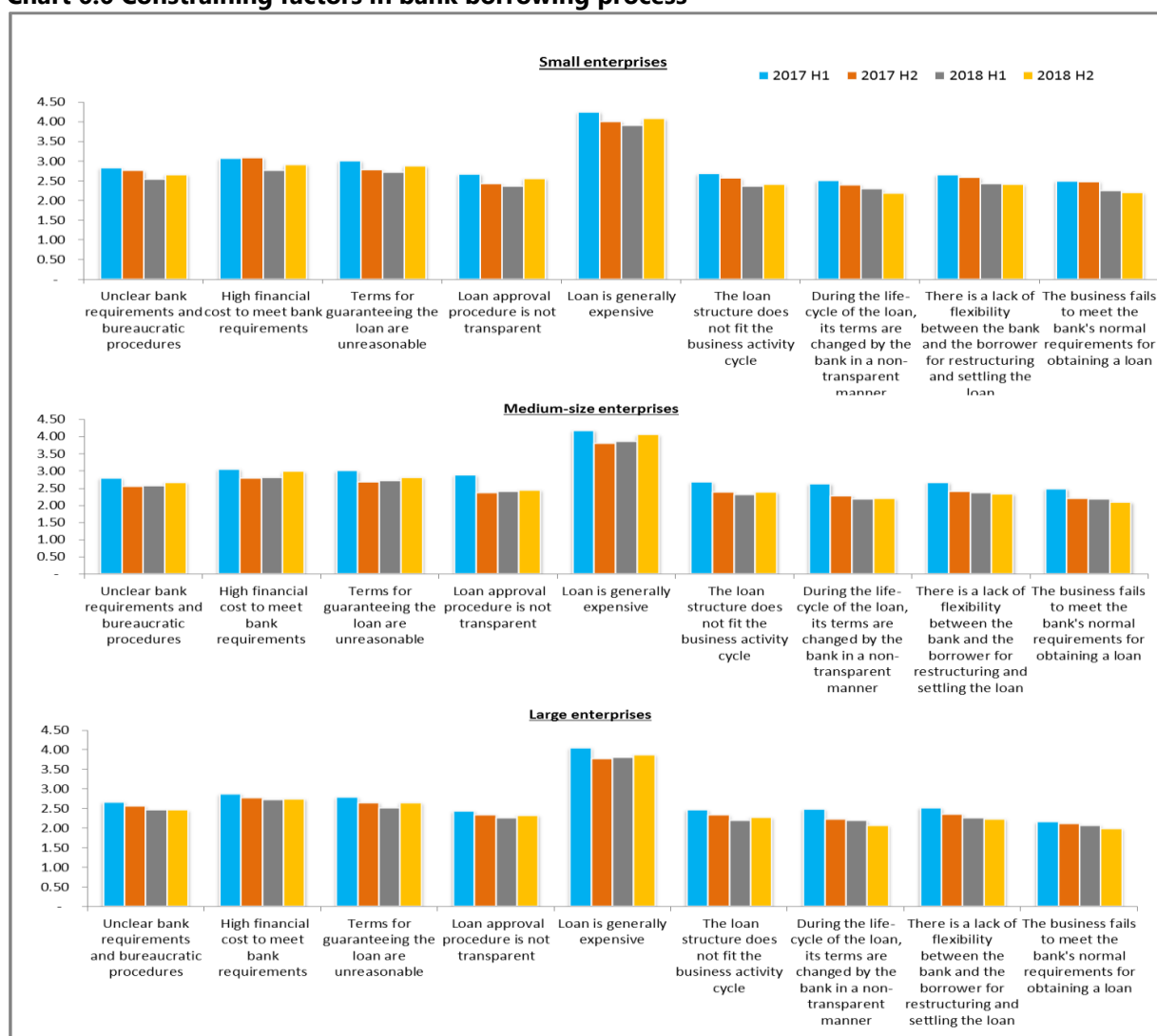
Source: Bank of Albania

**6.3 Loan obtaining process**<sup>10</sup>. Loan price remains the main constraining factor in terms of borrowing, especially for small and medium-sized enterprises. and For the three groups of enterprises, *the cost of complying with bank's requirements* is listed second, followed by the assessment of *loan guaranteeing terms* and *unclear bank requirements or bureaucratic procedures*. Compared to the previous survey, all three groups of enterprises assessed as upward the previously-mentioned elements that make obtaining a loan more difficult.

<sup>9</sup> This index is calculated in the same way as the bank borrowing difficulty index, where the weighting coefficients for the given alternatives are: "Not quite important" = 0; "Important" = 0.5; "Necessary" = 1.

<sup>10</sup> In order to assess the difficulty of obtaining a bank loan, enterprises have been asked to give their opinion on a number of qualitative elements, relying on a 5 degree rating system, where the lowest degree of difficulty is 1 and the highest is 5. In order to obtain an average rating for each qualitative element, the scales from 1 to 5 are weighted with the weights of responses given by the enterprises.

**Chart 6.6 Constraining factors in bank borrowing process**



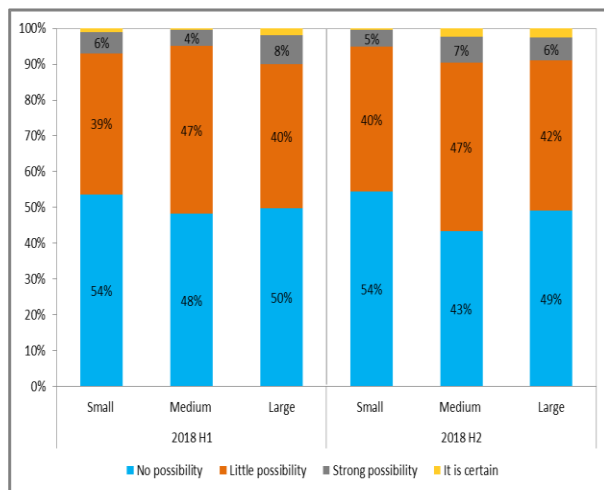
Source: Bank of Albania

**6.4 Borrowing planning.** About 49% of responded enterprises have reported that there is *no possibility* to apply for a bank loan in the next six months. Compared to the previous survey, this share has decreased for medium-sized and large enterprises and it slightly increased for small enterprises. Meanwhile, there has been an increase in the share of enterprises that claim that it is "little likely" and it is "very likely" to get a loan in the following period, signalling a positive trend of the demand for loans in the short term, from these enterprises. This trend is also reflected in the values of the *Index on assessment of borrowing planning for the next six months*<sup>11</sup>. Compared with the previous period, this trend decreased for small enterprises, remained unchanged for large enterprises and significantly increased for medium-sized enterprises, showing thus a higher willingness of these enterprises to borrow during 2019 H1.

<sup>11</sup>To assess the responses of the enterprises, an index on borrowing plans was constructed, calculated by weighing the enterprise's responses to the total of responses by a coefficient, which increases as the probability to borrow increases. The coefficient for the alternative: "no possibility" = 0.25, "little possibility" = 0.5, "strong possibility" = 0.75 and "it is certain" = 1.

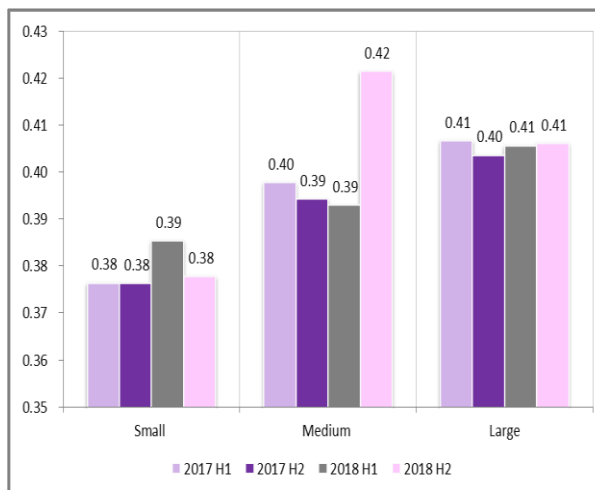


**Chart 6.7 Distributions of enterprises according their borrowing plans**



Source: Bank of Albania

**Chart 6.8 Future borrowing planification index**



Credit demand is also reflected in the assessment of enterprises regarding their current level of borrowing. Thus, about 75% of small enterprises, 78.9% of medium-sized enterprises and 79.7% of large enterprises, consider their borrowing level to be *appropriate* for financing the activity. Compared to 2018 H1, this share is higher for all sizes of enterprises.