



FINANCIAL AND BORROWING SITUATION OF HOUSEHOLDS IN ALBANIA

2018 H2

**BANK OF ALBANIA
FINANCIAL STABILITY DEPARTMENT**

March 2018

CONTENT

Summary of key findings of the Survey 3

1 -Demographic and financial characteristics of interviewed households..... 4

2- Households’ debt 6

3- Households’ debt burden 12

4- Households’ wealth..... 14

Summary of key findings of the Survey

The survey on the financial and borrowing situation of households has been conducted half-yearly since 2010. The latest survey was conducted in November-December 2018 and focused on developments during 2018 H2, while the expectations refer to 2019 H1. The survey was conducted on a sample of 1210 randomly-selected households, geographically spread across the country.

- FINANCIAL SITUATION

The total number of income-earners/employed persons in the sample increased compared to both 2018 H1 and the previous year. In annual terms, the increase was mainly due to an increase in the number of employed in the *private sector* and *self-employment sector*, whereas the number of those employed in the *public sector* decreased during the year. The overall level of households' monthly income and living expenses increased during the reviewed period, but the increase in income was somewhat higher, driving to a slight improvement of households' financial balance.

- BORROWING

Around 26% of interviewed households (or 288 households) declared they have a debt to repay at the moment of the interview, regardless of its type, source or value. This share has decreased by 2 percentage points compared to 2018 H1, remaining below the surveyed historical average. The index of income and expenditure for these households fell during the period. The total reported outstanding debt was down both in half-yearly and in annual terms. Around 70% of debt has originated from formal sources and 30% from informal ones. This structure reflects a significant decrease of formal borrowing compared to both 2018 H1 and 2017 H2. The difference may be mainly statistical, owing also to the revision of the sample of interviewed households. Regarding the debt currency structure, around 86% of the outstanding debt was in ALL, and 14% in EUR. Regarding the debt purpose, around 27% of the outstanding debt was used to purchase/renovate a property, 44% to start a business and only 9% for consumption. The share of outstanding debt to purchase/renovate a property registered a decline, while the share of borrowing for business development and consumption has increased.

- DEBT BURDEN

Most of borrowing households in the sample (82%) declared that the *debt repayment amount* has not changed during the survey period. The net balance of the remaining responses indicates a decrease in the debt repayment amount during the period, but at a slower pace than the previous period. Around 59% of borrowing households declare that *their debt repayment capacity has not changed*, while the net balance of the rest of responses resulted in *an improvement of their debt repayment capacity* compared with 2018 H1 and 2017 H2. For 2019 H1, around 80% of the households do not expect a change in their debt repayment capacity, while the net balance for rest of the responses shows weaker expectations. The likelihood of borrowing in 2019 H1 is assessed somewhat down compared with the previous half-year and the previous year, indicating a still unstable borrowing demand from households.

- HOUSEHOLDS' WEALTH

Around 95% of households (total of interviewed sample) own 1-2 real estates, mainly *residential houses*. This share has not change compared with the previous survey. In addition, 3% declared they own more than 2 real estates (residential and land/shop etc.), and 1% declared that they do not own any property. Among the households that have declared they own some form of financial wealth, *deposits* and/or bank accounts remain the main type of financial investment, both for total households (64%) and borrowing households (76%).

1 - Demographic and financial characteristics of interviewed households

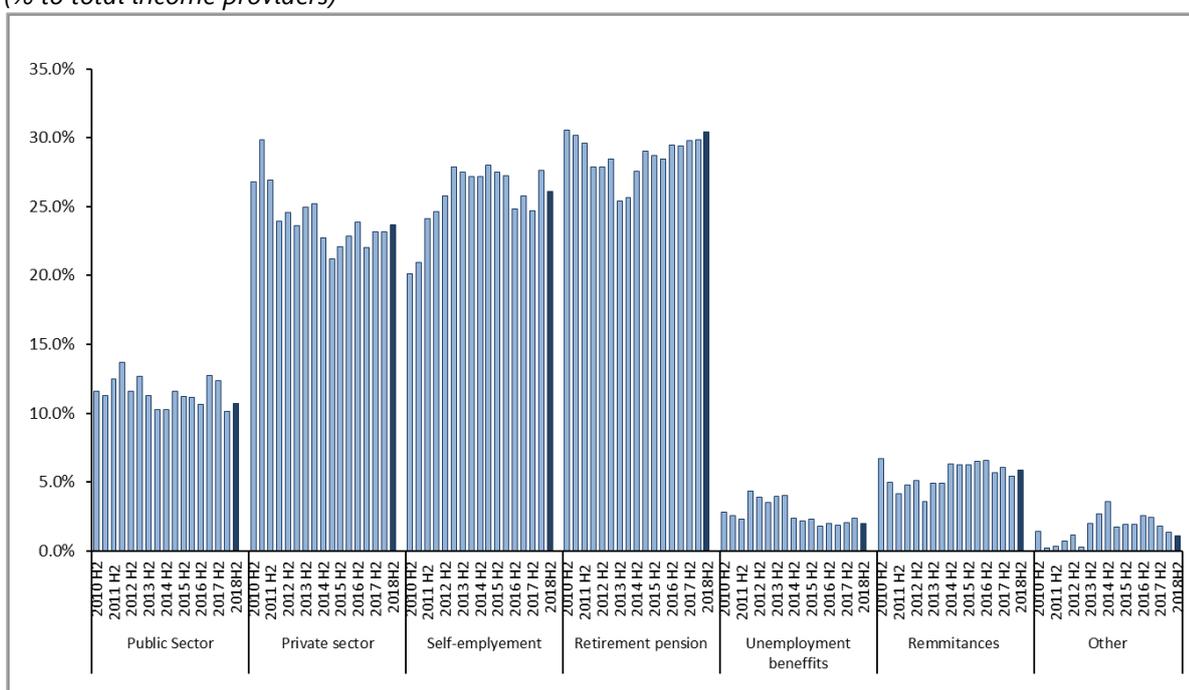
Sample characteristics. The survey is conducted on a randomly-selected sample of 1210 households¹, of which around 54% live in urban areas and 46% in rural areas. Around 92% of the sample households (1118 households) took part in the interview process, responding to all or part of the questionnaire. The share of respondents to total sample decreased by 2 p.p. compared with the previous survey.

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

1.1 Employment and other sources of income. Total number of households' members that earn income from employment/self-employment in the public and private sectors and/or other sources² has increased, both in half-yearly (by 2.2%) and in annual terms (by 1.8%) (see Chart 1.1).

Chart 1.1 Distribution of household income providers by income source.

(% to total income providers)



Source: Bank of Albania.

Note: The item "Other" includes mainly cases of individuals that receive disability assistance, help from relatives and those that do occasional jobs.

Focusing the analysis on the group of employed household members³ (Table 1.1), their total number has increased by 1.5% compared with 2018 H1 and by 2.2% compared with 2017 H2. In annual terms, the increase has been due to the increase in the number of those employed in the *private sector* (by 3.9%) and of the *self-employed* (by 7.6%), while the number of respondents employed in the *public sector* has declined by 11.7%, during the year.

¹ As part of the regular review of the interviewed sample, around 20% of the households' sample was changed for this survey.

² In the questionnaire, in addition to employment in the public and private sectors, the following income sources are also listed: "retirement", "social assistance for unemployment", "emigration" and "other". In "other" should be included any other type of income source that has not been listed in the given alternatives.

³ Here are included only the employed persons in public, private (agricultural and non-agricultural) sectors and self-employed (in agricultural and non-agricultural sector)".

Table 1.1 Distribution of employed individuals according to each sector

		Public	Private	Self-employed	Total employed individuals	Semi-annual chng.	Annual chng.
S8	2014_H1	230(16%)	567(40%)	611(43%)	1408	-5.4%	-8.3%
S9	2014_H2	227(17%)	502(38%)	600(45%)	1329	-5.6%	-10.7%
S10	2015_H1	270(19%)	495(35%)	654(46%)	1419	6.8%	0.8%
S11	2015_H2	268(18%)	528(36%)	657(45%)	1453	2.4%	9.3%
S12	2016_H1	283(18%)	580(37%)	691(44%)	1554	7.0%	9.5%
S13	2016_H2	272(18%)	609(40%)	633(42%)	1514	-2.6%	4.2%
S14	2017_H1	333(21%)	575 (36%)	672(43%)	1580	4.4%	1.7%
S15	2017_H2	317(21%)	595(38%)	634(41%)	1546	-2.2%	2.1%
S16	2018_H1	259(17%)	592(38%)	705(45%)	1556	0.6%	-1.5%
S17	2018_H2	280(18%)	618(39%)	682(43%)	1580	1.5%	2.2%

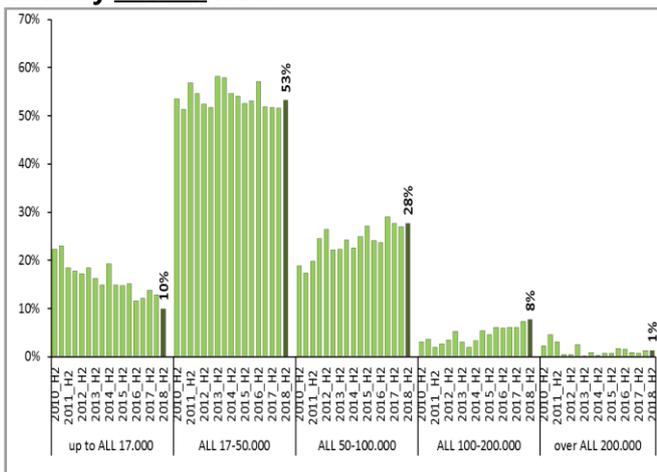
Source: Financial Stability Department.

Note: Numbers in parenthesis are the share of each category to total employed.

The number of households that have also declared **additional stable sources of income**⁴ (like rent, banking interests, etc.) has increased slightly at 11% of responders or 118 households, overall. Within this group of households, around 59% declare *interest from savings (deposits, Treasury bills etc.)*, as alternative sources of income, 25% declare income from *renting a property*, and 4% declare income from *interest from money lent to third parties*. The rest of households declare a combination of sources, mainly from rent and interest from savings.

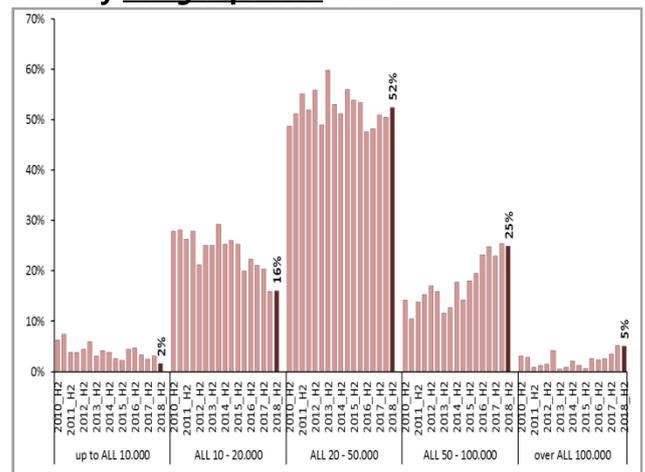
1.2 Households' income and expenditure. During 2018 H2, the distribution structure of households by *income level* seems to have shifted slightly towards average income levels compared with 2018 H1. Thus, most households (around 53%) continued to remain at the level of monthly income of "ALL 17 000 -50,000", while around 28% of them belong to the level of monthly income of "ALL 50 000 -100,000" (see Chart 1.2). Compared with the previous survey, both these shares are up by 1 percentage point.

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.

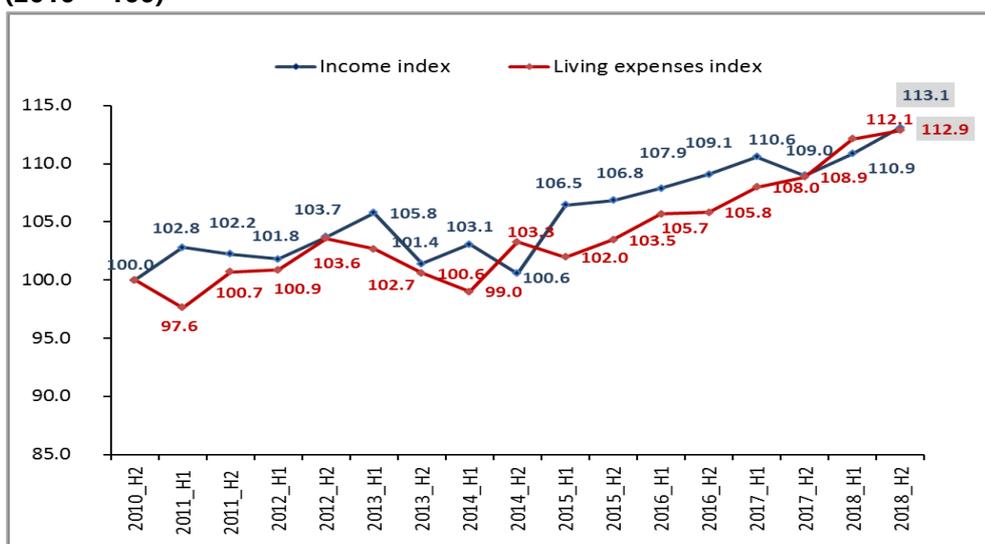


⁴ In this question, the listed alternatives as stable sources of income are: 1. Rent; 2. Interests from savings (deposits, T-bills etc.); 3. Interests from money lent to third parties; 4. Other (define).

Referring to the distribution of the number of households by necessary living expenditure (Chart 1.3), most households (around 52% of respondents) continue to declare a monthly expenditure level at “ALL 20,000 - 50,000”. This share has increased by 2 p.p. compared with 2018 H1, and by 1.6 p.p. compared with 2017 H2. On the other hand, the share for households that declare a high level of expenditure (over ALL 50.000 per month) has decreased slightly in half-yearly terms, but has increased in annual terms. The opposite trend is observed in the case of the two groups with the lowest level of expenditure. As a result, the distribution structure of households by expenditure seems somewhat shifted towards a higher level of monthly expenses.

Income index⁵ and **expenditure index**⁶ increased in the period under review, resulting in similar values. However, the increase of the income index was slightly higher than the expenditure index, resulting in a slight *improvement of the balance of households' income and expenditure*.

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



Source: Bank of Albania.

The *euroization level of the Albanian households' income* remains low. Only 14% of the respondents (156 of 1118 households interviewed) declared that they receive income in foreign currency (mainly in euro), which accounts for a varying share of their total monthly income⁷. This share has not changed in the last two years.

2- Households' debt

The number of households that report *one or more debt to repay* at the moment of the interview, despite the type, source, or value of this debt, was 288 households or *around 26% of respondents*. This share has decreased by 2 percentage points compared with 2018 H1 and with 2017 H2, resulting below the historical average of the survey (about 29%).

⁵ 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 17,000-50,000” with 0.4; “ALL 50,000-100,000” with 0.6; “ALL 100,000-200,000” 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.

⁶ 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 20,000-50,000” with 0.6; “ALL 50,000-100,000” 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 monthly expenditure.

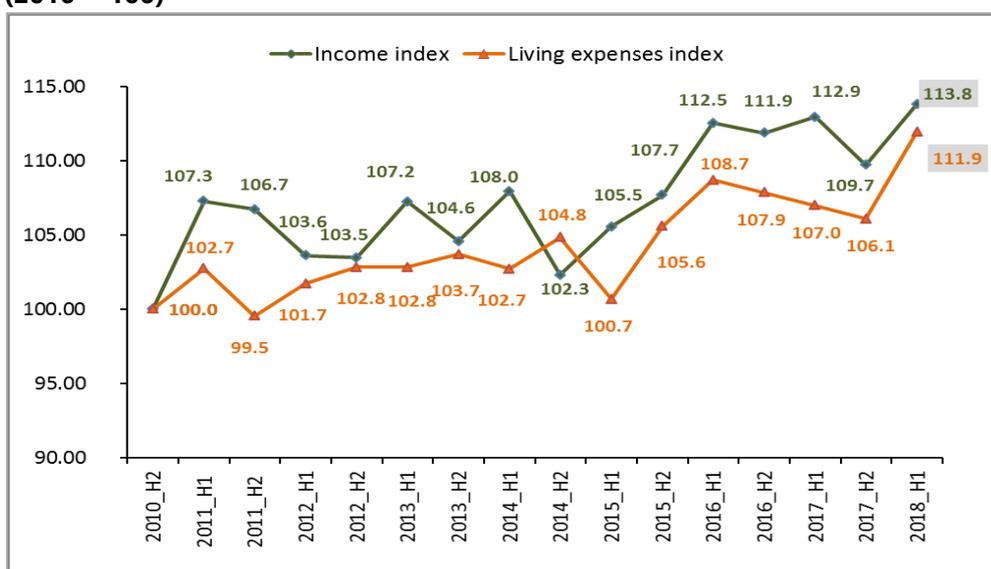
⁷ Alternatives related with the level of income in foreign currency are: (1) “I don't have any”; (2) “up to 10%”; (3) “10-50%”; and (4) “over 50%”.

The following analysis refers only to the group of borrowing households⁸.

2.1 The level of income and living expenses of the borrowing households. During the period under review, the structure of borrowing households, by their income, shifted somewhat towards “ALL 50,000 - 100,000 per month” (up by 3 p.p. compared with 2018 H1), while the share of other levels has been mainly declining or unchanged. The distribution of borrowers by monthly living expenses resulted higher in the group with “ALL 20,000-50,000 per month” expenses (56% of borrowers), and increasing by 8 p.p. compared with the previous period and by 2 p.p. compared with the previous year. The structure of borrowing households by expenditure has shifted somewhat toward the average level of monthly expenses.

The above distribution of borrowers by monthly level of income/living expenses resulted in a decline at the same degree (by 0.3 p.p.) in the value of both *income* and *expenditure* indices during the period, compared with 2018 H1 (Chart 2.1).

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



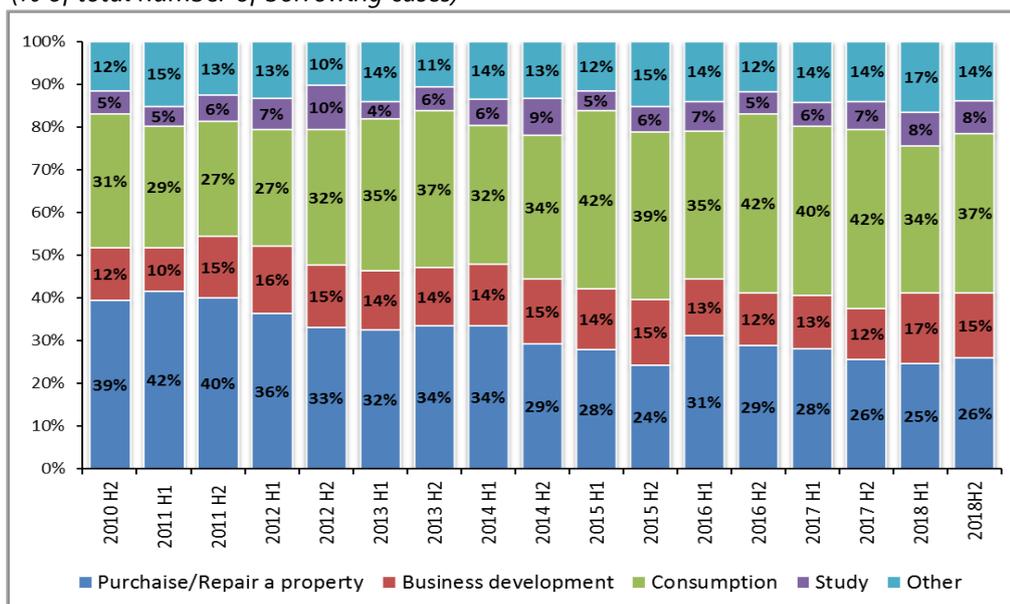
Source: Bank of Albania.

2.2 Debt purpose. The main purposes of households’ borrowing remained: “consumption” in 37% of cases; “purchase/renovation of property” in 26% of cases; and for “business development” in 15% of cases. For the former two items, the shares have increased in half-yearly terms (consumption by 3 p.p. and purchase/renovation of property by 1 p.p.), but they have declined and not changed in annual terms (-5 p.p. and 0 p.p., respectively). Meanwhile, the cases of borrowing (the share in the group) for *business development* purposes have declined compared with the previous period, but have remained above the value registered in the previous year (see Chart 2.2).

⁸ 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 = 288 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”.

Chart 2.2 Frequency of borrowing by debt PURPOSE

(% of total number of borrowing cases)



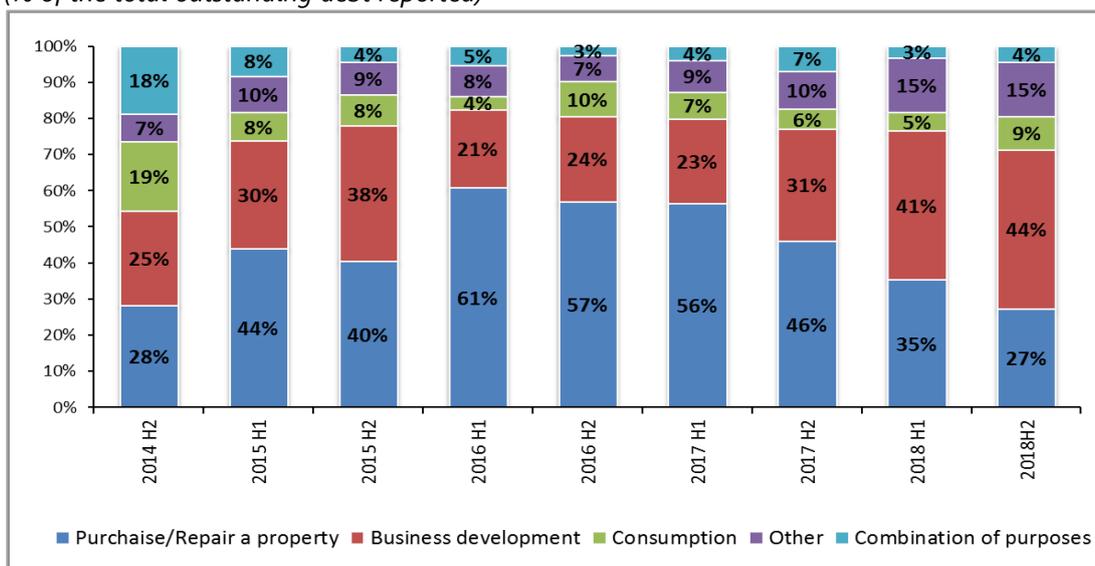
Source: Bank of Albania.

2.3 Outstanding debt. The analysis of the *outstanding debt by source* shows that around 70% of the outstanding debt originates from *formal sources* and around 30% from *informal sources*. This structure reflects the considerable decline of formal debt compared with both 2018 H1 and 2017 H2. The change may be mainly statistical, and more notable due to the revision process of the interviewed households in the sample.

The analysis of the outstanding debt by purpose of use (see Chart 2.3) shows that around 27% of the outstanding debt is used for “*purchasing/renovating property*”, 44% for “*business development*” and only 9% of it is used for “*consumption*”.

Chart 2.2 Composition of outstanding debt by PURPOSE

(% of the total outstanding debt reported)



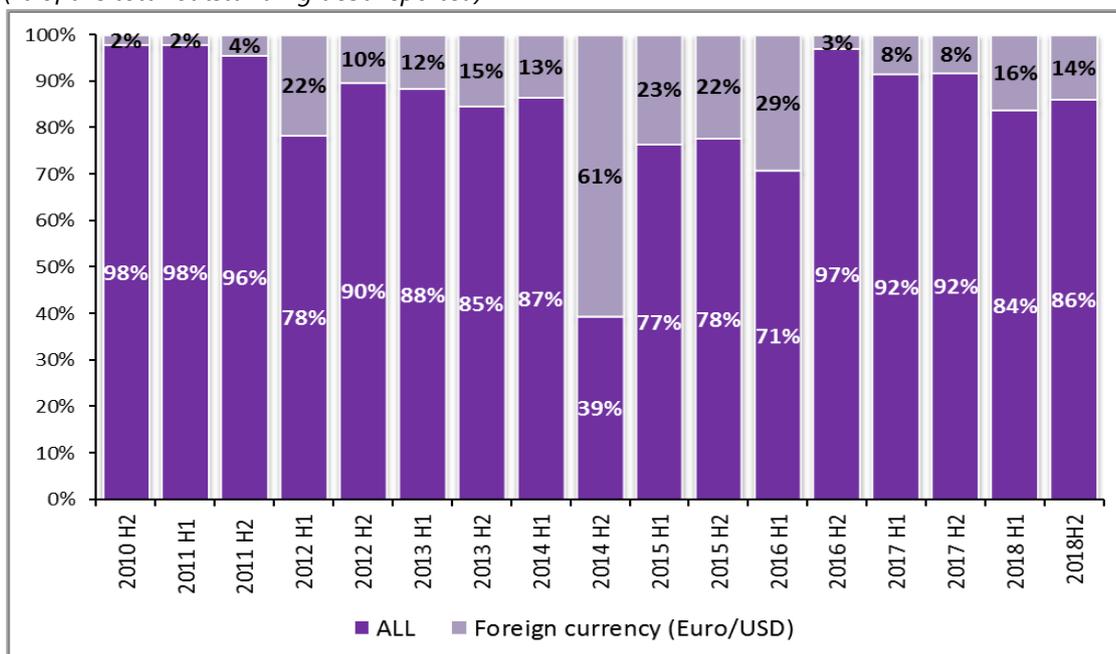
Source: Bank of Albania.

Note: “Other” includes mainly loans to cover medical expenses.

By currency, it results that 86% of the outstanding debt is in *ALL* and 14% in *foreign currency*. Compared with 2018 H1, this distribution has shifted in favour debt in the domestic currency (see Chart 2.4).

Chart 2.4 Currency composition of outstanding debt

(% of the total outstanding debt reported)

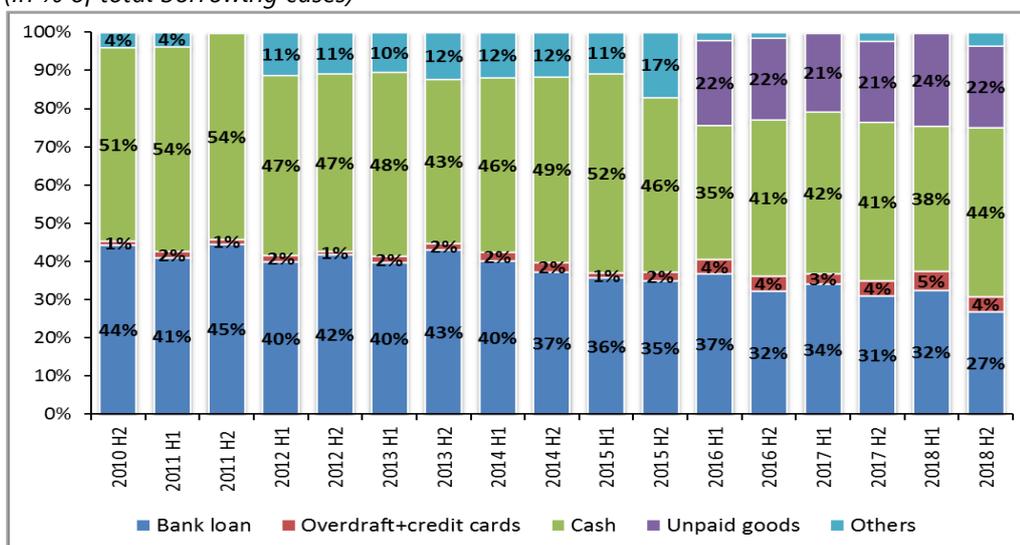


Source: Bank of Albania.

2.4 Type of debt. Around 31% of the households' borrowing cases are in the form of "loans from financial institutions", of which 27% of cases are "bank loans" and 4% are *credit cards* and *overdraft* (see Chart 2.5). This share decreased by around 7 p.p. and by 4 pp, respectively compared with 2018 H1 and 2017 H2. In around 44% of cases, the borrowing is in the form of "cash", up by 6 p.p. compared with 2018 H1 by 4 p.p. compared with 2017 H2. The item "*unpaid goods*" continues to have a significant share (22% of borrowing cases), but downward during the survey period.

Chart 2.5 Frequency of borrowing by TYPE of debt

(In % of total borrowing cases)

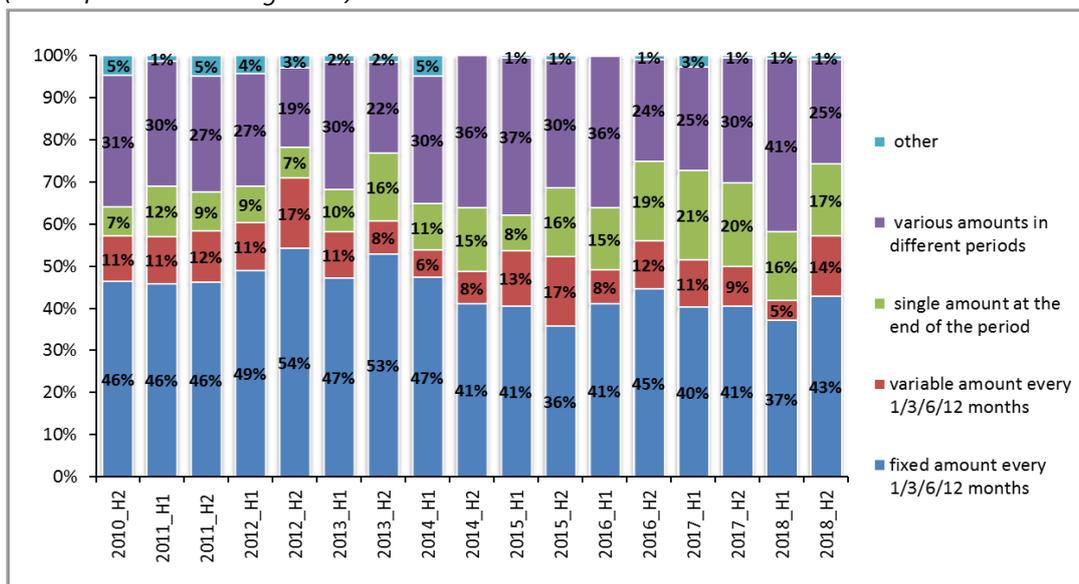


Source: Bank of Albania.

2.5 Debt repayment schedule. The two main forms of debt repayments continue to be through “fixed payments, every 1/3/6/12 months” (43% of borrowing cases) and “variable payments in different periods” (25% of borrowing cases) (see Chart 2.6).

Chart 2.6 Frequency of borrowing by debt REPAYMENT SCHEDULE

(In % of total borrowing cases)

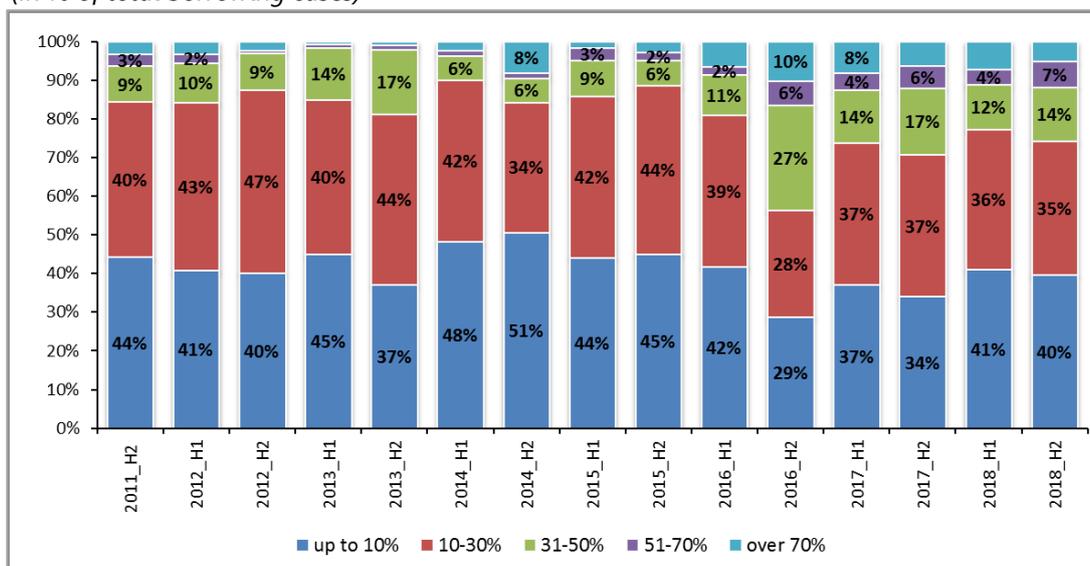


Source: Bank of Albania.

Regarding the *ratio of debt payments to total income*, (Chart 2.7), the responses show that it is “up to 10%” for 40% of borrowing households (down by 1 p.p. compared with 2018 H1 and up by 6 p.p. compared with 2017 H2), “10-30%” for 35% of borrowing households (down by 1 p.p. compared with 2018 H1 and down by 2 p.p. from 2017 H2) and “over 30% of income” for 26% of borrowing households (up by 6 p.p. compared with 2018 H1 and down by 4 p.p. compared with 2017 H2). Overall, there is a shift in favour of higher instalment/income ratios, during the survey period.

Chart 2.7 Frequency of borrowing by debt repayment-to-monthly income ratio.

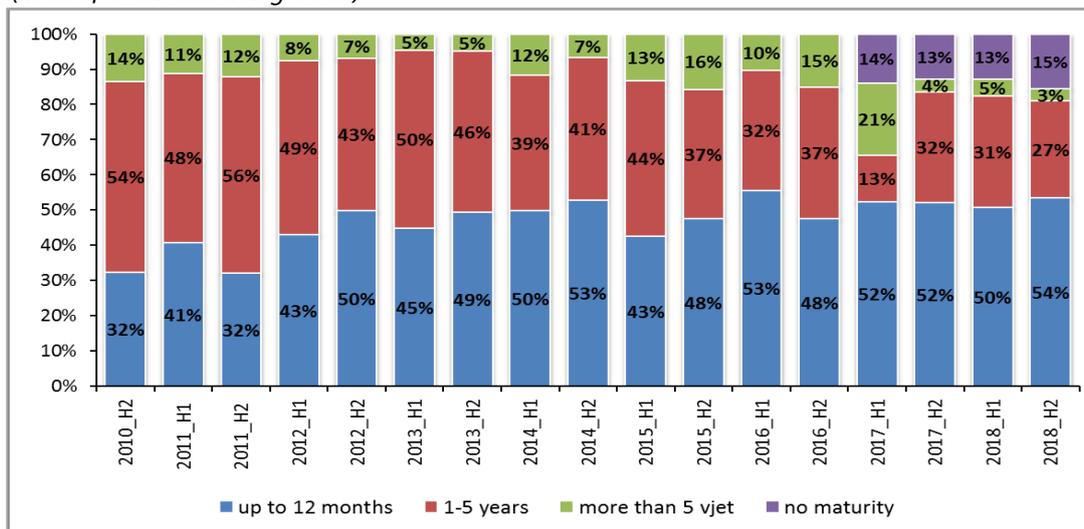
(In % of total borrowing cases)



Source: Bank of Albania.

2.6 Remaining maturity. In 54% of borrowing cases, it results that the debt matures “within a year”. This share increased by 4 p.p. compared to 2018 H1; in 27% of cases, the remaining maturity of the debt is between ‘1 to 5 year’, and in 3% is ‘over 5 years’ (see Chart 2.8). During the survey period, the structure of residual maturity has shown a tendency towards decreasing the term compared with the previous period. This trend results in line with the decrease of bank lending and the increase of borrowing from informal sources.

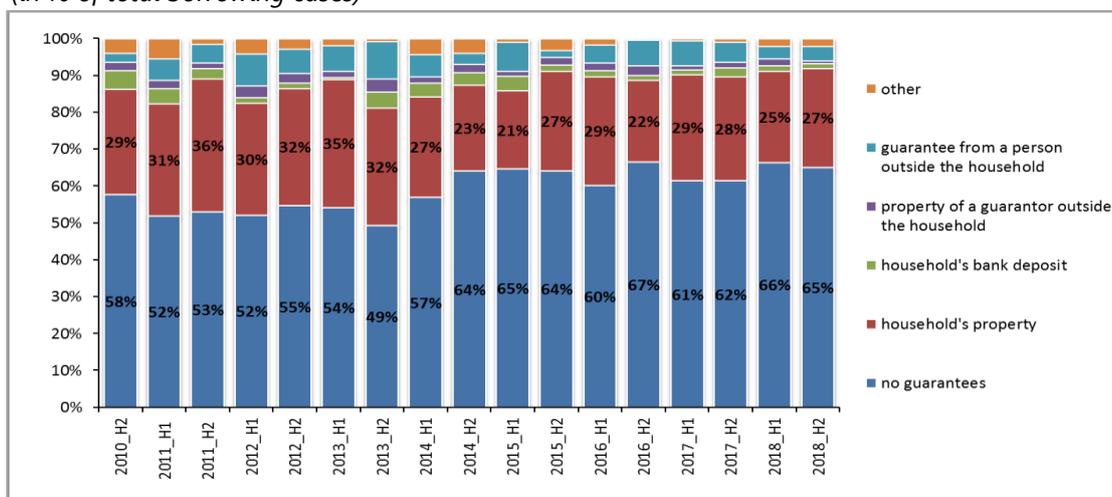
Chart 2.8 Frequency of borrowing by debt REMAINING MATURITY
(In % of total borrowing cases)



Source: Bank of Albania.

2.7 Type of debt guarantees. In 65% of borrowing cases, it results that the debt has “no-guarantees” and this share has decreased by 1 p.p. compared with 2018 H1, but it increased by 4 p.p. compared with 2017 H2 (see Chart 2.9). The same trend is also observed in the performance of borrowing cases guaranteed “with a household property” - upwards in half-year terms, but below the level registered in the previous year. The decline of borrowing cases where the debt is ‘collateralised with a property’, which is typical for mortgage loans, is in line with the finding for a continued decline in the borrowing cases for “purchasing a property”.

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



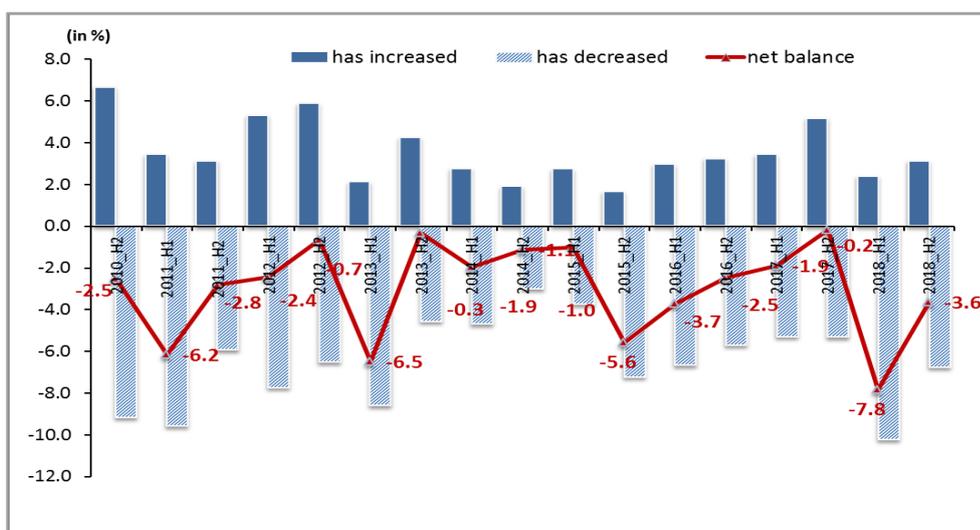
Source: Bank of Albania. Note: “Other” includes the borrowing cases guaranteed by other forms, where most often are mentioned the collateralisation of the loan through salaries, goods (like cars), etc.

3- Households' debt burden

In this section of questions, borrowing households are asked to provide information only on the *largest existing debt* that is also the most burdensome for their household. Consequently, the share of responses is calculated on the total of borrowing households responding to each question.

3.1 Change in debt monthly payments. Around 82% of the borrowing households declared that the monthly payment of their debt has not changed during 2018 H2. The *net balance* of the rest of the responses of borrowing households (18% of them) resulted at -3.6 p.p., which indicates a *decrease of the households' debt payments during the survey period*, but a slower pace than in the previous period.

Chart 3.1 Change in debt monthly payments during 2018 H2



Source: Bank of Albania.

3.2 Households' debt repayment capacity in 2018 H2 and expectations for 2019 H1. About 59% of the borrowing households declared that their debt repayment capacity *"has not changed"* during 2018 H2. This share decreased by 1 p.p. compared with 2018 H1. The rest of the respondents assess, on aggregate, an *improvement* of their debt repayment capacity, both compared with 2018 H1 and 2017 H2 (see Chart 3.2).

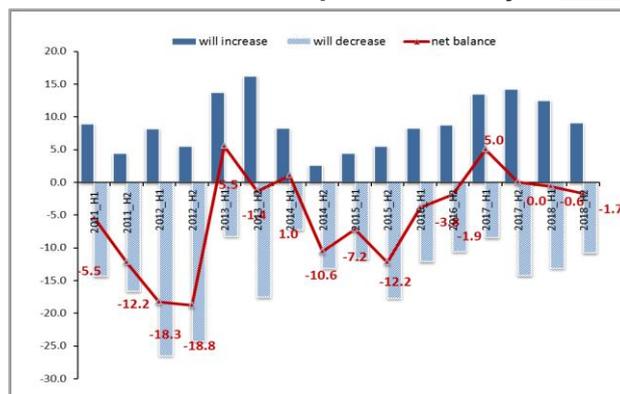
Referring to the group of borrowing households that reported *"deteriorated debt repayment capacity"* (in total 96 households), in 30% of cases, as the main reason they listed a *"decrease in their income"*, in 46% of cases *"increased living costs"*, and in 20% of cases *"a combination of the above two reasons"*. On the other hand, around 46% of households that have declared a deteriorated debt repayment capacity during the referring period would choose *"to reduce their living expenses"* in order to cope with the difficulties in repaying their debt, 29% would consider *"to look for a part-time job"* and 11% would consider *"to sell/rent a property"*.

Chart 3.2 Household's solvency during 2018 H2



Source: Bank of Albania

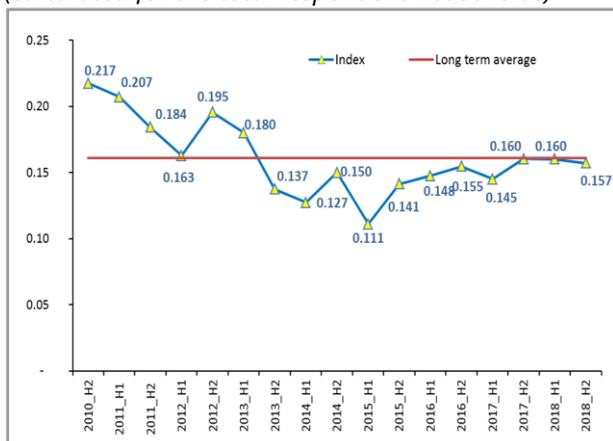
Chart 3.3 Household's expected solvency in 2019 H1



Around 80% of the borrowing households do not expect a change of their debt repayment capacity (up by 6 p.p. compared with the previous survey) in 2019 H1, while the net balance of the rest of the responses resulted at -1.7 p.p., which indicated that households expect a "deterioration of their debt repayment capacity in the next half-year period (see Chart 3.3). Most of households that expect a *deteriorating debt repayment capacity* (in total 33 households, or 11% of respondents), give as the main reason the upward expectations of necessary expenses (42%) and the downward expectations regarding their household's income (36%).

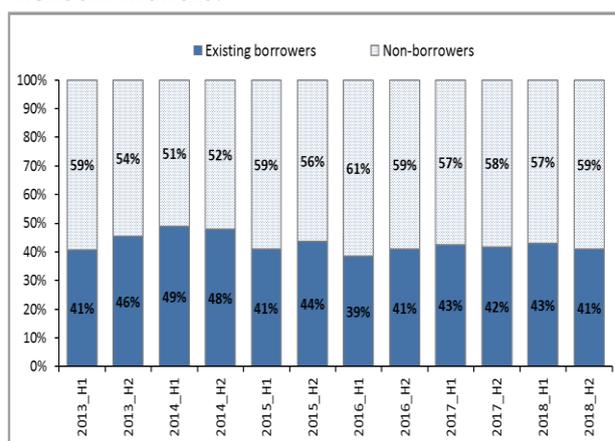
3.3 Expectations on taking a new debt in the next six months⁹. Around 63% of the respondents declared that they *do not expect to take a new loan in the next half-year period*, and this share has increased compared with 2018 H1. On the other hand, around 37% of the respondents (or 417 households), declare that they would consider the possibility to take/retake a new loan, with various degrees of certainty¹⁰ in the coming six months (2019 H1) and this share has decreased slightly compared with the results in the two previous surveys. The value of the *new borrowing possibility index*¹¹ resulted at 0,157, slightly down compared with the previous survey and the previous year, as well as declining below its average long-term value (see Chart 3.4). This performance continues to indicate a still weak credit demand from households.

Chart 3.4 New borrowing planning/rollover index (calculated for the total respondent households)



Source: Bank of Albania.

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



⁹ The question is addressed to the entire sample of 1210 households from which 1118 households, or around 92% of total sample, responded to it.

¹⁰ The given alternatives are: "little possibility", "many possibilities" and "it is certain".

¹¹ 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 group of households that *plan to take a new loan* (417 households), it results that more than half of them (59%) are “*potential borrowers*”, meaning that they do not have a debt to repay at the time of the survey (see Chart 3.5) and 41% of them are “*existing borrowers*”. Compared with 2018 H1, the share of potential (new) borrowers has increased 2 p.p. against existing ones, which may signal a recovery of the households’ demand for borrowing during this year.

4- Households’ wealth

This section contains only two questions regarding the households’ properties and their financial wealth, and is addressed to the entire sample. The results for 2018 H2 are presented below.

4.1 Household real estate ownership¹². In total, 1118 households responded to the questions in this section, declaring they possess in total 1645 real estates of different types, of which: 95% (1064 households) declared to own *102 real estates*, mainly in the form of “*residential properties*” or a combination of residential property and other types of property such as: “*land*”, “*shop*”, “*building*”, etc. (This share has not changed compared with the previous survey); 3% of respondents (or 28 households) declare that they own “*more than 2 real estates*” and 2% of respondents (26 households) declare that they *do not own any real estate* (see Chart 4.1).

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

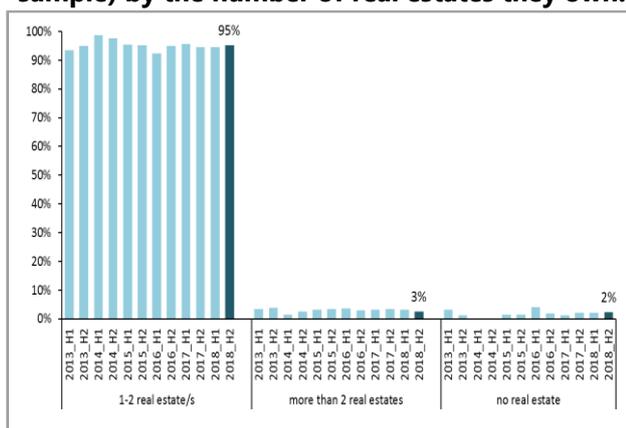
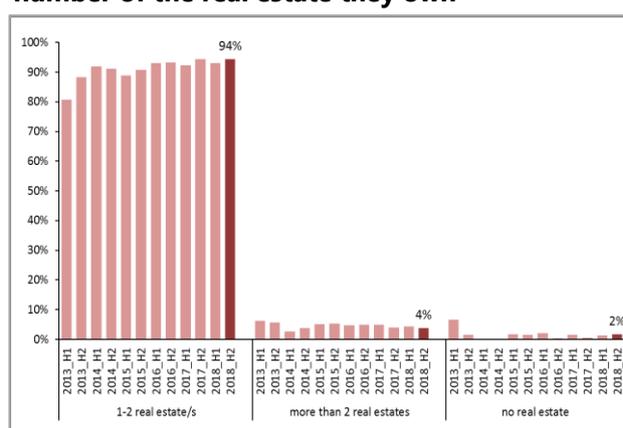


Chart 4.2 Distribution of borrowers by the number of the real estate they own



Source: Source: Bank of Albania.

Focusing the analysis only on the group of **borrowing households** (228 households), the respondents (228 households) declare to own in total 451 real estates, of which 62% are “*residential properties*”, 32% are “*land*” and the rest are “*shops*”, “*buildings*” and other types of properties.

From the distribution of borrowing households by number of properties owned, it results that: around 94% of them (272 households) own “*1-2 real estates*” at the time of the interview. This share has increased by 1 p.p. compared with the previous survey. In most cases, these properties are residential properties or a combination of a residential house and land. Only 4% of borrowing households (14 households) declare that they own “*more than two properties*” and 2% declare that they “*do not own any property*”. These shares have not changed compared with the 2018 H1 survey (see Chart 4.2).

4.2 Households’ financial wealth¹³. According to the households’ responses, it results that in the survey period, 43% of the total surveyed sample of households (borrowing and non-borrowing) and 51% of

¹² In the survey of 2018 H2, 1118 households responded to the question on their real estate ownership, or 100% of those who took part in the survey process.

¹³ To the question on financial wealth owned by the households interviewed responded 1118 households that took part in the survey.

borrowing households declare that they “do not own any type of financial wealth”, and both these two shares have increased by 14 p.p. and 22 p.p., respectively, compared with the previous survey. The analysis of only of the share of households that have declared financial wealth of various forms (excluding the cases were they “do not have any financial wealth”), it results that “deposits and/or bank accounts” continue to remain the main type of financial investment, both in the case of total households (64% of reported cases) and in the case of borrowing households (76% of reported cases), but these shares have trended downwards in the last three surveys. On the other hand, it seems that households have shifted to other forms of financial wealth investments¹⁴ within the system (in total), since their total share has increased compared with the previous period, by 5 p.p. for total households and by 9 p.p. for borrowing households (see Chart 4.3 and Chart 4.4). The main contribution to this growth has been from the increase of investments in *private pension funds*.

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

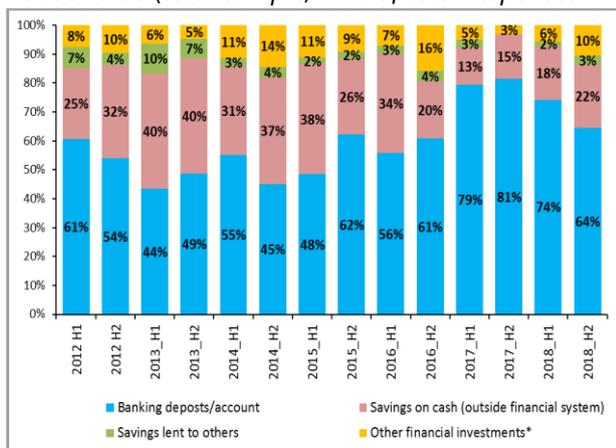
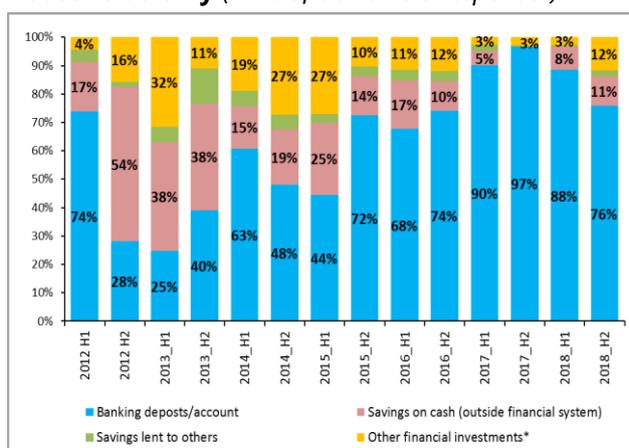


Chart 4.4 Financial assets owned by the borrowing households only (in % of borrowers responses)



Source: Source: Bank of Albania.

Overall, the share of wealth kept within the system (deposits/bank accounts, other investments) has registered a decline, for both the borrowing households group and the total households, resulting mainly from the decline of the share of deposits/bank accounts in the structure of households’ financial wealth.

¹⁴ In the item “Other investments” are included the cases of investments in: T-bills, life insurance, private pension fund and shares.