



FINANCIAL AND BORROWING SITUATION OF HOUSEHOLDS IN ALBANIA

2020 H1

**BANK OF ALBANIA
FINANCIAL STABILITY DEPARTMENT**

August 2020

CONTENT

Summary of key findings of the Survey of Households' Financial and Borrowing Situation	3
1- Demographic and financial characteristics of interviewed households	4
2- Households' debt	6
3- Households' debt burden	11
4- Households' wealth.....	13

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

The survey on households' financial and borrowing situation was launched in 2010, with six months frequency. Due to the SARS-CoV-2 pandemic, the survey was launched in July 2020, using various ways to gather the required information, in compliance with the preventive measures to minimize the spread of the virus (through conducting interviews at distance, e-mails and telephone). This survey covers developments on the financial and borrowing situation of households during 2020 H1, as well as expectations for 2020 H2. The survey was conducted on a random sample of about 1210 households, with a broad geographical distribution within the country.

- FINANCIAL SITUATION

The total number of employed individuals in the surveyed sample slightly increased compared to the previous six months, but has decreased compared to that of the previous year and this came from all three categories of employment (self-employed, the public and the private sector). The overall level of household's income and living expenses marked a modest increase during the period under review, but has decreased compared to the previous year.

- BORROWING

Around 23% of interviewed households (or 251 households) state that they have a debt to repay by the moment of the interview, regardless of its type, source or amount. *This share has decreased by 1 percentage points compared to the previous six months and compared to the previous year*, remaining below the historic average of the survey of about 28% of households. The total outstanding debt reported for the entire sample increased in semi-annual and annual terms. Around 63% of the outstanding debt has originated from formal sources and 37% from informal ones ('natural persons' and 'debt in the form of unpaid goods'). This structure has shifted in favour of borrowing from informal sources, compared to both 2019 H2 and 2019 H1, due to larger increase of debt from informal sources comparing to the increase of debt originated from formal sources. Regarding the debt purpose, around 73% of the total outstanding debt amount was used to purchase/renovate a property, increasing in semi-annual and annual terms. On the other hand, 18% of outstanding credit was used for 'business development' and 2% for 'consumption', and both of these shares have decreased.

- DEBT BURDEN

Most of borrowing households (80%) declared that their debt repayment amount has not changed during the half-year under review. The net balance of the rest of responses shows an increase of the loan instalment during the period. About 55% of borrowing households have declared that their solvency "has not changed, whilst the net balance of the other part of responses indicate worsening of their solvency compared to the previous half-year and the previous year, which may be a reflection of the deterioration of the economic parameters in the country due to the Covid-19 pandemic. For 2020 H2, around 66% of households do not expect a change in their solvency, while the net balance of the other part of responses shows pessimistic expectations. The new loan/rollover index in the next six-months increased compared to the previous six-months and the previous year. This performance may signal a lending demand growth from these households for 2020 H2.

- HOUSEHOLDS' WEALTH

Around 93% of households (total of interviewed sample) own 1-2 real estates, mainly residential houses, and this share has decreased by 1 pp compared to the previous survey and by 4 pp compared with the previous year; 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 state to possess some financial assets, deposits and/or bank accounts continue to remain the main type of financial investment, both in the case of total households (62% of the cases) and in the case of borrowing households (7% of the cases). These shares have declined compared with the previous half-year and compared with the previous year.

1- Demographic and financial characteristics of interviewed households

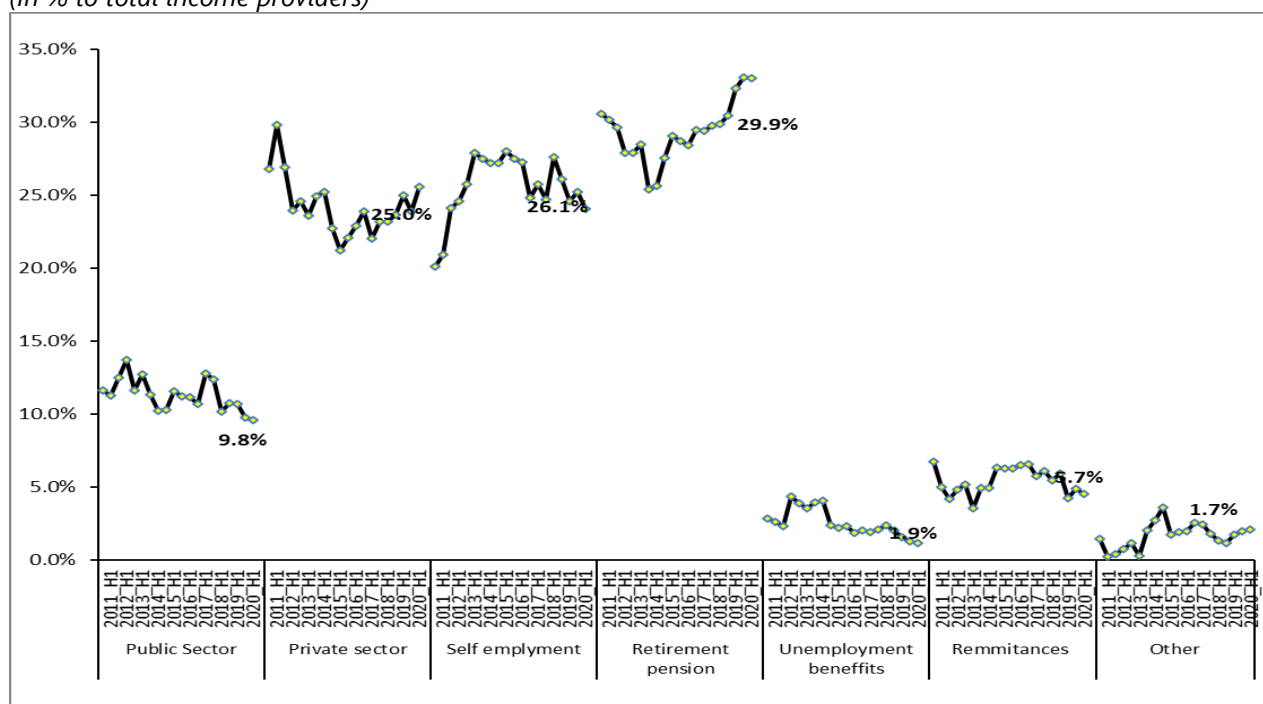
Sample characteristics. This survey was conducted on a randomly selected sample of 1210 households, where about 89% (1079 households) participated in the interview process, responding to all or part of the delivered questionnaire. The share of responders to the total sample remained unchanged compared to the previous survey. Around 46% of them are located in urban areas and 54% in rural areas.

The following analysis refers to the responded households only and all the calculations are computed on the basis of total responders.

1.1 Employment and other sources of income. Total number of households' members that provide income through employment/self-employment in the public sector, private sector and/or other sources¹, has slightly increased (by 1.1%) comparing to 2019 H2, but it has decreased by 2.1% comparing to 2019 H. The increase has been somewhat higher in the case of public sector employees and those receiving unemployment benefits.

Chart 1.1 Distribution of household income providers by income source.

(In % to total income providers)



Source: Bank of Albania.

Note: The item "Other" includes mainly the cases of persons that collect invalidity assistance, assistance from relatives and those that do occasional jobs.

Focusing the analysis on the group of the employed household members² only (Table1.1), it results that their total number has slightly increased (by 1.75) compared to H2 2019, but has decreased (by 4.2%) annually in all three categories of employment, especially in the public sector.

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

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

Table 1.1 Distribution of employees by sector.

		Public	Private	Self-employed	Total employees	Half-year chg.	Annual chg.
V8	2014 H1	230(16%)	567(40%)	611(43%)	1408	-5.4%	-8.3%
V9	2014 H2	227(17%)	502(38%)	600(45%)	1329	-5.6%	-10.7%
V10	2015 H1	270(19%)	495(35%)	654(46%)	1419	6.8%	0.8%
V11	2015 H2	268(18%)	528(36%)	657(45%)	1453	2.4%	9.3%
V12	2016 H1	283(18%)	580(37%)	691(44%)	1554	7.0%	9.5%
V13	2016 H2	272(18%)	609(40%)	633(42%)	1514	-2.6%	4.2%
V14	2017H1	333(21%)	575 (36%)	672(43%)	1580	4.4%	1.7%
V15	2017 H2	317(21%)	595(38%)	634(41%)	1546	-2.2%	2.1%
V16	2018 H1	259(17%)	592(38%)	705(45%)	1556	0.6%	-1.5%
V17	2018 H2	280(18%)	618(39%)	682(43%)	1580	1.5%	2.2%
V18	2019 H1	266(18%)	623(41%)	613(41%)	1502	-4.9%	-3.5%
V19	2019 H2	235(17%)	574(41%)	606(43%)	1415	-5.8%	-10.4%
V20	2020 H1	233(16%)	621(43%)	585 (41%)	1439	1.7%	-4.2%

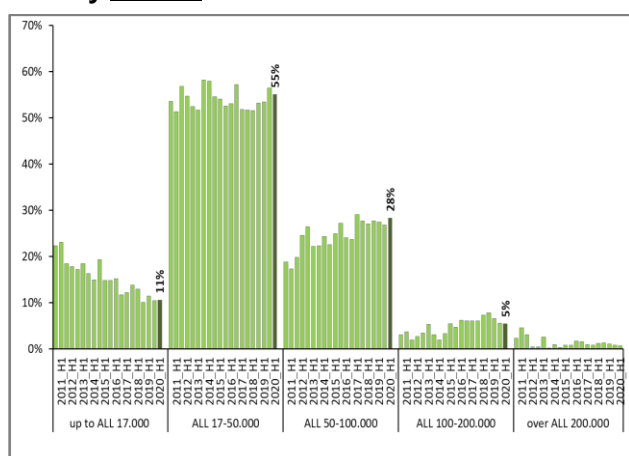
Source: Financial Stability Department

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

The number of households that have also declared **additional sources of income**³ (like rent, banking interests etc.), increased by 1 pp during the period, making 10% of the total responded households or 107 in overall. Within this group of households, about 56% of them declare "interest from savings (deposits, T-bills, etc.)", 17% declare income from *renting a property*, and 9% declare a *combination of sources*, mainly from rent and interest from savings.

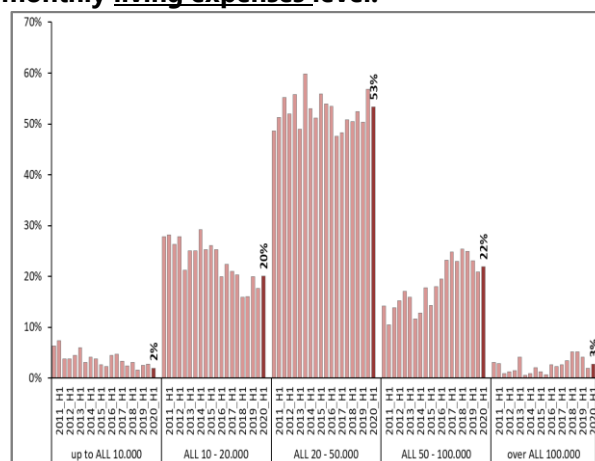
1.2-Households' income and living expenses. During 2020 H1, the distribution of the number of households by *income level* shifted toward the average level of income ('ALL 50-100,000'), respectively 28% of households (upward by 2 pp compared to the previous six-months). On the other hand, around 11% fall on the low monthly income level 'up to ALL 17,000', 55% declare a monthly income of 'ALL 50-100,000', and 5% declare a monthly income of "ALL 100-200,000" (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.

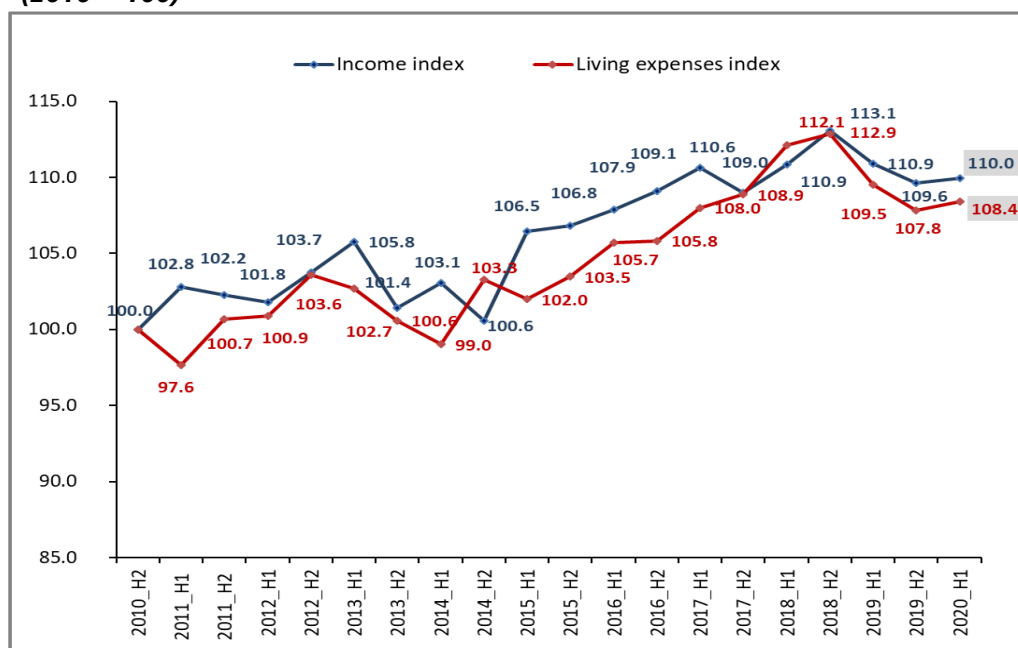


³ In this question, the alternatives listed as stable sources of income are: (1) rent; (2) interests from savings (deposits, T-bills etc.); (3) interests from money lent to thirds; 4. Other (define).

The distribution of households according to their *living expenses*, shows that about 53% of them declare monthly expenses at the level of 'ALL 20-50,000 ', and this share decreased by 4 pp compared to the previous six months. On the other hand, 20% of households declare expenses at the level 'ALL 10-20,000' and this share increased by 3 pp during the period (Chart 1.3).

The households' **income index**⁴ and **living expenses index**⁵ slightly increased during the surveyed period, but the increase in the income index was higher. On the other hand, both indices declined in annual terms. This performance of household income and expenditures may be a reflection of the beginning of the materialization of the economic downturn in the country during this year as a result of two strong shocks, the earthquake of November last year and the Covid-19 pandemic.

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



Source: Bank of Albania.

The euroization level in terms of income continues to remain low, where only 15% of the responders (163 from 1073 households interviewed) declared that they their come are fully or partially in foreign currency (mainly in euro). This share slightly increased by around 1 pp compared with the previous half-year and the previous year.

2- Households' debt

The number of households reporting one or more debt to repay by the moment of the interview, regardless of the debt's type, source or amount, resulted in 251 households or around 23% of the total responded households. This share has decreased compared to the previous six-months and the previous year remaining below the historical average of this survey of about 28%.

⁴ 'The income index' is built as a weighted amount of frequencies in % of responses with the coefficients defined for each interval as follows: "up to ALL 17,000" with 0.2; "ALL 17-50,000" with 0.4; "ALL 50-100,000" with 0.6; "ALL 100-200,000" with 0.8; and "over ALL 200,000" with 1. The values received each year are returned to the index based on year 2010 = 100. The increase of the value of the index implies an increase in the level of monthly income.

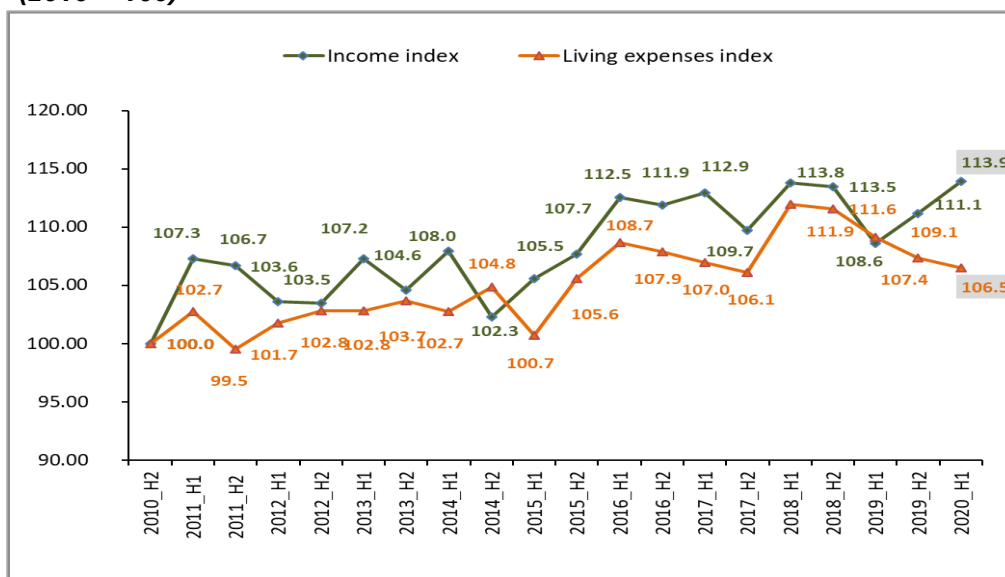
⁵ 'The expenditure index' is built as a weighted amount of frequencies in % of responses with the coefficients defined for each interval as follows: "up to ALL 10,000" with 0.2; "ALL 10-20,000" with 0.4; "ALL 20-50,000" with 0.6; "ALL 50-100,000" with 0.8; and "over ALL 100,000" with 1. The values received 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.

The following analysis refers only to the group of borrowing households.⁶

2.1 The level of income and living expenses of the borrowing households. During the surveyed period, the distribution structure of the borrowing households by monthly income and expenses level shifted somewhat towards an average level of monthly income (ALL 50-100,000') and a lower level of monthly living expenses (up to ALL 10,000'). The distribution of the borrowing households by monthly income resulted more concentrated in the level of "ALL 17-50,000" (51% of borrowers), decreasing by 3 pp compared to the previous six-months and in the level of 'ALL 50.000 – 100.000' (32% of borrowers), increasing by 4 pp during the period. On the other hand, the distribution of borrowers by monthly living expenses resulted more concentrated in the level of "ALL 20-50,000" (57% of borrowers), and in the level 'ALL 10-20,000', (both decreasing by 1.2 pp compared to the previous six-months), and in the level 'ALL 100-200,000', almost unchanged during the period.

The above distribution of borrowing households by their monthly of income/living expenses level resulted in an increase in the income index and a decrease in the expenses index over the period (Chart 2.1), resulting in an improvement of the financial balance (Income-expenses) of this households.

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



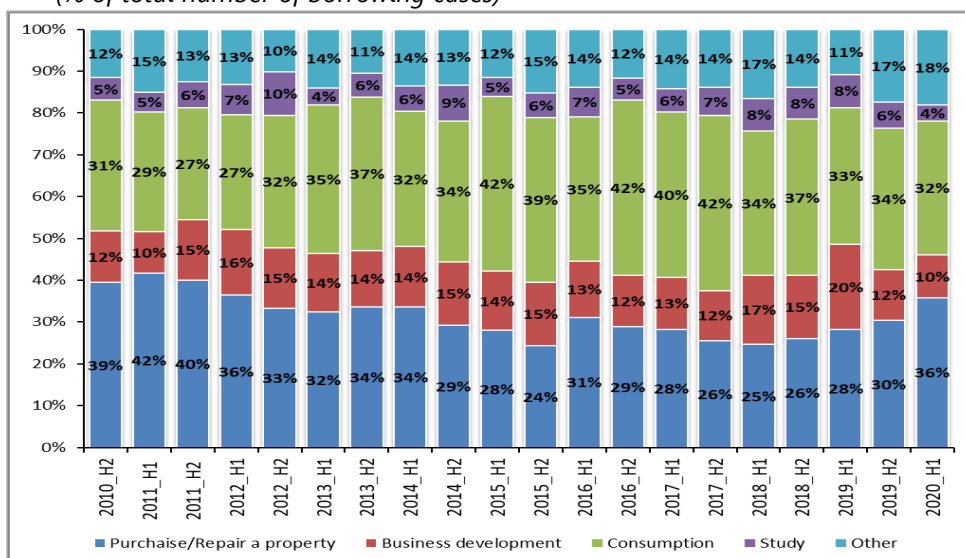
Source: Bank of Albania.

2.2 Debt purpose. The main purpose of household's borrowing remained: "consumption" in 32% of borrowing cases; "to purchase/renovate a property" in 36% of cases; and for "business development" in 10% of cases. The share of borrowing cases to "purchase/renovate a property", increased by 6 pp during the surveyed period, and by 8 pp compared to the previous year, following the same trend as in the last two years. On the other hand, the share of borrowing cases 'for business development' and 'consumption' decreased in semi-annual terms (by 2pp, respectively) and annual terms (by 10 pp and 1 pp, respectively).

⁶ 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 =251 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

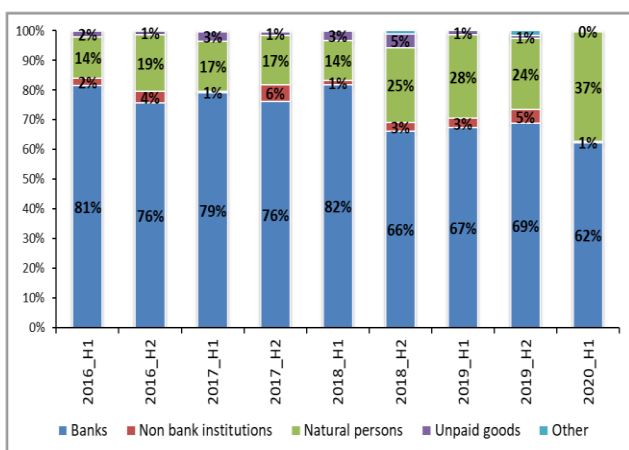
(% of total number of borrowing cases)



Source: Bank of Albania.

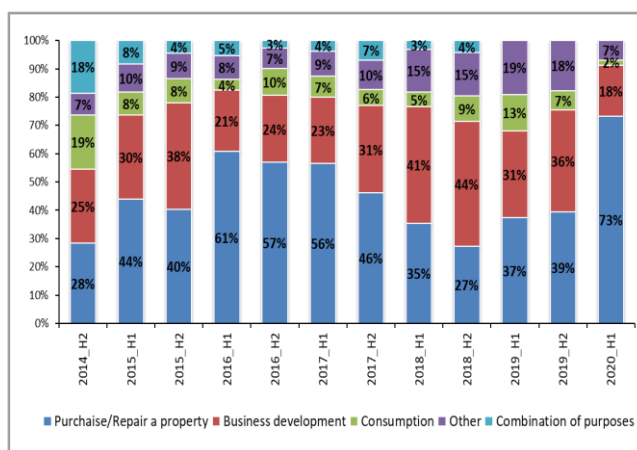
2.3- Outstanding Debt. The analysis of the outstanding debt by its *source* shows that around 63% of it has originated from 'formal sources' (62% banks and 1% non-banks financial institutions), and around 37% from 'informal sources'. This structure shifted in favour of borrowing from informal sources, compared to the previous six months (by 11 pp) and compared to the previous year (by 8 pp), due to a higher increase of the outstanding debt originated from informal sources compared to the increase in outstanding debt originated from formal sources. (Chart 2.3).

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



Source: Bank of Albania.

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



Source: Bank of Albania.

Note. The item "other" includes mainly loans to face medical expenses.

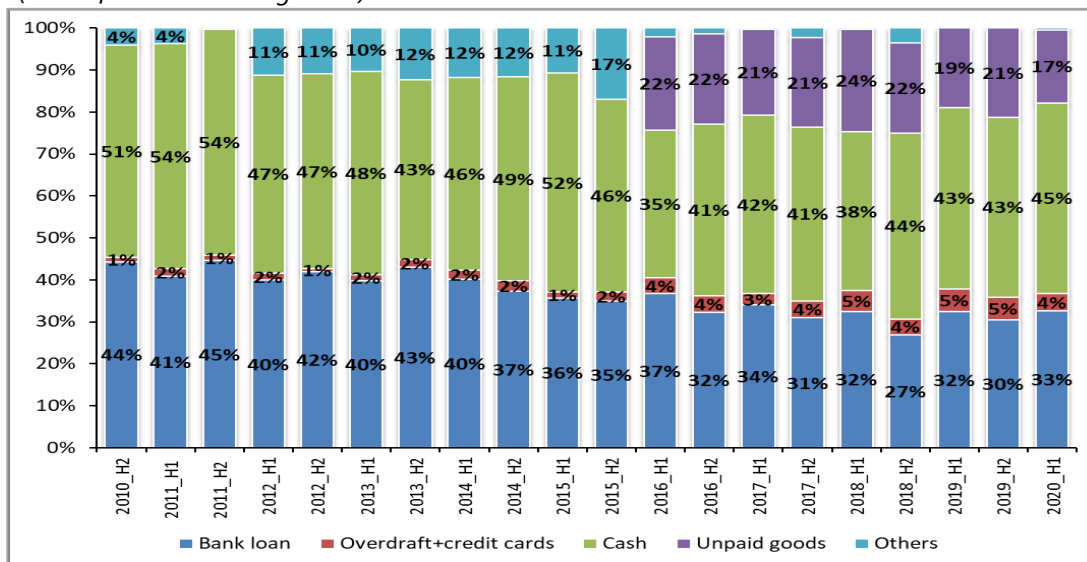
The analysis of the outstanding debt by its purpose (Chart 2.4), shows that about 73% of it is used to 'purchase/repair a property', marking a significant surge by 34 pp compared to the previous six-months and by 36 pp compared to a the previous year. On the other hand, about 18% of the outstanding debt is used for 'business development' and 2% for 'consumption' and these two shares declined, both in semi-annual and annual terms.

2.4-Type of debt. Around 37% of the households' borrowing cases are in the form of 'loans from financial institutions', where 33% of cases are "bank loans" and 5% are "credit cards" and "overdrafts". In about 45% of

cases, the borrowing is in 'cash' and this share has increased by 3 pp compared to the previous six-months and increased by 1 pp compared to the previous year. 'Unpaid goods' continues to have a significant share (18% of borrowing cases), but has decreased by 3 pp compared to the previous survey, and by 1 pp compared to the previous year.

Chart 2.5. Frequency of borrowing by TYPE of debt

(In % of total borrowing cases)

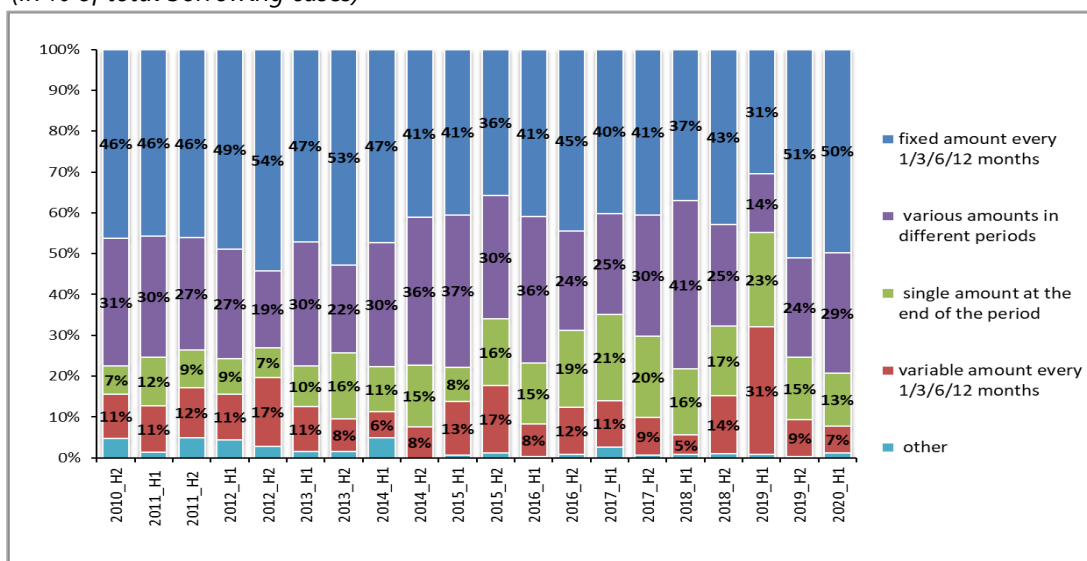


Source: Bank of Albania.

2.5 Debt repayment schedule. The two main forms of debt repayment continues to be through 'fixed payments every 1/3/6/12 months' (50% of borrowing cases) and 'variable payments in different periods' (29% of borrowing cases). The shares of borrowing according to for these two forms of payment have moved in opposite directions over the surveyed six-months, where in the first case the share decreased by 1 pp, while in the second case it increased by 5 pp. In annual terms, borrowing cases under these two types of payment have been upward by 19 pp and 15 pp, respectively (Chart 2.6).

Chart 2.6 Frequency of borrowing by debt REPAYMENT SCHEDULE

(In % of total borrowing cases)

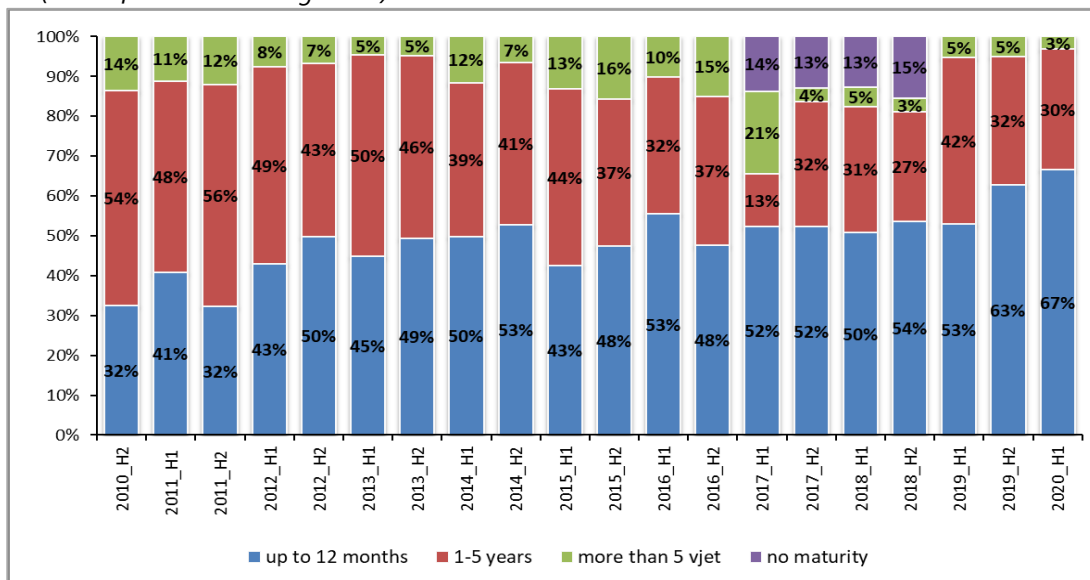


Source: Bank of Albania.

Regarding borrowing household's debt burden, in 71% of cases it is reported that the debt repayment accounts for *less than 30% of monthly income* ('up to 10% of income' for 38% of borrowing cases, '10-30% of income for 33% of borrowing cases). In 29% of cases this payment exceeds 30% of income ('31-50% of income' for 18% of borrowing cases and '51 -70' for 7% of cases and 'over 70%' for 4% of cases) (Chart 2.7).

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

(In % of total borrowing cases)

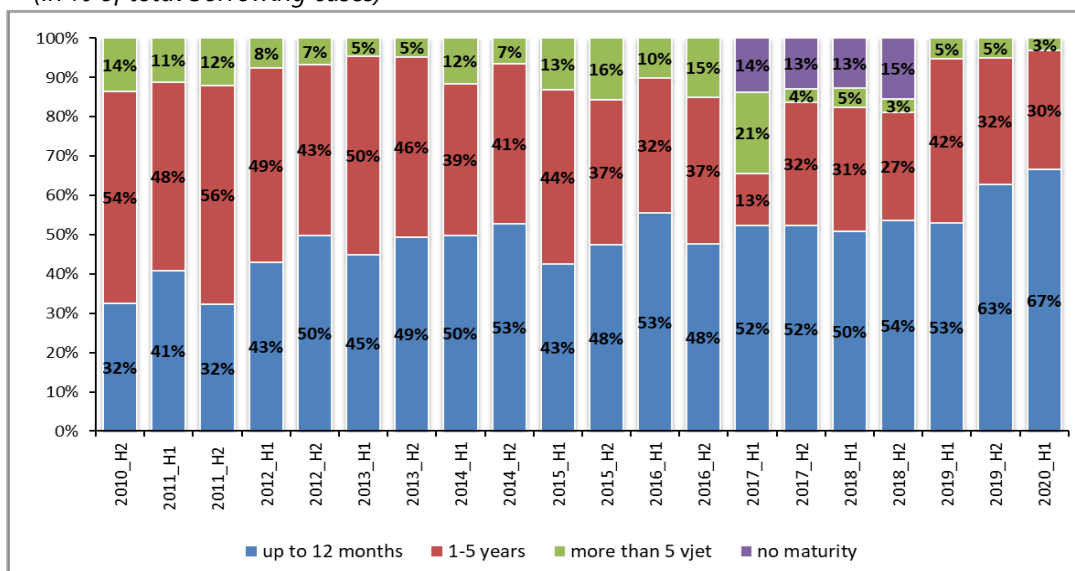


Source: Bank of Albania.

2.6 Remaining maturity. In 67% of the borrowing cases, it results that the debt matures *'within a year'* and this share has increased by 4 pp compared to the previous six months; in 30% of cases, the remaining maturity of the debt is between *'1 to 5 years'* and in 3% of cases the remaining maturity is *'over 5 years'*. The last two shares have both decreased by 2 pp compared to the previous six months and the previous year.

Chart 2.8 Frequency of borrowing by debt REMAINING MATURITY

(In % of total borrowing cases)

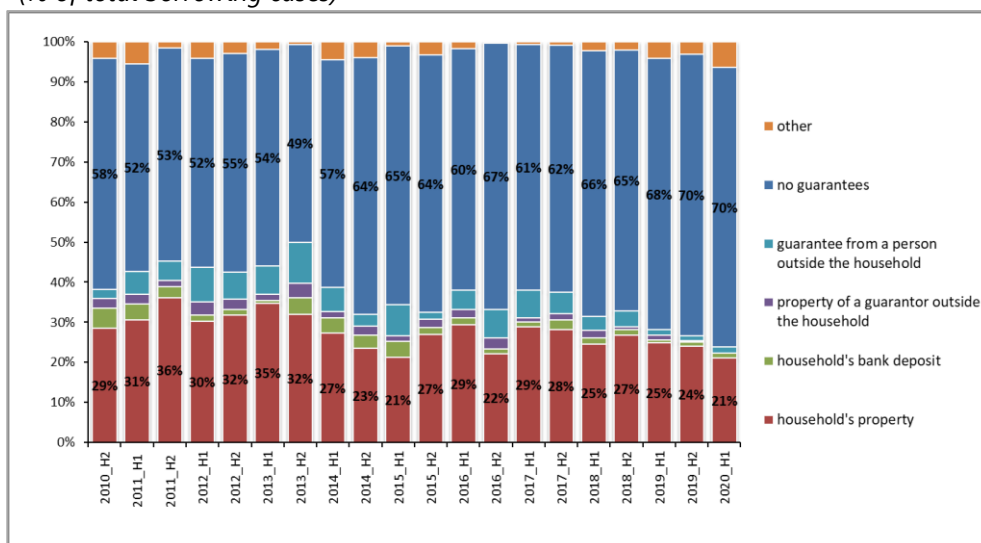


Source: Bank of Albania.

2.8-Debt guarantee. In 70% of borrowing cases, it results that the loan has *'no guarantees'* and this share has remained unchanged compared to the previous six-months, and increased by 2 pp compared with the

previous year. On the other hand, the share of the borrowing cases guaranteed 'with a household property' declined in semi-annual terms by 3 pp and in annual terms by 4 pp.

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



Source: Bank of Albania

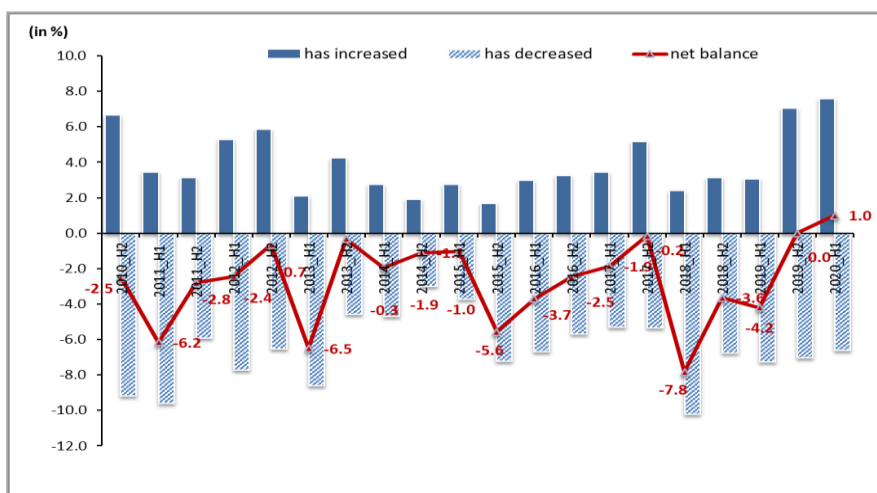
Note: The item "other" includes the borrowing cases guaranteed by other forms of guarantees, such as monthly salaries, goods (like cars), etc.

3- Households' debt burden

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

3.1 Change in debt monthly payments. Around 80% of borrowers reported that the monthly payment of their debt has not changed during 2020 H1. *The net balance* of the remaining responses (20% of borrowing households) was 1 pp, which indicates an increase of the debt payment during the period, compared as well with the previous year.

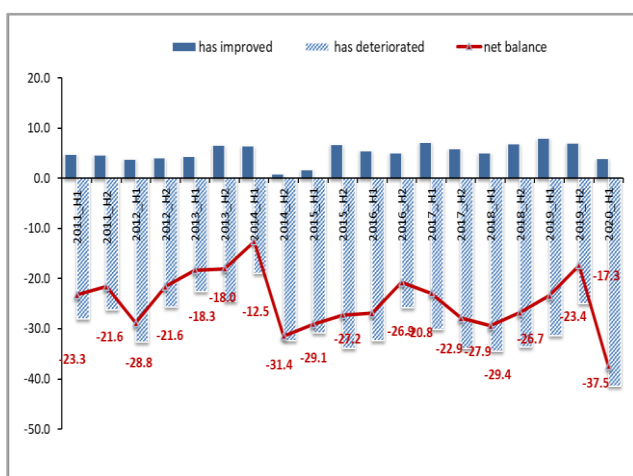
Chart 3.1 Change in debt monthly payments in the past six months.



Source: Bank of Albania

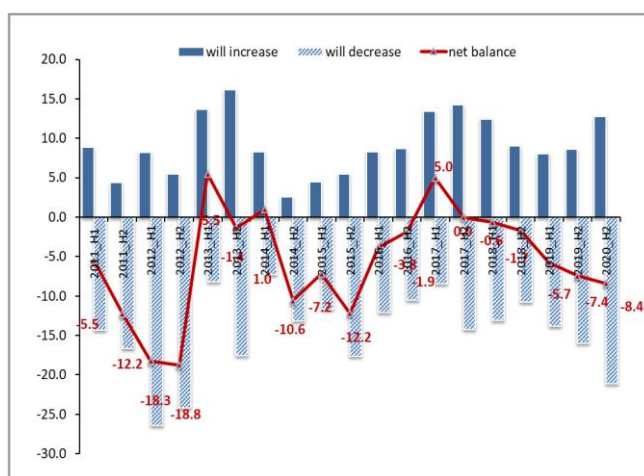
3.2 Household's solvency during 2020 H1 and expectations for 2020 H2. About 55% of borrowing households reported that their solvency *'has not changed'* during 2020 H1, and this share has increased by 13 pp compared with the previous half-year. The rest of the responding borrowers perceive a worsening of their solvency (on aggregate), (41% reported *'worsening'* and 4% reported *'improvement'*, both compared to the previous six-months and the previous year (Chart 3.2), which may be a reflection of the overall deterioration of economic parameters in the country due to the Covid-19 pandemic. This is also reflected in the pessimistic expectations of households regarding their future solvency. Around 66% of the borrowing households *do not expect a change in their solvency* in 2020 H2 (downward by 9 p.p compared with the previous survey), while the net balance of the rest of responses resulted in - 8.4 p.p, indicating pessimistic expectations of the households regarding their solvency in the next half year (Chart 3.3).

Chart 3.2 Household's solvency during 2020 H1



Source: Bank of Albania

Chart 3.3 Household's expected solvency in 2020 H2



3.3-Household's borrowing plans for the next half-year⁷. Around 58% of households reported that they *'do not expect to take a new loan in the next half-year'*, whilst around 42% of households (or 453 households), might consider (with various degrees of certainty⁸) taking a new loan or rollover the existing one, and this share increased by 2 pp compared to the previous six months and by 9 pp compared to the previous year.

The value of the *new borrowing planning/rollover index*⁹ resulted 0,182, showing an increase compared with the results in the last two surveys and reaching above its long-term average (Chart 3.4). Such movement of the index might signal a potential increase in household's credit demand during 2020 H2.

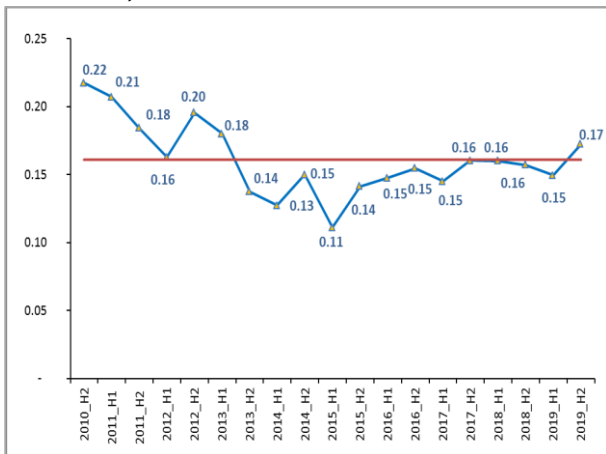
Focusing the analysis on the group of households *that plan to borrow* (606 households) in the next six month, it results that about 75% of them are *'new borrowers'*, meaning that by the time of the survey they don't have any existing debt. This share increased by 12 pp, both on semi-annual and annual terms confirming the above conclusion on the possibility of an increasing demand for credit from the household sector.

⁷ The question is addressed to the entire sample of 1210 households and 1074 households responded, or around 89% of total sample.

⁸ The given alternatives are: "little possibility", "many possibilities" and "it is certain".

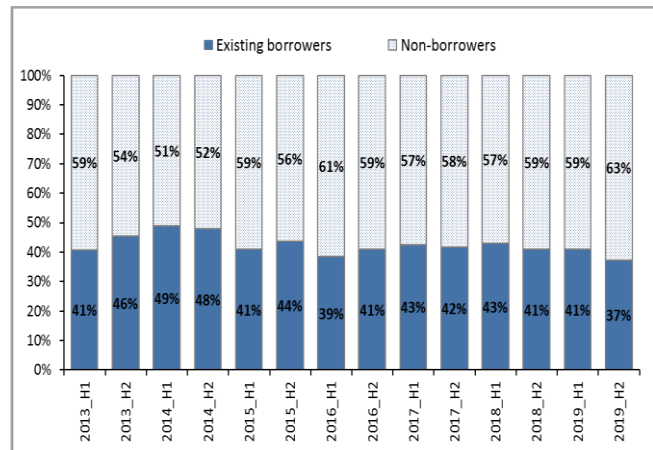
⁹ The index is calculated as weighted average of % of responses for each alternative with relevant coefficients. On the definition of the coefficients, the interval 0-1 is separated in 4 sub-intervals with equal length of 0.33. Coefficients for each alternative are: 0 ("no possibility"), 0.33 ("little 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.

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.

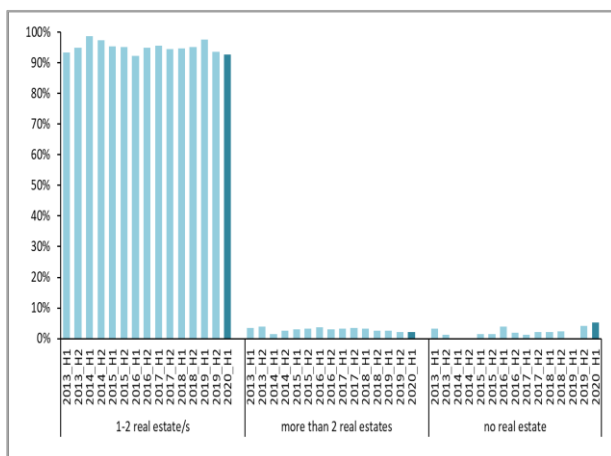


4- Households' wealth

This section contains only two questions regarding the households' properties and their financial wealth, and is addressed to the entire sample. The results for 2020 H1 are presented below:

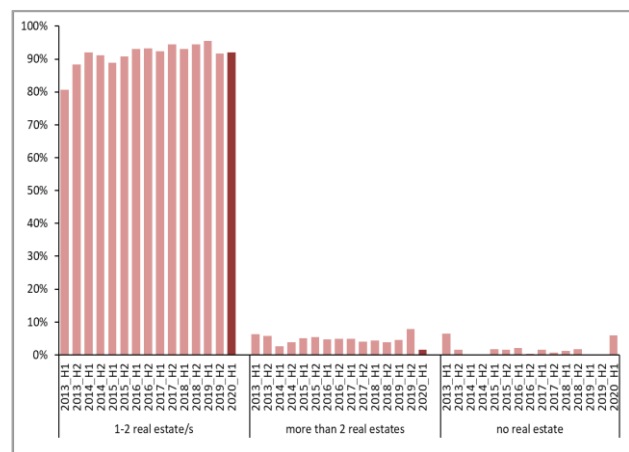
4.1-Households real estate properties. 1080 households responded to the questions related to their possession of real estate properties of which 96% reported to possess at least one real estate property. The responded households declared to possess a total of 1540 real estates of different types where: 94% of them (1002 households) declare to own "1-2 real estates", mainly residential properties (house/apartment) or a combination of a residential property and another property such as land, shop, building, etc. This share has decreased compared to the previous six months and compared to the previous year, by 1 pp and 4 pp, respectively.

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



Source: Bank of Albania

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



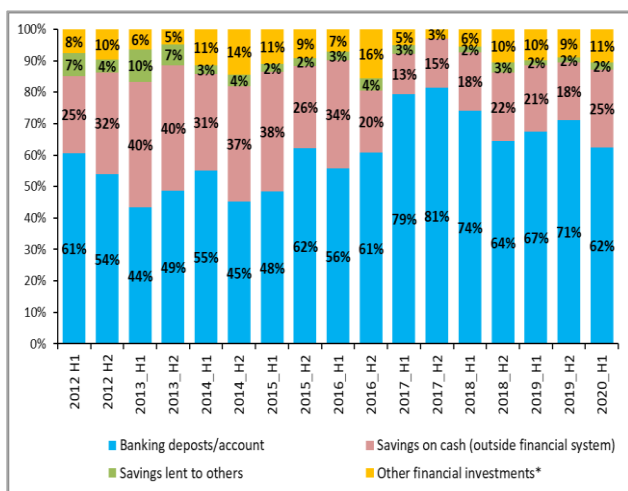
Focusing the analysis on the **borrowing households** group only (251 households), the responding households (250 households) report to possess 362 real estates in total, where 67% of them are residential properties, 29% are lands and the rest are shops, buildings and other types of properties.

The distribution of the borrowing households by the number of properties/real estate they own, shows that: around 92% of them (232 households) own "1-2 real estates" at the time of the interview, and this share has decreased by 3 pp compared to the previous year. In most cases, this properties are residential properties or a combination of a residential property and land. Only 2% of borrowing households (4 households) declare that they own 'more than two properties' and this share has decreased by 6 pp compared to the previous half-year survey.

4.2 Households' financial assets¹⁰. For the period under review, 42% of the total surveyed households (borrowers and non-borrowers) and 60% of borrowing households reported that they "do not own any type of financial assets" and these two shares have increased by 18 pp and 17 pp, respectively, compared with the previous survey.

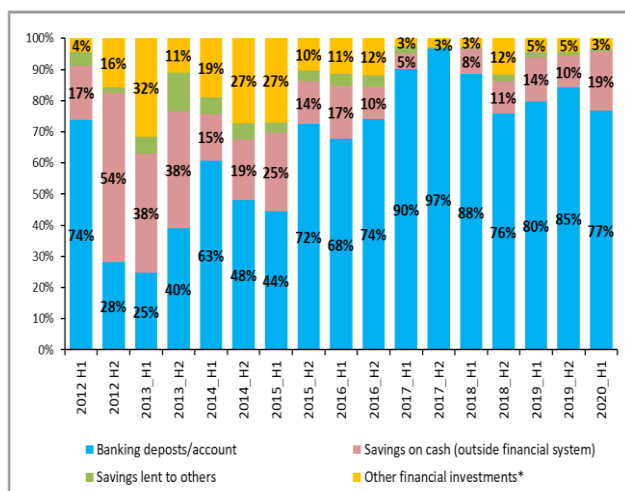
Focusing the analysis only on the group of households that possess some form of financial assets (excluding the cases where they "do not possess any financial asset", it results that 'bank deposits/current accounts' are still Albanian households' main type of financial asset, both for the total sample (62 % of cases) and the borrowing households (77% of cases). Both these shares have decreased compared to the previous six-months (by 8 pp and 8.2 pp, respectively) and compared to the previous year (by 5.1 pp and 3 pp, respectively). The use of other forms of financial investments of financial wealth, summarized as "other investments" , somehow increased in the case of the total sample of households, compared to the previous six-months and previous year, but decreased in the case of the borrowing households. On the other hand, during the period there is an increase in reported cases of holding savings in the form of cash (outside the bank) both in the case of the total sample and in the group of borrowing households.

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



Source: Bank of Albania

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



In contrast to the three past surveys, this survey finds an increase in the share of financial assets kept outside the system (savings in cash form or lend to someone), against the share of those keeping their financial wealth inside the system (deposits/ bank accounts and other investments) both in semi-annual and annual terms. This trend is observed both in the case of the total household sample and in the case of the group of borrowing households.

¹⁰ 1067 households that took part in the survey, answered the question regarding the financial wealth of the households.