FINANCIAL AND BORROWING SITUATION OF ENTERPRISES IN ALBANIA

2019 H1

BANK OF ALBANIA
FINANCIAL STABILITY DEPARTMENT

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CONTENT

Summary of key findings of the Survey on Financial and Borrowing Situation of Enterprises

The survey on the financial and borrowing situation of enterprises has been conducted half-yearly since 2010. The latest survey was conducted in May-June 2019 and focused on developments during 2019 H1, as well as expectations for 2019 H2. 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. The survey was conducted with a sample including a total of 1360 small, medium-sized and large enterprises across the country, operating in major sectors of the economy.

• FINANCIAL SITUATION

During 2019 H1, *competition* and *finding a market* are regarded as important constraining factors for all three groups of enterprises (large, medium-sized, and small enterprises). Compared with 2018 H2, the importance of market competition is assessed somewhat upward for small enterprises, but downward for the two other groups.

Sales performance is assessed as upward during 2019 H1 for medium-sized and large enterprises and downward for small enterprises. 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. All three groups of enterprises have positively tried to expand their activity, more pronounced for medium-sized and large enterprises. *Expectations for enterprises* of all sizes appear positive in terms of sales, financial result and expansion of the activity, and enterprises are optimistic compared to the previous six months.

During the period, more than half of the total responding enterprises financed their activity through *sales* (60.9% of small enterprises, 50.3% of medium-sized enterprises and 55.3% of large enterprises). *Borrowing,* as a separate or combined source, was used by 19.1% of large enterprises, 15.6% medium-sized enterprises and 7.5% small enterprises. Compared to the previous six months, the use of borrowing as a source of financing resulted as downward for small and medium-sized enterprises, but remained unchanged for large enterprises.

• BORROWING

About 38.6% of total enterprises (436 enterprises in total) state *they are indebted*. This percentage decreased by 3.5 percentage points compared to the previous six-months, and 3.8 percentage points to the previous year. In terms of size, the share of borrowing enterprises decreased in the previous period for the small and medium-sized enterprises by 12.4 percentage points and 7.5 percentage points, respectively, whilst this share slightly increased by 1 percentage point for the large enterprises. About 88% of borrowing enterprises claim to have borrowed from banks, whilst 6% borrowed from combined sources. The share of enterprises that have borrowed from banks has increased by 4 percentage points compared with 2018 H2, and by 1 percentage point compared with the previous year. *For the total of formal sources* (banks and financial institutions), the share of borrowing enterprises is 90.5%, up by 4.5 percentage points compared with the previous period.

Enterprises borrowed primarily to *cover current expenditures* (47% of respondent enterprises) and to *finance long-term investments* (46% of respondent enterprises). The share of enterprises that have borrowed for the two above purposes increased for all sizes of enterprises compared to the previous six months. About 82.5% of small enterprises, 79.1% of medium-sized enterprises and 80.8% of large enterprises consider their level of borrowing for financing their activity as adequate. Compared to 2018 H2, this share is higher for all sizes of enterprises.

Borrowing is denominated in the *domestic currency* for 53.8% of small borrowing enterprises, 48.3% of medium-sized enterprises and 38.6% 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 (51%) exceeding *domestic currency* and less preferred by small enterprises (44%).

The total value of debt is about *half the value of the enterprise's capital* for 75.8% of borrowing enterprises and *equal or higher than the value of the capital* for 24% of them. By size, debt/equity ratio is higher and upward for medium-sized enterprises with 27% of them stating that this ratio is equal or higher than the value of capital implying a higher debt burden. By sectors, debt burden is more pronounced in enterprises of trade and industry sectors.

• RELATIONSHIP WITH BANKS

Bank borrowing is assessed as "normal" and "difficult", downward compared with the previous period for medium-sized enterprises and upward for small and large enterprises. *The importance of the relationship with banks* is assessed as "important" and "necessary", downward for all the three groups of enterprises but more pronounced for small enterprises.

The high cost of loans continues to be considered as the main constraining factor in obtaining a bank loan, especially for the small and medium-sized enterprises, but the assessment of this factor has declined for all the three groups of enterprises.

Regarding short-term new borrowing, about 47.5% of responded enterprises reported *no likelihood of bank borrowing in the next six months*. Compared to the last survey, this share was downward for all the three groups of enterprises. The index value on the assessment of borrowing planning for the next six months is 0.41 for the total of enterprises, slightly upward in comparison with the previous period, mainly from the small enterprises. This performance may signal a moderate credit growth from these enterprises for 2019 H2.

Sample characteristics In 2019 H1, the survey was conducted with a sample of 1308 enterprises in 34 districts of the country. Most enterprises (77%) are located in the five major districts, namely: Tirana (51.4%), Durrës (12.5%), Fier (5.1%), Shkodra (4.9%) and Elbasan (3.2%). In the total sample, 77% of the enterprises (1049 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. The survey estimates were made on the basis of the number and classification of the respondent enterprises.

1 Activity's main characteristics

1.1 Distribution of enterprises by sector and size. By sector, for 2019 H1, about 35.5% of enterprises belong to the *industry* sector, 32.6% to the *services* sector, 13.9% to the *construction* sector and 18% to the *trade* sector. By size, (see Chart 1.1), about 22% of enterprises are classified as *small enterprises* with 5-19 employees, 16.2% as *medium-sized enterprises* with 20-49 employees and 62% as *large enterprises* with more than 50 employees. In the group of *small enterprises*, those operating in the services sector (39%) account for the main share, followed by the industry sector (25.5%). On the other hand, in the group of medium-sized and large enterprises, the industry sector (around 38% in both groups) and the services sector (26.1% and 32.1% respectively) have the highest share. (see Chart 1.2).

Chart 1.1 Distribution of enterprises by size
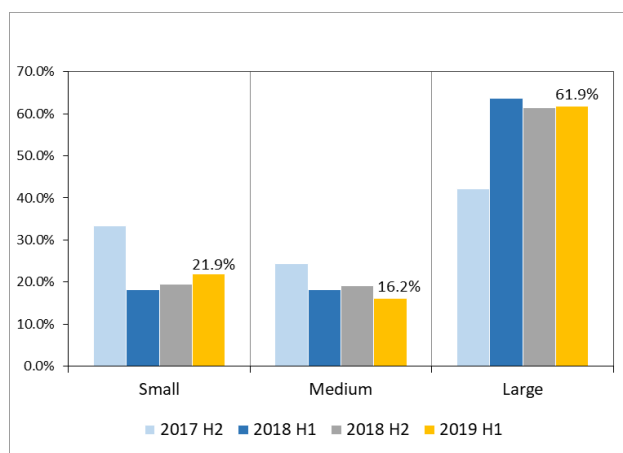
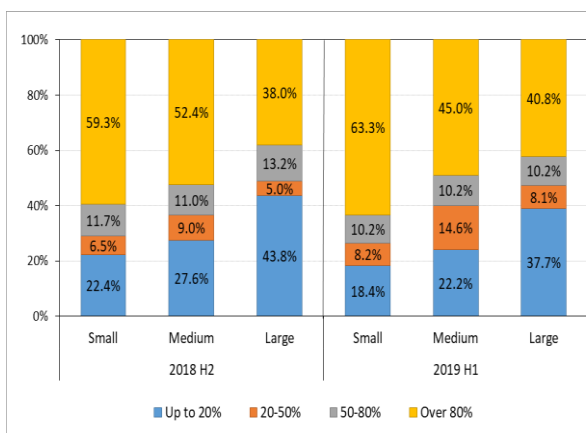**Chart 1.2 Distribution of enterprises by size and sector**
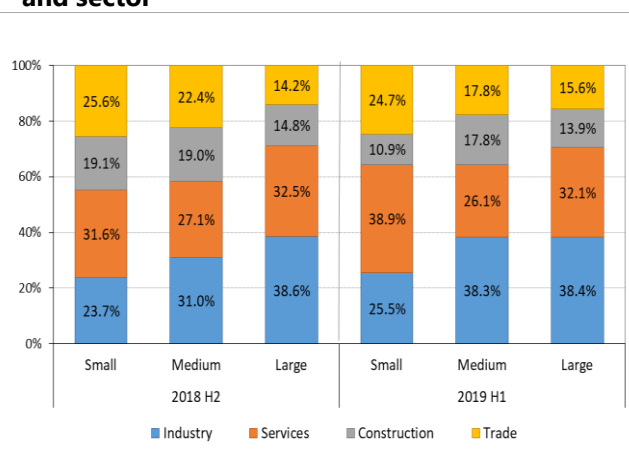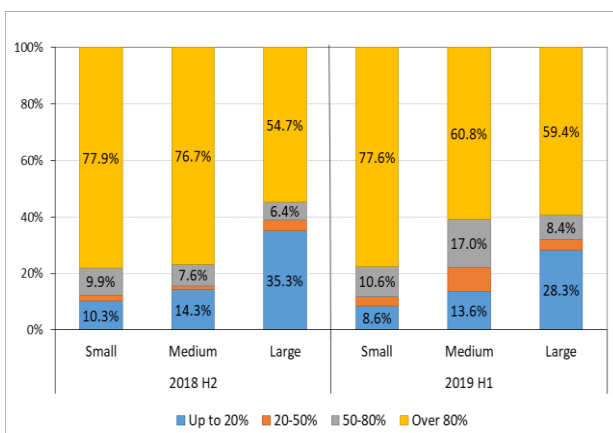

Source: Bank of Albania.

1.2 Obtaining raw materials and selling products. The majority of small, medium-sized and large enterprises (about 63%, 45% and 40.8% of them respectively), obtain *over 80% of raw materials domestically.* Compared to the previous period (2018 H2), this indicator increased by 4 percentage points for small enterprises, by 3 percentage points for large enterprises, and decreased by 7.4 percentage points for medium-sized enterprises. By contrast, 37.7% of large enterprises obtain only up to 20% of *raw materials domestically (see Chart 1.3).*

Products of the respondent enterprises are sold mainly *within the country*, with 77.6% of small enterprises, 60.8% of medium-sized enterprises and 59.4% of large enterprises claiming to have sold most of their products domestically (over 80% of the products). Compared with the previous six months, there has been a pronounced decrease (by 16 percentage points) in the share of medium-sized enterprises selling their products mainly domestically, while the share of large enterprises increased by 4.7 percentage points (see Chart 1.4).

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 75% of the enterprises in this sector obtain over 80% of *raw materials domestically*. This share has increased by 1 percentage point compared to the previous half-year, and by 4.7 percentage points compared to the previous year (2018 H1). On the other hand, the industry sector shows lower reliance with 53% of the enterprises in this sector obtaining *only 20% of raw materials* domestically. However, the share of these enterprises decreased during the last 2 six-months (2018 H1 and 2018 H2) by 3 percentage points and 8 percentage points, respectively.

Table 1.1 Distribution of 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%
	2019 H1	52.5%	10.5%	11.0%	26.0%
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%

|					
	2019 H1	18.6%	7.8%	11.9%	61.6%
Construction	**2016 H2**	5.8%	1.6%	16.2%	76.4%
	2017 H1	5.8%	1.4%	13.9%	78.8%
	2017 H2	8.7%	6.6%	15.3%	69.4%
	2018 H1	6.1%	5.6%	17.3%	70.9%
	2018 H2	2.8%	3.3%	19.3%	74.6%
	2019 H1	3.2%	2.6%	18.7%	75.5%
Trade	**2016 H2**	43.4%	7.6%	13.1%	35.9%
	2017 H1	45.0%	10.4%	13.9%	30.7%
	2017 H2	42.9%	13.6%	16.2%	27.2%
	2018 H1	42.8%	10.6%	12.8%	33.9%
	2018 H2	46.7%	13.2%	13.7%	26.4%
	2019 H1	33.5%	14.2%	15.2%	37.1%

Source: Bank of Albania.

1.3 Constraining factors in the activity of enterprises[1]. *Competition* and *finding a market*, continue to be considered by all groups of enterprises as the main constraining factors to their activity during the period. The importance of these factors is assessed as somewhat upward for small enterprises but downward for medium-sized and large enterprises, compared with the previous period.

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

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[1] 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.

Small enterprises

Medium-sized enterprises

Large enterprises

2017H2   2018H1   2018 H2   2019 H1
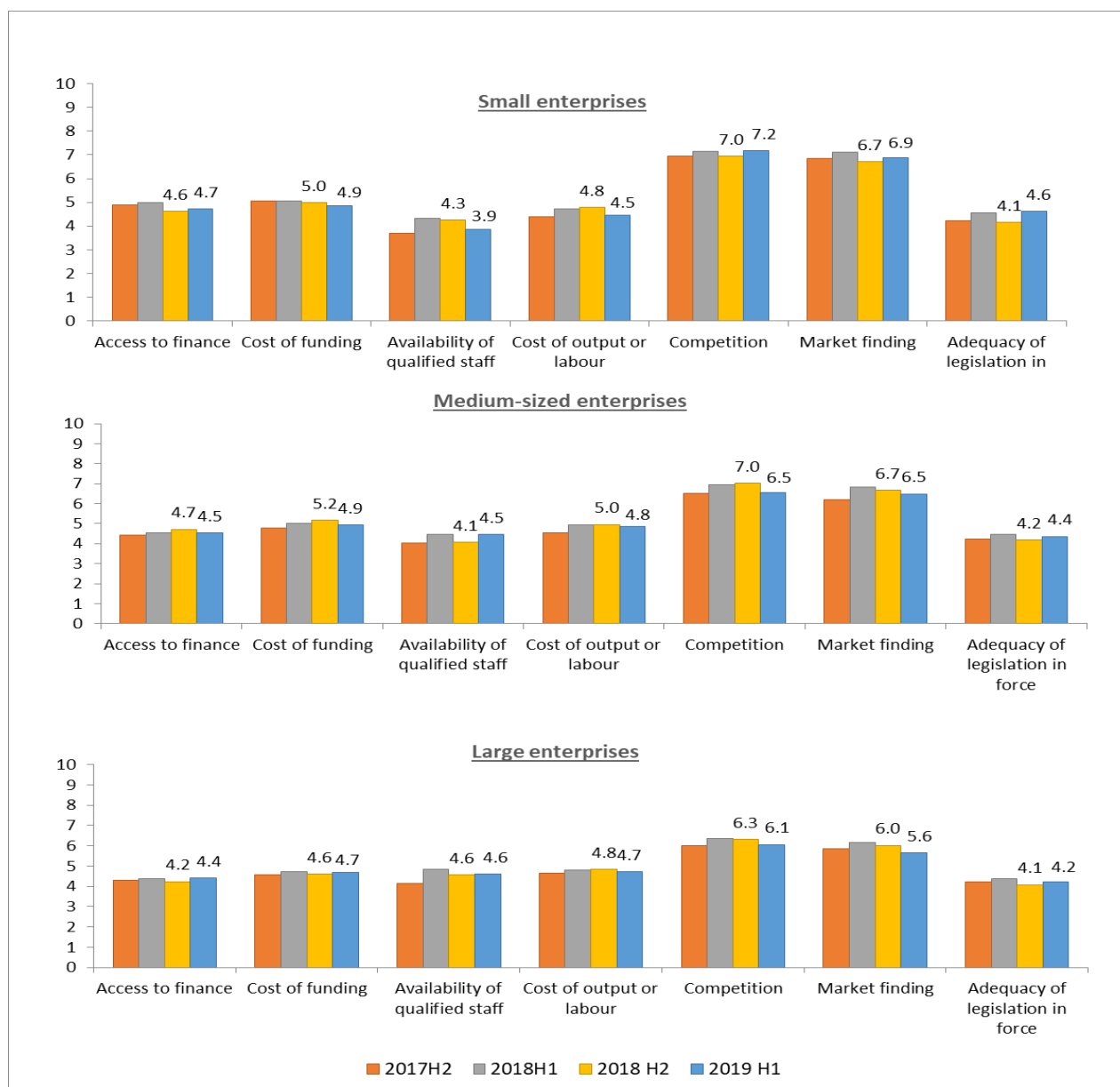
Source: Bank of Albania.

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 and downward during the period. Thus, 77% of small enterprises and 61% of medium-sized enterprises state that they carry out their activity *completely* or *partially*[2] in the local currency. The use of foreign currency is more pronounced among large enterprises, with 38% stating that they carry out their activity *partially* or *completely* in a foreign currency.

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[2] More than 50% of the activity in ALL.

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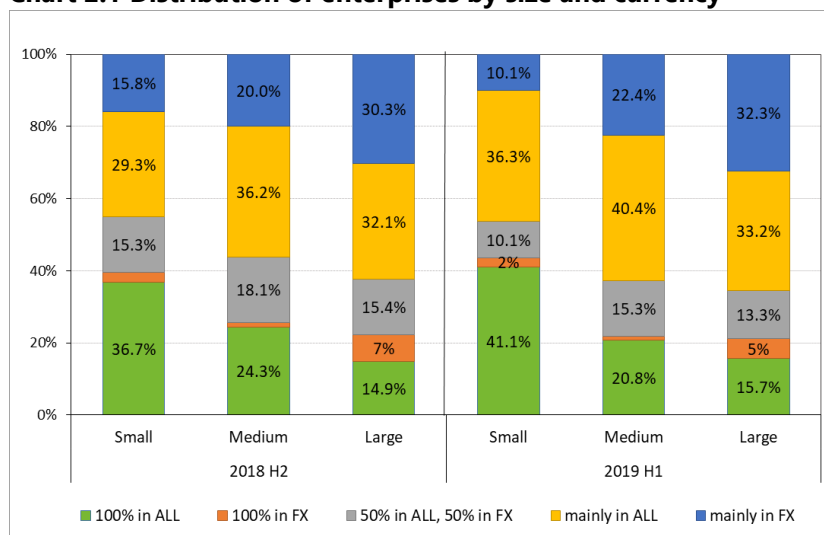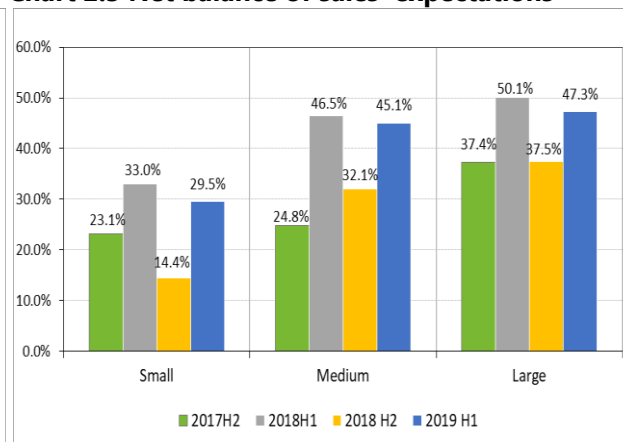

Source: Bank of Albania.

2.2 Sales performance, financial result and expansion of activity. Small enterprises continued to mark a decline in sales during the period (net balance -23.4%), downward compared to the previous six-month and previous year. On the other hand, the situation was positive for medium-sized and large enterprises, which recorded positive net balance of sales, 18.6% and 23.4%, respectively, but downward compared with the previous period (see Chart 2.2). Expectations on *total sales* over the next six months are optimistic for the three groups of enterprises, expecting a rise of sales. The enterprises were more optimistic than in the previous half six months and at comparable levels with the previous year (see Chart 2.3).

The outcome for change *in financial result* followed the same pattern for 2019 H1, in line with the performance of the overall sales balance. Small enterprises continue to estimate a *decline in the financial result* during the period, with a negative net balance of -21.9% and a pronounced 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 +3.3% and +12.4%, worsening compared to the previous period. *Expectations for the next six months* are positive for all enterprises, more optimistic compared to the previous six months and in line with the expectations on sales performance.
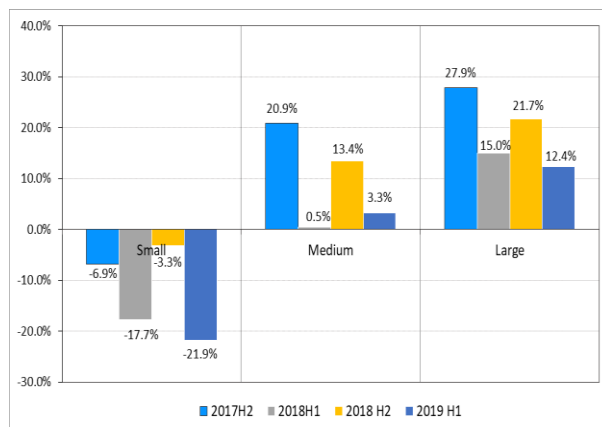
Chart 2.2 Net balance of sales
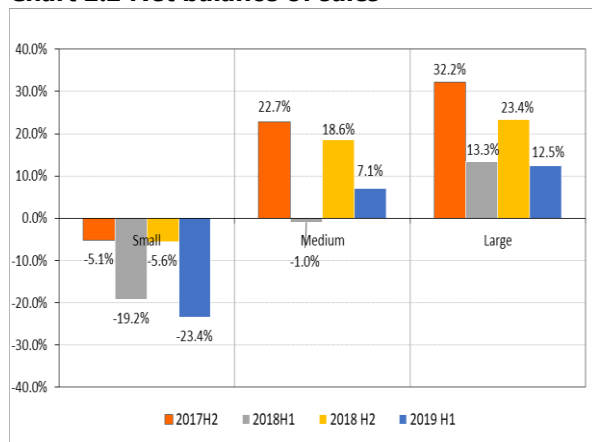
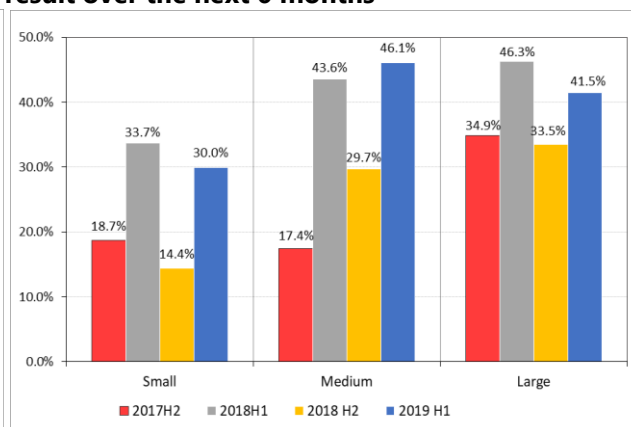**Chart 2.3 Net balance of sales' expectations**

Source: Bank of Albania.

Note: Net balances of responses are calculated as the difference between the weights of positive responses (sales growth/sales expectations growth) and negative responses (sales decline / decline of sales expectations) to the total of answers provided.

Chart 2.4 Net balance of financial result

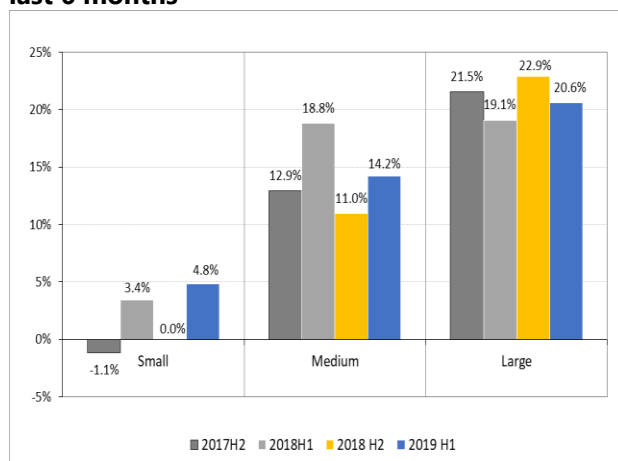**Chart 2.5 Net balance of the expected financial result over the next 6 months**
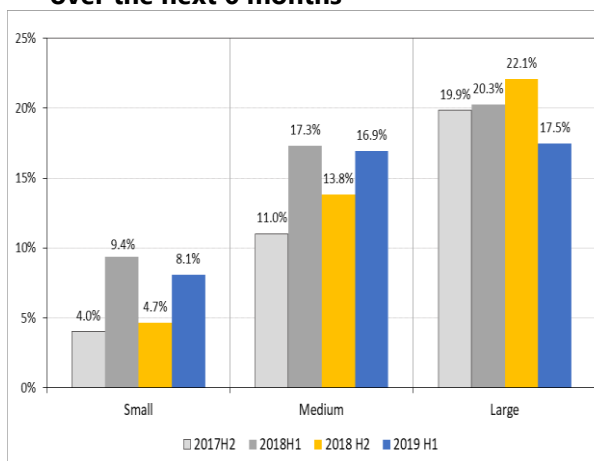

Source: Bank of Albania.
Note: Net balances of responses are calculated as the difference between the weights of positive responses (financial result growth/expectations growth) and negative responses (financial result decline / decline of expectations) to the total of answers provided.

Regarding the *expansion of the activity* or an increase in investments for 2019 H1, all three groups of enterprises recorded a positive net balance, +4.8% small enterprises, +14.2% medium-sized enterprises, and +20.6% large enterprises (see Chart 2.6). Increased expenses for activity expansion may have contributed to the decline of the financial result during the period, but may bring an improvement in the future, which is also supported by the positive expectations of all three groups of enterprises. *For the next six months (2019 H2)*, net response balances were positive for all three enterprise groups, implying an expectation for further expansion of the activity. Compared to 2019 H1, these expectations appear to be more optimistic for small and medium-sized enterprises and somewhat more subdued for large enterprises (see Chart 2.7).

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**

2.3 Sales level and financial result. The performance *of total sales* is analysed through an index[3] 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 decrease in sales for enterprises of all sizes (see Chart 2.8), but more pronounced for small and medium-sized enterprises. The index results by sector show that the trade and construction sectors achieved highest sales values, while the services sector continued to record the lowest values. The sales index marks a decrease for all sectors, with a more pronounced decrease for the trade sector, compared to the previous six months.

Chart 2.8 Total sales performance index by size of enterprises
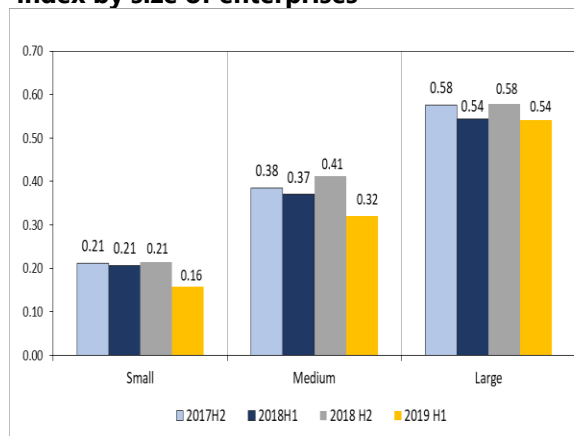
**Chart 2.9 Total sales performance index by sector**
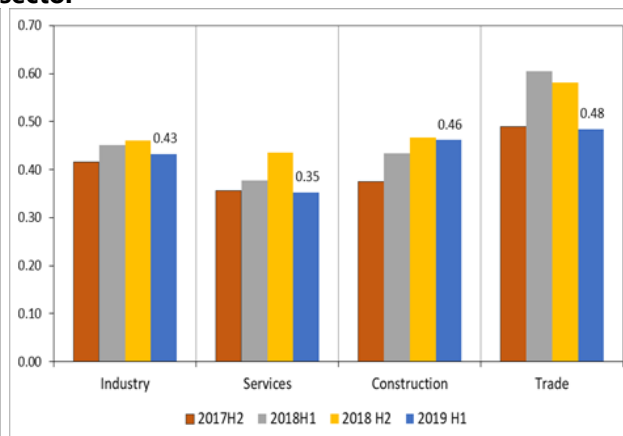
With regard to the *financial result* in 2019 H1 (see Chart 2.10), only 1057 enterprises (or about 78% of the total sample) provided a response. Over 85% of the responding enterprises for each group, reported *profits* during the period. This percentage was higher for large enterprises (92.6%) and lower for small enterprises (85.0%). The share of enterprises that reported profits were downward for all three groups of enterprises, compared to the previous period.

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[3] 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.
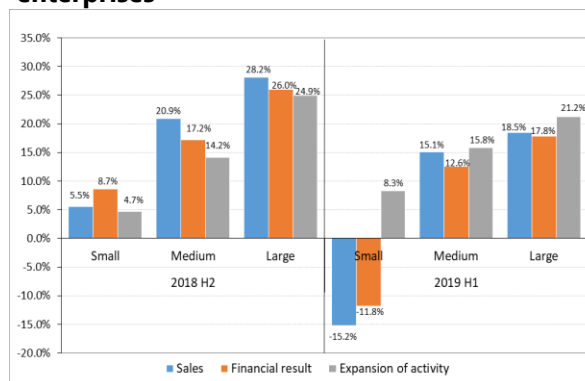
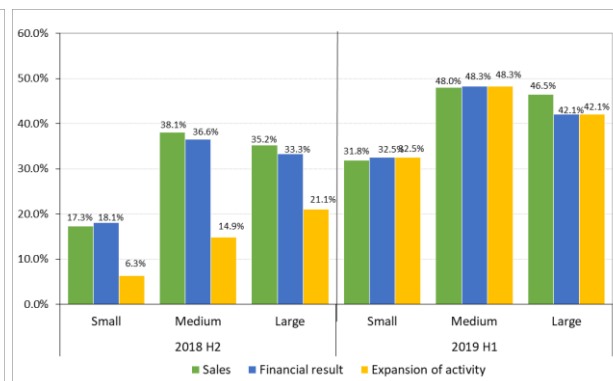**Chart 2.10 Financial results by size of enterprises**
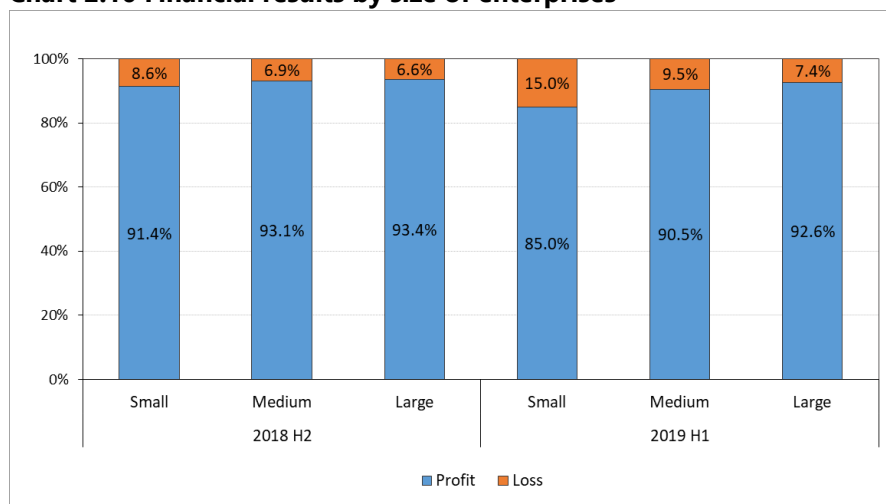
Source: Bank of Albania.

For profit reporting enterprises, all medium-sized and large enterprises show an increase in total sales and financial result, while small enterprises state a decrease during the period. On the other hand, all three groups of enterprises state an expansion of activity or increase of investments (see Chart 2.11). Compared with the previous period, net balances worsened regarding sales and financial result for the three groups of enterprises, but somewhat more optimistic regarding the expansion of activity for small and medium-sized enterprises. Meanwhile, expectations for the next six months continue to be positive and improving compared to the previous period for all three groups of enterprises. (see Chart 2.12).

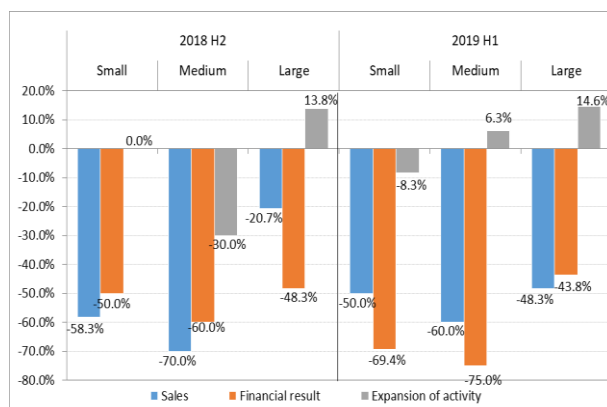**Chart 2.11 Net balances for profit reporting enterprises**

Chart 2.12 Net balances of expectations for profit reporting enterprises


Source: Bank of Albania.

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 medium-sized and large enterprises and negative for small enterprises (see Chart 2.13). The expectations for loss reporting enterprises appear pessimistic in 2019 H1, in regard to the level of expected sales, but somewhat more positive regarding the financial result and expansion of activity, especially for medium-sized and large enterprises (see Chart 2.14).

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

Chart 2.14 Net balances of expectations for loss reporting enterprises

Source: Bank of Albania.
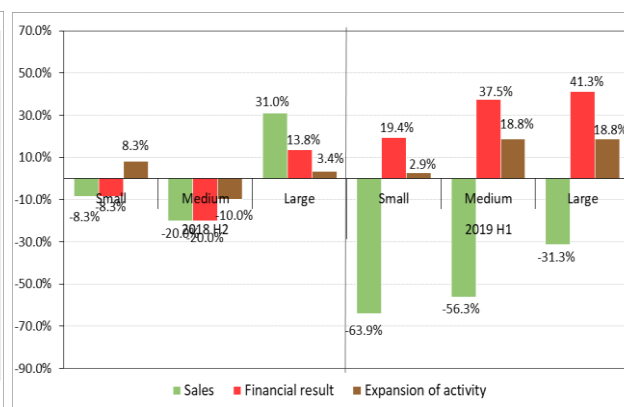
2.4 *Financing the activity.* During 2019 H1, more than half of the total respondent enterprises financed their activity through *sales* (60.9% of small enterprises, 50.3% of medium-sized enterprises and 55.3% of large enterprises). Compared to 2018 H2, reliance only on this source decreased for all three groups of enterprises.

**Chart 2.15 Activity financing sources by size of enterprises**
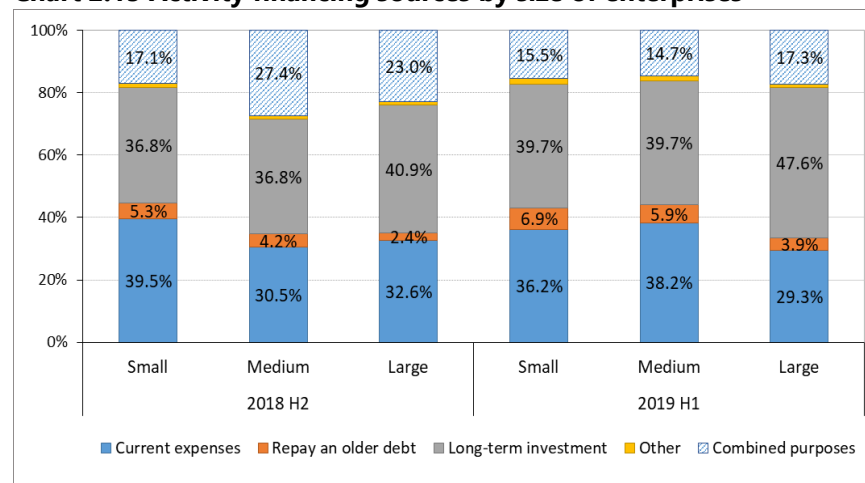
Source: Bank of Albania.

Meanwhile, the inclination of combining different sources of financing continues to account for a considerable share and it is upward for all groups of enterprises. The most commonly used combinations remain sales and debt, or sales and financing with internal resources (accumulated reserves, capital increase) (see Chart 2.15).

Borrowing as a source of financing (separately or combined) was used by 19.1% of the total of large enterprises, 15.6% medium-sized enterprises and 7.5% small enterprises. The use of borrowing as a financing source declined for small and medium-sized enterprises and remained unchanged for large enterprises compared to the previous six months (see Chart 2.16).

Chart 2.16 Financing of activity through borrowing (as a single or combined source)
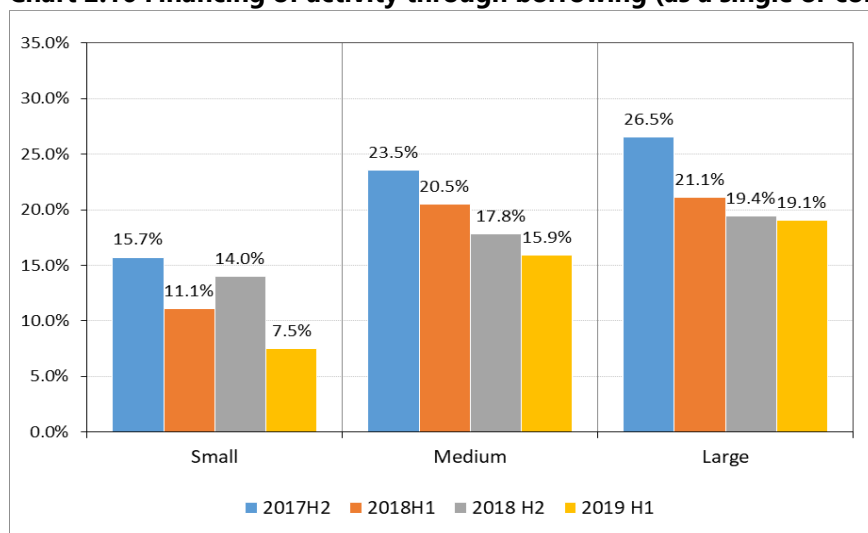
Source: Bank of Albania.

3 Characteristics of enterprise borrowing

About 38.6% of the total respondent enterprises[4] (436 enterprises in total) claim to be indebted and this share has decreased by 3.5 percentage points in semi-annual terms and by 3.8 percentage points in annual terms. By size, the share of borrowing enterprises decreased compared to the previous period in the group of small and medium-sized enterprises (by 12.4 percentage points and 7.5 percentage points, respectively) and slightly increased by 1 percentage point for the large enterprises (Table 3.1). By sector, the highest share of borrowing enterprises is in the trade sector (52.5%), followed by the construction sector (46.8%).

Chart 3.1 Distribution of enterprises by size and debt

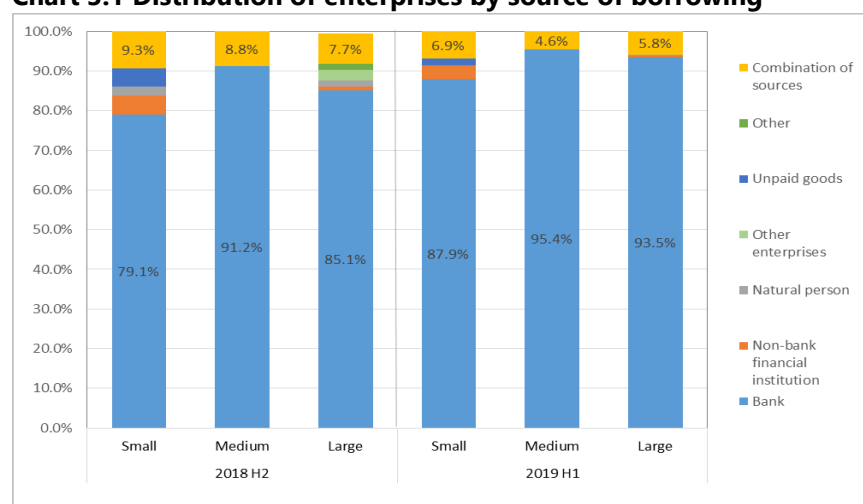| Borrowing enterprises by Size	No. of enterprises		Share to total of the group:	
	2018 H2	**2019 H1**	**2018 H2**	**2019 H1**
Small	77	58	35.8%	23.4%
Medium	95	69	45.2%	37.7%
Large	293	309	43.3%	44.3%
Total enterprises	465	436	42.2%	38.6%

Source: Bank of Albania.

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[4] Taking into consideration the whole sample of 1360 enterprises, only 1102 or 84% have responded.

3.1 Source of borrowing. About 88% of borrowing enterprises claim that, in terms of borrowing, they mainly relied on the banking sector, whilst 6% borrowed from combined sources. The share of enterprises that have borrowed from banks has increased by 4 percentage points compared with 2018 H2 and by 1 percentage point compared with the previous year. By size, about 88% of small enterprises, 95.4% of medium-sized enterprises and 93.5% of large enterprises have borrowed only from banks as the only source of borrowing, and these shares were upward compared with the previous six months and the previous year (see Chart 3.1). Beside banks, a number of enterprises, mainly small enterprises, have relied on non-bank financial institutions or on a combination of several sources, formal and non-formal (borrowing from other companies, natural persons, etc.).

**Chart 3.1 Distribution of enterprises by source of borrowing**

Source: Bank of Albania.

In total, formal sources of borrowing (from banks and non-financial institutions) are used by 95% of respondent borrowing enterprises (91.4% of small enterprises, 95.4% of medium-sized enterprises and 93.9% of large enterprises), upward by 4.4 percentage points compared to the previous six-months. This increase was more pronounced for the small and large enterprises.

3.2 Purpose of borrowing. Enterprises use borrowing mainly to cover current expenditures of the activity (47% of respondent enterprises) and to finance long-term investments (46% of respondent enterprises). The share of enterprises that have borrowed for the two above purposes increased for all sizes of enterprises compared to the previous six months. Borrowing to repay an older debt followed the same trend, which implies renegotiation or restructuring of existing debt/debts.

Chart 3.2 Distribution of enterprises by the purpose of borrowing
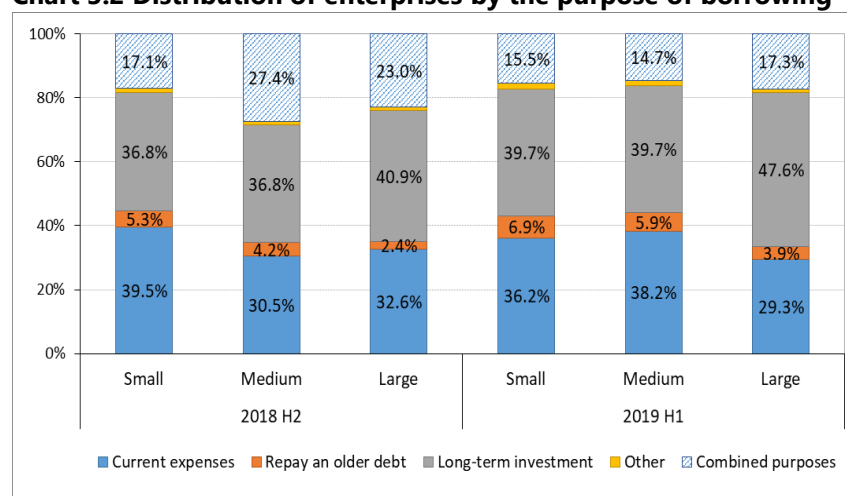
Source: Bank of Albania.

3.3 Indebtedness level. During the period, about 82.5% of small borrowing enterprises, 79.1% of medium-sized enterprises and 80.8% of large enterprises consider their borrowing level for financing their activity as *adequate*. These shares slightly increased compared to the previous period. The rest of responses resulted in a positive net balance for small and large enterprises and zero for medium-sized enterprises. This shows that the share of enterprises that would prefer to borrow more is higher than the share of those who would prefer to borrow less for the small and large enterprises and the result is equal for the medium-sized enterprises. Comparing this result with that of the previous survey, it seems that the borrowing demand is upward for small enterprises, but in moderation for medium-sized and large enterprises.

Chart 3.3 Distribution of enterprises by the indebtedness level
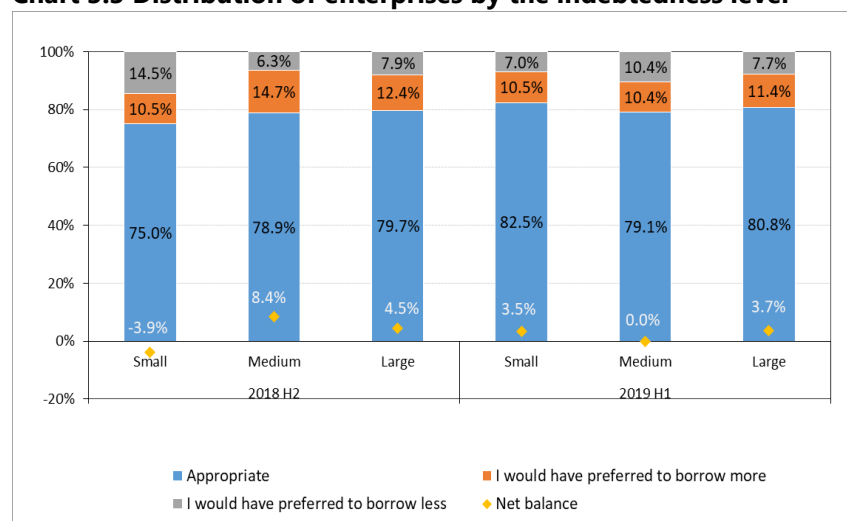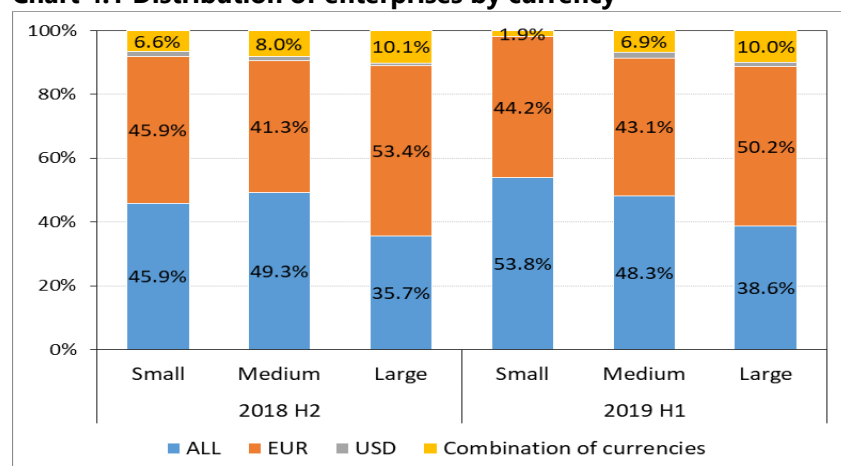

Source: Bank of Albania.

4   Debt structure

4.1 Currency. During the period, 53.8% of small enterprises, 48.3% of medium-sized enterprises and 38.6%

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 (51% of them) and less by small enterprises (44%). Compared with the previous six months, the share of enterprises that are indebted in foreign currency has registered a decline in the group of small enterprises (by around 3 percentage points) and large ones (by around 3 percentage points) and a slight increase (by 1 percentage point) in the case of medium-sized enterprises.

Chart 4.1 Distribution of enterprises by currency

	2018 H2			2019 H1	
	Small	Medium	Large	Small	Medium	Large

Source: Bank of Albania.

4.2 Debt and maturity. Most enterprises have borrowed *in the past 1-5 years*: 50% of small enterprises, 50% of medium-sized enterprises and 57.5% of large enterprises. All three shares increased compared to the previous six months, especially for large enterprises, (by 0.7 percentage point, 1.6 percentage points and 7.9 percentage points respectively).

New borrowing, which implies borrowing *in the last six months*, is reported by only 14.7% of small enterprises, 17.5% of medium-sized enterprises and 8.9% of large enterprises. The share of new borrowers continued to increase, both in half-yearly and annual terms, for all three groups of enterprises. *The main purpose of use* for new borrowing remains "*covering current expenditures*" for 74 % of total enterprises and "*long-term investments*" (19% of the total enterprises). Compared to the previous period, the share of new borrowing for covering current expenditures increased, whilst the share for long-term investments decreased. This trend is noticed in all three groups of enterprises, but it is more pronounced in small and medium-sized enterprises. The average maturity of borrowing is 59 months for small enterprises, 64.3 months for medium-sized enterprises and 62.8 months for large ones.

4.3 Interest rate and repayment method. The main type of interest rate on most existing debt[5], is the *fixed rate* until the end of period, (for 82.8% of small enterprises, 67.2% of medium-sized and 79.1% of large enterprises), whilst the yearly variable interest rate (for 10.3% small enterprises, 19.4% of medium-sized and 15.3% of large enterprises). Over the period, the share of enterprises reporting fixed rate debt increased compared to the previous period for the small and large enterprises and decreased for the medium-sized enterprises. The contrary was experienced by enterprises that report variable interest rates, the share of which decreased for small and large enterprises and increased for medium-sized enterprises. The repayment

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[5] For those enterprises that have more than one debt.

frequency is mainly monthly, for 82.5% of small enterprises, 80.6% of medium-sized enterprises and 8.6% of large enterprises.

4.4 Collateral type and coverage ratio. For 77.1% of small enterprises, 93% of medium-sized enterprises and 83.5% of large ones, debt is collateralized only through *real estate*, while the remainder of the enterprises have used other forms of collateralization[6] (see Chart 4.1). Meanwhile, 14.3% of small enterprises, 7% of medium-sized enterprises and 11.4% 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 small and large enterprises and slightly decreased for medium-sized groups. *Aggregate collateral coverage* is estimated through the weighted index of responses[7] (see Chart 4.2). For 2019 H1, this index scored 0.56 for small enterprises, 0.62 for medium-sized enterprises and 0.64 for large enterprises. Compared to the previous period, the coverage ratio resulted downward for small enterprises and remained almost unchanged for the other two groups.

Chart 4.2 Distribution of enterprises according to their debt/equity ratio
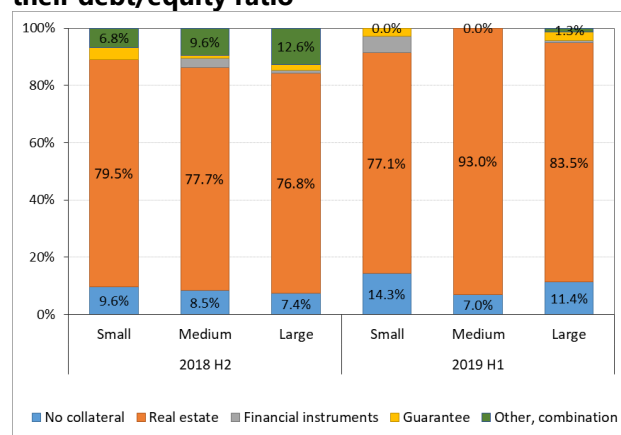
Chart 4.3 Collateral coverage index
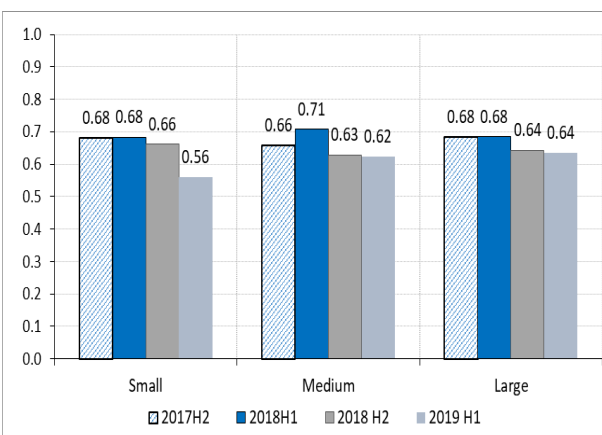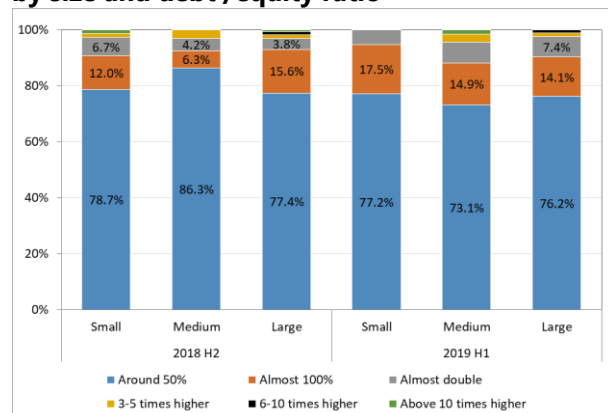

Source*: Bank of Albania.*

5   The debt burden

5.1 Debt to equity. During the period*,* the total value of debt is about *half the value of the enterprise equity* for 75.8% of the borrowing enterprises and *equal or higher than the value of equity* for 24% of them. The debt/equity ratio resulted higher and upward for medium-sized enterprises, where around 27% of them declared that this ratio is equal or exceeds the value of equity, implying a higher debt burden. By sector, debt burden is more pronounced in enterprises of trade and industry sectors.

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[6] Financial instruments, guarantee, other warranties, along with the combination of some forms of collateralization, including the combination with real estate.

[7] 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 5.1 Distribution of enterprises by size and debt /equity ratio**

Table 5.1 The share of enterprises with equal or higher value of debt than equity, by sectors

|	Industry	Services	Construction	Trade
2018 H1	22.4%	19.8%	15.2%	20.2%
2018 H2	20.7%	14.9%	15.0%	29.6%
2019 H1	26.8%	18.5%	18.3%	28.8%

Source: Bank of Albania

5.2 Debt repayment. Most of borrowing enterprises (71.5%) state that debt repayment amounts up *to 20% of the enterprise's revenues* and this share has decreased by 2.1 percentage points compared to the previous six months. The burden of debt repayment appears to be heavier on small and medium-sized enterprises. The number of enterprises reporting that this amount exceeds 20% of revenues, accounts for 29.3% and 29.9% of the total of the group[8] respectively, while for large enterprises this share accounts for 28.1% (see Chart 5.2).

Chart 5.2 Distribution of enterprises according to their debt repayment/income ratio
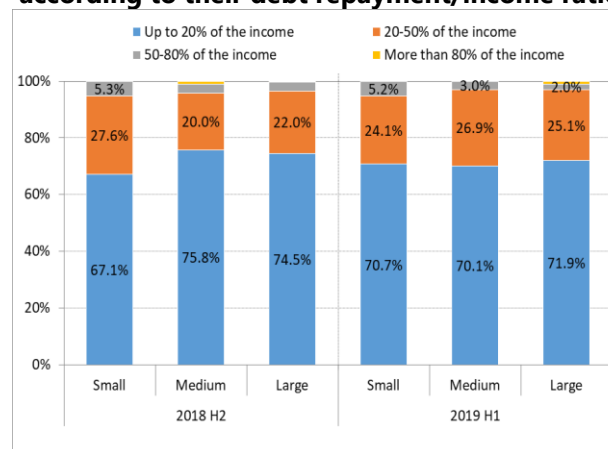
Chart 5.3 Enterprises that declare a change in debt repayment during the period
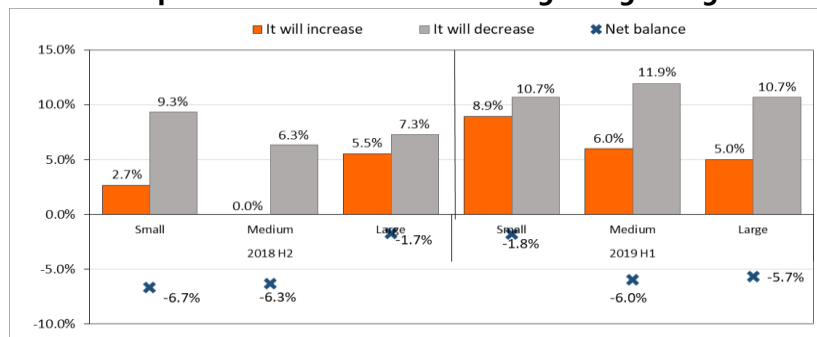

Source: Bank of Albania.

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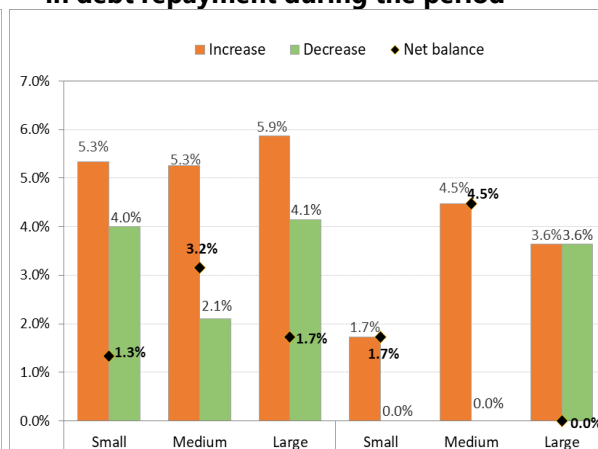
[8] Calculated as the sum of weights for responses: "20-50% of total income", "50-80% of total income" and "over 80% of total income".

Asked whether the *cost of debt service has changed* over the past six months, most of enterprises (about 98.3% of small enterprises, 95.5% of medium-sized enterprises and 92.7% of large enterprises) claim that this expenditure has remained *unchanged*. The responses of the rest of the enterprises have resulted in a positive net balances for large and medium-sized enterprises showing an increase in this expenditure over the period and zero for large enterprises (see Chart 5.3). Compared to the previous six-months, this balance declined for the total surveyed enterprises (from 2% in 2018 H2 to 0.9% in 2019 H1), indicating a trend for further mitigation of financing costs by banks. By size of enterprises, the net balance decreased only for large enterprises, while for the other two groups it increased.

5.3 Expectations for the repayment of debt instalments during the next six months. Most of the borrowing enterprises, despite their size (over 83%), do not expect a change in the debt instalment over the next six months (2019 H2) and this share decreased by 5 pp compared to the previous survey. Regarding the share of enterprises that expect a change of instalment, all groups of enterprises expect it to decline during the second half of 2019, but medium-sized and large enterprises are more optimistic in this aspect.

Chart 5.4 Expectations and net balances regarding change of debt instalment in the next 6 months

Source: Bank of Albania.

5.4 The debt burden of the borrowing enterprises was at the same level as in the last six-months; the index value for total enterprises was 0.6. By size, the debt burden was higher for small and medium-sized enterprises and less for large enterprises. Compared to the previous six months, the debt burden index increased for small and large enterprises and it decreased for large enterprises.

Chart 5.5 Debt burden Index
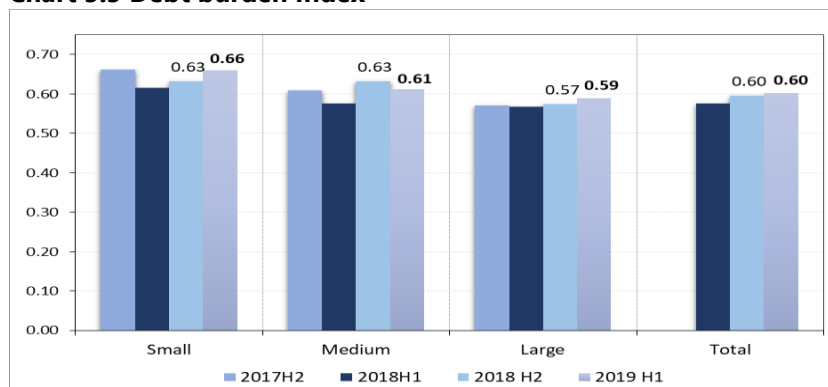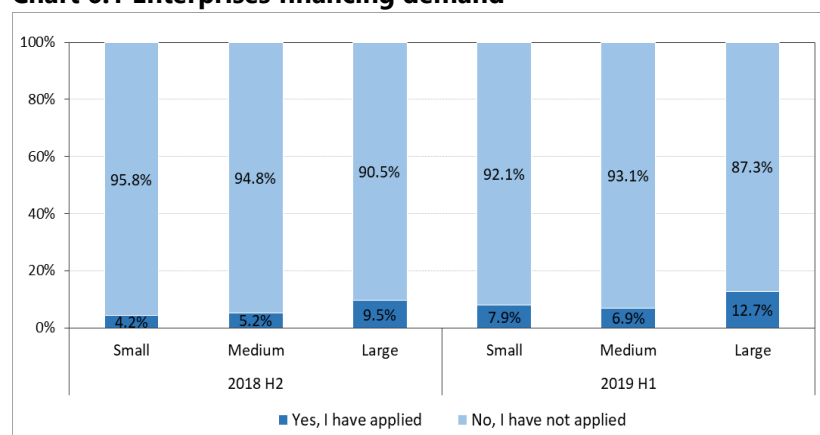

Source: Bank of Albania.
Note: The index is calculated by weighting the share of enterprises' responses to the total of responses by the coefficients that take values of: 1 for "high burden", 0.5 for "average burden" and 0 for the "low burden" alternative.

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 moderate, with only 11% of them claiming to have applied for some form of financing during the last six-months and this share increased by 3 percentage points compared to the previous survey. Analysing this indicator by size, large enterprises (12.7%) continued to have the highest share for loan applications. Compared to the previous six-months, loan demand increased for all group of enterprises (see 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 and upward compared with the previous period for all three groups of enterprises. The rest of the enterprises have decided not to apply because *the process seems difficult* or they can *obtain it from alternative sources*. Both of these reasons are most often claimed by small and medium-sized enterprises (see Chart 6.2).

Chart 6.2 Distribution of enterprises that did not request a loan, by size

Source: Bank of Albania.

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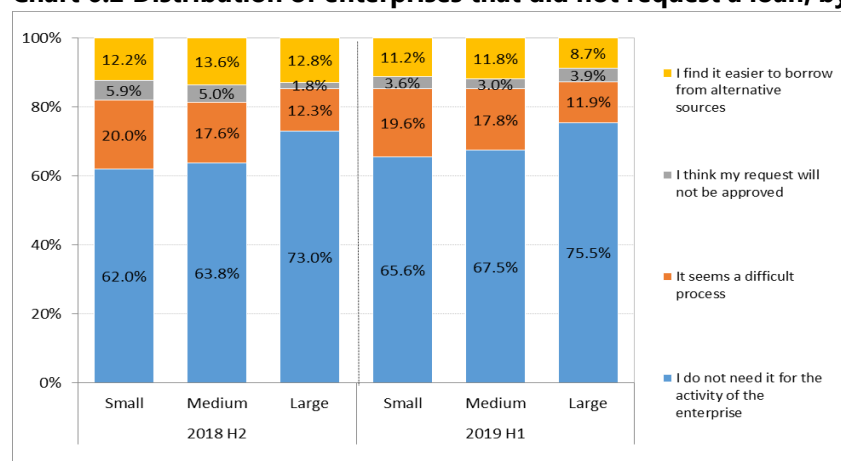
If not to be funded by banks, small (43.9%) medium-sized (43.7%) and large enterprises (38.7%) state that they would *borrow from alternative sources* and these shares decreased compared to the previous six months. Meanwhile, about 39.4% of large enterprises, 38.5% of medium-sized enterprises and 28.5% of small enterprises stated that they would re-apply at another bank or financial institution. Compared to the previous period, this share remained almost unchanged for large and small enterprises and it increased for the medium-sized enterprises (4.5 percentage points). It appears that a significant number of enterprises have claimed to postpone their plans for expansion due to lack of funding and this burden results to be higher and upward for small enterprises.
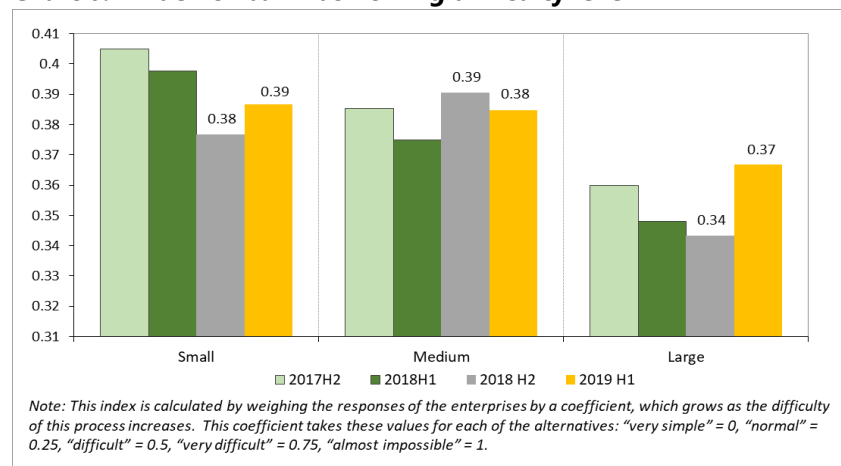
Chart 6.3 Financing options if not financed by a bank
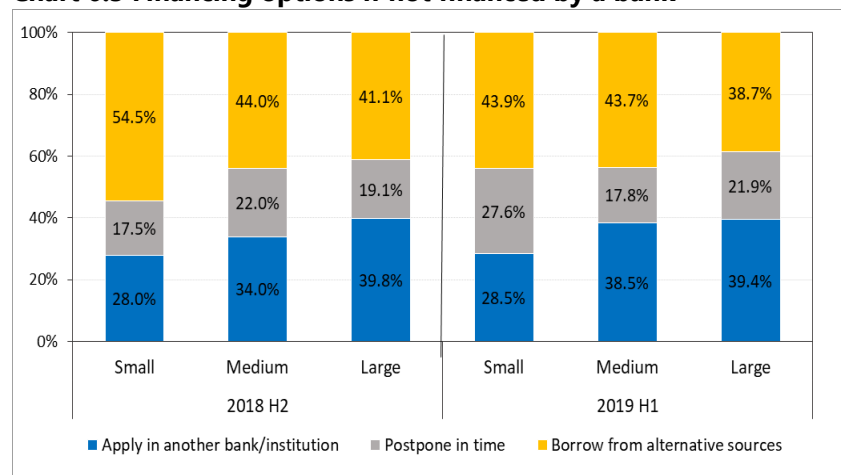
Source: Bank of Albania.

6.2 The borrowing process and relationship with banks. *The index on the difficulty of the borrowing process from banks* for 2019 H1 was 0.37 for the total of enterprises, slightly up compared with the previous period and remaining between "normal" and "difficult" for all three groups of enterprises. Compared to 2018 H2, the index results with a slight downward trend for medium-sized enterprises and upward for small and large enterprises.

Chart 6.4 Index of bank borrowing difficulty level

Note: This index is calculated by weighing the responses of the enterprises by a coefficient, which grows as the difficulty of this process increases. This coefficient takes these values for each of the alternatives: "very simple" = 0, "normal" = 0.25, "difficult" = 0.5, "very difficult" = 0.75, "almost impossible" = 1.

Source: Bank of Albania.

The index 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 decreased for all three groups of enterprises, more pronounced for small enterprises.

**Chart 6.5 Index on the importance of enterprise-bank relationship**
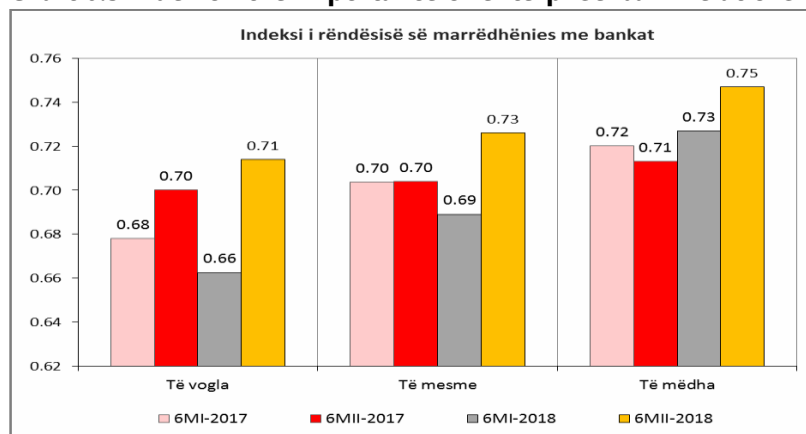
Indeksi i rëndësisë së marrëdhënies me bankat

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: "Necessary" = 1; "Important" = 0.5; "Not quite important" = 0;

6.3 **Loan obtaining process[9].** *Loan price* remains the main constraining factor in terms of borrowing, especially for small and medium-sized enterprises, but compared to the previous six-months the assessment was downward for all three groups of enterprises. For the three groups of enterprises, *the cost of complying with bank requirements* is considered a significant constraining factor, followed by the *assessment of loan guaranteeing terms* and *unclear bank requirements or bureaucratic procedures* (see Chart 6.6)

Chart 6.6 Level of difficulty for obtaining a bank loan

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[9] 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.
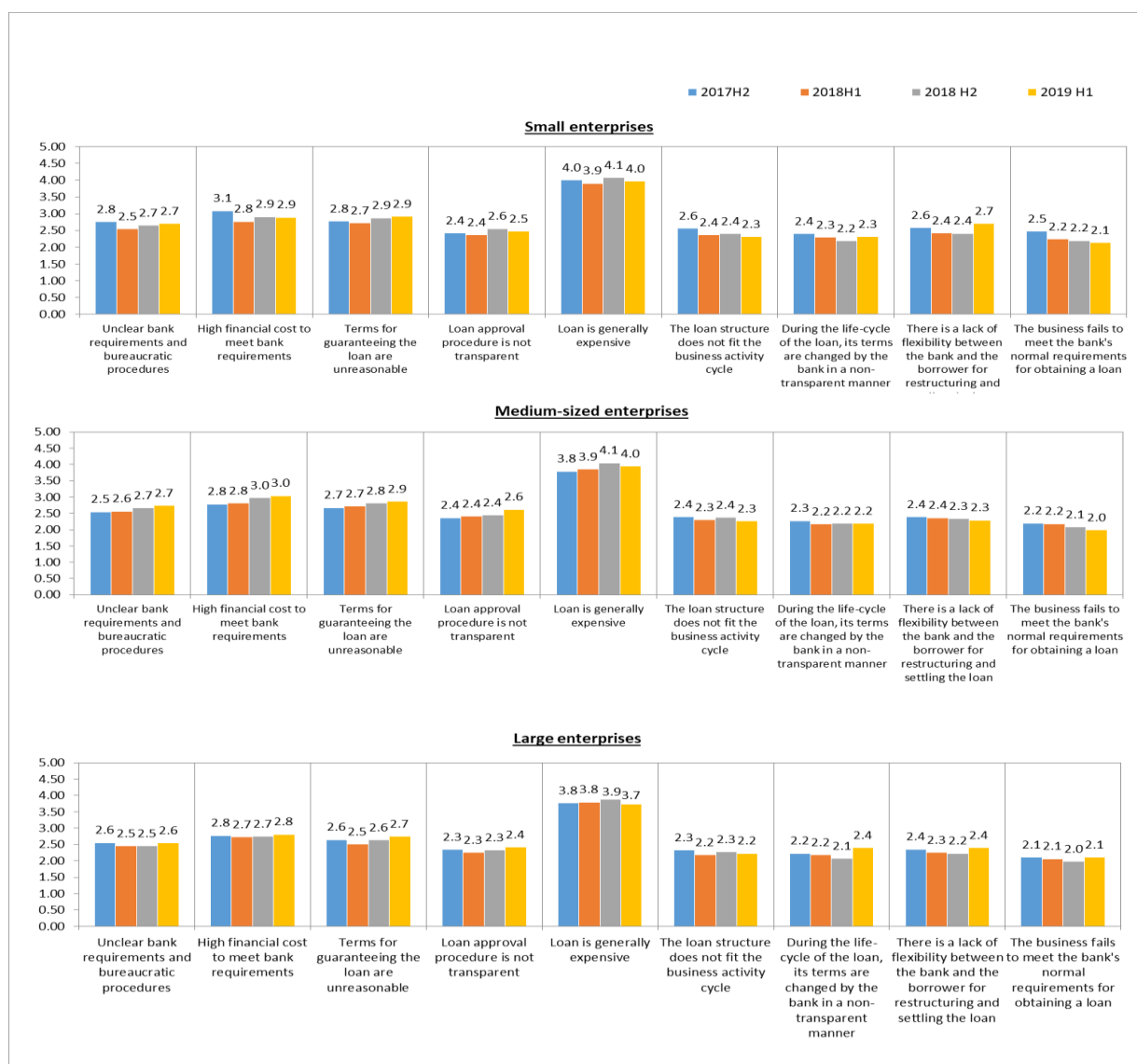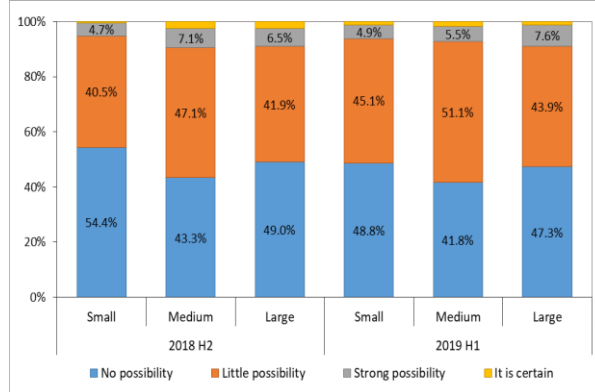
Source: Bank of Albania.

6.4   Borrowing planning. About 47.5% 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 all three groups of enterprises (see Chart 6.7). Meanwhile, there has been an increase in the share of enterprises that claim *"little possibility"* to get a loan during 2019 H2, whilst the share of those who claim "*strong possibility*" and "*it is certain*" to get a loan, increased for small and large enterprises, but it decreased for medium-sized enterprises. *The index value on the assessment of borrowing planning for the next six months[10]* was 0.41 for the total of enterprises, slightly upward compared to the previous period, mainly from small enterprises. This performance may signal a moderate credit growth from these enterprises for 2019 H2 (see Chart 6.8).
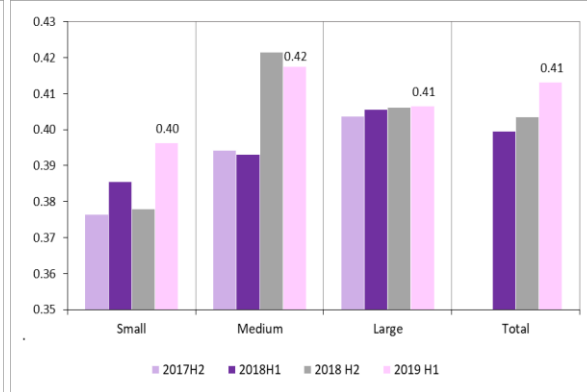
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[10] To assess the responses of the enterprises, an index on borrowing plans was constructed, calculated by weighing the enterprise's responses to the total of responses by a coefficient, which increases as the probability to borrow increases. The coefficient for the alternative: "no possibility" = 0.25, "little possibility" =0.5, "strong possibility" = 0.75 and "it is certain" = 1.

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Chart 6.7 Distribution of enterprises by their borrowing planning for the next period

Chart 6.8 Borrowing planning index for the next period

Source: Bank of Albania.