



FINANCIAL AND BORROWING SITUATION OF ENTERPRISES IN ALBANIA

2019 H2

**BANK OF ALBANIA
FINANCIAL STABILITY**

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¹ This survey was launched in November 2019 and covers developments on the financial situation and borrowing of enterprises for 2019 H2 (May-November), as well as expectations for 2020 H1.

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Summary of key findings of the Survey

The survey used a sample of a total of 1360 small, medium-sized and large enterprises that conduct their activity in the main sectors of the economy, geographically distributed across the country. 1110 enterprises or 81.7% of the total participated in the survey process by responding to all or part of the delivered questionnaire. Survey estimates were made based on the number of respondent enterprises and their respective classification.

• FINANCIAL SITUATION

During 2019 H2, *competition* and *finding a market* are regarded as important constraining factors for all three groups of enterprises (small, medium-sized and large). Compared to 2019 H1, their importance is estimated somewhat downward for small and medium-sized enterprises. The cost of financing and the availability of qualified staff are the elements that grew for all sizes of enterprises during the period.

Performance of sales is assessed *upward* during 2019 H1, for medium-sized and large enterprises, and *downward* for small enterprises, but it has improved compared to the previous period and a year ago. In line with the *performance of sales*, small enterprises reported 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, but enterprises are less optimistic compared to the previous six months.

During 2019 H2, more than half of the total of small enterprises (about 57%) and large enterprises (about 53%) continued to finance their activity mainly through *sales*, while medium-sized enterprises (about 54%) have mostly preferred a *combination of sources*. Compared to 2019 H1, reliance only on this source (*sales*) decreased for all three groups of enterprises. 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 continue to be those of sales and credit, or sales and financing with internal resources.

• BORROWING

About 37% of total enterprises (410 enterprises in total) state *they are indebted*. This percentage decreased by 1.6 percentage points - compared to the previous six-months, and 5.2 percentage points to the previous year. In terms of size, the share of borrowing enterprises decreased compared to the previous period for the small and large enterprises by 0.5 percentage points and 3.4 percentage points, respectively, whilst this share slightly increased by 1.9 percentage point for the medium-sized enterprises.

In total, *formal borrowing sources* (from banks and non-bank financial institutions) were used by 91% of respondent borrowing enterprises, declining by 4 pp compared to the previous six months. About 86% of borrowing enterprises declare that they have turned only to the banking sector to borrow, by 2.8 pp less compared to 2019 H1. The combination of *formal* and *informal* sources was used by 5% of enterprises.

Borrowing from enterprises is mainly used to make *long-term investments* (about 45% of the total of respondent enterprises) and *to cover the current expenses* (30% of the respondent enterprises). Compared to the previous six months, it turns out that the share of enterprises that have borrowed to make an investment increased for medium-sized enterprises, while borrowing to cover expenses decreased for small and medium-sized enterprises. About 68% of small enterprises, 86% of medium-sized enterprises and 80% of large enterprises consider their level of borrowing for financing their activity as *adequate*. Compared to the previous period, this share is lower for small enterprises, slightly lower for large enterprises, while it increased for medium-sized enterprises.

Borrowing is denominated in the *domestic currency* for 57% of small borrowing enterprises, 5% of medium-sized enterprises and 36% of large enterprises; while the rest is in *foreign currency* (euro and/or US dollar) and/or combined (domestic and foreign currency). *The borrowing in euro* is most preferred by large enterprises (54%) exceeding domestic currency and less preferred by small and medium-sized enterprises (35% and 38%, respectively).

The total debt value is about *half the value of the enterprise's capital* for 78% of borrowing enterprises and *equal of higher than the value of capital* for 22% of them. By size, debt/equity rate is higher for large enterprises, with 23% 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 services and trade sectors.

• RELATIONS WITH BANKS

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

Regarding the elements that make it difficult to obtain a bank loan, the high *cost of credit* continues to be considered as the main element, especially for small enterprises. The rating for this element has increased for small and large enterprises compared to the last six months.

Regarding to planning to borrow in the future, 48% of enterprises reported *no likelihood* of bank borrowing in the next six months. Compared to the previous survey, this share decreased for small and medium-sized enterprises, but increased for large enterprises. On the other hand, there is an increase in the share of small enterprises that claim *little possibility* to get a loan in 2020 H1, while the share of medium-sized enterprises that claim that there is *high possibility* to get a loan in the next six months, increased. Also, all group of enterprises, but in particular the medium-sized and large enterprises, that chose the alternative "*it is certain*" increased in number, appearing more optimistic regarding the borrowing plan. This performance may signal an increase in credit demand in the short and medium term.

Financial and Borrowing situation of households in Albania

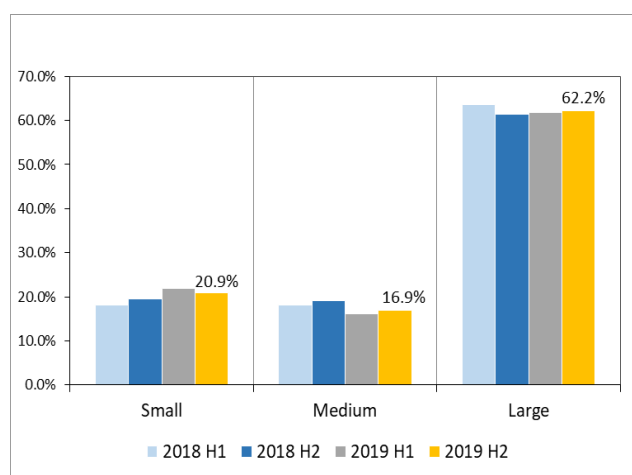
Sample characteristics. The survey on the financial and borrowing situation of enterprises has been conducted half-yearly since 2010. This survey was launched with a sample of top 700 enterprises with the highest turnover (large enterprises). In 2016, the sample expanded to include around 1200 large, medium-sized, and small enterprises across the country. In 2019 H2, the survey was conducted with a revised sample to include a total of 1360 enterprises in 12 districts of the country. Most enterprises (80%) are located in the four major districts, namely: Tirana (about 52%), Durrës (about 15%), Fier (about 7%) and Shkodra (about 5%).

In the total sample, about 82% of the enterprises (1110 in total) responded to the survey questionnaire and the analysis of the result is based on these responses. The following analysis is largely based on enterprise breakdown by size.

1- Objectives and scope of action

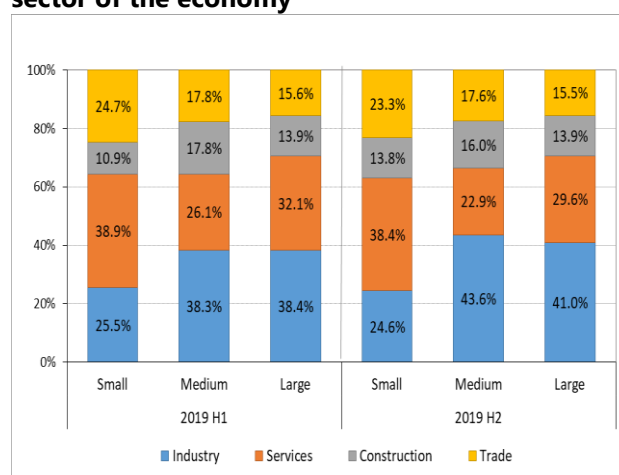
1.1 - Distribution of enterprises by sector and size. By sector, for 2019 H2, about 38% of enterprises belong to the *industry* sector, 30% belong to the *services* sector, and about 14% belong to the *construction* sector and 18% to the *trade* sector. By size, about 21% of enterprises are classified as *small enterprises* (5-19 employees), 17% as *medium-sized enterprises* (20-49 employees) and about 62% as *large enterprises* (more than 50 employees). In the group of *small enterprises*, those operating in the services sector (38%) account for the main share, followed by the industry sector (25%). On the other hand, in the group of medium-sized and large enterprises, the industry sector (44% and 41% respectively) and the services sector (23% and 30% respectively) have the highest share.

Chart 1.1 Distribution of enterprises by size



Source: Bank of Albania

Chart 1.2 Distribution of enterprises by size and sector of the economy



1.2- Obtaining raw materials and selling products. The majority of small, medium-sized and large enterprises (about 62%, 45% and 42% of them, respectively), obtain *over 80% of raw materials domestically*. Compared to the previous period (2019 H1), this indicator decreased by 1.8 percentage points for small

enterprises, but it increased by 1.5 pp for large enterprises and only by 0.2 pp for medium-sized enterprises. By contrast, 37% of large enterprises obtain only *up to 20% of raw materials domestically*.

Products of respondent enterprises are sold mainly *within the country*, with 79% of small enterprises, 64% of medium-sized enterprises and 57% 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 an increase in the share of small and medium-sized enterprises selling their products mainly domestically (by 1.8 pp and 3.4 pp respectively), while the share of large enterprises that state such thing decreased by 2.5 percentage points.

Chart 1.3 Distribution of enterprises as by share of raw material obtained within the country

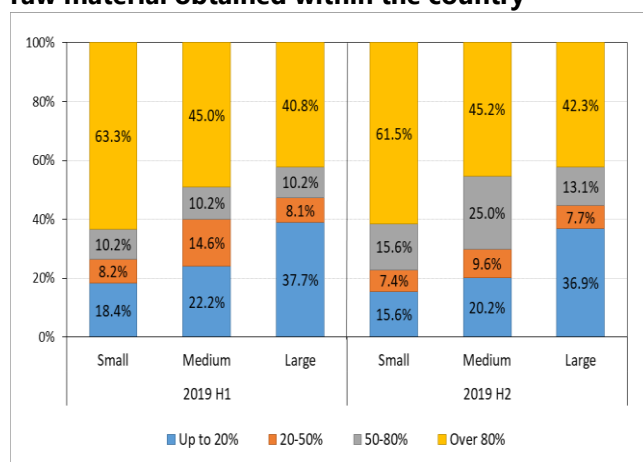
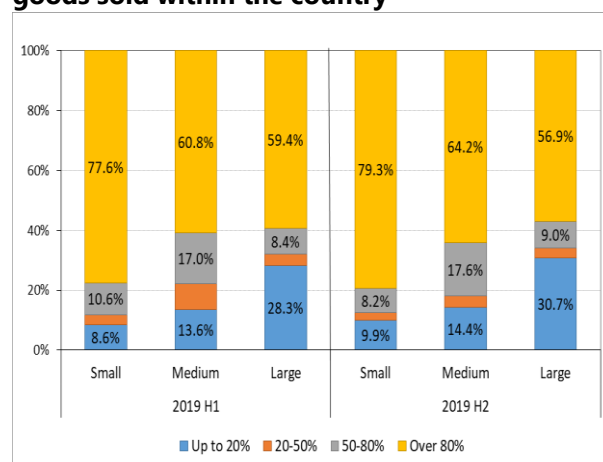


Chart 1.4 Distribution of enterprises as share of goods sold within the country



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 77% of the enterprises in this sector obtain over 80% of *raw materials domestically*. This share has increased by 1.1 pp compared with the previous half-year and by 2 pp compared with the previous year (2018 H2). On the other hand, the industry sector shows lower reliance with 49% of the enterprises in this sector obtaining *only 20% of raw materials domestically*. However, the share of these enterprises has continued to decline over four consecutive half-yearly periods. For the period under review, there is a semi-annual and annual decrease by about 3.6 pp and 7.1 pp respectively.

Table 1.1 Distribution of enterprises by sector and percentage of purchasing raw materials domestically

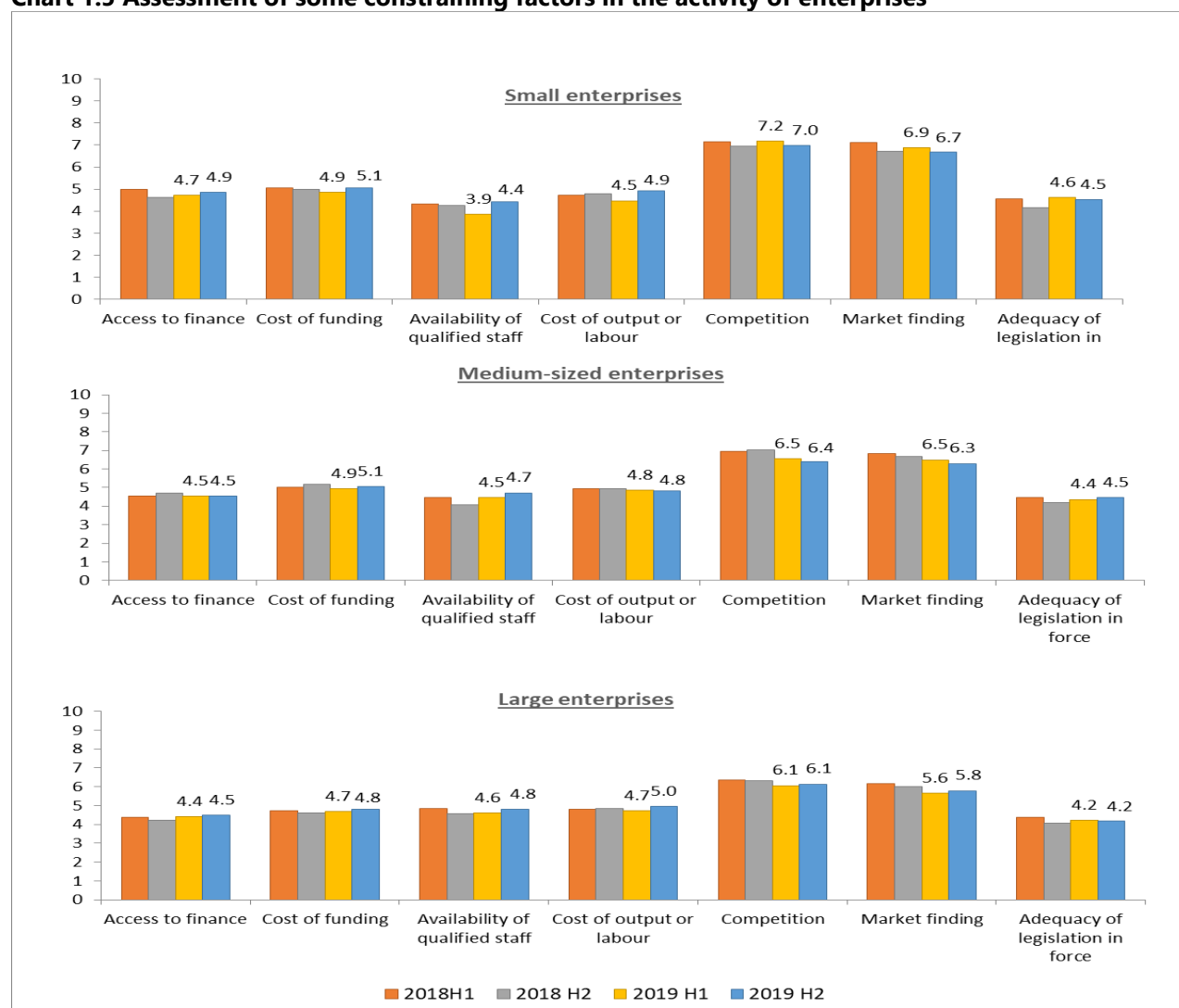
		up to 20%	20-50%	50-80%	above 80%
Industry	2018 H1	60.2%	8.1%	8.6%	23.0%
	2018 H2	56.0%	4.8%	12.3%	26.9%
	2019 H1	52.5%	10.5%	11.0%	26.0%
	2019 H2	48.9%	8.6%	14.7%	27.8%
Services	2018 H1	24.2%	5.2%	7.0%	63.6%
	2018 H2	27.3%	4.9%	8.4%	59.3%
	2019 H1	18.6%	7.8%	11.9%	61.6%
	2019 H2	18.2%	5.7%	13.1%	63.0%
Construction	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%
	2019 H2	1.3%	3.2%	19.0%	76.6%
Trade	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%
	2019 H2	30.6%	14.5%	19.2%	35.8%

Source: Bank of Albania

1.3- Constraining factors in the activity of enterprises². Competition and finding a market continues to be the main challenges in the activity of enterprises, even during this period. However, compared to the previous period, their importance is somewhat declining for small and medium-sized enterprises. Elements that increased for all sizes of enterprises for the period, are funding costs and the availability of qualified staff.

² 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.

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



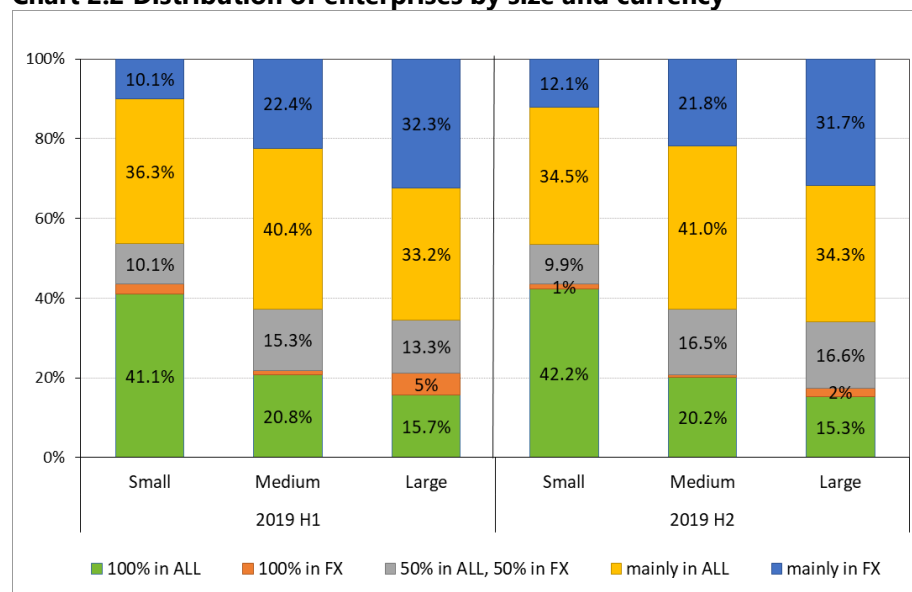
Source: Bank of Albania

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*³ in the domestic currency. The use of foreign currency is more pronounced among large enterprises, with 34% stating that they carry out their activity *partially* or *completely* in foreign currency. However, this share started to decrease (4 pp) after three unchanged periods.

³ More than 50% of the activity in ALL.

Chart 2.2 Distribution of enterprises by size and currency



Source: Bank of Albania

2.2 Sales performance, financial result and expansion of activity. Small enterprises continue to mark a decline in sales during 2019 H2, with a negative net balance of 4.3%, upward 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 sales balances, 8.5% and 24.9% respectively, improving compared to the previous period. In terms of *expectations on total sales* over the next six months, all three groups of enterprises continue to be positive regarding their performance in the future, expecting an increase of sales. However, they appear less optimistic over the last three surveys.

Chart 2.2 Net balance of sales

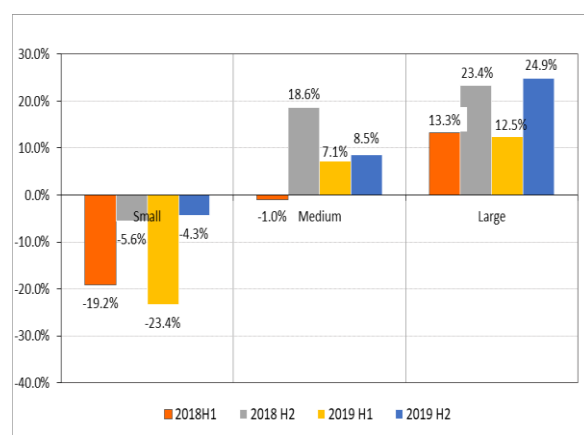
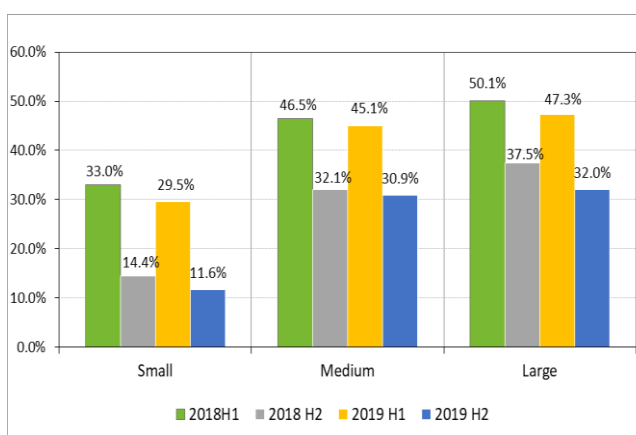


Chart 2.3 Net balance of sales expectations



Source: Bank of Albania

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/sales expectations decline) to the total of responses provided.

The outcome for *change in financial result* followed the same pattern for 2019 H2, in line with the performance of the total sales balance. Small enterprises continue to estimate a *decline in the financial result* during the period, with a negative net balance of -7.3%, decreased compared to the previous period. On

the other hand, medium-sized and large enterprises affirm a positive balance of their financial result, respectively 10.1% and 19%, improving compared to the previous period. *Expectations for the next six months* are positive for all enterprises, but less optimistic compared to the previous six months in line with the sales expectations.

Chart 2.4 Net balance of the financial result

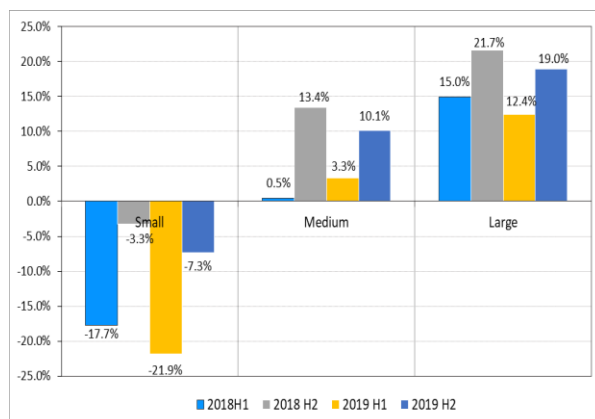
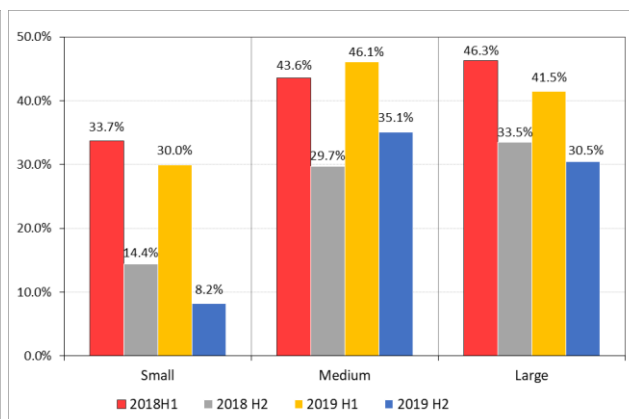


Chart 2.5 Net balance of the expected financial result over the next six-months



Source: Bank of Albania

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 responses provided.

Regarding the expansion of the activity or an increase in investments for 2019 H2, all three groups of enterprises recorded a positive net balance of 1.7% for small enterprises, 12.2% for medium-sized enterprises and 18.7% for large enterprises. Less optimistic expectations about the performance of sales and the financial result may have affected investments or the more cautious expansion of enterprises, while the expansion in the previous period has encouraged the improvement of sales and the financial result during the current period. *For the next six months* (2020 H1), net balances of responses were positive for all three groups of enterprises, which implies expectations for further investment or expansion of the activity, but compared to the previous three periods surveyed, these expectations appear less optimistic for all sizes of enterprises.

Chart 2.6 Net balance of activity expansion

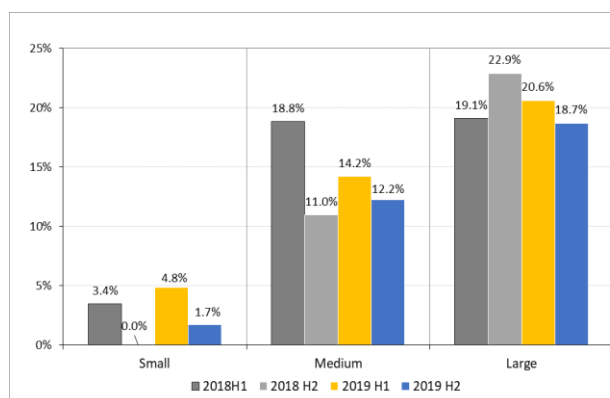
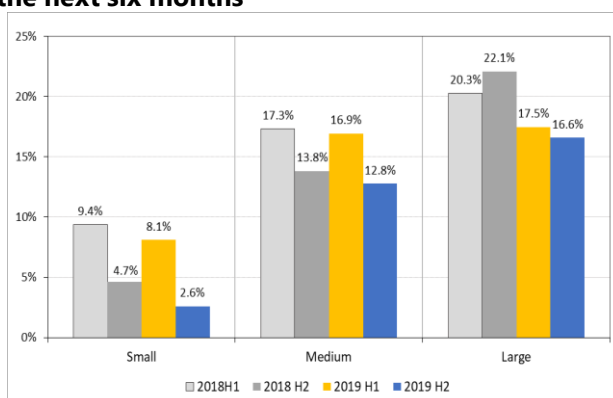


Chart 2.7 Net balance of activity expansion over the next six months



Source: Bank of Albania

Net balances of responses are calculated as the difference between the weights of positive responses (expansion of activity/expectations for expansion) and negative responses (narrowing of activity /expectations for narrowing) to the total of responses provided.

2.3 Sales level and financial result. The aggregate performance of total sales is analysed through an index⁴ 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 an increase in sales for enterprises of all sizes, but more pronounced for large enterprises. The index results by sector show that the trade and construction sector achieved highest sale values, while the service sector recorded 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 index by enterprise size

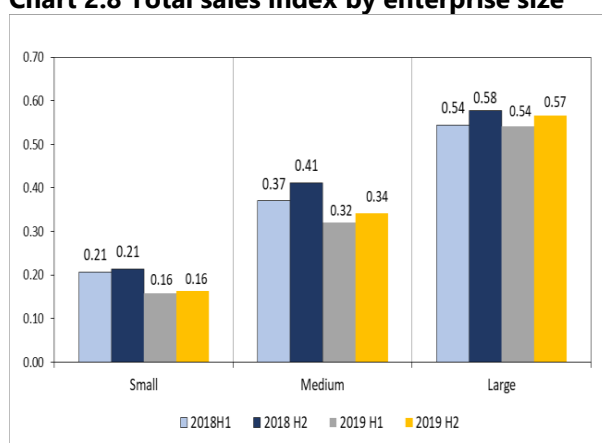
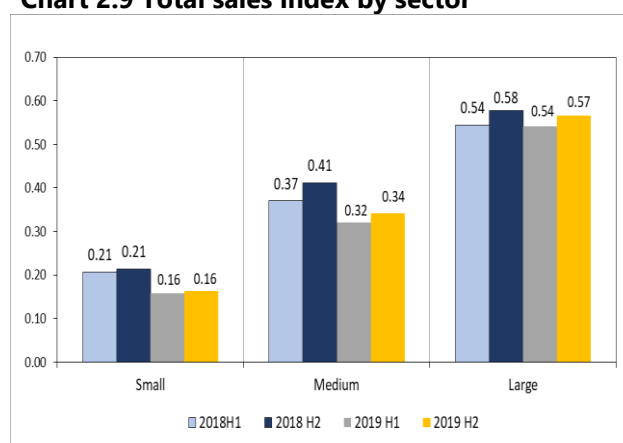


Chart 2.9 Total sales index by sector

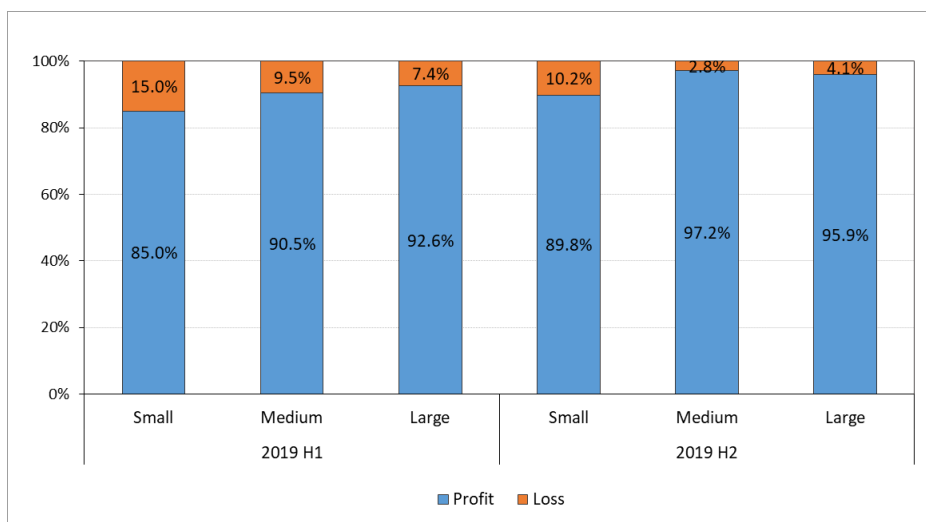


Source: Bank of Albania

With regard to the *financial result* in 2019 H2, only 1064 enterprises (or about 78% of the total sample) provided a response. Over 89% of responding enterprises for each group reported *profits* during the period. This weight was higher for medium-sized enterprises (about 97%) and lower for small enterprises (about 90%). The share of enterprises that reported profit, was upward for all three groups of enterprises, compared to the previous period.

Chart 2.10 Financial result by size of enterprises

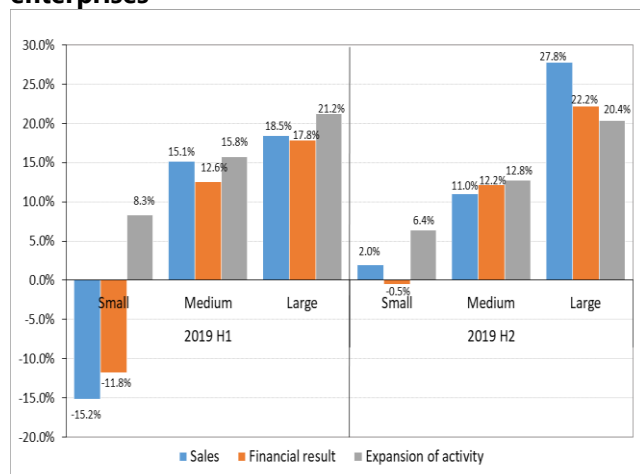
⁴ Weighting coefficients according to total sales intervals are: "Up to ALL 10 million" = 0; "ALL 10-49 million" = 0.25; "ALL 50-99 million" = 0.5; "ALL 100-500 million" = 0.75; "Over ALL 500 million" = 1. An increase/decrease in the value of this index means an increase/decrease in the level of total sales for enterprises.



Source: Bank of Albania

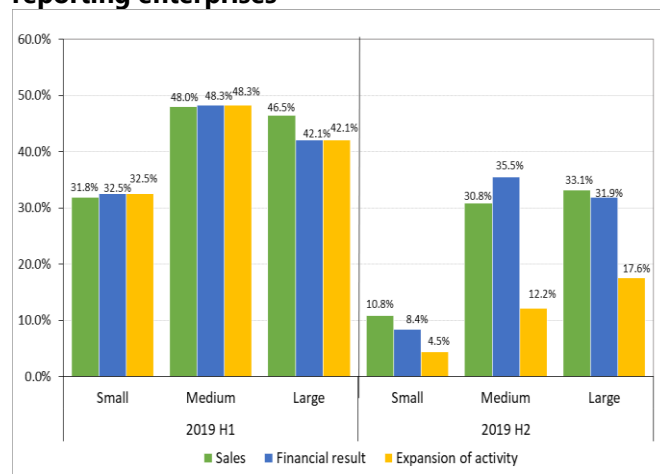
For enterprises reporting profit, all groups of enterprises show an increase in total sales and financial result and state an expansion of the activity or increase in investments. Compared with the previous period, positive net balances improved regarding sales and financial result for small and large enterprises, but are less optimistic regarding the expansion of activity for all groups of enterprises. Similarly to the latter, expectations for the next six months remain positive, but net balances decreased for all three indicators compared to the previous period, for all three groups of enterprises.

Chart 2.11 Net balances for profit reporting enterprises



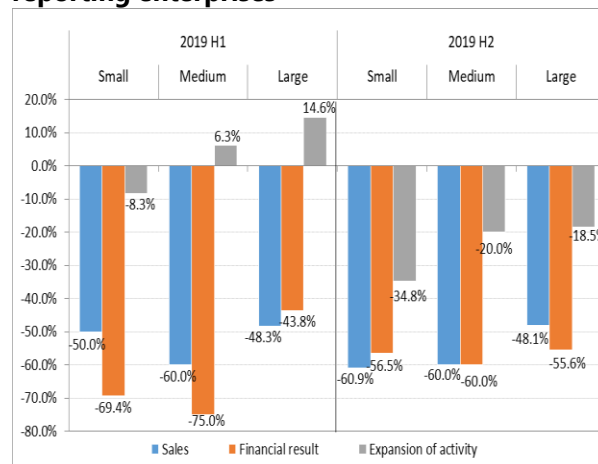
Source: Bank of Albania

Chart 2.12 Net balances of expectations for profit reporting enterprises



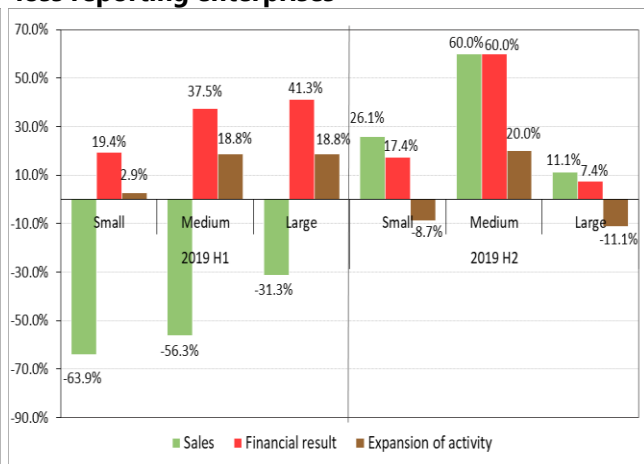
For loss reporting enterprises the three groups report negative balances for the total level of sales, financial result and expansion of the activity or increase of investment during the period. The expectations of loss reporting enterprises are optimistic for the next six months, in regard to the future level of sales and financial result for all groups of enterprises, but yet negative in regard to the expansion of activity, especially for small and large enterprises.

Chart 2.13 Net balances for loss reporting enterprises



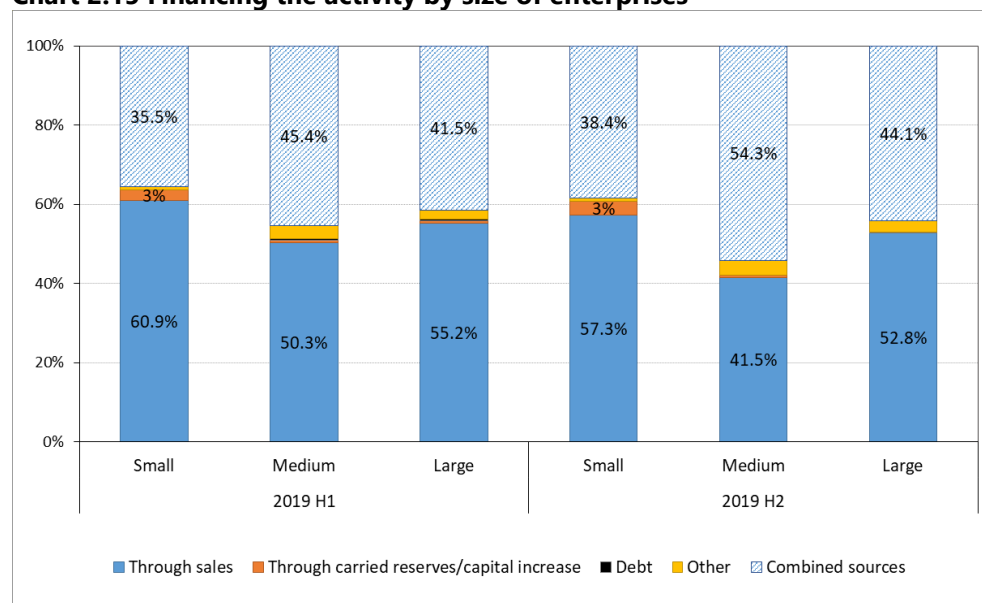
Source: Bank of Albania

Chart 2.14 Net balances of expectations for loss reporting enterprises



2.4 Financing the activity. During the period, more than half of small enterprises (about 57%) and large enterprises (about 53%) continued to finance their activity mainly through sale, whilst medium-sized enterprises preferred *combined sources* (54%). Compared to 2019 H1, reliance only on sales decreased for all three groups of enterprises. 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. Sales and debt, or sales and financing with internal resources (accumulated reserves, capital increase) remain the most used combinations of sources.

Chart 2.15 Financing the activity by size of enterprises



Source: Bank of Albania

3- Characteristics of enterprise borrowing

About 37% of the total respondent enterprises⁵ (a total of 410 enterprises) claim to have a debt to repay and this share has decreased by 1.6 pp compared to 2019 H1 survey and by 5.2 pp compared to the previous year. In terms of enterprise size, the share of borrowing enterprises decreased compared to the previous period for small and large enterprises (0.5 pp and 3.4 pp respectively), while this share slightly increased by 1.9 pp for medium-sized enterprises. By sector, the highest share of borrowing enterprises is in the trade sector (53%), followed by the construction sector (43%). The share of borrowing enterprises remained unchanged for trade, but construction declined compared to the previous period.

Chart 3.1 Distribution of enterprises by size and borrowing

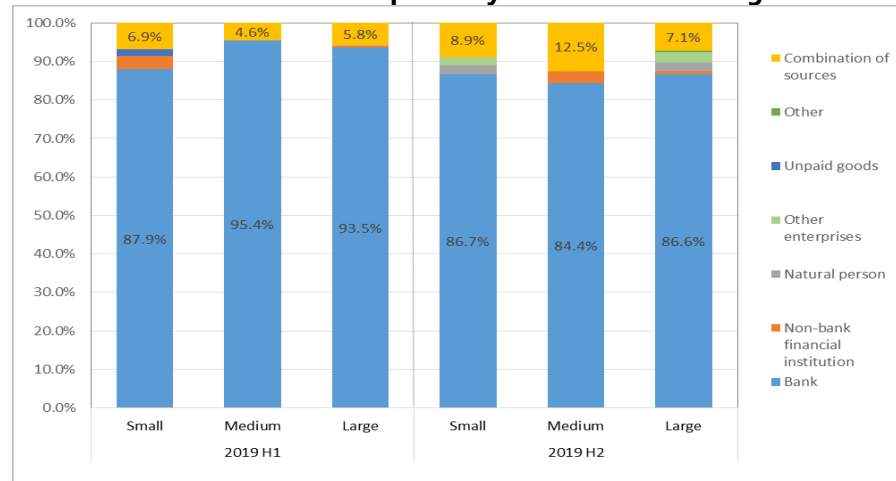
Borrowing enterprises by size	No. of enterprises		Share to total of the group:	
	2019 H1	2019 H2	2019 H1	2019 H2
Small	58	53	23.4%	22.8%
Medium	69	74	37.7%	39.6%
Large	309	283	44.3%	41.0%
Total enterprises	436	410	38.6%	37.0%

Source: Bank of Albania

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

3.1 Source of borrowing. About 86% of borrowing enterprises claim to have borrowed from the banking sector, whilst 8% from combined sources. The share of borrowing enterprises from banks decreased by 2.8 pp compared to 2019 H1. Distributed by size, it turns out that about 87% of small enterprises, 84% of medium-sized enterprises and 87% of large enterprises have only borrowed from banks. These share has decreased compared to the previous six months. A part of enterprises have turned to non-bank financial institutions or have combined some formal and informal sources (such as debt from other companies, natural persons, unpaid goods, etc).

Chart 3.1 Distribution of enterprises by source of borrowing



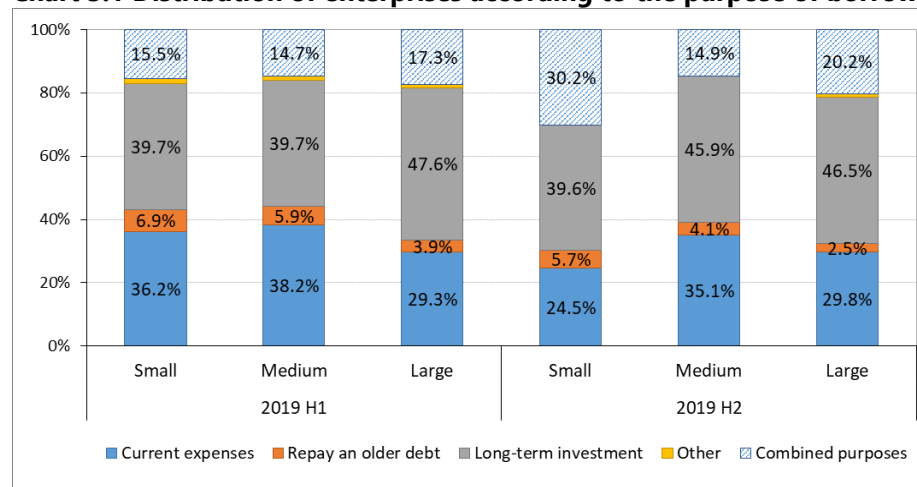
Source: Bank of Albania

⁵ Taking into account the full sample of 1360 enterprises, only 1110 of them or about 82% have responded.

In total, *formal sources of borrowing* (from bank and non-bank financial institutions) are used by 91% of the respondent borrowing enterprises (93% of small enterprises, 91% of medium-sized enterprises and large enterprises), down by 4 pp compared to the previous six months.

3.2 Purpose of borrowing. Borrowing from enterprises is mainly used to make *long-term investments* (about 45% of the total of respondent enterprises) and *to cover current expenditures* (30% of the respondent enterprises). Compared to the previous six months, it turns out that the share of enterprises that have borrowed to make an investment increased for medium-sized enterprises, while borrowing to cover expenses decreased for small and medium-sized enterprises. Same trend was followed by the enterprises that had borrow to repay an older debt for all sizes of enterprises.

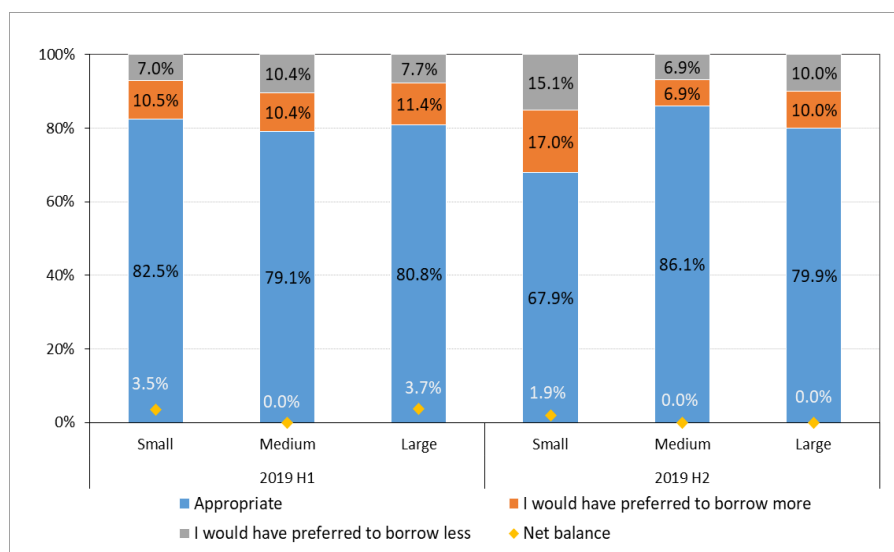
Chart 3.1 Distribution of enterprises according to the purpose of borrowing



Source: Bank of Albania

3.3 Borrowing adequacy. Around 68% of small enterprises, 86% of medium-sized enterprises and 80% of large enterprises consider their level of borrowing as adequate for financing their activity. Compared to the previous period, this share decreased for small enterprises, slightly decreased for large enterprises, while it increased for medium-sized enterprises. The rest of the responses resulted in positive net balances for small enterprises and neutral for medium sized-enterprises and large 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 to finance the activity for small enterprises, but it turns out to be the same for medium-sized and large enterprises. Comparing this result with that of the previous survey, credit demand decreased during this period.

Chart 3.2 Distribution of enterprises according to borrowing adequacy

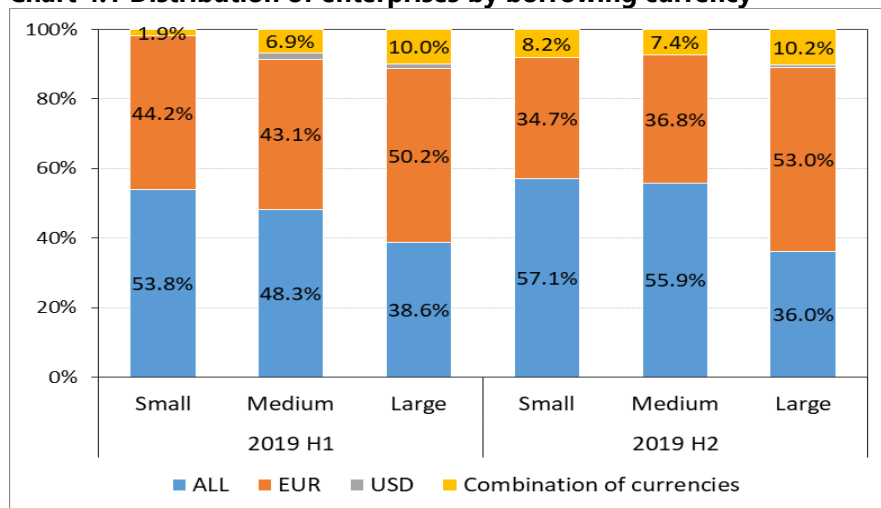


Source: Bank of Albania

4- Debt structure

4.1 Currency. Regarding the borrowing currency, 57% of small enterprises, 56% of medium-sized enterprises and 36% of large enterprises report to have borrowed only in the domestic currency, while the other part is in foreign currency (euro and/or US dollar) and/or combined (lek and foreign currency). During the period, borrowing in foreign currency (mainly in euro) is used mostly by large enterprises (54% of them) and less by small and medium-sized enterprises (35% and 38% of them, respectively). This is also affected by the currency in which these enterprises carry out their activity. 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 10 pp) and medium-sized enterprises (by 7 pp) while for the large enterprises, it slightly increased by 2 pp.

Chart 4.1 Distribution of enterprises by borrowing currency



Source: Bank of Albania

4.2 Debt and maturity. The highest share of enterprises have borrowed *in the past 1-5 years*, respectively: 47% of small enterprises, 60% of medium-sized enterprises and 45% of large enterprises. This weight has been declining compared to the previous six months for small and large enterprises (by 2.8 pp and 13 pp, respectively), while it increased for medium-sized enterprises (9.5 pp).

New borrowing, which means borrowing *in the last six months*, is reported by 17% of small enterprises, about 5% of medium-sized enterprises and by 10% of large enterprises. In semi-annual terms, the share of new borrowers has increased only for small enterprises, while large enterprises also increased but in annual terms. The main purpose of use for new borrowing was to *make a long-term investment* (for 45% of total enterprises) and to *cover current expenditures* (for 29% of total enterprises). Compared to the previous six months, the share of enterprises that have obtained a new debt to cover current expenditures was downward, while the share of those who have borrowed to make a long-term investment is upward. All three groups of enterprises followed this trend. The average remaining maturity of borrowing is 57.4 months for small enterprises, 61.6 months for medium-sized enterprises and 61.2 months for large enterprises.

4.3 Interest rate and repayment. For the largest share of existing debt⁶, *fixed interest rate up to maturity* is the most applied interest rate, (for 85% of small enterprises and medium-sized enterprises and 78% of large enterprises), and for 13% of small enterprises, 7% of medium-sized enterprises and 16% of large enterprises declare that the interest rate changes every year. During the period, the share of enterprises reporting fixed interest rate loans increased compared to the previous period, for small and medium-sized enterprises and decreased for large enterprises. For enterprises which state that interest rate changes every year, their share increased only for medium-sized enterprises. The repayment frequency is mainly monthly, for 85% of small enterprises, 88% of medium-sized enterprises and 87% of large enterprises.

4.4 Collateral and coverage ratio. For 83% of small enterprises, 80% of medium-sized enterprises and 76% of large enterprises, debt is collateralized only through *real estate*, while the remainder of the enterprises have used other forms of collateralization⁷. On the other hand, debt is uncollateralized for 6% of small enterprises, 8% of medium-sized enterprises and for 9% of large enterprises. Compared to the previous six-months, the share of enterprises with uncollateralized debt decreased for small and large enterprises and slightly increased for medium-sized enterprises. *Collateral coverage* is estimated through an aggregated weighted index of responses⁸. For 2019 H2, this index scored 0.69 for small enterprises, 0.54 for medium-sized enterprises, and 0.66 for large enterprises. The coverage ratio was upward for small and large enterprises, compared to the previous period.

⁶ For enterprises that have more than one debt.

⁷ Financial instruments, guarantee, other warranties, along with the combination of some forms of collateralization, including the combination with real estate.

⁸ This index takes values from 0 to 1 and the increase in its value indicates an increase in the weight of collateral coverage. Based on each of the alternatives, the weighting coefficients of this index are: "Up to 50% of the collateralized debt" = 0.25; "50-100% of the collateralized debt" = 0.5; "100-120% of the collateralized debt" = 0.75; "Over 120% of the collateralized debt" = 1.

Chart 4.2 Distribution of enterprises according to the collateral

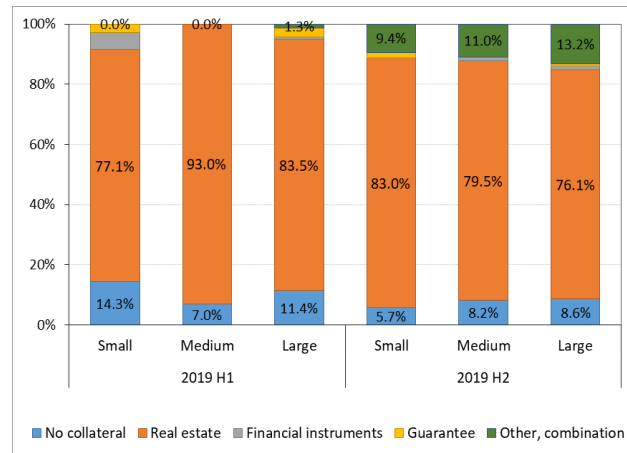
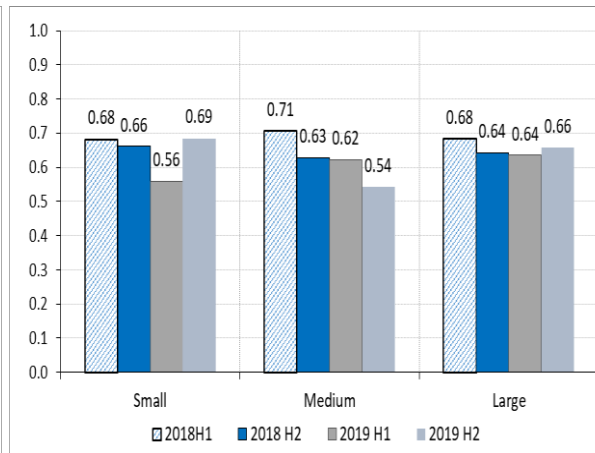


Chart 4.3 Collateral coverage index

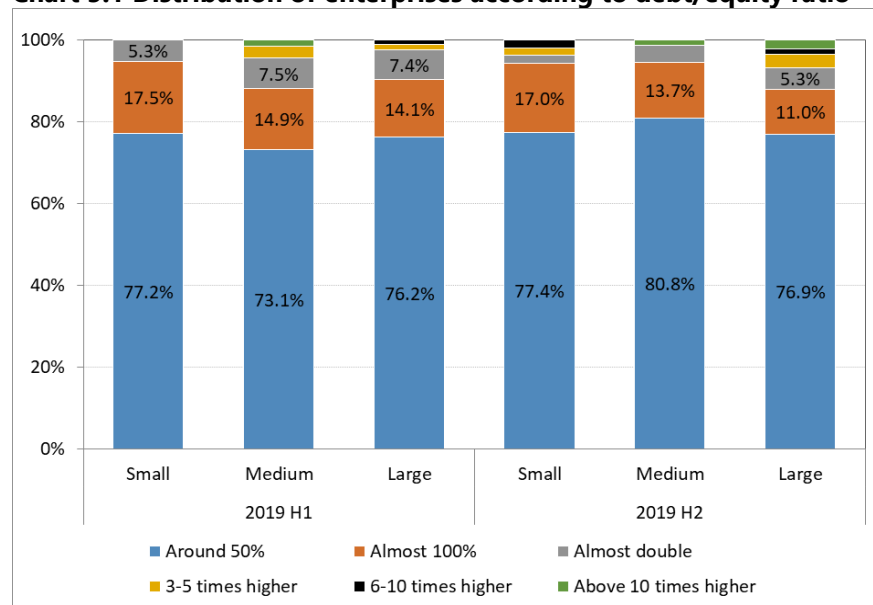


Source: Bank of Albania

5- Debt burden

5.1 Debt value to equity. Survey data show that the total debt value is approximately *half the equity of the enterprise* for 78% of borrowing enterprises and *equal or higher than the value of equity* for 22% of them. The debt/equity ratio resulted higher for large enterprises, with 23% of them declaring that this ratio is equal or exceeds the value of equity, implying a higher debt burden. However, this ratio was downward for all three groups of enterprises during this half of the year.

Chart 5.1 Distribution of enterprises according to debt/equity ratio



Source: Bank of Albania

By sectors, the debt burden is more pronounced for enterprises of the service and trade sectors, in contrast to previous periods in which the debt burden was higher for the trade and industry sector.

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

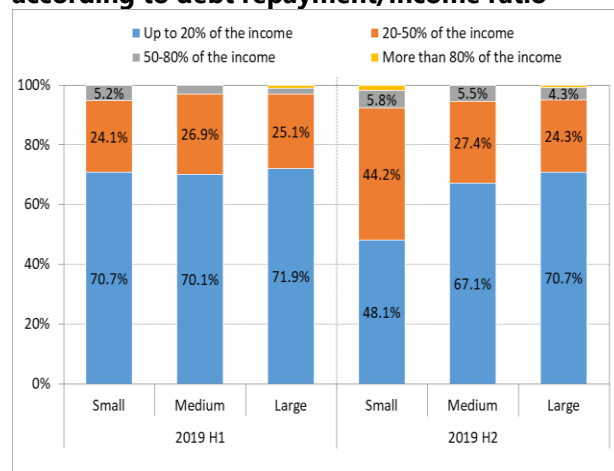
	Industry	Services	Construction	Trade
2018 H1	22.4%	19.8%	15.2%	20.2%
2018 H2	20.7%	14.9%	15.0%	29.6%
2019 H1	26.8%	18.5%	18.3%	28.8%
2019 H2	20.4%	28.0%	13.4%	26.5%

Source: Bank of Albania

5.2 Debt repayment. The majority of the borrowing enterprises (67%) state that debt repayment amounts up to 20% of enterprises' total income. This share was down by 4.2 pp compared with a half-year earlier. The burden of debt repayment to total income appears to be heavier on small enterprises. The number of small enterprises reporting that this amount exceeds 20% of total income, accounts for around 52% of the total group⁹, while for medium-sized and large enterprises this share is 33% and 29% respectively.

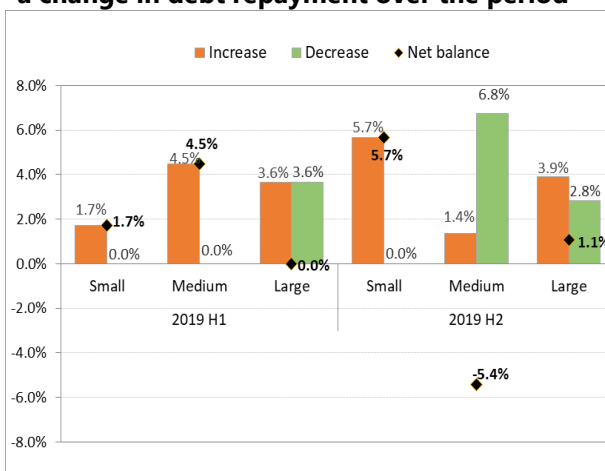
Asked whether the *cost of debt service has changed* over the past six-months, the majority of enterprises (about 94% of small enterprises, 92% of medium-sized enterprises and 93% of large enterprises) claim that this expenditure has remained *unchanged*. Responses of the rest of enterprises have resulted in positive net balances for small and large enterprises, showing an increase of this expenditure during the period. Meanwhile, the balance in question appears to be negative for medium-sized enterprises. Compared to 2019 H1, this balance increased for small and large enterprises, indicating a tightening trend of financing costs from banks for these enterprises.

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



Source: Bank of Albania

Chart 5.3 Distribution of enterprises that declare a change in debt repayment over the period



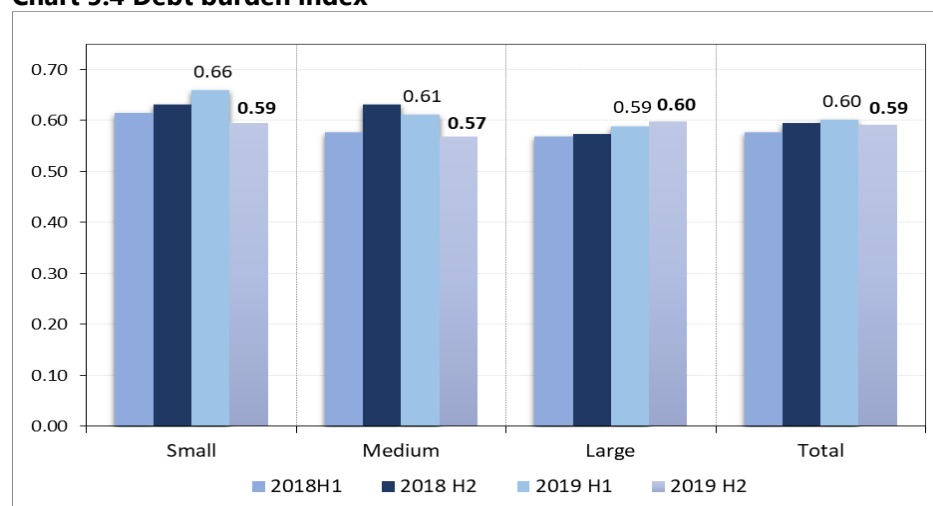
5.3 Coping with the cost of debt. In the case of an increased cost for debt service, over 50% of the enterprises relied on lowering other expenditures. For some enterprises (19%) a part of the business activity was sold, various reserves were used, or product prices were increased (6%).

5.4 The debt burden of the borrowing enterprises over the period, is somewhat lower compared to the previous six-months, as the debt burden index for total enterprises was 0.59. In terms of size, the index

⁹ Calculated as the sum of the responses: "20-50% of income", "50-80% of income" and "over 80% of income".

represents a decrease in debt burden for small and medium-sized enterprises compared to the previous six months.

Chart 5.4 Debt burden index

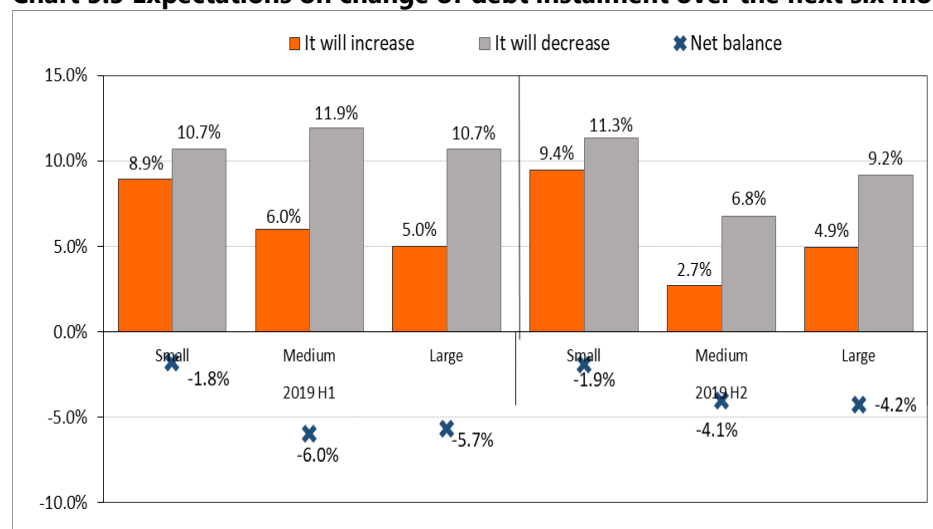


Source: Bank of Albania

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

5.5 Expectations for debt repayment in the next six months. Most of the borrowing enterprises, despite their size (about 85%), do not expect a change of debt instalment in 2020 H1. This share decreased by 2 pp compared to the previous period. In regard to enterprises that expect a change of the debt instalment, all three groups of enterprises continue to expect further decrease in this regard over the next six months, especially medium-sized and large enterprises, although they are less optimistic compared to the previous period.

Chart 5.5 Expectations on change of debt instalment over the next six months



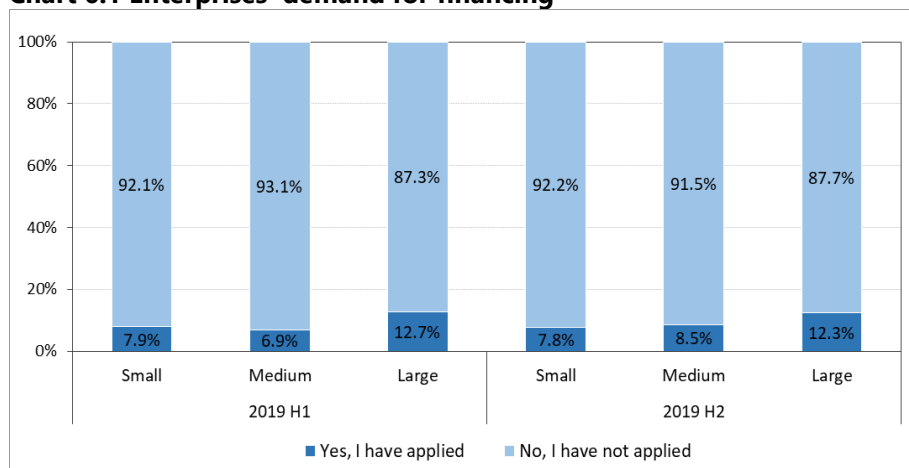
Source: Bank of Albania

6- Relations with banks and expectations for the future

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

6.1 Access to finance Enterprises' demand for loans continues to be moderate, only 11% claim to have applied for some form of financing during the last quarter. This share remains almost the same to the one in the last survey, down by 0.3 pp. By analysing this indicator by the size of enterprises, it turns out that large enterprises continue to account for the largest share (about 12%). Compared to the previous half-year, a decline in loan demand for small and large enterprises and an increase for medium-sized enterprise are observed.

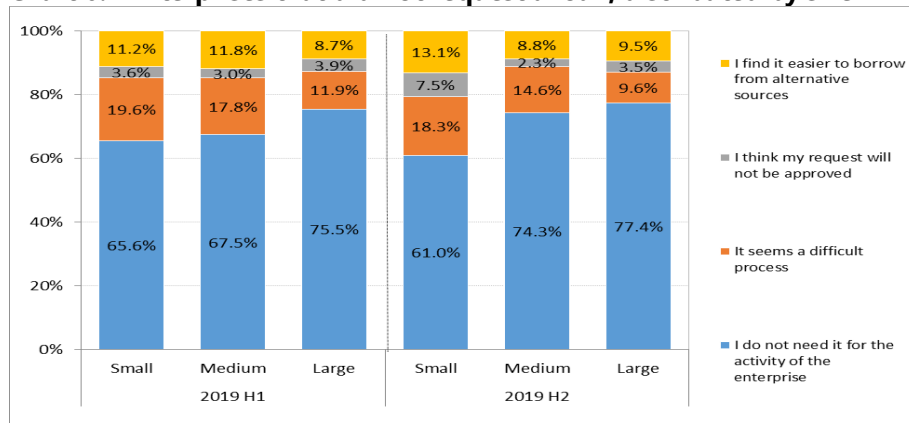
Chart 6.1 Enterprises' demand for financing



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. This weight is higher for large enterprises and upward compared to the previous period, for medium-sized and large enterprises. The rest of the enterprises have decided not to apply because the process seems difficult or because they consider it to be easier to borrow from alternative sources. These two reasons continue to be claimed more often by small and medium-sized enterprises.

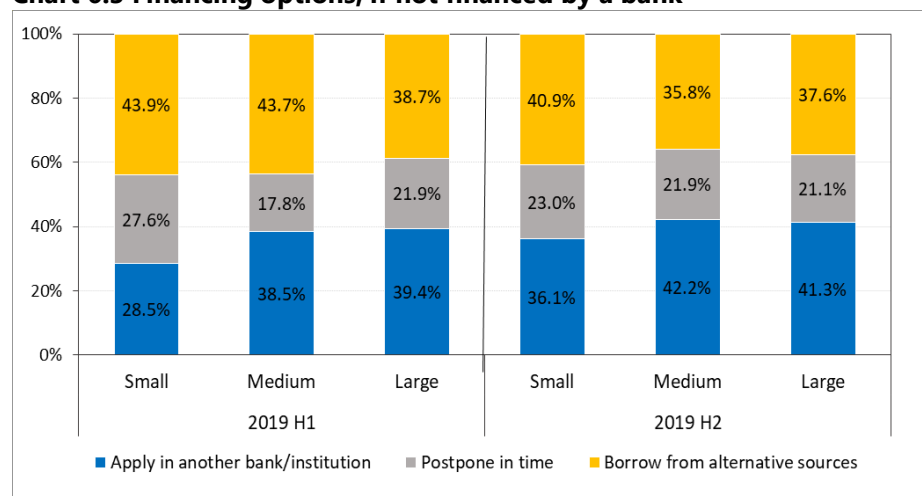
Chart 6.2 Enterprises that did not request a loan, distributed by size



Source: Bank of Albania

Asked how they would act if they were *not financed by banks*, the major part of small enterprises (41%) state they would *borrow from alternative sources*, this share is down compared to the previous six-months. Meanwhile, medium-sized enterprises (42%) and large enterprises (41%) claim that they would apply again to another bank or financial institution. Compared to the previous period, this share has increased for all three groups of enterprises, showing the upward trend of demand to the banking sector. Also, a significant part of the enterprises claim that they will *postpone their activity expansion plans* due to lack of funding. Although declining, this weight is higher for small enterprises.

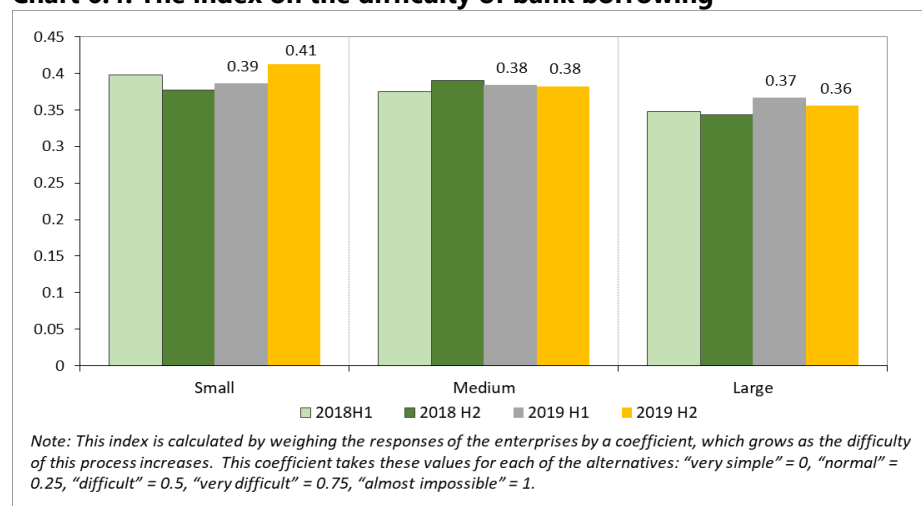
Chart 6.3 Financing options, if not financed by a bank



Source: Bank of Albania

6.2 The borrowing process and relations with banks. The index on the difficulty of bank borrowing process scored 0.37 for total enterprises in 2019 H2, unchanged compared to the previous period. This index remains between the level of "normal" and "difficult", for all three groups of enterprises. Compared with 2019 H1, the level of bank borrowing difficulty is assessed as mitigated for large enterprises, but upward for small enterprises.

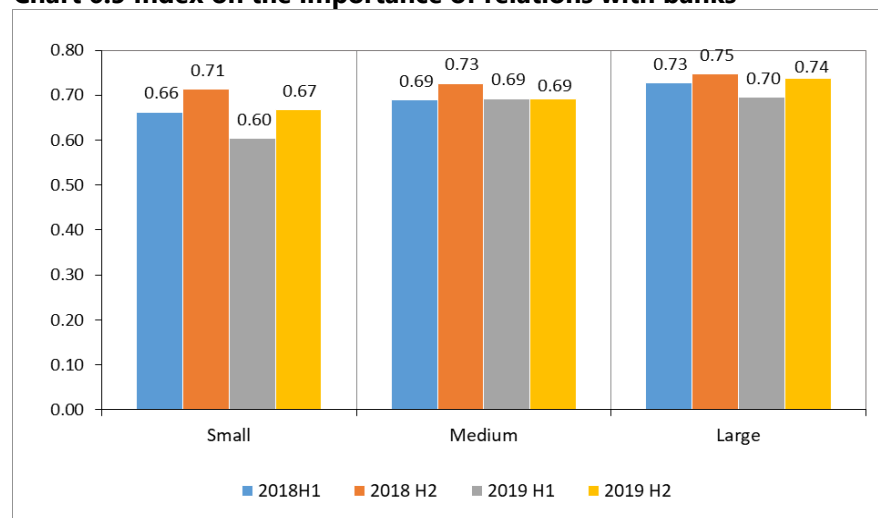
Chart 6.4. The index on the difficulty of bank borrowing



Source: Bank of Albania

The relationship with banks, measured by the relevant index, continues to be assessed between "important" and "necessary". The performance of this index during the period increased for small and large enterprises, while for medium-sized enterprises it remained unchanged.

Chart 6.5 Index on the importance of relations with banks



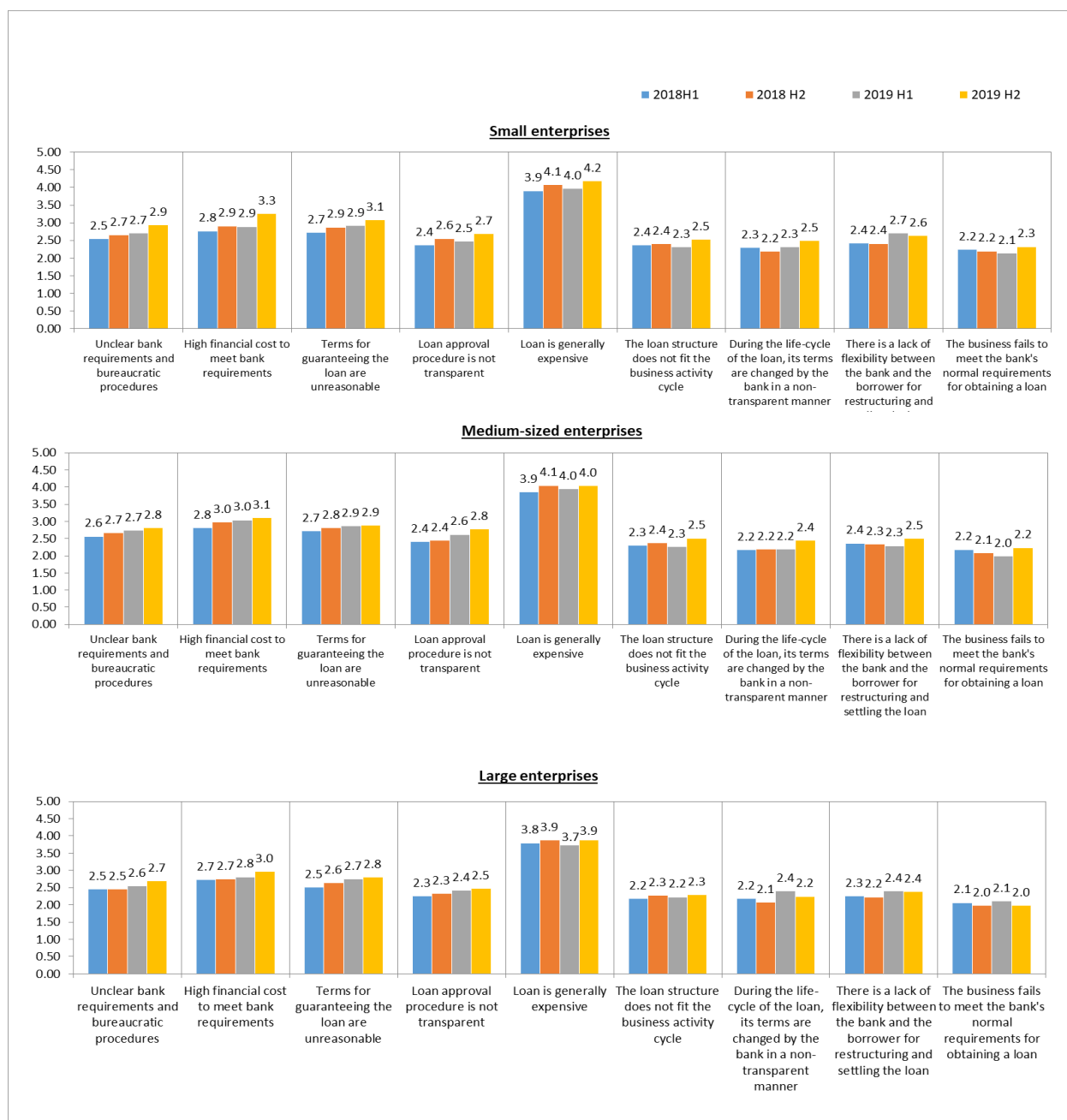
Source: Bank of Albania

Note: This index is calculated by weighing the responses of the enterprises by a coefficient, which take these values: 1 = "Necessary", 0.5 = "Important" and 0 = "Not quite important".

6.3 The difficulty of obtaining a loan¹⁰. The loan cost continues to be considered as the main element that makes it more difficult to obtain a bank loan, especially for small enterprises. The assessment for this element increased for small and large enterprises compared to the previous six months, while it remained unchanged for medium-sized enterprises. Following the loan cost, the cost of meeting bank requirements for all three groups of enterprises, continues to be a significant difficulty, followed by the assessment for loan guaranteeing terms and unclear bank requirements or bureaucratic procedures. These elements increases for the surveyed period, with a more pronounced increase in the cost of meeting bank requirements.

Chart 6.6 The difficulty of obtaining a loan

¹⁰ 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, scales from 1 to 5 are weighted with the weights of responses given by the enterprises.

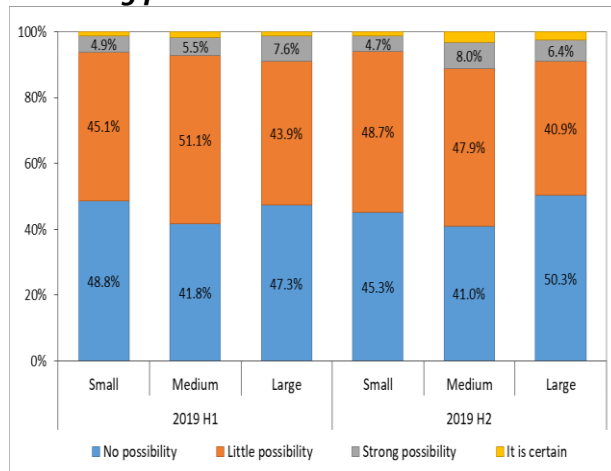


Source: Bank of Albania

6.4 Plans for borrowing. About 48% of total respondent enterprises have reported that there is "no possibility" to request a bank loan in the next six months. Compared to the previous survey, this weight decreased for small and medium-sized enterprises but increased for large enterprises. On the other hand, there has been an increase in the share of small enterprises that claim there is *little possibility* to get a loan in 2020 H1 and a decrease in the share of medium-sized enterprises that claim there is a *high possibility* for such thing to happen during the next six months. Also, all groups of enterprises, but especially the share of medium-sized and large enterprises showed an increase for the alternative "*it is certain*", appearing more optimistic regarding borrowing plans. This performance may signal an increase in loan demand in the short

and medium-term. The index value of borrowing plans for the next six months¹¹ was 0.41 for total enterprises, unchanged from the previous period.

Chart 6.7 Distribution of enterprises by borrowing plan



Source: Bank of Albania

Chart 6.8 Borrowing plan index



Source: Bank of Albania

¹¹To 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; "high possibility" = 0.75; "it is certain" = 1.