



FINANCIAL AND BORROWING SITUATION OF HOUSEHOLDS IN ALBANIA

2023 H1

**BANK OF ALBANIA
FINANCIAL STABILITY DEPARTMENT**

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Summary of key findings of the survey

The total number of employed individuals in the surveyed sample registered a decline during the period. In annual terms, this decline was driven by all three sectors, but it is more pronounced in the public sector. The share of borrowing households to the total and the reported outstanding debt has increased in annual terms. Most of the borrowing was used for business development and to purchase/renovate a property. Households appear more optimistic regarding their solvency in the next six months, while loan demand is expected to contract, affected by the increase in interest rates.

▪ FINANCIAL SITUATION

The total number of employed individuals in the surveyed sample registered a decline compared to the previous six months and the previous year. In annual terms, this fall was driven by the private sector and self-employed sector. The overall level of households' income and living expenses increased in both semi-annual and annual terms, but the increase in expenses has been more pronounced.

▪ BORROWING

Around 24% of interviewed households (or 256 households) state that they had a debt to repay at the time of the interview, regardless of its type, source or amount. This share has decreased by 1 pp in semi-annual terms, and it has increased by 2 pp in annual terms. *The total outstanding debt reported for the entire sample has increased compared to the previous survey and the previous year.* Around 64% of debt has originated from formal sources ("banks" and "non-bank financial institutions") and 36% from informal ones ("natural persons" and "debt in the form of unpaid goods"). This structure has shifted in favour of borrowing from formal sources, due to the higher value of debt granted by banks. Regarding the purpose of debt, around 25% of the outstanding debt was used to purchase/renovate a property; 53% to start a business; 4% for consumption; and 20% for other purposes.

▪ DEBT BURDEN

Around 65% of borrowing households that responded to the survey, declared that their debt repayment amount has not changed during the six months covered by the survey. The net balance of the remaining responses indicates an increase in their debt repayment amount, due to the increase in the interest rates in Albania. For 2023 H2, around 65% of households do not expect a change in their solvency, while the net balance of the rest of responses shows more optimistic expectations compared to the results in the two previous periods. The new loan/rollover index for the next six months has decreased in both semi-annual and annual terms, by signalling the further deceleration of households' demand for financing.

▪ HOUSEHOLDS' WEALTH

Around 92% of total households interviewed own 1-2 real estates, mainly residential houses. This share has remained unchanged compared to the previous six-months and it has decreased by 1 pp compared to the previous year; 3% state they own more than 2 real estates (houses and land/shop etc.); and 5% have declared that they do not own any property. In the group of households that claimed to possess some form of financial assets, deposits and/or bank accounts continue to remain the main type of financial investment, both in the case of total households (51% of the cases) and in the case of borrowing households (50% of the cases). Both shares has decreased in semi-annual and annual terms.

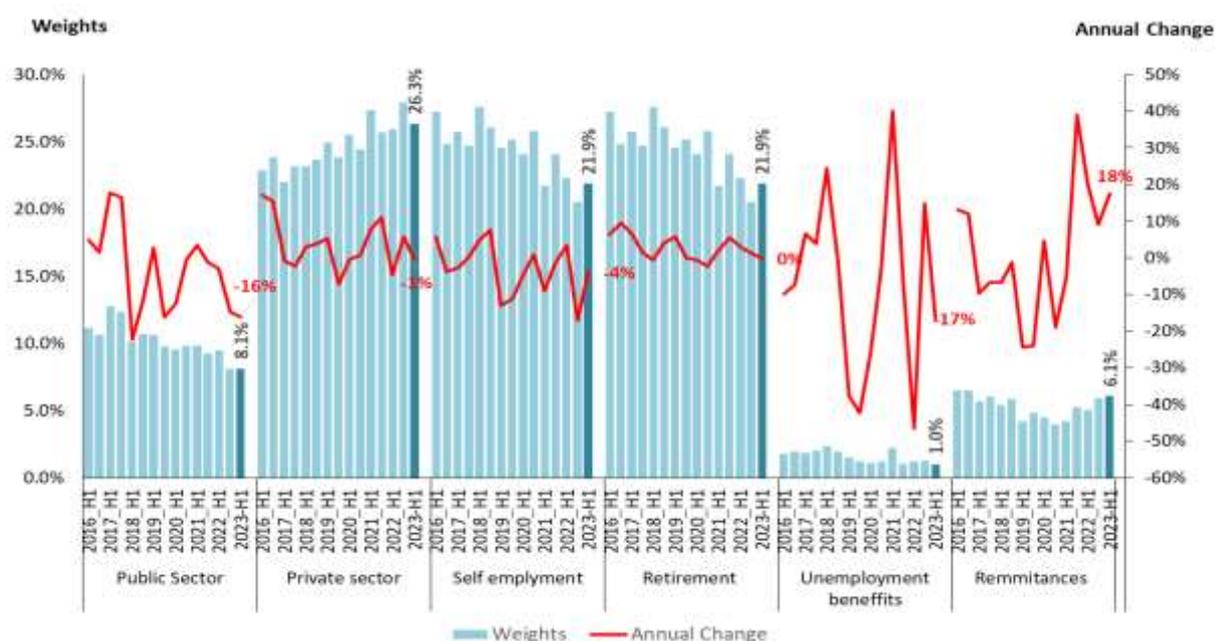
1-Demographic and financial characteristics of interviewed households

Sample characteristics. The survey is conducted on a randomly-selected sample of 1203 households, of which around 88% (1055 households) took part in the interview process, responding to all or part of the questionnaire. The share of respondents to total sample increased by 1 pp compared to the previous survey and by 2 pp with the previous year. Around 56% of total respondent households live in urban areas and 47% in rural areas.

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

1.1-Employment and other sources of income. Total number of households' members that earn income from employment/self-employment in the public and private sectors and/or other sources¹, has decreased, compared to both the previous six months (by 0.7%) and the previous year (by 2.2%), being more pronounced in the case of households employed in the public sector and of unemployment benefits. On the other hand, the number of those whose income is mainly from remittances has increased by 17.6% compared to the previous year.

Chart 1.1 Distribution of household income providers by income source and its annual change
(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 only on the group of the employed household members² of the surveyed sample (Table 1.1), their total number has declined by 1.2% in semi-annual terms and by 4.5% in annual terms. The decline, in annual terms, was due to the fall across all three sectors, but more pronounced in the public sector (by 16%).

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

²Here 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 employed individuals by sector

		Public	Private	Self-employed	Total employees	Semi-annual chg.	Annual chg.
S20:	2020 H1	233 (16%)	621 (43%)	585 (41%)	1439	1.7%	-4.2%
S21:	2020 H2	234 (16%)	578 (41%)	611 (43%)	1423	-1.1%	0.6%
S22:	2021_H1	241(17%)	670 (46%)	532 (37%)	1443	1.4%	0.3%
S23:	2021_H2	231(16%)	642 (44%)	602 (41%)	1475	2.2%	3.7%
S24	2022_H1	234(16%)	639 (45%)	550 (39%)	1423	-3.5%	-1.4%
S25:	2022_H2	197(14%)	679 (49%)	499 (36%)	1375	-3.4%	-6.8%
S26	2023_H1	196(14%)	635 (47%)	528 (39%)	1359	-1.2%	-4.5%

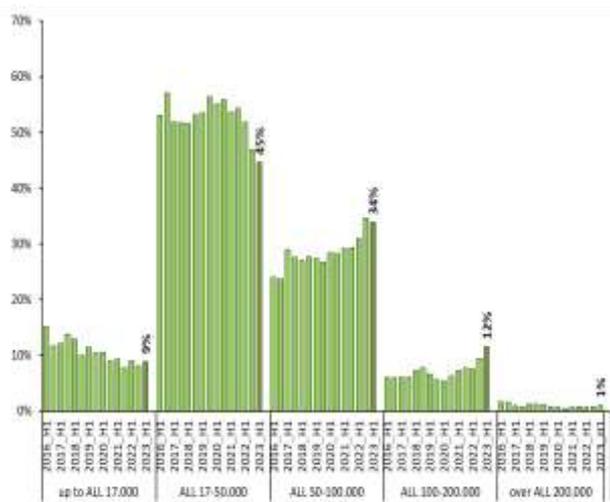
Source: Financial Stability Department.

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 rents, banking interests etc.) was 13% (or 135 households, overall), slightly increasing by 1pp during the period under review compared with the previous year. Within this group of households, around 64% of them declare "interest from savings (deposits, T-bills, etc.)", as an alternative income source, while around 23% declare income from "renting a property". Both of these items increased in semi-annual and annual terms. The item "other" continues to account for a considerable share (around 10%), where households stated financial assistance from family members or relatives as their main source of income.

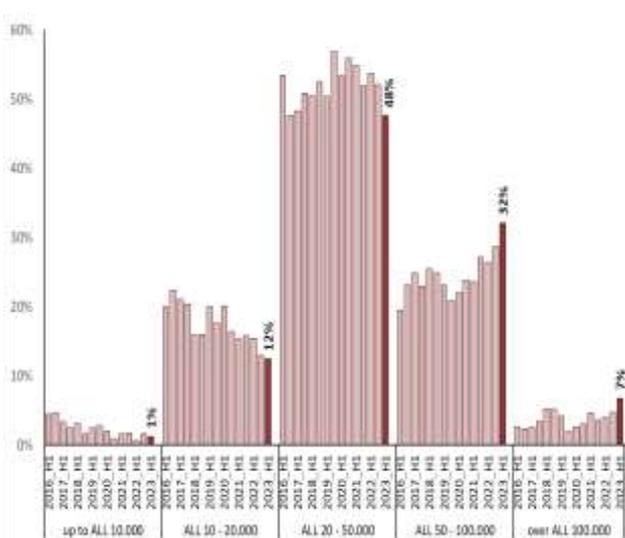
1.2-Households' income and expenditure. During 2023 H1, most households (around 45%) continued to remain at the monthly income level of "ALL 17,000 -50,000". This share has decreased by 2pp compared to the previous six months and by 7 pp compared to the previous year. On the other hand, the distribution of the number of households by *income level*, has shifted towards higher levels of monthly income, such as the 'ALL 50-100,000' band (34% of households) and 'ALL 100-200,000' band (12% of households).

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 third parties; 4. Other (define).

The distribution of households by *necessary living expenses*, has shifted towards higher levels of monthly expenses during the period under review, mainly towards the "ALL 50-100,000" and "above ALL 100,000" band of expenses, reflecting the increase in the living cost of households due to the upsurge in prices (Chart 1.3).

Based on the above responses, **the income index⁴ and expenditure index⁵ were up in the period under review**, but the increase in expenditure index was higher than the increase in income index.

Chart 1.4 Income and Expenditure Indices of households (2010=100)



Source: Bank of Albania.

The level of Albanian household's income euroisation continues to remain low, but has recorded an upward trend during the surveyed period. Thus, about 21% of households (220 households out of 1055 of the total) declare to have part of their total monthly income in foreign currency (mainly in euro)⁶. This share remained almost unchanged compared with the previous six months, and increased by 3.6 pp compared to the previous year.

2- Households' debt

The number of households that report *one or more debt to repay* at the moment of the interview, despite the type, source, or value of this debt, was *256 households or around 24% of respondents*.

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 17,000-50,000" with 0.4; "ALL 50,000-100,000" with 0.6; "ALL 100,000-200,000" with 0.8; and "over ALL 200,000" with 1. The values received each year are returned to the index based on year 2010 = 100. The increase of the value of the index implies an increase in the level of monthly income.

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.

⁶ Alternatives related with the level of income in foreign currency are: (1) "I don't have any"; (2) "up to 10%"; (3) "10-50%"; and (4) "over 50%";

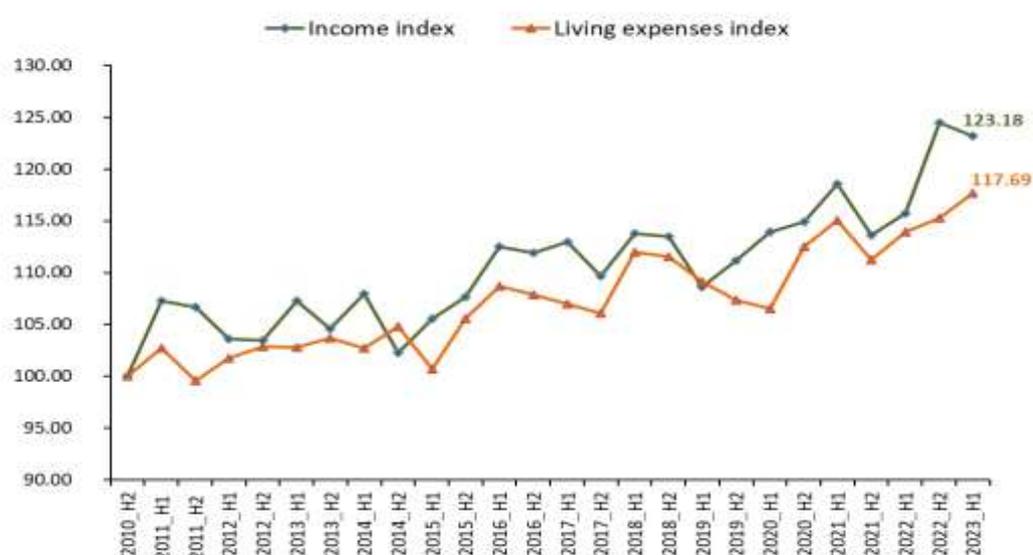
This share has decreased by 1 pp compared with the previous six months and has increased by 2 pp compared with the previous year, continuing to remain below the historical average of this survey of around 27%.

The following analysis refers only to the group of borrowing households⁷.

2.1-The level of income and living expenses of borrowing households. During the six months under review, the distribution structure of borrowing households by income/expenses has shifted towards higher levels of income and expenses, compared to the previous period, but somewhat more pronounced as in regard to expenses. This shift has led to a decrease in the *income index* and an increase in the *expenditure index* (Chart 2.2), which means a worsening trend in the financial situation of borrowing households.

Chart 2.1 Borrowing households’ income and living expenses indices

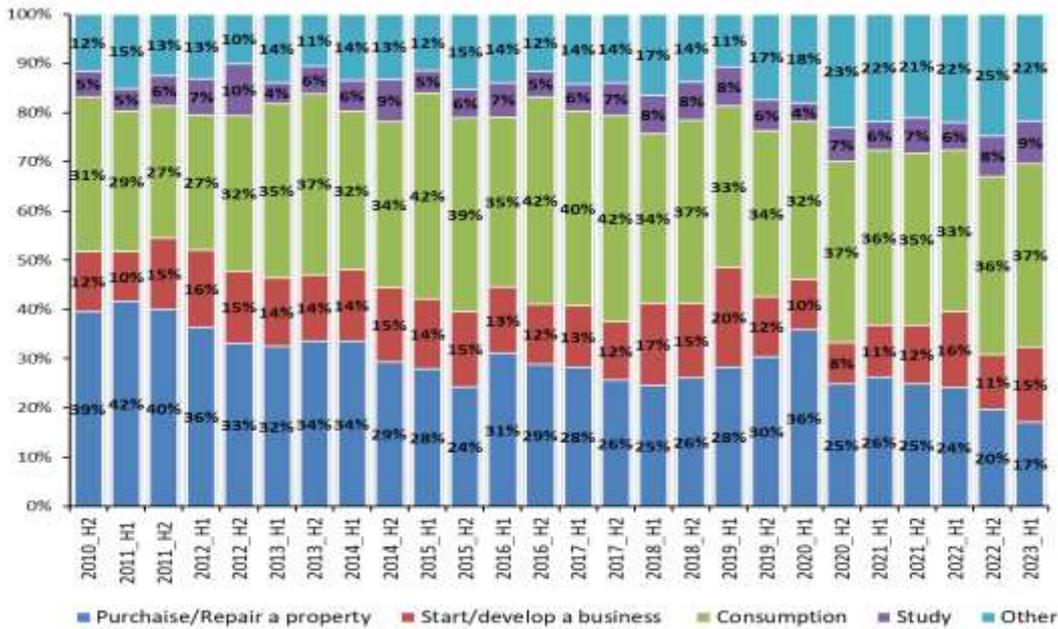
(2010 = 100)



2.2-Debt purpose. The main purpose of households’ borrowing remains: for “*consumption*” in 37% of borrowing cases; for “*purchase/repair of a property*” in 17% of cases; and for “*business development*” in 15% of cases. The share of borrowing for “*purchase/repair of a property*” decreased by 3 pp in semi-annual terms and by 7 pp in annual terms, whilst the share of cases for “*business development*” increased by 4 pp during the period and remained unchanged compared to the previous year. On the other hand, borrowing cases for “*consumption*” increased by 1 pp compared to the previous six-months and 5 pp compared to the previous year, which may have been affected by the increased living costs of households due to the considerable surge in prices in Albania.

⁷ 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 = 257 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 person).

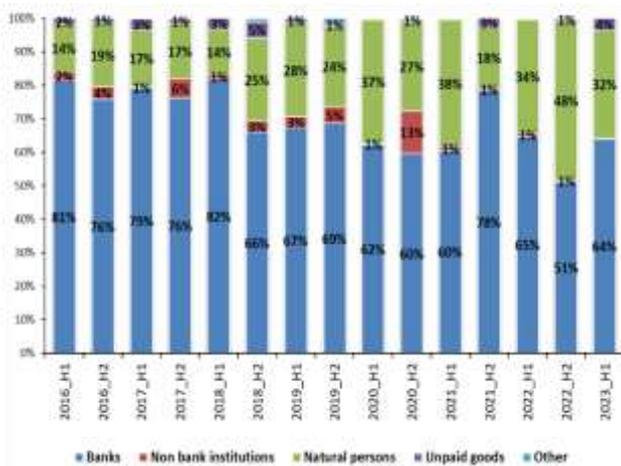
Chart 2.2 Frequency of borrowing by debt purpose
(in % of total number of borrowing cases)



Source: Bank of Albania.

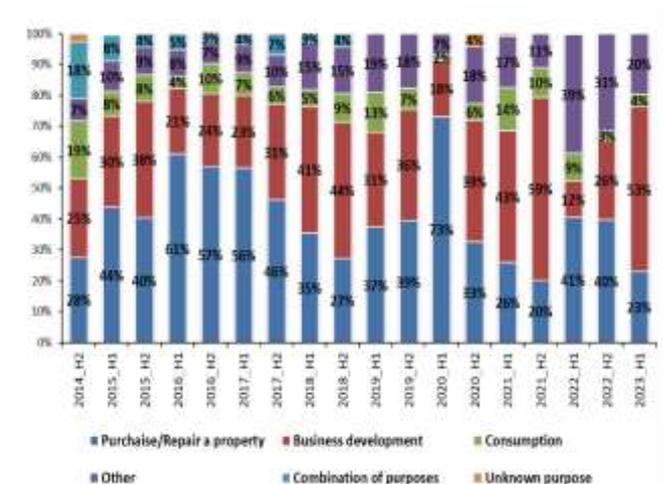
2.3-Outstanding debt. The analysis of outstanding debt by *source and purpose of use* in the 6-month period under review, reveals that around 64% of the outstanding debt has originated from formal sources, mostly from banks, and around 36% from informal sources (32% "natural persons" and 4% "unpaid goods"). Compared to the previous six months, this structure has shifted (by 16 pp) in favour of the borrowing from formal sources rather than informal ones, as a result of the greater increase in the value of borrowing from banks, compared to the increase in borrowing from natural persons and borrowing in the form of unpaid goods (Chart 2.3).

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



Source: Bank of Albania.

Chart 2.4 Composition of outstanding debt by Purpose of loan (in % of the total outstanding debt reported)



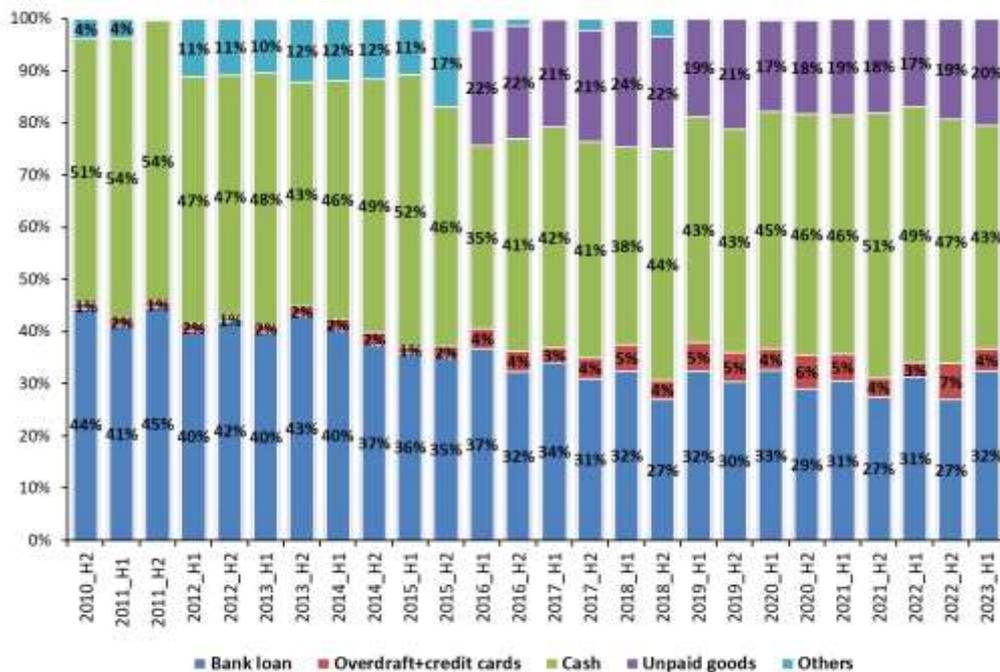
Source: Bank of Albania.

Note: The "other" item includes mainly loans for medical expenses.

Analysis of outstanding debt by its purpose of use (Chart 2.4), shows that around 23% of outstanding debt is used for "purchasing/renovating a property" (a decrease by 17pp in semi-annual terms and 18 pp in annual terms); 53% for "business development"(an increase by 28 pp and 42 pp in both semi-annual and annual terms, respectively); and 4% for "consumption" (an increase by 1 pp compared to the previous six-months and a decrease by 5pp compared to the previous year, respectively). The share of borrowing for "other purposes" (around 20% of the outstanding debt) continues to be considerable, dominated by borrowing for "medical expenses." This share has decreased by 12 pp in semi-annual terms, and by 19 pp in annual terms.

2.4-Type of debt. Around 37%of the households' borrowing cases are in the form of "loans from financial institutions", (where 32% of cases are "bank loans" (up by 4 pp compared with 2022 H2 and by 1 pp compared with a year earlier); and 4% are "credit cards" and "overdrafts" (down by 3 pp compared with 2022 H2 and up by 1 pp as referred to the previous year). In around 43% of cases, the borrowing is in "cash" and in 20% of cases in the form of "unpaid goods". In the first case, the share have resulted in a decrease both in six-month terms and in annual terms, while in the second case they have been increasing especially in annual terms.

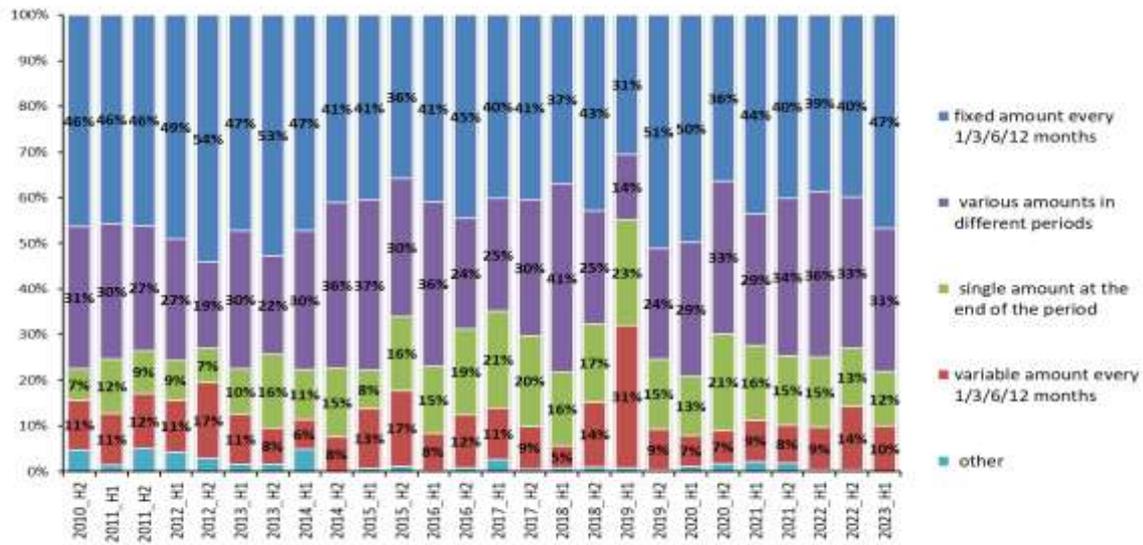
Chart 2.5-Borrowing by type of debt
(in % of total borrowing cases)



Source: Bank of Albania.

2.5-Debt repayment schedule. The two main forms of debt repayment continue to be through "fixed payments every 1/3/6/12 months" (47% of borrowing cases), "variable payments in different periods" (31% of borrowing cases), and "variable payments every 1/3/6/12 months" (10% of borrowing cases). During the period under review, the share of debt cases with fixed (or variable) monthly payments - typical of long-term bank loans (such as mortgages or loans or for business development)- increased by 7 pp and 8 pp, respectively. On the other hand, the share of debt cases with "one fixed payment at the end of the period" and "variable payments in various periods", mostly a feature of informal loans or short-term bank loans (such as overdraft, credit cards), decreased (by 1 pp and 2 pp, respectively) in semi-annual terms and in annual terms (by 3 pp and 5 pp, respectively).

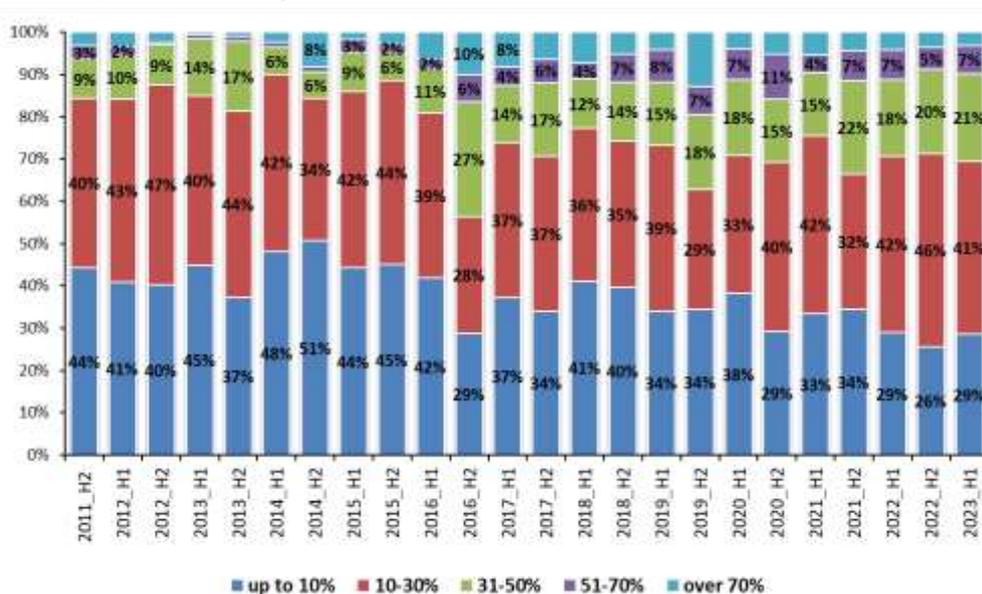
Chart 2.6- Frequency of borrowing by debt repayment schedule
(in % of total borrowing cases)



Source: Bank of Albania.

Regarding borrowing household's debt burden, in 70% of cases it was reported that the debt repayment accounts for less than 30% of monthly income ("up to 10% of income" for 29% of borrowing cases, "10-30% of income" for 41% of borrowing cases). This share has declined by 2 pp and 1 pp, in semi-annual and annual terms, respectively. On the other hand, around 30% of households reported that this payment exceeds 30% of income ('31-50% of income" for 21% of households, '51-70' for 7% of households and "over 70%" for 3% of households (Chart 2.7).

Chart 2.7- Frequency of borrowing by "debt repayment-to-monthly income ratio"
(in % of total borrowing cases)

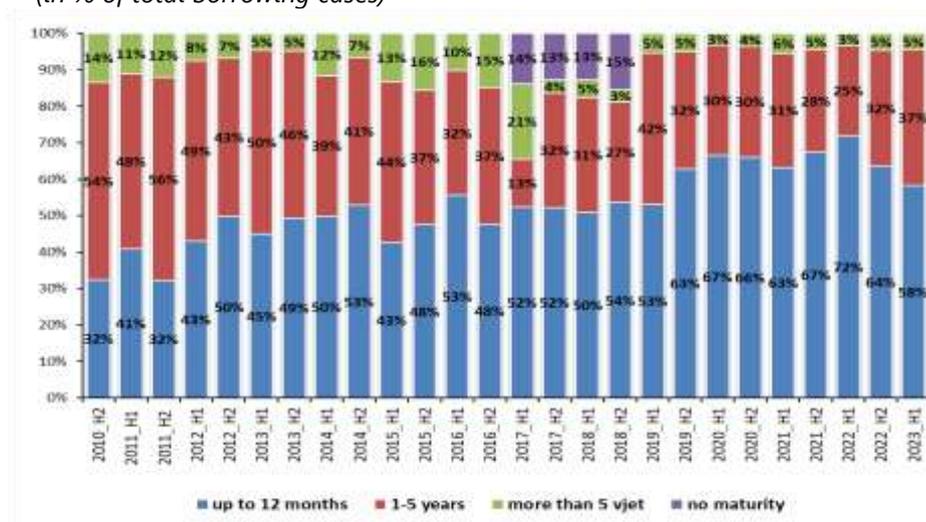


Source: Bank of Albania.

2.6-Remaining maturity

In 58% of borrowing cases it results that the debt matures *"within a year"* and this share has decreased by 4 pp compared to the previous six months and by 18 pp compared to the previous year; in 37% of the cases, the remaining maturity of the debt is *"1-5 years"* (up by 5 pp and 12 pp compared to 2022 H2 and 2022 H1, respectively) and in 5% of the cases the remaining maturity is reported to be *"over 5 years"* (unchanged compared to 2022 H2, and up by 1 pp compared to the previous year). The increase in cases of loans with maturity over 12 months is in line with the increase in borrowing from the banking sector against borrowing from informal sources.

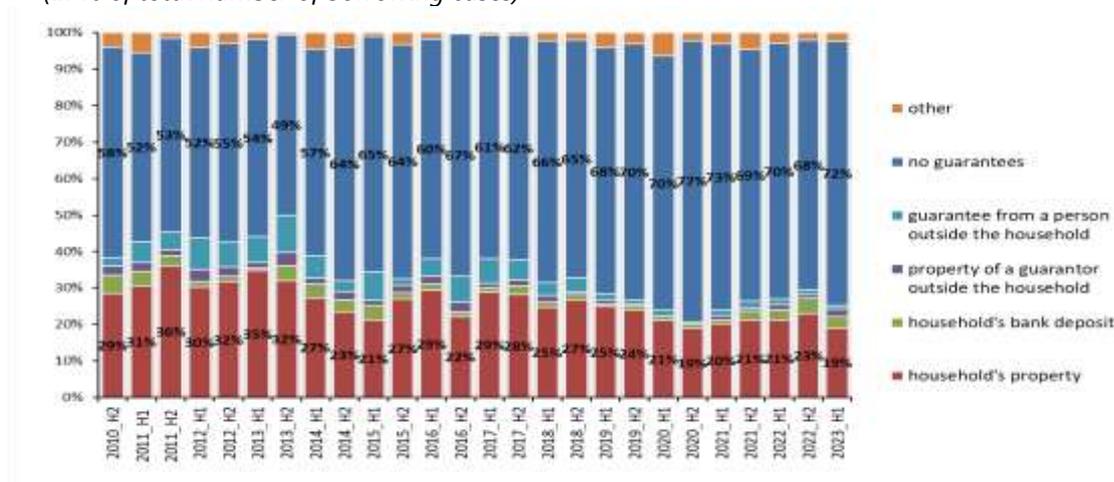
Chart 2.8 Frequency of borrowing by debt remaining maturity
(in % of total borrowing cases)



Source: Bank of Albania.

2.7-Debt guarantee. In 72% of borrowing cases, results show that the debt has *"no guarantees"* and this share increased by 4 pp compared with the previous six months and by 1 pp with the previous year. In contrast, the share of the borrowing cases guaranteed with a *"property owned by the household"* decreased by 2 pp and by 4 pp, compared to both the previous six months and previous year, respectively.

Chart 2.9 Frequency of borrowing by types of debt guarantees
(in % of total number of borrowing cases)



Source: Bank of Albania.

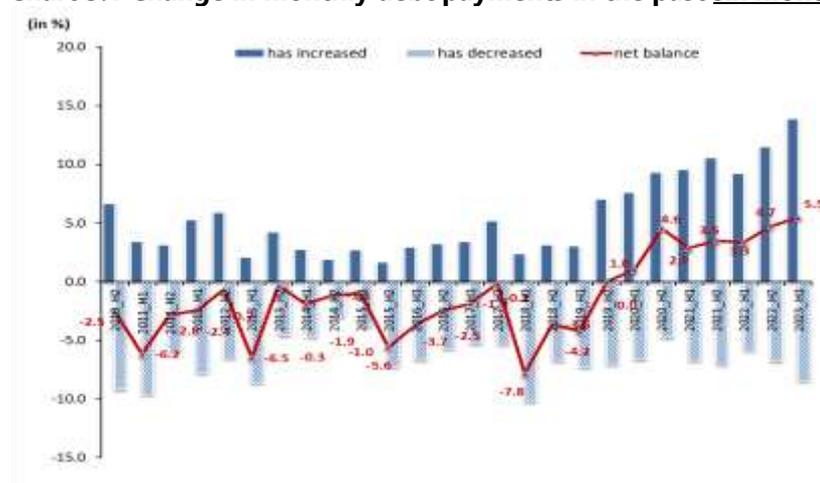
Note: The item *"other"* includes the borrowing cases guaranteed by other forms of guarantees, such as monthly salaries, goods (like cars), etc.

3- Households' debt burden

In this section of questions, borrowing households were asked to provide information on the *largest existing debt* which is most 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 65% of borrowing households declared that their monthly debt payment (or the largest monthly debt payment in case they have more than one to pay) remained unchanged during 2022 H2, but this share decreased by 7 pp in semi-annual terms, and by 11 pp in annual terms. On the other hand, the number of households who declared an "*increase in instalments*" exceeded the number of those who declared "*its decrease*". This has resulted in a *net balance* of responses of +5.5 pp, up as compared to the previous six months and a year ago.

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



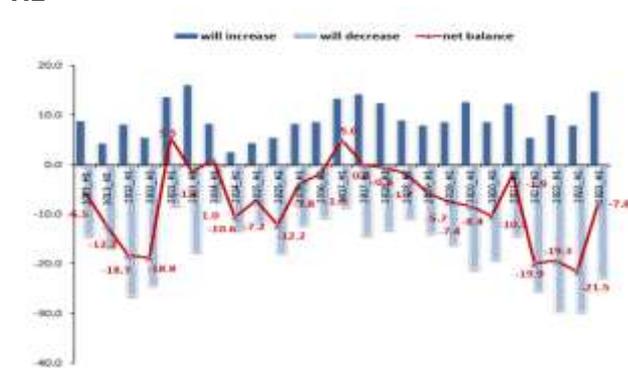
Source: Bank of Albania.

3.2-Households' solvency during the previous six-months and for the next six months About 45% of the borrowing households declared that their solvency "*has not changed*" during the survey period, but this share declined by 2 pp and by 6 pp, respectively, compared to the previous six months and the previous year. The rest of the responding borrowers reported, on aggregate, a *deterioration of their solvency* (where 47% reported "*deterioration*" and 8% reported "*improvement*"), resulting in a net balance of -39.4 pp. However, this balance suggests an improvement compared to the result in the previous period (Chart 3.2).

Chart 3.2 Household's solvency during 2023 H1



Chart 3.3 Household's expected solvency in 2023 H2



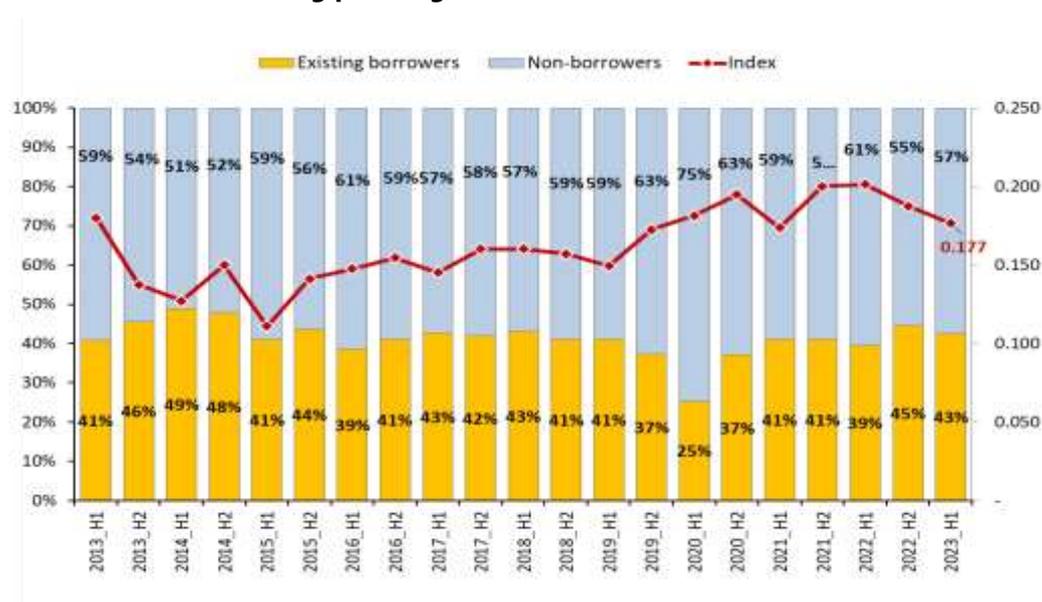
Source: Bank of Albania.

This perception is also reflected in the improved households' expectations regarding their solvency in the second half of the 2023. Thus, around 63% of borrowing households *do not expect a change in their solvency in 2023 H2*, while the net balance of the rest of responses resulted in – 7.8 pp, indicating a reduction in the pessimistic expectations compared with 2022 H2 (Chart 3.3).

3.3-Household's borrowing plans for the upcoming six months⁸. Around 59% declared they "*do not expect to take a new loan in the upcoming six months*", whilst around 41% (or 430 households), might consider this option (with various degrees of certainty⁹) to take/re-take a new loan. The share of households who are considering taking a loan has dropped by 3 pp and 6 pp, respectively, compared to the previous six months and the previous year. Focusing analysis only on the group of households that *plan to take a new loan* (430 households), results show that around 57% of them are "*new borrowers*", meaning that they don't have any existing debt by the time of the survey. This share has increased in semi-annual terms (by 2 pp), but it has continued to decline in annual terms (by 3 pp).

As a result, the *new borrowing planning/rollover index*¹⁰ resulted 0.177, continuing to decrease compared with both the previous six months and the previous year. This performance signals a further slowdown in the credit demand from households in the second half of 2023.

Chart 3.4 New borrowing planning/rollover index in the next six months



Source: Bank of Albania.

⁸ The question is addressed to the entire sample of 1205 households, out of 1055 households responded to the question, or around 88% of total sample.

⁹ The given alternatives are: "little possibility", "a lot of possibilities" and "certain."

¹⁰ 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.

4- Households' wealth

This section contains only two questions on real estates and financial wealth of interviewed households, and is addressed to the entire household sample. The result for 2023 H1 are presented below.

4.1-Household real estate ownership. A total of 999 households responded to the questions in this section, of which 95% reported to possess at least one real estate property. This share increased by 1 pp, respectively, compared to the previous six months and remained unchanged compared to the previous year. The responded households declared to own a total of 1485 real estates of different types where: 92% of them (969 households) own "1-2 real estates" mainly residential properties or a combination of residential property/ies and another property such as "land", "shop", "building", etc. This share has remained unchanged compared to the previous six months and has decreased by 1 pp compared to the previous year (Chart 4.1). On the other hand, 3% of the total households reported that they "own more than 2 real estates", (house and land/shop etc.), while 5% reported that they "do not own any real estate".

Focusing the analysis only on the group of **borrowing households** (256 households), the responding households report to possess 357 real estates in total, of which 68% of them are "residential properties", 29% are "lands" and the rest are "shops", "buildings" and "other types of properties".

The distribution of the borrowers by the number of properties they own, shows that: around 93% of them (239 households) own "1-2 real estates" at the time of the interview, and this share remained unchanged compared to the previous survey and increased by 1 pp compared to the previous year. In most cases, this properties are residential houses or a combination of a residential house and land. Only 1% of borrowers (2 households) declared that they own "more than 2 properties", while 6% of borrowers (15 households) declare that they "do not own any property" (Chart 4.2).

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

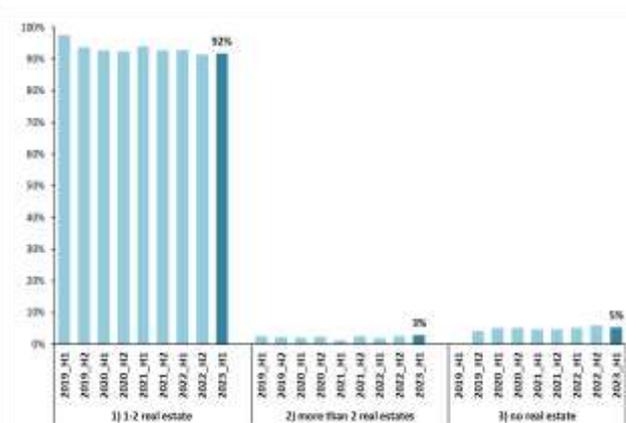
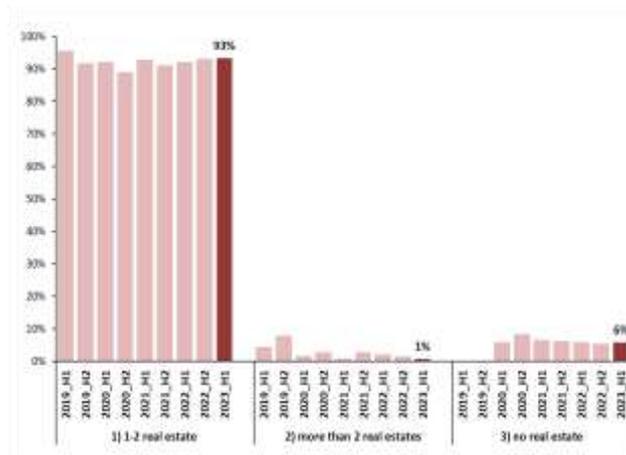


Chart 4.2 Distribution of borrowers by the number of real estates they own (in % of total responding household)



Source: Bank of Albania.

4.2-Households' financial wealth¹¹ For the period under review, about 55% of the total sample of surveyed households (borrowers and non-borrowers) and 75% of borrowing households reported that they "do not own any type of financial assets". Both shares have increased compared with the previous six months and the previous year.

¹¹ 1088 households that took part in the survey, answered the question regarding the financial wealth of the households.

Focusing the analysis only on the group of households that have declared financial wealth of various forms (excluding the cases where the household “does not possess any financial wealth”), it results that “*deposits and/or bank accounts*” continue to remain the main type of financial investment, both for the total sample (51% of cases) and the borrowing households (50% of cases). Compared to the previous six-months, these shares have decreased by 20 pp in the case of total households, and by 29 pp in the case of borrowing households.

Chart 4.3 Distribution of households (total sample) by the number of real estates they own
(in % of total responding households)

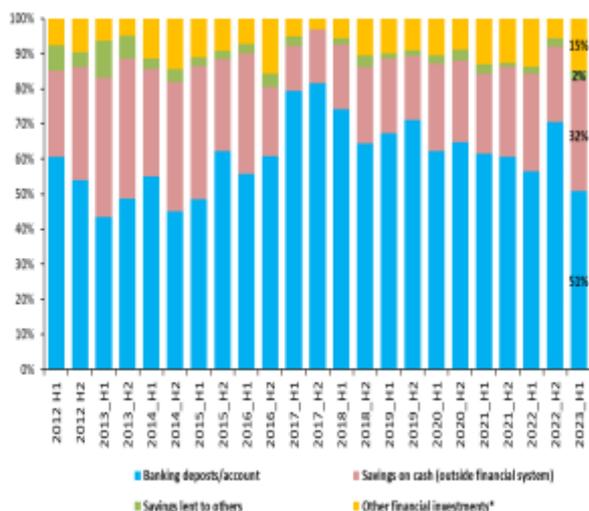
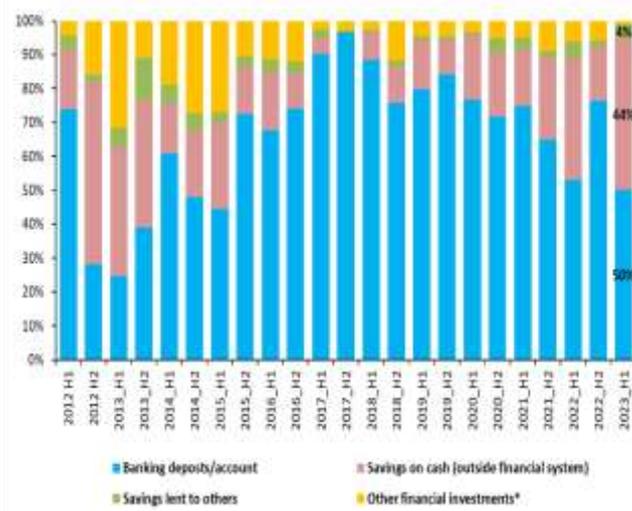


Chart 4.4 Distribution of borrowers (total sample) by the number of real estates they own
(in % of total responding households)



Source: Bank of Albania.

The use of other types of financial investments, defined as “other investments”¹², increased by 4 pp compared to the previous six months in the case of total households, and decreased by 1pp in the case of borrowing households.

¹²“Other investments” summarizes investments in: T-bills, life insurance, pension funds and securities.