



FINANCIAL AND BORROWING SITUATION OF ENTERPRISES IN ALBANIA

2023 H1

FINANCIAL STABILITY DEPARTMENT

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CONTENTS

Summary of key findings of the survey	2
Financial and borrowing situation of enterprises in Albania	4
1. Organisation and field of activity	4
2. Financial performance of enterprises and the presence of debt	7
3. Characteristics of enterprise borrowing.....	11
4. Debt structure	14
5. Debt burden.....	16
6. Relationship with banks and future expectations	19

Summary of key findings of the survey

The survey for 2023 H1 used a sample of 1352 of small, medium-sized, and large enterprises, operating in major sectors of the economy and geographically distributed across the country. The results of the survey show that for most enterprises, the sales and financial performance has been positive during the period under review, but deteriorating compared to the previous six months. Meanwhile, the issues related to finding a market and the increase in production and labour costs remain present. Enterprises' expectations for the performance of investments and activity remain optimistic. The share of borrowing enterprises continued to decline slightly over the year. The debt burden, in the form of debt ratio to capital and in the form of its servicing to the income of the enterprise, is estimated at affordable levels for most of enterprises, but upwards for small enterprises. Enterprises expect their credit demand to weaken further in the second half of 2023.

• FINANCIAL SITUATION

During 2023 H1, (hereinafter "*the period*"), small enterprises reported "**competition**" and "**market finding**", as their main challenges to the performance of their business. Meanwhile, medium-sized and large enterprises mentioned "**production and labour costs**" and "**competition**". Compared with the previous period, the importance of competition has increased for medium-sized enterprises, declined for small enterprises, and has remained unchanged for large ones.

The performance of sales and financial returns was positive during the period across all three groups of enterprises, but weakening compared with the previous six months. Over 92% of each size group reported profits during the period. Expectations for the next six months for enterprises of all sizes appear quite positive and upwards in terms of overall sales and the financial returns, compared to both the previous six months and previous year. **Signals continue to be positive regarding the expansion of the activity or the increase in investments for all sizes of enterprises.** *Expectations* on the next six months continue to remain optimistic, though medium-sized and large enterprises are less optimistic compared to the previous periods under review.

During the period, **around 58% of enterprises continued to finance their activity only through sales**, decreasing for small and medium-sized enterprises, and increasing for large ones.

Meanwhile, the trend of *combining different financing sources* continued to account for a considerable share during the period, expanding for small enterprises and narrowing for medium-sized and large enterprises. Financing the business activity through the *combination of sales revenue and accumulated reserves* makes the largest share in this regard.

• BORROWING

Around 38% of total responded enterprises state they are currently indebted. This share has decreased by 1 pp compared with the previous six-months, and by 2 p.p. compared with the previous year. In terms of size, the share of borrowing enterprises decreased for medium-sized and large enterprises (by 2.1 pp and 2.3 pp, respectively), while this share has increased slightly for small enterprises by 0.5 pp. By sector, the share of the borrowing enterprises is higher in the trade sector (46% of the total sector), and lower in the services sector (26.9%).

In total, formal sources of borrowing (from banks and non-bank financial institutions) are used by 92% of borrowing responding enterprises, 2.4 pp lower than in the previous six months, but 1.2 pp higher than in the previous year. Among them, around 90% of borrowing enterprises declare that they have borrowed in the banking sector only, and this share is 2 pp lower compared to 2022 H2. The combination of *formal* with other sources has been used by 4% of enterprises.

Enterprises borrowed primarily to cover short-term expenditures and to finance long-term investments. The share of enterprises that borrowed to cover short-term expenditures increased across the three sizes of enterprises compared with the previous six months. At the same time, the share of enterprises that borrowed to finance a long-term investment has decreased for all three groups of enterprises, but more pronounced for small and large enterprises. Around 87% of small borrowing enterprises, 87% of medium-sized enterprises and 86% of large enterprises consider their actual borrowing level as *adequate*. Compared to 2022 H2, this share is higher for all sizes of enterprises.

The euroisation level regarding the enterprises' activity appears overall low for all sizes of enterprises, though it continues to maintain a higher share for large enterprises. On the other hand, enterprises' borrowing appears relatively balanced. Borrowing is denominated in the *domestic currency* for 59% of small borrowing enterprises, 60% of medium-sized enterprises and 49% of large enterprises; while the rest is in foreign currency and/or combined. Borrowing in *foreign currency*, mainly in the euro, is mostly preferred by large and medium-sized enterprises (39% and 38%, respectively) and less by small enterprises (around 37.7%). Compared to 2022 H2, the share of enterprises with loans in foreign currency has increased by 6 pp for small enterprises, but it has decreased for medium-sized and large enterprises (by 2.7 pp and 1.6 pp, respectively).

The total value of loans were reported to be approximately half the value of an enterprise's equity for around 83% of total borrowing enterprises and almost at the same level of the value of equity for around 9% of them, whilst the rest, 8% of them, stated that the value of loans exceeded that of equity. Analysed by size, the loan/equity ratio is higher for small enterprises, with around 21% of them stating that this ratio equals or exceeds the value of equity, implying a higher debt burden for these enterprises.

• RELATIONS WITH BANKS

The difficulty level in borrowing from banks was assessed as either "normal" or "difficult", declining during the period in the case of medium-sized and large enterprises, whilst increasing in case of small enterprises. *Relationships with banks* continued to be assessed as "important" or "necessary". The main factor reported to make obtaining a bank loan difficult was high *loan costs*, particularly in the case of small enterprises. There was an increase, in the number of small and medium-sized enterprises which claimed to face this particular difficulty in the six-month period.

Regarding plans to request a loan in the future, around 47% of responded enterprises stated that there was "*no likelihood*" they would request a bank loan in the next six months. Compared to the previous period, this share has decreased across all the three groups of enterprises. On the other hand, there is a decrease in the share of three groups of enterprises reporting that "*is less likely*" and "*it is very likely*" to borrow in the second half of 2023. As a result, the debt planning index has decreased, signalling a further decline in the demand for loans.

Financial and borrowing situation of enterprises in Albania

Sample characteristics¹. In 2023 H1, (hereinafter “the period”) the survey was conducted with a sample of 1352 enterprises geographically distributed in 12 districts across the country. Most enterprises (around 81%) are located in the four major districts, namely: Tirana (around 55%), Durrës (around 15%), Fier (around 6%), and Shkodra (around 4%).

Around 86% of the total sample of enterprises (1155 in total) responded either fully or partially to the survey questionnaire, and the analysis of the results is based on these responses. The following analysis is largely based on a breakdown of enterprise by size.

1. Organisation and field of activity

1.1 - Distribution of enterprises by sector and size

For 2023 H1, around 33% of the sampled enterprises belong to the *industry* sector, 32% to the *services* sector, 14% to the *construction* sector, and 21% to the *trade* sector. By size, the distribution of the sample is as follows: around 23% of enterprises are classified as *small enterprises* (5-19 employees), 17% as *medium-sized enterprises* (20-49 employees), and around 62% as *large enterprises* (over 50 employees). In the group of *small enterprises*, those operating in the services sector (around 40%) account for the main share, followed by the trade sector (around 25%). On the other hand, in the group of medium-sized and large enterprises, the industry sector (by around 33% and 38%, respectively) and the services sector (by around 28% and 30%, respectively) have the highest share.

Chart 1.1 Distribution of enterprises by size

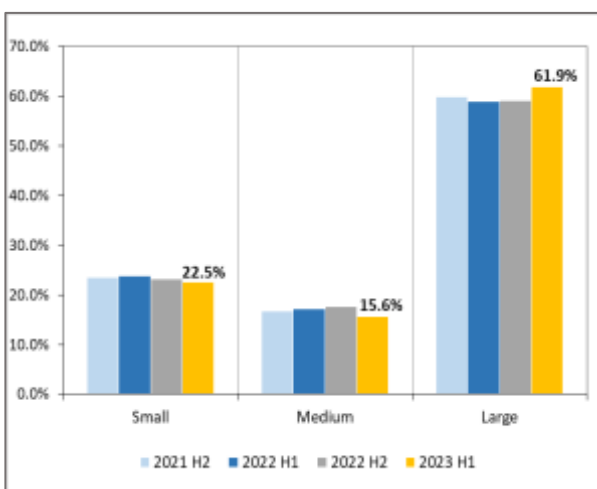
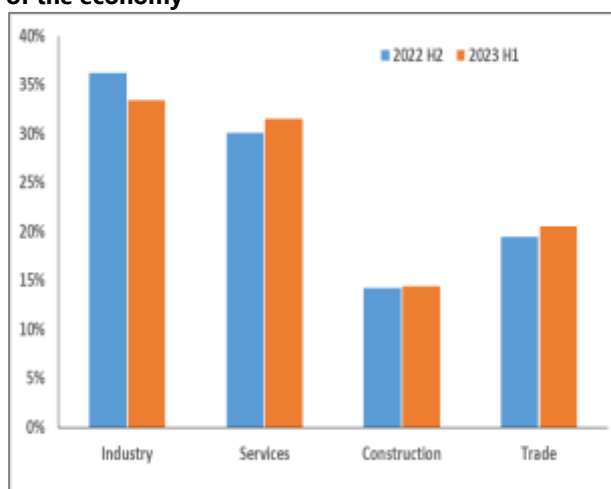


Chart 1.2 Distribution of enterprises by size and sector of the economy



Source: Bank of Albania.

¹ The survey on the financial and borrowing situation of enterprises has been conducted biannually since 2010 H2. Initially, 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.

1.2- Obtaining raw materials and selling products

Most of small and medium-sized enterprises (around 52% of small enterprises and 37% of medium-sized enterprises) obtain over 80% of their raw materials domestically. Compared to the previous period, this indicator decreased by 2.7 pp in the case of small enterprises and by 1.9 pp in the case of medium-sized enterprises. By contrast, around 39% of large enterprises obtain only up to 20% of their raw materials domestically, decreasing by 1 pp in semi-annual terms.

Most of the respondent enterprises declare that their products are *largely sold within the country*, herein around 83% of the small enterprises, 69% the of medium-sized enterprises and 55% the of large enterprises, claim to have sold over 80% of their products domestically. Compared to the previous six months, the above shares have decreased by 1.6 pp in the case of small enterprises and by 2 pp in case of large enterprises, but have increased by 3.3 pp in case of medium-sized enterprises.

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

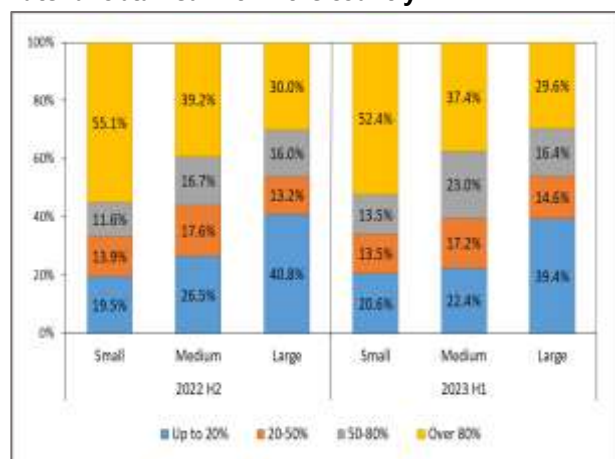
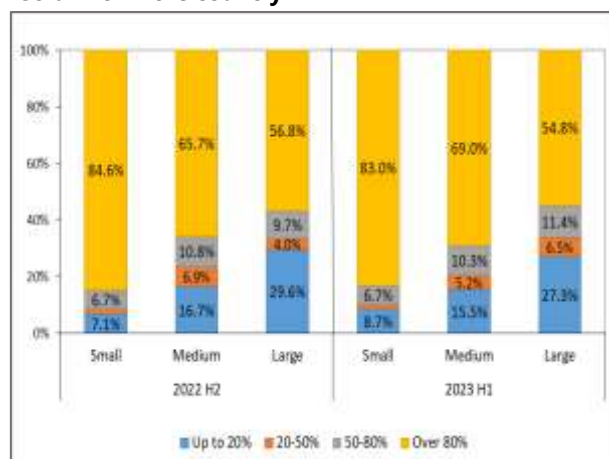


Chart 1.4 Distribution of enterprises as % of goods sold within the country



Source: Bank of Albania.

The analysis of responses by sector shows that construction and services sectors have a larger reliance on the domestically provided raw materials. In this regard, about 57% and 51% of the enterprises in these sectors obtain over 80% of their working materials within the country. However, these shares decreased by around 5 pp and 6 pp, respectively, compared to the previous six months, and by 12 pp and 10 pp, respectively, compared to the previous year. On the other hand, the industry sector shows the lowest reliance with 52% of the enterprises in this sector obtaining *only 20% of their raw materials* domestically. The share of these enterprises has remained almost unchanged compared to the previous six months, and has increased by 3.3 pp compared to the previous year.

Table 1.1 Enterprises by sector and percentage of obtaining raw materials domestically

		up to 20%	20-50 %	50-80 %	above 80%
Industry	2021 H1	52.6%	14.1%	9.1%	24.2%
	2021 H2	49.1%	16.1%	12.7%	22.1%
	2022 H1	49.2%	14.1%	14.3%	22.4%
	2022 H2	52.0%	14.0%	13.3%	20.7%
	2023 H1	52.4%	15.8%	12.2%	19.6%
Services	2021 H1	18.4%	6.4%	14.3%	60.8%
	2021 H2	18.5%	4.2%	11.2%	66.1%

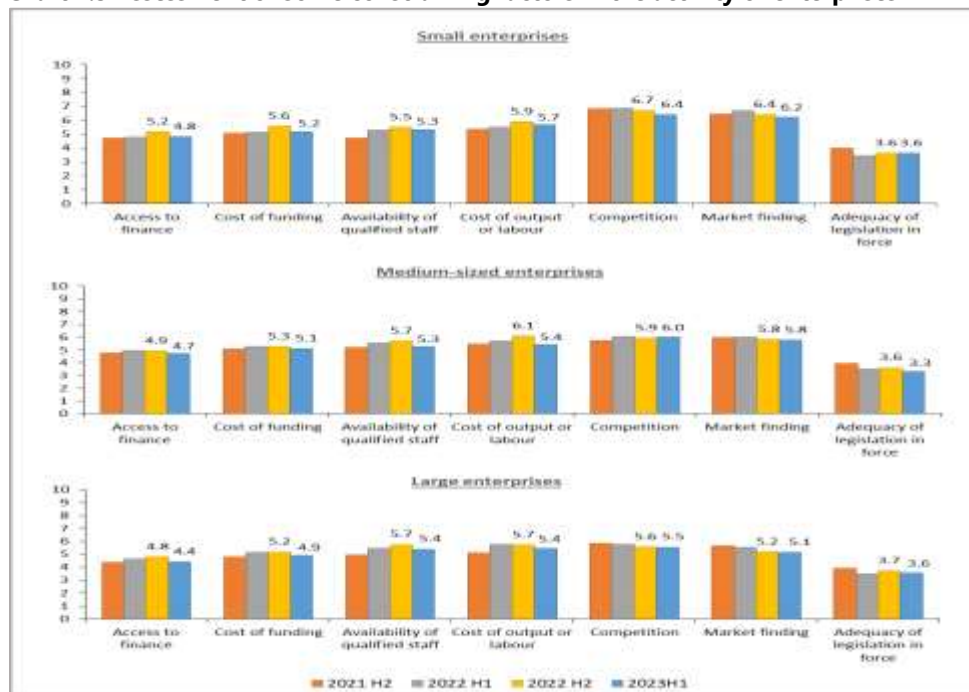
	2022 H1	17.8%	7.9%	13.5%	60.8%
	2022 H2	21.8%	8.6%	12.9%	56.7%
	2023 H1	23.6%	9.5%	16.1%	50.7%
Construction	2021 H1	4.4%	3.1%	20.1%	72.3%
	2021 H2	1.2%	5.3%	17.5%	76.0%
	2022 H1	2.3%	5.2%	23.3%	69.2%
	2022 H2	4.8%	9.7%	23.0%	62.4%
	2023 H1	5.6%	11.1%	25.9%	57.4%
Trade	2021 H1	29.7%	24.7%	16.4%	29.2%
	2021 H2	41.2%	17.1%	15.6%	26.1%
	2022 H1	36.8%	23.2%	11.6%	28.4%
	2022 H2	37.6%	26.1%	15.9%	20.4%
	2023 H1	32.9%	23.8%	18.2%	25.1%

Source: Bank of Albania.

1.3- Constraining factors in the activity of enterprises²

During the surveyed period, small enterprises reported "competition", and "market finding," as the main issues in conducting their activity, while medium-sized and large enterprises reported "competition" and "the cost of funding". Compared to the previous period, the importance of the above factors has increased in the case of medium-sized enterprises, decreased in case of small enterprises, and remained unchanged in case of large enterprises. The assessment regarding the importance of factors such as "cost of funding" and "availability of qualified staff" has decreased for all three groups during the same period.

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



Source: Bank of Albania.

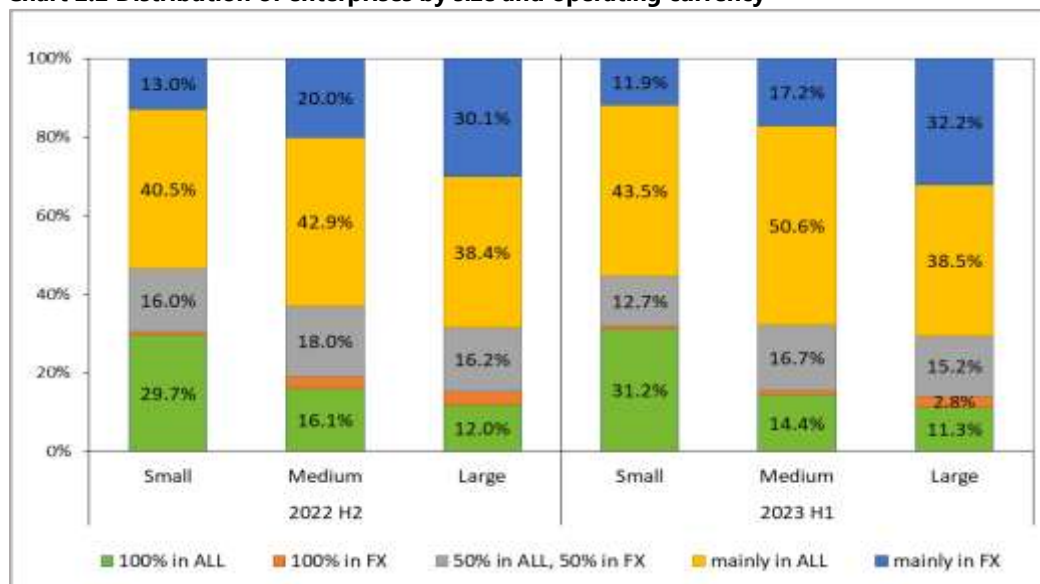
² Enterprises have given their opinion on the importance of certain issues for which they are asked to provide a scale rating from 1 to 10, where 1 is the lowest and 10 is the highest level of difficulty. To aggregate responses to each of the assessed issues, a weighted average is calculated by weighing the answers with the rating scales (1-10) for all respondent enterprises.

2. Financial performance of enterprises and the presence of debt

2.1 The currency of operational activity

The euroization level regarding the sampled enterprises activity is overall low for all sizes of enterprises, although it remains higher across large enterprises. Thus, around 13% of small enterprises and 18% of medium-sized enterprises state that they carry out their activity *entirely* or *mostly*³ in foreign currency, showing a decrease by 1.1 pp and 4.6 pp, respectively, compared to the previous period. This indicator stands at around 35% for large enterprises, increasing by 1.5 pp compared to the previous period.

Chart 2.2 Distribution of enterprises by size and operating currency



Source: Bank of Albania.

2.2 Sales performance, financial returns and expansion of activity

During the period, sales increased for all sizes of enterprises, though somewhat worsening compared to the previous six months. All three groups of enterprises reported an increase in sales levels during the period, resulting in positive net balances (2.7%, 20% and 27.5% respectively). Compared to the last six months, the sales performance deteriorated in the case of small and large enterprises and remained almost the same in the case of medium-sized enterprises. Regarding the expectations on sales levels during 2023 H2, all three types of enterprises are quite optimistic, with positive net balances of responses, higher compared to both the previous six months and the previous year.

³ More than 50% of the activity in foreign currency.

Chart 2.2 Net sales balance

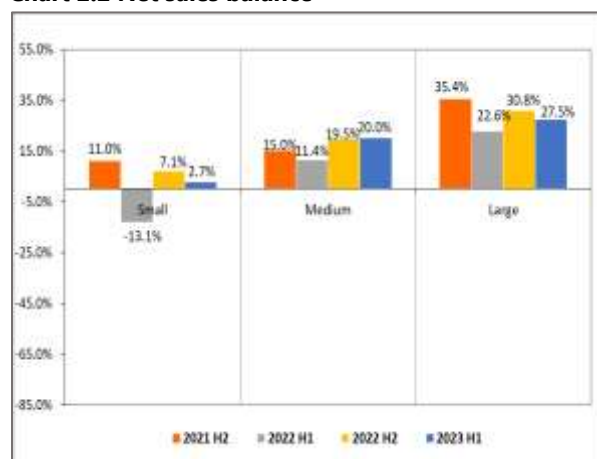
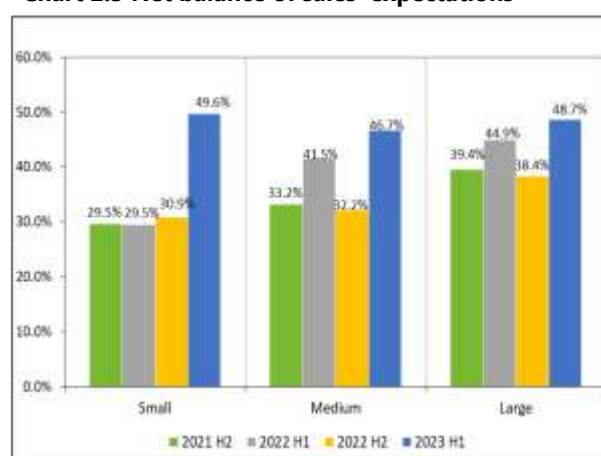


Chart 2.3 Net balance of sales' expectations



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

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. **The performance of the sales index decreased over the period compared to 2022 H2.** By size, the index shows a decrease in total value of sales, for all three sizes of enterprises. By sector, the index remained almost at the same level comparing to the previous six months in the case of enterprises operating in the sectors of industry, construction and trade, and decreased in the case of enterprises operating in the service sector.

Chart 2.4 Sales performance index- by size of enterprises

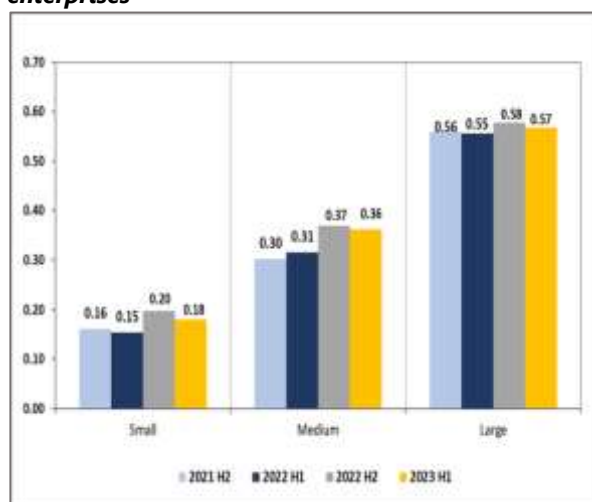
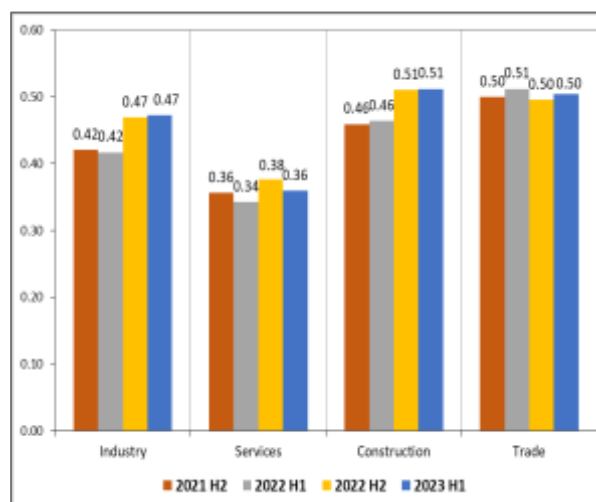


Chart 2.5 Total sales index -by sector



Source: Bank of Albania.

⁴ 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.

Medium-sized and large enterprises report an increase in the financial returns, while small enterprises report a decrease. Thus, medium-sized and large enterprises continue to declare increase in the financial returns, with a positive net balance of responses (12.2% and 22%, respectively), lower compared to the previous period, but higher compared to the previous year. At the same time, small enterprises report a decrease in the financial returns with a negative balance of -1.5%. Likewise expectations on sales, *expectations on financial returns* for the next six months are positive for all three sizes of enterprises and more optimistic compared to the previous period.

Chart 2.6 Net balance of financial returns

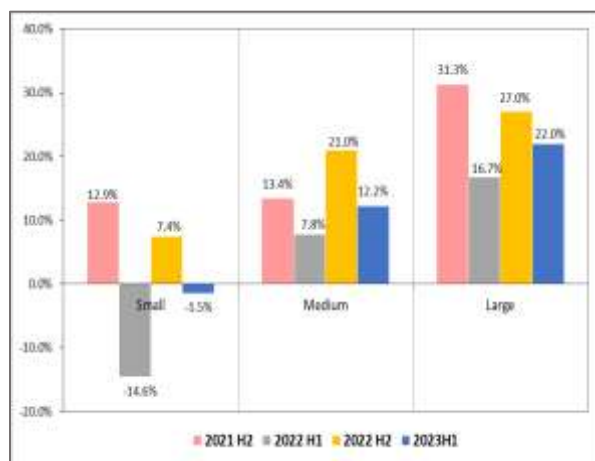
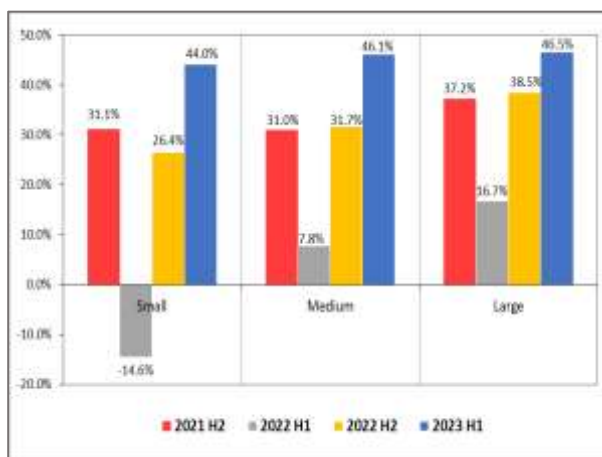


Chart 2.7 Net balance of the expected financial results over the next six months

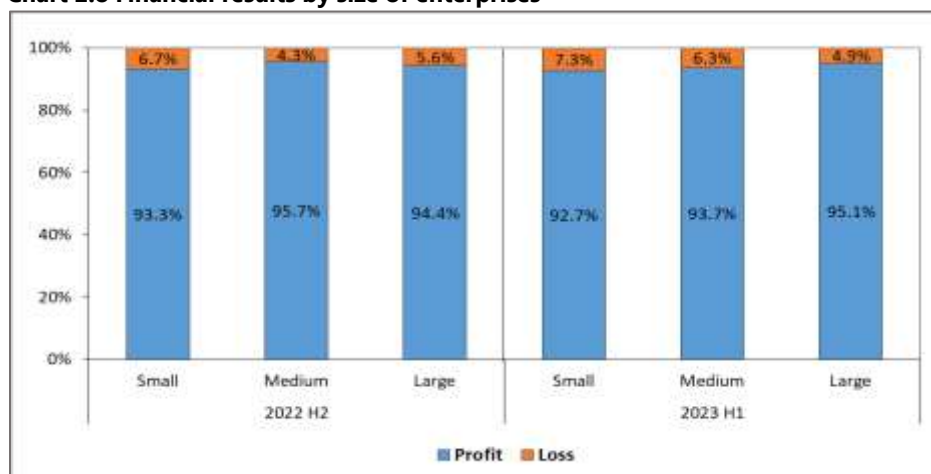


Source: Bank of Albania.

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 answers provided.

When asked about financial returns⁵ in 2023 H1, more than 92% of responding enterprises for each group, reported a profit during the period. This share was higher for large enterprises (around 95%) and lower for small enterprises (around 93%). The share of profit-reporting enterprises increased for large enterprises compared to the previous period.

Chart 2.8 Financial results by size of enterprises



Source: Bank of Albania.

⁵ 1042 enterprises or around 76% of the sample responded.

The performance of enterprises regarding the investment growth and activity expansion continues to provide positive signals for all sizes of enterprises. Medium-sized and large enterprises registered positive net balances of about 12.2% and 20.4%, respectively. Meanwhile, small enterprises also stated to have expanded their activity, with a positive balance of responses of about 4.6 %, higher compared to both the previous six months and the previous year. For *the next six months*, the net balances of the responses were positive for all sizes of enterprises, implying expectations for investment or further expansion of the activity. Compared to the results in the previous period, these expectations continued to remain optimistic, but show a narrowing for medium-sized and large enterprises, and an expansion for small enterprises.

Chart 2.9 Net balance of activity expansion in the previous 6 months

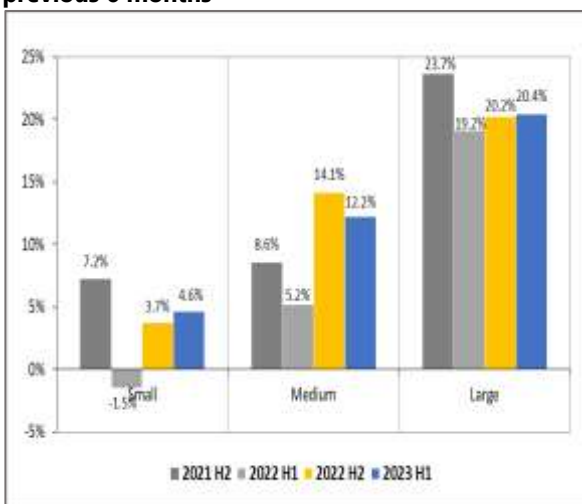
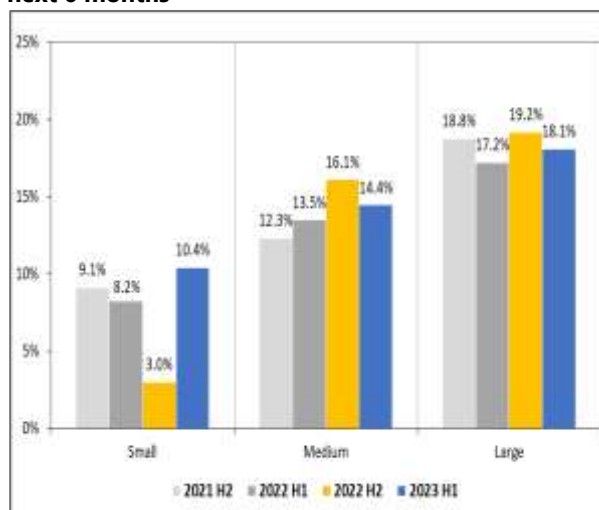


Chart 2.10 Net balance of activity expansion over the next 6 months



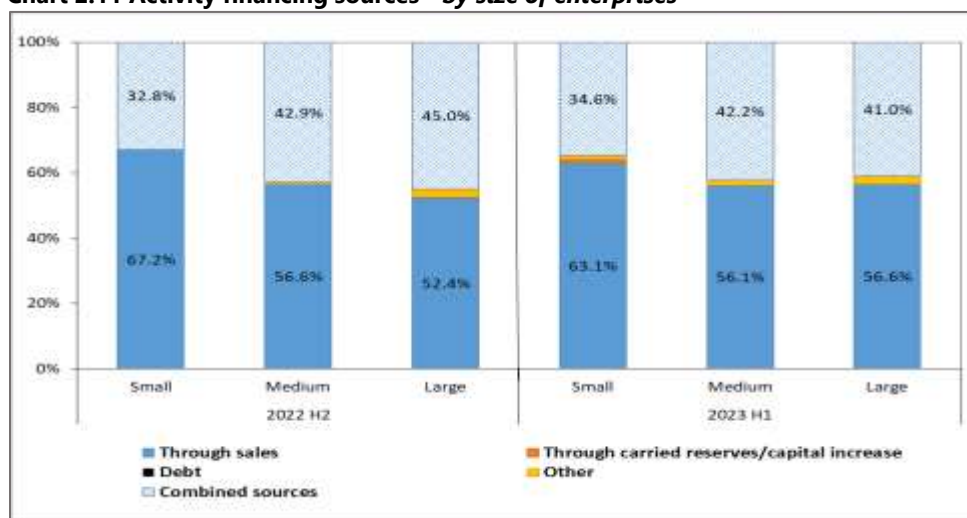
Source: Bank of Albania.

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 answers provided.

2.3 Financing the activity

During 2023 H1, around 58% of enterprises continued to finance their activity only through sales (around 63% of small enterprises, 56% of medium-sized enterprises, and 57% of large enterprises), **recording a decline for small and medium-sized enterprises, and an increase for large enterprises.** Meanwhile, the inclination of combining different financing sources continued to account for a considerable share during the period, expanding for small enterprises, and narrowing for medium-sized and large enterprises. Financing through the combination of sales and accumulated reserves continued to represent the largest share in this regard, followed by the combination sales with loans.

Chart 2.11 Activity financing sources - by size of enterprises



Source: Bank of Albania.

3. Characteristics of enterprise borrowing

Around 38% of total responded enterprises⁶ (436 enterprises in total) stated that they have a loan to repay. This share has decreased by 1 pp and by 2 pp, respectively compared to the previous six months and the previous year. By size, the share of borrowing enterprises decreased for medium-sized and large enterprises during the period (by 2.1 pp and 2.3 pp, respectively) and slightly increased by 0.5 pp for small enterprises. By sector, the highest share of borrowing enterprises is in the trade sector (46% of total), followed by the construction sector (44%), and the industry sector (40.2%). Meanwhile for the sector of services this accounts for 26.9%.

Table 3.1 Distribution of enterprises by size and debt

Borrowing enterprises by size	No. of enterprises		Share to total of the group:	
	2022 H2	2023_H1	2022 H2	2023_H1
Small	68	67	25.3%	25.8%
Medium	75	62	36.6%	34.4%
Large	310	307	45.3%	42.9%
Total enterprises	453	436	39.1%	37.7%

Source: Bank of Albania.

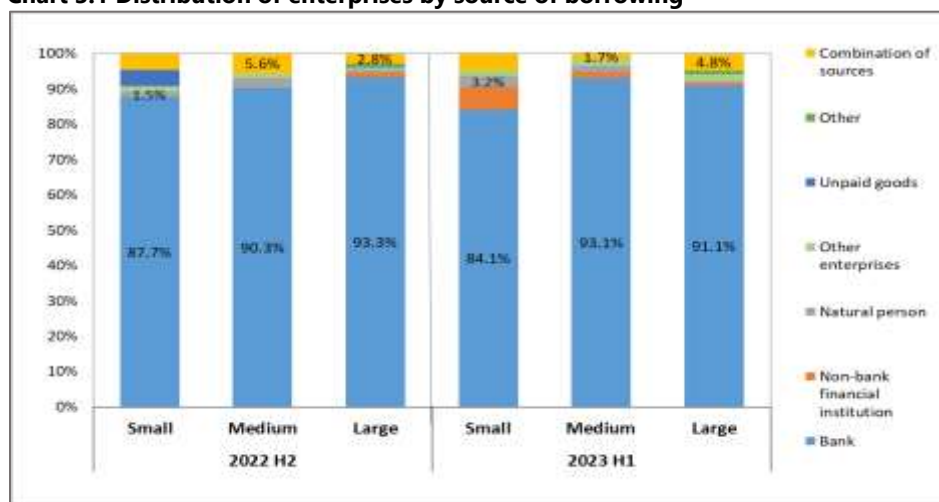
The following analysis is conducted relying on responses of the borrowing enterprises only.

⁶Taking into consideration the whole sample of 1352 enterprises, only 1160 or around 86% have responded.

3.1 Source of borrowing

Around 92% of borrowing enterprises claim that, in terms of borrowing, they mainly relied on the financial system (90% from banking sector and 2% from non-bank financial sector), whilst almost 5% borrowed from combined sources. The share of enterprises borrowing from banks decreased by 2.4 pp compared to 2022 H2, but increased by 1.2 pp compared to the previous year. By size, around 84% of small enterprises, 93% of medium-sized enterprises and 91% of large enterprises turned to *banks only as a source of borrowing*. This share increased for medium-sized enterprises, but decreased for small and large enterprises, compared with the previous six months. Beside banks, a number of enterprises, turned to *non-bank financial institutions* (6% of small enterprises, 2% of medium-sized enterprises and 1% of large enterprises), or combined formal and informal sources (borrowing from natural persons, other companies, unpaid goods). In total, *formal borrowing sources* (from banks and non-financial institutions) were used by 92% of borrowing enterprises (around 92% of small enterprises, 95% of medium-sized enterprises and 91% of large enterprises). This share declined by 2.4 pp compared to the previous six-months, but increased by 1.2 pp compared to the previous year. A combination and informal sources were used by 4% of enterprises.

Chart 3.1 Distribution of enterprises by source of borrowing

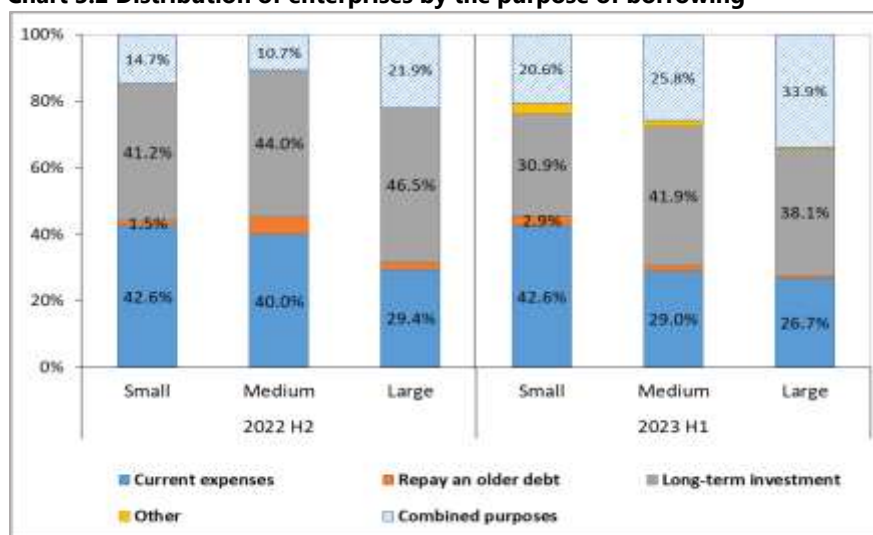


Source: Bank of Albania.

3.2 Purpose of borrowing

Borrowing was mainly used to cover short-term expenses and for making long-term investments. Compared with the previous period, the share of enterprises that borrowed to cover short-term expenditures increased in all sizes of enterprises, particularly in the case of large enterprises (by 27 pp) and small enterprises (by 21 pp). Meanwhile, the share of enterprises that borrowed with the purpose of long-term investment, decreased for all the three groups of enterprises, more pronounced across small enterprises (by 10.3 pp) and large enterprises (by 7.7 pp).

Chart 3.2 Distribution of enterprises by the purpose of borrowing

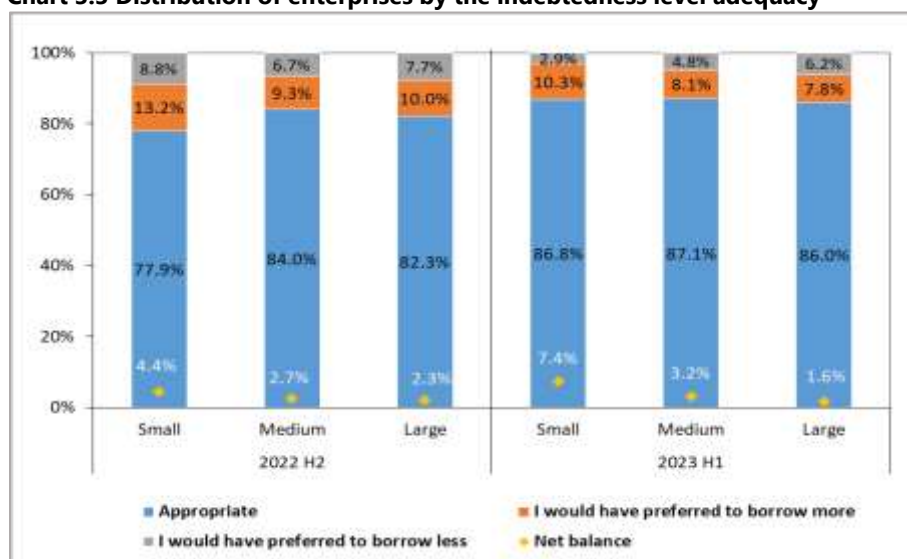


Source: Bank of Albania.

3.3-Indebtedness level

During the surveyed period, around 86% of the total enterprises consider as *adequate* their borrowing level to finance their activity. By size of enterprises, this indicator is 87% in the case of small enterprises and medium-sized enterprises, and is 86% the case of large enterprises. Compared to the previous period, these shares increased for all three groups of enterprises, but more pronounced for small enterprises. The rest of responses resulted in a positive net balance for all three sizes of enterprises. This balance indicates that the share of enterprises that would prefer to borrow more in order to finance the activity, is higher than the share of those that would prefer to borrow less. This is particularly the case for small enterprises. Compared to the previous survey, the credit demand appears to have expanded for small and medium-sized enterprises, and narrowed for large enterprises.

Chart 3.3 Distribution of enterprises by the indebtedness level adequacy



Source: Bank of Albania.

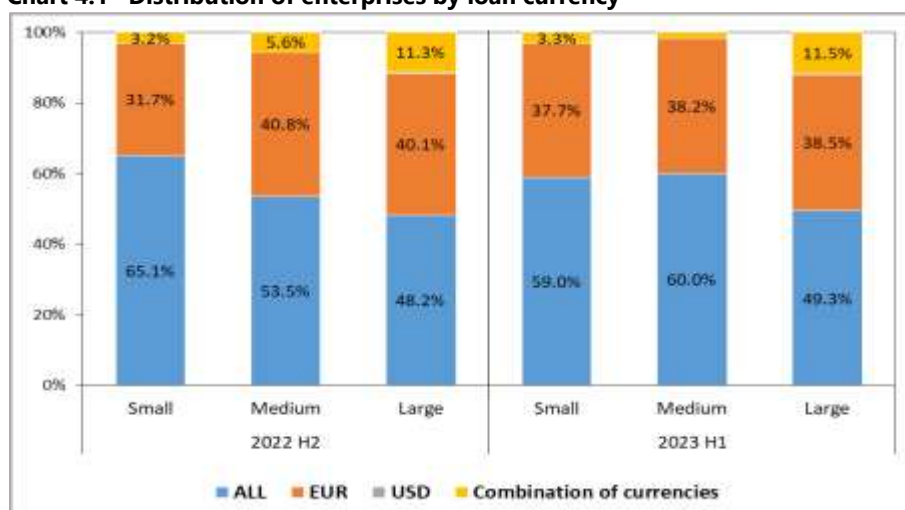
4. Debt structure

4.1 Currency

By currency, borrowing in ALL continues to have the main share the enterprises borrowing level.

During the period, 59% of small enterprises, 60% of medium-sized enterprises and 49% of large enterprises, declared that they have borrowed only in the domestic currency, whilst the rest in foreign currency (euro and/or US dollars), and/or combined currency (domestic and foreign). During the surveyed period, borrowing in foreign currency (mainly in euro) was used mostly by large and medium-sized enterprises (39% and 38%, respectively) and less by small enterprises (around 37.7%). This is also affected by the currency with which these enterprises carry out their activity. However, compared to the previous six months, the share of enterprises with foreign currency loans increased by 6 pp for small enterprises, but decreased for medium-sized and large enterprises (by 2.7 pp and 1.6 pp, respectively).

Chart 4.1 Distribution of enterprises by loan currency



Source: Bank of Albania.

4.2 Debt and maturity

The share of enterprises that have borrowed in the *past 1-5 years* is around 58% for small enterprises, 67% for medium-sized enterprises and 52% for large ones. Compared with the previous six months, this share increased for all sizes of enterprises, especially for the medium-sized enterprises, (by 5.9 pp, 9.9 pp and 4.5 pp, respectively).

New borrowing, which implies borrowing in the *last six months*, is reported by around 9% of small enterprises, 3% of medium-sized enterprises and 8% of large enterprises. In semi-annual and annual terms, the share of new borrowers was lower among small and medium-sized enterprises and higher for large enterprises. The main *purpose* for new borrowing was to *cover short-term expenditures* (around 71% of the total responded enterprises) and to make long-term investments (around 22% of total responded enterprises).

Compared to the previous six months, the share of new borrowing to *cover short-term expenditures* increased for small and large enterprises (by 25 pp and 27 pp, respectively), whilst the share of new borrowing for *long-term investments* decreased (by 17 pp and 10 pp, respectively). On the contrary, the new borrowing with the purpose of long-term investments was most pronounced among medium-sized

enterprises (the share of new borrowers increased by 25 pp). *The average remaining maturity* of borrowing resulted in 62.4 months for small enterprises, 62.7 months for medium-sized enterprises and 62.8 months for large ones. In all three cases, the maturity term has been decreasing compared to the previous six months and the previous year.

4.3 Interest rate and repayment method

The main type of interest rate for the largest existing debt⁷ remains the *fixed rate until maturity* (for around 75% of small enterprises, 63% of medium-sized enterprises and 66% of large enterprises), **and the *yearly variable interest rate*** (for 21% of small enterprises, 27% of medium-sized enterprises and 21% of large enterprises). Compared to the previous period, the share of enterprises reporting *fixed interest rate borrowing* increased for small and medium-sized enterprises and decreased for large enterprises. The frequency of repayment remains primarily monthly for 77% of small enterprises, 81% of medium-sized enterprises and 70% of large enterprises.

4.4 Collateral type and coverage ratio

Around 70% of small enterprises, 78% of medium-sized enterprises and 77% of large enterprises, reported that debt is collateralized *only through real estate*, while the remaining of enterprises used other forms of collateralization⁸. Meanwhile, around 18% of small enterprises, 5% of medium-sized enterprises and 9% of large enterprises, stated that their debt was uncollateralized. Compared to the previous six months, the share of enterprises with uncollateralized debt increased for small enterprises, whilst decreased for medium-sized enterprises. Meanwhile, collateralization with financial instruments increased for medium-sized and large enterprises, and collateralization with bail/guarantee increased for small enterprises.

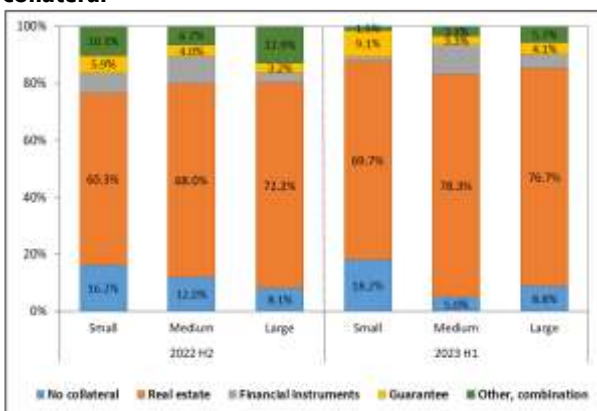
Aggregate coverage is estimated through the weighted index of responses⁹. For 2023 H1, this index scored 0.55 for small enterprises, 0.53 for medium-sized enterprises and 0.55 for large enterprises. Compared to the previous period, the coverage ratio increased for small enterprises and decreased for medium-sized and large enterprises.

⁷For enterprises that have more than one debt.

⁸ Financial assets, guarantee, other warranties, along with the combination of some forms of collateralization, including the combination with real estate.

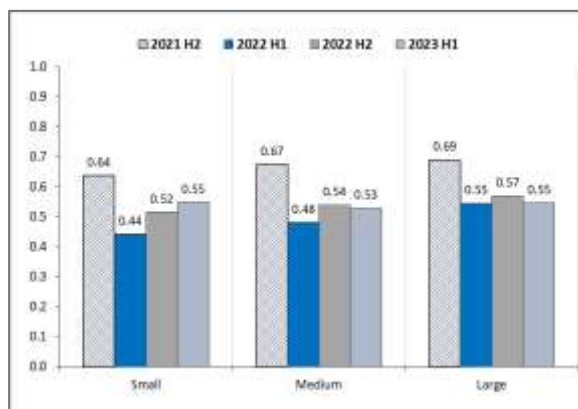
⁹ This index takes values from 0 to 1 and its increase indicates an increase in collateral coverage. Based on each of the alternatives, the weighting coefficients of this index are: "Up to 50% of the collateralized debt" = 0.25; "50-100% of the collateralized debt" = 0.5; "100-120% of the collateralized debt" = 0.75; "Over 120% of the collateralized debt" = 1.

Chart 4.2 Distribution of enterprises according to collateral



Source: Bank of Albania

Chart 4.3 Collateral coverage index

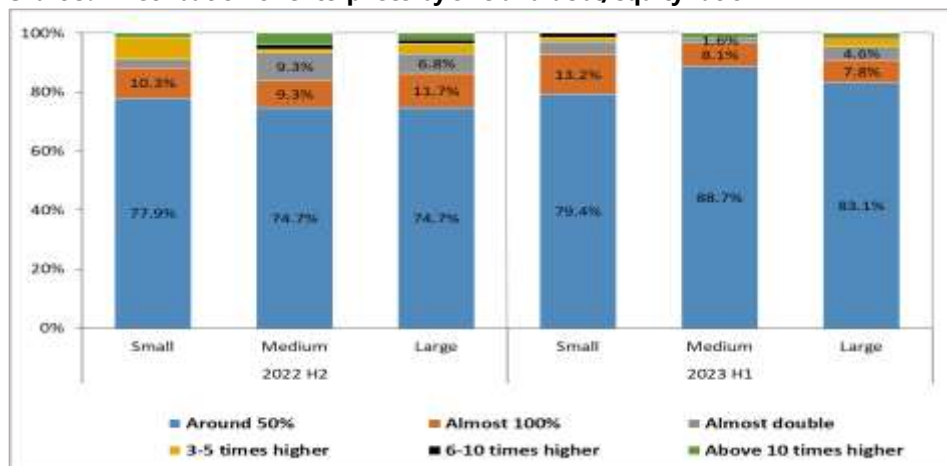


5. Debt burden

5.1 Debt value to equity

During the period, the total value of debt is approximately equal to *half the value of the enterprise equity* for around 83% of borrowing enterprises and *almost equal to the value of equity* for around 9% of them, while the remaining 8% stated that the value of debt exceeded that of the equity. The debt/equity ratio was higher for small enterprises, with around 21% of them declaring that this ratio was equal or exceeded the value of equity, implying a higher debt burden on these enterprises. During the period under review, this ratio decreased for all three groups of enterprises compared to the previous period.

Chart 5.1 Distribution of enterprises by size and debt/equity ratio



Source: Bank of Albania.

By sector, debt burden has decreased for all the sectors under review. The debt burden appears lower for enterprises operating in the industry and trade sectors, whilst it appears higher for enterprises operating in the construction and service sectors.

Table 5.1 Share of enterprises with an equal/higher value of debt to equity, by sector

Share of enterprises with an equal/higher value of debt to equity, by sector				
	Industry	Services	Construction	Trade
2021 H2	22.7%	24.7%	24.4%	22.1%
2022 H1	20.7%	21.2%	25.3%	22.5%
2022 H2	21.9%	28.9%	26.4%	25.3%
2023 H1	9.7%	20.4%	24.3%	18.2%

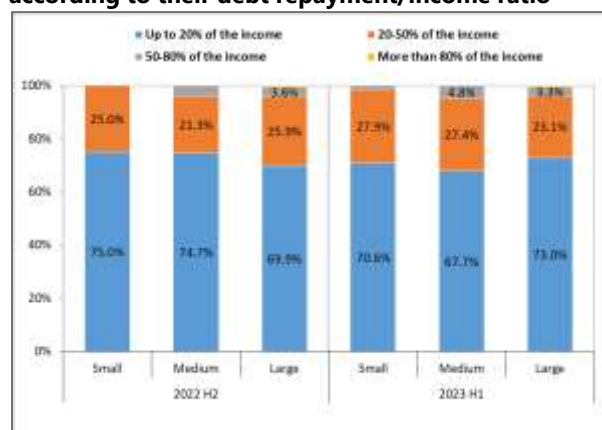
Source: Bank of Albania.

5.2 Debt repayment

Most of the borrowing enterprises (around 72%) declared that the debt repayment amounted to up 20% of their income. The share of these enterprises slightly increased by 0.4 pp compared to the previous survey. The burden of debt repayment appears to be heavier on medium-sized and small enterprises, with 32% and 29% of them, respectively reporting that this payment exceeded 20% of their income.

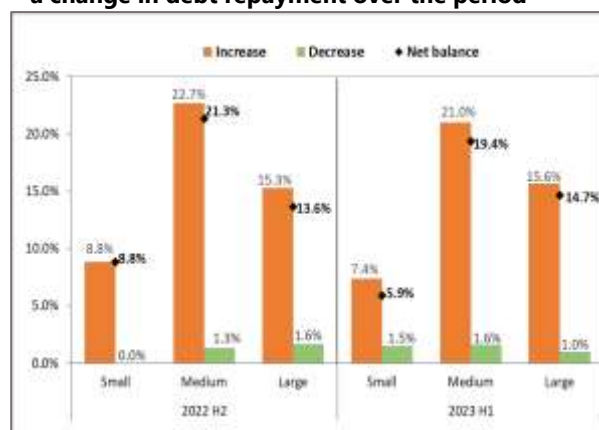
Asked whether the cost of debt service has changed over the past six months, most of enterprises (around 91% of small enterprises, 77% of medium-sized enterprises and 83% of large enterprises), claimed that this expenditure remained unchanged. The responses of the rest of enterprises indicated net positive balances for all sizes of enterprises, showing an increase in this expenditure as a ratio to income. This balance has increased in semi-annual and annual terms for large enterprises and has decreased for small and medium sized enterprises.

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



Source: Bank of Albania.

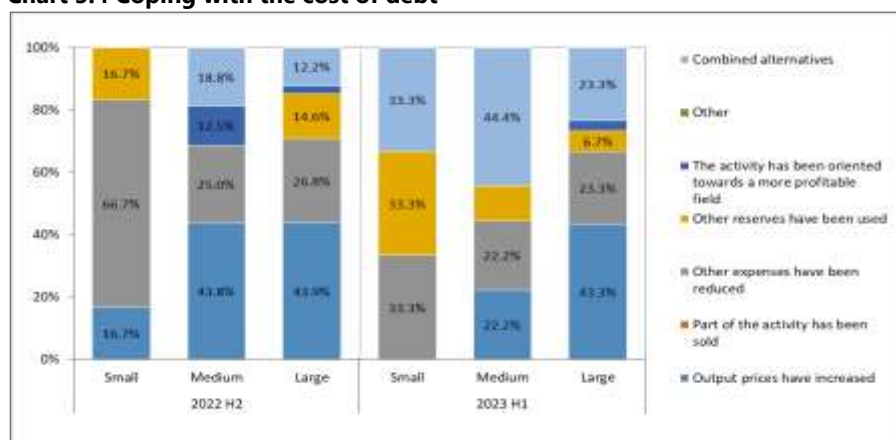
Chart 5.3 Distribution of enterprises that declare a change in debt repayment over the period



5.3 Coping with loan costs

To compensate for an increase in loan service costs, enterprises continued to rely primarily on an increase in the prices of products (36% of enterprises), on a decrease in other expenses (24%) or they used various reserves (10%).

Chart 5.4 Coping with the cost of debt

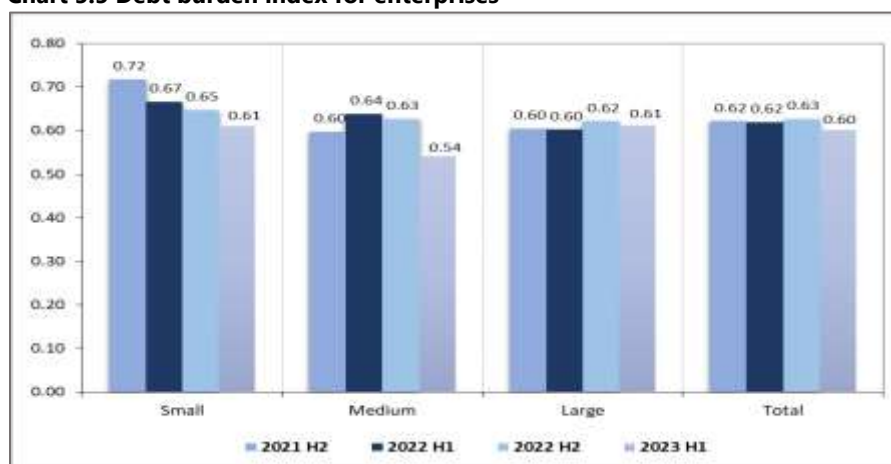


Source: Bank of Albania

5.4 Debt burden

The debt burden of borrowing enterprises decreased during the period, where the index value¹⁰ for total enterprises was 0.60. By size, the index shows a higher debt burden for small and large enterprises (the index value was 0.61), though declining for all the three groups of enterprises compared with 2022 H2.

Chart 5.5 Debt burden index for enterprises



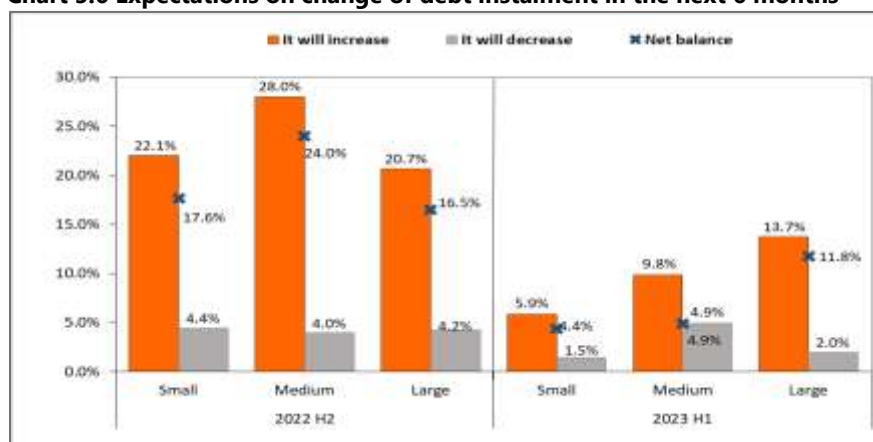
Source: Bank of Albania.

5.5 Expectations for the repayment of debt instalments during the next six months

Most of the borrowing enterprises (around 86%), despite their size, do not expect a change in the loan instalment during 2023 H2. This share increased by 12 pp compared to the previous period. Regarding the share of enterprises that expect a change in loan instalment, all three groups of enterprises expect an increase (positive net balance) in the second half of 2023, but the expectations are higher in the case of large enterprises. Compared to the previous period, expectations appear to have reduced and net balances turned out to be lower in all the three groups.

¹⁰The 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.

Chart 5.6 Expectations on change of debt instalment in the next 6 months



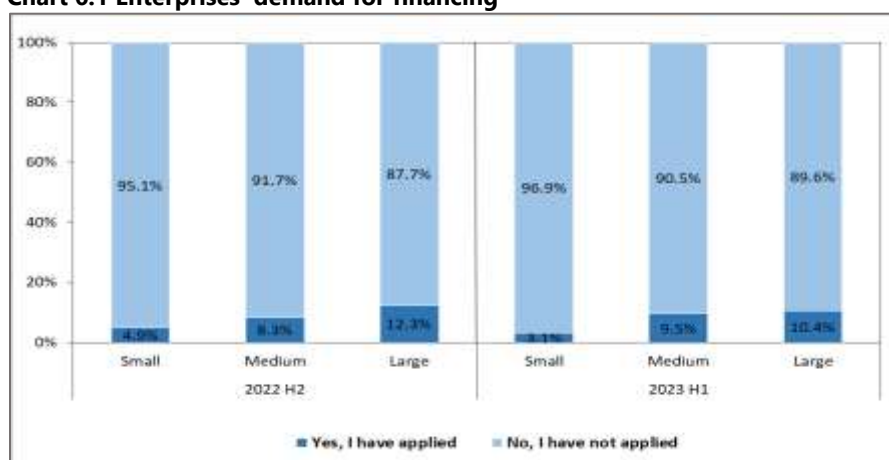
Source: Bank of Albania.

6. Relations with banks and expectations for the future¹¹

6.1 Access to finance

Enterprises' demand for loans narrowed in 2023 H1, where around 9% of them declared that they applied for financing. This share contracted by around 1.2 pp for total enterprises compared with the previous survey. Analysing this indicator by size of enterprises, large enterprises account for the highest share for this period (around 10%). Compared with the previous six months, a narrowing of loan demand was observed for small and large enterprises (by 1.8 pp and 1.9, respectively), whereas medium-sized enterprises presented an expansion of this demand (by 1.2 pp).

Chart 6.1 Enterprises' demand for financing



Source: Bank of Albania.

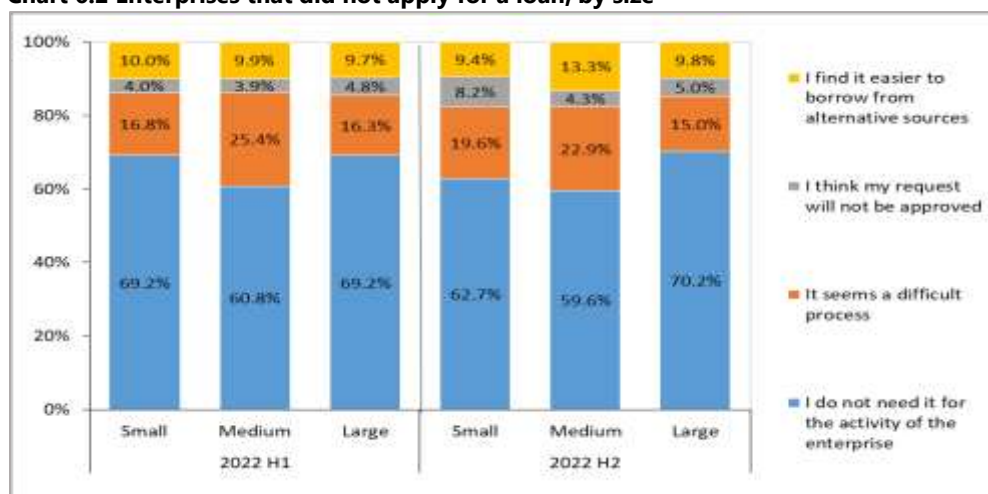
Enterprises that *have not applied for a loan*, in most cases, state that it is *not necessary for their activity* (71% of small enterprises, 67% of medium-sized enterprises and 72% of large enterprises, respectively) (Chart 6.2). The rest of the enterprises decided not to apply because the *process seemed difficult*, whose share declined for small and medium-sized enterprises, or because they assessed that it was easier to *borrow from*

¹¹The questions in this section are addressed to the entire sample of enterprises, including non-borrowing enterprises.

alternative sources. The share of the latter decreased compared to the last six months for all three groups of enterprises.

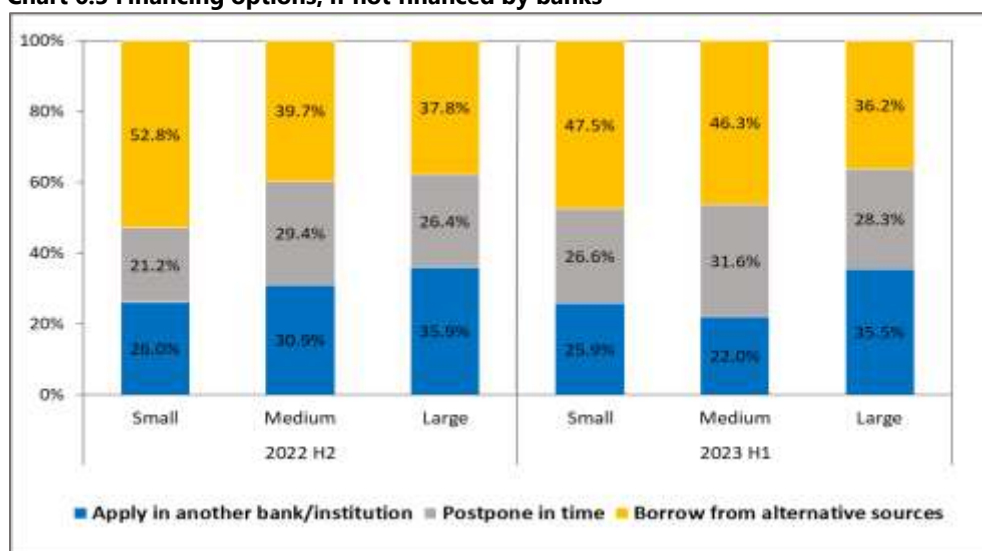
Asked how they would behave *if they were not financed by banks*, around 47% of small enterprises declared that they would *borrow from alternative sources*, representing a decline of 5.3 pp during these six months. This share also decreased for large enterprises (36%), but increased for medium-sized ones (46%) (Chart 6.3). In addition, a significant part of enterprises stated that they *would apply again to another bank or other institution*. This share declined for all sizes of enterprises, both in semi-annual and annual terms. On the other hand, there is an increase in the share of enterprises across the three groups that *admitted they will postpone their plans* for expansion due to lack of financing.

Chart 6.2 Enterprises that did not apply for a loan, by size



Source: Bank of Albania

Chart 6.3 Financing options, if not financed by banks

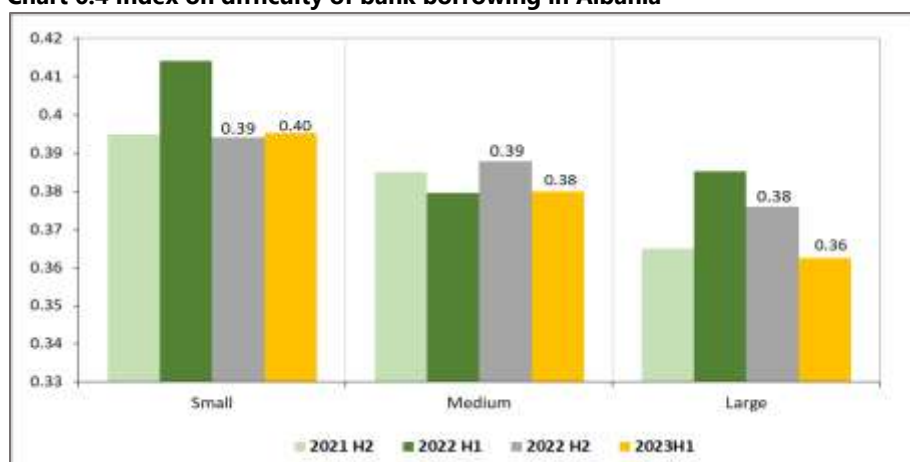


Source: Bank of Albania.

6.2 Borrowing process and relationship with banks

The value of the index on *the difficulty of the bank borrowing process* during the surveyed period, was 0.37 for total enterprises, marking a slight decrease compared with the previous period. The index values remained between the estimation as "normal" and "difficult" for all three groups of enterprises. Compared to 2022 H2, the level of difficulty declined for medium-sized and large enterprises, while it increased for small enterprises.

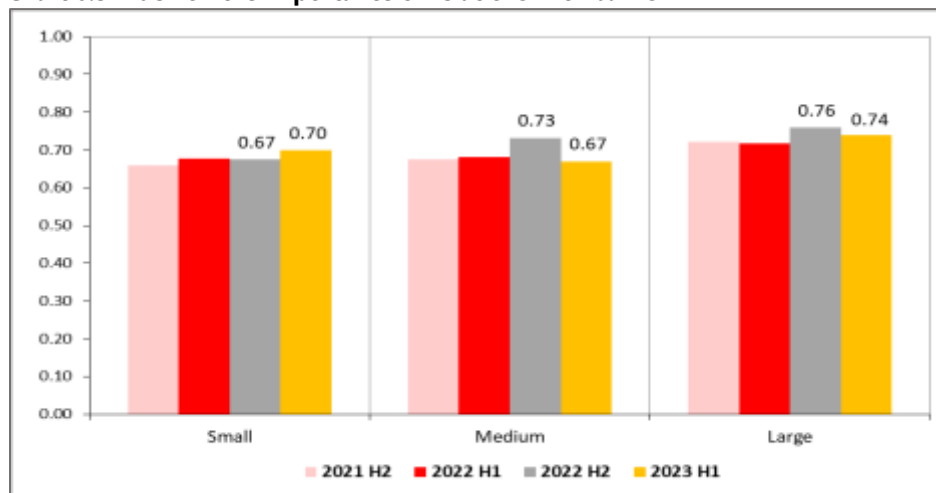
Chart 6.4 Index on difficulty of bank borrowing in Albania¹²



Source: Bank of Albania.

Relationship with banks, as measured by the index value of 0.7, continues to be evaluated between "important" and "necessary" for the total of responded enterprises. In 2023 H1, the index values increased for small enterprises, and decreased for medium-sized and large enterprises.

Chart 6.5 Index on the importance of relations with banks¹³



Source: Bank of Albania.

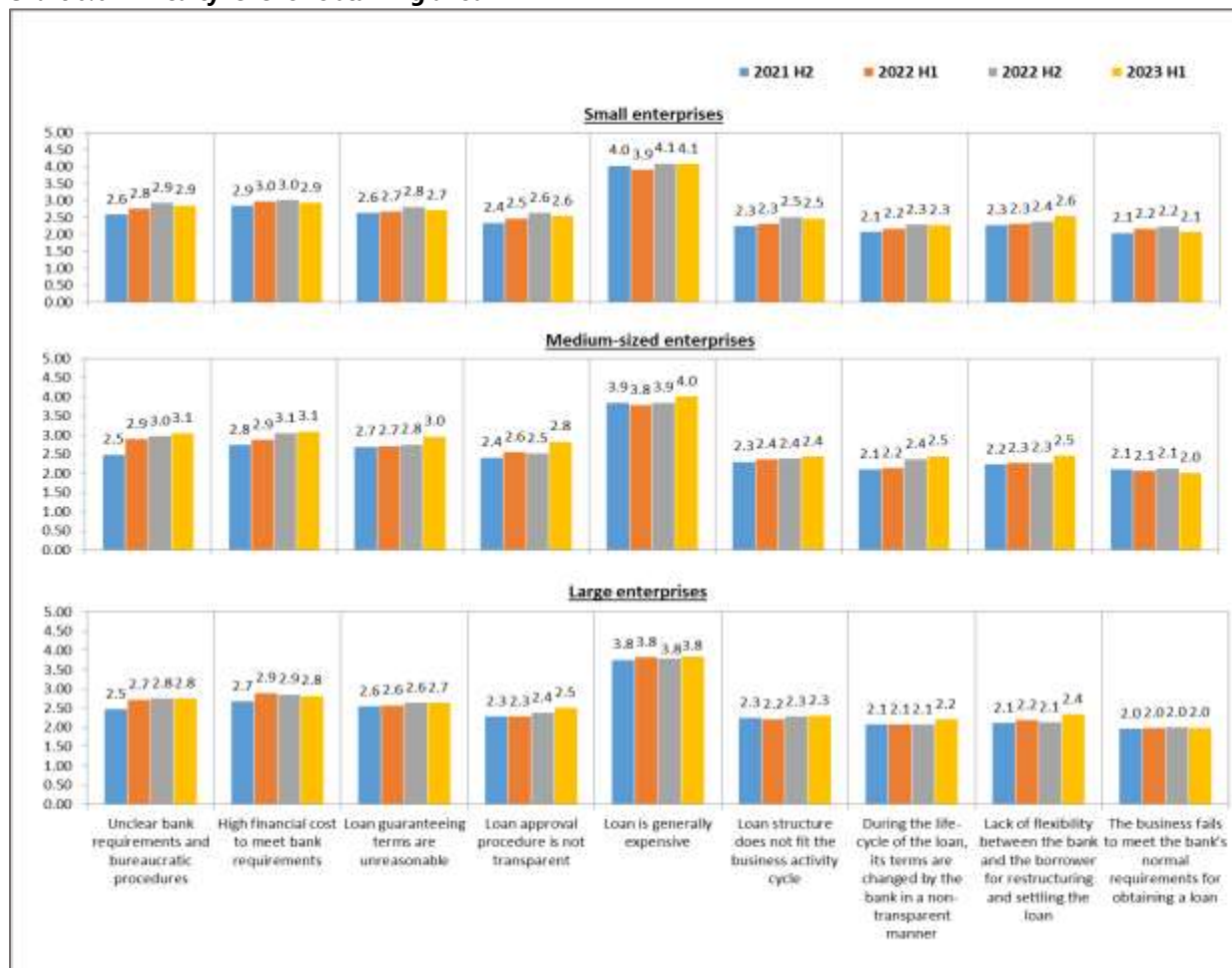
¹²This index is calculated by weighting the response of enterprises against total responses with a coefficient, which increases with the increase of the difficulty of this process. The coefficient for the alternative "very easy" = 0, "normal" = 0.25, "difficult" = 0.5, "very difficult" = 0.75, "almost impossible" = 1

¹³This index is calculated by weighing the share of enterprises' responses to the total responses by the coefficients that take values of: 1 = "Necessary", 0.5 = "Important" and 0 = "Not quite important".

6.3 Loan obtaining process¹⁴

The loan cost continues to be the main factor which is reported to discourage enterprises in applying for a bank loan, and this is more pronounced in the case of small enterprises. The assessment for this element has increased for large and medium-sized enterprises during the period. Following the loan cost, also the *high financial cost of meeting the bank requirements* continued to be a significant constraining factor, particularly for small and medium-sized enterprises, followed by the assessment on *unclear bank requirements and bureaucratic procedures*.

Chart 6.6 Difficulty level of obtaining a loan



Source: Bank of Albania.

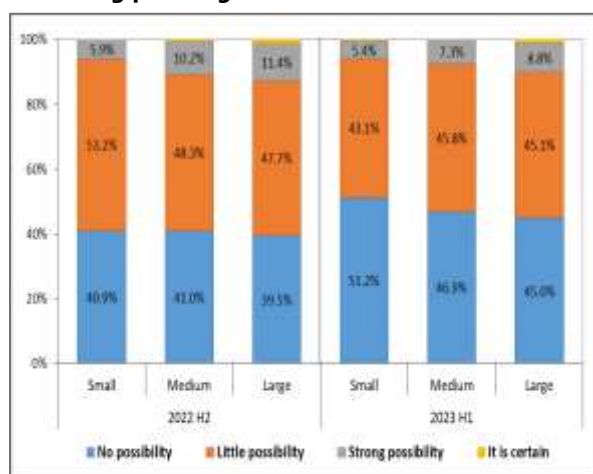
6.4 Borrowing planning

Regarding plans for borrowing in the next six months, based on the responses of enterprises, the loan demand is expected to remain on the positive side. Around 47% of responded enterprises have

¹⁴In 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.

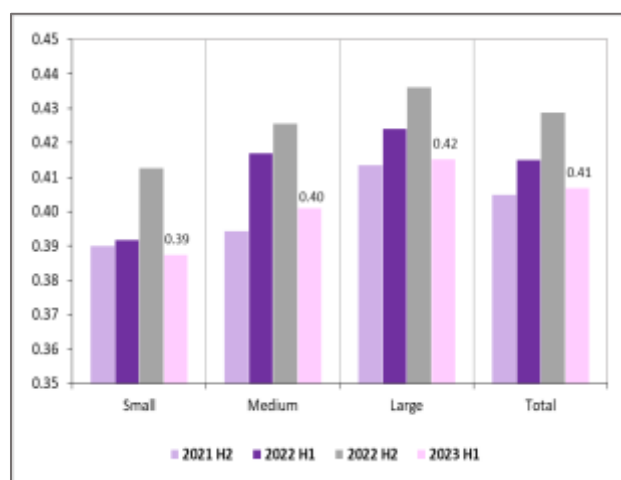
reported that there is "*no possibility*" to apply for a bank loan in the next six months. Compared to the previous period, this share has increased for all three groups of enterprises. On the other hand, there has been a decrease in the share of enterprises that claim "*little possibility*" or "*strong possibility*" to get a loan during 2023 H2. Meanwhile, the share of those who claim that "*it is certain*" to get a loan by the next six months, increased only in the case of small enterprises, while decreasing for the rest of two other groups. The index value on the *borrowing planning* for the next six months¹⁵ resulted 0.41 for the total responded enterprises. This index has decreased for all sized of enterprises, being more pronounced in the case of small enterprises.

Chart 6.7 Distribution of enterprises by borrowing planning



Source: Bank of Albania.

Chart 6.8 Borrowing planning index



¹⁵To 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.