FINANCIAL AND BORROWING SITUATION OF ENTERPRISES IN ALBANIA

2020 H1

BANK OF ALBANIA
FINANCIAL STABILITY DEPARTMENT

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CONTENT

Summary of key findings of the Survey

The survey used a sample of a total of 1374 small, medium-sized and large enterprises that conduct their activity in the main sectors of the economy, geographically distributed across the country. Among these, around 80% of the total participated in the survey by responding to all or part of the delivered questionnaire. Survey estimates were made based <u>on the number of responding enterprises and their respective classification</u>.

• FINANCIAL SITUATION

During 2020 H1, surveyed enterprises report that *competition* and *finding a market* continue to be a challenge for their activity. **However, the main challenge is *"the situation created by the pandemic"*, which directly affects the other issues faced by enterprises as well.** The relevance of the competition is present in almost the same level as in the previous period, whereas the market situation is assessed as upwards for all enterprises' sizes. Other elements that have shown an increase in assessment for all sizes of enterprises during this period are *"financing costs"* and *"access to financing"*, particularly for small enterprises.

***Performance of sales and financial result* present a significant decline in 2020 H1 for all sizes of enterprises, being assessed as more significant for small and medium-sized enterprises.** Comparison with previous periods shows significant deterioration. All three groups of enterprises indicate a *contraction of their activity*, without being able to increase investments to expand it. Despite the deteriorated performance of these indicators, the *expectations* of all enterprises are positive in terms of sales and financial result for 2020 H2, even more optimistic than in the previous survey. Regarding the expansion of their activity, enterprises also express positive expectations, but medium-sized and large enterprises are less optimistic compared to the previous six-months.

During the period, more than half of total responding enterprises declare that they have financed their activity through *sales*. Reliance on this source alone has dropped significantly for all three groups of enterprises. Meanwhile, the inclination of *combining different financing sources* accounts for a considerable share and it is upward for all groups of enterprises. For more than half of enterprises of all sizes, financing is achieved through the *combination of sales and held reserves*.

• BORROWING

About 40% of the total responding enterprises (437 enterprises) declare that they are currently *indebted*. This share has registered an increase by 2.6 p.p. compared to the previous six-months and by 0.9 p.p. compared to the previous year. In terms of size, the share of borrowing enterprises increased for small and large enterprises compared with the previous period (by 8.3 p.p. and 3.7 p.p. respectively), while the share of medium-sized enterprises decreased by 4.3 p.p.

In total, *formal borrowing sources* (from banks and non-bank financial institutions) were used by 91% of responding borrowing enterprises, at the same level as in the previous six-months. Among them, around 89% of borrowing enterprises declare that they have turned only to the banking sector to borrow, increasing by 2.3 p.p. compared to 2019 H2. The combination of *formal* and *informal* sources has been used by 3% of enterprises.

Enterprises borrowed mainly to cover current expenses (around 52% of total responding enterprises) and for long-term investments (around 40% of responding enterprises). **Compared with the previous six-months, the share of enterprises that have borrowed to make an investment has declined for large enterprises, while borrowing for covering current expenses has registered a significant increase for all sizes of enterprises, thus reflecting the situation created by the SARS-CoV-2 pandemic.** Around 74% of small enterprises, around 75% of medium-sized enterprises and 84% of large enterprises consider their level of borrowing for financing their activity as *adequate*. Compared with the previous period, this share is higher for small and large enterprises, while it has decreased for medium-sized enterprises.

Borrowing is denominated in the *domestic currency* for 62% of small borrowing enterprises, 54% of medium-sized enterprises and 45% of large enterprises; while the rest is in *foreign currency* and/or combined. Borrowing in *foreign currency* (mainly in euro) was used more by large enterprises (43% of them) and less by small enterprises (32% of them).

The total value of debt is about *half the value of the enterprise's equity* for around 80% of borrowing enterprises and *equal or higher than the value of equity* for around 20% of them. Analysed by size, the debt to equity ratio resulted higher for large enterprises, with 22% of them declaring that this ratio is equal or exceeds the value of equity, implying a higher debt burden. However, this ratio continued to decline for all three groups of enterprises during this six-months. By sectors, debt burden is more pronounced in enterprises of services and trade sectors.

 • RELATIONS WITH BANKS

The difficulty of the borrowing process from banks is assessed between "normal" and "difficult", but upwards compared with the previous period. *Relations with banks* continue to be assessed between "significant" and "necessary", marking an increase for small and medium-sized enterprises.

Regarding the elements that make it more difficult to obtain a banking loan, *high loan cost* continues to be considered the main element, particularly in the case of small and medium-sized enterprises. However, the assessment for this element resulted downwards compared with the previous six-months.

Regarding planning for a loan in the future, around 39% of responding enterprises declare that there is *"no possibility"* for them to request a banking loan in the next period, but compared with the previous period, this share has declined for all sizes of enterprises. At the same time, an increase of the share of enterprises that claim that there is "little possibility" to take a loan in 2020 H2 is observed, as well as the share of enterprises that declare that there is a "high possibility" for this to happen in the next period. On the other hand, all groups of enterprises registered a decline of the alternative "it is certain", expressing the uncertainty of the situation in planning a loan.

Financial and borrowing situation of enterprises 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 2020 H1, the survey was conducted with a revised sample to include a total of 1374 enterprises distributed in the 12 counties of Albania. Most enterprises (78%) are located in the four major counties, namely: Tirana (around 53%), Durrës (around 15%), Fier (around 6%) and Shkodra (around 4%).

In the total sample, 80% of the enterprises (1105 in total) responded to the survey questionnaire and the analysis of the results is based on these responses. The following analysis is largely based on enterprise breakdown by size.

1. Objectives and scope of action

### 1.1 - Distribution of enterprises by sector and size

By sector, for 2020 H1, around 37% of enterprises belong to the *industry* sector, around 29% belong to the *services* sector, around 15% belong to the *construction* sector and around 19% to the *trade* sector. By size, around 24% of enterprises are classified as *small enterprises* (5-19 employees), around 20% as *medium-sized enterprises* (20-49 employees) and 56% as *large enterprises* (over 50 employees). In the group of *small enterprises*, those operating in the services sector (around 44%) account for the main share, followed by the trade sector (around 24%). On the other hand, in the group of medium-sized and large enterprises, the industry sector (with around 41% and 42%, respectively) and the services sector (23% and 26%, respectively) have the highest share.

Chart 1.1 Distribution of enterprises by size
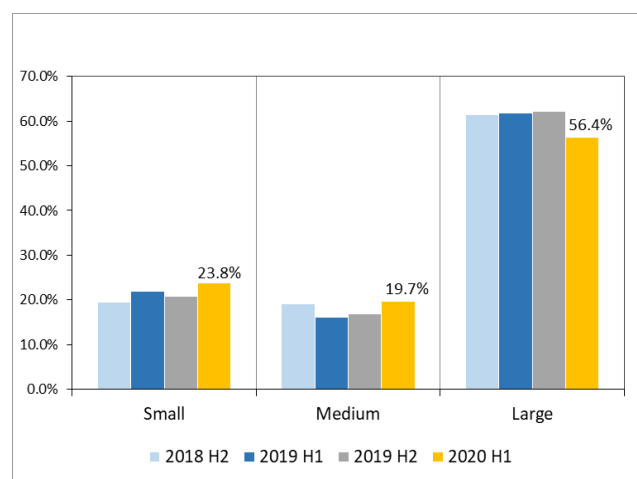
Chart 1.2 Distribution of enterprises by size and sector of the economy
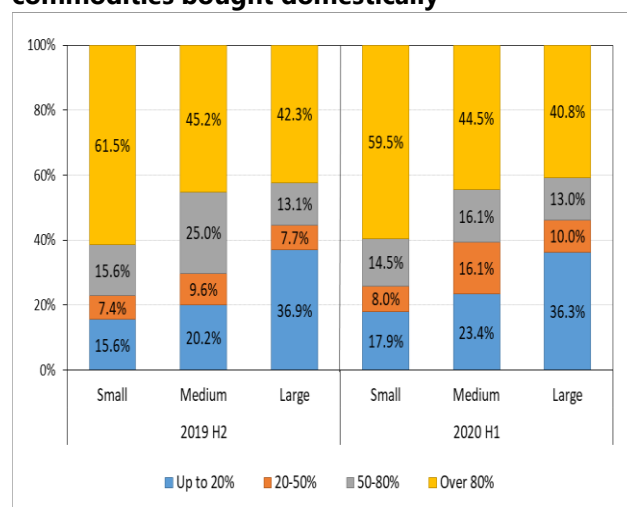

Source: Bank of Albania.
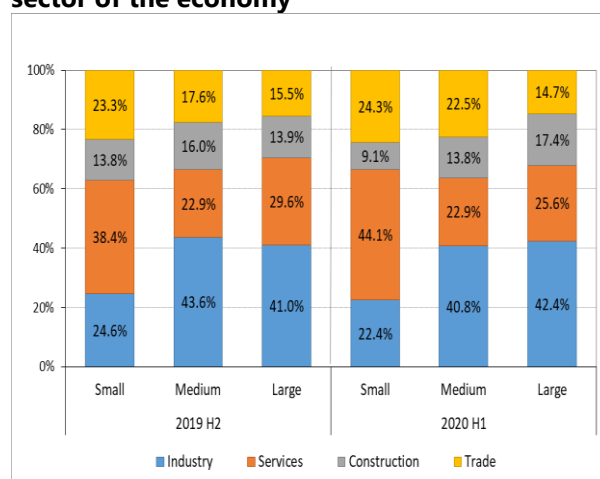
1.2- Obtaining commodities and selling products

The majority of small, medium-sized and large enterprises (about 60%, 44% and 41% of them, respectively), obtain *over 80% of commodities domestically*. Compared with the previous period (2019 H2) this indicator declined by 1.9 percentage points (p.p.) for small enterprises, 0.7 p.p. for medium-sized enterprises and by 1.5 p.p. for large enterprises. By contrast, around 36% of large enterprises obtain *up to 20% of commodities domestically*.

Products are sold *mainly domestically*, with around 82% of small enterprises, 66% of medium-sized enterprises and 56% of large enterprises declaring to have sold most of their products in the domestic market (over 80% of the products). Compared to the previous six-months, a continued increase was registered in the share of small and medium-sized enterprises selling their products mainly domestically (by 2.8 and 1.4 p.p., respectively), while the share of large enterprises declaring such thing marked a slight decline (by 0.8 p.p.).

Chart 1.3 Distribution of enterprises by share of commodities bought domestically

Chart 1.4 Distribution of enterprises by share of sales domestically

Source: Bank of Albania.
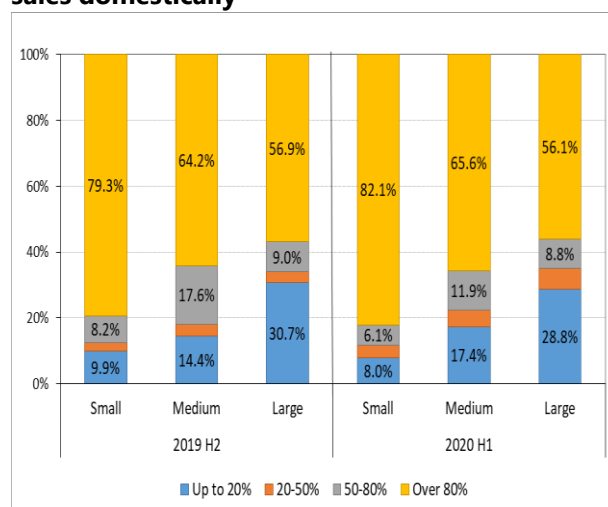
The analysis of responses by sector shows that the construction sector has a greater reliance on commodities provided domestically with around 76% of the enterprises in this sector obtain *over 80% of commodities domestically*. This share has registered an increase by 1.1 p.p. compared to the previous six-months, but remained the same compared to the previous year (2019 H1). On the other hand, the industry sector shows lower reliance with 48% of the enterprises obtaining *only 20% of commodities* domestically. However, the share of these enterprises has continued to decline. For the period under review, there is a six-monthly decline of 1 p.p., while in annual terms this decline is 4.6 p.p.

Table 1.1 Distribution of enterprises by sector and percentage of commodities purchase domestically

		up to 20%	20-50%	50-80%	above 80%
Industry	**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%
	2020 H1	47.9%	13.4%	13.4%	25.3%
Services	**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%
	2020 H1	16.7%	5.6%	12.0%	65.7%
Construction	**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%
	2020 H1	3.7%	2.5%	18.4%	75.5%
Trade	**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%
	2020 H1	32.7%	19.5%	14.6%	33.2%

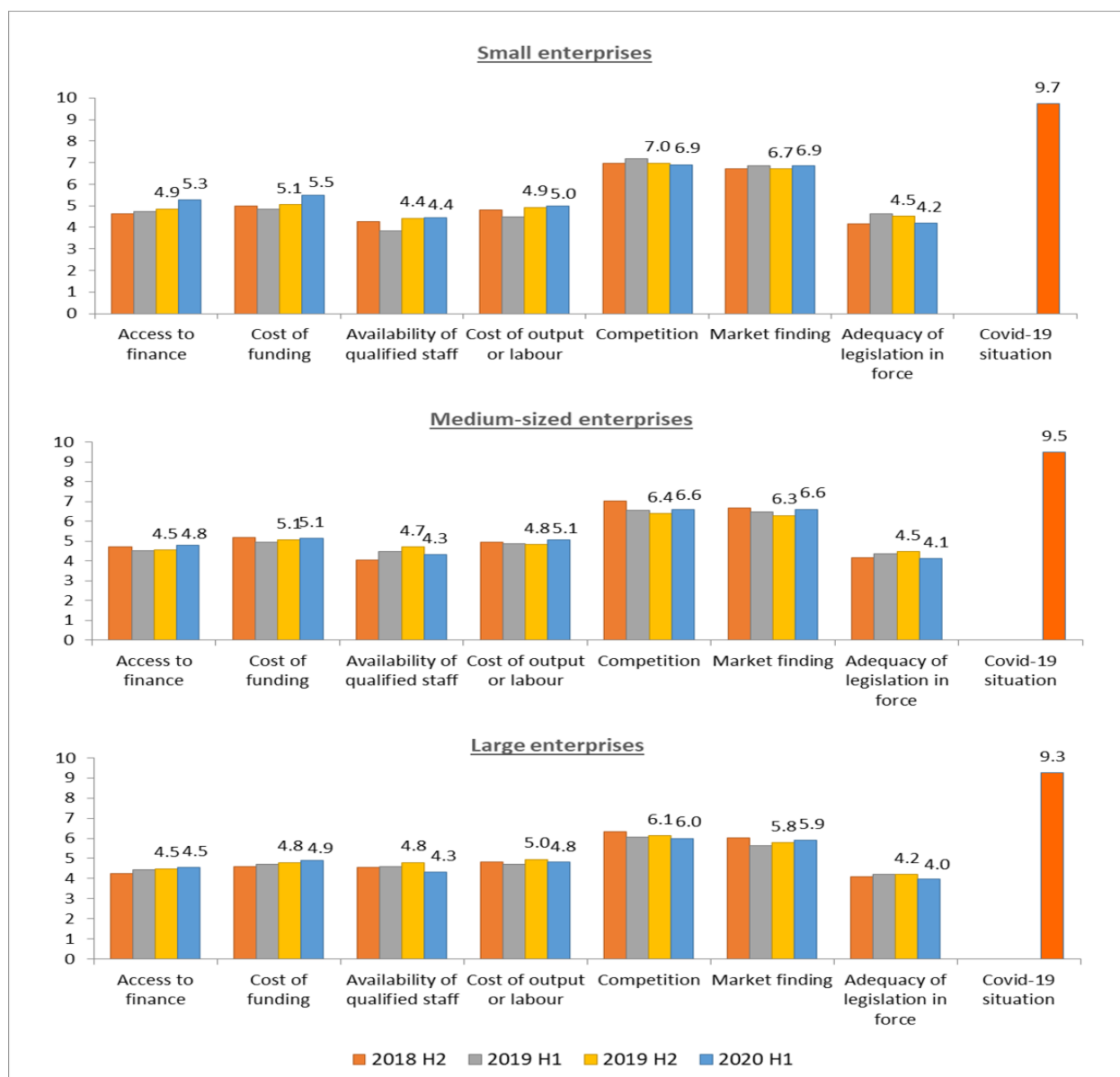*Source: Bank of Albania.*

1.3- Constraining factors in the activity of enterprises[2]

During the period, surveyed enterprises report that *"competition"* and *"finding a market"* continue to be a challenge for their activity. However, the main challenge is *"the situation created by the pandemic"*, which directly affects the other issues faced by enterprises as well[3]. The relevance of the competition element is present in almost the same level as in the previous period, whereas the market situation is assessed as upwards for enterprises' sizes. Other elements that have shown an increase in assessment for sizes of enterprises during this period are *"financing costs"* and *"access to financing"*, particularly for small enterprises.

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

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[2] Enterprises have assessed the importance of certain issues on a scale rating from 1 to 10, where 1 is the lowest and 10 is the highest level of difficulty. To aggregate responses for each of the assessed issues, a weighted average is calculated by weighing the answers with the rating scales (1-10) for all responding enterprises.

[3] This issue is defined in the alternative "Other" and is selected by 37% of the sample of responding enterprises.

Small enterprises

Medium-sized enterprises

Large enterprises

2018 H2   2019 H1   2019 H2   2020 H1

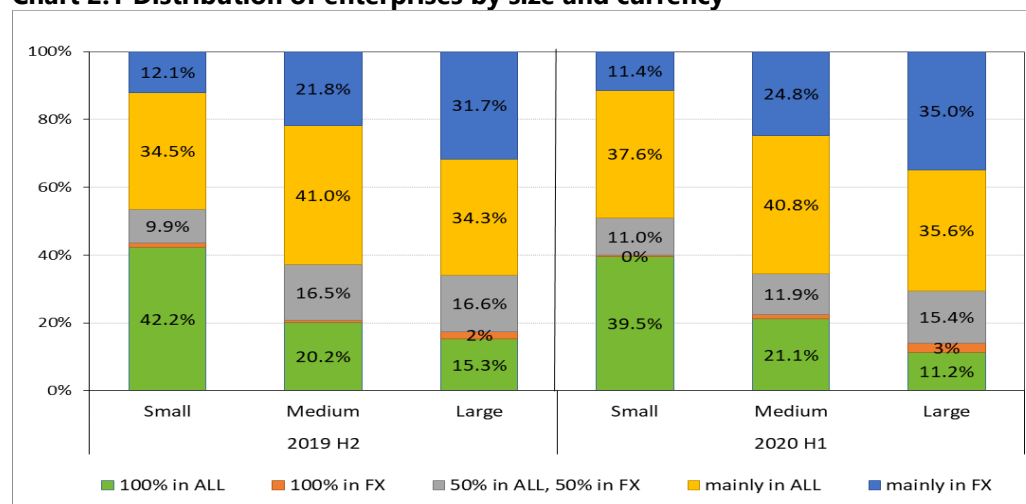*Source: Bank of Albania.*

2. Financial performance of enterprises and the presence of debt

2.1 The operating currency of the activity

Euroization of the activity of small and medium-sized enterprises continues to be low during the period. Thus, around 77% of small enterprises and 62% of medium-sized enterprises state that they carry out their activity *completely* or *mainly*[4] in the domestic currency. The use of foreign currency continues to be more pronounced among large enterprises, with 38% stating that they carry out their activity *partially or completely in a foreign currency*. This share has increased by 4 p.p. for this period.

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[4] Over 50% of the activity in lek.

Chart 2.1 Distribution of enterprises by size and currency

	2019 H2			2020 H1		
	Small	Medium	Large	Small	Medium	Large
mainly in FX	12.1%	21.8%	31.7%	11.4%	24.8%	35.0%
mainly in ALL	34.5%	41.0%	34.3%	37.6%	40.8%	35.6%
50% in ALL, 50% in FX	9.9%	16.5%	16.6%	11.0%	11.9%	15.4%
100% in FX			2%	0%		3%
100% in ALL	42.2%	20.2%	15.3%	39.5%	21.1%	11.2%

Legend: ■ 100% in ALL ■ 100% in FX ■ 50% in ALL, 50% in FX ■ mainly in ALL ■ mainly in FX

Source: Bank of Albania.

2.2 Sales performance, financial result and expansion of activity

During 2020 H1, small enterprises report *a significant decline of sales* with a negative net balance of 72.2%, a significant deterioration compared to the previous six-months and the previous year, affected directly by the situation created by the SARS-CoV-2 pandemic. The situation is similar for medium-sized and large enterprises, which recorded negative net balances of sales by 76.6% and 64.5% respectively, showing deterioration compared with all previous periods, too. In terms of *expectations for the level of total sales* in the next six-months, although sales performance presents an aggravated situation, all three groups of enterprises continue to have positive expectations regarding their performance. In 2020 H2 is expected an increase of the level of sales, and in fact enterprises are more optimistic compared to the previous periods.
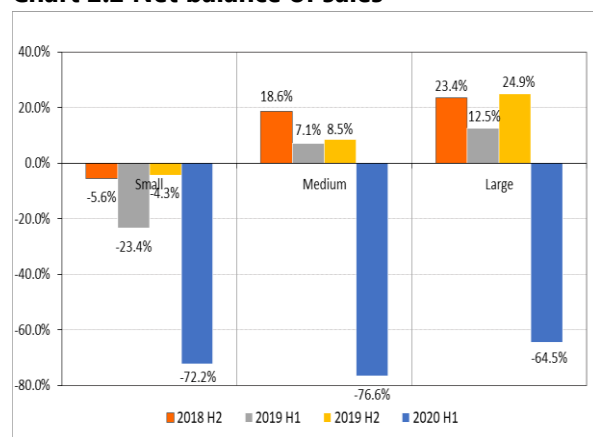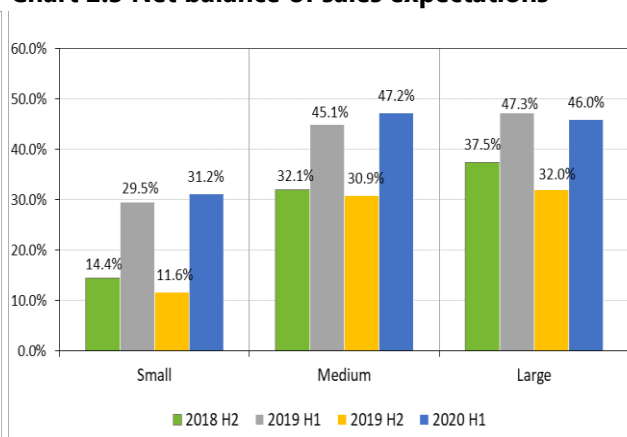
Chart 2.2 Net balance of sales

Legend: ■ 2018 H2 ■ 2019 H1 ■ 2019 H2 ■ 2020 H1

Chart 2.3 Net balance of sales expectations

	Small	Medium	Large
2018 H2	14.4%	32.1%	37.5%
2019 H1	29.5%	45.1%	47.3%
2019 H2	11.6%	30.9%	32.0%
2020 H1	31.2%	47.2%	46.0%

Legend: ■ 2018 H2 ■ 2019 H1 ■ 2019 H2 ■ 2020 H1

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 2020 H1, in line with the performance of the total sales balance. Small enterprises continue to estimate *a significant decline in*

financial result during the period, with a negative net balance of 70% and a pronounced decrease of this balance compared to the previous periods. Medium-sized and large enterprises as well declare negative balances of their financial result by 71.1% and 61.9%, respectively, deteriorating significantly compared to the previous periods. *Expectations for the next six-months* are positive for all enterprises and more optimistic compared to the previous six-months, in line with sales expectations.

Chart 2.4 Net balance of financial result
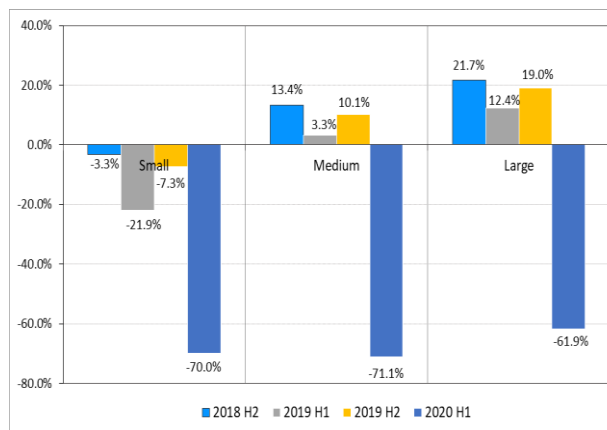
Chart 2.5 Net balance of financial result expected in the next six-months
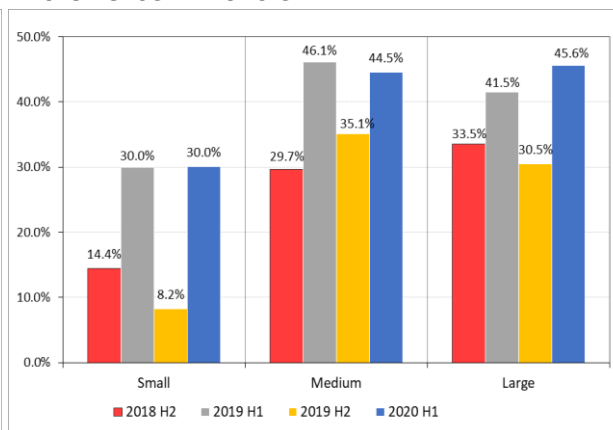
Source: Bank of Albania.
Net balances of responses are calculated as the difference between the weights of positive responses (financial result growth/expectations growth) and negative responses (financial result decline/decline of expectations) to the total of responses provided.

Regarding the *expansion of the activity* or an increase in investments for 2020 H1, all three groups of enterprises recorded negative net balance, by 1.7% in small enterprises, 2.3% in medium-sized enterprises, and 9.2% in large enterprises. The situation created by the pandemic has significantly affected decision-making related with investments or enterprises' expansion of activity, making this aspect impossible for this period. *For the next six-months* (2020 H2), the net balance of responses resulted positive for all three groups of enterprises, which means expectations for investments or further expansion of activity, but compared with previous surveyed periods, these expectations are less optimistic for medium-sized and large enterprises.
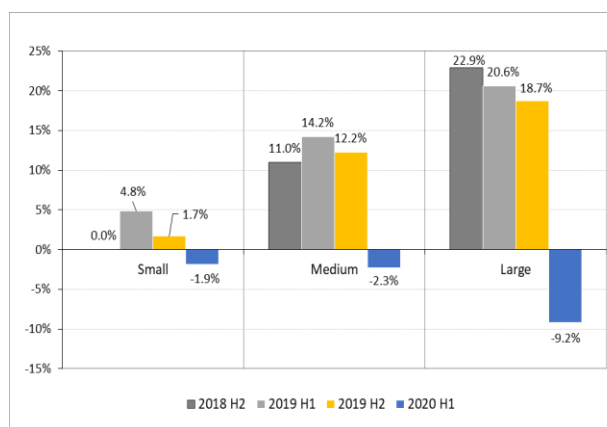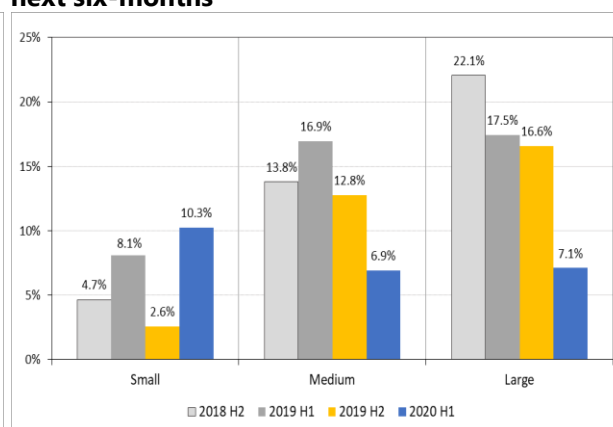
Chart 2.6 Net balance of activity expansion

Chart 2.7 Net balance of activity expansion in 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 or investments) and negative responses (contraction of activity/expectations for contraction) to the total of responses provided.

2.3 Sales level and financial result

The aggregate performance of total sales is analysed through an index[5] that weighs the responses of enterprises at different intervals and aggregates them by size of enterprises and sectors.

By size, the index shows a decrease in total sales for enterprises of all sizes, but more pronounced for medium-sized enterprises. The results of the index by sectors also show a decline in total sales for all sectors of the economy. Compared to the previous six-months, the most significant decline belongs to the construction sector. According to this index, the highest values of sales were achieved by the trade sector, while the lowest values belong to the services sector.

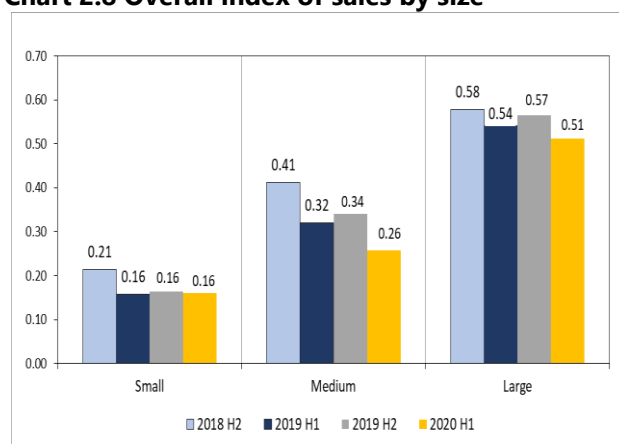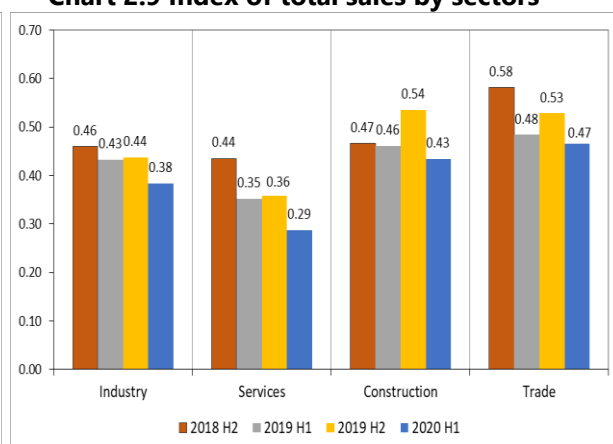**Chart 2.8 Overall index of sales by size**

Chart 2.9 Index of total sales by sectors

Source: Bank of Albania.

Regarding *financial result* for 2020 H1, only 968 enterprises provided information (or around 70% of total sample). In the group of responding enterprises, over 75% of each size group reported *profits* during the period. This percentage was higher for large enterprises (around 84%) and lower for small enterprises (around 75.4%). The share of profit reporting enterprises was downward for all three groups of enterprises, compared to the previous period.

**Chart 2.10 Financial results by size of enterprises**

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[5] 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 total level of sales for enterprises.
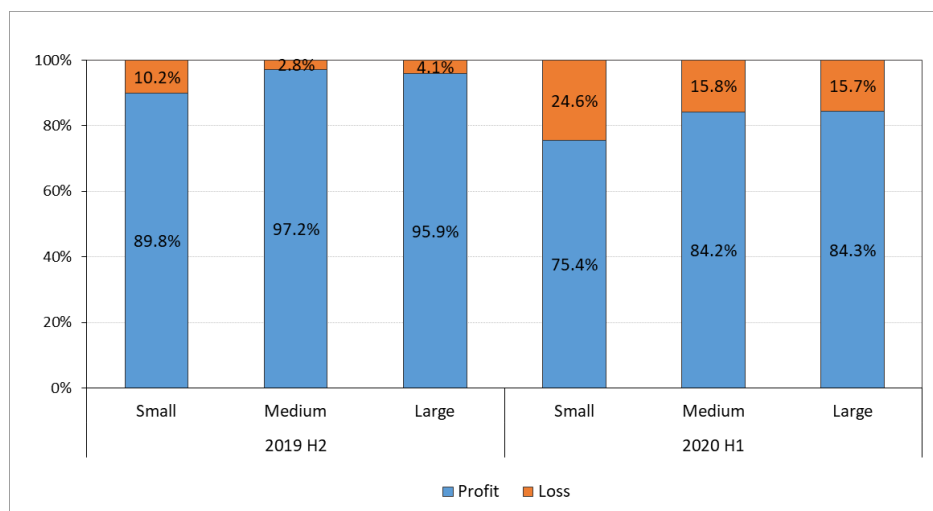
Source: Bank of Albania.

The profit reporting enterprises in each group, declare a significant decline on the level of sales and the financial result. The expansion of the activity is presented with negative balances for medium-sized and large enterprises, while there is a positive balance of 2.2% for small enterprises that report profit, although most of them report no change in this aspect for the period. Net balances of all enterprises have deteriorated in terms of sales, financial result and expansion of activity compared to the end of 2019. In terms of expectations for the next six-months, enterprises continue to remain positive and more optimistic about the performance of sales and financial result compared to the previous period. Balances are also positive on the expectations regarding the expansion of the activity, but the medium-sized and large enterprises are less optimistic compared to the previous period.

**Chart 2.11 Net balances for profit reporting enterprises**
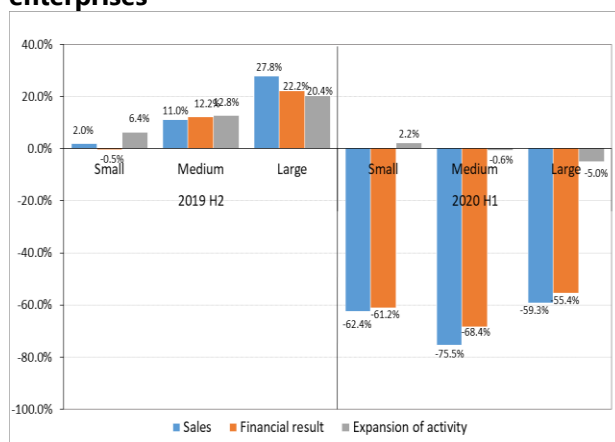
Chart 2.12 Net balances of expectations for profit reporting enterprises

Source: Bank of Albania.
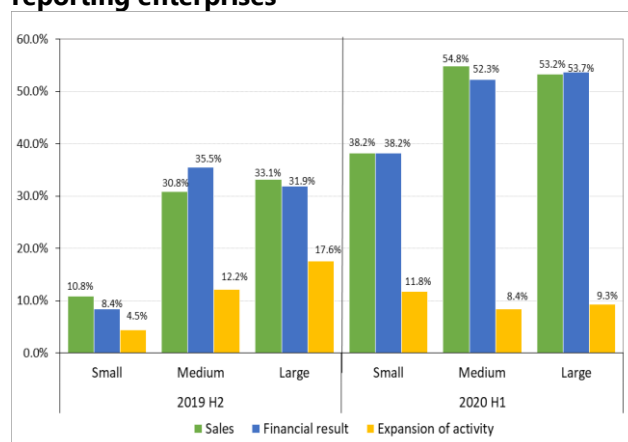
For loss reporting enterprises, all three groups report negative balances for the level of sales, financial result and expansion of activity/growth of investments during the period. These balances are significantly deepened in terms of sales and financial result. Expectations of loss reporting enterprises are positive for the next six-months regarding the next level of sales, financial result and expansion of activity for all sizes of enterprises. These expectations are more optimistic about the expansion of activity for all sizes of enterprises, as well as about the future financial result for large enterprises.

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Chart 2.13 Net balances of loss reporting enterprises **Chart 2.14 Net balances of expectations of loss reporting enterprises**
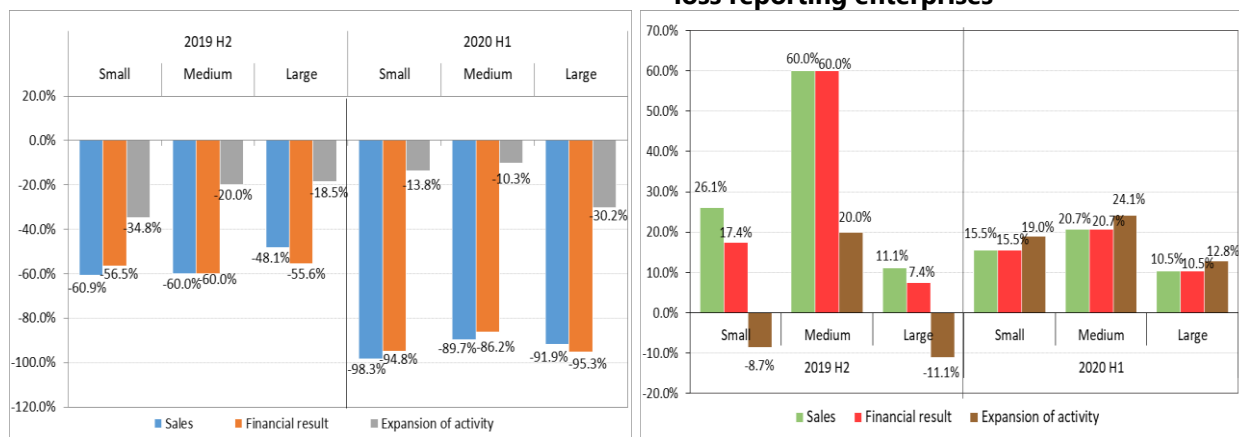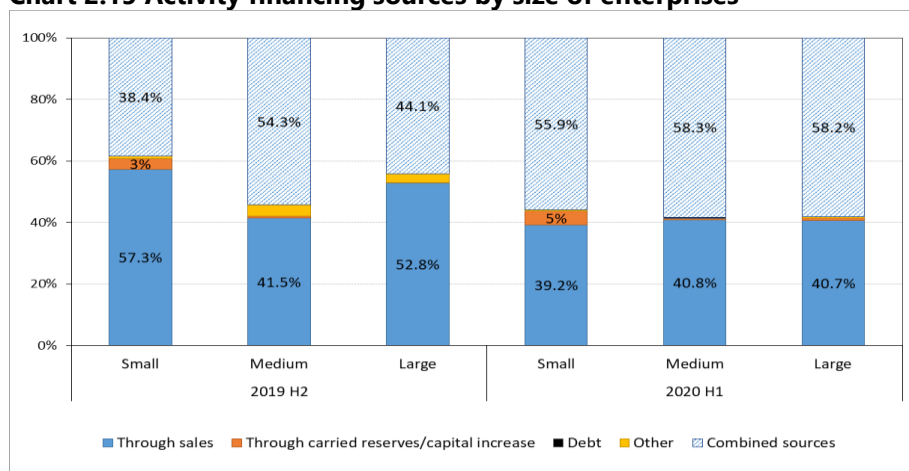

Source: Bank of Albania.

2.4 Financing the activity

During the period, only around 40% of enterprises continued to finance their activity mainly through *sales* (39% of small enterprises and 41% of medium-sized and large enterprises). Reliance only on sales contracted significantly for all three groups of enterprises, compared to 2019 H2. Meanwhile, the inclination of combining different financing sources accounts for a considerable share and it is upward for all groups of enterprises. For more than half of enterprises of all sizes, financing is achieved through the combination of sales and held reserves.

Chart 2.15 Activity financing sources by size of enterprises

Source: Bank of Albania.

3. Characteristics of enterprise borrowing

Around 40% of total enterprises[6] (438 enterprises) state that they are indebted. This share has registered an increase by 2.6 p.p. compared to the previous six-months and by 0.9 p.p. compared to the previous

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[6] Considering the full sample of 1374 enterprises, only 1105 of them or around 80% have responded.

year. In terms of size, the share of borrowing enterprises increased for small and large enterprises compared with the previous period (by 8.3 p.p. and 3.7 p.p., respectively), while the share decreased by 4.3 p.p. for medium-sized enterprises. By sector, the highest share of borrowing enterprises results in the trade sector (around 53%), followed by the industry sector (41%). The share of borrowing enterprises in both of these sectors, has not changed for the trade sector, while it has been growing for the industry sector compared to the previous period.

Table 3.1 Distribution of enterprises by size and borrowing

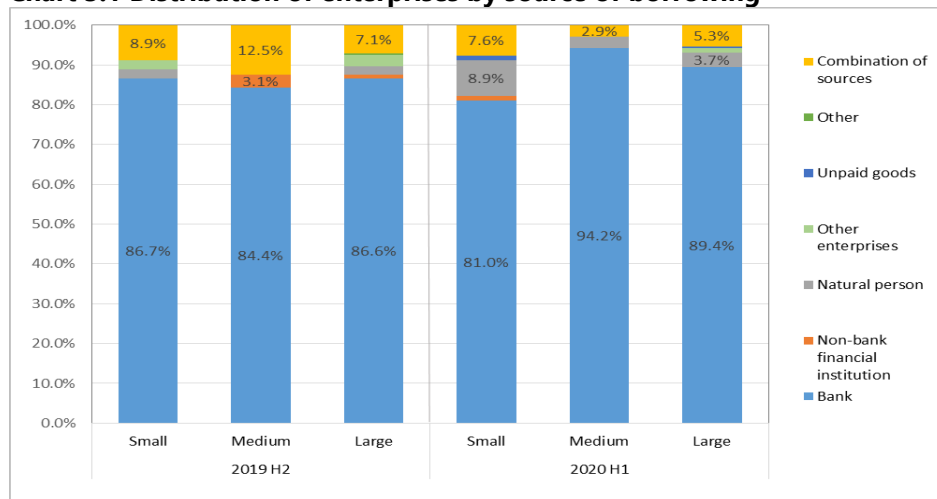| Borrowing enterprises by size	No. of enterprises		Share to total of the group:	
	2019 H2	**2020 H1**	**2019 H2**	**2020 H1**
Small	53	82	22.8%	31.2%
Medium	74	77	39.6%	35.3%
Large	283	278	41.0%	44.6%
Total enterprises	**410**	**437**	**37.0%**	**39.6%**

Source: Bank of Albania.

The following analysis was performed relying only on the responses of borrowing enterprises.

3.1 Source of borrowing

Around 89% of borrowing enterprises borrowed primarily from the banking sector, whilst 5% borrowed from combined sources. The share of enterprises borrowing from banks has increased by 2.3 p.p. compared to 2019 H2. By size, around 81% of small enterprises, 94% of medium-size ones and 89% of large enterprises have turned only to banks as a source of borrowing. These shares have increased for medium-sized and large enterprises compared with the previous six-months. In addition to banks, part of enterprises have also turned to non-bank financial institutions or have combined formal and informal sources (like debt from natural persons, other companies, unpaid goods).

Chart 3.1 Distribution of enterprises by source of borrowing
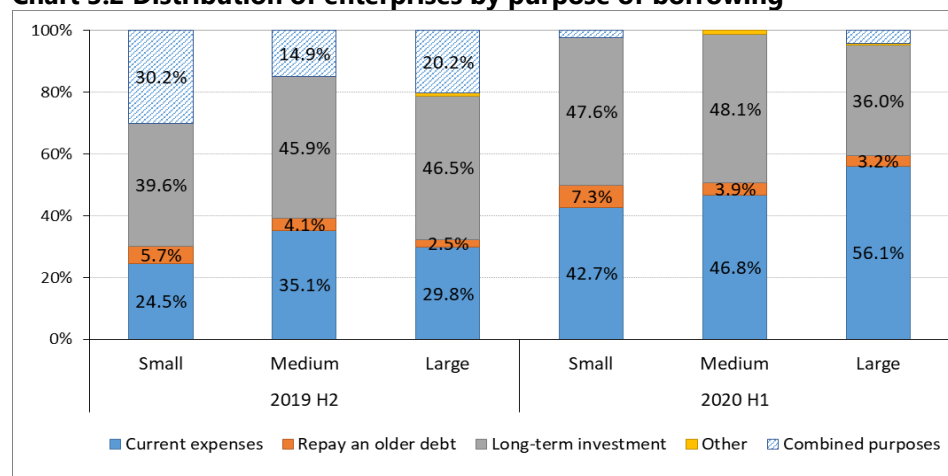

Source: Bank of Albania.

In total, *formal borrowing sources* (from banks and non-bank financial institutions) were used by 91% of responding borrowing enterprises (around 86% of small enterprises, 96% of medium-sized ones and 92%

of large ones), at the same level as in the previous six-months. The combination of formal and informal sources has been used by 3% of enterprises.

3.2 Purpose of borrowing

The enterprises borrowing is mainly used to *cover current expenses* (around 52% of total responding enterprises) and for *long-term investments* (around 40% of responding enterprises). Compared with the previous six-months, the share of enterprises that have borrowed to make an investment has declined for large enterprises, while borrowing for covering current expenses has registered a significant increase for all sizes of enterprises, thus reflecting the situation created by the SARS-CoV-2 pandemic.

**Chart 3.2 Distribution of enterprises by purpose of borrowing**

Source: Bank of Albania.

3.3 Borrowing adequacy

During the period, around 74% of small enterprises, 75% of medium-sized enterprises and 84% of large ones consider their level of borrowing as *adequate* for financing their activity. Compared with the previous period, this share has increased for small and large enterprises, while it has decreased for medium-sized enterprises. The other part of responses resulted in positive net balances and upwards for all enterprises' sizes. This balance indicates that the share of enterprises that would prefer to borrow more is higher than the share of those that would prefer to borrow less for activity financing. By this result, credit demand has expanded in this period, compared with the previous survey.

**Chart 3.3 Distribution of enterprises by borrowing adequacy**
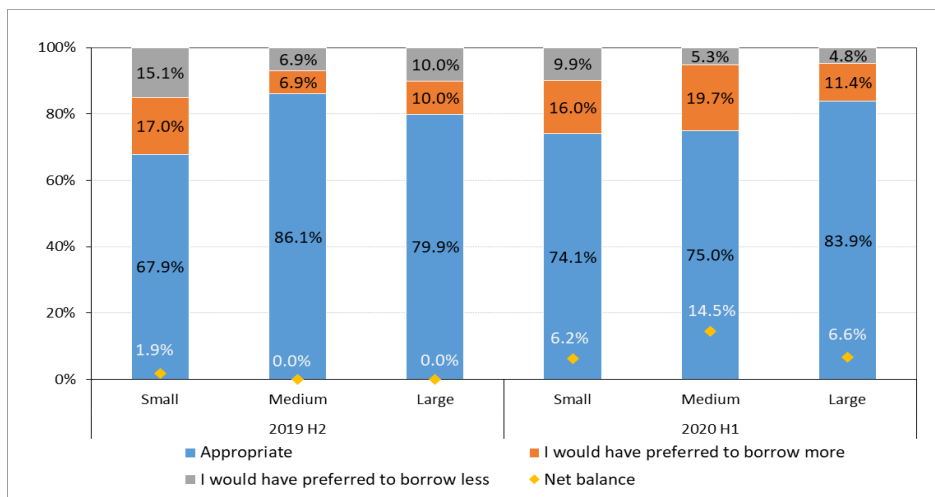
Source: Bank of Albania.

4. Debt structure

4.1 Currency

Regarding the borrowing currency of enterprises over the period, 61% of small enterprises, 54% of medium-sized enterprises and 45% of large enterprises, declare that their borrowing is carried out only in domestic currency, while the rest in foreign currency (euro and/or US dollar) and/or combined (ALL and foreign currency). During the period, borrowing in foreign currency (mainly in euro) was more used by large enterprises (43% of them) and less by small enterprises (32% of them). This element is also affected by the currency with which these enterprises carry out their activity. However, compared with the previous six-months, the share of enterprises that are indebted in foreign currency moved downwards for the group of large enterprises (by 11 p.p.) and small enterprises (by 3 p.p.), while it registered an increase (by 3 p.p.) for medium-sized enterprises.

Chart 4.1 Distribution of enterprises by borrowing currency
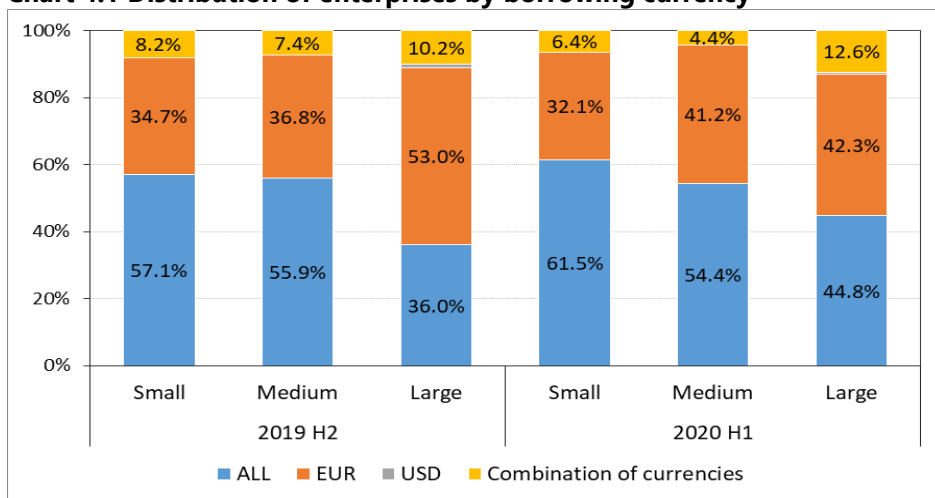
Source: Bank of Albania.

4.2 Debt and maturity

Most enterprises have borrowed *in the past 1-5 years,* around 44% of small enterprises, 47% of medium-sized enterprises and 42% of large enterprises, respectively. This share has declined compared with the previous six-months for all size groups (by 3.3 p.p. for small enterprises, 13 p.p. for medium-sized enterprises and 2.8 p.p. for large enterprises, respectively).

New borrowing, which means borrowing in *the last six-months*, is declared by around 18% of small enterprises, 13% of medium-sized enterprises and 19% of large ones. In six-monthly terms, the share of new borrowers resulted upwards for all size groups, while in annual terms only small enterprises registered an increase. *The main purpose of use* for new borrowing has been to *cover current expenditures* (for 75% of total enterprises) and *make a long-term investment* (18% of total enterprises). Compared with the previous six-months, the share of enterprises that have obtained a new debt to cover current expenditures has increased significantly, whereas the share of those that have taken a loan to make long-term investments has declined. This trend is observed for all three groups of enterprises, reflecting the situation caused by the pandemic. The average maturity of borrowing is 63.1 months for small enterprises, 65.8 months for medium-sized enterprises and 60.1 months for large ones.

4.3 Interest rate and repayment

For the largest existing debt[7], *fixed interest rate up to maturity* is the most applied interest rate, (for 81% of small enterprises, 77% of medium-sized enterprises and 79% of large ones), and the *yearly variable rate* for 13% of small enterprises, 7% of medium-sized enterprises and 16% of large ones. During the period, the share of enterprises reporting fixed interest rate borrowing increased compared to the previous period for small and medium-sized enterprises and decreased for large enterprises. The frequency of repayment continues to remain mainly monthly for 83% of small and large enterprises and for 82% of medium-sized enterprises, although this share has declined for all groups in this period.

4.4 Collateral and coverage ratio

Around 82% of small enterprises, 83% of medium-sized enterprises and 64% of large enterprises, declare that their debt is collateralized *only through real estate*, while the remainder of the enterprises have used other forms of collateralization[8]. On the other hand, around 27% of small enterprises, 12% of medium-sized enterprises and 20% of large enterprises, admit that debt is uncollateralized. Compared with the previous six-months, the share of enterprises with uncollateralized debt increased for all groups, whereas there is an increase of collateralization with financial instruments and guarantes. The results of this six-months are significantly related with new borrowing, which has as its main purpose covering current expenditures.

Collateral coverage is also assessed aggregately through a weighted index of responses[9]. For 2020 H1, this index scored 0.57 for small enterprises, 0.56 for medium-sized enterprises and 0.62 for large ones. The coverage ratio was downwards for small and large enterprises, compared to the previous period.

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[7] For enterprises that have more than one debt.

[8] Financial instruments, 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 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.
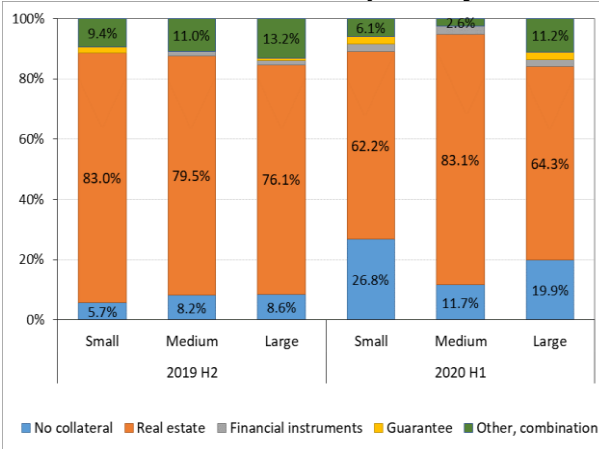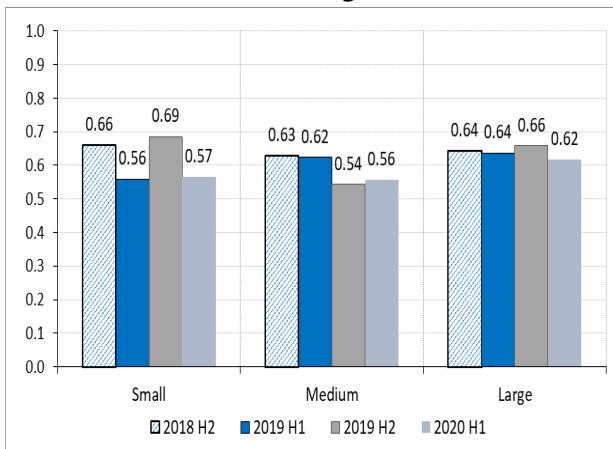
Chart 4.2 Distribution of enterprises by collateral **Chart 4.3 Collateral coverage index**
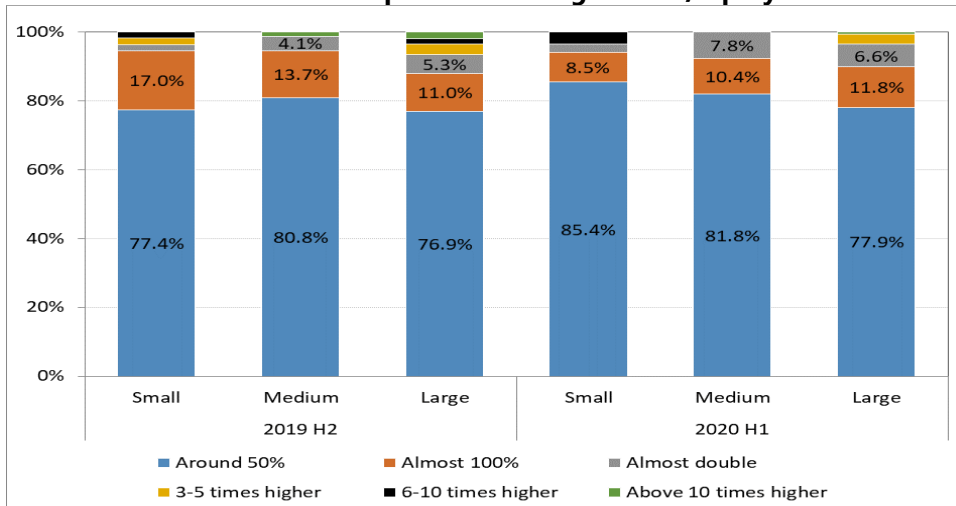

Source: Bank of Albania.

5. Debt burden

5.1 Debt value to equity

Survey data show that the total value of debt is approximately *half the value of equity's enterprise* for 80% of borrowing enterprises and *equal or higher than the value of equity* for 20% of them. The debt/equity ratio was higher for large enterprises, with 22% of them declaring that this ratio is equal or exceeds the value of equity, implying a higher debt burden. However, this ratio continued to decline for all three groups of enterprises during this six-months.

Chart 5.1 Distribution of enterprises according to debt/equity ratio

Source: Bank of Albania.

By sectors, debt burden is more pronounced in enterprises of services and trade sectors.

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

|	Industry	Services	Construction	Trade
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%
2020 H1	16.4%	22.9%	19.7%	22.2%

Source: Bank of Albania.

5.2 Debt repayment

The majority of the borrowing enterprises (76%) state that debt repayment amounts up to *20% of their total income*. The share of these enterprises has increased by 9 p.p. compared with the previous survey. The burden of debt repayment appears to be heavier on small enterprises, where the share of those reporting that this amount exceeds 20% of the income accounts for around 29% of the group[10], while for medium-sized and large enterprises this share is 25% and 22% respectively. Questioned whether *the cost of debt service has changed* over the period, the majority of enterprises (around 85% of small enterprises, 82% of medium-sized enterprises and 93% of large enterprises) claim that this expenditure has remained unchanged. The responses of the rest of the enterprises resulted in positive net balances for all groups of enterprises, indicating an increase of this expenditure in relation to income.

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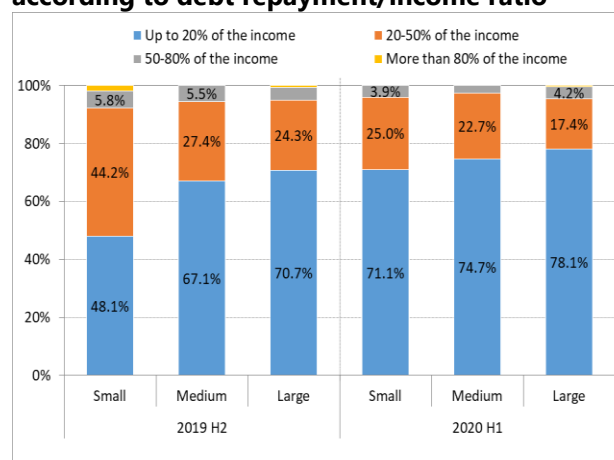
Chart 5.3 Distribution of enterprises that declare a change in debt repayment over the period
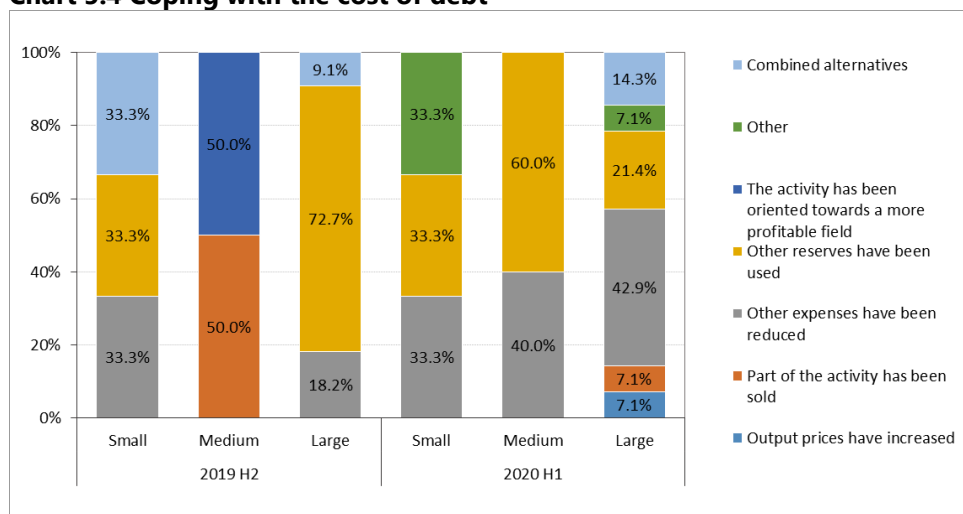

Source: Bank of Albania.
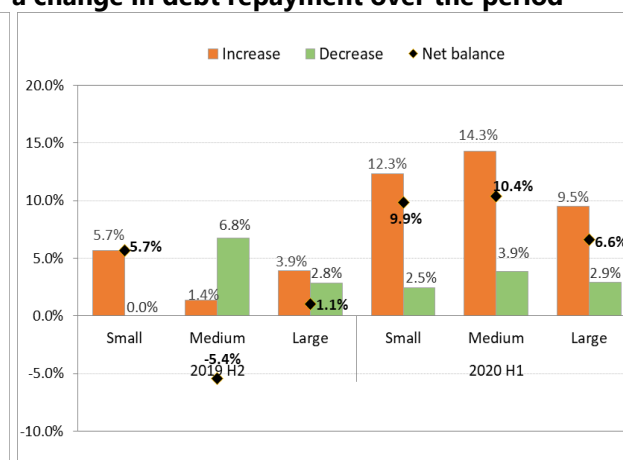
5.3 Coping with the cost of debt

In the case of an increased cost for debt service, enterprises relied mainly on lowering other expenditures (41%). Also, a significant share of enterprises have used various reserves (32%), in line with the enterprises' responses on how they finance the activity as well.

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[10] Calculated as the sum of the weights for responses: "20-50% of income", "50-80% of income" and "over 80% of income".
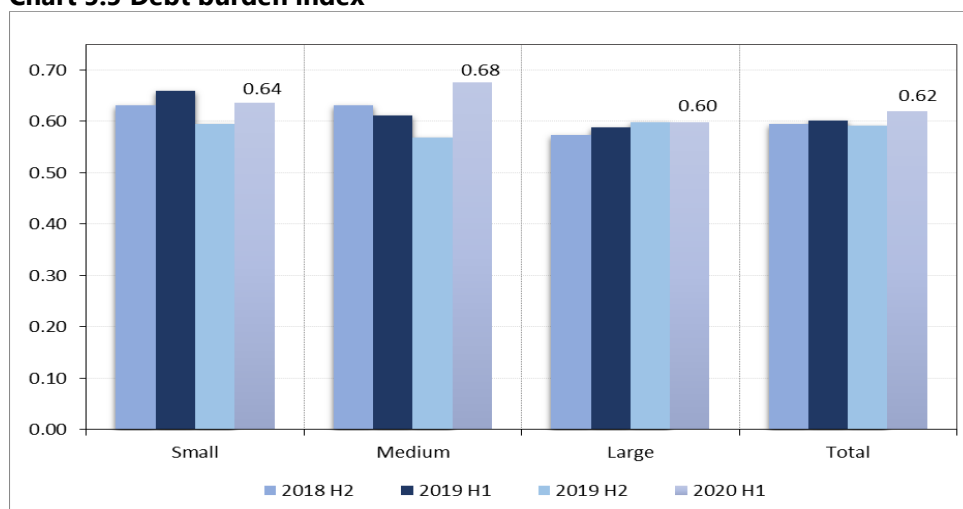
Chart 5.4 Coping with the cost of debt

Source: Bank of Albania.

5.4 Debt burden

The debt burden of borrowing has been rising throughout the period, where the index[11] value for total enterprises scored 0.62. By size, the index shows an increase of the debt burden for small and medium-sized enterprises compared with the previous period.

Chart 5.5 Debt burden index
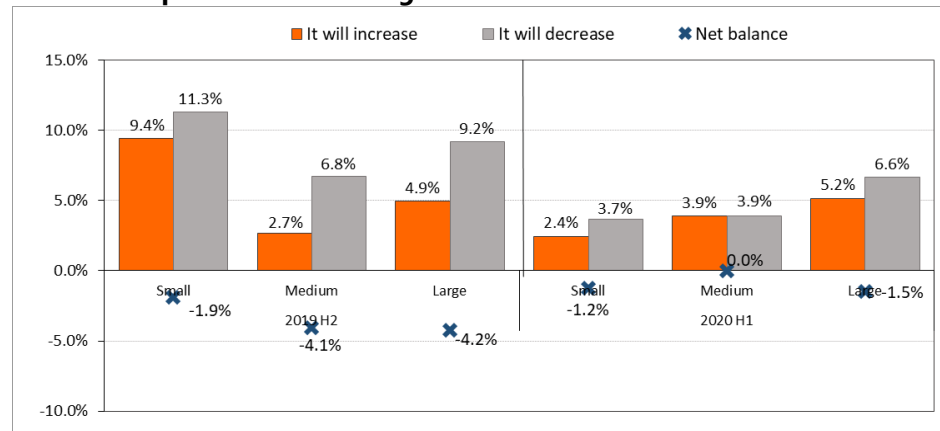

Source: Bank of Albania.

5.5 Expectations for debt repayment in the next six-months

Most of the borrowing enterprises, despite their size (around 90%), do not expect a change of debt instalment in 2020 H2. This share has increased by 5 p.p. compared to the previous period. In regard to

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[11] *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.*

enterprises that expect a change of instalment, small and large enterprises expect a decline in this regard in the next six-months, although they are less optimistic compared to the previous period. Meanwhile, medium-sized enterprises are neutral in their responses.

**Chart 5.6 Expectations on change of loan instalment in the next six-months**

Source: Bank of Albania.

6. Relations with banks and expectations for the future[12]

6.1 Access to finance

Enterprises' credit demand increased during the period, where 14% declare that they have applied for financing during the last six-months. This share has expanded by 3 p.p. compared with the previous survey. Analysing this indicator by size of enterprises, small enterprises have the largest share for this period (around 17%). Compared with the previous six-months, an expansion of credit demand by small enterprises (by 9.1 p.p.) and medium-sized ones (by 2.8 p.p.) was observed.

**Chart 6.1 Enterprises' demand for financing**
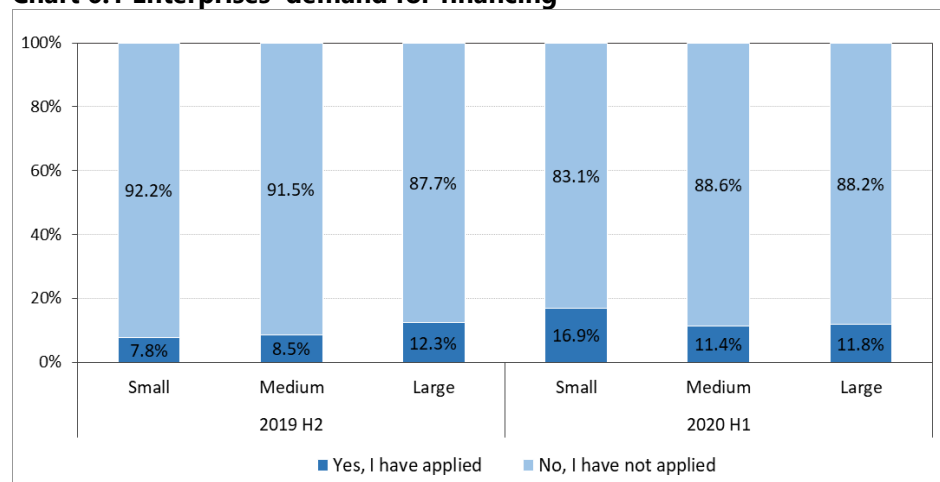
Source: Bank of Albania.

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

Enterprises that *have not applied for a loan*, in most cases, state mainly that *it is not necessary for their activity*. This share results higher in large enterprises, although in decline for all size groups. The other part of enterprises has decided to not apply, because *the process seems difficult* or because they assess that it is easier to *borrow from alternative sources*. These two reasons continue to be claimed more often by the responding enterprises.

Chart 6.2 Enterprises that did not apply for a loan, distributed by size
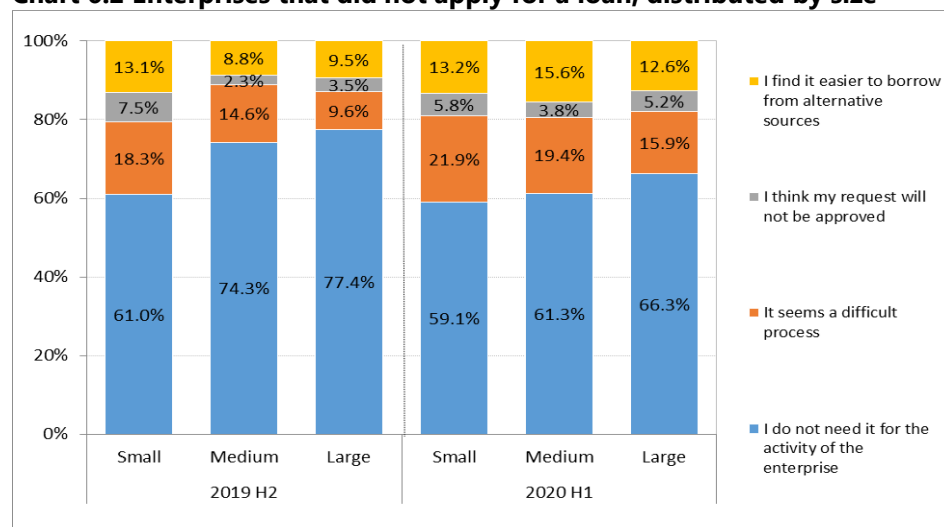
Source: Bank of Albania.

Questioned on how they would behave if they *were not financed by banks*, more than half of small enterprises (55%) confirmed that they would *borrow from alternative sources*, a higher rate than in the previous six-months. Meanwhile, this share has also increased for medium-sized (49%) and large enterprises (39%). Also, a significant share of enterprises state that they *would apply again in another bank or other institution*. The other part of enterprises claims that they will *postpone their plan for activity expansion* due to lack of financing. This share has declined for medium-sized and large enterprises.

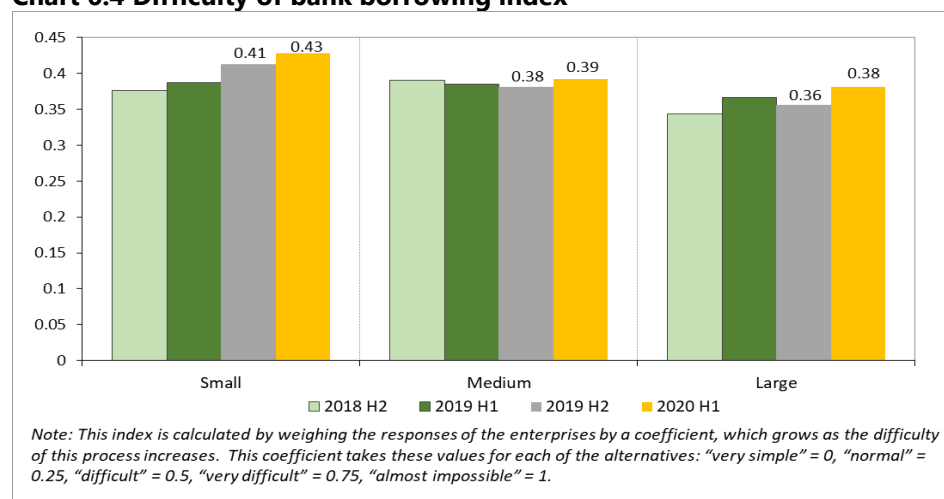**Chart 6.3 Financing options if not financed by banks**
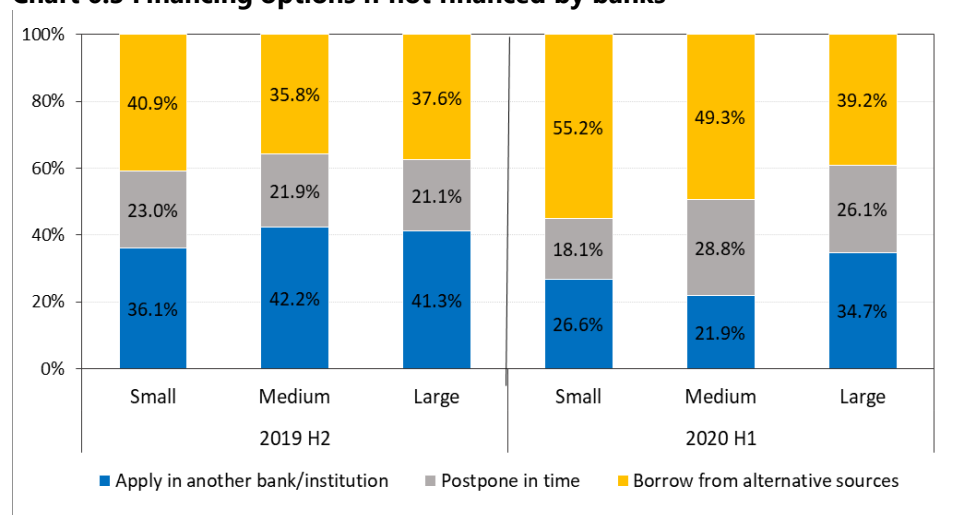
Source: Bank of Albania.

6.2 The borrowing process and relations with banks

The index on the difficulty of bank borrowing process scored 0.39 for total enterprises in 2020 H1, registering a decline compared with the previous period. This index remains between the level of "*normal*" and "*difficult*", for all three groups of enterprises. Compared with 2019 H2, the level of difficulty continues to remain higher for small enterprises, although it has increased for all size groups.

Chart 6.4 Difficulty of bank borrowing index

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

Source: Bank of Albania.

Relations 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 medium-sized enterprises, while it has decreased for large enterprises.

**Chart 6.5 Index on the importance of relations with banks**
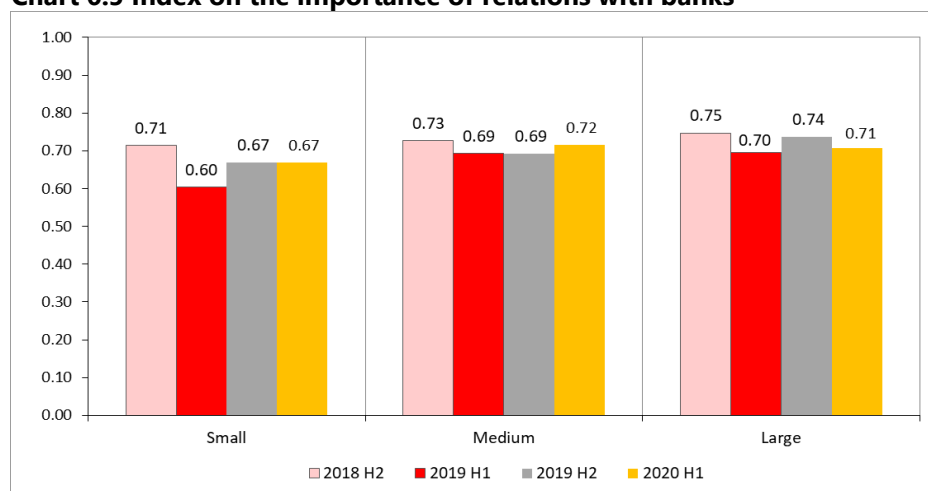
Source: Bank of Albania.

Note: The 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 Difficulty of obtaining a loan[13]

The *loan cost* continues to be considered as the main element that makes it more difficult to obtain a bank loan, especially for small and medium-sized enterprises. The assessment for this element moved downwards compared to the previous six-months. Following the loan cost, *the cost of meeting bank requirements* or 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*. However, these elements registered a decline in the surveyed period.

Chart 6.6 Difficulty of obtaining a loan
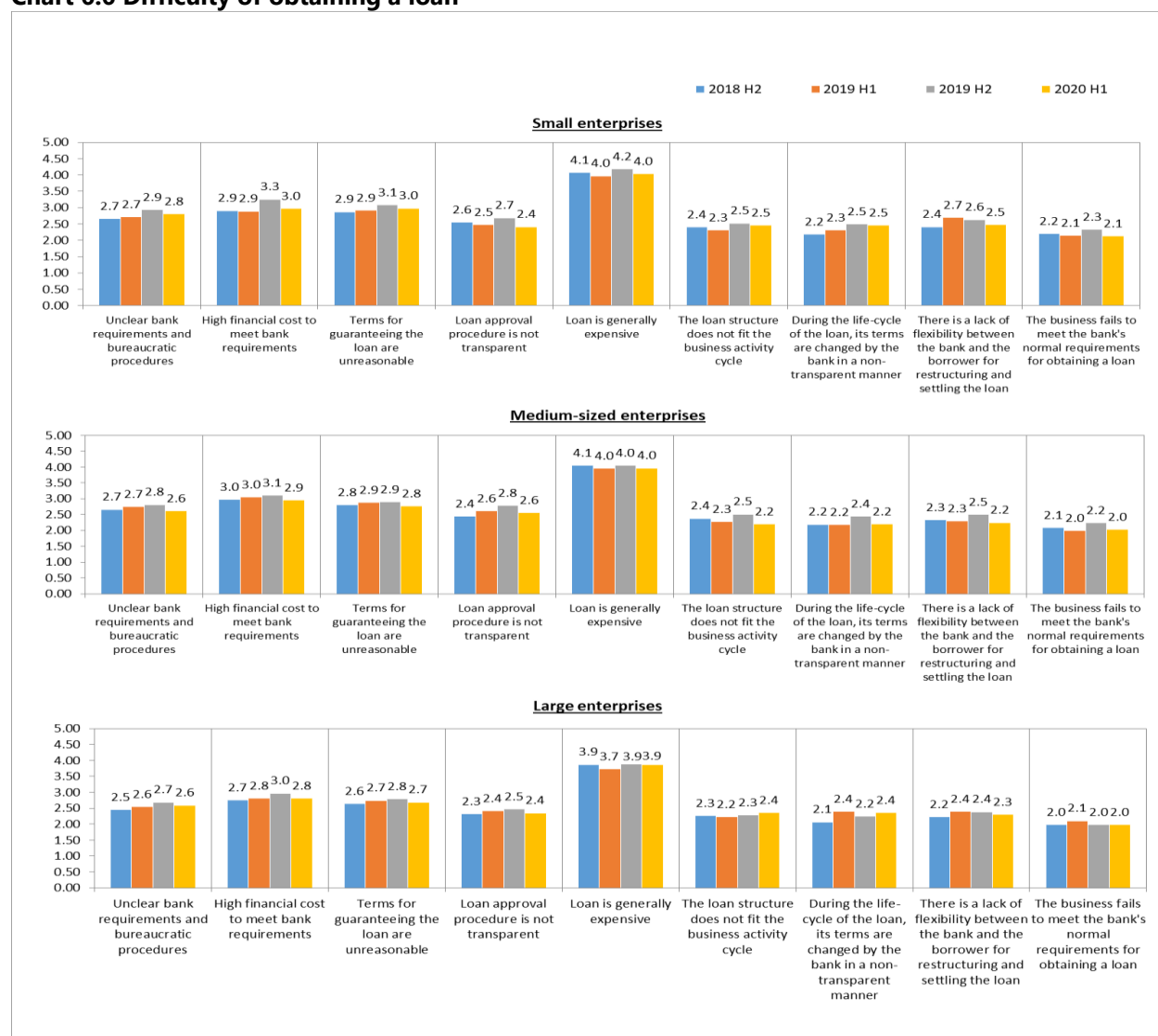
Source: Bank of Albania.

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[13] 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.

6.4 Borrowing plans

In regard to plans for borrowing in next six-months, based on the response of enterprises, the assessment is that credit demand gives good signals of recovery. Around 39% of responding enterprises declare that there is *"no possibility"* for them to ask a bank loan in the next period, but compared to the previous period, this share has declined for all sizes of enterprises. This contraction has been more significant for large enterprises. Furthermore, an increase is observed in the share of enterprises that claim that there is *"little possibility"* to take a loan in 2020 H2, as well as the share of enterprises that declare that there is a *"high possibility"* for this to happen in the next period. On the other hand, all groups of enterprises registered a decline of the alternative "*it is certain*", expressing the uncertainty of the situation in planning a loan. The index on the assessment *of borrowing plans* for the next six-months[14] resulted 0.43 for the whole sample of enterprises, higher compared to the previous period.
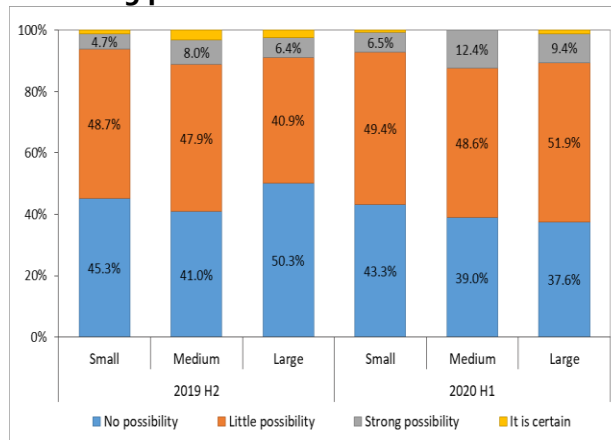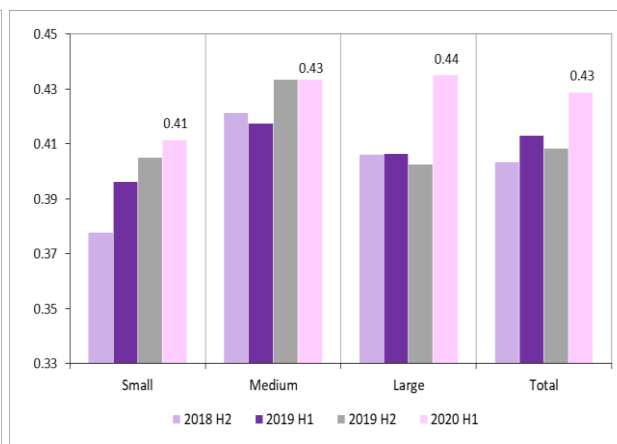
Chart 6.7 Distribution of enterprises by borrowing plan

Chart 6.8 Borrowing plan index

Source: Bank of Albania.

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[14] To assess the responses of the enterprises, an index on borrowing plans was constructed, calculated by weighing the enterprises' 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; "probable" = 0.75; "certain" = 1.