



FINANCIAL AND BORROWING SITUATION OF ENTERPRISES IN ALBANIA

2020 H2

FINANCIAL STABILITY DEPARTMENT

February 2021¹

¹Due to the SARS-CoV-2 pandemic, the survey was gathered using various forms, in compliance with the preventive measures to minimize the spread of the virus (interviews at distance, e-mails and telephone). This survey covers developments on the financial and borrowing situation of enterprises for 2020 H2 as well as expectations for 2021 H1.

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Summary of key findings of the Survey

The survey used a sample of a total of 1.374 small, medium-sized and large enterprises that conduct their activity in the main sectors of the economy, geographically distributed across the country. From these, around 82% responded completely or partially to the questionnaire. Survey estimates were made based on the number of responding enterprises and their respective classification.

• FINANCIAL SITUATION

During 2020 H2 (hereinafter, *"the period"*), the surveyed enterprises **highlight that *"the situation created by the pandemic"* has directly worsened other issues as well faced by them** related with "competitiveness", "finding the market" and "covering activity's costs". Medium-sized and large enterprises have appeared more sensitive.

The performance of sales levels and the financial result appears improved compared with 2020 H1, although all enterprises (despite size) continue to report lower sales than before the pandemic. *Expectation on overall sales level* for the next six-months appears positive for large enterprises and slightly optimistic for medium-sized enterprises as well. Meanwhile for small enterprises, they appear pessimistic for 2021 H1, expecting a further decline of the level of sales.

Over 80% of each size group reported profits during the period. The share of enterprises that reported profits was upwards for all three groups of enterprises, compared to the previous period. *However, expectations for the next six-months appear pessimistic* for small and medium-sized enterprises, but continue to remain positive for large enterprises, although in decline compared with the previous periods.

Regarding activity expansion or investments increase, small and medium-sized enterprises report a contraction of activity, whereas large enterprises present a slight expansion for the period. The pandemic significantly affected the enterprises decision-making regarding investments or the expansion of their activity. Regarding *expectations* for the next six-months, large enterprises appear positive, although less so, compared with the previous periods surveyed, whereas small and medium-sized enterprises appear negative for the following period.

During the period, **half of the total responding enterprises declare that they have financed their activity through sales.** Reliance on this source alone expanded for all three groups of enterprises. Meanwhile, the inclination to *combining different sources of financing* continues to account for a considerable share for the period, has contracted for all groups of enterprises. Financing achieved through the *combination of sales with carried reserves* has the main share in this aspect.

• BORROWING

Around 41% of the total responding enterprises (466 enterprises) declare that they are currently indebted. This share has registered an increase by 1.7 p.p. compared to the previous six-months, and 4.2 p.p. compared to the previous year. In terms of enterprises' size, the share of borrowing enterprises registered an increase for all three groups of enterprises, by 0.9 p.p. for small enterprises, 4.8 p.p. for medium-sized enterprises and 1 p.p. for large enterprises.

In total, formal sources of borrowing (from banks and non-bank financial institutions) are used by 90% of borrowing responding enterprises, only 0.6 p.p. less than in the previous six-months. Among them, around 88% of borrowing enterprises declare that they have turned only to the banking sector to borrow,

almost at the same level of the previous period. The combination of *formal* and *informal* sources has been used by 3.5% of enterprises.

Compared with the previous period, the share of total borrowing enterprises that have borrowed for an investment has registered a decline for all enterprises sizes, whereas borrowing to cover short-term expenditure continued to increase for medium-sized enterprises. Around 73% of small enterprises, around 84% of medium-sized enterprises and 83% of large enterprises consider their level of borrowing for financing their activity as *adequate*. Compared with the previous period, this share has decreased for small and large enterprises, while it increased for medium-sized enterprises.

Borrowing is denominated in the *domestic currency* for 55% of small borrowing enterprises, 50% of medium-sized enterprises and 46% of large enterprises, while the rest is in *foreign currency* and/or combined. Borrowing in *foreign currency* (mainly in euro) was more used by medium-sized and large enterprises (respectively 49% and 43%) and less by small enterprises (37%).

The total value of the debt is about *approximately the value of the enterprise's equity* for around 79% of total borrowing enterprises and *almost at the same level of the value of equity* for around 9% of them. Analysed by size, the debt/equity ratio resulted higher for medium-sized and large enterprises, with 23% and 22% of them declaring that this ratio is equal or exceeds the value of equity, implying a higher debt burden. For this six-month, this ratio increased for small and medium-sized enterprises by 2.8 p.p. and 5.3 p.p., respectively. By sectors, debt burden continues to remain higher for enterprises of services and trade sectors.

• RELATIONS WITH BANKS

The difficulty of the borrowing process from banks is assessed between "normal" and "difficult", but downwards compared with the previous period. *Relations with banks* continue to be assessed between "significant" and "necessary", marking an increase for all enterprise sizes during the period. 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 in decline in this six-month for small and large enterprises.

Regarding planning a loan in the future, around 38% of responding enterprises reported "no possibility" of bank borrowing in the next period. This share has continued to decline compared with the previous periods. Furthermore, it is observed an increase of the share of enterprises that claim that there is "little possibility" to take a loan in 2021 H1, 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, there is a decline for the alternative "surely" for small and large enterprises, materialising the uncertainty of the pandemic situation in planning a future loan.

Financial and borrowing situation of enterprises in Albania

Sample characteristics². In 2020 H2, (hereinafter, “the period”) the survey was conducted on a sample 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%).

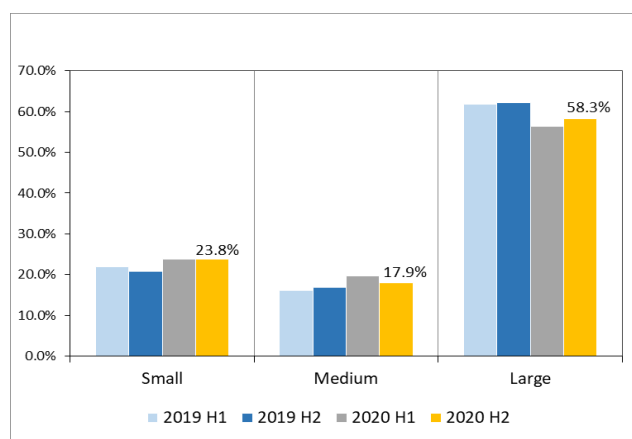
In the total sample, 82% of the enterprises (1130 in total) responded to the survey questionnaire and the analysis of the results is based on these responses. The following analysis is largely based on enterprise breakdown by size.

1. Objectives and scope of action

1.1 Distribution of enterprises by sector and size

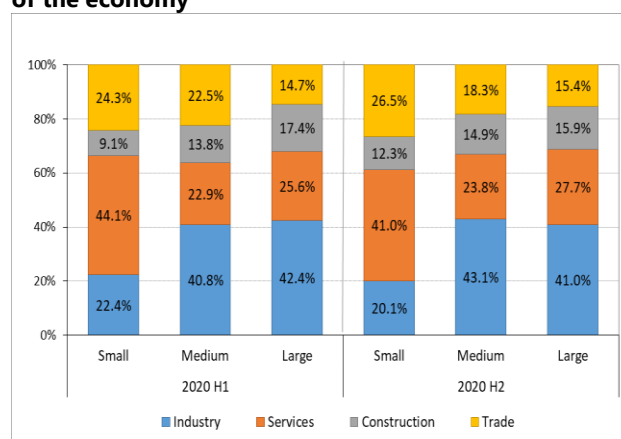
By sector, for 2020 H2, around 36% of enterprises belong to the *industry* sector, around 30% belong to the *services* sector, around 15% belong to the *construction* sector and around 18% to the *trade* sector. By size, around 24% of enterprises are classified as *small enterprises* (5-19 employees), around 18% as *medium-sized enterprises* (20-49 employees) and 58% as *large enterprises* (over 50 employees). In the group of *small enterprises*, those operating in the services sector (around 41%) account for the main share, followed by the trade sector (around 26%). On the other hand, the industry sector (with around 43% and 41%, respectively) and the services sector (24% and 28%, respectively) have the higher share in the group of medium-sized and large enterprises.

Chart 1.1 Distribution of enterprises by size



Source: Bank of Albania.

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



² 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 annual net sales (large enterprises). In 2016, the sample expanded to include around 1200 large, medium-sized, and small enterprises across the country.

1.2 Obtaining commodities and selling products

The main share of enterprises (around 63% of small enterprises, 44% of medium-sized enterprises and 38% of large ones) obtain over 80% of commodities domestically. Compared with the previous period (2020 H1), this indicator increased by 3.8 percentage points (p.p.) for small enterprises, while it has decreased by 0.2 p.p. for medium-sized enterprises and by 2.6 p.p. for large enterprises. On the other hand, around 38% of large enterprises obtain *up to 20% of commodities domestically* with a six-month increase of 1.9 p.p.

Products continue to be sold *mainly domestically*, with around 85% of small enterprises, 64% of medium-sized enterprises and 55% of large enterprises declaring to have sold most of their products in the domestic market (over 80% of products volume). Compared to the previous six-months, there has been an increase in the share of small enterprises selling their products mainly domestically (by 3.3 p.p.), while the share of medium-sized and large enterprises declaring such thing marked a slight decline (by 1.4 p.p. and 1.1 p.p., respectively).

Chart 1.3 Distribution of enterprises share of commodities bought domestically

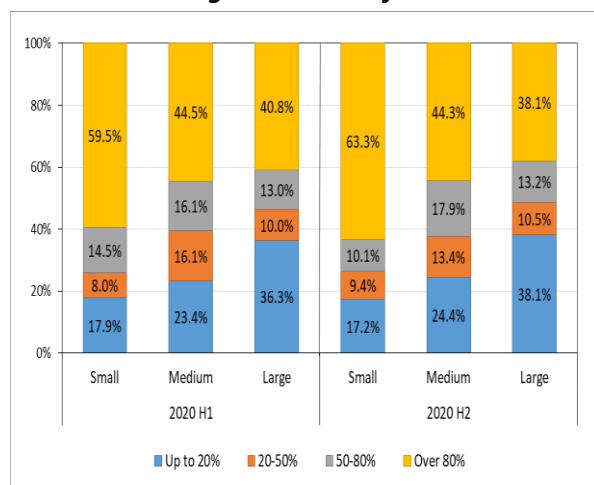
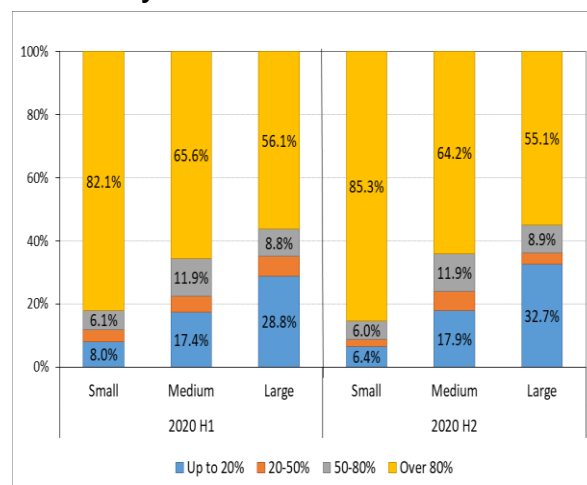


Chart 1.4 Distribution of enterprises by share of sales domestically



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 79% of the enterprises in this sector obtain over 80% of commodities domestically. This share increased by 3.6 p.p. compared to the previous six-months, and 2.5 p.p. compared to the previous year. On the other hand, the industry sector shows lower reliance with 51% of the enterprises in this sector obtaining *only 20% of commodities domestically*. In the analysed period, the share of these enterprises registered a six-month increase of 3.1 p.p., while in annual terms this increase was 2.1 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	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%
	2020 H2	51.0%	13.1%	13.1%	22.9%
Services	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%
	2020 H2	20.1%	6.7%	10.2%	63.0%
Construction	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%
	2020 H2	3.0%	1.2%	16.8%	79.0%
Trade	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%
	2020 H2	31.4%	20.3%	16.4%	31.9%

Source: Bank of Albania.

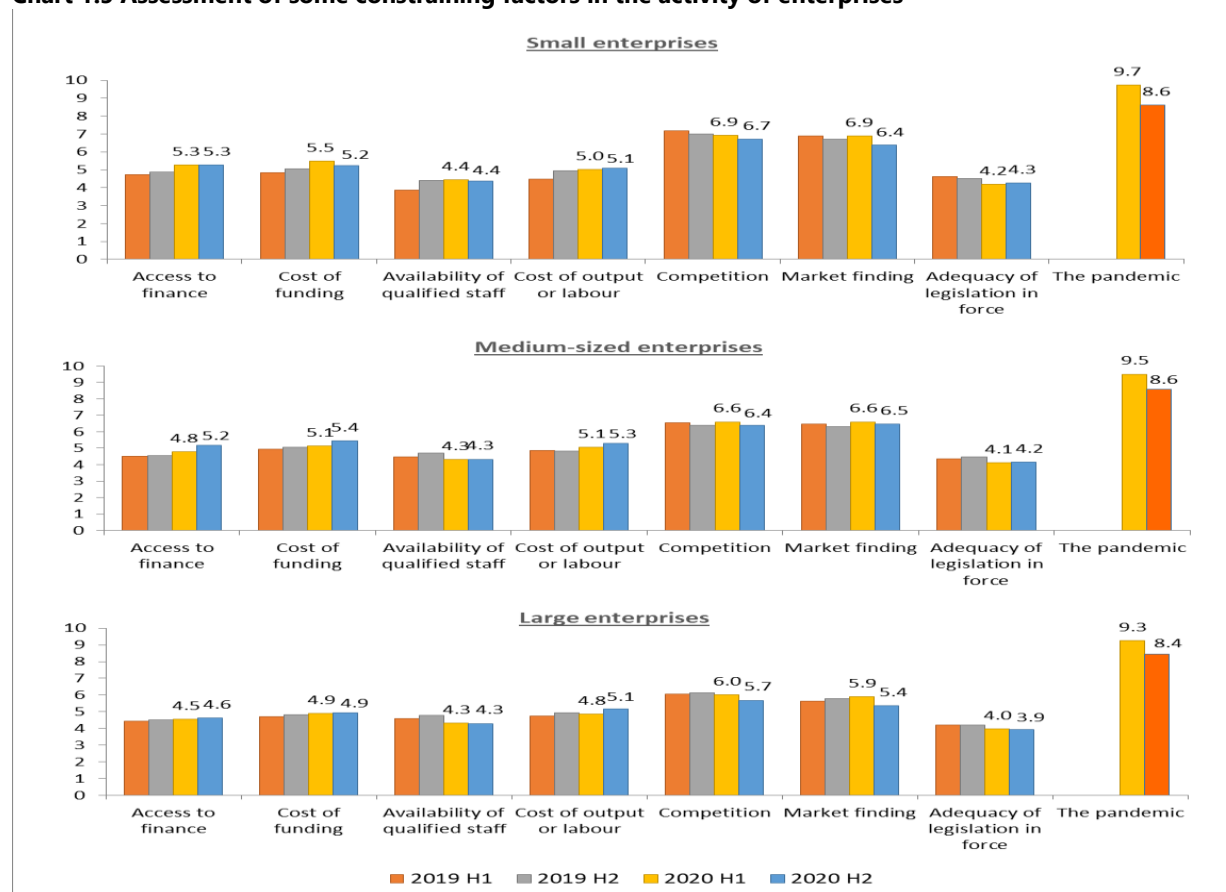
1.3 Constraining factors in the activity of enterprises³

During the period, the highest assessment of the impact on business was given to the **"situation created by the pandemic⁴"**, which also aggravated other problems faced by enterprises. Following, surveyed enterprises report that *"competition"* and *"finding a market"* continue to be a challenge for their activity. The importance of the element of competitiveness appears in decline compared with the previous period for all enterprise sizes, similarly to finding a market. Elements which have shown an increase in assessment during this period are *"access to financing"*, *"cost of financing"* and *"cost of production and labour"*, particularly for medium-sized and large enterprises.

³ 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.

⁴ This issue is defined in the alternative "Other" and is selected by 19% of the sample of responding enterprises. In 2020 H1, this option was selected and specified by 37% of the responding sample.

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



Source: Bank of Albania.

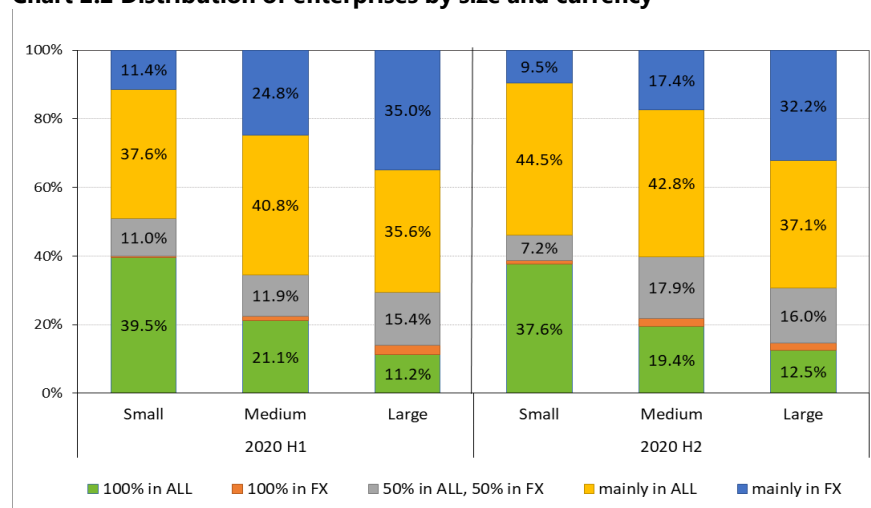
2. Financial performance of enterprises and the presence of debt

2.1 The operating currency of the activity

The euroization of the activity of small and medium-sized enterprises continued to remain low, but is more significant in large enterprises. Thus, around 10% of small enterprises and 20% of medium-sized enterprises state that they carry out their activity *completely* or *mainly*⁵ in foreign currency. This indicator is around 34% for large enterprises, but has decreased by 3 p.p. in this period.

⁵ Over 50% of the activity in foreign currency.

Chart 2.2 Distribution of enterprises by size and currency



Source: Bank of Albania.

2.2 Sales performance, financial result and expansion of activity

During the period, sales levels declined for all enterprises. Thus, small enterprises continue to report a significant decline of sales level with a negative net balance of [-36.9%], somewhat improved compared to the previous six-months, but at a worsened level compared with the previous year, reflecting the situation created by the SARS-CoV-2 pandemic. The situation appears similar for medium-sized and large enterprises, which recorded negative net sales balances of [-30.2%] and [-10.7%] respectively, also showing improvement compared with the previous period. Regarding overall expectation on the sales level in the next six-months, large enterprises have positive expectations regarding their performance with a positive net balance of 21.2%, followed by medium-sized enterprises, for whom the positive balance is only 1.5%. Meanwhile, small enterprises appear pessimistic where, with a negative net balance of [-8.6%], they expect further decline of the sales level in 2021 H1.

Chart 2.2 Net sales balance

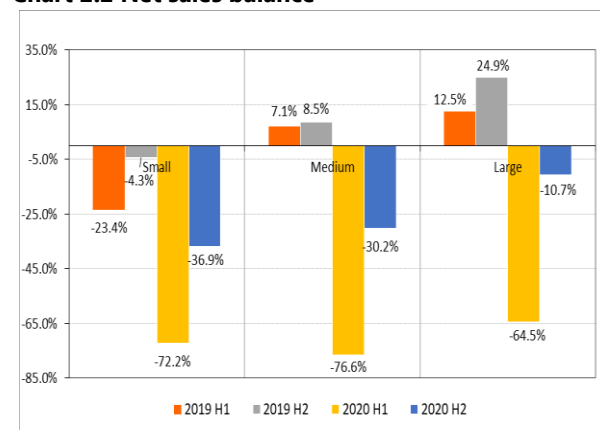
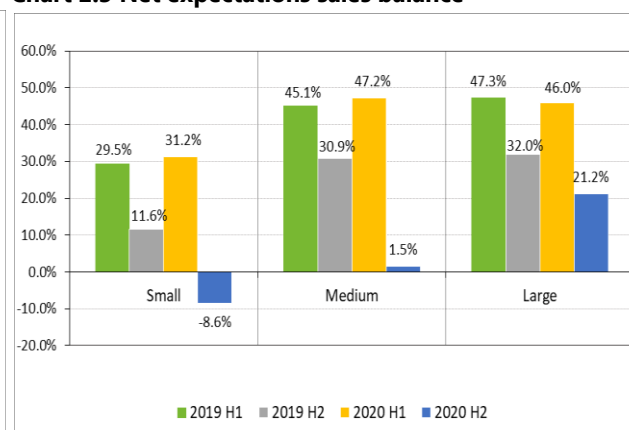


Chart 2.3 Net expectations sales balance



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 answers provided.

Also, all enterprises report a decline of the financial result. Small enterprises estimate a significant decline in financial result, with a negative net balance of [-38.1%], but somewhat contracted compared to

the previous period. Medium-sized and large enterprises as well declare negative balances of financial result by [-26.9%] and [-9.3%], respectively, but improved significantly compared to the previous period. The *expectations for the next six-months* appear pessimistic for small and medium-sized enterprises, but continue to remain positive for large enterprises, although in decline compared with the previous periods.

Chart 2.4 Net balance of financial result

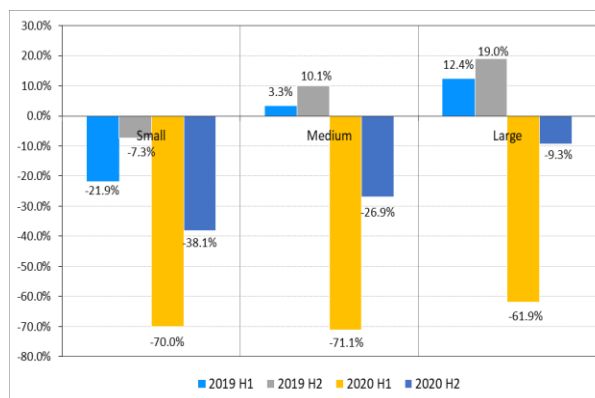
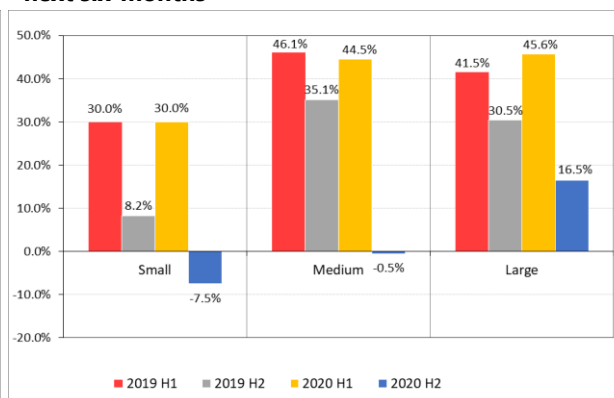


Chart 2.5 Net balance of financial result expected in the next six-months



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 answers provided.

The assessment of enterprises for investment growth and activity expansion present an unclear picture. Small and medium-sized enterprises registered negative net balances of [-4.9%] and [-10.4%], respectively. Whereas, large enterprises declare a positive balance of 2.9%. The pandemic continues to have a significant impact on the decision-making of enterprises regarding investments or the expansion of their activity. The net balances of responses of small and medium-sized enterprises resulted negative for 2021 H1. For large enterprises, this net balance is positive, which indicates expectations for investments or further activity expansion. However, compared with the previous surveyed periods, these expectations are less optimistic.

Chart 2.6 Net balance of activity expansion

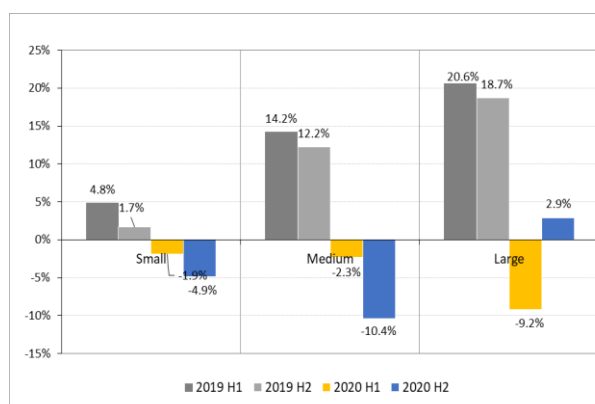
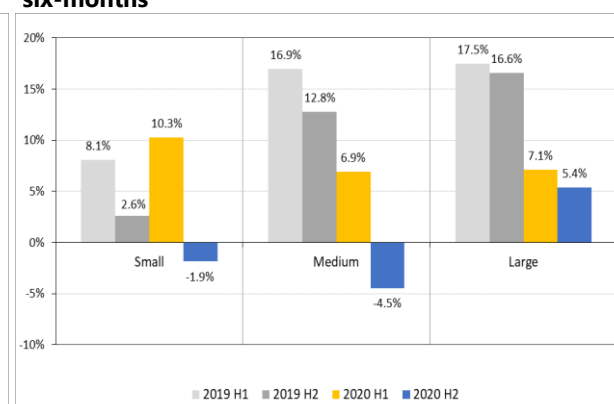


Chart 2.7 Net balance of activity expansion in the next six-months



Source: Bank of Albania.

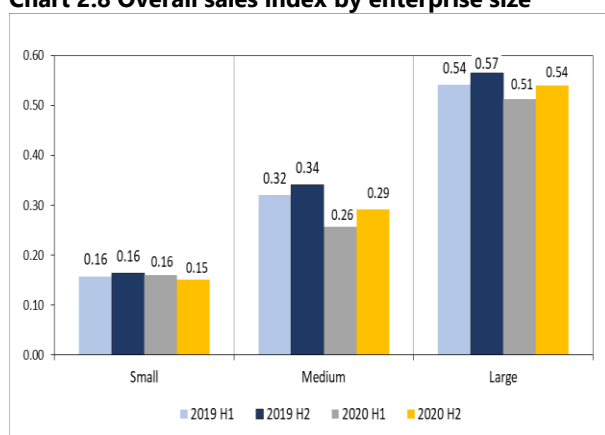
Net balances of responses are calculated as the difference between the weights of positive responses (expansion of activity/expectations for expansion or investments) and negative responses (contraction of activity/expectations for contraction) to the total of answers provided.

2.3 Sales level and financial result

The aggregated performance of total sales is analysed through an index⁶ that weighs the responses of enterprises at different intervals and groups them by size of enterprises and sectors.

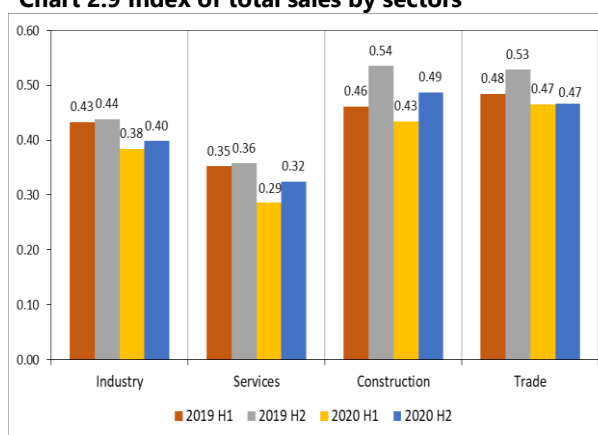
The performance of the sales index indicates their improvement during the period compared with 2020 H1, but also their contraction compared with the pre-pandemic period. By size, the performance of the values of the index indicates a decline of overall sales for small enterprises, whereas medium-sized and large enterprises register an improvement compared with 2020 H1. The index decreased for all three group sizes compared with the previous year. This annual decrease is observed for all sectors of the economy as well. Compared with the previous six-months, the results of the index by sector indicate a decline of overall sales for the trade sector. According to this index, the highest values of sales were achieved by the construction sector, while the lowest values belonging to the services sector.

Chart 2.8 Overall sales index by enterprise size



Source: Bank of Albania.

Chart 2.9 Index of total sales by sectors

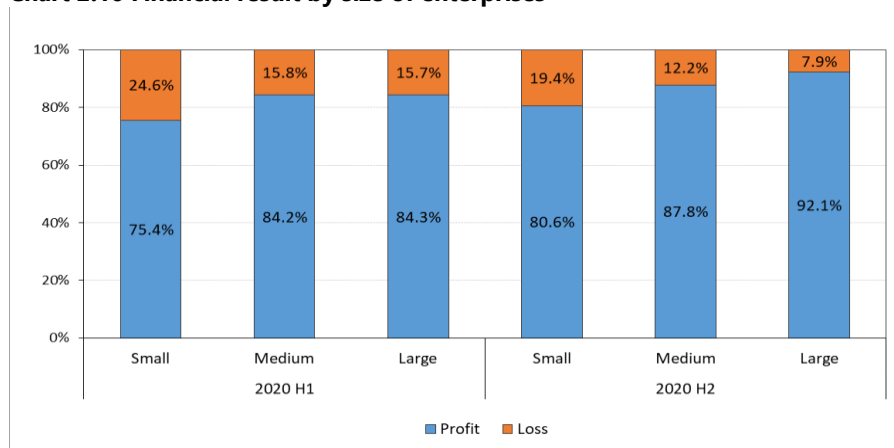


Regarding the financial result in 2020 H2, over 80% of the responding enterprises⁷ in each size group reported profit during the period. This percentage was higher for large enterprises (around 92%) and lower for small enterprises (around 80.6%). The share of enterprises that reported profit was upwards for all three groups of enterprises, compared to the previous period.

⁶ 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.

⁷ Some 997 entities or around 72% of the sample responded.

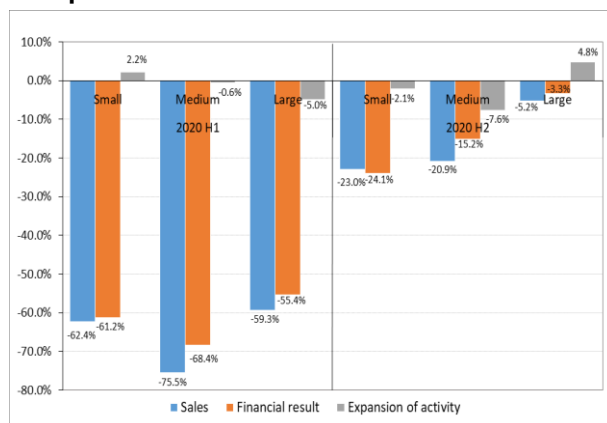
Chart 2.10 Financial result by size of enterprises



Source: Bank of Albania.

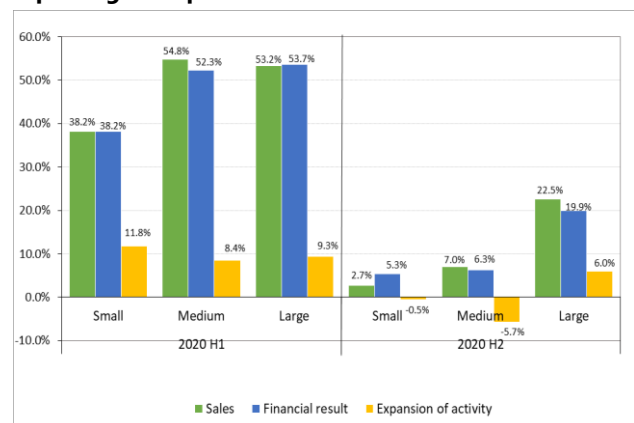
For profit reporting enterprises, all groups of enterprises declare a decline in the level of sales and financial result, while the expansion of activity presents negative balances for small and medium-sized enterprises. Net balances of all enterprises are improving in terms of sales and financial result compared to 2020 H1. In terms of expectations for the next six-months, enterprises continue to remain positive, but less optimistic about the performance of sales and financial result compared to the previous period. In terms of activity expansion, this balance is positive only for large enterprises, whereas small and medium-sized enterprises appear pessimistic compared with the previous period.

Chart 2.11 Net balances for profit reporting enterprises



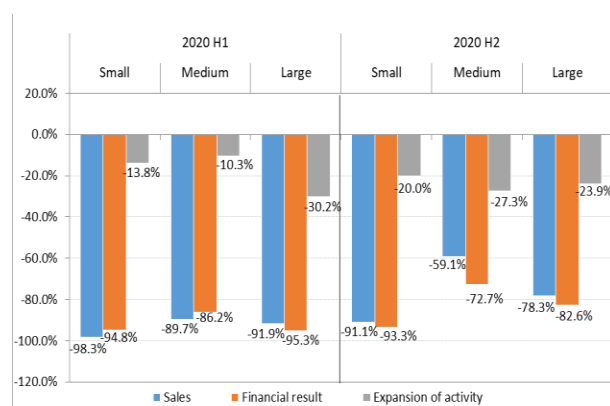
Source: Bank of Albania.

Chart 2.12 Net balances of expectations for profit reporting enterprises



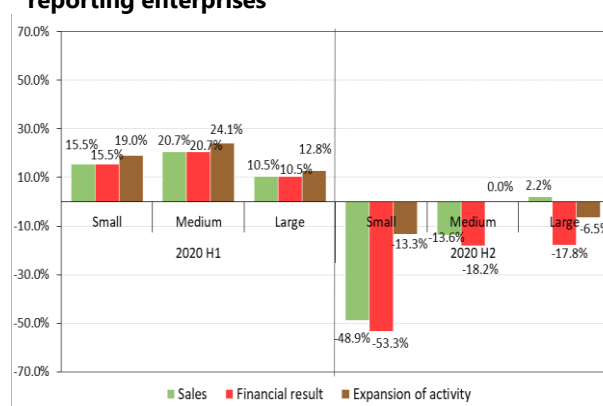
For loss reporting enterprises, all three groups report negative balances for sales level, financial result and expansion of activity or investment growth during the period. These balances have contracted in terms of sales and financial result. Expectations of enterprises with loss appear pessimistic for the next six-months regarding the next level of sales, financial result and expansion of activity for small and medium-sized enterprises. These expectations are also negative in terms of financial result and expansion of activity for large loss reporting enterprises, but with a slightly positive balance for the performance of sales level in the next six-months.

Chart 2.13 Net balances for loss reporting enterprises



Source: Bank of Albania.

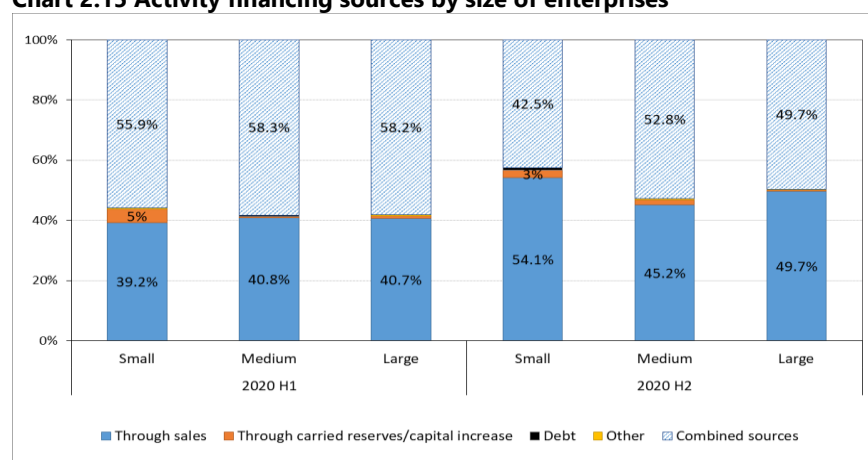
Chart 2.14 Net balances of expectations for loss reporting enterprises



2.4 Activity financing

During the period, around 50% of enterprises have continued to finance their activity through sales (54% of small enterprises, 45% of medium-sized enterprises and 50% of large ones) and this indicator has increased for all groups of enterprises by size. Meanwhile, the trend of combining different sources of financing continues to account for a considerable share during the period, but has contracted for all groups of enterprises. Financing achieved through the combination of sales with carried reserves takes the main share in this aspect.

Chart 2.15 Activity financing sources by size of enterprises



Source: Bank of Albania.

3. Characteristics of enterprise borrowing

Around 41% of total responding enterprises⁸ (438 enterprises) state that they are indebted. This share has registered an increase of 1.7 p.p. compared to the previous six-months and 4.2 p.p. compared to the previous year. In terms of enterprise size, the share of borrowing enterprises registered an increase for all three groups of enterprises compared with the previous period, by 0.9 p.p. for small enterprises, 4.8 p.p. for medium-sized enterprises and 1 p.p. for large enterprises. By sector, the highest share of borrowing

⁸ Considering the full sample of 1374 enterprises, only 1130 of them or around 82% have responded.

enterprises results in the trade sector (around 55%), followed by the industry sector (42%). The share of borrowing enterprises in these two sectors has increased compared with the previous period.

Table 3.1 Distribution of borrowing enterprises by size

Borrowing enterprises by size	No. of enterprises		Share to total of the group:	
	2020 H1	2020 H2	2020 H1	2020 H2
Small	82	86	31.2%	32.1%
Medium	77	81	35.3%	40.1%
Large	278	299	44.6%	45.6%
Total enterprises	437	466	39.5%	41.2%

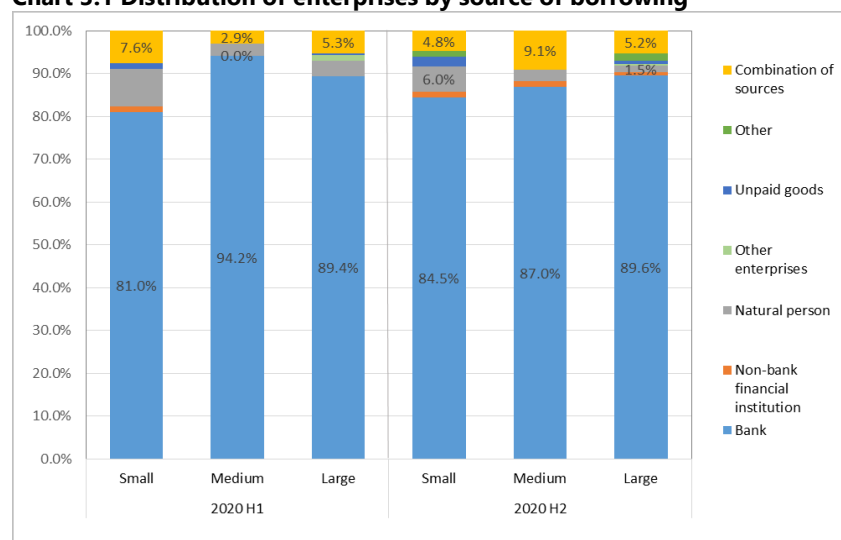
Source: Bank of Albania.

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

3.1 Source of borrowing

Around 88% of borrowing enterprises borrowed primarily from the banking sector, while over 6% have used a combination of sources. The share of bank borrowing enterprises has remained almost unchanged compared with 2020 H1. By size, around 85% of small enterprises, 87% of medium-sized ones and 90% of large enterprises have turned only to banks as a source of borrowing. This share has increased for small enterprises and decreased for medium-sized ones 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 borrowing from natural persons, other companies, unpaid goods).

Chart 3.1 Distribution of enterprises by source of borrowing



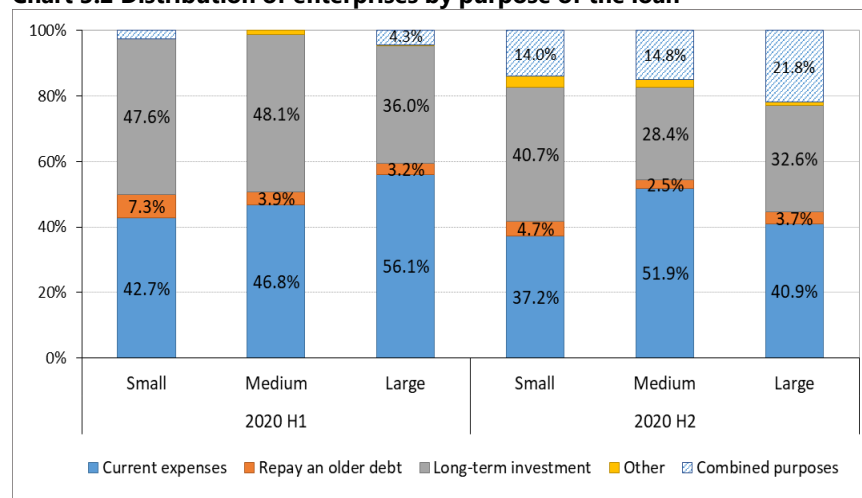
Source: Bank of Albania.

In total, *formal borrowing* sources (from banks and non-bank financial institutions) were used by 90% of responding borrowing enterprises (around 87% of small enterprises, 90% of medium-sized ones and 92% of large ones), at only 0.6 p.p. lower compared with the previous six-months. The combination of formal and informal sources has been used by 3.5% of enterprises.

3.2 Purpose of borrowing

Enterprises' borrowing, to both cover short-term expenditure and carry out long-term investments, registered an increase during the period. Compared with the previous period, the share of enterprises that have borrowed for an investment has registered a decline for all enterprise sizes, whereas borrowing to cover short-term expenditure continued to increase for medium-sized enterprises. An increase of combined purposes of borrowing is observed, where the two purposes above have the main share for all enterprise sizes.

Chart 3.2 Distribution of enterprises by purpose of the loan

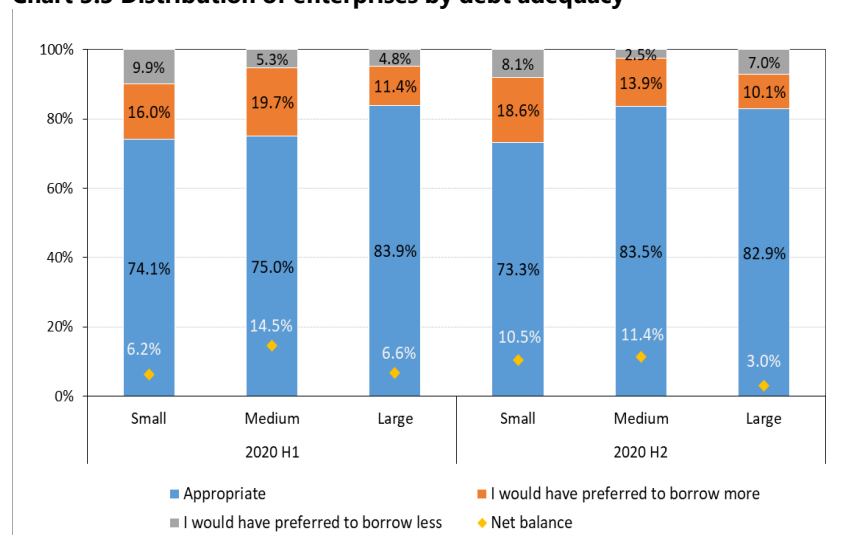


Source: Bank of Albania.

3.3- Debt adequacy

During the period, more than 3/4 of enterprises consider the level of borrowing as adequate for financing their activity. This indicator is around 73% of small enterprises, 84% of medium-sized enterprises and 83% of large ones. Compared with the previous period, this share has slightly decreased for small and large enterprises, while it has increased for medium-sized enterprises. The other part of responses resulted in positive net balances and increasing only for small enterprises. This balance indicates that the share of small enterprises that would prefer to borrow more is higher than the share of those that would prefer to borrow less in order to finance their activity. Comparing this result with that of the previous survey, credit demand appears lower for the period under analysis.

Chart 3.3 Distribution of enterprises by debt adequacy



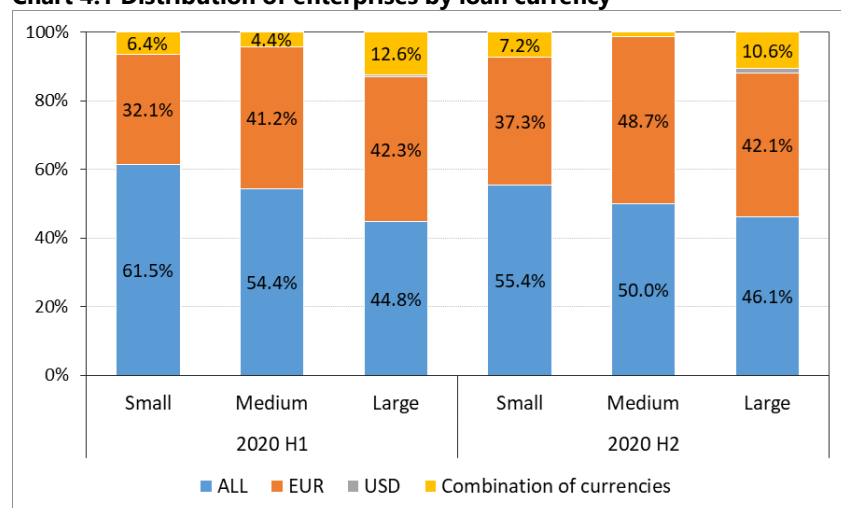
Source: Bank of Albania.

4. Debt structure

4.1 Currency

By currency, borrowing appears relatively balanced. Over the period, 55% of small enterprises, 50% of medium-sized enterprises and 46% of large enterprises, declare that their borrowing is 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) resulted more used by medium-sized and large enterprises (49% and 43% respectively) and less by small enterprises (37%). This element is also affected by the currency with which these enterprises carry out their activity. Compared with the previous six-months, the share of enterprises with foreign currency borrowing resulted upwards for all three groups of enterprises (by 5 p.p. for small enterprises, 8 p.p. for medium-sized enterprises and 1 p.p. for large ones).

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 39% for small enterprises, 49% for medium-sized enterprises and 40% of large ones. Compared with the previous six-months, this share registered a decline for small and large enterprises (by 4.9 p.p. and 1.9 p.p. respectively).

New borrowing, which means borrowing in the last six-months, is declared by around 21% of small enterprises, 10% of medium-sized enterprises and 11% of large ones. In half-year terms, the share of new borrowers resulted upwards only for small enterprises, while in annual terms, all enterprise sizes have registered an increase, more significant for small and medium-sized enterprises. *The main purpose of use of new borrowing has been to cover short-term expenditures (for 60% of total enterprises) and make a long-term investment (16% of total enterprises).* Compared with the previous six-months, the share of enterprises that have newly borrowed to face current expenditures and to make a long-term investment has declined, while the share of those that combine several purposes of use for new borrowing has increased. The average maturity of borrowing resulted 62.9 months for small enterprises, 63.3 months for medium-sized enterprises and 60.3 months for large ones.

4.3 Interest rate and repayment

The main type of interest rate for the largest existing debt⁹, remains fixed interest rate up to maturity (for 78% of small enterprises, 74% of medium-sized enterprises and 81% of large ones) and the yearly variable rate (for 14% of small enterprises, 17% of medium-sized enterprises and 9% of large ones). During the period, the share of enterprises reporting fixed interest rate borrowing increased compared to the previous period for small and large enterprises and decreased for medium-sized enterprises. The frequency of repayment continues to remain mainly monthly for 81% of small enterprises, 69% of medium-sized enterprises and 77% of large enterprises, although this share has declined for the second six-month consecutively for all group sizes.

4.4 Collateral and coverage ratio

Around 60% of small enterprises, 64% of medium-sized enterprises and 64% of large enterprises, declare that debt is collateralized only through real estate, while the rest of the enterprises have used other forms of collateralization¹⁰. Meanwhile, around 20% of small enterprises, 12% of medium-sized enterprises and 13% of large enterprises, admit that the debt is uncollateralized. Compared with the previous six-months, the share of enterprises with uncollateralized debt decreased for small and large enterprises, while the collateralization with financial instruments and guarantees continues to increase for all enterprise sizes.

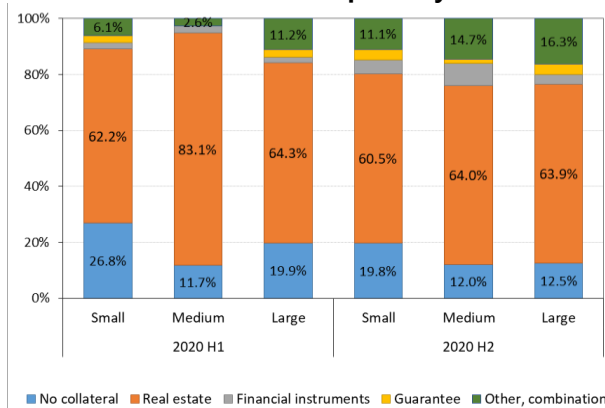
Collateral coverage is also assessed aggregately through a weighted response index¹¹. For 2020 H2, this index scored 0.48 for small enterprises, 0.5 for medium-sized enterprises, and 0.57 for large enterprises. The coverage ratio was downwards for all enterprise sizes, compared to the previous period.

⁹ For enterprises that have more than one debt.

¹⁰ Financial instruments, guarantee, other warranties, along with the combination of some forms of collateralization, including the combination with real estate.

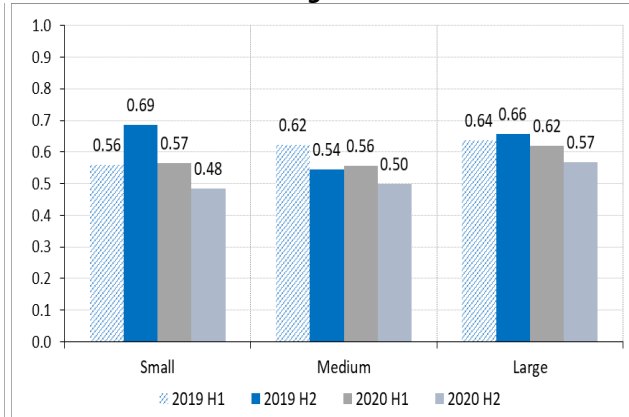
¹¹ This index takes values from 0 to 1 and the increase in its value indicates an increase in the weight of collateral coverage. Based on each of the alternatives, the weighting coefficients of this index are: "Up to 50% of the collateralized debt" = 0.25; "50-100% of the collateralized debt" = 0.5; "100-120% of the collateralized debt" = 0.75; "Over 120% of the collateralized debt" = 1.

Chart 4.2 Distribution of enterprises by collateral



Source: Bank of Albania.

Chart 4.3 Collateral coverage index

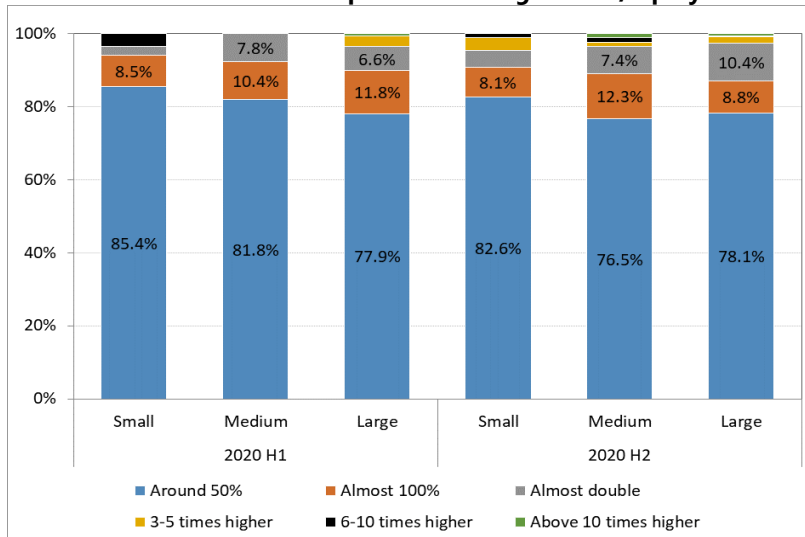


5. Debt burden

5.1 Debt value to equity

During the period, the total debt value results approximately at *half of the equity of the enterprise for 79% of borrowing enterprises and almost equal to the value of equity for 9% of them*. The debt/equity ratio resulted higher for medium-sized and large enterprises, with 23% and 22% of them declaring that this ratio is equal or exceeds the value of equity, implying a higher debt burden. For this six-months, this ratio increased for small and medium-sized enterprises by 2.8 p.p. and 5.3 p.p., respectively.

Chart 5.1 Distribution of enterprises according to debt/equity ratio



Source: Bank of Albania.

By sectors, debt burden continues to remain higher for enterprises of services and trade sectors.

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

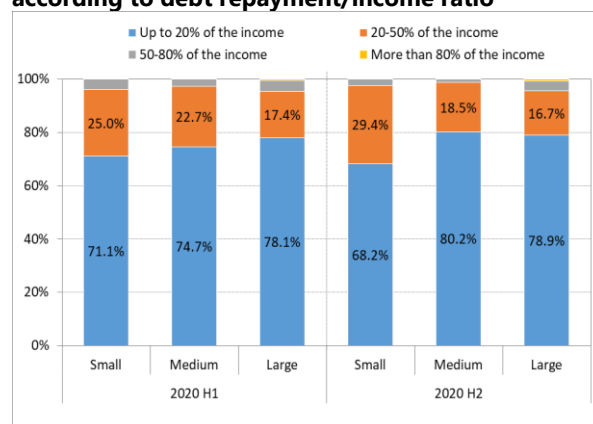
Share of enterprises with an equal/higher value of debt to equity, by sectors				
	Industry	Services	Construction	Trade
2019 H1	26.8%	18.5%	18.3%	28.8%
2019 H2	20.4%	28.0%	13.4%	26.5%
2020 H1	16.4%	22.9%	19.7%	22.2%
2020 H2	19.7%	25.0%	17.6%	21.9%

Source: Bank of Albania.

5.2 Debt repayment

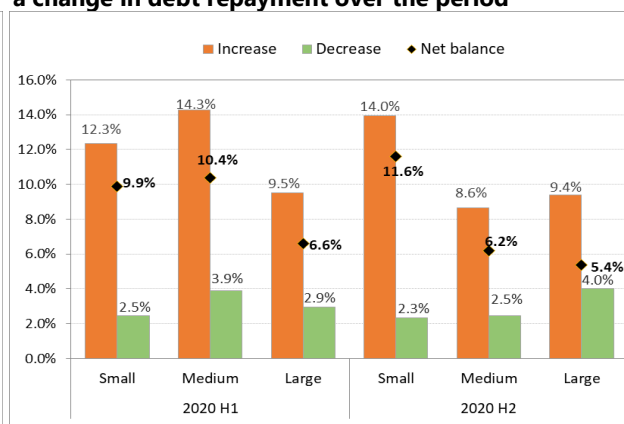
The majority of the borrowing enterprises (77%) declare that debt repayment amounts up to 20% of their income. The share of these enterprises has increased by 1 p.p. compared with the previous survey. The burden of debt repayments continues to be heavier for small enterprises, where the share of enterprises reporting that this payment exceeds 20% of revenues accounts for 32% of the total of the group¹². For medium-sized and large enterprises, this share is 20% and 21%, respectively. Questioned whether the *debt service cost has changed* over the period, the majority of enterprises (around 84% of small enterprises, 89% of medium-sized enterprises and 87% of large enterprises) and claim that this expenditure has remained unchanged. The responses of the rest of the enterprises resulted in net positive balances for all sizes, showing an increase of this expenditure as a ratio to income. For small enterprises, this balance has increased for the third six-months consecutively, expressing their difficulty in settling the debt.

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



Source: Bank of Albania.

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

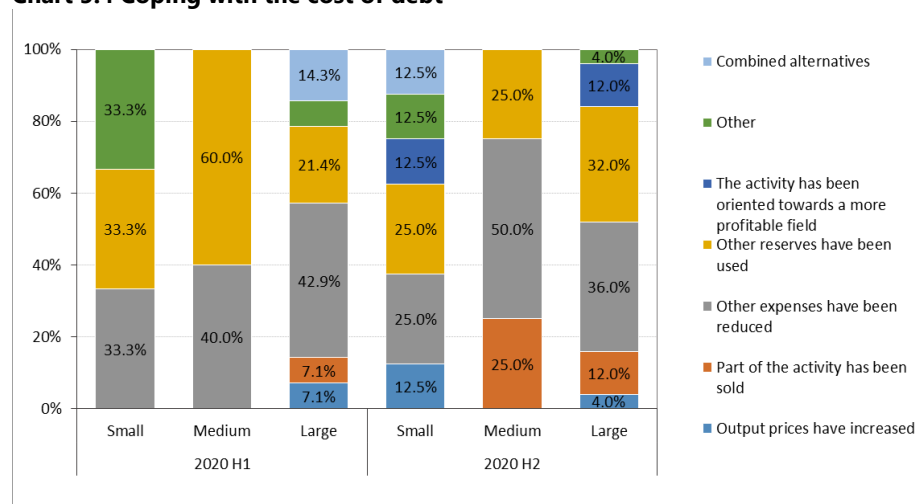


5.3 Coping with loan cost

To compensate the increase of debt service costs, enterprises have relied mainly on the decrease of other expenses (35%) or have used various reserves (30%). This modus operandi has been in line with responses of enterprises on the manner in which they finance their activity.

¹² Calculated as the sum of weight for responses: "20-50% of total income", "50-80% of total income" and "higher than 80% of total income":

Chart 5.4 Coping with the cost of debt

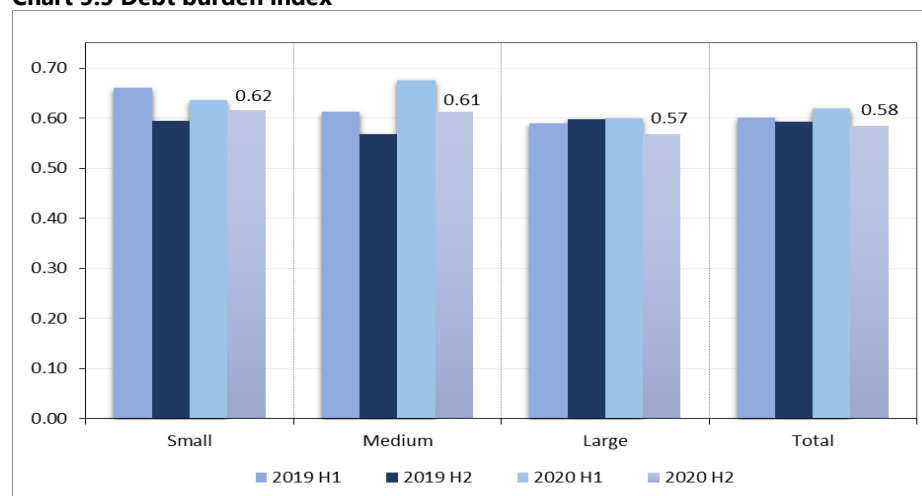


Source: Bank of Albania.

5.4 Debt burden

The debt burden of borrowing enterprises is assessed in decline throughout the period, where the index¹³ value resulted 0.58 for total enterprises. Compared with 2020 H1 and by size, the index presents a lower debt burden for small and medium-sized enterprises.

Chart 5.5 Debt burden index



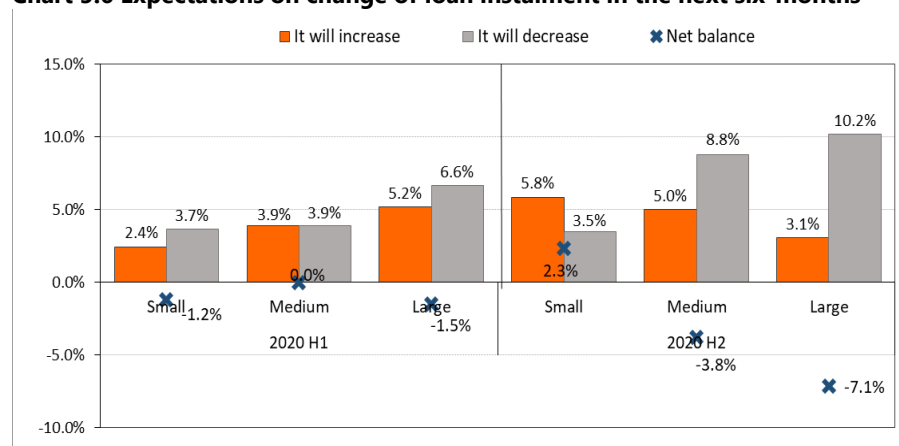
Source: Bank of Albania.

5.5 Expectations for debt repayment in the next six-months

Most of the borrowing enterprises (around 87%), despite their size, do not expect a change of debt instalment in 2021 H1. This share has declined by 3 p.p. compared to the previous period. Regarding enterprises that expect a change of instalment, medium-sized and large enterprises expect a decline in this regard in the next six-months. Meanwhile, small enterprises have a positive net balance, expecting an increase of this payment in the following period.

¹³ 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.

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



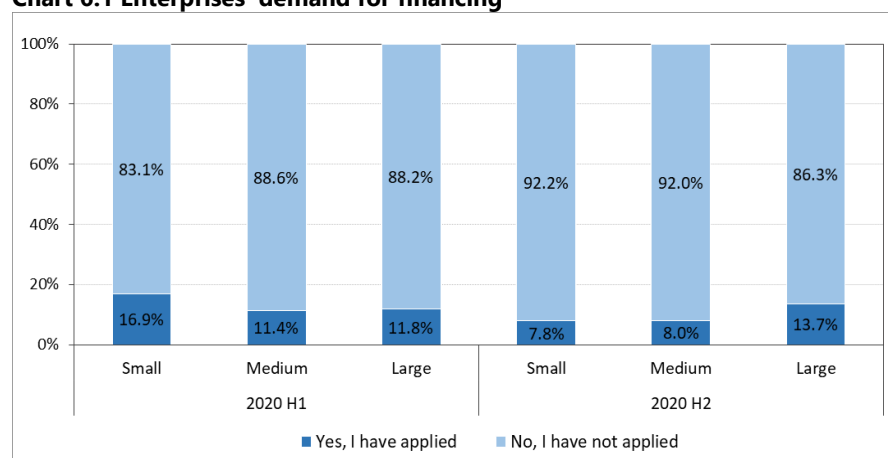
Source: Bank of Albania.

6. Relations with banks and expectations for the future¹⁴

6.1 Access to financing

Enterprises' credit demand declined during the period, where 11% declare that they have applied for financing during the last six-months. This share has contracted by around 3 p.p. for total enterprises compared with the previous survey. Analysing this indicator by enterprise size, large enterprises have the highest share for this period (around 14%). Compared with the previous six-months, an expansion of credit demand is observed only for large enterprises (by 1.9 p.p.), whereas small and medium-sized enterprises present a contraction of this demand (by 9.1 p.p. and 3.3 p.p., respectively).

Chart 6.1 Enterprises' demand for financing

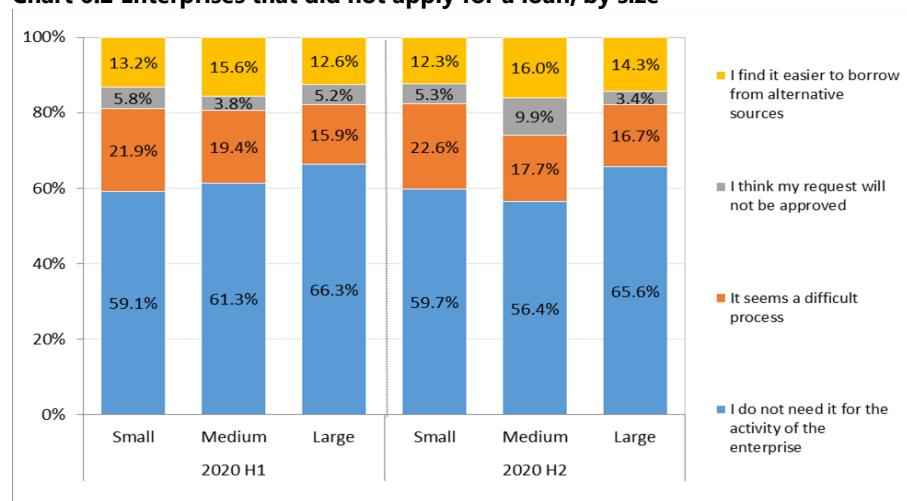


Source: Bank of Albania.

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. 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*. Both these reasons present a slight increase for large enterprises.

¹⁴ The questions in this section are addressed to the entire sample of enterprises, including non-borrowing as well.

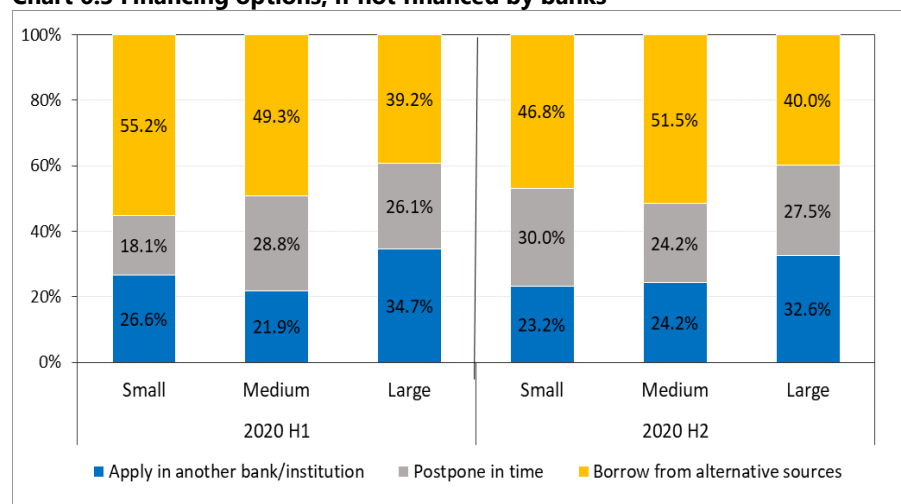
Chart 6.2 Enterprises that did not apply for a loan, by size



Source: Bank of Albania.

Questioned on how they would behave if they *were not financed by banks*, more than 47% small enterprises declare that they would *borrow from alternative sources*, but with a decline of 8.4 p.p. compared with the previous six-months. Meanwhile, this share has increased for medium-sized (52%) and large enterprises (40%). Also, a significant of enterprises state that they *would apply again to another bank or other institution*. The rest of enterprises declare that they will *postpone their activity expansion plans* due to lack of financing. This share has increased for small and large enterprises.

Chart 6.3 Financing options, if not financed by banks

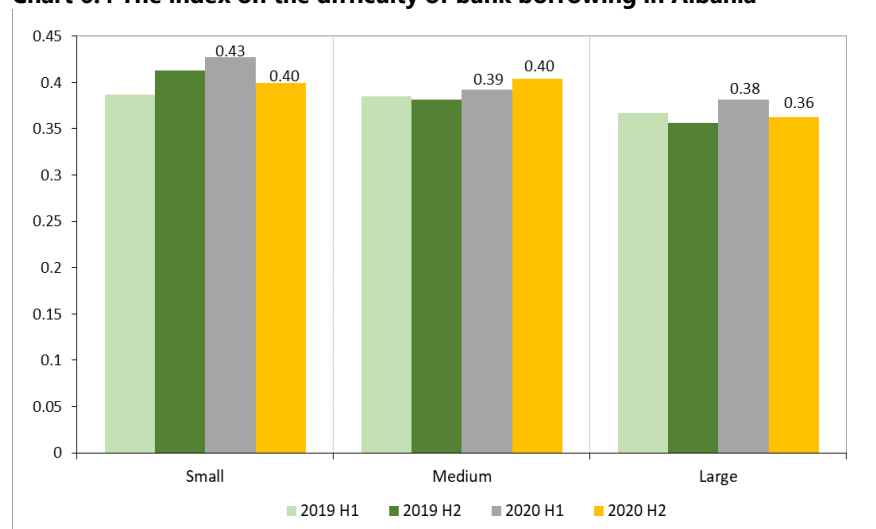


Source: Bank of Albania.

6.2 Borrowing process and relations with banks

The index on the difficulty of bank borrowing process resulted at 0.38 for total enterprises during the period, 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 2020 H1, the level of difficulty has declined for small and large enterprises.

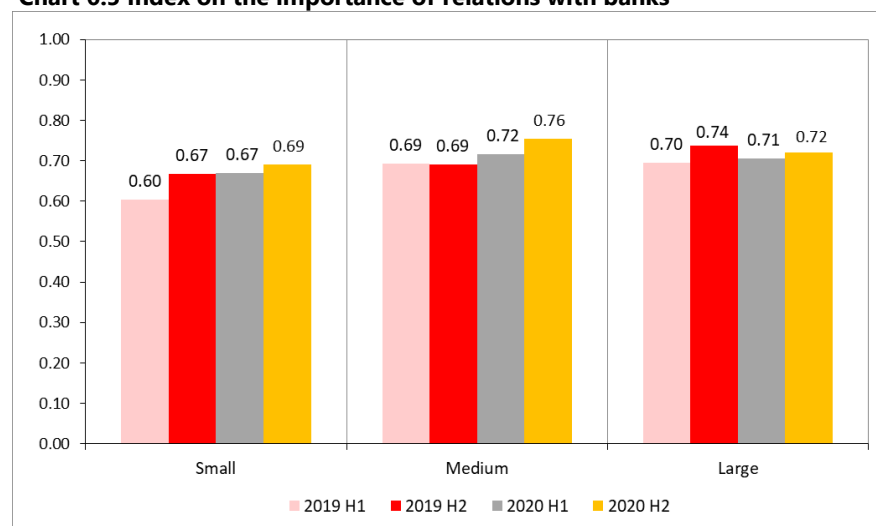
Chart 6.4 The index on the difficulty of bank borrowing in Albania¹⁵



Source: Bank of Albania.

Relations with banks, measured by the relevant index, continue to be assessed between *important* and *necessary*. The increase of this index for all enterprise sizes evaluates the increase of the importance of relations with banks during the period.

Chart 6.5 Index on the importance of relations with banks¹⁶



Source: Bank of Albania.

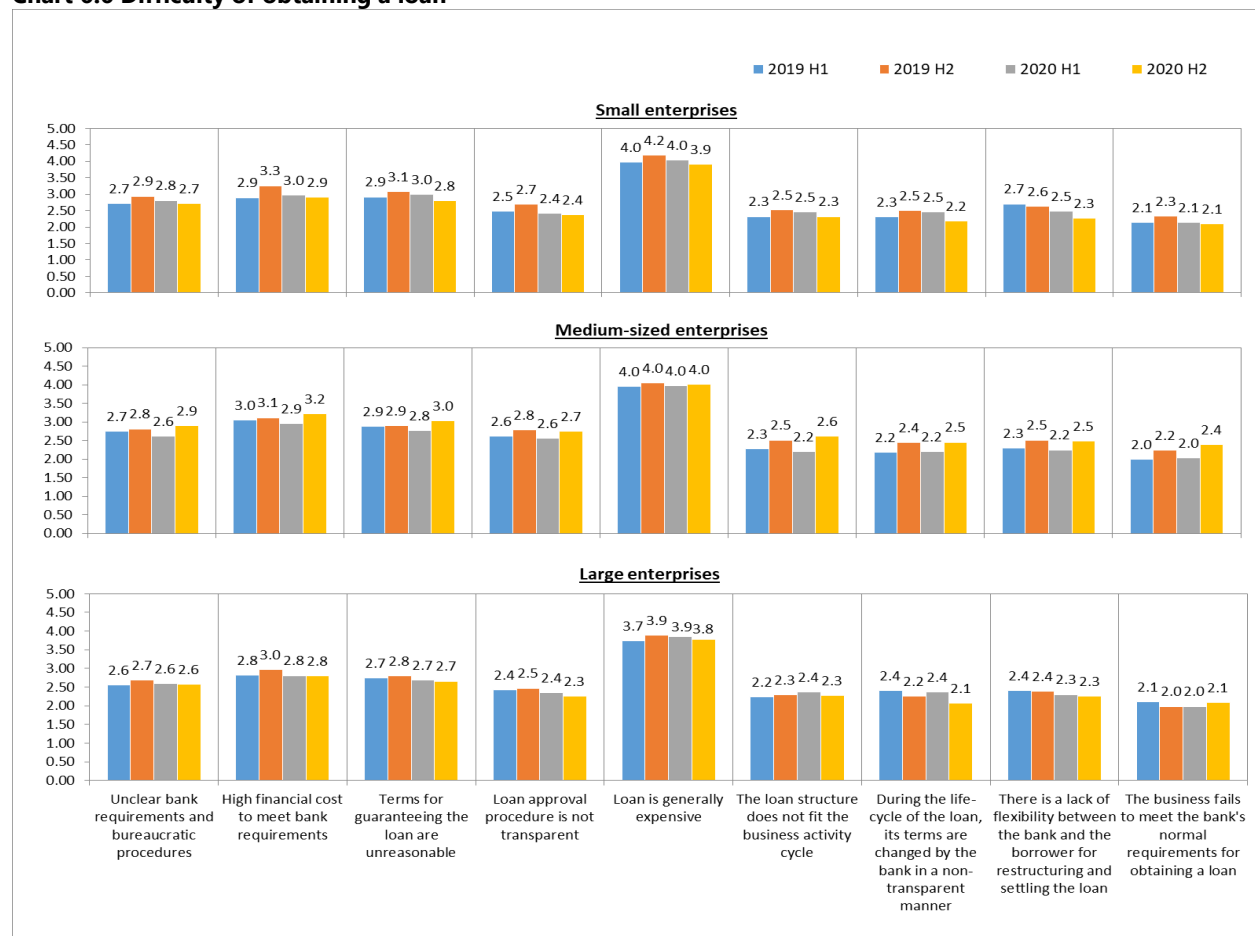
¹⁵ This index is calculated by weighing responses of enterprises against total responses according to a coefficient which increases with the increase of the difficulty of this process. The coefficient for the alternative "very easy" = 0, "normal" = 0.25, "difficult" = 0.5, "very difficult" = 0.75, "almost impossible" = 1.

¹⁶ 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 loan¹⁷

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 resulted in decline in this six-month for small and large enterprises. Following the loan cost, *the cost of meeting bank requirements* continues to remain a significant difficulty for all three groups of enterprises, followed by the assessment for *loan guaranteeing terms* and *unclear bank requirements or bureaucratic procedures*. However, these elements have registered a slight decrease for small enterprises in the surveyed period.

Chart 6.6 Difficulty of obtaining a loan



Source: Bank of Albania.

6.4 Borrowing plan

Regarding plans for borrowing in the next six-months, based on the response of enterprises, the assessment is that **credit demand gives slight signals of recovery**. Around 38% of responding enterprises reported “no possibility” of bank borrowing in the next period. This share has continued to decline for small and large enterprises compared with the previous periods. Furthermore, an increase of the

¹⁷ 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.

share of enterprises that claim that there is “*little possibility*” to take a loan in 2021 H1 it 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, there is a decline for the alternative “*surely*” for small and large enterprises, materialising the uncertainty of the pandemic situation in planning for a future loan. The value of the borrowing *plan assessment* index for the next six-months¹⁸ has continued to remain at 0.43 for total enterprises. This index is resented higher for small and medium-sized enterprises compared with the previous period.

Chart 6.7 Distribution of enterprises by borrowing plan

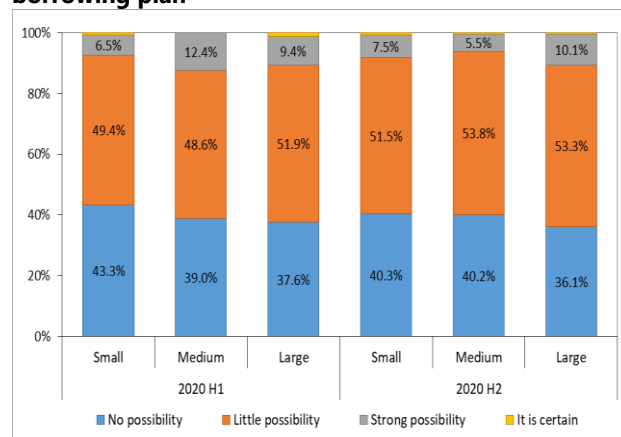
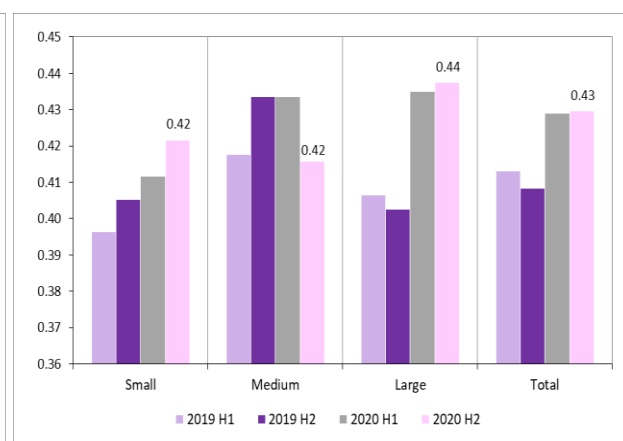


Chart 6.8 Borrowing plan index



Source: Bank of Albania.

¹⁸ To assess the responses of the enterprises, an index on borrowing plans was constructed, calculated by weighing the enterprise's responses to the total of responses by a coefficient, which increases as the probability to borrow increases. The coefficient for the alternative: “no possibility” = 0.25; “little possibility” = 0.5; “probable” = 0.75; “certain” = 1.