FINANCIAL AND BORROWING SITUATION OF HOUSEHOLDS IN ALBANIA

2022 H2

BANK OF ALBANIA
FINANCIAL STABILITY DEPARTMENT

February 2023

CONTENT

Summary of key findings from the Survey of Households' Financial and Borrowing Situation

Households' borrowing

The total number of employed individuals in the surveyed sample registered a decline compared to the previous six months, driven mainly by the public sector. The share of borrowing households to the total and the outstanding debt reported have picked up. Most of the outstanding debt was used to purchase/renovate a property and for business development. Households' solvency is expected to deteriorate in the next six months, while borrowing demand is expected to contract due to rising interest rates.

- **FINANCIAL SITUATION**

The total number of employed individuals in the surveyed sample registered a decline by 3.4% and by 6.8% compared to the previous six months and the previous year, respectively. In annual terms, this decline was driven by the public sector and the self-employed sector, whereas the number of private sector's employees increased by 6%. The overall level of households' income and living expenses increased in semi-annual and annual terms.

- **BORROWING**

26% of total respondents (or 275 households) state that they had a debt to repay at the time of the interview. This share has increased by 4 percentage points compared to the previous six months, and by 2 percentage points compared to the previous year. *The total outstanding debt reported for the entire sample has increased compared to the previous survey and the previous year.* Around 52% of the outstanding debt has originated from formal sources ('banks' and "non-bank financial institutions') and 48% from informal sources ('natural persons' and 'debt in the form of unpaid goods'). This structure has shifted in favour of the latter, due to the increase of borrowing from natural persons against the increase of borrowing from banks, and the decline of borrowing from NBFIs. Regarding the purpose of debt, around 40% of the total amount of outstanding debt was used to purchase/renovate a property, 26% was used for business development, 3% for consumption, and 31% for other purposes (mainly loans taken to cover medical expenses).

- **DEBT BURDEN**

Around 72% of borrowing households that responded to the survey, declared that their debt repayment amount has not changed during the six months covered by the survey. The net balance of the remaining responses shows an upward trend in debt repayment, due to rising interest rates. For 2023 H1, around 62% of households do not expect a change in their solvency, while the net balance of the rest of responses shows pessimistic expectations compared to the results of the previous six months and the previous year. The new loan/rollover index for the next six months has declined in both annual and semi-annual terms, which may signal a deceleration in households' demand for financing. This is expected given the general increase in interest rates, due to the normalisation of the monetary policy in Albania.

- **HOUSEHOLDS' WEALTH**

Around 94% of total respondents own 1-2 real estates, mainly residential houses. This share has dropped slightly by 1 percentage point compared to the previous survey and the previous year, respectively; 3% state they own more than 2 real estates (houses and land/shop etc.), and 6% declared that they do not own any property. In the group of households that claimed to possess some form of financial assets, deposits and/or bank accounts continue to remain the main type of financial investment, both in the case of total households (71% of the cases) and in the case of the borrowing households (79% of the cases). Compared to the previous six months, these shares have considerably edged up.

1-Demographic and financial characteristics of households interviewed

Sample characteristics. The survey was conducted on a randomly selected sample of 1205 households, where around 89% of them (1068 households) participated in the interviewing process, responding to all or part of the administered questionnaire. The share of responders to the total sample increased by 1 percentage point compared to the previous survey and the previous year. Around 53% of total responding households were located in urban areas and 47% in the rural areas of Albania.

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

1.1 Employment and other sources of income. The total number of households' members that provide income from employment/self-employment in the public sector, private sector and/or other sources[1], has decreased by 1.5% compared to the previous six months, and by 2.8% compared to the previous year, being more pronounced in the cases of public sector and of self-employed.

Chart 1.1 Distribution of income-earners by type of source
(In % to total income providers)

Source: Bank of Albania.
Notes: The item "Other" includes mainly the cases of individuals that receive invalidity assistance, individuals receiving financial help from relatives and those that do occasional jobs.

Focusing the analysis on the group of employed household members only [2] of the surveyed sample (Table 1.1), *it can be seen that their total number has also declined by 3.4% in semi-annual terms and by 6.8% in annual terms.* In annual terms, the decline was driven by the public sector (by 15%) and the self-employed sector (by 17%), whereas the number of private sector employees increased by 6%.

---

[1]In the questionnaire, in addition to employment in the public and private sectors, income sources are also listed as follows: "retirement", "social assistance for unemployment", "emigration" and item "other". "Other" includes any other type of income source that has not been listed in the questionnaire.
[2]Only the households' members employed in the public sector, private (agricultural and non-agricultural) sector and self-employed individuals (agricultural and non-agricultural) are included here.

Table 1.1 Distribution of employed individuals by sector

		Public	Private	Self-employed	Total employees	*Chg. chg.*	*Annual chg.*
S15:	H2_2017	317(21%)	595(38%)	634(41%)	**1546**	*-2.2%*	*2.1%*
S16:	H1_2018	259(17%)	592(38%)	705(45%)	**1556**	*0.6%*	*-1.5%*
S17:	H2_2018	280(18%)	618(39%)	682(43%)	**1580**	*1.5%*	*2.2%*
S18:	H1_2019	266(18%)	623(41%)	613(41%)	**1502**	*-4.9%*	*-3.5%*
S19:	H2_2019	235(17%)	574(41%)	606(43%)	**1415**	*-5.8%*	*-10.4%*
S20:	H1_2020	233(16%)	621(43%)	585(41%)	**1439**	*1.7%*	*-4.2%*
S21:	H2_2020	234(16%)	578(41%)	611(43%)	**1423**	*-1.1%*	*0.6%*
S22:	H1_2021	241(17%)	670 (46%)	532(37%)	**1443**	*1.4%*	*0.3%*
S23:	H2_2021	231(16%)	642(44%)	602(41%)	**1475**	*2.2%*	*3.7%*
V24:	6MI_2022:	234 (16%)	639 (45%)	550 (39%)	**1423**	*-3.5%*	*-1.4%*
V25:	6MII_2022:	197 (14%)	679 (49%)	499 (36%)	**1375**	*-3.4%*	*-6.8%*

Source: Financial Stability Department.
Notes: Numbers in parenthesis are the share of each against total employees.

The number of household that have declared **additional stable sources of income**[3] (like rents, banking interests etc.) was 14% (or 147 households in total), slightly increasing by 2 percentage points during the period under review, and by 2.4 percentage points, compared with the previous year. Within this group of households, around 48% of them declare *interest from savings (deposits, Treasury bills etc.)* as an additional source of income, and 20% declare income from *renting a property*. The item "other" continues to account for a considerable share (around 30%), where households stated that they received financial assistance from family members or relatives as their main source of income.

1.2 Households' income and living expenses. During the six months under review, most households (around 47%) continue to declare monthly income in the "ALL 17-50,000" band. This share has decreased by 5 percentage points compared to the previous six months, and by 7 percentage points compared to the previous year (Chart 1.2). On the other hand, the distribution of the number of households by *income level*, has shifted towards higher levels of monthly income, such as the "ALL 50-100,000" band (35% of households) and "ALL 100-200,000" band (9% of households).

Chart 1.2 Distribution of households by their monthly <u>income</u> level
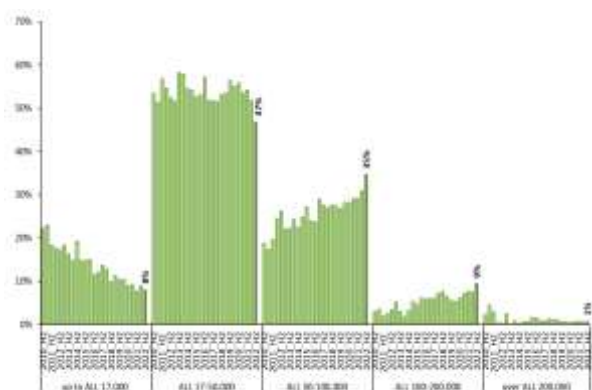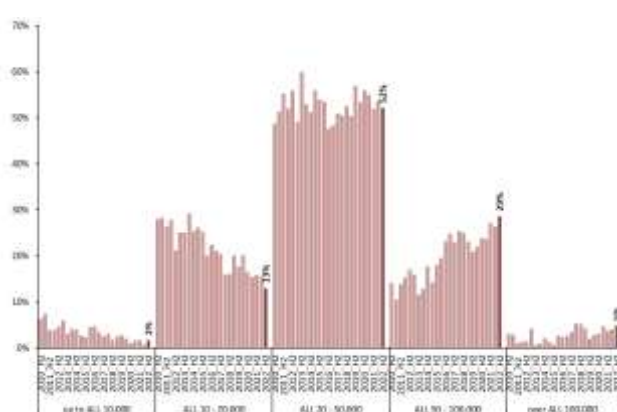
Chart 1.3 Distribution of households by their monthly <u>living expenses</u> level

Source: Bank of Albania.

---

[3] In this question, the alternatives listed as stable sources of income are: (1) rent; (2) interests from savings (deposits, T-bills etc.); (3) interests from money lent to thirds; 4. Other (define).

The distribution of households according to their *living expenses*, has shifted towards higher levels of monthly expenses during the period, mainly towards the "ALL 20-50,000" and "ALL 50-100,000" band of expenses, reflecting a higher cost of living due to an overall upsurge in prices (Chart 1.3).

Based on the above answers, **the income index**[4] and **the living expenses index**[5] *have increased during the period,* but the increase in the former was more pronounced.

Chart 1.4 Households' Income and Living expenses indices.
(2010=100)

Source: Bank of Albania.

The euroization level of the income of Albanian households continues to remain low, though recording an upward trend during the period. Thus, around 20% of the respondents (221 from 1069 interviewed households) declared to have some income in foreign currency (mainly in euro), in various percentages of their total monthly income[6]. This share has increased by 3 percentage points, compared to the previous six months and the previous year, respectively.

2- Households' borrowing

The number of households reporting *one or more debt to repay* at the time of the interview, regardless of the debt type, source or amount, was *275 households or around 26% of total respondents* (Chart 2.1). This share increased, by 4 percentage points and 2 percentage points, compared with the previous six months and the

---

[4]The "income index' is built as a weighted amount of frequencies in % of responses with the coefficients defined for each interval as follows: "up to ALL 17,000" with 0.2; "ALL 17-50,000" with 0.4; "ALL 50-100,000" with 0.6; "ALL 100-200,000" with 0.8; and "over ALL 200,000" with 1. The values received each year are returned to the index based on year 2010 = 100. The increase of the value of the index implies an increase in the level of monthly income.

[5]The "expenditure index" is built as a weighted amount of frequencies in % of responses with the coefficients defined for each interval as follows: "up to ALL 10,000" with 0.2; "ALL 10-20,000" with 0.4; "ALL 20-50,000" with 0.6; "ALL 50-100,000" with 0.8; and "over ALL 100,000" with 1. The values received each year are returned to the index based on year 2010 = 100. The increase of the value of the index implies an increase in the level of necessary monthly expenses.

[6] Alternatives related with the level of income in foreign currency are: 1) "none", (2) "up to 10%", (3) '10-50%' and (4) 'over 50%'.

previous year respectively, continuing to remain below the historical average of this survey of about 27%. _The following analysis refers to the group of borrowing households only[7]._

2.1 Income and living expenses levels of borrowing households. During the surveyed six months, as in the case of the total sample, the distribution of borrowing households by income and living expense levels has primarily shifted towards higher levels compared to the previous period. This shift has been more pronounced in the case of income, driving the _income index_ increasing faster than the _living expenses index_ (Chart 2.2).

Chart 2.1 Borrowing households' income and living expenses indices
_(2010 = 100)_

Source: Bank of Albania.

2.2 Debt purpose. The main borrowing purposes continued to be _"consumption"_ in 36% of borrowing cases; for _"purchase/repairs of a property"_ in 20% of cases; and for _"business development"_ in 11% of cases. The share of borrowing for _"purchase/repairs of a property"_ and _"business development"_ decreased compared to the previous six months (by 4 percentage points, respectively) and compared to the previous year (by 5 percentage points and 2 percentage points, respectively). On the other hand, borrowing cases for _"consumption"_ increased by 3 percentage points and by 1 percentage point, respectively, in semi-annual and annual terms, that may have been affected by the increased living costs of households due to the considerable surge in prices in Albania.

---

[7] Methodological note: since a household may have more than one loan to repay in the period under review, with different characteristics (source, purpose, etc.), in order not to lose the information, in this section the calculations are made on the total of the declared borrowing cases, except when it is specified "… on the total of borrowers" (in this survey=252 households). With "borrowing cases" we mean the total of loans taken by the same household and with the same characteristic, e.g.: a household that declares 2 loans from banks constitutes "1 borrowing case from banks "and a household that has a loan from a bank and another from a natural person constitutes "1 borrowing case from banks" and "1 borrowing case from natural persons."

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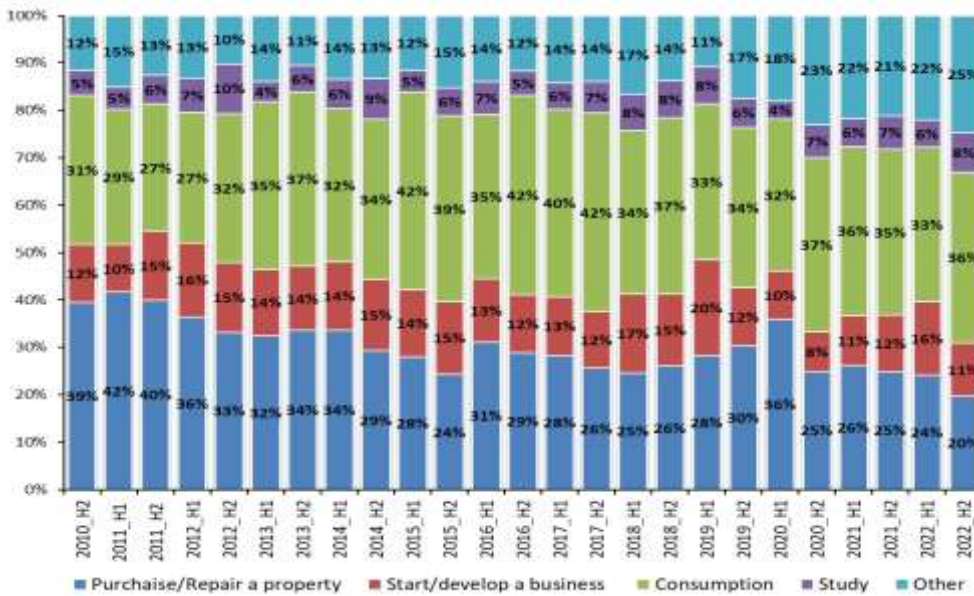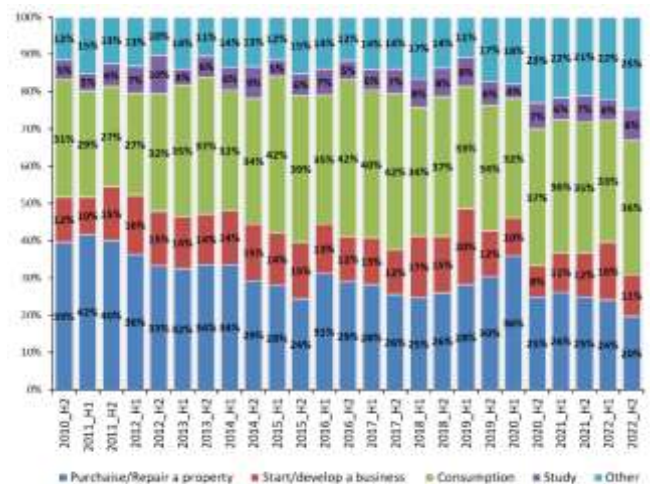

Source: Bank of Albania.

2.3 Outstanding debt. The analysis of outstanding debt by *source* and *purpose of use*, reveals that about 52% of the outstanding debt has originated from formal sources (51% banks, and 1% non-bank financial institutions) and about 48% from informal sources (18% "natural persons" and 1% "unpaid goods"). This structure has shifted in favour of the borrowing from informal sources rather than formal ones, by 14 percentage points and 27 percentage points, in semi-annual and annual terms, respectively. This was due to a higher increase of borrowing from natural persons compared to the increase of borrowing from banks, and also due to the lower level of borrowing from NBFI (Chart 2.3).

Chart 2.3 Composition of the outstanding debt by SOURCE *(in % of the total outstanding debt reported)*
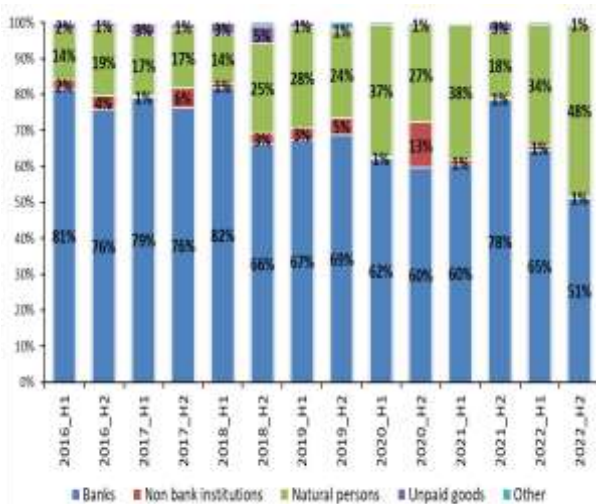
Source: Bank of Albania.

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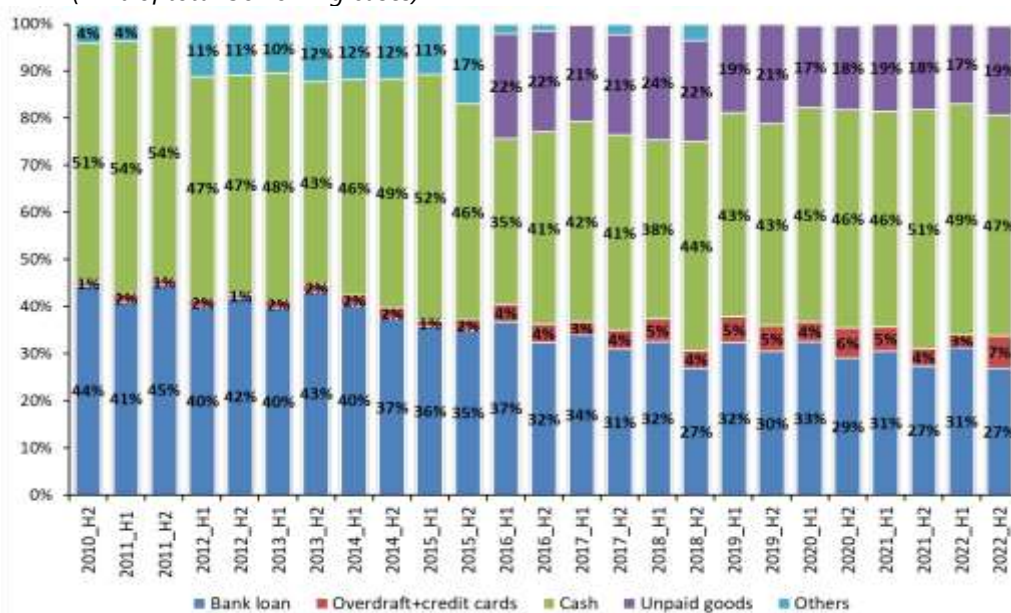

Source: Bank of Albania.
Note: The "other" item includes mainly loans for medical expenses.

Analysis of outstanding debt by its purpose of use (Chart 2.4), shows that around 40% of outstanding debt is used for *"purchasing/renovating a property"* (down by 1 percentage point compared to the previous six months, but 12 percentage points higher than in the previous year); 26% for "*business development*" (up by 14 percentage points compared to 2022 H1, but down by 33 percentage points than the previous year), and 3% for *"consumption"* (down by 6 percentage points, compared to the previous six months and the previous year, respectively). Borrowing for *"other purposes"* (around 31% of the outstanding debt) continues to have a considerable share, dominated by borrowing for *"medical expenses."*

2.4 Type of debt. Around 34% of households' borrowing cases are in the form of *"loans from financial institutions"*, where 27% are *"bank loans"* (down by 4 percentage points compared to 2022 H1, and unchanged compared to the previous year), and 7% are "*credit card* and *overdraft"* (up by 4 percentage points compared to 2022 H1, and up by 3 percentage points compared to the previous year). In about 47% of cases, the debt is in *"cash"* and in 19% of cases, it is in *"unpaid goods"*. In the first case, the share was down by 2 percentage points and 4 percentage points, respectively, in semi-annual and annual terms, whereas in the second case, it was up by 2 percentage points and 1 percentage points, respectively.

Chart 2.5- Frequency of borrowing by <u>TYPE</u> of debt
*(in % of total borrowing cases)*

Source: Bank of Albania.

2.5 Debt repayment schedule. The two main forms of debt repayment continue to be through *"fixed payments every 1/3/6/12 months"* (40% of borrowing cases), *"variable payments in different periods"* (33% of borrowing cases), and *"variable payments every 1/3/6/12 months"* (14% of borrowing cases) (Chart 2.6). During the 2022 H2, the share of debt cases with fixed (or variable) monthly payments - typical of long-term bank loans (such as mortgages or loans to enterprises)- increased in both semi-annual and annual terms, by 1 percentage point and 5 percentage points, respectively. On the other hand, the share of borrowers with *"one single payment at the end of the period"* and *"variable payments in different period"'*, mostly a feature of informal loans or short-term bank loans (such as overdraft, credit cards), decreased (by 3 percentage points, respectively) in semi-annual terms and in annual terms (by 2 percentage points and 1 percentage point, respectively).

Chart 2.6 Frequency of borrowing by debt <u>REPAYMENT SCHEDULE</u>

 (in % of total borrowing cases)
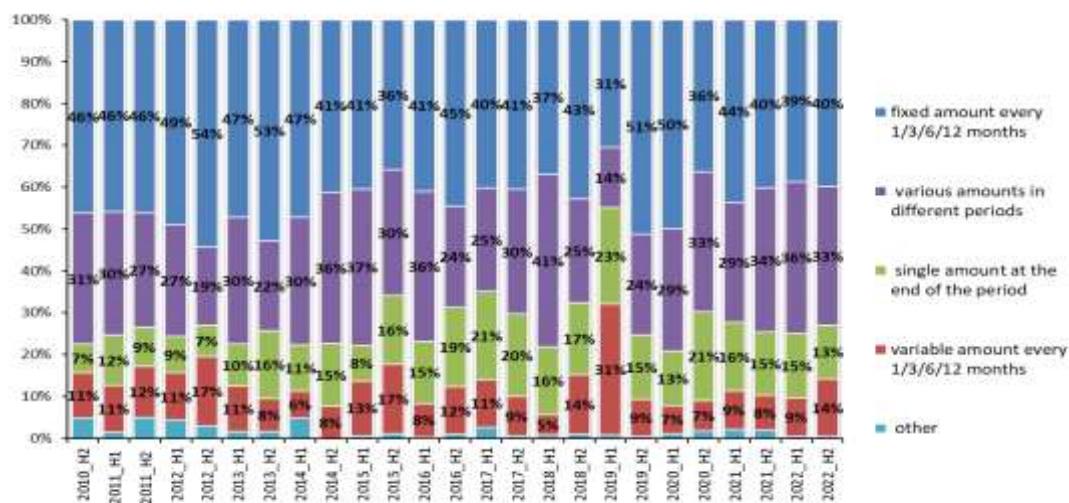
> Source: Bank of Albania.

Regarding borrowing household's debt burden, in 71% of cases it was reported that the debt repayment accounts for less than 30% of monthly income (*"up to 10% of income"* for 26% of borrowing cases, *"10-30% of income"* for 46% of borrowing cases). This share has declined by 3 percentage points and 9 percentage points, respectively, in semi-annual and annual terms. On the other hand, in 29% of households this payment exceeds 30% of income (*"31-50% of income"* for 20% of households, *"51- 70%"* for 5% of households and *"over 70%"* for 4% of households) (Chart 2.9).

**Figure 2.7- Frequency of borrowing by <u>debt repayment-to-monthly income ratio</u>**

 (in % of total borrowing cases)
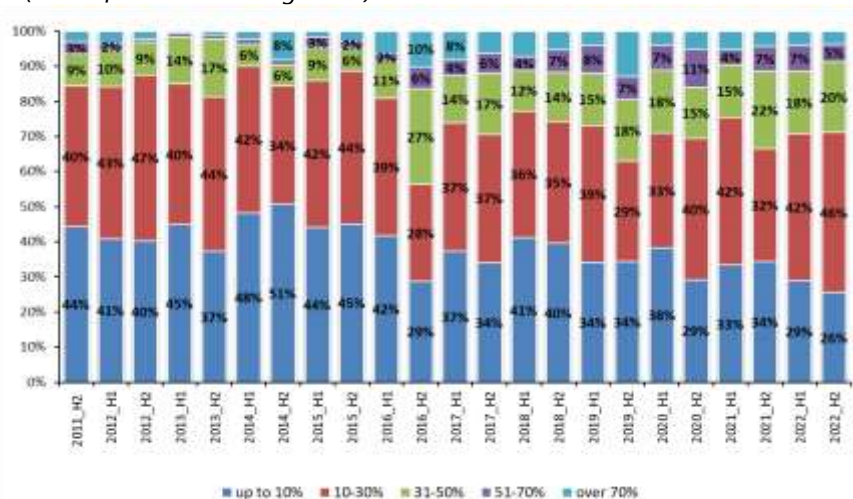
Source: Bank of Albania.

2.6 Remaining maturity. In 64% of borrowing cases it results that the debt matures *"within a year"* and this share decreased by 8 percentage points compared to the previous six months and by 4 percentage points compared to the previous year; in 32% of the cases, the remaining maturity of the debt is *"1-5 years"* (up by 7 percentage points and percentage points compared to 2022 H1 and 2021 H2, respectively) and in 5% of the cases the remaining maturity is reported to be *"over 5 years"* (up by 1 percentage point compared to 2022 H1, and unchanged compared to the previous year).

Chart 2.8 Frequency of borrowing by debt <u>remaining maturity</u>
  (in % of total borrowing cases)
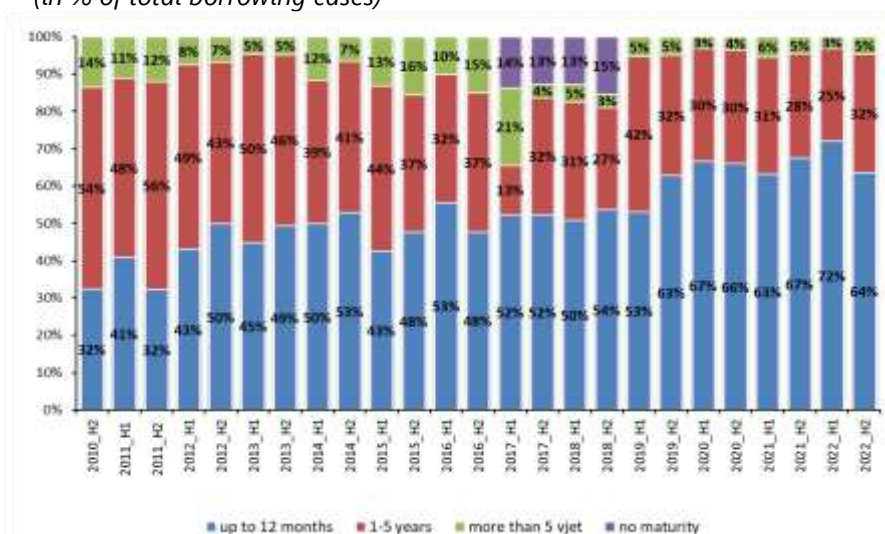
Source: Bank of Albania.

2.7-Type of debt guarantees. In 68% of borrowing cases, results show that the debt has *"no guarantees"* and this share decreased by 2 percentage points compared with the previous six months and by 1 percentage point compared with the same period in the previous year. In contrast, the share of the borrowing cases guaranteed with a *"property owned by the household"* increased by 2 percentage points in both semi-annual terms and annual terms.

Chart 2.9 Frequency of borrowing by <u>TYPES OF DEBT GUARANTEES</u>
  (in % of total borrowing cases)
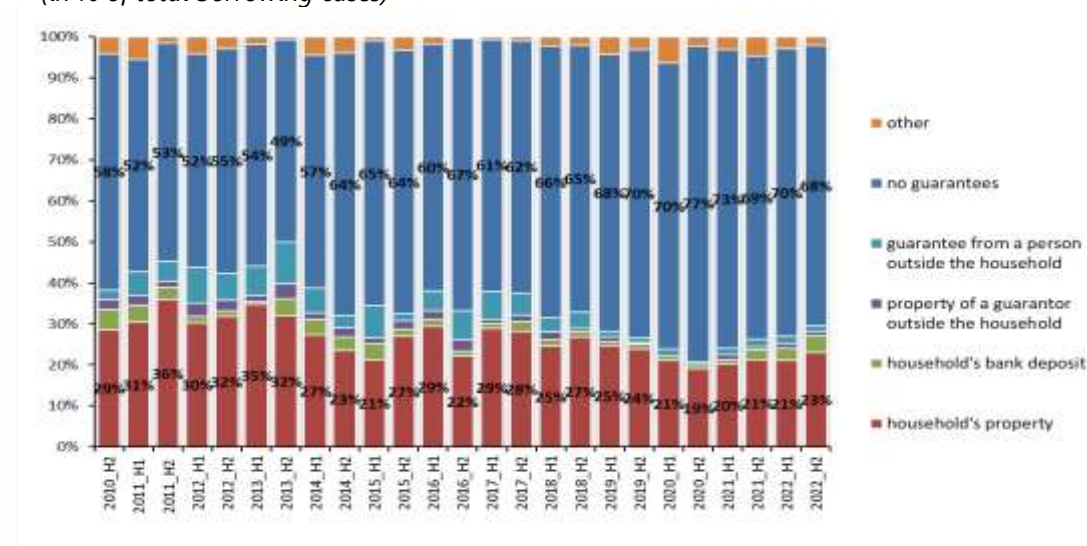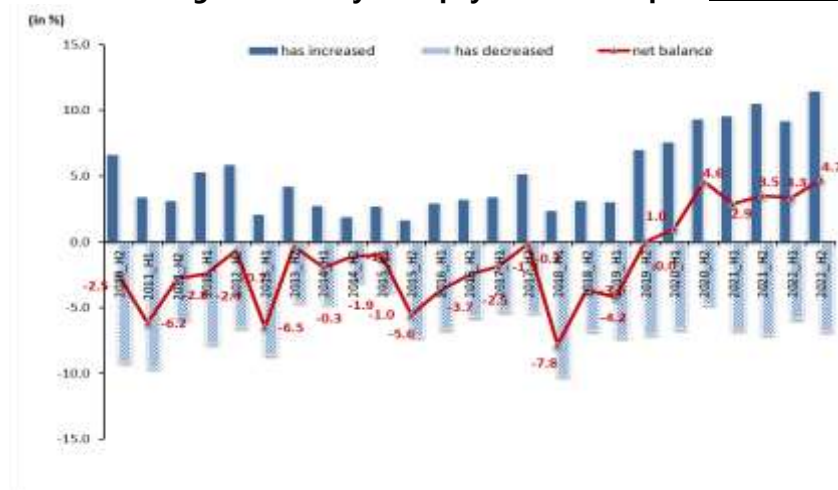

Source: Bank of Albania.
Notes: The item "other" includes the borrowing cases guaranteed by other forms of guarantees, such as monthly salaries, goods (like cars), etc.

3- Households' debt burden

In this section of questions, borrowing households were asked to provide information on the *largest existing debt* which is the most burdensome for their household. The shares of responses have been calculated in relation to the total number of borrowing households which responded to each question.

3.1 Change in debt monthly payments. Around 72% of borrowing households declared that their monthly debt payment (or the largest monthly debt payment in case they have more than one to pay) did not change during 2022 H2, but this share decreased by 5 percentage points and by points 3 percentage in semi-annual terms and in annual terms, respectively. On the other hand, the number of households that declared their monthly debt payment "has increased" exceeded the number of those who declared that it "has decreased', resulting in a *net balance* of +4.7 percentage points. This balance has increased compared to both the previous six months and the previous year, impacted by the overall rise in interest rates in Albania, during the period.

Chart 3.1 Change in monthly debt payments in the past <u>six months</u>


Source: Bank of Albania.

3.2 Households' solvency during 2022 H2 and expectations for 2023 H1. Around 47% of the borrowing households declared that their solvency *''has not changed''* during the surveyed period, but this share declined by 4 percentage points and by 3 percentage points, compared to the previous six months and the previous year, respectively. The rest of the responding borrowers reported, on aggregate, a *deterioration of their solvency* (47% reported "deterioration" and 6% reported "improvement"), resulting in a net balance of -41.2 percentage points, a deepening of the result compared to the previous periods (Chart 3.2).

Chart 3.2 Household's solvency during 2022 H2
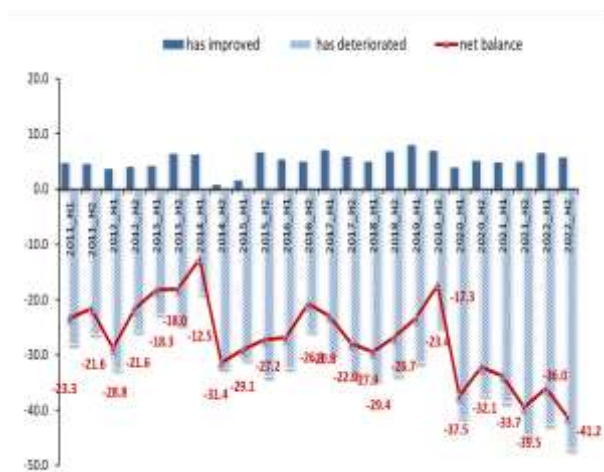
Chart 3.3 Household's expected solvency in 2023 H1
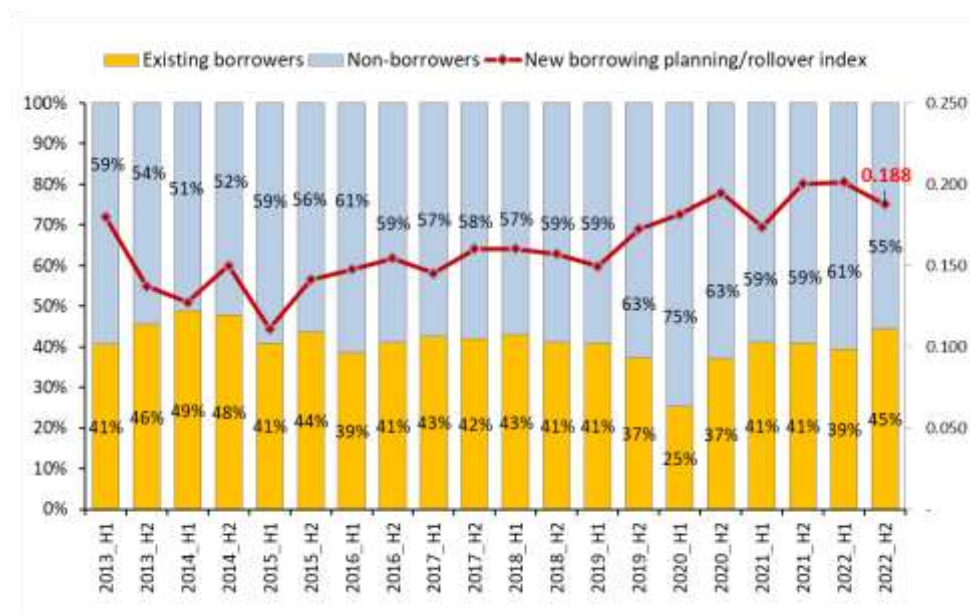

Source: Bank of Albania.
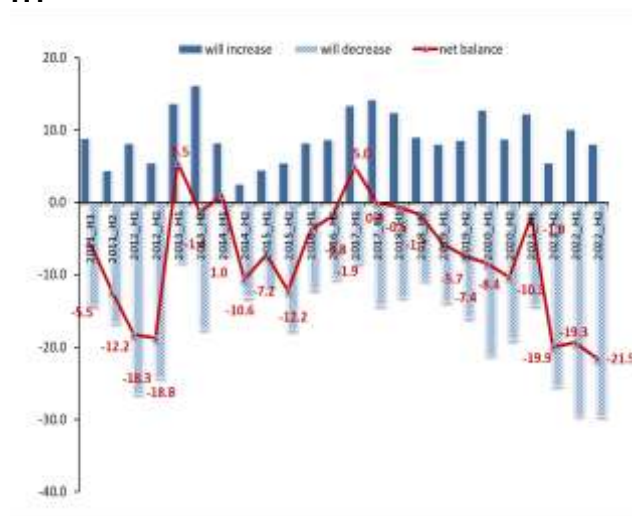
This is also reflected in the worsening of households' expectations regarding their solvency in the first half of the 2023. Thus, around 62% of borrowing households *do not expect a change in their solvency in 2023 H1,* while the net balance of the rest of responses resulted -21.5 percentage points, indicating pessimistic expectations compared with the results of the previous six months and the previous year (Chart 3.3).

3.3 Household's borrowing plans for the upcoming six months[8]. Around 56% of responding households declared that they do "not expect to take a new loan in the upcoming six months." Meanwhile, 44% of them (or 467 households) declared that they might consider this option (with various degrees of certainty)[9]. This share has dropped by 3 percentage points and 1 percentage point, respectively, compared to the previous six months and the previous year. Focusing analysis only on the group of households that *plan to take a new loan* (467 households), results show that around 55% of them are *"new borrowers",* meaning that they don't have any existing debt by the time of the survey. This share decreased by 5 percentage points and 4 percentage points, respectively, compared to the previous six months and to the previous year.

As a result, *the new borrowing planning/rollover index*[10] is 0.188, downward compared to the previous period and the previous year, which could signal a deceleration of households' demand for loans in 2023 H1. These developments are predictable given the rising interest rates environment as a result of the normalisation of the monetary policy in Albania, and uncertainties regarding price dynamics in the future.

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

Source: Bank of Albania.

---

[8] The question is addressed to the entire sample of 1210 households, out of 1083 responded, or around 90% of total sample.

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

[10] The index is calculated as weighted average of % of responses for each alternative with relevant coefficients. On the definition of the coefficients, the interval 0-1 is separated in 4 sub-intervals with equal length of 0.33. Coefficients for each alternative are: 0 ("no possibility"), 0.33 ("little possibility"), 0.66 ("many possibilities") and 1 ("it is certain"). The index takes values from 0 to 1, where the nearest to 0 the index value results, the smaller is the chance to get a new loan, and the closest to 1, the higher the probability of getting new loan in the next half-year.
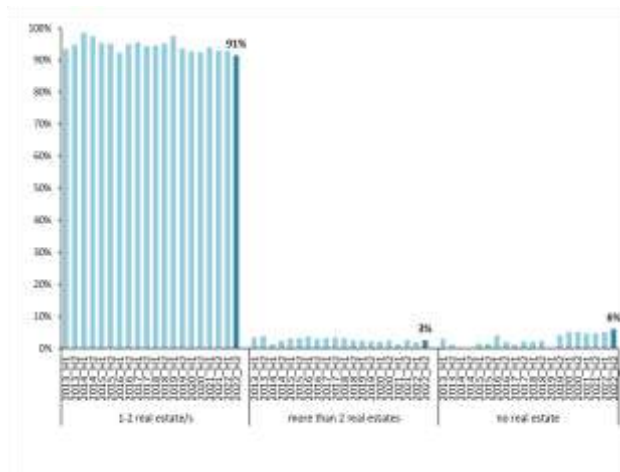
4-Households' wealth

This section contained only two questions on real estate and financial wealth of interviewed households, and was addressed to the entire household sample. The results for 2022 H2 are presented below.

4.1 Household real estate properties. A total of 1005 households responded to the questions in this section, of which 94% reported to possess at least one real estate property. This share declined by 1 percentage point, respectively, compared to the previous six months and the previous year. The responded households declared ownership of a total of *1486 real estates of different types*. 91% of them (987 households) own *"1-2 real estates"* mainly residential properties or a combination of residential property/ies and another property such as land, shop, building etc. This share decreased by 1 percentage point compared to the previous six-months and the previous year, respectively. On the other hand, 3% of the total households reported that they *"own more than 2 real estates"*, (house and land/shop etc.), while 6% reported that they *"do not own any real estate"*.

Focusing analysis on the group of **borrowing households**, a total of 275 households declared ownership of 382 real estate, of which 68% were "residential properties", 28% were "lands" and the rest were "shops", "buildings" and other types of properties.

The distribution of the borrowers by the number of properties they own, shows that: 93% of them (256 households) owned *"1-2 real estates"* at the time of the interview, and this share increased by 1 percentage point compared to the previous survey, and by 2 percentage points compared to the previous year. In most cases, these properties are residential houses or a combination of a residential property and land. Only 1% of borrowers (4 households) declared that they own *"more than 2 properties"*, while around 5% of borrowers (15 households) declared that they "*do not own any property*" (Chart 4.2).

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

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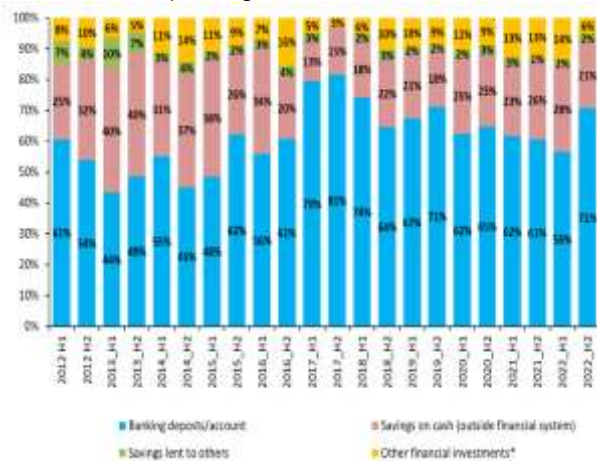

Source: Bank of Albania.
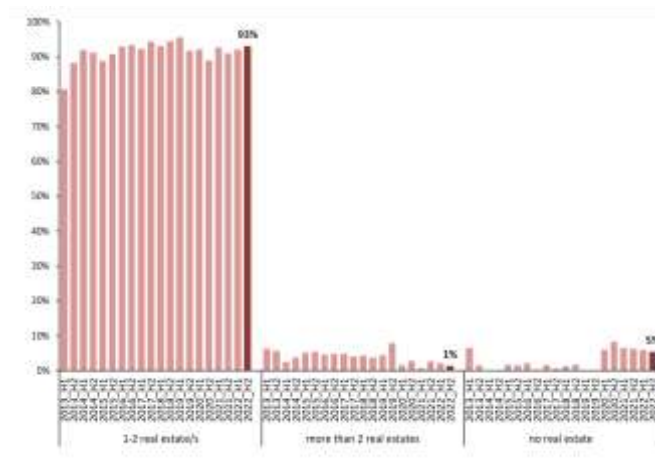
4.2-Households' financial wealth[11]. For the period under review, 22% of the total households surveyed (borrowers and non-borrowers) and 32% of borrowers declare that they *'do not own any type of financial wealth'*. Both shares have decreased significantly by 46 percentage points and by 34 percentage points, respectively, compared with the previous six months and the previous year.

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

Focusing the analysis only on the group of households that have declared financial wealth of various forms (excluding the cases where the household "does not possess any financial wealth"), results show that *"deposits and/or bank accounts"* continue to remain the main type of financial investment, both for the total sample (71% of cases) and the borrowing households (79% of cases). Compared to the previous six-months, these shares have risen significantly by 14 percentage points in the case of total households, and by 28 percentage points in the case of borrowing households. The rising interest rates during the period seems to have encouraged an increase of households' deposits.

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

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

Source: Bank of Albania.
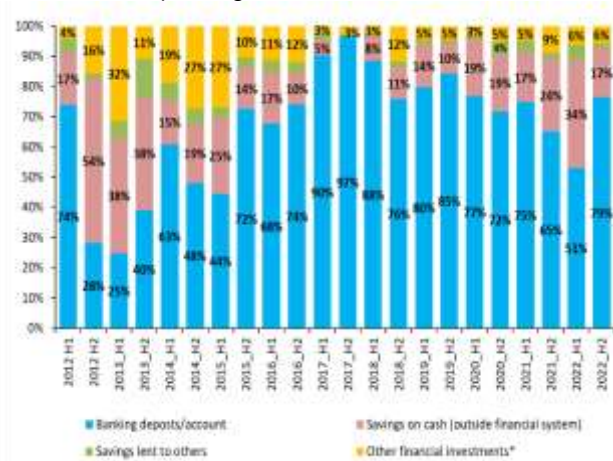
The use of other types of financial investments, defined as *'other investments'*[12], decreased by 8 percentage points compared to the previous six months in the case of total households, and by 7 percentage points in the case of borrowing households, respectively.

---

[12]Other investments" summarizes investments in: T-bills, life insurance, pension funds, securities and shares.