



THE FINANCIAL AND BORROWING SITUATION OF ENTERPRISES IN ALBANIA

2018 H1

**BANK OF ALBANIA
FINANCIAL STABILITY DEPARTMENT**

CONTENTS

Summary of key findings of the Survey of Enterprises' Financial and Borrowing Situation.....	2
The financial and borrowing situation of enterprises in Albania	4
1- Objectives and scope of action	4
2- Financial performance of the enterprise and the presence of borrowing	7
3- Characteristics of enterprise borrowing	13
4- Debt structure	15
5- Debt burden.....	17
6- Relations with banks and future expectations	20

Summary of key findings of the Enterprises' Financial and Borrowing Situation Survey

The survey on financial and borrowing situation of the enterprises has been conducted semi-annually since 2010. The current survey was carried out in the period May-June 2018, focusing on developments in 2018 H1, while expectations refer to 2018 H2. The survey was conducted with a sample of 1,305 enterprises (small, medium-sized, and large enterprises) across the country operating in major sectors of the economy.

In total, 1,114 enterprises or 85.4% of the total surveyed enterprises responded to the questions of the survey. Survey analysis relied on the number and type of the respondent enterprises.

• FINANCIAL SITUATION

During 2018 H1, *competition and finding a market* are considered as important constraining factors for all three groups of enterprises, especially for small enterprises. Issues related to *access to finance* and *funding costs* slightly increased for all sizes of enterprises.

Sales performance continued to *increase* during 2018 H1, only for large enterprises and declined for small and medium-sized enterprises, showing a worsening of the situation compared to the previous periods. Medium-sized and large enterprises assessed an *upward trend of the financial result*, in line with the performance of sales during the period. Expectations for 2018 H2 are positive for all three groups of enterprises, in terms of sales and financial performance and more optimistic than in the previous six months. The positive performance of sales and financial result is also reflected in the *expansion of the activity* for large enterprises, although small and medium-sized enterprises also confirm increased investment. For the next six months, the three groups of enterprises expect their activity to expand, with a positive and higher net balance compared to the previous period, especially for small and medium-sized enterprises. Overall, positive expectations for enterprises of all sizes regarding sales, financial results and expansion of the activity continue to provide optimistic signals for their performance in the short and medium term.

During 2018 H1, more than half of the total responding enterprises financed their activity through sales (63.3% of small enterprises, 54% of medium-sized enterprises and 56.3% of large enterprises). Borrowing as a separate or combined source was used by 21.1% of large enterprises, 20.5% medium-sized enterprises and 11.1% small enterprises. Compared with the previous six months, these percentages have shifted downward for enterprises of all sizes.

• BORROWING

Around 42.5% of total enterprises (473 enterprises in total) state that they are indebted. This percentage increased only by 0.2 pp compared to the survey results for 2017H2. Small and large enterprises showed a decline in borrowing (respectively 2.4 pp and 2.3 pp), while this share increased by 1.3 pp for medium-sized enterprises. By sector, the highest share of borrowing enterprises is in the trade sector (57.8%), followed by the construction sector (48.5%). About 88.2% of the total borrowing enterprises claim to have borrowed from banks, albeit down compared with the previous six months. This share accounts for 90.5% of total formal sources (banks and non-bank financial institutions). Informal sources account for 9.5% of total borrowing, upward for the period.

Enterprises borrowed primarily to cover *current expenditures* and *to make long-term investments*. Compared with the previous six months, the share of enterprises that have borrowed to make long-term investments has

fallen for all sizes of enterprises. Around 74.2% of small enterprises, 77.2% of medium-sized enterprises and 79.5% of large enterprises consider their level of borrowing for financing their activity as *adequate*. Compared to 2017 H1, this share has declined for all sizes of enterprises.

Borrowing is denominated in *domestic currency* for 44.4% of small borrowing enterprises, 51.2% of medium-sized enterprises and 40.3% of large enterprises. The borrowing in euro has the main share for large enterprises, respectively for 44.9%. For small enterprises, this borrowing accounts for 41.3%, while for medium-sized enterprises it accounts for 36%. Borrowing in US dollars accounts for a small share, with the largest share for small enterprises (7.9%). Only 7.6% of small enterprises, 8.7% of medium-sized enterprises and 11.2% of large enterprises report *new borrowing* during the period.

The total debt value is *about half the value of the enterprise's equity* for 80% of borrowing enterprises. By size, the debt burden is higher for large enterprises, with around 22.4% of them stating that their debt amount is equal or higher than the value of equity. The majority of the borrowing enterprises (75.3%) state that *debt repayment instalment amounts up to 20% of total income*, with a lower share compared to the previous period. Debt repayment appears to be more difficult for small enterprises. The number of small enterprises reporting that the debt repayment instalment exceeds 20% of total income accounts for around 30.3% of these enterprises.

• **RELATIONS WITH BANKS**

Bank borrowing is assessed between "normal" and "difficult", while the *importance of the relationship with banks* is assessed between "important" and "necessary" for all the three groups of enterprises (small, medium-sized and large enterprises). The *high cost of loans* continues to be considered as the main constraining factor in obtaining a bank loan, with small and medium-sized enterprises reporting more difficulties. However, the assessment of this factor has somewhat decreased for small enterprises. More than half of the responding enterprises (50.3%) have reported that there is *no possibility* of requesting a bank loan in the next six months. This share has decreased compared to the previous survey, affected by the responses of all three enterprises groups. There is an increase in the share of enterprises of each size that report *a slight possibility to borrow* from banks in the next period.

The financial and borrowing situation of enterprises in Albania

Sample size: The survey on financial and borrowing situation of enterprises has been conducted half-yearly since 2010. Initially, this survey was launched with a selected sample of top 700 enterprises with the highest *turnover* (large enterprises). Later on, in 2016, the sample expanded to include around 1200 large, medium-sized, and small enterprises, spread across the country. In the first six months of 2018, the survey was conducted with a revised sample to include a total of 1305 enterprises, in 31 districts of the country. Most enterprises (79.1%) are concentrated in the five major districts, namely: Tirana (53%), Durrës (13.6%), Fier (4.4%), Shkodra (4.4%) and Elbasan (3.7%). Referring to the year stated in questionnaire for the start of the business, 27.9% of enterprises started to operate before 2000, 37.8% during 2000-2010 and 18.3% during 2011-2018. In the total selected sample, 85.4% of enterprises (1114 in total) responded to the survey questionnaire and the analysis of the results is based on these answers.

Under the conditions of an expanded sample, the following analysis is largely organized based on enterprise size.

1- Objective and scope of action

1.1 Enterprises by sector and size. By sector, for 2018 H1, about 36.4% of enterprises belong to the *industry* sector, 29.8% to the *service* sector, 17.6% to the *construction* sector and 16.2% to the *trade* sector. By size, about 18.2% of enterprises are classified as *small enterprises* with 5-19 employees, 18.1% as *medium-sized enterprises* with 20-49 employees and 63.6% as *large enterprises* with more than 50 employees.

In the group of *small enterprises*, enterprises operating in the services sector (33.5%) account for the main share, followed by the trade sector (24.1%). In the group of medium-sized enterprises, the industry sector (30.2%) and services (26.2%) have the highest share, and in the group of large enterprises, industry sector enterprises account for the largest share (42.7%).

Chart 1.1

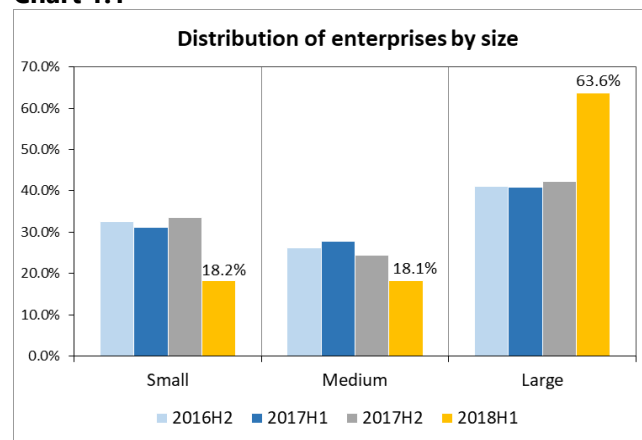
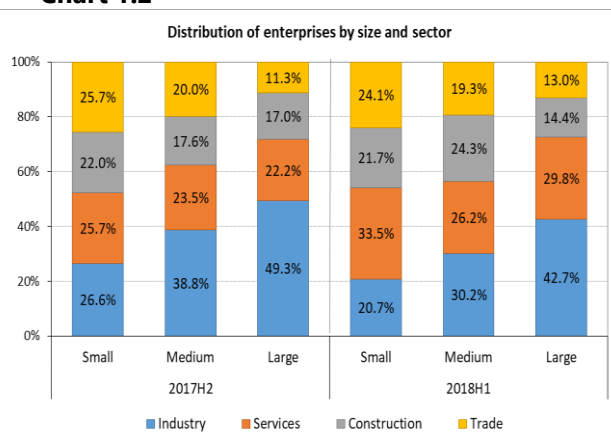


Chart 1.2



Source: Bank of Albania.

1.2- Obtaining raw materials and selling products. The majority of small and medium-sized enterprises (about 60.6% and 56.7% respectively) obtain *over 80% of raw materials domestically*. Compared to 2017 H2, this indicator has increased by 7.6 pp for small enterprises and by 9.1 pp for medium-sized enterprises. By contrast, the vast majority of large enterprises (about 46.5%) provide only *up to 20% of domestic raw materials* (Figure 1.3).

Products of the respondent enterprises' *are sold mainly within the country*, with 78.8% of small enterprises, 74.6% of medium-sized enterprises and 49.9% of large enterprises claiming to have sold most of their products domestically (over 80% of products). Compared with the previous six months, the share of enterprises claiming this performance has decreased (Chart 1.4).

Chart 1.3

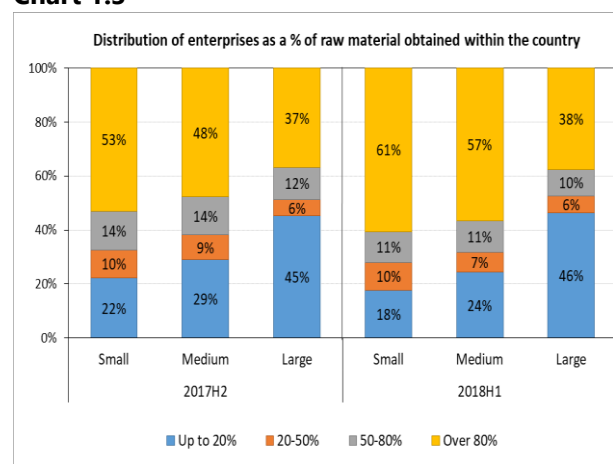
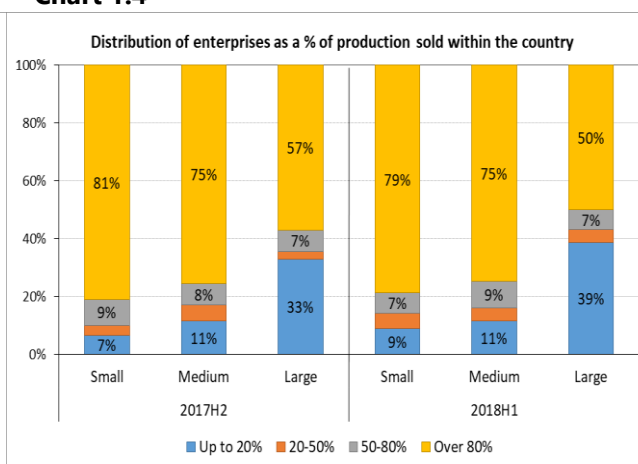


Chart 1.4



Source: Bank of Albania.

The analysis of the responses regarding the above issues by sector shows that the construction sector has a greater reliance on the raw materials provided in the country - about 70.9% of the enterprises in this sector obtain over 80% of raw materials domestically. The share of these enterprises increased by 1.5 pp compared to the previous six months. On the other hand, the industry sector shows lower reliance with- 60.2% of the enterprises in this sector obtain only 20% of raw materials domestically. The share of these enterprises increased by 12.3 pp compared to 2017 H2.

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

		up to 20%	20-50%	50-80%	above 80%
Industry	2016 H2	54.2%	7.8%	11.1%	26.9%
	2017 H1	45.7%	12.4%	10.5%	31.4%
	2017 H2	47.9%	8.1%	13.8%	30.2%
	2018 H1	60.2%	8.1%	8.6%	23.0%
Services	2016 H2	21.3%	6.2%	9.3%	63.2%
	2017 H1	14.1%	3.8%	14.1%	67.9%
	2017 H2	22.9%	5.6%	8.0%	63.5%
	2018 H1	24.2%	5.2%	7.0%	63.6%
Construction	2016 H2	5.8%	1.6%	16.2%	76.4%

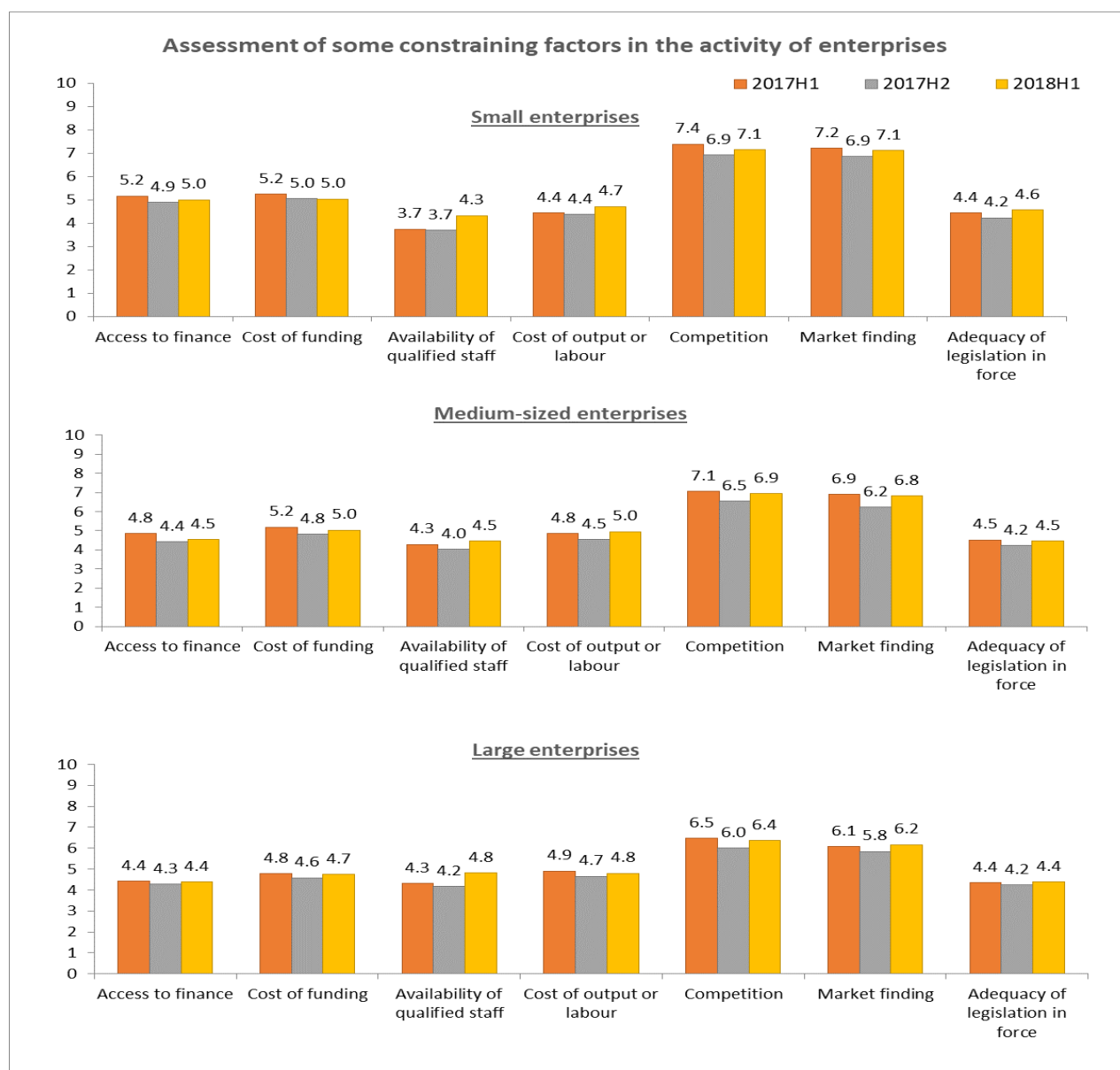
Trade	2017 H1	5.8%	1.4%	13.9%	78.8%
	2017 H2	8.7%	6.6%	15.3%	69.4%
	2018 H1	6.1%	5.6%	17.3%	70.9%
	2016 H2	43.4%	7.6%	13.1%	35.9%
	2017 H1	45.0%	10.4%	13.9%	30.7%
	2017 H2	42.9%	13.6%	16.2%	27.2%
	2018 H1	42.8%	10.6%	12.8%	33.9%

Source: Bank of Albania.

1.3- Constraining factors in the activity of enterprises¹. During 2018 H1, *competition* continued to be considered by all groups of enterprises as the main issue to their activity. The importance of this factor is assessed as upward to all sizes of enterprises compared with 2017 H2. *Finding a market* is also considered as another important constraining factor for all three enterprise groups, especially for small enterprises, for which the assessment for this half-year is equal to the element of competition. Issues related to *access to finance* and *funding costs* have marked a slight increase in the evaluation for all sizes of enterprises.

Chart 1.5

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



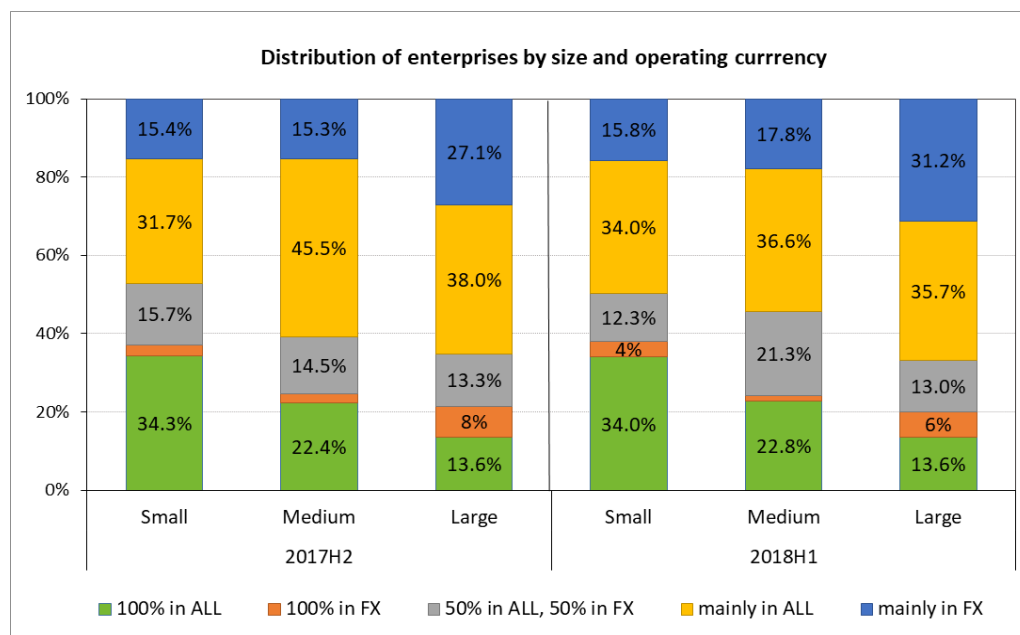
Source: Bank of Albania.

2- Financial performance of the enterprise and the presence of debt

2.1 The operating currency of the activity. Euroization in the activity of small and medium-sized enterprises continues to be low, where 68% of small and 59.4% of medium-sized enterprises state that they carry out their activity *completely* or *mainly*² in the local currency. Meanwhile, 37.7% of large enterprises state that they carry out their activity *mainly* or *completely* in a foreign currency, up by 2.6 pp compared to 2017 H2.

Chart 2.1

² More than 50% of the activity in ALL.



Source: Bank of Albania

2.2 Sales performance, financial result and expansion of activity. During 2018 H1, small enterprises continue to mark a decline in sales with a net balance of [-19.2%], worsening compared to previous periods. The situation was negative for medium-sized enterprises, which recorded a net balance of [-1.0%]. The balance is positive only for large enterprises, stating a better performance of sales [+13.3%], but this balance is lower compared to previous periods (Chart 2.2). Expectations on total sales over the next six months remain positive for the three groups of enterprises, which expect a rise in sales and are more optimistic compared to the previous half-year (Chart 2.3).

Chart 2.2

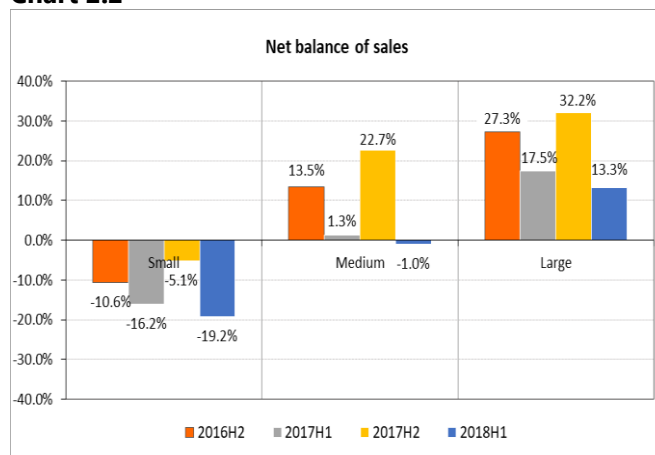
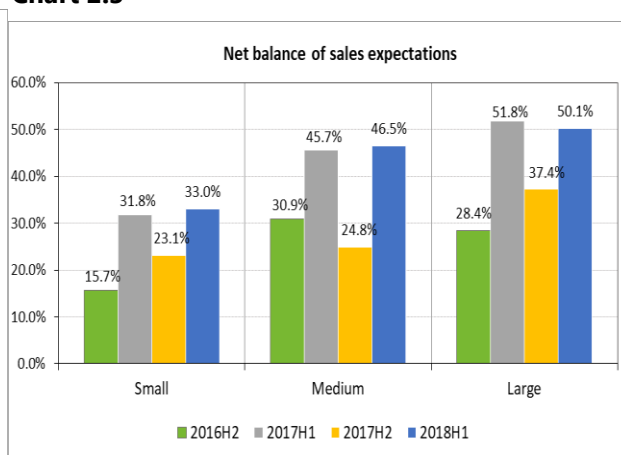


Chart 2.3



Source: Bank of Albania.

The results of *change in financial result* follow the same pattern for 2018 H1, following the performance of the overall sales balance, with a deterioration over the period compared to the previous six months. Small enterprises continue to estimate *a decline in the financial result* of 2018 H1, with a negative net balance [-17.7%] and expanding compared to the previous periods. Expectations for the next six months are positive for all enterprises, in favour of a higher financial result and more optimistic than in the previous half-year, in line with the expectations on sales performance for 2018 H2.

Chart 2.4

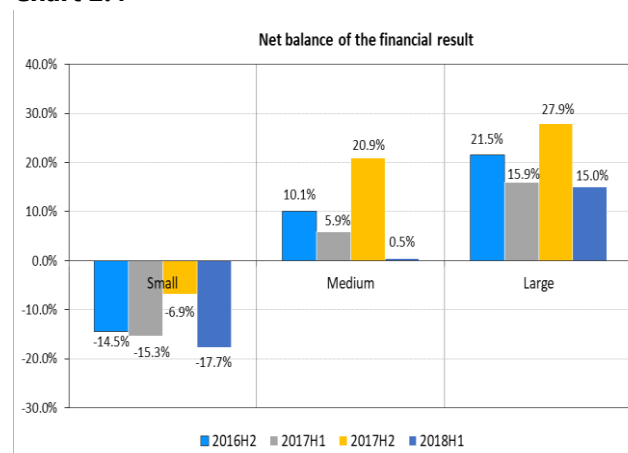
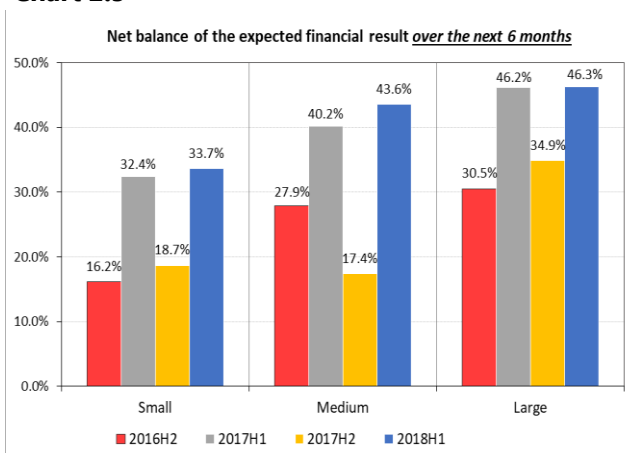


Chart 2.5



Source: Bank of Albania.

Regarding the *expansion of the activity* or an increase of investments for 2018 H1, all three groups of enterprises by size recorded a positive net balance (3.4% for small enterprises, 18.8% for medium-sized and 19.1% for large enterprises), supporting the optimistic expectations, despite the sales performance and the financial result for the period, especially for small and medium-sized enterprises. *For the next six months*, all enterprises expect an expansion of their activity, with a positive and improved net balance compared to the previous period (Chart 2.7).

Chart 2.6

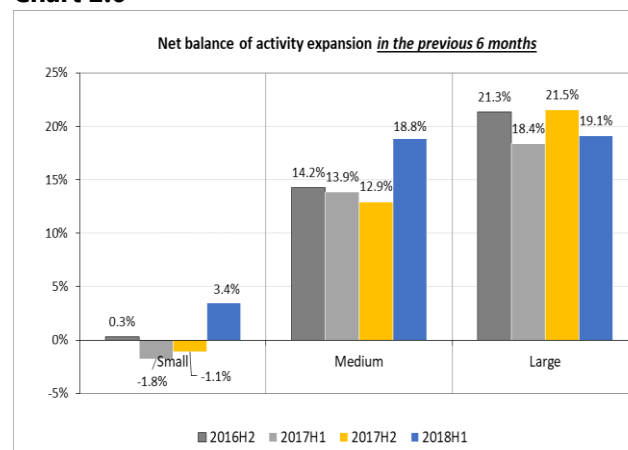
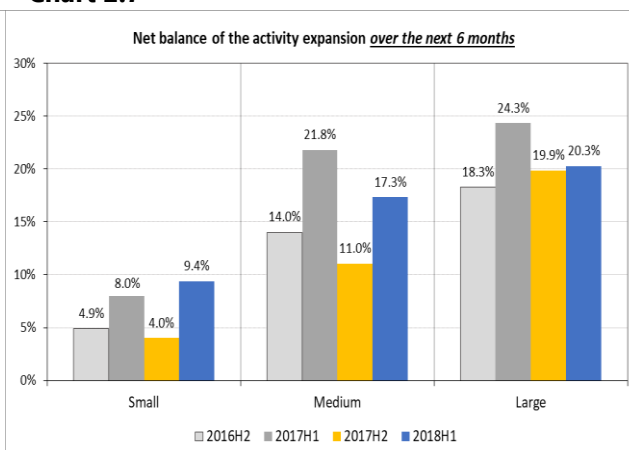


Chart 2.7



Source: Bank of Albania.

Overall, positive expectations for enterprises of all sizes regarding sales, financial result and expansion of the activity continue to provide optimistic signals for their better performance in the short and medium term.

2.3 Sales level and financial result. The performance of total sales is analysed through an index³ that weighs the responses of enterprises at different intervals and is constructed by grouping them according to the size of enterprises and sectors. By size, the index performance shows a slight decline in sales for enterprises of all sizes (Chart 2.8). The index results by sectors show that the highest sales values are shown by the trade sector, while the lowest values continue to be recorded by the service sector. However, the sales index marks an increase for all the analysed sectors compared to the previous six months (Chart 2.9).

Chart 2.8

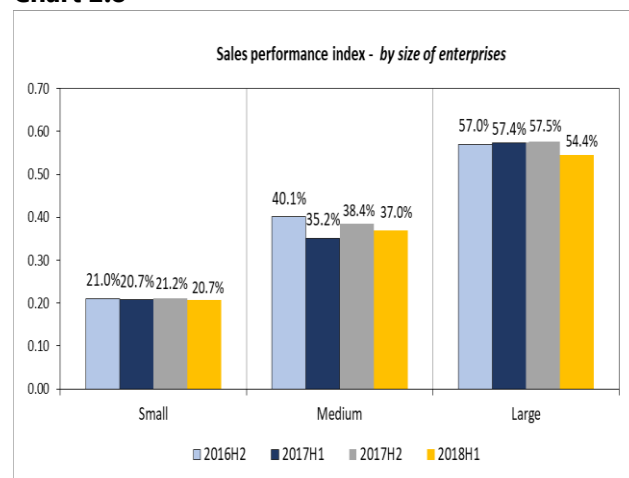
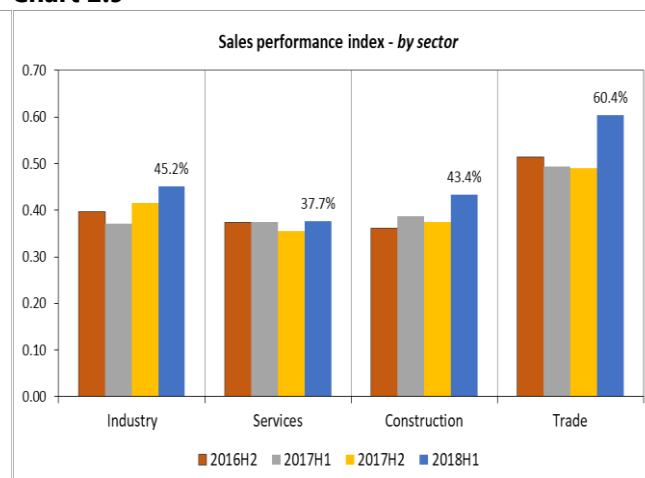


Chart 2.9

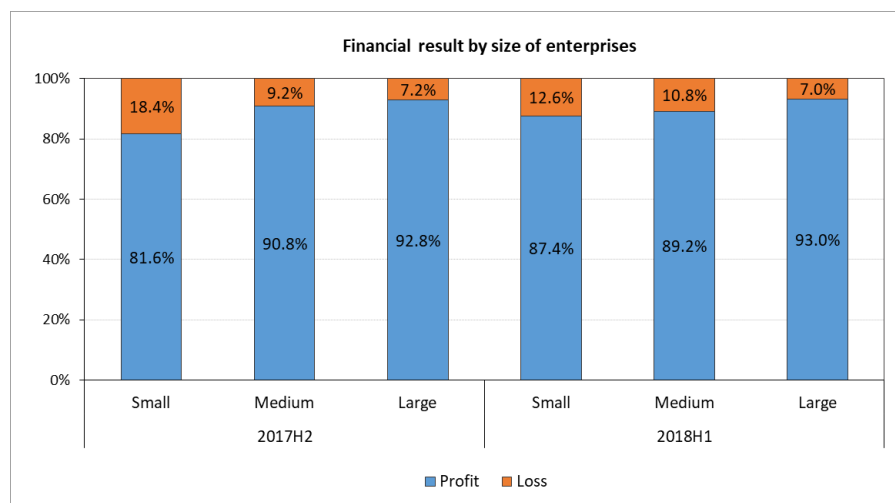


Source: Bank of Albania.

With regard to the *financial result* in 2018 H1, 1074 enterprises (or about 82.4% of the total sample) provided a response. Over 85% of enterprises for each group reported *profit*. This weight was higher for large enterprises (93%) and lower for small enterprises (87.4%). The share of enterprises that report for profit during the period has decreased for medium-sized enterprises, but has shown an increase for small and large enterprises compared to the previous survey.

Chart 2.10

³ Weighting coefficients according to sales intervals are: "Up to ALL 10 million" = 0; "ALL 10-49 million" = 0.25; "ALL 50-99 million" = 0.5; "ALL 100-500 million" = 0.75; "Over ALL 500 million" = 1. An increase in the value of this index means an increase in the level of sales for enterprises.



Source: Bank of Albania.

For enterprises reporting profit, medium-sized and large enterprises show an increase in total sales and financial results and state an expansion of the activity or increase in investments (Chart 2.11). The level of sales and the financial result declined for small enterprises. Positive balances have generally shifted downward compared to the previous period. Meanwhile, expectations for the next six months continue to be positive and more optimistic compared to the previous period for all enterprise groups (Chart 2.12).

Chart 2.11

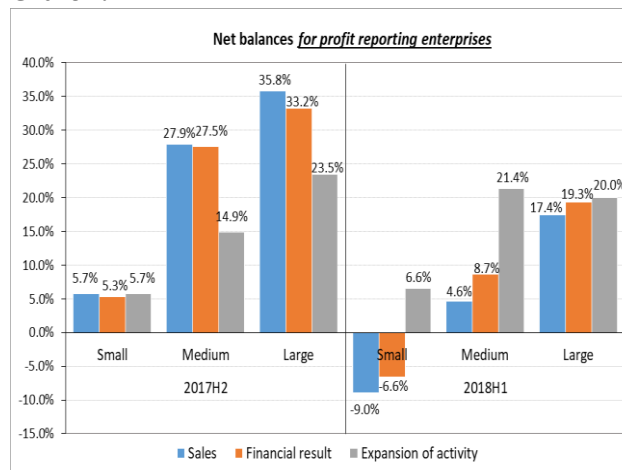
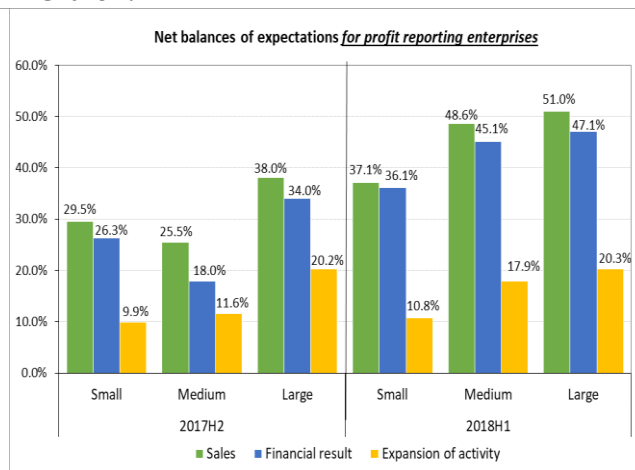


Chart 2.12



Source: Bank of Albania.

For enterprises reporting loss, the three enterprise groups report negative balances for the total level of sales and financial result. Meanwhile, large enterprises have expressed a positive balance over the expansion of activity or increase of investments, while medium-sized enterprises appear to be neutral (Chart 2.13).

Sales and financial result show a deterioration for the period, expanding the negative balance compared to 2017 H2 for enterprises of all sizes, whilst the situation appears to be somewhat improved for the expansion of activity or growth of investments.

However, the expectations of loss reporting enterprises are generally more optimistic for 2018 H2 (Chart 2.14).

Chart 2.13

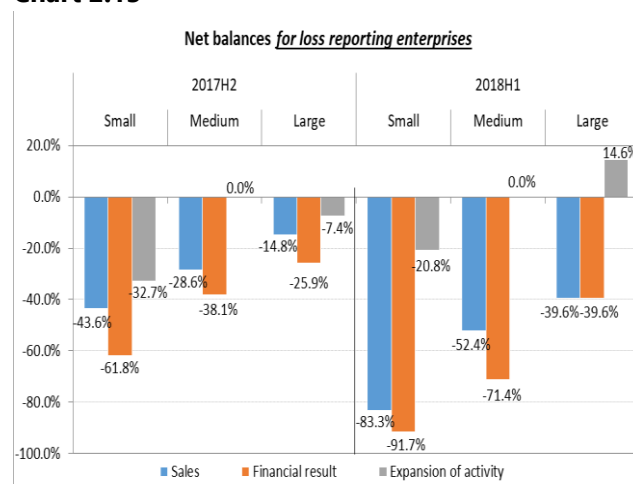
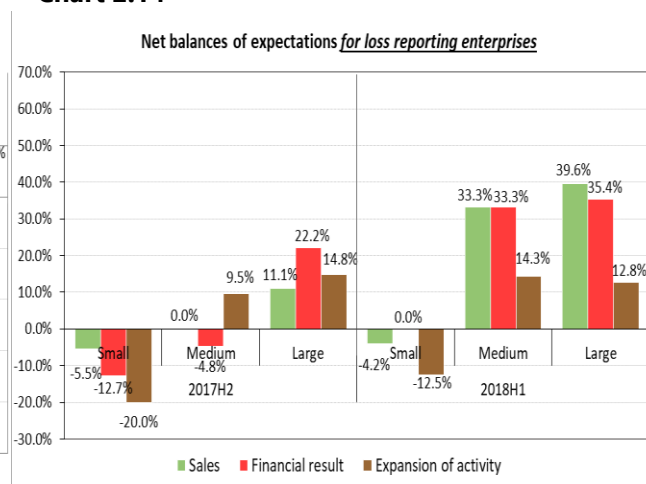


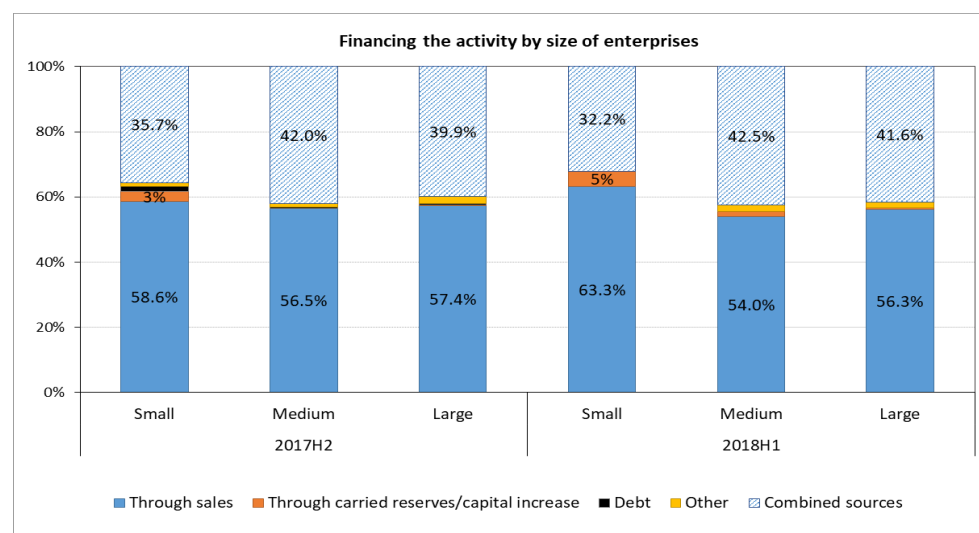
Chart 2.14



Source: Bank of Albania.

2.4 Financing the activity. During 2018 H1, more than half of the total respondent enterprises financed their activity *through sales* (63.3% of small enterprises, 54% of medium-sized enterprises and 56.3% of large enterprises). Compared to 2017 H2, reliance only on this source has increased for small enterprises, but has decreased for medium-sized and large enterprises. Meanwhile, the tendency of combining different sources of financing continues to amount for a considerable share of enterprises, even though decreasing for small enterprises. The most commonly used combinations remain those of sales and debt financing, as well as sales and financing with internal resources (accumulated reserves, capital increase) (Chart 2.15).

Chart 2.15

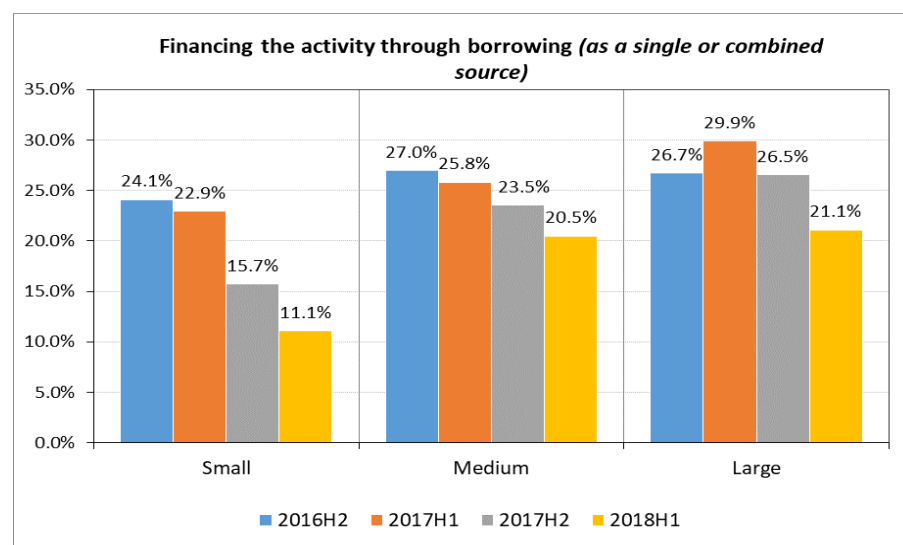


Source: Bank of Albania.

For small enterprises, all sectors of the economy consider sales as the main source of financing. Meanwhile, medium-sized and large enterprises tend to combine several sources of financing in the trade sector (over 50%).

Borrowing as a separate or combined source was used by 21.1% of large enterprises, 20.5% medium-sized enterprises and 11.1% small enterprises. This share has resulted in a decline compared to previous periods (Chart 2.16).

Chart 2.16



Source: Bank of Albania.

3- Characteristics of enterprise borrowing

About 42.5% of the total respondent enterprises⁴ (a total of 473 enterprises) claim to have a debt to repay and this share has increased by only 0.2 pp compared to the 2017 H2 survey results. In terms of enterprise size, small and large enterprises show a decrease of borrowers (respectively by 2.4 pp and 2.3 pp), while their number increased by 1.3 pp for medium-sized enterprises (Table 3.1). By sector, the highest share of borrowing enterprises is in the trade sector (57.8%), followed by the construction sector (48.5%).

Table 3.1 Enterprises by size and borrowing

Borrowing enterprises by size	No. of enterprises		Share of group's total:	
	2017_H2	2018_H1	2017_H2	2018_H1
Small	124	67	35.4%	33.0%
Medium-sized	114	93	44.7%	46.0%
Large	205	312	46.4%	44.1%

⁴ Taking into consideration the whole sample of 1305 enterprises, 36.2% of them claim to be borrowers, 49.1% state that they do not have any debt to repay and 14.6% have not responded.

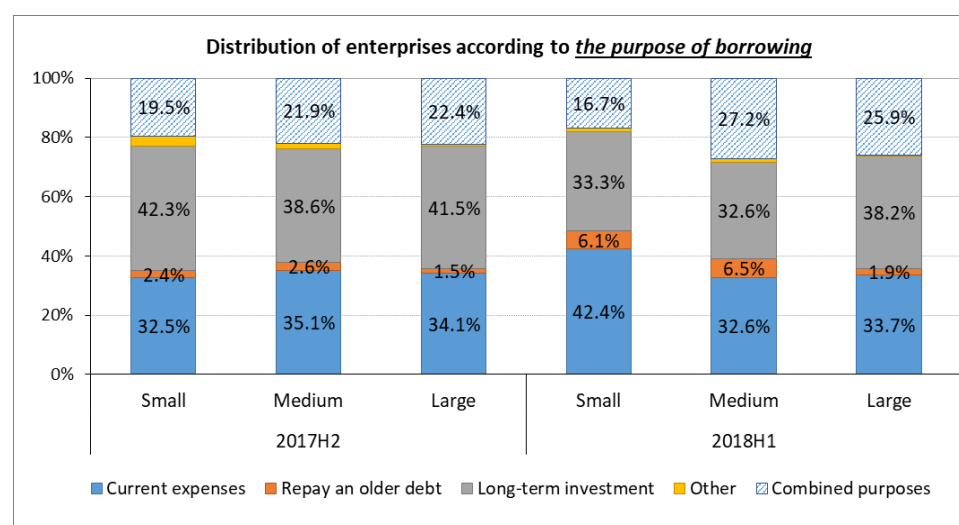
Source: Bank of Albania.

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

3.1 Source of borrowing. Enterprises state that their source of borrowing is mainly the banking sector (88.2% of the total). Their share has dropped by 3.1 pp compared to the previous period. By size, 79.4% of small enterprises, 88.9% of medium-sized enterprises and 90% of large enterprises have only borrowed from banks, while the rest have turned to non-bank financial institutions (4.8% for small enterprises and 0.4% for large enterprises), informal sources or a combination of several sources. In this regard, informal borrowing as a separate or combined source was used by 15.9% of small enterprises, 8.9% medium-sized enterprises and 8.2% large enterprises.

3.2 Purpose of borrowing. Enterprises use borrowing mainly to cover *current expenditures* and *long-term investments*. The share of enterprises that have borrowed to make long-term investments has decreased for all sizes of enterprises compared with the previous six months. Short-term expenditures has taken a bigger share for this period for small enterprises, while it has decreased for medium-sized and large enterprises. A significant number of enterprises claim to have borrowed for more than one purpose, combining several sources. Meanwhile, it is noted that borrowing to repay an older debt - which implies renegotiation or restructuring of an existing debt - continued to increase in this six-month period for all three groups of enterprises.

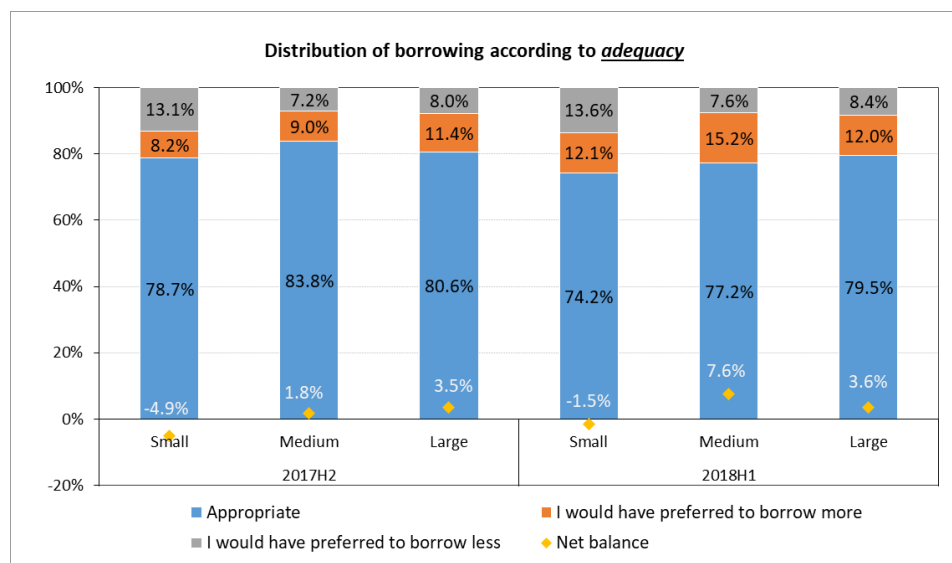
Chart 3.1



Source: Bank of Albania.

3.3 Borrowing adequacy. Around 74.2% of small enterprises, 77.2% of medium-sized enterprises and 79.5% of large enterprises consider their level of borrowing as *adequate* for financing their activity. Compared to 2017 H2, this share decreased for all sizes of enterprises. The rest of the responses resulted in positive net balances for medium and large enterprises, while negative for small enterprises. This shows that the share of enterprises that would prefer to borrow more is lower than the share of those who would prefer to borrow less to finance the activity for small enterprises, signalling a fall in credit demand from these enterprises. However, the balance has narrowed for the small enterprises compared to the previous six months. The contrary stands for medium and large enterprises.

Chart 3.2

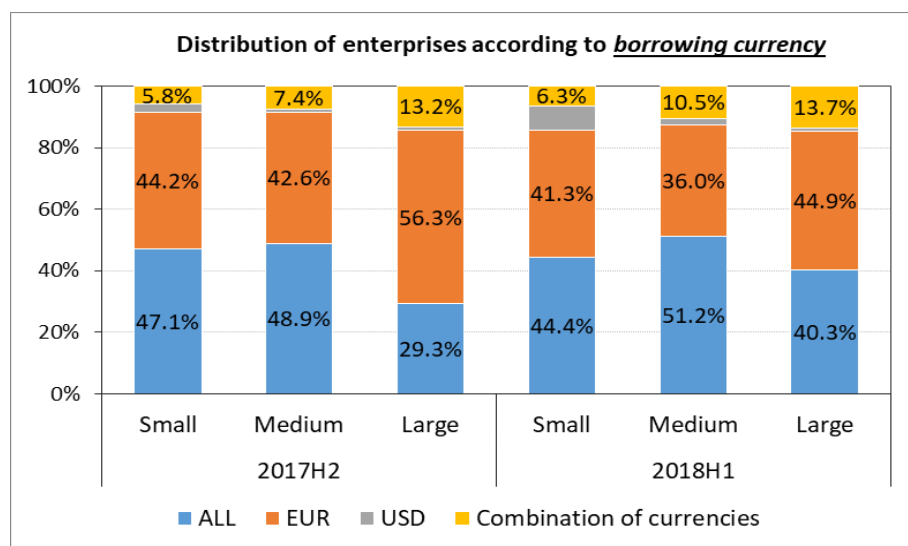


Source: Bank of Albania.

4- Debt structure

4.1 Currency. Enterprises report borrowing in domestic currency for 44.4% of the total of small borrowing enterprises, 51.2% of medium-sized enterprises and 40.3% of large enterprises. Borrowing in the euro has the main share for the latter, accounting for 44.9% of them. For small enterprises, this borrowing accounts for 41.3%, while for the medium-sized it accounts for 36%. Borrowing in US dollars accounts for a small share, with the largest share for small enterprises (7.9%).

Chart 4.1



Source: Bank of Albania.

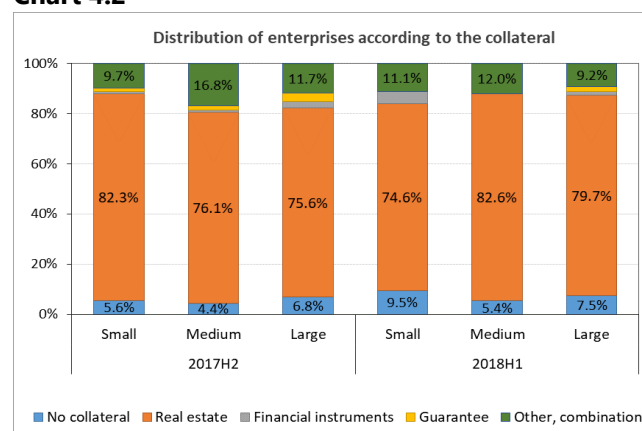
4.2 Debt and maturity. The highest share of enterprises have borrowed *in the past 1-5 years*, respectively 51.5% of small enterprises, 51.1% of medium-sized enterprises and 50% of large enterprises. Only 7.6% of small enterprises, 8.7 % of medium-sized and 11.2% of large enterprises declare *new borrowing* during the period. Compared to the last six months, the share of new borrowers has increased for small and large enterprises. *The main purpose of use* for new borrowing remains to cover current expenditures for 40% of small enterprises, 42.9% of medium-sized enterprises and 48.6% of large enterprises. The average remaining maturity of borrowing is 57.8 months for small enterprises, 63 months for medium-sized enterprises and 62.9 months for large ones. **Interest rate and repayment.** For the largest share of existing debt,⁵ fixed rate up to maturity is the applied rate for 74.2% of small, 68.1% of medium-sized and 70% of large enterprises. On the other hand, the share of enterprises that declare that interest rates change every year, marked a value of 16.7% for small enterprises, 23.1% for medium-sized enterprises and 21.6% for large enterprises. The repayment frequency is mainly monthly, for 76.9% of small and medium-sized borrowing enterprises and 81% of large enterprises.

4.4 Collateral and coverage ratio. For 74.6% of small enterprises, 82.6% of medium-sized enterprises and 79.7% of large ones, debt is collateralized only through *real estate*, while the remainder of the enterprises have used other forms of collateralization⁶. If we would also consider the combination with other forms of collateralization, real estate is used by 85.7% of small enterprises, 93.5% of medium-sized enterprises and 87.6% of large ones (Figure 4.1) Meanwhile, 9.5% of small enterprises and 5.4% of medium-sized enterprises state that they have not used any form of collateralization. This share is 7.5% for large enterprises.

⁵ For those enterprises that have more than one debt.

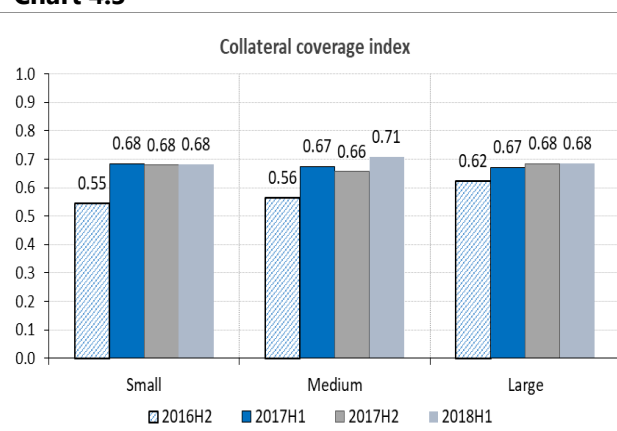
⁶ Financial instruments, guarantee, other warranties, along with the combination of some forms of collateralization, including the combination with real estate.

Chart 4.2



Source: Bank of Albania.

Chart 4.3

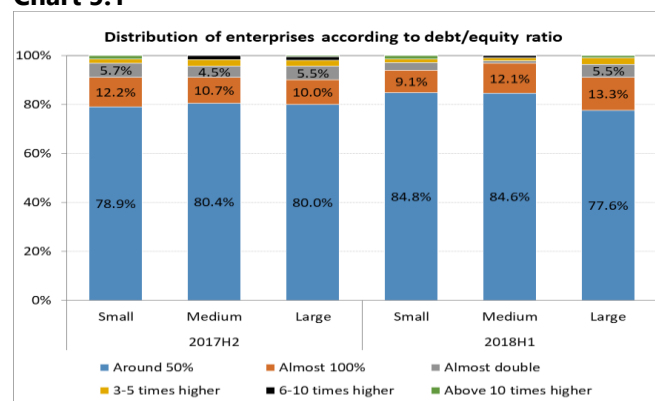


Aggregated collateral coverage is estimated through the weighted index of responses⁷ (Chart 4.2). For 2018 H1, this index scored 0.68 for small and large enterprises and 0.71 for medium-sized enterprises, showing an increase of this coverage ratio only for medium-sized enterprises.

5- Debt burden

5.1 Debt value to equity. The total value of debt is about *half the value of the enterprise's equity* for 80% of the borrowing enterprises. By size, debt share is higher for large enterprises, where around 22.4% stated that the value of debt is equal or higher than the value of equity. By analysing the results of the responses by sectors, it turns out that the industry sector has the highest share of enterprises which have a higher debt burden than the enterprise's value of equity.

Chart 5.1



Source: Bank of Albania.

Table 5.1

The share of enterprises with a higher value of debt than equity, by sectors				
	Industry	Services	Construction	Trade
2016 H1	18%	11%	13%	20%
2016 H2	11%	7%	8%	9%
2017 H1	7.9%	15.7%	5.8%	13.3%
2017 H2	10.2%	11.9%	7.3%	8.3%
2018 H1	10.3%	6.3%	4.3%	6.7%

⁷ This index takes values from 0 to 1 and its increase indicates an increase in collateral coverage. Based on each of the alternatives, the weighting coefficients of this index are: "Up to 50% of the collateralized debt" = 0.25; "50-100% of the collateralized debt" = 0.5; "100-120% of the collateralized debt" = 0.75; "Over 120% of the collateralized debt" = 1.

5.2 Debt repayment. The majority of the borrowing enterprises (75.3%) state that loan repayment amounts up to 20% of enterprises' total income, down from the previous period. The burden of debt repayment appears to be heavier on small enterprises. The number of small enterprises reporting that this amount exceeds 20% of total income accounts for around 30.3% of the total group.⁸ This share is 23.1% for medium-sized enterprises and 23.7% for large ones (Chart 5.2).

Chart 5.2

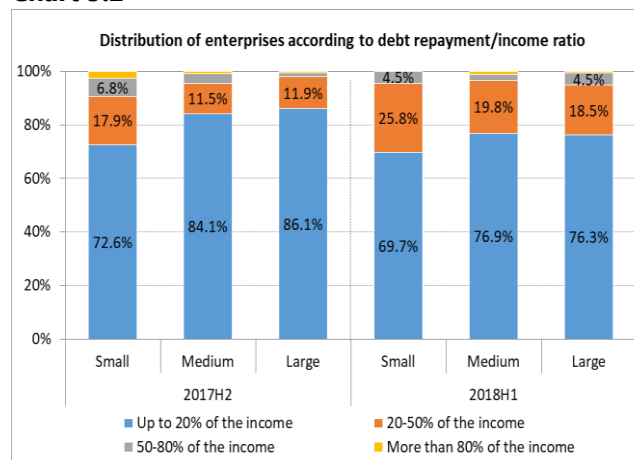
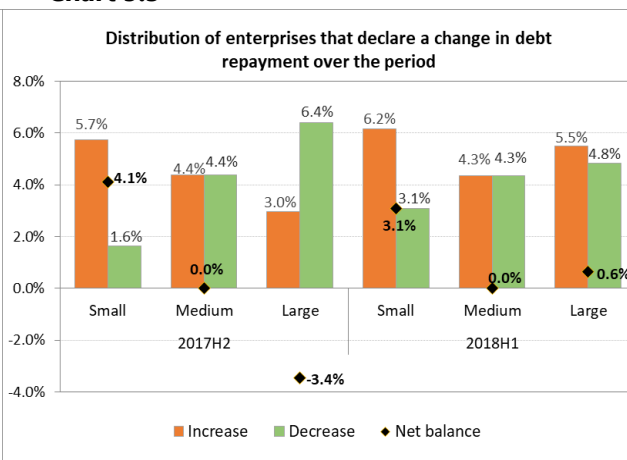


Chart 5.3



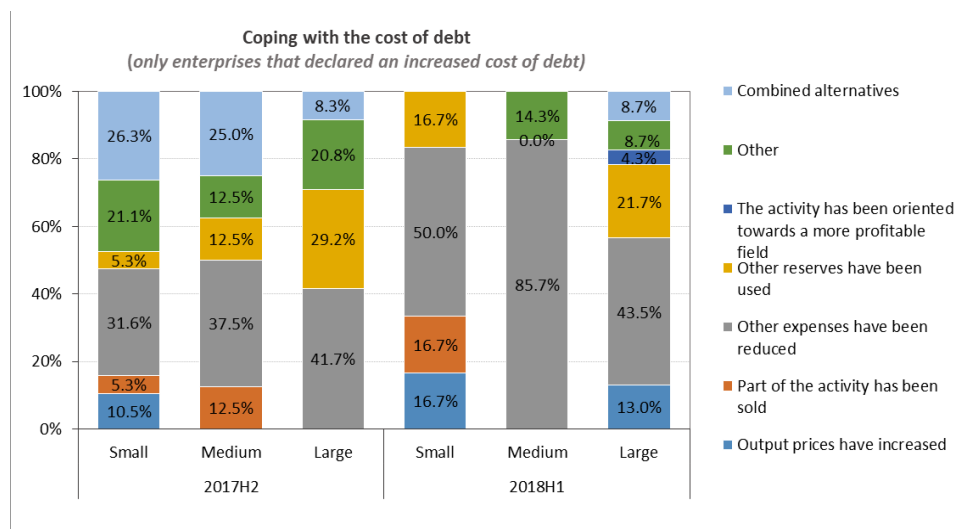
Source: Bank of Albania.

Asked whether *the cost of debt service has changed* over the past six months, about 90.8% of small enterprises, 91.3% of medium-sized enterprises and 89.7% of large enterprises claim that this expenditure has remained *unchanged*. Responses of the rest of the enterprises have resulted in a positive net balance for small and large enterprises, showing an increase in this expenditure (Chart 5.3). Meanwhile, the balance in question continues to be neutral for medium-sized enterprises. Compared to 2017 H2, this balance has decreased for small enterprises and has grown for large enterprises.

5.3 Coping with the cost of debt. In the case of an increased cost for debt service, over 40% of the enterprises relied on lowering other expenditures. For large enterprises, various reserves (21.7%) or price increases (13.7%) were also used, while for small ones, besides lowering other expenditures (50%), the product prices increased, various sources were used or part of the business activity was sold (16.7%).

Chart 5.4

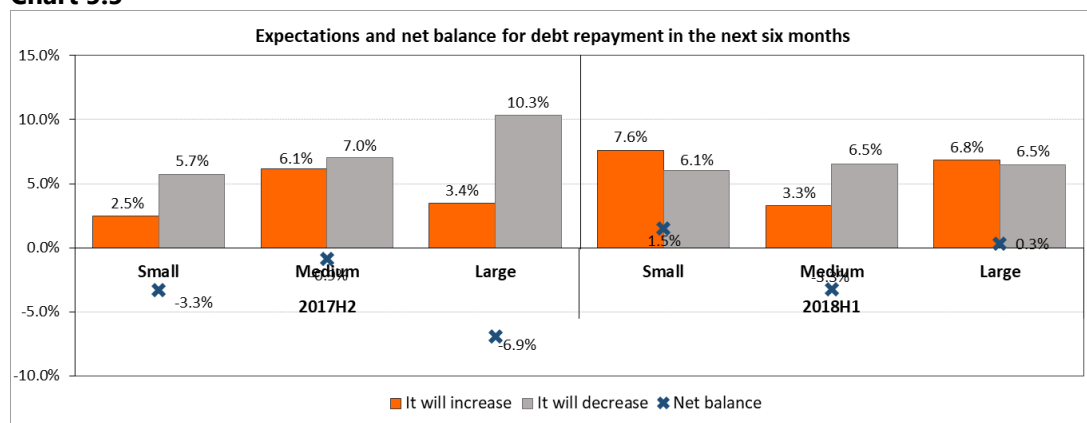
⁸ Calculated as the sum of weights for responses: "20-50% of total income", "50-80% of total income" and "over 80% of total income".



Source: Bank of Albania.

5.4 Expectations for debt repayment in the next six months. Most of the borrowing enterprises for each of the groups (over 86%) do not expect a change in the loan instalment over the next six months. Regarding the share of enterprises that expect a change of the instalment, only medium-sized enterprises continue to expect a decline in the next six months.

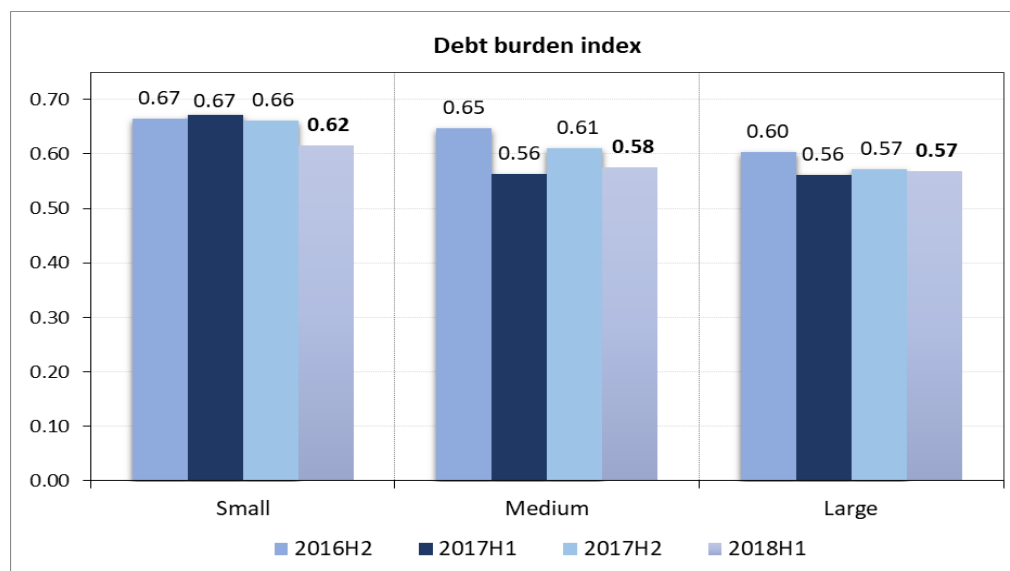
Chart 5.5



Source: Bank of Albania.

5.5 The debt burden of the borrowing enterprises is somewhat higher than the average level; the burden is higher for the small enterprises than for medium-sized and large enterprises. Compared to the previous six months, the debt burden index has decreased for small and medium-sized enterprises, with a somewhat more pronounced decline for small enterprises.

Chart 5.6



Source: Bank of Albania.

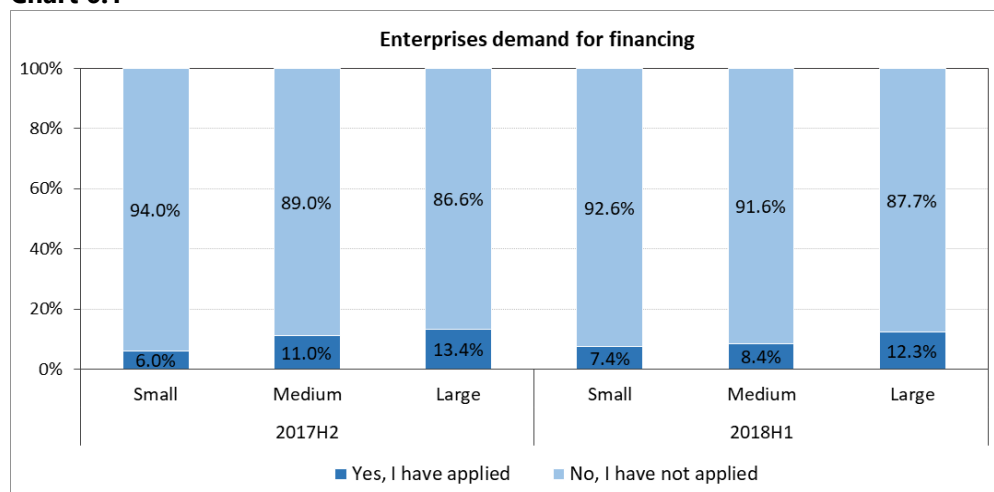
Note: The index is calculated by weighing the share of enterprises' responses to the total of responses by the coefficients that take values of: 1 for "high burden", 0.5 for "average burden" and 0 for the "low burden" alternative.

6- Relations with banks and expectations for the future

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

6.1 Access to finance. Enterprises' demand for loans continues to be low, especially from small enterprises, where only 7.4% of them claim to have applied for some form of financing during the reference period, though with an upward trend over the period. Large enterprises (12.3%) continued to have the highest weight for loan applications during the six-month period. Compared to the previous half-year, a decline in loan demand for medium and large enterprises is observed (Chart 6.1).

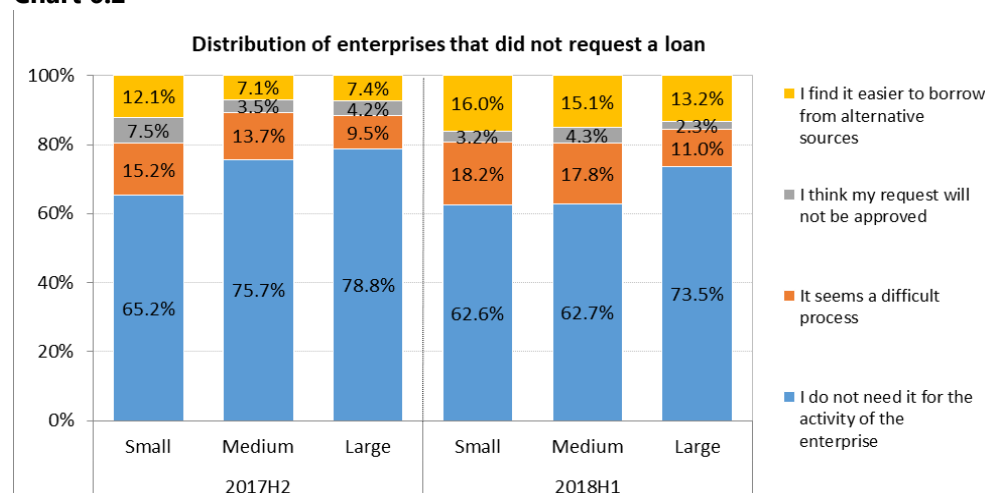
Chart 6.1



Source: Bank of Albania.

Enterprises that *have not applied for a loan*, in most cases, claim that they do not need it for the activity they perform and this weight is higher for large enterprises. The rest of the enterprises have decided not to apply because the process seems difficult and this is most often claimed by small and medium enterprises (Chart 6.2). For this half-year, there is a decline in the weight of enterprises' responses which claim that they do not need a loan for their activity and an increase in the share of those who consider it a difficult process or which claim that it is easier to borrow from alternative sources.

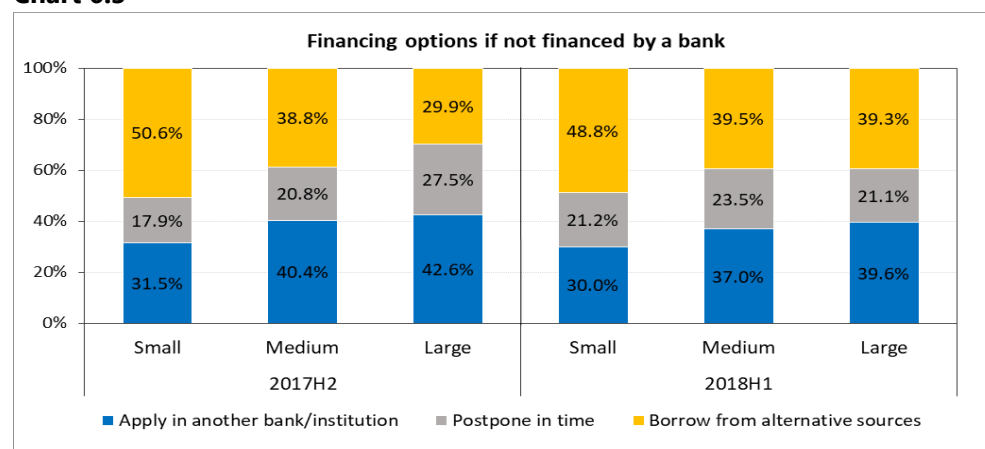
Chart 6.2



Source: Bank of Albania.

Asked how they would act if they *were not financed by banks*, the major part of small enterprises (48.8%) and medium-sized enterprises (39.5%) state that they would borrow from alternative sources, while the majority of large enterprises (39.6%) claim that they would apply again to another bank or financial institution. Compared with the results of the previous survey, it appears that the percentage of small and medium-sized enterprises that claim that they will postpone their expansion plans has increased and the percentage of large enterprises for such plans has decreased.

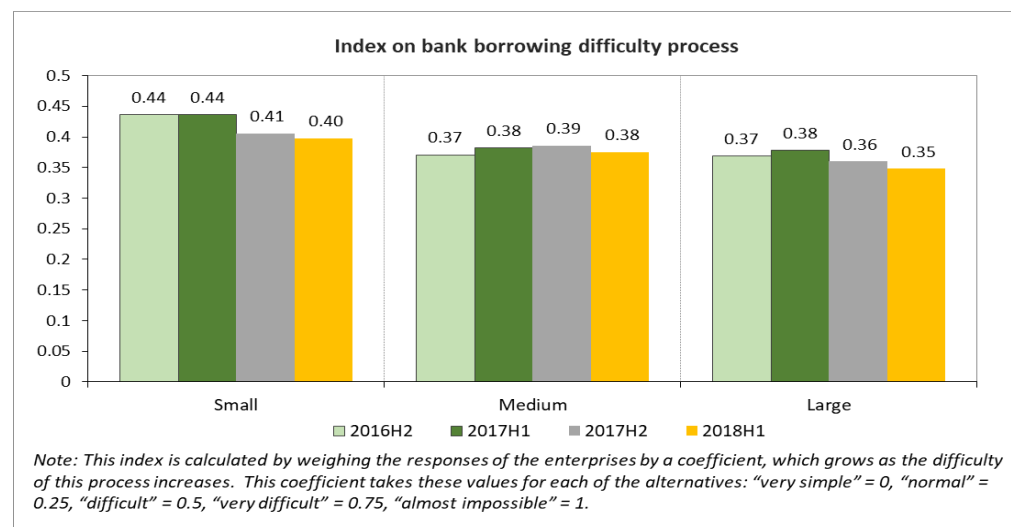
Chart 6.3



Source: Bank of Albania.

6.2 The borrowing process and relations with banks. The index on the difficulty of the borrowing process from banks for 2018 H1 remains between the level of "normal" and "difficult" for all three groups of enterprises. Compared to 2017 H2, the index remains at similar levels, but with a slight downward trend.

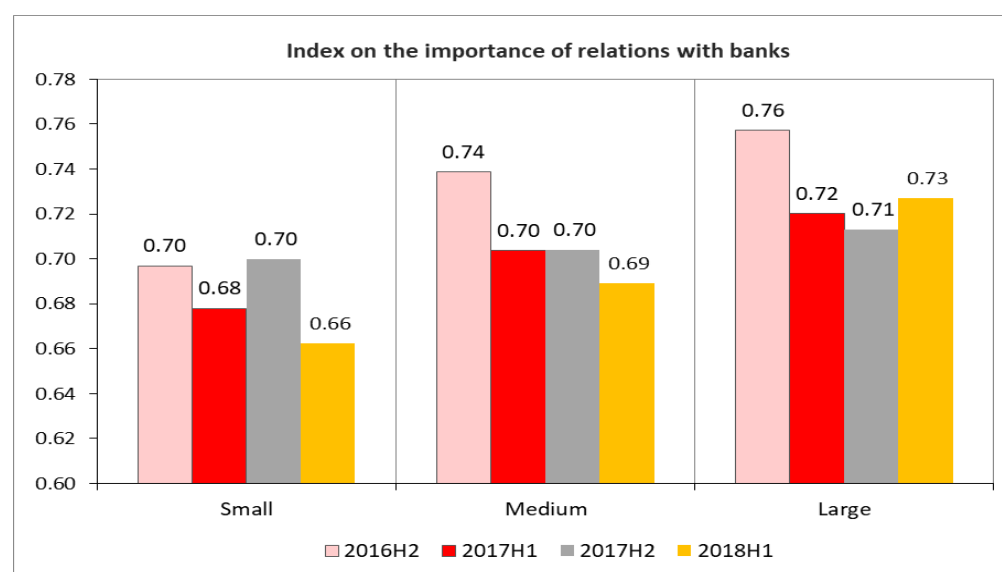
Chart 6.4



Source: Bank of Albania.

The index⁹ of the importance of the relationship with the banks continued to be assessed between "important" and "necessary" for all three groups of enterprises. However, the importance of the relationship with banks on the performance of their activity is assessed downward for small and medium-sized enterprises for this six-month period, while large enterprises showed an increase in the importance of this relationship.

Chart 6.5

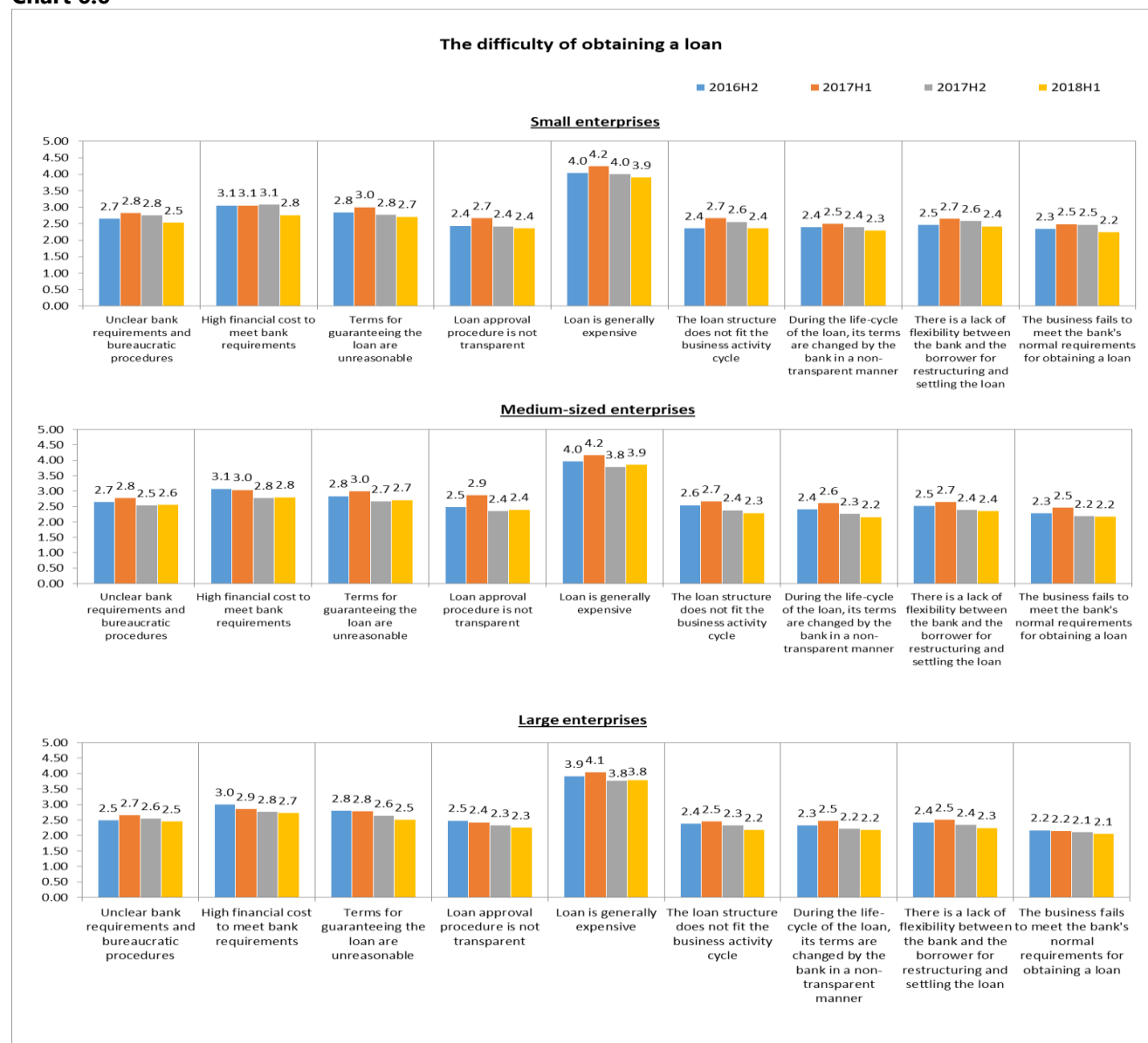


Source: Bank of Albania.

⁹ This index is calculated in the same way as the bank borrowing difficulty index, where the weighting coefficients for the given alternatives are: "Not quite important" = 0; "Important" = 0.5; "Necessary" = 1.

6.3 The difficulty of obtaining a loan¹⁰. 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. Following the cost of the loan, *the cost of meeting bank's requirements* for 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, even for the latter, small and large enterprises give downward assessments, showing improvement for the analysed period in comparison to the previous one.

Chart 6.6

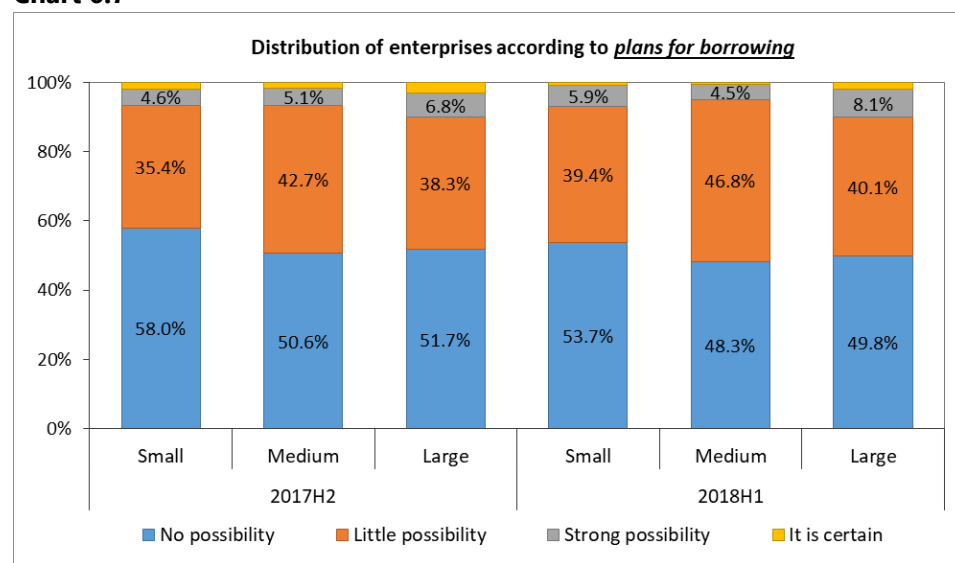


¹⁰ In order to assess the difficulty of obtaining a bank loan, enterprises have been asked to give their opinion on a number of qualitative elements, relying on a 5 degree rating system, where the lowest degree of difficulty is 1 and the highest is 5. In order to obtain an average rating for each qualitative element, the scales from 1 to 5 are weighted with the weights of responses given by the enterprises. Based on this averaging process of enterprises' responses, regardless of their size, they emphasize that they consider bank borrowing as generally expensive.

Source: Bank of Albania.

6.4 Plans for borrowing. More than half of the responding enterprises (50.3%) have reported that there is *no possibility* to request a bank loan in the next six months. This weight has decreased compared to the previous survey (Chart 6.7), driven by the responses of the three groups of enterprises. Meanwhile, there has been an increase in the share of enterprises of all sizes that claim that *there is little possibility* to get a loan in the following period, signalling a positive trend of the demand for loans in the short term.

Chart 6.7

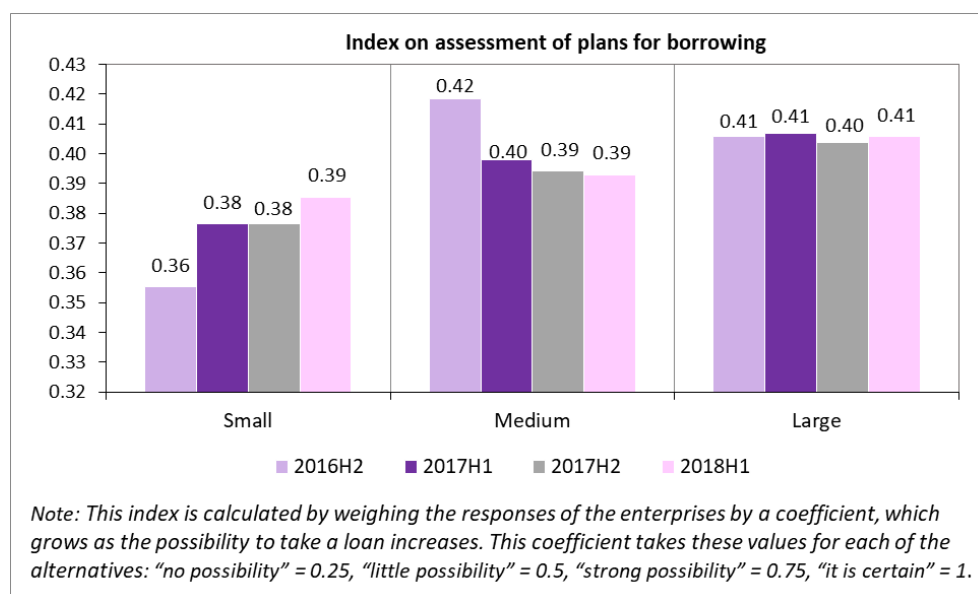


Source: Bank of Albania.

The index of assessing the borrowing plans for the next six months¹¹ marked the lowest value of 0.39 (small enterprises) and the highest value of 0.41 (large enterprises), showing a somewhat higher willingness of these enterprises to borrow during 2018 H2.

Chart 6.7

¹¹ 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, "high possibility" = 0.75 and "it is certain" = 1.



Source: Bank of Albania

Credit demand is also reflected in the assessment that the current level of borrowing is considered appropriate for 89.8% of small enterprises, 94.4% of medium-sized enterprises and 87.7% of large enterprises. For the enterprises that would have preferred to borrow more, 12.5% of the small ones, 21.4% of the medium-sized and 38.9% of the large enterprises, claim that it is quite possible to request a loan in the following period, marking an increase of these weights¹² for small and large enterprises during this half-year, and consequently, of their loan demand.

Table 6.1 Distribution of borrowing enterprises according to adequacy and planning for the future (2018 H1)

		Appropriate	I would have preferred to borrow more	I would have preferred to borrow less
Small	No possibility	53.1%	12.5%	44.4%
	Little possibility	36.7%	75.0%	44.4%
	Strong possibility	10.2%	12.5%	11.1%
	It is certain	0.0%	0.0%	0.0%
Medium	No possibility	45.1%	35.7%	57.1%
	Little possibility	49.3%	42.9%	42.9%
	Strong possibility	4.2%	21.4%	0.0%
	It is certain	1.4%	0.0%	0.0%
Large	No possibility	36.5%	27.8%	53.8%
	Little possibility	51.2%	33.3%	30.8%
	Strong possibility	9.8%	30.6%	15.4%
	It is certain	2.5%	8.3%	0.0%

Source: Bank of Albania.

¹² This weight is calculated by taking into account the responses of the alternatives "strong possibility" and "It is certain".