THE FINANCIAL LEASING IN ALBANIA AND ITS FINANCING COSTS

Alban Korbi, PhD candidate in Finance
Llesh Lleshaj, PhD candidate in Statistics
Faculty of Economy, University of Tirana
Department of Finance, Faculty of Economy, University of Tirana, Albania

Abstract

The Financial Leasing in the developing countries has faced high rates of development, while in Albania although its developing potentials are high, its growing rate is very low, with inconsiderable figures in comparison to the lending level in the country. Countries like Albania which have nearly 99% of the total businesses, small ones, should offer a favorable environment for stimulating the financial leasing, as a new financing alternative in the country. In this study we aim to evidence the leasing market in Albania, analyzed through the importance that this market has toward the assets level of all the non-banks financial institutions and toward the GDP of the country. If we discuss about the financing sources, the most important element is the assessment of their costs, this is because in this study will be shown the econometric relation between the financial leasing costs and the economic indicators such as: The Consumption Price Index (for the purchase of the transport vehicles), Interest rate spread (lending rate minus deposit rate, %), Gross fixed capital formation, private sector (% of GDP), The Index of the automobiles maintenance and reparation value, The Value Index of the retail trade of oil, etc.

Keywords: Non-Banks Financial Institutions, Financial Leasing, Econometric Analyze of Leasing Costs etc

Introduction

Leasing, juridical known in Albania as “the financial lease” is one of the activities and juridical relations that is developed with a high rhythm in most of the countries all around the world, including the developing and in transition ones. This is a favorable way of financing for these countries, for the stimulation and the development of the small businesses and the family’s consumption. The essence of Leasing is to finance the businesses for: new technologies, machineries and production equipments, the information

technologies, automobiles etc. For the consumption of the families also financial leasing is offered for: automobiles, electrical house equipments, etc. Actually, in Albania the gamma of products financed through the financial lease is concentrated in automobiles and some types of machineries, so it is a new market and in its first levels of development.

The legal infrastructure of the development of the financial leasing in Albania has been subject of dynamic changes and improvements, where for the first time it was approved a law, No. 9396, date 12.5.2005 "About the Financial Lease" which was updated in 2007 and 2008. In its content it is said that "Financial Lease (leasing) is the juridical relation, according to which the lessor buys to the furnisher, an object chosen by the lessee to the furnisher, and gives it to the leaseholder to use it during a certain period, at a price determined in the contract and, with the end of the contract term, the leaseholder can purchase the object, can continue to use it through lease for another term ore give it back to the lessor". Brealey and Myers (2003) define a lease as a rental agreement that extends for a year or more and involves a series of fixed payments. The determination of the leasing value in Albania is in total accordance with the International Accounting Standards (IAS 17).

The businesses, especially the small and medium ones, have the possibility, through the leasing companies, to ensure the financing sources but also modern technological lines, machineries, vehicles or services from consolidated producers or furnishers in the country and abroad, by enabling the increase of their products and services quality. This way they become competitive in the internal and foreign markets.

A major advantage of the financial leasing in Albania, in comparison to the banking loan, is that leasing in its financial contract does not require pledges or collaterals because of the financing contract. Seen from this point of view leasing is considered a financing source at a lower risk than the banking loan for every financing institution, in global perspective (Westley, 2003). Businesses often having not enough assets to give collaterals to the banks, limit the possibility of their financing through banking loans. There were made studies where it was seen a positive relation of the financial limits existence of the firms and the financial leasing (Ezzell and Vora, 2001). On the other hand the studier "Andrew" (2005) writes that leasing does not have a direct relation with the business cycle, so this financing source is potentially unusable in every period of development of a business.

Regarding its market share, leasing as a financing source in Albania reflects also the positive effect of the interest rate of financing in comparison to the banking loans in the country. But on the other hand, leasing as a financing source has a disadvantage because it requires that the value of the

asset financed through leasing, should be prepaid at nearly 20-30% (Credins Leasing, 2013)[30].

The Non – Banks Financial Institutions, Leasing in Albania.

Although the legal infrastructure is being consolidated according to the culture of the developed countries, the market of the institutions that offer financing through leasing and the gamma of the services financed through leasing has remained limited. The Table below shows the number of financial institutions that offer financing through leasing. So, nearly all the market in Albania is represented by 6 institutions like these.

Table. 1. The list of non banks institutions that offer financial leasing in Albania.

No.	***Name of the Non-Bank Institution***	***The Licensing Date***
1	Credins Leasing sh.a.	13.06.2001
2	Raiffeisen Leasing sh.a.	15.07.2009
3	Tirana Leasing sh.a.	11.12.2009
4	Landeslease sh.a.	24.12.2009
5	Fin-al sh.p.k.	20.02.2009
6	Sogelease sh.a.	25.01.2010

Source: http://www.bankofalbania.org/web/Nonbanks_Financial_Institutions_5320_1.php

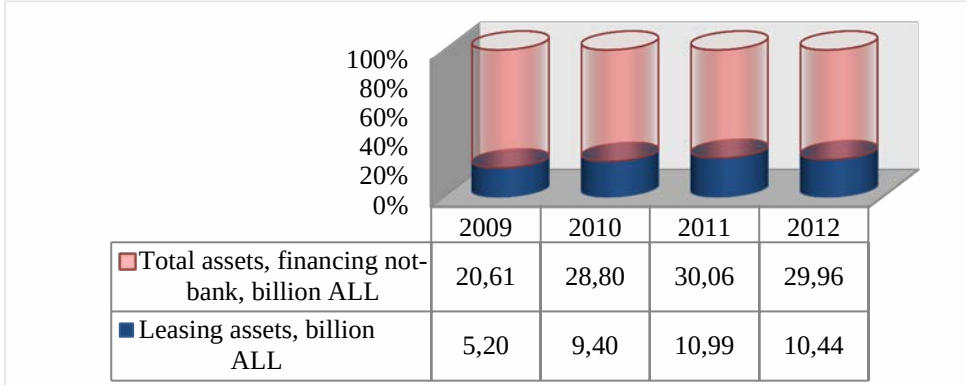
In the market of non-banks financial institutions there has been an increase in the number of companies during the last years. During 2012 there were registered 3 more of such financial companies, by reaching the total number of 21 (Bank of Albania, 2013). If we group the main non-banks financial institutions that operate in Albania, according to their main activities, they will be:

- Institutions that perform the financial activity of "lending":
- Institutions that perform the financial activity of "micro lending":
- Institutions that perform the financial activity of "financial leasing":
- Institutions that perform the financial activity of "offering the services of payments and money transfer":
- Institutions that perform the financial activity of "factoring":
- Institutions that perform the financial activity of "advisory services, intermediaries and other services of foreign exchange":

Although the non-banks financial institutions result with a low level of assets toward the banking system, their financial performance results considerable in comparison of that of the banking system, at the level of 23%[31], whereas in this market the institutions that offer payments and money transfers and that of financial leasing, continue to be the most profitable. In the non-banks financial institutions portfolio it can be noticed that financing through the financial leasing is oriented toward the foreign currency.

[30] Interview with specialist of the leasing company "Credins Leasing", made by the authors
[31] Bank of Albania; Annual Supervising Report, 2012, pg. 45-50.

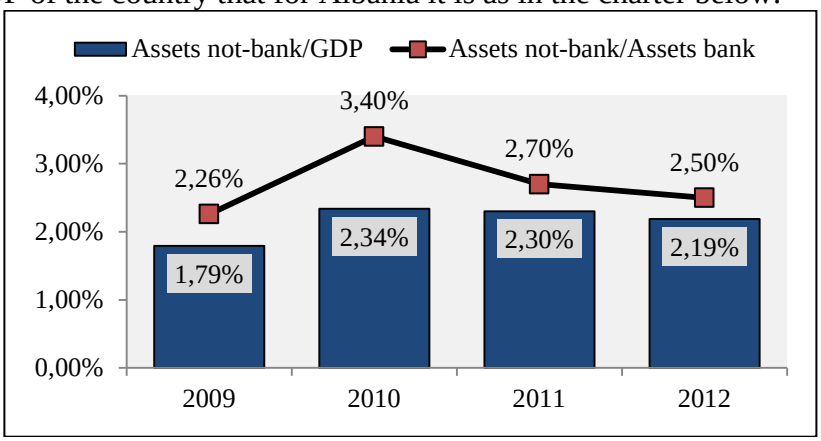
What is noticeable for the leasing in Albania, different from the total trend in the region and beyond, is that the Albanian leasing has remained a very narrow segment, with an inconsiderable weight in the country economy financing, by financing mainly the purchase of automobiles, and it is not being developed in the direction of the business needs for equipments and new technologies, investments necessary for the grow of small and medium businesses. Although the market potentially needs this financings because from 104,275 business subjects registered in Albania, only 830 of them are big businesses, all the rest are small and medium businesses (INSTAT, 2012). In the charter below it is shown, illustrated with figures, the level and the weight of the financial leasing toward every other way of financing from the non-banks financial institutions in Albania:



	2009	2010	2011	2012
Total assets, financing not-bank, billion ALL	20,61	28,80	30,06	29,96
Leasing assets, billion ALL	5,20	9,40	10,99	10,44

Source: Data from Bank of Albania, 2012.

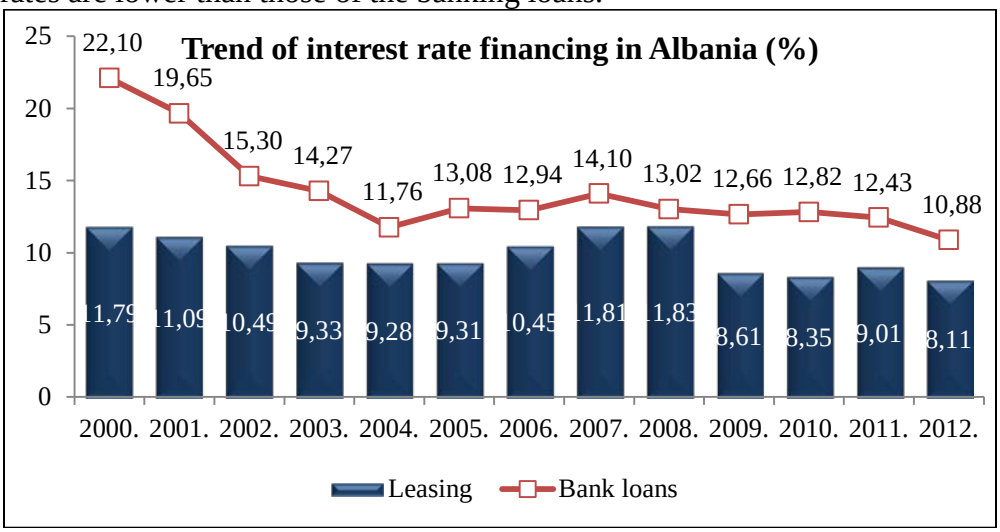
Also, the importance of the financing and its level can be seen toward the GDP of the country that for Albania it is as in the charter below:



Source: Data from Bank of Albania, 2012.

Another aspect which emphasizes the Albanian reality of the leasing market regarding the financing costs in comparison to the banking lending, is

the charter below, whereas it is obvious that the financial leasing interest rates are lower than those of the banking loans.



Source: Data from The World Bank and Credins Leasing, 2012.

Data Methodology

To explain the relation of the economic indicators with the interest rates of financial leasing it is used the technique of creation of multiple regressions models. We have identified as dependent variable the financial leasing interest rate and as independent variable the economic indicators as shown in the *annex* at the end of the paper. The data represent a time series for the years 2000-2012 with a one year period for Albania (the time period one year is been chosen with the purpose to increase the stability scale of the variables).

To identify the variables relations and the explaining importance, as such as the utility of their relation, the analyses consists in finding the cause relations of the variables with the aim to create a valuable multiple regression model to be used for the forecasts for economic purposes of financing the activity of the companies through financial leasing.

Table. 2. The Economic Indicators and their description.

Variable	***Variable Name***	***Variable Description***	***Data Source***
Y	The Average Rate of Financing through (%)	The cost of financial leasing for all the businesses that want to use this financing source. The Calculating Formula is EURIBOR + 7% as average (Credins Leasing, 2013).	Credins Leasing
X_1	The Consumption Price Index (for the purchase of transport	The Potential of development of the leasing market in the Western Balkan countries, measured with the number of automobiles and new machineries sold yearly (Bank of Albania, 2012).	INSTAT

	vehicles)		
X_2	Interest rate spread (lending rate minus deposit rate, %)	The Spread of interest rates in the economy indicates the lending institution trend of gross earnings from lending. The leasing interest rates in Albania are closely related to the interest rates of lending in Euro, given by the banks (Credins Leasing, 2013).	World Bank
X_3	Gross fixed capital formation, private sector (% of GDP)	The market potential in investing in fixed assets from the businesses. The investment in fixed assets is most of the times accompanied with machineries, automobiles, technological vehicles, etc. (Deloitte, 2011).	World Bank
X_4	The Index of the market value of reparation and maintenance of the automobiles	The market of maintenance and reparation of the automobiles, logically the increase of this index is expected to influence positively the demand for purchase of new automobiles through leasing, especially for the family consumers.	INSTAT
X_5	Gross fixed capital formation (% of GDP)	The level of investing in fixed assets in the economy, a general index of the economy as a whole (private and public sector).	World Bank
X6	The Value Index of the retail trade of oil	The Indicator of the stimulation of the purchase of transport vehicles. Logically with the increase of this indicator significantly, the level of purchase of new automobiles especially for individuals is expected to decrease significantly (Credins Leasing, 2013).	INSTAT

The econometric analyses in the issue below, refers to the variables of *table 2*, above, with the aim to get a result of assessment of the parameters "β_{it}" of the model:

$Y = \beta_0 + \beta_{1t}*X_{1t} + \beta_{2t}*X_{2t} + ... + \beta_{kt}*X_{kt} + U_t$

Whereas with U_t is marked the stochastic variable of the regressions residues for "*t*" from the year 2000 to 2012.

The Econometric Analyses of the Model

To get sustainable and statistically important results, the models below have been subject of some econometric tests. The results of this tests and analyses are summarized in the *table 4*. While in *table 3*, are presented four models which will be analyzed according to the list of variables they contain in their regression.

Table. 3. Econometric Models and the variables included in the model.

Variable	*Model (1)*	*Model (2)*	*Model (3)*	*Model (4)*
X_1	✓	✓	✓	×
X_2	✓	✓	✓	×
X_3	✓	×	×	×
X_4	×	✓	×	×
X_5	×	×	✓	✓
X_6	×	×	×	✓

Note: ✓ included in the model, × not included in the model.

Table. 4. The Econometric models, the results tested in Eviews 7.

Variable	*Model (1) "Lin-lin"*	*Model (2) "Lin-lin"*	*Model (3)*[32] *"Log-log"*	*Model (4) "Lin-lin"*
Intercept	16.83464**	43.22996**	7.201891**	4.584623*
X_1	-0.141444**	-0.360095**	-1.460762**	×
X_2	0.221329**	0.263418**	0.162199**	×
X_3	0.311790**	×	×	×
X_4	×	0.015926**	×	×
X_5	×	×	0.478443**	0.347749**
X_6	×	×	×	-0.011961**
Adjusted R^2	83.14%	76.77%	80.34%	59.25%
Multicollinearity, VIF-test	Does not Exist	Exists[33]	Does not Exist	Does not Exist
Heteroskedasticity, White-test	Does not Exist	Does not Exist	Does not Exist	Does not Exist
Serial Correlation LM-test	Exists[34]	Exists[35]	Does not Exist	Exists[36]

Note: * t-test gives the statistically importance at 10% and ** t-test gives the statistically importance at 5%. According to F-test the level of statistically importance of each model results at 5%. "Lin-lin" indicates that the model is linear according to the dependent and independent variable,

[32] Model (3) "log-log": $\log(Y) = \beta_0 + \beta_1*\log(X_1) + \beta_2*\log(X_2) + \beta_5*\log(X_5)$ is used to eliminate the heteroskedasticity of the linear relation.

[33] The Multicolinearity of this model can be eliminated only if we exclude from the model one of the variables X_1 or X_4. This option is taken into consideration if the model will be used for forecasts.

[34] The Autocorrelation of this model can be eliminated with lag(1), AR(1): $U_t = -0.209125*U_{t-1} + \varepsilon_t$

[35] The Autocorrelation of this model can be eliminated with lag(2), AR(2): $U_t = 0.459279*U_{t-1} + -0.573440* U_{t-1} + \varepsilon_t$

[36] The Autocorrelation of this model can be eliminated with lag(2), AR(2): $U_t = 0.148171*U_{t-1} + -0.324309* U_{t-1} + \varepsilon_t$

"Log-log" indicates that the model is with dependent variable and independent variables logarithmic and then modeled linearly.

Conclusion

The Financial Leasing is one of the activities developed at high rhythms in most of the countries, including the transition or developing countries, by creating especially to the small and medium businesses, the possibility to ensure through the leasing companies, the financing sources, technologic lines and modern equipment, and by enabling also the increase of their productions and services quality.

However, the level of financing through leasing in Albania illustrates an unused potential, with an inconsiderable financing level toward the banking system and to the GDP of the country. The financing through leasing in Albania, in comparison to the banking loan, is characterized by a lower (interest rate) cost than the banking lending, and it is not accompanied with the given as pledges and collaterals except the asset financed.

On the other hand, the small gamma of financing through leasing, limited in automobiles and some machineries or technological equipments, the level of contract prepayment of the buying with leasing at nearly 20-30% of the asset value, brought a limitation and a very slow development of the financial leasing market in Albania, in comparison of the region countries and beyond.

Although the non-banks financial institutions result with a low weight of assets toward the banking system or the GDP of Albania, their financial performance is presented considerable in comparison to that of the banking system, proving for the existence of the new developing potentials of this market.

If we discuss about the financing sources, the most important element is their costs assessment. That is why in this study we have been focused especially to the financing cost of leasing in Albania and its relation with some indicators of the whole economy of the country (models variables). Through econometric analyses for four models and six variables, the statistically importance of their relation with the costs of financial leasing is analyzed in all the steps of BLUE models creation.

According to these analyses results that the financial leasing costs in Albania have a strong positive statistically important relation with: Interest rate spread (%), Gross fixed capital formation, private sector (% GDP), the indicator of the market value of automobiles maintenance and reparation, and Gross fixed capital formation (% GDP). This is explainable also with the economic logic interpretation of the financial markets. Also, according to these analyses results that the costs of financial leasing have a strong negative statistically important relation with the indicator of consumption price for the

purchase of transport vehicles and the value index for the retail trade of oil. This is explainable also with the economic logic interpretation of the financial markets too.

As it can be seen, for each model the measure of the financial leasing costs changes will be explained from the value and side of the explaining coefficients "β_{it}" of each variable (economic indicator) when it increases or decreases with a unit.

References:

Bank of Albania. (2013). Official Buletin. Volume 15, No 1.

Bank of Albania. (2012). *Supervising Annual Report.* Tirana, Albania.

Cho, S., & Rust, J. (2008). Is Econometrics Useful for Private Policy Making? A Case Study of Replacement Policy at an Auto Rental Company.

Deloitte Tax LLP. (2011). *Structuring and Modeling Leasing Investments – Tax Perspectives.*

Eisfeldt Andrea, A. R. (2007). Leasing, Ability to Repossess, and Debt Capacity.

European Investment Fund. (2012). The importance of leasing for SME finance.

Fisher, L. (2004). The Wealth Effects of Sale and Leasebacks: New Evidence. Cambridge.

Kelly, C., Khayum, M., & Price, C. (2012). Equipment Lease Financing: The Role of Community Banks. University of Southern Indiana.

Leaseurope and KPMG's Asset Finance Tax. (2012). *European Leasing.*

Mannering, F., Winston, C., & Starkey, W. (n.d.). An exploratory analysis of automobile leasing by US households. *Journal of Urban Economics 52 (2002) 154–176* .

Republic of Albania. (2005). Law No. 9396, date. 12.05.2005 "About the Financial Law".

Schallheim, J., Wells, K., & Whitby, R. (2013). Do Leases Expand Debt Capacity?

Albanian Association of Banks. (2012). *Annual Report.*

World Bank. (2004). *Leasing an underutilized tool in rural finance.*

World Bank. (1999). *Leasing to Support Small Businesses and Microenterprises.*

Annex. The Economic Indicators of Albania during the period 2000 – 2012

Year	The average rate of financing through leasing (%)	The transport vehicles consumption price index	Interest rate spread (lending rate minus deposit rate, %)	Gross fixed capital formation, private sector (% of GDP)	The automobiles maintenance and reparation market value index	Gross fixed capital formation (% of GDP)	The value index of the retail trade of oil
2000	11.79	100.00	13.80	18.13	54.78	24.74	55.23
2001	11.09	101.40	11.93	20.23	57.70	27.55	54.88
2002	10.49	98.50	6.77	17.83	74.73	24.49	63.55
2003	9.33	104.50	5.90	18.83	103.69	23.44	95.03
2004	9.28	102.20	5.15	18.80	100.01	23.84	99.98
2005	9.31	101.40	7.99	19.01	105.74	23.60	91.23
2006	10.45	101.40	7.71	19.42	110.28	25.05	86.21
2007	11.81	100.80	8.44	23.86	150.98	29.76	118.29
2008	11.83	100.70	6.22	23.51	140.63	32.13	103.55
2009	8.61	107.60	5.89	20.54	181.53	28.91	144.57
2010	8.35	111.40	6.40	20.28	270.64	25.79	232.72
2011	9.01	113.70	6.57	20.11	310.18	25.51	294.65
2012	8.11	117.10	5.46	20.30	322.01	24.73	303.62