

Ardian Fullani: A short overview on the latest Albanian banking system achievements

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the EBRD 2005 Annual Meeting and Business Forum, Belgrade, 22 May 2005.

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Ladies and Gentlemen,

It is a great pleasure to participate in this prestigious event of the EBRD Annual Meeting and Business Forum. For this purpose, I would like to thank the organisers of this meeting who provided us such an opportunity to present our achievements and ambitions for the future.

Allow me first to tackle an important issue, which within the context of this meeting, I believe, is of paramount importance. I mean by that the regional co-operation, an initiative that has been completely supported by the European Central Bank. We have already taken the first steps in this regard through establishing bilateral relationships in banking supervision with National Bank of Macedonia, Central Bank of Montenegro and Banking and Payment Authority of Kosovo. Meanwhile, we are in the process of negotiating with National Bank of Bosnia and Herzegovina, National Bank of Serbia etc... I estimate that regional co-operation is an important forerunner of the integration process of the region with the rest of Europe; therefore I will not stop working to encourage a regional co-operation of high standards among the financial systems of Balkan countries.

I hope that you share the same opinion with me, because only in this way, our region will be more credible and efficient to have its European dream. On the other hand, a developed and financially integrated region will be more attractive for foreign strategic investors, opening up the path toward regional development projects, particularly infrastructure ones where region's banks might be directed in financing and investment.

Further on I would like to give to you a short overview on the latest Albanian banking system achievements. After many years of difficult transition, in this late spring of 2005 the banking system is growing on a stable basis.

Dear participants,

I would like to ensure you that recently there are many qualitative developments of the Albanian banking system. I use the opportunity of this event to express that positive assessments on the banking system have been given also in the report prepared by the World Bank and International Monetary Fund after the completion of their assessment made on the Albanian financial system (FSAP-Financial System Assessment Program). Of course, this is good news.

Conclusions of FSAP, of this important international passport, are an indication of our earliest conclusions that the Albanian financial system is characterized by a supervised and effective banking system. Regardless of what I mentioned above, sincerely feeling myself as a part of the banking system I would envisage that it needs better and faster motivation to reach higher contemporary standards in all the aspects of the banking activity.

The banking system has experienced remarkable developments recently. After the licensing of Popular Bank, with Albanian capital, the number of banks increased from 15 to 16, and a preliminary license is granted to Union Bank (Albanian capital), which is expected to raise the number of banks to 17 over 2005. The system assets have further increased by 14 percent while there was an increase of banking products and an expansion of their network after the successful privatisation of the Savings Bank from Reiffeissen Bank, Austria. During this year there will be sold the public shares of both the Italian Albanian Bank and United Bank of Albania, which will lead to an increase of effectiveness and banking competition, paving the way to the processes of selling, merging and acquisitions towards a new consolidation of the banking system.

The lending activity increased by 38 percent where one can distinguish inter alia the significant growth of medium-term and long-term loans compared to short-term loans.

The map of coverage of the country with the banking system has further expanded, including new areas ever covered before. At the end of 2004, the total number of branches reached 88, or 11

branches more than the end of the previous year, while the number of agencies recorded for the first time a full three-digit number, 100 and the number of the employed people increased by 26 percent.

The high increase of the number of branches relative to agencies shows that banks are not interested only in providing the service of collecting deposits but also in providing other products like crediting to the economy. These developments, besides their positive contribution in enhancing the financial intermediation speak for a better perception of the investing potential from banks, in Albania.

An outstanding development is mainly related to the client service, which is accompanied through electronic terminals by the increasing number of electronic cards in circulation. Banks offer already debit and credit cards in co-operation with international companies such as Visa and MasterCard. Six banks provide the ATM service and the number of ATMs reached 108 by the end of February 2005.

The banking system results to have a profit level, which has been increasing to Lek 5.1 billion. Return on equity (ROE) was estimated at 21 percent while credit quality is only 4.2 percent, from 4.6 percent in the previous year.

These positive developments on the banking system were accompanied by a sound macroeconomic environment. For several years the economy is growing at 6 percent while inflation was kept under control within the two-to-four percent targeted range of the Bank of Albania. The fiscal consolidation has been on track while current trade deficit has been financed mainly by remittances and foreign direct investment inflows. The Bank of Albania has played a crucial role in providing this macroeconomic environment. Since early 2003, we cut several times the core interest rate bringing it at its minimum historical level, 5 percent. In taking any monetary policy decisions we had considered the further invigoration of economic activity, keeping always an eye on inflationary developments and financial stability as well.

As I would like to often mention in the IMF premises, Albania is considered as a successful story. The Board of directors have recently declared that Albania is enough mature to sign a new three-year agreement by the end of this year. The new arrangement will be a more flexible one leading Albania to a better access in the international financial market.

Of course, what I mentioned above was just a brief resumé regarding the current situation of the banking system and the overall economic performance. There is no doubt that Albania's attractiveness has further enhanced, and partially this reflects also the increase of confidence in the Albanian banking system.

Using the opportunity of this very prestigious forum, I would like to share my voice with that of the Albanian representatives present in this panel, expressing that my country is more open, more consolidated, ready to absorb more ambitious projects and, of course, global projects.

I wish you successful and fruitful proceedings of this meeting.

Thank you.