

## Ardian Fullani: A brief look at the Albanian banking system

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the Black Sea Business Day, Yerevan, Armenia, 6 June 2005.

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Distinguished Ladies and gentlemen,  
Dear participants,

It's a great pleasure for me having the opportunity to participate in this regional meeting of Black Sea countries. I have always appreciated this initiative as a special opportunity for all the countries being involved in.

In my long career, I have realized that the success of this business consists generally in the ability it has to gain public confidence. Nevertheless, the overall economic, political and social environment of the country is playing also an important role. During my career, I have been witness of many events which directly or indirectly have damaged the banking system.

The monetary collapse of the banking system at the end of the communist era, the flourishing and degenerating of the fraudulent investment schemes, as well as many other social, political and economic problems that have associated the Albanian transition, made the banking system "suffer" for a long time. However the reputation of the Albanian Banking system is in place recently. It's enough if I just refer to the latest problematic episode occurred in Albania, in early spring of 2002, when due to the lack of public information and to political speculation with the introduction of the deposit guarantee scheme, the confidence of households was traumatized, leading to a considerable deposit run from the banking system.

**Having a look at all the statistical indicators, it results that the banking system at that time it was sound and growing continuously. But, all this was insufficient since the memories of year 1997 (the collapse of fraudulent schemes) were still present and households sensitivity to them was very high.**

In spite of the recent significant achievements I would like to stress that still there is a high potential of fragility in our economy and the entire region as well. As a consequence, I think that we have to be much more prudent and much more diligent when speaking about the financial stability of the country. This episode suggests, inter alia, the necessity to associate the reforms with concrete preparatory steps and, certainly, combined with back-up plans in the case of failure. For this purpose the market needs to be intensively prepared and elaborated since in early stages of the implementation of reforms. It is imperative that the decisionmakers should themselves know in advance the market behavior and sentiments.

Last spring, a joint assessment of the Albanian financial sector conducted from both the International Monetary Fund and World Bank (FSAP) concluded that: the financial sector consists mainly of a regulated and supervised banking system. The Stress-Test indicated that the level of different risk exposure to the banking system is rather low, an argument that supports this conclusion.

The banking system has experienced remarkable developments over 2004. 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, 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. 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 problem credits represent only 4.2 percent, from 4.6 percent in the previous year.

On the other hand, for the rest of the financial sector the FSAP reports indicates many problems, which simultaneously contain many themes including essential issues such as their supervision. Although, due to their small dimensions, these problems do not present imminent risks for the time being, they still should be carefully examined and resolved.

Returning to the assessments made under FSAP in other countries similar to Albania (I mainly refer here to South East European Countries, SEEC) and to many other financial reports referring to this region, we realize that these problems are similar and these countries suffer more or less similar symptoms. If one has a look back at the history, it realizes that it can not happen differently. The regional tradition is poor, of little inheritance in institutions, market rule and behaviour, and financial intermediation. However, today, about 15 years after the big collapse of the communist regime it seems that South East European Countries (SEEC) have been engaged in an irreversible process of their stabilization and integration with the rest of Europe.