

## **Ardian Fullani: Recent banking developments in Albania**

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the ceremony dedicated to the launch of the autumn 2005 issue of the legal journal, Law in transition, online, published by, EBRD, Rogner Hotel, Tirana, 18 October 2005.

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Dear participants,

It is a great pleasure for me to participate in this ceremony dedicated to the launch of the "Autumn 2005" issue of the legal journal "Law in transition, on-line". I believe this publication of the European Bank for Reconstruction and Development shall gather the best experts in the area of law and finance in the country, who shall find in it an alternative source of consultation and expertise, for crucial projects interweaving their professions.

Banks do represent the main institutions of our financial system. The total volume of their activity constitutes around 50 percent of the Gross Domestic Product (GDP) in the country. Currently, 16 banks are operating, the capital of which is owned by private and institutional, domestic and foreign shareholders. Market competition has overwhelmingly strengthened and the service quality provided to the public has significantly improved. The banking network has extended to the most part of the territory and developments in this respect are still robust. The role of the banking system as a developer to the economy is mainly displayed in the increase of crediting to the economy. Its increasing pace, especially in the last 15 months is remarkable. At the end of June 2005, loans constituted around 21 percent of the total assets in the banking system, compared to 14.5 percent at the end of 2004 and 12.5 percent at the end of 2003. Moreover, the deposits volume in the banking system has increased, representing the main source of growth in the banking system activity. Banks also serve as significant employment institutions. Only during 2004 their personnel increased by 26 percent and this figure is expected to be even higher at the end of 2005. The banking system continues to represent a profitable investment sector.

These developments further indicate the vital importance of the banking sector to one's country economy. It is essential that the banking sector activity be supervised cautiously in order to ensure sound and safe banking practices, transparent and clear set of rules, fair competition and stable and sound institutions. It is our duty, as a supervisory authority in the country, and other governmental institutions, as well, which control part of the banking system activity, to care and provide favourable development conditions.

The Bank of Albania is the supervisory authority of the banking system and of some other institutions performing financial activities. The role of the Bank of Albania as a supervisory authority is provided for by the Law No. 8269, dated December 23, 1997. The licensing, organization and functioning approaches of banks, their obligations to the shareholders, the public and the supervisory authority, are broadly stipulated in the Law No. 8365, dated July 07, 1998 "On the Banks in the Republic of Albania". These two laws were approved during '97-'98, shortly after the country's emergence from a crisis with tremendous consequences to the its social and economical life. Accordingly, the established laws aimed at setting up a robust supervisory authority of the banking system, and ensuring the protection of the banking activity from other illegal forms of financial intermediation. Further, other laws of particular significance to the banking system were approved, where I could mention the Law "On Deposit Insurance" (2002), Law "On the Prevention of Money Laundering" (2003) and the Law "On Accounting".

The Law "On the Bank of Albania" and "On Banks in the Republic of Albania" have been followed by a number of regulations and instructions established pursuant to their implementation by the Bank of Albania. These sub-legal acts have aimed at resolving the law principles, mainly in the operational and banking supervision area. In this way, several regulations bearing the same purpose have been established, such as, the Regulation "On the licensing of entities performing banking activities", "On capital adequacy", "On regulatory capital", "On required reserve", "On bank related persons", "On credit risk administration", "On the prevention of money laundering", "On the approval of bank administrators" etc. We believe that the regulative framework on the whole, has so far satisfactorily provided the progress of banking activity and it serves as a solid foundation to upcoming developments.

Let me focus deeper on this issue:

A regulative framework is considered to be good, provided that it does not contain a static concept of the issues it regulates; that is, a regulative framework established not only as an outcome of the instant needs, but bearing the ability to provide the law entities with the necessary principles for a sustainable and controlled activity development even in the foreseeable future. At the same time, the regulative framework needs to be unambiguous and applicable. This could be attained if its requirements also take into considerations the concerns that its subjects might have, through a wide and formal communication and discussion process. The regulative framework, at any area of the economic activity and beyond, must also consider our country's objectives relating to the integration into the European family, since in this way the integration process shall be easier, more natural and quicker. With respect to the banking area, the regulative framework must aim at determining and implementing similar requirements as stipulated in the European Directives or in the publications or various organisms operating under the framework of European institutions, relating to principles and standards in this matter.

The main laws, which have determined the development of the banking activity, for the time when they were established, have performed their function at their best, but we believe it is the proper time when their revision has become necessary. I could mention here the Law "On Banks in the Republic of Albania", the revision of which is under process by the Bank of Albania. Currently, the project is in its final phase of clarity and soon discussion with the banking industry and other significant institutions is about to begin. The prepared project uses the requirements basis of the existing law, but at the same time it provides a few changes which aim at addressing some issues emerging from banking and supervisory practice to date, as well as the best approach to the international standards in the banking area. More concretely, the requirements regarding banks' activity with respect to their capital have been made more precise; banks' activities with the related persons have been reviewed; the managing structures of banks and their obligations have been determined in a clearer way; the requirements concerning the transparency of the banking activity have been re-enforced; requirements regarding the consolidated supervision have been provided; corrective measures and penalties have been clarified; the requirements and definitions concerning the taking of the bank under administration or leading it to liquidation have also become clear; the relationship with the Deposit Insurance Agency has been provided; a specific chapter dedicated to the consumer protection in the banking activity has also been provided, etc. At the same time, some of the essential regulations, mainly those related to the regulative capital and capital adequacy are being assessed in order to introduce in them some elements of new standards defined in the new Accord of the Basel Committee, also known as Basel II. In particular, banks' activities with its related persons have been reassessed in the context of defining the relationships leading to conflict of interest between the bank administrators, employees and shareholders and the function, the duty and the role they have with regard to the bank.

One of the main directions of the banking activity is crediting. Its regulation and supervision approach bears a special significance considering that this activity is being rapidly expanded, both in form and volume. Specific aspects of this activity have been treated separately, one by one, under the framework of a special Regulation of the Bank of Albania. A remaining crucial issue is the execution of the collateral (in particular, the one related to mortgage), in the conditions when the borrower presents problems relating to the credit settlement. With regard to this issue, we think that the proposals deriving from the banking industry concerning suggestions on some amendments in the Civil Procedure Code, aiming at making the complaining procedures and time procedures of the asset auction shorter, the asset dealing during the sequestration, etc, need to be taken into consideration. It is also necessary to begin the work on drafting the Law "On the Auction Procedures", provided for by the Article 573, paragraph 4 of the Civil Procedure Code, as well as make the respective amendments in the Law "On the Registration of Real Estate" and the respective regulative framework. These measures shall have positive effects over the progress of the crediting activity serving as a better support to the economic growth in the country. We aim at having an executing title, which is really executable.

Another law calling for a greater attention from the authorities to assess its applicability is the Law "On the Prevention of Money Laundering". Undoubtedly, the reputation of the banking system, the obstacle of the economic development through the deviation of sources from the legal activities, the obstruction of necessary investments and the fiscal policy sabotage, the criminal activity which violates the human life and freedom, are some of the consequences that the money laundering and the financing of terrorism brings, which very often could be carried out on the grounds of a banking system. But, I have to emphasize that under the conditions of our country where the informal economy is quite considerable and where information technology infrastructure in the data processing and analysis

collected on the purpose of money laundering prevention is insufficient, a new approach needs to be adopted; an approach which would focus the authorities' efforts on combating the phenomenon according to the risk profile of different sectors and certain social groups that are considered as more vulnerable to the phenomenon. For this reason, we think that more attention must be paid to other sectors in the economy, where there is a need for a greater and more coordinated imposition of the law requirements. Moreover, according to the Bank of Albania, and other foreign experts as well who have been working with us, and other specialists from the state institutions being engaged in the field of money laundry prevention, the actual law needs to be revised because it causes premises for significant formalism, especially in the activities related to the reporting of transactions and the identification of doubtful transactions. Being a member of the working group led by the International Monetary Fund experts, the Bank of Albania has contributed to the drafting of a new project of this law.

At the same time, the Bank of Albania is working on the adaptation of a regulative framework related to the financial activity performed by non-bank financial institutions. There is room for further improvement in the expansion and extension of the regulative requirements and the improvement in the existing framework concerning the supervisory practice and their activity report. In this context, the reporting system of these institutions activity has been approved, along with it a regulation on the activity of savings and credit associations and their unions has also been approved. Regarding these latter, the Bank of Albania is working on the establishment of the accounting manual and the inspection manual.

In February-March during this year, our financial system was subject to an assessment process organized by the World Bank and the International Monetary Fund. In the final report, sent to the Albanian Government and the supervisory authorities in the country, several issues were identified which involve the need of changes in the regulative framework. Many of these elements related to the Bank of Albania activity and the entities licensed and supervised by it, are part of the changes in the aforementioned regulative projects.

In conclusion, I would like to stress once again the commitment of the Bank of Albania in granting its greatest contribution to the improvement of the regulative framework, related to both banking and financial system. I believe that in pursuing our objective in approaching our legal and regulative framework in the financial area to the best standards, this journal issue that we are promoting today shall serve at its best. I wish it success!

Thank you!