

Ardian Fullani: Albania's long-term sustainable economic growth

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the meeting with Prime Minister of the Republic of Albania and Albanian Bankers Association, Tirana, 20 March 2006.

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Honoured Mr. Prime Minister,

Honoured bankers,

I believe the purpose of today's meeting has to do with a major problem, that of long-term sustainable economic growth of the country. All actors present in this meeting play a key role in this direction; therefore I think that such meetings are useful, with significant contributions to the country's economic activity.

First of all, I would like to underline that during 2005 the Albanian economy had positive developments in the following directions:

Monetary policy, standing neutral for most of the year, has ensured a constant money supply to the economy, in accordance with the needs for the country's economic development;

Inflationary pressures remained under control, under the conditions of a more steady exchange rate stability;

At year end, monetary conditions reflected extension of the economy financing by lending, while Bank of Albania foreign reserves were further increased;

Banking system increased considerably its financial support to the economy in the form of banking loans. Credit portfolio was increased by 74 percent or ALL 52 billion in absolute value. At end of the year, outstanding credit recorded 14,6 percent of GDP, from 8.4 percent in 2004. Also the short-term program for the country's economic development over 2006 has forecasted a further growth of the outstanding credit to 50 percent, implying further incentives for the country's economic activity. This has made domestic business have more guarantees to invest in the economy, simultaneously inviting foreign investors for more foreign direct investments in Albania.

As the Governor of the Bank of Albania, I must share with you a natural concern that is generally related to credit portfolio quality, particularly when we are faced with such a rapid expansion of the volume of lending. Even though the outstanding credit to the economy is still low, about 15 percent of the GDP, its expansion over 2006 similar to that of the previous year, would increase the potential of banks' s exposure to credit portfolio quality risks.

Therefore, the banking system should undertake all the measures to improve monitoring, analysing, and controlling capacities, aiming at preventing any possible credit portfolio deterioration. On the other hand, we will enhance our supervising capacities, particularly the on-site examinations, by working out plans of measures to prudentially control each member bank of the system. Special attention will be paid to control on specific lending procedures and review of re-rating made and of provisioning performance for non-performing loans. Furthermore, the Bank of Albania has included in its priorities of 2006 the project on creating the credit register, a facility that will help the process of controlling and verifying loan borrowers.

I would like to clarify that the banking system stability is of special priority for us, therefore we remain committed to carry out precisely all the recommendations given by the IMF' s report of Financial Sector Assessment Program (FSAP) over 2005.

I think that the concept of bank is inevitably related with the concept of confidence. For me confidence is transparency, transparency and only transparency. I deem that enhancement of transparency is a primary condition that leads to increased access of the population to your business. This increase implies deposits increase, credit extension, more competition and more effective financial intermediation. Above all, enhancement of transparency means more opportunities and lower costs to your clients.

Think for a moment that the quantity of money circulating and "sleeping" outside banking channels is still high. Turning back to my discussion in the last meeting organised by the World Bank and the

Puglia Region, I would like to emphasize that more than half of remittances enter the country through unofficial channels. According to Balance of Payments statistics of 2005, it speaks about a potential close to Eur 700 - 800 million. I believe this fact does not need any comment. Out of our surveys the causes are different. However, high fees applied by the banks are often brought up as a motive why individuals do not prefer banking service.

On the other hand the increased circulation of money through banking channels requires enhanced prudence for preventing money laundering and terrorism financing. The combat against money laundering is an ongoing challenge that relates to the major problems our country is facing with, such as: cash economy, fiscal evasion, and economy informality. Therefore, at the beginning of the year we undertook a partial examination on 7 banks. It resulted out of the examination that in general banks have the proper structures and policies on fighting against money laundering and terrorism financing. However, we also observed some deficiencies having to do with staff training and better knowledge of legal framework.

Taking into account what I said earlier, I believe that you understand the message I want to transmit to you today, that is not only banking business extension, but also significant contribution to reducing cash and informality in the economy.

Recently we have made some concrete steps in this direction. Therefore, the banking system is more extended geographically and richer in products. Increase of assets, rise in the number of clients, modern infrastructure and other developments have made our contribution to cash reduction in the economy be significant. I believe that the above accomplishments, combined with determined administrative measures, will contribute to the closure of informality gates one by one in the economy. However, I observe unexploited space particularly in terms of:

increasing opportunities for more electronic payments; The last year overturned the ratio in the favour of electronic payments, when their level reached the figure of 320 thousand as compared to the number of 300 thousand of payments effected at the windows. This is an encouraging sign, urging us to better focus on this direction.

channelling periodic settlements for utility services through bank accounts; more concretely AEC, Alb telecom and Water supplying should be related to the banking system so that their services are settled electronically.

compulsory transfer of salaries of private sector's employees through the banking system; The so-far experience with the private sector resulted successful, while even some big private operators are applying this method efficiently. I think that the obligation to transfer salaries through the banking system will significantly decrease the evasion existing on income tax and social insurance contributions.

I personally think that it is just the time to enhance popularity for imposing the creation of a banking culture and education. The obligation of each individual for opening a bank account in addition to an important massive service the state does to the population, is more than necessary. **More concretely, I propose that new cards be associated with a bank account number.**

In conclusion, it is understandable that for being successful in the long run, more focus is needed on all the problems I briefly treated above. **More loans, more prudence in the supervision, more qualified services, more free prices, less cash in the economy, more banking business, will all lead to more access of the population into your business.**

I deem that this is an essential prerogative that ensures sustainable long-term development of the Albanian economy.