

Ardian Fullani: A vision for the future of the Albanian economy and financial system

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the launch of the European Fund for Southeast Europe, Tirana, 6 March 2007.

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Honourable Mr. Prime Minister,
Honourable Mr. Minister of Finance,
Dear Mr. Glaubitt,
Dear friends,

I am honoured to be invited to the occasion of launching the European Fund for Southeast Europe. I regard this new initiative in the Albanian financial system as a highlight development, due to the financial potential and to the signals it brings to our market.

It has become almost inevitable to start each speech with a short description of the latest economic and markets' situation. I invite you to interpret it as an opportunity to understand our vision for the future of the economy and the financial system.

From the general viewpoint, I would briefly highlight that the inflation and inflationary expectations have been kept under control, the economy is growing under stable rates and there is an increasing business confidence. The financial markets are relaxed, well-regulated and lucrative. It is good to evidence that apart from the other contributing factors, the Bank of Albania has played a key role in providing for such an environment with its prudent policies pursued over 2006.

Global factors have increased their interest in the developments of the Albanian economy, with a special focus on the macroeconomic and development policies. The expansion of global markets has exerted pressures on our economy, expected to be increased in the future. The Bank of Albania is paying a special attention to the considerations and signals deriving from these markets and invites the business community to do the same. The entry of foreign players into the market should encourage the domestic business to re-dimension or re-consider its role in the development of the market in general, and of the financial one, in particular.

Over the last years, the Bank of Albania, being supported by the business community, has paid a special interest and attention to the development of the domestic financial system. If I were to ask you: "Have we been successful?" your answer would have been "Certainly, yes." It holds true that we have made significant steps towards a modern banking system and facts do speak for themselves: there are 17 banks, all private-owned; stable growth and profits; great European players; new products and modern approaches; consolidation; sound competition and last, a new contemporary law on the banking system.

In this respect, one might even say that the transition to a modern financial system is approaching its end. However, allow me not to fully agree. Do not forget that what I have been talking about represents a crucial, but solely, segment of the financial system. It is in the interest of the economy, private sector and households, and in our interest as well, as the monetary authority, to push the development of the entire financial system. I think that the financial system we have is not enough to foster our expectations in the context of the economic and financial development of the country.

I would not exclude the banking system from the observation. The high and stable profits have further deepened the concentration of the banking system and investment in a financial market segment. Such a trend might affect financial stability due to an undesired mix of financial and human capital and of managerial abilities in a restricted segment of financial market. Moreover, these risks could be fuelled by reckless competition and market share deriving from the concentration and issues of immoral speculations.

The launching of this scheme, apart from emphasizing the confidence in our development policies, helps to provide the layers for the financial system and to fill in the gaps in the financial markets, stating an indisputable fact that there is room for boosting and strengthening those segments which do not seem to be lucrative. **This is a significant signal for small-sized enterprises having great ambitions.**

These developments should help us to really understand the true potential of the Albanian economy and they must be read by all players as such. Moreover, they must understand that such entries will make the rules of participating in the market clearer. They set the standards for the quantity and quality of both financial and human capital, which make a company an eligible market player. Time requirements impose the necessity for building similar capacities with the new entrants, otherwise the market will not tolerate.

In this context, the Bank of Albania will be cautious to avoid any negative consequences deriving from the timely misinterpretation of current and expected developments. In our belief, all participants in the system should act responsibly and professionally, no matter how small they are. The misinterpretation of this new philosophy would be intolerable, with consequences for the financial stability, since it operates as a whole. These developments impose to us, as a monetary and supervisory authority, the adoption of more contemporary standards. The new players, in addition to sound macroeconomic policies, require the establishment of a market that can accommodate their business in both assets and liabilities.

In response to these challenges, the Bank of Albania aims to formulate and later on, implement a medium-term strategy for the development, licensing and supervision of banking financial institutions. The key objectives of this strategy would be summarized in: **the adoption and application of supervision standards deriving from Basel II Accord; the adoption of more conservative practices related to the principle of selective licensing; the constant promotion to boost the banking system, mainly through mergers and acquisitions; the adoption of both theoretical and practical approaches related to services and products to develop all the financial market segments.** With the latter one, we intend to provide the right incentives for the managers to extend their business in those market segments where they are located, helping in this way to fully develop that particular market segment. I take this opportunity to invite all the existing financial institutions to grow, expand and become active players within the market segments where they operate.

Otherwise, they should seek those market areas where they provide most of their efficiency, considering their financial and human capital and the products they own. The Bank of Albania seeks to use market segmentation as a prerequisite for building market discipline in the financial system:

First, to facilitate the monetary policy, through the perfection of monetary transmission mechanism.

Second, to boost the country's economic and social development.

Therefore, the Bank of Albania sees this new entry as a premise for the development and revitalization of money and capital market. Allow me to explain it more broadly. The available fund in this scheme is considerable. However, the positive stands in the fact that these additional funds will be used to launch new products and services in those market segments which have not had so-far, access to the financial infrastructure.

This is particularly true for small-sized businesses in local communities and rural areas, to which large universal banks are not their perfect partners. **Moreover, the financial market is being enriched with a new instrument, which will be a novel investment alternative for all the economic agents concerned, be they households, organizations or businesses.**

The orientation toward micro and small entrepreneurships reflects a sound and specialized understanding of their financial needs. They represent a key element of economic infrastructure, of employment and income growth, in particular for the sector of agriculture and local communities. Undoubtedly, this new initiative will also provide its positive effects to the social context of these segments.

In this context, the launch of the European Fund for Southeast Europe is a new element, which will serve as a catalyst for a number of new changes and opportunities, in line with the requirements of a modern market, able to support the perspective development of the country. **Its expansion throughout our region will allow the further enhancement of regional co-operation and will facilitate other regional initiatives.**

You are welcome and we assure you that you have our full co-operation in your activity and in developing the market and free initiative of Albanian economic agents. I wish you a lot of success in your work.