

## **Fatos Ibrahimi: Business development opportunities in Albania**

Speech by Mr Fatos Ibrahimi, First Deputy Governor of the Bank of Albania, at the Forum on Business Activity, with Governors and Managing Board of the Black Sea Trade and Development Bank, Tirana, 20 June 2011.

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Distinguished participants,

It is a great pleasure for me to take the floor at this forum organized by the Black Sea Trade and Development Bank, which this time has on focus the promotion of development opportunities in Albania. Allow me say that the time of holding this forum coincides with the need to ensure the economy's revival at home, after weathering the direct impacts of the global economic and financial crisis. The economy's revival needs to become more sustainable, promoting the development of sectors that provide a competitive advantage by developing specific public policies and taking the public-private investment partnership to a new level.

Allow me to dwell in more details on the contribution that the financial system and the banking sector can provide to support valuable business projects.

The development and good financial position of the financial system in general and the banking sector in particular is a prerequisite for carrying out a successful financial intermediation activity. In fact, over the last decade, the banking sector has experienced a rapid development. Well-known European banking groups have entered the market, bringing about knowledge and best technologies, as well as enhancing competition in the interbank market. Also, the banks with Albanian capital have expanded their network and have properly utilized the advantages of better recognition of the domestic market. As a result of active business development policies, the banking sector has experienced a steady growth of deposits and credit expansion. It suffices to say that at end-2004, total loan accounted for only 7% of GDP, while today it accounts for approximately 40%. About two-thirds of loans are extended to the private sector, while the rest to households and individuals. In business sector, loans are extended to the most important and fast-growing sectors, such as trade, other services, transport and construction. Almost all business loans are extended to private sector, though recently an increase in loans for public sector's projects / investments is registered.

On the other hand, the expanded banking network and better use of new technologies have enabled the pursuit of more competitive policies, attracting a high number of depositors and providing valuable services to citizens. Deposits continue to represent the main source of banking sector financing, an element that highlights its stability. Interest rates on loans and deposits have reflected the banks' targets on financial indicators, the monetary policy at home and in the countries of the major currencies, as well as the country risk margin. We deem that over this period, these interest rates have been appropriate for a sustainable development of the banking financial intermediation.

During the last 2–3 years, the country's economy was affected by the global economic and financial crisis. The public authorities at home were committed to supporting the domestic economic development by pursuing stimulus fiscal and monetary policies. In the banking sector, the global financial crisis appeared mainly with the contracted paces of lending to the economy. Throughout this period, the Bank of Albania has aimed at preventing the deepening of the impact of this crisis by conducting an ease monetary policy and supplying the interbank market with necessary liquidity. During 2009 and 2010, the Bank of Albania lowered the key interest rate by 1.25 percentage points, to 5%. Also, during the major part of 2009, the banks benefited unlimited liquidity, at an interest rate equal to the key policy rate. In the meantime, before the impact of the crisis, through special regulatory acts initiated

since 2006, the Bank of Albania has aimed at limiting some risks arising from banking activity, such as rapid and foreign-currency lending, by setting higher capital requirements for more exposed banks. Throughout this period, we have communicated regularly with the public at large, businesses and banking industry, to explain our actions and discuss the challenges posed to economic actors. We believe that as a result of these actions taken by public authorities and the cooperation with the financial industry, the banking sector has successfully withstood the impact of the global financial crises, remaining sustainable and maintaining positive indicators of financial intermediation. Thus, during 2010, the banking sector credit growth, albeit lower than in the pre-crisis period, was considerable, around 9%, while in some Central and South-Eastern European countries, it was negative. The deceleration of credit growth, which was initially driven by supply-side factors, is mostly a phenomenon attributed to the decline in the demand for loans. As a consequence of weaker expectations for activity development, businesses decreased their production capacity utilization, lowering investment objectives and the demand for loans.

In spite of weathering the direct impact of the crisis, important challenges lay ahead of the banking sector and the Bank of Albania. First, the performance of credit quality should be monitored prudentially, aiming to timely identify non-performing loans, assess them correctly according to possibilities of their repayment and pursue proper policies, in order to recover the loan value within an appropriate time. Second, during this phase, it is necessary to strengthen the banks' internal audit systems, not only related to credit risk but also to provide a higher standard of management. Third, banks should assess their expectations about the performance of their activity and take measures to strengthen their capital position in advance, in case of need.

The Bank of Albania deems that in the periods ahead the Albanian banking sector and the economy need to determine and pursue more suitable development policies, which should include: setting realistic development objectives; setting more competitive prices for banking products and services; and increasing lending in the national currency. About overall economy, a more sustainable development should be ensured, relating mainly to better control on trade deficit, supporting the sectors that actually contribute or may contribute to increasing exports in the country. Public authorities should strengthen their commitment to developing the non-bank financial market, which gradually leads to reduction of economic dependence on the banking sector condition and improves access to financing of a higher number of private entities. In this way, a greater opportunity would be provided to the financial system to finance projects in the agricultural sector, which has a high potential for ensuring competitive advantages in the Albanian economy.

Allow me to conclude by emphasizing the Bank of Albania's willingness to contribute, through its policies on monetary and financial stability, to maintaining a better climate of sound development of the financial and banking activity, as a condition for a greater financial support to business development in the country. I think that this forum will make a valuable contribution to setting some concrete development policies and projects, about which, I believe that the Black Sea Trade and Development Bank will offer its own support and expertise.

Wishing success to the proceedings of this forum, I thank you for your attention!