

## **Ardian Fullani: Improving the performance of Albania's banking sector**

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the year-end event with the Albanian Association of Banks, Tirana, 17 December 2013.

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Dear bank executives,

Your Excellency Ambassador Sequi,

Dear Mr. Ilahi,

Dear Mr. Pencabliligil,

It is a pleasure for me to participate in this year-end meeting, as we reflect about the challenges we faced and the objectives we accomplished in this year, and endeavour to identify issues that may arise over the next year. Given the celebrations time and the spirit of this meeting, I would rather not dwell upon all the issues I would have liked to. However, I will share with you my opinion on two issues I consider as important for a good performance of the banking sector over 2014.

Before moving on, we should acknowledge that the year we are leaving behind was a difficult one for the banking sector. In its development cycle for over more than one decade, this year, the banking sector's growth slowed down sharply and annual lending levels contracted.

Deteriorated asset quality, dictated by credit, has led to lower financial profit due to higher provisions needed. These developments have reflected the overall economic slowdown and domestic demand drop resulting from lower private consumption and investments. However, other developments highlighted the banking sector's capacity to properly respond to and cope with these challenges. The banking sector has maintained ample liquidity and capital levels thanks to the further rise in public deposits and added capital by parent banks. In terms of non-performing loans, obvious efforts have been made to restructure credit and sell off non-performing loans to non-bank financial institutions.

The Albanian Association of Banks has played an active role in discussing the problems with relevant authorities and identifying solutions through the regulatory treatment of non-performing loans, notably, the legal amendments to collateral execution process, which entered into force in September 2013.

Through its activity, the banking industry may transform 2014 into a better year for both the banking industry and the Albanian economy. I think that this may be achieved through harder work in the following aspects:

The first aspect pertains to restoring lending to adequate levels in Albania. This objective may be achieved by interlinking these three elements:

- a) Cleaning up balance sheets from non-performing loans. It is indispensable that you should mark evident progress during 2014 to write off loss loans from their balance sheets and engage in cautious credit restructuring, where necessary. The improvement in the fiscal handling of loan write-offs, in the near future, is expected to better support this process; however, this does not justify the sluggish and protracted action. I, therefore, call for your utmost commitment to successfully implement projects initiated with the World Bank in this regard.

Additionally, quantitative objectives for reducing the level of non-performing loans should be included in your institution's annual work plans for 2014;

- b) Evaluating and selecting new loan applications in a professional fashion. Indeed, credit demand remains weak; however, this exists and must be viewed in terms of its potential for growth in the future. In this regard, the banking industry should

strengthen its analysis to steer lending toward those sectors of the economy with high development potentials. Priority should also be given to launching banking products that boost credit demand from small and medium-sized enterprises, mitigating credit risk through portfolio diversification and improving the stable return on bank lending;

c) Reducing lending costs. I refer to the interest rate applied to lek loans. To our opinion, it has inadequately reflected both the key interest rate trend and our expectations. From the decrease in the interest rates applied to government borrowing, we understand that the inert moves in the cost of lending reflect the risk premia the banking industry imposes when lending to the private sector. For 2014, we think that the banking industry should better support the private sector, considering that:

- IMF's agreement with Albania will mitigate government's need for borrowing;
- Public arrears to the private sector are expected to begin to be paid off shortly;
- Worsening financial ratios in the banking industry imposes the gradual return to lending to the private sector, in order to improve the generation of income.

Second, I would like to underline the need for the significant improvement of technical capacity and structures for risk management. In this regard, your decision making should include analytical assessments of the performance of your institutions against various scenarios. This is a requirement stipulated in the existing regulatory framework, which we will monitor with additional caution over the next year. In our view, this element constitutes a bank management quality indicator.

Sparing the details, I would like to emphasize that the Bank of Albania will continue to provide the necessary support for all these processes. We appreciate the professional and direct cooperation with you, as an important element to comply with the requirements of the supervisory and regulatory framework.

Moreover, the IMF's agreement and additional financial support from the World Bank and the European Union will contribute to restoring the country's long-term economic stability, translating the macroeconomic stability into higher economic growth rates. I am confident the banking industry will use this moment to identify the best opportunities to restructure and improve its performance and expand its activity, thus reassuming its role as the engine for the country's economic development.

Thanking you for the invitation, I would like to wish you all good health and a prosperous and successful New Year!

Happy New Year!