

Gent Sejko: Bank - business relationships: lending perspective 2016

Speech by Mr Gent Sejko, Governor of the Bank of Albania, at the discussion forum on "Bank - Business relationships: lending perspective 2016" between representatives of the business community and the banking sector, Tirana, 3 March 2016.

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Dear representatives of business community in Albania,

Dear banking system executives,

Dear participants,

It is a great pleasure to open the discussions in this meeting between representatives of the business community and the banking sector.

I have always believed that the business sector is the engine driving the economy forward. It is the main contributor to employment and, hence, to fulfilling the goal to improve the citizens' welfare. The role of the banking sector in the economy is equally important. Its mission to effectively manage the savings of the population in supporting the economic development is vital to the long-term prosperity of a country.

In the post-crisis period, we are facing a situation we had never imagined before. Many structural ambiguities and weaknesses surfaced along with their aggressiveness. The worsened credit portfolio was one of the most problematic developments, being highly intensive and uniform across all products.

This undesirable development decelerated lending to the economy, contributing negatively to a further increase of non-performing loans (NPLs). The vicious circle continued for a long time, peaking when NPLs shared 25% in total loans.

Notably, this problem is facing not only Albania but also the global economy. Emerging economies, especially the regional economies, experienced strong shocks. Financial systems, currencies, consumption and investments were mostly affected. Many of the business plans, compiled and implemented in the pre-crisis period, failed, driving to the increased insolvency for many large borrowers. This situation existed for 5-7 years, until 2015, the year I would consider as the long-expected turning point.

For the first time, attributable to the coordinated efforts among all institutional stakeholders, we provided the grounds for a considerable reduction of NPLs. I have addressed this issue before. I would rather not repeat myself, but I would like to bring to your attention today an effort, an attempt, an initiative to analyse jointly the causes and the reasons why we are in this situation. Most importantly, we should discuss and reach clear conclusions on ways to boost lending to the economy.

The developments in recent years drive to the conclusion that the relationship or interaction between the two communities represented in this room stands at low historical levels. The most meaningful indicator, in this regard, is the low level of lending. From the frequent contacts with the banking industry and business representatives, I understand that the parties see the problem in the other party. In many cases, banks adopt rather rigid and excluding positions, while many business' representatives do not understand that compliance with contractual obligations is the basis for the success of the market economy. I may bring numerous examples, but I assure you, this is not the goal of this meeting.

Dear participants,

The Albanian economy has entered into an interesting phase and the signs on its recovery are present on daily basis. In the second half of 2015, there is an increasing consensus on the acceleration of economic activity beyond the forecasts at the year start. Based on the

current trends, I deem that the economic growth acceleration will be a distinctive feature during 2016 as well.

The available information leads us to the conclusion that private investments have shown a positive performance. Foreign Direct Investments, easing of financing conditions in the banking system, and improved financial situation of businesses due to the payment of arrears have all contributed positively. The reforms implemented recently have provided the first effects. With time, in addition to the other reforms in the joint agenda with the International Monetary Fund, we will have higher and more stable economic recovery.

Our expectations were reinforced by the recent comments by the IMF's Executive Board of Directors in the approval of the Fifth and Sixth Review under the Extended Arrangement, which enabled the disbursement of the next tranche for EUR 72.4 million, for Albania. The Albanian economy is on a positive development trajectory and domestic demand will continue to gather strength as a result of the further materialisation of reforms, the IMF notes.

The IMF also assesses positively the accommodative monetary policy implemented by the Bank of Albania and constant efforts to reduce the stock of non-performing loans and boost lending.

In addition, the IMF welcomed the structural reforms by Albanian authorities to strengthen public finances through a further fiscal consolidation. The IMF also noted the insofar progress and the need for the steadfast implementation of those measures aimed at improving the business environment and promoting economic growth.

All the above lead to the conclusion that the environment is more attractive and the incentives to boost lending are more significant. I believe that the Bank of Albania has done its duties in this regard. In concrete terms:

First, the strong accommodative monetary policy stance has brought interest rates in financial markets to historic minimum levels. The Bank of Albania deems that these rates will remain below the historical average level, over the next two years. In the light of achieving our inflation target and of economic growth approaching its potential, based on the available information, the Bank of Albania will not reduce the intensity of the monetary stimulus throughout 2016 and the monetary conditions will remain stimulating in the next two years.

Second, the issue of the euro bond led to the reduction of public borrowing in domestic financial markets. This has brought interest rates further down - even beyond signals given by the monetary policy - thus increasing the monetary stimulus in the economy.

Furthermore, the pullback of public sector from domestic borrowing provided for the liquidity "pie" to be made entirely available to the private sector. In accordance with the medium-term budget plan, the Bank of Albania deems that the effect of this factor will be also present over the next two years.

Third, liquidity situation and financial soundness of banking system is rather promising to credit economy. During 2015, the banking system expanded the activity, improved the financial performance, and remained well-capitalised and had ample liquidity. The profit of the banking system amounted to around ALL 15.7 billion. The financial result improved attributable to lower financing costs and lower credit risk provisions. The return on assets and return on equity were further improved. The number of banks making profits increased. Albeit at a slower pace, public deposits expanded in 2015, maintaining their share of around 82%. The measures implemented in the last three years to tackle non-performing loans have started to yield results.

The credit quality improved and the ratio of non-performing loans fell from 25% to 18%, mainly as a result of restructuring and write off of loss loans from banks' balance sheets.

Fourth, the implementation of the plan of measures for reducing non-performing loans will free the banking system from the stress and the nervousness accumulated over time. This

will drive to easing of credit standards and increase of banking credit supply by the banking system.

Fifth, the expectations are more optimistic even in the overall international context, including the approach of supervisory and regulatory institutions, and at the level of large banking groups.

All these reasons have led us to believe that there is a great potential to credit economy. In fact, we believe that lending to the economy in 2016 will grow at higher rates than in the previous year. This is reflected also in the business plans of the banking system for 2016, where particular banks with a considerable share in crediting, have planned ambitious growth compared to 2015. I hope, and I will insist, seeing this objective materialise in the economy.

As I mentioned at the beginning of my address, I would like to invite you to discuss for a new beginning. The conditions are already ripe. The economy is growing, business opportunities are in place, liquidity is ample, and prices are convenient.

I urge the banking system to leave behind a relatively passive approach. One should understand that it is time to turn back to the traditional activity of the commercial bank, that is, crediting to economy. This is the mission of commercial banks in the economy and I invite you to fulfil this goal successfully.

Be no longer hostage of some old practices of failed loans! Draw the right lessons and increase the communication with your head offices! Explain the Albanian reality to them and the opportunities for investment! Convince them that there are a lot of activities with guaranteed return, hence they should be credited.

I would like to let you know that the management chain of the Bank of Albania is not satisfied with the current situation. In the meantime, the many reasons or claims that may have risen cannot justify that apathy or lack of risk appetite for investment. We will be increasing our pressure in this regard. I invite you to swiftly take corrective measures to better credit the economy.

On the other hand, I urge the business community to raise the level of professionalism in drafting and implementing the projects they submit for crediting. The business should pay great attention to the genuine financial and legal assistance, prior, during and after the signing of the contracts. You should adopt a contemporary management philosophy.

The governance of your enterprises should be responsible; meanwhile it is to your benefit to build realistic projects, in terms of size, location and resources. Keep in mind that productivity guarantees high return. Do not neglect the research and invest in qualified human resources!. Although, they appear as simple pieces of advice, allow me to clarify that the underlying reasons for many unsuccessful practices are exactly the elements I mentioned.

I would like to guarantee you that the Bank of Albania will be a reliable, open and serious partner, in compliance with its mandate, implying its supervisory function. We will continue to improve the legal and sublegal framework to reflect the relevant best standards and European directives regarding the micro and macro-prudential supervision.

The Bank of Albania will place fulfilling the commitments deriving from the National Action Plan for Tackling Non-performing Loans at the centre of its efforts. We will firmly cooperate with other public authorities, the World Bank and the International Monetary Fund, or the further reducing the stock of non-performing loans.

As in the past, the stability of the banking system is a top priority. In this regard, the Bank of Albania will continue to contribute also in the framework of the Financial Stability Committee in Albania.

Dear representatives of business community and banking system,

At the end of my speech I would like to emphasise once again that in this room we represent three groups of interest. In order to be successful, we need to help and cooperate with each other.

I would like to appeal once again to you to enhance the mutual understanding and cooperation