

Mr Ardian Fullani: Towards a solid, sound and efficient banking system in Albania

Greeting address by Mr Ardian Fullani, Governor of the Bank of Albania, at the 5th anniversary ceremony of the privatisation of the National Commercial Bank, Tirana, 18 October 2005.

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Ladies and Gentlemen,

Today I am honoured to see in this jubilee meeting how the National Commercial Bank has grown and consolidated and together with it the whole banking system in Albania. I am delighted to consider that after a long restructuring period the banking system is now taking its proper role in the economy, that of the provision of free funds to the growing needs of the Albanian business and consumer, improving at the same time the number and quality of services.

For this reason, I am honoured to have the opportunity of taking the floor in this meeting, to address and discuss jointly with you some present and future issues, which, I estimate, are important for the further enhancement of the banking system contribution to the country's economic development.

Allow me to start discussing first about the work we are doing as Bank of Albania to create a favourable climate for the business and economy development.

Monetary policy followed during the recent years in succession has targeted to further reduce money price in order to give aspiration to the economy, while we have been successful in keeping inflation under control. As a consequence, I deem that we have created essential incentives towards establishing a sustained business climate where business decisions and plans are not exposed to risks arising from the uncertainty of inflationary erosion.

Since almost a decade, Bank of Albania has been engaged in using all the capabilities to set up a modern payment infrastructure, in order to bring the banking system closer to the clients, making it open in relations with them. Thus, after implementing the Real Time Gross Settlements (RTGS) and Automated Electronic Clearing House (AECH) systems, we have already mobilised all our efforts to create the credit register. Currently, after the implementation of AECH system, we have provided one more opportunity not only to the banking system but also to periodic service businesses, so as to enhance its economic efficiency. On this occasion, we appeal to both parties, banks and businesses, to cooperate with each other for making more effectively use of the priorities provided by this new system.

Bank of Albania deems that a banking system supports the economic growth when it is first of all a financially sound system. The emerging economies, like our economy, are generally characterized by a fragile stability. For this reason, Bank of Albania has attempted to take all-encompassing measures aiming at strengthening its supervisory capacities, in order to ensure a solid, sound and efficient banking system.

The banking system performance:

During 2005 impressive developments have been highlighted. The up-to-now data indicate that credit to the economy has increased by about 3-4 percentage points of GDP, giving clear signals for a promissory excitement of the economy financing in the future. Till August 2005, compared to last year's end, the system assets increased further by 14.5 per cent, while there was augmentation of banking products as well as extension of their network. Compared to yearend of 2004, the banking system has attained an increasing profit level, at ALL 4.65 per cent. Return on equity (ROE) has resulted 24.8 per cent, while credit quality expressed as a ratio between (net) bad credit and total credit portfolio is only 2.39 per cent, from 4.2 per cent it was at the end of 2004. However, there is no room to be excited by figure euphoria, because credits are still new and their quality will have to carefully be examined.

Another significant development of the banking system relates to the client's service, which through the electronic terminals is being obviously accompanied by the increased number of electronic cards in circulation. Banks already provide debit and credit cards in cooperation with international companies such as Visa Card, MasterCard and Diners Club. Six banks provide the ATM service and ATMs

reached the number of 180 by the end of August 2005, while points of sale reached the number of 391.

Of course, an important aspect remains also the further expansion and consolidation of the banking system. The geographical extension of territory coverage by the banking business, the strengthening of competitiveness, the introduction of new products without mentioning other recent developments, constitute an additional argument in the vital role the banking system has and will have to play in the future. The country's map covering the banking business expanded further, including new regions ever covered before. At the end of August, the total number of branches reached 109 or 21 branches more than the end of the previous year.

I seize the opportunity of this event to express that positive assessments about the banking system have been given also in the report prepared by both the World Bank and International Monetary Fund, after conclusion of the assessment they formulated on the financial system in Albania (FSAP). Of course, this is good news. The conclusions of FSAP, of this important international passport, are an indication of our earlier conclusions that the Albanian financial system is characterized by a supervised and effective banking system and by the other segments that are still in the initial development stages where the core issue remains their regulation and supervision.

Despite the positive developments there is still much to do. The degree of financial intermediation continues to be relatively low (about 11 per cent of GDP). Some economy sectors, like agriculture, still continue to be less or not at all credited. The contribution of bank crediting to the production investments is still low and furthermore, considering the high share the credit takes in supporting trade activity, we can come out with the conclusion that the major part of credit is going for the financing of imports. Likewise, the degree of using the banking system is not within the required parameters of the time and, furthermore, the degree of cash use continues to be high.

In addition, the financial markets continue to remain superficial and subject of speculations. The restricted alternatives of investing free funds are indeed a reason to this situation. The financing of budget deficit continues to be still as the best alternative. However, the banking system should think seriously of enriching the market with other instruments rather than of using at maximum this riskless investment.

To be more concrete, I will highlight further on some directions, which, I think, in the medium-term perspective are of priority to further stimulate and activate the bank credit in the economy, as the main instrument through which the banking system promotes the economic development of a market economy.

Beginning with the Bank of Albania contribution, it relates first to the duty of meeting the legal obligations to achieve the overall macroeconomic stability with a special emphasis on inflation control. We remain determined in our position that inflation under control is a valuable contribution to achieve the objectives of the country's economic growth, the enhancement of employment and of the living standard in general.

On the other side, Bank of Albania will encourage and support without any hesitation the further development and consolidation of the banking system in particular, and of the financial sector in general. We are deeply committed to undertake the necessary steps to implement all the recommendations given by FSAP. For this purpose, we are ready to offer all our human capacities to contribute in this direction. I use this opportunity to appeal on taking immediate actions towards redesigning the licensing and supervisory process of the other parts of the financial sector.

Bank of Albania will continue to pursue a prudential policy in performing its function as a licensing authority of financial entities that are involved in the crediting activities. In the spirit of what I have stated above, I use the opportunity to express our commitment to involve in our supervisory structure all those credit companies or institutions, which one way or another mobilise the population's funds or manage public funds in the crediting process.

Assessing the information issue as a critical element in facilitating the lending activity, I would like to point out that Bank of Albania has already included the project of establishing the credit register in its immediate plans and we are strongly committed to implement it as soon as possible. This register shall be under administration of Bank of Albania and the participation of other member banks of the system will be compulsory. Only in this way, the information evasion can be minimized as well as its integrity can be ensured, and it would be simultaneously available for each of member banks of the system.

Being aware that credit issue is complex and connected with many obstacles arising from inaccuracy and misadministration of the mortgage system, from deficiencies in the civil procedure for mortgage execution, which make the operation of Executor Office difficult in administering correctly these procedures, we will undertake initiatives aiming at enhancing the effectiveness of mortgage system, as a guaranteeing and selective instrument of great importance.

The banking system has a primary role in creating a warm climate in the relationships between business and bank.

Above all, I would like to request that the banking system be more transparent and open to the public. Transparency is one of the most important factors, which strengthens the relations between client and bank and, furthermore, it gives a wider meaning to the reciprocity concept in the bilateral relations bank-depositor and bank-business. I think that most of the common people still manifest a certain hesitation to refer to banks. One cause might be also the lack of detailed information. Banks should be more active, not only for advertising new products and services, but also for explaining more correctly the prices/costs they hold and the necessary requirements that are to be met for their benefit. There are not a few cases when clients are not well informed on the interest rate they have to pay for their loans or on the criteria applied by the banks to benefit credit. Communication from depositors is neither the best. While small changes of deposit interests may be justified by the changes of market conditions, changes somewhat stronger need to be accompanied by full relevant information and explanations. The strengthening of this transparency should be accomplished not only in the name of ethics but also in the name of the increase of market competition.

The system can play a greater role in reducing cash in the economy, by increasing and improving further the level of services. The positive recent developments have given their effects in reducing cash quantity in the economy. On the other hand, we have conducted an intense public activity, of informative and promotional character, where meetings of another nature have frequently been held and in which we were concretely involved as a banking system. Allow me just to remind you the open meetings we have already organised with the business of utility services and with that of Treasury bills primary market. I hope that now, after finalising the Automated Electronic Clearing House project, each bank should think seriously of increasing the benefit degree from this new facility offered by the Bank of Albania. After the implementation of this project, I estimate that we should think more seriously of increasing the number and the quality of electronic payments. For this purpose, I would appeal to start thinking from this moment on of future projects in the payment infrastructure. I personally will insist that even in this direction we should focus as a banking system on the European Union directives, so that to orient every step in the future towards the country's integration in the European Union. Short time ago I was informed about a new initiative of EU, which requires establishing within a certain period of time, a unified payment system within the euro area, including payments with cards. For this purpose, I would suggest that respective specialists from the Association and Bank of Albania be informed as soon as possible about this project and they should come out with their relevant suggestions. Also, I remain persistent in my position that we have to adopt in Albania the most advanced solutions for all the infrastructure projects we are going to implement. I believe that we don't need to examine and consider old-fashioned models, which besides the initial cost would require all the time new funds for their maintenance and modification.

In addition, now when the public administration became a client of the system, I think that there are real opportunities to solve the payments of utility services through the banking system.

Returning to the financial markets, I think that in spite of the above-mentioned restrictions there is room for improving competitiveness among banks even under the current conditions. I would like to draw your attention on the following topics:

- **The system should be more active and keep its public promises to put its windows at the service of selling Treasury bills directly to the interested public.** We as Bank of Albania have kept our promises, applying a commission, which is supposed to cover the transaction cost, while this measure will be accompanied by the inhibition of cash receipts at the Bank of Albania windows. Also, banks should invest in modern technology to enable the reallocation of funds of their customers in various investment alternatives, by electronic means and not as it happens more frequently today that individuals still move carrying cash bags.
- **Banks should be more active in the T-bills secondary market.** We should clearly inform the public that whoever is interested can discount his/her bills at any time like each individual

who has put little money aside can refer to the banking system not only to deposit but also to purchase Treasury bills.

- **The interbank market can and must improve.** Nowadays, commercial banks exchange a big quantity of liquidity with the central bank. But, even exchange of this liquidity among commercial banks must be intensified. This would ensure more financing and investing opportunities for individuals and companies, including banks.
- **Banks should give more attention to foreign exchange and Treasury bills markets, to further deepen and expand them.** Thus, besides the introduction of new financial instruments, it would be also necessary to activate the utilisation of the existing instruments. These improvements would be for the benefit of the economy in general, that is for the benefit of individuals, companies and banks themselves, but also of the central bank and government. Thus, individuals will have more opportunities to invest their savings, companies would have to make better use of new business activities, banks would have to gain higher benefits and the central bank with government would become more efficient in implementing their policies.

Allow me now to concentrate myself a little bit on the honoured businessmen guests, who, in spite of the modest financial support offered in the beginning of transition period, have showed a really impressive performance. In my position as Governor of one of the most important institutions in the decision-making of economic policies, I would like to present you, using the opportunity of this event, some suggestions that I sincerely hope you will welcome and well-understand. First of all, I would require more professional performance in the relations between businesses and banks. Without exaggerating, I would say that we are still far away from the best practices and standards, and as a consequence all the economic, political, financial, social segments still leave to be desired. The relations to be established between you and banks should be reciprocal, open and legal cooperative relations. More concretely, business should understand that bank is an integral part of its activity, if it is willing to be successful for a long-term period.

Finally, I would encourage more institutionalised links of the banking system with various business organisations. Maybe it is time that Association of banks establishes regular contacts with business representations, contacts that would certainly upgrade the relations between business and bank to a higher level.

Also, I use the opportunity to renew the Bank of Albania commitment to participate in this initiative by offering its expertise in projects, round tables, forums, debates, etc., which will aim at improving the business climate as well as increasing and channelling more efficiently the bank credit.

Thank you.