

Ardian Fullani: Financial stability in Albania

Address by Mr Ardian Fullani, Governor of the Bank of Albania, at the Workshop "Catching-up in South-Eastern Europe: The Role of the Financial Sector", Tirana, 3 May 2007.

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Honourable participants!

Today's workshop on "Catching-up in South-eastern Europe: The Role of the Financial Sector" is of special importance, because it is aimed at providing a panorama of the financial sector development trends in the countries of the region. Actually this seminar follows the VI Annual Conference of the Bank of Albania, held in October of the past year, which focussed on financial stability issues from the viewpoint of regional financial sector.

We have the pleasure to have today the presence of Mr. Max Watson, an Economic Adviser to the Director General on Economic and Financial issues at the European Commission. He will hold a presentation about economic developments and financial systems of our region. Taking advantage of the opportunity of Mr. Watson's presence in this workshop, I would like to inform you that the Bank of Albania has established a constant communication with the European Commission, as concerns to the country's economic and financial developments through its participation in some periodic meetings taking place annually between the Republic of Albania and the European Union.

The organisational, legal, operational approximation with the European System of Central Banks, stated also in the Bank of Albania's Mid-term Development Strategy, remains one of its main strategic targets. In view of this, the Bank of Albania has paid special attention to establishing specific structures and creating human resources capable of being faced with various approximation phases and eventual membership to the European System of Central Banks. Also, approximation of laws and by-laws with the Acquis legislation remains of special importance. The Law "On the Banking System in the Republic of Albania", passed by the Parliament on December, provides a good example in this regard.

Simultaneously, the Bank of Albania has actively contributed to the maintaining of the country's macroeconomic stability, by keeping low and steady inflation rates and by supervising the banking system prudentially. It is aware of its role as a promoter of the country's economic development, a process that will naturally facilitate our integration into the European Union.

Over the previous year our economy was characterised mainly by rapid credit growth. The loans portfolio reached lek 191.2 billion, or 21.3 percent of GDP at end of 2006. In absolute terms, credit to the economy grew by lek 69.3 billion, compared to the growth by lek 52 billion over the previous year. In 2006 the annual credit growth was 56.7 percent, providing good support for economic needs. The relatively high pace of banking system lending to the economy has also continued over the first quarter of the current year, drawing our attention, as the regulatory authority of the banking activity, to the need to monitor any risks this expansion may comprise.

More concretely, this growth has led to decrease of capital adequacy rate and liquidity; however, banks have continued to be well-capitalised, liquid and profitable. Quarterly stress-tests carried out by us have indicated that the country's banking system is flexible against any probable shocks relating to exchange rate, interest rates or credit quality.

The Bank of Albania has continued to prudentially monitor the rapid credit growth, enhancing its banking supervision. In this framework, the establishment of the Credit Registry, expected to be carried out within December 2007 is of special importance. Currently, we are working for completing the legal framework that will enable the Registry establishment and functioning. At the same time, the decision is already made on selecting the company that will provide technical solutions to the Registry.

We are confident that all these measures will contribute to the maintaining of credit quality and the financial stability of our country.

Wishing you a fruitful workshop, I give the floor to Mr. Watson.

Thank you!