

Ardian Fullani: Risks for Albania's financial stability

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the joint press conference with the IMF Mission Chief for Albania, Mr Gerwin Bell and the Minister of Finance, Mr. Ridvan Bode, Tirana, 7 April 2009.

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The Bank of Albania's Supervisory Council has pronounced directly and transparently on risks our country's financial stability will be faced with over the current year. In its latest statement on "Financial Stability over the second semester of 2008", and meeting the obligations deriving from the Law "On the Bank of Albania", an explicit rating of risks has been made, which I would like, availing myself of this opportunity, to once more point out to the public:

- First, the economic growth rate slowdown over 2009 makes difficult the achievement of fiscal policy indicators in line with 2008 year-end forecasts. External trade developments will impact on reduced collection of budget revenues, while the tightening of financial conditions in the economy negatively affects the banking sector's ability to finance the budget deficit. Therefore, in order to achieve the target on budget deficit level, reallocation of public expenditures according to importance, at the needed quantity and throughout the financial year is necessary. In practical terms this means that whenever possible, all the efforts should be made to maintain sources of revenues, to find alternative financing sources, to cancel non-urgent expenditures, to re-define projected expenditures for this year, which are not yet contracted or effected.
- Secondly, external sector's performance in the economy, mainly in the form of export slowdown, reduced remittances and increased imports, affected the foreign exchange market equilibrium, exercising pressure on the national currency's exchange rate at the beginning of the current year. The flexible exchange rate is a correcting instrument, which automatically helps preventing external sector misbalances in the economy. However, over a shorter run, fast and uncontrolled exchange rate fluctuations negatively affect the psychology the public, thus concealing speculative operations of different subjects. Hence, there are created premises for contagion, with negative effects on operators' confidence in the national currency and in the capability of foreign currency borrowers to timely repay their debts. Expected reduction of economic growth rate for 2009 will reflect the reduced domestic demand and therefore, it is likely to be associated with a drop of its share in terms of foreign commodities. As a result, the overall trade volume may decline, effecting a necessary correction of current account deficit of the country's economy and putting foreign currency supply/demand factors in a more stable balance.
- Thirdly, it is necessary to recover stable paces of public deposit growth in the banking sector. Only in this way, the coverage of an increasing clientele with banking products and at more beneficial costs will be enabled. I repeat, the banking sector's position concerning liquidity indicators and business capitalization is good and its constant surveillance is a priority of the Bank of Albania. We are confident that the last decision of the People's Assembly of Albania, which adopted an increase of the whole value of deposit insurance to ALL 2.5 million, will impact on a faster return of withdrawn deposits to the banking system. The current level of deposit insurance, likewise that of the European countries, fully and forever guarantees the savings of the major part of Albanian households. At present there are no objective reasons for the people to be concerned about the insurance of their savings held at banks. Every reluctance on putting savings at banks would unnecessarily increase the value of the missing income, due to non-benefiting of interests and other banking services. I

underline that the Albanian banking sector is the best place, where our households should place their savings, thus increasing their values.

- Fourth, returning of deposits to the system is necessary also for enabling a better financial performance of the banking sector, in terms of financial soundness. During the current year, the banking activity is expected to be less profitable, as a result of reduced lending and increased costs, in order to add deposits and provisioning for covering bad loans. It is important that the Albanian banking sector, after some years of a satisfactory profit, has mostly utilized it for firming up the banking sector's capital. Moreover, through a specific regulatory act, the Bank of Albania has requested from the banking sector not to allocate the 2008 profit, in the form of dividend. In this way, banking activity capitalization is further strengthened, providing more guarantees for the financial soundness of the banking sector. Recently the Bank of Albania has been carrying out consecutive tests, to find out how the banking sector would react, if faced with ever more pessimistic circumstances. Analyses obtained from numerous stress-tests made on the whole system and on individual banks reveal that neither the banking system in general, nor any bank of systemic importance in particular have been affected relative to liquidity and capitalization level. In spite of the expansion of risks spectrum and a more difficult year for extension of the banking activity, the financial system and the banking sector will remain stable.