

Ardian Fullani: A summary analysis of domestic economic developments and the banking sector situation

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the regional meeting, Shkodra, 20 January 2011.

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Ladies and Gentlemen,

The Bank of Albania considers its communication with the public a key element to an effective communication of its decision-making. To serve this purpose, it makes use of all forms and types of communication. However, direct contact with the people provides us with a real perception and interpretation of their position and expectations and supports a more effective decision-making process. Therefore, I am pleased to be again in your city, the centre of a region of well-known intellectual, cultural and patriotic heritage, which also gives a significant contribution to the country's gross economic product.

I would like, to start this direct communication with you with a summary analysis of domestic economic developments and, after that, dwell in more details on a number of concrete issues that affect the strength of relations between families and businesses on one side, and the financial system and banking sector on the other. During 2010, the Albanian economy is expected to have recorded a satisfactory growth. For the third quarter, annual economic growth is estimated at 4.9 per cent.

The economic growth rate has been stable for the last two years, thus proving a good level of resistance to the effects of the international economic crisis. Other macroeconomic indicators have ranged within acceptable and expected levels. It is worth mentioning that this macroeconomic stability is a reflection of the successful combination of key economic policies, that is to say, monetary and fiscal policies, during last year.

More specifically, the fiscal policy aimed and succeeded to realise the necessary consolidation process following a fiscal expansion that accompanied economic developments in 2009. Fiscal consolidation was accomplished through better control over public expenditures and collection of revenues close to foreseen levels.

The exchange rate for the national currency, regardless of its underpricing in 2009, less so in 2010, has been much more stable than currencies of other countries in South Eastern Europe, which apply a free flexible exchange rate policy. A gradual under-pricing of the Albanian Lek is deemed to have had a positive affect on the reduction of trade and current account deficits through establishing a more favourable dynamic for our economy's exports and imports.

Eventually, it is fully proven that the adoption of a flexible exchange rate regime has been one of the most outstanding choices of economic and financial policies over the past two decades.

Annual increase of consumption prices has been almost all the time within the parameters established by the Bank of Albania, namely 2–4 per cent. Under moderate inflationary pressures, the Bank of Albania has followed a facilitating monetary policy, injecting liquidity into the inter-bank market and lowering the key interest rate to the level of 5 per cent. For 2011, macroeconomic indicators are expected to follow a trend similar to that of 2010. The Bank of Albania holds that last year's successful harmonisation of the monetary policy with the fiscal policy should continue even further in 2011. Fiscal and monetary policies should aim at the stability of these indicators, in addition to supporting economic growth. The influence of supply and demand factors over the exchange rate or the national currency is expected to be balanced. Inflationary pressures are expected to be moderate this year, although prices of imported goods are an apparent risk.

The Bank of Albania will maintain its monetary policy flexibility to prevent any undesired inflation development.

Honourable participants,

Next, I would like to dwell in more details on the banking sector situation and some issues that the Bank of Albania considers pivotal to the role of this sector in financial mediation and public relations, with a mutual benefit. In recent years, the banking sector, a driving force in the financial sector, has been a powerful supporter of the country's economic growth through an active role in financial mediation. Certainly, banking activities involve risks, but the international financial crisis of the last three years proved that the banking sector in our country was stable and did not need public assistance to overcome the situation. Last year, the financial situation of the banking sector is assessed, generally, better than that of the preceding year. Regardless of the growing value of problematic loans, the banking sector marked a financial performance many times higher than that of 2009.

Liquidity situation is clearly improved with a stable growth in deposits. For that reason, the need of the banking sector for liquidity by the Bank of Albania is substantially reduced.

The banking sector is well-capitalised thanks to cautiousness in expanding activities and increase of capital by shareholders. In spite of this good progress of the banking sector, rapid improvement is needed in some areas on which the Bank of Albania has focused its supervisory activity.

First area relates to the need for crediting expansion and loan quality improvement. Both elements may support each-other, if careful actions are taken.

Crediting expansion will be better supported during 2011, due to two important developments namely, a substantial improvement of the liquidity situation and a falling tendency of interest rates for bank loans in Lek. The first signs of a more positive trend were noticed during the last two months of 2010, with the annual crediting pace significantly accelerated.

On the other hand, loan quality remains problematic, although a gradual improvement is expected during the current year.

I take this opportunity to reiterate our call on banks to be more active in handling problematic loans and their collection. Concerning loans considered not to have any hope of collection, in conformity with the legal and regulatory framework, banks need to take actions for the execution of collateral.

In this process, there is a need for further legal improvements in order to reduce the risk of banks in crediting as well as costs for the client. This process is indispensable to clean bank balances from investments that are burdensome and release funds that would be used for new credits.

In this context, monitoring of loan quality and behaviour or difficulties that banks face in this process lays at the very centre of the supervisory activity.

Second area concerns the cost of banking services for clients. On this issue, the Bank of Albania has conducted necessary analysis, which led to the conclusion that costs for a number of bank products and services, including payments and transfers, debit and credit cards, as well as some other forms of crediting, could be lower.

In relation to this issue, we are focused on two aspects:

First, promoting transparency in the banking sector on its relations with the clients regarding these services. For this issue, we have implemented requirements for the establishment of methodologies to determine effective crediting costs and clearly define contractual obligations vis-à-vis the clients. Banks are asked to provide all the information and explanations to the interested clients. In addition, following the same logic, we would ask from banks to establish methodologies to define their costs for bank services, mainly related to payments and transfers.

Therefore, it will be easier for clients to compare between a variety of offers by banking institutions and, hence, be able to make their choice according to the most favourable alternative.

For this to happen in the best possible way, customers themselves need to pay due attention and obtain accurate information on bank products and services. When necessary in this process, more specialised external expertise may be requested.

Secondly, Bank of Albania aims to offer a concrete incentive in this process for commercial banks, by further reducing their costs for the use of AIPS and AECH, payment systems during their transactions in Lek, on their own or their clients' behalf.

We believe that through a more competitive policy in products pricing by the banking sector clients get more benefits and we may see an increase in their number and, subsequently, generate an increase in the revenues of the banking sector.

Third area, in which we are focused relates to the requirements to increase accountability in banking institutions management, asking repeatedly that professionalism, dedication and accountability be transformed into a work culture for all banking institutions staff.

For that matter, we are continuously reviewing the processes through which the banks realise their decision-making, ensure control of certain activities and reporting chain within their institutions, as well as their interaction with the public.

Internal control systems define, mostly, the capacity of an institution to operate securely. These are necessary to avoid any gap that may be abused to the disadvantage of the institution.

Hence, in its regular communication with banks, the Bank of Albania has requested that they undertake all necessary measures; in terms of money, human resources and technology; to guarantee the security of any banking [trans] action.

Concluding, I would like to underline that the Bank of Albania shall always be at the position the public expects it to be, in order to satisfy, at any given time, its legal responsibilities for price level and banking sector stability. In this process, state authorities, in particular the judiciary, would be needed to offer their indispensable cooperation and consider banking system issues a high priority, with the knowledge that a stable economic development of the country depends on it. The Bank of Albania calls on all relevant factors to accelerate their structural reforms on property title and execution of collateral as well as undertake a number of other administrative and bureaucratic regulations which affect banking system costs.

Inviting you to openly discuss on these issues, I thank you for your attention!