

Ardian Fullani: Recent developments in the Albanian banking system

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at a meeting organised by Raiffeisen Bank with business representatives and its major clients, Tirana, 14 June 2011.

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Dear Minister of Finances,
Dear Mr. Lennkh and Mr. Hodell,
Dear Mr. Canacaris,
Dear Ladies and Gentlemen,

Today's meeting organised by the Raiffeisen Bank with the business community is very significant. Firstly, it shows a well-defined strategy of the Raiffeisen group to increase its market share in Albania through dialogue with business partners. Secondly, such forums serve also as a platform to generate development ideas and projects of national, and why not, regional importance. Thirdly, I think that today's meeting is indicative of the maturity and rising awareness of the banking system and the business community. Personally, I would wish that such meetings be intensified in the future: they should also be more structured, oriented towards a constructive debate, and involve the entire system and all sectors of the economy. In short, banks and businesses need to sit together for the best.

Dear Ladies and Gentlemen,

We are in mid-2011 now, which is a complex year in terms of its challenges for objective reasons owing to the international financial dynamics of the past 3–4 years. Whilst our economy has posted positive growth, it continues to operate below its potential.

The international setting is filled with uncertainty for a group of advanced economies, while agricultural products and raw materials prices remain high. Despite last year's narrowing current deficit, Albania's external position remains a constant structural weakness.

The Albanian banking system is considered to have adapted commendably to this complex situation. I would like to underline that we have done an immense amount of work so far. Therefore, I take this opportunity to congratulate all central and local managing units of banks operating in Albania. During this period, the Albanian banking system has continued to expand its activity and lending to the economy. Financial soundness and profitability indicators have improved and system's activity capitalization is in a good position. The banking sector remains the main actor of financial intermediation in Albania, whose financing continues to rely mainly on public deposits.

The main problem of the banking system has been the growing non-performing loans share, which has also reflected the active policy of the Bank of Albania to enhance the transparency of banks' balance sheets. Credit risk remains the primary risk to our banking sector. In response, the banking sector has established adequate reserve funds to buffer major shocks on the borrowers repayment capacity and market equilibrium. Stress tests support our conclusion on banking system resilience.

The presence in this room of both the business community and the banking system suggests me to refer once again to the need for sincere cooperation of mutual benefit. With a few exceptions, I think this cooperation has been present and operational and has certainly supported in particular the country's economic activity over the past years. The global financial crisis that erupted in late 2008 had its influence on our economy by stiffening this cooperation. On the one hand, the system found itself in a difficult liquidity situation, while on the other hand businesses found it difficult to access markets. With some additional subjective reasons, the outcome of this was a deterioration of the system's loan portfolio and companies' liquidating capacity. Consequently, 2009–2010 marked a slowdown of lending growth to the economy, reflecting the increased prudence, fully justified by the system, and

business inability to earn a meritable new loan. The period coincided with a review of balances and portfolio restructuring, when possible with provisions, directly affecting the system's financial performance.

The Bank of Albania has played a major role as a guardian of the country's macroeconomic and financial stability. Macroevidence has been the prevalent word in our communication with the market, authorities and the public. We have translated macroevidence as a need for more capital and liquidity, and increased banking system payment capacity. Consequently, the Albanian banking sector did not experience contracting. The Bank of Albania has provided and continues to provide the necessary liquidity to the banking system, to stimulate not only to the market but also to the entire economy. Prudent policies and timely legal regulations guaranteed effective banking supervision and enabled satisfactory businesses' access to bank loans. Actually, I would like to point out that the Albanian banking system left the crisis in healthy condition and that it guarantees growing stability.

Our banking system, during this period, has carried out a considerable amount of work, which has served to consolidate each bank's position prior, during and after the crisis. Hence, the banks are now able to use again their full lending potential. For the truth's sake, it must be underlined that the latest figures speak of growth in the order of 10 per cent in annual terms, a figure which should not go unnoticed or be considered as inadequate. I would suggest the same philosophy to the business community. For objective reasons, the concept of free money belongs to the past. By that I mean that a bank loan should be earned, which means unconditional and honest cooperation within the legal and regulatory framework approved by the country's authorities. Of course, banks are established to lend money, but first and foremost we need to bear in mind that the public deposits' stability is more important than an individual business loan or bank portfolio. Moreover, the business community needs to recalibrate its position in relation to recent developments both in the national and global economy context. It must aim a higher productivity, primarily through identifying comparative advantages in the framework of global changes.

In that regard, it is necessary to adopt new business administration philosophies on **capacity building and investment in human resources, governance, internal control, financial and legal expertise, and risk management**. Besides a legal relation, the bank-client relation is a human relation, one of trust. When a business delays the payment of a bank loan instalment, it should consider its judgement on the bank if the bank delayed the payment of the matured interest to that business.

Dear ladies and gentlemen,

On behalf of the Bank of Albania, I would like to invite the communities present in this event to strengthen their communication bridges, which is of benefit not only to them but also to the economy in general.