

Ardian Fullani: Overview of Albania's banking sector

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the end-year reception, organized by the Albanian Association of Banks, Tirana, 23 December 2011.

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Dear bank executives,

Dear participants,

This end-year event with the Albanian Association of Banks, turned into a tradition of communication between the banking sector and the Bank of Albania, provides an excellent opportunity to make a short resume of the results achieved by this sector in this year as well as to identify its challenges in the upcoming year.

The banking sector managed to finish off 2011 successfully. Its role in supporting Albania's economic activity was crucial, while prudence was made to guarantee its financial soundness.

In this regard, the supervisory role of the Bank of Albania has provided an extraordinary contribution. Banking supervision has been proactive and preventive by creating, at the same time, the necessary space for flexible banking activity management. Amendments to the law "On banks in the Republic of Albania", a number of amendments to the banking regulatory framework as well as the physical interaction through on-site inspections have contributed to enhanced immunity and dampened negative effects generated by the global crisis. The Bank of Albania has periodically conducted stress tests on specific banks to ensure that the banking sector's security and functionality is never put in doubt. Currently, we are working for this project to be transformed into regional cooperation taking into account that same banking groups operate across the entire region.

According to banks reporting at end-September 2011, banking sector total assets expanded 9.5% from year start and about 13% from the corresponding period of a year earlier. The banking sector credit portfolio widened 9.6% during the year or about 15% year-on-year, constituting 49.1% of total assets. During the year, Lek-denominated loans increased more rapidly than foreign currency-denominated loans. The activity increase was sustained mainly by deposits increases, which constitute 81.4% of total liabilities. During the year, they were up 9.7% or 14.1% higher than the corresponding period of 2010. Liquidity ratios are stable and are expected to consolidate following recent regulatory requirements introduced by the Bank of Albania. As at September 2011, banking activity made a profit of ALL 1.3 billion and return on assets and capital was 0.2% and 1.9%, respectively. Capital adequacy ratio was 15.1%, better than at the end of H1 2011. This was due to capital increase by some banks, following the Bank of Albania's requirement.

These developments confirm stable public confidence in the Albanian banking sector and the significant contribution of the banking sector to fund the Albanian economy in this year. These may be considered as precious achievements while the Albanian economy and its economic agents faced with more challenges in 2011. Loan portfolio worsening and credit risk management requirements were matched by higher provisions by banks, which in turn contributed to worsened financial result. In response, banks managed to optimise their operational costs and improve their capital ratios. In this regard, the Bank of Albania has emphasised the accurate identification of the credit portfolio situation, asking the banks to take firm action and recover their non-performing loans value.

This may be realised through support to qualitative borrowers in temporary difficult situations as well as through execution of collateral in the case of hopeless borrowers. Execution of collateral and the need to improve the relevant legal and operational framework are considered as a priority by the Bank of Albania. Following recommendations from an earlier

forum organised on this topic, the Bank of Albania is fully committed so that other public authorities address the issue with priority.

Furthermore, in cooperation with the banking sector, the Bank of Albania has identified and undertaken a number of other supervisory and regulatory actions, aiming at improving operational capitalisation situation and minimum liquidity requirement both in the national and foreign currencies.

Next, some amendments to the Law “On banks in the Republic of Albania” were drafted and approved, which, in essence, complete and improve banking activity supervisory framework. These actions were pivotal for addressing an added risk perception due to international and regional financial developments. I take this opportunity to thank you for your cooperation and concrete actions with regard to the implementation of these new requirements, confident that you will fully accomplish them within the required timeframe.

Dear bank executives,

More than three years on from the crisis start, global economy’s perspective to leave this crisis behind remains unclear. Nonetheless, this is about a gradual and long process.

Overall, financial institutions, in Europe and beyond, continue to face with the following:

- High uncertainties as regards exposure value in sovereign debt securities;
- Difficulties to ensure liquidity in wholesale markets;
- Reduction of crediting volume and tightening of its terms to fund the domestic economy;
- Higher capital requirements arising mainly from new regulatory rules by supervisory authorities.

The need to reduce investment risk in sovereign debt is accompanied by huge efforts on fiscal consolidation in many countries, especially in Europe. Hence, EU economic growth expectations, including those for countries that had, insofar, posted above-average economic growth, were markedly down. It appears that the best solution for this situation will come only as a result of various countries’ ability to undertake, at this point, vital social and economic reforms as well as to provide financial support so that, on the one hand, financial stability is maintained and, on the other hand, private enterprises are provided with some relief, thus affecting their future economic development expectations.

Albania’s economy maintained its positive growth rates during this period, to absorb external shocks. This flexibility is a precious characteristic that will continue to support the country’s economic development and buffer effects from various shocks, even in the future. It is important for the banking sector to utilise and support this valuable attribute of economic agents, both private and public, offering them a constant satisfaction of their needs for funding and other services. This action should rely not only on the insofar-successful experience, but also on an economic logic, while only a few countries in the region have retained their positive economic growth rates. Nevertheless, the economic environment will remain a challenging one and it should be assessed pragmatically. Various actions that may be taken should be oriented by the concept of prudence and in respect of regulatory and supervisory framework requirements.

I would like to underline that a responsible bank management during this period will be recognised by its ability to control and administer operational risks in general and your swiftness to develop institution’s capacities to test the resilience and performance in various scenarios of potential future developments in particular. International standards require that the focus be not placed on planning highly probable events, but on the assessing the institutions’ resilience to relatively extreme and unfavourable developments.

Moreover, this process should be part of a broader and constant analysis that you need to conduct with a view to assess your needs for stable operational capitalisation and define safeguarding measures. These requirements are actually present in the regulatory and supervisory framework and the Bank of Albania stands ready to share with you its experience for effective development.

In conclusion, allow me to say that the Bank of Albania is in the process of perfecting the supervision regulatory framework, in the context of its cooperation with the European System of Central Banks.

However, full and timely respect of legal and regulatory framework requirements on operational capitalisation and liquidity, as well as bank's overall operational risk management methodology will continue to be an ongoing supervision priority.

This process is oriented by the common objective to maintain banking and financial systems stability. The Bank of Albania remains committed to cooperate with the banking sector to achieve successfully this objective.

As in previous years, the Bank of Albania will make the appropriate decisions to ensure that its fundamental objectives to maintain price and banking sector stability are constantly accomplished for the country's stable growth in the long run.

Thanking you for your valuable work, I wish you a New Year full of successes in your work and happiness in your families!

Thank you!