

Ardian Fullani: Banking system and economic development

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the joint press conference with Mr Gani Gërguri, Governor of the Central Bank of the Republic of Kosovo, Tirana, 12 June 2012.

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Honourable Governor Gërguri,

Honourable participants,

I am honoured to take part in the proceedings of this joint activity organised by the Central Bank of the Republic of Kosovo and the Bank of Albania. It is taking place during the jubilee year that coincides with the 100th Anniversary of Albania's Declaration of Independence. After a long cavalcade of torments and existential discourses, finally both our countries have entered an irreversible process of transformation and convergence to democracy and market economy standards. The respective financial systems have been part of this process, in which thanks to the dedicated and hard work done by both our institutions, the achievements are numerous. The banking industry of both countries has grown rapidly in recent years, enjoying a stable financial health. It has made a significant contribution to the financing of our economies, leading to a stable economic growth over the years.

It is my pleasure to see that the Central Bank of the Republic of Kosovo is growing day by day, assuming more and more the characteristics of a modern central bank, like its counterparts in the region.

Let me take this opportunity to express my appreciation for the commendable work done by the Central Bank of the Republic of Kosovo's staff, led by my old friend, Mr. Gani Gerguri. I am fully convinced that we have, and will have even in the future, a responsible and committed institution that aims to successfully fulfil its challenging mission and confront with dignity all the challenges ahead.

Distinguished guests,

For a long time, our economies are finding themselves under the global crisis pressure. Recently, almost all our trading partners, such as the countries in our region and the euro-area economies are displaying acute symptoms. This situation has induced elevated uncertainties regarding probable macroeconomic implications and contamination of the financial stability of our countries, mainly through the existence of several European banking groups.

Despite this international turmoil, our economies have succeeded in maintaining a stable performance. Consumption and private sector investments have continued to play a primary role in expanding the Kosovo's economic activity, while in Albania, the external demand has played a primary role. The other indicators have remained in check. However, their trends must be monitored scrupulously and constantly.

At present, the maintaining of basic balances, i.e., the macroeconomic balance and the financial one, is our major objective. These two pillars represent our legal mandate. Therefore, we must do the utmost to consolidate the inherited balances, by making cautious analyses and taking appropriate measures to best absorb all the risks posed to the country's macro-financial stability. Currently, the fulfilment of our legal mission has become a difficult and challenging task, full of surprises.

Our countries represent small economies, whose share and influence can not play an active or imposing role in the international arena. Moreover, I am increasingly convinced that our economies are net importers of both material goods and international crisis.

Personally, I think that the moments we are currently experiencing constitute an historic opportunity for all of us, to leave a good name as competent managers in times of the great crisis. As long as things go well, we fail to understand the need for ongoing adaptation, for constant correction. This is the reason that mostly leads to creation of “financial bubbles” in the economy. Apparently, decision-makers lack the ability or the willingness to stop blowing bubbles, and hence they burst. From this viewpoint, I assess that the Bank of Albania’s experience carries over elements of preliminary correction, i.e., preventive elements.

Let me be more specific. Since early 2005, we have addressed the interplay between macroeconomic stability and financial stability prudentially. While there was a historic stability in keeping inflation in check, there existed many unclear things in the banking system stability.

I would like to remind you, briefly, of the fact that we are talking about a period when the banking system was transformed into a 100% private capital and when credit expansion dominated the banking business.

Since 2005, the outstanding credit to the economy has expanded by 7–8 percentage points of GDP. Moreover, 75% of credit was denominated in foreign currency and the hedging against exchange rate risk was frequently overlooked. It was the time when competition for market share increased tremendously among banks, even at the expense of credit quality.

Periodic examinations conducted by banking supervision identified several vulnerabilities that could threaten the financial stability of the system. I would mention: lack of an electronic credit register; risk management weaknesses, structural weaknesses in internal audit; lack of transparency in dealing with customers about the supplied products.

One of the most important issues worth mentioning is bank management in general, and their managers’ role and integrity in particular.

Identification of weaknesses requires investigating, taking administrative measures, and making legal and regulatory changes to solve the problems. To this end, several initiatives were launched, including: establishing a credit register; creating the Financial Stability Department; conducting prudential supervision; creating a regulatory base for protecting Albanian consumers; and, undoubtedly, public education. The latter, in particular, is a very important issue constituting one of the cornerstones of the financial stability and of the central bank’s monetary policy success.

A financially educated public makes fewer mistakes in financial decisions and reacts swiftly and predictably to economic developments and policies pursued by a central bank and other authorities. Therefore, financial education of the public has been and remains a priority of the Bank of Albania.

Individual decision-making of households and businesses should be assessed as much as the meeting of inflation target or the maintaining of financial stability. This assessment is supported by the fact that individual choice based on financial literacy and good interpretation of economic information provides benefits to the whole society.

Financial literacy is essential from the point of view of individuals and social welfare. It should be seen as a public good that contributes to strengthening of stability, efficiency of economic policies, but above all, it increases individual’s financial welfare, and hence the overall economic welfare. This is why the Bank of Albania has adopted the slogan: “Education costs, but it is priceless.”

The Bank of Albania’s approach to financial education has been focused on three directions. First, promoting deep knowledge and awareness of basic economic and financial concepts; secondly, knowledge of the Bank of Albania, its role and policies, and its decision-making; third, knowledge of economic information and its interpretation.

The Bank of Albania started financial education to the public by communicating openly and actively with various groups of interest.

Our experience shows us that financial education should be an integral part of our national strategy. Consequently, seeking the cooperation and understanding of the Albanian Government (the Ministry of Education and Science), the Bank of Albania has become an initiator for defining financial education strategies, policies and practices in the education system.

The Bank of Albania has played an active role in preparing the teaching programs, implementing and coordinating the teaching process, so that students perceive financial education as part of high-school education curriculum. This activity is a special and significant contribution that the Bank of Albania has made to financial education. It is crowned with the publication of the book "Personal finance in your hands", conceptualised for high schools, incorporated as an elective subject in high-school curriculum, and distributed at schools, training of economics teachers also included.

This difficult process has consumed considerable human and financial resources, but the interest aroused fully justify it. Education institutions, and students that will have long term benefits from financial education, have positively expected this initiative. Along with them, the whole economy will also benefit.

Financial education and financial stability are two important issues and two examples of the avant-garde policies pursued by the Bank of Albania. These policies have in common the fact that their effects on changing the behaviour of individuals, businesses and overall economy are gradual and life-long. In both cases, what matters is the side of movement, the direction in which these policies lead the economy.

Credibility to institutions, confidence in the financial system and financial literacy help people not only in managing their financial affairs and raising their standard of living, but also in proposing and supporting the right policies. They also contribute to sustainability and efficiency of the financial system for the whole economy. Improved macro-financial management and financial education help each-other for a successful journey. Today's activity, organised by both central banks of one nation, is also part of this journey.

Currently, we should keep our focus on and harmonise the central banks' positions to ensure macro-financial stability, as the only way that enhances the credibility of economies in our region and improves the foreign investment climate. Cooperation and coordination of policies of central banks and financial authorities for creating a regional market, will increase the value of existing investments and of our economies in general. Harmonisation of economic agendas to maintain macroeconomic and financial stability, increase opportunities for regional cooperation and open new joint projects, is the only way for promoting new private investments and attaining the real convergence of our economies.

Ladies and Gentlemen,

Let me once more congratulate you for organizing this event and for your good work done so far. It is wonderful to see so many individuals and organisations working for one goal, for economic education of Albanians, for boosting confidence in financial institutions, for good management of the economy nation-wide, for making the best choices to ensure future economic prosperity.