

## **Ardian Fullani: The role of banks – bridges to development**

Speech by Mr Ardian Fullani, Governor of the Bank of Albania, at the 7th Hellenic – Albanian Business Forum “The role of banks – bridges to development”, Tirana, 13 November 2013.

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Good morning ladies and gentlemen!

For me it's a pleasure to participate in this economic forum that brings together representatives of Greek and Albanian entrepreneurs, and also of banks operating in our countries. I am particularly pleased to have with us today the Governor of the Bank of Greece, Mr. Provopoulos, whose participation in this forum shows the attention that him personally, and the Bank of Greece, is paying to support the business sector in general, and more specifically, the economic relationship between Greece and Albania. This approach is the right one. The private business sector is the main contributor in the GDP of the respective countries. The business sector is undergoing some severe difficulties in Greece currently, related with the need to deleverage and restructure in order to improve productivity and become competitive. These are fierce challenges that are associated with huge economic and social costs. I do believe though that these sacrifices of Greek people will pay off in the future, by giving way to a more vibrant and stronger economy, a more competitive business sector.

In Albania, the business sector faces challenges too. Albanian businesses must restructure to become more competitive. It must do so, at a time when Albania's economic growth is subdued and the demand is weak. This year we expect GDP growth of around 1.9%. The figure could be a little higher next year, but is still more reliant on foreign demand, which, on its own, is quite uncertain. Our business sector must find new ways and new markets to sustain its activity and grow.

Our experience has shown that businesses or industries which had more diversified product markets, which took care of their cost structures and their balance sheets, have fared better through the downturn and have brighter prospects on the expected upturn. It serves to show that, as in other areas of life, a long term approach to business yields better results.

Financing is important at growth times, but is also needed at difficult economic times to facilitate business restructuring and ensure time consistency of change implementation. Both in Greece and Albania, and indeed in Europe, the banking sector is the dominant source of finance.

This fact highlights the importance of a sound banking system for our economies and has raised deep concerns in Europe about the chances of a credit-less recovery, given the actual very weak credit growth. While the long-term objective should be to create conditions for achieving a more balanced and diverse financial system, the shorter times objectives should focus on having a stable financial system that provides adequate financial services to its customers, both savers and borrowers, thus maintaining its fair share of contribution to the economic developments of a particular country.

The banking sector in Albania has felt the impact of the international financial crisis, as the weaker credit standards before the crisis and the weaker economic growth afterwards, have been translated into lower asset quality and difficulties to consistently maintain positive financial results. In front of higher credit risk, credit terms have been tightened and credit growth has been sluggish. In September 2013, credit growth turned negative driven by credit in foreign currency and to businesses.

However, the banking sector remains well capitalized and liquid. Banks have been able to raise new capital and financial support from their mother banks. Especially, Greek banks operating in Albania have enjoyed strong support from their mother banks so far, and we expect this to continue in the future too, if needed. Overall, in September 2013 the risk

weighted capital of the banking sector stood at 17.8%, while the ratio of liquid assets to short term liabilities was 36.5%. The sector has shown strong preference for investments in Albanian government debt securities and placements abroad.

Bank of Albania has been taking a number of measures to support credit growth and address the loan quality problems. Given the subdued inflationary pressures, we have lowered the policy rate to the record level of 3.5%. The path of the credit interest rate has followed this trend, although at a slower pace. Given the weakness of the credit channel in the monetary transmission mechanism, we have tried to strengthen our impact by adopting some countercyclical measures to promote credit growth. In this regard, we have temporarily increased capital requirements for placements of banks abroad and have reduced those for credit in the domestic economy.

In addition, we are promoting credit restructuring at an early phase by reducing provisioning requirements if that is the case. Several legal and regulatory measures have been taken in cooperation with other authorities and the banking industry, to improve collateral execution process and facilitate loan write-offs.

The results of such measures have been mixed so far, but in the coming months we expect their impact to be noticeable. This is also linked with the commitment of the Government to pay its arrears to the private sector in the next year. Nonetheless, it is important that the banking industry continues to support sound business propositions of borrowers. Banking activity may be driven by profits but is based on relationship with its customers. Now is the time when such relationship is being tested, and good bank management must look beyond the current challenges to keep and strengthen such relationship.

Our focus as the supervisor of the banking sector will remain in having institutions that are well capitalized and liquid, and that continuously improve their standards of risk management. In our forthcoming communication with banks, we shall pay special attention to how they assess and monitor credit, market and liquidity risks; and how they include the results of this process in the management decisions.

Finally, I want to stress again the importance of economic reforms that would ensure stronger economic growth in the medium term, and will provide for more effective banking activity. The objective of such reforms must be to improve the productivity and competitiveness of our economy through: reducing uncertainties over the direction of future developments by identifying the right policies and reforms; creating a favorable fiscal, legal, business and political climate that will promote investments in the economy; improving the workforce education and specialization; generating the benefits of economies of scale through integration of businesses in the regional or European market; and increasing the efficiency of the public and private sector through the improvement of governance. In the financial system, the reforms must focus on deepening and broadening the financial market, with the objective of improving access to finance, improve efficiency and reduce risks.

I hope that this forum will bring up new ideas on how to overcome current challenges that the real economy and the financial sector is facing. In any case those ideas can be implementable only if they do not focus on a single sector, but also recognize the close relationship and inter-linkages among various sectors in the economy. Thank you very much!