

## **Gent Sejko: Overview of economic and financial developments in Albania**

Address by Mr Gent Sejko, Governor of the Bank of Albania, at the 2nd Conference of the Albanian Association of Banks, Tirana, 14 November 2017.

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Your Excellency Prime Minister,

Honourable Minister Ahmetaj,

Dear Chairman of the Albanian Association of Banks,

Ladies and gentlemen,

It is a special pleasure for me to participate in the second conference organised by the Albanian Association of Banks (AAB). I take this opportunity to compliment the AAB for the selected theme, as economic growth in Albania is cross-cutting topic of interest to all of us.

This conference takes place at an interesting moment from the perspective of the performance of economic activity in Albania. The most recent assessments show that our economy has entered into a long-term recovery trajectory. As mentioned in the last Statement of the Supervisory Council of the Bank of Albania, the Albanian economy grew 4.1% in the second quarter, driven mainly by the recovery of private domestic demand, improvement of the international trade balance, and increase in public spending and high foreign direct investments during this period.

The accommodative monetary policy of the Bank of Albania has been one of the key driving factors for the recovery of domestic demand. It has constantly guaranteed a financial environment with low interest rates and ample liquidity. It has also been aided by the consolidatory fiscal policy, which, in addition to reducing risk premia, has increased the space for financing the private sector.

Our expectations for the short and medium-term economic developments in Albania remain positive. We aim at having sustainable growth rates in the course of the years. In this context, the banking sector represents a key industry for supporting economic recovery. The instruments it avails have a substantial contribution in this regard, with lending being among the most important ones.

Notwithstanding occasional volatilities, the banking industry has played a significant role in supporting economic activity. That was notably the case at the early 2000s, following the privatisation of the then Savings Bank. During that period, the outstanding credit increased at considerable annual growth rates.

Anyhow, such high growth rates and the outburst of the global crisis revealed a number of inconveniences, and led to the perpetual increase in the level of non-performing loans. Thus, the ratio of non-performing loans to total loans peaked 25%, extremely deteriorating the system's lending capacities. The reasons that led up to this point have been discussed extensively in the past and I would rather not focus on them, again.

What I would like to emphasise is the fact that the current situation is very different from what it used to be a few years ago. The ratio of non-performing loans is constantly reducing, standing 10 percentage points lower than its peak in 2014. Thanks to joint efforts, the balance sheets of the banking system are healthier, the liquidity situation is optimal, and its prices have fallen to historical low levels.

As a result, I think that the banking industry should adopt a more active approach in deepening financial intermediation, which ultimately means strengthening the credit activity.

According to the last Financial Stability Report, in 2017 H1, the banking system was financially healthier. This fact leads us to believe that its actors, who unquestionably contribute to the supply side of credit to the economy, should tend to be more active.

On the other hand, regarding credit demand, assessments are also positive. More specifically, survey results on the financial and borrowing situation of enterprises in 2017 H1, show that the financial situation has improved and the optimism characterises both the short and the medium term.

In recent years, the Bank of Albania, in cooperation with the Parliament and the Government has undertaken a series of actions, including legal amendments, to address concerns that had been previously raised by the industry. Aware of their usefulness, we undertook these changes and I believe we have achieved concrete results. Your balance sheets are cleaned and the financial situation appears healthier.

For these reasons, we, the central bank, would invite you to utilise, within reasonable levels of prudence, every possibility and space for identifying business plans and projects that deserve to be supported. It is time now for lending to assume its place in supporting the economy, and this requires professionalism, energy, integrity, and commitment.

The banking industry has a series of instruments at its disposal. In addition to the need for reviving credit, as one of the most important instruments, I would like to focus now on some other indicators, such as the level of the financial system development and financial inclusion and education. These are some very important additional elements that contribute to economic activity.

Underdeveloped financial systems are exposed to systemic risks and create distress and challenges for the effectiveness of the monetary policy and financial stability in Albania. Fortunately, we live in an age when financial innovation has introduced many new business models, both in processes and in products. We should also embrace them in Albania. The great technological revolution has eliminated physical barriers, making it easier for the people to access the financial market, regardless of the geographical location, age, qualification, cultural formation, or tradition. In addition to easier access, the costs and speed of obtaining services have improved notably. Our banking system should not only make use of all these elements, but it should also develop them further.

Financial inclusion and education are two challenges that I think should be an integral part of our agenda in the years ahead. World Development Indicators show financial inclusion of the population continues to be low.

In 2014, only 38% of the population had an account with licenced institutions of the financial system, while 22% of adults had a debit card and only 6% of them had a credit card. This shows a large gap between us and OECD countries, where 92% of the population has a financial account, whereas 80% of adults own a debit card and 40% a credit card.

The role of banks in concerning financial education is very important and I would say unique. The deepening and expansion of your clients' financial literacy has a high social impact and, at the same time, banks will reap benefits, because, in turn, the clients are consumers of banking products and services.

Ladies and gentlemen,

Lastly, I would like to focus on the contribution by the banking sector to the fight against

informality, a very harmful and, unfortunately, still wide-spread phenomenon in the Albanian economy, to the extent that it may be considered a serious risk to the economic and financial stability of the country.

Even in this aspect, the role of the banking system is very important. Using information certified by authorities, concerning the balance sheet of the companies, as well as other economic actors, has become a necessity. Above all, they are prudential measures, which enhance the level of security and stability, especially in lending.

The reform against informality amongst the priorities for the Albanian authorities, and the banking sector - with its network, expertise and know-how, which many of you bring along from the home country of the respective banking group - should offer its assistance for the common goal.

Based on the above, I invite you to focus the debate and analysis in this one-day conference on these lines, hoping that this meeting will create a convergence of ideas and conclusions in relation to the further recovery of the economic activity.

The support of the Bank of Albania will be unconditional in this regard. As in the past, we will be constantly in search to adopt strategies and rules that aim at having a financially sound banking sector capable of supporting economic development in Albania.

I am fully confident that the future cooperation among all the stakeholders: the banking industry, the government and the Banking will be strengthened, for the economic and financial prosperity of the country.

I thank you for your attention and I wish the conference all success!