

Gent Sejko: Economic and financial developments in Albania during 2017 and objectives for 2018

Address by Mr Gent Sejko, Governor of the Bank of Albania, at the end-of-year meeting organised by the Albanian Association of Banks, Tirana, 21 December 2017.

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Honourable AAB Chairman,

Dear banking system executives,

Dear friends and colleagues,

As always, it is a pleasure for me to be together with banking system executives in Albania, in this annual end-of-year event organized under the auspices of the Albanian Association of Banks. In my address, I would like to briefly focus on highlights that have characterised the economic and financial developments in Albania over 2017, as well as on some of our objectives for 2018.

Albanian economy

The Albanian economy seems to be experiencing an overall positive moment of recovery, from both the global and the regional perspective. Economic activity continued to grow reflecting the favourable financial environment, improvement of confidence, impulses generated by employment gains and the high levels of foreign direct investments, as well as the positive momentum in the economies of our trading partners.

In terms of aggregate demand, growth was driven by the expansion of private consumption and investments, and the improvement of the balance of trade with abroad, especially in the third quarter. In response to the improvement by around 10.5% of the trade deficit in goods and services, the current account deficit fell to 4.6% of the GDP in the third quarter, one of the lowest levels in the last decade. On the other hand, the fiscal stimulus is estimated to have trended downward in the third and fourth quarters, albeit budget revenues and expenditure have continued to record high growth rates.

The constant expansion of the aggregate demand has led to an increasingly higher utilisation of production capacities. The unemployment rate fell to 13.6% in the third quarter, down by 1.1 percentage points from the same quarter in the previous year. However, the gradual convergence of the economy toward its equilibrium is yet to be accompanied by upward inflationary pressures, sufficient enough for the return of inflation to target.

Our accommodative monetary policy stance has reduced the costs of financing for the private sector, has boosted crediting in the domestic currency and has contributed to the improvement of the borrowers' financial situation. In the last months, financial markets have performed relatively calm, amid low interest rates, controlled risk premia and the exchange rate set on a stabilisation trend.

Banking system

Year 2017 was positive in terms of the expansion and soundness of banking activity in Albania. A quick glance at the performance in the 10-month period corroborates this conclusion. Banking sector's assets expanded further during the period, at 4%, in annual terms. The financial situation of the sector and activity capitalisation improved. Due to the considerable fall of loan provisioning, the financial result improved notably compared to the previous year. Also, the RoA and RoE indicators doubled at 1.6% and 16.3%, respectively, from 0.74% and 7.8%, in the previous year.

The liquidity situation appears stable, and its indicators continue to be at good levels. In annual terms, the deposits base expanded by 2.7%, reflecting a shift in the maturity structure. Against the backdrop of low interest rates, time deposits fell at 2.1%. By currency, both lek and foreign currency deposits increased by 1.4% and 3.9%, respectively.

Outstanding credit expanded from a year earlier by 0.8%. Long-term credit dominated, whereas short and medium-term maturities shrunk. Credit to households expanded by 4.6%, whereas credit to enterprises contracted by 1.7%, from a year earlier.

One of the highlights of this year is the reduction of the non-performing loans ratio at 14.4%, compared with 18.23% at the end of the previous year. Now, after a relatively successfully period, the coordinated plan that we undertook together to reduce the stock of non-performing loans seems to have yielded the expected results. Therefore, in addition to the loss loans write off from the balance sheet, great results have been also achieved regarding the repayment and restructuring of non-performing loans.

A number of regulations and other bylaws have been approved by the Supervisory Council of the Bank of Albania, throughout 2017. They aim at improving the banking activity in terms of efficiency, risk management, transparency and depositors' protection. A special moment was the establishment of the Resolution Authority in Albania and of the *Resolution Fund*, which will receive regular annual contributions by the banking sector.

Dear banking system executives,

As I mentioned above, this is a good moment, while the future still bears some questions. The economy is not exempt from this overall consideration. I take the opportunity to bring to your attention the fact that the institution each of you represents has a certain role to play in the everyday economic and financial life of the country. Now that we know the already-announced objectives of the Government of Albania for 2018, it is understandable that 2018 is a rather challenging year to further boost economic recovery and strengthen the financial stability of Albania.

From this perspective, I would like to affirm that, like in 2017, in 2018 the Bank of Albania will continue to focus on:

- ♦ **guaranteeing a stable economic environment, keeping inflation rates in check, and having liquid markets with low volatility.** The monetary policy will aim at an adequate supply, in terms of both quantity and price. The final monetary policy objective will be unchangeable, while the accommodative stance implemented in the past years will be present during 2018.
- ♦ **boosting credit recovery in Albania.** We believe that the further boosting of the economy provides a friendly environment for lending to the economy. In addition, we will continue to insist in the implementation of the joint programme for the reduction of non-performing loans. In this light, we expect the banking system to be proactive in lending to the economy.
- ♦ **strengthening banking supervision and guaranteeing financial system stability, one of the fundamental objectives of the Bank of Albania activity.** As in the past, we will be constantly in search of the best international rules and practices that aim at having a financially sound banking sector, capable of supporting economic development in Albania.
- ♦ **De-euroization of the Albanian economy.** The measures that we have jointly designed will enter into force in the first half of 2018. Therefore, we should also try together to maximise the expected results, translating them in practice in greater confidence and higher use of the national currency in the economy.

- ♦ **continuous communication with the sector, regarding Bank of Albania's decision making.** The dialogue with the banking industry is considered as a crucial factor in helping to identify the problems, guaranteeing the implementation of the legal framework, and overcoming the challenges.
- ♦ **increasing financial inclusion and deepening financial education.** Alongside with the regulatory and supervisory role, financial education is and will continue to be another important aspect of our everyday work. We consider it as one of the main pillars of the economic and social development of Albania.

Concluding, I would like to reassure you that, the Bank of Albania will continue to be a serious and devoted partner.

I wish you a successful and prosperous year for you and your families.

Thank you!