

Gent Sejko: Albanian economic progress in 2018 and banking industry challenges for 2019

Address by Mr Gent Sejko, Governor of the Bank of Albania, at the year-end function organised by the Albanian Association of Banks, Tirana, 13 December 2018.

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Honourable AAB Chairman,

Your Excellency, Minister of Finance and Economy,

Dear senior representatives and colleagues from the banking system in Albania,

Ladies and gentlemen,

It is a special pleasure for me to participate and address this year-end function organised by the Albanian Association of Banks. In my brief address, I would like to bring to your attention some highlights of 2018, regarding the contribution of the banking sector and the financial system, as well as some milestones set for 2019. Let me first focus on the overall performance of the Albanian economy.

The overall performance of the Albanian economy in 2018 was positive. Economic recovery is tangible across all of its dimensions. The pace of growth picked up, employment increased, internal and external balances were strengthened, while the main indicators of the banking sector's soundness have been improving.

It is encouraging to see that the sources of economic growth are both increasing and well diversified. From the aggregate demand perspective, growth in the exports of goods and services and in the domestic consumption and investments continued to underpin economic growth. In the meantime, from a sectorial perspective, economic activity expanded, reflecting a more notable contribution from output in the industry sector and the services sector. Lastly, judging from the performance of macroeconomic factors, economic growth was also sustained by a stimulating financial environment, more favourable performance of our trading partners, improved balance sheets, and a more optimistic view of enterprises and households on the outlook.

All the above reasons fuel the optimism on the perspective of economic growth in the next year and onward. Albania has reached, among others, an important milestone on its path to development and integration: the expected opening of accession negotiations with the European Union. These negotiations should surely be viewed as an important development anchor and an additional guarantee for both domestic and foreign investors.

The year just ending confirmed the stability of the Albanian banking sector. It may be considered as a special year in view of important structural changes in the system, which are expected to be finalised in the next year. Banking activity continued to expand, and the banking sector continued to be well capitalised, liquid and profitable. The NPL ratio continued to improve, hitting a new record low for the last eight years, standing at 12.89%, in September. Meanwhile, deposit growth was channelled mostly into investments in securities and less into lending. Certainly, the appreciation of the exchange rate and the lost loans write off provided a statistical effect on the indicators of credit performance. Also, credit in the national currency continued to prevail over the foreign currency credit. Nonetheless, the overall level of credit to the economy is still far from its potential and the opportunities for expanding lending abound.

I understand that this phenomenon entails a number of problems arising from sluggish demand as well as from supply, which is conditioned by tight credit standards. Nonetheless, beyond

structural factors, I reckon that we should react so as to prevent a stagnant credit situation in the economy. For an economy that needs to develop rapidly, in order to converge with European Union levels, the situation should be changed and the levels of crediting should be higher, though still showing continual prudence concerning credit health.

Moreover, it is in your financial interest to address this phenomenon with determination, in order to put it on track for a sustainable solution. The financial resources you have and the considerable space that exists for financing the economy show that financial efficiency in the banking activity could improve significantly.

The financial infrastructure of the banking sector was enhanced further in 2018. The Bank of Albania and the National Payment System Committee have implemented the national strategy for enhancing the small value payment market and increasing the financial inclusion of the population. The first results are promising and they will be followed by other steps by the Bank of Albania and the banking sector, aimed at achieving a quantitative objective, that is, to see the number of bank account holders doubled by 2022.

The financial inclusion of the population is one of the most important current priorities. In 2018, the Bank of Albania and the banking sector paid particular attention to financial inclusion and financial education. It is a proven fact now that improvement in financial inclusion contributes to the improvement of the welfare of the population in a harmonised way. In this regard, we have designed and implemented, among others, a series of educational projects that are adapted to various segments of the population. Financial education, tailored publications with information on bank products and services, as well as developments in the payment infrastructure and payment services are concrete steps for providing more opportunities for access to finance by all segments of the population.

Dear representatives of the banking sector,

The outlook for Albania's development remains positive. This means that Albania offers the banking sector solid premises for business and growth. But, growth and development do not materialise out of nothing. They reflect the commitment, the hard work and the dedication of all actors.

Let me now identify three challenges that we need to tackle together.

First, the pace of economic growth needs to be supported by the dynamics of banking credit. We have discussed relevant reasons and factors in many forums and analyses. Today, I would like to emphasise that the economy may not grow sustainably without bank credit recovery. Your role becomes crucial in this regard. The banking sector safe-keeps the savings of Albanian citizens. It is its duty, however, to make such savings available to the growth and development of Albania. There is no growth without credit, and without growth, savings lose their value.

Therefore, it is imperative that short-term goals do not prevent the adoption of a strategic and longer-term vision. Banks should invest with a view to developing functions related to financial consultancy services for their clients. They need to persistently seek to explore the market, to identify potential clients – especially households and small enterprises – and, most importantly, to help them design bankable proposals and projects. At this phase, the reduction of concentration and the diversification of credit portfolios are key elements. This requires that you design and set up relevant structures, processes and products, and plan for adequate financial resources. In parallel, you should continuously assess the surrounding environment, which certainly affects your activity. Thus, if there are concrete proposals for additional legal amendments or supervisory practices, I invite you to formulate and submit them officially to us and other relevant public authorities, so that we can, together, make a swift decision on them. In

this process, the Bank of Albania will always support initiatives that lead to an eventual improvement of financial intermediation levels and safeguard the stability of the banking sector and of the financial system.

Second, our ambition should aim higher than the 3, 4 or 5% annual growth rate. The country needs more optimism, which means higher growth rates and more structural reforms. The banking sector has both a direct and an indirect role to play in this regard. The direct role pertains to the further development of the banking market and products – in line with the best international experiences. Likewise, insistent work on further reducing the level of non-performing loans should not be neglected, and should be considered by all of us as a key factor for further strengthening financial stability in Albania and providing an impetus to the economy. On the other hand, the indirect role consists in the cooperation that you may offer to many structural reforms across all the sectors of the economy and in all the dimensions of the business setting. Your expertise is not insignificant. It must assume an authoritative place in the economic debate.

Third, while acclaiming the cooperation between the Bank of Albania and the Albanian Association of Banks and commercial banks in educational activities, I would also like to iterate the importance of financial education and financial inclusion. As financial services and products develop and become more complicated, financial education helps users to understand and use them; it also helps preventing financial crisis and contributes to the financial stability and economic growth of a country. We need to continue to be key promoters in designing and implementing financial education programmes. Financial education is an investment in the future and it should be an integral part of our agendas, engaging more intensively in the implementation of alternative and innovative methods for enhancing financial education among the public.

In conclusion, let me assure you once again that you will find in the Bank of Albania a loyal, supportive and serious partner, adherent to its legal mandate. Our decision-making will be transparent and all our initiatives will be guided by a spirit of cooperation with the banking sector, aiming at ensuring highest efficiency.

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

Thank you for your attention!