

Gent Sejko: Albania's banking sector progresses but four key challenges remain

Address by Mr Gent Sejko, Governor of the Bank of Albania, to the third AAB Conference on Banks for Sustainable Development, Tirana, 14 May 2019.

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Your Excellency Madame Minister¹,

Dear Chairman of the Albanian Association of Banks,

Dear representatives of the banking sector, dear guests,

Let me first congratulate the Albanian Association of Banks on its 20th anniversary. The Association, which came into being as token of emancipation in the banking sector, has become now a genuine platform of communication and coordination within the banking industry, and a key player in the economic and financial life of the country.

I would also like to congratulate the organisers for this event, which helps the banking sector, regulators and policymakers alike, to identify the challenges lying ahead and explore the best alternatives for addressing them.

Dear ladies and gentlemen,

The banking system in Albania has made considerable progress over the last two decades. To illustrate my point, I would like to bring to your attention some facts and figures. Over the span of two decades, the portfolio of bank credit has expanded significantly, leaping from 5% to 35% of the country's GDP. Similarly, the volume of deposits – in other words, the volume of savings of the Albanian public administered by the banking sector – has grown from 45% to 70% of the GDP. At the same time, the number of households, whose deposits are guaranteed by the deposit insurance scheme, has increased six fold, to 2.4 million. In parallel with quantitative indicators, the Albanian banking sector has developed, has become more cutting-edge, and has marked significant progress in the range of bank products and payment instruments that it provides. Lastly, and equally important to the development indicators, this sector has proven resilient to shocks and – unlike many other experiences in regional countries – it did not need to use public funds.

While highlighting, on the one hand, the progress made insofar, I would like to point out that the banking sector development – and of the financial system in general – has not been a linear one: it has constantly faced challenges of different forms and types. These challenges have required prudence as well as active, intelligent and courageous decision-making. I am confident that our combined experience may and will help us in future decisions.

Therefore, I consider this conference as an excellent opportunity to reflect on certain challenges that we may face in the period ahead.

First, let me present a brief overview of the economic and financial situation and development perspective for Albania.

As we have repeatedly said, the Bank of Albania deems that the Albanian economy is set on a steady path of improvement of its cyclical position. Aggregate demand has expanded leading, in turn, to acceleration of economic growth, increase in employment and wages, better utilisation of production capacities and improvement of the financial situation of enterprises and households.

In parallel, the balance sheets of the banking sector are sound and improving. The key

parameters of liquidity and capitalisation are above our regulatory requirements, the non-performing loans ratio is on a clearly downward trend, and the banking sector appears profitable. In addition, as a result of the consolidation process underway in the banking sector, new actors have been introduced to the market – I take this opportunity to welcome them – and premises for fostering competition and efficiency in the banking system are created. Lastly, our stress tests show that this sector is capable – overall – to withstand shocks.

This process has been anchored to prudent economic policies: monetary stimulus, fiscal consolidation and prudential supervision and regulatory policies. In particular, let me point out that the Bank of Albania has earnestly worked on the following:

- ♦ Approximation of our regulations to European Union standards and Basel Committee requirements;
- ♦ Improving the supervision architecture of the financial system and strengthening safety nets;
- ♦ Improving the credit environment by facilitating the solution of issues related to non-performing loans; and,
- ♦ Developing and expanding further the financial and payment systems market.

Dear ladies and gentlemen,

The banking sector plays a key role with regard to the administration of the savings of the Albanian households, intermediation and allocation of funds, and expansion of financing instruments, risk management and payments. The level of accomplishment for these functions will be mutually related to the pace of Albania's development in the long-term horizon.

From this perspective, let me identify four primary challenges for the sector:

First, the banking sector should accomplish better its intermediation role in the economy. The improvement of soundness indicators, the reduction of credit risk and the consolidation of the banking sector should pave the way for a more active approach of banks to lending. The financial capacity of the country should be reflected better in lending to Albanian enterprises and households.

Second, the banking sector should pay more attention to the efficient allocation of funds, toward more productive and high-potential sectors in the long term. The banking system, in general, is matured enough to discern between good and bad borrowers, thus minimising problems arising from moral hazard and information asymmetry. Yet, the constant financing and the reallocation of capital provide the basis for the development and restructuring of the economy. In this regard, banks would need to identify profitable sectors, which may guarantee added value for the economy and employment, and support them with funds.

Third, in parallel to the improvement in the allocation of funds, more efforts are needed for the financial inclusion of the population. The improvement in access to finance, coupled with concrete initiatives to deep financial education of the population, with which it is in a complete symbiotic relationship, helps enterprises and households to capitalise their growth potential, by generating profit for themselves and gains for the economy.

Lastly, modernisation and innovation should be an important and long-term priority of the banking sector. A constant evolution would provide the premises for a sector that is competitive and efficient and avant-garde with regard to technological development in Albania. Taking into account the insofar substantial impact of the banking sector on the advancement and diffusion of innovation to other sectors, this investment would be necessary and profitable to both the financial industry and the overall Albanian society.

Forward looking, I remain confident that the banking sector will know to rise to these challenges

and that the conclusions of today's conference will serve as another stepping stone in this regard.

Thank You!

¹ Ms. Anila Denaj, Minister of Finance and Economy