



***Impact of financial reforms in the  
Euro-Mediterranean area  
Marseille, 3-4 May 2018***

***“Albanian perspective”***

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- Structure of financial system in Albania
- Main developments of the last decade
- Dealing with challenges
- Current state of the banking sector and conclusions



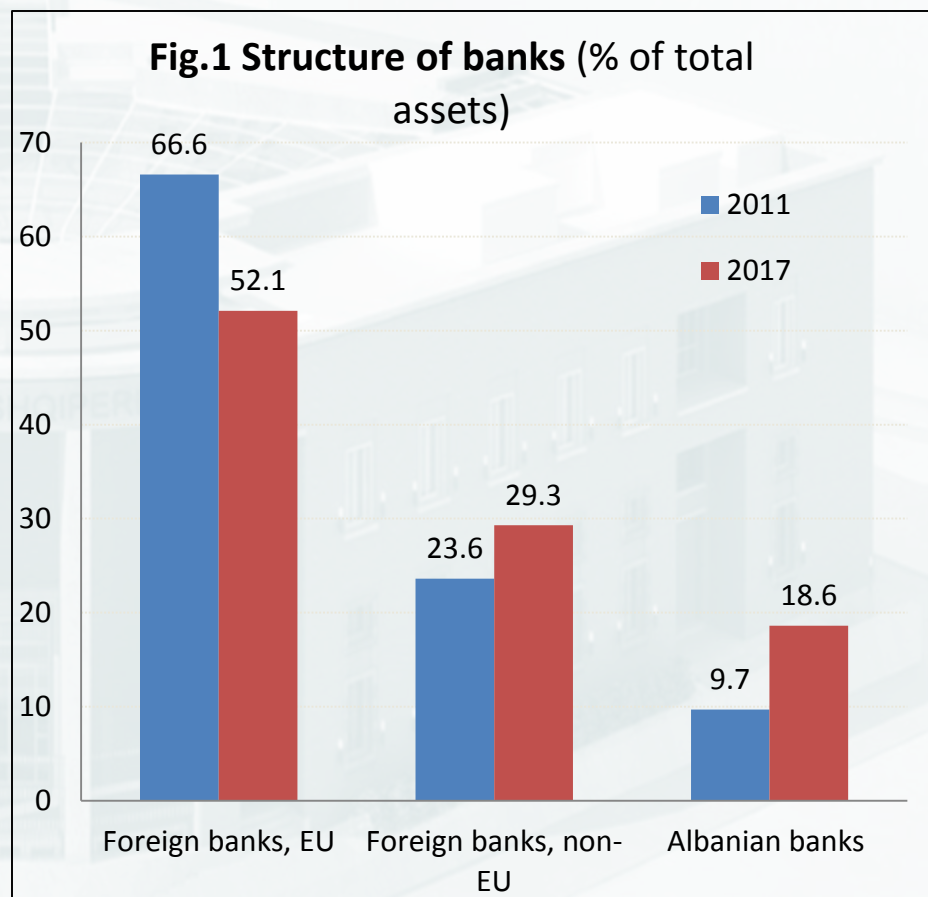
# Structure of the financial system

# Structure of the financial system

**Table 1 - Assets, as % of GDP**

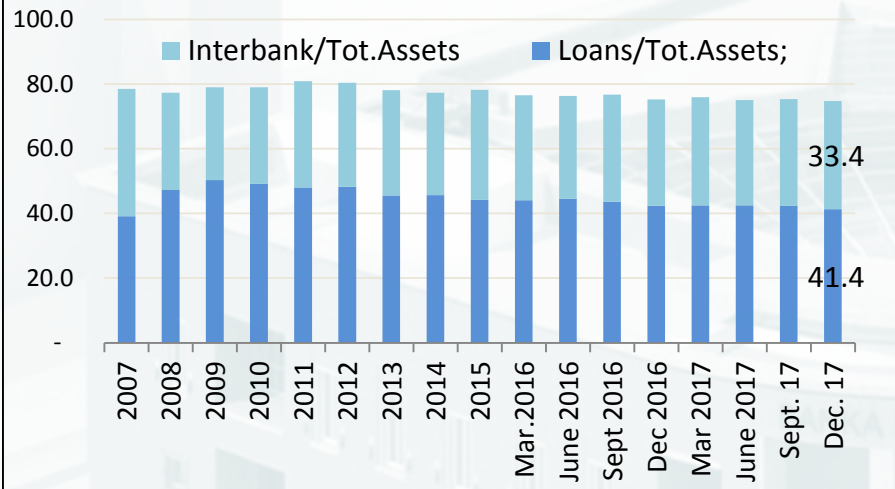
Licensing and Supervisory Authority	Financial System	2011	2012	2013	2014	2015	2016	2017
Bank of Albania	Banking sector	84.7	89.6	90.5	91.7	91.3	94.9	92.5
	Non-bank institutions	2.5	2.7	2.5	2.7	2.7	2.9	2.9
	SLAs and their Unions	0.7	0.8	0.8	0.8	0.7	0.6	0.5
Albanian Financial Supervisory Authority	Insurance Companies	1.5	1.6	1.6	1.7	1.9	2.1	1.9
	Pension Funds	0.01	0.02	0.03	0.04	0.1	0.1	0.1
	Investment Funds		1.21	3.7	4.5	4.7	4.4	4.7
<b>Financial Intermediation</b>		<b>89.41</b>	<b>95.93</b>	<b>99.13</b>	<b>101.4</b>	<b>101.3</b>	<b>105.1</b>	<b>102.7</b>

**Fig.1 Structure of banks (% of total assets)**

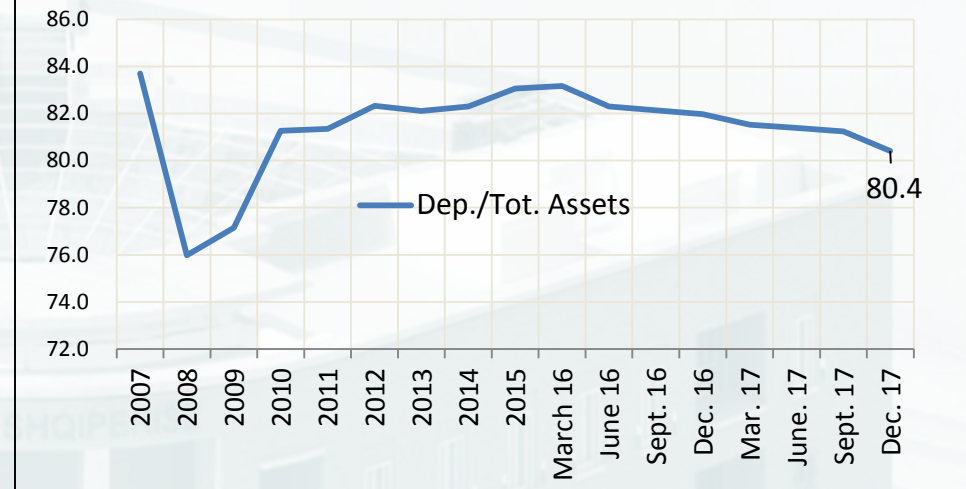


# Profile of banking business

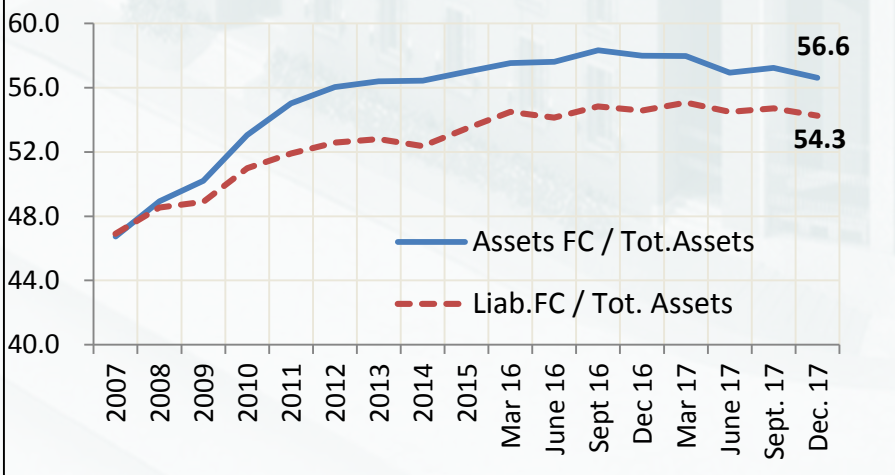
**Fig.2: Core banking activity (%)**



**Fig.3: Reliance in deposits (%)**



**Fig.4: Balance sheet position in FC (%)**





# **Main developments of the last decade**

# Macroeconomic developments

- Lower but still positive economic growth; mainly supported by consumption and private investments;
  - 2017-Q4 -> “Annual real GDP growth”: 3.4% (2007 - 6%; 2012 – 1.4%)
- Unemployment rate falling gradually, currently standing at 13.4%;
- Current account deficit, lower and financed mainly from FDI;
  - 2017-Q4 -> “CAD/GDP”: 8% (2008 – 12%)
- Higher public debt, followed by fiscal consolidation efforts;
  - 2017 -> “Public debt / GDP”: 70%
- Subdued inflationary pressures: followed by accommodative monetary policy
  - 2017 -> CPI: 1.8% (target 3%); BoA interest rate: 1.25%

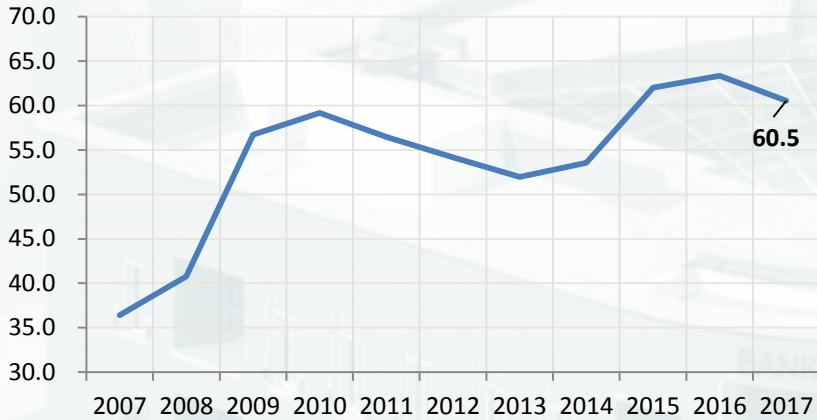
# Financial market developments

Development	Because of...	Implications in Albania for...
General low interest rate environment	Falling interest rates internationally and in Albania, following lower economic growth and subdued inflationary pressures	Risk taking and financial performance; Funding structure of banks; Currency composition of banking activity
Falling asset quality in banks	Relaxed lending standards before 2008; Impact from economic slowdown; Concentration issues	Financial performance; Financial intermediation
Exchange rate, relatively stable, even appreciating recently	Fundamental improvements in BoP	Asset quality; inflation target
EU Banks taking a passive role in financial intermediation	EU regulations; Concerns on asset quality	Overall banking exposure toward private and public entities; Structural changes in the banking sector (as EU banks reorganize in the region)
Episodes of stress, coming from the region	The presence of Greek banks, and possible implications from Greece problems in 2010, 2012, 2015.	Financial stability
Changes in international standards (Basel III, ESRB)	The need to deal with vulnerabilities exposed from GFC	The quality of banking activity and its supervision

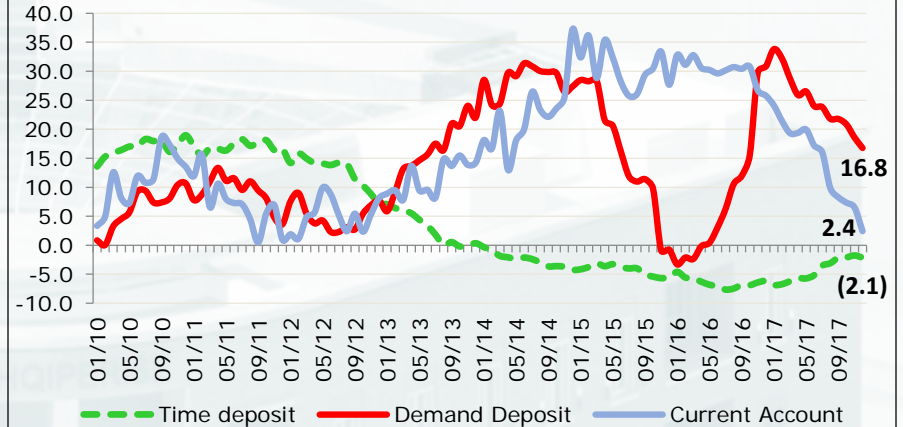


# General low interest rate environment

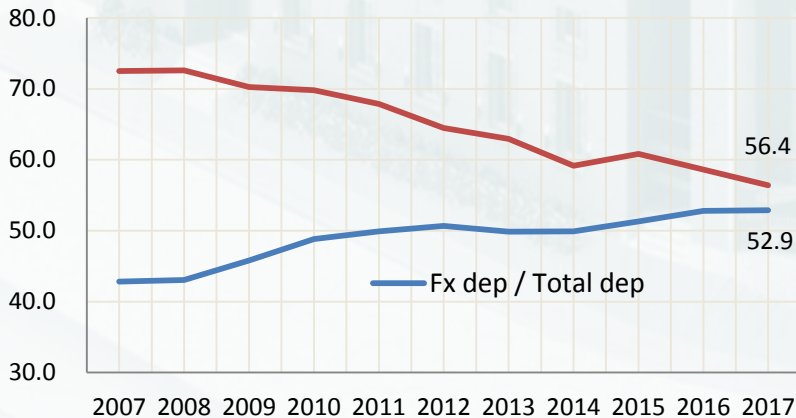
**Fig.5: RWA/Tot Assets (%)**



**Fig.6: Annual growth for type of deposit (%)**



**Fig.7: Fx deposits and Fx loans (%)**

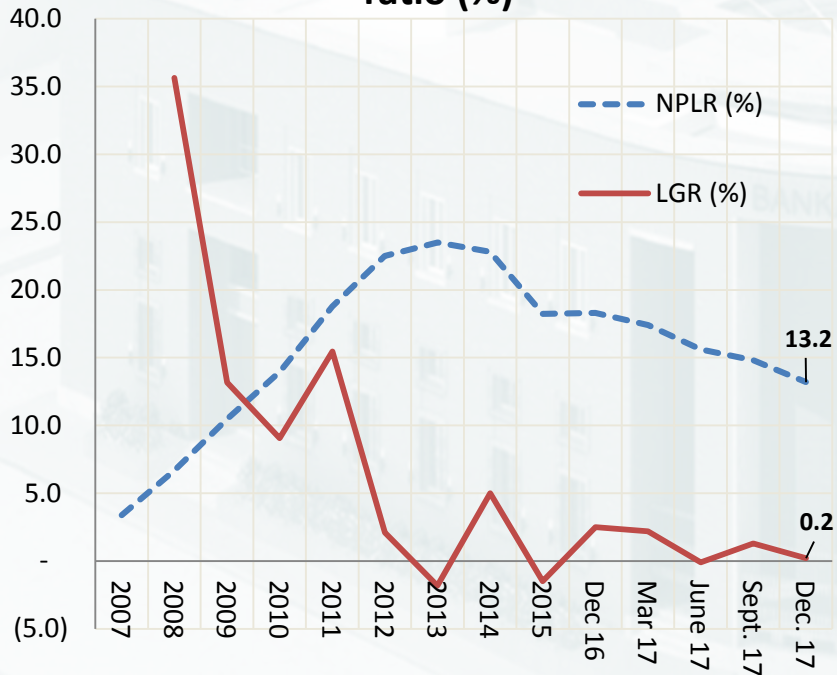


**Fig.8: Net Interest Income / RWA**

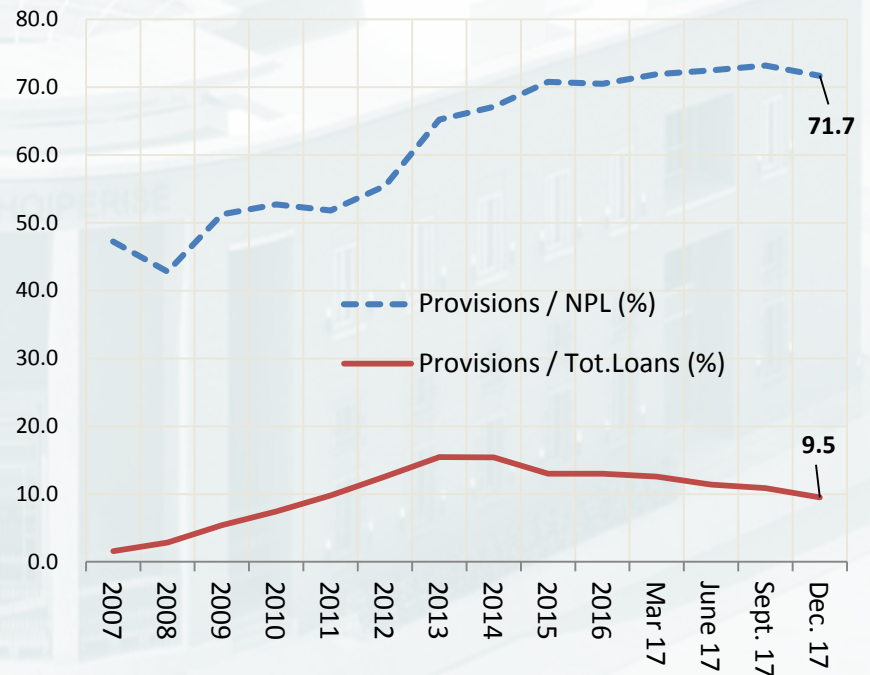


# Asset quality

**Fig.9: Annual Loan growth and NPL ratio (%)**

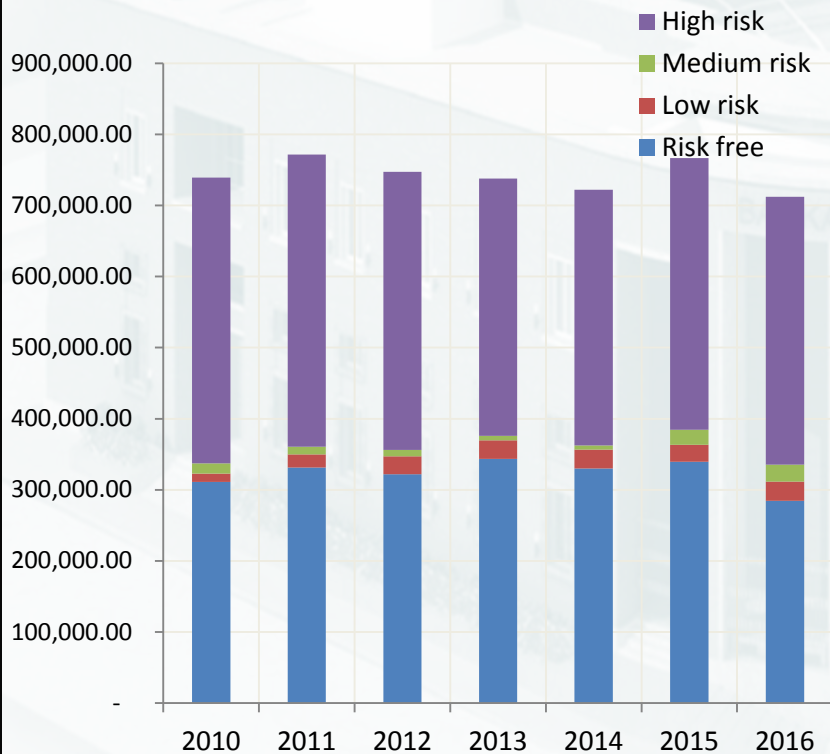


**Fig.10: Reserves for Credit Risk (%)**

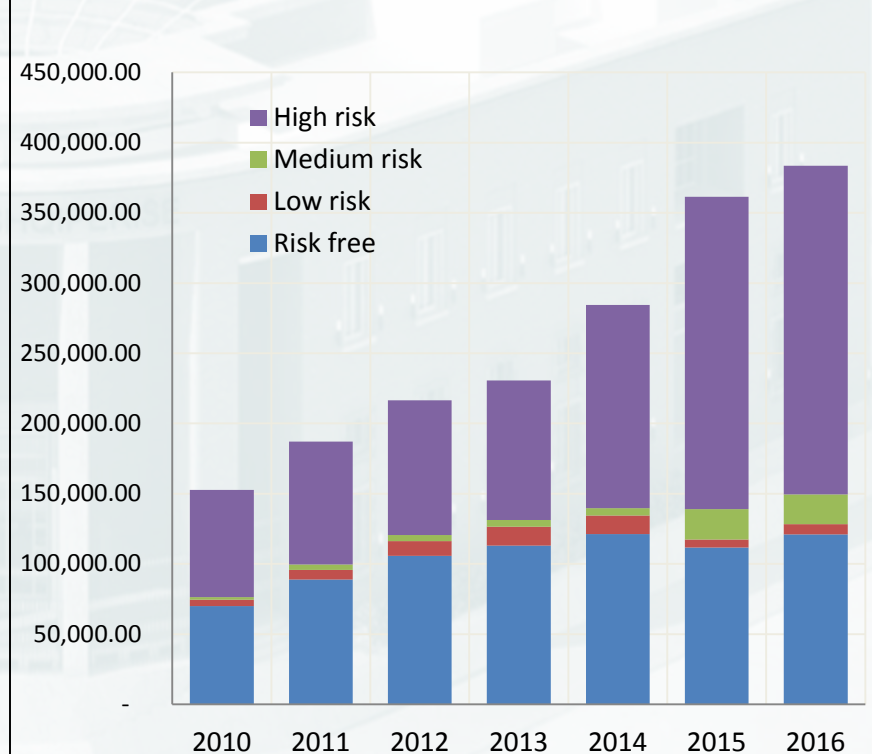


# EU banks pursuing a passive intermediation role

**Fig.11: EU banks, composition of RWA+Risk free (mio Lek)**



**Fig.12: Non-EU banks, composition of RWA+Risk free (mio Lek)**






# Dealing with challenges

# Measures

Developments	Measures
General low interest rate environment	Supervisory practice: <ul style="list-style-type: none"> <li>- tighter monitoring of banks' financial performance;</li> <li>- improvements in liquidity requirements;</li> <li>- better analysis of banks' RWA;</li> <li>- de-euroization policy and measures</li> </ul>
Falling asset quality in banks	Mandatory NPL write-off from 2015; NPL National Action Plan; - Legal changes like "Insolvency" law and Civil Procedure Code
Exchange rate, relatively stable, even appreciating recently	No action so far. But Fx flows in Albania appear on the rise and is creating some pressures on the appreciation of the exchange rate.
EU Banks taking a passive role in financial intermediation	Direct communication with EU structures and through Vienna Initiative, Supervisory Colleges. BoA preparing for "Supervisory Equivalence" process.
Episodes of stress, coming from the region	Crisis Management Framework was strengthened (FSAG, BoA, crisis management simulations); New Bank Resolution Law was approved (on-going work to prepare its sub-legal acts with the support of FINSAC (WB).
Changes in international standards (Basel III, ESRB)	Current ongoing work on: LCR and operationalization of some Macroprudential instruments (capital buffers, LTV/DTI) – support from IMF

# Possible side effects

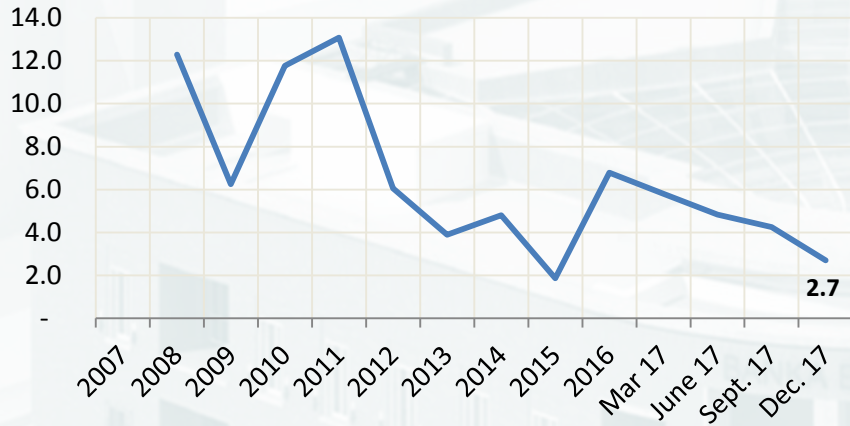
Measures	Possible side effects
<i>NPL National Action Plan</i>	In order to meet deadlines, banks could opt for ineffective loan restructuring, thus “pushing the can down the road” rather than resolving the issue
<i>De-euroization strategy</i>	May create appreciating pressures on the exchange rate, and appear in conflict with the primary objective of BoA
<i>Macroprudential policy/instruments (capital buffers)</i>	They are feasible, but if implemented quickly could negatively affect the revival of bank lending, further reduce their profit margins and could create some headwinds at a time when foreign EU banks are re-organizing.



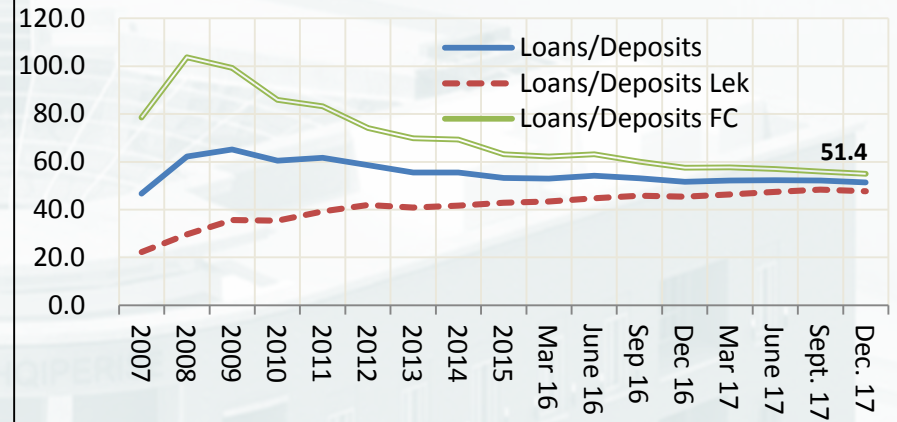
# **Current state of the banking sector and conclusions**

# Current state

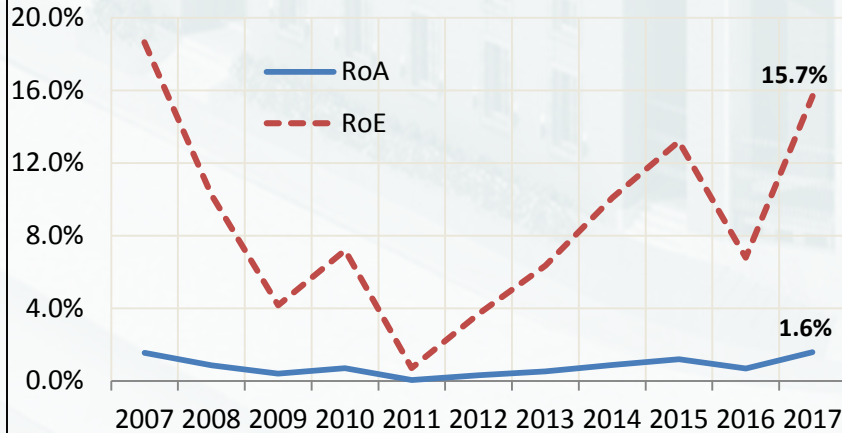
**Fig.13: Total assets of BS, annual growth (%)**



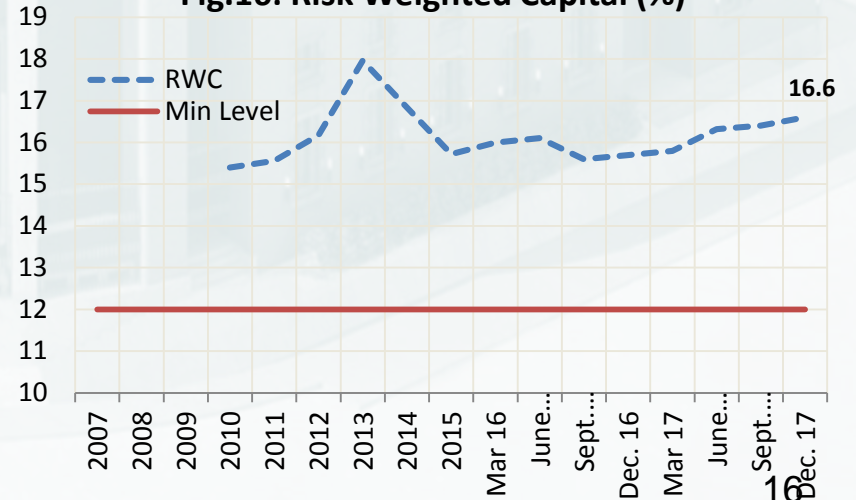
**Fig.14: Loans to Deposits (%)**



**Fig.15: Annualized RoA and RoE**



**Fig.16: Risk Weighted Capital (%)**





# Conclusions

- Our banking and financial system is not so complex, traditional banking activity dominate;
- In the last decade, a number of challenges have appeared, stemming from domestic financial system activity and impact from GFC/international developments;
- Dealing with some those challenges has requested pro-active approach by BoA and better inter-institutional cooperation; possible side-effects of measures have to be considered carefully;
- A number of regulatory and legal changes have occurred as we try to deal with local issues and keep the pace with relevant international standards;
- Our assessment is that the financial system in Albania is currently stable and resilient; however there is room to improve on efficiency; and re-organization of EU banks in the region is also going to challenge the status-quo.