

Greeting Speech by H.E.Mr. Ilir Meta, President of the Republic of Albania

Annual conference co-organised by the Bank of Albania and London School of Economic

It is a pleasure for me to address this important Annual Conference co-organised by the Bank of Albania and the prestigious “London School of Economics”.

The focus of this Conference on the “Perspective of Financial Intermediation” highlights the importance of the financial system for the economic growth of regional countries and their European integration process.

The traditional model of financial intermediation based on channelling financial assets into the economy for development and growth is also supported by the long-standing experience of some banks based in the euro area.

Central banks and supervisory authorities are facing with a challenging environment for policymaking, not only in emerging but also in advanced economies.

At macro-economic level, the global trends, such as economic and financial situation; demographic and social changes; shifts in global economic powers; rapid urbanisation; climate change; insufficient resources, and technological advancement - are related to the banking sector. Notably, among them, the factors having a greater influence are the demographic and social changes, the establishment of new consumer demands, the expectations of groups of interest, and the new technologies - which bring about huge changes, from customer relations to the business model.

The global economic and macro-economic situation in the euro area, and particularly, in trading partner countries has a crucial impact on our regional economies.

Through trading and financial relations and migration, our economy is closely related with the economies in the euro area and is affected by the economic and financial developments in these countries.

European investments in the Albanian economy have been one of the most important factors for the economic development of the country, either directly or through the impact on the financial activity.

Various economic and financial shocks or regulatory and institutional changes imposed by these shocks originating from the euro area have had a significant impact, not only in terms of prices, exchange rate or the nature and degree of financial intermediation, but also of the structure, size and form of business in the banking system.

The experience of Albania has shown how difficult it has been to maintain the economic growth at the pace recorded in the pre-crisis years.

The slower growth pace is reflected also in other macro-economic indicators such as inflation undershooting Bank of Albania's target or credit to the private sector.

Against these trends, the policy implemented by the Bank of Albania has mitigated their negative effects.

The implementation of the conventional monetary policy by the Bank of Albania has provided adequate and duly interventions without jeopardising the core underlying principles for the good management of monetary policy and exchange rate regime.

Overall, the policy framework implemented by the Bank of Albania regarding the increase of foreign reserve, reducing the negative impact of the exchange rate on inflation, drafting a regulatory framework to promote lending to the economy in the domestic currency are important elements of a policy package that promote macro-economic and financial stability, which should be endorsed.

Nevertheless, the fact that banks operating in Albania have a low impact on the economy remains a concern, as their loans to the economy are much lower compared to the level of deposits they hold.

Referring to the assessment of the European Central Bank, during the last 10 years, Albania has the lowest loan-to-deposit ratio and the lowest banking system assets-to-GDP ratio.

According to the European Central Bank, one of the reasons why banks have reduced lending in Albania, relates to the weak rule of law. For this reason, a return to the lawfulness and strengthening the rule of law, complete, rapid and reliable functioning of courts and the genuine fight against corruption would bring a rather positive effect on strengthening the banking system's contribution to higher economic growth.

Albanian financial system has experienced important changes in terms of shares ownership.

Restructuring of financial system in the European economy is accompanied by the restructuring of these banks affiliates in the economies of our region.

Also, the changes in the regulatory framework of the euro area have encouraged banks present in Albania and region to review their position in the Western Balkans countries.

These changes have driven to a higher consolidation of the financial system in Albania and to the entry of new actors in the financial market.

Traditionally, banks have fulfilled a set of crucial functions in economic systems, including the transformation of clients' deposits into the long-term financing for corporates and households, as intermediaries in money transfer mechanisms, including payment systems; as intermediaries and market makers in securities markets; and as supporters of public policies for governments, by expanding lending to priority sectors, or to boost growth.

Secured deposits and the access to funds of the central bank have enabled banks to have higher access in liquidity at low cost.

Focusing on the importance of technology, I would like to emphasise that technological novelties introduce an important dimension of financial intermediation perspective.

The challenges and difficulties that financial industry, at global level, has faced, have promoted these new technologies for providing financial products and services.

Thanks to new technological tools, every day, new possibilities in the form of innovative products and services in financial markets are made available to the public.

Ladies and Gentlemen,

Traditional banks should update their strategic focus to keep up with the most recent developments. Their brand and reputation remain potentially powerful while confidence in alternative banking services providers is still lacking.

Banks should expand innovative products, which have the potential to promote productivity and effectiveness in financial intermediation.

The services and products provided by these technological novelties have the capacity to access levels of population, which still do not feel capable partner for traditional banks, or do not have shown the necessary flexibility to benefit from the financial services of the traditional banking.

A comprehensive assessment of potentials and risks that accompany the financial novelties helps to draft the regulatory frameworks of these activities for a stable economic growth, consumer protection and maintaining financial and macroeconomic balances of the country.

Co-existence of financial novelties with the existing banking industry should give rise to a development and expansion of new possibilities to both existing actors of financial industry and the real sector's entrepreneurs.

It is necessary for these developments become supportive and sustain small emerging economies, as they may increase financial inclusion.

A higher financial inclusion is accompanied by new potentials for both the so wished economic growth and the traditional entities operating in this industry.

The adoption of these new possibilities under the oversight and supervision of financial authorities serves to financial stability of the country itself.

Last, I would like to thank you for the invitation and commend the Bank of Albania and LSE for the rather positive contribution, addressing these issues at academic and institutional level. I wish for a successful conference. Also, in light of thought-provoking points raised by Mr Ahmetaj, I wish this Conference will generate new ideas for a higher and more stable economic growth.