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PRESS RELEASE

Meeting of the Financial Stability Advisory Group, February 28, 2012

Following the signature of the Memorandum of Understanding between the member institutions, the meeting of Financial Stability Advisory Group (FSAG) took place on February 28, 2012 in the Ministry of Finance. The meeting was chaired by the Minister of Finance and was attended by the Governor of the Bank of Albania, the Vice Chairman of the Board of Financial Supervisory Authority and the General Director of the Deposit Insurance Agency, accompanied by their technical staff.

On the basis of the information submitted by the participating institutions, FSAG (*GKSF*) has analyzed the situation of the financial system in the country, especially the banking sector, and has assessed it to be well-capitalized and liquid, hence, a stable one. FSAG has found that the expansion of the banking system activity is supported mainly by the deposits growth of businesses and individuals, in domestic as well as in foreign currency. During 2011, the banking sector credit to the economy grew at a higher rate than during 2010. Also, the growth rate of the credit in domestic currency was higher than the one in foreign currency. However, credit quality indicators have deteriorated, albeit with a slowing pace. As a result, in accordance with the requirements of the regulatory and supervisory framework, the banking sector has increased the level of provisioning to mitigate the credit risk. The provisioning growth has led to a decrease of the positive financial results.

FSAG assessed that the aim to further improve the credit quality, should be considered with priority and in an extended and comprehensive way. This is a necessary element to release the significant potential of the banking sector in financing valuable investment projects coming from the households and business sector. In this context, FSAG has appreciated the preliminary results of the work initiated by an inter-institutional task group, to identify the legal and operational solutions which facilitate the process of collateral execution, and also urged their implementation by adopting the necessary changes according to a particular action plan. FSAG has estimated that the composition and the scope of this working group could be expanded, aiming at identifying and implementing further regulative and operational improvements of the credit activity. A better liquidity position of the business sector will have a positive impact on improving the credit quality of the banking sector. For this reason, FSAG suggests to the

Government to influence on ensuring timely payments for private sector contractors engaged in various Government projects, in accordance with the legal provisions of safeguarding the fiscal indicators.

The FSAG discussed the liquidity situation in the interbank market and in the primary market of government debt securities. FSAG noticed an increase in the volatility of the interest rates in the primary market of government debt securities in the recent auctions, but assessed that this should be a temporary phenomenon that reflects similar changes in demand and supply, and is however, a sign of a functioning market. A better planning of these changes, as well as the extension of their impact over time, would improve the expectations of the market operators, maintaining the stability of interest rates in the subsequent period. To the objective of expanding the number of participants in the primary market for government debt securities, FSAG gave support to measures that promote a larger participation from households and from insurance companies that operate in the country.

In the meeting, the FSAG has also reviewed the latest developments in the international financial markets and found that the situation remains complicated, despite some positive developments in the euro area, in particular the EU decision on the financial aid to Greece. Although good levels of capitalization and liquidity represent a sound basis of protection for our financial system, FSAG prompted the authorities to carefully monitor the international developments and take the necessary regulatory and operational measures in advance, in order to limit the impact of these developments on our financial system to the greatest possible extent. In order to prevent and handle the risks in our financial system and to increase the efficiency of the public authorities, FSAG has urged them to continue to work with priority on improving the legal framework and strengthening the cooperation, as well as their human, financial and technical capacities. In this context, FSAG has considered that the memorandum of understanding, recently signed by the member authorities, represents a document that identifies some concrete objectives and provides a better alignment of authorities' work in exercising their role for maintaining the stability of the financial system.

In conclusion, FSAG planned the next meeting to be held in May 2012.