



**FINANCIAL
STABILITY
ADVISORY
GROUP**



Tirana, 18.12.2012

PRESS RELEASE

Meeting of the Financial Stability Advisory Group 3 December 2012

On 3 December 2012, the Financial Stability Advisory Group (FSAG) met at the Albanian Ministry of Finance premises. The meeting was chaired by the Minister for Finance and was attended by the Governor of the Bank of Albania, Director General of the Deposit Insurance Agency, Chair of the Financial Supervisory Authority, senior officials from these institutions, as well as the respective technical staff.

According to the agenda, the FSAG initially discussed the lending performance of the banking sector. Emphasis was placed on the state of credit quality, which has continued to deteriorate. Representatives of the Bank of Albania highlighted the reasons for the deterioration of the credit quality and its impact on the performance of the banking sector and the real economy. The slowdown in private consumption and public and private investment has led to the decreased demand for loans, and the pronounced slowdown of economic growth has contributed to worsened borrowers' repayment ability. From the communication with the banking industry, several measures have been identified that would improve the ability of the banking sector to gradually overcome this situation. Many of these measures require legal action to enhance the efficiency of collateral execution through the introduction of appropriate incentives for all the parties involved. These measures mainly consist in amendments to the Code of Civil Procedures; they have been previously submitted to the Ministry of Justice as proposed amendments. The participants in the meeting

stressed the need for harmonized action by public authorities to address this problem. They broadly supported the proposed measures and underlined the need to contact the Ministry of Justice and receive information on the status of the proposed amendments in the context of the ongoing work by the Ministry of Justice to amend the Code of Civil Procedures. Furthermore, the participants deemed that the settlement of the public sector liabilities toward the private sector companies would represent an important contribution to the improvement of their financial situation and repayment of their obligations toward the banking sector.

The amendments to the Law "On Deposit Insurance" in July 2012 aimed at strengthening the financial capacity of the Deposit Insurance Agency and, hence, required the preparation of specific procedures on the cooperation between the Deposit Insurance Agency, Ministry of Finance and the Bank of Albania. For this purpose, an agreement was reached and signed between the institutions participating in the FSAG meeting.

In addition, the participants discussed about the liquidity situation in the interbank market. Focusing on the distribution of liquidity and financing needs of the government, the FSAG estimated that the volume and time structure of the demand for money should appropriately reflect the liquidity situation in the interbank market. In a broader context, the FSAG assessed that the uncertainty in the domestic economic growth and international economic developments dictate the need for greater care with regard to planning the budget revenues, as well as to the size and composition of public expenditures.

In conclusion, the FSAG was informed on the need for a change in the composition of the Secretariat, and supported it. The next FSAG meeting will be held no later than March 2013.