**A Brave New World?**

**The Future of Banking in Emerging Europe**

*Rethinking Size, Structure, Ownership, Policies and Incentives*

Conference co-organized by the Bank of Albania and the London School of Economics and Political Science (LSE)

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Welcome address by **Erik Berglof**, Director, LSE Institute of Global Affairs

Thank you very much and it is great to be back in Tirana. I have had the pleasure of being involved in Albania for quite a few years now.

Of course, we are very honoured to have His Excellency President Meta here, and also the current and the former Ministers of Finance and Economy; and we are excited with this collaboration with the Bank of Albania. For me personally, it has become an opportunity to, once a year, come here to Tirana and keep up my interest in Albania. It is also an opportunity to meet international friends and meet them in such a wonderful setting.

The fact that I want to come here once a year does not mean that I do not think of Albania in-between. Watching Albania over the last year or so, you get worried about politics here and I think that this is something normal for someone who has tried to report and support the very major changes that have happened here in the last decade. The process of the EU accession is so critical and I very much hope that we can get through this politically difficult times. There is so much potential in this country.

When discussing the topic for this Conference, we wanted to find a topic that was different from previous years. Last year, it was very much about global issues and about thinking from the perspective of Albania, about these global issues. This year we wanted to really try to have a topic that is very much affecting what is going on locally and where there are policy options for Albania. Having been involved in the process of reinforcing the banking system during the financial crisis – and also remembering the role the Albanian central bank at the time played in supporting the so-called Vienna Initiative which tried to manage the impact of the global financial crisis on the banking systems of Emerging Europe. Having been involved myself in that, I think, quite successful effort, it is of course worrying to watch foreign banks leaving the region. We did so much to keep them engaged during the crisis and even though we knew it would happen to some extent, watching them leaving has been painful. It is very good therefore to see that the situation has stabilised and there is now time for reflection, to think about what has happened – and about the future.

The retreat of the foreign banks is not something that has happened only to Albania, or the Western Balkans. It is something that has happened to all Eastern Europe and actually it is a global trend. But in many respects Eastern Europe was ahead of the rest of the world in terms of integration of the banking system across borders.

We have learned some things from this experience, and we are trying now to see what the future of cross-border banking looks like. We know that you can have foreign banks operating in countries without really having any role in capital flows. We have Latin America where foreign banks are very important, but basically all that they do is to help intermediate domestic savings. Of course, that is a very important role and we shouldn't at all minimize this – foreign banks have played a major role in modernizing the banking systems in Latin America as they have in Central and Eastern Europe and in the Western Balkan.

One the other hand, one issue that we should think about during today is whether there also is some role that the banks can play in making sure that there are safe and steady capital flows, less volatile than what happens in the financial markets, when capitals flows are not intermediated by banks and particularly not in the way that banks have intermediated in Central Eastern Europe. We know that in the global crisis we complained about the withdrawal of funds by banks. But every other form of capital flow was much more volatile and withdrew much more quickly.

It is a fact that we now have professional banks operating all over the region. We may want to see how they could also play a role in securing investments into Albania and the rest of the Western Balkans. We want capital to flow into the region for higher growth in the future. Of course, we also want to use domestic savings, but it is important to reflect on what role can banks play in making sure that we get steady flows of capitals. After all we need that banks will be critical to financing economic growth for the foreseeable future in Albania. They will also play an important role in building the financial system that will support Albania’s transition to a high-income economy.

Those are, I think, some of the issues that we want to talk about and I am very much looking forward to today’s proceedings.

Thank you!