

# **GOVERNOR ADDRESS IN THE CONFERENCE: “THE ROLE OF THE BANKING SYSTEM IN IMPROVING BUSINESS ENVIRONMENT” DECEMBER 17, 2002**

## **HONORABLE PARTICIPANTS!**

It is a pleasure for me to open one of the most interesting conferences of confronting business community with the banking system in Albania after a long series of meetings and exchange of official or spontaneous opinions. I think that it is not easy to hug the entire range of relations between bankers and businessmen but I believe that the conference: “the role of the banking system in improving the business environment” organized from the Bank of Albania in cooperation with the National Bank of Greece if not resolving will address a number of matters and questions bringing to light most diversified reasons.

I do bear this conviction that for the fact that as the Bank of Albania, commercial banks are aware on the undisputable role of private business in the economic development of the country and the insurance of a real and stable economic growth which in other words means that “ healthy clients” of banks thus the maximization of profits by both components.

I believe that we share the same opinion that in the last years banks have done their best with respect of increased credit and the formalization of business by “banking channels” as it has been clear that it remain a lot to be done by either banks or business with respect of improving bank- business relationships.

In this framework the Bank of Albania considered as adequate a process of discussions, a process of confronting thoughts and opinions between banks and business.

However, in my central banker position, I wish that apart the transmission of messages in favor of the strengthening cooperation between banks and business in this hall to also bring to your attention some other questions which although at first sight, these might be simply considered as the Bank of Albania

business, I guess that in one way or another there are also other actors influencing our national economy a component part of which are you.

## **CREDIT TO ECONOMY AND MONETARY POLICY**

As already aware the basic function of banking system is that of channeling savings or other free assets of superfluous units towards deficit units. Bank credit comprises one of the most potential resources in financing the economic activity of enterprises meantime that banks serve as the instrument enabling the flow of funds in economy. One of the resources as in the reality of a market oriented economy, financing alternatives of business needs are some such as the capital market, debt instruments market etc, keeping in mind that in fragile economies the informal sector is not exempted. Particularly in transition economies as our economy is; the combination of a poor heritage with several structural difficulties really hardens the functioning of the first three conduits, leaving more space to business financing in risky ways as in the case of informal market borrowing. Moreover, the low rate of awareness, structural disfigurements as well as the lack of confidence makes our country lack an operating market of capitals and securities yet.

On this layout, it is clearly evidenced that financing the economy through banking credit assumes a special importance and for this the role and responsibilities to be taken by policymakers, bankers, business etc are several and subsequently I will try to attract the attention of the audience with this respect.

The Bank of Albania in the throng of its legal duties cannot escape its position of a decision-making authority, which by means of the policies it undertakes it influences the lending

performance of economy. Reacting to the higher price of currency it increases lending price to economy making economy costs and interests of economic agents for financing business by banking conduits decrease subsequently. It is also true that the reverse action, as in the case when the central bank monetary policy becomes looser and businesses are added on interest to be financed from the banking system, which in final analysis leads to the incentive of the overall productive and investment activity in economy.

Anyway, this is a highly theoretical insight viewed on a macroeconomic prospect. Troubles with the real world are rather more reverse. The central bank play with the interest rates is intended to keep an overall balance in economy. It is aimed at stimulating increase of production at minimum costs of inflation so that long-term gains are stable to really assist in the increasing welfare and the economic prosperity of the country.

On the other hand, for many reasons, especially in developing countries, the central bank control may be imperfect, as markets or otherwise said channels of transmitting monetary policy decisions are imperfect. In spite of that the most important thing relative to banks lending as one of the most important conduits of transmitting monetary policy decisions in economy also for the reason that as the Bank of Albania we bear the intention to treat this question with the maximum interest it deserves.

For previously declared reasons on the Bank of Albania behalf, credit to economy has been contracted although recent years developments remain at low rates in relative terms to GDP remote the average rates of developed and other transition countries.

I must be stressing apart others that a considerable part of credit is foreign currency extended making the efficiency of this potential monetary transmission conduit be fainted increasing the Bank of Albania difficulties in controlling its final target, the stability of prices.

However of interest for the majority of participants in this hall is that the Bank of Albania especially in the recent 2-3 years with the policies undertaken, those intertwined with

a prudent fiscal policy have contributed in establishing a stabilized macroeconomic situation, which is an important prerequisite for the economic expansion of real economy in broader range. The Bank of Albania efforts to hold inflation by low levels have affected apart others the creation of a more adequate environment for productive activities and investment initiative generally. Many distinguished analysts cite that a clear fight against inflation comprises the best contribution possible that a central bank can give to its national economy and more precisely to the achievement of other targets as those on economic growth, employment, etc.

In this framework, the Bank of Albania considered a process of discussion and facing opinions and ideas between banks and business.

### **CREDIT TO ECONOMY DURING 2000-2002**

Fairly during the recent years as part of the public debate is presented credit to economy on banking system behalf. Credit over '90's has been mostly a theoretical notion. Statistics are relevant. However I would not wish to concentrate on this matter. It is true that in its analysis the Bank of Albania has tried to explain the reasons of this phenomenon, which I must partly confirm as existent.

Providing an outline of the lessons drawn from the previous decade we I would briefly stress that inability and corruption by the governing segment of the banking system; an incomplete and inefficient legal framework and influence of competent organs for the execution of decisions an unfavorable business environment in Albania and in the region business community and premature businesses and adventurous to somewhere, subsistence and a high attendance of the informal economy; vague experience and a small number of banks etc. There are also other reasons, which although at a different intensity are assessed as contributing in keeping the business community far away from banking counters and the reverse.

However early year developments of the new millennium have evidenced an apparent invigoration of the lending activity of the banking system. As well as during 2001 credit

to economy during the nine-month period 2001 keeps growing with high rates. At the end of September 2002, outstanding credit reached over Lek 44 billion increasing by Lek 7,7 billion against the end of 2001 or nearly 1.5 times higher than the increase of outstanding credit on the same period previous year. On the whole year it is expected to accord a new credit at almost Lek 58 billion that is 17,5 billion more than in the previous year or about 8 billion more than the entire lending over 1993-1999.

It is a fact that in Albania during 2002-2002 it is increased the macroeconomic stability and it is added the number of serious and reliable businesses, making their credit on bank side be higher.

This has forced the commercial banks especially those recently licensed in 5-6 years be more aggressive especially regarding the identification of new serious and potential clients who need to expand their productive capacities and the volume of the turn over. I evidence that banks mentality is better with this respect and this is clearly evidenced from cashiers who are directly in contact with the to serve the customers to the board of directors responsible for business development. Trained staff regularly contacts the potential customers undertaking straightforward market campaigns with old and new clients. The normal point of starting endeavors for the development of bank business is market research and its study. In some banks, the management of activity has placed targets on the structure of loans and identification of possible business areas. The research may formally analyze the economic conditions, local demographic trends and interviews with the clientele. Preferential interests are applicable for clients with a serious history in bank –client relationships borrowing. Through banks provided leaflets the public gets aware on lending possibilities.

An important means has become the publicity in the written and electronic media as well. The majority of private banks participating the net borrowing market view this as one of the most profitable investment alternatives for the bank itself and a contribution in the economic development of the country at the same time, paying a special importance to expanding branches and subsidiaries by many other country regions.

We generally observe with pleasure that banks have improved consultancy offices by on lending and added the number of credit officers by them. Every client entering any bank environment finds respective data posted on credit terms. Further anyone interested in lending finds the required information by consultancy offices. Giving assistance to business representatives requesting credits though drafting business-plans as an element of financial intermediation is another way to help them.

From a the Bank of Albania performed survey in the current year on the lending and depositary activity it was enabled the attraction of respective specialist opinions or responsible persons for these commercial bank activities, their branches and the saving and loan agencies’.

To be drawn from the analysis were these main conclusions as below:

- *The most important factors determining the interest rate are profit and risk rate.*
- *The preference for the short-term credit derives from the low level of risk as well as from better monitoring possibilities of credit.*
- *The services and trade activity have been the most preferred to credit over this term.*
- *The lessening of bureaucratic procedures and banks increasing their readiness represent the most important points where banks must be reflecting that the clients be more addicted to bank or official services than informal ones.*

Once more returning to quantitative indicators of the most recent credit performance in economy I would be underlining that compared to the forecasted monetary program for 2002 to the end September 2002, credit to economy has been met at 85 percent on monthly average reached Lek 856 million, exceeding the forecasted rate by Lek 785 million.

To be mentioned as particularities of credit to economy in the third quarter 2002 are the following:

- In relative terms is evidenced that 91 percent of the total outstanding credit in the third quarter compared to the second is resulted from the increase of the long- and mid- term outstanding credit;
- Outstanding foreign currency credit remains preponderant on the total outstanding credit (67 percent), **however in the third quarter 2002 the economy, for the first time, has been more Lek credited than in foreign currency,**
- Credit to the private sector prevails with 97.4 percent. Net outstanding credit for the public sectors records decrease as a result of repayments.

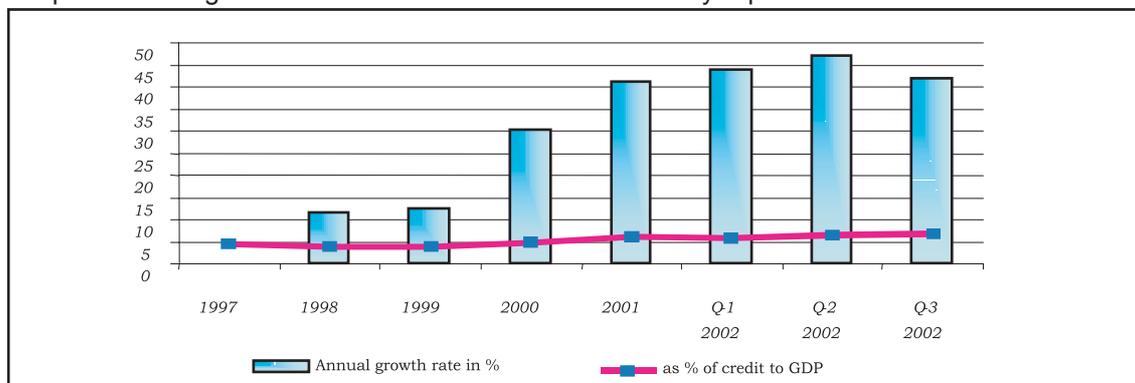
**New credit** in the third quarter 2002 reached Lek 16, 2 billion or nearly 1,4 times higher compared to the same term 2001. Main peculiarities accompanying new credit delivery in this period consist in the following:

- 70 percent of it was short term credit

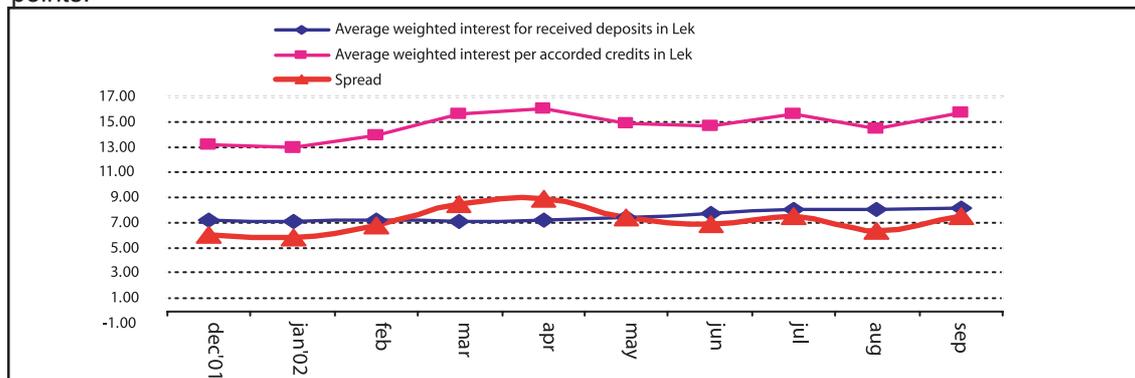
- New credit has gone at the advantage of the private sector and individuals,
- 54.1 percent of the new credit in the third quarter 2002 has been Lek accorded. In the recent three years, it is for the first time that range of the new credit delivery in Lek has been higher than that in foreign currency,
- New credit accorded as banking system over January – September 2002 has been Lek 44, 2 billion.

The average weighted interest for accorded credits in Lek as banking system in September is 1.14 percentage points compared to the end of the second quarter. One of the reasons is the increase of the treasury bills yield taken as reference rate to calculate applicable interest in Lek. Another reason is the long time presence of a similar situation where lending market has not a stable interest and a pure developing trend yet. The average spread between accorded credits in Lek and Lek deposits remains high yet.

Graph 1. Annual growth rate of 12-month credits to economy in percent.



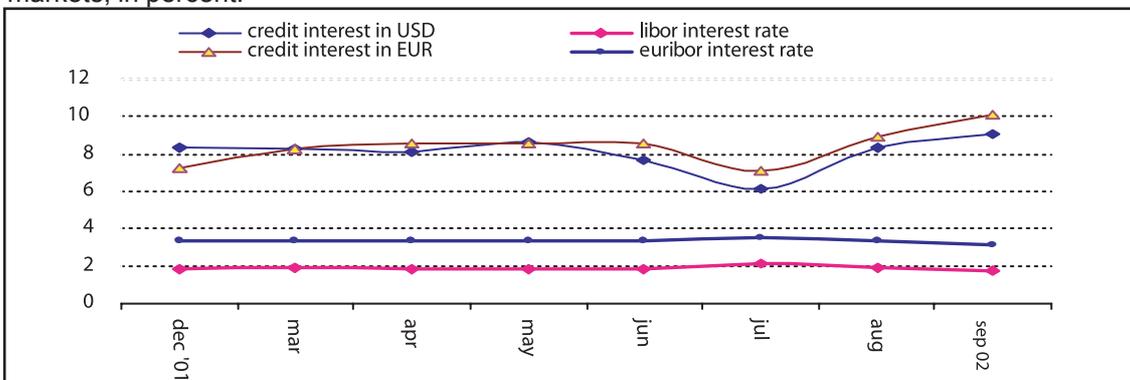
Graph 2. The average spread between deposit received in Lek and accorded credits in percentage points.



Average weighted interest per accorded credits in foreign currency as banking system during August, September disclosed growing trends. In December 2001- September 2002 the trade

catching is that credit contribution by productive investments remains low yet and moreover considering the high weight of credit to trade activity, it might be jumped to the conclusion

Graph 3. Interest performance for accorded credits in foreign currency by domestic or international markets, in percent.

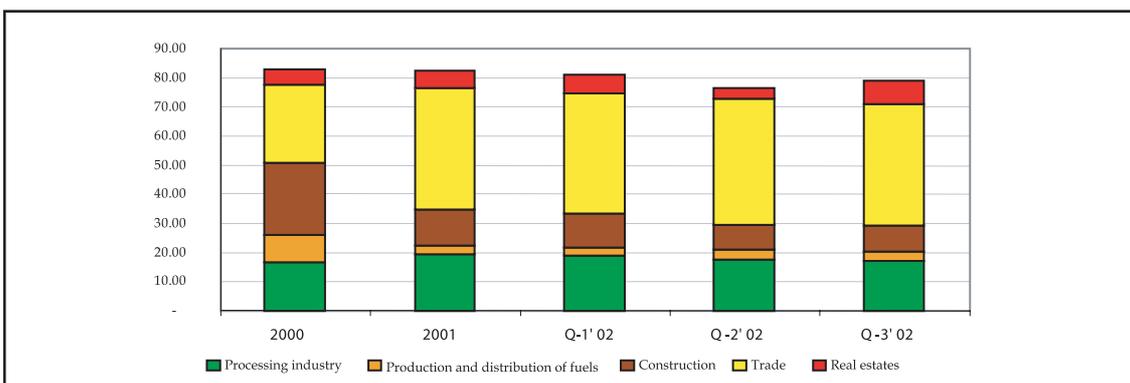


sector remains the most preferred sector to credit. Whereas, the preference for construction sector has disclosed a slight rising trend in the third quarter 2002 meantime that in the first half of 2002 credit requirement for this sector estimated decline. Credit for purchasing real estates has reflected a rising trend.

that most credits are destined for financing imports. In fact lending is a very complicated activity, which is not merely dependent on banks willingness or clients' or the Bank of Albania insistence. Today, you cannot even image to impose or orient market actor's directives to displace the focus of their activity by certain segments of economy. The logic of market economy is as such that it incites the economic agents to be constantly addressed by profit. From practical viewpoint, no

**WAYS OF FURTHER IMPROVING BUSINESS - BANKING SYSTEM COOPERATION ENVIRONMENT.**

Graph 4. Outstanding credits by economy sectors.



The above-mentioned developments despite the optimistic signs they transmit these cannot be considered as adequate for the expected developments connected to economy financing. Viewing the structural composition of overall production in Albania, most noticeable is that dominant sectors like agriculture, industry or any other continue to not absorb adequate capitals. On other hand, most eye-

businessperson cares whether agriculture occupies the largest part of the overall domestic production retaining a great profit potential consequently. As long as the agricultural production, placed in the recent 10-12 years reality, presents as unprofitable and hard to manage it seems difficult to guess that will be attractive to absorb own capitals or those borrowed from domestic or foreign business at least. I believe that we all are of the same

mind in this point that the preponderance of the small size economy is turned into a strong barrier to the penetration of financial capitals in economy. Following this reasoning, bank businesses attending the rural community becomes as difficult as a chain process; our economy will not manage to activate its economic potentials consequently. However referring to the three representative communities present in this hall bank business and the central bankers community I assess that each of us bears its allotment to contribute in the quantitative and the qualitative growth of lending activity to economy. On the other hand as equally important will be merging three communities into the so-called a permanent pressure on the executive and decision making authorities which in one way or another are responsible for the acceleration of reforms in legislation or economy.

More precisely, I would further underline some of the directions I guess that from medium term viewpoints are of priority to further stimulate and invigorate the bank credit in economy.

#### THE BANK OF ALBANIA

- **The Bank of Albania role will be mainly focused on meeting its own commitments on a general macroeconomic stability with a special accent on controlling inflation.** We firmly stick to our stand that a low inflation average below 3 percent is a precious contribution, which in no case runs counter to our economic growth targets or the increase of employment or the country welfare.
- **The Bank of Albania assess that a banking system is able to generate credits when it is sound financially and not exposed to different risks.** Fragile economies are generally considered of high risk in their essence starting from political to operating risk. Such high potential certainly has a negative impact making banks be more prudent with their lending policies. This is the reason why in the Bank of Albania mid-term plans it has been planned an entirety of measure aiming the strengthening of the Bank of Albania supervisory abilities to have a safe and sound banking system. The Bank of Albania is following very attentively this recently disclosed tendency namely in the last

years of the prevailing credit in foreign currency, initially engaged in examining risks resulted from it to further ensue with respective assessments and recommendations.

- **The Bank of Albania will track a prudent policy in completing its function as licensing authority for financial entities involved in lending activities.** In the context of what above mentioned, I take the opportunity to applaud the domestic capital initiative to be committed in bank business and assure then the submitted applications will be objectively examined and within the right time.

- On the other hand, the Bank of Albania will encourage and give unwavering support to banking system specifically and financial system in a general sense. It is assessed that the Savings Bank privatization will bring about a larger impact in expanding credit at same time triggering the rest of the banking system to be more prudent with the addition of the competition. Other important steps in the medium-term plan i with this respect the Bank of Albania assesses the credit book-entry registry and making some changes in "On banks in the Republic of Albania" equipped with the respective commentary finding a new owner for the National Commercial Bank etc.

- **Also I would like to stress that the Bank of Albania will unwaveringly accept to become a party or to offer its expertise as many times new projects, tables, forums, debates etc are conceived aiming the improvement of business environment in general or the addition or channeling more efficiently bank credit, in particular.**

#### BANKING SYSTEM

I mentioned some new manners in the behavior and marketing of the majority of commercial banks related to their lending policies. However without negating the success, I would like to evidence some of the directions helping the establishment of a warmer bank – business environment.

- Before all, I would request the banking system be more open and transparent to the public. Transparency is one of the important factors to strengthen bank – client relationships and more over it gives a broader sense to the concept of reciprocity in the mutual bank – depositor and bank – business relationships.

Actually banks should not pretend that the publication of the annual report is enough and with that you have finished all the rest. We must accept that the poor heritage from the past combined with the contradictory developments of the previous decade where to be made apart is the notorious experience with the pyramid schemes sets us, bankers in front of a great obligation for more transparency and opening and more patience with public contacts. On the other hand, I believe that, this is an efficient way to ensure a financial stability in general, as the recently passed spring made once more clear to us that crisis with their highly likelihood to occur are those related to public confidence on the banking system.

- **Irrespective of the reverse opinions in the recently developed public debate related to the current condition of the Albanian economy I am in the opinion that the overall economic-social- political environment is as such as leaving space to a greater expansion on the banking system mainly based on the viewpoint of the geographical stretch.** A rising coverage of the territory as well as new branch opening will comprise a greater impulse in mobilizing unused funds in rural areas especially creating in this way high profit potentials. Also in areas with a high tour potential continue to be uncovered with banking business causing a chaotic development of family tourism which is mainly financed from household resources to a certain extend.

- **To proceed with the above started idea, I believe that the commercial banks aggressiveness must be more increased.** What I really want to say relates to a higher aggressiveness in the exploration of markets or high potential businesses in return or the geographical exploration of free funds etc.

- **In conclusion, on the behalf of the reciprocal interest I would encourage more institutionalized links with the reverse businesses institutions or associations.** Perhaps, it is time that the bankers' association establishes regular contacts with the different business representatives, which certainly will make the life of each party become more easily spiritually and financially.

#### **BUSINESS**

It must be stressed that Albanian business age if am consented to make a comparison is at

the eve of adolescence. However, what is important relates to the fact that Albanian business performance is really impressive and I cannot negate that this fact makes me proud of being Albanian.

In my position as an economist and as superintendent of one of the most important institutions in the decision-making of economic policies taking the opportunity from this event I would like to offer some suggestions which I sincerely hope you to welcome and understand.

**First of all, I would like to start with an appeal for more confidence and respect in address of the Albanian banking system.**

One sector, segment or a single institution excellence is a process, I may be labeling as a never-ending story. With that I would like to stress that excellence or perfection is only in relative terms although current developments in the majority of the developed countries are highly impressive when in contact to them. Returning inside the Albanian boundaries, I would not exaggerate if I say that we remain far off the best standards and practices and all economic political and social segments are remote from those really wanted accordingly. However I would not exaggerate if I state that from the Bank of Albania viewpoint we are in the opinion that we have set up a safe and sound banking system which I can classify without scare as the best regulated and supervised segment on the whole Albanian economy.

**Second, I believe that I would ne understood in my request for more honesty and professionalism in bank- business relationships.**

The to established relationships between the banks and businesses must be legally opened and of reciprocal cooperation. More concretely businesses must understand that that banks are a composite part of their activity if they want to be really successful and for a long time. On the other hand, businesses must be understanding that additionally to its financing abilities it also has another skill to really understand how able and honest are businesses in their addressed requests. Without doubting the honesty of participants in this hall it is many times said that there are businesses that through falsified balances try

to escape the fiscal duties. In some cases, businesses plans are amateurish prepared or do not create the conviction to be credited.

#### WHAT ABOUT OTHER ACTORS?

Unquestionably right from the start we handled those principal directions that must be characterizing the activity of the three communities represented in the hall to a short – and medium-term perspective. I tried to bring some priorities without pretending to handle all possible directions which as matter of fact need more time and concentration If am allowed before passing to another closely related matter to December, I would like to briefly mention some of the directions which I think must be in the agenda of the priorities of the highest state institutions of Albania.

- Initially I would like to cease by agricultural and tourism sector. The way these sectors are treated and stimulated over the recently passed 12 years indicate a lack of vision to the future. After a rapid reform regarding lands in 1991 there has not been undertaken other important steps in favor of inciting interest and the increase of agricultural output. Small owners with very few productive assets and with a lack of willingness to cooperate with each other have made the sector performance with the passing of years grow pale. The law on the ownership of land is actually very much discussed but as expected from political analysts this matter is complicated and it seems that there is a political handicap, which might defer the solution of this problem for a very long time. The same happens with the tourist potential of the country very few investments in infrastructure, illegal constructions, insufficient capacities in accommodation and service remote the contemporary concepts comprise the most typical features of tourism in Albania. Perhaps the whole forecast was a bit longer but with this I would like to stress that these highly profitable and economic prosperity potentials for both communities either banking or business have been already inactive for very long time and I believe that it is time to activate these resources.

- Problems related to the execution of guaranties or collateral per received credit. It is no breaking news that justice in Albania

demonstrates problems. However, worth underling is the fact that there are mortgaged real estates and other forms of collateral but in the most of cases these guaranties offered from the credit solicitors are not executed from executive offices, which phenomenon has made the banks demonstrated more watchful in lending.

- **The low level of information, telecommunication and road infrastructure.** Nowadays information technology priorities have become indispensable. These developments unfortunately are not yet encountered on a wide scale in the Albanian banking system. Moreover, we lack centralized data entries where banks can receive the required data on their possible clients their relations to other banks, data on list of deceitful clients or fakers etc.

- **The informal market existence of the economy.** Collected currency from illegal traffics and smuggling are transformed into investment resources, diminishing the credit demand to somewhere.

- **Other.** The inadequate public culture regarding bank relationships; Albanian economy oscillations and in the fiscal administrate; the lack of projects in regional and sectors framework necessary for developing economy, the regional situation and the business environment within the country etc.

#### ONCE MORE ON INFLATION

In conclusion, I would cease briefly on a frequently heard argument, using the case to bring it once more closer to the table of one of the groups to which is addressed the anti-inflation campaign undertaken from the Bank of Albania precisely business.

The considerable growth of prices at the end of the year is identified from the Bank of Albania as partly bearing a speculative origin. Set in front of an inelastic demand for food products at the end of the year due to the holiday's prices are highly grown by Albanian market segments in a speculative way. Since moving prices influence the Bank of Albania core indicator, inflation was assessed to develop in a public awareness campaign on this problem.

Important elements of the campaign are cooperation with other local and government organs, the constant announcement of prices or the public education. We have just passed mid - December and the increased prices phenomenon has begun to be recorded. The Bank of Albania in collaboration with GTZ has organized the collection of prices in some markets of Tirana and the publication of data as well as it aims setting in front import prices from customs, retail and wholesale trade.

The identification of these prices will make the chain of speculation be identified so that all together endeavor its elimination in the future. It is clear that the impact of these endeavors will be tangible if ensured respective collaboration from respective executive authorities.

For some reasons, we bear the conviction that the effect of this phenomenon cannot be fully eliminated by one or two campaigns. Also the

actors of this speculation, consumer with their added request and businesses on the other hand need more knowledge and reciprocal confidence and the final restoration in this case will need its own time as well. However, what I will be requesting in this moment relates to the fact that to aid this campaign among others there must be also ranked the business community itself. To this end, I guess it is not exaggerated if I addressed an appeal to publicly uphold these the Bank of Albania endeavors. I want to assure that among the beneficiaries from the consumer price stability, your businesses will rank first undoubtedly.

From this platform I want to end my speech addressing one slogan of the campaign: "Manufacturers and traders why is it needed to pay or spend some times more for holidays? You are costumers yourselves"

Thank you and successes in the next year.