

BANKING SYSTEM DEPOSITS OVER THE PERIOD OF 1999-2000

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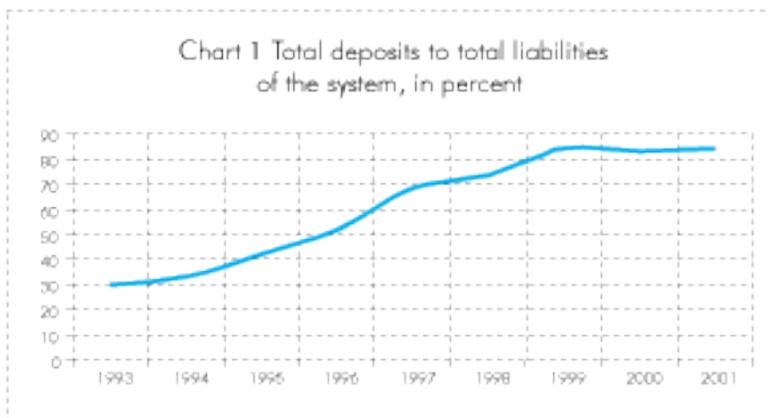
Keywords

- Deposits - Money supply - Deposit activity - Level of deposit interests -

The performance analysis of deposits accepted by commercial banks and their composition as to the multiplicity of types, terms and currencies has a specific importance in some aspects. Amongst the most important, we would mention the contribution they give in creating broad money and its component elements, playing an important role in assessing inflation pressures in the economy. On the other hand, broad money structure and its stability comprise an important resource to credit the domestic economy, helping the economic growth of the country. This paper deals with banking system deposit performance over the years 1992-2001, the factors that have influenced deposit performance, the monetary policy followed by the Bank of Albania, deposit structures as per sectors of the economy and the development of deposit market in the banking system.

I. TOTAL DEPOSITS AND THEIR IMPACT ON MONEY SUPPLY

Banking system deposits for years 1992-2002 have recorded a growing trend. This is reflected in the stable growing trend of total deposits to total liabilities of the banking system.



The reasons for the increase in deposits consist in:

- Improved welfare, bringing about more savings opportunities,
- Increased level of bank–depositor cooperation,
- Increased number of banks,
- Provision of more products and advertisements.

Commercial Banks' interest in attracting more savings complies with Bank of Albania's strategy for cash reduction in the economy and banking system expansion.

The fact whether economic agents give more priority to money as currency for transactions or to savings at a certain period, provides the possibility to assess the stability of monetary situation. During the periods of inflationary expectations, economic units tend to hold high liquid money, whereas the improving confidence in Lek stability boosts the motivation for savings, enhancing the time deposit share to money supply.

Changes occurring in allocation of financial assets, in the currency in circulation and in different deposit forms, express the motives determining the money demand. These developments over the time reflect at the same time the effects of the Bank of Albania's policy on the use of instruments for achieving mid-term targets with respect to broad money growth.

The performance analysis of financial assets allocation will be viewed in the framework of monetary aggregates and the contribution they give to the creation of broad money. The basic trend of money supply performance in 1992-2001 is presented in chart 2. The determinant element of money supply growth is mainly focused on ALL time deposits of M2 aggregate.

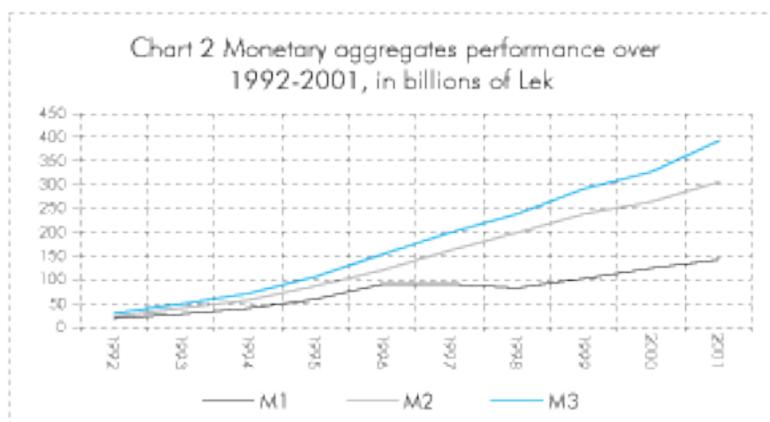


Table 1 Money supply structure in percent

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
CoB	34.39	35.85	39.03	38.99	30.93	36.63	28.52	27.77	30.25	30.26
Demand deposits in Lek	25.28	20.41	15.74	16.15	27.56	9.54	6.43	7.40	7.56	6.10
M1	59.67	56.26	54.78	55.14	58.49	46.17	34.95	35.17	37.81	36.35
Time deposits in Lek	16.55	23.32	26.43	26.17	19.57	35.53	48.24	46.66	42.81	41.23
M2	76.22	79.57	81.20	81.31	78.06	81.70	83.19	81.83	80.62	77.58
Deposits in foreign currency	23.78	20.43	18.80	18.69	21.94	18.30	16.81	18.17	19.38	22.42
M3	100.0	100.00	100.0	100.00	100.0	100.0	100.00	100.0	100.00	100.00
Liquidity indicator	0.25	0.20	0.16	0.16	0.28	0.10	0.06	0.07	0.08	0.06
Deposits in foreign currency/ broad money	0.24	0.20	0.19	0.19	0.22	0.18	0.17	0.18	0.19	0.22

The data in table 1 express more clearly the structural change of broad money over years. Thus:

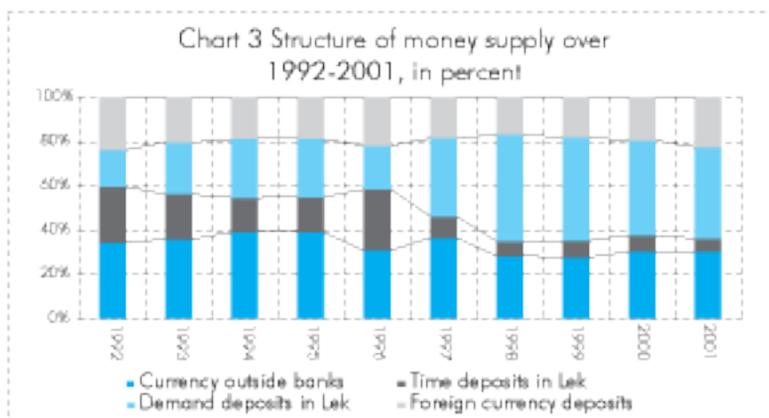
- 4.13 percentage points reduce the share of currency outside banks from year 1992 to year 2001 compared to

the 19.18 percentage points decline of demand deposits for the same period. This has made the liquidity indicator (M1/M3), as a standard estimator of the available liquidity in the economy, from the total of money supply, be downward;

- 24.68 percentage points increase time deposit share in Lek to broad money for the period of 1992-2001;
- Foreign currency deposit share to broad money does not demonstrate any stable trend, due to oscillations presented in different years. After year 1998, however, their share has reflected a growing trend to money supply aggregate. The indicator under analysis is oscillated between 0.17-0.24, recognizing a fall of 0.02 points from year 1992 to year 2001.

Banking system deposit market has generally been upward and with satisfactory paces. These have made money supply developments in Albania for the period of 1992-2001 be characterized by a stable growth of time deposit share to money supply, against the declining trend of time deposits in Lek, excluding year 1996.

The change in the share of time and demand deposits in the broad money has given its effects on the changing structure of money supply, in the favour of less liquid assets, thus reflecting money supply stability over time. The development of relationships between time and demand deposits in domestic or foreign currency,

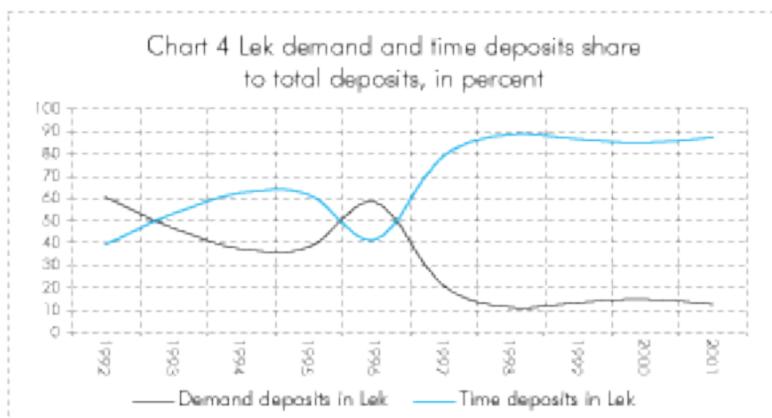


mostly in the favour of Lek deposits, confirms the enhancement of public confidence in Lek's stability and the increased capacity to meet the function of maintaining the Lek's value.

Changes in the ratio between liquid assets against less liquid assets are conditioned by the fact that money is used to meet the needs for transactions in the economy (currency outside banks – demand deposits), for speculative requirements (short-term deposits) and for savings motives (long-term deposits).

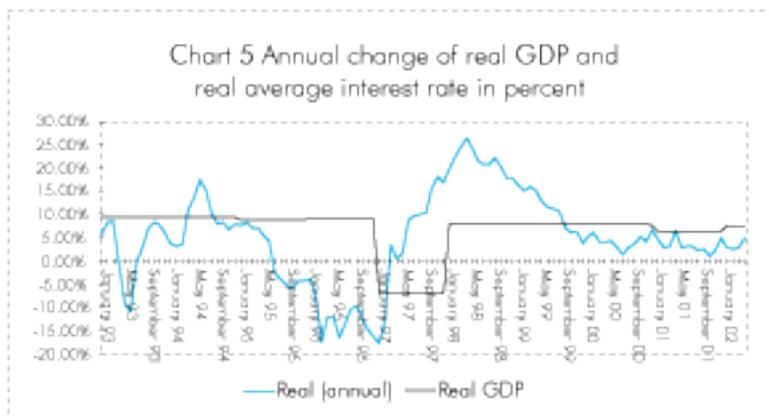
With the passing of years, the ratio seems to have undergone changes in the favour of savings, reflecting the rising confidence in the banking system, whereas the currency outside banks and demand deposits in Lek have decreased their share from 59.67 percent in year 1992 to 36 percent in year 2001. The level of this indicator reflects its not too high degree of correlation between the banking sector and the real sector of the economy. Although commercial banks have done a considerable work to attract businesses, figures indicate that the informal market performs a substantial number of transactions. Some businesses or a part of the public do not prefer to place their money with banks, because of the following motives:

- Their willingness to escape duty taxes;
- Avoiding the declaration of their money source at banks;
- Impediments and delays that they may encounter at bank windows, etc.



The rising motive to savings is clearly expressed in the time deposits indicator to total gross domestic production. This ratio has increased, from 23 percent in year 1992 to 40 percent in year 2001. Besides the degree of mobilization of savings, this level expresses the increased public confidence in banking institutions.

Bank of Albania's policy related to Lek interest rates has played an important role in the performance of time deposits of the system. Minimum time deposit interest rates are gradually adjusted, following inflation movement and other monetary and economic developments, so that the real interests remain at positive and eligible rates. In this way, household deposits remain protected from inflation movements and real incomes stay at positive rates.



Real interest history is presented with noticeable oscillations. Most noticeable is the period of July '95 - March '97, where real interests remained at negative levels and for the rest of the period, this level has been positive, moving from + 26.5 percent to +1.0 percent. Real interest accounted on average for the whole period is 5.11 percent. Omitting the periods when real interest reaches extremely positive or negative values, its average level accounts for 4.54 percent, whereas GDP real value is increased by the average of 6.8 percent for the period.

Excluding year 1997, which recognized a real negative growth of production, this level accounts for 8.6 percent.

Real interest rate or more precisely real return on deposits has a significant effect on the volume of real financial savings and on the economic growth.

From the comparison of real interest annual average and real growth of domestic production, the effect of the real interest rate on the economic growth seems positive. The policy of maintaining interests at real positive rates is accompanied by the overall growth in domestic production of the country. So, starting from October 1999 and onward, the real interests stay below the real growth of domestic production of the economy, expressing also the Bank of Albania's easing monetary policy concerning interest rates.

Box 1.

In general, the situation in year 1996 was presented with a rising level of deposits in the system and with a low inflation. Under these conditions, increasing minimum rates at 6.5 percent for 3- and 12- month deposits and 6 percent for 6-month deposits was highly eligible under the circumstance in which these changes were made. The situation Albania happened to find itself in the first months of 1997 was unpredictable and it is understandable that in the short-term forecasts of real interests, a year ago no such considerable changes were predicted in the core macroeconomic indicators of the country.

However, fast actions were taken on the level of interests to channel all accumulations released by this market into the banking system to control them, in order to directly serve the main target, i.e. the alleviation of inflation rising rates. In fixing the minimum interests for this period, the main scope was not their real level, but more acceptable levels, which would lead to decrease of inflation rate. Thus, to be stimulated were not only those who had the possibility to accumulate but also the whole population, and mainly its poorest part.

In 1997, 3-month deposit rates underwent more change than 6- and 12- month deposits. So, they were raised 4 times, amounting to 18.5 percent at the beginning of '97, reaching 37 percent in June of this year, to be cut 4 times during the second half of 1997, down to 26 percent at year-end.

After May '97 no more changes took place for 6- and 12-month deposits, because the inflation rate for 1998 was expected to drop in comparison to 1997. Thus, holding unchanged the minimal interest on 12-month deposits, they would gradually pass from the negative to the positive level in real terms.

Quarterly deposits nominal interest rate rise aimed at returning deposits to the banking system, raising the absorbing capacity of financial assets to be released from the distribution of frozen money into accounts of "Populli" and "Xhaferri" funds.

This was also due to the fact that for the moment they comprised the only short-term instrument to respond to the difficult financial situation the banking system was undergoing after the significant decline of time deposits in the first months of 1997. Lek time deposit share to broad money went up from 19.57 percent at the end of 1996 to 35.53 percent at the end of 1997.

After this year, the Bank of Albania policy in cutting the minimum of deposit rates has followed directly the lending cost reduction, helping the recovery and the rise of investments in the economy. Annual inflation rate fell from 42.1 percent at the end of 1997 to 8.7 percent at the end of 1998. Nominal interests underwent five times cut during 1998, reaching respectively at 10 percent, 9.5 percent and 9.5 percent for 3-6-and 12- month deposits.

The increase of monetary stability, the rising of confidence in the Lek's stability and low inflationary expectations served as a basis for further cutting these rates also during 1999 and 2000. Maintaining the horizontal dependence on the time factor, they were cut thrice in the first half of 1999, followed by three other cuts to the end of the year. Banking system average weighted interest rate for 12-month deposits reached 8.30 percent at the end of 2000. The same interest rate for the 3-month deposits accounted for 7.72 percent

at the end of the same year. Nominal interests constantly adjusted to inflation rate throughout the year made real time deposit interest rates fluctuate at reasonable rates.

After October 2000, the Bank of Albania did no longer administratively assign time deposit interest rates in Lek. Repo rates were assigned as a reference for the market rates. To the end of 2001, the Bank of Albania policy related to interest rates has been constantly tightened. At the end of 2001, banking system average interest rates for 3- and 12- month deposits were respectively cut to 7.08 and 6.31 percent.

The rising motive for savings, materialized in time deposits growth, contains a “speculative”¹ element as well. The advantage of keeping money in short-term customer deposits has changed the structure of time deposits.

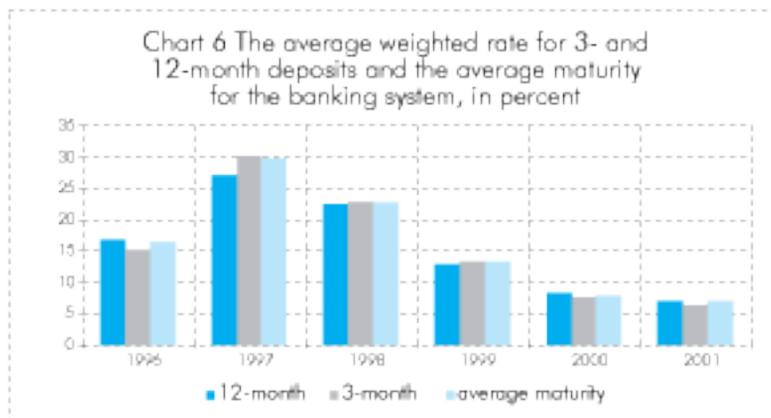
The Lek time deposit structure at the Savings Bank² encountered significant changes over the period 1992 –2001. In year 1992, the ratio between 3- and 12-month deposits was 1:92 on advantage for 12- month deposits. At the end of 2001, this ratio was displaced to 49.27: 41.77, in favour of 3-month deposits.

Before 1996 the spreads in Lek time deposit rates (3-6-and 12-month term) were not so high as to arouse displacement between maturity terms. In year 1997, allured from high interest returns from time deposits, mainly short-term ones, new time deposits received in domestic currency noticed a terrific increase. Also, demand deposits started a gradual shifting to time deposits, where quarterly ones occupied the main share.

These changes led to the rising costs of newly accepted deposits (time) measured through weighted average rate on time deposits in Lek of the Savings Bank in particular, and of the banking system in general.

The monthly average of time deposit rates of the banking system rose from 16.47 percent in 1996 to 29.77 percent in 1997.

In view of maturity terms, the monthly average rate on 3-month deposits doubled compared to year 1996, reaching 30.33 percent and the average rate on 12-month deposits went up from 16.77 percent to 27.07 percent.



Even during the years 1997 and 1999, the average weighted rate for 3-month deposits was higher than for other maturity terms. Newly accepted deposits of 3- and 12-month term tendency was towards the alleviation of disproportions caused by the elimination of large spreads between short and long term deposit interest rates. In 1999 the average cost of the newly accepted 3- and 12-month deposits accounts for 13.189 and 12.87 percent, being respectively reduced to 6.3 and 7.08 percent for 3- and 12- month deposits in 2001.

Table 2 Performance of deposit structure and average rate of ALL deposits with the Savings Bank, in percentage

	1 month		3 month		6 month		12 month		24 month	
	Share*	Interest**	Share	Interest	Share	Interest	Share	interest	Share	Interest
1992			1.00	18.00	7.00	25.00	92.00	32.00		
1993			0.70	12.00	3.20	18.00	96.00	24.00		
1994			0.50	7.00	2.00	12.00	97.50	14.50		
1995			2.22	10.50	4.70	13.00	93.08	14.20		
1996	0.25	18.00	6.46	15.10	5.03	15.90	88.26	16.60		
1997	0.23	19.00	54.54	33.56	3.25	26.41	41.49	26.90	0.05	
1998	0.21	12.00	53.71	23.08	5.46	23.08	40.19	23.35	0.05	
1999			52.00	14.20	7.00	14.20	41.00	13.80	0.03	
2000			50.87	7.57	7.55	7.85	41.59	8.20		
2001			49.27	6.85	8.96	7.69	41.77	7.60		

*The specific weight in percent of Lek deposits by term to total deposits in Lek

**Average weighted interest rate for deposits held with this bank

The savings motive in economy is significantly influenced by other psychological factors, which have created “panic” situations. These factors of unstable nature have exercised a temporary negative impact on deposit performance of the banking system and have been localized at specific banks. In view of their impact on changing the savings motive of the public, the Bank of Albania changed the level of interest rates with the intention to neutralize the negative impact of these factors and ensure the normal flow of deposits into the system. The banking system has recognized two “panic” situations for the period under study, being caused by different factors.

The first is related to the panic created by the insolvency of pyramid schemes. The total collapse of pyramid schemes was accompanied, besides the destruction of many economic balances, also with social, economic, psychological and political consequences. The crisis of confidence in informal market institutions and the lack of economic and political stability were also felt by formal market institutions. Citizens, under the effect of the “panic” situation, withdrew deposits from commercial banks. Under the situation of a political and economic crisis, to interrupt further outflow of deposits from the banking system, the Bank of Albania intervened by raising time deposit rates in the market.

The second is related to Savings Bank’s privatization and the propaganda on the so-called insecurity of deposits placed with this bank at the beginning of 2000. The panic created gave some instant negative impacts on the customers’ motive in placing deposits with this bank, reflected in the deposit performance over 2000. The effect was strongest in the first half of the year; however, its influence was also felt during the second half of the year. Time deposit weight to broad money descended by 3.85 percentage points at the end of 2000, while currency in circulation ascended by 2.48 percentage points.

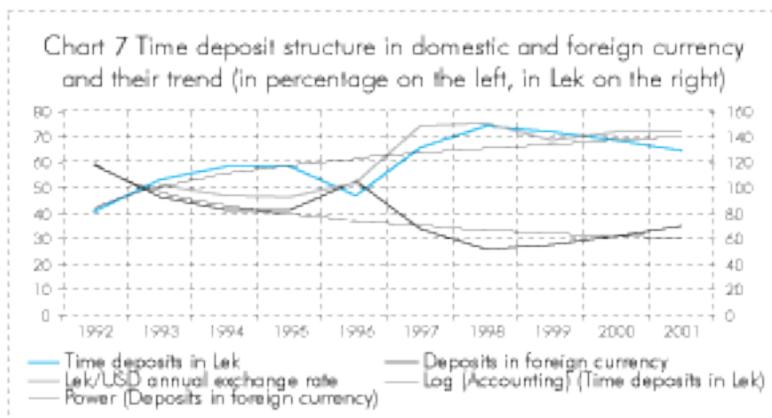
The banking system deposits behaviour in domestic and foreign currency is conditioned, inter alia, even by the maintaining of optimal ratios between the lek deposit interest rates and those in foreign currency.

This behaviour of banking system deposits in domestic and foreign currency comes out more clearly, if we analyse the specific weight of domestic and foreign currency deposits to the total of these deposits.

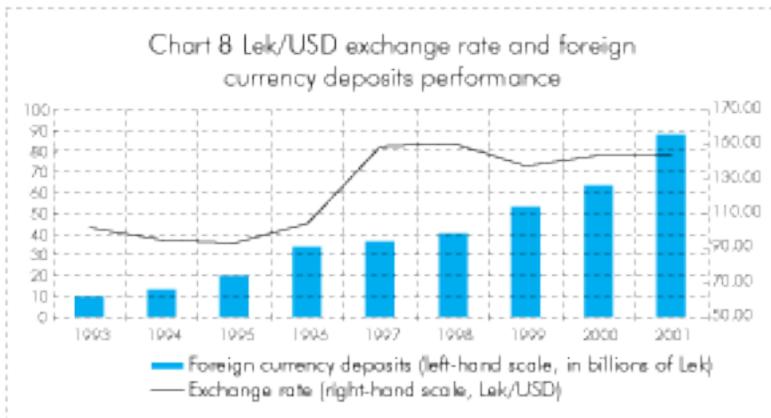
Table 3 Weight in percent of ALL time deposits and foreign currency deposits to the total of these deposit groups

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Time deposits in Lek	41.03	53.30	58.44	58.34	47.14	66.01	74.16	71.98	68.83	64.78
Deposits in foreign currency	58.97	46.70	41.56	41.66	52.86	33.99	25.84	28.02	31.17	35.22
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Average annual rate of lek/usd		102.06	94.62	92.79	104.5	148.93	150.64	137.69	143.88	143.61

At first sight, ALL time deposit weight is presented with a rising trend against the falling trend of foreign currency deposits, compared to the total time deposits. However, the year-on-year performance of ALL time deposit weight always moves on the reverse side to that of foreign currency deposits. More precisely, the reduction of ALL deposit weight in 1996 compared to foreign currency deposits, was an outcome of the influence of informal market and foreign banks expectation to receive more deposits in foreign currency. In 1997 the ratio changed in favour of ALL time deposits, due to their very attractive interests. This ratio was maintained in 1998, to change after 1999. Starting from 1999, other factors, besides the Bank of Albania's easing policy related to interest rates, have also influenced the rising weight of



foreign currency time deposits to those in Lek. Such other factors are as follows: More active operation of foreign banks after '96-'97; their greater inclination to take foreign currency deposits; vast foreign exchange inflows during Kosovo crisis (year 1999); commercial banks' marketing for converting EU currencies free of commissions (2000) before the Euro introduction on January 1, 2002.



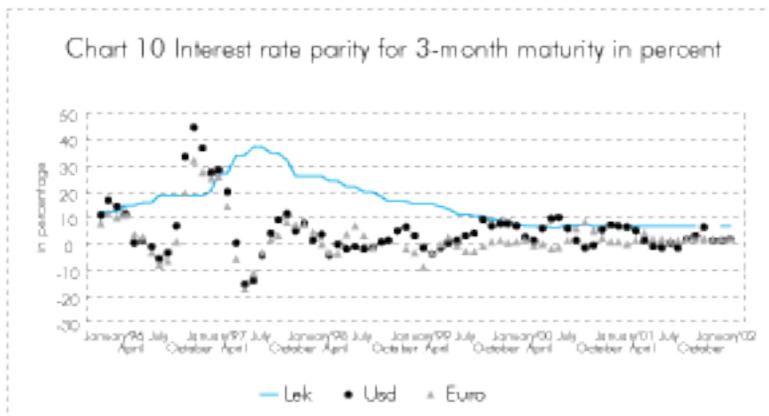
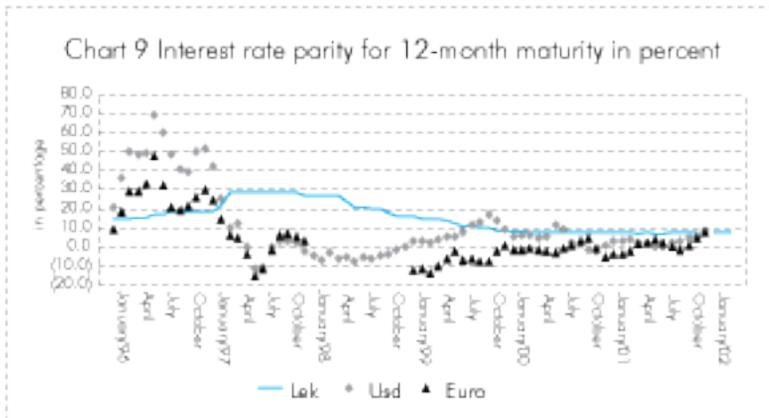
Correlations between deposits in domestic and foreign currency and displacements from one side to another are mainly influenced by the following factors:

- Level of deposit interests in Lek;
- Level of deposit interests in foreign currency;
- The intercession in this spread³ of the appreciation or depreciation effect of the Lek in the domestic foreign exchange market;
- The degree of monetary stability, mainly related to inflation expectations.

Concretely high interest rates in Lek during 1997 and the appreciation of Lek to the main foreign currencies led to deposit displacement from those in foreign currency to those in Lek. Return on ALL deposit interest rates have been some times higher than on foreign currency deposits. After this year and onwards, the spread

between Lek interest rates and the interest rate according to parity principle was significantly reduced, due to prudential policy of the Bank of Albania on interest rates and the Lek's stability.

Charts 9 and 10 provide a clearer idea on the nominal interest rates of ALL time deposits and on the accrued interest rate of ALL time deposits, after the nominal interest rates of the main currencies are average weighted to Lek appreciation and depreciation coefficients to the main currencies, accounted on annual basis.



Based on the parity principle of Lek interest rates applied by the banking system and foreign currency interest rates, we have the following situation:

- To the end of 1996, interest rates on 12-month deposits in Lek have almost been under the required level from this principle, presenting the greatest advantage of holding deposits in foreign currency than in Lek;
- During the period of 1997–1998, the level of interest on 3- and 12-month deposits has been higher than required by this principle. The ratio of Lek deposit share to foreign currency deposit share changed from 47.14: 52.86 at end of 1996 to 74.16:25:84 at end of 1998;
- During the period of 1998-2001, the level of Lek time deposit interest rates recorded a constant reduction, being better adjusted to the market conditions and narrowing the spread existing between the nominal rate prevailing in the banking system and the accrued one. The ratio of Lek deposit share to foreign currency deposit share dropped slightly, turning out to be 64.7:35.22 at end of 2001.
- After 2000 and onwards, the spread has been narrowed significantly, reaching low rates that have impacted also on reducing the growth paces of ALL time deposits compared to those of the previous years. In a certain way, this demonstrates the displacement of public preference for holding foreign currency deposits to Lek deposits, implying growth of domestic demand for money and premises for domestic currency depreciation in the domestic foreign exchange market.

II. TOTAL DEPOSIT STRUCTURE PER ECONOMY SECTORS AND THEIR CONTRIBUTION TO DEPOSIT FORMATION

Analyzing the total deposits structure by the contribution of the main sectors of the economy helps the identification of specific characteristics of these sectors in creating deposits, and their contribution to money supply. Statistical data reported by commercial banks have presented a displacement of deposits over 1992-2001 from the public sector to households. The ratio of household deposits to total deposits for 1992-2001 changed, from 35.95 percent to 80.85 percent, while the ratio

of the private sector and the public one to total deposits has changed respectively from 10.91 percent to 12.75 percent and from 53.14 percent to 6.4 percent. Also, the growth rates of deposits in the private sector and in the public one are reduced as well.

A specific development changing the conclusion on the general trend of household deposit influence on the creation of deposits has taken place during 1995-1996. The dynamics of total deposits began to deviate from the growing trend of household deposits towards the growth of those coming from the private sector.

This deviation was caused by the activity of informal market firms. In this period, many citizens withdrew their household savings from the banking system and invested them in informal market firms, which applied higher interest rates. Subsequently in the first months of 1996, the Lek deposits decreased in the banking system for the first time. Upon expansion of activity of these firms, a new phenomenon was noticed, that of ALL time deposit reduction over the last quarter of 1996 and increase of current accounts, mainly on the account of rental firms in the same period of 1996. The falling trend of time deposits was eased to a certain degree by the opening of time deposits on behalf of the presidents of these firms.

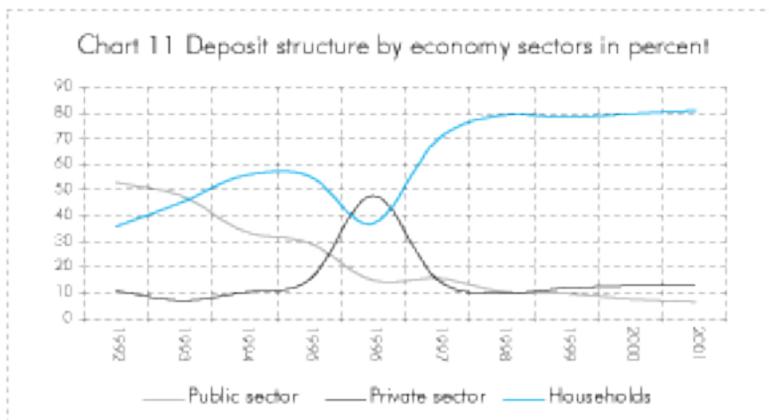


Table 4 Deposits by sectors to total deposits in percentage

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Public sector	53.14	47.86	33.8	29.24	14.99	15.71	10.72	9.76	7.60	6.40
Private sector	10.91	7.10	10.45	15.22	47.90	15.09	10.13	11.91	12.80	12.75
Households	35.95	45.04	55.75	55.54	37.11	69.21	79.15	78.34	79.60	80.85

The performance of three types of deposits - demand deposits in Lek, time deposits in Lek and foreign currency deposits - depends above all on the preferences and characteristics of the sector playing a determinant role in their performance by groups.

So, the households play the decisive role in the performance of time deposits and have an important share in foreign currency deposits, whereas the public sector and the private one play an important role in foreign currency deposits and current accounts, occupying a significant share. Therefore, households have a significant effect on determining the time deposits trend, whereas the state and private sectors influence mainly the fluctuations of the liquid part of money.

Table 5 Deposits according to source of creation, in percent

	Demand deposits in Lek			Time deposits in Lek			Deposits in foreign currency		
	Public sector	Private sector	Households	Public sector	Private sector	Households	Public sector	Private sector	Households
1992	28.24	3.21	7.05	1.64	0.49	23.11	23.26	7.21	5.79
1993	25.11	4.23	2.88		0.54	36.29	22.75	2.33	5.87
1994	16.96	5.20	3.10		1.05	43.10	16.90	4.20	9.60
1995	16.64	7.83	1.99		0.70	42.20	12.60	6.69	11.35
1996	8.53	29.33	2.04		2.78	25.55	6.46	15.79	9.51
1997	8.53	6.69	0.50		0.06	56.01	7.18	8.34	13.34
1998	4.70	3.91	0.38	0.07	0.41	67.32	5.94	5.81	11.45
1999	4.69	3.84	0.74	0.13	1.21	63.02	4.94	6.86	14.58
2000	2.80	6.90	1.10	0.40	0.30	60.70	4.40	5.60	17.80
2001	2.30	5.50	0.90	0.30	0.70	58.20	3.80	6.60	21.80

The changeability of sectoral characteristics of deposits performance stems from two factors. First, the different attitudes among individuals and businesses in holding money in accordance with various sectoral functions of the demand for money; and second the needs and facilities to receive credits as additional resources or external resources of various financing.

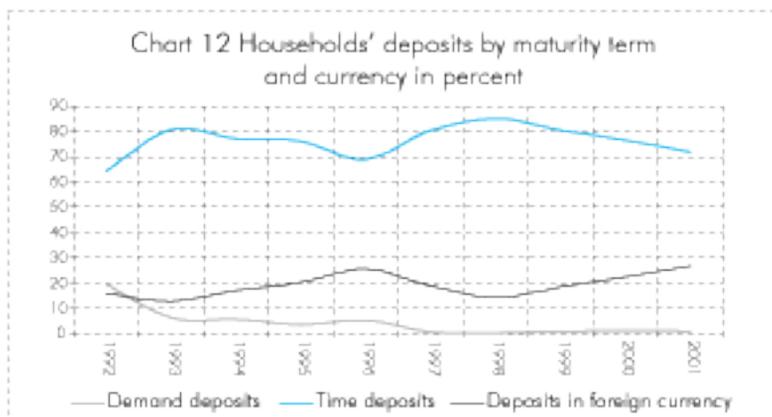
Households' motive for the addition of money contains either the element of meeting their daily expenditures or the savings element. The use of financial assets in the private or public sector is motivated by transaction purposes and partial coverage of financial needs, mainly by loans.

Household deposits. Based on household deposits structure and their trend, the following is highlighted:

- Time deposits in Lek occupy the main share of household deposits and bear a growing trend. Their share has increased by 7.65 percentage points;
- Foreign currency deposits, given their share, are ranked after Lek deposits and maintain a growing trend (by 10.84 percentage points);
- Demand deposits have been constantly downward (by 18.49 percentage points).

Table 6 Household deposits by term and currency, in percent

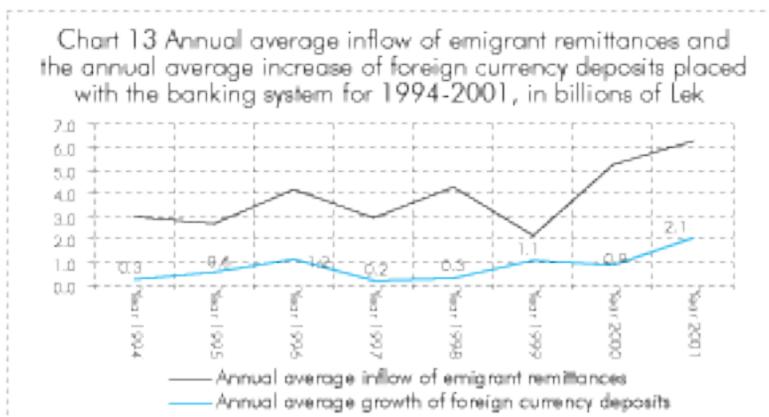
Year	Demand deposits in Lek	Time deposits in Lek	Deposits in foreign currency
1992	19.61	64.29	16.10
1993	6.38	80.59	13.03
1994	5.57	77.25	17.18
1995	3.58	75.98	20.43
1996	5.50	68.87	25.63
1997	0.71	80.18	19.10
1998	0.48	85.06	14.46
1999	0.94	80.45	18.61
2000	1.35	76.27	22.37
2001	1.12	71.94	26.94



The main changes of shares between household categories over years are given the following explanations:

Household deposits in Lek decreased by 7.11 percentage points in 1996 and increased by 11.31 percentage points in 1997. As above mentioned, the Lek time deposit decline in the system was an outcome of informal market influence, whereas the Lek time deposit growth was a result of the policy of interest rate raises for Lek deposits.

During 1999 the rising share of foreign currency deposits by about 4.0 percentage points to household deposits was affected by increased foreign currency inflows from various organizations carrying out their activity in our country during the Kosovo crisis, and by the downward trend of Lek deposits interest rates. Starting from 2000 interest rates on Lek deposits recognized a constant reduction, reaching the lowest rate in the two-tier banking system history. In the last two years, the foreign currency deposit share to household deposits recognized growth, while the Lek time deposits share had a declining trend. These slight displacements express that citizens have enhanced their preferences for foreign currency deposits. This made the individuals prefer to place their income from emigration, which recognized the highest level over the last two years, in foreign currency deposits.



In 2001 foreign currency deposits growth was also affected by depositing the EU countries' currencies free of commissions, upon the Euro introduction on January 1, 2002.

Private sector deposits. Business deposits to total deposits at end of 2001 constitute about 13 percent. The total of money owned by businesses that passes through the banking system is smaller than the financial resources held by households.

Compared to total deposits owned by the private sector, foreign currency deposits held by businesses have presented a high range throughout the whole 10-year period taken under study. At the end of 2001 foreign currency deposits occupy nearly 52 percent of total deposits of the private sector. Also the Lek demand deposits are presented with an upward trend, from 29.5 percent in 1992, to 43.1 percent at end of 2001. Performance of demand deposits for 1992-2001 also displays an unsteady trend and their level is very low compared to time deposits.

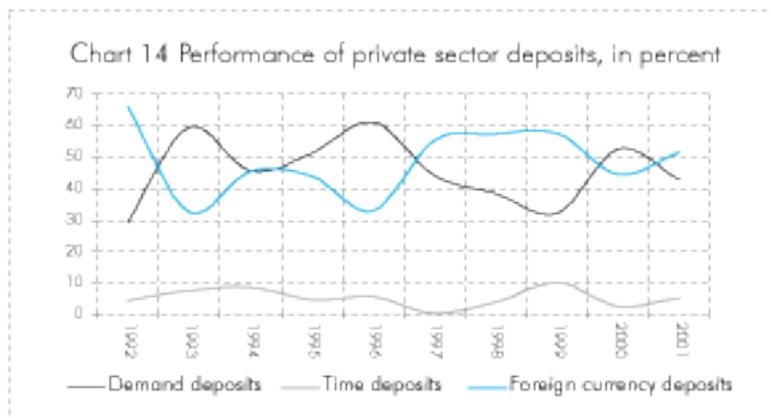


Table 7 Private sector deposit structure, in percent

Years	Demand deposits	Time deposits	Deposits in foreign currency
1992	29.45	4.49	66.06
1993	59.63	7.58	32.8
1994	45.56	8.75	45.69
1995	51.46	4.6	43.94
1996	61.23	5.8	32.96
1997	44.33	0.42	55.26

1998	38.57	4.05	57.38
1999	32.22	10.13	57.65
2000	52.82	2.51	44.68
2001	43.08	5.28	51.64

Private sector deposits performance over the last 10 years displays the following characteristics:

- Foreign currency deposits have decreased their share at the end of 2001 by 14.42 percentage points compared to 1992;
- Demand deposits share has increased by 13.59 percentage points compared to 1992. Demand deposits recorded the highest share in 1996, by 61 percent, being followed by a declining trend of these sector's deposits after 1996. In 2000 they increased considerably, when lending to businesses was characterized by high paces compared to previous years;
- Time deposits in Lek occupy a small share to the total. After 1997 their share recognized a growing trend as a result of placement of ALL time deposits in quarterly deposits during 1997, when the country's economic activity recorded a drawback and a period of time was needed for its recovery. This made certain amount of money be withdrawn from the economic circulation and part of it was placed at short-term deposits.
- ALL demand deposits share and foreign currency deposits share seem to move on the reverse sides and create the idea that a degree of displacement exists between both groups. However, without excluding this possibility, we stress that demand deposits' share at end of the year may not fully present their right situation. This is so because, due to irregular developments in demand deposits, their volume increases and decreases within a year, being affected by seasonal developments, trade cycle, lending to the economy, etc.

Public sector is presented with a decreased share of deposits in all deposit categories. So, this sector's share has fallen by

25.94 percentage points for ALL demand deposits and by 19.46 percentage points for foreign currency deposits. The constant decline in this sector's deposits and the contribution to total deposits of the banking system are conditioned by some factors. Amongst the most important ones, we would highlight:

- Closing down and privatizing a considerable part of this sector's enterprises in 1992-2001.
- Organizing and functioning mode of the existing enterprises in this sector. Being state-owned, their organizing and functioning mode guided by public policies makes them frequently pass to deficit, becoming businesses on loss accounts (as in the case of Albanian Power Corporation). Subsequently, they influence the reduction of savings in this sector.
- Not so high scale of collecting income from taxes. In many cases this process has been hampered by managerial problems, which may reduce the public sector's savings.

Also, of effect herein are imports and exports, as well as the level of expenditures for external or internal debt.

Cumulative data indicate that deposit developments by sectors change obviously. So:

- Household deposits reflect a stable growing trend. Occupying over 80 percent of total deposits, they bear an important function in establishing the trend of total deposits and money supply.
- Deposit growth in the private and public sector is less stable. This is due to the fact that these sectors bear a high weight in demand deposits. In this way, the role of financial resources of both sectors in shaping the trend of total deposits is presented as smaller compared to the financial resources possessed by households.

From what above dealt with in points 1 and 2, we would highlight that:

Banking system deposits performance has brought about growth of less liquid assets, affecting on the reduction of inflationary pressures in the economy and enhancement of monetary stability.

Deposit structure by maturity terms in favour of those with small maturity presents a not so adequate structure of financial resources of commercial banks' lending activity. On the other hand, a consequence of this structure is also the high volume of interests paid on these deposits. The share of deposit returns invested in new deposits comprises an additional resource in the fast growth of money supply in the economy. Given that short-term deposits have a high share, they affect on reduction of stability over time for this part of money supply.

Various preferences and characteristics of economy sectors play an important role in the developments of deposits, influencing the development dynamics of total deposits. So, household deposits have an important effect on shaping the total deposits' trend and even further, on the money supply and they should be assessed as a stable group. The other two sectors influence mainly the fluctuations of high liquid deposits to total deposits and money supply.

III. DEPOSIT MARKET CHANGES BY COMMERCIAL BANKS

Changes in the absorbing capacity of banks in the system have been parallel to the banking system reforms, initially with the establishment of an adjusted system to market economy in terms of form of functioning and later on in terms of its reformation in many directions, in order to serve the market economy.

Banks' role stands in absorbing capacities of temporary free assets held by the economy thorough banking system channels in Albania. This helps to determine the market size in relation to informal market. Under the conditions when the informal market lacks a standard estimate on its size in Albania, the ratio

of total deposits to gross domestic product helps us to assess the range of banking system financial intermediation. This ratio has increased by 37:47 percent for the period of 1992-2002, expressing the enhancement of financial intermediation of the banking system in the economy. Although lower than in the Euro area (78 percent), this indicator is comparable to countries in transition. Of importance in this system is the savings structure according to banks, for carrying out the intermediary role in the economic development of the country, under the conditions of an improving competition.

The market size is determined by the size of each bank and the role they play in the effective operation of the market. It depends on the number of participants in it, their extension and the level of competitiveness among deposit market participants.

The share of financial resources each bank owns in the system is different for different years and is affected by many factors, highlighting:

- The period during which the bank exercises its activity in the banking system;
- The size and geographical expansion in the country;
- The number of banks in the system;
- The level of competition in the market;
- The quantity and quality of products offered by the bank;
- Facilities in performing different payments conditioned by the level of payments system development;
- Informal market impact, etc.

The calculation of total deposits share per each bank of the system allows us to give considerations related to banks' work for improving the financial potentials with respect to absorbing temporary free assets from the economic circulation. Until 1996 the deposit market was dominated mainly by three state-owned banks. The market was presented as fragmented. The Savings Bank dominated the household deposit market; the National Commercial Bank dominated about 70 percent of the public sector deposits, whereas the Rural Commercial Bank operated in rural areas.

In 1993 the public banks owned about 98 percent of the total deposit market. The total deposit market has noticeably changed after year 1999⁴ and onward, due to the rising role of private banks in this market. These banks, being more active in the market either from the intensive or extensive viewpoint, have increased their share, accounting for about 23.47 percentage points.⁵

The panorama of distribution of deposits among banks of the system reflects the dominant position of the Savings Bank in absorbing temporarily free assets owned by the economy.

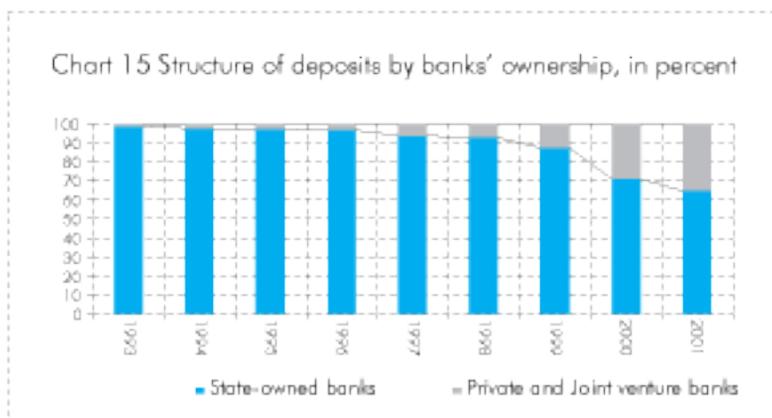
Deposits concentration has been studied also according to certain categories in:

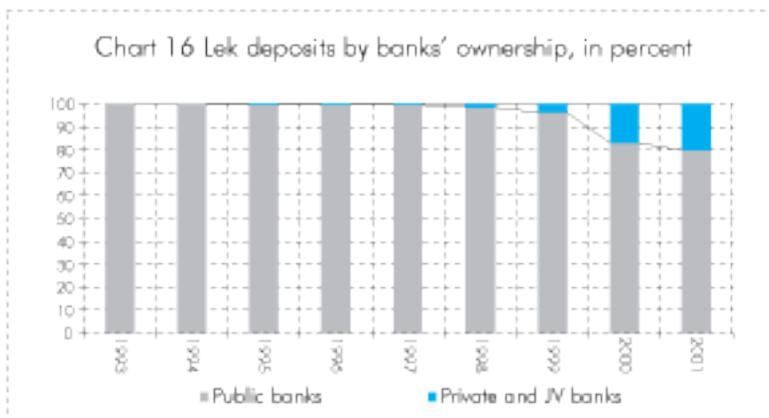
- Deposits in Lek and in foreign currency;
- Deposits by the degree of liquidity, in time and demand deposits.

Knowing this structure will allow us to evidence the composition of these resources on which banks are based for carrying out their intermediary role.

Table 8 Specific weight of Lek deposits by banks' ownership, in percent

	1993	1994	1995	1996	1997	1998	1999	2000	2001
State-owned banks	99.99	99.89	99.72	99.55	99.24	98.26	96.25	82.98	79.61
Private or Joint venture banks	0.01	0.11	0.28	0.45	0.76	1.74	3.75	17.02	20.39





Concerning the period under analysis, we would highlight the following characteristics relating to ALL deposits distribution by banks of the system:

- Public banks own about 80 percent of the ALL savings of the system. This level has had a slight downward trend since the creation of the banking system, when their share reached about 99 percent. The bank owning the majority of ALL deposits in the system is the Savings Bank.⁶ It achieved its highest level of ALL deposits at end of 1998, by about 88 percent. Concerning end of 1999 and onward a slight reduction was noticed in their level, down to 79.6 percent at end of 2001;
- Private or joint venture banks have gradually increased their ALL savings share, accounting for about 20 percent in 2001. The highest growth of ALL deposits in this banks group has taken place in 2000-2001, manifesting also the greater interest of these banks in ALL deposit market.

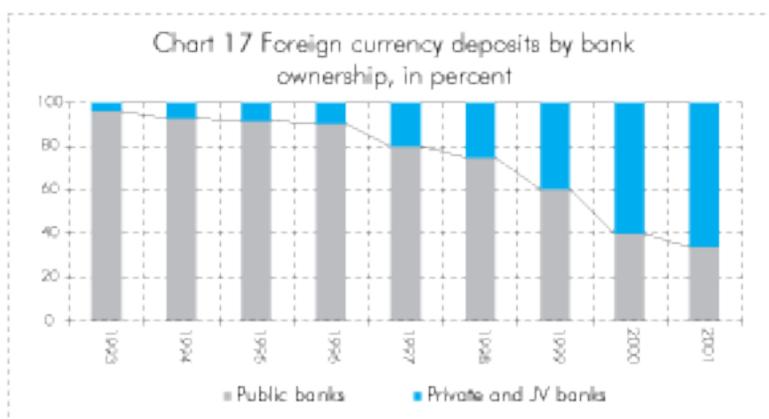
Reverse is the table of foreign currency deposits distribution by banks in the system over the period of 1993-2001.

Table 9 Specific weight of foreign currency deposits by bank ownership, in percent

	1993	1994	1995	1996	1997	1998	1999	2000	2001
State-owned banks	95.98	92.75	91.85	90.75	80.23	74.82	60.35	39.98	34.01
Private and Joint venture banks	4.02	7.25	8.15	9.25	19.77	25.18	39.65	60.02	65.99

Foreign currency deposit market by banks in the system has been characterized by:

- A downward trend of public banks market, against the growth of non-public bank market. The market share owned by public banks has decreased to 61.97 percentage points at the advantage of the rest of the banks in the system, from 1993 to 2001;
- These changes have become more obvious after 1997 and more extended after 1999.



The rising share of foreign currency deposits to the total of foreign currency deposits of the system, owned by private and joint venture banks has mainly come from the growth of demand deposits compared to time deposits. Thus for the period of 1993-2001:

- Demand deposits share has increased by 59.0 percentage points;
- Time deposits share has increased by 6.71 percentage points.

Growing paces of demand deposits with these banks seem to have been some times higher compared to the growing paces of time deposits.

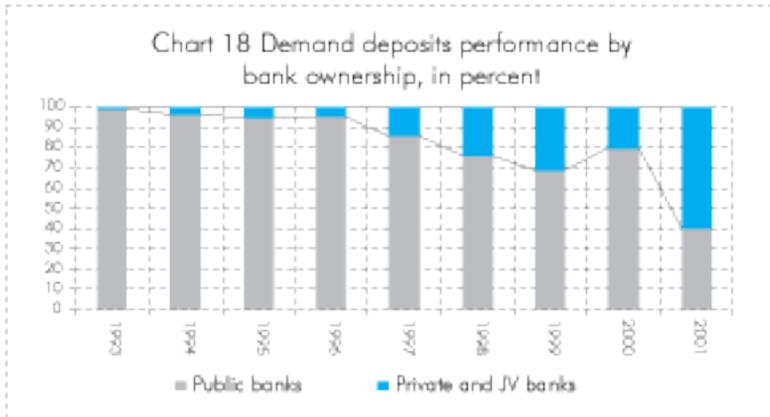
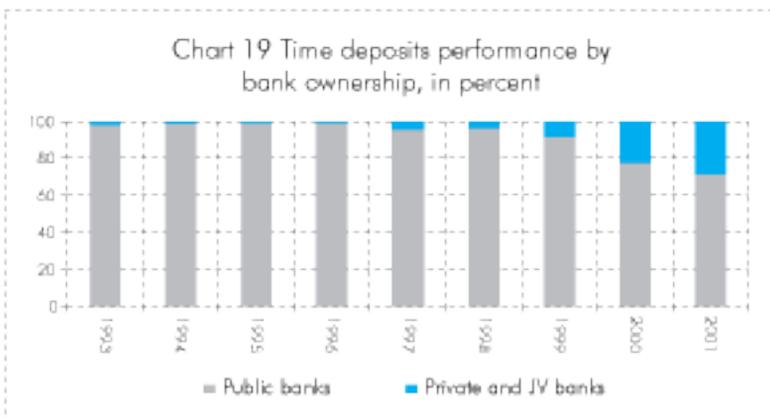


Table 10 Specific weight of demand deposits by bank ownership, in percent

	1993	1994	1995	1996	1997	1998	1999	2000	2001
State-owned banks	99.01	96.33	94.46	95.08	85.86	76.07	68.85	79.39	40.01
Private and Joint venture banks	0.99	3.67	5.54	4.92	14.14	23.93	31.15	20.61	59.99

Table 11 Specific weight of time deposits by bank ownership, in percent

	1993	1994	1995	1996	1997	1998	1999	2000	2001
State-owned banks	98.32	98.98	99.56	99.23	95.81	96.05	91.45	77.57	71.61
Private and Joint venture banks	1.68	1.02	0.44	0.77	4.19	3.95	8.55	22.43	28.39



In conclusion, we would stress that as a result of the competition among banks, the trends, structure and customer preferences for the period under analysis have undergone changes.

The features presented by the deposit market development according to bank ownership, consist in:

- Deposit market share of commercial state-owned banks has been falling in favour of the deposit market expansion of other banks.
- Private banks are presented as more active in foreign currency deposit market, and also with a rising interest in Lek deposit market over the latest years.

Ongoing reforms in the banking system with respect to the Savings Bank's privatization, development of a payments system that will respond to business requirements in the country, implementation of the deposit insurance scheme, larger support of the banking system to credit the economy, attainment of an efficient interbank market, etc., will help in achieving a banking system that will further enhance the level of intermediation in the dynamic development of economy.

III.1. CONCENTRATION IN DEPOSIT ACTIVITY

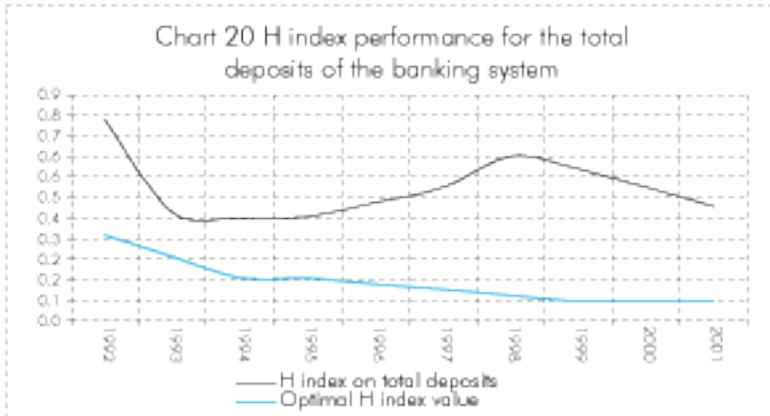
To measure the phenomenon of concentration of the banking system in the deposit activity and its change over the period of 1992-2001, the concentration ratios and the H index have been calculated. On the whole, it is observed that the real H index value and its optimal value have a year-on year change.

While the optimal value introduces a declining trend, the real H index value seems to have gained a falling trend after 1998, being influenced by the growing number of banks and their intensive and extensive work.

Table 12 H index values calculated for some deposit indicators

Years	Total Dep.	Lek Dep.	FX. Dep.	Time Dep.	Demand Dep.	Household Dep.	Dep. in priv. sect.	Dep. in public sect.	Optimal H-index value	H-index 1/no	No. of banks
1992	0.8	0.8	0.8	1.0	1.0	1.3	1.1	1.0	0.33		3
1993	0.4	0.4	0.7	0.7	0.7	0.7	0.7	0.8	0.25		4
1994	0.4	0.5	0.5	0.6	0.6	0.7	0.4	0.8	0.17		6
1995	0.4	0.5	0.5	0.6	0.6	0.7	0.5	0.8	0.17		6
1996	0.5	0.5	0.4	0.5	0.6	0.5	0.7	0.6	0.14		7
1997	0.5	0.7	0.3	0.7	0.4	0.7	0.3	0.5	0.13		8

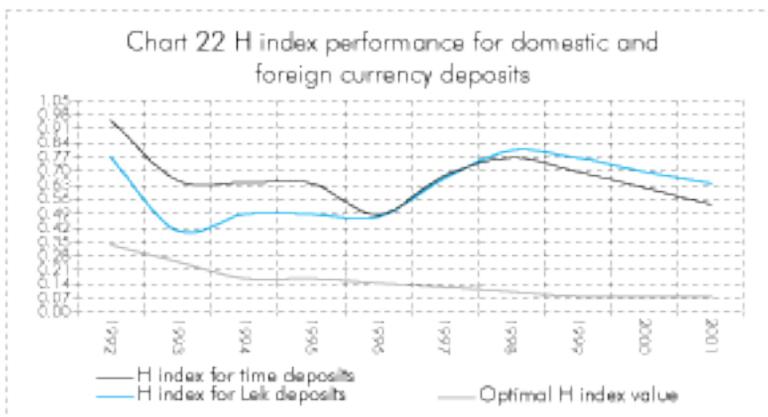
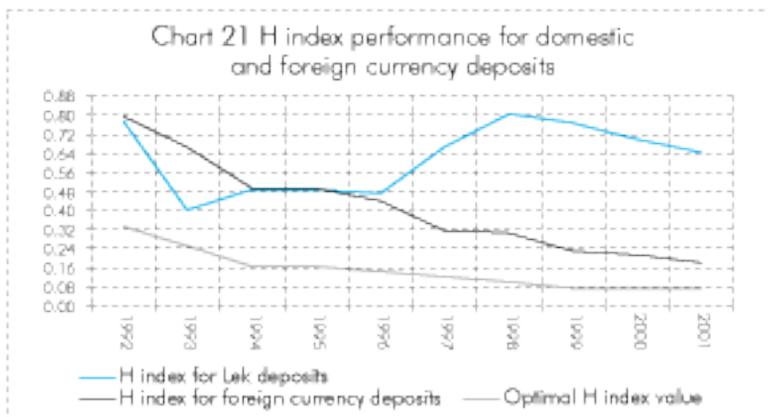
1998	0.6	0.8	0.3	0.8	0.3	0.8	0.3	0.5	0.10	10
1999	0.6	0.8	0.2	0.7	0.3	0.7	0.3	0.5	0.08	13
2000	0.5	0.7	0.2	0.6	0.3	0.6	0.3	0.4	0.08	13
2001	0.4	0.6	0.2	0.5	0.2	0.5	0.2	0.4	0.08	13



Albanian banking system during the period of 1992-2001 evidenced considerable concentrations in some indicators of depositing activity. Regarding total deposits, demand deposits and private sector deposits, the National Commercial Bank has been in dominant positions to the end of 1993. Whereas, concerning the household deposits and time deposits, the Savings Bank has been in the dominant position.

After 1993, private banks started operation in the Albanian banking market and they increased intensively after 1996. The real values of H-index for Lek deposits indicate that the phenomenon of deposit concentration in Lek is high. The banking system remains concentrated, with a slight downward trend of this concentration. Although the number of private banks has been rising, the Savings Bank has maintained its dominant positions in the Lek deposit activity throughout the whole period. While the real H index value for foreign currency deposits has constantly approached to its optimal value, indicating that no concentration exists in foreign currency deposit market.

The fact that the Lek deposit market continues to remain concentrated, whereas the foreign currency deposit market is considered as not concentrated, also expresses the greatest interest of joint venture banks to mobilize more foreign currency savings compared to those in Lek.



Based on year-on-year values of this index, it results that the trend of concentration phenomenon in depositing activity is being reduced, in spite of reverse side movements of certain deposit indicators for period 1992-2001.

III.2. CONCLUSIONS

Given the above on the deposit activity performance of the banking system for 1992-2001, we are of the opinion that:

- Practically the public banks' privatization (The Savings Bank) has been a slow-moving process, not affecting on the improvement and efficiency of the banking system, reflecting a low level of lending to the private sector of the economy.
- The Albanian banking system has generally improved with respect to the rising motive for savings, the improved deposit structure by terms, and the banks' interest in providing new products to the deposit market. Therefore, banks are providing new forms of services, such as MasterCard, Eurocard to reliable customers. Under the savings account, banks offer deposit certificates, applying a high interest rate, deposits with free life insurance, interests not only by term but also by different amounts within the term. Also, they offer negotiable interests, and not only fixed interests but also indexed ones, etc.
- Private banks' aggressiveness related to deposit growth is generally present also with respect to the expansion of their network in the last two years, from both the intensive and extensive viewpoint.
- Time deposits have generally recorded a considerable effect on the money supply, influencing the stable growth over time of the money supply.
- In general, substitution degree of monetary assets has declined, indicating improved confidence in the national currency due to its stability in the domestic foreign exchange market and the low inflation rate (excluding 1997).

NOTES

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¹ Higher preference for three-month deposits is otherwise known with the name “speculation”, under the conditions when they are motivated mainly by more attractive interest rates and the time advantage of the profitability of these interest rates against lower interest rates of 12-month deposits.

² The deposit structure analysis has been focused on the Savings Bank owning the main part of ALL deposits of the banking system.

³ It is precisely the spread in percentage between the interest rates of deposits in ALL and those in foreign currency the one that determines the profitability in the alternative chosen between holding deposits in ALL or in foreign currency.

⁴ The privatization of the National Commercial Bank has impacted on increasing the share of private banks.

⁵ National Commercial Bank is not included.

⁶ The Savings Bank, since the creation of the banking system, has maintained the superior position in owning these resources, being the most preferred bank for the public in placing ALL savings deposits. Furthermore, as a state-owned bank, it is regarded as a reliable one. The establishment of other banks in the system increased options for deposit placements.

