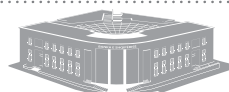


Bank of Albania

# FINANCIAL STABILITY REPORT

2021/HI



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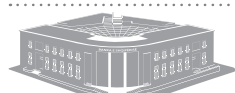


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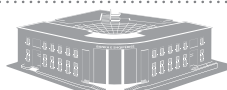
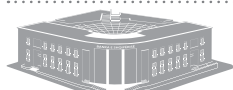


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## INTRODUCTION

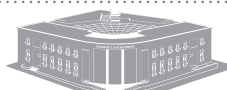
This is the twenty-sixth issue of Bank of Albania's Financial Stability Report (hereinafter "the Report"), which is published half-yearly. The Financial Stability Statement, whose half-yearly release is a legal requirement, prefaces the Report. The purpose of this Report is to identify and assess risks to the financial system of the Republic of Albania and its infrastructure, and it assesses the ability of the financial system to absorb these risks. This Report makes it possible for public authorities to identify relevant measures for corrections, as necessary, in a timely manner.

In producing this Report, we have used data available from the Bank of Albania, and information from other authorities supervising the financial market. We have also used information and analyses from public and private, national and international financial institutions. The data and analyses cover mainly the developments over the first half of 2021 (hereinafter "the period"). Unless otherwise stated, the expectations for the economic and financial outlook extend through a period of up to 12 months.

The stability of the financial system has been assessed based on its performance, from its activity, and taking into account the risks arising from the system's interaction with the overall internal and external economic environment. In order to assess the risks arising from the system's interaction with the surrounding environment, this report analyses the latest developments in international financial markets, and in advanced and regional economies. We have also assessed the impact of these developments on the financial system and the banking sector in Albania. Concerning domestic indicators, this Report assesses the overall developments and expectations for economic growth, balance of trade, overall price levels, exchange rates and fiscal indicators. Also, by analysing the performance of employment, income, and specific surveys, it evaluates the financial situation of enterprises and households, and the impact on the solvency of borrowers in the banking sector.

The Report also presents the results of the stress test, which assesses the banking sector's resilience against macroeconomic and financial shocks, expressed in terms of capital adequacy.

The Financial Stability Report is compiled by the Financial Stability Department and is approved by the Supervisory Council of the Bank of Albania.



## NOTES

As at end of June 2021, the classification of banks in the Albanian banking sector is as follows:

I. According to the marginal contribution of each institution to systemic risk in Albania<sup>1</sup>, banks are grouped into:

- Systemically important banks: National Commercial Bank, Raiffeisen Bank, Credins Bank, Intesa Sanpaolo Albania and OTP Bank Albania.
- Other banks: Alpha Bank Albania, Procredit Bank, First Investment Bank Albania, United Bank of Albania, Union Bank, American Bank of Investments and Tirana Bank.

II. According to capital origin, banks are grouped into:

- Banks with foreign capital<sup>2</sup>: Raiffeisen Bank (Austria); Intesa Sanpaolo Bank Albania (Italy); Alpha Bank Albania (Greece); National Commercial Bank (Turkey); OTP Bank, Albania (Hungary); Procredit Bank (Germany); First Investment Bank, Albania (Bulgaria); United Bank of Albania (Saudi Arabia). These banks share around 69% of the banking sector's total assets.
- Banks with Albanian capital: Credins Bank, Union Bank, American Bank of Investments, Tirana Bank. These banks share around 31% of the banking sector's total assets.

III. Banks operating abroad:

- Banks showing an expansion of their network abroad include the National Commercial Bank with its affiliate in Kosovo, and Credins bank with its subsidiary in Kosovo.

<sup>1</sup> The individual marginal contribution is measured by the Financial Strength Index. For more information on the index and determining BARS, consult the following document: [https://www.bankofalbania.org/Financial\\_Stability/Macro-prudential\\_policies/Instruments\\_of\\_Macroprudential\\_Policy/test/](https://www.bankofalbania.org/Financial_Stability/Macro-prudential_policies/Instruments_of_Macroprudential_Policy/test/)

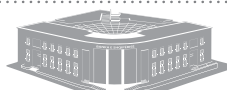
<sup>2</sup> A bank is classified as having foreign capital, whenever the foreign capital amounts to more than 50% of the bank's paid-in capital.





Regarding the analysis used in the Report, the following should be taken into account:

- (1) The terms “loan” and “credit” are used interchangeably in this Report; “enterprises” and “firms” are also used interchangeably; similarly, the terms “households” and “families” are used interchangeably.
- (2) In this Report, “outstanding credit” refers to the balance of the account “relations with clients”, as reported by banks in the balance sheets of the period under review. It includes outstanding credit granted by the banking sector to non-financial private and public, resident and non-resident entities. Outstanding credit is affected by non-performing loans (NPL) which have been written off from banks’ balance sheets in the period under review. Hence, outstanding credit that is analysed in the Financial Stability Report is a different concept from that of credit to the economy that is addressed in the monetary policy reports. The latter, in addition to credit by banks, includes the credit by non-bank financial institutions.
- (3) Also, the value of this credit includes only credit to the resident private sector and its value is not affected by the NPL’s which have been written off from banks’ balance sheets, as these loans are already obtained by the economic entities and have affected their economic value; their later write-off does not change this fact. Differentiation of these credit concepts should be considered when interpreting the relevant analysis of credit indicators (growth rate, quality ratio, allocation by sector, by currency, etc.) in various reports of the Bank of Albania.



## FINANCIAL STABILITY STATEMENT FOR 2021 H1

Pursuant to provisions under Article 69 of the Law No. 8269, dated 23 December 1997 "On the Bank of Albania", as amended, and Article 8 of the Law No. 9962, dated 18.12.2006 "On banks in the Republic of Albania", as amended, to inform the Assembly of the Republic of Albania and the Council of Ministers, and promote awareness among financial institutions and the public at large of the situation in the Albanian financial system and potential risks to its stability, the Bank of Albania releases this periodic statement. This statement is an integral part of the Financial Stability Report for the same stated period.

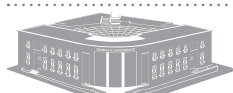
The Financial Stability Report and the Statement prefacing it assess the exposure of the banking sector to risks arising from its interaction with the external and internal economic environment, real economy agents, financial markets in Albania, as well as operational risks in the activity of the banking sector. Furthermore, these risks are assessed through the stress test and placed vis-à-vis the financial situation of the banking sector to assess its resilience.

*The Bank of Albania deems that in 2021 H1 (hereinafter 'the period'), operations of the banking sector were stable. Deposits and loans grew, credit quality improved considerably, and other financial stability indicators remained at appropriate levels. The overall risk exposure of the banking sector was contained. The improvement of the healthcare situation supported the fast recovery of the economic activity. This development shows that the acceleration of the vaccination process is vital in mitigating the uncertainties of the pandemic on the economic and financial outlook. At the same time, these uncertainties evidence that the economic, financial and prudential policies preserve the flexibility in order to react if necessary. As regards banks, the regular assessment of the degree of exposure to risks and maintaining a proactive stance for taking measures to mitigate and withstand them, is currently pertinent. In this regard, Bank of Albania stands ready to undertake all necessary actions according to the law, in order to support banking activity and contribute to the stability of the financial system.*

Developments in this period revealed the following:

***The improved healthcare situation and the relaxation of containment measures supported the recovery of the economic activity at a global level.***

The improvement was more evident in the second quarter of the year as the vaccination process accelerated and the number of new coronavirus cases entered a downward trajectory in the Northern hemisphere. Developments varied across the regions, reflecting, among others, also the access and different

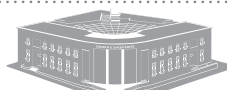


scales of vaccination. Overall, the financing conditions remained favourable and many countries continued to support the economy with favourable fiscal and financial policies. The performance of employment indicators was overall positive. For the same reasons, the economy in the euro area and the Western Balkans significantly improved during this period. The fast economic recovery, on one hand, and the bottlenecks in the chains of production and trade on the other hand, have highlighted the impact of base effect in the temporary growth of inflationary pressures. The developments during the period and the presence of favourable economic policies underpin the optimistic expectations of the global economic performance in the second half of 2021 and beyond. On the other hand, the latest coronavirus variants, inadequate access and the slow vaccination pace in emerging countries, geopolitical conflicts and climate change effects, induce uncertainties to both public health situation and global economic developments.

***The economy of Albania grew significantly by 5.53% in annual terms in 2021 H1.*** The improved healthcare situation, the acceleration of the vaccination process and accommodative economic policies reflected the recovery in consumption and investments. As regards economic sectors, it is assessed that the economic growth was broadly-based, including the production and services sectors. The negative contribution of the external sector on economic growth was mitigated by the good performance of exports of goods and services and remittances. Nevertheless, economic growth still is not reflected in the labour market and inflationary pressures have remained contained. Some early-warning indicators signal that the economy will continue its positive performance in 2021 H2, as well. Despite these expectations, the coordination of adequate economic policies will be necessary to address the lingering uncertainties of the pandemic on the economic performance and in parallel to preserve the stability of macroeconomic indicators in the longer-term period.

***Markets carried on their activity as normal, without strong fluctuations.***

During the period, the level of government debt securities issued in the primary market was around 26% higher than in the previous six months, but around 2% lower than in the same period of the previous year. The average interest rate remained unchanged, at around 2.3%, maintaining similar levels with the average of the last 18 months. Activity in the secondary market of government debt securities did not show significant changes during the period, but the value and volume of transactions were lower than in the previous year. Investors continue to show a preference for holding securities to maturity. The volume of transactions in the interbank market remained stable during the period, but was significantly lower than the same period in the previous year. Interest rates fluctuated close to the policy rate, reflecting the unlimited liquidity injection by the Bank of Albania. In the foreign exchange market, lek reflected lower volatility against the foreign currencies, by facilitating the activity of economic agents. In the real estate market, supply and demand are assessed as upwards. House prices, calculated according to the Fischer House Price Index for sales



conducted during the period, were up by 0.5% compared to the previous six-month period, and by 6.7% compared with the same period in the previous year. Real estate agents remain optimistic for the long-term future of this market.

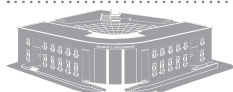
***The core infrastructure for the clearing and settlement of payments in lek continued to operate effectively and securely.*** During the period, it is noted that there was an increase in the number and volume of small- and large-value transactions and in the use of payment instruments, with a positive contribution from payments made with cards and through direct access to banks' apps and webpages.

***Households and enterprises continued to expand their savings.*** As a result, over the past year, household's financial position as net creditors expanded while enterprises tightened their debtor position. Foreign currency provided the main contribution in the saving instruments of both households and enterprises, while domestic currency dominated borrowing for both groups. Survey data suggest that around 24% of households have a debt to pay, and the debt payment for  $\frac{3}{4}$  of them does not exceed 30% of the monthly income. Households' solvency improved compared with the previous year. However, households' credit demand in the upcoming months remains weak and concentrated on those that do not have a loan to pay. Banks' data show that despite the high number of loan applications, the rejection rate by banks remains high for households as compared with enterprises. The survey data on enterprises show that the pandemic has continued to affect their activity, by triggering more difficulties to market preservation and competition. Around 40% of total responding enterprises declare that they currently have loans to settle. This share has decreased by 1 percentage point (pp) compared to the previous six months, but has slightly increased compared with the previous year. The total value of loans resulted approximately at half of the enterprises' equity, for around 74% of total borrowing enterprises, and almost equal to the value of equity for 13% of them. Analysed by size, the "debt/equity" ratio was higher for small and medium-sized enterprises. Most of borrowing enterprises (76%) declare that the loan repayment amounts to 20% of their income, and this share has decreased slightly compared with the previous survey. Debt payment seems to be more burdensome on medium-sized enterprises. In relation to credit demand in the next six months, the borrowing plan index appears lower for all enterprises, but it is more pronounced for small and medium-sized enterprises. Among the group of banks by capital origin, it is observed that when compared with banks with domestic capital, banks with foreign capital have lower rejection rates for loan applications from enterprises.

***A slight increase in the share of financial system assets<sup>3</sup> to Gross Domestic Product (GDP) was observed during the period.*** At the end of 2021 H1, this share reached 122.4%. This performance was mainly driven by the expansion

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<sup>3</sup> The financial system consists of the banking sector and non-banking sector (non-bank financial institutions, credit savings associations, pension funds and investments funds). The database for the non-banking sector and GDP data are from 2020 Q3.



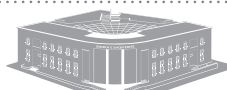
of the financial system activity, where the banking sector provided almost the only contribution by 4.4 pp.

The non-banking segment of the financial system had an overall good performance, slightly expanding its share by around 13% of the GDP. The growth of share was concentrated on the segment of non-bank financial institutions, investments funds and pension funds. Loan quality granted by these entities until the end of the first quarter was relatively good, despite declining somewhat compared with last year. The exposure of the banking sector to the non-banking sector remains limited and unchanged during this period. The exposure of the non-banking sector to the banking sector continues to remain high, as placements of non-banks in the banking sector in forms of deposits and capital instruments account for around 20% of non-banks' balance sheets.

***The banking sector's activity expanded significantly and the main contribution to this expansion was from the investment in securities and lending.*** The share of activity in foreign currency has not shown considerable changes, remaining balanced on both sides of the banking sector's balance sheet. The statistical effect of the exchange rate on the equivalent value of the foreign currency balance had an insignificant impact. Deposits and own funds continued to be the main funding source of the banking sector's activity. Reliance on external funding sources remains at low levels. Assets placed with non-resident entities increased during the period, in the form of placements, loans and current accounts with banks and financial institutions and in the form of securities investments. This has driven to the expansion of the net creditor position of the banking sector against non-residents, by 1 percentage point.

The banking sector maintained a good level of capitalisation during the period. The Capital Adequacy Ratio recorded around 18% (17.95%), downwards in the last two periods. The performance of the indicator during the period was mainly affected by the increase of risk-weighted assets which exceeded the effect of the increase of regulatory capital. Banks with European capital and systemically important banks show the highest level of Capital Adequacy Ratio. During the period, the banking sector recorded a positive financial result of around ALL 10.5 billion. This result was 47% higher compared with the previous year. Activity in lek contributed around 2/3 to the growth of the net financial result. The growth in net interest income and other activities income coupled with the decrease of expenses for loan provisions provided the main contribution to the increase of the banking sector's profit. The banking activity's expenditures increased during the period, but their ratio to banking activity's income declined to 57% from the previous year. The increase in the profit of the sector is also reflected in the performance of the average profitability indicators of the banking sector: RoA and RoE climbed to 1.3% and 12.8%, respectively.

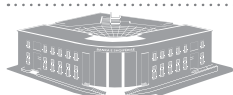
At the end of 2021 H1, outstanding loans totalled approximately ALL 630 billion, higher by 3% over the period, and by 6% from the previous year. The expansion of loan stock was mainly affected by the rescheduling of loan payments in



response to the accommodative measures of the Bank of Albania and the flow of new loans, which was still lower than in the previous six months. A particularly good performance in the credit stock, over the period, was registered for credit portfolio of long-term maturity; loans in domestic currency and loans to enterprises. During the period, loans in foreign currency were 2% higher, but its share to total credit has decreased compared with the previous periods. By residence, credit growth over the period was affected almost entirely by an increase of loans to resident entities, which account for almost 96% of outstanding loans. Loans to enterprises and households increased by 3% and 6%, respectively, with the main contribution from real estate loans and loans in lek. Over the period, loans to non-residents increased by 16% and as a result, its share to the total credit increased by 1 pp, at 4%. The volume of written off loans from the banking sector's balance sheet was low during the period and the share of unhedged loans in foreign currency recorded a slight decrease.

Deposits held in the banking sector recorded high rates of growth over the period. The growth is distributed almost equally between households and enterprises and between lek and foreign currency deposits. The growth of euro deposits was more pronounced in foreign currency deposits. Time deposits grew slightly by 1%, but the largest growth over the period in deposits by maturity was registered in current accounts and demand deposits, by around 6% each. At the end of June 2021, deposits registered around ALL 1,340 billion, up by ALL 50 billion (or 4%) during the period, and ALL 100 billion (or 9%) compared with the previous year. Around 45% of the overall stock of deposits is composed of time deposits, which did not change significantly during the period. The average interest rates for time deposits both in lek and in foreign currency, continue to remain at low levels and their average ratio did not record significant changes during the period.

***Overall, the risks to the Albanian economy were contained over the period.*** The financial stability map shows a lower level of risk in the overall macroeconomic environment and to real economy agents, while risks associated with the banking activity remain at contained levels, despite the unusual situation of the previous year. The main contributor to this performance was the improvement in the financial situation of enterprises, households and the external environment. Meanwhile, other factors related to the overall performance of the economy, fiscal situation and banking activity have shown small and irrelevant changes. In parallel, other indicators, which try to capture systemic risk perception and risk assessments, including the banking industry's assessment, call for an increased attention on the performance of budget deficit and the level of public debt, as well as recognize the positive developments of the period related to economic recovery, credit quality and exchange rate stability. The increase of house prices in the real estate market, which continues uninterrupted for several years, requires an analysis in view of sustainability. In terms of more specific activity risks to the banking sector, the following is observed:

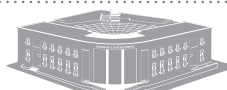


***Credit risk recorded a significant decline over the period.*** The non-performing loans ratio fell by 1 p.p., to 7.1%, the lowest level since 2009. The improvement was present in almost all loan categories, and was driven by both the decrease in non-performing loans stock and the increase in outstanding credit. The absolute value of non-performing loans decreased by ALL 5 billion, standing at ALL 45 billion. Within non-performing loans, the share of “sub-standard” and “doubtful” loans decreased. As a result, given the faster decrease of the stock of non-performing loans compared with the relevant provisions for credit risk, the provisioning ratio increased by 3 pp, to 68%. Net non-performing loans account for 2.3% of total loans and their value is covered 11.1 times by the capital of the banking sector. The collateralisation of the loan value was 80% and almost 2/3 of credit is collateralized by real estate. At the end of the period, the highest amount of non-performing loans was attributed to loans to enterprises (8.4%), foreign currency loans (7.9%) and medium-term loans (7.5%).

***The liquidity position of the banking sector is assessed to be in good levels, but it needs attentive monitoring.*** The liquidity indicators, both in lek and in foreign currency, remained significantly above the minimum regulatory ratios. Liquid assets of the banking system grew by ALL 11 billion, standing at ALL 560 billion. The ratio of liquid assets to total assets in banks’ balance sheets continues to remain high. At the end of the period, its value was 34.1%, while the fall during the period was 0.7p.p.. The ratio of liquid assets to short-term liabilities also decreased by 1 p.p., standing at 46.5%. Deposits, as the main source of funding the banking activity, cover twice the volume of loans of this sector. At the end of period, the “loans/deposits” ratio stood at 46.8%, slightly downwards during the period due to the performance of the foreign currency ratio.

The negative gap between assets and liabilities by residual contractual maturity segment, as a ratio to total short-term assets, remains at high levels. For the period up to 3 months, the negative gap between short-term assets and liabilities by residual contractual maturity segments rose to 27% of assets. During the period, an increase was observed in the average maturity mismatch between assets and liabilities, due to an increase of the average maturity of assets. At the end of the period, this mismatch was around 25 months, from 24 months at the end of the previous six months. Deposits’ residual maturity, which represents the most significant category of liabilities, fell to 7.3 months during the period. Meanwhile, the residual credit maturity increased to 50.7 months, reflecting the banks’ propensity to grant credit for longer-term periods. Similar to the previous six months, the banking sector did not report the use of funding lines by parent groups.

The presence of both high-valued liquid assets and extended values of short-term maturity gap, are two sides of the same coin. This signifies that due to changes in the liabilities structure of the banking sector and their orientation towards demand instruments, banks have a propensity to invest in assets with





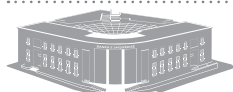
a higher quality of liquidity. This approach allows the liquidation of these assets when a stressful situation in fulfilling obligations arises. However, in a hypothetical liquidity stress situation, the quality of liquidity for selected assets may be challenged by the depth of markets where they may be traded or other previously untested factors. Given these reasons, it is necessary for each bank to assess its capacities and framework for creating the necessary liquidity resources in stressful situations, and to undertake the adequate structural steps in order to gradually mitigate the maturity gap in the short run.

***Market risks did not show significant changes during the period, but their careful management remains necessary.*** At the end of the period, the ratio of open foreign currency position to the regulatory capital of the banking sector was 4.5%, the lowest ratio during the last year and considerably below the maximum limits required by the regulatory framework. The performance of this indicator has been determined by the group of systemic banks, which have maintained a long open position. The exposure of the banking sector to the indirect exchange rate risk slightly decreased compared to the first six months and to the previous year. The foreign currency mismatch index for all currencies declined. The exposure of the banking sector to interest rate risk has increased. The weighed total net position in the banks' balance sheet against regulatory capital of the banking sector stood at 5.6% at the end of the year, up by 1.3 p.p. from the previous period.

Both the weighted spread of assets with fixed interest rate (FIR) liabilities and the net position on variable interest rate (VIR) assets and liabilities provided the main contribution to the increase of this indicator. Given that the total net position is positive, the sector has a relative exposure to changes in interest rates, but this impact is assessed as relatively low, as it is significantly below the upper regulatory limit. At the end of the period, regulatory capital coverage of the total net position of the banking sector is 17.5 times, whereas 5 times is the minimum coverage provided for in the regulatory framework. Similar to other risks, the exposure of specific banks to market risks needs to be assessed and monitored regularly. Results show that despite a diverse distribution, the determined regulatory limits are observed in this case as well.

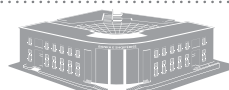
To assess the banking sector's resilience against the real economy or financial markets shocks in the medium-term horizon, the Bank of Albania carries out regular stress testing exercises. Stress tests on capital adequacy show individual banks' degree of resilience in terms of capital and aims to identify its adequacy to withstand assumed shocks on economic growth, credit, exchange rate levels and interest rates.

Overall, the stress-testing exercises carried out at the end of 2021 H1 and spanning over 2021-2022 period, show that the banking sector appears resilient to the possible macroeconomic shocks. Results demonstrate that specific banks are more exposed to assumed shocks and need to strengthen their capital positions.





In conclusion, the Bank of Albania assesses that the financial system and the banking sector continued to have a stable performance despite the activity risks. The improved healthcare situation and the recovery of economic activity in the second and third quarter of the year, shows the interconnectedness between these elements and identifies the importance of accelerating the vaccination process and the understanding of this process by the public. In parallel, the events of the latest months reflect the uncertainty of the pandemic situation, and the need of economic, financial and prudential policies to remain oriented towards mitigating the effects of these uncertainties on economic performance. The banking sector still needs to conduct regular risk assessments and to maintain a proactive stance as regards taking measures for mitigating and withstanding them.



# 1. OVERVIEW OF THE MAIN RISKS TO FINANCIAL STABILITY

## 1.1 FINANCIAL STABILITY MAP

*The Financial Stability Map shows lower levels of risk in the overall macroeconomic environment and in the activity of the real economy agents.*

*Meanwhile, risks related to the activity of the banking sector remain at contained levels, despite the unusual situation of the past year.*

As at end of 2021 H1, the Financial Stability Map shows, overall, lower levels of risk in the overall macroeconomic environment and in the activity of real economy agents. Whereas, the risks related to the activity of the banking sector remain at contained levels, despite the unusual situation of the past year. In more concrete terms:

A. In the overall economic environment:

- I. Risk from the “domestic economy”<sup>4</sup> is rated as “moderate” and has remained unchanged over a one-year period. Maintaining the risk at this level was mainly driven by the output gap, the stock of the external debt and the stability of the exchange rate;
- II. Risk from the “external environment” remains at “average rate” and has been downwards compared to the previous six months and the previous year. This is directly related to the economic growth recorded by most of our key trading partners<sup>5</sup>, particularly in the second quarter of the year and the positive performance of the OECD-CLI4 index<sup>6</sup>, following the lifting/easing of containment measures around the world and the recovery of the activity of economic sectors affected by the pandemic.

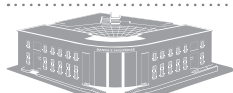
B. In the main real economy agents:

- I. Risk from “enterprises” is assessed as “low,” and downwards from the previous year. In this category, a significant improvement is recorded in the “financial position index” and “private sector’s expectations” indicator, while the quality of the credit portfolio to enterprises has continued to improve.
- II. Risk from “households”, although it continues to be assessed as “average,” has decreased from the previous year. The risk rate from this category was affected by a considerable increase in remittances, while the share of households’ borrowing, their credit portfolio quality, unemployment rate and households’ expectations have maintained an unchanged risk rate.

<sup>4</sup> The assessments were carried out based on the latest official data published for 2021 Q1.

<sup>5</sup> Some part of the high level of the GDP is due to the effect of calculations which are based on a very low value of the indicator over last year.

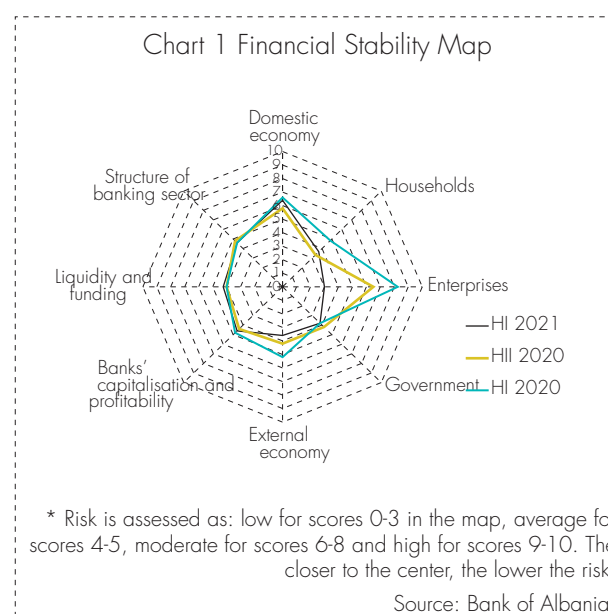
<sup>6</sup> OECD-CLI index (Composite Leading Indicator) gives early warning signals on the turning points of the business cycle at a global level. When the index falls, it signals a decrease in the long-term potential level of economic activity.



- III. Risk from the "Government" is assessed as "average" and has remained unchanged during the period. The volume of budget deficit has increased the risk rate over the period, but this development has been balanced by the improved performance in tax revenues.

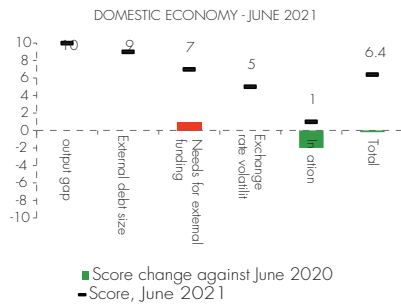
C. At the end of the period, the banking sector activity shows the following:

- I. Risk from "capitalisation and profitability" is assessed as "average," and it has recorded a slight fall compared with the previous year, driven mainly by a rise in the interest income of the banking sector and the continuing decline of the non-performing loans ratio.
- II. Risk from "liquidity and funding" continues to be assessed as "average," slightly upwards than a year earlier, driven by an increase in the scale of financing from non-residents, while the other indicators have remained almost unchanged.
- III. The risk associated with the "banking sector structure" is assessed as "average," maintaining the level of the previous year. In this category, the increase of risk level, due to the increase of concentration in banking sector in terms of credit to enterprises, was offset by a decrease of risk related to the indicator of concentration of the banking sector's funding sources.

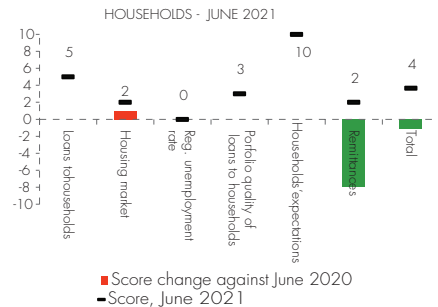


## BOX 1 FINANCIAL STABILITY MAP COMPONENTS

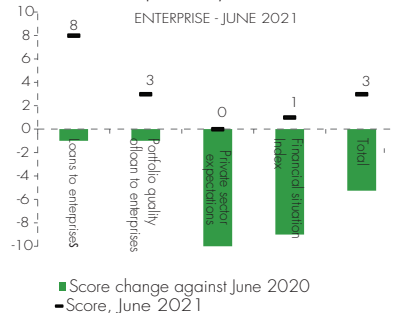
Risk from the "domestic economy" is assessed as "moderate" and unchanged during the period. This performance was driven by the stability of the output gap and of the exchange rate and inflation rate, as well as the performance of the external debt. The need for external financing have expanded by improving the risk from the "domestic economy", while inflation rate recorded a lower level of risk than in the previous year.



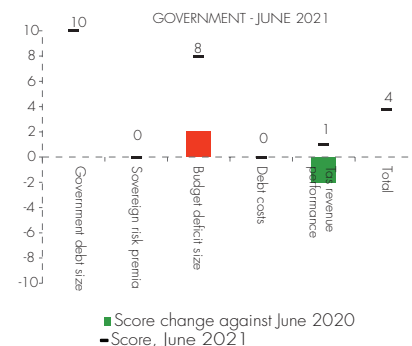
Risk from "households" is assessed as "average" and has recorded a decline compared with the previous year. The improvement in this category was driven by the rising pace of remittances, while households' borrowing share relative to GDP, unemployment rate, households' credit portfolio quality and expectations maintained the same risk level. The annual increase in house prices has given a small contribution in relation to the increase of risk from households' sector.



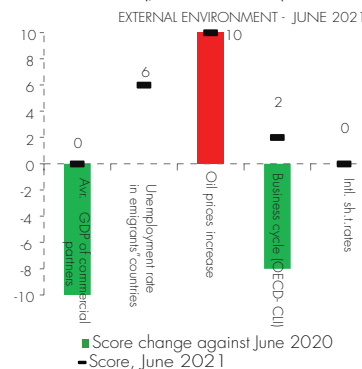
Risk from "enterprises" is rated as "low", recording a decrease compared with the previous year. In this category an increase has been observed in the borrowing level of enterprises in relation to GDP as well as an improvement in their credit portfolio quality. The risk rate fell due to improvements in the expectations of the private sector and the financial situation index compared with one year earlier.



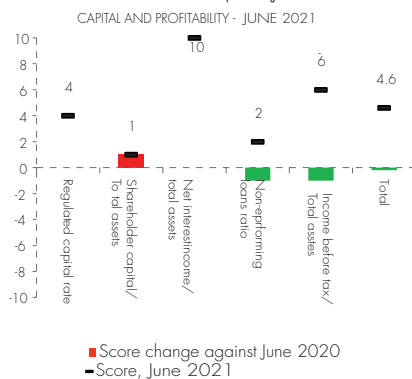
Risk from the "government" continues to be assessed as "average," and unchanged over a one year period. The increased risk level is attributed to the increase of public debt to GDP and budget deficit, while improvement to tax revenues has provided a positive effect, offsetting the negative impact of the other elements.



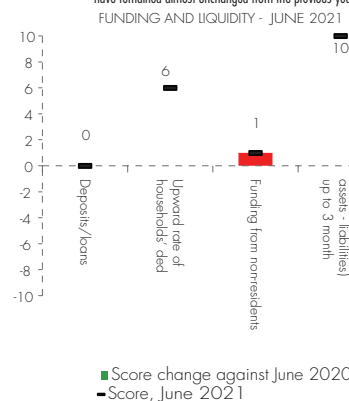
Risk from the "external environment" is rated "average" and has trended downwards in 2021 H1. This performance is affected by the growth of GDP registered by the majority of our trading partners and the positive performance of OECD-CL4 index, as a result of the removal/relaxation of restrictive measures worldwide and the recovery of the economic activity of sectors affected by the pandemic. On the other hand, the considerable hike in oil prices in international markets as a result of demand and supply factors and the global output following the opening of the economy, has affected the risk level upwards.



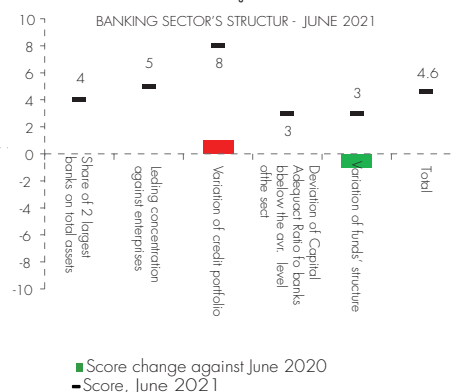
The level of risk from "capital and profitability" of banks is assessed as "average," trending slightly downward compared with one year earlier. This performance was mainly driven by a rise in the interest income of the banking sector in relation to the expansion of the sector's activity and the further decline of non-performing loans ratio.



Risk from "funding and liquidity" continued to remain "average" and has recorded a slight decrease compared with the previous year. This performance was impacted by a slight increase in the rate of financing by non-residents to total liabilities of the sector, while the other indicators have remained almost unchanged from the previous year.



Risk from the "banking sector structure" remains "average" and has not changed during the period. Whereas, the indicator of credit portfolio fluctuations shows an increase in the banking sector's concentration of lending, contributing to an increase of the risk. This is offset by the positive performance of the other indicators, particularly the one of concentration of the banking sector's funding sources.



Source: Financial Stability Department, Bank of Albania.



## 1.2 SYSTEMIC RISK

In order to assess and monitor the exposure of the banking sector to systemic risk, the Bank of Albania considers three aggregate indicators that reflect the accumulation and materialisation of systemic risk and the scale of financial stress, as well as a survey on banking sector's perceptions regarding such risks<sup>7</sup>.

The aggregate indicators reflect an increase of accumulated risks and financial stress related to the performance of public debt, the increase in the stock of credit with variable interest rates, the exchange rate volatility, and the expansion of the interest rate spread of the overnight facility for interbank transactions. On the other hand, the materialisation index of systemic risk does not show significant changes and has been positively affected by the improvement of credit quality and a stronger domestic currency. According to the perception of the banking sector, the risk to the deterioration of the domestic economy remains the most important risk to the activity of the financial system, but this risk has been significantly mitigated compared with the previous six months and the previous year. At the same time, banks' assessment claim that the risk related to credit quality and borrowers' insolvency has been mitigated compared to the previous period and previous year. Banks remain attentive towards the stability of public debt and rank this element as the third most important element in the assessment of the overall systemic risks.

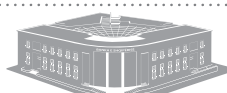
*The quantitative and qualitative risk indicators show that developments such as the growth of domestic economy, improvement of credit quality and the stability of the exchange rate have contributed to mitigate the risk. At the same time, the increase of public debt and some developments in the financial indicators related to variable interest rate credit and the spread of short-term interest rates are assessed and perceived as events that increase the pressure of higher risks to the activity of the financial system.*

### 1.2.1 DEVELOPMENTS IN SYSTEMIC RISK INDICATORS

In 2021 H1, the accumulation index of systemic risk has increased, whereas the materialisation index has resulted very close to the end of 2020 level. The accumulation index of systemic risk increased due to the rise of public debt, the increase of real estate prices as well as the expansion of credit portfolio with variable interest rate. The materialisation index was affected by positive developments such as the improvement of the quality of the credit portfolio mainly to enterprises, as well as a stronger domestic currency. Given the method of construction and the phenomena that each risk indicator aims to reach, there is the possibility that the materialisation index will "be driven" to an upward trend, by the increase in the value of the accumulation index of systemic risk.

During 2021 H1, the financial stress index reflected an upward trend. The increase of the index was underpinned mainly by the exchange rate volatility of the domestic currency against the key foreign currencies and the increase of interest rate spreads in the interbank market. The downward trend of the index

<sup>7</sup> An ad hoc survey is conducted to obtain the banking sector's perception on the main system risks in Albania.



was driven by the activity of the banking sector following the increase of the net interest margin.

Chart 2 Accumulation and materialisation indices of systemic risk

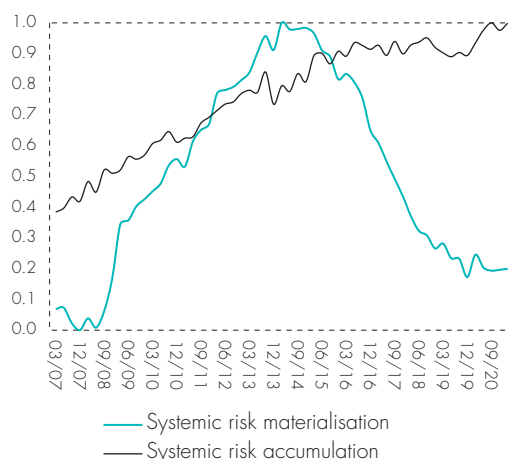
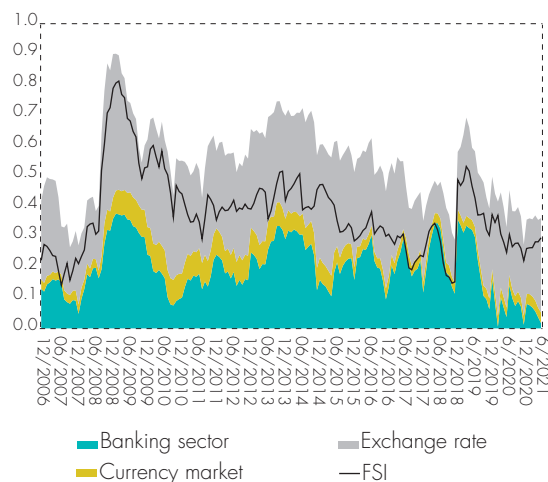


Chart 3 Financial Stress Index



## 1.2.2 PERCEPTION OF THE BANKING SECTOR ON SYSTEMIC RISK

Survey results on the perception of the banking sector regarding systemic risk in Albania, continue to show “deterioration of the domestic economy” as the main risk during 2021 H1. The perception on systemic risk has been mitigated during the period, driven by the positive impact of economic activity in Albania, after the easing of restrictive measures related to the pandemic. At the same time, the overall perception on “credit risk from all categories of clients”, which is considered as directly related to the “deterioration of the domestic economy” risk, has been somewhat mitigated. The economic sectors impacted by the pandemic such as international transportation, trade and tourism have returned back to business, thus reducing the banks’ concern on the future financial situation of enterprises and households, as well as the perception of “external shocks risk”. On the other hand, the expansion of public debt in relation to GDP, due to the increasing management costs of the pandemic, has increased the concern of the banking sector regarding its sustainability and has identified the need for measures that return it to its downward trend. As it was also the case last year, banks continue to identify the emergence of new risks related to the pandemic, such as “operational risk” and “cybernetic risk”, as a result of an increased level of technology being employed to conduct their activities.

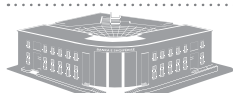
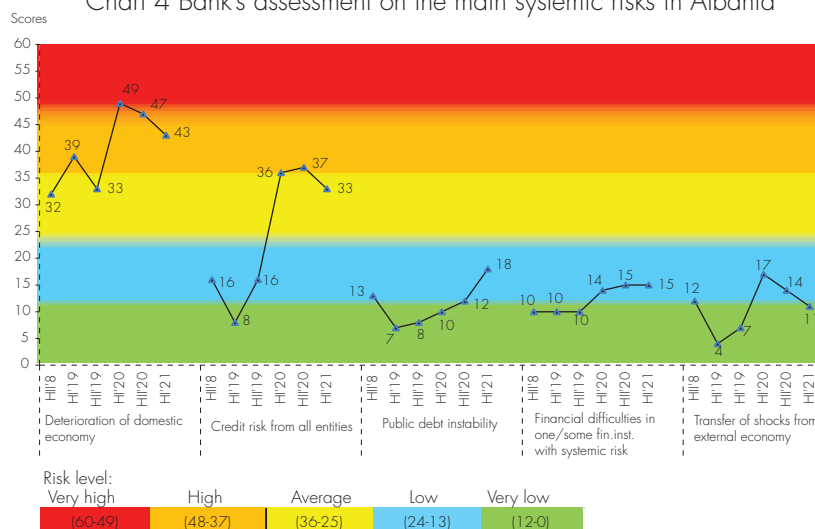


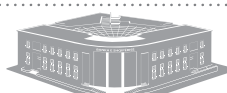
Chart 4 Bank's assessment on the main systemic risks in Albania



Source: Bank of Albania.

Banks' confidence in the financial system stability has increased during the surveyed six months, compared with the previous period and the previous year, returning to the pre-pandemic levels. Banks' confidence remained satisfactory and unchanged as regards short-term future, but somewhat downwards as regards a longer-term future.

According to the banking sector, despite the challenges that characterised the domestic and external environment over the past two years, the financial system in Albania continued to remain liquid and well-capitalised, and consequently, able to absorb possible losses. Nevertheless, the pandemic-related developments, in the past weeks regarding the spread of the Delta variant, have shown that uncertainty about public health and its overall impact on the economy, are still present. It is necessary to pay particular attention to these developments and assess them in relation to the banking activity indicators.



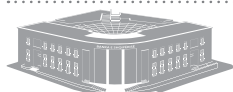
## 2. MACROECONOMIC AND SECTORIAL DEVELOPMENTS

### 2.1 INTERNATIONAL ECONOMIC AND FINANCIAL DEVELOPMENTS

*The recovery of the global economic activity in 2021 H1 was driven by the fall in the rate of infections and the gradual lifting of restrictions. Developments have varied across regions, reflecting, among others, the performance of the vaccination process. Financial conditions remain favourable and many countries continued to support the economy with special fiscal measures. Developments were positive in the euro area and the Western Balkans, following the improvement of the pandemic situation and the relaxation of restrictive measures.*

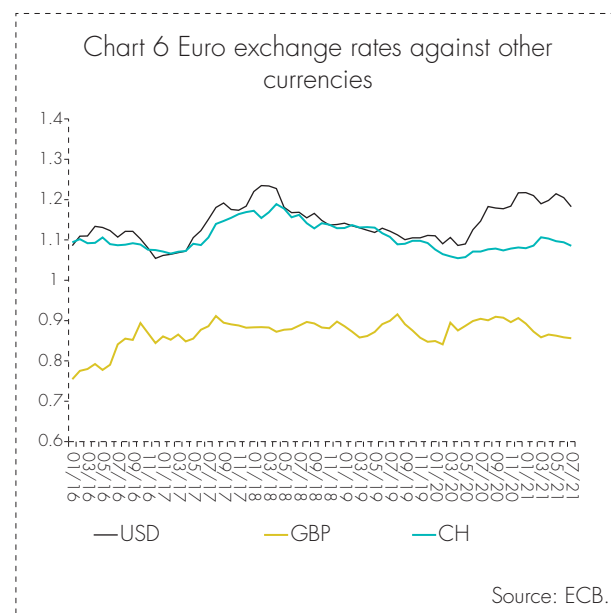
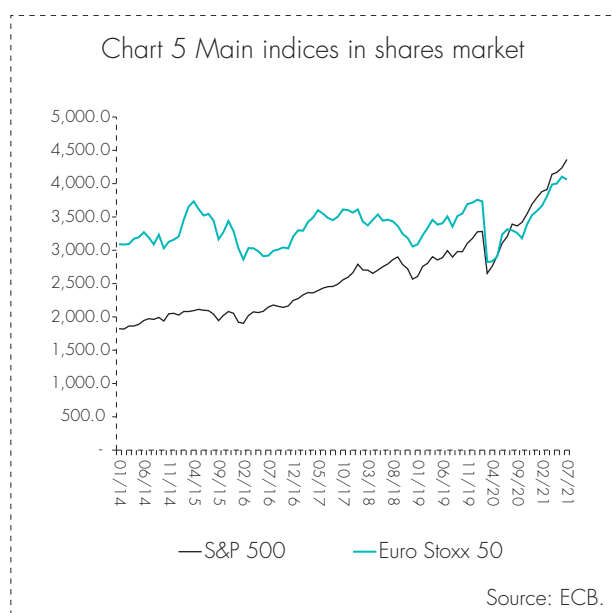
Global economic activity continued to normalise during 2021 H1, although developments varied across regions, remaining under the pressure of the Covid-19 pandemic. The growth was positively impacted by the recovery of the services sector, while positive developments in indicators through which the pandemic was monitored in the second quarter, enabled the relaxation of the containment measures in most countries. In parallel, the expansion of production and trade were halted due to supply chain issues. The course of the pandemic and the accommodative fiscal policies were the key factors in the economic recovery of the regions, which determined, at the same time, the differences across regions. These differences were defined by the degree of vaccination, which is much higher in advanced countries than the emerging ones. Inflationary pressures at the global scale were upwards during the period, affected by temporary factors such as the base effect in calculations and bottlenecks in the chain of production and distribution of goods. While trusting that these factors will remain temporary, inflation rates are expected to return to lower levels in the second half of this year. Financial conditions at a global scale remain favourable overall and accommodative to the expansion of economic activity. In markets of advanced economies, financial conditions were further eased, driven by the positive expectations on economic performance and accommodative central banks' policies (such as quantitative easing programmes, easing of regulatory requirements etc.). The positive trend observed in these markets was somewhat halted at the end of the period, affected by the uncertainties over the spread of the Delta variant and the increasing concerns on the future inflationary dynamics.

The tightening of monetary policy in some emerging markets, as a response to higher domestic inflationary pressures, has somehow tightened the financial conditions. On the other hand, the volatility of interest rates has been increasing, reflecting the concern on the potential normalisation of the FED's monetary policy in the United States, at a faster pace than expected. In the foreign exchange markets, the euro depreciated against the currencies of important trade partners, in particular against the US dollar (by 3.3%), reflecting the expectations of markets for a fast normalisation of the monetary policy of the US. The euro depreciated also against the Japanese Yen, Swiss Franc and the Chinese currency.





In commodities markets, oil prices continued to rise during the year, driven by demand-supply factors. The recovery of the global activity and particularly the increase of air travel, following the removal of movement restrictions, significantly increased the demand for oil and its sub-products, whereas the supply from producing countries was insufficient. The contribution of the latter factor is expected to reduce, once the production and distribution chains will normalise during the next months. Prices of metals and food items pursued similar upward trends, affected by a stronger global demand and the fiscal stimuli to support consumption.



Given the strengthening of global demand for goods and services, favourable financial conditions and accommodative fiscal measures, particularly in advanced economies, the global economic activity is expected to expand at a stable pace in 2021 H2 and in the next year<sup>8</sup>. Nevertheless, expectations carry a high level of insecurity, dictated by the dynamic of the pandemic in the following months. The performance of the vaccination campaign with a view to put the pandemic under control and the efficiency of supporting policies, will remain key factors in the normalisation of the economic activity, which may deepen discrepancies among the regions. At the same time, other events such as social upheavals, geopolitical tensions or natural disasters, which have increased due to climate changes, remain important risk factors to the global economic outlook.

*Under the assumption that the acceleration of vaccination process and the improved medical therapies for treating Covid-19 will put the pandemic situation under control, the global economy is expected to continue its steady recovery during 2021 H2. Forecasts depend on the evolution of the pandemic.*

<sup>8</sup> The IMF forecasts that the global economy will expand by 6% in 2021 and by 4.9% in 2022. (July forecasts, 2021, World Economic Outlook, update).



## EURO AREA

Following an economic contraction by 0.3% in 2021 Q1, the economy of the euro area recovered in the second quarter, expanding by 2% in quarterly terms and 13.7% in annual terms. Economic growth was driven by easing the restrictive measures of the pandemic, particularly in the services sector, and was underpinned by growth in consumer spending, strengthening of global demand and the monetary and fiscal stimuli.

Developments in the labour market were positive overall, affected by governments' schemes to safeguard jobs. The unemployment rate in the region has trended downwards, while employment has remained below the pre-pandemic level. Inflationary pressures were upwards during the period and the inflation rate remained in positive territory, standing at 1.9% in June 2021. This performance was dictated by the increase of energy prices and the contribution of temporary factors of the comparative bases of bottlenecks in the supply chain. The effect of the latter is expected to gradually wear off in the first months of 2022, and inflation rates will be stabilised at positive levels, but below the declared target. Against this backdrop, the European Central Bank continued its commitment to maintain an accommodative monetary stance to support the financial sector and the economy with liquidity, through quantitative easing programmes and other non-conventional instruments.

In the medium term, the economy of the euro area is expected to continue its recovery underpinned by favourable financial conditions, the strengthening of domestic and external demand and the fiscal stimuli of governments. However, uncertainty remains high particularly after the increase of infections with the new virus variant in some of the countries of Europe, by increasing the risk of reinstatement of restrictions. The economic outlook of the region remains conditioned by the dynamics of the pandemic and the performance of the vaccination campaigns.

In the banking sector, the accumulation of deposits by households and enterprises, which grew considerably last year, has been normalised during this year, while borrowing activity has returned to its pre-pandemic levels. Survey results on bank lending in the euro area show that, overall, indicators of credit standards have remained unchanged, while loan demand to enterprises and households is reported upwards.

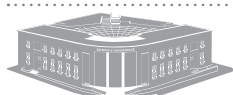


Table 1 Selected macroeconomic indicators for the U.S., euro area and some member countries

	GDP changes (annual %)			Inflation (annual %)		Unemployment (annual %)		Government debt (% GDP)	
	2020	Q1'21	Q2'21*	March'21	June'21	March'21	June'21	Q4'20	Q1'21
USA	-3.5	6.3	6.5	2.6	5.4	6.0	5.9	129.2	127.6
Euro area	-6.5	-1.3	13.7 (2.0)	1.3	1.9	8.1	7.7	97.8	100.5
Germany	-4.8	-3.1	9.2 (1.5)	2.0	2.1	3.8	3.7	69.7	71.2
France	-8.0	1.7	18.7 (0.9)	1.4	1.9	8.1	7.3	115.1	118.0
Italy	-8.9	-0.7	17.3 (2.7)	0.6	1.3	10.2	7.9	155.8	160.0
Greece	:	:	:	-2.0	0.6	16.5	15.1	205.6	209.3

\*The quarterly GDP growth values are put in brackets.

Source: European Central Bank, Eurostat, f-Forecast for July 2021 by the International Monetary Fund, Bureau of Economic Analysis (BEA). U.S. Bureau of Labour Statistics; ": no available data.

## WESTERN BALKANS

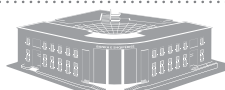
The Western Balkans economies have shown signs of recovery during 2021 Q1, preceded by a contraction for three quarters in a row. The easing of restrictive measures and the restart of economic activity in the affected sectors has encouraged a rebound in investments and expansion of exports in most of the countries of the region, the positive effect of which has exceeded the fall of private and public consumption. As a result, the GDP of the region has expanded by 1.7% in annual terms. The economic recovery has brought higher budget revenues and tighter fiscal deficit, while some of the countries have reduced public debt in relation to GDP. In the external sector, with the exception of Albania and Kosovo, in the rest of the region, balance of payments pressures decreased considerably as a result of the tightening of trade deficit and the increase of remittances. Despite the positive performance of the economic activity, improvement to the labour market is still lagging behind, while unemployment rate remained stable during the period.

In general, inflation dynamics varied across regional countries in the first months of the year, but the rise in food and energy prices, at a global level, caused an increase of inflationary pressures, in April and May 2021. Nevertheless, the central banks of the region continued to maintain accommodative monetary policies, supporting both the economic and lending recovery.

Table 2 Key macroeconomic and financial indicators for the Western Balkan countries

	GDP (real, annual %)				Unemployment (in %)		Credit growth (annual %)		Non-performing loans ratio (in %)	
	Q4'20	Q1'21	2020	2021p	Q4'20	Q1'21	Q1'21	Q2'21*	Q1'21	Q2'21
Bosnia and Herzegovina	-2.3	1.5	-4.6	:	16.6	:	-0.4	1.9	6.0	:
North Macedonia	-0.7	-1.9	-4.5	3.7	16.1	16.0	5.6	5.5	3.3	3.4
Montenegro	-7.5	-6.4	-15.2	7.1	21.5	:	3.8	8.0	5.5	5.5
Kosovo	0.8	5.6	-3.7	:	27.0	:	6.9	11.1	2.5	2.4
Serbia	-1.0	1.7	-1.0	5.3	9.9	12.8	10.8	9.1	3.9	:
Albania**	2.4	5.5	-4.0	4.0	11.8	11.9	1.6	5.9	8.0	7.1

Source: Source: European Commission, respective central banks. f-Forecast for June, 2021; ":" no available information; "\*\*": data refer to May 2021 (with the exception of Albania where the data is from June 2021).



In the banking sector, various supportive policies have backed up the recovery of credit, particularly in 2021 Q2. The balance sheet of regional banks improved during the period as a result of the further decrease of the non-performing loans ratio.

## 2.2 MACROECONOMIC ENVIRONMENT IN ALBANIA

*The domestic economy grew significantly in 2021 Q1. The improved public health situation, the acceleration of the vaccination process and stimulating economic policies underpinned the recovery of consumption, investments and exports. However, the labour market did not experience any improvements, while inflationary pressures remained contained. The coordination of adequate economic policies will be necessary to address the pandemic uncertainties that affect economic performance and in parallel, to guarantee macroeconomic stability in the longer term.*

In Albania, the acceleration of the vaccination process and lower infection rates impacted on the acceleration of the economic activity during the period. In 2021 Q1, Gross Domestic Product (GDP) registered an annual and quarterly growth of 5.53% and 2.29%, respectively. This performance was driven by an expansion in consumption, investments and exports. At the same time, their growth reflected the improvement of the economic confidence indicators, monetary and financial stimulus, as well as the positive effect of relaxed restrictive measures undertaken to manage the pandemic. Analysis by sectors of the economy shows a positive performance of the sector of production and construction activity. The services sector - with the exception of "trade, transport and hotels" – experienced a positive performance,<sup>9</sup> as well. The improvement of economic developments was not yet reflected in the labour market, as the unemployment rate easily climbed to 11.9%, up by 0.1 p.p. during the quarter and by 0.5 p.p. compared to the previous year.

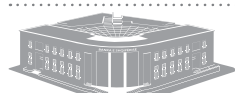
The external sector contribution to the economy remained negative due to the expansion of the current account deficit in the balance of payments by about 30% in annual terms, at EUR 310 million. This performance was driven by the expansion of trade deficit in goods<sup>10</sup> and the negative balance of primary income<sup>11</sup>. However, this development was compensated mainly by an increase of the positive balance in secondary income and the slight expansion of surplus in services<sup>12</sup>. Travel services closed in with a positive balance of ALL 100 million, or up by 9% than the previous year. Despite this performance, the effects of the pandemic have continued to impact the number of travellers that cross the border both ways. As a result, revenues and expenses from travel services fell by 31% and 45%, respectively, in annual terms. Remittances are estimated at around EUR 170 million, with an annual growth of 11%. Meanwhile, the flow of foreign direct investments (FDIs) is estimated at EUR 240 million, with an annual decrease of around 10%. At the end of the period,

<sup>9</sup> The main activities that registered an annual growth were: "Industry, energy and water" (+23.8%); "Construction" (+16.9%); "Information and Communication" (+4.9%); "Financial and insurance activities" (+16.9%); and "Real estate" (+8.7%). The group of "Trade, transportation, accommodation and food services" recorded an annual decline of 0.93%.

<sup>10</sup> Trade deficit in goods expanded by around 15% in annual terms, reaching to EUR 752 million. This development reflected mainly the increase of imports in "equipment machinery" and "transportation equipment" besides the increase of imports in pharma products to withstand the pandemic situation.

<sup>11</sup> Primary income (employment and capital) expanded the negative balance by EUR 18 million, to EUR 76 million, dictated by the return of capital to "investments".

<sup>12</sup> Secondary income registered an annual growth of 22%, where remittances account for the main part. Trade surplus in services expanded by 2% in annual terms.



foreign reserve assets were sufficient to cover 9.6 months of average imports in goods and services.

Fiscal policy remained accommodative during 2021 H1 as well, maintaining the same approach of 2020. The measures undertaken to withstand the shocks to the economy due to the pandemic, drove to a significant increase of fiscal deficit and public debt. At the end of June 2021, budget deficit increased by around 2% of GDP (or around ALL 29 billion) and public debt by about 85% of GDP<sup>13</sup>. The budget deficit was mostly financed by internal borrowing rather than the foreign one. The more positive economic developments and the hope for a stable public health situation, are reflected in fiscal consolidation objectives on budget definitions of the Albanian Government for 2021 and in the medium term.

During the period, the Bank of Albania maintained an accommodative monetary policy stance without changing the policy rate, while providing the required liquidity in the interbank market. This policy reflected the contained inflationary pressures and the need to support economic activity.

Indicators of confidence, trade and services, as well as the good performance of fiscal revenues, signal positive economic developments in the second and third quarter, as well. These are expected to gradually be reflected also in the labour market, by supporting domestic demand and consumption. However, despite improvements, the situation of public health related to the presence of coronavirus variants and higher infection rates pose uncertainties that may affect economic activity in the next months. The Bank of Albania will carefully monitor economic developments in order to respond as required with adequate measures in the monetary and prudential sphere. The coordination of economic policies remains significant during this phase, in order to guarantee the macroeconomic stability in the longer term.

## 2.3 FINANCIAL POSITION OF HOUSEHOLDS AND ENTERPRISES

During the period, households and enterprises have increased their savings at a quicker pace. As a result, during the recent year, net creditor position of households has expanded, while the debtor position of enterprises has decreased. Households have increased their savings in the form of deposits and borrowing in the form of loans, mainly in the domestic currency. For this sector, in the past 12 months up to June 2021, bank deposits expanded by around ALL 70 billion and credit stock increased by around ALL 20 billion<sup>14</sup>. For enterprises, during the same period, loans grew by ALL 25 billion, mainly

<sup>13</sup> The most recent data available on public debt and the economic activity are from 2021 Q1, while data on fiscal deficit are from 2021 Q2. The abovementioned reports are subject to review after the official data of the period are published by INSTAT.

<sup>14</sup> In semi-annual terms, deposits and credit grew by ALL 35 billion and ALL 10 billion, respectively.



in domestic currency, while deposits grew by ALL 36 billion, mainly in foreign currency. At the end of June, the creditor position of households was around ALL 880 billion, while the debtor position of enterprises recorded ALL 165 billion.

### 2.3.1 HOUSEHOLDS' FINANCIAL AND BORROWING SITUATION

*During the period, households' savings increased and their creditor position expanded, driven mainly by deposits growth in both lek and foreign currency.*

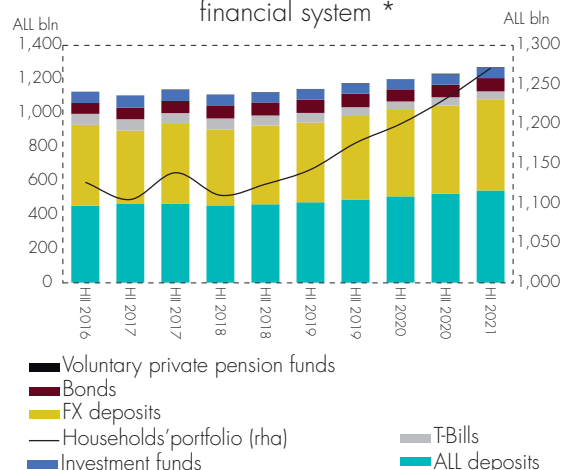
During the period, savings of resident households, which are mainly held in the form of deposits and bonds, increased by around ALL 40 billion compared with the end of 2020. Investments in government securities (T-bills) have declined. Investments in private pension funds expanded their share in the total households' investment portfolio. Compared with the previous year, households increased bank deposits in both lek and foreign currency.

Chart 7 Financial sectorial position  
(in ALL billion)



Source: Bank of Albania.

Chart 8 Resident households' activities in the  
financial system \*



\* Values for investment and private pension funds belong to 2021 Q1.

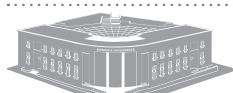
Source: Bank of Albania and AFSA.

*Households' solvency has slightly deteriorated compared to previous six months, but it appears better than in the previous year. Households' credit demand is expected to be somewhat weaker during 2021 H2.*

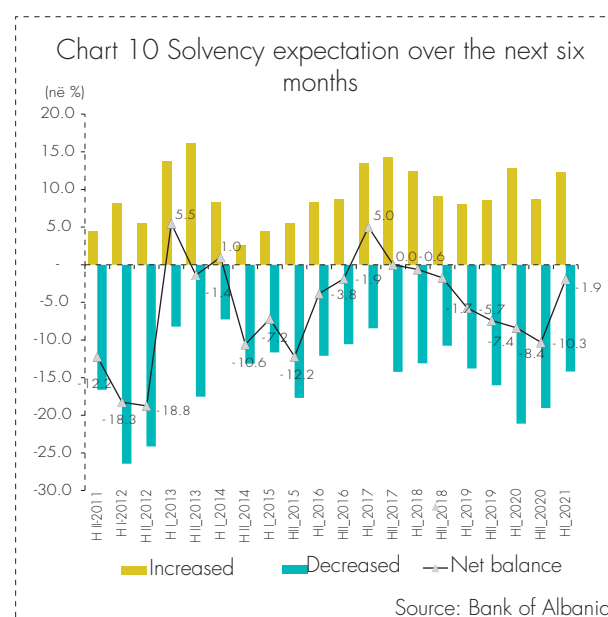
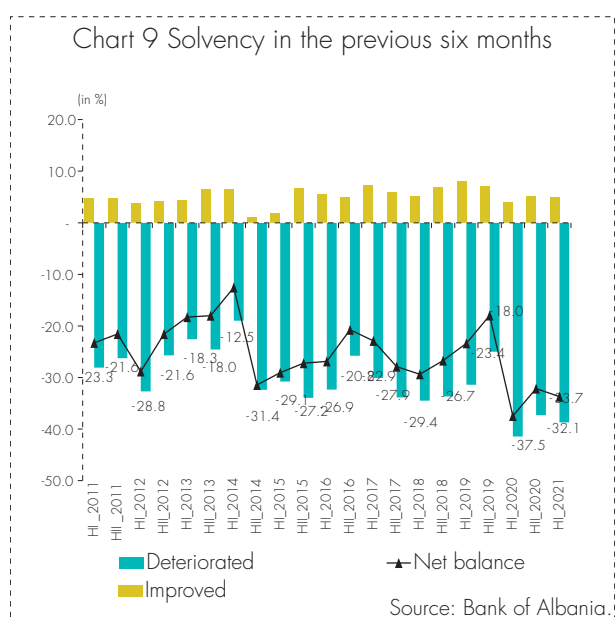
A periodical survey is conducted in cooperation with the Institute of Statistics<sup>15</sup> with a random sample of 1210 households in order to assess the financial and borrowing situation of households. The response scale to the survey was 90% in 2021 H1. Around 24% of interviewed households state that they had at least one debt to repay at the moment of the interview. This share has not changed compared to the previous six months and has increased by 1 percentage point compared to the previous year, but it remains below the historical average of this indicator.

As regards households' debt burden to income, around 75% declare that this payment accounts for less than 30% of their monthly income ("up to 10% of income" for 33% of borrowing households, "10-30% of income" for 42% of households). Households' solvency was somewhat weaker during the period, but has improved considerably compared to the previous year. Around 56% of borrowing households declared that their solvency "has not changed" during

<sup>15</sup> In semi-annual terms, deposits and credit grew by ALL 35 billion and ALL 10 billion, respectively.



2021 H1. The rest of the interviewees reported a decline in their solvency, but at a much lower amount than the fall reported last year. This development is related to the positive effects of reopening the economy after easing the restrictive measures imposed due to the pandemic. This is also reflected in the positive expectations of households in relation to their solvency for the rest of the year. Therefore, 74% of borrowing households do not expect their solvency to change in 2021 H2, while the net balance of the rest of responses was -1.9 percentage points, or quite less negative than -8.4 and -10.3 recorded in the two previous six months, suggesting optimistic expectations compared to the results in the two surveys carried out in 2020.



Around 60% of responding households declared that they do not plan to borrow in the next six months. Meanwhile 40% of them declared that they are considering, at different safety scales<sup>16</sup>, the possibility of borrowing/re-borrowing. This share has decreased by 3 percentage points compared to the previous six months and by 1.6 percentage points compared to the previous year. As a result, “the new borrowing planning/rollover index”<sup>17</sup> stands at 0.174, downwards from the previous survey and the previous year, but remaining, however, above its long-term average. By analysing only the group of households planning to take a new loan, around 59% of them are “new borrowers,” meaning they did not have any debt to repay at the moment of interview. This share has declined by 4 percentage points in semi-annual terms.

<sup>16</sup> The given alternatives are: “less likely”, “very likely”, “and” “certain.”

<sup>17</sup> The index is calculated as weighted average of % of responses for each alternative with relevant coefficients. On the definition of the coefficients, the interval 0-1 is separated in 4 sub-intervals with equal length of 0.33. Coefficients for each alternative are: 0 (“no possibility”), 0.33 (“little possibility”), 0.66 (“many possibilities”) and 1 (“it is certain”). The index takes values from 0 to 1, where the nearest to 0 the index value results, the smaller is the chance to get a new loan, and the closest to 1, the higher the probability of getting new loan in the next half-year.

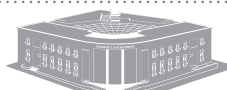
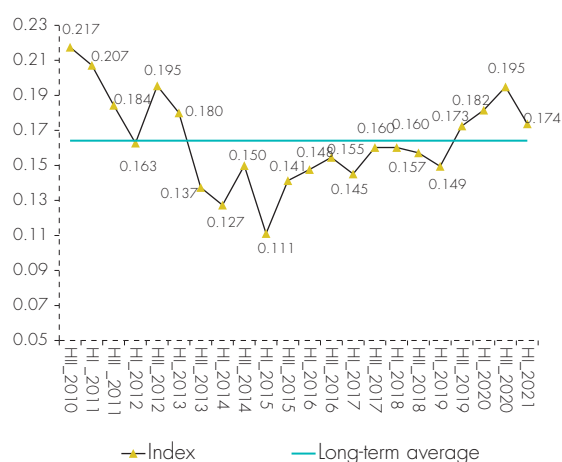




Chart 11 New borrowing planning/rollover index over the next six months



Source: Bank of Albania.

Chart 12 Households planning to borrow over the next six months



Source: Bank of Albania.

## 2.3.2 ENTERPRISES' FINANCIAL AND BORROWING SITUATION

*For most enterprises, the situation created by the pandemic continued to be the main factor affecting their activity.*

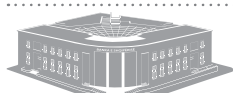
*Sales performance and financial situation appear to have improved compared to 2020 H2.*

A special periodical survey conducted by the Institute of Statistics is used to assess the financial and borrowing situation of enterprises. This survey was conducted on a sample of around 1374 enterprises of various sizes, geographically located in various regions of the country and operating in the main sectors of the economy. 82% of total enterprises participated in the survey by fully or partially answering the questions of the survey.

During the period, enterprises assessed that the highest impact on their activity was from the "situation created by the pandemic"<sup>18</sup>, which has put a burden on other issues that they are facing. Enterprises report that "competition" and "finding a market" continue to remain challenging to their activity. "Financial access," "financial cost" and "the availability of a qualified staff" are some of the elements of operation, which have increased during the period, particularly for medium-sized and large enterprises.

Survey responses show that sales and financial results appear to have improved as compared with 2020 H2. Over 87% of enterprises, in each group size, reported profits during the period. Compared to the previous period, the share of enterprises that have reported profits has increased for all three groups of enterprises. Expectations on overall sales and financial results in the upcoming six months appear optimistic regardless of the size of the enterprise.

<sup>18</sup> This issue is specified under the "Other" alternative and was indicated by only 3% of the sample of responding enterprises for this six months. In 2020 H1, this issue was specific for 37% of the responding sample, while in 2021 H2, 19% of enterprises had specified this issue.

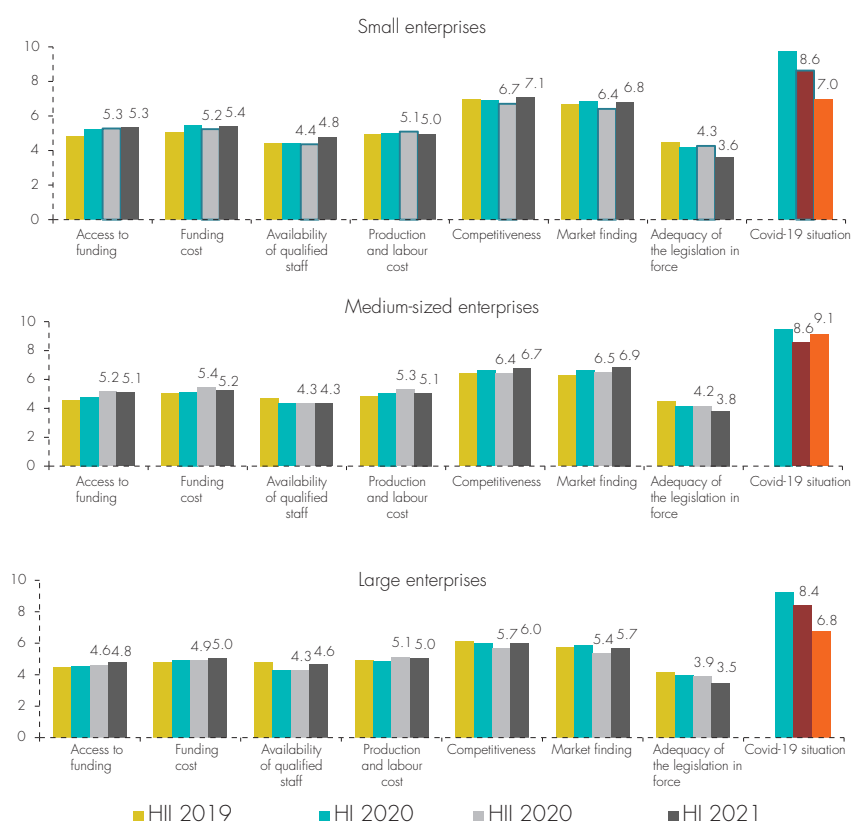




Regarding the expansion of activity, small and large enterprises declare an expansion over the period, while medium-sized enterprises report the opposite, but at a lower rate. In terms to expectations for the next six months, all enterprises, regardless of their size, expressed optimism for the next period.

During the period, less than half of the total enterprises declare that they have financed their activity through sales. Reliance on this source alone has decreased for all three groups of enterprises, while the propensity to combine several sources of funding continued to have a considerable share during the period, and has expanded for all three groups of enterprises. Financing through the combination of sales with allocated reserves holds the main share.

Chart 13 The assessment of some factors on enterprise activity



Source: Bank of Albania.

Around 40% of the total of responding enterprises claims that they have currently a loan to pay. This share decreased by 1 percentage point compared with the previous six months, but it has slightly increased compared with the previous year.

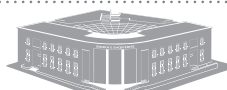


Table 3 Share of enterprises whose debt value is equal or higher than equity, by sector

Share of industries with credit equal or higher than capital, by sectors				
	Industry	Services	Construction	Trade
2019 H2	20.4%	28.0%	13.4%	26.5%
2020 H1	16.4%	22.9%	19.7%	22.2%
2020 H2	19.7%	25.0%	17.6%	21.9%
2021 H1	22.3%	26.5%	29.9%	27.0%

Source: Bank of Albania.

Among the borrowing enterprises, around 77% of small enterprises, 85% of medium-sized enterprises and 87% of large ones consider their level of borrowing to fund the activity as adequate. Borrowing in lek totalled 60% for small enterprises, 65% for medium-sized enterprises and 45% for large enterprises, while the rest was in foreign currency and/or combined currency.

The total value of loans was approximately half of the enterprises' equity, for around 74% of total borrowing enterprises, and equal to the value of equity for 13% of them. Analysed by size, the debt/equity ratio was higher for large and medium-sized enterprises, with 26% and 34% of them declaring that this ratio is equal or exceeds the value of equity, implying a higher debt burden. In 2021 H1, this ratio increased for all sizes of enterprises. By sector, debt burden increased for all sectors under review and appears higher for enterprises operating in construction and trade.

Most of borrowing enterprises (76%) declare that loan repayment amounts to 20% of the enterprise's revenue and this share has slightly decreased compared to the previous survey. Debt payment seems to be more burdensome on medium-sized enterprises, with enterprises which report that it exceeds 20% of revenues accounting for 26% of the total of the group<sup>19</sup>, while for small and large enterprises, this share accounts for 23%. Asked whether the cost of debt servicing has changed during the period, most of enterprises (around 89% of small enterprises, 93% of medium-sized enterprises and 92% of large ones) claim that this expenditure has remained unchanged. Meanwhile, responses of the rest of enterprises have resulted in net positive balances for all sizes of enterprises, showing an increase in this expenditure as a ratio to income. However, this balance has decreased in semi-annual and annual terms for all sizes of enterprises.

<sup>19</sup> Calculated as the sum of weights for responses: "20-50% of total income", "50-80% of total income" and "over 80% of total income".

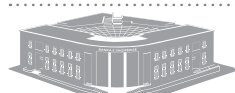
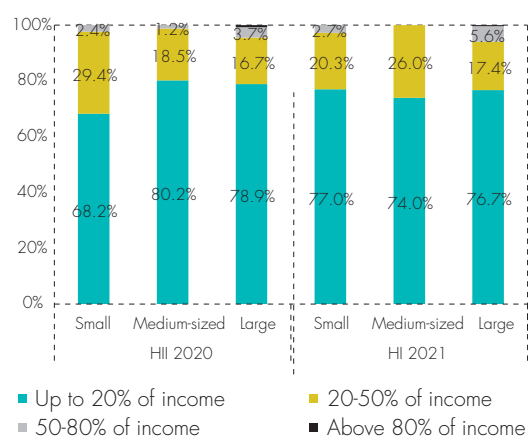
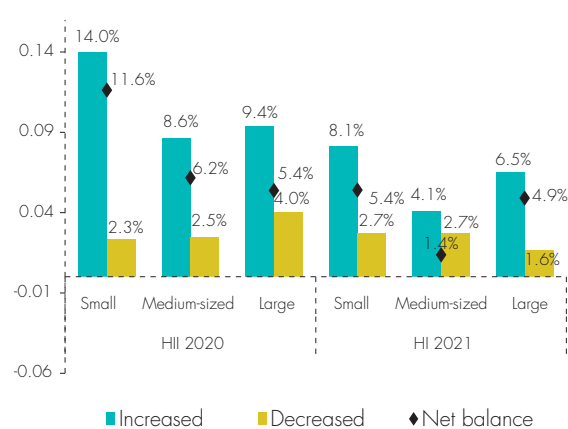


Chart 14 Enterprises by loan instalment/income ratio



Source: Bank of Albania.

Chart 15 Enterprises that declare a change in their loan instalment during the period



Source: Bank of Albania.

Enterprises' credit demand in the next six months, based on their responses related to bank borrowing planning, appears to be contracting. Around half of responding enterprises declare that there is no possibility to demand a loan during the next period, but compared to previous periods, this share has increased for all sizes of enterprises. Furthermore, it is observed an increase in the share of enterprises that claim that there is "little possibility" to take a loan in 2021 H2, as well as the share of small and large enterprises that declare that there is a strong possibility for this to happen in the next period. All groups of enterprises registered a slight increase of the alternative "Definitely", although this choice had the lowest share in the total of responses. Overall, the borrowing plan index for the next six months<sup>20</sup> appears contracted for all enterprises, with small and large enterprises providing the highest contribution in this regard.

<sup>20</sup> To assess the responses of the enterprises, an index on borrowing plans was constructed, calculated by weighing the enterprise's responses to the total of responses by a coefficient, which increases as the probability to borrow increases. The coefficient for the alternative: "no possibility" = 0.25; "little possibility" = 0.5; "probable" = 0.75; "certain" = 1.

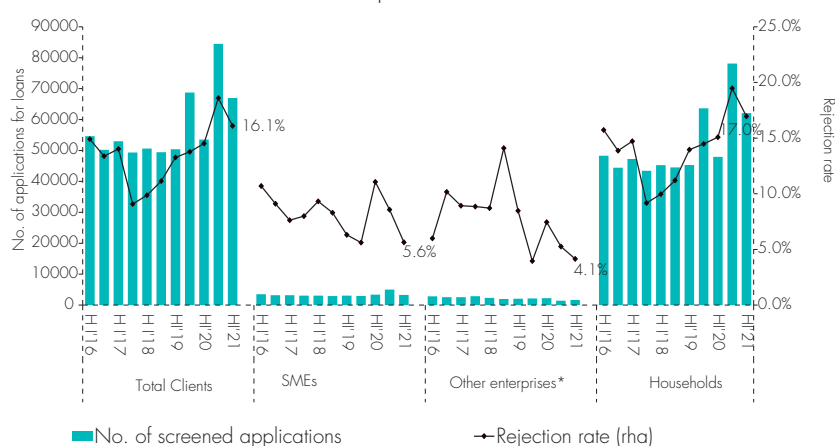


### BOX 2 NUMBER OF LOAN APPLICATIONS AND ANALYSIS OF THE REJECTION RATE, 2021 H1

During 2021 H1, banks report that they screened overall 66,978 loan applications, with around 7% from "enterprises" (3,296 applications from "small and medium-size enterprises (SMEs)" and 1,616 applications from "other enterprises"\*), and 93% from "households" (62,083 applications). This structure has been shifted in favour of "households" compared with the previous year. Total number of applications resulted 21% lower in semi-annual terms, but 25% higher in annual terms, driven by the segment of "households", while the segment of "small and medium-sized enterprises" and "other enterprises" (including mainly large enterprises) recorded a decline.

From the total applications screened during the period, around 16.1% of them were rejected by banks. This rate has decreased for all segments of customers compared with the previous six months and the previous year, deviating from the upward trend observed since 2017 H2.

Chart 16 Performance of the considered applications' number and the analysis of the rejection rate



Source: Bank of Albania.

The analysis of the rejection rate by capital origin shows that, in 2021 H1, the total number of rejected applications by foreign-owned banks decreased at 21.1% (from 28.8% registered in the previous six months), whereas for domestic banks the rate increased at 8.3% (from 7% registered in the previous six months). By customer segment, foreign-owned banks remained more accepting to applications from "SMEs" and "other enterprises" compared with domestic banks. On the other hand, the rejection rate of domestic banks increased for "households" segment, although standing significantly below the rejection rate of foreign-owned banks.

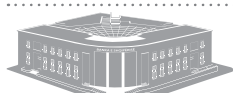
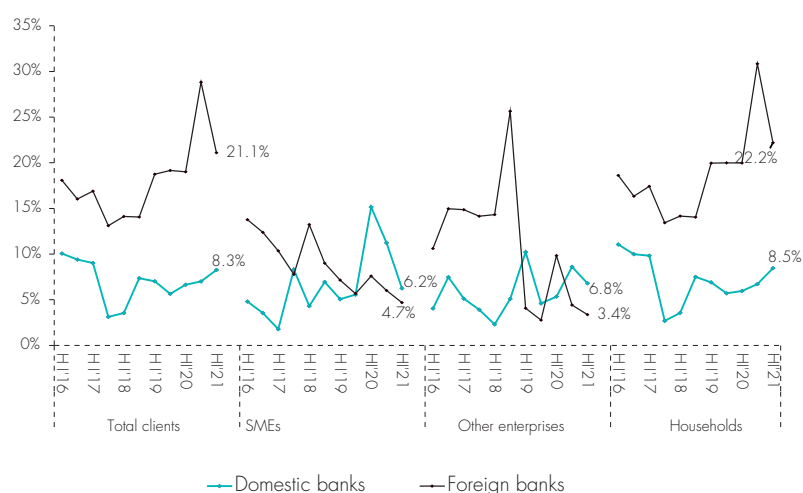


Chart 17 The rejection rate for loans – domestic and foreign-owned banks



Source: Bank of Albania.

Overall, the above analysis reveals that the number of applications screened by banks during 2021 H1 points to an upward credit demand (in annual terms) from the segment of “households” and a moderate demand from the segment of “enterprises”. Furthermore, the easing of the containment measures imposed due to the pandemic and the recovery of economic activity in Albania, after affected sectors went back to business, seems to have had a positive effect on the credit trend of banks, particularly in relation to the sector of “enterprises.”

\* This group mainly consists in large enterprises and any type of other enterprises that is not classified as “small and medium-sized enterprises”.



### 3. MARKETS AND PAYMENT SYSTEMS

#### 3.1 EQUITY AND FOREIGN EXCHANGE MARKETS

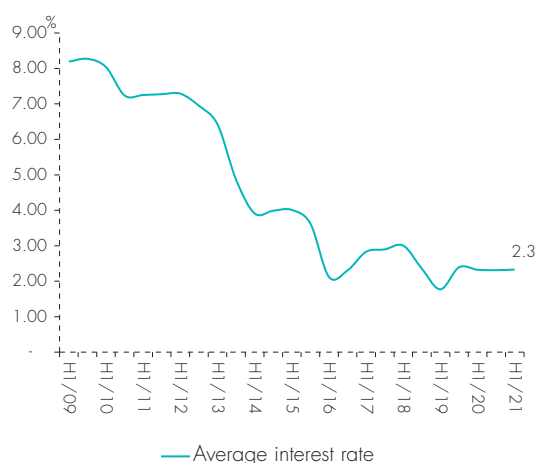
##### PRIMARY MARKET OF SECURITIES

During the period, the volume of issuance of government debt securities was higher compared to the previous six months, but it fell slightly from the previous year. The increase in the issuance of securities during the period was driven by the issuance of short-term and long-term securities.

The average yield remained unchanged, at around 2.3%. The average yield on the short-term and long-term issuances registered slight fluctuations during the period.

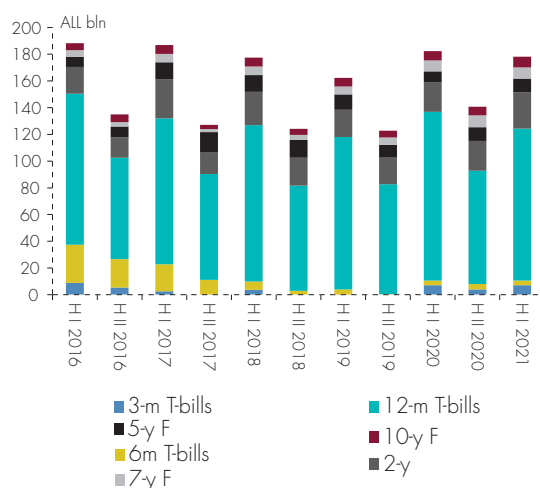
During the period, debt securities markets (which are dominated by government issues) were characterised by a normal economic situation as regards the congruence between demand and supply, causing thus low fluctuations to interest rates. In the primary market of securities, during the period, securities issued in lek were around ALL 190 billion, up by around 26% or ALL 40 billion from the previous six months, but down by 2% or ALL 4 billion from the same period of the previous year. The weighted-average yield on debt in lek remained unchanged, at 2.3%, and has maintained this level since the beginning of 2020. The issued debt securities consisted of ALL 120 billion in T-bills and ALL 70 billion in long-term debt securities. Overall, with the exception of some auctions, investment bidding for long-term securities was equal to or higher than government's demand for borrowing. The structure of domestic debt continues to be dominated by the short-term debt, accounting for around 66% of the total.

Chart 18 Average yield on debt securities, in %



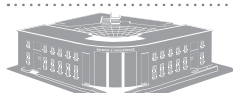
Source: Bank of Albania

Chart 19 Composition of issued debt during 2016-2021 H1



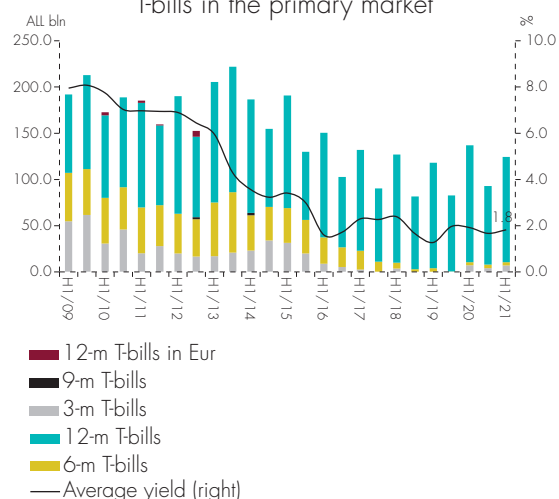
Source: Bank of Albania

During the period, short-term domestic debt increased by 34%, at the same rate of the 12-month issuance, since the latter accounts for 92% of the short-term debt. The 3-month issuances increased by 76% or ALL 3 billion, but remained close to the rate of the same period last year. The issue of 6-month T-bills



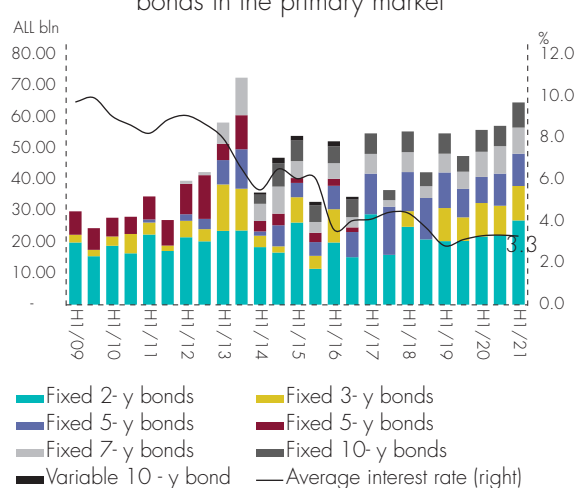
fell by 10% during the first half of the year, but was around 3% higher than in the previous year. In 2021 H1, the average yield on short-term securities was 1.8%, standing at 0.2 percentage point higher than the average of the previous six months, but almost equal to the average of the previous year. The rates for 6-month and 12-month securities did not change from the previous six months, remaining at 1.6% and 1.9%, respectively, whereas the average rate for 3-month securities increased by 0.5 percentage point, at 1.2%.

Chart 20 Volume and weighted average yield on T-bills in the primary market



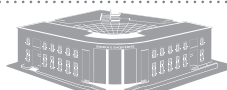
Source: Bank of Albania.

Chart 21 Volume and weighted average yield on bonds in the primary market



Source: Bank of Albania.

Long-term debt securities issued during the period were around 15% higher than in the previous two six-month periods. There was a higher preference to invest in long-term securities since investment bidding for these securities has been, in all cases, higher than the government's demand for borrowing. The average yield on these securities continues to remain around 3.3% and has not recorded strong changes for at least two years. The structure of the long-term debt is dominated by securities with 2-year maturity (42%), followed by securities with 3- and 5-year maturity, which share 33% of the total of issued bonds. The share of securities with 7- and 10-year maturity in the stock of issued bonds is 13% and 12%, respectively. The 10-year securities recorded the highest increase compared to the volume of issuances in 2020 H2, reaching at 25%. The 7-year maturity bond was the only security issued at a volume lower than in the previous six months. Most of these securities, with the exception of some bonds with 5- and 10-year maturity, have fixed interest rates, or unchanged throughout the bond maturity life.



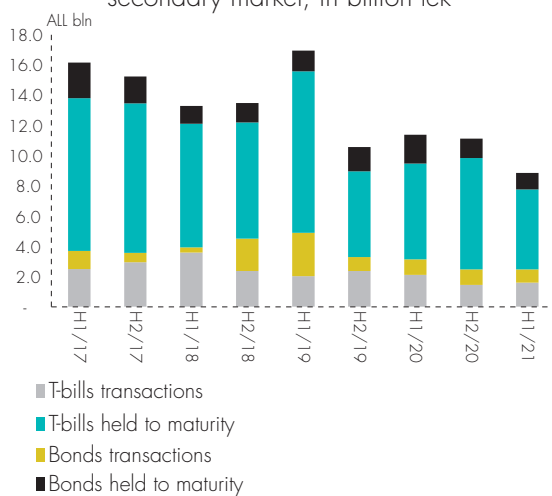
## SECONDARY MARKET OF SECURITIES

The value of transactions in the secondary market of securities did not change during the period, but it registered a decline from 2020 H1. The number of transactions conducted in this market increased during the period, suggesting a decrease in the average trade value. Compared to the previous year, the number of transactions was lower.

The market yield curve shows a normal slope, and investors continue to show a preference for keeping securities up to maturity.

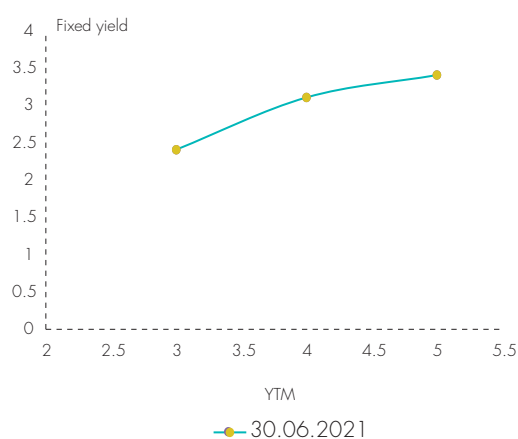
During the period, activity in the secondary market did not change significantly. The value of transactions carried out was around ALL 3 billion, unchanged from the previous six months, but almost 20% lower than the previous year. Treasury bills account for the main share in the volume of transactions (around 65%), while the rest is represented by bond transactions. The number of transactions of Treasury bills increased slightly, while that for government bonds was lower than in the previous six months. The number of transactions increased by 6% at 856 purchase/sell transactions of Treasury bills and government bonds, but it was 17% lower than the same period of the previous year. The number of short-term and long-term securities registered an increase by 3% and 21%, respectively. Treasury bills transactions dominate securities transactions in the retail market, accounting for 83% of the traded quantity. Investors in the retail secondary market continue to show preference to keep securities until maturity, since only 20% of them are traded.

Chart 22 Volume of securities transactions in secondary market, in billion lek



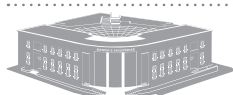
Source: Financial Supervision Authority

Chart 23 Yield Curve (YTM) on 30.06.2021



Source: Bank of Albania

Market makers have continued the daily quotations of benchmark securities (reference bonds with 3- and 5-year maturity). During the period, the value and number of transactions of these securities was somewhat lower when compared with the previous six months. The daily quotation of benchmark securities allows for calculation of the yield curve, which serves as reference for other debt securities in the market and increases transparency by providing real-time information on securities prices. The yield curve shows a normal slope with higher average yields on longer-term maturities.





## INTERBANK MARKET

During the period, the volume of transactions in the interbank market expanded slightly, while interest rates fluctuated near the policy rate decided by the Bank of Albania. The interbank market is dominated by one-week transactions which account for 90% of the volume of interbank borrowing. Although their volume has not changed as compared with the previous six months; and it fell by 60% compared with the previous year. The volume of overnight transactions accounts for 8% and has increased by 7% during 2021 H1, while it decreased by 15% compared to the previous year. During the period, there were also three-day and three-month transactions, but they account for a very small percentage of the volume of interbank borrowing. Interest rates remained near the policy interest rate of 0.5%. During the period, the Bank of Albania has injected liquidity through fixed-price auction, which allows banks to receive unlimited loans at policy rate, thus, by decreasing the uncertainty related to liquidity in the banking sector.

*During the period, the volume of interbank transactions remained at the same level as in the previous six months, but it was considerably lower than in the previous year. Interest rates fluctuated near the policy interest rate of 0.5%.*

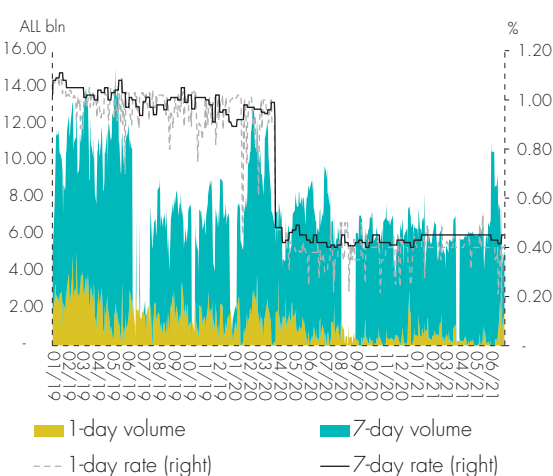
*This trend reflects the unlimited liquidity injection by the Bank of Albania.*

## FOREIGN EXCHANGE MARKET

During 2021 H1, the foreign exchange market appeared stable. The domestic currency slightly appreciated against the euro in March and maintained this trend also in the following months, fluctuating near the average lek/euro 123.2. Compared with the previous six months and the previous year, lek appreciated against the euro by 0.6% and 1.1%, respectively. At the end of the period, the euro was exchanged on average with ALL 122.8. Developments in the lek/US dollar exchange rate mainly reflected the performance of the US dollar against the euro in the international markets. As a result, lek slightly depreciated against the US dollar during the period, despite a slight appreciation during April and May.

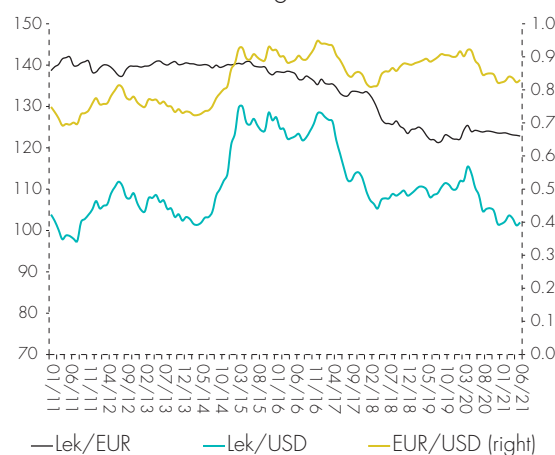
*During the period, the exchange rate of lek was stable. The domestic currency appreciated against the euro and depreciated slightly against the US dollar. Overall, developments in the foreign exchange market during the period have shown low fluctuations by facilitating the activity of economic agents.*

Chart 24 Interest rates in the interbank market



Source: Bank of Albania.

Chart 25 Interest rate in the domestic foreign exchange market



Source: Bank of Albania.



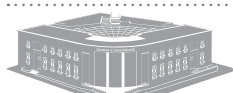
Lek depreciated, on average, by 0.3% against the US dollar compared with the previous six months, while it appreciated on average, by 7.7% compared with the 2020 H1. The average exchange rate of lek against the US dollar was ALL 101.9. Overall, developments in both the foreign exchange market and foreign exchange rate have shown low fluctuations, by facilitating the activity of economic agents.

## 3.2 REAL ESTATE MARKET

*In the real estate market demand and supply are assessed as upwards. House prices, calculated according to the Fischer House Price Index for successful sales during the period, increased by 0.5% compared with the previous period, and by 6.7% compared with the same period of the previous year. Real estate agents remain optimistic for the medium-term and long-term future of this market.*

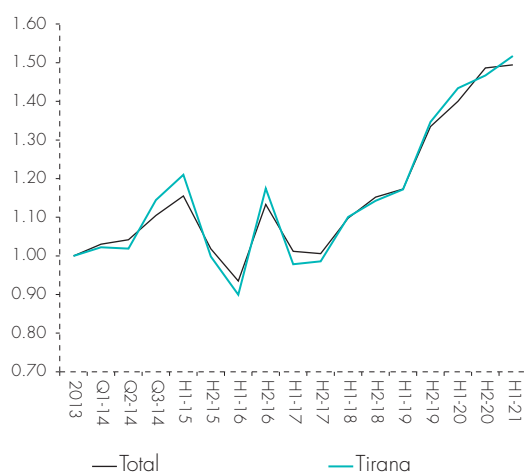
Indicators used for monitoring the performance of the real estate market, reflect an increasing demand and supply in 2021 H1. The qualitative indicators indicate unchanged conditions of banks for real estate loans, but households' demand for financing the purchase of houses has been stronger. Lending surplus for real estate increased, while real estate agents reported a decline in the number of unsold properties and an overall increase in selling prices. With regard to supply in this market, lending for construction was higher compared with the previous six months and the previous year, and the number of construction permits granted in 2021 Q1 was higher than in the same period of the previous year. The periodical survey of the real estate market shows that real estate agents, in aggregate, reported higher selling prices compared with the previous six months. House prices, calculated based on the Fischer Index for sales carried out during the period, increased by 0.5% compared with the previous six months and by 6.7% compared with the same period of the previous year. For sales realized in the Tirana area, which includes the downtown, suburbs and the area outside the city, the Index registered an increase of 3.4% compared with the previous period and 5.8% compared with the previous year.

Despite the uncertainties related to the pandemic, the surveyed agents remain optimistic for the future period, and notably more optimistic for the future of the real estate market in the long term. The contribution of the banking sector in supporting the demand and supply of the real estate market has been significant. Data from the banking sector for the period under review show a higher level of outstanding loans for real estate and improvements of its quality during 2021 H1 from the previous year. Credit stock for real estate purchase from households registered around ALL 120 billion at the end of the period, increasing by 5% from the previous period, and by 11% against the previous year. The performance of this credit continues to be favoured by lower and stable interest rates for this category of lending. The non-performing loans ratio for this type of lending decreased to 3.7%, from around 4.3% in the previous half-year. Outstanding loans for construction increased by 10% and 7% compared with 2020 H2 and the previous year, respectively. The share of loans for construction accounts for 14% of outstanding loans to enterprises, maintaining levels almost unchanged with the previous periods. At the end of



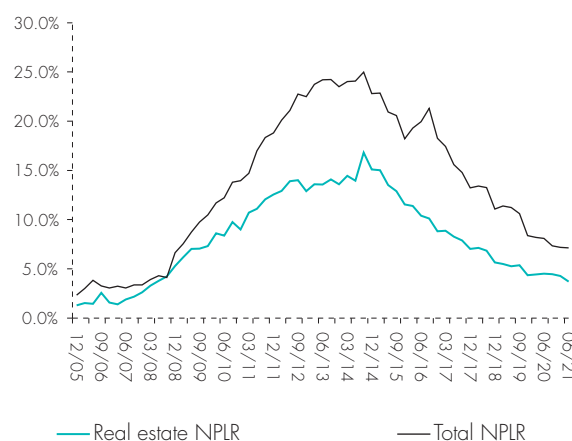
the period, the stock of loans collateralized with real estate recorded a decline, affected by the performance of loans collateralised in foreign currency. Within this subdivision, 60% of the stock is held by the households' sector and the rest by the enterprises sector.

Chart 26 Fischer Index of House Prices – National level and Tirana



Source: Bank of Albania.

Chart 27 Credit quality for real estate purchase



Source: Bank of Albania.

The interest of the Bank of Albania on the performance of the real estate market is not related with direct legal requirements, since the functioning of this market depends on factors that are not determined by the central bank (such as: demographic developments or the land surface available for construction). However, it is important to monitor the market's developments in order to identify situations when the performance of prices of that market is unstable. This signifies that market prices do not reflect changes over time of the fundamental factors that determine the supply and demand for real estate. If prices are developing in an unstable manner, the stress for certain groups of stakeholders increases, and there is a higher possibility that they will be mended unexpectedly, creating losses in the wealth of the economic and financial agents that are exposed to this market. The larger the exposure of the wealth of these agents, the higher the losses they might have to face and the greater the need to assess their resilience against these scenarios. This approach is important from the financial stability standpoint, in relation to the measures undertaken to mitigate eventual systemic risks. The Bank of Albania is working to improve the data and the analysis in this regard.



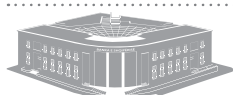
### BOX 3 SUMMARY OF THE RESULTS FROM THE "REAL ESTATE MARKET" SURVEY AND THE PERFORMANCE OF THE HOUSE PRICES INDEX FOR 2021 H1

Data on the performance of prices and the assessment of the situation by real estate market agents is collected through the field survey of a sample composed by 230 entities whose main business is the trading of real estate. The selected entities are real estate agents and construction companies whose sales represent around 75%-80% of the turnover of the entire population. The Bank of Albania conducts the drafting of the questionnaire as well as the submission and processing of the results, while the Institute of Statistics conducts the field interviews, the main processes of sampling and the physical check of the completed questionnaires.

*General assessment:* The assessment of the agents for the overall situation of the market is neutral and shows that most of the entities deem the situation unchanged compared with the previous period. This report indicates a shift from the negative balance or the pessimistic trend observed during the previous periods. Responding to the question "How do you assess the market situation compared with the previous period (six-months)?" the net balance of responses was 0.5%, while around 2/3 of responses are reported as neutral – "no change". This balance shows a notably positive change also towards the long-term average for this indicator of around [-21.9] %. The same indicator assessed only for subjects that have reported sales during the period resulted, as expected, much more positive with a value of 18.3%. This report shows a notable improvement compared with the previous period.

*Performance of prices and sales:* During the period, Fischer House Prices Index, on a national level, was up by 0.5%, an increase of 6.7% compared with the same period of the previous year, and up by 49.9% compared with the base period (year 2013). Sales volumes were higher than the previous six months for all areas of Albania. The Price Index for Tirana increased by 3.4% during the period, by 5.4% compared with the same period of last year, and by 51.7% compared with the base period (2013). Average prices in Tirana are reported to have increased in the in the areas outside the city and in the suburbs areas, whereas in central areas there were few changes. For coastal areas, agents reported lower prices, while changes in prices for other areas\* were insignificant. *Number of listed properties:* Agents report a lower number of new properties listed in their books; the net balance of those reporting an increase in the number of listed properties and those that report a decrease was around [-6.3]%, showing a decrease from the previous period. The number of unsold properties, both for residential and commercial buildings, has been down for several consecutive six-months.

*Average sale period:* The average sale period of properties, at the national level, remains unchanged compared with the previous period and is reported to be 10.5 months. For Tirana, interviewed entities reported an average sale period of 9.6 months, and this value has not changed from six months ago. For the coastal and other areas, the sale periods were 7.6 and 12.6 months, respectively. It is noted that the average sale period for the coastal area has decreased considerably from 10.6 months reported in the previous six months. *Financing through bank credit:* According to agents, as in the previous period, around 50% of both residential and commercial properties which they sold were purchased with a bank loan. Around 80% of these properties are purchased with a bank loan that accounts for up to 60% of the value.



*Expectations for the future: Regardless of the uncertainties springing from the situation and in contrast with the previous six months, agents reported positive expectations about market performance in the territory in which they operate for the short-term future and the longer-term future (up to two years). New listings for sale in the forthcoming period are expected to increase (net balance resulted 8%). Agents expect also an increase of real estate prices for both residential and commercial properties. The net balance of these two questions was positive and stood at 11%, reflecting that agents are optimistic.*

*Rent price: According to the agents interviewed rental prices have increased in 2021 H1, while rent demand has not changed. It should be emphasised that the responses for this part of the survey are collected mainly from Tirana.*

\* "Other areas" include all areas except for Tirana and the coastal area.

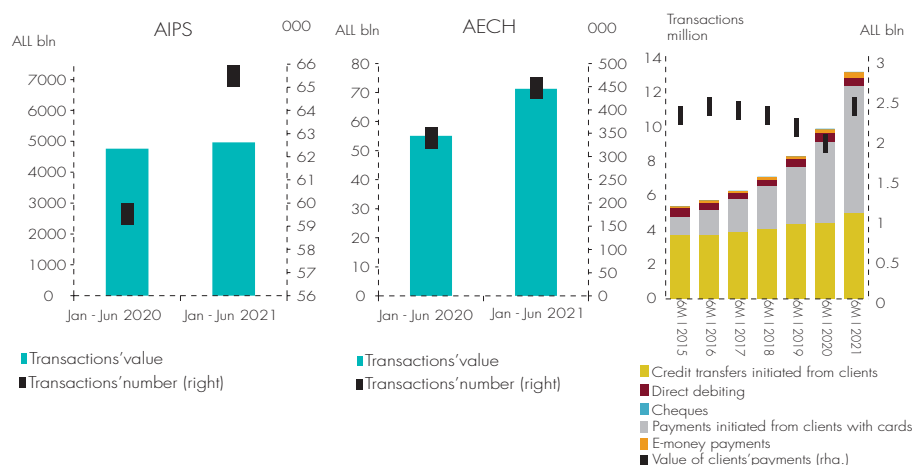
### 3.3 PAYMENT SYSTEMS

During 2021 H1, the core infrastructure for clearing and settlement of payments in the domestic currency has continued to function securely and effectively, thus supporting the financial stability and the implementation of monetary policy. In terms of processing, 65 000 payments accounting for ALL 5 billion were settled through AIPS system during the period. Compared with the same period of the previous year, the volume and value of transactions increased by 10% and 4%, respectively. During the period, around 450 000 payments were cleared through AECH system with an average value per transaction of around ALL 160,000. Compared with 2020 H1, there was a significant increase in both volume and value of payments cleared through the AECH system, with a 30% annual increase for both of these indicators.

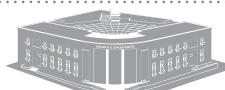
*The core infrastructure for clearing and payment settlement of payments in lek has continued to operate securely and effectively.*

*During the period, there was a significant increase in the number and value of small and large payments, as well as an increase in the use of payment instruments, including those in non-paper form.*

Chart 28 Performance of AIPS, AECH and payment instruments



Source: Bank of Albania.



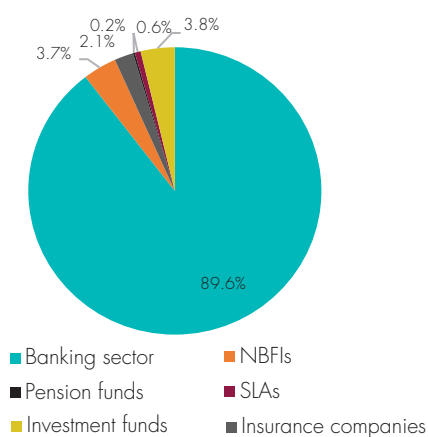
In 2021 H1, the number and value of payment transactions grew significantly. During this period, there were conducted around 13.3 million payments with a total value of ALL 2,400 billion. The number of transactions was around 34% higher, meanwhile the overall volume of payments was 24% higher compared with the values registered during 2020 H1. Card payments have the main share in payment instruments accounting for 56% of the overall number of payments. The number of card payments and their share in relation to the overall number of payments has continued to register an increase for the second consecutive year. On the other hand, a considerable increase (by about 20%) was reported in the number and value of transfers in non-paper form (internet banking, mobile banking).



## 4. FINANCIAL SYSTEM

During 2021 H1, there was an increase in the share of financial system assets<sup>21</sup> to Gross Domestic Product (GDP) driven by the expansion of the activity of both banking sector and non-bank financial institutions. This share rose to 122.4%, from 118.5% at the end of 2020, and from 114.5% in the previous year. The other financial system segments have also registered an expansion of their activity during the period. The share of the banking sector to GDP increased to 109.6% from 105.9 % at the end of 2020, whereas the share of the non-bank sector increased slightly to 13% of GDP. Financial system performance indicators, including capitalisation, profitability, liquidity and asset quality, remain at good levels.

Chart 29 Share of financial system segments to the total system assets, June 2021



Source: Bank of Albania and Financial Supervisory Authority.

Table 4 Share of financial system segments to GDP over the years (in %)

Licencing and Supervising Authority	Banka e Shqipërisë			Autoriteti i Mbikëqyrjes Financiare			Financial intermediation
Financial system	Banking sector	NBFIs	SLAs and Unions	Insurance companies	Pension funds	Investment funds	
2011	88.1	2.7	0.8	1.5	0.0		93.1
2012	92.1	2.7	0.8	1.6	0.0	1.2	98.6
2013	94.8	2.7	0.7	1.7	0.0	3.9	103.8
2014	97.6	3.0	0.8	1.9	0.0	4.8	108.2
2015	97.3	2.9	0.8	2.1	0.1	5.0	108.0
2016	100.5	3.0	0.6	2.1	0.1	4.7	111.0
2017	99.4	3.1	0.6	2.1	0.1	5.0	110.3
2018	96.0	3.5	0.6	2.1	0.2	4.5	106.9
2019	95.5	4.2	0.7	2.2	0.2	4.3	107.2
2020	105.9	4.5	0.8	2.6	0.2	4.5	118.5
2021	109.6	4.6	0.8	2.6	0.3	4.6	122.4

Source: Bank of Albania and Financial Supervisory Authority.

<sup>21</sup> The financial system consists of the banking sector and the non-banking sector (non-bank financial institutions, savings and loans associations, insurance companies, pension funds and investment funds). The database of the non-bank sector and GDP data are from 2021 Q1.





## 4.1 BANKING SECTOR

### 4.1.1 MAIN DEVELOPMENTS IN THE BANKING SECTOR

*The banking sector has expanded the activity during the period. On the liabilities side, the increase is observed in banks' obligations in the form of deposits, while, on the side of assets, the increase is driven mainly by investments in securities and lending.*

The banking sector's assets expanded by around 4% during the period and by 8% compared with the previous year. The banking sector has managed to carry out the main functions of its activity and has supported the economy with funding. The reported value of assets increased by ALL 64 billion during the period, reaching around ALL 1,645 billion. The main contribution in assets' growth came from the expansion of investments in securities by around ALL 43 billion and lending activity by around ALL 16 billion.

Table 5 Structure of banks' balance sheets and annual change, June 2021

Assets	% of assets	Annual change,%	Liability	% of liabilities	Annual change,%
I. Treasury and interbank transactions	29	9.5	I. Treasury and interbank Transactions	6	-1.0
II. Customer transactions (credit)	38	6.3	II. Customer transactions (deposits)	81	8.6
Of which: public sector	1	-34.8	Of which: public sector	1	32.5
Of which: private sector	37	7.5	Of which: private sector	80	8.4
III. Securities transactions	32	7.9	III. Securities transactions	0	30.7
IV. Created reserve funds	-2	4.0	IV. Other liabilities	1	14.8
V. Other*	4	-0.5	V. Permanent sources	12	4.8
			Of which: Subordinated debt	1	-4.7
			Of which: Shareholders' equity	10	5.7
Total assets	100	7.6	Total liabilities	100	7.6

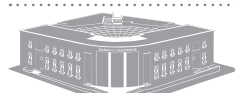
Source: Bank of Albania.

\* The item "Others" in the balance sheet refers to "Other assets", "Sustainable assets" and "Calculated interest".

*The share of foreign currency assets and liabilities to total balance sheet is around 50% and has remained balanced during the period.*

During the period, the banking sector's balance sheet in foreign currency expanded at a degree comparable to the overall balance of the banking sector, or by around 4%. At the end of the period, foreign currency assets and liabilities in the banking sector accounted for 51% and 50%, respectively of total balance, and these ratios have not changed during the period. In absolute value, foreign currency assets and liabilities are ALL 840 billion and ALL 820 billion, respectively, reflecting a balanced and congruent exposure of foreign currency activity regarding the banking sector.

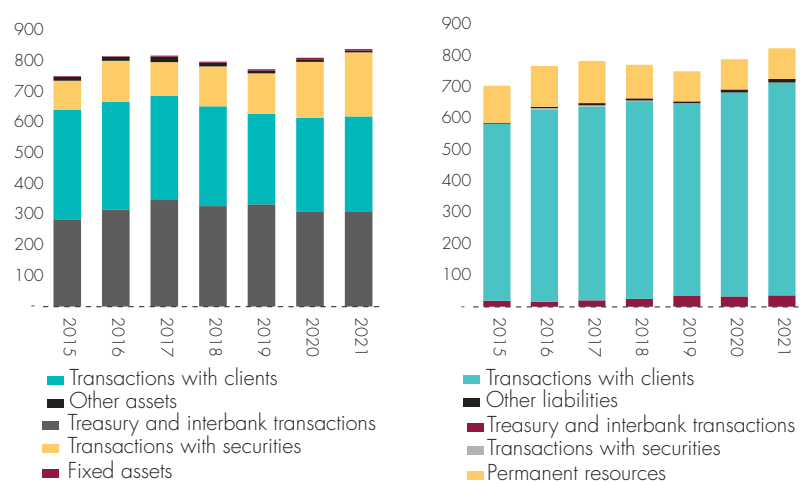
Regarding foreign currency assets, lending and interbank investments continue to be the items with the main share, meanwhile in the last two year, there was an increase in the share of investments in securities. Regarding foreign currency liabilities, the structure reflects more stability over the years, and is dominated by foreign currency deposits.





The above-mentioned components mostly determined the banking sector's sensitivity to foreign currency exposure. The statistical impact of the exchange rate in the equivalent value in lek of the foreign currency balance was negative and related with the appreciation of lek, but quite small and without a significant impact on the data reported in lek. Without this impact, the ALL 28 billion growth in the foreign currency balance during the first half of the year would have been ALL 35 billion, while relative growth would have been almost equal to the one reported, of 4%.

Chart 30 Foreign currency assets (left) and foreign currency liabilities (right)



Source: Bank of Albania .

Deposits and own funds continue to be the main funding source of the banking sector's activity, accounting for 93% of total liabilities and this structure was stable during the period. Reliance on external funding sources remained low. These sources are mainly in the form of loans/deposits to financial institutions from non-resident entities. The latter have increased, determining the performance and liability level toward non-residents. Assets of non-residential entities increased during the period due to the expansion of loans and current accounts to banks and financial and securities investments institutions. This has affected the expansion of the net credit position of the banking sector. At the end of the period, claims against non-residents were 22% of total assets, while liabilities against non-residents were only 3% of total balance sheet. The net creditor position expanded in both absolute and relative terms, reaching around 20% of the total balance, from 19% in the previous period and the previous year.

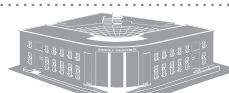


Chart 31 Structure of non-resident liabilities

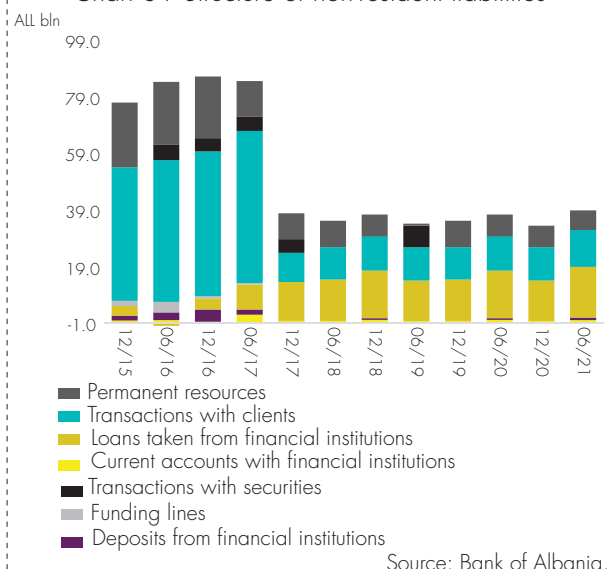
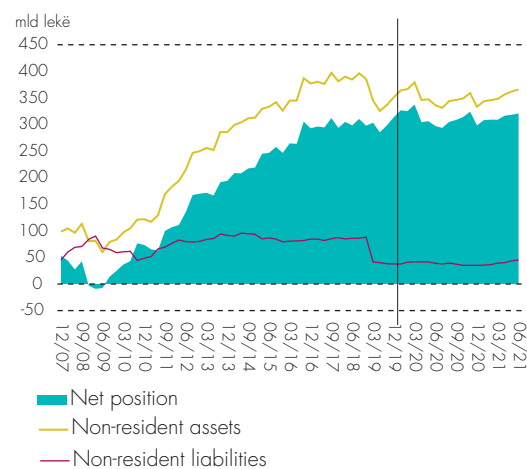


Chart 32 Net position with non-residents\*



\*The vertical black line (chart on the right) represents the period of transformation of the NCB branch in subsidiary.  
Source: Bank of Albania.

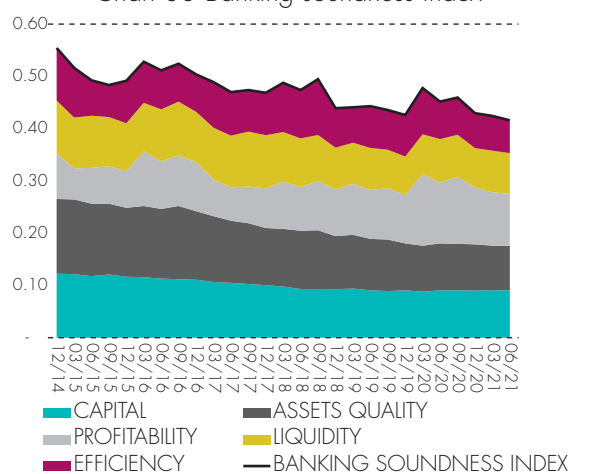
### 4.1.1.1 Banking soundness index

The banking soundness index improved slightly during the period due to the improvement of profitability, efficiency and liquidity.

The banking soundness index has slightly improved during the period and compared with the previous year. This performance was mainly affected by improvement in profitability, efficiency and liquidity indicators, but also due to asset quality and capitalisation indicator. The profitability indicator continues to provide the main contribution to the risk level of the banking sector's activity.

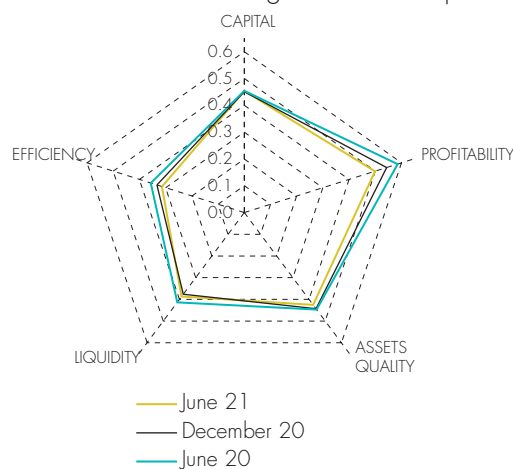
The decrease of the profitability risk during the last year<sup>22</sup> reflects the growth of the banking sector's profit rate and the net interest margin. Liquidity risk decreased slightly during the last year due to an increase in the liquid assets

Chart 33 Banking soundness index\*



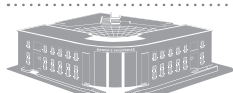
\*The increase of the indicator shows a lower stability. The width of each dimension shows its contribution to risk.  
Source: Bank of Albania.

Chart 34 Banking soundness map\*



\*Away from the centre means increased risk, in a 0 to 1 range.  
Source: Bank of Albania.

<sup>22</sup> The profitability indicator fell from 0.59 to 0.50 during the June 2020- June 2021 period, indicating a risk decline. During 2020, this indicator registered the highest values since 2013.



to overall assets ratio, but the contribution of this component to the aggregate level of risk over time has been stable overall, in particular over the last years.

Assets quality has improved slightly compared to the previous year, and the contribution of this dimension in the overall risk has trended downwards over the last few years. The value of this indicator decreased from 0.71 in March 2015 to 0.43 in June 2021. This performance was mainly driven by the considerable fall of the non-performing loans ratio. The capitalisation indicator has not recorded any changes compared with the previous year and previous six months, while within the indicator there were small movements noticed in the sub-indicator values of the financial leverage and capital adequacy ratio. The efficiency dimension improved during the last year due to the decrease in the ratio of operating expenses to income. This ratio decreased mainly due to an increase of income from interest and other activities.

Compared with the previous year, the soundness index has slightly improved for systemic banks as well. All the indicators have improved for this group of banks, but particularly the profitability and liquidity indicators. During 2014-2021 the aggregate banking soundness index has declined, thus showing a better soundness and higher stability of the banking sector.

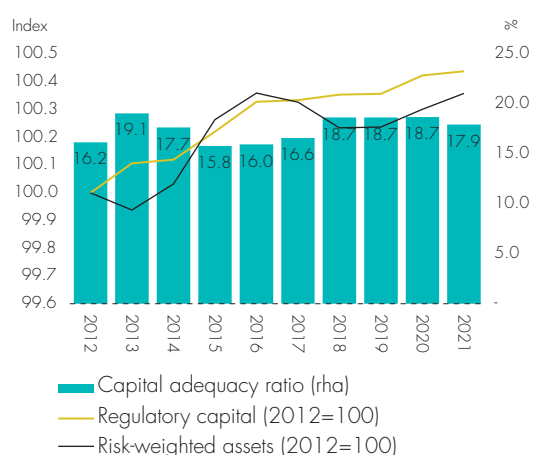
#### 4.1.1.2 Capitalisation of activity

At the end of the period, the capital adequacy ratio for the whole sector was around 18% (17.95%), 0.7 percentage point lower than the end of 2021 and 0.1 percentage point lower than the same period of the previous year.

Banks with European capital and systemic banks report the highest capital adequacy ratio. The level of capitalisation of the banking sector is concentrated mainly in the 14%-16% range. There are currently 5 banks with a capital adequacy ratio over 14% and this number increased compared with the end of the previous year.

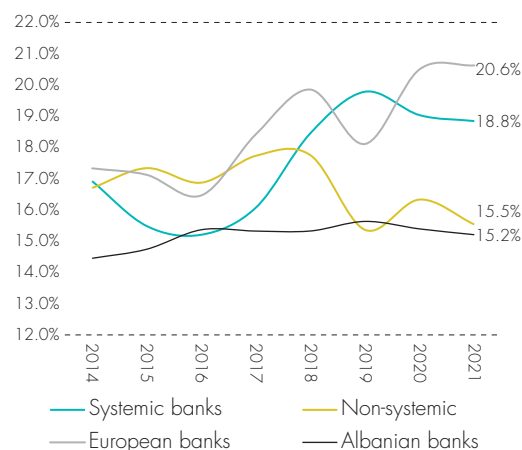
*During the period, the capitalisation is assessed as adequate, although the capital adequacy ratio has decreased. This performance was mainly affected by the growth of risk-weighted assets. At the end of June the capital adequacy ratio was at around 18%.*

Chart 35 Capital adequacy ratio



Source: Bank of Albania.

Chart 36 Capital adequacy ratio for groups by importance and by origin of capital

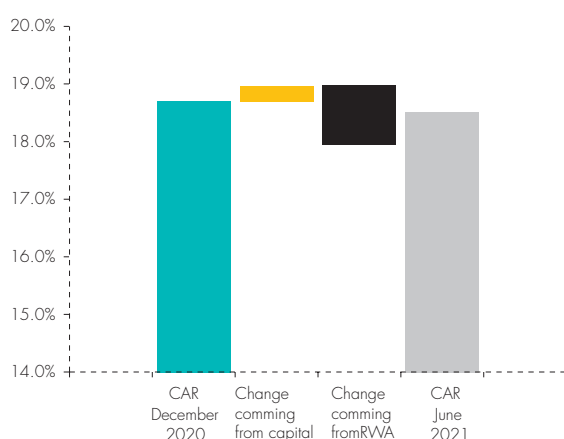


Source: Bank of Albania.



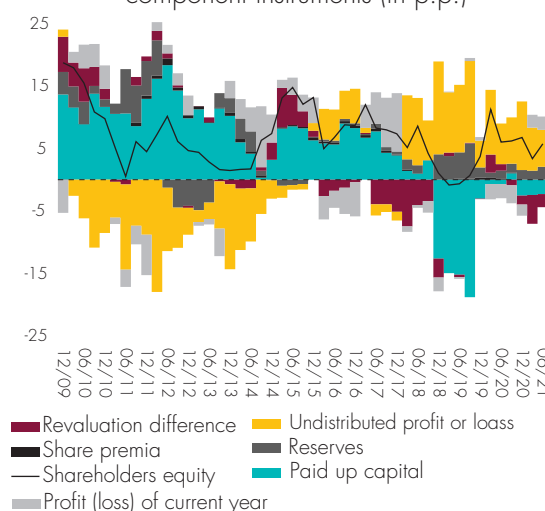
A growth of risk-weighted assets, in 2021 H1, which exceeded that of the regulatory capital, drove to the decline of the capital adequacy ratio. During the period, the regulatory capital of the banking sector registered a slight increase reaching ALL 158 billion at the end of June, contributing a positive effect of 0.2 percentage point to the performance of the capital adequacy ratio. The increase in banks' regulatory capital was affected by a growth in retained profit and reserves. Retained profit from previous periods has been the main contributor to the increase of equity and regulatory capital during the last two years. The preservation of retained profit from the previous periods was affected by the Decisions of the Bank of Albania, in July 2020<sup>23</sup> and January 2021<sup>24</sup>, on suspending the distribution of profit from banks. Risk-weighted assets grew significantly by around ALL 50 billion. At the end of the period they stood at around ALL 880 billion. This growth provided a negative contribution of 1 percentage point to the performance of the capital adequacy ratio.

Chart 37 Contribution of capital adequacy items (in p.p.)



Source: Bank of Albania.

Chart 38 Annual contribution in capital increase by component instruments (in p.p.)

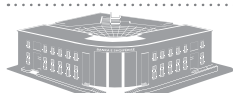


Source: Bank of Albania.

The structure of risk-weighted assets by risk has not changed during the period. Risk-weighted assets for credit risk grew by around ALL 40 billion, up to ALL 760 billion and accounting for around 87% of the total. Risk weighted-assets for market risk grew by ALL 10 billion up to ALL 30 billion, while risk weighted-assets for operational risk remained unchanged at ALL 90 billion. Exposures to corporations and non-performing loans continue to dominate the structure of risk-weighted assets for credit risk. Banks classified with systemic risk register high exposure for credit to trade companies (corporations) and loans to other institutions supervised by the Bank of Albania and the Financial Supervisory Authority. Other banks (non-systemic) register exposure towards

<sup>23</sup> Decision No. 24, dated 08.04.2020 and Decision No. 40, dated 01.07.2020 "On the suspension of profit allocation from banks" in force until the end of June 2020 and December 2020. The allocation of profits by banks, the profit carried over from previous periods, profit realised in 2019 and profit which would have been realised in 2020 H1 and 2020 H2 have been suspended in accordance with these Decisions.

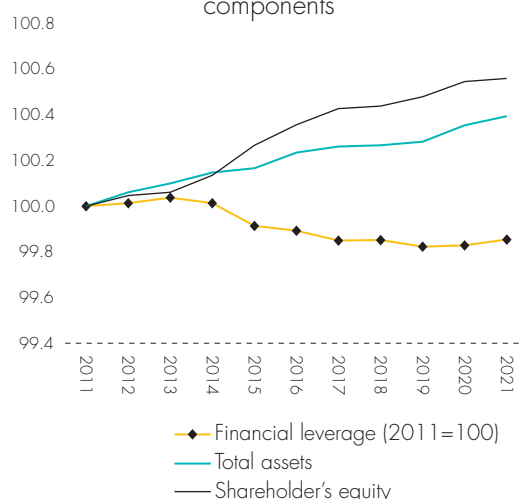
<sup>24</sup> Decision No.4, dated 13.01.2021 "On the Suspension of the Profit Allocation from Banks" in force until 31 December 2021.



both retail portfolios and real estate (collateral) as well, in addition to exposure to corporation loans. Banks with European capital have a higher exposure towards the classes "corporation loans and non-performing loans" and "retail portfolio," while banks with domestic capital in addition to the above-mentioned exposures also register exposures towards portfolios classified as high risk and uncovered from exchange rate fluctuations.

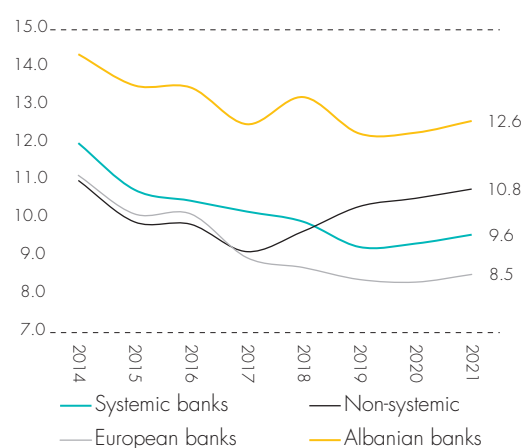
The Albanian banking sector is characterised by an adequate financial leverage ratio which confirms the preservation of a good level of capitalisation. The financial leverage ratio<sup>25</sup> in June 2021 was 9.9 times, slightly higher compared with the end of 2020 and near the 5-year average of 9.8 times. Analysis of the financial leverage ratio for certain groups of banks shows that the level of leverage for systemic banks determines the level and performance of the financial leverage for the entire banking sector. Banks with Albanian capital have the highest level of financial leverage due to the lowest level of equity compared with banks with foreign equity.

Chart 39 Financial leverage performance by components



Source: Bank of Albania.

Chart 40 Financial leverage of banks according to systemic risk and the origin of capital, in times



Source: Bank of Albania.

#### 4.1.1.3 Financial result

The banking sector closed 2021 H1 with a positive net financial result of around ALL 10.5 billion, or with a profit around 47% higher than the previous year. Most of banks contributed to the growth of the banking sector's financial result. The growth of the profit of the sector is also reflected in an increase in average profitability indicators of the banking sector. Return on Assets (RoA) and Return on Equity (RoE) increased to 1.3% and 12.8%, from 0.9% and 9.1%, respectively, a year earlier. The increase by around 8% in net interest income and by around 30% in non-interest income drove to the growth in the financial result, while expenses for provisions were somewhat lower in 2021

<sup>25</sup> Financial leverage is measured as the ratio of assets to equity.

*The banking sector closed the period with a considerably higher profit than the previous year. The increase in both net income from interest and income from other activities and the fall in expenses for provisions drove to the annual growth of the financial result. The overall operating expenses grew slightly, but their ratio to the activity income was slightly down from the previous year.*



H1 compared with the same period in the previous year. Net interest income continues to present the main item in income, while non-interest expenses remain the main item in expenses. Non-interest income, mainly represented from income from fines has been turned into an important income source to the banking sector. They have been gradually increasing in the last years and their share as a ratio to net interest income has reached at 30%, from 20% in the previous decade.

*Table 6 Income and expenditure of the banking sector for 2020-2021 (in ALL bln)*

	2021			2020
	ALL	FX	Total	Total
Income from interest	16.5	9.4	25.9	24.7
Expenses from interest	2.7	0.9	3.6	3.9
Net income from interest	13.9	8.5	22.4	20.7
Non-interest income	5.0	3.0	8.0	6.2
Fines and commissions	3.6	2.6	6.2	5.1
Loss or profit from financial instruments	1.0	0.1	1.1	0.9
Non-interest expenses	13.6	3.8	17.4	16.5
Provisions (net)	1.2	0.8	2.0	2.7
For loans	0.9	0.3	1.3	2.4
For other financial means	0.2	0.5	0.7	0.3
Uncommon items	0.7	0.4	1.0	(0.4)
Income tax	1.5	-	1.5	1.0
Net result	3.3	7.3	10.5	7.2

Source: Bank of Albania.

The main activity of banks, reflected in net interest income, registered a growth. This development was affected by both the increase of interest income and the decrease of interest expenses. Net result from interests was ALL 22.4 billion or 7.9% higher than the previous year. Despite the 5% increase in the average income earning assets, that serves as denominator for this indicator, net margin from interests increased at 3.34% from 3.26%, driven by the positive developments in the main banking activity.

Non-interest income grew by ALL 1.8 billion, reaching at ALL 8 billion, mainly due to the fact that banks, during this period, have collected more fines and commission, compared with 2020 H1. On the other hand, the overall operating expenses increased by ALL 1 billion. Despite this increase, the activity costs were adequately covered by activity income. The operating expenses to income ratio was 57%, or somewhat lower than the previous year, due to the higher increase in income from activity compared with that in expenses.

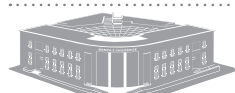
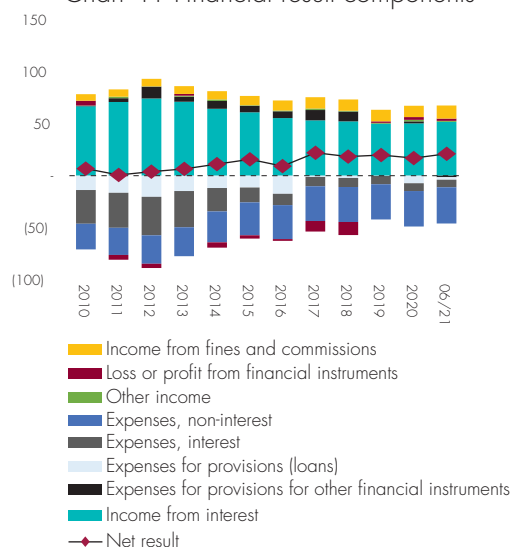
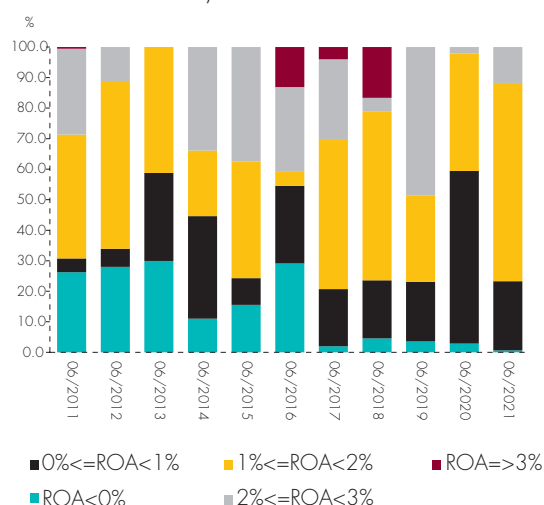


Chart 41 Financial result components



Source: Bank of Albania.

Chart 42 ROA by banks' share in sector assets

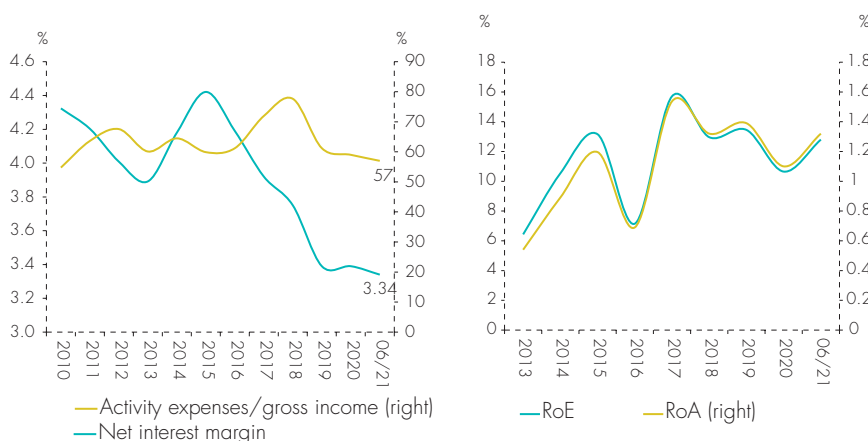


Source: Bank of Albania.

The fall of provision expenses for credit was an additional factor backing the growth of the sector's financial result, since banks reported expenses of around ALL 1.1 billion lower than in the same period of the previous year. On the other hand, expenses on provisioning other financial items slightly rose by ALL 0.4 billion.

Despite that most of net financial result relates to the activity of banks in foreign currency, around 2/3 of net income growth was due to the activity in lek. The growth in the main banking activity, the one from interests was almost consistent in the activity denominated both in lek and foreign currency. On the other hand, the increase in non-interest expenses and income was mainly reported for the activity in the domestic currency. Also, the fall in expenses for provisions is mainly reflected in the activity in lek.

Chart 43 Profitability and expense indicators of the banking sector



Source: Bank of Albania.



## 4.1.1.4 Loans

*In 2021 H1, the amount of outstanding loans grew, mainly driven by the increase in new loans and the rescheduling of loans payments during the last year.*

*Loans to households, long-term loans, and loans in lek recorded higher growth in both annual and semi-annual terms.*

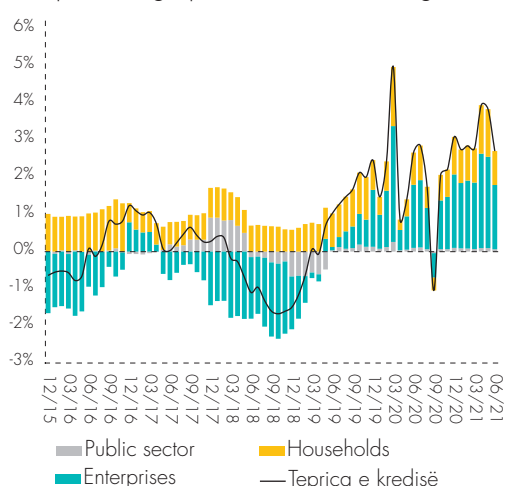
At the end of the period, the amount of outstanding loans was ALL 630 billion, being 3% and 6% higher than in the previous six months and year, respectively. Alongside the new loans<sup>26</sup>, the expansion of loans stock during the period was particularly affected by the change in loan payments scheduling in the framework of easing regulatory measures taken by the Bank of Albania in the last year. Excluding the short-term loans which contracted both in semi-annual terms and compared with the previous year, all types of loans increased. Loans portfolio in lek, loans to households and long-term loans recorded the highest growth by 4%, 6% and 6%, respectively in 2021 H1. Loans in foreign currency recorded a slight increase of around 2%<sup>27</sup> during the first half of year.

Table 7 Loans by maturity, sector and currency

	ALL bln	Share (%)		Change (%)	
		06/ 2021	06/ 2020	6-month	Annual
ALL	314	50	49	4	10
FX	311	50	51	2	3
Public sector	15	2	4	-24	-35
Enterprises	399	64	64	3	6
Households	211	34	32	6	10
Short-term	148	24	27	-4	-8
Medium-term	96	15	16	2	0
Long-term	381	61	57	6	14
Loans	626	100	100	3	6

Source: Bank of Albania.

Chart 44 Loans by sector, contribution in percentage points, 6-month changes



Source: Bank of Albania.

During the period, banks continued the written-off process of lost loans from balance sheets, but at a rather lower pace compared with some years earlier. Over the last 12 months up to the end of June, ALL 3 billion loans have been written off from the banking sector's balance sheet, of which, higher than 80% represented lost loans in foreign currency to domestic enterprises. The stock of written-off loans accounts for around 7% of the overall outstanding non-performing loans in banks' portfolio, as at-end of June 2021, while this ratio was 17% in 2019. If the volume of written off loans during the last 12 months have been included in the outstanding loans (alongside the exchange rate effect) loans, then the annual growth of loans would be 7.4%.

<sup>26</sup> New loans were mainly granted to enterprises for short-term purposes (overdraft and working capital).

<sup>27</sup> The statistical effect of the exchange rate on the equivalent value in lek of loans in foreign currency was negative for around ALL 2 billion in January-June 2021 and negative for around ALL 5 billion in July 2020-June 2021. Excluding the exchange rate effect, the annual change of loans in foreign currency would be 4%, from 3%.

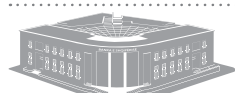
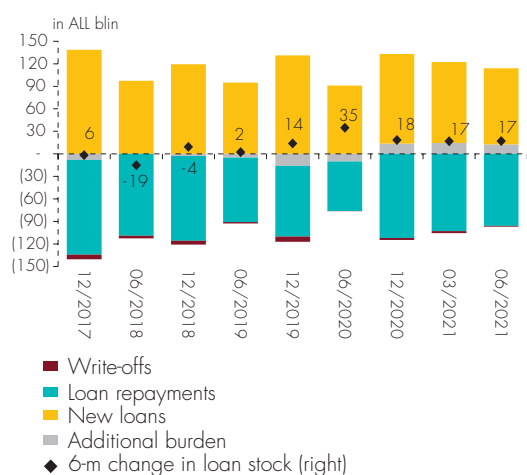


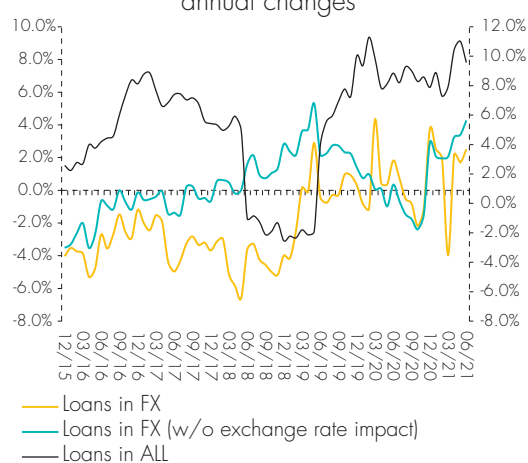


Chart 45 Six-month change in outstanding loans by composing elements



Source: Bank of Albania.

Chart 46 Loans in lek and loans in foreign currency including and excluding the exchange rate effect, annual changes



Source: Bank of Albania.

## LOANS TO RESIDENT ENTITIES – ENTERPRISES

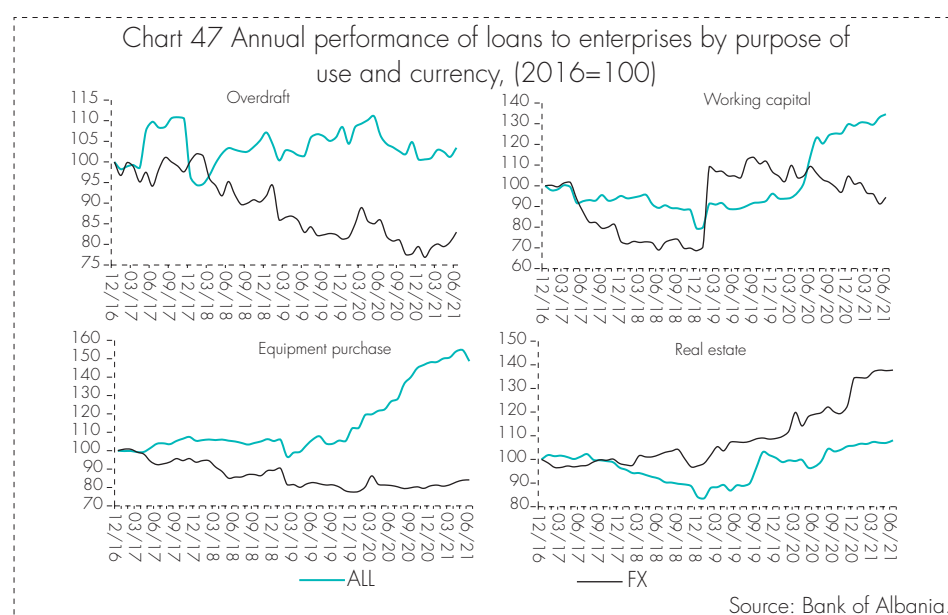
Loans to resident entities represent 96% of outstanding banking loans and this credit expanded by 3% during 2021 H1. Loans to resident enterprises, which account for over 60% of the total loans to resident entities, reached at ALL 380 billion at the end of the period, from the increase of ALL 7 billion or 2% in the previous six-month period. The expansion of loans stock for real estate purchase by 2.5% and overdraft loans by 4% provided the main contribution to the increase of loans to resident enterprises. Compared with the previous year, outstanding loans to enterprises expanded by 6%, mainly affected by the increase of loans for real estate and equipment purchases.

Loans for investments in real estate and equipment purchases have the main share in loans to enterprises (each 30%). Loans for these purposes were mainly granted in foreign currency. In the last five years, banks reported a particularly strong increase in euro credit portfolios granted to enterprises for real estate purchases. Enterprises have preferred loans in the domestic currency for equipment purchases and working capital. Both subcategories of loans have recorded a considerable increase over on-year period. "Overdraft" loans stock in foreign currency decreased significantly, while "overdraft" loans in lek, besides short-term fluctuations, have not recorded significant changes over the past five years.

*The increase of loans to enterprises was supported by the expansion of loans for real estate and overdraft credit in foreign currency.*

*The increase of loans to households reflects the expansion of loans stock for consumption and real estate purchases mainly granted in the domestic currency.*

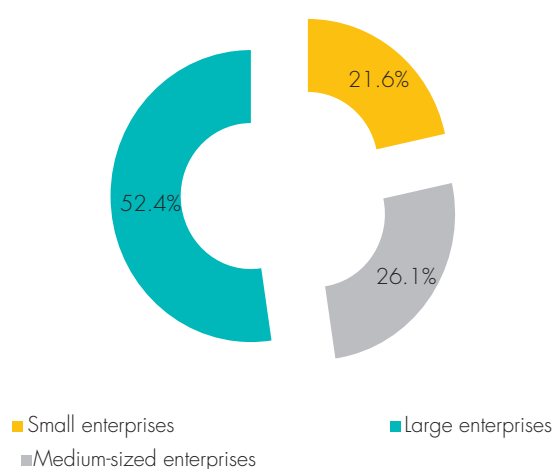




By size of the activity the share of loans to large and medium-sized enterprises increased, whereas the share of loans to small enterprises contracted. This performance has been reflected in the structure of loans to enterprises by size of activity. In concrete terms, the share of loans to large and medium-sized enterprises increased by around 1 percentage point, while the share of loans to small enterprises fell by 2 percentage points.

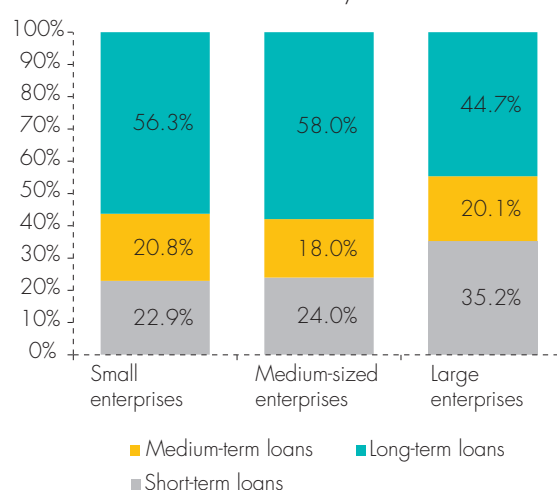
Loans by maturity show that all three groups of enterprises have increased the share of long-term loans and decreased the share of short-term loans throughout the period. Medium-term loans increased the share only to large enterprises. By currency, the increase of credit to entrepreneurs, during the period, is reported for all currencies, with the main contribution from loans in lek.

Chart 48 Structure of loans to enterprises by size

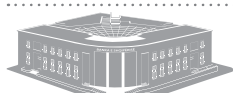


Source: Bank of Albania.

Chart 49 Structure of loans to enterprises by size and maturity

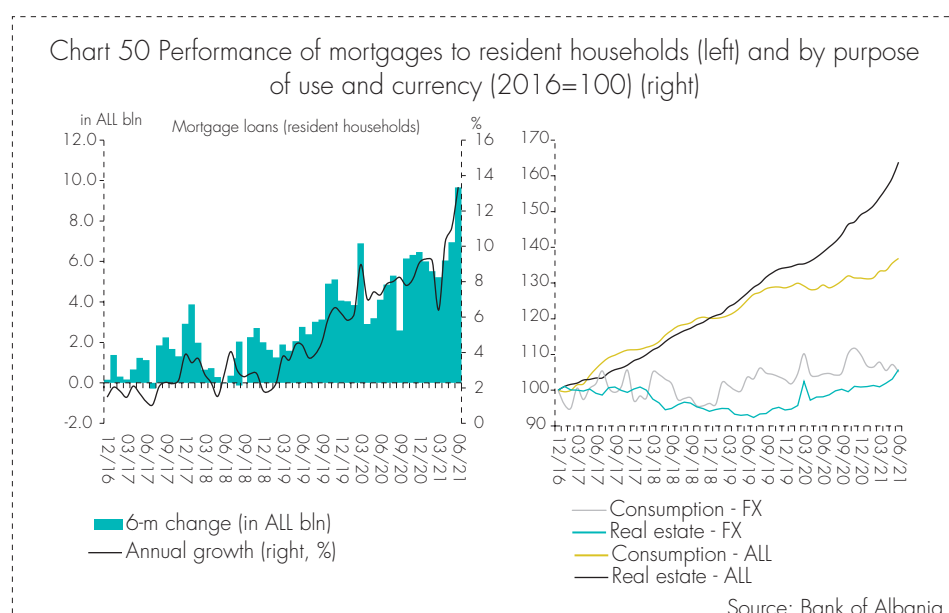


Source: Bank of Albania.



### LOANS TO RESIDENT ENTITIES – HOUSEHOLDS AND PUBLIC SECTOR

Loans to resident households expanded by 6% over the period. Loans for real estate provided the fastest increase and highest contribution in this growth. During the last years there has been a considerable growth in outstanding loans to households for real estate. This credit stock increased by around 8% during the period and by 13% compared with the previous year, reaching at around ALL 140 billion. Mortgage loans have the main share (65%) of credit to households. The rapid increase in the stock of loans to households during the last four years was affected by a considerable increase in the stock of loans in lek, while loans to households in foreign currency remained, overall, unchanged during the period. Loans to non-financial public corporates continue to account for a quite small share in total loans to residents (2%). Meanwhile by the end of the year, this credit had contracted by around 35%.



### LOANS TO NON-RESIDENT ENTITIES

The stock of loans to non-resident entities expanded by around 16% during 2021 H1. At the end of June 2021, loans to non-resident entities were around ALL 23 billion and accounted for around 4% of outstanding loans in the banking sector, from 3% at the end of the previous six-month period. The highest expansion in credit to non-residents was registered in loans to enterprises, loans in foreign currency and long-term loans. These are, at the same time, the categories with the highest share in the stock of loans to non-resident entities.

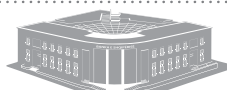
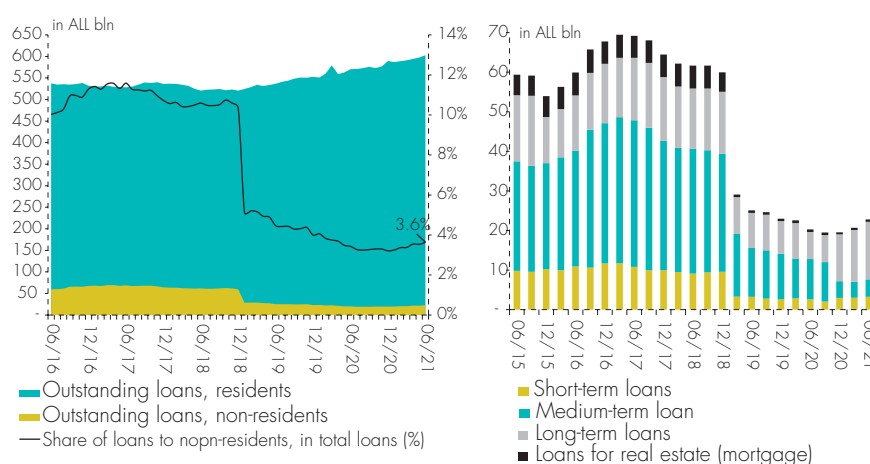


Chart 51 Loans to residents and non-residents (left) and loans to non-residents by maturity (right)



Source: Bank of Albania.

### UNHEDGED FOREIGN CURRENCY LOANS

Outstanding unhedged foreign currency loans have remained unchanged from the level recorded at the end of the previous six-month period.

The share of unhedged foreign currency loans to both loans in foreign currency and total loans has declined.

Loans in euro to enterprises account for the highest share of unhedged loans.

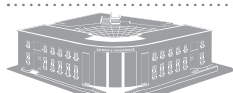
The growth pace of unhedged foreign currency loans and its share in relation to overall foreign currency loans are two of the indicators monitored on an ongoing basis as signalling indicators of indirect foreign exchange risk. The stock of unhedged foreign currency loans has recorded the same level with the previous period, while its share to total foreign currency loans declined slightly, due to the strong growth in overall foreign currency loans. Loans granted to enterprises continue to account for the main share of total unhedged foreign currency loans, due to the contraction in unhedged loans granted for investments in commercial real estate. At the same time, unhedged loans granted to households increased notably (around 6%) in 2021 H1. Despite this development, as unhedged loans to households account for only 30% of the share of unhedged loans, the impact of this portfolio growth in the overall stock of loans was contained.

As at end of June 2021, the share of unhedged foreign currency loans against overall outstanding loans was 21%, or slightly lower than at the end of 2020. The share of unhedged loans in the portfolio of foreign currency loans decreased at 41% from 42% at the end of December 2020.

### NEW LOANS

During the period, the flow of new loans declined by 25% driven by the reduction of the new loans granted to enterprises in both foreign currency and lek. New loans to households were higher from the previous period, and were mainly granted for house purchases.

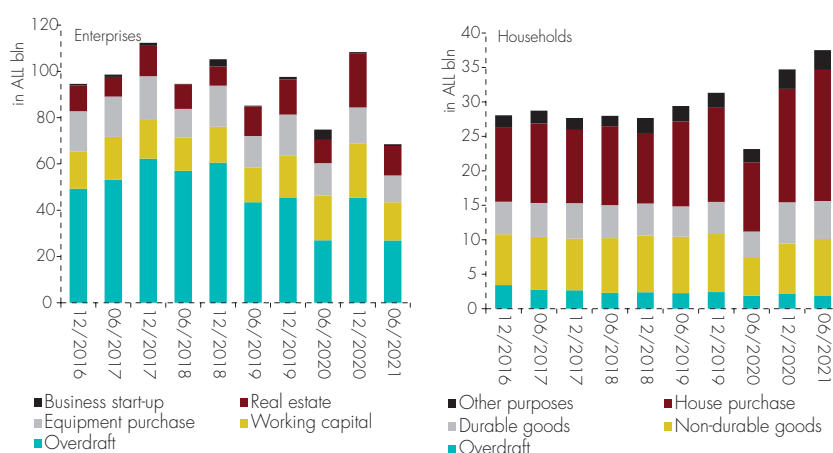
In 2021 H1, new loans granted from banks amounted to around ALL 110 billion. This flow was 25% lower compared with new loans granted during 2020 H2, but around 11% higher compared with the previous year. The fall in flow during the period is observed in new loans both in lek and in euro. The business sector provided the main contribution to the fall of flow of new loans.



This sector attracted a flow of around 37% lower compared with 2020 H2. New loans to households were 8% higher than those granted in 2020 H2. This development was affected by the increase in the loans for house purchases and those for consumption of non-durable goods. The new loans for house purchases accounted for around 50% of new loans to the sector of households. Around 70% of new loans to households were in the domestic currency, and this part of new loans to households has recorded the highest increase during 2021 H1.

The restructured loans during the last 12 months were around ALL 27 billion, equal to the 10% annual flow of the new loans. Banks report that around 80% of restructured loans were realised during the second half of 2020. Credit restructuring mostly affected the credit portfolio to enterprises, industry sector (mainly mining and quarrying), and the credit portfolio granted in foreign currency.

Chart 52 New loans to enterprises (left) and households (right) by purpose of use



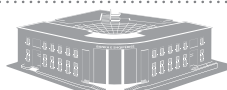
Source: Bank of Albania.

The weighted interest rates on new loans granted over the period<sup>28</sup> registered a slight decline compared with the previous six months. This fall was noted in loans granted to enterprises and in loans in euro. The average interest rate on new loans granted in 2021 H1 was around 0.1 percentage point lower than the average rate on new loans granted in 2020 H2. In June 2021, the weighted interest rate was 4.9%, while over the period it fluctuated to around 5.0%.

*The weighted interest rate on new loans granted over the period has declined.*

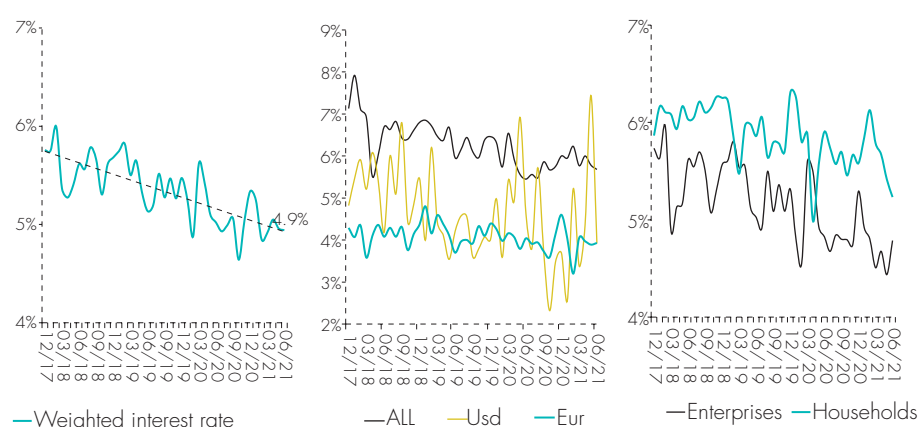
Analysis of interest rates on loans by currency indicates that the interest rate of new loans in lek continues to register higher levels than the other two currencies (euro and US dollar); and this interest rate has shown a downward trend in the first half of year. Compared with the previous year, the interest rate on new

<sup>28</sup> Calculated as six-month average.



loans in lek fluctuated around a higher average value. In June 2021, this rate registered 5.7% from 5.4% in the previous year. The interest rate on new loans to households continues to remain higher compared with the interest rate on loans to enterprises. In 2021 H1, this rate fluctuated around the average level of 5.5%; while compared to the average value at the end of 2020, this rate was 0.4 percentage point lower at the end of June 2021. The average interest rate on new loans to enterprises was around 4.7% during the first half of year.

Chart 53 Weighted interest rates on new loans, in %; aggregate rate (left); rate by currency (middle); rate by entity (right)

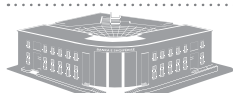


Source: Bank of Albania.

#### BOX 4 RESTRUCTURED LOANS OVER THE 12-MONTH PERIOD

The value of restructured loans over the last 12 months was around ALL 27 billion, from which ALL 6 billion was the value of loans restructured during 2021 H1. In most cases (78%) restructuring is realised upon a client's request. The restructured loans during the period accounted for 4% of the overall outstanding loans and 60% of the stock of non-performing loans. Most of restructured loans, or around 90%, are loans granted to enterprises. Restructured loans over the period, July 2020 - June 2021, account for around 6% of the outstanding loans granted to enterprises.

In terms of sectors of the economy by type of manufacturing activity, the industry sector is the one with the highest demand for loan restructuring. Borrowing enterprises of the industry sector have restructured around 14% of the overall stock of loans, and the restructured loans for this sector accounted for around 35% of the entire volume of loans restructured by the banking sector over the period. Restructuring for this sector have mainly taken place over the second half of 2020. During the period, the industry sector recorded the strongest decline in production and provided the highest contribution to the contraction of the domestic economy, which drove to the increase of difficulty of borrowing enterprises' solvency in this sector.



The other two sectors of the economy, with a considerable share in the volume of restructured loans, during the last 12 months, were tourism and trade sectors. Restructured loans for these sectors were around ALL 8 billion, 1/3 of the overall restructured loans for the period. The weak economic performance in the previous year, arisen from the Covid-19 pandemic, was also noted in tourism, given that around 11% of the loans stock granted to this sector was subject to restructuring.

Banks report that restructured loans were mainly loans denominated in foreign currency (around 71% of total). Loans affected by restructuring were for the most part classified as performing loans, whereas loans classified as non-performing were restructured as well. Standard loans account for the main share of restructures, but the volume of restructured loans was only 2% of outstanding standard loans. Restructures in the "special-mention" class, during the last 12 months, accounted for 30% of loans stock. The value of restructures for non-performing loans was relatively lower (around ALL 6.5 billion), but as a share against outstanding non-performing loans, this volume was considerable (around 15%).

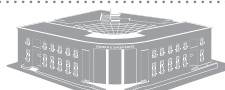
The main forms of restructuring used by banks were: extension of maturity term; capitalisation of interest and/or charges payable for default; changes to principal; and assigning a grace period for the principal or credit interest. Over 60% of restructured loans were carried out in the form of maturity extension. The rest was carried out through providing an overdue period for the principal or interest and changing the principal.

Table 8 Data on restructured loans during July 2020 - June 2021

	06/20	06/21	Share*		06/20	06/21	Share*
Share in the restructured loans				Share in the restructured loans			
<b>Entity</b>				<b>Restructuring form</b>			
Households	11	20	2	Extension of maturity term	63	50	
Enterprises	89	80	6	Capitalisation of interest and/or charges payable for default	10	7	
Large	62	44	8	Changes to payment frequency	3	3	
Medium-sized	8	20	3	Changes to principal	13	8	
Small	20	16	6	Period of principal/ interest granting	9	27	
<b>Currency</b>				<b>Other</b>	2	5	
ALL	25	45	2				
FX	75	55	6				
<b>Classes</b>				<b>Sectors of the economy</b>			
Standard	56	37	2	Trade, automobile repair	13	33	4
Special mention	23	26	30	Construction	4	2	2
Substandard	7	16	19	Industry	42	11	14
Doubtful	7	10	22	Energy, gas, water	6	3	5
Lost	7	11	9	Agriculture, forest, fishing	2	1	6
<b>Destination</b>				<b>Hotels and restaurants</b>	11	12	5
Business loans	91	80		Other	22	27	6
Mortgage loans	5	13					
Consumer loans	4	7		Restructured loans (flow, ALL bln)	20.9	5.6	4

Source: Bank of Albania.

\*Share in outstanding loans



## 4.1.1.5 Deposits

Deposits grew strongly during the period, while households' deposits, current accounts and demand deposits provided the main contribution in this growth. Deposits in foreign currency increased somewhat higher than those in lek. The increase of deposits in euro was more pronounced in deposits in foreign currency.

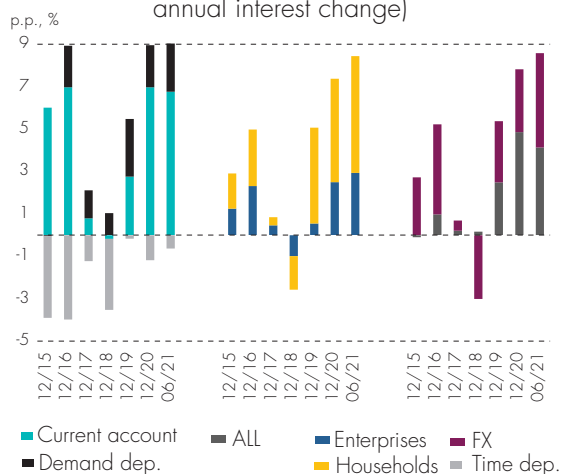
The interest rates did not record any strong change during the period.

Deposits held in the banking sector registered high growth rates during the period. The stock of deposits at the end of June 2021 was around 4% higher than the stock at the end of 2020. Households' deposits, demand deposits and current accounts recorded the highest growth during the period. Also, banks reported a slight growth of time deposits in the second quarter of 2021. At the end of June 2021, domestic banks reported a deposit stock of around ALL 1,340 billion. The nominal value increased by ALL 50 million during the first six months of year. Deposits expanded by around ALL 100 billion or by 9% compared with the previous year. The share of time deposits to total deposit stock continued to decline in favour of demand savings instruments. Interest rates on deposits continue to maintain low levels and have not changed notably during the period. Demand deposits, including current accounts and deposits of enterprises, recorded the highest relative growth. Meanwhile, households' deposits and demand deposits, including current accounts, provided the largest contribution in the expansion of the total stock of deposits.

Table 9 Data on the performance of deposits by maturity, sector and currency

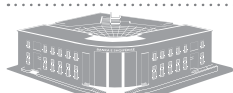
	06/21		06/21 to 12/20		Y/Y
	ALL bln	Share	(%)	(p.p.)	(%)
Current account	526	39	6	2	19
Demand deposits	184	14	6	1	18
Time deposits	606	45	1	0	(1)
Public sector	34	3	4	0	5
Enterprises	204	15	6	1	22
Households	1.098	82	3	3	7
ALL	658	49	3	2	8
FX	678	51	4	2	9
Deposits, Stock	1.336	100	4	4	9

Chart 54 Performance of deposits by maturity, sector and foreign currency (contribution to the annual interest change)



Source: Bank of Albania.

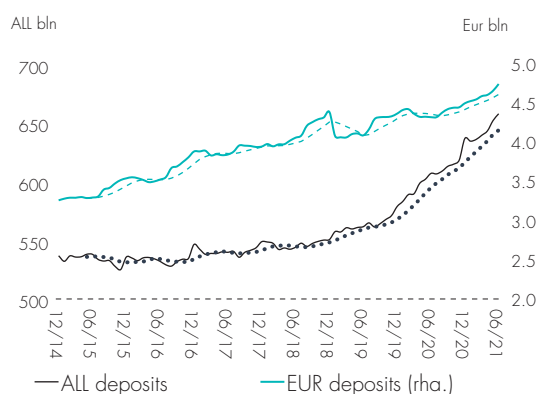
Both lek and foreign currency deposits had similar performance and contributions in the expansion of the total stock of deposits. The nominal growth of deposits in foreign currency is somewhat higher compared with the increase of deposits in lek. Over the period, deposits in euro have recorded one of the largest growths in the last years. At end of June 2021, stock of deposits in euro was EUR 4.75 billion, from EUR 4.5 billion recorded at the end of 2020. The growth by around 250 million units of euro deposits during 2021 H1 is almost twice higher than the growth of euro deposits throughout 2020. The expansion of deposits in euro may continue during the third quarter of year as well, particularly in July and August, conform the seasonal profile of





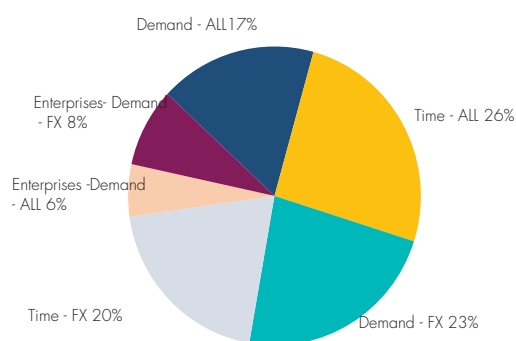
deposits performance in foreign currency. Fluctuations in the exchange rate of lek against the US dollar and the euro have not made a considerable contribution to the equivalent value in lek of deposits in foreign currency.

Chart 55 Performance of deposits in lek and euro (in bln units)



Source: Bank of Albania.

Chart 56 Structure of deposits by maturity, sector and foreign currency



Source: Bank of Albania.

Structure of deposits by maturity, currency and by institutional sector has recorded no notable change during the period. The changes are more notable compared with the previous year. Thus, the share of current accounts increased by 3 percentage points to 39%, while the share of time deposits decreased by 5 percentage points to 45%. Sector of households continues to hold the largest share of deposits by 82% of overall deposits, although slightly down from a year earlier. Structure of deposits by foreign currency has recorded no change and remains at the ratio 49/51 for the break lek/foreign currency. The strong growth of deposits in lek during the last 2-3 years has driven the increase of the share of deposits in lek from 47% at the end of 2016, to 49% at the end of the period. Current accounts and demand deposits dominate the deposits of enterprises, in almost equal ratios broken by lek/foreign currency. The small share of time deposits held by enterprises is explained in the view that the major part of enterprises' accounts with banks are used for supporting assets and operational needs of enterprises more than as genuine saving alternatives.

Time deposits in the households' portfolio account for more than half of overall deposits. It is noted that households prefer to hold savings in euro in more liquid forms, as current accounts and demand deposits, while savings in lek are mainly preferred (at 60%) to be held in the form of time deposits. This structure mainly reflects the fact that regular income of households are in the domestic currency.

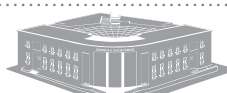
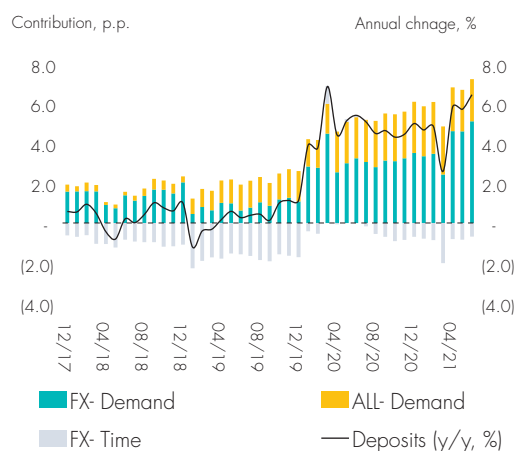
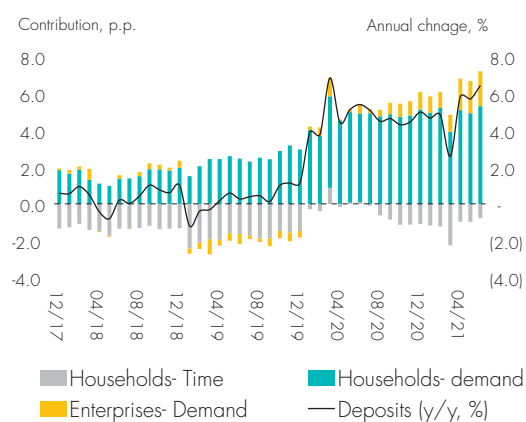


Chart 57 Performance of deposits by maturity and foreign currency (contribution in the annual growth)



Source: Bank of Albania.

Chart 58 Performance of deposits by maturity and sector (contribution in the annual growth)



Source: Bank of Albania.

Interest rates for all types of deposits, by maturity and foreign currency, remain at low levels and have not registered major changes during the period. Regarding deposits in lek, some maturities have recorded a slight fall compared to the average rate of 2020 H2. All the average rates of deposits in lek are lower compared with 2020 H1. The weighted average interest rate on all new time deposits in lek was around 0.7% in 2021 H1. The interest rates for deposits in euro have remained almost unchanged and the average value for all time deposits in euro is 0.2%.

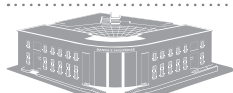
#### 4.1.1 RISKS TO THE ACTIVITY OF THE BANKING SECTOR

##### 4.1.2.1 Credit risk

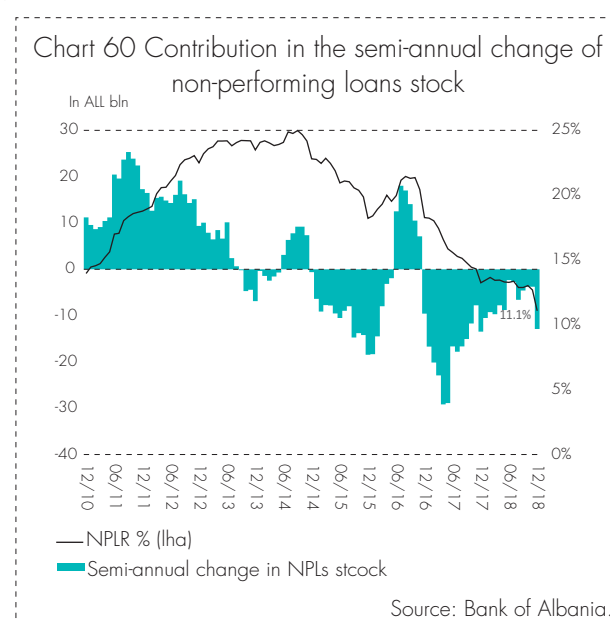
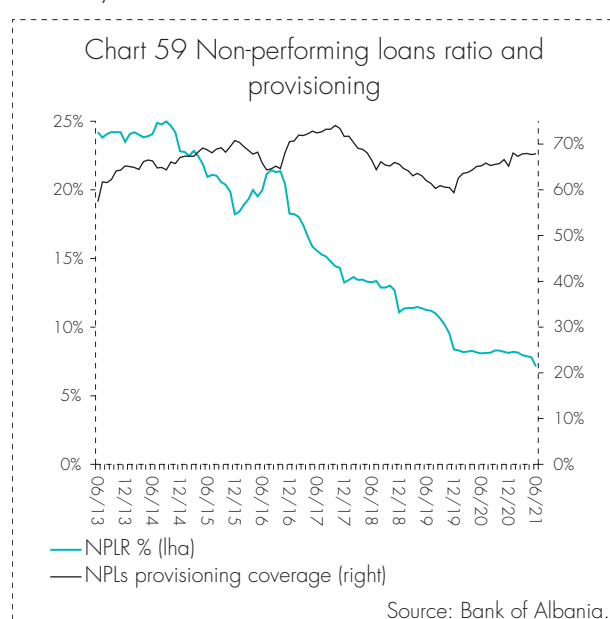
*During the period, the non-performing loans ratio recorded a strong decline simultaneously driven by the fall in the non-performing loans stock and the increase of outstanding loans.*

*Non-performing loans stock reduced notably due to the reduction in the flow of new non-performing loans and the contraction of their balance in the classes of "sub-standard loans" and "doubtful loans". The improvement of credit quality has included all the categorisations of loans.*

The credit quality has improved considerably and credit risk has been downwards during the period. The fall in the balance of "substandard" and "doubtful" classes, along with the considerable reduction of the new non-performing loans' flow provided the main contribution to the improvement of credit quality. The non-performing loans ratio (NPLR) dropped by 1 percentage point during the period, to 7.1%, the lowest level since 2009. Credit quality has improved mainly for loans to enterprises, loans in foreign currency and medium-term loans, compared with the previous year. The fall in NPLR is driven by both the contraction in the non-performing loans stock and the increase in the overall stock of loans. During the period, the non-performing loans stock fell by ALL 5 billion, to ALL 45 billion. The decrease in outstanding non-performing loans stock, by size of contribution, was driven by: the increase of non-performing loans repayments in the first two classes; restructuring of a part of non-performing loans; and the lost loans write-off from banks' balance sheets. The new flows in non-performing loans classes declined by 70% during the period.



During January 2015-June 2021, banks wrote off around ALL 70 billion of lost loans from their balance sheets. Nevertheless, this value amounts only ALL 3 billion, in the last 12 months, being concentrated to enterprises, mainly in euro. Albanian banks have continued to create provisions for non-performing loans, but at lower rates than in the previous year. The provisioning ratio reached at 68% from 65% in the previous year, due to the moderate fall in provisions compared to the non-performing loans stock. The share of lost loans in the outstanding non-performing loans reached 52% from 46 % in the previous year. Compared to the previous year, the credit quality has improved for loans to enterprises, medium-term loans, and foreign currency loans. Currently, these categories have the highest values on NPLR: enterprises (8.4%); foreign currency loans (7.9%); and medium-term loans (7.5%).



The assessment of credit quality and credit risk may be completed through the analysis of some complementary indicators of credit quality, as: the flow rate of non-performing loans<sup>29</sup>, bankruptcy rate<sup>30</sup> and the recovery rate of non-performing loans<sup>31</sup>. Thus, at the end of period “the flow of new non-performing loans” was equal to 3% of regular loans, by maintaining an unchanged level over the last year, but down from 5% level recorded at the end of 2019. On the other hand, the “bankruptcy rate” that signals the rate by which the lost loans are accumulated compared to the overall loans, increased by 0.7 percentage point during the last year, reaching at 2.3%. In parallel, “the recovery rate of non-performing loans” increased by 1 percentage point during the period, at 7%, by indicating an improvement in the ability of banks for recovering non-performing loans. This increase followed the continuous fall of this indicator over 2020.

<sup>29</sup> The flow of new non-performing loans during the period against the outstanding regular loans at the end of the period.

<sup>30</sup> The flow of new lost loans during the period against the overall outstanding loans at the end of the period.

<sup>31</sup> The flow of new non-performing loans that have been reclassified to performing classes against the outstanding non-performing loans at the end of the period.

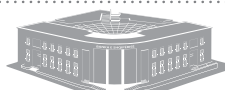
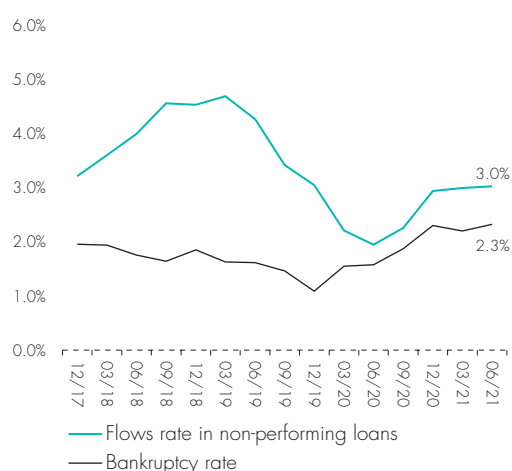


Chart 61 Flow rate of non-performing loans and bankruptcy rate



Source: Bank of Albania.

Chart 62 Recovery rate of non-performing loans



Source: Bank of Albania.

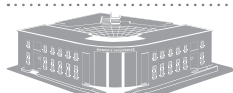
The quality of foreign currency loans unhedged from exchange rate fluctuations have improved notably compared to the end of the previous six months and the previous year. NPLR for these loans fell to 6.2% at the end of June 2021 compared to 7.1% in December 2020. The improvement of unhedged credit quality was affected by a reduction in the stock of non-performing loans for real estate investments and in euro. The main share<sup>32</sup> in the outstanding loans unhedged from exchange rate fluctuations continues to be held by loans for investments in real estate and the NPLR for this category of loans declined to around 7.8% from 9% one year ago. Also, the NPLR for the other types of unhedged loans recorded a positive performance. In one year period, this ratio fell to 5.8% (from 9%) for unhedged loans for business start-up; to 5.3% (from 7.5%) for unhedged loans for trade; and to 3.7% (from 3.8%) for unhedged loans for consumption.

The quality of credit granted by Albanian banks for non-residents continues to be good, since the NPLR remains close to 2%, and recorded no important changes during the period. The entire stock of non-performing loans held by non-residents is classified under the "lost" class and is represented by loans disbursed to businesses in euro.

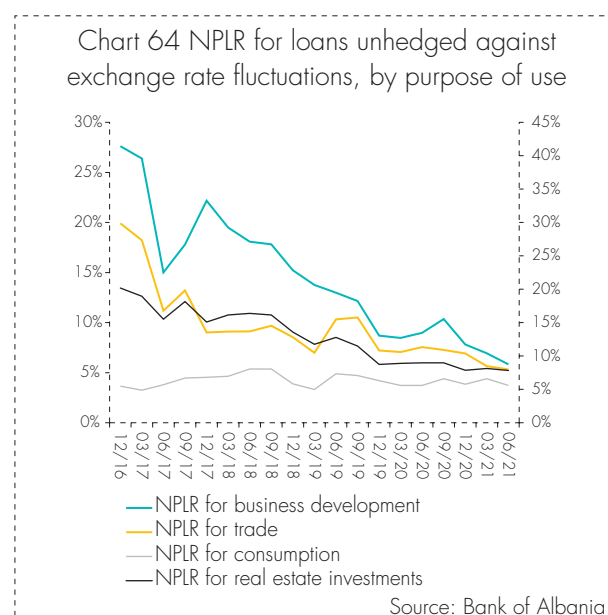
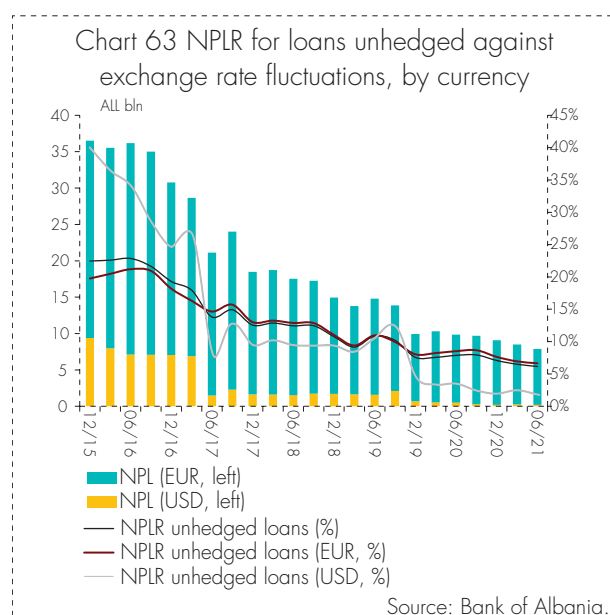
Over the period, the coverage ratio of non-performing loans with provisions expanded by 2.7 percentage points, compared with December 2020, and with the previous year, reaching at 68% driven by the more rapid fall in non-performing loans stock compared with the contraction of provisions. The provisioning ratio for individual banks fluctuates between 55% and 85% range. Capital coverage of net non-performing loans<sup>33</sup> increased to 11.1 times from 9.1 times at the end of 2020 H2. This increase was mainly driven by the

<sup>32</sup> Around 67% of the total.

<sup>33</sup> Non-performing loans after the deduction of provisions.



decrease of net non-performing loans<sup>34</sup>. In June 2021, the net non-performing loan ratio against outstanding loans registered 2.3%



Collateralization of<sup>35</sup> loans, which represents a key element in the group of hedging instruments of banking sector from the risk arising from non-returned loans, was slightly down during the period. Nevertheless, this ratio remains at high levels, providing room to banks to manage the risk arising from non-returned loans. During the period, collateralization declined by around 0.6 percentage point, to 80%. Loans collateralised with collateral in the form of real estate account for the main share of collateralized loans, or around 65% and 52% of overall outstanding loans. Collateralised loans stock expanded by around 5.4% compared to the previous year, while it remained unchanged during the period. Outstanding uncollateralized loans expanded during the period compared to the previous year. The increase in uncollateralized loans against the overall outstanding loans, in the last two years, shows that the performance of this type of loans needs to be carefully monitored on an ongoing basis by both the banking sector and the Bank of Albania.

<sup>34</sup> As a result of the increase in outstanding net non-performing loans by around 4%, the "net non-performing loans/regulatory capital" ratio was up to 11.3%, from 10.9% in June 2020.

<sup>35</sup> Collateral in the form of real estate (residential, commercial or land), cash, etc.

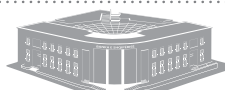
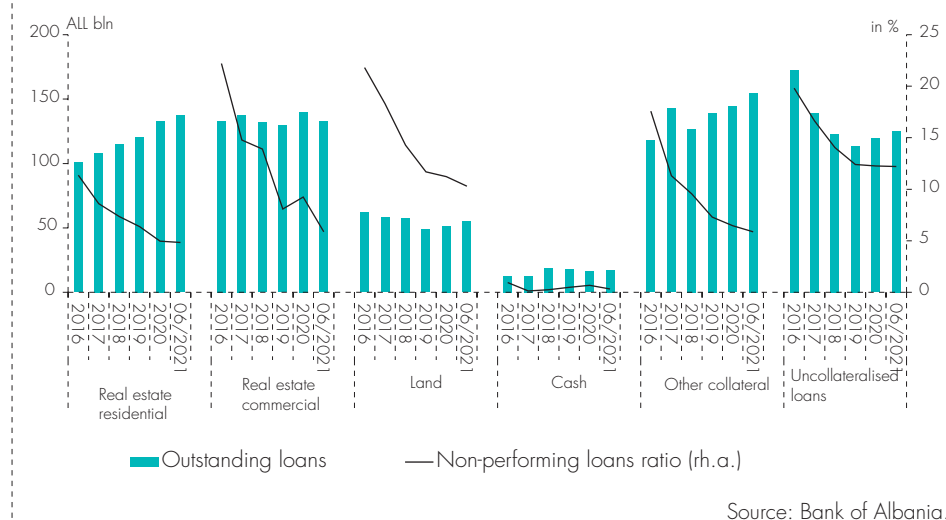


Chart 65 Outstanding loans and non-performing loans ratio, by collateral



Source: Bank of Albania.

#### 4.1.2.2 Liquidity risk

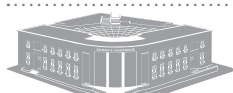
*The liquidity position of the banking sector remains at good levels and liquidity indicators continue to remain notably above the regulatory limits.*

*The negative gap between assets and liabilities by residual maturity has deepened due to expansion of the gap for the period up to 3 months.*

The liquidity risk of the banking sector is assessed at contained levels, although increased attention is needed to monitor this risk. The liquidity indicators, both in lek and foreign currency, continue to be notably above the minimum regulatory ratios. Nevertheless, the average maturity mismatch between assets and liabilities has expanded and the negative gap between assets and liabilities for the 3-month maturity basket has been deepening. Both these developments, which has started to appear since at least two years now, reflect the preference of public for demand deposits as a ratio to time deposits and a slight extension of the average maturity of loans. Notwithstanding this performance, the high level of liquid assets coupled with the improvement in the residual contractual maturity segments for the period 3 months to 1 year, confirm the good situation of liquidity of banks.

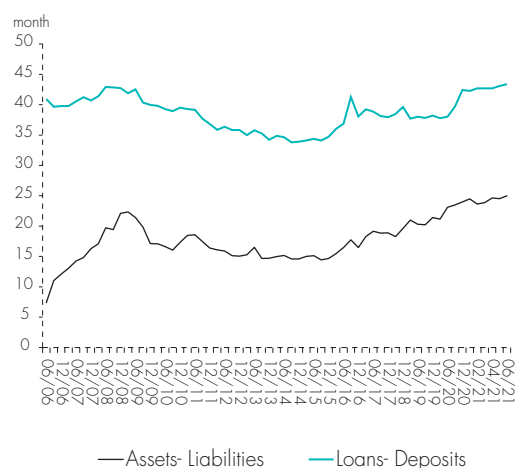
Deposits remain the main source of funding, which cover twice the loans volume of the sector. At the end of the period, the "loans/deposits" ratio was 46.8%, slightly down from the level of the previous six months. This ratio is affected by the activity of banks in foreign currency. The growth of deposits in foreign currency was stronger than the increase of the stock of foreign currency loans, driving to the fall of the "loans/deposits" ratio to 45.9% from 47.1% at the end of 2020. This ratio assessed for the domestic currency has remained almost unchanged, at 47.8%.

During the period, liquid assets of the banking sector increased by ALL 11 billion, reaching at ALL 560 billion. The ratio of liquid assets to total assets in banks' balance sheets continues to remain high. At the end of June 2021, the ratio of liquid assets to total assets was 34.1% or around 0.7 percentage point below the level at the end of 2020. This performance reflects a significantly



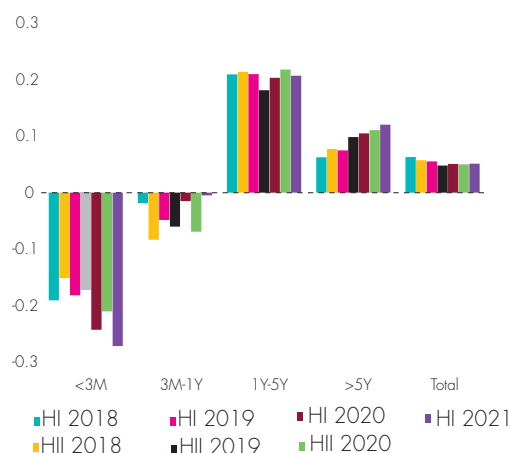
high-paced increase of total assets in banks' balance sheets compared with liquid assets. For the same reason, the ratio of liquid assets to short-term liabilities fell by 1 percentage point, during the period, to 46.5%, due to the more rapid increase of short-term liabilities.

Chart 66 Average residual maturity mismatch between assets-liabilities and loans-deposits



Source: Bank of Albania.

Chart 67 Maturity mismatch between assets and liabilities\*



\*Off-balance sheet assets and liabilities are also included.  
Source: Bank of Albania.

Although banks are operating under ample liquidity conditions, the negative gap between assets and liabilities by residual contractual maturity segments, as a ratio to total assets in the short run, continues to remain high and has been deepening. Thus, the negative gap between short-term assets and liabilities by residual contractual maturity segments, for the period up to 3 months,<sup>36</sup> increased to 27%, from 21% of the volume of assets in the previous six months. On the other hand, this gap has recorded almost insignificant values as a ratio to total assets for 3 months up to 1 year maturity. The overall gap continues to be positive and has recorded no significant changes from the previous periods, being supported by the high positive values for longer-term maturities. This gap since 3 years has fluctuated around 5% of assets in the banking sector.

During the period, an increase was observed in the average maturity mismatch between assets and liabilities, due to an increase of the average maturity of assets and decrease of maturity of liabilities. At the end of the year, this mismatch was around 25 months, from 24 months in the previous six months. The residual maturity of deposits, which represent the majority of liabilities, declined from 7.7 to 7.3 months. The residual maturity of loans increased from 50.1 months to 50.7 months, reflecting the banks' propensity to grant credit for longer-term periods. Similar to the previous six months, the banking sector did not report the use of funding lines by parent groups.

<sup>36</sup> Calculated as the ratio of 'difference between assets and liabilities' to 'total assets' for each basket of residual maturity. Off-balance sheet items are included in the value of assets and liabilities.



## 4.1.2.3 Market risks

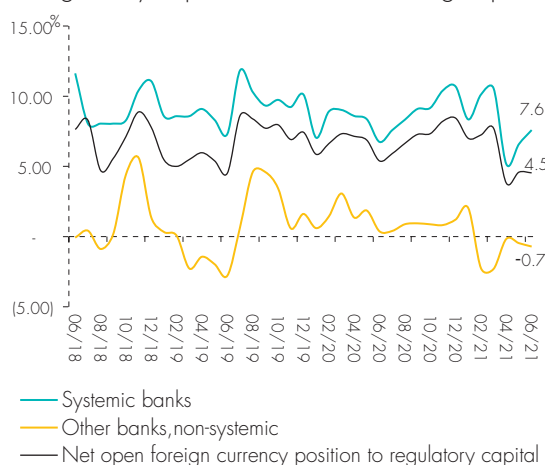
## EXCHANGE RATE RISK

*The exposure of banking sector to direct exchange rate risk remains contained and considerably below the upper regulatory limit. The banking sector's exposure to indirect exchange rate risk has remained at the same level with the previous period, while the index in euro continues to provide the main contribution in this regard.*

At the end of 2021 H1, the net open foreign currency position levels point to a limited and declining exposure to the direct impact of exchange rate fluctuations on banks' balance sheets. The aggregate indicator for all banks, as well as the indicator for the group of banks by importance, showed very low values compared with the 30% upper limit of regulatory capital defined by the respective regulation. At the end of June 2021, the net open foreign currency position accounted for 4.5% of the regulatory capital. This is the lowest level in the last years. The performance of this indicator is determined by the group of systemic banks, which have maintained a long open position, at 7.6% of the regulatory capital, from 10.7% at the end of 2020. Compared with the systemic banks, the group of other banks recorded a short open position in foreign currency, at 0.7% of their regulatory capital. Overall, fluctuations reflect the positions of banks due their main activity.

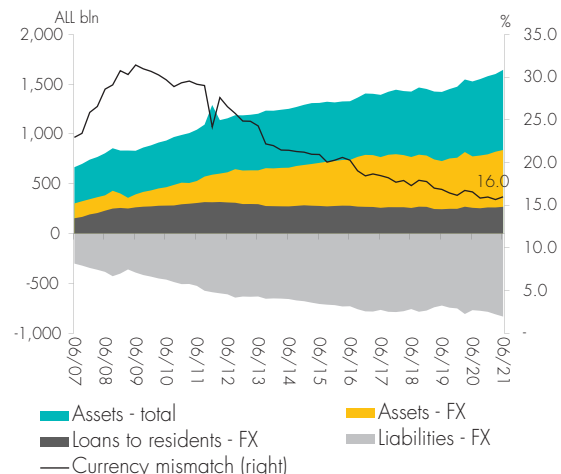
The exposure of the banking sector to indirect exchange rate risk, measured by the foreign currency mismatch<sup>37</sup> was equal to 16% of total assets of the sector. The indicators were slightly down compared with the previous year, but it maintained the same level recorded at the end of 2020. Assets and liabilities in foreign currency have grown at comparable rates of around 8%, while loans in foreign currency to residents has registered a slower increase, driving to a slight decrease of the index. The overall index continues to be dominated by the index calculated for the European currency, which fell by 0.3 percentage point to 15.9%, compared with the value of the previous year.

Chart 68 Open foreign currency position to regulatory capital for the sector and groups



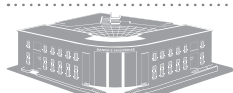
Source: Bank of Albania.

Chart 69 Performance of Indexes components for the banking sector



Source: Bank of Albania.

<sup>37</sup> The foreign currency mismatch indicator measures the hedging rate of the banking sector's liabilities with assets set off by resident credit in foreign currency. A low value of this indicator's ratio to assets shows a low exposure to fluctuations in the exchange rate. For the calculation of the exchange rate indicator, refer to the Financial Stability Report 2016 H1.

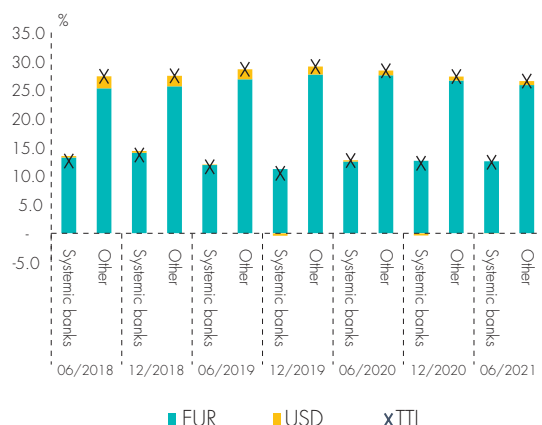




The group of systemic banks continues to make the main contribution to the performance of the foreign currency mismatch index. For this group of banks, the indirect exchange rate risk has slightly increased during the period, but has somewhat decreased compared to the previous year. At the end of the period, the index for systemic banks was equal to 12.4% of assets from 12.2% in the previous period and 12.7% in the previous year. By currency, the main contribution of this group was made by the index of the European currency, which is equal to 12.5% of assets, slightly down from the previous six months, to the same level in the previous year.

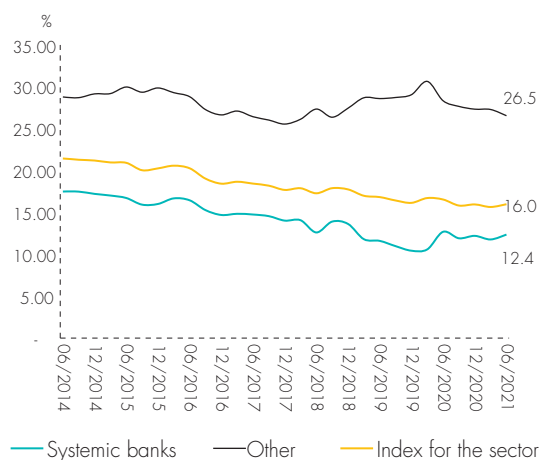
During the period, the index of the group of non-systemic banks stood at 26.5% of assets. Compared with the previous six months and the previous year, this indicator has increased by 4.1 percentage points, and decreased by 2 percentage points compared with the same period in the previous year. The index of the European currency reaching at 25.8% of assets, or 4 percentage points higher than the previous period, but 2 percentage points lower from the previous year, provided the main contribution. The US dollar index did not change from the level of the previous period, standing at 0.7% of assets.

Chart 70 Currency mismatch, by groups and currency



Source: Bank of Albania.

Chart 71 Performance of foreign currency mismatch indicator for bank groups



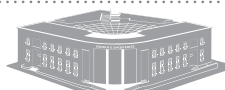
Source: Bank of Albania.

## INTEREST RATE RISK

The exposure of banks to interest rate risk increased during the period, but remaining below the level of the previous year. The weighted total net position in banks' balance sheet, which indicates the size of change in the net assets-liabilities position as a ratio to regulatory capital, for all maturities and currencies in case of a shock by 200 basis points on the interest rate, was 5.6% of the regulatory capital. This level was 1.3 percentage points higher from the one assessed at the end of the previous period. Nevertheless, it continues to remain notably below the upper limit of 20%. The value of the indicator measured for the net positions "assets minus liabilities" with variable interest rate (VIR) and

*The banking sector's exposure to interest rate risk increased during the period. Nevertheless, the indicator of exposure to this risk remains significantly below the regulatory limit.*

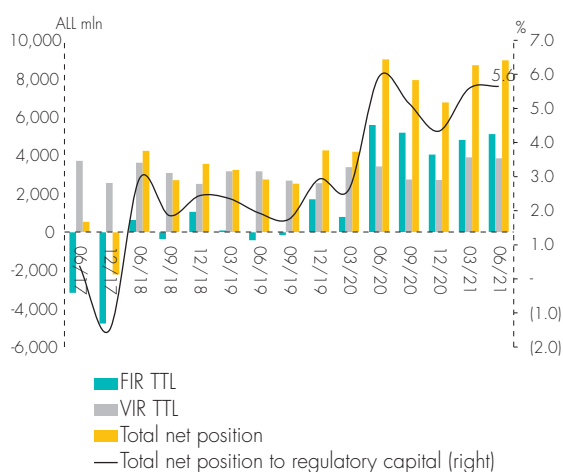
*The banking sector is more exposed to the interest rate risk for the positions in lek, fixed interest rate and for long-term maturity.*



for the net positions with fixed interest rates (FIR) increased almost at the same degree during the period<sup>38</sup>, reaching at 2.4% and 3.2% of the regulatory capital, respectively. Although, the interest rate risk remains present, the size of the impact is considered to be relatively low. During the period, the exposure to interest rate risk increased for both systemic banks and other banks<sup>39</sup>. Overall, systemic banks show a lower exposure than the other banks.

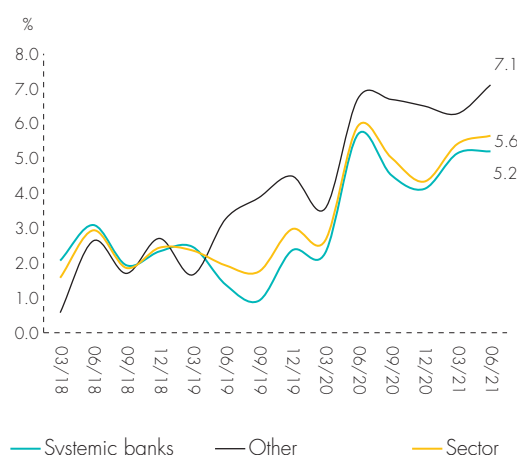
At the end of the period, the exposure indicator to interest rate risk, for systemic banks, was at 5.2% of regulatory capital, slightly down from the measured value in the previous year. For the other banks, this indicator was at 7.1% of regulatory capital, or 0.4 percentage point higher from the previous year. For systemic banks, the exposure for assets and liabilities with variable interest rate (VIR) was at 2.9% of their regulatory capital, while the exposure to fixed interest rate (FIR) fluctuations was at 2.3% of regulatory capital. Non-systemic banks appear more exposed to the fluctuation risk on the fixed interest rate (FIR) instruments, given that FIR and VIR positions as a ratio to the regulatory capital of this group are 6.2% and 0.9%, respectively.

Chart 72 Weighted total net position in bank's balance sheets against regulatory capital, in %



Source: Bank of Albania.

Chart 73 Performance by groups of weighted net position against regulatory capital, in %

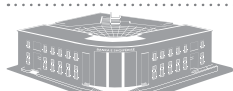


Source: Bank of Albania.

By currency, the most significant exposure to the risk of the interest rate change for banks is in the domestic currency. Total position in the domestic currency was at 3% of regulatory capital. This position has slightly increased compared to the two previous six month periods. Its current value is close to the average level of the last years. For systemic banks the position indicator in lek reached at 2.1% of regulatory capital and increased slightly from the two previous six months periods. For the other banks, the exposure to fluctuations on the instruments rates in lek was as 6% of regulatory capital and has decreased from the average of the previous year.

<sup>38</sup> By 0.7 percentage point for the VIR position and 0.6 percentage point for FIR position.

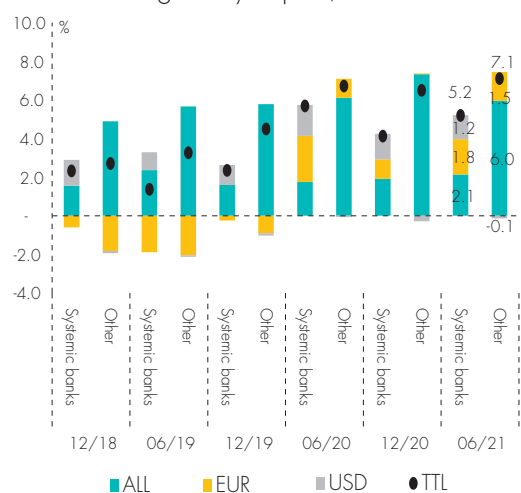
<sup>39</sup> The indicators increased by 1.1 percentage points and 0.6 percentage point, respectively compared with the previous six months.



Notwithstanding the highest exposure of banks (in absolute value) against the interest rate fluctuations is in the domestic currency, the growth of net position in euro provided the main effect to the increase of the sector's exposure against the interest rate. In 2021 H1, the weighted total position in euro was up by 1 percentage point, reaching at 1.7% of regulatory capital. Nevertheless, this position was somewhat lower compared to the value in the previous year. Systemic banks hold the highest share in the overall position in euro, by 1.8% at the end of 2021 H1, from 1% at the end of December 2020, and 2.4% in the previous year. The same position for non-systemic banks accounts for 1.5% of regulatory capital upwards compared to the previous six months and the previous year. Exposure in US dollar is equal to 0.9% of regulatory capital, and has recorded no considerable changes during the last 12 months. Exposure in the US dollar comes almost from the group of systemic banks (1.2%), while exposure of the group of other banks in US dollar is insignificant.

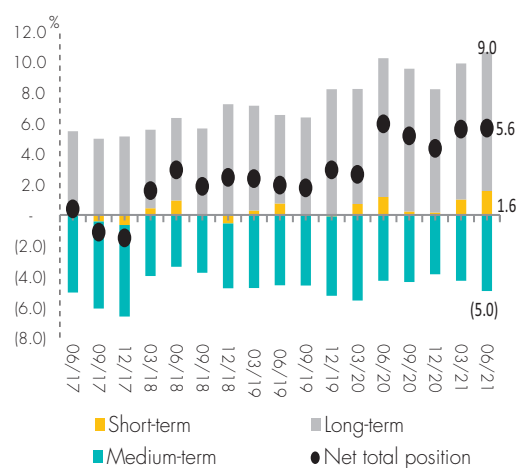
By maturity, banks have the most significant exposure to interest rate fluctuations from the basket with long-term maturity. The weighted total position for this maturity was at 9% of regulatory capital in 2021 H1. It has expanded compared to the previous six months, but has marked the same value with the previous year. However, the change in the overall net position was mainly affected by the 1.4 percentage points increase in the short-term position, which was at 1.6% of regulatory capital during the period. For instruments with medium-term maturity there is noted an expansion of the negative position between assets and liabilities, sensitive to the interest rate, at 5.0%, from 3.9% and 4.3% in the previous six months and previous year, respectively.

Chart 74 Gap by group and currency against regulatory capital, in %



Source: Bank of Albania.

Chart 75 Weighted net position by maturity against regulatory capital, in %



Source: Bank of Albania.

Notwithstanding the sector shows a relatively low exposure to the interest rate change, particular banks may show more pronounced exposures, thus being more sensitive to the interest rate risk. Also, it is important to consider the indirect risk to interest rate or differently losses to the banking sector or to a particular bank coming from the deterioration of borrower's solvency due to the increase of the interest rates on loans<sup>40</sup>.

<sup>40</sup> In this case, of loans with variable interest rate.

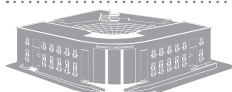


## BOX 5 INTEREST RATE RISK

Interest rate risk to traditional banks that collect deposits and grant loans may be defined as the risk that due to changes in interest rate, banks register losses of decrease of their net value. Banks realise the intermediation process by transforming their short-term liabilities or public deposits into long-term claims or into credit to economy. Maturity mismatch between the long-term assets and short-term liabilities of banks drives the changes in interest rate to impact the net value of banks because for the same change of rate, the assets and liabilities of banks are affected at different sizes. The conventional theory suggests that a decrease in the interest rates on loans and deposits would result into an increase of the net value of banks, while an increase of interest rates would drive to a decrease of banks' net value. The explanation stands on the fact that the current value of money (PV) calculated as the product of the future value of money (FV) by the ratio  $1 / (1+i)^n$ , where "i" is the interest rate and "n" the number of period for which interest are paid (for deposits) or interest are purchase (from loans), is more sensitive to the change of interest rate for longer-term financial instruments, which the number of periods has larger value. That is, the decrease in interest rate would drive to a higher increase of PV for loans than for deposits, while an increase of interest rate would drive to a higher decrease in the present value of loans than of deposits.

In a study of 2018, Hoffman et al<sup>1</sup> on 104 European large banks have found out a different conclusion from the one suggested by the conventional theory. The results in this study suggests that an increase of 100 basis points in the interest rate on the instruments of all maturities is not followed by a decrease of the net value in the major part of banks, or that the average bank of the panel in the study is not exposed to the interest rate risk. The authors explains this finding, first in the light that many banks apply variable interest are on loans, second and second public deposits, particularly households' deposits are not very sensitive to the changes in interest rate, and as such they may be considered as long-term liabilities of banks. Meanwhile, the exposure of the average bank to interest rate risk, or for all banks together is zero. Individual banks are affected differently from the increase in interest rate. To explain the variation from one bank to another, the study analysis the effect of the interest rate increase on banks divided by countries that apply fixed interest rate and those applying variable interest rate, particularly on mortgage loans. Results suggest that banks in countries that mainly apply fixed interest rates, would have decrease of their net value in case of interest rate increase; while banks applying variable interest rate would register increase of their net value. The difference between the type of the interest rate on loans either fixed or variable) seems to explain the largest part of differences across individual banks and the fact why some banks gain and some other lose from the increase in interest rates.

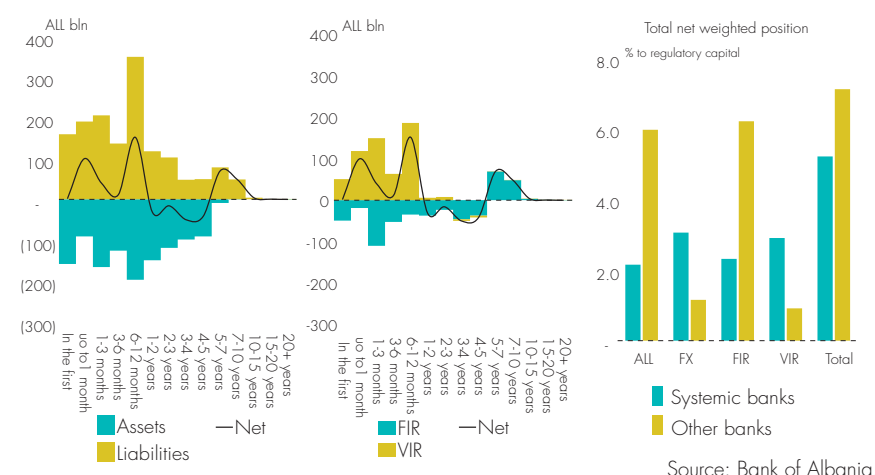
The Guideline No. 33 dated 30.04.2013, "On the interest rate risk management in the banking book" of the Bank of Albania regulates the interest rate risk management for banks carrying out their activity in the territory of the Republic of Albania. The guideline defines that the risk sources to the interest rate include: the re-pricing risk, the yield curve risk, core risk, and options risk. As a repricing risk is considered the possibility that the banks suffer losses as a result of maturity mismatch (for instruments with fixed interest rate) and repricing of interest rate (for variable interest rate instruments). Yield curve risk is the possibility that banks suffers financial losses due to the change in the slope of this curve. This guideline provides the methodology for the assessment of yield curve risk, and sets for the upper limit for the exposure size. The exposure to interest rate risk in



the banking book is the current value of expected net cash flows in the banking book positions, or the difference between the expected cash flows of a bank's assets, reduced by the expected cash flows of a bank's liabilities. To assess the exposure to interest rate risk banks calculate the total net weighted position (TNWP) in the banking book. TNWP indicates the change in the exposure of the banking book, given a shock on interest rate, or on the return yield of 200 basis points. This means that by applying this guideline for each reporting period<sup>11</sup> banks carry out an assessment on the effect that a change of 200 basis points on the interest rate applied on all assets and liabilities with fixed and variable interest rate would have in the exposure of their book, for all maturities and currencies. The share of net weighted position is calculated as a product of the modified duration for each time span with the fixed value of 200 basis points. Pursuant to this guideline, the TNWP ratio in the banking book to the regulatory capital of the bank should not exceed 20%. As at end of June 2021, this ratio was around 6% (5.6%).

The total net position of banking sector for all intervals of time or maturity baskets at the end of 2021 H1 was positive (around ALL 300 billion). This position is divided almost equally between lek and foreign currencies, but it has opposite directions by type of interest rate. Net position for fixed interest rate instruments is negative for around ALL 300 billion, while for variable interest rate instruments is positive for around ALL 600 billion and mainly lays on the interval from 0 day to 12 months. The difference between assets and liabilities with fixed and variable interest rates is positive for all intervals of maturity, except of the interval from 1-5 years. Notwithstanding, on an average level, loans have longer-term maturities than deposits, the other assets of the banking sector, as T-bills, current accounts and their deposits with financial institutions and securities<sup>111</sup>, overall, have short-term maturities and comparable to those of deposits. The analysis of total net weighted position as a ratio to regulatory capital, by two groups of banks<sup>IV</sup> highlights that systemic banks have a considerably lower position compared to other banks. It means that, systemic banks together, have a lower exposure compared to the group of non-systemic banks in terms of both: positions by type of interest rate; and positions by currency.

Chart 76 Net position for all maturities basket by assets/liabilities and FIR/VIR and weighted total net position by groups of banks in ALL/FX and FIR/VIR



Source: Bank of Albania.

In addition to a simulation of a standard shock of 200 basis points on the interest rate, the methodology of the Guideline on interest rate risk management enables the measurement of exposure by various classifications (banks, type



of instruments, currency, maturity), for shock of any size and direction on the interest rate, though the modification of share of net position<sup>v</sup> weighting. The last three columns of the table show the weighted net positions for each maturity and the overall position as a ratio to the regulatory capital for three different shocks on the interest rate. For a 300 basis points of the interest rate, TNWP would reach at 8% of regulatory capital, while for shocks by 400 basis points, TNWP would account for 11% of regulatory capital, or two times higher than the current value. Also, in case of a strong change of interest rate (400 basis points), based on the positions reported by banks at the end of 2021 H1, the change in the aggregate exposure of the banking sector, would not exceed 11% of regulatory capital, or around 10 percentage points below the regulatory limit of 20%.

Notwithstanding, no bank currently does not register a TNWP higher than 20% of its own regulatory capital, the TNWP ratio varies notably from one bank to another. The minimum value of TNWP ratio is 0% while the highest value is 17%. It means that in case of 200bps shock on the interest rate, some banks (those with a high TNWP ratio) would register higher changes in their net position compared to other banks, whose TNWP ratio to regulatory capital is very low. In case on interest rate shocks of 300 or 400 bps are applied on exposures across individual banks, the number of banks that would exceed<sup>vi</sup> the regulatory limit of 20% would be one and four.

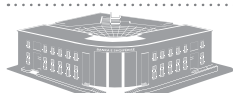
Table 10 Net position in the bank book up to 06/2021 and the net weighted positions for 200, 300, and 400 bps shocks

*	A.	B.	C = A - B	*[1]	*[2]	*[3]	*[4]=[2]x[3]	PNP = C x [4]	200 pb	300 pb	400 pb
FIR and VIR items	Assets (ALL bln)	Liabilities (ALL bln)	Net total positions (ALL bln)	Middle of time interval	Modified duration	Yield - bp	Weighting shares	NWP in bank's book (ALL bln)	Net weighted positions in bank's book (% ndaj kapitalit rregullator)		
In the first	160	(158)	2	0	0	200	0%	-	0	0	0
up to 1 month	191	(91)	100	0.5 muaj	0.04 vite	200	0%	0	0	0	0
1-3 months	206	(166)	40	2 -ll	0.16 -ll	200	0%	0	0	0	0
3-6 months	137	(126)	11	4.5 -ll	0.36 -ll	200	1%	0	0	0	0
6-12 months	350	(197)	152	9 -ll	0.71 -ll	200	1%	2	1	2	3
1-2 years	118	(149)	(31)	1.5 vite	1.38 -ll	200	3%	(1)	-1	-1	-1
2-3 years	103	(119)	(16)	2.5 -ll	2.25 -ll	200	4%	(1)	0	-1	-1
3-4 years	48	(98)	(50)	3.5 -ll	3.07 -ll	200	6%	(3)	-2	-3	-4
4-5 years	49	(91)	(42)	4.5 -ll	3.85 -ll	200	8%	(3)	-2	-3	-4
5-7 years	79	(9)	70	6 -ll	5.08 -ll	200	10%	7	4	7	9
7-10 years	49	(0)	49	8.5 -ll	6.63 -ll	200	13%	6	4	6	8
10-15 years	4	(0)	4	12.5 -ll	8.92 -ll	200	18%	1	0	1	1
15-20 years	0	-	0	17.5 -ll	11.21 -ll	200	22%	0	0	0	0
20 + years	0	(0)	(0)	22.5 -ll	13.01 -ll	200	26%	(0)	0	0	0
Total	1,493	(1,204)	290					9	6	8	11

Source: Bank of Albania.

\*Pursuant to Table No 1 of the Guideline.

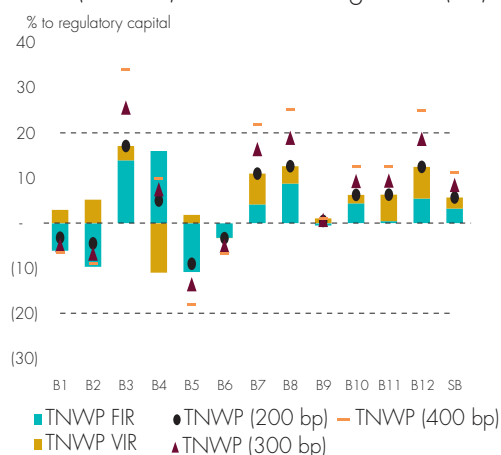
Most of banks hold a net position and a weighted net position, overall, balanced or with a close size for positions with fixed and variable interest rates, despite the direction. For almost all banks, the TNWP for variable interest rate instruments has positive values. It means that for all banks of the banking system, the sum of net assets - liabilities, for all baskets of maturity for the variable interest rate instruments is positive. The chart of the allocation of TNWP total and TNWP for the positions on fixed interest rate (FIR) and variable interest rate (VIR)





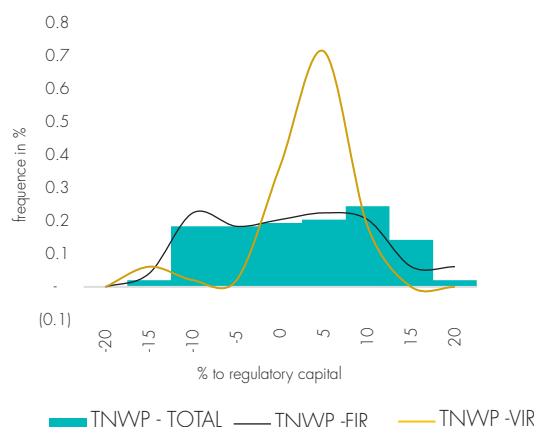
instruments<sup>vii</sup>, shows that, in the period 12/2018 – 06/2021 exposure in VIR position was more limited than the exposure in FIR position, as for the VIR position around 70% of TNWP values are included in the interval 0-5%.

Chart 77 Total net weighted position for shocks 200, 300 and 400 basis points for individual banks (B1 - B2) and the banking sector (BS)



Source: Bank of Albania.

Chart 78 Distribution of values of total net weighted position by "instruments with fixed interest rate (FIR) and variable interest rate (VIR)



Source: Bank of Albania.

This analysis may lead to the conclusion that the domestic banking sector, at both individual bank and in aggregate levels, has a limited exposure to the risk on interest rates change even for relatively large shocks on the interest rate curve. The heterogeneity in the positions of individual banks, in terms of the direction and net position, suggests that notwithstanding individual banks may record either a loss or profit, the loss or profit at sector level will be limited. Two other elements with positive impact on mitigating the risk to the overall banking sector are the position of systemic banks, which together have a more restricted exposure compared to the other banks, and the fact that all banks have a balanced position between the fixed interest rate instruments with variable interest rate instruments.

<sup>i</sup> Peter Hoffmann, Sam Langfield, Federico Pierobon, Guillaume Vuilleme, "Who Bears Interest Rate Risk?", *The Review of Financial Studies*, Vol. 32, Number 8, August 2019, FF 2921–2954.

<sup>ii</sup> On a quarterly basis.

<sup>iii</sup> Treasury and interbank transactions, including treasury bills and deposits with other banks, credit and securities transactions account for 30%, 38% and 32%, respectively of the banking sector's assets (June 2021).

<sup>iv</sup> Systemic banks and other banks.

<sup>v</sup> This is done by replacing the value of 200 (basis points), case by case, with the values 300 and 400 in the calculation formula of weighted share: weighted share = modified duration \* shock on the interest rate in basis points.

<sup>vi</sup> In compliance with the guideline, TNWP is expressed in absolute value/sum. For this reason a TNWP equal to -25% is equal to a TNWP of 25% regarding the exceeding the regulatory limit of 20%.

<sup>vii</sup> 48 values (12 banks, multiplied by 4 periods corresponding to the months 12/2018, 12/2019, 12/2020 and 06/2021) are employed for each indicator.

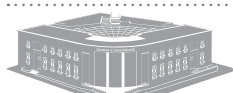
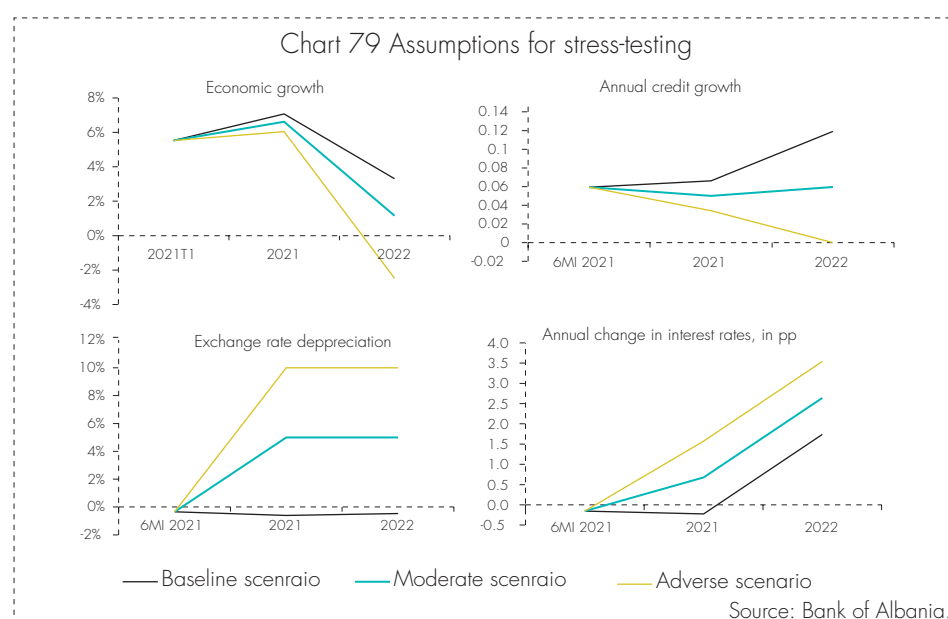


## 4.1.3 STRESS TEST EXERCISE IN TERMS OF CAPITAL ADEQUACY

*Results of stress test exercises in terms of capital adequacy conducted for the years 2021 and 2022 show that the banking sector is resilient against possible macroeconomic shocks, but particular banks should strengthen their capital positions.*

The Bank of Albania carries out stress test exercises regularly to assess the banking sector's resilience against shocks from real economy. Stress test on capital adequacy shows the resilience level of individual banks in terms of capital and aims at identifying its adequacy in encountering the assumed shocks on: economic growth; loans; exchange rate levels; and interest rates. Overall, this exercise carried out for the first half of 2021 and extended for the period 2021-2022, shows that the banking sector is resilient to possible macroeconomic shocks.

The exercise is conducted by applying three scenarios through increasing the escalation of the negative shocks (baseline, moderate and adverse), and through decreasing the corresponding escalation of occurrence probability. The results show that the banking sector remains resilient even when applying the adverse scenario during the first year of the exercise. If this scenario is extended in the second year of the exercise, the needs for capital for particular banks are considerable, by also affecting the overall capital level of the banking sector. The stress test exercise assesses the banking sector's resilience in terms of capital adequacy against the assumed economic and financial developments for the end of 2021 and 2022. The assessment of the impact from macroeconomic situations on the financial situation of the banking sector excludes the possibility of the increase in paid-in capital during the period. The exercise is conducted by applying three scenarios: the baseline scenario, the moderate scenario and the adverse one. The assumptions adopted for each of them are presented in the chart below. The last two scenarios contain more extreme assumptions and have a lower probability of occurrence. The assumptions of the stress test exercise continue to include the effects of the pandemic shock, through potential channels of transmission in the domestic economy, during 2021 and 2022.





The baseline scenario assumes a positive economic growth rate at the end of 2021 and 2022. In this scenario, the economic growth is accompanied with considerable growth rate of lending and an improvement of the quality of the credit portfolio as a result of the expected lost loans write-offs from banks' portfolios. In the moderate scenario as well, the economic growth is assessed to be positive in both years of the exercise, but at a lower growth rate; while in the adverse scenario a positive rate is assumed at the end of the first year of the exercise, followed by an economic contraction in the second year.

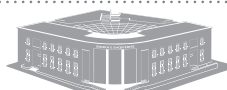
Assumptions on the weaker economic performance in the moderate and adverse scenarios were coupled with relevant assumptions on depreciation of lek exchange rate, increase of interest rates and a decrease of lending pace up to its complete stoppage. These developments are reflected in the deterioration of the credit portfolio quality. More specifically, until the end of 2022, the ratio of non-performing loans worsens by 5.4 percentage points for the moderate scenario and by 8.2 percentage points for the adverse scenario against the actual value at the end of 2021 H1. These assumptions lead to a decline of the capitalisation indicators for individual banks and the overall banking sector, mainly during 2022. In the adverse scenarios, the effects of declining credit quality are coupled with the effects coming from market and operational risk.

### STRESS TEST RESULTS IN TERMS OF CAPITAL ADEQUACY SHOW THE FOLLOWING:

1. Developments during the first year of exercise and the needs for additional capital<sup>41</sup>:

- **In the baseline scenario**, the capital adequacy ratio (CAR) of the banking sector is stable and above the actual value at the end of 2021 H1. In concrete terms, this ratio, for the banking system, reaches up to 18.6% at the end of 2021. For systemic banks, this ratio registers 19.5%, while for other banks it has a value of 16.2%. These developments reflect the assumptions for a growth in lending in 2021, further improvement of the non-performing loans portfolio, and a favourable exchange rate performance. Stress test results present a stable situation and high levels of capitalisation for the entire banking sector and individual banks, taking into consideration the minimum level required and the additional regulatory requirements.
- **In the moderate scenario**, the banking sector's CAR registers 14.7% at the end of 2021. The CAR for systemic banks is 15.5%, while for other banks CAR is 12.3%. These ratios continue to remain within the regulatory requirements in place, despite the scenario's assumptions for a lower growth pace of economic activity and lending, depreciation of the national currency, a deterioration of credit portfolio quality, and supposed portfolio losses on securities. Based on the above assumptions and the

<sup>41</sup> Calculation for "additional capital" refers to the specific regulatory limit of CAR for each bank.

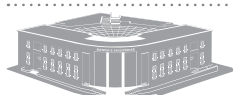


results obtained, developments in particular banks evidence the need for capital injection during the first year of the exercise. Specifically, seven banks appear under-capitalised by the end of 2021, in this scenario, accounting for around 62% of the sector's assets. In this case, the need for additional capital is assessed to amount up to around ALL 16.3.

- **In the adverse scenario**, the banking sector's CAR declines to 12.7% at end-2021, although driven by significantly more adverse assumptions included in this scenario. In this scenario, the capital adequacy ratio for systemic banks is 13.4%, while for the other banks it declines to 10.5%. In this scenario, one more bank is added to the number of banks that fall into under-capitalisation compared to the moderate scenario, while their capitalisation ratios decrease even further. The extreme macroeconomic developments included in the scenario, drive to a lower growth pace of lending and affect the further deterioration of credit portfolio quality. Also, this scenario assumes losses in the securities portfolio and increase of the exposure to operational risk. In this case, the needs for additional capital amount up to ALL 31.7 billion.

## 2. Developments during the second year of exercise and needs for additional capital:

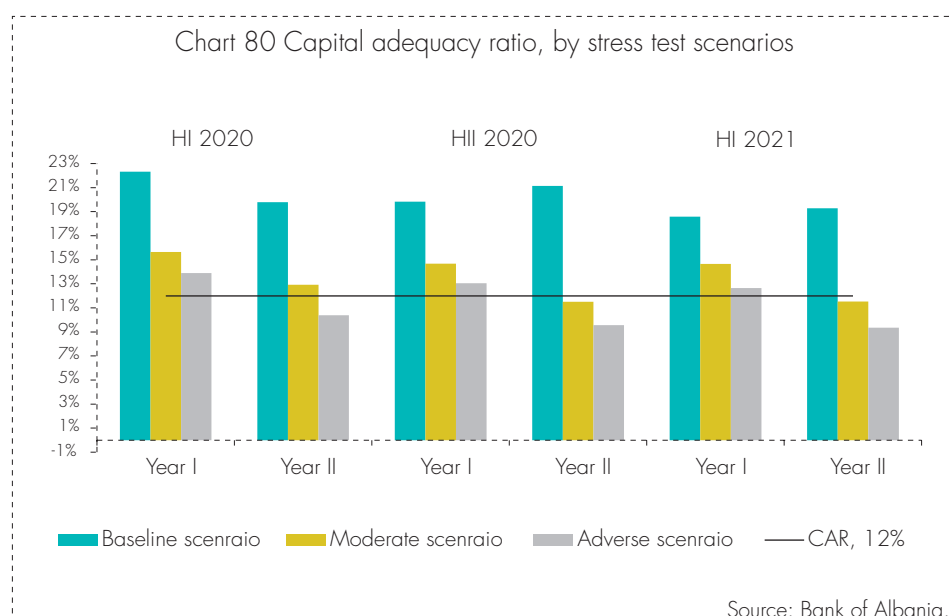
- **In the baseline scenario**, the Capital Adequacy Ratio (CAR) of the banking sector appears stable. For systemic banks, this ratio registers 20.2%, and for other banks 16.9%. Overall, banking sector reaches a capitalisation ratio of 19.3% at end of 2022, based on the assumptions for: a positive economic growth; a considerable growth of lending; improved quality of credit portfolio; and stability of the exchange rate over 2022 as well.
- **In the moderate scenario**, the banking sector is slightly under-capitalised (CAR declines to 11.5% at the end of 2022). The CAR for systemic banks is 12.3%, while for other banks this ratio is 9.4%. This rate is affected by the assumptions for: a slower pace of economic growth; depreciation of the domestic currency; worsening of credit portfolio quality; and loss from securities portfolio. Based on the above assumptions, the results obtained, evidence the need for capital injection up to the end of 2022. Specifically, 11 banks appear under-capitalised in this scenario, accounting for around 88% of the sector's assets. In this case, the need for additional capital is assessed to amount up to around ALL 45.1 billion.
- **In the adverse scenario**, the banking sector's CAR declines to 9.4% at end-2022, driven by extreme assumptions included in this scenario. In this case, even the group of systemic banks falls into under-capitalisation, reaching at a CAR of 10.2%, while the other banks have an even lower rate of 7.2%. In this scenario, the number of under-capitalised banks is equal to the moderate scenario in the second year of the exercise, while the capitalisation ratios for each of them are even lower. The assumptions on the adverse macroeconomic developments and lack of lending, included in this scenario, affect the considerable worsening of credit portfolio quality. Also, this scenario assumes a loss in securities portfolio and an increase of



exposure to operational risk. In this case, the need for additional capital amounts up to ALL 65.6 billion.

The high levels of additional capital needed by banks in the adverse scenarios reflect mainly the higher macro-prudential requirements for capital during 2021 and 2022, and the extremity of assumptions used, which have a low probability of occurrence.

Based on the prior analysis of the stress test exercise, it is noted a fall in capitalisation ratio of the banking sector compared to the results in 2020 H2. For the first year of the exercise, this fall is noted in the three scenarios, but the difference is more pronounced in the baseline scenario. Also, in the second year of the exercise, capitalisation ratio deteriorates in both baseline scenario and adverse scenario, by recording lower capitalisation ratios compared to the previous six months when the exercise was carried out. The comparison to the results of the previous year shows a fall in the capitalisation ratio of the banking sector in the current period of carrying out the stress test, for the three scenarios and in both years of the exercise.



## 4.2 NON-BANKING SECTOR

The first half of 2021<sup>42</sup> overall, is characterised by a good performance of the non-banking part of the financial system. The highest increase was observed in the segment of non-bank financial institutions and investment funds, whereas a positive performance was reported also on the other segments of the market. The sectors of trade, services and agriculture continue to represent the main economic activity that attract credit by non-banks and SLAs, while the quality of credit granted by these entities until the end of the first quarter is lower

<sup>42</sup> The data for the non-banking sector are from 2021 Q1.

*Most of the non-banking sector expanded its activity during the second half of the year. The credit quality of SLAs remains good but has decreased slightly. The exposure of non-bank financial institutions against the banking sector remains high, but has not recorded any change from the previous year.*

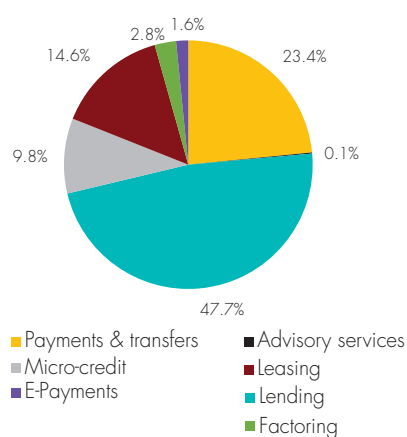


compared to the previous quarter and the previous year. The exposure of the banking sector to the non-bank sector remains limited and has not changed during the period. The exposure of the non-bank sector to the banking sector continues to remain high, since non-bank deposits to the banking sector, in the form of deposits and capital instruments account for 19% of the non-banks' balance sheet.

### INSTITUTIONS SUPERVISED BY THE BANK OF ALBANIA

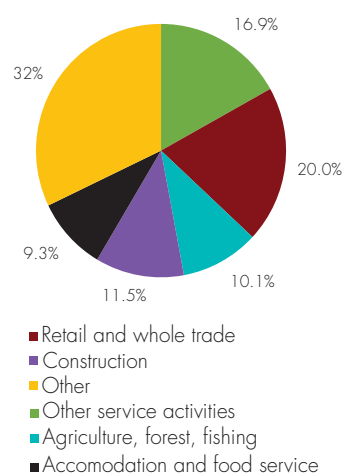
During 2021 Q1, non-bank financial institutions (NBFIs) have expanded their activity driven by the positive performance of lending. As at the end of 2021 Q1, 32 NBFIs operated in the financial system, with total assets of around ALL 70 billion. The balance-sheet of NBFIs expanded slightly compared to the second half of 2020 and the previous year. The largest part of this financial system segment consists of NBFIs engaged in lending, followed by those that carry out payments and transfers. Domestic capital accounts for around 70% of the shareholders' equity of these entities. NBFIs are more active in lending to the sector of wholesale and retail trade (20%) followed by other service activities (17%). NBFIs ended the period with a positive financial result (around ALL 1.3 billion), higher, compared to the previous year. The capitalisation of activity of these entities continues to remain at satisfactory levels. The portfolio quality of loans declined slightly, as the ratio of non-performing loans at the end of 2021 Q1 reached around 13% from 11% and 10%, respectively, in the previous quarter and previous year.

Chart 81 NBFIs structure by type of activity, March 2021



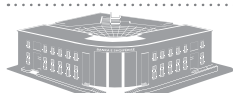
Source: Bank of Albania.

Chart 82 Portfolio structure of loans by economic sectors, March 2021



Source: Bank of Albania.

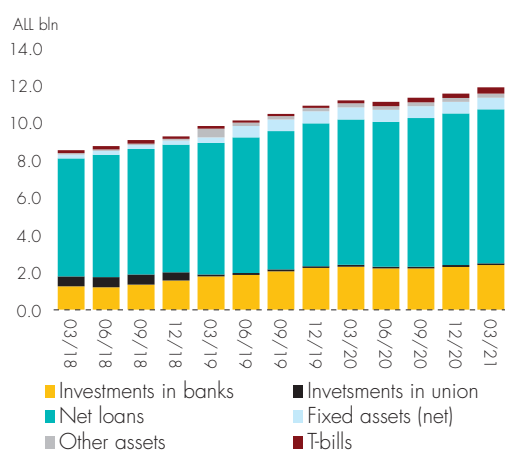
The activity of savings and loan associations (SLAs) expanded in quarterly and annual terms, mainly supported by the growth of net credit (transactions with members) and current accounts in banks. SLAs financial result was positive, but



lower compared with the previous year. Net loans to members and investments in banks represent the main items of these institutions' assets. The sector that has attracted the largest funding from the activity of the members is the agricultural sector, followed by the wholesale and retail trade sector. At the end of the period, fifteen savings and loan associations and one Union operated in the Albanian market.

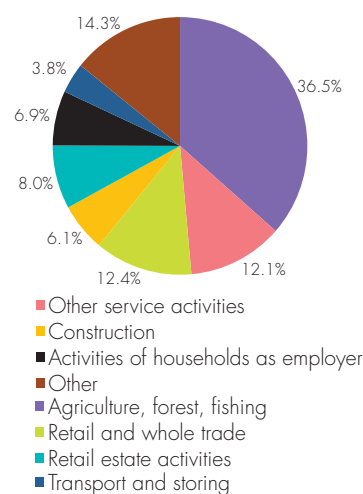
In 2021 H1, the insurance market increased slightly due to an increase in the volume of gross written premiums, by around 18% compared with the previous year. Gross written premiums<sup>43</sup>, with the main contribution from non-life premiums (93%), which represent the main funding source for the insurance companies' activity, grew by around 16% in annual terms, while the costs incurred decreased significantly by around 11%. There are 12 licensed insurance companies operating in the domestic market that provide life insurance (4 companies) and non-life insurance (8 companies). The assets of these institutions<sup>44</sup> recorded an annual fall of 2% to ALL 38 billion due to the contraction of insurance technical provisions. Investments in banks held the main share (around 32%) on insurance companies' balance sheets.

Chart 83 The assets' structure of Savings and Loan Associations



Source: Bank of Albania.

Chart 84 Loan portfolio structure by economic sectors, March 2021



Source: Bank of Albania.

Investment funds<sup>45</sup> grew compared to the end of 2020, up to ALL 69 billion. The performance of government securities in the form of T-bills and monetary assets in banks was positive. There are nine active investment funds in the Albanian financial system. The investment fund market is a market with a relatively high concentration, since two of the investment funds own around 80% of the total net assets of funds. Investment funds' assets are mainly invested in bonds issued by the Government of the Republic of Albania, which provide high return compared with the alternative investments.

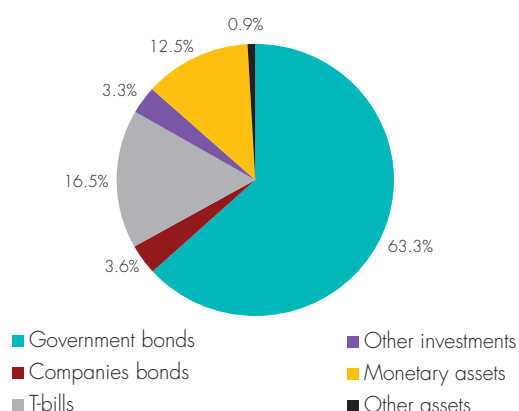
<sup>43</sup> AFSA, Statistical Report, Insurance Market, January - June 2021

<sup>44</sup> The insurance companies' balance sheets belong to 2021 Q1.

<sup>45</sup> AFSA, "Collective investment undertakings market", 31 March 2021.

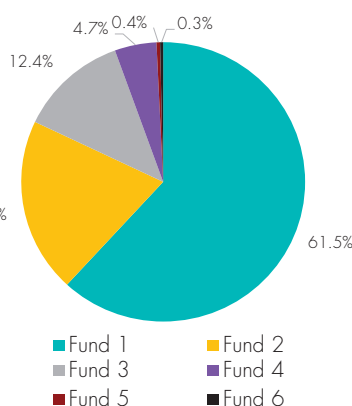


Chart 85 Structure of the assets of Investment Funds, March 2021



Source: Bank of Albania.

Chart 86 Share of Investment funds in the market, according to assets' net value, March 2021



Source: Bank of Albania.

Supplementary Private Pension Funds<sup>46</sup> expanded their activity during the period. In Albania, four supplementary private pension funds operate in the financial market. At the end of 2021 Q1, net assets of these funds registered ALL 4 billion or 5% higher than the end of 2020. The activity of pension funds is dominated by investments in government debt securities.

The activity of ALSE (Albanian Securities Exchange), during the period, consisted in transactions with government debt securities. The ALSE counts 4 members, which are banks and one brokerage company. In 2021 H1, regarding the instruments traded in the stock exchange market, transactions executed for the account of customers in terms of number, volume and value are dominant. According to the statistics of the ALSE, during the period<sup>47</sup>, the value of traded bonds was around ALL 0.3 billion and the value of T-bills around ALL 10 billion.

### RISKS AND EXPOSURES BETWEEN BANKING AND NON-BANKING SECTORS

The exposure of the banking sector to the non-banking sector in Albania remains limited with no changes during the period. This exposure on the side of banks' assets is represented by loans granted to non-bank financial institutions, which accounts for only 1% of the total assets of the banking sector. On the side of liabilities the exposure is in the form of funds collected by banks (various accounts, time deposits or demand deposits), and accounts for 2% of the value of the banking sector's balance sheet. This ratio has maintained the same level in the past two years, and it is considered very low compared with the threshold levels applied by the Bank of Albania for monitoring the risk of exposure and concentration of activity between different segments of the financial system.

<sup>46</sup> AFSA, Statistical Report "The market of private supplementary pensions", 31 March 2021.  
<sup>47</sup> AFSA, Monthly Publication No. 145, June 2021.

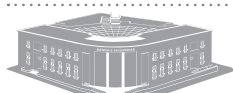
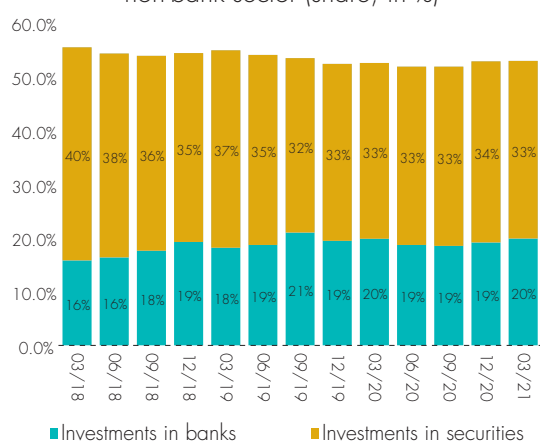
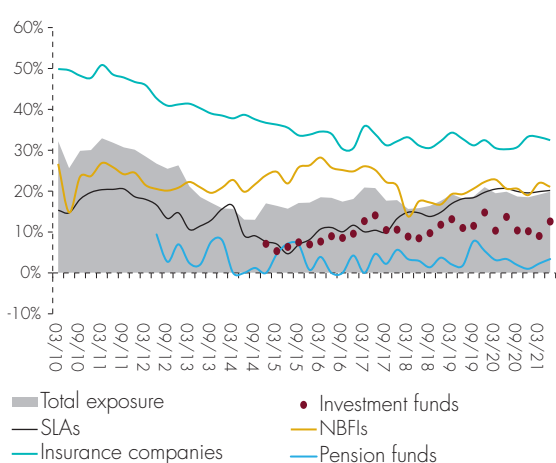


Chart 87 Investments of non-bank sector in banks and government securities, to total assets of the non-bank sector (share, in %)



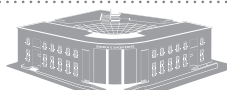
Source: Bank of Albania, Albanian Financial Supervisory Authority.

Chart 88 Investments of non-bank sector's financial institutions the banking sector to their total assets



Source: Bank of Albania, Albanian Financial Supervisory Authority.

The sensitivity of the non-banking sector to the activity of the banking sector remained relatively high, but the size of exposure has not change compared to the previous year. The exposure of non-banks to the banking sector at the end of the first quarter accounted for 20% of the assets of the non-banking sector, compared with 19.2% at the end of 2020 and 20% in the previous year. Insurance companies and non-bank financial institutions (NBFIs) show the highest exposure to the banking sector, since their placements in banks in the form of deposits and capital instruments, account for 33% and 21%, respectively, of relevant assets. Savings and loan associations (SLAs) and Investment Funds increased the exposure, and at the same time, the sensitivity to developments in the banking sector, as these entities have expanded the current accounts and monetary assets in the banking sector. The exposure of the non-banking sector to the banking sector is regularly monitored by the Bank of Albania in the context of periodic assessment of systemic risks and monitoring of the fulfilment of the intermediate objectives of macro-prudential policy.



## 5. MACRO-PRUDENTIAL POLICIES

### 5.1 RISKS ASSESSMENT AND MACRO-PRUDENTIAL MEASURES IN THE EU MEMBERS AND REGION<sup>48</sup>

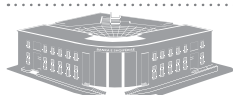
The following analysis presents the main risks identified in the financial stability reports and the macro-prudential policy instruments implemented in the European Union (EU) and the Region. To this end, several risk assessment reports were analysed, prepared by the European Central Bank (ECB), the European Systemic Risk Board (ESRB), the European Insurance and Occupational Pensions Authority (EIOPA), and the International Organization of Securities Commissions (IOSCO), etc. The analysed reports date from 2018 until 2021 H1. There should be highlighted that most of the reports are published on annual basis, thus the information is updated for that part that has been changed. In addition, their experience serves to enrich and implement the relevant policies and instruments in the Bank of Albania.

#### 5.1.1 RISKS ASSESSMENT AND MACRO-PRUDENTIAL MEASURES IN THE EUROPEAN UNION MEMBERS

After the effects created by the pandemic that hit the world at the eve of 2020, the economic and social situation has been trending towards normalisation in 2021. In 2020, all countries, globally, were forced to stop or reduce the economic activity to limit the loss of lives of their citizens. During 2021, restrictions were reduced and normality is gradually advancing. Nevertheless, the situation is still fragile and exposed to possible variations of the virus. The returning speed to normality mostly depends on the vaccination speed of the population. Most of countries have continued with vaccination campaigns for enabling the return of situation at the pre-pandemic levels as soon as possible.

The Covid-19 pandemic has severely affected the economic activity in the EU and more broadly, triggering to one of the sharpest economic contraction in the modern history. Considerable monetary, fiscal and labour market measures were put in place to help mitigating the severe economic effects of the global health crisis. Such policies are also expected to prevent the unfavourable amplifications through financial channels. The economic impact of the pandemic has driven to a collection of risks across sectors of economy. Currently, most countries have opened the main economic activities for enabling the gradual return to normality.

<sup>48</sup> For the purposes of this analysis, Italy and Greece are included in the Regional countries, based on the exposure of the Albanian banking system to both countries.





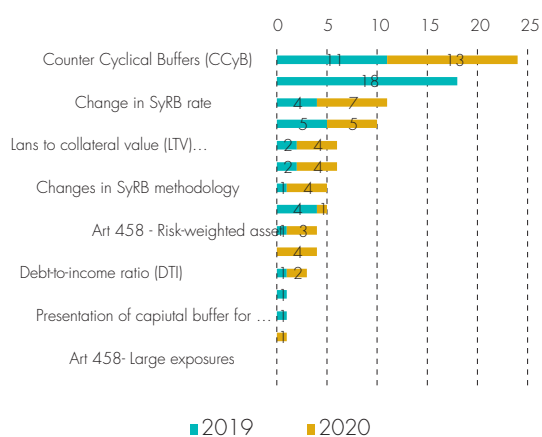
The herd immunity and the fast upsurge of vaccinations have reduced virus-related hospital admissions and deaths. Nevertheless, the situation remains warrant to some large emerging-market economies like India and Brazil.

In this view, main risks identified by the EU members are as following:

- I. Possibility of an inadequate assessment of price of some financial assets and the effects of low yield rates;
- II. Concern about the stability levels of debt – both private and public – particularly after the Covid-19 situation;
- III. Reduction of banking sector's intermediation capacities due to the low levels of profitability from the activity, driving to an increased risk to the financial stability of euro area;
- IV. Increase in risk-taking by the non-banking financial sector, accompanied with increase of risks in terms of liquidity and credit in their investment portfolio
- V. Exposures to the cybernetic incidents that may yield broadly-based financial consequences by severely devastating public confidence to the financial system as well.
- VI. Climate changes that may change the structure of economy and the financial incentives.

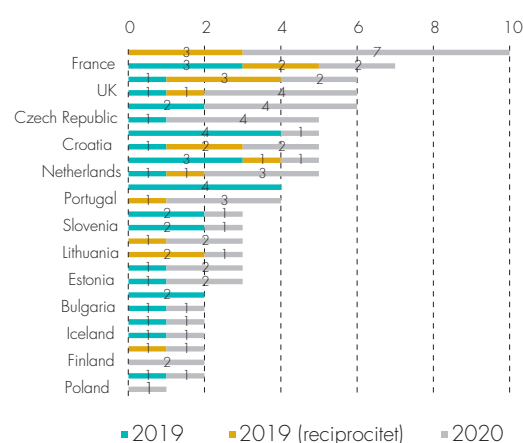
In terms of macroprudential measures taken by the EU member states, during the pandemic period, there are either relaxed or suspended to enable the economy rebound. During this period, some countries have eased requirements for additional capital and measures targeted to borrowers, by allowing for higher value of loans to collateral, lower debt servicing ratio to income and other facilities on credit repayment from borrowers. Also, some countries have reduced or eliminated the requirements on counter-cyclical capital, systemic risks, and systemic banks and on the conservative capital.

Chart 89 Main measures taken by Member States, by type

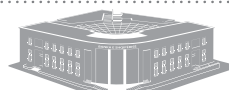


Source: ESRB.

Chart 90 Number of measures taken by EU member states



Source: ESRB.



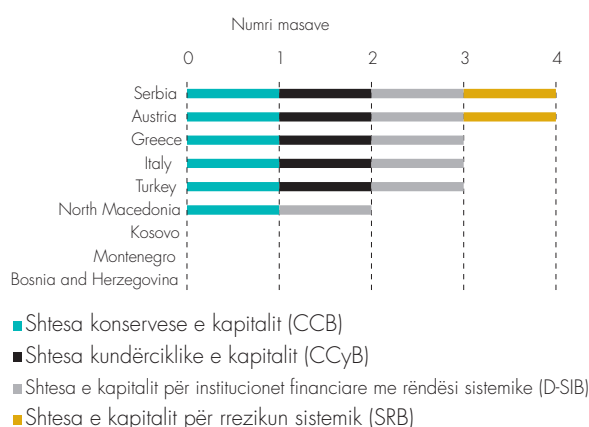
Norway, the Czech Republic, Hungary, Holland and the United Kingdom were particularly active in pursuing macroprudential tools in 2020 up to June 2021.

### 5.1.2 RISKS ASSESSMENT AND MACROPRUDENTIAL MEASURES IN THE REGION

Based on the recent reports published by regional countries, it is noted that the identified risks are similar to those identified by the Bank of Albania, due to the similarities of economic features. Following are listed some of the main identified risks:

- I. Exchange rate risk;
- II. Low profit level in the financial system accompanied by a low nominal increase of portfolio, and high level of non-performing loans;
- III. High public debt ratios and with a considerable deterioration due to the Covid-19 pandemic;
- IV. High concentration level of exposures in some sectors of economy, thus affecting the current level of non-performing loans;
- V. Deficit, due to the pandemic, is expected to stay at high levels, by questioning the sustainability of debt.

Chart 91 Capital-based macroprudential tools by regional countries



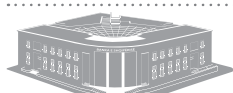
Source: Central banks' websites of the analysed countries.

The number of activated macroprudential tools across regional countries has not changed during this six months period. Among regional countries which are not EU member, Serbia and North Macedonia continue to be active related to the activation of additional capital requirements for macroprudential purposes. In these countries, the most frequently used instruments relate to the systemic risks management of structural nature.

It should be emphasised that regional countries, which are non-part of the EU, have relieved the regulatory standards to mitigate the negative impacts on households, corporates and banks. Some of relief measures include the extension of additional capital requirements which were already planned and regulatory relief measures in the classification of loans and provisioning.

### 5.2 MACROPRUDENTIAL MEASURES IN ALBANIA

Also, during 2020 H2, the Bank of Albania retained prudential measures undertaken to facilitate the requirements on the classification and provisioning of loans that were affected by the pandemic, even under the condition of being restructured. Given the higher possibility of increasing non-performing



loans following the removal of these measures and the need to have adequate capital levels, the Bank of Albania determined certain restrictions related to the distribution of banks' profit in the form of dividend.

Throughout the period, these measures were assessed to be appropriate, taking into consideration:

- the structure of the banking sector, the characteristics of the economy and the need to operate with relatively high levels of capital;
- the opportunity provided by prudential regulatory easing in order for banks to mitigate the shock in their financial indicators, including capital levels as well;
- the need to preserve the space to act in case this becomes necessary depending on future developments.

Under these conditions, in accordance with the Regulation "On macroprudential capital buffers," decisions of the Governor<sup>49</sup> have continued to be published for the implementation of these buffers.

In parallel, the Bank of Albania has continued the operationalisation of capital values that hedge structural risks in the financial system and the conception of instruments that prevent excessive credit and debt growth, mainly by households. Important in this regard is the development analysis of real estate and consumer loans. A more detailed analysis is given in Annex 1 regarding the latter.

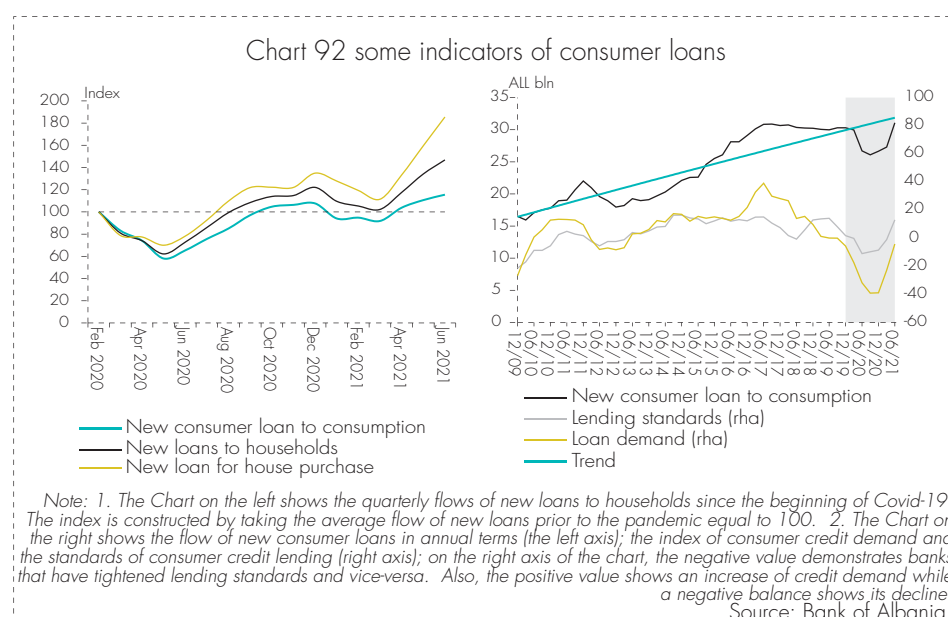
<sup>49</sup> Can be found in the following link: [https://www.bankofalbania.org/Financial\\_Stability/Macro-prudential\\_policies/Instruments\\_of\\_Macroprudential\\_Policy/Instruments\\_and\\_Decisions/](https://www.bankofalbania.org/Financial_Stability/Macro-prudential_policies/Instruments_of_Macroprudential_Policy/Instruments_and_Decisions/)



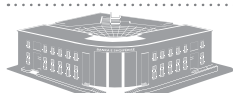
## ANNEX 1 DEVELOPMENTS IN CONSUMER CREDIT AND FINANCIAL STABILITY RISKS UNDER THE CONDITIONS OF THE COVID-19 PANDEMIC

The following analysis is focused on the performance of consumer loans during the first half of 2021, as an important funding source to consumption in Albania. The performance of consumer loans was conditions by the developments related to the Covid-19 pandemic. The considerable contraction of consumer loans immediately after the shock on the economy driven by the pandemic reflects its pro-cyclical nature, being a credit based on consumption. The negative effects peaked at the end of 2020 Q2, with a record fall in consumption (-7.5%) and a considerable contraction of the demand and supply for consumer loans (new flows shrunk by -39.7% in 2020 Q2), followed by a gradual recovery stage for all indicators.

The first half of 2021 is characterised by an improved climate of consumer confidence, affected by the positive expectations for the economic situation in the future and a lower level of uncertainty. These positive developments, coupled with the increase of need for consumption financing, drove to a considerable recovery of the demand for consumer loans<sup>50</sup>. On the other hand, banks reflected a positive approach in meeting the needs for liquidity to households. They have eased further the credit standards and granted around ALL 15.6 billion new consumer loans during the period, by playing a positive role in not amplifying any further the fall in consumption as a result of a strong and prolonged tightening of credit.



<sup>50</sup> For more details see "Bank Lending Survey", at: [https://www.bankofalbania.org/Monetary\\_Policy/Surveys\\_11282/Bank\\_Lending\\_Survey/](https://www.bankofalbania.org/Monetary_Policy/Surveys_11282/Bank_Lending_Survey/).



The growth rate of new consumer loans stood at 6.6%<sup>51</sup> compared to the same period in the previous year. As at end of June 2021, the level of the new consumer loans is higher compared to the average lending flows of the pre-pandemic period (Chart 1, left), and the positive performance is expected to continue in the next periods as well.

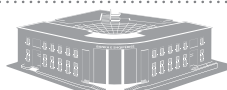
The expansion of new consumer credit for durables, which has recorded a positive growth rate compared to the pre-pandemic periods, provided the main contribution to the recovery of consumer loans since 2020 Q3. The increase of the demand to finance the purchase of durables (for example: motor vehicles, domestic appliances, electronic appliances, etc.) is in line with the improvement in confidence and economic sentiment indicators. In the last quarter, for the first time since the outbreak of the pandemic, the new loans for non-durables provided also a positive contribution in the increase of new consumer loans, driving the expansion of consumer credit portfolio to be broadly based. Meanwhile, overdrafts reduced by 18.7% compared to the same period before the pandemic.

The effects of the pandemic were immediately reflected also on the lending levels by the rest of the financial system (savings and loan associations). Consumer loans granted by this part of the financial system have recorded a double-digit increase in the last years, notwithstanding it contracted rapidly and sharply up to -40.3% in June 2020. Once the movement restrictions were lifted, the negative gap has been narrowed. Nevertheless, lending has not recovered at the same positive pace like those in the banking sector. As at end of March 2021, the level of new consumer loans granted by this sector has remained below the average flow of credit in the pre-pandemic period, with a negative growth rate of -16.2%<sup>52</sup>. Outstanding consumer credit granted by this part of the financial system accounts for around 11% of consumer credit granted by the banking system.

In terms of costs, banks have continued to operate in an environment with historically lower interest rates. In 2021 H1, the average interest rates on consumer credit have continued to fluctuate at levels similar to the pre-pandemic period. In terms of credit portfolio quality, consumer credit recorded relatively low levels of non-performing loans, and has historically provided a minimum contribution to the increase of non-performing loans stock in the total balance sheet of the banking sector. Since the beginning of the pandemic, non-performing loans (NPLs) have pursued an upwards trajectory. Nevertheless, non-performing consumer loans ratio remains at relatively low levels, recording 6.7% at the end of June, with an annual growth of 1.3 percentage points. The worsening of households' financial situation due to the pandemic may drive to a further materialisation of credit risk to this segment in the form of NPLs. Though, these risks remain contained, due to the relatively low exposure of the banking sector to this segment compared to the total credit granted to private

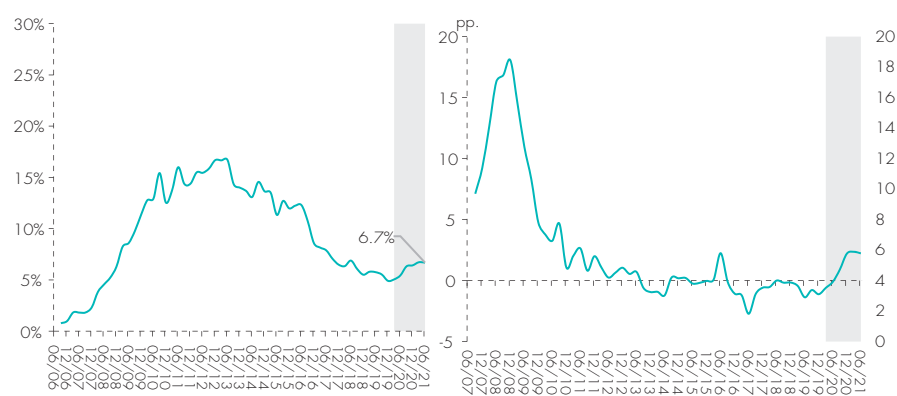
<sup>51</sup> Compared to 2020 Q2, this value stood at 76.6%, due to the rather low comparative base.

<sup>52</sup> This rate would be -2.5% compared to 2020 Q1, as a result of the low comparative base.



non-financial sector. At the end of June 2021, consumer loans accounted for 11.8% of loans granted to private non-financial sector and only 4.1% of assets in the banking sector's balance sheet.

Chart 93 Non-performing consumer loans ratio (chart to the left) and the contribution of consumer credit to the increase of non-performing loans stock (chart to the right, in percentage points)



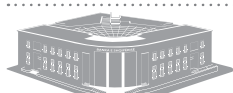
Source: Bank of Albania.

The fast recovery of lending helped households in meeting the liquidity needs by providing the necessary financial support to increasing consumption. The demand for consumption financing is expected to increase in the next periods. On the other hand, banks are expected to continue to be more active in meeting this demand. Hence the potential for a further growth of consumer credit is a good one. The recovery of economic activity and the improvement of economic agents' confidence are a good premise for this recovery is stable.

#### BOX 6 AMENDMENTS TO THE REGULATORY FRAMEWORK ON CONSUMER LOANS

*The main purpose of the applicable regulatory framework on consumer credit is to protect the consumers' interests in the market and provides for the cushion mechanisms on this purpose by imposing rules of behaviour to the providers of financial services and products.*

*Pursuant to the Law "On consumer's protection" \* and the Law "On banks in the Republic of Albania" \*\*, the Bank of Albania is the authority empowered to issue by laws to be implemented by all banks and other entities being granted a license by the Bank of Albania. At present consumer credit is regulated particularly in the Regulation No. 48, dated 1.07.2015 "On consumer credit and mortgage credit" and the Regulation No. 59, dated 29.08.2008 "On the transparency of banking and financial services and products". This regulatory framework contributed in terms of providing transparency, protection and raise awareness of consumer on the rights and obligations arising from the credit agreement, and in terms of the adequate assessment of borrower's solvency by the bank.*



The Regulation lays down the rights and obligations of the counterparts in the consumer credit agreement, and sets forth some basic standards on the quality and way of information sharing during the various phases of credit relationship, starting with the information to be included in advertising, pre-contractual and contractual information and on the exchange of information upon the signature of the credit agreement in the framework of transparency. In the light of signing the Stabilisation and Association Agreement, Albania is committed to provide to the Albanian consumer the same rights and protections as those of the European consumer, through harmonising the applicable regulatory framework with the European Directive 2008/48 EC "On credit agreements for consumers". Table 1 provides a summary of the measures undertaken by the Bank of Albania on consumer credit set forth in the above-cited sub-legal acts and its actions aimed at protecting and informing consumers on risks.

Table 11 Regulatory mechanisms in place by the Bank of Albania to protect clients in consumer credit agreements

Type and purpose of measure	Description	Entry into force
The approval of sub-legal acts for the purposes of consumer's protection, transparency provisioning and his awareness to risks	Approval of Regulations that sets forth the requirements on the contents and the way of providing pre-contractual and contractual information of consumer credit and its adjustment (including also the clauses on the withdrawal right of the client from the agreement, the right of repaying the credit prior to maturity and the related costs)	The Regulation 59/2008 was adopted in August 2015 and entered into force in March 2018.  The Regulation 48/2015 was adopted in July 2015 and entered into force in June 2018.
	The amendment to the Regulation 48/2015 stipulates the right of the customer to convert the currency, aimed at increasing the borrowers' awareness related to the exchange rate risk. In case the consumer applies for a credit in a currency different from the one in which he/she generates the income, banks shall propose to the borrower an alternative credit in the same currency with his/her income, and provide to the applicant a concrete example how the credit instalment changes in case of lek depreciation/increase of interest rate (at determined values).	Added by the Decision No. 27, dated 4 April 2018 of the Supervisory Council of the Bank of Albania
Publication of the list of interest rates and applied commissions at the Bank of Albania's website aimed at strengthening transparency and competition.	The Periodic publication, in a concentrated and simple manner for use, of interest rates and commissions on products and services that bank and non-bank financial entities provide to the public. Facilitating the information on the costs related to various types of consumer credit helps households to make the most favourable choice to their financial situation and contribute to the increase of competition in the market.	Data of banking sector are published since 27 July 2012. In addition, data of non-bank financial institutions are published since September 2020.

Currently some amendments to the Regulation 48/2015 "on consumer credit and mortgage credit" are drafted. These amendments envisage the placement of a ceiling level on the effective interest rate (further maximum EIR) applied on new consumer loans.



*In more details, the regulatory amendments consist in:*

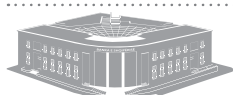
- i. *Placement of a maximum level of effective interest rate to be applied in the new agreements of consumer credit. The Bank of Albania shall calculate the maximum EIR every six months, as an average of the applied EIRs applied by the banking sector and non-bank financial institutions, increased by the one third of this value, pursuant to the matrix which envisages four categories\*\*\* of consumer credit each divided into three intervals of the granted amounts. The maximum EIR calculated based on the applied EIRs in the market during the previous six months. It serves as the reference in the moment of determining the interest rate in the agreements to be signed in the next six months, in order the lender in no case not exceeds the maximum EIRs values as published by the Bank of Albania.*
- ii. *The placement of a maximum level of 30% of the amount of penalties and any charges payable for default, set forth in Regulation 48/2015, as a ratio to the remained contractual obligation, with the purpose the avoidance of exceeded levels of accumulated penalties and charges payable for default, that would further deteriorate the financial situation of the customer and his/her solvency to pay the obligations in a timely manner.*

*This initiative is assets to help in limiting the abusive practices in the market and contribute to enhancing transparency.*

\* The Law No.9902, dated 17.04.2008 "On consumer's protection", Article 44, paragraph 4 sets forth that: "The Bank of Albania shall issue sub-legal act to regulate the consumer credit."

\*\* Law No. 9662, dated 18.12.2006 "On banks in the Republic of Albania," as amended, Article 124, paragraph 8 stipulates: "The Bank of Albania may envisage, through sub-legal acts, other requirements and criteria on consumer protection, concerning banking and financial activities stipulated in this Law".

\*\*\* The categorises of consumer credit are defined as: a) credit in instalments; b) limit credit; c) credit card; and d) financial leasing. While, based on the value the intervals are divided into: i) up to ALL 200,000; ii) ALL 200,001-2,000,000; and iii) ALL 2,000,001-10,000,000.





## ANNEX 2 THE MAIN INDICATORS OF FINANCIAL SOUNDNESS

in %	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Capital-based indicators</b>															
Regulatory capital to risk-weighted assets	17.1	17.2	16.2	15.4	15.6	16.2	18.0	16.8	15.7	16.0	17.0	18.7	18.5	18.7	18.0
Tier 1 capital to risk-weighted assets	16.0	16.3	15.3	14.5	14.3	14.6	14.9	13.8	13.5	14.1	15.5	17.4	17.3	17.6	16.9
Shareholders equity to total assets	7.6	8.6	9.6	9.4	8.7	8.6	8.4	8.6	9.5	9.7	10.2	10.1	10.5	10.4	10.1
<b>Asset quality</b>															
Net NPLs to regulatory capital	10.1	21.7	28.2	35.9	52.0	55.6	40.2	38.3	24.3	23.1	15.7	15.5	13.6	11.3	9.0
NPLs (gross) to total loans	3.4	6.6	10.5	14.0	18.8	22.5	23.5	22.8	18.2	18.3	13.2	11.1	8.4	8.1	7.1
<b>Profitability</b>															
Return on Equity (ROE) (annual basis)	20.7	11.4	4.6	7.6	0.8	3.8	6.4	10.5	13.2	7.2	15.7	13.0	13.5	10.7	12.8
Return on Assets (ROA) (annual basis)	1.6	0.9	0.4	0.7	0.1	0.3	0.5	0.9	1.2	0.7	1.5	1.3	1.4	1.1	1.3
<b>FX net open position to capital</b>															
FX net open position to regulatory capital	1.7	4.3	3.9	5.0	3.9	4.0	4.1	8.5	7.7	7.0	6.7	7.8	7.4	8.4	4.5
FX net open position to Tier 1 capital	1.8	4.5	4.1	5.3	4.3	4.4	4.9	10.4	9.0	8.0	7.3	8.4	8.0	9.0	4.8
<b>Asset-based indicators</b>															
Liquid assets to total assets	49.8	42.8	27.6	25.9	26.5	29.4	27.6	31.9	32.3	31.3	30.2	34.2	35.7	34.8	34.1
Liquid assets to sh.t. liabilities (up to 1 year)	74.0	64.9	32.6	30.6	33.1	36.7	34.7	40.4	41.4	40.6	40.8	46.2	49.4	47.4	46.5
Client deposits to total loans	215.5	162.6	154.3	166.4	163.2	171.6	180.8	180.2	187.8	192.8	194.0	203.2	207.2	211.3	213.6

Source: Bank of Albania.

