

## FINANCIAL MARKETS' TRUST GROWTH

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*Ardian Fullani*

*Ladies and gentlemen,*

It is a great pleasure to share with you some opinions and ideas regarding the current status of the financial market and its perspective in Albania. As the new Governor, I could have discussed more general issues however, I decided name my speech, “Financial markets trust growth” guided by my vision that the building of a developed financial market only serves better our fundamental objectives, especially our ambitions in the field of monetary policy as well as other economic policies.

Bank of Albania is happy with the results of its monetary policy during the last 13 years. However, to be sincere, inflation has had its fluctuations because of periods of fall in economic growth. Nonetheless, its return to acceptable levels has been fast and, in some cases we have been surprised by the low rates.

We believe that there is room for improvement in the measurement accuracy of prices and the weight different groups occupy in the basket of goods and services offered to the consumer. A number of goods have yet to be included in the basket while some price fluctuations are difficult to be justified. However, the consumer price index has been taken for granted, uninfluenced by the central bank,

serving as an indicator with which the final objective of monetary policy is measured.

Supposing that inflation rates have been correct, most may believe that the Albanian economy is flexible, as it manages to bring the inflation rate to normal levels in a short period of time. This is an argument which I want to believe. The lack of flexibility, observed in some other economies, does not seem to apply to Albania. Here, I have in mind the long hiring and lay off procedures or the variety of rules connected to the goods and services markets. Most importantly, the adoption of a flexible exchange rate regime has been one of the main contributors, which is directly responsible for the high mobility rate of the Albanian economy.

Coming back to the good performance of monetary policy, Bank of Albania to a certain degree agrees that among other things, in some cases we have been a bit lucky. The Albanian economy still lacks a number of characteristics and in so much the channels of monetary policy transmission are not fully functional.

On the other hand, the financial sector is still fragile and needs further reforming and a high level of alertness. The development and the opening of the market will bring a higher rate of exposure making it more difficult to maintain financial stability. This is the reason that makes me consider the growth of financial market stability one of my ambitions as Governor of Bank of Albania.

Differently from many other countries, Albania has a poor history in terms of financial institutions and instruments heritage. Our tradition does not compare to that of developed countries.

Even though by archive data the first attempts to create a national bank date to the beginning of last century, the institutions of the time have mainly functioned to ease reciprocal transfers with other countries. Even after the creation of the National Bank, we have to say that the financial institutions in Albania did not have a main role in the economic and financial life of the country no matter the admirable progress in the consolidation of the economic environment in general. Moreover, during the long years of

economic centralization, the banking system was typical to that of East European countries. A single bank carried the functions of a central and commercial bank, while the deposits of the population were saved in savings institutions. A small bank was specialized in crediting farms and agricultural cooperatives. I believe that even during this long period, for a number of reasons, the financial sector in Albania did not compare to East European models, including the countries of the region in terms of intermediation and flexibility.

On the other hand, I have to comment on the other segments of the financial sector because we are all witnesses that historical facts are very few in this context, the only development being the existence of a state owned insurance company, which had a limited role in the insurance field which did not include any other role in intermediation.

No doubt, true reforms were first presented at the beginning of the 90s, which peaked in the middle of 1992 when the first law on the central bank and the banking system in Albania was approved.

From the middle of 1992 and on, the banking system has developed to 16 active banks and another one has received a preliminary license.

By discussing about the financial sector in more detail, I would like to add that lately there are developments in other segments as well. The number of operators in the insurance field has grown. At the same time, we have the first operator in the pensions field, as well as there is a modest number of small financial operators in the crediting field, mainly in the form of savings and loans associations and non-bank financial institutions.

Taking a quick look, it seems we have a financial sector that is vitalizing year by year. However, it is obvious that qualitative developments pertain to the banking sector. Actually, I believe, we have a banking sector towards which public confidence is growing. Geographical coverage is especially increasing lately in terms of banking services. There are positive developments in the structure of payments as well. It is a pleasure to recognize that business – bank relationships are on a higher level.

The Automated Electronic Clearing House will be another move forward. This system will ease payments in small amounts among individuals, no matter geographical distances, and will lay safe foundations for more advanced developments in the field of electronic payments.

During this period, in cooperation with the Ministry of Finance, we have taken concrete steps in the direction of reducing the size of the informal economy which is clearly reflected in the monetary reports.

However, I think that the challenges before us are greater in number and larger in scope. I believe that the level of financial intermediation is low. On the other hand, agriculture the sector with the highest potential is still not covered by the banking business. The penetration of electronic cards in daily life is in modest levels.

Here at Bank of Albania we have come to the decision that the banking business needs to become more flexible, especially its regulative framework. For this reason, we have thought about a re-evaluation of the regulatory framework on the functioning of the money market, crediting policies and exchange market. I would hope that the banks take a more proactive role. Of course, the regulations will part of a more general evaluation, not only inside the country but of the international specialized institutions and organizations as well.

*How about the other part of the financial sector?*

As I mentioned above, there is an increase in the number of operators in the market. However, I realize that their operational activity is still far from best practices and standards. Moreover, their legislative, regulatory, and supervisory framework is not complete. For this reason, I believe that the challenges are many and corrective measures must be immediate. I judge that it is in the interest of insurance companies to be more supervised because only in this way they will achieve standards similar to those of the banking system. Their road towards the process of creating an efficient financial market becomes more difficult if actual practices are not changed. In this way, they will continue to be at the periphery of the financial system. It

is now time for us not to be content only with the increase in the number of operators, but to aim building a regulated financial sector, with values, flexibility, and transparency.

The other financial institutions as well, including intermediaries and specialized facilitators, I judge they have room for more intermediation and I would appeal to them as well to cover their activity by the legal framework and full, contemporary supervision.

Confidence in a market may not be decreed by the monetary authority, and it may not even be imposed. This is a difficult process which requires continuous work. It requires rules and exact knowledge of them by all actors. Confidence requires swiftness, transparency, loyalty, and careful supervision. Only in this way its actors will increase reciprocal trust and that of the organizers and market supervisors.

A central bank is as credible as the banking system. It is difficult to understand that a volatile market, insufficient number of financial instruments, low competition, may achieve credibility, entice investors and push forward the formalization of the economy which in the end would increase public confidence towards the financial market. So, monetary confidence is an axiom which is proven everyday, only if we have a liquid financial market, open and transparent.

Market forces are more effective when the number of the participants is large and when the principles of the market are known and used in the right way from all of them. In the mean time, market feelings are like the waves of the sea. They come and go. The more the market develops the stronger they become. We can see such waves in economies where developed financial markets are the driving forces. It is important for us to initiate and implement wise monetary, fiscal, and other economic policies aiming to accommodate these waves in a proper way.

I don't want to get into details during my speech on specific segments of the financial market, where we are the main organizers and actors. I will not analyze the possibilities of actively involving other financial institutions in the market as well.

What I want to spend more time discussing deals with a debate which has been going on lately at Bank of Albania. By now, it is widely accepted that the treasury bonds market has room for enlargement and deepening. On the other hand, we are all witnesses that during the last ten years, Bank of Albania has opened its counters to directly sell treasury bonds to individuals.

Bank of Albania in no case during the debate has expressed that individuals should be excluded from the primary market and they should be given the possibility to buy bonds only from the secondary market.

So, it is my belief that the increase in interest by the population on treasury bonds has been a natural process, which on top of everything mirrors the increase in the understanding of the public on investment and the strengthening of public confidence on the economy in general.

I believe that it is now time that such business transfer toward the banking system. During discussions held lately, the banks are interested in this business and are ready to get involved in it. Of course, I agree with the idea that there is need to proceed gradually and studiously, so that the share of individuals in the bonds market not decrease. I understand the costs faced by the banks, as well as I understand the principle that every service has a price. I judge that at this moment, small investors have understood that one cannot win at no cost at all.

On the other hand, I believe that the experience of past years has been sufficient in getting individuals familiar on the profits that can be made through treasury bonds investments. As a result, I think that the pace of growth during this period will be kept and will make more stable the contribution of the general public on the financing of public debt.

However, I wish to explain the auditorium that with what I said above I do not mean only the primary treasury bond market. On the contrary, I would encourage the banks to become more aggressive towards the secondary bonds market. Make it clear to the public that whoever is interested may sell its bonds at any moment as well

as every individual that possesses savings may at any time reach the banking sector not only to deposit but to buy treasury bonds as well.

I find it reasonable that even the role of financial intermediaries needs to grow in general. The amount of money in circulation is large. This shows that business income continues to be kept under the pillow or gets converted in non-intelligent ways, especially real estate. The Ministry of Finance itself will open counters to directly sell treasury bonds to the public. The government needs to have its own portfolio of treasury bonds to correct inaccuracies and changes in its plans, which have imposed on it the alternative of borrowing from Bank of Albania.

I may not forget to mention to the banking system that the inter-banking market may and should be improved. In our days, commercial banks exchange large amounts of liquidity with the central bank. But, such exchange needs to be intensified among commercial banks as well. This would ensure more financing and investment possibilities for individuals and companies including banks.

The banks may as well pay more attention to currency and treasury bonds markets towards achieving their enlargement and deepening. In this way, except from presenting new financial instruments, it would as well be necessary to further advance in the use of current instruments. Such improvements would benefit the economy in general, including individuals, companies, banks, the central bank, and the government. In this way, individuals would have more opportunities in which to invest their savings, companies would better exploit new business activities, banks would profit more, the central bank and the government policies would become more efficient.

Monetary policy would become more effective by earning public trust, achieving improvements in the banking system and the deepening of the financial markets. A more effective monetary policy would make prices more stable. Stable prices would guarantee lower interest rates and higher economic growth.

The high economic growth is a pleasant phenomenon because it is the main indicator which shows we are getting closer to the rest

of Europe. Actually, Albania is a more or less open country, which continually approaches Europe and moreover integrates with it.

However, there are still many things to do, even though; I see positive signs in the Albanian economy. The payment system will become even more efficient. While, public trust in the banking system will be consolidated further. At the same time, monetary policy will become more effective and more appropriate towards absorbing shock events. At the same time, a successful monetary policy will make sure Albania is prepared for all sorts of cooperations with European and non-European countries.

Risks and threats to the financial system will become more evident once it improves. Faster and larger money exchanges in Albania, among individuals, banks, companies, financial market, the central bank, and the government carry on them a higher exposure rate among parties. This is a financial stability matter.

Lastly, I believe that there are a number of issues on which we need to get in more detail during the workings of this conference. One more time, I hope that during the conference there will be valuable and interesting presentations, not only on the economy of our country but that of other countries as well.

I am confident, as you already know that many other challenges lie ahead.

*Thank you.*

\*Ardian Fullani: Governor of the Bank of Albania.