IS THERE A CASE FOR A FURTHER INCREASE OF MINIMAL CAPITAL IN ALBANIA?

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Abstract

In this paper we try to bring up some arguments in favour and against increasing the actual level of minimal capital of commercial banks in Albania. The arguments, in favour of increasing minimal capital actually, are not very compelling especially when there may be some other more effective ways to improve banking sector soundness.

1. Banking supervision in transition economies

The proliferation of many new, high-risk banks, as a result of the liberal bank entry policy at the beginning of transition, increased the risk of systemic failures. Even in those CE and SEE countries that relied more on 'safer' foreign competition there have been cases of foreign banks making large losses (e.g. in Hungary) or cases of fraud (e.g. in Poland) (Bonin, et al. 1998). With the privatisation of SOBs the government's implicit insurance of their deposits ceases too, and the possibility of deposit and bank runs became more real. Thus, the regulation and supervision of banks which could reduce the systemic risk in transition became of paramount importance. A systemic failure would discredit all previous banking reforms and it may be very difficult for the banking sector to restore savers' and foreign investors' confidence.

In the second half of the 1990s most transition countries adopted much tighter licensing policies and higher capital requirements compared to the first phase of transition (Hansson and Tombak, 1999; Barisitz, 2000a,b, 2001; Schardax and Reiniger, 2001; Green and Petrick, 2002). As a result, many small and undercapitalised banks' licenses were withdrawn and the number of banks fell in many countries, particularly in Baltic and CIS countries. In Russia, for instance, the number of banks almost halved in the period between 1995 and 2000. Despite these tighter measures many countries especially those in SEE and the Baltics could not avoid banking crises.

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The banking crises that hit Baltic countries were partly due to unexpected deterioration of macroeconomic conditions but also due to inadequate legal and regulatory frameworks and an inability to enforce prudential regulations (Hansson and Tombak, 1999). Furthermore, it was not only the small and undercapitalised banks that ran into trouble but also the large non-SOBs whose risk of collapse was underestimated and/or whose strict regulation was difficult because of their political involvement. In Bulgaria and Romania the banking crises involved both private and SOBs whose assets, due to soft budget constraints and adverse macroeconomic conditions, deteriorated to the point that led to a depositors run (Barisitz, 2001). The main cause of these crises was the failure of the governments in these countries to address banks' insolvency problems at an early enough stage. The regulatory authorities were unable to do anything besides warning the governments about the risk of systemic crisis. In Bulgaria for instance, the court overruled the decision of the central bank to revoke the license of two insolvent banks before the crisis (Barisitz, 2001). In Russia, the banking crisis of 1998 that followed the collapse of the T-bills market (Buchs, 1999), may not have been avoided even if banks were better capitalised and supervised. The rest of the Baltic and CIS countries (with the exception of the Kyrgyz. Republic) did not suffer a series of banking crises after the Russian financial collapse, mainly because of the small size of their banking sectors and the insignificant exposure to the Russian security market (Barisitz, 2000a).

The several crises that hit transition countries shows how fragile their banking systems are. Independently from the specific sources of these crises, the weaknesses in banking regulation have undoubtedly been a common important factor in this outcome. The discussion of regulation in developed countries is mainly concerned with the identification of the best ways to prevent systemic risk with minimal side-effects (in terms of the moral hazard induced in banks' behaviour). In transition countries this discussion is also important, but they have to first build up the means that enable them to effectively supervise and regulate the banking system. This includes the introduction of new banking laws, accounting systems, and the setting-up of a regulatory authority that could enforce them and issue new prudential regulations to increase the soundness of the banking system. Almost all transition countries have introduced and amended their banking laws in line with the new market environment (EBRD, 2001 pp. 107-230). They also have introduced new accounting systems compatible with international standards which require banks to classify and provision[2] their assets (particularly loans) according to their default risk.

[2] Provision is the act of setting aside special reserves for the amount of overdue loans or other risky assets, to prevent banks' insolvency.

However, issuing a new set of banking laws and regulations may be insufficient to restore the soundness of the banking system, if these rules are not enforced (Juan, 1996; Wijnbergen, 1998). There are at least two problems with enforcing banking regulation in transition countries. The first problem is related to the lack of expertise in carrying out the task of supervising banks. The new supervisors, just like domestic bankers, need some time to gain adequate skills of banking expertise and supervision. The second problem is related to the insulation of regulatory authorities from political influence.

Central banks have been vested with the role of banks' regulatory authority in most transition countries with a few exceptions, like Hungary, where the regulatory authority is an independent state agency. Western theory and experience does not give a clear answer as to what is the best way to establish a regulatory authority. Juan (1996) and Bonin and Wachtel (1999b) argue that in transition economies the regulatory authorities should be independent agencies outside the central bank. Otherwise the macroeconomic objectives of the central bank and its role as lender of the last resort may conflict with the objectives of bank regulation. This conflict is more likely to occur in transition countries because their macroeconomic conditions are more unstable than those of developed countries. However, in transition economies the regulatory authorities' independence from government is also very important for the enforcement of regulation. Since most transition countries are opting for an independent central bank (Luçi, 1999), the chances are that the independence of regulatory authorities could be better preserved from within the central bank rather than outside it, provided that the independence of the latter can be achieved.

If the governments or courts in transition countries retain discretionary powers then they can still overrule the decisions of central banks (or regulatory authorities). Such outcomes could weaken central banks' reputation and hence their power to enforce regulations will be very limited. Resolving the problems of regulation enforcement, especially the improvement of supervisory skills, may take time. Therefore, it could be argued that to avoid crises bank liberalisation should be delayed until prudential regulation is in place. Otherwise, by allowing new entry and privatising SOBs before bank regulation becomes effective, could mean that some instability is inevitable. As Gorgon and Winton (1998), and as we saw earlier Meyendorff and Snyder (1997), have argued concentrating only on the stability of banks may be sub-optimal. Allowing new entry and low capital requirements, although producing a large number of small and risky banks that increase the instability of the system, is necessary to increases efficiency and hence boost FI at a lower cost.

Yet, the experiences of CIS countries do not support this view. Despite the large increase in the number of banks, the development of FI in CIS countries still remain the lowest within the group of transition countries. On the other hand, the experiences of CE countries, which have the highest level of FI development among transition countries, have shown that the increase in competition, based mainly on foreign banks entry, should not necessarily generate higher instability of the banking sector. Therefore, it seems that there are no clear gains in terms of higher FI development in allowing some instability of banking systems in transition countries. This lack of trade-off, to some extent, could be explained by other factors, such as macroeconomic stability, that may influence both the efficiency and stability of the banking sector. This suggests that there could be better policies to enhance the development of FI in transition countries without having to jeopardize the stability of the banking sector.

What are the implications of the above problems with regulation in transition countries for our theoretical discussion of banking regulation? The introduction of safety net measures, such as lender of last resort or deposit insurance schemes, increase the need for more regulation because of the associated moral hazard. Regarding the lender of last resort the central bank tries to avoid the moral hazard problem by charging an increasing fee each time banks are subsidized. However, the exact way lender of last resort works remains unclear. Concerning deposit insurance the moral hazard problem could be avoided with a risk sensitive rate of deposit insurance, which in turn requires an accurate risk evaluation of banks' assets by regulatory authorities. In addition to an effective regulatory framework, it requires a sophisticated information technology mechanism. Because of the poor information flows in transition, Wijnbergen (1998) argues that transition economies have to rely on direct regulation measures such as flat rate (risk insensitive tariff) deposit insurance. Therefore they might be unable to avoid the moral hazard behaviour induced by the introduction of deposit insurance. Other authors (Demirguç-Kunt and Detragiache, 2000) have gone further arguing that deposit insurance may be premature for transition economies if they cannot deal with the moral hazard problems. Boot and Wijnbergen (1995) argue that other safety net measures such as narrow banking that may generate less moral hazard problems, are more suitable for transition countries. Under this arrangement, deposit insurance is limited to household deposits at the state saving bank, with all other deposits being uninsured. However, all the alternative safety net measures to deposit insurance restrict banks' activity in some ways and hence come at the cost of lowering their efficiency. Therefore, in this case regulatory authorities may face a clear trade-off between the stability and the efficiency of the banking sector.

2. Banking regulation and supervision in Albania

In the last Section we saw that an important aspect of banking reforms in transition countries was regulation to ensure a sound and stable banking system under the new market economy environment. This involves the replacement of old banking laws with new ones that better suit the new setting of the banking sector, and the establishment of a regulatory framework that effectively enforces these laws and issues additional rules to ensure the stability of the banking system. In this context, the Albanian banking legislation has undergone three major changes, in 1992, 1996 and 1998.

The laws "On the Bank of Albania" and the "Banking Law" of 1992 were very important in so far as they split up the monobank into a two-tier system and established the basic laws for a market-based banking system. The pyramid schemes phenomena led to the recognition of the need for further improvements and clarifications, particularly in the definitions of the terms "bank" and "banking activities". This led to the issuing of the "Banking Law" of 1996. This Law was more complete than its predecessor in many other aspects. It specified better the requirements for bank licensing, operation, administration and reporting. The Banking Law of 1998 was a further attempt to better define the terms "bank" and "banking activities" (article 26 in this act), it clearly specifies the sanctions for persons other than banks who engage in banking activities or collect deposits from the public without being licensed. Also, the commitment of Bank of Albania to provide a public statement on the existence of threats of the banking system was added.

The regulation and supervision of the banking system in Albania is largely based on the Core Principles for Effective Banking Supervision and Regulation (I and II). The Basle Core Principles are accepted as international prudential standards by all developed countries and many transition countries as well. The 25 principles cover various areas of regulation and supervision such as the organisation of the supervisory authority, licensing, prudential regulation, information requirements, supervisors' powers and cross-border banking. However, as in other transition countries, the development of regulation and supervision as well as their enforcement has been slow in Albania. The lack of trained staff and the interference of governments in SOBs' activities are some of the reasons for this outcome. On-site monitoring of second-tier banks on a regular basis only began in 1999. In the meantime, in accordance with the banking legislation of 1998, the BoA also issued several regulations such as: a regulation on granting licences to conduct banking activities in Albania; a regulation on money laundering, a capital adequacy regulation, a regulation on the classification of loans and respective provisions and a regulation concerning investing in commercial enterprises' equity. The minimum initial capital required for opening a bank was also increased to 700 million Lek (~ Euro 5

million) from 350 million in 1997 and 200 million in 1996, as well as the capital adequacy ratio from 8 to 12 percent.

Despite the delay in the implementation of a prudential regulation framework, it should be mentioned that Albania has not experienced any serious risk of a banking crisis, except for the recent case of the SB. This panic was mainly speculative induced by some politicians' and journalists' comments that worried depositors. However, neither the regulatory authorities nor the plans of introducing the deposit insurance scheme were able to prevent the start of the run of some depositors. This episode suggests that regulation and safety net measures, such as deposit insurance, have to gain some reputation among citizens before they can effectively prevent systemic crises, especially if large SOBs like the SB are privatised.

The recent stability of the Albanian banking system could be attributed to the strategy of relying on foreign banks and foreign investors to reform the banking sector. This gives some support to the argument raised in previous Section that the safest way to increase competition in banking sector in transition countries is by relying on the entry of new foreign banks. Their experience of modern banking practices and management is superior and their capital position is stronger. However, the case of the SB's isolated run has shown that an effective regulatory framework also is a key factor in maintaining the stability in the future. Although notable progress has been made in creating a legislative framework for the prudential regulation, further efforts are needed to improve the capabilities and the reputation of regulators and supervisors to effectively use these laws to prevent potential systemic crises. To this end, the objectives and accountability of the regulatory and supervisory authority (BoA) should be defined more clearly, otherwise its reputation may suffer. The enhancement of the real independence of the BoA, therefore, is a necessary condition for improving its reputation and effectiveness in conducting both monetary policy and regulation of the banking sector. Regarding the regulatory authorities, they should not concentrate only on the routine supervision of commercial banks, they should also try to increase the public confidence in the banking supervision especially through training campaigns – for example, by increasing the number of publications. Also, the competences of the regulatory authorities and the coordination with other judiciary authorities need further improvement by adjusting the actual legal framework so that they can take measures against cases of irresponsible information from medias and journalists (or even politicians) which could lead to unnecessary panic of public about the banking system.

3. The issue of minimum capital requirement increase

Under the improvement of the banking system stability in Albania framework, recently it has been proposed the idea of a further increase of the minimal capital

requirement for new bank licensing from currently 700 million Lek to about 1 billion Lek. Let us assess whether this is a necessary measure to increase the stability of the banking system, based on the abovementioned arguments and on some other factors that characterize the Albanian banking sector.

The regulatory authorities in many transition countries have already implemented capital adequacy ratios and other measures to conform with the Basle principles of effective banking regulation and supervision. Nevertheless, these principles are primarily intended for the safety of banking sectors in developed countries where the overall economic and institutional conditions as well as the quality of regulation are very different to those in transition countries. Therefore, the regulatory authorities in transition countries should go beyond the implementation of the Basle directives to ensure the stability of the banking system. In particular, they need to apply higher capital adequacy ratios than the Basle accord in order to achieve a level of banking stability similar to that found in developed countries.
In particular, they should apply tighter capital requirements compared to Basle criteria. This could imply higher minimal capital requirements as well as higher ratio of the capital adequacy. Actually, in many transition countries including Albania, is applied a higher ratio of capital adequacy of 12 percent (from 8 percent of the Basel agreement).

As far as the minimal capital is concerned, the Basle agreement does not give any specific limit. But the European Union, in "the second directive for banks", defines that the minimal capital should not be less than €5 million. Many of the European Union, like France, Germany, have chosen the minimum of €5 million. Meanwhile, some transition countries like Czech Republic and Hungary have chosen higher levels (Table 1). Nevertheless, it should be mentioned that these countries could have made this choice considering their high entry of foreign banks, and high foreign capital and investments, which is not observed in Albania (at least not until now). In Albania, the present level of capital requirement stands at the minimum level of the European Union, satisfying the condition for joining the EU. Therefore, a further increase in the minimal capital requirement should be justified only on the bases of higher stability it could offer. But is it necessary an increase of minimal capital requirement beyond the conditions of European Union to improve the stability of the banking system in Albania?

An increase of the minimal capital requirement, if combined with the appropriate transparency, would strengthen the confidence of depositors especially on the conditions when the Deposits` Insurance Agency has not yet build up the necessary funds and reputation to avoid any potential panic.

However, it should be mentioned that the degree of depositors' confidence improvement remains uncertain.[3]

As argued earlier, one of the strategies chosen in Albania to enhance the competition of the banking system without endangering its stability has been the reliance on foreign banks and investors. This strategy has been supported also in other transition countries and in the literature. To insure the continuity of this strategy, apart from the privatization of the Savings Bank with strategic foreign investors, would be the increase of the minimal capital requirement. The rationale behind this argument is that foreign banks and investors have superior possibilities to afford higher capital requirements compared to domestic investors.

Table 1: The minimal capital levels for various countries.

Countries	Minimal capital Requirement (in USD million))	Number of banks	Bank/inhabitants million ratio
Balkan countries			
Albania	5,38	15.0	4.8
Macedonia	2,2- 8,3*	21.0	10.3
Croatia	5.4	46.0	10.5
Bosnia-Herzegovina	4.3	63.0	15.8
Slovenia	4,0	29.0	14.6
Bulgaria	4.5	34.0	4.3
Romania	4,6	38.0	1.7
Yugoslavia	5,0	58.0	8.3
Average	***4.8***	***38.0***	***8.6***
Central Europe Countries			
Czech Republic	14.7	37.0	3.6
Hungary	8.0	38.0	3.8
Poland	5.0	64.0	1.7
Average	***6.5***	***51.0***	***6.3***
Baltic Countries			
Estonia	5.0	7.0	5.0
Lithuania	5.0	16.0	4.3
Latvia	5.0	23.0	9.5
Average	***5.0***	***15.3***	***3.0***
Euro zone Countries			
Germany	5.0	2,696.0	32.9
France	5.0	500.0	8.49
Italy	6.0	846.0	14.7
Greece	18.0	61.0	6.1
Average	***8.5***	***453.5***	***15.5***

Source: Various central banks` web sites. Note: * not confirmed.

Nonetheless, it should be mentioned that the actual level minimal capital so far has played its role to prevent domestic investors to enter the market, though other factors such as the lack of qualified employers and the low profit margin of this sector (from the large businesses point of view) might have played an

[3] It is important to estimate also the fact whether the media will be able to transmit the right message without causing misunderstandings, as it was the case of "Deposits` insurance" act.

important role for this outcome too. Despite the recent trend of some domestic investors to obtain banking license, it would be hard to think that it could escalate to an entry boom. Meanwhile, the rise of the minimal capital level could prevent the entry of "safer" foreign banks too, deviating from the objective of this measure. It is also difficult to evaluate the right level of capital, which at the same time would minimize the entry of "risky" domestic investors, while leaving open the possibility of foreign banks and investors' entry.

The"risk" of domestic investors regarding banking business needs also careful assessment. The arguments pro foreign banks, could, at the same time, be arguments against domestic investors. However, "selling" in public this thesis would be very difficult. Another difficulty to gain the public support of this policy is related to the signal it could send out. An increase of the capital requirements in general means that higher market concentration with fewer banks it is aimed. Taking into account the current debates surrounding existing monopoles, this may not be the most adequate moment to introduce and support this measure.

The density of commercial banks in Albania (banks per number of inhabitants) is not very different from that in other European countries (Table 1). Moreover, the actual pace of banks' geographic spread could be considered as satisfactory, bearing in mind the macroeconomic situation and the legal framework. However, although it may seem optimal keeping the number of banks at the present level, particular attention should be paid to the message received by the existing banks. They might believe that by increasing entry barriers they are being isolated from potential competition. Consequently, a capital rise might also have adverse effects in terms of stability, because it could induce hazard behaviour from banks.

In practice, an increase of the minimal capital to about Lek 1 billion (*Bank of Albania Governor' statement*) would not pose a serious problem for the existing banks, given that most of them have capital positions at this level or very close to it, as can be seen from Table 2, which gives information in relation to: regulatory capital, total assets weighted by the respective risk, the capital adequacy rate, the minimal required capital that banks should have to cover the actual level of risk undertaken (in relation to the minimal demand adequacy rate of 12 percent), as well as the surplus of the capital owned by banks, after they meet the required rate. Nonetheless, it should be pointed out that there are some banks in the system, which have had difficulties in meeting the present level of capital requirement of Lek 700 million, despite their high ratios of capital adequacy they have. Furthermore, the increase would be more problematic for those banks opting to offer services of second and third level. Thus, the increase of the minimal paid capital would cause further problems to Italian-Albanian Bank and

to the National Commercial Bank. These last ones have third level licenses, which means meeting the capital level of Lek 3 billion with the increase of the capital (from Lek 2.1 billion at present).[4] From this perspective, the increase of the minimal capital could be seen as an obstacle for introducing new products and services.

Table 2: The present capital situation of banks operating in Albania (in Lek million)

	The adjusting capital (in Lek million) (A)	The total of activities average weighted with risk (in Lek million) (B)	The adequacy capital rate (in %) (A) / (B)	The minimal demand capital based on the 12 % rate (C)=(B)x12%	The surplus capital owned by banks (D)=(A) - (C)
AIB	1541.83	5928.14	26.01[4]	711.38	830.46
SB	2923.68	8972.91	32.58	1076.75	1846.94
AAIB	1274.34	1109.71	114.83	133.17	1141.17
DB	663.84[1]	307.90	215.60	36.95	626.89
NCB	1476.32	5112.12	28.88	613.45	862.86
TB	1530.05	10512.52	14.60	1261.50	268.55
ICB	659.18[2]	1173.74	56.20	140.85	518.33
ABA	1361.98	8396.72	16.22	1007.61	354.37
FEFAD	1063.94	4935.87	21.56	592.30	471.64
CBG	1376.64	1882.33	73.13	225.88	1150.76
NBG	760.37	2293.07	33.16	275.17	485.20
ABA	1726.65	6258.88	27.59	751.07	975.59
FIB	721.40	655.83	110.00	78.70	642.70
NCB	622.36[3]	478.69	130.00	57.44	564.92
CREDINS	0.00	0.00	0.00	0.00	0.00
TOTAL	*17702.58*	*58018.43*	*30.51*	*6962.21*	*10740.37*

Source: Bank of Albania; Note: 1:from the complete examination in the country, the bank is recommended to meet the capital of Lek 700 million within 30.06. 2003; 2: In Bank of Albania, the respective paper was brought and it confirms the increase of this bank capital to USD 6 million until 31st May 2003; 3: an official paper was sent to the bank, where it was required to meet the core capital of Lek 700 million within 30.07.2003; 4: Based on the most recent controls of Bank of Albania, this report is assessed to be nearly 19%.

The problem of meeting the capital requirement after its increase in the case of Albania is also complicated due to the fact that stock market, which is a simple and quick way to increase the capital, is missing. In other words meeting the capital should be achieved through foreign capital. The possibility for the present foreign banks (investors) to go out of the market after the increase in the capital requirement, if they consider it as very high to fulfil, is very small considering their fixed investments. However, it could still be argued that the increase of capital requirement could diminish foreign investors' interest in privatisation of Savings Bank. However, considering that the Savings Bank is a large bank both in terms of assets and deposits, the potential buyers should be prepared to fulfil

[4] The depreciation of the American currency and the considerable increase of the reserve funds on losses from loans are the two main factors, which have influenced the reduction of capital in the above-mentioned banks under the required level (table 2). In the case of National Commercial Bank, the Supervisory Council of Bank of Albania decided to restrict the right of some activities until the end of year, while Italian-Albanian Bank was required to a operational plan within 4th July, according to which the bank has to prove the events of capital increase within 6 months after this date, otherwise the level of the license issued will be revised.

much higher capital levels than the minimal level, after crediting activity resume. In this aspect, considering the importance this bank has and for the success of its privatization, the capital increase should be seen as more positive rather negative.

Banking system in Albania is characterized by a relatively low level of credit in relation to GDP of about 7 percent, while the same ratio for other transition countries is about 30-40 percent, whereas for the developing countries it exceeds 100 percent. This means that at present the banking system is not widely exposed towards market risk and the increase of the minimal capital in this case would seem to be an exaggerated measure. The banking system in Albania has a relatively high capital adequacy ratio, 30.51 percent (Table 2) compared to the minimal rate of 12 percent. Even if the volume of credit increases in the future, based on some rough calculations, it could be argued that the actual value of €5 million, of the minimal capital is sufficient to cover a credit level of 14 percent of the GDP (assuming that the whole credit will be weighted with the minimal level of the of capital adequacy of 12 percent). Whereas the minimal capital of Lek 1 billion could cover around 19 percent credit to GDP ratio, which is almost three times higher than the actual level of credit. It is hard to believe that this level will be achieved in the near future, while it seems more attainable in a longer period.[5] This means that the existing banks will be penalized for the time being because they will be forced to hold more capital than that required by capital adequacy ratio of 12 percent. In other words, an increase in the minimal capital would reduce their return on equity (ROE).

If the actual level of capital adequacy of 12 percent is seen as too low to insure the stability of the banking system, then its increase would be more suitable to this end compared to the increase of the initial minimal capital requirement. The increase of the capital adequacy would be more flexible against the risk undertaken by each bank, and automatically increases with the expansion of lending activity, without penalizing banks which could be focused on safe investments and offering payment means. However, even this measure should be considered carefully. It needs clear arguments how this measure is justified – for example, because of the macroeconomic situation or due to problems supervision might have in the assessing accurately the risks undertaken by banks.

[5] The above-mentioned argument could be also seen from a similar point of view. Based on the adjusting capital demands in order to cover the risk generating from the assets portfolio, the banks of the system have capital surplus. Thus, while the banking system needs nearly Lek 6.96 billion to fulfill the capital adequacy demand on the bases of the present assets risk, it (the system) owns nearly Lek 10.74 billion on the minimal demand. In this way, the banks` obligation to increase the present capital, while this last one is more than sufficient to cover the present risk of banking activities would constitute an exaggerated demand.

From the above discussion emerges that the increase of the minimal capital requirement can influence the stability of the banking system by avoiding the emergence of new banks, supposed as "risky", rather than by improving the actual capital situation of the existing banks,[6] which could be considered as being sound. However the argument used in preventing the "risky" banks is not very persuasive in the case of Albania at the moment. There is still insufficient experience with the domestic banks to conclude that they pose higher risk for the system compared to foreign banks. The experience of other countries supports better the above hypothesis; however, it should be mentioned that the main difficulties with domestic banks in this countries occurred when the minimal capital requirements were much lower than the actual level.

4. Conclusions

By liberalizing the banking systems in the countries in transition the crises risk has also increased. Thus, several transition countries were affected by banking crises. The sources of these crises have generally been the result of the combination of liberal entering policies for new banks with the weaknesses of the adjusting/regulating framework. The efficiency of the regulatory framework is particularly connected with the implementation problems of the banking supervision. These problems are due to the deficiencies of the new supervisors to assess correctly the risk undertaken from banks and from government interventions. Facing such a situation, countries in transition are forced to apply stronger security measures than the developing countries. Thus, the capital adequacy rates in these countries are generally higher than those in the developed countries.

A similar argument applies also in the case of minimal capital in Albania. Thus, a capital increase from Lek 700 million to 1 billion could be justified if achieving higher banking system stability. However, in this case it is important to emphasize the difficulty in supporting such a decision. The arguments, in favour of increasing minimal capital for the moment, are generally not very compelling. In addition, measures such as, improving the quality of regulatory framework, enhancing the independence of the banking supervision decision taking, improving and upgrading supervisors' skills, tightening the requirements for the administrators and bank directors, controlling more rigorously the origin of the capital, etc, constitute more effective ways for enhancing the stability of the banking sector.

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