

GOVERNOR'S PRESENTATION AT THE PARLIAMENTARY COMMISSION OF ECONOMY, FINANCE AND BUDGET, ON JANUARY 25, 2000

MONETARY SURVEY AT THE END OF 1999 AND THE SUPERVISORY MEASURES ON THE BANKING SYSTEM PERFORMANCE.

OPERATIVE DATA ON DEPOSIT PERFORMANCE AT THE END OF DECEMBER 1999.

According to the operative evidence of the commercial banks, **banking system's deposits** during December increased by Lek 3.5 billion. **Deposits in foreign currency** of Lek 2,5 billion held the principal allotment in this growth, while **deposits in domestic currency** comprised Lek 1 billion. **The Savings Bank** shared the main contribution in this growth on more than 60 per cent of the entire system, while the rest was occupied by **private and joint venture banks**.

According to these data results, December was characterized by higher rates of deposits in foreign currency on the entire system. **December** reflected a different financial situation from the previous months considering the growth of:

- *the budget deficit* by Lek 10.7 billion (from the end of November);
- *the currency outside the banks* which experienced the higher annual rates of about Lek 6.1 billion;
- *the currency issuing* by about Lek 4.0 billion.

After an optimal performance of banking deposits in domestic currency during the first half of December the rest of the month was characterized by withdraws in time deposits. This phenomenon evidenced in the Savings Bank, was contrasted by a quiet situation in the other banks. According to the operative data, these banks growth amounted to Lek 249.6 billion at the end of the month. The performance of time deposits in this bank was influenced by the public effect of some daily press articles, concerning the safety of public deposits in domestic currency at Savings Bank in this privatization stage. The daily data reported by this bank demonstrated that the two last weeks of December deposit payments were

higher than deposit reception. At the end of December, the increase of **required deposits (current accounts) in domestic currency** was about Lek 920 million. *The structure of term deposits* (operatively estimated) recorded decline on 3 month deposits from 54.18 per cent of the total of term deposits in November into 54.05 per cent in December. Meantime the share occupied by 6 month deposits increased from 6.71 per cent in November into 6.82 per cent in December. The 12 month deposits remained almost unchanged from 38.64 in November into 38.67 per cent at the end of December.

Foreign exchange deposits increased by Lek 2.5 billion. **Time deposits** and **current accounts** occupy respectively Lek 1.5 billion and Lek 989.7 million, where the Savings Bank holds the main contribution of 70 per cent.

Up to January 15, 2000, the data (excluding the Saving Bank and Tirana Bank which have difficulties in information by the application of the new information systems) mention *optimal growth on deposits in domestic currency* by about Lek 200 million (from which Lek 195 million are term deposits). Meantime, the mentioned *growth on deposits in foreign currency* is about Lek 163 million (term deposits increased by Lek 372 million).

THE MONETARY AGGREGATES ASSESSMENT AT THE END OF 1999.

At the end of 1999, Bank of Albania appraises a total deposit growth of Lek 38,6 billion, where deposits in domestic currency occupy nearly 55 per cent. Comparing the data of 1998 and 1999, Bank of Albania estimates them as positive developments throughout 1999. The non-influence of the Kosova crisis on the whole of monetary indicators was also accentuated in other cases. Some data on the monetary aggregates and deposits are concisely presented in the following table:

Monetary Aggregates	Year 1998 (billion Lek)	Year 1999 (Valuation) (billion Lek)	The annual growth (in per cent)
- M3	239.5	290.9	21.5
- M2	199.3	233.2	17.0
- M1	83.7	98.3	17.4
Currency outside the banks	68.3	81.1	18.7
Total deposit	171.2	209.8	22.5
- Deposits in Lek	130.9	152.1	16.2
- Deposits in foreign currency	40.3	57.7	43.4

The composite structure of *broad money* on the whole of 1999 records ratios improvement, concerning the total deposits to the currency outside the banks and deposits in foreign

currency to those in domestic currency. Compared to the previous year, these ratios are presented as follows:

Survey on deposits and the currency outside the banks performance .

The ratio in per cent	December '98	December '99
<i>currency outside the banks/broad money</i>	28.52	27.9
<i>deposits/ broad money</i>	71.48	72.13
<i>deposits in Lek/ total deposits</i>	76.48	72.49
<i>deposits in foreign / domestic currency</i>	34.84	37.94

During 1999, Bank of Albania, based on the developments of the consumer price index, international reserves and the exchange rate of Lek to the main currencies traded in the domestic market, as well as on the performance of banking system deposits, quantitative targets of the medium term program of Albania with IMF, trimmed six times the minimum of term deposits in Lek at the level of 9 per cent on 12 month deposits (See the attached table)

Based on the low level of the consumer price index at the end of 1999, the exchange rate stability, the future anticipation of stable, improving tendencies on some indicators and the positive level of real interests, Bank of Albania on January 19, 2000, lowered the minimum of term deposits at public banks at the rate of 8 per cent, 8,25 per cent and 8,5 per cent on the three, six and 12 month deposits, respectively.

The exchange rate and the gross international reserves are also holding relatively stable levels even in these days of January.

SOME PREVISIONS ON 2000.

Bank of Albania will continue the prudent monetary policy of maintaining a low inflation level on 2000. Based on the consumer price performance on 1999 as well as on the estimation made by Bank of Albania (that the

inflationary pressures will generally grow on 2000), the inflation objective on 2000 is fixed at level of 3 per cent.

The monetary instruments used by Bank of Albania in fulfilling its monetary program will remain the obligatory reserve and the definition of minimum rates on Lek deposits at state-owned banks.

Concerning the interest rates, Bank of Albania will continue to fix the minimum interest rates on term deposits at state-owned banks (keeping them positive in real terms). At the same time, during this year, it will be worked for passing from the administrative fixing of interest rates into that based on the market. This will be largely dependent on the privatization procedure of the Savings Bank.

Bank of Albania will continue to operate on flexible exchange rate, intervening in the foreign exchange market when there will be noticed speculative oscillations of the exchange rate.

Broad money is foreseen on a 10 per cent increase while the ratio the currency outside the banks/broad money is anticipated to decrease in favor of deposits, reaching at 25,2 per cent. The ratio foreign exchange deposits to the broad money is expected to remain almost unchanged at the level of 20 per cent.

The monetary growth is anticipated to meet the economy requirements to credit. The second-tier banks portfolio is expected to increase by Lek 7,5 billion (the 1999 growth is estimated at Lek 2 billion) and the deficit financed on domestic resources will grow by Lek 23,6 billion.

CURRENT AND THE FUTURE MEASURES ON THE BANK STRENGTHENING.

Pursuant to the Law no. 8296 date, 23.12.1997 "On Bank of Albania" article 12 and the Law no. 8365, date 02.07.1998 "On banks in the republic of Albania", article 41, Bank of Albania is exclusively responsible on issuing licenses and supervision of all banks and foreign bank affiliates (banks) in the Republic of Albania.

During 1999, Bank of Albania delivered standard and non-standard acts (regulations), intending insurance of banking stability. There must be cited the regulations:

- on second-tier bank managers;
- on non-banks;
- on exchange rates;
- on regulatory capital etc.

Bank of Albania, through bank supervision ensures compliance of the banks activity and the foreign bank branches with the legal acts in effect, a supervision ensured by the full and partial inspections carried in them. The full inspections are regularly performed once in 2 years. For 2000, Bank of Albania depending on the overall financial situation will undertake inspections once in 18 or 12 months.

1. Bank of Albania had planned full inspections on 4 banks for 1999 (at the National Commercial Bank, The Albanian Italian Bank, the American Bank of Albania and in the Savings Bank). Besides these, there was attained the **full inspection** of three other banks.

Through these inspections, it is purposed banks obedience to the license granted by Bank of Albania on the objective of performing stable

financial activity and maintaining stability of the banking system.

Bank Supervision on 1999 is focused at covering and keeping under control the principle activities of the banking system as management and administration; lending activity; liquidity; internal audits etc.

The focus of **partial inspections**, carried this year, was the lending activity of three banks from two planned.

There were also performed partial inspections on:

- the opened foreign exchange positions of the foreign currency;
- the arrangement of external and internal audit;
- the application of regulations "On the foreign exchange market" and "The impediment of currency clearance"
- For the first time, there were inspected all foreign exchange bureaus from 8 planned.

To assess the overall financial statement of the bank, Bank of Albania used the "**CAMELS**" system applied for the first time during the previous year. It includes the examination of all elements that ensure a safe and sound banking business.

From the 1999 inspections, banking system resulted on a good financial condition on the whole. Banks contain sufficient procedures and policies to identify, measure, control and monitor risks.

On the main findings of examinations, Bank of Albania has undertaken corrective measures to improve the situation. Problems found in the state-owned banks (the Savings Bank A.E. and the National Commercial Bank A.E.) are announced to the single share holder, the Ministry of Finance.