

European Department

# Albania Financial Forum



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# Main messages



- The economic recovery in Albania is strengthening in line with regional trends.
- The recovery could be further strengthened by improving the business environment and addressing structural constraints to credit growth.

# IMF program in Albania



Strengthen  
public  
finances

Boost  
private  
sector credit  
while  
maintaining  
financial  
stability

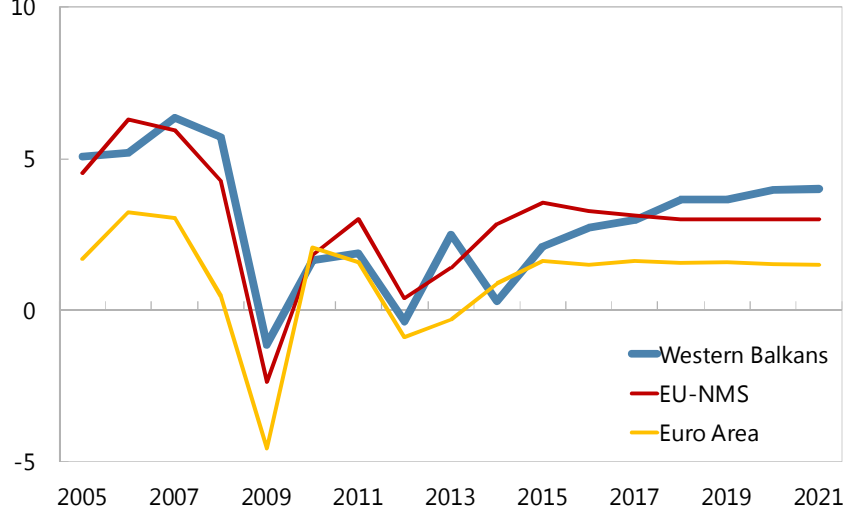
Reform  
energy  
sector

Improve  
the  
business  
climate



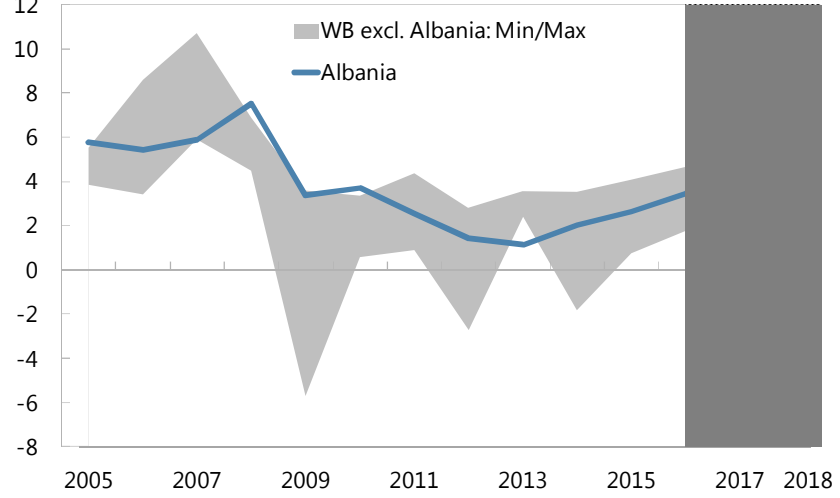
# Economic recovery is strengthening

**Real GDP Growth**  
(Percent; PPP-weighted average)



Sources: WEO database; and IMF staff estimates.

**Real GDP Growth**  
(Percent)



Sources: WEO database; and IMF staff estimates.

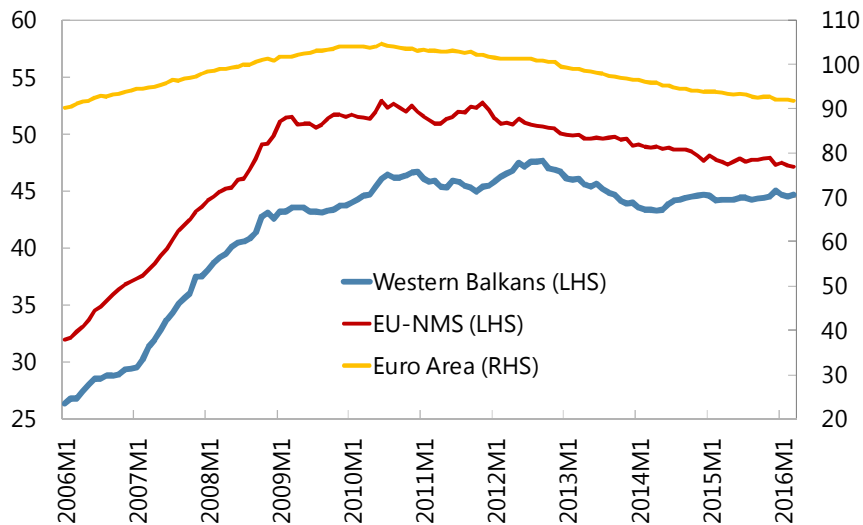
EU-NMS: EU new member states.

# The economic recovery has not been supported by credit growth.



## Credit to the Domestic Private Sector

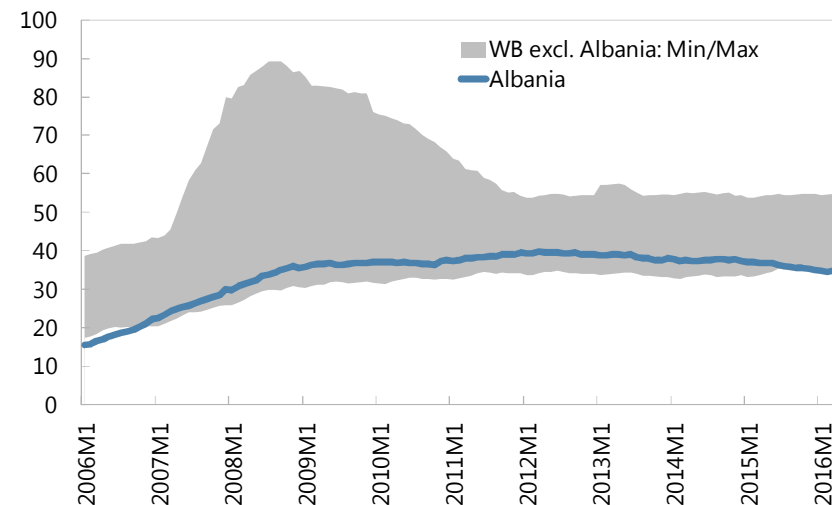
(Percent of GDP)



Sources: IMF, IFS; and IMF staff estimates.

## Credit to the Domestic Private Sector

(Percent of GDP)



Sources: IMF, IFS; and IMF staff estimates.

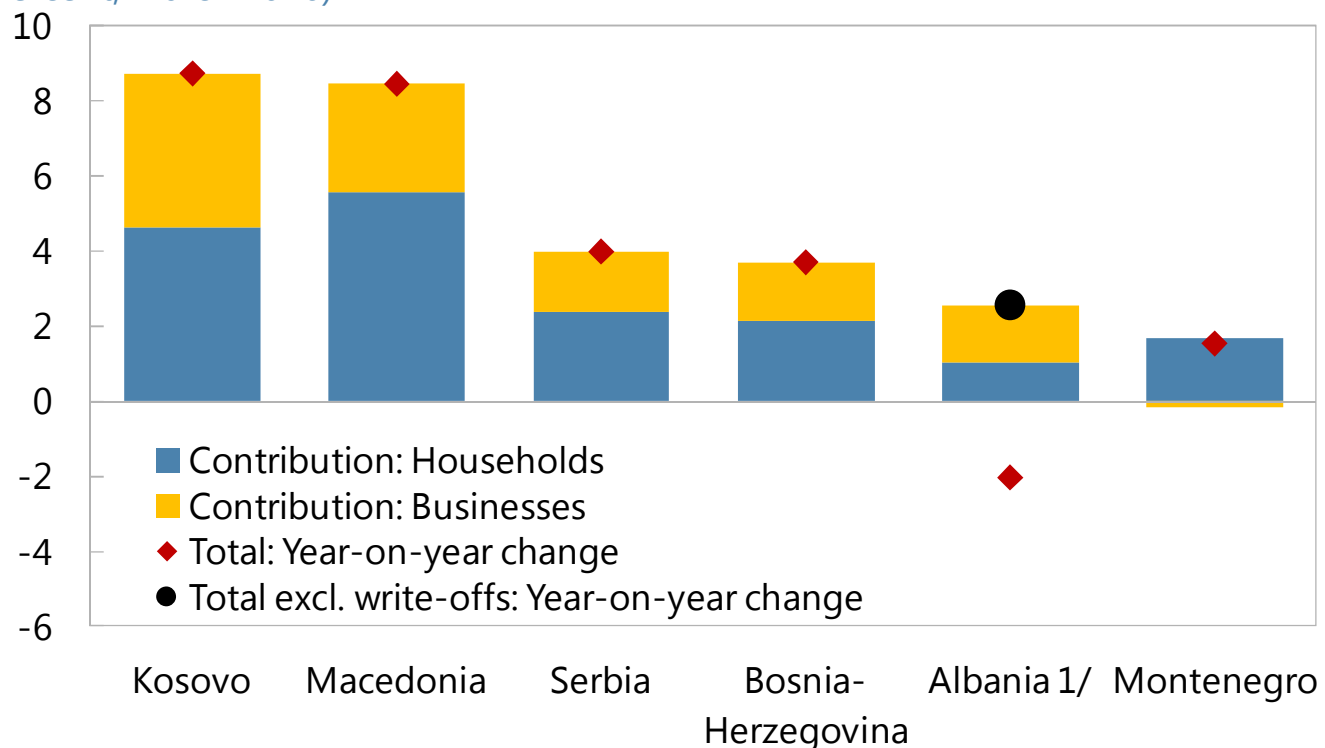
WB: Western Balkans.

# Credit growth is lagging behind the region



## Western Balkans: Credit to the Domestic Private Sector

(Percent; March 2016)



Sources: Haver Analytics; IMF, International Financial Statistics; and IMF staff estimates.

1/ Households and businesses contributions exclude the effects of write-offs.



# Demand Drivers ...

## Real GDP Growth

(Percent)

	Albania	Bosnia- Herzegovina	Macedonia	Montenegro	Serbia	Kosovo
2005-08	6.2	5.4	5.5	7.6	5.4	5.0
2014-15	2.2	1.9	3.6	2.9	-0.5	2.3

## Real Estate Property Prices - in Euros

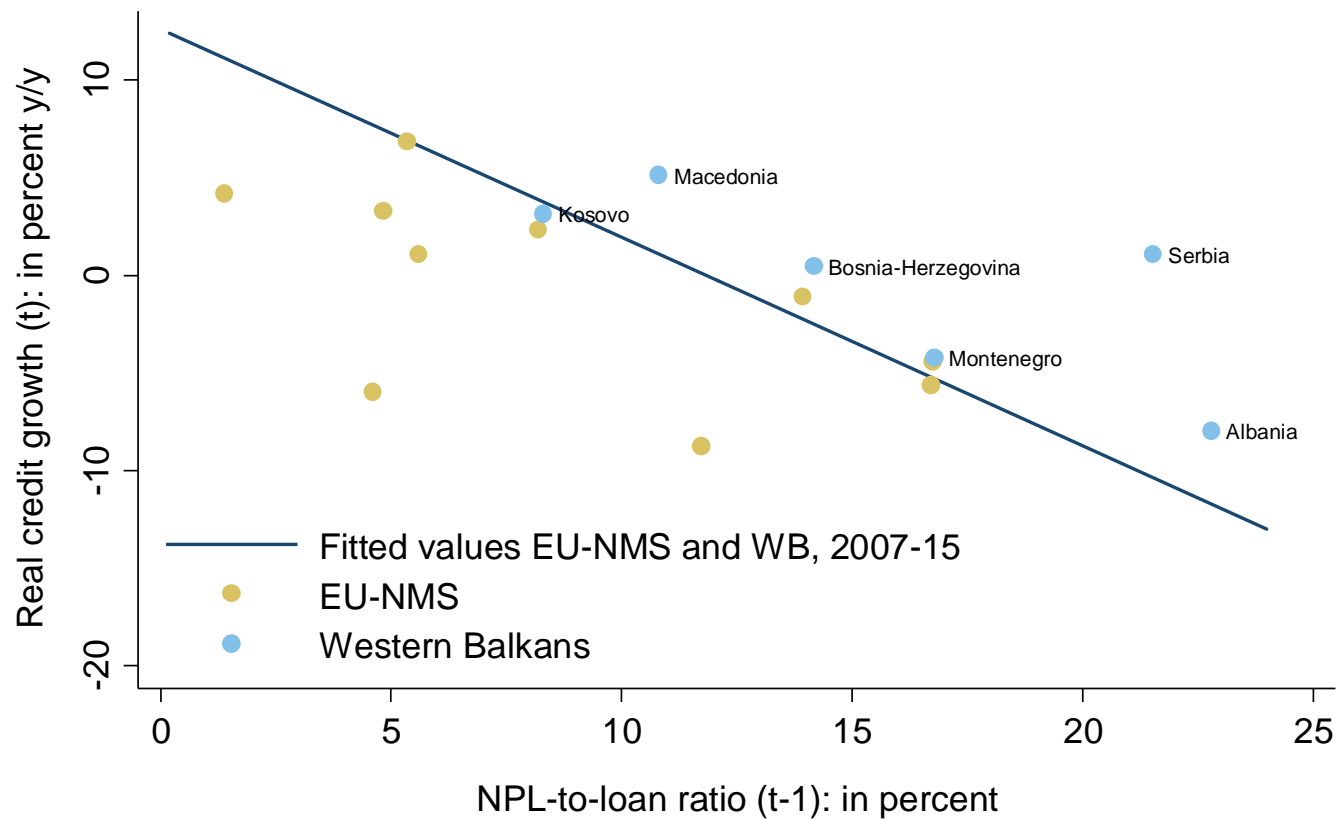
(Year-on-year percent change)

	Albania	Bosnia- Herzegovina	Macedonia	Montenegro	Serbia	Kosovo
2005-08	12.8	10.7	5.3	18.7	7.8	...
2014-15	0.4	2.4	-0.2	-2.7	1.3	...

Source: IMF staff estimates.

# Supply Drivers ... NPL overhang

Credit to the Domestic Private Sector<sup>1/</sup> and NPLs, 2015



1/ After controlling for real GDP growth.  
Source: IMF staff estimates.

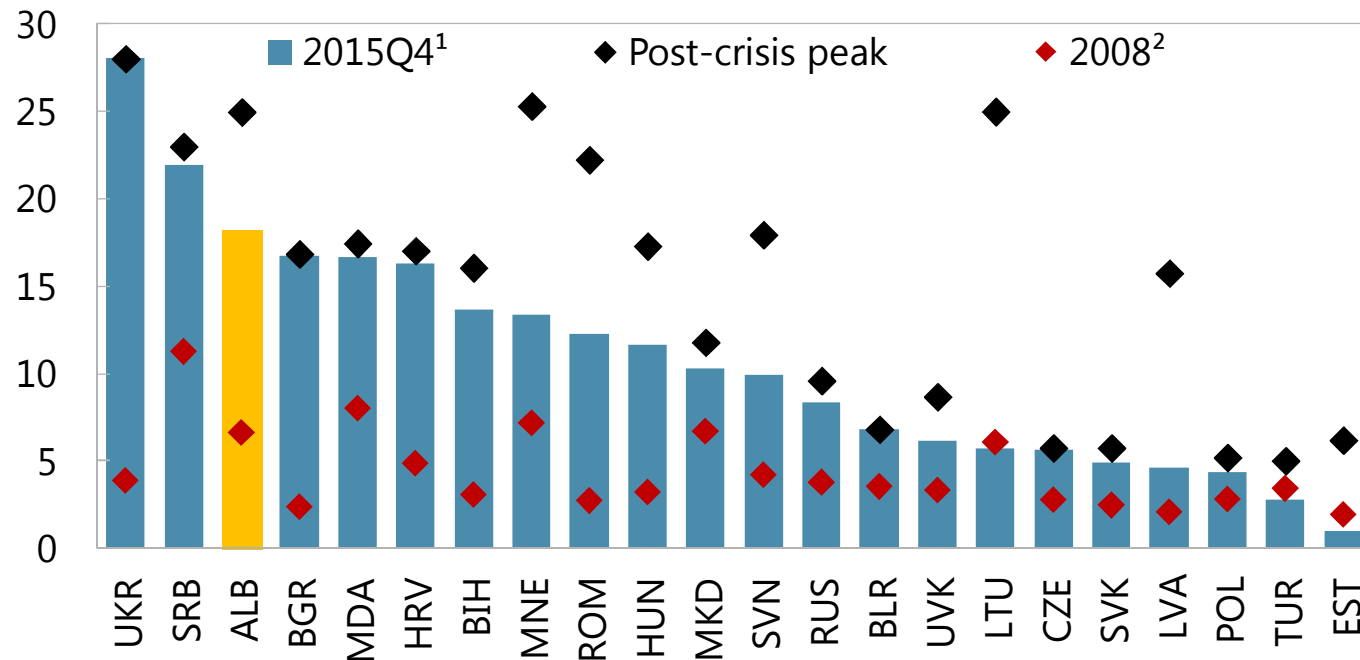




# NPL overhang

## CESEE: Non-Performing Loans

(Percent of total loans)



1/ Except for Bulgaria (2014), Czech Republic (2015Q3), Moldova (2015Q3), Romania (2015Q3), and Turkey (2015Q3).

2/ Except for Belarus (2010Q4) and Moldova (2009Q1).

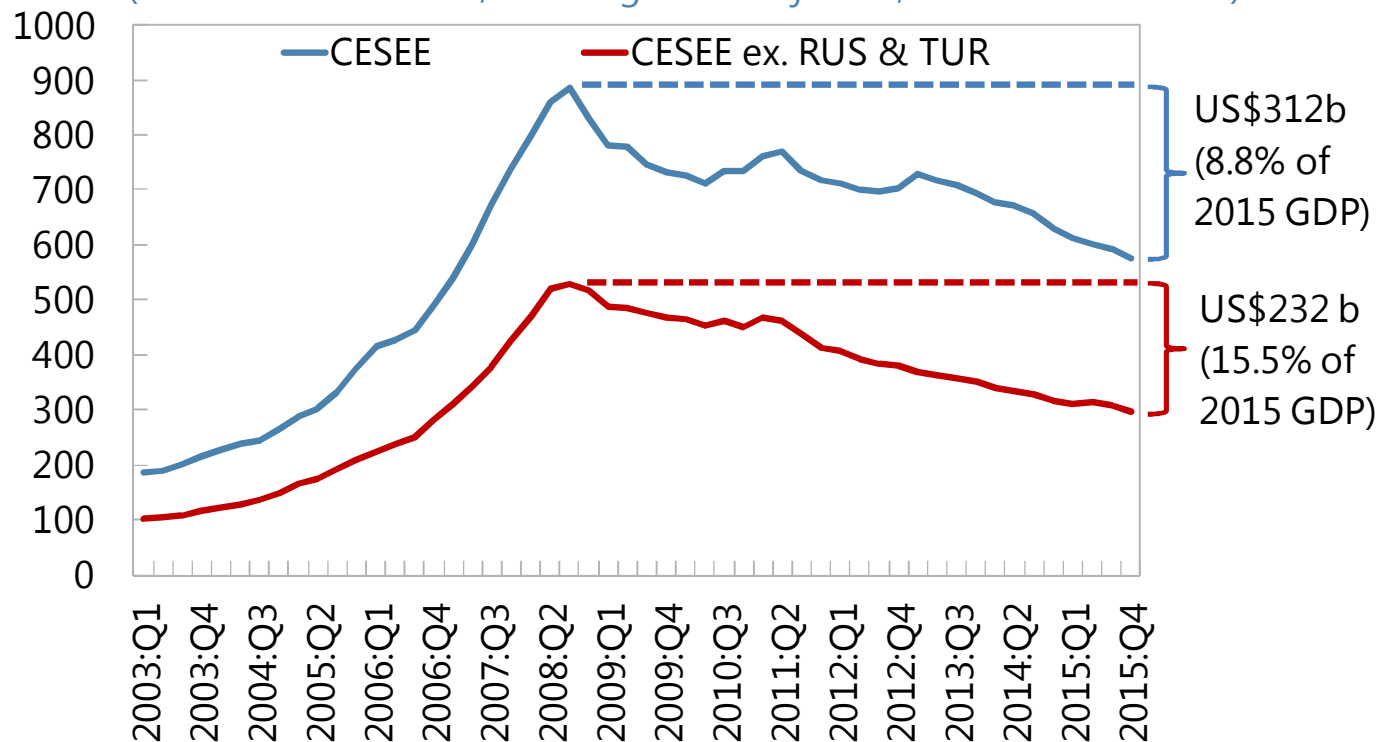
Sources: National authorities; IMF Financial Soundness Indicators; and IMF staff estimates.



# Supply Drivers ... Deleveraging

## CESEE: External Position of BIS-Reporting Banks, 2003:Q1-2015:Q4

(Billions of US dollars; exchange-rate adjusted, vis-à-vis all sectors)



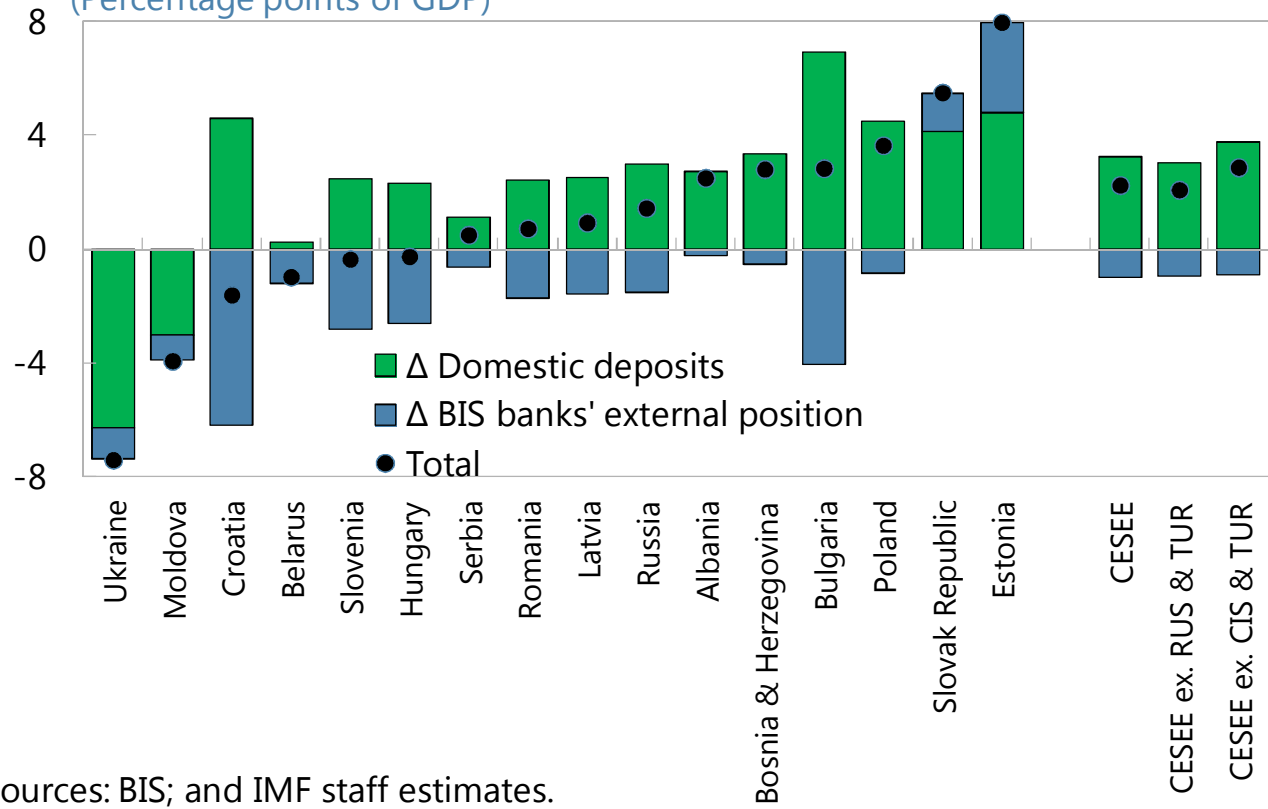
Sources: BIS, Locational Banking Statistics; IMF, WEO database; and IMF staff calculations.



# Supply drivers ... deleveraging

## Main Funding Sources, 2015Q4<sup>1</sup>

(Percentage points of GDP)

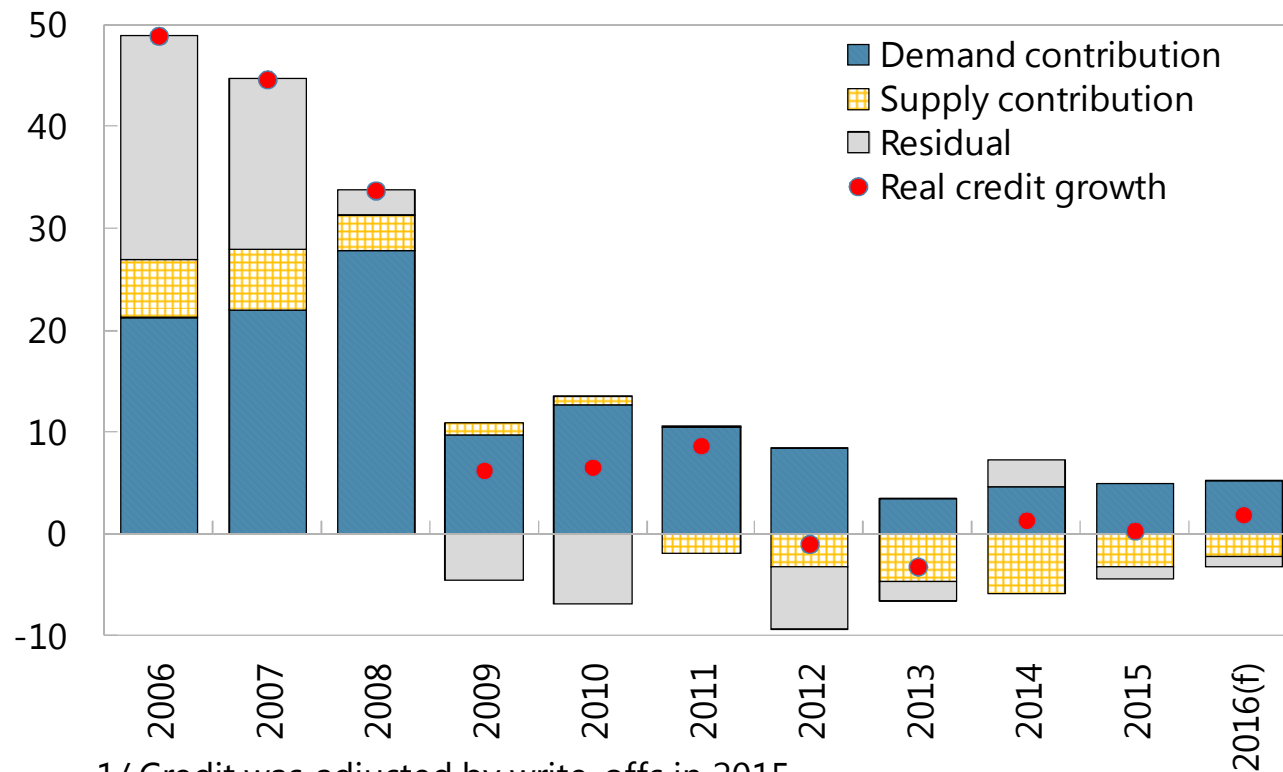


Sources: BIS; and IMF staff estimates.

1/ The chart represents the diff. of funding sources between 2015Q4 and 2014Q4.

# Demand factor is still weak. Supply factor is improving but remains a constraint

**Credit to the Domestic Private Sector<sup>1</sup>**  
 (Year-on-year percent change)



1/ Credit was adjusted by write-offs in 2015.

Source: IMF staff estimates.

# IMF-Program Goal: Boosting Credit Growth



## “ **Improve NPL resolution:**

- “ Implement NPL strategy.
- “ Improve collateral execution, insolvency regime and private bailiff incentive structure.
- “ Clarify tax treatment of loan write-offs.

## “ **Support credit demand:**

- “ Monetary easing to support aggregate demand.
- “ Promote competitiveness and investment by improving business climate.
  - “ Tax administration reform and procedures,
  - “ Property registration and fiscal cadastre,
  - “ Judicial reform
- “ Improve liquidity through arrears clearance and prevention.



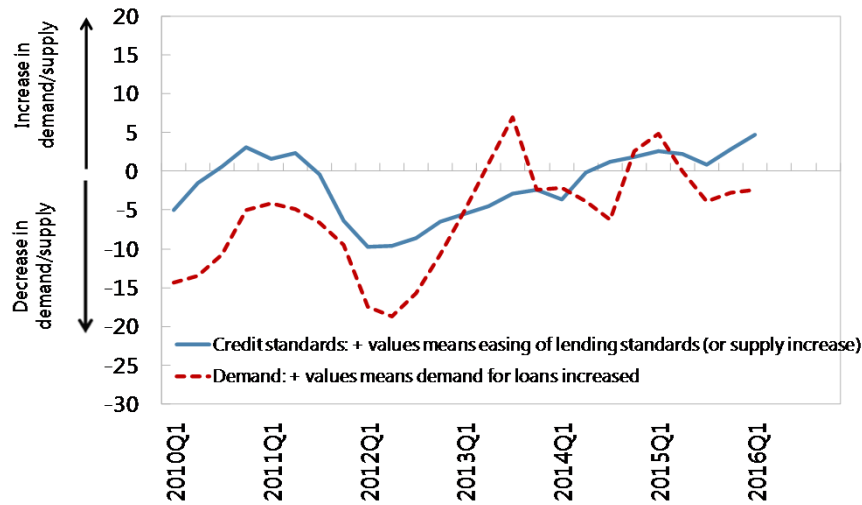
**Thank you!**



# What happened with Credit Albania?

## Loans to Business

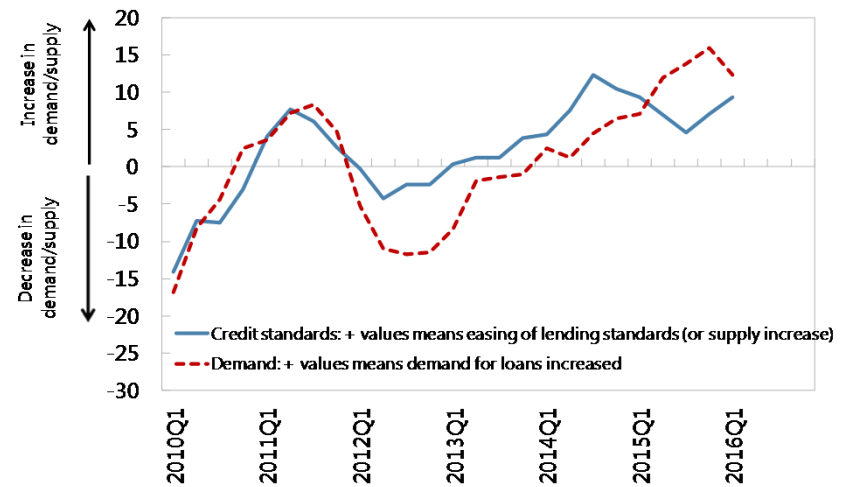
(Net balances in percent; 4-quarter moving average)



Sources: Bank of Albania; and IMF staff estimates.

## Loans to Households

(Net balances in percent; 4-quarter moving average)



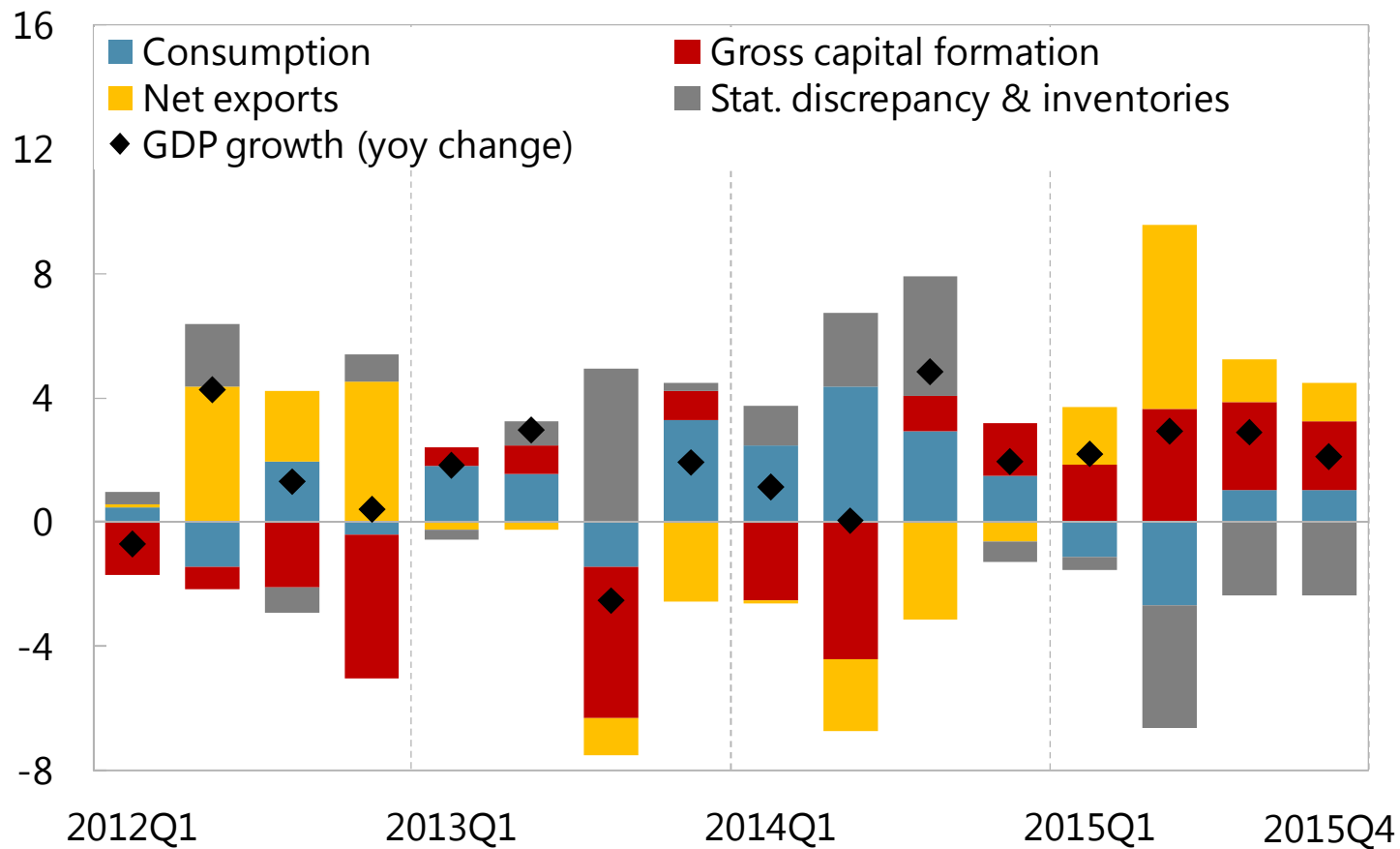
Sources: Bank of Albania; and IMF staff estimates.

# Economic Outlook



## Albania: Real GDP Growth

(Percent)



Sources: INSTAT; and IMF staff calculations.