



**FINANCIAL
STABILITY
ADVISORY
GROUP**



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PRESS RELEASE

Meeting of the Financial Stability Advisory Group 5 June 2012

On 05.06.2012, the Financial Stability Advisory Group (FSAG) met at the Ministry of Finance premises. The meeting was chaired by the Minister for Finance and was attended by the Governor of the Bank of Albania, Director General of the Deposits Insurance Agency, senior officials from these institutions and the Financial Supervision Authority, as well as the respective technical staff.

The FSAG discussed on the situation of the banking system and assessed the potential risks to it. While the activity of the banking system was assessed as stable, the FSAG found that the environment that surrounds the banking activities faces added risks, owing also to the recent political and economic developments in Greece.

In this context, the FSAG assessed the chances that the Greek crisis may affect Albania's economy and financial system. The analysis revealed that the Greek crisis may affect Albania's economy through certain channels, including: trade relations, remittances in the medium run, Greek-originated foreign investments, and creation of negative expectations by economic agents and the public at large. The potential impact may have a considerable degree of uncertainty, but the FSAG assessed that our economy has the required flexibility to buffer potential shocks. On the other hand, the banking sector is capitalised and liquid at levels higher than in the corresponding period of a year earlier. These levels are also thanks to increased capital and liquid assets by some banks in the recent months, conform to supervisory requirements. Therefore, the banking system and the banks with Greek capital that operate in the Albanian market are assessed as resilient to presumed shocks. Following recommendations from the previous meeting, the FSAG underlined that, together with the banking industry, the authorities need to continue to identify all the necessary legal and regulatory amendments that would develop the capacities to handle risks in the banking activity, in a coordinated and effective manner.

The FSAG was also informed on the re-activation of the inter-institutional group for addressing non-performing loans, composed of representatives from public authorities and the banking industry. Given the significance of this issue and taking advantage of the assistance made available through the World Bank, the FSAG underlined that the working group should progress rapidly to identify the main amendments to the legal, regulatory and operational framework and their implementation modalities, in order to establish a more stimulating environment where creditors and debtors may settle their accounts swiftly.

The FSAG also discussed on the liquidity situation in the financial market and the ability of market operators to finance their needs. Focusing more on the distribution of liquidity and financing of government needs, the FSAG assessed that market operators have met the demand without any particular difficulty. For the rest of the year, the demand for lending to the government is expected to be lower and its fulfilment easier. Sources of lending in the domestic and foreign currency may improve if some state-owned energy enterprises are eventually privatised. But the FSAG pointed out that, also in the fiscal management, risks that arise from the uncertainty about economic growth need to be assessed, and the necessary actions need to be implemented to adjust revenues and public expenditure levels.

In conclusion, the FSAG planned to hold its next meeting in September 2012.