

Albania Financial Forum IV

Reviving Credit Growth

Gent SEJKO
Governor
Bank of Albania

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2. Credit Growth in Albania

3. Concluding Remarks

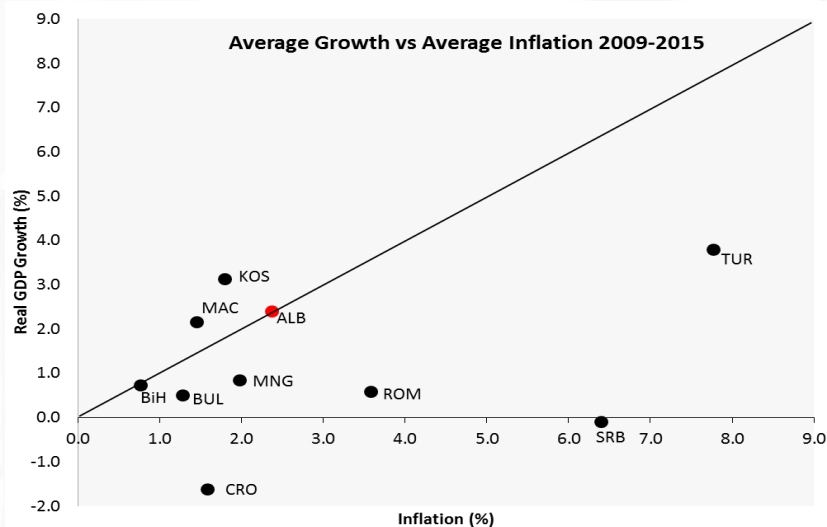
1. Macroeconomic Outlook

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The economic recovery is underway.

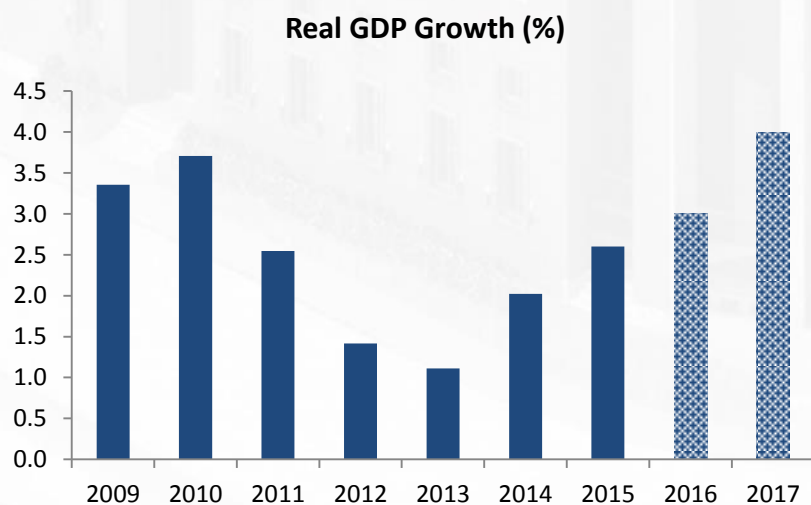


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- **The global crisis did affect the Albanian economy and its financial system. However:**
 - We did not fall into recession
 - Albania preserved its economic and financial stability
 - Albania outperformed most of its peers in the region

- **Recovery is expected to strengthen in the medium term:**
 - Private domestic demand is expected to lead GDP growth in the short to medium term
 - Export growth is expected to provide additional stimulus over the long term

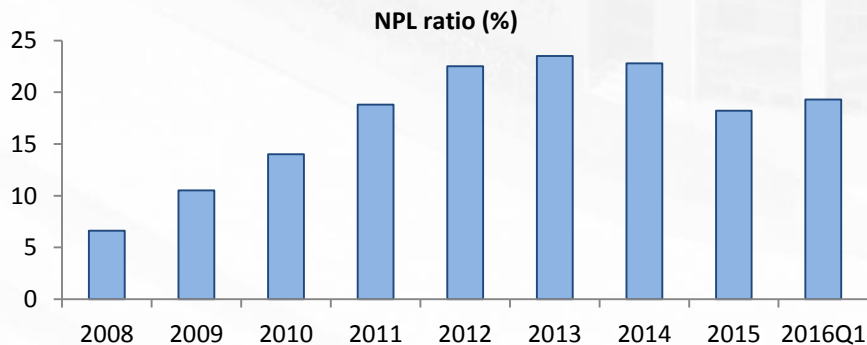
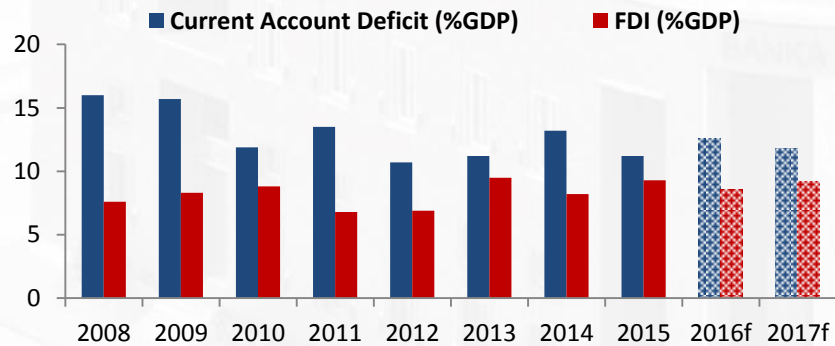
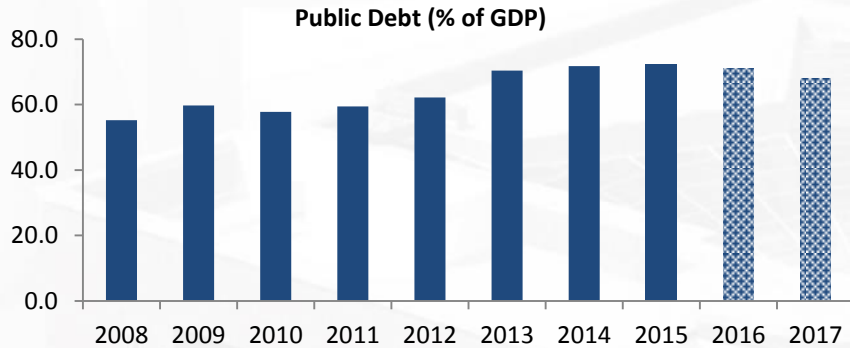


1. Macroeconomic Outlook

Recovery is based on: (i) solid economic and financial balances...



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- **Ongoing fiscal consolidation:**
 - Decreases sovereign risk premia
 - Facilitates the financing of the private sector

- **Stable external position:**
 - Reduces economic and financial volatility
 - Mitigates perceived risk for foreign investors

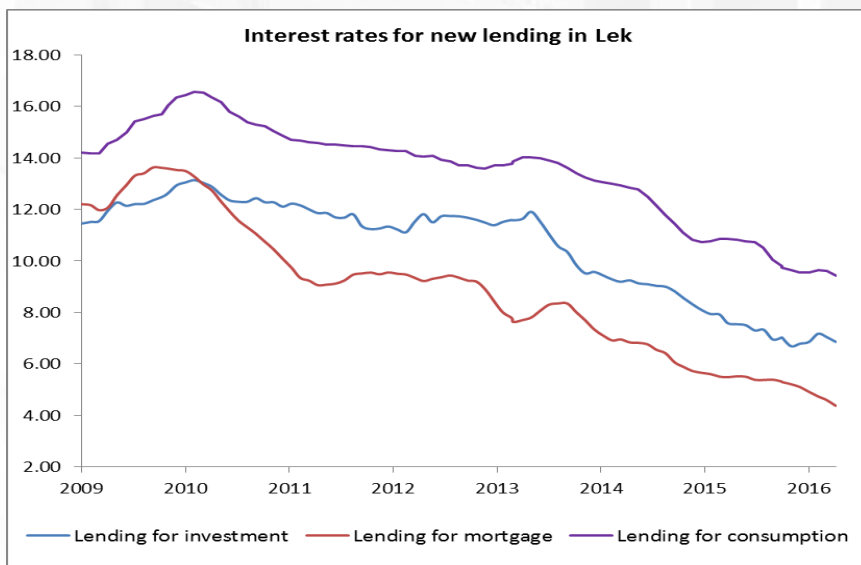
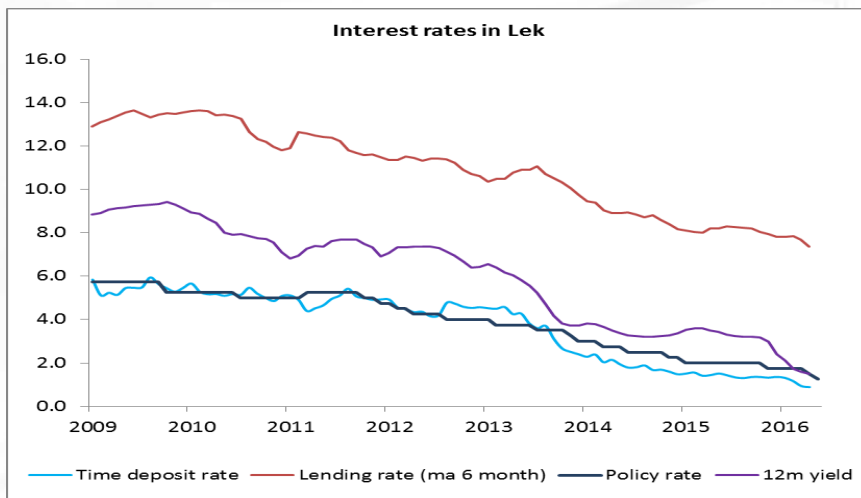
- **Declining NPLs:**
 - Reflects underlying improvement in economic activity and policy initiatives to tackle NPLs
 - Improves risk perception and encourages risk taking in the banking system

1. Macroeconomic Outlook

... (ii) stable and improving financing conditions...



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- **BoA is engaged in an expansionary monetary policy, through:**
 - Lower policy rates
 - Increased liquidity injections
 - Forward guidance

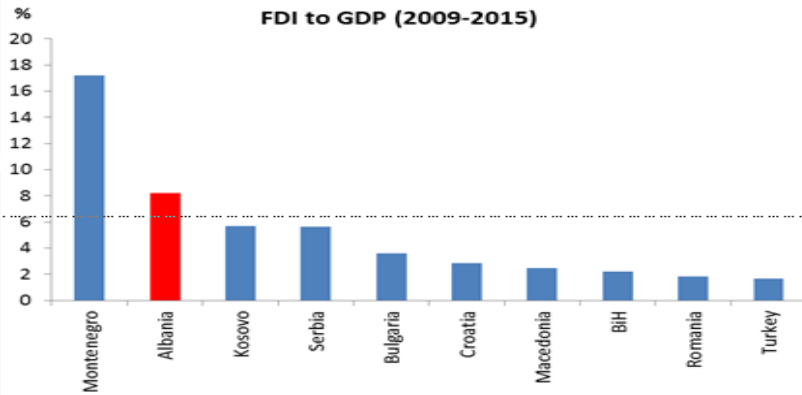
- **Our monetary policy stance is reflected in improved financing conditions:**
 - Lower financing costs for the banking system
 - Lower financing costs for the private sector
 - Lower financing costs for the public sector

1. Macroeconomic Outlook

... and (iii) continued FDI inflows and structural reforms.



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- **Incoming FDIs will continue to support growth:**
 - TAP and Statkraft projects will further accelerate FDIs inflows over the medium term



- **Wide-ranging structural reforms required to promote domestic & foreign investments:**
 - Further strengthening economic and financial stability
 - Improve business environment and reduce informality
 - Develop infrastructure and upgrade human resources

1. Macroeconomic Outlook

However, challenges remain:

- External environment remains difficult:
 - Our traditional trade partners continue to experience subdued growth
 - Decline in commodity prices discourages a large part of our traditional exports
 - External financial environment remains risk-averse
- Economic restructuring and fiscal consolidation hampers short to medium term growth
- Structural reforms should accelerate, in spite of associated short term costs
- **Lack of credit support might hamper economic recovery!**



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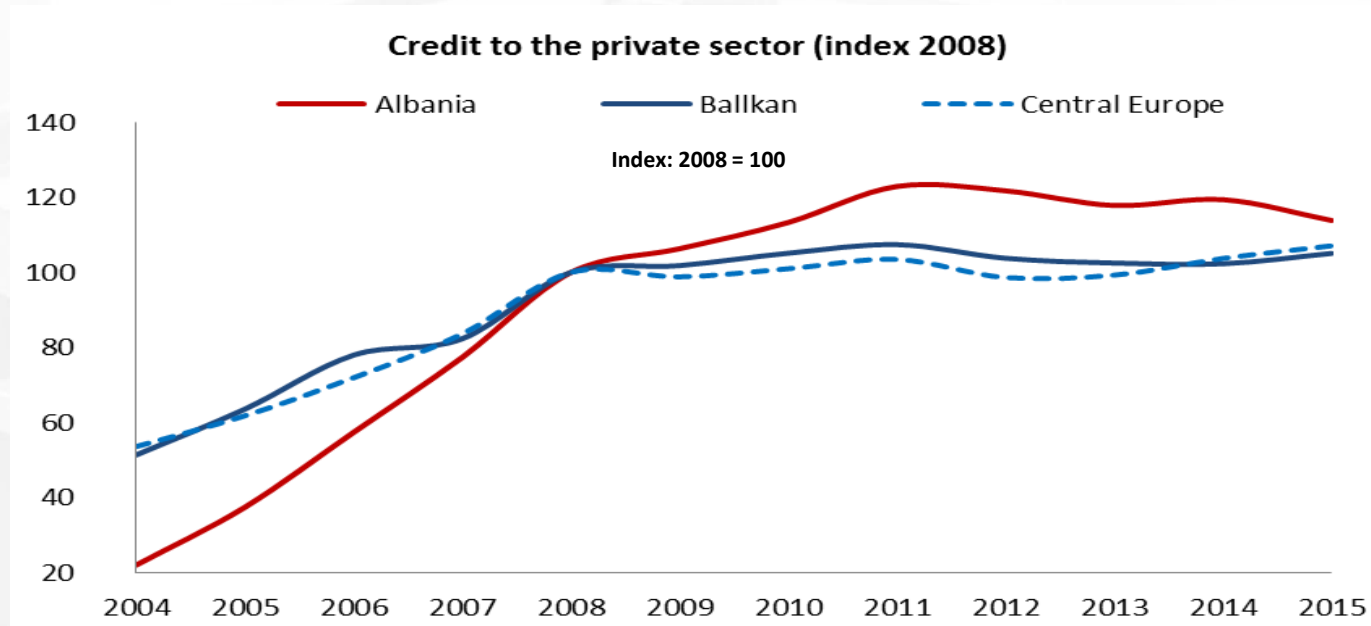
2. Credit Growth in Albania

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Credit growth dynamics were affected by the global financial crisis.



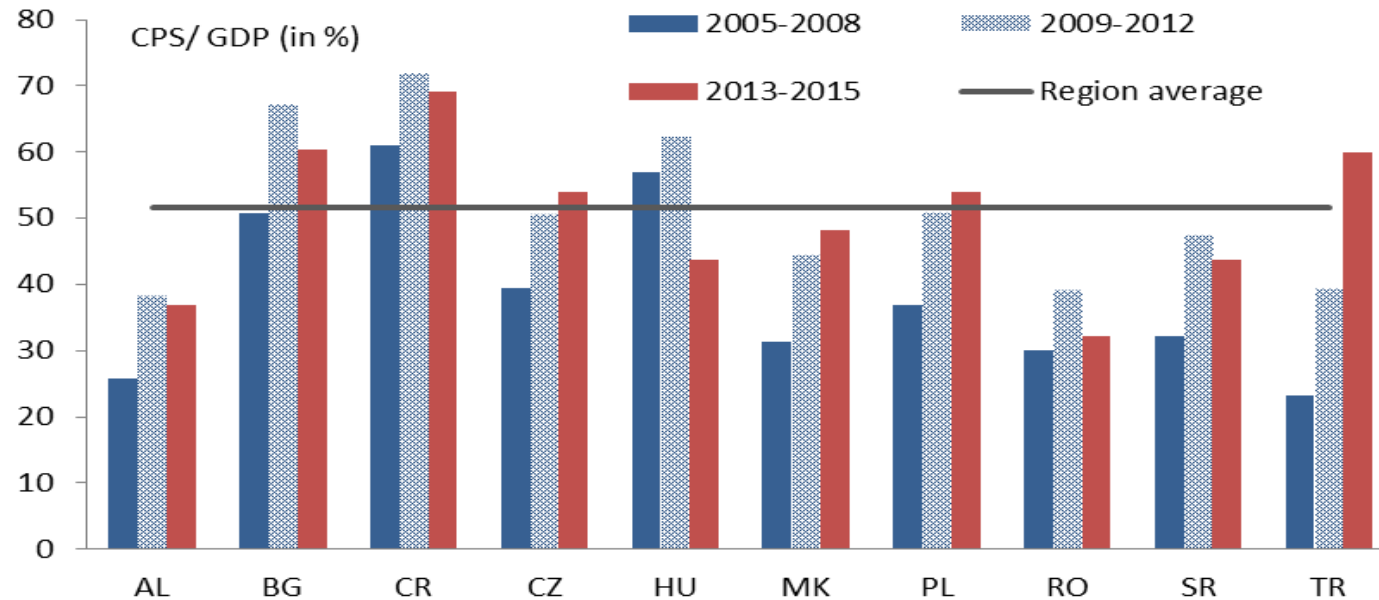
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- **Albania experienced rapid credit growth up to 2008, due to:**
 - High credit demand (fast GDP growth and low credit penetration before the crisis)
 - Accommodative credit supply (liquid and competitive banking system, expansionary policies imposed from parent banks)
- **Pronounced credit slowdown after 2008 (especially after 2011)**

2. Credit Growth in Albania

Understanding credit slowdown: Has the credit cycle matured?



- **Low credit growth trajectory is not in line with our fundamentals:**
 - Without enough credit, economic recovery cannot last for long
 - Though improving, credit to GDP ratios lag behind the regional average
 - Ongoing economic restructuring should provide ample lending opportunities

2. Credit Growth in Albania



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Understanding credit slowdown: Is it a demand or a supply side problem?

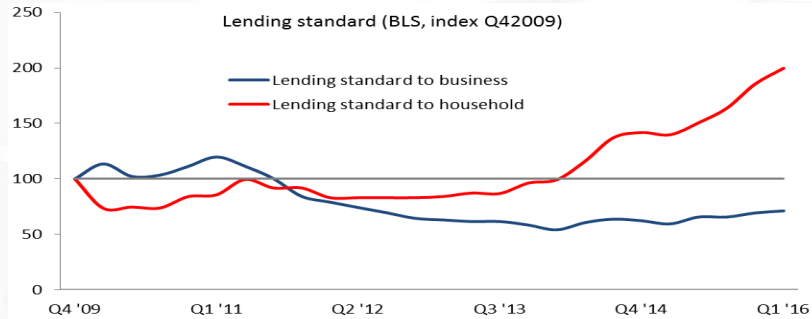
- **Demand side factors:**
 - GDP growth slowed down
 - Overleverage in certain sectors of the economy (such as construction)
- **Supply side factors:**
 - Credit risk increased as NPLs started to build up
 - External (i.e. EU) financial environment remains challenging
 - EU banking regulation is tightened
 - Banking capital remains both scarce and expensive across the EU
 - Some deleveraging / balance sheet restructuring occurred in Albania
- **However:**
 - **Supply side factors outweigh demand side factors**
 - **Demand side factors are expected to improve over the medium term**
 - **Unless improved, weak credit supply might jeopardize credit growth and economic recovery**

2. Credit Growth in Albania

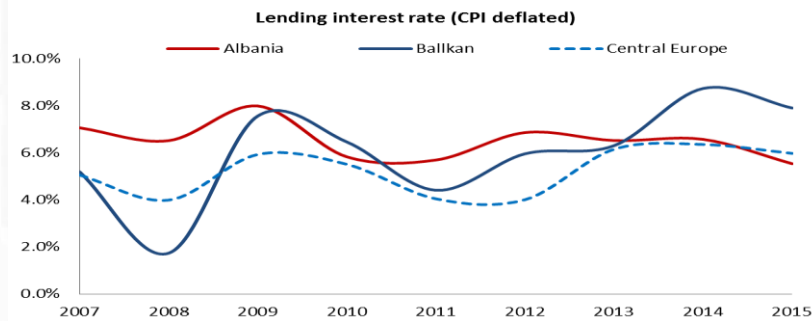
Understanding credit supply: Why are lending standards tighter?



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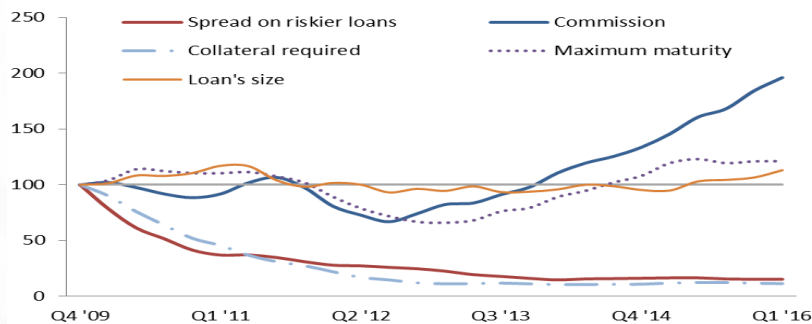
- **Bank Lending Survey results indicate:**
 - Though improving, lending standards to businesses are tighter
 - Lending standards to households are much easier compared to before 2008
 - Banks appear to discriminate according to sectorial and client risk profile



- **Lending rates in Albania are amongst the lowest in the region**

- **Lending standards appear not to have tightened on:**

- Loan size
- Commission
- Maturity



- **Banks appear to have tighten lending by applying:**
 - Higher spreads on riskier loans
 - Higher LTV ratios / larger collateral coverage

2. Credit Growth in Albania

Actions taken from BoA to support credit growth.



BoA has tackled both the demand and the supply side of the equation!

- **On the demand side:**
 - Expansionary monetary policy aims to boost consumption, investment and credit demand
- **On the supply side:**
 - Prudential regulation has aimed to preserve financial stability
 - Various credit-related regulations have been updated:
 - Encourage early credit restructuring
 - Introduce mandatory loan write-offs
 - Contain risk from Other Real Estate Owned (RE ending in bank balance sheet)
 - Countercyclical macro-prudential tools have been applied
 - Lower risk-weight for annual credit growth within a 4-10% interval applied
 - Discourage capital outflow and reduce the relative risk weight for crediting domestic economy
 - In coordination with other authorities, support actions to reduce credit risk and improve collateral execution, through:
 - Improvements in Civil Code of Procedures
 - Improvement in Tax legislation

2. Credit Growth in Albania

What can the commercial banks do to support credit growth?



- **Foster cooperation and improve their partnership with local businesses**
 - Actively seek prospective sound lending cases
 - Tailor their lending (and banking) products to specific businesses / sectors / country risk profile
 - Promote early restructuring to viable businesses, based on clear and transparent guidelines
- **Actively promote Albania as a viable credit market within their groups**
- **Actively strengthen their balance sheets, through decisive individual and collective actions**
- **Actively lobby regulators and legislators for further improvements in the lending environment**



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3. Concluding Remarks

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- The outlook for the economic recovery is positive
- However, credit might become an obstacle to medium/long term growth
- With demand expected to pick up, credit supply remains an issue
- The BoA has undertaken concrete efforts to revive credit growth and the NPL resolution plan tackles a large part of remaining problems
- **However, commercial banks are not passive stakeholders in economic and financial stability; rather, they are crucial actors that shape it!**
 - Commercial banks should become more far-sighted and flexible in their lending policies
 - Lending and banking products can and might be improved
 - Credit risk should be properly perceived, in line with perspectives of the economic situation
 - Individual and collective actions should be strengthened, to improve balance sheets and promote effective lobbying

**Thank You
for
Your Attention!**