



**FINANCIAL
STABILITY
ADVISORY
GROUP**

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PRESS RELEASE

Meeting of the Financial Stability Advisory Group

November 6, 2013

The Financial Stability Advisory Group (FSAG) met on 6 November 2013. The meeting was chaired by the Minister for Finance and was attended by the Governor of the Bank of Albania, the Chair of the Financial Supervisory Authority (FSA), and managers and experts of these institutions. As in previous meetings, representatives of the Deposit Insurance Agency (DIA) were also invited and attended.

First, there was a presentation on FSAG activities since 2012, when this activity was supported by the Secretariat. Then FSA representatives discussed on insurance market developments. They dwelt in more details on the green (international motor) insurance policy and the pricing of insurance products. The participants commended the work of the FSA for assuring the alignment of insurance companies' technical reserves with the minimum regulatory requirements and risk exposure levels. They also underlined that the pricing of insurance products should match consumers' expectations for effective and qualitative services.

Following, the DIA representatives informed FSAG participants on the negotiations with the European Bank for Reconstruction and Development (EBRD) for a credit line, as a standby instrument to meet their objectives about the targeted amount of the deposit insurance fund. EBRD has also offered a similar instrument for

homologue agencies in other countries of the region, which have considered it as a good opportunity to increase their financial assets. The option of using the credit line would require a guarantee issued by the Government of the Republic of Albania. To assess and justify potential obligations arising for the state budget in the event of using this credit line, representatives of the Ministry of Finance said that the reasons for and the possibility of using it need to be thoroughly and comprehensively analysed. Therefore, it was suggested for the DIA to cooperate with the Bank of Albania in this regard.

Representatives of the Bank of Albania informed the FSAG participants on their assessments for the financial situation and exposure of the banking sector to main risks. While the banking sector faces difficulties to generate sustainable positive financial result, it remains well capitalised and liquid. Moreover, as operational expenditure increased due to raising provisions for the credit risk, lending has decelerated sharply. In this context, the participants were informed on the measures that the Bank of Albania has taken, individually or in cooperation with other institutions, to address the stock and flows of non-performing loans. Such measures include amendments to the Code of Civil Procedures for the well-functioning of the collateral execution process, encouraging loan restructuring at an early stage of problems arising for the borrower, communicating with relevant authorities about the taxation modalities of banks' write-off loans, and the need to settle payment arrears for companies engaged in public works. In addition, requirements for capital and liquid assets for banks have been lowered temporarily with a view to boost lending. The Bank of Albania informed the FSAG about its preliminary assessments on the potential impact of such measures on the performance of non-performing loans. Representatives of the Ministry of Finance welcomed these measures and added that these assessments should extend to include other potential scenarios. About the taxation of banks' write-off loans, it was underlined that the parties should support the process by reaching an accurate and steady interpretation of existing legal provisions and other relevant acts issued for their implementation.

The Bank of Albania briefed the participants on the progress of the project for the automated system of the registration and settlement of government securities (CSD). This system eliminates the risk of parties breaching contractual terms in a securities transaction, thanks to the application of "delivery versus payment" principle. In

addition, because of the automated process and the expected increase in the trading volume of the secondary market for such securities, investors will better meet their liquidity needs under a lower operational risk. The participants endorsed the proposal of the Bank of Albania to establish an inter-institutional working group for supporting this project.

Discussion continued about the liquidity situation in the interbank market and government debt securities market. The participants highlighted that the way for financing government's borrowing needs, as defined in the approved budget, should reflect the lending capacities of domestic market operators and also allow the necessary space for the private sector to meet its financing needs. The parties stated that, while conforming to respective legal responsibilities in the fiscal and monetary spheres, there is a need to develop expectations on the relevant indicators based on several scenarios. Such scenarios should be identified and discussed in advance between the parties.

At the conclusion of discussions, the Minister of Finance declared the meeting as closed.