

# Bank of Albania Annual Conference

Tirana, 9 November 2017

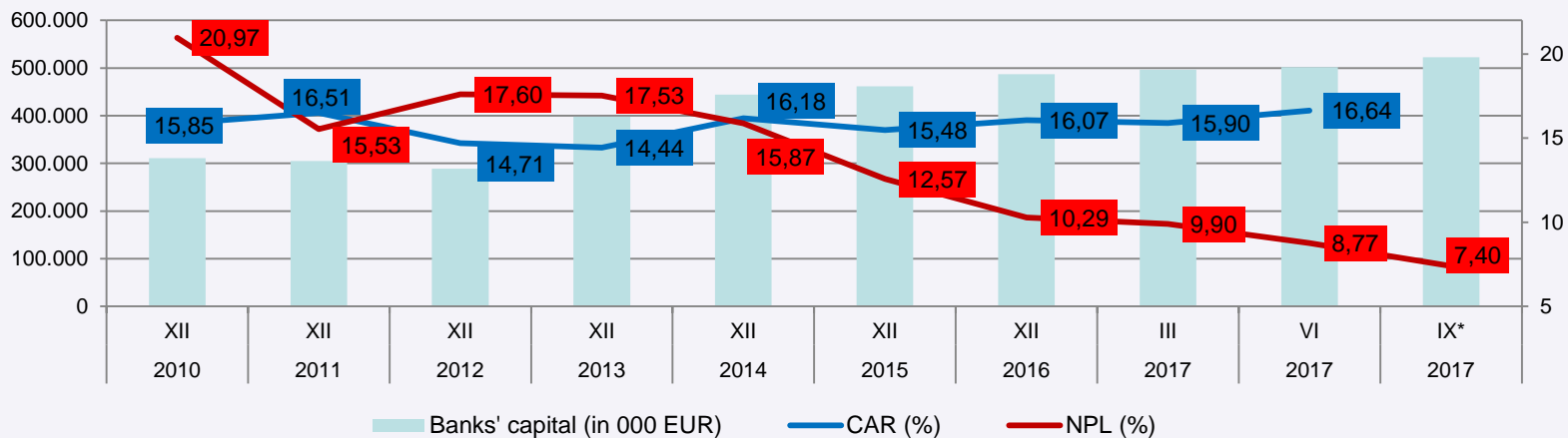
## Banking Developments and Financial Market Infrastructure

**Radoje Žugić, Governor**



- Total Assets over 4 billion Euros
- Total Deposits over 3 billion Euros
- Total Loans over 2.6 billion Euros

NPL (% of total loans), Capital Adequacy Ratio (CAR), Banks' capital (in 000 EUR),



- *preliminary data for September 2017. Data on CAR is not available for IX 2017.*
- *Maximum level of NPL was in August 2011 - 25,9% of total loans*

# ▶ Macro – financial policies and regulatory changes

## **CBCG has prepared six draft laws**

- **Harmonisation with EU standards and best practice**
- **Enhancing regulatory framework**
- **Strengthening resilience**
- **Supporting fiscal consolidation**



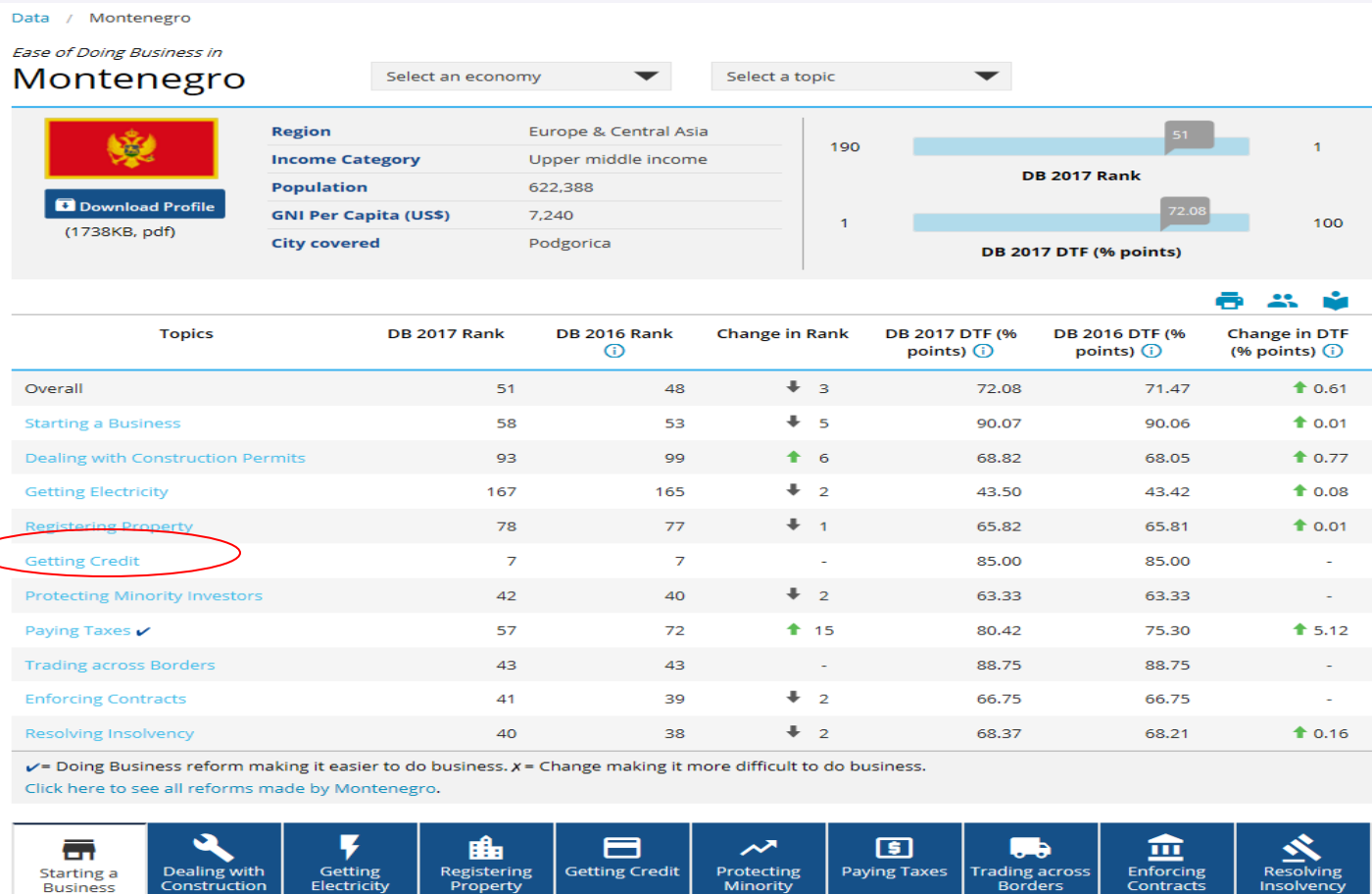
- **The financial system in Montenegro is bank-centric**
- **Around 90% of financial assets are in “the hands” of banks**
- **Developed regulatory framework and regulators for the rest of the financial system**
- **Lack of credibility in non-banking financial institutions**



- **The CBCG follows the principles of a socially responsible institution.**
- **Low level of financial education and financial inclusion → high probability of indebtedness and bankruptcy.**
- **Investing in financial inclusion, and**
- **Developing financial literacy.**

# Banking Sector Outlook

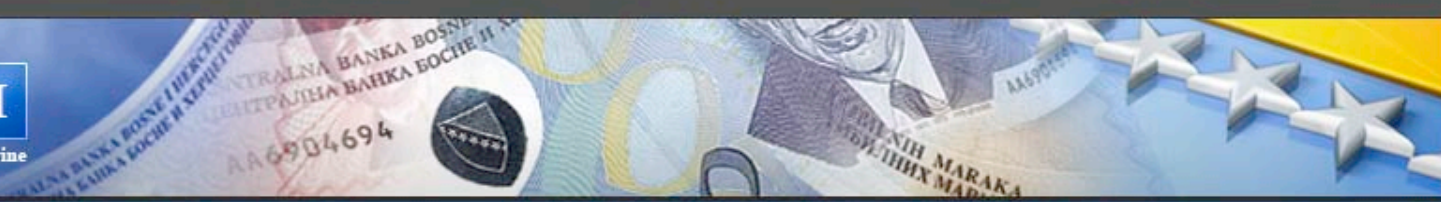
- 15 banks operating in Montenegro;
- over 80 % of foreign ownership.







**C B B H**  
Centralna banka Bosne i Hercegovine



# Financial Markets, Financial Inclusion and Their Important Role for Future Developments in Macroeconomic and Financial Stability?

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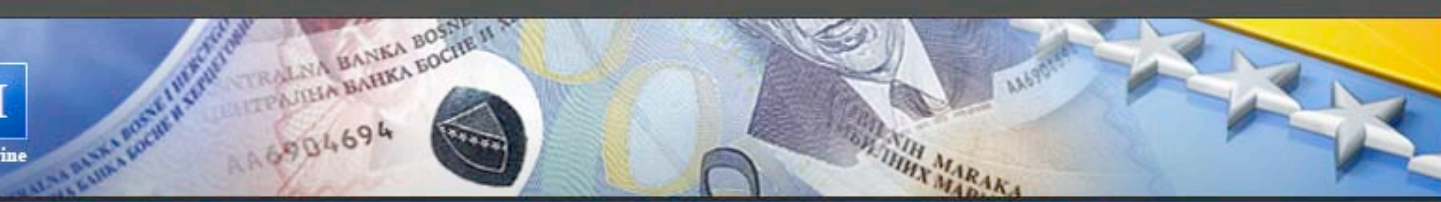
Senad Softić, Governor

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Tirana, November 9th 2017

International Conference on Banking Developments and Financial  
Markets Infrastructure





# Content

- What do we have at our disposal?
  - Is the following a limiting factor:
    - Lacking institutions?
    - Missing regulations?
    - Something else?
      - Macroeconomic and social context
      - Other factors
- Efficiency of monetary policy and financial stability in the context of:
  - Financial inclusion and financial literacy
  - Fintech and introduction of special financial products and payment systems



## Structure of financial system

1. Currency
2. Payment systems
3. Financial intermediaries and their regulators / supervisors  
banks (23 + 2 development), insurance companies (27 + 1 reinsurance), investment funds (38), leasing companies (6), MKO (24), brokers (15).  
Regulators at the entity level coordinated at the state level, except for intermediaries at capital markets. Do we need more intermediaries (investment banks? Savings and credit cooperatives?)?
4. Financial markets and their regulators / supervisors  
2 Stock exchange, 2 Securities Committee, 2 securities registers. What about the money market (high solvency and short maturity)? Cash (spot) market (goods sold for cash with immediate transfer of ownership)? Derivatives market? Foreign exchange market?



## Legal framework

- Law on CBBiH (currency and payment systems): establishment, competencies and objectives, goals and responsibilities. Mechanism of payment systems thoroughly defined by the Central bank directives.
- Law on banks: minimum capital, shareholders and management structure suitability, circumstances for revoking professional license, authority to collect deposits and issue credits, obligations in regard to prudential bank supervision, combatting money laundering and financing of terrorism issues. Links: Laws on CBBiH, Deposit Insurance Agency, banking agencies.
- Law on capital markets and stock exchange including laws on securities' registers and intermediaries. Links: Laws on banks and institutional investors, business companies, law that governs the issue of public debt management.



## Risk assessment in financial system

- Potentially underestimated risk in banking system
  - Governments' securities are mostly posted at administered prices and not market prices; main buyers are banks
  - Value of real estate is potentially overestimated, which in a shallow and rather limited market could bear significant implications to banks' clients as well as banks themselves
  - Reduced possibilities to mitigate other risks
- Due to dominance of banks within the system and absence of large local investors, there is no real estimate of credit risk for local companies
- However, weak representation of foreign investors implies lower risk for unsustainable overestimation of a local currency



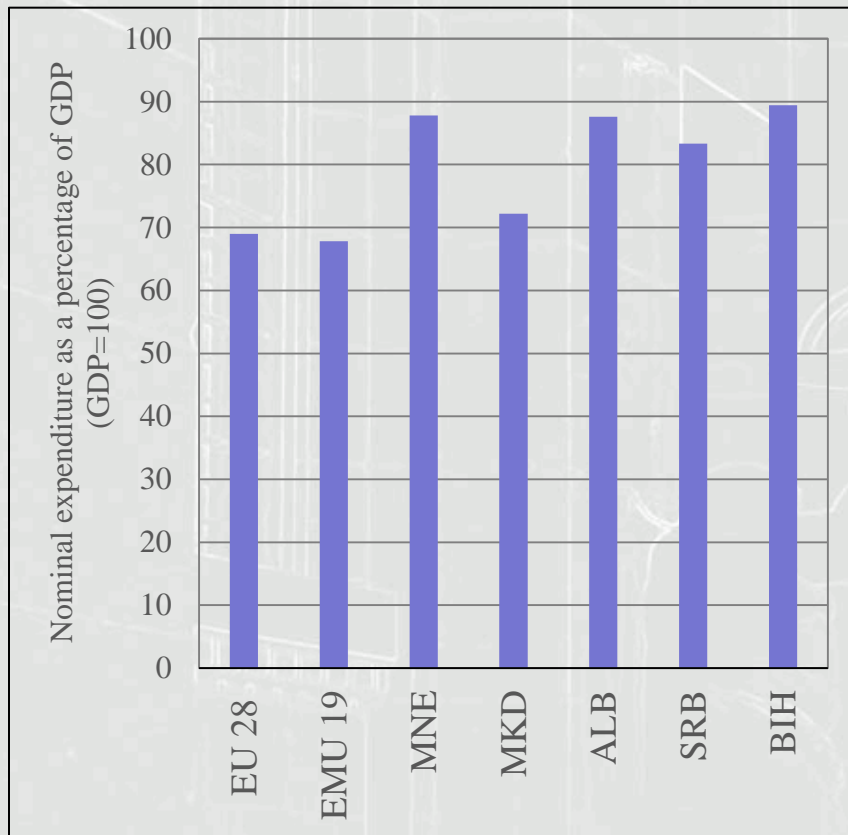
## Macroeconomic and social context

- Factor of a country's development level is directly affecting the depth of financial markets and offered services.
  - Level of available income
  - Retirement and health system of the country
  - Existence of repressive regulation (i.e. direct interference of state in resources allocation)
  - Mistrust between companies and clients

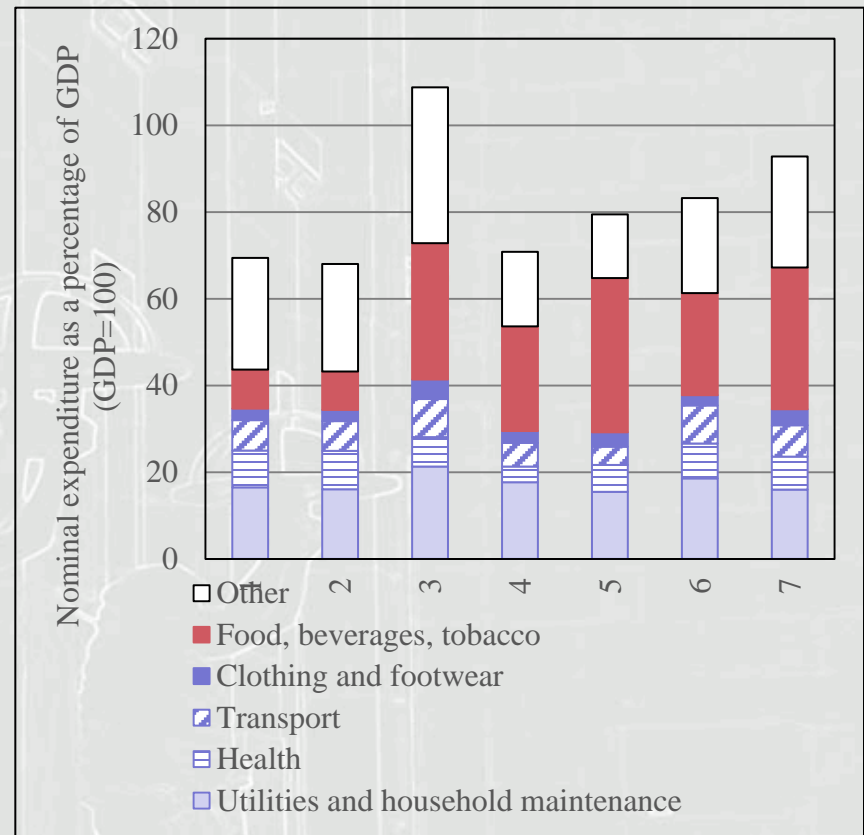


# Level of available income in the country

## Actual individual consumption, 2016



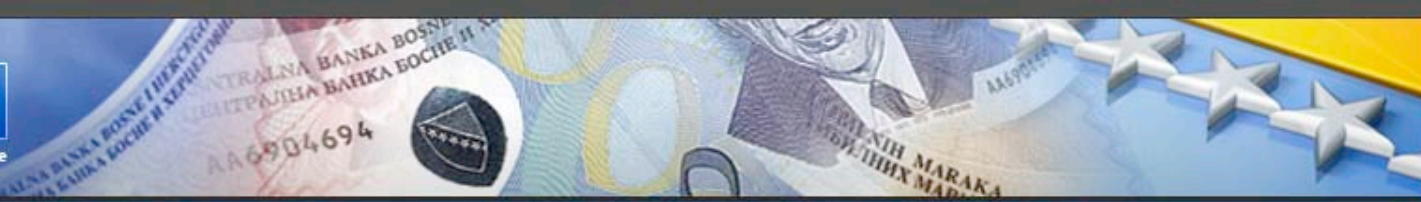
## Expenditure by types, 2016





## Other factors

- Commercial laws: ways of registering companies and their management, consumers' protection in financial systems.
- Protection of creditors' rights and insolvency management systems: mechanisms that ensure efficient, transparent and reliable methods of debt collection, including the acquisition.
- Access to credit and property ownership right: foundation to development of complex financial instruments.
- Judiciary: expectation that the system is unbiased, predictable and efficient.



## Financial literacy and financial inclusion

- Financial literacy:
  - Macroeconomic shock in 2008 (but also the capital market crash in 2007) indicated a very low level of financial literacy
    - Current activities mostly emphasize necessity of good budgeting, managing expenses or better understanding of financial contracts and basic banking concepts.
- Financial inclusion
  - Citizens who were, or who are currently employed also have a banking account, as well as a significant number of retired persons. Significant number of users of traditional banking products. However:
    - Internet users (2016): 61,6% of population
    - According to census from 2013, over 14% population is older than 65
    - High rate of non-active population
    - 38% of work capable population with primary school or lower level of education
  - Better chances for strengthening through financing of startups or P2P loans





## Fintech and introduction of special financial products and payment systems

- Strong potential for development, but also potential for increasing risk for financial stability
- Non-regulated and potential money laundering
- Potential for creating balloons
- Potentially significant effects for the level of foreign currency reserve, which could significantly jeopardize confidence in fixed conversion rate of KM against EUR

Thank you for your attention.