

EU and regional developments Opportunities and risks

Othon Anastasakis, SEESOX
University of Oxford

EU opportunities

- EU discussion on its long term future amid different scenarios.
- Reconfiguration of the Franco-German relationship.
- Electoral victories of pro-European over populist forces in big European states.
- Positive data on the European economies: upgraded growth prospects; falling unemployment (the lowest since 2009); and strong industrial production.
- A more optimistic climate compared to a year before!

EU risks

- Brexit and UK loneliness.
- Eurosceptic parties on the rise across Europe.
- Rise of the protest vote in Central Europe.
- Secessionist risks in Spain.
- Unemployment in the eurozone still high.
- Social inequalities.
- Regional disparities.

Global Risks

- Problems with the Western alliance in the security field.
- Disagreements with the US over trade, environment.
- Geopolitical competition with Russia.
- Tensions between the West and Turkey.
- Islamic fundamentalism and terrorism.
- Refugee flows from the Mediterranean.

Regional Western Balkan opportunities

- Stable and moderate governments in power.
- A pro-European elite consensus.
- Juncker reassurances for WB enlargement.
- EEAS commitment for the security of the region.
- Berlin process and anticipated benefits: connectivity, education, infrastructure; 900 millions in commitments.
- China and Gulf states as opportunities for investment.
- Better economic prospects.

Common country risks in the region

- Rule of law (impunity, corruption and organised crime).
- Democratic backsliding.
- The appeal of illiberalism.
- Persistent nationalism.
- Islamic radicalisation.
- Alienation between citizens and their elites.

Regional risks

- Bilateral issues (Serbia-Kosovo normalisation, Macedonian name, border issues, Yugoslav war legacies).
- Enlargement fatigue.
- Public disillusionment with the EU in the region.
- Competition from Russia.
- Turkey's alienation from Europe.
- China as a risk on the EU reform agenda.
- Dilemma: Authoritarian versus democratic capital.

Need for...

- Credible commitment from the EU.
- Refocus of the enlargement agenda.
- Expanding regional cooperation where there is potential.
- Increasing economic opportunities for local brains and brain drains.
- Berlin process: tangible projects; success stories; connectivity with the enlargement agenda.
- Support for democracy, rule of law and civil society.

China's Emerging Financial Footprint Risks and Opportunities in Southeast Europe

Dr Jens Bastian

Independent Economic Consultant

Bank of Albania Annual Conference

Banking Developments & Financial Market Infrastructure

Tirana, Albania

09th November 2017

China's Return to Albania

- **China Pacific Construction Group (CPCG) building expressway linking Montenegro and Albania**
 - 3,2 billion USD investment – 280 km long
- Oil exploration rights acquired by China's *Geo-Jade Petroleum*
- **China Everbright and Friedmann Pacific Asset acquisition of Tirana International Airport SHPK**
- *PowerChina*, a construction holding, has irrigation projects in Albania
- **China State Construction (CSC) 16-Mile Arber Road project to Macedonia**
- Investment in Port of Shëngjin



Albanian parliamentary chairman Ilir Meta in 2016
(Photo Albanian government press office)



The strategic logic of China's Balkan Silk Road



- Establish anchor investments as 'ice-breakers' and 'pull-factor'
 - Port infrastructure (e.g. Greece, Albania)
- Gradually create a cluster of investments in specific sectors
 - Most advanced in transport infrastructure and energy sector
- Initiate a financial footprint
 - Chinese loans to countries in southeast Europe

Establishing a banking sector footprint

- *Bank of China* branch opened in Belgrade, January 2017
- *Exim Bank* financing motorway construction in Macedonia, Montenegro
- *China Development Bank* lending for Stanari thermal power plant in Republika Srpska
- *China Development Bank* MoU with Bank of Greece, July 2016



As seen in Skopje, FYR Macedonia, June 2017

Creating Chinese-led investment funds

➤ China – Central + Eastern European Investment Cooperation Fund

- **Established 2012**
- **Registered in Luxemburg**
- **Funding: USD 500 million**
- **Export Import Bank of China**
- **Exim Bank Hungary**

➤ Second Investment Cooperation Fund

- **Launched end-2016**
- **Sino - CEE Financial Holdings Ltd**
- **Funding: €10 billion**



Cooperation between China
and Central and Eastern European Countries

中国—中东欧国家合作

6th Summit in Budapest, Hungary, November 2017

Secretariat located in Beijing



Sino – Hungarian financial cooperation

- **Sept. 2013:** *People's Bank of China* signed a 10 billion Yuan currency swap with finance ministry (USD 1,45 billion)
- **April 2016:** Hungary became first CEE country to issue yuan - denominated sovereign bond
 - Three-year Dim - Sum bond
 - Yield of 6.75 percent
 - Raised 1 billion yuan (USD 154 million)
- **July 2017** Hungary sold debt *in* China
 - Raising Renminbi 1 billion
 - Three-year bond
- **Rationale for Hungary's renminbi issuance is geostrategic not financial**



Infrastructure opportunities turning into financial risks?

- **Montenegro and China's Exim Bank** signed in 2014 an 800 million euro deal to finance a highway linking the port of Bar with Serbia
 - **Exim Bank provides loan for 85 percent of the total**
 - **Six-year grace period**
 - **Repayment of 20 years**
- **China provides flexible funding if countries use Chinese workers and equipment**
- **World Bank withdrew a \$50 million budget support loan to Montenegro**
 - **The highway deal adds to high debt levels of 58 percent of national output**
 - **IMF warns deal threatens fiscal stability**



Construction of the Bar - Boljare highway

Addressing barriers through policy dialogue

- Rising trade imbalances between China and countries along the Balkan Silk Road
- Increasing credit exposure to Chinese banks
- Are Chinese investments state-funded subsidies undercutting European competitors?
- Where are the boundaries between?
 - **Development aid,**
 - **Profit-oriented investment,**
 - **Projects motivated by resource security,**
 - **Alleged influence-buying?**



What does the future hold?

- Trade by destination and origin will continue to shift towards China
- **Southeast Europe will further diversify its sources of capital**
 - China's FDI to the region will increase
 - Chinese loans to Southeast Europe
 - Financing public infrastructure projects
- **The growth potential of Chinese tourism**
- China's growing footprint in the region presents challenges and opportunities for
 - **The EU, the IMF, the EBRD, the RCC**
 - **Central banks in Southeast Europe**



Thank you for your attention!

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Opportunities and Risks for Western Balkans



Bank of Albania Annual Conference
Tirana, November 2017

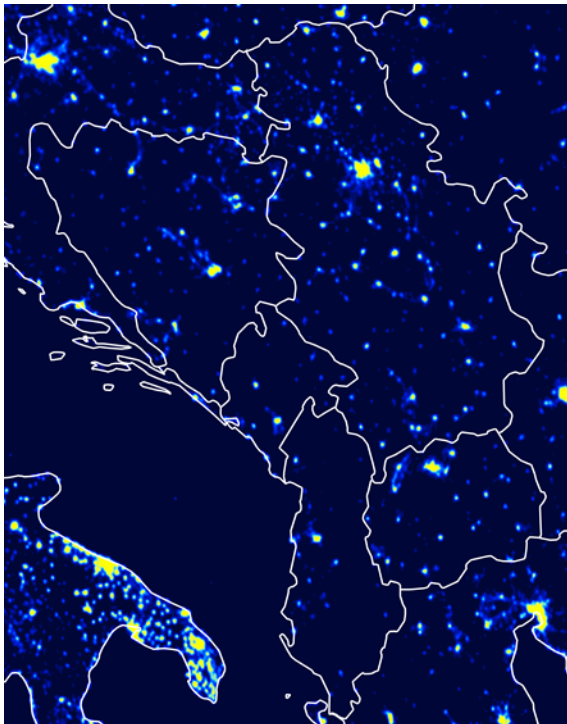
Bas B. Bakker
Senior Regional Resident Representative
for Central and Eastern Europe

Life in Western Balkans has become brighter

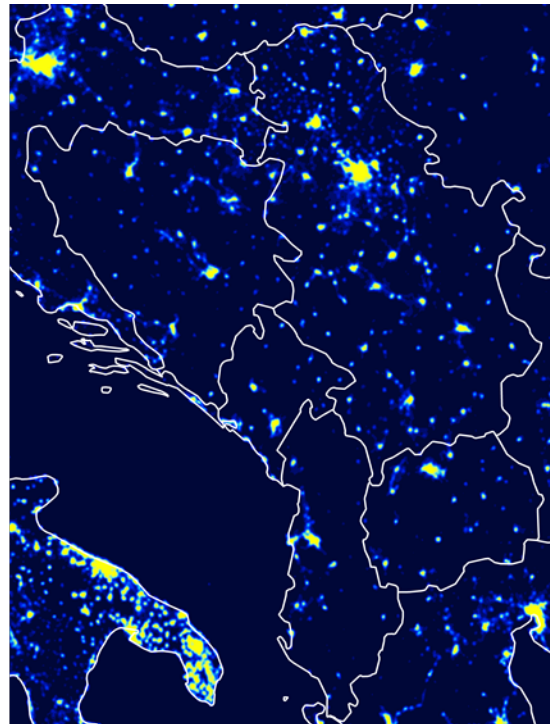


Nightlights intensity

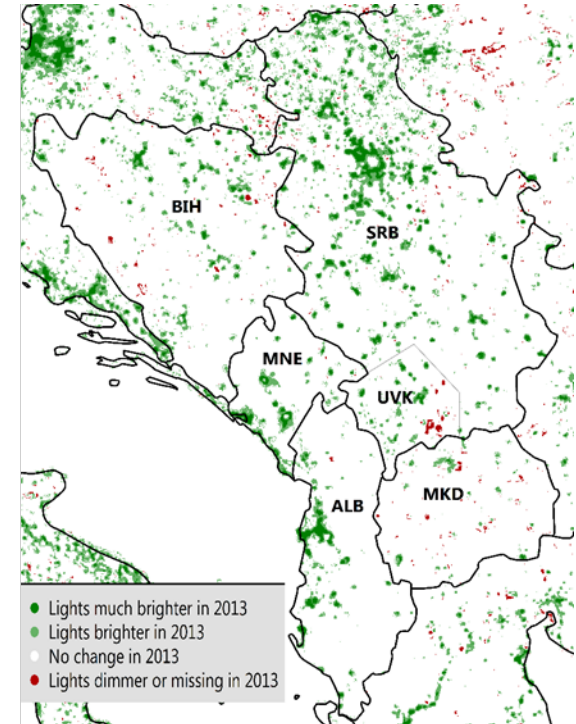
2002



2013



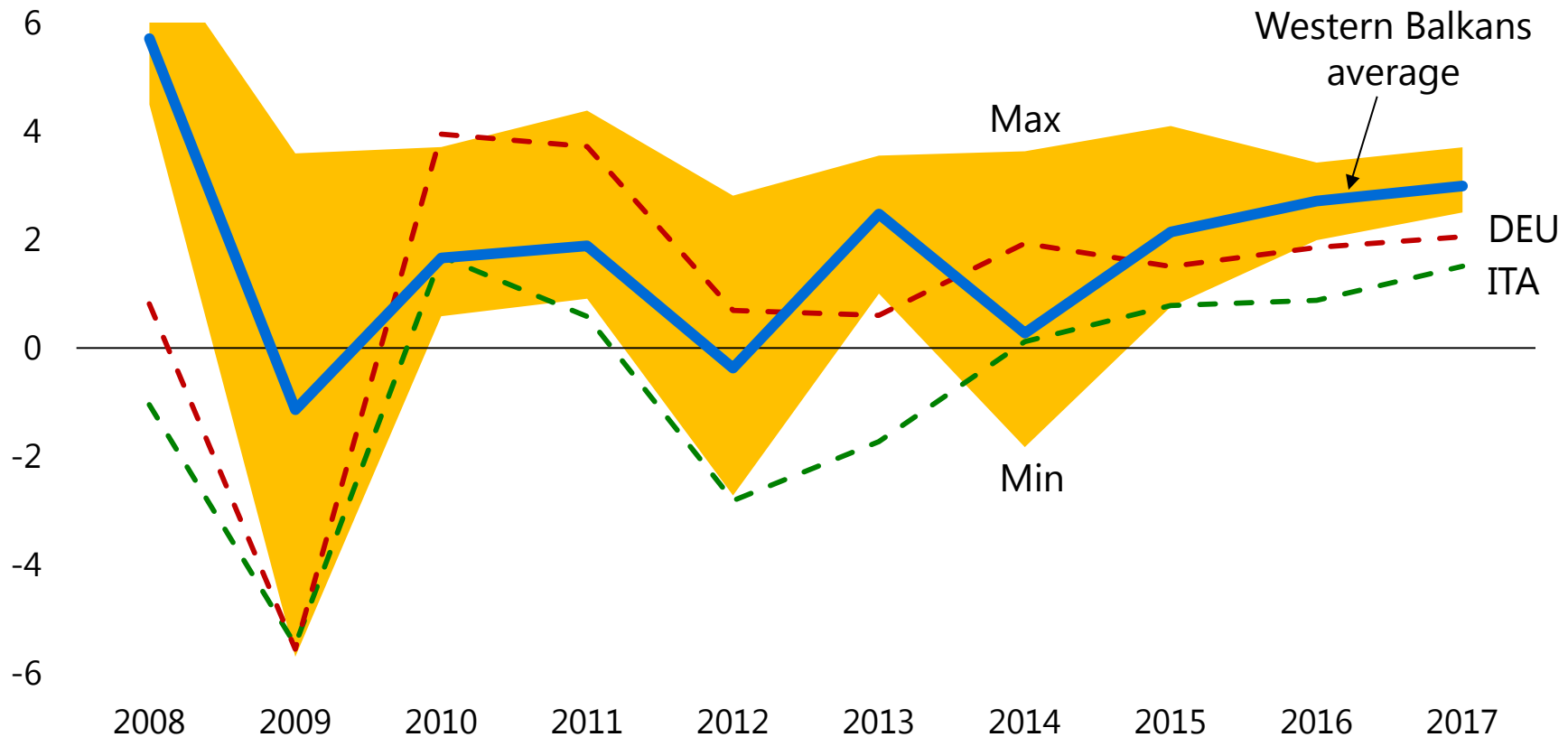
Change 2002-2013



After recessions in 2009 and 2012, the region is growing again, supported by activity in main trading partners



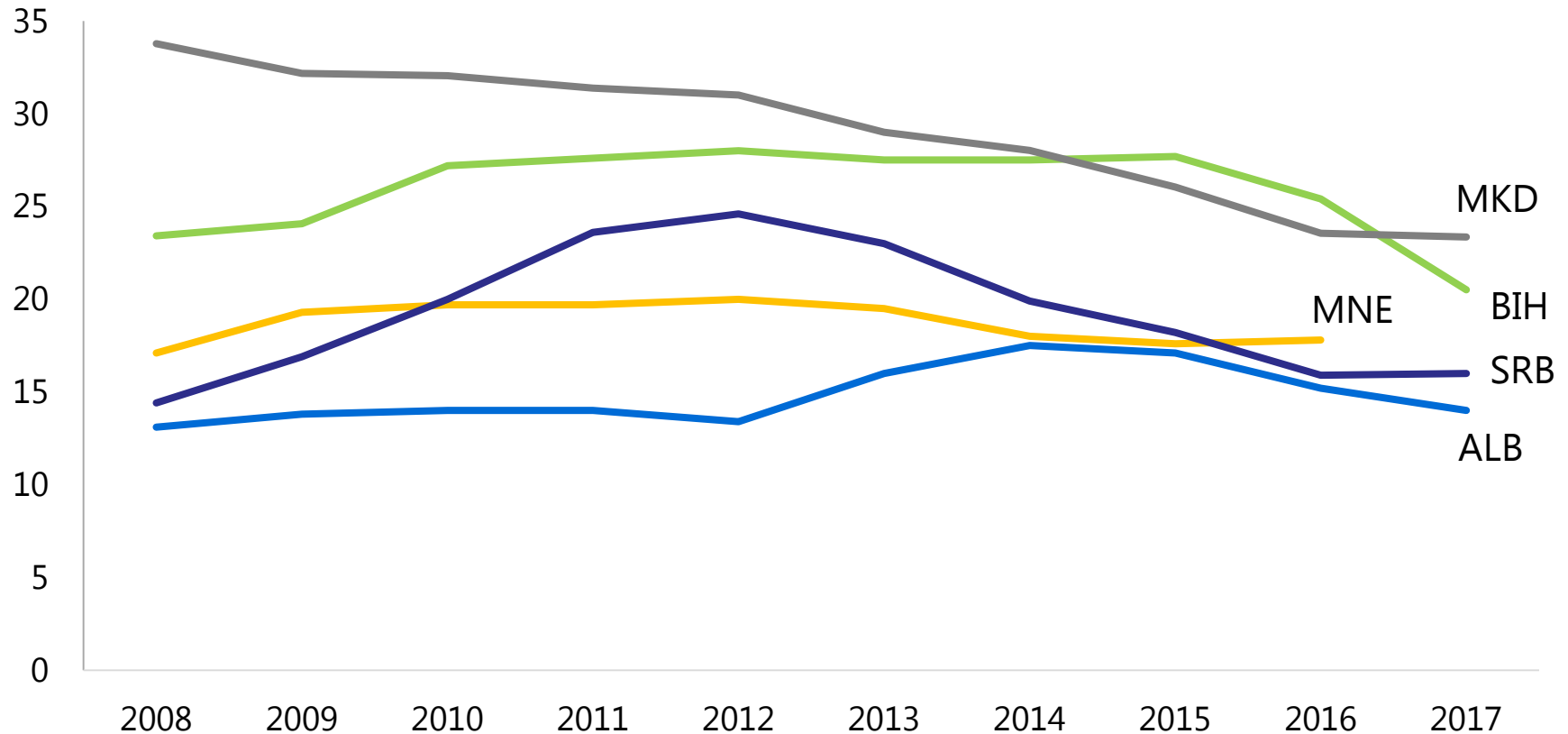
GDP Growth in Western Balkans
(Percent)



And unemployment is finally coming down—although it remains too high



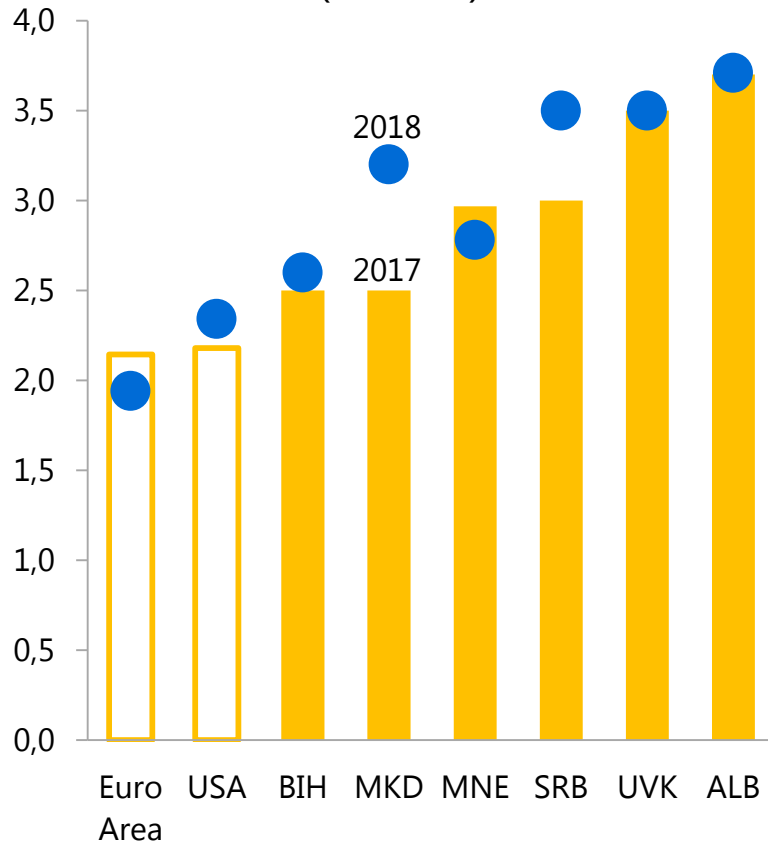
Unemployment Rate
(Percent)



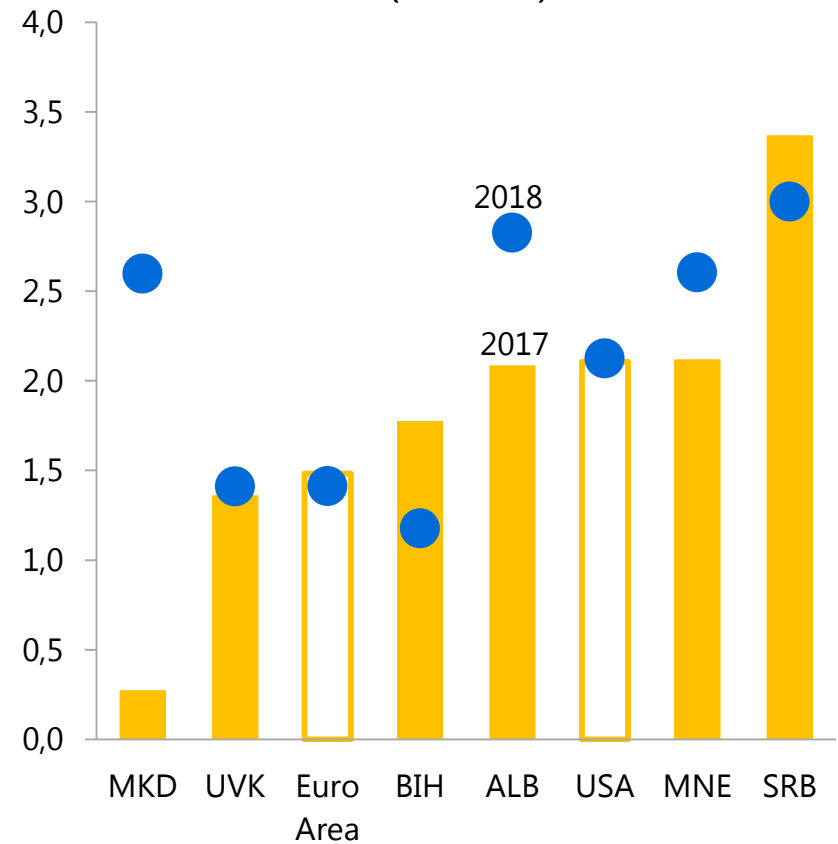
Immediate outlook is good



Real GDP growth (Percent)



CPI Inflation (Percent)



What are the remaining challenges and vulnerabilities?



- Address overhang of the 2009-12 crisis, including in
 - The banking system
 - The public finances
- Complete transition
- Speed up convergence



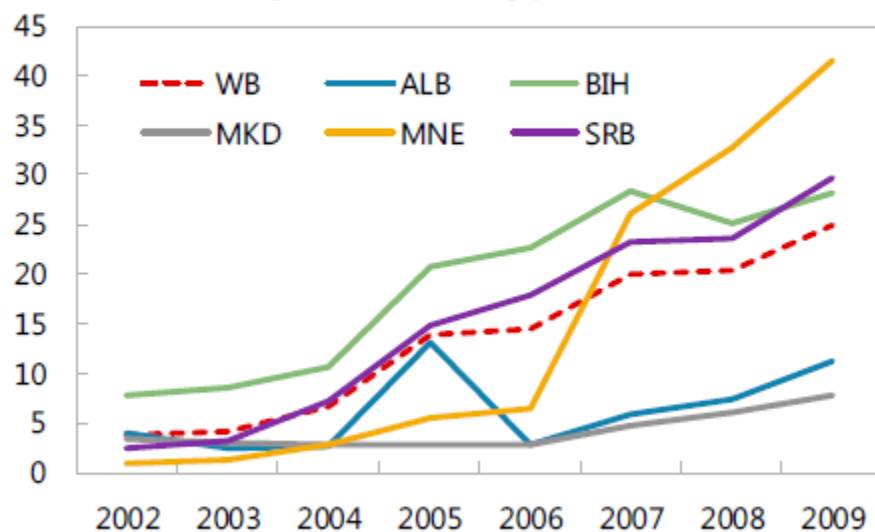
The Banking System

(This is discussed in depth in upcoming REO)

In run up to global financial crisis large inflows of foreign bank funding fueled and financed a credit boom.

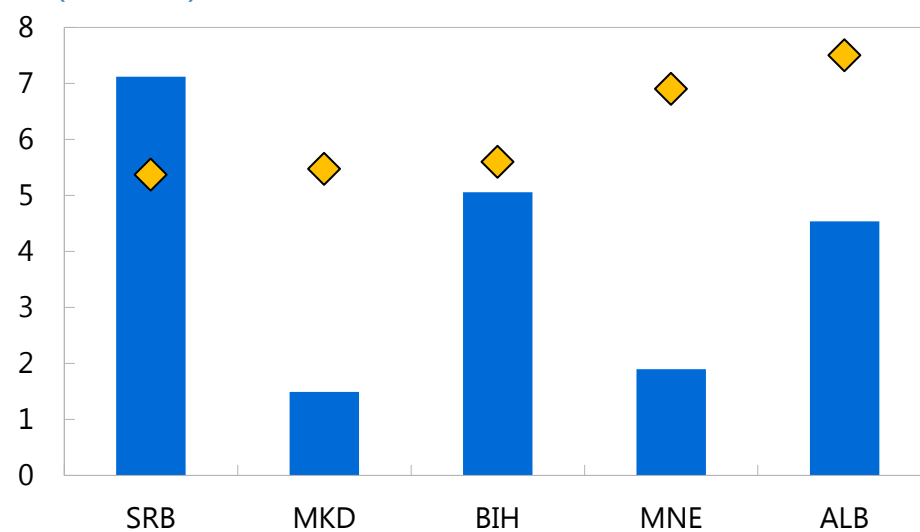


Foreign Banks' Funding to all Sectors, to Peak (Foreign bank funding per GDP)



Sources: BIS, IFS, and IMF staff estimates.

GDP Growth (Percent)



■ 2002 ◆ 2008

Bank funding dropped in the global crisis

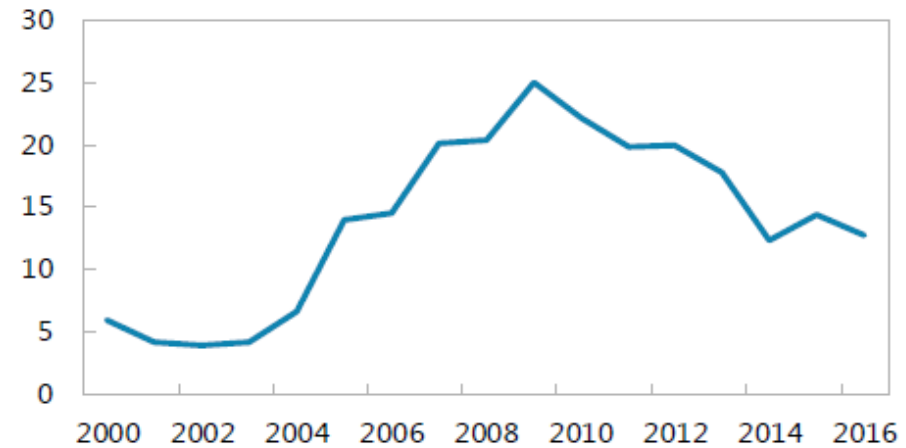


Capital Inflows to Western Balkans 1/
(Percent of GDP)



1/ Does not include Kosovo; includes Serbia and Montenegro from 2007.

External Bank Claims on Western Balkans 1/ (Percent of GDP, all sectors)

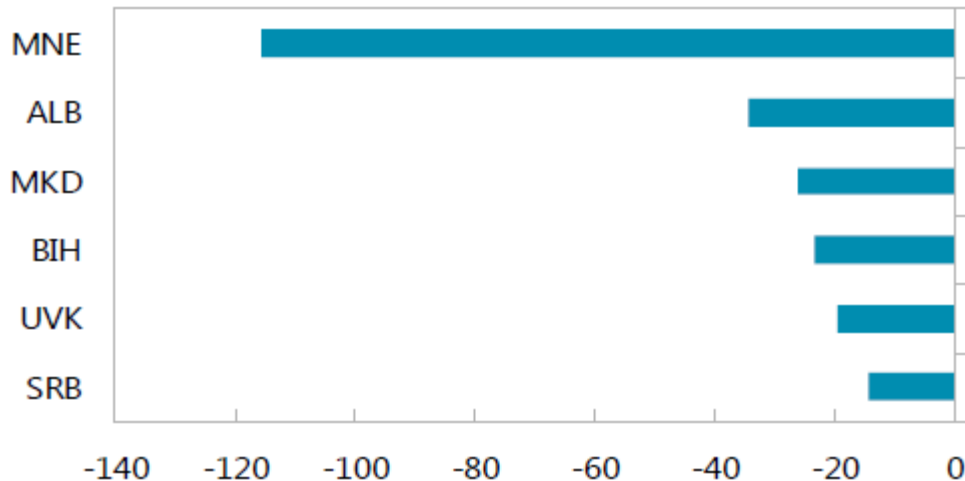


1/ Does not include Kosovo. 2016 uses GDP projections.
Sources: BIS, IMF IFS, and IMF staff estimates.

The result was a sharp drop in credit growth, in large part supply driven



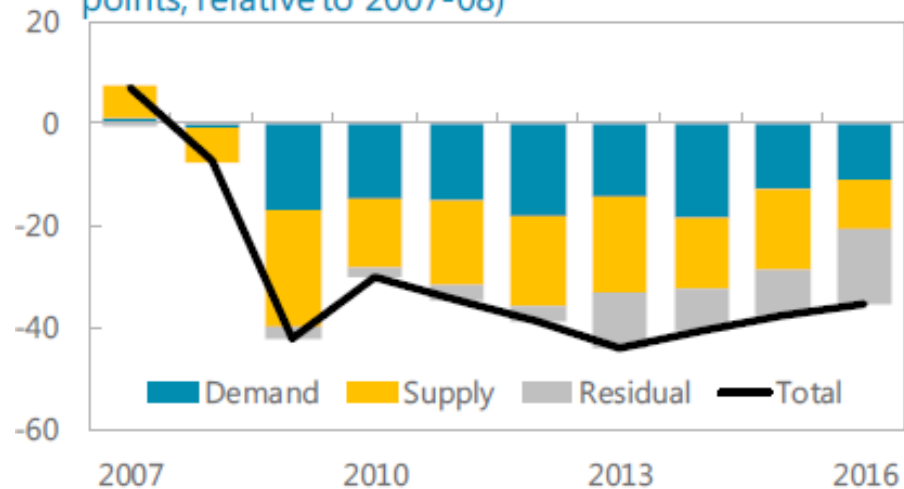
Decline in Real Credit Growth to the Domestic Private Sector, 2007-08 to 2010-11 (pps, SA smoothed growth rate against average of previous 12 months¹)



1/ Smoothed growth rates measure the growth against previous 12 months average.

Sources: HAVER, IMF IFS, and IMF staff calculations.

WB EU-Owned Banks: Demand vs. Supply Determinants of Credit Growth (Percentage points, relative to 2007-08)

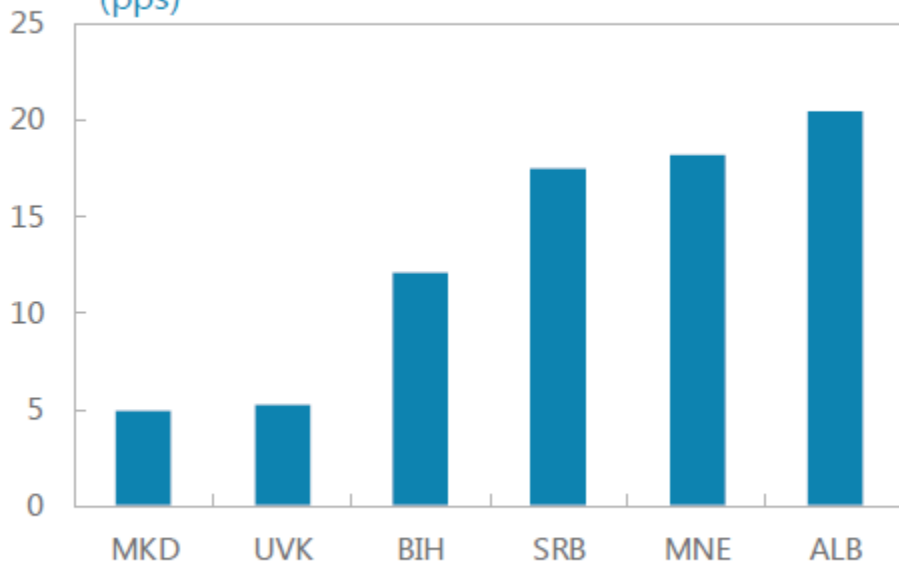


NPLs rose and profits plunged



NPLs: Trough-to-Peak Change

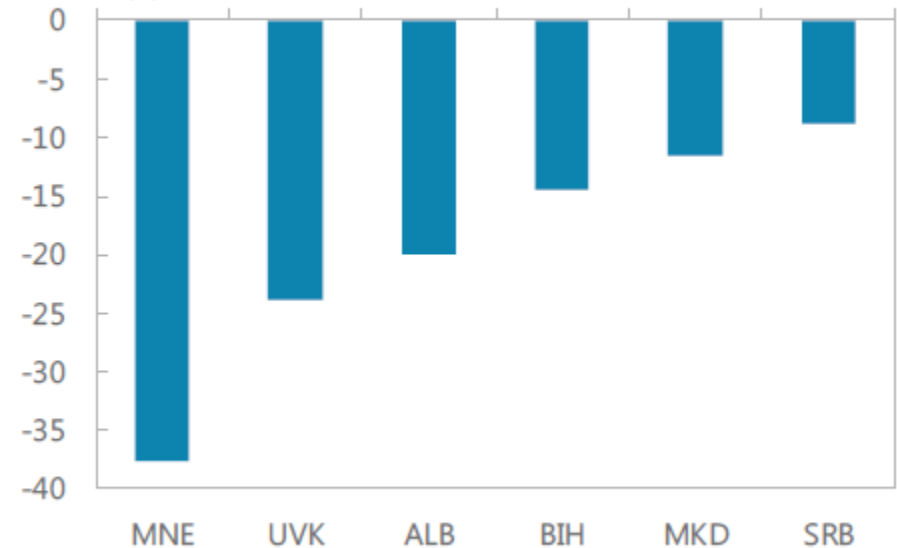
(pps)



Sources: Country Authorities, IMF FSI, and IMF staff estimates.

ROE: 2007-to-Trough Change

(pps)

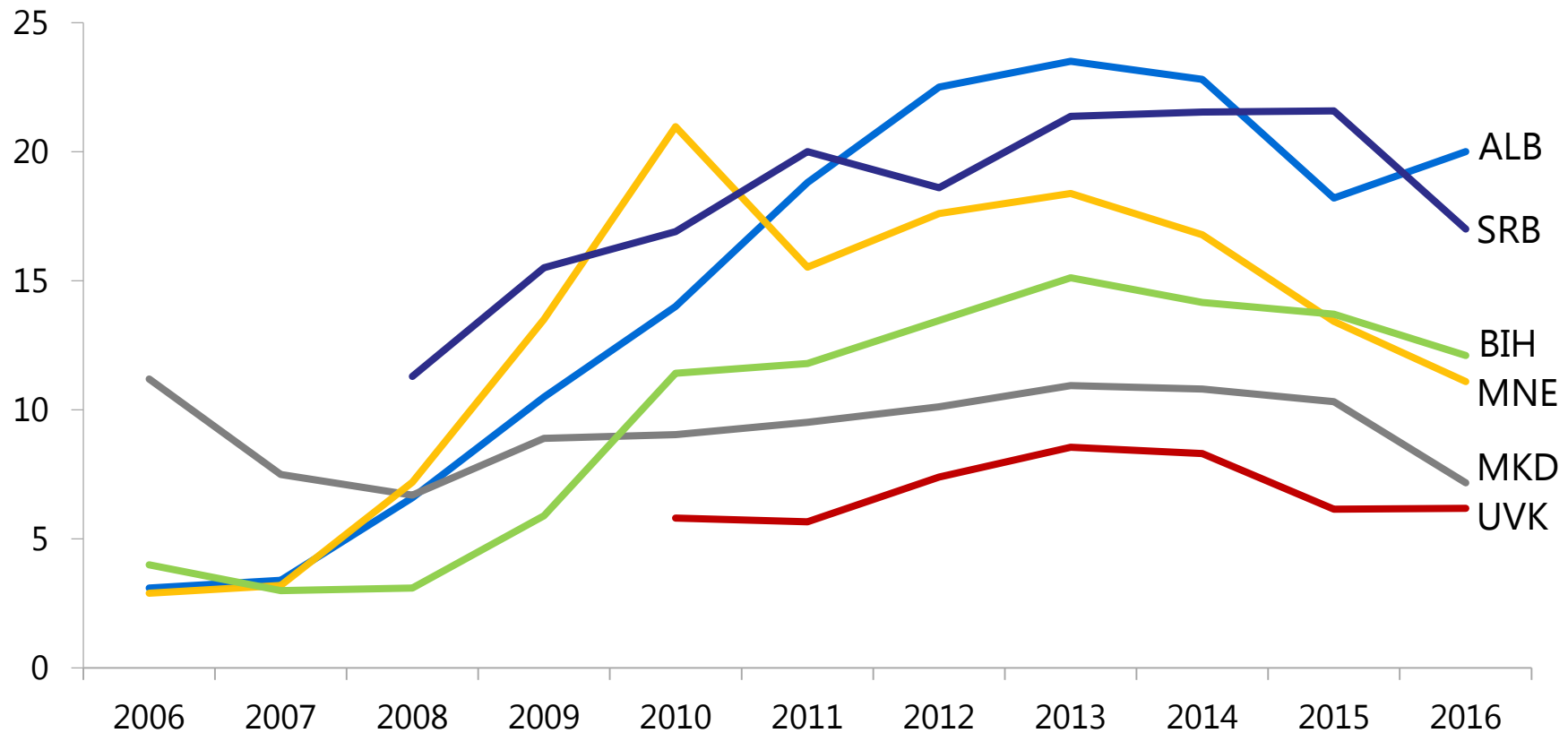


Sources: Country Authorities and IMF staff estimates.

NPLs have come down, but remain high



Non-Performing Loans to Total Loans
(Percent)



Banking sector challenges



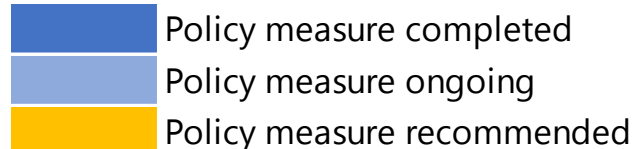
- Banks need to address NPLs
- Banks need to manage deleveraging and expand funding sources
- Address non-bank obstacles to credit

Dealing with NPLs require multipronged approach



Summary of Key Policy Actions and Recommendations Fostering Bank Balance Sheet Repair

	ALB	SRB	BIH	MNE	UVK	MKD
Loan classification and provisioning	Policy measure completed			Policy measure recommended		
Write-offs	Policy measure completed	Policy measure ongoing			Policy measure recommended	Policy measure recommended
Sale/Transfer of NPLs	Policy measure completed	Policy measure recommended	Policy measure recommended	Policy measure recommended		Policy measure recommended
Bankruptcy Law	Policy measure completed	Policy measure recommended	Policy measure recommended			Policy measure recommended
Private bailiffs law	Policy measure ongoing			Policy measure recommended	Policy measure ongoing	
Taxation	Policy measure recommended	Policy measure recommended	Policy measure recommended			Policy measure recommended
Cadastral information				Policy measure recommended	Policy measure ongoing	Policy measure recommended



Source: Regional Economic Outlook, CESEE, November 2017

Banks need to manage deleveraging and expand funding sources



- Deleveraging:
 - Monitor banks; ensure that bank maintain contingency plans
 - Remain in close communication with parent banks and home supervisors
- New funding:
 - Tackling overbanking to attracting fresh foreign capital
 - Develop local capital markets

Governments need to address non-bank obstacles to credit



- Improve land and property titling
- Accelerate slow court procedures
- Upgrade insolvency frameworks:
 - Personal bankruptcy
 - Limit power of minority holdouts in corporate restructuring

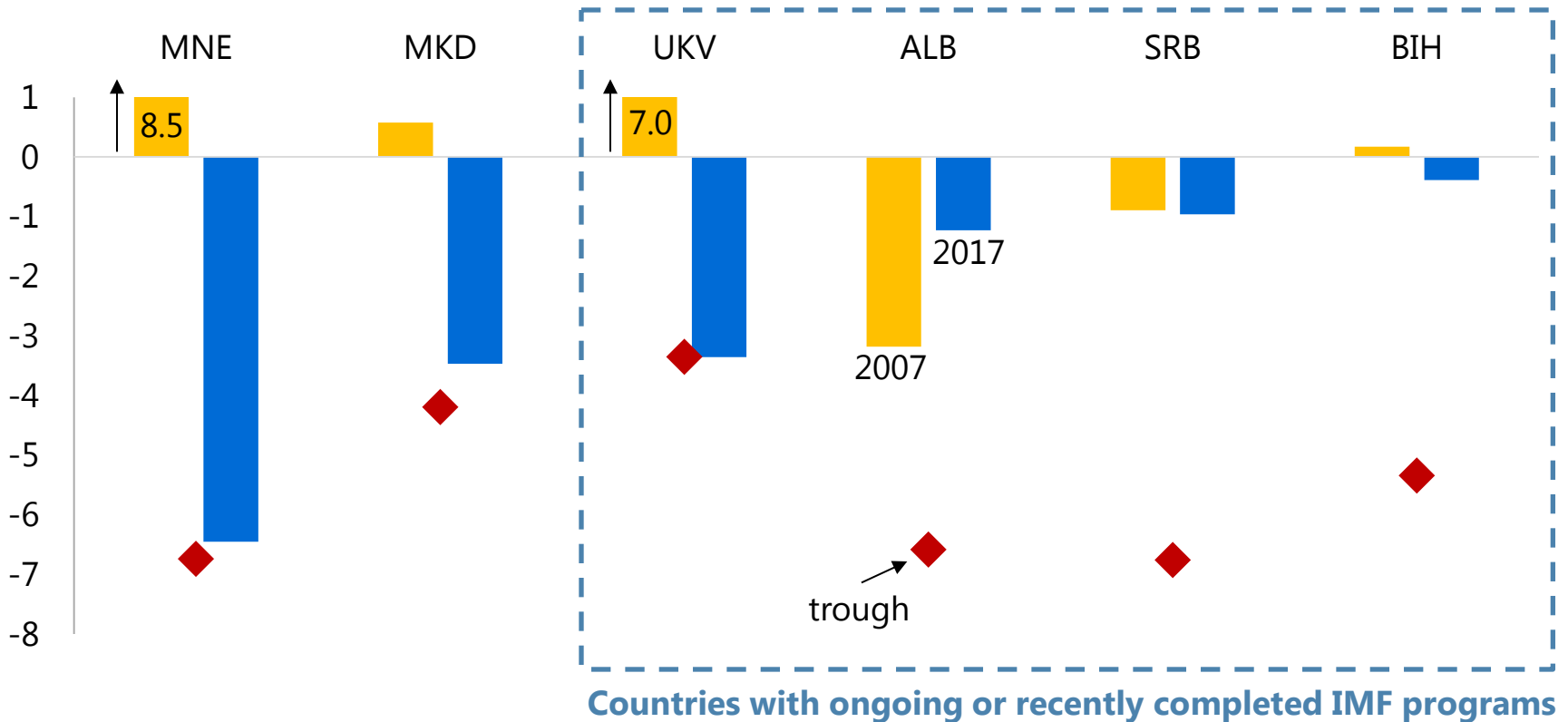


Public finances

Fiscal deficits have come down, particularly in countries with IMF Programs



General Government Balance
(Percent of GDP)

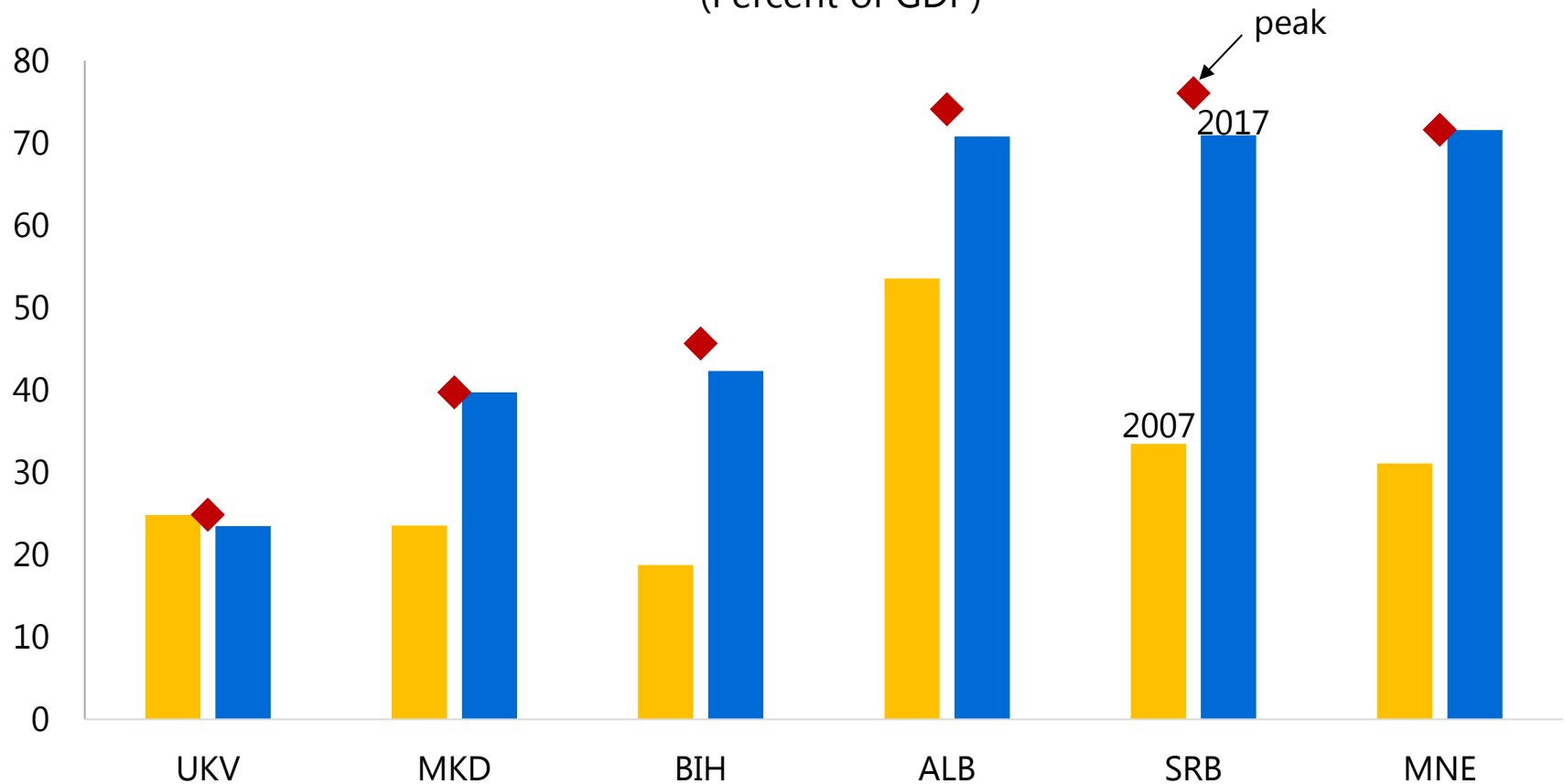


Countries with ongoing or recently completed IMF programs

However, public debt is far above pre-crisis levels



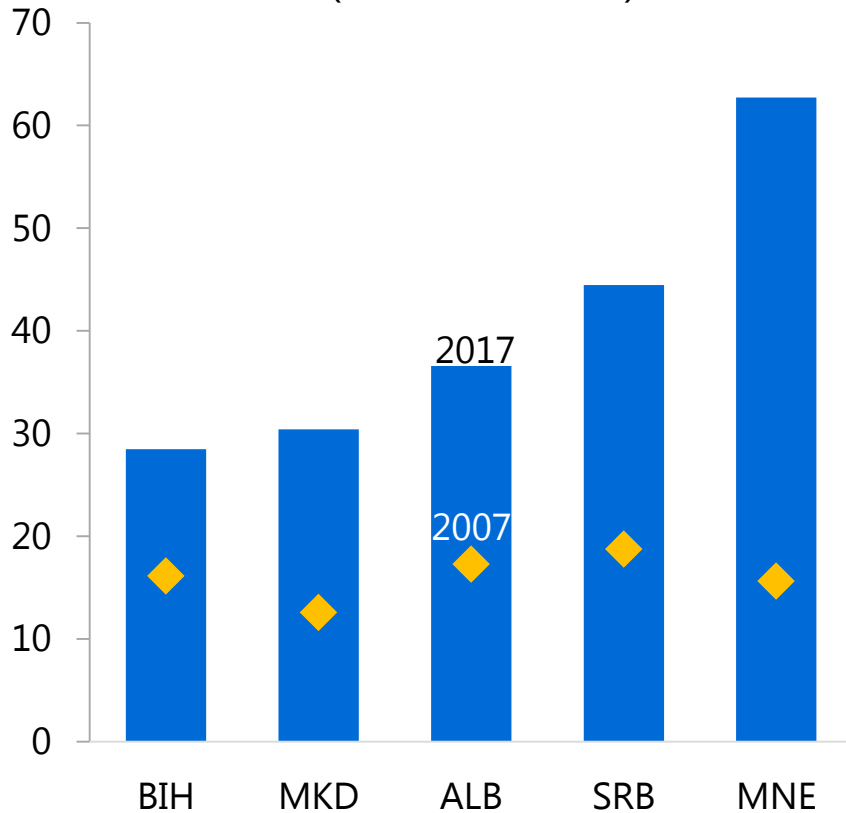
Public Debt
(Percent of GDP)



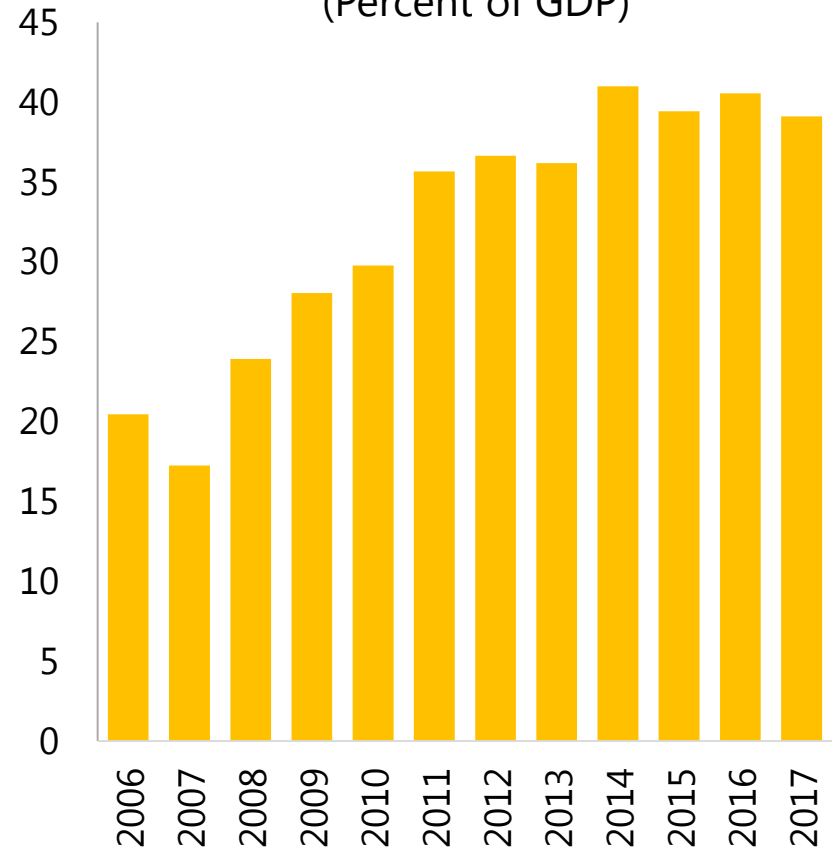
Much of which is financed externally



External Public Debt
(Percent of GDP)



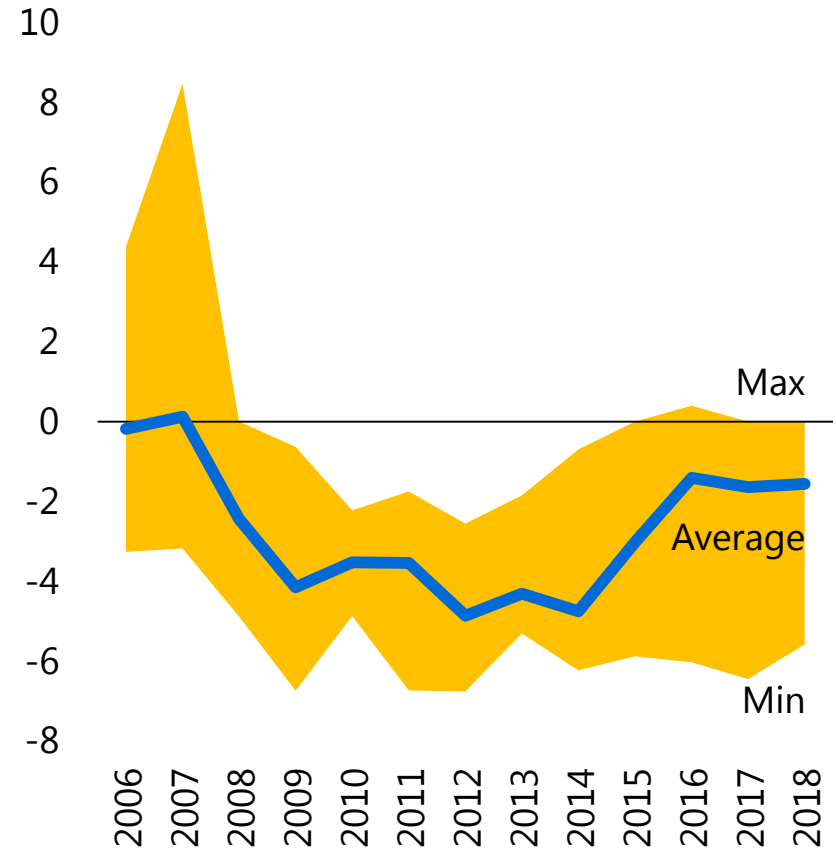
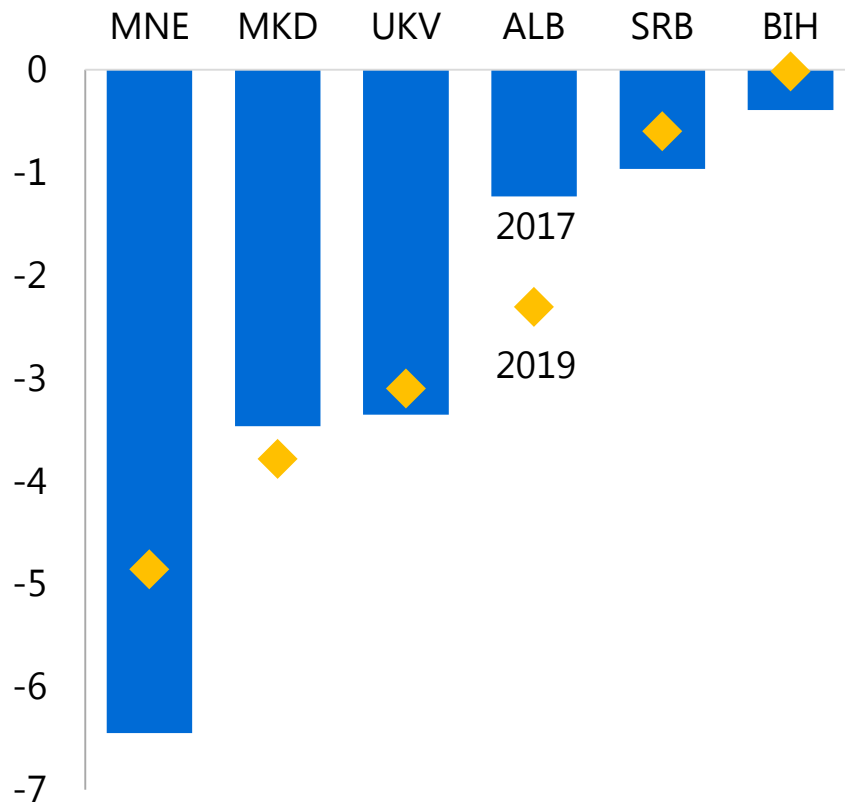
External Public Debt
in Western Balkans
(Percent of GDP)



Unfortunately, little further consolidation is planned



GG Balance in Western Balkans
(Percent of GDP)



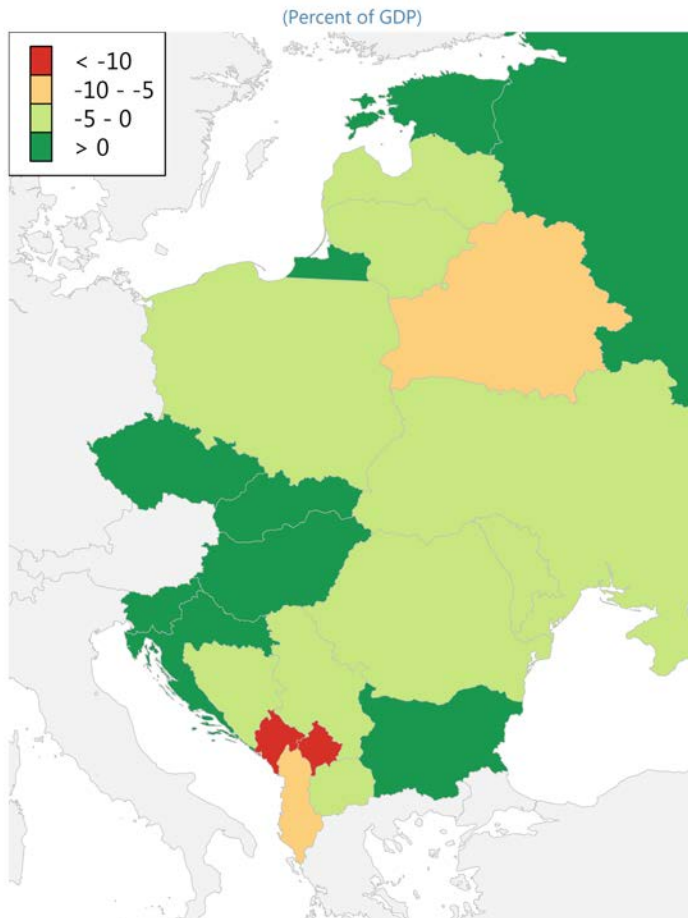


External vulnerabilities

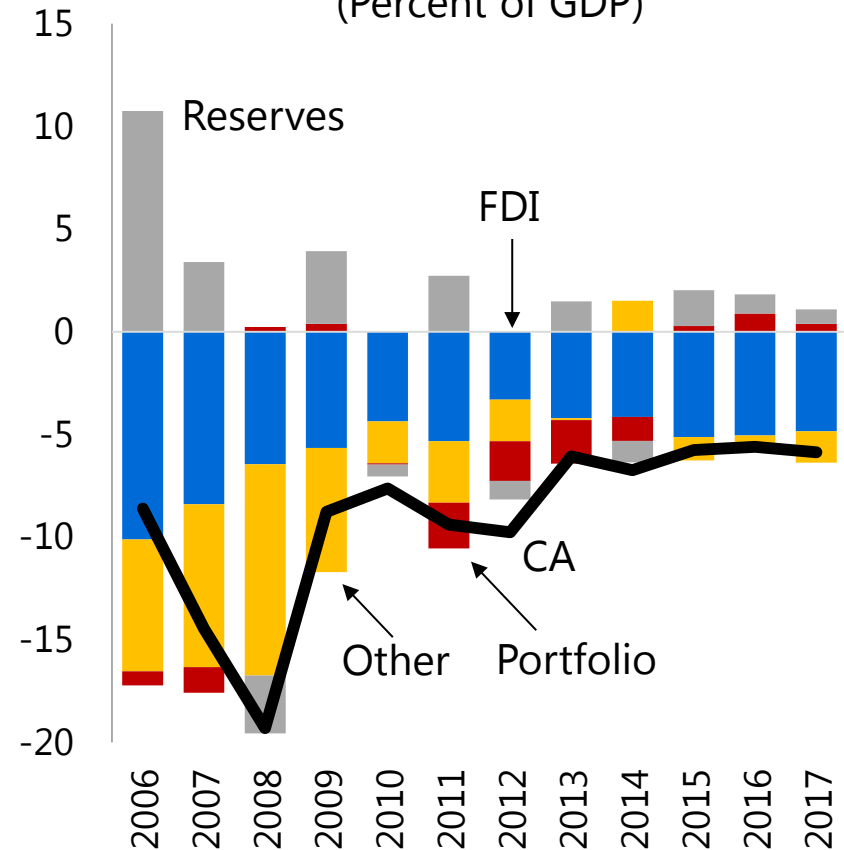
Current account deficits have come down and are now almost fully financed by FDI



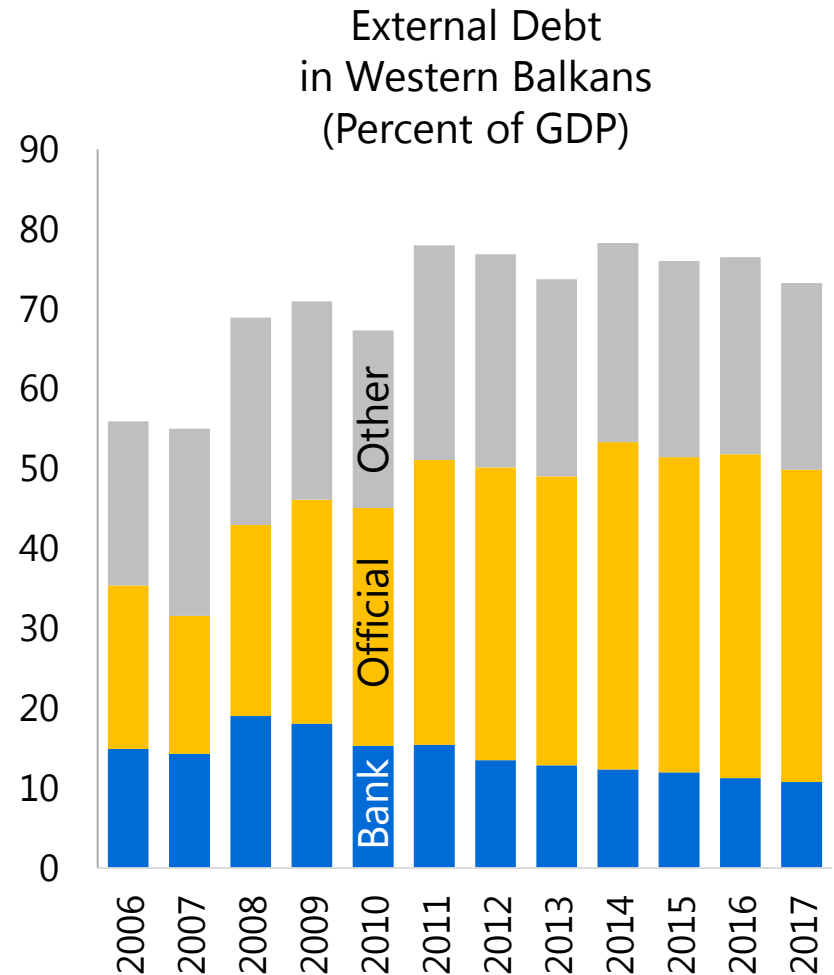
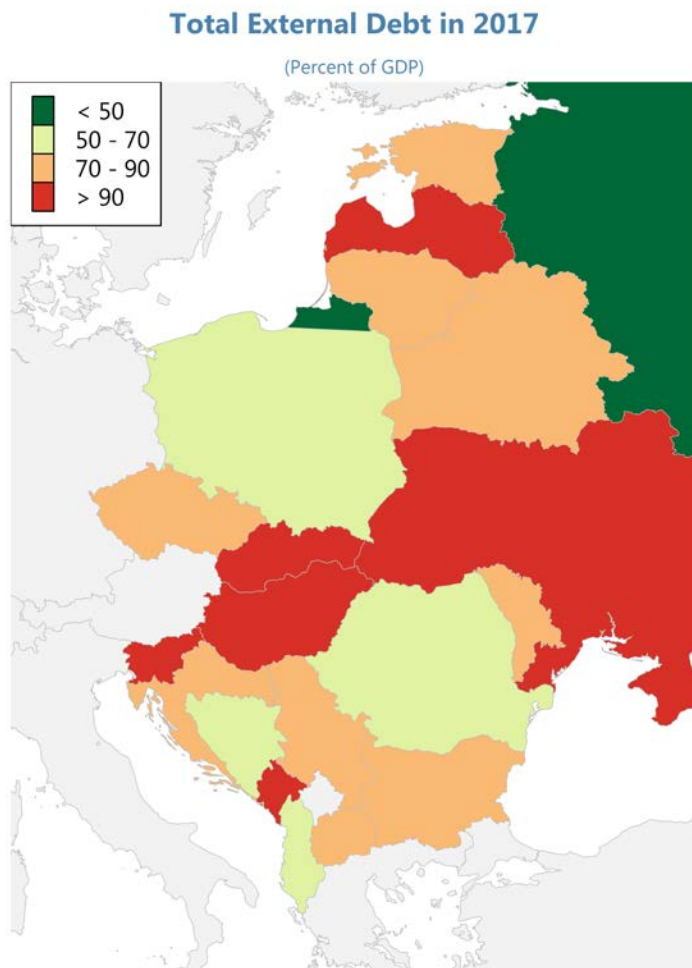
Current Account Deficit in 2017



Current Account and Capital Flows (-) in Western Balkans (Percent of GDP)



External debt remains relatively high as lower bank funding has been offset by higher public debt



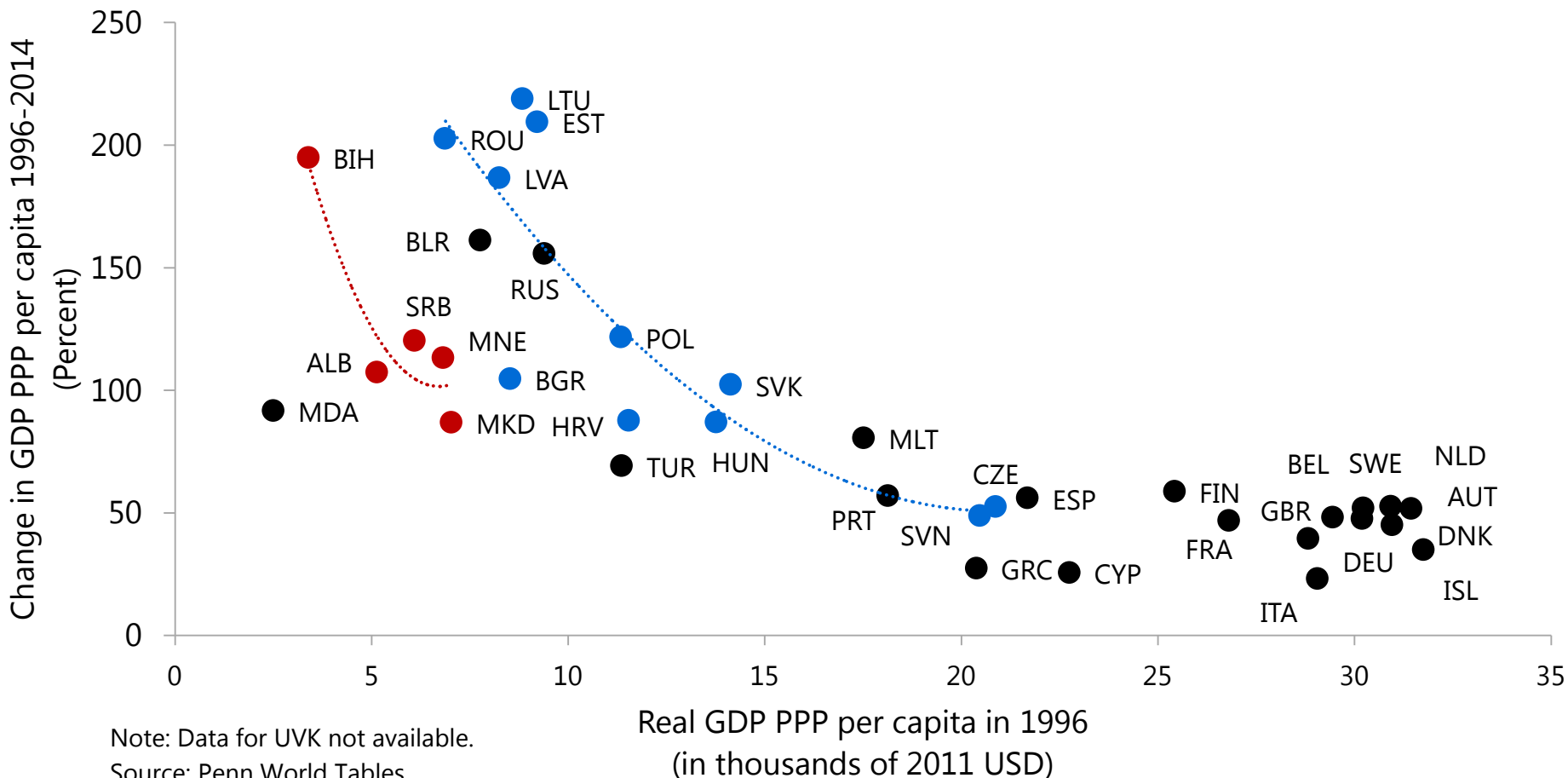


Completing transition

In past two decades Western Balkans have not done as well as the NMS: at similar income levels they have grown less



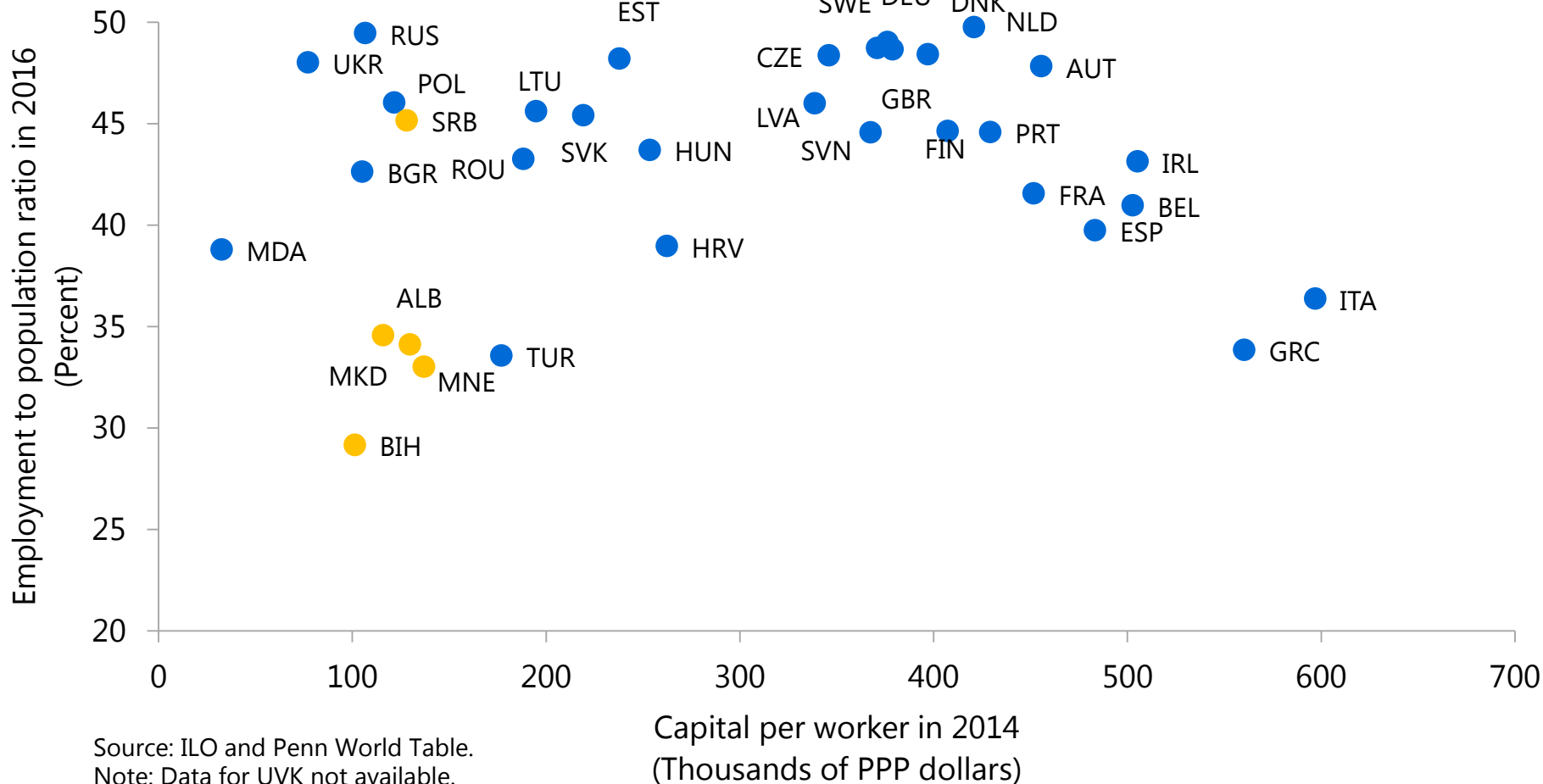
GDP PPP per capita in 1996 vs. its change in 1996-14



Western Balkans are poor because relatively few people work and capital stock per worker is low (TFP is low as well)



Capital per Worker vs. Employment to Population Ratio

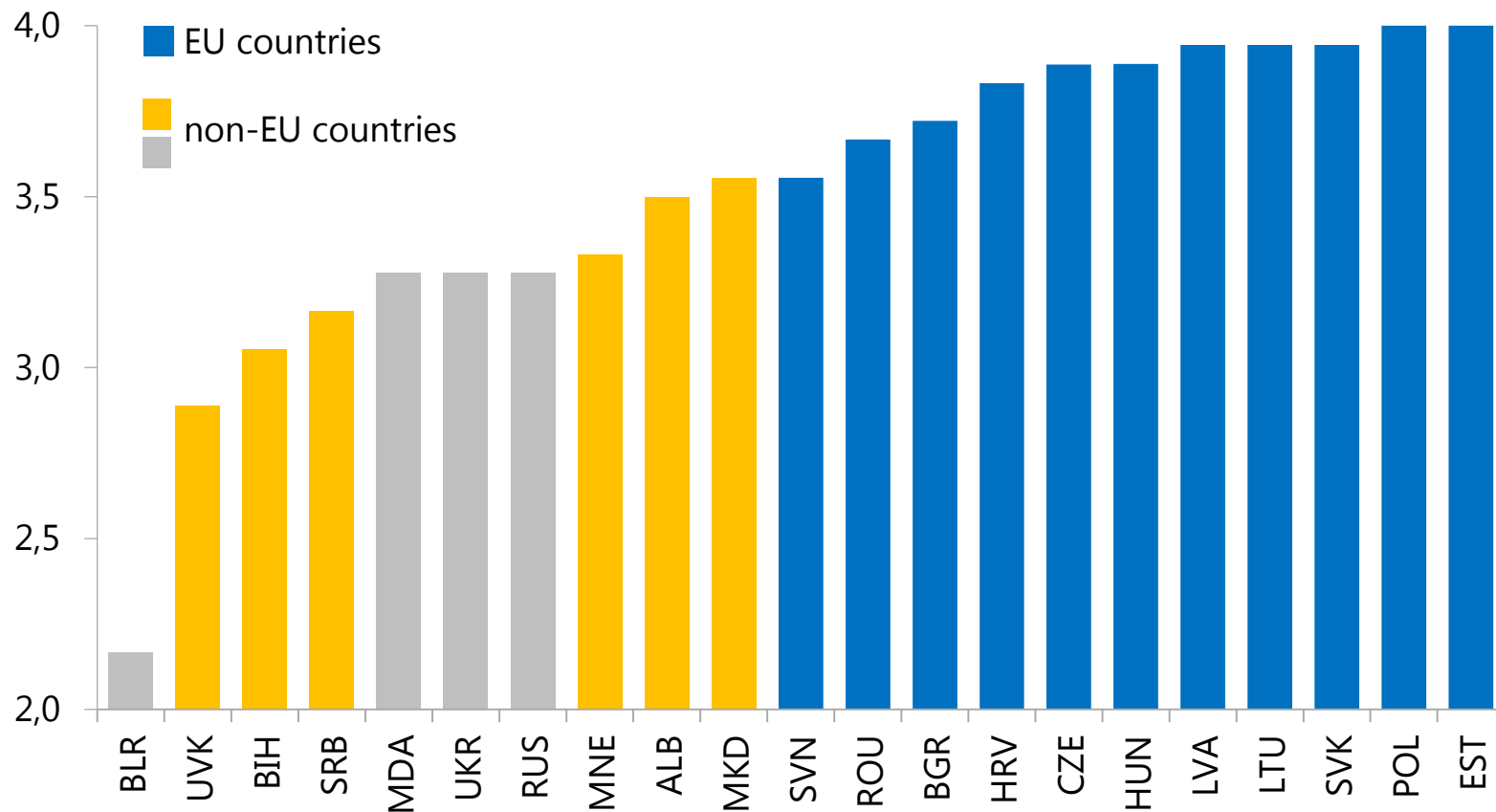


Source: ILO and Penn World Table.
Note: Data for UKR not available.

EU accession process should lead to improved institutions / completion of transition



Average of Six EBRD Transition Indicators in 2014



Note: 2007 for Czech Republic.

Better policies would help, whether or not WB become EU members



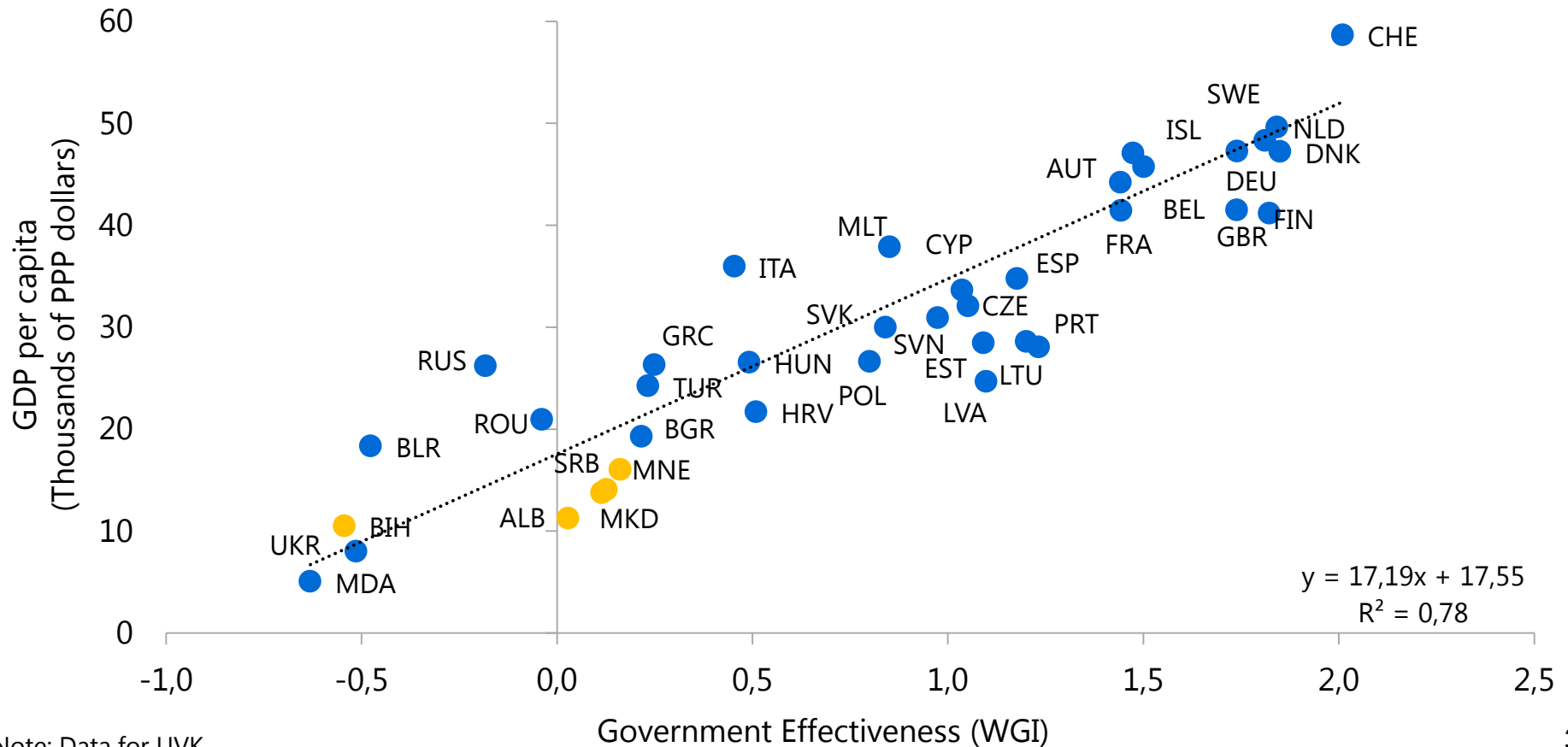
- What can be done to boost investment and create jobs so people stay?
- Improve investment climate
 - Better protection of property rights
 - Improve legal systems and other government services
 - Address infrastructural gaps
- Address efficiency gaps in public investments and tax collection



Boosting government effectiveness would also help



Government Effectiveness vs. GDP per capita in PPP dollars, 2015



Note: Data for UKV not available.

Ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance



Thank you



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

Euroization, Euro Area Monetary policy and its consequences for
Banking and financial system market risks in the SEE region

9 November 2017

Tirana

Bank of Albania Annual Conference

Franz Nauschnigg

Head of Division, Counsel to the Board

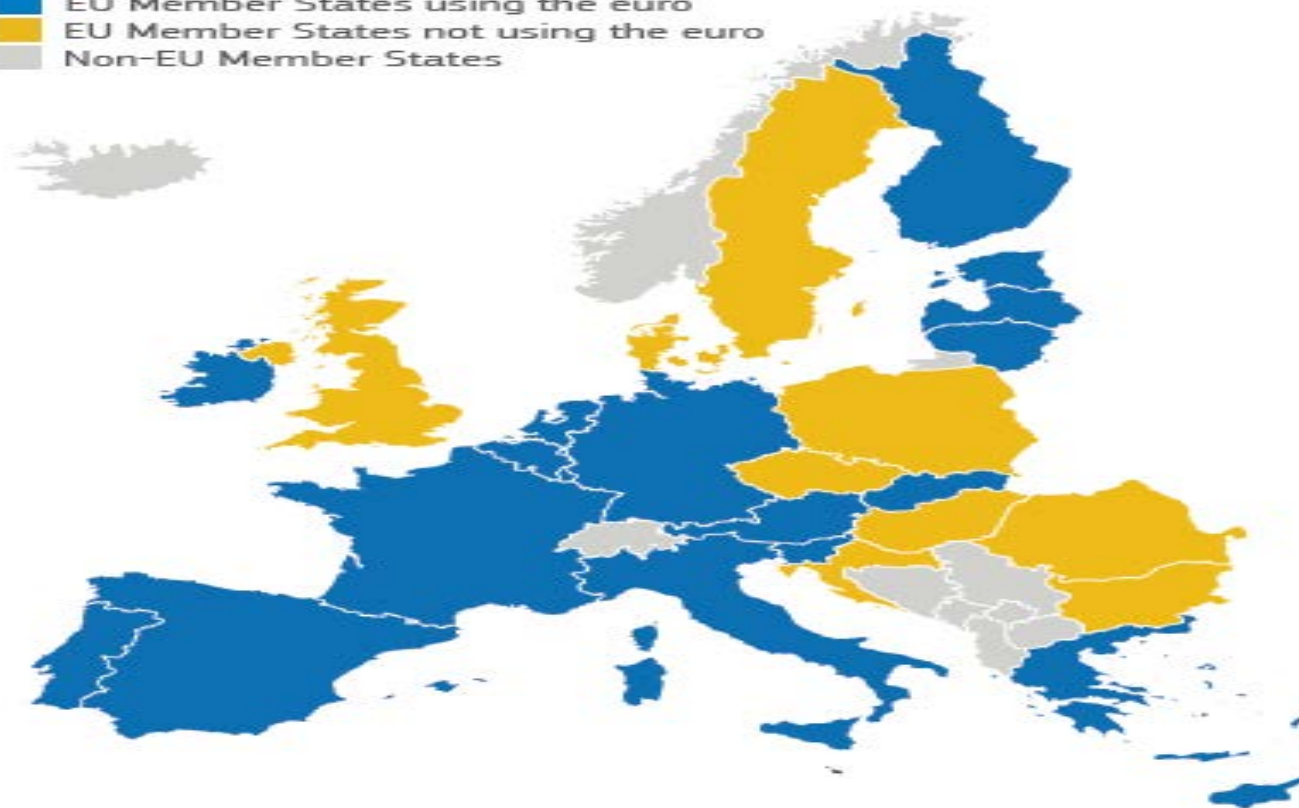
European Affairs and International Financial Organizations Division

www.oenb.at

Euro area enlargement – SLO, SLK, EST, LET, LIT no problems

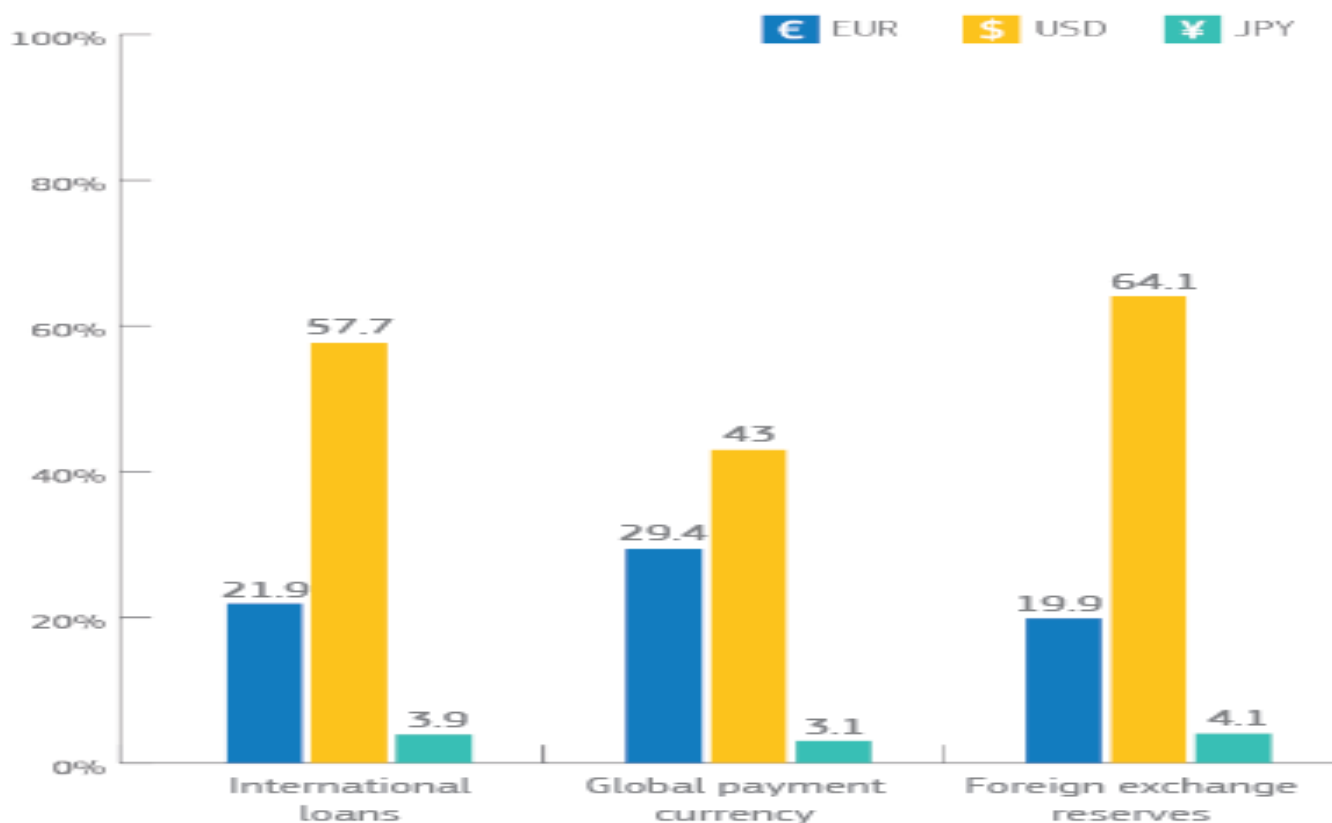
The euro is the currency of 19 Member States

- EU Member States using the euro
- EU Member States not using the euro
- Non-EU Member States

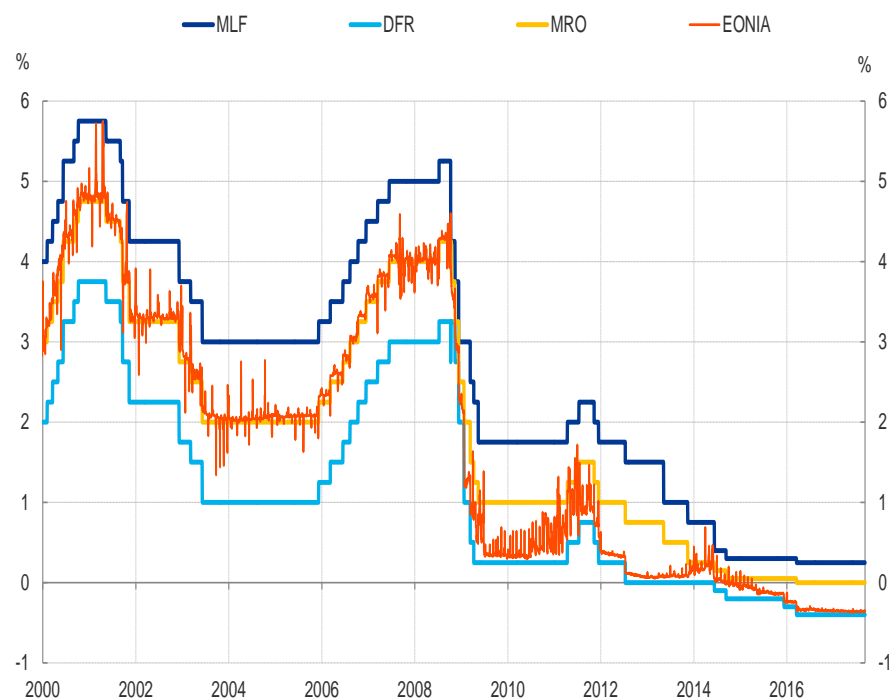


Euro also during crisis second most important reserve currency

The euro is the second most important currency in the world



Monetary policy expansionary interest rates, APP



APPs:

2009 – 2010: CBPP1 60 bn EUR

2010 – 2012: SMP 218 bn EUR

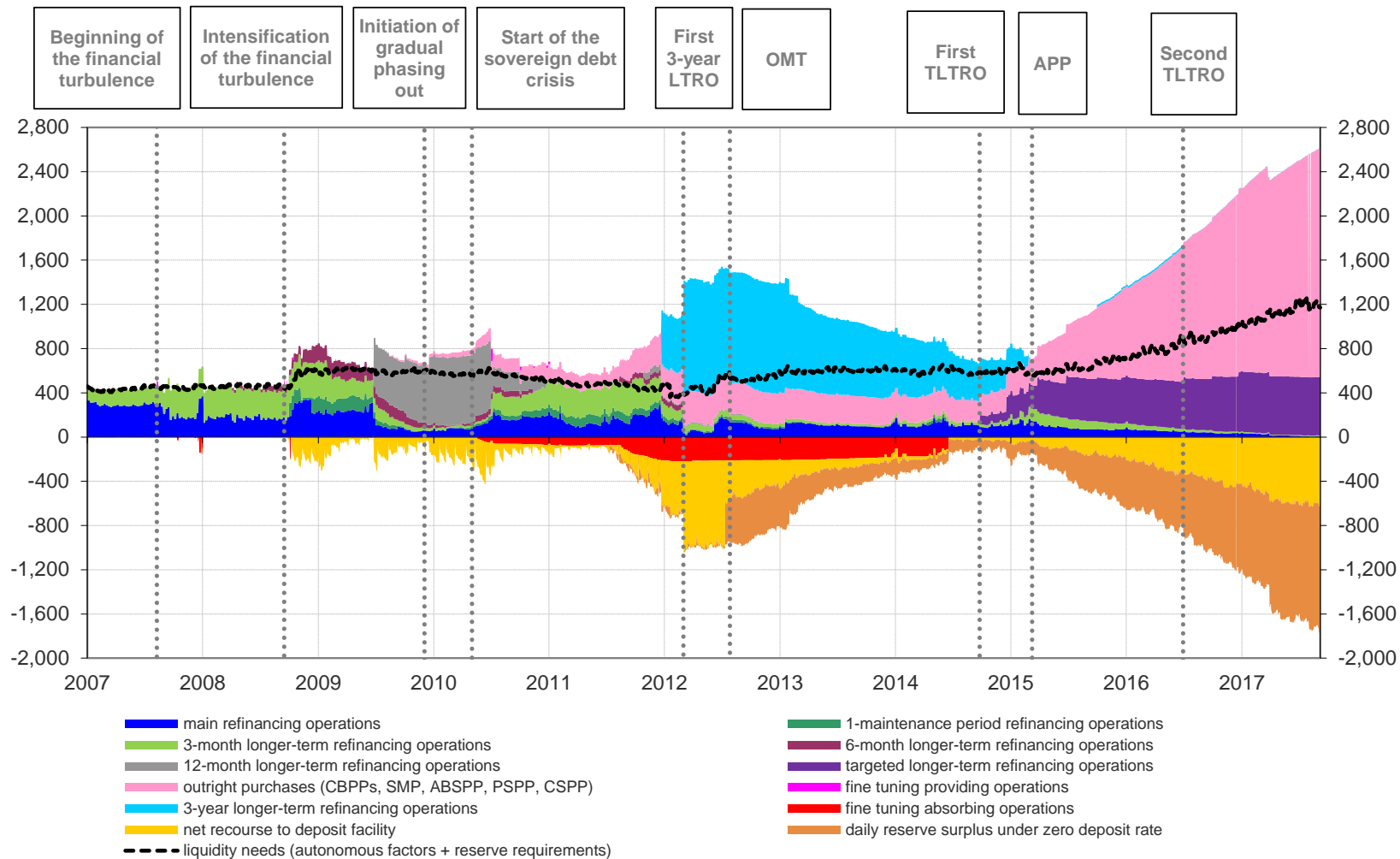
2011 – 2012: CBPP2 16 bn EUR

2012: OMT announcement sufficient

2015 APP 60 bn €/month, 80 bn, now 60 bn,
next year till Sept 30 bn.

Avoided deflation, strengthens growth, spills
over into SEE

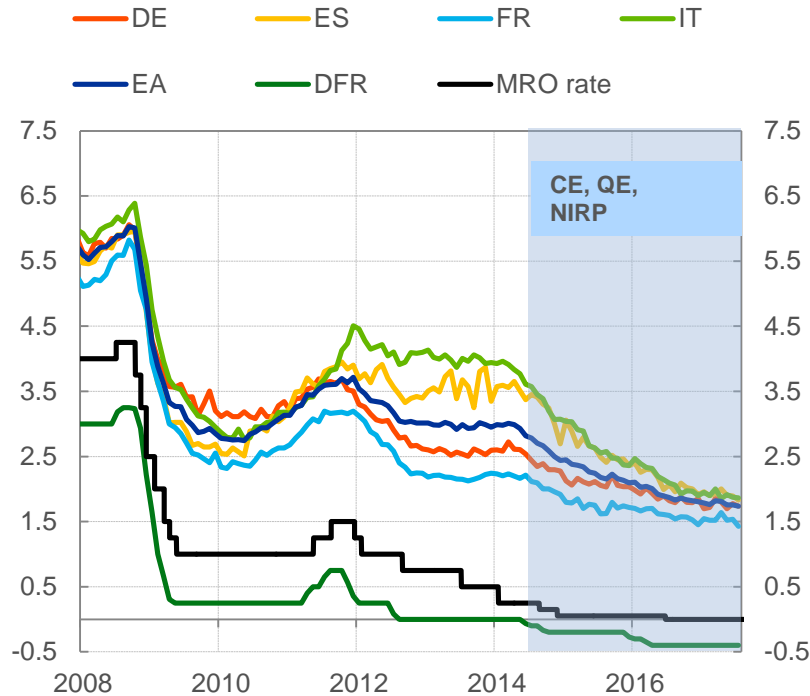
Eurosystem's balance sheet (EUR billions)



Sources: ECB. Latest observation is 5 September.

Bank lending rates on loans for non-financial corporations

(percentages per annum)

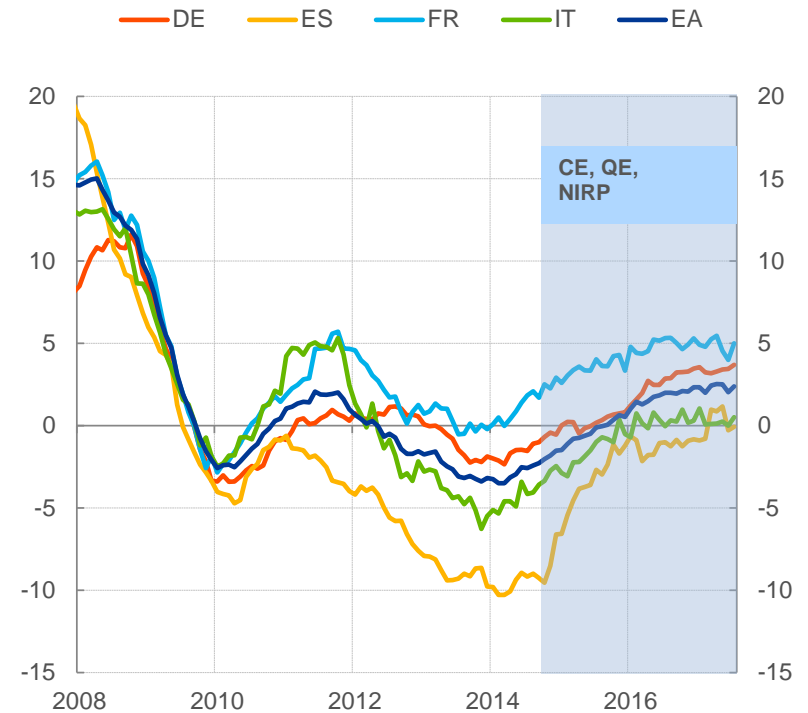


Source: ECB.

Notes: The indicator for the total cost of lending is calculated by aggregating short- and long-term rates using a 24-month moving average of new business volumes. Latest observation: July 2017.

MFI loans to non-financial corporations in selected euro area countries

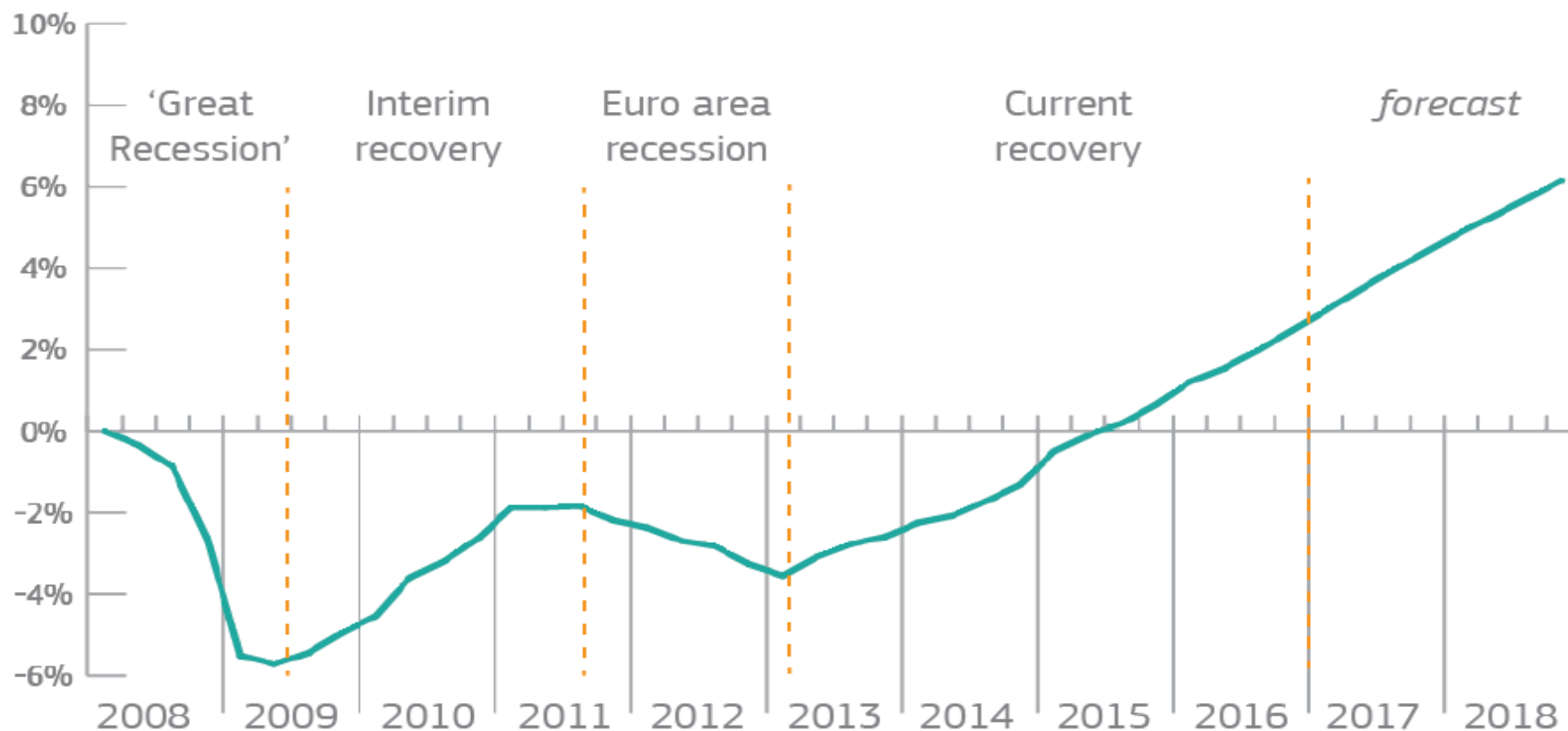
(annual percentage changes)



Source: ECB.

Notes: Adjusted for loan sales, securitisation and cash pooling activities. Latest observation: July 2017.

Monetary policy brings stable Euro area growth – helps SEE

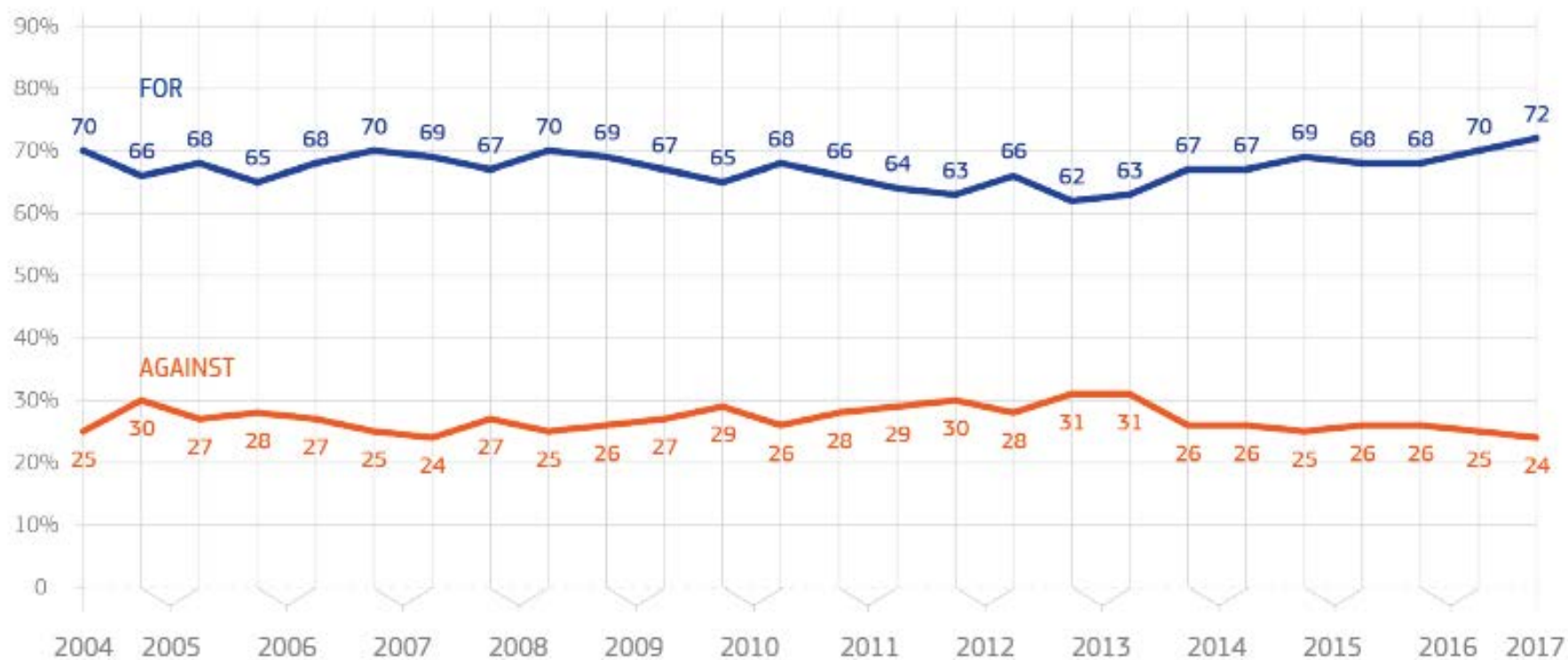


Economic activity was hit strongly by the crisis but is now recovering

% change in the level of real GDP of the euro area compared to 2008

Euro becomes more popular

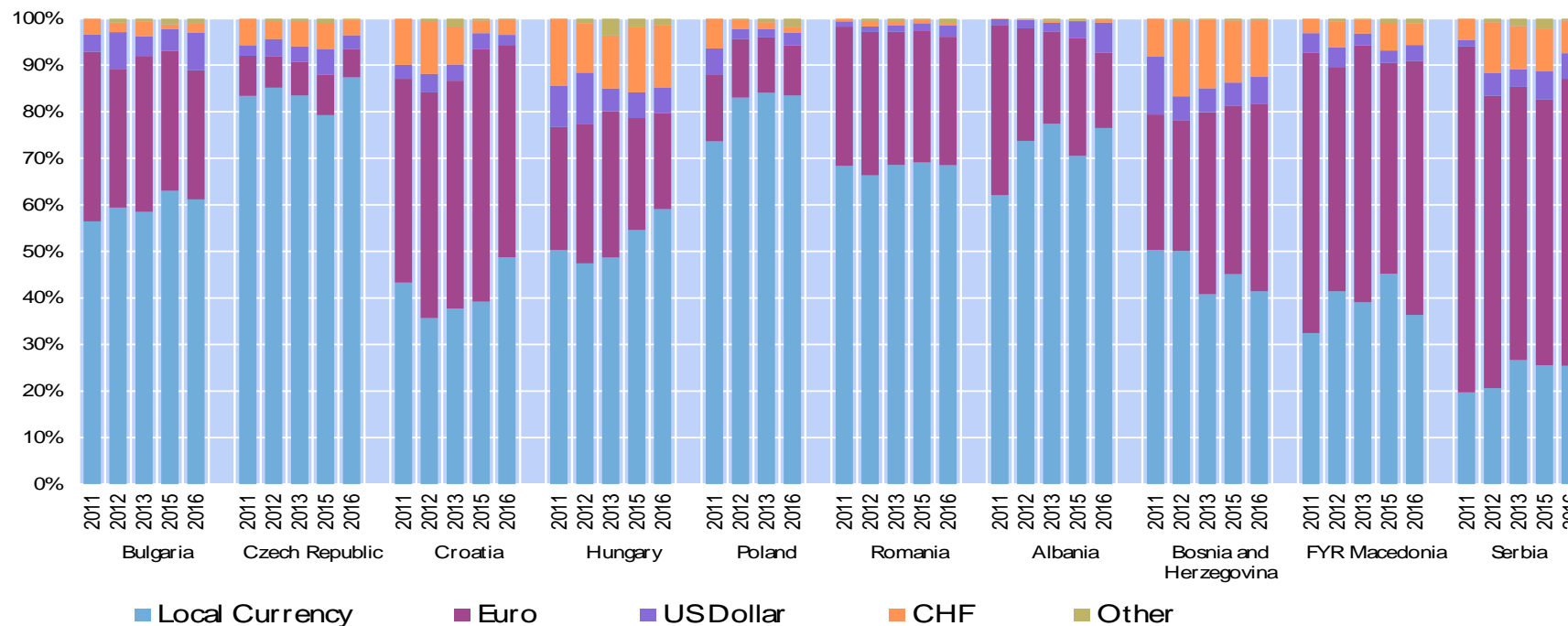
Popular support for the single currency has been consistently high in the euro area



Euroization popular especially in SEE

Chart 1

Suppose you had 2 average monthly salaries to deposit in a savings account.
 Would you choose to deposit this amount in ...



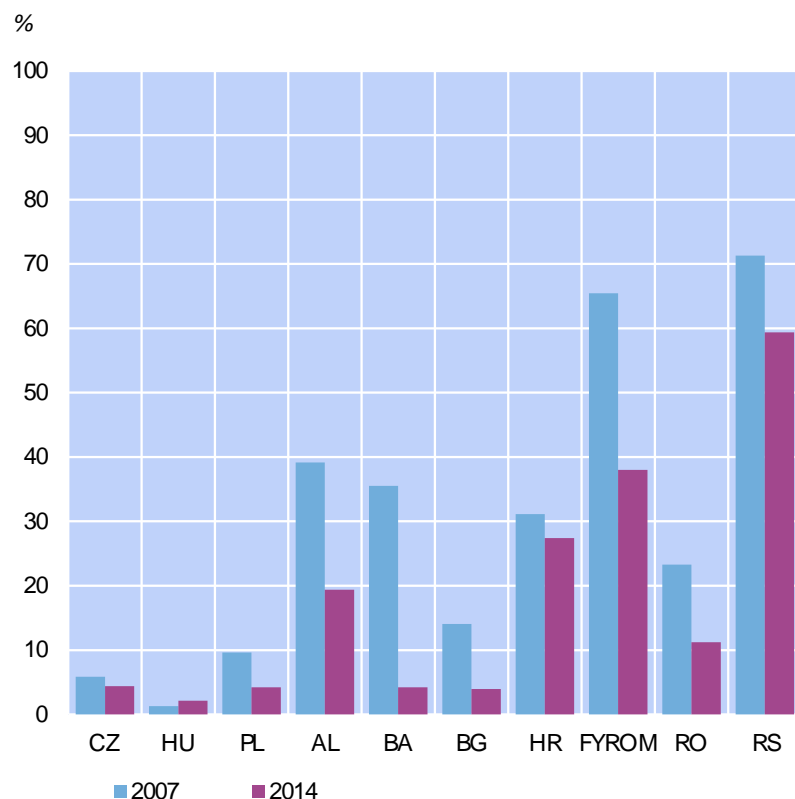
Source: OeNB Euro Survey.

Note: Respondents answering "Don't know" or "No answer" are excluded.

SEE substantial but declining euro cash holdings – deposit euroization rather stable

Currency and deposit substitution indexes show different pictures

Currency substitution index



Deposit substitution index

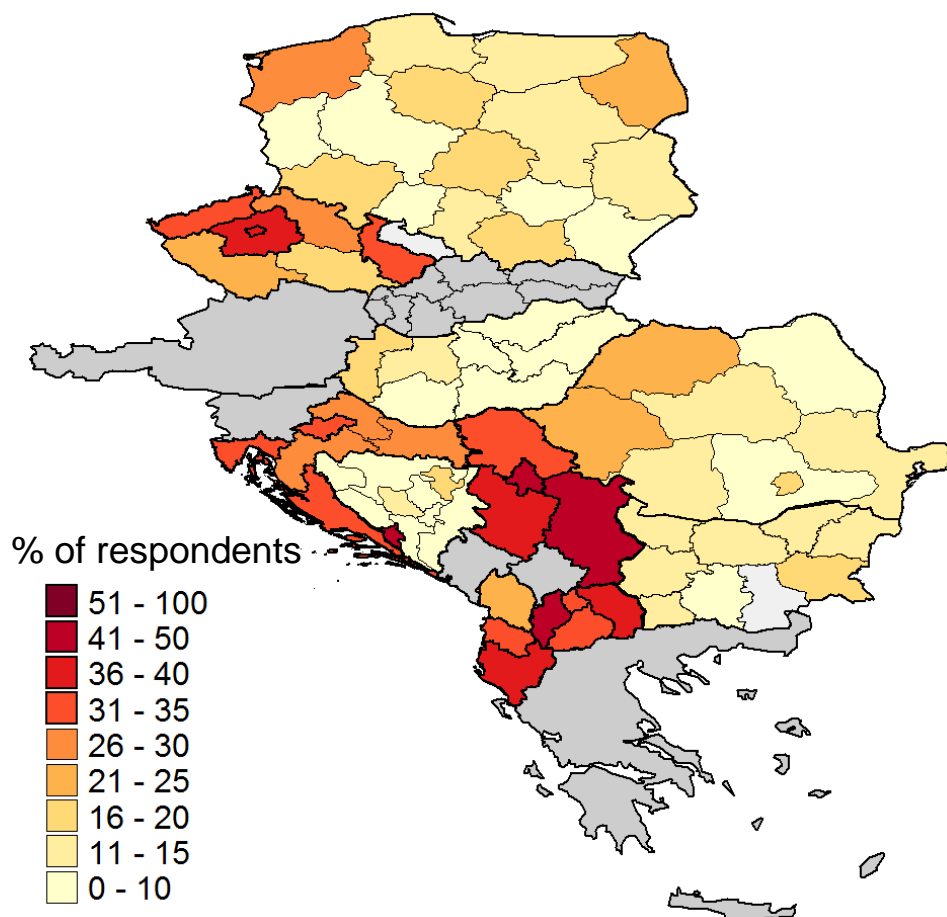


Source: OeNB Euro Survey, national central banks

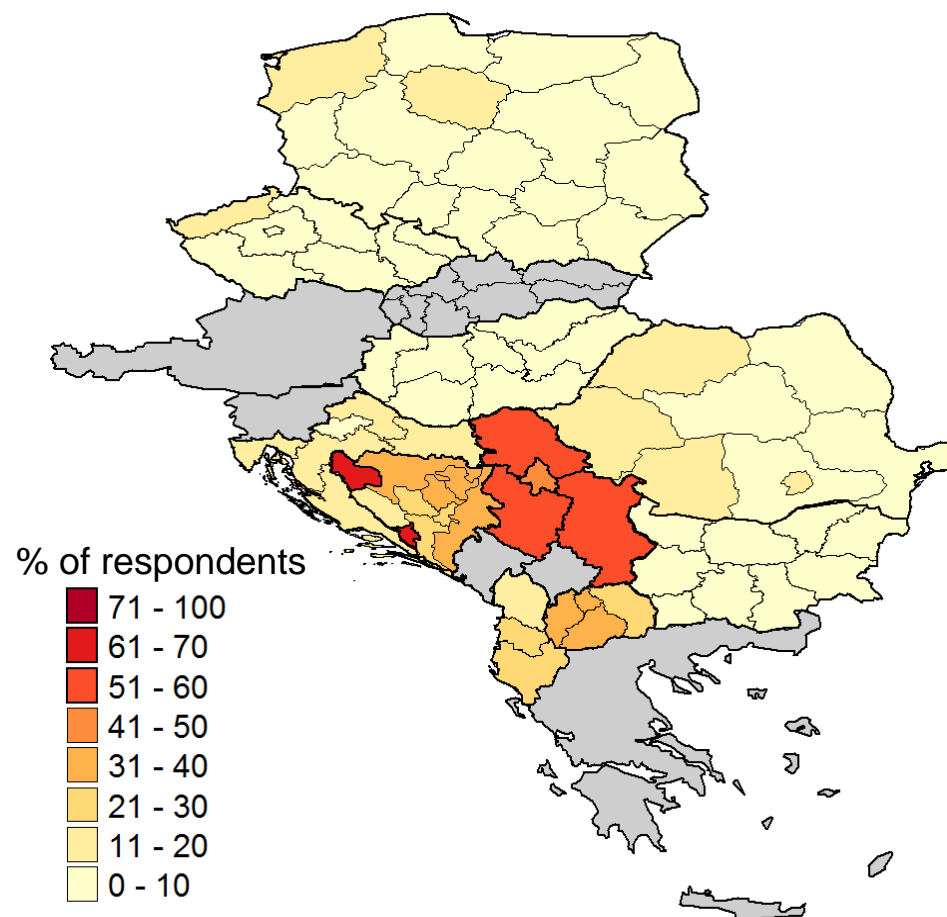
Note: Currency substitution index = ratio of euro cash to euro cash plus national currency in circulation (average of October and November). Deposit substitution index = ratio of foreign currency deposits to total deposits of the household sector (annual average). For details see Scheiber and Stix (2009).

Cash holdings more frequent than actual payments in euro

Cash holdings in euro



Actual payments in euro over the last six months

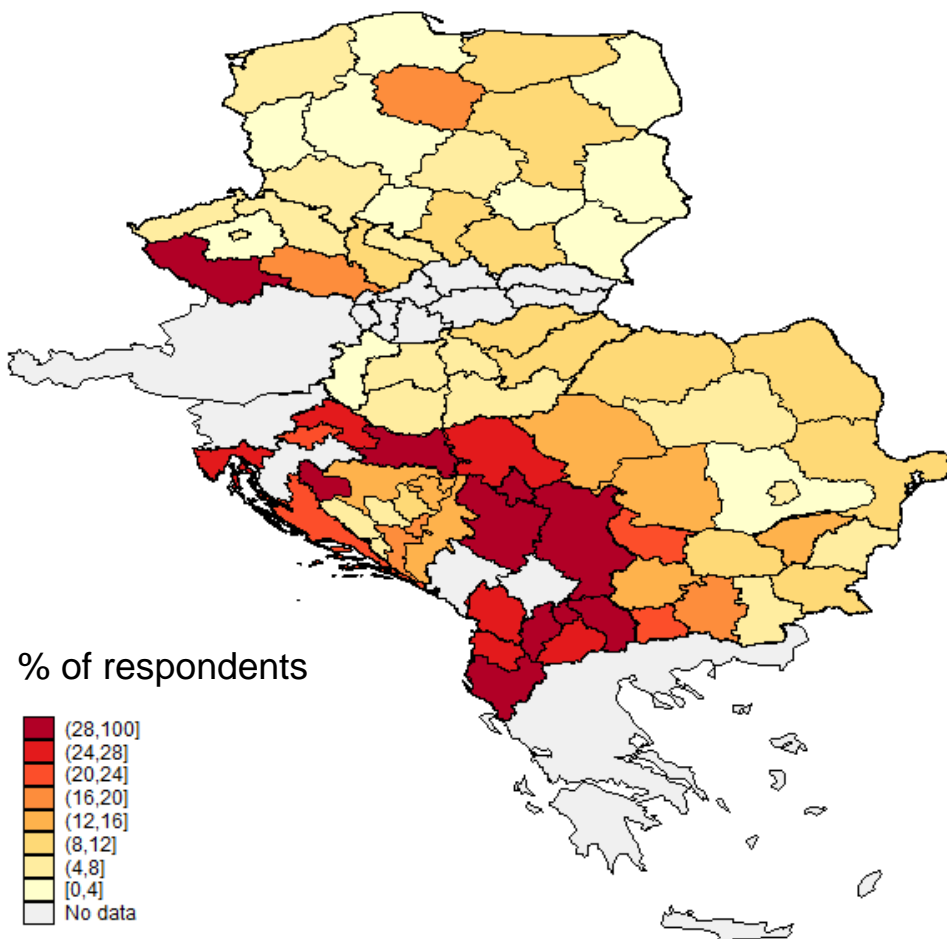


Source: OeNB Euro Survey fall 2014, regional averages calculated by authors'

Measures of network externalities

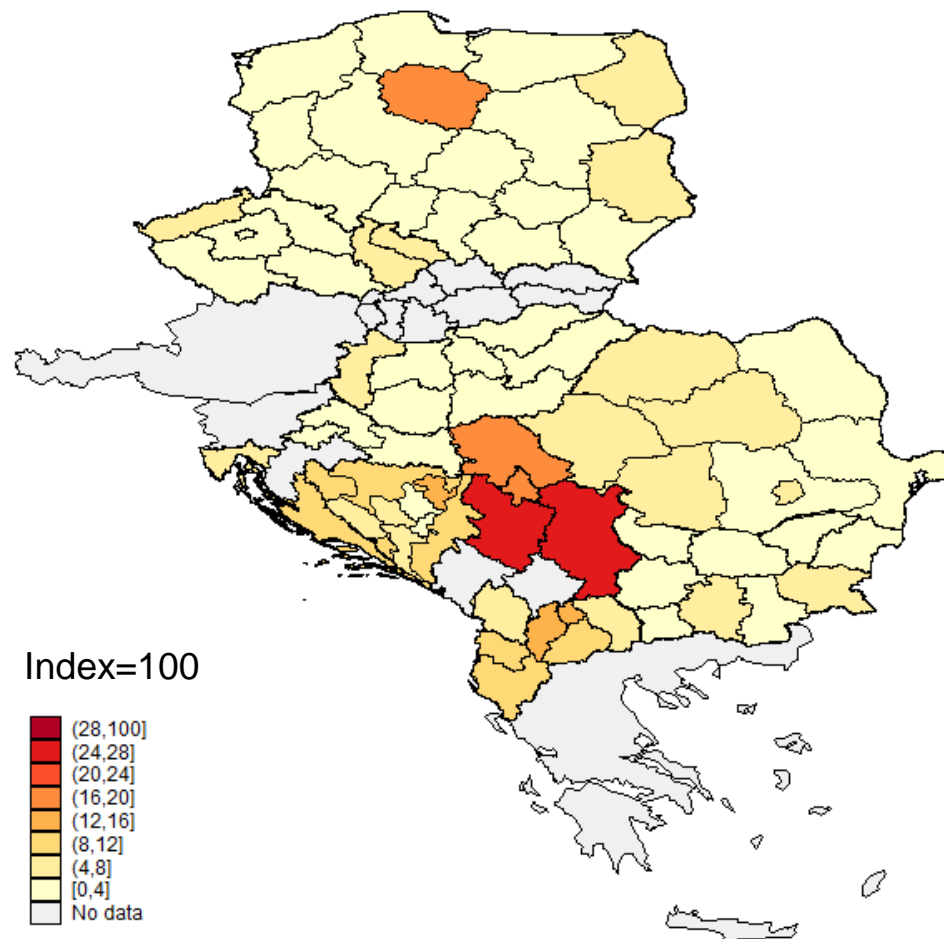
Subjective measure

„common to pay in euro“



Objective measure

actual payment behavior of 20 neighbors

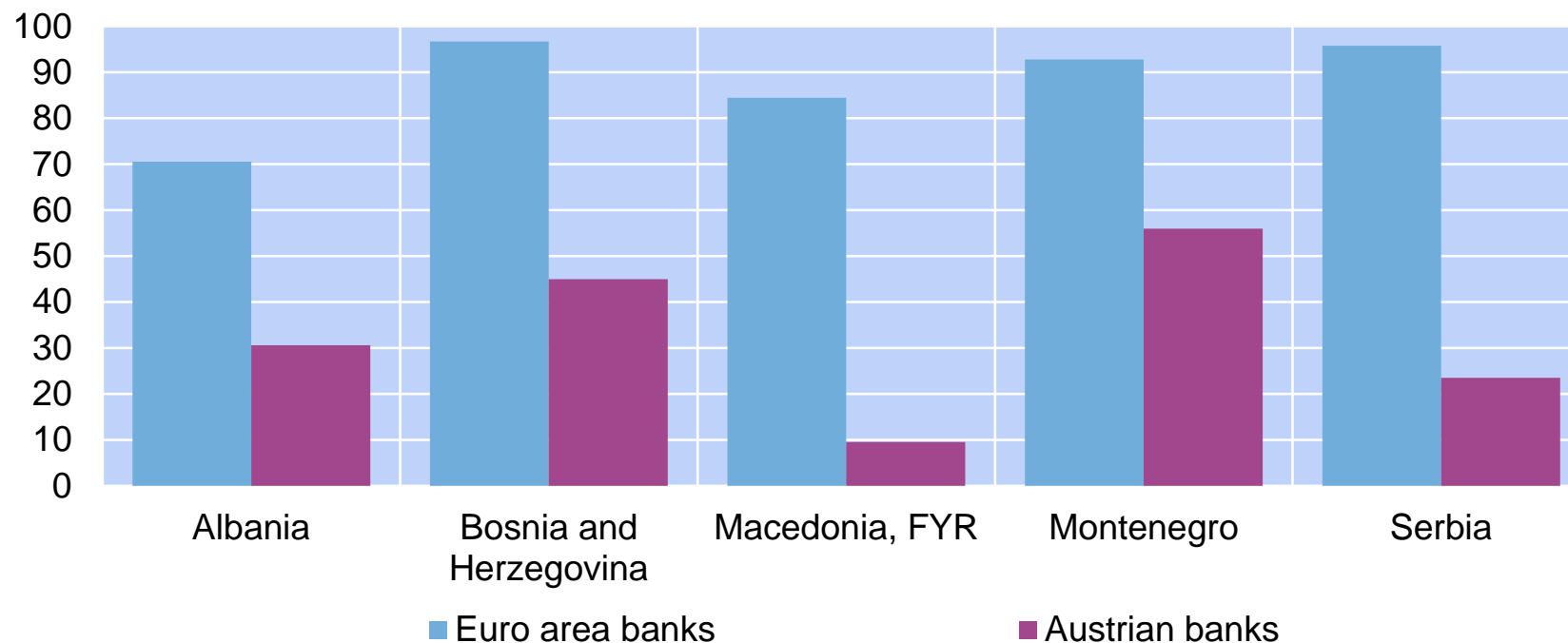


Source: OeNB Euro Survey fall 2014, regional averages calculated by authors.

Important role of Euro area banks in SEE

Consolidated foreign claims on selected SEE countries

2017-Q2. ultimate risk basis. in % of all reporting countries' claims on resp. country

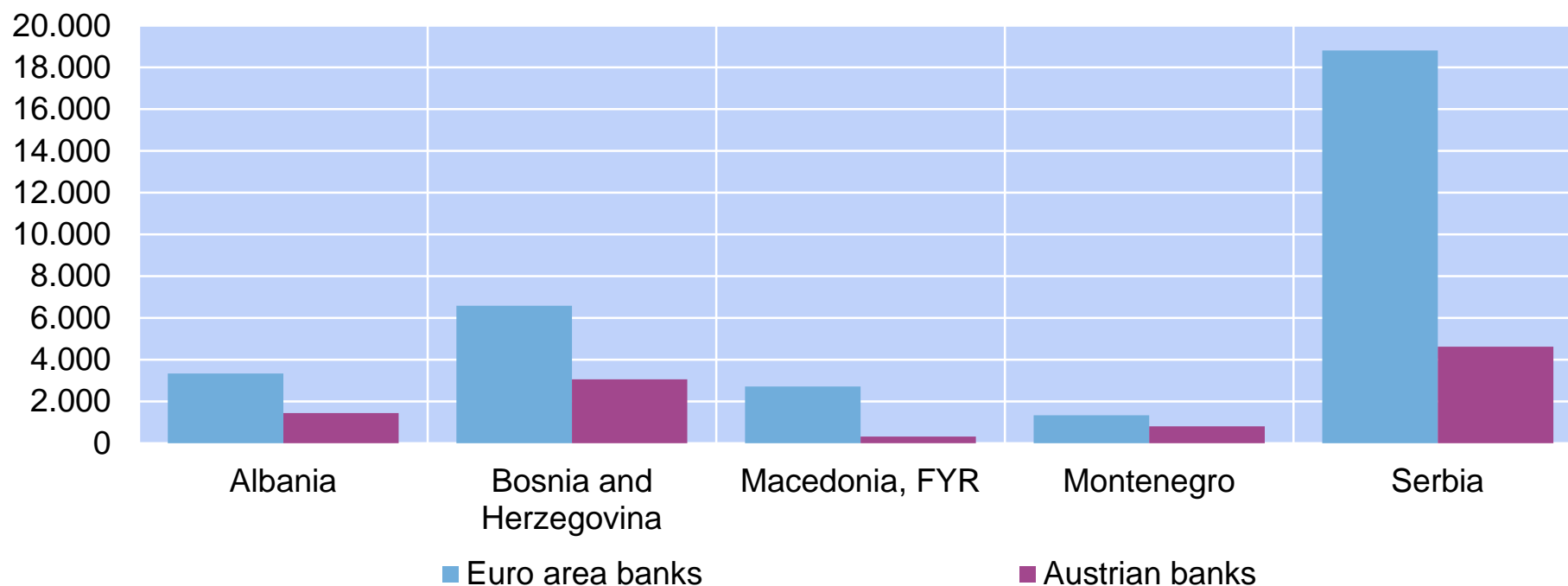


Source: BIS, OeNB.

Important role of Euro area banks in SEE

Consolidated foreign claims on selected SEE countries

2017-Q2. ultimate risk basis. in EUR mn



Source: BIS, OeNB.

**Banking and Financial System Market Risks,
Comprehensive Discussion of Liquidity Risk & Solvency
Risks, Economic & Financial Stability Risk, Fiscal &
Sovereign Risks**

Periklis DROUGKAS

Chairman

Albanian Association of Banks

Banking sector in Albania

The Albanian Banking sector comprises 16 banks divided, according to BoA, into 3 groups:

- **Group 1:** Market share up to 2% possessing the 4.7% of banking sector's total assets
- **Group 2:** Market share from 2-7% possessing the 27.1% of banking sector's total assets
- **Group 3:** Market share over 7% possessing the 68.2% of banking sector's total assets

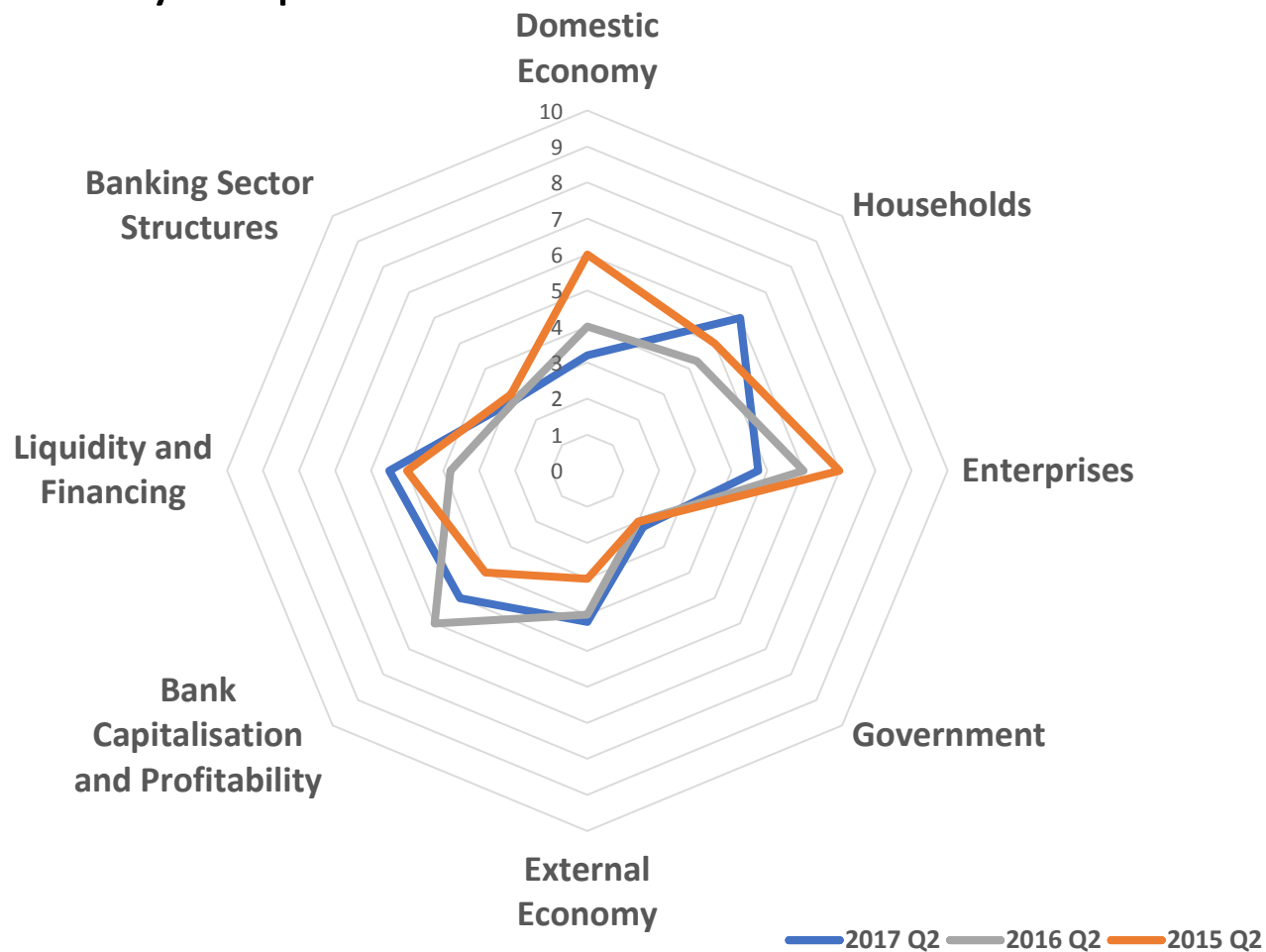
By capital origin

- Banks with foreign capital constitute 82.6% of the sector's total assets.
- Banks with Albanian capital constitute 17.4% of the sector's total assets

The share of the banking activity to GDP: approx. 92%

The Financial Stability Risks Map

The Financial Stability Map



Source: Bank of Albania, Financial Stability Reports, 2017, 2016, 2015

The Financial Stability Risks Map

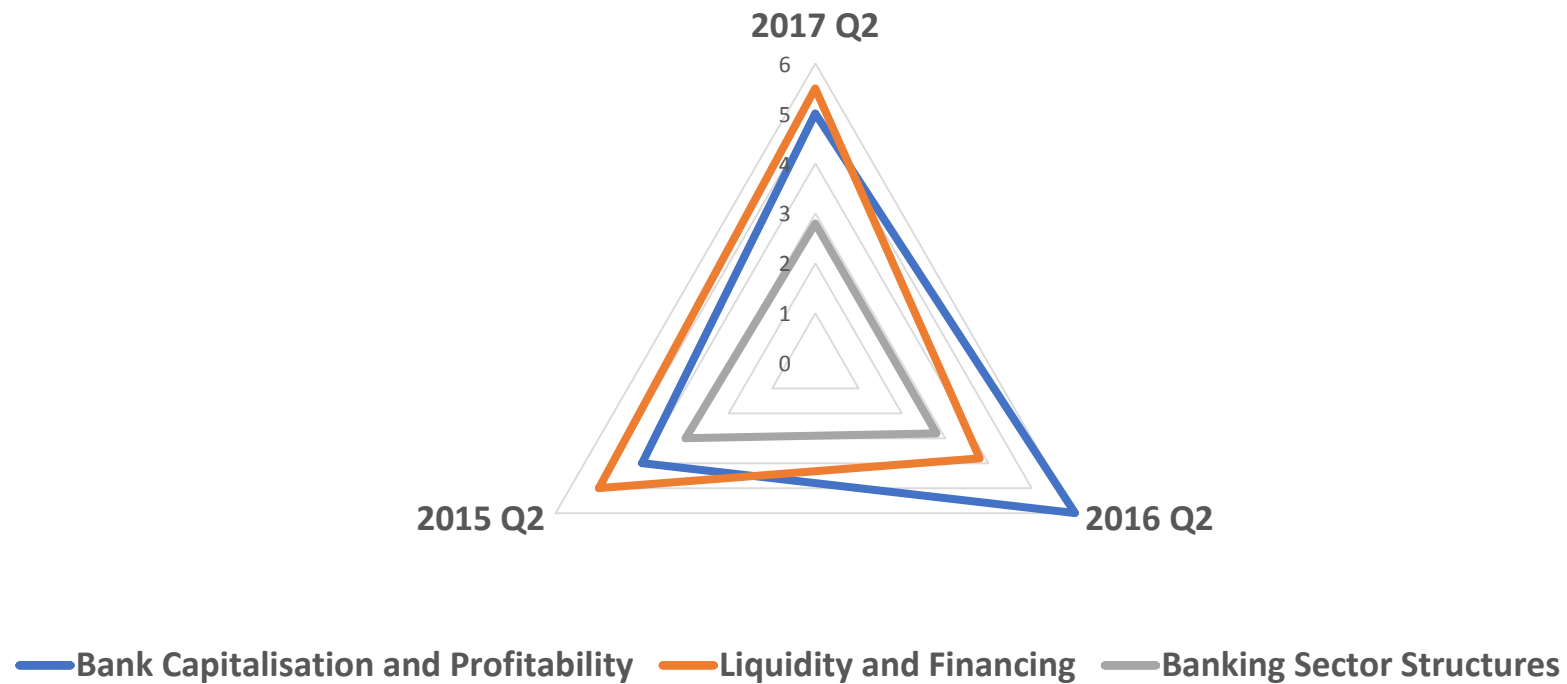
The Perception on Financial Stability Risk Factors

- The risks to the financial stability have declined except of those risks emanating from:
 - i. Liquidity and Financing Sources
 - ii. Households Sources
- The risks emanating from the banking sector are overall assessed as **moderate to low risks**.
 - Meaning that the sector is contributing to the financial stability and to the prosperity of the country

Financial Stability Risks from Banking Sector

The Perception on Financial Stability Banking Risk Factors

Financial Stability Map - Banking Risks



Financial Stability Risks from Banking Sector

- The banking sector risks in general present a decreasing trend
- The trend reflects:
 - the successful anti-crisis measures taken by the Bank of Albania regarding the lending and investment activities of the banking sector.
 - the wise risk management and cautious control of activities of the banks.

The Systemic Risk of the Banking Sector

- The banking sector is assigned a positive assessment of the systemic risks originated by the:
 - Macroeconomic developments
 - Globally:
 - i. An accelerated or balanced economic growth (also in the next years)
 - Domestically:
 - i. The economic growth rate from 3.94 to a higher one, and
 - ii. The fiscal consolidation process (2016 – budget excess)

The Systemic Risk of the Banking Sector

- The banking sector has a positive assessment of the systemic risks originated by the:
 - Financial Market:
 - i. Normal operations with new issues of government securities,
 - ii. Increasing interest rates for securities
 - Interbank Market:
 - i. Limited operations with an increased trend
 - ii. Interest rates not fixed by the market offer and demand
 - FX market:
 - i. Normal operations
 - ii. Appreciation of ALL
 - Payment system: Secured and efficient

The Systemic Risk of the Banking Sector

- The banking sector has the following assessment of the systemic risks originated by the:
 - Lending process: high due to high NPL ratio
 - Execution of collaterals: high due to difficulty on execution, bailiffs, bankruptcy law, etc.
 - Political risk: sensitive due to the temporary uncertainty from the past elections
 - External shock risks: downward trend confirming the banking sector resilience to external risks.

The Main Banking Sector Risks



Market Risk

Very low

- The banks operating in Albania are not listed banks – the equity market risk is zero
- The market risk from the Albanian Government securities is not important (limited)
- The market risk from other Governments and corporate securities is very low (under strict control from BoA and the Banking Groups)
- The exposure of the banking books to the foreign currency and interest rates volatility is very low.

Decreasing

- The NPL ratio: fell significantly
- NPL amounts: decreased
- Cash coverage ratio for the overdue loans: improved, but
- The risk on law enforcement and the difficulties of the execution of collaterals remain high and unchanged

The high NPL ratio dictated:

- **BoA** : to issue new regulation and amend the existing ones
- **The Government**: a) to amend the legal framework regarding the debt collection and b) to amend the bailiff office procedure's (not a successful initiative)
- **The banks community**: a) to improve the collections procedures, b) to improve the credit standards and c) to implement new credit control tools,

Low

- The liquidity ratios of the individual banks and the integrated liquidity ratios for all banks stand significantly above the minimum regulatory requirements
- Risk: the negative gaps deriving from the mismatch of residual maturities of assets and liabilities
- Mitigating tools: Not applicable, but time deposits reduction and increase of demand and current accounts in the system is advisable.

Low

- The capital coverage of banks for the Operational Risk is considered as adequate, therefore satisfactory and stable throughout 2017
- The capital requirements covering the operational risk stayed the same.
- The capital adequacy ratio of the period is not affected due to low operational losses.

Proposal

Further to the existing financial stability report produced by the Bank of Albania, which is a thorough presentation of the financial sector risks, there is the need of an enhanced transparency on the financial stability reporting.

BoA , FSA and Banking Sector should establish a set of indicators that portray risks and profitability of the financial system that can be used by all economy agents and public

Thank you



Banks speak with one voice!

Banking System and New Regulatory Frame

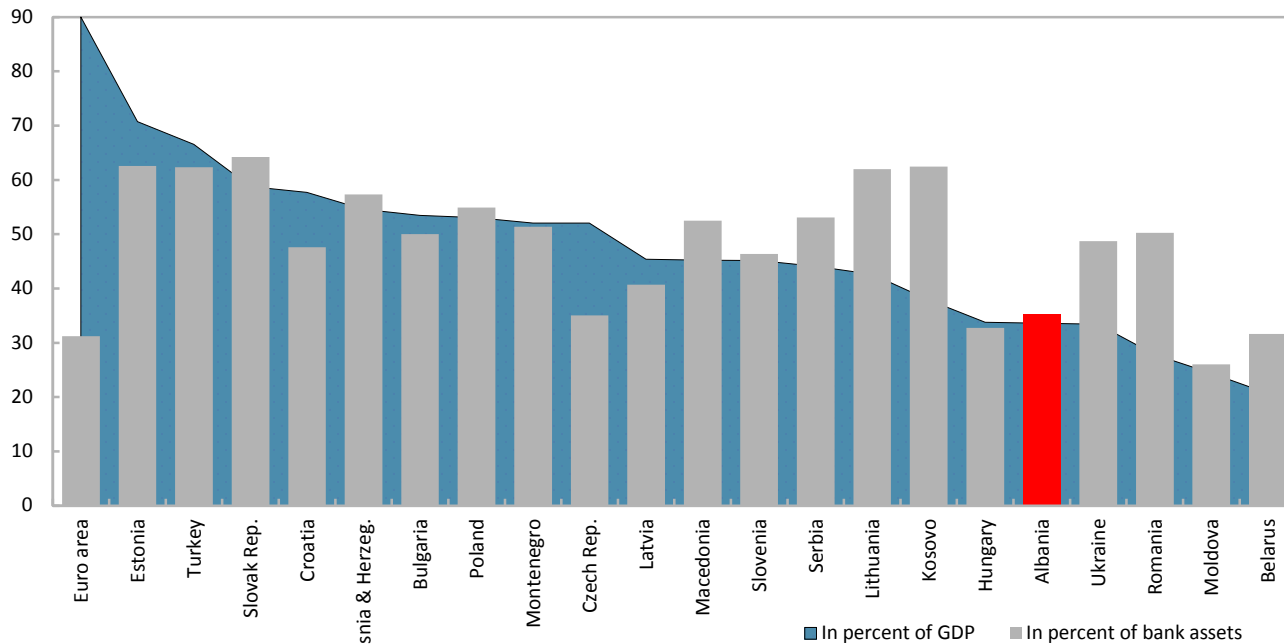
Did we internalize the 2007 lesson?

Natasha Ahmetaj

I. Banking presence in Albanian life

I/1. Credit to GDP 35% vs. Avg. 50% in the region

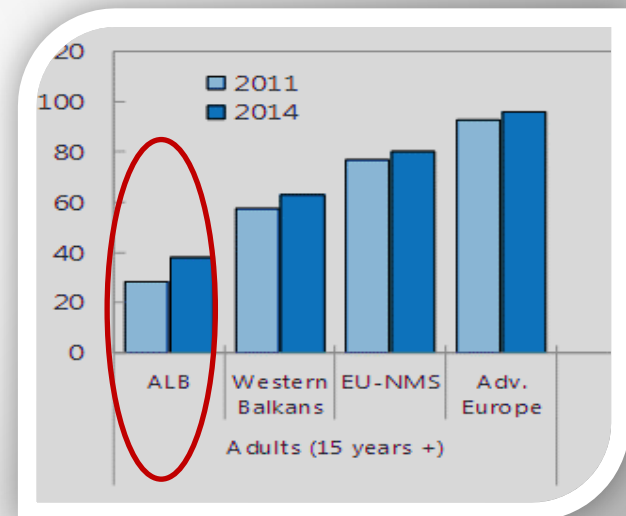
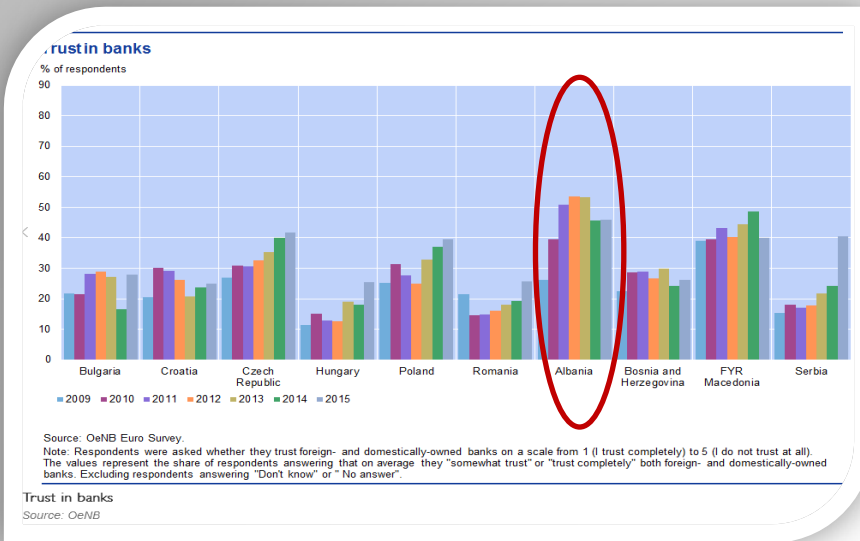
Credit to the Domestic Private Sector, May 2017
(Percent)



Sources: IMF, Monetary Financial Statistics, and IMF staff estimates.

I. Banking presence in Albanian life

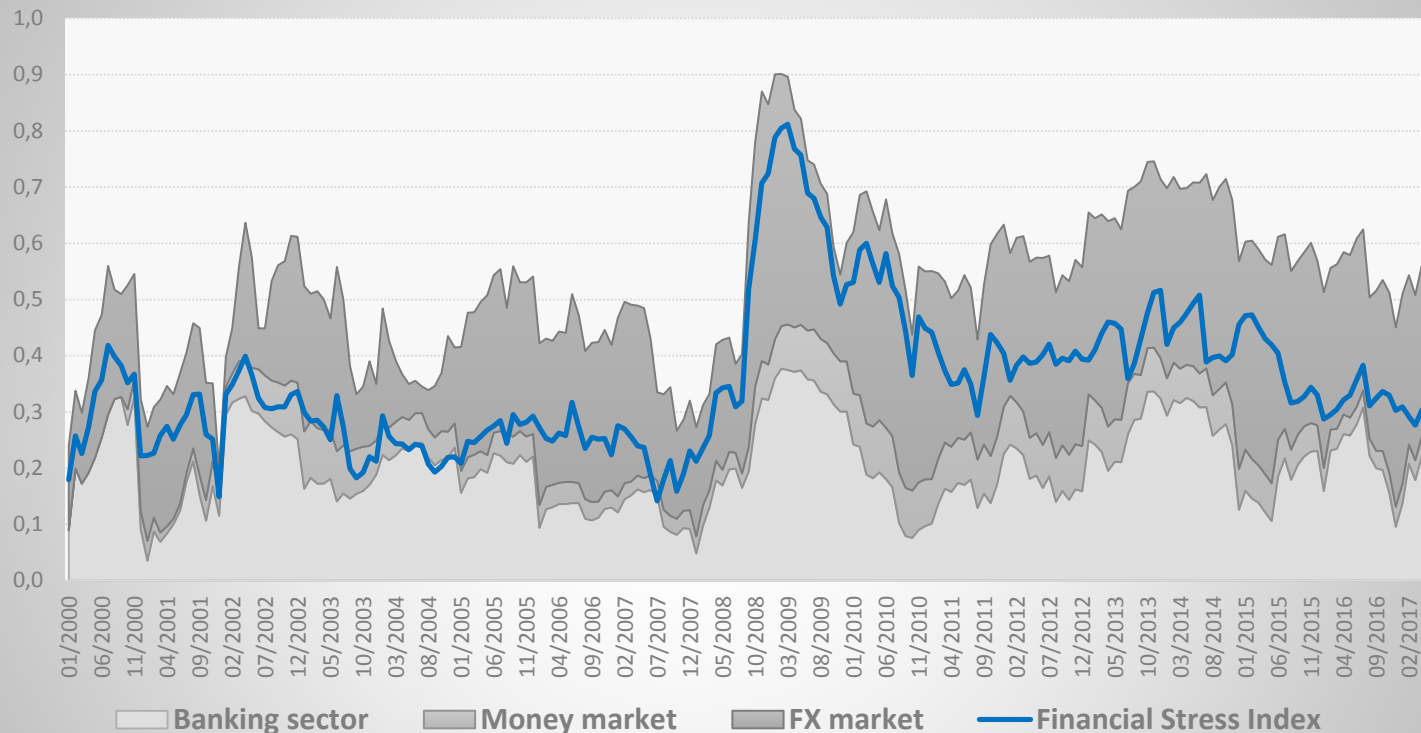
1/2. Financial inclusion: Highest trust, lowest inclusion in the region



Sources: World Bank, Global Financial Inclusion database, and IMF staff estimates.

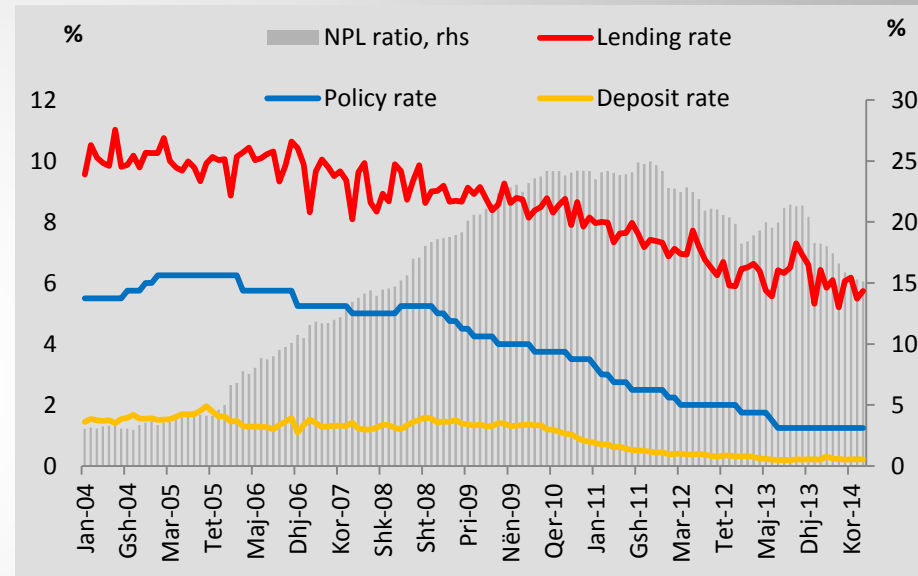
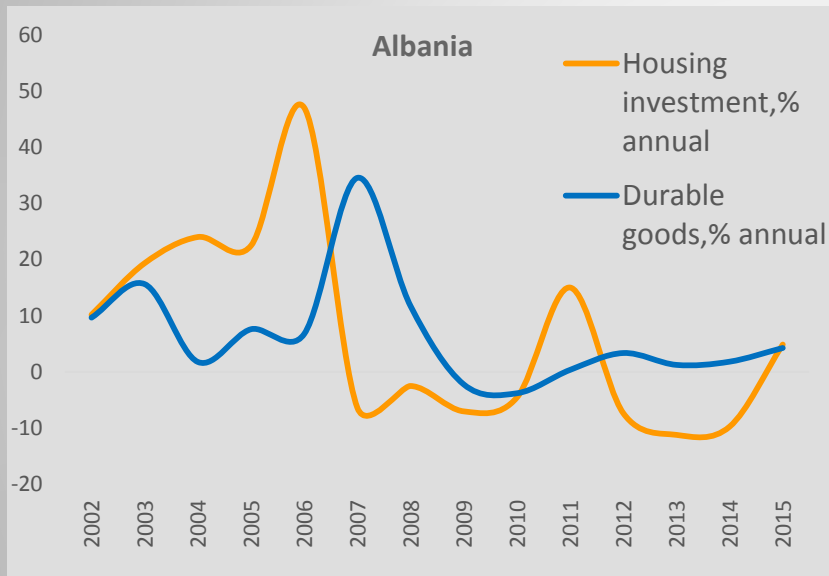
I. Banking presence in the Albanian life

I/3. Delivering stability to the financial system



I. Banking presence in Albanian life

I/4. Positive role of Monetary Policy in lending cost

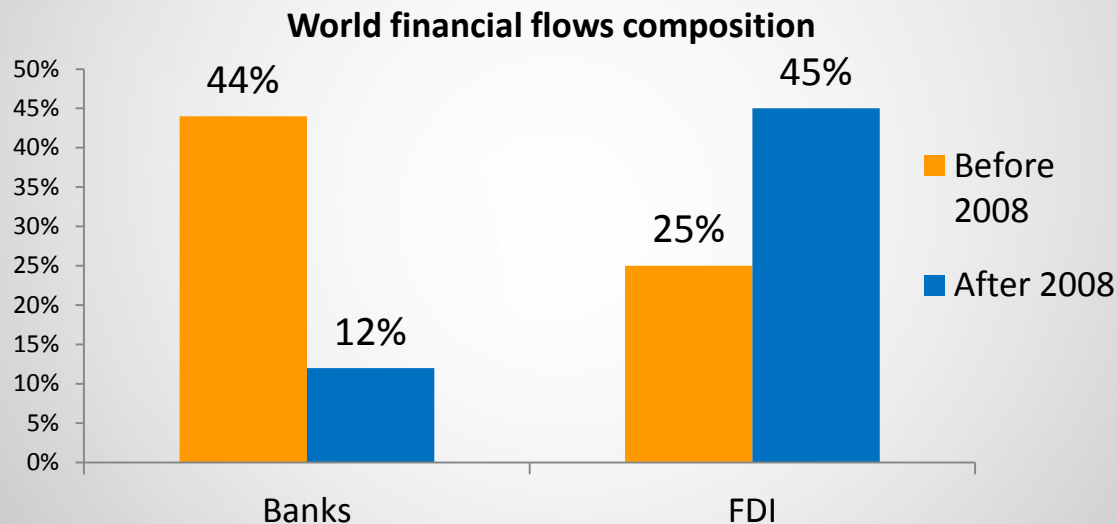


II. Post crises paradigm

Changes in cross-border behavior:

Cross border lending to deleveraging
Foreign affiliates to shrinking

Changes in World Financial Flow composition



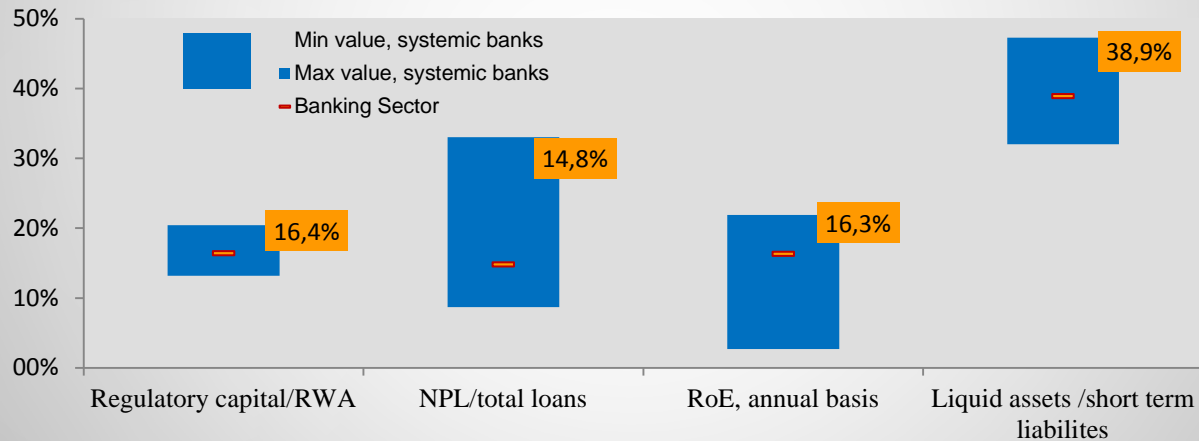
Source: Bussière et.al (2017)

III. Banking System-main goals ahead

III/1. Increasing the resilience for large banks

- ▶ More high quality capital: EU banks Tier1 From 7% to 13.5%
- ▶ Improve b-sh structure: Less dependence on runnable funding

Some FSI for Albanian systemic banks vs. sector



III. Banking System-main goals ahead

III/2. Monitoring level of competition

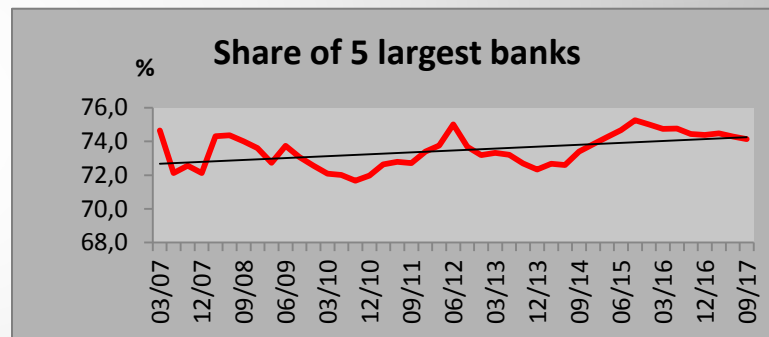
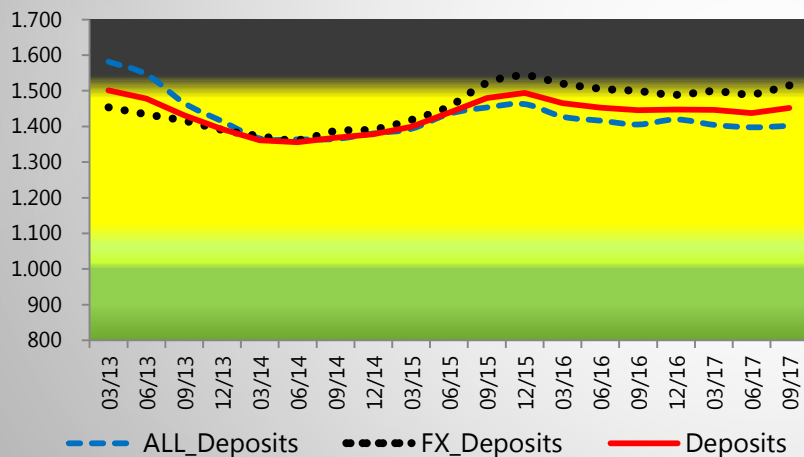
2.1. Addressing To-Big-To-Fail problem

- ▶ Establishing Resolution regime to offset TBTF Moral Hazard

2.2. Monitoring the system concentration:

High market share of the largest banks

Close to moderate concentration of deposits



High competition	No concentration	Moderate concentration	High concentration
<1000	1000-1500	1500-2500	> 2500

III. Banking System-main goals ahead

2.3. Optimizing the size:

Half of 101 banks larger than USD 100 billion, failed during financial crises.

- ▶ Implementing higher prudential requirement:

The majority of them, Lehman Brothers included, had not breached any of prudential regulations in place ex-crisis.

- ▶ Risk is multidimensional-capital is not enough:

4 of them met the capital requirement of New Basel III.

Last December Banco Popular still had a Tier 1 capital over 12% and six months later it went bankrupt.

III. Banking System-main goals ahead

2.4. Competition and Stability trade-off

- ▶ Banking activity has double nature
- ▶ Competition is engine of economic progress: Is it true for banking?
The failure of a SiBi can damage its competitors and lead to instability.
- ▶ Competition can increase the level of risk in two ways:
By decreasing bank profitability and so lowering capital buffers
By taking more risk.
- ▶ Limiting competition may affect the efficiency.

2.5. Preserving Stability-It is all about balances

Completing macro-prudential framework
Enriching macro-prudential tool-kit for systemic risk
Modeling the financial cycle

(Angeloni. I)

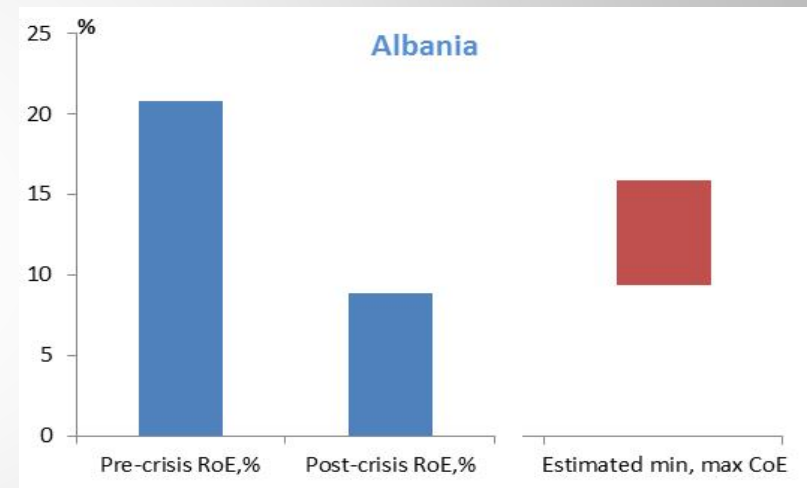
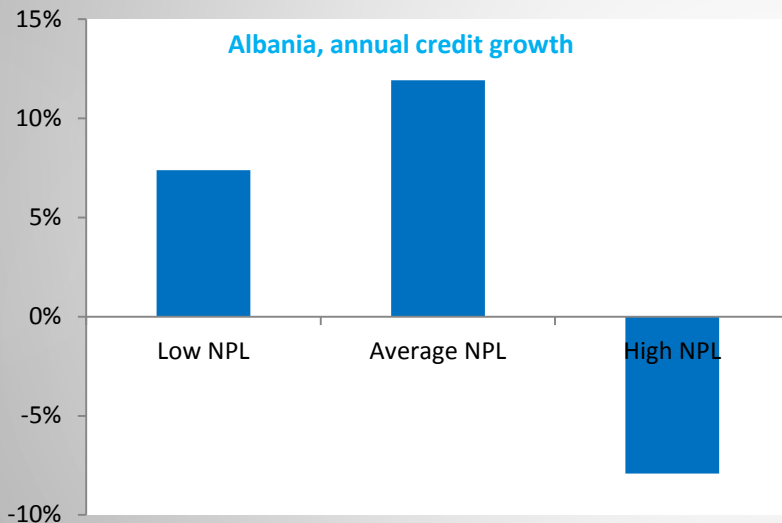
III. Banking System-main goals ahead

III/3. Managing legacy of crises

Resolution of NPL

...to foster credit

...to improve banks profitability



III. Banking System-main goals ahead

III/3. Managing legacy of crises

Promoting Asset Management Companies

- ▶ Gross NPL/ Total assets:
- ▶ EU: 4%; USA: 0.8%; Albania: 6.3%

Better NPL accounting by IFRS9 implementation

- ▶ A recent IFRS 9 impact assessment based on 54 EU banks suggests it will lead to an increase of 13% of provisions on average.

Source. Draghi M.(2017)

III. Banking System-main goals ahead

III/4. Dynamic Rules-internalizing the lessons.

- ▶ Bankers may tent to overestimate potential profit and underestimate risk.
- ▶ The failure of a single bank can damage the entire system.
- ▶ Banking is becoming more and more complex and the rules just mirror that complexity.
- ▶ The rules bring benefits: stronger rules foster trust, which in turn bring more business.
- ▶ Capital is expensive, but well capitalized banks are well prepared to withstand shocks and credit economy when times get tough.
- ▶ We should not follow the same pattern of “post crises usually comes strengthen of rules. After crises fades the deregulations starts.”

*“If history repeats, and unexpected always happens,
how incapable must man be
of learning from experience.”*

G. B. Shaw

Thank you!