



REPUBLIC OF ALBANIA
FINANCIAL STABILITY ADVISORY GROUP

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PRESS RELEASE

Meeting of the Financial Stability Advisory Group

21 JULY 2020

The Financial Stability Advisory Group (FSAG) met on 21 July 2020. The meeting, which was held online, was attended by the Minister of Finance and Economy, Governor of the Bank of Albania (BoA), Executive Director General of the Financial Supervisory Authority (FSA), Director General of the Deposit Insurance Agency (DIA), as well as other representatives from these institutions.

The agenda consisted in the assessments by each financial authority about the developments in the institutions and markets they supervise, in the view of the impact by

“Sars-Cov-2” (hereinafter “the pandemic”). The focus was on the assessment of the financial system’s situation, the risks arising from the pandemic’s impact, the resilience of the financial institutions and the necessary measures to mitigate risks and strengthen the financial system resilience.

Once being introduced with the prepared presentations and after discussing them, participants concurred on the following assessments:

The financial system is stable and the financial situation remains good. This assessment reflects the positive developments in the financial system indicators before the pandemic outbreak, the response of financial institution to contain the operational risks during these months of its evolution, and the effect of measures taken by the authorities to support the financial activity. In more concrete terms, related to banking activity, both capitalisation and liquidity indicators are at rather good level, considerably above the minimum levels required by the regulatory framework. Capital Adequacy Ratio (CAR) stands a little above 18%, while liquid assets ratio to short-term liabilities is close to 49%. In the market of investment funds, liquidity indicators are above the minimum levels required by the regulatory framework. Also, in the insurance market, the insurance companies have maintained adequate levels of technical provisions.

The activity of the financial system is feeling the pandemic impact. The implementation of public measures to safeguard public health in March – April 2020, was accompanied by restrictions in the economic and financial activity of economic operators and in the financial markets. Hence, financial

intermediation of banking sector slowed down, gross written premiums in the insurance market fell and the increase of net assets in the activity of investment funds almost stopped. Notwithstanding the gradual restarting of the economic activity since May 2020, its further performance is fully conditioned by the evolution of pandemic and its effects on consumption and investments in Albania, as well as by the international economic developments.

Public authorities have supported the activity of economic and financial system operators for mitigating risks and strengthening financial resilience. For this purpose, the Government of the Republic of Albania has approved the financial assistance and guarantee packages to support, respectively, the employees of private sector and self-employed persons, being restricted in economic activity by measures to protect public health, and the affected enterprises with working capital. Also, given the drop in budget revenues, the financing sources have been provided mainly through borrowing in international markets and from international financial institutions. These and other elements necessary for maintaining fiscal stimulus in the economy, are reflected in the revision of the budget that is being discussed. The measures consider the current impact of pandemic on the economic activity, in addition to the need to maintain space and balance in fiscal indicators, in case the unfavourable developments continue.

The Bank of Albania, as the monetary and supervisory authority, has undertaken some measures regarding financial market and banking activity. The further easing of monetary policy and the unlimited liquidity injection in the interbank market have maintained both low interest rates and the incentive for lending. In partnership with international homologue institutions, there are provided the instruments to support the market with euro liquidity. In parallel, legal actions and the regulatory amendments have provided to the affected borrowers by pandemic and banks, the time and possibility to restructure the respective exposures with the aim, whenever possible, to preserve both the solvency of the borrower and the credit quality. Although these measures will mitigate the fall of credit quality in the banking sector, pandemic might have a considerable effect on these indicators. Hence, banks' costs related to the creation of provisions on credit risk will increase and in turn, the financial result may be declining. Based on this assessment, the Bank of Albania has required banks to suspend profit distribution (as a dividend), aiming at easing the impact of a possible fall of the financial result on the capitalisation indicators. Communication with banks has been enhanced and reporting requirements have become more specific and frequent.

The Financial Supervisory Authority has undertaken similar measures regarding the non-bank financial entities it regulates. In this view, requirements on frequent reporting on liquidity situation for these entities have been increased, and it has suspended profit distribution for insurance companies. In addition, FSA has increased the supervisory attention on the adequacy of business continuity plans regarding most relevant entities it supervises.

The Deposit Insurance Agency complements the institutional framework of public authorities that sustain the resilience of the financial system. The Agency has continued to adequately manage the deposits compensation fund, explore the possibility to extend the fund in partnership with international financial institutions and enhance its procedures framework.

In current circumstances, the above-stated measures taken by the authorities are assessed to have improved the capacities of the financial system to counter the economic shock of the pandemic.

However, risks to the real economic activity and to the financial system arising from pandemic remain present and trends in these risks are uncertain. As a result, both financial industry and the relevant regulatory authorities need to harmonise their actions, in order to ensure that:

The information being collected and analysed for the financial system activity, particularly for its mostly affected areas, be timely, more complete and frequent, in order to more effectively serve the decision making process;

Financial institutions further strengthen their analytical capacities as an indispensable instrument to assess their financial resilience against unfavourable economic developments, by including specific and timeextended scenarios. These analyses, should be part of regular and frequent assessments by managing bodies, and should complement their preliminary decision-making for strengthening capital and liquidity positions when necessary;

An appropriate equilibrium is found between the requirements to support economic operators that need financing in this period, and the increased prudence on such finance risk. The financial guarantees provided by the Government for lending by the banking sector, represent an instrument that helps to achieve this objective. It is desirable that the use of these guarantees become more rapid and prioritise the medium and small size enterprises.

Public authorities will continue to support the activity of the financial system, with the necessary measures, in response to the developments which are conditioned by the evolution of pandemic. For this purpose, the authorities will strengthen the communication and will collaborate guided by the following principles:

First, safeguarding the stability of the financial system. In this regard, authorities will require to financial institutions that supervise to maintain the necessary standards for protecting the health of their staff, guarantee the well-functioning of operations and critical systems of the institution, and to enhance their capital and liquidity indicators. On their side, the authorities will continue to verify the adequacy of processes, procedures, financial and human resources, aiming at an effective accomplishment of their role for the supervision and regulation of the financial institutions and markets; and

Second, facing the challenges with flexibility and transparency. In this regard, in compliance with the legal and regulatory stipulations, and taking into account the above-stated principle of safeguarding the financial system stability, the developments in the financial system will be monitored and, if needed, in line with the interpretations by the respective international institutions, the pro-cyclical effect in regulatory requirements will be mitigated. This would take place in those cases when the return to the normal regulatory requirements remains clear and achievable. In parallel, the financial institutions in Albania will be required to maintain the highest standard of transparency in reporting the financial statements and the prudential indicators.

At the conclusion of discussions according to the agenda, the senior officials representing the participating institutions approved this Press Release and authorized its publication.