



REPUBLIC OF ALBANIA
FINANCIAL STABILITY ADVISORY GROUP

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PRESS RELEASE

Meeting of the Financial Stability Advisory Group

21 February 2018

The Financial Stability Advisory Group (FSAG) met on 21 February 2018. The attendees were the Minister of Finance and Economy, Governor of the Bank of Albania (BoA), Chair of the Board of the Financial Supervisory Authority (FSA), Executive Director General of the Financial Supervisory Authority, Director General of the Deposit Insurance Agency (DIA), as well as other representatives from these institutions.

The agenda of the meeting included the assessments of the present financial authorities about the developments in the institutions and markets they supervise.

The representatives of the Bank of Albania presented an overview on the *financial performance and risks* for the banking sector's activity until the end of 2017, emphasising that the banking activity continued to grow in 2017-Q4, albeit at a slower pace, due to the lower growth of deposits. Overall lending to the economy remained moderate, while lending in lek continued to provide the sole positive contribution. The non-performing loans fell notably, by around ALL 30.2 billion, over 2017. Hence, at end-2017, the non-performing loans ratio was down at 13.2%, from 18.3% in the previous year. In addition to the lost loan write-off in the balance-sheets of banks, other factors that included loan restructuring and loan settlements, provided the main contribution to the fall of non-performing loans. In 2017, the banking sector improved the financial result considerably, where the fall in credit risk provisions provided the main contribution. Liquidity in the banking sector remains ample. The capital adequacy ratio was up by 0.2 percentage point, over the previous year, standing at 16.6% as at end-2017. These developments show that the banking sector situation remains stable, with good indicators of liquidity, financial result and capitalisation.

Representatives of the Bank of Albania informed the FSAG also *on the expected regulatory changes* that will envisage using only official financial documentation of the entity applying for a loan, in the analysis that banks conduct during the loan underwriting process. The participants assessed that the use of the official financial documentation in such process serves to the formalisation of the economy, supports a fair competition ground and reduces the risk in the lending activity of banking sector. They assessed that the fall of non-performing loans should establish more favourable conditions for a higher

commitment by the banking sector toward lending, based on the necessary prudence regarding the indicators of credit concentration and other supervisory requirements.

Also, BoA's representatives informed the FSAG *on the package of measures to promote the use of the national currency in the activity of banks*, approved by BoA's Supervisory Council on 7 February 2018. The attendees affirmed the need for such measures and stated their commitment to act in a harmonised way, in compliance with the stipulations in the Memorandum of Cooperation of 18 April 2017.

The representatives of the Bank of Albania informed also on the joint MFE and BoA work in undertaking some preparatory regulatory and operational actions, *to promote the development of Government debt securities transactions*, after their issuance, in the so-called "secondary market". The development of this market is an important challenge to all its operators and a process that takes time. This process will take place in regular consultation with the World Bank, the International Monetary Fund and the European Bank for Reconstruction and Development. FSAG participants said that this process is necessary and suggested that information be regularly shared on its progress.

According to the agenda, the meeting continued with the presentation by FSA representatives, regarding the assessment of the situation in the institutions and markets that this institution supervises.

Regarding the insurance market, referring to 2017-Q3, the FSA representatives highlighted the on-going growth of gross premiums for life and non-life insurance companies, and the growth on ratio of insurance damages to net premiums for non-life insurance companies. Also, the net financial result of insurance companies shows considerable improvement. On the other hand, FSA is committed to address problems related to compliance with regulatory requirements in some insurance companies. *In capital markets*, the net assets of investment funds and number of quotas, grew over 2017. Investment funds, depending on the currency, invested mainly in public and private debt securities, and less on equity securities of foreign private entities. Also, voluntary pension funds grew considerably in 2017. Nevertheless, the low starting base dictates their rather low share in the total assets of the financial system.

FSA's representatives highlighted that the important developments in capital markets over 2017 include the higher interest of private entities in issuing short-term debt securities with private offer, the licensing of Albanian Stock Exchange - ALSE, the increasing number of financial institutions that serve as "depository" for investment funds and the increase of those that serve as "custodian" for securities issued by private entities. The participants assessed that these developments contribute to deepening the capital markets, and highlighted the need for the legal and regulatory framework to contribute to the stability of these developments. In this regard, the participants agreed with the suggestion of the FSA to start a review process of cooperation practices between the authorities on addressing simulated stress situations in the financial markets.

DIA's representatives regularly participate in FSAG meetings. In this meeting, DIA's representatives presented *the performance of insured deposits at banks and savings and loan associations (SLAs)*.

The insured deposits grew in both banks and SLAs, over 2017. In total, households' savings continued to dominate the insured deposits, and show a slight dominance of foreign currency deposits. By maturity, time deposits dominate the insured deposits of households, while deposits of entrepreneurs and commercial companies are concentrated in current accounts. In line with the performance of insured deposits, the deposits insurance fund was up over the previous year. The payments of deposit insurance premium by banks and SLAs as well as the management of financial assets by DIA were the financing source of the insurance fund in 2017, as laid down in the law under normal situations.

After the discussions of the above issues, the senior officials of the institutions assessed positively the developments in the financial system, in financial markets and in the relevant regulatory framework, and affirmed the stability of the financial system. They highlighted the importance of monitoring the financial developments and preparing further legal and regulatory improvements, to address the respective problems and accelerate the approximation with the best standards in the respective fields.

Next, participants discussed on other issues of common interest that may be addressed further in greater detail in the next FSAG meetings.

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