

Gent Sejko: The role of central banks and the banking sector on the path to EU

Welcome address by Mr Gent Sejko, Governor of the Bank of Albania, at the Annual Conference of the Bank of Albania, co-organised with the Albanian Association of Banks, Tirana, 13 November 2024.

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Honourable Minister of Finance

Honourable Madam Minister of State and Chief Negotiator,

Honourable Chair of Parliamentary Committee on Economy and Finance,

Dear President of the Albanian Association of Banks Shella,

Dear fellow Governors and guests

It is a great honour and pleasure to welcome you all to the Annual Conference of the Bank of Albania. Please allow me, in this occasion to congratulate the Albanian Association of Banks for its 25th Anniversary. The Albanian Association of Banks, the co-organiser of this conference, has proven to be a serious collaborating and coordinating platform for the banking industry, in addition to being a visionary institution and our important partner on our journey towards development and modernisation.

This Conference, the 17th one, is a crucial moment in our annual business schedule as it always offers a solid ground for communicating with our institutional partners, field experts and the public at large. It enables us to look away from the challenges of the present, to consider issues of strategic importance for the sustainable and long-term development of Albania, as well as to try - through open and constructive dialogue, to identify the policies and adequate instruments for addressing them.

In this view, I would like to highlight that despite the rapid economic and political developments of the year we are leaving behind, the long-term headline from 2024 will be our receiving of a green light and the start - in October - of the official process of negotiations for membership in the Union European. This new chapter poses a busy agenda ahead of regulatory, legislative and institutional reforms. Their realisation is both a prerequisite for our membership, as well as a major and indispensable step on our way of progress.

For this reason, we have decided to dedicate the proceedings of this conference to the role of central banks and the banking sector in the integration process.

Dear guests,

Before addressing my views on our conference's topic, I would like to focus briefly on the current status of the Albanian economy and its financial system.

Albania of 2024 offers a completely different economic reality compared to a decade ago, when the country received the status of potential candidate for membership. Despite the many challenges we have faced over this period, the volume of economic activity in Albania has grown to EUR 24 billion from EUR 10 billion, the unemployment rate has shrunk to 10.7% from 17.5% and the average income per capita has increased to EUR 9200 from EUR 3500.

At the same time, the main parameters of economic and financial equilibriums in Albania have been improving. During this period, inflation has averaged 2.5%, current account deficit has decreased to 2% of GDP from almost 11%, and external debt has been reduced to 44% of GDP from 70% of GDP, while public debt has declined to 56% of GDP from 72%. In parallel, the banking sector has exhibited stability and improving financial indicators. Thus, the non-performing loans ratio has dropped to 4.6% from almost 23%, the capital adequacy ratio has reached an average of 18%, while the banking sector has continued lending to the economy and displays high liquidity and profitability levels.

This substantial progress has not been the product of chance. On the contrary, it reflects the ever increasing maturity and sophistication of Albanian business, a framework of consistent macroeconomic policies, which are coordinated and oriented towards stability, the fruits of the structural reforms undertaken during this period, as well as the positive contribution of the banking sector.

I will briefly address some of the supportive factors I mentioned above, focusing on the role of both the Bank of Albania and the banking system.

From the perspective of economic management policies, Albania has made progress in adopting the best practices in the field, both at the individual level, through their anchoring in the rules, as well as in terms of increasing their consistency and coordination mechanisms.

- The Bank of Albania has adopted a modern monetary policy framework, in the form of a flexible regime of targeted inflation, oriented towards price stability, accompanied by a free exchange rate regime.
- In parallel with the monetary policy, the Bank of Albania has worked on development of the macroprudential intervention policy and instruments, for improving the regulatory framework of the banking system, as well as advancing our supervision process, aimed at harmonizing them with the European Union standards.
- In addition, the fiscal policy framework, equally important in this regard, has progressed towards the adoption of fiscal rules, which guarantee the long-term sustainability of public finances and increase its effectiveness and predictability.

In terms of structural reforms, the Bank of Albania has focused on two important directions: i) increasing the stability and efficiency of our banking system; as well as ii) further developing financial markets, payment instruments and financial education. In this regard, we have closely cooperated with our institutional partners: the Albanian Parliament, the Ministry of Finance and the Albanian Association of Banks. Also, in its capacity as administrator, regulator and promoter of development of the payment

system, we have worked for continuous modernization of national payment platforms and updating their regulatory framework, with a focus on reducing the use of cash. Finally, in cooperation with other public agencies and groups of interest, we have initiated and are implementing the National Strategy for Financial Education, which is a major and long-term investment for the development of the country.

Concluding this overview of developments, I would like to address the positive role that the banking sector has played in economic growth and development, as well as in view of the European integration process. This sector has been, continuously, the vanguard segment of the Albanian economy in terms of integration and level of advancement. For example, the capital invested in the banking sector by the European Union members' countries amounts to EUR 1 billion. Parallel to its integrating role, the Albanian banking sector has been transformed into an important instrument of sustainable and long-term development of Albania, through the improvement of the range and quality of banking products, and especially of credit. In this context, I would like to point out that lending of the banking sector to Albanian business stands at levels comparable to many of the new member countries of the European Union.

Dear guests,

This reflection on the positive growth trends so far should not give us any illusions on the magnitude of the challenges ahead. Avoiding the growth trap faced by middle-income countries, as well as the structural challenges of demographics, climate change and financial innovation, requires an even greater effort than what we have undertaken. I think, the structural reforms that we need to undertake in the framework of the integration process provide a unique opportunity for addressing them systematically. Focusing on this moment, allow me to conclude this welcome speech with some of my observations on the role of the Bank of Albania and the banking sector in this process.

The Bank of Albania, as the monetary, supervisory and regulatory authority, has a primary role in the negotiations process of membership. We are an integral part of the working groups for five chapters and chair two of them: Chapter 4 "Free movement of capital" and Chapter 17 "Economic and monetary policies". This process implies a full harmonization of our legal and regulatory framework with the *Acquis Communautaire*. However, we are aware that this process will have its challenges as well. Following, I will list three of these challenges:

- First, the integration process also means an enhanced exposure to financial flows in the form of portfolio investments. These flows serve the development of the financial market and reduce overall financing costs in Albania. Nevertheless, these flows tend to generate volatility in terms of liquidity and the exchange rate. Managing these inflows successfully triggers an increasing challenge to the Bank of Albania. In this context, we consider that the current regulatory and monetary policy frameworks provide a good starting point for addressing them.
- Second, the integration process means an increasing exposure to the financial cycle of the European Union. This cycle has proven to have yielded significant consequences on our financial market and economic activity. In this context, further development and improvement of our macroprudential policy and instruments will be our priority, as the right instrument for avoiding their adverse negative consequences.

- Third, the sequencing and coordinating of the banking system' regulatory framework convergence speed with that of other segments of the financial system, is another challenge.

This coordination is necessary to avoid regulatory arbitrage and to promote a harmonized development of the financial system.

Finally, I would like to conclude my speech by underlining that the integration process offers equally serious challenges and opportunities for our banking sector. The free movement of capital also means full exposure to competition between this sector and the European one. Our banking industry must be aware of the consequences that this competition will have on the business model and profit margins, by taking measures in a timely manner to deal with it. In this view, I am confident that the Albanian Association of Banks will continue to provide its positive contribution to the development and convergence process.

Thank you, once again, for being part of our traditional conference, and I kindly invite you to provide your contribution through a rather opening discussion.

Thank You!