

Banking sector restructuring and the development of financial intermediation in Albania

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The banking sector in Albania has seen dramatic developments over the past 10 years. Since 2000, the size of the banking sector has grown rapidly, with credit/GDP rising from less than 10% to more than 35%. In 2000 two-thirds of banking assets were controlled by state-owned banks. Today well over 90% of bank assets is in the hands of foreign controlled banks.

In this paper we firstly showed the step by step restructuring of the banking sector in Albania. Then the changes in the structure of financial intermediation and finally, the conditions of access to finance for firms in different years were analysed. For the first two topics, we used mainly data from the Bank of Albania like the Supervision Annual Reports, Annual Reports, Financial Stability Reports and time series found in its homepage. For the last topic, the BEEPS data were used to build different summary statistics and to test different null hypothesis with STATA.

The first part was the introduction. In the second part we saw Albania after the fall of communism and the economic reforms in 1992, when the one tier banking system became a two tier. The Bank of Albania represented an independent central bank and the other banks were second tier banks. Many private banks and joint ventures entered the market after 1992. The National Bank of Greece, Tirana Bank, Dardania Bank, Italian-Albanian Bank and others were some of the players in the first years of the private market economy in Albania. However, they were not functioning as real financial intermediaries, which among others led to the fatal crisis of the pyramid schemes in 1997. After this year the banking system gained more attention and it became a dynamic field. The privatization of the National Commercial Bank was completed in 2000 and the one of the Savings Bank in 2004. The Savings Bank was privatized from Raiffeisen Bank of Austria, which brought many changes and innovations in the financial market. Many other private banks entered the Albanian market and the number of banks became 16 in 2007, after the important merger of the American Bank of Albania with the Italian-Albanian Bank to Intesa Sanpaolo Bank Albania. The share of foreign capital in the market in 2007 was 88.8%, which is good but also concerning, as the market is not very diversified. The banks operating now are: Raiffeisen Bank, Intesa Sanpaolo Bank, National Commercial Bank, Tirana Bank, Emporiki Bank, ProCredit Bank, Popular Bank, Credins Bank, First Investment Bank etc.

In the third part, we firstly showed why financial intermediation is important for a country and especially for those in the development process. The Harrod-Domar model and many papers were briefly reviewed for this purpose. The most important finding is that financial intermediation and economic growth positively correlate and there are many ways to show why it is so. An argument could be that a developed financial sector can ease the external financing constraints and in this way lead to innovation and economic growth.¹ A better developed financial intermediation could also boost the income of the poorest quintile and reduce inequality.² Secondly, we showed that the Albanian banking market is highly concentrated but this is not as concerning as it seems in the first sight. Even though the *concentration* is higher than in most other SEE and EU countries, the *competition* (measured with the advanced Panzar-Rosse method) is acceptable for the level of development of Albania and comparable with other SEE and EU countries. Thirdly, trends of credit allocation and deposit shares were described. Credit to the public sector fell to 0% in 2003 and then started to rise again in 2004, reaching abnormal growth levels. Credit to the private sector was boosted in 2005. The volume of private credit in 2005 was double of the volume in 2004. From 2004, the retail credit became popular and households represented on average 33% of the total loans from this year on. In 2001-2003, a high dollarization and euroization of the market was observed. In recent years, more than 70% of the total credit was taken in foreign exchange. Firms take rather more FX loans than households, as it can be expected. Demand deposits are popular for the firms, whereas time deposits are not a common investment for them. Since 2004, demand deposits also became highly preferred by the households, as a result of intensive marketing and innovative features. Then we showed the degree of foreign refinancing in the Albanian banking sector, which is balanced and not high. It has gained importance especially in 2008, where deposit withdrawals were observed. Finally, the development of the interbank market was pictured. Albania had no real infrastructure and it has now a modern and international competitive one. Starting with the implementation of the Accounting and Treasury Management (ATM), following with Albanian Interbank Payment System (AIPS), Automated Clearing House (AECH) for small payments and Real Time Gross Settlement (RTGS for gross payments), the system has now all the necessary tools for providing effective and fast transactions. Despite the

¹ See: Rajan/Zingales 1998, p. 584.

² See: Beck/ Demirgüç-Kunt/Levine 2007, p.27.

increase of interbank transactions in number and value, the interbank market is characterized by constraints.

The fourth part deals with the access to finance for firms in Albania, with the importance of loans and loan conditions and with possible relations between different firm-level characteristic and access to credit. Data gathered from BEEPS were analyzed with STATA in order to get the results we needed. The firms-having-credit-rate was in 2002 35% and in 2007 51%. A comparison of credit conditions was also made in this part. Collateralization rate is high but has fallen in 2007 to 85.37% of all credits down from 96.81% in 2005. Collateralization value is also showing a decreasing trend from 2005, which could be related with the start of operation of the credit registry. We can say that borrowings from banks are not a crucial source for financing working capital or new investments in Albania. However, it has gained more importance in the recent years. Borrowings from friends, family and non-banks have lost their importance, showing also that the non-bank financial sector has not the same meaning it had ten years ago. At the same time, equity capital became suddenly a more popular source in 2007. Regarding our t-test analysis, no stable relations could be found in Albania. What seemed to be a relation in one survey was statistically not true in the others. If we consider the whole countries, the relations were more stable. In 2002, firms having a credit line in Albania tended to be large, exporting and audited firms. Small firms had to provide in general higher collaterals but in Albania this was not the case in 2002. In 2005, a weak relation between access to credit and being audited and a strong relation between access to credit and being privately owned could be seen in Albania. Firms, which started operating after 2000 and/or small firms had higher credit duration. In the survey of 2008-2009, coherence between credit and the age of the enterprise was strongly significant. In Albania, older firms had rather more credit as younger ones.

The results and findings of this paper are to be taken skeptically, as the data we used for the first parts originates only from the Bank of Albania and we had no other opportunity for a comparison. The completion rate of BEEPS for Albania was in 2002 44.74% and in 2005 55.5%. Moreover the results are not representative for small and family enterprises in Albania, whose contact information is difficult to be found and which are thus not included in the data.